Commercial Real Estate Executives Eyeing Secondary Markets, Mid-Tier Assets, Survey Shows

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Faced with high prices for top-quality properties in primary markets, commercial real estate executives are looking to mid-tier assets and secondary markets to generate higher yields, according to a survey conducted by KPMG LLP.

KPMG's annual market outlook survey of 100 senior commercial real estate executives showed that 68 percent expect to increase capital spending in 2014, up from 60 percent in 2013. However, 44 percent expressed difficulty in finding quality investment properties that deliver sufficient returns. As a result, executives are venturing outside their traditional comfort zones to find new opportunities, KPMG said.

According to the survey, 25 percent of executives expect to invest in class-A assets located in primary markets this year, down from 48 percent in 2013. At the same time, investment in class-A assets in secondary and tertiary markets is expected to rise to 16 percent, up from 12 percent the previous year. Investment in class-B and class-C assets is forecast to increase to 14 percent from 3 percent in 2013.

"This is a trend we will continue to see as real estate companies look to manage assets effectively and create alpha in this slow-growth economic environment," said Greg Williams, national leader of KPMG's real estate practice.

In terms of geographic regions, 48 percent of respondents see the best investment opportunities in the Southeast, up from 28 percent last year. The boost was attributed to the area's manufacturing boom and the expansion of the Panama Canal, according to KPMG.

The survey results also hint that the Midwest is regaining some favor with investors. Thirty-one percent of respondents said the region offers strong real estate investment opportunities, compared with 16 percent in 2013.

Multifamily Sector Expected to Remain Healthy

Meanwhile, although respondents noted that they expect an uptick in development across all asset classes, themultifamily sector remains the most popular for new projects. The sector was selected by 53 percent of respondents as likely to see a significant amount of development in 2015.

"The rapid migration of both young adults and baby boomers to urban areas, coupled with displaced homeowners following the housing crisis, remain key drivers of multifamily housing development," Williams said. He cautioned, however, that real estate executives "should be mindful that the growth potential of multifamily investment opportunities could wane given the large influx of capital the sector has already received, driving prices up."