



# Commercial Market Insights

For the RE/MAX Commercial Practitioner and our Clients

Each office is independently owned and operated.

**National Overview**  
Fourth Quarter 2010

Office • Industrial • Apartments • Retail

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**RERC** REAL ESTATE<sup>®</sup>  
RESEARCH  
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# National Overview

## Economic Environment

The U.S. economy ended 2010 with a real GDP growth rate of 2.9 percent, slightly higher than the 2.6 percent growth in 2009, according to the Bureau of Economic Analysis (BEA). Although economic growth was more sluggish than any of us hoped for the year overall, it was positive each quarter in 2010, and thus far, we have avoided the much-feared “double-dip” recession. More importantly, the economy seems to have acquired a little more steam as we move into 2011.

The Congressional Budget Office (CBO) announced that the federal budget will reach a new record of nearly \$1.5 trillion, and as a share of GDP, is expected to increase to 9.8 percent in fiscal year (FY) 2011. As a percentage of economic output, the 9.8-percent deficit would be the second-largest in 65 years, behind only the 10-percent level in 2009.

According to the Bureau of Labor Statistics (BLS), the unemployment rate declined to 9.4 percent in December 2010, the lowest it has been for nearly a year and a half, but this was primarily because a record number of people stopped looking for work. Nonfarm payroll employment increased by 103,000 during the month, and although this rate of growth does not keep up with the addition of new entrants into the workforce each month, at least it is a positive number. The economy added 1.1 million jobs during the past year.

Consumers opened their pocketbooks during the 2010 holiday season, with total retail sales from October through December 2010 up 7.8 percent from the same period a year ago, according to the U.S. Census Bureau. This topped off a year of increases, with total retail sales for the entire year up 6.6 percent from 2009 figures.

## What Does This Mean for Commercial Real Estate?

Commercial real estate activity was mixed during fourth quarter 2010. Top-tier properties have been selling at record-prices in some of the major markets, although there was much less sales activity in the secondary and tertiary markets. However, leasing markets exhibited increasing signs of recovery. Construction activity remains quite limited, but the bulk of new commercial real estate construction was related to healthcare, public infrastructure, and multi-family housing/apartments.

With respect to the conditions of the banks, there were 157 failed banks in 2010, more than any year since 1992, but the level of assets associated with these banks was 45.7 percent less than the assets associated with the banks that failed in

National Transaction Breakdown 12-Month Trailing Averages (01/01/10 – 12/31/10)				
	Office	Industrial	Retail	Apartment
<b>&lt; \$2 Million</b>				
Volume (Mil)	\$1,235	\$2,509	\$2,644	\$1,216
Size Weighted Avg. (\$ per sf/unit)	\$81	\$44	\$76	\$40,238
Price Weighted Avg. (\$ per sf/unit)	\$117	\$71	\$120	\$67,646
Median (\$ per sf/unit)	\$85	\$54	\$81	\$48,088
<b>\$2 – \$5 Million</b>				
Volume (Mil)	\$1,640	\$2,981	\$3,163	\$2,222
Size Weighted Avg. (\$ per sf/unit)	\$109	\$48	\$118	\$53,892
Price Weighted Avg. (\$ per sf/unit)	\$174	\$84	\$230	\$104,584
Median (\$ per sf/unit)	\$140	\$70	\$193	\$83,358
<b>&gt; \$5 Million</b>				
Volume (Mil)	\$46,809	\$11,941	\$17,742	\$27,522
Size Weighted Avg. (\$ per sf/unit)	\$219	\$57	\$157	\$110,620
Price Weighted Avg. (\$ per sf/unit)	\$356	\$107	\$285	\$203,985
Median (\$ per sf/unit)	\$177	\$64	\$173	\$100,116
<b>All Transactions</b>				
Volume (Mil)	\$49,683	\$17,430	\$23,549	\$30,961
Size Weighted Avg. (\$ per sf/unit)	\$204	\$53	\$135	\$96,672
Price Weighted Avg. (\$ per sf/unit)	\$344	\$98	\$259	\$191,493
Median (\$ per sf/unit)	\$118	\$58	\$108	\$72,278

Source: RERC.

2009. Although the Federal Deposit Insurance Corporation's (FDIC's) list of "troubled" banks increased to 860 as of Sept. 30, 2010, the number of bank failures is expected to decline in 2011.

Credit activity was mixed across the U.S. during fourth quarter 2010, and while loan demand for commercial real estate has been stabilizing in some areas, it remained soft or has been declining in other areas. According to the Federal Reserve's *Summary of Commentary on Current Economic Conditions* issued in January 2011, commercial and industrial loans have increased slightly (0.46 percent) at small banks, but about five times as much at large banks.

### Transaction Analysis

Real Estate Research Corporation's (RERC's) transaction analysis showed that total volume increased for all property types, except for the retail sector, on a 12-month trailing basis during fourth quarter 2010. However, on a quarter-to-quarter basis, total volume increased for all property types, including retail, during fourth quarter.

The size-weighted average price per square foot/unit for the office and apartment sectors overall increased approximately 10 percent on a 12-month trailing basis, while the size-weighted average price for the retail sector decreased approximately 5 percent during fourth quarter 2010. The size-weighted average price for the industrial sector remained unchanged from the previous quarter.

RERC's 12-month trailing weighted-average capitalization rate decreased for all property sectors during fourth quarter 2010.

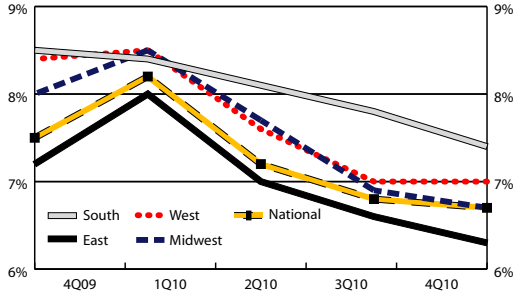
National Transaction Breakdown Current Quarter Rates (10/01/10 - 12/31/10)				
	Office	Industrial	Retail	Apartment
<b>&lt; \$2 Million</b>				
Volume (Mil)	\$282	\$677	\$734	\$368
Size Weighted Avg. (\$ per sf/unit)	\$76	\$41	\$66	\$36,673
Price Weighted Avg. (\$ per sf/unit)	\$111	\$70	\$114	\$68,244
Median (\$ per sf/unit)	\$82	\$53	\$76	\$44,144
<b>\$2 - \$5 Million</b>				
Volume (Mil)	\$383	\$893	\$884	\$644
Size Weighted Avg. (\$ per sf/unit)	\$96	\$43	\$105	\$55,197
Price Weighted Avg. (\$ per sf/unit)	\$154	\$81	\$237	\$104,487
Median (\$ per sf/unit)	\$128	\$65	\$211	\$80,000
<b>&gt; \$5 Million</b>				
Volume (Mil)	\$20,228	\$5,427	\$6,246	\$12,444
Size Weighted Avg. (\$ per sf/unit)	\$230	\$53	\$161	\$110,213
Price Weighted Avg. (\$ per sf/unit)	\$359	\$82	\$358	\$209,525
Median (\$ per sf/unit)	\$178	\$57	\$172	\$102,431
<b>All Transactions</b>				
Volume (Mil)	\$20,893	\$6,998	\$7,864	\$13,455
Size Weighted Avg. (\$ per sf/unit)	\$218	\$50	\$135	\$99,963
Price Weighted Avg. (\$ per sf/unit)	\$352	\$81	\$322	\$200,635
Median (\$ per sf/unit)	\$134	\$56	\$106	\$77,788

Source: RERC.

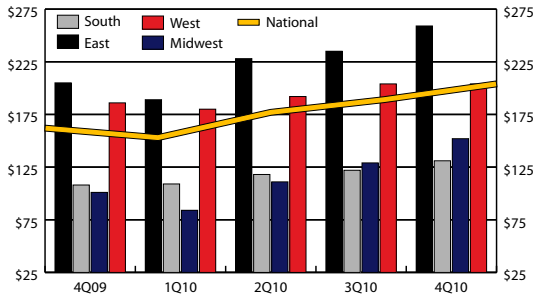
Capitalization Rates (All Transactions)				
	Office	Industrial	Retail	Apartment
<b>12-Month Trailing Averages (01/01/10 - 12/31/10)</b>				
Range (%)	4.0 - 11.5	5.4 - 12.0	4.0 - 11.7	4.0 - 11.1
Weighted Avg. (%)	6.7	7.7	8.2	6.1
Median (%)	7.5	7.9	7.8	6.5
<b>Current Quarter Rates (10/01/10 - 12/31/10)</b>				
Range (%)	4.0 - 10.0	5.4 - 10.3	4.0 - 11.7	4.0 - 10.7
Weighted Avg. (%)	6.6	7.4	7.8	6.3
Median (%)	7.6	7.3	7.8	6.9

Source: RERC.

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



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



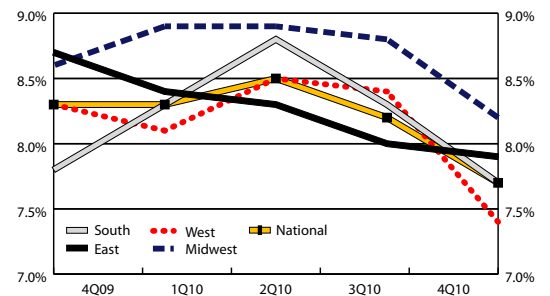
### Office:

- The majority of RERC's investment survey respondents stated that distressed office properties – many of them well-located, free-standing properties – were attractively priced, selling well, and even out-selling other properties. Other respondents, however, stated that the office sector was risky due to oversupply.
- Volume for the office sector increased by more than 40 percent during fourth quarter 2010 on a 12-month trailing basis, although the majority of the increase was due to sales of more than \$5 million. The size-weighted average price per square foot of office space rose approximately 10 percent, while the 12-month trailing weighted-average capitalization rate declined to 6.7 percent during fourth quarter. Volume and price for transactions of less than \$2 million declined.
- According to Reis, Inc., the vacancy rate for the office sector remained flat at 17.6 percent during fourth quarter 2010. In addition, net absorption increased 2.5 million square feet for the quarter, the first increase since the end of 2007. Asking and effective rents also increased during fourth quarter.

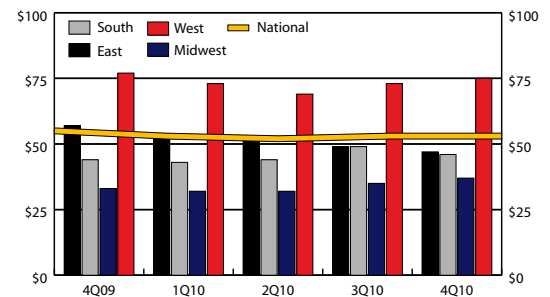
### Industrial:

- According to RERC's investment survey respondents, industrial properties offered a good investment opportunity during fourth quarter 2010. Many respondents said that both normal and distressed industrial properties were selling well, depending on location.
- Total volume for the industrial sector rose 20 percent during fourth quarter 2010, while the size-weighted average price per square foot remained flat on a 12-month trailing basis. The 12-month trailing weighted-average capitalization rate for the industrial sector declined 50 basis points to 7.7 percent. According to RERC's analysis, the volume for industrial property transactions less than \$2 million, of \$2 million to \$5 million, and those of more than \$5 million each increased on a 12-month trailing basis, although price was mixed among these groups.
- According to CBRE-EA, the national industrial availability rate fell by 30 basis points to 14.3 percent during fourth quarter 2010. Although availability remains high, low construction and an improving economy should further reduce availability going forward.

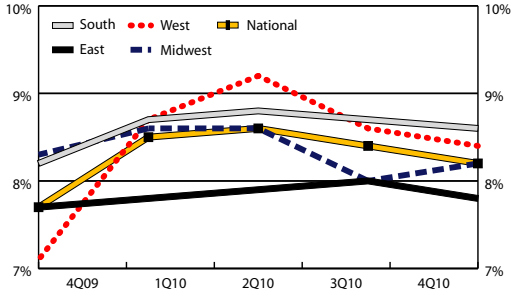
### RERC Weighted Average Capitalization Rate (12-Month Trailing Average)



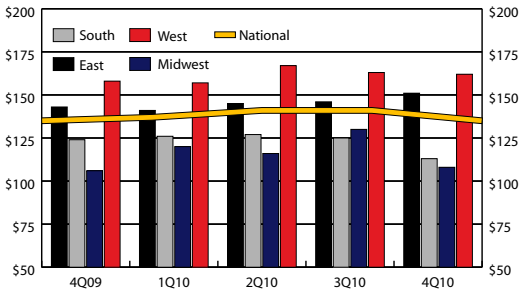
### RERC Size-Weighted Average PPSF (12-Month Trailing Average)



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



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



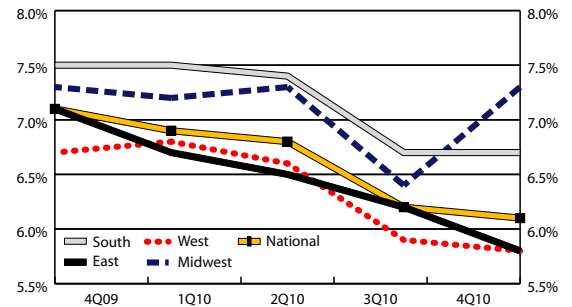
### Retail:

- The majority of RERC's fourth quarter 2010 investment survey respondents stated that distressed retail properties were selling well due to reasonable pricing, and several respondents noted that the retail sector was considered an attractive investment. Furthermore, retail sales were strengthened by holiday sales, though sales slowed in December.
- Retail sector total transaction volume declined by 2 percent on a 12-month trailing basis during fourth quarter 2010, while the size-weighted average price per square foot fell nearly 5 percent. The 12-month trailing weighted-average capitalization rate decreased 20 basis points to 8.2 percent. However, the volume of retail property transactions that totaled less than \$2 million increased on a 12-month trailing basis, while the volume for transactions greater than \$5 million declined compared to the previous quarter.
- According to Reis, Inc., the vacancy rate for the retail sector remained unchanged at 10.9 percent during fourth quarter 2010. In addition, the lowest number of completions was recorded since 1999, with only 594,000 square feet of neighborhood/community center space brought online during the quarter. Both asking and effective rents declined.

### Apartment:

- According to RERC's investment survey respondents, the apartment sector was the most attractive property investment during fourth quarter 2010. Respondents said demand was strong, although pricing and location could be challenging.
- Apartment sector total volume increased about 30 percent from the previous quarter on a 12-month trailing basis, while the size-weighted average price per unit rose about 5 percent. The weighted-average capitalization rate decreased 10 basis points to 6.1 percent. In addition, the volume of apartment sector transactions that totaled less than \$2 million increased nearly 10 percent on a 12-month trailing basis.
- According to Reis, Inc., the national vacancy rate for the apartment sector dropped sharply to 6.6 percent in fourth quarter 2010. In addition, occupied stock increased by nearly 58,000 units for the quarter, with absorption for the year 2010 totaling over 227,000 units. Asking and effective rents continued to increase at approximately 0.5 percent.

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



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

