

## MEDIA RELEASE

May 23, 2011

### **Commercial Real Estate Investors Are Seeking to Balance Risk and Return During Uncertain Times According to New Outlook Report**

Commercial real estate investors appear to remain cautious with their return expectations during these uncertain times, and are weighing the risks presented by the economy and the capital markets, as stated in *Expectations & Market Realities in Real Estate 2011—Balancing Risk and Return in an Era of Uncertainty*, an annual report recently released and published jointly by Real Estate Research Corporation (RERC), Deloitte, and Real Capital Analytics (RCA).

Working together for the first time, the three organizations have drawn on their respective capabilities to examine the economy, capital markets, and commercial real estate property markets, conduct a thorough analysis of available research, and offer their interpretation of anticipated events in investment real estate in 2011 and beyond. Findings indicate that commercial real estate investment could potentially remain attractive due to less volatility, more stability, and increased transparency over other investment alternatives. However, the headwinds of a slow economy, sluggish employment growth, high commercial real estate debt levels anticipated to mature in 2012 and 2013, and high vacancy rates may offset the benefits of this asset class. Even so, some of the highest prices ever paid for commercial real estate are seen for

high-quality properties in a few select markets, and investors may be slowly starting to move out on the risk spectrum toward properties in secondary and tertiary markets.

According to Kenneth Riggs, president and CEO of RERC, “The overriding question is how do we account for the risk in this environment? When you look at the price of some of the properties that have sold during the past few quarters, you need to wonder how is the market measuring risk in this recovery cycle, what lessons have we learned and will we get it right this time around. Given what we have been through during the past few years, and the heightened aversion to risk, why are some investors willing to pay so much for some properties?”

Matthew Kimmel, valuation leader for Deloitte’s real estate services practice, agrees, and notes that in many ways, “the world is seemingly more uncertain than any time in our careers, given the disasters, geopolitical risk, and weak economies across the globe. But the flight to quality, and to core markets, versus the rest of the market, seems to indicate that investors—while still averse to risk—are seeking a balance between risk and return.”

“There is no question that the market is moving forward and will continue to post gains in transaction activity and capital flows, as well as operating fundamentals, this year. However, the momentum of that forward movement could be choppy, as overarching economic and political concerns at home and abroad pull the market in different directions. Still, the top sphere of the market has strong support and there are indications of a spillover moving out beyond the country's most vibrant markets and highest-quality properties—and investors are increasingly aware of that movement,” states Peter Slatin, associate publisher at RCA.

The group agrees that despite the risk and the uncertain environment, in general, commercial real estate may be “getting it right,” from an investment standpoint.

“The industry went into the recession in better shape than other assets in that we had not overbuilt and had not overpriced, and as such, we were positioned to come out of the recession in better shape too. We have better research available than we did during the last real estate down cycle in the 1990s. In addition, commercial real estate is a tangible asset and is more transparent since investors can actually see the number of tenants, and what they are paying. Finally, commercial real estate is offering a relatively good return and strong income performance, which investors want today. Risk is a very important matter to contend with in this uncertain environment, but there are returns available to those investors who use the tools available, including the insights available from our three firms in this report, to balance risk and return,” concludes Riggs.

*Expectations & Market Realities in Real Estate 2011—Balancing Risk and Return in an Era of Uncertainty* can be purchased electronically at [www.rerc.com](http://www.rerc.com).

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**Real Estate Research Corporation (RERC):** Under Ken Riggs’ leadership, RERC provides real estate research, valuation management, strategic consulting, independent fiduciary services, and web-based management information services for the commercial real estate industry. In addition to directing the firm’s business ventures, Riggs serves as publisher of the quarterly *RERC Real Estate Report* and of the *RERC/CCIM Investment Trends Quarterly*, and co-publisher of the annual forecast report, *Expectations & Market Realities in Real Estate*, now in its eighth year of publication. Visit [www.rerc.com](http://www.rerc.com) for more information.

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RCA's data helps professionals evaluate commercial property trades and troubled assets around the world. Visit [www.rcanalytics.com](http://www.rcanalytics.com) for more information.

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