July 2021
Commercial Market Insights

National Association of REALTORS®
Research Group

NATIONAL ASSOCIATION OF REALTORS®

Contents

Sustained job creation, more consumer spending, and the continuing return of the workforce to the office underpinned the commercial real estate's recovery across all property sectors in the first half of 2021.

Acquisitions of investors of commercial real estate rose acquisitions rose 34% in the first half of 2021. Commercial prices continued to recover, with property valuation just 1% below the valuations prior to the pandemic at a broad level. With prices firming up, cap rates continued to compress across all property types, with the lowest cap rates for apartment and industrial property acquisitions.

The apartment and industrial properties remain the most favored assets among the core property types. Apartment absorption rose at the strongest pace in a decade, with the median rent for vacant apartments rising at 18%. In the industrial property sector, the vacancy rate fell to 4.5% with consumers sustaining their e-commerce spending. The retail property market also rebounded, with acquisitions directed towards shopping centers (multi-tenants) than shops (single-tenant), Hotel acquisitions, while accounting for a smaller portion of the investment deals, were 200% above the level one year ago. One use for vacant hotels/motels is for multifamily housing. The office market remains the weakest property sector, suffering sustained occupancy losses in the second half, with a total negative net absorption of 170 million square feet since the pandemic and a vacancy rate of nearly 18%.

Barring a major resurgence of coronavirus cases arising from the delta variant that could lead to another economic shutdown, NAR Research anticipates that sales and commercial leasing will continue to expand in 2021 and more strongly in 2022. However, given the large loss in office occupancy and the office construction in the pipeline, the office vacancy rate will likely continue to remain elevated at the current level throughout 2022.

Enjoy reading the latest issue!

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Economic Conditions

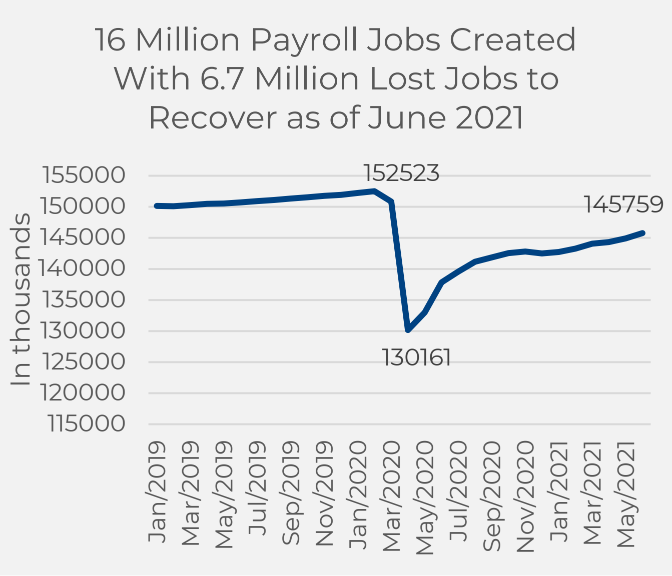
Jobs, spending, mobility continue to trend up

16 million payroll generated from May 2020-June 2021 with 6.7 million jobs to recover

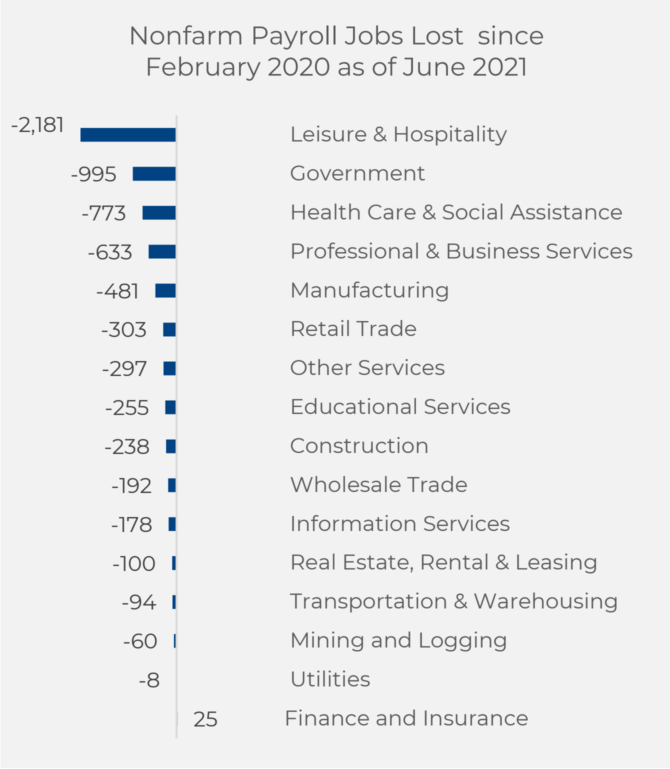
The economy continues to recover, creating new jobs. As of June 2021, the economy has created 16 million net new jobs, or 71% of the 22.4 million jobs lost during March and April 2020. There are 6.7 million nonfarm payroll jobs still to be recovered.

About one in three jobs to still be recovered are in leisure and hospitality, followed by the government sector, health care and social assistance, and professional and businesses services, which each have lost over 500,000 jobs. At the broadest industry level grouping, only the finance and insurance industry had job gains.

Sixty-four of 445 metro areas and their metropolitan divisions, or just 15%, have more jobs as of June 2021 compared to February 2020.



Source: BLS Establishment Survey



Source: BLS Establishment Survey

Change in non-farm nonfarm employment, June 2021 vs. Feb 2020 (in thousands)

Ocean City, NJ	23.1
Salisbury, MD-DE	15.5
Barnstable Town, MA Metropolitan NECTA	14.4
Ogden-Clearfield, UT	13.5
Boise City, ID	11.5
Provo-Orem, UT	10.2
Salt Lake City, UT	8.1
Coeur d'Alene, ID	7.3
Idaho Falls, ID	6.9
Myrtle Beach-Conway-North Myrtle Beach, SC..	5.9
St. George, UT	5.2
Elkhart-Goshen, IN	4.8
Rapid City, SD	4.5
Daphne-Fairhope-Foley, AL	4.5
Des Moines-West Des Moines, IA	3.6
Kansas City, MO	3.2
Hilton Head Island-Bluffton-Beaufort, SC	3.0
Sioux Falls, SD	2.9
KenneWick-Richland, WA	2.6
Glens Falls, NY	2.2
Pocatello, ID	2.1

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Economic Conditions

Jobs, spending, mobility continue to trend up

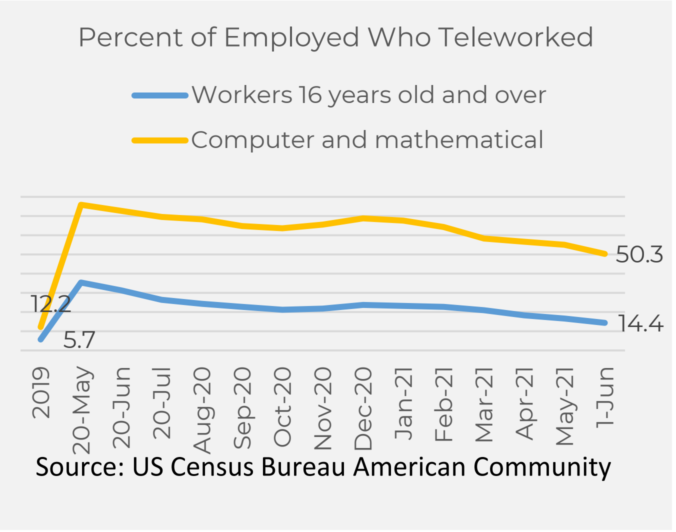
14% of the workforce still working from home

Workers are returning to the office. As of June 2021, just 14% of workers teleworked, down from a peak of 35%, but still about thrice the 5.7% share in 2019. Among computer and mathematical workers, 50% are teleworking, about four-fold from the 12% share in 2019. The fraction of workers who telework continues to trend downwards, but a higher fraction of workers will likely work from home compared to the pre-pandemic especially among occupations (e.g. tech workers) who can perform tasks at home.

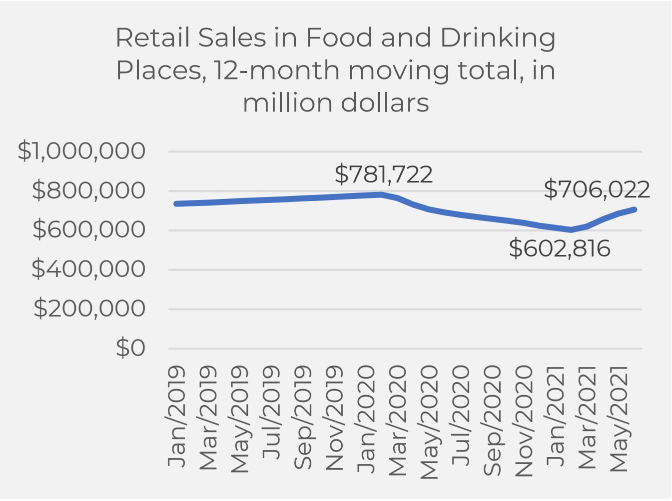
Consumer spending in food and drinking places is picking up while e-commerce continues to accelerate

Consumer spending in food and drinking places is rising, as more people are vaccination and as states allow businesses to operate at a higher capacity. Retail sales in food and drinking places has steadily increased since February 2021, with sales just 9% below the level in February 2021. Consumers are spending their income, with the savings rate continuing to normalize, to 12.4%, as of June 2021..

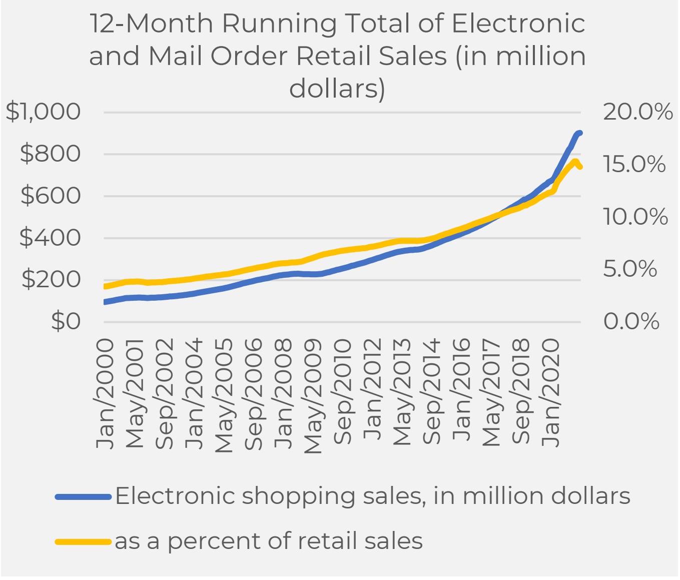
Electronic and mail order sales continues to trend upwards in terms of dollar volume, to $902 billion dollars, or 15% of retail trade sales. Prior to the pandemic, electronic sales accounted for just 12.4% of retail trade sales.



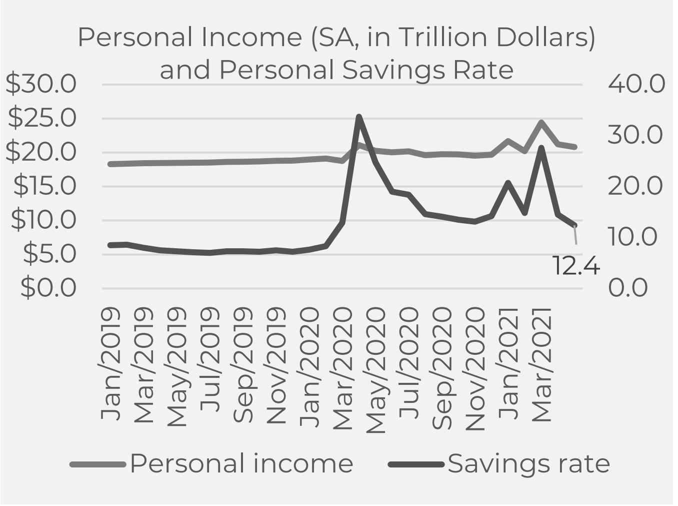
Source: BLS COVID-19 Supplemental Survey



Source: :US Census Bureau



US Census Bureau



Source: :US Bureau of Economic Analysis

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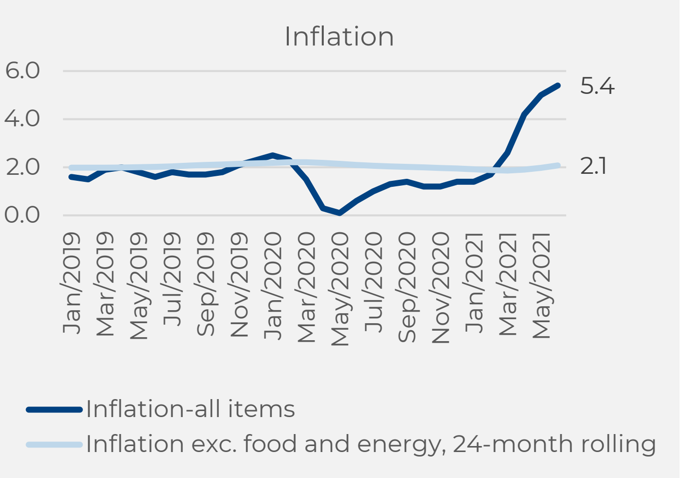
Economic Conditions

Jobs, spending, mobility continue to trend up

Inflation surged to 5.4% in June due to uptick in energy and transportation prices

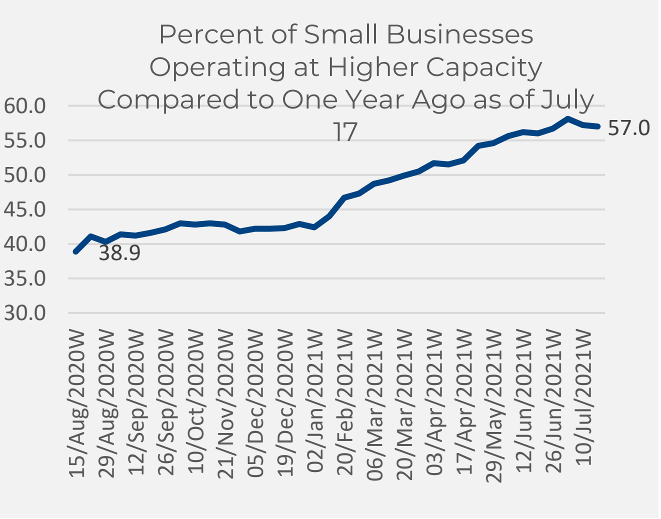
With consumer spending normalizing, the inflation rate (all items) surged to 5.4% in June 2021 due to rising energy and transportation prices. Over a 2-year rolling window, the average inflation rate less the food and energy services averaged 2.1% as of June 2021. In its June 16 meeting, the Federal Open Market Committee kept the federal funds rate at 0 to 25% and the current policy to increase its holdings of Treasury securities by at least $80 billion per month and of agency (Fannie Mae, Freddie Mac, Ginnie Mae) mortgage-backed securities by at least $40 billion per month to steer the economy back to maximum employment



US Bureau of Labor Statistics

57% of small businesses operating at higher capacity as of July 17, 2021

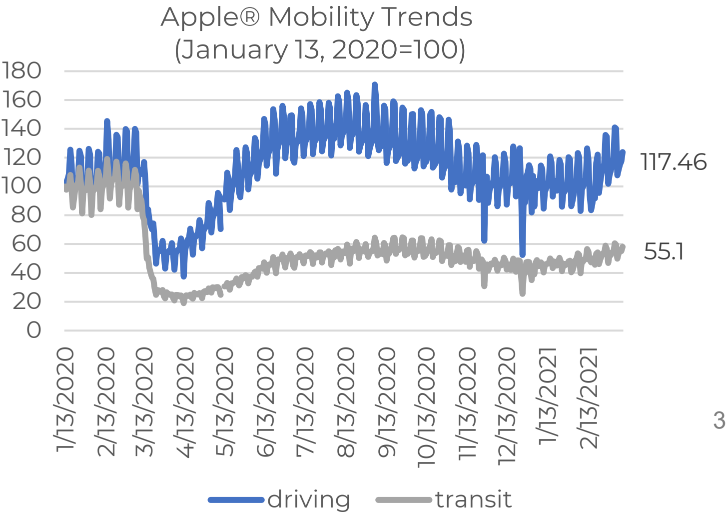
As the economy continues to recover, a businesses are starting to operate at higher capacity. As of the week of July 17, 57% of small businesses were operating at higher capacity compared to one year ago as COVID-19 cases started to accelerate.

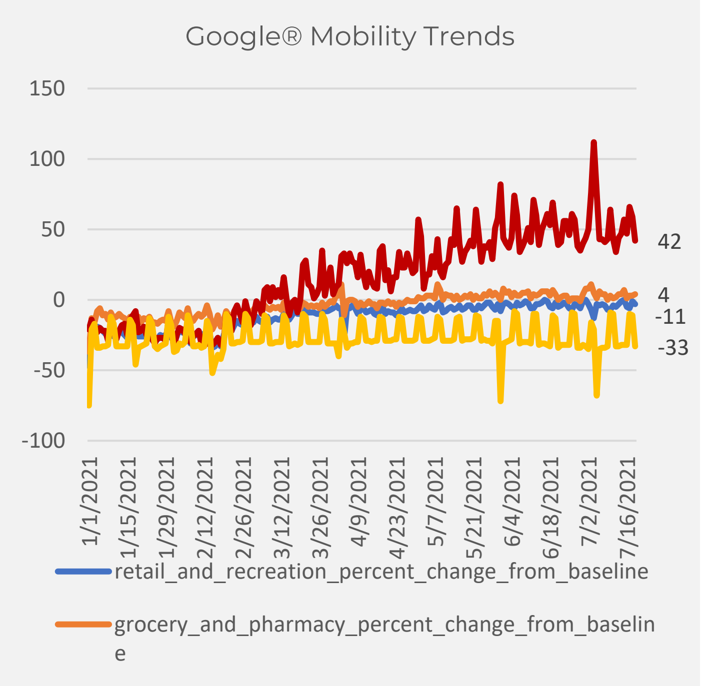


Source: US Census Bureau Small Business Pulse Survey

Mobility to places continues to normalize

Mobility continues to normalize based on the number of visits to locations tracked by Google® (where locations settings are turned on) and volume of directions tracked by Apple®. The visit to workplaces, retail stores/recreation is still below the pre-pandemic level (Jan 2020), with visit to workplaces down by 33%. The use of public transportations is about half of the pre-pandemic level.





Commercial Market Overview

CRE acquisitions up 34% in first half of 2021

Commercial sales transactions during 2021 H1 Up 34% from one year ago

Commercial real estate (CRE) acquisitions rose 34% during the first half of 2021 compared to the level one year ago, with investment acquisitions up in all property classes.

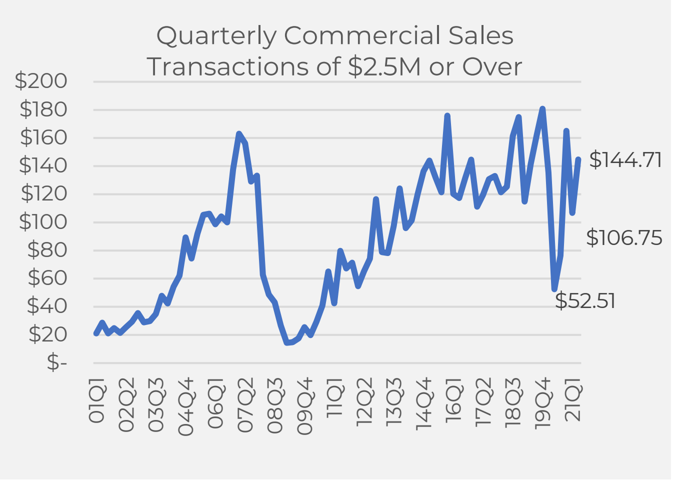
The apartment CRE market this year's strongest asset class in terms of size and its strong growth. The dollar volume of apartment transactions from January-June 2021 rose 64% , and it accounts for the largest deal volume, at $92.1 billion. Industrial was the asset with the second largest volume of acquisitions, at $51.9 billion, up 10%.

Acquisitions for office, retail, and seniors housing and care were also up from one year ago. However, office acquisitions rose at the slowest pace of 6%, compared to other property assets, as investors continue to assess how the work from home policy will impact the demand for office space.

The largest increase was of hotels, where acquisitions were up 253% from one year ago. Investors have been acquiring some hotels for conversion into multifamily housing as documented in NAR's *Case Studies on Repurposing Vacant Hotels/Motels into Multifamily Housing.*

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

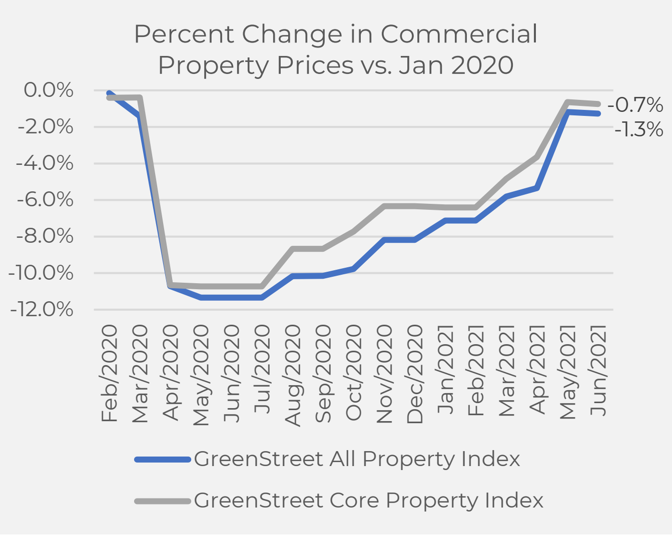
Commercial real estate prices continue to firm up. As of June 2021, the Green Street Commercial Price Index, an appraisal-based index of high-quality properties held by REITs, is about 1% below the pre-pandemic level in January 2020. The index fell by as much as 10% year-over-year in the second quarter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



Source: Real Capital Analytics

	H1 '21	
	Vol ($b)	YOY
Office	47.5	6%
Retail	22.8	22%
Industrial	51.9	10%
Hotel	20.4	253%
Apartment	92.1	64%
Seniors Housing & Care	6.8	36%
Dev Site	9.9	-4%
Total	251.5	34%

Real Capital Analytics



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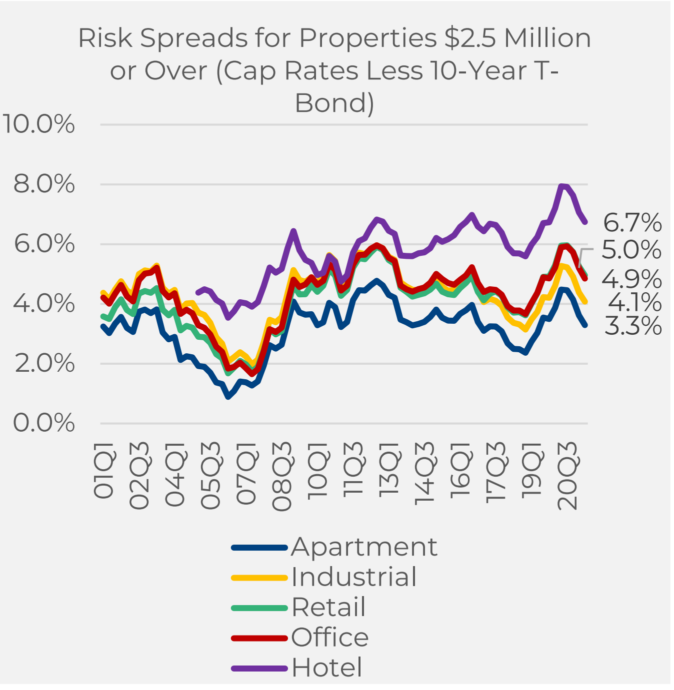
Commercial Market Overview

Investment acquisitions up 34% in first half of 2021

Cap rates continue to compress

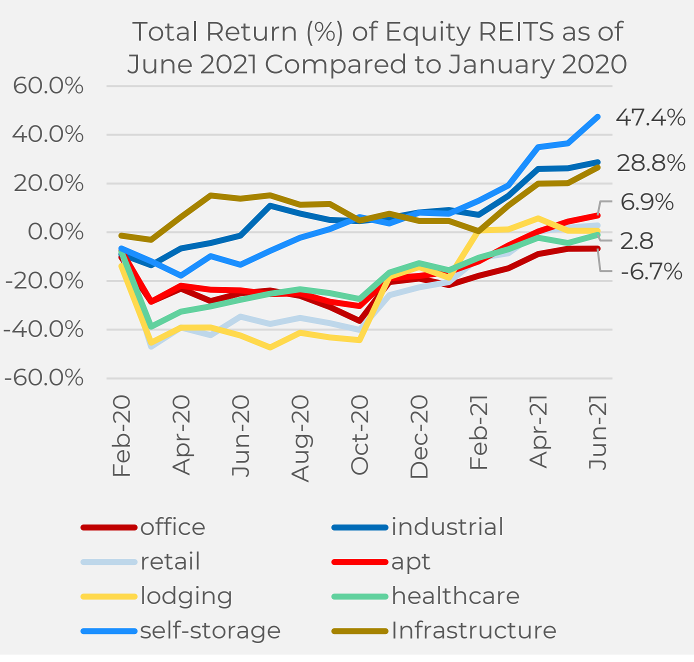
As prices continue to firm up, cap rates continue to compress. Acquisitions for apartment properties had the lowest risk spread (cap rate less 10-year T-note) at 3.3% (4.5% one year ago), followed by industrial acquisitions, at 4.1% (5.3% one year ago). Hotel acquisitions had the highest risk spread at 6.7% (7.9% one year ago). For office acquisitions, the risk-adjusted cap rate was 4.9% (5.9% one year ago). The risk-adjusted cap rates for retail properties has also declined to 5.0% (6.0% one year ago). As of June, the 10-year T-bond (risk-free rate) was 1.6%.



Source: NAR calculation based on Real Capital Analytics data

Industrial and self-storage REITs have highest returns

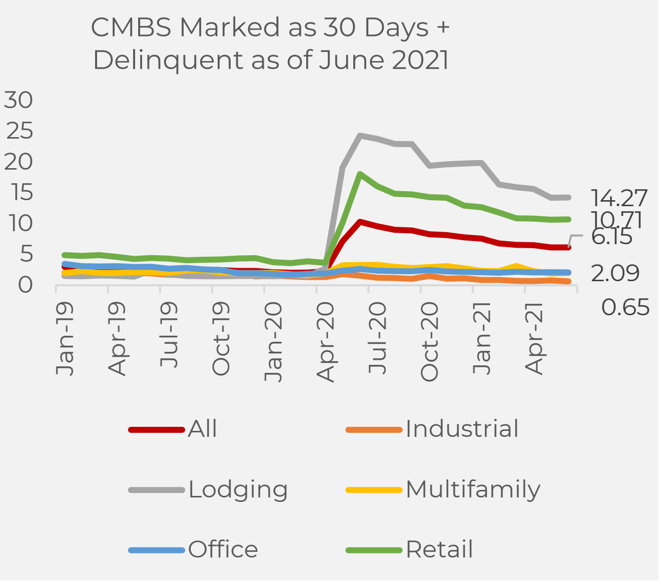
The total return on REITs invested in various types of assets has turned from negative in 2020 to as of June 2021 compared to January 2020, except for office REITs which continue to show a total return of –6.7%. The highest total returns (price and dividend) as of June 2021 relative to January 2020 were in self-storage (47.4%), industrial (28.8%), and infrastructure (26.6%).



Source: NAR calculation based on Nareit data

CMBS delinquency rates continue to decline

As the economy continues to recover, delinquency rates continue to fall to 6.2% in May 2021. The highest loan delinquencies are In lodging, at 14.3%, and the lowest was industrial, at less than 1%.



Multifamily

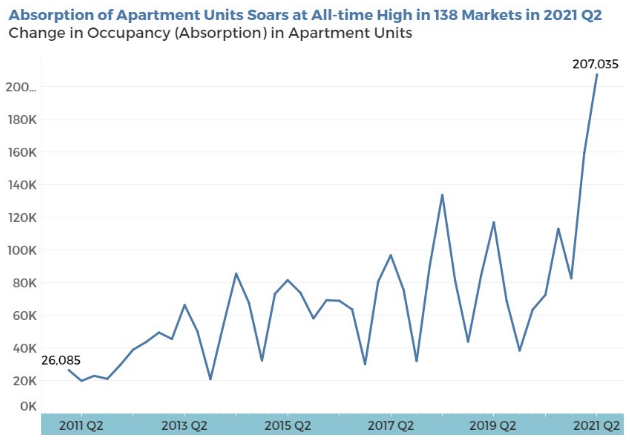
Strongest absorption in a decade with soaring rent growth

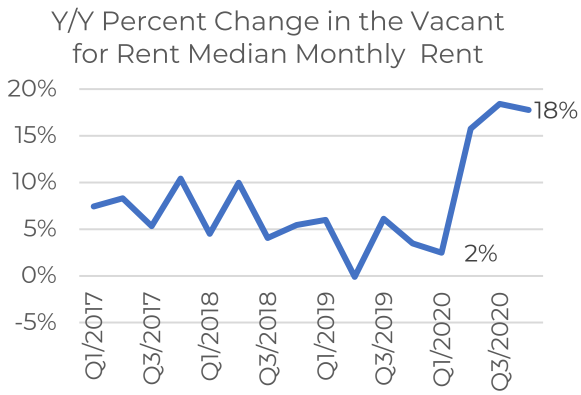
The apartment CRE market is experiencing a boom. Net absorption of apartment units reached its strongest level in a decade, with a net absorption of about 207,000 units.

With strong demand, the median monthly rent for vacant units during 2021 Q1 rose 18% from one year ago, as the median monthly rent rose to $1,226 in 2021 Q1, according to the US Census Bureau.

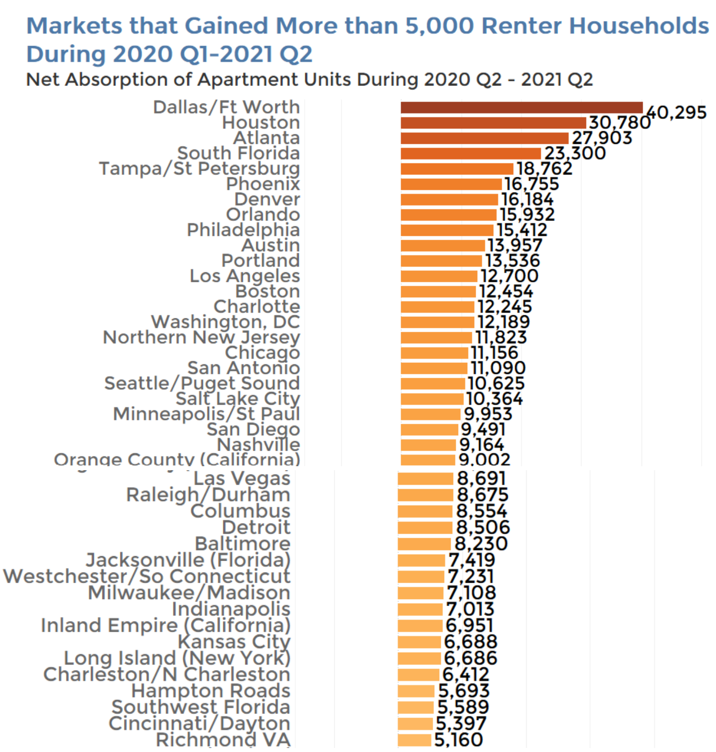
Among 138 apartment markets, only San Francisco had negative net absorption of apartment units (-2,730 units) while all other metro saw a net gain in renter households during 2020 Q1- 2021 Q2.

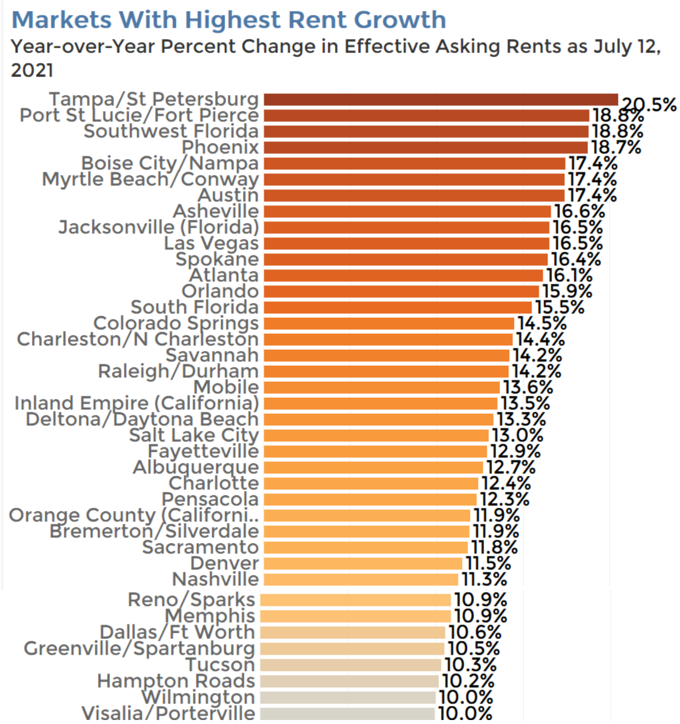
Thirty-nine out 138 markets or 28% double digit increase in the effective rent as of July 12, 2021 compared to one year ago. Even the markets that saw a decline in rent during 2020 how have higher rents that on year ago, such as New York City (+3%), Washington DC (6%), San Francisco (+5.4%), San Jose (3.1%), and Seattle (+7.2%).





Source: US Census Bureau





Source: NAR analysis of CoStar data

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Multifamily

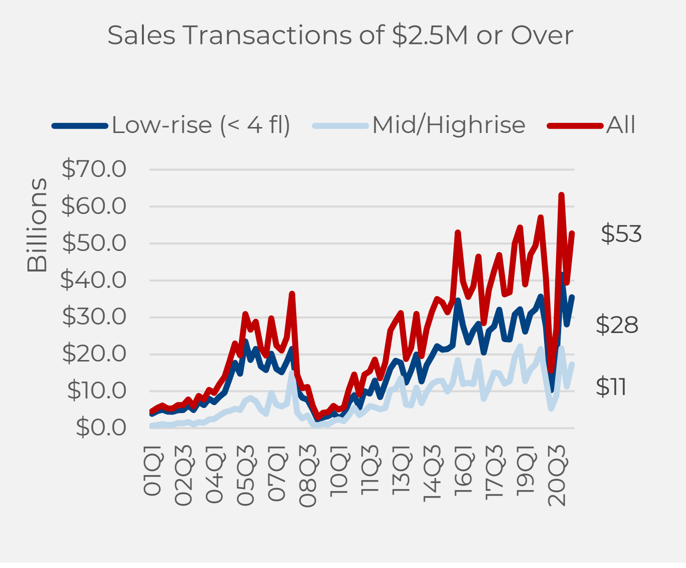
Multifamily acquisitions up 6% in the 2021 H1

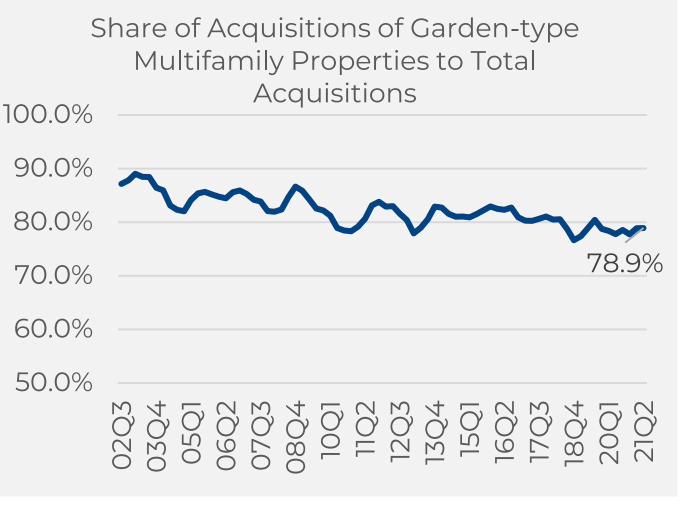
The apartment CRE market accounted for the largest volume of CRE investment deals, at $91 billion as of the first half of 2021. with deals up 64% from one year ago.

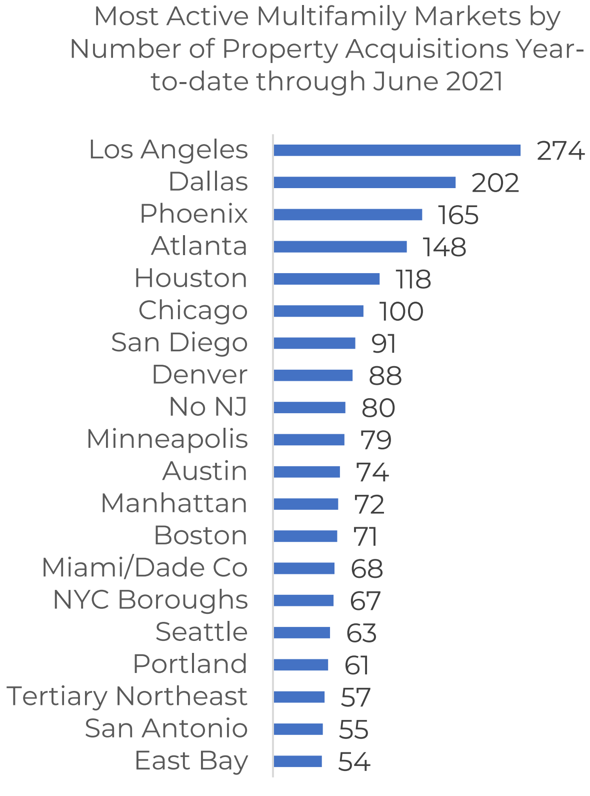
Acquisitions of garden or low-rises (less than four flours) rose at a stronger pace of 68% in the first half , compared to acquisitions for mid-rises which rose 56%. Garden or low-rises are usually in the suburbs, so this indicates a stronger demand for multifamily housing in the suburbs than in the central business districts. Garden or low-rises account for 79% of the total number of property acquisitions as of June 2021.

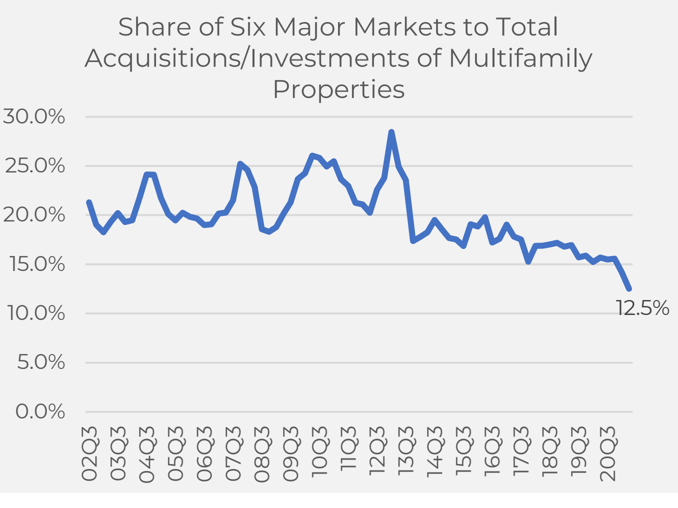
The market share of the six major markets (New York City, Chicago, Boston, Washington DC, Los Angeles, San Francisco) in terms of property acquisitions has been declining since the pandemic, with the share at 12.5% from accounted 15.2% in 2021 Q1.

Los Angeles, Dallas, Phoenix, Atlanta, and Houston were the markets with the most investment acquisition deals in the first half of 2021.









Source of data: Real Capital Analytics

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Office

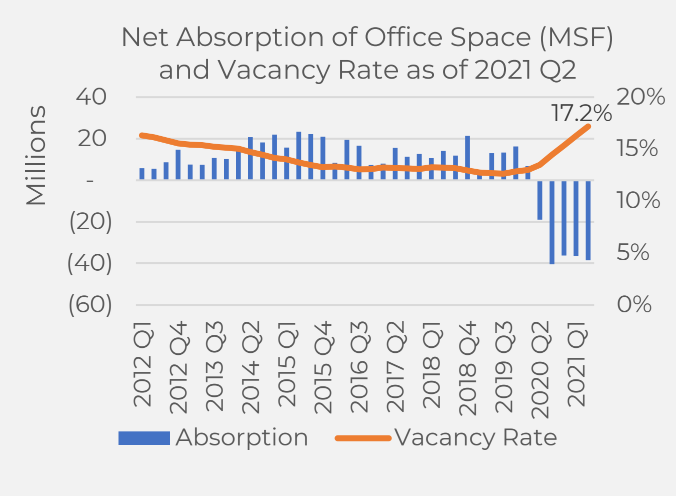
Negative net absorption, but some uptick in investments

Office occupancy continued to decline in 2021 Q2, with negative net absorption of 39 million square feet (MSF). Since 202 Q2, 170 MSF has become unoccupied. Investors remain wary of investing in the office market, as businesses are still assessing their work from home policies. To date, there are also still 500,000 fewer professional and business workers compared to the pre-pandemic level and half of computer/tech workers are still working from home,

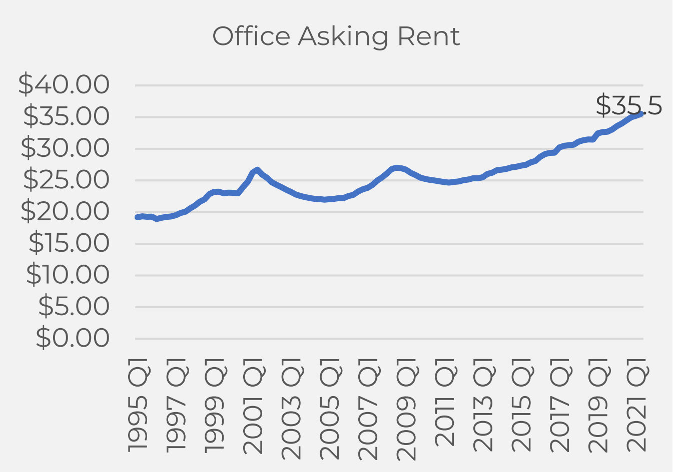
New leasing is still happening, with 50 MSF of new leased space in 2021 Q2 , but leasing is down from about 80 MSF prior to the pandemic.

With a decline in occupancy, the office vacancy rate has increased to 17.2%, from 13% in 2020 Q1. Vacancy is likely to still keep rising with 107 MSF of construction underway.

However, asking rents are holding firmly and even rising, effective rents could be lower with tenants receiving more tenant concessions to attract them to move.



Source: Cushman and Wakefield



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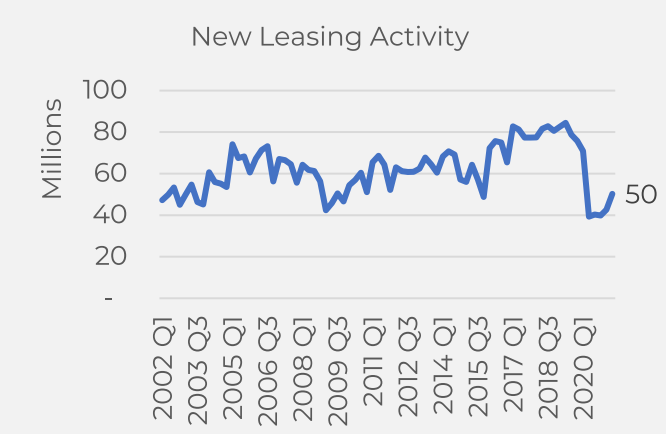

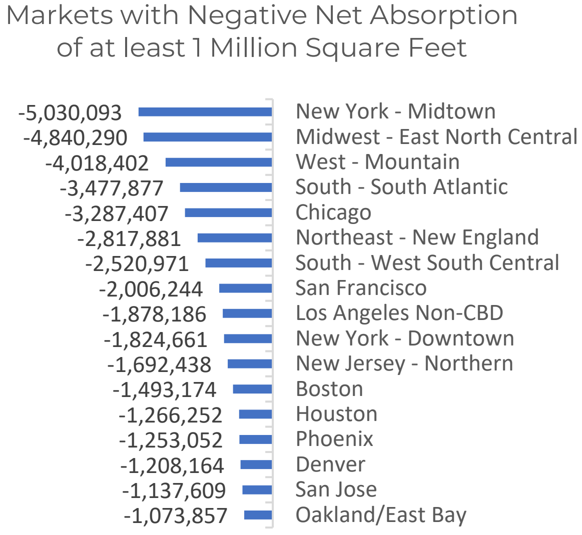

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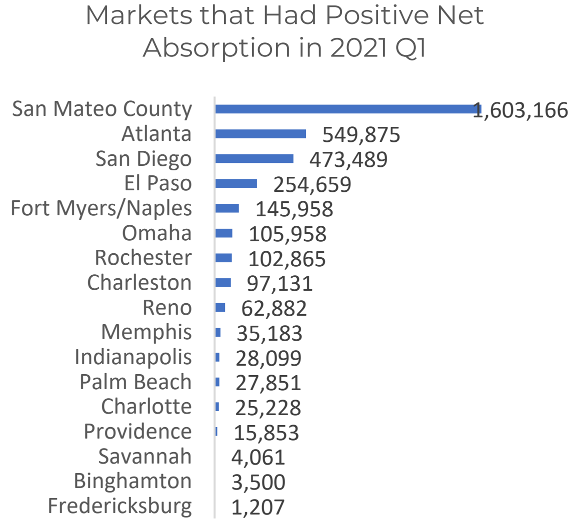

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Office

Negative net absorption, but some uptick in investments

Year-to-date through June, acquisitions of office property or portfolios were up 6% year-over-year, a modest growth compared to other asset classes (apartment, 64%; industrial, 10%; retail, 24%).

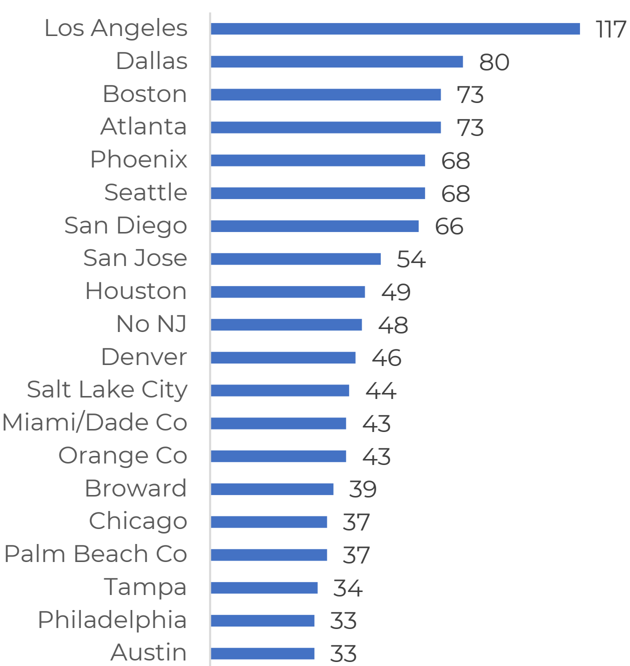
riven by the growth in acquisitions in the suburban markets that rose 12% year-over-year. However, acquisitions in the central business district (CBD) markets were down 5%.

The suburban property markets accounted for 90% of acquisitions in terms of number of property acquisitions.

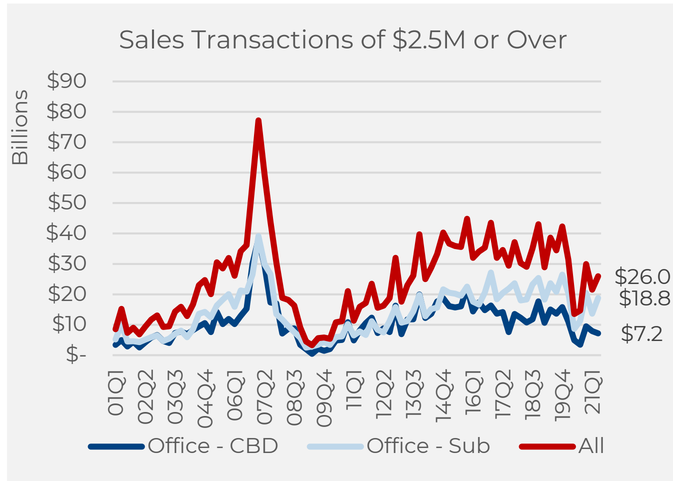
The six major markets (New York City, Chicago, Boston, Washington DC, Los Angeles, San Francisco) accounted for 27% of the acquisitions. In 2020 Q1, these markets accounted for 31% of investment deals.

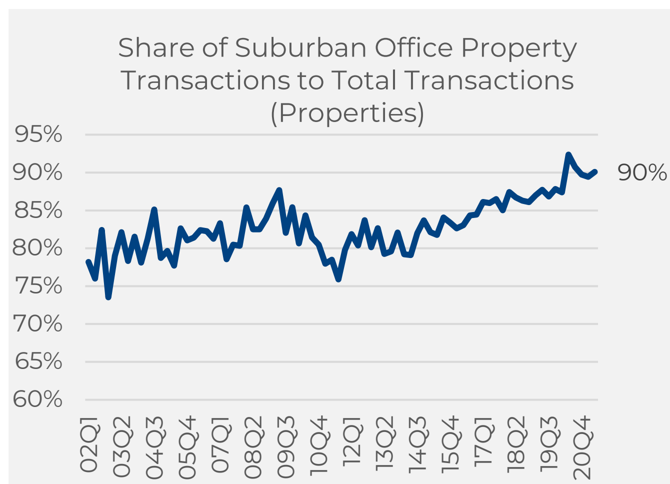
The top markets with the largest number of property investment deals were Los Angeles, Dallas, Boston, Atlanta, Phoenix, and Seattle. Worth noting is that Manhattan is not in the top 20 list (with 32 investment deals).

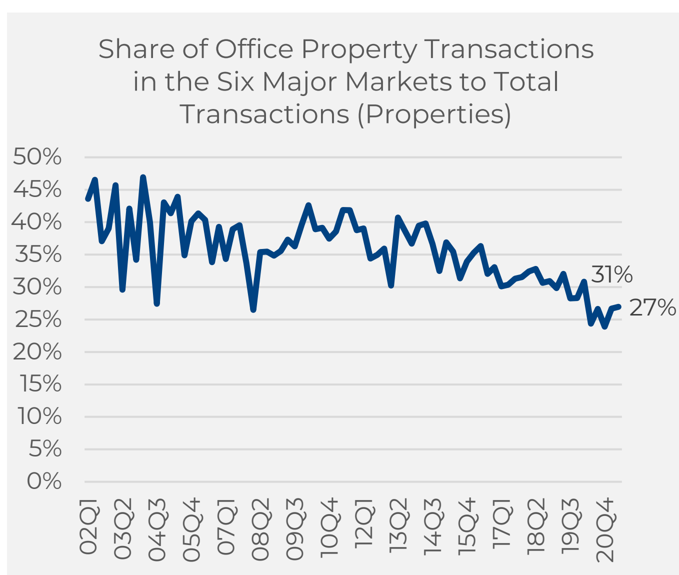
Most Active Office Markets by Number of Property Acquisitions YTD through June 2021



Source of data: Real Capital Analytics







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Industrial

Record setting continues as industrial sector remains hot

Rental vacancy rate declined from the prior quarter

The U.S. rental vacancy rate decreased from 4.9% in 2021 Q1 to 4.5% in 2021 Q2. Q2 2021 vacancy rate was also a 60 bps decline on a year-over-year basis with the acceleration of e-commerce continuing to result in significant industrial space demand for which is outpacing supply.

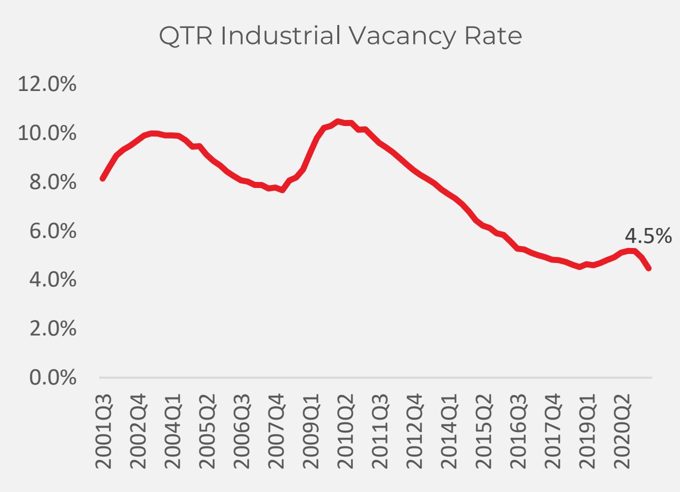
The lowest vacancy rates in U.S. were in the following markets : Orange County (1.6%), Philadelphia (1.7%), Inland Empire (1.7%) and Los Angeles (1.7%).

Net absorption sets quarter record

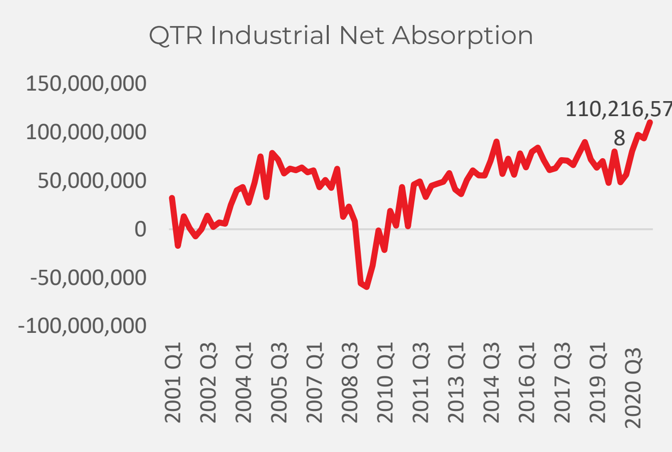
U.S. net absorption set a quarter record in Q2 2021 with 110.2 million square feet. New leasing activity in Q1 2020 saw 212.5 MSF which is just short of the previous record set in Q1 2021 (214.4 MSF) as e-commerce sales continues to push demand forward for warehouse/distribution space.

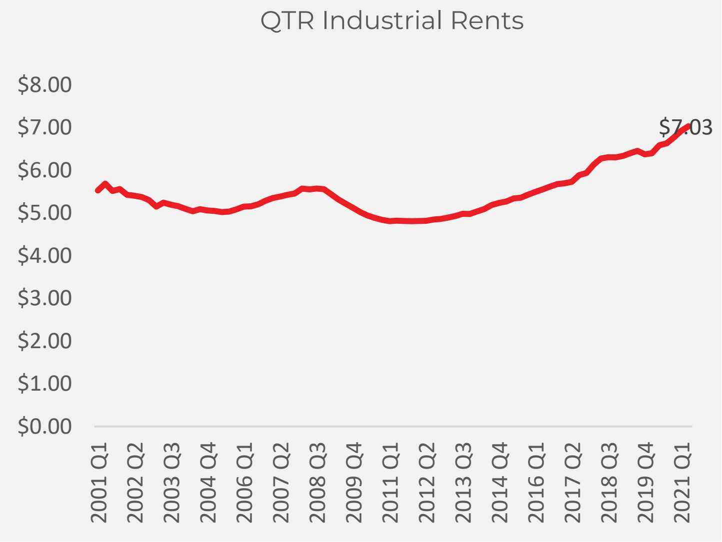
New record set for industrial asking rents

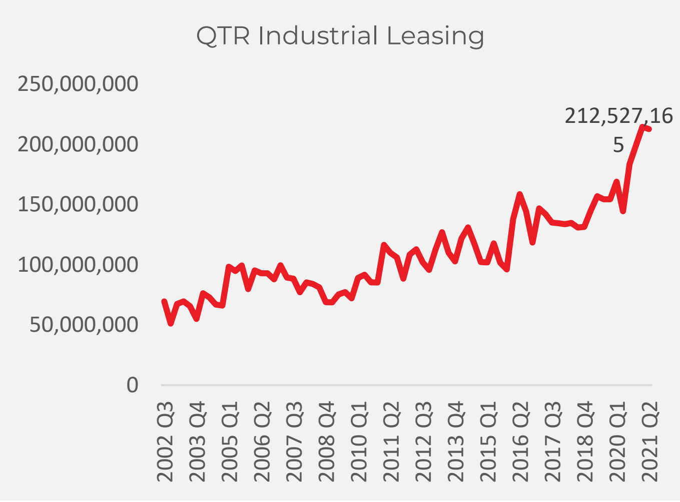
U.S. industrial asking rents reached new heights in Q2 at $7.03 as firm demand and tight conditions remain are key drivers invigorating rent growth. Q2 rent growth increased 6.8% from the same period a year ago and 1.6% over Q1 2021. The west saw the highest asking rents with $10.39 for Q2 2021.



Source: NAR analysis of C&W Data







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Industrial

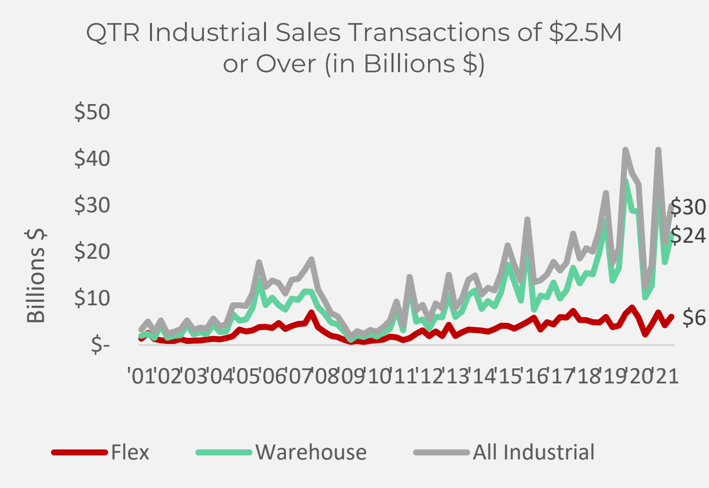
Acquisitions exceed previous levels in Q2 2021

Given the strong market fundamentals, Investor acquisitions of industrial properties or portfolio acquisitions of $2.5 million or over for Q2 2021, increased 139% year-over-year as transaction volume for both flex and warehouse properties totaled $29.8 billion. Sales for Q2 2020 totaled $12.4 billion. The industrial sector has moved beyond previous levels as transaction volume and prices increase. Industrial properties see continued investment activity as investors seek ownership of assets where e-commerce goods are stored.

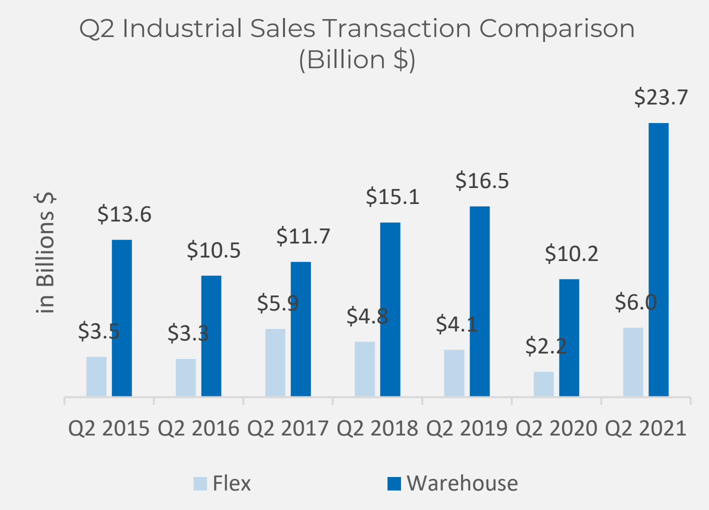
As a result, investment in industrial properties continues to be lead by warehouse acquisitions as they account for majority of industrial transactions in Q2 2021. Warehouses' share of total industrial volume increased towards 79%, up from 75% in Q2 2020 but a marginal decrease from Q1 2021.

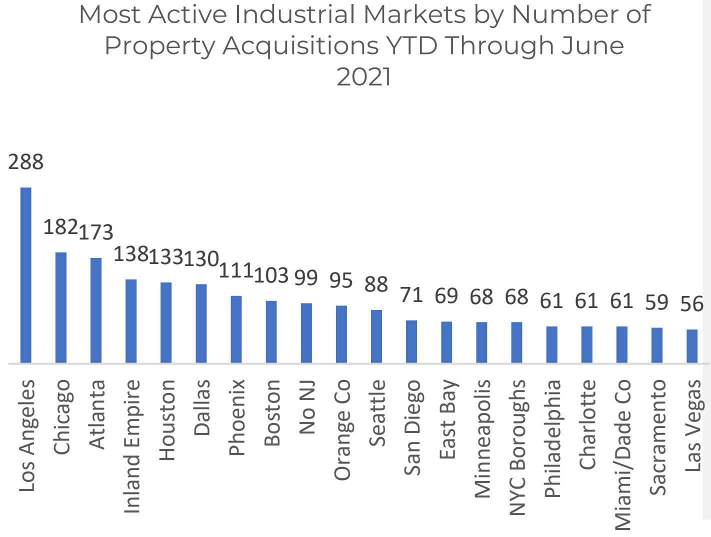
The average price per square foot of industrial acquisitions in Q2 increased by $20 from Q1. The average price per square foot for flex properties rose to $166/sq.ft., up from $143/sq.ft. recorded in Q1. Warehouse average price per square foot increased $18 from the Q1 level towards $112 in Q2, for which increases in both flex and warehouses indicate price growth.

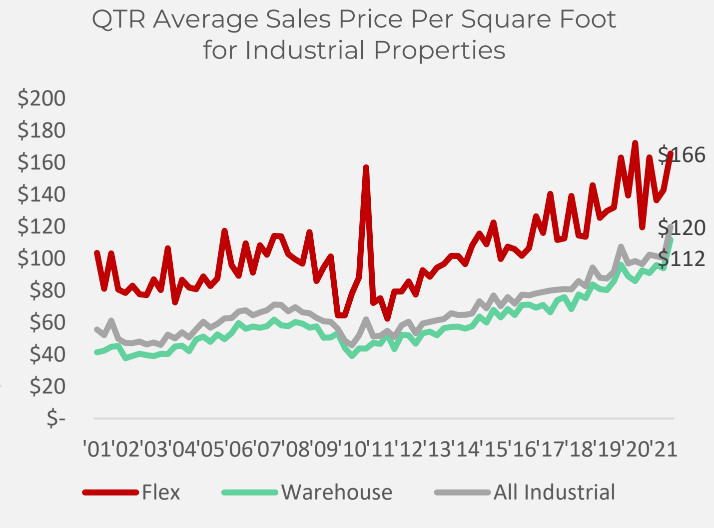
Year-to-date as of June 2021, the most active markets with respect to industrial property acquisitions were Los Angeles (288), Chicago (182), Atlanta (173) and Inland Empire (138).



Source: NAR analysis of RCA Data







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Retail

Rebounding, but investors remain cautious

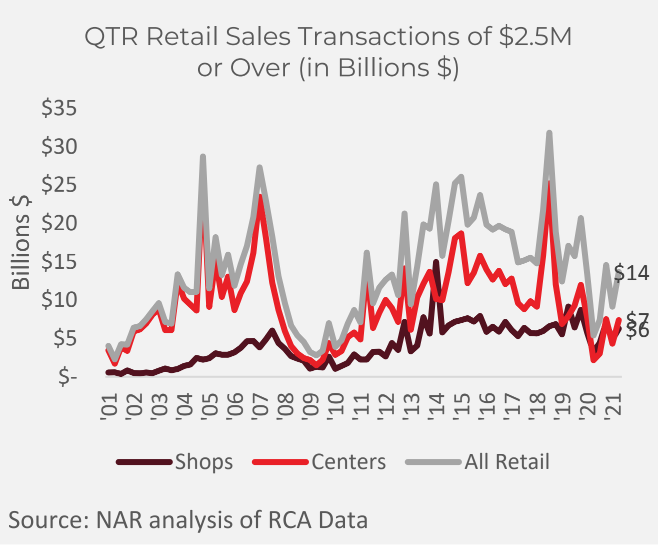
Commercial sales/acquisitions of retail properties or portfolio acquisitions of $2.5 million or more recorded $13.7 billion in Q2 2021. This represents a year-over-year increase of 154%. While the reopening of both retail locations and the overall economy has progressed as consumers participate in traditional, pre-pandemic activities, the 154% yoy change in volume is more about the apprehensions surrounding retail one year ago.

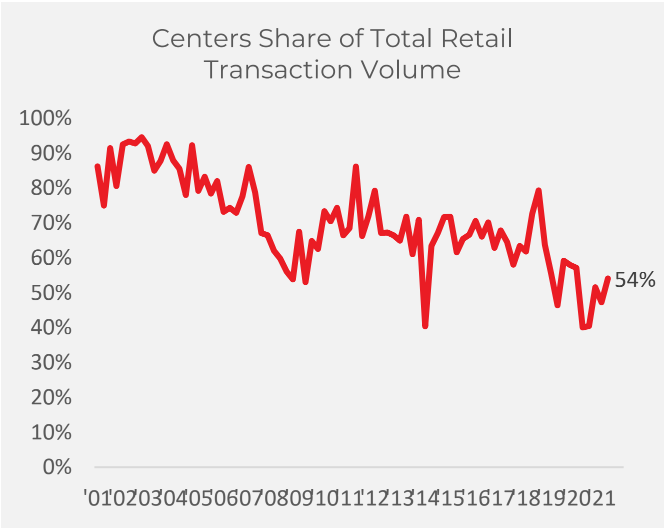
This investor uncertainty remains today, albeit not as much as last year, when comparing the current transaction volume in Q2 2021, $13.7 billion, to Q2 pre-COVID averages.

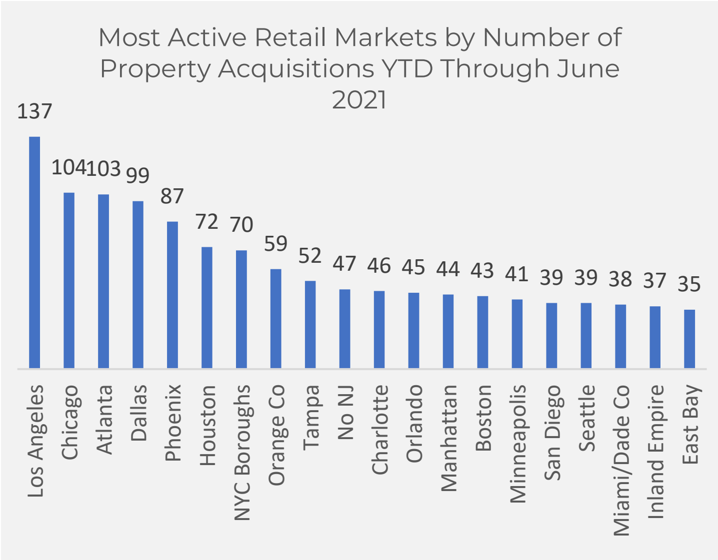
While exhibiting sliding or flat property prices for 2020, the trend is improving. The average price per square foot for all of retail was $184/sq.ft. in Q2 2021 and marks two quarters in a row of appreciation where shops averaged $246/sq.ft. and centers averaged $154/sq.ft.

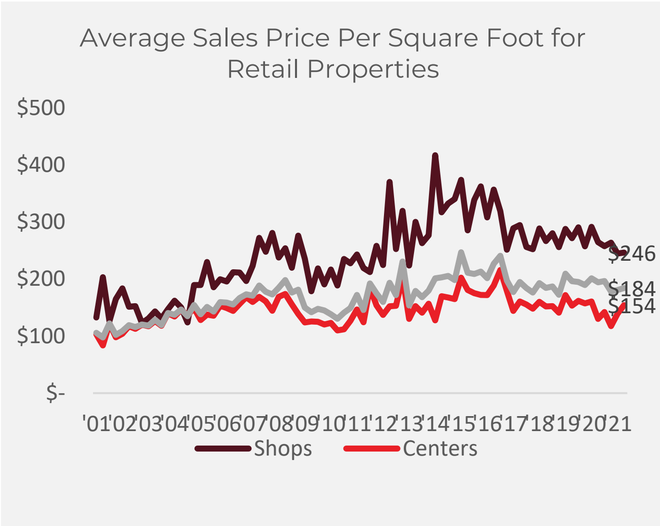
Sales of shopping centers accounted for 54% of all retail transactions in Q2 2021 which was up from the 47% recorded in Q1 2021 and up from 40% Q2 2020.

Year-to-date as of June 2021, the most active markets with respect to retail property acquisitions were Los Angeles (137), Chicago (104), Atlanta (103) and Dallas (99).









Retail

Sales transactions volume rebounds in Q1 2021

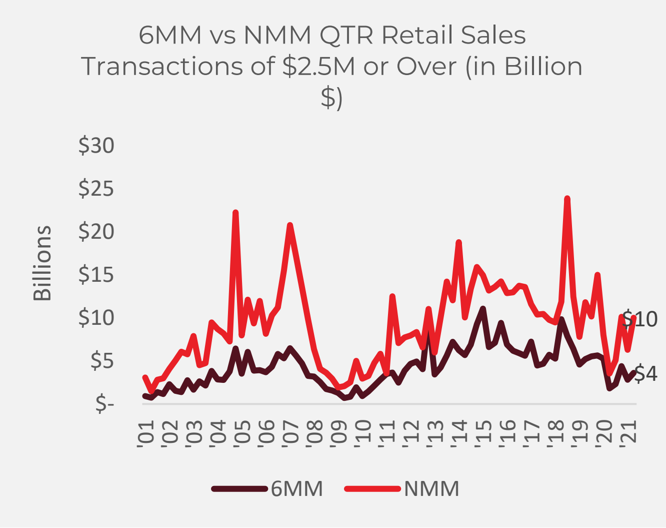
The dollar sales volume of retail property acquisitions in the six major markets (6MM which are New York, Boston, Chicago, Washington DC, Los Angeles, and San Francisco) rebound in 2021 Q2 as transaction volume totaled $3.6 billion which is 99.6% above the same period a year ago and up on a quarter year-over-year basis of 28.2%.

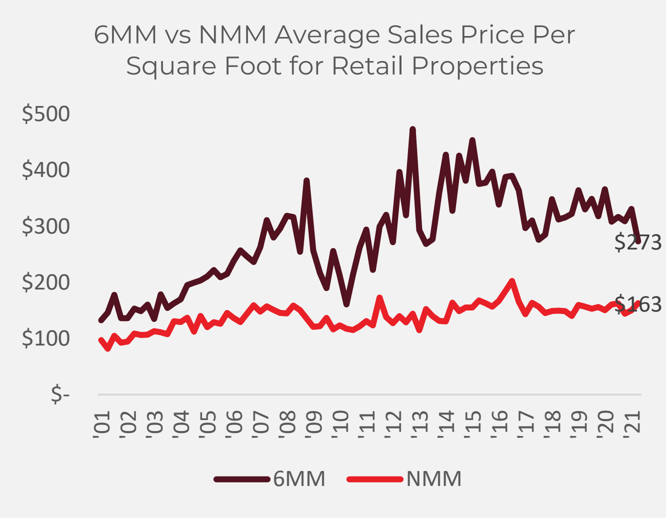
Dollar sales volume for the non major markets (NMM) was $10 billion. Q2 2021 sales volume was up 189% from Q2 2020 and up 59.1% from Q1 2021.

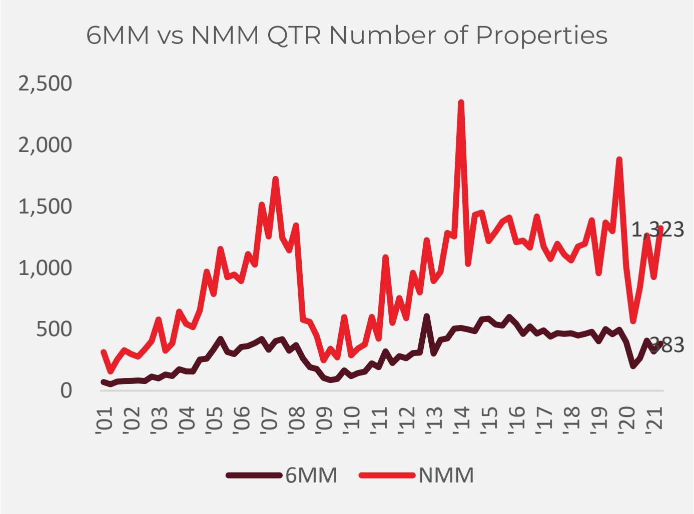
6MM Q2 2021 retail sales transactions of centers accounted for 46% of transactions where as NMM, centers account for 57% of retail sales transactions.

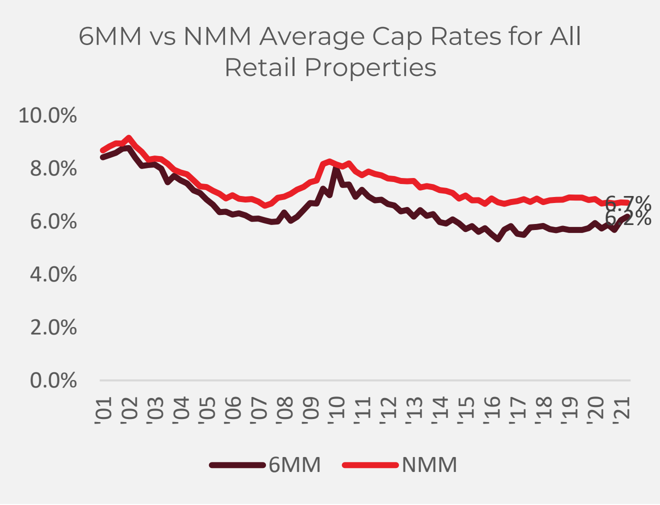
Q2 average sales price per square foot of retail space in the 6mm fell -17% from Q1 2021 in comparison to the price per square foot of retail in the NMM which grew (9%) over the same period.

Q2 average cap rates for 6mm marginally increased from Q1 to 6.2% while NMM remains flat from the prior quarter, 6.7%.









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Hotel

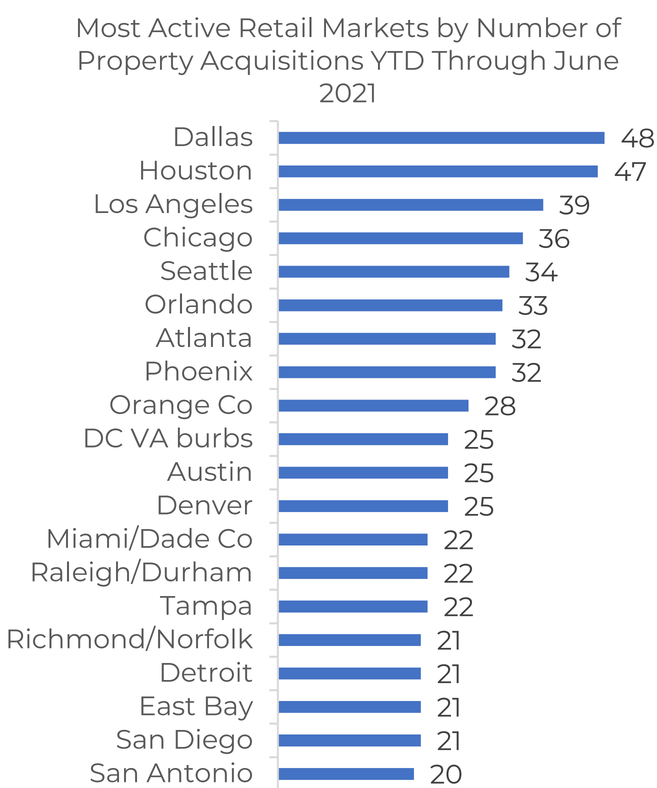
Strong investor interest

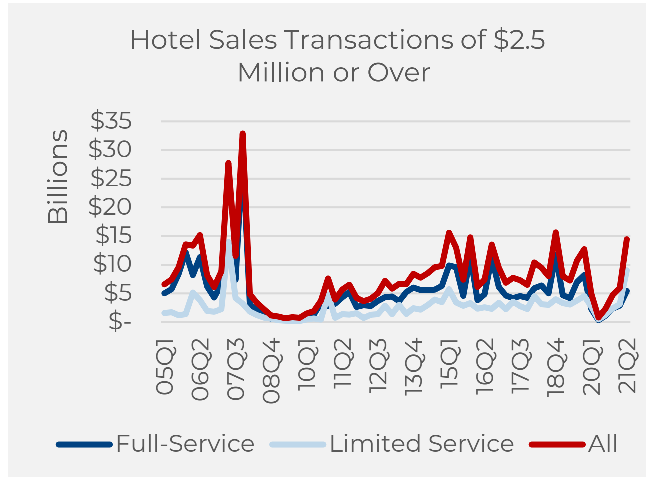
Acquisitions of hotel properties of $2.5 million or over rose 39% in the first half of 2021 rose over 200% to $20.4 billion, as acquisitions increased for both full-service (219%) and limited-service hotels (281%).

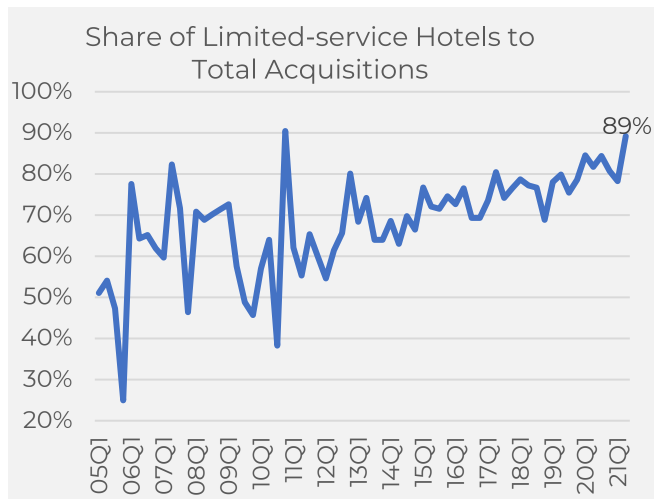
Acquisitions for full-service hotels totaled $8.3 billion during the first half while acquisitions for limited service hotels rose $12.1 billion. Limited service hotels made up 89% of the total volume of acquisitions.

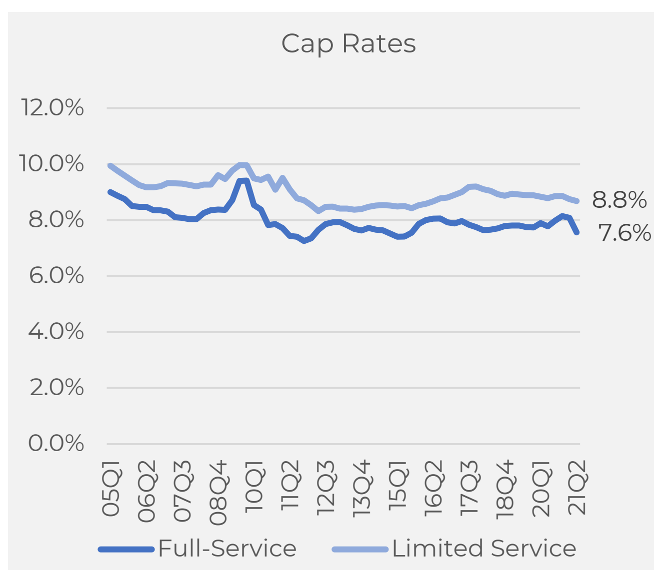
The average cap rate among full-service hotel acquisitions has been treading downwards, to 7.6%. The average cap rate among limited-service acquisitions has remained stable at nearly 9%.

Dallas and Houston attracted the most hotel investors. Rounding out the top five were Los Angeles, Chicago, and Seattle.









Source of data: Real Capital Analytics

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July 2021

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