

REDNews 2010 Market Outlook Survey

Excerpts from a REDNews questionnaire received from over 200 Texas Commercial Real Estate professionals. For the full list of responses, visit www.rednews.com

Partial List of Respondents

Sanford Criner
CB Richard Ellis
Houston, TX
Expertise: Office

Tom Lynch
CB Richard Ellis
Houston, TX
Expertise: Industrial

Marc Munaretto
M.J. Munaretto & Co., Inc.
Crystal Lake, IL
Expertise: Industrial

Patricia Hoffman
Mountain West Realty
Red Lodge, MT
Expertise: Vacant Land

Paul Rosado
Commercial Real Estate Broker
Tucson, AZ
Expertise: Industrial

Rob Banzhaf
BANDIER Realty Partners
Houston, TX
Expertise: Other

Edd McGrath
Bissett McGrath Properties, Inc.
Tampa, FL
Expertise: Vacant Land

Robert Patterson
CB Richard Ellis
Newport Beach, CA
Expertise: Apartments

Roger Stolley
NAI Rio Grande Valley
McAllen, TX
Expertise: Retail

Ronald London
Coldwell Banker Commercial
Aventura, FL
Expertise: Apartments

Salvatore "Sam" DiFranco
9196776100
Cary, NC
Expertise: Office

Francis Coakley
Coakley Real Estate Co.
Cleveland, OH
Expertise: Office / Retail

Sandy Colohan
Keller Williams Realty, Downtown
Denver, CO
Expertise: Office

Wade Bowlin
PM Realty Group
Houston, TX
Expertise: Office

Tony Amato
Amato Commercial Group
Las Vegas, NV
Expertise: Retail

Anthony Sabatino
Realty USA Commercial
Albany, NY
Expertise: Apartments / Retail

Craig Wagstaff
NAI Pinnacle
Boise, ID
Expertise: Office / Vacant Land

REDNews: What is your outlook for the commercial real estate market in 2010?

Criner: 2009 was a year in which property owners got used to the idea that things were getting worse without having to feel the effects. When we have been in this downturn for 18 - 24 months, rents will begin more closely to reflect market conditions.

Lynch: Credit gradually comes back into the market.

Munaretto: We are beginning to see slightly elevated interest in both sales and leasing of industrial and office properties in our region.

Hoffman: Slightly better outlook than 2009.

Rosado: For every job lost, I count on another 200 sq. ft. going vacant. I don't think we have seen the end of job losses.

On the other hand, it may present once-in-a-lifetime opportunities for investors.

Banzhaf: We have already seen activity pick up tremendously in 4Q '09 compared to 1Q-3Q'09 and project this to continue into 2010 based on our working projects.

McGrath: We are starting to see positive movement in the market.

Patterson: The significant REO market that has been expected will continue to fail to materialize as long as banks are able to "extend and pretend."

Stolley: Slightly better outlook than 2009.

London: Banks are refusing to lend.

DiFranco: While I am not expecting a big upturn in the economy, I still believe there are plenty of opportunities for the creative diverse broker.

Coakley: There will be a pent-up demand for office space...users just need a feeling of confidence.

Colohan: The banks are not lending money to investors and commercial properties.

Bowlin: I think the loan crisis has not hit the markets yet as banks and lenders have extended non-performing loans instead of foreclosing. This trend will have to stop and as banks foreclose they will be forced to write down assets to sell them as-is thus creating a downward spiral in values.

Amato: As market confidence goes, jobs holding/growing and not retracting will be one positive signal. Give the right reason for employers to justify new growth, start with tax breaks in areas of earnings and expenses. Offer incentives in investment (equipment/inventory), reasonable time-line for recapture of investment without state/federal government over-sight and returns of investments to employers.

Sabatino: Slightly better outlook than 2009.

Wagstaff: Prices are starting to be in line with value, but there needs to be an avenue to financing.

REDNews: How did your company adapt to the downturn in 2009 and what changes do you plan for 2010?

Criner: Return to basics; focus more on small to medium-size leases. Building relationships for future growth.

Lynch: Focusing on user driven sector of the market as there is still activity and new deals although not the level of volume that we had in the past few years. For investors, working on smaller projects that private capital would buy. Transactions of in the range of \$2 to \$6 million still have activity and buyers. We expect that dollar level to rise going through 2010 as the company will need to sell assets that will sell and Houston is a very good market for new money.

Munaretto: We increased our marketing budget for 2009, especially direct mail. The results in 2009, however, were at best disappointing. For 2010, we plan

to be a bit more reticent to increase our costs of doing business until we see a considerably heightened demand for commercial real estate.

Hoffman: Fortunately we are located in a Western Resort Area which has not felt the full impact of the downturn that so many other areas have felt. My company just broadened our focus from primarily a Land Market into more of the Resort & Recreational Markets.

Rosado: In 2009 I cut expenses/salaries and raised cash through the sale of assets. I deferred capital expenditures and paid more attention to the balance sheet.

Continued to keep clients informed on activity or lack of activity. Educate clients on what I think the future underwriting criteria will be for property values.

Banzhaf: We built a stronger foundation on the brokerage side and built a strong business model relating to REO and distressed assets from the liquidation and acquisition side.

McGrath: We focused our efforts on deals that can be done in the down market. In our thirty years in the business we have had to change to meet the market every year. We usually do better in down markets than boom markets.

Patterson: Focused on lenders for future business.

Stolley: Cut operating expenses.

London: Kept expenses low and worked harder.

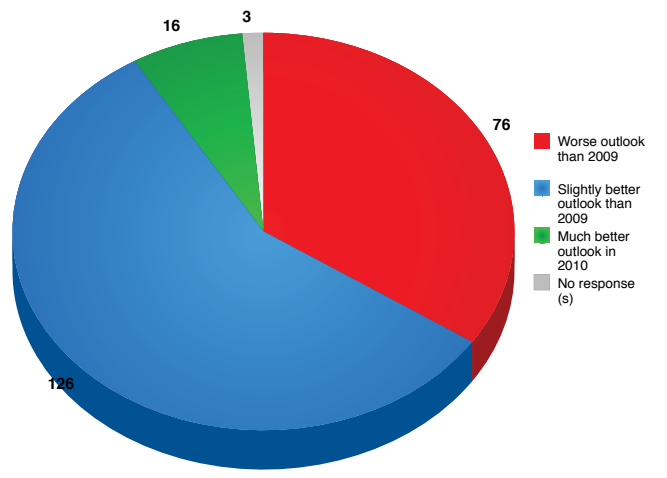
DiFranco: Like everyone else, we cut whatever we could, from staff to supplies. For 2010 we just plan on being more creative and focused.

Coakley: Did not hire additional administrative help...hire more agents.

Colohan: We feel that this will be a huge opportunity for our clients with cash. This will also be a great recruiting opportunity as most commercial agents will be earning less and our split will be very attractive to them.

Bowlin: We were fortunate that with the collapse of the investment market we had clients that were unable to sell their assets as planned, thus our business did not fall off as expected. We did experience some lay-offs

What is your outlook for the commercial real estate market in 2010?



and could see some additional lay-offs, depending on the market.

Amato: We just held our posture in the marketplace, although much mis-communication has caused an ongoing challenge in value. Demand has been sluggish for several reasons; too much standing product does not send the right message. We recommend taking on relocations and re-sizing opportunities at a discount of 10% to 15% from current advertised levels.

Sabatino: Company stopped participating in 401k.

Wagstaff: We cut all overhead and back office support. We need to continue to think outside the box. We need to be innovative and creative with landlord, tenants, and financial institutions.

REDNews: When do you anticipate the credit markets will open and we will see commercial real estate transactions begin again?

Criner: Two problems:

1. No appetite for risk (on the part of lenders)
2. Declining real estate fundamentals for another 18-24 months.

Lynch: There are many outside forces at work which will affect lending, credit and small business willingness to spend. Anticipating when it will open up again for financing is difficult to guess in our current environment.

Munaretto: Banks have a pent-up loan demand for commercial real estate. Regrettably, the terms upon which they are willing to underwrite commercial real estate make it difficult for most borrowers to avail themselves. Underwriting standards need to be revised, especially loan to value/cost ratios.

Hoffman: I really don't anticipate the credit markets opening until at least 2011.

Rosado: I find banks and life companies ready to lend as long as the underwriting conforms to a criteria with a reasonable margin of safety in the underwriting and equity from the borrower.

Banzhaf: I don't know when the credit markets will loosen up significantly, but I do think we will see an increase in transactions sooner than later driven by cash acquisitions.

McGrath: Credit will come back to real deals. The big change will be the banks and mortgage companies will have to face the real value of their assets and meet the market. They are going to have to face the music and dispose of their troubled assets at market values. It will be painful.

Patterson: The issue of transactions is not, in the multifamily world, a function of credit markets. It is a function of the vast majority of assets being worth less than the loan amount and less than the acquisition price or development cost. As long as that is the case there is no incentive for owners to sell.

Stolley: Within 12 months.

London: The government needs to remind banks why they are in business.

DiFranco: If lenders are not lending, they will not survive. That is how their business operates. They can't hold out forever...

Coakley: Within 18 months.

Colohan: Within 18 months.

Bowlin: Hopefully within 24 months.

Amato: Banks have too many maturing loans that need revisions in rate, which means less income. The loan guidelines for new considerations will

reduce fundings 50% to 60% of originations. Lenders will continue to keep their minds on keeping their doors open and not being placed in receivership from federal insurance. As for income to lenders, not much will be generated in lending, more on consumer products that pay the bills.

Sabatino: Within 18 months.

Wagstaff: Within 18 months.

REDNews: When do you think your city/location will begin to see new development?

Criner: Based on the last two recessions, total jobs will, in all likelihood, still be lower than the recent jobs peak in 24 months; so there is and will be no need for additional development.

Lynch: We will still have some build-to-suit activity but for typical speculation building, we don't need it for a while. A clearer picture will not come until we see how much downsizing will occur as current leases roll over.

Munaretto: Other than build-to-suits, we are not likely to see any spec development until the inventory of space on the market is absorbed.

Hoffman: 2011

Rosado: The development seems to be urban infill and on a small scale.

Banzhaf: Mid to late 2011 I think we will begin to see new development projects based on demand from tenants and some available capital to fund these projects.

McGrath: Real estate is too often discussed in general terms, but real estate is always specific. There are segments of users who are expanding in a down market. You have to move with the market.

Patterson: As long as Fannie and Freddie are disinterested in loaning for new development the development pipeline will remain anemic.

Stolley: We continue to see some retail development even during 2009 but much less than previous years. Many existing retail centers held off on developing expansion plans for existing centers in 2009 but expect that they will try to gear back up this year.

London: 2013 or after.

DiFranco: 2011.

Coakley: Cleveland has a new convention center planned, a new Med

Mart, and a new Casino in the works.

Colohan: There are a few that need to be finished in our area, but with lending the way it is developers cannot break ground.

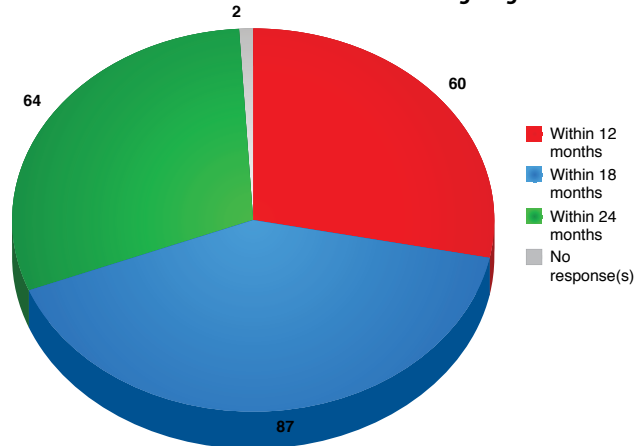
Bowlin: Hopefully.

Amato: We need jobs to be created. Do that one thing and we'll be on the right path to correct the current market.

Sabatino: This year!

Wagstaff: 2012.

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