University of St. Thomas
Minnesota Commercial Real Estate Survey
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About the Survey

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The Minnesota Commercial Real Estate Survey has been developed by the University of St. Thomas Master of Science degree in Real Estate and Shenehon Center for Real Estate, and is designed to be a forecasting tool for the commercial real estate market in the Twin Cities. The semi-annual survey poses questions to local real estate market experts on their expectations for future vacancy rates and rental rate growth, on development costs and on new project financing structure. The questions are chosen to explore the various aspects of commercial real estate development and predict impact on new investment.

This survey is general in nature in that it takes into account office, retail and industrial properties in the Twin Cities market as a whole. The survey focuses on the supply side of commercial real estate, meaning people that develop, invest in and finance commercial real estate. Our participant panel consists of 50 individuals who are industry leaders in their respective fields. These people are actively engaged in studying both the demand and supply side of the commercial real estate market in order to analyze and evaluate potential investments. Since they are involved in leasing space and adjusting supply to demand conditions, these individuals are close to the actual changes taking place in the market. They have informed opinions on changes in supply and demand conditions looking forward two to three years into the future and they will be making investment decisions based on their opinions. These actions will, in turn, affect the demand for new construction and, consequently, the stock of commercial space in the market. Understanding the current and future views of the participants will help us better understand the evolution of the commercial real estate market.

The UST Minnesota Commercial Real Estate Survey is a forward looking survey. This type of survey seeks to elicit information about decisions being made today which will affect economic events in the future. The survey will be conducted twice a year, in the spring and fall, and is patterned after the UCLA Anderson California Commercial Real Estate Survey initiated in 2006. As the years pass and more surveys are completed, the survey becomes a useful forecasting tool.

The survey consists of six questions around future markets and participants’ expectations. The participants give their views of market conditions between now and 2012. Each question has a value from 0 to 100, with higher values corresponding to answers consistent with a more favorable outlook for commercial real estate. Lower values indicate a more pessimistic view of what will happen in the market over the next two years. The midpoint of 50 is neutral, indicating that no change is expected. This is the second survey and there have been some changes in the results from our initial survey last spring. Survey responses are summarized in the next section and provide some interesting insights into the market.
Results

The results from this second Minnesota Commercial Real Estate Survey in part mirror the survey done last spring. Our panel of participants continues to feel that the worst is behind us for most commercial real estate in the Twin Cities and that there are continued signs of recovery on the horizon. While we expect the markets to continue to be sluggish in the near term, our panel still sees reasons for optimism in 2012 and 2013.

Overall the survey shows that the panel is slightly more optimistic about commercial real estate’s prospects over the next two years than in the initial survey in spring 2010. The composite index increased to 54.1, a slight increase from the 53.5 recorded in the last survey. Index values greater than 50 represent a more optimistic view of the market over the next two years. For the fall 2010 survey, we polled the same group of 50 commercial real estate industry leaders who are involved in development, finance, and investment.

In addition to the slight increase in the composite index, there were some other notable differences. In general, we found that the panel’s answers to our survey were grouped much tighter than the previous survey, demonstrating a much stronger agreement among panel members around their responses.

Since market conditions are best described by the price for space (rental rates) and the supply of space (occupancy levels), we looked at those two components of the survey and found that our participants were somewhat less optimistic that rents and occupancy would continue to increase. The index for rental rates fell to 56 from the previous level of 60.2, and the index for occupancy levels marked a similar decrease, falling from 69.4 to 65.

There was also a significant difference in expectations about land values. Last spring there was a reasonably strong expectation that land prices would increase between the time of the survey and 2012. In the current survey, the land price index was 51 meaning that the panel is neutral on the expectations that land prices will increase. There is, however, still a strong consensus that the prices of building materials will increase between now and 2012.

The index for investors’ return expectations, at 57, still indicates that the panel feels that investors are adjusting to the new realities in the commercial real estate markets and that returns will continue to fall back to more normal levels. The index for the amount of equity required by lenders was 56. Although this is down slightly from the 59 recorded in spring 2010, it reflects continued optimism that the credit markets will return to more normal loan-to-value requirements and that, coupled with historically low interest rates, means that financing should be somewhat easier to obtain.
Results (continued)

To summarize, our panel participants are generally more optimistic about commercial real estate market prospects in 2012. However, their reasons are somewhat different than they were in our first survey six months ago. They expect occupancy to increase, although they feel that rents are not going to show much growth in the next two years. The panel is also encouraged that land values will remain at relatively low levels and that financing should be more obtainable at better terms. While there is some concern about the increasing cost of building materials, there are good reasons for continued cautious optimism that there are better days ahead for commercial real estate in the Twin Cities.

Real Estate Programs at the Opus College of Business

Shenehon Center for Real Estate  www.StThomas.edu/Shenehon
The Shenehon Center for Real Estate serves as a resource to the commercial, industrial, residential and corporate segments of the real estate industry and the community to advance the public interest in real estate issues. For more than 15 years, the center has supported improvement in real estate leadership and management by creating and developing real estate leadership and management programs for undergraduate and graduate degree programs and professional development, providing a neutral forum to convene real estate professionals to share best practices, supporting and working with local real estate industry organizations, conducting real estate research, and developing mechanisms to transfer leading edge business practices to the real estate industry.

Master of Science Degree in Real Estate  www.StThomas.edu/RealEstate
The Master of Science Degree in Real Estate is one of seven graduate business degree programs offered through the Opus College of Business. This part-time, evening program provides students with a comprehensive understanding of real estate financial and quantitative decision making processes, and advanced issues in valuation and land economics, knowledge of critical legal issues, and techniques for market and feasibility studies and real estate investment analysis. Students in the UST MSRE program come from a variety of different backgrounds including appraisal, brokerage, property management, finance, development, engineering, design, facilities management and corporate real estate. The program produces alumni with strong leadership abilities, aptitude for sound decision making, focus on ethics and social responsibility, and a solid network of real estate professionals.
The UST Minnesota Commercial Real Estate Survey consists of six questions. Each question asks participants to give their expectations of real estate conditions in 2012.

Question 1
Compared to today, what do you think that rental rates will be in 2012?
- Significantly Lower
- Somewhat Lower
- The Same
- Somewhat Higher
- Significantly Higher

Question 2
Compared to today, what do you think that occupancy will be in 2012?
- Significantly Lower
- Somewhat Lower
- The Same
- Somewhat Higher
- Significantly Higher

Question 3
Compared to today, what do you think that land prices will be in 2012?
- Significantly Lower
- Somewhat Lower
- The Same
- Somewhat Higher
- Significantly Higher

Question 4
Compared to today, what do you think that the price of building materials will be in 2012?
- Significantly Lower
- Somewhat Lower
- The Same
- Somewhat Higher
- Significantly Higher

Question 5
Compared to today, what do you think that the threshold rate of return on equity will be in 2012?
- Significantly Lower
- Somewhat Lower
- The Same
- Somewhat Higher
- Significantly Higher

Question 6
Compared to today, what do you think that the amount of equity required by lenders will be in 2012?
- Significantly Lower
- Somewhat Lower
- The Same
- Somewhat Higher
- Significantly Higher