CCIM QUARTERLY MARKET TRENDS

Second Quarter 2013

CCIM Institute
Commercial Real Estate's
Global Standard for Professional Achievement

COMMERCIAL Real Estate
REALTOR®
NATIONAL ASSOCIATION *of* REALTORS®

Foreword

June 2013

Dear Readers,

Welcome to the second-quarter 2013 edition of CCIM Institute's *Quarterly Market Trends*. The report provides timely insight into major commercial real estate indicators for core income-producing properties. It is produced by the National Association of Realtors® in association with and for members of the CCIM Institute, the commercial real estate industry's global standard for professional achievement.

The second-quarter 2013 report features commentary from Lawrence Yun, Ph.D., NAR chief economist, and George Ratiu, manager of NAR's quantitative and commercial research. It also includes market and transaction data collected from CCIM members that illustrate transaction trends across the U.S. I'd like to thank the CCIM members who participated in the survey and shared insights on their local markets.

While the economy poses good news and bad news scenarios for sustained recovery, consumer confidence continues to improve, businesses continue to expand, and the housing market continues its upward trajectory. Those factors make commercial real estate appealing to investors.

I hope that the information provided in CCIM's *Quarterly Market Trends* report provides both economic and commercial real estate market information that will assist you in your business strategies in 2013 and beyond.

Sincerely,

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2013 CCIM Institute President
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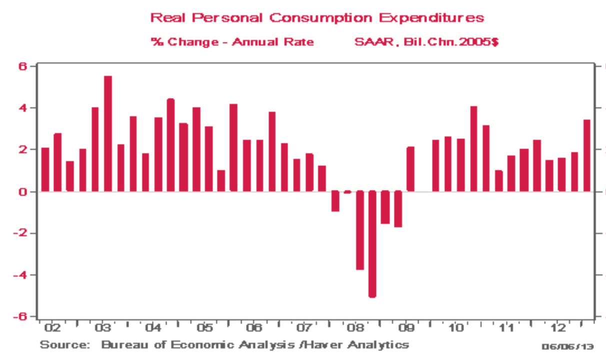
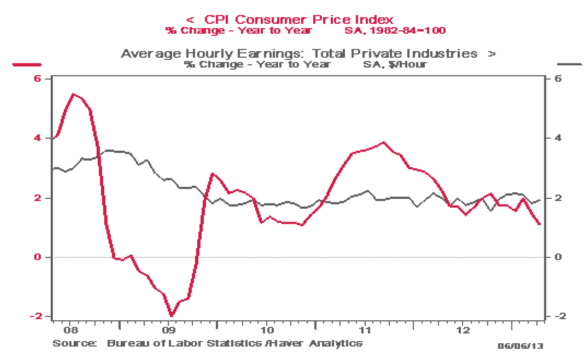
U.S. Economic Overview

It's a good news and bad news economy. On the positive side, GDP is expanding and jobs are being created. Moreover, the stock market hit a new all-time high in late May, thereby bolstering net wealth for many families. Recovering home prices are also helping to improve household balance sheets and boost consumer confidence. However, there are things that still do not feel right about the economy. Bloomberg's consumer comfort index shows a diverging trend with people in the upper-income levels expressing better times while those in the lower-income levels and the young feel that we are in essence still in a recession.

Let's take a closer look at each segment of the economy. Consumer spending surprisingly remains resilient, even with the payroll tax increase of 2 percent at the beginning of the year. In the first quarter of 2013, real personal consumption expenditure rose by a healthy 3.4 percent – the second best quarterly figure in six years. Quite amazing considering the average wage growth was only 1.9 percent from one year ago, only slightly better than the consumer price inflation rate.





The two key reasons for better than expected consumer performance are: more jobs and recovering wealth. Over 2 million net jobs have been added to the economy, bringing the total from the low point in 2010 to 6.2 million net new jobs. Keep in mind however that the economy lost 8 million jobs during the Great Recession of 2008-09, so further improvements are

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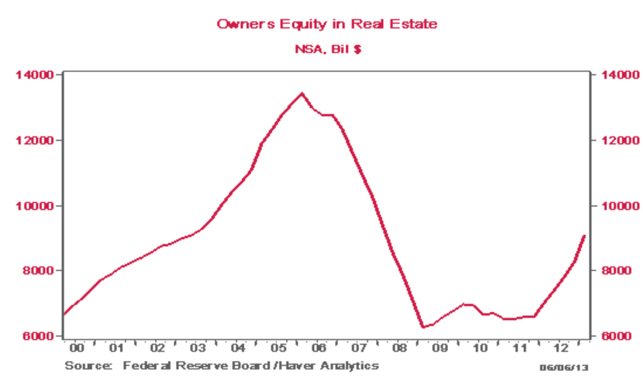
needed to fully recover those lost jobs. In addition, there has been a stream of high school and college graduates entering the labor force in search of jobs. As a result, even though the unemployment rate has fallen to 7.5 percent as of April, the employment rate – measuring the percentage of adult population with jobs – remains stuck at historic low levels with no measurable improvement.



As to wealth, households and nonprofit organizations' total assets minus total liabilities reached a new high mark in the first quarter at $70 trillion, including a $2.8 trillion positive addition from the home price recovery. Economists refer to the wealth effect of consumer spending whereby people spend more, even without an income increase, if their overall wealth is rising. This wealth effect is no doubt the key reason for the resiliency of consumer spending.

Businesses are also expanding spending, though at a markedly decelerated rate. Spending by businesses on equipment and software grew in the 4 percent range for three consecutive quarters, down from the double-digit rate of expansion in 2010 and 2011. This softness in spending is puzzling given the ease of bond market financing (from record low borrowing costs) and large cash holdings by companies. Perhaps there is still general uncertainty about the future economic outlook from the business point of view. To some degree the coming implementation of ObamaCare coverage may also be holding back business spending, as expressed in the Federal Reserve's Beige Book. Spending on commercial real estate construction, a very volatile component, also experienced a measurable slowdown in the latest quarter. Though the vacancy rates are falling, the hesitancy could be due to above-normal vacancy levels across most property types.