The Real Estate Roundtable

NEWS

For Immediate Release:
August 5, 2011
www.rer.org

CONTACT: (202) 639-8400
Scott Sherwood: sherwood@rer.org
Xenia (Ksen'ya) Jowyk: xjowyk@rer.org

Slowing Economy and Sparse Job Creation Temper Real Estate Executives' Forecast on Market Conditions

Weaker Market Conditions Prompt 8-Point Drop in Quarterly Real Estate Sentiment Index

(WASHINGTON D.C.) — Despite increased strength in commercial property asset values and investor interest in core U.S. cities during the 3rd quarter of 2011, lingering macroeconomic problems continue to dampen prospects for recovery in the commercial real estate market, according to more than 100 senior industry executives who participated in The Real Estate Roundtable's latest quarterly Sentiment Survey.

The Overall Sentiment Index for Q3 fell by eight points to 69 (compared to 77 in the last quarter) and is now at its lowest level since the end of 2009. Measured on a scale of 1 to 100, the Overall Index is a result of combining separate Current and Future Indices. The Current Index for Q3 measured 71 (a 4 point decrease from Q2) and the Future Index scored 68 (an 11-point drop from Q2's score of 79). To reach a perfect score of 100, every survey respondent would have to answer that current market conditions are "much better" today when compared to one year ago, and also uniformly believe that present conditions will be "much better" in 12 months.

"This is a story of 'haves and have-nots,'" asserted Roundtable President and CEO Jeffrey D. DeBoer, pointing out stark differences between prime 'A' commercial properties in top urban areas and underperforming assets in lower- tier markets. "Market conditions are influenced by policy developments, so the outlook of the nation's top real estate CEOs is much less optimistic this quarter. Policy debates focused on reducing the federal deficit are now colliding with the ongoing need to spur job creation. These somewhat contradictory, short-term goals – combined with the serious, and growing, global financial crises – have increased uncertainty throughout the business community." DeBoer added, "Job creation must be the primary focus of policymakers. Tax reform and deficit reduction are critical and must be addressed in a responsible and balanced manner, but the uncertainty associated with both may now be standing in the way of getting the economy back on track."

As one survey respondent noted, "Other than discrete pockets, the broad economy is tracing a very shallow recovery. The prospects of further stagnation are exacerbated by possible adverse ramifications associated with sovereign debt issues in Europe and even in the US." Respondents' concerns about the continuation of a

MORE

bifurcated market were balanced by a majority view that overall real estate market conditions are better than one year ago. “Fundamentals are starting to come back,” one survey participant observed. “We’re seeing good leasing activity with less pressure on rents. Still more weakness than we’d like to see, still more tenant failures than normal, but it’s getting more stable.”

The latest survey report shows that 21 percent of respondents believe market conditions are “about the same” as one year ago, compared to 8 percent who expressed this sentiment in Q2. Additionally, 30 percent of Q3 survey participants forecast conditions will be “about the same” in one year from now — compared to 17 percent in Q2 who expressed this sentiment.

This flattening trend was reflected by one respondent who noted, “Going forward? It’s all so fragile right now. Things are clearly getting better, but it’s very fragile, and depending on what happens in the coming weeks in Washington, all the gains could be consolidated or get washed away.” Another participant observed, “In terms of vacancy rates, there is still a general malaise permeating the market. Without a recovery in the jobs picture it will be hard for the vacancy to be absorbed.”

Although Sentiment Survey respondents report that current asset values have increased, fewer see increased prices in the future. Ninety percent of Q3 survey participants believe that asset values today are “somewhat higher” or “much higher” versus one year ago – while 60 percent expressed the same sentiment about where asset values will be in 12 months. One respondent explained, “Things are trending in the right direction, but until vacancies get absorbed and we see some rental rate improvement, values will remain well below peak levels. It could take until 2014-2015 to get back to where we were.”

The Q3 survey also shows that debt and equity are now widely available for prime assets in bigger urban markets, so respondents foresee only modest changes in capital availability — contributing to the flatter trendline. One respondent reported that “CMBS is opening up. Life companies are coming back. Construction lending is coming back. Debt capital is back” — whereas another observed that “Eighteen months ago there was no financing... now you can pretty much get what you need for ‘A’ assets in ‘A’ markets.”

Participants in the Q3 survey included executives from the office, retail, warehouse, hospitality and multifamily (apartment) segments. The survey and associated interviews are conducted on The Roundtable’s behalf by FPL Associates. A PDF of the entire Q3 survey report is available online at www.rer.org.

# # #