

National Association of REALTORS®

COMMERCIAL REAL ESTATE MARKET TRENDS: Q3.2018

The Voice for Real Estate®



NATIONAL
ASSOCIATION of
REALTORS®

Commercial Real Estate Market Trends: Q3.2018

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

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November 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.

Q3.2018 Update

The third quarter of 2018 recorded continued advances in investment sales in REALTORS® markets. Sales volume rose by 1.6 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 at a slower 1.4 percent year-over-year rate. Leasing activity trended upward, as vacancies experienced upward pressures.

GEORGE RATIU

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INVESTMENT SALES

Q3.2018 Percentage of REALTORS® Who Closed a Sale Transaction

72%

Q3.2018 Average Transaction Value

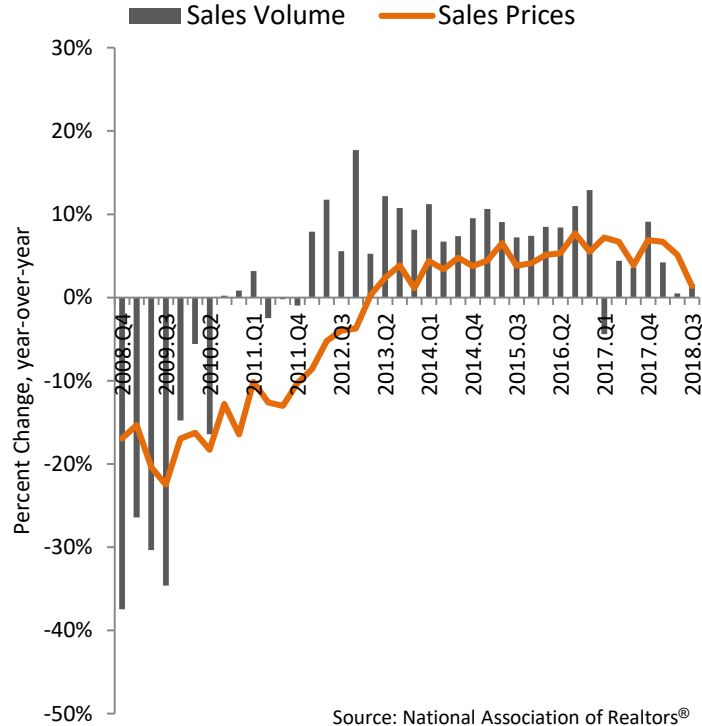
\$1.80 million

Q3.2018 Investment Volume

+1.6%

Q3.2018 Investment Prices

+1.4%



Source: National Association of Realtors®

Business has markedly slowed over the past two quarters. Local storefronts have become increasingly difficult to lease and potential tenants are asking for larger concessions.

Every body is developing speculative space in Jacksonville right now. The St. Johns River is currently being to 47' to make way for deeper draft vessels coming from Asia so that they cab increase capacity.

Cap rates have to rise to offset the rising interest rates. Prices for properties are too high and we are in negative leverage.

In my opinion, new construction is a factor in our local market as suburban markets expand outside of Jackson. I like to see redevelopment, but it doesn't occur as frequently as new construction. Leasing opportunities are stable and should increase in the foreseeable future.

Commercial sites are booming & building everywhere, even cross street form empty plaza hey still building up getting better opportunities to tenant who are moving from old o new shopping plaza , that may lead to recession soon.

Lack of Inventory for retail and apartments. Slowdown in Condo sales thus condos reverting to rentals.

It's a very strong market. We have experienced 40% more phone calls. But, have still been able to do more business than last quarter.

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INVESTMENT SALES

LOTS of new commercial construction. HUGE movement here on new high rise residential rental and residential condos For Sale, and HUGE movement for 10-15 story mixed residential and commercial in downtown Iowa City. Coralville, IA is HOT for NEW commercial with 2000-5000 sq. ft. and residential condos both Rent and Sale. HOT.

My core business is sales and leasing for small business, which in our market is doing quite well. There has been a big influx of corporate tenants and jobs here, thus with the "spin-off" in services my small business folks have been doing quite well.

Retail and office are still pretty tight. Not enough inventory in A and B locations

Seems to be in flux due to FED rate concerns. Inventory remains low with strong demand but slowing sales.

Apartment market is changing. Rents are going down and more units coming online.

Market is strong in Orange County. Deals are hard to come by and sellers are still in the driver seat although many buyers are on the sidelines unless they HAVE to buy.

Office leasing is slowing down, industrial is about the same.

Our market is leveling and prices are starting to come down for the last two months in some areas.

Phoenix will out perform in every food group...look for double digit growth

Properties I've had listed 8+ years are getting offers and closing. This administration has been great for Real Estate in my market. Don't necessarily agree with President, but his policies are good for us, jobs, and real estate.

Real estate property assessments far exceed current market values which has had an adverse impact on property values especially in view of a climate of rising mortgage interest rates. This is a very serious problem which can only result in further loss of the affluent population which has other options in other states..

Over all Market has leveled off. Inventory is low. Price of construction is up and not in Balance with adequate ROI. Land prices up.

There has been a sharp downturn in commercial activity. Not sure why. Maybe seasonal. Maybe increasing interest rates. Maybe high prices.

Transaction speed is slowing as investors and tenants become more cautious

Very low consumer confidence has damaged our market except for franchised restaurants.

Still strong but slightly plateauing; by national standards still very strong, and job creation continues to be the driver.

Suburban property lease rates have not changed must in several years for the small office, retail and industrial in Lawrenceville GA.

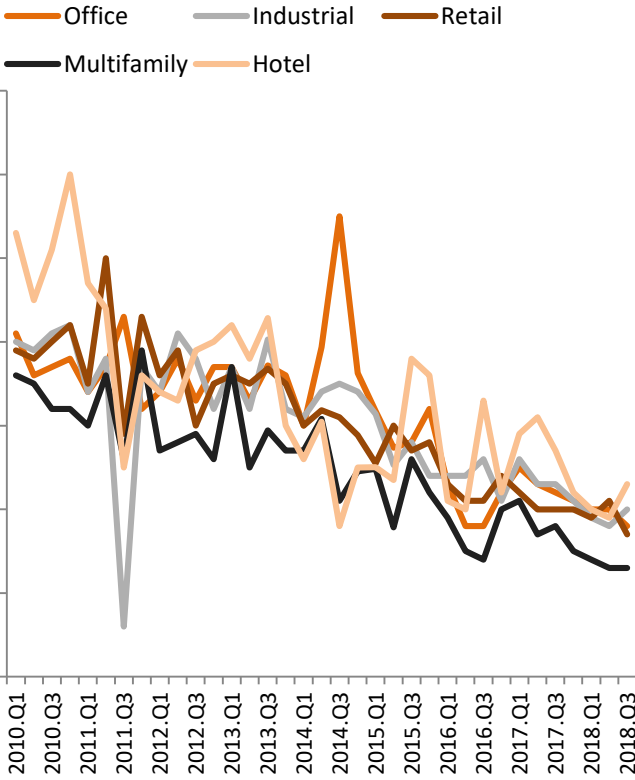
REALTORS® Q3.2018 Prices

Office Class A(\$/SF)	\$127
Office Class BC (\$/SF)	\$103
Industrial Class A (\$/SF)	\$80
Industrial Class BC (\$/SF)	\$65
Retail Class A (\$/SF)	\$141
Retail Class BC (\$/SF)	\$96
Apartment Class A (\$/Unit)	\$114,241
Apartment Class BC (\$/Unit)	\$69,149

Source: National Association of REALTORS®

INVESTMENT SALES

REALTORS® Commercial Capitalization Rates



Source: National Association of Realtors®

Q3.2018
REALTORS® with
International
Transactions

12%

Q3.2018 Average
Number of Sales

4

We had 11.9 million sq. ft. of space rented, most of it prior to completion. This is only a drop in the bucket of what is coming.

The Denver market is "hot." May overheat. But still very good. The Evergreen market where I lease is more like a small town/bedroom community for Denver so it's hard to do retail there and compete with Denver and the Golden market. Office is finally filling back up after the recession where we had about a 50% vacancy.

The market seems to be slowing down a little and it is too early to tell whether it is because winter is coming or we are having a small downturn.

Q3.2018 Average Cap Rate in
REALTORS® Markets

6.8%

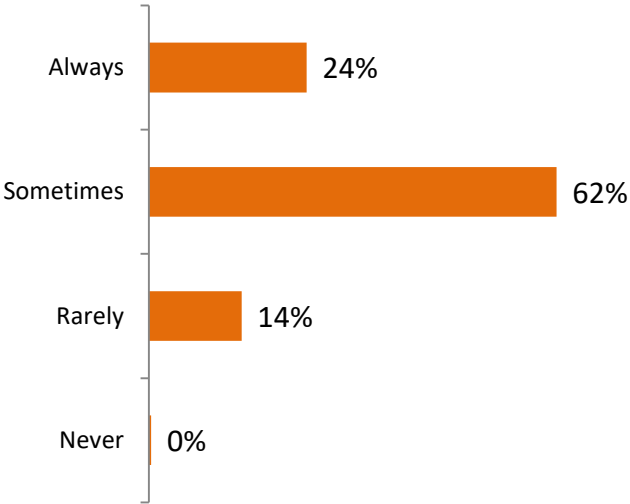
REALTORS® Q3.2018 Cap Rates

Office Class A	6.4 %
Office Class BC	7.2 %
Industrial Class A	6.5 %
Industrial Class BC	7.5 %
Retail Class A	6.4 %
Retail Class BC	7.1 %
Apartment Class A	5.9 %
Apartment Class BC	6.7 %
Hotel Class A	6.8 %
Hotel Class BC	7.7 %

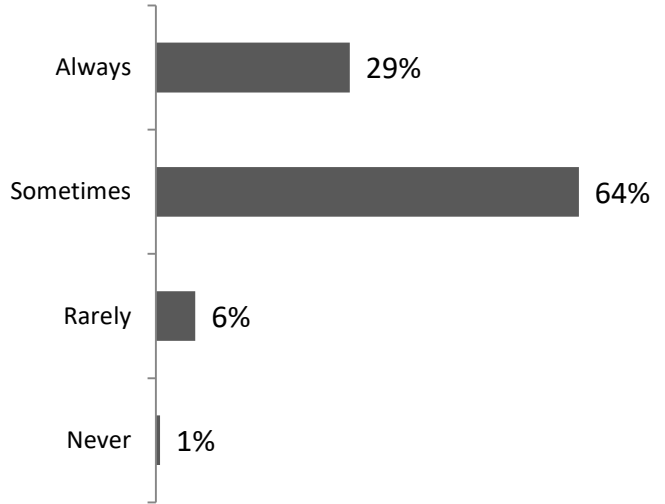
Source: National Association of REALTORS®

INVESTMENT SALES

Appraisers' Familiarity with Market



Appraisers' Familiarity with Property Type



The Bandera marketplace serves as the only real untapped commercial corridor outside of the San Antonio MSA. With recent sales to Tractor Supply and the entry of Ag-Pro to the marketplace, we are seeing a growing movement of commercial development and interest in the relatively un-abated corridor of SH-16 outside of San Antonio/Helotes.

Very robust market with high levels of speculative construction and also high levels of demand.

We have seen lots of growth, but the higher interest rates is slowing the growth now.

Rising lending rates will cause a decrease in new construction next year and will also dampen tenants level of interest in opening/renting new retail business compared to previous 18 months

With the construction announce recently from the Raider Stadium to hotel expansion the market should remain strong for the next 18 to 24 months. However much of the construction has not broken ground an is subject to cancellation if there is a downturn in the economy.

Q3.2018 Market Conditions

Quarter Strong Demand Land Question Cycle Phoenix Continues Started
 Construction Stable Property Lending
 Commercial Plenty Market Going Rates Skewed
 Slowing Slight Business Flat Industrial Condos Big Getting Better
 Space

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LEASING FUNDAMENTALS

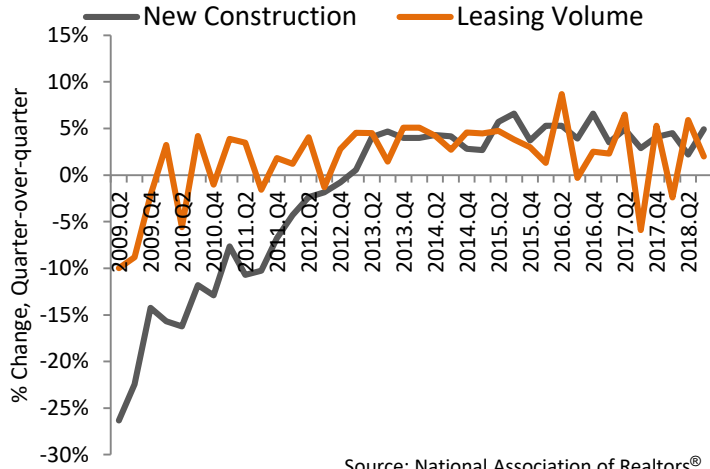
Q3.2018 Percentage of REALTORS® Who Closed a Lease Transaction

60%

Q3.2018 Leasing Volume

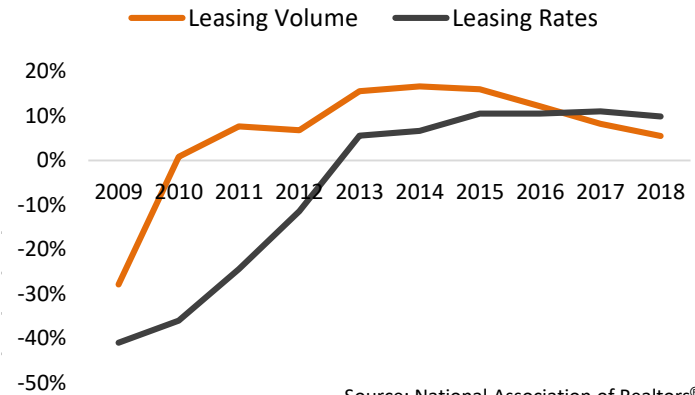
Q3.2018 Leasing Rates

+2.0% +2.0%



Source: National Association of Realtors®

REALTOR® Commercial Leasing Trends



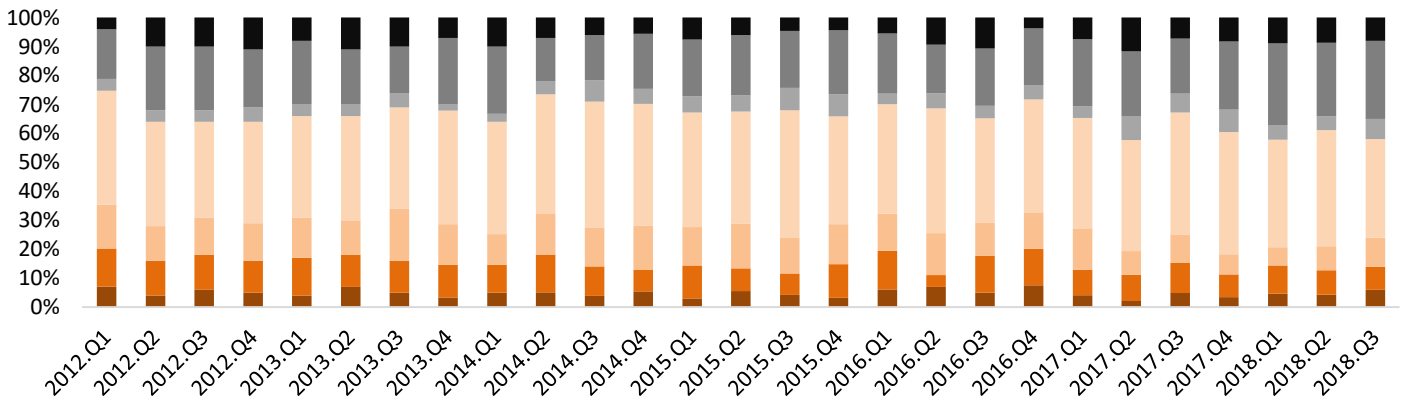
Source: National Association of Realtors®

REALTORS® Q3.2018 Rents

Office	22 / Sq.Ft.
Industrial	11 / Sq.Ft.
Retail	22 / Sq.Ft.
Multifamily	917 / Unit

Average Lease Term (%)

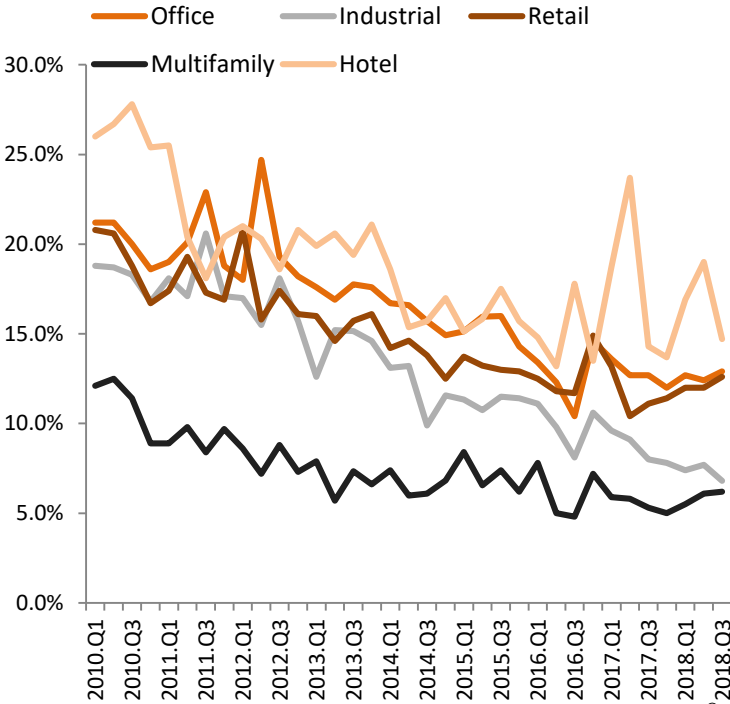
■ 0 - 11 months
 ■ 12 months
 ■ 24 months
 ■ 36 months
 ■ 48 months
 ■ 60 months
 ■ 60+ months



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LEASING FUNDAMENTALS

REALTORS® Commercial Vacancy Rates



Source: National Association of Realtors®

REALTORS® Q3.2018 Vacancy Rates

Office	12.9 %
Industrial	6.8 %
Retail	12.6 %
Multifamily	6.2 %
Hotel	14.7 %

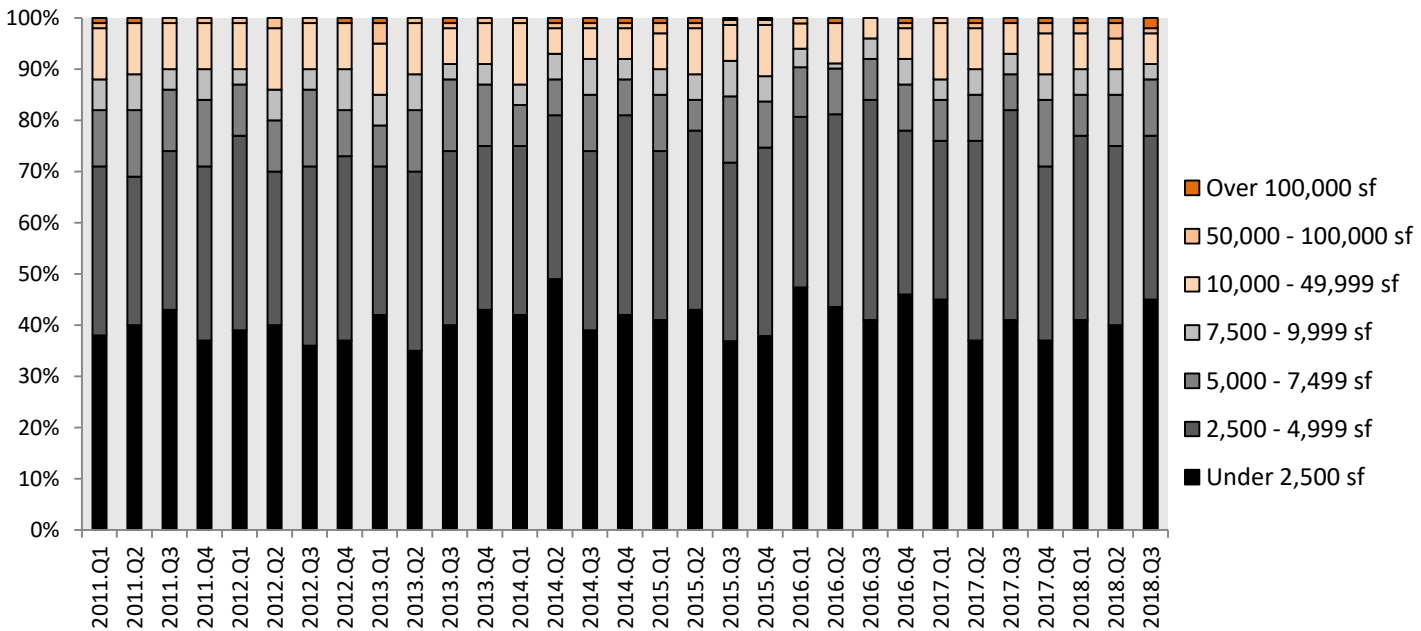
The Utah Market is crazy hot right now.

We have a shortage of quality commercial properties in the \$1 - \$1.5 mil range

We have lost a few big franchises that were big foundation blocks in our community i.e.: K-mart, Herbergers, Sears and Fastenals

We've passed the peak of the cycle and a correction is materializing. Interest rates are rising, rents are softening, and there's a disconnect between ask and bid prices

Average Leased Space by Size, Quarterly*



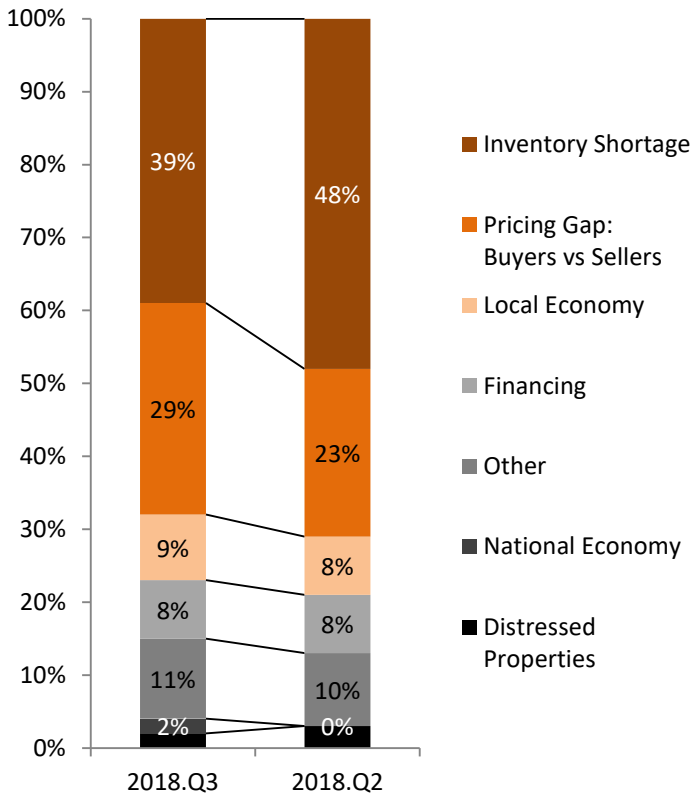
*Prior to 2010.Q4 "Under 5,000 sf was the lowest category available.

Source: National Association of Realtors®

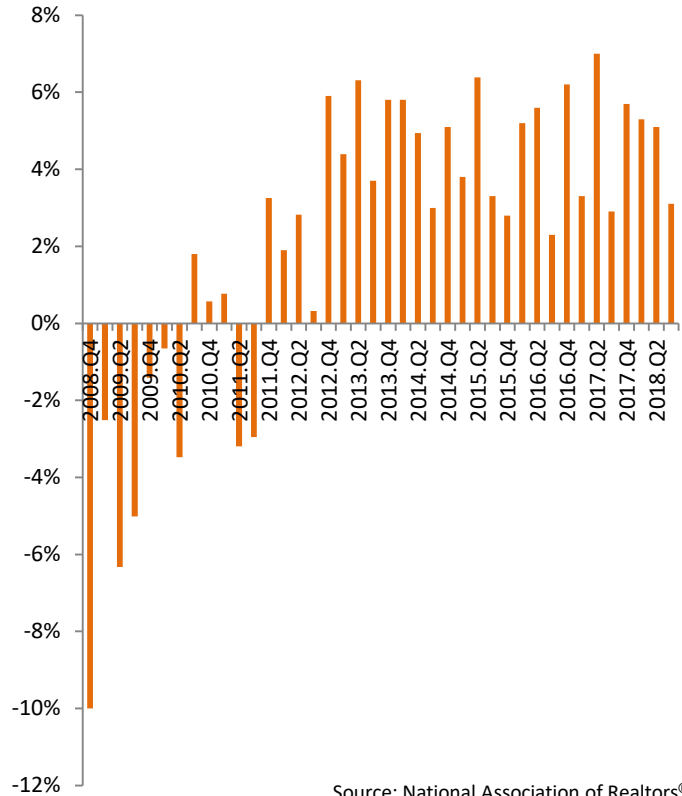
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LEASING FUNDAMENTALS

REALTORS® Most Pressing Challenges



Direction of Business Opportunity (QoQ)



Source: National Association of Realtors®

Q3.2018 Market Opportunities

Cash Local Economy Redevelopment Port Prices Available Inventory
 Land Medical Market Willing Properties Value
 Growth Apartments Retail Big Box
 Development Renovations Industrial Clients Space
 Supply Opportunity Expansion New Construction Strong Demand
 Investors

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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 October 2018, NAR invited a random sample of 62,671 REALTORS® with an interest in commercial real estate to complete an on-line survey. A total of 833 complete responses were received, for an overall response rate of 1.3 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.

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