



# COMMERCIAL REAL ESTATE

FIRST QUARTER

2018

The Commercial Real Estate Industry Practice Group draws on the experience of CFA dealmakers, who as former business owners, CEOs, and industry professionals, have first-hand knowledge and have completed many transactions in sectors throughout the Commercial Real Estate category. Working with your local CFA representative, you can be sure that the collective wealth of knowledge is available to every CFA client.



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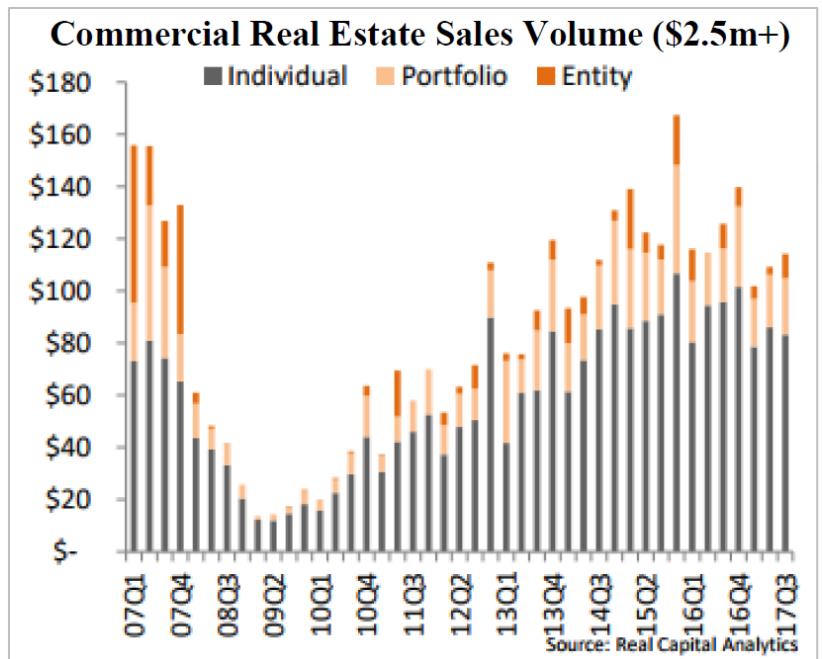
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## Commercial Real Estate M&A

Deal volume and prices increased yearly from Q3'11 through to Q3'16, but that was not the case in 2017. In the commercial real estate sector in 2017, increasing prices showed owners looking to hold onto assets with a focus more on cashflow (cap. rates) than a large pay out at disposition.

The trend of foreign buyers looking to invest in U.S. commercial real estate continued in 2017. According to data from the National Association of Realtors, the top countries of origin for foreign buyers included China, Mexico, the United Kingdom and Venezuela.



## Debt Markets for Commercial Real Estate

The debt markets for commercial real estate have begun to slow down. Commercial loans comprise roughly 50% of the market and regulators have told lenders to slow down so as not concentrate their loan portfolios in the commercial sector. Likewise, many insurance companies that traditionally invest in real estate are nearing the top of their real estate allocation limits.

Still, the overall lending environment is still rather buoyant. Lenders are becoming increasingly comfortable with risk-retention rules that kicked in at the end of 2016.

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## Industry Update

US commercial real estate investment volumes declined 12% in the first half of 2017 compared to the same period in 2016, according to a recent report by real estate services firm Avison Young. Dollar volumes for retail, multifamily, and office all saw declines in the first half of 2017; the industrial sector was the only segment to see growth, with a 17% rise in dollar volumes. Los Angeles led cities with the highest level of investment volumes, but investments were still off compared to the same period in 2016. LA bumped New York City as the top draw for US real estate investment dollars as volumes were down more than 50%, although the decline was largely attributed to a low supply of properties for sale. However, New York remains an attractive market for foreign investors who see upside in the city's office market. Key markets that saw investment volumes grow in the first half of 2017 included San Francisco (with a 73% increase in investment volume), Orlando (61%), Boston (52%), and Houston (40%).

Moderate growth is ahead for the US commercial real estate industry through 2019, according to a new economic forecast from the Urban Land Institute (ULI) Center for Capital Markets and Real Estate. Commercial real estate prices will rise by an average of 4% per year over the next three years. The industrial sector will average the highest rent growth at 3.7%, driven by growing demand for new data centers and the need for warehouses and logistics for e-commerce. Office rents are forecast to grow 2%, with retail rents trailing behind at 1.7% due to retailer bankruptcies and store closings. Overall, moderate commercial real estate growth will be driven by increased business investment and corporate confidence, as well as a falling unemployment rate. ULI's forecast is based on a survey of 48 of the industry's top economists and analysts representing 34 leading real estate investment, advisory, and research firms.

## Industry Indicators

- US corporate profits, an indicator of commercial real estate demand, rose 5.4% in the third quarter of 2017 compared to the same period in 2016.
- The bank prime loan rate, which indicates changes in the rates available for real estate financing, was 4.25% as of the week ending December 12, 2017, up from a rate of 3.5% the same week in 2016.
- The value of US nonresidential construction spending, a driver for commercial real estate brokerage demand, dropped 0.4% year-to-date in October 2017 compared to the same period in 2016.

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Collectively, the Commercial Real Estate Practice Group provides advice on a wide range of financing vehicles for commercial real estate owners, investors, and developers. Recent projects include Office, Industrial, Retail, Medical Office, Hospitality, Multi-family, Adult Independent Living, Student Housing, and Project Financing.

