

## 1Q12 Quarterly Brief: Property Assessment Market

### Quarter in Review

U.S. property transactions in 1Q12, across all categories of demand drivers for assessments, totaled 103,524—a 10% increase compared to the prior quarter. Key barometers for the property assessment industry in 1Q12 were mixed, but positive overall. Additional themes that stood out in 1Q12 are as follows:

- By historical standards, the first quarter's level of commercial real estate transactions was a strong start to the year, but not robust enough to surpass the traditional year-end rush to close deals that characterized 4Q11.
- Commercial real estate lending for property transactions is growing, despite a small downturn in the first three months of the year. Increases are not yet widespread or robust, however.
- One of the strongest drivers in 1Q12 was loan refinancing as the \$363 billion in this year's maturities make their way through the system. Borrower demand for refinancing under the U.S. SBA's 504 program has also been steadily climbing since 3Q11 and continued to exhibit strength in 1Q12.
- Also bolstering property assessments in 1Q12 was continued strengthening in the M&A, telecom, retail/big box and oil/gas sectors.
- In the M&A sector, where activity has moved in fits and starts over the past few years, the quarter was marked by a number of significant transactions in the industrial sector.
- After a sluggish start to the year, the market for distressed commercial mortgages is starting to heat up, particularly for portfolio deals.

**Table 1. U.S. Property Transactions, 4Q11-1Q12**

Demand Driver	4Q11	1Q12	Q-on-Q Change	Trend
CRE Transactions: Large	4,239	3,276	-23%	↓
CRE Transactions: Small	23,400	21,523	-8%	↓
Failed Deals	16,560	19,400	17%	↑
U.S. SBA Lending	7,798	7,538	-3%	↓
M&A Transactions	3,775	5,865	55%	↑
Telecom	5,500	6,247	14%	↑
CMBS	375	390	4%	↔
Foreclosures	10,000	12,100	21%	↑
Refis	7,500	14,100	88%	↑
Failed Bank Assets	8,000	4,100	-49%	↓
Distressed Assets	1,290	1,320	2%	↔
Engineering/Industrial	1,250	1,115	-11%	↓
Retail/Big Box	1,875	3,240	73%	↑
Oil/Gas Asset Transfers	2,500	3,310	32%	↑
<b>TOTAL</b>	<b>94,086</b>	<b>103,524</b>	<b>10%</b>	<b>↑</b>

### U.S. Property Assessment Market

Across all ten assessment types, there were more than 404,500 property assessments conducted in the U.S. in 1Q12, including 53,000 Phase I ESAs, 12,400 Phase II ESAs and 37,300 PCAs. In total, the size of the U.S. property assessment market in 1Q12 was \$668.2 million, with the Phase I ESA segment accounting for \$133.1 million, or 20% of the market.

**Table 2. U.S. Property Assessment Market First Quarter 2012 (million \$)**

Phase I ESAs	Phase II ESAs	Transaction Screens	Vapor Intrusion Screens	Desktop Screens	Energy	Seismic	NEPA	Property Condition Assessments	Appraisals	TOTAL
\$133.1	\$58.6	\$25.2	\$1.2	\$6.2	\$36.4	\$4.9	\$22.8	\$132.6	\$247.1	\$668.2

## Forecast

The significant volume of capital now targeting U.S. commercial real estate suggests a **moderate—but positive—outlook** for the U.S. property assessment market for the remainder of 2012, barring any unforeseen shock to the economy. Property transactions driving assessments are expected to increase steadily, with **stronger activity expected in the second half of the year** versus the first half. Specific forces supporting **cautious optimism** through the rest of 2012, as well as potential market risks, are:

- EDR Insight's 1Q12 survey results and interviews with industry insiders support the position that environmental risk aversion remains at high levels. Lenders, while increasing their allocations to commercial real estate, still exhibit a high aversion to all types of risk, likely due to the mid-year market unrest of last year. As lending slowly increases, institutions are proceeding cautiously, which will likely keep activity strong for property assessments.
- A growing level of comfort on the part of lenders to extend credit on commercial properties again, coupled with more willingness by investors to jump in the deal-making pool before prices increase, both point to higher levels of property transactions for the remainder of 2012.
- Significant transaction activity will also be driven in the next few quarters by loan maturities, as well as the estimated \$160 billion in troubled commercial mortgages that lenders must either resolve or dispose.
- Although the CMBS market was off to a slow start for the year, activity is expected to step up in the coming quarters. The market is currently on track for \$40B annual volume this year vs. \$32B last year. (This is based on intell provided to EDR Insight from its sister company, Trepp. It is worth noting that Trepp's forecast is more conservative than other forecasts that call for issuance of \$50B or more.)
- Looking ahead over the near-term, the strongest opportunities for growth will lie in the transfer of assets in the 3 D's: debt, distress and development.
- M&A activity is expected to be strongest in the financial services, life sciences, oil/gas, technology and consumer products sectors over the near-term as strong companies buy up rivals.
- May's disappointing jobs report was a stark reminder of the fragile state of market recovery.
- Among the risks that could impact the forecast are whether low interest rates will last, the uncertainty of the presidential election and what it means for business confidence and fiscal policies, how the European debt crisis will affect capital markets and if commercial real estate fundamentals will improve further.

### NOTES TO READERS:

The background document, titled [Methodology for Property Assessment Market Map](#), explains in detail the approach used by EDR Insight to arrive at its market size estimates for 10 key property assessment types, including key assumptions and data sources.

More details on specific markets for Phase I environmental site assessments will be published in EDR Insight's upcoming [2Q12 Capsule Summary Report](#), scheduled for release in late June.

The author wishes to thank Rob Barber and James B. Stanton for providing peer review of this inaugural 1Q12 Quarterly Update.

### Questions or comments?

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