COMMERCIAL REAL ESTATE MARKET TRENDS

FEBRUARY 2015

COMMERCIAL Real Estate

REALTOR®

NATIONAL ASSOCIATION of REALTORS®

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THE NATIONAL ASSOCIATION OF REALTORS®, *"The Voice for Real Estate,"* is America's largest trade association, representing 1.0 million members involved in all aspects of the residential and commercial real estate industries.

Although the information presented in this survey has been obtained from reliable sources, NAR does not guarantee its accuracy, and such information may be incomplete. This report is for information purposes only.

COMMERCIAL REAL ESTATE MARKET TRENDS

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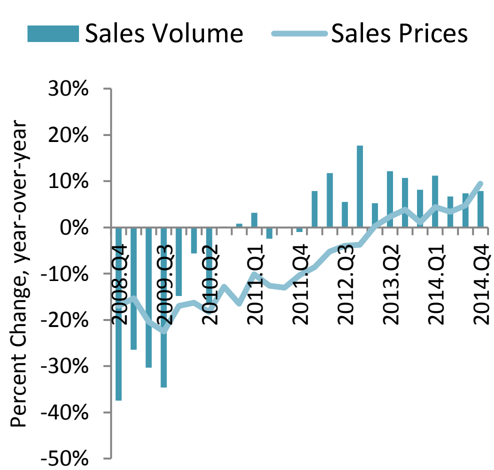
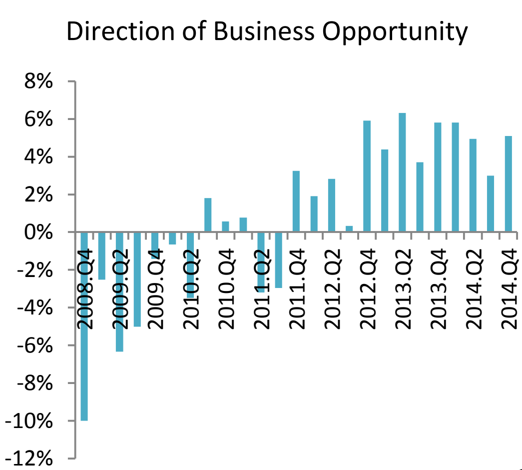
The REALTORS® Commercial Real Estate Market Trends measures quarterly activity in the commercial real estate markets, as reported in a national survey. The survey collects data from REALTORS® engaged in commercial real estate transactions The survey is designed to provide an overview of market performance,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

Economic growth continued on a positive path during the fourth quarter 2014, however its pace moderated. 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, a marked slowdown form the third quarter's 5.0 percent. On the upside, the economy closed 2014 in positive territory for the year, with 2.6 percent annual growth.

Riding the wave of economic and, more specifically, market improvements commercial REALTORS® reported advances in the fourth quarter 2014. REALTORS® indicated acceleration in the direction of commercial business opportunities, with a 5.1 percent quarterly increase, on the heels of a 3.0 percent rise in the third quarter 2014.





Source: National Association of Realtors®

COMMERCIAL REAL ESTATE MARKET TRENDS

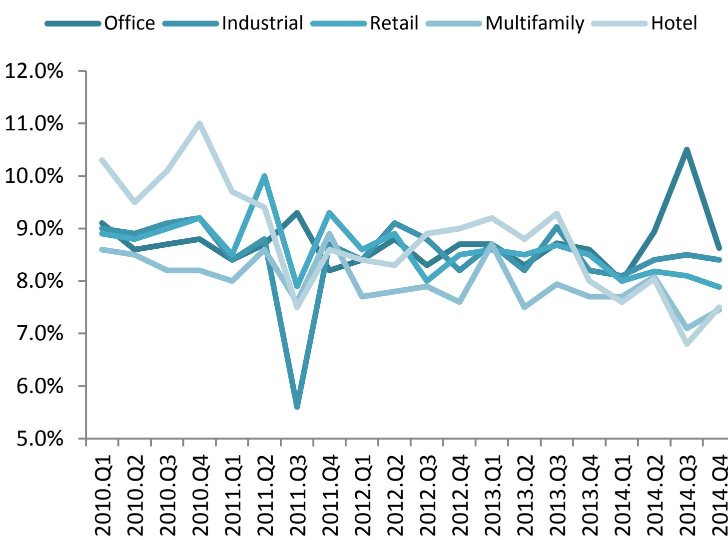
FEBRUARY 2015

Keeping with the trend, sales of commercial properties rose 9.5 percent on a year-over-year basis, indicating accelerated investment activity. Prices continued on an upward trend, with properties trading at average prices 3.8 percent higher compared with the same period in 2013. Cap rate compression picked up, with a 70 basis point decline year-over-year. Average cap rates declined from 8.2 percent in the third quarter 2014 to 8.0 percent in the fourth quarter of the year. Apartments and hotels tied for the lowest average cap rates, at 7.5 percent, followed by retail properties, at 7.9 percent. Office and industrial spaces posted cap rates of 8.6 percent and 8.4 percent, respectively.

The average transaction price increased from \$1.4 million to \$1.6 million. The shortage of available inventory retained its number one spot, as members reported not finding enough suitable properties. The pricing gap between sellers and buyers remained the second highest ranked concern, followed by local economic conditions.

Leasing fundamentals continued strengthening in the fourth quarter 2014. Space demand advanced, with leasing volume rising 4.6 percent over the third quarter. New construction contributed 2.8 percent more space from the third quarter 2014.

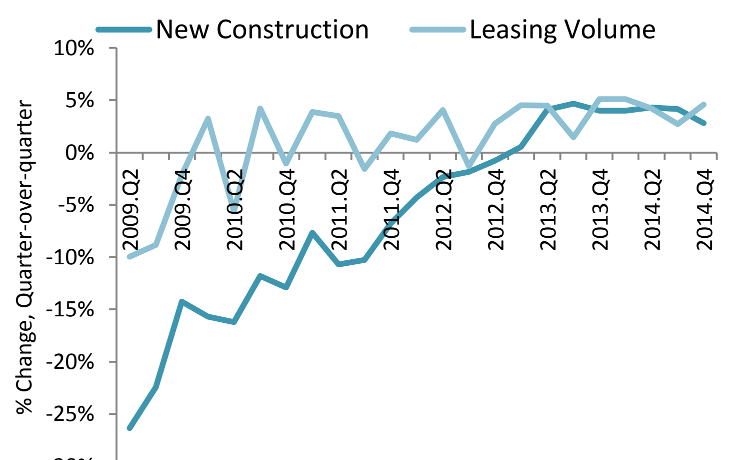
REALTORS® Commercial Capitalization Rates



Source: National Association of Realtors®

2014.Q4 Cap Rates	
Office	8.6%
Industrial	8.4%
Retail	7.9%
Multifamily	7.5%
Hotel	7.5%

2014.Q4 Vacancy Rates	
Office	14.9%
Industrial	11.6%
Retail	12.5%
Multifamily	6.8%
Hotel	17.0%

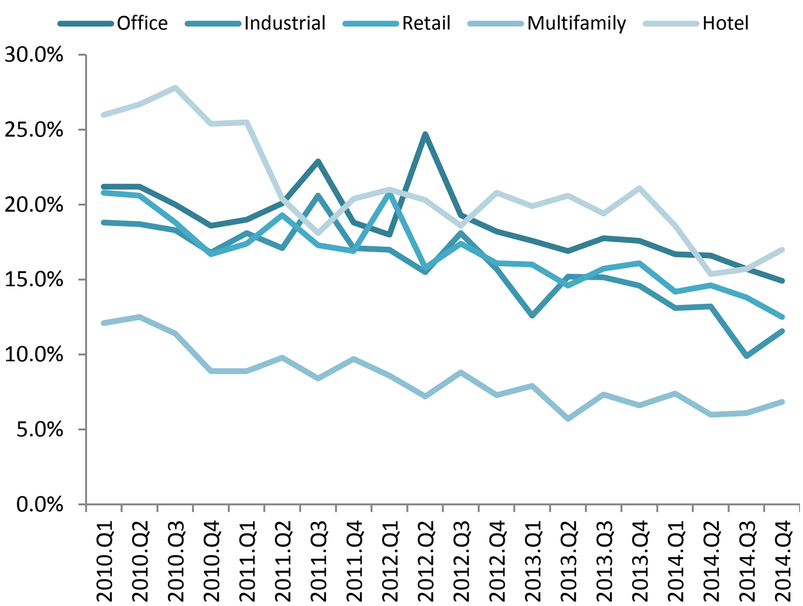


Source: National Association of Realtors®

COMMERCIAL REAL ESTATE MARKET TRENDS

FEBRUARY 2015

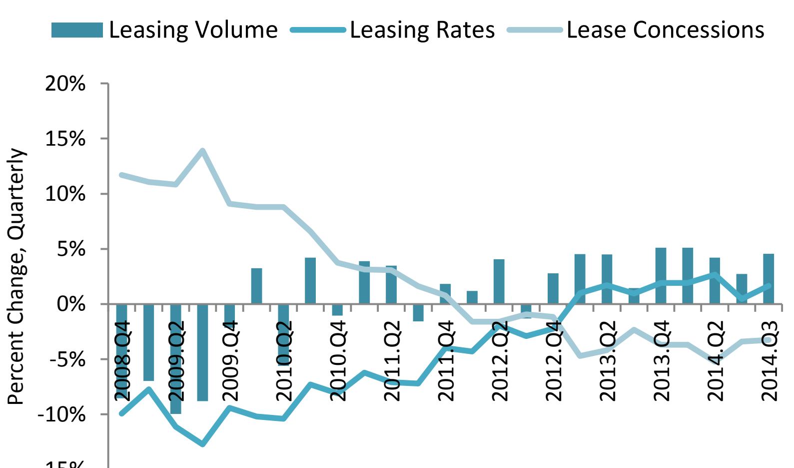
REALTORS® Commercial Vacancy Rates



Source: National Association of Realtors®

Vacancy rates were mixed across property types. Apartments experienced availability increases, with the national average rising from 6.1 percent to 6.8 percent. Office vacancies declined 78 basis points, to 14.9 percent, while industrial availability rose to 11.6 percent. Retail availability decreased 130 basis points to 12.5 percent. REALTORS® expect inventory availability to decline 1.7 percent over the next 12 months. As vacancies contracted, landlords gained a stronger position, and provided fewer concessions. Rent concessions declined 3.3 percent in the fourth quarter, following a 3.4 percent slide in the third one.

REALTOR® Commercial Leasing Trends



Source: National Association of Realtors®

Leasing rates rose picked up, rising 1.6 percent in the fourth quarter 2014, from the 0.5 percent advance in the previous quarter. In terms of space requirements, tenant demand remained strongest in the 5,000 square feet and below, accounting for 85.0 percent of leased properties. Demand for space under 2,500 feet comprised 39.0 percent of lease agreements. Lease terms remained steady, with 36-month and 60-month leases capturing 61.0 percent of the market.

The GDP outlook for 2015 calls for a stronger growth rates of 3.0. With employment and consumer confidence rising, buoyed by business investments and capital availability, commercial real estate is poised to provide another year of growth.

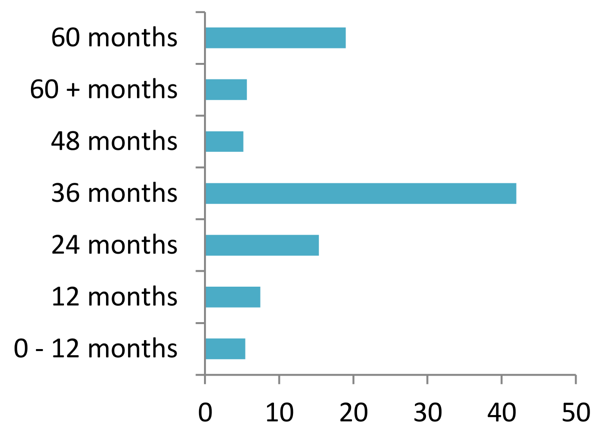
COMMERCIAL REAL ESTATE MARKET TRENDS

FEBRUARY 2015

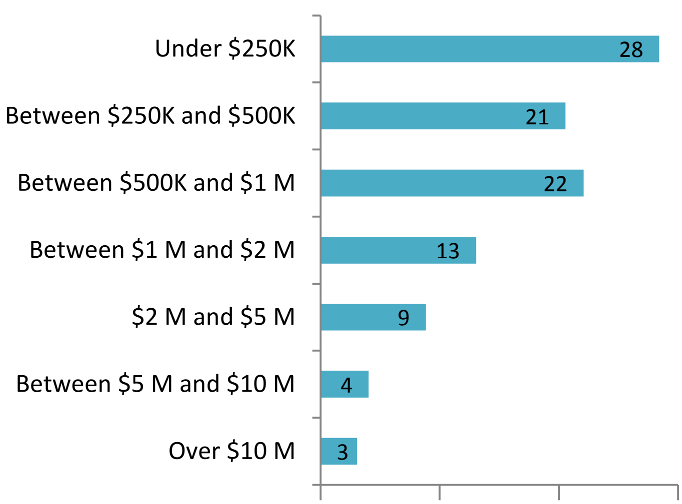
2014.Q4 Survey Highlights

- 65% of commercial REALTORS® closed a sale.
- Sales volume rose 10% from a year ago.
- Sales prices increased 4% year-over-year.
- Cap rates averaged 8.0% during Q4.14
- Leasing volume advanced 5% from previous quarter.
- Leasing rates increased 2% over previous quarter.
- Concession levels declined 3% on a quarterly basis.
- Inventory shortage topped the list of current challenges, followed by buyer-seller pricing gap and local economies.
- The estimated average transaction increased from $1.4 million in Q3.14 to $1.6 million in Q4.14.

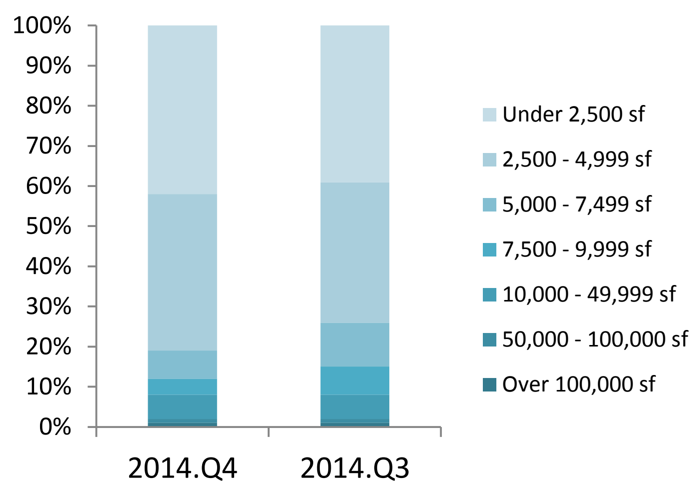
Average lease term during last transaction



Dollar amount of last transaction (%)



Average Rental Space Demanded During Last Transaction



NOTES:

1. *Vacancy rate data in this report come from a national survey of REALTORS® who identify themselves as commercial practitioners. The data do not match the historical data which underlie NAR's Commercial Real Estate Outlook (CREO). The CREO vacancy data are sourced from Reis, Inc.*

2. *In February 2015, NAR invited a random sample of 50,439 REALTORS® with an interest in commercial real estate to fill an on-line survey. A total of 638 complete responses were received, for an overall response rate of 1.3 percent.*

COMMERCIAL REAL ESTATE MARKET TRENDS

FEBRUARY 2015

The REALTORS® Commercial Real Estate Quarterly Market Survey asks participants to comment on current conditions in their markets. Below are a few of the comments about the latest quarter environment.

While activity was better than expected and absorption was positive, there is generally not much demand for office space and 30 plus year supply of vacant office space, most of which is Class B product. The Delaware marketplace seems to lack a real 'driver' to help create activity.

2014 was best since 2008 year end. 2015 is looking very strong on all fronts except office

2015 is a Key Indicator Year!

Third & 4th qtr. decision makers are basically putting off making decisions until 2015 1st or 2nd qtr.

Activity is starting to improve in first qtr. '15 with searches for and listings of industrial properties

Appraisals are a huge concern - really depressing financing and values.

Availability for industrial properties are slim, either they are new construction or outdated in use. Retail and Office have stayed pretty much the same in availability.

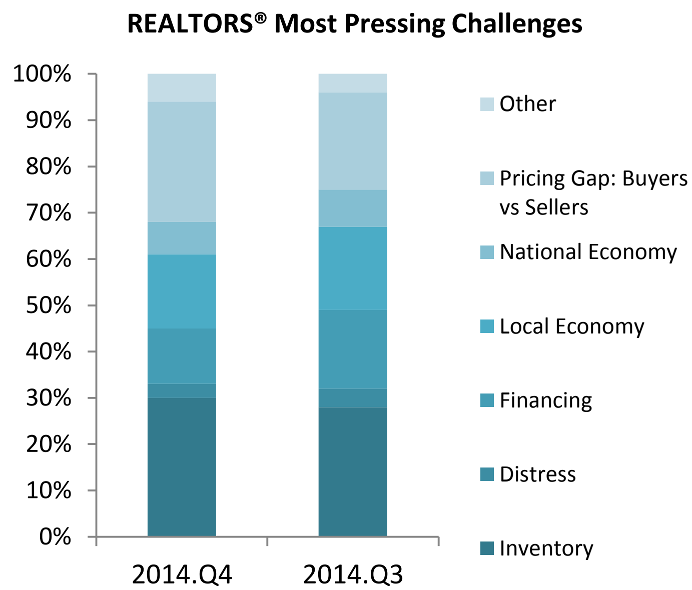
Becoming balanced, Oil & Gas industry will have an effect on the industrial development.

Best real estate market of my lifetime! Lowest interest rates. Highest DOW. Best home buying market. All good. No, all excellent!

Better! Small-Middle market business owners seem to be most interested in expanding.

Buyers & Tenants are still very cautious. Increasing deficit, affordable care act and terrorist threats are the main concerns.

Commercial on the Outer Banks is mostly vacant land & new retail being approved like Dollar General stores. Re-sales of improved properties are very slow.



Conditions trying to improve but oil in Texas is now a factor Dallas Texas is still booming regardless of the oil business which does have a large impact on Houston but not so much Dallas/Fort Worth.

Development moving West of Houston Continues.

Direction of energy prices will determine future strength of market

During 4th quarter I had no serious interest from buyers/leasers in commercial office property. Didn't have much activity in residential either. Seems to have picked up since Jan 2015

Energy industry cutbacks is definitely slowing new expansion. Projects being put on back burner.

Fast food companies are relocating from mall locations to new building at out parcels. By doing this they are creating an inventory of old buildings not rentable that affect the market choice.

COMMERCIAL REAL ESTATE MARKET TRENDS

FEBRUARY 2015

The REALTORS® Commercial Real Estate Quarterly Market Survey Comments—continued.

Everything depends on employment. With growing employment and growing wages, there can be a sustainable market recovery like the Clinton presidential years. President Obama's attention to increasing the minimum wage, and paying women equally for the same work as done by men, will lift wages and the economy in general.

Financing is also market's biggest current challenge!!

Funding is still abundant and prices reflect aspirational levels rather than recent transactions.

General trend is generally upward. However, prices are still struggling and typically below PVA except for new construction. Leasing terms are moving back toward 3 year terms for spaces under 5000 sf.

Hottest February I've experienced - minus the year of the tax credit - in eight years in real estate. I am literally knocking on doors of businesses to see if they have offices not being used to find enough space.

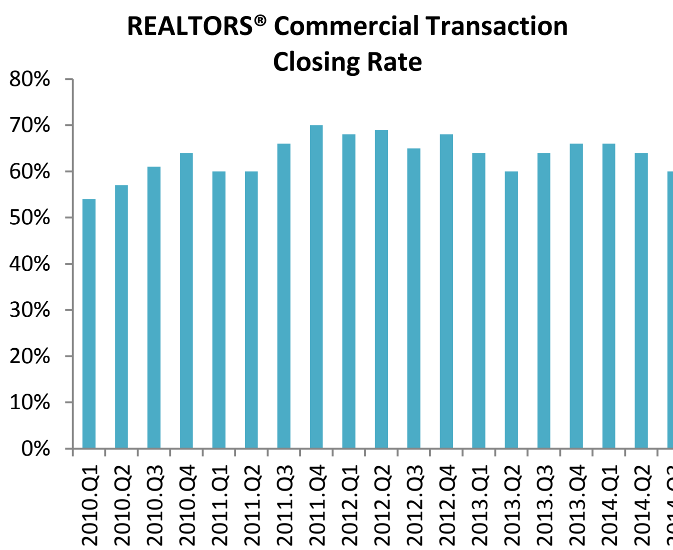
Lack of quality investment properties and the lingering bank owned properties affecting market spreads between asking and selling

Last year's business was slow but steady. Properties seem to rent faster and for a little more money.

Lending still seems tight, government posing a lot of problems too

Local sales have been limited. A new shopping center is under construction. Most sales activity has been to national or regional companies. Most new business is national credit tenancy. Local activity is still low.

Many buyers are still looking for that 8-10 Cap Rates. Which are almost non-existent. The low Cap rates are quiet concerning. Should we have another down turn with the financing and change of Cap rates like 2008-2011—Then there will be a lot of property owners in trouble.



Source: National Association of Realtors®

Market very flat - stagnant - economy sucks in Kansas at present time.

MF is very tight and cap rates dropping to 6's. REITS are moving vast dollars to this market from both East & West Coast.

MGM Casino has the entire market in transition

Multi-family rental demand in northern Nevada is much stronger than this time last year.

My market is the slowest to recover of all in our MSA. We still have a good way to go to reach a healthy distress free equilibrium.

Nice to be back growing and making $$ again. all positive here in Grand Rapids!

Office and Retail are the currently seeing a spike in new construction. Industrial is growing in the outer lying areas of the county with the oil and gas supporting businesses. Includes a majority of truck sales and service.

COMMERCIAL REAL ESTATE MARKET TRENDS

FEBRUARY 2015

The REALTORS® Commercial Real Estate Quarterly Market Survey Comments—continued.

Our entire market is based on what is happening with the price of oil on the national market.

Our market depends on the energy business. Expect negative impact for next year.

Our market is showing some growth. Industrial flex space (5K to 10K SF) is in demand with low inventory.

Our market remains flat and lagging behind surrounding states. We are a gov't dependent economy and gov't is shrinking as well. We have no Fortune 1000 companies headquartered in our state. Our economic policies are from the dark ages.

Out market has improved greatly in all sectors. If we can get our city state and federal gov out of the way we would be doing great. That black cloud holds many back from making decisions

Overall still very slow economic recovery. 2014 over 2013 was overall down in gross volume in the commercial markets for office. Industrial is coming back fairly steady. Looking forward to a better 2015, but inflation with low oil prices worries me!

Prices are rising in multi-family and industrial to unsustainable levels. Great for Sellers. In my opinion Buyers are caught in the " I have to have it" mentality and are overpaying for many assets today. It will come back to haunt us in 18-36 months!

Prospect tenants are still resistant to per sq. ft. base prices and want owner/landlords to pay for most of the build out expenses. If owners do not agree, space remains vacant and the prospect tenant goes elsewhere.

Prospects are very concerned about our national economy and unfriendly national business atmosphere by this administration and this state's legislature. I have several buyer prospects in the $5 to $10 range, but they want a stable investment from regulators.

Sequestration has negatively affected the Huntsville market. Slight improvement overall. Consumer confidence on the rise. 1031 buyers more active.

Still a lot of vacant land inventory. Retail spaces are starting to fill up.

The average transaction size should be by category. Giving one answer for all categories isn't a true story of the market. Avg. size in my market for Industrial is 10,000 sq. ft. to 25,000sq. ft. for office it's 1,000' to 5,000' and retail it 2500 to 5000'.

The Class A office market is healthy. Improving economy and little new construction has the overall market tight.

The demand of Retail leasing, Hotel and Shopping center sales are high at southern California.

The economy is not good for the average American. Wall Street may be doing great but Main Street is dying. Do not see any Government Official or Leadership that cares or has any idea on solving the problem. Everyone is grabbing for the Top and the people in the Middle are suffering badly

The industrial market is as active and viable as I have ever seen it. Biggest problem is a lack of inventory.

The market in secondary areas appears to have flattened out during the last quarter of 2014

The market is steady at this time. There are still a lot of investors looking for value added properties.

The market is still very sluggish. Concern about Washington and no real "agenda" to help business

The problem is including very distress properties in vacancies in data base analysis. Many of these properties will never again be used as they are in a condition of razing.

The REALTORS® Commercial Real Estate Quarterly Market Survey Comments—continued.

There are better quality office buildings available for lease downtown than there were a year ago.

There are two basic kinds of markets- #1- Viable-Growing #2-Not viable-Not growing. Winners vs. Losers. Hot areas then...the rest. Separation will be cured in time...my guess is 20 years!

There is an oversupply of retail and office space in Las Vegas.

We are a very small luxury market with no industrial and little change of hands in the hotels sector. Our landlords are spoiled and have rarely participated in any TI's.

We are experiencing an optimistic but guarded market. Financing is more available now and Buyers are starting to get more serious.

We are going through a building boom and a significant amount of cash is being invested in both residential and commercial real estate.

We are running out of class A and flex inventory. Very limited new construction due to capital restraints Investment sales demand exceeds supply

We came off high market cause of promise of manufacturing plant and some oil and gas promises, and nothing to date. No jobs to substantiate payments for the house prices. We are in a reservation town, and financing is tough.

We have a skewed market due to DCM growth with major local employer Mayo Clinic.

We have a strong multifamily market. We expect some rental pressure for the larger, Class A and B+ properties due to the extensive new apt. construction. We also expect a strong increase in rents (and value) for the B and C class properties due to the lack of new B and C product and the continued increase in population.

Would like to see legislator put a stop to technology providers like MLS, LoopNet or CoStsr, so that the providers can no longer force an agent to pay for their service just because the agent happens t to work inside a brokerage where the broker is paying for the service. Paying a service provider should only happen if an agent truly uses the service. This is important because as new agents start their business, they have a lower marketing budget compared to veteran agents and brokers therefore forcing new agents to pay for services that veteran agents and brokers subscribe to are unfair and financially strain for the new agent.

Young entrepreneurs and non-corporate business interests are being squeezed by commercial property owners who 'over leverage' and refuse to market their properties at appropriate lower market values. Often owners hold no mortgage so they hold out without a tenant rather than fill the space at a rate that is reasonable for the non-corporate tenant, or sell the building at a value that is in harmony with the local economy, and effective business practices for the new buyer.

COMMERCIAL REAL ESTATE MARKET TRENDS

FEBRUARY 2015

NATIONAL ASSOCIATION OF REALTORS®
RESEARCH DIVISION

The Mission of the National Association of REALTORS® Research Division is to collect and disseminate timely, accurate and comprehensive real estate data and to conduct economic analysis in order to inform and engage members, consumers, and policy makers and the media in a professional and accessible manner.

The Research Division monitors and analyzes economic indicators, including gross domestic product, retail sales, industrial production, producer price index, and employment data that impact commercial markets over time. Additionally, NAR Research examines how changes in the economy affect the commercial real estate business, and evaluates regulatory and legislative policy proposals for their impact on REALTORS,® their clients and America's property owners.

The Research Division provides several products covering commercial real estate including:

- Commercial Real Estate Outlook
- Commercial Real Estate Lending Survey
- Commercial Member Profile
- CCIM Quarterly Market Trends
- SIOR Commercial Real Estate Index
- Expectations & Market Realities in Real Estate 2014 (Deloitte, RERC, NAR)

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