RCA Report
REALTORS® Commercial Alliance

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Real estate outlook 2010

Predicting the future is tricky. At best it's two parts knowledge and one part luck. Yet, only by looking farther ahead than next quarter's earnings can commercial real estate companies plan strategically and ensure success. *RCA Report* looks at some new—and a few old—ideas that may shape markets and companies into the next decade.

FACTS FOR THE FUTURE

- **162.1 million:** U.S. civilian labor force by 2014
- **164.5 million:** Total U.S. employment by 2014
- **98 million:** Barrels of oil used worldwide per day, up 22% from 2003
- **80%:** Web access that will occur through Web-enabled phones by 2010

Sources: U.S. Census Bureau, Bureau of Labor Statistics, Energy Information Administration, The Futurist.

Market 2010

If there's one prediction everyone wants, it's what markets will be doing in the future. The good news is that relatively stable cap rates and strong capital flows should keep prices up, at least for the next couple of years, according to Dr. Peter Linneman, Albert Sussman Professor of Real Estate at the University of Pennsylvania's Wharton School. "For the first time in a long time, real estate is priced right relative to interest rates," says Linneman. So whatever interest rates do, cap rates shouldn't be more than 100 to 150 basis points higher than the prevailing interest rates, he says.

By 2010, however, the picture could be a little shakier. "I worry about the development pipeline and a major hiccup in supply in three or four years," says Linneman.

Interviewees in a special "Outlook through 2010" section of *2006 Emerging Trends in Real Estate* (published by the Urban Land Institute and PriceWaterhouseCoopers) see the most trouble ahead for Big Boxes, which may find themselves losing the battle to lifestyle centers or mixed use within urban town center unless they start reinventing their concepts.

Another longer term opportunity might be the resurrection of manufacturing in such space-heavy markets as Detroit. Skilled assembly labor might be able to compete for jobs if the real estate is "significantly repriced," says Don Guarino, vice president and chief appraiser for the Aegon USA Realty Group. R&D, on the other hand, is probably headed overseas, where clean space can be constructed for much less, he adds.

Oversupply might well coincide with an economic slowdown to produce negative office absorption in three to four years, predicts Robert Bach, senior vice president for research and client services at Grubb & Ellis Company. While Bach is "enough of an optimist" to believe that there's only a 40 percent likelihood of a recession by 2010, he says that real estate returns "will revert to what they've always been, 2/3 income and 1/3 appreciation."

Capital will also become more global, predicts Steve Blank, ULI senior research fellow for real estate finance and one of the authors of *Emerging Trends*. "Over the next five years, companies will deploy capital without borders and become indifferent to whether the right strategic investment opportunity is in Hunan, China, or San Paolo, Brazil," he says.

Demographics and changing technologies will also contribute to

See **Real estate** *on back page*

DATAPoints

$2 trillion	6–8%	$682.7 billion	40%
Estimated value of brownfield sites in the United States.	returns from commercial property for the remainder of 2006.	Outstanding volume of CMBS market at the end of 2005.	of commercial property made up of small-scale, scattered development in 13 major metros.

Credits: Brownfields Capital; Patrick Halter, Principal Financial Group, speaking at the spring CRE conference; Survey by the National Association of Real Estate Investment Trusts and the Commercial Mortgage Securities Association; "Beyond Edgeless Cities: Office Geography in the New Metropolis," Robert E. Lang, Thomas Sanchez, and Jennifer LeFurgy.

T&I BRIEFING

In its fourth installment, the RCA Technology & Intelligence Briefing CD once again brings you business-changing ideas from some of the most innovative thinkers in commercial real estate. Just hit play and start learning.

JEFFREY DE BOER, president and CEO of the Real Estate Roundtable(*www.rer.org)* brings you up to date on legislative and regulatory issues.

- Along with RCA and the Institute of Real Estate Management, the Real Estate Roundtable is an active participant in the **Real Estate Information Sharing and Analysis Center.** This center, which issues alerts about potential security threats and promotes best practices for protecting assets, is a critical emergency preparedness tool.
- The Roundtable is seeking to give federal employees the option of investing a portion of their retirement savings—held in the Thrift Savings Plan—into real estate. The change will not only benefit federal workers but will provide **a new capital source for the real estate industry.**

SCOTT R. MULDAVIN, CRE, CMC, president, The Muldavin Company, offers you an update on where capital flows are heading and provides an overview of The Green Building Finance Consortium, of which RCA is a sponsor.

- Technology and tech-driven research and analytics are attracting more individual investment into commercial real estate funds and REITS, as well as to single properties. Institutional money will also help keep **liquidity in the market**.
- With more than 6,000 buildings certified by the U.S. Green Buildings Council, **green is no longer on the fringes.** That's why the Consortium's efforts to create tools and methods for evaluating the value impact that green features have is so timely.

BOWEN H. "BUZZ" MCCOY, CRE, president, Buzz McCoy Associates Inc. and author of the new *Evolution of Real Estate Capital Markets: A Practitioner's Perspective*, highlights recent developments in commercial financing.

- There's more risk in the real estate market now than there has been for the last five years. **Securitized properties are vulnerable** if there is a market downturn since they aren't being administered by people skilled in workouts.

AFFILIATE SPOTLIGHT

CRE honors program to slash voucher overpayments

Overpayment of rent vouchers has plagued the Department of Housing and Urban Development and local housing authorities since the program began in 1974. Now two members of The Counselors of Real Estate have developed an innovative, cost-effective rental housing database that lets authorities calculate market-appropriate rental payments for vouchers.

For their work in the development of such a database, Maxine V. Mitchell, CRE, and Robert E. Miller, CRE, received the 2006 James Felt Creative Counseling Award of The Counselors of Real Estate. Mitchell is president and Miller is senior vice president of Applied Real Estate Analysis Inc. in Chicago. The award was presented to Mitchell and Miller at The Counselors of Real Estate Midyear Meetings in Charleston, S.C., in April 2006.

The Housing Choice Voucher Program (formerly known as the Section 8 program) helps eligible households pay rent on privately owned units of their choosing. In 2004, $14.2 billion was devoted to this type of tenant-based rental housing assistance.

Each database model is designed to be unique to a local rental market. For each city, Mitchell and Miller assess the housing market conditions and develop a hedonic pricing model that calculates fair, defensible rent prices. To date, the pair have conducted work for housing authorities in Philadelphia, New Orleans, and Los Angeles.

Key features of the system include housing market conditions and trends; careful definition of submarket areas; statistically reliable analysis; substantial sample size; and versatility. (The database may also be used to assess an authority's portfolio of conventional and scattered-site housing.)

Mitchell has more than 30 years of experience in real estate market analysis, economic assessment, and public policy planning. Miller is a historian and city planner who has spent the past 30 years as a real estate analyst and public policy consultant specializing in the revitalization of urban areas.

The James Felt Creative Counseling Award honors outstanding achievement and ingenuity in real estate counseling by the members of The Counselors of Real Estate. Selection is made by a peer-review committee.

Established in 1992, the award honors the memory of James "Jack" Felt, CRE, a prominent real estate pioneer and founding member of The Counselors of Real Estate. The award reflects Felt's personal and professional standards, ethics, integrity, creativity, and competencies displayed throughout his real estate career.

The Counselors of Real Estate *(www.cre.org)* is a professional membership organization established exclusively for those real estate advisors who provide sound, unbiased, and competent advice on the many diversified issues encountered in the broad field of real estate.

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