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Survey reveals commercial real estate developers remain optimistic through uncertain times

January 31 2013, by Carla Collado-Martinez

Developers in California remain upbeat about the future of the multi-family and industrial real estate sectors—and cautiously optimistic about commercial office markets—according to the latest Allen Matkins/UCLA Anderson Forecast California Commercial Real Estate Survey.

The survey, conducted in November 2012, polled industry professionals on their views of how the market will change over the coming three years.

Multi-family sector

In line with last July's survey projections, multi-family residential construction continues to boom, with an increased demand for housing and decreasing vacancy rates of 4.5 percent. The turnaround is particularly evident in the Bay Area, with its high occupancy rates and rising rents, as household formation rebounds in California.

While new generations entering the workforce are seeking housing closer to work, the survey also indicates that families are leaving single-family homes for multi-family homes.

"Our survey shows that, despite the new projects underway—and there are many of them throughout the state—our panels are very optimistic about what those markets are going to look like three years hence," said Jerry Nickelsburg, a senior economist with the UCLA Anderson Forecast.

Industrial sector

Industrial markets in all regions of the state had positive forecasts, due in part to an anticipated increase in California exports—particular to China and other Asian markets—which will drive the demand for distribution and manufacturing space.

Since 2011, private investment in industrial facilities remains up by about $15 billion. The survey indicates that opportunities for new developments have emerged in the industrial space market, particularly in Inland Empire markets.

Office sector

Feelings about the office sector over the coming three years, while still optimistic, have shifted downward since the survey was last conducted in July. This may be a reflection of developers' concerns over the fiscal cliff, as the current survey was conducted in last November. Projects coming out of the ground, as well as those in the pipeline, could prove forecasters wrong in 2013 and beyond.

"We are still seeing strength in the market today. More developers have been taking notice that market conditions now justify demolishing older structures and taking steps to build new ones," said John Tipton, a real estate department partner at Allen Matkins. "This is a very significant indication of commitment, not only of capital, but to the strength of the development cycle."

Many developers remain optimistic that a number of new, large office developments remain ready to enter the market and that demand is still very much alive in San Francisco, Los Angeles, and particularly in San Diego's North County.

"The sheer scale of some existing portfolios that will likely come to market in 2013, like that of Blackstone's EOP Trust, could be influential in keeping the commercial real estate investment market forward-moving," said Tony Natsis, the real estate department chair at Allen Matkins. Based on the survey's aggregate results, California's real estate market will remain bullish through 2015.

More information: For a copy of the latest Allen Matkins/UCLA Anderson Forecast California Commercial Real Estate Survey and Index Research Project, please visit www.allenmatkins.com or www.uclaforecast.com.

Provided by University of California, Los Angeles