BROKER OPINION REPORT

Andrew Fallon discusses the 2011 ICSC Mid-Atlantic Conference & Deal Making

WHAT DIFFERENCES DID YOU SEE BETWEEN THIS AND LAST YEAR'S CONFERENCE?

This year's ICSC Mid-Atlantic Conference had a very positive vibe. Attendance was up and there was a general buzz that was not there in 2010. I think that in February 2010, there was still a lot of uncertainly and concern about the economy and how the market would recover from the depressed conditions. In place of that uncertainty and concern was anticipation and optimism.

While there is always deal making at an ICSC conference, this year's show seemed to have more velocity and urgency. There was a strong developer and third party presence, indicating that once stalled projects are back online and moving forward. Retailers and tenant reps were actively seeking new opportunities for expansion. On the heels of 2010, brokers, developers, lenders, and retailers are excited about continued growth and recovery in 2011.

ICSC 2011 Mid-Atlantic Conference & Deal Making
Gaylord National Harbor Resort & Convention Center
National Harbor, MD

WHAT WAS THE OUTLOOK AT THIS YEAR'S CONFERENCE?

The consensus is that the commercial real estate market bottomed out in 2008/2009 and significantly recovered in 2010. We are now accelerating from recovery to expansion. The capital markets discussion revealed not only that many lenders are active again, but also that they are willing to be flexible on terms. Of course, the flexibility is on core, class A assets, which are trading at pre-crash values -- meaning sub 7% and in some cases sub 6% cap rates. The obvious concern is when and how quickly interest rates will rise.

The bottom line: consumers are spending again, leasing activity is up, rental rates are increasing, and investment sales volume should exceed 2010. The outlook is positive, and next year, we might be discussing the successes of those who capitalized on spec development opportunities.

WHAT WAS THE FEELING ABOUT THE D.C. METRO AREA SPECIFICALLY AND HOW DOES THAT COMPARE TO THE NATIONAL MARKET?

In the Washington Metro area, the retail market will continue to improve in 2011 as key economic indicators recover. While the nation is slowly recovering, the Washington region seems to be thriving. Supported by the federal government, Washington's economy is stabilized by high incomes and a healthy job market. Seven of the ten richest counties in the country are in Maryland and Virginia.

The result is that the Washington Metro area has one of the lowest retail vacancy rates in the country. The low vacancy rate is maintained by steady population growth, high incomes, and the fact that the Washington Metro area recovered faster than other metro areas. Tenants, lenders and investors want exposure in this market.

WHAT WAS YOUR FEELING WITH REGARDS TO SUPPLY AND DEMAND?

Given the lack of financing, there has been limited development over the past 24 months. The impact is multidimensional in terms of inventory, opportunity, and cap rates. With limited development, vacancy has remained low in the region which has helped to stabilize rents and maintain property value. Many landlords have and will continue to invest in upgrading and repositioning existing assets. If leasing conditions and financing continue to improve, look for developers to deliver more property in 2012 and 2013.

As previously noted, demand to have exposure in the Washington Metro area is high. The compressing cap rates reflect not only the desire to be in this region, but also the fact that there is a lot of equity chasing limited inventory. Current supply and demand is not in equilibrium and with interest rates likely to rise, 2011 might be a strong year for sellers.

FOR MORE INFORMATION

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