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CCIM's 2006 Outlook sees growth in most sectors

Continuing influx of investment capital will boost office, multifamily

Staff Writer REJournals.com

A continuing influx of investment capital into the Twin Cities commercial real estate market will help make 2006 a better year for the industry, according to expert prognostications made at an October gathering of the Minnesota-Dakotas Chapter of the Certified Commercial Investment Members (CCIM) of The CCIM Institute.

Speakers at CCIM's 11th Annual Twin Cities Commercial Real Estate Forecast, held Oct. 6 at The Depot in downtown Minneapolis, weighed in with analysis and predictions for the region's office, multifamily, retail and industrial markets, among other topics.

John McCarthy of United Properties said the fundamentals of the office sector are brightening and that office buildings will remain in high demand by investors, assuming that "the cost of capital will remain at or near today's low levels for the next 6-to-12 months.

"Landlords in some areas will recover some pricing power and positive absorption of over 1 million square feet is within reach over the next 12 months," said McCarthy, citing 2005's much-improved vacancy rates -- which reached as low a 16.24 percent on July 1, the sixth straight quarter in which overall vacancy had declined.

Capital investors are also still aggressively snapping up apartment buildings, leading Bill Bisanz of Real Estate Equities to predict "the worst is ending" for the multifamily market. While he said it's still too early to predict a full-blown bounceback for multifamily in 2006, "we are seeing the beginning signs of recovery in vacancy, concessions and rents."

Bisanz noted multifamily cap rates approached 5 percent for Class A product earlier this year and 7 percent for mid-market assets, with pricing buoyed by a massive influx of investment capital supported by low interest rates and a short supply of product. "We see these trends continuing through the beginning of 2006 provided there is no significant reversal in current supply and interest rate environments," he said.

"Solid but not spectacular" performance is likely for the industrial sector, predicted independent broker Lou Suski, who said cautious optimism should be the watchwords for 2006.

"Many corporate lenders are currently in a good mood regarding their business prospects, however, the uncertainty of oil prices will cause everyone, from the consumer to the boardroom, to take a wait-and-see attitude for the next six months," Suski said. He cautioned that this year may be the high point for awhile in terms of industrial absorption at 3.3

million square feet.

On the retail scene, Aaron Barnard of Grubb & Ellis/Northco sees continued growth in the Twin Cities thanks to a steady influx of new consumers into the region, predicting the third tier suburbs will experience of the bulk of the growth, in turn spurring big box retailers to follow the housing trends.

"Maple Grove and Woodbury will continue to lead the way, as new projects come on line," Barnard said. "Northtown will continue to re-emerge as the Home Depot deal comes to fruition and Lowe's tracking to cover the move. The Brookdale, Southdale and Ridgedale markets will see little or no expansion as land is scarce and the markets mature."

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