

From the South Florida Business Journal:

<http://www.bizjournals.com/southflorida/stories/2006/06/26/story11.html>

Commercial investors see solid market ahead

Premium content from South Florida Business Journal

Date: Monday, June 26, 2006, 12:00am EDT

Related:

[Commercial Real Estate](#)

South Florida's commercial real estate market is nearing a peak in sales volume, according to a survey by the private client group of CB Richard Ellis in Miami.

Driven over the last five years by a combination of equity investors searching for yield and multiple debt sources anxious to place funds, sales have been brisk. And many in the local industry are bullish about the future.

The CBRE survey's 226 South Florida commercial property owner respondents point to a steady commercial market ahead, with most industrial properties trading at capitalization rates to yield 6.5 percent to 8.5 percent.

Other findings include:

- | Investors are optimistic about the local economy's prospects, mostly due to international inflows of capital and internal market strengths. In 2005, South Florida metropolitan areas grew at an average of 3.7 percent, while personal income increased by 5.2 percent. Demographically, the state ranks fourth in total population and first in population gain.
- | Interest rates are expected to continue rising, pushing capitalization rates along with them and exerting pressure on values. There is equal division among those who anticipate interest rates capped at about 5.45 percent and those who see rates rising higher. About 72 percent see higher cap rates - and lower values ahead. Joseph Simhon of Columbia Investment predicts that lagging cap rates will catch up with the capital market's interest rates this year.
- | Net operating income will face cost challenges ahead, with free cash flow affected by higher debt service. Only 30 percent of owners expect their gross incomes to post an increase of more than 5 percent via higher rental renewal and lower vacancies. Electricity is expected to be up 25 percent and insurance premiums are seen as major cost factors, with premiums up anywhere from 100 percent to 500 percent.
- | Investors see an upside throughout the commercial real estate sector - with the

exception of multi-family housing. Ninety percent of respondents expect at least limited upside, including 33 percent who actually anticipate substantial upside growth.

The survey showed an anomaly among investors in that they don't seem to have a clear awareness about the yield curve on future mortgage rates, according to Paul J. Cohen, senior director of the CB Richard Ellis Private Client Group in Miami, which commissioned the survey.

"There is very little interest among commercial investors refinancing their holdings, even though they acknowledge that rates will rise," Cohen said.

He explains it in two ways. Some investors are planning only to hold their properties for a short period of time before conversion or resale, and they don't want to incur refinancing costs. Another explanation is that many commercial property investors structure their deals in a low-loan-to-value method, with limited leverage.

"It is not totally uncommon to see 100 percent equity transactions," Cohen said. "Although as many as 70 percent are favorable to high-leverage deals."

Snapshot:

CB RICHARD ELLIS PRIVATE CLIENT GROUP

Senior Director: Paul J. Cohen

Web site: www.cbre.com

Address: 8350 N.W. 52nd Terrace, Suite 101, Miami 33166

Phone: (305) 779-3112

E-mail: paul.cohen@cbre.com