

First qtr. commercial real estate index rises again, but decelerating

by Bend_Weekly_News_Sources

The Commercial Leading Indicator for Brokerage Activity,* a forward-looking index for the commercial real estate market, rose slightly in the first quarter to the highest level on record but the rate of growth has decelerated over the past year, according to the National Association of Realtors(R).

The Commercial Leading Indicator for Brokerage Activity increased 0.2 percent to an index of 120.3 in the first quarter from a reading of 120.1 in the fourth quarter, and is 0.8 percent higher than the first quarter of 2006 when it stood at 119.3. NAR's track of the index dates back to 1990.

Lawrence Yun, NAR senior economist, said the index has risen for eight consecutive quarters but factors in its components are mixed. "Rising industrial production, a rise in the REIT price index, growth in commercial jobs, rising income and gains in wholesale sales contributed to the rise in our leading indicator," he said. "On the other hand, deteriorating economic conditions have been a drag, specifically, a marked decline in durable goods shipments, a decline in return on commercial investment and an increase in the number of people filing for unemployment insurance."

The small net rise in NAR's index means net absorption of space in the industrial and office sectors should be fairly steady over the next six to nine months, with slightly higher completions of overall office, warehouse, retail and lodging structures.

Net absorption in the office and industrial sectors in the third quarter of 2007 is expected to be 10 million to 20 million square feet, with about \$335 billion to \$345 billion in new completed commercial construction activity, compared with \$323 billion of new construction recorded in the first quarter of this year.

"Deceleration in the growth of our leading index means we're entering a more stable period for commercial real estate sectors," Yun said.

Commercial real estate practitioners can anticipate leasing and sales activity in the third quarter of this year to be approximately 0.8 percent higher than the third quarter of 2006.

The commercial leading indicator is a tool to assess market behavior in the major commercial real estate sectors. The index incorporates 13 variables that reflect future commercial real estate activity, weighted appropriately to produce a single indicator of future market performance, and is designed to provide early signals of turning points between expansions and slowdowns in commercial real estate.

The 13 series in the index include industrial production, the REIT (real estate investment trust) price index, NCREIF (National Council of Real Estate Investment Fiduciaries) total return, personal income minus transfer payments, jobs in financial activities, jobs in professional business service, jobs in temporary help, jobs in retail trade, jobs in wholesale trade, initial claims for unemployment insurance, manufacturers' durable goods shipment, wholesale merchant sales, and retail sales and food service.

*NAR reviewed a wide variety of indicators, examined the relationships of indicators that demonstrated a historical impact on commercial real estate, and modeled a forward-looking index based on historic trends. Although individual indicators sometimes move in opposite directions, together they offer a better indication of future market activity.

Quarterly data for 13 selected series were reviewed back through the first quarter of 1990. The modeling demonstrated a change in commercial brokerage activity that could be seen two quarters later as measured by net absorption in the industrial and office sectors, and the value of building construction put-in-place on completion of office, warehouse, retail and lodging structures. An index of 100 is defined as the level of commercial real estate market activity during the first quarter of 1990, the first period to be analyzed.