

ask the expert

ASK THE EXPERT is a Q&A with TRANSWESTERN experts and leaders. In this edition, TRANSWESTERN chats with Denver Investment Services vice presidents, Brad Cohen and Larry Thiel. The topic on hand? 2012 Capital Markets.

2012 CAPITAL MARKETS: GAINING MOMENTUM

With Brad Cohen & Larry Thiel

Gearing up or maintaining speed for the new year

4th Quarter 2011

Question:

How are life companies, pension funds and endowments planning to adjust allocations for commercial real estate in the year ahead and what product types are they turning to?

Cohen & Thiel:

The consensus among our pension fund and life company clients is to stay the course in 2012. In 2011, these groups outpaced other real estate vehicles, placing debt and equity into multi-family, as well as core industrial, retail and office. As demand for rental housing continues to increase, multi-family will again lead the way in 2012, trailed not far by core office, industrial and retail.

Q: Capital markets remain somewhat strong with transaction volume increasing and sales pipelines expanding. What does this say about investor demand?

A: Investor demand and the appetite for transactions are rising. Year-to-date transaction volume is 80 percent higher than for the same period last year. There is money on the sidelines and investors are biding their time, working out the right way to deploy it to achieve less volatile returns. Interestingly, while activity is steady and climbing for core product, there remains a high investor demand for distressed assets. However, the debt markets are slow to catch up, and they are only providing money for either core assets or for investors with very strong financial statements that can afford to accept recourse.

Q: Research shows us that transactions for "non-strategic" assets in secondary and tertiary markets have slowed a great deal. Why is this?

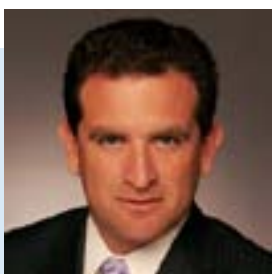
A: Transactions on non-strategic assets in secondary and tertiary markets continue to struggle due to the lack of debt available. Life companies - and similar lenders - still are unwilling to deliver debt to these assets. While the conduit market made a brief comeback, it disintegrated again in early August due to uncertainty in the national and global markets. There is a mirrored uncertainty among fund managers who are raising money that "going outside of the box" might hinder their ability to raise equity for real estate transactions. Without other lending options, and the trepidation among fund managers, tertiary markets and non-strategic assets will continue to struggle.

Weak economic growth and ongoing financial market disruptions cause most investors to maintain a more risk averse attitude. Investors do not want to risk a material decline in net yield, or worse, risk losing potential capital. Slow and steady is the smart move for 2012.

Q: What can investors expect to see in the office sector within the next year or so?

A: While there has been some growth and businesses seem to be making money again, institutions are not willing to commit due to the uncertainty in the global and national markets, coupled with a looming presidential election. There are many questions to be answered before we see significant economic growth. Therefore, we believe the office market will remain relatively flat in 2012. The office sector also faces a backlog of problems, including sub-vacancy and defaulted tenants. While many of these issues will be addressed and the outlook will improve in 2012, office real estate decisions remain emotional and controlled by uncertainty.

Want to know more? Follow Brad and Larry on Twitter @TWDenverISG



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BRAD COHEN & LARRY THIEL serve as vice presidents of investment services in Transwestern's Denver office. The team's primary focus is originating, structuring and executing commercial investment sales and capital market transactions for institutional, corporate and private owners of commercial real estate.

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