

COMMERCIAL REAL ESTATE MARKET TRENDS: Q4.2018

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

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March 2019

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INTRODUCTION

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 fraction.

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 intermediated 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.

Q4.2018 Update

The fourth quarter of 2018 recorded continued advances in investment sales in REALTORS® commercial real estate markets. Sales volume rose by 2.3 percent on a yearly basis, as cap rates ticked up. The shortage of available inventory remained the principal concern for REALTORS®, as a wide pricing gap between buyers and sellers affected over 25 percent of respondents. Prices advanced at 1.8 percent year-over-year. Leasing activity declined during the quarter, as vacancies experienced upward pressures.



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INVESTMENT SALES

**Q4.2018 Percentage of REALTORS®
Who Closed a Sale Transaction**

69%

Q4.2018 Average Transaction Value

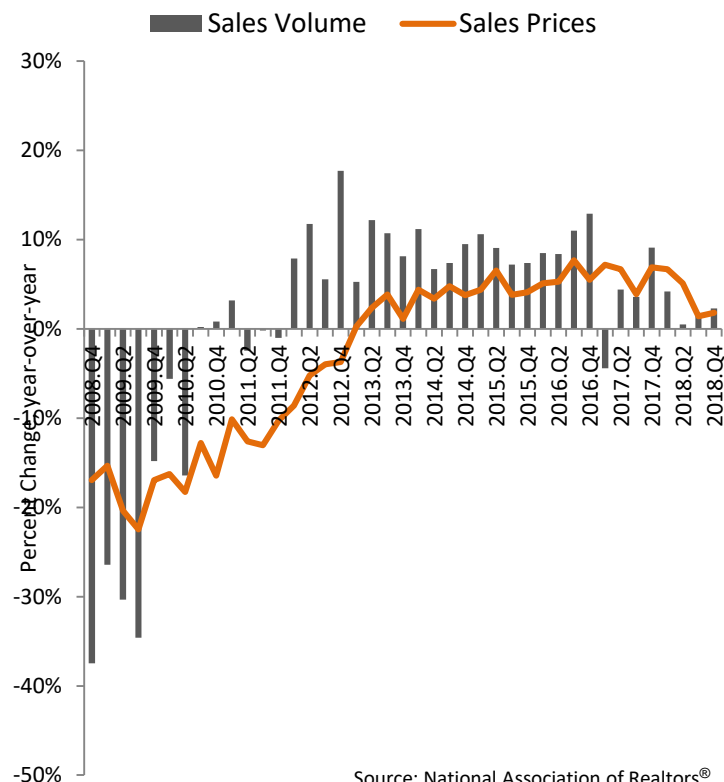
\$1.55 million

**Q4.2018 Investment
Volume**

+2.3%

**Q4.2018 Investment
Prices**

+1.8%



Hemp agricultural is a hot topic in Florida. We are anxious to see what direction this goes and how it will impact real estate in our state.

Inventory is very low and sales have been hard to put together due to building requirements and related.

There are opportunities and stability, yet serious challenges exist with financing less than \$2mm, and even harder for less than \$1mm.

Illinois, outside of certain parts of Chicago, is a struggling commercial market for many property owners.

Hospitality resales have been few and hotel development has been more active - mostly due to the Federal EB-5 card program.

Out of state capital overpays for Colorado properties. Can't buy locally anymore.

2018 was a good year and we expect momentum to continue into 2019.

Albuquerque is a slow market. We are STILL in recovery from the great mortgage meltdown...

Connecticut has not recovered yet from the last downturn.

Feels like we are at the top with correction imminent.

I'm seeing more and more vacant commercial space.

Market has significantly contracted creating buying opportunities for those with liquidity.

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INVESTMENT SALES

Orlando is no longer Mickey Mouse town - major employers in the health care industry (see Medical City at Lake Nona, as an example); major aero-space & military contract services to include No.1 location for simulation industry related to private companies and military services and contract. Many start-up technology companies, and noticeable growth taking place in distribution operations and facilities.

Phoenix original industries such as machine shops, manufacturing are coming back but are over-shadowed by big box deals that get the press.

Product scarcity is the biggest factor for reduction of sales and leasing activity.

Relocation of some of the employees of one of the regional employers and change in life style i.e. online shopping could create a problem for the local market.

The apartment market (our primary business) continues to maintain strength.

The urban tropical areas of South Florida bring people from all over the globe. However, the rents for businesses are so high that they cannot sustain for long.

There are 5,000 new multifamily units going on-line in 2019. This is slightly down from 2018. The reason is pent up demand from not building enough housing years ago.

University of Michigan purchasing large properties is the biggest impact over the past several years in this area.

We are on pause determining effect of shutdown and further impacts of tax cuts bill on current taxes due or to be refunded.

Rising Construction Costs from rebuilding after 5 hurricanes is a huge headwind. Labor and materials are rising at 10% plus a year.

Shutdown has got people really nervous, no predictability. The China trade disputes have put a real reluctance in to the dollar store retailers, one cancelled deal already.

Small businesses having difficulty retaining staffing levels due to resent increase in minimum wage.

Texas and Dallas – Ft. Worth continue to defy the national trends.

The biggest problem is larger banks just don't understand the more rural marketplaces and lack of data (sales & rents), whereas smaller regional banks are more understanding of these smaller marketplaces.

The north Texas market is still growing which is why we moved back up and still doing research/ inventory so I can capitalize on our market.

The Phoenix Metro Service Area is one of the fastest growing areas in the US with a huge demand for real estate of all types.

We are still struggling to recover from major financial and property damages after Hurricane Harvey.

REALTORS® Q4.2018 Prices

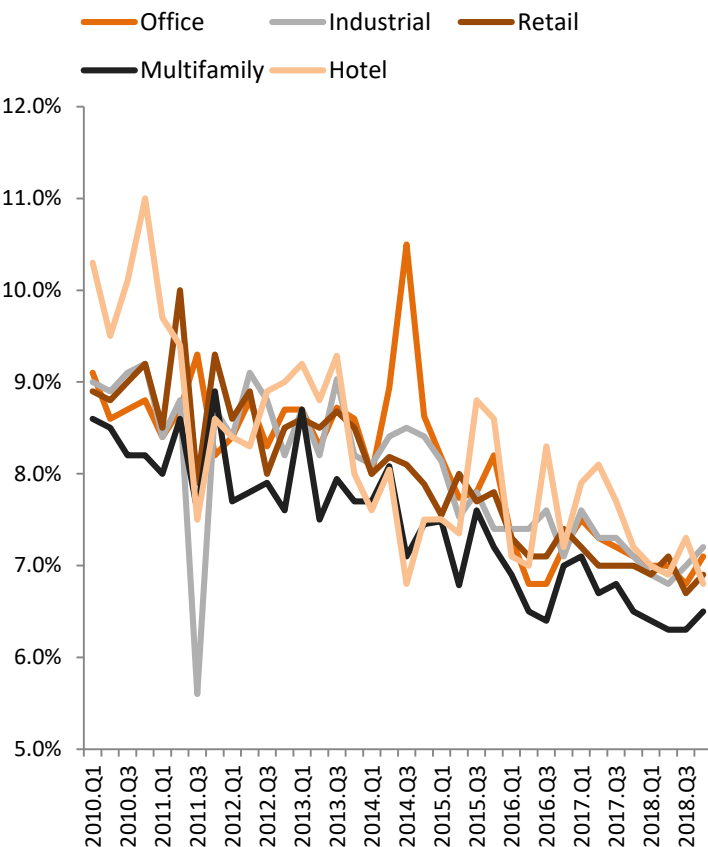
Office Class A(\$/SF)	\$169
Office Class BC (\$/SF)	\$119
Industrial Class A (\$/SF)	\$83
Industrial Class BC (\$/SF)	\$62
Retail Class A (\$/SF)	\$133
Retail Class BC (\$/SF)	\$71
Apartment Class A (\$/Unit)	\$153,318
Apartment Class BC (\$/Unit)	\$101,522

Source: National Association of REALTORS®

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INVESTMENT SALES

REALTORS® Commercial Capitalization Rates



Source: National Association of Realtors®

Q4.2018 REALTORS® with International Transactions

11%

We have a unique, very small, high-end market with a high demand for prime retail spaces and less than 1% vacancy. The office space market is also strong but not as easily defined. We do not have any industrial or apartment properties in the city of Aspen where we focus our work.

2019 appears to be steady sailing with some markets experiencing gusty winds, and some no wind at all.

Q4.2018 Average Cap Rate in REALTORS® Markets

6.9%

REALTORS® Q4.2018 Cap Rates

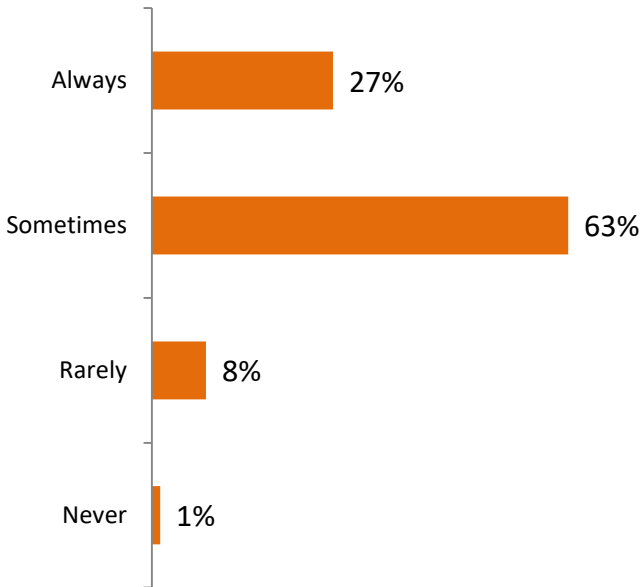
Office Class A	6.8 %
Office Class BC	7.4 %
Industrial Class A	6.5 %
Industrial Class BC	7.9 %
Retail Class A	6.5 %
Retail Class BC	7.3 %
Apartment Class A	6.0 %
Apartment Class BC	7.0 %
Hotel Class A	6.1 %
Hotel Class BC	7.5 %

Source: National Association of REALTORS®

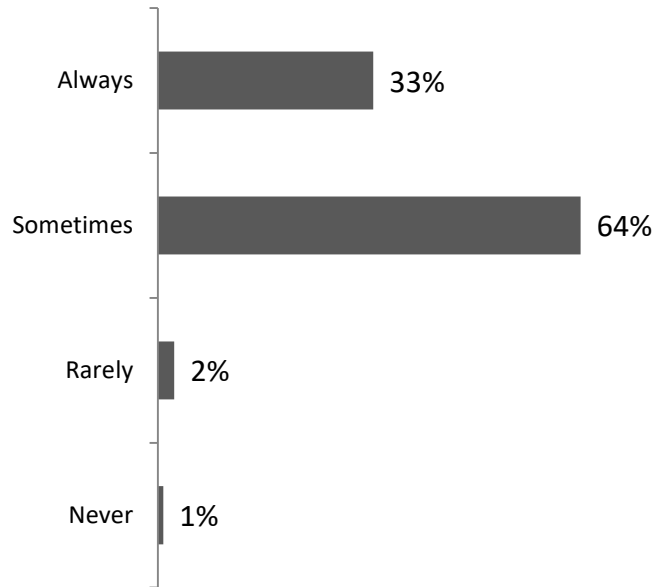
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INVESTMENT SALES

Appraisers' Familiarity with Market



Appraisers' Familiarity with Property Type



Q4.2018 Market Conditions

real estate larger survey Agent still create years impact
commercial inventory market question sales
need properties time due many businesses new

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LEASING FUNDAMENTALS

**Q4.2018 Percentage of REALTORS®
Who Closed a Lease Transaction**

53%

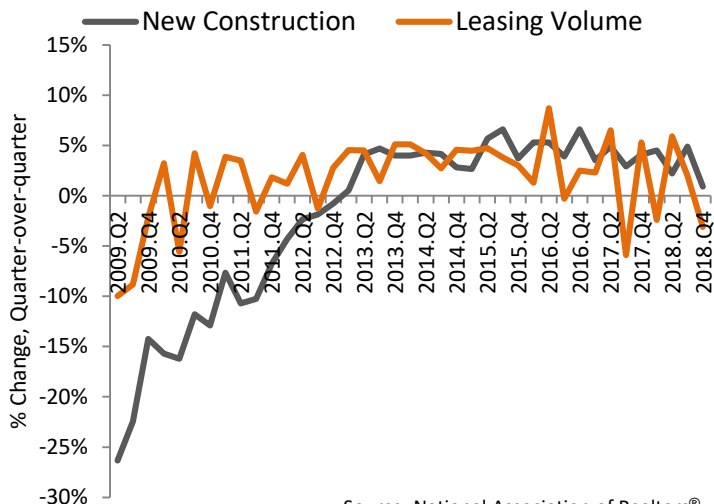
**Q4.2018 Leasing
Volume**

**Q4.2018 Leasing
Rates**

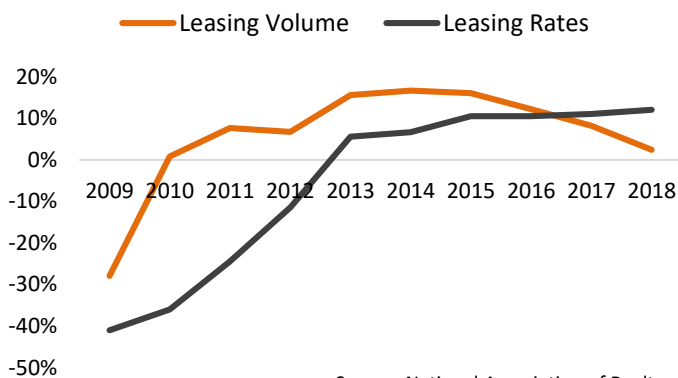
-3.1% +2.1%

REALTORS® Q4.2018 Rents

Office	\$20 / Sq.Ft.
Industrial	\$19 / Sq.Ft.
Retail	\$21 / Sq.Ft.
Multifamily	\$1,028 / Unit

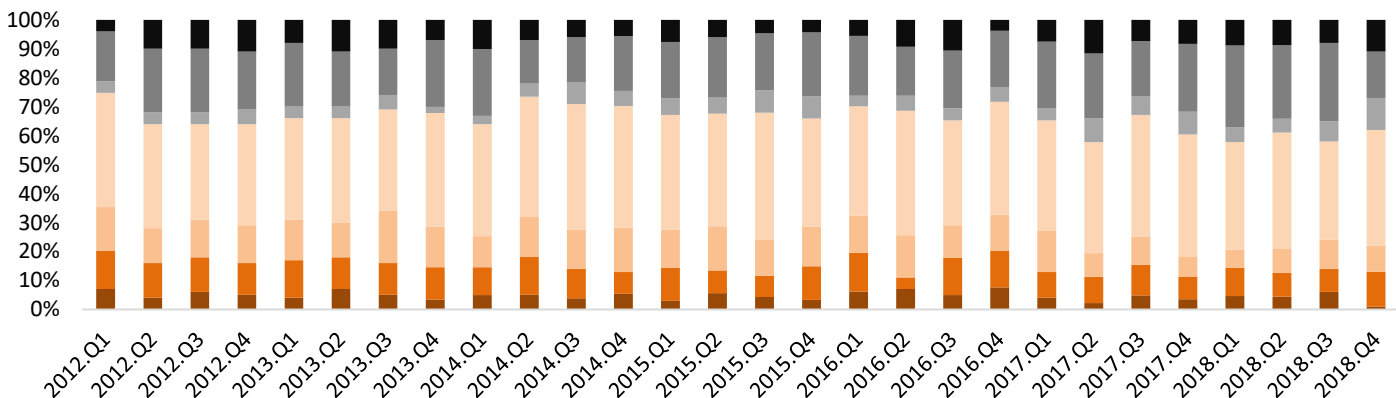


REALTOR® Commercial Leasing Trends



Average Lease Term (%)

0 - 11 months 12 months 24 months 36 months 48 months 60 months 60+ months

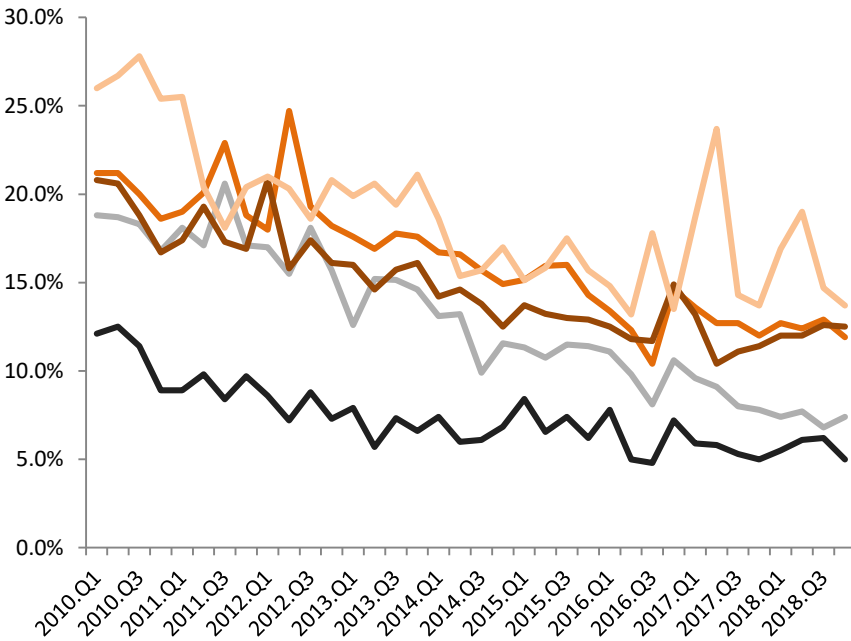


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LEASING FUNDAMENTALS

REALTORS® Commercial Vacancy Rates

Office Industrial Retail Multifamily Hotel

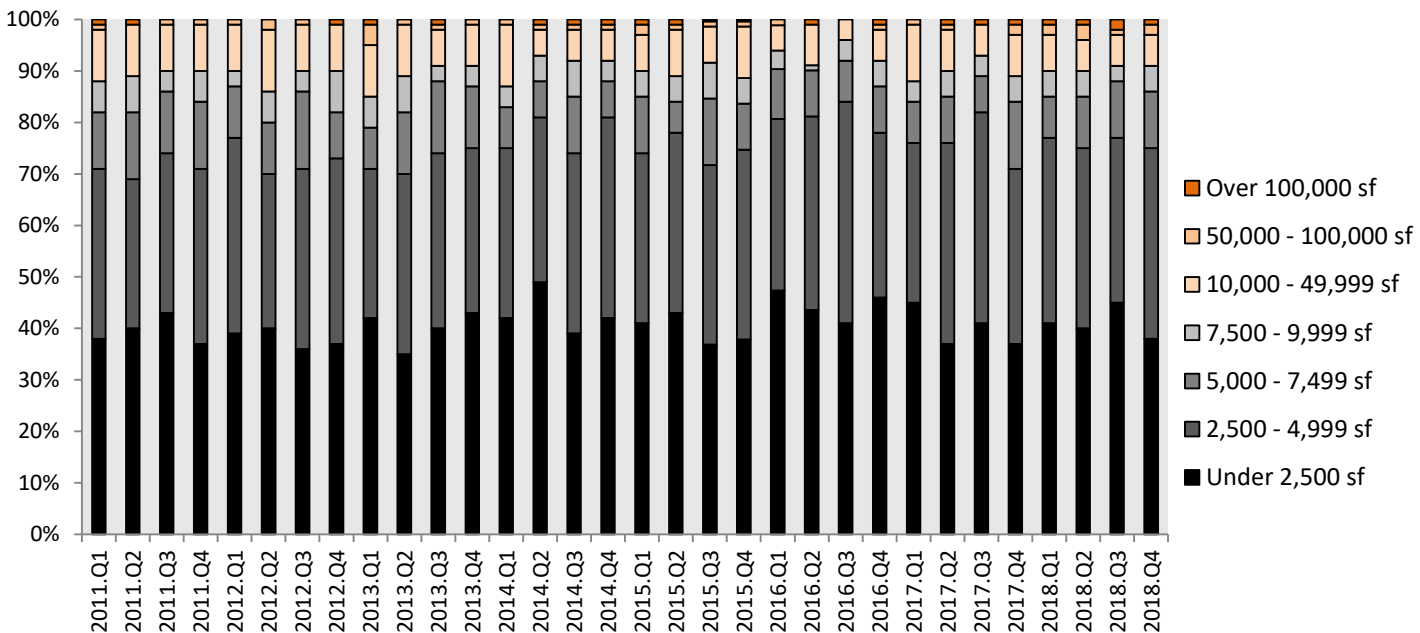


Source: National Association of Realtors®

REALTORS® Q4.2018 Vacancy Rates

Office	11.9 %
Industrial	7.4 %
Retail	12.5 %
Multifamily	5.0 %
Hotel	13.7 %

Average Leased Space by Size, Quarterly*

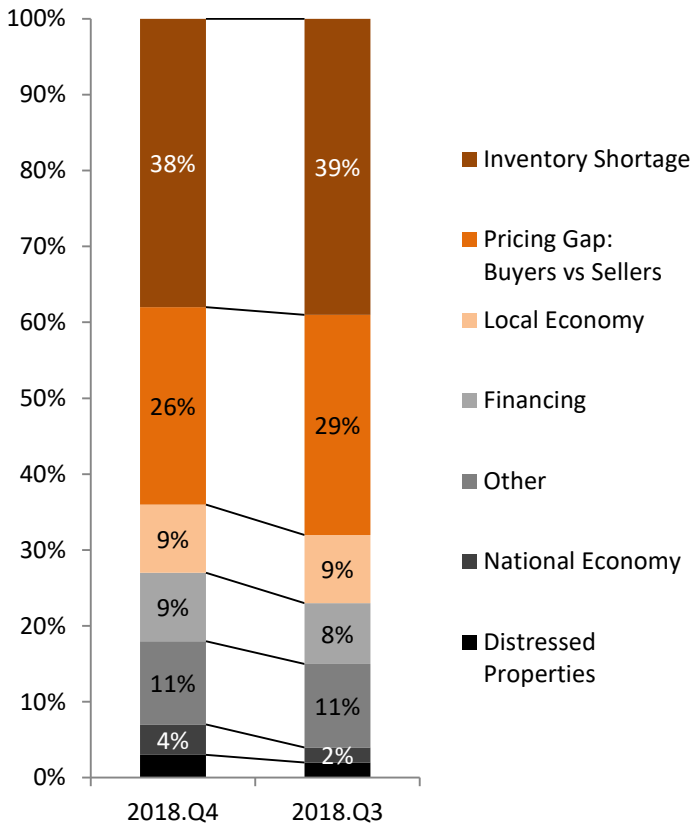


Source: National Association of Realtors®

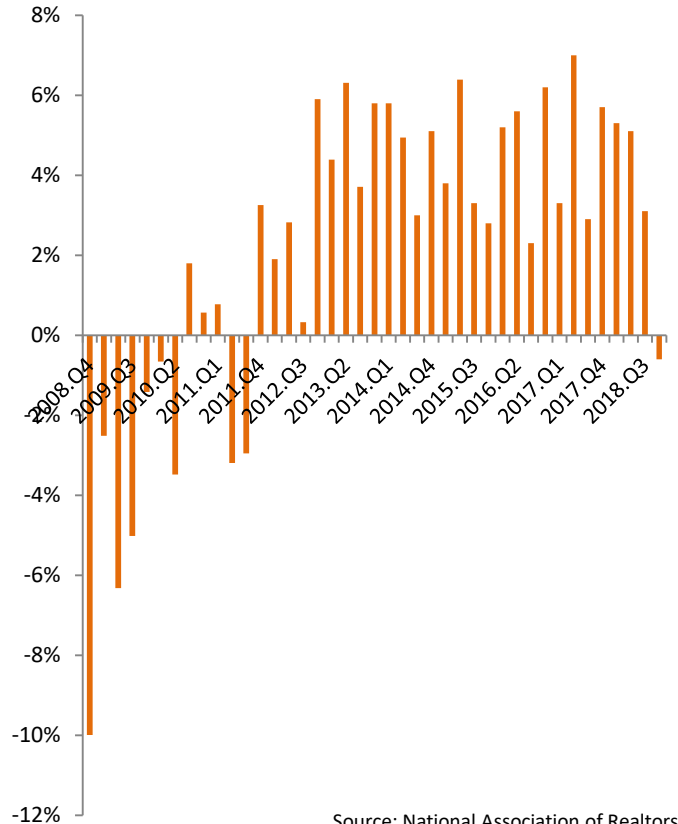
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LEASING FUNDAMENTALS

REALTORS® Most Pressing Challenges



Direction of Business Opportunity (QoQ)



Q4.2018 Market Opportunities

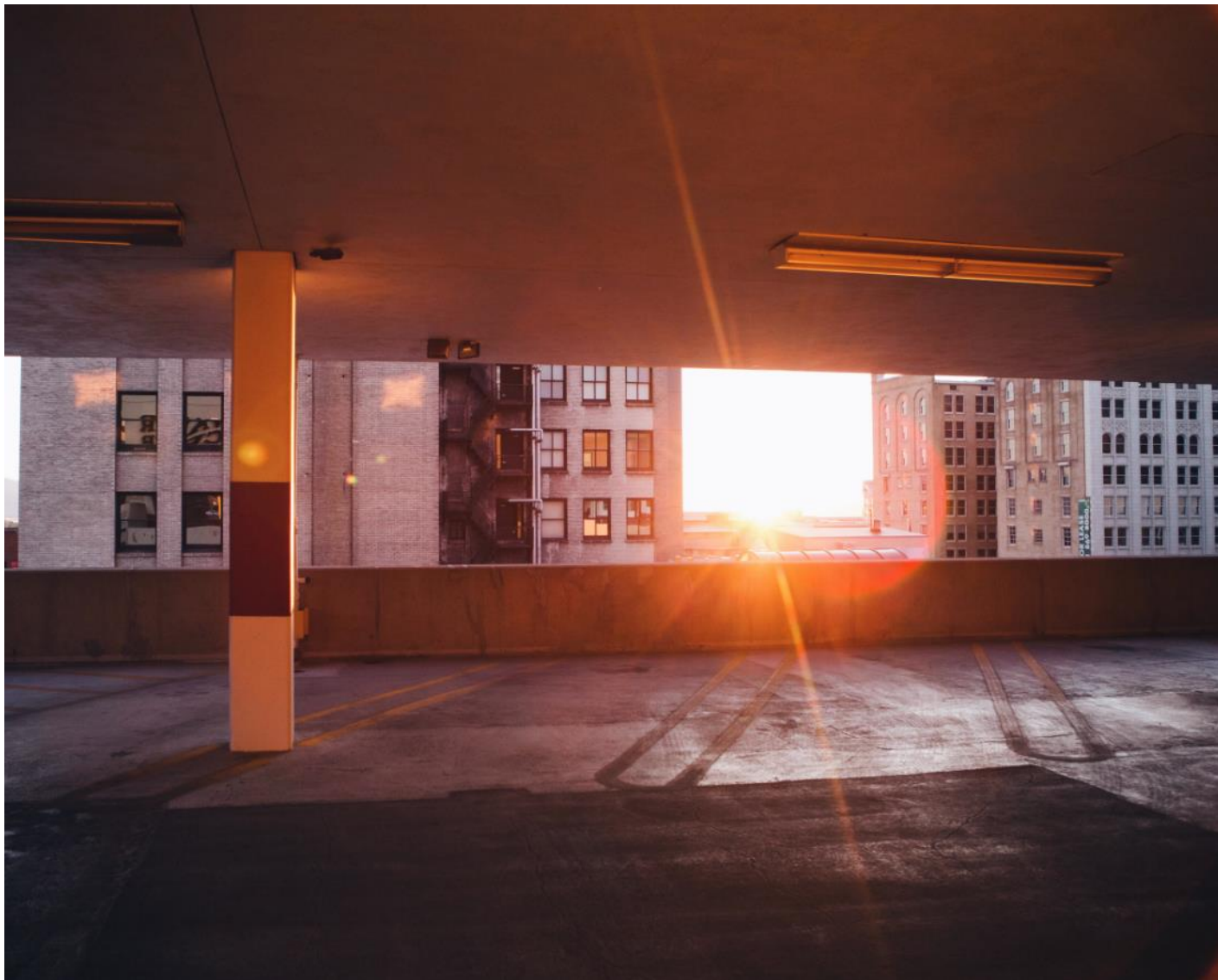
industrial space vacancy large Increasing property vacant
 housing residential inventory retail land investment
 buildings Apartments growth centers
 development sales Industrial use new
 restaurant space good market commercial growing
 none Opportunity Zones business area office strong real estate
 Multi family

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Methodology

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.

In January 2019, NAR invited a random sample of 67,786 REALTORS® with an interest in commercial real estate to complete an on-line survey. A total of 700 complete responses were received, for an overall response rate of 1.0 percent. The main measure of central tendency employed in the analysis is the mean.





The National Association of REALTORS®, “The Voice for Real Estate,” is America’s largest trade association, representing 1.3 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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