

# **Brokers Forum Report**

March 24, 2015

Forecast for April 2015 – September 2015

**The Center for Real Estate Theory and Practice**



## **ASU Commercial Brokers Forum Survey Forecast for April 2015 – September 2015**

"Without deviations from the norm, progress is not possible."

Frank Zappa

### **Introduction**

We keep waiting for our market to get back to normal. We pine for the days when development was rampant, new home construction dominated and we had substantial growth on the edges. That was our norm — that is what we were known for. Status quo is now a slightly different development pattern and those who are in the market every day know it, accept it and are learning to operate within it. For those who only know how to operate according to the old norm, and who keep waiting for it to return, it is a little painful to accept.

### **Background**

On March 24, 2014, a group of the Valley's most successful commercial real estate brokers were brought together by the W. P. Carey School of Business and the Center for Real Estate Theory and Practice to provide meaningful, insightful and relevant input on the commercial real estate market in Phoenix. These brokers came from a variety of sectors and specializations as well as a cross section of the many brokerage houses in the Valley. This discussion is part of a series of forums held by the Center for Real Estate Theory and Practice in order to track the perceptions, insights and trends in the Phoenix commercial real estate market.

The purpose of this forum is to seek informed opinion and hopefully achieve consensus on forward-looking key indicators of the commercial real estate market in the Phoenix metropolitan area. The forum was organized with the help of Pete Bolton, managing director of the sponsor of the forum, Newmark Grubb Knight Frank. The forum was conducted as an open discussion about what is happening "on the street" in commercial real estate. The intention of this gathering was to detect current trends, discover similarities and differences among various sectors and submarkets and document anecdotal evidence, opinions and insights from the group. As the moderator, Pete Bolton, said "Nobody knows this market better than the brokers, period, the end." This report is a summary of their opinions. Each session builds on the previous ones and the information gathered is synthesized chronologically to provide an indication of trends.

This is the fifth report of the Commercial Real Estate Broker Survey which addresses what the panelists believe will happen between April and October 2015. The following charts indicate the answers to the associated questions asked of the panel. Following each chart are consensus statements made by panelists about the question asked. The responses are anonymous. Reading the comments will give readers a sense of what these important players in the commercial markets are thinking. Readers should note that the comments are those of the brokers and are as close as possible to being verbatim. This is not a refined analysis of market conditions.

In our last report we felt comfortable saying that there will be little change in performance in all segments of the metro Phoenix real estate market for the next six months. It is clear from the

results of this edition of the forum that those who know this market best are feeling good about where we are and confident we will continue to expand. We still feel certain saying 2015 will be much like 2014 but, and this is a big but, the professionals whose opinions we rely on for this report feel confident that all segments of this market are making solid progress and we are at an inflection point. "Last year I said 2015 will be more of the same, but better. Now I know it will be better in 2015. We are not 'killing' it, but it is far better than it has been for the last four years," Bolton said.

We still have systemic problems to resolve, such as attracting more high-wage earning jobs, construction labor shortages and tight lending, which keeps a governor on new home construction. This is our 5th survey, and for the first time 100 percent of those surveyed said the Phoenix market is moving upwards. When asked the question "Where are we in the cycle?" 58 percent said "Expansion" - this is up from eight percent six months ago. The percentage saying "Recovery" dropped from 92 to 33 percent. Our respondents are feeling good about where we are. They all wished for more activity, but they see the progress. How we are growing is different. We've deviated from the norm, but in the maturation of the Phoenix metro area, this is progress. Following are the results of the most recent commercial brokerage survey and forum held March 24th at ASU. These are the forward-looking opinions of the professionals who are in the market every day. These survey results are their opinions based upon their experience.

Mark Stapp  
Executive Director, Master of Real Estate Development  
Fred E. Taylor Professor of Real Estate

**Consensus statement on the overall market:**

- Submarkets are driving the expansion, especially in Downtown Phoenix, Tempe and the Southeast Valley
- There are certainly submarket issues, but in the aggregate, there is growth although it is fairly slow
- Little spec development
- Considerable build-to-suit activity
- The market is definitely gaining momentum

**Where are we in the cycle?**

	Sep. 2013	Dec. 2014	Mar. 2014	Sep. 2014	Mar. 2015	Trends
Expansion	13%	0%	47%	8%	58%	
Recovery	87%	100%	53%	92%	33%	
Correction	0%	0%	0%	0%	9%	
Maturity	0%	0%	0%	0%	0%	
Recession	0%	0%	0%	0%	0%	

**In what direction is the metro Phoenix market moving?**

	Sep. 2013	Dec. 2014	Mar. 2014	Sep. 2014	Mar. 2015	Trends
Up	33%	73%	27%	84%	100%	
Down	33%	0%	7%	8%	0%	
Stationary	21%	27%	66%	8%	0%	
No Response	13%					

**Will the number of people who have stopped working or stopped looking for work affect commercial real estate markets?**

	Sep. 2013	Dec. 2014	Mar. 2014	Sep. 2014	Mar. 2015	Trends
Absolutely	20%	90%	87%	92%	36%	
Not At All	0%	10%	13%	8%	9%	
Not Yet, But It Will	80%	0%	0%	0%	55%	

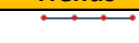

**Is uncertainty in the federal government affecting the commercial real estate market and hindering our local growth potential?**

	Sep. 2013	Dec. 2014	Mar. 2014	Sep. 2014	Mar. 2015	Trends
Yes		100%	100%	100%	83%	
No		0%	0%	0%	17%	

**How is the state government and political landscape affecting metro Phoenix real estate?**

	Sep. 2013	Dec. 2014	Mar. 2014	Sep. 2014	Mar. 2015
Significantly Positive					8%
Slightly Positive					58%
No Effect					0%
Slightly Negative					34%
Significantly Negative					0%



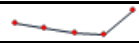
**What is the overall feeling about the metro Phoenix commercial real estate market?**

	Sep. 2013	Dec. 2014	Mar. 2014	Sep. 2014	Mar. 2015	Trends
Optimistic		100%	100%	100%	100%	
Pessimistic		0%	0%	0%	0%	


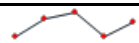

**Consensus statement on multifamily market:**

- Opportunity is submarket related
- Seeing the strongest rent growth in over 30 years
- Location will determine strength of rent growth
- Furniture and home accessory businesses are expanding and this is a good sign for the multifamily market
- Look to see rent growth in class B- and C product

**Where are apartment vacancy rates headed in the next six months (April 2015 – September 2015)?**

	Sep. 2013	Dec. 2014	Mar. 2014	Sep. 2014	Mar. 2015	Trends
Up	34%	45%	20%	36%	18%	
Down	0%	10%	40%	28%	10%	
Stationary	53%	45%	40%	36%	72%	

**Where are apartment rents headed in the next six months (April 2015 – September 2015)?**

	Sep. 2013	Dec. 2014	Mar. 2014	Sep. 2014	Mar. 2015	Trends
Up	34%	0%	0%	45%	75%	
Down	0%	9%	13%	0%	8%	
Stationary	53%	91%	87%	55%	17%	
No Response	13%					

Which multifamily property class will realize the greatest rent growth over the next six months (April 2015 – September 2015)?

	Sep. 2013	Dec. 2014	Mar. 2014	Sep. 2014	Mar. 2015	Trends
Class A		27%	33%	25%	9%	
Class B		0%	67%	67%	58%	
Class C		73%	0%	8%	33%	

**Consensus statement on industrial market:**

- Big box vacancies — market is still slow, build to suits are the only thing going on
- Large boxes will remain stagnant
- Smaller businesses are expanding and upgrading to bigger space (mid-size)

Where are big box industrial vacancy rates headed in the next six months (April 2015 – September 2015)?

	Sep. 2013	Dec. 2014	Mar. 2014	Sep. 2014	Mar. 2015	Trends
Up	33%	18%	14%	0%	0%	
Down	27%	36%	7%	58%	36%	
Stationary	27%	46%	79%	42%	64%	
No Response	13%					

Where are big box industrial rents headed in the next six months (April 2015 – September 2015)?

	Sep. 2013	Dec. 2014	Mar. 2014	Sep. 2014	Mar. 2015	Trends
Up	13%	0%	7%	9%	0%	
Down	27%	18%	13%	36%	8%	
Stationary	47%	82%	80%	55%	92%	
No Response	13%					

Is this a tenant or landlord industrial market?

	Sep. 2013	Dec. 2014	Mar. 2014	Sep. 2014	Mar. 2015	Trends
Tenant		100%	100%	83%	73%	
Landlord		0%	0%	17%	27%	

**Consensus statement on office market:**

- Land prices are too expensive, so existing product will need to suffice
- Absorption will continue, opportunities will be in the Southeast and Northwest Valleys
- Medical office is moving into space not considered traditional office

**Where are office vacancy rates headed in the next six months (April 2015 – September 2015)?**

	Sep. 2013	Dec. 2014	Mar. 2014	Sep. 2014	Mar. 2015	Trends
<b>Up</b>	0%	9%	0%	18%	0%	
<b>Down</b>	67%	64%	21%	73%	73%	
<b>Stationary</b>	27%	27%	79%	9%	27%	
<b>No Response</b>	6%					

**Where are office rents headed in the next six months (April 2015 – September 2015)?**

	Sep. 2013	Dec. 2014	Mar. 2014	Sep. 2014	Mar. 2015	Trends
<b>Up</b>	33%	9%	15%	42%	75%	
<b>Down</b>	7%	18%	0%	16%	0%	
<b>Stationary</b>	47%	73%	85%	42%	25%	
<b>No Response</b>	13%					

**Is this a tenant or landlord office market?**

	Sep. 2013	Dec. 2014	Mar. 2014	Sep. 2014	Mar. 2015	Trends
<b>Tenant</b>	0%	0%	93%	92%	82%	
<b>Landlord</b>	0%	0%	7%	8%	18%	

**Consensus statement on retail market:**

- Retail stores are quietly closing (example = sports retailers)
- Emerging markets are interesting, led by restaurant and small retailers
- Consolidation of major players has had a major affect, there are not many retail REITs left
- Anything along Scottsdale Road is hot
- Retailers are coming out of malls, looking for neighborhood centers near the energy of restaurants

Where are retail vacancy rates headed in the next six months (April 2015 – September 2015)?

	Sep. 2013	Dec. 2014	Mar. 2014	Sep. 2014	Mar. 2015	Trends
<b>Up</b>	13%	9%	50%	0%	27%	
<b>Down</b>	61%	18%	7%	64%	46%	
<b>Stationary</b>	13%	73%	43%	36%	27%	
<b>No Response</b>	13%					

Where are retail — anchored center rents headed in the next six months (April 2015 – September 2015)?

	Sep. 2013	Dec. 2014	Mar. 2014	Sep. 2014	Mar. 2015	Trends
<b>Up</b>	47%	36%	20%	42%	45%	
<b>Down</b>	7%	9%	20%	16%	0%	
<b>Stationary</b>	33%	55%	60%	42%	55%	
<b>No Response</b>	13%					

Where are retail - unanchored center rents headed in the next six months (April 2015 – September 2015)?

	Sep. 2013	Dec. 2014	Mar. 2014	Sep. 2014	Mar. 2015	Trends
<b>Up</b>	27%	14%	18%	0%	9%	
<b>Down</b>	13%	14%	0%	42%	55%	
<b>Stationary</b>	47%	72%	82%	58%	36%	
<b>No Response</b>	13%					

Where are retail — big box (over 25K square feet) Rents headed in the next 6 months (April 2015 – September 2015)?

	Sep. 2013	Dec. 2014	Mar. 2014	Sep. 2014	Mar. 2015	Trends
<b>Up</b>	13%	0%	8%	0%	0%	
<b>Down</b>	7%	36%	46%	25%	70%	
<b>Stationary</b>	67%	64%	46%	75%	30%	
<b>No Response</b>	13%					



**Is this a tenant or landlord retail market?**

	Sep. 2013	Dec. 2014	Mar. 2014	Sep. 2014	Mar. 2015	Trends
<b>Tenant</b>		100%	100%	100%	100%	
<b>Landlord</b>		0%	0%	0%	0%	

**Consensus on capital markets:**

- Cap rate compression will continue in select markets
- Most investors priced out of the gateway markets will continue to come to the Valley
- As soon as interest rates move up, there will be a short lull, as the markets adjust

**Where are interest rates for commercial loans headed in the next six months (April 2015 – September 2015)?**

	Sep. 2013	Dec. 2014	Mar. 2014	Sep. 2014	Mar. 2015	Trends
<b>Up</b>	93%	9%	0%	25%	18%	
<b>Down</b>	7%	0%	21%	0%	0%	
<b>Stationary</b>	0%	91%	79%	75%	82%	

**Has cap rate compression helped effect gains in core real estate values over the past six months (October 2014 – March 2015)?**

	Sep. 2013	Dec. 2014	Mar. 2014	Sep. 2014	Mar. 2015	Trends
<b>Yes</b>	60%	100%		100%	100%	
<b>No</b>	20%	0%	71%	0%	0%	
<b>No Opinion</b>	20%					

**Will cap rate compression continue in the next 6 months (April 2015 – September 2015)?**

	Sep. 2013	Dec. 2014	Mar. 2014	Sep. 2014	Mar. 2015	Trends
<b>Yes</b>	53%	30%	21%	50%	73%	
<b>No</b>	47%	70%	79%	50%	27%	

**Consensus on land and home markets:**

- Homebuilders will continue to be cautious
- Due to high land costs, most builders cannot build houses to justify the cost for first-time homebuyers
- Finding construction laborers continues to be a problem, seasoned employees have left the market

**Is the tight inventory for homes on the market affecting the commercial side at all?**

	Sep. 2013	Dec. 2014	Mar. 2014	Sep. 2014	Mar. 2015	Trends
Yes	40%	30%	33%	50%	45%	
No	13%	30%	40%	50%	10%	
Not Yet, But It Will	40%	40%	27%	0%	45%	
No Response	7%					

**Have land prices reached their peak?**

	Sep. 2013	Dec. 2014	Mar. 2014	Sep. 2014	Mar. 2015	Trends
Yes		10%	14%	18%	18%	
No		90%	86%	82%	82%	

**Have homebuilders stopped buying land?**

	Sep. 2013	Dec. 2014	Mar. 2014	Sep. 2014	Mar. 2015	Trends
Yes		0%	0%	9%	17%	
No		100%	100%	91%	83%	

**Are homebuilders backing out of land deals?**

	Sep. 2013	Dec. 2014	Mar. 2014	Sep. 2014	Mar. 2015	Trends
Yes		90%	93%	100%	33%	
No		10%	7%	0%	67%	