MAJORITY OF REAL ESTATE INVESTORS IN THE AMERICAS EXPECT TO BE NET BUYERS IN 2017, CBRE SURVEY FINDS

Dallas/Fort Worth is #2 Target Market for Investors, Up from #3 in 2016
Industrial is Most Attractive Property Type for Investment Ahead of Multifamily

DALLAS - March 13, 2017 – The prospect of increased U.S. economic growth combined with less regulation means that investor sentiment for commercial real estate investment is marginally more positive than last year, despite the potential for rising interest rates, according to the CBRE Americas Investor Intentions Survey 2017 (attached).

The 2017 survey results reveal that investors will remain actively engaged in real estate investment this year, with the majority (67%) intending to be net buyers (more acquisitions than dispositions). The percentage of net buyers has increased since 2015 (60%) and 2016 (65%). The vast majority of these investors (83%) intend to maintain or increase their purchasing activity in 2017.

Dallas/Fort Worth ranked as the number two metro for property investment this year, just behind Los Angeles. DFW is up a spot from number three in last year's survey, edging out New York City.

"Dallas/Fort Worth continues to be a very attractive market for institutional and private equity investors. Our sustained job growth over the last seven years, with no apparent reversal in sight, is providing lift across numerous asset classes," said Chris Hipps, Senior Managing Director, Investor Services, CBRE. "Specifically, the industrial sector, with a vacancy rate of less than 10 percent since 2012 and an average annual net absorption of 17.7 million square feet, is seeing high investment sale volumes."

Investors continue to show strong interest in U.S. gateway markets. Washington, D.C. moved up the ranks from eighth to the fourth most preferred metro for investment in 2017. Atlanta (T5), San Francisco (T5), Seattle (6), Houston (7) and Austin (11) are also viewed as attractive markets for investment. The majority of investors are focused on real estate in the Americas and do not intend to make asset purchases in other regions of the world.

Reversing 2016 trends, the industrial sector (38%) is viewed as the most attractive asset class for investment in 2017, replacing multifamily (28%), with office (18%) in third position. Reflecting the headwinds in the retail sector from e-commerce competition, only 8% of investors cited retail as an attractive option in 2017, significantly lower than the 17% in 2016. Among "alternatives," retirement housing was the only sector with an increase in interest, albeit small at 2%. Conversely, there were sharp drops in interest in real estate debt product and the leisure/entertainment sector.

“The Dallas/Fort Worth industrial market is universally considered to be one of the top four markets in the U.S. after Los Angeles, Northern New Jersey, and Chicago,” said Jack Fraker, Vice Chairman & Managing Director, Industrial Properties, Capital Markets, CBRE. “The fundamentals in terms of record net absorption, controlled new construction and tangible rental rate growth make Dallas a much favored market for institutional investors, both domestic and foreign. The long-term forecast is very bright given new demand drivers such as the e-commerce sector, occupiers in the last mile of the supply chain, and the traditional absorbers of space - consumer goods, retailers and the single family construction industry.”

Slow global economic growth that could undermine occupier demand (22%) was identified as the greatest risk factor for real estate investors, just ahead of rising interest rates (21%). Concern that property is overpriced and “a bubble waiting to burst” (16%) is a distant third among the list of potential threats. Investors are relatively unconcerned about the potential effects of government policy measures.

“While investors expect to largely maintain last year’s investment activity levels, they also intend to retreat on the risk curve, becoming more conservative in strategy and risk appetite. This is counterbalanced by the search for yield,” said Brian McAuliffe, President, Institutional Properties, Capital Markets, CBRE.

“Echoing concerns raised at the beginning of 2015, investors perceive the global economy and rising interest rates as the greatest threats to property markets; they also continue to have concerns about asset pricing. If the anticipated level of inflow into commercial real estate materializes, this should to some extent counteract any pricing pressure resulting from a rise in interest rates,” Mr. McAuliffe added.

Half of the investors surveyed (51%) are primarily searching for yield, relative to both government bonds (30%) and other asset classes (21%). This trend is even more pronounced among institutional investors, with 53% searching for yield.

Among the five different asset types by strategy—prime or core, good secondary, value-add, opportunistic, and distressed—value-add remains the preferred strategy (39%) and at similar levels to 2016. Investors’ appetite for good secondary (non-core) assets increased significantly in 2017, ranking second. This displaced core, which was ranked second-highest in 2016. The relatively diminished appetite for core product is attributed to a combination of low cap rates (which are not expected to get lower), weakening property fundamentals, and the search for higher yielding assets.

Institutional investors (comprising sovereign wealth funds, insurance and pension funds) intend to be strong net buyers in 2017. More than half (54%) of all institutions plan to deploy more than $1 billion of capital in the Americas this year. Marking a departure from the wider pool of survey respondents, institutions are still primarily focused on core assets, closely followed by value-add. CBRE Research estimates that SWFs in particular are under-allocated to commercial real estate (with top 20 SWF’s allocating an estimated 3% of total assets to real estate), which accounts for expected higher levels of capital deployment.

Survey methodology and composition of respondents

The 22-question Americas Investor Intentions Survey 2017 was conducted among CBRE clients between January 6 and February 6, 2017. The Americas survey is part of the larger global survey, for which nearly 2,000 responses were received.

Nearly 1,000 survey respondents indicated that the Americas is the global region which they are most responsible for in their current position. This report covers the responses of these investors.

The Americas survey respondents represent a wide cross-section of real estate companies and investor types. The largest category is fund or asset managers at 28%, followed by private property companies at 14% of the total. Private equity firms, developers and REITs were also well-represented by the survey.

The survey respondents invest in a wide variety of investment modes. Most investors use multiple types of investment vehicles (and chose multiple types in the survey).

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