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By Randyl Drummer (rdrummer@costar.com)

CoStar US Price Indices Post Fifth Consecutive Year of Price Growth Despite Year-End Deceleration

Composite Price Indices Rise More Than 6% in 2016, Despite Slower Growth Across All US Regions, Property Types

The CoStar Commercial Repeat-Sale Indices (CCRSI) ended both the fourth quarter and full year of 2016 in positive territory, in spite of decelerating price growth rates across all U.S. regions and property types and lower transaction volume over the past 12 months.

Both U.S. indices posted solid gains in 2016, with the equal-weighted U.S. Composite Index rising 6.6% and the value-weighted U.S. Composite Index rising 6.8%, offsetting a deceleration in transaction activity at the end of the year.

The two composite price indices closed the fourth quarter in growth mode, even as they dipped by 1.3% in the month of December. All six major property-type indices, including office, industrial, multifamily, retail, land and hospitality, as well as all four regions of the country, posted gains for 2016, marking the fifth consecutive year of recovery in CRE markets, with positive gains across the spectrum.
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The year saw a marked deceleration in growth from the pace of the previous two years, when most property type and regional indices grew at a double-digit rate, however. While remaining strong, transaction volume fell from its record-setting 2015 pace, with composite pair volume ending the year 4.4% lower than the record composite pair volume set in 2015.

December is usually the busiest month for commercial property sales as investors rush to finalize deals, but deal volume was up only modest during the month, failing to provide the boost to annual totals seen over the last several years.

Despite the decline in activity, the total volume of $126.9 billion for composite sale pairs was still the second-highest annual total on record for the CCRSI behind 2015.
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While the South Index has lagged behind both the West and Northeast indices through much of the last several years, it ended 2016 as the country's best performing region in 2016, increasing 5% to within 4.9% of its high point before the recession on the weight of strong demographics and comparatively lower pricing. The Northeast and West regional indices grew 3.9% and 3.5%, respectively, in 2016, while the Midwest regional index continued to lag behind other regions with flat growth of 0.02% in 2016.
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While all six property-type indices increased during the year, the hospitality index was the only property type index to post double-digit growth in 2016, something of a surprise given the relative weakening of lodging fundamentals in recent

quarters.
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Industrial property fundamentals remained healthy, posting vacancy declines, rent growth of more than 6% and the strongest net absorption of logistics and light-industrial space of the recovery at 220 million square feet in 2016, the strongest yet in the recovery, contributing to declining vacancies and rent growth of over 6% in 2016. However, even though the index for prime industrial metros advanced 4.9%, overall industrial property price growth lagged from the previous two years, rising just 1.9% in 2016, the lowest among the major property types.

The U.S. Office Index increased 0.5% in the fourth quarter of 2016 and 5% over the 12-month period amid continuing improvement in rental and occupancy rates nationally, although price growth was slower at the top end of the market, with the Prime Office Metros Index, dominated by the largest core coastal metros, increased more modestly at 2.4% in 2016, possibly reflecting slowing rent growth in the tech-driven office markets of San Francisco and San Jose.

The U.S. Multifamily Index declined a modest 0.5% in the fourth quarter of 2016 contributing to somewhat slower annual gains of 4.7% in 2016, even as the Prime Multifamily Metros Index growth remained remarkably resilient, expanding by 6.1% for the year despite having already surpassed its pre-recession peak by nearly 49%.

The retail index rose 1.8% in the fourth quarter and 3.7% for the year, reflecting flattening prices in the most expensive properties and metros that led the recovery. The Prime Retail Metros Index, which had advanced nearly 20% above its prior peak level earlier in 2016, dipped 2.2% in the fourth quarter.

Slowing demand for development sites began to dampen price growth for land in 2016. The Land index declined 0.5% in the fourth quarter, though it finished the year with a gain of 3.4%. The land index, which didn't reach its trough until very late in the cycle in 2012, remains 14% below its previous peak despite gains in recent years.

Monthly CCRSI Results Data Through December 2016table.mccrsi{border:1px solid black;border-collapse:collapse;width:490;}tr.mccrsi{text-align:right;}td{padding-left:3px;padding-right:3px;}
% Change1 Month
Earlier1 Quarter
Earlier1 Year
EarlierThrough to
Current
Value-Weighted U.S.
Composite Index-1.3%0.0%6.8%101.0%
Equal-Weighted U.S.
Composite Index-1.3%1.1%6.6%58.9%
U.S. Investment-
Grade Index-1.4%0.7%0.5%64.1%
U.S. General
Commercial Index-1.0%1.5%8.0%59.3%