

Economics Group

Special Commentary

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Commercial Real Estate Chartbook: Quarter 4

Stronger Demand for Commercial Properties Is Boosting Optimism

Rising demand for commercial properties has greatly relieved fears about how the impending mountain of maturing commercial real estate loans will be refinanced. Operating fundamentals continued to improve during the fourth quarter for all property types. Sales have continued to increase and the prices of commercial properties sold from the NCREIF database, as measured by the MIT Center for Real Estate, rose 19 percent in 2010. The rise in sales prices marks the second largest gain ever for this series and is likely being driven by a surge in demand for marquee properties in key gateway cities such as New York, Washington, D.C. and Boston. The overall environment has improved much less. Vacancy rates are still too high, and delinquency rates on commercial real estate loans are still rising. There are a large number of distressed properties to be dealt with, and these transactions were largely excluded from the NCREIF data. Fortunately, the credit environment is opening up, and with property fundamentals continuing to improve, the recovery should strengthen and broaden in 2011.

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The unfolding recovery in commercial real estate continues to follow the basic path we have outlined in previous reports. After initially focusing on marquee office properties in high-profile global gateway cities, improving operating fundamentals are encouraging investors to expand their reach into other property types and markets that share similar characteristics, including Philadelphia, Miami, Seattle, San Francisco, Chicago and Atlanta.

Operating fundamentals have continued to improve across most metro areas, with the greatest gains coming in the apartment and hotel markets, where increased demand has allowed for rents and room rates to quickly be adjusted upward. Apartment vacancy rates have fallen 1.4 percentage points over the past year, helping boost effective rents 2.3 percent. Occupancy rates in the hotel industry have risen 3.9 percentage points over the same time period.

Figure 1

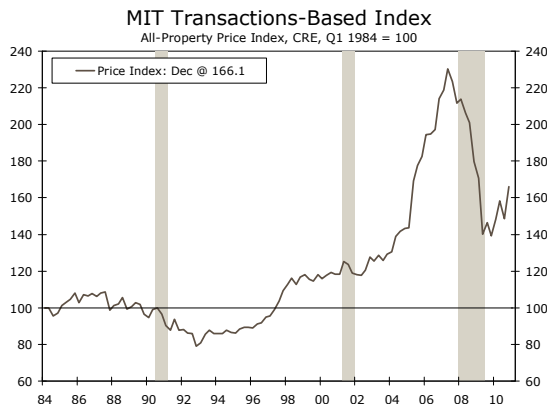
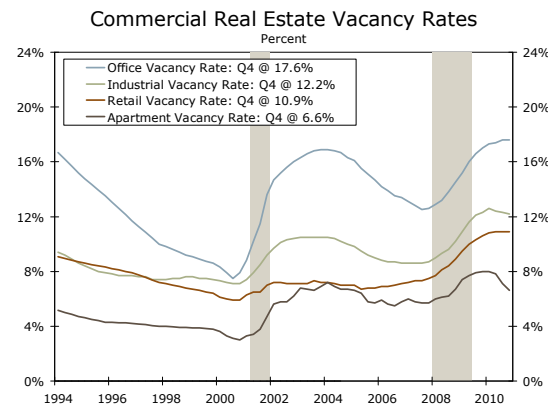


Figure 2



Source: MIT Center for Real Estate, PPR, Real Capital Analytics, Reis, Inc. and Wells Fargo Securities, LLC

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