COMMERCIAL REAL ESTATE OUTLOOK

FEBRUARY 2014

ECONOMIC OVERVIEW

Commercial Fundamentals Moderate at the Start of 2014

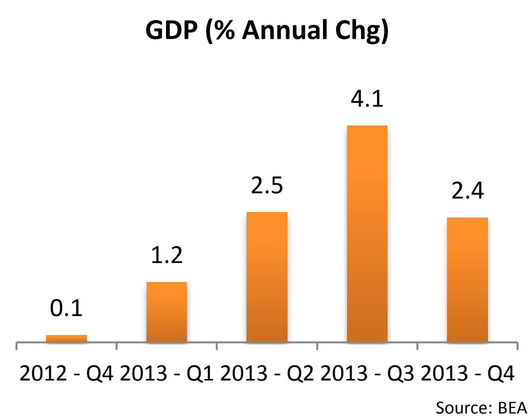
George Ratiu
Director, Quantitative & Commercial Research

The economy proved resilient during 2013, despite "sequestration", government shutdown, regulatory changes and other impacts. Based on BEA's preliminary estimates, gross domestic product advanced at a 1.9 percent annual rate in 2013, supported by a cautiously optimistic consumer and hedging businesses. The third quarter provided the largest boost, with growth of 4.1 percent, followed by a surprisingly robust fourth quarter, which recorded 3.2 percent annual growth rate.

Consumer spending remained positive throughout the year, surging at year-end 3.3 percent and providing much-needed tail wind to the economic balance. Consumers upped their spending of goods, with durables rising 7.2 percent for the year, as well as services. In a sign of improving confidence, purchases of recreational vehicles and goods rose 10.3 percent during the year, adding to the 5.1 percent growth rate from automobile purchases. With a rebound in residential markets and house prices, consumers were more willing to spend on remodeling and furnishings. Consumption of furniture and household equipment rose at an annual rate of 6.3 percent in 2013.

After solid investments during the second and third quarters, business investments tapered at the end of the year. However, the government shutdown did not prove a stumbling block, as businesses increased investments by 3.8 percent in the fourth quarter.

For all of 2013, business investments advanced at a rate of 2.6 percent—moderate, but fitting the cautious approach to impending regulations, government budgetary wrangling and fiscal uncertainty. Business spending on structures rose 1.3 percent during the year. Spending on equipment increased 2.9 percent while investments in intellectual property were up 3.1 percent for the year. In relation to corporate profits, however, business spending is still underperforming, possibly due to less robust confidence among top managers.



International trade added strong lift to GDP in the latter half of the year. Exports advanced 11.4 percent in the fourth quarter, as imports gained 1.0 percent in the same period. The end result was a shrinking trade deficit. With rising import and export activity, the industrial sector welcomed the increase in traffic through ports and warehouses, posting noticeable improvement in fundamentals.

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NATIONAL ASSOCIATION of REALTORS®

ECONOMIC OVERVIEW

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Government spending, a major contributor to GDP, closed the year in the negative, declining at a 2.2 percent annual rate. The drag came mostly from the federal level, which cut spending by 5.1 percent during the year, as the government reduced defense spending as part of "sequestration." State and local governments' spending was curtailed by 0.2 percent, the smallest post-recession decline. With improving residential markets and stabilizing employment, state and localities should be in a much better fiscal position in 2014.

The economic gains were evident in other indicators of activity. Financial markets advanced at double-digit rates during 2013. New homes sales rose 16.7 percent over the year. Existing home sales totaled 5.1 million units, an 8.9 percent increase year-over-year, while home prices advanced 12.0 percent from 2012. The Institute for Supply Management indexes for manufacturing and services rose 0.6 percent on a yearly basis. As consumer confidence rose 9.2 percent over 2013, sales of motor vehicles surpassed the 15 million mark, not reached since 2007.

Payroll employment gained a net 2.2 million new jobs during the 12-month period ending in December. Service industries were the main beneficiaries, with 1.9 million net new jobs. Professional and business services accounted for 637,000 new positions, followed by retail trade, which accounted for 381,000 new jobs. Education and health services were the other major job creators adding a net 327,000 new jobs during 2013. Over the year, the unemployment rate declined from 7.9 percent in January to 6.7 percent in December.

The GDP outlook for 2014 forecasts a stronger annual growth rate of 2.5 percent. Payroll employment is expected to rise by 2.0 to 2.2 million. The unemployment rate could average 6.5 percent for the year.

U.S. Economic Outlook: March 2014

	2012	2013	2014	2015
Annual Growth Rate, %				
Real GDP	2.8	1.9	2.4	2.9
Nonfarm Payroll Employment	1.7	1.7	1.7	1.9
Consumer Prices	2.1	1.4	2.6	3.7
Level				
Consumer Confidence	67	73	82	87
Percent				
Unemployment	8.1	7.4	6.5	6.3
Fed Funds Rate	0.1	0.1	0.1	1.0
3-Month T-bill Rate	0.1	0.1	0.2	1.1
Corporate Aaa Bond Yield	3.7	4.3	5.0	5.0
10-Year Gov't Bond	1.8	2.5	3.2	3.8
30-Year Gov't Bond	2.9	3.4	4.2	4.9

Source: National Association of REALTORS®

Commercial Real Estate

Sales of major properties (over $2.5M) advanced 19 percent year-over-year in 2013, totaling $355.4 billion, based on Real Capital Analytics (RCA) data. The year marked a noticeable rise in most markets across the U.S., including secondary and tertiary markets which had slower rebounds. Investors found favorable economic conditions in these markets and pursued the higher yields offered by performing properties. Apartment investments totaled $103.5 billion in 2013, followed closely by office transactions, accounting for $101.5 billion. Sales volume advanced at double-digit rates for all property types except retail.

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ECONOMIC OVERVIEW AND FORECAST

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The fourth quarter of the year proved particularly strong, with $112.9 billion in closed transactions, as prices accelerated. For the year, prices advanced 15 percent across the country, according to RCA's Commercial Property Price Index. Retail investments posted the steepest price gains, rising 23 percent on a yearly basis, followed by a tie between office and hotel property prices, which rose 17 percent. Prices for apartments increased 12 percent in 2013, while those for industrial buildings rose 5 percent.

Cap rates averaged 6.9 percent in 2013, a 4 basis point increase from 2012. Apartments recorded the lowest average cap rate for the year, at 6.2 percent, posting a 4 basis point increase year-over-year. Office cap rates averaged 6.9 percent in 2013, a 22 basis point compression from the prior year. Retail cap rates averaged 7 percent, declining 20 basis points on a yearly basis.

For lower priced properties (below $2.5M), sales volume advanced 8 percent on a yearly basis, while prices increased 1 percent year-over-year, based on survey data from the National Association of REALTORS®. Cap rates averaged 8.7 percent in the fourth quarter, a 50 basis point decline from the third quarter.

NCREIF PROPERTY INDEX RETURNS – 2013.Q4

NATIONAL	2.53%
OFFICE	2.34%
INDUSTRIAL	2.93%
RETAIL	2.66%
APARTMENT	2.48%

Source: National Council of Real Estate Investment Fiduciaries

COMMERCIAL FORECAST

OFFICE	2014 I	2014 II	2014 III	2014 IV	2015 I	2015 II	2015 III	2014	2015
Vacancy Rate	15.8%	15.8%	15.7%	15.5%	15.6%	15.5%	15.4%	15.7%	15.5%
Net Absorption ('000 sq. ft.)	10,880	10,787	11,745	11,144	11,400	12,727	13,515	44,556	50,024
Completions ('000 sq. ft.)	6,232	7,457	6,085	6,249	8,033	9,220	8,392	26,023	33,917
Inventory ('000,000 sq. ft.)	4,116	4,124	4,130	4,136	4,144	4,153	4,161	4,136	4,170
Rent Growth	0.5%	0.6%	0.6%	0.6%	0.7%	0.8%	0.9%	2.3%	3.2%

INDUSTRIAL	2014 I	2014 II	2014 III	2014 IV	2015 I	2015 II	2015 III	2014	2015
Vacancy Rate	9.0%	8.9%	8.9%	8.9%	8.9%	8.7%	8.6%	8.9%	8.7%
Net Absorption ('000 sq. ft.)	19,098	26,525	31,831	28,648	19,914	27,658	33,190	106,102	110,632
Completions ('000 sq. ft.)	14,865	21,943	20,527	13,449	14,383	21,233	19,863	70,784	68,492
Inventory ('000,000 sq. ft.)	8,449	8,471	8,491	8,505	8,519	8,540	8,560	8,505	8,573
Rent Growth	0.5%	0.6%	0.6%	0.7%	0.6%	0.7%	0.7%	2.4%	2.6%

RETAIL	2014 I	2014 II	2014 III	2014 IV	2015 I	2015 II	2015 III	2014	2015
Vacancy Rate	10.2%	10.0%	10.0%	9.8%	9.9%	9.8%	9.8%	10.0%	9.8%
Net Absorption ('000 sq. ft.)	4,045	3,417	2,590	4,591	5,776	4,880	3,699	14,643	20,910
Completions ('000 sq. ft.)	2,565	2,239	2,565	2,847	3,689	3,188	3,581	10,216	14,115
Inventory ('000,000 sq. ft.)	2,036	2,038	2,041	2,044	2,048	2,051	2,054	2,044	2,058
Rent Growth	0.4%	0.5%	0.5%	0.6%	0.5%	0.6%	0.6%	2.0%	2.3%

MULTI-FAMILY	2014 I	2014 II	2014 III	2014 IV	2015 I	2015 II	2015 III	2014	2015
Vacancy Rate	4.0%	4.0%	4.0%	4.1%	4.1%	4.1%	4.2%	4.0%	4.1%
Net Absorption (Units)	50,333	45,491	42,940	58,167	27,721	25,055	23,650	204,931	112,463
Completions (Units)	32,164	42,931	41,765	44,781	27,728	35,219	32,162	161,640	129,238
Inventory (Units in millions)	10.1	10.1	10.2	10.2	10.2	10.3	10.3	10.2	10.4
Rent Growth	1.4%	1.2%	1.1%	1.0%	1.0%	0.9%	0.9%	4.3%	3.5%

Sources: National Association of REALTORS® / Reis, Inc.

COMMERCIAL FORECAST: METRO VACANCY RATES - 2014.Q1

Source: NAR, Reis, Inc.		Office	Industrial	Retail	Multifamily
Albuquerque	NM	17.6		11.8	3.7
Atlanta	GA	19.6	13.8	13.3	6.1
Austin	TX	16.0	10.7	5.5	4.9
Baltimore	MD	15.7	11.6	6.6	3.2
Birmingham	AL	12.7		14.2	4.9
Boston	MA	13.3	18.2	6.0	3.7
Buffalo	NY	14.1		14.1	2.6
Central New Jersey	NJ	21.1		9.9	2.6
Charleston	SC	15.3		11.1	5.0
Charlotte	NC	17.2	12.4	9.9	5.3
Chattanooga	TN	16.2		14.7	4.6
Chicago	IL	18.4	8.8	10.7	3.5
Cincinnati	OH	19.6	8.2	13.1	3.6
Cleveland	OH	22.9	8.5	15.2	3.2
Colorado Springs	CO	18.6		15.3	3.8
Columbia	SC	17.2		11.1	5.9
Columbus	OH	19.4	8.8	15.7	4.9
Dallas	TX	22.6	12.4	12.4	5.2
Dayton	OH	25.2		16.0	5.2
Denver	CO	16.8	7.6	10.7	4.0
Detroit	MI	25.0	11.6	11.7	3.5
District of Columbia	DC	10.2			4.6
Fairfield County	CT	21.4		3.8	4.8
Fort Lauderdale	FL	19.2	8.6	10.3	3.8
Fort Worth	TX	15.8	10.4	11.9	4.8
Greensboro/Winston-Salem	NC	20.4		11.4	6.0
Greenville	SC	18.5		13.6	4.0
Hartford	CT	20.4		9.7	2.6
Houston	TX	14.2	7.5	11.8	6.4
Indianapolis	IN	19.1	9.2	14.6	5.4
Jacksonville	FL	20.6	7.9	13.0	6.3
Kansas City	MO	16.7	9.8	11.3	4.3
Knoxville	TN	14.5		11.0	4.9
Las Vegas	NV	25.5		12.2	5.0
Lexington	KY	15.3		8.7	5.8
Little Rock	AR	11.6		11.7	6.2
Long Island	NY	13.7		4.8	3.0

COMMERCIAL FORECAST: METRO VACANCY RATES - 2014.Q1

Source: NAR, Reis, Inc.

		Office	Industrial	Retail	Multifamily
Los Angeles	CA	15.2	3.8	5.7	3.2
Louisville	KY	15.5		9.6	4.5
Memphis	TN	22.1	14.2	11.3	7.6
Miami	FL	17.0	5.8	6.8	3.5
Milwaukee	WI	18.6		12.3	3.3
Minneapolis	MN	16.5	7.1	11.0	2.3
Nashville	TN	12.8	7.9	8.1	4.3
New Haven	CT	16.9		12.9	2.1
New Orleans	LA	13.3		11.6	6.2
New York	NY	9.5			2.3
Norfolk/Hampton Roads	VA	15.0		9.1	4.0
Northern New Jersey	NJ	18.1		5.3	3.4
Oakland-East Bay	CA	17.3	8.8	5.7	2.5
Oklahoma City	OK	16.9		13.8	5.3
Omaha	NE	15.5		8.8	2.9
Orange County	CA	16.6	3.7	5.3	2.9
Orlando	FL	17.4	11.0	11.7	5.1
Palm Beach	FL	18.1	6.4	11.6	5.3
Philadelphia	PA	13.9	9.7	9.1	3.5
Phoenix	AZ	24.6	10.8	10.1	4.9
Pittsburgh	PA	16.0	8.9	7.7	3.1
Portland	OR	13.2	7.7	7.9	3.2
Providence	RI	15.6		12.1	3.7
Raleigh-Durham	NC	14.6	15.9	9.4	4.3
Richmond	VA	14.4	14.8	9.5	4.3
Rochester	NY	16.2		12.2	2.8
Sacramento	CA	20.6	12.3	11.9	3.0
Salt Lake City	UT	16.9		11.9	3.6
San Antonio	TX	17.4	7.1	10.9	5.8
San Bernardino/Riverside	CA	22.6	6.1	9.4	3.2
San Diego	CA	15.3	6.5	6.1	2.5
San Francisco	CA	12.8	10.8	3.1	3.1
San Jose	CA	18.4	16.9	5.2	2.8
Seattle	WA	13.5	5.9	6.7	4.2
St. Louis	MO	17.5	6.8	11.9	4.7

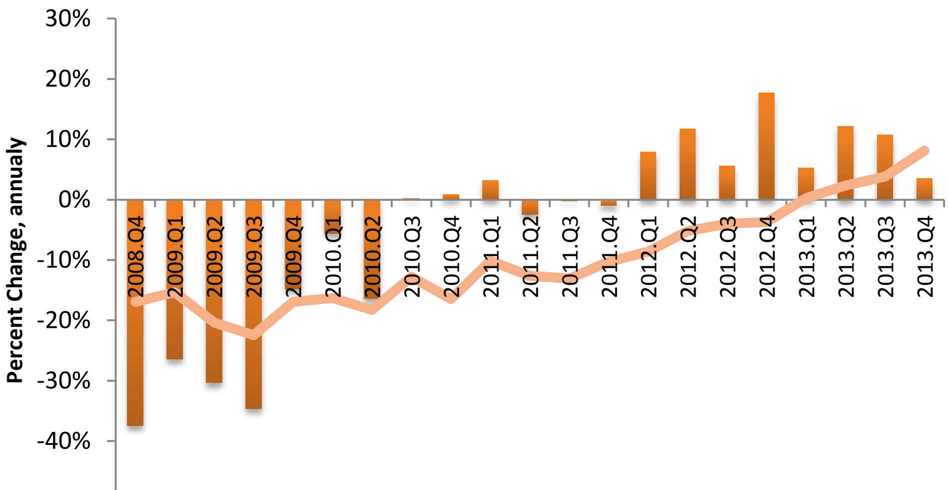
COMMERCIAL FORECAST: METRO VACANCY RATES - 2014.Q1

Source: NAR, Reis, Inc.		Office	Industrial	Retail	Multifamily
Suburban Maryland	MD	14.8	10.9	8.2	3.5
Suburban Virginia	VA	17.4	10.0	6.3	3.6
Syracuse	NY	14.9		14.8	3.1
Tacoma	WA	16.4		12.5	3.7
Tampa-St. Petersburg	FL	21.1	7.5	11.0	4.2
Tucson	AZ	15.3		9.5	4.3
Tulsa	OK	16.4		16.6	5.3
Ventura County	CA	17.0		8.3	2.6
Westchester	NY	18.3		7.7	2.9
Wichita	KS	17.6		13.1	4.1

FEBRUARY 2014

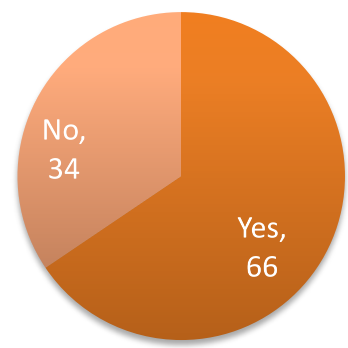
INVESTMENT TRENDS AT A GLANCE

REALTORS® Commercial Sales (% Chg YoY)

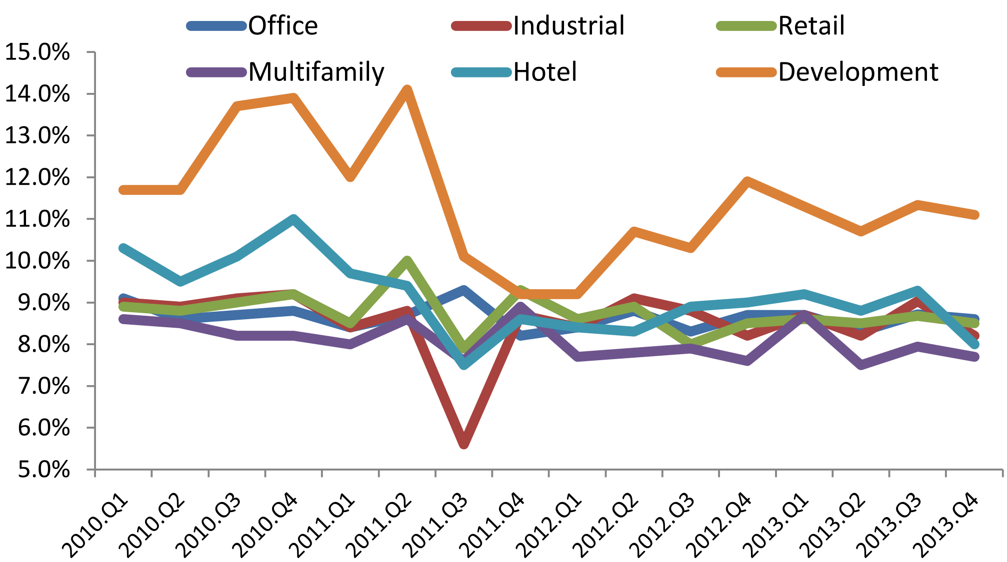


Source: National Association of Realtors®

REALTORS® CRE Sales Transaction (%)



REALTORS® Commercial Cap Rates



Source: National Association of Realtors®

2013.Q4 Cap Rates	
Office	8.6%
Industrial	8.2%
Retail	8.5%
Multifamily	7.7%
Hotel	8.0%
Development	11.1%

REALTOR® RESEARCH

The Research Division of the National Association of REALTORS® monitors and analyzes monthly and quarterly economic indicators, including retail sales, industrial production, producer price index, gross domestic product and employment data which impact commercial markets over time. In addition, the Research Division provides several products covering commercial real estate:

- Commercial Real Estate Quarterly Market Survey
- Commercial Real Estate Lending Survey
- Commercial Member Profile
- CCIM Quarterly Market Trends
- Expectations and Market Realities in Real Estate 2014

If you have questions or comments regarding this report or any other commercial real estate research, please contact George Ratiu, Director, Quantitative & Commercial Research, at gratiu@realtors.org.

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