The Commercial Real Estate Trends & Outlook Report discusses trends in the small commercial market (transactions that are typically less than $2.5 million) based on a survey of members of the National Association of Realtors® engaged in commercial real estate about their transactions in the first quarter of 2020 and the latest publicly available data.

**Current conditions.** This latest report shows the very early impact of the coronavirus pandemic on commercial real estate. On average, respondents reported a 1% decline in their commercial sales volume during the first quarter of 2020 compared to transactions in the same period last year. On average, respondents reported a 2% decline in the dollar volume of new leases compared to the level one year ago.

Across the multifamily, industrial, office, retail, and hotel sectors, a lower fraction of respondents reported higher sales transactions and new lease volume on an annual basis in the first quarter of 2020 compared to the fraction of respondents who reported an increase in sales and leasing activity in the prior quarter.

Respondents reported that commercial prices rose at a slower pace of 1% from one year ago. Other price indicators show prices are softening. The Green Street Property Price Index which is compiled from high quality properties in REITs portfolios fell slightly by less than half a percent in 2020 Q1 from the prior quarter.

Respondents reported higher vacancy rates for office, 10.5%; retail, 10.1%; and multifamily, 5%. Vacancy rates in industrial properties were flat at 5%.

A lower fraction of respondents reported an improvement in access to financing: 57% reported an improvement in debt financing conditions compared to one year ago, and 53% reported an improvement in equity financing conditions.

**Economic outlook.** We expect the second quarter GDP growth to be the steepest decline in the U.S. history – likely in excess of 15% contraction on an annualized basis. What will be critical is the recovery in the second half of the year. Is it going to be sharp and quick rebound of a V-shaped or a sluggish recovery of staying low for a period before a recovery of a U-shaped? That will depend on the economy’s response to the stimulus measures and the path of virus containment. The best guess is for the second half GDP growth to be insufficient to compensate for the loss in the second quarter. Therefore, we expect GDP to have contracted around 3% to 5% for the year as a whole and net job losses totaling around 3 to 5 million.
Fewer Jobs, Declining Wages in March 2020

In March 2020, 701,000 non-farm employment jobs were lost in all industries (2-digit level) except in the utilities, wholesale trade, information, and the government sectors. Sixty-five percent of the job losses were in leisure and hospitality (-459,000). Professional and business services lost 52,000 jobs, and retail trade shed 46,200 jobs.

In March, the number of unemployed surged to 7.14 million, from 5.79 million in February. Since the weeks of March 21 through April 4, 15.1 million people have already filed for unemployment insurance benefits.

The average weekly wage (seasonally adjusted) has started to decline, to $978.8 in March 2020 from $980.7 in February 2020.

In an effort to bolster economic activity, the Federal Open Market Committee reduced the federal funds rate to 0% on March 15 and announced an open-ended commitment to purchase mortgage-backed securities and investment-grade corporate debt to keep credit flowing. Under an accommodating monetary policy, the 10-year T-note has declined to 0.87% in March 2020. On April 9, the Federal Reserve Board released a statement that it will provide $2.3 trillion in loans to support the flow of credit to households, businesses, and the state and local governments.
Commercial Sales Declined 1% in 2020 Q1

Sales volume fell on average by 1% among commercial members of the National Association of REALTORS® who responded to NAR’s 2020 Q1 Commercial Real Estate Quarterly Market Survey. NAR commercial members’ transactions are typically below $2.5 million (small commercial market). Real Capital Analytics also reported that during January—February 2020, sales transactions volume fell by 35%. RCA tracks transactions of at least $2.5 million (middle to large commercial market).

Not all respondents reported a decline, as 42% of respondents reported increase in sales compared to one year ago. However, this share is lower than the 61% share in 2019 Q4. A higher fraction of respondents, 18%, reported a sales decline of at least 20%, compared to 7% in the prior quarter.

Across all property types, a lower fraction of respondents reported an annual gain in sales volume in 2020 Q1 compared to the fraction of respondents who reported an annual increase in 2019 Q4. For example, in the apartment class B/C properties, 35% reported higher sales from one year ago compared (44% in the prior quarter). In the office class A market, only 15% of respondents reported an increase in sales volume (22% in the prior quarter). In the retail mall class A, only 6% reported an increase (12% in the prior quarter).
Commercial Prices Rose 1% in 2020 Q1

While dollar sales volume fell, commercial prices rose 1% in markets where commercial members of the National Association of REALTORS® are engaged in. These markets are typically below $2.5 million (small commercial market).

Among respondents, 56% reported an increase in commercial sales prices in their markets (75% in the prior quarter), while 25% reported a decline (16% in the prior quarter). Only 5% reported a decline in prices of at least 20% (1% in the prior quarter).

The Green Street Commercial Price Index, which is an indicator for high-quality properties held by REITs indicates commercial property prices are declining, although not collapsing. The index declined by 0.3% in 2020 Q1 compared to the prior quarter.

Real Capital Analytics also reported that during January-February 2020, commercial prices rose on average by nearly 7%. The coronavirus pandemic escalated in March 2020 so the strong price growth does not capture the impact of the pandemic. RCA tracks transactions of at least $2.5 million (middle to large commercial market).
Cap Rates Trended Down to 6.5%

Cap rates for transactions in the first quarter of 2020 reported by NAR commercial member average 6.5%. The average cap rate in the large commercial market ($2.5 million or more transactions) reported by Real Capital Analytics was 6.7%.

In the small commercial real estate market, Apartment Class A properties had the lowest cap rate, with a median of 5.4% among respondents. Apartment Class B/C cap rates were typically one percentage point higher, at 6.5%. Cap rates for office, Class B/C, industrial flex, free-standing retail, and senior housing were typically around 7%.

In the $2.5M or more market tracked by Real Capital Analytics, apartment and office-CBD properties had the lowest average cap rates of 5.4% based on January—February 2020 transactions. Hotel had the highest cap rate at nearly 9%. The lower cap rate for office-CBD properties indicates investor preference for the CBD market relative to the office-suburban market where cap rates were around one percentage points higher.

Cap Rates in 2020 Q1

<table>
<thead>
<tr>
<th>Category</th>
<th>Cap Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apartment: Class A</td>
<td>5.4</td>
</tr>
<tr>
<td>Apartment: Class B/C</td>
<td>6.5</td>
</tr>
<tr>
<td>Industrial: Warehouse</td>
<td>6.5</td>
</tr>
<tr>
<td>Industrial: Flex</td>
<td>7.0</td>
</tr>
<tr>
<td>Office: Class A</td>
<td>6.5</td>
</tr>
<tr>
<td>Office: Class B/C</td>
<td>7.0</td>
</tr>
<tr>
<td>Retail: Strip Center</td>
<td>6.5</td>
</tr>
<tr>
<td>Retail: Mall</td>
<td>6.0</td>
</tr>
<tr>
<td>Retail: Free standing</td>
<td>7.0</td>
</tr>
<tr>
<td>Hotel/Hospitality</td>
<td>6.5</td>
</tr>
<tr>
<td>Student housing</td>
<td>6.0</td>
</tr>
<tr>
<td>Senior housing</td>
<td>7.0</td>
</tr>
</tbody>
</table>

Source: 2020 Q1 NAR CRE Market Survey

For $2.5 million or less properties

Sources: NAR, Real Capital Analytics
New Lease Volume Declined 1.5%

The dollar volume of new lease transactions in 2020 Q1 fell on average by 1.5% compared to one year ago among commercial members of the National Association of REALTORS® who responded to NAR’s 2020 Q1 Commercial Real Estate Quarterly Market Survey.

While the new volume declined overall, 41% of respondents reported an increase in new leases, and 27% reported no change.

Across all property types, a lower fraction of respondents reported an increase in dollar volume of new leases in 2020 Q1 on a year-over-year basis compared to the fraction of respondents who reported annual gains in 2019 Q4. For example, in the apartment Class A market, only 35% reported an increase in new leasing activity in 2020 Q1 compared to 44% in 2019 Q4. In the office class A market, 21% of respondents reported an increase in leasing activity, down from 39% in the prior quarter. In the retail strip Class A, only 14% reported an increase in new leasing activity on a y/y basis in 2020 Q1 compared to 40% in the prior quarter.
Respondents reported higher vacancy rates across all property markets in 2020 Q1 compared to the prior quarter. The steepest increase was in the hotel sector where vacancy rates rose to nearly 18%. Far higher vacancy rates will occur in the upcoming months due to near travel lockdown in April. In the retail, office, and multifamily sectors, vacancy rates rose by about one percentage point. Vacancy rates for industrial properties were unchanged at 5%. In these asset classes, the overall vacancy rate rose to 10% from 7% in the prior quarter.

In the multifamily market, the tight vacancy rate (6.4% U.S. rental vacancy rate in 2019 Q4) has pushed rent prices up. Nationally, apartment rent prices rose 3.7% in 2019 Q4. As of 2019 Q4, the median price for a 2-bedroom apartment was $1,067, with 28% of apartments rented out for $1,500 or more.

REIS reported that the office vacancy rate averaged 16.8% in 2019 Q4. At $34.31 per square foot (asking) and $27.87 per square foot (effective), the average rents rose 2.6% and 2.7%, respectively, from one year ago.

REIS also reported that retail vacancy rate climbed rose to 10.2% in 2019 Q4. At $21.48 per square foot (asking) and $18.82 per square foot (effective), the average rents increased 1.2% and 1.3%, respectively from one year ago.
Value of Construction Put in Place Declined 2% in 2019 Q4

The value of construction put in place for multifamily, office, lodging, and commercial (includes industrial properties, retail, and specialty stores) declined by 2%, to a seasonally adjusted annual volume of $239.5 billion in February 2020, according to data from the U.S. Census Bureau. The value of construction put in place for lodging, commercial, and office buildings declined by 2% to a seasonally adjusted annual rate of $181.2 billion while the value of construction put in place for multifamily buildings was essentially unchanged at $58.27 billion.

Housing starts for multifamily units have been generally on the rise since July 2019, increasing from an annual rate of only 333,000 in July 2019 to a peak of 619,000 in January.

Housing starts have increased as the availability of non-residential construction workers and specialty trade contractors has increased over time. Still, there are about 75,000 fewer construction workers today than before the Great Recession. Only 24% of respondents reported that the cost and availability of labor has improved from one year ago.
Commercial Outlook Among Respondents

Respondents held mixed views about the commercial market outlook in the next 12 months. Among commercial members of the National Association of REALTORS® who responded to NAR’s 2020 Q1 Commercial Real Estate Quarterly Market Survey, respondents expect on average a 3% decline in their commercial transactions (sales, leasing, construction) in the coming 12 months. Forty-three percent expect a decline in their commercial transactions.

Respondents expect commercial prices to decrease by 5% on average. Fifty-six percent expect prices to decline.

Respondents expect new lease dollar volume to decline 4% in the coming 12 months. Forty-six percent expect a decline in new lease volume.

Respondents expect commercial construction measured in square feet to decline by 5% in the coming 12 months. Forty-nine percent expect a decline in construction activity.
Impact of the coronavirus pandemic on commercial real estate and economic outlook

Multifamily properties. Demand for multifamily properties, especially class B/C, and rents will likely increase in the next 12 months. The concentration of job loss in these sectors has an impact on the multifamily market because food service workers, housekeeping and personal care workers are more likely to be renters compared to other occupational groups. Only 51% of food service workers are homeowners and only 58% of housekeeping and personal care workers are homeowners, well below the national rate of 64%. The large but temporary loss of jobs will make saving for a down payment for a home purchase more difficult. NAR’s Flash Survey conducted April 5-6 reported that 59% of NAR members reported that buyers are delaying a home purchase for a couple of months. These factors will increase the demand for rentals. Class B/C properties that are more affordable will tend to be in higher demand than Class A due as households work through improving their financial positions.

Industrial properties. Demand for industrial properties and rents will likely increase in the next 12 months. The retail brick-and-mortars were already buffeted by the rise of e-commerce sales prior to the coronavirus outbreak. As of 2019, e-commerce sales accounted for nearly 12% of retail sales from 1% in 2000. The shift towards online shopping during the coronavirus period may result in a change in buying behavior for consumers that can only favor e-commerce sales. Industrial warehouses that are part of the critical logistics for e-commerce will benefit from this shift. The demand for data centers will tend to increase given the increasing demand for online/virtual transactions and data security.

Retail properties. Demand for retail properties and rents will likely be decrease in the next 12 months with a large potential for the adaptive reuse of vacant malls. Retail nearly came to a complete stop as more than 47,000 retailers across the U.S. temporarily shut their doors or adjusted store hours in an effort to help slow the spread of the coronavirus pandemic. This disruption can potentially lead to a permanent shuttering of these stores which is more severe than the 9,350 big retailers that closed in 2019. Retail operations and foot traffic in retail stores and malls could normalize but there could be a slow progression to the normalization of retail store foot traffic with shoppers staying away from enclosed malls as they remain wary of being infected. However, there is a large potential for repurposing the vacant malls, such as for health care armories or medical care centers.

Office properties. Demand for office space and rents will likely decrease in the next 12 months. The federal government and the Federal Reserve have put in place several measures to contain the economic fallout and keep businesses afloat. These measures will help retain current tenants. However, some businesses may shutter permanently, especially businesses who don’t have the office and business tools in place to avail of the small business loans (Paycheck Protection Program, Economic Injury Disaster loans). Businesses will also likely put on hold new hiring of employees given the uncertainty of a resurgence of the coronavirus pandemic and until after a vaccine is found. Leases will likely become more short-term, and businesses may opt for smaller office spaces because they don’t want to carry that rent burden if another pandemic strikes. Demand for co-working space may fall as freelances decide to just work from home rather than in co-working spaces.

Economic outlook. We expect the second quarter GDP growth to be the steepest decline in the U.S. history – likely in excess of 15% contraction on an annualized basis. What will be critical is the recovery in the second half of the year. Is it going to be sharp and quick rebound of a V-shaped or a sluggish recovery of staying low for a period before a recovery of a U-shaped? That will depend on the economy’s response to the stimulus measures and the path of virus containment. The best guess is for the second half GDP growth to be insufficient to compensate for the loss in the second quarter. Therefore, we expect GDP to have contracted around 3% to 5% for the year as a whole and net job losses totaling around 3 to 5 million.
All out monetary and fiscal policy to bolster economic activity and ensure a strong recovery

The social distancing measures have resulted in the temporary closings of many retail stores, schools, offices, restaurants, and places of amusement and leisure. At this time, fiscal and monetary policies are on an all out support mode to minimize the economic fallout of these measures at this critical time and to ensure a strong recovery.

On March 27, Congress passed a $2.2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act to provide financial assistance to workers and businesses through an expanded unemployment insurance program (Pandemic Unemployment Assistance) and loans for small businesses loans (Paycheck Protection Program, Economic Injury Disaster Loan). Borrowers of single-family and multifamily mortgages can also request forbearance for up to three months on federally backed mortgages. The Act provides for a moratorium on eviction filings and imposition of fees or penalties for non-payment of rent on federally backed loans for up to 120 days.

On March 15, the Federal Open Market Committee lowered the target range for the federal funds rate to 0 to 1/4 percent. In its statement, the FOMC also announced that “the Federal Reserve is prepared to use its full range of tools to support the flow of credit to households and businesses and thereby promote its maximum employment and price stability goals.” It announced to increase its holdings of Treasury securities by at least $500 billion and its holdings of agency mortgage-backed securities by at least $200 billion and to reinvest all principal payments from the Federal Reserve's holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities. On March 16, it reduced the rate charged to depository institutions (discount window) by 150 basis points to 0.25% to encourage banks to “turn to the discount window to help meet demands for credit from households and businesses at this time”. On April 9, the FOMC announced it will provide up to $1.3 trillion in loans to assist households, businesses, and state and local governments and announced that “The Fed’s role is to provide as much relief and stability as we can during this period of constrained economic activity, and our actions today will help ensure that the eventual recovery is as vigorous as possible.” keep businesses afloat and support the provision of critical services.
A 2020 Q1 survey of commercial members of the National Association of REALTORS® were asked: “Did you observe an Increase in the following developments in your primary market compared to one year ago? The fraction of respondents* who reported Yes:

**Senior housing:** 56%

**Smart home technology:** 49%

**Group-living:** 41%

**Micro-apartments:** 23%

**Transit-oriented development:** 60%

**Parking-free apartments:** 31%

*1,019 respondents*
A 2020 Q1 survey of commercial members of the National Association of REALTORS® were asked: “Did you observe an increase in the following developments in your primary market compared to one year ago? The fraction of respondents* who reported Yes:

- Construction outside CBD: **64%**
- Repurposing of Retail Malls: **54%**
- Co-working/flex spaces: **47%**
- Opportunity Zone Fund investments: **46%**
- LEED Certification: **30%**
- WELL Certification: **14%**

*1,019 respondents
A 2020 Q1 survey of commercial members of the National Association of REALTORS® were asked: “Did you see an improvement in these conditions in your primary market area compared to one year ago? The fraction of respondents* who reported Yes:

- Local economic conditions: **58%**
- National economic conditions: **51%**
- Obtaining debt/equity financing: **57%** / **53%**
- Zoning regulations: **29%**
- Hiring and cost of labor: **24%**
- Obtaining and cost of raw materials: **21%**

*921 respondents
NAR’s Quarterly Market Survey gathers information about the commercial transactions of REALTORS® and members of affiliate organizations (CCIM, SIOR, RLI, IREM, and the Counselors of Real Estate) and the opportunities and challenges facing commercial practitioners.

The 2020 Q1 survey was sent to approximately 75,000 commercial REALTORS® and members of affiliate organizations during April 1–8, 2020, of which 1,463 responded to the survey. A smaller number of respondents reported their sales (951) and leasing (931) transactions or market observations.

Among sales agents who had a sale during 2019 Q4, the average sales transaction was $502,305.

Among 1,494 respondents, 23% reported a designation granted by a NAR commercial institute, society, or council. The NAR Research Group acknowledges Charlie Dawson, Vice-President, Engagement, and Rodney Gansho, Director of Engagement, in reaching out to CCIM, CRE, IREM, SIOR, and RLI designees to respond to the survey.
The National Association of REALTORS® is America's largest trade association, representing more than 1.3 million members, including NAR's institutes, societies and councils, involved in all aspects of the real estate industry. NAR membership includes brokers, salespeople, property managers, appraisers, counselors and others engaged in both residential and commercial real estate. The term REALTOR® is a registered collective membership mark that identifies a real estate professional who is a member of the National Association of REALTORS® and subscribes to its strict Code of Ethics. Working for America's property owners, the National Association provides a facility for professional development, research and exchange of information among its members and to the public and government for the purpose of preserving the free enterprise system and the right to own real property.

NATIONAL ASSOCIATION OF REALTORS®
RESEARCH GROUP

The Mission of the NATIONAL ASSOCIATION OF REALTORS® Research Group is to produce timely, data-driven market analysis and authoritative business intelligence to serve members, and inform consumers, policymakers and the media in a professional and accessible manner.

To find out about other products from NAR's Research Group, visit www.nar.realtor/research-and-statistics

500 New Jersey Avenue, NW
Washington, DC 20001
202.383.1000