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GDP Advance Drives SIOR Index Gain to New Heights in First Quarter of 2017

May, 2017—WASHINGTON, DC — Members of the Society of Industrial and Office REALTORS® (SIOR) participated in the Commercial Real Estate Index survey, supplying their knowledge of the industrial and office market conditions in the United States for the first quarter of 2017. The responses, given by 183 SIOR members, compiled by SIOR in association with the National Association of REALTORS® (NAR), present an accurate depiction of the current industry for the beginning of 2017.

The SIOR Index increased 2.9 points during the 1st quarter of 2017, moving from 123.2 to 126.1, keeping the Index value above the 100-point threshold for the 12th consecutive quarter. The SIOR Index measures ten variables pertinent to the performance of U.S. industrial and office markets (see methodology).

Rents rose for office and industrial properties — 74 percent ascertained that rents were above historical trends. Meanwhile, 24 percent indicated that rents were in line with long-term averages, and 6 percent of SIOR members considered that asking rents were below those of one year ago.

Leasing activity remained steady; 54 percent of respondents felt that leasing activity in their market is higher than historic levels; 28 percent found leasing in line with averages, while 18 percent found leasing below normal.

Rents: 4 percent of respondents felt that asking rents are below where they were one year ago (3 percent last qtr.); 21 percent feel that asking rents are in line with long-term averages; 75 percent reported rents above historical trend.

Vacancies: 11 percent of respondents thought that vacancy rates are higher than a year ago; 24 percent contend they are the same and 66 percent say they are lower (70 percent last quarter).

Subleasing availability: 5 percent felt that there is ample sublease space available, compared with 8 percent last quarter; 64 percent considered subleasing to have a small influence on the market.

In terms of tenant concessions—20 percent felt that tenants were benefiting from moderate concessions to deep discounts to rents (19 percent last qtr.); 26 percent of respondents found a market in normal negotiating balance; 54 percent thought the market favored the landlord.

Construction activity: 40 percent indicated rising new construction; 15 percent found development close to historical averages; 23 percent of respondents indicated levels lower than normal, and 21 percent mentioned that there is no new commercial construction in their market.

In terms of development acquisitions—it was a buyer's market according to 12 percent of respondents (14 percent last qtr.); 31 percent found it a balanced market, while 58 percent experienced a seller's market (53 percent last quarter).

On the investment side, prices were below replacement costs in 38 percent of the markets, compared with 38 percent last quarter; prices were above costs in 46 percent of the markets.

Local economies—10 percent of respondents feel that their local economy is slowing or contracting, compared with the 9 percent from last quarter. Meanwhile, 61 percent considered that the local economy is strong and improving (58 percent last quarter).

National economic impact—5 percent of respondents felt that the national economy is having a negative impact on their local market (7 percent last qtr.); 62 percent felt that the national economy was having a positive impact on their markets.

When asked about the outlook for the next three months—6 percent indicated that business was going to be down from current levels, 29 percent of respondents felt the market will be maintaining the current level during the next three months, and 65 percent pointed to expected improvement in the market.

Methodology

The SIOR Commercial Real Estate Index is constructed as a "diffusion index," a very common and familiar indexing technique for economic measures. Other examples of diffusion indexes include the Index of Leading Economic Indicators, the Consumer Confidence Index, and the Institute of Supply Management's Purchasing Managers' Index. In the SIOR Commercial Real Estate Index, a value of 100 represents a well-balanced market for industrial and office property. Values significantly lower than 100 indicate weak market conditions; values significantly higher than 100 indicate strong market conditions. The theoretical limits of this Index are a low of zero, and a high of 200, though it is unlikely that such limits would be approached as long as the property markets are operating efficiently.

The Index is based on a survey questionnaire with ten topics. The topics covered are (1) recent leasing activity; (2) trends in asking rents; (3) trends in vacancy rates; (4) subleasing conditions; (5) levels of concession packages in leases; (6) development activity; (7) site acquisition activity; (8) investment pricing levels; (9) the impact of the local economy on the property market; and, (10) the effect of the national economy on the property market. Survey respondents are given five choices. For each topic, five choices are provided, corresponding to conditions that are very weak, moderately weak, well-balanced, moderately strong, or very strong.

For each question, answers are tallied and the percentage of responses for each of the five choices is calculated. If survey panelists indicate "very weak" conditions (the "a" choices in the questionnaire), the answer is assigned 0 (zero) points; "moderately weak" ("b" answers) earn 5 points; an indication of "market balance" ("c") receives 10 points; "moderately strong" indications ("d") score 15 points; and "very strong" ("e") responses receive a maximum 20 points. Thus a score of 10 for a given question can be earned if responses are evenly distributed across all five choices, if all responses were "c", or if the answers form a "bell-shaped curve" centered around the "c" choice. The total index value is derived by summing the scores for all ten questions. Index values for each of the two property types are similarly calculated.

The survey was developed by Hugh F. Kelly, CRE, clinical professor at New York University, who worked with SIOR on research projects since 1989.

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