7 Predictions for U.S. Commercial Real Estate Industry in 2016

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A LEXISNEXIS® INDUSTRY REPORT
Research compiled by Teague Communications.

The U.S. commercial real estate industry is coming off an amazing year in 2015, with remarkable levels of sales across all property types and with tens of billions of dollars in new investment capital pouring into the asset class. In fact, seven of the top 10 most active global markets for investment sales were in the U.S. last year.

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So what's ahead for 2016? According to a survey of industry experts, here are seven predictions for the U.S. commercial real estate industry this year:

1 Pricing growth will slow, especially at high end

Commercial real estate prices are projected to have risen by 10 percent in 2015, but analysts predict it will slow to a 6 percent increase in 2016. This is based on a variety of indicators that prices may have topped for high-end commercial properties in major markets. Specifically, those properties priced above $2.5 million have enjoyed large price gains in recent years but are now at risk of experiencing a modest price decline.

However, other analysts predict that 2016 will be a good year for investors and professionals who tend to work with smaller commercial properties valued below $1 million. For this niche in smaller markets and lower end properties, the year ahead could be a bright one.

2 Leasing will improve in pockets

Commercial property rents are expected to increase for all four major property types next year, ranging from 2.0 percent for retail up to 4.6 percent for apartments and 4.9 percent for industrial. In addition, hotel revenue per available room (RevPAR) is expected to increase by 7.9 percent in 2016.

The healthiest of this growth will likely be in two regions in particular. States in the western and southern parts of the U.S. will outperform the rest of the country in the leasing of all commercial properties. The areas' steady job growth should boost leasing in the retail, office, industrial and multi-family markets.

3 Vacancy rates should flatten

There are slightly mixed signals related to commercial real estate vacancy rates, but on balance, the year ahead is likely to experience little change. Within specific pockets of the industry, the indicators vary. For example, analysts project that vacancy rates are expected to continue to decrease modestly for the office and retail sectors this year. In the industrial sector, availability rates and hotel occupancy rates are forecasted to be essentially flat and apartment vacancy rates should rise slightly in 2016.

4 Investment returns will moderate but continue strong

Institutional real estate assets are expected to provide total returns of 9.0 percent in 2016 (down from 11.7 percent in 2015). By property type, returns are expected to be strongest for industrial and retail, followed by office and apartments.

Of course, industry experts point out that, even with rental growth, real estate returns are not quite as high as they were in previous cycles as we live in an era of lower returns shaped by declining bond rates and interest rates. Industry fundamentals should remain healthy and continue delivering positive investment returns, but at levels that are lower than previous cycles.

5 Retail and multi-family sectors look strong

As unemployment comes down and consumers start spending more money, analysts predict that the outlook for retail is quite good. There are clearly major challenges ahead from online retailers and Big Box discounters, but those are more likely to impact the lower-tier malls. The new investment going into reimagined shopping centers remains strong, creating a reasonably good outlook for 2016.

Meanwhile, the multi-family sector is likely to continue its run as a shining star for commercial real estate in the year ahead. This outlook is fueled by Millennials, who continue to act as the catalyst for America's fundamental shift away from home ownership toward renting.

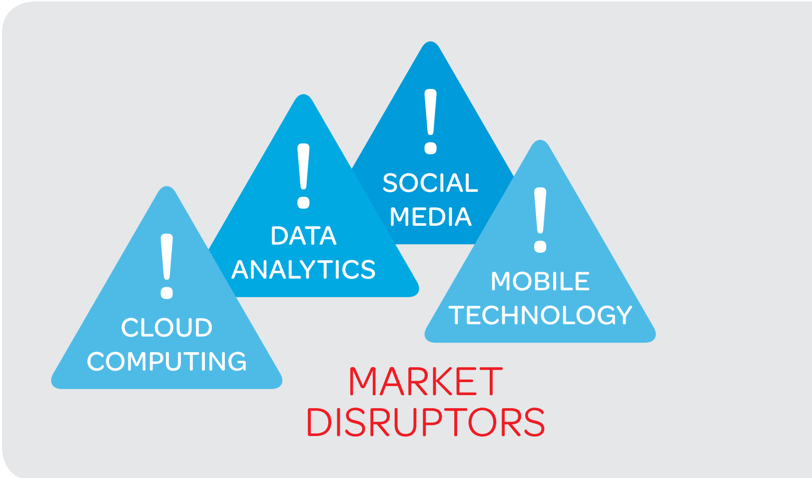
6 Headwinds coming from China slowdown

Commercial real estate experts predict a noticeable headwind coming out of the economic slowdown in China, which could translate into a contagion effect of hurting other emerging markets.

Although the current forecast is for a soft landing, not a hard landing, there will likely be negative news out of China well into 2016. The concern some analysts express is that slower growth from China could lead to trade shock in emerging markets, many of which have borrowed heavily in U.S. dollars, and a strong dollar would in turn have a negative effect on those emerging markets.

7 Potential market disruption due to technology

There are a few market disruptors sitting on the horizon related to emerging technology in the commercial real estate industry. Experts predict that these technology disruptors—including cloud computing, mobile, social media and analytics—have the potential of driving some of the most important shifts in the history of the industry. Commercial real estate executives and other industry professionals need to stay connected to these shifts and consider how they can stay ahead of the disruptions they are likely to cause.



Conclusion

The U.S. commercial real estate industry should remain healthy for some time. In fact, based on a survey of 48 industry economists and analysts, commercial real estate transaction volume is expected to remain stable at around $500 billion annually through 2017. At the same time, the market is definitely on the verge of some important changes in 2016, making it essential for industry professionals to stay apprised of news and information that will no doubt bring many surprises along the way.

The content for this report was obtained by conducting research on Nexis®, a leading source for business news and information, and was aggregated from data and projections shared by various industry experts. Individual references to cited content will be provided upon request.

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- Quickly find information on mortgages (debt) on all property types including the lender's name and the date of the loan.
- Stay current with mortgage data or signs of distress such as judgments, liens and bankruptcies for properties of interest.