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Contact:

Alexis Fermanis,
SIOR Director of Communications
afermanis@sior.com

Spurred by Employment Gains, SIOR Index Closes 2016 at Highest Level on Record

January, 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 fourth quarter of 2016. The responses, given by 240 SIOR members, compiled by SIOR in association with the National Association of REALTORS® (NAR), present an accurate depiction of the current industry for the end of 2016.

The SIOR Index increased 4.2 points during the 4th quarter of 2016, moving from 119.0 to 123.2., keeping the Index value above the 100-point threshold for the 11th consecutive quarter. The index was 0.3 percent higher on a yearly basis. The SIOR Index measures ten variables pertinent to the performance of U.S. industrial and office markets (see methodology).

Leasing activity exceeded historical levels, 54 percent of respondents felt that leasing activity in their market is higher than historic levels; 26 percent found leasing in line with averages, while 20 percent found leasing below normal.

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.

Vacancies continued declining, with 70 percent of respondents reporting lower availability rates compared to 71 percent last quarter; 12 percent of respondents thought that vacancy rates are higher than a year ago, and 17 percent contend they are the same.

Subleasing availability declined, with only 8 percent of SIOR respondents feeling that there was ample sublease space in their markets, compared with 9 percent last quarter; 62 percent considered subleasing to have a small influence on the market.

In terms of tenant concessions — 19 percent felt that tenants were benefiting from moderate concessions to deep discounts to rents (23 percent last qtr.); 34 percent of respondents found a market in normal negotiating balance; 47 percent thought the market favored the landlord.

New construction of office and industrial spaces moved sideways, with 35 percent of SIOR members reporting new construction during the quarter, and 19 percent indicating new building development close to historical averages; 28 percent of respondents indicated levels lower than normal, and 17 percent mentioned that there is no new commercial construction in their market.

Development conditions continued shifting in favor of sellers during the period, with 53 percent of SIORs rating it a seller's market. Investment prices increased slightly, with 43 percent of respondents indicating prices were above construction costs.

On the investment side, prices were below replacement costs in 38 percent of the markets, compared with 39 percent last quarter; prices were above costs in 43 percent of the markets.

Local economies performed well during the quarter, with 58 percent of SIOR respondents indicating that their local economies were strong and improving. Only 9 percent of SIOR members felt that their local economy was slowing or contracting. The fourth quarter national economic performance trickled down into the local markets, with 55 percent of SIOR responses indicating a positive impact upon markets. In contrast, only 7 percent of SIOR respondents experienced a negative impact upon their markets from national economic conditions (the remainder was neutral).

Regionally, the survey respondents pointed to solid performance across all four regions. The West and Northeast posted the highest quarterly gains—7.5 points and 7.4 points respectively. The West also recorded the strongest yearly advance, with a 2.5-point gain. The South region remained in the top, with the highest index value—129.3. The Midwest kept a solid pace of growth, with the index advancing 2.0 points year-over-year, at a quarterly value of 123.9.

Looking ahead at the first quarter of 2017, the majority of SIOR members expect the outlook to improve—72 percent of respondents indicated growth in the 1-15 percent range (compared with 56 percent in the prior quarter), while 22 percent felt the market will maintain current levels. Only 6 percent of SIOR members expected conditions to decline.

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.

Headquartered in Washington, D.C., the Society of Industrial and Office Realtors® (www.sior.com) is a global professional organization that certifies commercial real estate service providers with the exclusive SIOR designation. Individuals who earn their SIOR adhere to the highest levels of accountability and ethical standards. Only the industry’s top professionals qualify for the SIOR. Today, there are 3,100 SIOR members in 650 markets in 34 countries.

SIOR
Society of Industrial and Office Realtors®
1201 New York Ave. NW, Ste 350

Washington, DC 20005-6126
202.449.8200