



INSIGHTS

WHAT WE SEE IN 2010

- While the economic recovery is tenuous, recent employment data is beginning to show that modest economic growth may be experienced in 2010 and be sustainable. U.S. companies have aggressively reduced labor costs giving them the ability to be highly competitive and ready to begin hiring and investing once sales growth is seen. Inventories are way down.
- While emerging markets will lead the recovery, the U.S. is well-poised for a recovery, despite of the pending commercial real estate bubble.
- Capital markets are loosening and money is chasing real estate here and all over the world. But what's financeable now is different than in past recessions. Capital will be pursuing assets with long term leases and steady operating income in prime markets.
- Class A office buildings will be the investment of choice. Buying activity will start on the East coast in major markets and will come next to the Midwest. We'll see more buyers from Asia and Europe.
- The buyers are not opportunity or value-add funds, like they have been in prior recessions. They're not interested in investing a lot of capital in a property and repositioning it. They are owners that will hold real estate for the long term and that are looking for a respectable yield. Income is compelling. When job growth is positive, opportunity fund buyers will be back.
- Investment sales in Chicago over the last few years have been minimal since values peaked in the first half of 2007. That's when Sam Zell's EOP portfolio was sold to Blackstone who then flipped it several times in the same year.
- There's been a steep drop in Chicago's office building values that will make this market attractive to investors. On average, buildings have lost their values by as much as 40% from their peak. Office rents, while declining, on average have lost dropped 17%. Concessions have increased substantially just to get tenants in the door. As distressed assets are bought, the new owners with lower debt obligations will be able to undercut competitors and will push down market rents further.
- The office market recovery always lags behind residential and this recession is no different than those of the past because. It is dependent on job growth. Vacancies are expected to continue to increase this year—for the fourth straight quarter.
- Negative absorption will continue for at least the first half of this year.
- Accounting rules are expected to change this year requiring companies that are leasing space to now put their leases on their balance sheets. Owning will become more attractive to corporate tenants. This could further impact demand.

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