Commercial Real Estate Bubble Feared Due to Increased Foreign Investment

U.S. commercial real estate could attract even more foreign investment thanks to tax changes included in the federal spending bill that was enacted in December. The law made changes to the Foreign Investment in Real Property Tax Act that "are expected to put global companies and pension funds on a more equal footing with their U.S. counterparts," according to Anika Khan, a senior economist at Wells Fargo Securities. This could increase foreign investment in commercial real estate in markets and sectors "that are already seeing record-breaking valuations," Khan writes. Foreign direct investment in U.S. commercial real estate rose to $87.2 billion in the fourth quarter, nearly four times what it was four years ago, according to Real Capital Analytics. In December, it skyrocketed "to its highest monthly level on record, which was likely due to foreign investors already taking advantage" of the tax changes enacted that month, Khan writes. This surge of foreign capital could be bad news for U.S. investors, who complain it's "elevating valuations and crowding them out," Khan writes. "Some investors even suggest a bubble is brewing in major markets" preferred by foreign investors, she writes. Over the past four years, the most popular office markets for foreign investors have been Manhattan, Boston, Washington, D.C., Los Angeles and Chicago. Foreign investors also have increased their investment in industrial properties, particularly in northern New Jersey, California's Inland Empire, Chicago, Los Angeles and Seattle. Three office submarkets favored by foreign investors are worth watching closely, Khan advises, because their effective revenue — the product of occupied stock and rent — is much higher than average. Those submarkets are Rincon/South Beach in San Francisco, Chicago's City West and Fort Worth's Northwest.
(Denver Business Journal)

...

Arapahoe Office Park Sold for $190M

Arapahoe County has its second nine-figure office deal in as many months. Denver-based EverWest Real Estate Partners along with Miami's Independencia Asset Management bought the Panorama Corporate Center office complex for about $190 million, Arapahoe County records show. Panorama Corporate Center spans 42 acres at the southwest corner of Interstate 25 and Dry Creek Road. Its six office buildings total 780,000 square feet, putting the sale in the neighborhood of $242 per foot. The entire site was developed between 1996 and 2008. Panorama Corporate Center is 94 percent leased. Major tenants include Comcast and United Launch Alliance. Christian Dinsdale, acquisition associate at EverWest, said the property's location and the quality of the tenants drew his firm to Panorama Dinsdale said the buildings are all in great shape, and EverWest doesn't have any overhauls planned. Miller Global Properties was the seller in the deal. Holliday Fenoglio Fowler L.P. brokers John Jugl and Mary Sullivan represented Miller Global in its sale. HFF also arranged an acquisition loan through a national investment bank for the EverWest-Indepencia partnership. Eric Tupler arranged the debt financing. The deal closed on Jan. 13, a little more than two years after Panorama Corporate Center last sold in December 2013. County records peg the 2013 deal at $145.3 million, meaning the office park's value jumped roughly 31 percent in about two years. Panorama Corporate Center is the second Denver-area deal EverWest has sealed since the New Year. A couple of weeks ago, the firm bought an industrial building at the edge of RiNo for $10.5 million. The company's other Denver holdings include the Office at Broadway Station at 900 S. Broadway and the Cherry Creek Corporate Center in Glendale. Panorama Corporate Center is also the second Arapahoe County office property to fetch a gargantuan sales price in recent months. The CoBank Center at Village Center Station, a single 274,000-square-foot building, sold for $113 million in December. **(BusinessDen)**

...

A Forward Look at Retail Construction

Leading up to the economic downturn in 2008, retail was the only property type to experience a significant inventory increase. Between 2000 and 2008, total retail stock increased by 14.2 percent, more than double the inventory increase observed in the apartment and office sectors. Almost eight years later, we are left with a sector that has been overbuilt and under-demolished. Speculative construction has not returned to the market, very few new centers are being built and even expansions of existing centers remain relatively rare. Neighborhood and community center inventory increased by just 1.2 million sq. ft. during the fourth quarter of 2015. This is well below the historical average of 5.2 million sq. ft. that the sector added in a typical quarter during the past 15 years. Prior to the recession, quarterly new construction averaged as high as 8.0 million sq. ft. per quarter. This dearth of new supply is, however, buoying rents and vacancies in a still relatively low-demand retail environment. Will this perceived recovery help thaw developer interest in retail over the next three years? What will be the implication of new supply on real estate fundamentals? Between 2014 and 2017, Reis expects around 34.0 million sq. ft. of new retail supply to hit the market. While this would almost eclipse total new stock that has been added to the market since 2009, it would not have been unusual to see that level of new development in one single year during the 2000-2007 period. The vacancy rate should continue its downward trajectory, slow as it has been, and will likely reach the low 9 percent range by the end of 2017. Even with suppressed construction activity, the rate will likely remain elevated above pre-recession levels in the coming years. A handful of markets will lead the way in terms of completions over the three-year forecast horizon. Large Texas markets, including Houston and Dallas, register at the top of Reis's 80 primary retail markets for forecasted construction levels. Chicago, Philadelphia and Atlanta round out the top five markets. On an inventory growth rate basis, the top five markets are a mixed bag. Louisville takes the top spot, with a three-year forecasted inventory growth rate of 5.2 percent. Despite the large increase, absorption is expected to outpace new supply by 21.5 percent. The remainder of the top markets by forecasted inventory growth rate—Austin, Texas, Charlotte, N.C., Kansas City, Mo. and Knoxville, Tenn.—all have three-year forecasted inventory growth rates that exceed 3.4 percent, but they also follow the national trend of historically low new supply that will be offset by tepid yet consistent demand. No increase in vacancy or negative rent growth is expected, even at this high end. With some modest improvement in the outlook for wage growth starting to materialize, the outlook for discretionary spending and thus demand for retail space should be brighter in 2016 than at any point in time since before the recession. While the pace of improvement in retail does not look very robust, it will nonetheless present opportunities for investors and lenders willing to take some chances. **(National Real Estate Investor / Michael Steinberg and Barbara Byrne Denham)**

...

Houston Developer Planning Office, Hotel Project at 15th & California in Denver

Patrinely Group, a Houston-based development company, is planning an office and hotel development on 15th street between Welton and California streets. The development would occur on a piece of land assembled by Denver developer Evan Makovsky over the course of several years that has been considered ripe for redevelopment. The project, called Block 162, is planned to include a speculative office tower of up to 32 stories and a hotel, which has not yet entered the planning phase, according to Robert Fields, CEO of Patrinely Group. No plans have been submitted to the city of Denver's planning department for the project, according to a department spokesperson, but Fields said the company has met with the city on the project, which was well-received. Patrinely is shooting for 500,000 to 600,000 square feet of Class A office space in Block 162, Fields said. Block 162 is currently being designed by Gensler, the firm that designed the DIA hotel. Three levels of below-grade parking and 10 levels of above-ground parking are depicted on the project's website, resulting in a parking ratio of two parking spaces per 1,000 rentable square feet. That much parking leaves 21 floors of office space, including a fitness center, and a ground-floor lobby. The company wants to deliver the office building in the first quarter of 2019, Fields said. Pre-leasing is underway for the office space, and Fields said he has no concerns about finding tenants for the building three years down the road. "There's tremendous activity among users that have requirements in the 2019 timeframe," he said. Patrinely has completed most of its work outside of Colorado, building a variety of office buildings in Houston and apartment developments in cities across the country, but the company does have a presence in the Denver metro. In 2001, Patrinely constructed Parkridge Corporate Campus, a 900,000-square-foot project near Lone Tree and in 2014 finished work on Vallagio South Apartments. Sage Hospitality's headquarters are on the site next to where Patrinely's plans would place the office building. The Sage Building is in Denver's historic Fontius building, with an exterior renovation completed by Makovsky before the recession. **(Denver Business Journal)**

...

	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED TARGET RATE	.50	.50	.25
3 MONTH LIBOR	.62	.59	.26
PRIME RATE	3.50	3.50	3.25
10 YEAR TREASURY	2.07	2.25	1.86
30 YEAR TREASURY	2.83	2.98	2.43