Commercial Real Estate Trends: A look forward to 2017

In the commercial real estate market, experts are quick to point out that it's all cyclical — boom-bust-recover-repeat. What makes the commercial market so interesting and predictably unpredictable is that while one area of the commercial market may be booming, another can be struggling or just entering recovery. Different outside factors affect each commercial segment (e.g. office, industrial, retail, multi-family apartments) in different ways, and at varying degrees.

According to local RE/MAX real estate professionals, the key to understanding your local market is looking for clues to confirm where in the cycle of boom-bust-recover your market stands. So, what can we expect for the commercial market in 2017? Our experts weigh in after investigating these clues.

Bargaining Power. In the Midwest, local brokers are seeing commercial real estate strengthen as vacancy rates decrease. This will see the bargaining power between landlords and tenants shift toward the landlord for the first time in many years. This slight advantage will likely lead to higher rents and better terms for landlords.

For office spaces in particular, the market is well into the recovery phase. While lease rates haven't risen yet, experts expect a spike in the summer of 2017, which will trigger a fresh round of new construction and build to suit activity.

New Construction. In each segment of the commercial market, there comes a tipping point in which companies begin to build "speculative" new construction. It typically begins as a one-off build to meet demand for a specific larger tenant — because the existing supply of vacant space becomes picked over, so a tenant will demand new construction options. Eventually, this will lead to a landlord constructing a speculative building with just a few, or potentially no new tenants in mind.

With the office space market being in its recovery phase, experts are seeing a lot of these one-off building projects. In the industrial market (distribution centers) the market has entered its boom-phase of the cycle. As E-Commerce distribution strategies create the demand for larger facilities, several developers are building speculatively.

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Retail Therapy. E-Commerce has also had an effect on the retail segment of the commercial market. Many retail stores have struggled to come up with an answer to the online-shopping boom. While industrial real estate stands to benefit from this, retail will continue to languish in recovery mode.

On the flip-side of the retail coin, as some companies fade, it gives a chance for new and unheard of companies to sublease prime space. E-Commerce is also forcing retail to rethink the retail experience. Many stores are offering retail showrooms – and pushing the actual purchase to an online destination. This seems to be in-step with the American psyche because while 79 percent of Americans have made online purchases, 64 percent said that all things equal (i.e. price) they would prefer buying from a physical store.

Building to Excess. Real estate experts note that the boom-phase of the cycle can have its drawbacks. This is most clearly seen in the apartment space. There is a tendency to build to excess, which eventually leads to lower rents and a bust in the cycle. The "when" for this is hard to predict and subject to a wide array of variables — but with the multi-family apartment space trending toward becoming overbuilt with unaffordable rents, it's heading in that direction.

In Indianapolis, e-commerce posted a 2.9 million sq. ft. in net absorption this quarter, bringing the year-to-date increase in occupancy to 7.4 million sq. ft.

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Indiana was top 25 in the country for the most active industrial markets.

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