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REALTORS®
RESEARCH



Commercial Real Estate QUARTERLY MARKET SURVEY

DECEMBER 2010

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The REALTORS® Commercial Real Estate Market Survey measures quarterly activity in the commercial real estate markets. The survey collects data from commercial Realtors®. The survey is designed to provide member Realtors® with an overview of their markets' performance, sales and rental transactions, along with current economic challenges and future expectations. The questions are designed to capture the effects of the existing economic conditions on the commercial real estate business. Each quarter, participants respond to questions regarding the current demand for commercial properties, price, cap rates, rental concessions and other economic factors.

Download this report from:

http://www.realtor.org/research/research/cre_market_survey

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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..

Although the information presented in this survey has been obtained from reliable sources, NAR does not guarantee its accuracy, and such information may be incomplete. This report is for information purposes only.

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2010.Q3 Survey Highlights

- Sales volume was virtually unchanged in the third quarter compared with a year ago.
- Sales prices declined 13 percent in the third quarter on a year-over-year basis.
- Leasing activity advanced 4 percent from the previous quarter.
- Rental rates declined 7 percent compared with the previous quarter.
- Concession levels moved up 7 percent on a quarterly basis.
- Financing continues to top the list of most pressing current challenges, followed by the national economy.
- The estimated average transaction value rose 27 percent from the previous quarter, to \$1.4 million.

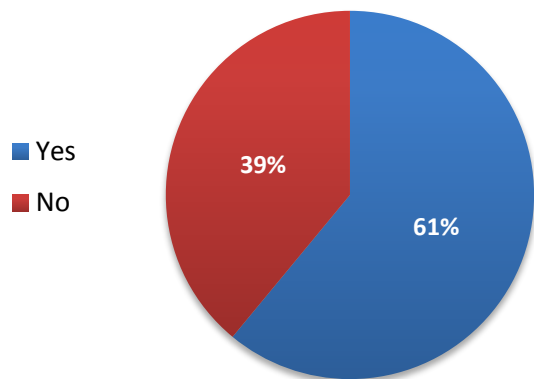
REALTORS® Commercial Activity – 2010.Q3

Sales Volume Compared with Previous Quarter	↑	Up 0.1%
Sales Volume Compared with Previous Year	↑	Up 0.2%
Sales Prices Compared with Previous Quarter	↓	Down 7%
Sales Prices Compared with Previous Year	↓	Down 13%
Expected Inventory Availability for the Next 12 Months	↑	Up 4%
Expected Cap Rate Movement for the Next 12 Months	↑	Up 8 bps
Rental Volume Compared with Previous Quarter	↑	Up 4%
Rental Rates Compared with Previous Quarter	↓	Down 7%
Level of Rent Concessions Compared with Previous Quarter	↑	Up 7%
Direction of Business Opportunities Compared with Previous Quarter	↑	Up 2%
Volume of New Construction Compared with Previous Quarter	↓	Down 12%

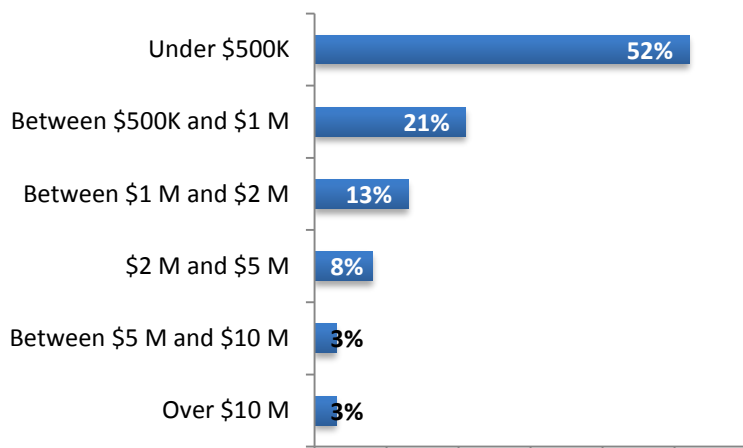
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Did you complete a commercial sales transaction?



Dollar amount of last transaction



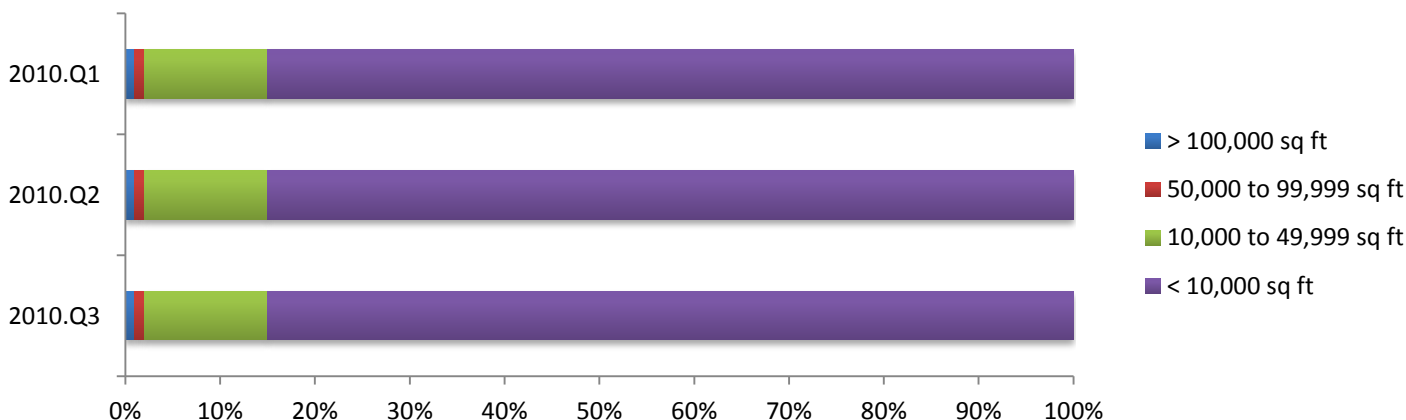
2010.Q3 Cap Rates

Office	8.7%
Industrial	9.1%
Retail	9.0%
Multifamily	8.2%
Hotel	10.1%
Development	13.7%

2010.Q3 Vacancy Rates

Office	20.0%
Industrial	18.3%
Retail	18.8%
Multifamily	11.4%
Hotel	27.8%

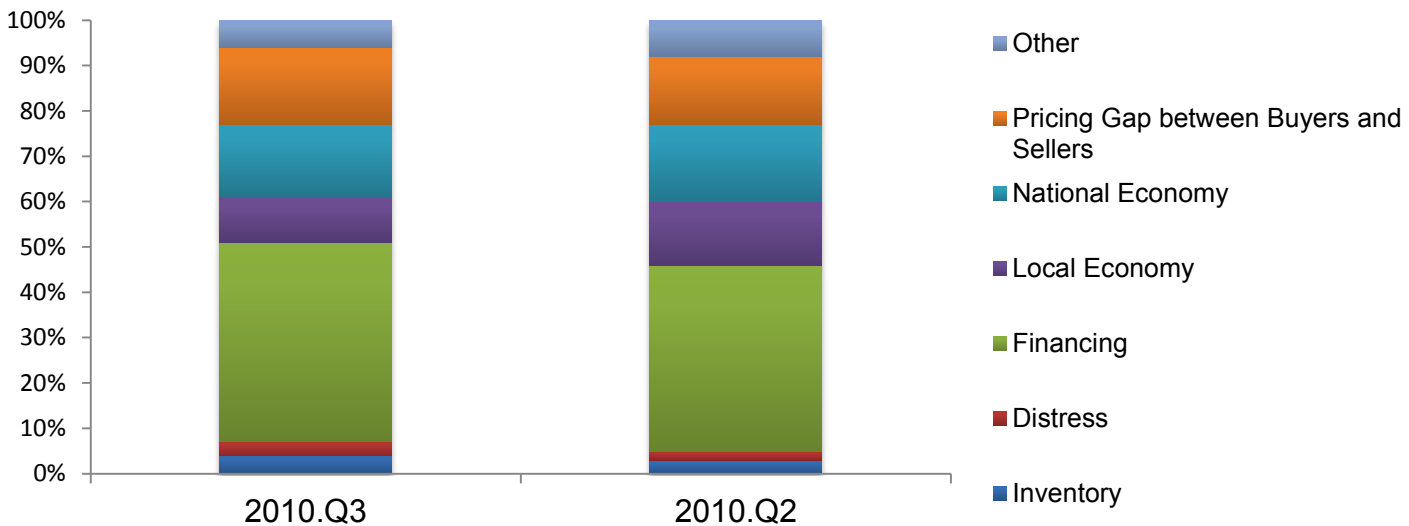
Average Rental Space Demanded During Last Transaction



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REALTORS® Most Pressing Challenges



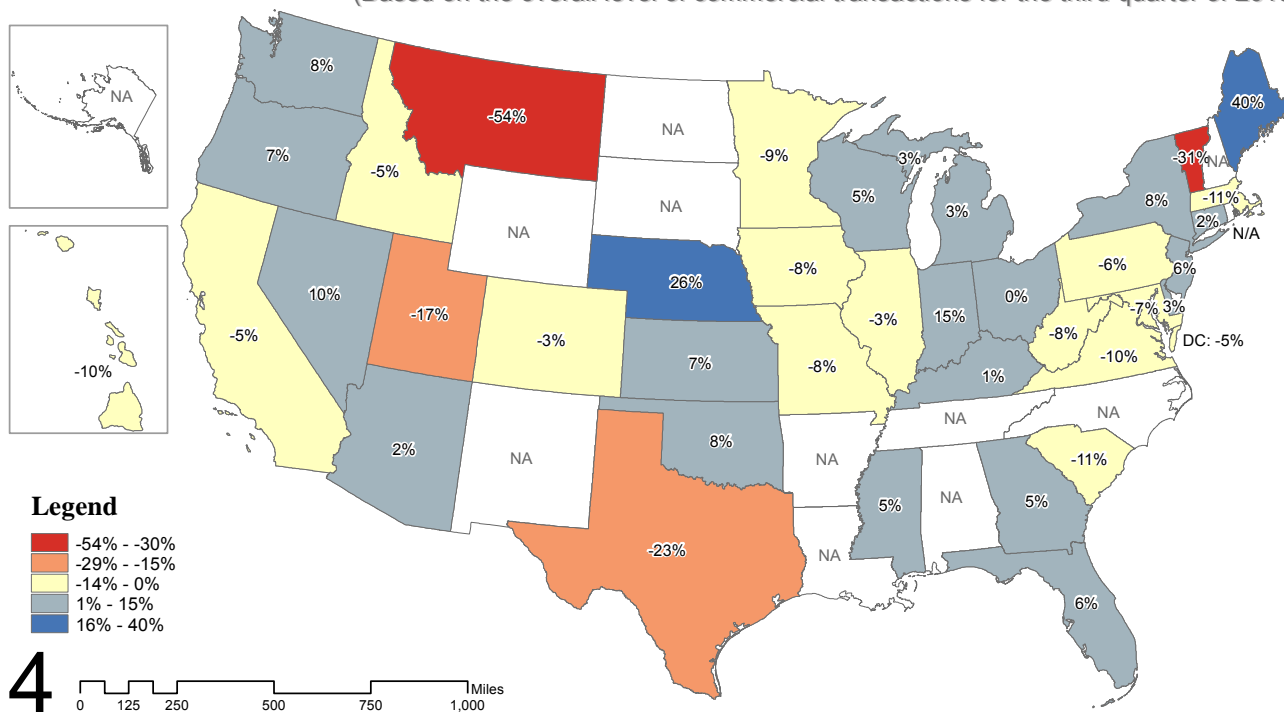
- “ All Except Green Issues. ”
- “ Banks... changing personel... changing rules.. deceptive practices. ”
- “ consumer confidence - inability to forecast ”
- “ Financing, Pricing Gap between Buyers and Sellers ”
- “ Future Uncertainty of tax and business issues, no federal budget, government cutting out private contractors. ”
- “ Indecision by buyers, sellers and particularly Banks with respect to disposition of non-performing loans and REO. ”
- “ Lack of Demand due to Tenant uncertainty abt the economy, tax laws, health care. ”
- “ Politicians unfriendly towards developers and financing. ”
- “ Too many agents, not enough deals. ”
- “ Uncertainty, lack of jobs, lack of retail sales, & expectation of increases in the number of future distressed properties. ”

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Sales Volume Compared with Previous Quarter

(Based on the overall level of commercial transactions for the third quarter of 2010)



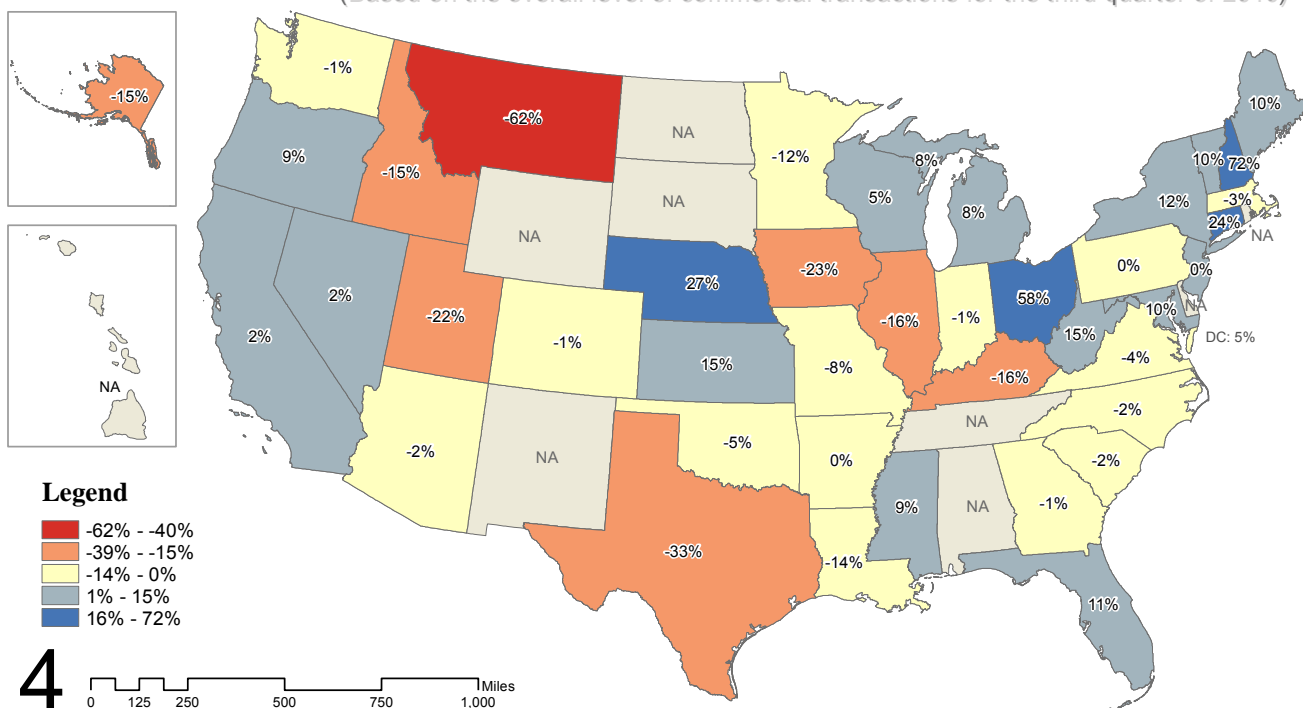
State-level data may register large fluctuations from one period to the next due to small sample sizes in some states.

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Sales Volume Compared with Previous Year

(Based on the overall level of commercial transactions for the third quarter of 2010)



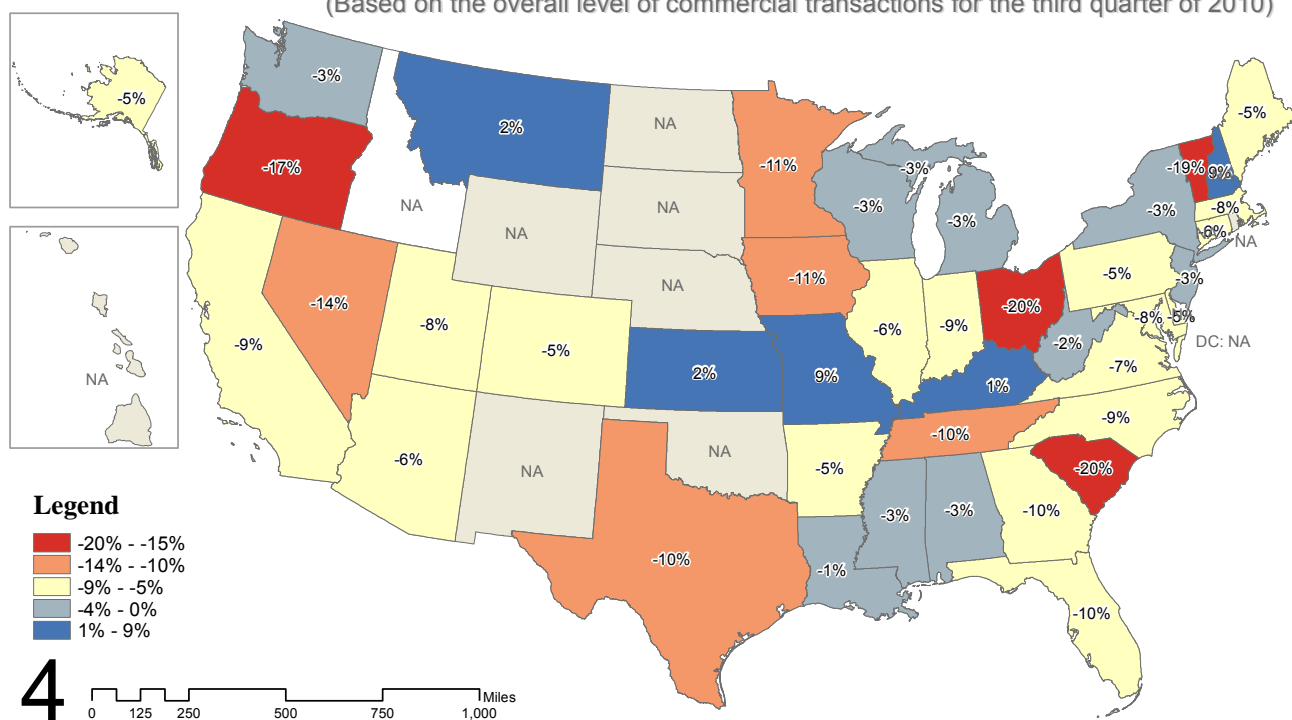
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Sales Prices Compared with Previous Quarter

(Based on the overall level of commercial transactions for the third quarter of 2010)



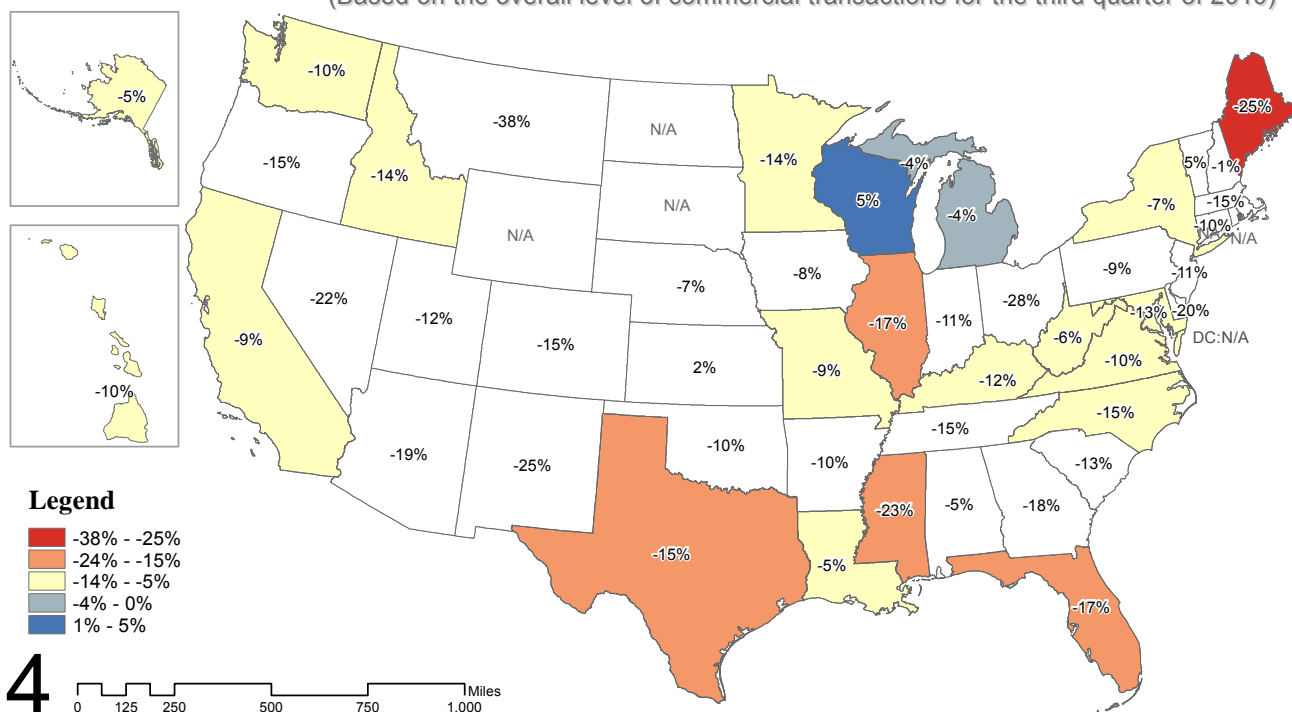
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Sales Prices Compared with Previous Year

(Based on the overall level of commercial transactions for the third quarter of 2010)



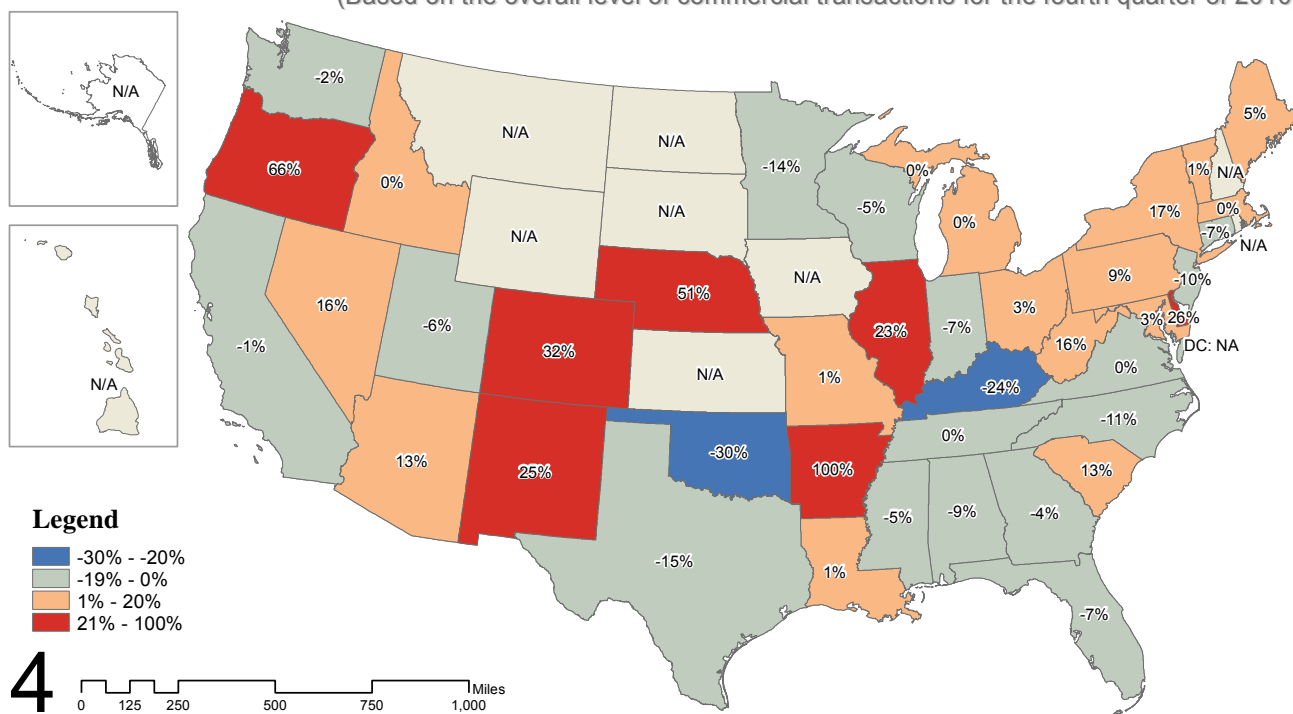
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Expected Inventory Availability for the next 12 months

(Based on the overall level of commercial transactions for the fourth quarter of 2010)



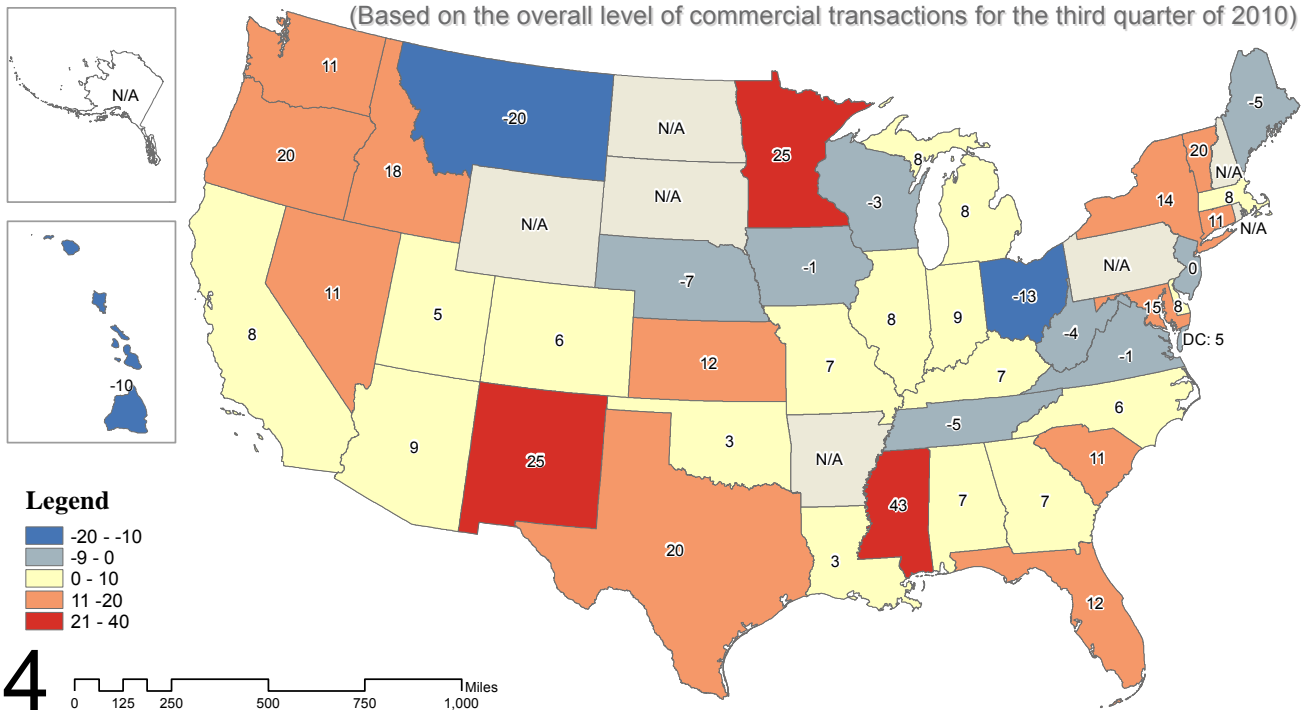
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Expected Cap Rate Movement for the next 12 months (in basis points)

(Based on the overall level of commercial transactions for the third quarter of 2010)



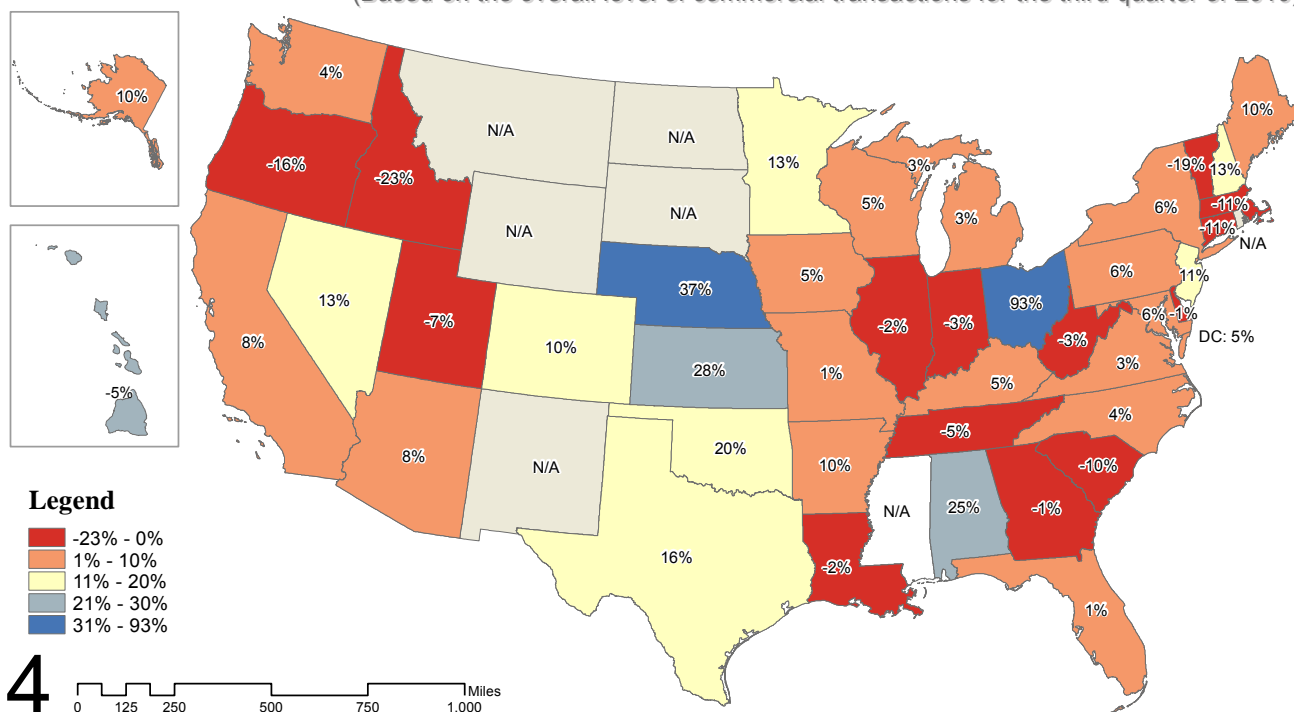
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Leasing Activity Compared with Previous Quarter

(Based on the overall level of commercial transactions for the third quarter of 2010)



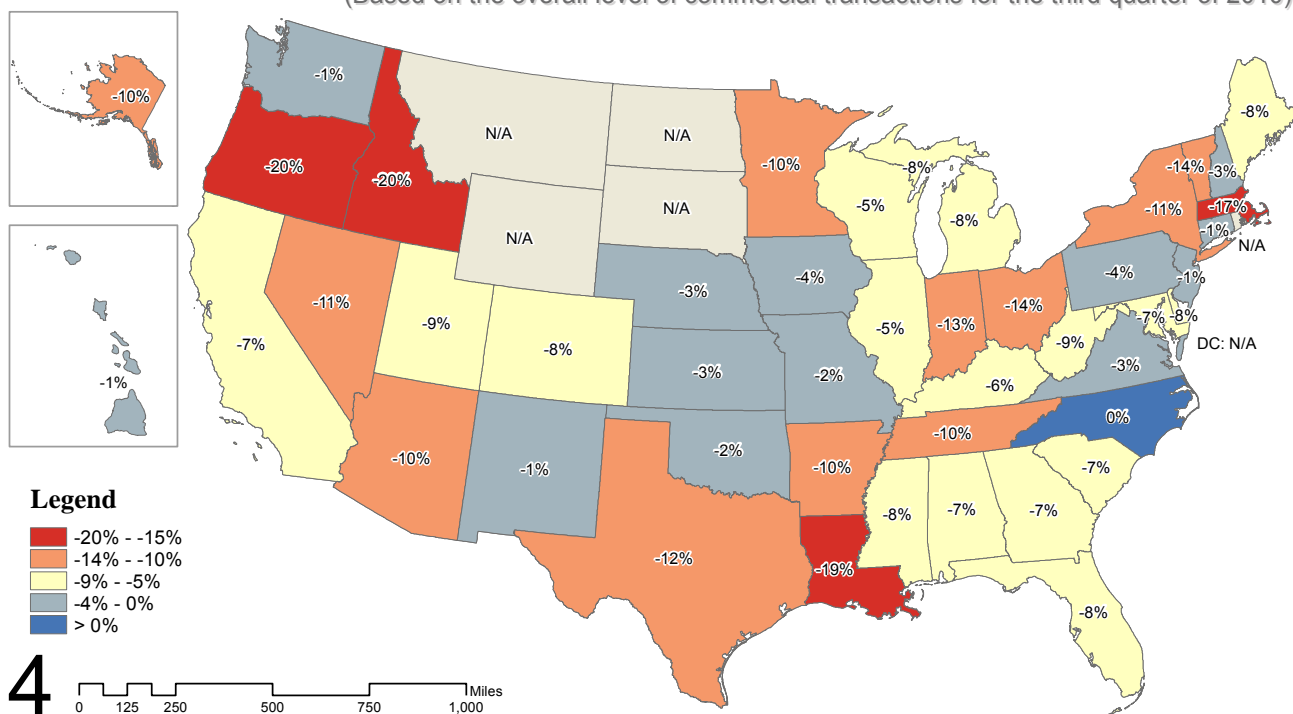
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Rental Rates Compared with Previous Quarter

(Based on the overall level of commercial transactions for the third quarter of 2010)



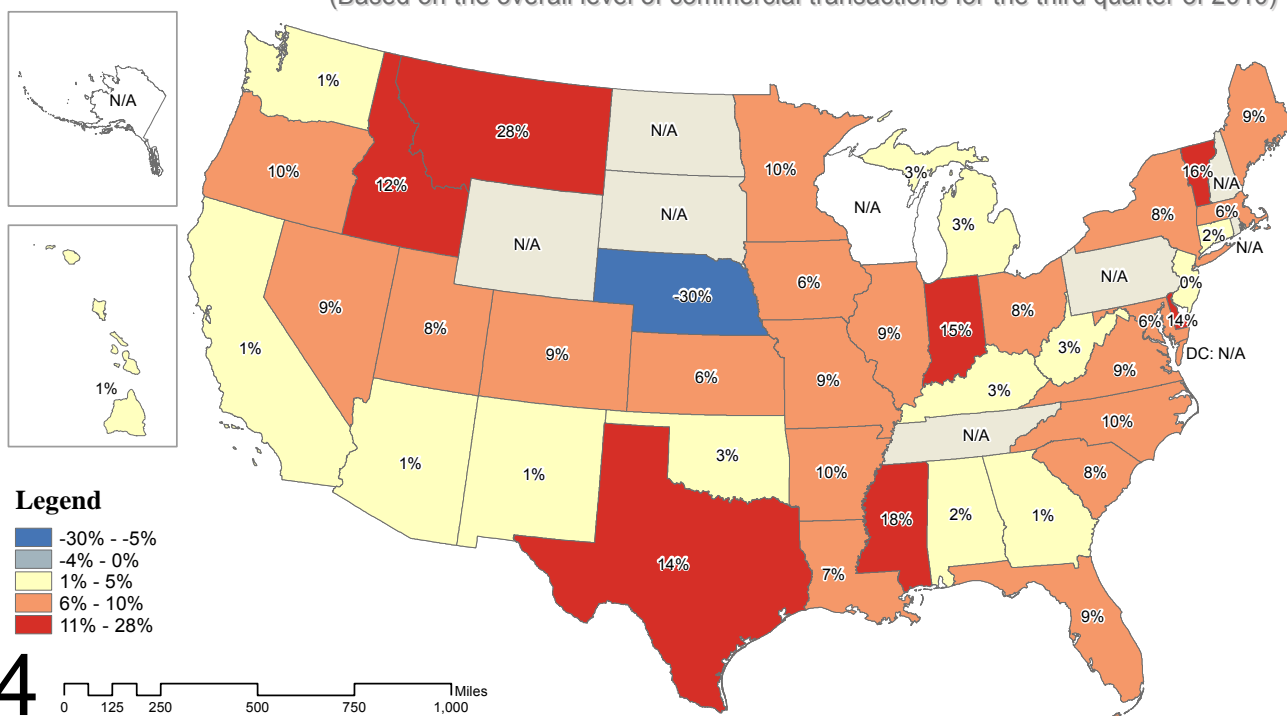
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Level of Rent Concessions Compared with Previous Quarter

(Based on the overall level of commercial transactions for the third quarter of 2010)



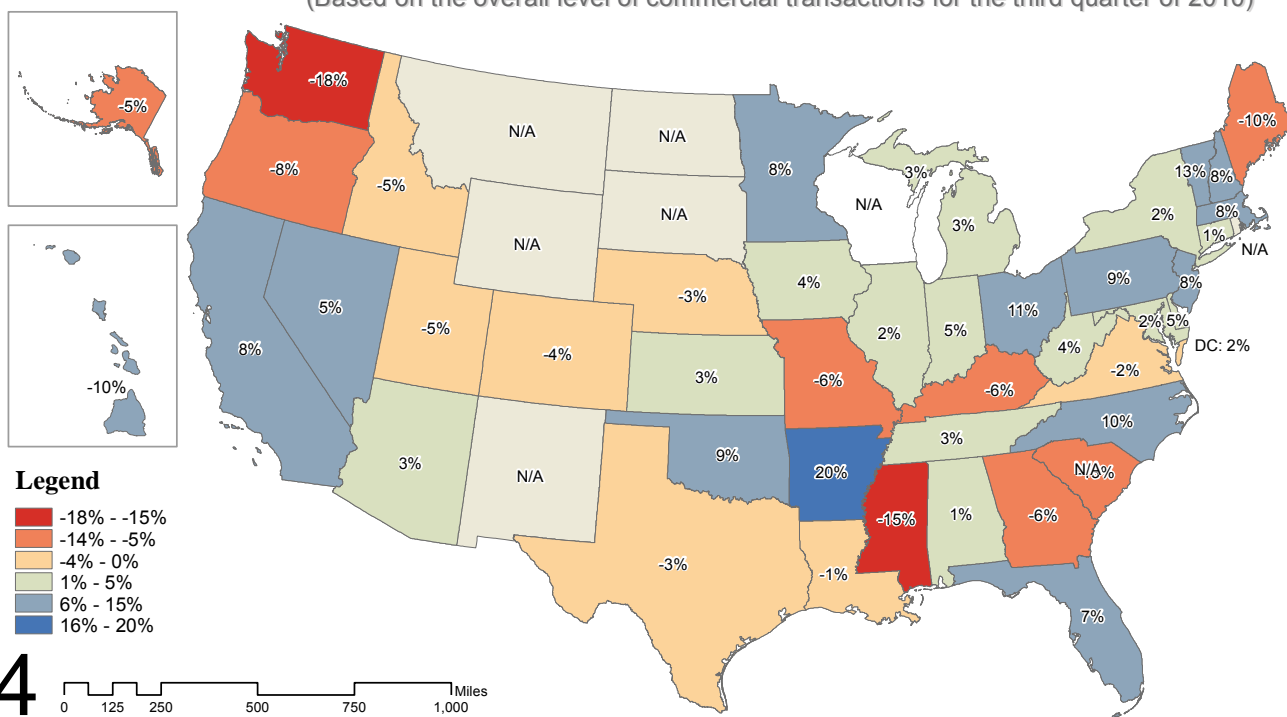
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Direction of Business Opportunities Compared with Previous Quarter

(Based on the overall level of commercial transactions for the third quarter of 2010)



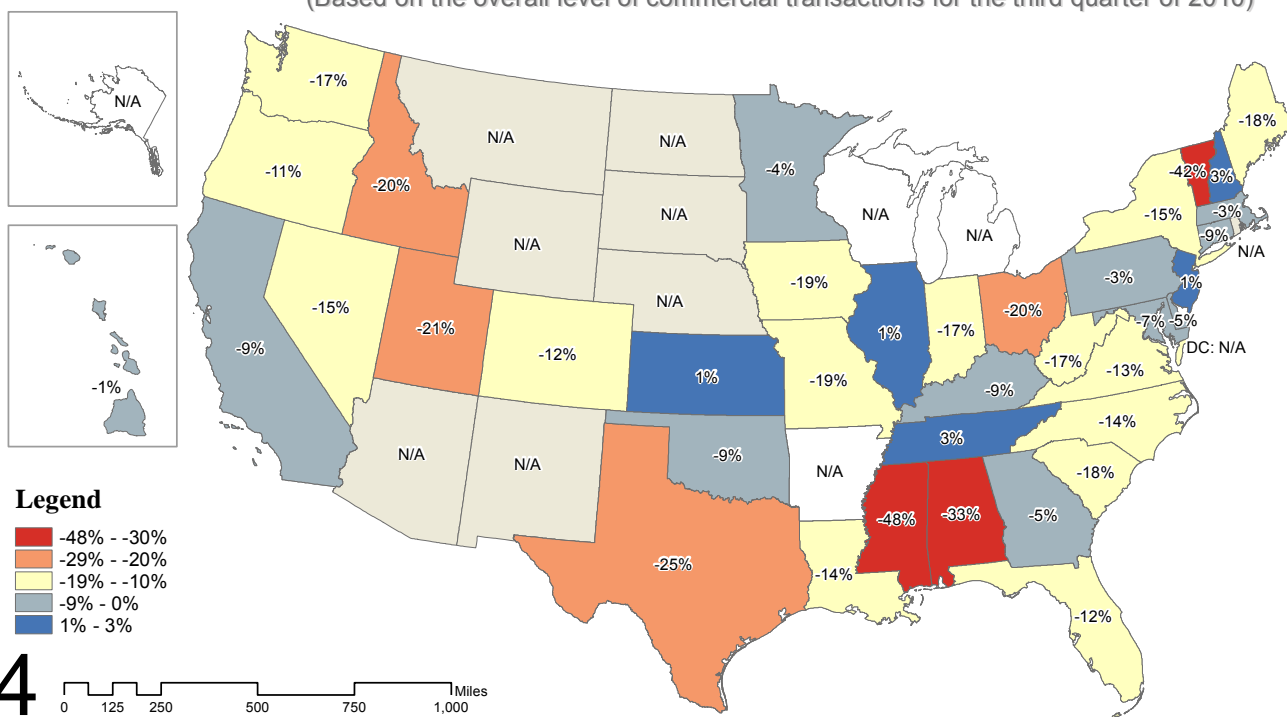
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Volume of New Construction Compared with Previous Quarter

(Based on the overall level of commercial transactions for the third quarter of 2010)



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Commercial Real Estate QUARTERLY MARKET SURVEY

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The REALTORS® Commercial Real Estate Quarterly Market Survey asks participants to comment on current challenges and difficulties in their markets. Below are a few of the comments about the 1ST quarter 2010 environment and members' most pressing concerns.

" Austin, we hope, is turning for the better. I'm seeing more activity and other brokers in the community have similar feelings. "

"Buyers still cannot borrow money from banks. Many sellers are not willing to sell their property for less than they paid for it. "

" Cash investors are buying distressed first, then market properties in major markets. "

" Commercial Market is still going through what the Residential Market has gone through. "

" Commercial Markets once opened up for new construction will bring laborers, and professional business will fill our vacant commercial space and the need for homes will increase. "

" Company owners are unsure of their cash flow so they are paralyzed to move forward with expansion plans. "

" Difficult for buyers to obtain financing. Sellers are selling at bargain prices. We have more inventory than ever. Our market is very slow and has been for 2 years. "

" Due to large vacancies, rental rates are being driven down 20-40%. Many small businesses are closing leaving an ever increasing supply of space...not good. "

" Federal government needs to give clear statement about what they are going to do. Business will not move until they know what the government is going to do. "

" Financing is still the number one issue for hospitality assets. Institutions are either unwilling or don't have the ability to look at these assets. "

" Financing remains the major problem along with the potential purchasers credit. "

" From a realtor's perspective, demand for commercial real estate is more but this is visible only for distressed properties. The properties being marketed at regular price, are difficult to close, even if they depict positive cash flows. "

" Houston has a tremendous amount of upside potential due to the overall economics and or recovery time. "

" I cover several markets including Southern California and Denver Metro. Each market has its own unique challenges. The biggest problem to date is that there is too much money chasing too few deals and that the market fundamentals (in So Cal) are still soft. "

" I feel the market is stable, Most Seller are holding to their prices, and Buyer are wanting a STEAL not a deal. "

" I see an improvement in the current market in Central Maine. "

" I think that prices may have hit bottom. The big issue is uncertainty in governmental regulations - including tax policy. Of course, consumer confidence and availability of financing are closely related. "

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The REALTORS® Commercial Real Estate Quarterly Market Survey Comments—continued.

"I think the Market is Great in a sense of where everyone thinks it should be. Except the owners who'd rather pay the bills themselves instead of lowering their prices for a few years. Letting the economy bounce back! They want to much and the Banks won't give it."

" Indecision is the biggest problem, buyers seem to want to buy and sellers want to sell but everyone is afraid add to that the indecision on the part of lenders who are afraid of making a mistake and you have a giant quagmire of non movement in the marketplace. "

" It is a wonderful time for cash Buyers. They may anticipate 200%, or more, returns upon the return of the real estate market."

" It's getting better. Sellers are starting to be more realistic in pricing, buyers are accepting higher loan qualifications, and activity is picking up since the election. "

" Lenders are not relaxing issues relating to loan renewals. They want you to move the loan but to where? They will give you a one year renewal which is not acceptable. We need fixed rate loans of 3-5 years minimum, 20-25 yr amortization just to survive and not have to pass increase operating cost to tenants. "

" Lenders are out of the market with few loans being made. Financing is a problem currently. Thus there is at least a 5 year or more inventory. The other problem is appraisals. with little lending going on there are far fewer comps to work with and this is a problem for them. Not their fault - again a function of bankers tightening loan criteria. "

" Lenders need to cut property owners a break so they can pass that onto their tenants. Otherwise, more business owners will be forced to close their doors the 1st quarter of 2011 because of the economy. "

" Lots of Buyers and Sellers but leasing has increased. I have 24 commercial listings. I have completed 22 transaction to date totaling \$5.2M. "

"Major high credit firms are leasing and buying sites" "before the bargains are gone". Lots of of amortizing, non endorsement financing available for BBB+ SP and up"

" Market has been so slow ... we have to work 10 times harder than before to get a deal through. "

" Market in DC and N Virginia is still moving but buyers think they can get a free ride. Money is available here at very good rates. "

" Market is soft and in a steep decline. bottom could be years off. "

"My primary business is commercial appraisal. Market conditions generally weaken across all property types as distance from Boston's CBD increases."

" National tenants are hesitant and banks are scared to lend on bare development ground. "

" NJ Industrial Market Trends are still experiencing 'negative' net absorption of space. Pockets of activity exist as pertains to both leasing & sales. No market momentum until there is sustained job creation! "

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The REALTORS® Commercial Real Estate Quarterly Market Survey Comments—continued.

"Nothing will start moving until the financial markets get unrestrained by the regulators and start playing ball again. "

" Our unemployment rate has been hovering around 10%. The residential housing market is extremely distressed. Commercial financing is difficult. These are the main factors influencing a stagnant commercial market. "

" Outlook appears to be getting better as retail sales improve nationwide. Confidence level is improving across the board. "

" Overall I see office on an upswing year over year. With the real possibility of inflation or hyper-inflation, I see commercial real estate as a great deal. "

" Plenty of money, but all on the sidelines waiting for firm economic direction and resolution to tax rates/structure. "

" Prices have declined 30-40% in the past year. We are experiencing frequent price reductions on properties listed 6 to 12 months ago. Sellers are still adjusting to the realities of current market values, as compared with 2 or 3 years ago. "

" Sellers are trying to negotiate but there is so much inventory that buyers are just waiting for the property to go to foreclosure and eventually REO for the banks. "

" Since my business is land, in particular, subdivisions, the distressed sales from banks have really picked up. "

" Since November 2, 2010 there's been a significant increase in interest in retail. "

" Starting to pick up, financing still difficult to secure, seeing more transaction volume in second half of year. "

" Starting to see rental rates decline to increase CAP rates to levels closer to investors requests. "

" Starting to turn in the past two months. Landlords needed to drop their listing prices to get tenants to move. Same thing for sales. Dropped pricing 20% and interest began. "

" The "sharks" are circling. Many feel in the spring of 2011 commercial lenders will be forced to foreclose on commercial income properties with current occupancy too low for the owner to keep current on their existing financing. Perception may become reality if too many investors wait for the anticipated flood of lender-owned commercial investment properties. "

" The banks are so tight with the financing that it is almost impossible to get a loan for commercial and residential properties. Very frustrating! "

" The church market is actually booming when you consider the available buyers and available inventory. Without financing available, the inventory just grows and buyer fill in the wish line. "

" The commercial retail market and office space above 1500 sf seems to be getting hit the hardest. "

" The growth I have seen in our local market has been largely due to the spending of smaller businesses and thanks to the flexible financing environments provided by small, local financial institutions. "

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The REALTORS® Commercial Real Estate Quarterly Market Survey Comments—continued.

"The inability for landlords to renegotiate their current financing is hurting the leasing market. Tenants do not want to sign long term leases with such uncertainty in today's market. "

" The market is getting better. Financing for new development is missing. Government is no help has they keep adding roadblocks to development. "

" The market is stable commercial inventory for industrial properties both for lease and sale average amount. The retail market rental rates are declining with inventories to be higher than average. Suburban office market is non-existent. "

" The November Elections Seamed to be a catalyst in creating additional activity, that will hopefully generate earnings. "

" The office market is very flat, only a shade above last year which was the worst year on record. The average size is way below 5,000 sq. ft. Of 50 -70 leases signed only 4 were above 10,000 sq. ft. in size. "

" The uncertainty of financing, tax laws, estate planning gives way to no decision by businesses. A decision must be made by Washington to remove this log jam of indecision. "

" There is more commercial property available in our market then has ever been in over 10 years and no business start ups to fill the vacancies. Several business have gone out of business. "

" Things look encouraging. There is more activity than last year. "

"This is the toughest market I've experienced in over 30 years in real estate. I'm not very optimistic about much improvement in 2011."

" Tight credit and uncertainty about the future both inhibit investor spending; the market I serve is very, very slow. "

" Uncertainty about the future. Buyers are bullish one day, bearish the next. They are optimistic one day, down the next. "

" We still have 2.5 years of pain left, but I am very optimistic that the pain will become less and less each month. Activity is way up over a year ago, lease rates are getting close to where they should've been all along, and for those who continue to consistently work hard, you are probably already seeing the light at the end of the tunnel. "

" While our market is having its issues financially, many investors, developers are being placed in extremely tight situations with banks revamping and restructuring loans to make the owners perform more on their developments, versus, helping them work on lower payments, interest only while we weather the storm. Therefore, developers are loosing their properties, selling them at losses, all which are because banks rather make loans perform faster vs. helping the developer. Banks are not lending to small businesses, not purchasers with 20% down whether or not you can perform. They have increased their down payment to over 30%. Overall - if banks would work with investors on having them at a minimum pay interest rather than increasing their payment and decreasing their terms- everyone would be in a win-win situation. Bank still receives interest which is where they make their money, developers and investors are able to cash flow and survive, and foreclosures would be reduced. "

" Within the last 2 weeks, since the national elections, activity has definitely picked up. We are getting lots of positive feed-back from potential Buyers. It feels like the drought is over, but time will tell if this perception has legs. ""

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NATIONAL ASSOCIATION OF REALTORS® RESEARCH DIVISION



The Research Division of the NATIONAL ASSOCIATION of REALTORS® produces the Commercial Real Estate Outlook, a quarterly report forecasting commercial market fundamentals. Additionally, NAR Research examines how changes in the economy affect the commercial real estate business, and evaluates regulatory and legislative policy proposals for their impact on REALTORS®, their clients and America's property owners.

If you have questions or comments regarding this report or any other commercial real estate research, please contact George Ratiu, NAR Economist, at gratiu@realtors.org.

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