Commercial Market Insights

March 2021

National Association of REALTORS®
Research Group

NATIONAL ASSOCIATION OF REALTORS®

Contents

Despite the continued economic recovery and the accelerated vaccine distribution, commercial real estate acquisitions fell 59% in February as the lingering impact of the pandemic kept investors at the sidelines.

The dollar volume of acquisitions fell across all property classes: office (-71%), retail (-66%), industrial (-69%), hotel (-49%), and multifamily (-33%). On a year-to-date basis, acquisitions volume declined 53%.

In the apartment market, the main drag on confidence pertains to renters' ability to pay the current rent and missed rent payments, especially among the unemployed, many of which work in COVID-19 impacted sectors such as retail, accommodation, leisure, food services, and office administrative services. In the office market, the effect of working from home on the demand for office space remains the big question mark for investors. In the retail market, the continued rise in electronic shopping remains the main drawback, although foot traffic in brick-and-mortar stores is likely to pick up once most of the population is vaccinated. Consumer and business spending for accommodation and food services will start to normalize once the population is vaccinated and with continued precaution and observance of safe practices to prevent a new surge in infections.

In summary, the commercial real estate market is still in dire straits but with the economy receiving continued fiscal and monetary support and with a vaccine distribution program that is targeted to be completed by this summer, the outlook for commercial real estate can only be better, not worse.

Enjoy reading the latest issue!

Page	
3	Economic Conditions
6	Overview
8	Multifamily
10	Office
11	Industrial
12	Retail
13	Hotel
14	Top 10 Markets

On March 10, 2021, NAR held its virtual ***Commercial Real Estate Forecast Summit*** *event, which provided an outlook on the changing commercial real estate market and the Top 10 commercial markets.*

Materials can be found here:
https://www.nar.realtor/events/nar-real-estate-forecast-summit

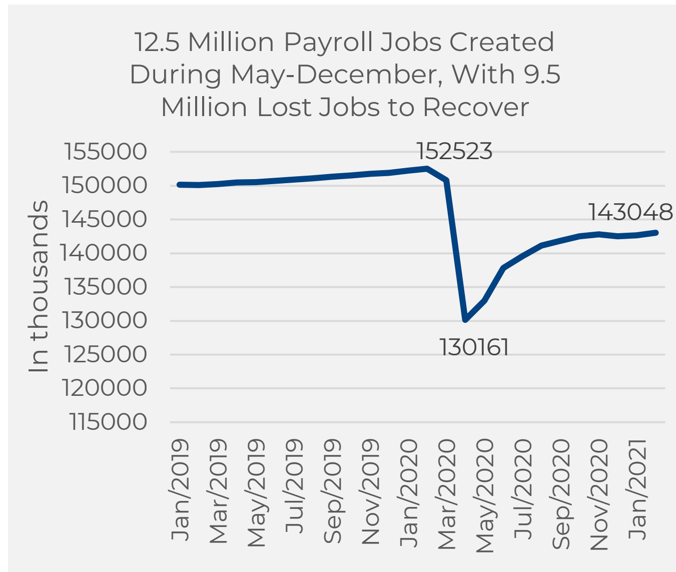
Economic Conditions

12.5 million payroll generated from May 2020-February 2021 with 9.5 million jobs to recover

The economy continues to recover and jobs are coming back, although at a modest pace compared to the third quarter surge. As of February 2021, the economy has generated 12.5 million jobs, or 56% of the 22 million jobs lost during March and April. There are 9.5 million nonfarm payroll jobs still to be recovered.

About 36% of the job losses are in leisure and hospitality, followed by the government sector (local), health care and social assistance, and professional and businesses services. Only the finance and insurance industry had job gains.

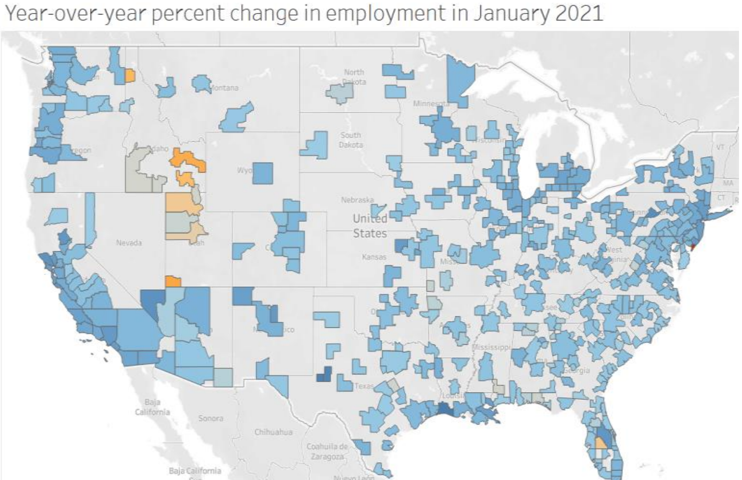
While jobs are coming back, only a few metro areas in New Jersey, Utah, Idaho, and Florida have more jobs as of January compared to one year ago (orang areas in the map).

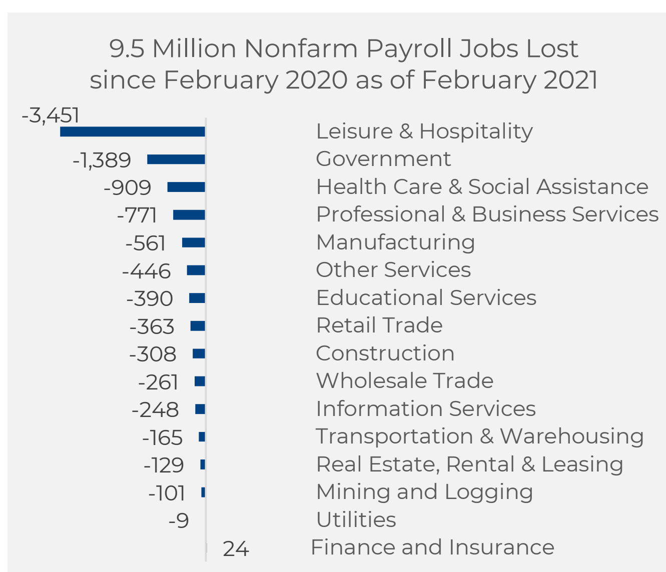


Source: BLS Establishment Survey

Ocean City, NJ	14.75
St. George, UT	3.42
Idaho Falls, ID	2.84
Coeur d'Alene, ID	1.97
Pocatello, ID	1.65
Lakeland-Winter Haven, FL	0.87
Ogden-Clearfield, UT	0.79
Provo-Orem, UT	0.40

Year-over-year percent change in employment in January 2021



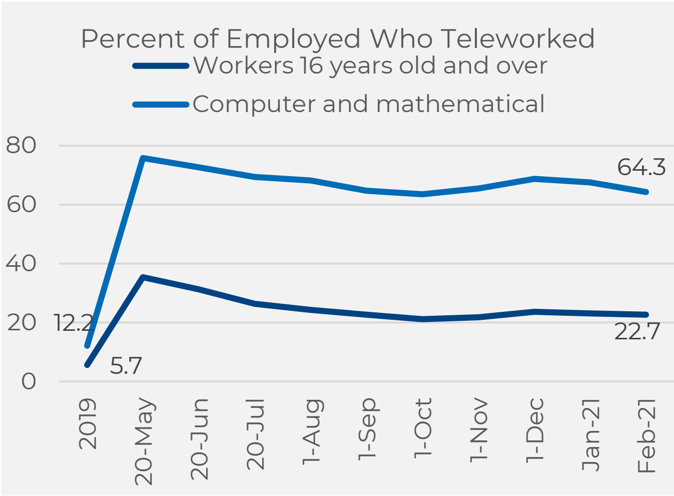


Source: BLS Establishment Survey

Economic Conditions

23% of the workforce still working from home

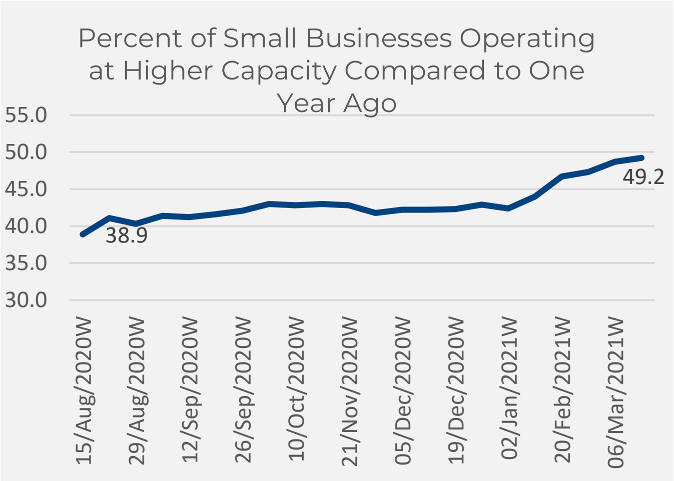
Twenty-three percent of the civilian workforce 16 years old and above is still teleworking, up from 5.7% in 2019. Among computer and mathematical workers, 64% are teleworking, five-fold from the 12% share in 2019.



Source: BLS COVID-19 Supplemental Survey

49% of small businesses operating at higher capacity as of March 2021

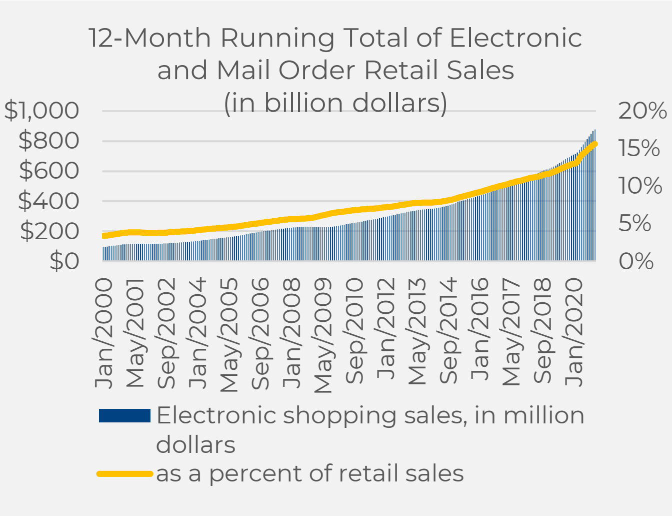
As the economy continues to recover, a businesses are starting to operate at higher capacity. As of the week of March 6, 49% of small businesses were operating at higher capacity compared to one year ago when the states started to issue stay-in-place orders after a national emergency was declared as COVID-19 cases started to accelerate. The index of new orders of manufactured goods rose to 60.6,with an index above 50 indicating orders are rising.



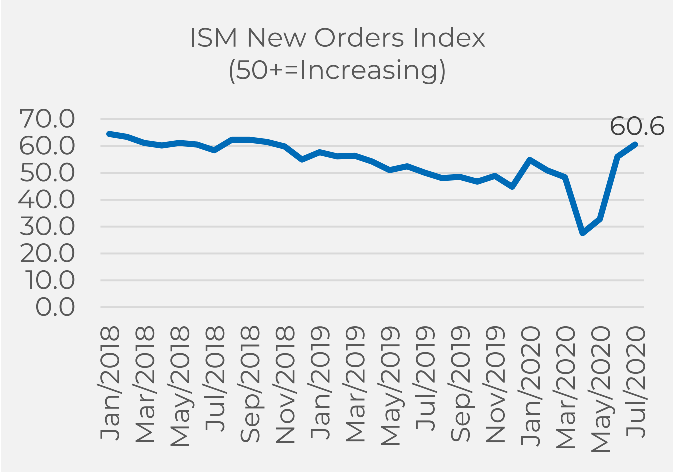
Source: US Census Bureau Small Business Pulse Survey

Electronic shopping buoys retail sales

Consumer spending on retail goods rose 0.8% in the past 12 months ended January 2021 due to the 27% year-over-year growth in electronic shopping sales that made up for the decline in retail sales in food services and drinking places (-21%) and in general merchandise stores, sporting goods, clothing and accessories (-4.3%). Electronic sales have increased by $185 billion since the pandemic and now account for 16% retail sales, up from 13% prior to the pandemic.



US Census Bureau



US Census Bureau

NATIONAL ASSOCIATION OF REALTORS®

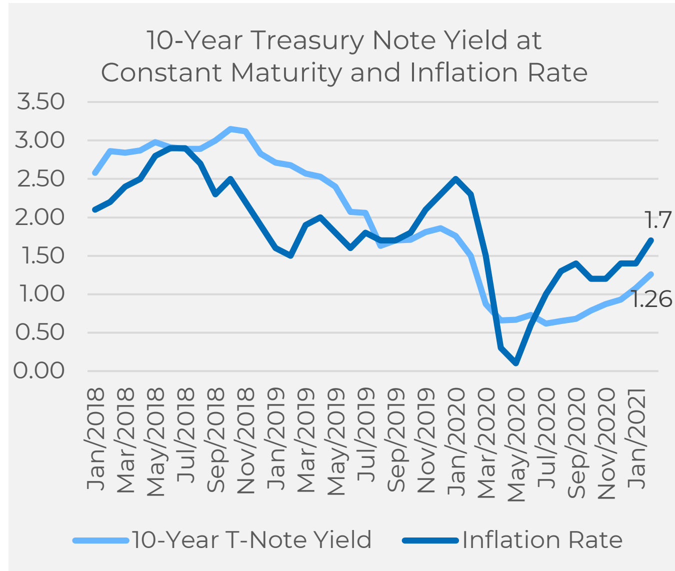
Economic Conditions

Inflation is rising but is still below 2% target

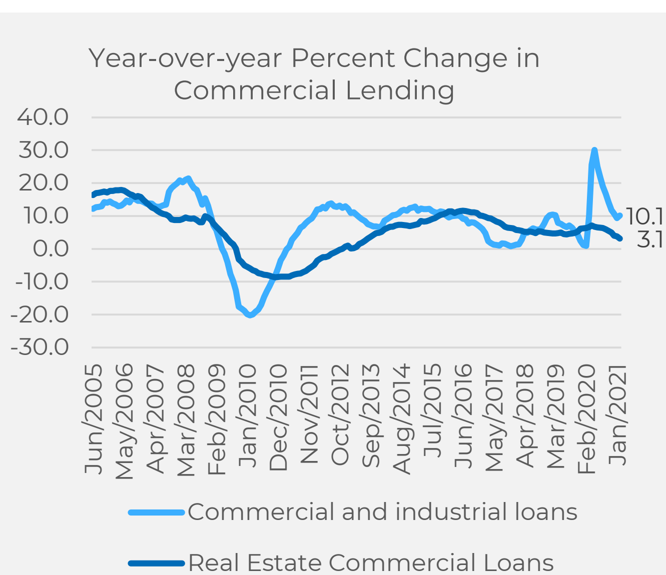
With rising economic growth and cost-push pressures (higher oil prices and wages), inflation has accelerated to 1.7% as of February 2021. With higher inflation, the 10-year Treasury note increased to 1.26% in February after breaking the 1% mark in January 2021.

While inflation has been ticking up, the Federal Open Market Committee has kept the federal funds rate at 0 to 25 basis points to quicken the pace of job creation and with inflation at below the FOMC's average inflation rate target of 2%.

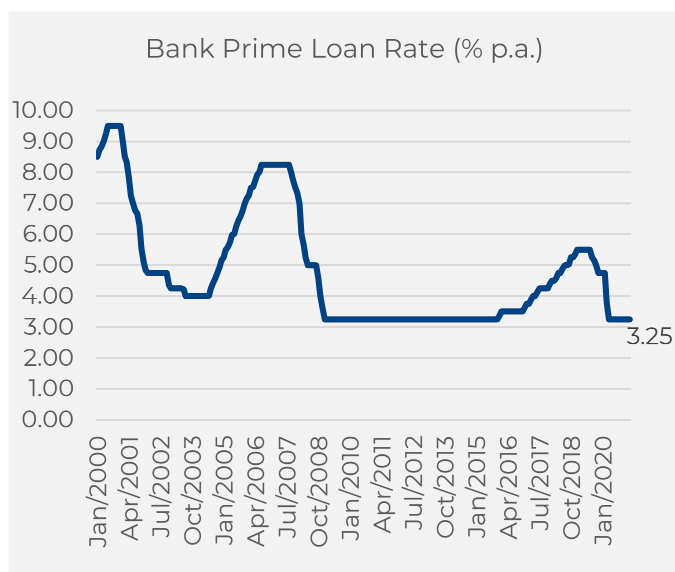
Compared to the Great Recession when bank credit froze, credit has continued to flow to businesses. Commercial and industrial loans were up 10% from one year ago while real estate commercial loans were up higher by 3%.



Sources: Bureau of Labor Statistics, Federal Reserve Board



Source: Federal Reserve Board



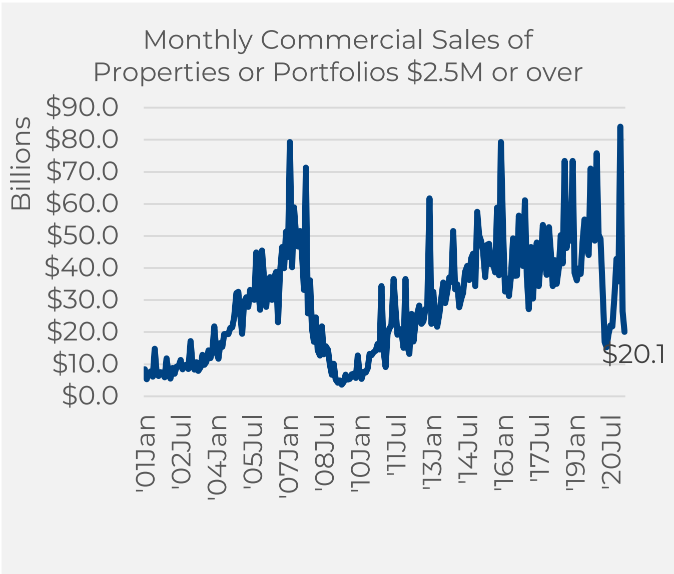
NATIONAL ASSOCIATION OF REALTORS®

Commercial Market Overview

Commercial sales transactions drop 59% year-over-year in February 2021

Due to the lingering effects of the pandemic on various property markets, acquisitions of commercial properties or portfolios of at least $2.5 million fell by 59% in February 2021, the second month of year-over-year decline (-47% in January). Year-to-date, sales are 53% lower than one year ago.

Acquisitions fell across all property classes, even for industrial real estate. The steepest decline in acquisitions was for development sites (-79%), followed by office (-71%), industrial (-69%), retail (-66%), senior housing (-50%), hotel (-49%), and lastly, apartment (-33%).



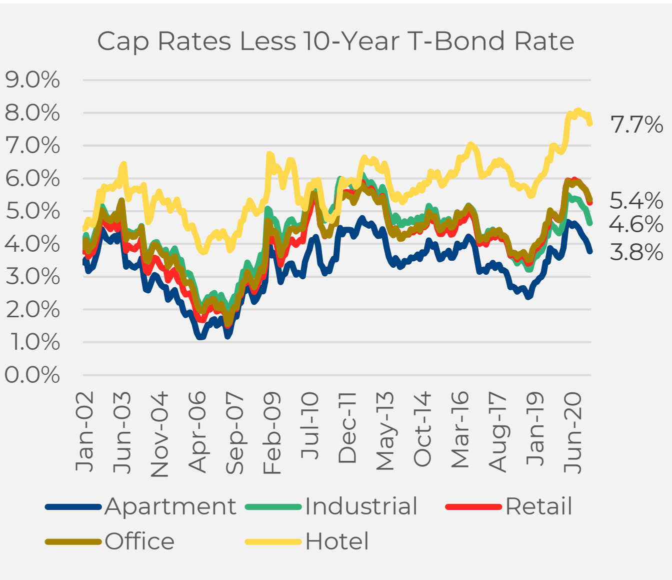
Source: Real Capital Analytics

	Feb '21		Past 12 Months	
	Vol ($b)	YOY	Vol ($b)	YOY
Office	2.8	-71%	77.1	-48%
Retail	1.4	-66%	34.4	-48%
Industrial	4.9	-69%	86.8	-35%
Hotel	0.8	-49%	10.5	-71%
Apartment	9.1	-33%	133.0	-32%
Snr Hsg & Care	0.4	-50%	9.9	-45%
Dev Site	0.7	-79%	19.8	-19%
Total	20.1	-59%	371.6	-40%

Risk spreads (cap rate less 10-year T-bond) on the decline are declining but remain elevated compared to pre-pandemic levels

Risk spreads are declining but are still higher than the spread one year ago.

Investors of properties of $2.5 million or over placed the lowest level of risk on apartment properties, with the risk spread at 3.8%, followed by industrial, at 4.6%. Hotel acquisitions had the highest risk spread at 7.7%. Retail and office property acquisitions cap rates were 5.3% and 5.4% above the 10-year T-bond.



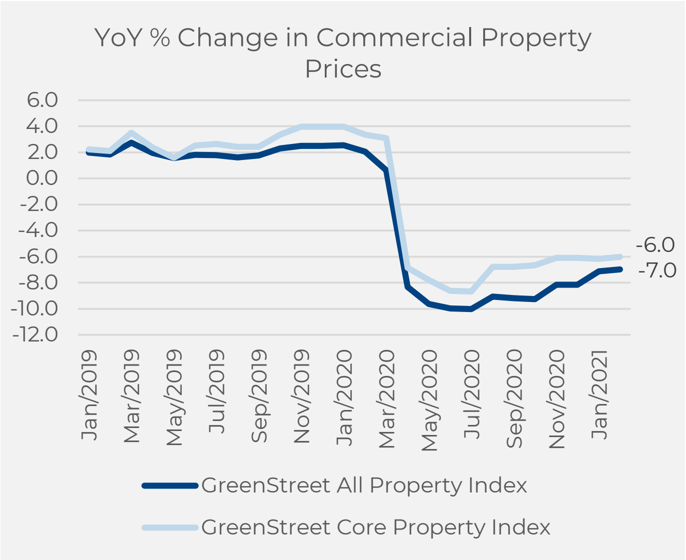
NATIONAL ASSOCIATION OF REALTORS®

Commercial Market Overview

Commercial real estate prices (appraisal-based) down 7% year-over-year

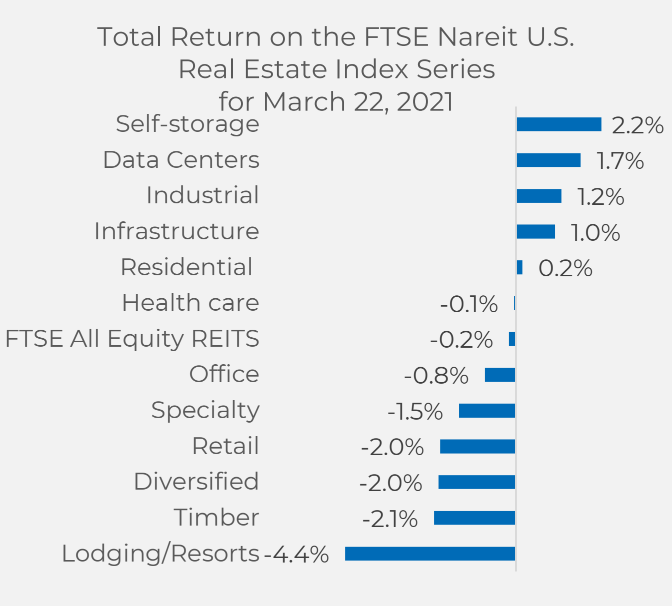
The prices of commercial real estate based on the Green Street Property Index, an appraisal-based index, are still on average 7% lower than one year ago. The non-core property index is down by 6% due to the stronger performance of non-traditional sectors (data centers, self-storage, health care, single-family rentals, student housing, cell towers, etc.)

REITS invested in commercial real estate continue to show mixed performance. REITS invested in self-storage, data centers, industrial, infrastructure, and residential had positive total returns. However, REITS invested in office, specialty, retail, lodging/resorts, timber, and specialty real estate had negative total returns.

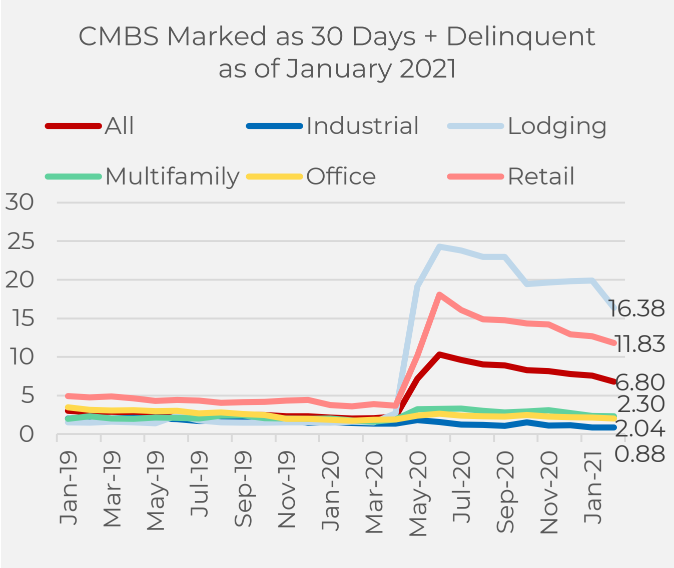


CMBS delinquency rates continue to decline as of February

Overall delinquency rates on commercial mortgage-backed Securities declined to 6.8% (7.58% in January, peak of 10.3% in June 2020), according to Trepp®. CMBS backed by hotel assets had the highest delinquency rate at 16% followed by retail-backed MBS at 12%. CMBS backed by industrial assets had the lowest delinquency rate of 0.88%, then office, at 2.04%, and multifamily, at 2.30%.



Source: Nareit



Source: Trepp

NATIONAL ASSOCIATION OF REALTORS®

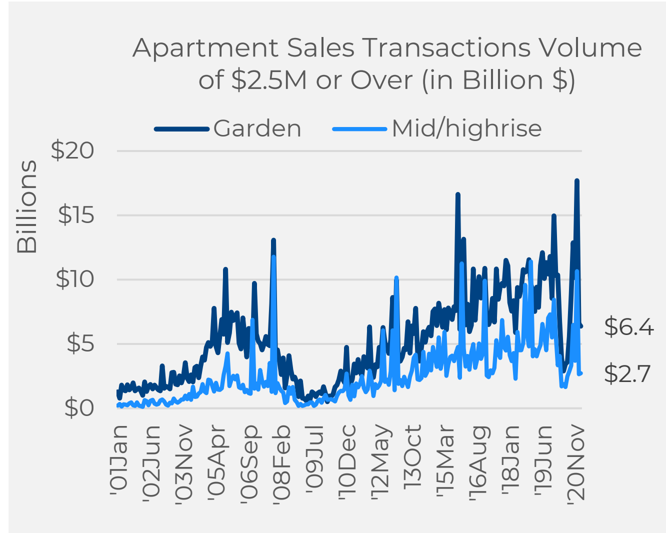
Multifamily

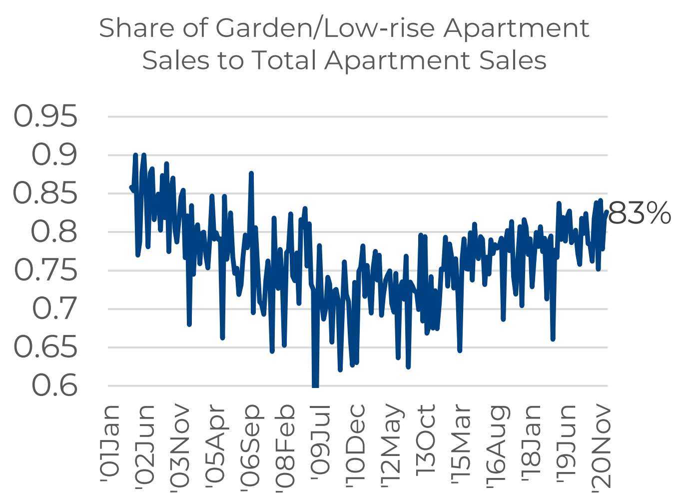
Acquisitions fell 38% in February 2021

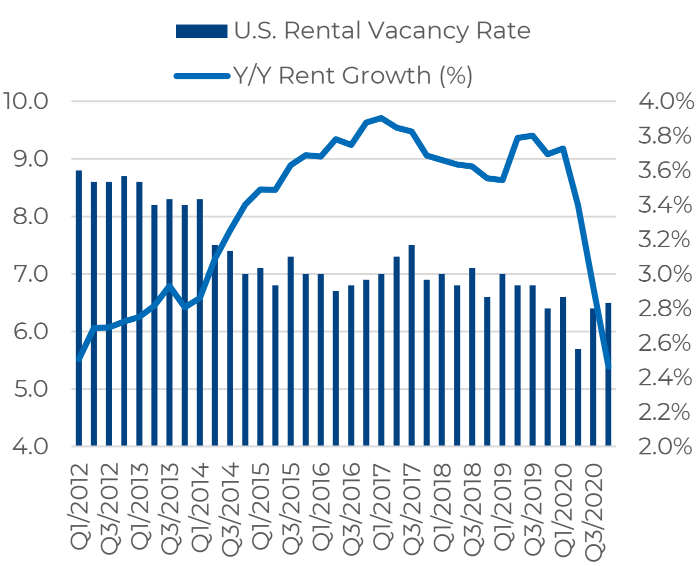
Acquisitions for multifamily properties of $2.5 million or over fell 33% in February 2021. Year-to-date, acquisitions are 38% below year-ago levels. Acquisitions of both garden (low-rises) or mid- to high- rises both declined. Acquisitions of garden apartment were down 40% year-over-year, while acquisitions for mid to high rises were lower by 38% year-over-year. Investors remain seemingly concerned about the rent cash flow, with 17% of renters not caught up on rent, according to the US Census Household Pulse Survey of March 3-15.

Garden/low-rise apartments accounted for 83% of the sales deals in February, with the average price per unit of garden/low-rise units ($156,667) at about half the average price of mid/high-rise apartments ($288,091).

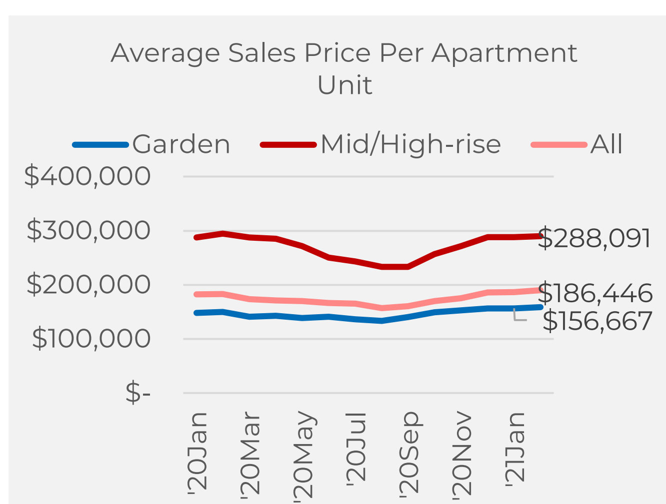
The national rental vacancy rate slightly rose 6.5% in 2020 Q4, from 6.4% in the same quarter in 2019. Rents are still broadly rising, but at a slower pace than in past years. With somewhat higher vacancy rates, rents rose 2.5% on a year-over-year basis, a slower pace of increase compared to 3.7% in 2019 Q4.







Sources: U.S. Census Bureau, Bureau of Labor Statistics



Source of data: Real Capital Analytics

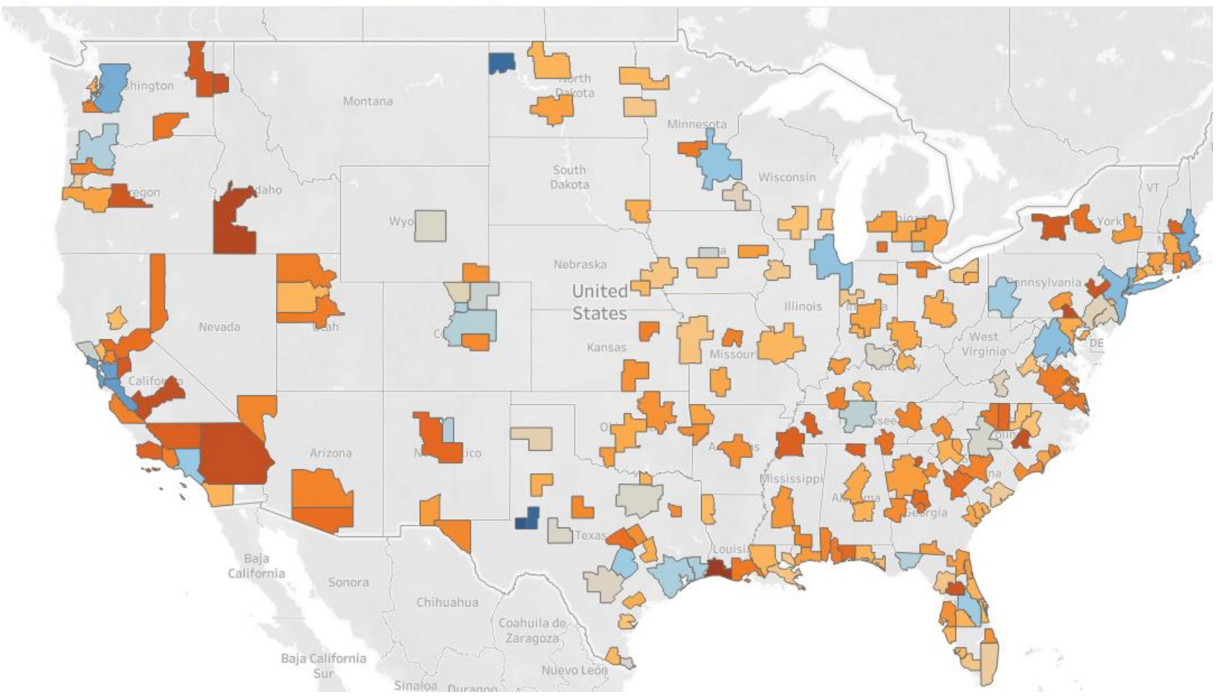
NATIONAL ASSOCIATION OF REALTORS®

Multifamily

Rents decline in primary markets

According to ApartmentList.com®, rents for 2-bedroom apartments rose on a year-over-year basis in 83% of 199 metro areas it tracks. Rents were down at double-digit rates in San Jose, San Francisco, Seattle, and Boston. Meanwhile, rents were up in secondary/tertiary markets, with double-digit rent growth in Lake Charles, Boise City, York, Riverside, Fresno, Fayetteville, Coeur d'Alene, and Ocala.

Year-over-year percent change in 2-bedroom rents as of February 2021
Apartment rents rose in 83% of 199 metro areas



Odessa, TX	-34.2%	Lake Charles, LA	14.2%
Midland, TX	-29.4%	Boise City, ID	12.3%
Williston, ND	-28.3%	York-Hanover, PA	11.2%
San Jose-Sunnyvale-Santa Clara, CA	-15.4%	Riverside-San Bernardino-Ontario, CA	11.0%
San Francisco-Oakland-Berkeley, CA	-14.8%	Fresno, CA	10.9%
Seattle-Tacoma-Bellevue, WA	-11.6%	Fayetteville, NC	10.7%
Boston-Cambridge-Newton, MA-NH	-10.0%	Coeur d'Alene, ID	10.5%
New York-Newark-Jersey City, NY-NJ-PA	-8.0%	Ocala, FL	10.1%
Washington-Arlington-Alexandria, DC-VA-MD..	-6.8%	Allentown-Bethlehem-Easton, PA-NJ	9.9%
Chicago-Naperville-Elgin, IL-IN-WI	-5.6%	Gainesville, GA	9.8%
Minneapolis-St. Paul-Bloomington, MN-WI	-5.1%	Rochester, NY	9.7%
Los Angeles-Long Beach-Anaheim, CA	-4.1%	Bend, OR	9.6%
Austin-Round Rock-Georgetown, TX	-3.1%	Spokane-Spokane Valley, WA	9.4%
Orlando-Kissimmee-Sanford, FL	-3.0%	Stockton, CA	9.4%
Pittsburgh, PA	-2.9%	Bakersfield, CA	8.7%
Beaumont-Port Arthur, TX	-2.4%	Memphis, TN-MS-AR	8.6%
Houston-The Woodlands-Sugar Land, TX	-2.3%	Santa Maria-Santa Barbara, CA	8.5%
Boulder, CO	-2.1%	Jackson, TN	8.4%
Portland-Vancouver-Hillsboro, OR-WA	-2.1%	Huntsville, AL	8.4%
Tallahassee, FL	-2.1%	Manchester-Nashua, NH	8.0%
Santa Fe, NM	-1.9%	Pensacola-Ferry Pass-Brent, FL	7.8%
Denver-Aurora-Lakewood, CO	-1.8%	Albuquerque, NM	7.8%
Nashville-Davidson--Murfreesboro--Franklin, ..	-1.5%	Greensboro-High Point, NC	7.7%
Ann Arbor, MI	-1.4%	Macon-Bibb County, GA	7.3%

NATIONAL ASSOCIATION OF REALTORS®

Office

Acquisitions fell 71% in February 2021

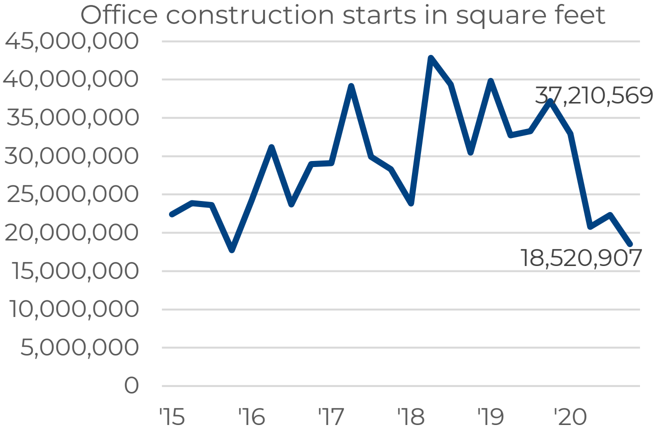
With about a fifth of the workforce still working from and home and with many companies presumably still crafting their long-term work-from-home policies, investors continued to retreat from the office commercial real estate market in February 2021, with acquisitions plummeting by 71%. Year-to-date, acquisitions are 60% lower than one year ago.

The office-CBD market has been hit harder than the suburban market. In the CBD office market, sales plummeted by 91% year-over-year in February, and are down 56% year-to-date. In the office suburban market, acquisitions contracted 62% and are down 60% year-to-date. The office-CBD market accounted for just 7% of all transactions in February 2021.

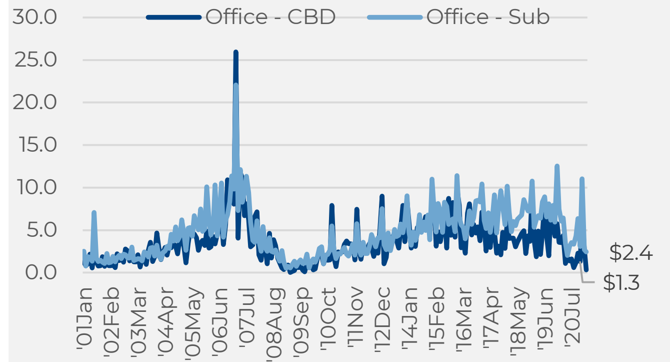
The few transactions that are being made in the CBD market reflect acquisitions of quality assets or assets in prime locations. The average sales price of acquired properties in the CBD market rose to $615.9 per square foot (+49% y/y). In the suburban market, the average price was $246.2 per square foot (-1% y/y).

In 2020, office construction declined to a total of 95 million square feet, down 33% from 143 million square feet in 2019. This new construction coming into market accounts for about 1.8% of the 5.5 billion of total office space, which will tend to prop up vacancy rates in the office market until the market reabsorbs the 98 million square feet of office space that became unoccupied in 2020.

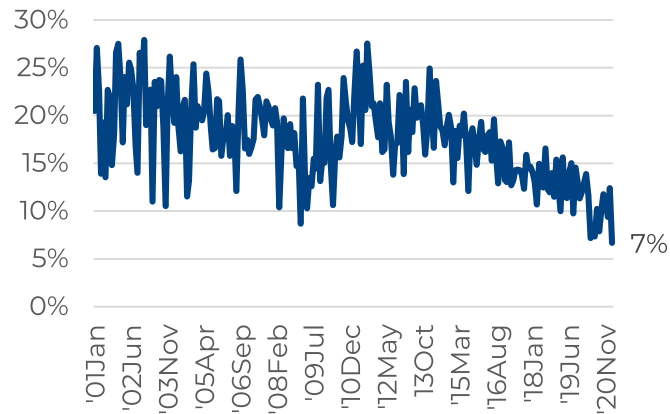
Office construction starts in square feet



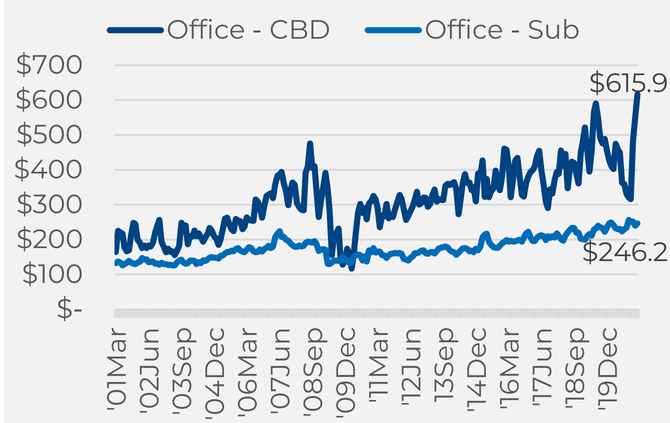
Office Sales Transactions of $2.5M or Over as of February 2021 (in Billion $)



Share of CBD Office Property Sales to Total Sales



Average Sales Price Per Square Foot for Office Properties



Source of data: Real Capital Analytics

Industrial

Acquisitions fell 69% in February 2021

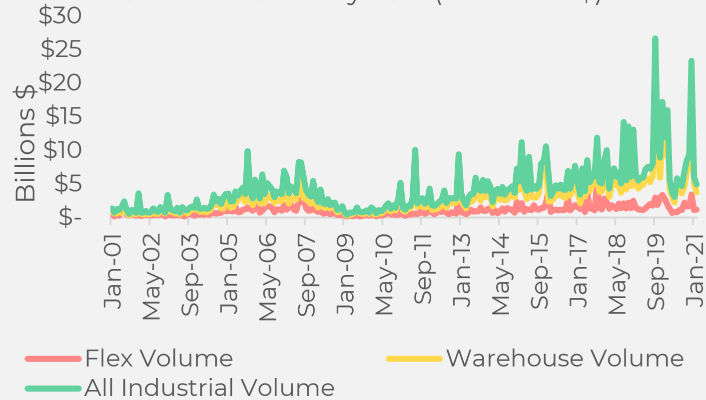
Investor acquisitions of industrial properties or portfolio acquisitions of $2.5 million or over decreased 69% in February 2021 as both sales of warehouse and flex declined. Flex volume fell by 38%, while warehouse declined by 73%. The drop in February's industrial volume can be misleading as single industrial asset sales fell by only 6% with respect to one year ago. In addition, individual warehouse space fell by 11% year-over-year while individual flex increased 12% year-over-year. February's decline is actually the result of no multibillion dollar entity level transaction when considering the large transaction (Prologis) that took place one year ago.

While the average sales price per square foot of flex decreased 9% year-over-year, on a month-over-month basis it increased 7%. Conversely, the warehouse average sales price per square foot increased 8% year-over-year.

At the conclusion of 2020, the markets that had the highest share of CMBS loan origination for industrial property acquisitions were Sacramento (51%), Portland (35%), Baltimore (32%), and Richmond/Norfolk (31%).

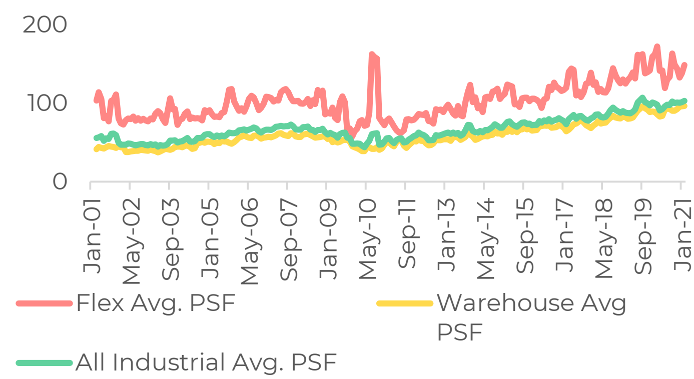
Overall delinquency rates on commercial mortgage-backed Securities (CMBS) for industrial assets increased by one basis point to 0.88% (0.87% in January 2021), as delinquency rates continue to remain low for industrial assets according to Trepp®.

Industrial Sales Transactions of $2.5M or Over as of January 2021 (in Billions $)



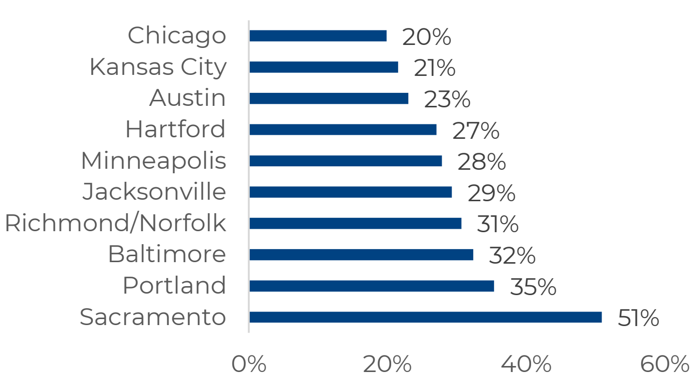
Source: NAR analysis of RCA data

Average Sales Price Per Square Foot for Industrial Properties

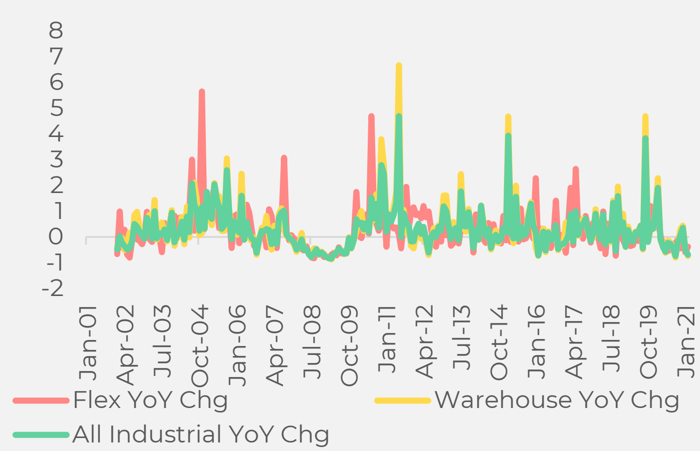


Source: NAR analysis of RCA data

Largest Industrial Market Lender Composition for CMBS Loans Originated in 2020, % of overall respective market lender composition



YoY Change for Industrial Properties



Source: NAR analysis of RCA data

Retail

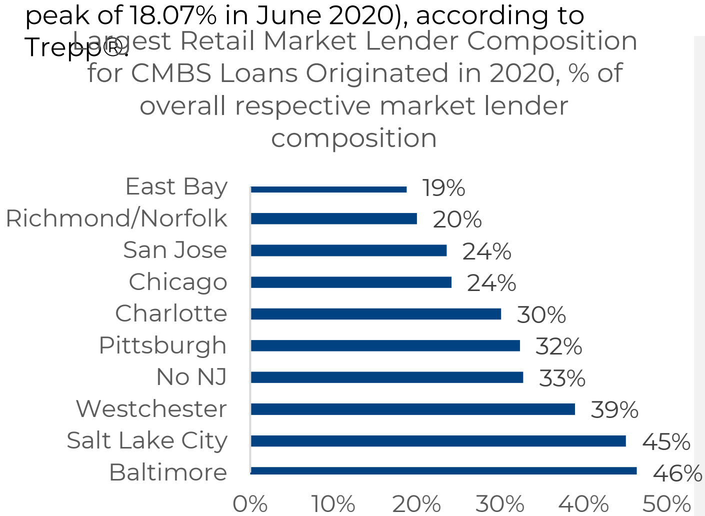
Transaction activity continues to sink

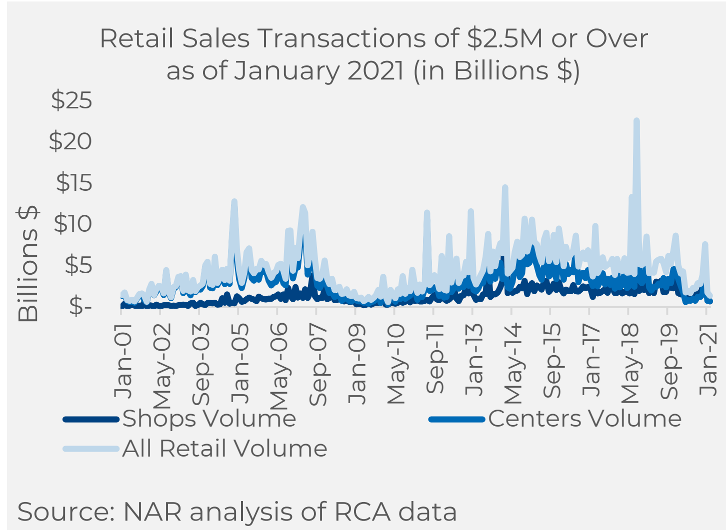
Investor acquisitions of retail properties or portfolio acquisitions of $2.5 million or over for February 2021 decreased 66% year-over-year, as transaction volume for both shops and centers totaled $1.4 billion which is the same as the prior month. Sales for February 2021 totaled $4 billion. Sales for centers declined at a higher rate than shops as sales were down 72% from the prior year with a total of $702 million. Sales for shop space decreased 57% from the same period a year ago as sales for shops totaled $649 million.

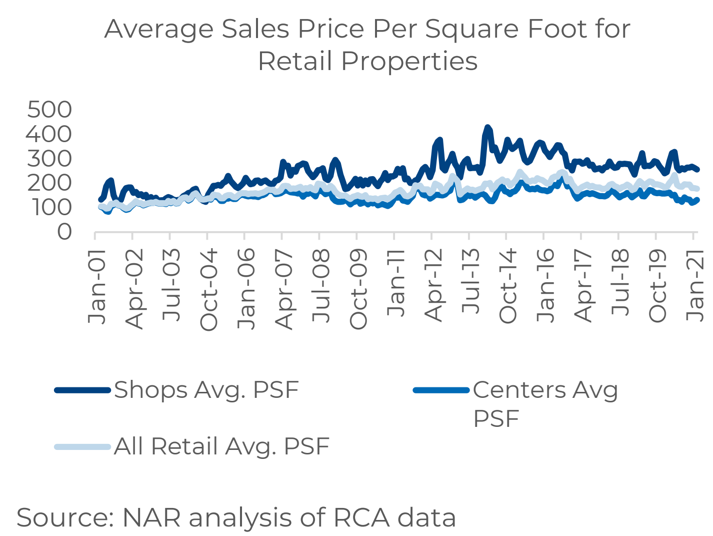
The average price per square foot of retail acquisitions in February 2021 decreased by $6 from February 2020 and decreased from the prior month by 1.6%. The average price per square foot for shop properties decreased to $256/sq. ft., up from $246/sq. ft. recorded in February 2020. Centers average price per square foot decreased by 18% from one year ago as the average price per square foot totaled $131.

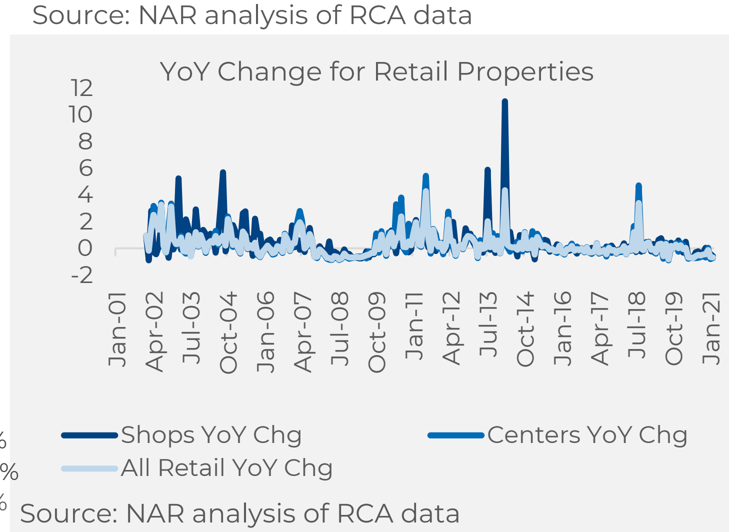
At the conclusion of 2020, the markets that had the highest share of CMBS loan origination for retail property acquisitions were Baltimore (46%), Salt Lake City (45%), Westchester (39%), and NO NJ (33%).

Overall delinquency rates on commercial mortgage-backed Securities (CMBS) for retail assets declined to 11.83% (12.68% in January, peak of 18.07% in June 2020), according to Trepp®.









Retail

Economic Impact Payment Could Boost Retail More

Last week saw the U.S. Census Bureau report a 9.5% year-over-year increase in U.S. retail trade sales in February. This indicates a deceleration from the very strong holiday quarter and January's 10.8% year-over-year increase. The economic impact payments issued at the end of December aided this increase. That round of economic impact payments saw the distribution of $600 checks to eligible individuals if their AGI was less than $75,000 with payments declining in value as annual income increases.

In January, sales saw double-digit year-over-year and month-over-month increases across majority of retail. Year-over-year increases were led by non-store retailers, up 28.7%, and sporting goods, hobby, musical instrument, and book stores, up 22.5%. Grocery stores sales continued to see significant growth at over 11.1%. There were even significant improvements in department stores as the category led month-over-month increases, up 23.4%, which was a very sizeable increase from department store prior sales figures.

While February saw sales fall in every category with the exception of grocery stores, the decrease is not concerning as year-over-year growth remains quite strong amid boosts from vaccine and stimulus. In addition, February's figures are a decrease from an untypical January high and winter storms that had an impact on already lower-than-normal retail foot traffic.

With respect to February's stimulus, the U.S. government passed the $1.9 trillion economic stimulus package that saw a third round of economic impact payments up to $1,400, distributed with a phase out at $75,000 for single filers, $112,500 for head of household filers, and $150,000 for joint filers. We anticipate additional stimulus-related growth as economic impact payments continue to enter consumer bank accounts.

One of the most common ways consumers spend their stimulus is on bills, mortgages, rent, debt, and food. As we look at discretionary retail such as department stores and clothing and clothing accessories we see continued year-over-year decreases as consumers have continued to reallocate capital in other areas. But on the whole, retail and more specifically discretionary retail is not capturing a large portion of economic impact payments. Even though retail sales have been quite splendid and with consumer confidence at its highest level since this time a year ago, consumers are not spending across retail evenly, as sales could be a lot stronger. But is it not solely on the consumers; retailers must continue their marketing efforts and investments in consumer experiences in an effort to capture a larger portion of consumer pocketbooks as February's findings gives evidence that consumers are amenable to spending.

For more information on the retail market, contact:
Brandon Hardin| Research Economist at bhardin@nar.realtor

Hotel

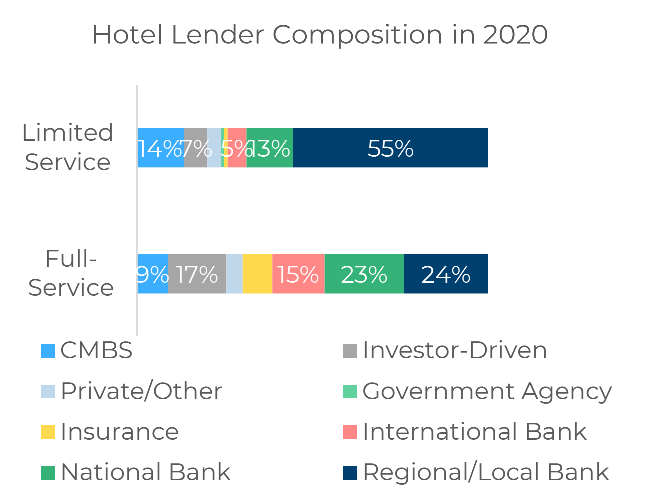
Acquisitions fell 49% in February 2021

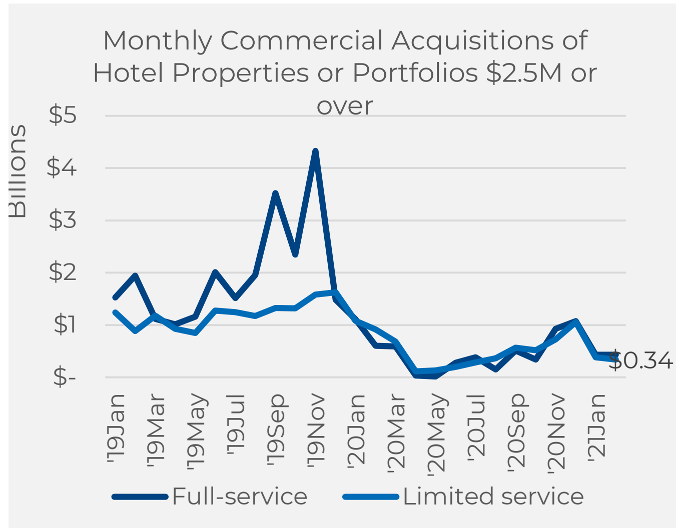
Acquisitions of hotel properties of $2.5 million or over fell 49% in February 2021. Year-to-date, acquisitions are 57% below year-ago levels.

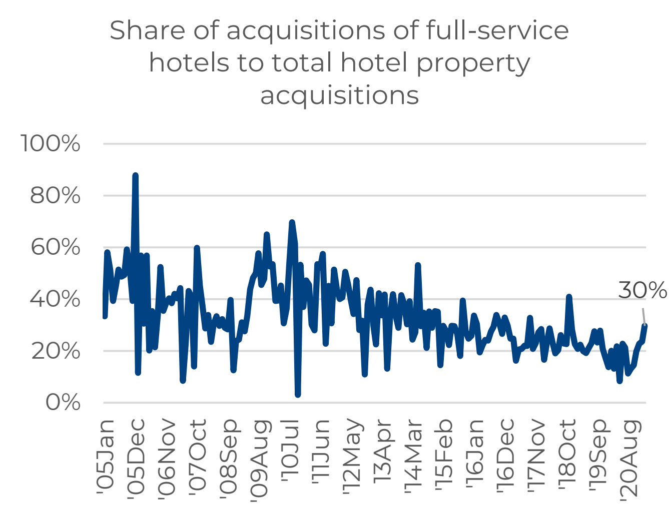
Investors seem to be turning their interest towards full-service hotels. Year-to-date, acquisitions of full-service hotels is down 50% while acquisitions of limited service hotels has dropped by 64%. Full-service hotels may be more attractive to investors because they offer more revenue segments (convention facilities, spas, restaurants/bars) that are likely to do well once personal and business travel picks up after most of the population is vaccinated by end of July.

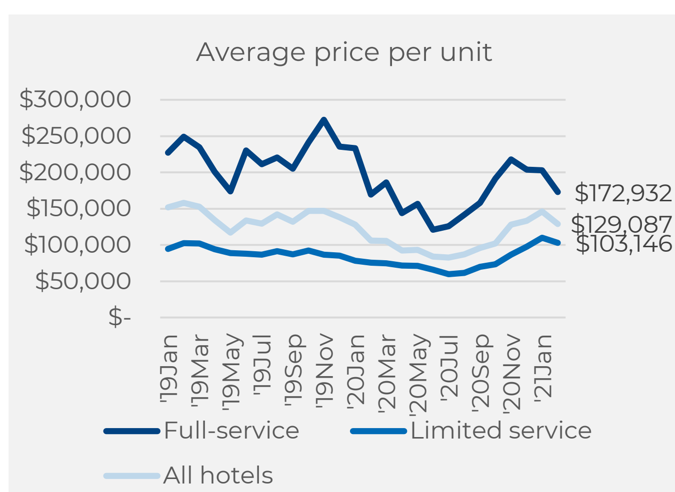
Compared to one year ago, acquisition prices for full-service hotels have fallen more than limited-service hotels. Year-to-date, the average price per unit of full-service hotel acquisitions was down 7% year-over-year while the average price per unit of limited service hotels was up 38%. The decline in full-service acquisition cost appears to ticked up investor demand somewhat, with the share of full-service property acquisitions picking up to 30% of total acquisitions in February 2021.

Regional/local banks provided over half of the financing for the acquisition of limited service hotels and 24% of the financing for full-service hotels. International banks and government agencies provided a larger share of the financing for the acquisition of full-service hotels than for limited service hotels.









Source of data: Real Capital Analytics

NATIONAL ASSOCIATION OF REALTORS®

COMMERCIAL UPDATE 3.10.21

REAL ESTATE FORECAST SUMMIT

TOP 10 METRO AREAS WITH THE STRONGEST COMMERCIAL MARKET CONDITIONS

NAR identified the top commercial real estate markets based on the most recent data on 25 indicators:

- **Economic:** GDP growth, non-farm employment, unemployment rate, weekly wages, median household income, credit card spending, number of business openings
- **Demographic:** population growth, net domestic migration
- **Housing:** homeownership rate, rental vacancy rate, building permits, ratio of jobs created to permits, apartment rent
- **Commercial Indicators by Property Type:** net absorption, vacancy rate, asking rent, inventory, construction

NATIONAL ASSOCIATION OF REALTORS®

Top 10 Commercial Real Estate Markets
As of 2020 Q4

On the aggregate, the commercial real estate market has been hit hard by measures to control the COVID-19 pandemic. However, on closer look, some sectors and geographic markets have fared better than others. By property type, the multifamily and industrial property markets have held up better to the pandemic's onslaught than the office, retail, and hotel sectors. Regarding the office market, the large metro areas and central business districts have experienced larger declines in occupancy compared to the smaller metro markets and suburban locales.

Real estate transactions are heavily dependent on the economic, demographic, housing, and commercial market conditions that are specific to a local area. Based on 25 indicators[1] as of 2020 Q4 of the area's economic, demographic, housing, and commercial market conditions in the multifamily, office, industrial, retail, and hotel property sectors, NAR identified the top 10 markets with stronger economic and commercial market conditions compared to national conditions, among 52 markets NAR tracks.

Economic: GDP growth, non-farm employment, unemployment rate, weekly wages, median household income, consumer spending (credit card spending), number of business openings

Demographic: population growth, net domestic migration

Housing: homeownership rate, rental vacancy rate, building permits, ratio of jobs created to housing permits, apartment rent

Commercial indicators by property type: net absorption, vacancy rate, asking rent, inventory, construction

In alphabetical order, the markets are:

Austin Round Rock, TX
Cape Coral-Fort Myers, FL
Charleston-North Charleston, SC
Las Vegas- Henderson-Paradise, NV
Nashville-Davidson-Murfreesboro-Franklin, TN
Phoenix-Mesa-Scottsdale, AZ
Raleigh, NC
Salt Lake City, UT
Seattle-Tacoma-Bellevue, WA
Tucson, Arizona

1/Office and industrial property market data is from Cushman and Wakefield. Multifamily rent data is from ApartmetnList.com and rental vacancy rate is from the US Census Bureau. Credit card data is from Affinity Solutions via Opportunity Insights downloaded from Haver Analytics. Employment data is from the Bureau of Labor Statistics, GDP data is from the Bureau of Economic Analysis, and net domestic migration data is from the US Census Bureau.

Austin-Round Rock, TX
Austin is a huge magnet for movers, second only to Phoenix. With an influx of movers, the apartment vacancy rate is a low 3%, about half the national vacancy rate (6.5%). The low vacancy rate creates a significant opportunity for Austin's multifamily property market. Austin is also becoming a strong industrial player, experiencing a significant increase in industrial construction of 6.1 million sq. ft., equivalent to 13% of the current industrial space, the largest increase among the top 10 markets. In 2020, industrial space occupancy increased by 1.8 million, offsetting the decline in office vacancy of about 540,000 sq. ft. Among the top 10, it also has the lowest decline in payroll employment as of December 2020, at 1% compared to the national decline (-6%).

Cape Coral-Fort Myers, FL
Cape Coral might be known as a tourist destination, but its office and industrial markets are holding up to the pandemic's negative impact. It is one of two metro areas that experienced an increase in office occupancy of $112,000 sq. ft. as of 2020 Q4 along with Raleigh, North Carolina. The office vacancy rate was 5.7%, about a third of the national rate (15.5%). Cape Coral is likely to continue to attract new office tenants because among those in the top 10, it has the lowest office rent, at $19.6 /sq. ft., which is 56% of the national average asking office rent ($35/sq. Ft.). It is also experiencing strong demand for industrial properties, relative to supply, with a vacancy rate of 3.4% that is below the national rate (5.2%). The low industrial vacancy rate means more industrial construction is likely in the future. Nonfarm payroll employment is down just 4%, even with the 20% decline in hotel and leisure employment.

Charleston-North Charleston, SC
Charleston makes it to the top commercial markets because of its strong economic growth of 3% in 2019 compared to the US economy (2.2%). It is experiencing a lower unemployment rate of 4.1% as of December 2020 compared to the national rate (6.7%). Office vacancy rate was 9.4%, which is lower than the national average (15.5%). While its economy is being impacted by the decline in hotel and leisure business, the construction of industrial properties is buoying up the economy, with 2 million sq. ft. under construction, or 2% of the current industrial space.

Las Vegas- Henderson-Paradise, NV
Las Vegas is experiencing significant loss in hotel/leisure and employment business, but it has a booming industrial property market. In 2020 Q4, industrial occupancy increased by 2.2 million sq. ft., second to Phoenix (7.7 million sq. ft.), among those in the top 10 list. Another 6.3 million sq. ft. is currently under construction, accounting for 4% of the total inventory of industrial space. There is significant opportunity for the Las Vegas multifamily property market, because the rental vacancy rate is a low 2.9%, about half the national rate (6.5%). The median apartment rent as of December 2020 was $1,302 or 37% of wages.

Nashville-Davidson-Murfreesboro-Franklin, TN
Despite the decline in hotel and leisure employment, Nashville's economy is withstanding the blow because of its strong industrial property market. Among the top 10, it ranks third in terms of the square feet of industrial projects under construction (behind Phoenix and Austin), with 5.8 million sq. ft. under construction or 2.6% expansion of the current industrial space. With a strong industrial sector, non-farm payroll employment declined by 4% as of December 2020, below the national rate (6%), even as leisure/hospitality employment fell by 23%.

Phoenix-Mesa-Scottsdale, AZ
Phoenix stands out on several aspects. Among the top 10 metros, it had the largest net domestic migration in 2019, at 72,000 in 2019. Non-farm employment was down just 2.3% as of December 2020 (6% nationally). With strong domestic migration, the rental vacancy is at 3.9%, lower than the national rate, indicating a demand for more multifamily housing. Among the top 10, it ranked first in absorbing new industrial space of 7.7 million square feet in 2020. However, with the buildup of industrial space, industrial vacancy rate has increased to 8.1%, which is higher than the national rate (5.2%), but this should also bring down the asking price of industrial space, at $7.7 per sq. ft., which is higher than the national average ($5.2/sq. ft.).

Raleigh, NC
Raleigh made it to the top 10 because of the overall strength of its economy, demand for multifamily housing, and relatively inexpensive asking office rent. Raleigh's economy rose 3% in 2019, above the national growth rate (2.2%). As of 2020 Q4, the apartment vacancy rate stood at 2.5%, well below the national rate (6.5%), a clear signal for investors to go into multifamily housing. The Raleigh market is good for doing business-- the average asking office rent is $27 per sq. ft., below the national average ($35 per sq. ft.), with a vacancy rate of 10.2%, which is also below the national average (15.5%).

Salt Lake City, UT
Salt Lake City makes it to the list for having the lowest decline in non-farm employment at just about half a percent and the lowest unemployment rate of 3.6% among the 52 markets. However, the booming economy has increased the demand for rental housing, with a rental vacancy rate of 5.5% and with households spending 31% of weekly wages on a typical apartment rent of $1,257. However, rent is still relatively cheaper than in areas like San Jose ($2,129), San Francisco ($1,997), or Los Angeles ($1,840) so Salt Lake City has a potential to attract more movers, increasing the demand for housing. Office asking rent is relatively cheaper, at $27 per sq. ft. compared to tech metro areas like San Francisco $ ($50 per sq. ft.).

Seattle-Tacoma-Bellevue, WA
The Seattle metro area makes it to the top 10 given its strong economic growth and the opportunity for multifamily expansion. Among the 52 metro areas, its economy expanded at the fastest pace at 5.1% in 2019, nearly double the national pace (2.2%) . With that economic expansion came a demand for housing. As of 2020 Q4, the rental vacancy rate stood at 4.4%, which means more housing construction is needed. The industrial vacancy rate of 4.5% is also lower than the national rate (5.2%), so there's still potential for some expansion in the industrial market.

Tucson, Arizona

With its low office and apartment rent, Tucson has a huge potential to attract businesses and residents. Its net domestic migration is about 12% the size of the net domestic migration into Phoenix, but the cheaper cost of housing and office rent can attract more people and businesses into the area in the future. Office occupancy increased in 2019 by 101,950, one of a few metros in the top 10 list to experience positive net absorption (along with Raleigh and Cape Coral Fort Myers) Office space is relatively inexpensive, at $20.5 per sq. ft., compared to Phoenix ($28.1 per sq. ft.). The median apartment rent as of December 2020 was $1,124 , compared to $1,338 in Phoenix.

For more information on the Top 10 markets, contact:
Gay Cororaton| Senior Economist, Director of Housing and Commercial Research at scororaton@nar.realtor

COMMERCIAL MONTHLY INSIGHTS REPORT
March 2021

LAWRENCE YUN, PhD
Chief Economist & Senior Vice President for Research

GAY CORORATON
Senior Economist & Director of Housing and Commercial Research

BRANDON HARDIN
Research Economist

MEREDITH DUNN
Research Manager

Download report at https://www.nar.realtor/commercial-market-insights

Download other NAR Commercial reports at Commercial Research

©2021 National Association of REALTORS®
All Rights Reserved. May not be reprinted in whole or in part without permission of the National Association of REALTORS®.

For question about this report or reprint information, contact data@realtors.org.

NATIONAL ASSOCIATION OF REALTORS®

The National Association of REALTORS® is America's largest trade association, representing more than 1.4 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