Commercial Market Insights

September 2021

National Association of REALTORS®
Research Group

NATIONAL ASSOCIATION OF REALTORS®

Contents

Amid an improving economy, the demand for commercial real estate continues to recover, but the recovery is uneven across property types and geographic markets. There is strong recovery in the multifamily, industrial, and retail property markets, while the recovery has not been as robust in the office and hotel property markets. High transmission of delta variant cases in 97% of counties has held back the return of workers to the office and business and recreational travel.

As of the third quarter (through September 19), absorption in the multifamily market is at a decade-high level, with asking rents up nearly 11% year-over-year. In the industrial market, asking rents are up nearly 7%. In the retail market, rents are up by 2% year-over-year. On the other hand, the office market continues to experience a decline in occupancy, with 144 million square feet of office space released to the market and the average asking rent declining by about half a percent.

NAR's *Quarterly Commercial Market Survey* found that more businesses are leasing smaller spaces and opting for shorter lease terms (less than two years).

While the office market is still broadly facing declining absorption, secondary markets are experiencing an increase in office occupancy given the relatively affordable residential and commercial prices in these markets that are driving in-migration and offering higher returns (cap rates) on investments. NAR identified ten markets with stronger market conditions compared to the overall US market. These markets are in Florida (Miami, Palm Beach, and Daytona Beach), Texas (Austin, San Antonio), South Carolina (Myrtle Beach), Tennessee (Chattanooga), Nebraska (Omaha), Utah (Provo), and Idaho (Boise).

While secondary/tertiary markets continue to outperform primary markets, primary markets are recovering, albeit slowly. Boston, Chicago, New York, the District of Columbia, San Francisco, Seattle, and Los Angeles all had positive net absorption of multifamily units in 2021 Q3 (as of September 19, 2021). New York, Atlanta, Dallas, and Seattle also experienced positive net absorption of office space in the third quarter. However, with the huge losses in office occupancy, office vacancy rates will likely remain above 10% in the next two years.

Enjoy reading the latest issue!

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Economic Conditions

Sustained growth with tighter labor market and higher inflation

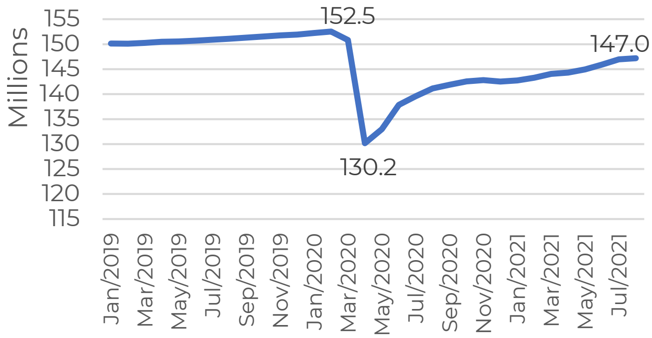
17 million payroll generated from May 2020-August 2021 with 5.3 million jobs to recover

The economy continues to create net new jobs. As of August 2021, the economy has created 17 million net new jobs, or 76% of the 22.4 million jobs lost during March and April 2020. There are 5.3 million nonfarm payroll jobs still to be recovered. In 2021, an average of 586,000 jobs have been created monthly, and at this pace, the lost jobs will be fully recovered in about nine months.

About 30% of the jobs to be recovered are in leisure and hospitality. Only the finance and insurance industry and the transportation and warehousing industries have had net job gains. These sectors have benefited from a strong housing market and the acceleration of e-commerce sales.

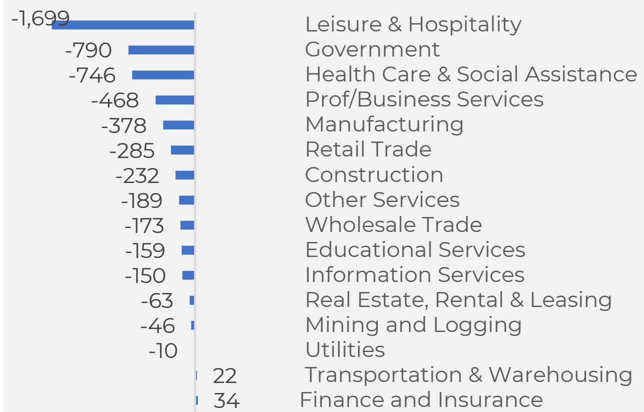
Fifty-seven out of 401 metro areas and cities, or 14%, have more jobs as of August compared to February 2020. The largest job gainers are Ocean City, Barnstable, Salt Lake City, Salisbury and Provo-Orem, and other vacation destinations like Coeur d'Alene and Myrtle Beach. The biggest jobs loses are in the gateway metro areas/cities.

17 Million Payroll Jobs Created With 5.3 Million Lost Jobs to Recover as of August 2021



Source: BLS Establishment Survey

Nonfarm Payroll Jobs Lost Since February 2020 as of August 2021



Source: BLS Establishment Survey

Metro areas with top payroll jobs gains and job losses as of August 2021 compared to pre-pandemic peak employment (February 2020)

Highest net job gains ('000)		Most net job losses ('000)	
Ocean City, NJ	23.80	New York-Newark-Jersey City, NY-NJ-PA	-770.1
Barnstable Town, MA Metropolitan NECTA	17.60	New York City NY	-472.7
Salt Lake City, UT	15.90	Los Angeles-Long Beach-Anaheim, CA	-464.1
Salisbury, MD-DE	15.10	Chicago-Naperville-Elgin, IL-IN-WI	-204.6
Provo-Orem, UT	13.60	San Francisco-Oakland-Hayward, CA	-191.6
Ogden-Clearfield, UT	12.90	Miami-Fort Lauderdale-West Palm Beach, FL	-159.7
Boise City, ID	8.90	Washington-Arlington-Alexandria, DC-VA-MD-WV	-147.9
Coeur d'Alene, ID	7.00	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	-147.5
Elkhart-Goshen, IN	6.20	Houston-The Woodlands-Sugar Land, TX	-139.9
Portland-South Portland, ME Metropolitan NECTA	6.00	Boston-Cambridge-Nashua, MA-NH Metro NECTA	-130.3
St. George, UT	5.80	Orlando-Kissimmee-Sanford, FL	-108.4
Idaho Falls, ID	5.50	San Diego-Carlsbad, CA	-107.9
Kansas City, MO	5.10	Detroit-Warren-Dearborn, MI	-93.8
Colorado Springs, CO	4.40	Las Vegas-Henderson-Paradise, NV	-84.4
Myrtle Beach-Conway-North Myrtle Beach, SC-NC	4.40	Bergen-Hudson-Passaic, NJ	-79.0
Rapid City, SD	4.00	Philadelphia City, PA	-78.7
Fayetteville-Springdale-Rogers, AR-MO	3.80	Atlanta-Sandy Springs-Roswell, GA	-74.8
Daphne-Fairhope-Foley, AL	3.70	Minneapolis-St. Paul-Bloomington, MN-WI	-71.0
Sioux Falls, SD	3.50	New Orleans-Metairie, LA	-62.7
Baltimore City MD	3.20	Riverside-San Bernardino-Ontario, CA	-62.3
Savannah, GA	2.80	San Jose-Sunnyvale-Santa Clara, CA	-61.5
Tyler, TX	2.60	Urban Honolulu, HI	-58.4
Waco, TX	2.40	Pittsburgh, PA	-53.8
Lakeland-Winter Haven, FL	2.30	Seattle-Tacoma-Bellevue, WA	-52.8
Pocatello, ID	2.30		

Source: US Bureau of Labor Statistics

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Economic Conditions

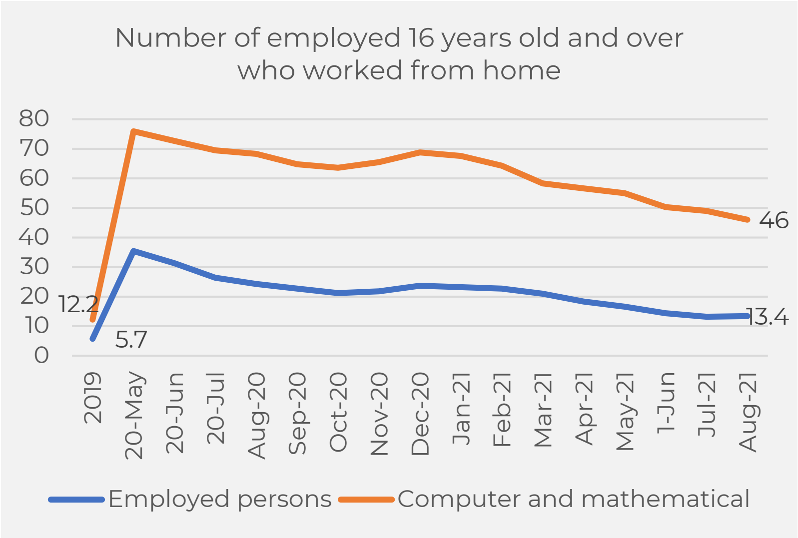
Sustained growth but pandemic resurgence is slowing the recovery

13% of the workforce is still working from home

Workers are returning to the office, although the resurgence of the coronavirus (delta variant) led to a slight increase in the fraction of workers working from home to 13.4% in August (13.2% in July). Among computer and mathematical workers, 46% are teleworking, up about four-fold from the 12% share in 2019. With 97% of counties experiencing substantial to high levels of the delta variant transmission, companies have delayed the time table for workers to return-to-work, such as Apple®, Alphabet®, Uber®, and Lyft®.

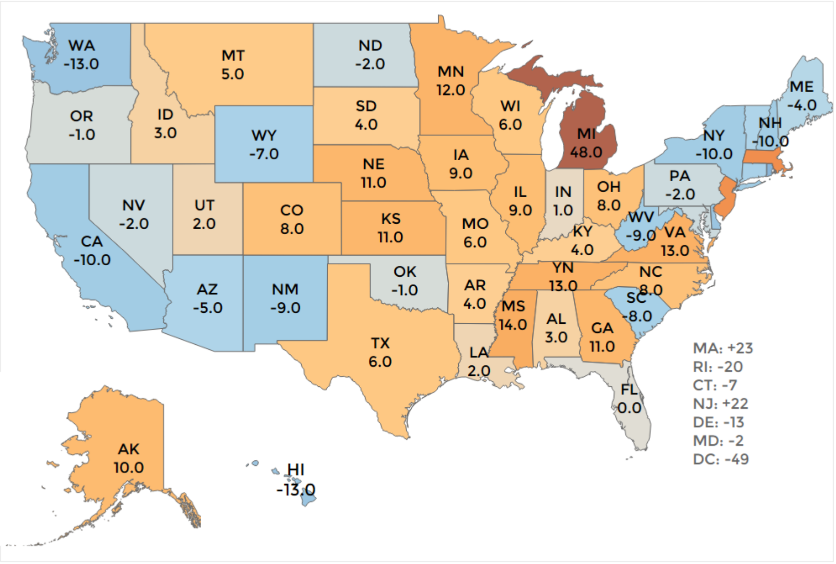
Mobility to places of work and recreation is still down compared to pre-pandemic levels, based on Google® mobility data. Mobility to recreational places is slightly down by 3% while mobility to workplaces is down 27%.

By state, mobility to workplaces is still down in 21 states including California, New York, Washington, District of Columbia, Philadelphia. But it is up in Texas, Illinois and is at par with pre-pandemic level in Florida. The largest increase in mobility to workplace is in Michigan.



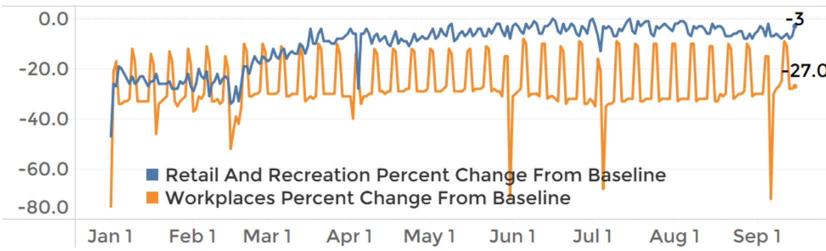
Source: BLS COVID-19 Supplemental Survey

Percent Change from Baseline (Jan 2020=100) of Google® Mobility to Workplaces as of September 15, 2021



Source: Google ®Trends

Google® Mobility Trends as of September 15, 2021 (Jan 2020=100)



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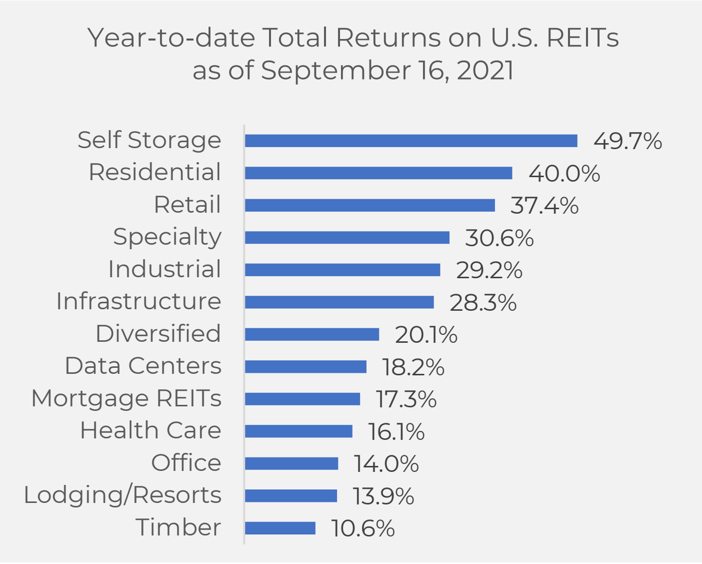
Economic Conditions

Sustained growth but pandemic resurgence is slowing the recovery

Residential and REITs associated with industrial properties and services have highest year-to-date returns

As of September 16, the REITs with the strongest total year-to-date returns are REITs that have invested in self-storage (50%) and residential properties (40%), as well as in retail (37%), industrial (29%), infrastructure (29%), and data centers (18%). Strong demand for housing, e-commerce, and work from home have driven up the demand for these services and properties and therefore the returns on REITs that invest in these assets. The demand for multifamily and single-family rentals is being driven by the rising cost of owner-occupied housing both for primary residence use and vacation home use. As of July 2021, the median sales price of existing homes was up nearly 18%. The median rent for vacant housing rose nearly 19% in the second quarter of 2021. Even REITs invested in retail and office properties have yielded returns higher than the 10-year T-note.



Source: Nareit

Non-store retail sales hit $1 trillion

The 12-month retail and food services sales rose 14% year-over-year as of July 2021, up from 1% in the prior 12-month period, with the strongest growth in sales of clothing stores, motor vehicle dealers, furniture stores, and non-store retailers. Non-store retailer sales have breached the $1 trillion mark and accounted for 17% of retail trade sales, up from $820 billion in January 2020 or 15% of retail trade sales.

Retail sales are recovering

Year-over-year percent change in 12-month sales as of July 2021

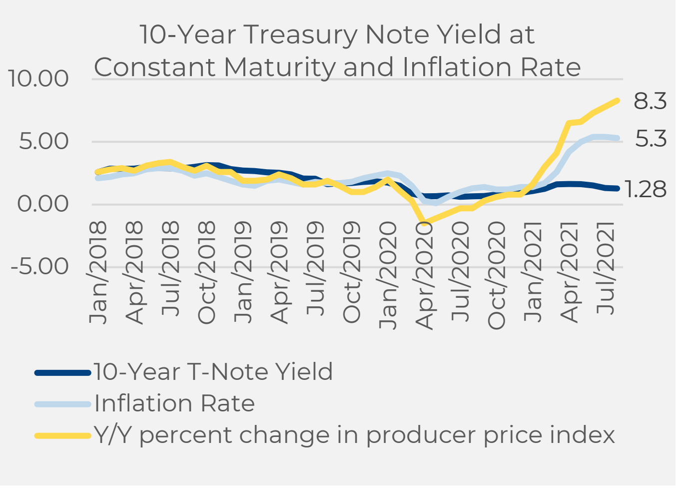
	% change 2019-2020	% change 2020-2021
Retail & Food Services	1%	14%
Motor Vehicle & Parts Dealers	-1%	22%
Furniture & Home Furnishings & Elect & Appliance	-9%	21%
Bldg Materials, Garden Eqpt & Supply Dealers	6%	17%
Food & Beverage Stores	9%	5%
Clothing & Clothing Accessory Stores	-18%	26%
General Merchandise Stores	2%	8%
Department Stores	-13%	6%
Other Retail Stores	4%	16%
Miscellaneous Store Retailers	0%	19%
Nonstore Retailers	18%	20%
Food Services & Drinking Places	-9%	8%

Source: US Census Bureau

Inflation slightly dips to 5.3% in August with negative returns on 10-year T-notes

Headline inflation slightly dipped to 5.3% in August mainly due to slower year-over-year increases in airline fares to 6.7% (24% in May and June). However, the producer price index is still rising, at 8.3%, creating potential for inflation to increase further.

Meanwhile, the 10-year T-note yield has decreased to 1.28% from 1.5% in February 2020 (a 0.22 percentage points decline). The negative return on T-notes means investors will continue to target alternative investments on which to earn a positive return such as residential and industrial properties.



Source: Bureau of Labor Statistics, Federal Reserve Board

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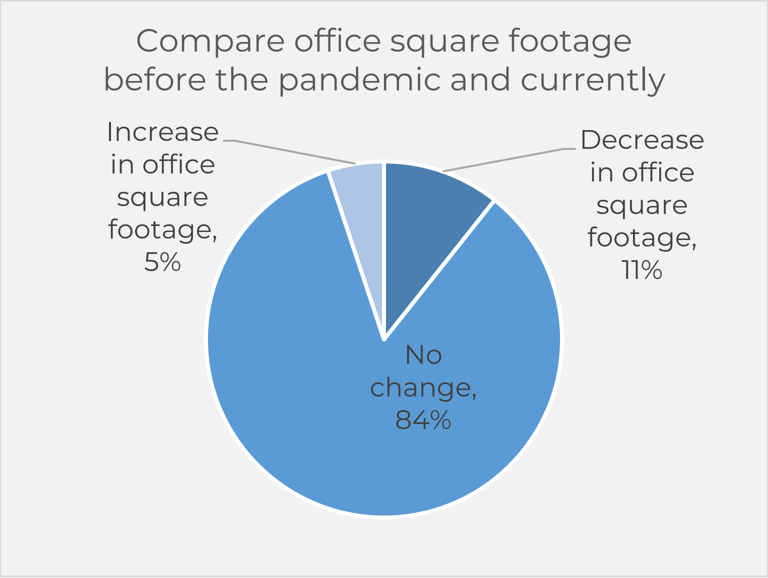
NAR Survey

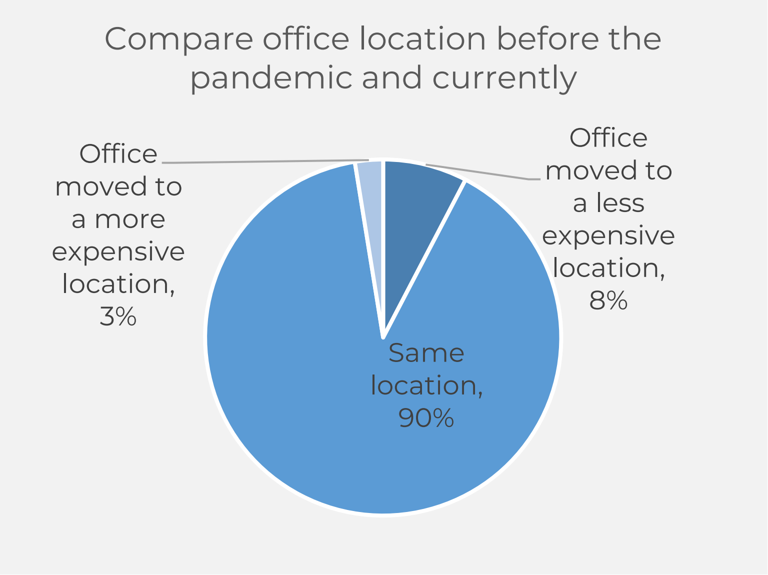
Impact of Pandemic on Commercial Real Estate

Every quarter, the National Association of REALTORS® conducts a survey among its commercial members to gather information about local market conditions. In this quarter's survey, NAR asked how members are adapting to the pandemic and what they are observing in the market.

Among 665 respondents, 84% reported their office square footage has remained the same compared to before the pandemic began. However, a higher fraction, 11%, reported a decrease in office space compared to the 5% who reported an increase in office space.



Among 665 respondents, 90% reported their office is in the same location as before the pandemic began. However, a higher fraction of respondents, 8%, reported their office moved to a less expensive location compared to the 3% of respondents who moved to a more expensive location.



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NAR Survey

Impact of Pandemic on Commercial Real Estate

The survey asked if members are observing 'less", "same", or "more" of these instances. Below are the fraction of respondents who reported "more":

65% reported more businesses leasing or moving into offices with smaller square footage

54% reported more short-term leases of less than two years.

70% reported seeing more companies adopting working from home or staggered work schedules.

54% reported companies are paying for expenses of employees to enable them to efficiently work at home.

53% reported more demand for flexible space from individuals; 46% reported seeing more demand for flexible space from enterprises or large firms.

67% reported more physical investments to enhance sanitation, air quality, physical distancing.

Share of Respondents Seeing More Growth Relative to January 2020 (Pre-Coronavirus)

	2020.Q3	2021.Q2
Tenants with missed, late, or partial office, retail, or industrial space rent payments	54%	37%
Tenants with missed, late, or partial multifamily residential rent payments	53%	44%
Repurposing of vacant malls	52%	52%
Working from home/alternating/staggered office work schedules	83%	70%
Headquarters with satellite offices	48%	46%
Sales or leasing transactions in suburban area vs. central business district	43%	51%
Demand for flexible/co-working office space from individuals (gig workers, independent contractors, etc.)	51%	53%
Demand for flexible/co-working office space from enterprise clients/large firms	43%	46%
Companies leasing or moving into offices with smaller square footage due to working from home	62%	65%
Short-term office leases or use service agreements (2 years or less)	59%	54%
Tenants with rent concessions	65%	47%
Co-tenancy clauses for retail properties	37%	31%
Investment in workspace redesigns to increase sanitation, hygiene, and social distancing (plexiglass, air filtration,etc.	76%	67%
Companies that pay for expenses related to working -from-home (broadband internet, office supplies, etc.)	60%	54%
Offices being charged higher common area maintenance expenses related to safely and sanitation measures	42%	44%
Use of work data analytics to track mobility and use of office spaces	45%	45%
Companies that offer transportation services/shuttles for their workers	21%	19%
Companies obtaining business interruption insurance	50%	50%

Source: NAR Commercial Real Estate Quarterly Market Survey

Commercial Market Overview

Positive absorption except for office properties

Absorption and Vacancy Rate as of 2021 Q3 (as of September 19, 2021)

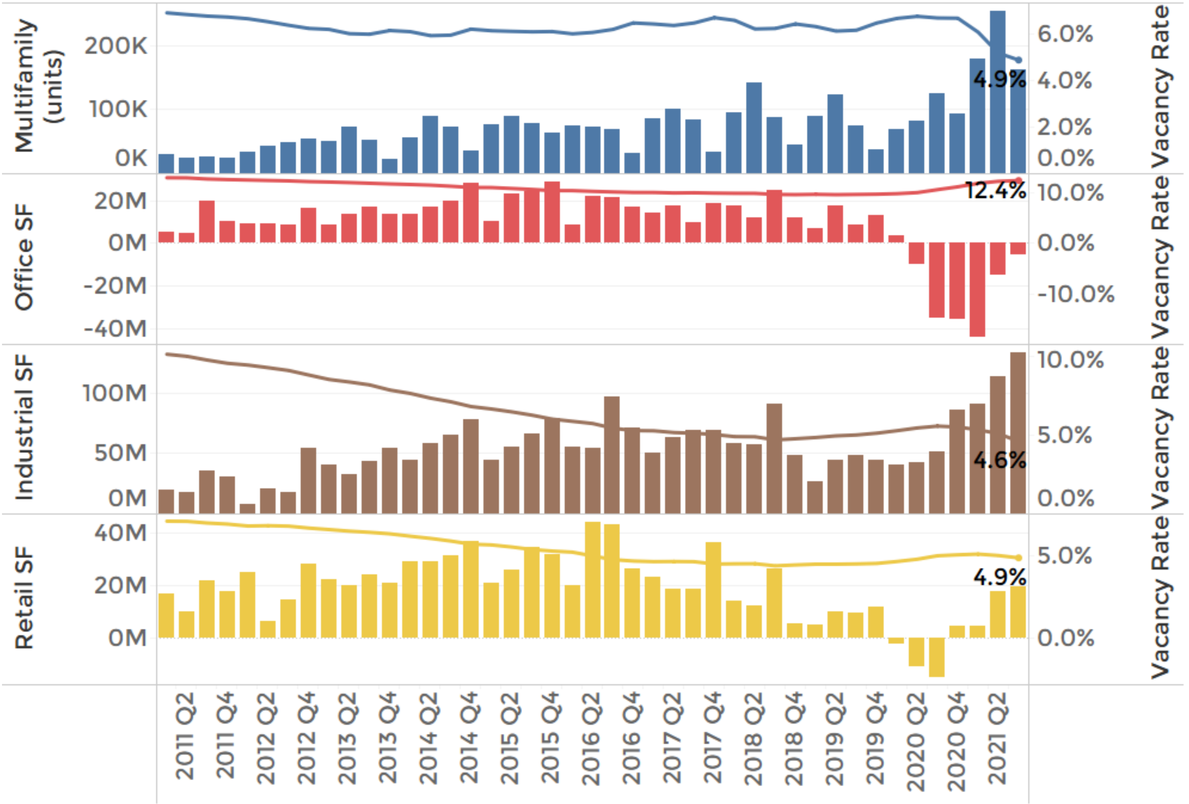
As of September 19, 2021, only the office property market continued to experience a decline in occupancy (negative net absorption) while the multifamily, industrial, and retail property markets saw an increase in occupancy. In the apartment market, there was a positive net absorption of 897,462 units since 2020 Q2 through 2021 Q3 (as of September 19, 2021). With higher occupancy the vacancy rate has declined to 4.9% from 6.7% in 2020 Q1 (pre-pandemic).

In the office market, 144.39 million square feet of office space has lost occupancy since 2020 Q2. The office vacancy rate has increased from 9.8% in 2020 Q1 to 12.4% as of August 22.

In the industrial market, 518.8 million square feet of space has been absorbed since 2020 Q2. This positive net absorption of industrial space more than offsets the negative net absorption of office space. The vacancy rate has also fallen from 5.3% in 2020 Q1 to 4.6% as of September 19. Among the core commercial sectors, the industrial market has the lowest vacancy rate.

In the retail property market, there has been a net increase in occupancy of 20 million square feet since 2020 Q2. The vacancy rate has just slightly increased from 4.6% prior to the pandemic to 4.9% as of September 19, but this is still a decline from the 5.1% vacancy rate in the first quarter of 2021.

Rising Absorption and Declining Vacancy Rates Except for Office Properties as of September 19, 2021



Source of data: NAR analysis of CoStar data

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Commercial Market Overview

Rising rents except for office properties

Asking rents are rising except in the office market

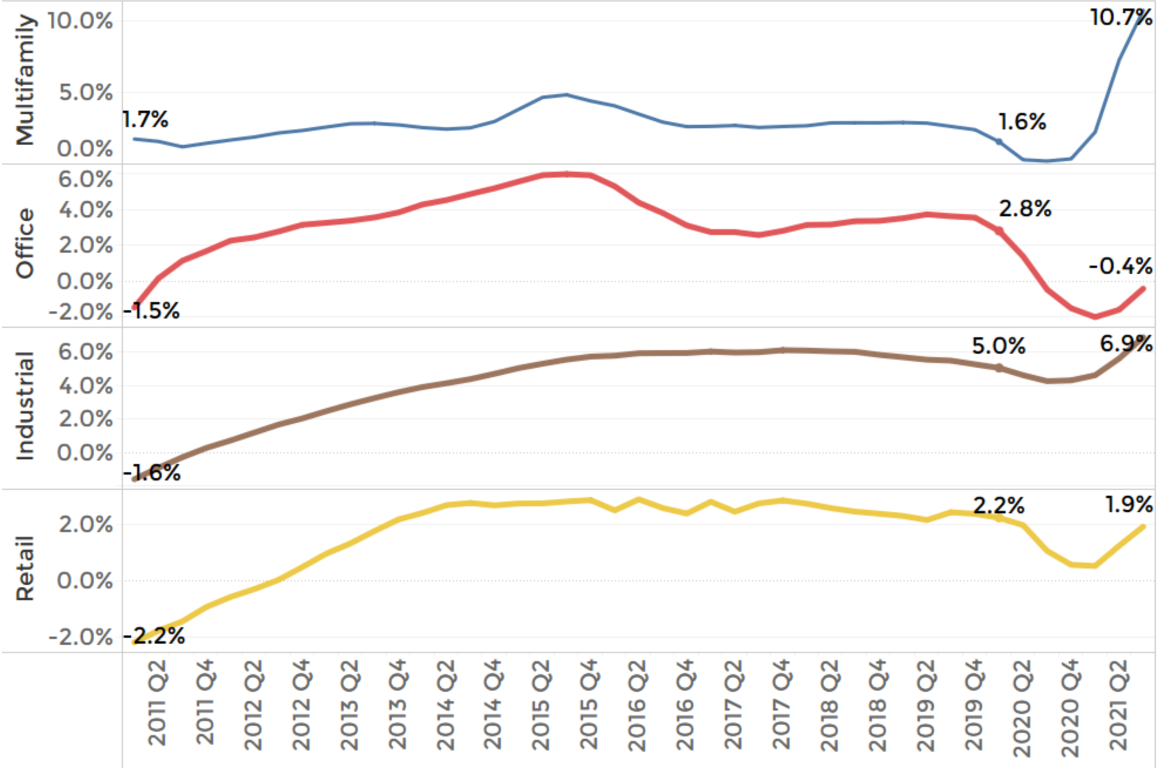
Rents are rising at the fastest pace in the multifamily rental market. The average asking rent per unit as of the 2021 Q3 (through September 19) is up 10.7% from one year ago compared to just 1.6% prior in February 2020.

In the industrial property market, the average asking rent per square foot rose 6.9%, also higher than the 5% rent growth prior to the pandemic and office rents rising at below 1% in 2022.

In the retail property market, rents are also rising at 1.9%, although this is a tad lower than the 2.2% pre-pandemic rent growth.

Only the office market continues to face falling rents, with the average asking rent down by 0.4% year-over-year compared to 2.8% prior to the pandemic.

Double-digit Rent Growth for Multifamily Properties as of September 19, 2021



Source of data: NAR analysis of CoStar data

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Commercial Market Overview

Slowdown in construction except for industrial

Construction activity slowed except for industrial properties

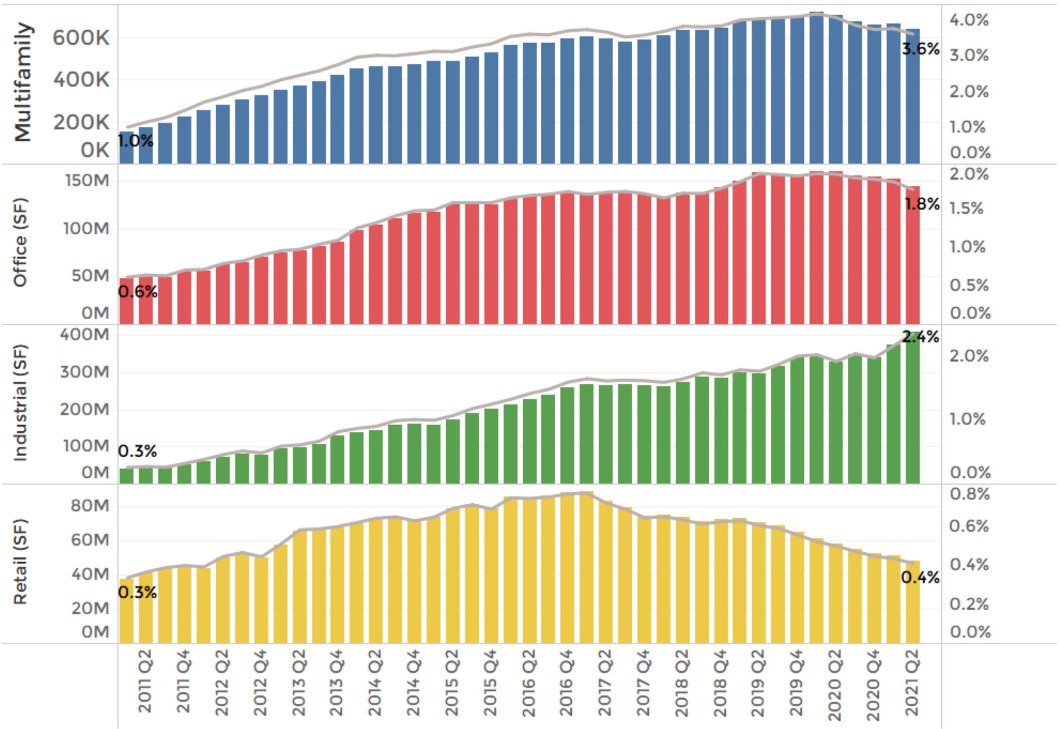
The pace of construction activity has been on the decline since the second quarter of 2020 in the multifamily, office, and retail property markets. Only the industrial property sector has seen a higher pace of construction activity of 409.2 million, equivalent to 2.4% of the current inventory. Rising construction will temper the rent growth to around 6%.

In the apartment market, there were 640,221 units under construction as of 2021 Q2, which is equivalent to 3.6% of the current stock of apartment units. Prior to the pandemic in 2020 Q1, there were 710,000 units under construction. The high demand for multifamily units and weaker construction activity will likely hold down the vacancy rate to below 5% and rents to continue to rise to 10% in 2022

In the office market, construction activity has slowed to 144.3 million square feet as of 2021 Q2 from nearly 160 million square feet prior to the pandemic. The current pace of construction is equivalent to 1.8% of the current inventory, so with the office property market still undergoing negative net absorption, the office vacancy rate is likely to remain elevated at around 10% with rents remaining flat to rising at 1% in 2022.

The retail property market has been undergoing a decline in the level of construction activity even before the pandemic due to the inroads of e-commerce that the pandemic accelerated. The current level of construction of 48.1 million square feet is just adding 0.4% of space to the current inventory. With absorption rising, rent growth will likely hover at 2% year-over-year in 2022.

Slower Construction Activity Except for Industrial Properties as of 2021 Q2



Source of data: NAR analysis of CoStar data

Commercial Market Overview

Cap rates continue to trend downwards

Cap rates fall faster than the 10-year T-note for residential and industrial properties

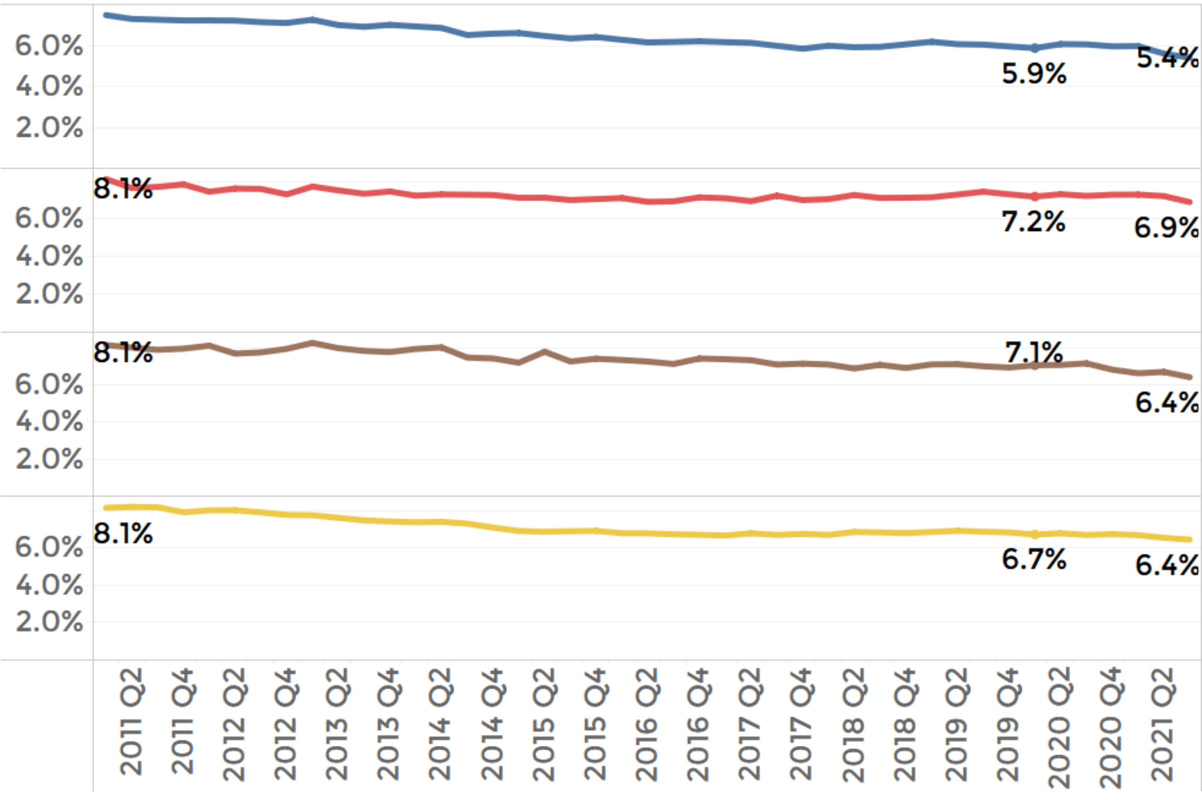
Falling vacancy rates and rising absorption for multifamily and industrial properties have driven the cap rates lower by more than the decline in the risk-free 10-year T-note yield to an average of 1.28% in August from 1.5% in February 2020.

Compared to the cap rates prior to the pandemic, the largest decline in cap rates was for industrial properties with the cap rate falling from 7.1 % to 6.4% which outpaces the decline in 10-year T-note. With the demand for apartment units, cap rates decreased to an average of 5.4% as of 2021 Q3 from 5.9% in 2020 Q1, which also outpaces the drop in the 10-year T-note.

Cap rates for office and retail properties also decreased by 0.3 percentage points since 2020 Q12, which just mirrors the decline in the 10-year T-note.

NAR expects the 10-year T-note to rise to rise by 0.5 percentage points in 2022. However, given the strong demand for apartment and industrial properties, cap rates for these sectors are likely to increase by less than 0.5 percentage points while cap rates for office and retail will likely increase at about the same rate as the increase in the 10-year T-note.

Cap Rates Have Been Trending Down With Biggest Decline for Industrial Real Estate, as of September 19, 2021



Source of data: NAR analysis of CoStar data

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Multifamily

Absorption of apartment units rise to highest level in a decade

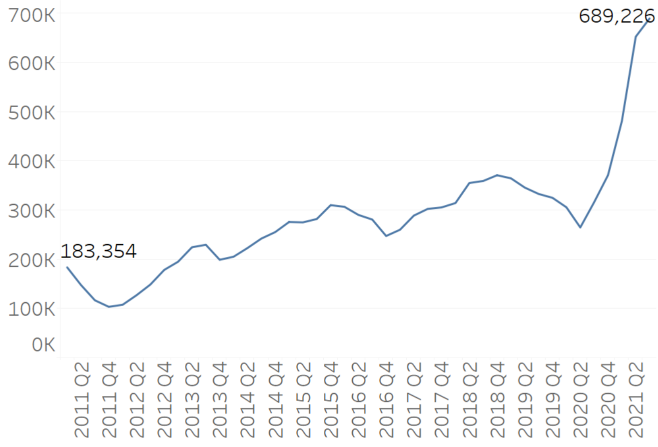
The apartment CRE market is experiencing a boom. Net absorption of apartment units reached its strongest level in a decade, with a net absorption of 689,226 units in the past 12 months as of September 19, 2021. Prior to the pandemic, the 12-month net absorption was just shy of 300,000 units.

Since 2020 Q2 through 2021 Q3 (September 19), markets in the South and West regions have account for most of where renters are moving into, led by Dallas, followed by Houston, Atlanta, New York, Los Angeles, Austin, Phoenix, Washington DC, Chicago, and Denver.

Worth noting is that renters are coming back to major cities. Boston, Chicago, New York, the District of Columbia, San Francisco, Seattle, and Los Angeles all had positive net absorption of multifamily units in 2021 Q3 (as of September 19, 2021).

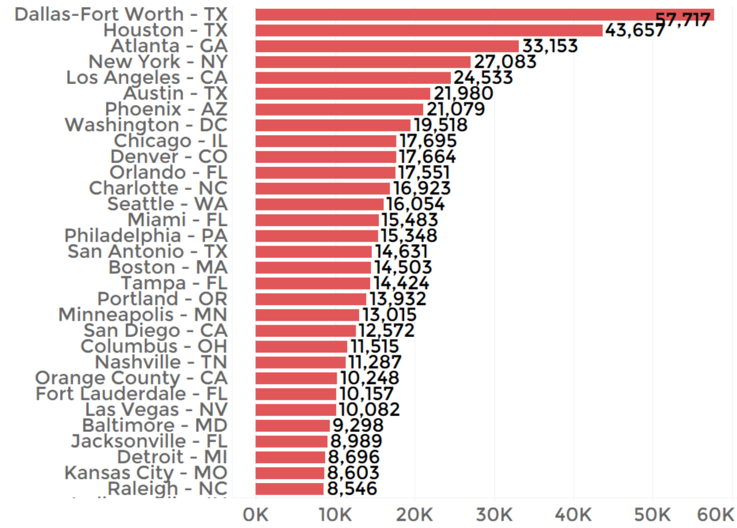
Affordability will be a key driver of apartment demand. In many West region metros, owning is more expensive than renting (orange areas in the map), and in these areas, there is likely going to be a strong demand for multifamily units and/or out-migration towards areas where owning is cheaper than renting (blue areas).

12-Month Net Absorption of Multifamily Units



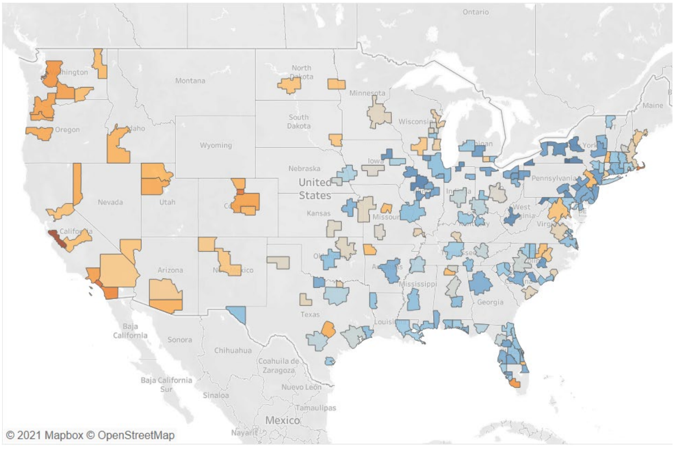
Source: NAR analysis of CoStar data

Net Increase in Occupied Apartment Units Since 2020 Q2 through Sept 19, 2021



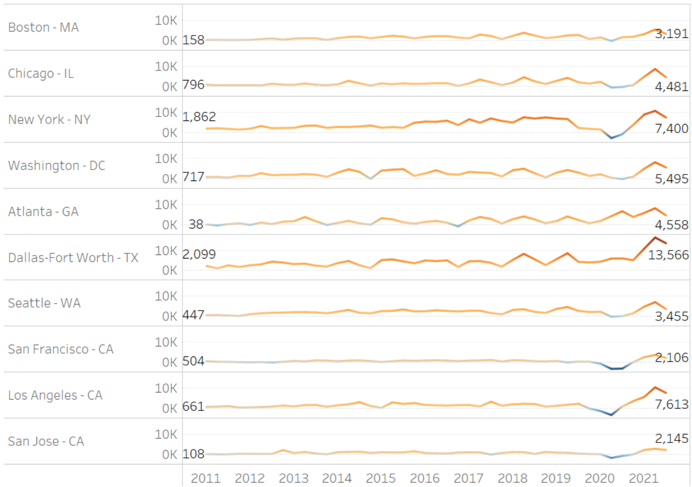
Source: NAR analysis of CoStar data

Mortgage Payment to Rent Ratios as of 2021 Q2 (orange areas: mortgage payment is higher than rent)



Source: NAR analysis. The mortgage payment is based on NAR median existing home sales price in 2021 Q2 based on a 30-year 10% downpayment loan. The average rent is based on CoStar rent data.

Quarterly Absorption as of September 19, 2021



Source: NAR analysis of CoStar data

NATIONAL ASSOCIATION OF REALTORS®

Multifamily

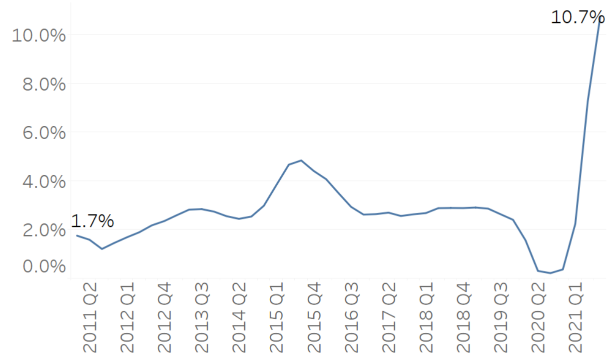
Double-digit rent growth

The average asking rent rose 10.7% year-over-year as of September 19, 2021, the highest growth in a decade. Of 390 metro areas,126 metros had at least 10% year-over-year rent growth.

The South and West states have the highest rent growth of over 20%: Florida (Palm Beach, Tampa, Orlando, Jacksonville, Sarasota, Port St. Lucie, Fort Myers, Naples, Punta Gorda), Arizona (Phoenix), Nevada (Las Vegas), Texas (Austin), Georgia (Savannah), South Carolina (Hilton Head), North Carolina (Raleigh) and Alabama (Daphne).

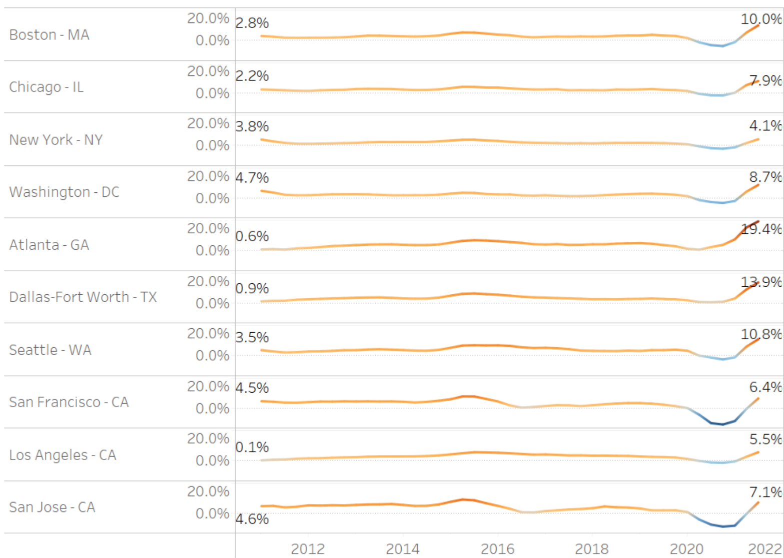
Worth noting is that rents are now recovering in the major metro areas that saw a sizeable decline in asking rent in 2020. In Boston and in Seattle, asking rents are up by double-digit rates as of 2021 Q3 through September 19, 2021.

Year-over-Year Percent Change in Average Asking Rent Growth for Multifamily Units as of September 21, 2021



Source: NAR analysis of CoStar data

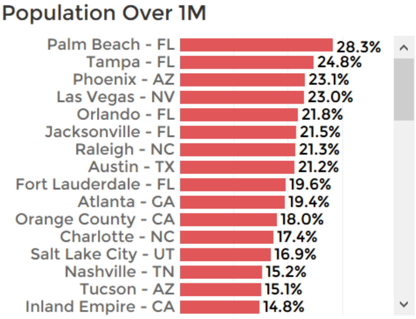
Average Asking Rent Growth as of Sept 19, 2021



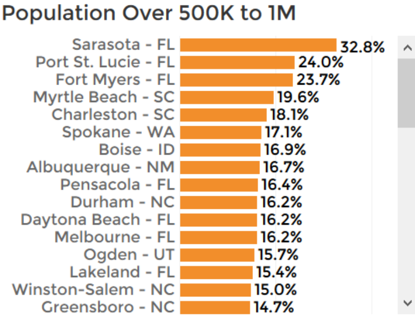
Source: NAR analysis of CoStar data

Y/Y Asking Rent Growth as of September 19, 2021

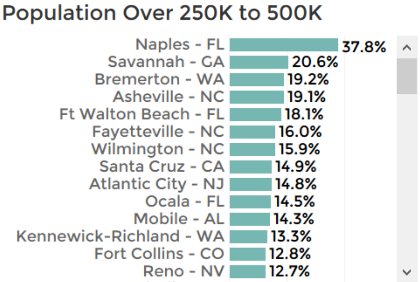
Population Over 1M



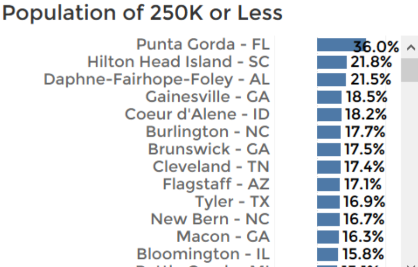
Population Over 500K to 1M



Population Over 250K to 500K



Population of 250K or Less



Source: NAR analysis of CoStar data

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Multifamily

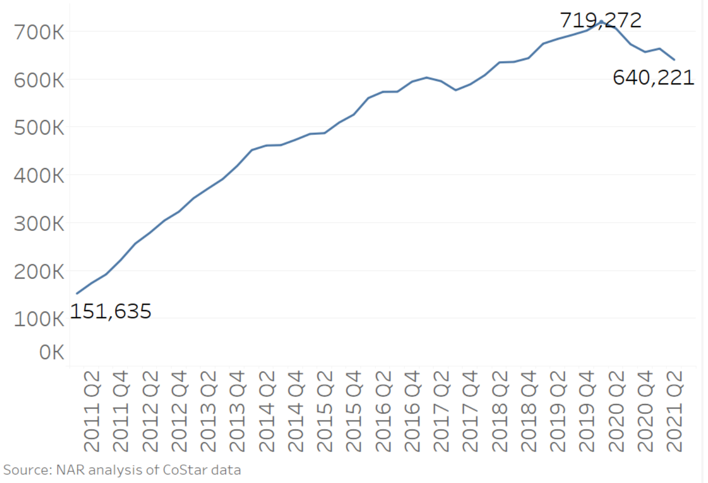
Robust construction activity in the Sunbelt metros

Rents have been rising with less construction of apartment units, which totaled 640,221 units as of the 2021 Q2, down from nearly 720,000 units prior to the pandemic.

The South and West region metros account for most of the multifamily units under construction. Among the Northeast and Midwest metros, most construction is in Boston, Minneapolis, and Philadelphia.

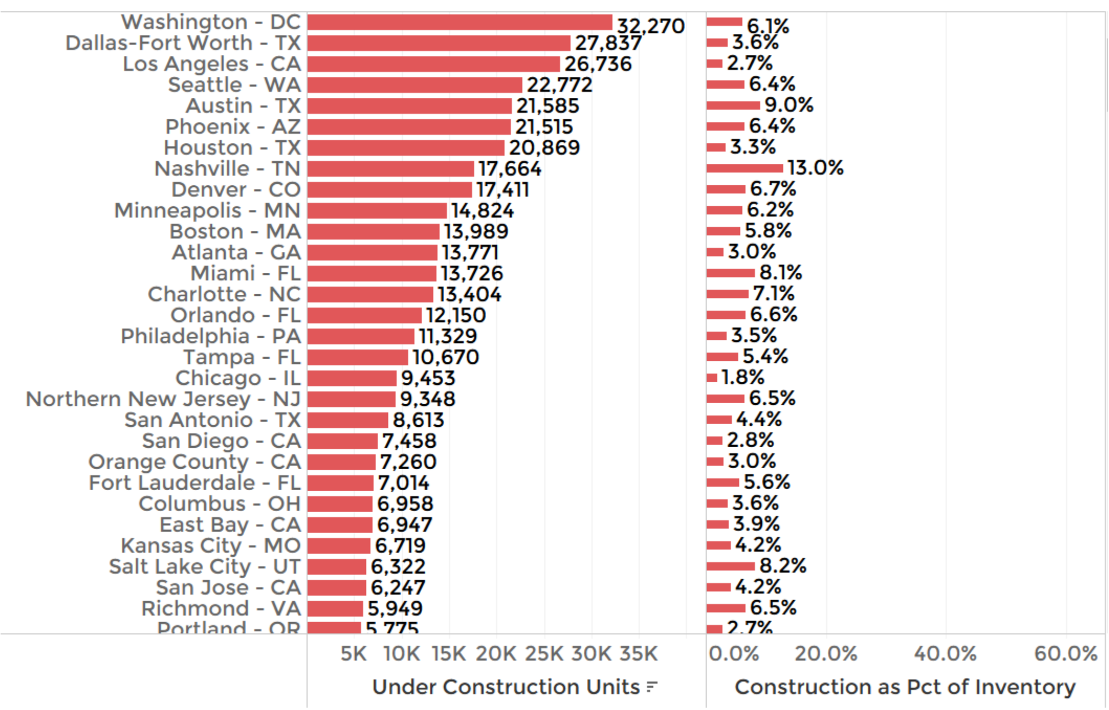
However, as a percent of existing inventory, the strongest construction activity is in Nashville (13% of current inventory), Austin (9%), Salt Lake (8.2%), Miami (8%), Charlotte (7.1%), and Denver (6.7%). Rents have been growing at a double-digit pace in these areas so the increased supply should help temper rent growth.

Multifamily Units Under Construction as of 2021 Q2



Source: NAR analysis of CoStar data

Apartment Units Under Construction and as a Percent of Inventory as of September 19, 2021



Source: NAR analysis of CoStar data

NATIONAL ASSOCIATION OF REALTORS®

Office

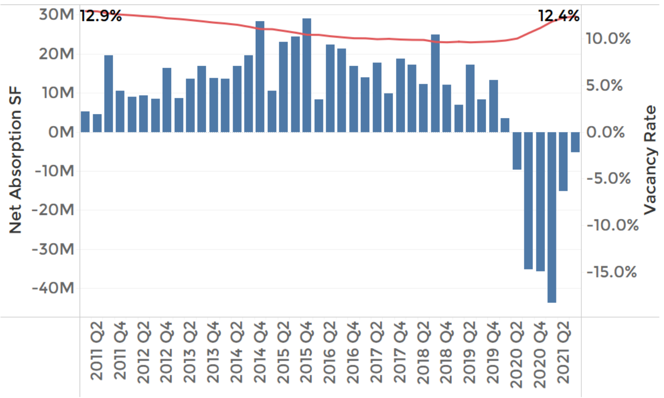
Continued decline in occupancy in primary markets

The office market continued to see negative net absorption in the 2021 Q3, with 144 million square feet of office space given up since 2020 Q2 through September 21, 2021. The office vacancy rate increased from 9.8% in 2020 Q1 to 12.4% as of September 21.

New York, Washington DC, Los Angeles, Chicago, San Francisco, Boston, Philadelphia, Denver, Seattle, and Northern New Jersey have suffered the largest declines in occupancy over a 12-month period. However, these markets are starting to recover, with positive net absorption in the third quarter in New York, Atlanta, Dallas, and Seattle.

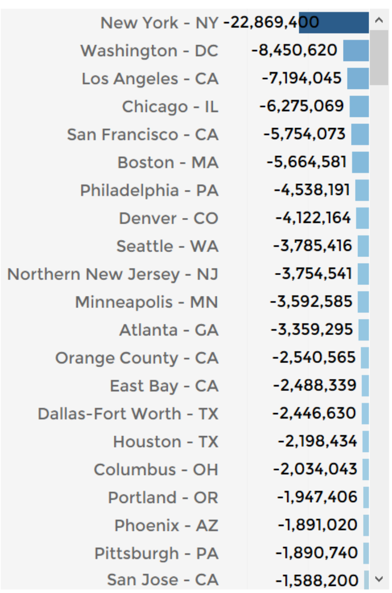
Office occupancy over a 12-month period rose in Miami, outshining other gateway metros. Occupancy has also increased in several secondary markets like Palm Beach, Durham, Austin, Boise, Pensacola, Provo, Salt Lake, New Haven, Fargo, San Antonio, and Oklahoma, each of which absorbed at least 500,000 square feet of office space. Miami,

12-Month Net Absorption of Office Space in Million Square Feet as of 2021 Q3 (September 19, 2021)

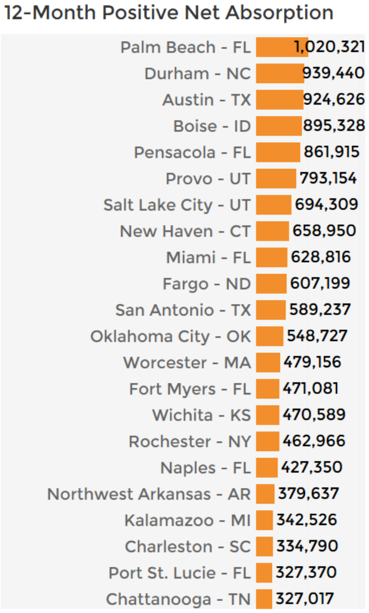


Source: NAR analysis of CoStar data

12-Month Negative Net Absorption

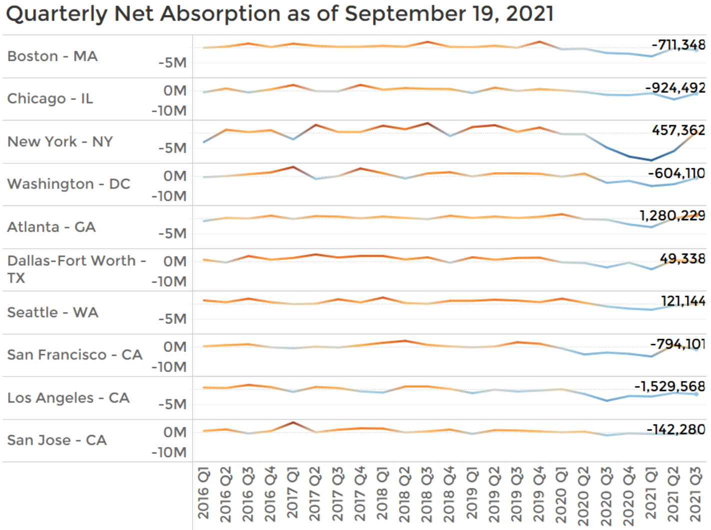


12-Month Positive Net Absorption



Source: NAR analysis of CoStar data

Quarterly Net Absorption as of September 19, 2021



Source: NAR analysis of CoStar data

NATIONAL ASSOCIATION OF REALTORS®

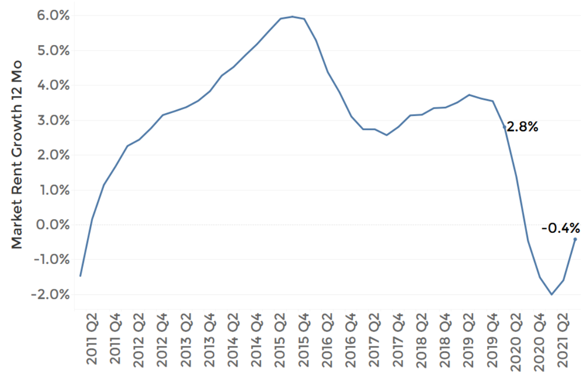
Office

Declining rents in primary markets

With falling occupancy and rising office vacancy rates, asking rents remained below the level one year ago, down by 0.4% as of September 19, 2021. The national average rent growth is being pulled down by the rent declines in large markets led by San Francisco (-4.4%), New York (-2.8%), Orange County (-2%), East Bay (-1.6%), Washington, DC (-1.2%) and Denver (-1.1%). Office asking rents have declined in these markets with about half of computer/tech workers still working from home on a national level.

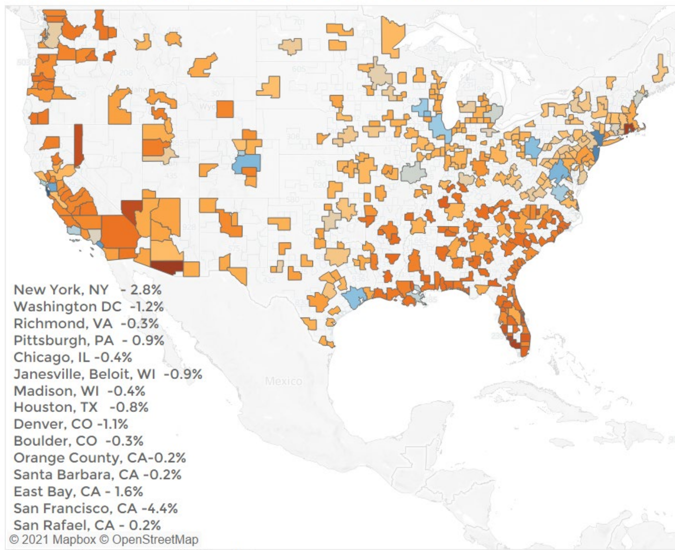
However, office rents are up on a year-over-year basis in 365 out of 380 metro areas tracked by CoStar®. Secondary/tertiary metro areas are experiencing high rent growth, led by Tucson, Arizona (6.2%), Providence, Rhode Island (6%), Naples, Florida (5.6%), and Fort Myers, Florida (5.3%), and Las Vegas (4.9%).

Year-over-Year Percent Change in Office Asking Rent as of 2021 Q3 (September 19, 2021)



Source: NAR analysis of CoStar data

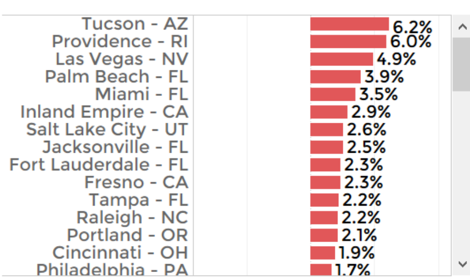
Office aasking rent growth as of September 19, 2021



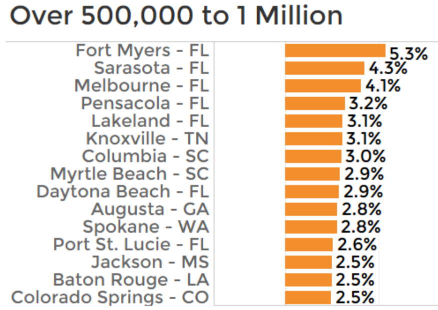
Source: NAR analysis of CoStar data

Average Office Rent Growth in 2021 Q3 by Population Size

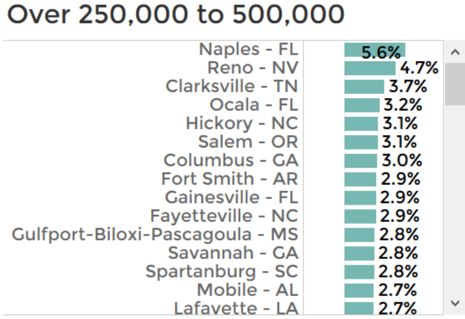
Over 1 Million



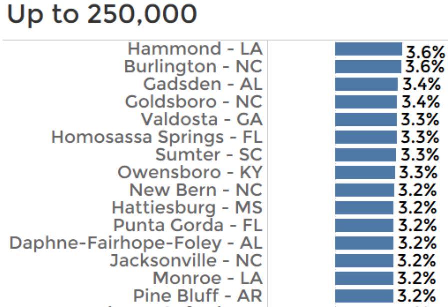
Over 500,000 to 1 Million



Over 250,000 to 500,000



Up to 250,000



Source: NAR analysis of CoStar data

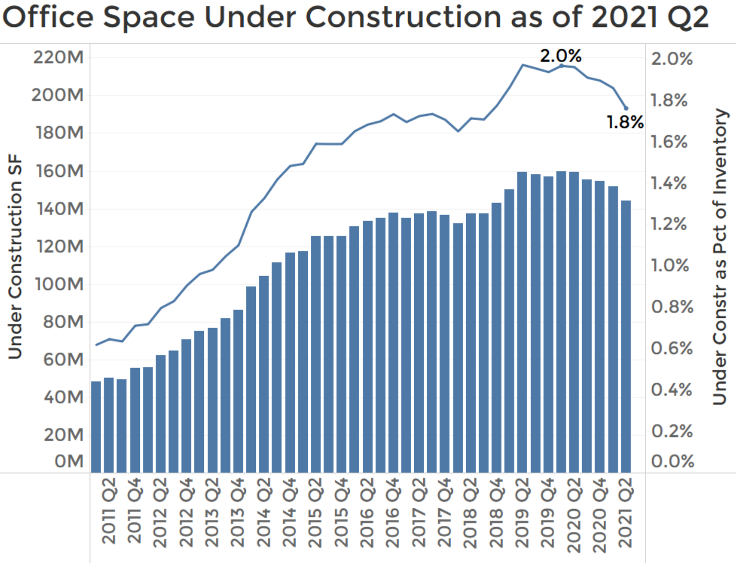
NATIONAL ASSOCIATION OF REALTORS®

Office

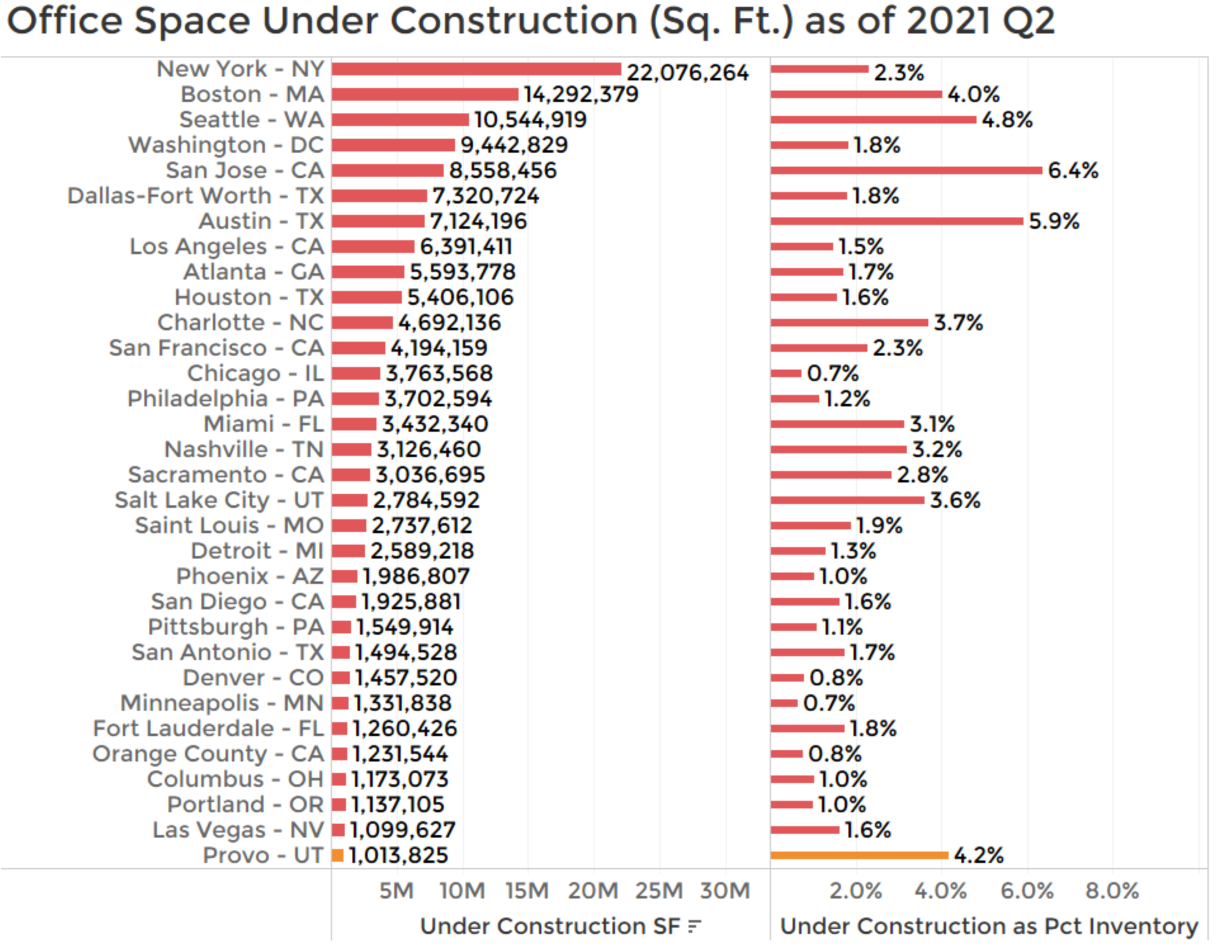
Construction of office space concentrated in primary metros

As of the second quarter of 2021, 144.3 million square feet of office space is under construction, equivalent to about 2% of the existing office space. If this space being constructed is mostly speculative, it will add to the already elevated vacant inventory and will continue to depress rents in the primary markets until the office space is absorbed.

The largest construction projects are still happening in metro areas that are currently still suffering from declining occupancy: New York, Boston, Seattle, Washington DC, San Jose, Dallas, Austin, and Los Angeles. In San Jose and Austin, the incoming supply amounts to about 6% of office space.



Source: NAR analysis of CoStar data



Source: NAR analysis of CoStar data

NATIONAL ASSOCIATION OF REALTORS®

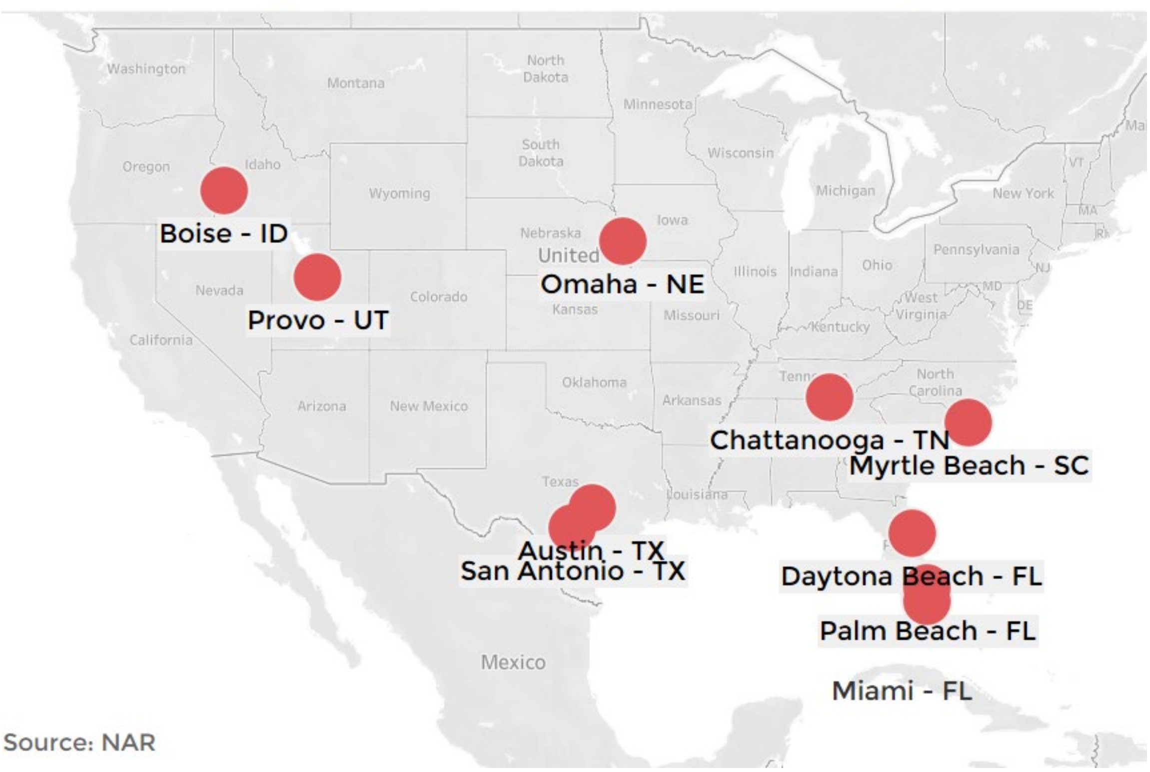
Top 10 Office Markets in 2021 Q3

NAR identified ten markets with the strongest office market conditions as of 2021 Q3. In alphabetical order, the markets are: Austin, Texas; Boise, Idaho; Chattanooga, Tennessee; Daytona Beach, Florida; Miami, Florida; Myrtle Beach, South Carolina; Omaha, Nebraska; Palm Beach, Florida; Provo, Utah; and San Antonio, Texas.

NAR identified these markets by comparing 10 commercial and economic indicators in these markets to the national level figures: vacancy rate, 12-month net absorption, year-over-year change in asking rent growth, leasing volume in square feet, year-over-year percent change in business/professional jobs of the metro area, net delivered units over 12-month period, sales transactions in dollars, transaction sales price per square feet, and cap rate.[1]

A point was given for every metric where the market had stronger market conditions (e.g., vacancy rate is lower than nationally). These markets had an aggregate score of at least 50 (same or outperformed US market). In addition, only markets that had positive net absorption over a 12-month period as of September and with a population of at least 500,000 in 2020 were included.

Top 10 Office Markets as of 2021 Q3



Source: NAR

/1 Commercial market data is from CoStar® as of September 19, 2021. Employment data is from the Bureau of Labor Statistics

Top 10 Office Markets in 2021 Q3

Austin, Texas. Austin had the highest leasing activity, at 1.9 million square feet. It had the second largest net absorption in the past 12 months of 924,626, second to Palm Beach. Austin had the highest average sales transaction price at $584/sq. ft., with an average return on investment (cap rate) of 5.4% compared to 7% nationally, which indicates the premium put on Austin commercial office space. The office vacancy rate of 13.5% is slightly higher than the national rate of 12.4%, but this won't remain elevated for long due to the strong absorption of office space in Austin.

Boise, Idaho. Boise has one of the lowest vacancy rates, at 4.7% compared to 12.4% nationally. The average office asking rent was up 1.6% compared to a decline of 0.4% nationally. Boise absorbed 895,328 sq. ft. of office space, the third highest among the top 10. Office space in Boise is relatively cheaper, with average sales transaction price of $140/sq. ft., and a cap rate of 6.3%.

Chattanooga, Tennessee. Chattanooga has a low office vacancy rate of 4.3% so the average asking rent was up 2.3% year-over-year as of September 2019 , the third highest rent growth after Palm Beach and Daytona Beach. With a cap rate of 6.7%, properties are still relatively cheaper compared to Austin or Miami.

Daytona Beach, Florida. Daytona had a vacancy rate of just 5%, with year-over-year rent growth of 2.9%. The average sales transaction price in the third quarter was $128/sq. ft. with a cap rate of 6.6%, about the same as Chattanooga and Provo. Daytona Beach prices are more affordable compared to Miami and Palm Beach which are also in the top ten list, Daytona Beach is likely to attract more workers with the opportunity to work from home and retirees who enjoy time at the beach and Florida's warm weather.

Miami, Florida. Miami is second to Austin in terms of leasing activity, at 1.2 million sq. ft. Its vacancy rate is relatively high compared to the other markets, at 10.7%, but this is still a tad lower than the national vacancy rate of 12.4%. Office properties are more expensive, with the average sales price at $383/sq. ft., but investors are willing to pay the price for Miami property and get a 5.7% return on their investment that is lower than the national rate of 7%.

Top 10 Office Markets in 2021 Q3

Myrtle Beach, South Carolina. Myrtle Beach has the lowest office vacancy rate among markets in this list, at 2.2%. With a tight vacancy rate, it has the second highest average asking rent growth of 2.9%. Myrtle Beach is also a favorite vacation spot, and its county of location, Horry County, is one of the top 30 largest vacation home counties. Myrtle Beach is likely to see more migration into the area from workers who have greater opportunities to work from home and from retirees who envision beach destinations.

Omaha, Nebraska. Among the markets in the top 10, Omaha had the lowest average price sales price in the third quarter, at $122/sq. ft., and the highest cap rate of 8.3%. Omaha has a somewhat high vacancy rate of 8.9%, but this is still lower than the national rate of 12.4%. Office rents are up just 0.4% compared to the faster pace of rent increases in the Florida metros.

Palm Beach, Florida. Palm Beach beats all markets in terms of the 12-month net absorption of office space of 1 million square feet and with net absorption of about 853,000 of office square feet. Palm Beach's vacancy rate is also relatively high at 9.9%, but this is lower than Miami's rate and nationally. The price of office space is a bit more affordable than in Miami, with the average sales transaction price of $318/sq. ft. compared to $383/sq. ft. in Miami.

Provo, Utah. Provo absorbed 793,154 sq. ft. of office space in the past 12 months with 852,792 of office space leased. Commercial office space is one of the cheapest, at $177/sq. ft. The average cap rate was 6.7% compared to Boise's 6.3%, The vacancy rate in Provo is also somewhat high compared to Austin, at 9.3%, more than double that of Boise, although its vacancy rate is below the national rate.

San Antonio, Texas. San Antonio is benefiting from the strong growth in the Austin market given its proximity to Austin and its more affordable residential and commercial prices. It has a lower vacancy rate than Austin, at 10.1%. As such, the area is experiencing faster office rent growth of 1.7% compared to Austin's 0.5%. The average transactions price of offices sales in the third quarter was $145/sq. ft., about a fifth of Austin's, yielding a cap rate of 6.3%, which is about a percentage point higher than Austin's.

Industrial

Remains hot as demand increases

As of September 20, the industrial market continues to see an increase in occupancy (positive net absorption) as demand continues to outpace supply. The market absorbed 113 million sq. ft. in Q2 2021, which is the most space absorbed in a single quarter, ever. Industrial markets have absorbed more than 500 million sq. ft. of industrial space since 2020 Q2. Traditionally, the majority of industrial space absorbed has been dominated by logistic space and that remains true today where logistic space makes up 90% of industrial space absorbed.

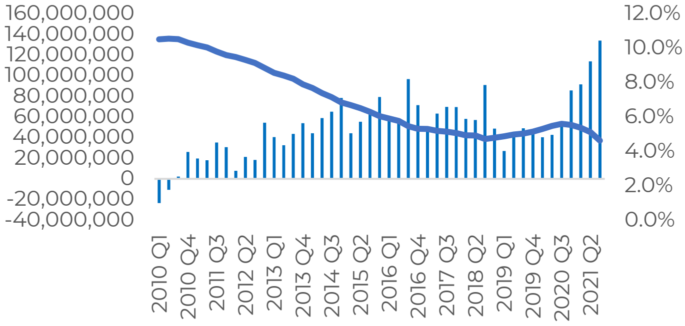
According to CoStar® data, in the past 12 months, the largest losses in net absorption for industrial space have occurred in Rochester, NY, Florence-Muscle Shoals, AL, San Jose, CA, Rochester, MN, Jackson, MS, San Francisco, CA, Hanford-Corcoran, CA, Providence, RI, Mansfield, OH and Shreveport, LA.

On the other hand, positive industrial net absorption occurred in Dallas-Fort Worth, TX, Chicago, IL, Inland Empire, CA, Atlanta, GA, Phoenix, AZ, Houston, TX, Columbus, OH, Los Angeles, CA, Memphis, TN and Indianapolis, IN.

New supply totaled 190.1 msf from the beginning of 2021 to-date. Net delivered sq. ft. in Q2 2021 totaled 75.6 million sq. ft. which represents a decrease of 1% year-over-year. As demand continues to outpace supply, vacancy rate was driven downward. The industrial vacancy rate has also fallen from 5.3% in 2020 Q1 to 4.6% as of September 20.

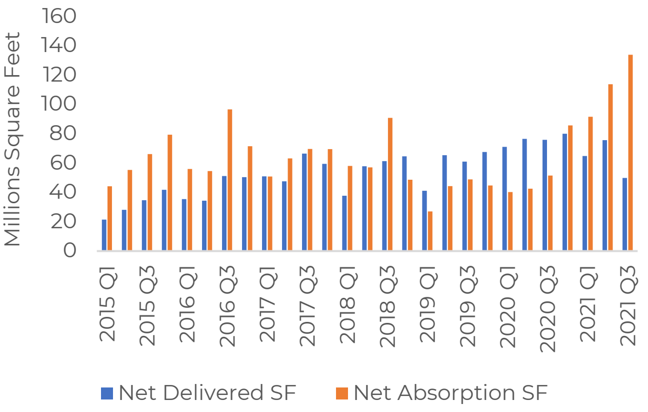
New leasing activity surpassed 100 million sq. ft. for the 39th consecutive quarter with 256.3 msf at the close of Q2 2021- 9 million sq. ft. short of the quarterly record set in Q4 2020 and as of September 20, leasing activity has already eclipsed 100 million sq. ft.. The current level of demand is on track to see new leasing activity exceed last year's level as year-to-date leasing activity totals 639.8 million sq. ft.

Vacancy and Quarterly (3-Month) Net Absorption of Industrial Space in MSF as of 2021 Q3 (September 20, 2021)



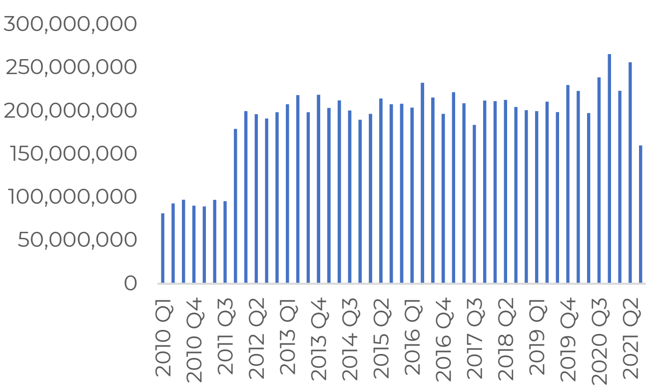
Source: NAR analysis of CoStar data

Industrial Space Demand/Delivered



Source: NAR analysis of CoStar data

Industrial Leasing Activity SF, Quarterly



Source: NAR analysis of CoStar data

NATIONAL ASSOCIATION OF REALTORS®

Industrial

Rents continue upward trend in 390 metros

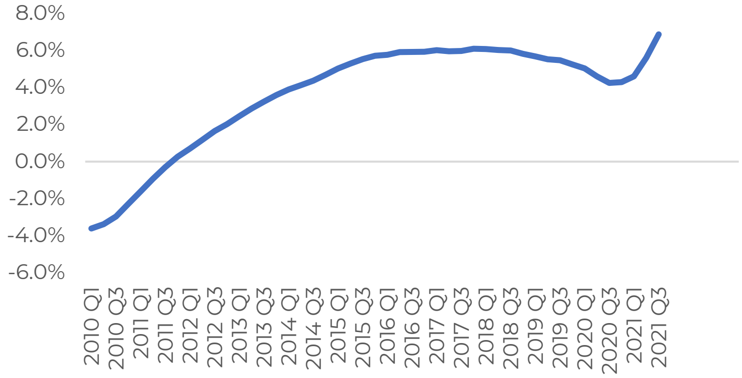
With increasing occupancy and decreasing vacancy rates, as of September 20, asking rents continue their upward trend as rents remain elevated with respect to year ago levels. The average rent was up 6.9% as of September 20, 2021. Logistic space asking rents are up 7.9%, followed by specialized space at 5.8% and flex space at 4.7%. The average asking rent continues to increase for industrial space as a new record was set at $9.48 sq. ft. to-date.

Of the 390 metro areas which CoStar® provides data, asking rents for all metros as of September 20, 2021 are above year-ago levels. Rents are up most in Northern New Jersey, NJ, Miami, FL, Philadelphia, PA, Inland Empire, CA, Salt Lake City, UT, Phoenix, AZ, Goldsboro, NC, Columbus, OH, Hinesville, GA, Chambersburg-Waynesboro, PA, and Atlanta, GA.

More than 1,855 industrial buildings are noted as being under construction according to CoStar® as of September 20. More than 409.2 msf was added in Q2 2021 as a new record high was set. Of the new industrial supply under construction, 361.6 million sq. ft. (88%) is logistic product.

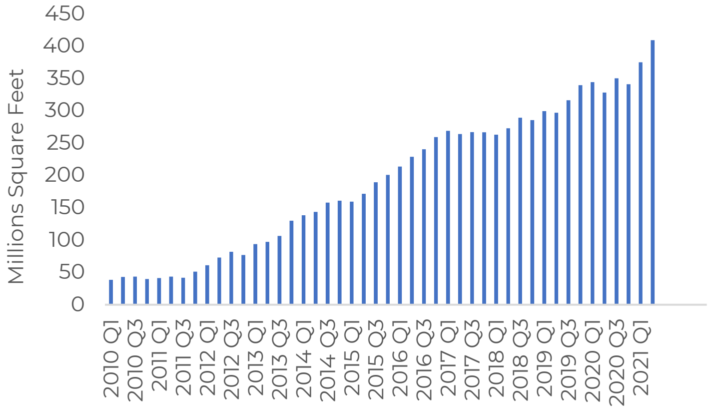
Most recent data indicates that developers are continuing increased construction activity in major gateway cities. The cities with the most industrial buildings under construction were located in Dallas-Fort Worth, TX, Houston, TX, Inland Empire, CA, Phoenix, AZ and Atlanta, GA. Of the top five cities, most construction is occurring in the Midwest and West states.

Year-over-Year Percent Change in Industrial Asking Rent as of 2021 Q3 (September 20, 2021)



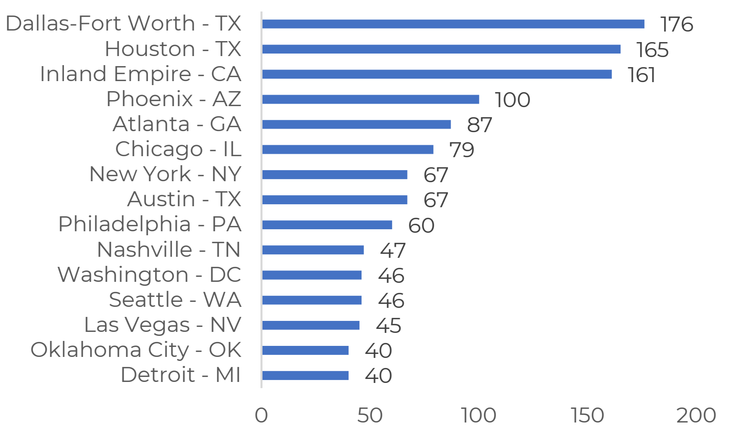
Source: NAR analysis of CoStar data

Industrial Space Under Construction in Sq. Ft.



Source: NAR analysis of CoStar data

Industrial Space Under Construction by Number of Buildings as of Q2 2021



Source: NAR analysis of CoStar data

Source of data: Real Capital Analytics

NATIONAL ASSOCIATION OF REALTORS®

Retail

Continuing to recover

The retail CRE market is continuing to recover. Net absorption of retail space in the past 12 months as of September 20, 2021 has exceeded Q2 2019 levels (pre-pandemic), 46.11 million sq. ft., with a net absorption of 46.18 million sq. ft.. Prior to the onset of the pandemic, in Q4 2019, 12-month net absorption was 35,565,672 sq. ft.

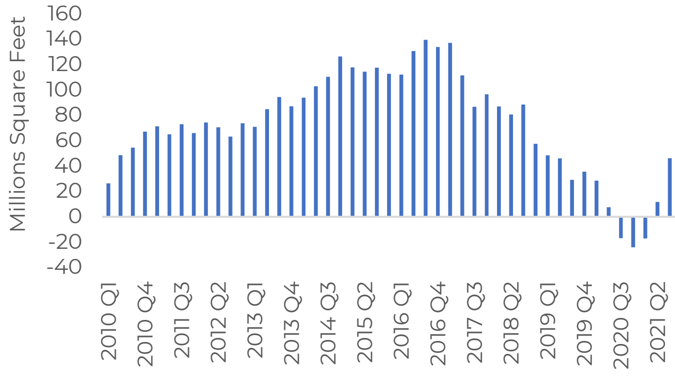
Broken down by retail type, 12-month net absorption in Q3 2021 occurred most in general retail space (34.7 million sq. ft.) followed by neighborhood center (10.5 million sq. ft.) and strip center (7.3 million sq. ft.). Of the retail space returned to the market, majority was by malls (-5.1 million sq. ft.). Power centers saw -1.0 million sq. ft. of negative absorption.

According to CoStar® data, of the 390 metros covered, the top markets by 12- month net absorption were Houston, TX, Atlanta, GA, Dallas-Fort Worth, TX, Chicago, Il, Inland Empire, CA and Las Vegas, NV. With respect to the top markets by past 3-months net absorption, Dallas-Fort Worth was the leader followed by Houston, TX.

On average, as of September 20, 2021, asking rents were up 1.9% towards $22.27 sq. ft. Rent growth occurred across the board thus far in Q3 2021 for all retail property types, even malls. Rent growth was mostly in strip centers and neighborhood centers where both were up 2.5%. Rent growth for power centers, general retail and malls were 2.3%, 1.6% and 1.5% respectively.

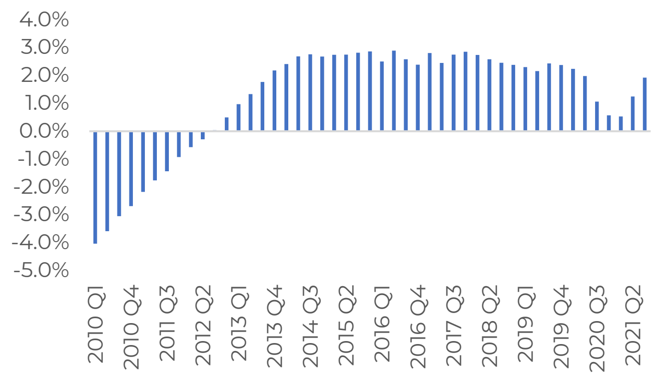
Of the 390 metro areas covered, 95% or 369 metros saw positive year-over-year growth in asking rents where Tulsa, OK, Atlanta, GA and Jacksonville, FL were leaders with growth of 8.2%, 7.4% and 6.9% respectively.

12-Month Net Absorption Sq. Ft. of Retail Space



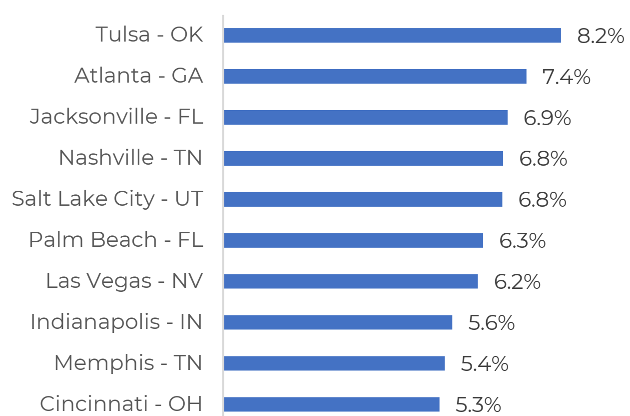
Source: NAR analysis of CoStar data

Year-over-Year Percent Change in Asking Rent Growth for Retail Space



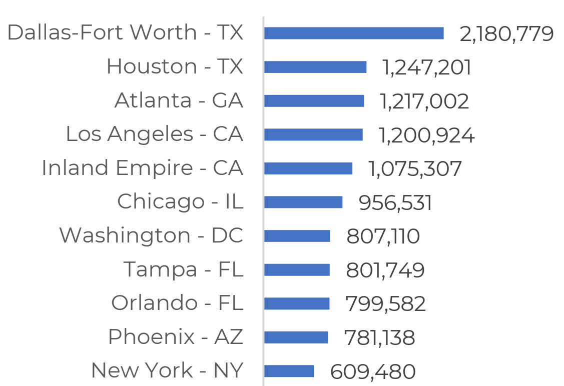
Source: NAR analysis of CoStar data

Metros with Highest Retail Year-over-Year Rent Growth as of September 20, 2021



Source: NAR analysis of CoStar data

Retail Markets by Past 3-Months Net Absorption as of September 20, 2021



Source: NAR analysis of CoStar data

NATIONAL ASSOCIATION OF REALTORS®

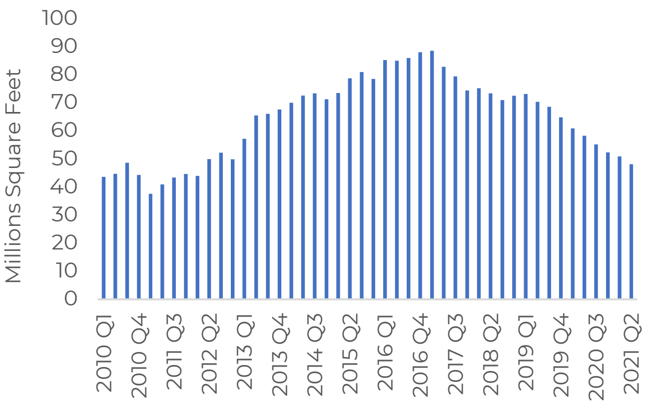
Retail

Southern states and Texas in particular attracting developers

As retail rents slowly tick upwards, construction activity has continued its downward trend. As of Q2 2021, there were 2,380 retail buildings under construction totaling 48.1 million sq. ft.. Of the retail buildings under construction, 1,701 were for general retail space according to CoStar® data.

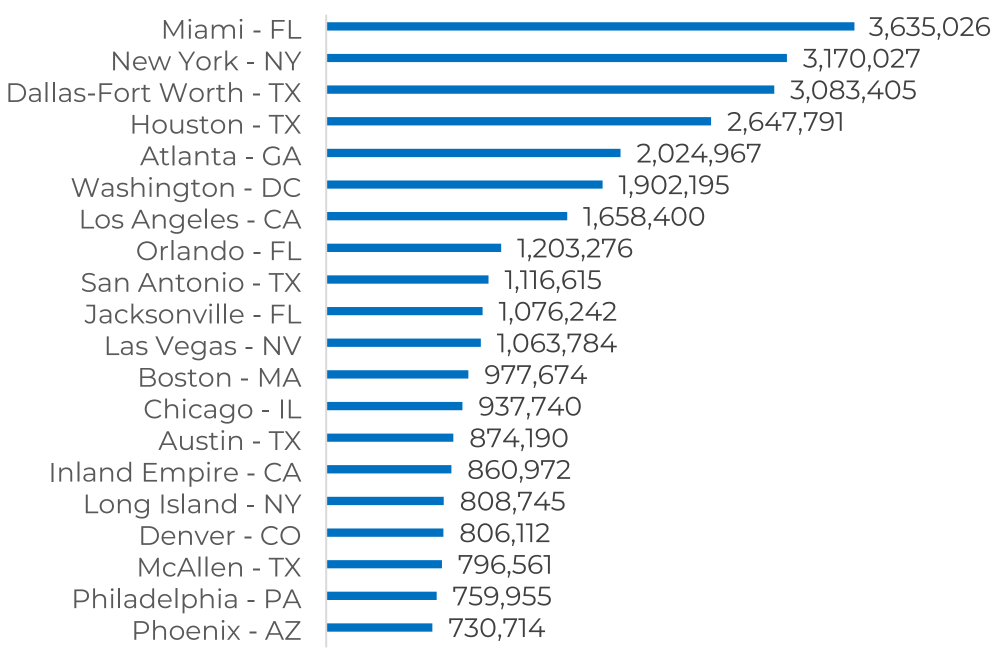
At the metro level, over the same period, Miami, FL (3.6 million sq. ft.), New York, NY (3.1), Dallas-Fort Worth, TX (3.0), Houston, TX (2.6), Atlanta, GA (2.0), Washington DC (1.9), Los Angeles, CA (1.6), Orlando, FL (1.2), San Antonio, TX (1.1), and Jacksonville, FL (1.0) were the top markets under construction based on square footage. Interestingly, the majority of construction activity took place in the Southern states (Florida, Texas, Georgia) and further, a little less than a third took place in Texas.

Retail Space Under Construction Sq. Ft.



Source: NAR analysis of CoStar data

Retail Space Under Construction as of Q2 2021



Source: NAR analysis of CoStar data

Hotel

Occupancy declines again amid resurgence of pandemic

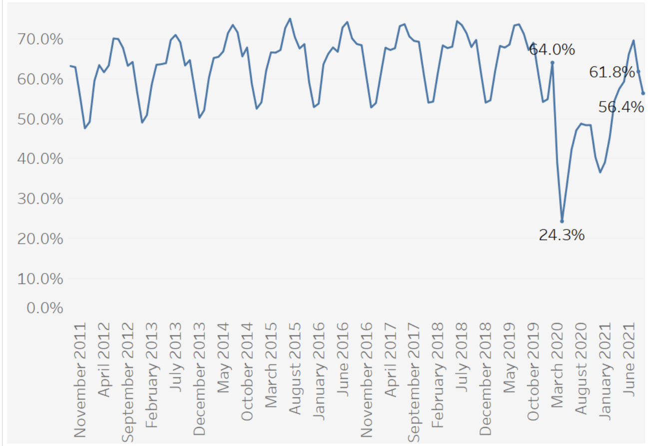
The resurgence of coronavirus cases held back the hotel sector's recovery in the third quarter, as hotel occupancy and revenues decline. Hotel vacancy rate climbed down to 56% as of August after rising to 62% in the prior month, according to CoStar/STR data.

The hotel industry's revenue metrics— average daily rate (ADR) and revenue per available room (RevPAR) — also fell again after rising in the prior month. In August, ADR fell to $119/room, after rising to $143 in July. RevPAR fell to $674/room, after hitting $100/room in the prior month.

Hotel construction has slowed to 175,000 rooms compared to a peak of about 220,000 rooms one year ago.

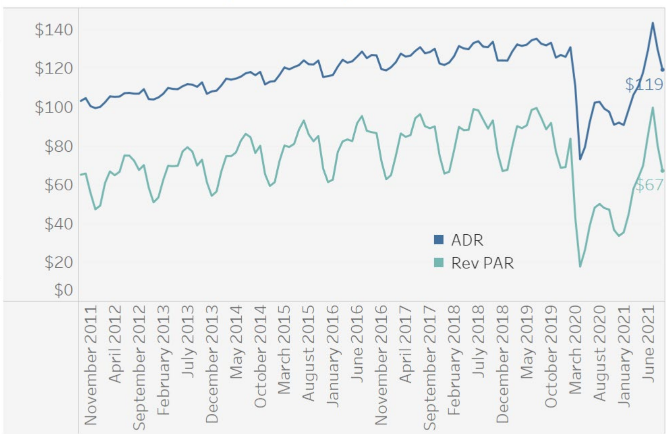
Hotel construction is concentrated in New York, and the ongoing construction accounts for nearly 20% of room inventory. Atlanta, Los Angeles, Dallas and Las Vegas are the next largest metros with the highest number of rooms under construction. However, as a percent of the area's inventory, hotel construction in Austin, Texas accounts for 10% of the current inventory, second to New York.

Hotel Occupancy Rate



Source: NAR analysis of CoStar/STR data

Average Daily Rate (ADR) and Revenue Per Available Room (RevPAR)



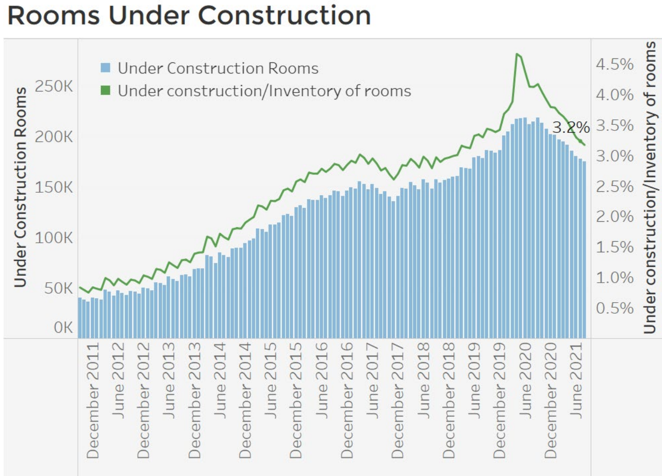
Source: NAR analysis of CoStar/STR data

Rooms Under Construction as of August 2021

	Rooms Under Construction	Under construction/ total room inventory
New York - NY	18,651	17.8%
Atlanta - GA	6,550	6.1%
Los Angeles - CA	6,448	5.9%
Dallas - TX	5,159	5.3%
Las Vegas - NV	4,700	2.8%
Austin - TX	4,645	10.1%
Nashville - TN	4,491	8.4%
Orlando - FL	4,298	3.5%
Washington - DC	3,931	3.6%
Miami - FL	3,914	6.3%
Inland Empire - CA	3,816	7.7%
Denver - CO	3,639	6.4%
Detroit - MI	3,375	7.2%
Houston - TX	3,068	3.2%
Fort Worth/Arlington - TX	3,020	7.9%
Phoenix - AZ	2,882	4.2%
Boston - MA	2,678	4.4%
San Jose/Santa Cruz - CA	2,570	7.1%
North Carolina West	2,460	7.9%
Chicago - IL	2,217	1.9%
Texas West	2,213	3.1%
Raleigh/Durham/Chapel Hill ..	2,163	7.1%

Source: NAR analysis of CoStar/STR data

Rooms Under Construction



Source: NAR analysis of CoStar/STR data

ADR is the total revenue/number of rooms.
RevPAR is ADR x occupancy rate.

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COMMERCIAL MONTHLY INSIGHTS REPORT
September 2021

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