

Steady Market Gains Ahead

By Robert Freedman

Modest growth in the economy and an improving job picture bode well for both residential and commercial real estate.

For residential practitioners, NAR's forecast for 2013 looks like a return to normalcy, with healthy price appreciation, an increase in both existing- and new-home sales, and a drying up of the shadow inventory. Interest rates are expected to remain low, though inflation could put upward pressure on both rates and home prices.

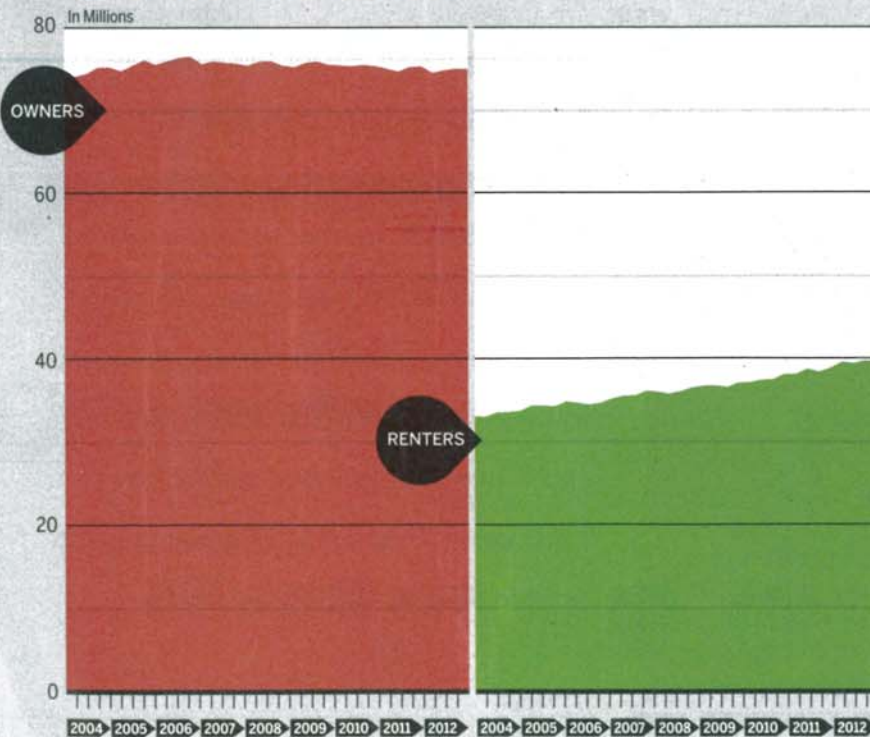
For commercial practitioners, the rise in renter households is good news for the multifamily sector. Office, industrial, and retail are all expected to inch back, with slight declines in vacancies and positive growth in net absorption and rents.



WHERE WE'VE BEEN

Own vs. Rent

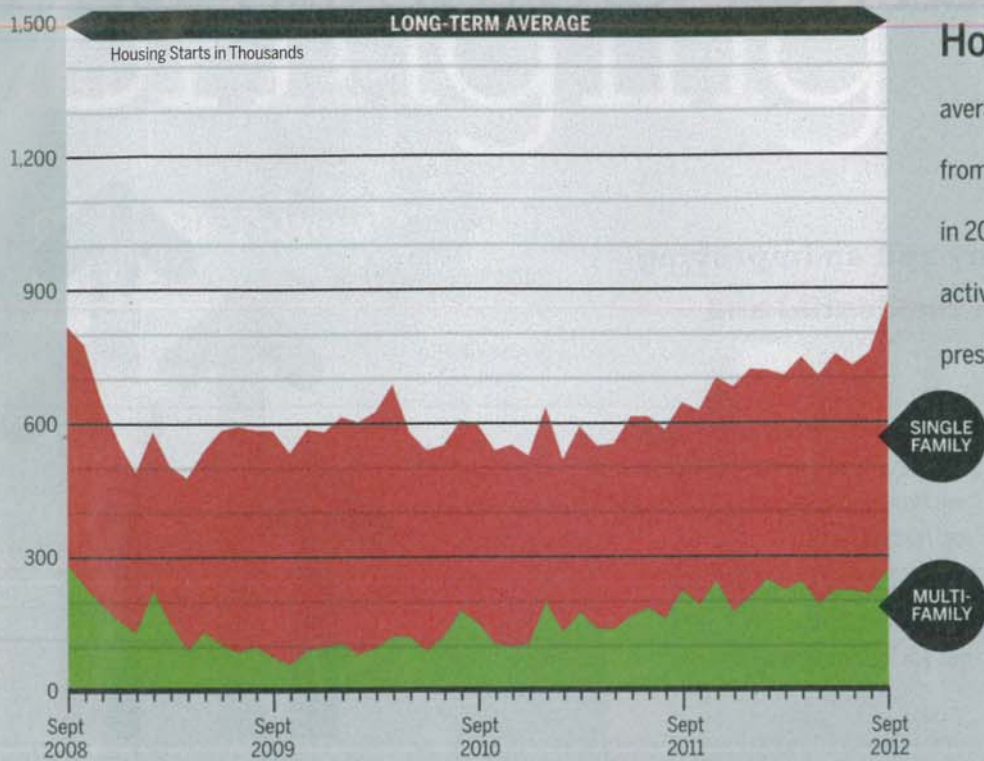
The number of owner households has been flat over the past several years.



Despite U.S. population growth of roughly 1 percent per year, the number of owner households has held steady, in the range of 75 million since 2007, while the **number of renter households** has increased from 35 million in 2007 to nearly 40 million today. Some renters who'd like to take advantage of today's favorable prices and interest rates are finding credit standards too tight to obtain financing. NAR warns that **continued tight credit conditions** threaten to widen the wealth gap between owners and renters.

Builder Activity

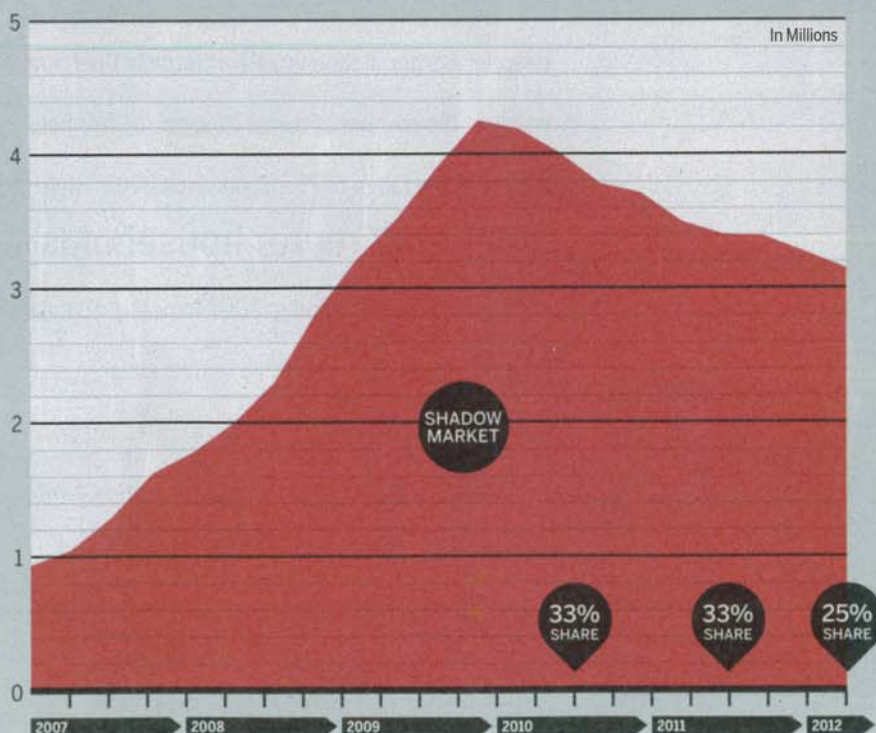
New home construction has been well below the 50-year average of 1.5 million.



Housing starts remain well below historical averages, even with new construction expected to rise from 776,000 units last year to more than 1.1 million in 2013. **Depressed construction** activity has kept inventories down and put upward pressure on prices.

Shadow Inventory

Delinquencies and foreclosures have dropped but remain high.



Since hitting a level of nearly 4.3 million units in the fourth quarter of 2009, the shadow inventory—seriously delinquent mortgages and homes in **foreclosure**—has been declining. It was at 3.1 million units in 2012's first quarter, still high but sharply below the peak. As a percentage of total sales, distressed sales are **on the decline**. In 2010 and 2011, they constituted about a third of the market. That dropped to 25 percent in 2012 and is expected to decline to **single digits by 2014**.

WHERE WE'RE GOING

The Forecast Calls for ...



PRICING	2012	2013	2014
GDP growth	2.1%	2.3%	3.0%
Home price (median)	\$177,000	\$185,000	\$193,000
30-year mortgage	3.7%	4.1%	4.8%



VOLUME	2012	2013	2014
Existing-home sales (millions)	4.64	5.05	5.30
New-home sales	368,000	575,000	650,000
Distressed sales (% of total sales)	25%	15%	8%
Housing starts	776,000	1,128,000	1,300,000

WHERE WE'VE BEEN → WHERE WE'RE GOING

COMMERCIAL REAL ESTATE	2011	2012	2013
Office			
Vacancy rate	16.6%	16.1%	15.7%
Net absorption (sq. ft.)	20,714,000	24,064,000	47,821,000
Completions (sq. ft.)	12,324,000	13,746,000	34,146,000
Rent growth	1.6%	2.0%	2.6%
Industrial			
Vacancy rate	12.0%	10.8%	10.5%
Net absorption (sq. ft.)	78,118,000	59,889,000	67,169,000
Completions (sq. ft.)	15,700,000	28,386,000	57,086,000
Rent growth	-0.5%	1.7%	2.4%
Retail			
Vacancy rate	12.5%	11.0%	10.7%
Net absorption (sq. ft.)	4,297,000	10,252,000	20,106,000
Completions (sq. ft.)	4,899,000	5,567,000	15,899,000
Rent growth	-0.2%	0.8%	1.3%
Multifamily			
Vacancy rate	5.2%	4.3%	4.2%
Net absorption (units)	200,720	219,318	236,559
Completions (units)	37,678	79,845	148,623
Rent growth	2.2%	4.1%	4.4%

NAR is forecasting **3 percent growth** in U.S. gross domestic product by 2014, along with a steady increase in national median home price. After years of tepid performance, both existing-home sales and new-home sales are expected to see **significant gains** this year and next, despite a gradual rise in interest rates. **Commercial** sectors are also seeing signs of upward progress. And good news is expected in the all-important employment picture: NAR Research estimates payroll **jobs will grow** by 2 million this year and 2.6 million next year.



All tables use data compiled by NAR Research.