



COMMERCIAL TRENDS

with

WAYNE D'AMICO

PRESIDENT

**CERTIFIED COMMERCIAL INVESTMENT
MEMBER INSTITUTE (CCIM)**

INTERVIEW BY KEVIN CHIN, CCIM



Where is the commercial real estate investment industry heading this year?



As noted in our CCIM Institute 2Q13 *Quarterly Market Trends* report, the commercial real estate industry continues to keep a steady pace of growth through the first half of the year as consumers and businesses are proving that they are commit-

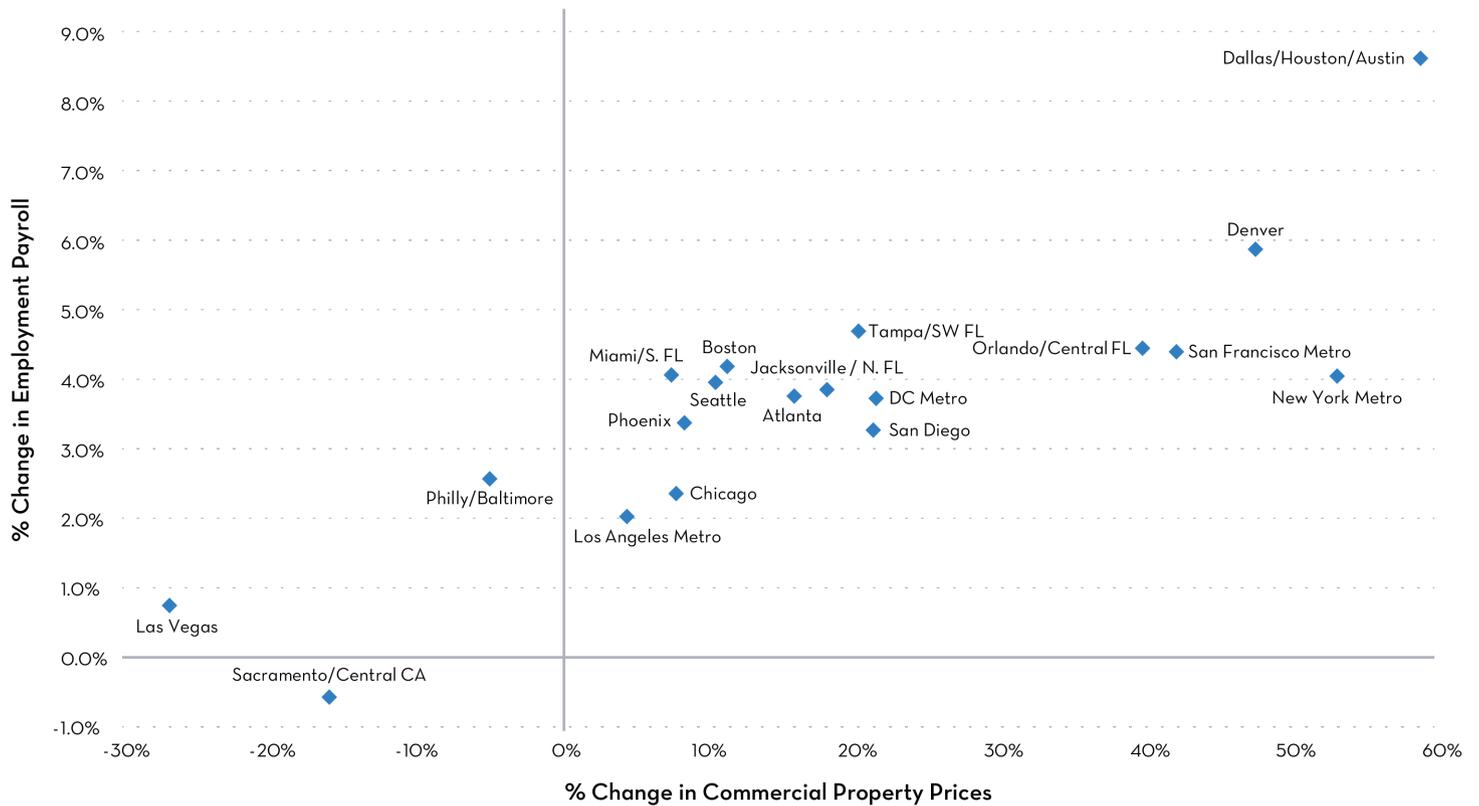
ted to moving forward. However, consumer confidence concerns and cautious spending, coupled with still-high unemployment figures and volatile energy costs, continue to weigh heavily on the overall economy's progress. All of these factors impact the commercial real estate industry.

In a sign of the market's rebound, 19 metropolitan markets surpassed the \$1 billion sales volume threshold year-to-date. New York City retains the top spot, followed by the Washington, D.C.,

metro and Los Angeles. However, the broad-based growth in commercial deals was highlighted by strong sales activity in markets like Houston, Denver, Phoenix, Seattle and San Diego.

Given the steady economic performance, we do believe that commercial fundamentals will likely stay the recovery course. Even moderate gains in employment and consumer spending will keep absorption for office, industrial and retail spaces rising, pushing vacancy rates lower.

U.S. CRE PRICES FOLLOWING EMPLOYMENT TRENDS



Demand for rental housing is projected to remain strong in 2013, but competition from residential rental stock will keep rent growth in check at 4.6 percent for the year. The main concerns for the commercial sector are relatively weak hiring and capital flow at the lower end of the market, which impact small business.

Q *How would you characterize the commercial real estate investment climate right now?*

A I do believe that commercial real estate is a more appealing investment than it has been in prior years. Due to improving fundamentals, we are finding that investors view commercial investments as increasingly more and more attractive. More specifically, 63 percent of CCIM members surveyed in the 2QMT report said current credit conditions are also expected to improve. The interest has translated into an upbeat sales pace for commercial

properties during the first part of the year.

Q *Which commercial real estate sectors offer the best opportunities in this market?*

A The apartment sector definitely remains the bright star, while industrial and retail also maintained favorable conditions.

However, I do think that the apartment sector could be too bright going forward, as it carries very low capitalization rates, exposing it to vulnerabilities once interest rates start to rise. While fundamentals are currently solid, the availability of apartment financing through Fannie Mae and Freddie Mac may cause price escalation through year-end.

In addition, we have been noticing the trend of international buyers looking to purchase apartments as an investment. According to Jones Lang LaSalle, in the past 15 months, international real estate investors have sought security in the U.S. multifamily market. Canadian

investors have spent close to \$3.2 billion in the U.S. multifamily market, followed by Swiss (\$698 million), Israeli (\$407 million), British (\$291 million), and Kuwaiti investors (\$272 million). Overall, international acquisitions totaled more than \$300 million in each of these markets: Dallas, Houston, New York, Chicago, and South Florida.

Q *Can you tell us about what's happening in the other sectors?*

A Rising trade has boosted the demand for industrial space. E-commerce is expected to increase 62 percent by 2016, and is affecting the industrial market in a positive way. Same-day pickup and online delivery options are requiring more urban infill industrial development and more e-commerce distribution centers in UPS and FedEx hub markets. Many e-commerce industrial users are choosing build-to-suit over leasing existing facilities.

Demand for office buildings has advanced, with net absorption total-

Source: Real Capital Analytics CPPITM; Bureau of Labor Statistics Non-Farm Payroll Jobs; Recent change from Q2'09

ing 4.1 million square feet in the first quarter of 2013. Supply of new office space was slower than prior quarters and half the pace of demand—there were about 1.7 million square feet of new completions. Vacancy rates for office properties are expected to hit 15.7 percent by the end of second-quarter 2013 and to continue declining to an average of 15.6 percent by year-end. The decline in vacancies is expected to be accompanied by a 2.6 percent rise in rents.

The retail sector is expected to absorb a net 12.5 million square feet this year. With new construction at a low 1.0 million square feet in the first quarter, availability rates are projected to decline to 10.5 percent in the second quarter. Bank ground leases maintained a 225-basis-point premium over general retail net leased properties in the past year and cap rates have compressed 85 basis points to 5 percent. Low prices, low default rates, and no landlord duties make these assets popular with 1031 and fixed-income investors.

Q *What influence are Asian investors having on the U.S. commercial real estate market?*

A In the past 12 months, capital flows from Asia into U.S. commercial real estate amounted to \$10.6 billion dollars as tracked by Real Capital Analytics. The bulk of these transactions are in the major coastal international gate-

way markets. This data only accounts for transactions over \$2.5 million. If you speak with brokers in markets with large Asian populations you will discover that there are a tremendous amount of transactions involving foreign capital occurring under this level also.

A recent article in the *Wall Street Journal* cites that the pace of investment dollars from Asia to U.S. commercial real estate is accelerating. Reasons for Asian investment include long-term diversification, immigration through EB-5 programs and strong U.S. property rights. Asian capital has contributed to the recovery of property values and the restarting of construction projects stalled by the great recession.

Q *What's the value of the CCIM designation in the current environment? Why should someone seek out a CCIM?*

A With the economy still in recovery mode, the education and relationships available through CCIM are more important than ever. The CCIM skill set prepares professionals to handle the market's evolving challenges. Being the largest network of qualified commercial real estate professionals gives designees a larger net to cast to reach a broader base of opportunities.

Since my first course back in 1989, the number of deals I can

directly attribute to CCIM relationships are too numerous to count. I have never spoken to someone who took a CCIM course who didn't believe he or she could make more money as a result of their new knowledge and skills.

In a recent survey of our designees, we found that CCIMs rated the following benefits as the most important benefits of holding the CCIM designation:

- » Knowledge attained from CCIM designation education
- » Credibility with other real estate professionals
- » Differentiation from other real estate professionals

In addition, CCIM offers invaluable education programs and courses to CCIMs. For example, during the 2013 AREAA National Convention, Carmela Ma, CCIM, will be teaching the CCIM Course on Residential Real Estate Financial Analysis designed for residential real estate agents who want to expand their business to include the sale of single-family homes, condos, duplexes, four-plexes, or small commercial properties to investors.

Simply stated - CCIMs are the total package. We provide our clients and employers with the assurance that every decision will be made in the best interest of their investment objectives. **a r e**

Take the next step



CCIM Cultural Diversity Education Program

The Cultural Diversity Education Program (CDEP) was created in 2002 to develop a critical mass of minority CCIM designees who can positively impact their respective communities and the commercial real estate industry in general. At present, African-Americans, Hispanic Americans, Native Americans, and Asian-Americans are underrepresented in both the commercial real estate industry and within CCIM Institute.

Learn more at:
www.ccim.com/cdep



WAYNE D'AMICO, CCIM is Principal of Wayne D'Amico & Co., Inc. dba PropertyPolitics.com, a Connecticut Real Estate Corporation and Advisory firm providing diversified services in over \$660,000,000 of commercial and investment real estate projects in the areas of Consulting, Tax Assessment Validation, Brokerage and creative financing from local to global client base.



KEVIN CHIN, CCIM serves as managing director for Sperry Van Ness specializing in retail transactions across the country and apartment transactions in the San Francisco Bay area. With over 25 years of industry experience, Chin has conducted transactions valued at over \$300 million.

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