TREFFER APPRAISAL & ADVISORY GROUP

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National Overview

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Commercial Properties

According to Collateral Evaluation Services...

As with residential development values having declined so have commercial values that are 40%-45% lower than back in 2007. Brokers are indicating that 2010 should start to see more sales due to prices that are lowered to realistic levels.

The following article that appeared on the Appraisal Institute web site...

sums up the CRE market fairly well:

After 13 consecutive months of falling values, the Moody's/REAL Commercial Property Price Index increased 1% in November, according to a report by Moody's Investors Service released Jan. 20. The index measures the change in sale prices for commercial real estate property based on the repeat sales of the same assets at different points in time. Commercial real estate prices were down 43 % as of November since reaching peak prices, according to the report.

"The positive 1% return recorded in November represents a bit of good news for the commercial real estate market, but the sector is not yet out of the woods," Moody's Managing Director Nick Levidy said in a news release. "We anticipate further deterioration in property fundamentals and increases in cap rates."

According to the report, monthly declines tapered off in 2009 and future falls in values will be milder than the declines recorded in early 2009. Moody's says that prices will resume falling as rental rates and occupancy levels continue to decline and yields rise. "Those things together will result in lower property values," Connie Petruzziello, an analyst at Moody's, said in the release. Moody's expects prices to fall between 45 and 55 percent from peak prices reached in 2007 before leveling off.

As stated before cap rates have been the cause of most of the value decline since 2007. Per the 4th Quarter Korpacz Real Estate Investor Survey, cap rates for non-institutional grade properties are as follows:

PROPERTY TYPE	AVERAGE CAP RATE
Apartments	9.70%
Flex/R&D Buildings	11.27%
Medical Office Buildings	11.36%
Suburban Office Buildings	10.16%
Strip Shopping Centers	11.29%

The vast majority of community bank loans (and therefore appraisals) are on non-institutional grade properties. For the most part, cap rates have returned to the historical norm of 10%-12%.

In general, reports we have read are projecting further increases in cap rates for 2010 and 2011 - maybe 50bp each year. That seems reasonable and might finally place returns on real estate back in synch with the underlying risk.

APARTMENTS -

- Vacancy rates are at record highs and expected to increase further in 2010.
- Market participants are modeling a decline in income for 2010.
- According to the Korpacz Survey, the market is forecasting a 74bp increase in cap rates over the next six months. The combination of these factors alone suggests a 10%-20%

value decline for this property sector in 2010.

- A national increase in population means the demand side for apartments is positive and one day this market will improve.
- In addition, appraisals show cap rates for 'fractured condo' projects are 100-50bp higher than cap rates for the normal apartment projects. Expense ratios for these projects are often 70%-80% because of the much higher real estate taxes and HOA dues.

OFFICES-

- According to Grubb & Ellis, national vacancy was at 17.6% as of Year end 2009 - up from 14.8% a year earlier. Effective rents declined 12% in 2009 versus a 4% decline for asking rents - showing how significant concessions have become.
- Also, according to the Korpacz Survey, cap rates are forecast to increase 69bp (next six months) and values to decline an average of 8.75% (annual for 2010). Not much positive to say about this sector - especially with job growth forecast to be anemic Grubb & Ellis forecasting

  a vacancy increase in 2010 to the 18.5%-19% level. The Korpacz Survey shows participants forecasting an average rent decrease of 2.35% with a range from +3% to -20%. Also, according to the Korpacz Survey, cap rates are forecast to increase 69bp (next six months) and values to decline an average of 8.75% (annual for 2010). Not much positive to say about this sector - especially with job growth forecast to be anemic.

- Regarding job growth- It takes about 100,000 new jobs every month to keep unemployment level and you could say the economy in balance. Thus, as you hear any positive monthly numbers from the government, remember anything below +100,000 is really a negative. They won't tell you that of course. Once we break +100,000 per month we might actually be on our way to a recovery.

INDUSTRIAL-

- Employment sectors that drive Industrial demand have lost over 1.7 million jobs in 2009 and

  more losses forecast for 2010.

- Employment growth generally leads absorption by six months - in fact, industrial absorption turned negative in the 2nd Quarter of 2008.

  We should watch the industrial employment sectors closely in 2010 to see if they bottom and start to turn up. Six months after that occurs the industrial market should start to see signs of life.

- As seen below the last four quarters have seen an **average loss of 674,000 jobs** in the industrial sector:

. **INDUSTRIAL SECTOR EMPLOYMENT - NATIONWIDE**

	2008		**2009**			
	3rd QTR	**4th QTR**	**1st QTR**	**2nd QTR**	**3rd QTR**	**4th QTR**
Quarter Change*	-371	-843	-1419	-695	-353	-229
4-Qtr. Avg *			**-730**	**-832**	**-827**	**-674**

* in Thousands

- National vacancy ended 2009 at 10.7%, according to Grubb & Ellis, the forecast vacancy will increase, but hit bottom, by the end of 2010.
- Korpacz Survey shows cap rates for institutional-grade warehouse properties increased 207bp in 2009 and are forcast to increase another 48bp over the next six months. Most surveys

  project this to be the first property type to rebound.Korpacz Survey shows cap rates for institutional-grade warehouse properties increased 207bp in 2009 and are forecast to increase another 48bp over the next six months. Most surveys project this to be the first property type to rebound.

RETAIL-

- A lot of questions with no obvious answers,will the American people be frugal and save going forward? Will web-based purchasing affect the brick and mortar stores?
- 2009 most owners will probably remember as the year every lease was renegotiated.
- 2010 - predicts to have further increase in vacancy and decline in effective rent(not as bad as the industrial sector), but looking forward to a rebound in 2011.
- "CES(Collateral Evaluation Services) is a little skeptical of this forecast- mainly because of the fundamental equation of supply and demand. Tenants vacated 27 million square feet last year while 10.8 million square feet came on line (Source: Grubb & Ellis). Even more space is forecast to come on line in 2010! Without job growth and a likely decline in incomes overall, we are flummoxed at how this supply and demand scenario can turn out positive in the next year or two."
- CES expects 2011 as the earliest to see an upturn in value for the commercial real estate overall.

Zoning Rewrite in Myrtle Beach

It will affect every property owner.....

Myrtle Beach held a public meeting March 23, 2010 to show the proposed zoning rewrite that will affect every property owner in Myrtle Beach. Kelly Mezzapelle, the city planner said if the current draft goes through one of the big changes will be on Kings Highway, "As properties redevelop they will come up closer to the sidewalk, we'll put in wider sidewalks along Kings Highway so it will be much more walk able, put the parking in the back, smaller businesses we'd like to create an opportunity for smaller businesses along Kings Highway." Also, another interesting note is that horse farms will be allowed in the residential areas with some restrictions.

Only about two dozen people showed up for the meeting, Mezzapelle said members of the Planning Commission are accepting written comments, emails, phone calls and scheduling appointments.

Related Links

You can log on to the city's Website at http://cityofmyrtlebeach.com/zoningdraft.html and read the draft and see maps.
You can email Mezzapelle at kmezzapelle@cityofmyrtlebeach.comor call the Planning Department at 843-918-1050.

...the value of experience. With over 35 years experience let us assist you with valuating your assets in this very challenging economy, you need an appraiser that is staying on top with all the issues.

Sincerely,

Emerson Treffer

Treffer Appraisal & Advisory Group