

RERC  **CCIM**

Investment Trends
Quarterly

flash report

July 2009

***An early look at the quarter's highlights
and preliminary transaction data***

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Dear Subscribers to the *RERC/CCIM Investment Trends Quarterly*,

As part of your subscription to this report, you receive this complimentary **FLASH REPORT** of preliminary data each quarter. This **FLASH REPORT** is intended to provide an early look at the national investment and transaction trends for third quarter 2009.

Because the information in the **FLASH REPORT** is preliminary and intended only to depict trends, please note some data may differ slightly from the final quarterly research, which is analyzed and reported in the full *RERC/CCIM Investment Trends Quarterly*. The full *RERC/CCIM Investment Trends Quarterly* will include national economic and property-associated commentary, investment criteria and transaction totals, and specific data for 48 metro markets. The full *RERC/CCIM Investment Trends Quarterly* will be available to you in a month or so.

Thank you for your support of this publication, and please contact us at **319-352-1500** or at ccim@rerc.com with any questions or comments.

Best Regards,

Real Estate Research Corporation

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Economic Summary

- Economic conditions remain weak and have deteriorated further according to the June 10, 2009 *Federal Reserve Beige Book*. Several districts said expectations are improving, but a substantial increase in economic activity is not expected during 2009. Travel and tourism, manufacturing, and lending activity remained weak, while consumer spending remained soft.
- The Federal Open Market Committee (FOMC) left the target range for the federal funds rate at 0 to 0.25 percent at their June 24, 2009 meeting (this rate has been in effect since December 2008). The FOMC reported that the pace of economic contraction is slowing, but continues to be constrained by ongoing job losses, lower housing wealth, and tight credit.
- The first quarter 2009 real gross domestic product (GDP) growth rate was revised to -5.5 percent, slightly better than the initial estimate. The major contributors to the decline in GDP during first quarter were exports, equipment and software, private inventory investment, nonresidential structures, and residential fixed investment. These were slightly offset by a positive contribution from person consumption expenditures.
- The unemployment rate rose to 9.5 percent during June 2009, up from 9.4 percent in May, according to the Bureau of Labor Statistics (BLS). Nonfarm payroll lost another 467,000 jobs in June, compared to May's loss of 345,000 jobs.
- The Consumer Price Index (CPI) increased by 0.1 percent on a seasonally-adjusted basis in May 2009, after remaining flat in April, according to the BLS. Inflation has remained relatively stable through the first half of 2009.
- Retail sales increased 0.5 percent in May 2009 over April sales, due mostly to higher prices of gasoline, but were 9.6 percent below May 2008 sales. April retail sales declined 0.4 percent, which was the eighth month of decline over the previous 10 months.
- The Standard & Poor's (S&P) 500 Index posted a quarter-to-date return of 13.21 percent as of June 30, 2009. The month-to-date return for June was 0.02 percent.

Real Estate Highlights

- As expected, the commercial real estate market continues to weaken nationwide, with vacancy rates increasing and rents declining. In addition, construction activity has been halted or delayed in much of the commercial sector.
- In addition to increasing vacancy rates, net absorption is expected to be negative for all major commercial property types, except for the apartment sector, throughout 2009. According to the National Association of REALTORS® (NAR), absorption is expected to turn positive for the industrial sector in 2010.
- According to the June 10, 2009 *Federal Reserve Beige Book*, overall lending activity was weak in the commercial real estate market, mortgage refinancing demand was mixed, and credit conditions remained stringent or tightened further.
- According to NAR, existing home sales increased by 2.4 percent to a seasonally-adjusted rate of 4.77 million homes during May 2009 as compared to April, but sales were 3.6 percent lower than those for May 2008. The median existing home price increased to \$173,000 in May from \$166,600 in April, but was down 16.8 percent from May 2008 prices.

National Transactions Breakdown (preliminary data from 07/01/08 - 06/31/09)					
	Office	Industrial	Retail	Apartment	Hotel
All Transactions					
Volume (Mil)	\$32,662	\$17,989	\$20,658	\$24,819	\$5,687
Size-Weighted Avg. (\$ per sf/unit)	\$195	\$63	\$135	\$87,871	\$100,078
Price-Weighted Avg. (\$ per sf/unit)	\$346	\$108	\$244	\$186,990	\$186,054
Median (\$ per sf/unit)	\$128	\$67	\$118	\$76,736	\$56,440
Capitalization Rates (%)					
Range	3.7% - 11.4%	5.1% - 11.1%	4.0% - 12.0%	3.8% - 12.8%	5.5% - 12.0%
Weighted Avg.	6.6%	7.6%	7.1%	6.3%	8.2%
Median	7.3%	7.5%	7.1%	6.5%	8.4%
<small>Prices based on data derived from samples of commercial transactions on local, regional, and national levels. Capitalization rates based upon available transaction information. Source: RERC, 2Q 2009 data. Content cannot be duplicated or reproduced without expressed written consent of RERC.</small>					

East Region 12-Month Trailing Transactions as of 06/31/09					
	Office Size-Weighted Avg. \$/SF	Industrial Size-Weighted Avg. \$/SF	Retail Size-Weighted Avg. \$/SF	Apartment Size-Weighted Avg. \$/Unit	Hotel Size-Weighted Avg. \$/Unit
Baltimore	\$176	\$73	\$182	\$96,352	–
Boston	\$220	\$70	\$145	\$165,857	\$108,563
Charlotte	\$99	\$47	\$125	\$40,857	–
Hartford	\$54	\$43	\$100	\$83,853	–
New York City	\$414	\$115	\$256	\$184,459	\$305,870
Norfolk	\$121	\$72	\$112	\$90,651	\$87,672
Northern NJ	\$199	\$79	\$161	\$114,913	–
Philadelphia	\$123	\$71	\$145	\$96,273	–
Pittsburgh	\$81	\$30	\$132	\$47,853	–
Raleigh	\$150	\$62	\$123	\$71,472	\$72,629
Richmond	\$125	\$34	\$98	\$95,745	–
Washington, D.C.	\$328	\$122	\$231	\$174,934	–
East Total	\$242	\$61	\$140	\$120,107	\$92,961

Prices based on data derived from samples of commercial transactions on local, regional, and national levels.
Source: RERC, 2Q 2009 data. Content cannot be duplicated or reproduced without expressed written consent of RERC.

South Region 12-Month Trailing Transactions as of 06/31/09					
	Office Size-Weighted Avg. \$/SF	Industrial Size-Weighted Avg. \$/SF	Retail Size-Weighted Avg. \$/SF	Apartment Size-Weighted Avg. \$/Unit	Hotel Size-Weighted Avg. \$/Unit
Atlanta	\$146	\$54	\$152	\$66,634	\$38,551
Austin	\$234	\$92	\$181	\$81,587	\$133,333
Dallas/Ft. Worth	\$118	\$40	\$194	\$44,342	\$101,278
Houston	\$101	\$55	\$136	\$42,485	\$160,966
Memphis	\$79	\$26	\$105	\$22,534	–
Miami	\$247	\$79	\$147	\$76,274	\$116,787
Nashville	\$136	\$39	\$137	\$58,807	\$38,563
New Orleans/ Baton Rouge	\$75	–	\$48	–	–
Oklahoma City	\$85	\$22	\$89	\$57,835	–
Orlando	\$169	\$75	\$189	\$74,452	\$41,899
San Antonio	\$133	\$43	\$134	\$51,016	–
Tampa	\$129	\$62	\$99	\$71,402	\$35,951
South Total	\$135	\$47	\$127	\$58,149	\$70,559

Prices based on data derived from samples of commercial transactions on local, regional, and national levels.
Source: RERC, 2Q 2009 data. Content cannot be duplicated or reproduced without expressed written consent of RERC.

Midwest Region 12-Month Trailing Transactions as of 06/31/09					
	Office Size-Weighted Avg. \$/SF	Industrial Size-Weighted Avg. \$/SF	Retail Size-Weighted Avg. \$/SF	Apartment Size-Weighted Avg. \$/Unit	Hotel Size-Weighted Avg. \$/Unit
Chicago	\$179	\$44	\$172	\$105,841	\$155,793
Cincinnati	\$90	\$35	\$48	\$44,368	–
Cleveland	\$83	\$38	\$71	\$53,554	–
Columbus	\$100	\$37	\$159	\$42,311	–
Detroit	\$80	\$36	\$74	\$34,073	–
Indianapolis	\$117	\$41	\$140	\$41,913	–
Kansas City	\$93	\$36	\$81	\$68,360	\$66,606
Milwaukee	\$128	\$52	\$90	\$63,067	–
Minneapolis	\$106	\$63	\$111	\$84,941	\$43,398
Omaha	\$82	\$39	\$94	\$72,019	–
St. Louis	\$92	\$48	\$111	\$56,242	\$65,470
Toledo	\$123	\$28	\$192	–	–
Midwest Total	\$117	\$40	\$98	\$56,430	\$66,098

Prices based on data derived from samples of commercial transactions on local, regional, and national levels.
Source: RERC, 2Q 2009 data. Content cannot be duplicated or reproduced without expressed written consent of RERC.

West Region 12-Month Trailing Transactions as of 06/31/09					
	Office Size-Weighted Avg. \$/SF	Industrial Size-Weighted Avg. \$/SF	Retail Size-Weighted Avg. \$/SF	Apartment Size-Weighted Avg. \$/Unit	Hotel Size-Weighted Avg. \$/Unit
Denver	\$179	\$71	\$135	\$84,708	\$104,078
Honolulu	\$383	\$157	–	\$153,217	–
Las Vegas	\$241	\$93	\$173	\$74,669	\$243,517
Los Angeles	\$278	\$115	\$236	\$144,622	\$138,604
Phoenix	\$141	\$85	\$233	\$72,420	–
Portland	\$155	\$72	\$228	\$83,829	\$132,357
Sacramento	\$173	\$124	\$186	\$110,369	\$89,478
Salt Lake City	\$147	\$81	\$118	\$83,899	–
San Diego	\$305	\$153	\$188	\$123,674	–
San Francisco	\$249	\$123	\$256	\$157,356	\$96,854
Seattle	\$226	\$90	\$179	\$131,975	\$141,428
Tucson	\$158	\$87	\$144	\$69,590	–
West Total	\$228	\$96	\$174	\$113,446	\$141,624

Prices based on data derived from samples of commercial transactions on local, regional, and national levels.
Source: RERC, 2Q 2009 data. Content cannot be duplicated or reproduced without expressed written consent of RERC.

The analysis provided in the *RERC/CCIM Investment Trends Quarterly* is conducted by Real Estate Research Corporation (RERC). The information is gathered in raw form from surveys sent to CCIM designees and candidates, and from sales transactions collected from various sources, including CCIM members, various key commercial information exchange organizations (CIEs), the media, assessors' offices, RERC contacts in the marketplace, and other reliable public and private resources. All sales transactions are aggregated, analyzed, and reported on by RERC. Additional data and forecasts are provided courtesy of the REALTORS® Commercial Alliance and Torto Wheaton Research.

Published quarterly, the *RERC/CCIM Investment Trends Quarterly* report provides timely insight into transaction volume, pricing, and capitalization rates for the core income-producing properties.

RERC Definitions

Capitalization Rate: The capitalization rate is defined as the first year "stabilized" net operating income (NOI) (NOI is before capital expenditures – tenant improvements, leasing commissions, reserves – and debt service) divided by the present value (or purchase price). Capitalization rates included are transaction-based medians and price-weighted averages.

RERC Capitalization Rate and Ranges: Capitalization rates and ranges listed throughout this report are based on RERC's proprietary realized capitalization rate model, which includes available transaction-based capitalization rates, survey responses, NCREIF Index Returns, and other market factors, but is heavily weighted toward transaction-based capitalization rates for each property type within each market.

Price-Weighted Average: The price-weighted average is developed through weighting each asset based on the gross sales price. Therefore, larger dollar properties are given more weight than the smaller dollar properties, with the weighted average reflecting more weight towards institutional real estate.

Size-Weighted Average: The size-weighted average is developed through weighting each asset based on its gross square footage – simply an aggregation of all the gross sales prices divided by the aggregation of the gross square footage.

National/Regional Market Analysis: RERC ranks the investment potential of the metros and property types it covers based on various space market and financial market criteria, including pricing, capitalization rates, vacancy rates, and other factors.

Investment Conditions Rating: A rating of 1 through 10 (with 10 being high) reflecting survey respondents' collective views of the investment environment for a particular property type in comparison with other property types. The rating may take into account supply and demand, economic conditions, pricing, rental rates, or other factors.

NCREIF Definitions

NCREIF: The National Council of Real Estate Investment Fiduciaries (NCREIF) is an independent organization dedicated to the compilation, validation, and distribution of performance data for the institutional real estate investment community.

Total Return: The total return includes appreciation (or depreciation), realized capital gain (or loss), and income. It is computed by adding the income and capital appreciation return on a quarterly basis.

Implied Cap Rate (Income Return): The implied capitalization rate measures the portion of return attributable to each property's NOI. It is computed by dividing the total NOI by the total quarterly investment.

Capital Appreciation Return: The capital appreciation return measures the change in market value adjusted for any capital improvements/expenditures and partial sales divided by the average quarterly investment.

Annual and Annualized Returns: Annual returns are computed by chain-linking quarterly rates of return to produce time-weighted rates of return for the annual and annualized periods under study. For time periods beyond 1 year, the annualized returns are expressed as the annual compounded rate of return.

Allocation: The distribution, expressed as a percentage of the overall investment, in a particular geographic area by property type.

For a detailed description of the proceeding returns, as well as the calculations used by NCREIF to derive these figures, please visit <http://www.ncreif.org/indices>.

The combined returns are the weighted average of the returns for each property type according to the proportionate market value of properties surveyed relative to the total market values surveyed during a time period.

RERC Defined Regions and MSAs

West: Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming

Midwest: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin

South: Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, Oklahoma, Tennessee, Texas

East: Connecticut, Delaware, Kentucky, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, Washington D.C., West Virginia

Metropolitan Statistical Area (MSA): A geographic unit comprised of one or more counties around a central city or urbanized area with 50,000 or more population. Contiguous counties are included if they have close social and economic links with the area's population nucleus.

With a few exceptions, the MSAs within this report coincide with the U.S. Office of Management and Budget's December 2005 definitions for each MSA. For example, St. Paul, Minn., and Bloomington, Minn., as well as many other suburbs, are included within the Minneapolis MSA.

Note of Caution: It is imperative to exercise caution when comparing the data contained herein to previous reports published by RERC. The data herein is not "fixed," and will be updated and changed as additional transaction information is gathered and analyzed.

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Your Involvement Is Needed To Make the *RERC/CCIM Investment Trends Quarterly* A Success...

A few of you have already expressed interest in providing assistance in the report development process. We welcome your support in a variety of ways:

- ❑ Faithfully enter your transaction information into the online CCIM Transactions database. The more raw data we have, the more viable our research and analysis will be (and the more useful to you). Click <http://transactions.ccim.com/> to share your information with the CCIM Institute.
- ❑ Serve as a contact for your area. There may be times we will need to follow up on a transaction that took place in your area. If we could call on you to help provide leads or contacts for tracking down information, this would help a great deal.
- ❑ Share data or published reports on transactions or trends in your region with RERC.
- ❑ Complete surveys for your market, either online or by paper copy and fax to us at 319-352-4050.
- ❑ Encourage others to subscribe to this research report! At only \$395/year, the *RERC/CCIM Investment Trends Quarterly* is an excellent research value.

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