

# Real Estate Forum

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## NewsFront SOUTHEAST

What you need to know—region by region

### New Decade Heralds Opportunities in Southeast

While many of us may be glad to see 2009 behind us, we have to acknowledge that in the wake of the Great Recession follows a wave of substantial opportunity. That opportunity is especially evident in Southeastern commercial real estate markets in 2010 and beyond.



Longer-term demographic trends in the Southeast will continue to be favorable. As it is a highly desirable living and relocation destination, we expect the region to outperform the nation in population and job growth. In addition to demographics, the major Southeastern markets are much more economically diverse than they were

**By Tom Sittema**

15 or 20 years ago, contributing to their stability and economic prospects.

These factors give the region a huge boost and will help the Southeastern states maintain business climates that will be more positive than other regions. In Charlotte, for example, job losses from upheaval at Bank of America and Wells Fargo/Wachovia have not been as bad as many expected. There have been recent announcements of companies relocating to the city and firms adding jobs. Additionally, the Southeastern states have been much more fiscally responsible than other regions, creating a stronger business environment.

The commercial real estate market will see \$150 billion to \$200 billion in loan maturities annually over the next three to four years. These maturities will spur asset sales as loans are resized and nonperforming debt is foreclosed on. While this will take several years to unfold, investors will have significant opportunities to acquire high-quality assets in growth markets at unprecedented discounts to replacement cost.

High-quality multifamily and CBD office buildings in select markets will provide particularly good opportunities. Yields on multifamily, for example, are relatively attractive, debt on favorable terms is available and fundamentals in that sector will continue to strengthen in the near term.

Despite the opportunities, challenges abound. Access to capital and weak demand will continue to be headwinds. As 2010 unfolds, owners will concentrate on extending debt maturities and users will continue to look for cost savings by downsizing and restructuring leases.

One Southeastern submarket is particularly challenging and, at the same time, appealing. Atlanta's Buckhead office sector is soft and will continue to deteriorate as two speculative towers open during the first half of this year, following two buildings that hit the market last September. In 2010, the vacancy rate could reach as high as 25%, with rental rates dropping to levels not seen in nearly 20 years.

Yet we anticipate compelling buying opportunities within the next year or two in Buckhead, one of the Southeast's most prestigious submarkets. This holds interesting choices for investors with an appetite for long-term holdings.

How fast and strong the economic recovery comes depends on one key indicator: job growth. Absorption correlates directly to employment. While the focus on the debt side of the equation for investors is important, the demand side of the equation—how many workers will need space in office towers, apartments and shops—will determine the speed of any recovery.

*The views expressed in this column are those of the author and not necessarily REAL ESTATE FORUM.*

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