

Press Release

Investor Confidence Remains High as U.S. Commercial Real Estate Fends Off Global Volatility, Akerman Report Finds

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Investors and lenders have a nearly unanimous view of the U.S. commercial real estate market, according to a report released today by Akerman LLP, a top 100 U.S. law firm serving clients across the Americas. The seventh annual Akerman U.S. Real Estate Sector Report found an overwhelming 92 percent of real estate executives had little or no change in their optimism compared to last year. After a six-year run of recovery, there also is a measured tone of cyclic expectancy and a gathering sense that a slowdown is a sign of a healthy market correction.

Against the backdrop of an uncertain global marketplace, the Akerman Report reveals U.S. commercial real estate is maintaining a favorable position and the strongest resistance to market volatility, attracting a deeper and wider pool of investors than ever seen before. Unprecedented amounts of offshore investment dollars will continue to enter the United States as a safe haven for their assets. U.S. investor focus will shift from yield motivation to capital preservation, with a growing number of them considering longer-term investments in anticipation for the next up-cycle. As long as the U.S. economy continues to show momentum, the Akerman Report anticipates positive activity through the end of 2016, including a greater investor appetite in smaller markets, compared to previous years.

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“Any time you have extended growth periods, ultimately there needs to be a reset – a rebalance of supply and demand – and these moments in economic cycles are actually very strategic for us,” said Stephen Owens, president of Swire Properties Inc. and a client of Akerman.

“Even with slow growth, the United States still has the best property system in the world and our commercial real estate holds the top spot across global capital markets,” said Vincent Signorello, president and chief executive officer of Florida East Coast Industries and a client of Akerman.

Key Akerman Report Findings:

- Strong fundamentals, including low interest rates (37 percent) and continuing improvement in the U.S. economy (28 percent) are two primary factors instilling investor confidence.
- 56 percent of real estate executives cited global disruption and a volatile investment market as the most pressing issues impacting the real estate sector. More than a quarter (27 percent) also cited federal gridlock and uncertain government policy as a principal concern.
- When asked to select the top three sources that will lead real estate financing over the next year, 42 percent of executives selected private equity, 37 percent chose banks, and 33 percent identified REITs. However, heightened regulations and other external forces that are pressuring the real estate market may bring about further changes to the financing landscape. Twenty-seven percent of executives believe foreign capital will remain a chief source of real estate financing. Insurance companies and non-traditional investment vehicles, such as pension funds, are also increasing their real estate capital allocation.
- More than half of executives (59 percent) believe

multifamily will continue to be the most active real estate sector, followed by single family homebuilding (18 percent), industrial (7 percent), office (6 percent), retail (6 percent), and hospitality (3 percent).

- Forty percent of executives say multifamily will attract the most foreign investment, with the majority of capital coming from Latin America, mainly Brazil. More than half (five to seven in 10) expect China will be the dominant source of foreign capital in all other core real estate sectors.

“We are seeing record levels of institutional and global equity circling the real estate market as a core investment option,” said Richard Bezold, chair of Akerman’s Real Estate Practice Group. “There is still significant capacity to invest in burgeoning real estate markets and dynamic second tier cities, expansion and innovation in many asset classes, and a marketplace that is thinking ahead to the future of mobility and sustainability across the nation’s most trend-setting cities.”

Top Three Real Estate Development Megatrends: Greatest short-term impact

- **No. 1: Generation-Specific Housing.** 34 percent of real estate executives believe the aging population and its housing preferences will have the greatest effect on real estate development in the next 3-5 years. With more senior housing construction underway, the ability to secure financing appears to be top of mind for these developers, particularly in certain sub-sectors that are challenged with navigating layers of complex regulations.

- **No. 2: Co-Urbanism.** 29 percent of executives say changing lifestyle preferences in a compact city center and society’s shift to a sharing economy will have a significant impact on real estate development in the near-term. Along the same lines, 14 percent believe office mobility and collaborative workplace design are key trends shaping the next iteration of

buildings and spaces.

- **No. 3: Cyber Risk in Real Estate.** 15 percent of real estate executives ranked the effects of technology as one of the most important issues impacting real estate. Ransomware and other attacks designed to manipulate systems or seize private information have brought attention to the industry's exposure to cyber risk, as well as the need to develop a security and privacy framework as technology in the sector advances.

Five Real Estate Development Forecasts: Greatest long-term opportunities

- **Potential in Cuba.** A historic find in the Akerman Report, the majority of real estate executives (32 percent) predict that Cuba's burgeoning real estate market will present the greatest longer-term opportunities for U.S. investment in Latin America. The unprecedented response follows the gradual rapprochement between the United States and Cuba after more than a half-century of Cold War opposition, and an uptick of American travel, investment, and commerce on the island nation.

- **Post-Brexit.** The geopolitical, economic and global financial market uncertainty resulting from Brexit may extenuate some trends that were otherwise already happening in the United States. These uncertain conditions should result in an influx of European and British investors entering the U.S. commercial real estate market, particularly in gateway cities list New York, Miami and Los Angeles, providing alternative funding solutions in the capital stack.

- **The Green Rush.** 25 states, plus the District of Colombia have legalized select forms of marijuana, making this one of the newest emerging segments in the commercial real estate market. Growing demand for extracted products in the form of wax, oils, edibles and creams is further driving retail sales, tourism and a movement of millennials to cities

where marijuana is legal. As more states legalize marijuana, investor interest and development opportunities will expand across all asset classes in even the smaller markets.

- **Generation Z.** It is estimated that more than 30 million post-millennials called Generation Z will enter the workforce by 2019, with a new set of interests and demands that will reshape the next wave of development. Those born in the early-2000s represent the first cohort to grow up entirely during the age of the Internet, smartphones and social media. Travel, office mobility and global connectivity will be increasingly important in their adulthood. Technology and green building will be key considerations in their future home buying decisions. As part of the sharing culture, Gen Z will not only want to be exposed to different entertainment options, they also will want to help create it.

- **The Autonomous Vehicle.** A modest 5 percent of real estate executives say infrastructure development is a priority. While autonomous vehicle developers are focusing on creating driverless cars that can exist within the nation's current infrastructure, the rollout of new modes of transportation over the next decade will force the public and private sector to rethink the way cities are built and organized.

[Click here](#) to view the Report.

About the Akerman Report

The Akerman U.S. Real Estate Sector Report provides insights on the economic conditions affecting the U.S. commercial real estate market. Akerman clients and other top real estate executives across the country contributed through one-on-one interviews as part of an annual Akerman Survey. A count of 189 interviews were completed during the second quarter of 2016. The Akerman Survey was first conducted in 2010 and has become a leading source for market intelligence in the real estate sector.

About Akerman LLP

Akerman LLP is a leading transactions and trial law firm known for its core strengths in middle market M&A, within the financial services and real estate industries, and for a diverse Latin America practice. With more than 650 lawyers and government affairs professionals and a network of 24 offices, it is ranked among the top 100 law firms in the United States by *The American Lawyer* (2016). Akerman also is ranked among the top 60 law firms for diversity in *The American Lawyer's* Diversity Scorecard (2016).

Akerman's Real Estate Practice Group offers comprehensive and fully integrated project counsel services to clients across the United States and Latin America. With substantial industry experience and local market insights, the firm represents clients in complex real estate transactions and financings, development and redevelopment projects, public-private initiatives and litigation. Recognized as a national tier one law firm for real estate law by U.S. News - Best Lawyers, the group advises investors, developers, builders, lenders, retailers, owners and corporate end users, often in high profile matters.