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President's message: Pricing gap between seller & buyer

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Every quarter, NAR Research produces The Realtors Commercial Real Estate Market Survey. This survey measures quarterly activity in commercial real estate markets and reflects data from commercial members of the Association. The survey is designed to provide members with an overview of their markets' performance, sales and rental transactions, along with current economic challenges and future expectations. The survey 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. Below we present highlights from the latest survey reflecting data from the first quarter of 2010.

There was mixed news for commercial market activity in the first quarter of 2010. More than half of commercial Realtors responding to the NAR survey indicated that they had completed a commercial sales transaction. The estimated average transaction value was \$1.2 million.

But sales, prices, and rental rates declined from the previous quarter. Sales volume declined 6% in the first quarter compared with a year ago, and sales prices declined 16% in the fourth quarter on a year-over-year basis. Rental rates were down 10%. On a positive note, leasing activity rose 3% from the previous quarter. Still, the market seems to favor tenants, as concession levels moved up 9% on a quarterly basis.

State Differences

Of course, some states in the country experienced different levels of sales activity. Nineteen states and the District of Columbia saw sales volume increase compared to the previous quarter, compared to 13 states which saw increases from a year ago. On a quarter to quarter basis, some even posted double-digit increases: Idaho (17%), D.C. (50%), N.H. (45%), and S.C. (28%).

On a quarter-to-quarter basis, sales prices were down in the majority of states. Kansas, Louisiana, Maine, Montana, North Dakota, Utah and Vermont saw no change in price. But looking at year-over-year change in price, two - New Mexico and Oklahoma experienced small price increases (5% and 1%, respectively). The smallest price declines on an annual basis were in Mass. and N.J.

Leasing and Rental Rates

There was some good news on the leasing front. Leasing activity was up in the majority of states compared to the previous quarter. Several states posted increases of 50% or more: Alabama (up 100%), Illinois (50%) and N.H. (55%).

Tenants looking for commercial space are still seeing the scales balanced more to their side. Rental rates declined in most states from the previous quarter. Only two - Alaska and Georgia - registered small quarter to quarter increases.

Challenges Facing Commercial Practitioners

With the economy still in a very slow expansion mode, and the financial markets not yet recovered,

Realtors who are commercial practitioners face a number of challenges. The most pressing challenge is obtaining financing. The state of the national economy is also a major concern, as is the pricing "gap" between buyers and sellers.

Arthur Slattery is owner of The Phoenix Realty Group, Bedford, NH and is president of the NH-CIBOR, Concord, NH.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540