

**DATE:** 9 December, 2008

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## **Commercial Real Estate Market to Hit Bottom in 2009, Finds Emerging Trends in Real Estate® 2009 Report from the Urban Land Institute and PricewaterhouseCoopers**

### **Industry Participants See No Quick Fix and Few Bright Spots Ahead**

Real estate industry investors and professionals expect financial and real estate markets in the United States to bottom in 2009 and flounder for much of 2010, with ongoing drops in property values, more foreclosures and delinquencies, and a limping economy that will continue to crimp property cash flows, according to the *Emerging Trends in Real Estate® 2009* report, released today by the Urban Land Institute (ULI) and PricewaterhouseCoopers LLP.

In what is a gloomy picture for 2009, there will be a few familiar messages in the report for investors and developers in the Slovak and CEE real estate markets, with the expectation of a “flight to quality” and an increased “focus on asset management and leasing strategies”. The market is expected to improve, but the outlook is still far from bright, in 2010.

“Commercial real estate in the United States faces its worst year since the wrenching 1991-1992 industry depression,” conclude industry experts interviewed for the report, which projects losses of 15 percent to 20 percent in real estate values from the mid-2007 peak. “Only when property financing gets restructured will pricing recorrect so we can find the floor; and this transition could wipe out companies and people,” says one respondent interviewed for the report.

Now in its 30<sup>th</sup> year, *Emerging Trends* is the oldest, most highly regarded annual industry outlook for the real estate and land use industry and includes interviews and survey responses from more than 600 leading real estate experts, including investors, developers, property company representatives, lenders, brokers and consultants.

In general, interviewees believe that financial institutions will continue to be pressured into moving bad loans off balance sheets, using auctions to speed up the process. Investors will be discouraged until the “bloodletting” is over, states the report. When that occurs, cash and low-leverage buyers will be “king”, surviving banks will impose strict lending guidelines; commercial mortgage-backed securities will revive, but in a more regulated form; and opportunity funds will need new investment models.

“The industry is facing multiple disconnects,” said ULI Senior Resident Fellow for Real Estate Finance Stephen Blank. “Many property owners are drowning in debt, lenders are not lending, and for many industry professionals, property income flows are declining. There is an unprecedented avoidance of risk. Only when financing gets restructured will pricing reconcile, giving the industry a point from which to start digging out of this hole.”

“The cyclical real estate markets always come back, and they will this time too, but not anytime soon,” said Tim Conlon, partner and U.S. real estate sector leader, PricewaterhouseCoopers. Smart investors are going to hunker down and manage through these tough times. We expect to see patient, disciplined, long-term investors rewarded, and return to a back to basics approach to property management, underwriting and deal structure.”

The report acknowledges that commercial markets will recover more quickly than most housing markets, and homebuilders may have to sell land tracts for “cents on the dollar” or face foreclosure on their holdings, adding to the already high rate of mortgage defaults and foreclosures.

Interviewees agreed that eventually, savvy investors will be able to cash in on the inevitable recovery, which some see occurring as early as 2010. “Money will be made on riding markets back to recovery and releasing properties, not on...financing structures,” finds the report.

*Emerging Trends* indicates that the following need to happen before a rebound can occur:

- Private real estate markets need to correct – lenders must force distressed owners to become motivated sellers.
- Debt capital needs to flow – lenders will need to learn to deal in a more stringent regulatory landscape. The commercial mortgage-backed securities (CMBS) market must “reformulate.”
- Regulators need to restore confidence in the securities market. The government will insert itself into overseeing mortgage securitization markets. Systemic overhaul promises more measured debt flow.
- The US economy needs to improve. Falling demand for space won’t affect real estate markets severely until 2009.

The report’s suggestions for managing through 2009:

- Investors should sit tight. Opportunities will surface at significant discounts.
- Buy discounted loans.
- Recap distressed borrowers – invest in maturity defaults, construction loans/bridge loans, or take mezzanine positions and equity stakes in properties.

- Invest in publicly-held real estate investment trusts (REITs) – they will lead the market’s recovery.
- Staff up asset managers, leasing pros and workout specialists. Separate good assets from bad.
- Retrench on development and reorient to mixed-use and infill. Higher-density residential with retail will gain favor in next round of building.
- Go green – cutting energy expenses is likely to be a priority.
- Buy or hold multi-family; hold office; hold hotels; buy residential building lots, but be prepared to hold.

Among property sectors most promising for investment, apartments take top position in the report, with distribution/warehouse coming in second. Downtown office space is expected to outperform suburban markets. Retail development, notes the report, is generally near the bottom, but has farther to go, while the housing industry faces more foreclosures and no rebound in values for 2009.

“The impact of the global liquidity crisis will continue to be felt on the Slovak and other CEE markets. Financial institutions need to rediscover their confidence in each other in order to kick-start global recovery. It will be interesting to see if local markets in CEE, many of which currently have stronger fundamentals and a lower perceived risk of an occupier crisis, can recover more quickly than those in the US,” said **Clare Moger**, PwC Slovakia’s real estate leader.

**END**

A copy of *Emerging Trends in Real Estate*® 2009 is available at [www.uli.org/emergingtrends](http://www.uli.org/emergingtrends) or [www.pwc.com/imre](http://www.pwc.com/imre).

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#### **About the Urban Land Institute**

The Urban Land Institute ([www.uli.org](http://www.uli.org)) is a nonprofit education and research institute supported by its members. Its mission is to provide leadership in the responsible use of land and in sustaining and creating thriving communities worldwide. Established in 1936, the Institute has more than 40,000 members representing all aspects of land use and development disciplines.

#### **About PricewaterhouseCoopers**

PricewaterhouseCoopers ([www.pwc.com](http://www.pwc.com)) provides industry-focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 155,000 people in 153 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

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