

## Six Questions for CNL's Paul Ellis

By [Jennifer LeClaire](#)



MIAMI-The Southeast is seeing a bona fide commercial real estate recovery. Like other markets, multifamily is leading the way with new construction planned for some markets.

But will retail follow rooftops? And how long will it take the office markets to fully recover? Some of those answers may not be apparent until the 2012 presidential elections, but **Paul Ellis**, president of **CNL Commercial Real Estate** has some insights. GlobeSt.com caught up with Ellis to discuss commercial real estate trends in the Southeast.

**LeClaire:** *What are the major commercial real estate trends you are seeing in the Southeast?*

**Ellis:** Capital markets and transaction activity has picked up. The debt markets have loosened up and you're seeing banks willing to lend again. That's been fairly sustainable since the beginning of the year. There's a lot of discussion around cap rate compression lately. In several asset classes, particularly multifamily, we've seen cap rates dip down pretty deeply. You've seen, in some cases, 100 to 200 basis point drops over the last six months in some of these asset classes. It is dramatically different than a year ago.

**LeClaire:** *What has caught your eye in the multifamily market?*

**Ellis:** The multifamily market is the one asset class where you have very strong supply and demand fundamentals. In most of the other asset classes you see excess supply and weak demand, which is the recipe for depressed values, rent rates going down, values going down, etc. In multifamily, you have the perfect storm. You've had no real new construction in that asset class in any particular market for the last three years. And with every 1% decrease in home ownership, you add a million new renters into the market.

**LeClaire:** *Are you concerned about overbuilding in multifamily?*

**Ellis:** Yes. We always overbuild. It's a given. We will over-build. We are believers in early cycle multifamily development and we're clearly in the early stages of that cycle. But developers always tend to overshoot the mark. At some point in the future, you'll see that happen. But it's tough to do it early because there has been so little construction right now.

**LeClaire:** *So the key is getting in on that first wave.*

**Ellis:** Yes, absolutely.

***LeClaire: What impact is the multifamily recovery having on retail?***

**Ellis:** In order to kind of meet growth projections, you're starting to see a lot of retailers begin to come off the sidelines. But until we see real job growth, you really won't have a significant change in retail. In a lot of the asset classes, office and retail in particular, that's what we've seen really in the last year, that most of the activity has just been a reshuffling of the deck.

***LeClaire: What do you expect going forward?***

**Ellis:** I think it's going to be interesting. The political environment going into 2012 is something everybody's really watching right now. Job growth is number one on the list, but number two is the political environment. Business just needs to know what the rules are going to be because when decision makers are indecisive they are hesitant to hire new people and demand more office space.

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