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## Economy Will Give Boost to Commercial Real Estate in 2004

WASHINGTON (December 17, 2003) – Occupancy rates in the office, retail, warehouse and multifamily real estate markets can be expected to improve gradually over the next two years, according to the National Association of Realtors® COMMERCIAL REAL ESTATE QUARTERLY.

David Lereah, NAR's chief economist, said a number of indicators provide an optimistic outlook for the major commercial market sectors. "A strong improvement in gross domestic product, a jump in consumer spending, and an improved business climate that includes rising business spending and higher corporate profits support a turnaround in commercial real estate," he said. "All the economic cylinders will be at full steam in 2004."

The NAR analysis covers a wide range of statistics and market rankings for the major commercial sectors in 54 markets tracked, including the office, retail, warehouse and multifamily markets, as well as market sector forecasts. It is produced with data provided by Property & Portfolio Research.\*

All commercial market sectors showed net positive absorption of space in the third quarter, which includes leasing of new space coming on the market as well as space in existing properties. Employment gains helped the office market, retail benefited from the rise in consumer spending, warehouse space enjoyed higher demand from rising inventories and strong household formation increased the demand for multifamily housing.

NAR President Walt McDonald, broker-owner of Walt McDonald Real Estate in Riverside, Calif., said the best news is the recovery in the job market. "We should be adding more than 2 million jobs over the next year, and that will directly feed demand for commercial real estate space," he said. "In addition, a weak dollar overseas will boost exports and help the manufacturing sector, which had been the hardest-hit sector of the U.S. economy."

Net absorption of office space is projected to rise to 101.8 million square feet next year from only 32.0 million in 2003. Office vacancy rates in the 54 markets tracked should decline to 16.8 percent in 2004 from an estimated 17.9 percent this year. Average office rents are expected to rise 0.2 percent next year and 4.4 percent in 2005 after dropping 6.4 percent this year.

In the retail sector, net absorption is forecast at 109.1 million square feet for 2004 after reaching an estimated 85.9 million this year. The average vacancy rate for retail space in the 54 metro markets is projected to drop to 12.0 percent next year compared with 12.7 percent for 2003. Retail rents should rise by 1.8 percent in 2004 and 1.4 percent in 2005 after rising only 0.3 percent this year.

Warehouse net absorption is projected at 98.3 million square feet in 2004, up from an expected 70.6 million this year, while the national vacancy rate is expected to drop to 9.6 percent next year from 10.5 percent in 2003. After declining an average of 3.3 percent this year, warehouse rents are seen to slip another 0.6 percent in 2004. Rents are projected to increase 2.0 percent in 2005 with net absorption of warehouse space forecast to rise to 124.2 million square feet.

The apartment rental market – multifamily housing – should experience a net absorption of 155,300 units next year, up from 118,200 projected for 2003. The average vacancy rate is expected to drop to 6.8 percent in 2004 from 7.2 percent this year, with average rent forecast to hold even in 2004 before rising 2.4 percent in 2005 following a decline of 2.5 percent this year.

The COMMERCIAL REAL ESTATE QUARTERLY is published by the NAR Research Division for the Realtors® Commercial Alliance (RCA). The RCA, formed by NAR in 1999, serves the needs of the commercial market and the commercial constituency within NAR, including commercial members; commercial committees, subcommittees and forums; commercial real estate boards and structures; and NAR affiliate organizations. These organizations include the CCIM Institute, the Institute of Real Estate Management,

the Realtors® Land Institute, the Society of Industrial and Office Realtors®, and the Counselors of Real Estate. The RCA also provides commercial products and services.

The [National Association of Realtors®](#), "The Voice for Real Estate," is America's largest trade association, representing more than 972,000 members involved in all aspects of the residential and commercial real estate industries.

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