



Commercial Market Insights

For the RE/MAX Commercial Professional and our Clients

Each office is independently owned and operated.

National Overview
Third Quarter 2010

Office • Industrial • Apartments • Retail

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RERC REAL ESTATE[®]
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National Overview

Economic Environment

The good news this quarter is that according to the National Bureau of Economic Research, the recession officially ended in June 2009. U.S. gross domestic product (GDP) growth has been positive since that time, although economic activity has definitely turned sluggish. The initial estimate of third quarter 2010 growth was 2.0 percent, according to the Commerce Department.

While businesses, consumers, investors, and lenders are focusing on deleveraging, there is great concern that our political leaders are not. The national debt is \$13.6 trillion, and the deficit for fiscal year 2010 was \$1.3 trillion, or 8.9 percent of GDP, which most economists consider unsustainable.

Although we are starting to see positive employment growth, it is not enough to keep up with normal growth in population, let alone make much of a dent in reducing the number of persons who lost jobs during the past couple years. As a result, 14.8 million workers remain unemployed, and the unemployment rate remained at 9.6 percent in October 2010, according to the Bureau of Labor Statistics.

However, retail sales were positive throughout third quarter 2010. According to the U.S. Census Bureau, advance estimates of retail and food services sales for September increased 0.6 percent from August, and 5.7 percent from the same period a year ago. In addition, retailers hope that consumers will loosen their purse strings for the holidays.

What Does This Mean for Commercial Real Estate?

The Oct. 20, 2010 issue of the Federal Reserve's *Beige Book* states that conditions in the market for most investors "remain subdued." Rental rates have been declining, except in the apartment sector, although there have been some reports of slight increases in leasing ac-

tivity among all the major property types. Property sales have been low, with the exception of distressed property sales, which remain strong in some districts. With demand for commercial loans remaining weak and loan standards remaining tight, little lending activity occurred during the quarter.

The new banking regulations have required financial institutions to increase future protections against unexpected losses stemming from a range of banking risks. Scheduled to be established gradually over the next several years in the U.S., the Basel III regulations will require banks to hold a higher level of capital to protect against future losses. Instead of the 4 percent currently required, most banks will be increasing their capital on hand to approximately 7 percent. This is not expected to be too difficult for large banks, which

National Transaction Breakdown 12-Month Trailing Averages (10/01/09 - 09/30/10)				
	Office	Industrial	Retail	Apartment
< \$2 Million				
Volume (Mil)	\$1,256	\$2,436	\$2,492	\$1,103
Size Weighted Avg. (\$ per sf/unit)	\$82	\$46	\$80	\$43,993
Price Weighted Avg. (\$ per sf/unit)	\$118	\$72	\$123	\$68,540
Median (\$ per sf/unit)	\$87	\$55	\$85	\$50,000
\$2 - \$5 Million				
Volume (Mil)	\$1,617	\$2,694	\$2,938	\$2,132
Size Weighted Avg. (\$ per sf/unit)	\$106	\$52	\$124	\$53,505
Price Weighted Avg. (\$ per sf/unit)	\$177	\$85	\$228	\$106,016
Median (\$ per sf/unit)	\$142	\$72	\$186	\$83,382
> \$5 Million				
Volume (Mil)	\$32,144	\$9,086	\$18,590	\$20,798
Size Weighted Avg. (\$ per sf/unit)	\$208	\$56	\$160	\$103,843
Price Weighted Avg. (\$ per sf/unit)	\$351	\$136	\$236	\$181,417
Median (\$ per sf/unit)	\$173	\$71	\$160	\$95,444
All Transactions				
Volume (Mil)	\$35,017	\$14,215	\$24,021	\$24,033
Size Weighted Avg. (\$ per sf/unit)	\$189	\$53	\$141	\$90,621
Price Weighted Avg. (\$ per sf/unit)	\$335	\$115	\$223	\$169,548
Median (\$ per sf/unit)	\$115	\$59	\$111	\$70,423
Source: RERC.				

largely have recovered from the credit difficulties they experienced during the past few years. However, many small banks continue to struggle with bad loans. According to the Federal Deposit Insurance Corp., the amount of loan balances that are 90 days past due declined by 5.3 percent in large banks during second quarter 2010, but increased at community banks during the same period.

Transaction Analysis

RERC's transaction analysis showed significantly greater total volume on a 12-month trailing basis during third quarter 2010. Office sector volume showed the largest increase at approximately 40 percent, while at 15 percent, retail sector volume increased the least. Compared to previous quarters, there was a steady increase in 12-month trailing volume of sales greater than \$5 million for all of the property sectors during third quarter. However, third quarter volume for transactions of less than \$5 million remained quite flat compared to the previous quarter.

The size-weighted average price per square foot/unit for all transactions held steady or increased for all property types on a 12-month trailing basis during third quarter 2010. However, the size-weighted average price per square foot/unit for transactions less than \$5 million decreased for all property types.

RERC's 12-month trailing weighted average capitalization rates for all property sectors fell significantly compared to the previous quarter. The apartment sector saw the biggest decline, falling to 6.2 percent.

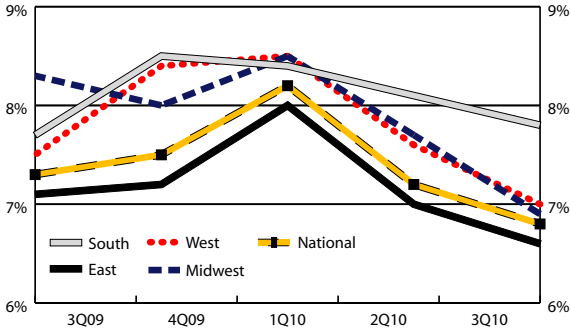
National Transaction Breakdown Current Quarter Rates (07/01/10 - 09/30/10)				
	Office	Industrial	Retail	Apartment
< \$2 Million				
Volume (Mil)	\$307	\$672	\$720	\$305
Size Weighted Avg. (\$ per sf/unit)	\$82	\$42	\$78	\$38,266
Price Weighted Avg. (\$ per sf/unit)	\$113	\$69	\$121	\$66,161
Median (\$ per sf/unit)	\$85	\$53	\$85	\$46,750
\$2 - \$5 Million				
Volume (Mil)	\$438	\$746	\$936	\$615
Size Weighted Avg. (\$ per sf/unit)	\$107	\$48	\$107	\$48,729
Price Weighted Avg. (\$ per sf/unit)	\$177	\$81	\$212	\$105,902
Median (\$ per sf/unit)	\$132	\$70	\$171	\$81,635
> \$5 Million				
Volume (Mil)	\$11,210	\$3,390	\$5,452	\$7,919
Size Weighted Avg. (\$ per sf/unit)	\$220	\$63	\$168	\$116,084
Price Weighted Avg. (\$ per sf/unit)	\$370	\$181	\$260	\$192,264
Median (\$ per sf/unit)	\$161	\$76	\$176	\$97,583
All Transactions				
Volume (Mil)	\$11,955	\$4,807	\$7,108	\$8,839
Size Weighted Avg. (\$ per sf/unit)	\$203	\$56	\$141	\$99,526
Price Weighted Avg. (\$ per sf/unit)	\$356	\$150	\$239	\$181,903
Median (\$ per sf/unit)	\$115	\$57	\$108	\$72,917

Source: RERC.

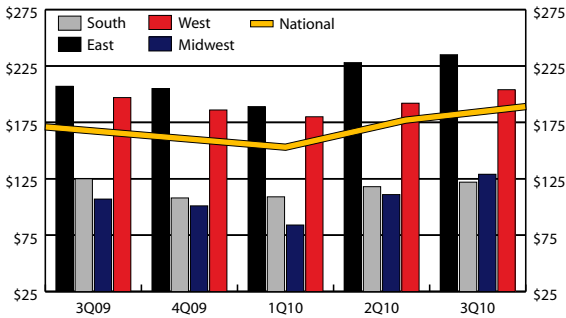
Capitalization Rates (All Transactions)				
	Office	Industrial	Retail	Apartment
12-Month Trailing Averages (10/01/09 - 09/30/10)				
Range (%)	4.1 - 12.9	4.2 - 12.2	4.2 - 12.7	4.2 - 11.1
Weighted Avg. (%)	6.8	8.2	8.4	6.2
Median (%)	7.9	8.8	7.8	6.6
Current Quarter Rates (07/01/10 - 09/30/10)				
Range (%)	4.1 - 10.9	5.9 - 10.0	5.9 - 12.7	4.2 - 10.0
Weighted Avg. (%)	6.3	7.9	7.8	5.7
Median (%)	7.1	8.5	7.8	5.9

Source: RERC.

RERC Weighted Average Capitalization Rate (12-Month Trailing Average)



RERC Size-Weighted Average PPSF (12-Month Trailing Average)



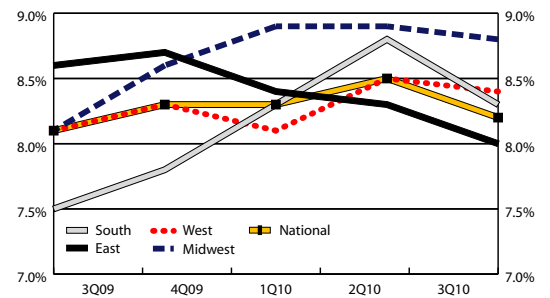
Office:

- Survey respondents reported mixed results for the office sector for third quarter 2010. Many respondents stated that the office sector is a good investment, given its attractive price. However, other respondents said that due to foreclosures, weak demand, and lack of absorption, the office sector was a risky investment. In addition, recovery for this sector is expected to be slow because of slow job growth and high vacancy rates.
- Office sector total volume increased 40 percent on a 12-month trailing basis during third quarter 2010, while the size-weighted average price per square foot of office space increased approximately 5 percent. The 12-month trailing weighted-average capitalization rate for the office sector fell to 6.8 percent, 40 basis points from the previous quarter. However, volume and pricing for transactions that totaled less than \$5 million declined slightly in third quarter.
- The vacancy rate for the office sector rose by 20 basis points to 17.6 percent during third quarter 2010, according to Reis, Inc. This is the highest vacancy rate since 1993. Net absorption was negative, and effective rent fared better than asking rent.

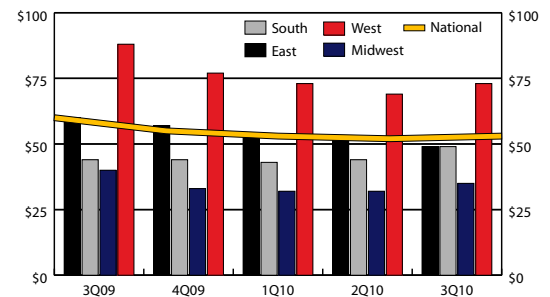
Industrial:

- According to third quarter 2010 survey respondents, the industrial sector is a good investment option. Some respondents stated that industrial property tenants are becoming confident enough to expand because the economy is starting to improve. Another positive sign is that according to the Federal Reserve's October 20, 2010 *Beige Book*, manufacturing activity continues to strengthen with production and new orders rising across most districts.
- Total transaction volume for the industrial sector rose nearly 25 percent on a 12-month trailing basis during third quarter 2010. The 12-month trailing size-weighted average price per square foot of industrial space continued to trend upward for transactions greater than \$5 million, while it declined for transactions of less than \$5 million. The 12-month trailing weighted-average capitalization rate declined to 8.2 percent
- The national industrial availability rate declined by 10 basis points to 14.0 percent during third quarter, the first drop in 3 years, reports CBRE-Econometric Advisors. Despite the slight decline, the industrial market is flooded with excess supply, and the availability rate remains near a record high.

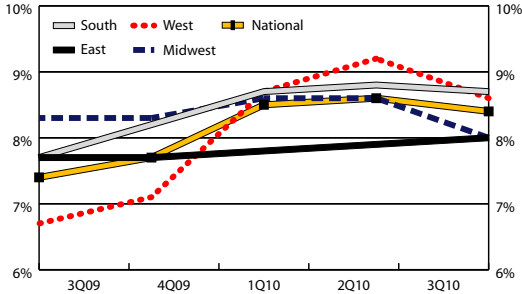
RERC Weighted Average Capitalization Rate (12-Month Trailing Average)



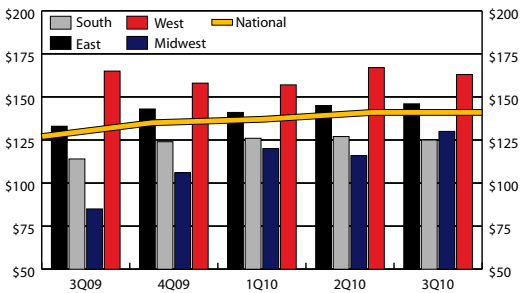
RERC Size-Weighted Average PPSF (12-Month Trailing Average)



RERC Weighted Average Capitalization Rate (12-Month Trailing Average)



RERC Size-Weighted Average PPSF (12-Month Trailing Average)



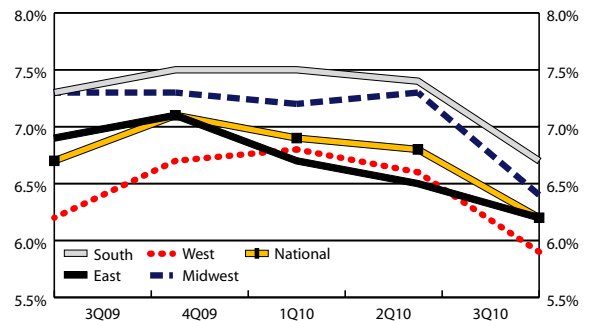
Retail:

- Generally, survey respondents considered the retail property sector to be a reliable investment during third quarter. Several respondents said that the retail sector was in demand and pricing was good. However, the outlook for this sector remains uncertain because it depends greatly upon consumer confidence and spending, which is dependent upon job growth.
- After leveling off in second quarter 2009, 12-month trailing retail sector total volume grew by 15 percent during third quarter 2010. In contrast, the 12-month trailing size-weighted average price remained unchanged, and even declined for transactions of less than \$5 million. At 8.4 percent, the 12-month trailing weighted-average capitalization rate fell for the first time since fourth quarter 2008.
- The vacancy rate for the retail property sector remained unchanged at 10.9 percent during third quarter 2010, according to Reis, Inc. Asking and effective rents also remained unchanged. Absorption became slightly positive during third quarter—this is the first time since the end of 2007 that absorption in this sector has been positive.

Apartment:

- During third quarter 2010, survey respondents said that the apartment sector continues to be the most popular property type among commercial real estate investors, as noted by the increased number of transactions. In addition, apartment sector pricing has increased, which reflects higher demand, lower vacancy rates, and increasing rents.
- The apartment market continued to improve, with 12-month trailing apartment sector total volume increasing nearly 25 percent. In addition, the 12-month trailing size-weighted average price per unit for all transactions increased 5 percent, although the price per unit for transactions of less than \$5 million declined. The weighted average capitalization rate continued to fall, reaching 6.2 percent.
- The vacancy rate for the apartment sector dropped to 7.1 percent during third quarter 2010, according to Reis, Inc. This is one of the sharpest drops in apartment vacancy on record, even while net absorption increased by nearly 94,000 units, the largest quarterly addition to occupied stock since 1999. In addition, asking rents and effective rents grew by 0.5 percent and 0.6 percent, respectively.

RERC Weighted Average Capitalization Rate (12-Month Trailing Average)



RERC Size-Weighted Average PPU (12-Month Trailing Average)

