NATIONAL ASSOCIATION OF REALTORS® RESEARCH

NOVEMBER 2011

COMMERCIAL REAL ESTATE OUTLOOK

ECONOMIC OVERVIEW

Commercial Markets Approach Year-End with Caution

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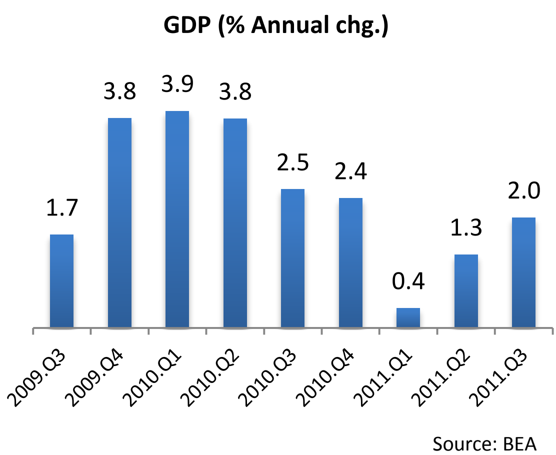
Heading into the traditional holiday season, the economy is looking for some sparkle. While the third quarter brought some positive news, it does not add to a bountiful season. With unemployment still high, and European issues continuing to weigh on financial markets, economic concerns slowed commercial real estate markets.

Based on the Bureau of Economic Analysis's second estimate, gross domestic product (GDP) rose 2.0 percent in the third quarter. Mirroring second quarter's patterns, all major components advanced, except government spending. Business investments provided a double-digit boost behind the economic advance. Business spending rose 14.8 percent during the quarter. Businesses have accelerated spending with each successive quarter during 2011. Businesses upped their spending on equipment—transportation was up 31.7 percent while industrial equipment rose 31.6 percent. Notably, spending on commercial real estate gained for the second consecutive quarter, advancing 12.6 percent.

The major driver of economic growth by scale, consumer spending remained steady, gaining 2.3 percent during the third quarter. While at modest levels, consumers increased their spending on both goods and services. Spending on furnishings and household equipment was up 5.3 percent, while consumption of recreational goods and vehicles rose 10.8 percent. Cars and auto parts registered a 1.9 percent rise. Consumers also increased their spending on financial services and insurance (2.4%), recreation (2.8%) and health care (5.5%).

International trade, which has proven resilient this year, continued to expand during the quarter. With exports rising by 4.3 percent and imports growing by 0.5 percent, the balance of trade was positive. However, along with growth in trade, prices of exchanged goods also increased. Import prices, in particular, have been growing at double-digit rates for better part of 2011, with September's prices 13.4 percent higher year-over-year. Export prices rose at a much slower pace, with September 2011 figures up 9.5 percent from the prior year.



The other major contributor to economic growth—government spending—was flat. Federal spending increased 1.9 percent, driven by defense expenditures, up 4.7 percent. State and local governments slashed their spending by 1.4 percent as they continued to face mounting deficits.

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ECONOMIC OVERVIEW

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On the employment front, the third quarter witnessed a slowdown. Businesses cite general uncertainty, lack of demand and regulatory concerns as the main reason for modest hiring. The number of payroll jobs rose by 368,000 during the quarter. Manufacturing, construction and mining maintained a steady pace of growth. In a positive sign, professional and business services posted a net 100,000 new jobs during the quarter. The other contributors to employment growth were the education and health sectors.

However, employment conditions remain far from a pace that could support sustainable economic growth. The first-time unemployment insurance claims were stubbornly high at 412,000 per week, during the third quarter. The figure should fall below 400,000 per week to ensure a meaningful, consistent job creation. In addition, the number of people drawing unemployment benefits rose to 3.73 million in the third quarter, from 3.72 million in the second quarter of the year. Not surprisingly, the unemployment rate spent the third quarter pegged at 9.1 percent. It declined to 9.0 percent in October.

With the large specter of unemployment casting a long shadow across the economy, consumers grew weary. The consumer confidence index compiled by the Conference Board—a measure that considers respondents' general feelings about the job market and their finances—declined to39.8, a low not seen since the first quarter of 2009, during the recession. More troubling, consumers were pessimistic about both the current economic conditions as well as their expectations.

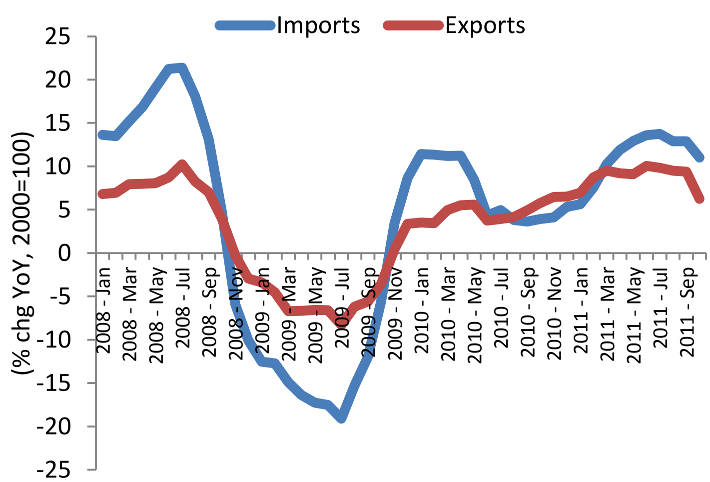
NCREIF PROPERTY INDEX RETURNS – 2011.Q3

NATIONAL	3.30%
OFFICE	2.96%
INDUSTRIAL	3.39%
RETAIL	3.58%
APARTMENT	3.60%

Source: National Council of Real Estate Investment Fiduciaries

Looking ahead, GDP growth will likely close the year at an anemic 1.8 percent annual rate. While the holiday season is expected be positive, it is not expected to provide enough momentum for the year. For commercial real estate, improving fundamentals should translate into a more positive trend into 2012.

Price Indices: All Commodities



Source: Haver

ECONOMIC FORECAST

Annual Growth Rates (%)	2010 III	2010 IV	2011 I	2011 II	2011 III	2011 IV	2012 I	2012 II	2012 III	2012 IV	2009	2010	2011	2012
Real GDP	2.5	2.3	0.4	1.3	2.6	2.5	1.9	2.4	2.2	2.5	-3.5	3.0	1.8	2.2
Nonfarm Payroll Employment	-0.2	0.8	1.3	1.4	1.6	1.7	1.4	1.4	1.0	1.6	-4.4	-0.7	1.1	1.4
Consumer Prices	1.4	2.6	5.2	4.1	3.6	2.7	3.4	3.8	4.0	3.4	-0.3	1.6	3.3	3.5
Real Disposable Income	2.3	1.5	1.2	0.6	1.9	1.5	2.1	1.5	1.5	1.6	-2.3	1.8	2.2	1.8
Consumer Confidence	51	53	67	62	50	48	51	55	60	62	45	54	57	57
Unemployment (%)	9.6	9.6	8.9	9.1	9.1	8.9	8.9	8.7	8.7	8.7	9.3	9.6	9.0	8.7

Interest Rates (%)	2010 III	2010 IV	2011 I	2011 II	2011 III	2011 IV	2012 I	2012 II	2012 III	2012 IV	2009	2010	2011	2012
Fed Funds Rate	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1
3-Month T-Bill Rate	0.2	0.1	0.1	0.0	0.1	0.2	0.3	0.3	0.4	0.5	0.2	0.1	0.1	0.4
Prime Rate	3.3	3.3	3.3	3.3	2.8	2.9	3.0	3.0	3.1	3.5	3.3	3.2	3.1	3.1
Corporate Aaa Bond Yield	4.6	4.9	5.1	5.0	4.3	4.6	4.7	4.8	5.1	5.3	5.3	4.9	4.8	5.0
10-Year Government Bond	2.8	2.9	3.5	3.2	2.1	2.4	2.5	2.7	3.0	3.1	3.3	3.2	2.8	2.8
30-Year Government Bond	3.9	4.2	4.6	4.3	3.4	3.8	3.8	4.0	4.3	4.4	4.1	4.3	4.0	4.1

Source: National Association of REALTORS®

COMMERCIAL FORECAST

OFFICE	2011 IV	2012 I	2012 II	2012 III	2012 IV	2013 I	2011	2012	2013
Vacancy Rate	16.7%	16.5%	16.4%	16.2%	16.1%	16.0%	16.6%	16.3%	15.9%
Net Absorption ('000 sq. ft.)	4,259	6,340	7,925	10,144	7,291	16,960	20,178	31,700	53,000
Completions ('000 sq. ft.)	1,820	4,465	5,642	10,750	4,617	7,145	11,659	25,474	37,847
Inventory ('000,000 sq. ft.)	4,085	4,089	4,095	4,106	4,110	4,118	4,085	4,110	4,148
Rent Growth	0.2%	0.2%	0.4%	0.4%	0.7%	0.6%	1.4%	1.7%	2.4%

INDUSTRIAL	2011 IV	2012 I	2012 II	2012 III	2012 IV	2013 I	2011	2012	2013
Vacancy Rate	12.3%	12.1%	12.0%	11.8%	11.7%	11.9%	12.4%	11.9%	11.1%
Net Absorption ('000 sq. ft.)	18,587	8,250	9,900	15,262	7,837	13.301	61,957	41,249	59,855
Completions ('000 sq. ft.)	8,168	5,675	7,980	10,340	2,952	10,325	20,462	26,947	54,881
Inventory ('000,000 sq. ft.)	8,386	8,391	8,399	8,410	8,413	8,422	8,386	8,413	8,467
Rent Growth	0.1%	0.2%	0.2%	0.5%	0.9%	0.4%	-0.5%	1.8%	2.3%

RETAIL	2011 IV	2012 I	2012 II	2012 III	2012 IV	2013 I	2011	2012	2013
Vacancy Rate	12.6%	12.7%	12.4%	11.9%	11.8%	11.9%	12.9%	12.2%	11.0%
Net Absorption ('000 sq. ft.)	38	2,303	3,522	4,200	3,522	5,832	1,238	13,547	23,330
Completions ('000 sq. ft.)	1,394	876	2,130	5,260	4,411	2,150	4,207	12,677	19,878
Inventory ('000,000 sq. ft.)	2,025	2,026	2,028	2,034	2,038	2,040	2,025	2,038	2,058
Rent Growth	0.0%	0.1%	0.2%	0.2%	0.2%	0.3%	-0.2%	0.7%	1.4%

MULTI-FAMILY	2011 IV	2012 I	2012 II	2012 III	2012 IV	2013 I	2011	2012	2013
Vacancy Rate	5.0%	4.9%	4.8%	4.4%	4.3%	4.6%	5.4%	4.6%	4.5%
Net Absorption (Units)	115,730	31,655	29,123	35,454	30,389	25,672	238,398	126,621	102,687
Completions (Units)	11,856	12,570	18,350	31,954	25,965	17,565	38,014	88,839	93,706
Inventory (Units in millions)	9.8	9.9	9.9	9.9	9.9	10.0	9.8	9.9	10.0
Rent Growth	0.8%	0.7%	0.8%	0.9%	1.1%	0.9%	2.5%	3.5%	3.8%

Source: National Association of REALTORS® / REIS, Inc.

COMMERCIAL FORECAST: METRO VACANCY RATES - 2011.Q4

Source: NAR, REIS, Inc.

		Office	Industrial	Retail	Multifamily
Albuquerque	NM	15.7		12.1	3.7
Atlanta	GA	20.7	17.4	14.6	7.9
Austin	TX	20.3	16.1	7.8	4.9
Baltimore	MD	18.0	14.1	7.8	4.3
Boston	MA	14.7	21.1	6.9	3.9
Charleston	SC	18.5		11.9	5.5
Charlotte	NC	16.2	14.8	11.0	6.0
Chattanooga	TN	16.1		12.6	4.9
Chicago	IL	18.8	11.1	12.0	4.6
Cincinnati	OH	20.5	9.6	14.8	5.3
Cleveland	OH	20.2	10.1	15.4	4.4
Columbus	OH	18.4	11.0	16.0	7.4
Dallas	TX	23.9	14.8	15.0	6.3
Denver	CO	19.8	9.4	11.9	4.8
Detroit	MI	26.7	13.9	12.0	5.3
District of Columbia	DC	9.3			5.2
Fort Lauderdale	FL	20.0	10.5	10.9	5.2
Fort Worth	TX	16.0	13.2	14.0	6.9
Greensboro/Winston-Salem	NC	18.3		12.6	7.8
Hartford	CT	22.0		10.8	3.1
Houston	TX	15.0	9.7	12.7	8.9
Indianapolis	IN	20.9	10.9	15.2	5.9
Jacksonville	FL	20.9	8.9	13.2	8.9
Kansas City	MO	17.3	10.7	13.3	6.0
Knoxville	TN	15.8		10.8	5.4
Las Vegas	NV	25.1		13.1	7.5
Long Island	NY	13.4		5.7	3.2
Los Angeles	CA	14.7	5.2	6.6	3.9
Louisville	KY	14.9		11.0	4.5
Memphis	TN	21.8	16.9	12.6	10.7
Miami	FL	16.9	8.4	7.3	4.8
Milwaukee	WI	19.2		13.2	3.7
Minneapolis	MN	18.8	9.5	12.2	2.4

COMMERCIAL FORECAST: METRO VACANCY RATES - 2011.Q4

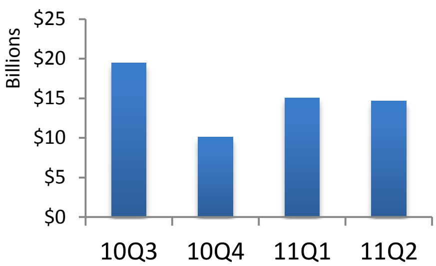
Source: NAR, REIS, Inc.

		Office	Industrial	Retail	Multifamily
Nashville	TN	13.7	10.5	8.6	5.8
New Orleans	LA	12.8		11.4	7.2
New York	NY	10.3			2.7
Northern New Jersey	NJ	17.9		5.7	4.1
Oakland-East Bay	CA	18.9	11.0	6.4	3.7
Oklahoma City	OK	20.4		15.0	6.5
Orange County	CA	20.2	5.7	6.5	4.1
Orlando	FL	17.1	13.8	13.7	6.9
Palm Beach	FL	20.3	10.2	12.7	6.9
Philadelphia	PA	15.1	11.8	9.6	4.1
Phoenix	AZ	26.3	13.6	12.2	7.6
Pittsburgh	PA	16.2	10.1	9.1	3.5
Portland	OR	14.7	10.0	9.4	2.8
Raleigh-Durham	NC	15.4	19.3	10.2	5.4
Sacramento	CA	20.0	13.9	12.8	4.8
Salt Lake City	UT	17.3		13.5	4.7
San Antonio	TX	18.5	10.4	12.2	7.1
San Bernardino/Riverside	CA	25.1	9.7	10.4	4.8
San Diego	CA	18.1	9.4	7.1	3.1
San Francisco	CA	14.1	13.3	3.7	3.4
San Jose	CA	21.9	18.1	6.0	2.9
Seattle	WA	15.2	8.5	7.5	4.4
St. Louis	MO	17.8	8.7	13.4	6.2
Suburban Maryland	MD	15.2	12.8	9.0	4.5
Suburban Virginia	VA	14.8	12.8	6.5	3.8
Tampa-St. Petersburg	FL	20.7	8.8	12.8	6.2
Tucson	AZ	15.3		10.6	6.5
Tulsa	OK	19.8		15.8	6.9
Ventura County	CA	17.1		10.3	3.7
National Averages*		**16.7%**	**12.3%**	**12.6%**	**5.0%**

* Not all markets are represented in chart above.

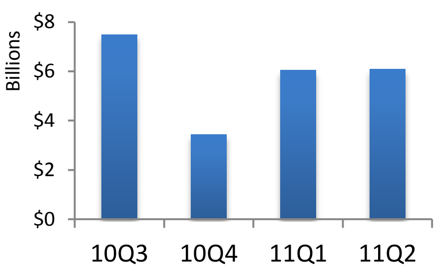
INVESTMENT TRENDS AT A GLANCE

Office Sales Volume



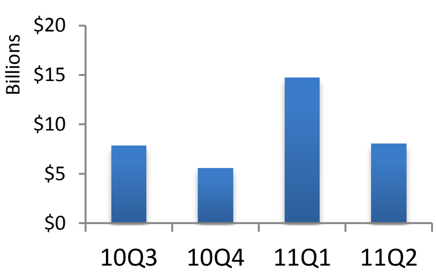
OFFICE		
Region	Average Cap Rate	Average Price ($/Sq. Ft.)
Mid-Atlantic	7.2%	$257
Midwest	7.9%	$124
Northeast	6.4%	$378
Southeast	8.0%	$147
Southwest	7.9%	$149
West	7.0%	$227

Industrial Sales Volume



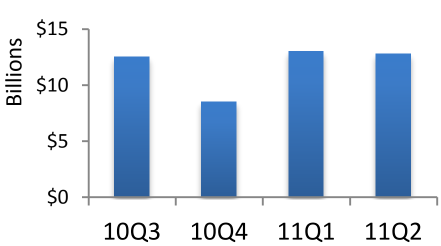
INDUSTRIAL		
Region	Average Cap Rate	Average Price ($/Sq. Ft.)
Mid-Atlantic	7.7%	$63
Midwest	8.4%	$47
Northeast	8.0%	$68
Southeast	8.7%	$46
Southwest	8.2%	$50
West	7.6%	$87

Retail Sales Volume



RETAIL		
Region	Average Cap Rate	Average Price ($/Sq. Ft.)
Mid-Atlantic	7.3%	$254
Midwest	7.8%	$143
Northeast	7.3%	$398
Southeast	7.6%	$143
Southwest	7.9%	$132
West	7.0%	$200

Multifamily Sales Volume



MULTI-FAMILY		
Region	Average Cap Rate	Average Price ($/Unit)
Mid-Atlantic	6.3%	$133,653
Midwest	7.5%	$89,408
Northeast	6.0%	$243,142
Southeast	6.8%	$69,379
Southwest	6.6%	$70,815
West	6.0%	$154,008

Note: Data based on sales closed in 2011 as of October
Source: Real Capital Analytics

REALTOR® RESEARCH

The Research Division of the National Association of REALTORS® monitors and analyzes monthly and quarterly economic indicators, including retail sales, industrial production, producer price index, gross domestic product and employment data that clearly impact commercial markets over time. In addition, the Research Division provides several products covering commercial real estate:

- Commercial Member Profile
- Commercial Real Estate Quarterly Market Survey
- Commercial Real Estate Lending Survey

If you have questions or comments regarding this report or any other commercial real estate research, please contact George Ratiu, Manager, Quantitative & Commercial Research, at gratiu@realtors.org.

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