

National Association of REALTORS®



**COMMERCIAL REAL ESTATE
OUTLOOK: 2015.Q1**

COMMERCIAL
Real Estate



**NATIONAL
ASSOCIATION of
REALTORS®**

ECONOMIC OVERVIEW

Commercial Markets Benefit from Rising Employment

George Ratiu
Director, Quantitative & Commercial Research

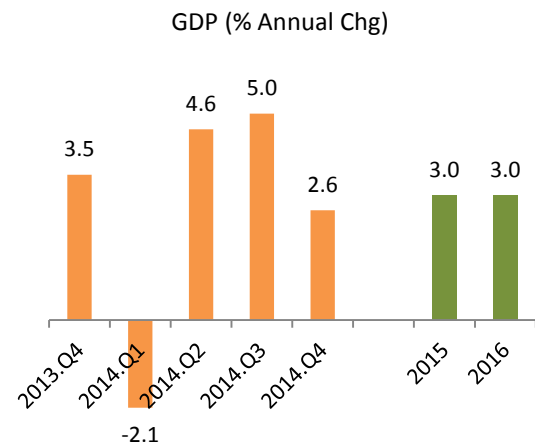
Economic growth throttled back as winter set in during the fourth quarter 2014. Based on the Bureau of Economic Analysis's first estimate of gross domestic product came in at \$16.3 trillion for the fourth quarter, indicating a 2.6 percent annual growth rate. On the upside, the economy closed 2014 on an upbeat note, with positive GDP growth for the year.

The fourth quarter GDP slowdown was brought about by a noticeable decline in federal government spending. Federal defense spending dropped 12.6 percent during the quarter. Federal nondefense spending rose at an annual rate of 1.7 percent. State and local governments, meanwhile, have been benefiting from rising property tax revenues, which provided for higher spending in the fourth quarter—1.3 percent on an annual basis.

The other reason for the economic slowdown was the slowdown in the pace of business investments during the last quarter 2014. Nonresidential fixed investment advanced at a slower annual rate of 1.9 percent, as companies cut back on equipment spending. Double-digit cuts in purchases of industrial and transportation equipment led to a 1.9 percent decline in overall equipment investment. Spending on information processing equipment—computers and peripherals—was the only bright spot, advancing 15.8 percent.

Business investments in commercial real estate rose 2.6 percent in the fourth quarter, the slowest pace of the year. Companies upped their investments in intellectual property products—software, R&D, along with entertainment, literary and artistic works—at a 7.2 percent annual growth rate.

With declining global economic growth pushing the U.S. dollar's parity higher, export growth moderated, advancing 2.8 percent. Imports of goods and services rose 8.9 percent in the last quarter of 2014, leading to a negative balance of trade of \$471.5 billion.



Source: NAR, BEA

For the fourth quarter, the main boost to GDP growth came from consumer spending. Consumer expenditures gained during 2014 with each successive quarter, from an annual rate of 1.2 percent in the first quarter to 4.3 percent in the fourth quarter. With rising employment and higher household wealth, consumers spent more on both goods and services. The fourth quarter's 7.5 percent increase in spending on durable goods was driven by higher purchases of vehicles and auto parts (up 6.4%), furniture and household appliances (up 5.7%), as well as recreational vehicles and equipment (up 9.8%). Auto sales reached an annual level of 17 million vehicles as of December 2014.

ECONOMIC OVERVIEW

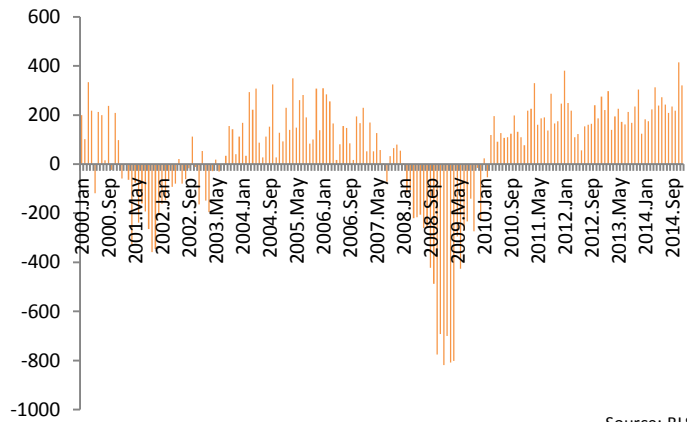
With colder weather and increased holiday travel, spending on gasoline rose 12.3 percent. However, gasoline prices dipped to \$53 by December 2014, providing much-needed relief for consumers. In turn, lower gas prices freed cash which consumers spent on clothing and shoes (up 13.4%).

Consumer spending on services rose at the strongest rate of 2014, 3.7 percent in the fourth quarter. With the start of the winter holiday season, consumers upped their expenditures of recreation 5.9 percent, while increasing spending at hotels and restaurants 6.0 percent. Spending on financial services and insurance increased at an annual rate of 6.4 percent.

The end of the year was encouraging on the employment front. Payroll employment rose at the strongest pace in the last stretch of the year, adding 850,000 new jobs. That brought the total net gain over 2014 to 2.6 million employees. The unemployment rate dropped to 5.7 percent for the fourth quarter, the lowest of 2014.

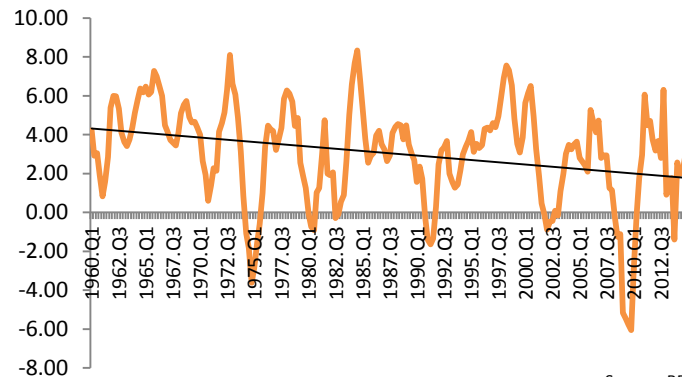
The fourth quarter also registered an improvement in wages and salaries. Real personal income (adjusted for inflation) advanced 2.9 percent year-over-year.

One-month Payroll Job Changes (in thousands)



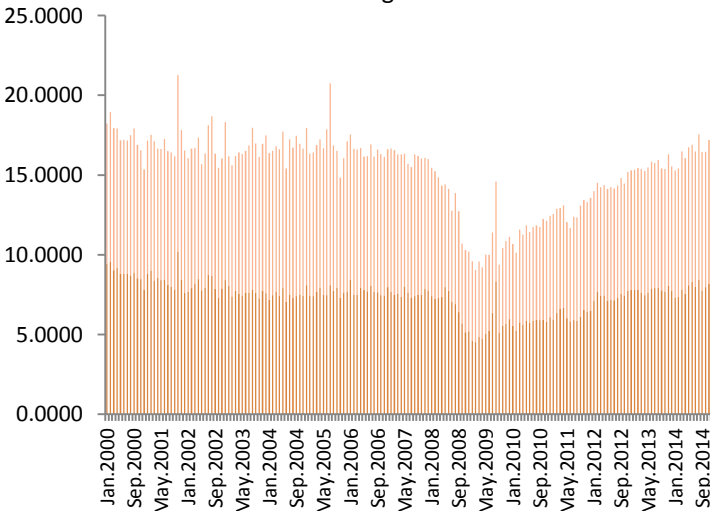
Source: BLS

Real Personal Income Excluding Transfer Receipts (SAAR, Chn.2009\$) %Chg YoY



Source: BEA

Car Sales Light Truck Sales



Source: Autodata

Consumer confidence—as measured by the Conference Board—picked up toward the tail end of last year, rising to 92.7 in the fourth quarter, from 80.5 in the first quarter 2014. The University of Michigan’s Consumer Sentiment Index also rose, to its highest value since the first quarter 2007, reaching 89.8 in the fourth quarter.

Looking ahead at this year, NAR expects GDP to accelerate to an annual rate of 3.0 percent. Payroll employment is projected to increase 2.1 percent, accompanied by a slight decrease in the unemployment rate to 5.5 percent. Even as the Fed signaled its intent to increase rates, U.S. inflation remains contained. Inflation is expected to reach 1.4 percent in 2015.

COMMERCIAL REAL ESTATE

Commercial fundamentals improved in the fourth quarter 2014, with rising net absorption driving rents higher across the major property types. As employment gains are expected to continue into 2015, demand for commercial space is expected to advance.

The pace of advance will likely vary by property type. While office absorption is projected to total 47.7 million square feet in 2015, vacancy rates will continue a gradual decline to 15.7 percent by the end of the year. Office vacancies remain elevated due to continued gains in space-utilization efficiencies. Office rents are forecast to rise 3.3 percent in 2015.

Industrial markets have been benefitting from rising trade and the continued shift toward electronic commerce, both of which have led to strong demand for distribution warehouse space. Net absorption of industrial space is estimated to total 102.2 million square feet this year. With new supply projected to reach 82 million square feet, availability rates will likely decline to 8.3 percent by the fourth quarter. Industrial rents should experience a 3.0 percent gain for the year.

Retail markets are experiencing improvement at an uneven pace. Coastal markets remain top performers, displaying low vacancies and rising rents. However, space utilization is undergoing a transformation, as retail outlets are scaling back floor space in favor of e-commerce distribution channels. Absorption is expected to reach 15.7 million square feet nationally in 2015, lowering vacancies to 9.6 percent by the last quarter of the year. Rents are projected to rise 2.5 percent this year.

NCREIF PROPERTY INDEX RETURNS: 2014.Q4

NATIONAL	3.04%
OFFICE	3.09%
INDUSTRIAL	3.87%
RETAIL	2.69%
APARTMENT	2.77%

Source: National Council of Real Estate Investment Fiduciaries

U.S. ECONOMIC OUTLOOK: FEBRUARY 2015

	2013	2014	2015	2016
<i>Annual Growth Rate, %</i>				
Real GDP	2.2	2.6	3.0	3.0
Nonfarm Payroll Employment	1.7	1.9	2.1	2.1
Consumer Prices	1.5	1.6	1.4	3.2
<i>Level</i>				
Consumer Confidence	73	87	101	103
<i>Percent</i>				
Unemployment	7.4	6.1	5.5	5.4
Fed Funds Rate	0.1	0.1	0.4	1.6
3-Month T-bill Rate	0.1	0.1	0.6	1.9
Corporate Aaa Bond Yield	4.3	4.2	4.1	5.6
10-Year Gov't Bond	2.6	2.6	2.3	3.6
30-Year Gov't Bond	3.4	3.4	3.1	4.6

Source: National Association of REALTORS®

Multifamily demand is expected to remain strong, as the pace of household formation closes on historical averages. However, 2015 will mark the first year since the recession that supply will likely outpace demand. Apartment net absorption is estimated to reach 171,978 units in 2015. New apartment completions will add 230,411 units on the market this year. The volume of new space is expected to lead to an increase in apartment vacancies from 4.1 percent in the first quarter to 4.3 percent by the fourth quarter 2015. Rent growth is likely to slow from above 4.0 percent over the past few years to 3.7 percent in 2015.

Investment sales for properties in REALTOR markets advanced 9.5 percent year-over-year in the fourth quarter of 2014. Prices rose 3.8 percent year-over-year during the period. Cap rates averaged 8.0 percent in the fourth quarter, a 23 basis point decline from the prior quarter and 167 basis point drop year-over-year.

COMMERCIAL FORECAST

OFFICE	2015 I	2015 II	2015 III	2015 IV	2016 I	2016 II	2016 III	2015	2016
Vacancy Rate	15.8%	15.7%	15.7%	15.6%	15.7%	15.6%	15.6%	15.7%	15.6%
Net Absorption ('000 sq. ft.)	12,277	10,357	12,117	12,904	15,027	12,678	14,832	47,656	58,332
Completions ('000 sq. ft.)	8,369	9,149	7,815	8,305	12,134	12,561	11,857	33,637	48,819
Inventory ('000,000 sq. ft.)	4,142	4,151	4,159	4,167	4,180	4,192	4,204	4,167	4,216
Rent Growth	0.8%	0.8%	0.8%	0.9%	0.8%	0.9%	0.9%	3.3%	3.6%

INDUSTRIAL	2015 I	2015 II	2015 III	2015 IV	2016 I	2016 II	2016 III	2015	2016
Vacancy Rate	8.7%	8.5%	8.5%	8.4%	8.3%	8.1%	8.0%	8.5%	8.1%
Net Absorption ('000 sq. ft.)	18,395	25,548	30,658	27,592	18,858	26,192	31,430	102,193	104,767
Completions ('000 sq. ft.)	17,225	25,428	23,787	15,585	15,288	22,568	21,112	82,025	72,800
Inventory ('000,000 sq. ft.)	8,482	8,507	8,530	8,546	8,562	8,585	8,605	8,546	8,619
Rent Growth	0.6%	0.7%	0.8%	0.9%	0.7%	0.8%	0.8%	3.0%	3.1%

RETAIL	2015 I	2015 II	2015 III	2015 IV	2016 I	2016 II	2016 III	2015	2016
Vacancy Rate	9.7%	9.6%	9.6%	9.6%	9.5%	9.3%	9.2%	9.6%	9.3%
Net Absorption ('000 sq. ft.)	4,250	3,615	2,830	5,003	5,579	4,746	3,715	15,698	20,609
Completions ('000 sq. ft.)	2,076	2,014	2,339	2,433	2,935	2,848	3,307	8,861	12,529
Inventory ('000,000 sq. ft.)	2,051	2,053	2,055	2,058	2,060	2,064	2,067	2,058	2,070
Rent Growth	0.5%	0.6%	0.7%	0.7%	0.6%	0.7%	0.9%	2.5%	3.1%

MULTI-FAMILY	2015 I	2015 II	2015 III	2015 IV	2016 I	2016 II	2016 III	2015	2016
Vacancy Rate	4.1%	4.2%	4.3%	4.3%	4.3%	4.4%	4.6%	4.2%	4.3%
Net Absorption (Units)	44,207	40,020	37,171	50,581	40,080	36,284	33,701	171,978	157,168
Completions (Units)	45,090	60,794	61,956	62,571	38,615	52,064	53,059	230,411	197,324
Inventory (Units in millions)	10.2	10.3	10.4	10.4	10.5	10.5	10.6	10.4	10.6
Rent Growth	1.0%	0.9%	0.9%	0.9%	0.9%	0.9%	0.8%	3.7%	3.6%

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

COMMERCIAL FORECAST: METRO VACANCY RATES – 2015.Q1

Source: NAR, Reis, Inc.

		Office	Industrial	Retail	Multifamily
Albuquerque	NM	16.7		11.4	3.8
Atlanta	GA	18.5	13.3	12.4	6.1
Austin	TX	15.6	10.2	6.1	7.2
Baltimore	MD	16.1	10.8	5.9	4.0
Birmingham	AL	12.8		13.7	7.0
Boston	MA	13.3	17.3	6.0	5.4
Buffalo	NY	17.0		12.9	2.9
Central New Jersey	NJ	21.8		9.3	3.0
Charleston	SC	13.4		9.6	6.5
Charlotte	NC	16.2	12.0	9.5	6.8
Chattanooga	TN	15.3		14.4	5.6
Chicago	IL	18.1	8.3	11.8	3.5
Cincinnati	OH	20.0	8.4	11.7	3.9
Cleveland	OH	22.6	8.8	14.0	3.1
Colorado Springs	CO	18.0		14.6	5.0
Columbia	SC	17.1		10.8	6.5
Columbus	OH	18.1	8.6	15.4	5.7
Dallas	TX	22.3	12.3	12.2	6.0
Dayton	OH	25.2		16.3	4.6
Denver	CO	16.4	7.5	10.4	5.6
Detroit	MI	24.9	10.8	11.6	2.9
District of Columbia	DC	8.7			7.6
Fairfield County	CT	21.2		4.5	6.5
Fort Lauderdale	FL	18.2	8.1	9.5	4.8
Fort Worth	TX	16.0	9.4	11.8	4.8
Greensboro/Winston-Salem	NC	20.8		10.8	6.5
Greenville	SC	18.3		12.9	5.4
Hartford	CT	19.3		9.8	2.7
Houston	TX	15.3	8.2	11.3	6.8
Indianapolis	IN	18.6	9.7	14.7	6.2
Jacksonville	FL	20.2	7.1	12.3	6.8
Kansas City	MO	16.7	9.9	11.5	5.4
Knoxville	TN	14.8		10.9	4.4
Las Vegas	NV	24.5		11.8	5.0
Lexington	KY	15.2		7.9	5.4
Little Rock	AR	11.5		11.0	6.9
Long Island	NY	12.6		4.9	3.3

COMMERCIAL FORECAST: METRO VACANCY RATES – 2015.Q1

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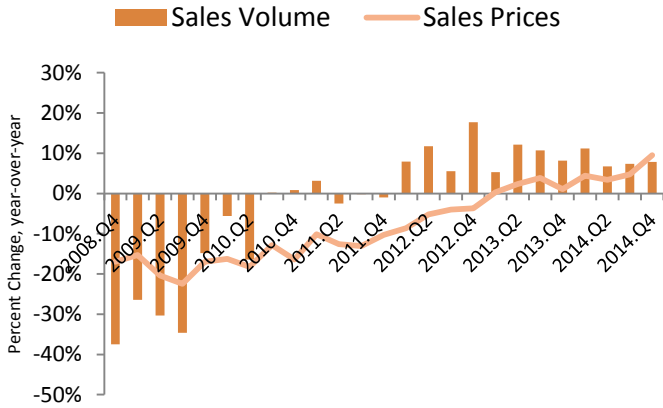
		Office	Industrial	Retail	Multifamily
Los Angeles	CA	14.9	3.7	5.5	3.5
Louisville	KY	14.7		8.9	6.1
Memphis	TN	22.5	14.1	11.0	8.6
Miami	FL	14.6	5.4	6.4	3.9
Milwaukee	WI	18.5	7.1	11.8	3.9
Minneapolis	MN	16.2		11.1	3.7
Nashville	TN	13.8	7.0	8.0	5.6
New Haven	CT	16.4		12.8	3.3
New Orleans	LA	12.3		10.3	6.6
New York	NY	9.0			4.1
Norfolk/Hampton Roads	VA	15.7		9.1	5.5
Northern New Jersey	NJ	18.5		5.3	5.2
Oakland-East Bay	CA	16.5	8.2	6.1	2.7
Oklahoma City	OK	16.7		12.9	5.6
Omaha	NE	13.2		8.9	3.7
Orange County	CA	16.3	3.4	5.0	2.6
Orlando	FL	16.4	10.0	11.0	5.8
Palm Beach	FL	16.0	5.4	10.0	6.1
Philadelphia	PA	13.3	9.4	9.1	4.0
Phoenix	AZ	25.2	11.1	9.8	5.1
Pittsburgh	PA	16.0	8.7	7.6	4.2
Portland	OR	13.1	7.6	7.5	3.9
Providence	RI	15.8		12.6	2.9
Raleigh-Durham	NC	14.9	13.7	8.8	7.7
Richmond	VA	13.9	10.3	9.4	4.7
Rochester	NY	16.7		11.9	2.8
Sacramento	CA	20.3	11.1	10.3	2.5
Salt Lake City	UT	16.6		12.4	4.2
San Antonio	TX	17.4	7.0	10.7	6.6
San Bernardino/Riverside	CA	23.1	7.2	9.2	2.9
San Diego	CA	15.5	6.3	6.1	2.8
San Francisco	CA	12.0	10.4	3.0	3.8
San Jose	CA	17.4	16.2	4.5	3.6
Seattle	WA	11.5	5.6	6.3	5.1
St. Louis	MO	16.9	6.3	11.7	4.5

COMMERCIAL FORECAST: METRO VACANCY RATES – 2015.Q1

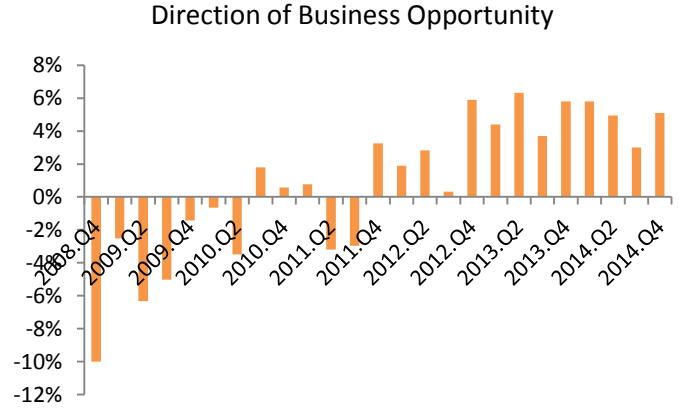
Source: NAR, Reis, Inc.

		Office	Industrial	Retail	Multifamily
Suburban Maryland	MD	15.9	10.4	7.9	4.8
Suburban Virginia	VA	17.1	10.4	5.3	6.0
Syracuse	NY	14.3		14.3	3.9
Tacoma	WA	14.5		12.0	3.9
Tampa-St. Petersburg	FL	20.0	7.7	10.7	5.1
Tucson	AZ	16.2		9.4	5.5
Tulsa	OK	16.4		15.1	5.5
Ventura County	CA	17.0		8.2	2.8
Westchester	NY	18.8		7.2	3.5
Wichita	KS	17.3		13.2	3.9

INVESTMENT TRENDS AT A GLANCE

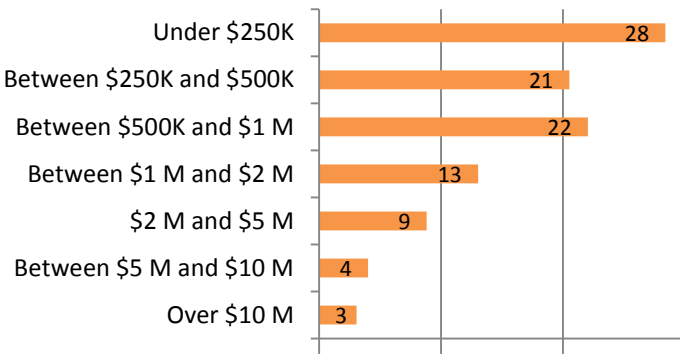


Source: National Association of Realtors®

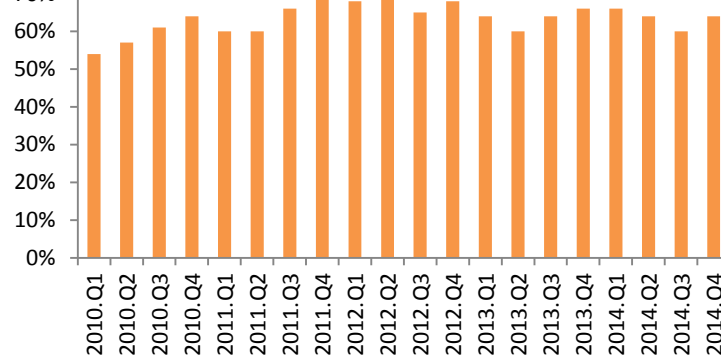


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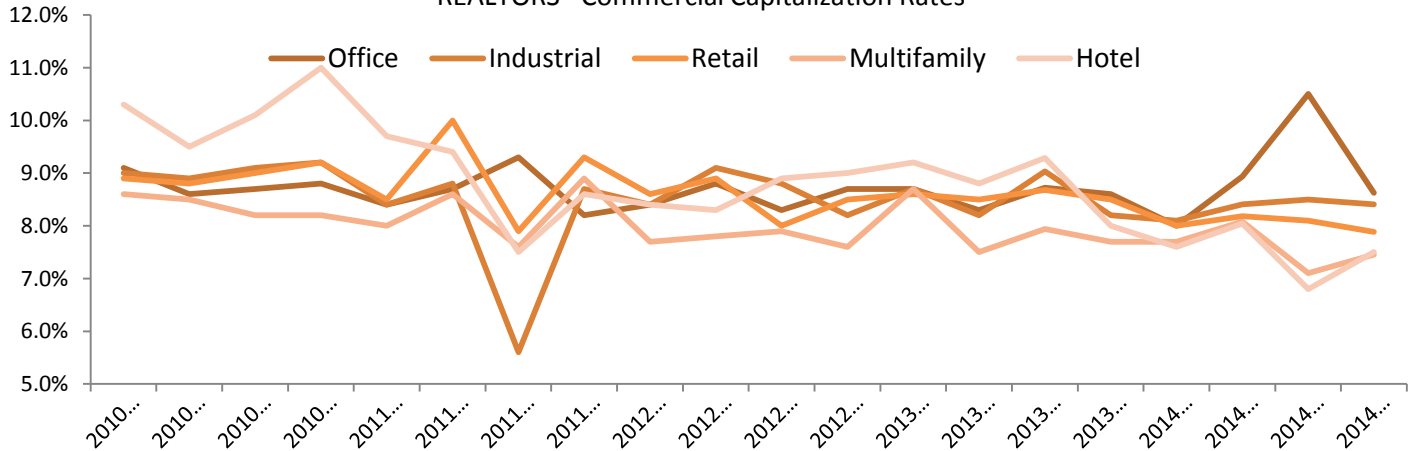
Dollar amount of last transaction (%)



REALTORS® CRE Transaction Closing Rate (%)



REALTORS® Commercial Capitalization Rates



Source: National Association of Realtors®

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- 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

CONTACT

Lawrence Yun, PhD
Chief Economist, Sr. Vice
President, Research
lyun@realtors.org

George Ratiu
Director, Quantitative &
Commercial Research
gratiu@realtors.org

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