

THE HEARTLAND

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THE HEARTLAND REPORT

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CONSUMER CONFIDENCE BOOSTS RETAIL

The retail market for property owners and those looking to acquire retail properties continued to show signs of strength through the 3rd quarter of 2106. Demand for retail space during the 3rd quarter was up 8% compared to the same period last year. For the past 23 quarters, the amount of available space has dropped or stayed steady. At the same time, new space coming on line has been lackluster. All this while for the past 11 quarters there has been positive year-over-year rent growth.

On a national basis retail rents average \$16.44% per square foot, up 4.1% over the same period last year.

A strong job market is helping in lifting consumer confidence. That confidence is translating into more sales across all sectors of the retail industry including restaurants. Sales in this segment are up 3.5% which is a bit smaller than the increase in sales seen in 2nd quarter of this year.

The overall trend is upwards in this category including that in the food services sector.

The outlook for the retail sector continues to show positive signs for the near term as retailers work through consumer demands to shop on line.



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Employment Drives Office Demand

Office properties on a national basis have seen very similar results recently as other sectors of commercial property. Rents have seen a 6.3% increase to a national average of \$31.33 per square feet. Like the retail sector the office sector has seen 25 straight quarters of decreased or unchanged vacancy rates. The vacancy rates in the 3rd quarter were 13%.

The driver behind the positive numbers in the office market has been employment. For 27 quarters in a row, office employment has grown creating the demand for more floor space. This demand is driven by an increase in employment in the technical sectors.



Another factor in the consumption of office space is the return seen in the past few years of customer contact centers to the United States. Consumers preferences, time zone issues and language difficulty have been reasons why some companies in the customer contact center business have returned operations to North America. The result has been a need for office space capability of accommodating their needs.

An increase in small data center companies may also have an impact on office floor space. This types of tenants do not create a lot of jobs but need secure locations with extremely reliable power supplies.

In 2017 new office space scheduled to come on line will increase vacancy rates which may put a bit of downward pressure on rents in certain markets as tenants will have more options to choose from.



Logistics Play Into Industrial User's Needs

In the industrial segment of real estate, the demand for space could potentially see 2016 being the best year in the past 11 years. Demand from users is driving the success in the industrial markets.

The nation's industrial output has seen a steady increase since the steep declines in 2008 and 2009. Tonnage volume by truck reached an all-time high in July of this year. Although recent figures show a bit of decline, that number still remains higher than recent years.

E-Commerce sales for retailers continue at a steady increase. This may create an increased need for distribution facilities as retailers adapt to the changing demand for the consumer.

Despite some high-profile announcements of relocation of production facilities off shore being featured in the media, manufacturing jobs have been growing in America. Most of this can be contributed to the need to speed products to market that shipping to retailers from the other side of the globe cannot support. As a result, demand is up and so is the amount of new industrial space coming on line.

Looking forward, how long the demand for more industrial and warehouse space will last is difficult to predict. Demand will vary from market to market based upon the local needs of companies in various cycles of growth or contraction. As long as the consumer remains at the checkout counter, the warehousing and movement of goods will continue.

Home Sales Continue To Be Strong

Home sales throughout the state of Missouri continue to see growth. Coming into the 4th Quarter of 2016 sales have seen a year-to-date increase of 8.4% according to information from the Missouri Realtors.

Prices have also increased in Missouri. The average sale price of a home is up 8.3% largely due to an increase of 11.7% in the median selling price compared to the same period two years ago. The average sale price of a home is \$188,145. Homes priced below the state average continue to show strength.

Missouri home prices continued to be a good buy compared to the national average. According to the National Board of Realtors the median home price in October was \$232,200.



Going into the early portion of 2017, the market continues to be a seller's market. The number of residential buyers in the most of the Midwest and in Missouri can be categorized as "strong" by the National Association of Realtors

The 3rd Quarter survey from the National Association of Realtors show that 71% of respondents believe it's a good time to buy a home on a national basis. When looking at the Midwest which includes Missouri, the response is as high as 73%. However, when considering the opinions of homeowners, only 63% believe it is a good time to sell a home.

The same survey had 53% of respondents who identified as renter believe that prices of homes will increase in price over the next 6 months.

The length of time to sell a home on a national basis has also seen positive number. The time the average home has been on the market has decreased by 9% as buyers make decisions faster than they have in the past.

When it comes to the national economy the same survey had 48% of the respondents stating that they believe the economy is improving. However, 63% of the respondents living in rural areas believe the economy is not improving. This may affect home sales depending upon their location.