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CRE Sales Deal Volume Returning to 'Normal' Levels

Encouraged by Continued Improvement in General Economic Indicators, Investors Widening Their Geographic Parameters, Taking on More Risk

If the third and fourth quarters of last year are any indication, then deal volume is returning to the commercial real estate investment sales markets.

According to CoStar COMPs, sales volume for commercial properties nearly doubled from about \$22 billion of deals in the first quarter of 2010 to almost \$36 billion in the fourth quarter - a number that will likely increase as CoStar finalizes its quarterly tally and confirms the flurry of deals signed at year-end and those that surface in public records.

Several industry outlooks released in the last few weeks expect that a heightened level of deal volume is primed to continue.

"After rising by an estimate 60% in 2010, commercial property sales volume is expected to increase by another 25% to 20% in 2011," predicted William E. Hughes, senior vice president and managing director of Marcus & Millichap Capital Corp. "The expected improvement [in 2011] will move the investment market closer to a more 'normalized' level."

The current transaction pace is very similar to that of the second half of 2002, with nearly identical third quarter volumes and likely comparable fourth quarter trading levels as well, according to Jones Lang LaSalle. The activity in both time frames is representative of more normalized, sustainable levels - much lower than the unprecedented lofty levels of the 2005 to 2007 boom, and much greater than the sales drought in 2009.

The level of liquidity in the U.S. capital markets has improved dramatically over the course of 2010, as investors have regained confidence, particularly in stable, well-leased and located properties in the traditionally best-performing markets, Jones Lang LaSalle noted. Activity will continue to trend upward throughout 2011 as investor interest grows amid a very favorable monetary environment and an improving macroeconomic picture.

"Total investment transaction volume in apartments, office, retail and industrial will increase by a projected 36% over the 2010 figure, which at an estimated \$92 billion would represent an 80% increase over the low reached in 2009," projected Josh Gelormini, vice president of capital markets research for Jones Lang LaSalle.

The deals in 2011 are likely to look different than the deals in 2010, too. There is an increased willingness to look for buying opportunities beyond either super core markets and trophy assets or vastly distressed properties, according to the fourth quarter 2010 findings of the PwC Real Estate Investor Survey.

The report notes that interest in secondary locations, Class-B properties, and value-added Class-A plays is heating up and that buyers are becoming more comfortable with taking on slightly more risk, suggesting that both investors and lenders are gaining more confidence in the overall performance of both the economy and the real estate industry.

"This time last year investors were solely focused on 'treasures' or 'traumas', properties that were either top-notch quality or significantly discounted due to sellers in distress, and there was no appetite for assets in the middle of the spectrum," said Mitch Roschelle, partner, U.S. real estate advisory practice

CONTINUED: CRE Sales Deal Volume Returning to 'Normal' Levels

leader, PwC. "Now, many of them are looking to widen their investment parameters and take on additional risk as they see signs that the economy and the industry are slowly healing."

And at the outset of 2011, CoStar COMPS shows that more than 6,700 property sales are pending with a combined asking price of more than \$9.5 billion. Of that dollar volume, about \$1.49 billion is reportedly in escrow; another \$6.41 billion under contract and \$1.59 billion listed as pending.

Where office properties have dominated the 2010 sales landscape, retail, multifamily and industrial properties are the three leading property types in pending deals with asking price volumes of \$2.49 billion, \$2.08 billion and \$1.94 billion respectively. Office properties make up just about \$1.91 billion of pending deals. Mixed-use properties come in at about \$535 million; flex properties at \$268 million, hospitality at \$165 million.

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