

*Presentation to*



# Trends in Commercial Real Estate & Market Data

*Presented by*

**James M. Schrader**

**August 11<sup>th</sup>, 2014**

**SCHRADER**  
COMMERCIAL PROPERTIES, LLC

# Creative Destruction

Definition:

A process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one.

**How will changing  
technology impact office  
and real estate needs of  
banks?**

**Innovation is rapidly transforming the commercial real estate industry which will impact underwriting and lending decisions.**

# Big trends in commercial real estate

Sources:

**Kevin Thorpe**

Chief Economist of Cassidy Turley

**Peter Kinneman**

Wharton School of Business

# Big trends in commercial real estate

1. Most shopping malls will be extinct.
2. Office space is shrinking.  
225 SF/Person in 2010,  
165 SF/Person Today.

# Big trends in commercial real estate

## 3. Brick and Mortar Will Go Tech

- i. Netflix wiped out Blockbuster
- ii. iTunes wiped out record stores
- iii. E-Readers wiped out Borders Bookstores

# Big trends in commercial real estate

## 4. Industrial warehouse growth to occur

Ecommerce makes up 45% of all industrial absorption.

Average size of a new warehouse has grown from 100,000 SF to 300,000 SF.



# Big trends in commercial real estate

5. Urbanization will continue at a rapid pace.

May not bode well for rural Kentucky.

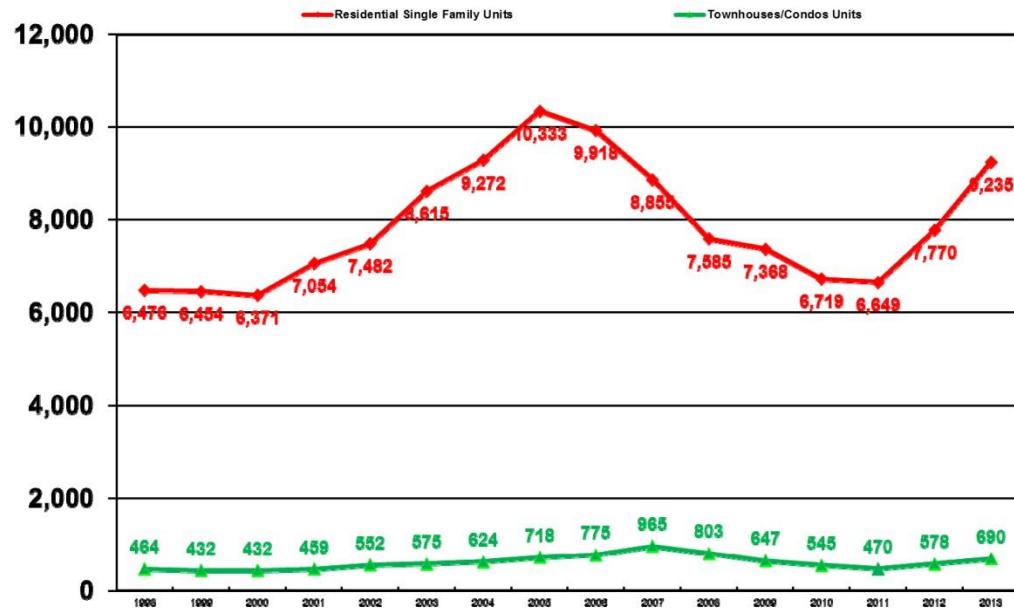
6. Workspaces will be transformed by technology.

7. Green and more green.

# Market Activity Report 1998-2013

## Central Kentucky Residential Data

### Sales Closed (Units): 1998-2014



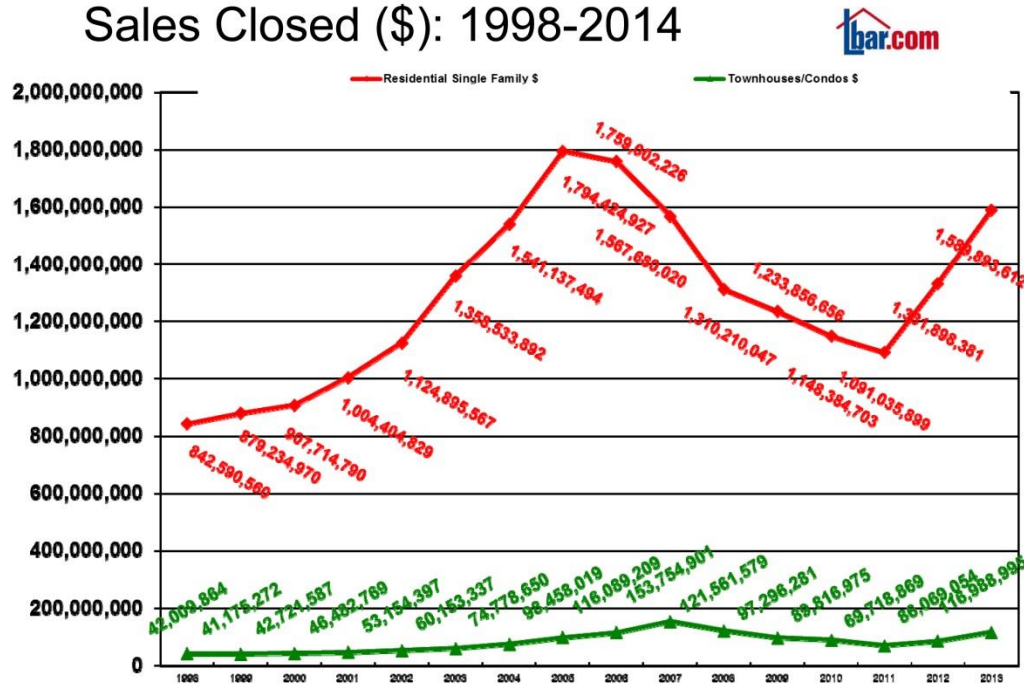
Published by the Lexington-Bluegrass Association of REALTORS®. This data is based exclusively upon LBAR MLS activity in the Central Kentucky region.

Source: Lexington-Bluegrass Association of REALTORS

# Market Activity Report 1998-2013

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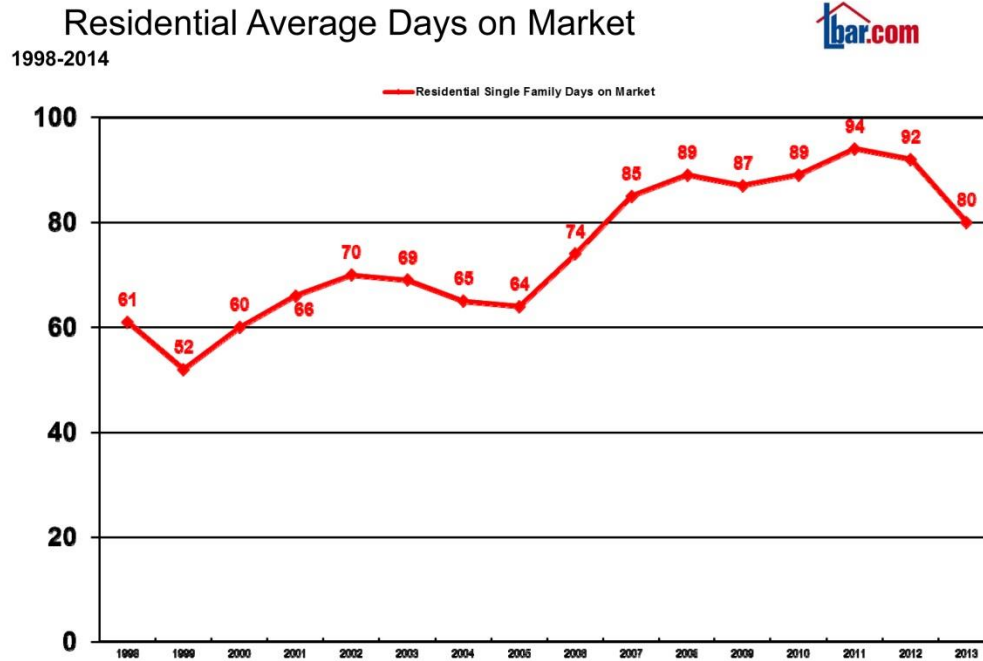


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# Market Activity Report 1998-2013

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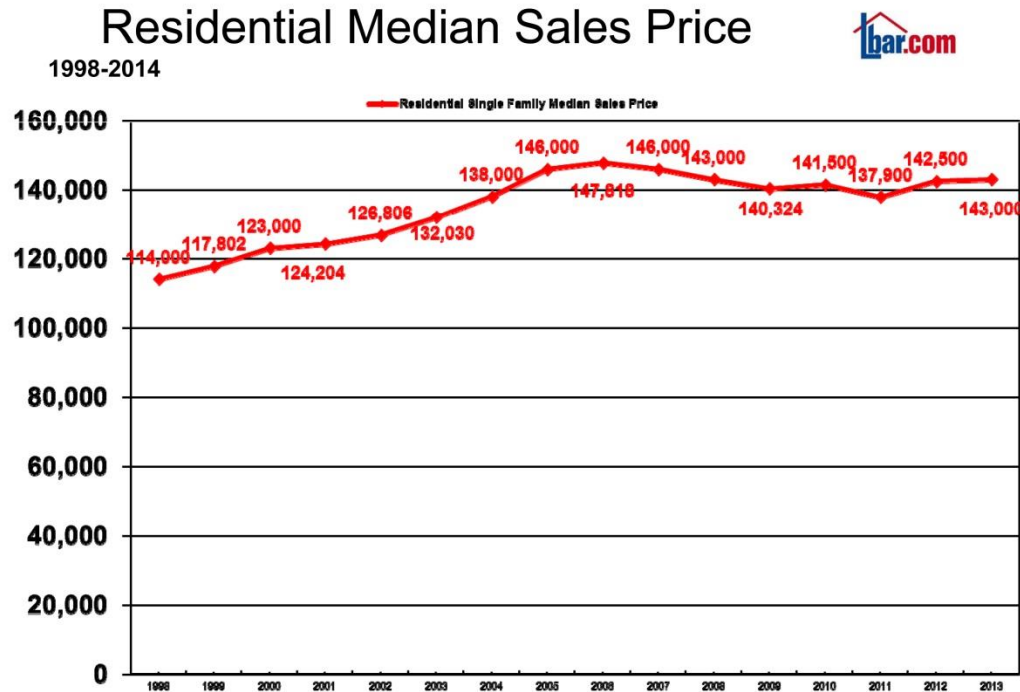
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# Housing Prices

Housing prices grew 2.5% in 2013, but still lag the nation



Source: Zillow.com/Haver Analytics.

## ◀ HOUSING PRICES

The housing recovery continues apace in the Lexington metro, but is lagging the nation. This is largely due to the area's housing prices, which never fell as low as that of the national housing market. Nonetheless, the annual growth rate has approximately reached pre-recession levels, with a gain of 2.5 percent in 2013. Housing demand and prices are expected to continue to improve as area population expands and residential real estate construction responds. However, growth in the foreclosure inventory has recently increased due to the lengthy period of time that judicial foreclosure states such as Kentucky take to resolve the process. This will work to contain price growth even in the face of expanding demand.

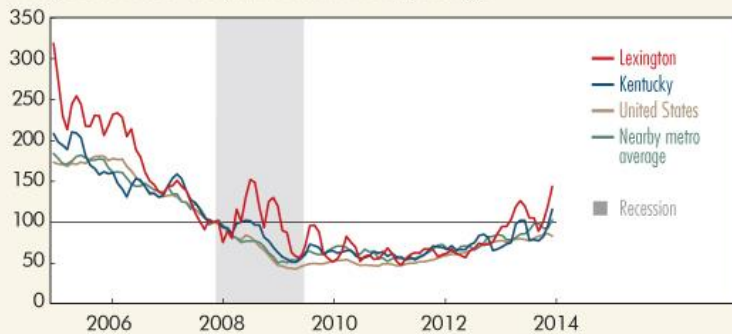
Source: Federal Reserve Bank of Cleveland



# Housing Permit

Housing permits far exceed those of the state and Lexington's nearby metros

Index, 2007: M12=100, three-month moving average



Source: Census Bureau/Haver Analytics.

## HOUSING MARKET

### ◀ HOUSING PERMITS

Construction in the housing sector has continued to advance as the supply of residential homes has waned in the face of increasing demand. Through February 2014, housing permits are running at approximately 144 percent of the 2007 level. By way of comparison, the nation is at 82 percent, Kentucky 115 percent, and Lexington's nearby metro areas 102 percent. Housing supply remains exceptionally tight, also helping to prop up house prices. Multifamily vacancy rates remain low, as apartment construction has yet to catch up with growth in regional demand. Two factors often cited for the slow resurgence of supply are the ongoing tight credit conditions and a scarcity of skilled construction labor. Recently, the residential construction labor force has begun to grow, helping to reduce the disparity between increased housing demand and short supply.

Source: Federal Reserve Bank of Cleveland

# Apartment Market Survey Mid Year 2014

## Recent Transactions Greater Than 100 Units

Community	Sale Date	Sale Price	Units	\$/Unit	Submarket
Pinebrook	Dec-13	\$ 10,500,000	208	\$ 50,481	South
Meadows	Dec-13	\$ 9,000,000	174	\$ 51,724	South
Enclave at Hartland	Nov-13	\$ 21,750,000	230	\$ 94,565	South
Richmond Commons	Nov-13	\$ 5,900,000	125	\$ 47,200	East
Racquet Club	Oct-13	\$ 36,600,000	474	\$ 77,215	South
Caballo Run	Sep-13	\$ 3,700,000	252	\$ 14,683	North
Retreat at Hamburg	Sep-13	\$ 16,300,000	150	\$ 108,667	East
Parkway Apartments	Jun-13	\$ 2,214,500	128	\$ 17,301	South
100 Chevy Chase	Mar-13	\$ 6,850,000	244	\$ 28,074	East
Forty-57	Dec-12	\$ 52,500,000	436	\$ 120,413	South
<b>Total</b>		<b>\$165,314,500</b>	<b>2,421</b>	<b>\$61,032</b>	

Source: Stidham Commercial Partners



# Apartment Market Survey Mid Year 2014

## Recent Transactions Greater Than 100 Units

Developer	Community	Location	Units	Notes
Continental Properties	Springs at Winchester	1809 Meeting Place	252	Anticipated Opening Fall/Winter 2014
Ball Homes		Old Schoolhouse Lane	196	Just off Harrodsburg Road near Old Higbee Mill
Bayer Properties	The Summit Lexington	Nicholasville Rd & Man O War	400	Part of larger Summit Lexington mixed use development
The Webb Companies	CentrePoint	Downtown	96	Part of the Mixed Use CentrePoint Development
Vita Development Group	The Avenues at Nicholasville	Brannon Crossing	240	Located in Jessamine County/Nicholasville

Source: Stidham Commercial Partners

# Commercial Building Permit

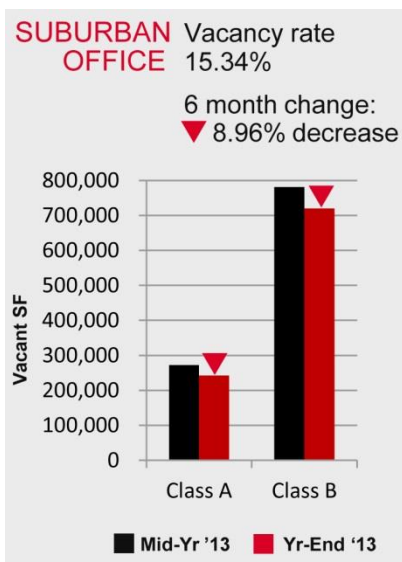
## Lexington-Fayette County Commercial Building Permit Square Footage

<u>Year</u>	<u>Retail/Other</u>	<u>Ind/Warehouse</u>	<u>Office</u>
2004	491,825	427,442	438,149
2005	763,100	549,406	592,189
2006	1,213,250	379,007	401,320
2007	500,440	160,638	530,978
2008	578,269	409,364	154,972
2009	270,418	384,923	370,192
2010	134,163	49,485	227,852
2011	244,515	141,269	272,388
2012	312,423	158,092	411,358
2013	<u>592,085</u>	<u>132,768</u>	<u>223,241</u>
10-Yr. Tot.	5,100,488	2,792,394	3,622,639
Mean	510,048	279,239	362,263
Last 3-Yrs	383,007	144,043	302,329

# Year End 2013 Report

## Commercial Real Estate Market of Lexington, KY

### Suburban Office



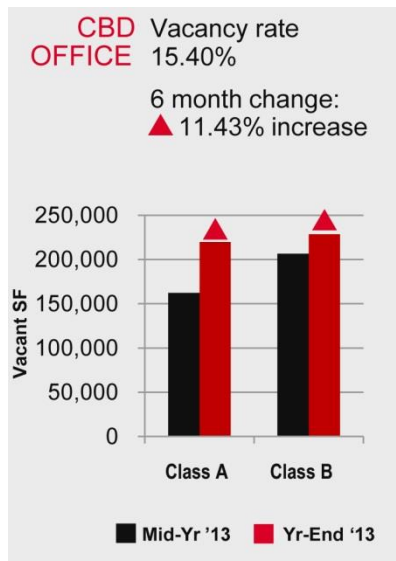
SUBURBAN OFFICE	Bldgs	GLA (SF)	Occupied (SF)	Occupancy Rate (%)	Vacant (SF)	Vacancy Rate (%)
Class A	45	1,855,396	1,612,569	86.91%	242,827	13.09%
Class B	137	4,419,030	3,699,436	83.72%	719,594	16.28%
<b>Total</b>	<b>182</b>	<b>6,274,426</b>	<b>5,312,005</b>	<b>84.66%</b>	<b>962,421</b>	<b>15.34%</b>

Source: NAI Isaac

# Year End 2013 Report

## Commercial Real Estate Market of Lexington, KY

### CBD Office



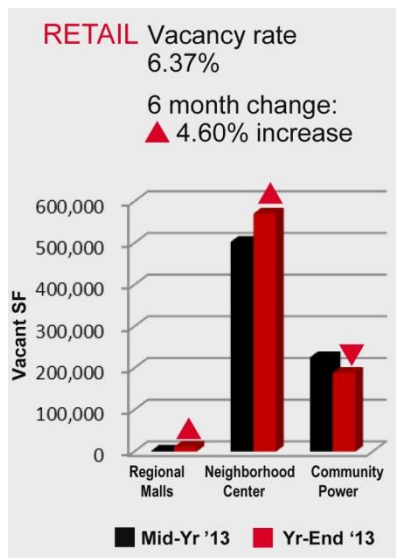
CBD OFFICE	Bldgs	GLA (SF)	Occupied (SF)	Occupancy Rate (%)	Vacant (SF)	Vacancy Rate (%)
Class A	6	1,260,249	1,040,581	82.57%	219,668	17.43%
Class B	37	1,651,683	1,423,022	86.16%	228,661	13.84%
<b>Total</b>	<b>43</b>	<b>2,911,932</b>	<b>2,463,603</b>	<b>84.60%</b>	<b>448,329</b>	<b>15.40%</b>

Source: NAI Isaac

# Year End 2013 Report

## Commercial Real Estate Market of Lexington, KY

### Retail



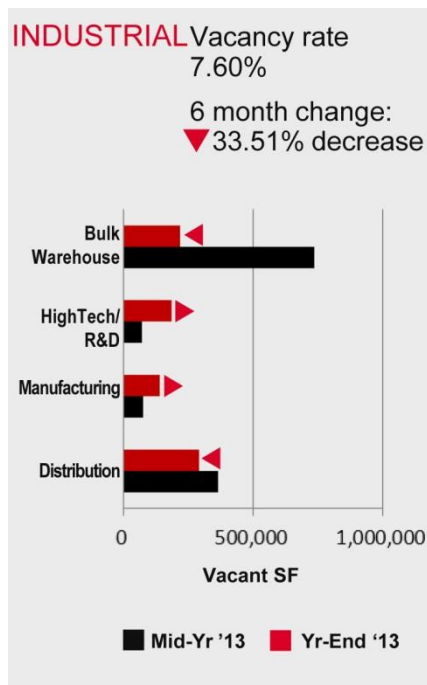
RETAIL	Bldgs	GLA (SF)	Occupied (SF)	Occupancy Rate (%)	Vacant (SF)	Vacancy Rate (%)
Regional Malls	1	1,214,135	1,202,733	99.06%	11,402	0.94%
Neighborhood	96	5,039,176	4,468,250	88.67%	570,926	11.33%
Community/Power Center	18	5,839,604	5,651,057	96.77%	188,547	3.23%
<b>Total</b>	<b>115</b>	<b>12,092,915</b>	<b>11,322,040</b>	<b>93.63%</b>	<b>770,875</b>	<b>6.37%</b>

Source: NAI Isaac

# Year End 2013 Report

## Commercial Real Estate Market of Lexington, KY

### Industrial



INDUSTRIAL	Bldgs	GLA (SF)	Occupied (SF)	Occupancy Rate (%)	Vacant (SF)	Vacancy Rate (%)
Distribution	92	3,850,107	3,558,337	92.42%	291,770	7.58%
Manufacturing	18	1,221,151	1,084,940	88.85%	136,211	11.15%
HighTech/R&D	26	978,429	793,234	81.07%	185,195	18.93%
Bulk Warehouse	42	4,838,598	4,623,885	95.56%	214,713	4.44%
<b>Total</b>	<b>178</b>	<b>10,888,285</b>	<b>10,060,396</b>	<b>92.40%</b>	<b>827,889</b>	<b>7.60%</b>

Source: NAI Isaac