Commercial Market Insights

October 2021

National Association of REALTORS®
Research Group

NATIONAL ASSOCIATION OF REALTORS®

Overview

Amid an improving economy, the commercial real estate market continues to recover, marked by rising occupancy across all commercial property markets.

In the office market, occupancy increased by another 1.8 million square feet on a quarterly basis as of October 23, following a quarterly increase of 8 million square feet in September. However, the recovery process has a long way to go, with 128.4 million square feet of office space released back to the market since 2020 Q2. Secondary/tertiary markets are leading the recovery as office rents continue to decline in the primary markets of New York, Chicago, Washington, DC, and San Francisco. With 139.7 million square feet of office space under construction, expect rent growth to remain flat in the primary gateway cities to no more than 2% and vacancy rates to stay at above 10% in 2022. The fraction of workers working from home continues to decline but about 44% of tech/mathematical workers are still working from home so the absorption of the vacant space will take time as hybrid work style seems to be the emerging as the dominant work style for office-using workers.

Multifamily demand remains robust, with positive net absorption of 1.06 million apartment units since the second quarter of 2020 and asking rents rising further to 11.4% year-over-year on average across 390 markets tracked by CoStar®. Meanwhile, the level of construction has declined compared to the pre-pandemic level, indicating that rents will continue to remain above 10% in 2022 and vacancy rate likely hovering at below 5%.

The industrial market is another strong leg of the commercial real estate market, with 654 million square feet of industrial space absorbed since 2020 Q2. Asking rents are now up 7.6%. It is the only sector where construction is higher compared to pre-pandemic level. The demand for industrial space to support online sales which now accounts for about 17% of retail sales, will boost demand and keep vacancy rates at below 5% in 2022.

While non-store retailers are making inroads into the brick-and-mortar retail sales, secondary metro areas in the Sunbelt of Texas, Georgia, Florida, and Arizona are seeing an absorption of retail space and construction activity. These are states that are attracting in-migration due to relatively affordable housing prices compared to the primary metro areas of New York, Boston, Washington DC, San Francisco, or Los Angeles.

Hotel occupancy and revenues are higher now compared to pre-pandemic levels although the surge in Delta variant cases during the summer held back somewhat the recovery. The average 3-month hotel vacancy rate during October was 62.5%, up from 55.3% in the same period one year ago.

In a nutshell, the commercial real estate market has turned a corner. Assuming there is no big resurgence of the Delta variant, improving economic conditions, the lifting of the international travel ban in the coming months, and more business and personal travel and recreation in the coming months, all lead to the sustained recovery of the commercial real estate in 2022 and beyond, with the office market having the longest time to recover.

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Economic Conditions

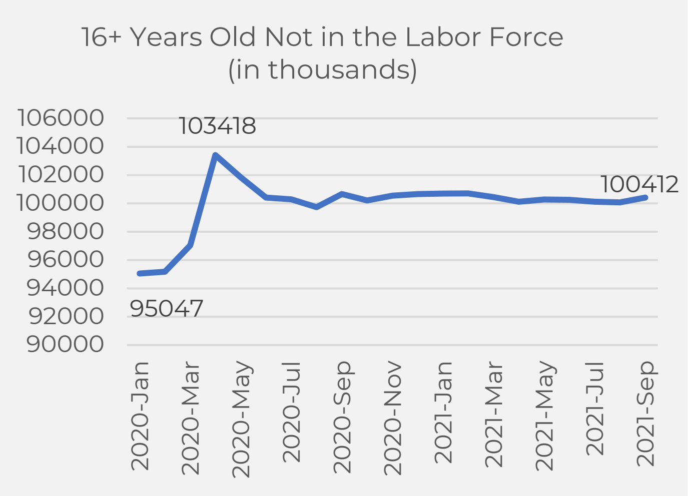
Economy continues to stregnthen

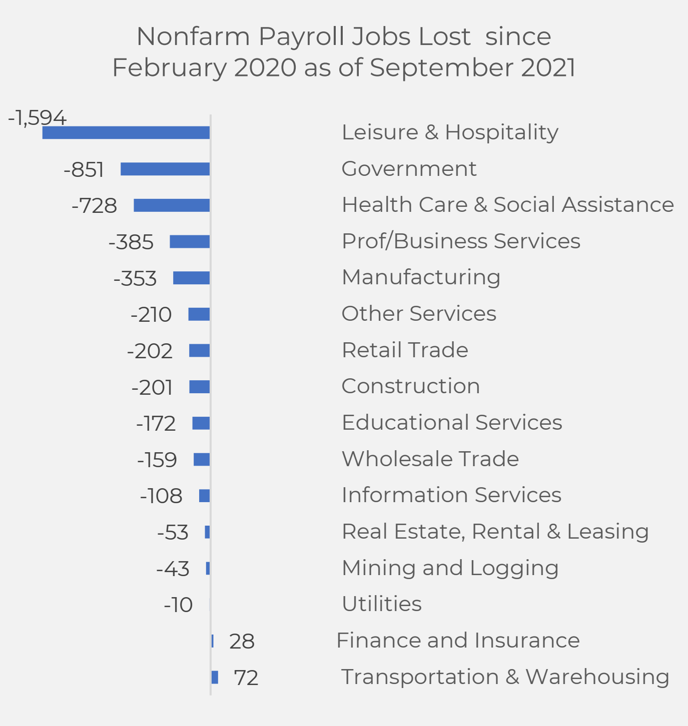
More job openings than job seekers with more people not in the labor force

The economy continues to create net new jobs. As of September 2021, the economy has created 17.4 million net new jobs, or 78% of the 22.4 million jobs lost during March and April 2020. There are nearly 5 million nonfarm payroll jobs still to be recovered, with about . About 32% 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.

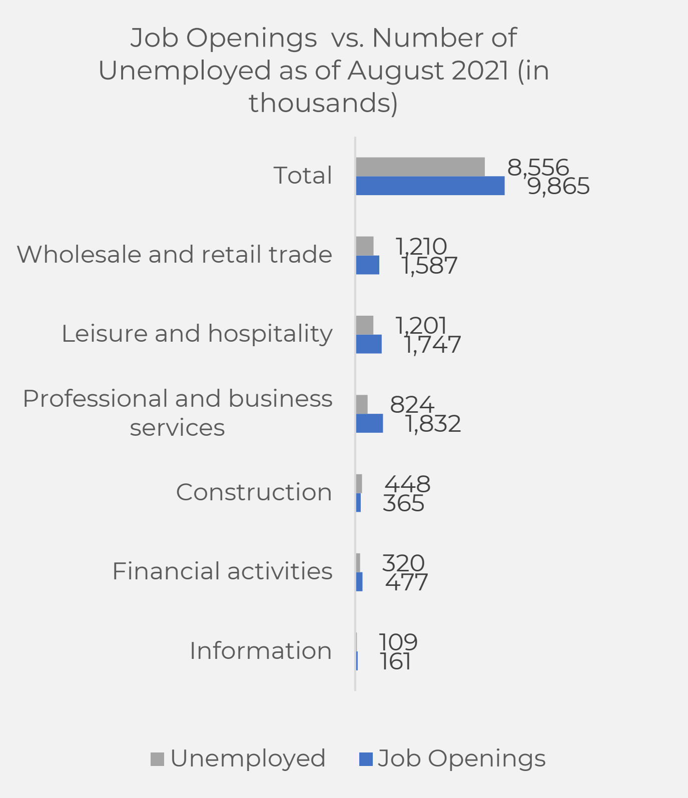
Yet even with 5 million jobs still to be recovered, labor is scarcer relative to the number of job openings. As of August, there were 8.6 million workers looking for jobs but there were 9.9 million job openings. Job openings outpaced the number of unemployed in wholesale and retail trade, professional and business services, financial activities and information services. Only in the construction industry are there fewer job openings than job seekers.

Labor has become tight because of lower labor participation. As of September, there are 100.4 million 16 years old and above who were not in the labor force compared to 95 million in January 2020. The decline in labor force participation is in part due to COVID-related issues such as finding childcare and healthcare concerns.





Source: BLS Establishment Survey



Source: BLS Establishment Survey

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Economic Conditions

Economy continues to stregnthen

19% of 401 metro areas have higher employment as of September compared to February 2020

Seventy-seven out of 401 metro areas (19%) have more jobs as of August compared to February 2020 (55 metros in August 2021). The job gainers are secondary/tertiary markets led by Salt Lake City, Provo-Orem, Austin-Round Rock, Ocean City, and Ogden.

Meanwhile, the gateway metro areas or cities such as New York, Los Angeles, San Francisco, Miami, Philadelphia, Boston, and Washington, DC still have lower levels of non-farm payroll employment compared to February 2020.

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

Highest net job gains ('000)

Salt Lake City, UT	19.60
Provo-Orem, UT	18.80
Austin-Round Rock, TX	16.70
Ocean City, NJ	15.40
Ogden-Clearfield, UT	12.40
Barnstable Town, MA Metropolitan NECTA	8.90
Salisbury, MD-DE	8.30
Fayetteville-Springdale-Rogers, AR-MO	7.90
St. George, UT	6.80
Elkhart-Goshen, IN	6.70
Coeur d'Alene, ID	6.20
Baltimore City MD	6.00
Idaho Falls, ID	5.50
Colorado Springs, CO	5.20
Lakeland-Winter Haven, FL	4.80
Jacksonville, FL	4.10
Logan, UT-ID	4.10
Daphne-Fairhope-Foley, AL	3.80
Tyler, TX	3.60
Boise City, ID	3.30
Rapid City, SD	3.30
Spokane-Spokane Valley, WA	3.20
Pocatello, ID	3.10
Myrtle Beach-Conway-North Myrtle Beach, SC-NC	2.60
Kansas City, MO	2.10

Most net job losses ('000)

New York City NY	-490.3
Los Angeles-Long Beach-Anaheim, CA	-428.5
Chicago-Naperville-Elgin, IL-IN-WI	-195.2
San Francisco-Oakland-Hayward, CA	-188.5
Miami-Fort Lauderdale-West Palm Beach, FL	-152.0
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	-126.3
Boston-Cambridge-Nashua, MA-NH Metro NECTA	-123.3
Washington-Arlington-Alexandria, DC-VA-MD-WV	-122.2
Houston-The Woodlands-Sugar Land, TX	-115.8
San Diego-Carlsbad, CA	-101.7
Orlando-Kissimmee-Sanford, FL	-95.3
Detroit-Warren-Dearborn, MI	-91.3
New Orleans-Metairie, LA	-81.9
Las Vegas-Henderson-Paradise, NV	-81.2
Minneapolis-St. Paul-Bloomington, MN-WI	-79.2
Atlanta-Sandy Springs-Roswell, GA	-70.9
Bergen-Hudson-Passaic, NJ	-66.8
Philadelphia City, PA	-65.1
San Jose-Sunnyvale-Santa Clara, CA	-57.1
Urban Honolulu, HI	-55.2
Riverside-San Bernardino-Ontario, CA	-55.1
Pittsburgh, PA	-50.0
Cleveland-Elyria, OH	-49.4

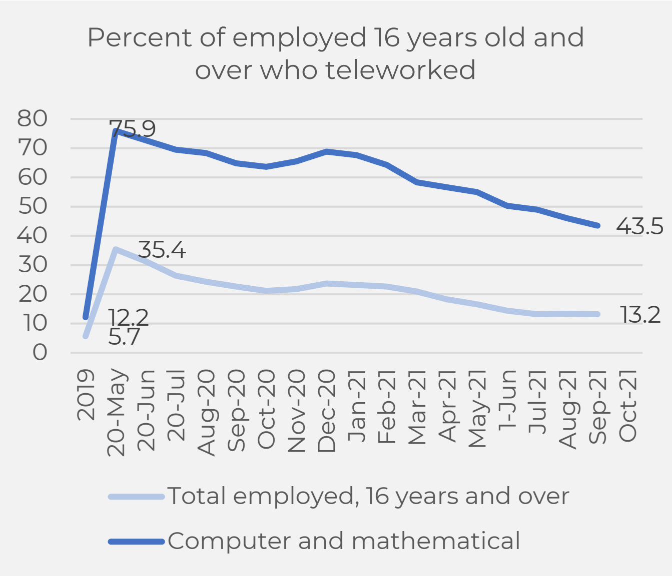
Source: US Bureau of Labor Statistics

Economic Conditions

Economy continues to stregnthen

13% of the workforce is still working from home

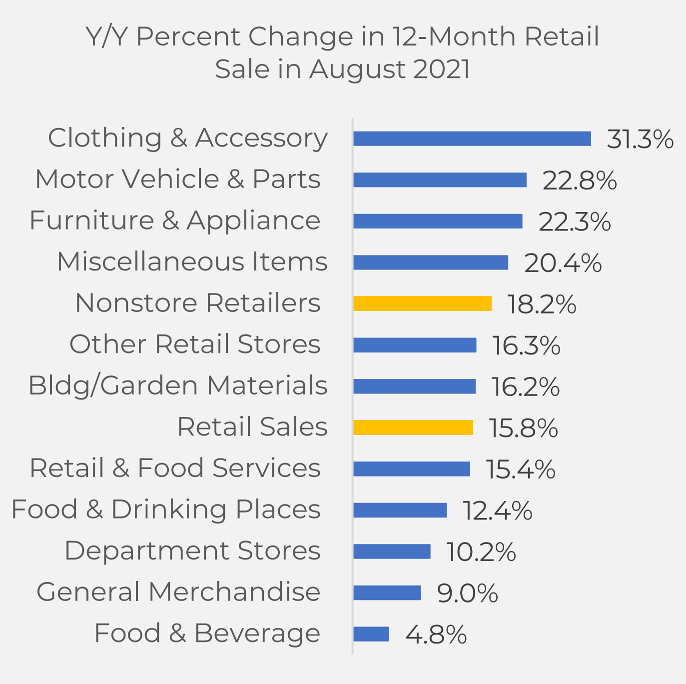
Workers are returning to the office, with 13.2% of employed workers 16 years old and over teleworking, down from 35.4% in May 2020. Among computer and mathematical workers, 43.5% are teleworking, down from 75.9% in May 2020. As of September, 20.3 million people teleworked, up from 8.9 million in 2019 who worked from home. With the rise in Delta variant cases from July through September companies have delayed the time table for workers to return-to-work, such as Apple®, Alphabet®, Uber®, and Lyft®. As of October 23, the Center for Disease Control classified 92% of counties as experiencing substantial to high levels of Delta variant transmission.



Source: BLS COVID-19 Supplemental Survey

Retail sales up 16% y/y in August

The 12-month retail and food services sales rose nearly 16% year-over-year in August 2021, with the strongest growth in clothing stores, motor vehicle dealers, furniture stores, and miscellaneous item retailers. Online retailers continue to increase their market share. Sales of non-store retailers rose 18%, a stronger pace than sales of department stores and general merchandise. Sales of non-stores retailers hit a 12-month level of $1.09 trillion in August, accounting for 17% of retail sales, from 15% in January 2020.



Source: US Census Bureau

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Economic Conditions

Economy continues to stregnthen

Inflation at 5.4% in September due to higher increase in food and shelter prices

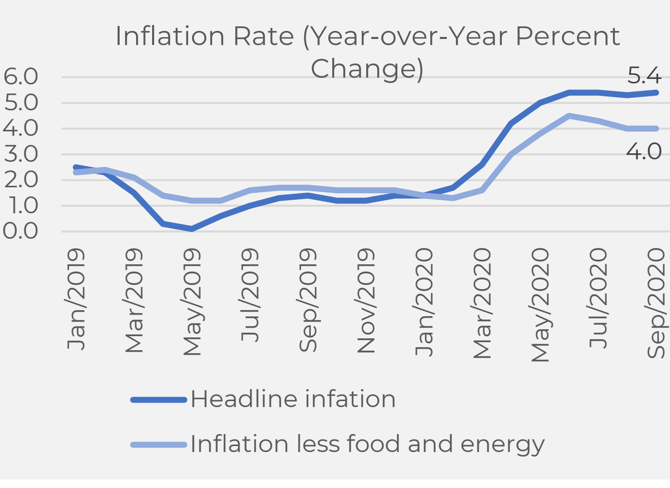
Headline inflation slightly inched up again to 5.4% in September as price of food and shelter rose at faster clip on a year-over-year basis in September than in August. Meanwhile, the pace of increase slightly slowed for energy and transportation which could in part be due to consumers holding back on travel due the surge in Delta variant cases during July-September. Airline fares increased at slower pace of 0.8% year-over-year, a significant slowdown from the 25% rise in June 2021. The Federal Reserve Board has an average inflation target of 2% in setting the course of monetary policy. With the labor market continuing to tighten and inflation running at above 2%, the Federal Reserve Board could begin to moderate its asset purchases in the fourth quarter of 2021.

10-year T-note slightly rise to 1.4%

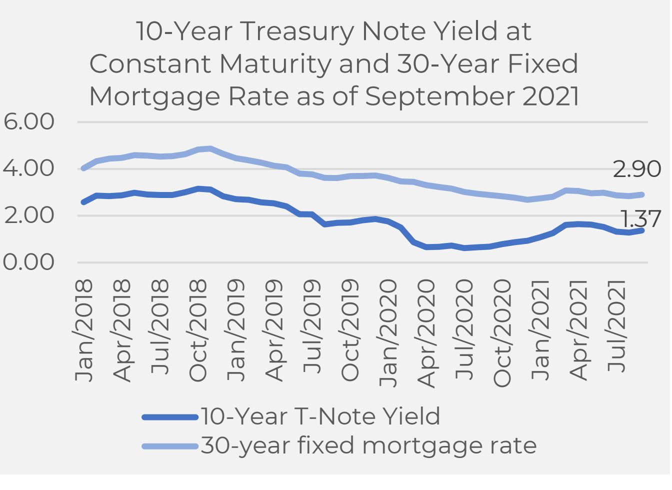
Meanwhile, the 10-year T-note yield has slightly increased to 1.37% in September while the 30-year fixed mortgage rate rose to 2.9%. The 10-year note is expected to increase in 2022 with tighter monetary policy. NAR Chief Economist forecasts a 0.5% increase.

Commercial real estate loans up 3%

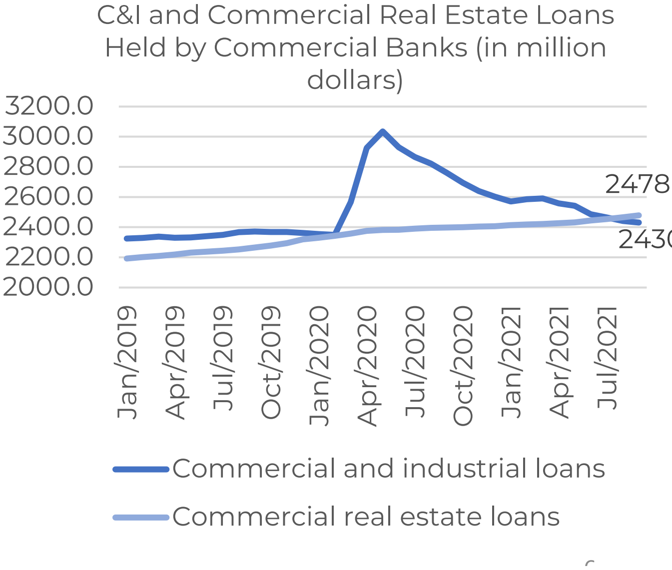
Financing conditions in commercial real estate continue to improve. Commercial banks' commercial real estate loans were up by $79.8 billion, or 3% year-over-year, in September. Meanwhile, commercial and industrial outstanding loans continues to normalize after a surge in 2020 as businesses tapped C&I credit for working capital needs during the pandemic. Private label commercial mortgage backed securities issuances totaled a robust $67 billion in the first half of 2021



Source: Bureau of Labor Statistics



Source: Federal Reserve Board, Freddie Mac



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Commercial Market Overview

Occupancy is rising in all property markets

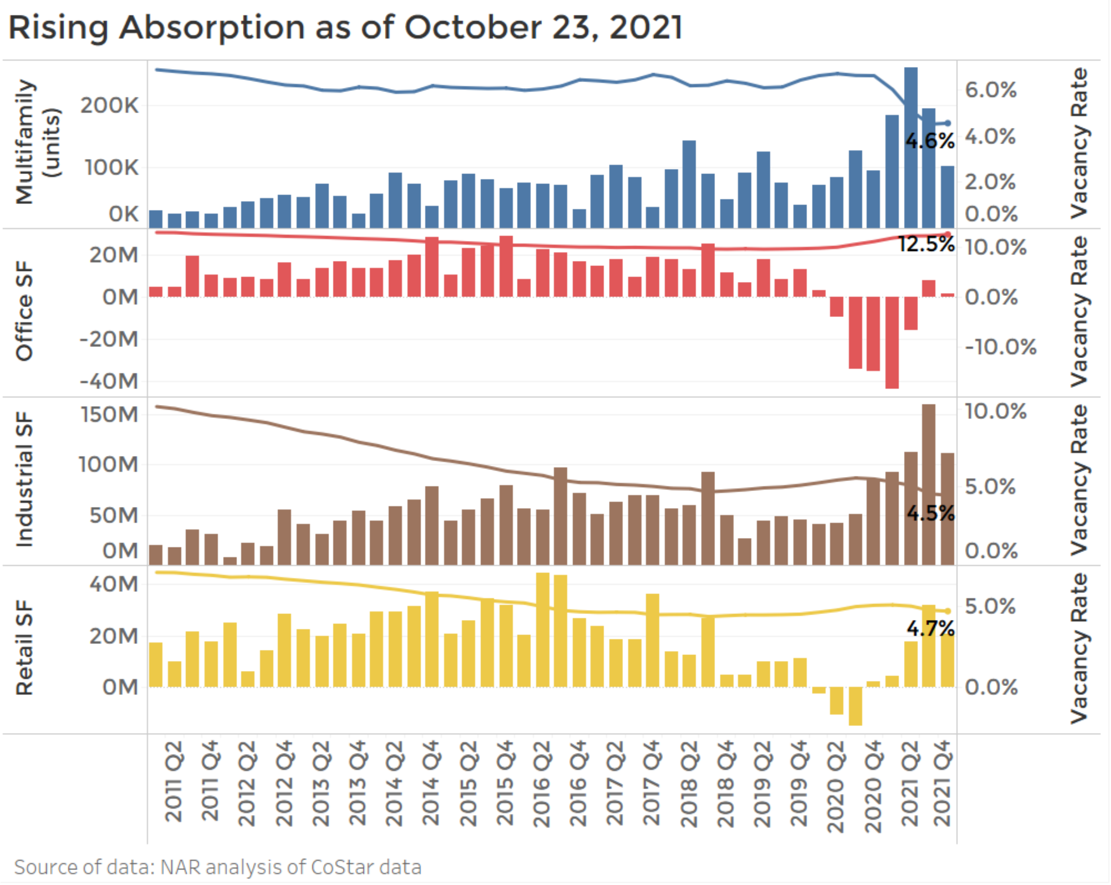
Absorption and Vacancy Rate as of 2021 Q4 (as of October 23, 2021)

As of October 23, 2021, occupancy rose in the multifamily, office, industrial, and retail property markets in 390 market areas. In the apartment market, 101,132 apartment units were absorbed, bringing the total net absorption to 1.05 million units during 2020 Q2 through 2021 Q4 (as of October 23). For comparison, there were only 38,445 units absorbed in 2019 Q4 (pre-pandemic). With higher occupancy the vacancy rate has declined to 4.6% from 6.7% in 2020 Q1.

In the office market, occupancy has increased by 9.7 million square feet since 2021 Q3 through 2021 Q4 (based on past three months as of October 23). However, 128.4 million square feet of office space has been given up since 2020 Q2. The office vacancy rate has increased from 9.8% in 2020 Q1 to 12.5% as of October 23, 2021.

In the industrial market, 653.6 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 4.5% as of October 23, 2021, the lowest vacancy rate among the core property markets.

In the retail property market, occupancy has been rising since 2020 Q4, with a net increase of 51.2 million square feet since 2020 Q2. The vacancy rate has just slightly increased from 4.6% prior to the pandemic to 4.7% as of October 23, 2021.



Source of data: NAR analysis of CoStar data

Commercial market data is based on 390 markets tracked by CoStar®.

Commercial Market Overview

Commercial prices and rents are rising across property types

Asking rents are flat or rising across all markets

For the first time, office rents were flat in 2021 Q4 (past three months as of October 23) on a year-over-year basis. Office rents are recovering with the economy continuing to recover lost jobs

The multifamily rental market has experienced the largest rent growth. Rents in the 390 metro markets rose 11.4% year-over-year in the past three quarters of 2021 Q4. In February 2020, rents increased by less than 2%.

In the industrial property market, the average asking rent per square foot rose to 7.6%, also higher than the 5% rent growth prior to the pandemic.

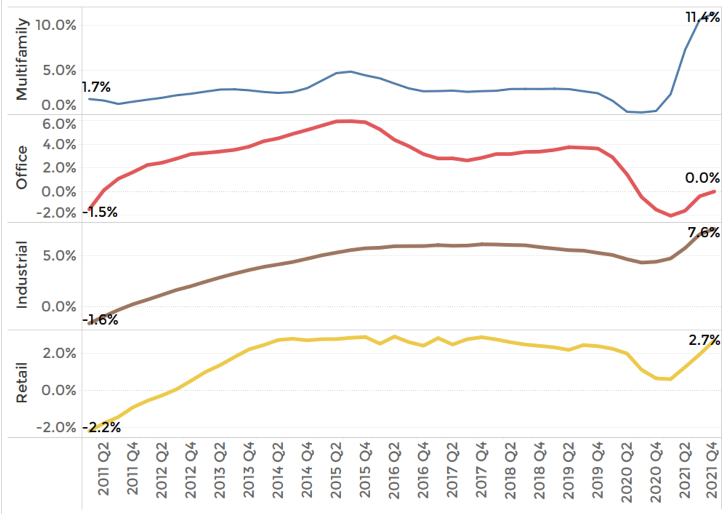
In the retail property market, rents rose 2.7%, which is higher than the 2.3% rent growth in 2020 Q2.

Commercial property prices up 21%

Commercial prices are recovering strongly. According to the Green Street Commercial Property Price Index which is an index that is based on properties owned/managed by REITs, commercial values are up 21% on a year-over-year basis as of September.

Of sales transactions in 390 markets tracked by CoStar, the price per square foot of the properties that sold was higher compared to 2020 Q1 (pre-pandemic). The median price reflects both the mix of the class of the properties (Class A/B/C), the location of the properties, and the overall increase in valuation of commercial properties due to better economic fundamentals.

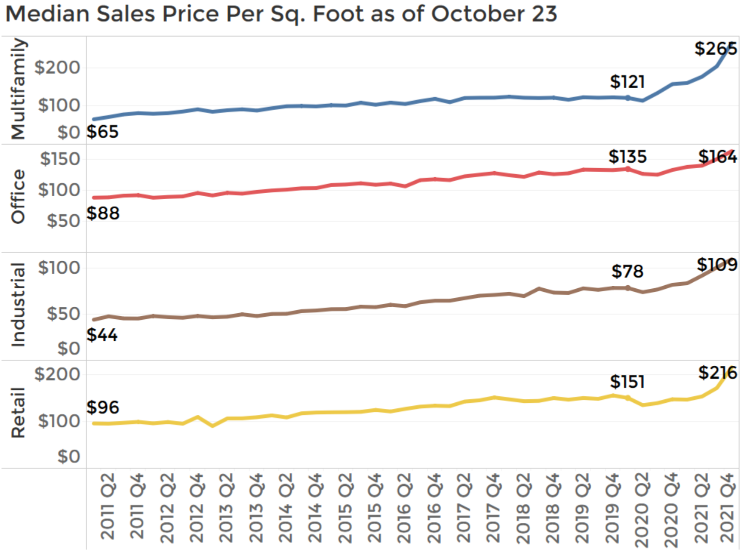
Rising Asking Rents as of October 23, 2021



Source of data: NAR analysis of CoStar data

Year-over-Year Percent Change in the Green Street Commercial Property Price Index

Median Sales Price Per Sq. Foot as of October 23



Source of data: NAR analysis of CoStar data

Multifamily

Absorption of apartment units rise to highest level in a decade

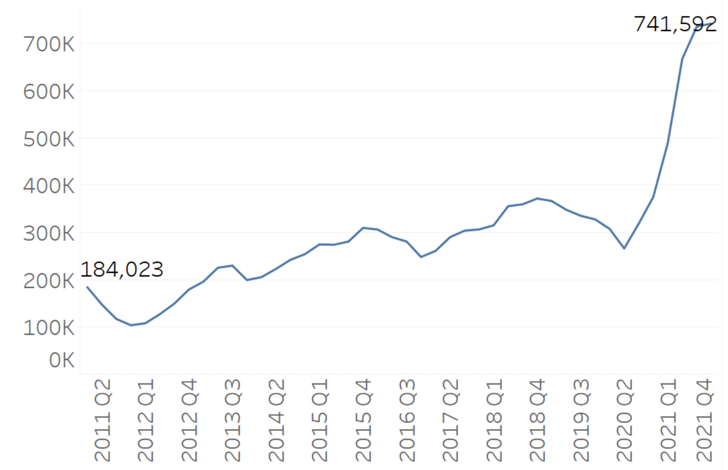
The apartment CRE market is experiencing a boom. Net absorption of apartment units reached its strongest level in a decade, with a net absorption of 741,592 apartment units in the past 12 months as of October 23. Prior to the pandemic, the 12-month net absorption as of the end of 2020 Q1 was 307,171 units.

Over the past 12 months as of 2021 Q4 (October 23), the Dallas-Fort Worth metro area had the largest absorption of apartment units (48,311), followed by Houston (38,447). The gateway metros of New York (37,317), Los Angeles (31,973), and Washington, DC (23,944) rounded out the top five metro areas that attracted the most renters. Worth noting is that renters are coming back in metro areas that lost renters during the pandemic lockdown in 2020, which are Chicago, Boston, New York, the District of Columbia, Seattle, San Francisco, San Jose, and Los Angeles.

As a fraction of the inventory of apartment units, the largest increase in absorption among metro areas with at least 10,000 units absorbed were Austin, Orlando, Miami, and Nashville where the net absorption accounted for at least 7% of current inventory.

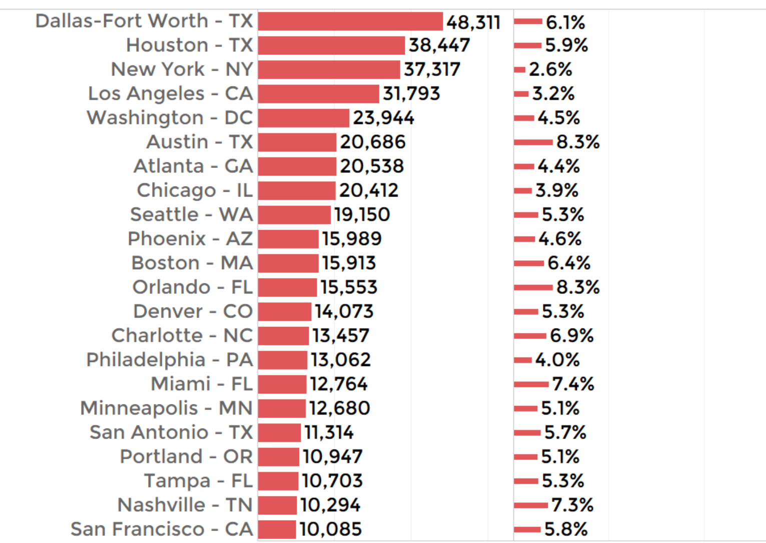
Home affordability is a key driver of apartment demand. In many West region metros, owning is more expensive than renting (orange areas in the map), and in these areas, there is likely going to be a strong demand for multifamily units and/or out-migration towards areas where owning is cheaper than renting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

12-Month Net Absorption of Multifamily Units as of 2021 Q4 (October 23)



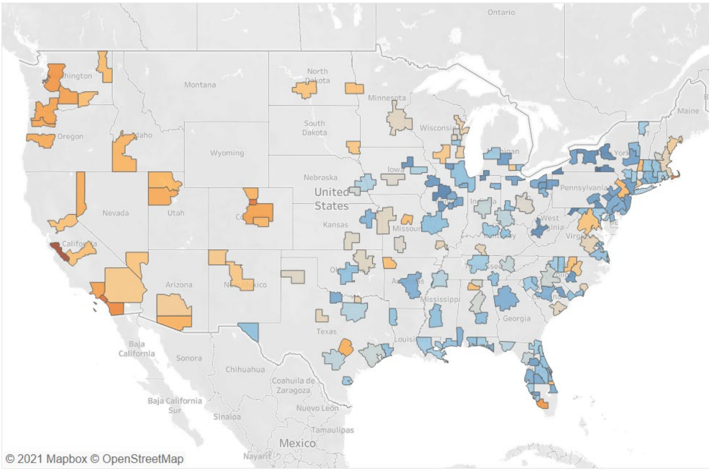
Source: NAR analysis of CoStar data

12-Month Absorption of Apartment Units and as a Percent of Inventory in 2021 Q4 (October 23)



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.

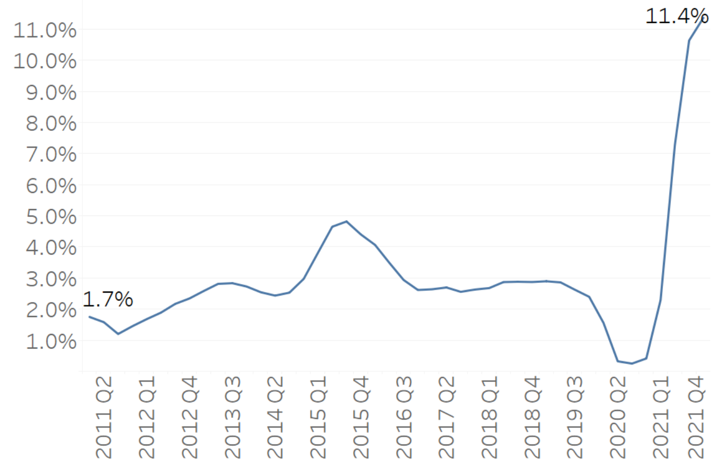
Multifamily

A third of metros have double-digit rent growth

The average asking rent across 390 markets rose 11.4% year-over-year as of 2021 Q4 (October 23), the highest growth in a decade. Of 390 metro areas,128 markets had at least 10% year-over-year rent growth.

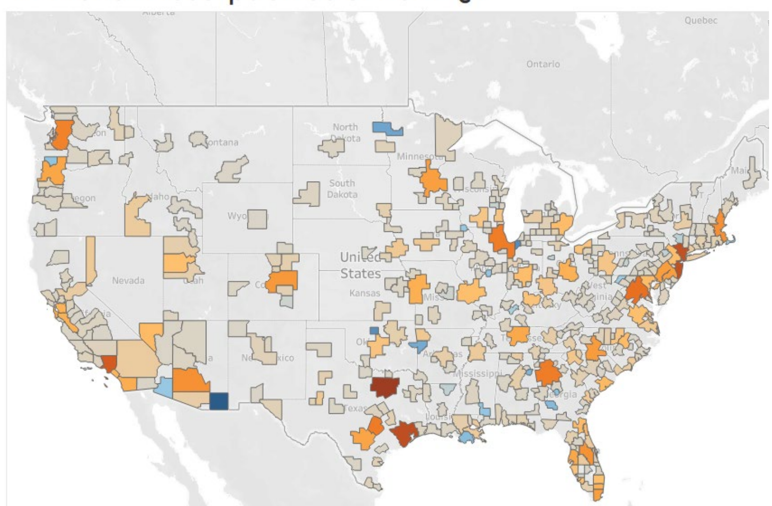
Metro areas in the South region are experiencing the fastest rent growth, mainly metro areas in Florida, Texas, North Carolina, South Carolina, Georgia, and Alabama. In the West region, rents are rising fast in the some metro areas of California, Nevada, Arizona, Utah, and Washington. Rising rents signals a need for more rental housing construction in these markets.

Y/Y Percent Change in Average Asking Rent Growth for Multifamily Units as of 2021 Q4 (October 23)



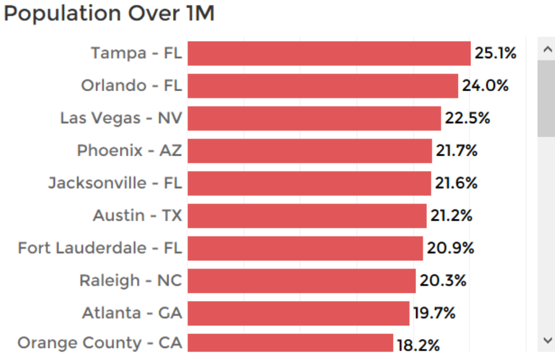
Source: NAR analysis of CoStar data

12-Month Absorption as of 2021 Q4

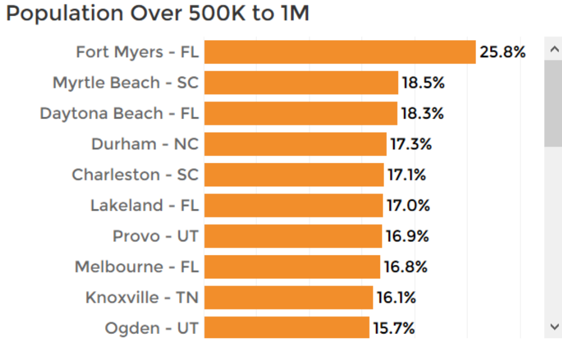


Y/Y Asking Rent Growth as of 2021 Q4 (October 23)

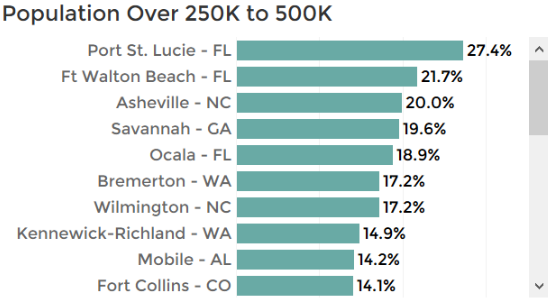
Population Over 1M



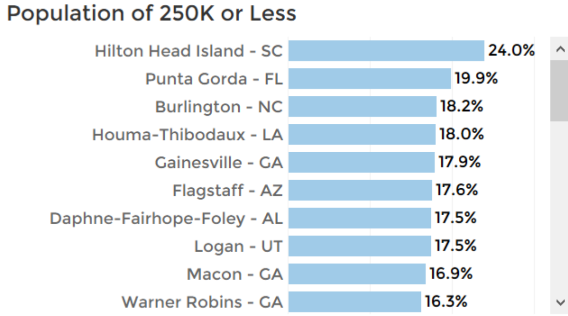
Population Over 500K to 1M



Population Over 250K to 500K



Population of 250K or Less



Source: NAR analysis of CoStar data

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Multifamily

Investment opportunities due to low vacancy rates and high rent

As of 2021 Q3, the median sale transaction cap rate fell further to 5% compared to 5.7% in 2021 Q1 (pre-pandemic). The 0.7 percentage point decline is higher than the decline in the 10-year T-note yield from 1.38% in 2020 Q1 to 1.32% as of 2021 Q3. This indicates that the fundamentals in the multifamily market (strong demand) are driving the decline in cap rates.

However, there are still many metro areas that are good investment opportunities because rents are rising, vacancy is low, and cap rates are still higher than the national average. As of 2021 Q3, the metro areas with the highest cap rates were Lincoln Nebraska, El Paso Texas, and Detroit Michigan. High cap rates mean low prices to acquire the prices. These three metro areas have vacancy rates of less than 5% and rent growth of over 7%.

Median Cap Rate from 2011 Q1 to 2021 Q3

Source: NAR analysis of CoStar data

Where can investors find profitable deals? (data as of 2021 Q3)

	Y/Y Market Asking Rent Growth	Vacancy Rate	Cap Rate
Lincoln - NE	7.2%	2.7%	10.8%
El Paso - TX	11.8%	2.8%	10.5%
Detroit - MI	7.7%	4.5%	9.7%
Manchester - NH	13.7%	1.4%	9.4%
Akron - OH	6.0%	3.4%	9.0%
Albany - NY	5.3%	2.4%	8.8%
Louisville - KY	6.1%	5.9%	8.7%
Poughkeepsie - NY	6.6%	3.3%	8.5%
Baltimore - MD	11.5%	3.5%	8.5%
Saint Louis - MO	7.1%	6.4%	8.4%
Lehigh Valley - PA	11.5%	1.4%	8.4%
Daytona Beach - FL	16.5%	3.9%	8.2%
Memphis - TN	11.8%	9.3%	8.1%
Portland - ME	6.7%	2.9%	8.1%
Cincinnati - OH	7.0%	3.9%	8.0%
Dayton - OH	7.4%	4.3%	8.0%
Trenton - NJ	9.1%	3.9%	7.9%
Toledo - OH	8.5%	3.8%	7.8%
Hartford - CT	6.9%	3.3%	7.7%
South Bend - IN	10.8%	7.3%	7.5%
Pittsburgh - PA	5.6%	4.0%	7.5%

Source: NAR analysis of CoStar data. Metro areas with at a population of at least 250,000. Vacancy rates of 10% or lower, y/y asking rent growth of at least 5%, and a cap rate of at least 5%.

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Office

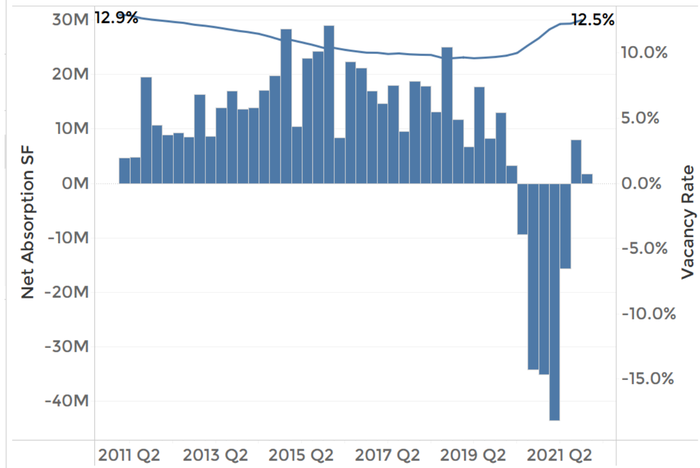
Positive net absorption since 2021 Q3 but still a long recovery

The net positive absorption of office space in the second quarter (7.95 million sq. ft.) was followed by another 1.8 million square feet of office space in the past three months as of October 23. Absorption, while positive, was more modest as the surge in Delta variant cases during the July through September pushed back the return to work schedules of companies, including major tech companies like Apple®, Google® Facebook®, and Salesforce®. Google® expects 20% of its employees to work from home permanently, while Salesforce® expects the majority to work from home permanently.[1]

However, since 2020 Q2, office occupancy is still down on a net basis by 128.4 million square feet, with losses in New York, Washington, DC, Chicago, San Francisco, Los Angeles, and Boston. Minneapolis has also suffered a heavy decline in office occupancy, even more than Boston or Seattle.

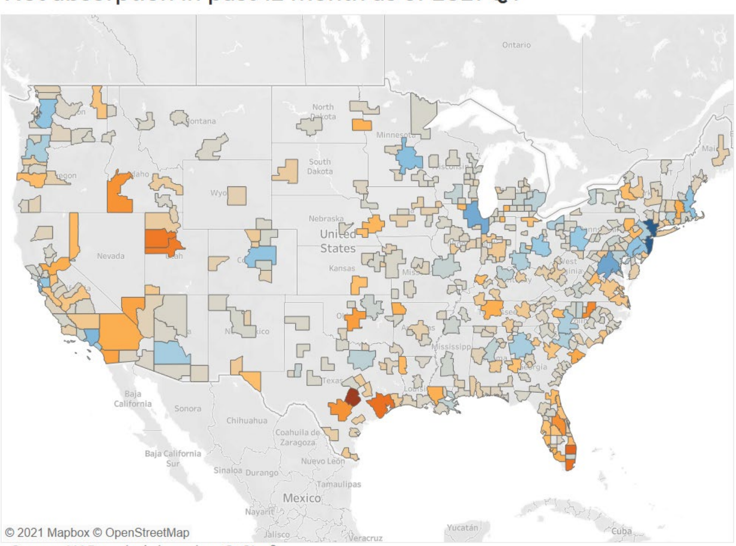
On the other hand, secondary metros such as Austin, Palm Beach, Houston, Miami, Salt Lake City and Provo each absorbed more than 1 million square feet of office space.

Net Absorption of Office Space in Million Square Feet during 2011 Q1 to 2021 Q4 (as of October 23)



Source: NAR analysis of CoStar data

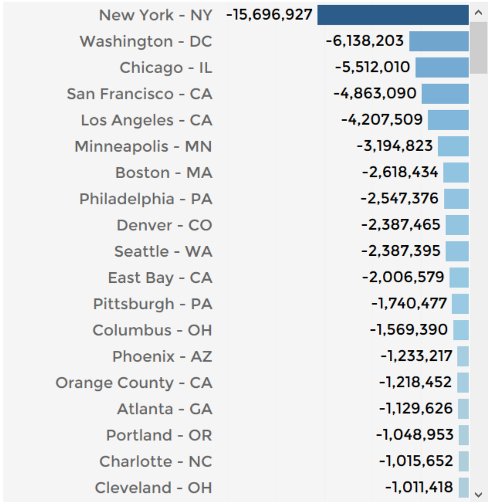
Net absorption in past 12 month as of 2021 Q4



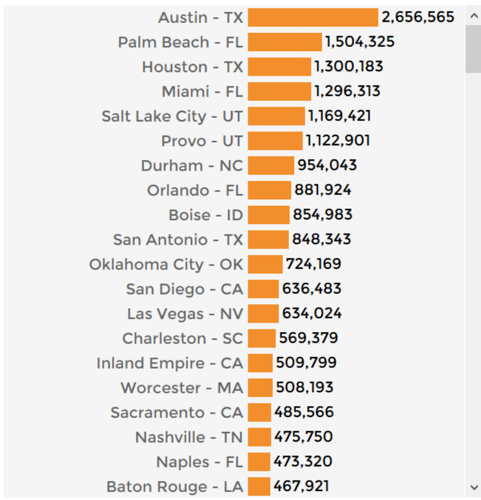
Source: NAR analysis based on CoStar®

12-Month Net Absorption of Office Space as of 2021 Q4 (as of October 23)

Negative Net Absorption



Positive Net Absorption



Source: NAR analysis of CoStar data

1 Cupertino Today, https://cupertinotoday.com/2021/08/25/tech-companies-push-back-return-to-work-targets-to-2022-bay-area-vaccine-mandates-continue/

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Office

Office rents are rising in secondary/tertiary markets

With rising occupancy, office rents are rising in 97% of 390 markets tracked by CoStar®. On average, office rents were unchanged in 2021 Q4 compared to one year ago after declining 2% year-over-year in 2021 Q1.

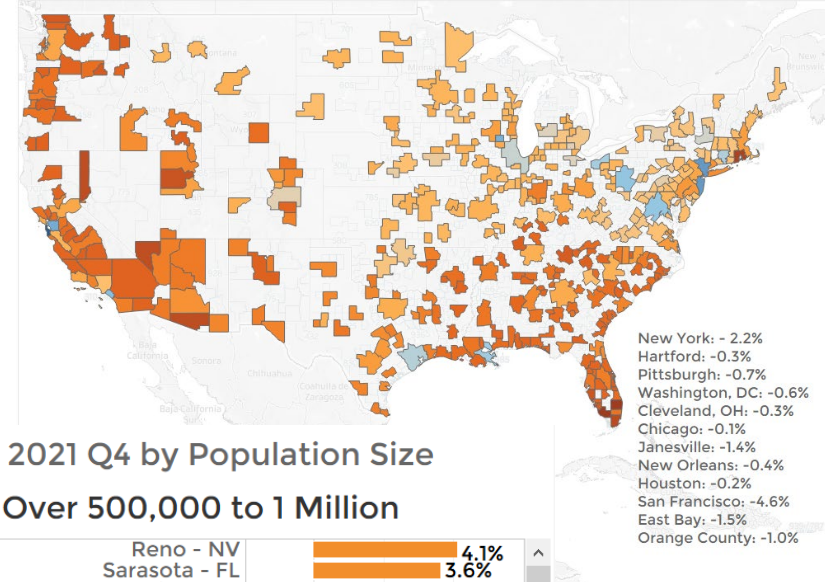
Office rents are down as of 2021 Q4 on a year-over-year basis in only 12 markets that includes the gateway metros of San Francisco (-4.6%), New York (-2.2%), Washington, DC (-0.6%) , and Chicago (-0.1%). Higher demand from more workers returning to the office in 2022 will push up rent growth to positive territory in 2022.

Meanwhile, office rents are up across other markets, with the highest rent growth in metro areas in Florida (Palm Beach, Naples, Miami), Arizona (Tucson), Nevada (Las Vegas, Reno),   (5.1%), and Utah (Salt Lake City).

Year-over-Year Percent Change in Office Asking Rent during 2011 Q1 to 2021 Q4 (October 23)

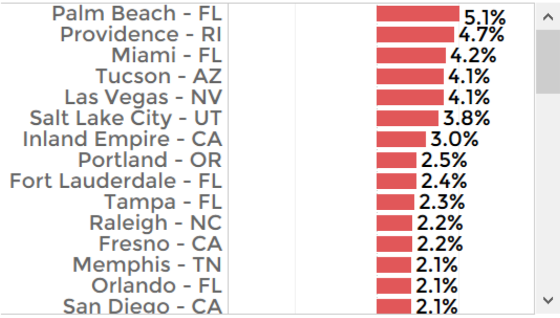
Source: NAR analysis of CoStar data

Office asking rent growth as of 2021 Q4 (October 23)

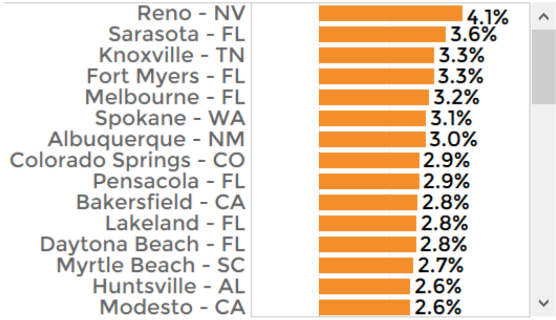


Average Office Rent Growth in 2021 Q4 by Population Size

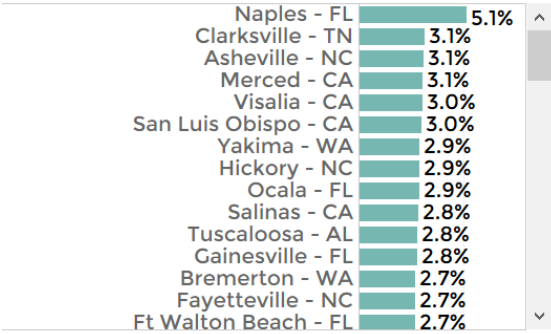
Over 1 Million



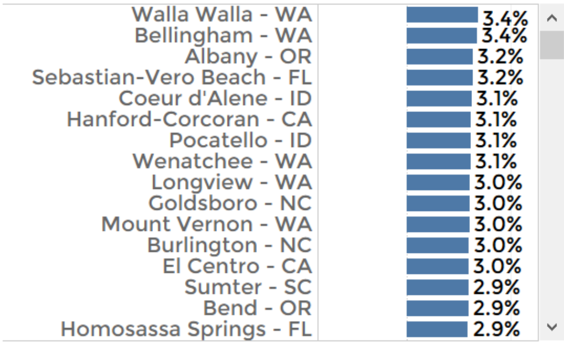
Over 500,000 to 1 Million



Over 250,000 to 500,000



Up to 250,000



Source: NAR analysis of CoStar data

NATIONAL ASSOCIATION OF REALTORS®

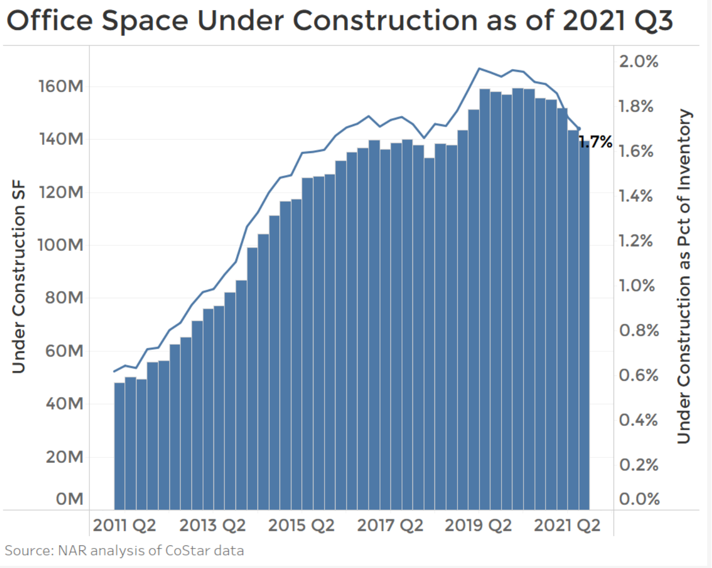
Office

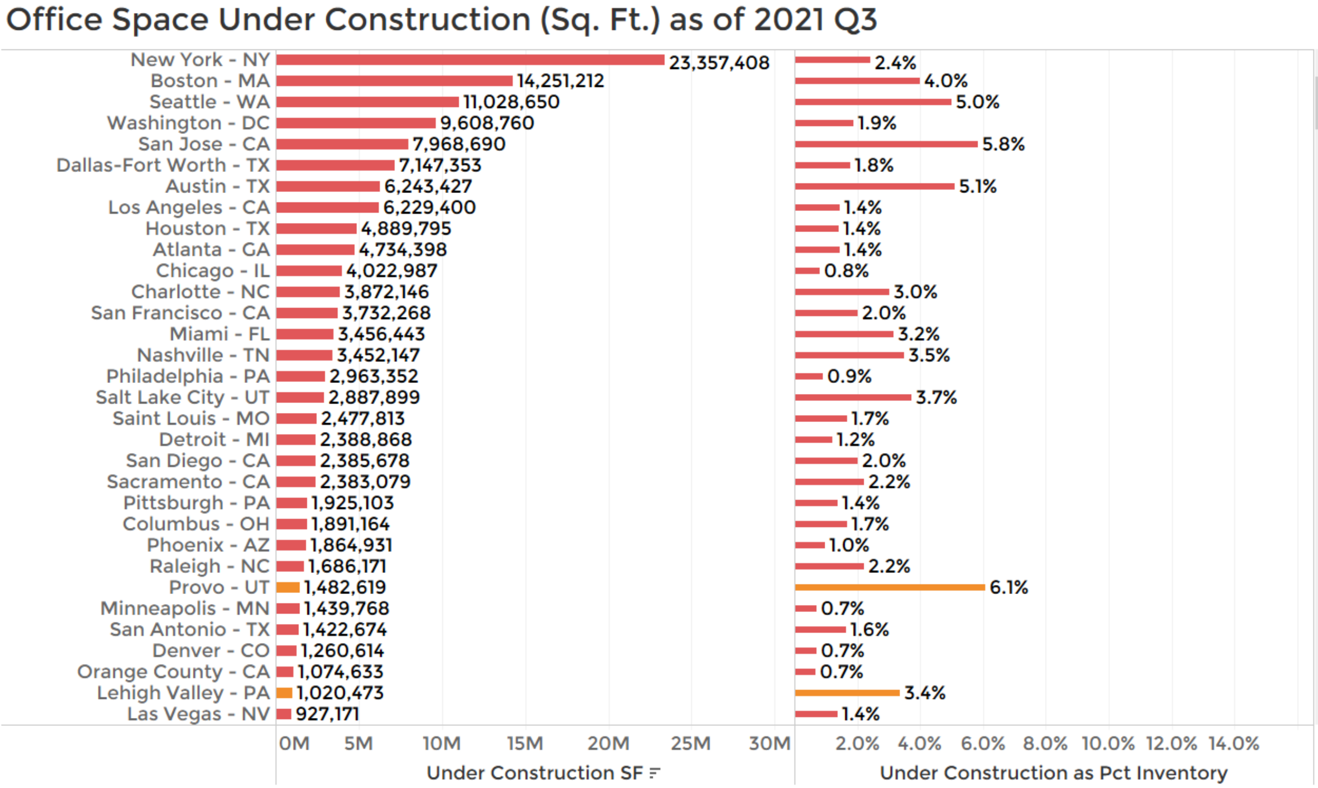
Construction of office space will add to office vacancy

As of the third quarter of 2021, 139.7 million square feet of office space is under construction, equivalent to 1.7% of the existing office space, adding to the current stock of vacant office space equivalent to 12.5%.

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 Seattle, the incoming supply amounts to about 5% to 6% of the current inventory of office space.

Considering the current vacancy rates and the ongoing construction of office space, expect rent growth to remain flat in the primary gateway cities to no more than 2% and vacancy rates to remain at over 10% in 2022.





Source: NAR analysis of CoStar data

Industrial

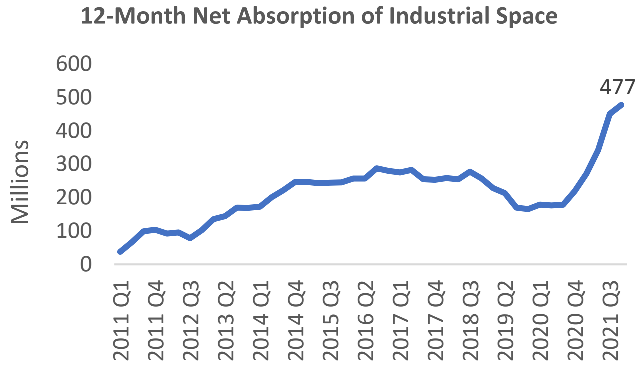
Absorption and asking rents trend upward to new heights

The industrial CRE market saw the continuance of its unprecedented demand and fundamentals as net absorption of industrial spaced reached its highest level in more than a decade, with net absorption of 476,966,688 square feet in the past 12 months as of October 26, 2021. Preceding the pandemic, the 12-month net absorption was just short of 180 million square feet (msf).

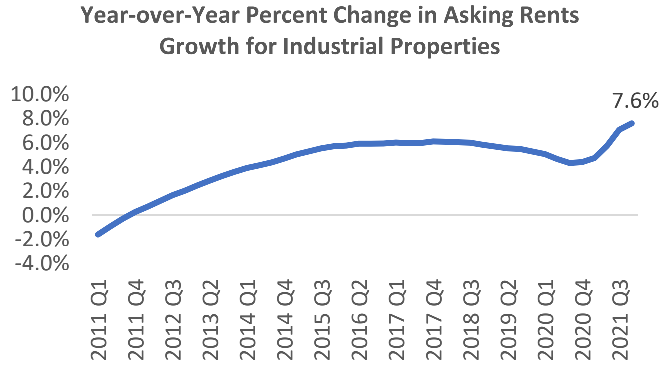
At this point in 2021 Q4, the top markets by net absorption were Dallas, Atlanta, Inland Empire, Chicago and Houston. With respect to pre-pandemic figures, the top the five industrial markets by net absorption are the same as prior to the pandemic given industrials strong demand and fundaments.

On average, asking rents were up 7.6% year-over-year. Of these, almost half or 192 metros saw at least 7% year-over-year rent growth.

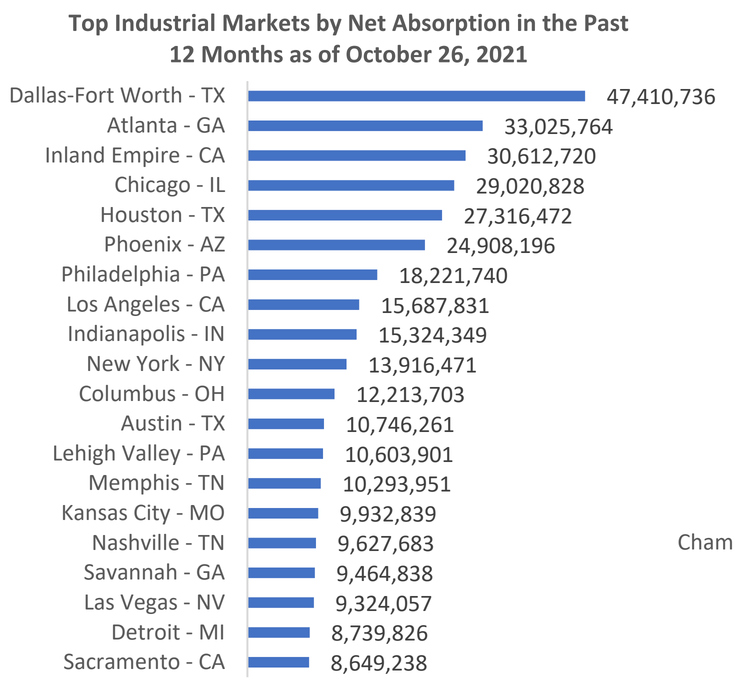
Interestingly, of the top 10 metro areas with the highest rent growth, two were in Florida and two were in Georgia. The majority of the metro areas with the highest rent growth were in the Southern or Western states.



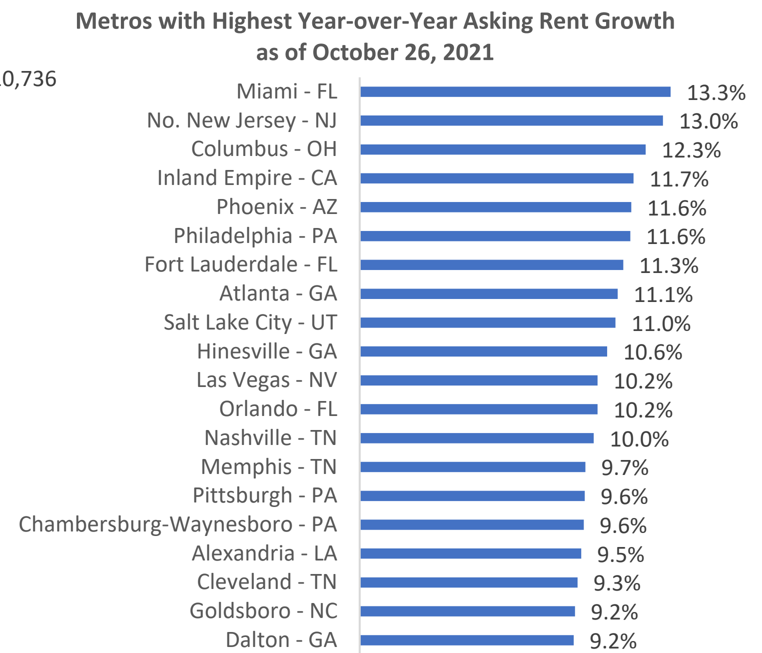
Source: NAR analysis of CoStar data



Source: NAR analysis of CoStar data



Source: NAR analysis of CoStar data



Source: NAR analysis of CoStar data

NATIONAL ASSOCIATION OF REALTORS®

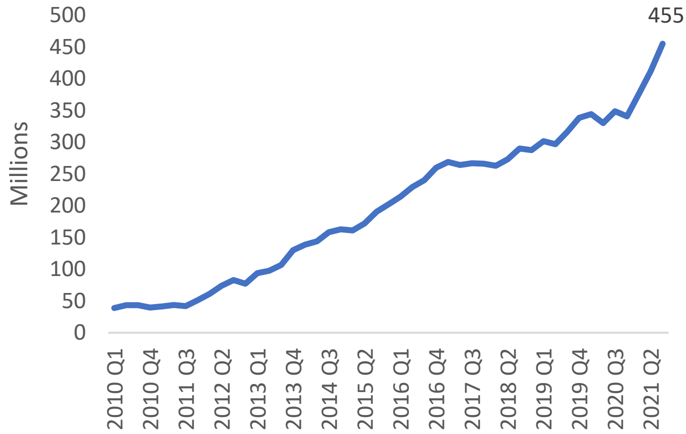
Industrial

DFW, Phoenix, Atlanta are leading the industrial development

Rents have reached new heights as a result of fierce competition for industrial space. As of Q3 2021, there was more than 455 msf of industrial space under construction, according to CoStar® data. Prior to the pandemic, there was more than 344 msf of industrial space under construction.

At the metro level, the most construction activity was seen in Dallas-Forth Worth, Phoenix, Atlanta, Inland Empire, Chicago and Philadelphia. Most construction activity is occurring in the Southern states (Texas, Georgia, Tennessee, Virginia) and in the Western states (Arizona, California, Washington, Utah) as well as in the Midwestern states (Illinois, Ohio, Indiana, Missouri).

Industrial Space Under Construction as of Q3 2021



Source: NAR analysis of CoStar data

Industrial Space Under Construction as of Q3 2021

Source: NAR analysis of CoStar data

NATIONAL ASSOCIATION OF REALTORS®

Retail

Increased retail sales support the demand for retail properties

Momentum originating from the increase in retail sales driven by the easing of pandemic-related restrictions, stimulus, vaccinations seen earlier in the year continues to have a positive effect on the retail CRE market as demand for retail real estate grows despite the Delta variant. The continuing upward trend in consumer spending is echoed by the increase in demand for retail space. Net absorption of retail space in the past 12 months as of October 26, 2021, 75 msf, is the highest it has been since Q3 2018. Absorption was positive in 317 of the 390 markets covered by CoStar®.

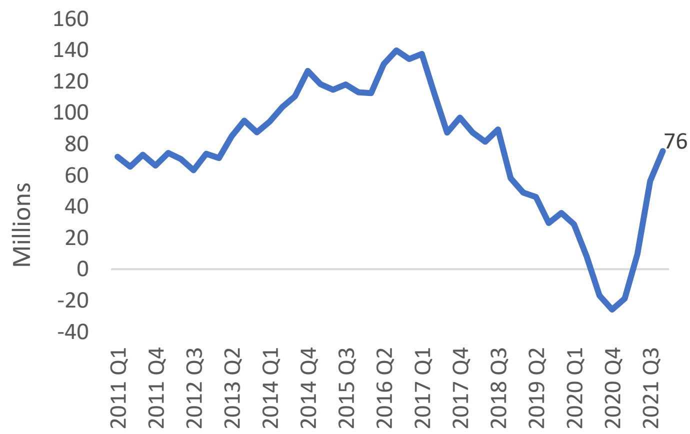
According to CoStar® data, of the 317 metros with positive absorption, the top markets by 12- month net absorption were Houston-TX, Dallas-Fort Worth-TX, Atlanta-GA, Chicago-Il, Inland Empire-CA and New York-NY while the most space returned to the market was by East Bay-CA, Knoxville-TN, Wausau-WI and San Jose-CA.

After having more space delivered than was absorbed last year, the increase in demand for retail space this year was greeted with a decline in net delivery growth in Q3 2021 to 32 msf. But, new supply growth has already exceeded the Q3 2021 level as of October 26 by more than 1 msf.

Increasing absorption coupled with the slackening of net deliveries brought about a decrease in the national vacancy rate from 5.0% in Q2 2021 to 4.8% in Q3 2021 and towards 4.7% in Q4 2021 thus far.

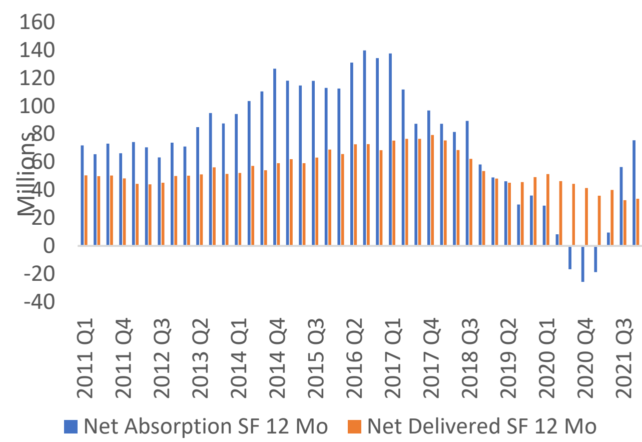
On average, as of October 26, 2021, asking rents were up 2.7% towards $22.45 sf as rents continue to trend upward. Of the 390 metro areas covered, 98% of metros saw positive year-over-year growth in asking rents which was led by Tulsa-OK, Akron-OH, Atlanta-GA, Las Vegas-NV and Jacksonville-FL at 8.1%, 8.0%, 7.9%, 7.7%, and 7.4% respectively.

12-Month Net Absorption of Retail Space



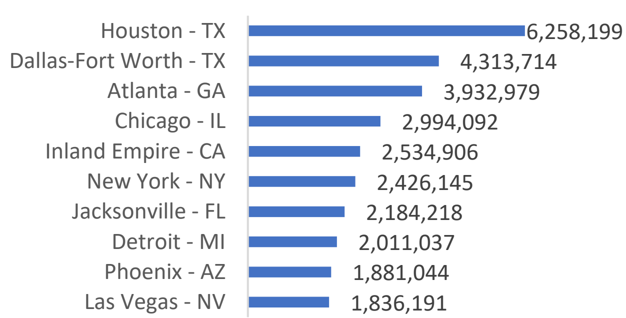
Source: NAR analysis of CoStar data

Retail Space Demand and Deliveries



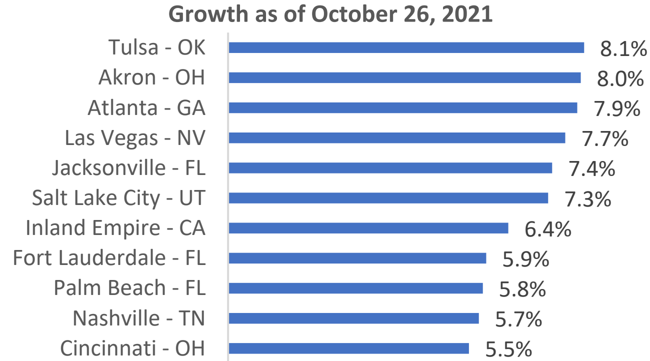
Source: NAR analysis of CoStar data

Retail Markets by 12-Month Net Absorption as of October 26, 2021



Source: NAR analysis of CoStar data

Metros with Highest Retail Year-over-Year Rent Growth as of October 26, 2021



Source: NAR analysis of CoStar data

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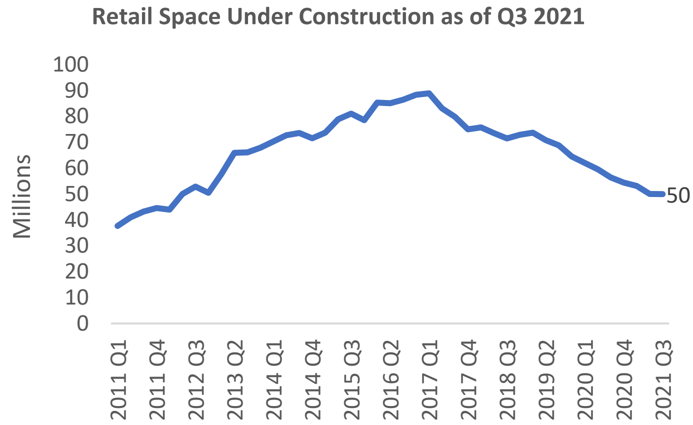
Retail

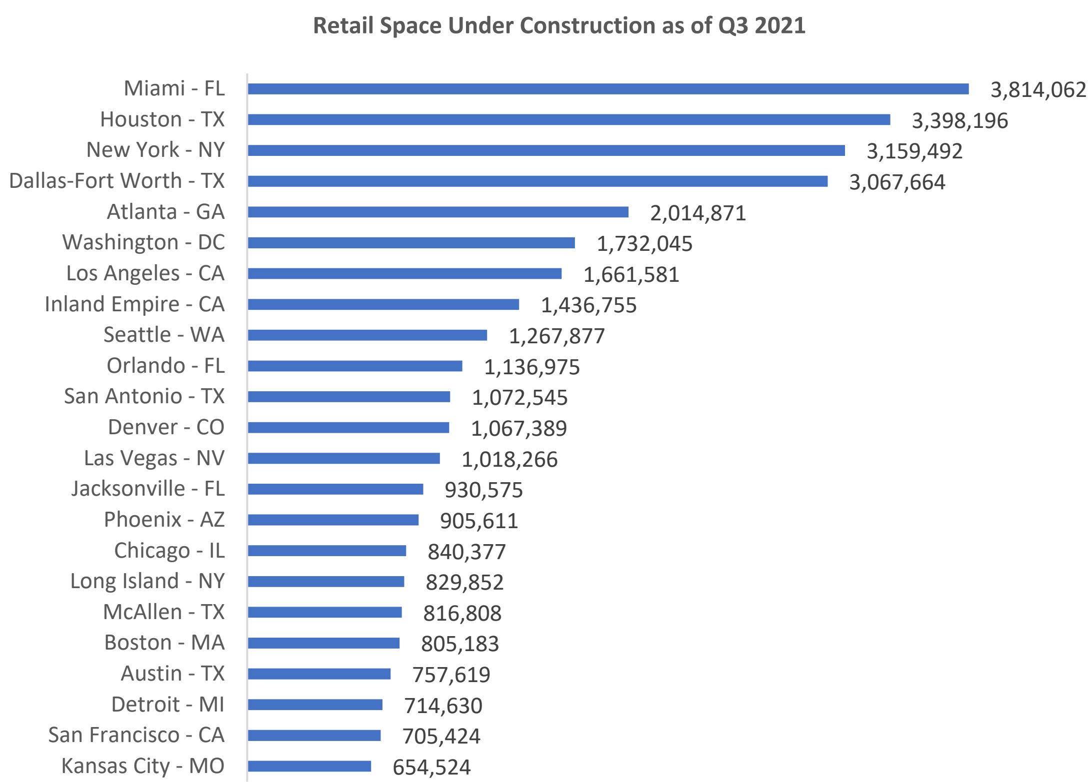
Construction activity continues downward trend in Q3 2021

Retail construction activity was down from the previous quarter as of Q3 2021. Retail buildings under construction totaled 2,384 where total square footage was 49 msf. Q3 2021's 49 msf is the lowest under construction since Q1 2012 as retail construction continues the downward trajectory its been on since Q2 2019.

At the metro level, the most construction activity was seen in Miami-FL, Houston-TX, New York-NY, Dallas-Fort Worth-TX, Atlanta-GA, Washington-DC, Los Angeles-CA, Inland Empire-CA, Seattle-WA and Orlando-FL as developers remain optimistic on the long-term prospects of the gateway cities. The majority of retail construction activity is taking place in the Southern states (Florida, Texas, Georgia) and in the Northern (New York, DC) and in the West states (California, Washington).



Source: NAR analysis of CoStar data



Source: NAR analysis of CoStar data

Hotel

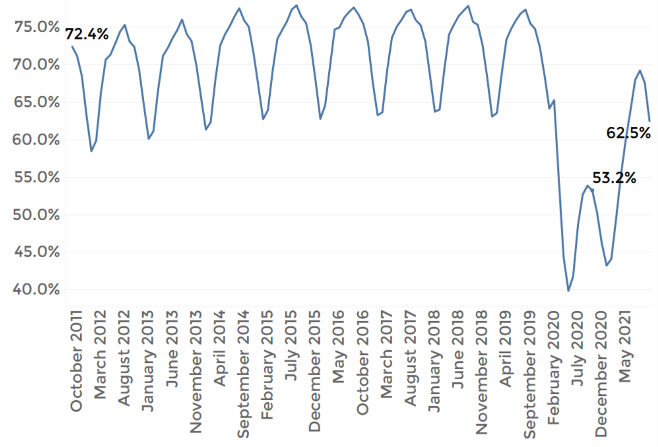
Occupancy and revenues are above pre-pandemic levels

Hotel occupancy and revenues are higher now compared to pre-pandemic levels although the surge in Delta variant cases during the summer held back somewhat the recovery. The average 3-month hotel vacancy rate during October was 62.5%, up from 55.3% in the same period one year ago. There's usually a 2 percentage point decline in hotel occupancy rates from the peak in August to October, but this year, the occupancy rate declined by four percentage points from August's 69.2% hotel occupancy rate, according to NAR's analysis of CoStar/STR data.

The hotel industry's revenue metrics— average daily rate (ADR) and revenue per available room (RevPAR) — also improved in the past three months ended October compared to one yea ago. RevPAR rose to $126, or double the $61/room rate one year ago.

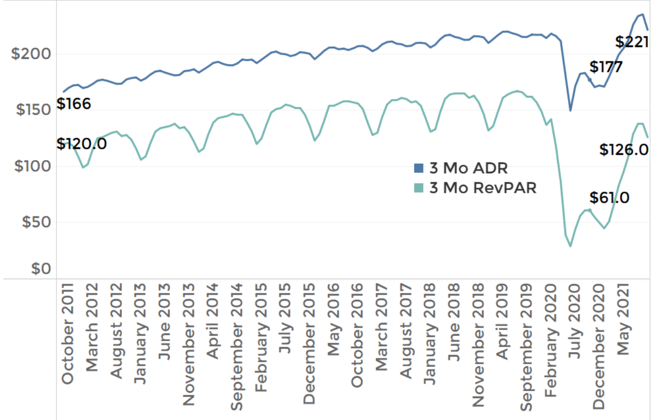
As of September, hotel construction has slowed to 169,097 as rooms compared to a peak of about 220,000 rooms one year ago. Hotel construction in New York still dominates, with construction of nearly 18,000 rooms, followed by Los Angeles, Atlanta, Nashville, and Miami. Use of hotels for business conferences will likely pick up as business-related and in-bound international travels pick up in 2022.

3-Month Hotel Occupancy Rate as of October 2021



Source: NAR analysis of CoStar data

3-Month Average Daily Rate and Revenue Per Available Room as of October 2021

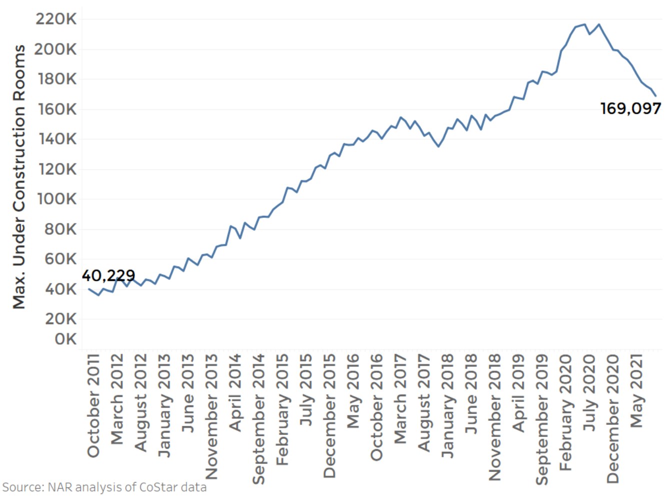


Source: NAR analysis of CoStar data

Rooms Under Construction as of September 2021	
New York - NY	17,820
Los Angeles - CA	5,861
Atlanta - GA	5,790
Nashville - TN	5,266
Miami - FL	4,898
Dallas - TX	4,825
Las Vegas - NV	4,700
Austin - TX	3,975
Orlando - FL	3,736
Inland Empire - CA	3,685
Washington - DC	3,453
Denver - CO	3,276
Fort Worth/Arlington - TX	3,220
Phoenix - AZ	3,100
Detroit - MI	2,954
Houston - TX	2,863
North Carolina West	2,360
San Jose/Santa Cruz - CA	2,310
Texas West	2,255
Chicago - IL	2,185

Source: NAR analysis of CoStar data

Rooms Under Construction as of September 2021



Source: NAR analysis of CoStar data

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October 2021

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