Commercial Market Insights

March 2022

National Association of REALTORS®
Research Group

NATIONAL ASSOCIATION OF REALTORS®

Overview

Sustained commercial market recovery with risks ahead

The commercial real estate market continued to see rising occupancy, rents, and investor acquisitions in February 2022, with the impact of the Russia-Ukraine war and upswing in interest rates still likely to manifest in the coming months in some commercial segments.

In the apartment market, 571,669 units were absorbed in the past 12 months through March 26, outpacing the 404,152 units delivered into the market (supply). The vacancy rate remains at a low 5%, pushing asking rents up 11% year-over-year on average.

With more workers heading back to the office and amid sustained job growth, 22.1 million square feet (MSF) of office space absorbed since 2021 Q3. However, occupancy is still down by 115 MSF compared to the pre-pandemic level, pushing up the vacancy rate to 12.3%. Asking rents are up on average by 0.7% year-over-year, with rents up in nearly all 390 metro areas except in markets like New York, San Francisco, and Washington DC.

In the industrial market, 778 MSF of industrial space has been absorbed since 2020 Q2. The industrial sector has the lowest vacancy rate among the core property markets, at 4.1%, driving up rent growth to 10.6% year-over-year.

In the retail property market, 74 MSF of retail space has been absorbed since 2020 Q2, with strong demand for retail space in general retail, power centers, and strip malls. The average vacancy rate is a low of 4.5%, with asking rents up 4% year-over-year.

While the hotel property market has improved compared to one year ago, the emergence of the Omicron variant in November stalled the hotel property market's recovery. Hotel occupancy was just at 52.2% in February, which is still below the occupancy of 56.9% before the pandemic in February 2020.

The low vacancy rates except in the office market suggest commercial prices are likely to remain broadly firm even as interest rates rise. Moreover, oil-producing states like Texas, North Dakota, New Mexico Colorado, Oklahoma, and Michigan could see higher demand for commercial space as the U.S. ramps up oil and electric vehicle production.

Rising mortgage rates will tend to shift the demand toward multifamily rentals. The relatively short-term leases in the apartment market create a natural hedge to inflation that makes multifamily properties a good investment in a rising interest rate environment.

As vaccinations increase and the population achieves natural immunity, workers will likely continue to return to the office even if on a hybrid model, bolstering the demand for office space.

The demand for industrial warehouse space is likely to moderate temporarily if consumer spending weakens as inflation erodes purchasing power. However, prices are likely to remain firm due to strong long-term demand underpinned by sustained growth in e-commerce.

Neighborhood centers and general retail stores that provide essential services and consumer items (e.g. groceries) are likely to see sustained demand from occupiers while retail malls—which already have an elevated vacancy rate of 8% —are the most vulnerable to price declines as consumers pull back on non-essential spending as purchasing power weakens.

Enjoy this month's issue!

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Economic Conditions

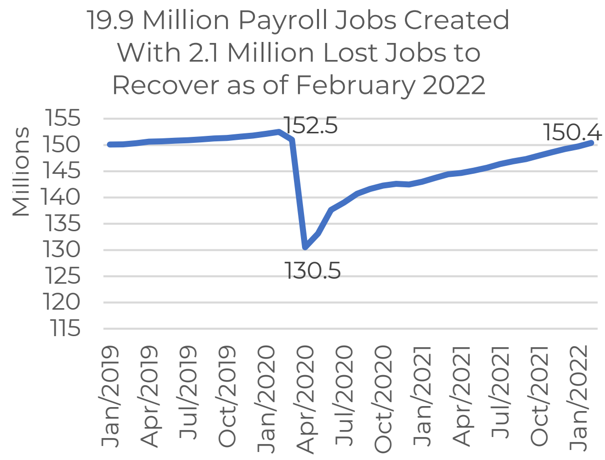
Tightening labor market and rising inflation

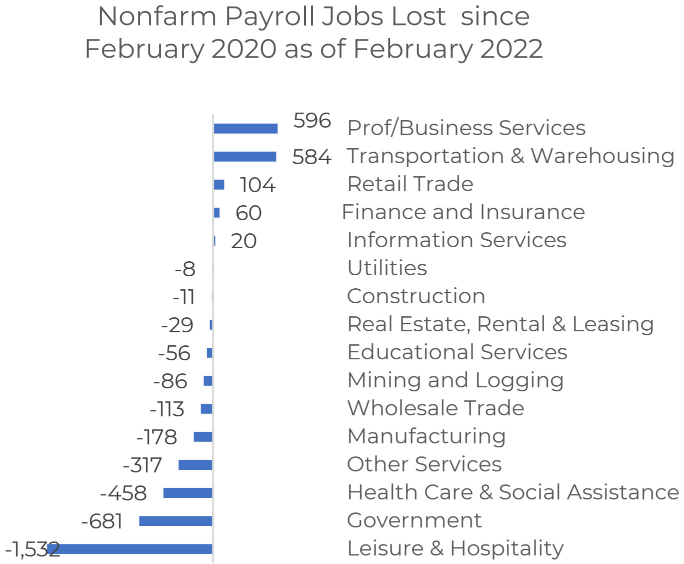
19.9 million jobs created since May 2020

Non-farm employment increased by 678,000 jobs in February, with 19.9 million net nonfarm payroll jobs created since March 2020, or 90% of the 22.4 million jobs lost during March and April 2020. There are just 2.1 million nonfarm payroll jobs still to be recovered.

The largest job creation is in profession/business services and transportation and warehousing, each over 500,000 jobs created since February 2020, which bode well for office and industrial demand. However, 1.5 million jobs still have to be recovered in the leisure and hospitality industry.

As of February 2022, non-farm employment in 30% of 401 metro areas has surpassed the level of nonfarm employment in February 2022. The largest job losses are in the primary markets like New York, Los Angeles, Chicago, San Francisco, Washington DC, Boston, and Minneapolis. The largest job gains are in the metro areas of Tampa, Phoenix, Nashville, Provo, Jacksonville (FL), Salt Lake City, and Raleigh, each with jobs gains of over 20,000 compared to February 2020.





119 of 401 metro areas and submarkets (30%) have net job gains as of February 2022 compared to pre-pandemic peak employment (February 2020)

Highest net job gains ('000)	
Tampa-St. Petersburg-Clearwater, FL	36.1
Phoenix-Mesa-Scottsdale, AZ	35.8
Nashville-Davidson-Murfreesboro-Franklin, TN	31.4
Provo-Orem, UT	29.7
Jacksonville, FL	26.2
Salt Lake City, UT	21.8
Raleigh, NC	21.7
Boise City, ID	19.9
Lakeland-Winter Haven, FL	18.9
North Port-Sarasota-Bradenton, FL	17.2
San Antonio-New Braunfels, TX	14.3
Charlotte-Concord-Gastonia, NC-SC	13.8
Indianapolis-Carmel-Anderson, IN	12.5
Fayetteville-Springdale-Rogers, AR-MO	11.1
Elkhart-Goshen, IN	10.4
Ogden-Clearfield, UT	10.2
Denver-Aurora-Lakewood, CO	9.4
Knoxville, TN	9.1
Durham-Chapel Hill, NC	7.9
Cape Coral-Fort Myers, FL	7.7
St. George, UT	7.1

Highest net job losses ('000)	
New York-Newark-Jersey City, NY-NJ-PA	-477.1
Los Angeles-Long Beach-Anaheim, CA	-220.3
Chicago-Naperville-Elgin, IL-IN-WI	-117.2
San Francisco-Oakland-Hayward, CA	-105.5
Washington-Arlington-Alexandria, DC-VA-MD-WV	-98.2
Boston-Cambridge-Nashua, MA-NH Metro NECTA	-97.5
Minneapolis-St. Paul-Bloomington, MN-WI	-91.1
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	-69.8
Pittsburgh, PA	-64.6
Detroit-Warren-Dearborn, MI	-64.2
Seattle-Tacoma-Bellevue, WA	-49.2
Putnam-Rockland-Westchester, NY	-46.4
Urban Honolulu, HI	-45.7
New Orleans-Metairie, LA	-40.2
Milwaukee-Waukesha-West Allis, WI	-38.6
Bergen-Hudson-Passaic, NJ	-36.5
St. Louis, MO-IL	-35.0
Philadelphia City, PA	-34.6
Buffalo-Cheektowaga-Niagara Falls, NY	-33.4
Portland-Vancouver-Hillsboro, OR-WA	-33.0
Cleveland-Elyria, OH	-32.9
Cincinnati, OH-KY-IN	-28.4
San Jose-Sunnyvale-Santa Clara, CA	-28.4
Baltimore-Columbia-Towson, MD	-28.3

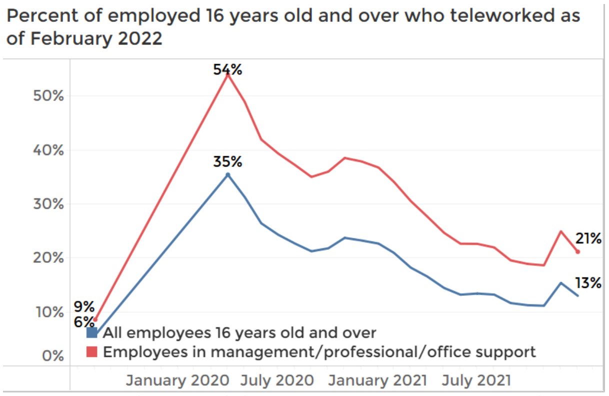
Source: BLS

Economic Conditions

Tightening labor market and rising inflation

Fraction of workers working from home decreases to 13%

Workers continue to head back to the office. As of February 2022, just 13% of employed workers 16 years old or over teleworked, down from a peak of 35%, but still twice the 6% rate before the pandemic. Among management, professional, and related occupations and office support services, 21% of the workforce teleworked, down from 54% during the pandemic, but still higher than the 9% share before the pandemic.

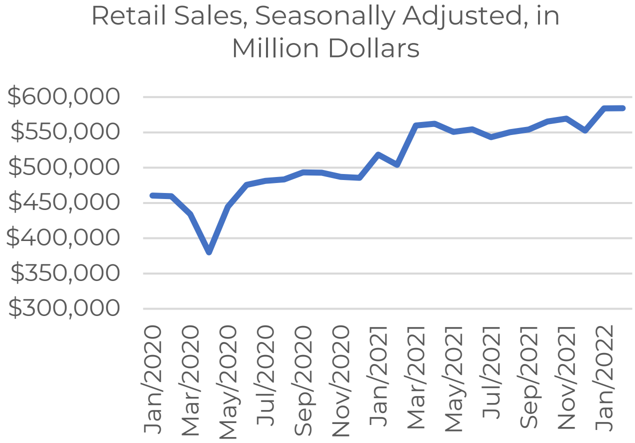


Source: Bureau of Labor Statistics COVID Supplement and 2019 American Community Survey. Office-using occupations are management, professional and related occupations and office administrative support workers.

Source: BLS COVID-19 Supplemental Survey

Retail sales increase 16% in February 2020

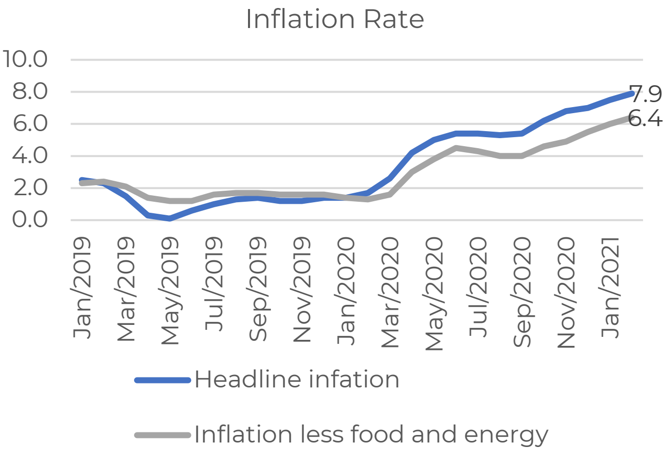
Retail sales are an important indicator of the overall strength of the economy, consumer spending, and demand for retail space. Retail sales (seasonally adjusted) rose 16% year-over-year in February 2022 and were at about the same level as in January 2022. Non-store retail sales in January rose 12% year-over-year, to $100.5 billion, or 17.2%, up from 15.2% in January 2020. The rising share of non-store retail sales is an indicator of the underlying demand for industrial space.



Source: US Census Bureau

Inflation rate accelerates to 7.9% in February

The inflation rate measured using the consumer basket (CPI) rose to 7.9% in February as prices rose across all items, with the strongest uptick for energy services and commodities (25%) and as food prices also rose to 7.9%. Oil (WTI) prices rose to $92/barrel as the global economy recovered from the economic fallout of the pandemic. The Russian-Ukraine war and the embargo on Russian oil exports have further raised oil (WTI) prices to an average of $105/barrel and U.S. gas prices to $4.24/gallon as of March 29.



Commercial Market Overview

Rising occupancy and rent growth across asset types

All commercial sectors experienced net positive absorption in the last three months through March 26.

In the multifamily market, demand has normalized, with 60,128 units absorbed in the past three months, compared to the average of 200,000 units per quarter in the first three quarters of 2021. However, demand is still outpacing supply, driving down the vacancy rate to 5% from 6.7% before the pandemic in 2020 Q1.

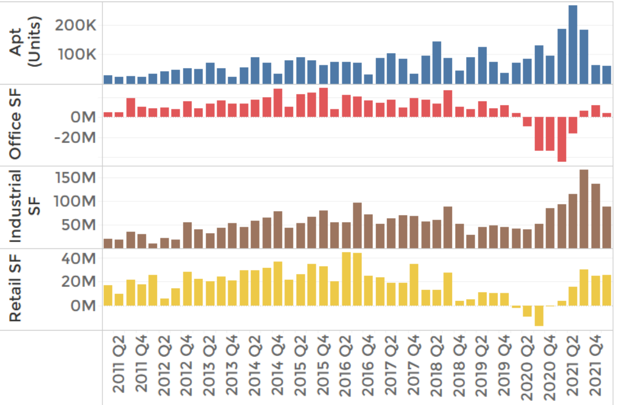
In the office market, 4.3 million square feet (MSF) were absorbed on a net basis in the past three months. Since the office sector's turnaround in the third quarter of 2021, 22.1 MSF of office space has been absorbed. However, there is still about 115 MSF returned to the market since 2020 Q2, pushing up the vacancy rate to 12.3%, from 9.7% in 2020 Q1.

In the industrial market, 88.8 MSF of industrial space was absorbed in the past three months, a slower pace compared to the 150 MSF in 2021 Q3. Since 2020 Q2, 778 MSF has been absorbed. The industrial sector has the lowest vacancy rate among the core property markets, at 4.1%, from 5.3% in 2020 Q1.

In the retail property market, net absorption totaled 25.8 MSF in the past three months, with net absorption of 74 MSF since 2020 Q2. The vacancy rate is hovering at 4.5%, slightly lower than the 4.7% vacancy rate in 2020 Q1.

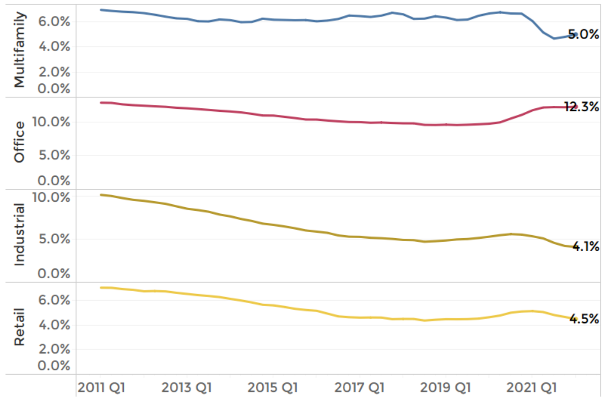
Asking rents are up across all property sectors, with the strongest rent growth for multifamily properties, up 11.1%, and industrial properties, at 10.6%. Office asking rents are modestly up on average by 0.7% from one year ago while retail asking rents rose 3.9%, both below the rate of inflation of 7.9% as of February 2022.

3-Month Net Absorption as of March 26



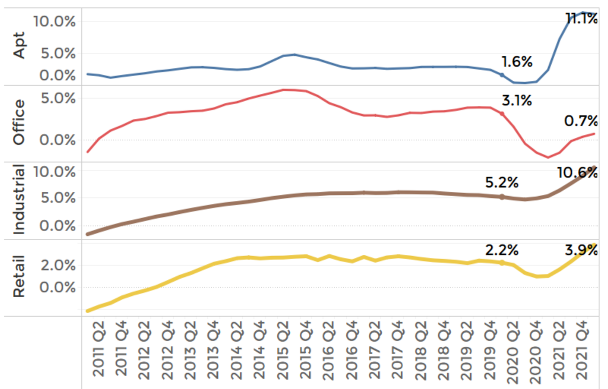
Source: CoStar

Vacancy Rates as of March 26



Source: CoStar

Rising Asking Rents in All Market as of March 26



Source: CoStar

Commercial Market Overview

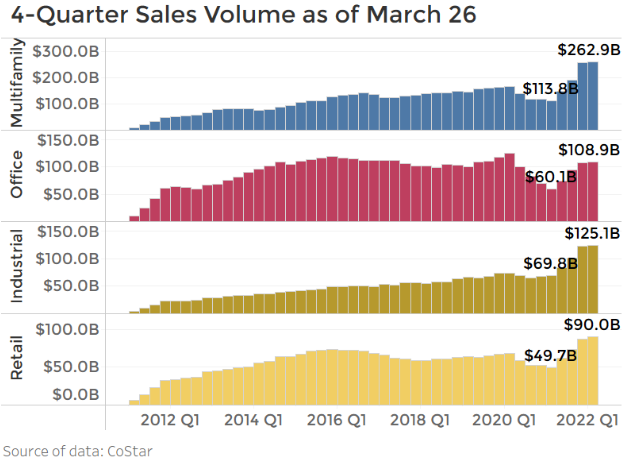
Surge in investor acquisitions and valuations across asset types

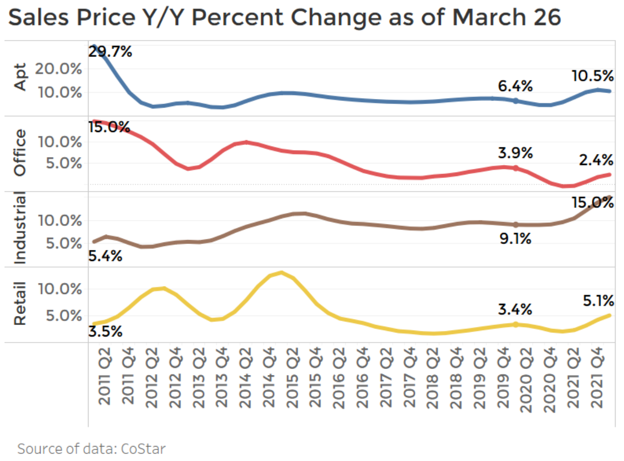
With the CRE market recovery, investor acquisitions rose across the core markets to $586.9 billion, which is double the $293.4 billion level in 2021 Q1. Acquisitions increased across asset classes.

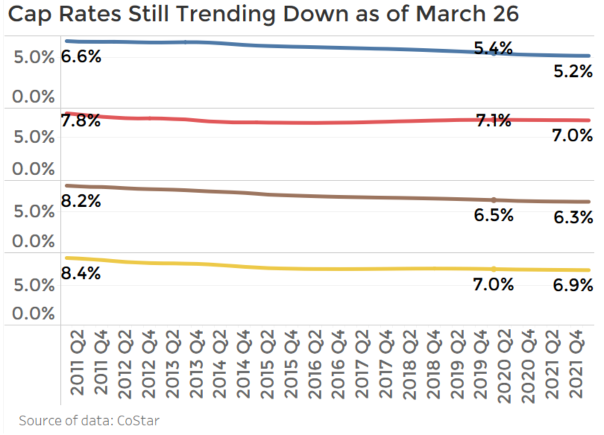
Valuations rose across all markets, with the strongest increase for industrial properties, at 15%, and multifamily properties, at 10.5%. Sales prices of office and retail properties rose modestly at 2.4% and 5.1% respectively, yielding negative real returns when adjusted for inflation.

Cap rents continued to trend downwards according to CoStar estimates, even with the uptick in the 10-year T-note yield to about 2.5%. As of March 26, the multifamily market had the lowest cap rate of 5.2% while the office property market had the highest cap rate of 7.0%, given the uncertainty about long-term office demand and high vacancy rates.

Cap rates are positively correlated with interest rates, but cap rates are not likely to increase in lockstep with the 10-year T-note yield, especially for multifamily properties. Rising mortgage rates will tend to shift the demand toward multifamily rentals. Prices can also increase in markets with rising demand, such as the Sunbelt and Mountain states, even as interest rates rise. However, markets with high vacancy rates like New York, San Francisco, and the District of Columbia won't have much potential for price increases.







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Multifamily

Apartment demand is normalizing but is still outpacing supply

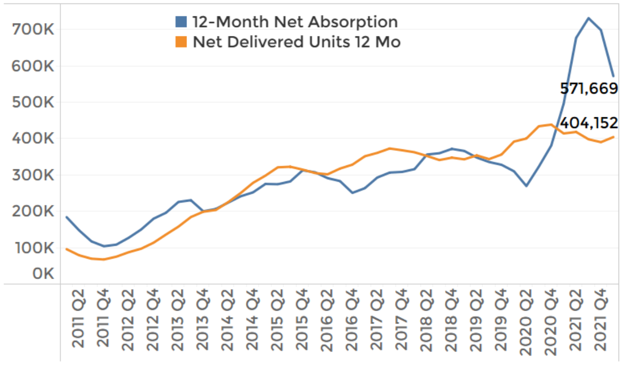
Net absorption of apartment units has normalized after demand surged in 2021. In the 12 months ended March 26, about half a million units were absorbed, a slower pace compared to the 12-month absorption of about 700,000 units absorbed in 2021. But even as net absorption (demand) is normalizing, it is outpacing the number of net delivered units (supply), which totaled about 400,000 units.

Dallas-Fort Worth metro area had the highest net absorption of units in the past 12 months as of March 26, with 39,712 units absorbed. Other Texas metro areas that absorbed a high number of units were Houston and Austin. New York, Los Angeles, Washington DC, Chicago, and Boston— markets that saw falling occupancy in 2020 — are now witnessing rising occupancy.

Vacancy rates are lowest in Apartment Class B and C types, with rates of 5% and below. This indicates the need for the construction of more affordable properties that

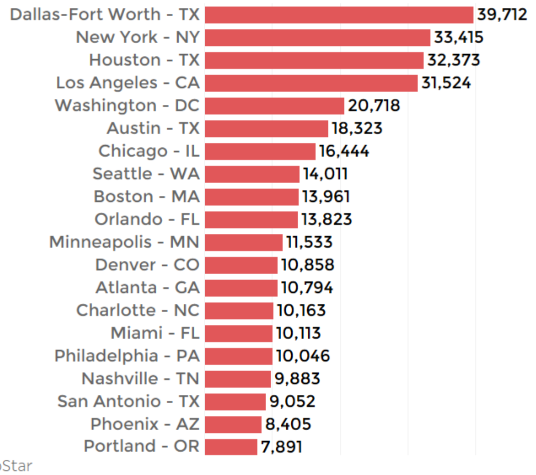
Rents are rising at a double-digit pace in 34% of metro areas, mainly in the Sunbelt and Mountain states. In several Florida metro areas, rents are rising at over 20%, such as in Palm Beach, Orlando, Tampa, Fort Lauderdale, Sarasota, Fort Myers, Naples, and Port St. Lucie.

12-Month Apartment Net Absorption vs. Net Deliveries



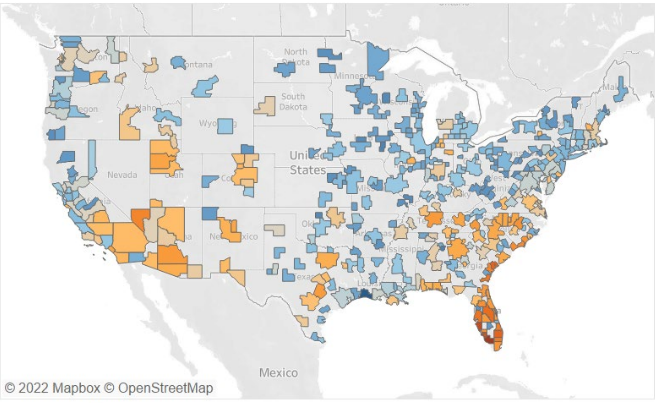
Source: CoStar

12-Month Absorption of Apartment Units



Source: CoStar

34% of metro areas have double-digit apartment asking rent growth (orange areas)



Source: CoStar

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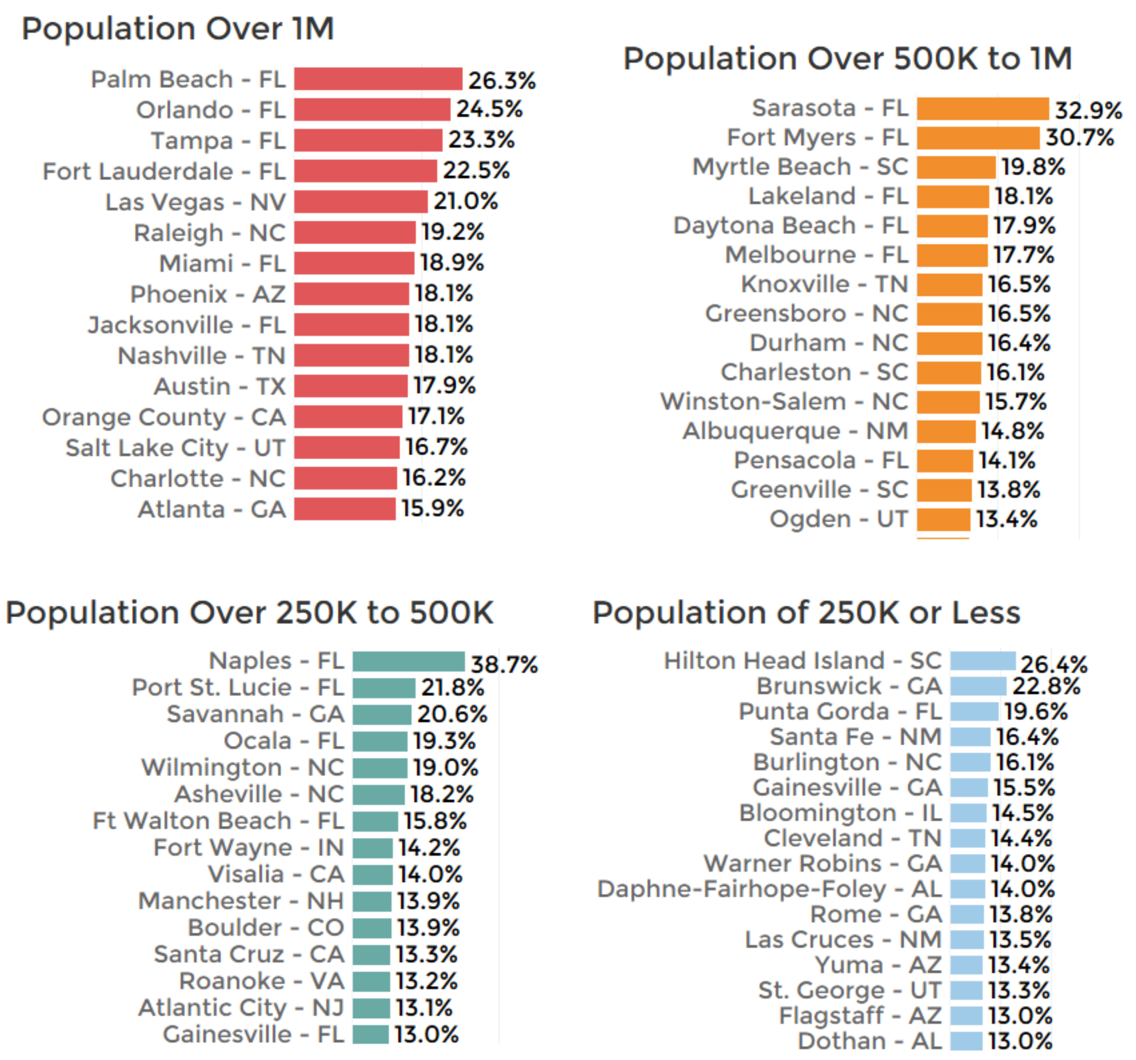
Multifamily

Sunbelt metros see highest rent growth

12-Month Asking Rent Growth as of March 26



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Office

Major markets still losing occupants

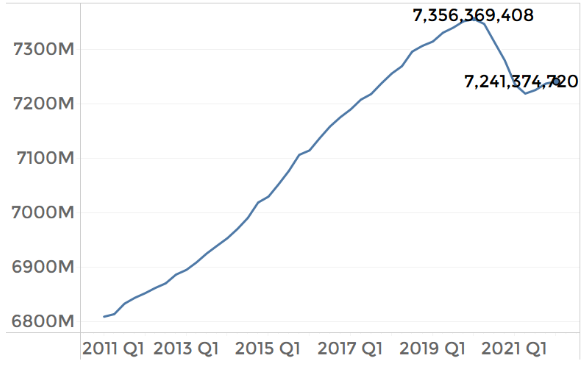
In the three months ending March 26, office net absorption totaled 4.3 million MSF, bringing the total absorption to 22.1 MSF since 2021 Q3. However, the total occupied space is still 115 MSF below the level in 2020 Q1. Office space per worker appears to be trending downwards, to 243 square feet on average as of March 2021.

Absorption was positive for Class A buildings, with 5.4 MSF absorbed in the past three months, while occupancy declined in Class C buildings by 1 MSF. The demand for Class A/B units could be associated with their facilities and amenities that reduce COVID transmission and are better suited for a hybrid workstyle (e.g. new HVACs, hot-desking, more collaboration areas, touchless elevators, etc.).

In the past 12 months, 253 out of 390 markets, or 65%, have experienced net positive absorption, led by Austin (1.5 MSF), Palm Beach (1.5 MSF), Durham (1.5 MSF), Provo (1.3 MSF), and Las Vegas (1 MSF). On the other hand, the major markets of New York, Los Angeles, San Francisco, Washington DC, and Chicago have suffered massive declines in occupancy compared to the pre-pandemic level in 2020 Q2, with the largest loss in the New York metro area, at nearly 30 MSF.

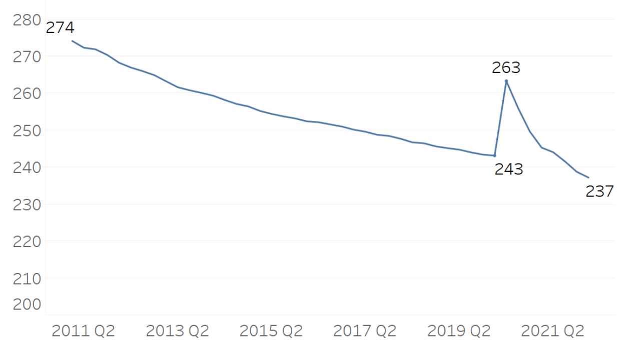
Office asking rents are rising in most metro areas, but are still declining in primary markets like New York San Francisco, and Washington DC.

Occupied Office Space in Square Feet

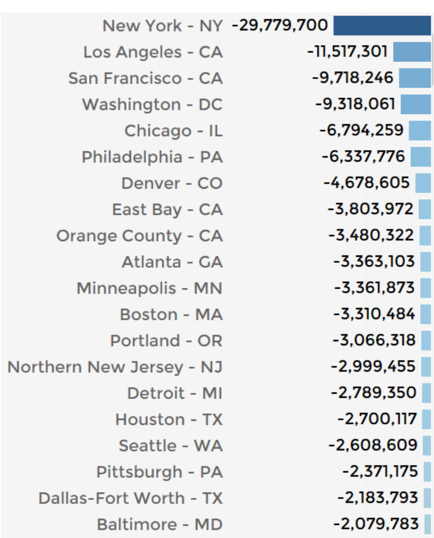


Source: CoStar

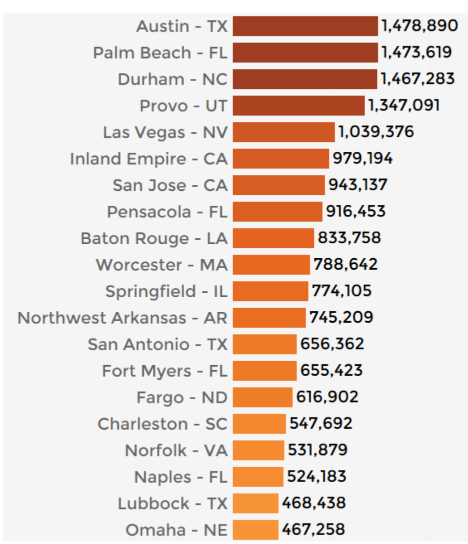
Declining average size of office space per office worker (sq. ft.)



Negative Net Absorption Since 2020 Q2 as of March 26



Positive Net Absorption Since 2020 Q2 as March 26



Source: NAR analysis of CoStar data

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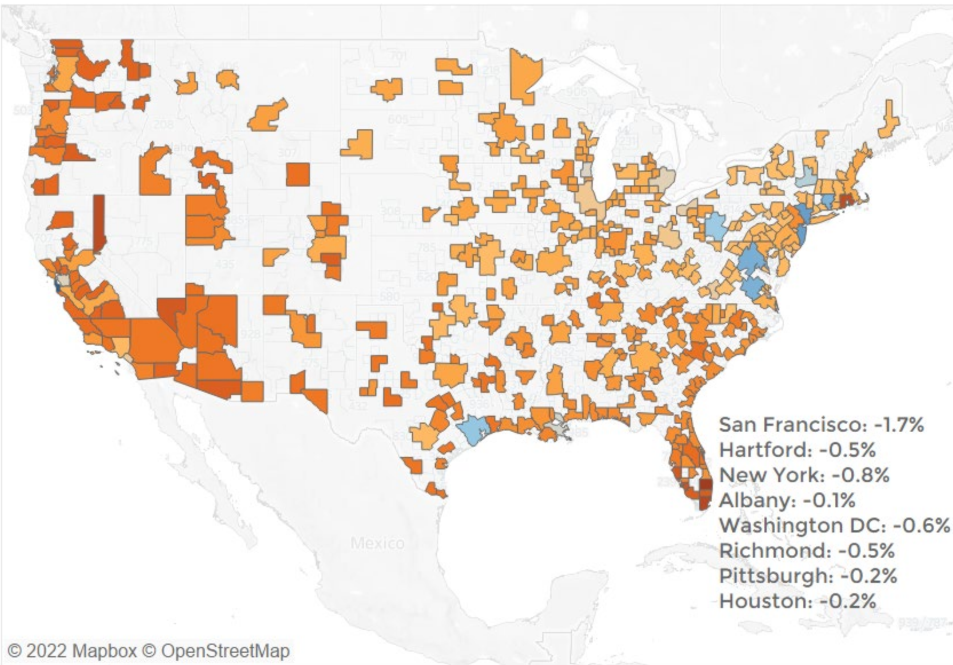
Office

Rents are increasing in 97% of metro areas

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

Y/Y Percent Change, Office Asking Rent as of March 26



Source: CoStar

Over 1 Million

Palm Beach - FL	6.4%
Miami - FL	5.4%
Providence - RI	5.1%
Las Vegas - NV	4.3%
Fort Lauderdale - FL	4.0%
Tucson - AZ	4.0%
Orlando - FL	3.3%
Phoenix - AZ	3.0%
Inland Empire - CA	2.9%
Raleigh - NC	2.8%

Over 500,000 to 1 Million

Reno - NV	5.1%
Fort Myers - FL	4.6%
Sarasota - FL	4.3%
Colorado Springs - CO	3.9%
Spokane - WA	3.7%
Columbia - SC	3.1%
Stockton - CA	3.1%
Ventura - CA	3.0%
Melbourne - FL	3.0%
Bakersfield - CA	2.9%

Over 250,000 to 500,000

Naples - FL	3.9%
Visalia - CA	3.7%
Merced - CA	3.6%
Vallejo-Fairfield - CA	3.4%
Salinas - CA	3.3%
Kennewick-Richland - WA	3.3%
San Luis Obispo - CA	3.2%
Yakima - WA	3.2%
Bremerton - WA	3.1%
Santa Cruz - CA	3.1%

Up to 250,000

Bend - OR	3.9%
Walla Walla - WA	3.8%
Bellingham - WA	3.8%
Lewiston - ID	3.6%
Grants Pass - OR	3.6%
Wenatchee - WA	3.6%
Longview - WA	3.6%
Albany - OR	3.6%
Hanford-Corcoran - CA	3.6%
El Centro - CA	3.5%

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Industrial

Occupancy

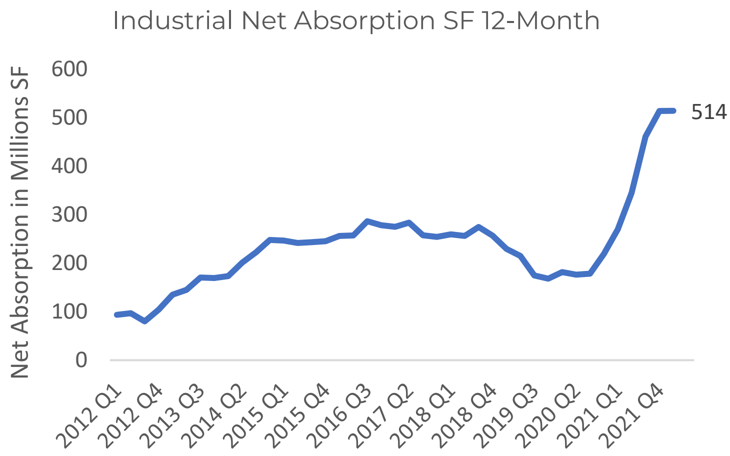
Net absorption increased in the twelve months ended March 27, with 513.6 MSF absorbed, but absorption appears to have lost some steam in the first quarter.

While positive, 3-month absorption has trended downwards to 93.7 MSF in the three months as of March 27, down from 137 MSF in Q4 2021 and 167 MSF in Q3 2021.

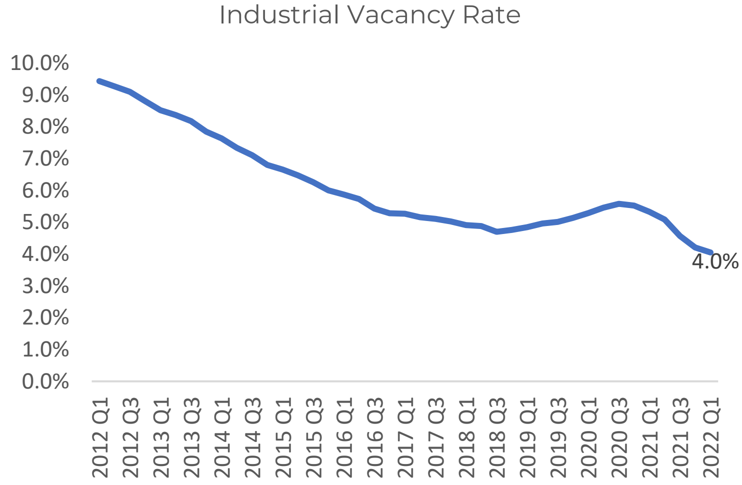
Industrial absorption has been positive for more than a decade. Absorption was positive for flex, logistic and specialized industrial properties. While absorption was positive for all industrial properties, only specialized industrial space saw an increase concerning the prior quarter with a 66% increase. Logistic space and flex space were down by 36% and 27% from Q4 2021 respectively.

However, the U.S. industrial sector, on a net basis, is up by 83 MSF since the pandemic whilst the vacancy rate declined to all-time lows (currently 4.0%). Specialized industrial properties have the lowest vacancy rate, at 3.4%, while flex properties have the highest vacancy rate at 6.0%. The logistic vacancy rate is at 4.0%.

With such low vacancy, industrial rent growth has risen to 10.6% in the past 12 months whereas logistic space has the highest average rent growth in the past 12 months of 12.1%. Flex and specialized industrial buildings had 7.7% and 8.9% rent growth in the past 12 months respectively.



Source: NAR analysis of CoStar data



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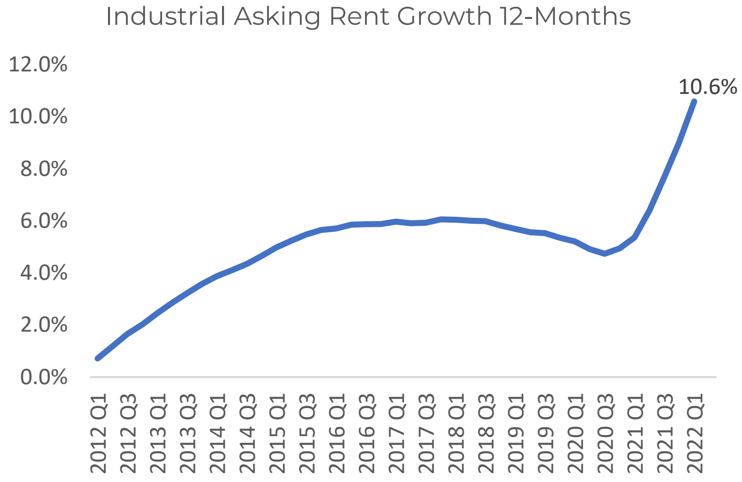

Source: NAR analysis of CoStar data

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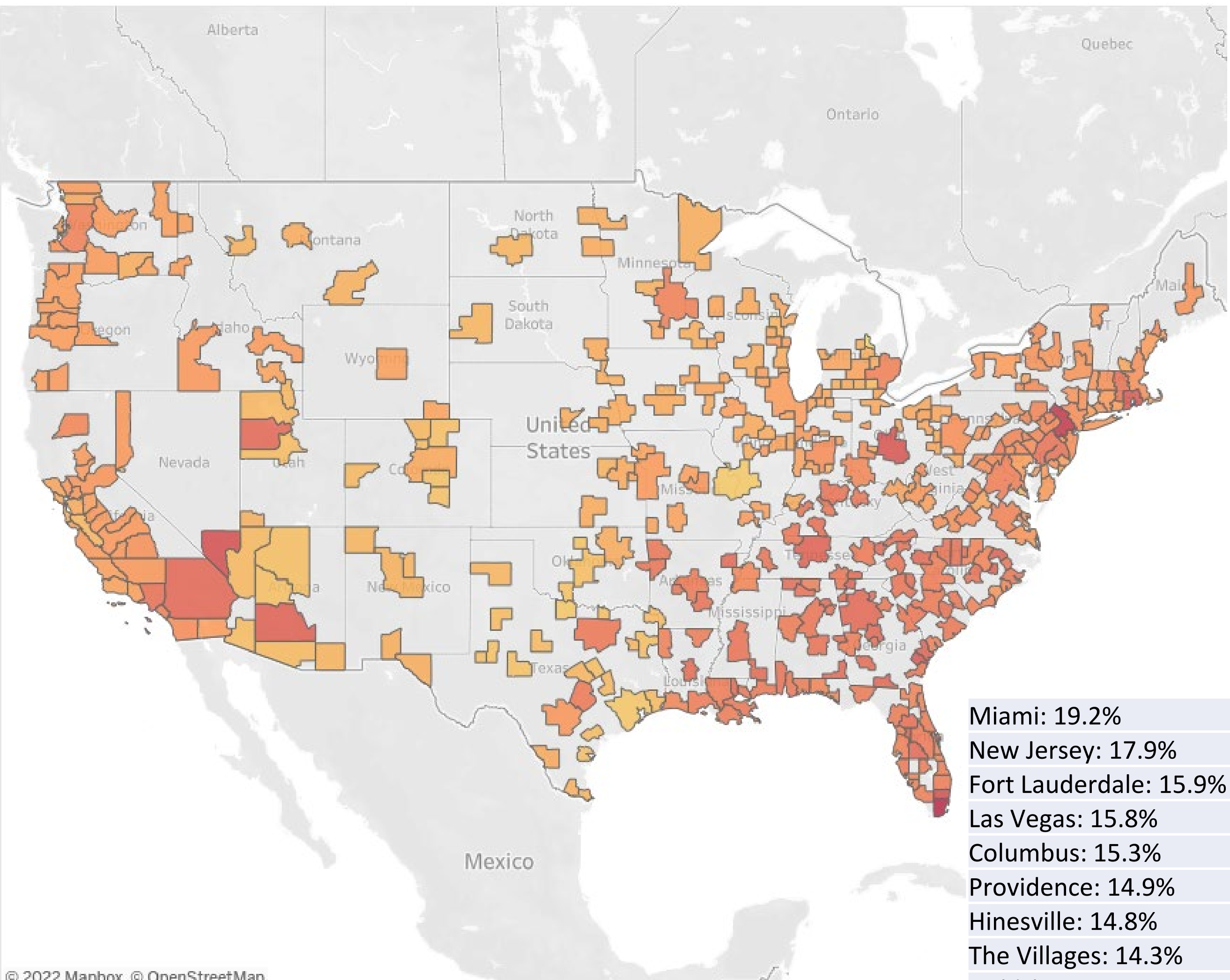
Industrial

Industrial rents are rising in all metro areas led by Miami

The average asking rent across 390 markets covered by CoStar® increased by 10.6% year-over-year and towards $10.16/sf as of March 27, 2022. Rents are increasing in every metro area as none covered by CoStar® have declining rents. Miami, Florida has the fastest rent growth, with average rent growth in the past 12 months of 19.2%. Florida has four of the 20 top metro areas with the fastest rent growth: Miami, Fort Lauderdale, The Villages, and Lakeland. While Florida has the highest rent growth, Georgia's metros are hot as well, and Georgia has 6 of the top 20 metro areas with the fastest rent growth: Hinesville, Savannah, Dalton, Atlanta, Macon, and Valdosta.

Industrial Y/Y Asking Rent Growth as of March 27, 2022



Miami: 19.2%	
New Jersey: 17.9%	
Fort Lauderdale: 15.9%	
Las Vegas: 15.8%	
Columbus: 15.3%	
Providence: 14.9%	
Hinesville: 14.8%	
The Villages: 14.3%	
Goldsboro: 14.2%	
Rocky Mount: 14.2%	

Source: NAR analysis of CoStar data

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Retail

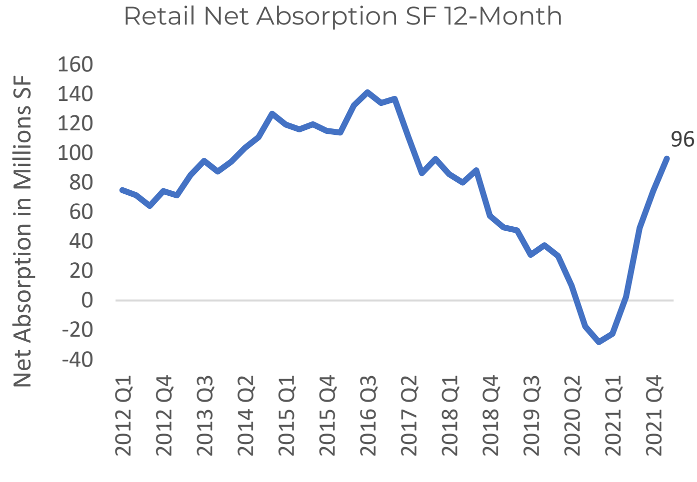
Absorption of retail space increasing

Net absorption of retail properties appears to be picking up. In the twelve months ended March 27, 2022, retail net absorption totaled 96.0 MSF. Retail net absorption (demand) continues to outpace net deliveries (supply) where supply currently totals 19.7 MSF.

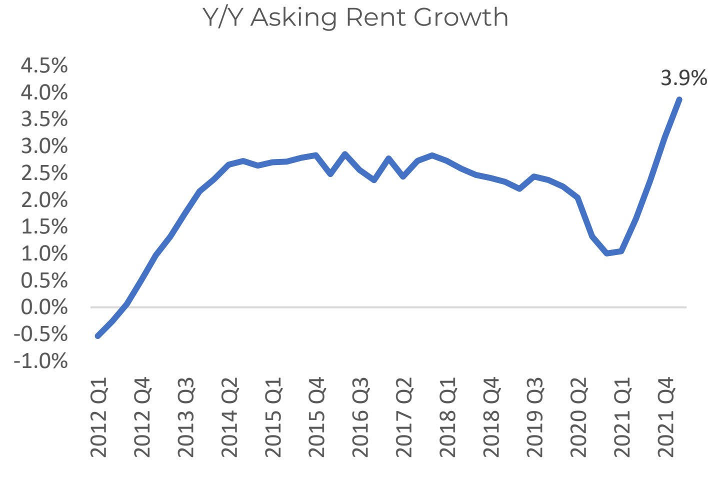
Net absorption increased in all retail property types. General retail accounted for 45.8% of the absorbed space, followed by neighborhood centers (34.7%), strip centers (10.8%), power centers (5.8%), and then malls (0.7%).

The twelve-month net absorption is above the 53.7 MSF under construction in Q4 2021 in 390 markets covered by CoStar®, so faster demand will tend to increase the pressure for rents to move upwards. As of March 27, asking rents have increased on average by 3.9% in the past 12 months which is up from 3.2% in Q4 2021.

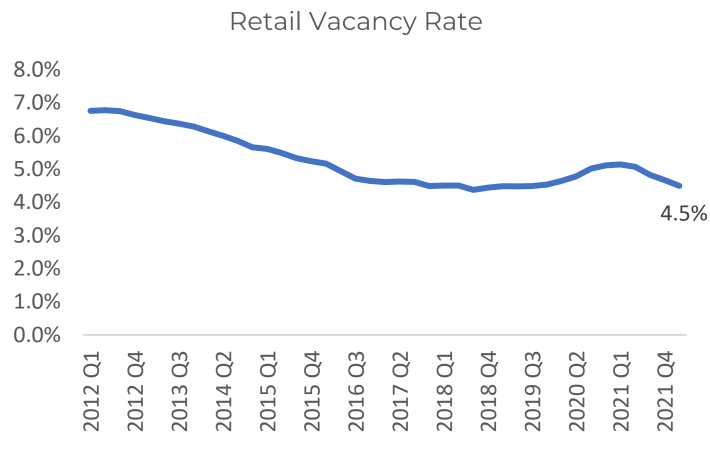
The overall retail vacancy rate continues to decline as it reached 4.5% as of March 27, 2022. General retail has the lowest vacancy rate at 2.7% while malls have the highest with 8.0%. Neighborhood centers, power centers, and strip center vacancy rates are 6.9%, 5.2%, and 5.0% respectively.



Source: NAR analysis of CoStar data



Source: NAR analysis of CoStar data



Source: NAR analysis of CoStar data

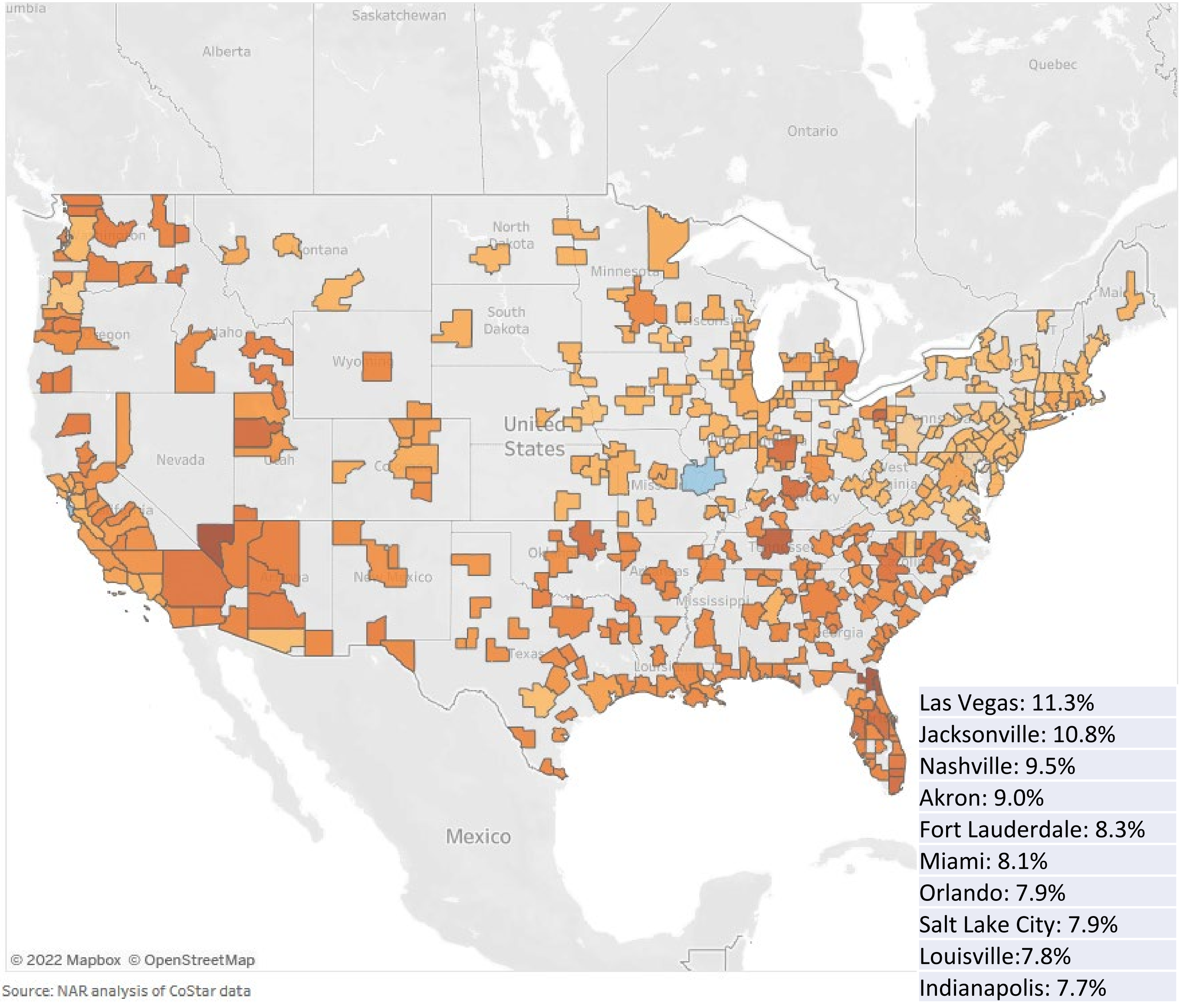
NATIONAL ASSOCIATION OF REALTORS®

Retail

Strongest asking rent growth in Las Vegas and Jacksonville

The average asking rent across 390 markets covered by CoStar® increased by 3.9% year-over-year and towards $22.88/sf as of March 27, 2022. Rents are rising in nearly every metro area covered by CoStar® as only two have declining rents; San Francisco (-2.7%) and Saint Louis (-1.7%). Only two of the metro areas covered are experiencing double-digit increases in asking rents., Las Vegas (11.3%) and Jacksonville (10.8%).

Retail Y/Y Asking Renth Growth as of March 27, 2022



Source: NAR analysis of CoStar data

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Hotel

Hotel sector recovery stalls

While the hotel property market has improved compared to one year ago, the emergence of the Omicron variant in November stalled the hotel property market's recovery. Hotel occupancy was just at 52.2% in February, which is still below the occupancy of 56.9% prior to the pandemic in February 2020. The upscale and upper-midscale have the highest occupancy rates, with lower occupancy for the luxury and midscale submarkets.

The revenue per available room (RevPAR), which takes into account occupancy, fell to $68/room, which is also below the pre-pandemic rate of $73 prior to the pandemic.

The highest occupancy rates are in the metro areas of Florida, led by the Florida Keys, Fort Myers, and Miami. The Hawaii/Kauai Island also has an occupancy rate of above 70%.

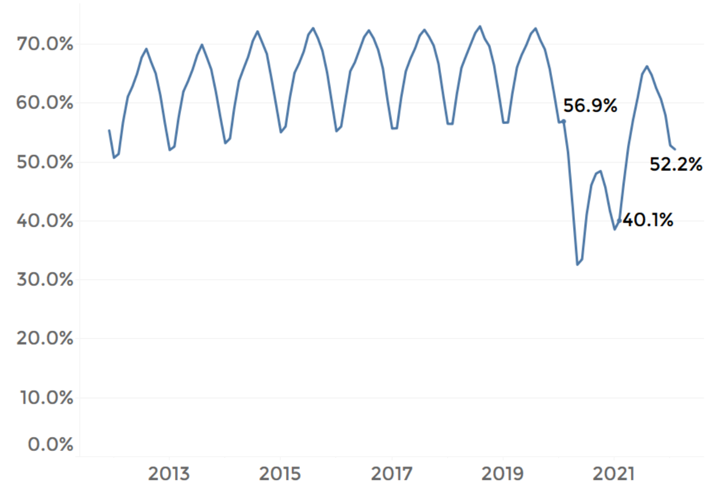
Hotel Occupancy as of 2/28/2022

Florida Keys	82.5%
Fort Myers - FL	74.6%
Hawaii/Kauai Islands	72.9%
Miami - FL	71.7%
Tampa - FL	71.1%
Palm Beach - FL	70.8%
Sarasota - FL	70.7%
Oahu Island - HI	70.6%
Fort Lauderdale - FL	70.4%
McAllen/Brownsville - TX	70.0%
Maui Island - HI	68.3%
Phoenix - AZ	67.4%
Florida Central	67.3%
Los Angeles - CA	65.2%
Jacksonville - FL	65.0%
Orlando - FL	64.8%
Inland Empire - CA	64.2%
Tucson - AZ	63.4%
Salt Lake City/Ogden - UT	61.7%
Melbourne - FL	61.6%

Source: NAR analysis of CoStar data

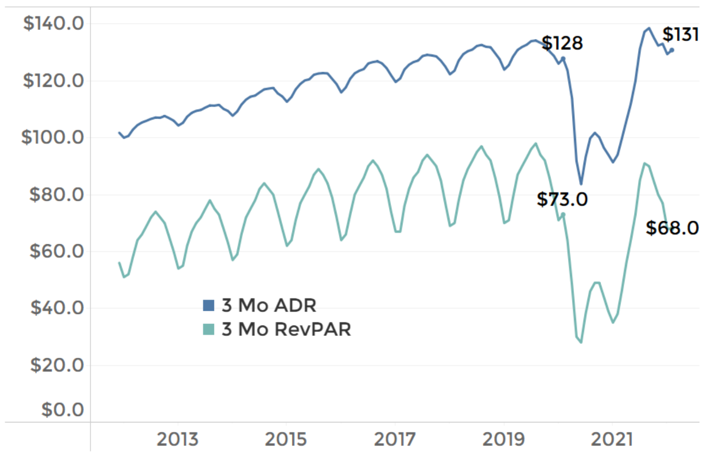
ADR is the total revenue/number of rooms.
RevPAR is ADR x occupancy rate.

3-Month Hotel Occupancy Rate as of February 2022



Source: NAR analysis of CoStar data

3-Month Average Daily Revenue and Revenue Per Available Room as of February 2022



Source: NAR analysis of CoStar data

3-Month Hotel Occupancy Rate as of February 2022

Source: NAR analysis of CoStar data

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COMMERCIAL MONTHLY INSIGHTS REPORT
March 2022

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