

Market research:

Statistics show that in the current economic climate, commercial strip malls and office buildings are more difficult to lease than multi-residential commercial property because many businesses are struggling or failing which increases the risk of vacancy resulting in a negative cash flow for this type of commercial development. According to Reis¹, the Commercial Real Estate Performance Information and Analysis Research Company, effective office rents fell in the first quarter of 2010 in 56 out of the 79 primary metropolitan areas they tracked with office vacancy rate increasing in 57 of the 79 markets and rents expected to continue to decline while vacancies expected to continue to rise in 2010 although to a lesser extent than in 2009.

Tight credit markets have curbed office construction as only 3.6 million square feet of office space came online in the last quarter, the lowest level of completions since Reis started publishing quarterly data in 1999, Reis does not expect businesses to start leasing new space until there is clear evidence of resumption in hiring. Similarly, industrial, retail and other types of commercial property are not expected to recover until there is a clear increase in employment.

Furthermore and according to Reis, while offices and other commercial real estate are lagging behind multi-family residential properties, the multifamily fundamentals have also been hit hard with job losses, cohabitation from renters moving back in with family, trade-downs and the shadow market of single-family and condo rentals. At the same time, the last few developments that were financed before the credit squeeze have been released in the last quarter of 2009 with about 28,000 newly constructed apartments coming on the market. All this has led in the first quarter of 2010 to an increase in the number of concessions, an increase in apartment vacancy rate to an almost 30-year high of 8 % and to one of the largest ever one-year rent level drops.

On the other hand, while rents continue to fall, research has also shown that the first signs of stabilization in the rental market have started to materialize with a positive net absorption which has started back in the third quarter of 2009. Strong fundamentals are evident in nearly every U.S.

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apartment market as although U.S. apartment vacancy rate has hit a 30-year high, rental demand for residential units has remained relatively strong because of a steady stream of tenants from the large number of foreclosures which has created a significant demand in the residential rental market and resulted in more stability with multi-family residential properties which as a result, are expected to show a quicker recovery than other types of commercial property. Concessions seem to be bottoming out, and experts expect a noticeable improvement in 2010 with acceleration in the coming 2 years as market fundamentals swing back in favor of multifamily property owners. At the same time, research by Reis the real estate Research Company, has shown that even though we have a high vacancy rates the rate of increase in vacancies has slowed down in the fourth quarter of 2009 with the U.S. apartment vacancy rate rising by just 0.10% points from the prior quarter.

These positive developments have led Reis to predict a possible recovery by the middle of 2010 and to project that the vacancy rate will peak at just above 8% in mid-2010 with the expectation that the apartment market will turn round this year if potential tenants and the unemployed become confident enough about a job market recovery to move into rentals. Furthermore, the supply of newly built apartments is reducing as the last few projects that were funded prior to the credit squeeze are being completed with not many new multifamily developments coming on stream.

Now looking at the medium to long term the demand for rental housing is strong as demographic projections show 11.6 million new additional households are predicted between 2007 and 2015, an average of roughly 1.5 million new households each year which is 15% higher than the average number of households which have been created over the last decade.

According to RREEF, The Global Alternative Investment arm of Deutsche Bank's Asset Management division, most of the growth is attributable to the 20 to 24 years old echo-boomer generation, who account for about 30% of the US population. This group which has shrunk in the nineties has started to grow again in the last 10 years as children of the baby boomers became older. This is pretty significant to the apartment rental market as roughly 75 percent of this age group has historically has lived in rented apartments.

Immigrants also form another important group that traditionally lives in rented apartments. The National Multi-Housing Council predicts that an additional half a million immigrant households are expected to

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live in rental units over the next three years and also predict an increase in demand for rented apartments from those that can no longer afford to live in their own house with renting providing a less expensive alternative.

As the property market recovers, some renters will move out to purchase their homes but as the mortgage credit standards have been tightened considerably, the percentage of renters moving out is expected to remain low. Furthermore, when the economy grows as expected at a rate of 3 to 4% in 2011 to 2012, the resulting increase in employment of 1.5 to 2 million will combined with the supply shortage caused by the current lack of credit for construction, will result in an acute shortage in rental units which will in turn trigger a strong recovery in the rental market of multifamily units.

In addition to the above, the downturn in the economy and the credit squeeze have led to the difficulties many firms have experienced in maintaining enough liquidity which affected their ability to service their debts. Many of these firms had large debts that were carried forward and are no longer serviceable with the reduced activity and falling property values. This has led to the banks foreclosing on a very large number of properties many of which are very sound and profitable investments. As many real estate firms and businesses are in the same boat there aren't many companies around that are actively buying which has excessively depressed prices while supply far exceeds demand. Management will take advantage of these opportunities to acquire investments at very attractive prices with excellent potential for capital appreciation.

On the economic front, the various economic data, figures and statistics that are released are pointing to a slow but firm recovery in the economy which is only expected to improve from this point onwards. The current economic recovery and the state of the real estate market and all of the above present unprecedented opportunities for investment which were unheard of until only very recently.

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