Commercial Market Insights

January 2022

National Association of REALTORS® Research Group

NATIONAL ASSOCIATION OF REALTORS®

Summary

The recovery in the commercial real estate market that started in the second half of 2021 is continuing into the first month of 2022. All core commercial sectors —multifamily, office, industrial, and retail —experienced net positive absorption during last quarter of 2021 through January. As such, rents continue to rise and vacancy rates continue to trending downwards except in the office market.

In the multifamily market, the asking rents rose at an average year-over-year rate of 11.3% in the past 12 months as of January . Asking rents for industrial properties also continued to rise steeply at 8.9%. Asking rents for retail properties were also up over the past 12 months by 3.5% on average. In the office property market, asking rents are up on average by 1% year-over-year in the past 12 months, weighed down by declining rents in a few markets in major metro areas of New York, Washington DC, and San Francisco. However, office rents are rising in nearly all markets.

The office property market continues to grapple with an elevated vacancy rate of 12.4%. But in the multifamily, industrial, and retail property market, vacancy rates are hovering at below 5%, with the lowest vacancy rate in the industrial market at 4.4%. In the hotel sector, the occupancy rate rose to 58% in December 2021, up from 42% one year ago.

While demand for multifamily units is strong, absorption appears to have started to wane. In the 12 months ended January 26, net absorption was at 600,251 units, a slower pace compared to the 12-month absorption of 709,000. Demand could be waning due to the sharp uptick in asking rents. Additionally, renters who left their apartments in the wake of the pandemic have already moved back, while many workers are back to the office. According to the US Census Bureau, just 19% of workers in management/professional/administrative office support worked from home during the work in December 2021, down from 54% in May 2020.

Developers continue to bet their dollars on the primary markets of New York, Washington DC, Boston, Chicago, Los Angeles and San Francisco, given the construction activity in these markets. However, construction activity across multifamily, office, industrial, and retail markets is more intensely happening in the metro areas of Florida, South Carolina, North Carolina, Georgia, Alabama, Texas, Tennessee, Texas, and Arizona, Utah, Idaho, and Washington. Not a surprise as employment is growing fast in these areas and given the net domestic migration in many of these states.

This month's issue also includes the results of NAR's Quarterly Market Survey that asks REALTORS® what they are observing in their markets relative to pre-pandemic conditions. The 2021 Q4 survey reveals fewer tenants with missed rents, a majority of companies offering hybrid work schedules, companies moving into smaller offices, shorter term leases, investments in workplace sanitation, and more conversion of vacant malls. Among the respondents, 63% reported that they are seeing more companies leasing smaller offices, 57% reported they are seeing more short-term leases of two years or less, and 58% reported they are seeing more conversions of vacant retail malls for other uses.

Enjoy this month's issue!

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Economic Conditions

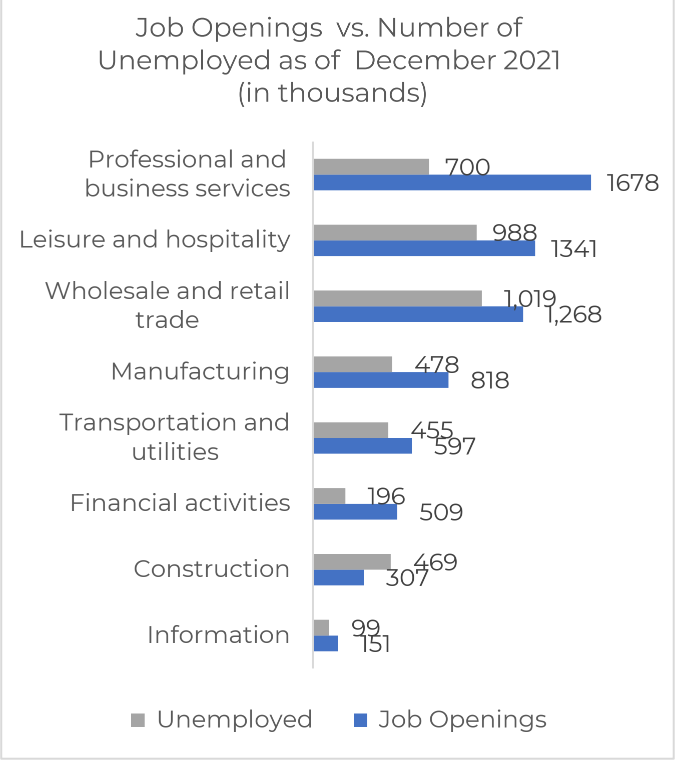
Tightening labor market and rising inflation

18.8 million jobs created since May 2020

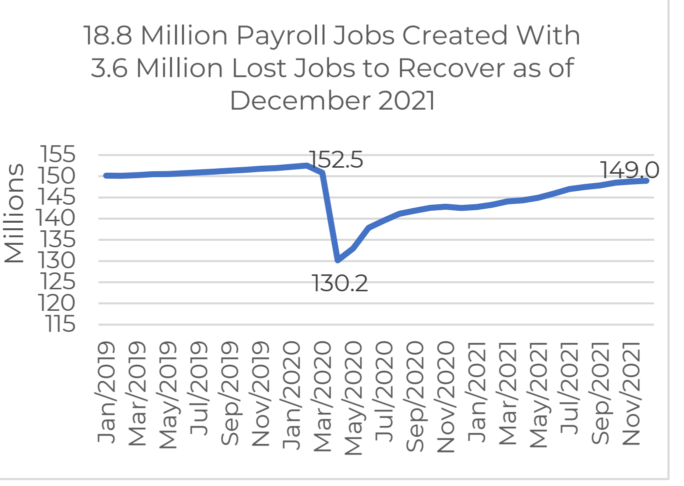
As of December 2021, the economy has created 18.8 million net new jobs, or 84% of the 22.4 million jobs lost during March and April 2020. There are nearly 3.6 million nonfarm payroll jobs still to be recovered.

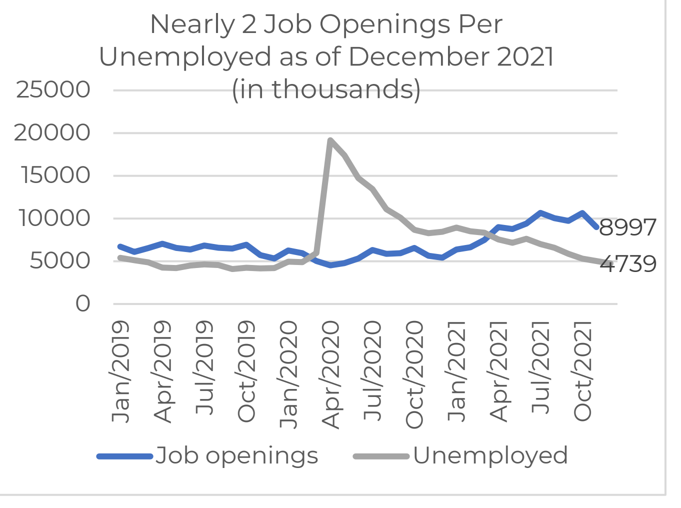
As of the end of December, there were about 5 million more job openings than job seekers, or nearly 2 jobs openings per job seeker.

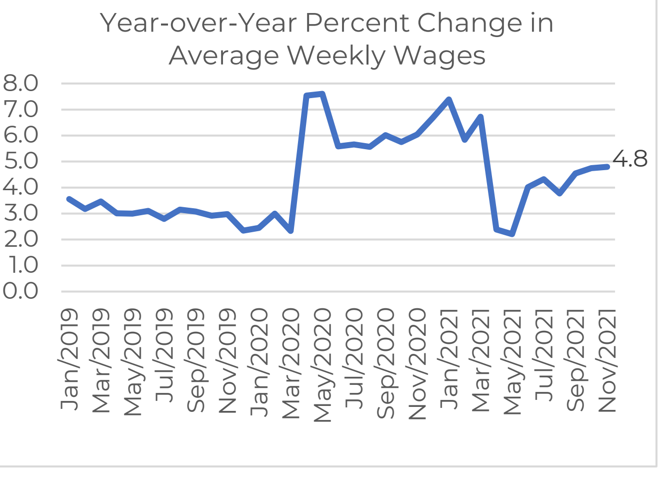
With tightening labor market conditions, the average weekly wage rose 4.9% on a year-over-year basis in December 2021.



Source: BLS Establishment Survey







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Economic Conditions

Tightening labor market and rising inflation

Six states and 35% of 401 metro areas have higher employment as of December compared to February 2020

As of December, six states have more nonfarm employment compared to March 2020: Utah (+4%), Idaho (+2.3%), Arizona (+1.1%), Montana (+0.1%), Texas (+1.2%), and Georgia (0.2%).

By metro area, 142 markets, or 35% of 401 markets, have surpassed the level of nonfarm employment compared to February 2020. The job leaders are Salt Lake City, Tampa-St. Petersburg-Clearwater, Provo-Orem, Jacksonville, San Antonio, Nashville, Atlanta, Kansas City. Fayetteville, and Ogden.

The gateway metro areas of New York-Newark-Jersey City, Los Angeles-Long-Beach-Anaheim, San Francisco-Oakland-Hayward, and Chicago-Naperville-Elgin have lost the most jobs, each at over 100,000.

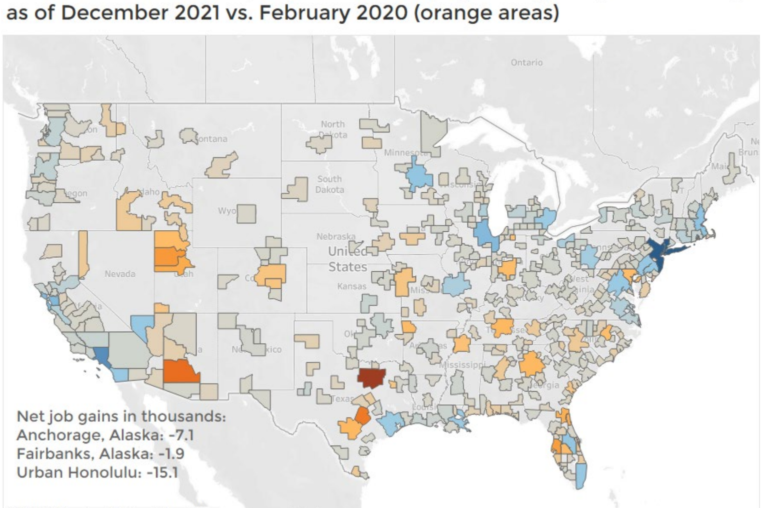
Highest net job gains ('000)

Salt Lake City, UT	33.3
Tampa-St. Petersburg-Clearwater, FL	30.1
Provo-Orem, UT	22.8
Jacksonville, FL	20.5
San Antonio-New Braunfels, TX	15.0
Nashville-Davidson-Murfreesboro-Fran..	14.8
Atlanta-Sandy Springs-Roswell, GA	14.8
Kansas City, MO-KS	13.2
Fayetteville-Springdale-Rogers, AR-MO	12.9
Ogden-Clearfield, UT	12.8
Lakeland-Winter Haven, FL	12.2
Baltimore City MD	12.1
Indianapolis-Carmel-Anderson, IN	11.7
Raleigh, NC	11.7
Elkhart-Goshen, IN	9.5
Memphis, TN-MS-AR	9.4
Denver-Aurora-Lakewood, CO	8.2
Colorado Springs, CO	8.1
St. George, UT	7.8
Savannah, GA	7.8
Tyler, TX	7.4
Logan, UT-ID	5.8

Highest net job losses ('000)

New York-Newark-Jersey City, NY-NJ-PA	-504.2
New York City NY	-329.6
Los Angeles-Long Beach-Anaheim, CA	-287.8
San Francisco-Oakland-Hayward, CA	-123.8
Chicago-Naperville-Elgin, IL-IN-WI	-123.1
Boston-Cambridge-Nashua, MA-NH Metro NECTA	-79.5
Minneapolis-St. Paul-Bloomington, MN-WI	-73.8
Orlando-Kissimmee-Sanford, FL	-68.7
Miami-Fort Lauderdale-West Palm Beach, FL	-62.1
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	-58.6
Las Vegas-Henderson-Paradise, NV	-58.2
San Diego-Carlsbad, CA	-58.1
Washington-Arlington-Alexandria, DC-VA-MD-WV	-52.5
Philadelphia City, PA	-50.8
New Orleans-Metairie, LA	-48.8
Detroit-Warren-Dearborn, MI	-48.4
Houston-The Woodlands-Sugar Land, TX	-44.7
Urban Honolulu, HI	-44.6
Bergen-Hudson-Passaic, NJ	-40.5
Pittsburgh, PA	-39.3
St. Louis, MO-IL	-34.1
Cleveland-Elyria, OH	-33.0
Putnam-Rockland-Westchester, NY	-31.9
Milwaukee-Waukesha-West Allis, WI	-28.6

142 of 401 metro areas (35%) have net employment gains (in thousands) as of December 2021 vs. February 2020 (orange areas)



Source: Bureau of Labor Statistics

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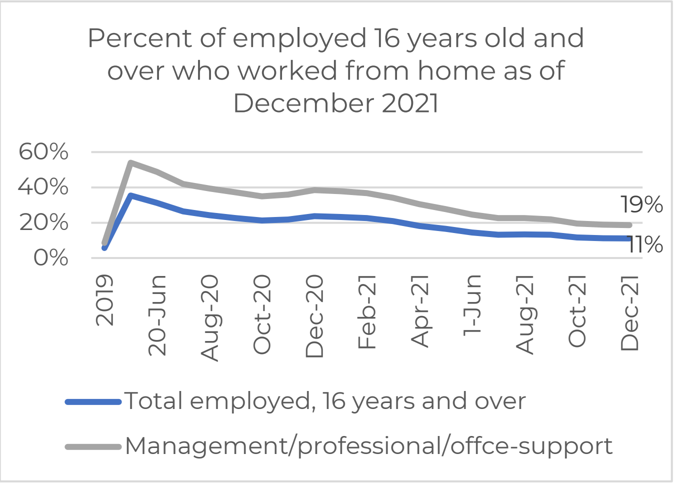
Economic Conditions

Tightening labor market and rising inflation

Fraction of workers working from home declines to 11%

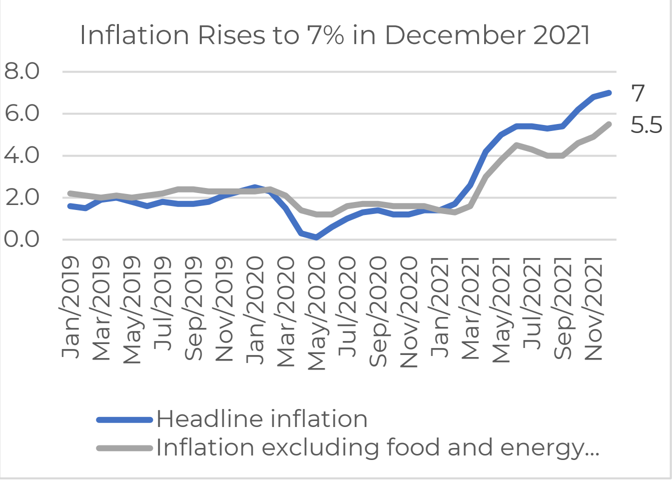
Workers are returning to the office, with 11.3% of employed workers 16 years old and over teleworking, down from 35.4% in May 2020. Among management, professional, and related occupations, just 20.4% are teleworking, down from 57.4% in May 2020. As of November, 17.5 million people teleworked, up from 8.9 million in 2019 who worked from home, but down from 48.7 million in May 2020. With the rise in Delta variant and Omicron cases, tech, finance, and media companies such as Apple®, Alphabet®, Uber®, Lyft®, Blackstone, Carlyle, CNN, and NBC, have announced delaying their office re-entry schedules.



Source: BLS COVID-19 Supplemental Survey

Inflation accelerates to 7% in December

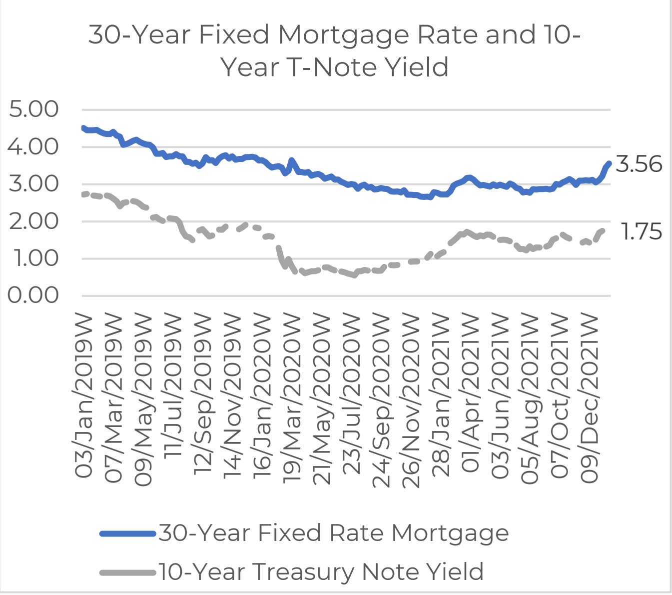
Inflation accelerated to 7% in December as core inflation (inflation excluding food and energy) also accelerated to 5.5%, indicating inflation is becoming persistent. In its January 26 meeting, the Federal Open Market Committee stated it will end its asset purchases program in March and expects to raise the federal funds rate target "soon" which it kept at 0 to 0.25% in the January 26 meeting to bring back inflation to 2%.



Source: US Bureau of Labor Statistics

10-year T-Note rises to 1.75%

As of January 20, the 10-year T-note yield has increased to 1.75% while the 30-year fixed mortgage rate was has increased to 3.56%. Higher mortgage rates will make a home purchase less affordable for buyers at the margin, although the expectation of higher mortgage rates in 2023 could spur buyers to lock in at the current rates.

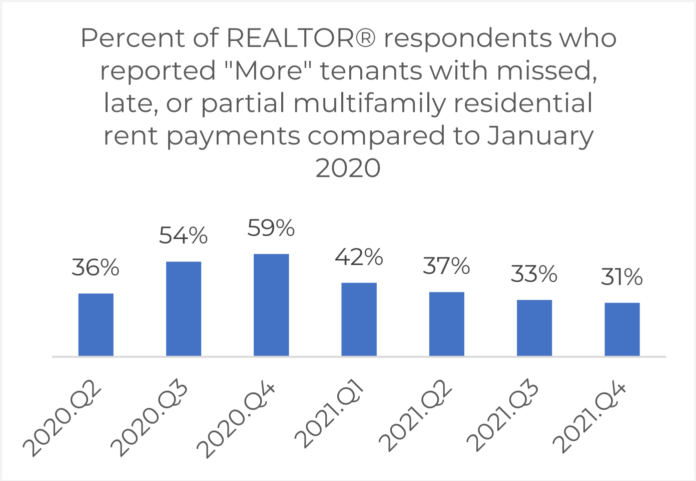


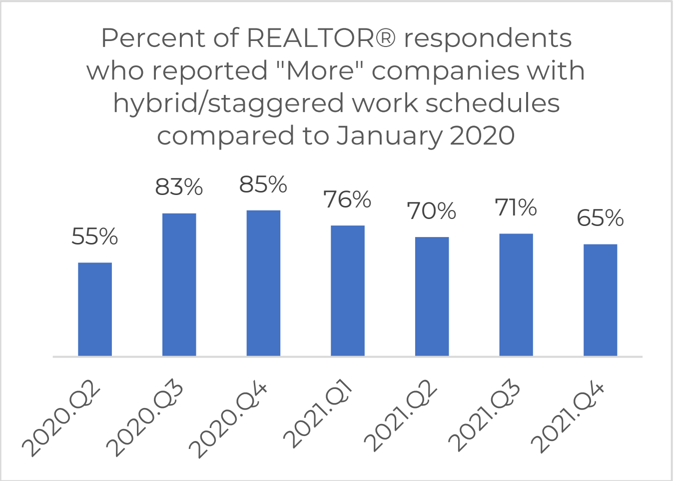
Source: Freddie Mac, US Treasury

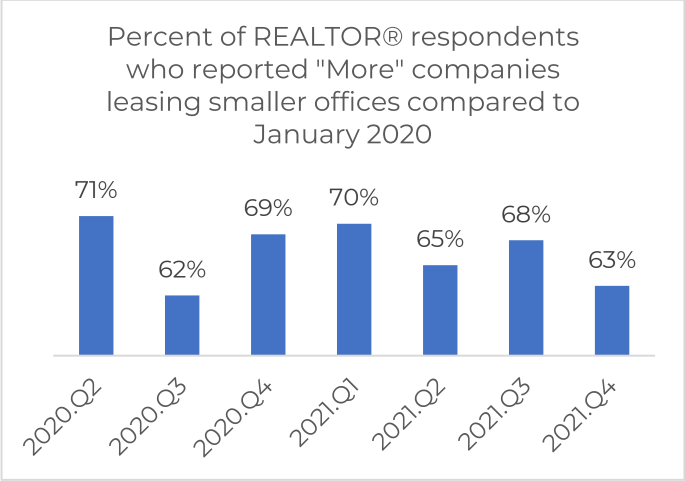
NATIONAL ASSOCIATION OF REALTORS®

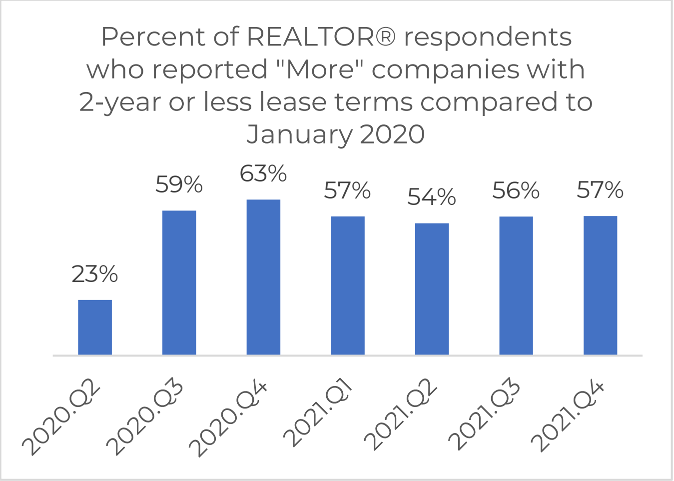
REALTOR® Quarterly Market Survey: Improving rental conditions, smaller offices, shorter leases, more investment to improve hygiene, more adaptive reuse

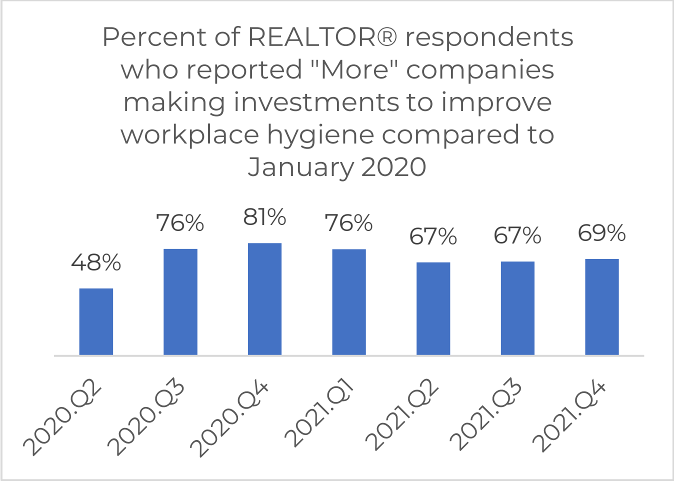
Every quarter, the National Association of REALTORS® conducts a quarterly market survey of its members engaged in commercial real estate. The 2021 Q4 survey reveals fewer tenants with missed rents, majority of companies offering hybrid work schedules, companies moving into smaller offices, shorter term leases, investments in workplace sanitation, and more conversion of vacant malls, .

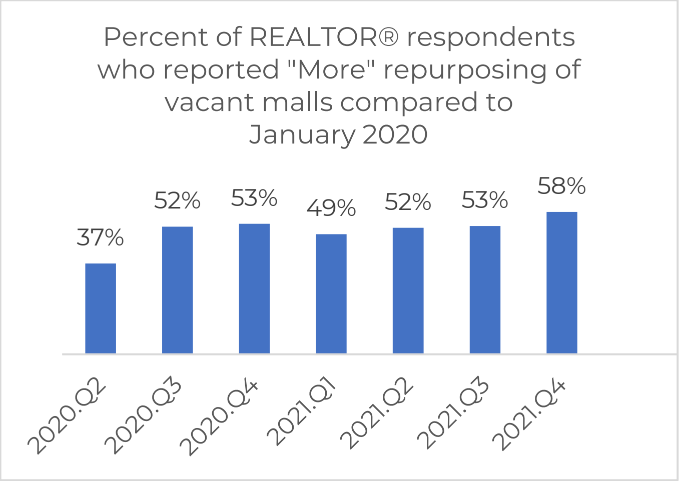












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Commercial Market Overview

Rising occupancy and rent growth across all markets

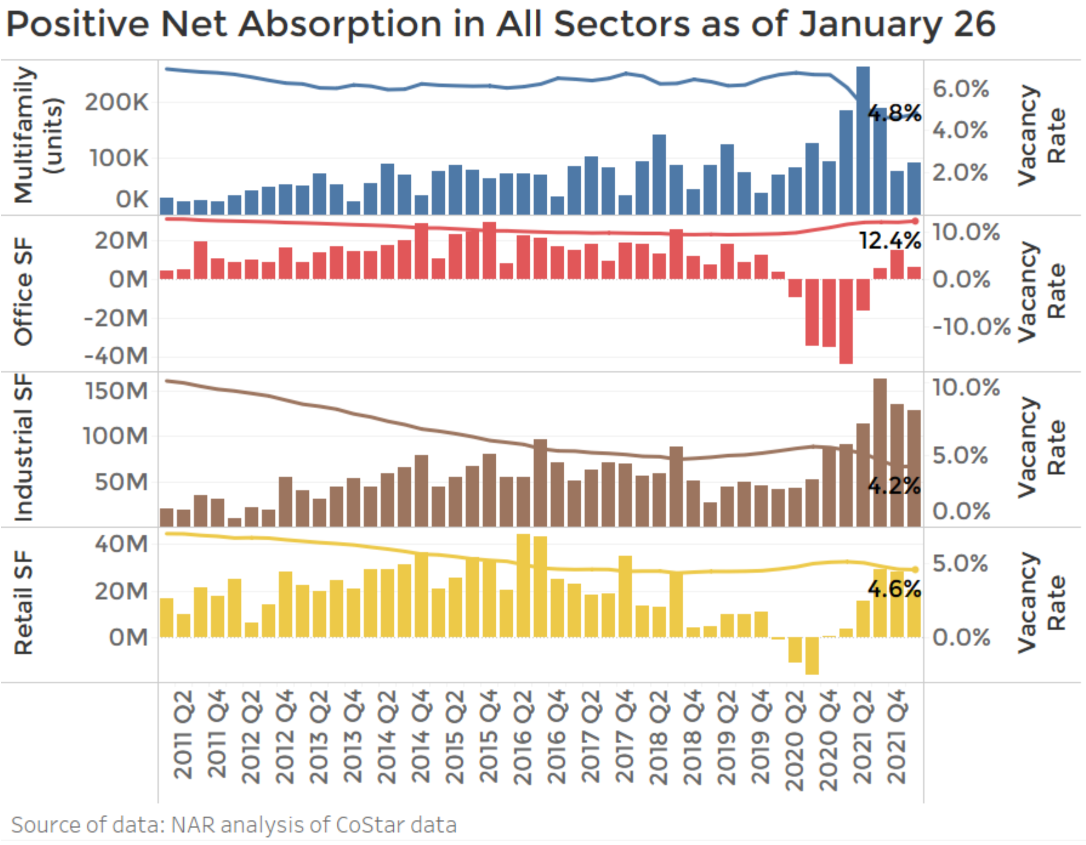
All commercial sectors experienced net positive absorption as of a three month period ending in January.

In the multifamily apartment market, 76,170 units were absorbed on a net basis in the past three months as of January 26, a level that is in line with historical levels, but a slower pace compared to 2020-2021. About 1 million apartment units have been absorbed from 2020 Q2 through 2021 Q4, bringing the vacancy rate down to 4.9% from 6.7% in 2020 Q1.

In the office market, 10.2 million square feet of office space was absorbed on a net basis in the past three months ending January 26. With workers heading back to the office, occupancy has increased since 2021 Q3. However, there is still 117 million square feet of office space returned to the market since 2020 Q2 through 2021 Q4. The vacancy rate has increased to 12.4% as of 2021 Q4 from 9.7% in 2020 Q1.

In the industrial market, 96.8 million square feet of office space was absorbed in the past three months ending January 26, with 684 million square feet of space absorbed since 2020 Q2 through 2021 Q4. The industrial sector has the lowest vacancy rate among the core property markets, at 4.4%, from 5.3% in 2020 Q1.

In the retail property market, 28.5 million square feet absorbed in the past three months ending January 26, with a net absorption of 50 million square feet since 2020 Q2 through 2021 Q4. The vacancy rate is at 4.6%.



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Commercial Market Overview

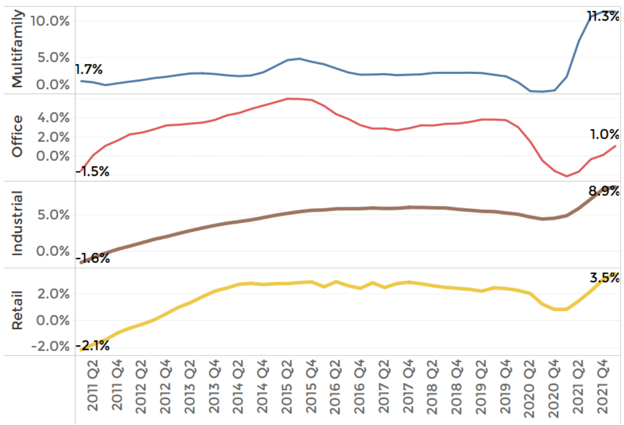
Net absorption outpaces construction except in office

Asking rents rose on a year-over-year basis in all core commercial markets. Asking rent growth on a year-over-year basis is highest for the multifamily property sector at 11.3%. Asking rents for industrial properties also continued to rise steeply at 8.9%. Even rents for retail properties rose at 3.5%. In the office property market, asking rents are now also trending upwards by 1%.

In the multifamily market, 600,251 units were absorbed in the past 12 months ended January 26, which is slightly below the 687,540 units under construction, or 4% of current inventory. With slower demand, expect rent growth to ease somewhat. In the industrial property market, the 507 million square feet under construction is on pace with the 12-month absorption of 504 million, but not all of this current construction will be completed in 12 months. Expect rent growth to continue to increase and vacancy rates to tighten. In the office market, 142 million square feet is under construction, which is equivalent to 1.7% of the current inventory, so this additional supply will add to the unused office space; expect vacancy rates to increase and rent growth to remain modest. In the retail property market, 49 million square feet of office space is under construction, which is below the 12-month net absorption, so expect an uptick in rent and tighter vacancy rate.

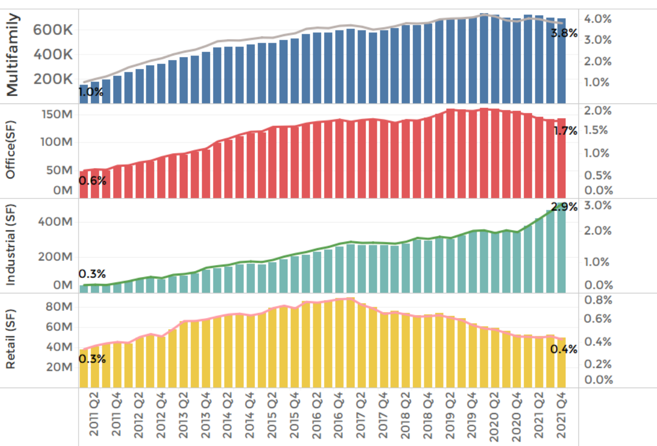
With strong investor demand, cap rents continued to trend down, an indication that property values are rising. As of December 18, the lowest median cap rate was of multifamily properties (5.1%) while the highest cap rate was of retail properties (6.9%). Cap rates have trended downwards compared to pre-pandemic levels even for office properties and even as 10-year Treasury yields have trended upwards to 1.75% as of January 21 from 0.9% in March 2020.

Rising Asking Rents in All Market as of January 26



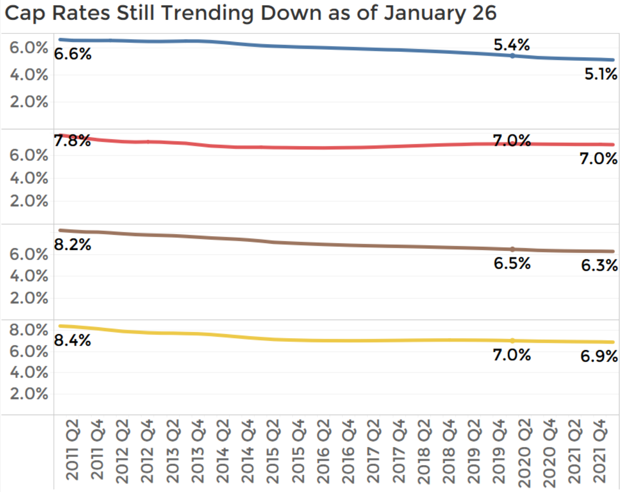
Source of data: NAR analysis of CoStar data

Under Construction as of 2021 Q4
(in square feet and as a percent of inventory)



Source of data: NAR analysis of CoStar data

Cap Rates Still Trending Down as of January 26



Source of data: CoStar

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Multifamily

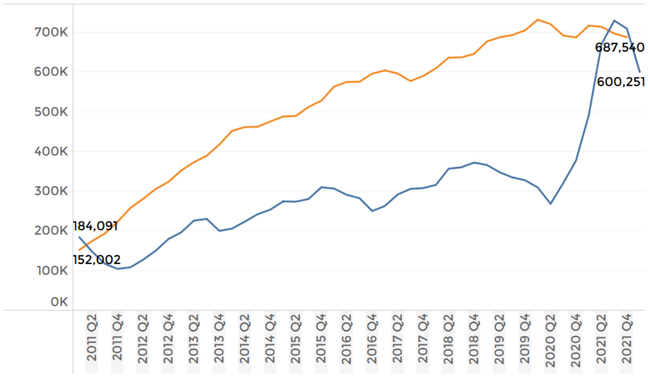
Absorption of apartment units starting to ease

Net absorption of apartment units appears to be slowing down. In the 12 months ended January 26, net absorption was at 600,251 units, a slower pace compared to the 12-month absorption of 709,000 in 2021. Net absorption declined across all multifamily class types. Class A apartment accounted for 51% of the absorbed units, followed by Class B (46%) and then Class C (11%).

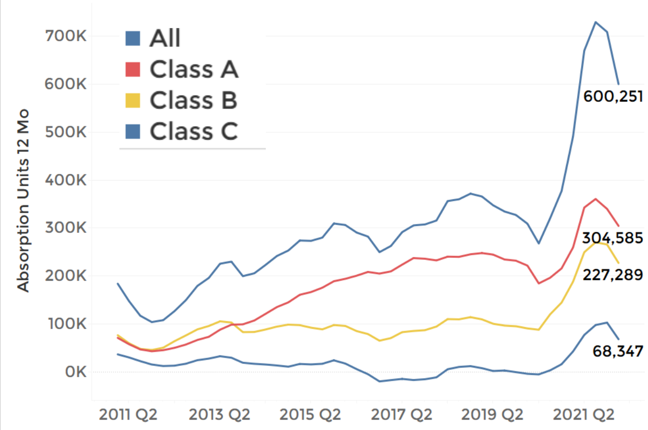
The 12-month net absorption is running below the 687,540 apartment units under construction in 390 markets tracked by CoStar, so slower demand will tend to reduce the pressure for rents to rise. As of January 16, asking rents are have increased on average by 11.3% in the past 12 months.

By class, fewer Class A apartment units are under construction compared to the pre-pandemic level, while construction of Class B and C apartments have increased. Class A units tend to be found in central business districts so the decline in Class A units is an indicator that developers are investing less in central business districts and more in the outlying areas.

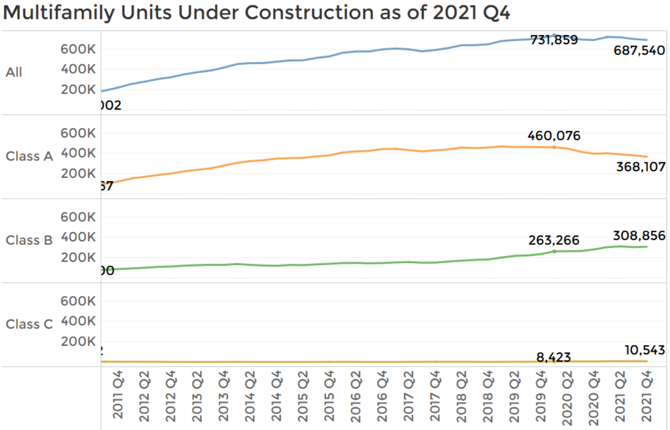
12-Month Net Absorption as of January 26 and Multifamily Units Under Construction as of 2021 Q4



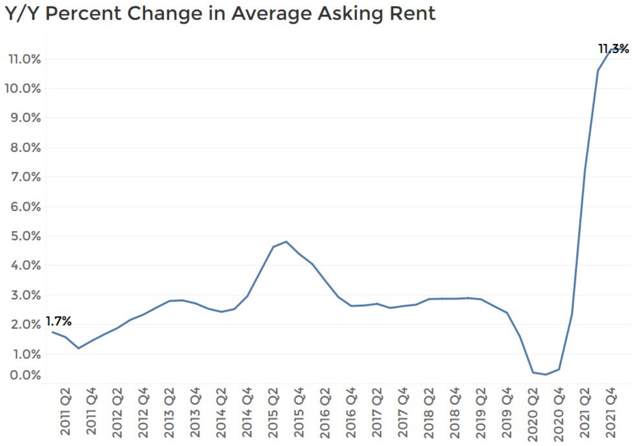
12-Month Net Absorption of Multifamily Units



Multifamily Units Under Construction as of 2021 Q4



Y/Y Percent Change in Average Asking Rent



Source: NAR analysis of CoStar data

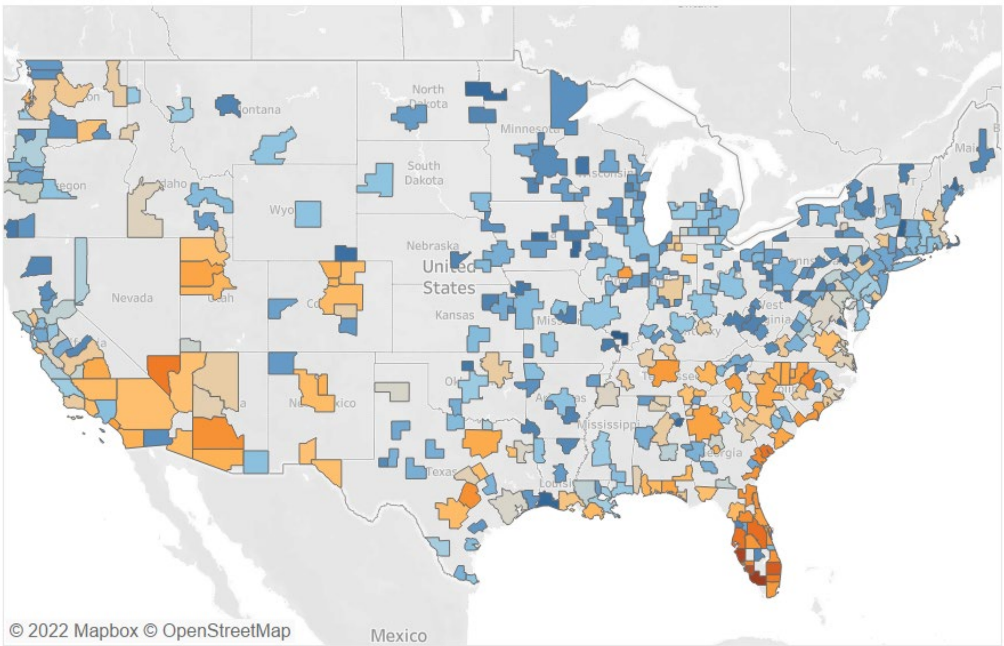
NATIONAL ASSOCIATION OF REALTORS®

Multifamily

Strongest asking rent growth in Sunbelt and Mountain states

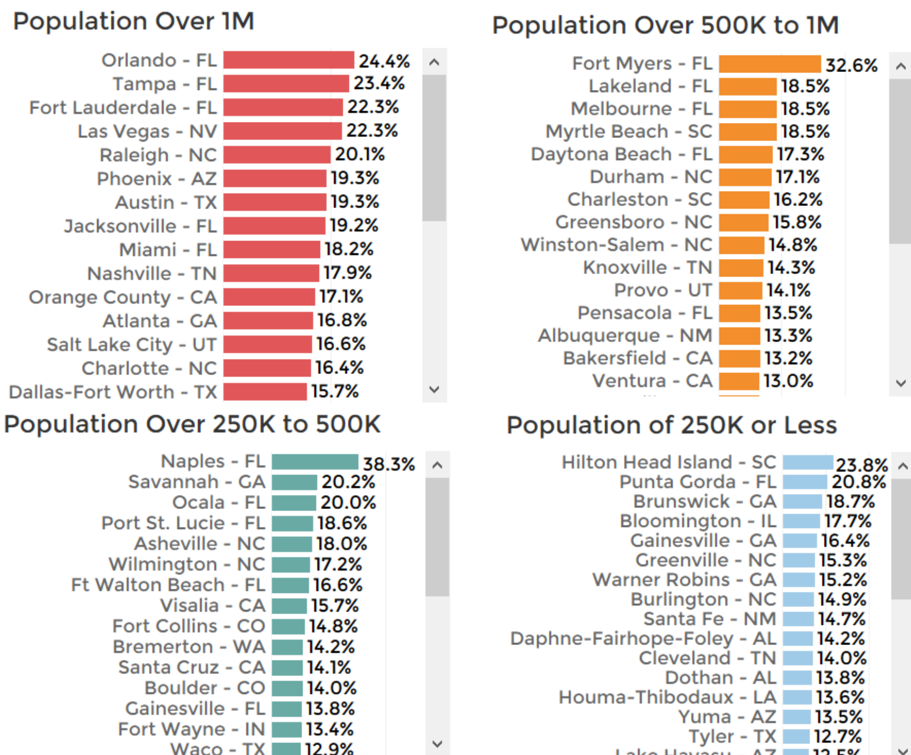
A third of metro areas are experiencing double-digit increases in asking rents. These are mainly in metro areas in the Sunbelt and Mountain areas. Florida metro areas are experiencing the highest rent growth, led by Naples (38%), Fort Myers (33%), Orlando (24%), Tampa (23%), Fort Lauderdale (22%), and Punta Gorda (23%).

33% of metro areas have double-digit rent growth as of January 26 (orange areas)



Source: NAR analysis of CoStar data

12-Month Asking Rent Growth as of January 26



Source: NAR analysis of CoStar data

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Multifamily

NY Metro is still top market for developers, but intensity of construction activity is highest in non-primary markets

The New York metro area is still the top market for developers in terms of the number of units under construction, with nearly 55,000 units under construction, adding 4% to the current inventory. This will ease the tight supply in the New York metro area, which has a vacancy rate of just 2%. Washington DC is another favorite market for developers, with nearly 30,000 units under construction or 5.5% of inventory. With a vacancy rate of nearly 6%, the added supply should ease rent growth. Dallas, Phoenix, and Los Angeles round out the top five (Table 1).

However, the intensity of construction—measured by construction activity as a percent of current stock of apartment units — is highest in Myrtle Beach (23%), Port St. Lucie (23%), Huntsville (16%), Spartanburg (14%), Nashville (14%). Provo (11%) and Ogden (10%).

Top Markets with Apartment Units Under Construction as a Percent of Inventory as of 2021 Q4 Among Metros with at least 250,000

	Units Unde r Construct ion	Under Construction as Pct of Inventory	Vacancy Rate	Market Asking Rent/Unit	Y/Y Market Asking Rent Growth	Market Cap Rate
New York - NY	54,422	3.8%	2.3%	$2,867	5.9%	4.3%
Washington - DC	29,590	5.5%	6.4%	$1,960	9.7%	4.7%
Dallas-Fort Worth - TX	29,322	3.7%	5.6%	$1,418	15.1%	4.9%
Phoenix - AZ	28,297	8.3%	5.2%	$1,547	21.8%	4.1%
Los Angeles - CA	26,073	2.6%	3.6%	$2,096	6.7%	4.1%
Seattle - WA	23,299	6.5%	4.8%	$1,871	10.7%	4.0%
Austin - TX	23,282	9.4%	6.1%	$1,595	20.6%	4.4%
Atlanta - GA	21,810	4.7%	5.8%	$1,576	18.8%	4.7%
Houston - TX	19,548	3.0%	7.1%	$1,237	9.7%	5.4%
Nashville - TN	18,796	13.3%	5.6%	$1,517	16.9%	4.7%
Miami - FL	15,449	9.0%	3.5%	$2,012	17.7%	4.7%
Denver - CO	15,175	5.7%	6.3%	$1,695	12.9%	4.3%
Orlando - FL	14,646	7.8%	5.2%	$1,655	24.7%	4.4%
Boston - MA	14,113	5.7%	4.3%	$2,507	11.0%	4.3%
Charlotte - NC	13,869	7.2%	6.6%	$1,466	17.6%	4.5%
Minneapolis - MN	12,340	5.0%	5.8%	$1,364	3.6%	5.4%
Philadelphia - PA	11,210	3.4%	3.6%	$1,546	9.7%	5.2%
Chicago - IL	10,332	2.0%	5.6%	$1,540	8.4%	5.7%

Source: NAR analysis of CoStar data

Top Markets with Apartment Units Under Construction as a Percent of Inventory as of 2021 Q4 Among Metros with at least 250,000

	As a Pct of Inventory	Units Under Construction	Vacancy Rate	Market Asking Rent/Unit	Y/Y Market Asking Rent Growth	Market Cap Rate
Myrtle Beach - SC	23.1%	3,382	4.6%	$1,377	16.0%	5.0%
Port St. Lucie - FL	22.5%	2,080	3.6%	$1,671	23.7%	4.8%
Huntsville - AL	16.3%	5,148	7.8%	$1,102	10.0%	5.0%
Spartanburg - SC	13.8%	1,726	7.3%	$1,094	8.8%	5.2%
Nashville - TN	13.3%	18,796	5.6%	$1,517	16.9%	4.7%
Provo - UT	10.9%	1,657	2.7%	$1,428	16.3%	5.0%
Ogden - UT	10.3%	2,056	4.4%	$1,334	14.5%	4.6%

Office

Occupancy continues to improve as of January 2022

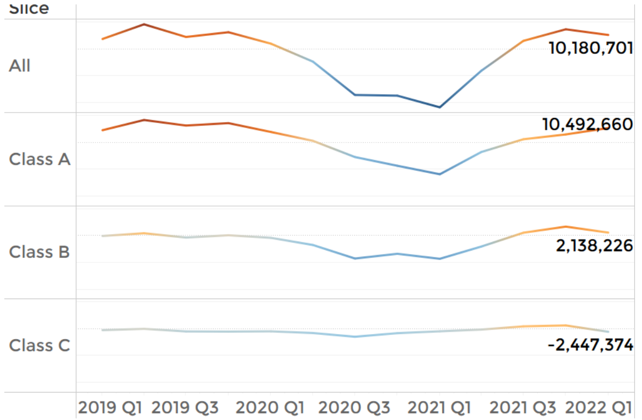
On a net basis, office occupancy increased in the three month period ending January 26, with 10.2 million square feet absorbed. Absorption has been positive since 2021 Q3. Absorption was positive for Class A and Class B office buildings, while occupancy declined in Class C apartments. Occupiers might have a preference for Class A/B because newer buildings have facilities and amenities that create safer and healthier working conditions to minimize the transmission of the Covid virus, and have workspaces that are better suited for a hybrid workstyle (e.g. better air filtration, touchless elevators, a mix of dedicated and hot desks).

However, office occupancy is still down on a net basis by 105 million square feet since the pandemic and the vacancy rate remains elevated at 12.4%. Class A office buildings have the highest vacancy rate, at 16%, while Class C buildings have the lowest vacancy rate at 5.3%.

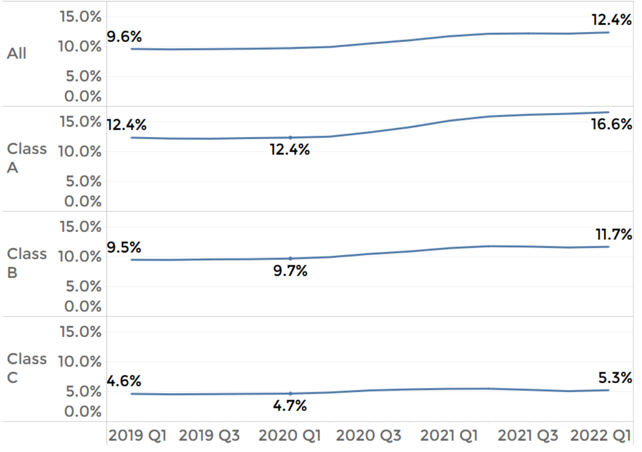
With high vacancy rates, Class A buildings had the lowest average rent growth in the past 12 months of 0.4% compared to 1.4% for Class C buildings.

In the office market, 142 million square feet is under construction, which is equivalent to 1.7% of the current inventory, mostly Class A. So expect rent growth to remain modest as the units under construction add to the supply of office space.

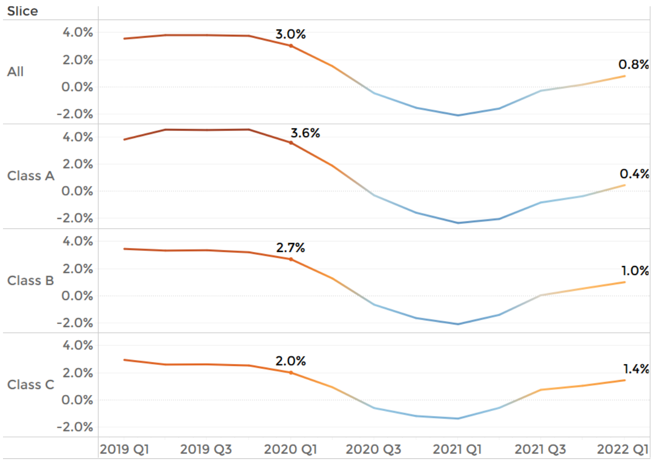
Quarterly office absorption during 2019 Q1 to 2022 Q1



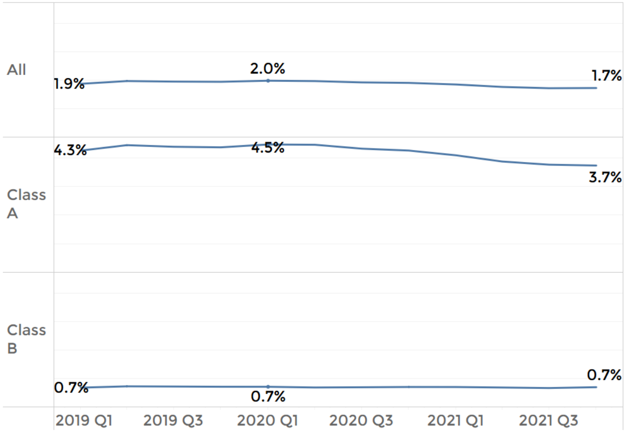
Vacancy rate by class during 2019 Q1 to 2022 Q1



Y/Y Percent Change in Asking Rent During 2019 Q1 to 2022 Q1



Under construction as a percent of inventory during 2019 Q1 to 2021 Q4



Source: NAR analysis of CoStar data

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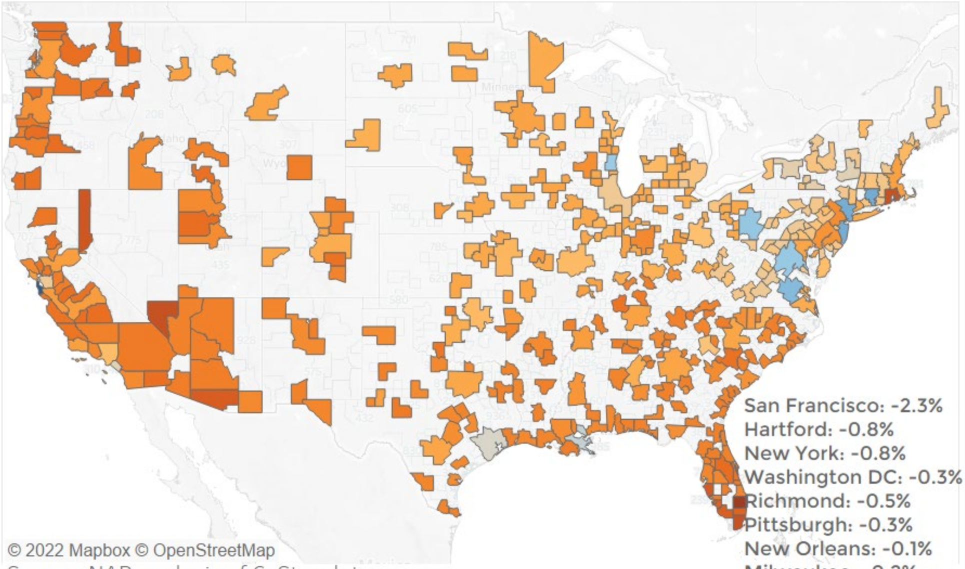
Office

Rents are increasing in nearly all metro areas

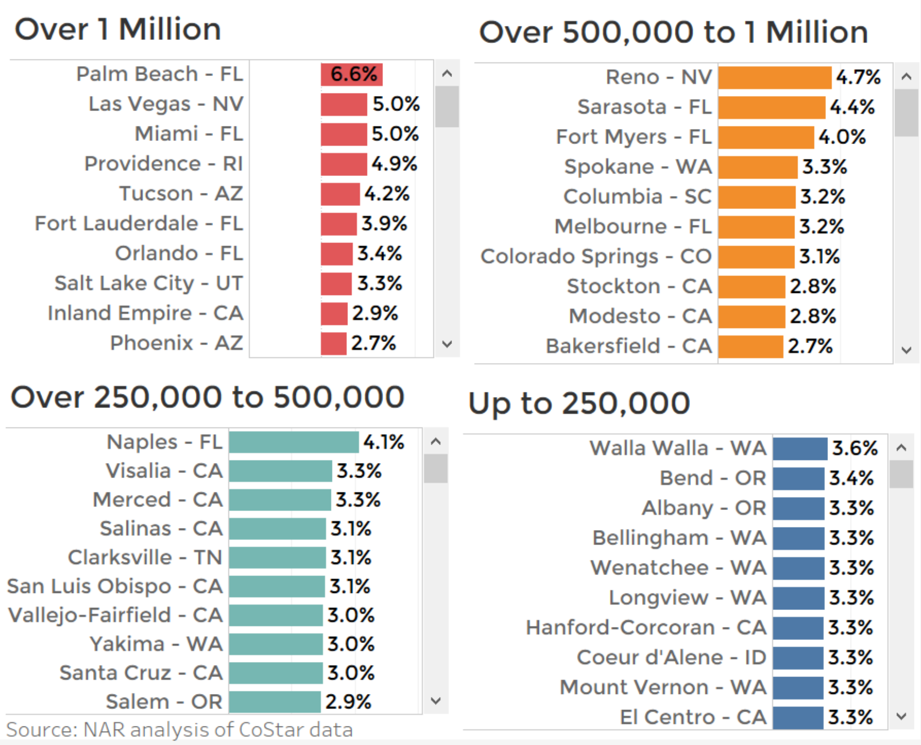
Of the 390 market areas tracked by CoStar, only eight have declining rents. These include the major markets of San Francisco (-2.3%), New York (-0.8%), and Washington DC (-0.3%).). Florida has eight of the 40 top metro areas with the fastest rent growth, with average rent growth in the past 12 months of at least 3% year-over-year: Palm Beach, Miami, Fort Lauderdale, Orlando, Sarasota, Fort Myers, Melbourne, and Naples.

Office asking rent growth as of January 26



Source: NAR analysis of CoStar data

Average Office Asking Rent Growth in Past 12 Months by Population Size as of January 26



Source: NAR analysis of CoStar data

Source: NAR analysis of CoStar data

Office

Office construction to hold down rent growth

As of 2021 Q4, 142 million square feet is under construction, equivalent to 1.7% of the current inventory of office space. With 105 million square feet of office space given back to the market since the pandemic, the construction underway will add to the current vacant space and will keep rent growth at a modest pace, likely at just 1%.

The largest office construction activity is in the New York metro areas, followed by Boston, Washington DC, and Seattle, each with at least 10 million square feet under construction (Table 1).

As a percent of office inventory, the construction activity is most intense in Austin (5.7%), San Jose (5.5% of inventory), Seattle (4.6%), Boston (4.6%), Charlotte (3.9%), Salt Lake City (3.7%), and Nashville (3.5%) where construction is at least 3% of the current inventory (Table 2). The average market rent per square foot in these markets is about $20 to $30 cheaper compared to San Francisco and San Jose, which generates significant savings in office rents for tech companies setting up in these markets.

Top Metros with Office Space Under Construction as a Percent of Inventory as of 2021 Q4

	Under Construction SF	As a as Pct of Inventory	Vacancy Rate	Market Rent/SF	Market Cap Rate
New York - NY	22,371,792	2.3%	11.8%	$57	5.4%
Boston - MA	16,571,921	4.6%	9.7%	$41	6.0%
Washington - DC	10,485,378	2.0%	14.9%	$39	7.1%
Seattle - WA	10,282,322	4.6%	9.6%	$38	5.6%
San Jose - CA	7,596,501	5.5%	12.3%	$62	5.1%
Austin - TX	6,962,017	5.7%	13.1%	$42	6.0%
Dallas-Fort Worth - TX	6,592,042	1.6%	17.9%	$28	7.1%
Los Angeles - CA	5,734,056	1.3%	13.5%	$41	5.6%
Charlotte - NC	4,995,919	3.9%	11.4%	$30	6.7%
Atlanta - GA	4,869,771	1.5%	13.8%	$27	7.2%
Chicago - IL	4,403,845	0.9%	14.6%	$29	7.5%
Houston - TX	3,797,818	1.1%	19.1%	$28	7.9%
Nashville - TN	3,545,808	3.5%	10.2%	$29	7.1%
Miami - FL	3,086,918	2.8%	10.5%	$41	6.1%
Philadelphia - PA	2,962,384	0.9%	10.0%	$27	8.0%
Salt Lake City - UT	2,885,323	3.7%	9.1%	$24	7.4%
San Francisco - CA	2,605,291	1.4%	13.6%	$62	4.6%
Minneapolis - MN	1,927,496	0.9%	9.7%	$26	7.7%
Phoenix - AZ	1,601,811	0.8%	13.9%	$27	7.2%
Denver - CO	1,429,816	0.8%	14.4%	$29	7.2%

Source: NAR analysis of CoStar data

	As a as Pct of Inventory	Under Construction SF	Vacancy Rate	Market Rent/SF	Market Cap Rate
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Washington - DC	2.0%	10,485,378	14.9%	$39	7.1%

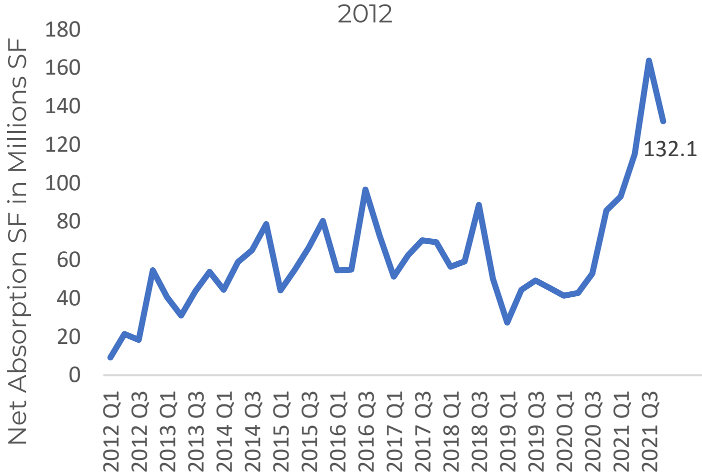
Industrial

Shredding records as total absorption reaches highest level ever

The U.S. industrial sector is continuing its record-setting ways as it went on a tear in Q4 and in 2021 in general. It is difficult to find weakness in this sector currently, where industrial properties across the U.S. landscape are experiencing such positive momentum and with a lot of investor optimism for these concrete walls.

In regards to net absorption, although down from the previous quarter, absorption reached 132.1 msf in Q4 2021, the most ever recorded in any Q4. Net absorption of industrial space reached its strongest level ever, with a total net absorption of 504.0 msf in 2021, which is more than double 2020's total. Absorption as of January 25, 2022 totaled 100.9 msf. To put that into perspective in regards to the increased demand for industrial space, the previous Q1 2021 record high took the entire quarter to reach at 115 msf and we are currently less than 15 msf away from that number, having done so in less than one month into Q1 2022.

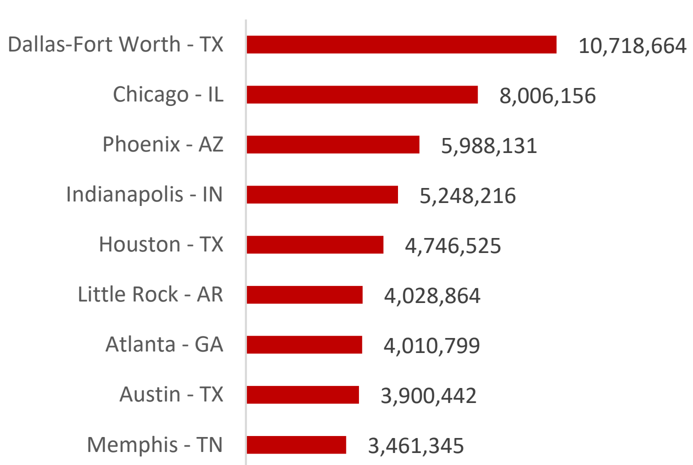
Industrial Demand: Net Absorption Since Q1 2012



Source: NAR analysis of CoStar data

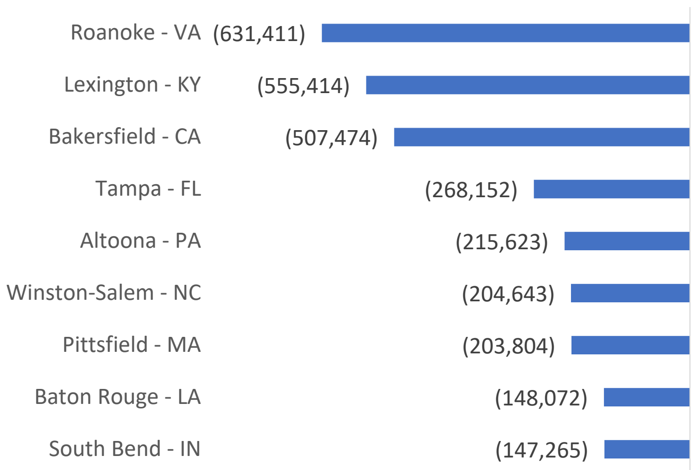
The largest increase in occupancy was in Dallas-Fort Worth, Chicago, Phoenix, Indianapolis, Houston, Little Rock and Atlanta each with net absorption over 4 msf as of Q1 2022.

Positive Net Absorption as of January 25, 2022



Source: NAR analysis of CoStar data

Negative Net Absorption as of January 25, 2022



Source: NAR analysis of CoStar data

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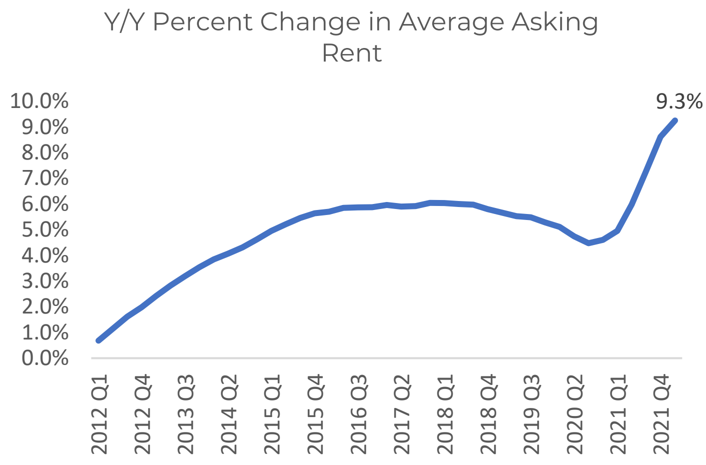
Industrial

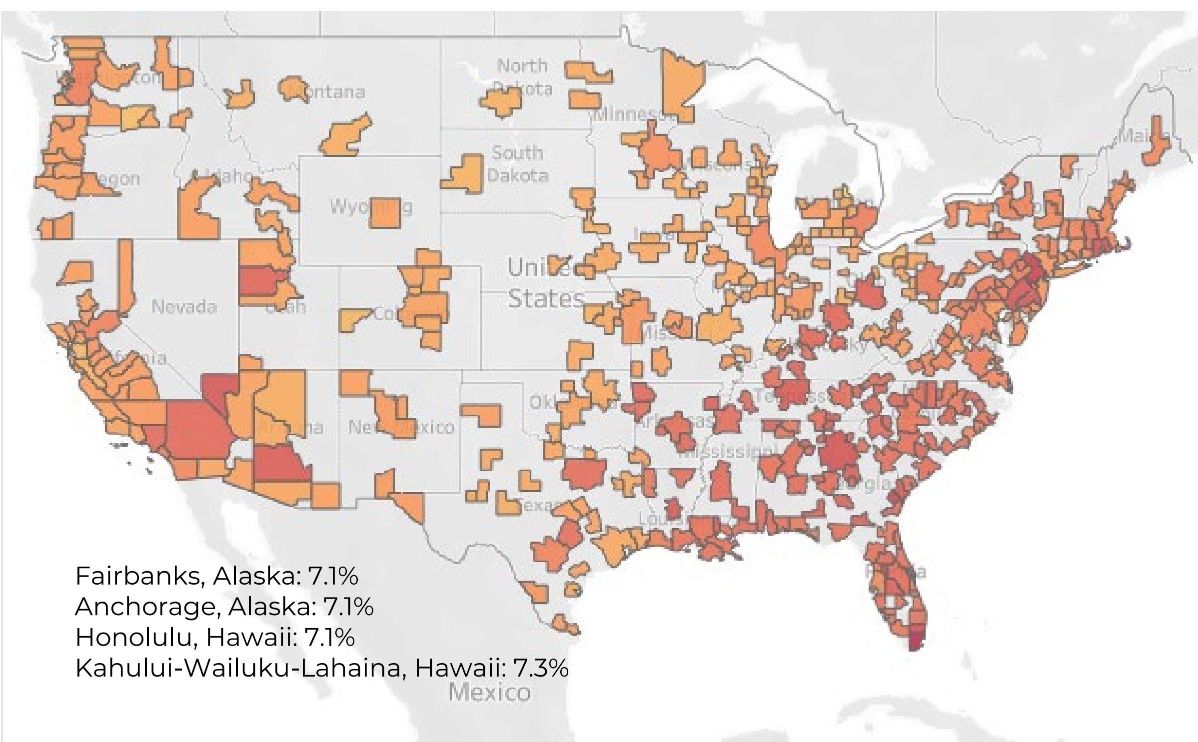
Positive rent growth experienced in all 390 covered metro markets

The average asking rent across 390 markets increased by 9% year-over-year as of January 25, 2022. While almost a third of metros have double-digit rent growth, all 390 covered metros have positive rent growth. Across the U.S., the highest rent growth rates are located in the Sunbelt states and in particular Florida. Florida metro areas such as Miami, The Villages, and Fort Lauderdale had the highest rent growth rates. The metro areas of Miami, Northern New Jersey, Hinesville, The Villages, Atlanta, Fort Lauderdale, Goldsboro, Providence and Philadelphia, had asking rents up at least 13% year-over-year and were the leaders as of January 25, 2022.



Source: NAR analysis of CoStar data

Industrial: All 390 metros covered had positive y/y percent change in asking rents as of January 25, 2022



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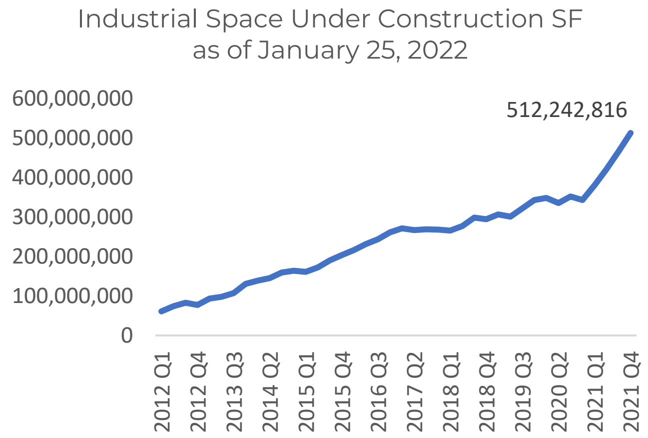
Industrial

The Sunbelt leads industrial construction and Texas in particular

At the conclusion of Q4 2021, there were 2,268 industrial buildings under construction totaling 512 msf. This is the largest amount of industrial space ever under construction according to 390 markets tracked by CoStar where the leaders in square footage under construction were Dallas-Fort Worth, Phoenix, Chicago, Atlanta, Indianapolis, Inland Empire, Philadelphia, Columbus, Savannah, and Houston.

In regards to the number of industrial buildings under construction, the Sunbelt was the most active as it pertains to the top 5 metros with Dallas-Forth Worth (236) leading, followed by Houston (174), Inland empire (156), Phoenix (138) and Atlanta (110). Of the top leaders in the number of industrial buildings under construction and with the largest footprint, these metro areas are primarily located in Texas.



Source: NAR analysis of CoStar data

Markets with Most Industrial Space Under Construction as of Q4 2021

	Under Construction Buildings	Under Construction SF	Market Rent/SF
Dallas-Fort Worth - TX	236	61,215,092	$7.61
Houston - TX	174	17,140,096	$7.94
Inland Empire - CA	156	24,532,500	$10.72
Phoenix - AZ	138	33,744,104	$9.82
Atlanta - GA	110	30,219,530	$7.26
Chicago - IL	103	30,851,472	$8.10
Austin - TX	72	11,878,715	$12.65
Philadelphia - PA	63	20,951,232	$8.80
Las Vegas - NV	61	8,369,853	$10.82
New York - NY	58	13,706,105	$15.78
Denver - CO	56	11,156,813	$10.73
Washington - DC	55	8,165,672	$13.52
Indianapolis - IN	50	24,612,084	$6.20
Nashville - TN	47	9,907,993	$9.28
Oklahoma City - OK	47	2,645,259	$7.20
Salt Lake City - UT	47	9,361,661	$8.62
Charlotte - NC	46	10,691,694	$7.09
Columbus - OH	45	18,097,984	$6.00
Boston - MA	44	5,747,897	$13.20
Los Angeles - CA	43	4,859,280	$15.64

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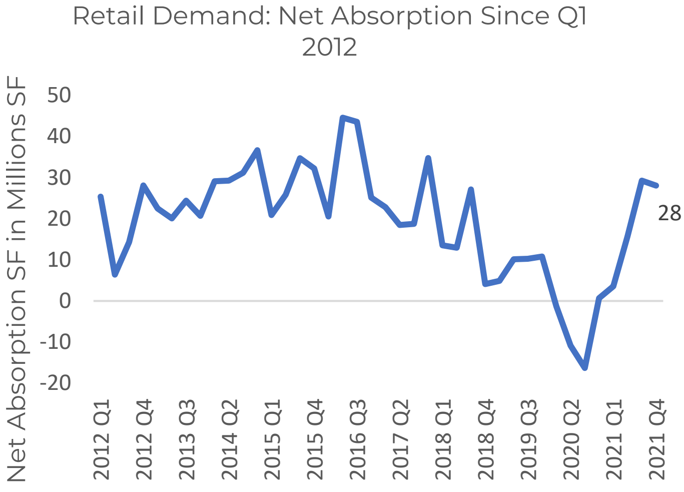
Retail

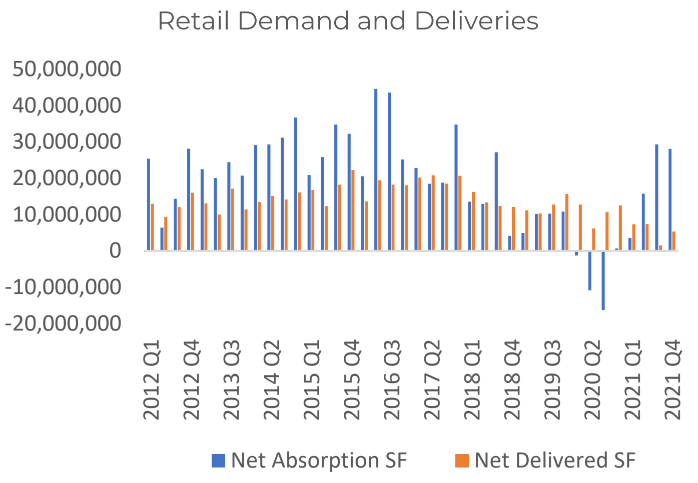
Retail demand continues to outpace supply while leasing slides

Retail markets continued solid performance in Q4 2021. After having absorbed 29 million sf in Q3 2021, the highest level since Q4 2017, more than 28 msf was absorbed in the fourth quarter as occupancy fell by less than a 1 msf. But despite the decline, absorption had a good Q4. Since 2020 Q2, retail occupancy is up on a net basis by 50 msf, with the largest losses in the metro areas of Saint Louis, Jackson, Modesto, Northern New Jersey, Harrisburg, Kingsport and Poughkeepsie. Conversely, metro such as Houston, Dallas-Fort Worth, Atlanta, Chicago, Detroit, Phoenix, Philadelphia and New York each had positive net absorption of at least 1 msf.



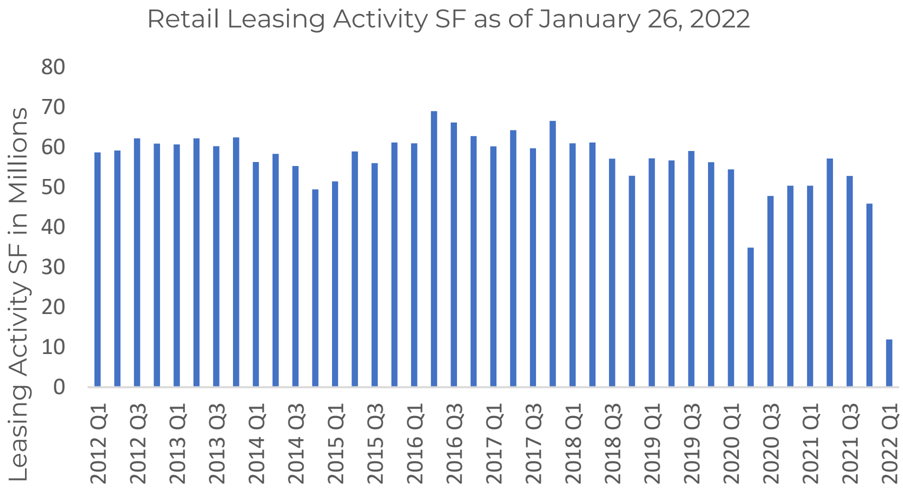
Source: NAR analysis of CoStar

On the supply side, supply is continuing to be outpaced by increasing demand for retail space. The increase in demand for retail space is still met with supply coming up short. Supply lagged demand for the 3rd consecutive quarter in Q4 2021 (5.3 msf). But supply in Q4 2021 was above the 10-year low recorded in Q3 2021 (1.4 msf).



Source: NAR analysis of CoStar data

Leasing continues to slide from the Q2 2021 high of 57 msf towards 45 msf in Q4 2021. The current level is still above the Q2 2020 low point (34 msf). However, current levels remain below the 2012 to 2019 new leasing average of 59 msf. As of January 26, 2022, Q1 2022, retail leasing activity totals 11.9 msf.



Source: NAR analysis of CoStar data

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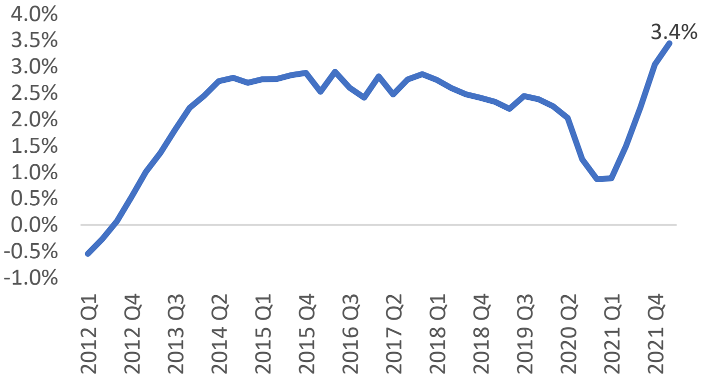
Retail

Florida retail market is hot with four metros in top ranks of fastest rent growth

Retail asking rents continue to pick up in Q4 2021. Asking rents reached 3.0% above last year where asking rents increased across all of retail properties. Asking rents increased most in malls, up 1% from Q3 2021. Following malls, rents picked up in regards to Q3 2021 in power centers by (.09%), neighborhood centers (.09%), general retail (.08%) and strip centers (.08%). As of January 26, 2022, retail rents are up by 3.4% year-over-year.

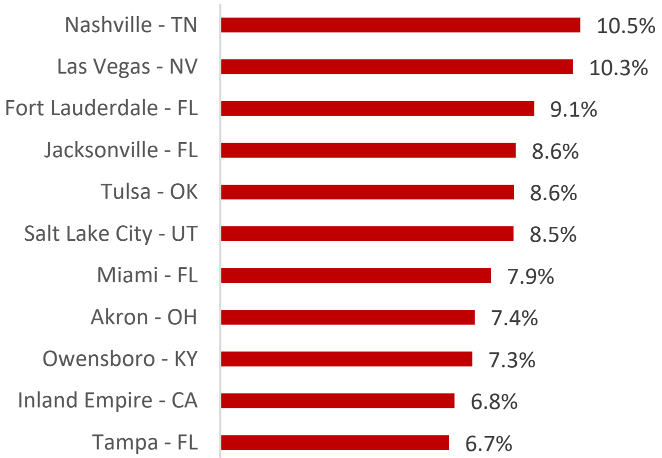
As of January 26, 2022, of the 390 market areas tracked by CoStar, retail rents are declining on a year-over-year basis in 7 markets, including San Francisco (-5.1%), Saint Louis (-2.8%), Portland (-0.5%), Richmond (-0.5%), Milwaukee (-0.2%), Stamford (-0.1%) and Pittsburgh (-0.1%).

The leaders in asking rent growth on a year-over-year basis were Nashville and Las Vegas, where asking rents increased by double digits towards 10.5% and 10.3% respectively.

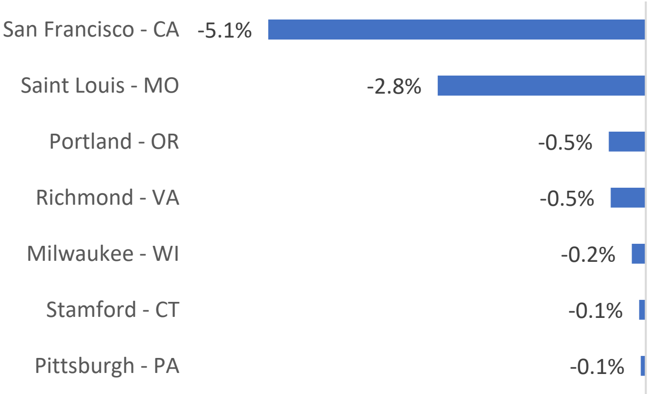


Source: NAR analysis of CoStar data

Florida has four of the eleven top metro areas with the fastest rent growth, with rent up at least 6.7% year-over-year: Tampa, Miami, Jacksonville and Fort Lauderdale.



Source: NAR analysis of CoStar data



Source: NAR analysis of CoStar data

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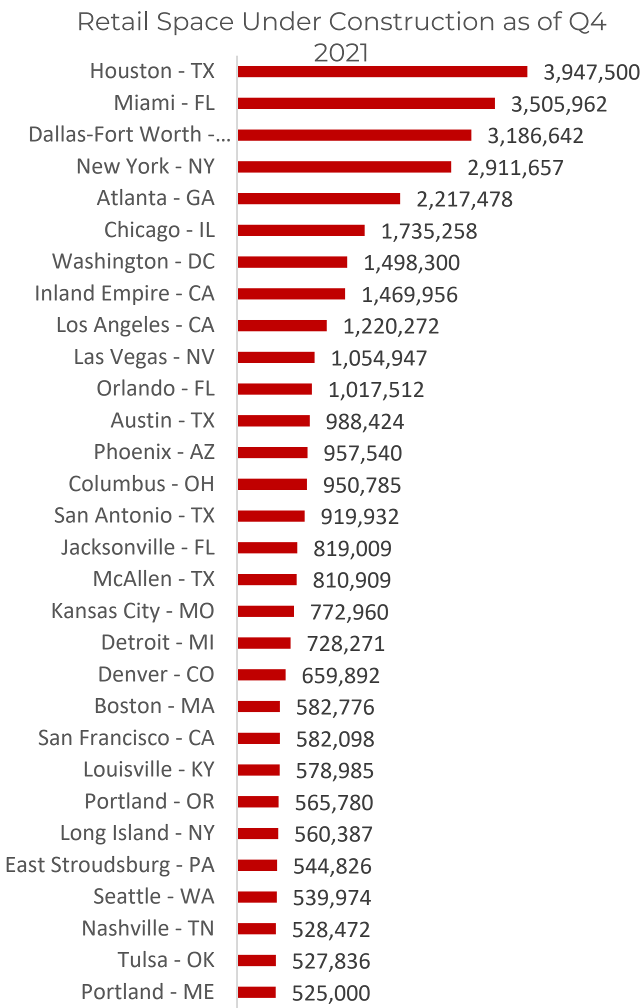
Retail

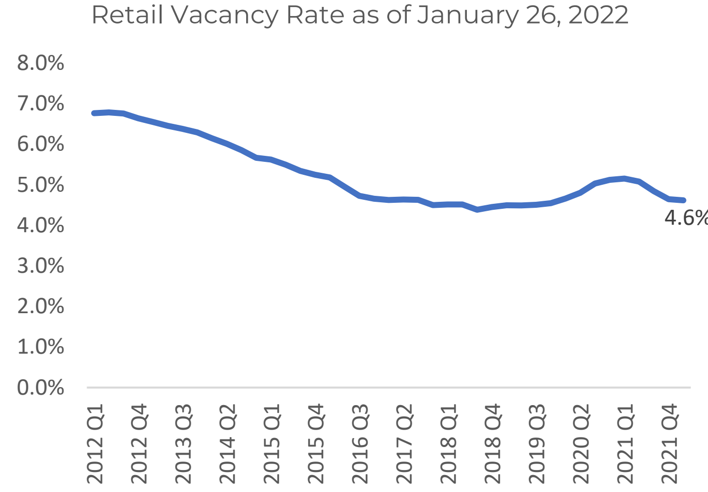
Vacancy continues to decrease, pushing up rent growth

Retail vacancy steadily declined throughout 2021 before hitting a year low of 4.8% in Q4 2021, down from 5.1% in Q3 2021. As of January 26, 2022 Q1, retail vacancy continued its descent to 4.6% but with net deliveries increasing by 3.8 msf for Q4 2021, an additional 50 msf currently under production (Q4 2021), and net deliveries increasing by 16.5 msf as of January 26, 2022, vacancy bears watching. With vacancy steadily decreasing, upward pressure has been placed on asking rents.

Of the 50 msf of retail space under construction, the largest retail construction activity is in the Houston metro area (3.9 msf), followed by Miami (3.5 msf), Dallas-Fort Worth (3.1 msf), New York (2.9 msf), Atlanta (2.2 msf), Chicago (1.7 msf), Washington DC (1.4 msf), Inland Empire (1.4 msf), Los Angeles (1.2 msf), Las Vegas (1.0 msf) and Orlando (1.0 msf), each with at least 1 msf under construction.



Source: NAR analysis of CoStar data



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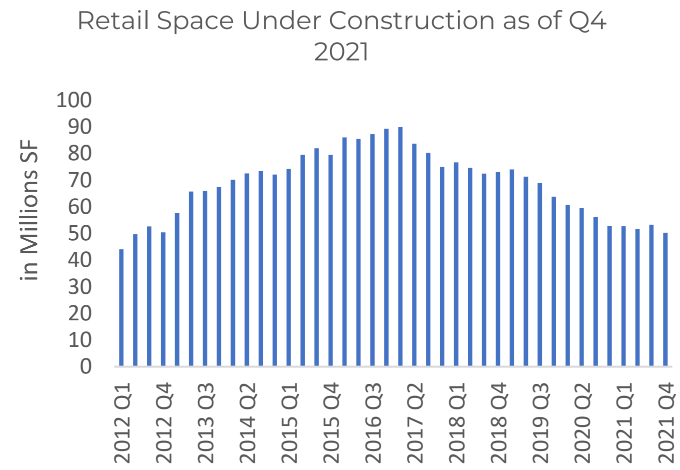

Source: NAR analysis of CoStar data

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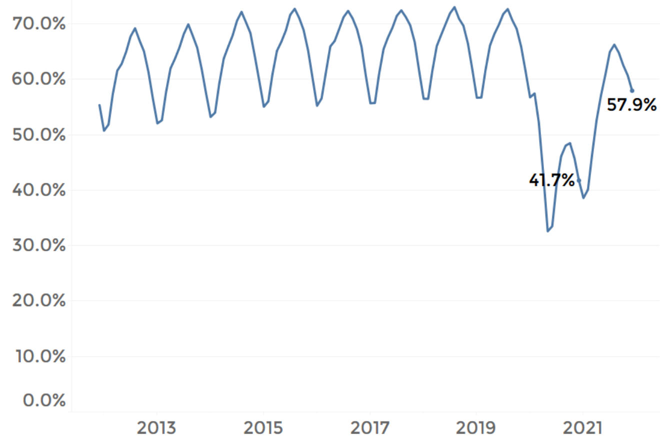
Hotel

Rising occupancy and revenues as travel resumes

With the progress on vaccination and the uptick in business and personal travel, hotel occupancy improved to 57.9% in December compared to the 3-month occupancy rate of 42% one year ago. The hotel industry's revenue metrics— average daily rate (ADR) and revenue per available room (RevPAR) — also improved. RevPAR rose to $77, or double the $39/room rate one year ago while the ADR rose to $133 from $94 one year ago.

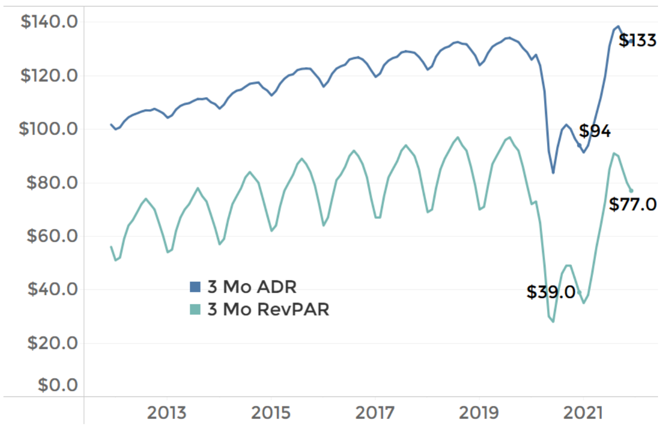
The highest occupancy rates are in Portland (Maine), Southern Louisiana, Allenton/Reading, Gatlinburg, California, and Richmond, with hotel occupancy rates of at least 70%.

3-Month Hotel Occupancy Rate as of December 2021



Source: NAR analysis of CoStar data

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



Source: NAR analysis of CoStar data

Hotel Occupancy as of December 2021

Portland - ME	75.8%
Louisiana South	72.3%
Allentown & Reading - PA	71.1%
Gatlinburg/Pigeon Forge - TN	70.8%
California North	70.0%
Richmond/Petersburg - VA	70.0%
California Central Coast	69.0%
Long Island	68.8%
Florida Keys	68.6%
California North Central	68.6%
Austin - TX	68.0%
Phoenix - AZ	67.8%
New York - NY	67.8%
Los Angeles - CA	67.7%
Colorado Springs - CO	67.3%
Arizona Area	67.3%
North Carolina West	67.2%
Knoxville - TN	67.2%
Charleston - SC	67.0%
Lower Hudson Valley - NY	66.8%
Savannah - GA	66.7%
Jacksonville - FL	66.6%

Source: NAR analysis of CoStar data

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

COMMERCIAL MONTHLY INSIGHTS REPORT
January 2022

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