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Strong Demand Pushes SIOR Index to Record Level

February, 2016—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 2015. The responses, given by 337 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 2015.

Office and industrial markets advanced in the fourth quarter; with the SIOR Commercial Real Estate Index increasing 1.9 points (1.6 percent), moving from 120.0 to 122.8, putting the CREI over what is considered the balanced market threshold at 100 points for the seventh consecutive quarter since the last recession, and the highest CREI value since the fourth quarter of 2007. The SIOR Index measures ten variables pertinent to the performance of U.S. industrial and office markets (see methodology). Expectations for the next quarter moderated noticeably, but remained positive—69 percent of SIORs expect a positive outlook (compared with 75 percent in Q3.2015 and 81 percent in Q2.2015).

Leasing showed a slight improvement in the fourth quarter of 2015; 58 percent of respondents felt that leasing activity in their market is higher than historic levels; 23 percent found leasing in line with averages, while 19 percent found leasing below normal.

Rents remained consistent; 4 percent of respondents felt that asking rents are below where they were one year ago; 96 percent feel that asking rents are in line with, or slightly above long-term averages.

Vacancies decline as 7 percent of respondents thought that vacancy rates are higher than a year ago; 12 percent contend they are the same and 81 percent say they are lower (76 percent last quarter).

Subleasing availability stayed the same this quarter; only 5 percent felt that there is ample sublease space available, compared with 4 percent last quarter; 67 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 (22 percent last qtr.); 33 percent of respondents found a market in normal negotiating balance; 46 percent thought the market favored the landlord.

However, construction activity indicated a rise in new construction; 34 percent indicated rising new construction; 20 percent found development close to historical averages; 23 percent of respondents
indicated levels lower than normal, and 24 percent mentioned that there is no new commercial construction in their market.

It was a buyer’s market in terms of development acquisitions according to 19 percent of respondents (15 percent last qtr.); 31 percent found it a balanced market, while 51 percent experienced a seller’s market (50 percent last quarter). On the investment side, prices were below replacement costs in 39 percent of the markets, compared with 43 percent last quarter; prices were above costs in 40 percent of the markets.

Local economies are impacting real estate markets, 15 percent of respondents feel that their local economy is slowing or contracting, compared with the 13 percent from last quarter. Meanwhile, 57 percent considered that the local economy is strong and improving (55 percent last quarter).

National Economic Impact

15 percent of respondents felt that the national economy is having a negative impact on their local market (19 percent last qtr.); 45 percent felt that the national economy was having a positive impact on their markets.

When asked about the outlook for the next three months, participants pointed to a slightly improving market—7 percent indicated that business was going to be down from current levels, 25 percent of respondents felt the market will be maintaining the current level during the next three months, and 67 percent pointed to expected improvement in the market.

Office Market

The office index declined to a value of 112.9 from 114 last quarter; the office index has been positively above the 100-point threshold for the past six quarters, the most consecutive quarters for the office market since Fall 2006.

Industrial Market

The industrial sector’s improvement slowed, decreasing to a value of 125.2; the industrial index has been positively above the 100-point threshold for the past seven quarters.

Regional Breakdown

The South posted the highest index value of 127.3 – showing a 1.9 point increase from last quarter; followed by the Northeast at 113.9 from 111.3 last quarter. The west remained the same at 124.7. The West is the only region to remain the same at 124.7.

Index Summary

<table>
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<tr>
<th>Overall</th>
<th>122.8</th>
<th>Up</th>
<th>October</th>
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<tbody>
<tr>
<td>Office</td>
<td>112.9</td>
<td>Down</td>
<td>120.9</td>
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<tr>
<td></td>
<td></td>
<td>from</td>
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<tr>
<td></td>
<td>114.0</td>
<td>in</td>
<td>October</td>
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<table>
<thead>
<tr>
<th>Region</th>
<th>Index</th>
<th>Change</th>
<th>From</th>
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<tr>
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<tr>
<td>Northeast</td>
<td>113.9</td>
<td>Up</td>
<td>111.3</td>
<td>in</td>
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<tr>
<td>Midwest</td>
<td>121.9</td>
<td>Down</td>
<td>123.5</td>
<td>in</td>
<td>October</td>
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<tr>
<td>South</td>
<td>127.3</td>
<td>Up</td>
<td>125.4</td>
<td>in</td>
<td>October</td>
</tr>
<tr>
<td>West</td>
<td>124.7</td>
<td>Flat</td>
<td>124.7</td>
<td>in</td>
<td>October</td>
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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 640 markets in 34 countries.