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**MEDIA RELEASE**

### **New Orleans Commercial Real Estate Study Shows Investment Opportunities Ahead**

CHICAGO – According to a new study conducted by Real Estate Research Corporation (RERC), the New Orleans apartment market earned the highest investment conditions rating among the commercial real estate sectors. Industrial warehouse and hotel space were also strong.

“We are seeing many opportunities on the horizon among most commercial property types in New Orleans,” states Ken Riggs, CFA®, CRE, CCIM, president and CEO of RERC. “The area is still in the early stages of recovery. First there was denial and a desire to look for quick fixes. As the city faced reality, the blame game ensued. Now the city seems to be in the acceptance phase where things can be put in order and rebuilding can begin to take place.

“As rebuilding begins, it is important to recognize that the growth phase is yet to come. The core rebuilding will occur as insurance money and an influx of other funds come in, which will likely take at least 5 years, as it did for other major disasters such as the 1889 Johnstown flood and the great Chicago fire in 1871. Growth in the commercial markets could easily go on for 10 years or more,” Riggs continues.

According to the RERC survey-based study conducted among regional real estate professionals and national institutional investors, respondents rated the New Orleans economy at 4.2 on a scale of 1 to 10, with 1 indicating very weak economic characteristics and 10 indicating very strong characteristics. In comparison, respondents rated the national economy at 6.9 on the same scale.

Half of survey respondents viewed investment conditions in the New Orleans commercial real estate market better now than prior to Hurricane Katrina, while one-fourth viewed conditions in the market as about the same and the other one-fourth viewed conditions as worse. “Hurricane Katrina, while tragic in many ways, can provide the shot in the arm to make this a better city than it ever was before,” explains Riggs. “

With respect to specific property types, the New Orleans apartment sector was the highest-rated property type, earning a 7.2 rating on a 1- to 10-point scale where 1 represents poor investment conditions and 10 represents excellent investment conditions. In comparison, the industrial warehouse sector scored a 6.4 rating and hotels scored a 5.6 rating, while the CBD office and neighborhood/community retail sectors were at the low end of the scale with a rating of 4.6 each.

In addition, with an expected 8.5 percent effective rent change, the New Orleans apartment market is expected to see the greatest increase in value and in rental growth over the next year. Industrial warehouse is the next highest, with 6 percent expected effective rent change, followed by suburban office at 4.3 percent. The property type with the lowest expected effective rent change is CBD office, at -0.8 percent.

Although RERC's required going-in capitalization rate for the national apartment market is 6.4 percent for first quarter 2006 (as reported in the spring 2006 *RERC Real Estate Report* and the second quarter 2006 *RERC/CCIM Investment Trends Quarterly*), the required going-in capitalization rate for the New Orleans apartment market is 7.6 percent. The required pre-tax yield rate for New Orleans' apartments is 10.7 percent compared to 9 percent for the south region and 8.6 percent nationally.

In comparing investment risk to expected return on investment, the apartment sector also earned the highest rating at 6.3 on a 10-point scale, where 10 indicates that the amount of return is high compared to the amount of risk and 1 indicates returns are low compared to the amount of risk, followed by the hotel sector at 5.9, the industrial sector at 5.8, the retail sector at 5, and the office sector at 4.6.

The issue of insurance affordability was also analyzed in the survey, given that Hurricane Katrina was the most expensive hurricane for insurance companies in U.S. history. (At \$40 billion, Hurricane Katrina was approximately twice as costly as Hurricane Andrew, the second most costly hurricane, in 2005 dollars.) As such, insurance affordability is rated 7.4 on a scale of 1 to 10 where 1 is considered inexpensive and 10 is considerable unaffordable. Further, survey respondents believe insurance rates will have a significant negative impact on returns and investments.

"The key question for this market is whether there is enough opportunity in which to invest in New Orleans' commercial property. For many, the excitement of being a part of the long-term vision of the area and being part of the rebuilding of an entire city is motivation enough," Riggs concludes.

The study was conducted in May and June 2006 among RERC institutional and regional survey respondents and CCIM Institute designees in Louisiana, Mississippi and Texas. Results of the study were summarized and released in part last week at the CCIM Partners networking event in New Orleans, and will be released in full in the summer 2006 *RERC Real Estate Report* and third quarter 2006 *RERC/CCIM Investment Trends Quarterly* in early August.

### ***About RERC and the CCIM Institute***

RERC is recognized throughout the industry as one of the nation's longest serving and most respected firms dedicated to independent investment research, valuation, independent fiduciary services, litigation support, portfolio services, and general real estate consulting. Celebrating 75 years of service this year, RERC provides some of the most reliable investment criteria and unbiased analysis obtainable in the industry today, including required pre-tax yield rates, going-in and terminal capitalization rates, overbuilding risk, rent and value growth, and renewal probabilities.

Also based in Chicago, the CCIM Institute confers the Certified Commercial Investment Member (CCIM) designation to commercial real estate professionals through an extensive curriculum of 200 classroom hours, in addition to professional experiential requirements. Currently there are 8,000 CCIMs in 1,000 markets worldwide. An additional 8,000 practitioners are pursuing the designation.

For more national and regional comparative research as provided in the spring 2006 *RERC Real Estate Report*, "Managing Expectations in a Riskier World," or second quarter *RERC/CCIM Investment Trends Quarterly*, or to schedule an interview with Mr. Riggs, please contact Barb Bush at RERC (319-352-1500 or [bbush@rerc.com](mailto:bbush@rerc.com)). For more information about the CCIM Institute or the CCIM Partners event in New Orleans, please contact Edward Bury (312-321-4481 or [ebury@cciminstitute.com](mailto:ebury@cciminstitute.com)).