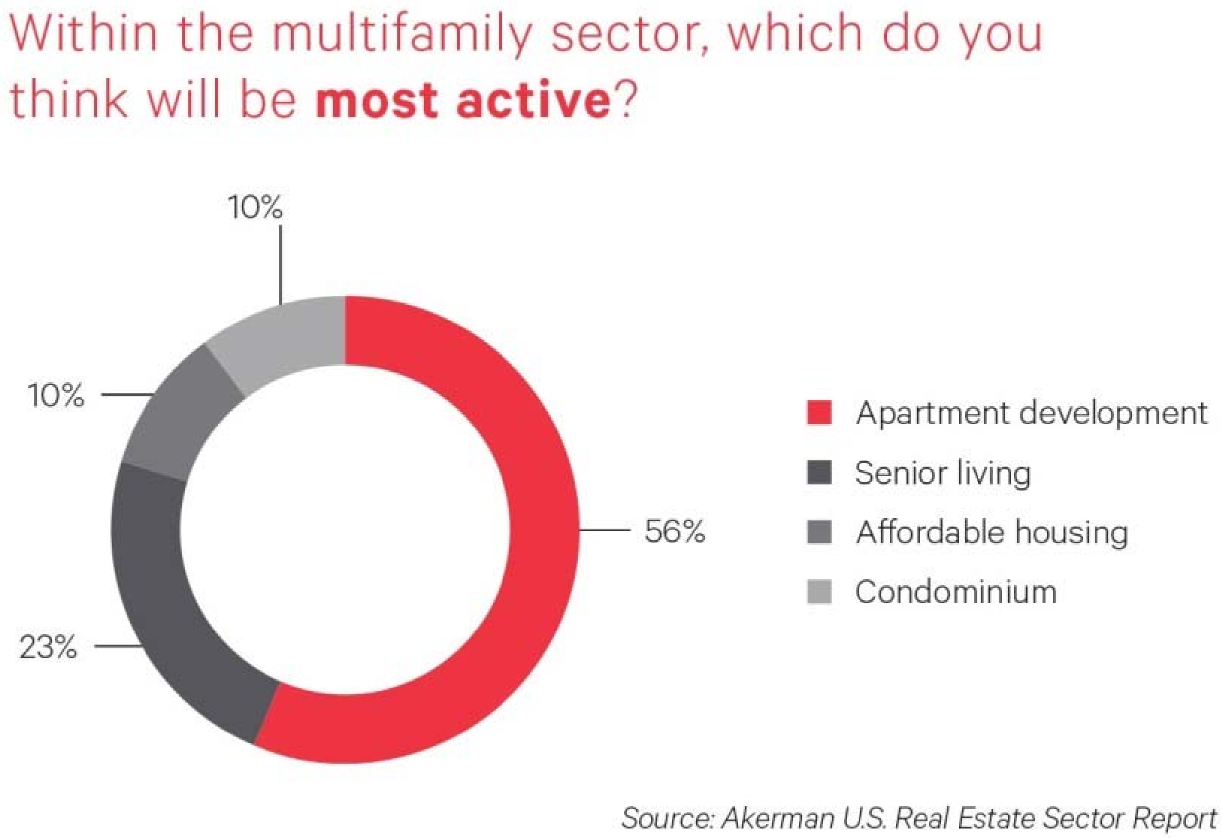
Multifamily Executive

U.S. Real Estate Sector Confidence Grows

The No. 1 trend reported by executives and investors? Multifamily's rise.

By Jennifer Goodman



After nearly a decade of tracking executive sentiment in commercial real estate, data by top U.S. law firm Akerman LLP show industry leaders display unwavering optimism about America's economic strength. Nearly 70 percent of executives and investors surveyed in the ninth annual Akerman U.S. Real Estate Sector Report say they are even more optimistic for 2018 market activity than in the last two years — an overwhelming 25-plus percent jump, firm records show.

The reasons for optimism abound, Akerman data show. Forty-five percent of Akerman respondents cited improvements in domestic economic growth among the top-two factors for confidence in commercial real estate. The second and third most important pillars behind such record-high optimism are the availability of equity capital investment and the U.S. administration's pro growth policies of decreasing the regulatory burden for businesses and lowering federal taxes, 33 percent of executives say.

“Since World War II ended, U.S. GDP annual growth rates have averaged around 3 percent a year — a record that has delivered the greatest wave of prosperity in the history of any country, in addition to making the United States the most stable and attractive property market in history,” says Eric Rapkin, chair of Akerman’s national Real Estate Practice Group. “Though global uncertainty and record-high asset valuations require investors and developers to proceed with caution, opportunities abound in commercial real estate, as industry innovations and thriving U.S. cities offer compelling investment and transactional opportunities.”

Here are the firm's top six trends in real estate:

• Multifamily Is King. On a sector-by-sector basis, the most active real estate market segment according to Akerman data this year is multifamily, 63 percent of respondents say. About half (46 percent) cite industrial and a third each mention office (33 percent) and single-family residential (30 percent) to be most active. Three-quarters of real estate executives say multifamily (77 percent) and industrial (75 percent) will also be the most active sectors for foreign investment in 2018. This marks a significant reversal from 2017 when 43 percent of commercial real estate leaders predicted single-family homebuilding would outpace multifamily development, an asset class that has historically fared better than most.

• **Taxes and Technology.** Akerman findings show report participants split almost equally behind two major elements they say will define the trajectory of U.S. commercial real estate for the next three years. Forty-eight percent of them ranked the advent of technology among the two most critical trends for the sector, along with the most extensive rewrite of the U.S. tax code in 30 years recently passed by Congress (42 percent).

• **Strong Job Growth.** Some two thirds of executives surveyed (66 percent) say job creation in 2018 will be either marginally (48 percent) or significantly (18 percent) higher than in 2017. And the balance (29 percent) say it will be about the same as 2017. Far less (5 percent) see job creation in 2018 lower than in 2017.

• **Bullish but Not Carefree.** Forty-six percent of Akerman respondents share concerns on the effects rising interest rates will have on the U.S. economy, something many say could temper market momentum. Three in 10 executives (29 percent) also point to global economic worries as another element that may influence deal and investment activity.

• **Foreign Capital.** Akerman data show foreign investors are continuing their aggressive pursuit of U.S. assets, with survey respondents indicating overseas investment level at a record high, the vast majority of which will come from Europe, executives say. Akerman Survey respondents indicated Europe bests all other regions for foreign investment against all asset classes. Real estate executives say the greatest increase in Latin American real estate investment in the United States will come from Brazil and Mexico. About a third each selected Brazil (34 percent) and Mexico (30 percent) as most likely to see increased U.S. investment. About one to two in 10 each selected the Caribbean (15 percent) and Argentina (14 percent).

• **Private Equity.** When it comes to the top sources for real estate equity and debt, more than half of Akerman’s survey participants cited private equity (57 percent) and banks (48 percent) as the leading vehicles for real estate funding. Institutional lenders and private equity funds have maintained a leading role in real estate financing in the last three years, Akerman data show, a sign of further market strength and robust fundamentals for the U.S. real estate sector after the 2008 downturn. Other popular financing sources identified by a quarter or more of executives surveyed include commercial mortgage backed securities (37 percent), foreign investors (32 percent), insurance companies (32 percent) and real estate investment trusts (30 percent).

About the Author

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