RERC / CCIM

Investment Trends *Quarterly*

flash report

October 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 fourth 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

Economic Summary

- Economic conditions continued to stabilize, according to the Sept. 9, 2009 *Federal Reserve Beige Book*. Many districts said expectations are improving, and described the economy as stable or showing signs of stabilization. Several districts also noted that businesses were cautiously positive. Manufacturing showed slight signs of improvement; however, lending and residential real estate remained weak and consumer spending remained soft.

- At its Sept. 23, 2009 meeting, the Federal Open Market Committee (FOMC) kept the target range for the federal funds rate at 0 to 0.25 percent. Set in December 2008, this rate is expected to stay low for an extended period of time. The FOMC reported that the economy appears to be stabilizing, but is restrained by continuing job losses, low income growth, decreased housing wealth, and tight credit.

- Real gross domestic product (GDP) decreased by 0.7 percent during second quarter 2009. The major contributors to the decline included fixed investment, private inventory investment, personal consumption expenditures, and exports, although they were slightly offset by a positive contribution by local and federal government spending.

- The unemployment rate rose to 9.8 percent during September 2009, which is the 17th increase in the last 18 months, according to the Bureau of Labor Statistics (BLS). Nonfarm payroll lost 263,000 jobs in September, compared to 201,000 jobs lost in August.

- The Consumer Price Index (CPI) increased by 0.4 percent during August 2009, although it remained flat in July, according to the BLS. Monthly inflation has remained relatively stable through 2009.

- According to the U.S. Census Bureau, retail sales increased 2.7 percent in August 2009, compared to a 0.2-percent decrease in July. Retail sales growth has been positive in 3 of the last 4 months, although growth came mostly from auto sales, gasoline stations, and back-to-school items. Despite the increase, sales were down 5.3 percent from a year ago.

- The Standard & Poor's (S&P) 500 Index quarter-to-date return as of Sept. 30, 2009 was 14.79 percent.

Real Estate Highlights

- Vacancy rates for the office, industrial, and retail sectors are expected to rise through mid-2010, according to The National Association of REALTORS® (NAR). NAR projects vacancy for the multifamily sector to increase the least, with rates to rise through the end of 2009, begin to stabilize in 2010, and eventually begin to decrease. Net absorption is expected to be negative for all property types in 2009, except for the multifamily sector.

- The commercial real estate market continues to weaken. Demand for space remains weak, as reflected by rising vacancy rates and declining rents. Construction activity continues to decline.

- Overall lending activity remains weak, as credit remains tight in most areas. Mortgage refinancing demand is declining modestly in some areas, while demand is stable or increasing moderately in other areas. Credit standards remain strict.

- According to NAR, existing home sales decreased by 2.7 percent to 5.1 million in August 2009, as compared to the previous month, but are up 3.4 percent from a year ago. The median existing home price decreased to $177,700 in August from $181,500 in July. The median existing home price is down 12.5 percent from a year ago.

National Transactions Breakdown (preliminary data from 10/1/08 – 9/30/09)

	Office	Industrial	Retail	Apartment	Hotel
All Transactions					
Volume (Mil)	$26,762	$14,519	$18,649	$17,206	$3,825
Size-Weighted Avg. ($ per sf/unit)	$177	$60	$128	$76,566	$68,023
Price-Weighted Avg. ($ per sf/unit)	$319	$118	$237	$125,253	$141,646
Median ($ per sf/unit)	$123	$65	$114	$72,407	$49,519
Capitalization Rates (%)					
Range	4.1% - 11.6%	5.5% - 13.1%	2.8% - 13.3%	2.3% - 12.8%	5.9% - 12.0%
Weighted Avg.	7.4%	8.1%	7.3%	6.6%	9.5%
Median	7.6%	8.0%	7.3%	6.7%	10.0%

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, 3Q 2009 data. Content cannot be duplicated or reproduced without expressed written consent of RERC.

East Region 12-Month Trailing Transactions as of 9/30/09	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	$113	$65	$150	$88,649	$65,789
Boston	$205	$65	$130	$159,652	$96,562
Charlotte	$104	$37	$106	$40,420	–
Hartford	$78	$43	$109	$73,773	–
New York City	$308	$109	$267	$130,789	$288,874
Norfolk	$125	$63	$160	–	–
Northern NJ	$209	$81	$138	$116,249	$66,845
Philadelphia	$128	$70	$154	$92,673	$51,462
Pittsburgh	$72	$32	$167	$52,665	–
Raleigh	$139	$64	$121	$69,572	$101,507
Richmond	$144	$29	$123	$101,771	–
Washington, D.C.	$302	$119	$168	$142,366	$96,780
East Total	$221	$60	$133	$90,962	$84,917

Prices based on data derived from samples of commercial transactions on local, regional, and national levels.
Source: RERC, 3Q 2009 data. Content cannot be duplicated or reproduced without expressed written consent of RERC.

South Region 12-Month Trailing Transactions as of 9/30/09	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	$106	$47	$110	$69,719	$38,013
Austin	$230	$92	$146	$55,321	$122,995
Dallas	$83	$34	$150	$47,441	$106,321
Houston	$81	$96	$138	$48,445	$132,087
Memphis	$63	$35	$143	$16,178	–
Miami	$227	$71	$152	$73,001	$74,404
Nashville	$105	$31	$123	$53,124	–
New Orleans	$80	–	$45	–	–
Oklahoma City	$81	$22	$84	$51,930	–
Orlando	$174	$61	$164	$60,898	$70,224
San Antonio	$119	$39	$90	$57,039	–
Tampa	$115	$69	$119	$55,576	$31,310
South Total	$120	$44	$112	$55,557	$65,202

Prices based on data derived from samples of commercial transactions on local, regional, and national levels.
Source: RERC, 3Q 2009 data. Content cannot be duplicated or reproduced without expressed written consent of RERC.

Midwest Region 12-Month Trailing Transactions as of 9/30/09					
	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	$173	$41	$145	$86,453	$96,594
Cincinnati	$86	$36	$41	$43,512	–
Cleveland	$77	$39	$78	$36,623	–
Columbus	$81	$32	$145	$30,160	–
Detroit	$55	$29	$66	$25,015	–
Indianapolis	$153	$96	$140	$34,044	–
Kansas City	$73	$33	$69	$37,816	–
Milwaukee	$110	$47	$95	$58,355	–
Minneapolis	$134	$67	$108	$84,492	–
Omaha	$86	$36	$79	$44,710	–
St. Louis	$87	$38	$57	$53,117	–
Toledo	$121	$30	$256	–	–
Midwest Total	**$104**	**$40**	**$90**	**$48,215**	**$59,376**

Prices based on data derived from samples of commercial transactions on local, regional, and national levels.
Source: RERC, 3Q 2009 data. Content cannot be duplicated or reproduced without expressed written consent of RERC.

West Region 12-Month Trailing Transactions as of 9/30/09					
	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	$173	$75	$172	$77,046	$38,747
Honolulu	$379	$152	$240	–	–
Las Vegas	$242	$94	$143	$45,247	$25,731
Los Angeles	$219	$100	$176	$131,928	$106,785
Phoenix	$118	$76	$230	$70,198	–
Portland	$118	$67	$169	$79,096	$141,518
Sacramento	$195	$118	$169	$87,156	$80,236
Salt Lake City	$116	$78	$153	$86,890	–
San Diego	$238	$134	$168	$118,667	$148,190
San Francisco	$256	$99	$225	$149,372	$144,813
Seattle	$204	$84	$169	$109,926	$152,962
Tucson	$169	$84	$138	$56,880	–
West Total	**$194**	**$88**	**$161**	**$104,841**	**$59,829**

Prices based on data derived from samples of commercial transactions on local, regional, and national levels.
Source: RERC, 3Q 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.

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.

E-mail us at ccim@rerc.com or call us at 319-352-1500 with your questions, comments, or offers to contribute information. Visit us online at www.rerc.com.