

For Transactional Due Diligence: Location, Location, Location

Author: Dianne P. Crocker | [Principal Analyst](#), EDR Insight

Commercial real estate players must resign themselves to a “slowing, grind-it-out recovery” in 2012, according to the latest *Emerging Trends in Real Estate 2012* report from PricewaterhouseCoopers, but all is not grim. Environmental consulting firms chasing opportunities on traditional commercial property investment deals may be interested to learn that much of this growth is expected to be in the “24-hour coastal gateways” located along global pathways (like San Francisco, New York and Boston) and a handful of other cities with an energy or technology focus (like Austin, Seattle, Houston and Dallas).

This forecast from PwC is the result of a broad-based survey of more than 950 investors who were asked to score individual metros in terms of their prospects for commercial property investment this year. The 20 metros with the highest scores have these characteristics in common: strong job growth, an educated workforce, proximity to transportation hubs, healthy economic fundamentals and the presence of large universities/research facilities. And if you conduct environmental due diligence in California, consider yourself lucky. California is *the* place to be for property investment this year, according to the analysis, accounting for four of the top ten spots on the list.

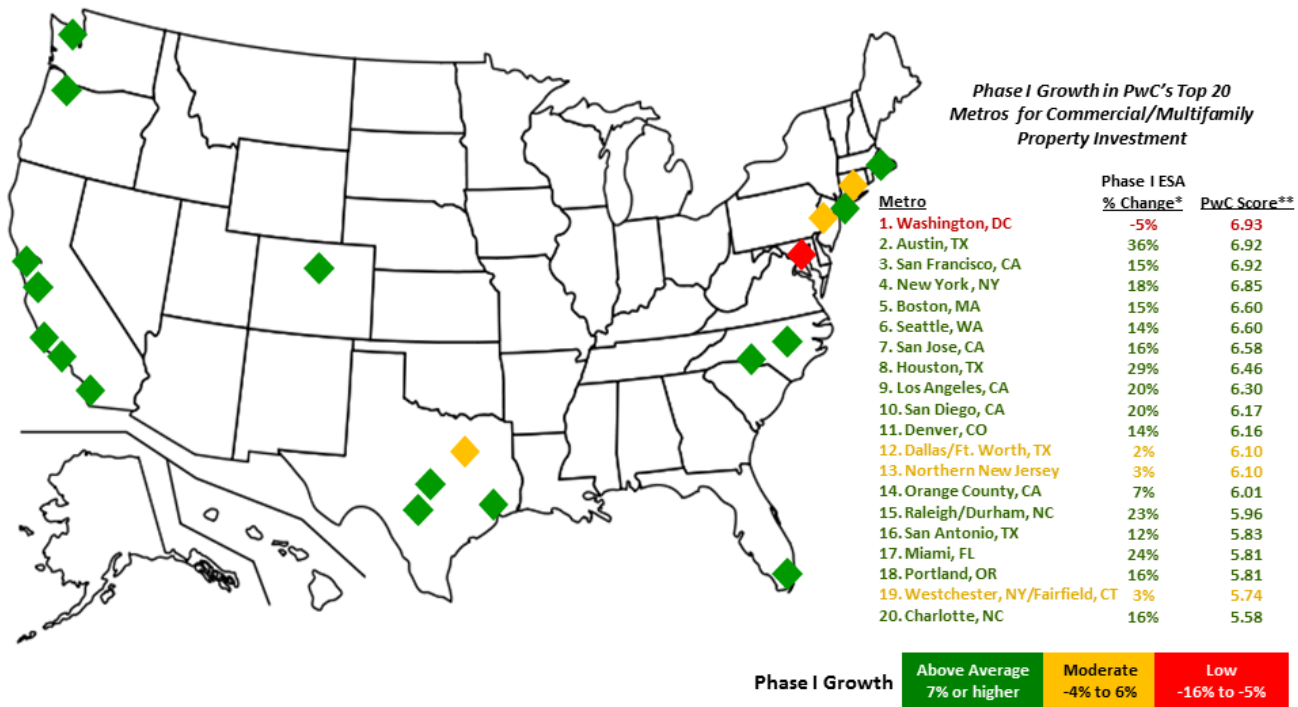
Where you find investors, you find demand for environmental due diligence. In fact, the top 20 investment hubs for commercial/multifamily properties overlap with many of the fastest-growing markets for Phase I environmental site assessment activity in 2011. Perhaps not surprising given the close relationship between the environmental due diligence market and commercial real estate. The ScoreKeeper model routinely tracks Phase I ESA volume in the top 100 commercial real estate markets in the U.S. and based on the latest results, activity in the 20 PwC metros is already above average. Environmental assessment volume in these 20 metros collectively grew by 15% in 2011, more than double the U.S. average of 7%.

The analysis was not without surprises. Washington, D.C. took PwC’s top spot for the third year in a row, but also experienced the lowest growth rate for 2011 Phase I ESA volume in the group. Given that this is the third consecutive win for D.C. , the issue may be that the metro has already experienced its period of high-growth volume. Coming off a particularly robust 20% growth in 2010, D.C. had relatively flat—yet still high—volume in 2011 (3,100 Phase Is). There are also concerns that D.C. prices have become too dear for investors given the high interest and stiff competition for a small number of trophy properties, likely to temper future growth there.

Much more robust activity, in contrast, can be found in metros that are new to the list and just starting to get investor attention. Austin, for instance, made what PwC called a “surprising leap” into second place and also ranked as the metro with the highest year-on-year growth in Phase I ESA volume—36%, more than five times the national average. Other metros with high investor appeal coupled with growth in Phase I ESA volume above 20% are Houston, Miami, Raleigh/Durham, Los Angeles and San Diego.

The 2012 forecast for commercial real estate is neither robust nor predictable. Recovery is expected to be uneven, with wide variations among metros and property types. This PwC study offers a credible portrait of these 20 metros as the ones best positioned for property investment growth this year—standouts in an otherwise struggling market. By property type, the strongest growth is likely to be with apartments, downtown office buildings in “24-hour cities”, warehouse properties in gateways and hotels. So if PwC’s forecast is accurate, it begs the question for environmental consultants who support the deal making environment: “Am I doing everything I can to align my firm with the investors in these growth areas that are targeting commercial properties in 2012?”

PricewaterhouseCoopers’ Top Metros for CRE Investment Drive Above-Average Phase I ESA Demand in 2011



Sources:
PricewaterhouseCoopers Emerging Trends in Real Estate - 2012
EDR ScoreKeeper Model
Map: http://en.wikipedia.org/wiki/File:Blank_US_map_borders.svg

*Phase I ESA % change reflects growth in 2011 vs. 2010
**PwC scores based on 1.0-9.0 scale where respondents scored each metro’s investment prospects as follows: 5.5-9.0 is “generally good”, 4.5-5.4 is “fair”, and 1.0-4.4 is “generally poor”

Author:

Dianne P. Crocker | Principal Analyst

EDR Insight

Email: dcrocker@edrnet.com

Twitter account: [dpcrocker](https://twitter.com/dpcrocker)

LinkedIn profile [Market Maven Blog](#)