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PRESIDENT’S UPDATE

REALTORS® ADVOCATE IN WASHINGTON FOR COMMUNITIES BACK HOME

A NOTE FROM THE 2016 NAR PRESIDENT, TOM SALOMONE

I’ve said it before, and I will say it again: ours is the best profession in the world! I’ve been in real estate for over 40 years, and closing day euphoria has yet to wane. Yes, the paycheck is a contributor, but seeing the possibility, the opportunity, and the future through a client’s eyes is exhilarating. The satisfaction earned from facilitating families and business owners into new homes and commercial spaces is second to none.

It’s not just the job itself that is remarkable; it’s the number of remarkable people in the job.

Traveling around the country, attending state and local REALTOR® association events, I have seen firsthand how we shape the landscape of our communities—vibrant communities we develop from the ground up, with dedicated REALTORS® always at the epicenter of progress. Our focus extends beyond creating and maintaining great places to live and work; we strive together to foster sound and dynamic markets accessible to all.

At the 2016 REALTORS® Legislative Meetings & Trade Expo, close to 9,000 REALTORS®, residential and commercial alike, descended upon our Nation’s Capital to ensure that the REALTOR® voice was heard loud and clear. Meeting with elected officials on Capitol Hill and in executive agencies, we were focused on a range of issues impacting property ownership and investment—1031 Like-Kind Exchanges were top-of-mind.

Since 1921, U.S. tax law has recognized that the exchange of one investment or business-use property for another of like-kind results in no change in the economic position of the taxpayer and, therefore, should not result in the immediate imposition of income tax. When REALTORS® met with policymakers in Washington, we emphasized that any curtailment of the exchange rules would make exchange transactions more difficult to conclude and many would fail, potentially leading to serious repercussions—not only for the real estate investment sector, but for our communities back home.

I want to thank my fellow REALTORS® who attended the 2016 REALTORS® Legislative Meeting & Trade Expo and who participated during the Capitol Hill visits. Successful advocacy initiatives depend on visibility. Being able to get in front of legislators and be included in conversations regarding important issues such as 1031 Like-Kind Exchanges ensures that our interests are represented by those who make the laws. Your contributions have helped to secure our livelihood and to safeguard our profession for the next generation of REALTORS®.

I encourage all you to heighten your visibility. Get involved and stay involved with your local, state, and national REALTOR® associations. REALTOR® Party initiatives extend throughout the year, and our success depends on you.

Working together we can shape our industry. Working together we can make a difference!
“Crowdfunding” has been a buzzword among investors and entrepreneurs for several years now, often bringing to mind successful startups, movie projects—and even a potato salad—made possible by online donations from people around the world who believe in an idea. In exchange, these investors often receive a token from the project: a tee-shirt, tickets to a premiere—even a bite of the salad.

Equity crowdfunding, however, is a more buttoned-up affair, and refers to the online offering, through a platform or portal, of private debt or equity securities to a group of people for investment. In return, those investors get equity or debt investment in the commercial enterprise. This was made legal by the Jumpstart Our Business Startups (JOBS) Act of 2012, Title III of which allows for equity crowdfunding when conducted by a licensed broker-dealer or via a registered funding platform. Through crowdfunding, a company can raise up to $1 million in a year, from both accredited and non-accredited investors.1 Because it involves investments into commercial enterprises, crowdfunding is subject to regulation by the Securities and Exchange Commission (SEC). Crucial to attracting investors (especially those who are unaccredited), the JOBS Act also allows for a form of “general solicitation,” allowing companies to give notice directly to the public about the existence of an offering.

Just because the rules are out does not mean that the debate is over. Some legislators think that the SEC’s regulations for crowdfunding—especially the compliance and registration requirements—are too onerous and time-consuming for it to be profitable, effectively hobbling the practice before it takes off. On the other side of the spectrum are those who think the SEC has not done enough to protect investors, especially those who are unaccredited (and thus new to investing). Since the JOBS Act was signed into law four years ago, several bills have been introduced to address these conflicting issues, but none have been made law yet.

So, what does equity crowdfunding mean for REALTORS®? Right now, it can be a new source of capital for commercial real estate projects. This is especially important to smaller projects and areas reliant on regional and community banks, which may struggle to find financing. Using a crowdfunding platform to finance a real estate project provides an alternative to working with banks, and allows developers to reach a wider audience of potential investors. However, unless a REALTOR® is registered with the SEC as a licensed broker-dealer, they cannot yet host a crowdfunding platform for their clients, or receive a commission for referrals to/advising done on behalf of one.

There has been a sharp rise in the number of crowdfunding platforms specializing in real estate investments in the past few years, and growth is only expected to continue as the practice becomes more common. NAR will continue to advocate for crowdfunding legislation and regulations which will enhance the flow of capital to commercial real estate.

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1 Unaccredited investors are limited to a maximum investment of either $2,000 or the lesser of 5% of their annual income or net worth; accredited investors may invest up to 10% of the lesser of their annual income or net worth.
The 2016 REALTORS® Conference & Expo is the place to discover new opportunities in real estate through powerful technology products and visionary business strategies in the Commercial Marketplace. Network with hundreds of the best and brightest minds in the industry at two exclusive signature networking events.

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Those of us who make our living negotiating commercial sale and lease transactions are accustomed to dealing with conflict. We take high financial stakes for granted, and deal daily with people whose decisions have significant consequences for others. Yet despite our training and experience we often let ego and our own laziness get in the way of forward progress. Here are three factors that seem to show up repeatedly, torpedoing otherwise manageable transactions.

Displaying Contempt Instead of Humility
The legendary psychologist and marriage researcher Dr. John Gottman defines contempt as “speaking from a position of superiority.” Gottman warns that contempt is the number one predictor of divorce—nobody likes to be talked down to. Is the same not true in our business dealings? When the facts are on our side it may feel good in the moment to roll our eyes and dismiss the other person’s point of view, but it rarely helps our cause to have other people feel disrespected. Understanding the other person is not the same as agreeing with them. Be humble. Show some class. Rise above, but don’t talk down.

Looking for Blame Instead of Solutions
The environmental report on an industrial property comes back and remediation will be needed in a section of the property where the prior owner once used pipe cutting equipment. The purchaser’s broker, whose client is on a tight deadline, angrily calls the listing broker and shouts “you should have told me about this earlier!” The bids from the tenant’s finish contractors reveal that another $20,000 (in excess of the tenant allowance) needs to be spent to relocate some HVAC ducts. The tenant’s broker calls the landlord’s broker and says “your space planner should have known about this!” Do these scenarios sound familiar? When bad news comes our way strong negative emotions are almost inevitable, but hostile reactions are not. Instead of lashing out we are usually well-served by taking a few deep breaths. I have also found it useful before making that phone call to calmly ask myself this question: “Is this my problem, their problem, or our problem?”

Falling Prey to Fundamental Attribution Error
This term from social psychology refers to our tendency to attribute the behavior of other people to personality instead of circumstance. I once became very angry with a client who, in the middle of an important project, didn’t return my calls for several days. My attitude toward him shifted dramatically when his colleague called on his behalf to let me know that he had suffered a life-altering aneurysm. It is a natural tendency when we are cut off in traffic to mutter to ourselves “what a jerk!” Is it possible that the driver has just gotten news that his wife is in the hospital delivering their new baby? Supposedly it was Plato who said that we should “be kind, for everyone we meet is fighting a great battle.” When others exhibit behavior that we find upsetting we should at least be open to the possibility that there is a benign explanation.

Ed Riggins, CCIM, SIOR, teaches real estate classes nationally and speaks on relationship building and conflict. Please join him for his session “Seven Negotiating Tips from a Grizzled Veteran” at the REALTORS® Conference & Expo in Orlando this November.
INDUSTRIAL REVOLUTION

by Jacob S. Knabb, Associate, Commercial Communications & Services, NAR

A recent Bloomberg News technology report on the current boom in industrial real estate claims “the buildings are boring […] but cash-flow is sexy.” While it makes for a great line, Bloomberg only gets things half-right. The amount of investment pouring into the industrial sector will always be sexy, but for the first time in years supply-chain economics and innovation in industrial spaces are also strutting their stuff in the same spotlight. But before looking at the ways innovators are disrupting the world of industrial real estate, it pays to follow the money.

From his Los Angeles office, Craig Meyer, SIOR, sits in the middle of an exceptionally-tight industrial real estate market, featuring what the 2008-09 SIOR President says is a “16-year-low in vacancy” with rates “under 2%.” As a result, commercial real estate professionals are becoming increasingly innovative in order to compete, scrambling to locate available space or build new structures fast enough to keep up with current demand.

Paul Kluck, SIOR, is seeing the same boom in Denver. “From a development standpoint we delivered about 3MM sq ft of new construction last year, set to deliver 5MM sq ft this year. Largely trying to capture the new demand from e-commerce.” Kluck advises caution going forward though. “Real Estate goes in cycles, but how much longer is it going to be hot? Developers jump in and take 18 months to get the work done and then they find the market has turned. From my perspective the boom is probably over. How far down will it go off of the top, how long will it go down? I don’t know but I feel we’ve hit the top.”

Allan Gump, CCIM, SIOR, agrees that caution is well-advised given how rapidly the industrial real estate market is expanding nationally. “It’s always tricky. You don’t want the music to stop until the building is leased.” But Gump, the current president of SIOR, sees his Dallas-Fort Worth market showing no apparent signs of slowing down. “We hold the distinction of the largest amount under construction (20MM sq ft) of any market in the country. It’s a fairly recent phenomenon. We don’t see anything abating in terms of demand.”

In this tight industrial market, smaller industrial spaces are especially in demand. An industrial specialist based in Tacoma, Washington, Vanessa Herzog, CCIM, SIOR, says the cost of developing smaller industrial spaces has become prohibitive to speculative development. Demand is so high companies themselves are bearing more of the burden by opting to purchase build-to-suit properties. Herzog says “lease rates have climbed higher than this area has seen, ever. Shell rates are above $0.40 for most spaces, and smaller spaces are cresting $0.50. Office add-on rates are above $0.90 and up into the $1.15 range for high-
demand locations. Will this last? Hard to say. Developers are looking 12–24 months out, and not able to predict much after that.”

With so much growth, there must be a driver: a new player or a reinvigorated heavy-hitter who has tapped into something to shake a formerly moribund sector out of its daze, an innovation fueling demand for investment. Right now that engine is e-commerce.

**e-commerce Stokes the Engine**

“There is a revolution in how industrial is being used for e-commerce fulfillment,” says Meyer. “Around 30% of U.S. demand for industrial property and 50% of all leases signed for buildings greater than 50k sq ft is driven by e-commerce.” What was once a network of costs to be managed and minimized has now become an engine of growth. “The whole way we look at our analytics has to do with proximity to supply chains and customers. A lot of it is applicable to retail, when you think about last mile distribution. Today even industrial is like a lot of retail systems.”

In today’s market where consumers have grown used to almost instant gratification, slow delivery is no longer an option. Cavernous warehouses located on cheap real estate in the middle of nowhere and staffed by a dozen or so workers are no longer optimal for companies trying to keep pace with Amazon Prime.

The expectation that suppliers will deliver goods within 24–48 hours has led to substantial innovation. “We are seeing warehouses become structured in such complex and interesting ways as distribution centers,” Meyer says, “which is like a new version of industry.”

Technological innovations such as sophisticated tracking software have allowed for a profound improvement in what Meyer calls ‘visibility.’ “You order something and everyone in the system has access to the product’s exact location.” With hives of high-efficiency work forces shuttling goods from the supplier to the consumer through a series of smaller, optimally-structured shipping portals and warehouse spaces, a package can depart from a niche company in Maine and appear on a customer’s doorstep in California one day later. This is the new norm.

**A Sticky Subject**

Marijuana grow facilities are one type of company that is thriving in smaller spaces. Meyer notes that marijuana has been “the #1 cash crop for years and we are seeing a lot of profit emerging in these climate-controlled indoor marijuana farms. It’s interesting that people will pay enormous rent to be in that environment.”

“It took a while for tenants and landlords to find their way through how to lease to a federally illegal use,” Herzog says. “Lease rates in the early days were in the $0.60 empty shell and all tenant improvements,” largely consisting of heavy power and HVAC done “at the cost of the tenant.” Typically, the interior of industrial buildings used in these facilities is broken up into growing rooms, designed to accommodate each step in the cycle “from seedlings to mature mother plants.” Most of the operations Herzog worked with were initially using the typical dirt base vs. water hydroponic base and “odors were the biggest concern, primarily outside of the leased space.” At an extra expense to the tenant, special consideration was given to the seal between the demising wall and the roof deck. HVAC and high quality carbon filters were required because “Air Quality Agencies were very interested in ‘no impact.’”

Herzog thinks the initial marijuana boom is largely done with, speculating that “50–60 percent of the current businesses in this segment will survive” due to a slowdown of licensing and space demand. As an industrial specialist in Denver who is also familiar with this model, Kluck has seen the same evolution, and quips that “the market is ‘overgrown’ and there is way too much product out there for the demand.” Ultimately, this trend, along with other states legalizing marijuana, will result in more available space and lower rental rates.

**Let’s Get Aquaponic**

Aquaponics looks to be a powerful innovation for in-
door farming, a way to produce a much higher-quality product with lower maintenance costs. A system of aquaculture in which the waste produced by farmed fish or other aquatic animals is converted into nutrients for plants grown hydroponically, which in turn purify the water and feed the aquatic life, makes aquaponics a nifty trick of symbiosis. A cyclical system is created that, once established, requires minimal investment of money or time spent on monitoring or measurement. It has caught on with marijuana growers as one way to stay ahead of the competition.

And while the majority of industrial aquaponics farms are currently being built around the marijuana industry, there are many who feel this could change given increasing demand for locally sourced food among Millennials and Gen-Xers. As Meyer sees it aquaponics is increasingly viable because “demand for food products has become more niche. People have food allergies and dietary needs and indoor farming provides a way to address them.” Meyer points out “places like Washington and Colorado are seeing an emergence of marijuana grow farms. It’s been the #1 cash crop for years and we are seeing a lot of profit emerging in these climate-controlled indoor marijuana farms.” As populations continue to shift into higher-density walkable communities, demand for locally-sourced, fresh produce and protein could expand along similar lines.

R&D Lead Lab Engineer for the NAR’s Center for REALTOR® Technology, Chris Coté can also envision more indoor farming on the horizon. “Location isn’t as important for indoor growing operations. Locations off the beaten path can be beneficial to agriculture professionals,” Coté says. The ability to make use of dilapidated, funkier industrial spaces provides a wonderful real estate opportunity. “Larger warehouses that may be undesirable to retail and other front-end type businesses make ideal solutions for indoor agriculture. Bottom-lines are tight for farmers in general, and more so for indoor operations, so cheaper real-estate can help give the farmer an edge in production.” Coté points to available grants designed to

LEFT TO RIGHT: AKRAM ALI, INTERN, CHAD CURRY, MANAGING DIRECTOR, AND CHRISTOPHER COTÉ, R&D LEAD LAB ENGINEER
eliminate “food deserts,” or vast tracts of under-developed urban space with little to no access to fresh food sources, as one way for developers to offset costs. Another is maximizing efficient light sources. “This is probably the single biggest factor making indoor agriculture a viable business. LED, CFL (and soon laser lights) have all come down tremendously in price, and continue to get more and more efficient.”

“Lighting will continue to be a driving technological force for indoor agriculture,” Coté argues. He foresees “modular and self-sufficient systems coming further into play. Utilizing photo-voltaic, or solar panels to convert light into electricity and back into light is extremely inefficient, but a combination of geothermal, wind, and solar could offset a lot of the costs associated with indoor agriculture.” Harnessing the energy of the sun and wind to fuel affordable LED light sources goes a long way towards minimizing expenses that traditionally rendered profitable indoor farming operations impossible.

Making use of geothermal systems to heat and cool water in order to maintain median water temperature, what Coté refers to as ‘water conditioning,’ is another method of removing excessive overhead for indoor agriculture. “Passive systems, such as geothermal, make use of natural heating and cooling mechanisms [that can] drive costs down.” Unlike traditional HVAC systems that rely on large amounts of energy to heat and cool, geothermal heating and cooling systems implement a system of pipes buried beneath the frost line where temperatures are always 54 degrees Fahrenheit—a perfect temperature for watering plants or growing fish. Though they are more expensive to install, geothermal systems used for indoor farming quickly recoup those additional costs, providing a distinct fiscal advantage to investors.

**Harder, Fitter, Faster, Stronger**  
This unexpected excitement surrounding industrial real estate doesn’t look like it will abate any time soon. Seasoned pros like Meyer are legitimately excited, particularly when the topic shifts to what’s next for industrial real estate. Meyer envisions even more growth and innovation due to the continued emergence of urban logistics and click-and-collect, as well as the urban reprising of industrial space to non-traditional uses which are radically altering the way that these spaces are developed. “Today we see the beginning of a lot of incubator uses in industrial buildings. They’re repurposed and smart, innovating people are using them. In West LA they’re becoming collective work spaces and creating more of a demand. If you want fresh food they will grow it in an aquaponics space. You want something 3d printed they will make it. And it will be delivered to you that same day. This is what younger consumers want.”

For Gump the shocking success of Amazon and some of the other larger players is providing a path to the future. “The demand for that kind of instant gratification will mean more businesses will spring up that will specialize,” he says, “Uber and Lyft are the 800-pound gorilla in the room. I think you’re going to start seeing more and more smaller players taking up some of that space. And it’s exciting because it opens up so many opportunities for specialists and companies that are nimbler. Customers have gotten the ‘taste of blood’ after having Amazon Prime and now everyone wants that.”

Either way, Gump feels confident his market won’t see any immediate slow-down. “When you see the giant million-foot deals that might tell you something about the national economy. But the smaller deals of 150k square feet and under are what tells you something about the local economy. We’re in one of those markets where we’re seeing both ends of the spectrum still being strong.”
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9 TIPS FOR NATURALLY NAVIGATING BUSINESS NETWORKING

1. “When in groups of movers and shakers, listen and then pass your card. When one-on-one pay close attention and speak when asked a question.”
   John Walters

2. “Smile, don’t hang with people you already know, and try to introduce someone you don’t know to someone else you don’t know!”
   Raphael Barta, SFR

3. “Research the attendees list for people you want to meet and be ready to bring value to the conversation.”
   Chad Gleason, CCIM

4. “Participate in charities: give your money and your time to something you are passionate about.”
   Jim Taylor

5. “Identify who you want to network with in advance and make a point of meeting them.”
   Kevin Sigstad, CCIM, CPM

6. “People do business with people they know, like, and trust, so get to know the person on a ‘real’ level, and you may get the opportunity to do a deal in the very near future.”
   Dave Wilson, CCIM

7. “PLUSH:’ Position (what should attendees think of you), Listen (find value for attendees), Unique (recognize we and attendees are all different), Solve (think how to solve attendees’ problems), Help (you are here to help attendees).”
   Bob Pliska, CRE

8. “Have three memorized, open ended questions that would get the person with whom you are speaking to open up about their person and business.”
   Dave Morris, CCIM, SIOR

9. “Focus on building relationships based on common interests. I make more friends that way and it always seems to benefit both parties without ever forcing things.”
   Alex Ruggieri, CCIM, CRE
DIVerging trends in market performance

by George Ratiu, Director of Quantitative & Commercial Research, NAR

With a slowdown in global economic activity, financial market volatility and a contentious presidential campaign, commercial real estate investors have taken a step back in the early months of 2016. The U.S. economy sputtered during the first quarter of 2016, with gross domestic product advancing at a weak 1.0 percent annual rate. The corporate outlook took a downward turn, while international trade bore the brunt of a soft economic environment and rising dollar. However, the markets remained divided along valuation lines, with small cap commercial real estate maintaining momentum against the broader moderation.

Small Cap Markets Maintain Momentum

Commercial sales transactions span the price spectrum, but tend to be measured and reported based on size. Commercial real estate deals at the higher end—$2.5 million and above—comprise a large share of investment sales, and generally receive most of the press coverage. Smaller commercial transactions tend to be obscured given their size. However, the REALTORS® Commercial Real Estate Market Trends shines the spotlight on small cap commercial real estate markets.

Commercial transactions in large cap markets dropped in Q1 of 2016. The volume of commercial sales totaled $111 billion, a 20 percent year-over-year decrease, according to Real Capital Analytics (RCA). The nominal decline was partly due to unusually high portfolio deals which closed in the first quarter of 2015. Investor hesitation was evident in pricing, as cap rates were flat for the past three quarters, at 6.7 percent. Prices in markets covered by RCA gained 8.6 percent during the first quarter of 2016. The advance was driven by strong appreciation in values of retail and apartment properties, which advanced 11.8 percent and 11.2 percent, respectively. Prices for office properties in central business districts (CBD) advanced at a solid 10.5 percent.
In comparison, commercial real estate in small cap markets maintained its upward momentum during the first quarter, with REALTORS® reporting continued improvement in fundamentals and investment sales. The volume of investment sales in REALTOR® markets totaled $51.6 billion during the first quarter, 8.5 percent higher than the first quarter of 2015. Inventory shortage drove price growth, with commercial properties exchanging hands at average prices 5.1 percent higher compared with the same period in 2015. Average capitalization rates declined to an average 7.2 percent across all property types, a 57 basis point compression on a yearly basis. (See Figure 1)

Lending Conditions Tighten
While capital markets proved favorable during 2015, this year investors are finding soft spots in debt markets. In the large cap commercial real estate space, most sources of funding remain active, competing for market share. The main exceptions have been issuers of commercial mortgage backed securities (CMBS), who have tamped down the origination flow, with $19.0 billion in new issues during the first quarter of 2016, down 29.6 percent year-over-year. Based on RCA data, CMBS originators accounted for about one-in-five transactions at the high end of the market, followed by government-sponsored enterprises (GSEs). The third largest funding source comprised of national banks, with 16.0 percent of total transactions. Regional and local banks made up 15.0 percent of total volume. (See Figure 2)

Based on the REALTORS® Commercial Real Estate Lending Trends 2016, capital markets display a fundamentally different landscape. Local and community banks were the largest lending group in 2015, accounting for 31.0 percent of transactions. Regional banks were the second largest capital source in 2015, with 25.0 percent of REALTORS® commercial deals. Private investors were the third main capital providers, accounting for 12.0 percent of deals during 2015. National banks came in fourth place, with 8.0 percent market share. (See Figure 3)

The data highlights the marked differences in large cap versus small cap markets. Debt financing represents a much-larger portion of capital in small cap markets. For
regional and community banks—which account for 56.0 percent of all capital in REALTOR® markets—compliance costs stemming from financial regulations have made a stronger impact on available capital for deals. With rising operating costs and higher capital reserve requirements for loans, regional and community banks have been more cautious, resulting in tightening of capital. Over the past months, over a third of REALTORS® reported tightening lending conditions, compared with 22.0 percent in 2014 and 28.0 percent in 2013. In addition, 59.0 percent reported insufficient bank capital remains an obstacle to sales in their markets. (See Figure 4)

Outlook
Looking ahead at the second half of 2016, the GDP annual rate of growth will pick up modestly. However, in light of the weak first quarter, the annual growth is pegged at 1.6 percent. Payroll employment is projected to post 1.6 percent annual growth rate for the year, with the unemployment rate estimated to fall to 4.7 percent by the end of 2016.

Commercial fundamentals continue on an expansionary path, with three of the four core sectors tilting in landlords’ favor. On the investment side, financial markets’ jitters about interest rates will likely dampen the sales pace in large cap markets. In small cap markets, increased scrutiny from banking regulators has already tightened lending conditions.

However, in light of current global uncertainty, U.S. commercial real estate is likely to remain an attractive alternative for investors this year. Investors will probably take a more measured approach, leading to a moderation in prices. With cap rates at very low levels and interest rates expected to rise, the price slowdown is projected to impact Class A assets in top-tier markets, where inventory shortages and crowding of capital have led to the recent run-ups. Properties in smaller markets, where the recovery only began in 2013 are likely to see continued price appreciation.
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$10.5 BILLION in Institutional Transactions
We need to be mindful of two major disconnects that are present in the commercial real estate market. First, large properties with high price points have been doing much better than small properties with low price points. This trend came about because the smaller-size deals require lending principally from local community banks, and the new financial regulations have greatly raised the cost of doing business for the smaller guys. Fortunately though, after a lengthy wait, the small property deals are occurring and increasing due to steady job creation in the economy. So, as long as job creation continues there should be more deals in the making for commercial practitioners.

The second big disconnect is between solid commercial market fundamentals and worrisome property prices. Vacancy rates have been falling and rents have been rising—these are solid fundamentals. However, due to plentiful funds via Wall Street, pension funds, insurance companies, and other institutional money, big “trophy” properties in major cities have been bid up so high that the cap rates barely make sense. Therefore, when interest rates rise in 2017, the high-end property prices look vulnerable to some correction.
COMMERCIAL REAL ESTATE PERFORMANCE: GOOD, NOT GREAT

by Sara Rutledge, Director of Research, National Council of Real Estate Investment Fiduciaries (NCREIF)

Trends in the NCREIF Property Index (NPI) database suggest performance may have peaked. The quarterly NPI total return has edged down for more than the past four quarters to a level in-line with its long-term average on deceleration in both the income return and appreciation. Appreciation strengthened to a cycle peak for the year in 2015, but has been trending down for the past two quarters. The annual income return has been slowly trending down over the past five years with market values rising faster than income. Yet, commercial real estate remains an attractive relative performer across asset classes, outperforming equities.

Occupancy among NPI properties stands at its highest level since 2001 and annual net operating income growth continues at an above-average pace. Market fundamentals differ by property type with apartment and office further along in their cycles than industrial and retail. This combination of attractive relative performance to other asset classes and strong fundamentals is supportive of capital flows into the sector, keeping cap rates low. Thus, the near-term outlook for commercial real estate performance is continued moderation. Simply put: performance should be good, not great.

BUILDINGS WILL STAY RENTED AND VALUE WILL INCREASE

by Mark Dotzour, former Chief Economist and Director of Research for the Real Estate Center at Texas A&M and freelance economist

There are always two things on the commercial real estate investor’s mind: will my buildings stay rented and what will happen to the value in the next twelve months. While the US economy is getting aged, I think we still have maybe two more years of sluggish expansion that will continue to generate tenants. Property values are likely to continue to increase for quality commercial real estate because of the unprecedented manipulation and distortion of the credit markets by central banks in Europe, Japan, and the US. With bond yields further declining, commercial real estate will remain very attractive to global investors.
PAY IT FORWARD: CRE MAINTAINS IN 2017

by Kenneth P. Riggs, Jr., CCIM, CRE, Chairman & President of the Real Estate Research Corporation (RERC)

Commercial real estate’s role as a foundation during uncertain times almost ensures that it will continue to be an attractive investment for the next 12 months. As a tangible asset that derives a majority of its return through annual dividends, commercial real estate is extremely attractive as we look to the future. Global uncertainties, including the assorted financial and political concerns like the UK exit from the EU, terrorism, and a slowdown in China, will continue. These, along with the challenges in the U.S. economy, with a rate of growth that is expected to remain stubbornly slow, will continue to be major headwinds for the global financial and capital markets. Commercial real estate will continue to be supported by historically low long-term interest rates. In addition, there are spouts of optimism through improved space market fundamentals and with supply and demand balances continuing to improve on a broad market perspective.

Commercial real estate will also continue to gain strength in the secondary and tertiary investment markets, as they finally rebound from the credit crisis of 2008 and reach a new normal. These gains will be especially bolstered by their local housing markets, which are expected to continue to demonstrate strength over the next year. Strength in the housing markets will result in an amazing ripple effect on local economies, as demand for labor from the trade professions and other skilled workers will drive growth in employment, personal income, and consumer spending.

Editor’s Note:
As a whole these economists felt capital hungry for yield will meet a global economic slowdown at the cross-roads of the U.S. economy spurring modest but positive growth which is expected to bolster commercial real estate through a late-cycle that will continue to reward investment. As a commercial real estate professional continue to stay abreast of market developments through reports like NAR’s Quarterly Forecast so you can be best-prepared to handle any trends and their potential impact to your local business.
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September 25-28, Washington, DC
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www.sior.com/conferences/2016-fall-world-conference

CCIM THRIVE 2016
October 24-25, 2016 in Atlanta, GA
www.ccim.com/networking/tradeshows/

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THE MAKER MOVEMENT
by Tracey C. Velt, Contributing Writer

On Common Ground is a NAR publication devoted to presenting a wide range of views on smart growth, with the goal of encouraging dialog among REALTORS®, elected officials, and other interested citizens. With an eye towards issues like sustainability and walkability that appeal to modern consumers, it’s an excellent resource for commercial real estate practitioners interested in smart growth and community building. Enjoy this article from a recent issue and view all issues of On Common Ground by visiting www.realtor.org/publications/on-common-ground.

Alexandra Ferguson, CEO of her eponymous line of custom pillows and décor, started as a small, home-based business. “I first sold my pillows on Etsy, so I’m as homegrown as it gets,” says Ferguson. When it was time to expand, Ferguson had a hard time finding an inexpensive, light manufacturing spot in Westchester, New York. “I decided to look in Brooklyn and Queens as the talent I needed could be found in those areas,” she says. She ended up moving into a 4,000-square-foot raw industrial loft space in Industry City, an innovation and manufacturing district situated on the waterfront in Sunset Park, Brooklyn.

Industry City is transforming ground floor and lower levels into a pedestrian-friendly series of shops, showrooms, event spaces and courtyards, loosely organized around themes such as food and food production, children and family, and home goods, while providing ample loading docks and service ground for upper floor innovation economy and manufacturing tenants. These mixed-use maker spaces, developing around the United States, are becoming a popular choice for real estate developers hoping to revitalize communities and accommodate small manufacturers.

More and more cities and real estate developers are creating spaces for small-scale manufacturing. Small manufacturers, or makers, in textiles, wood, metal, and electronics need places that are appropriate in scale, which are affordable, and that meet local zoning and building codes. Maker spaces can provide some shared facilities and equipment, as well as mentoring and assistance in running a business.

A Resurgence
“We are seeing a resurgence of small, local producers who are harnessing low-cost technology and changing markets to sell hundreds and thousands of locally produced consumer products,” says Ilana Preuss, founder of Recast City, a company that brings together small-scale manufacturers and community developers to strengthen neighborhoods, build real estate value, and create more job opportunities for residents.

Documented by Chris Anderson, author of “Makers: The New Industrial Revolution,” and seen across the country today, these companies are often businesses with fewer than 20 employees and sell both in local markets and
globally online. In an interview with *Forbes Magazine*, Anderson notes, that, “Until a few years ago, you just didn’t have access to production. The world is oriented around companies, and manufacturing was expensive and consuming.” All of that is changing.

According to its study, “The Federal Role in Supporting Manufacturing,” by the Pratt Center for Community Development and Brookings Institute, despite recent recessionary shocks, manufacturing continues to play a central role in the American economy and still serves as a gateway to the middle class for a sizeable segment of the nation’s population. Today, says the report, approximately 11.7 million Americans are employed by the country’s 300,000 manufacturing firms, and over 7 million additional jobs are supported by manufacturing-related activities, including jobs in transportation, wholesaling, and service industries, such as accounting, consulting, real estate and finance.

The report goes on to say, “Unlike the days when large companies dominated the nation’s commodity production, today’s manufacturing landscape is largely occupied by decentralized networks of small, specialized firms — many of which are hidden in plain sight in America’s urban areas. In fact, in 2007, of the approximately 51,422 manufacturers in the United States employing fewer than 20 people, over a third were located in the nation’s 10 largest cities alone. These businesses make an astonishing range of products — from high-tech medical equipment to designer coats, artisanal food products to specialized coatings — and serve a spectrum of customers and markets, including small suppliers, contractors, the consumer public, and large original equipment manufacturers (OEMs).”

“There is a rebirth of modern manufacturing; I call it the innovation economy and that’s where the job growth is,” says Andrew Kimball, CEO of Industry City. New technology allows people to manufacture in small spaces,” he says. “There’s a blurring of technology, manufacturing and design. The good news for cities is that these kinds of businesses start small and often grow over time. They employ people who need jobs the most, jobs that are broadly accessible to those with a broad range of educational backgrounds,” says Kimball.

That’s the case with Ferguson, who has a “one-stop, super-efficient space that includes her office, photo studio space, manufacturing, warehouse and shipping all from one place.” In addition, Industry City has efficiencies built in, such as the ability to outsource to other suppliers who are in her same building. Her business grew from one employee to five employees in the short 18 months she’s been in Industry City.

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**Editor’s Note:**

Go to [www.realtor.org/articles/the-maker-movement](http://www.realtor.org/articles/the-maker-movement) to read the rest of this article.
Emily Line (EL): What is your commercial business specialty?

Norma Nisbet (NN): I’ve been a commercial investment brokerage specialist for over 25 years. I started my own business, Vista Properties and Investments, in the St. Louis, Missouri area and have been specializing in land sales, development, and site acquisition for multiple types of retail, residential, industrial, and commercial uses.

EL: When did you start using RPR® Commercial?

NN: I became an early adopter, creating my account in 2013, shortly after RPR® Commercial came out of beta testing. I began to really use RPR® more when I had a difficulty finding specific details on properties that seemed to not be available through other resources.

EL: In addition to being able to find information on properties, what drove you to start using RPR® Commercial?

NN: RPR® offers so much additional information and supplemental support data, while being easily accessible on one site. It’s tremendously valuable as a REALTOR® benefit, since there are no additional costs or monthly fees for the service. Support staff is readily available to assist with any technical issues.

EL: How do you use RPR® Commercial in your day-to-day work?

NN: It truly depends on the business case. That’s what makes the service so valuable to me. Let’s say I have a property—whether it be vacant land or a building—I can determine the right business for that space by reviewing over- and underserved business types, as well as consumer spending habits, within RPR® Commercial and generate a quick visual for recruiting the right tenant or marketing to a particular segment of the industry. It also assists in providing property and ownership lists suitable for direct contact marketing.

EL: What’s the most valuable feature or functionality?

NN: Lately, I’ve spent time working within the mapping layers. Specifically, the Business Points of Interest (POIs) located within RPR® maps. Right now I have a space suitable for a restaurant. It’s an industrial area and my goal is to place the right restaurant for the demographic working in the area to enjoy lunch, happy hour, or dinner close their workplace. I like using POI in these situations to analyze nearby restaurants by type, annual sales, staffing levels, and number of years in operation to determine how the new restaurant might fare against its competitors. Capturing this information allows me to then focus my attention on recruiting the right restaurant for the space.
I have also utilized the system to provide ownership information in outlying submarkets that would normally only be available in the metro areas.

**EL:** What are the key features or functionality that you’d like to see added?

**NN:** I’m an Accredited Land Consultant (ALC), so it’s important for me to have access to land values and trends. This is one of the most difficult areas to find accurate, concise information, since every land property has different features and amenities. The capability to find comparable sales would be an invaluable tool to anyone in the land business. Especially difficult are the areas that are outside the parameters of the metro areas. The analytical systems readily available typically have stronger data for surrounding MSA with limited information on outlying lower density and rural markets.

**EL:** Which reports are you using?

**NN:** I like pulling Commercial Property Reports to detail facts on the specific property, maps and photos and I also pull Commercial Trade Area Reports that include demographic and economic statistics (actualls and projections) and Esri tapestry segments to note consumer trends.

**EL:** Do you use RPR® Commercial for prospecting?

**NN:** I’m just getting into searching off-market data to grab public record information. With RPR®, I can see the land owner or building owner information. If I find an area is hot and it might be a good time for a business owner to sell, then I have access to the owner information to reach out and share my expertise and potentially get their business. This is also an opportunity to market listings to these prospects. The public record data gives me a much greater reach outside of my immediate geography to explore business opportunities.

**EL:** If you could advise other real estate professionals on how to most effectively leverage RPR® Commercial, what would you tell them?

**NN:** Explore the online training. You can participate in a live webinar and ask questions or you can watch on-demand videos.

**Editor’s Note:**
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