COMMERCIAL REAL ESTATE MARKET UPDATE

GENERAL
市場概括

Optimizing Environmental Due Diligence in CRE Transactions

詳盡的環境調查在商業不動產交易中的重要性

Environmental and engineering expert Dan Spinogatti outlines considerations to improve assessment of environmental risk to keep real estate deals on time and on budget.

Retail Investment Trends to Watch in 2018

2018 年零售投資趨勢觀察

While some markets are stronger than others, the new Marcus & Millichap report points to general trends such as rising consumer confidence levels, the potential for higher wages and changes in the tax law that could play a role in shaping the economy and retail demand in 2018.

RETAIL
購物商場

Retail Shows Surprising Resilience

零售業顯示出驚人的韌性

The analysis concludes that despite retailer bankruptcies and the onslaught of e-commerce, the retail real estate sector in most markets is in reasonably good shape.

MULTIFAMILY
公寓樓

Airbnb's Life After New Regulations

新法規的實施對於Airbnb的影響

As the new law requiring hosts to register with the city went into effect in San Francisco, the room-sharing company had no choice but purge more than 4,500 listings. How has this impacted the local short-rental business, compared to other California metros?

FINANCING
貸款與資金

Mortgage Bankers Display Increasing Agility in 2018

銀行的抵押貸款在 2018 年表現出越來越高的靈活性

NorthMarq Capital Executive Vice President Jeffrey Erxleben discussed the evolving commercial real estate lending landscape.

Consumer Money Rates (Mortgage Rate, Prime Rate, etc.)

消費者市場利率：房貸、基本利率、等等

Optimizing Environmental Due Diligence in CRE Transactions

詳盡的環境調查在商業不動產交易中的重要性

By: Sanyu Kyeyune, Commercial Property Executive

To accurately determine the extent of environmental impact on a property, it's important to understand both current and historical tenant operations, cautioned Dan Spinogatti, senior vice president of real estate services with EBI Consulting—an environmental and engineering due diligence firm. Addressing attendees of the Mortgage Bankers Association CREF/Multifamily Finance Conference in San Diego, he presented some of the biggest environmental risks for each property type.

ENVIRONMENTAL RISK FACTORS, BY ASSET TYPE

Multifamily: Often, the environmental hazards that affect apartment communities are caused by contamination from neighboring areas, such as air-quality issues created by nearby manufacturing facilities. These risks tend to be more pronounced in legacy buildings, including Class B and C communities and public housing.

"When we work with agency financing groups—Freddie Mac, Fannie Mae, HUD—they provide very prescriptive scopes of work, which require extensive in-unit testing for things like radon, asbestos and lead-based paint," Spinogatti explained. And because these types of investments often include a capital improvements component, they are likely to involve renovation work, which increases the risk of unearthing hazardous substances.

Office: Especially in older office buildings, emergency power generators may be kept in underground storage tanks to conserve space and prevent fires. But when these tanks leak, the risk of contamination magnifies, necessitating thorough environmental due diligence.

Retail: The growing trend among retail investors of repurposing former big-box stores for recreational uses—like indoor racing tracks—calls for heightened attention to environmental due diligence. And dry cleaning shops continue to create long-term problems, thanks to the chlorinated solvents used in operations. Slow to degrade, these substances can easily migrate through concrete and soil, contaminating groundwater.

Similarly, an environmental site assessment of a space previously occupied by an auto repair business—such as Sears, which faces considerable bankruptcy risk this year and operates Sears Auto Centers nationwide—can uncover such issues as the presence of underground storage tanks containing petroleum products.

In both of these cases, further investigation is required, increasing time and cost for investors.

Industrial: Facilities that process metals or chemicals, including those that manufacture semiconductors or other electrical components, face amplified environmental risks. Tenants of these properties often store the substances that factor into their operations in underground storage tanks, which can degrade or pill and disperse toxic chemicals.

PROPERTY CONDITION ASSESSMENT

From the lender's perspective, properly pricing the loan requires determining whether the borrower has adequately sized their potential investment's replacement reserve. The property condition assessment needs to take into consideration the extent to which immediate repairs will be required, the expected useful life of systems and cost estimates for property improvements.

“The property condition assessment could lead the lender to hold back funds from the loan until the borrower makes certain repairs,” Spinogatti noted. “That’s why it’s so important to make sure the report has the correct scope of work applied for that use.”

Retail Investment Trends to Watch in 2018

2018 年零售投資趨勢觀察

By: Gail Kalinoski, Commercial Property Executive

The improving economy and strong employment numbers, particularly in markets where technology companies have been driving growth, are generating increased retail demand in several cities across the U.S., according to Marcus & Millichap's 2018 Retail Investment Forecast.

Seattle-Tacoma maintained the top spot on Marcus & Millichap's National Retail Index followed by San Francisco and Boston, which retained the second and third spots. The report notes these markets have seen robust job growth from tech companies that provide higher-paying jobs and attract more residents who in turn generate increased retail demand.

Restrained deliveries on new retail product has helped keep vacancy tight and rents high in many markets, including in markets like Dallas/Fort Worth, which placed 12th on the NRI, jumping seven places due to a "significant drop in deliveries and rising demand."

The report stated that Denver (#11) and Atlanta (#22) each jumped six spots on the NRI because of strong employment and population growth, which are expected to bolster retail sales.

Metro markets in the Midwest that have seen slower job and population growth dominate the lower part of the NRI: Milwaukee (#42), Cleveland (#44), Kansas City (#45) and St. Louis (#46). New Haven-Fairfield County in Connecticut comes in at 43rd on the Index, which follows 46 markets in the U.S.

"This East Coast market declined two notches (on the Index), as a lack of new job opportunities hinders population growth and higher retail sales gains," according to the report.

HIGH DEMAND, RISING RENTS

While some markets are stronger than others, the report points to general trends such as rising consumer confidence levels, the potential for higher wages and changes in the tax law that could play a role in shaping the economy and retail demand in 2018.

"The economic boost offered by the new tax law together with particularly low unemployment levels suggest that discretionary income could increase substantially, driving retail sales well ahead of their already elevated levels," Scott Holmes, senior vice president, National Director, National Retail Group, at Marcus & Millichap, said in a prepared statement. "This will reinforce retailer expansion, though available space could restrain absorption. The national average vacancy rate now stands at its lowest level since the 1990s, and all indicators point to further tightening in the year ahead. Within this context, rent growth is expected to maintain momentum, pushing the average national rent to a record high."

Holmes and John Chang, first vice present, National Director, Research Services, note in the report that much of the news media in the past year has focused heavily on the demise of well-known retailer brands but store openings actually outpaced closings. Off-priced department, fast-fashion and discount stores continue to be successful and are expected to lead store openings in 2018. Retailers that operate experience-oriented spaces will do well, as more customers seek experiential establishments. The report notes that owners of some neighborhood and community centers are breaking up large vacant spaces and seeking more service and entertainment offerings, such as fitness and health-care centers, and unique restaurant concepts.

RETAIL INVESTMENT TRENDS

Those changes are affecting retail sector investments, with investors increasingly looking for opportunities with upside and finding them in centers that are offering smaller-format retailers and non-traditional users. The report notes that some investors are also looking more closely at leases, particularly those of big-box retailers who may be looking to reduce their square footage.

In the capital markets outlook, the report states that investors seem to have adapted to the modestly higher interest rate environment as the Federal Reserve is expected to raise rates at least three to four times this year, as a hedge against inflation risk and accelerated economic growth. Holmes and Chang expect new Fed Chairman Jerome Powell to likely maintain existing policies and advance rates cautiously.

The report states that construction lending will remain conservative this year, but notes that national and regional banks have become key lenders for retail assets as CMBS lending eased.

“In general, credit standards have held steady and the trend should continue into 2018 as lenders search for deals,” according to the report.

Retail Shows Surprising Resilience
零售業顯示出驚人的韌性
By: Scott Baltic, Commercial Property Executive

The latest Annual Retail Report from Integra Realty Resources is notably upbeat about retail real estate, a sector that has, by many accounts, taken the worst drubbing of any major commercial real estate product type in recent years.

No, it isn't as if e-commerce and all those retail store closures never happened. But it is that the retail sector is for the most part actually in reasonable balance and that overall it's no worse off nationally than a year ago.

The report, by Hugh F. Kelly, Ph.D., notes a few key points. First, though bankruptcies in the retail sector continued through 2017, mostly driven by e-commerce model, "this could also be seen as an industry correction, as the U.S. is an over-retailed country."

Second, "The critical segmentation of the shopping center industry means that broad-brush depictions of trends must give way to a more pointillist perspective."

Third, e-commerce, on top of the "deconstruction of the department store model" and "a growing demand for experiences versus goods," are having an effect on retail transactions.

In all, the report concludes, the sector's moderation is likely a sign that retail developers and investors put on the brakes soon enough to avoid an out-and-out crash.

GETTING INTO SOME SPECIFIC NUMBERS
Retail property trading velocity continues to decline. By dollar value, it fell 19 percent from late 2016 to late 2017, and by number of assets traded it fell 9 percent, based on data from Real Capital Analytics.

The West Coast and Denver are anticipating 2018 retail rent increases of 3 to 4 percent, while the Midwest is being forecast to be substantially more sluggish. (Central region markets are also on average those with the highest vacancies for community and neighborhood centers).

Select markets in other regions are looking at up to 3 percent rental rate bumps at best; these include Wilmington, Del.; Providence, R.I.; Austin, Texas; Charleston, S.C.; and Orlando, Fla., though not necessarily for all product types in each of these metros.

Still, for all the talk of retail doom, the commercial real estate report notes that the vast majority of U.S. metro areas are in the recovery or the expansion phase of the economic cycle, and that about two-thirds are in the expansion phase.

Airbnb's Life After New Regulations

新法規的實施對於 Airbnb 的影響

By: Razvan Cimpean, Commercial Property Executive

The recent Airbnb restrictions and regulations that have gone into effect in San Francisco seem to have had little effect on the total number of Airbnb listings in the metro, AirDNA data suggests. Airbnb reportedly deleted more than 4,500 San Francisco illegal rentals from its site, but in most cases, either the listings were inactive or the properties were located outside the city. This explains why, out of a total of 11,000 properties listed on Airbnb as of December last year, AirDNA's algorithm only took into account a little less than 7,000. But comparing the metro's short-term rental situation with the one of other large California metros paints a more detailed picture.

NO ROOM TO GROW

San Francisco's room-sharing market has reached saturation, with the total number of listings growing by only 3.9 percent year-over-year as of January. Meanwhile, Orange County added more than 1,000 new rentals, an increase of 37.6 percent. Moreover, Los Angeles and San Diego also saw important gains, increasing their listings by more than 20 percent each. San Francisco has the most expensive average daily rate, $263.07 per entire place, at least 35 percent higher than the other three metros. Prices do not have much room to grow in San Francisco, which registered only a modest 3.6 percent increase year-over-year. By comparison, Orange County witnessed a 10.5 percent increase.

While it is too soon to analyze how effective the authorities' efforts to regulate the room-sharing business will be, the trend suggests that Airbnb absorption is likely to decrease in San Francisco in the following quarters. The metro faces an affordable housing crisis, with the median home price being the highest in the country. However, the city's struggle to deal with room-sharing platforms goes back to 2015, when San Franciscans voted not to restrict short-term rentals. Share Better, the coalition behind the 2015 anti-Airbnb campaign, has since expanded nationwide, drawing increasing attention to the negative impact home-sharing companies have on affordability.

ORANGE COUNTY GAINS MOMENTUM

Things look grimmer when factoring in the total number of booked listings—entire places, private and shared rooms, combined. While Orange County has the lowest number of listings among the four major California metros, it saw the biggest year-over-year increase as of January, 48.7 percent. San Diego is not doing bad either, registering a growth of more than 30 percent in the total number of booked listings for the same period. Last December, Los Angeles reached its highest number of booked listings, 13,671. While Orange County, Los Angeles and San Diego experienced a higher increase in booked listings than in new rentals, for San Francisco things were exactly the opposite. The metro kept an average of 5,300 booked listings in 2017, reporting a slight decrease of 0.1 percent.

On average, San Francisco had about 6,800 available listings each month in 2017 and an occupancy rate of more than 65 percent, similar to that of the previous years. This is a clear sign that the company will not be immediately impacted by the removal of illegal rentals. In San Francisco, Airbnb has reached a point where it is almost impossible to grow, but none of the other three California metros have significantly higher occupancy levels. Airbnb started out in San Francisco and had the chance to mature locally, backed at one point by an important electoral support. It should come as no surprise that, given the current state of the housing market in the metro, the city's Airbnb performance is lagging when compared to Orange County or Los Angeles. But in and of itself, San Francisco's room-sharing platform is far from being in a gloomy situation.

Mortgage Bankers Display Increasing Agility in 2018

銀行的抵押貸款在 2018 年表現出越來越高的靈活性

By: Sanyu Kyeyune, Commercial Property Executive

At $549 billion, the Mortgage Bankers Association's projection of 2018 loan origination volume represents a 3 percent decline from 2017. Still, industry experts expressed their optimism toward the market at the organization's CREF/Multifamily Housing Convention & Expo in San Diego last week. One such authority—Jeffrey Erxleben, executive vice president of NorthMarq Capital—offered his perspective on which trends are most likely to affect the commercial real estate lending landscape in 2018.

What is your take on MBA's 2018 outlook?

Erxleben: There is still very strong volume, and there are great opportunities across the landscape, even with a downward projection. From 2009-2017, there have been upward growth projections every year. To (continue to) have year-over-year growth like we've had forever is not going to happen. MBA's projection from 2017, which was a record year, is still very robust.

Which trends in policy, demographics and economics will have the greatest impact on the commercial real estate lending market in 2018?

Erxleben: The biggest story on the economic front is the rise in long-term interest rates and how that will impact the overall financing market as the underlying rates of loans go up. We've already seen that at the beginning of 2018, and I think it will continue. The biggest story will be how the market adapts, especially on the acquisition front, and the underlying financing that we can put on those assets.

Tax reform has been a net positive for our clients. That policy change is overall very positive for the industry and the financing (sector), as well.

Certain financing subtypes—such as senior housing—are impacted more by demographics. Addressing whether the product that is coming (online) is meeting demographic needs is top of mind.

What shifts are you paying close attention to within the property types that NorthMarq finances?

Erxleben: We've gone through a long period of this cycle where there has been some pretty strong rent growth and fundamentals within the multifamily market. We're focused on whether that rent growth will continue in select markets and if other markets may see a downward trend. When you drill down into the data, you need to take a look at the markets where a lot of the activity has been new, Class A construction. When you analyze the job growth within those markets and compare it to how many units are being put on the ground at a certain rent level, those are markets where the total construction supply is appropriate.

Retail is a less favorable product type for lenders. When we look at the lending landscape for big-box retail, the number of available lenders that we can provide a borrower is generally low.

Industrial product is very much in demand. Lenders have a strong appetite for industrial (assets), throughout the quality classes. Vacancy rates have remained pretty low. There are a lot of institutional players who remain unleveraged, so the opportunity to put leverage on an industrial office is pretty favorable.

Multifamily and industrial are probably the two top (sectors) from a lending perspective.

Describe the nature of competition among capital providers and how you anticipate it changing.

Erxleben: There is a wide range of capital providers, no matter what type of deal you're financing. There are a number of options to consider: It's a competitive landscape with new entrants to the market each time. We've seen a lot more floating-rate players come in, and I think throughout 2018 you'll see more of that activity.

Life companies have gotten into the bridge lending space, along with traditional balance sheet lenders and debt funds. There is ample liquidity there to meet requests.

Trends we've seen thus far are spread compression. As there are more providers coming in, spreads between 2017 and 2018 have trended down as much as 200 basis points on any given transaction.

How would you characterize the performance of agency and non-agency CMBS loans?

Erxleben: Agency CMBS continues to perform well. Delinquency rates are low, and agency product continues to be in high demand. (The agencies) both had record years (in 2017). Looking forward, I think they will (perform) equally—if not, slightly better—in 2018.

Non-agency CMBS seems to be improving as a market and is a bit more reliable than it used to be, from a borrower's perspective.

What other trends are taking shape in 2018?

Erxleben: With long-term rates jumping up at the beginning of the year, we do see a more borrowers electing to do longer-term, fixed-rate loans, as opposed to having a balance. It's a reaction to some of the disruption in the market.

There are a number of players looking to do value-add multifamily, which has definitely been a search yield, and it's something that I think is alive and well in the market. One of the big challenges is the disconnect between buyers and sellers. Most of the sellers want to go ahead and price that value-add (component) into the transaction, while, of course, the buyers want to find those opportunities where there is still some meat on the bone to generate some value.

How does NorthMarq leverage technology in its operations?

Erxleben: The way we've done business in the finance industry is very similar to the way we did business 20-30 years ago. But, going forward, I think technology is going to play a major role in our industry. From a borrower's perspective, technology could reduce redundancy, friction and cost, as well as provide some process improvement. At the end of the day, I don’t think technology will replace investment professionals, but I think it will enhance the borrower’s experience.

There is still very strong volume, and there are great opportunities across the landscape, even with a flat projection. From 2009-2017, there have been upward growth projections every year. To (continue to) have year-over-year growth like we’ve had forever is not going to happen. A flat projection from 2017, which was a record year, is still very robust.

Consumer Money Rates (Mortgage Rate, Prime Rate, etc.)
消費者市場利率：房貸、基本利率、等等
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	Yield/Rate (%)		52-Week		Change in PCT. PTS	
Interest Rate	Last	Wk Ago	High	Low	52-week	3-yr
Federal-Funds rate target	1.25-1.50	1.25-1.50	1.50	0.50	0.75	1.25
Prime rate*	4.50	4.50	4.50	3.75	0.75	1.25
Money market, annual yield	0.30	0.30	0.36	0.25	-0.02	-0.12
Five-year CD, annual yield	1.60	1.56	1.60	1.25	0.35	-0.03
30-year mortgage, fixed	4.43	4.43	4.47	3.73	0.23	0.52
15-year mortgage, fixed	3.91	3.91	3.94	2.99	0.55	0.74
Jumbo mortgages, $424,000-plus	4.66	4.78	4.96	4.21	-0.11	0.22
Five-year adj mortgage (ARM)	4.27	4.32	4.37	3.20	0.71	0.37
New-car loan, 48-month	3.52	3.58	3.60	2.85	0.22	0.47
Home-equity loan, $30,000	…	…	…	…	…	…

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