MARKET NEWS

YOUR QUARTERLY CAPITAL MARKETS UPDATE FOR 2Q|2015

NORTHMARQ CAPITAL

FEATURED ARTICLE

WAVES OF CAPITAL AND EQUITY FLOODING TODAY'S MARKET

By William Ross, President

With the real estate markets humming along at near record levels thanks to employment growth, historically low interest rates and improving property fundamentals, conditions are ripe for a perfect storm in 2015. The market is awash with positivity and that forecast appears to be long-term.

NorthMarq is witnessing a tremendous level of liquidity in the marketplace. CMBS are looking to cross over the $100 billion mark; life companies should place in excess of $70 billion in 2015; GSE's have $60 billion for multifamily lending in 2015; commercial banks should easily pass $120 billion in commercial real estate lending and FHA should have $10 billion also available for multifamily, senior and skilled-care facilities. This wave of capital will spur economic development in real estate as fundamentals of the main property types (multifamily, retail, office and industrial) are all in good balance nationwide.

- **Multifamily:** This area has been the favored asset class now for several years. This trend should continue in 2015. The industrial and office markets are beginning to recover and will be viewed more favorable as an asset class in 2015.

- **Retail:** Retail is driven by the location, anchor tenants and the population growth around a proposed building site. These factors will certainly slow down the process and the result will be a conscious effort not to over-build this sector in the near future.

- **Equity:** Equity is plentiful in today's market. The institutional and private capital entities are looking for transactions that enable their investors to get yields in the mid-teens on an IRR basis. The competition for quality deals has been extremely keen to say the least and will only continue to drive the economics towards the seller or developer.

- **Foreign Capital:** The flow of foreign capital is still focused on American's gateway cities on each coast. While this capital is beginning to look at Midwestern markets, it is still not a major factor in these cities as the private and U.S. based institutional capital will still dominate the majority of equity placements. The larger U.S. based equity funds are definitely looking at secondary cites that may have been overlooked in order to find yield. The price of assets in key coast cities has driven yields down to record low levels. These secondary cities should allow the funds to achieve somewhat higher IRR's but not without additional risks.

The other wave on the near horizon is the maturing debt markets. In 2015, it is estimated we will have $330 billion of debt maturity that will increase to $370 billion in 2016 and then $420 billion in 2017. This wave will need to be refinanced, recapitalized or sold in order to avoid maturity defaults. Low interest rates would be a tremendous benefit in the effort to refinance these loans. There is also a high demand for property in the sales market. With this in mind, I believe we can get through this wave and be in better shape than some people forecasted a few years ago.

The real estate markets appear to be in good shape, and I am confident the rising tide we are currently on will lift many firms to record profits in 2015. ❖