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KPMG: Midwest more attractive to developers, investors September 3, 2014

Commercial real estate executives are ready to develop new properties and invest their capital in secondary markets, according to the 2014 Commercial Real Estate Outlook Survey from audit, tax and advisory services firm KPMG.

That's good news for the major markets in the Midwest, with a growing number of real estate executives saying that the Midwest offers the best real estate investment opportunities in the United States.

"I think the Midwest offers stability and solid returns, and real estate executives recognize this," said Tony Circolone, Midwest region lead for building, construction and real estate with KPMG. "There is an evolving view among real estate executives. Some have said that they are looking for the stability that comes with Midwest markets. That stability enhances the opportunities."

Because of this, expect more new development and a steady increase in real estate deals throughout the Midwest.

Solid numbers

KPMG asked real estate executives to identify those regions of the country offering the best real estate investment opportunities. A total of 31 percent of surveyed executives pointed to the Midwest. That's up from just 16 percent in 2013.

The region still trailed the Southeast, which 48 percent of executives identified as having the best investment opportunities in the country, and the Southwest, identified by 33 percent of executives.

But the Midwest ranked higher than the Northeast and Northwest regions of the country.

Bill Long, Minneapolis audit partner for financial services and real estate with KPMG, said that those executives looking for consistency have discovered that Midwest markets such as Minneapolis, Kansas City, Chicago and others offer solid returns on real estate deals.

"Maybe it's because the Midwest doesn't have the highs and lows that we see in other areas of the country," Long said. "We weren't impacted as much as the Southwest was during the financial crisis years, when real estate values decreased significantly in places like Las Vegas and Phoenix. The Southeast saw big drops, too. The Midwest has been more stable. Real estate executives don't have to deal with the highs and lows. So people are becoming more intrested in this region, as reflected in the statistics."

Long points to his own home market, Minneapolis, as an example of a Midwest city that is attracting plenty of attention from real estate investors and developers.

The Downtown East project, the massive mixed-use development in downtown Minneapolis led by Ryan Companies US, is one example of the increased activity here, Long said. This $400 million project — construction is ongoing now — will cover a five-block 12.5-acre area near the new Minnesota Vikings stadium in downtown Minneapolis. The project will bring 1.1 million square feet of office space in two 17-story office towers owned by Wells Fargo, 193 market-rate apartments, about 24,000 square feet of retail, a six-level parking ramp with 1,610 parking spaces and a nearly two-block urban park that connects to the new Vikings stadium.

"When you look around Minneapolis and the suburbs, you see just how much real estate activity we are having here," Long said. "It's impressive. It's been quite a significant increase in the last year or two. There have been a number of large-scale developments, and it looks like that is only going to continue."

All sectors

The best news from the KPMG survey? Executives said that they expect all commercial sectors — multi-family, office, retail and industrial — to see an increase in new development in 2015.

To no one's surprise, though, executives cited the multi-family sector as the one that they expect to see the most activity in during 2015. A total of 53 percent of executives identified this sector as one that will see a "significant amount" of new development in the coming year.

Coming in next was the hospitality sector, with 34 percent of executives predicting significant development in 2015.

Next came industrial (25 percent of executives), retail (22 percent) and office (also 22 percent).

Overall, 68 percent of executives told KPMG that they expect to increase their capital spending in 2014. That's up from 60 percent in 2013.

Circolone said that today's market presents a rare opportunity for real estate investors.

"The slow economic growth that we've seen has held interest rates low at the same time all this capital is ready to be deployed," Circolone said. "That's an interesting dynamic that presents a real opportunity today. The respondents to our survey are continuing to expand their outlook in terms of where they can find these opportunities, whether through the development of new properties or by acquiring existing ones. I see the geographic expansion in terms of potential investment dollars continuing into the next year."