

MAY  
2013

# COMMERCIAL REAL ESTATE OUTLOOK

## ECONOMIC OVERVIEW

### Economic Growth Supports Commercial Markets in Second Quarter

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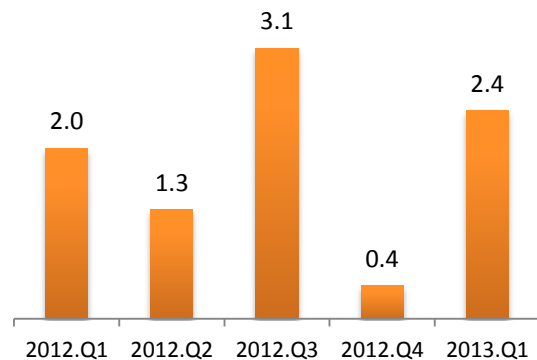
The economic kept a steady pace of growth over the past few months, as consumers and businesses seemed committed to moving forward. Gross domestic product rose 2.4 percent in the first quarter of the year. Riding the moderate temperature of a mild winter, consumers opened up their wallets at the fastest pace since the fourth quarter 2010. Consumer spending increased 3.4 percent in the first quarter, lifted by a 9.1 rise in auto purchases, coupled with an equal advance in sales of recreational goods and vehicles.

With aging vehicles and with manufacturers rolling out technologically advanced and more fuel efficient new models, consumers are finding new cars attractive. Sales of cars in April totaled 651,644 units, a 3.1 percent increase year-over-year. Sales of light-duty trucks, which include SUVs, advanced 14.7 percent, benefiting from the soaring popularity of car-based cross-over vehicles, which recorded the strongest yearly gain in April, at 16.5 percent. Pick-up trucks also recorded solid sales growth, with the Ford F-Series leading the sales charts, followed by the Chevrolet Silverado.

Consumers also increased their expenditures of services—including health care, transportation, food services and lodging—by 3.1 percent, the strongest gain since the second quarter of 2005. In a sign of a broader improvement in sentiment, spending on financial services and insurance rose 7.6 percent in the first quarter, a pace not seen since the fourth quarter of 2004.

These developments stem from rising consumers' wealth. Consumers have been paying off debt over the past few years, while cutting back on discretionary spending. At the same time, household wealth tied to financial assets has been rising steadily post-recession, with the Dow recently crossing the 15,000 threshold. Household wealth tied to housing has seen a noticeable improvement in 2012 and the first quarter of 2013. Sale of existing homes rose 9.8 percent in the first quarter of this year, following the 9.0 percent rise in 2012. Due to very tight inventories, multiple bids have returned to the market, and price escalation clauses are pushing home prices up. Based on NAR data, the median sales price of existing homes jumped 11.2 percent in the first quarter of the year.

GDP (% Annual Chg.)



Source: BEA

(continued on page 2)

**ECONOMIC OVERVIEW**

*(continued from page 1)*

Employment figures also point to a steady pace of growth. Payroll jobs advanced by 644,000 during the first quarter, with gains distributed fairly evenly across industries. On a yearly basis, professional and business services, education and health and construction recorded noticeable growth. The unemployment rate declined from 7.6 percent to 7.5 percent in March.

Businesses have also increased investments in equipment and jobs. Business spending gained 2.1 percent in the first quarter of the year, focused on capital, equipment and software. With international trade remaining favorable, and adding the increased domestic oil production, which led to diminishing need to import it, the balance of trade narrowed in the first quarter from \$43.6 billion to \$38.8 billion.

Government spending continued its decline, shrinking 5.0 percent in the first quarter, driven by budget cuts at federal, state and local levels. At the federal level, both defense and nondefense cuts added to a 8.7 percent decrease in spending. State and local governments slashed spending by 2.4 percent. Though negative to the economy over the short term, lowering the federal budget deficit will likely help long-term economic prospects.

The outlook for the remainder of 2013 is for GDP to grow at a 2.0 percent annual rate. Payroll employment is expected to rise 1.5 percent, as the unemployment rate remains around 7.5 percent.

**Commercial Real Estate**

Following on the solid 24 percent yearly gains in 2012, commercial investments notched a strong first quarter. Sales of major properties totaled \$72.8 billion in the first quarter, a 35 percent rise from a year ago, according to Real Capital Analytics. Portfolio transactions made up a large portion of the volume, especially due to the sale of Archstone apartment properties to Equity Residential and Avalon Bay. Individual property sales comprised \$40 billion, a 7.8 percent gain from the same quarter last year.

*(continued on page 3)*

**TOP 20 VEHICLES BY SALES - APRIL 2013**

Model	Units	% Chg YoY
Ford F - Series PU	59,030	24.4
Chevrolet Silverado PU	39,395	28.1
Honda Accord	33,538	-5.2
Toyota Camry	31,710	-13.9
Dodge Ram PU	31,409	48.7
Ford Fusion	26,722	23.7
Honda CR-V	26,519	12.2
Honda Civic	26,453	8.3
Ford Escape	25,826	52
Hyundai Elantra	24,445	45.2
Toyota Corolla / Matrix	24,273	-2.1
Ford Focus	22,557	16.1
Chevrolet Cruze	22,032	21
Nissan Altima	21,991	35.4
Chevrolet Malibu	21,734	-0.8
Chevrolet Equinox	20,965	14.7
Toyota Prius	19,889	-21
Toyota RAV4	18,541	22
Hyundai Sonata	16,077	-21.7
Ford Explorer	15,440	9.6

Source: [www.motorintelligence.com](http://www.motorintelligence.com)

**ECONOMIC OVERVIEW AND FORECAST**

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Prices for commercial properties were up slightly in the first quarter. Cap rates inched up slightly, to an average 7.5 percent nationally across all property types, mostly due to a redirect in investments towards secondary and tertiary markets.

The rise of secondary and tertiary markets which began during 2012 has intensified during the first quarter of this year. Faced with lower inventories of top properties in major metropolitan areas, investors have been searching for the higher yields of performing properties in smaller markets. During the first quarter, in terms of nominal volume, New York and Washington, DC metro areas dominated the landscape, with close to \$20 billion in combined sales.

However, on a year-over-year basis, the first quarter recorded 16 individual markets with triple digit gains in sales, most of them secondary markets. Jacksonville posted the strongest sales gains, up 625.2 percent, boosted by apartment and office sales. Sales in the Virginia and Maryland suburbs of DC also jumped 295.3 percent and 199.1 percent, respectively. The surge in sales were driven by large office and apartment property (Archstone portfolio sale) transactions in both markets. Other markets with noticeable investment surges were East Bay, Westchester, Kansas City, San Antonio, St. Louis, and Long Island.

The bifurcation in capital availability along property values continued in 2012 and the first part of 2013. As data from Real Capital Analytics indicates, for deals valued at \$2.5 million and above, CMBS issuers and government agencies remained dominant players in secondary and tertiary markets, followed by national banks, insurance companies and regional banks. Meanwhile, based on data from the 2013 REALTORS® Commercial Real Estate Lending Survey, for transactions below the \$2.0 million mark, private investors, local and regional banks continued to serve as the main conduits for capital liquidity.

**U.S. Economic Outlook: June 2013**

	2011	2012	2013	2014
<i>Annual Growth Rate, %</i>				
Real GDP	1.8	2.1	2.0	2.9
Nonfarm Payroll				
Employment	1.2	1.4	1.5	1.8
Consumer Prices	3.1	2.1	1.9	3.2
<i>Level</i>				
Consumer Confidence	58	69	72	83
<i>Percent</i>				
Unemployment	8.9	8.1	7.5	7.2
Fed Funds Rate	0.1	0.1	0.1	0.1
3-Month T-bill Rate	0.1	0.1	0.1	0.2
Corporate Aaa Bond Yield	4.6	3.7	4.0	4.7
10-Year Gov't Bond	2.8	1.8	2.1	2.7
30-Year Gov't Bond	3.9	2.9	3.2	3.9

Source: National Association of REALTORS®

**NCREIF PROPERTY INDEX RETURNS – 2013.Q1**

NATIONAL	2.57%
OFFICE	1.92%
INDUSTRIAL	2.50%
RETAIL	3.72%
APARTMENT	2.57%

Source: National Council of Real Estate Investment Fiduciaries

## COMMERCIAL FORECAST

<b>OFFICE</b>	<b>2013 II</b>	<b>2013 III</b>	<b>2013 IV</b>	<b>2014 I</b>	<b>2014 II</b>	<b>2014 III</b>	<b>2014 IV</b>	<b>2013</b>	<b>2014</b>
Vacancy Rate	15.7%	15.6%	15.6%	15.6%	15.6%	15.6%	15.6%	15.7%	15.6%
Net Absorption ('000 sq. ft.)	9,844	9,209	8,574	12,153	9,122	11,175	9,599	31,723	42,049
Completions ('000 sq. ft.)	6,635	5,500	5,011	8,852	8,919	7,393	6,736	23,731	31,900
Inventory ('000,000 sq. ft.)	4,095	4,100	4,105	4,114	4,123	4,131	4,137	4,105	4,137
Rent Growth	0.6%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	2.6%	2.8%
<b>INDUSTRIAL</b>	<b>2013 II</b>	<b>2013 III</b>	<b>2013 IV</b>	<b>2014 I</b>	<b>2014 II</b>	<b>2014 III</b>	<b>2014 IV</b>	<b>2013</b>	<b>2014</b>
Vacancy Rate	9.4%	9.4%	9.3%	9.0%	8.9%	8.9%	8.8%	9.4%	8.9%
Net Absorption ('000 sq. ft.)	19,278	34,273	32,131	20,058	18,052	32,092	30,086	107,102	100,288
Completions ('000 sq. ft.)	14,507	9,479	9,021	18,943	20,150	13,166	12,529	46,645	64,788
Inventory ('000,000 sq. ft.)	8,441	8,450	8,459	8,478	8,498	8,511	8,524	8,459	8,524
Rent Growth	0.6%	0.6%	0.7%	0.6%	0.7%	0.7%	0.6%	2.4%	2.6%
<b>RETAIL</b>	<b>2013 II</b>	<b>2013 III</b>	<b>2013 IV</b>	<b>2014 I</b>	<b>2014 II</b>	<b>2014 III</b>	<b>2014 IV</b>	<b>2013</b>	<b>2014</b>
Vacancy Rate	10.5%	10.5%	10.4%	10.3%	10.2%	10.0%	9.9%	10.5%	10.1%
Net Absorption ('000 sq. ft.)	2,990	2,866	3,738	6,246	4,164	2,776	4,164	12,495	17,350
Completions ('000 sq. ft.)	1,645	1,848	1,887	3,337	2,884	3,240	3,308	7,285	12,769
Inventory ('000,000 sq. ft.)	2,036	2,037	2,039	2,039	2,043	2,045	2,049	2,039	2,049
Rent Growth	0.4%	0.4%	0.4%	0.5%	0.6%	0.5%	0.6%	1.4%	2.2%
<b>MULTI-FAMILY</b>	<b>2013 II</b>	<b>2013 III</b>	<b>2013 IV</b>	<b>2014 I</b>	<b>2014 II</b>	<b>2014 III</b>	<b>2014 IV</b>	<b>2013</b>	<b>2014</b>
Vacancy Rate	3.9%	3.9%	3.8%	4.0%	4.1%	4.1%	4.2%	3.9%	4.1%
Net Absorption (Units)	63,554	74,606	77,370	53,629	56,067	65,817	68,255	276,320	243,768
Completions (Units)	37,155	33,929	36,005	36,339	46,158	42,150	44,729	136,342	169,376
Inventory (Units in millions)	9.9	10.0	10.0	10.1	10.1	10.1	10.2	10.0	10.2
Rent Growth	1.1%	1.2%	1.3%	1.1%	1.2%	1.2%	1.1%	4.6%	4.6%

Source: National Association of REALTORS® / Reis, Inc.

**COMMERCIAL FORECAST: METRO VACANCY RATES - 2013.Q2**

Source: NAR, Reis, Inc.

		Office	Industrial	Retail	Multifamily
Albuquerque	NM	17.5		11.3	3.8
Atlanta	GA	20.4	14.0	14.0	6.1
Austin	TX	16.6	12.2	6.7	4.5
Baltimore	MD	16.8	12.7	6.6	3.5
Birmingham	AL	12.3		15.1	5.5
Boston	MA	14.0	18.6	6.6	3.4
Buffalo	NY	14.6		13.9	3.0
Central New Jersey	NJ	22.3		9.8	2.7
Charleston	SC	16.2		11.7	4.8
Charlotte	NC	17.1	12.7	9.4	5.0
Chattanooga	TN	15.3		13.8	2.8
Chicago	IL	18.2	9.2	10.4	3.6
Cincinnati	OH	19.8	8.3	13.5	3.7
Cleveland	OH	20.9	8.6	14.9	3.0
Colorado Springs	CO	19.4		15.5	4.4
Columbia	SC	17.5		10.9	6.6
Columbus	OH	17.6	9.0	15.1	4.8
Dallas	TX	23.1	12.6	13.2	5.3
Dayton	OH	26.4		15.8	4.1
Denver	CO	17.5	8.2	11.9	3.6
Detroit	MI	25.9	11.7	11.5	3.8
District of Columbia	DC	9.4			3.7
Fairfield County	CT	20.6		4.1	4.1
Fort Lauderdale	FL	19.7	9.5	10.4	3.8
Fort Worth	TX	16.7	10.9	12.1	5.0
Greensboro/Winston-Salem	NC	20.8		11.4	6.3
Greenville	SC	19.4		13.7	4.6
Hartford	CT	20.4		9.5	2.8
Houston	TX	14.3	7.9	12.0	6.5
Indianapolis	IN	19.8	9.6	14.7	4.9
Jacksonville	FL	20.5	7.5	13.0	6.9
Kansas City	MO	17.5	10.1	11.2	4.4
Knoxville	TN	15.2		11.5	5.2
Las Vegas	NV	25.7		12.8	5.5
Lexington	KY	14.8		8.9	5.2
Little Rock	AR	12.0		12.5	5.5
Long Island	NY	13.3		5.3	3.1

**COMMERCIAL FORECAST: METRO VACANCY RATES - 2013.Q2**

Source: NAR, Reis, Inc.

		Office	Industrial	Retail	Multifamily
Los Angeles	CA	15.6	4.1	6.0	3.2
Louisville	KY	15.4		10.1	4.3
Memphis	TN	23.4	14.9	12.4	8.0
Miami	FL	16.8	5.8	7.1	3.6
Milwaukee	WI	19.3		12.3	3.3
Minneapolis	MN	17.6	7.6	11.0	2.3
Nashville	TN	13.3	8.3	8.6	3.8
New Haven	CT	17.6		12.6	2.0
New Orleans	LA	12.6		11.4	6.1
New York	NY	9.9			2.2
Norfolk/Hampton Roads	VA	14.8		9.8	3.8
Northern New Jersey	NJ	19.0		5.4	3.4
Oakland-East Bay	CA	18.2	9.1	6.6	2.5
Oklahoma City	OK	16.3		14.0	5.5
Omaha	NE	15.6		8.7	3.2
Orange County	CA	17.4	3.9	5.3	3.0
Orlando	FL	18.4	11.5	13.4	4.8
Palm Beach	FL	19.3	7.0	11.6	4.7
Philadelphia	PA	14.3	10.2	9.3	3.2
Phoenix	AZ	25.6	11.0	11.0	5.3
Pittsburgh	PA	15.4	9.3	7.7	2.9
Portland	OR	14.8	8.0	8.3	2.7
Providence	RI	16.4		13.2	3.0
Raleigh-Durham	NC	15.1	15.9	9.1	4.0
Richmond	VA	14.7	14.6	9.1	4.5
Rochester	NY	16.4		12.8	2.8
Sacramento	CA	20.7	12.6	12.5	3.2
Salt Lake City	UT	17.1		12.2	3.5
San Antonio	TX	18.2	7.6	11.3	6.1
San Bernardino/Riverside	CA	23.7	6.8	9.9	3.3
San Diego	CA	15.9	7.1	6.4	2.3
San Francisco	CA	13.2	11.3	3.6	3.0
San Jose	CA	18.5	16.3	6.0	2.9
Seattle	WA	13.7	6.3	6.8	3.8
St. Louis	MO	18.1	6.6	12.1	4.9

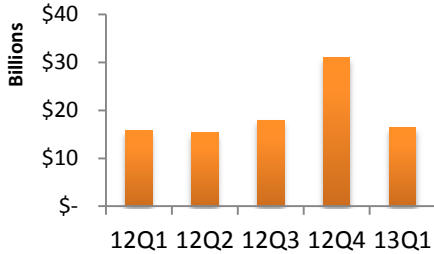
**COMMERCIAL FORECAST: METRO VACANCY RATES - 2013.Q2**

Source: NAR, Reis, Inc.

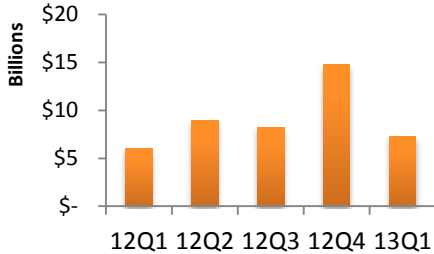
		<b>Office</b>	<b>Industrial</b>	<b>Retail</b>	<b>Multifamily</b>
Suburban Maryland	MD	14.8	10.7	9.1	3.5
Suburban Virginia	VA	15.9	10.3	6.7	3.2
Syracuse	NY	15.4		15.0	2.6
Tacoma	WA	17.0		11.8	3.8
Tampa-St. Petersburg	FL	21.1	8.1	11.6	4.7
Tucson	AZ	15.9		9.5	5.2
Tulsa	OK	17.2		16.4	5.4
Ventura County	CA	16.2		8.9	3.0
Westchester	NY	18.2		8.2	3.1
Wichita	KS	15.8		12.7	4.5

## INVESTMENT TRENDS AT A GLANCE

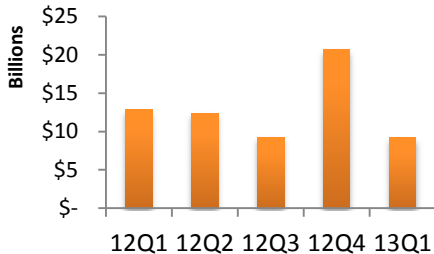
Office Sales



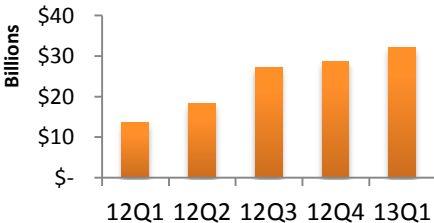
Industrial Sales



Retail Sales



Apartment Sales



### OFFICE

Region	Average Cap Rate	Average Price (\$/Sq. Ft.)
Mid-Atlantic	7.2%	\$206
Midwest	7.5%	\$89
Northeast	7.5%	\$445
Southeast	7.8%	\$152
Southwest	7.8%	\$165
West	6.8%	\$223

### INDUSTRIAL

Region	Average Cap Rate	Average Price (\$/Sq. Ft.)
Mid-Atlantic	7.8%	\$50
Midwest	8.5%	\$33
Northeast	8.0%	\$69
Southeast	8.2%	\$37
Southwest	7.5%	\$46
West	6.5%	\$118

### RETAIL

Region	Average Cap Rate	Average Price (\$/Sq. Ft.)
Mid-Atlantic	7.4%	\$123
Midwest	7.2%	\$128
Northeast	6.4%	\$251
Southeast	7.7%	\$113
Southwest	7.5%	\$146
West	6.9%	\$218

### MULTI-FAMILY

Region	Average Cap Rate	Average Price (\$/Unit)
Mid-Atlantic	6.5%	\$180,344
Midwest	6.8%	\$80,523
Northeast	5.8%	\$196,472
Southeast	7.0%	\$80,167
Southwest	6.4%	\$92,835
West	5.6%	\$148,387

Note: Data as of 5/21/2013  
Source: Real Capital Analytics



## REALTOR® RESEARCH

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- Commercial Real Estate Quarterly Market Survey
- Commercial Real Estate Lending Survey
- Commercial Member Profile

If you have questions or comments regarding this report or any other commercial real estate research, please contact George Ratiu, Manager, Quantitative & Commercial Research, at [gratiu@realtors.org](mailto:gratiu@realtors.org).

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