National Association of REALTORS®

COMMERCIAL REAL ESTATE MARKET TRENDS: Q4.2016

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COMMERCIAL Real Estate REALTOR® NATIONAL ASSOCIATION of REALTORS®

Commercial Real Estate Market Trends: Q4.2016

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

February 2017

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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.

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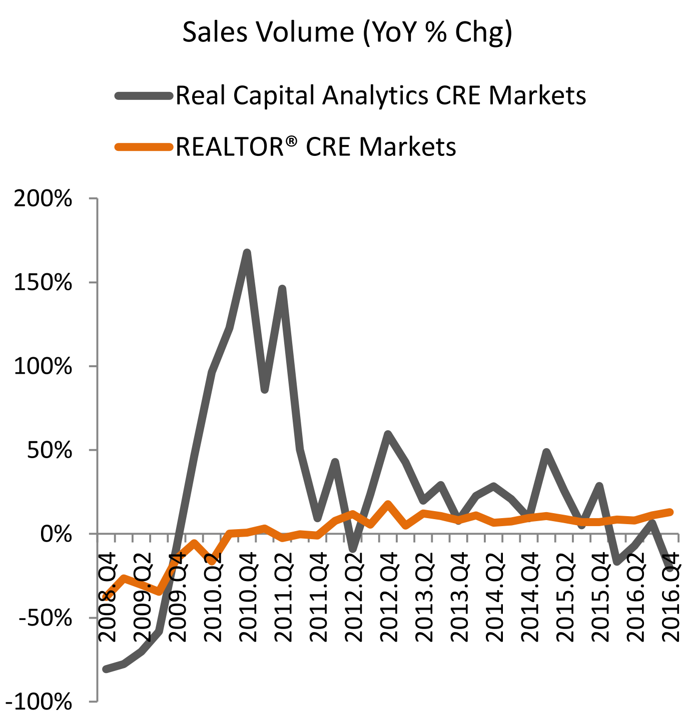
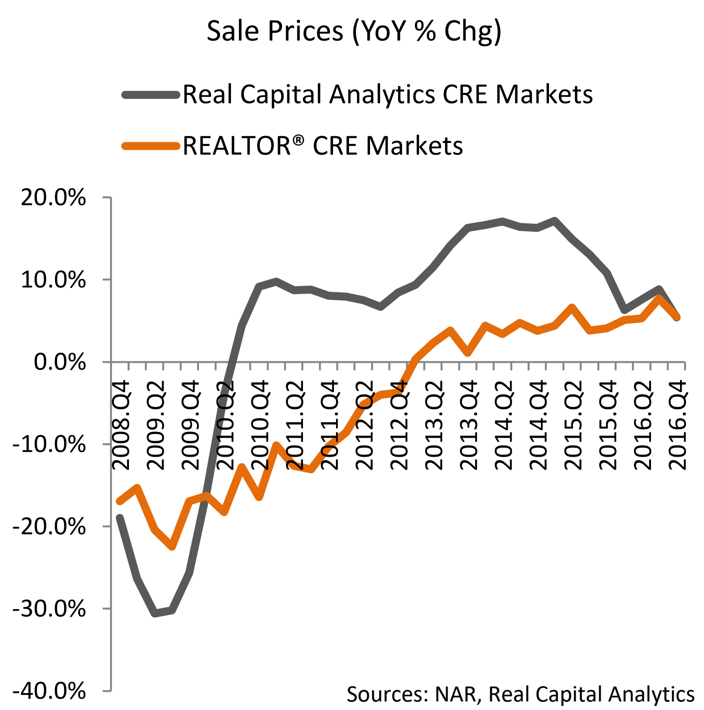
Commercial space is heavily concentrated in large buildings, but large buildings are a relatively small number of the overall stock of commercial buildings. In terms of inventory, commercial real estate markets are bifurcated, with the majority of buildings being relatively small, while the bulk of commercial space 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 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. National Association of REALTORS®' (NAR) *Commercial Real Estate Market Trends* gathers market information for small cap properties and transactions, mostly valued below $2.5 million.





Sources: NAR, Real Capital Analytics

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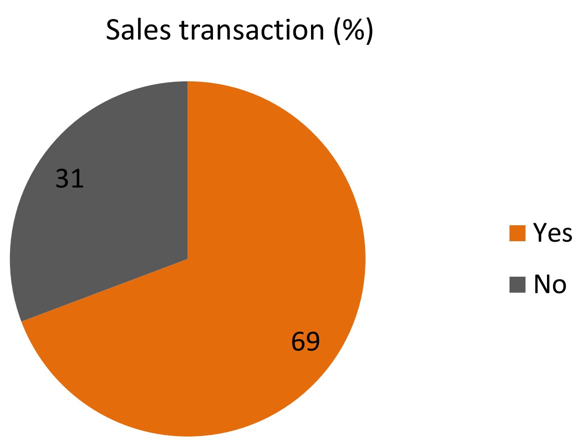
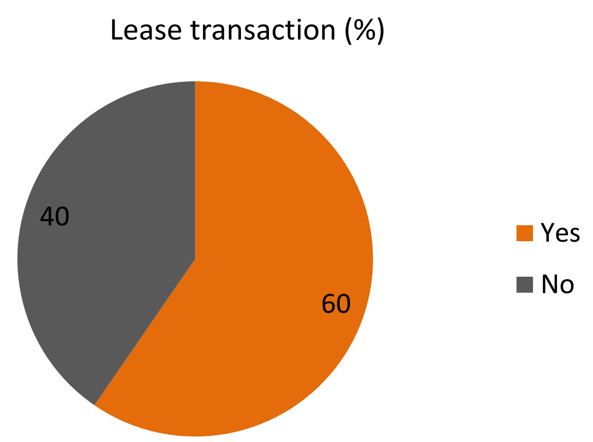
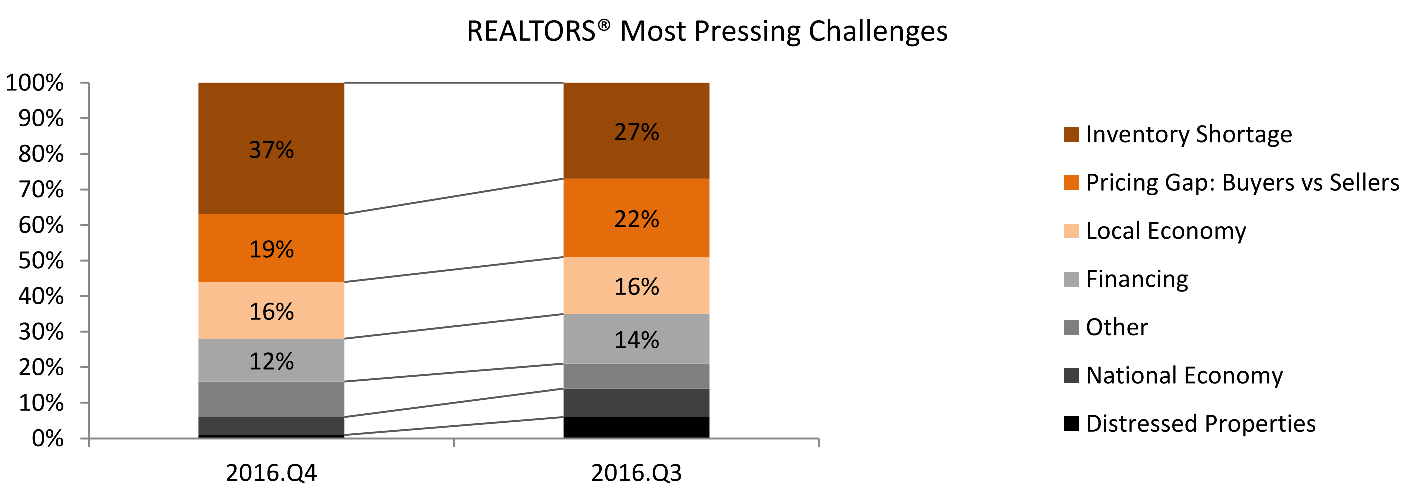
Survey Highlights

- 69.0 percent of REALTORS® closed a commercial sale.
- Sales volume rose 12.9 percent from a year ago.
- Sales prices increased 5.5 percent year-over-year.
- The average transaction value equaled $1.1 million in Q4.2016.
- 11.0 percent of REALTORS® reported an international transaction.
- The average international transaction value was $1.7 million.
- 60.0 percent of members completed a commercial lease transaction
- Leasing volume advanced 2.5 percent from the previous quarter.
- Leasing rates increased 3.1 percent over the previous quarter.
- Concession levels declined 2.9 percent on a quarterly basis.
- Inventory shortage topped the list of current challenges, followed by buyer-seller pricing gap and local economic conditions.







NOTE: *In January 2017, NAR invited a random sample of 62,867 REALTORS® with an interest in commercial real estate to complete an on-line survey. A total of 941 complete responses were received, for an overall response rate of 1.5 percent.*

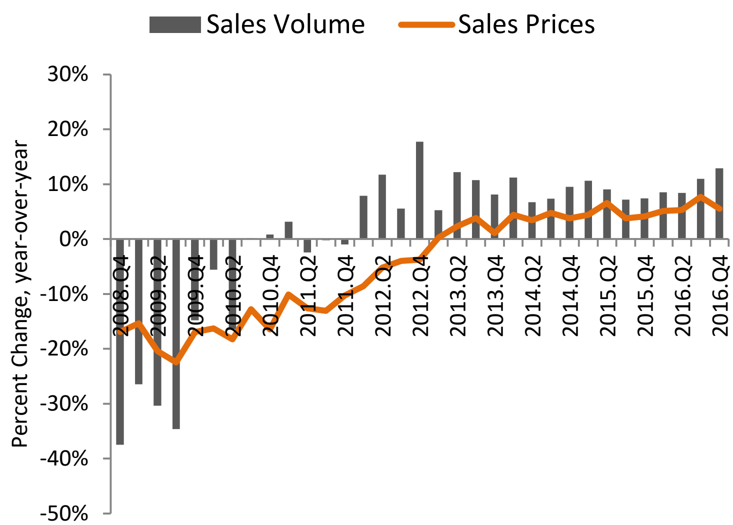
Investment Sales

After an upbeat third quarter, economic growth slowed during the last quarter of 2016. However, boosted by solid employment gains, consumer spending remained on an upward trajectory. Following the results of the presidential election, the corporate sector found renewed optimism. With the economy growing, demand for commercial real estate will likely remain on a solid footing.

While transaction volume continued to decline in large cap commercial markets in the fourth quarter of 2016, activity in small cap markets picked up. With 69.0 percent of REALTORS® reporting closed transactions, the volume of investment sales accelerated, posting a 12.9 percent jump compared with the fourth quarter of 2015.

The shortage of available inventory remained the number one concern for NAR members, driving price growth. Prices for commercial properties increased 5.5 percent compared with the same period in 2015.

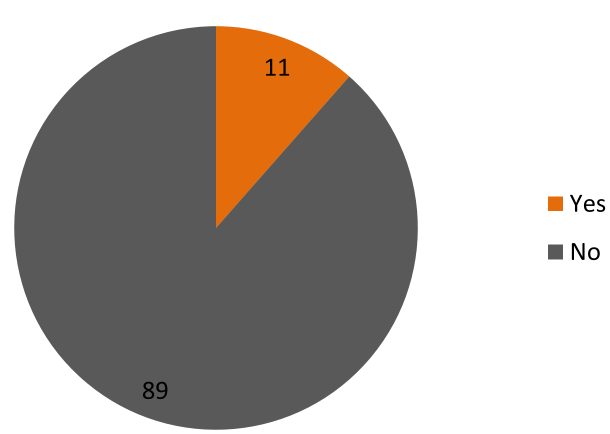
Reflecting global investor interest in U.S. assets, 11.0 percent of NAR members who completed the survey, reported an international transaction. The average international sale price was $1.7 million in the fourth quarter of this year. The average cap rate for international deals was 6.8 percent.



REALTORS® Q4.2016 Prices	
Office Class A($/SF)	$135
Office Class BC ($/SF)	$93
Industrial Class A ($/SF)	$65
Industrial Class BC ($/SF)	$48
Retail Class A ($/SF)	$125
Retail Class BC ($/SF)	$85
Apartment Class A ($/Unit)	$88,431
Apartment Class BC ($/Unit)	$43,883

Source: National Association of REALTORS®

Members with International Transaction (%)



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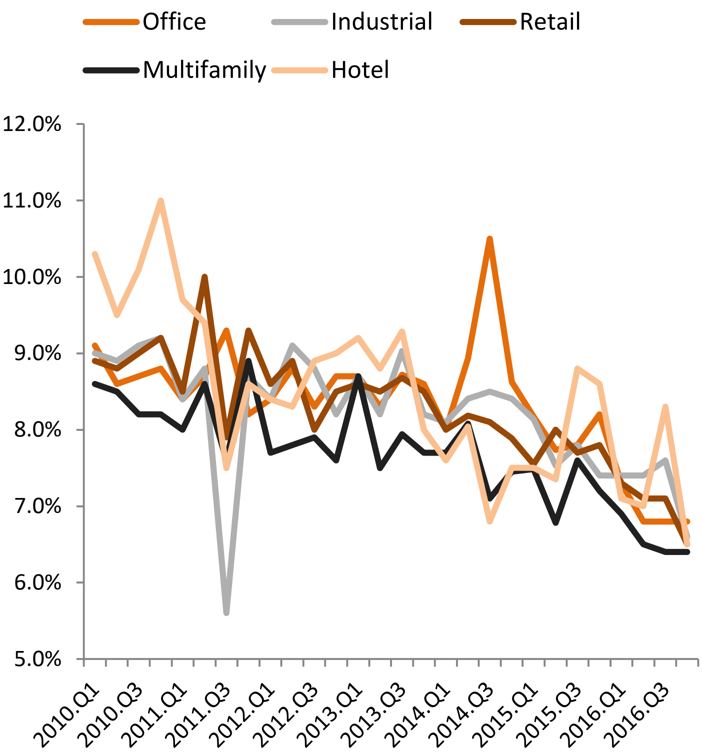
REALTORS® Commercial Capitalization Rates



Source: National Association of Realtors®

Investment Sales - continued

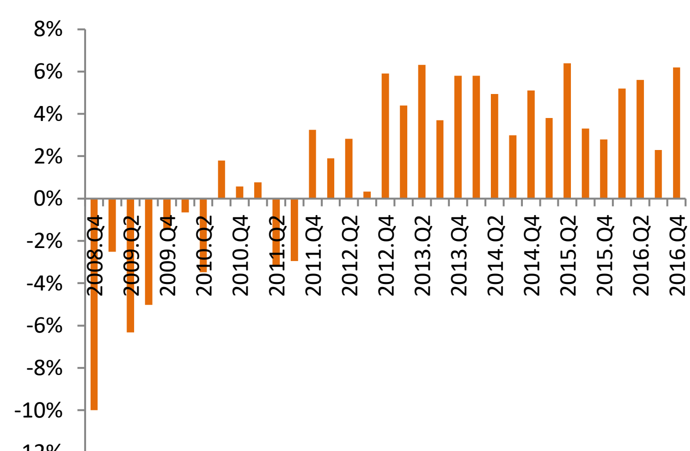
Average capitalization rates registered a 60 basis-point decline in the fourth quarter of 2016. Class A apartment properties in REALTORS®' markets posted the lowest average cap rate, at 5.9 percent, followed by Class A office properties, at 6.6 percent. Class A industrial and Class A retail spaces posted cap rates of 6.4 percent and 6.0 percent, respectively. With yields declining, the spread between cap rates in REALTOR® markets and 10-year Treasury notes reached 450 basis points in the fourth quarter of 2016.

Respondents indicated that the direction of commercial business opportunities during the fourth quarter of 2016 was higher by 6.2 percent compared with the previous quarter. With banks tightening underwriting standards for commercial loans in the wake of increased regulatory scrutiny, financing availability remained a concern in REALTORS®' markets—12.0 percent of members ranked it as a main challenge in the fourth quarter.

REALTORS® Q4.2016 Cap Rates	
Office Class A	6.6
Office Class BC	7.0
Industrial Class A	6.4
Industrial Class BC	6.7
Retail Class A	6.0
Retail Class BC	7.0
Apartment Class A	5.9
Apartment Class BC	6.8
Hotel Class A	6.7
Hotel Class BC	6.4

Source: National Association of REALTORS®

Direction of Business Opportunity (QoQ)



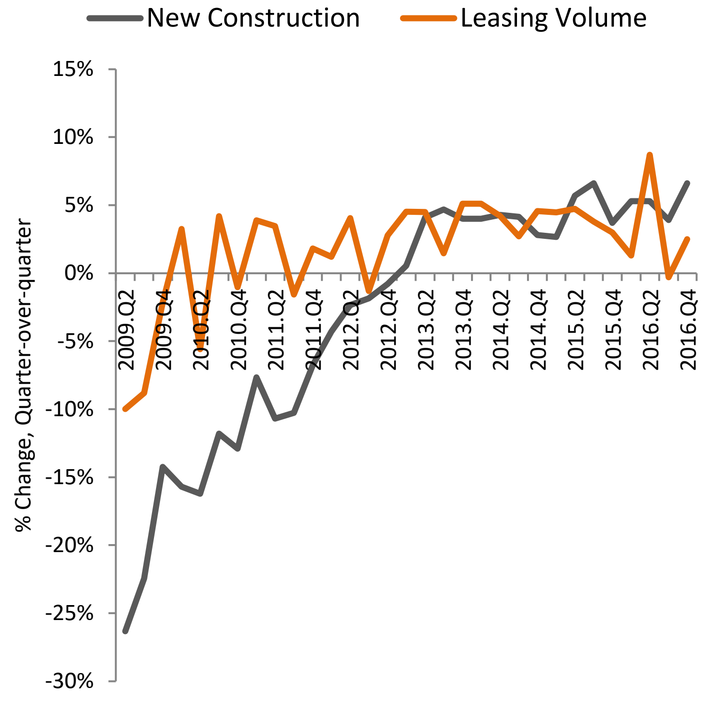
Source: National Association of Realtors®

Leasing Fundamentals

Commercial fundamentals continued improving during the fourth quarter of 2016. Leasing volume advanced by 2.5 percent from the preceding quarter. Leasing rates advanced by 3.1 percent, as concessions declined 2.9 percent.

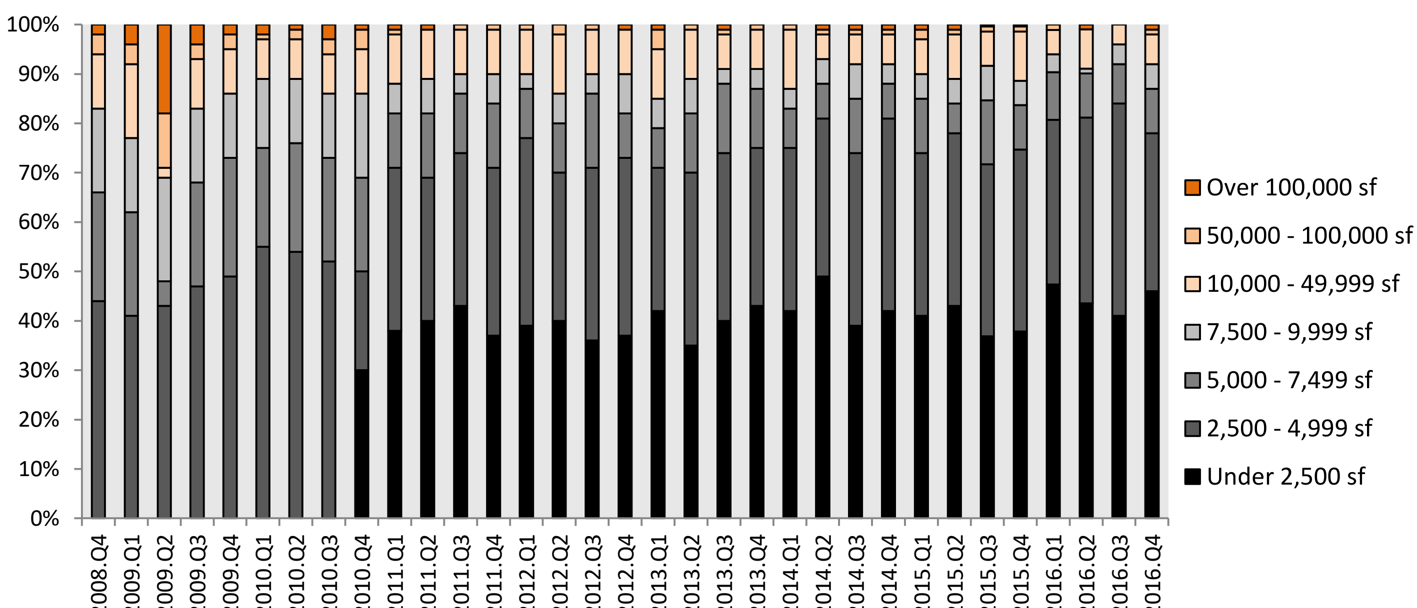
NAR members' average gross lease volume for the quarter was $953,700. New construction mirrored broader economic activity, posting a 6.6 percent gain from the prior quarter.

Tenant demand remained strongest in the 5,000 square feet and below segment, accounting for 87.0 percent of leased properties. Demand for space in the Under 2,500 square feet segment increased in the last quarter, capturing 46.0 percent of responses. Demand also rose for properties in the 50,000 - 100,000 square feet segment and for those in the Over 100,000 square feet segment.



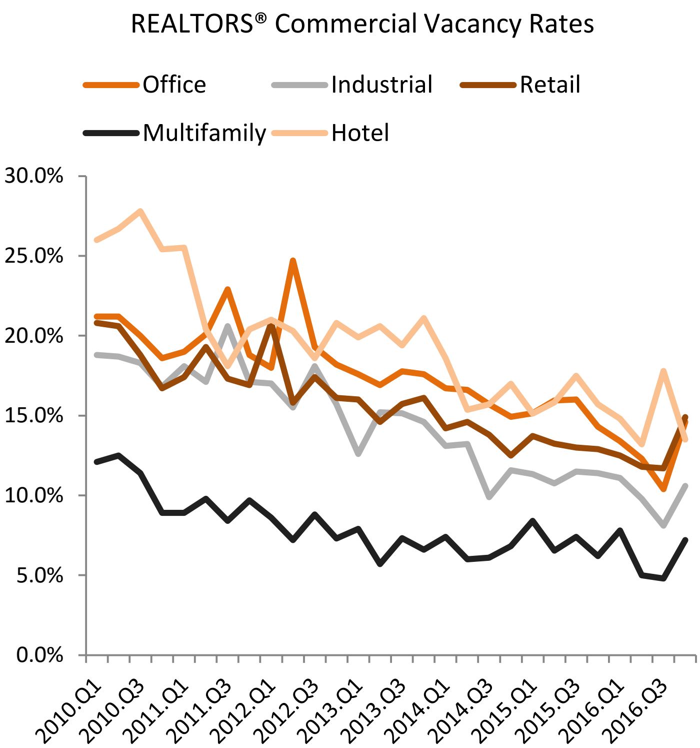
Source: National Association of Realtors®

Average Leased Space by Size, Quarterly*



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

Source: National Association of Realtors®



Source: National Association of Realtors®

Leasing Fundamentals - continued

Vacancy rates continued to decline, ranging from a low of 7.2 percent for apartments to a high of 14.6 percent for office properties. Industrial availability witnessed a yearly decrease of 80 basis points—to 10.6 percent.

Lease terms remained steady, with 36-month and 60-month leases capturing 59.0 percent of the market. One-year and two-year leases made up 26.0 percent of total.

REALTORS® Q4.2016 Vacancy Rates	
Office	14.6
Industrial	10.6
Retail	14.9
Multifamily	7.2
Hotel	13.5

REALTORS® Q4.2016 Rents	
Office	70 / Sq.Ft.
Industrial	38 / Sq.Ft.
Retail	165 / Sq.Ft.
Multifamily	1,184 / Unit

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.

A lot of sublease space is on the market, which can tend to depress rental rates. Also, large landlords with excess office space are "buying" new deals by offering too much free rent, which distorts the market.

Apartments are becoming somewhat overbuilt.

Bartow, Florida has a small market with a large percentage of vacancies.

Getting more signed industrial/retail property leases. Single tenant MOB very slow-non-existent.

Have recently found buyers to put a strong price on contract and then seek concessions along the way to complete the deal. Seems to be happening more often.

Inventory is low but so is demand at this time so I don't see any major changes in the near-future.

Lenders are using the cheapest appraisers regardless of qualifications or quality of work. They are driving good appraisers out of lending work.

Limited amount of Inventory should be driving prices, however leasing inventory as well as sales inventory is relatively level.

Market appears to be in a wait and see mode right now due to new President.

Market is showing some growth and movement but is still tentative.

Miami continues to attract international attention and money.

Modest improvement in inquiries and leasing. New commercial properties are helping the values associated with older ones.

Office leasing market has dried up. Many listings are not leased for 8 to 12 months

Optimism is up and much of what I am seeing are fledgling businesses seeking to expand or move out of home offices, as well as existing business looking to relocate or consolidate locations.

Our market is expanding across all property types. Record prices on agriculture properties, Full absorption of Industrial buildings (actual spec constructions starting), new residential construction at 1/3 of pre boom levels with 30% more population, new housing just starting to get traction.

Our market is stable, we are the regional community for the Nebraska Panhandle, lots of opportunities, just hard to market to outside areas as we have limited commercial resources to accomplish the marketing economically.

Our market is still slow, but optimistic for slow growth. This is a big improvement since the crash.

Retail is declining, Industrial rising. Office market is generally stagnant.

The Kent County market is geographically isolated which does not appeal to business expansion. We have a large office vacancy resulting from business contraction.

The San Francisco Bay Area economy and Real Estate markets are very strong.

Comments

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Upstate NY economy is in rough shape with little prospect of improvement short of a huge boost in the national economic situation.

This continues to be the strongest market in the nearly 50 years I have been in real estate management.

This is a retirement and vacation/second home area. Our commercial market is mostly small boutique shops and service businesses. Our largest employers are the school, county, retirement homes and hospital. After many years, many vacant retail and office spaces started filling about a year ago with entrepreneurs. If we had broadband, our prospects would be much better for businesses to relocate or start and flourish.

Upswing in the oil & gas industry will be a good way to absorb current inventory.

We experienced a dramatic drop in commercial sales and leasing in the last few years since November 2014 and are finally seeing improvements in the market recently. Much of what we see is improvements in the Small Business segments and more office and retail has improved in the Minot, ND market. We are affected by the oil, however, we do also have submarkets like retail, office geared around medical, Military and agriculture.

We have very good commercial potential, the area tends to attract medical/doctor use vs retail due to smaller parcels that can be developed. Home of Mega Military bases, 2 hospitals, 1 university, shopping, convenient job commutes, lots of protected open space,

We seem to have a lot of people considering office/industrial space in the area but have been reluctant to pull the trigger. Local businesses are growing and moving into bigger spaces which is good. Very little new construction due to the fact that required rents for new construction are much higher compared to existing properties.

We've seen relative stability with property values in commercial. The only down is industrial lease rate and occupancy.

The National Association of REALTORS®, “The Voice for Real Estate,” is America’s largest trade association, representing 1.2 million members, including NAR’s institutes, societies and councils, involved in all aspects of the real estate industry. NAR membership includes brokers, salespeople, property managers, appraisers, counselors and others engaged in both residential and commercial real estate. The term REALTOR® is a registered collective membership mark that identifies a real estate professional who is a member of the National Association of REALTORS® and subscribes to its strict Code of Ethics. Working for America's property owners, the National Association provides a facility for professional development, research and exchange of information among its members and to the public and government for the purpose of preserving the free enterprise system and the right to own real property.

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