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## **SIOR COMMERCIAL REAL ESTATE INDEX JUMPS 7.2 POINTS DURING THE FIRST 2012 QUARTER**

**APRIL 20, 2011—WASHINGTON, DC—** More than 238 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 for the first quarter of 2012. The responses, compiled by SIOR in association with the National Association of REALTORS® (NAR), present an accurate depiction of the current industry as we begin the new year.

The SIOR Index gained 7.2 points (11 percent) during the third quarter 2011, and currently sits at 71.0, a value we haven't seen since the second quarter of 2008, pre-recession. One-hundred points signifies equilibrium, and a balanced market—something the U.S. has not experienced since third quarter 2007. The SIOR Index measures ten variables pertinent to the performance of U.S. industrial and office markets (see methodology).

The broad markets showed increases across the board, in step with the improvement in national economic conditions. The office markets registered noticeable gains, increasing 8.6 points to 69.6, up from 61.0 in December, and the industrial sector advanced 5.5 points to 71.4, up from 65.9 in December. All market indicators, except one, posted advances in the first quarter.

When asked about the outlook for the next three months, participants are pointing to a stronger market for the next quarter—only 4 percent indicated that business was going to be down from current levels, 19 percent of respondents felt the market will be maintaining the current level during the next three months, and 77 percent are expecting improvement in the market.

Fundamentals are turning positive: only 20 percent of respondents think that vacancy rates are higher than a year ago (vs. 25 percent last quarter); 27 percent contend they are the same and 53 percent say they are lower. Additionally, rents are rising: 49 percent of respondents feel that asking rents are below where they were one year ago (57 percent last quarter); 51 percent feel that asking rents are in line with or slightly above long-term averages. In regard to subleasing, availability continued to improve—22 percent feel that there is ample sublease space available, compared with 29 percent last quarter.

Construction activity is still low, with 92 percent of respondents indicating levels lower than normal (95 percent last qtr.), 70 percent mentioning that there is no new

commercial construction in their market. In terms of development acquisitions, it is a buyer's market according to 79 percent of respondents (83 percent last quarter).

SIOR members still feel that the national economy is having a negative impact on their local market, however, fewer members (69 percent) are saying so—down from 84 percent last quarter. Local economies are still impacting real estate markets, but at a smaller scale—50 percent of respondents feel that their local economy is slowing or contracting, an improvement from the 62 percent from last quarter.

Vacancy rates are closing in on historical averages and showing declines from a year ago in all regions. Sublease space is at normal levels and declining in all regions, except the West.

### **Office Market**

Leasing activity has improved for office markets, and is higher than industrial markets. Office space has higher vacancy rates. Sublease space is about normal for both office and industrial, and construction levels are at a standstill for both sectors, with the office market registering lower values. Both industrial and office professionals feel that it is a buyer's market. The prospects for the next three months are about on par for both office and industrial practitioners. The national economy is clearly having a negative impact on the local markets, but more so for office practitioners.

### **Industrial Market**

Leasing activity was lower for industrial specialists than office specialists. Industrial specialists have lower vacancy rates; conversely, office markets are experiencing higher levels of tenant concession than industrial markets. Rents are softer for industrial properties. They too feel it is a buyers market and are experiencing negative effects from the current national economy, but not as much as office specialists.

### **Regional Breakdown**

**The West** (63.1, up from 55.2 in December) has the lowest level of activity, despite posting an increase. Vacancy rates are closing in on historical averages and showing a decline from a year ago. Sublease space is at normal levels, but not declining. In the West, it continues to be a tenant's market. Development activity remains especially low in the West. In terms of concessions, it continues to be a tenant's market, with respondents in all four regions finding similar conditions. The national economy is still having a negative impact on most markets, but much more so in the West, as most respondents continue to feel that their local economy is weak, with the Western respondents finding much weaker conditions.

**The South** (77.2, up from 73.5 in December) continues to register the best overall market conditions. In terms of leasing activity, the South posted a stronger performance. Asking rents are still low, but are still second highest in the South; and vacancy rates are closing in on historical averages, with the South showing declines from a year ago. Sublease space is at normal levels. Development activity, however, remains low. Like the other regions, the South continues to be a tenant's market, in terms of concessions. The outlook for the next three months shows expectations of slight improvement.

**The Northeast** (76.2, up from 66.6 in December) had the greatest increase in activity; however, in terms of leasing activity, respondents in the Northeast had the lowest levels. Vacancy rates are closing in on historical averages in all four regions, and showing decline in the Northeast. Asking rents, however, are highest in the Northeast. Development activity remains low and sublease space is at normal levels. In terms of concessions, it continues to be a tenant's market, with respondents in all four regions finding similar conditions. The short term outlook shows expectations of slight improvement.

**The Midwest** (70.4, up from 61.2 in December) saw the second highest increase. Their asking rents are closing in on historical averages. The Midwest also finds themselves in a buyer's market with the lowest prices of the regions existing in the Midwest. Development activity, however, remains lower in the Midwest than in other regions. Sublease space is at normal levels and declining. The Midwest continues to be a tenant's market in terms of concessions, like the other regions. The short term outlook shows expectations of slight improvement in all four regions, especially in the Midwest.

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## 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](http://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 3,000 SIOR members in 580 markets in 28 countries.

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