

COMMERCIAL REAL ESTATE MARKET TRENDS: Q3.2016

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

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Introduction

The REALTORS® Commercial Real Estate Market Trends measures quarterly activity in the commercial real estate markets, as reported in a national survey. The survey collects data from REALTORS® engaged in commercial real estate transactions. The survey is designed to provide an overview of market performance, sales and leasing transactions, along with information on current economic challenges and future expectations.

Commercial space is heavily concentrated in large buildings, but large buildings are a relatively small number of the overall stock of commercial buildings. In terms of inventory, commercial real estate markets are bifurcated, with the majority of buildings (81 percent) being relatively small, while the bulk of commercial space (71 percent) is concentrated in larger buildings.

The bifurcation continues along transaction volumes as well, with deals at the higher end—\$2.5 million and above—comprising a large

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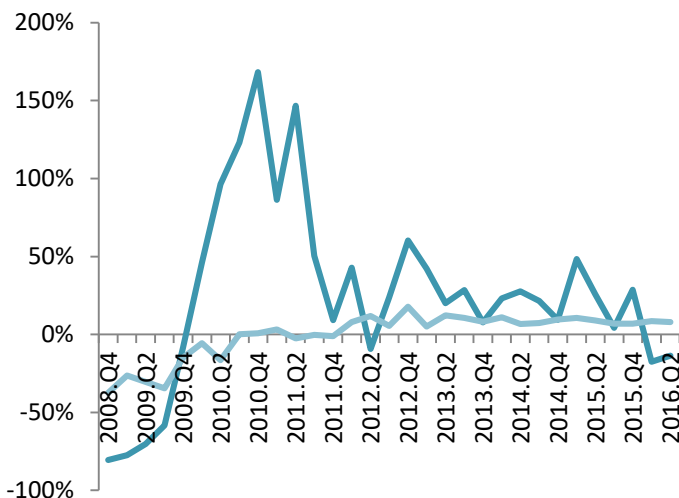
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share of investment sales, while transactions at the lower end make up a smaller piece of the pie.

Data are readily available for transactions in excess of \$2.5 million from several sources, including Real Capital Analytics (RCA). However, in general, data for smaller transactions—many of which are handled by REALTORS®—are less widely available. NAR's *Commercial Real Estate Market Trends* gathers market information for small cap properties and transactions, mostly valued below \$2.5 million.

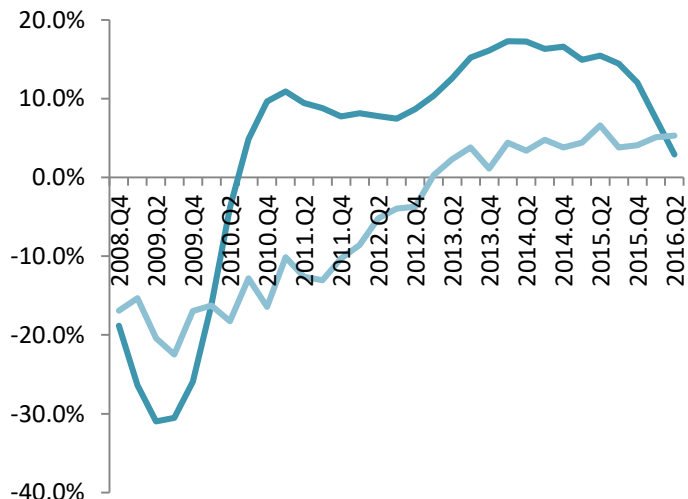
Sales Volume (YoY % Chg)

— Real Capital Analytics CRE Markets
— REALTOR® CRE Markets



Sale Prices (YoY % Chg)

— Real Capital Analytics CRE Markets
— REALTOR® CRE Markets



Sources: NAR, Real Capital Analytics

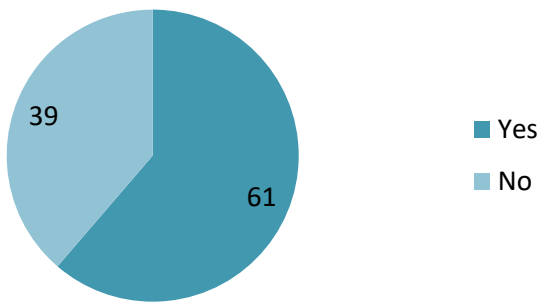
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Survey Highlights

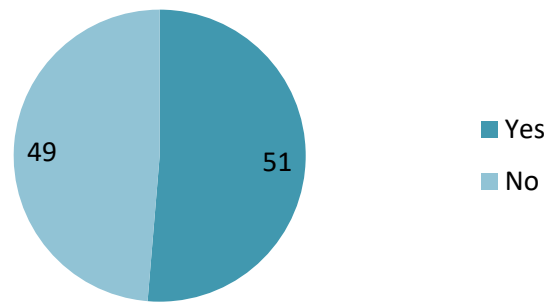
- 61.0 percent of REALTORS® closed a commercial sale.
- Sales volume rose 11.0 percent from a year ago.
- Sales prices increased 7.7 percent year-over-year.
- Cap rates averaged 7.2 percent.
- The average transaction value equaled \$1.1 million in Q3.2016.
- 11.0 percent of REALTORS® reported an international transaction.
- The average international transaction value was \$1.0 million.

- 51.0 percent of members completed a commercial lease transaction
- Leasing volume declined 0.3 percent from the previous quarter.
- Leasing rates increased 1.8 percent over the previous quarter.
- Concession levels declined 3.1 percent on a quarterly basis.
- Inventory shortage topped the list of current challenges, followed by buyer-seller pricing gap and local economic conditions.

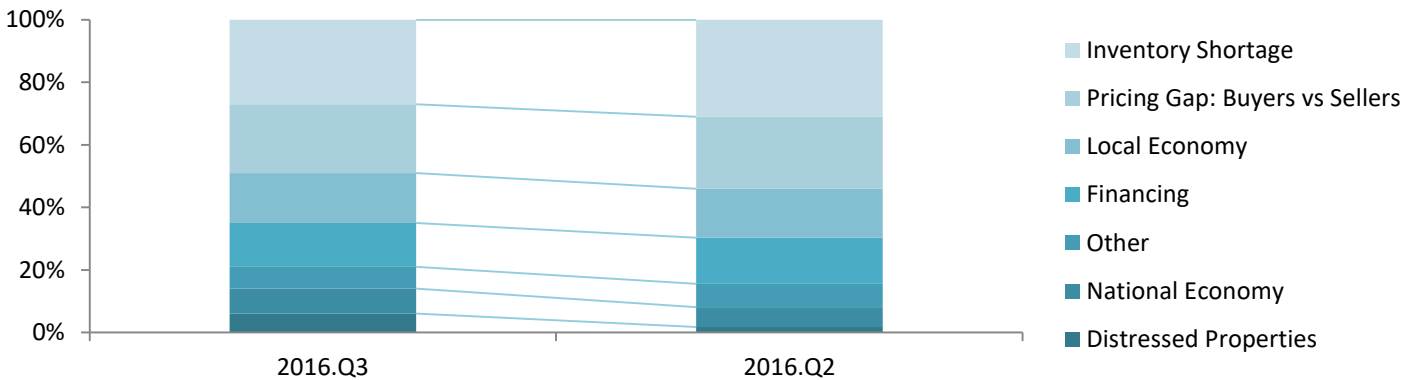
Sales transaction (%)



Lease transaction (%)



REALTORS® Most Pressing Challenges



NOTE:

1. In October 2016, NAR invited a random sample of 64,099 REALTORS® with an interest in commercial real estate to complete an on-line survey. A total of 876 complete responses were received, for an overall response rate of 1.4 percent.

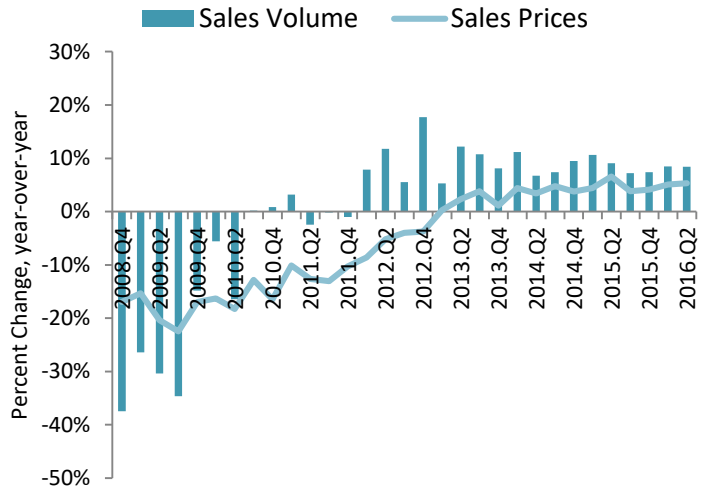
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Investment Sales

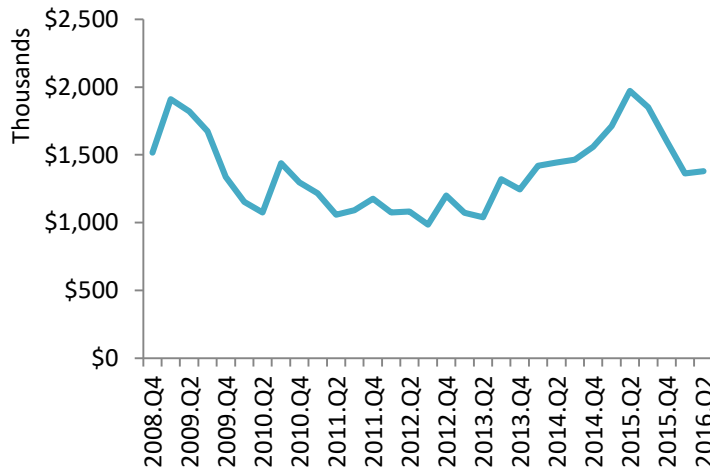
While economic growth missed expectations during the second quarter of 2016, commercial real estate investments in small cap markets maintained upward momentum. With 66.0 percent of REALTORS® reporting closed transactions, the volume of investment sales increased 8.4 percent compared with the second quarter of 2015.

The shortage of available inventory remained the number one concern for NAR members, pushing price growth upward. Prices for commercial properties increased 5.3 percent compared with the same period in 2015, with the average transaction price at \$1.4 million during the quarter.

The quarter recorded 13.0 percent of commercial members who closed an international transactions. The average international sale price was \$1.7 million in the second quarter of this year. The average cap rate for international deals was 6.3 percent.



Estimated Avg. Sales Transaction Value

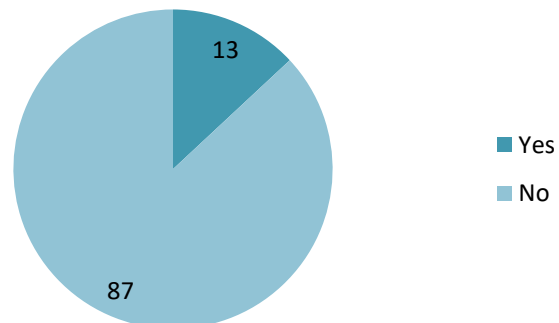


REALTORS® Q3.2016 Prices

Office Class A (\$/SF)	\$135
Office Class BC (\$/SF)	\$101
Industrial Class A (\$/SF)	\$78
Industrial Class BC (\$/SF)	\$60
Retail Class A (\$/SF)	\$122
Retail Class BC (\$/SF)	\$90
Apartment Class A (\$/Unit)	\$87,363
Apartment Class BC (\$/Unit)	\$64,117

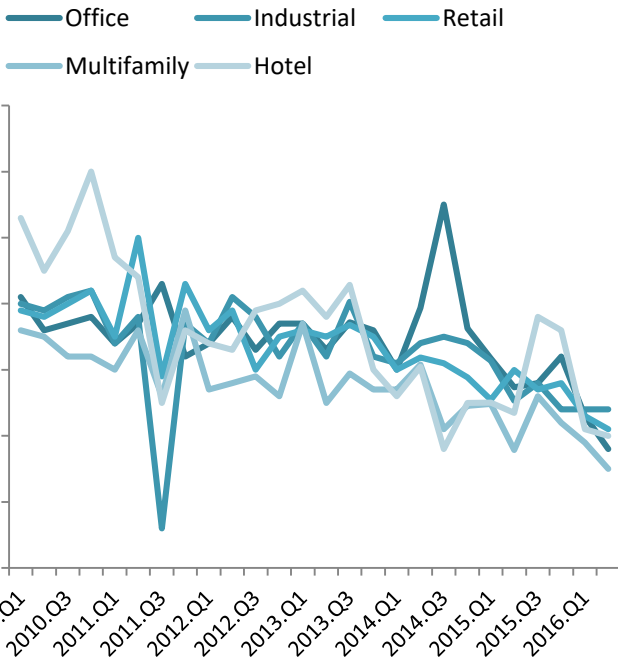
Source: NAR

Members with International Transaction (%)



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REALTORS® Commercial Capitalization Rates



Source: National Association of Realtors®

Investment Sales - continued

Average capitalization rates registered a 20 basis point compression, declining from an average 7.2 percent across all property types in the first quarter of 2016 to 7.0 percent by the end of June 2016. Cap rates were 50 basis points lower on a yearly basis. Apartment properties in REALTORS® markets posted the lowest average cap rate, at 6.5 percent, followed by office properties, at 6.8 percent. Hotel and retail spaces posted cap rates of 7.0 percent and 7.1 percent, respectively. Industrial transactions recorded average cap rates of 7.4 percent. With yields declining slightly, the spread between cap rates in REALTOR® markets and 10-year Treasury notes reached 540 basis points in the second quarter of this year.

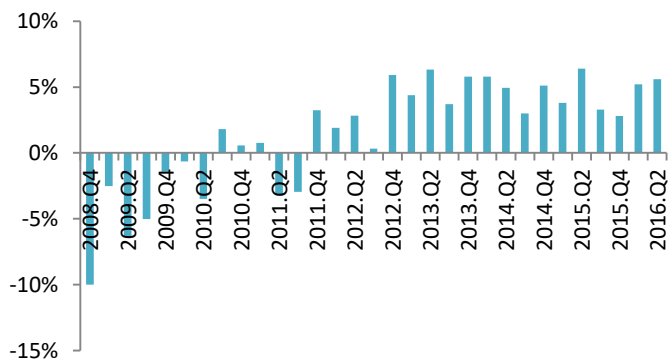
The direction of commercial business opportunities during the second quarter of 2016 rose 5.6 percent. With banks tightening underwriting standards for commercial loans in the wake of increased regulatory scrutiny, financing availability increased as a concern in REALTORS® markets—15.0 percent of members ranked it as a main challenge in the second quarter, up from 7.0 percent in the first quarter.

REALTORS® Q3.2016 Cap Rates

Office Class A	6.5
Office Class BC	7.2
Industrial Class A	7.4
Industrial Class BC	7.8
Retail Class A	7.0
Retail Class BC	7.2
Apartment Class A	6.0
Apartment Class BC	6.7
Hotel Class A	8.7
Hotel Class BC	8.0

Source: NAR

Direction of Business Opportunity (QoQ)



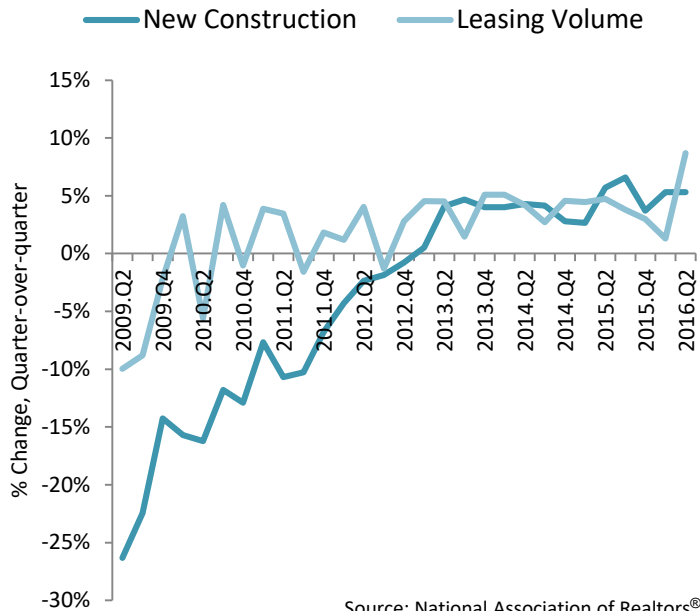
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Leasing Fundamentals

Commercial fundamentals continued improving during the second quarter of 2016. Leasing volume during the quarter rose 8.7 percent compared with the first quarter of 2016.

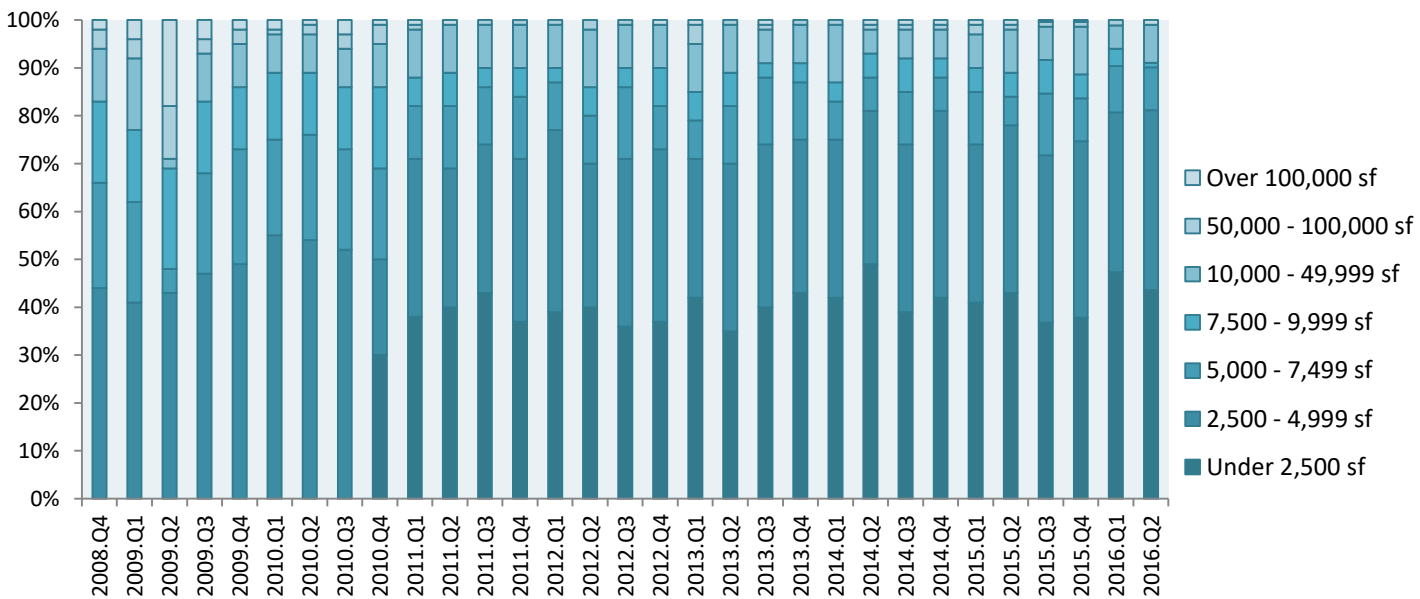
NAR members' average gross lease volume for the quarter was \$229,658, 51.4 percent lower than the previous quarter. New construction mirrored the broader economic slowdown, posting a 5.3 percent gain from the prior quarter.

Tenant demand remained strongest in the 5,000 square feet and below segment, accounting for 82.0 percent of leased properties. Demand for space in the 10,000 – 49,999 square feet segment rose from 5.0 percent in the first quarter of 2016, to 8.0 percent in the second quarter of this year.



Lease terms remained steady, with 36-month and 60-month leases capturing 60.0 percent of the market. Two-year leases made up 15.0 percent of total.

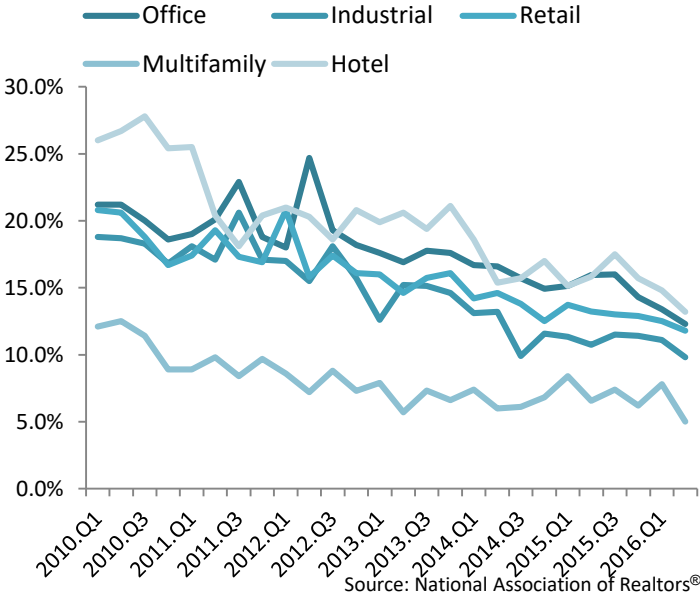
Average Leased Space by Size, Quarterly*



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

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REALTORS® Commercial Vacancy Rates



Leasing Fundamentals - continued

Vacancy rates continued declining, ranging from a low of 5.0 percent for apartments to a high of 13.2 percent for hotel properties. Office vacancies declined 365 basis points year-over-year, to 12.3 percent. Industrial availability witnessed a yearly decrease of 95 basis points—to 9.8 percent. Retail vacancies slid 70 basis points on a yearly basis, to 11.8 percent. With declining vacancies, lease concessions declined 5.5 percent.

REALTORS® Q3.2016 Vacancy Rates

Office	10.4
Industrial	8.1
Retail	11.7
Multifamily	4.8
Hotel	17.8

REALTORS® Q3.2016 Rents

Office	41 / Sq.Ft.
Industrial	30 / Sq.Ft.
Retail	53 / Sq.Ft.
Multifamily	705 / Unit



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Comments

The REALTORS® Commercial Real Estate Quarterly Market Survey asks participants to comment on current conditions in their markets. Below are selected remarks about the current market environment.

Being a secondary tourist based economy, this market is sensitive to weather for outdoor recreation and economic conditions within a 300 mile radius. Oil and gas revenue in West Texas and Southeast New Mexico drive the disposable and investment capital from the east. The tech and economic based jobs throughout the rest of New Mexico do the same from the west. When one or the other is performing poorly, a negative multiplier effect occurs.

Believe that 2017 will have some challenges as the world economy that affects south Florida continues to struggle.

Buyers still feel they can offer far less from listing price. This is changing as less bank owned for sale on market.

Concerned about overall economy while local market seems to be doing well

Expect increased competition from the cities in the I-35 corridor between San Antonio and Austin moving forward, especially over the next decade.

Financing and economy remain to be the main obstacles to commercial growth in this area.

Illinois still lags behind the rest of the country due to no new job creation, and too many businesses leaving the State to neighboring states because of taxes.

Industrial is too tight. Retail has gotten high - particularly new construction. Restaurants are very hard to find. Plenty of good opportunities overall though.

Its a sellers market at the present. Buyers are paying inflated prices for property, reminiscence of 2006 when the market boomed. Looking for another decline.

lack of financing a huge problem - pulled curtain on multifamily, office extremely difficult to finance, has virtually stopped any new projects. As existing projects are completed & absorbed our market will have serious issues, prices will rise & then people will begin screaming for new product.

Local economy seems to be stabilizing. Our local Economic Development office is working very hard to recruit new businesses.

Lots of Cherry picking. Approximately 1/2 of the Memphis MSA 8 county area investment money came to Desoto County

Lots of leasing inventory with vacancies that continue for many years. Opportunities for leasing agents to renegotiate lower monthly rent.

Minimum wage uncertainty, government regulations, effect of Affordable Care Act and current need for qualified /trained workers in the restaurant industry and the effect the current market

National Real Estate information and news seem to only focus on metropolitan and ocean front properties and I feel small town America is left out of the equations and dialogue! We need help in promoting small towns!

Oil prices have caused significant layoffs in past 18 months. No improvement foreseen for 3 years.



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