

National Association of REALTORS®

COMMERCIAL REAL ESTATE MARKET TRENDS: Q2.2018



The Voice for Real Estate®



NATIONAL
ASSOCIATION of
REALTORS®

Commercial Real Estate Market Trends: Q2.2018

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

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August 2018

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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.

Q2.2018 Update

The second quarter of 2018 witnessed a slowdown in investment sales in REALTORS® markets. Sales volume rose by only 0.5 percent on a yearly basis, as cap rates moved sideways. The shortage of available inventory remained the principal concern for REALTORS®, as a wide pricing gap between buyers and sellers affected over 20 percent of respondents. Prices advanced 5.1 percent year-over-year. Leasing activity picked up, as vacancies experienced upward pressures.

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August 2018

INVESTMENT SALES

**Q2.2018 Percentage of REALTORS®
Who Closed a Sale Transaction**

71%

Q2.2018 Average Transaction Value

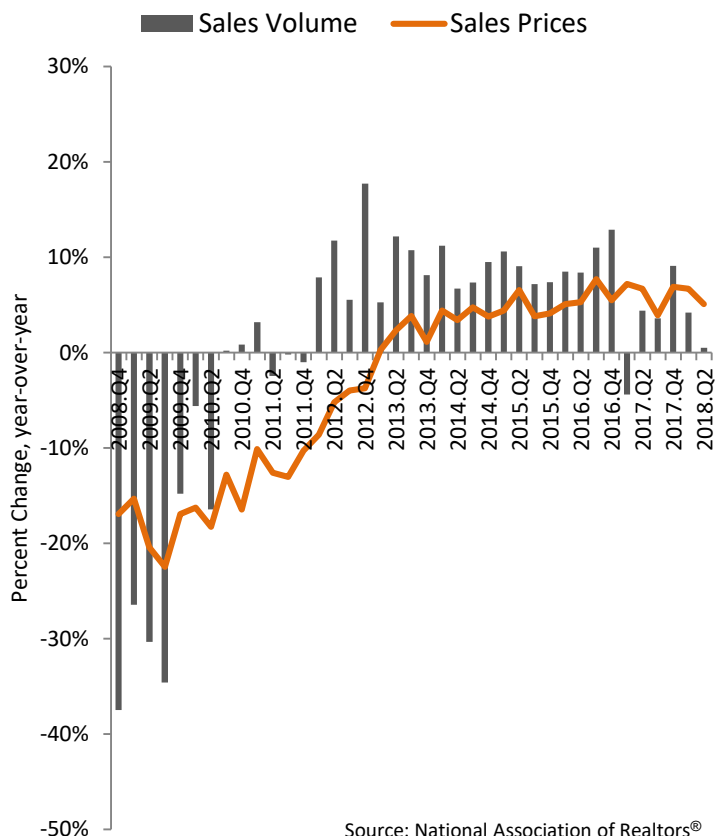
\$1.79 million

**Q2.2018 Investment
Volume**

+0.5%

**Q2.2018 Investment
Prices**

+5.1%



Great deal of interest, inventory low, and investors are reluctant to pull the trigger on new development. Concerns are growing about this administration in Washington, and the long-term effect it will have on the market, overall; Tariffs, Fed Reserve, etc.

Lenders have been a problem over the last three deals. Smaller regional banks seem to be getting the job done even on SBA loans.

Market is getting stronger, but resources/inventory are diminishing quickly. There are a number of projects under construction, but we are a ways out from completion.

Market is strong in Phoenix and I think this market will remain strong for several years. A tremendous amount of growth and companies move into this area.

All of CT, excluding Fairfield County, is in the dumpster and will be for a very long time...because of the economic hardships that the state government has enacted, and cannot find a cure for the loss of flagship businesses/companies all over the state.

Baldwin County, AL is the fastest growing county in Alabama and in top 10 in America.

Colorado is on fire, and will be for the next few years.

I am beginning to see signs of stress. Unrealistic sellers who insist on full price or higher.

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INVESTMENT SALES

Market looks good. We really need inventory. However, buyers and sellers are really apart in terms of price.

Market suffers from a shortage of inventory

My primary business is site selection for a QSR and pricing is rising to the point where it is very difficult to make economic sense.

Our market is showing continued strength due to the business friendly, no nonsense business political climate in Texas. People and businesses are evacuating out-of-control states like California. With a great influx of people coming from every direction we get the good and the bad. First the good, more homes, more businesses, growth in human capital, greater opportunity. The flip side is the stress on our state's infrastructure, roads, schools, utilities, including our electrical grid (ERCOT) and water supplies. These issues impact not only our state as a whole, but also our cities and towns.

The current market strength varies by sector. Warehouse demand from e-commerce users has driven warehouse cap rates down into the low single digits, resulting in no product for other types of warehouse users. Office is still weak, but is still benefitting from conversions into multifamily. Retail is getting stronger, but the restaurant sector is seeing a shake-out. Finally, the common thought on multifamily is that a correction is overdue.

Outside of hot downtown markets, the Chicago area feels somewhat like an economic slowdown.

Rents are high and household income is not keeping pace. I fear a correction coming in the next year or two.

Resort area. People on board want to keep it resort. We have no businesses for our young people growing up. Hard to hire good help.

Retail Market is stable, office space vacancy rates have increased about 1% to 15%. Mixed-use development continues to grow.

Slower market, less inventory, higher pricing and demand has slowed compared to the past 2 years.

The current market is vibrant, and with the unemployment rates closer to full employment, I see better economic growth in the next few months. The only challenge is the adjustment upwards of the interest rates, banks are already underwriting with a risk factor forecasted interest rate of 7%, which will create inflationary trends in the future. Salaries may go up as employers compete for talent. Construction has a slow response to the demand, creating upper prices in all property types. In Florida there are two challenges: sunset of the property tax cap for commercial properties and flood insurance.

The lack of closings had nothing to do with a downturn, but the buildup of things to come. We put more things under contract last quarter than in a long time. This next quarter should be really strong.

Very little commercial construction but absorbing existing vacant space and seeing gradual increases in rental levels and a decrease in business failures.

We are at a standstill because building new buildings does not pencil out and we don't have enough inventory.

REALTORS® Q2.2018 Prices

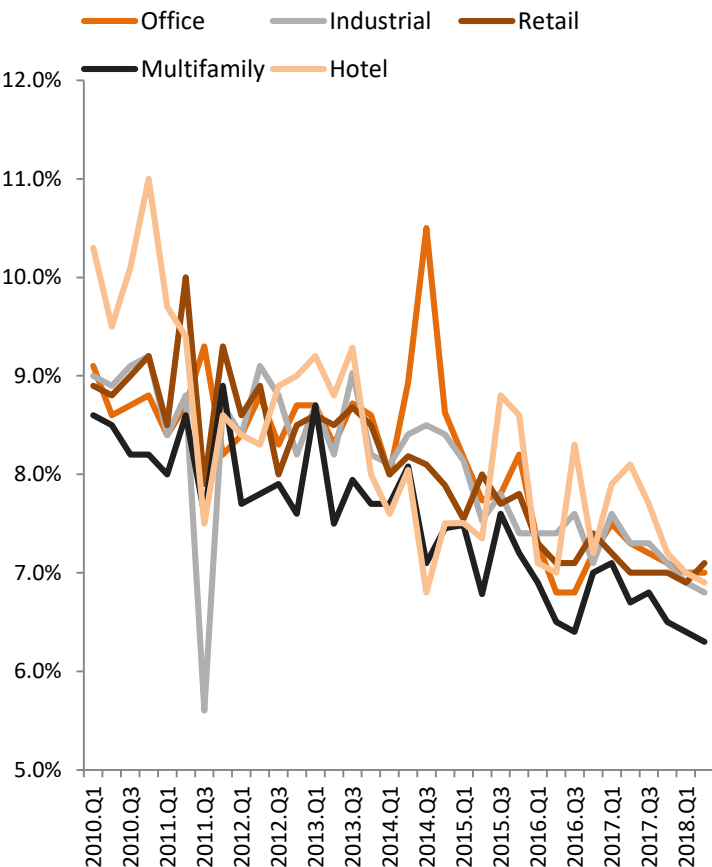
Office Class A(\$/SF)	\$163
Office Class BC (\$/SF)	\$131
Industrial Class A (\$/SF)	\$93
Industrial Class BC (\$/SF)	\$71
Retail Class A (\$/SF)	\$130
Retail Class BC (\$/SF)	\$107
Apartment Class A (\$/Unit)	\$95,700
Apartment Class BC (\$/Unit)	\$42,300

Source: National Association of REALTORS®

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INVESTMENT SALES

REALTORS® Commercial Capitalization Rates



Source: National Association of Realtors®

Q2.2018 REALTORS® with International Transactions

12%

Q2.2018 Average Number of Sales

3

Q2.2018 Average Cap Rate in REALTORS® Markets

6.8%

REALTORS® Q2.2018 Cap Rates

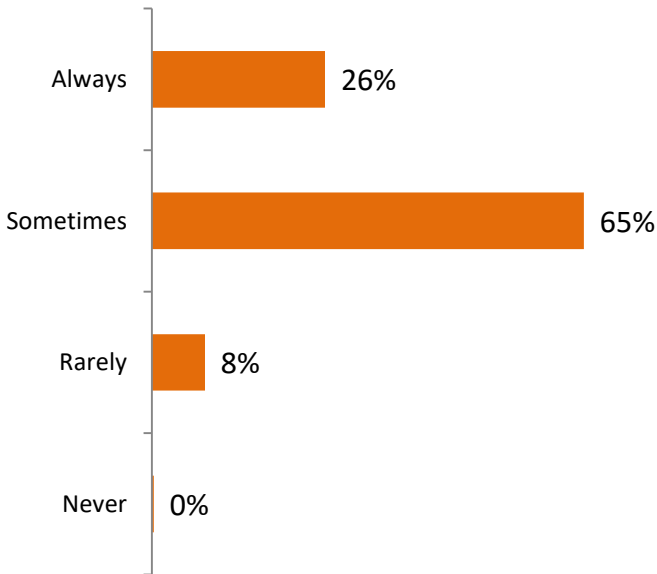
Office Class A	6.5 %
Office Class BC	7.4 %
Industrial Class A	6.4 %
Industrial Class BC	7.3 %
Retail Class A	6.6 %
Retail Class BC	7.5 %
Apartment Class A	5.9 %
Apartment Class BC	6.8 %
Hotel Class A	6.4 %
Hotel Class BC	7.4 %

Source: National Association of REALTORS®

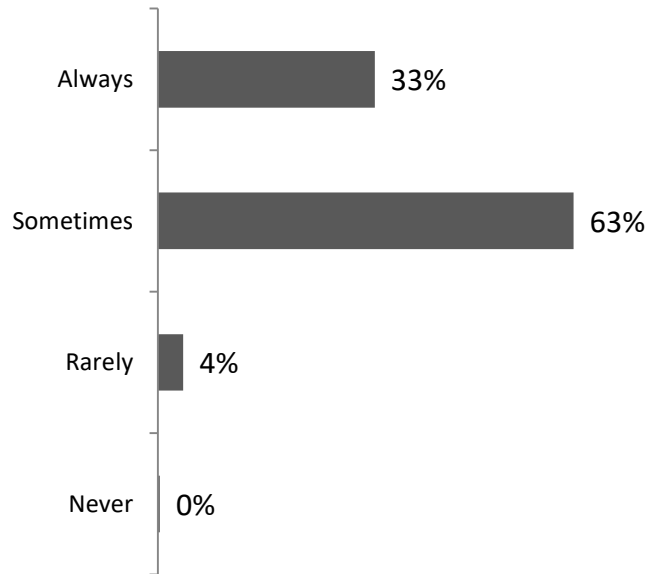
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INVESTMENT SALES

Appraisers' Familiarity with Market



Appraisers' Familiarity with Property Type



We have a low supply of industrial and mixed use. Any buildings that hit the market, over 10,000 ft, generally go under contract within 6 months. We need more but at the same time can't determine whether an entire second business park is actually prudent due to the unknowns of demand.

With local and state TIF money, the market is getting saturated. I call this funny money. Back in the day, all of our construction came from our own pockets with no government handouts.

Q2.2018 Market Conditions

Slow Correction Started Higher Development Banks Survey Tight
 Strong Rents Rates Continues Business Sales
 Market Increased Commercial NAR Inventory
 Uncertain Property Capital Space Peak Economic Growing

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LEASING FUNDAMENTALS

Q2.2018 Percentage of REALTORS® Who Closed a Lease Transaction

55%

Q2.2018 Leasing Volume

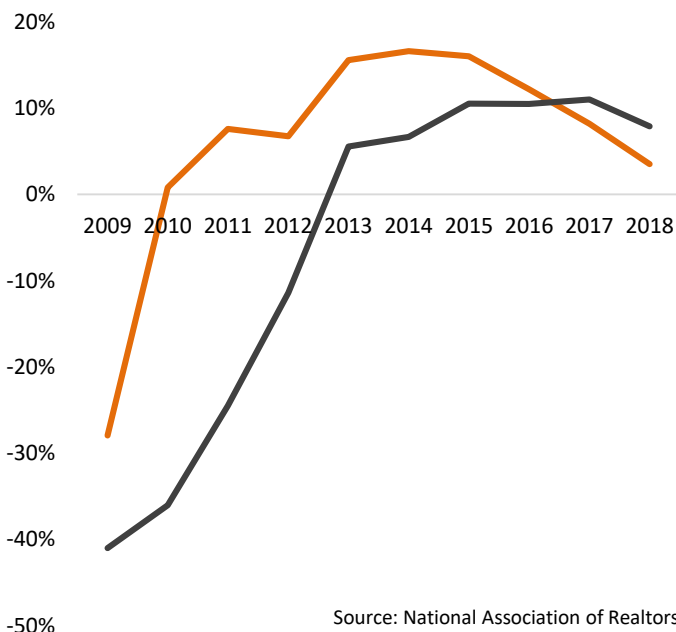
-5.9%

Q2.2018 Leasing Rates

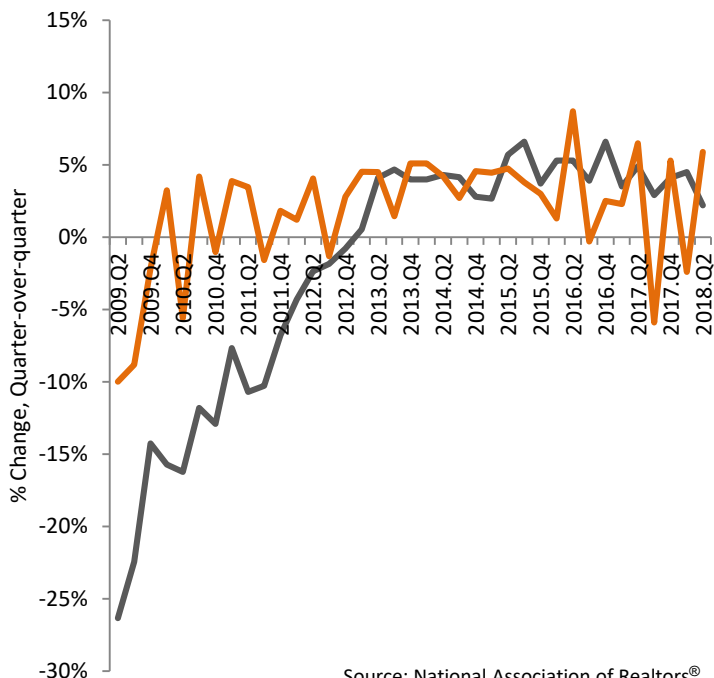
+1.8%

REALTOR® Commercial Leasing Trends

Leasing Volume Leasing Rates



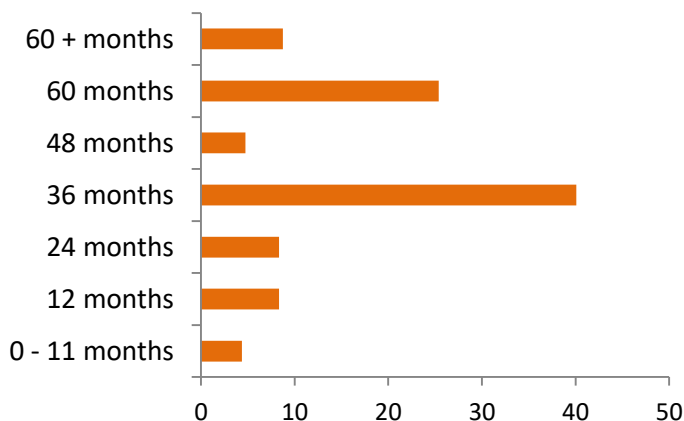
New Construction Leasing Volume



REALTORS® Q2.2018 Rents

Office	27 / Sq.Ft.
Industrial	14 / Sq.Ft.
Retail	25 / Sq.Ft.
Multifamily	917 / Unit

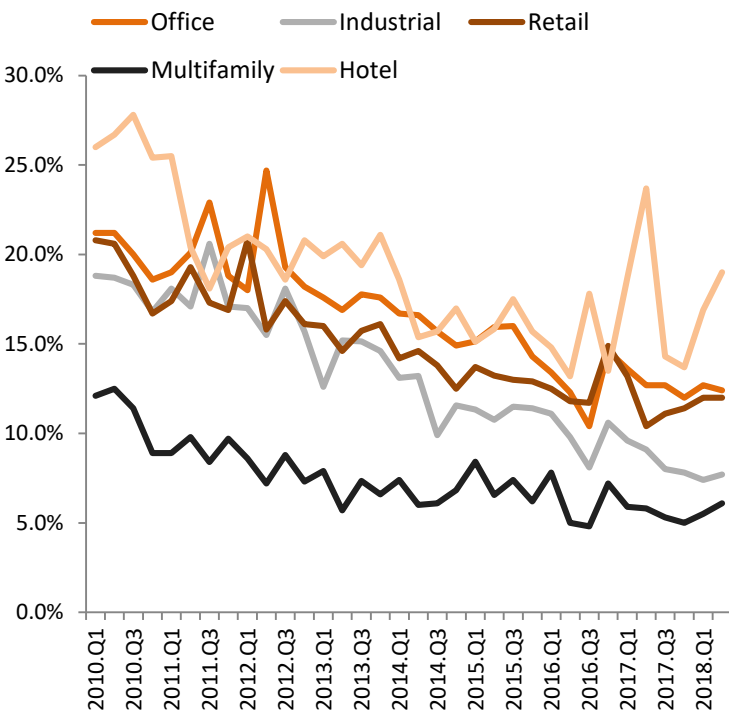
Average lease term during last transaction (%)



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LEASING FUNDAMENTALS

REALTORS® Commercial Vacancy Rates



Source: National Association of Realtors®

REALTORS® Q2.2018 Vacancy Rates

Office	12.4 %
Industrial	7.7 %
Retail	12.0 %
Multifamily	6.1 %
Hotel	19.0 %

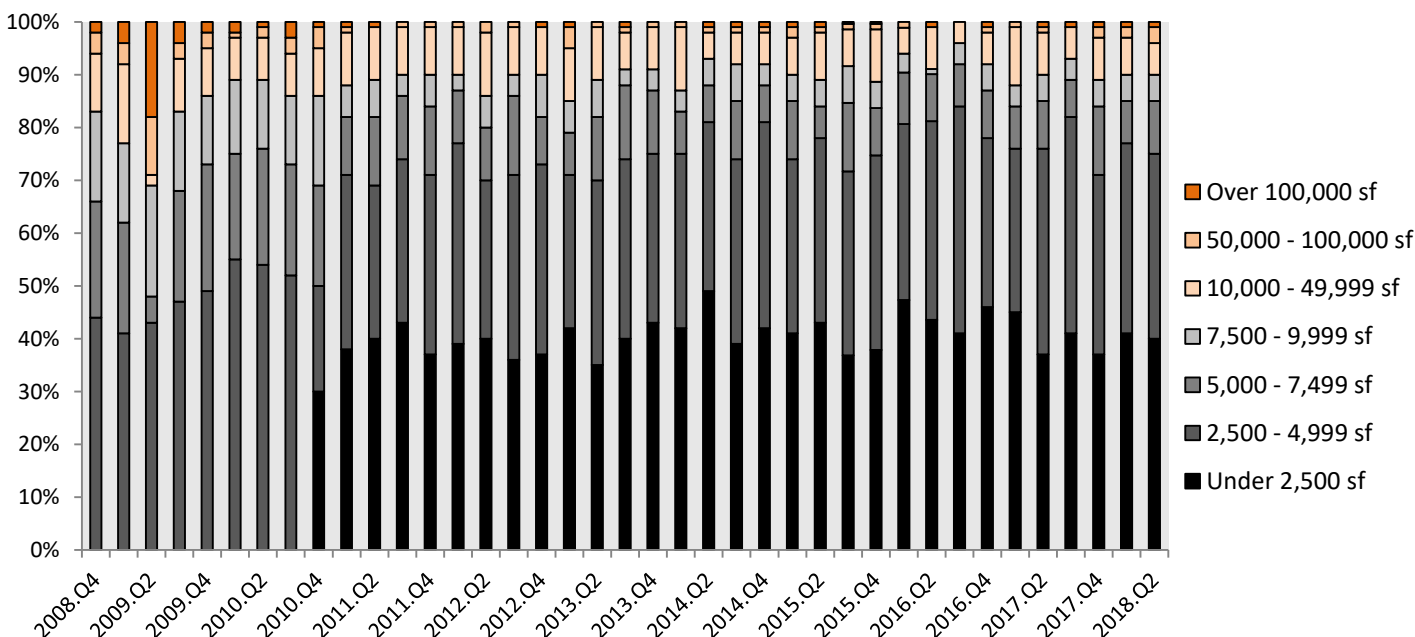
I have no space available at this time. The main problem I have had in the past with leasing space is contribution to finish out cost. Many tenants do not want to contribute much money, if any.

Activity is high, inventory is low & spaces are leasing up and selling.

Larger retail spaces available, which is not in demand. Customers want small spaces.

Low vacancy rates, high demand for multi-family units, rising rents. Constrained regulatory environment is a deterrent for construction.

Average Leased Space by Size, Quarterly*



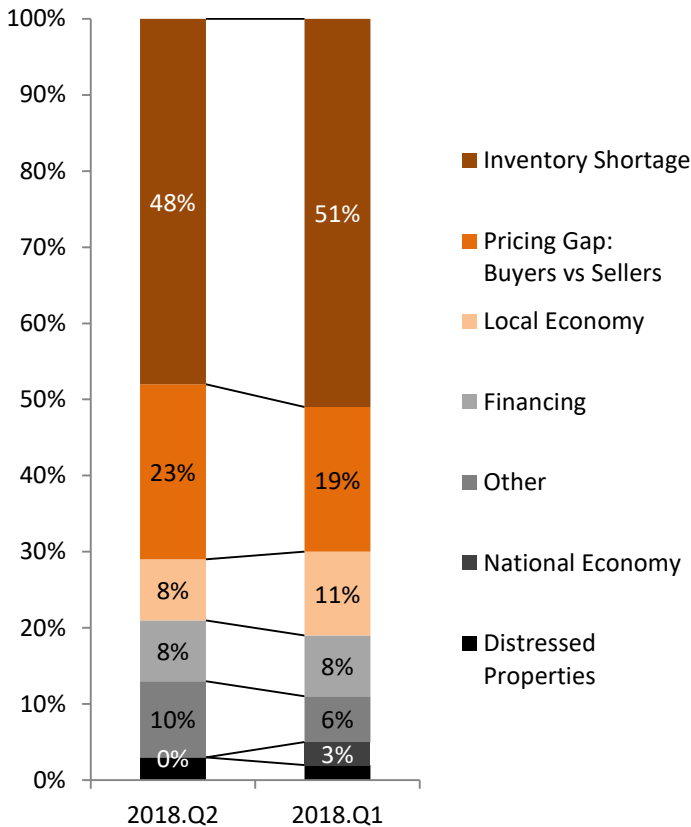
*Prior to 2010.Q4 "Under 5,000 sf was the lowest category available.

Source: National Association of Realtors®

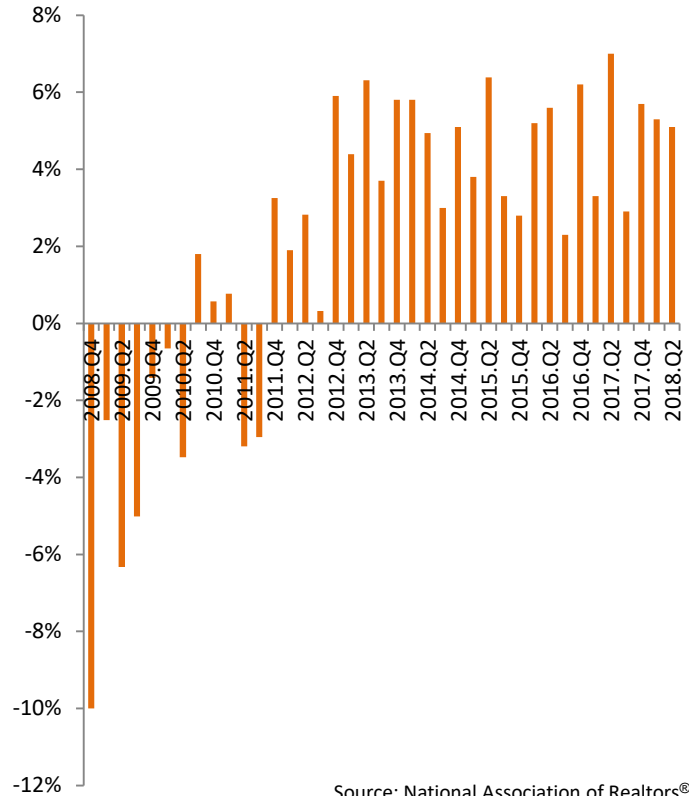
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LEASING FUNDAMENTALS

REALTORS® Most Pressing Challenges



Direction of Business Opportunity (QoQ)



Source: National Association of Realtors®

Q2.2018 Market Opportunities

Apartments Flex Space Tenants Medical Land Centers Retail
 Financing Market Multi Family Demand Redevelopment
 Industrial New Construction Properties Local
 Development Companies Growth Rates Inventory
 Lease Low Good Economy Buyers Warehouse Space Value Housing

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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 July 2018, NAR invited a random sample of 62,789 REALTORS® with an interest in commercial real estate to complete an on-line survey. A total of 1,010 complete responses were received, for an overall response rate of 1.6 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 produce timely, data-driven market analysis and authoritative business intelligence to serve members, and inform consumers, policymakers and the media in a professional and accessible manner.

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