National Association of REALTORS®

Commercial Real Estate Market Trends - Q1.2015

COMMERCIAL Real Estate
REALTOR
NATIONAL ASSOCIATION of REALTORS®

COMMERCIAL REAL ESTATE MARKET TRENDS

MAY 2015

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THE NATIONAL ASSOCIATION OF REALTORS®, *“The Voice for Real Estate,”* is America’s largest trade association, representing over 1.0 million members involved in the residential and commercial real estate industries.

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COMMERCIAL REAL ESTATE MARKET TRENDS

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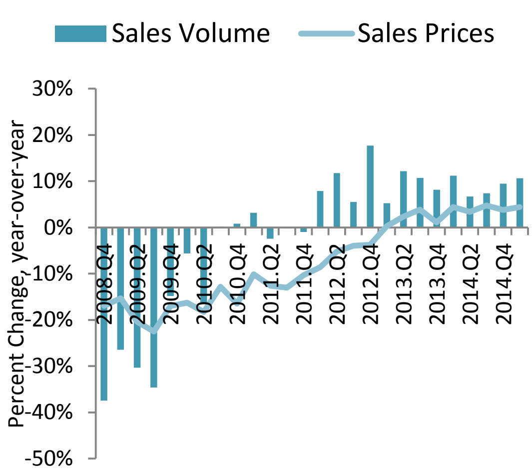
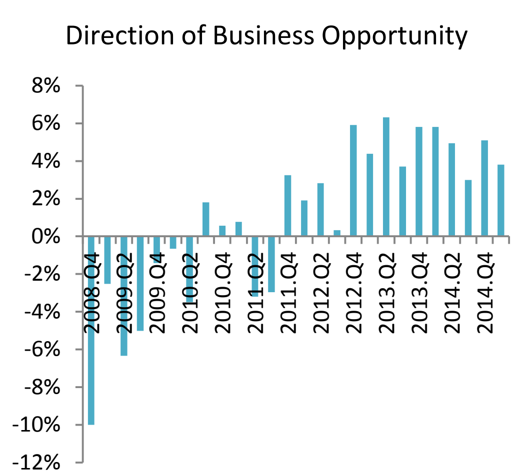
The REALTORS® Commercial Real Estate Market Trends measures quarterly activity in the commercial real estate markets, as reported in a national survey. The survey collects data from REALTORS® engaged in commercial real estate transactions The survey is designed to provide an overview of market performance, sales and rental transactions, along with information on current economic challenges and future expectations.

Real gross domestic product (GDP) clocked an annual rate of $16.3 trillion in the first quarter 2015, based on the first estimate of the Bureau of Economic Analysis. On an annual basis, the economy grew at 0.25 percent. As revisions to the figure are expected in the following months, possibly crossing into negative territory, the bottom line is that economic growth for the first quarter was flat at best. On the upside, employment trends and consumer confidence continued on an upward curve during the quarter.

Commercial real estate proved resilient during the quarter, with REALTORS® reporting continued improvement in fundamentals and investment sales. Sales of commercial properties rose 10.6 percent on a year-over-year basis, a quickened investment pace compared with the 9.5 percent increase from the prior quarter.





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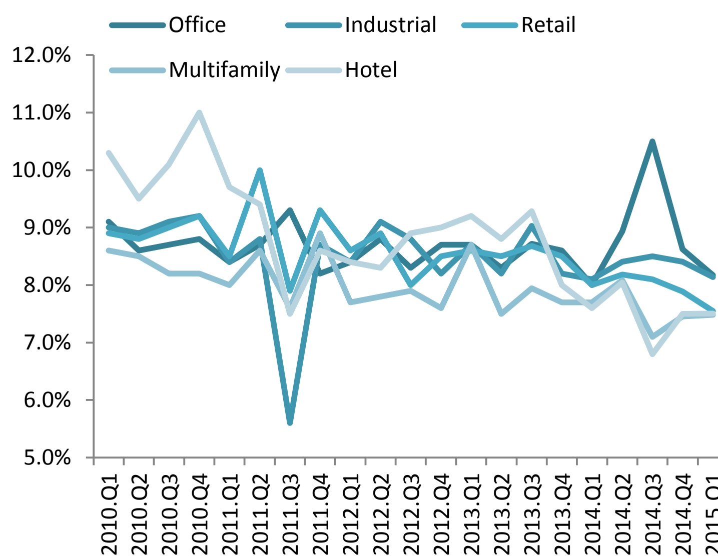
Prices continued advancing, with properties trading at average prices 4.4 percent higher compared with the same period in 2014. The average transaction price increased from $1.6 million in the fourth quarter 2014 to $1.7 million in the first quarter 2015.

Average capitalization rates declined to an average 7.8 percent across all property types, a 45 basis point decline on a yearly basis. Apartments, retail and hotel properties tied with average cap rates at 7.5 percent. Office and industrial spaces posted cap rates of 8.2 percent and 8.1 percent, respectively.

The shortage of available inventory retained its number one spot, as members reported not finding enough suitable properties. The perceived pricing gap between sellers and buyers remained the second highest ranked concern. REALTORS® indicated a moderation in the direction of commercial business opportunities during the first quarter 2015, with a 3.8 percent quarterly increase, following a 5.1 percent rise during the last quarter 2014.

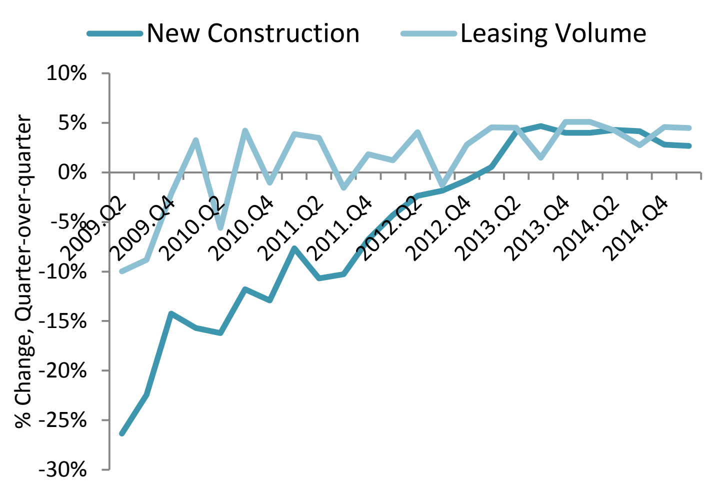
Fundamentals continued gaining traction in the first quarter 2015, as leasing volume rose 4.5 percent over the fourth quarter 2015.

REALTORS® Commercial Capitalization Rates



2015.Q1 Cap Rates	
Office	8.2%
Industrial	8.1%
Retail	7.5%
Multifamily	7.5%
Hotel	7.5%

2015.Q1 Vacancy Rates	
Office	15.1%
Industrial	11.3%
Retail	13.7%
Multifamily	8.4%
Hotel	15.1%



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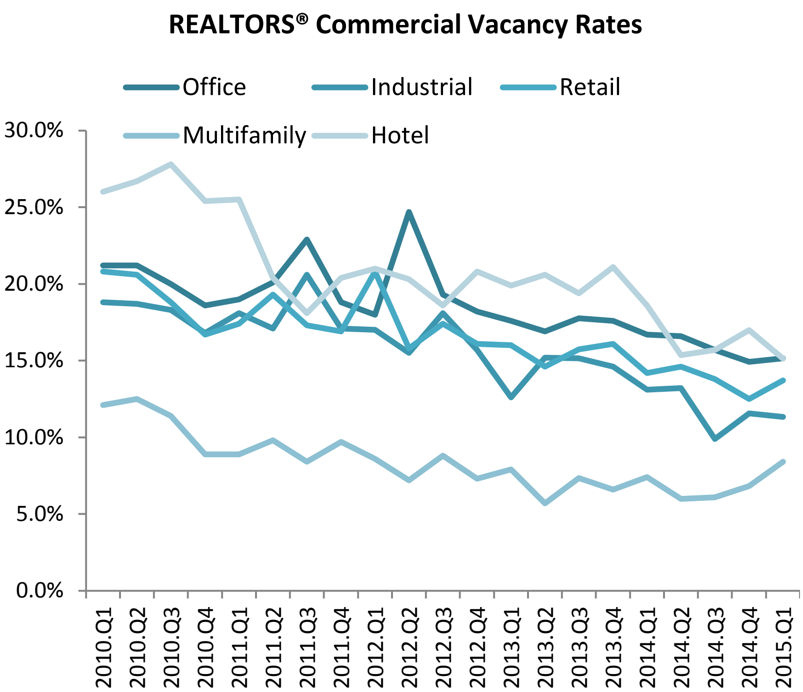

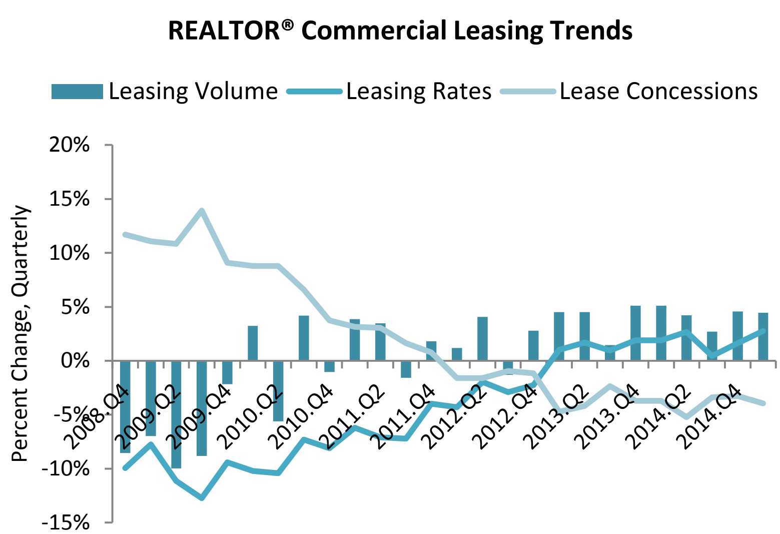

Leasing rates accelerated, rising 2.8 percent in the first quarter, from the 1.6 percent advance in the previous quarter. Tenant demand remained strongest in the 5,000 square feet and below, accounting for 74.0 percent of leased properties. A noticeable increase was recorded for space in the 5,000 – 7,499 square feet, which accounted for 11.0 percent of lease agreements in the first quarter 2015 Lease terms remained steady, with 36-month and 60-month leases capturing 61.0 percent of the market. Lease concessions declined 4.0 percent. New construction advanced 2.7 percent compared with the fourth quarter 2014.

Vacancy rates mirrored the regional and product variations REALTORS® markets. Apartments experienced availability increases, with the national average rising from 7.4 percent in the first quarter 2014 to 8.4 percent in the first quarter of this year. Office vacancies declined 156 basis points, to 15.1 percent compared with a year ago. Industrial availability posted the second largest decline—177 basis points—to 11.3 percent. Retail vacancies declined 48 basis points on a yearly basis, to 13.7 percent. REALTORS® expect inventory availability to decline 1.3 percent over the next 12 months.

Accounting for the weak first quarter, the GDP outlook for the remainder of 2015 projects a moderate 2.3 percent annual growth rate. However, as employment and consumer confidence remain positive, commercial real estate markets should track an upward path in the next three quarters.

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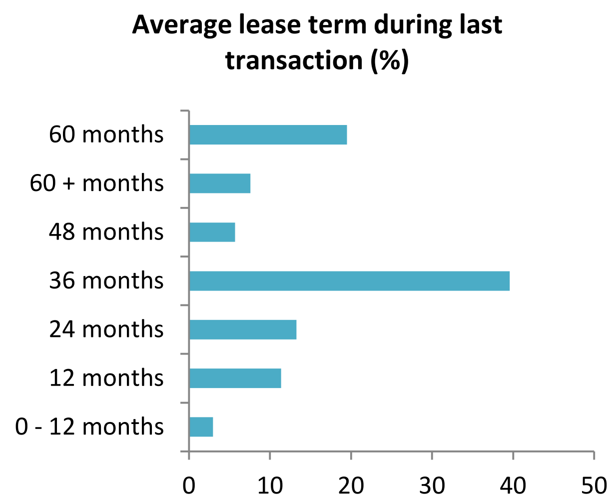
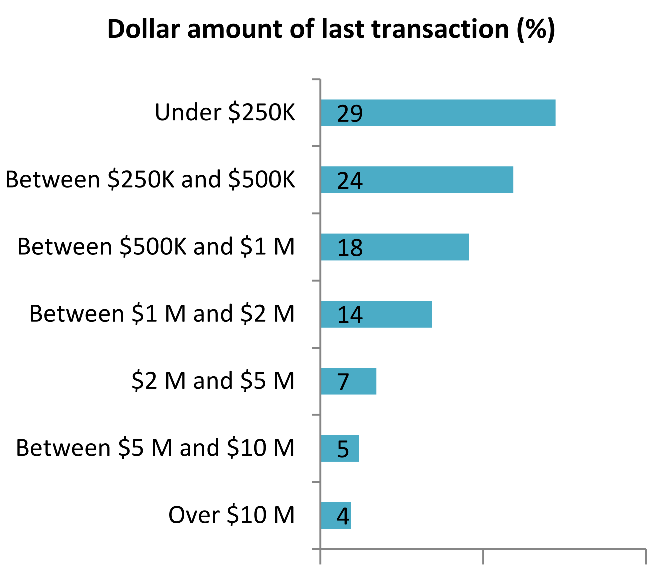
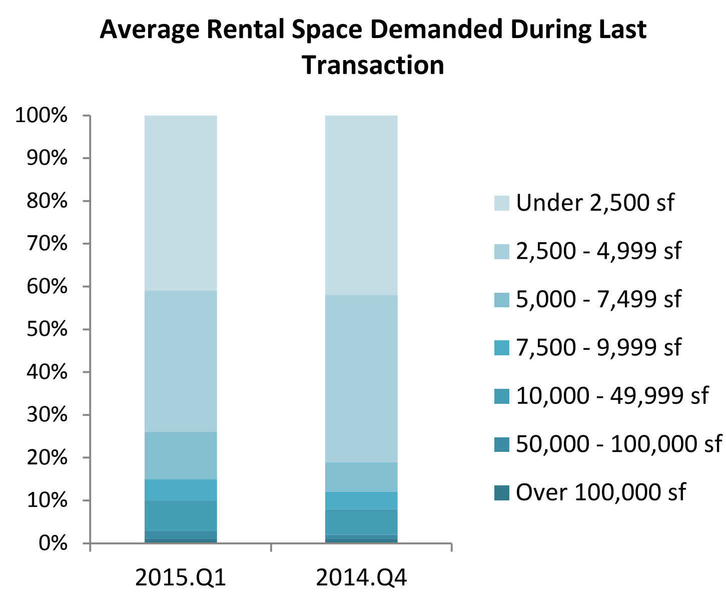
2015.Q1 Survey Highlights

- 60% of commercial REALTORS® closed a sale.
- Sales volume rose 11% from a year ago.
- Sales prices increased 4% year-over-year.
- Cap rates averaged 7.8% during Q1.2015
- Leasing volume advanced 5% from previous quarter.
- Leasing rates increased 3% over previous quarter.
- Concession levels declined 4% on a quarterly basis.
- Inventory shortage topped the list of current challenges, followed by buyer-seller pricing gap and local economies.
- The estimated average transaction increased from $1.6 million in Q4.2014 to $1.7 million in Q1.2015.







NOTES:

1. *Vacancy rate data in this report come from a national survey of REALTORS® who identify themselves as commercial practitioners. The data do not match the historical data which underlie NAR's Commercial Real Estate Outlook (CREO). The CREO vacancy data are sourced from Reis, Inc.*

2. *In April 2015, NAR invited a random sample of 50,773 REALTORS® with an interest in commercial real estate to fill an on-line survey. A total of 522 complete responses were received, for an overall response rate of 1.0 percent.*

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The REALTORS® Commercial Real Estate Quarterly Market Survey asks participants to comment on current conditions in their markets. Below are a few of the comments about the latest quarter environment.

Apartment market is at peak. Lots of inventory under construction. Office market late stable in cycle. Lots of unleaded spec space under construction.

Apartments are over built. Low inventory for all industrial. Retail rental rates jumped from mid-teens psf to low 20's psf over the last 18 months.

Buyers are still offering low bids to negotiate with sellers. List price is reduced anywhere from 10-35%

Construction is on the rise with the ease on financing.

Current market is a bubble waiting to burst.

Current market is greatly improved, pending sales are up substantially and prices are up also.

Definitely much better than the last several years.

Demand greatly outstrips availabilities.

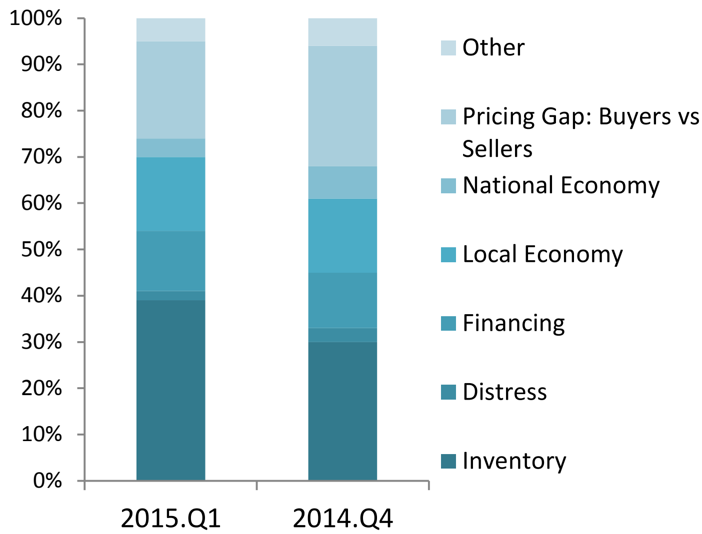
Drought is a big factor in our agricultural based economy locally.

Existing Commercial Real Estate remains overvalued, both for sale and lease. Most Sellers especially mom & pop owners do not understand market driven economics and are resistant to effective price structures. Realtors are too often averse to offering cogent advice for fear of losing the ability to list the property. The strengthened economy has not reached the people on 'Main Street' and so most of the movement has been for the well-healed.

Far East Bay Area is waiting for the increase in hiring, and the Bay Area's improving economy to finally come to this area.

Financing needs to continue to loosen

REALTORS® Most Pressing Challenges



Financing for commercial and industrial development is still difficult although in industrial, especially, there is virtually no space available in our market (eastern Palm Beach County)

Flint MSA is pulling down the county as a whole. Freestanding buildings are hard to get financed. Not enough apartment buildings available for sale. Larger commercial office space is not moving. (3,000 sq.ft. and up)

Getting calls, but buyers are very timid. Shopping every property in the general area, and very slow about making offers.

Good properties in good areas still sell quickly. Rates are helping by remaining low.

High Demand for Multi Family Investment and Retail Strip Center. Seller's Market.

I primarily sell land and the prices are dropping and there are more properties than buyers

The REALTORS® Commercial Real Estate Quarterly Market Survey Comments—continued.

I own buildings in Bronx NY, Ho-Ho-Kus NJ, Ridgewood NJ, Saddle River NJ and Upper Saddle River NJ. All of my buildings are fully occupied. In January 2016, 1 unit in my Ridgewood NJ office which is 1,668 square feet will become available. The current tenant is paying $29.13 a square foot. When I list it for rent at the end of the year I will ask for $28.00 a square foot and expect, nor will take less than $25.00 a square foot with the possibility of a 1 month concession and a minimum rent term of 5 years. The major differentiation between my office space and others is I gut the unit to the studs, give the tenant a base allowance and rebuild and configure the unit to their needs. I expect to have a signed lease within 3 months of it becoming available.

I see more opportunities in our market area in the commercial realm. Banks are more willing to lend and Buyers seem to have more capital to invest this Spring compared to last Spring.

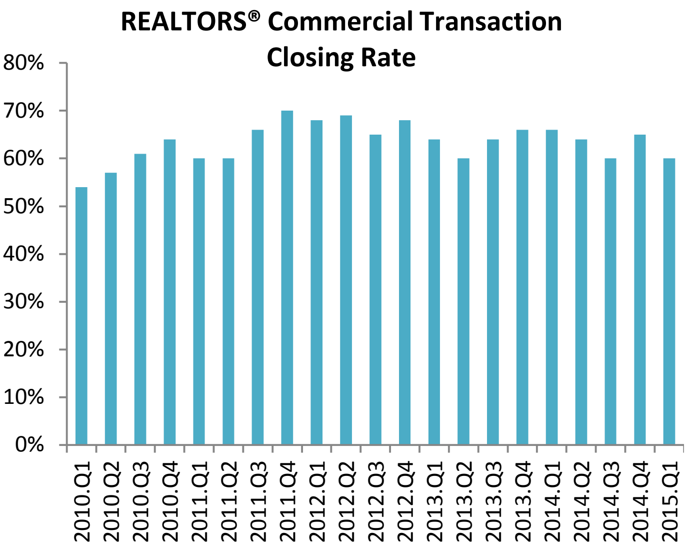
In greater Miami Beach & Miami Downtown great new condo overbuilding of HIGH PRICED CONDOS possibly feeding a sharp downturn in 2 years ? in retail commercial steady growth, no distress situations diminishing inventory but limited rent & price increases a more stable market.
In our area, the commercial recovery is proceeding at a solid 8% per year.

Industrial warehouse, many new projects in construction at unprecedented asking rates, will oversupply and lower asking rates

Late to recover, started year strong. Sliding to slow. I think the election prompted business optimism. International events dampening even our small market.

Lending is not in line with market, warehouse space is limited

Looking much brighter although job and income growth is mainly in the service areas.



Increasing state & local taxes adversely impacting demand.

Market activity is becoming aggressive. People seem to be tired of waiting for the perfect time for transactions.

Market is picking up in the retail and multi-unit transactions. Inventory is low.

Minor improvements but still significant Class "B" inventory (office space).

Most of the sale transactions are "off market."

Multi units selling well below last year in 20 and above; lacking industrial inventory in 5,000 to 10,000 space. We have no hotel activity except limited foreclosure

My market is a tertiary market and we are getting buyers from other parts of the country who are looking for better cap rates.

Oil Field activity down owing to price of crude

The REALTORS® Commercial Real Estate Quarterly Market Survey Comments—continued.

My market is self-Storage, sale/development/land/ entitlement and investment sales to REIT with very little leasing and very little residential.

Our market is growing very fast...we are a rural area on the outskirts of an urban area....I had a record year in sales...but our inventory in almost nothing.

Polarization of markets. Strong getting Stronger. Weak getting weaker. Tough economy out there for most CRE customers.

Q1 and Q2 2015 are showing strong Buyer and Tenant interest. Lenders show willingness to finance again. However, with so many recent sales of distressed properties, the low sale prices of distressed comps will affect appraisals. Only buyers who are savvy enough to see past the low appraisals will be able to close. Buyers who don't understand that low comps are behind the market will lose out to more experienced purchasers who see the big picture and take appraisals with a grain of salt.

Recovering slowly, but need STEM jobs to increase growth.

Rental Prices remain consistent, but are not rising as they should

REO properties have gone through system stabilizing values, inventory has become a large problem.

Resort secondary market financing for individuals and small business remain the local markets strongest challenges in addition to lack of incentives and industry balance

Robust office and retail downtown. Weak manufacturing due to competition from NW Indiana. Warehousing and distribution is strong, but Cook County suffers relatively due to high real estate taxes. Hotels are doing well.

SBA financing is helping with many deals. Banks are not really making loans involving CRE.

Southeast Texas has been in an economic challenge for many years though due to petrochemical industry has remained more or less stable in this area of the Nation. Still some instability due to either stressed buyer, sell, or property in commercial deals. Nothing is easy or a slam dunk.

Still very hesitant and awaiting more concrete signs of recovery in the local market.

Strong with little spec space - which is healthy for keeping over building out

The business tempo seems to be cautiously more confident.

The Market and Sales seem to be picking up with more daylight hours.

The market has improved dramatically over the last few years. Developers do seem to be overpaying for land. This is a sign that the market may be in for a correction.

The northern NY market is stagnant

The state is considering several job killing taxes which has slowed our market while we are in session. June will tell us where we are going from here.

The weather and the economy over the past 3-4 months have seriously impacted the New England economy. There has not been much movement in the market.

There is a huge amount of retail space under construction now.

There is one thriving town in our county; the rest are struggling. People are struggling generally. There are pockets of highly desirable areas. The rest are languishing

The REALTORS® Commercial Real Estate Quarterly Market Survey Comments—continued.

There is still an over increasing inventory of commercial property with a shortage of users and still property taxes continue to go up as we lower our base rents. I'm thing I should be a farmer so I could eat what I plant and raise.

Too many unusual factors: government interference, interest rate increases looming, digital age taking over--hard to find market footing

Unstable Government makes all investors nervous

Very slow first quarter, but things are very positive, big year is expected.

Very soft market, expect the turn around to take 18 months.

Very strong market for apartments in Seattle. Inventory is way down for sale.

We are basically investment sales brokerage. we focus mainly on self-storage properties for buyers and sellers. The market we are in has been extremely strong, very qualified buyers, a lot of cash chasing deals not enough qualified inventory and sellers expectations are not always meeting the buyers offers

We have available land and pads for Commercial and Residential Tracts. We need Business to take up the space.

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NATIONAL ASSOCIATION OF REALTORS®
RESEARCH DIVISION

The Mission of the National Association of REALTORS® Research Division is to collect and disseminate timely, accurate and comprehensive real estate data and to conduct economic analysis in order to inform and engage members, consumers, and policy makers and the media in a professional and accessible manner.

The Research Division monitors and analyzes economic indicators, including gross domestic product, retail sales, industrial production, producer price index, and employment data that impact commercial markets over time. Additionally, NAR Research examines how changes in the economy affect the commercial real estate business, and evaluates regulatory and legislative policy proposals for their impact on REALTORS,® their clients and America's property owners.

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The Research Division provides several products covering commercial real estate including:

- Commercial Real Estate Outlook
- Commercial Real Estate Lending Survey
- Commercial Member Profile
- CCIM Quarterly Market Trends
- SIOR Commercial Real Estate Index
- Expectations & Market Realities in Real Estate 2015 (Deloitte, RERC, NAR)

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