

# RCA IS DELIVERING ON THE PROMISE

REALTORS® Commercial Alliance (RCA) - The commercial division of NAR



## CommercialSource

The Online Convention of the REALTORS® Commercial Alliance

### **CommercialSource Chats with Dr. Lawrence Yun & Scott MacIntosh** *Commercial Real Estate Outlook & Trends 2.26.08*

*Jean Maday: Good Afternoon. The CommercialSource Chat will begin at 2:30pm Central Time, approximately 30 minutes from now.*

*Barbara Hamlin: ATTENTION PLEASE.... SCHEDULED CHAT ABOUT TO BEGIN. PLEASE KEEP COMMENTS ON TOPIC DURING THIS SESSION. THANKS! Hello Everyone. All of us on the REALTORS® Commercial Alliance staff welcome you. A chat session is about to begin and will last for the next 45-minutes here in the CommercialSource Virtual Lounge. I'm pleased to introduce Lawrence Yun and Scott MacIntosh who have agreed to moderate this session. Lawrence Yun is Senior Vice President and Chief Economist at the National Association of REALTORS®. He creates NAR's forecasts, and participates in many economic panels, including Blue Chip and the Harvard University Industrial Economist Council. He also contributes numerous feature columns and broadcast presentations on real estate market trends. Dr. Yun received his undergraduate degree from Purdue University and his Ph.D. from the University of Maryland at College Park. Scott Ian MacIntosh is a Senior Economist, specializing in Commercial and Investment real estate with the National Association of REALTORS®. Mr. MacIntosh specializes in commercial real estate research, and he writes NAR's Commercial Real Estate Outlook, which includes quarterly forecasts on commercial sectors. Mr. MacIntosh completed his graduate studies at the University of Ottawa and his undergraduate work at Carleton University. Today, Lawrence and Scott will respond to questions on the current commercial real estate outlook. I know they are ready to start, so if anyone has a question, please help us get the ball rolling and type your question. And, Lawrence, if you or Scott have an opening thought, we'd welcome that too.*

*Dr. Lawrence Yun - Chief Econ: test*

*Dr. Lawrence Yun - Chief Econ: Thank you for joining. The latest commercial leading indicator showed a declining business opportunities in the upcoming quarters>*

*Dr. Lawrence Yun - Chief Econ: The decline was the second straight decline, but because of a solid increase over the past two years, business activity in terms of net absorption and new office and industrial building reaching the market place will be respectable.*



NATIONAL ASSOCIATION OF REALTORS®

The Voice for Real Estate®



# RCA IS DELIVERING ON THE PROMISE

REALTORS® Commercial Alliance (RCA) - The commercial division of NAR

***Dolores Premo: We are from Rockford Illinois, What is the Commercial & Industrial economic forecast for this area for 08?***

***Dr. Lawrence Yun - Chief Econ: Net absorption will be positive, but the completion has been outpacing so the vacancy rate will be modestly rising. Locally for Rockford, it is all about jobs and there is some job growth though not in strong numbers.***

***manav patnaik: Can you elaborate on the outlook for transaction activity given the impact of the so called credit crunch please?***

***Dr. Lawrence Yun - Chief Econ: credit crunch is reaching into the commercial arena and is not confined only to subprime. There will be measurably lower transaction investment activity as a result. But the fundamental of relatively low vacancy rate and rising rent bode well.***

***Brandon Owen: So those of use in areas that are adding jobs (I'm in Orland) we should see a good commercial market in '08?***

***Dr. Lawrence Yun - Chief Econ: commercial market follow economic activity, Orlando is creating jobs but the pace has drastically slowed due to the slump in the housing industry with builders making a major cut back in production and shedding construction jobs.***

***Dolores Premo: You mentioned at the meeting last week that Commercial lagged a year behind Residential at what point will Commercial hit bottom?***

***Brandon Owen: agreed on Orlando***

***Dr. Lawrence Yun - Chief Econ: Commercial market lags economic conditions but not necessarily residential market. Consumer spending is slowing so retail space investment will be more challenged. However, strong rise in exports provide opportunities in industrial spaces.***

***manav patnaik: what is your forecast for the decline in transaction activity? sales & leasing separately if you will..***

***Dolores Premo: Today's consumer confidence rating level was lower, what is your prognosis for a recession?***

***Dr. Lawrence Yun - Chief Econ: Sales will be down by a good 20% to 30% in 2008. Some price drops could lessen the decline. Leasing activity will rise by less than 5% nationally.***

# RCA IS DELIVERING ON THE PROMISE

REALTORS® Commercial Alliance (RCA) - The commercial division of NAR

**Caroline Van Hollen: Scott,**

**Dolores Premo: Given the current economic condition what area of Commercial Real Estate would you suggest focusing on-any strong niche?**

**Dr. Lawrence Yun - Chief Econ: Recession is a possibility but my best best is that we will avoid two straight quarters of GDP decline. Fiscal stimulus and monetary interest rate cuts will make their impact in the second half of the year to lift the economy. Economy will be growing slowly, but it will not contract.**

**Scott MacIntosh: Since August of 2007 there has been a 40% decrease in transaction volume year over year. Most of this has been from the CMBS markets. It will take sometime for the CMBS market to recover, but the institutional and foreign investors have been picking up some of the slack. Leasing activity should remain somewhat the same.**

**Dan Sight: what effect has the credit crunch had on sales of large commercial properties?**

**Dr. Lawrence Yun - Chief Econ: One interesting area for the long-term is office buildings with green features. Irrespective of global warming debate, there is an increase interest in purchasing and leasing green buildings.**

**Caroline Van Hollen: Scott, with the US dollar continuing to fall, will foreign investors continue to invest in US commercial real estate. If yes, any particular sector or area of the country that seems to be most sought after.**

**Dr. Lawrence Yun - Chief Econ: My colleague Scott MacIntosh say 40% decrease in transaction volume since the beginning of credit crunch**

**Dan Sight: what reason can you give for cap rates not rising in a slowing economic time?**

**Scott MacIntosh: The strong niche I would concentrate on is office or industrial. Retail is risky right now, unless it is a grocery anchored retail strip. Multi-family seems to hold some positive rent growth, but could be volatile. Multi-family is also being impacted by single-family rentals.**

**Dr. Lawrence Yun - Chief Econ: Cap rates are a bit of puzzle. Rents are positive, but in relation to property price, cap rates are very low. Alternative investments are also low - be it in Treasuries or in the volatile stock market.**



NATIONAL ASSOCIATION OF REALTORS®

The Voice for Real Estate®





# RCA IS DELIVERING ON THE PROMISE

REALTORS® Commercial Alliance (RCA) - The commercial division of NAR

**Barbara Hamlin: Scott: For the benefit of our attendees here, will you describe what the Commercial Leading Indicator is, when it's published and how people may view it?**

**Dr. Lawrence Yun - Chief Econ: Weak dollars is bringing foreign buyers. I anticipate close to \$50 billion in foreign purchases of U.S. commercial real estate in 2008, up from just \$40 billion in 2006.**

**Scott MacIntosh: Caroline, investment by foreign investors was up significantly in 2007 and they picked-up market share in the last quarter. As credit became hard to get here in the US and with the Euro soaring, European and Middle Eastern investors have been interested in office product, and smaller retail strips, especially in the Southwest.**

**Dr. Lawrence Yun - Chief Econ: Commercial leading indicator is composed of 13 economic variables which have been found to show a positive lead indicator of net absorption and for completion of new commercial buildings. So a rise in CLI will naturally mean more leasing, sales, and property management opportunities for practitioners. The latest figures showed a decline however.**

**Caroline Van Hollen: Scott, Why is there so much doom and gloom in the headlines when the fundamentals are still positive?**

**George Slusser: What do you think the \$ volume will be in Investment Sales and compared to 2007 number**

**Scott MacIntosh: Caroline, it really comes down to confidence levels. There is so much press on the subprime markets that lenders become scared and are scared off on any transaction that may have the slightest bit of risk. However, non Wall Street lenders are not really suffering significant takebacks of commercial properties. The fundamentals are still fairly good.**

**Dolores Premo: In a secondary market what would you consider a good cap rate for a retail center?**

**Barbara Hamlin: There are more than 30 people in this chat. What geographic areas are you in? Any bright spots in your commercial markets?**

**Dr. Lawrence Yun - Chief Econ: With limited access to credit and a fear of rising default on commercial loan (even though the fundamentals do not imply any strong default trends) investment sales activity will no doubt fall by at least 20% and possibly by 30%.**

**Meredith Dunn: I hear that most new commercial construction is (or has recently been ) build-to-suit. What does this mean, and how does it typically affect a market or commercial sector?**

# RCA IS DELIVERING ON THE PROMISE

REALTORS® Commercial Alliance (RCA) - The commercial division of NAR

**Scott MacIntosh:** *It is doubtful that the institutions and foreign investors will fill the gap left by the CMBS. I think we are looking at a total transaction volume of just over \$250 billion in 2008, down from the \$427 we had in 2007.*

**Dr. Lawrence Yun - Chief Econ:** *Cap rates have been running at about 6%. If it offers 7% or more than it is a good return, but be mindful that high cap rate may be associated with some defect in property which could hinder future rent growth*

**George Slusser:** *What are the reasons you feel leasing activity will rise in 2008*

**Scott MacIntosh: Dolores -** *Cap rates in the secondary markets are in the 6.8 to 7.0 range for the Midwest*

**Barbara Hamlin:** *We have just over 10 more minutes, so if you have a question, please type it in the box at the bottom of the screen and then click "send."*

**Dr. Lawrence Yun - Chief Econ:** *Net absorption has been positive - meaning there is more occupancy today than before. Occupancy rate may be falling due to more new inventory reaching the market, but the total space that is occupied is rising - albeit slowly. In 2001 recession, vacancy rate increased very fast from falling absorption (or I should say negative net absorption). We are not seeing similar trend today>*

**Kenneth Rosen:** *Hello all... I am in Miami, FL. Good quality "B" Income Properties in "A" Locations are still very strong. There is more demand than supply. These types of properties are virtually recession proof.*

**Dan Sight:** *There hasn't been much positive news here, what can we leave with that gives us some optimism?*

**Scott MacIntosh:** *Build-to-suit activity account for a good portion on new commercial construction activity. With the cost of construction materials (steel) few developers will go into the ground without some sort of commitment, be it a lease for 1005 of the building or just a lead tenant. The impact on the office market is that there is sometimes older space that is vacated and on the market when new space comes on steam. On the industrial side, some older industrial buildings are left vacant and obsolete.*



NATIONAL ASSOCIATION OF REALTORS®

The Voice for Real Estate®





# RCA IS DELIVERING ON THE PROMISE

REALTORS® Commercial Alliance (RCA) - The commercial division of NAR

**Ann Love McPherson:** *What is the accessibility for low interest loans for commercial developers. We are on the Central Coast and a Commercial Developers is halfway through the shopping center and is going to the nearest city asking for a loan to complete the project. Any ideas of how they can finance the balance without going to the city, which is already strapped with a deficit budget? Ann Love McPherson*

**Dr. Lawrence Yun - Chief Econ:** *Texas, and mountain states are seeing very solid job gains. The northeast regions are showing a comeback sign. So depending upon locality, you could be in a good position to benefit. Also location with good long term fundamentals like Vegas, and Florida - current weak market may be a golden opportunity to pick up properties*

**Richard Hall:** *What implications do you see for a possible tax law change with a new administration in Washington next year?*

**Kenneth Rosen:** *Interest rates on commercial deals are now in the 5.5% range - the lowest that I know of in the past 30 years. This is a terrific time to buy provided you can find class "B" properties in type "A" locations. Look for buildings that have been owned for many years because these sellers will usually be renting to tenants at rates substantially under the market.*

**Scott MacIntosh:** *Leasing activity will increase in many markets (not all). A lack of new supply will result in space being leased an absorbed.*

**Dr. Lawrence Yun - Chief Econ:** *We fought hard to remove a tax increase on general partners, but it is possible that this issue may return in 2009 or '10 because budget deficit will be rising over the next two years due to slower economic growth.*

**Richard Hall:** *Austin & Texas in general have been running somewhat detached from the subprime mortgage & overbuilding excesses of other areas of the country....can you see these national economic effects & trends exerting a more pronounced effect on coml market dynamics in Texas?*

**Dolores Premo:** *Kenneth, Where are you finding the 5.5% interest rates?*

**Dr. Lawrence Yun - Chief Econ:** *Texas is safe other than credit availability which impacting the whole country. The ground level fundamentals of rising rent and low vacancy will remain in Texas. Dallas, for some reason, always has high vacancy rate due to overbuilding of commercial office spaces>*

**Richard Hall:** *What about the possible reduction or elimination of capital gains treatment in a possible tax bill next year of in 2010?*

# RCA IS DELIVERING ON THE PROMISE

REALTORS® Commercial Alliance (RCA) - The commercial division of NAR

**Scott MacIntosh:** *Austin is a "star" in Texas. The Dallas market is still facing some problems esp on the office and industrial side. Houston is improving, but still not where Austin is in terms of fundamentals. To a certain extent the other markets in Texas had some overbuilding issues which will have to be addressed.*

**Dr. Lawrence Yun - Chief Econ:** *Capital gains tax rate can go either way dependent upon who get elected. People need to do their homework before voting.*

**Barbara Hamlin:** *Thanks to everyone who has participated today! I especially want to thank Lawrence Yun and Scott MacIntosh for moderating this chat. For on-going information from the REALTORS Commercial Alliance, please visit our website at <http://www.realtor.org/commercial/index.html> and [realtor.org/research](http://www.realtor.org/research). Our next CommercialSource Tradeshow is scheduled for June 17-18 2008 so look for information we will be sending you prior to that event. Thanks again for your participation.*

**George Slusser:** *Thank you for an informative session!*

**Dolores Premo:** *THANK YOU FOR THE SESSION!*

**Dr. Lawrence Yun - Chief Econ:** *Good day everyone*

**Chere LaRose-Senne:** *For more information on commercial real estate issues Washington, DC go to [www.realtoractioncenter.org](http://www.realtoractioncenter.org) and click on the Realtors Commercial Alliance logo.*

**Ann Love McPherson:** *Thank you very much, Ann Love McPherson*



NATIONAL ASSOCIATION OF REALTORS®

*The Voice for Real Estate®*

