



For Immediate Release:

October 27, 2011

www.rer.org

CONTACT: (202) 639-8400

Xenia (Ksen'ya) Jowyk: xjowyk@rer.org

Scott Sherwood: sherwood@rer.org

Commercial Real Estate Execs Trim Expectations Amid Weak Job Growth, Political Gridlock, Regulatory Uncertainty

Real Estate Roundtable's Q4 Sentiment Index Drops to 2009 Levels

(WASHINGTON D.C.) — Reflecting concerns about the pace of economic recovery, Washington's ability to address fiscal and tax policy challenges, a host of new regulatory requirements, and the long-term European debt situation, The Real Estate Roundtable's latest "Sentiment Index" of commercial real estate executives slid for the second quarter in a row — hitting its lowest point since the fall of 2009.

After rising slightly at the beginning of the year and remaining at 77 (out of 100) points in Q2, the overall Index tumbled to 69 in Q3 and to 59 in the latest survey — indicating a material shift in perceptions on current and future market conditions, property valuations, and access to debt and equity capital. "For the first time in two years, a significant portion of respondents see conditions as worse than a year ago and predict a decline in the coming year," said the Oct. 27 survey report, prepared on The Roundtable's behalf by FPL Associates. Data collection for the survey was conducted Oct. 3–12, in advance of today's encouraging news that European leaders have reached a deal to tackle the euro-zone debt crisis.

"For much of the past year, we have been concerned about the uneven, or 'bifurcated,' nature of the commercial real estate recovery — and have focused on policy ideas to foster job growth and broaden this recovery beyond the urban 'gateway' markets," said Roundtable President and CEO Jeffrey D. DeBoer. "Now, amid tremendous uncertainty on an array of federal policy issues — from deficit-cutting and tax reform, to Dodd-Frank regulations, and potential housing market fixes — expectations are being dialed back considerably, and commercial real estate fundamentals are again under pressure, even in areas that had recovered significantly in terms of property values, pricing and access to credit and capital," he explained.

Added Roundtable Chairman Daniel M. Neidich (Dune Real Estate Partners), "Today's report confirms that U.S. commercial real estate markets remain under significant pressure, and are highly sensitive to political and economic developments, both here and abroad. Fostering a broader recovery in commercial real estate markets still depends on an improved jobs picture, but we won't see significant improvement in this area until confidence is restored and there's a more positive climate for job creation — and that means reducing some of the tremendous uncertainty weighing on businesses and consumers."

“The other piece of the puzzle,” DeBoer continued, “is ensuring adequate access to capital and credit. We would particularly welcome policy proposals leading to increased foreign investment in the U.S. — including more streamlined visa procedures to boost business and leisure travel, and tax reforms to encourage foreign equity investment in commercial real estate. As The Roundtable has testified in Congress, our industry needs a capital infusion of roughly \$1 trillion in order to rebalance loans that are ‘underwater’ and to facilitate refinancing of mortgage loans coming due.”

The percentage of survey respondents who said debt availability is “much better” today vs. one year ago shrank from 36 percent in Q3 to only 6 percent in the latest survey. There was a corresponding spike — from 2 percent in Q3 to 26 percent in Q4 — in the percentage of respondents who said debt availability today is “somewhat worse” than it was one year ago. Looking ahead, more respondents in the Q4 survey said they expect debt availability to be about the same or somewhat worse next fall.

On the equity side, 77 percent of Q3 survey respondents said conditions “today” are at least somewhat better than one year ago. In the latest survey, only 40 percent of respondents characterized current conditions as “somewhat” or “much” better than one year earlier. As for future conditions, 14 percent more Q4 survey respondents expect equity availability one year from now to be “about the same.”

Although a majority of survey respondents said asset values had risen over the past year — particularly for top-quality assets in urban gateway markets — almost half now expect pricing to remain flat in the coming year. Some say pricing has even softened for core assets in top markets, such as New York and Washington D.C.

The quarterly Sentiment Survey seeks to capture feedback from a broad range of real estate industry segments, asset classes, ownership vehicles and capital structures, including owners and asset managers, financial services firms and operators. The next Sentiment Survey report will be released in February 2012.

#