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PricewaterhouseCoopers Fourth Quarter Korpacz Real Estate Investor Survey(R) Sees Growing Optimism for The New Year

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NEW YORK, Dec. 22 /PRNewswire/ -- Steady declines in office vacancy rates across most of the nation's major markets, together with persistent reports of a continually strengthening economy, are helping many investors finally see the proverbial "light at the end of the tunnel," according to the PricewaterhouseCoopers fourth quarter 2004 Korpacz Real Estate Investor Survey®.

"With vacancy rates edging down in many markets and underlying economics heating up both nationally and locally, there has been an unending supply of capital looking to be placed into commercial real estate," said Peter Korpacz, director, PricewaterhouseCoopers' Global Strategic Real Estate Research Practice.

The continuing popularity of commercial real estate as an investment of choice is in part due to unimpressive returns registered by alternative investments -- as well as to what have been essentially minimal increases in long-term interest rates, Korpacz noted. As a result, many leveraged buyers continue to aggressively chase deals.

"While many investors continue to focus on acquiring stable, low-risk assets, more and more are concentrating on value-added opportunities," Korpacz added.

That has helped open the door to the sale of a growing number of "opportunistic" properties to prudent, knowledgeable investors who understand the dynamics of their target markets and are willing to assume an additional measure of risk, says the survey report. Other investors who continue to favor stability but are either unwilling or unable to compete for core assets in primary markets increasingly are acquiring "good" properties in secondary and tertiary cities as an investment strategy, the report notes.

And while some would-be buyers remain on the sidelines waiting to see how increases in long-term interest rates may impact pricing, the fact that any such increases will probably occur slowly and over an extended time period means that "investors are likely to find the investment arena as competitive and pricey in 2005 as it was in 2004," the report says.

Key Property Market and Geographic Preferences

Retail

Investment activity in the national regional mall market dipped slightly in the third quarter of 2004, as well as on a year-over-year basis. Nevertheless, investor interest appears strong, and prices for regional malls actually rose 20.0% year-over-year in the third quarter of 2004.

Despite soaring energy prices, decreasing consumer confidence and disappointing personal income growth, the national power center market has basically held its own, thanks in part to persistent consumer spending at wholesale clubs and big-box and discount retailers. In fact, many big-box retailers continue to report results that have outperformed the industry as a whole.

Opportunities in the national strip shopping center market remain fiercely competitive, especially for grocery-anchored centers occupied by top regional grocers. In the third quarter of 2004, a total of 275 strip shopping center sales occurred throughout the country, representing a 21.0% increase from the previous year. During the same period, prices for strip shopping center assets have risen roughly 15.0%, leaving many shopping center owners to contemplate selling assets.

Office

Steady employment gains and four straight quarters of declining vacancy rates are helping to buoy the confidence of investors in the national CBD office market. Not surprisingly, the strength of the ongoing economic recovery varies among regions, with Washington, D.C., posting the nation's lowest overall vacancy rate of 7.5%. Survey respondents reported disappointment with job growth figures in cities such as Chicago and Boston. Nevertheless, thanks to continued good news from sources such as the National Association of Business Economics, which projects U.S. companies will add an average of 220,000 jobs a month in 2005, optimism continues to run high.

The national suburban office market also shows signs of slow, steady improvement, with the overall vacancy rate falling below 20.0% for the first time in ten quarters. Even so, a greater number of individual suburban office markets posted overall vacancy rates above the national average of 19.7% in the third quarter of 2004 than a year earlier, when the national vacancy rate was 21.2% -- an indication that much of the past year's leasing activity has been focused in the same top-performing markets, such as Suburban Maryland, Long Island, Los Angeles, and Northern Virginia, while less activity has taken place in oversupplied markets such as Seattle and Dallas. Despite high vacancy rates in many markets, this sector reported an 82% increase in sales activity in the third quarter of 2004 over the prior year.

Flex/R&D

While some flex/R&D markets are seeing slight dips in overall vacancy, most are still plagued by high vacancy rates and lukewarm demand. For example, in the third quarter of 2004, 98 flex/R&D assets were traded, a 13% increase over the prior year. At the same time, 366 warehouse assets were traded, a 127% increase over the third quarter of 2003. Caution seems to be the key watchword for most investors, as weak fundamentals and uncertainty over this sector's recovery is likely to keep interested buyers to a minimum for the time being, the report notes.

Warehouse

Continuing improvement in the overall U.S. economy, including increases in shipping and wholesale trade activity, are helping to improve the underlying fundamentals in the national warehouse market. Some of the strongest markets noted by survey participants include Southern California (especially the Los Angeles/Inland Empire), Southern Florida (especially Miami and Fort Lauderdale), Northern New Jersey and Nashville. Warehouse markets mentioned by participants as "less stable" include Dallas, Atlanta, Boston, Bellevue and Silicon Valley. As more and more buyers look to place capital into commercial real estate and warehouse properties, investment demand is expected to intensify in the coming months, the report notes.

Apartments

The Korpacz survey report describes sales activity in the national apartment market as "extremely robust," thanks to steadily improving fundamentals and strong investor interest in condo-conversion trend. Apartment transactions set a new record in the third quarter of 2004, surpassing the $11.3 billion mark, while total sales volume totaled $30.3 billion for the first nine months of 2004 (by comparison, the total volume for all of 2003 was $29.3 billion). Vacancy rates also saw steady improvement, with the national vacancy rate falling to 6.6% in the third quarter of 2004, from 7.1% in the first quarter. On a market-by-market basis, New York posted the lowest vacancy rate at 3.0%. Other top apartment markets included Central New Jersey, Philadelphia, San Diego, Orange County and Los Angeles, with each market reporting vacancy rates between 3.3% and 4.2%.

Net Lease

The national net lease market has witnessed a flood of offerings over the past three months, due partly to the desire of investors to cash in on high prices and strong investment demand before both interest rates and overall cap rates start to rise. With such vast amounts of capital targeting real estate, sales activity is intense throughout all facets of this market -- sale-leaseback trades, triple-net-leveraged transactions, and 1031 exchanges. The report notes that 1031 exchanges are seeing particularly brisk growth, thanks to the growing trend toward tenant-in-common (TIC) ownership structures, which allow exchangers to buy fractional ownership portions of investment properties. The TIC trend is expected to continue to grow and lead to even further heated activity in the 1031 tax-deferred exchange arena in 2005.

National Development Land

Continued slow-but-steady improvement in the industry's underlying fundamentals is leading some developers to begin looking at opportunities for new projects, but for the time being, only a few markets currently seem able to absorb additions to supply. According to the report, of the four main property sectors -- retail, office, warehouse and apartment -- only retail is in relative equilibrium, while a number of office, apartment and warehouse markets are oversupplied and will take time to stabilize. Some of the best opportunities for development over the near-term include second-home building, housing for active seniors, and urban mixed-use projects.

Overall, the survey identified the following areas as the nation's top-ten markets for commercial/multifamily development: 1) Washington, D.C.; 2) Riverside/San Bernardino; 3) San Diego; 4) Orange County; 5) Los Angeles County; 6) Fort Lauderdale/West Palm Beach; 7) New York City; 8) Northern Virginia; 9) Maryland Suburbs; 10) Las Vegas.

The fourth quarter Korpacz Real Estate Investor Survey® provides detailed overviews of the National Retail Markets, including regional mall, power center and strip shopping center overviews; overviews of 14 major regional and sub-regional office markets; and national overviews of the Flex/R&D, Warehouse, Apartment, Net Lease, and National Development Land markets. The report also features up-to-date commentaries concerning Valuation Issues, Technology News and Trends, Economic News and the Real Estate Capital Markets.

The entire survey can be purchased for $375 (hardcopy) or $300 (electronic version) at http://www.pwcreval.com.

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