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According to CCIM and the Real Estate Research Corp.: Buy and hold becomes mantra for commercial real estate

November 23, 2010 - Front Section

With more capital available from select sources and increased demand for less volatile investments, institutional-level commercial property prices are on an upward trend, according to the CCIM Institute and the Real Estate Research Corporation (RERC). While institutional investors continue to buy or hold commercial real estate, the recommendation to sell has been steadily increasing over the last 12 months.

"Though much uncertainty remains in the overall economy, transaction trends for commercial real estate continue to improve," said Frank Simpson, CCIM, the 2011 president of the CCIM Institute and president of The Simpson Company in Gainesville, Ga. "The challenge for investors reÂ-mains finding the right properties at the right price with the best return potential."

In a report released today, CCIM and RERC caution that the commercial real estate market is increasingly divided, with some historically high prices being paid for institutional properties in top-tier markets, while other markets are seeing little or no transaction activity other than distressed property sales.

"The good news is the institutional markets are typically a leading indicator to change in the secondary markets, and we expect to see additional activity in more of these markets over time," said Ken Riggs, CCIM, president and CEO of RERC and the CCIM Institute's chief real estate economist. "The gap between bid-ask is still too wide in manyâ€”perhaps the majorityâ€"of cases, and until buyers and sellers come closer together, actual transactions will remain sparse."

RERC's analysis of third quarter transactions shows significantly greater total volume on a 12-month trailing basis, with the hotel sector showing the largest increase at nearly 50%. The retail sector volÂ-ume increased the least at 15%. Compared to previous quarters, there was a steady increase in volume of sales greater than $5 million for all property sectors. However, transaction activity of less than $5 million remains flat.

In terms of confidence levels of CCIM Institute members, the apartment sector continues to receive the highest investment conditions rating, a 6 on a scale of 1 to 10, with 10 being high. Apartments easily outscored the industrial sector, which received a rating of 4.5. Investment conditions ratings for the retail and hotel sectors both declined to 3.9, indicating their general weakness, while offices were lowest at 3.8. The apartment and industrial sectors were the only property types whose ratings increased durÂ-ing the third quarter.

"Apartments in all categories and in all regions are the most popular, although transactions are tepid compared to a few years ago," said Riggs. "Vacancies have been declining for this property type for a couple of quarters on a national scale, and as the foreclosure fiasco is addressed, demand will further increase.

"Some respondents, particularly in the traditional tourism markets like south Florida, have also noted that hotel transaction activity is up, demonstrating just how spotty the recovery is," said Riggs.

Additional findings from the report, RERC/CCIM Investment Trends Quarterly, include:

*The return versus risk rating for commercial real estate overall fell to 4.9 on a scale of 1 to 10, with 10 being high, during third quarter 2010. This decline negates the improvement to 5.4 from the previous quarter.

*On the topic of value versus price, ratings were mixed. The apartment sector continued to receive the highest rating, increasing to 5.4 on a scale of 1 to 10, followed by retail, which increased to 4.8 from 4.5 in the previous quarter. Office and industrial ratings held their own from the previous quarter, at 4.7 and 5.1, respectively, while the rating for the hotel sector fell to 4.5 during the third quarter.

*The size-weighted average price per square foot/unit for all transactions held steady or increased for all property types on a 12-month trailing basis. HowÂ-ever, the size-weighted average price per square foot/unit for transactions less than $5 million decreased for all property types except hotels. The weighted-average capitalization rate for each of the property sectors declined as well.

About the Survey: Published quarterly, the RERC/CCIM Investment Trends Quarterly report provides timely insight into transaction volume, pricing, and capitalization rates for the core income-producing properties. The RERC/CCIM Investment Trends Quarterly is produced by the Chicago-based Real Estate Research Corporation in association with and for the 16,000 members of the Chicago-based CCIM Institute. To review the full report, visit http://www.ccim.com/itq-2010-q4.