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Supply

– The new supply of space was down in 2006 and 2007 and the forecast is for moderate supply growth – well below the long-term average

Source: Property & Portfolio Research & Dividend Capital Research.
Occupancy Cycle and Rent Growth

Source: Property and Portfolio Research, Grubb & Ellis, Mueller 2008.
Occupancy Cycle and Rent Growth

Office

Source: Property and Portfolio Research, Grubb & Ellis, Mueller 2010.
Office Market Cycle FORECAST

3rd Quarter, 2010 Estimates

Source: Mueller, 2009
Occupancy Cycle and Rent Growth

Industrial

Source: Property and Portfolio Research, Grubb & Ellis, Mueller 2008.
Occupancy Cycle and Rent Growth

Industrial

Source: Property and Portfolio Research, Grubb & Ellis, Mueller 2010.
Industrial Market Cycle FORECAST

3rd Quarter, 2010 Estimates

Source: Mueller, 2009
Occupancy Cycle and Rent Growth

Source: Property and Portfolio Research, Grubb & Ellis, Mueller 2008.
Occupancy Cycle and Rent Growth

*Apartment*

Source: Property and Portfolio Research, Grubb & Ellis, Mueller 2008.
Apartment Market Cycle FORECAST
3rd Quarter, 2010 Estimates

LT Average Occupancy

Source: Mueller, 2009
Occupancy Cycle and Rent Growth

Source: Property and Portfolio Research, Grubb & Ellis, Mueller 2008.
Occupancy Cycle and Rent Growth

Source: Property and Portfolio Research, Grubb & Ellis, Mueller 2008.
Retail Market Cycle FORECAST

3rd Quarter, 2010 Estimates

Source: Mueller, 2009
Occupancy Cycle and Rent Growth

Hotel

Source: Property and Portfolio Research, Grubb & Ellis, Mueller 2008.
Occupancy Cycle and Rent Growth

Hotel

Source: Property and Portfolio Research, Grubb & Ellis, Mueller 2008.
Hotel Market Cycle FORECAST
3rd Quarter, 2010 Estimates

Source: Mueller, 2009
Real Estate

Financial Cycles

Capital Flows

Affect Prices
Property Price Movements

Historic Cap Rates

- 8.5 Office - CBD
- 8.9 Office - suburban
- 8.5 Industrial - Warehouse
- 9.0 Industrial - R&D
- 8.0 Apartments

Source: Real Estate Research Corporation - Chicago
Historic Cap Rates

- 10.2 Hotels
- 7.9 Regional Mall
- 8.9 Power Center
- 8.7 Neighborhood Comm.

Source: Real Estate Research Corporation - Chicago
Pricing

Average Cap Rates

Source: Real Capital Analytics, 2009.
Model Near-Term Maturities ($bn)

- CMBS Loan Balances at Maturity
- Life Insurance Loan Balances at Maturity
- Commercial Bank Loan Balances at Maturity
2010 Physical Cycle

- Demand & supply affect occupancies → *drives* rental growth
- GDP growth resumed 3Q2009? Employment resumes mid 2010?
- Demand growth resumes mid 2010?
  - Home building employment less than 2% of all U.S. labor
- Supply *very* slow — *balanced* absorption

2010 Financial Cycle

- Capital flows affect prices — stock market *fear*?
- Real estate *safest* investment alternative 2000-2007?
- Real estate price drops in 2008, 2009 present buying opportunity!
- **BUT** - Debt financing hard in 2009/10 creating buying opportunity for *cash buyers*
- *Differentiate* residential versus commercial real estate to your investors!