



Commercial Market Insights

For the RE/MAX Commercial Practitioner and our Clients

Each office is independently owned and operated.

National Overview
First Quarter 2011

Office • Industrial • Apartments • Retail

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National Overview

Economic Environment

The best news about the economy during first quarter 2011 was that the unemployment rate ended the quarter at 8.8 percent, down from 9.4 percent at the end of fourth quarter 2010, according to the Bureau of Labor Statistics (BLS). Payroll began to increase by slightly better numbers. However, first-time unemployment claims began inching up again in April 2011, jumping to more than 400,000 per week for several weeks in a row.

Real gross domestic product (GDP) growth increased at an annual rate of only 1.8 percent in first quarter 2011, according to the advance estimate released by the Commerce Department. This was a deceleration from the 3.1-percent growth in fourth quarter 2010, with the slowing growth largely due to reduced personal consumption expenditures, a sharp upturn in imports, and the decrease in government spending.

Standard & Poor's (S&P) lowered its outlook for U.S. sovereign debt from "stable" to "negative" during first quarter 2011. In addition, the federal debt exceeded \$14.3 trillion in May, and Congress will need to raise the debt ceiling again within the next couple months or the nation will risk defaulting on our obligations.

According to the BLS, the Consumer Price Index for All Urban Consumers (CPI-U) increased 0.5 percent in March 2011, with gasoline and food prices accounting for almost three-fourths of the increase. As such, consumers are pulling back, and while U.S. retail sales rose 0.4 percent in March 2011, this was down from the 1.1-percent increase in February, according to the Commerce Department.

What Does This Mean for Commercial Real Estate?

Despite the uncertainty in the economy and investment environment, commer-

cial real estate continues to be a reasonable investment alternative for institutional investors. However, demand for investment property in secondary or tertiary markets is generally weak in comparison to that of the top-tier markets. We are starting to see slight improvement in leasing activity in some areas, particularly among technology firms.

Lending standards started to ease in first quarter 2011, according to results of the Federal Reserve's quarterly *Senior Loan Office Opinion Survey*, but demand remained weak and growth remains tentative. In addition, problem banks remain at a record high, with 884 banks, or nearly 12 percent of all U.S. banks, at risk of failure at the end of 2010, according to the Federal Deposit Insurance Corporation (FDIC). The total number of failed banks in first quarter 2011 was 26, and another 13 banks failed in April, reported Trepp, LLC.

National Transaction Breakdown 12-Month Trailing Averages (04/01/10 - 03/31/11)				
	Office	Industrial	Retail	Apartment
< \$2 Million				
Volume (Mil)	\$1,287	\$2,827	\$3,080	\$1,424
Size Weighted Avg. (\$ per sf/unit)	\$76	\$40	\$68	\$36,554
Price Weighted Avg. (\$ per sf/unit)	\$114	\$68	\$115	\$65,244
Median (\$ per sf/unit)	\$81	\$52	\$77	\$45,000
\$2 - \$5 Million				
Volume (Mil)	\$1,872	\$3,304	\$3,615	\$2,697
Size Weighted Avg. (\$ per sf/unit)	\$99	\$46	\$110	\$51,374
Price Weighted Avg. (\$ per sf/unit)	\$171	\$80	\$219	\$104,314
Median (\$ per sf/unit)	\$130	\$66	\$181	\$81,635
> \$5 Million				
Volume (Mil)	\$54,988	\$14,834	\$20,263	\$31,333
Size Weighted Avg. (\$ per sf/unit)	\$220	\$58	\$157	\$108,542
Price Weighted Avg. (\$ per sf/unit)	\$350	\$107	\$330	\$191,131
Median (\$ per sf/unit)	\$179	\$64	\$175	\$101,266
All Transactions				
Volume (Mil)	\$58,147	\$20,965	\$26,957	\$35,454
Size Weighted Avg. (\$ per sf/unit)	\$204	\$52	\$130	\$93,268
Price Weighted Avg. (\$ per sf/unit)	\$339	\$98	\$290	\$179,470
Median (\$ per sf/unit)	\$119	\$56	\$102	\$69,435
Source: RERC.				

According to the Federal Reserve, banks have already taken \$80 billion in commercial real estate losses (about half of what they are expected to take as a result of the recession). But there is still much distress, and the delinquency rate on commercial mortgage-backed securities (CMBS) increased to a record 9.34 percent in fourth quarter 2010 (compared to less than 1 percent in 2007). In contrast, the volume of new CMBS issuance is expected to be about \$45 billion in 2011, well above 2010 issuance of \$10.9 billion, but far below the \$228 billion in 2007.

Transaction Analysis

On a 12-month trailing basis, total volume increased approximately 20 percent in all property types during first quarter 2011, according to Real Estate Research Corporation (RERC). In contrast, the 12-month trailing size-weighted average price decreased slightly in all property types. On a quarter-to-quarter basis, total volume decreased from the previous quarter in all property types during first quarter 2011, while the size-weighted average price declined.

RERC's 12-month trailing weighted-average capitalization rate for the industrial and retail sectors declined during first quarter 2011, while the cap rate for the apartment sector remained mostly unchanged. In comparison, the 12-month trailing weighted-average capitalization rate for the office sector increased from the previous quarter.

For more information about RERC's research, please go to www.rerc.com.

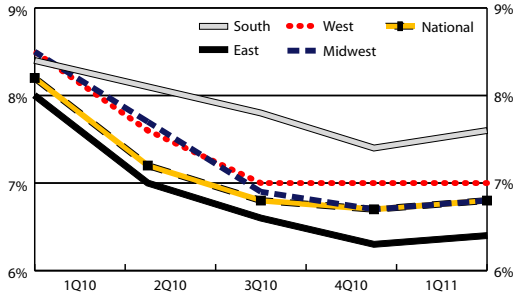
National Transaction Breakdown Current Quarter Rates (01/01/11 - 03/31/11)				
	Office	Industrial	Retail	Apartment
< \$2 Million				
Volume (Mil)	\$361	\$878	\$965	\$441
Size Weighted Avg. (\$ per sf/unit)	\$67	\$35	\$60	\$32,136
Price Weighted Avg. (\$ per sf/unit)	\$102	\$64	\$107	\$61,756
Median (\$ per sf/unit)	\$71	\$47	\$70	\$38,710
\$2 - \$5 Million				
Volume (Mil)	\$615	\$1,018	\$1,087	\$840
Size Weighted Avg. (\$ per sf/unit)	\$89	\$41	\$107	\$48,162
Price Weighted Avg. (\$ per sf/unit)	\$168	\$73	\$202	\$106,002
Median (\$ per sf/unit)	\$117	\$59	\$165	\$89,815
> \$5 Million				
Volume (Mil)	\$12,561	\$3,359	\$5,347	\$7,665
Size Weighted Avg. (\$ per sf/unit)	\$208	\$55	\$153	\$102,326
Price Weighted Avg. (\$ per sf/unit)	\$322	\$109	\$421	\$202,949
Median (\$ per sf/unit)	\$190	\$62	\$183	\$98,927
All Transactions				
Volume (Mil)	\$13,537	\$5,255	\$7,398	\$8,947
Size Weighted Avg. (\$ per sf/unit)	\$186	\$47	\$121	\$84,329
Price Weighted Avg. (\$ per sf/unit)	\$309	\$94	\$348	\$186,875
Median (\$ per sf/unit)	\$109	\$53	\$93	\$64,298

Source: RERC.

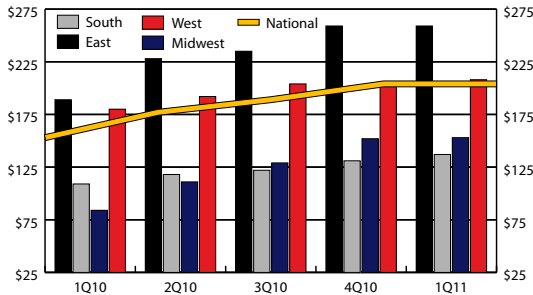
Capitalization Rates (All Transactions)				
	Office	Industrial	Retail	Apartment
12-Month Trailing Averages (04/01/10 - 03/31/11)				
Range (%)	4.0 - 11.5	5.4 - 12.0	4.0 - 12.0	4.0 - 11.9
Weighted Avg. (%)	6.8	7.6	7.7	6.1
Median (%)	7.8	7.6	7.7	6.6
Current Quarter Rates (01/01/11 - 03/31/11)				
Range (%)	4.2 - 10.8	6.2 - 9.7	5.5 - 12.0	4.0 - 11.9
Weighted Avg. (%)	7.0	7.4	7.3	6.2
Median (%)	7.8	7.6	7.3	6.6

Source: RERC.

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



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



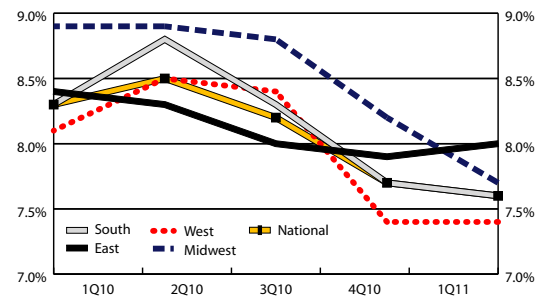
Office:

- According to RERC's investment survey results, distressed and foreclosed property sales dominated office transactions in first quarter 2011. One of the commonly reported strategies was to buy cheap, hold, and sell the property at a higher price when the economy improves and office demand increases.
- Twelve-month trailing office sector total volume increased nearly 20 percent during first quarter 2011, while the size-weighted average price per square foot remained stable. The 12-month trailing weighted-average capitalization rate increased to 6.8 percent for the office sector. The volume of office transactions of \$2 million or less increased by nearly 5 percent during first quarter 2011 on a 12-month trailing basis, although the size-weighted average price for transactions of \$2 million or less declined 5 percent from the previous quarter.
- According to Reis, Inc., vacancy in the office sector declined slightly to 17.5 percent due to positive net absorption of 5.5 million square feet during first quarter 2011. This decline in the vacancy rate is the first reversal in the rate since third quarter 2007. In addition, this is the second consecutive quarter that both asking and effective rents increased.

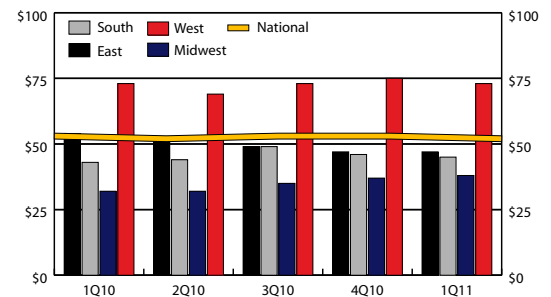
Industrial:

- According to RERC's investment survey respondents, the majority of industrial property transactions that took place during first quarter 2011 were for normal and distressed properties, while the sale of foreclosed industrial properties was not as predominant. The majority of respondents thought that the price of industrial properties was attractive for buyers.
- Industrial property total volume increased 20 percent on a 12-month trailing basis during first quarter 2011, while the size-weighted average price per square foot declined slightly. The 12-month trailing weighted-average capitalization rate declined to 7.6 percent during first quarter. The volume of industrial property transactions of \$2 million or less increased by more than 10 percent during first quarter 2011 on a 12-month trailing basis, although the size-weighted average price for transactions of \$2 million or less declined by nearly 10 percent from the previous quarter.
- According to Grubb & Ellis, the availability rate for the industrial sector fell 50 basis points to 15.9 percent during first quarter 2011 due to strong demand and few new deliveries. In addition, asking net rent grew 3.2 percent on an annual basis. Completions totaled 3 million square feet for the fifth consecutive quarter.

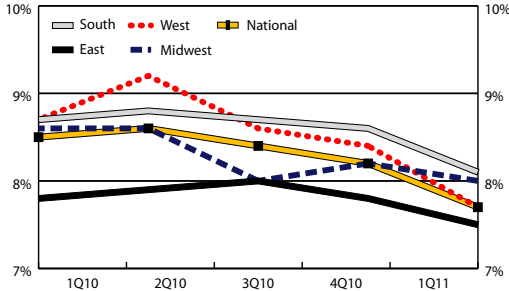
RERC Weighted Average Capitalization Rate (12-Month Trailing Average)



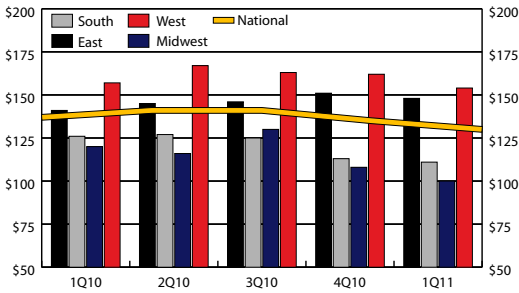
RERC Size-Weighted Average PPSF (12-Month Trailing Average)



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



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



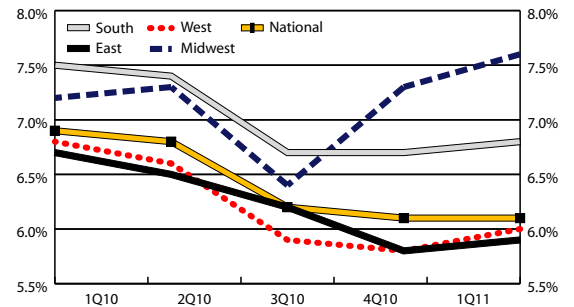
Retail:

- Respondents to RERC’s investment survey noted that there were about three times as many distressed or foreclosed retail properties that sold during first quarter 2011 as normal retail property sales.
- Total retail property transaction volume increased 15 percent on a 12-month trailing basis during first quarter 2011, although the size-weighted average price per square foot declined slightly from the previous quarter. The 12-month trailing weighted-average capitalization rate dropped to 7.7 percent. While retail property transactions of less than \$2 million increased by more than 15 percent on a 12-month trailing basis during first quarter 2011, the size-weighted average price of this retail space declined by nearly 10 percent.
- According to Reis, Inc., the vacancy rate for neighborhood/community retail centers remained unchanged at 10.9 percent during first quarter 2011. In contrast, vacancy for the regional retail mall sector jumped 40 basis points during first quarter 2011, after declining in late 2010. In other signs of weakness, asking and effective rents for both retail sectors further declined by 0.1 percent.

Apartment:

- According to respondents to RERC’s investment survey, the majority of first quarter 2011 apartment transactions were comprised of normal sales. This is generally expected, given the demand for apartment properties.
- Twelve-month trailing apartment sector total volume increased approximately 15 percent during first quarter 2011, while the size-weighted average price per apartment unit fell slightly. The 12-month trailing weighted-average capitalization rate for the apartment sector remained unchanged at 6.1 percent. Apartment sector volume of transactions of less than \$2 million increased by more than 15 percent on a 12-month trailing basis in first quarter 2011, while the size-weighted average price per unit declined by nearly 10 percent.
- According to Reis, Inc., the vacancy rate for the apartment sector declined to 6.2 percent during first quarter 2011, with positive net absorption of over 44,000 units. The asking and effective rent increased by 0.4 percent and 0.5 percent, respectively.

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



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

