RCA Report
REALTORS® Commercial Alliance
REALTORS® Commercial Alliance
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IN THIS ISSUE

Knowing who your future office tenants will be and where they'll come from provides a competitive advantage. NAR-funded research gives you the inside track.

Who are your future office tenants?

A new study commissioned by NAR provides some of the answers for commercial practitioners.

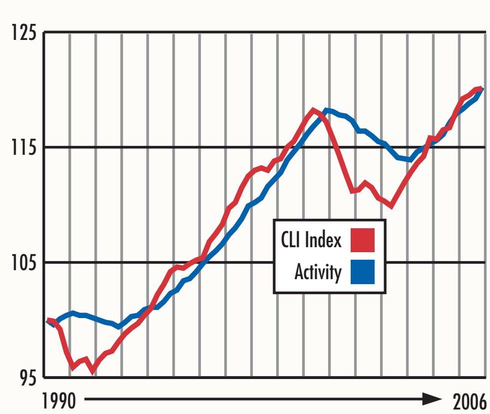
By John McDonald, Ph.D., and John Burns, RPA

The shift in the U.S. economy to the service sector has made office space demand an important indicator of economic strength. However, traditional estimates of office use often overlook office use in categories other than professional services, information, and finance and insurance. That's why in 2006, NAR's National Center for Real Estate Research asked us to initiate a study and analysis of office-using industries. The result was "Office Employment in the United States: 2004 – 2014." The good news for commercial brokers, managers, and investors is that we estimate office-based employment will increase by 6.5 percent between 2004 and 2009 and grow by approximately the same percentage between 2009 and 2014. Our projection is based on our estimate that 41.5 percent of workers occupy office space (approximately 60 million people in 2004). This news is tempered, however, in that this increase is only slightly greater than total U.S. employment increases for the period because of the slow growth in the office support staff area. We used U.S. Bureau of Labor Statistics data as the basis for our analysis. Industries in which a high percentage of workers occupy offices include finance and insurance and professional services (see Figure 1). In absolute numbers the biggest users of space include government (9.5 million), health care and social assistance (6.9 million), professional services (6.1 million), finance and insurance (5.7 million), and self-employment (5.3 million). The last group was a major surprise and may indicate a future market for commercial property owners.

Office-using occupations projected to have higher than average percentages of employment growth in the next decade include computers and math, post-secondary teachers, and health diagnosis and treatment. In terms of the total number of workers employed in office set-

See **Office** *on back page*

COMMERCIAL LEADING INDICATOR



The CLI, in red, is a leading indicator. The Activity line, in blue, represents actual commercial activity. Decreases in the CLI Index imply upcoming decreases in commercial net absorption and commercial construction.

Expansion goes seven straight

NAR's Commercial Leading Indicator rose 0.1 percent in the fourth quarter of 2006 from the prior quarter, marking seven consecutive quarters of increases. CLI is now 1.8 percent higher than it was in the same period last year. However, the pace of expansion has dramatically slowed, with the CLI rising 0.3 percent, 0.4 percent, and now 0.1 percent in the last three quarters. For the same period in late 2005 to early 2006, quarterly gains were 1 percent.

Deteriorating economic conditions have measurably lowered the prospect for continued strength in the commercial market. By the third quarter of 2007, however, leasing and sales business opportunities should be about 1.8 percent higher than they were in the same period of 2006.

Cindy S. Chandler,
CCIM, CRE
2007 RCA Chair

Let your voice be heard

You don't need me to tell you how much government regulation affects the commercial real estate business. Every time you try to sell brownfield acreage, or lease an apartment, or negotiate the sale of an investment property, you're made keenly aware of just how much what they decide in Washington matters. The tax issues alone could stop us in our tracks!

That's why commercial real estate professionals are so fortunate that we have the National Association of REALTORS® representing our interests in D.C. Yes, that's right, I said "our interests." It may surprise you to learn that more than half of all NAR's lobbying initiatives focus on commercial issues. Whether it's helping to ensure commercial owners can get affordable disaster and terrorism insurance or working with the House Financial Services Committee to make certain the Basel Accords don't choke off money for commercial development, NAR is your advocate on Capitol Hill.

And now that I'm on the subject, let me also remind you that even those topics you might dismiss as "just housing issues," can have a big impact on your business. Sure, things like affordable housing may not seem to matter to a commercial broker or manager, but if those folks are paying too much money for a home, they don't have much left to spend at all those retail properties you manage. And if their workers can't find nice places to live, that company who's relocating to your business park is going to be a whole lot less interested, no matter what sort of a lease deal you offer. What's more, an issue like banks in real estate, which once seemed to have nothing to do with you, sure does now. After Bank of America got permission to develop a Ritz Carlton hotel and Union Bank bought a big equity stake in a windmill farm, NAR's efforts to keep banks out of our business began to seem a little more important, don't you think?

That's why I'm so glad NAR is out there, using the power of 1.3 million REALTORS®, along with its substantial war chest and its highly effective legislative and regulatory staffs, to make a difference. But NAR can't do it alone. They need us—the commercial experts and hometown voters—to help our representatives in Washington understand what key legislative initiatives mean to our businesses and to the businesses of our property owners and tenants.

One of the best ways to be sure they know what you think and why it matters is to join me on one of the Hill Visits that will take place during the NAR Midyear Legislative Conference, May 14 - 19 in Washington. This is your chance to get the commercial point of view out there—loud and clear—to the folks in Congress. (You'll also get a chance to take part in some great commercial meetings and networking events. See page 3 for details.)

Legislation and regulation at the federal, state, and local levels often hit commercial properties first and hit them hardest. We need to be sure that commercial concerns don't get overlooked. Becoming involved in NAR and its legislative initiatives is a great way to make that happen. We need to be at the table when the decisions get made. Otherwise, we may get left with an empty plate. See you in D. C.

Cindy Chandler

RCA Does Reno
Learn more about Reno's industrial investment opportunities while you attend top ed sessions and fun-filled social events during the RCA Trade Mission to Reno, June 4 – 6. Call Carol Kairis at 888/648-8321 for details or go to *www.REALTOR.org/RCA*.

REALTORS® Commercial Alliance

To contact NAR Commercial Real Estate staff: 888/648-8321. To find an online version of this newsletter go to *REALTOR.org/RCA*. For a complete listing of NAR legislative and regulatory initiatives, go to *REALTOR.org*.

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REALTORS® Land Institute (ALC)
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Society of Industrial and Office REALTORS® (SIOR)
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Midyear packed with commercial

NAR's D.C. meetings offer plenty of value for commercial attendees

Commercial practitioners will have plenty to keep them busy during the upcoming REALTORS® Midyear Legislative Meetings & Trade Expo in Washington, D.C. Topping many agendas will be the Commercial Legislative & Regulatory Subcommittee meeting on Wed., May 16, beginning at 9:00 a.m. This lively discussion gives you the chance to check on the status of key commercial initiatives and prepare yourself to participate in the Hill Visits to your local congressional representatives on Wed. afternoon and on Thurs., May 17. (Note that if you want to participate in these important face-to-face meetings with legislators and their staffs, you need to contact your local board in advance.)

If getting an inside track on the latest commercial research is your top priority, you'll want to arrive early for the Commercial Real Estate Research Subcommittee meeting, beginning at 1:30 p.m. on Tues., May 15. Another don't miss for research geeks is David Lereah's presentation at the Economic Issues & Commercial Business Trends Forum. You'll also get a chance to hear from members of a private equity firm on how private money is affecting real estate. The Property Management Forum at 10:00 a.m. on Fri., May 18, will provide an update on legislative initiatives affecting commercial managers and lively roundtables.

All commercial practitioners will want to arrive promptly for good seats at the Commercial Alliance Committee meeting on Wed., May 16, at 10:30 a.m. and the Commercial Leadership Forum at 9:00 a.m. on Thurs., May 17. The forum will feature a panel discussion on key commercial issues, followed by a lively Q & A. And don't forget to catch up with friends and unwind at this year's REALTORS® Commercial Alliance Reception on Thurs. night starting at 5:30 p.m.

So come early and take full advantage of all these meetings offer commercial practitioners. Then stay the weekend and appreciate once again the heritage and history of our great country.

Update: National commercial information exchange

For more than five years, NAR has been seeking ideas on how technology can better serve its commercial members and industry partners in accordance with NAR's Strategic Plan. With the input and direct involvement of members, NAR's REALTORS® Commercial Alliance sponsored a number of focus groups, special work groups, and a survey to explore interest in creating one such technology—a national commercial information exchange, comparable to REALTOR.com in the residential arena. Over half of the participants in this 2003 survey stated that 51 to 100 percent of their income was derived from commercial listings. In the same survey, 84 percent of participants who derive 51 to 75 percent of their income from commercial listings strongly encouraged NAR's involvement in the formation of a national CIE.

Based on this information, NAR began to thoroughly explore the many possible approaches to the development of a CIE that would benefit all commercial members and the entire commercial real estate industry. Options included acquiring existing CIEs, building our own from scratch, and various combinations of these approaches. The participants in the evaluation of potential CIE undertakings were key NAR staff and member volunteers selected by NAR's elected officers.

Because the CCIM Institute was an early and successful pioneer in the CIE field through its CCIM.net Web site, CCIM was and continues to be a logical and valuable resource and partner in NAR's CIE explorations. For that reason, NAR is committed to finding a joint CIE solution with CCIM for our mutual members. In addition, any solution we pursue will involve existing local CIEs in both the development and implementation stages. We are also open to including other entities in the REALTORS® family in the CIE discussions once a framework has been established. We plan to hold a technology summit for potential users at that point.

James Marrelli, vice president of NAR's Commercial Division, has provided information about NAR's CIE explorations at many RCA Committee meetings, which are open to all NAR Annual Conference and Midyear Meeting attendees. He has also provided this information at a number of the quarterly meetings that NAR holds with its institutes, societies, and councils, as well as to the RCA Advisory Board, made up of the CEOs of some of the country's largest real estate companies. As with many business endeavors, there are, of course, certain details that must be kept confidential under the terms of various agreements with other entities.

Next steps

The process of creating the national CIE is an opportunity to bring higher levels of value to commercial practitioners and potentially more profitability to the local commercial information exchanges that practitioners currently use. As always, the costs of any acquisition or other aspect of developing the CIE will be carefully considered by NAR leadership, keeping in mind the long-term value to all NAR members, as well as economies to CIE subscribers.

We will continue to keep you posted on our efforts. In the meantime, please feel free to contact James Marrelli at *jmarrelli@REALTORS.org* if you have any questions. We look forward to your input.

LEGISLATIVE Update

Regulators may stymie lending

The Federal Reserve and the other federal bank regulators are proposing changes to capital requirements for banks that could adversely affect lending to commercial real estate. The newly proposed Basel II standard, which would only apply to the 10 to 20 largest banks, attempts to align bank capital to risk through the application of complex formulas and each bank's historical data on loan performance and losses. The other standard, called Basel I-A, would create a new *optional* capital standard for the rest of the banking industry. The goal of both of these new rules is to more accurately adjust minimum capital requirements with the risk of bank investments and loans.

Disparities in the treatment of commercial real estate lending remain between the two systems. Under Basel II, the capital required for all commercial loans, including those for real estate acquisition, development, and construction, would be based on the actual historic experience of each of the covered banks. Under Basel I-A, unless a commercial exposure has a credit rating (for example, a rated bond), almost all commercial loans would be given the same risk rating. NAR's comment letters on Basel I-A point out that real estate loans on all types of real estate property have varying risk profiles and those with lower risk should receive more favorable capital treatment. NAR's Basel I-A and Basel II comments also argue that the rules should permit capital held for loans for presold one-to-four family residences to be lower than the amount proposed since such loans expose the bank to a very low risk. In response to the NAR comments bank regulators decided not to go forward with the concept of charging higher than 100 percent capital for acquisition, development, and construction loans and for residential mortgage loans.

A second potential hurdle for commercial borrowers is new non-binding commercial lending guidelines from the Federal Reserve, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation, released on December 6, 2006. In response to NAR's April 2006 comment letter, the regulators acknowledged that risk characteristics vary by commercial real estate lending type, and banks are best able to identify whether they have excess concentrations of such lending. The final guidelines include a new section to provide banks with guidance on assessing risk. While agencies make explicit that the guidelines do not set limits on bank commercial lending activity, the guidelines do include concentration thresholds to aid examiners in assessing potential risk. The Senate Banking Committee and House Financial Services Committee held hearing on this issue last year, but the new Congress has not yet announced definite plans to address it.

Environmental concerns front and center

A new bill (H.R. 644) introduced by Rep. Gary Miller (D-Calif.) would authorize the Secretary of Housing and Urban Development to make grants to eligible public entities and Indian tribes to assist in the environmental cleanup and economic development of brownfields sites. The legislation also makes brownfields-related environmental cleanup and economic development activities eligible for community development block grant assistance. H.R. 644 has passed the House and is now under consideration in the Senate, although there is no Senate companion bill.

Another incentive to promote energy savings and aid the environment is also being considered by Congress. Provisions of a new bill, called the EXTEND the Energy Efficiency Act Incentives Act of 2007, (H.R. 1385) and (S.822), would continue provisions that currently give the owners of commercial buildings tax deductions for monies spent to improve a building's energy performance but expire in 2008. The proposal would increase those deductions and authorize tax incentives to encourage energy efficiency in the real estate sector. Both bills may face significant challenges to passage since any lost tax revenues must be paid for with new tax monies.

LEGAL

Association rules apply equally to commercial members

The Colorado Supreme Court has decided that a commercial real estate practitioner who belonged to NAR had the duty to abide by the association's arbitration rules, even though he terminated his NAR membership after receiving a request for arbitration in a commission dispute. In the case, Robert Lane, who managed commercial properties for an owner, was asked by that owner to find a broker to sell his properties. Lane alleged that he entered into a referral agreement with two commercial brokers, who promised him a referral fee when the owner's properties were sold. He received such a fee when one property was sold, but not for two others. Lane filed a request for arbitration pursuant to Article 17 of the NAR Code of Ethics with the Denver Metropolitan Commercial Association of REALTORS®, to which both he and the brokers he had selected belonged. Three months after being notified about the arbitration request, the commercial brokers resigned from the association. Lane then filed a lawsuit seeking to compel the brokers to arbitrate. Both the trial court and the state supreme court ruled in his favor. The state high court said that when the commercial brokers joined the association, they had agreed to abide by its membership rules, including the duty to arbitrate commission disputes. To read a complete summary, go to *www.realtor.org/LetterLw.nsf/pages/1106lane*.

Moving transaction to closing shows intent to buy

A U.S. Court of Appeals for the Sixth Circuit has reinstated a jury verdict that a prospective buyer's involvement in preparing to close the sale of a commercial property indicated an acceptance of the contract terms, even though the contract changes were not actually initialed by both parties. The trial court jury's verdict, which was overturned by the trial court judge, found that the prospective buyer had breached a contract when he failed to close on a property. The jury also ruled that the brokerage representing the buyer had failed in its statutory duties. In the case, the owners of a nightclub had negotiated a contract to sell the property to Williams Deshields. When Deshields received the contract, he crossed out a clause requiring an earnest money deposit before signing the document and returning it to the owners' attorney. The attorney talked to the salesperson representing Deshields, who explained that the owners had told Deshields no earnest money was necessary. After the attorney verified this fact with the owners, both parties prepared to close the transaction. However, Deshields did not attend the closing, and the next day informed the owners through his salesperson that a valid contract did not exist because the deleted earnest money clause had not been initialed by both parties. The owners filed suit and were awarded a judgment by the trial court jury. The appellate court upheld this judgment over the reversal by the trial court judge. The appeals court stated that even though the deletion of the clause technically represented a counteroffer, the activities of all the parties to close the transaction demonstrated a "meeting of the minds" as required by state law, and thus the acceptance of the new contract terms by all parties. To read a complete summary, go to *www.realtor.org/LetterLw.nsf/pages/0107stinson*.

2.8%

Average office rent increase for first quarter 2007. It's the biggest jump in almost seven years.

Credits: REIS Inc.

SCORECARD

NATURAL DISASTER RELIEF

Helps ensure that affordable insurance coverage is available to those affected and improves planning and preparation for possible future disasters.

Last Action: NAR President Pat Vredevoogd Combs presented a letter to Senators Bill Nelson (D-Fla.) and Mel Martinez (R-Fla.) urging Congress to craft legislation to ensure that Americans have adequate protection when disaster strikes.

Status: House Committee on Financial Services Committee Chair Barney Frank (D-Mass.) has asked several House members to draft legislation that would address insurance availability and affordability in disaster-prone areas.

SMALL BUSINESS HEALTH PLANS

Would improve the availability and cost of health insurance to small businesses and the self-employed by allowing trade associations such as NAR to offer nationwide insurance plans.

Last Action: NAR testified before the House Small Business Committee hearing on health insurance, explaining the challenges facing independent contractors in securing insurance and urging Congress to consider including small business needs in any health care reform measures.

Status: NAR's efforts to advance small business health plans continue. Polling indicates that health and health costs remain a top concern for Americans.

BANKS IN REAL ESTATE

Opposes efforts by the federal government to define real estate brokerage and property management as financial, rather than commercial, activities, as well as moves by the Office of the Comptroller of the Currency to allow banks to engage in real estate development.

Last Action: Wal Mart's decision to withdraw its application for federal deposit insurance to open an industrial loan company represents a significant step in efforts to prevent commercial companies from engaging in banking activities.

Status: NAR will continue to work for the enactment of H.R. 698, the Industrial Bank Holding Company Act of 2007, which would close a major statutory loophole in national policy and preclude mixing banking and commerce.

INDUSTRY Update

Crafting a successful joint venture

By Daniel J. Mann

Joint ventures are a common way for investors and developers or operators of real estate to pool their buying power and skills and purchase real estate. Joint venturing allows investors who are not, or do not want to, act as developers or operators of real estate to enjoy the benefits of a commercial property investment. At the same time, joint ventures allow developers and operators who may not have sufficient capital or who may not want to put their capital at risk to use other people's money to acquire and develop or operate real estate. Yet despite the obvious benefits of JVs and their widespread use in the industry, it is not uncommon for real estate joint ventures to be plagued by disputes or even failure. Why? And what can be done to prevent this from happening.

Part of the problem is that forming a joint venture is easy. JV partners can have different interests, risk thresholds, capital accessibility, and investment timetables, but these may not be apparent in the excitement of getting into a deal. As a result, when challenges to the investment arise, the partners' interests may not always be aligned. And when interests diverge, disputes often follow.

Understand goals

To minimize such disputes, partners in a joint venture should consider their respective objectives in the venture and formulate a basic business plan and budget before entering into a venture. The first of these steps may seem obvious. Naturally the objective of both partners is to make money. Looking more closely, however, the operating partner's objective is to receive regular income in the form of a management fee, with the hope that the property will appreciate in value over time and net a return. The money investor, on the other hand, wants to know that the operating partner has a clear investment strategy that will yield a satisfactory return in some defined period of time. Money investors also want the ability to exit the venture and receive back as much of their original investment as possible.

While these two sets of goals seem dramatically different, a successful joint venture is still possible. One option that will incentivize the operator to execute the partners' investment strategy diligently is to have the money investor's capital in the deal accrue interest until repaid. In addition, accrued and unpaid interest would be paid before any other proceeds from the property are disbursed to the partners. To further incentivize the operator, some or all of the operator's management or development fee can be subordinated to some or all of the accrued and unpaid interest on the investor's capital or deferred until the property generates an agreed-upon net operating income or appreciates in excess of an agreed-upon value. The parties could also agree that if the money partners have not received some agreed-upon return by a designated date, the operating partner will buy out the money partners or sell the property. In the end, though, the key is to incentivize the operator or developer without imposing terms so onerous they will scare away the competent operator or developer.

Developing a business plan and budget in advance of entering into a venture will force partners to think through issues of this sort. The plan will also assist in resolving later disputes by reflecting the partners' investment objectives and strategy.

Address cash calls

An advance business plan and budget will also help in addressing one of the most difficult aspects of any joint venture—whether, when, and in what amounts to require the partners to put additional money into the deal. One cause of conflict is that the partners often have unequal resources from which to invest additional funds. One partner may have access to a line of credit or simply have available cash while the other partner may have tied up all he or she had to risk in the deal. The partner without access to additional money will want the venture to finance all its capital needs through borrowing while the more solvent partner may prefer to put additional money into the deal rather than overleverage the joint venture.

Spell out operating guidelines

Preapproved business plans and budgets also help resolve management issues that can arise during a JV. When developers or real estate operators participate in a venture,

See facing page

Continued from facing page

they want the power to take the steps they believe necessary to make the venture successful without unreasonable interference by the money partner. If both parties agree on a basic business plan and budget in advance, the money partners will be more comfortable giving the developer or operator the latitude to execute on the business plan without the constraint of needing the other partners' approval of every decision.

No generic joint venture arrangement will fit every deal, but understanding the objectives of each participant and agreeing on a basic business plan and budget help ensure that goals are in alignment. Finally, the prospective venturers should enter into a written agreement that sets out their respective rights and obligations. By planning before they buy, JV participants have a much better chance of avoiding disputes and garnering profits from their commercial real estate investments.

Daniel J. Mann is a partner with Blank Rome LLP in New York City. He represents a broad range of investors and developers in real estate transactions across the country. His clients include private equity funds, insurance companies, hedge funds, syndications, public and private REITs, realty advisors, pension funds, public companies, and private developers.

T&I BRIEFING

Here's a preview of the insights and ideas you'll find when you listen to this quarter's Technology & Intelligence Briefing CD.

ANDY FLORANCE, president and CEO, CoStar Group, a leading commercial property listing site, talks about his company's new tools for generating commercial leads via the Internet.

Tidbit: Brokers are working in larger geographic areas. In 1997, the average broker did business within seven miles of his office; today it's within 43 miles. Technology has helped make this possible.

JAY LUCAS, CCIM, president of the office and investment division of Harry B. Lucas Office, Carrollton, Texas, and 1995 president of the CCIM Institute, updates listeners on the latest tools available at The CCIM Institute's Site To Do Business (*www.ccim.com*), including a database of aerial and satellite photos.

Tidbit: The STDB now offers an express market analysis option that includes demographics, consumer spending and income, and market statistics by major property type in some 125 markets—a great listing tool that's now available to non-CCIMs.

JOHN TUCCILLO, author, nationally known economist, and president of J.T.A. LLC, shares his insights on where the economy is heading.

Tidbit: Currently about 40 percent of the $1 trillion the U.S. must borrow every year to finance its trade and budget deficits comes from foreign sources. This factor, along with the deteriorating value of the dollar, will put upward pressure on interest rates.

AFFILIATE SPOTLIGHT

SUCCESS: THE SERIES

Qubein, Forbes, and Tuccillo headline CCIM/IREM symposium

Three business leaders representing real estate, publishing, and economics will headline the CCIM/IREM Success Series 2007. This new joint education offering will be held October 19 and 20, 2007, at the Henry B. Gonzalez Convention Center in San Antonio, Texas.

Nido Qubein, an entrepreneur, author, and educator, will be the keynote speaker. Qubein is the chairman of four companies, including the 218-store Great Harvest Bread Company chain. He also is the president of High Point University. Steve Forbes is president and CEO of Forbes Inc. and editor-in-chief of *Forbes Magazine*, one of the nation's foremost business periodicals. John Tuccillo is one of the top real estate economists in the United States. From 1987 to 1997 he was chief economist for the NATIONAL ASSOCIATION OF REALTORS®. In all, 50 speakers will address Success Series 2007 attendees.

Success Series 2007 is the only industry event designed to appeal to a broad spectrum of commercial real estate practitioners and to give real estate managers and commercial brokers the opportunity to network, share best practices, and learn from each other.

"Commercial real estate management and brokerage warrant continuous interaction between those charged with managing properties and those involved with the disposition of properties," said Regina Mullins, CPM®, CCIM, the 2007 president of the Institute of Real Estate Management.

"Based on the success of our 2006 symposium in Tampa, this event is on its way to becoming a 'must-attend' annual industry destination," said Joseph A. Fisher, CCIM, 2007 president of the CCIM Institute.

Session topics at the conference include technology developments, the state of capital markets, personal development, overseas investments, negotiations, financial analysis, and the overall current state of the commercial real estate market. Success Series 2007 is open to all interested business professionals, and more than 1,200 commercial professionals are expected to attend. The early bird registration fee is $650 for registrations received by Sept. 5, 2007. For registration details and additional information, call 800/837-0706 or visit *www.CCIMIREMSuccessSeries.com*.

NAR Commercial Affiliates **CCIM Institute (CCIM),** 312/321-4460; *www.ccim.com;* **Counselors of Real Estate (CRE®),** 312/329-8427; *www.cre.org;* **Institute of Real Estate Management (ARM®, CPM®, ACM),** 312/329-6000; *www.irem.org;* **REALTORS® Land Institute (ALC),** 312/329-8440; *www.rliland.com;* **Society of Industrial and Office REALTORS® (SIOR),** 202/449-8200; *www.sior.com*

Office

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tings, health care and social assistance and professional services top the list. Within the professional services category, the largest increases in demand will come from insurance agents and brokers, legal services, accounting services, architecture firms, computer designers, and management consultants. In the health care sector, the largest users of additional space include the offices of health practitioners, home health care services, hospitals, and community care services. Government also remains a major space user, but much of that space is not held by the private sector. One major use category that will probably decline is office support staff, which is projected to increase by only 5.8 percent from 2004 to 2014. Technology is replacing clerical workers, which may lessen the demand for storage and cubicle space while increasing the need for larger spaces for higher level occupations.

Having established broad employment categories where office demand will grow, we next segmented the data to pinpoint particular uses within each category that require a proportionately higher amount of office space. For example, although the demand for nursing care is expected to grow substantially by 2014, only 24 percent of that care will use office space. On the other hand, approximately 71 percent of outpatient care services are based in offices. Thus, growth in that health care segment would have a much greater impact on office space demand than a comparable growth in nursing. Similarly, some 93 percent of Internet publishing and broadcast is conducted from office space, compared to only some 69 percent of newspaper publishing activity.

Another key element in understanding office demand is obviously location so the study next determines major employment in the office sector for 23 major metropolitan markets. Top office users include New York City; Washington, D.C.; and, surprisingly perhaps, Tampa, Fla. We also calculated the importance of each industry to local employment to help local brokers and owners understand which office-based jobs will grow most significantly in their markets. For example, health and educational services plays a large role in the employment of Cleveland, Pittsburgh, and Baltimore.

Another section of the study includes excerpts from interviews with office industry experts on future office demand trends. This group sees a much slower move toward the paperless office than many once anticipated. They also expect that office tenants will be more willing to pay a premium for short-term leases that offer more flexibility to respond to new technologies and business models.

The research, which is available free to all commercial REALTORS® at *www.REALTOR.org/RCA*, demonstrates NAR's commitment to the commercial sector and to helping its members excel. By funding such initiatives through the National Center for Real Estate Research, NAR is establishing itself as the voice of *all* real estate, not just the residential sector.

Dr. John F. McDonald is professor emeritus of economics and finance and the director of the Center for Urban Real Estate at the University of Illinois, Chicago.

John Burns, RPA, heads John Burns Consulting Co., a commercial real estate solutions firm in Chicago.

What it means to you

"These projections show me I'm going to be spending a lot of time cultivating tenants in the medical field," says Bob Redmond, SIOR, senior vice president at CB Richard Ellis in Cleveland and former chair of the Commercial Research Subcommittee. Redmond, who was an early advocate of NAR conducting research into space demand for core commercial property types, says that this type of research is "valuable not only to commercial brokers and property managers, but also to Wall Street, to pension funds, and to investors."

"Since a significant percentage of our economy is tied to the office service sector and investment in office properties can typically reach 50 percent of a portfolio's value, being able to understand the demand elements—where, how much, and what space is wanted—is critical," says Ken Riggs, CEO of Real Estate Research Corp. and another former chair of the Commercial Research Subcommittee. This research study, continues Riggs, lays a foundation for understanding future office demand and positions NAR to expand on that research by exploring more, smaller markets and other property types.

Figure 1: Industries with high office-use concentrations

Finance and insurance	96.3 %
Professional services	89.0 %
Management of enterprise	83.9 %
Information	67.3 %
Wholesale trade	58.8 %
Educational services (private)	56.5 %
Health care and social assistance	48.9 %
Real estate and leasing	46.2 %

CommercialSource returns

Mark your calendars for RCA's second annual online commercial convention when CommercialSource returns to a Web browser near you on June 18 through 24. This free online conference combines everything you'd find in an onsite conference. You can hear 30-minute education sessions with top industry experts on topics such taxes, choosing a business entity, and building business relationships. You can also attend a virtual trade show with an array of new products and services for commercial practitioners, and even drawings and prizes. You can also network with other commercial members through interactive message boards and visit the RCA virtual booth to learn more about how RCA is delivering on the promise with services and resources for commercial members.

Here's what one of last year's 14,000 CommercialSource attendees had to say:

"This cutting-edge event facilitates my business with tools and information I need to support everyday business practices." – *Juan Paniagua, Florida Brokers Group, Deerfield Beach, Fla.*

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