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## **Grubb & Ellis Predicts Commercial Real Estate Leasing Recovery to Proceed in 2011, Investment Recovery to Continue**

*Multi housing will recover fastest; office market will continue to lag without faster job growth*

TEMECULA, Calif. (Jan. 6, 2011) – Grubb & Ellis Company (NYSE: GBE), a leading real estate services and investment firm, today released its 2011 Real Estate Forecast, which foresees the start of a slow recovery in the leasing market for all property types in the coming year. Activity in the investment market, which began its recovery earlier than anticipated in 2010, will expand beyond assets at the top and bottom of the quality scale to include properties with slightly more risk.

“All things being considered, 2010 was actually better than most anticipated it would be – we saw positive net absorption and an uptick in investment sales during the second half of the year, positioning us for a continued recovery in 2011,” said Robert Bach, senior vice president, chief economist of Grubb & Ellis. “We have challenges to overcome, and we don’t expect fundamentals to return to their pre-recessionary peaks for several more years, but we’re slowly and cautiously building the foundation necessary to do just that.”

The commercial real estate market in Southwest Riverside County has begun to see an increase in activity; however, there have not yet been significant absorption gains, according to the company’s Southwest Riverside County Overview, prepared by Grubb & Ellis|WestMar.

“High unemployment and excess supply in retail, office and industrial spaces present a challenge to landlords and sellers,” said Mark Esbensen, CFO and Managing Director of Grubb & Ellis|WestMar. “As the economy and unemployment rate begin to stabilize and improve, leasing and sales of commercial properties will follow.”

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### **More Liquidity in Debt and Equity Markets to Spur Higher Investment Activity**

In 2010, both investors and lenders began to re-enter the playing field nationally, with the primary focus being minimizing risk. As a result, core, well-leased assets were in strong demand, often receiving multiple bids, while extremely distressed, low-occupancy assets traded at modest prices. Suburban assets in second-tier markets, for example, were largely unsuccessful in attracting buyers and underwriters. Lenders and investors will broaden their search parameters in 2011, leading to more activity in the higher-risk middle of the scale. Prices for the best properties will stay strong, although the national price indexes may be restrained by a greater volume of riskier properties in the sales mix.

“With all of the capital that lenders and investors have been sitting on, they are more likely to consider transactions farther off the ‘fairway’ than we saw last year now that the capital markets are thawing,” said Bach. “Look for investors to broaden their horizon beyond trophies and trainwrecks, which should result in a 75 percent increase in transaction dollar volume from 2010 levels.”

### **Office Market Lags as Jobs Remain Elusive**

On a national basis, employers are likely to add just 1.5 million net new payroll jobs in 2011 – right at the level needed to accommodate the growing labor force but not enough to substantially offset the unemployment rate, generating a modest recovery in the office market. Uncertainty over employer health care costs could further discourage hiring, especially among small businesses. Corporations dealing with these and other challenges will continue to focus on minimizing occupancy costs.

As a result, the office market will experience a half-speed recovery in 2011. Grubb & Ellis researchers expect the vacancy rate in 2011 and 2012 to drop to 17 percent and 15.9 percent, respectively, down from 17.8 percent at year-end 2010. This is approximately half of the 200-basis-point annual decline typical for a healthy recovery cycle. Net absorption of 35 million square feet is expected in 2011, while 2012 is expected to see 47 million square feet of positive net absorption, and asking rental rates will experience only slight gains in the next two years, with tenants retaining the bargaining leverage. Class A asking rents, which ended the year at \$30.83 per square foot per year gross, are expected to rise by 0.4 percent in 2011 and 1.4 percent in 2012. Effective rents are likely to see more improvement as landlords decrease concessions, such as free rent and tenant improvement allowances, before they raise asking rates.

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In Southwest Riverside County owners, users and investors with cash should be able to make excellent purchases on distressed properties, primarily from the banks. Buyers are often able to acquire properties – some in new condition – at less than 40 percent of the replacement costs. Tenants have abundant choices, with high office vacancies, low rents and some tenant improvements being offered. According to the local market report, 2011 will be challenging for landlords as they try to hold on to their properties while meeting the demands of prospective tenants and negotiating renewals with their existing ones.

### **Increased Trade to Spur Industrial Sector Recovery**

With the weak dollar expected to boost exports and stronger consumer spending spurring imports, landlords nationwide are expected to see increased activity and demand for space. Manufacturers, wholesalers and retailers will continue to optimize their supply chains, and as a result, state-of-the-art distribution facilities in key logistics markets will win out among all industrial property subtypes. The risks to the recovery include rising protectionism in the form of currency devaluations, tariffs and other trade barriers, but the industrial market is well-positioned for recovery given the existing climate.

The national industrial vacancy rate is expected to decline gradually to 10.1 percent by year-end 2011 and 9.3 percent by year-end 2012, down from 10.5 percent at the end of 2010. Net absorption of 60 million square feet in 2011 and 120 million square feet in 2012, combined with minimal new construction, will propel the expected tightening in the market. Despite these improved fundamentals, the recovery will be slow, prompting asking rental rates to increase by just 1 percent annually in 2010 and 2011. The average asking rental rate for warehouse space ended 2010 at \$4.26 per square foot per year triple net; that rate is expected to reach \$4.30 per square foot by year-end 2011 and \$4.35 per square foot by year-end 2012.

In Southwest Riverside County, direct vacancy rates are expected to decrease 300 to 500 basis points as small businesses increasingly take advantage of low asking lease rates and low values on bank-owned properties. Owner/users will find low price opportunities for existing buildings with excellent SBA-financing interest rates available in the market. Longer-term, industrial and well-located retail land is a great opportunity for future development.

It would be nice to make this a quote, if possible. The challenge facing the market is the uncertainty in how long it will take for the recovery to have a positive impact on Southwest Riverside County's commercial real estate. It will likely take up to three years for conditions to return to the 'normal market' range.

Each year, Grubb & Ellis develops an Investment Opportunity Monitor geared to identify the metropolitan markets with the strongest investment prospects for each major property type over the coming five years. The rankings are based on 15 to 20 variables are divided into three categories – demographics, economics and real estate fundamentals – and are assigned weights based on their relative importance.

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A market's proximity to ports or inland ports continues to boost placement in the Grubb & Ellis Investment Opportunity Monitor industrial rankings; in fact, the top nine markets this year, including Riverside, which ranked fourth, all fit that criteria. (A complete listing following the release.)

### **Retailers Repositioned for "New Normal"**

One of the most pronounced trends resulting from the recession seems to be a "new normal" for the retail industry. Like 2010, 2011 will see retailers repositioning stores to create leaner, more effective organizations and securing high-profile locations that are now available at lower rates.

Despite these changes in the landscape, retail leasing activity nationally has revived more quickly than originally expected. Luxury retailers in particular are on their way to recovery as the financial pressure on the demographics they serve has eased, though the relatively high level of unemployment at the working class level will result in a slower recovery for big-box discount retailers and other merchants.

Within Southwest Riverside County, the retail sector offers low prices for well-located, vacant land if the buyer is prepared to hold it for five to seven years. For buildings, this is a great time for owner/users to purchase and look to the long-term for great upside potential and lower immediate occupancy costs. Leasing activity in 2011 is likely to continue to be primarily in opportunities with existing, limited or no-start-up costs, such as existing restaurants or furnished retail/office spaces.

Editor's Note: The complete Grubb & Ellis Forecast and regional forecasts are available on the Grubb & Ellis Company Web site: [www.grubb-ellis.com](http://www.grubb-ellis.com).

### **Grubb & Ellis|WestMar**

Grubb & Ellis|WestMar is one of the leading commercial real estate brokerage firms in the Inland Empire region of California. Based in Temecula, Grubb & Ellis|WestMar represents industrial, office and retail properties throughout South Riverside County. The company maintains extensive expertise in all phases of commercial real estate transactions including leasing, investment sales, property management, market research analysis and financial analysis. For more information about Grubb & Ellis|WestMar, please visit [www.westmarbre.com](http://www.westmarbre.com).

### **About Grubb & Ellis Company**

Grubb & Ellis Company (NYSE: GBE) is one of the largest and most respected commercial real estate services and investment companies in the world. Our 6,000 professionals in more than 100 company-owned and affiliate offices draw from a unique platform of real estate services, practice groups and investment products to deliver comprehensive, integrated solutions to real estate owners, tenants and investors. The firm's transaction, management, consulting and investment services are supported by highly regarded proprietary market research and extensive local expertise. Through its investment subsidiaries, the company is a leading sponsor of real estate investment programs that provide individuals and institutions the opportunity to invest in a broad range of real estate investment vehicles, including public non-traded real estate investment trusts (REITs), mutual funds and other real estate investment funds. For more information, visit [www.grubb-ellis.com](http://www.grubb-ellis.com).

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**GRUBB & ELLIS INVESTMENT OPPORTUNITY MONITOR**

**U.S. INDUSTRIAL MARKET STRENGTH FORECAST**

Top 10 Markets 2011-2015

<b>United States</b>	<b>Overall Score*</b>	<b>Rank</b>
Los Angeles	90.6	1
Houston	86.8	2
Dallas	71.7	3
Riverside, Calif.	71.7	3
Oakland/East Bay, Calif.	71.6	5
Seattle	70.2	6
Atlanta	66.5	7
Chicago	65.1	8
Portland, Ore.	64.2	9
Phoenix	61.2	10

\*Markets were ranked from 0 to 100 against 14 property, economic and demographic variables.