

# Commercial Real Estate Trends & Outlook October 2020

National Association of REALTORS® Research Group



NATIONAL  
ASSOCIATION OF  
REALTORS®

# COMMERCIAL REAL ESTATE TRENDS & OUTLOOK

## October 2020 Report

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The *Commercial Real Estate Trends & Outlook Report* discusses trends in the small commercial market or transactions that are typically less than \$2.5 million. This report is based on information collected from NAR's 2020 Q3 Commercial Real Estate Quarterly Market Survey about the commercial transactions of REALTORS® and members of NAR' commercial affiliate organizations (CCIM, SIOR, RLI, IREM, and the Counselors of Real Estate) during the third quarter of 2020. The survey was sent to approximately 76,000 commercial REALTORS® and members of affiliate organizations during October 1-18, 2020, of which 658 provided answers to at least one question.

The survey results indicate the continuing impact of the pandemic on the volume of transactions and on commercial business practices. The impact of the pandemic is still evolving but the survey results are providing an indication of where changes are heading. In the office sector, 62% of respondents reported an increase in companies moving to smaller offices, and 58% of respondents reported an increase in short-term leases of two years or less. In the retail properties market, 52% percent reported they are seeing more vacant malls being repurposed for other uses, such as mixed-use, industrial use, hospitals, or as churches.

REALTORS® reported a decline in sales and leasing transactions, except for industrial properties, clearly the strongest leg of the commercial sector. The land market has also been a strong sector, especially sales of land for recreational use, as the pandemic has curtailed leisure activities in the urban areas.

Over the next three months, Realtors® foresee an increase in land sales and industrial properties and more construction for industrial and residential properties.

Enjoy reading the latest issue!

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# 1 | PANDEMIC IMPACT

## What changes are you seeing in the following areas relative to January 2020 (pre-coronavirus condition)?

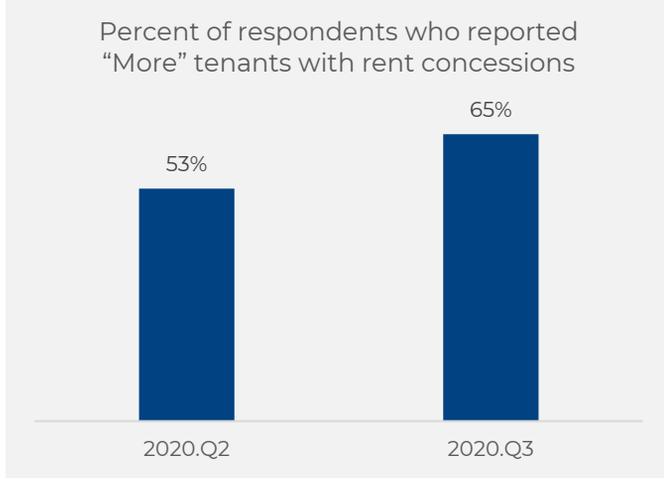
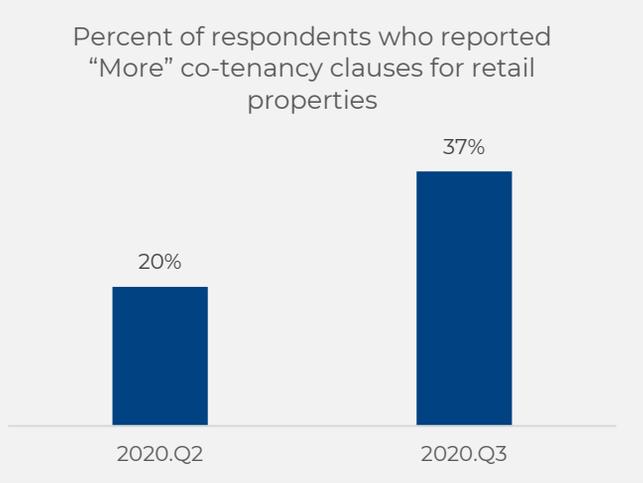
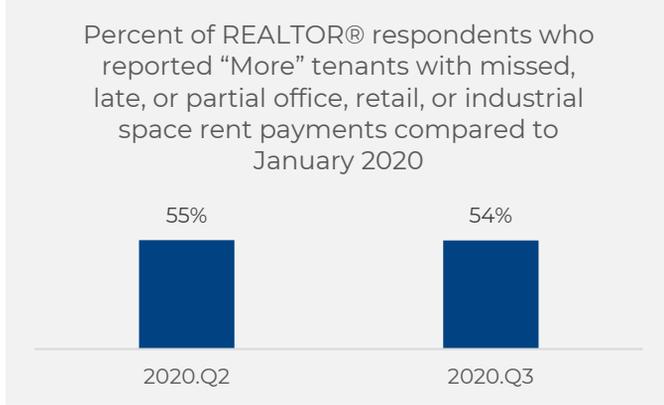
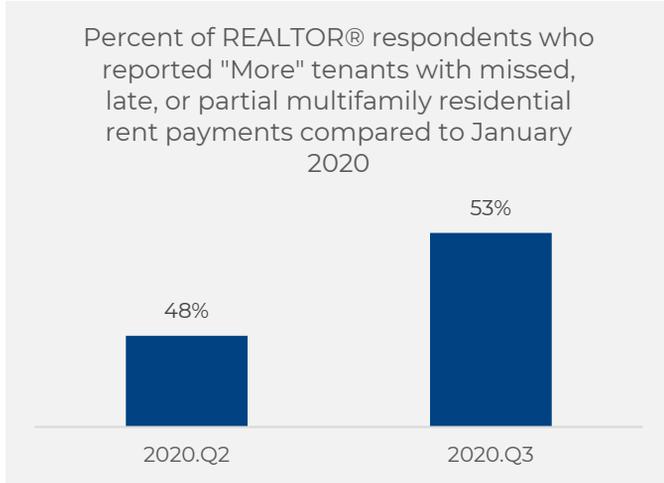
NAR is tracking the coronavirus pandemic's impact on the commercial real estate market. In its Commercial Real Estate Quarterly Market Survey, REALTORS® are asked what changes they are seeing in their markets compared to January 2020 conditions ("Less", "Same", or "More"). There were 658 respondents (some respondents may not answer all questions).

**53%** of respondents reported an increase in tenants with missed/late/partial residential apartment rent (48% in 2020 Q2)

**54%** of respondents reported an increase in missed/late/partial rent payment for office, retail, industrial space (55% in 2020 Q2)

**65%** of respondents reported an increase in tenants who get rent concessions (53% in 2020 Q2)

**37%** of respondents reported an increase in co-tenancy clauses in retail properties (20% in 2020 Q2)



# 1 | PANDEMIC IMPACT

## What changes are you seeing in the following areas relative to January 2020 (pre-coronavirus condition)?

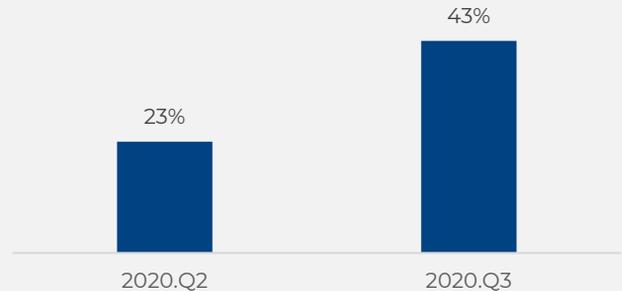
**43%** of respondents reported an increase in leasing transactions in the suburban area vs. CBD (23% in 2020 Q2)

**83%** of respondents reported an increase in working from home or staggered office schedules (71% from 2020 Q2)

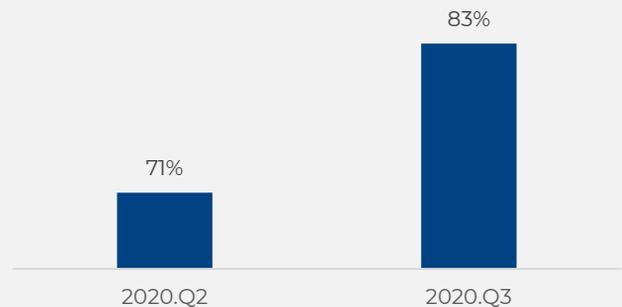
**51%** of respondents reported an increase in demand for flexible/co-working office space from individuals such as gig workers (36% in 2020 Q2)

**43%** of respondents reported an increase in demand for flexible/co-working office space from enterprise clients/firms (28% in 2020 Q2)

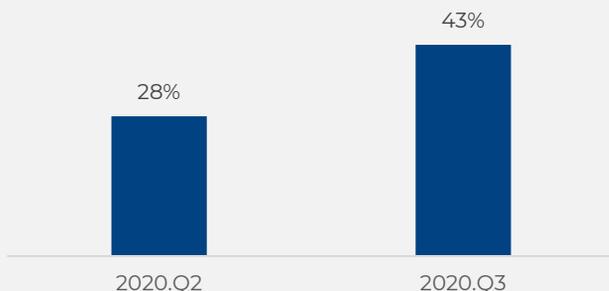
Percent of respondents who reported "More" sales or leasing transactions in suburban area vs. central business district compared to January 2020



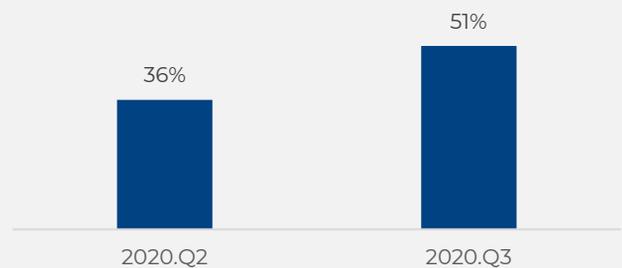
Percent of respondents who reported "More" working from home/staggered office work schedules compared to January 2020



Percent of respondents who reported "More" demand for flexible/co-working office space from enterprise clients/firms compared to January 2020



Percent of respondents who reported "More" demand for flexible/co-working office space from individuals (e.g. gig workers, independent contractors) compared to January 2020



# 1 | PANDEMIC IMPACT

## What changes are you seeing in the following areas relative to January 2020 (pre-coronavirus condition)?

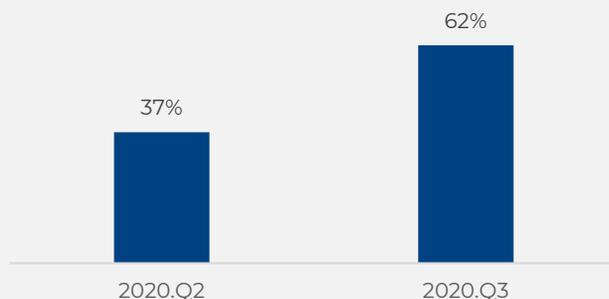
**62%** of respondents reported an increase in companies leasing or moving into office with smaller square footage due to working from home (37% in 2020 Q2)

**59%** of respondents reported an increase in short-term office leases or use service (two years or less) (42% in 2020 Q2)

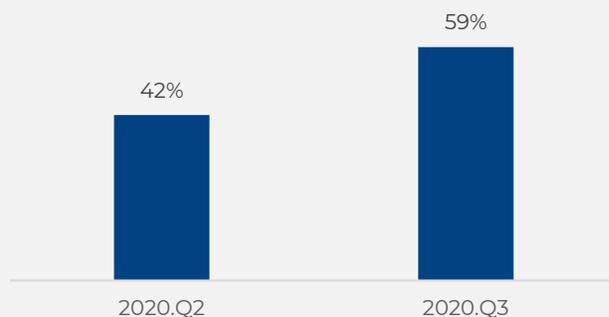
**76%** of respondents reported an increase in investments to improve sanitation, hygiene, and social distancing office protocols (69% in 2020 Q2)

**60%** of respondents reported an increase in companies that pay for expense related to working from home such as access to broadband internet, office supplies, ergonomic chairs, etc. (51% in 2020 Q2)

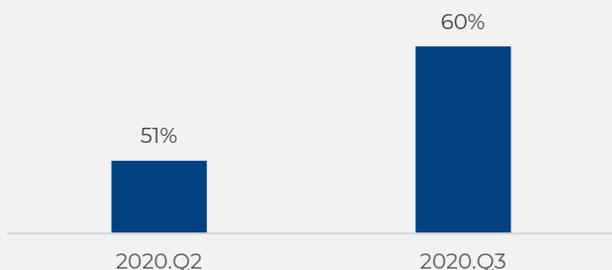
Percent of respondents who reported "More" companies leasing or moving into offices with smaller square footage due to working from home



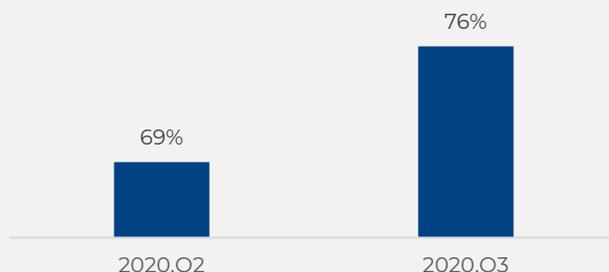
Percent of respondents who reported "More" short-term office leases or use service agreements (2 years or less)



Percent of respondents who reported "More" companies that pay for expenses related to working-from-home (broadband internet, office supplies, ergonomic chairs, etc.)



Percent of respondents who reported "More" investment in workspace redesigns to increase sanitation, hygiene, and social distancing (plexiglass, cubicles, air filtration, etc.)

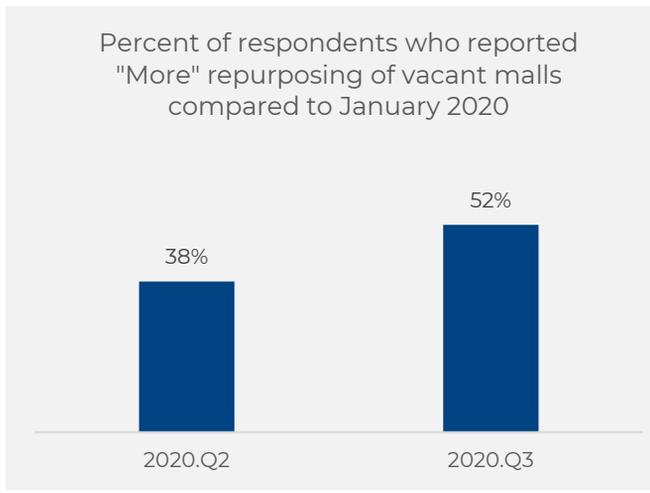


# 1 | PANDEMIC IMPACT

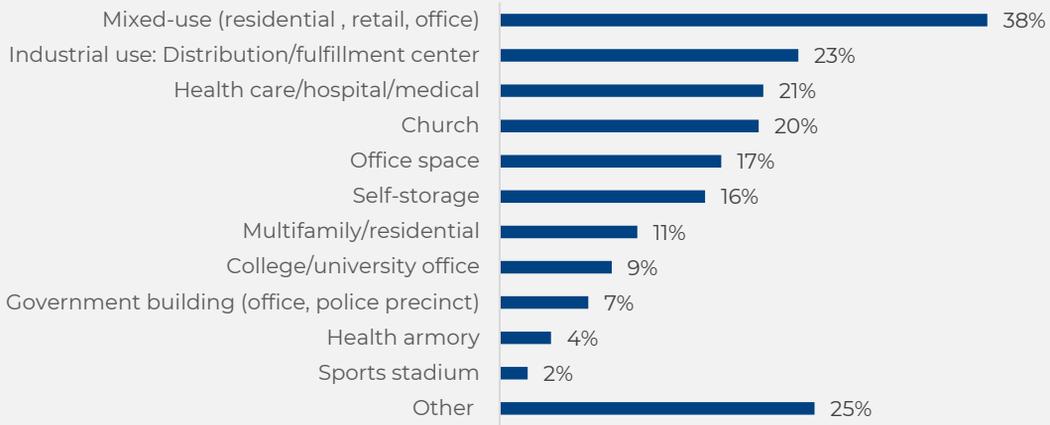
## What changes are you seeing in the following areas relative to January 2020 (pre-coronavirus condition)?

**52%** of respondents reported an increase in repurposing of vacant malls (38% in 2020 Q2)

Respondents reported a variety of uses, but the most frequent uses are for mixed-used, industrial use, health care/hospital, or as a church.



How are vacant malls being repurposed in your market? Select all that apply.



Other responses include "still vacant" , torn down, lab/life science, storage unit, furniture big box, gym, school, family entertainment, production studio, community center

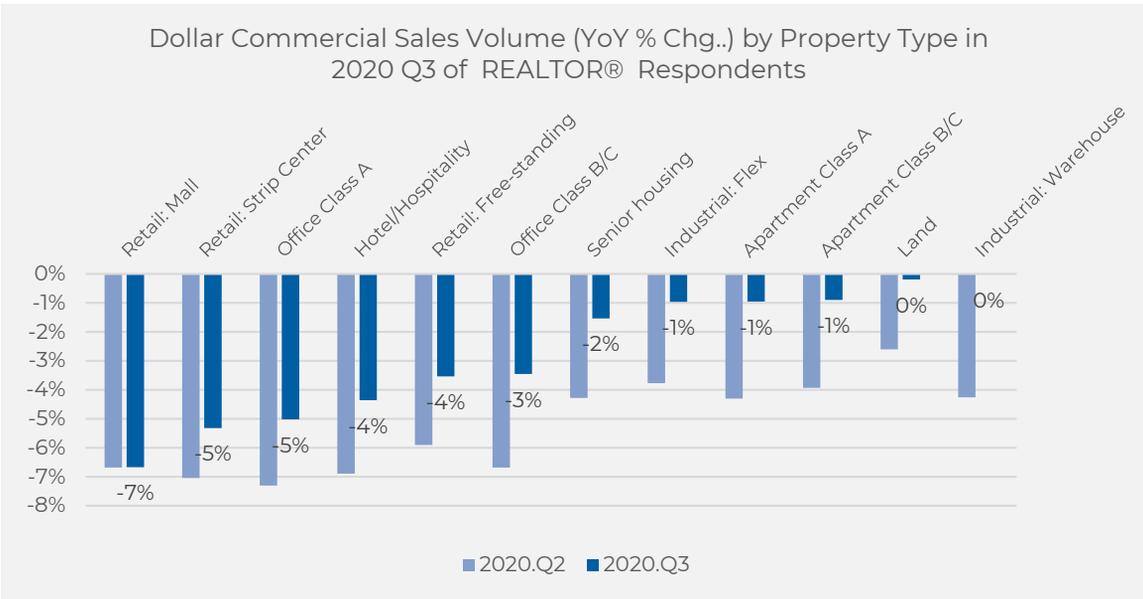
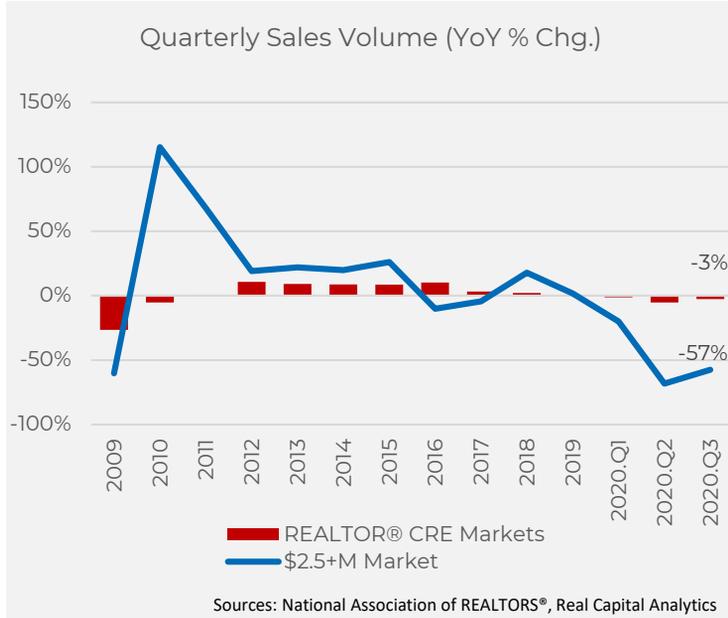
# 2 | COMMERCIAL SALES

## REALTORS' Commercial Sales Declined Across All Property Types in 2020 Q3

Sales transactions volume among REALTORS® fell on average by 3% year-over-over in the third quarter of 2020, a smaller rate of decline compared to the second quarter (-5%), according to members of the National Association of REALTORS® who responded to NAR's 2020 Q3 Commercial Real Estate Quarterly Market Survey. NAR commercial members' transactions are typically below \$2.5 million (small commercial market).

Sales transactions volume of properties or portfolios of at least \$2.5 million (middle to large commercial market) plunged 57% year-over-year in the third quarter, also a smaller rate of decline compared to the second quarter (-68%), according to Real Capital Analytics.

REALTORS® who responded to the survey reported that the heaviest decline was for acquisitions of retail malls (-7%), retail strip centers (-5%), retail free-standing (-4%), and office class A (-5%). Sales transactions declined the least for industrial flex (-1%) and apartments (-1%) and remained unchanged compared to a year ago for land and industrial warehouses.



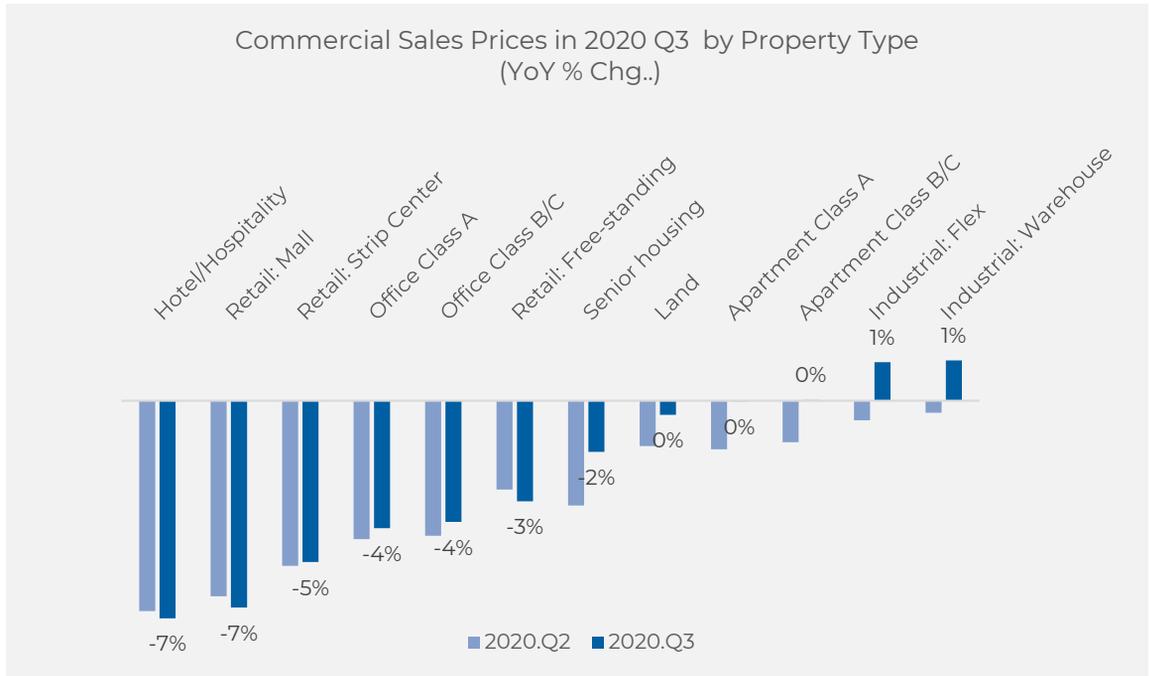
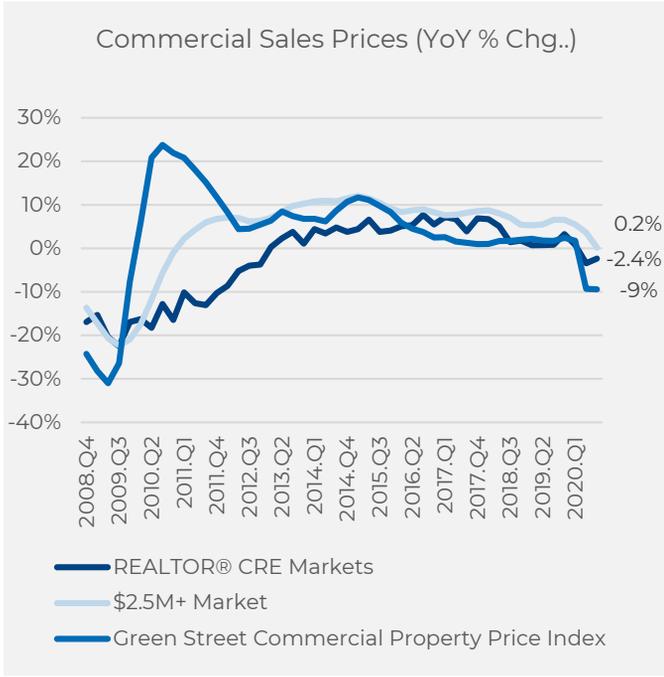
# 2 | COMMERCIAL SALES

## Commercial Prices Decreased Except for Industrial Properties

Commercial prices of properties in the small commercial market space (less than \$2.5 million) fell 2% year-over-year in 2020 Q3.

Commercial property prices in the small commercial market where REALTORS® typically engage in were down across all commercial property types except for industrial warehouse properties where prices were up 1% year-over-year. The largest sales price decline was in hotel/hospitality (-7%), retail (-7%), and retail strip center (-5%).

Among transactions in the large commercial market (\$2.5 million or more), commercial prices were essentially flat, according to Real Capital Analytics. Commercial properties held by REITs declined in 9% year-over-year, according to the Green Street Commercial Property Price Index.

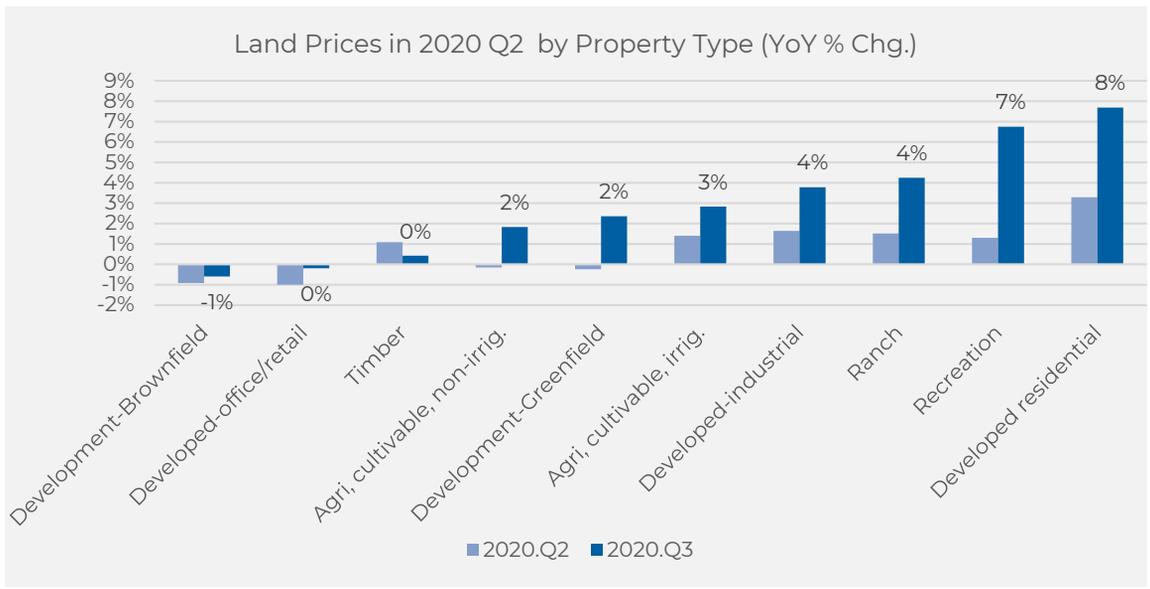
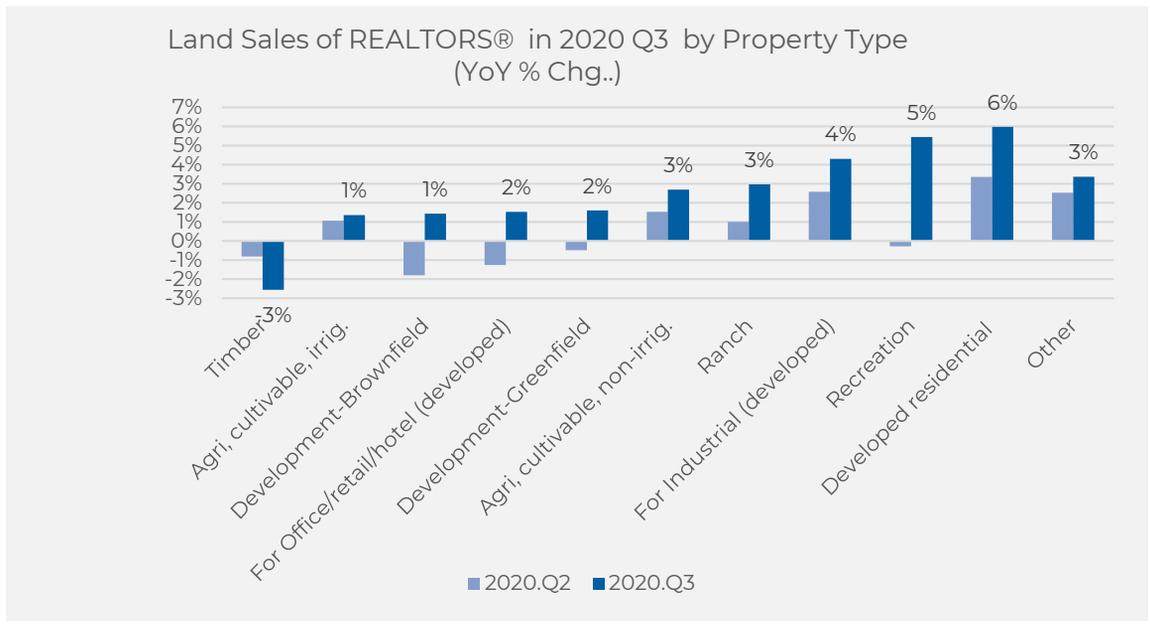


# 3 | LAND MARKET

## Strong Increase in REALTORS® Sales of Land for Recreational and Residential Use

In contrast to the sales decline among sales of commercial buildings, REALTORS® reported more land sales transactions in 2020 Q3 compared to one year ago, except for timber (-3%). The strongest growth was in sales of land for industrial use (4%), recreational use (5%), and developed residential land (6%).

Prices rose at the strongest pace for developed residential land (8%) and land for recreational purposes (7%). With urban/city recreational activities (dining, movies, etc.) curtailed by the pandemic, people are spending their more leisure time in outdoor back-to-nature activities.



\* A land transaction is any transaction where the value of the land, including improvements that are agricultural in nature, accounts for at least 51% of the total sale of the transaction.

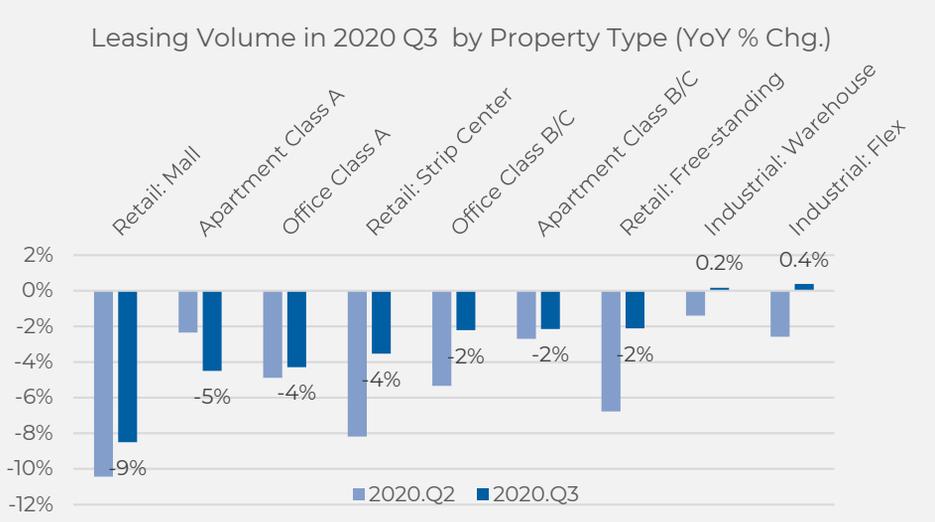
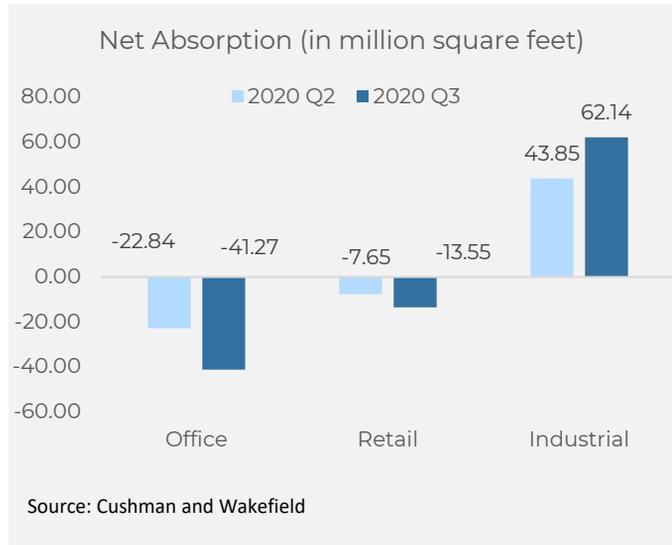
# 4 | COMMERCIAL LEASING

## REALTORS® Leasing Activity Decreased Except for Industrial Properties

REALTORS® who responded to the survey reported that their gross leasing volume (renewals and new leases) declined by 2% year-over-year in 2020 Q3.

REALTORS® reported a decline in leasing transactions for all property types except for industrial properties where leasing volume slightly increased. Leasing volume in retail malls was down 9%.

Cushman and Wakefield reported larger loss of occupancy (negative net absorption) in 2020 Q3 compared to 2020 Q2 in the office and retail establishment occupiers. Office occupancy fell by 41 million square feet and retail occupancy fell by 13.6 million. However, occupancy in industrial establishments rose by 62 million square feet.



# 4 | COMMERCIAL LEASING

## Smaller Leased Space and Shorter Lease Terms in 2020 Q3

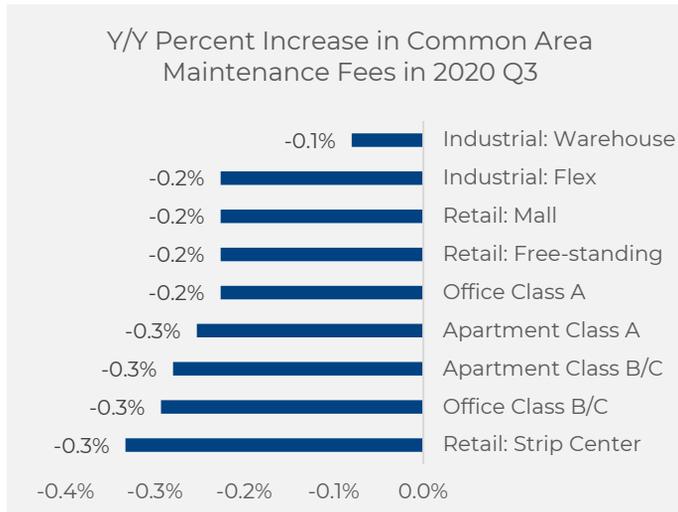
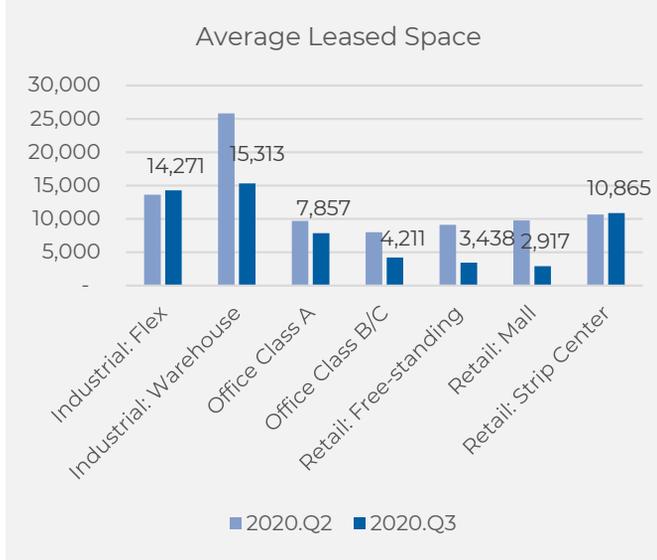
REALTORS® who responded to the survey reported a decline in the average leased space across all property types except for industrial flex buildings and retail strip centers. This could indicate a smaller demand for office space because of less demand for office space due to working from home or as because companies are keeping costs down to stay in businesses.

In the office sector, the average leased space of Office Class A buildings declined from nearly 10,000 square feet in 2020 Q2 to just about 8,000 square feet in 2020 Q3. In Office Class B/C buildings, the average leased space declined from about 8,000 square feet in 2020 Q2 to 4,000 square feet in 2020 Q3.

REALTORS® reported shorter lease terms on average in 2020 Q3 compared to lease terms in 2020 Q2, except for industrial warehouses and retail malls where lease terms were essentially unchanged. The average lease term for industrial flex properties and malls had the shortest least term of 29 months (2.5 years), while the average lease term for industrial warehouses was 39 months (3.25 years). No property type had an average lease term of five years.

## Lower Common Area Maintenance (CAM) Fees

REALTORS® reported on average a decline in CAM fees compared to one year ago. CAM fees have declined in office and retail properties due to lower occupancy rates. Common Area Maintenance (CAM) fees are paid by tenants to landlords to help cover expenses for common areas that are used for or benefited by all tenants, such as hallways, elevators, parking lots, lobbies, public bathrooms and building security.



# 5 | CONSTRUCTION

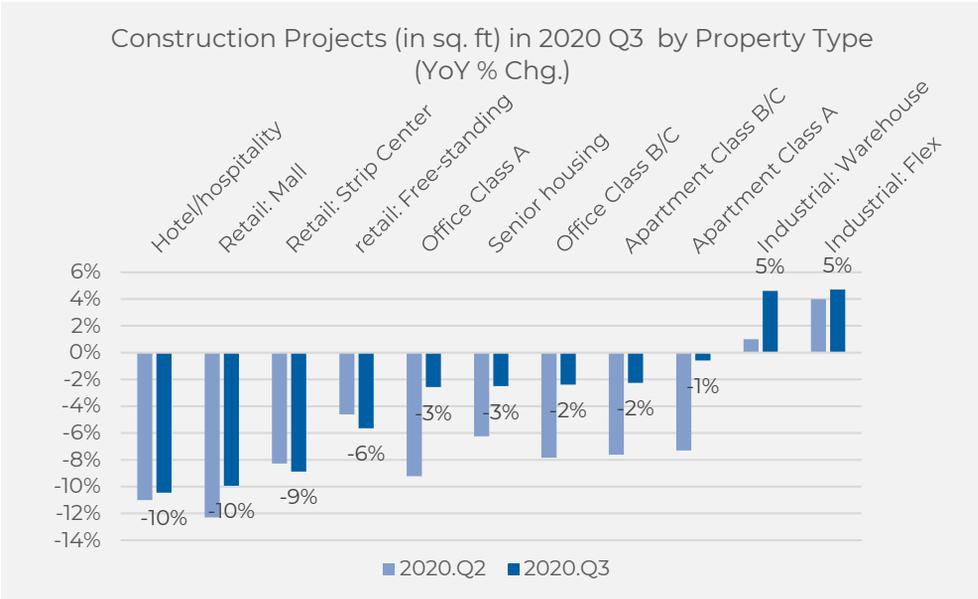
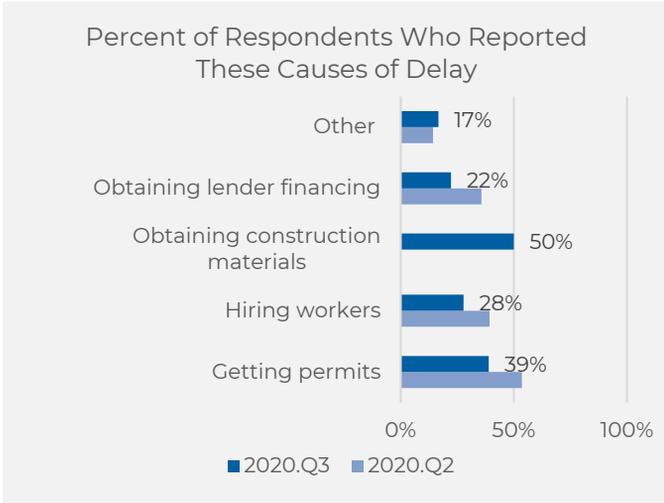
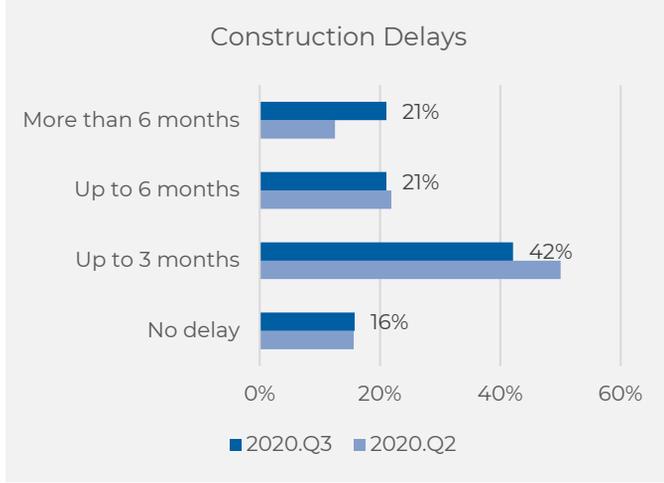
## REALTORS® Construction Activity Declined Except for Industrial Properties

REALTORS® reported on average a 3% year-over-year decline in their construction activity (in square feet) in 2020 Q3.

The volume of construction activity fell across all property types except for industrial projects where construction activity (in square feet) was up 5% year-over-year in 2020 Q3.

Eighty-four percent of respondents reported that they expect their projects to be delayed, with 21% reporting a delay of more than six months.

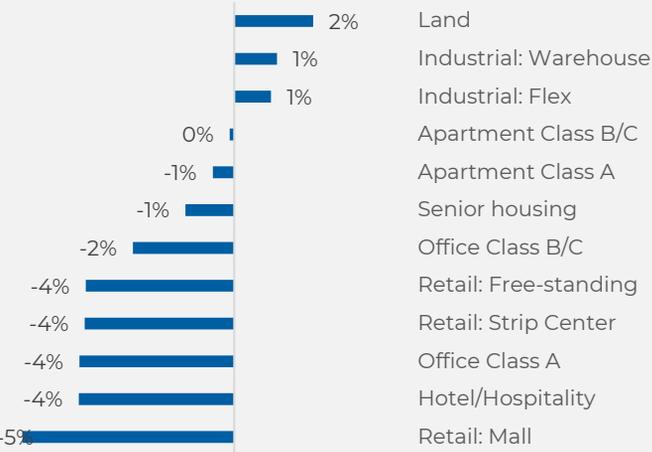
With the end of the sheltering in place orders, a lower fraction of respondent reported delays due to getting permits, at 39% (50% in 2020 Q2). The main cause of delay is obtaining construction materials, with half of respondents reporting. Softwood lumber prices were up 81% year-over-year as of September. Softwood lumber covers products such as beams, wood paneling, flooring, door and window frames. The cost of building and board is up 53%.



# 6 | COMMERCIAL OUTLOOK

## REALTORS® Expect Land, Industrial, and Apartment Properties Market to Perform Better than Office, Retail, and Hotel

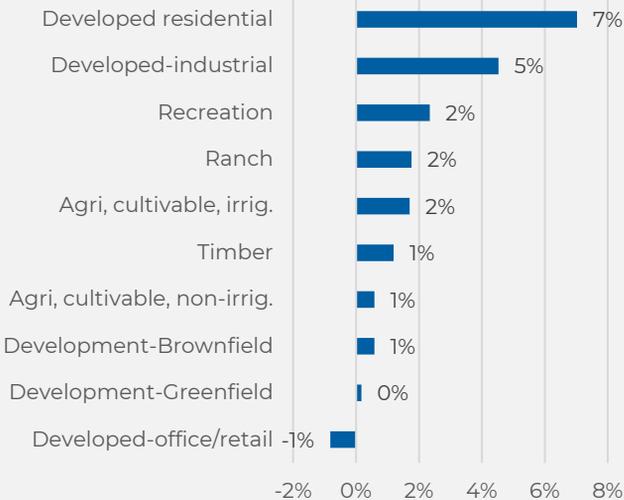
3-Month Commercial Sales Outlook of REALTORS® (YoY % Chg.)



Price Outlook of REALTORS® for 2020 Q3 by Property Type (YoY % Chg.)



Land Price Outlook in Next Three Months of REALTORS® in 2020 Q3 by Property Type (YoY % Chg.)



3-Month Construction Outlook



# COMMERCIAL REAL ESTATE TRENDS & OUTLOOK

## October 2020

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