News Roundup

By Victor Whitman

In Brief

Commercial deal volume driven by mergers/takeovers

The U.S. commercial property market recorded near-record sales volume in 2018, but much of that was driven by so-called entity-level transactions, where one company acquires a portfolio of assets through a merger or acquisition, according to Real Capital Analytics (RCA). Entity-level deal volume totaled around $68.5 billion, representing roughly 12 percent of the commercial volume, according to preliminary numbers reported by RCA. This was $5 billion higher than the previous high-water mark in 2015. RCA said sales of individual assets were comparable to 2017 levels. The volume of single-asset sales fell in the final quarter of the year and slowed considerably in December.

Major investors plan to boost commercial-property investment share

Institutional investors expect to allocate a slightly greater percentage for investments in commercial real estate in the future, the Pension Real Estate Association (PREA) reported. Major investors, such as large banks, insurance companies, pension funds and real estate investment trusts, plan to invest 10.4 percent of their capital in real estate rather than other investments, a PREA survey released in early 2019 found. Currently, major investors target about 10.2 percent of their capital on real estate.

Amazon move will boost NYC rents

Amazon's decision to locate one of its new headquarters in Queens will boost apartment rents in New York City through 2022, but not significantly, according to Reis Inc. Apartment rents were forecast to rise in Queens by 6.9 percent annually in 2022. Without the Amazon move, annual apartment rents were forecast to rise in Queens by 2.1 percent in 2022. Reis also forecast that annual rents will rise in 2022 by 5 percent in Brooklyn, 3.7 percent in Manhattan and 3.9 percent in the Bronx. An expected surge in apartment building in the metro area should help control rent-price growth, Reis said.

Freddie Mac posts record multifamily volume

Freddie Mac, the nation's largest financier of multifamily units, closed on $78 billion in financing in the multifamily space in 2018, up from $73.2 billion in 2017, the company announced. Its top participating lender was CBRE at $13.7 billion in volume, followed by Berkadia ($9.7 billion) and HFF, ($7.2 billion). The $78 billion financed roughly 860,000 rental units.

Commercial-property deals should increase in early 2019

Commercial sales-transaction activity is expected to pick up steam in the early part of 2019 after a lull toward the end of last year, according to Avison Young, a commercial real estate services company. The company said activity was "uncharacteristically tilted" toward the early part of 2018, a likely result of economic volatility, but that an uptick in transaction volume was expected with new-lender allocations and the availability of transitional debt. The company also predicted that institutional investors would be more active in the market for smaller properties priced under $30 million. ■

Continued >>

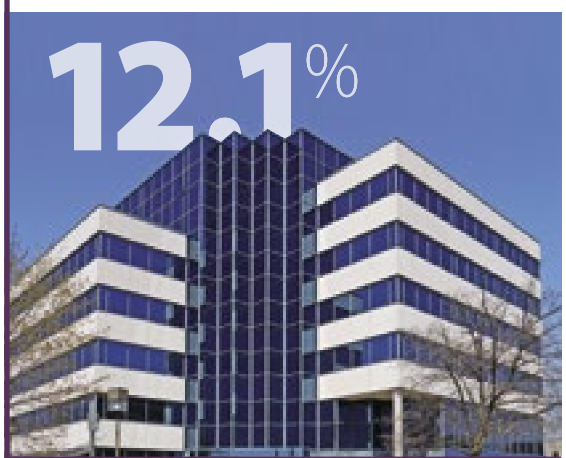
In Numbers

The average monthly rent for a multifamily unit in December 2018, up 3.2 percent year over year

Source: **Yardi Matrix**

The annual gain in 2018 in the appraised value of investment-grade industrial assets held by real estate investment trusts, the largest increase among commercial-property asset classes.

Source: **Green Street Advisors**



The U.S. national office-vacancy rate, based on year-end 2018 tracking data from 46 U.S. markets — up 20 basis points year over year

Source: **Avison Young**

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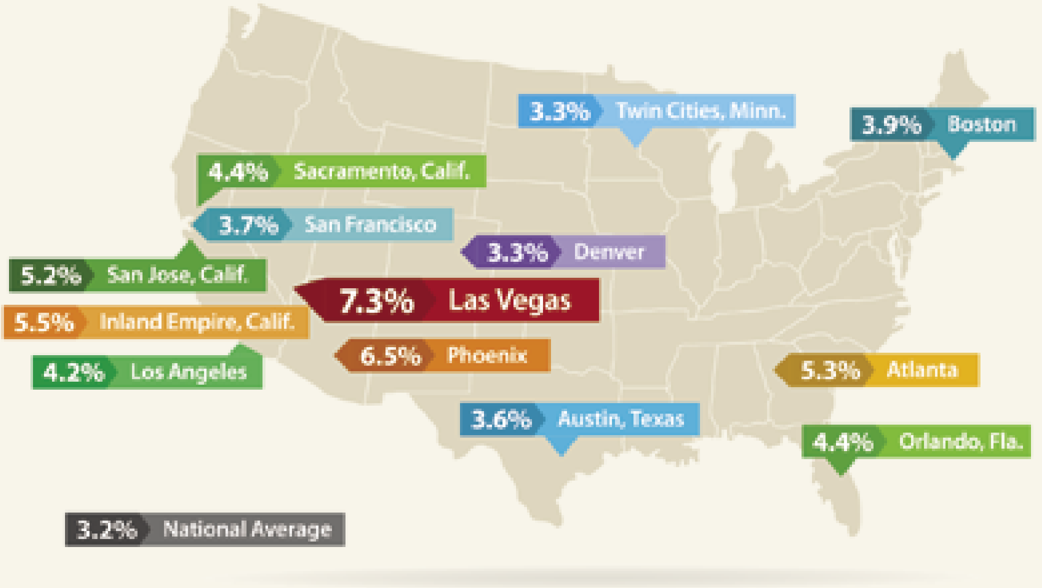
In View

Top Cities: Annual Growth in Multifamily Rents in 2018



Source: Yardi Matrix

Multifamily rents exceed expectations in 2018

U.S. multifamily rents grew by 3.2 percent in 2018, which slightly exceeded expectations, Yardi Matrix reported. Some 13 major metros around the county also beat the national average in terms of rental growth.

Las Vegas saw the highest year-over-year gain, at 7.3 percent; followed by Phoenix, 6.5 percent; and the Inland Empire metro area near Los Angeles, 5.5 percent.

In Words

"There are mixed signals in the recent trends for commercial property sales. In some respects, there is data out there for whatever story one wants to tell."

Jim Costello,
Senior vice president, Real Capital Analytics

"The next wave of [commercial real estate] investment is not a matter of if or when – it's just a matter of price."

Mark Rose,
Chairman and chief executive officer, Avison Young

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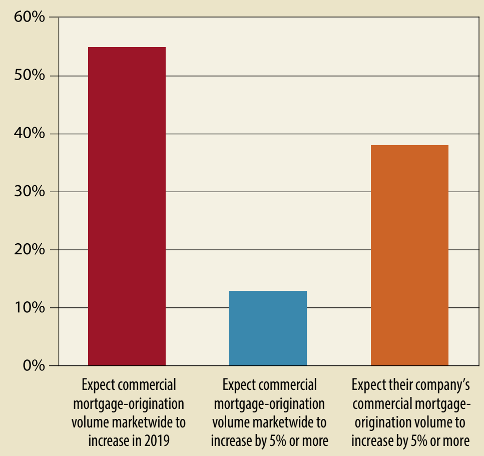
In Focus

Commercial lenders remained bullish about the market for 2019, according to a survey released in January by the Mortgage Bankers Association. The trade group said 55 percent of surveyed loan originators believed their company's lending volume would increase in 2019, and 38 percent expected volumes to rise by 5 percent or more above the 2018 level. Lenders were slightly less optimistic than at the beginning of 2018, however.

Commercial Lender Expectations for 2019*



*Results are based on a survey of top commercial lenders conducted this past November and December.

Source: Mortgage Bankers Association

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