

COMMERCIAL CONNECTIONS

THE NATIONAL ASSOCIATION OF REALTORS® COMMERCIAL REAL ESTATE NEWSLETTER VOLUME 13 ISSUE 1 FIRST QUARTER 2012

A Force for Making Smart Growth



Reality

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Atlanta, Georgia

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Reach any of us at:
NARCommercial@realtors.org
430 N. Michigan Avenue
Chicago, Illinois 60611-4087
800.874.6500

DESIGNER
Dave Hunter
www.dhdd.net

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Real Estate



THE LATEST

WELCOME TO THE 'JUMP START VALUE' EDITION OF **COMMERCIAL CONNECTIONS**

ALL OF THE NEWS in this First Quarter edition is directly related to one of the many benefits REALTORS® receive from their membership with the NATIONAL ASSOCIATION OF REALTORS®.

NAR WANTS TO REWARD YOU THROUGH THE MVP PROGRAM



STARTING APRIL 2, the NATIONAL ASSOCIATION OF REALTORS® will offer a valuable rewards program called Member Value Plus (MVP) that incentivizes members who take action in NAR initiatives during a specific time period. Those who participate will be rewarded with resources to help strengthen their business. Whether it's customizing your my.REALTOR.org homepage or registering for the Midyear Legislative Meetings & Expo, these actions will earn you a designated reward like free or discounted e-products, and other valuable tools. Under the MVP Program, you'll have two weeks to complete the action, and a month to claim the specified reward. After that two week period, a new action will be announced and a new reward offered.

▶ For more information, visit: www.REALTOR.org/MVP.

NAR MID-YEAR LEGISLATIVE MEETINGS & TRADE EXPO, **MAY 14-19, 2012**



BE AN ADVOCATE for issues impacting the commercial real estate industry and join thousands of REALTORS® as they visit Capitol Hill to meet with elected representatives at the 2012 Mid-Year Legislative Meetings. Members meet to discuss and debate public policy as well as attend the trade expo to learn about the latest services in the real estate industry. The NAR Commercial Committee meets on Wednesday, May 16 at 10:30 AM. Finally, participate in the first ever REALTOR® Rally at the Capitol on May 17th!

▶ For the full conference schedule and to register go to: realtor.org/midyear. For more about the REALTOR® Rally go to: www.RealtorRally.com.

REALTOR® UNIVERSITY MASTER OF REAL ESTATE APPROVED!



REALTOR® UNIVERSITY, established by NAR, was recently granted operating and degree authority by the Illinois Board of Higher Education. REALTOR® University will now offer a Master of Real Estate (MRE) degree for real estate professionals who are interested in expanding their education to advance their career and improve their business.

The MRE will include a concentration in commercial real estate providing the student with an in-depth and rigorous course of study focusing on relevant issues in the field. The concentration will consist of 12 semester credit hours of coursework specific to commercial real estate. Students in the commercial real estate concentration apply case studies of actual situations to examine such topics as market analysis, economic and capital market dynamics, financing strategies, taxation, and portfolio strategies.

▶ For more information, visit REALTOR® University at: www.realtoru.com.

REALTOR RALLY TO PROTECT THE AMERICAN DREAM

May 17, 2012 • 9:30 AM – 11:00 AM Washington, DC

REALTORS® WILL RALLY in the shadows of the Nation's Capitol to advance real property issues. "Let's show Congress that no one cares more about revitalizing real estate for future generations than REALTORS® do." That is the call to action from Moe Veissi, NAR's 2012 President, as he asks REALTORS® from around the country participate in The REALTOR® Party rally on May 17 in Washington, DC. "I want us all to stand together and defend the American Dream from the doubters who say home ownership and real estate have run their course," Moe states. Please stand and be counted. The REALTOR® Rally will be held during NAR's Midyear Legislative Meetings & Trade Expo.

▶ To find out how you can participate, and to let us know you plan to attend, visit the REALTOR® Rally website at: www.REALTORRALLY.ORG

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NATIONAL ASSOCIATION of REALTORS®

TOP FIVE QUESTIONS

OF COMMERCIALSOURCE.COM

COMMERCIALSOURCE.COM is a national listings platform owned by the National Association of REALTORS® (NAR) and operated by ePropertyData (ePD) LLC, a Second Century Ventures wholly-owned subsidiary. What does that mean today? After four years of serving thousands of commercial real estate professionals we have received quite a few questions. Here are the answers to the top five questions asked:

#5 "My firm is interested in having its listings displayed on your site. How do we make that happen?"

ANSWER: Data content provider (DCP) agreements are available without a fee to assist commercial real estate firms, commercial information exchanges (CIEs), and multiple listings services (MLS) in aggregating and uploading active listing data to *CommercialSource.com*. If you are a commercial real estate firm, CIE or MLS, email commercialsource@realtors.org to request a data content provider agreement.

#4 "I don't want to spend time looking at property that's either under agreement or sold. How up-to-date are *CommercialSource.com* listings?"

ANSWER: *CommercialSource.com* data is refreshed by data content providers throughout the day keeping listings fresh every few hours. *CommercialSource.com* also offers individual accounts for brokers to load their listings manually. Brokers with these individual accounts are expected to maintain the accuracy of those listings. If you are operating an individual account on *CommercialSource.com* and would like to have your listings uploaded through a feed, contact us at commercialsource@realtors.com for a consultation.

#3 "I created an account but I am unable to enter my listing data. What do I do now?"

ANSWER: In this case, it is likely that the user already has their listings on the site via a data feed. When creating an account on *CommercialSource.com*, users are asked to specify a CIE, MLS or firm from the drop-down list of data content providers IF they are a client of one of those entities (if you are not you simply specify 'other'.) If the user is a client of one of the data content providers they will not be able to upload listings manually. By doing this, *CommercialSource.com* avoids the possibility of duplication of active listings data.

#2 "I would like more photos/marketing tools/printable demographic reports/page hits for my listings on *CommercialSource.com*. When will those be made available?"

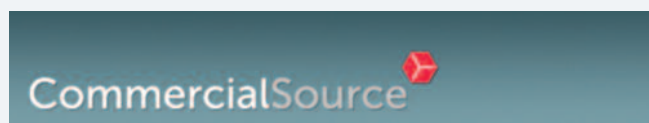
ANSWER: In its current form, *CommercialSource.com* provides the search and display of commercial real estate listings at no cost to REALTORS®. In order to provide additional enhancements on the site, *CommercialSource.com* should reach a tipping point of active listings. We're almost there! The greater the participation on the site, the faster we all reach our goal of a cost effective, fully-enhanced national platform for marketing commercial listings.

#1 "How do I get my listings on *CommercialSource.com*?"

ANSWER: There are two ways to get your active listings on *CommercialSource.com*.

1) Check the *CommercialSource* list of data content providers at commercialsource.com/DataProviders. If your CIE or MLS is listed, your commercial real estate listings are already aggregated and fed to *CommercialSource.com* for search and display. Or you can **2)** Go to *CommercialSource.com* and click on 'Create an Account'. Once your account is approved you will be able to create a broker-load account where you can upload and manage your listings as well as create a broker profile. ☺

▶ Keep the questions coming and send them to commercialsource@realtors.org or use our contact form at <http://commercialsource.com/ContactUs>.



COMMERCIAL BROKER LIEN LAWS

BY: **CHÉRÉ LAROSE-SENNE**, RCE, NAR COMMERCIAL, MANAGING DIRECTOR

Commercial broker lien laws allow liens to be filed on commercial properties for the full payment of commissions. In states that have enacted commercial lien laws, there has been a dramatic decline in commission collection litigation and arbitration.

ORIGIN

Broker lien laws are a reaction to the problem of commercial brokers completing a commercial lease or sales transaction that is subject to a listing or commission agreement, only to receive a portion of the agreed upon fee, or sometimes no fee at all. Commercial brokers have then sought the statutory right to place a lien on the property in question as a means to ensure the commission would be paid.

PROPOSED RULE/LEGISLATION

Twenty-nine states provide that a real estate broker may claim a lien under specified circumstances. Eighty-six percent of those jurisdictions have adopted broker's lien acts or statutory schemes that authorize a broker or licensee to claim a lien arising out of his or her brokerage services. The other 14 percent include brokers' services as a property improvement within their mechanics' lien laws. A few jurisdictions provide other methods of creating security for a broker. For example, Oregon permits a broker to place a demand into a closing escrow if the seller disputes the broker's payment.

WHAT'S AT STAKE

Broker lien laws allow commercial brokers the ability to do their jobs without worry about getting paid their due commission as deals can take months and sometimes years to complete.

WHAT NAR IS DOING

NAR Commercial has experts on call to assist states seeking to enact a broker lien law and consultations. In addition, REALTOR® Associations may apply for Issue Mobilization Program dollars in order to fund their broker lien campaign. Recently, the North Carolina Association of REALTORS® (NCAR) utilized these resources to assist them in the adoption of the Commercial Real Estate Broker Lien Act after fourteen years of seeking the adoption of this legislation. A

“NAR Commercial has experts on call to assist states seeking to enact a broker lien law and consultations.”

commercial REALTOR® elected to the North Carolina General Assembly, Representative Darrell G. McCormick, is chair of the House Commerce and Job Development Subcommittee on Business and Labor. Rep. McCormick introduced and championed the legislation. NCAR Government Affairs Director, Cady Thomas, and members still needed support in overcoming opposition to the bill from the State Bar and the North Carolina Real Estate Commission and took advantage of NAR Commercial resources to procure expert testimony on broker lien laws.

HOW TO GET INVOLVED

If your state is fighting for a broker lien law or considering introducing broker lien legislation, contact NAR Commercial's Vice President, Jan Hope at jhope@realtors.org for a consultation on legal resources available. For more information on the broker lien law visit NAR's Field Guide on Broker Lien Laws which includes a link to NAR's State Issues Tracker available only to REALTORS® with in-depth analysis of all twenty-nine jurisdictions' language. Find the Field Guide at www.realtor.org/library_secured/library/fg710. Finally, for the full list of programs offered available through My Realtor Party including but certainly not limited to the Issues Mobilization Program funds and the REALTOR® Candidate Training Academy visit www.realtoractioncenter.com. ©

A FORCE FOR MAKING SMART GROWTH REALITY



BY **MARIWYN EVANS** COMMERCIAL EDITOR, REALTOR® MAGAZINE

SMART GROWTH, which emphasizes walkability, higher density, and transportation access as ways to more effectively use land, is not a new concept. Yet, the significant impact that smart growth can have on commercial property demand and values is often overlooked by many commercial practitioners.

“When I was asked to chair the Atlanta Commercial Board of REALTORS® (ACBR) Community Growth Committee in 2005, it was a real educational experience for me. I realized that Atlanta needed to find a different way to make growth and development happen,” says Marjy Stagmeier, president of TI Asset Management and 2011 Chair of the Atlanta Commercial Board’s Government Affairs Committee. Stagmeier soon embraced smart growth ideas, and she and her committee set out to create a common approach to educating fellow REALTORS® and community leaders about the benefits of higher density mixed-use and transit-oriented development.

It worked. Today, the Commercial Board has adopted quality growth as one of its principal legislative priorities, says Robert Broome, the group’s government affairs director. “REALTORS® are the best spokespeople for these issues because we see the impacts in both our communities and our businesses,” says Stagmeier.


TAKING CONCRETE ACTION

Many of the board’s early smart growth initiatives focused on education and liaison with public officials. But in 2011, the ACBR had the opportunity to take the next step—to actively participate in turning a smart growth plan into a viable commercial/residential

development. The property in question was the Edgewood/Candler Park MARTA station. Located in Edgewood, an older suburb of mostly single-family homes southeast of downtown, the 1979-vintage station offered a prime opportunity for redevelopment, says Dan Reuter, land use chief for the Atlanta Regional Commission (ARC). “There is a lot of unrealized potential near many of our rail stations, and with the growing market of Atlanta buyers and renters who want to live in urban, walkable locations, many of the stations offer a great place to provide more transit-oriented development (TOD) real estate,” he says.

In Edgewood’s case, the biggest unrealized asset was a large, but underutilized, parking lot on the seven-acre site. Even at rush hour, the lot was never more than 35 percent full since many of the 1,200 to 1,400 weekday riders walked, came by bus, or were dropped off. The fenced parking lots and deteriorating sidewalks also created a barrier between the station and an adjacent park and isolated the station from nearby multifamily and retail sites. Edgewood also presented an opportunity because extensive research had occurred on the possibility of TOD development by local community groups with funding from the Zeist Foundation and the Atlanta Livable Centers Initiative.

Good for the Bottom Line, Too

Smart growth initiatives like the one supported by the Atlanta Commercial Board of REALTORS® aren’t just about responsible public policy. They also make good business sense for commercial owners and brokers. A 2011 paper co-sponsored by Smart Growth America and the University of Utah noted that commercial property values in Washington, D.C., increased by \$2.30 per square foot with each 1,000 foot reduction in distance to a rail line. Higher density also lessens traffic congestion, makes development more feasible by using existing infrastructure, improves worker recruitment and productivity, and boosts area income, according to a 2004 paper by Mark Muro and Robert Puentes of the Brookings Institution Center for Urban and Metropolitan Policy. 



“There is a lot of unrealized potential near many of our rail stations.”

A COLLABORATIVE APPROACH TO SMART GROWTH

The Atlanta Board’s participation went well beyond money, however. Representatives played a key role in making the event a success. “Part of the concept of a charrette is that you reach out to as many constituents as possible and the real estate and building community is a big piece of that,” says Robert Reed, sustainable communities design director for the nonprofit Southface Energy Institute and one of the driving forces behind the Edgewood charrette. NAR volunteers provided support and input during the four-day event. “Markets are shifting as more Millennials want to live in urban, walkable places, and real estate professionals understand those market realities,” says Reed.



Another vital REALTOR® contribution was compiling and analyzing market data to help direct design decisions during the Edgewood charrette. “We require a market analysis as part of our smart growth planning process because we want the community to understand what the market potential is for a site and not anticipate uses that aren’t feasible,” says Reuter. Data supported the proximity to transit as an important piece of the diverse, affordable housing the Edgewood residents wanted. “Housing expenses in our region are affordable, averaging 23.7 percent of personal income, according to the Center for

In hopes of moving the planned TOD project forward, ARC had submitted a proposal to HUD’s Sustainable Communities Regional Planning Grant in 2010, but had not received funding. The project stalled. Then serendipity took a hand. ARC, along with other Atlanta community groups including Southface Energy Institute, were working with Bill Lennertz, executive director of the National Charrette Institute, to learn how to conduct charrettes. As part of the training, Lennertz proposed working on a real project. ARC suggested Edgewood.

A charrette, a collaborative process that allows a variety of project stakeholders to participate in local planning and design decisions, is “very well-suited to complicated projects like transit-oriented development because it allows for collaborative solutions,” says Lennertz. Reuter favors the technique because charrettes are “a great way to focus on the actionable steps that can lead to real development.”

The fit was good, but funding the charrette was still a problem until the Atlanta Commercial Board of REALTORS® stepped up. The board contributed \$10,000 to help finance the Edgewood charrette. The funds came from a Smart Growth Action Grant, an ongoing NAR initiative that supports REALTOR® initiatives focused on education and projects affecting local land use. (See box) Although the program has existed for several years, the 2011 grant to the Atlanta group was the first grant to a commercial board. Additional funding was also provided by the Home Depot Foundation.

PLEASE TURN TO PAGE 8

“MILLENNIALS WANT TO LIVE IN URBAN, WALKABLE PLACES, AND REAL ESTATE PROFESSIONALS UNDERSTAND THOSE MARKET REALITIES”

A FORCE FOR MAKING SMART GROWTH REALITY

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Neighborhood Technology,” says Broome. But when you factor in transportation costs, suburban counties that lack public transit all exceed the 45 percent of income range for housing and transit that’s considered affordable.

PLANNING YIELDS POSITIVE OUTCOMES

The four-day charrette, which was facilitated by Lennertz, went “very smoothly,” he says, in large part because of all the strong preplanning and research done prior to the event. “It was also critical that we had all the right people there—community leaders who had a real interest and people who were impacted by the outcome,” he adds. ARC plans to use the Edgewood project as a model for future charrette planning sessions on Atlanta TOD projects.

Two design variations emerged from the charrette process. Each called for three-to-four story residential buildings incorporating approximately 300 rental units. Between 10,000 and 16,000 square feet of restaurants and




other retail and between 5,700 to 7,100 square feet of office spaced rounded out the designs. The site would become a destination for home, work, and play instead of a concrete island.

Both designs also reflected the community’s desire for green space and civic areas. One final concept called for a large central commons ideal for farmers markets and concerts. The second approach reduced the size of the commons and added two pocket parks and more street front green space. Both consolidated transit parking into a garage structure and kept bus access lanes unchanged, a major concern for MARTA. To view a more complete summary of the Edgewood design and the entire charrette process visit the Atlanta Regional Commission website. <http://bit.ly/atlantaregionalcharrette>

STILL PUSHING FOR SMART LAND USE

While the Atlanta Commercial Board’s role in conducting the Edgewood charrette was important, its activities after the fact were even more critical in moving the smart growth initiative forward. “We didn’t want to just complete the design and have it sit on a shelf,” explains Broome. The board lobbied to ensure that the Edgewood final report was incorporated into the city’s comprehensive development plan. “When the new comprehensive plan was first passed last fall, the charrette decisions weren’t included. We had to act fast and make a very strong case to the City Council to amend the plan and incorporate the project,” says Broome. “We need smart real estate people to help our public officials understand the smart growth conversation,” says Reuter.

Now, with an Edgewood transit-oriented project securely part of Atlanta’s future, MARTA is negotiating with an active local developer, Columbia Residential, to acquire and develop the site through a public/private partnership with the Atlanta Development Authority. In a few years time, Atlanta’s commercial REALTORS® may be taking on a new role at Edgewood—that of leasing brokers. 



NAR Grants Supports Smart Growth

Whether it’s a transit-oriented development (TOD) rental and retail development or a greenways bike path for commuters, smart growth initiatives can benefit any community and increase both residential and commercial property values. To help REALTORS® take a more prominent role in local land use and smart growth issues, NAR has created Smart Growth Action Grants. The three levels of cash grants can be used to support different types of smart growth efforts: courses or speakers on smart growth, seed funding to help associations engage other stakeholders about smart growth issues, and ongoing support for in-depth or sustained projects such as a charrette.

- ▶ Full program guidelines and an application are available under the smart growth tab in the Government Affairs section of [REALTOR.org](http://www.realtor.org/government_affairs/smart_growth/grants) at www.realtor.org/government_affairs/smart_growth/grants.

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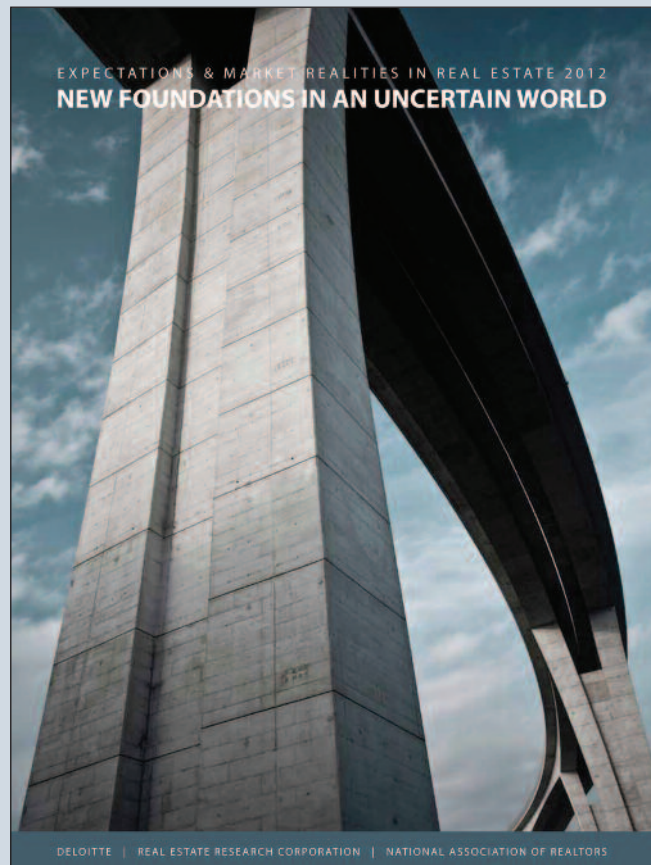
BY NATIONAL ASSOCIATION OF REALTORS® RESEARCH TEAM

When Real Estate Research Corporation (RERC), Deloitte, and the National Association of REALTORS® (NAR) began making plans to publish *Expectations & Market Realities in Real Estate 2012*, the already sluggish economy was starting to slow. The volatility in the stock market was becoming more pronounced as the second round of the government's quantitative easing started winding down, and further increased as we witnessed the inability of politicians to come to an agreement about the nation's debt ceiling. Then the market all but collapsed as the nation's credit rating was downgraded from its AAA status, and investors—afraid the economy was about to fall into another recession—retreated to the safety and stability that investments like commercial real estate could offer.

As the year 2011 came to an end, fear and uncertainty had spread beyond the U.S., and Europe is being forced to focus on its own economic difficulties. The sovereign debt crisis has expanded beyond Greece and Portugal to Italy and Spain, and although there are moves toward strengthening the European Union's response to their debt crisis, the risk remains that one or more nations may eventually default on their obligations and a new financial crisis, that could affect the West, will emerge. As a result, the investment world is even more uncertain while the relative safety of commercial real estate investment is even more attractive as investors look for "New Foundations in an Uncertain World."

CAPITAL MARKET TRENDS

More than two years after the credit crunch, money is starting to flow into commercial real estate. Commercial and multifamily mortgage originations more than doubled in the first half of 2011 compared to the same period a year earlier, although current activity remains subdued compared to the hyperactivity of 2006 and 2007. Investor type loans for commercial mortgage-backed securities (CMBS) increased by 638 percent in second



quarter 2011 compared to second quarter 2010, according to the Mortgage Bankers Association (MBA). During the past year, loans for commercial bank portfolios increased 150 percent, loans for life insurance companies increased 87 percent, and loans for government-sponsored entities (GSEs) increased 58 percent.

According to the National Association of Real Estate Investment Trusts (NAREIT), the total market valuation of outstanding public REIT companies was \$191 billion in 2008, rose to \$271 billion in 2009, and increased to \$389 billion in 2010. At the end of September 2011, the market capitalization value of REITs was at an all-time high of \$435 billion.

COMMERCIAL REAL ESTATE PROVIDES FOUNDATION IN UNCERTAIN TIMES


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PROPERTY TYPES

Office: Given that economic fundamentals have been dominated by uncertainty, office investors continued to favor high-quality stable properties in major markets (New York, Washington, D.C., Los Angeles, Boston, and San Francisco), with the average deal size increasing to \$37 million in the first half of 2011. According to Real Capital Analytics, in the first half of 2011, total transaction volume for the office market rose to \$24.5 billion, a 77-percent increase from the same period in 2010. Pricing for office properties advanced 27 percent in the first half of 2011, averaging \$209 per square foot nationally. Several inland metropolitan markets are expected to see office transactions exceeding the \$1 billion mark, including Houston, Chicago, Atlanta, Seattle, Denver, and Phoenix.

With minimal new completions, the office vacancy rate has plunged by a stout 40 basis points, ending second quarter 2011 at 17.3 percent, according to Grubb & Ellis. However, with vacancy declines still at least 2 years away from equilibrium in most areas, rental rates have not yet begun to recover. Concessions are less generous than they were a year ago for Class A space, but Class B and C properties still are mired deep in a tenants' market.

Industrial: With the manufacturing sector remaining focused on rebuilding inventories and the expansion of international trade, industrial property market sales totaled \$10.7 billion in the first half of 2011, a 54-percent gain over first-half sales in 2010. According to Real Capital Analytics, 1,087 industrial properties changed hands in the first half of 2011, the majority of which were warehouses. Chicago became the largest market by dollar volume in the first half of 2011, followed by Los Angeles. Pricing for industrial properties rose modestly during this time period, to \$59 per square foot, and cap rates averaged 7.9 percent.

BY THE NUMBERS is only a brief excerpt of the in-depth 50-page publication "Expectations and Market Realities in Real Estate: New Foundations in an Uncertain World." Find out why "commercial real estate is positioned to possibly deliver what it signaled so many decades ago when big institutions took an interest in this asset class." This publication provides analysis of every property market making it a must-have in any commercial real estate professional's back pocket. To download the full report, go to the REALTOR® Store at www.realtor.org/store. Member price is \$95/Non-Member price is \$195*. 

“Apartments have outperformed all other major property types (by nearly double)...”

The national vacancy rate for industrial space declined to 9.8 percent by June 2011, according to Grubb & Ellis, as demand totaled 62 million square feet, the strongest six-month performance since 2007. However, there was slowdown in activity toward the end of second quarter 2011. Net effective rents have stabilized and are increasing for large Class A distribution buildings, but broad-based rent growth is unlikely to begin for at least another year.

Retail: Despite decreasing consumer confidence and higher consumer prices, second quarter 2011 retail property sales volume was the highest since third quarter 2007, with almost \$15.2 billion in transactions, according to Real Capital Analytics. The majority of deals involved strip centers and grocery-anchored community centers, and cap rates remained relatively stable, although the price per square foot declined to \$146 in second quarter 2011 from \$165 in first quarter.

Of the major commercial property sectors, retail suffered most from the housing collapse and the Great Recession that followed. The vacancy rate among all retail center types retreated slightly to 7.2 percent by mid-year 2011, according to CoStar, as downward pressure on rents continued.

Multifamily: The apartment sector has continued to be one of the strongest performers in commercial real estate in 2011, with \$22.9 billion of significant apartment properties sold in the first half of 2011. This is a 104-percent increase from the same period a year ago, as reported by Real Capital Analytics, and is due primarily to robust portfolio transactions. Further, apartments have outperformed all other major property types (by nearly double) in terms of pricing, with an annualized appreciation rate of 15.08 percent through the first half of 2011. This was due in part to continued cap rate compression.

Annual effective rental rates for the apartment sector increased by 5.1 percent in second quarter 2011, accelerating from 4.5 percent during the same period in 2010, according to Axiometrics, Inc., while vacancies declined to 6.0 percent and concessions declined. Additionally, effective rent of \$980 per unit per month in second quarter 2011 is back to the peak reached in second quarter 2008, setting the stage for new construction.

Hospitality: Transaction volume for the hotel sector in the first half of 2011 surpassed volume for the same period in 2010, but the momentum is slowing. Given a minimal portfolio pipeline and a falloff of CMBS lending, less transaction volume and pricing volatility may be expected through the remainder of the year. According to Real Capital Analytics, unit pricing of lodging properties increased to an average of \$175,000 per key, but August 2011 data indicates that average unit pricing per room has decreased by approximately 15 percent due to investors' appetite for higher returns for mid-market properties vs. top tier trophy assets.

Although PKF Hospitality Research (PKF-HR) lowered its demand forecast to settle at 4.5 percent for the remainder of 2011, hotel occupancy is expected to increase to a level of 59.8 percent for the remainder of 2011. Although average daily room rates (ADR) continue to lag occupancy increases, PKF-HR has increased its annual ADR forecast for 2011 to 3.2 percent, slightly above the expected pace of inflation.

OUTLOOK

A modest economic recovery is expected. The estimate for GDP growth is +1.6 percent in 2011 and growth is forecast for +2.0 percent in 2012. Consumption is estimated to grow +1.6 percent in 2011 and is forecast to grow +1.8 percent in 2012, while NAR estimates government spending growth at -1.9 percent in 2011 and forecasts government spending growth at -0.5 percent in 2012.

The Federal Funds rate is estimated at 0.1 percent throughout 2011 and 2012, and the prime rate is expected to remain at 3.1 percent during 2011 and 2012. The 10-year Treasury is estimated at 2.8 percent in 2011, and forecast at 3.1 percent in 2012, according to NAR.

Office demand is expected to close 2011 with about 30 million square feet of net absorption, followed by 50 million square feet in 2012, according to Grubb & Ellis. With completions expected to remain at roughly half the pace of absorption, the vacancy rate for the office sector is expected to decline to 17.1 percent by the end of 2011 and to 16.6 percent by the end of 2012. However, with job creation remaining weak, rents are not expected to increase significantly.


Unless economic conditions deteriorate further, the national industrial property market will end 2011 with a vacancy rate below 9.5 percent; by the end of 2012, vacancy is expected to decline to 9 percent, reports Grubb



& Ellis. Net effective rents have stabilized and are increasing for large Class A distribution buildings, but broad-based rent growth is unlikely to begin for at least another year.

Look for retail sales to bump along at modest levels in 2011 and 2012, with retailers continuing to reposition their stores to take advantage of favorable rental rates or expansion plans. Properties such as grocery-anchored centers will continue to outperform the rest of the retail sector due to consumer spending habits. Transaction volume is likely to continue on an upward trajectory for the most desirable assets into 2012.

The overall outlook for the apartment sector indicates another robust year in 2012, given strong fundamentals, a decreasing homeownership rate, lack of new supply, and the availability of financing for multi-family investments. Apartment completions brought about by new starts are not expected to materialize until the late 2012 through 2015 timeframe. Effective rent growth in the apartment sector is expected to peak at an annual growth rate of 5.8 percent in 2012 and to slow to 4.9 percent in 2013, according to Axiometrics.

As we move through an election year, very little change is expected in the lodging sector, and lodging metrics in 2012 are expected to build on the success of 2011. Despite gains in both hotel occupancy and ADR through mid-year 2011, the second half of the year is expected to be challenging in terms of maintaining corporate and transient demand as economic confidence may erode. PKF-HR has lowered their ADR growth forecast for 2012 to 4.8 percent. 

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430 N. MICHIGAN AVENUE
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