

MAY
2014

COMMERCIAL REAL ESTATE OUTLOOK

ECONOMIC OVERVIEW

Positive Demand Overcomes Weak Economic Performance in 2014.Q1

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First quarter economic performance felt rather chilly, as gross domestic product decreased 1.0 percent. While prolonged and severe winter weather clearly impacted activity, the more detailed GDP data point to an important factor—consumers carried the economy. The consumer spending component of GDP rose at an annual rate of 3.1 percent, a strong enough growth rate to offset negative spending by businesses, a negative trade balance and similarly negative government spending. Consumers increased their spending on goods by 0.7 percent and spending on services at a rate of 4.3 percent—mostly on housing, health care, and financial services.

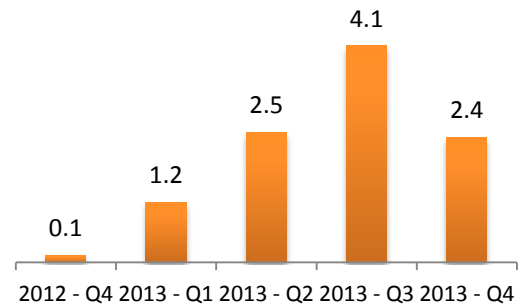
On the heels of a positive end of the year, business investments declined at an annual rate of 1.6 percent in the first quarter.

Companies cut spending mostly on equipment, down 3.1 percent, and structures, down 7.5 percent. Investments in intellectual property rose 5.1 percent. Balancing spending with corporate profits, business investments remain unusually conservative, pointing to lingering concerns about the health of the economy. International trade declined during the first quarter, as exports were down 6.0 percent and imports increased at an annual rate of 0.8 percent.

Government spending, a major contributor to GDP, slid at a 0.8 percent annual rate. The drag came mostly from the state and local levels, which cut spending by 1.8 percent during the quarter. The federal government's spending rose 0.8 percent.

On the residential real estate side, sales of new homes declined 3.0 percent, as prices for new houses rose 5.4 percent. Sales of existing homes dropped 6.6 percent on a yearly basis, with median prices of rising 8.5 percent year-over-year, making a significant dent in affordability. Mortgage rates rose in the first quarter of the year, but declined in the latter half of May to around 4.2 percent.

GDP (% Annual Chg)



Source: BEA

Payroll employment gained a net 569,000 new jobs during the first quarter 2014. Manufacturing industries added 142,000 jobs over the quarter. Service industries created 427,000 new jobs. The bulk of those gains came from professional and business services, hospitality, and education and health services. In addition, April's figures added fuel for economic growth, as payroll employment gained 288,000 new jobs. The unemployment rate averaged 6.7 percent in the first quarter. It declined to 6.3 percent in April. But a large part of the decline came from employees dropping out of the labor force.

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ECONOMIC OVERVIEW

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The GDP outlook for the remainder of 2014 has moderated due to the poor first quarter performance. We expect a GDP annual growth rate of 2.1 percent. Payroll employment is expected to rise by 1.6 percent.

Commercial Real Estate

Sales of major properties (over \$2.5M) advanced 15 percent year-over-year in the first quarter of 2014, totaling \$87.0 billion, based on data from Real Capital Analytics (RCA). Sales of individual properties rose 39.0 percent on a yearly basis, while portfolio transactions declined from the previous year. The retail sector proved particularly appealing to investors, as sales jumped 147.0 percent year-over-year. During the quarter, prices increased 3.0 percent.

Cap rates averaged 6.5 percent across all property types, a 21 basis point contraction from the prior quarter. Apartments recorded the lowest average cap rate for the quarter, at 6.0 percent, posting a 21 basis point decrease year-over-year. Office cap rates averaged 6.7 percent in the first quarter, while industrial properties posted average cap rates of 7.4 percent. Retail cap rates averaged 6.8 percent, declining 29 basis points on a yearly basis.

For lower priced properties (below \$2.5M), sales volume advanced 11 percent on a yearly basis, while prices increased 3 percent year-over-year, based on survey data from the National Association of REALTORS®. Cap rates averaged 8.2 percent in the first quarter, a 20 basis point decline from the fourth quarter 2013.

U.S. Economic Outlook: May 2014

	2012	2013	2014	2015
<i>Annual Growth Rate, %</i>				
Real GDP	2.8	1.9	2.1	2.9
<i>Nonfarm Payroll</i>				
Employment	1.7	1.7	1.6	1.8
Consumer Prices	2.1	1.4	2.5	3.5
<i>Level</i>				
Consumer Confidence	67	73	83	87
<i>Percent</i>				
Unemployment	8.1	7.4	6.4	6.0
Fed Funds Rate	0.1	0.1	0.1	0.8
3-Month T-bill Rate	0.1	0.1	0.1	0.9
Corporate Aaa Bond Yield	3.7	4.3	4.4	5.3
10-Year Gov't Bond	1.8	2.5	2.8	3.7
30-Year Gov't Bond	2.9	3.4	3.7	4.7

Source: National Association of REALTORS®

NCREIF PROPERTY INDEX RETURNS – 2014.Q1

NATIONAL	2.74%
OFFICE	2.23%
INDUSTRIAL	2.75%
RETAIL	4.30%
APARTMENT	2.21%

Source: National Council of Real Estate Investment Fiduciaries

COMMERCIAL FORECAST

OFFICE

	2014 II	2014 III	2014 IV	2015 I	2015 II	2015 III	2015 IV	2014	2015
Vacancy Rate	15.8%	15.6%	15.7%	15.7%	15.6%	15.5%	15.6%	16.0%	15.6%
Net Absorption ('000 sq. ft.)	9,803	10,980	9,020	11,369	12,663	13,358	12,452	39,676	49,841
Completions ('000 sq. ft.)	6,745	5,504	5,652	10,153	11,653	10,606	10,455	23,537	42,866
Inventory ('000,000 sq. ft.)	4,121	4,126	4,132	4,142	4,154	4,164	4,175	4,132	4,175
Rent Growth	0.6%	0.6%	0.6%	0.7%	0.8%	0.9%	0.8%	2.5%	3.2%

INDUSTRIAL

	2014 II	2014 III	2014 IV	2015 I	2015 II	2015 III	2015 IV	2014	2015
Vacancy Rate	9.0%	8.9%	8.8%	8.7%	8.7%	8.6%	8.5%	8.9%	8.6%
Net Absorption ('000 sq. ft.)	26,962	32,355	29,119	19,283	26,782	32,138	28,924	107,849	107,127
Completions ('000 sq. ft.)	23,733	22,202	14,546	14,309	21,122	19,760	12,946	76,558	68,137
Inventory ('000,000 sq. ft.)	8,473	8,496	8,510	8,525	8,546	8,565	8,578	8,510	8,578
Rent Growth	0.6%	0.6%	0.7%	0.6%	0.7%	0.7%	0.6%	2.4%	2.6%

RETAIL

	2014 II	2014 III	2014 IV	2015 I	2015 II	2015 III	2015 IV	2014	2015
Vacancy Rate	10.0%	9.9%	9.8%	9.9%	9.8%	9.8%	9.7%	10.0%	9.8%
Net Absorption ('000 sq. ft.)	3,353	3,095	4,255	5,373	4,553	3,533	6,157	11,543	19,616
Completions ('000 sq. ft.)	1,842	2,110	2,342	3,398	2,935	3,299	3,368	8,404	13,001
Inventory ('000,000 sq. ft.)	2,038	2,040	2,042	2,046	2,049	2,052	2,056	2,042	2,056
Rent Growth	0.5%	0.5%	0.6%	0.5%	0.6%	0.6%	0.6%	2.0%	2.3%

MULTI-FAMILY

	2014 II	2014 III	2014 IV	2015 I	2015 II	2015 III	2015 IV	2014	2015
Vacancy Rate	4.0%	4.0%	4.1%	4.1%	4.1%	4.2%	4.2%	4.0%	4.0%
Net Absorption (Units)	57,612	55,397	66,476	44,087	40,930	39,233	48,804	221,366	173,055
Completions (Units)	47,450	46,161	49,495	30,032	38,146	34,834	36,965	178,655	139,976
Inventory (Units in millions)	10.1	10.2	10.2	10.3	10.3	10.3	10.4	10.2	10.4
Rent Growth	1.0%	1.0%	0.9%	0.9%	1.0%	1.0%	1.1%	4.0%	4.0%

Sources: National Association of REALTORS® / Reis, Inc.

COMMERCIAL FORECAST: METRO VACANCY RATES - 2014.Q2

Source: NAR, Reis, Inc.

		Office	Industrial	Retail	Multifamily
Albuquerque	NM	17.3		11.8	3.7
Atlanta	GA	19.4	13.9	13.1	5.9
Austin	TX	15.6	10.8	5.8	5.2
Baltimore	MD	16.1	12.4	6.6	3.5
Birmingham	AL	13.3		14.0	5.7
Boston	MA	13.2	18.3	6.4	3.8
Buffalo	NY	16.1		14.4	2.8
Central New Jersey	NJ	21.3		9.8	2.8
Charleston	SC	14.3		10.9	5.6
Charlotte	NC	17.1	12.5	10.2	5.1
Chattanooga	TN	16.4		14.9	4.5
Chicago	IL	18.5	8.7	11.7	3.5
Cincinnati	OH	20.1	8.3	12.2	3.6
Cleveland	OH	22.8	8.6	14.8	3.1
Colorado Springs	CO	17.8		15.3	3.9
Columbia	SC	17.4		10.9	6.1
Columbus	OH	19.5	8.9	16.1	4.7
Dallas	TX	22.7	12.3	12.6	5.3
Dayton	OH	25.7		15.7	5.2
Denver	CO	16.8	7.5	10.3	4.0
Detroit	MI	25.2	11.5	11.6	3.1
District of Columbia	DC	9.4			5.3
Fairfield County	CT	21.8		3.8	5.0
Fort Lauderdale	FL	19.0	8.5	10.0	4.3
Fort Worth	TX	15.8	10.1	12.3	4.7
Greensboro/Winston-Salem	NC	21.0		11.6	5.8
Greenville	SC	18.6		13.9	4.2
Hartford	CT	19.8		9.6	2.5
Houston	TX	14.3	7.8	11.6	6.0
Indianapolis	IN	19.5	9.3	15.0	5.8
Jacksonville	FL	20.5	7.8	12.7	6.6
Kansas City	MO	16.3	10.1	11.2	4.5
Knoxville	TN	14.1		11.1	4.8
Las Vegas	NV	25.8		11.8	5.1
Lexington	KY	15.9		8.4	5.6
Little Rock	AR	11.5		11.4	6.3
Long Island	NY	13.2		5.3	3.0

COMMERCIAL FORECAST: METRO VACANCY RATES - 2014.Q2

Source: NAR, Reis, Inc.

		Office	Industrial	Retail	Multifamily
Los Angeles	CA	14.9	3.9	5.8	3.2
Louisville	KY	15.4		9.4	5.2
Memphis	TN	22.8	14.3	11.4	7.9
Miami	FL	16.3	6.0	7.0	3.6
Milwaukee	WI	18.4		12.2	3.3
Minneapolis	MN	16.6	7.2	11.5	2.8
Nashville	TN	13.3	7.8	7.6	4.3
New Haven	CT	16.7		13.2	2.3
New Orleans	LA	12.8		11.4	6.1
New York	NY	9.4			2.5
Norfolk/Hampton Roads	VA	15.6		9.0	4.5
Northern New Jersey	NJ	17.9		5.3	3.6
Oakland-East Bay	CA	17.6	8.9	5.7	2.5
Oklahoma City	OK	15.9		13.3	5.3
Omaha	NE	14.9		8.8	3.2
Orange County	CA	16.7	3.5	5.3	2.8
Orlando	FL	17.5	10.9	11.9	5.2
Palm Beach	FL	17.3	6.5	10.9	5.3
Philadelphia	PA	13.4	9.7	9.4	3.5
Phoenix	AZ	24.8	10.6	10.2	4.6
Pittsburgh	PA	16.1	8.8	7.8	3.1
Portland	OR	13.3	7.6	7.6	3.1
Providence	RI	15.5		12.2	3.1
Raleigh-Durham	NC	14.8	15.6	9.3	4.6
Richmond	VA	14.3	14.2	9.5	4.4
Rochester	NY	16.7		12.2	2.8
Sacramento	CA	20.4	12.2	11.3	2.6
Salt Lake City	UT	17.1		11.9	3.6
San Antonio	TX	17.5	7.2	10.8	6.0
San Bernardino/Riverside	CA	22.6	6.8	9.9	2.9
San Diego	CA	15.6	6.6	6.1	2.5
San Francisco	CA	12.6	10.9	3.2	3.3
San Jose	CA	18.0	16.6	4.7	2.9
Seattle	WA	13.3	6.0	7.3	4.3
St. Louis	MO	17.4	6.9	11.5	4.6

MAY
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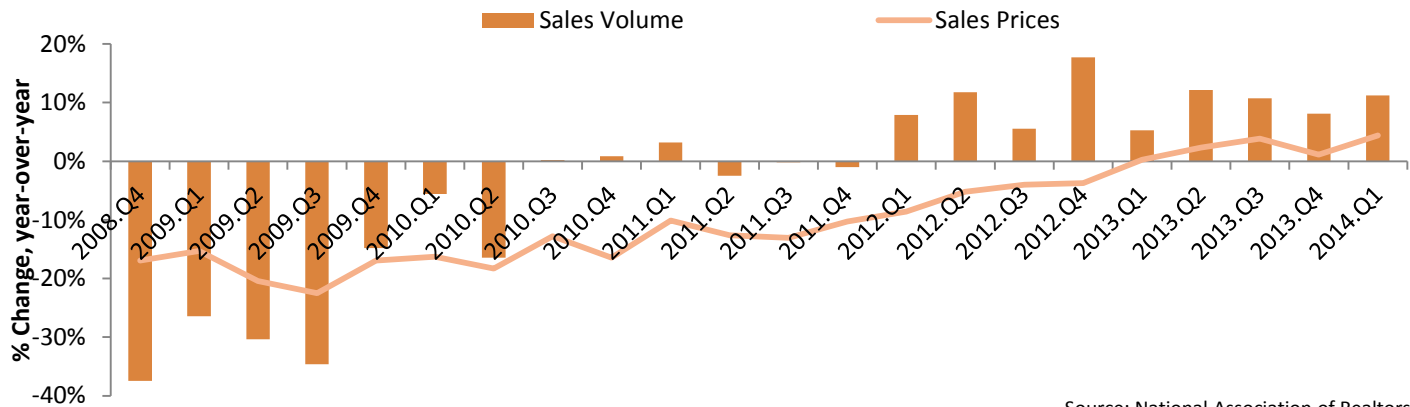
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COMMERCIAL FORECAST: METRO VACANCY RATES - 2014.Q2

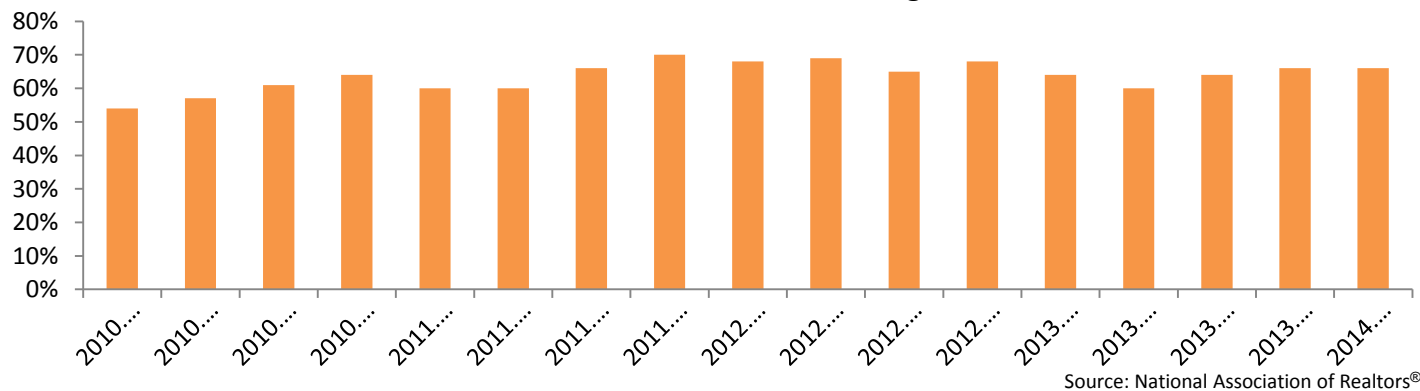
Source: NAR, Reis, Inc.

		Office	Industrial	Retail	Multifamily
Suburban Maryland	MD	15.4	10.8	7.9	3.8
Suburban Virginia	VA	16.9	9.9	5.8	4.4
Syracuse	NY	14.7		14.4	3.0
Tacoma	WA	16.6		12.4	3.6
Tampa-St. Petersburg	FL	20.8	7.5	10.7	4.4
Tucson	AZ	15.6		9.6	5.2
Tulsa	OK	16.6		16.4	5.7
Ventura County	CA	17.5		8.4	2.4
Westchester	NY	18.4		8.0	2.9
Wichita	KS	17.4		13.7	3.7

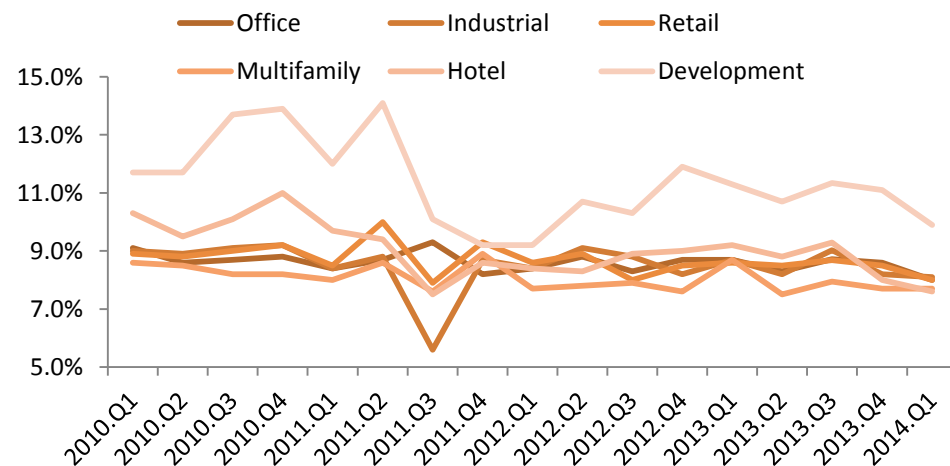
INVESTMENT TRENDS AT A GLANCE



REALTORS® CRE Transaction Closing Rate



REALTORS® Commercial Capitalization Rates



2014.Q1 Cap Rates

Office	8.0%
Industrial	8.1%
Retail	8.0%
Multifamily	7.7%
Hotel	7.6%
Development	9.9%

Source: National Association of Realtors®

REALTOR® RESEARCH

The Research Division of the National Association of REALTORS® monitors and analyzes monthly and quarterly economic indicators, including retail sales, industrial production, producer price index, gross domestic product and employment data which impact commercial markets over time. In addition, the Research Division provides several products covering commercial real estate:

- Commercial Real Estate Quarterly Market Survey
- Commercial Real Estate Lending Survey
- Commercial Member Profile
- Expectations and Market Realities in Real Estate 2014
- CCIM Quarterly Market Trends
- SIOR Commercial Real Estate Index

For questions or comments, please contact George Ratiu, Director, Quantitative & Commercial Research, at gratiu@realtors.org.

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