

COMMERCIAL REAL ESTATE MARKET TRENDS: Q1.2018



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Download: www.nar.realtor/research-and-statistics/commercial-real-estate-market-survey

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May 2018

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May 2018

Introduction

Commercial space is heavily concentrated in large buildings, but large buildings are a relatively small number of the overall stock of commercial buildings. In terms of inventory, commercial real estate markets are bifurcated, with the majority of buildings being relatively small, while the bulk of commercial space is concentrated in larger buildings.

The bifurcation continues along transaction volumes as well, with deals at the higher end—\$2.5 million and above—comprising a large share of investment sales, while transactions at the lower end make up a smaller fraction.

Data are readily available for transactions in excess of \$2.5 million from several sources, including Real Capital Analytics (RCA). However, in general, data for smaller transactions—many of which are intermediated by REALTORS®—are less widely available. National Association of REALTORS® (NAR) *Commercial Real Estate Market Trends* gathers market information for small cap properties and transactions, mostly valued below \$2.5 million.

Q1.2018 Update

The first quarter of 2018 marked continued gains in REALTORS®' market trends. Sales volume rose by 4.2 percent on a yearly basis, as cap rates experienced slight compression. The shortage of available inventory remained the principal concern for REALTORS®, as a wide pricing gap between buyers and sellers affected about 20 percent of respondents. Prices advanced 6.7 percent year-over-year. Leasing activity moderated, posting higher volatility, as vacancies picked up.

GEORGE RATIU

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May 2018

INVESTMENT SALES

**Q1.2018 Percentage of REALTORS®
Who Closed a Sale Transaction**

65%

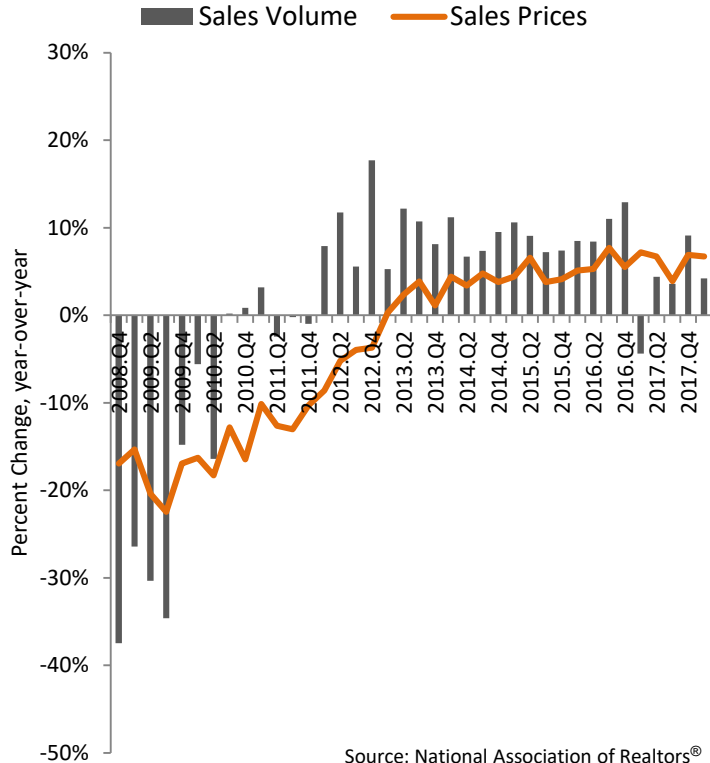
**Q1.2018 Average Transaction Value
\$2.97 million**

**Q1.2018 Investment
Volume**

+4.2%

**Q1.2018 Investment
Prices**

+6.7%



Source: National Association of Realtors®

Our market is constrained by antiquated zoning ordinances and the prolonged approval process,

Downtown Beech Grove is an undiscovered cheap business opportunity.

The Sacramento region is very dependent on the overall health of the State and Nation. We just hope those two stay strong for long enough for Sacramento to get its share of this strong market.

Commercial market currently in Orange Osceola county booming. In coming times, I can predict some decline due to rising gas prices and declining stock market.

Hospitality market is declining in April 2018 compared to 2017. Residential market has inventory but not many closing happening. Many buyers in market are waiting for prices to go down.

The Denver metro market is extremely active. There is great demand for real property of all types.

A lot of commercial shoppers out there now.

Buyers are very selective and specific even with the lack of inventory.

Current market is brisk. Shortage of Industrial Buildings. Multi Units have caught up with demand.

County Government resistance to re-zoning from agricultural to Industrial is biggest hurdle to solving availability shortage.

May 2018

INVESTMENT SALES

Historical low vacancy rates for industrial and multifamily

Increase in foreign investment, as well as new companies relocating to Kentucky from the likes of California, Ohio, Illinois, Michigan, New York, due to a more favorable business environment, and quality of life.

Desoto County has about 40% of the capital investment money in the 8 County Metro area Around Memphis. It is among the best growth area percent wise in the State and ranks high in the nation.

Distressed Properties currently present many opportunities in MULTIPLE STATES.

Commercial real estate is on a slight uptick compared to 2018. Stock market is way too volatile to stay invested. Bonds are on a major decline. Commodities are soon to bounce back by end of third quarter. Real estate will rise in value, especially multi-family.

EVERYONE WANTS A DEAL. Most customers are concerned of what the property will be worth if we have another recession.

The market is good, cap rates are down and prices are up. Increasing mortgage rates will cause some prices to fall.

Hospitality is very slow due to high down payments required by all lenders

I do believe that changing marketing strategies could capture more of any given market by gaining market share on the private sector buyers. Social Media is the way to go in the future.

Influenced by national market projections. Concern about inflation, rates and a 2020 possible downturn.

Investment properties aren't hitting the market. Empty properties are hitting heavily.

Lot of activity, however, the contracts and leasing activity are lagging.

Market is in flux, but little to no industrial available, and new development of industrial very costly.

Market is out of balance, costs are rising too quickly.

Market still strong looking stronger for next year or two at least!

Not enough industrial. Not enough industrial land available. Limited options for anything affordable.

Other than the uncertainty of Amendment 2, we have a very positive market. Low inventory to lease and virtually no industrial on the market.

Our South Bay Area market is excellent.

Ours is a small market near a metropolitan area. We are desperately in need for new development. Most of our shopping centers are 100% occupied and demand is strong for any space that opens up. Land here is expensive so we don't see developers often unless they reside in the area.

Sales are down, the number of listings are down. Smaller office space 1000-1800 is hot.

REALTORS® Q1.2018 Prices

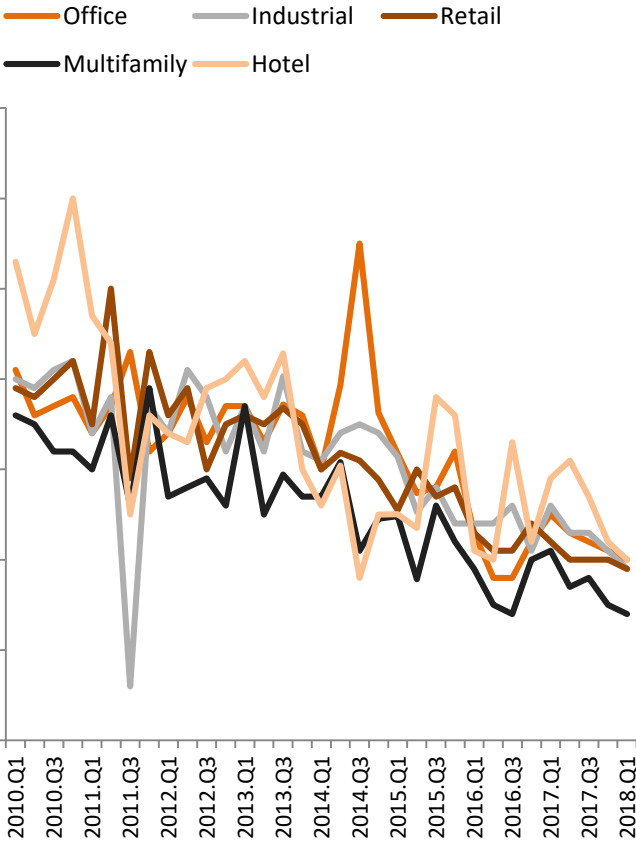
Office Class A(\$/SF)	\$163
Office Class BC (\$/SF)	\$124
Industrial Class A (\$/SF)	\$95
Industrial Class BC (\$/SF)	\$79
Retail Class A (\$/SF)	\$135
Retail Class BC (\$/SF)	\$105
Apartment Class A (\$/Unit)	\$72,136
Apartment Class BC (\$/Unit)	\$63,858

Source: National Association of REALTORS®

May 2018

INVESTMENT SALES

REALTORS® Commercial Capitalization Rates



Source: National Association of Realtors®

Q1.2018 REALTORS® with International Transactions

11%

Q1.2018 Average Number of Sales

3

Q1.2018 Average Cap Rate in REALTORS® Markets

6.8%

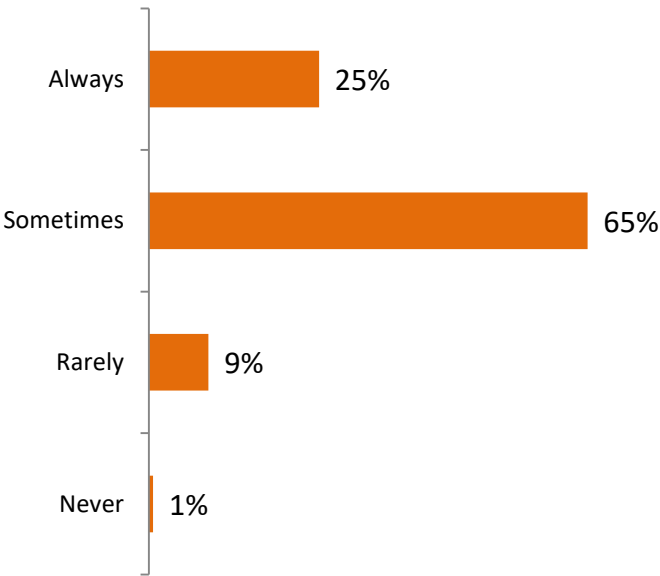
REALTORS® Q1.2018 Cap Rates

Office Class A	6.6 %
Office Class BC	7.4 %
Industrial Class A	6.7 %
Industrial Class BC	7.2 %
Retail Class A	6.4 %
Retail Class BC	7.4 %
Apartment Class A	5.9 %
Apartment Class BC	6.9 %
Hotel Class A	6.5 %
Hotel Class BC	7.5 %

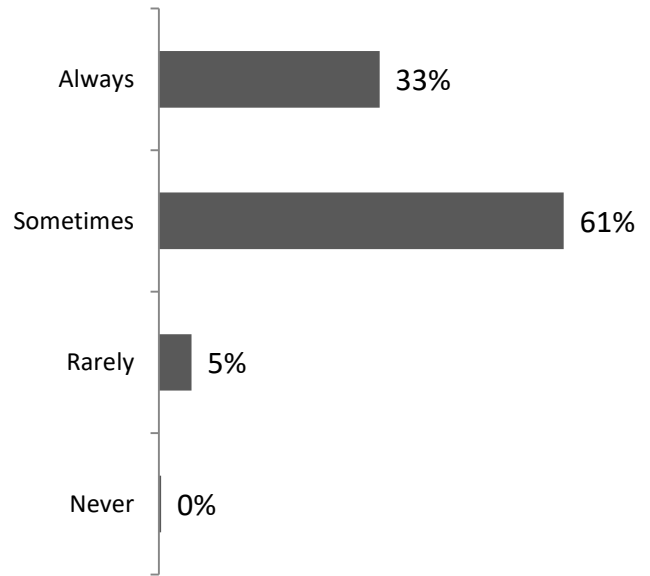
Source: National Association of REALTORS®

INVESTMENT SALES

Appraisers' Familiarity with Market



Appraisers' Familiarity with Property Type



Strong fundamentals, steady growth, extortionist government officials (fees, regs); solid next 24-months.

The market is looking optimistic. Good bit of activity but no closings.

The market overall is doing quite well. Occupancy rates are up. Development is up. Construction is up. Parking issues are negatively affecting leasing and occupancy. No real solution in sight for that.

There is a strong shortage of properties. Sellers are asking unrealistic prices, dangerous for unsuspecting new investors.

Q1.2018 Market Conditions

Sell Companies Going Concern Business Believe Inventory Sales
 Industrial Low Vacancy Activity Growth Market
 slow Commercial Little Properties Improving Strong
 Think Retail Biggest Investment Difficult Prices

May 2018

LEASING FUNDAMENTALS

Q1.2018 Percentage of REALTORS® Who Closed a Lease Transaction

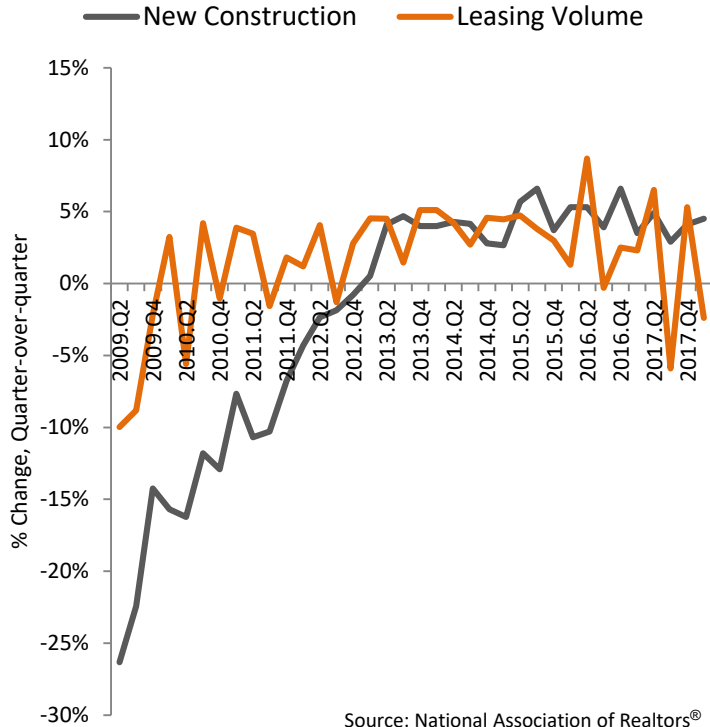
59%

Q1.2018 Leasing Volume

-2.4%

Q1.2018 Leasing Rates

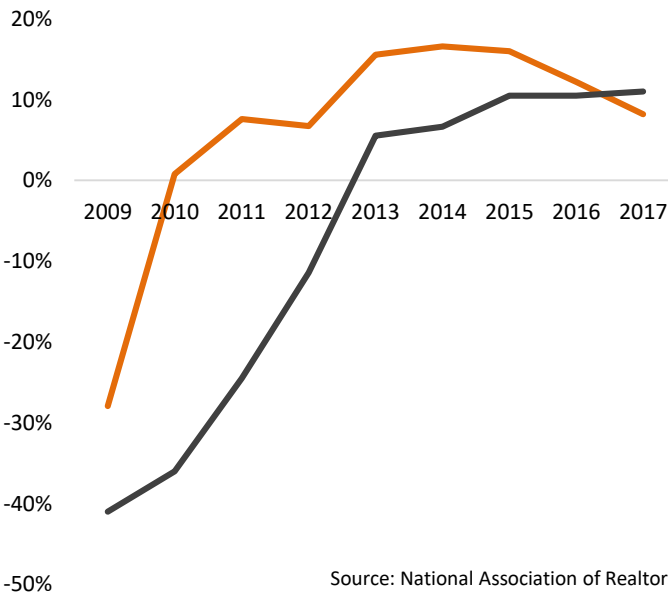
+6.1%



Source: National Association of Realtors®

REALTOR® Commercial Leasing Trends

— Leasing Volume — Leasing Rates

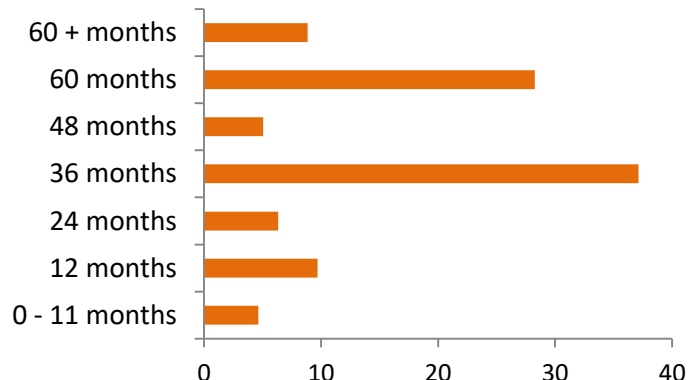


Source: National Association of Realtors®

REALTORS® Q1.2018 Rents

Office	27 / Sq.Ft.
Industrial	18 / Sq.Ft.
Retail	28 / Sq.Ft.
Multifamily	879 / Unit

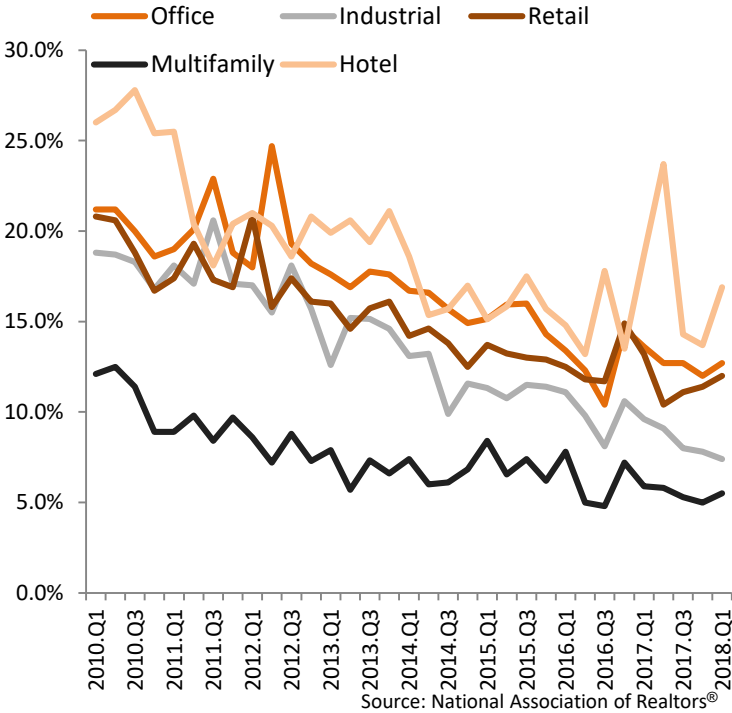
Average lease term during last transaction (%)



May 2018

LEASING FUNDAMENTALS

REALTORS® Commercial Vacancy Rates



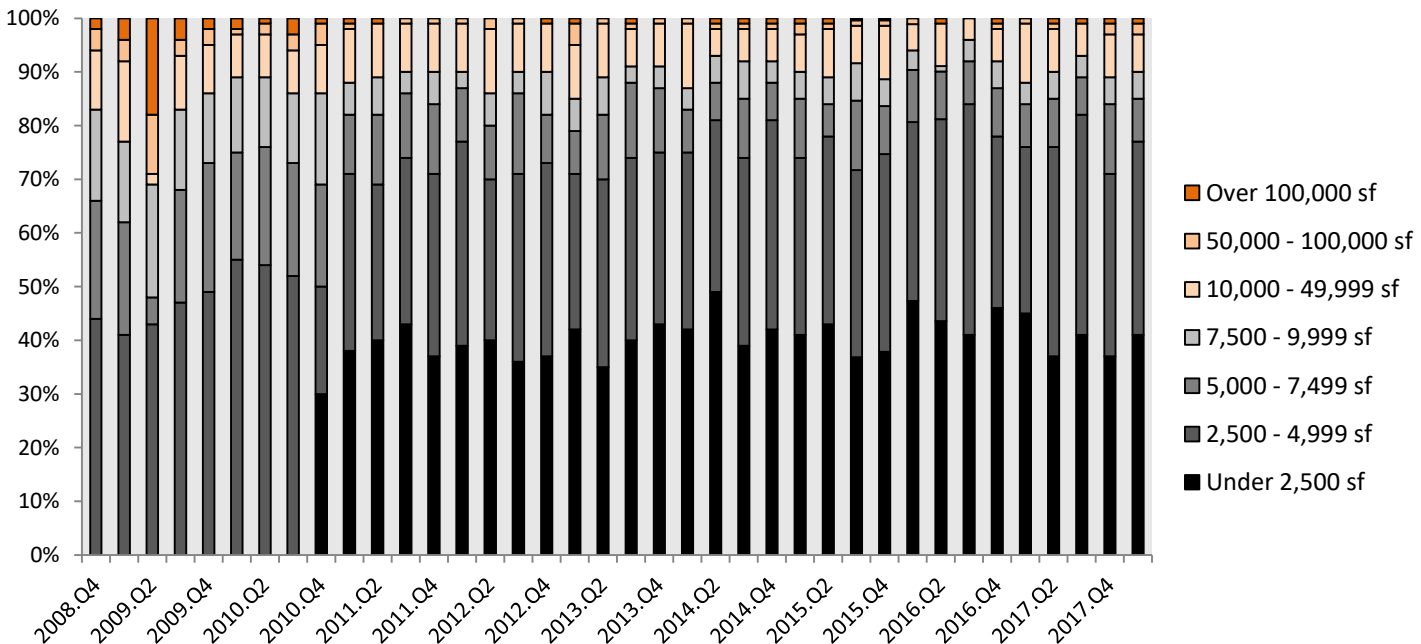
REALTORS® Q1.2018 Vacancy Rates

Office	12.7 %
Industrial	7.4 %
Retail	12.0 %
Multifamily	5.5 %
Hotel	16.9 %

An oversupply of office and retail inventory, many properties suffering from deferred maintenance, combined with Tenant concerns about the economy, makes for a more challenging leasing environment.

Fundamentals for Class B/C multifamily are improving. Generational holders are divesting, novice investors are entering w/ FHA financing & seasoned vets are in expansion mode.

Average Leased Space by Size, Quarterly*



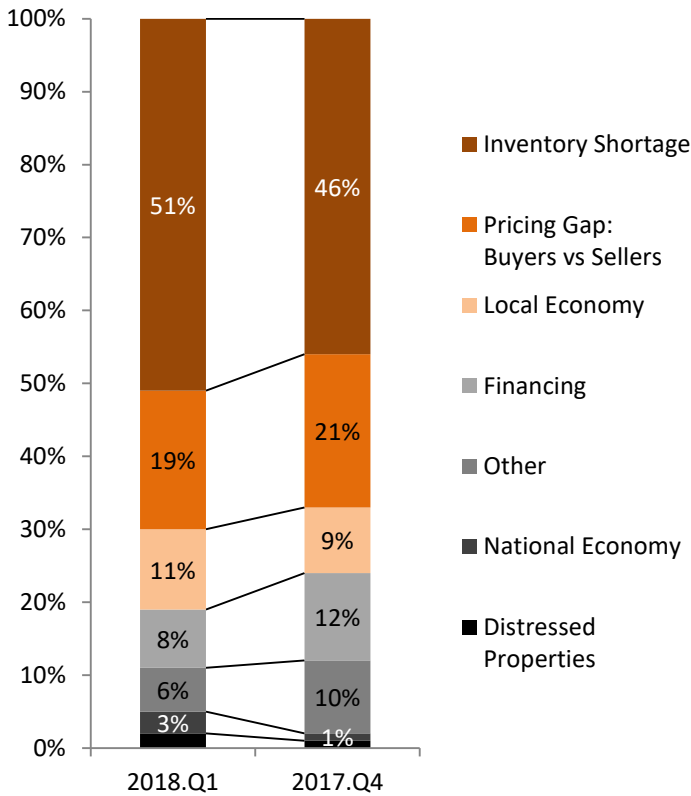
*Prior to 2010.Q4 "Under 5,000 sf was the lowest category available.

Source: National Association of Realtors®

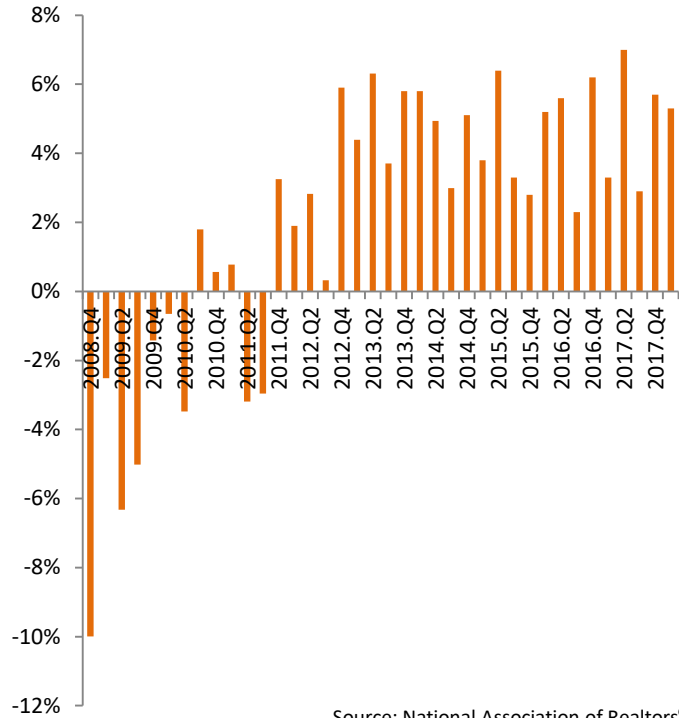
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LEASING FUNDAMENTALS

REALTORS® Most Pressing Challenges



Direction of Business Opportunity (QoQ)



Source: National Association of Realtors®

Q1.2018 Market Opportunities

Companies TAX Lots Multi Investment Product Inventory Medical
 Growth Economy Retail Location Properties
 Investors Industrial Apartments Land Buyers Market
 Business Space Renovated New Construction Financing
 New Development Increased

May 2018

Methodology

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 leasing transactions, along with information on current economic challenges and future expectations.

In April 2018, NAR invited a random sample of 61,242 REALTORS® with an interest in commercial real estate to complete an on-line survey. A total of 876 complete responses were received, for an overall response rate of 1.4 percent. The main measure of central tendency employed in the analysis is the mean.





The National Association of REALTORS®, “The Voice for Real Estate,” is America’s largest trade association, representing 1.3 million members, including NAR’s institutes, societies and councils, involved in all aspects of the real estate industry. NAR membership includes brokers, salespeople, property managers, appraisers, counselors and others engaged in both residential and commercial real estate. The term REALTOR® is a registered collective membership mark that identifies a real estate professional who is a member of the National Association of REALTORS® and subscribes to its strict Code of Ethics. Working for America’s property owners, the National Association provides a facility for professional development, research and exchange of information among its members and to the public and government for the purpose of preserving the free enterprise system and the right to own real property.

NATIONAL ASSOCIATION OF REALTORS® RESEARCH GROUP

The Mission of the National Association of REALTORS® Research Group 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.

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