

Real Estate Rendezvous 2012

*“Reading the mind of the market:
Insights from Colorado’s architects, contractors,
and commercial real estate professionals”*



Department of
**Construction
Management**



Background

State-wide effort

This is the first state-wide survey of Colorado's three major sectors critically involved in the built environment: (1) architectural, (2) construction, and (3) commercial real estate. The Everitt Real Estate Center in the College of Business and the Department of Construction Management at Colorado State University (CSU) worked in conjunction with the Colorado industry associations of the American Institute of Architects (AIA), Associated Builders and Contractors, Inc. (ABC), and the Associated General Contractors (AGC) to design, solicit respondents, and analyze the three surveys.

Surveys contained a number of similar questions followed by a series of specific questions relating to each industry association members. Thus, these results illuminate an attempt to define and describe the collective '*mind of the market*' for Colorado's built environment based on a wide and diverse collection of 402 survey respondents.

On behalf of CSU and the management of our three industry associations, we appreciate the efforts and time of the professionals who responded and allowed us to educate Colorado's built environment sector on critical concerns and expectations of our important industry.

Contents – *wishful optimism for 2012*

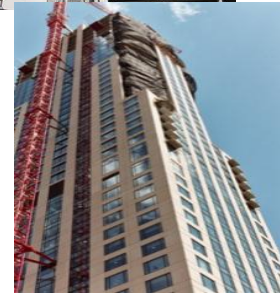
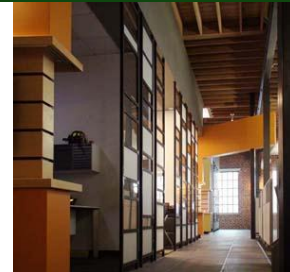
- Background
- Summary findings
- Comparative results
- Individual survey results
 - AIA Colorado
 - Colorado ABC / AGC
 - Colorado Commercial Real Estate (CRE)
- Conclusions and acknowledgements



Source: NASA

Summary findings

- On average, the commercial real estate sector is less optimistic on national issues such as the national debt ratings impact on financing, regulatory environment, and employment growth than the architectural or construction sectors
- Architects have a less optimistic 2012 outlook for contractors and commercial real estate sectors alike; yet commercial real estate respondents are fairly optimistic for the construction industry in 2012
- All three sectors believe that prospects for resumption of private funding for new development projects in 2012 are dismal
- Increase in competition is a major trend, although two different responses; contractors are responding by increasing their services whereas the commercial real estate sector is focusing more on their core services
- There is less reliance on new development as a business catalyst over the next five years for architects; contractors expect new construction to dominate billings in future
- Contractors are more optimistic than architects on employment growth in their own firms in 2012, although job backlog expectations in 2012 appear stable
- Architects believe demand for service for residential-oriented projects are most likely to increase in 2012, and commercial real estate respondents coincidentally believe such property types are most likely for modest appreciation in value in 2012
- Compared to 2011 results, commercial real estate sector continues optimism for leasing and sale transactions in 2012, indicate higher reliance on private equity in 2012, have dropped opportunities requiring land development financings, and are more skeptical about future job growth and increased regulations

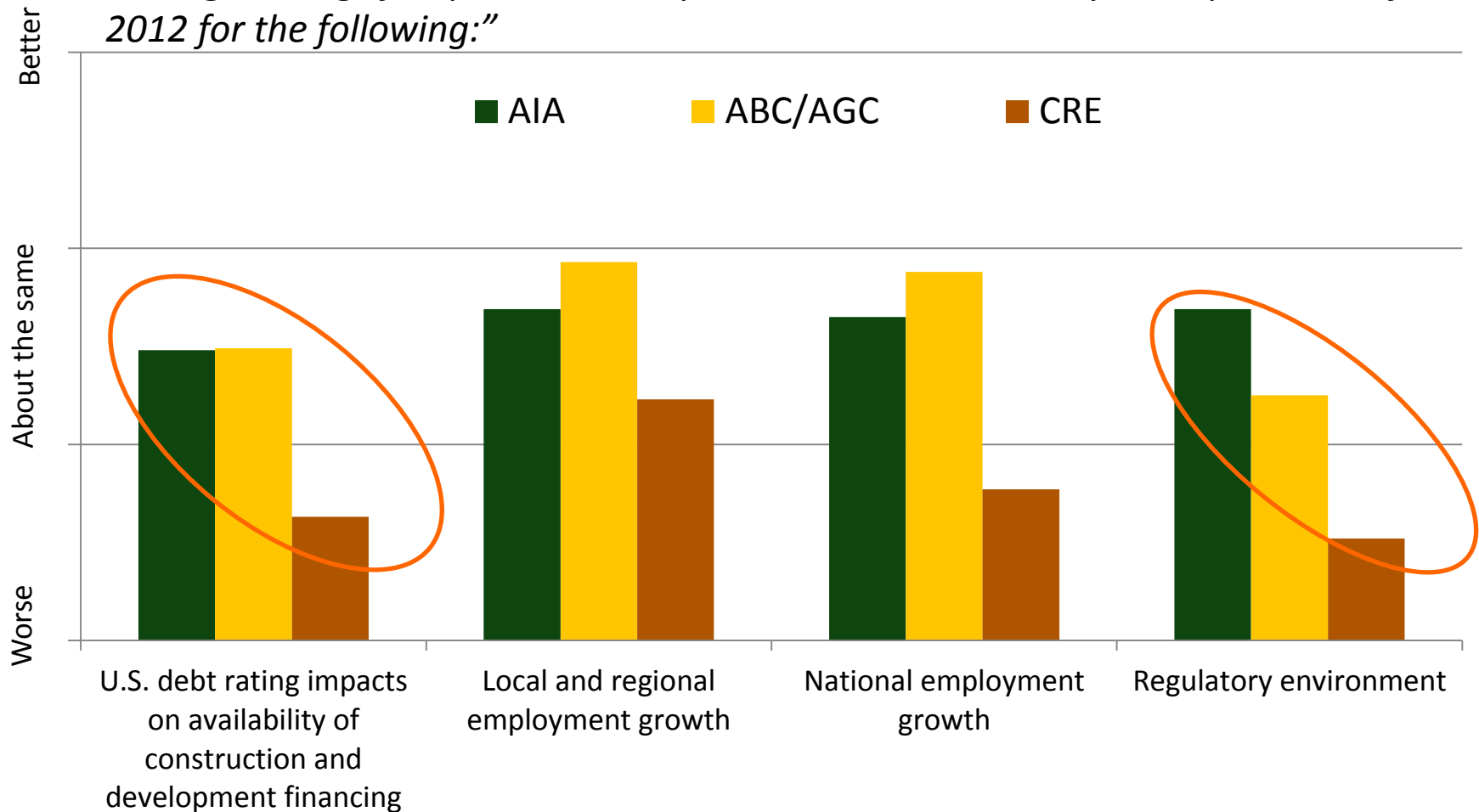


Source: ENR

CRE's outlook more dismal than others

Summary

Average ratings for question "Compared to 2011, what are your expectations for 2012 for the following:"



Differences across sectors (ex-private funding)

Summary

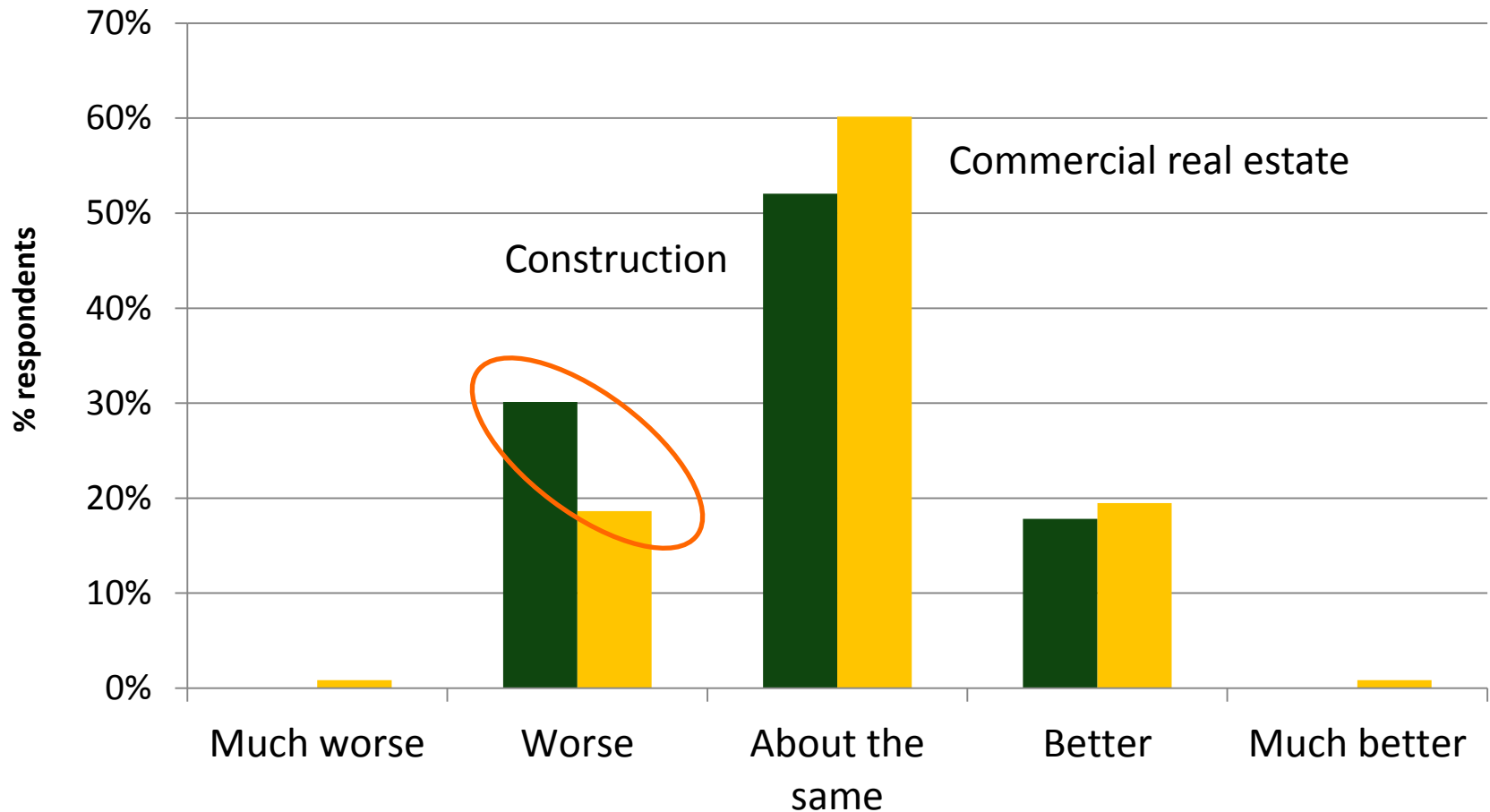
Average ratings to “...do you agree or disagree with the following statements:”



How the other sectors see architects

Summary

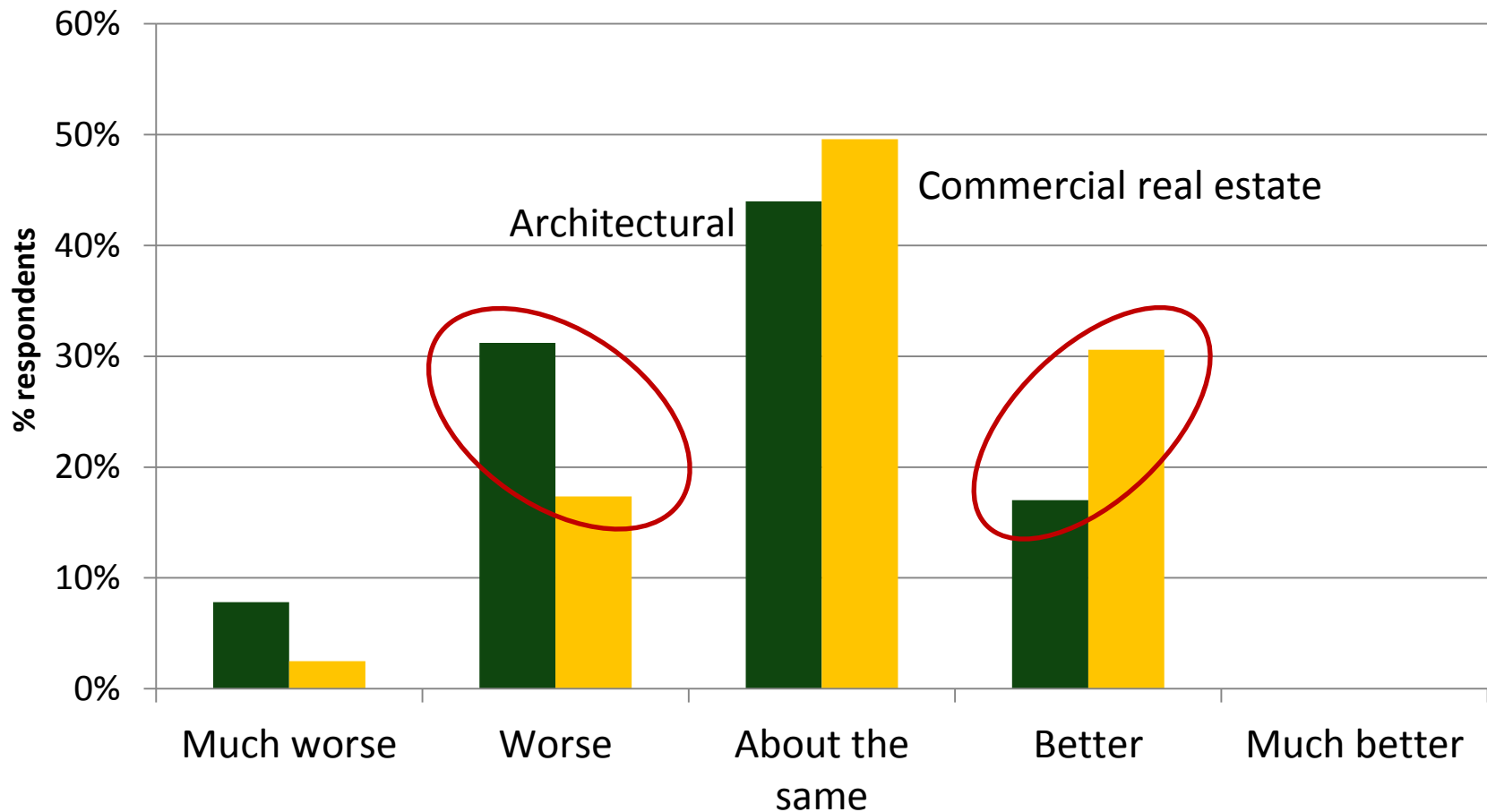
“Compared to 2011, what are your expectations for the architectural industry in 2012:”



How the other sectors see construction

Summary

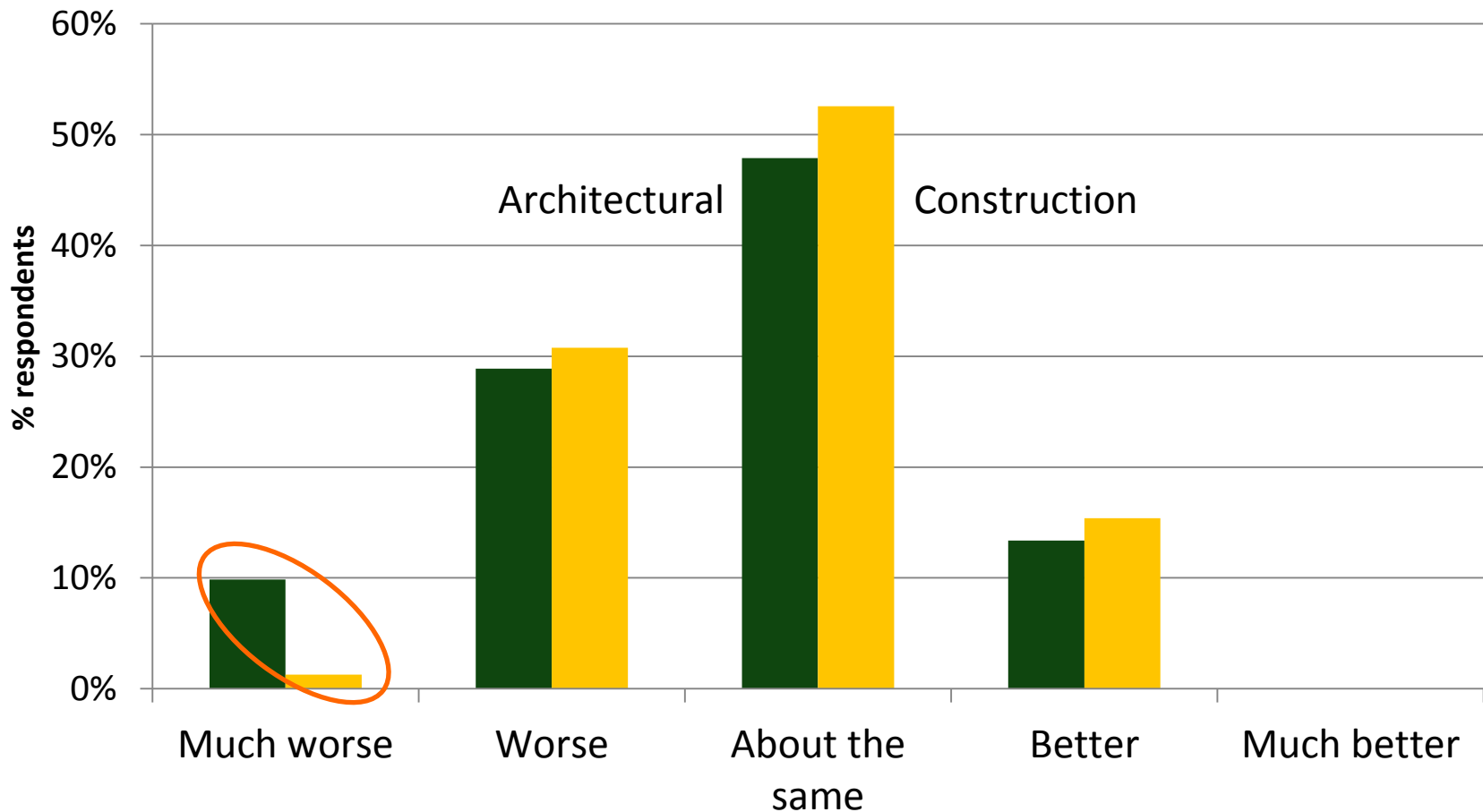
“Compared to 2011, what are your expectations for the construction industry sector in 2012:”



How the other sectors see real estate

Summary

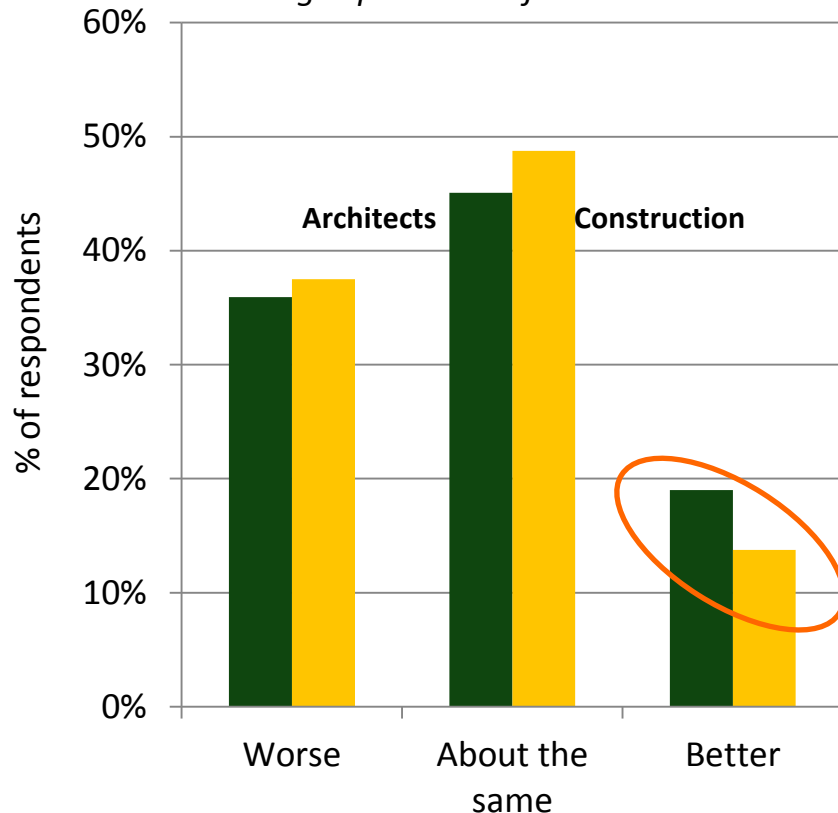
“Compared to 2011, what are your expectations for the architectural and commercial real estate industry sectors in 2012:”



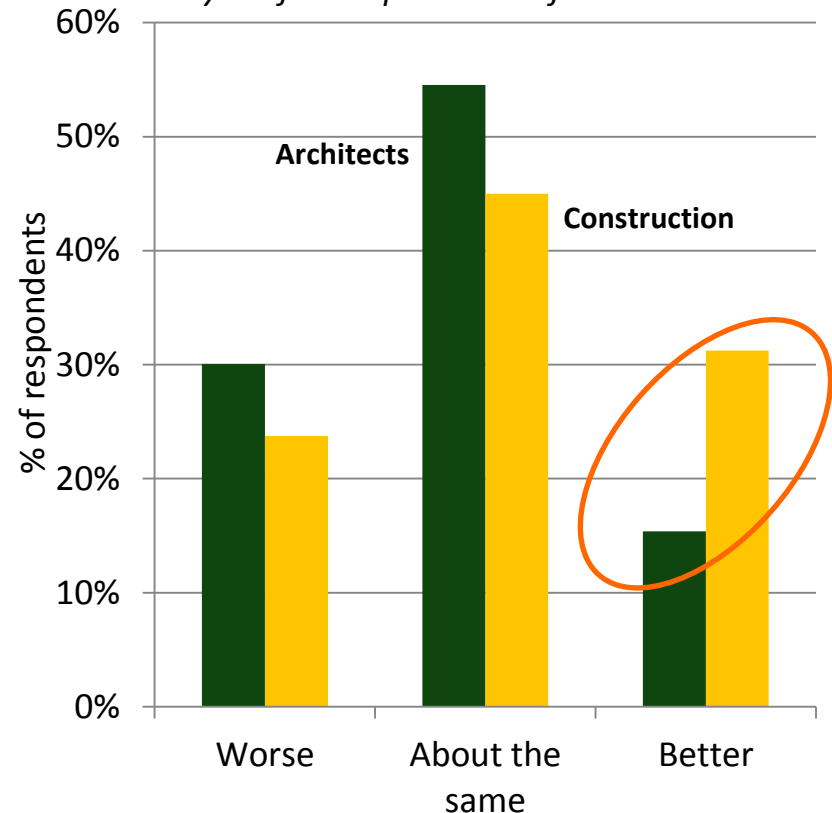
Architects' vs. contractors' expectations

Summary

Compared to 2011, what are your job backlog expectations for 2012:



Compared to 2011, what are your employment at your firm expectations for 2012:

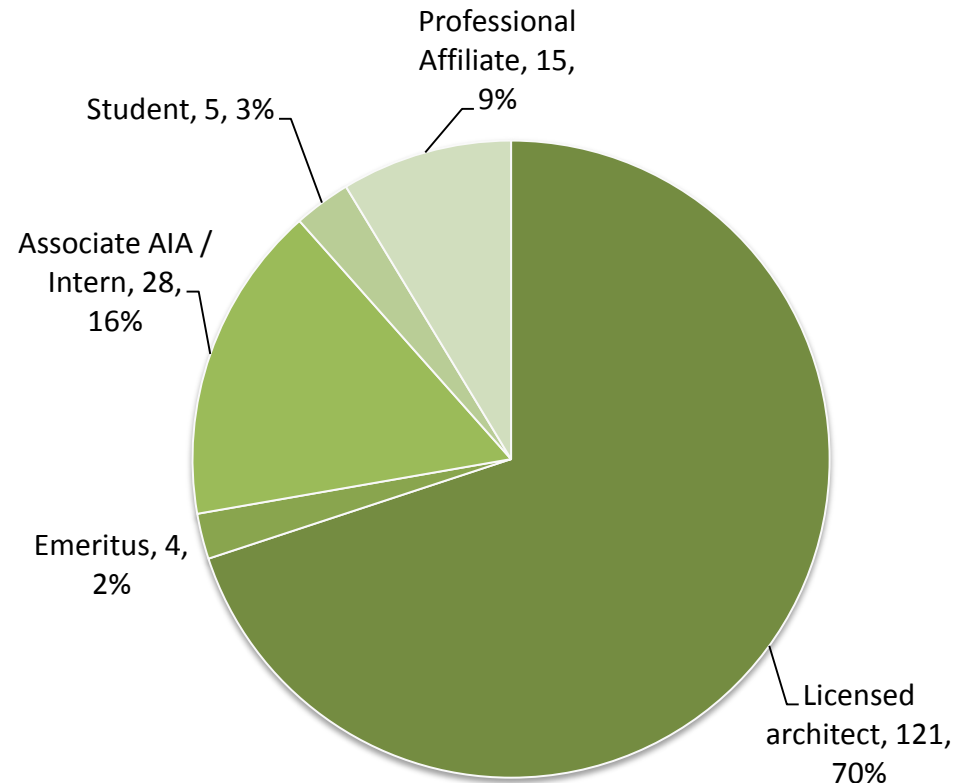


AIA respondents' profiles

AIA Colorado results

- Majority licensed architects
- Highly experienced (>10 years)
 - Residential and commercial represented

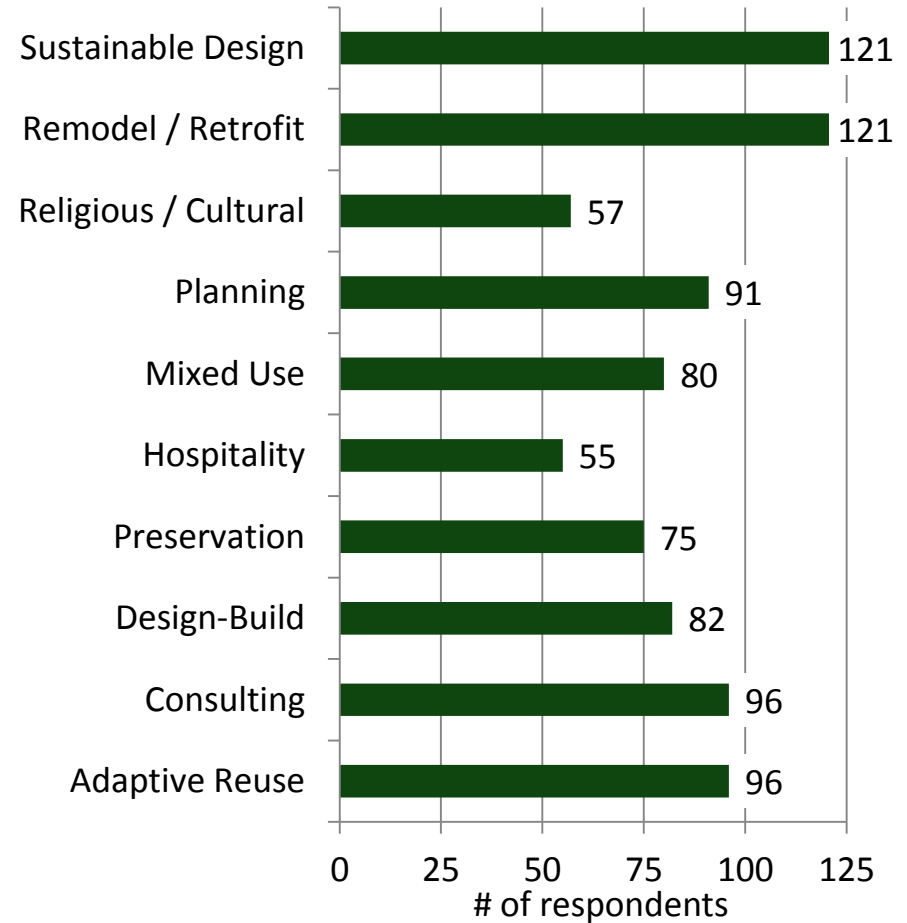
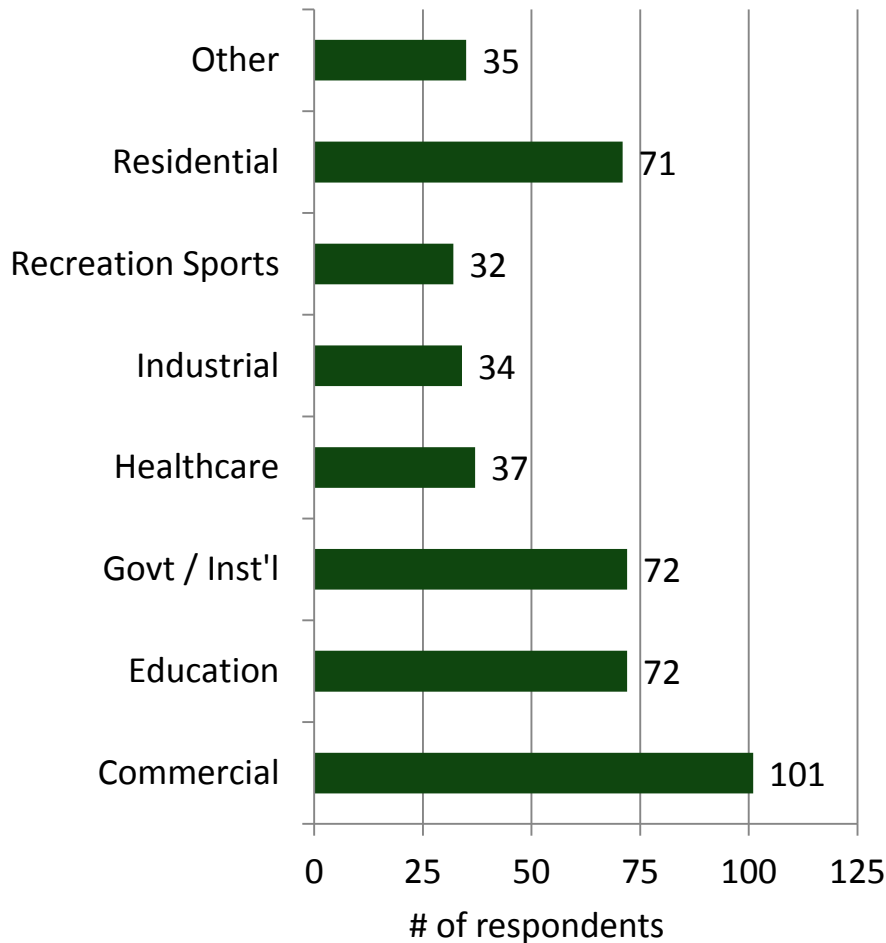
Years Experience	Residential	Commercial
< 1 year	12	4
1 to 5 years	32	19
6 to 10 years	10	21
10+ years	70	113



Diverse service offerings

AIA Colorado results

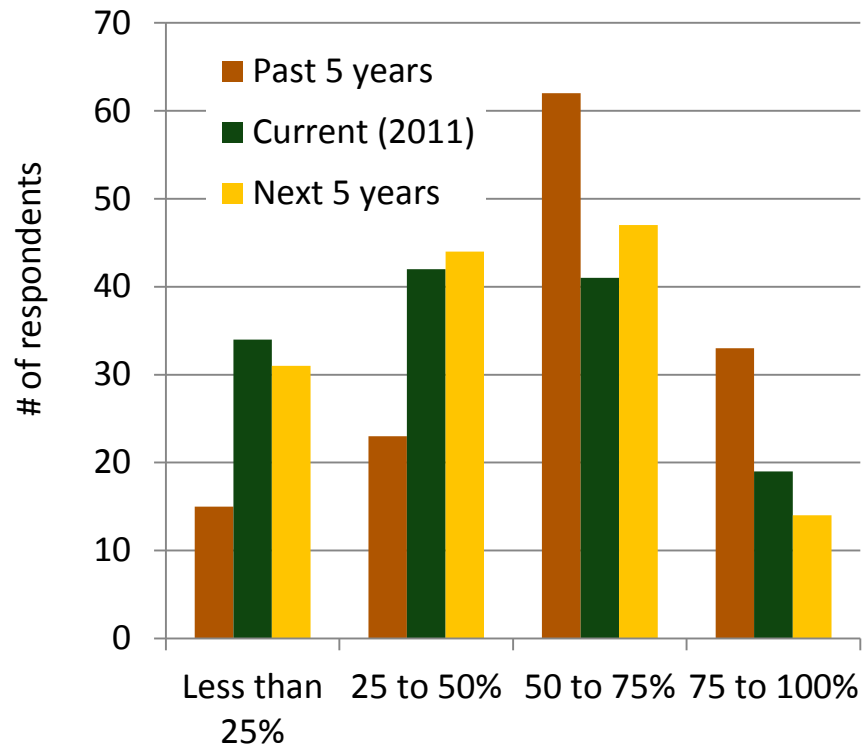
What type of architecture does your organization specialize in (check all that apply):



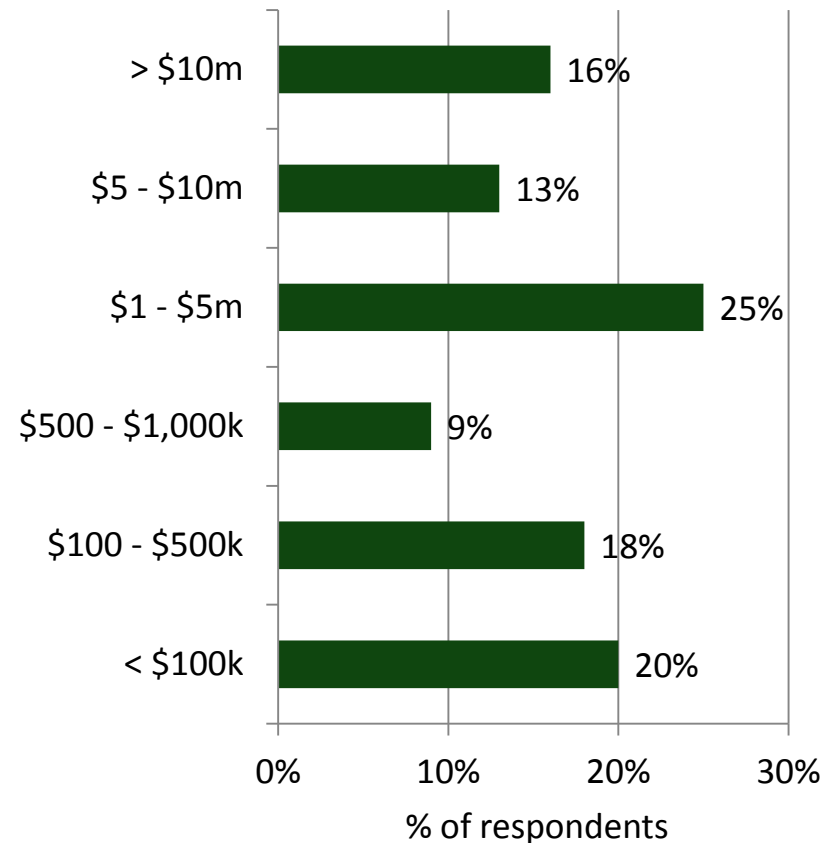
Less reliance on new development; mix of revenue

AIA Colorado results

New construction projects have accounted, or will account for what percentage of gross billings for the following three periods:



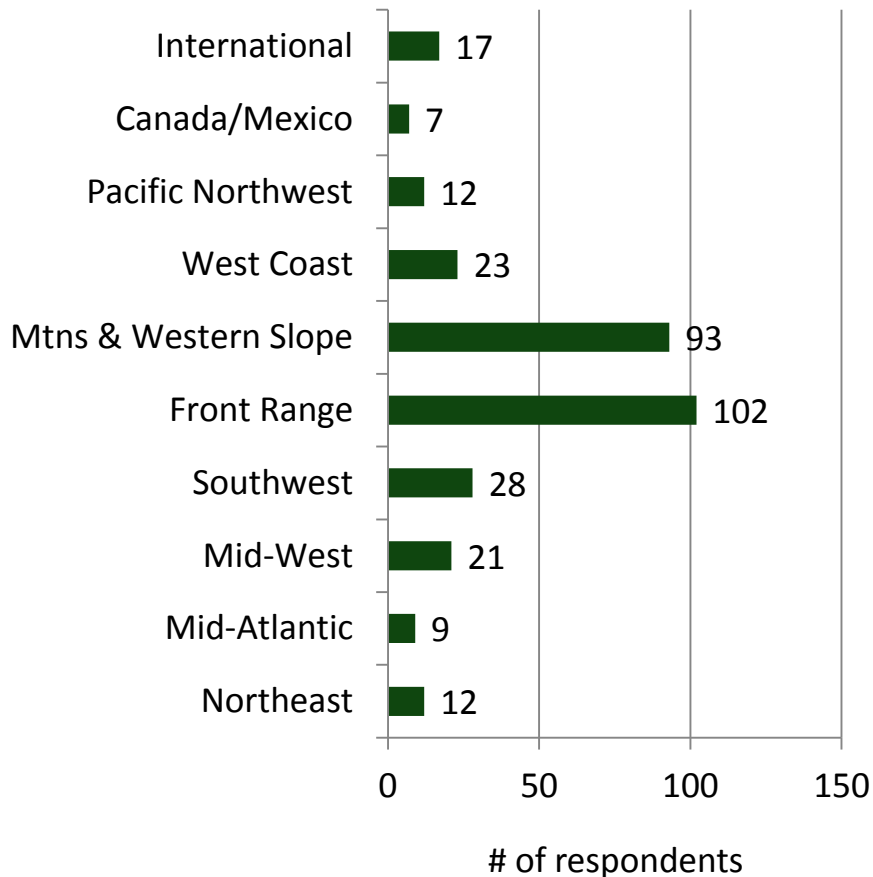
What is the annual revenue for your organization:



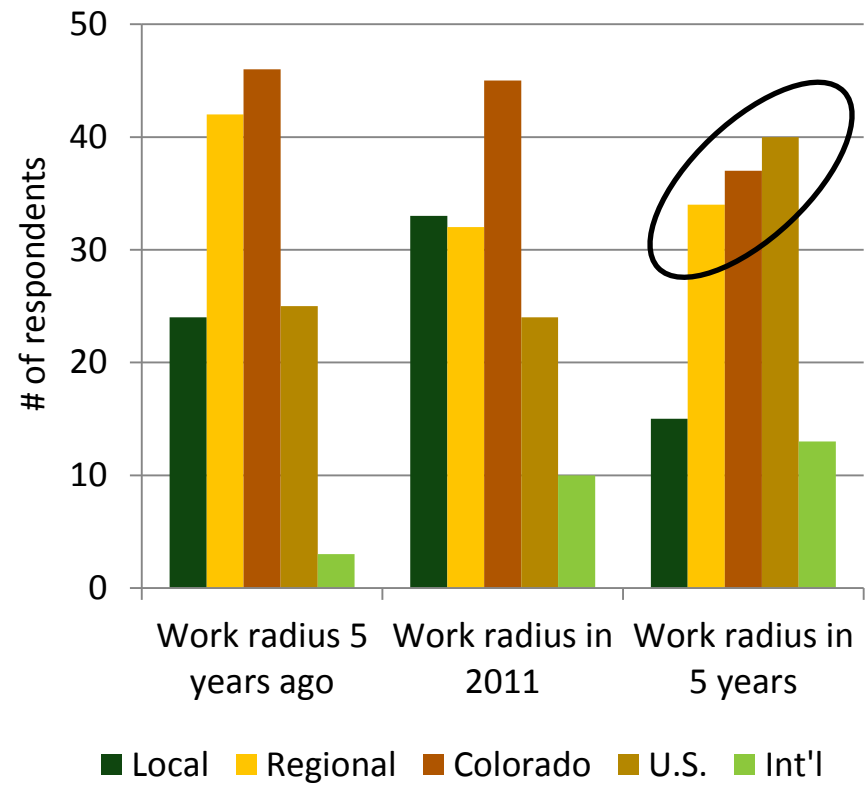
Expanding geographic horizons over next 5 years

AIA Colorado results

Where are your projects over the last 5 years typically located:



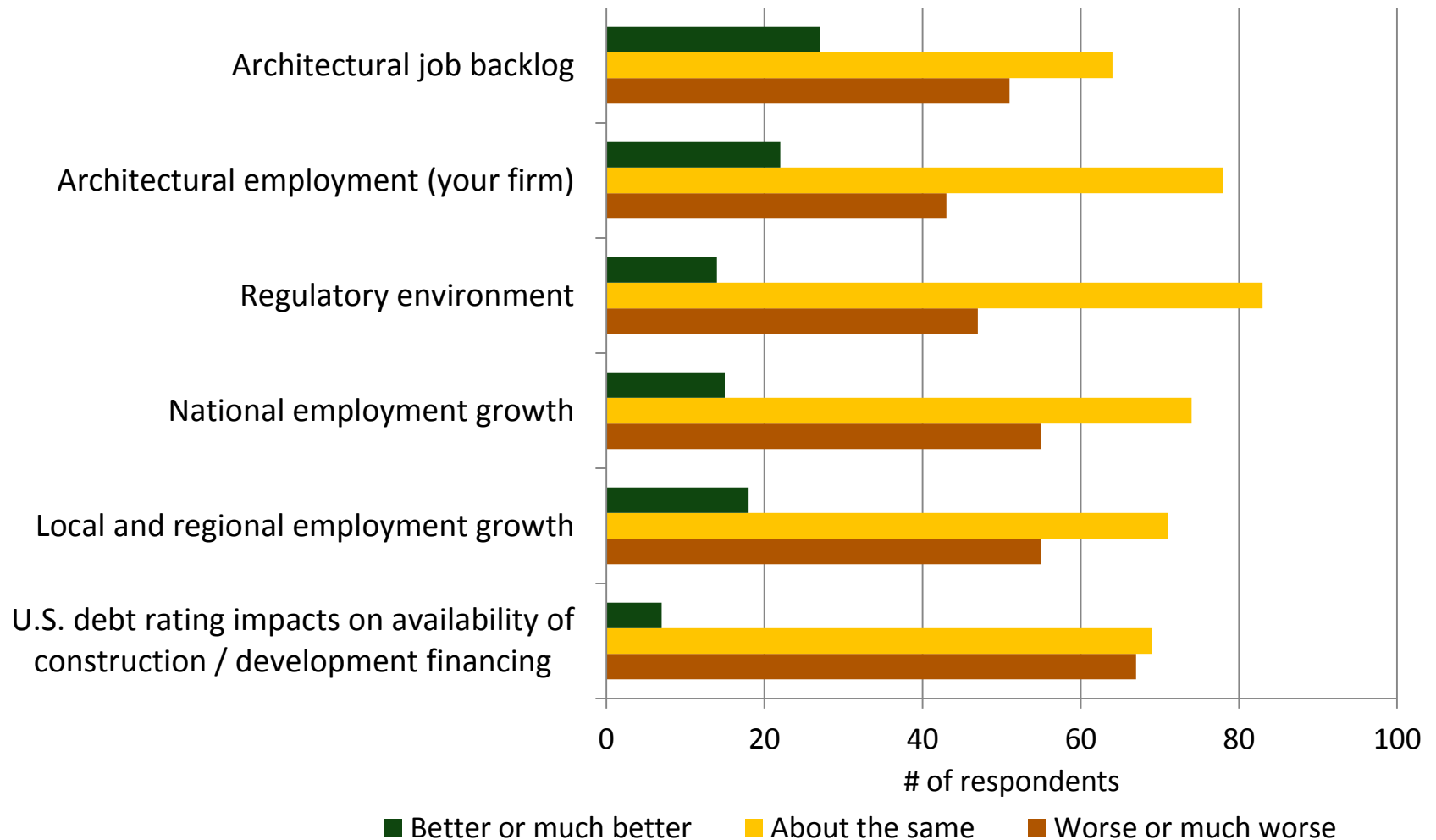
Indicate the areas that accounts for the majority of work for the following 3 periods:



Concerns on U.S. debt impacts and employment

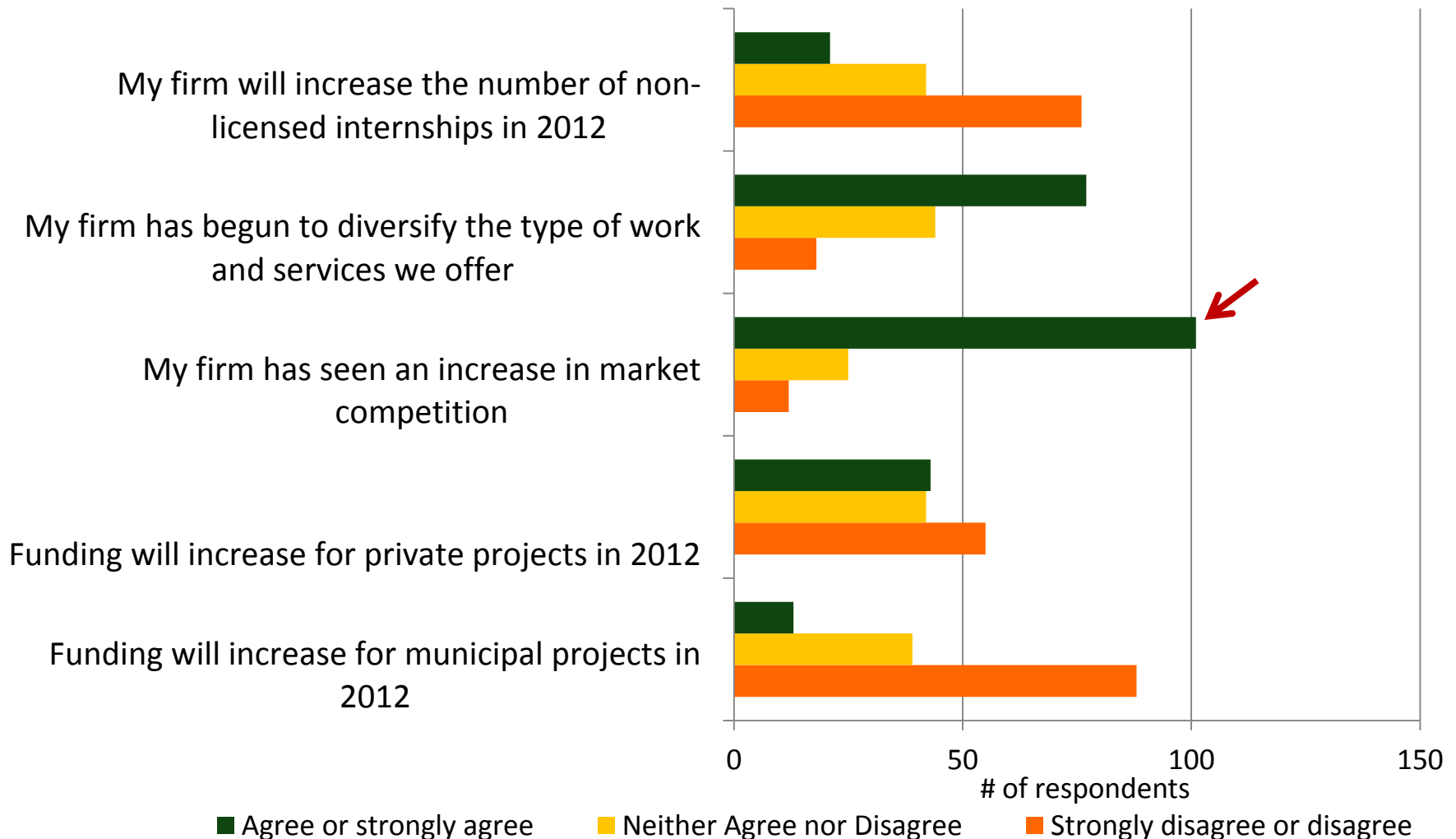
AIA Colorado results

Compared to 2011, what are your expectations for 2012 for the following:



Significant increase in competition

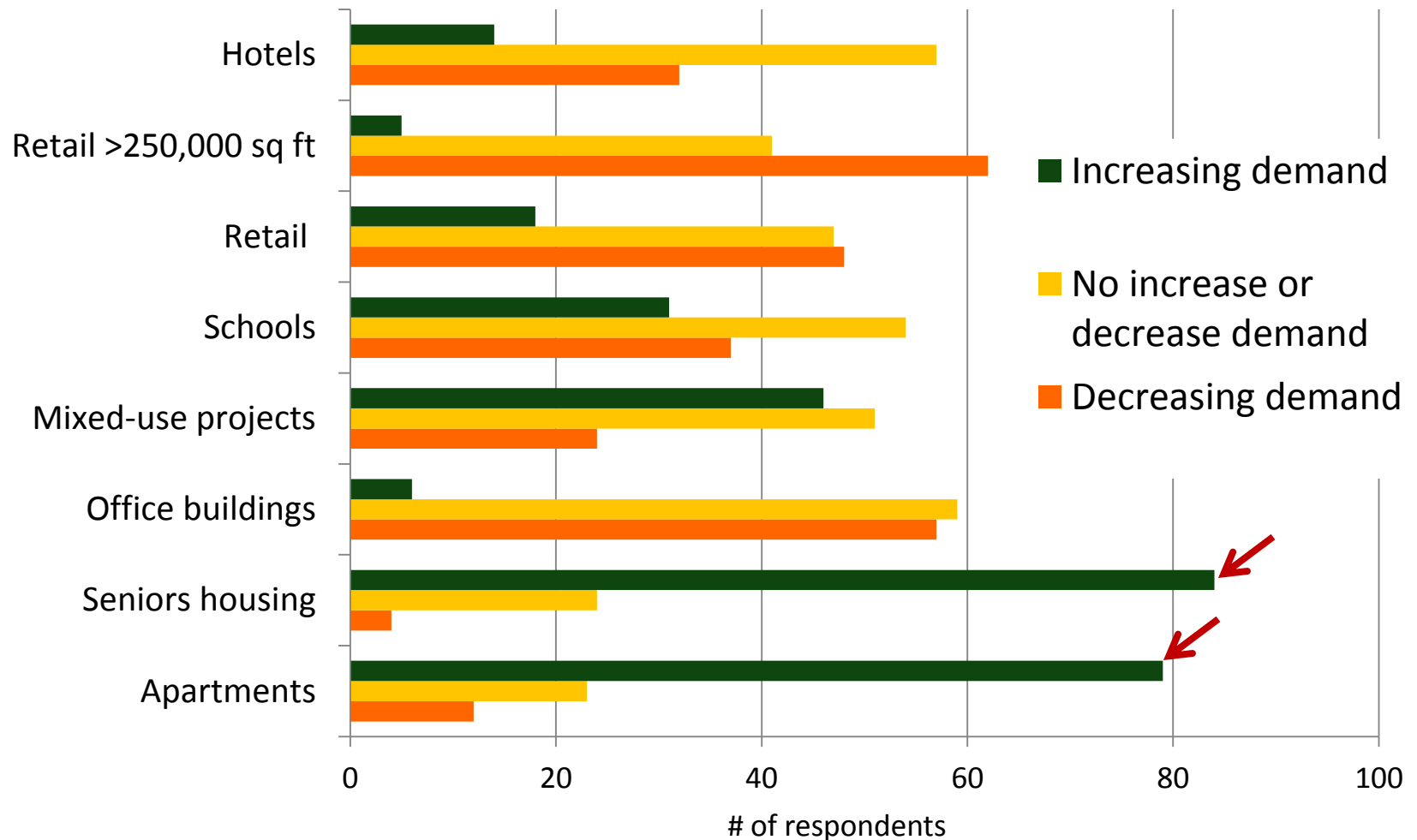
AIA Colorado results



Higher demand for residential services in 2012

AIA Colorado results

Demand for architectural services for the following commercial property types in 2012 vs. 2011:



Other concerns and entries of architects

AIA Colorado results

Yes, the factor is ourselves in the architectural community. Although there is pressure to get commissions due to lack of projects and glut of architects, this should not be a reason to seek the "basement" in establishing fees for services.

The global economy is much more of an influence now and in the future than in the past.

A/E services are getting devalued with the economy tanking.

Availability of loans for those seeking to build is...probably the largest factor in not having more work.

...I believe public funding of construction will be down in 2012 from 2011. It may start to recover by mid-2013...I do not expect a return to the good old days of 2004-06...2012 and beyond will be the new normal.

The reduction in funding for government-sponsored programs such as the State Historical Fund and the Governor's Energy Office.

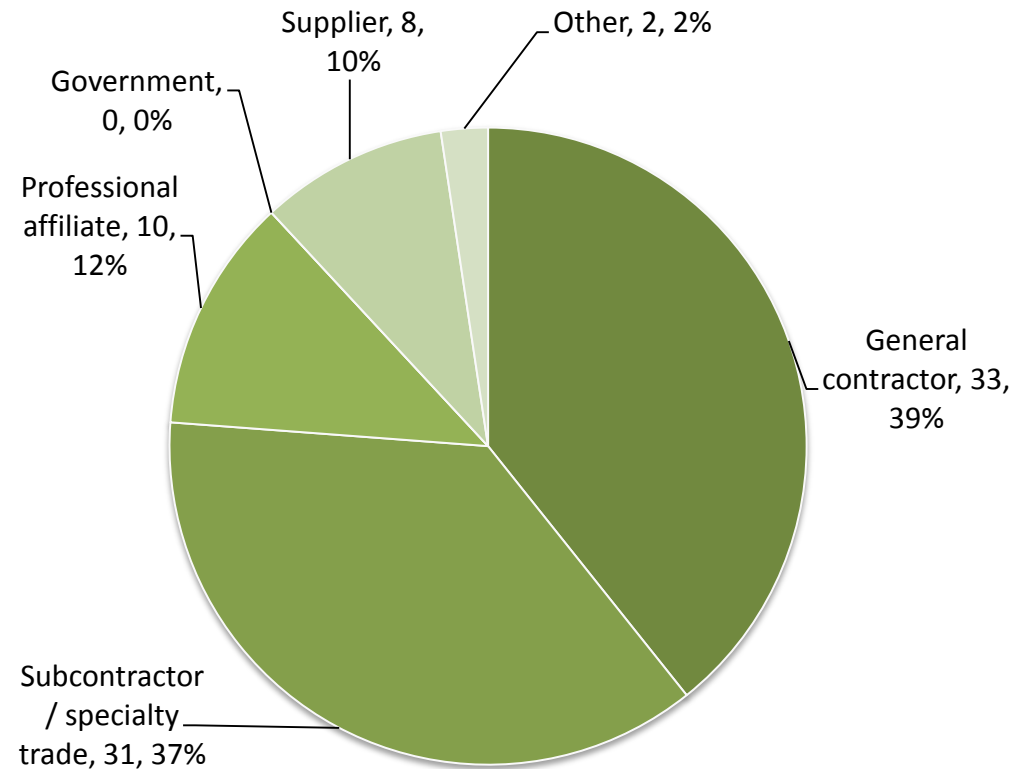
Is there willingness by the public to raise property taxes to fund public projects?

Contractor respondents' profiles

ABC & AGC results

- GC and subcontractor representations
- Majority >10 years
 - Residential and commercial
- Respondents association membership
 - ABC (60)
 - AGC (48)

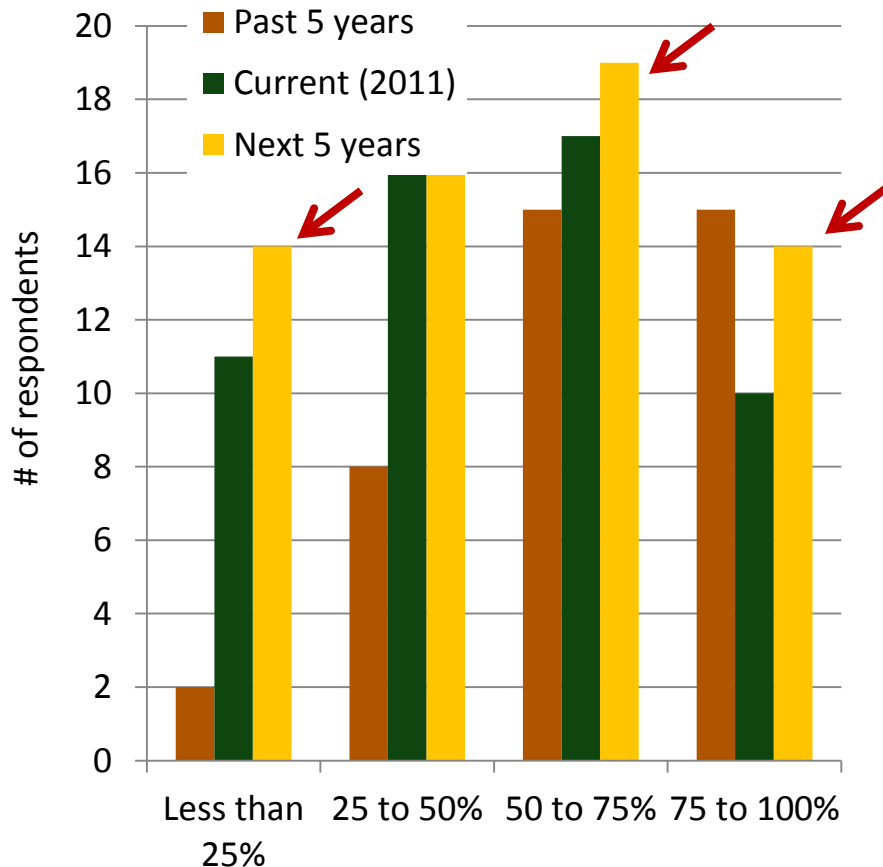
Years Experience	Residential	Commercial
< 1 year	0	0
1 to 5 years	8	3
6 to 10 years	1	5
10+ years	26	76



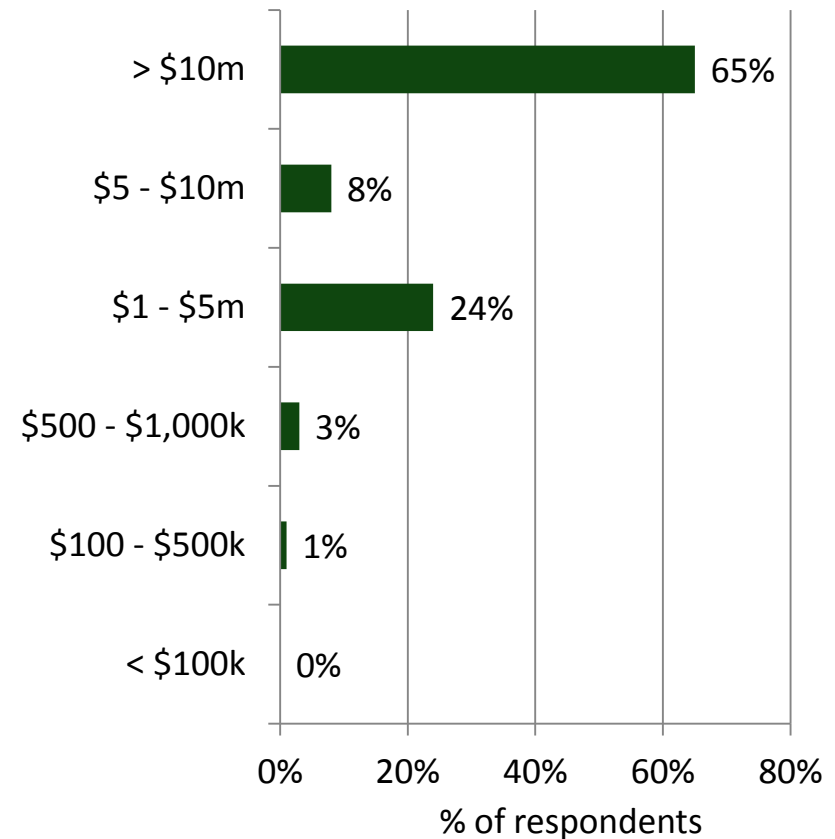
Counting on new development over next five years

ABC & AGC results

New construction projects have accounted, or will account for what percentage of gross billings for the following three periods:



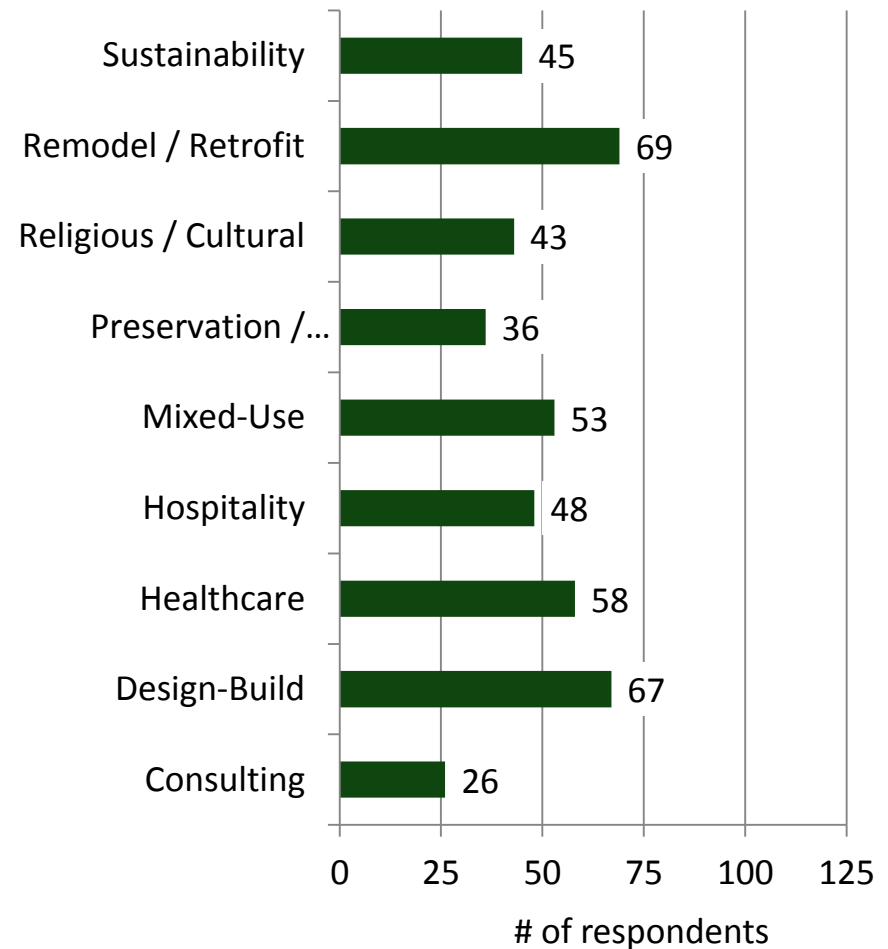
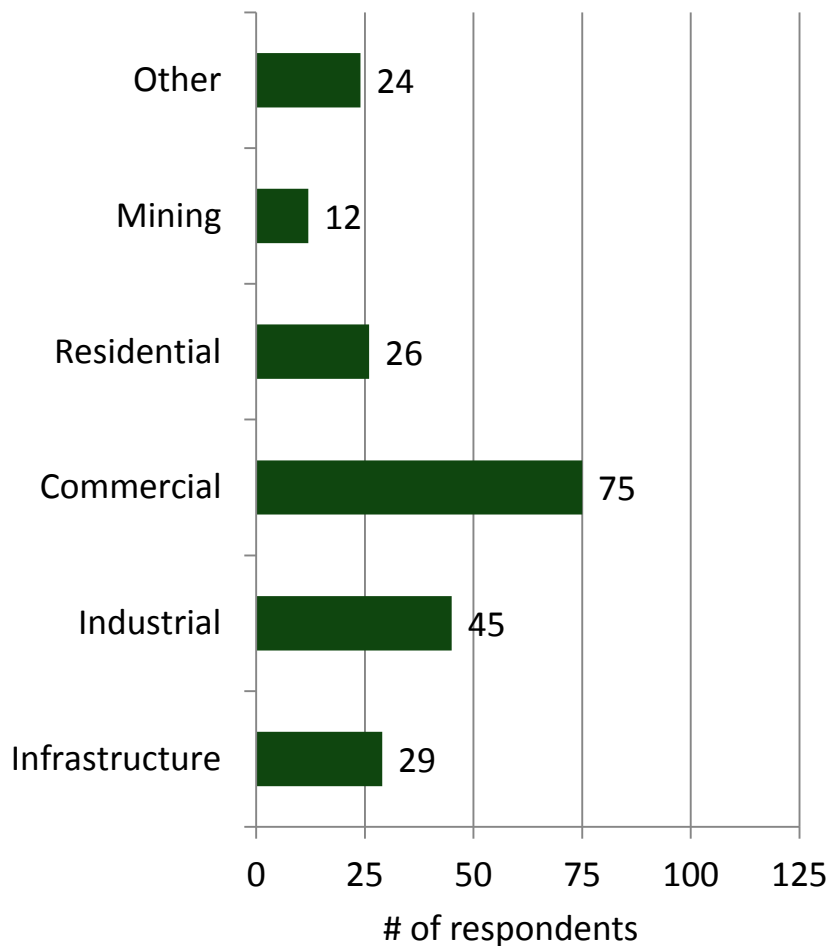
What is the annual revenue for your organization:



Primarily commercial with service mix

ABC & AGC results

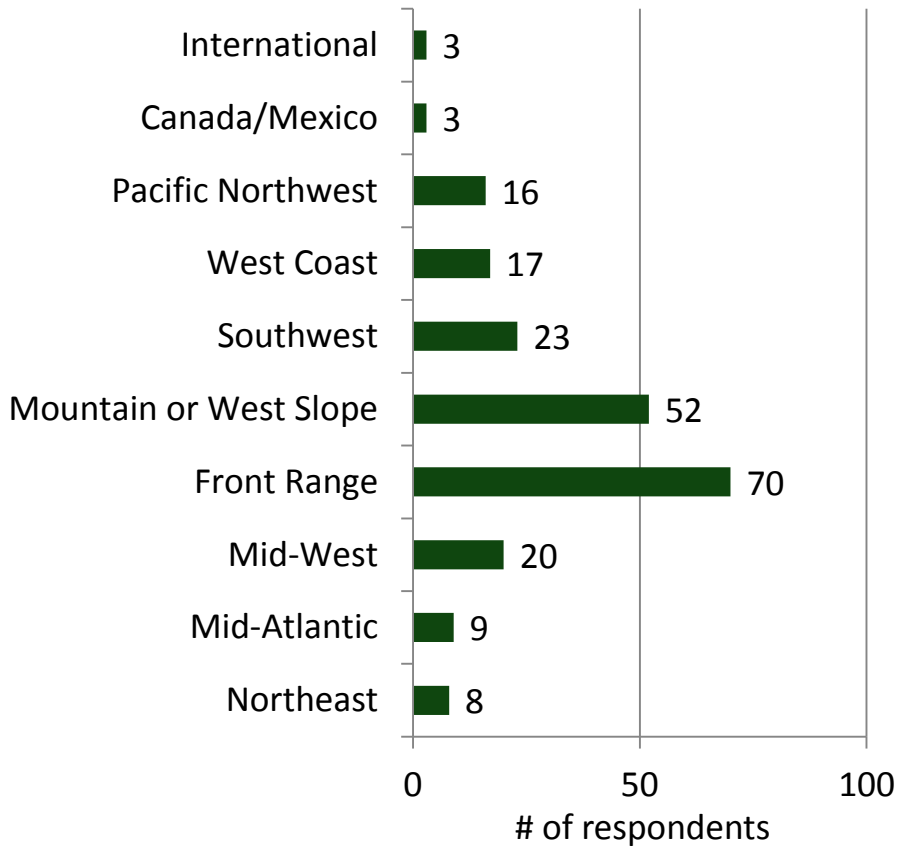
What type of construction services does your firm specialize in (check all that apply):



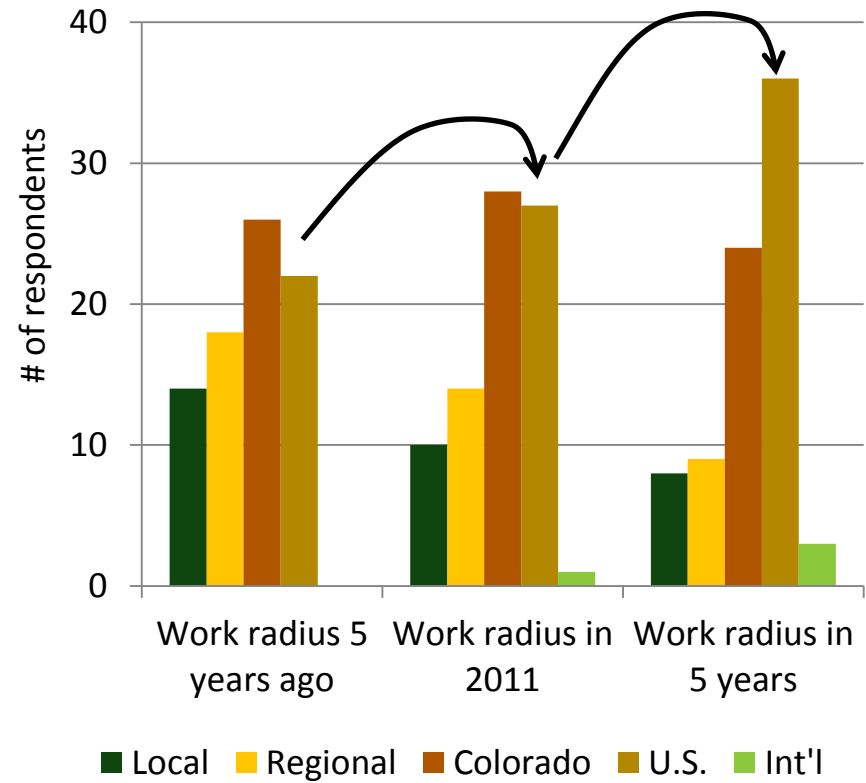
Expanding nationally key trend

ABC & AGC results

Where are your projects over the last 5 years typically located:



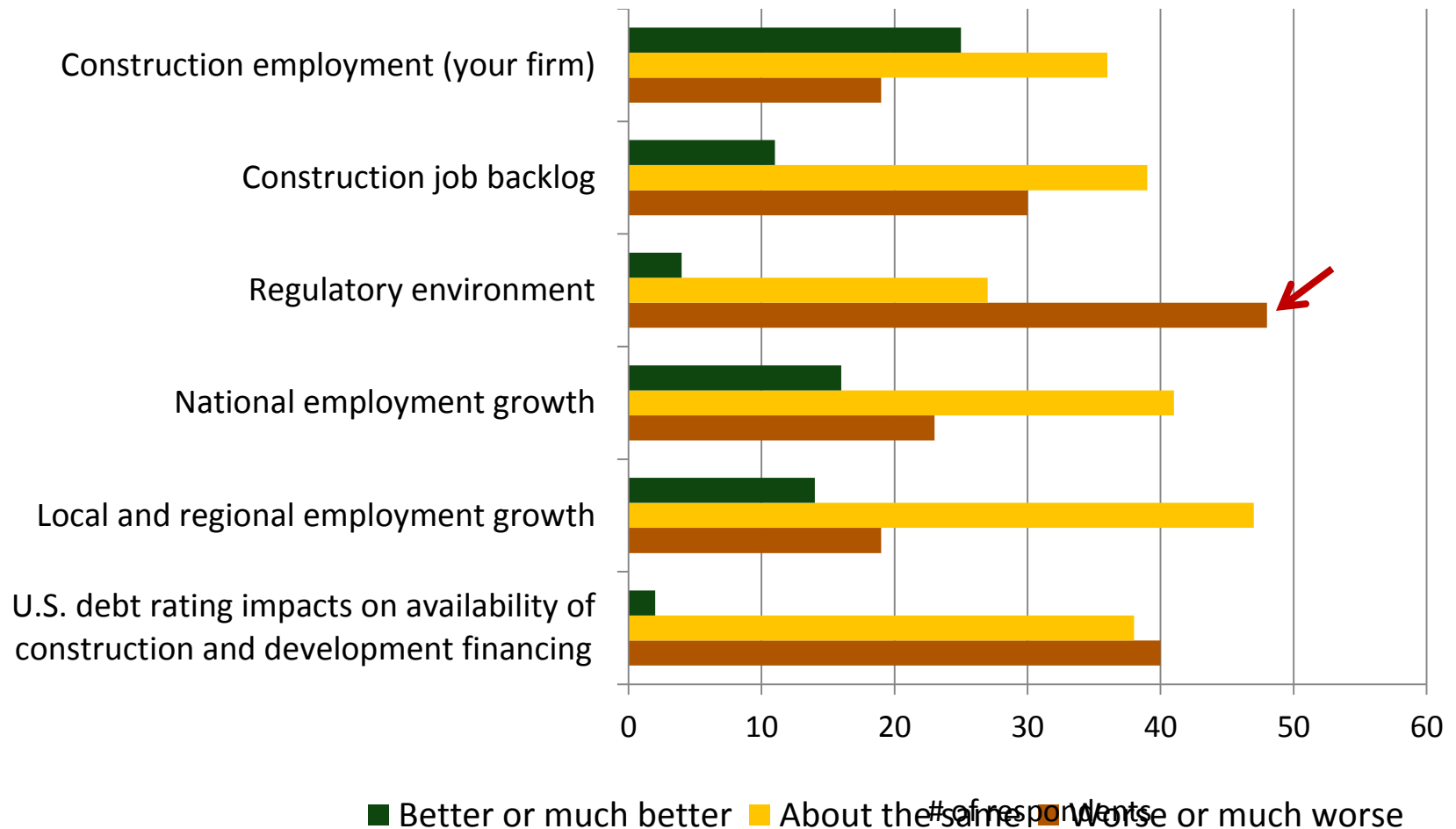
Indicate the areas that accounts for the majority of work for the following 3 periods:



Regulatory concerns; stable job outlooks

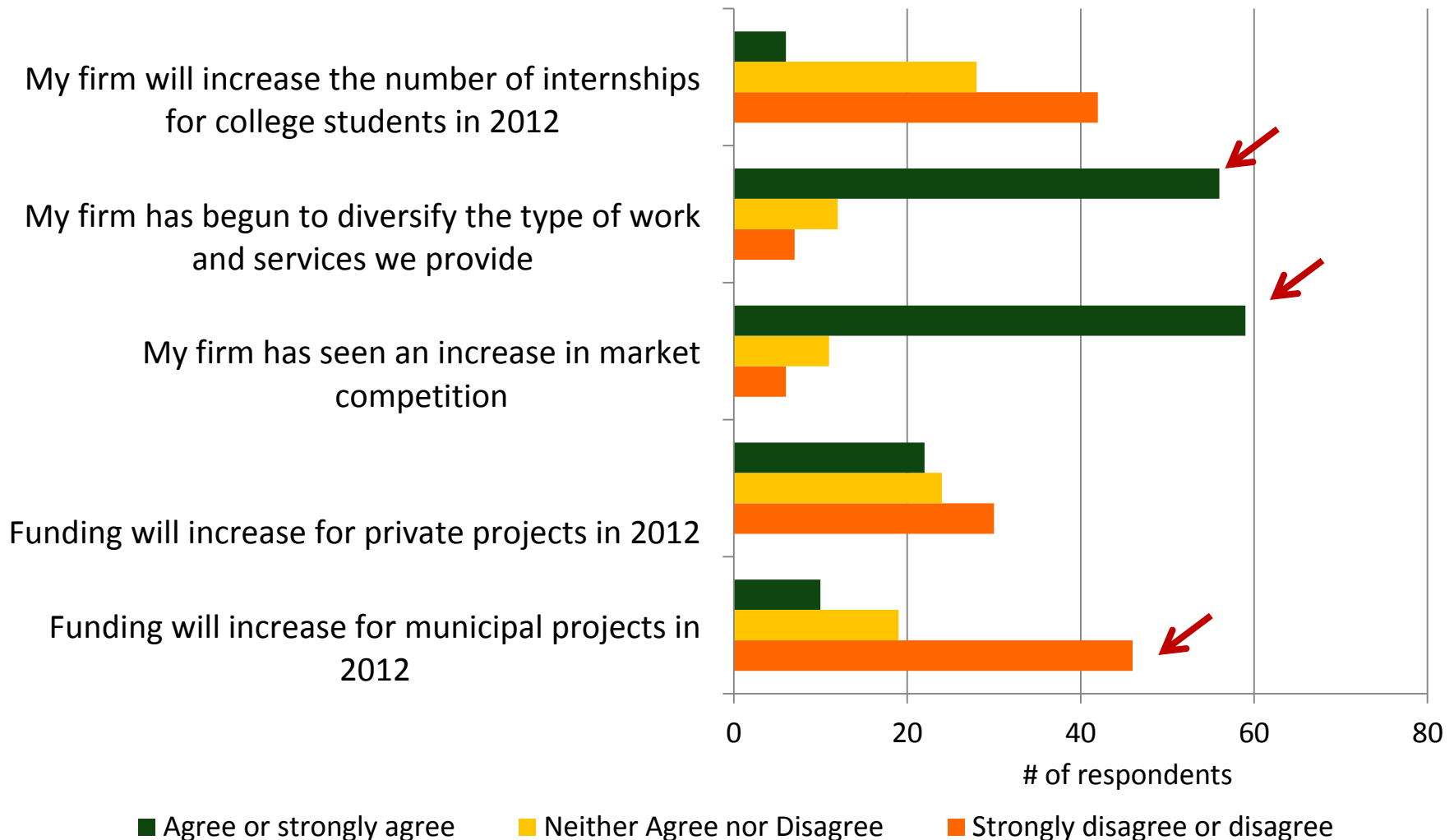
ABC & AGC results

Compared to 2011, what are your expectations for 2012 for the following:



Diversification and increased competition

ABC & AGC results



Other comments by construction respondents

ABC & AGC results

...over regulation and cost of insurance.

A focus should be put on banks...for private projects. The government...will most likely not keep funding the projects we have seen the last 2-3 years.

Banks and governmental regulations are part of the problem. Until money is available, at reasonable rates for new work and for credit lines we are in for a long haul.

Regulations...lack of available money to finance projects

As market opportunities have decreased in the recent past, we have refocused on client relations and job cost efficiencies.

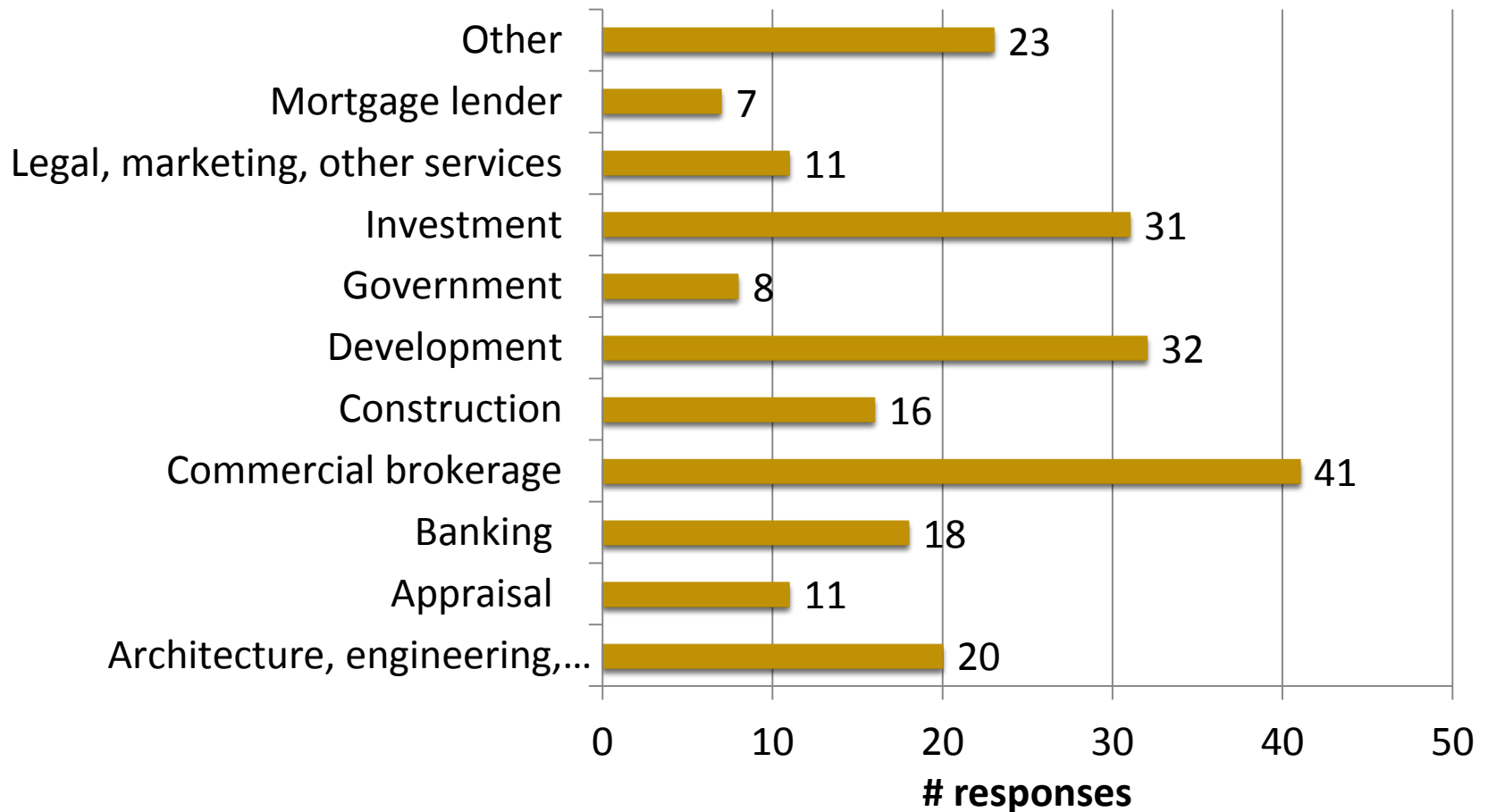
Fuel prices, overall regulatory and political environment, anti-business legislation, taxes, regulation, and labor laws

It seems that many of our competitors take advantage of their employees due to a slow economy driving down the pricing and ultimately the profitability of the projects. As always trying to collect for work performed will become more difficult.

Brokerage, development, and investment sectors dominate

CRE results

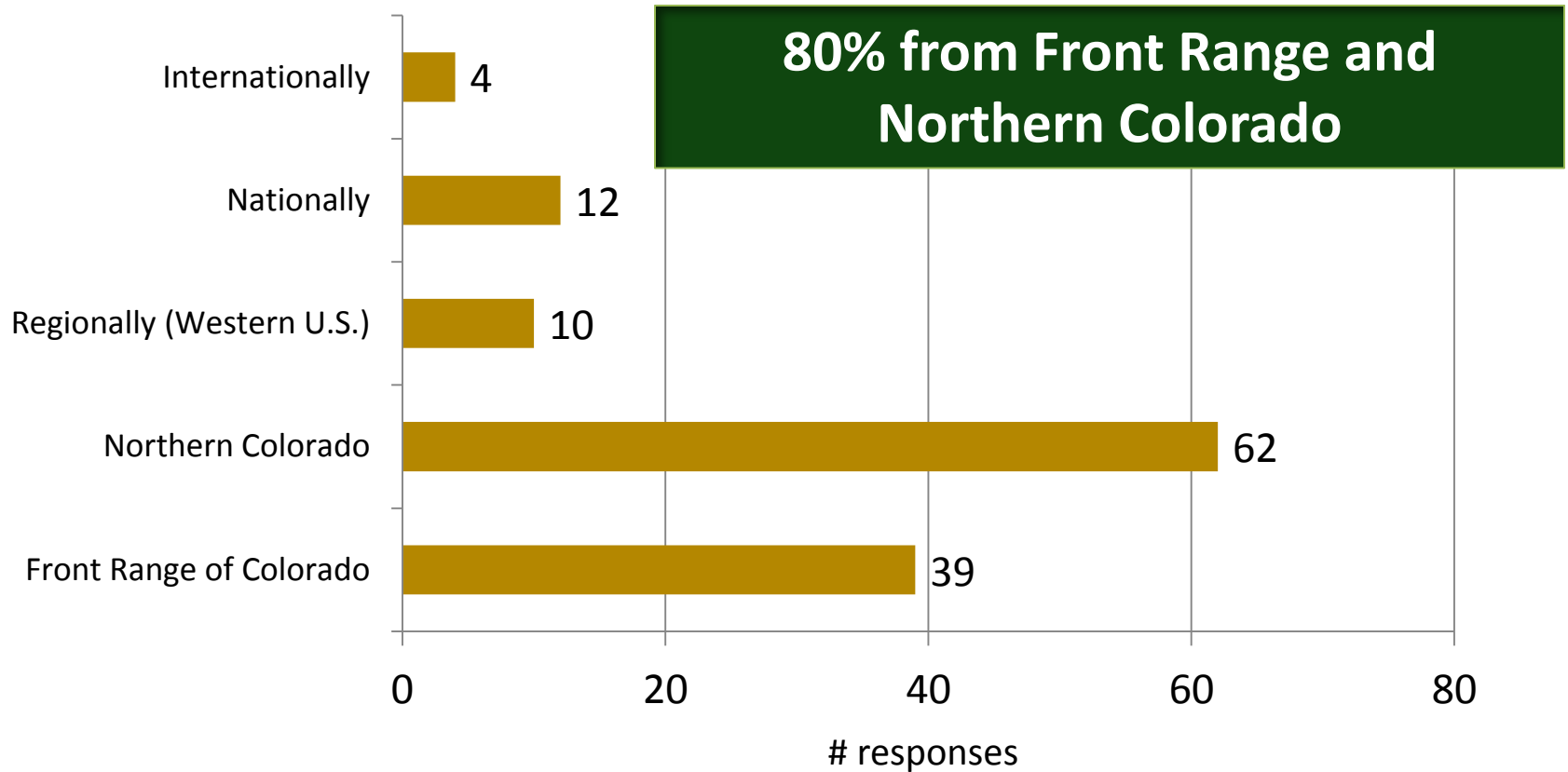
I am engaged in all the following activities (choose as many as needed)



Healthy Northern Colorado representation

CRE results

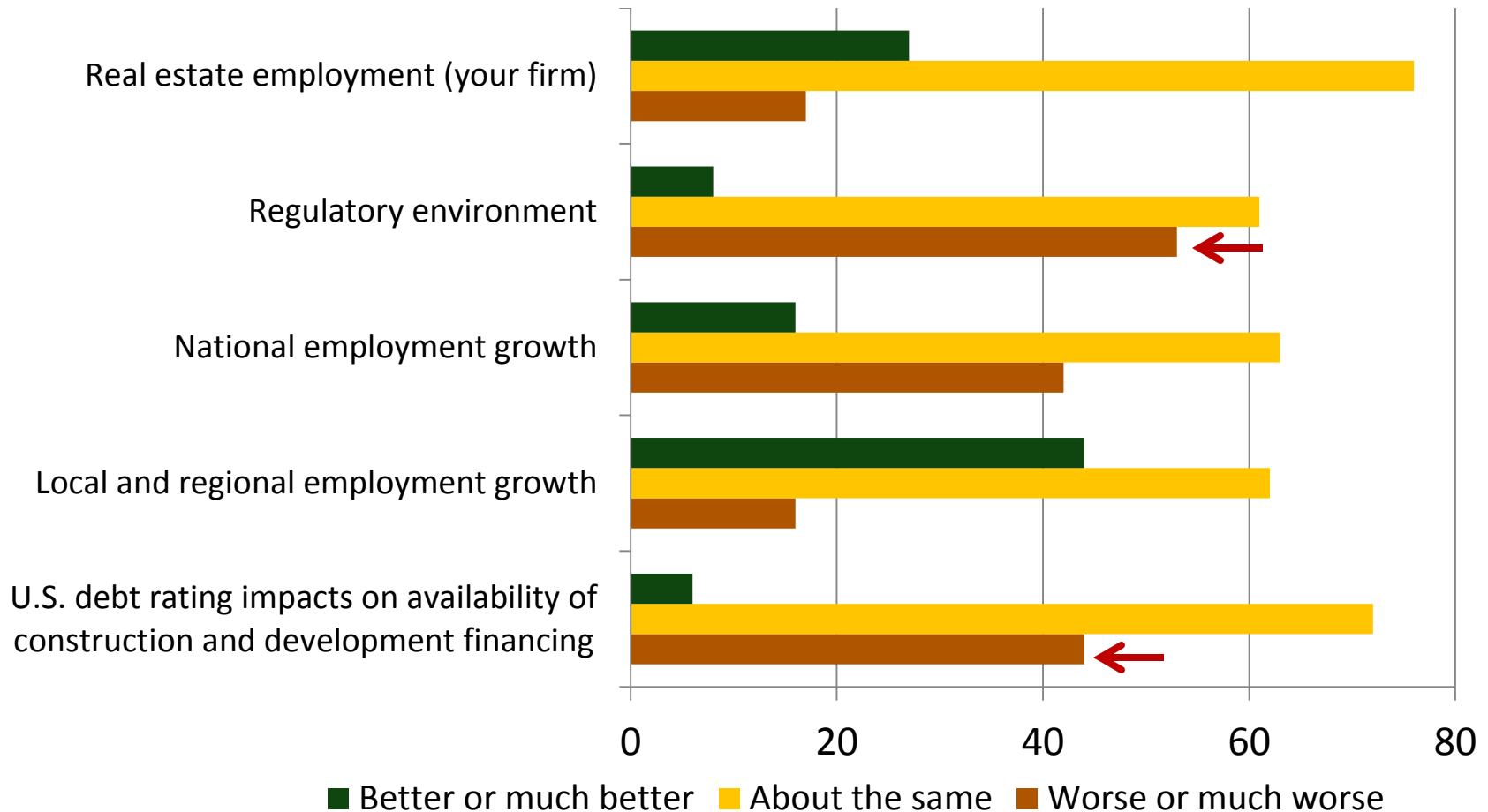
My firm primarily works in the following geographical areas (choose one)



Risks focus on employment, debt, and regulations

CRE results

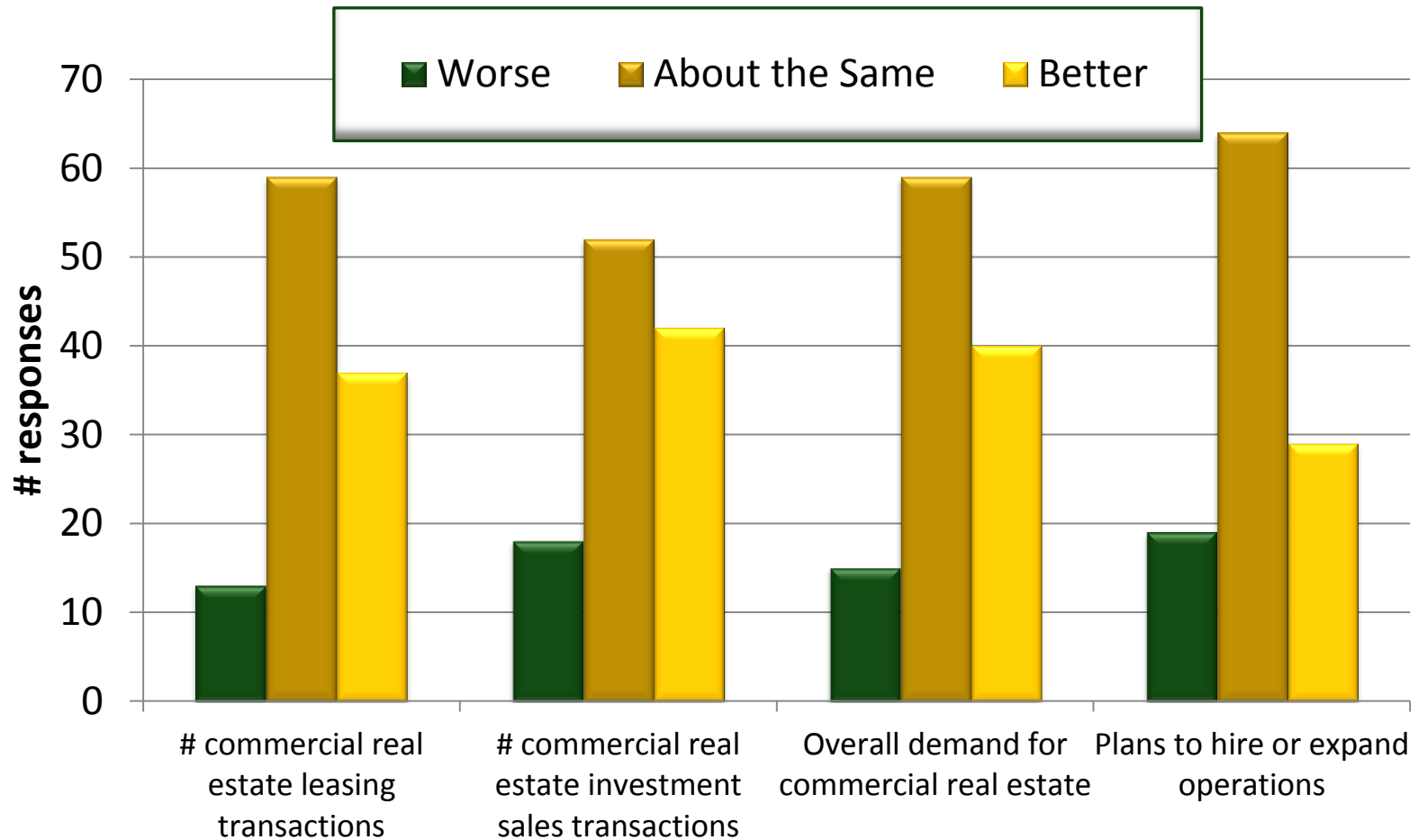
Compared to 2011, what are your expectations for 2012 for the following:



'About the same' consistent theme, 'better' higher than last year

CRE results

Compared to 2011, how do you anticipate changes in 2012 for the following:

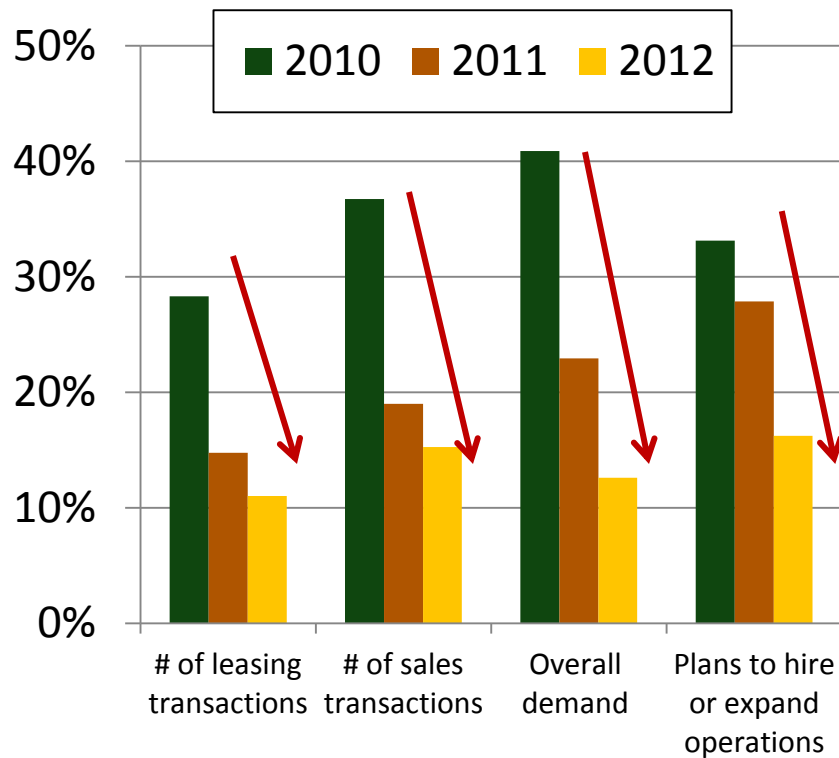


Optimism exists – 2010 vs. 2011 vs. 2012 results

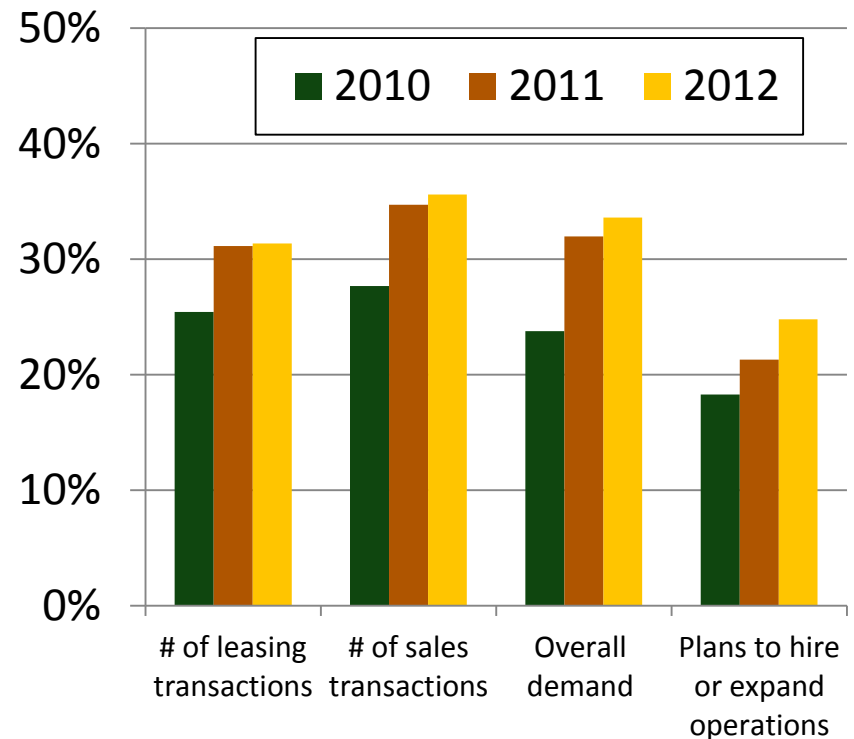
CRE results

How do you anticipate changes for the next year...

% answering 'Worse'



% answering 'Better'

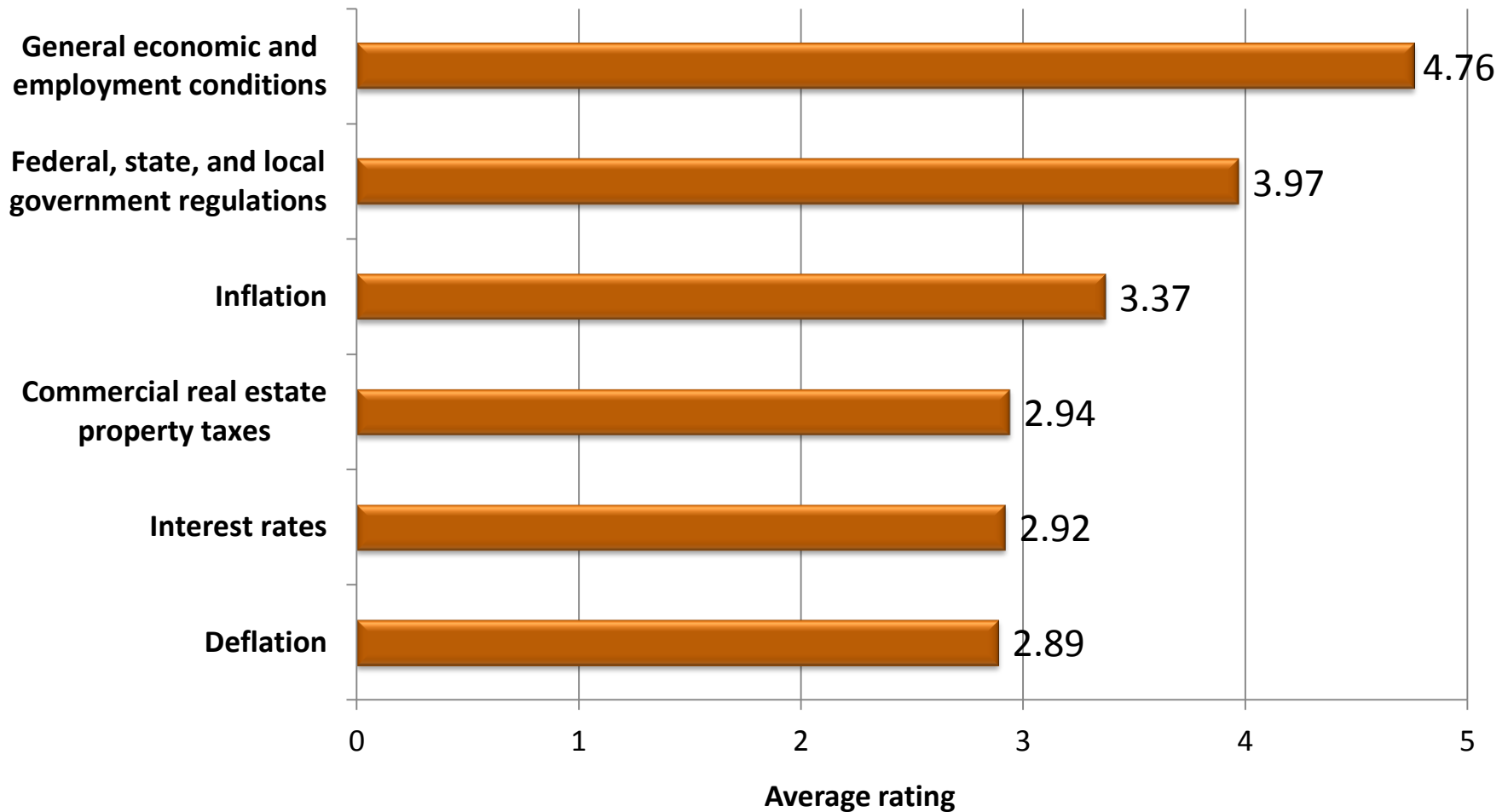


Source: Everitt Real Estate Center, Colorado State University, Northern Colorado Commercial Real Estate 2010 and 2011 Survey

Yet, economic and regulatory risks still rank high

CRE results

Rank the following issues in order of risk for Northern Colorado commercial real estate performance in 2012



Land and construction loans even harder than 2011

CRE results

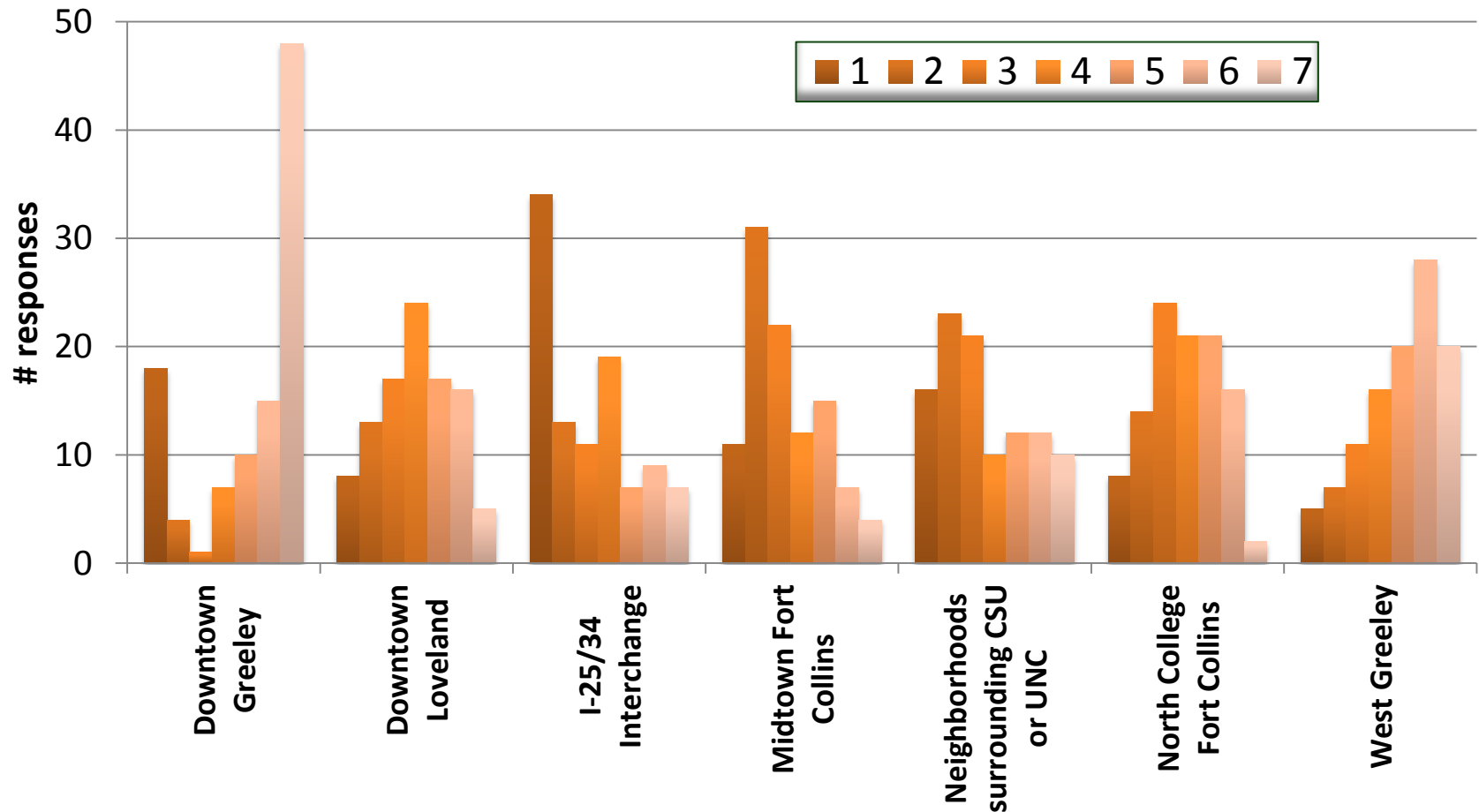
In 2012, will it be harder, easier, or not much change compared to 2011 for Northern Colorado commercial real estate for the following:



I-25/34 still outranks other locations in the region

CRE results

Rank the following locations in terms of successful redevelopment potential over the next five years (1=highest potential, 7=lowest potential)



Midtown Fort Collins moved up in rankings

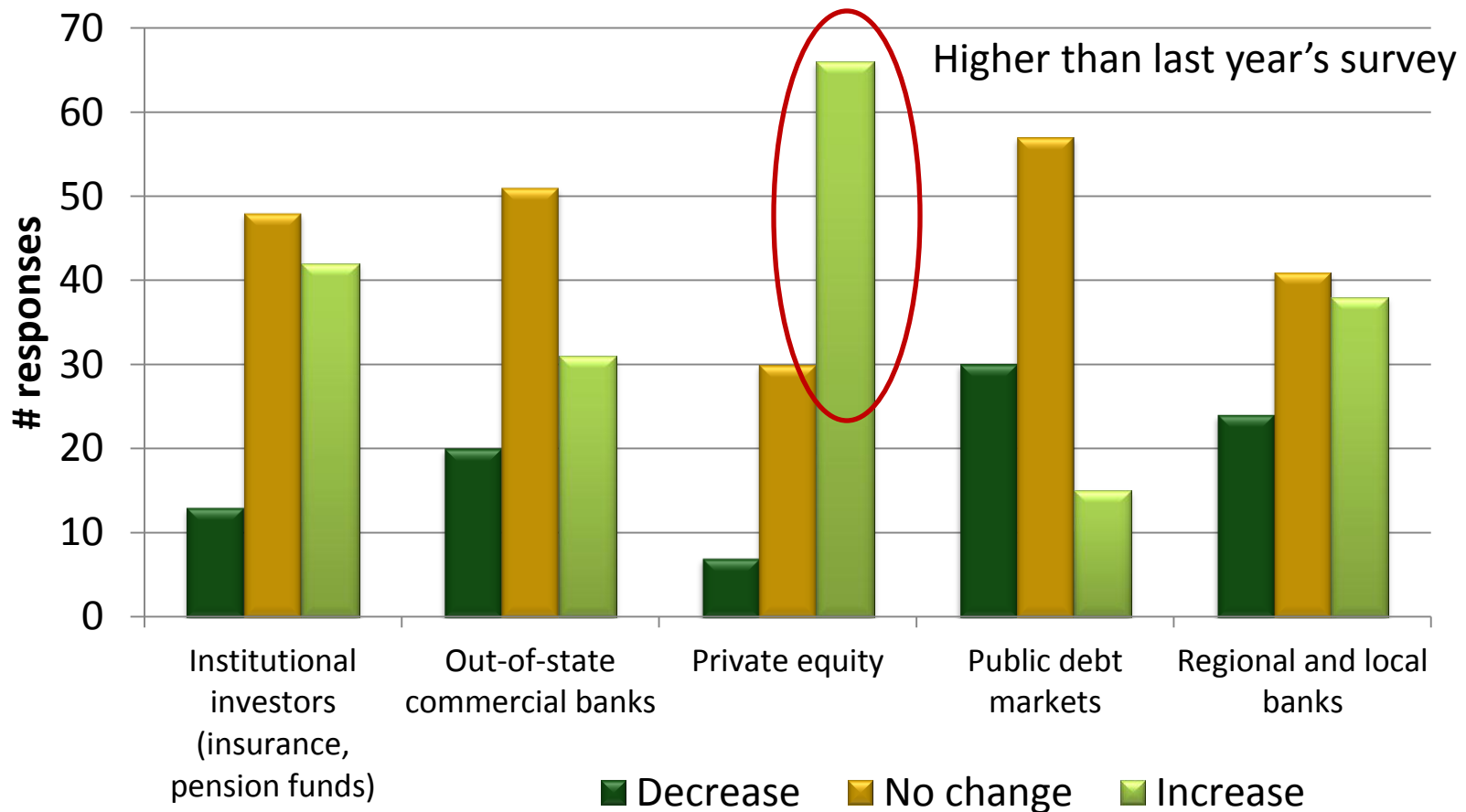
CRE results

Location	2010 Score	2010 Ranking	2011 Score	2011 Ranking
I-25/34 Interchange	3.15	1	3.07	1
Midtown Fort Collins	3.69	3	3.25	2
Neighborhoods surrounding CSU or UNC	3.58	2	3.53	3
North College Fort Collins	3.88	4	3.84	4
Downtown Loveland	4.21	5	3.97	5
West Greeley	4.34	6	4.90	6
Downtown Greeley	4.95	7	5.17	7

Private equity rises in importance from 2010 survey

CRE results

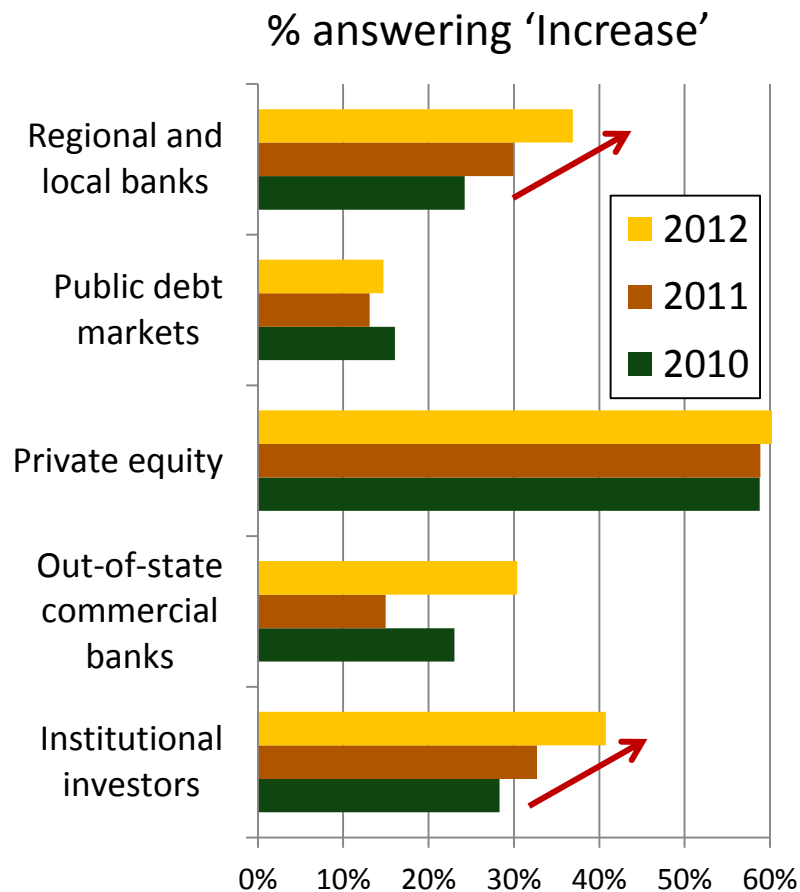
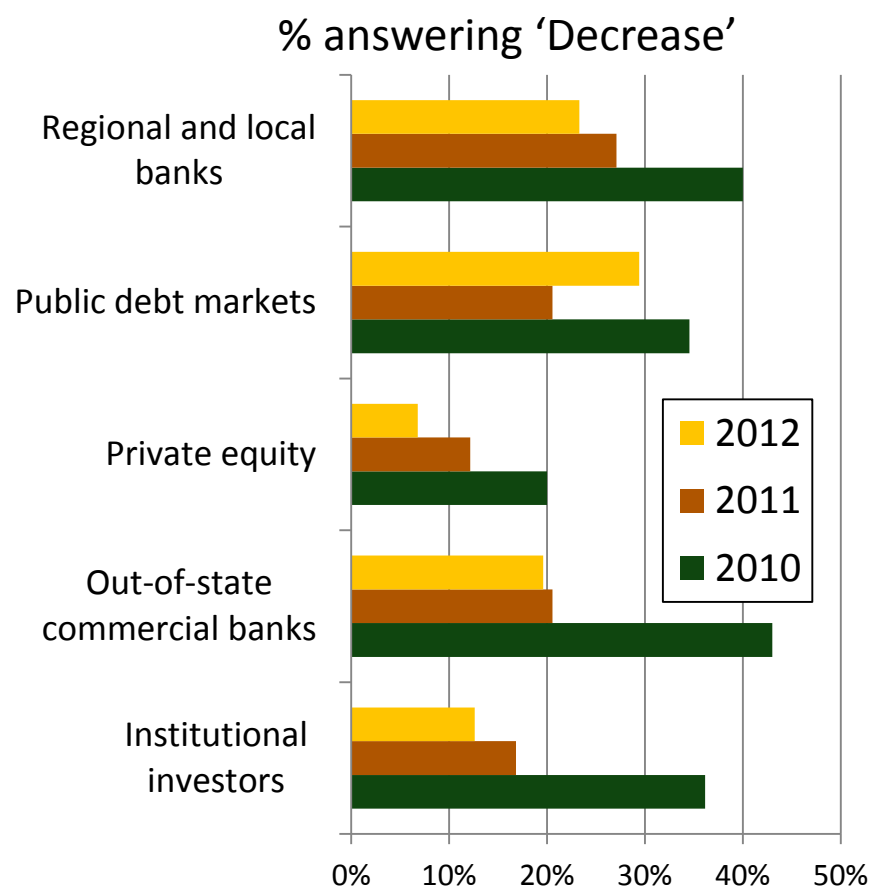
How will capital availability for Northern Colorado commercial real estate properties change in 2012 from the following sources:



Higher expectations for institutional and regional banks

CRE results

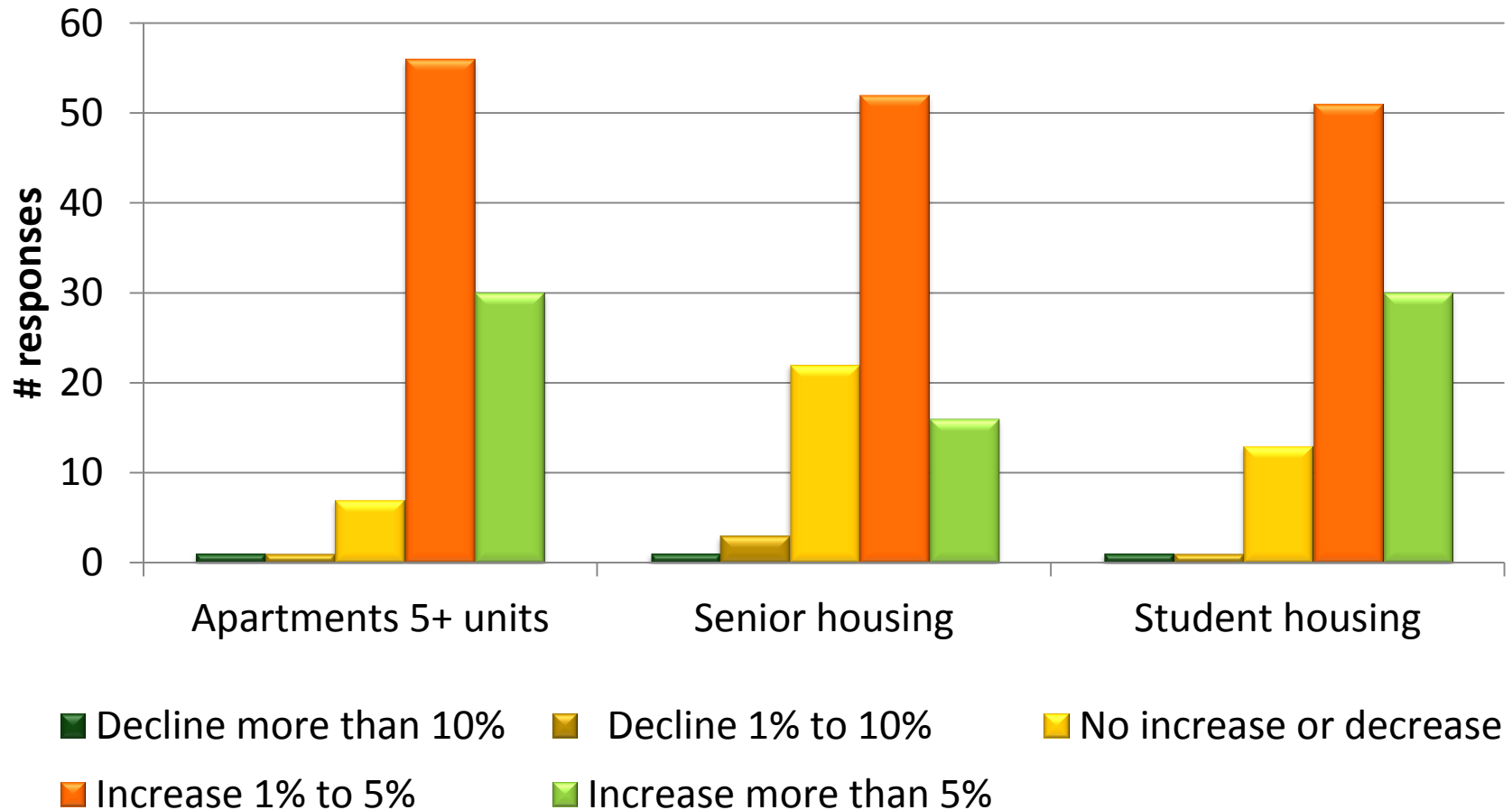
How will capital availability for Northern Colorado commercial real estate properties change in 2011 from the following sources:



Residential sector still favorite in 2012

CRE results

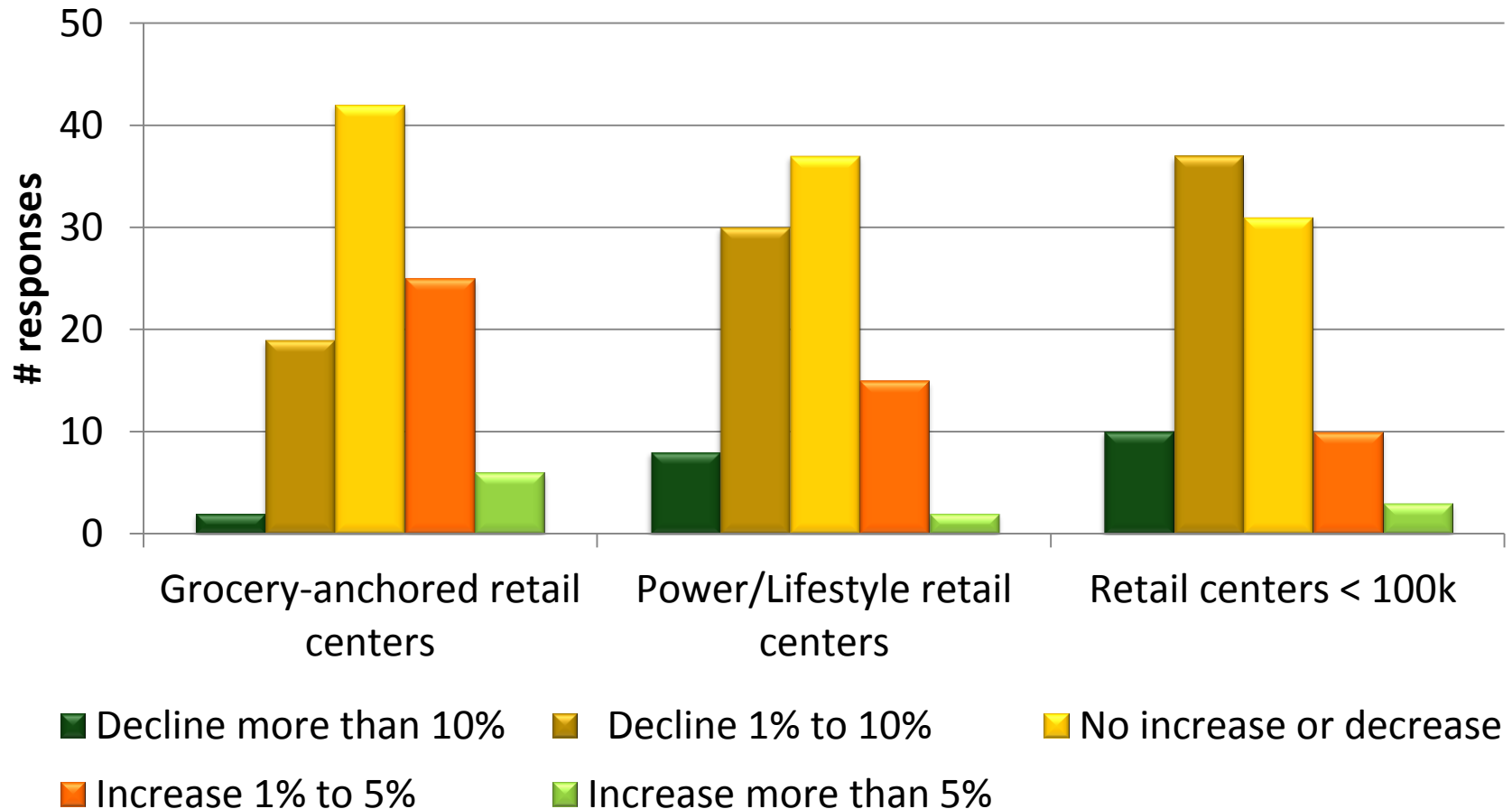
How much will commercial real estate values appreciate in Northern Colorado in 2012 for the following property types:



Retail value risks center in smaller properties

CRE results

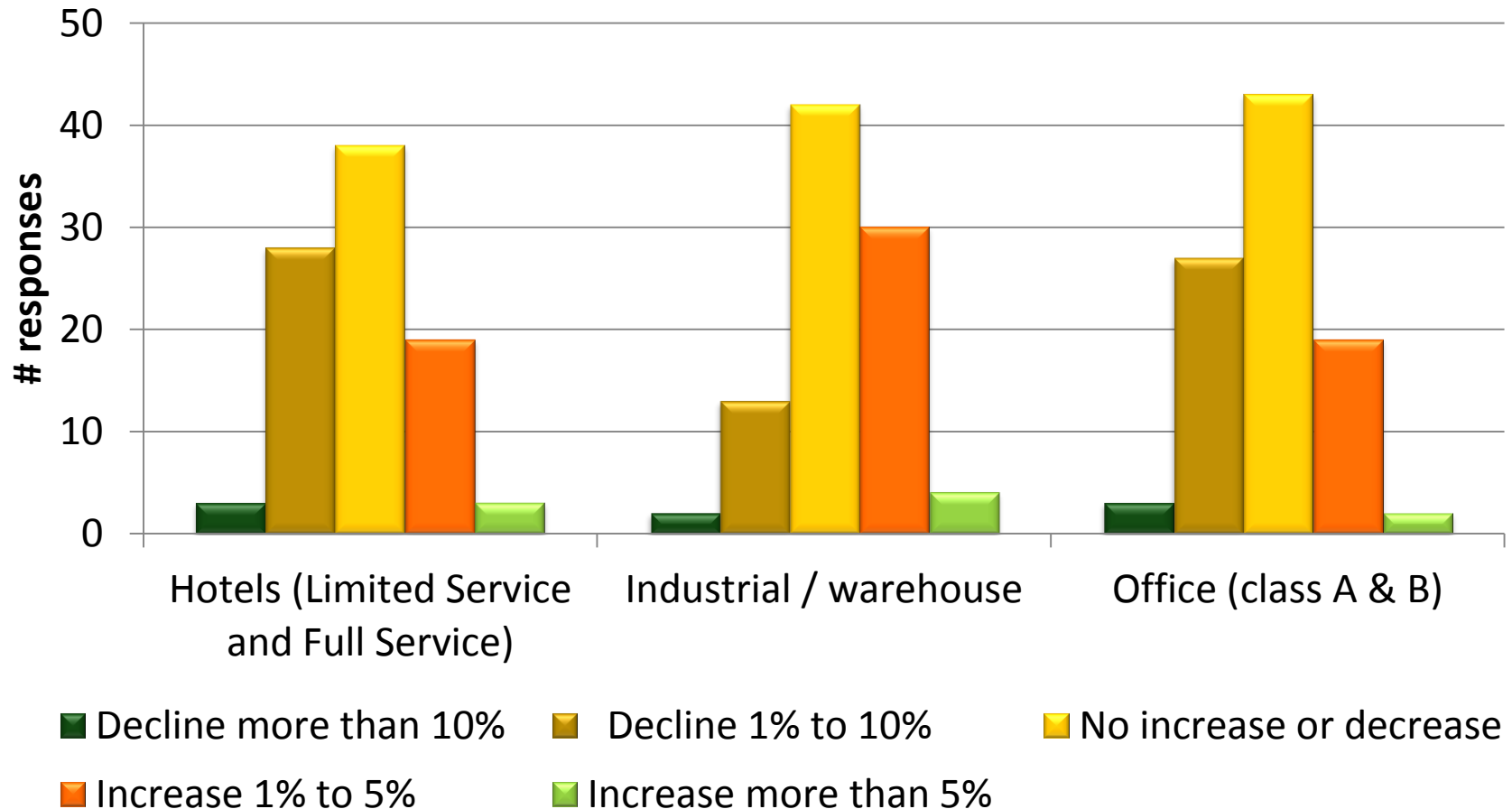
How much will commercial real estate values appreciate in Northern Colorado in 2012 for the following property types:



Industrial scores uptick, others flat for 2011

CRE results

How much will commercial real estate values appreciate in Northern Colorado in 2012 for the following property types:



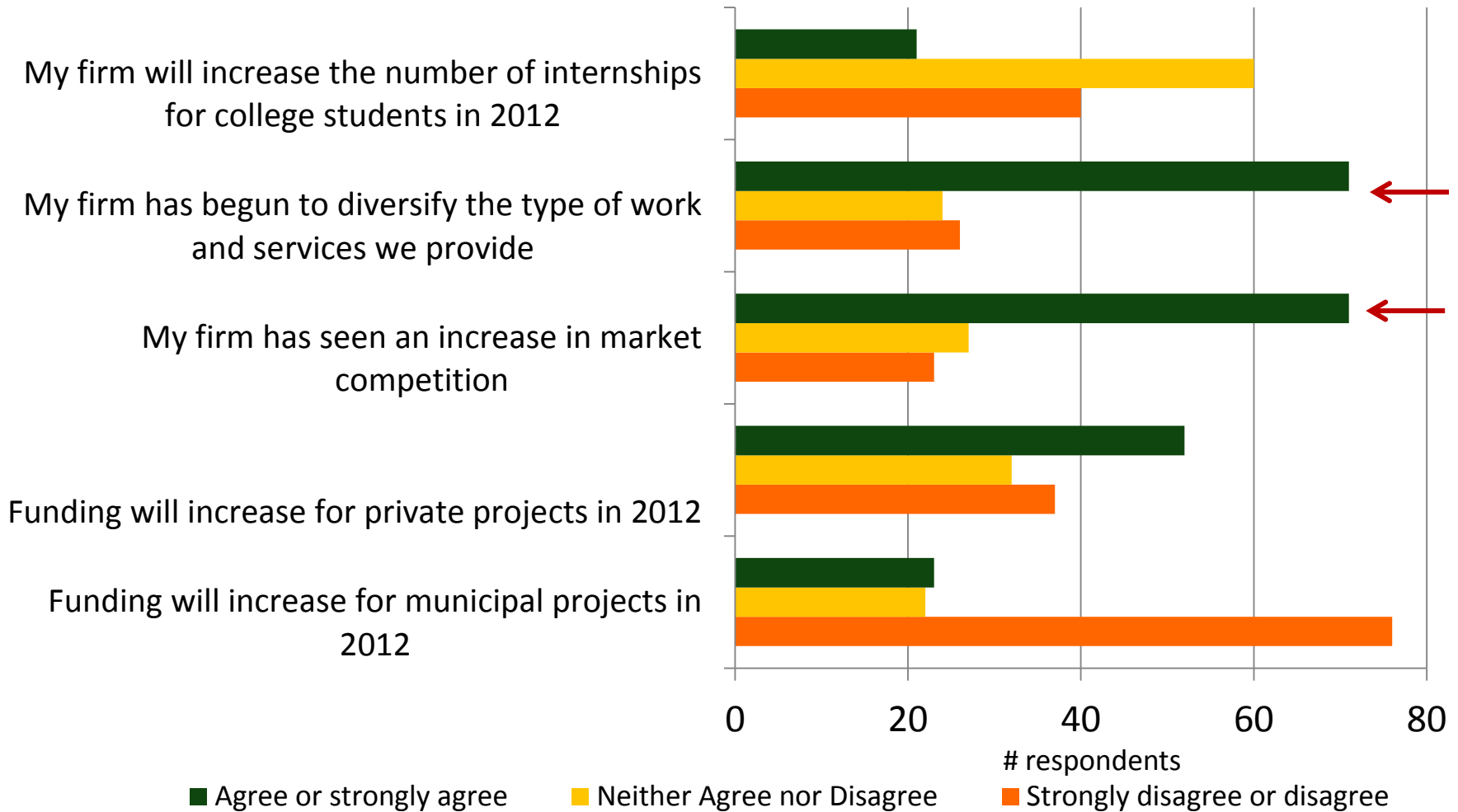
Residential property types rank highest

CRE results

Property type	2010 Score	2010 Ranking	2011 Score	2011 Ranking
Apartments 5+ units	3.83	2	4.33	1
Student housing	3.97	1	4.24	2
Senior housing	3.81	3	4.08	3
Industrial / warehouse	3.16	5	3.53	4
Grocery-anchored retail centers	3.20	4	3.40	5
Hotels (Limited Service and Full Service)	2.93	6	3.26	6
Office (class A & B)	2.69	7	3.17	7
Power/Lifestyle retail centers	2.62	8	3.06	8
Retail centers < 100,000 sq ft	2.60	9	2.92	9

Significant increase in competition

CRE results



Other comments by respondents

CRE results

The CAMT Center in Loveland will be slow to develop. Real Estate Values will be slow to improve which will discourage investment. Apartments will become overbuilt. The International Economy will be a problem. Northern Colorado has a high percentage of government employment which will be heavily impacted on the pressure to cut spending.

Simply put it may get worse again before it gets better based on today's activity.

I'd love to see a cohesive movement for Northern Colorado citizens to put their capital to work in Northern Colorado instead of on Wall Street. Our markets need capital, and we can take that capital in from outside the area as we develop, or we can take our citizenry's capital that is currently outside the area and reinvest it here.

At the national level, recession will return which will impact NoCo negatively and positively. The general mood will be affected while international and national players will see decreased activity and local economic spin-off effects. On the positive side, it will feel less traumatic as the most recent cycle while the strongest players accumulated liquidity. That will allow the most nimble to seek out the strongest markets for investment, which puts NoCo in a very enviable position.

Political instability is continuing to stagnate the economy. Government can not provide the answer as it is the problem. With next year's presidential election pending, we will remain in limbo. Once that is past, hopefully, we will see some better, more consistent, economic policies out of Washington.

The instability of global economic conditions and the ... stock market. Also the lack of confidence in the President and Congress or politicians in general

Hunting for demand in 2012

More than wishful optimism

The explosion in news and information outlets is exponentially growing including venues associated with the architects, contractors, and commercial real estate sectors. But which outlets do you, do we trust as an industry? A morning newspaper can quickly depress us with an economic headline, and later that day we get a Facebook post of a story that quickens our heart with a glimpse of good news.

Election years apparently provide a catalyst for a wide variety of 'experts' on the economy, jobs, interest rates, and capital markets – all critical factors that drive growth for the built environment. No doubt we will hear conflicting stories over the next year that challenge long-established and successful business strategies. Bottoms will be called, recovery statements will abound; but four weeks or two quarters do not make a trend nor a cycle in a business where buildings and infrastructure can last decades if not centuries.

As future months and quarters enter the history books, it is imperative to periodically double-check facts, seek out the '*truth*' concerning anecdotal stories of new developments, assess realistic and sustainable financing behind current projects, and question the wisdom of the crowds expressed at industry conferences and even research reports such as this one. What am I missing, not seeing, or where do I need to connect the dots?

We wish you success in the year to come and eagerly await tapping into the mind of the market next year.



Source: NASA Jet Propulsion Laboratory