

**MAY**  
**2011**

# COMMERCIAL REAL ESTATE OUTLOOK

## ECONOMIC OVERVIEW

### Market Fundamentals

2011.Q1 > 2011.Q2

#### OFFICE

- ↓ Vacancy
- ↓ Net Absorption
- ↑ Completions
- ↓ Rent Growth

#### INDUSTRIAL

- ↓ Vacancy
- ↓ Net Absorption
- ↑ Completions
- ↓ Rent Growth

#### RETAIL

- ↔ Vacancy
- ↑ Net Absorption
- ↑ Completions
- ↑ Rent Growth

#### MULTIFAMILY

- ↓ Vacancy
- ↑ Net Absorption
- ↑ Completions
- ↓ Rent Growth

## Commercial Markets Stabilize; Economy Flattens in First Half of 2011

By George Ratiu, NAR Economist

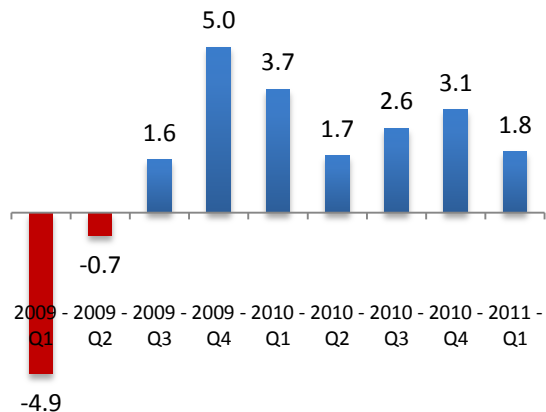
Approaching the midpoint of the year, commercial real estate markets are posting positive signs. With fundamentals improving and investments growing, commercial markets are facing a more optimistic landscape going forward into 2011. However, the economic framework has flattened, posing possible challenges. Economic activity as measured by gross domestic product (GDP) slowed during the first quarter. GDP advanced a modest 1.8 percent during the quarter. Both consumers and businesses reined in their spending, while governments—federal, state and local—have been cutting expenses across the board.

The equipment and software component of business spending has slowed significantly in the past two quarters. From an annual growth rate of better than 20.0 percent in the first half last year, it dropped to 7.7 percent and 11.6 percent in the past two quarters, respectively. A good deal of activity has been focused on increasing inventories, particularly in light of growing export opportunities.

During the first quarter, a softer dollar afforded U.S. products a price advantage. Exports of consumer goods increased at a healthy 7.8 percent pace. Imports of goods were also positive at 5.9 percent during the quarter. Increased trade brought higher prices for both exports and imports. In the U.S., consumer prices rose 2.2 percent during the first quarter. While the increase remains mild, rising inflation in producer prices adds pressure on consumer prices.

During the first quarter, producer prices for goods by stages of production registered noticeable increases—14.2 percent for crude, 7.6 percent for intermediate and 5.1 percent for finished goods. Given already narrow profit margins, producers have started passing price increases onto consumers.

GDP (% Chg-Annual Rate)



Source: BEA

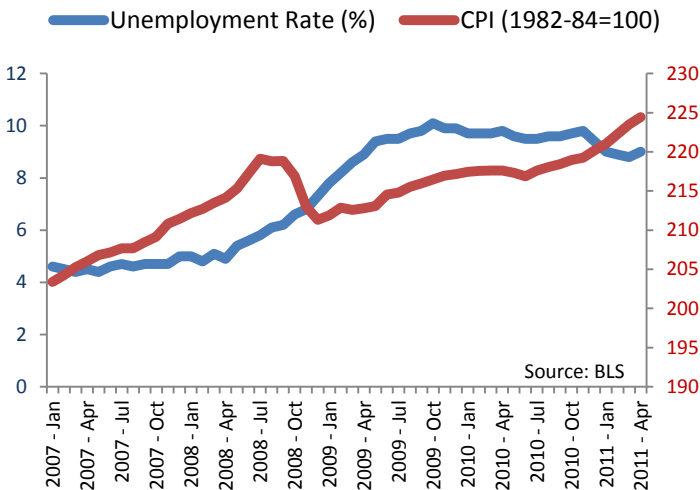
Consumer spending remained positive during the quarter, but moderated. Consumers increased their spending by 2.8 percent, mostly directed at durable goods—cars, vehicle parts and recreational goods. Consumers also upped their spending on furnishings, clothing and shoes, as well as food and beverages. Spending on services rose only 1.7 percent.

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## ECONOMIC OVERVIEW

(continued from page 1)

Consumers have been facing a double threat—higher prices and high unemployment. During the first quarter, only 499,000 jobs were added to the economy. The pace of employment has not matched the pattern of growth normally associated with historic economic recoveries. Unemployment insurance claims continued to be elevated, hovering around 400,000 per week. The number of people receiving unemployment benefits declined below four million in the first quarter. But, the unemployment rate returned to 9.0 in April, after a slight dip in February and March.



Faced with uncertain global conditions and rising prices, consumers remain wary. The main measures of consumer confidence and sentiment have been mirroring the trend. Monthly volatility notwithstanding, surveys of consumers have remained in a sideways slide for the past year. The consumer sentiment index produced by the University of Michigan declined from 74.2 in January to 69.8 in April. The survey generally asks questions related to people's financial wealth and tend to follow the stock market index. The index tends to be at around 100 or higher during economic expansionary years. It was 89 in the 2001 recession, following the dot-com bust. It fell into the 60s in 2008 and 2009.

Commercial real estate markets have regained their foothold. Low levels of new construction in recent years have prevented a run-up in supply. With business investments still positive, demand for commercial space has been improving and availability has been trending down.

Just as in the residential sector, lending problems are the biggest issue holding back commercial real estate. Conditions for commercial loans have tightened thus far in 2011, with 60 percent of commercial Realtors reporting that they failed to complete a transaction this year due to financing problems. Markets have bifurcated along property values and geographic locations. Gateway cities, like New York, Boston, San Francisco and Washington, DC are attracting private investors, national banks and global funds to stabilized, high-end assets. Sales of properties over \$5 million have doubled over the past year.

Meanwhile, investment conditions in mid-tier markets are lagging. Requirements for commercial loans have tightened in secondary and tertiary markets in 2011. In these markets, regional banks provide the majority of commercial loans, followed by private investors; national banks are a distant third.

The apartment rental market is the only sector that has clearly turned the corner, resulting in consistently falling vacancy rates and rising rent. Stronger increases in apartment rents will force some renters to consider home ownership as a hedge against inflation.

For the remainder of 2011, GDP growth will remain weak—less than 3 percent growth. That will translate into about 1.5 million net new jobs. After the sharp 8 million job losses during the recent past Great Recession, the job creation of less than 2 million per year is not at all impressive.



**ECONOMIC FORECAST**

<i>Annual Growth Rates (%)</i>	2010 I	2010 II	2010 III	2010 IV	2011 I	2011 II	2011 III	2011 IV	2012 I	2012 II	2009	2010	2011	2012
Real GDP	3.7	1.7	2.6	3.1	1.8	2.4	2.6	2.3	2.8	2.7	-2.6	2.9	2.4	2.6
Nonfarm Payroll Employment	-0.3	2.0	-0.2	0.8	1.3	1.5	1.3	1.5	1.7	1.7	-4.4	-0.7	1.1	1.7
Consumer Prices	1.3	-0.5	1.4	2.6	5.3	4.5	2.2	2.6	2.8	2.9	-0.3	1.6	3.2	2.9
Real Disposable Income	1.3	5.6	1.0	1.8	1.0	0.6	1.6	1.6	3.7	2.1	0.6	1.4	1.5	2.2
Consumer Confidence	52	58	51	53	67	67	66	68	69	70	45	54	67	70
Unemployment (%)	9.7	9.6	9.6	9.6	8.9	9.0	8.9	8.8	8.7	8.5	9.3	9.6	8.9	8.5
<i>Interest Rates (%)</i>	2010 I	2010 II	2010 III	2010 IV	2011 I	2011 II	2011 III	2011 IV	2012 I	2012 II	2009	2010	2011	2012
Fed Funds Rate	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.5	1.0	1.3	0.2	0.2	0.2	1.5
3-Month T-Bill Rate	0.1	0.1	0.2	0.4	0.2	0.1	0.3	0.8	1.3	1.5	0.2	0.2	0.3	1.7
Prime Rate	3.3	3.3	3.3	3.1	2.9	2.7	2.9	3.4	4.1	4.8	3.3	3.2	3.2	4.5
Corporate Aaa Bond Yield	5.3	5.0	4.6	4.8	5.1	5.1	5.2	5.4	5.6	5.7	5.3	4.9	5.2	5.8
10-Year Government Bond	3.7	3.5	2.8	3.3	3.4	3.3	3.5	3.7	4.1	4.3	3.3	3.3	3.5	4.3
30-Year Government Bond	4.6	4.4	3.9	4.2	4.3	4.2	4.4	4.6	4.9	5.0	4.1	4.3	4.4	5.1

Source: National Association of REALTORS®

**COMMERCIAL FORECAST**

<b>OFFICE</b>	<b>2010 IV</b>	<b>2011 I</b>	<b>2011 II</b>	<b>2011 III</b>	<b>2011 IV</b>	<b>2012 I</b>	<b>2012 II</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Vacancy Rate	16.4%	16.4%	16.3%	16.1%	15.9%	15.6%	15.3%	16.6%	16.2%	15.1%
Net Absorption ('000 sq. ft.)	10,630	5,045	3,739	7,926	9,868	11,197	11,769	17,733	26,577	49,439
Completions ('000 sq. ft.)	3,791	881	1,348	743	1780	672	519	21,359	7,013	4,675
Inventory ('000,000 sq. ft.)	3,574	3,583	3,584	3,585	3,586	3,587	3,588	3,574	3,586	3,590
Rent Growth	-1.1%	0.1%	-0.1%	0.0%	0.3%	0.5%	0.8%	-4.6%	0.3%	4.3%
<b>INDUSTRIAL</b>	<b>2010 IV</b>	<b>2011 I</b>	<b>2011 II</b>	<b>2011 III</b>	<b>2011 IV</b>	<b>2012 I</b>	<b>2012 II</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Vacancy Rate	14.3%	14.1%	13.9%	13.7%	13.5%	13.2%	13.0%	14.5%	13.8%	12.8%
Net Absorption ('000 sq. ft.)	33,218	27,282	26,946	33,637	38,238	44,429	49,660	11,191	126,104	205,079
Completions ('000 sq. ft.)	5,642	2,679	7,681	5,809	10,699	11,789	13,720	17,388	23,909	54,208
Inventory ('000,000 sq. ft.)	12,572	12,727	12,735	12,741	12,751	12,763	12,777	12,572	12,751	12,808
Rent Growth	-1.0%	0.0%	-0.8%	-0.5%	-0.3%	-0.3%	-0.2%	-6.8%	-1.5%	2.0%
<b>RETAIL</b>	<b>2010 IV</b>	<b>2011 I</b>	<b>2011 II</b>	<b>2011 III</b>	<b>2011 IV</b>	<b>2012 I</b>	<b>2012 II</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Vacancy Rate	13.0%	13.1%	13.1%	13.0%	12.9%	12.7%	12.6%	13.0%	13.0%	12.5%
Net Absorption ('000 sq. ft.)	1,700	-891	1,566	2,123	2,637	3,286	3,664	-671	5,435	14,821
Completions ('000 sq. ft.)	1,304	1,078	1,919	982	108	0	1,595	4,385	4,087	6,821
Inventory ('000,000 sq. ft.)	1,697	1,715	1,717	1,718	1,718	1,718	1,720	1,697	1,718	1,726
Rent Growth	-1.0%	-0.8%	-0.4%	-0.2%	0.0%	0.2%	0.2%	-4.8%	-1.4%	0.7%
<b>MULTI-FAMILY</b>	<b>2010 IV</b>	<b>2011 I</b>	<b>2011 II</b>	<b>2011 III</b>	<b>2011 IV</b>	<b>2012 I</b>	<b>2012 II</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Vacancy Rate	6.0%	6.0%	5.8%	5.3%	5.3%	5.0%	4.7%	6.1%	5.6%	4.5%
Net Absorption (Units)	-21,839	21,232	87,774	121,218	20,624	57,683	73,730	251,739	250,848	166,616
Completions (Units)	11,012	14,268	15,100	16,647	18,450	19,072	20,867	59,507	64,465	87,059
Inventory (Units in millions)	14.5	14.5	14.5	14.5	14.5	14.6	14.6	14.5	14.5	14.6
Rent Growth	1.2%	0.9%	0.7%	0.8%	0.9%	1.0%	1.2%	0.3%	3.4%	4.3%

Source: National Association of REALTORS®/CBRE-Econometric Advisors

**COMMERCIAL FORECAST: METRO VACANCY RATES - 2011.Q2**

	Office	Industrial	Retail	Multifamily
Albuquerque, NM	18.9%	10.8%	13.6%	5.3%
Atlanta, GA	21.2%	18.3%	16.0%	9.8%
Austin, TX	17.6%	15.8%	12.5%	5.8%
Baltimore, MD	14.5%	15.9%	10.0%	4.2%
Boston, MA	13.0%	18.5%	9.7%	3.8%
Charlotte, NC	16.9%	15.7%	16.2%	6.7%
Chicago, IL	18.5%	15.3%	13.6%	4.8%
Cincinnati, OH	18.4%	13.2%	18.8%	5.3%
Cleveland, OH	18.7%	11.8%	17.2%	4.7%
Columbus, OH	18.1%	16.0%	17.0%	4.7%
Dallas, TX	22.2%	15.2%	16.3%	7.4%
Denver, CO	16.4%	13.4%	13.5%	5.2%
Detroit, MI	25.7%	19.4%	17.5%	6.2%
Fort Lauderdale, FL	16.6%	13.2%	12.8%	6.4%
Fort Worth, TX	14.1%	14.3%	17.7%	8.7%
Hartford, CT	19.6%	16.7%		
Honolulu, HI	8.6%		7.6%	6.7%
Houston, TX	15.9%	10.7%	13.7%	9.6%
Indianapolis, IN	16.8%	12.5%	17.3%	6.7%
Jacksonville, FL	19.2%	16.3%	15.1%	9.9%
Kansas City, MO	17.3%	11.1%	17.1%	7.0%
Las Vegas, NV	25.7%	11.0%	17.6%	9.0%
Long Island, NY	11.7%	11.3%	7.7%	
Los Angeles, CA	17.3%	7.2%	8.7%	4.8%
Miami, FL	19.6%	12.5%	8.2%	4.9%
Milwaukee, WI	18.9%	14.2%		
Minneapolis, MN	20.0%	11.7%	13.9%	3.3%
Nashville, TN	13.6%	16.1%	11.2%	5.4%
New York, NY	8.8%	11.8%	8.9%	5.4%
Newark, NJ	15.5%	13.2%		3.3%
Oakland, CA	16.5%	14.0%	8.1%	3.8%
Orange County, CA	18.5%	10.2%	8.1%	4.5%
Orlando, FL	17.5%	16.0%	15.1%	7.4%

**COMMERCIAL FORECAST: METRO VACANCY RATES - 2011.Q2**

	Office	Industrial	Retail	Multifamily
Philadelphia, PA	14.6%	14.2%	13.6%	5.2%
Phoenix, AZ	25.8%	18.0%	17.3%	9.8%
Pittsburgh, PA	10.4%			1.3%
Portland, OR	15.5%	11.1%	12.1%	2.8%
Raleigh, NC	13.8%			5.5%
Riverside, CA	22.7%	13.3%	14.4%	5.9%
Sacramento, CA	22.5%	18.1%	15.0%	5.8%
Salt Lake City, UT	16.3%	8.0%	13.4%	5.1%
San Diego, CA	17.5%	15.2%	9.9%	4.1%
San Francisco, CA	12.3%	10.9%	5.9%	4.0%
San Jose, CA	19.0%	14.8%	7.9%	2.5%
Seattle, WA	16.9%	11.8%	11.4%	4.4%
St. Louis, MO	16.2%	14.6%	14.7%	7.3%
Stamford, CT	12.9%	18.1%		
Tampa, FL	21.7%	14.8%	12.7%	8.1%
Tucson, AZ	17.3%	23.0%	17.8%	8.9%
Ventura, CA	19.1%	12.6%	11.1%	
Washington, DC	12.8%	11.9%	8.7%	3.8%
West Palm Beach, FL	20.2%	16.1%	13.5%	8.0%
Wilmington, DE	17.6%	14.0%	14.0%	
<b>National Averages*</b>	<b>16.3%</b>	<b>13.9%</b>	<b>13.1%</b>	<b>5.8%</b>

\*Not all markets are represented in chart above.

Source: NAR / CBRE-EA

**NCREIF PROPERTY INDEX RETURNS - 2011.Q1**

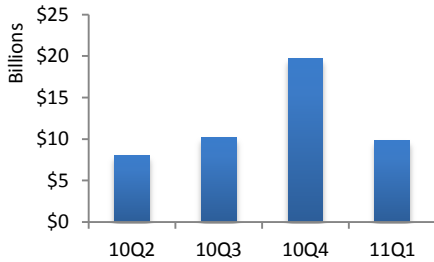
NATIONAL	3.36%
OFFICE	3.19%
INDUSTRIAL	3.28%
RETAIL	3.63%
APARTMENT	3.34%

Source: National Council of Real Estate Investment Fiduciaries



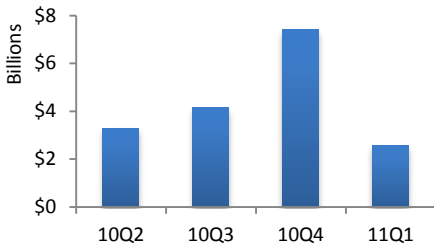
**INVESTMENT TRENDS AT A GLANCE**

**Office Sales Volume**



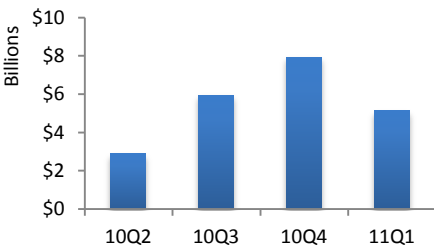
OFFICE		
Region	Average Cap Rate	Average Price (\$/Sq. Ft.)
Mid-Atlantic	6.8%	\$411
Midwest	7.6%	\$119
Northeast	6.3%	\$324
Southeast	8.4%	\$189
Southwest	7.6%	\$164
West	7.3%	\$204

**Industrial Sales Volume**



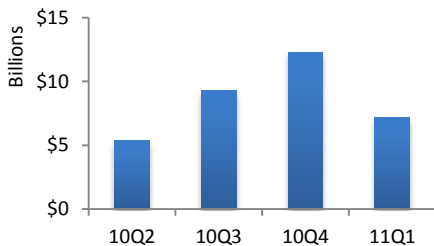
INDUSTRIAL		
Region	Average Cap Rate	Average Price (\$/Sq. Ft.)
Mid-Atlantic	7.3%	\$54
Midwest	8.1%	\$47
Northeast	9.7%	\$81
Southeast	8.5%	\$32
Southwest	6.7%	\$52
West	7.3%	\$73

**Retail Sales Volume**



RETAIL		
Region	Average Cap Rate	Average Price (\$/Sq. Ft.)
Mid-Atlantic	5.5%	\$181
Midwest	7.9%	\$96
Northeast	8.0%	\$542
Southeast	7.7%	\$142
Southwest	8.1%	\$128
West	6.6%	\$158

**Multifamily Sales Volume**



MULTI-FAMILY		
Region	Average Cap Rate	Average Price (\$/Unit)
Mid-Atlantic	6.1%	\$133,354
Midwest	8.2%	\$62,057
Northeast	5.6%	\$256,995
Southeast	7.4%	\$64,406
Southwest	7.4%	\$65,345
West	6.3%	\$135,330

Note: Data based on sales closed in 2011.Q1 through March  
Source: Real Capital Analytics

## 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 that clearly impact commercial markets over time. In addition, the Research Division provides several products covering commercial real estate:

- Commercial Member Profile
- Commercial Real Estate Quarterly Market Survey

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