Apts, Offices Score in Q2 Summer Report Card

Real Estate Research Corporation's (RERC's) investment conditions ratings for the institutional apartment and central business district (CBD) office sectors each jumped a full point during second quarter 2010, making them the two highest-rated property types that RERC surveys.

The findings are included in the RERC's new summer report, *Riding the Edge of Success*.

The investment conditions ratings are based on a scale of 1 to 10, with 10 being higher and most favorable.

For the apartment sector the rating increased to 7.1 during second quarter 2010 from 6.1 during the first quarter. The investment conditions rating for the CBD office sector increased to 6.0 during the second quarter, up from 5.0 for the first quarter.

"These high ratings reflect the increased investment prospects we are seeing for commercial real estate in general," said Ken Riggs, RERC president and CEO. "Institutional investors skittish about the slowing economy and the volatility and risk exhibited in the stock market are finding the diversification, stability, and higher absolute returns of the commercial real estate asset class increasingly attractive."

Although the apartment sector, long-recognized as the commercial property type that generally possesses better risk-versus-return characteristics, has often presented an investment conditions rating higher than those for other property types RERC rates, it has not had a rating this high since second quarter 2001, when the rating was 7.4 on the same scale.

Basically, that means that apartment investments are proving to be safer bets during slowed economic times and are meeting the strategic initiatives of most investors.

"I wouldn't say the apartment sector is 'recession-proof,' but it is the sector that is regarded as 'most safe' and also seems to garner the most demand when times are tough, whether it is in this recession or the last one," said Riggs.

"With the lack of household formation during the past few years and tightened lending standards for single-family homes, consumer demand for apartments will continue to increase, along with improvement in fundamentals. Although the required discount rate for this property type is relatively low at 8.6% (the lowest of the property types RERC tracks), the required going-in capitalization rate is also low, with an average of 6.7%. The lower cap rates are also suggesting that income growth prospects are relatively attractive for this property type versus the other property sectors. This, along with the relatively low risk associated with this sector as compared to other property sectors, makes it a particularly attractive investment," he explained.

The desire to minimize risk appears to be part of what is attracting investors to the CBD office market, too, although, according to Riggs, "investors in the office market may have a higher degree of investment fortitude and are 'riding the edge of success' in pursuit of higher returns and betting on the future of commercial real estate.

"The market for high-quality office property has become as competitive as I have ever seen it, and as a result, we are seeing some of the highest prices ever paid for top properties in the top-tier markets. Interestingly, bidders on these properties consider such properties fairly low-risk and seem to be willing to pay almost any price to add them to their portfolio."

RERC's required pre-tax yield rate for the CBD office sector remained stable at 8.9% during first and second quarter 2010, while the required going-in capitalization rate declined to 7.4% during second quarter from 7.6% in first quarter. The required terminal capitalization rate for this sector also declined slightly, from 8.0% in first quarter to 7.9% in second quarter.

Headquartered in Chicago, RERC was founded in 1931, and is recognized as one of the nation's most respected firms dedicated to independent research, valuation, consulting, independent fiduciary services, and litigation support.

Quarterly investment criteria and analysis are presented for the institutional and regional commercial real estate markets, as well as for 48 major metropolitan markets, in the RERC Real Estate Report, and historical data is provided through the RERC DataCenter™.

For more information about RERC's research, visit them here or call 319-352-1500.

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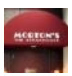

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