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Leasing activity is seen in many markets

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The Fall 2007 SIOR Commercial Real Estate Index, representing third quarter 2007 data, compiled by the Society of Industrial and Office Realtors (SIOR) and evaluated by the National Association of Realtors (NAR) posted the steepest quarterly decline since SIOR began its indexation project in late 2005.

The national index, which measures 10 variables pertinent to the performance of U.S. industrial and office markets, dropped 6.5 points to a fall reading of just 107.2. While still higher than a value of 100 (indicating a balanced office and industrial marketplace), it appears that we are in a market that is less buoyant for property owners—until commercial real estate conditions return to the level they have experienced over the past couple of years.

The SIOR Commercial Real Estate Index is a diffusion index (see Methodology) where a score of 100 indicates markets in balance. Although a score of 107.2 reflects positive conditions in the commercial real estate industry for landlords and sellers, it is clear that the robust market enjoyed until recently has ended—at least temporarily. Only 54% of markets indicated that leasing activity was normal or a little higher, down considerably from the 76% reporting those conditions in October 2006. The 3rd quarter index was based on replies from 371 SIOR members who provided their views on market conditions in their respective markets in early to mid-October.

The index results indicated that approximately one-half of the local markets surveyed continued to be strong with the national economy having little or no effect on local market conditions. Modest rental rate growth was experienced in 55% of the markets reporting, down 10% from October 2006. Only 33% of respondents indicated that their market was favorable to tenants (those offering moderate levels of landlord concessions). More respondents described a balanced market (63% now vs. 53% last year) where landlord concessions were insignificant. Overall, the investment market was balanced with only a slight increase in favorable conditions for sellers.

Office Market

The Office Market experienced the most significant index decrease, dropping 11.4 points from a 2nd quarter high of 115 points. The decrease represented a decline of office leasing and sales transactions.

Industrial Market

The industrial market index declined only 3% to 109.34. While higher than the Office Index of 103.5, the industrial market had already experienced its big decline in the spring when it lost 6.99 points.

The slowdown in industrials is the result of diminishing leasing and sales activity.

The declining office and Industrial Indices are to be watched closely.

Regional Breakdown

The west has been hardest hit by the mortgage meltdown as many office buildings in and around LA and Orange County will be vacated. On the industrial side, fewer exports will lead to less demand for distribution/warehouse space. A slowdown in exports will impact demand for the same product types in port markets.

Although it slipped 8.2 points from the summer index, the south ranked highest of all regions with a score of 113.3. Demand for retail property/space particularly in Florida help keep the Index high.

Concerns about the sub prime loan fallout and the financial markets on Wall St. are prompting a slowdown in leasing activity in the northeast. The region fell 5.45 points since the summer index to 107.5. Although the falling dollar makes U.S. products more attractive in foreign markets, the need for warehouse/distribution space is not as great for exports as it is for imports.

The mid-west, the only region to track below 100, came in at 92.9 this quarter, losing 1.6 points. The mid-west continues to experience difficulties. Markets like Detroit and St. Louis could certainly use a boost in their economies. Until this happens, demand for commercial real estate will continue to be sluggish in those markets.

Rob Nahigian, FRICS, SIOR, is the 2008 CRE chapter president, Newton, Mass.