

# Commercial Market Insights

## June 2021

National Association of REALTORS® Research  
Group



**NATIONAL  
ASSOCIATION OF  
REALTORS®**

# Contents

*The commercial real estate market continues to climb out from the economic fallout of the COVID-19 pandemic. Commercial real estate acquisitions during January through May 2021 rose 1% compared to one year ago as investors acquired multifamily properties, hotels, and seniors housing.*

*However, acquisitions of office, retail brick-and-mortars, and even industrial properties fell below their levels one year ago. Investors continue to shy away from office acquisitions, with about half of tech workers still working from home and as businesses continue to assess their workstyle policies. Investor interest for retail properties remains tepid as e-commerce sales continue to make inroads into the brick-and-mortar retail sales market.*

*Commercial real estate prices continued to firm up on a broad level, with prices now just 1% below year-ago levels, after falling by as much as 10% one year ago. Cap rates have continued to compress downwards by about a percentage point from one year ago, with the lowest cap rate in multifamily property acquisitions.*

*NAR Research anticipates that commercial transactions will continue to improve in 2021 and even more strongly in 2022, with the population practically vaccinated by the end of summer 2021, as more businesses increase their operating capacity, travel resumes, more workers start heading back to the office, and consumers spend some of their savings on leisure and recreation and personal services.*

*Enjoy reading the latest issue!*

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# Economic Conditions

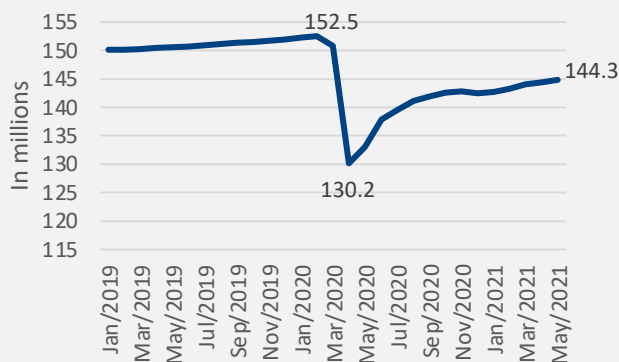
## 14.1 million payroll generated from May 2020-April 2021 with 8.2 million jobs to recover

The economy continues to recover and jobs are coming back, although at a modest pace compared to the third quarter surge. As of May 2021, the economy has gained 14.7 million jobs, or 75% of the 22.4 million jobs lost during March and April 2020. There are 7.6 million nonfarm payroll jobs still to be recovered.

About 33% of the 7.6 million jobs to still recover are in leisure and hospitality, followed by the government sector (local), health care and social assistance, professional and businesses services, and manufacturing, which each have lost over 500,000 jobs. Only the finance and insurance industry had job gains.

While jobs are coming back, only 10% of metro areas have more jobs as of May 2021 compared to February 2020.

## 14.7 Million Payroll Jobs Created With 7.6 Million Lost Jobs to Recover as of May 2021

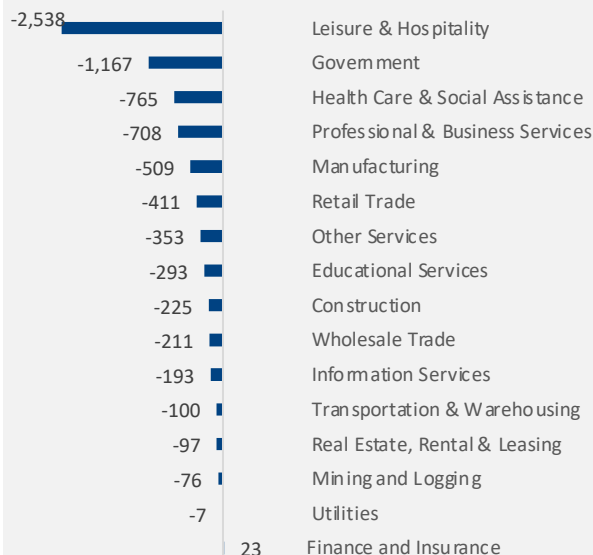


Source: BLS Establishment Survey

## Change in non-farm nonfarm employment, May 2021 vs. Feb 2020

Ogden-Clearfield, UT	13.2
Ocean City, NJ	11.6
Provo-Orem, UT	10.1
Salisbury, MD-DE	7.5
Boise City, ID	6.7
Barnstable Town, MA Metropolitan NECTA	5.7
Coeur d'Alene, ID	5.1
Idaho Falls, ID	4.9
St. George, UT	4.8
Lakeland-Winter Haven, FL	3.1
rtle Beach-Conway-North Myrtle Beach, SC-NC	3.0
Elkhart-Goshen, IN	2.8
Salt Lake City, UT	2.5
Daphne-Fairhope-Foley, AL	2.1
KenneWick-Richland, WA	2.0
Rapid City, SD	1.9
Pocatello, ID	1.7
Logan, UT-ID	1.4
Fayetteville-Springdale-Rogers, AR-MO	1.4
Hilton Head Island-Bluffton-Beaufort, SC	1.3
Crestview-Fort Walton Beach-Destin, FL	1.3

## Nonfarm Payroll Jobs Lost since February 2020 as of May 2021



Source: BLS Establishment Survey

# Economic Conditions

## 17% of the workforce still working from home

Workers are slowly trickling back to the office. As of April, 16.6% of workers teleworked, down from a peak of 35%, but still about thrice the 5.7% share in 2019. Among computer and mathematical workers, 55% are teleworking, about five-fold from the 12% share in 2019. The fraction is likely to continue to decline as more people get vaccinated by the end of summer, but it seems more likely that a fraction of workers will work from home compared to before the pandemic with companies providing a flexible working environment as one way to attract workers.

## 56% of small businesses operating at higher capacity as of June 19, 2021

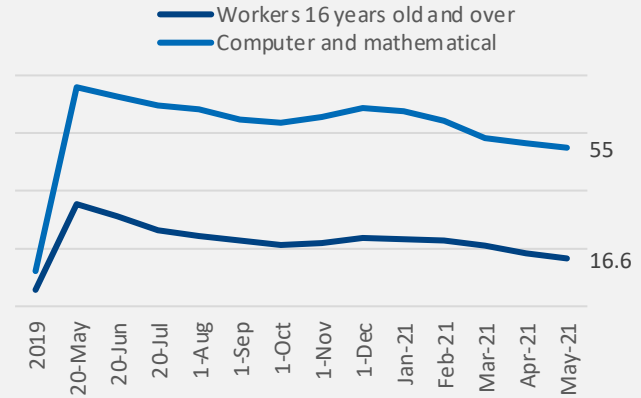
As the economy continues to recover, a businesses are starting to operate at higher capacity. As of the week of June 19, 56% of small businesses were operating at higher capacity compared to one year ago as COVID-19 cases started to accelerate.

## Inflation surged to 5% in May due to uptick in energy and transportation prices

The inflation rate (all items) surged to 5% in May 2021 due to rising energy and transportation prices, with people starting to go travel. Energy commodities (fuel) rose 54.5%, used cars and trucks rose 29.7%, motor vehicle insurance rose 17%, and airline fare rose 24%. Core inflation rate, which strips out prices of food and energy, also rose to 3.8%.

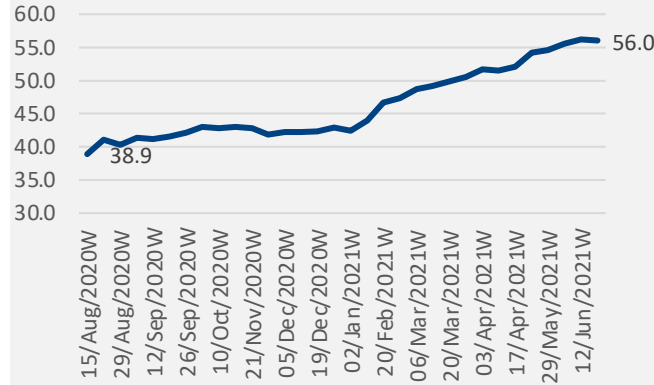
The Federal Open Market Committee has maintained that the uptick in inflation is due to transitory factors, due to a temporary surge in spending, and has kept the federal funds rate to a range of 0 to 25 basis points. It has adopted an average inflation target of 2% so inflation can run a higher than 2% in the coming months given the low inflation rate in the past year. Over a 2-year rolling window, the average inflation rate (headline) averaged 1.6%.

Percent of Employed Who Teleworked



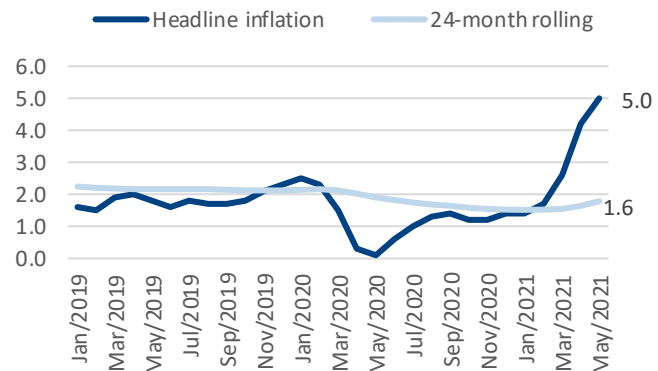
Source: BLS COVID-19 Supplemental Survey

Percent of Small Businesses Operating at Higher Capacity Compared to One Year Ago



Source: US Census Bureau Small Business Pulse Survey

Inflation is Rising as Spending Recovers



# Commercial Market Overview

## Commercial sales transactions during Jan-May 2021 rose 1% from year-ago level

Commercial real estate acquisitions are continuing to recover even if slowly due to a weak office market and a surprising decline in acquisitions for industrial properties. During January—May 2021, acquisitions were up year a modest 1% compared to year-ago levels.

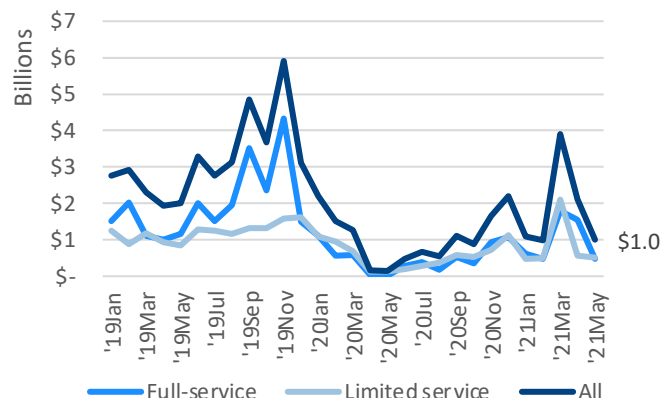
The apartment market is emerging as this year's strongest asset class. The dollar volume of apartment transactions from January-May 2021 rose 24% and this accounts for the largest deal volume, at \$62.9 billion. Acquisitions for hotel and seniors housing and health care also increased but the deal volumes are small, each at below \$10 billion. Investors have been acquiring some hotels for conversion into multifamily housing as documented in NAR's [Case Studies on Repurposing Vacant Hotels/Motels into Multifamily Housing](#).

However, year-to-date, acquisitions of office, retail, and industrial properties were down from one year ago. Investors continue to shy away from office acquisitions as working from home appears to be emerging as part of the new office workstyle. Investor interest for retail properties remains tepid as e-commerce sales continue to make inroads into the brick-and-mortar retail sales market. Surprisingly, acquisitions of industrial properties declined, but this could be a reflection of industrial property owners wanting to hold on to their current portfolio rather than a lack of investor interest for acquiring industrial assets.

## Commercial real estate prices, just down 1% since January 2020

Commercial real estate prices continue to firm up. As of May 2021, the Green Street Commercial Price Index, an appraisal-based index of high-quality properties held by REITs, is now just 1% below the pre-pandemic level in January 2020. The index fell by as much as 10% year-over-year in the second quarter of 2020. The Core Properties Index, comprised of multifamily, office, industrial, retail properties, is down by just 0.6% from January 2020.

Commercial Acquisitions of Hotel Properties or Portfolios \$2.5M or over

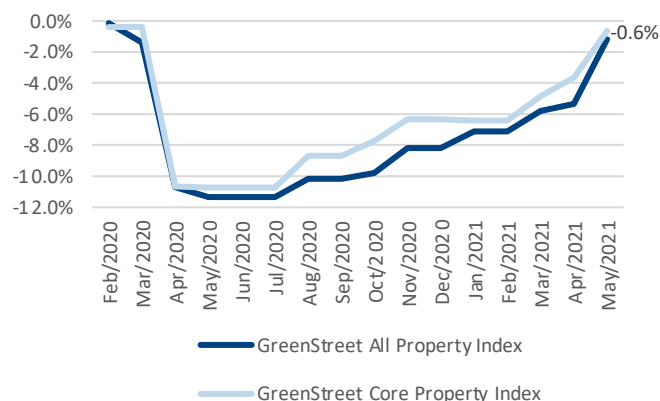


Source: Real Capital Analytics

	YTD '21		
	Vol (\$b)	YOY	Cap Rate
Office	33.9	-15%	6.5%
Retail	15.9	-7%	6.5%
Industrial	35.4	-14%	5.9%
Hotel	9.1	72%	8.5%
Apartment	62.9	24%	5.0%
Snr Hsg & Care	5.6	19%	5.5%
Dev Site	7.0	-20%	
Total	169.9	1%	

Real Capital Analytics

Percent Change in Commercial Property Prices vs. Jan 2020

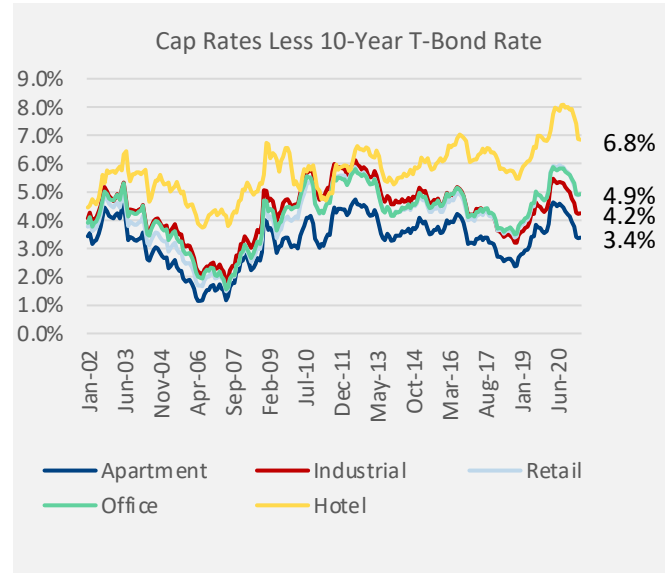




# Commercial Market Overview

## Cap rates continue to compress

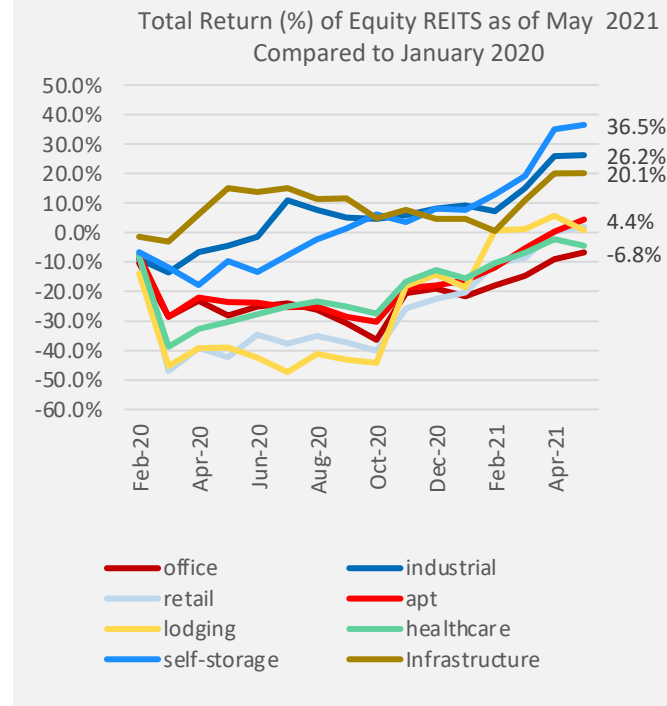
As prices continue to firm up, cap rates continue to compress. Acquisitions for apartment properties had the lowest risk spread (cap rate less 10-year T-note) at 3.4% (4.6% one year ago), followed by industrial acquisitions, at 4.2% (5.4% one year ago). Hotel acquisitions had the highest risk spread at 6.8% (8% one year ago). For office acquisitions, the risk-adjusted cap rate was 4.9% (5.8% one year ago). The risk-adjusted cap rates for retail properties has also declined to 4.9% (5.9% one year ago). As of May, the 10-year T-bond (risk-free rate) was 1.62%.



## Industrial and self-storage REITs have highest returns

The total return on REITs invested in various types of assets has turned from negative in 2020 to as of May 2021, except for office REITs which continue to show a total return of -7% compared to January 2020 and healthcare with a total return of -4.4%. The highest total returns (price and dividend) as of May 2021 relative to January 2020 were in self-storage (37%), industrial (26%), and infrastructure (20%).

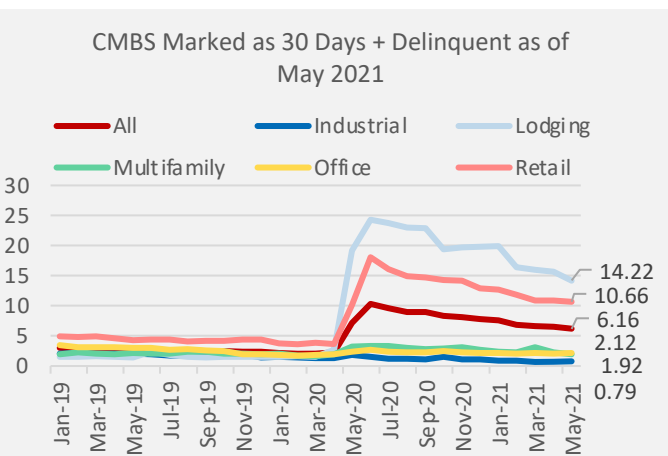
### Real Capital Analytics



Source: Nareit

## CMBS delinquency rates continue to decline

As the economy continues to recover, delinquency rates continue to fall to 6.2% in May 2021. The highest loan delinquencies are in lodging, at 14.2%, and the lowest was industrial, at less than 1%.



Source: Trepp

# Multifamily

## Multifamily acquisitions for low-rises outpace mid/high-rises

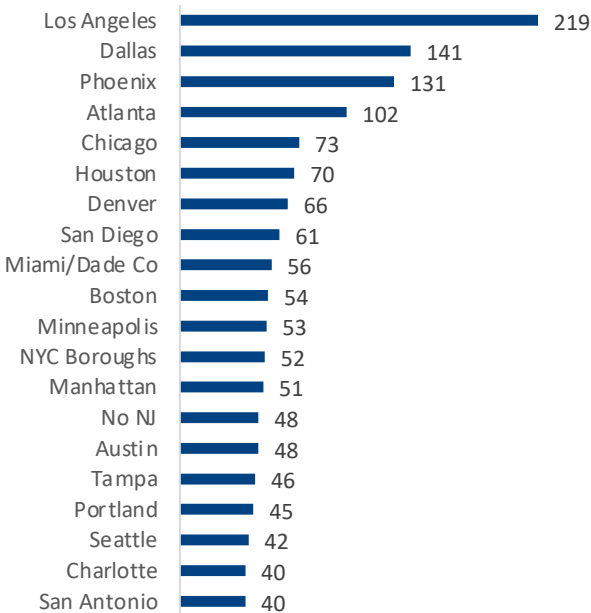
Acquisitions for multifamily properties of \$2.5 million rose 24% in the first four months of the year from one year ago.

Acquisitions of garden or low-rises (less than four floors) rose at a stronger pace of 28% to \$44 billion, while acquisitions for mid-rises rose 14% to \$19 billion. Garden or low-rises are usually in the suburbs, so this indicates a stronger demand for multifamily housing in the suburbs than in the central business districts. The share of garden or low-rises has been rising since 2012, to 79% of the total number of property acquisitions as of May 2021.

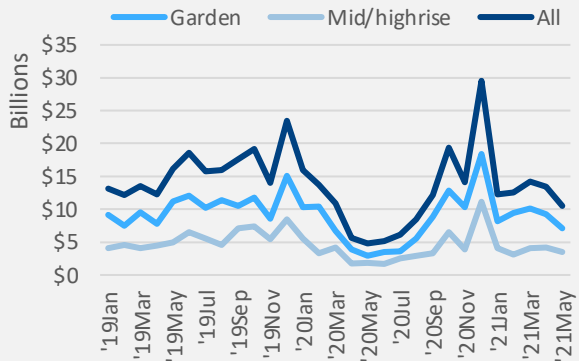
However, mid-rises are still fetching a lower cap rate (higher prices) than garden/low-rises. Cap rates have fallen for both garden and mid/high-rises since the beginning of the year but were essentially unchanged in May from April.

Los Angeles, Dallas, Phoenix, Atlanta, and Chicago were the markets with the most sales transactions year-to-date through May 2021.

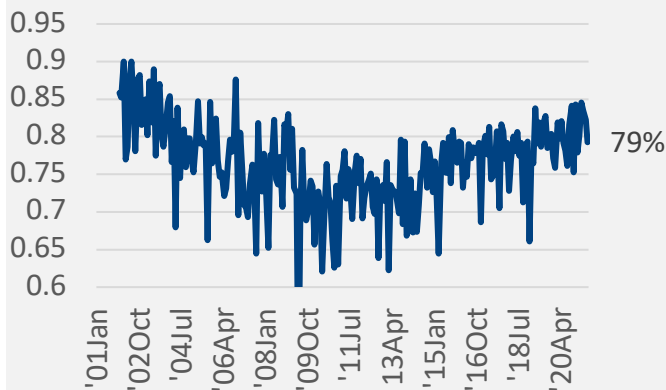
Most Active Multifamily Markets by Number of Property Acquisitions Year-to-date through May 2021



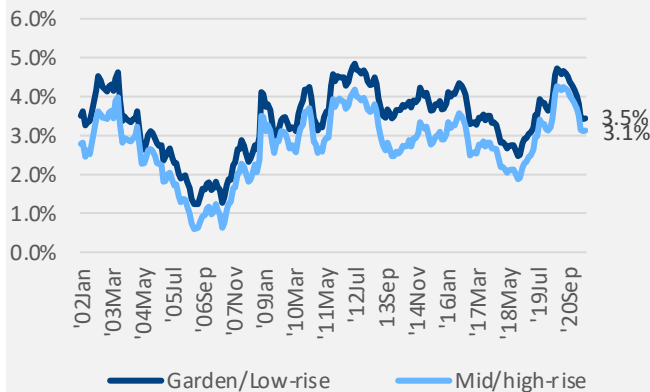
Apartment Sales Transactions Volume of \$2.5M or Over (in Billion \$)



Share of Garden/Low-rise Apartment Sales to Total Apartment Sales



Cap Rates Less 10-Year Bond



# Office

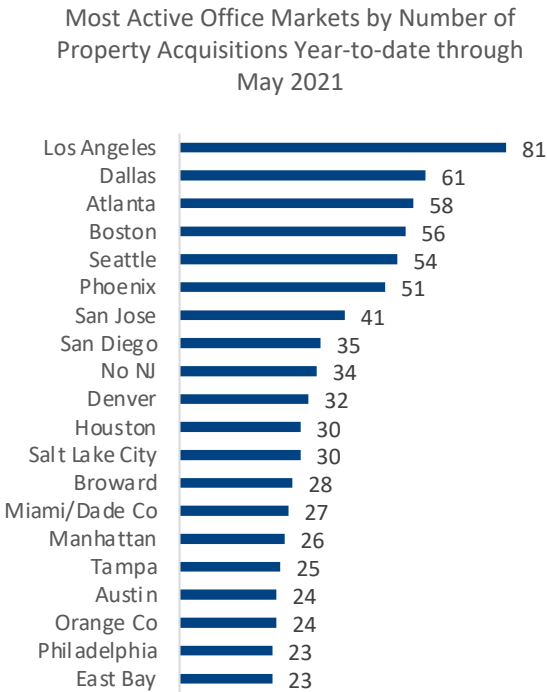
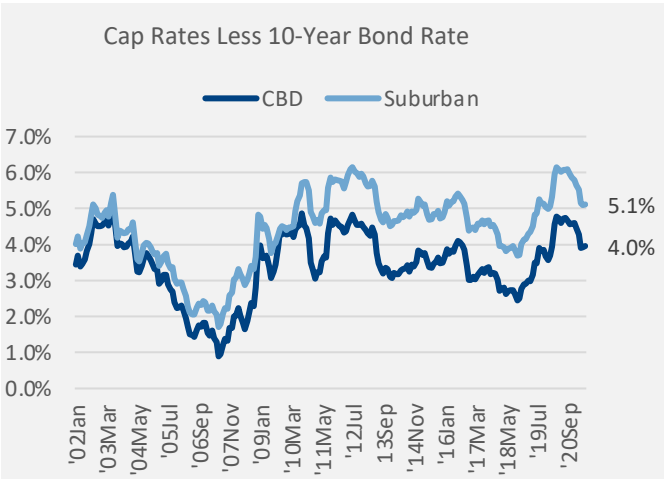
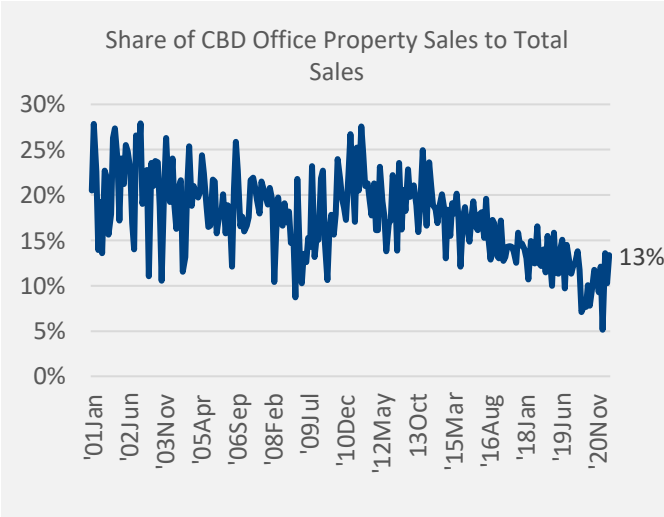
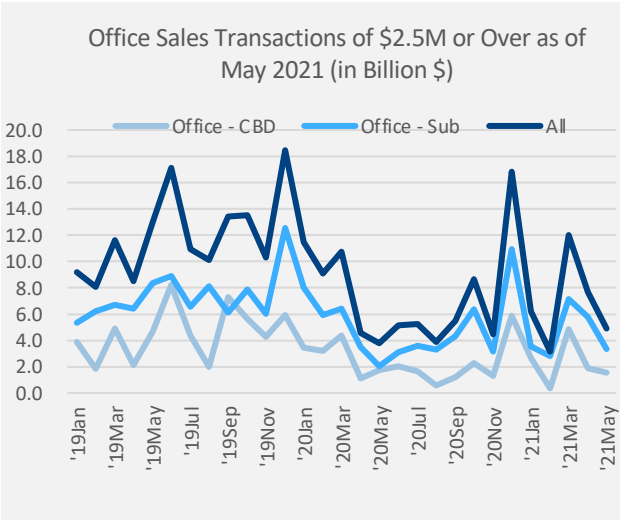
## Investor demand remains weak with sales down in both CBD and suburban markets

With businesses still strategizing on their work- from-home policies, acquisitions of office real estate properties or portfolios of \$2.5 million or over during January-May 2021 were 15% below the level one year ago.

Year-to-date, acquisitions declined in both the central business district areas (-18%) and in suburban areas (-15%). CBD areas have accounted for 13% of the number of property acquisitions compared to about 15% prior to the pandemic.

Cap rates are trending downwards, even if sales remain soft, signifying that investors are still cherry-picking. Cap rates averaged 4% for CBD acquisitions and 5.1% for acquisitions in suburban markets, with rates essentially unchanged in May from April.

Los Angeles, Dallas, Atlanta, Boston, and Seattle had the most office property investor deals year-to-date through May 2021. The only gateway city in the top 5 is Boston where the demand for office space is being driven by life sciences companies.





# Industrial

## Exceeding pre-pandemic activity

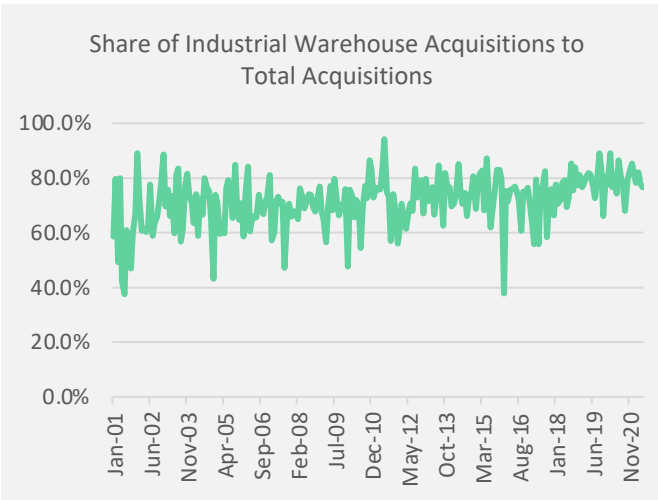
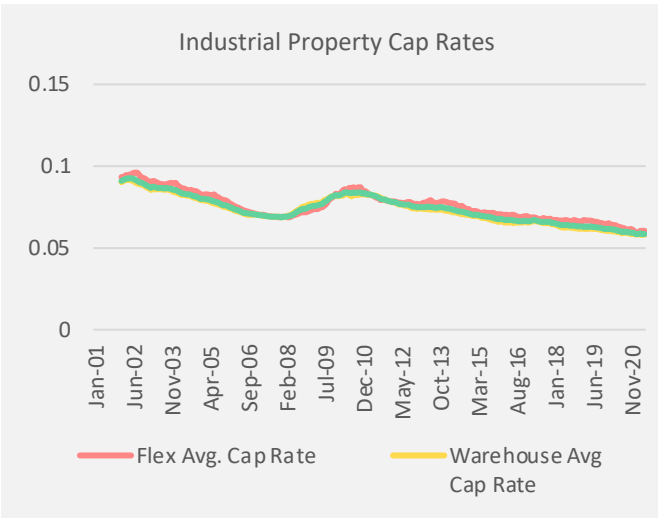
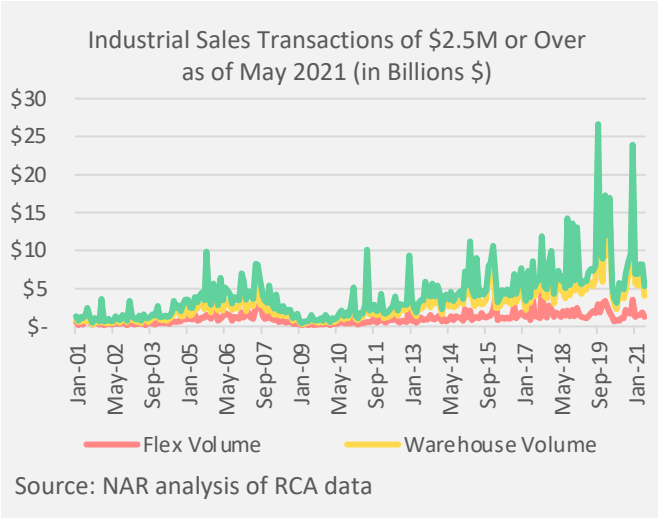
Acquisitions of industrial properties of \$2.5 million or over rose 70% in May 2021 and totaled \$5.3 billion, as acquisitions increased for both flex (55%) and warehouse (76%).

The industrial sector is operating above pre-pandemic levels and remains in high demand amongst investors as warehouses continue to be the focal point of deal activity capturing 77% of all industrial deal volume in May.

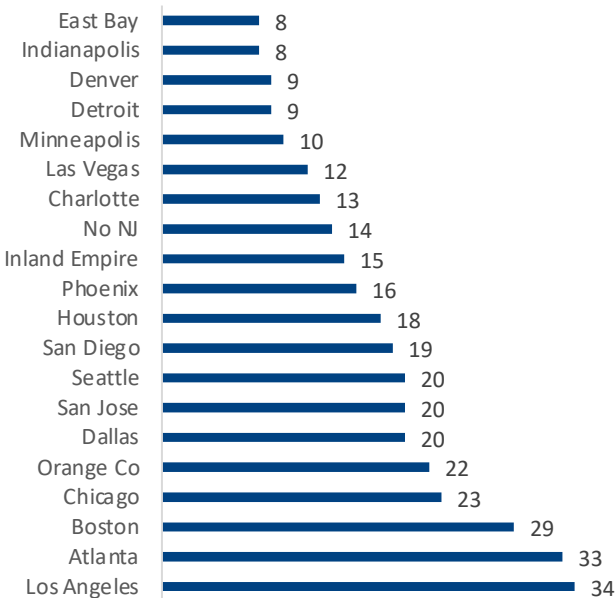
The average cap rate among industrial acquisitions remains essentially unchanged year-to-date at 5.9% as warehouse cap rates remain unmoved at 5.8%. Conversely, flex space cap rates marginally decreased to 6.0% which means flex prices are tightening up.

Industrial average price per square foot increased in May across industrial property transactions with the warehouse avg. psf increasing \$8 from the prior month towards \$108 in May and flex space increasing from \$148 to \$162.

YTD through May 2021, the most active markets with respect to industrial property acquisitions were Los Angeles (34), Atlanta (33), Boston (29), Chicago (23) and Orange Co. (22).



Most Active Industrial Markets by Number of Property Acquisitions YTD through May 2021



# Retail

**YOY deal volume positive for 3<sup>rd</sup> consecutive month in May at 76%**

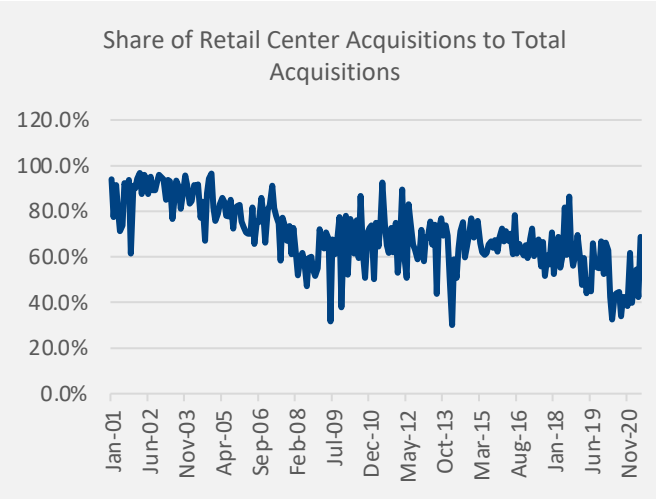
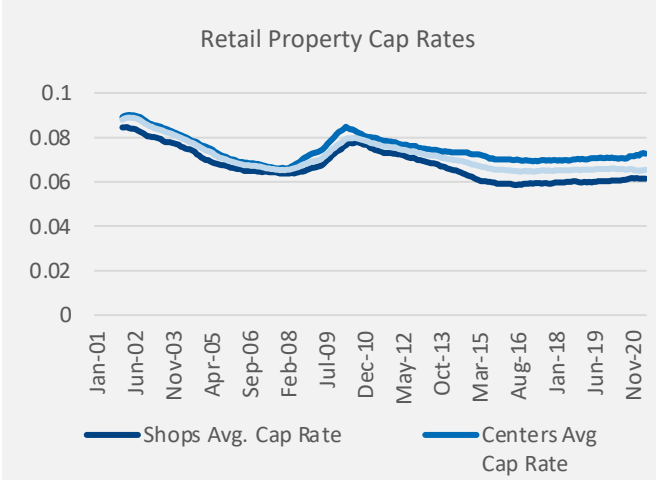
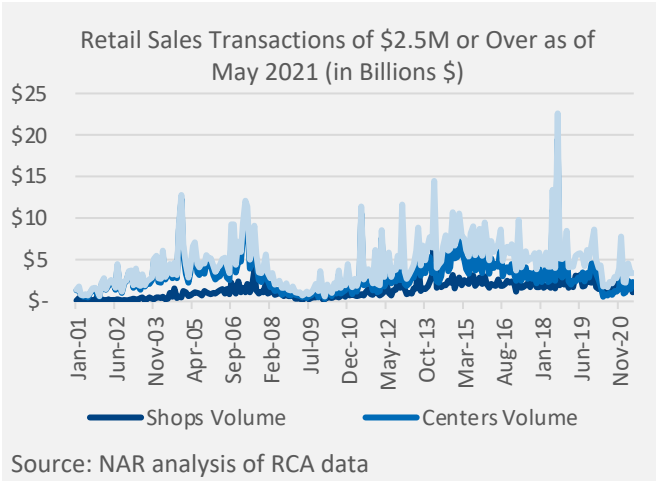
Acquisitions of industrial properties of \$2.5 million or over rose 76% in May 2021, as acquisitions for centers increased significantly (180%) and decreased for shops (-4%).

The majority of retail acquisitions—69% — was for center space. While May’s share marks the 5<sup>th</sup> month of centers having the majority of sales over the past 1 ½ years, investors preference has not shift back to pre-pandemic trends quite yet. Although transactions for this retail subtype rose 180% year-over-year in May and had \$2 billion in deal activity, a large portion of the obstacle for transaction activity originates from the sale of shopping centers as May deal volume is still below pre-pandemic levels.

The dramatic figures for not only centers but for retail in general are not what they appear to be as they continue to illustrate the difficult conditions of the past year.

The average cap rate among shop and center acquisitions remain essentially unchanged at 6.1% and 7.3% respectively with all retail average cap rates holding steady at 6.5%.

YTD through May 2021, the most active markets with respect to retail property acquisitions were Dallas (42), Atlanta (32), Phoenix (32), Los Angeles (25) and Houston (23).



# Hotel

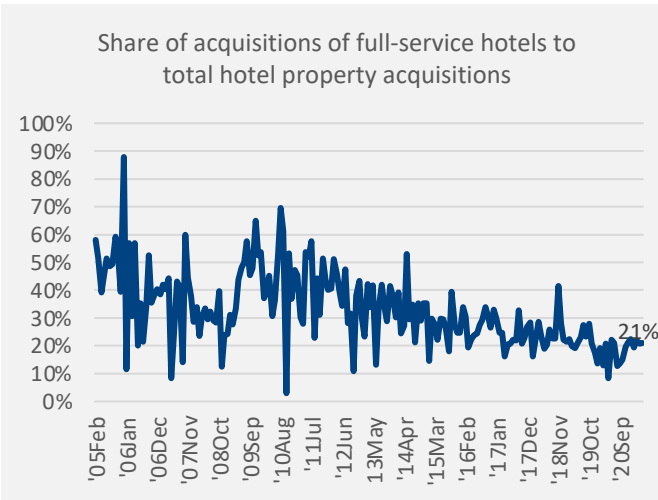
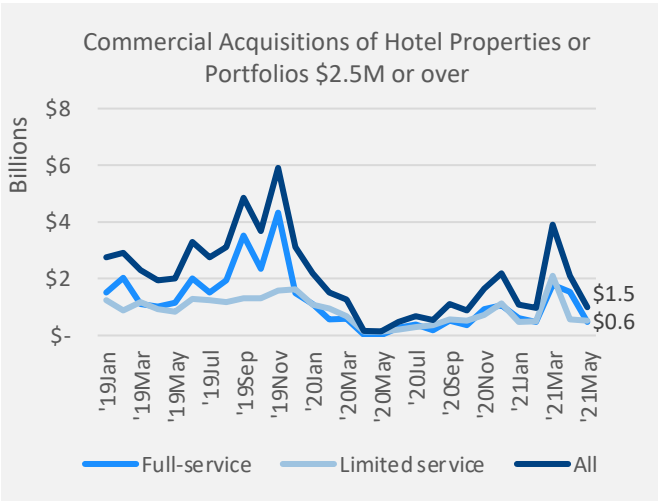
## Strong investor demand for hotels, especially full-service hotels

Acquisitions of hotel properties of \$2.5 million or over rose 72% in the first five months of 2021, as acquisitions increased for both full-service (113%) and limited-service hotels (40%).

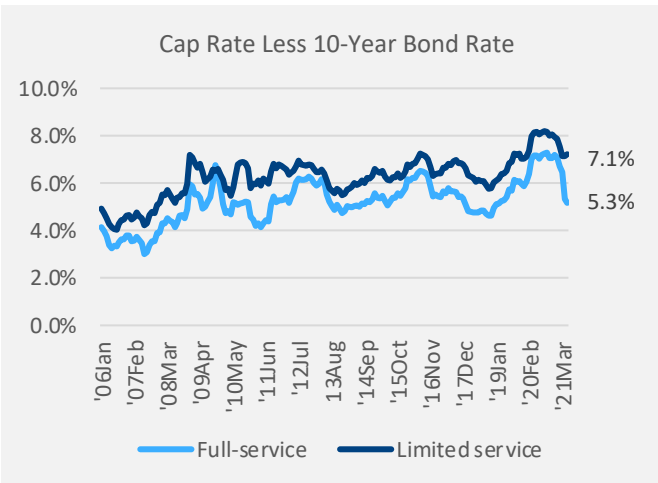
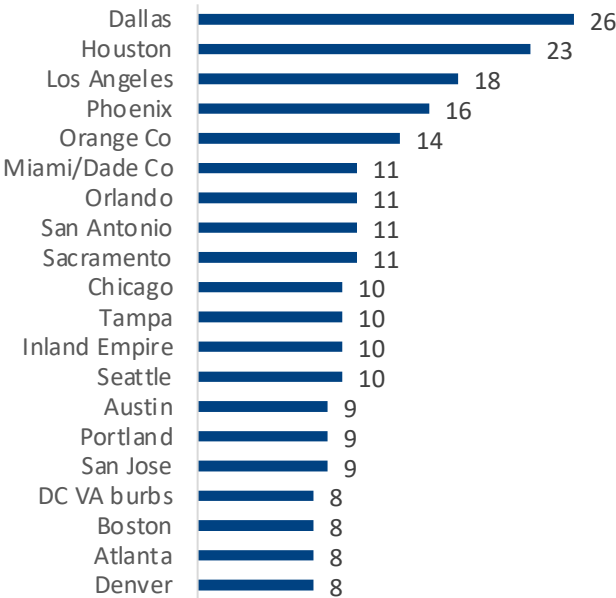
Full-service hotels may be more attractive to investors because they offer more revenue segments (convention facilities, spas, restaurants/bars) and are likely to do well once personal and business travel picks up. On the other hand, limited service hotels are attractive for investors seeking to convert these hotels for multifamily housing as documented in NAR's [Case Studies on Repurposing Vacant Hotels/Motels into Multifamily Housing](#).

The share of full-service hotels to total Cap rates spiked up during the height of the pandemic but are falling again, especially for full-service hotels. The average cap rate among full-service hotel has fallen to 5.3% as of May 2021, while the average cap rate among limited-service acquisitions was 7.1%

Dallas, Houston, Los Angeles, Phoenix and Orange County had the most hotel acquisition deals year-to-date through May 2021.



Most Active Hotel Markets by Number of Property Acquisitions Year-to-date through May 2021



Source of data: Real Capital Analytics

# COMMERCIAL MONTHLY INSIGHTS REPORT

## June 2021

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