

News Release



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REALTY ADVISORS, LLC.

Commercial Real Estate Vacancy Rates to Decline but Rent Recovery Delayed

WASHINGTON (February 25, 2011) – A stabilization trend is taking place in commercial real estate sectors, but in most markets rent will remain soft except for multifamily rentals, according to the National Association of Realtors®.

[Lawrence Yun](#), NAR chief economist, said a pullback in construction is helping stabilize the market. “Very limited construction of new commercial real estate over the past few years has essentially fixed the supply of available space,” he said. “This means vacancy rates could fall quickly from any increase in demand for commercial space.”

From the first quarter of this year to the first quarter of 2012, NAR expects vacancy rates to decline 0.5 percentage point in the office sector, 1.3 points in industrial real estate, 0.1 point in the retail sector and 0.9 percentage point in the multifamily rental market.

“Even with declining vacancy rates, rents are not likely to turn positive in most markets until next year, outside of multifamily rental properties,” Yun said. For example, office rents are forecast to fall 1.8 percent this year before turning higher by 4.0 percent in 2012.

“Apartment rent increases are expected to accelerate from job creation leading to new household formation, particularly among the young adult population who will seek their own housing arrangements – many will be leaving their parents’ homes, or choose to live with fewer roommates,” Yun said.

Average apartment rent is projected to grow 3.4 percent this year and another 4.2 percent in 2012.

“Rising apartment rent in combination with rising oil prices could push the overall inflation rate beyond a comfort level, which could then force the Federal Reserve to raise interest rates later this year or early in 2012,” Yun added.

[The Society of Industrial and Office Realtors®](#), in its SIOR Commercial Real Estate Index, an attitudinal survey of more than 360 local market experts,¹ shows a notable improvement in market fundamentals.

The SIOR index, measuring the impact of 10 variables, rose 8.1 percentage points to 50.7 in the fourth quarter, the largest quarterly gain in five years, and is at the highest level since the fall of 2008. However, the index is well below a level of 100 that represents a balanced marketplace. This is the fifth consecutive quarterly improvement following nearly three years of decline, but the last time the index was at the 100 level was in the third quarter of 2007.

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Commercial Real Estate Forecast/Market Report – add 1

Seventy-eight percent of SIOR participants expect improvements in the office and industrial sectors for the first quarter of this year.

There has been an increase of liquidity in Commercial Mortgage Backed Securities, which is helping to open the commercial market to more property transactions; commercial real estate sales had been stalled over the past few years with excessively tight credit conditions. In terms of development acquisitions, it remains a buyer's market for those with cash or who can obtain credit financing.

NAR's latest *COMMERCIAL REAL ESTATE OUTLOOK*² offers projections for four major commercial sectors and analyzes quarterly data in the office, industrial, retail and multifamily markets. Historic data were provided by CBRE Econometric Advisors.

Office Markets

Vacancy rates in the office sector are forecast to decline from 16.5 percent in the first quarter of this year to 16.0 percent in the first quarter of 2012.

The markets with the lowest office vacancy rates currently are New York City and Honolulu, with vacancies in the 8 to 9 percent range.

In 57 markets tracked, net absorption of office space, which includes the leasing of new space coming on the market as well as space in existing properties, should be 14.5 million square feet in 2011.

Industrial Markets

Industrial vacancy rates are projected to decline from 14.2 percent in the current quarter to 12.9 percent in the first quarter of 2012.

At present, the areas with the lowest industrial vacancy rates are Los Angeles and Salt Lake City, with vacancies of 7.5 percent.

Annual industrial rent is likely to decline 2.5 percent in 2011, before rising 3.0 percent next year. Net absorption of industrial space in 58 markets tracked should be 127.5 million square feet in 2011.

Retail Markets

Retail vacancy rates are expected to slip from 13.0 percent in the first quarter of this year to 12.9 percent in the first quarter of 2012.

Markets with the lowest retail vacancy rates currently include San Francisco; Miami; Honolulu; and Long Island, N.Y., all with vacancies in the 7 to 8 percent range.

Average retail rent is seen to decline 0.9 percent in 2011, then rising 0.7 percent next year. Net absorption of retail space in 53 tracked markets is projected to be 4.8 million in 2011.

Multifamily Markets

The apartment rental market – multifamily housing – is tightening as the economy improves. Multifamily vacancy rates are forecast to decline from 5.8 percent in the current quarter to 4.9 percent in the first quarter of 2012.

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Commercial Real Estate Forecast/Market Report – add 2

Areas with the lowest multifamily vacancy rates presently are San Jose, Calif.; Pittsburgh; and Newark, N.J, with vacancies in a range around 3 percent.

Multifamily net absorption should be 207,000 units in 59 tracked metro areas in 2011.

The *COMMERCIAL REAL ESTATE OUTLOOK* is published by the NAR Research Division for the commercial community. [NAR's Commercial Division](#), formed in 1990, provides targeted products and services to meet the needs of the commercial market and constituency within NAR.

The NAR commercial components include commercial members; commercial committees, subcommittees and forums; commercial real estate boards and structures; and the NAR commercial affiliate organizations – CCIM Institute, Institute of Real Estate Management, Realtors® Land Institute, Society of Industrial and Office Realtors®, and Counselors of Real Estate.

Approximately 79,000 NAR and institute affiliate members specialize in commercial brokerage services, and an additional 263,000 members offer commercial real estate as a secondary business.

The National Association of Realtors®, “The Voice for Real Estate,” is America’s largest trade association, representing 1.1 million members involved in all aspects of the residential and commercial real estate industries.

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¹ The SIOR Commercial Real Estate Index, conducted by SIOR and analyzed by NAR Research, is a diffusion index based on market conditions as viewed by local SIOR experts. For more information contact Richard Hollander, SIOR, at 202/449-8200.

²Additional analyses will be posted under Economists’ Commentary in the Research area of Realtor.org in coming days.

The next commercial real estate forecast and quarterly market report will be released on May 24.

Information about NAR is available at www.realtor.org. This and other news releases are posted in the News Media section. Statistical data, charts and surveys also may be found by clicking on Research.

COMMERCIAL FORECAST: 2011.Q1

OFFICE	2010 III	2010 IV	2011 I	2011 II	2011 III	2011 IV	2012 I	2010	2011	2012
Vacancy Rate	16.6%	16.4%	16.5%	16.5%	16.3%	16.2%	16.0%	16.6%	16.4%	15.6%
Net Absorption ('000 sq. ft.)	6,705	10,630	1,293	1,338	5,421	6,459	7,784	17,733	14,512	39,354
Completions ('000 sq. ft.)	3,585	3,791	4,758	1,794	496	672	2,297	21,359	7,720	6,655
Inventory ('000,000 sq. ft.)	3,570	3,574	3,578	3,580	3,581	3,582	3,584	3,574	3,582	3,588
Rent Growth	-0.3%	-1.1%	-1.0%	-0.8%	-0.4%	0.4%	0.9%	-4.6%	-1.8%	4.0%
INDUSTRIAL	2010 III	2010 IV	2011 I	2011 II	2011 III	2011 IV	2012 I	2010	2011	2012
Vacancy Rate	14.0%	14.3%	14.2%	13.7%	13.5%	13.2%	12.9%	14.5%	13.9%	12.7%
Net Absorption ('000 sq. ft.)	10,459	33,218	20,966	29,206	36,287	41,019	46,799	11,191	127,478	208,420
Completions ('000 sq. ft.)	2,639	5,642	4,168	5,031	4,899	9,811	10,752	17,388	23,909	54,208
Inventory ('000,000 sq. ft.)	12,566	12,572	12,576	12,581	12,586	12,596	12,606	12,572	12,596	12,650
Rent Growth	-0.4%	-1.0%	-1.2%	-1.1%	-0.9%	-0.9%	-0.7%	-6.8%	-2.5%	3.0%
RETAIL	2010 III	2010 IV	2011 I	2011 II	2011 III	2011 IV	2012 I	2010	2011	2012
Vacancy Rate	13.1%	13.0%	13.0%	13.1%	13.0%	12.9%	12.9%	13.0%	13.0%	12.8%
Net Absorption ('000 sq. ft.)	994	1,700	589	1,035	1,465	1,739	2,103	-671	4,827	10,178
Completions ('000 sq. ft.)	743	1,304	1,406	1,961	551	30	1,588	4,385	3,948	9,753
Inventory ('000,000 sq. ft.)	1,645	1,697	1,698	1,700	1,701	1,701	1,702	1,697	1,701	1,710
Rent Growth	-1.1%	-1.0%	-0.6%	-0.3%	-0.1%	0.1%	0.1%	-4.8%	-0.9%	0.7%
MULTI-FAMILY	2010 III	2010 IV	2011 I	2011 II	2011 III	2011 IV	2012 I	2010	2011	2012
Vacancy Rate	5.8%	6.0%	5.8%	5.3%	4.8%	5.1%	4.9%	6.1%	5.3%	4.5%
Net Absorption (Units)	39,651	-21,839	48,574	81,490	104,278	-27,715	56,369	251,739	206,627	153,497
Completions (Units)	12,339	11,012	10,080	11,001	13,147	13,094	16,951	59,507	53,322	82,745
Inventory (Units in millions)	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.6
Rent Growth	0.4%	1.2%	0.7%	0.8%	0.9%	1.0%	1.1%	0.3%	3.4%	4.2%

Source: National Association of REALTORS® / CBRE Econometric Advisors

For additional research and the Commercial Real Estate Outlook report:

<http://www.realtor.org/research/research/commercialhome>

METRO VACANCY RATES: 2011.Q1

	Office	Industrial	Retail	Multifamily
Albuquerque, NM	19.6%	12.3%	11.8%	5.2%
Atlanta, GA	21.1%	18.7%	16.1%	9.1%
Austin, TX	17.5%	15.1%	12.3%	5.8%
Baltimore, MD	15.0%	15.7%	9.7%	5.2%
Boston, MA	13.4%	18.9%	9.2%	4.2%
Charlotte, NC	16.6%	16.0%	15.4%	6.7%
Chicago, IL	18.8%	15.5%	13.7%	4.5%
Cincinnati, OH	19.9%	13.0%	17.8%	7.3%
Cleveland, OH	18.4%	12.3%	16.1%	6.8%
Columbus, OH	17.7%	15.7%	16.4%	7.2%
Dallas, TX	22.5%	15.8%	16.5%	7.4%
Denver, CO	16.5%	12.7%	13.6%	4.6%
Detroit, MI	25.4%	20.3%	17.8%	7.3%
Fort Lauderdale, FL	17.2%	13.0%	12.3%	4.7%
Fort Worth, TX	14.4%	15.1%	17.0%	8.5%
Hartford, CT	19.4%	18.0%		
Honolulu, HI	8.9%		7.8%	6.6%
Houston, TX	16.2%	10.6%	13.6%	10.2%
Indianapolis, IN	16.3%	13.2%	17.4%	7.0%
Jacksonville, FL	20.6%	16.4%	15.2%	9.7%
Kansas City, MO	16.7%	11.1%	18.3%	7.6%
Las Vegas, NV	25.3%	13.1%	17.6%	9.2%
Long Island, NY	11.7%	11.2%	7.8%	
Los Angeles, CA	17.5%	7.5%	8.4%	5.5%
Miami, FL	20.3%	12.6%	7.4%	3.9%
Milwaukee, WI	19.6%	14.5%		
Minneapolis, MN	19.9%	11.9%	14.0%	4.1%
Nashville, TN	14.0%	16.1%	11.8%	5.6%
New York, NY	8.3%	11.8%	8.6%	5.4%
Newark, NJ	15.7%	12.9%		3.3%
Oakland, CA	17.0%	14.8%	8.5%	3.9%
Orange County, CA	19.5%	10.4%	8.2%	4.4%
Orlando, FL	17.5%	16.3%	14.9%	7.1%

For additional research and the Commercial Real Estate Outlook report:

<http://www.realtor.org/research/research/commercialhome>

METRO VACANCY RATES: 2011.Q1

	Office	Industrial	Retail	Multifamily
Philadelphia, PA	14.9%	14.3%	13.2%	6.2%
Phoenix, AZ	25.8%	18.9%	16.7%	8.3%
Pittsburgh, PA	11.1%			3.2%
Portland, OR	15.0%	11.1%	12.3%	3.8%
Raleigh, NC	14.2%			5.4%
Riverside, CA	22.5%	14.6%	13.6%	6.5%
Sacramento, CA	21.9%	18.4%	15.4%	6.6%
Salt Lake City, UT	15.9%	7.5%	15.0%	4.6%
San Diego, CA	18.4%	15.1%	10.1%	4.7%
San Francisco, CA	13.4%	11.2%	6.7%	4.6%
San Jose, CA	20.9%	15.1%	8.8%	2.6%
Seattle, WA	16.7%	11.6%	12.2%	4.6%
St. Louis, MO	16.1%	14.3%	15.1%	9.0%
Stamford, CT	13.7%	19.4%		
Tampa, FL	21.6%	14.4%	12.3%	7.2%
Tucson, AZ	16.8%	13.2%	17.8%	8.2%
Ventura, CA	19.0%	12.3%	10.9%	
Washington, DC	12.8%	15.7%	8.6%	4.1%
West Palm Beach, FL	20.9%	14.2%	13.3%	6.2%
Wilmington, DE	18.0%	14.3%	15.7%	
National Averages*	16.5%	14.2%	13.0%	5.8%

N.B. *Not all markets are represented in chart above.

Source: National Association of REALTORS® / CBRE-Econometric Advisors

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