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**Real *Estate Industry Analysis 2014.***

* Growth of the real estate industry.

Market fundamentals in commercial real estate continue to improve but at a slower pace, according to the National Association of Realtors quarterly commercial real estate forecast- WASHINGTON (February 24, 2014).

U.S. commercial real estate investment performance ticked up in the third quarter to 11%, benefiting from a slowly improving economy and steady job creation. This improvement occurred despite the severe political gridlock in Washington D.C. in the third quarter, notably budget uncertainties and the tussle over the debt ceiling, which could have derailed growth. Investors were also focused on the future of the Fed’s quantitative easing program. Expectations that tapering would begin in the fall drove up interest rates, which affects property prices and values by raising return requirements. In the end, the Fed waited until December to announce that it will begin tapering the program in January.

Despite these uncertainties, movement toward a more normal economic and employment environment is good for the commercial real estate market. The NCREIF Property Index (NPI) ended the four-quarter period in September 2013 with an 11.0% total return vs. 10.7% for the prior four-quarter period. Income and capital returns were 5.7% and 5.1%, respectively, vs. 5.7% and 4.8% previously.

All 111 NCREIF metropolitan markets recorded positive returns for the four quarters ending September 2013, and over 60% of all markets reported double digit returns. Third-quarter performance was strongest in the South, 12.6%, and the West, 11.8%, with both regions leading for the third straight quarter. San Jose, Houston, Denver, and Austin were the major market leaders while Washington D.C. and Bethesda, which have suffered from government uncertainty and sequester impacts, trailed other major firms.

* Industrial Markets

Industrial vacancy rates are anticipated to fall from 9.0 percent in the first quarter to 8.9 percent in the first quarter of 2015. The areas with the lowest industrial vacancy rates currently are Orange County, Calif., with a vacancy rate of 3.7 percent; Los Angeles, 3.8 percent; Miami, 5.8 percent; Seattle at 5.9 percent; and San Riverside/Bernardino, Calif., at 6.1 percent. Annual industrial rents should rise 2.4 percent this year and 2.6 percent in 2015. Net absorption of industrial space nationally is seen at 106.1 million square feet in 2014 and 110.6 million next year.

* Retail Markets

Retail vacancy rates are expected to decline from 10.2 percent in the first quarter of this year to 9.9 percent in the first quarter of 2015. Presently, markets with the lowest retail vacancy rates include San Francisco, at 3.1 percent; Fairfield County, Conn., 3.8 percent; Long Island, N.Y., 4.8 percent; San Jose, Calif., 5.2 percent; and Northern New Jersey and Orange County, Calif., at 5.3 percent each. Average retail rents are forecast to rise 2.0 percent in 2014 and 2.3 percent next year. Net absorption of retail space is likely to total 14.6 million square feet this year and 20.9 million in 2015.

* Homebuilders, Developers and Land Owners.

Homebuilders and developers have faced significant challenges navigating the economic crisis impacting the United States and scaling their businesses for the dramatic downturn while positioning for a future recovery. Deloitte monitors the pulse of the homebuilding and development industry. We have had nearly a century of experience working with construction companies, design firms and project owners worldwide. Deloitte teams work on challenging projects and programs at all stages of their life cycle; from strategy and business case development through to funding, procurement, construction and commissioning services needed for the continues growth of the real estate market.

* Services offered
* Financial statements and internal control audits
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* Independent commercial review
* Litigation and dispute consulting
* Environmental consulting
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* M&A transaction services
* Acquisition, planning, development, brokerage, construction and partnering

Which provide jobs.

* Industrial sector holds second place

Industrial property held onto second place among the major property sectors for the second straight quarter. Total returns averaged 11.7% for the four-quarter period ending September 2013 vs. 10.8% for the prior four quarters. Income returns held at 6.1%. Appreciation returns jumped to 5.4% vs. 4.5% for the prior four-quarter period, reflecting strong investor interest and strengthening fundamentals driven by steady but moderate growth in GDP. Construction is picking up for large users with specific needs like Amazon and in markets such as Southern California where availability is shrinking.

* FINANCING RANGES FROM OVERABUNDANT TO QUESTIONABLE

• Three out of five, 61%, say they have adequate capital for their operations with 12% of these indicating that capital is overabundant for the opportunities available .

• 33% say capital availability is spotty: though they could raise what’s needed for the most profitable projects, anything less than ideal might be very challenging .

• 6% say their access to capital is questionable or has completely dried up.

• Half (51%) are likely to pursue bank financing in the next 12 months 18% of these saying very likely.

* The road ahead

Looking into 2014, we believe the commercial real estate sector is poised for growth. Higher GDP expectations for 2014, steadily improving employment, and a Fed that’s committed to keeping the Fed funds rate at near zero into 2015 even as it tapers the quantitative easing program all bode well.

* Conclusion
* U.S. GDP is expected to grow 2.5% in 2014, up from 1.7% in 2013, and coupled with constrained construction should generate sufficient space demand to maintain downward pressure on vacancy rates and support for NOI growth.
* Consumer spending ticked down to a 1.5% rate in 3Q vs. 1.8% in the 2nd quarter, with the dip likely due to slipping consumer confidence resulting from federal budget uncertainty. Stronger spending is expected in 2014.
* Government spending cuts slowed growth once again in 3Q but not to the extent as in previous quarters.
* The housing market recovery remains intact despite an increase in mortgage interest rates. Starts ran at a 890,000 annual rate in August, up 19% vs. August 2012. Multi-family starts were running at a 250,000 rate. Existing home sales, which hit a four year high recently, ticked down in September with the decline due in part to limited inventory. Recent price increases have eroded housing affordability, and coupled with interest rate increases, will likely slow sales in future months.
* Employment has grown by 2.3 million over the past 12 months, which is the strongest growth since mid-2006. Federal government budget cut impacts are a big unknown, but strong private sector job growth has offset government job cuts. At 7.4%, the unemployment rate is still well above the Fed’s 6.5% target, affirming that formal tightening is not imminent, though tapering will ultimately keep rates at or slightly above current levels. Liquidity is more than sufficient to sustain buyer interest and commercial mortgage availability.

sources .

* CBRE-Econometric Advisors, NCREIF, RCA, Bloomberg and TIAA Research.
* 2013 Teachers Insurance and Annuity Association of America-College Retirement Equities Fund (TIAA-CREF),

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