Commercial Market Insights

November 2021

National Association of REALTORS®
Research Group

NATIONAL ASSOCIATION OF REALTORS®

Overview

Amid sustained job growth, strong consumer spending, and increased demand for rental housing, the commercial real estate market continued to recover in the fourth quarter, marked by rising occupancy across all commercial property markets. However, the course of the pandemic, including the emergence of the deadlier Omicron variant, will continue to greatly determine the direction and pace of recovery across property markets.

Since 2020 Q2, occupancy in multifamily rental properties has increased by 1.06 million units due to rising rental demand as home prices became less affordable. The median asking rent has spiked to 11% year-over-year, with asking rents rising at a double-digit pace in a third of metro areas, particularly in metro areas in Florida, the Carolinas, Texas, Georgia, Louisiana, Alabama, Nevada, Arizona, and New Mexico, as well as in Utah and Idaho.

In the office market, occupancy increased modestly by 661,338 square feet in the past three months through November 29, with a long way to go to absorb the 132.2 million square feet of office space that has become unoccupied. The fraction of workers working from home continues to trend down, to just 12% of the workforce, but return-to-work plans have been pushed back due to the resurgence of the Delta variant in the summer. The emergence of the deadlier Omicron variant could again push back these plans.

In the industrial market, demand remains strong. The property market has the lowest vacancy rate among the core markets, at 4.2%. Rents are up 7.9% year-over-year. Since 2020 Q2, 681 million square feet of space has been absorbed.

Occupancy in the retail brick-and-mortars is also increasing, as consumers started to shop at brick-and-mortar stores, leading to some market share recovery (market share of non-store retailers slightly declined from 18% in early 2021 to 17% as of November). The vacancy rate stood at a modest 4.6%. Rents rose 2.6% year-over-year.

The hotel market also continues to recover, with business and personal travel picking up, as indicated by the rising cost of energy commodities (e.g. gasoline) that rose 49.5% year-over-year in October. The average 3-month hotel occupancy rate rose to 62.6% in October, up from 48.5% one year ago.

In summary, the commercial real estate market has continued to recover on all fronts on the back of the sustained recovery in the job market, increased consumer spending, and workers trickling back to the office. However, the course of the pandemic, including the emergence of the deadlier Omicron variant, will continue to greatly determine the pace of the commercial real estate market's recovery and of major metro areas (e.g. New York, San Francisco, Chicago, Los Angeles, Washington DC, and Boston) that are still grappling with huge declines in office occupancy.

Enjoy reading the latest issue!

Economic Conditions

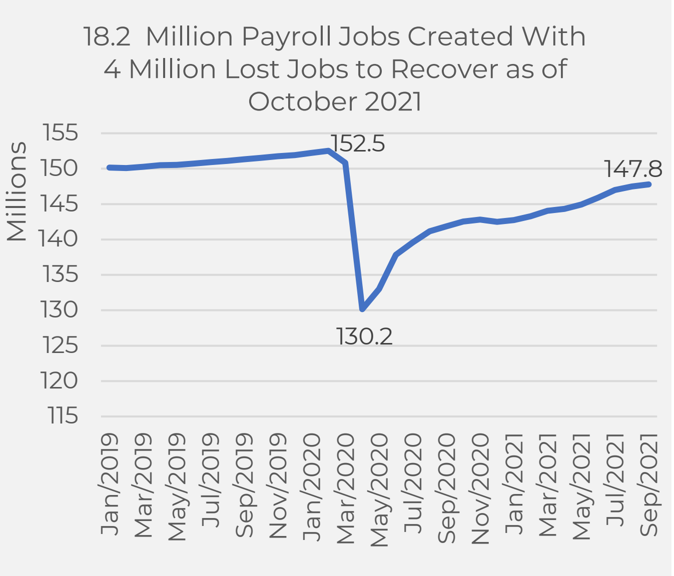
Economy continues to strengthen but labor market tightens

More job openings than job seekers with more people not in the labor force

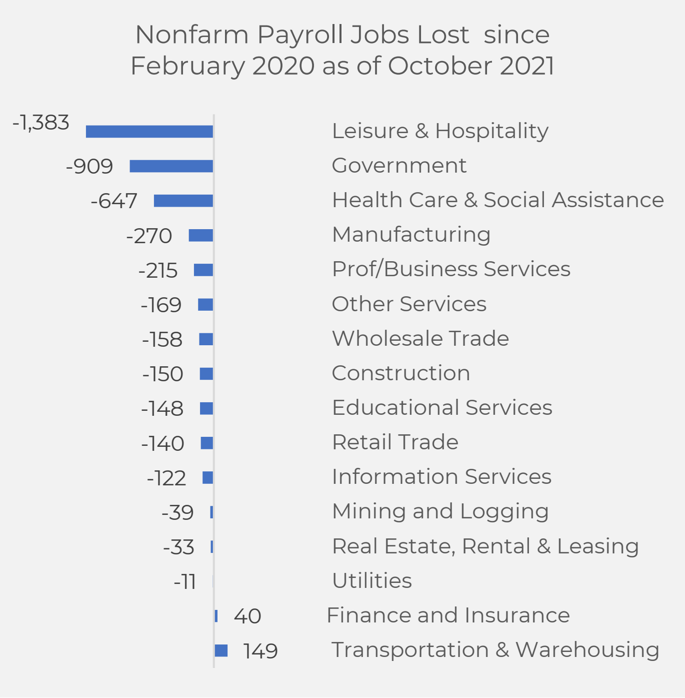
The economy continues to create net new jobs. As of October 2021, the economy has created 18.2 million net new jobs, or 81% of the 22.4 million jobs lost during March and April 2020. There are nearly 4 million nonfarm payroll jobs still to be recovered, with about .

About a third of the jobs to be recovered are in leisure and hospitality. Only the finance and insurance industry and the transportation and warehousing industries have had net job gains. These sectors have benefited from a strong housing market and the acceleration of e-commerce sales.

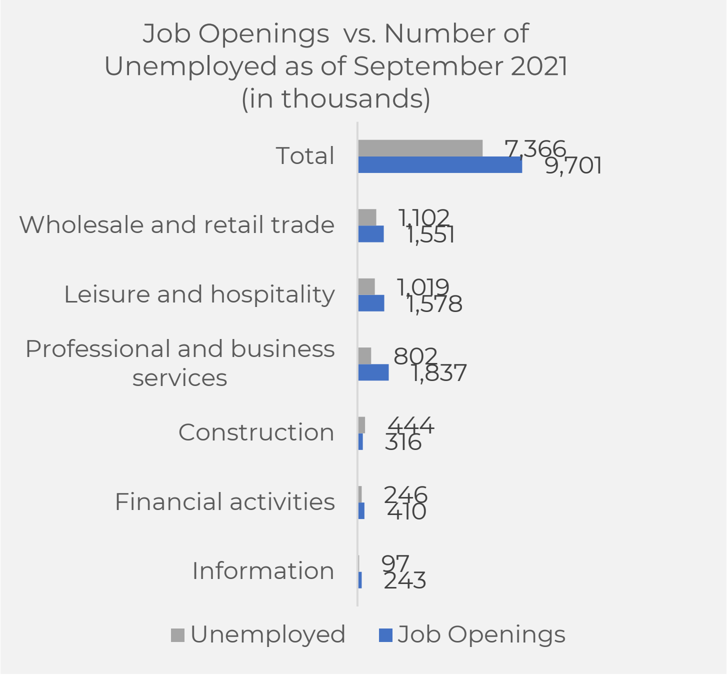
Yet even with 4 million jobs still to be recovered, labor is scarcer relative to the number of job openings. As of September, there were 9.7 million job openings compared to just 7.4 million workers looking for jobs. Job openings outpaced the number of unemployed in wholesale and retail trade, leisure and hospitality, professional and business services, financial activities and information services. Only in the construction industry are there fewer job openings than job seekers.



Source: BLS Establishment Survey



Source: BLS Establishment Survey



Economic Conditions

Economy continues to strengthen but labor market tightens

27% of 401 metro areas have higher employment as of October compared to February 2020

Out of 401 metro areas, 27% have more jobs as of October compared to February 2020. Leading the job gainers are Dallas, Austin, Salt Lake City, Phoenix, and Provo-Orem, Ogden, Tampa, Baltimore, and Fayetteville.

Meanwhile, gateway metro areas or cities such as New York, Los Angeles, San Francisco, Chicago, Boston, and Washington, DC still have lower levels of non-farm payroll employment compared to February 2020.

Metro areas with top payroll jobs gains and job losses as of October 2021 compared to pre-pandemic peak employment (February 2020)

Highest net job gains ('000) : Oct 2021 vs. Feb 2020

Dallas-Fort Worth-Arlington, TX	37.50
Austin-Round Rock, TX	32.50
Salt Lake City, UT	26.10
Phoenix-Mesa-Scottsdale, AZ	25.80
Provo-Orem, UT	21.60
Ogden-Clearfield, UT	12.90
Tampa-St. Petersburg-Clearwater, FL	12.50
Baltimore City MD	12.00
Fayetteville-Springdale-Rogers, AR-MO	11.80
Kansas City, MO-KS	9.90
Jacksonville, FL	9.70
San Antonio-New Braunfels, TX	9.50
Ocean City, NJ	8.40
Elkhart-Goshen, IN	8.00
St. George, UT	7.70
Raleigh, NC	7.50
Salisbury, MD-DE	7.30
Lakeland-Winter Haven, FL	7.00
Colorado Springs, CO	6.60
Barnstable Town, MA Metropolitan NECTA	6.40

Highest net job gains ('000) : Oct 2021 vs. Feb 2020

New York-Newark-Jersey City, NY-NJ-PA	-639.1
New York City NY	-398.4
Los Angeles-Long Beach-Anaheim, CA	-370.9
San Francisco-Oakland-Hayward, CA	-157.4
Chicago-Naperville-Elgin, IL-IN-WI	-139.1
Miami-Fort Lauderdale-West Palm Beach, FL	-109.3
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	-93.9
Houston-The Woodlands-Sugar Land, TX	-92.4
Boston-Cambridge-Nashua, MA-NH Metro NECTA	-89.4
Orlando-Kissimmee-Sanford, FL	-82.3
San Diego-Carlsbad, CA	-71.2
Washington-Arlington-Alexandria, DC-VA-MD-WV	-70.1
Las Vegas-Henderson-Paradise, NV	-67.2
Minneapolis-St. Paul-Bloomington, MN-WI	-66.1
Bergen-Hudson-Passaic, NJ	-59.5
New Orleans-Metairie, LA	-59.3
Detroit-Warren-Dearborn, MI	-57.8
Philadelphia City, PA	-57.0
Urban Honolulu, HI	-52.5
St. Louis, MO-IL	-41.8

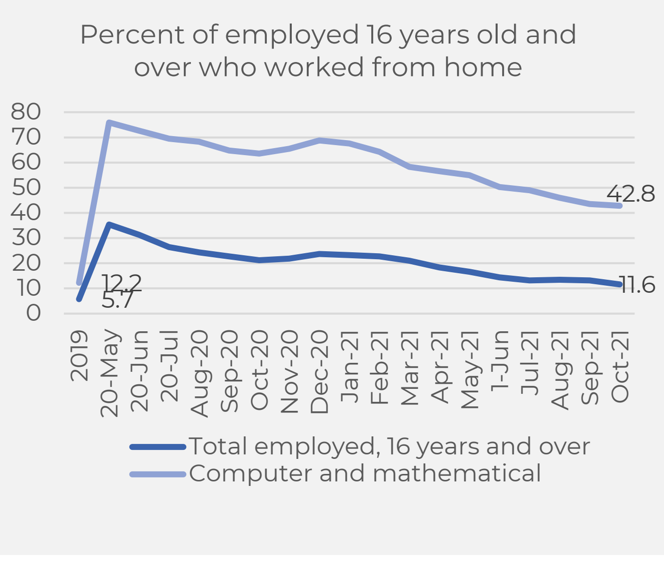
Source: Bureau of Labor Statistics

Economic Conditions

Fraction of workers working from home continues to decline

Continued decline in fraction of people working from home

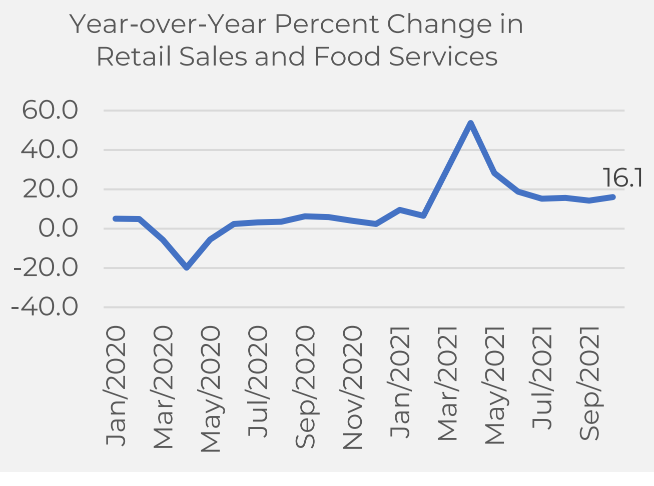
Workers are returning to the office, with 11.6% of employed workers 16 years old and over teleworking, down from 35.4% in May 2020. Among computer and mathematical workers, 42.8% are teleworking, down from 75.9% in May 2020. As of October, 18 million people teleworked, up from 8.9 million in 2019 who worked from home. With the rise in Delta variant cases from July through September, companies have delayed the time table for workers to return-to-work, such as Apple®, Alphabet®, Uber®, and Lyft®. As of November 30, the Center for Disease Control classified just 79% of counties as experiencing substantial to high levels of Delta variant transmission (92% in October). The CDC is monitoring cases of the Omicron variant.



Source: BLS COVID-19 Supplemental Survey

Retail sales up 16% y/y in August

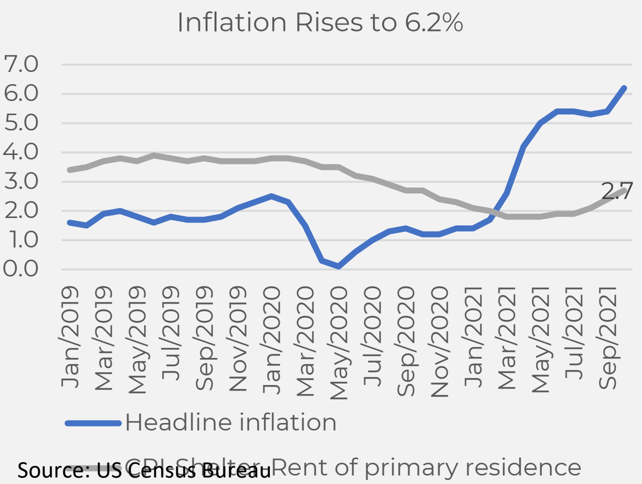
The 12-month retail and food services sales rose 16% year-over-year in October 2021, with the strongest growth in clothing stores, motor vehicle dealers, furniture stores, and miscellaneous item retailers. Non-store retailers accounted for 17% of sales, slightly down from 18% in February 2021.



Source: US Census Bureau

Fed starts tapering its asset purchases to anchor inflation expectations to 2%

Inflation accelerated to 6.2% due mainly to the rising cost of energy commodities (49.5% year-over-year), an indication of that personal and business travel is picking up. Global demand has pushed up oil prices to $81/barrel from $39/barrel one year ago. The Federal Reserve has started to reduce its $120 billion monthly purchases of mortgage-backed securities and Treasury notes by $15 billion each month starting in November to control money supply and ensure that inflation remains anchored at 2%.



Source: US Census Bureau

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Commercial Market Overview

Occupancy is rising across all property markets

Occupancy continues to increase across the multifamily, office, industrial and retail sectors as of November 29, 2021. As such, vacancy rates trended downwards and asking rents rose except for the office sector where vacancy rates increased and rents were flat from one year ago.

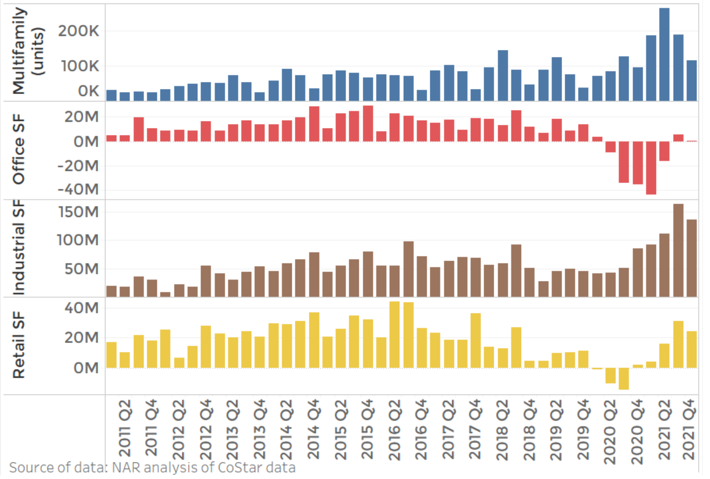
In the apartment market, 116,193 apartment units were absorbed in the past three months as of November 29, bringing the total net absorption to 1.06 million units during 2020 Q2 through November 29. With higher occupancy the vacancy rate has declined to 4.6% from 6.7% in 2020 Q1. With strong demand, asking rents are up 11.1% year-over-year, the highest pace in a decade.

In the office market, occupancy increased by a modest 661,338 square feet in the three months through November 29, sustaining the third quarter increase of 5.5 million square feet, but a total of 132.2 million square feet of office space given up has yet to be reabsorbed. The vacancy rate has increased to 12.4% from 9.8% in 2020 Q1. On the aggregate, rents have stopped declining and are at par with the level one year ago.

In the industrial market, 135.7 million square feet of office space was absorbed in the past three months through November 29, with 681 million square feet of space absorbed from 2020 Q2. This positive net absorption of industrial space more than offsets the negative net absorption of office space. This industrial sector is seeing the lowest vacancy rate among the core property markets, at 4.2%, from 5.3% in 2020 Q1. Rents are up 7.9% year-over-year.

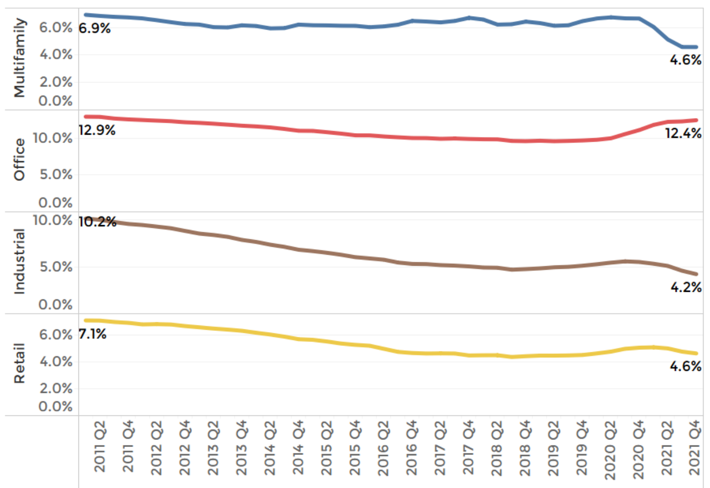
In the retail property market, occupancy has been rising since 2020 Q4, with a net increase of 51.5 million square feet since 2020 Q2. The vacancy rate is at 4.6%, the same as in 2020 Q1. Rents are also rising at 2.6% year-over-year.

Rising Occupancy Across All Markets
as of November 29, 2021



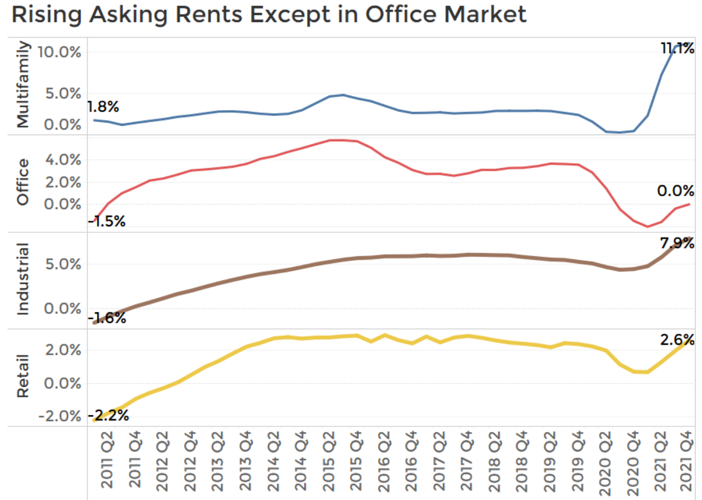
Source of data: NAR analysis of CoStar data

Falling Vacancy Rates Except in Office Market



Source of data: NAR analysis of CoStar data

Rising Asking Rents Except in Office Market



Source of data: NAR analysis of CoStar data

Commercial Market Overview

Rising investor acquisitions and falling cap rates

With improving market fundamentals, investor acquisitions rose to $221.8 billion in the third quarter, up 131% from one year ago and 26% from the prior quarter. Investor acquisitions increased across all property types.

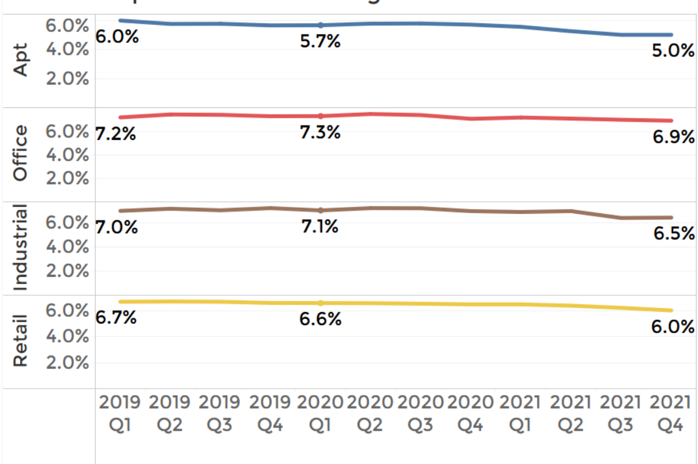
With strong investor demand, cap rents continued to trend down. As of November 29, the lowest median cap rate was of multifamily properties (5%) while the highest cap rate was of properties (6.9%). Cap rates have trended downwards compared to pre-pandemic levels even for office properties and even as 10-year Treasury yields have remained about the same as of October 2021 at 1.58% compared to 1.5% in February 2020.

Construction activity has ramped up for industrial properties, with 465 million square feet under construction, equivalent to 2.7% of the current inventory of industrial space. Rising construction should ease the tightening vacancy rate in the industrial property market and temper rent growth. However, the number of apartment units under construction has declined to 680,883 as of the third quarter, which is running below the 735,035 units under construction prior to the pandemic. The number of units under construction is also running below the 12-month absorption of demand of 735,536, so rental vacancy rates are likely to remain tight in 2022.

	2020 Q3	2021 Q2	2021 Q3	% Q/Q	% Y/Y
Multifamily	$22.6B	$47.0B	$61.6B	31%	173%
Office	$23.7B	$44.0B	$59.5B	35%	152%
Industrial	$27.8B	$47.3B	$58.8B	24%	111%
Retail	$22.1B	$37.6B	$41.9B	11%	89%
Total	$96.2B	$175.9B	$221.8B	26%	131%

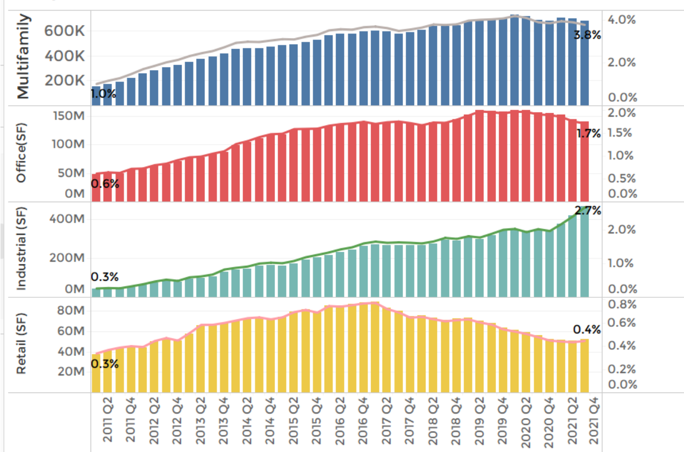
Source: NAR analysis of CoStar® data

Median Cap Rates Still Trending Down



Source of data: NAR analysis of CoStar data

Slower Construction Activity Except for Industrial Properties as of 2021 Q3



Source of data: NAR analysis of CoStar data

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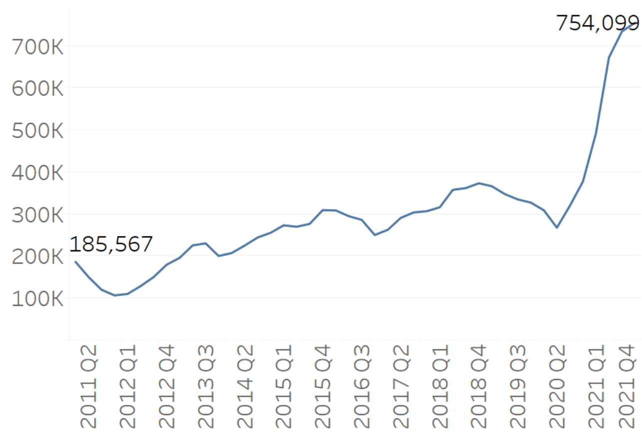
Multifamily

Absorption of apartment units rise to highest level in a decade

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 754,099 apartment units in the past 12 months as of November 29. Prior to the pandemic, the 12-month net absorption as of the end of 2020 Q1 was 308,184 units.

Apartment demand is rising in both primary metro areas and secondary markets. Over the past 12 months as of 2021 Q4 (November 29), 364 out of 380 markets had positive net absorption, according to CoStar® data. The top 10 metro areas with the largest number of apartment units absorbed were Dallas-Fort Worth, New York, Houston, Los Angeles, Washington, DC., Chicago, Austin, Atlanta, Seattle, and Boston. San Francisco, considered a major commercial market, absorbed 9.947 apartment units in the past 12 months.

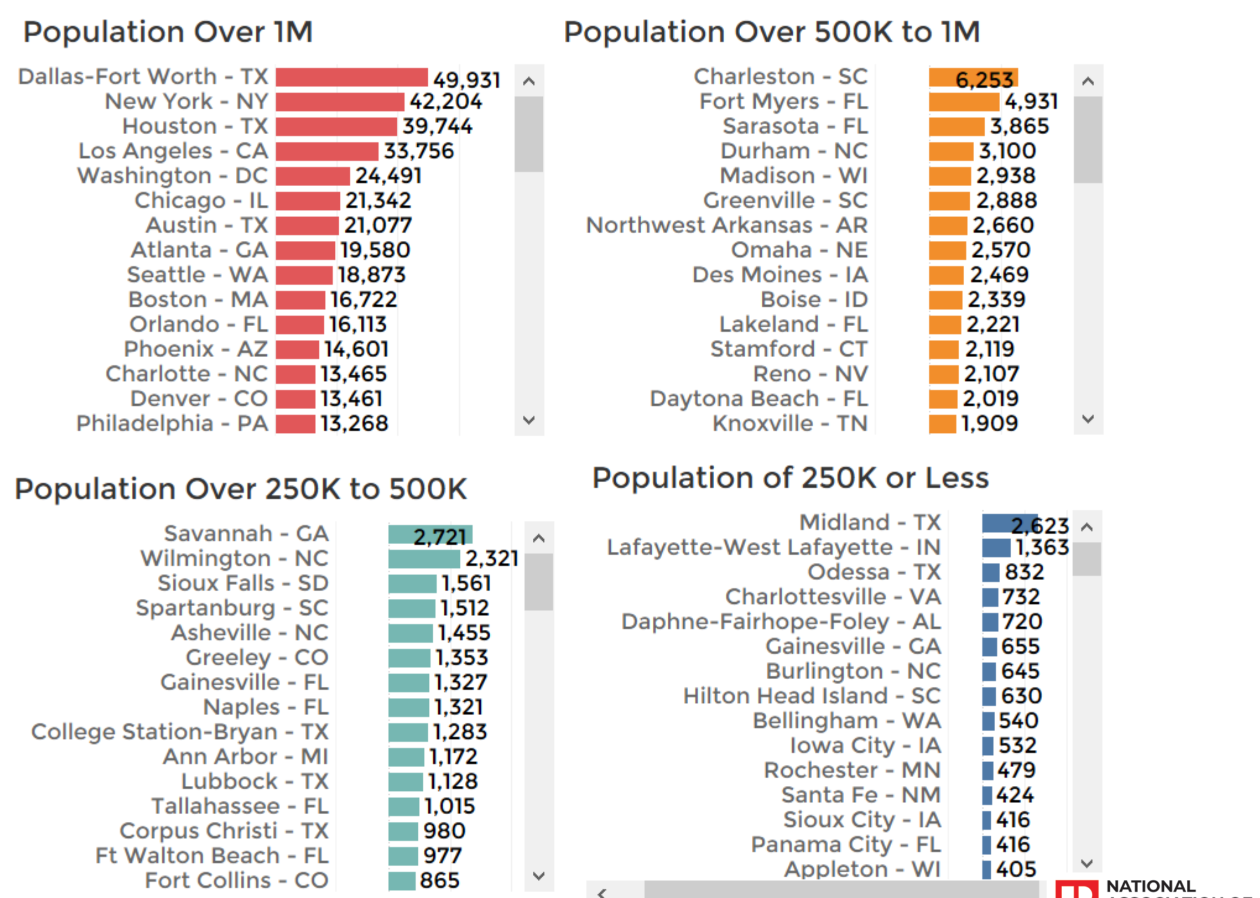
12-Month Net Absorption of Multifamily Units



Source: NAR analysis of CoStar data in 390 metros areas or divisions

Among metro areas with less than 1 million in population, the largest apartment absorption included Charleston, Fort Myers, Sarasota, Durham, Madison, Greenville, Savannah, Wilmington, Sioux Falls, Asheville, Greeley, Gainesville, and Naples, Midland, and Lafayette, with over 1,000 apartment units absorbed .

12-Month Absorption as of 2021 Q4 (November 29)



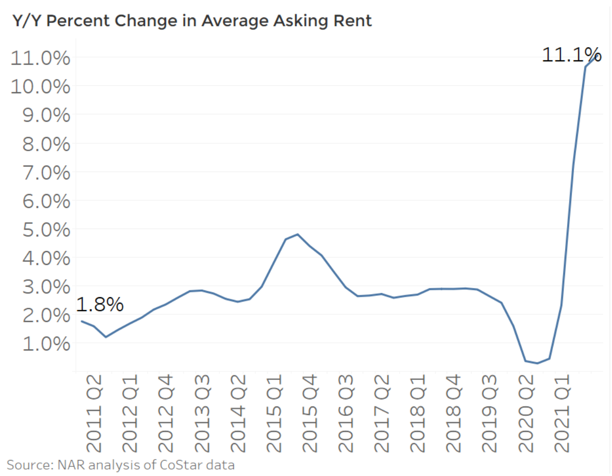
Source: NAR analysis of CoStar data

Multifamily

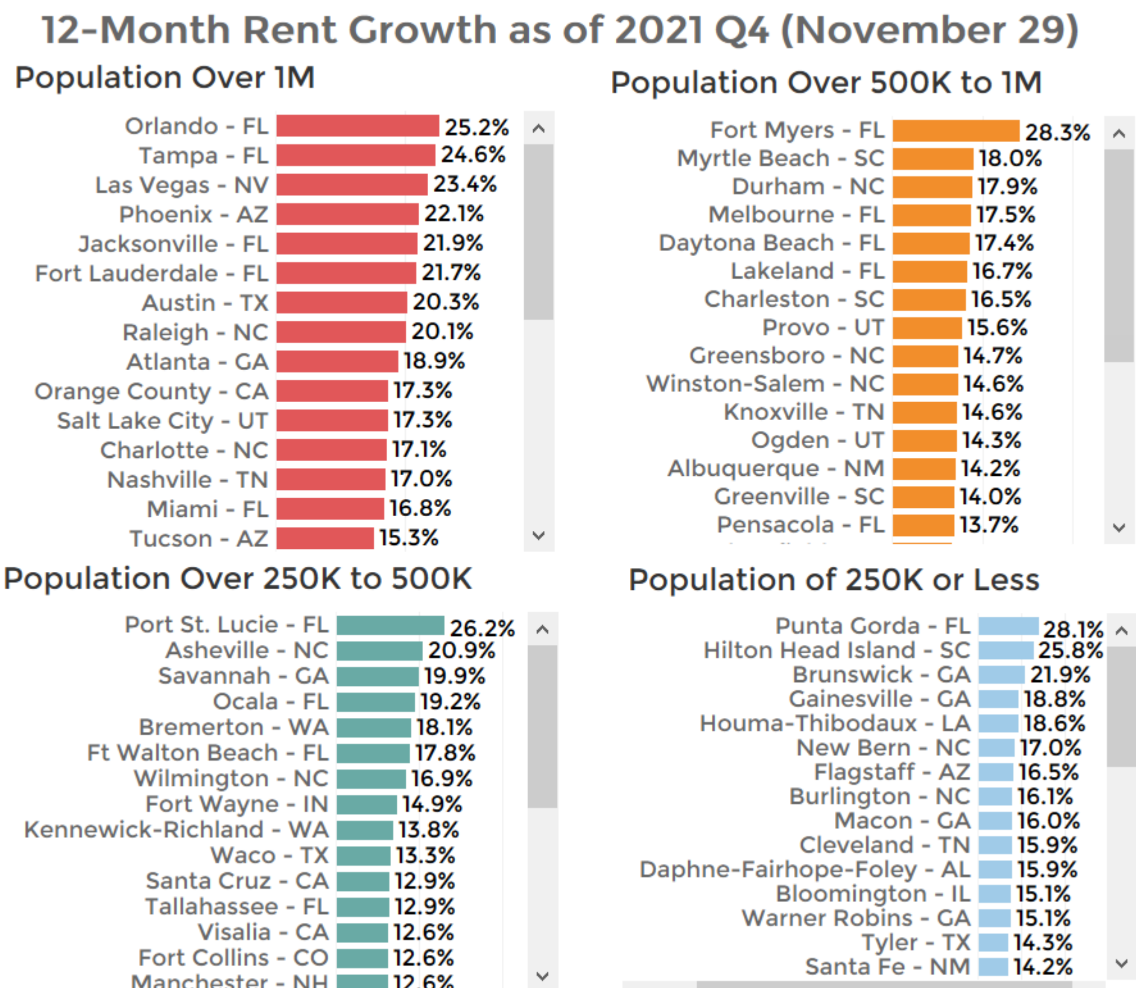
A third of metros have double-digit rent growth

The average asking rent across 390 markets rose 11.1% year-over-year as of 2021 Q4 (November 29). Of 390 metro areas,130 markets out of 390 markets, or 33%, had at least 10% year-over-year rent growth.

Across the most population to least populous metro areas, Florida metro areas had the highest rent growth in the areas of Orlando, Tampa, Fort Myers, Port St. Lucie, and Punta Gorda. Metro areas in the South region are experiencing the fastest rent growth, mainly metro areas in Florida, Texas, Nevada, Arizona, Texas, North Carolina, South Carolina, New Mexico, Georgia, Louisiana, and Alabama. In the West region, rents are rising fast in the some metro areas of California, Nevada, Utah, and Washington. Rising rents signals a need for more rental housing construction in these markets.



Source: NAR analysis of CoStar data



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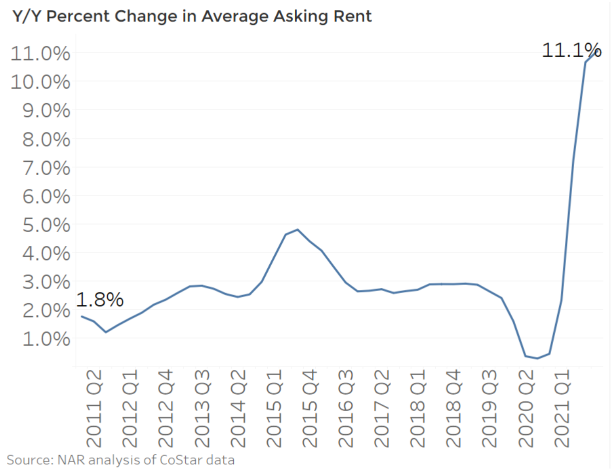

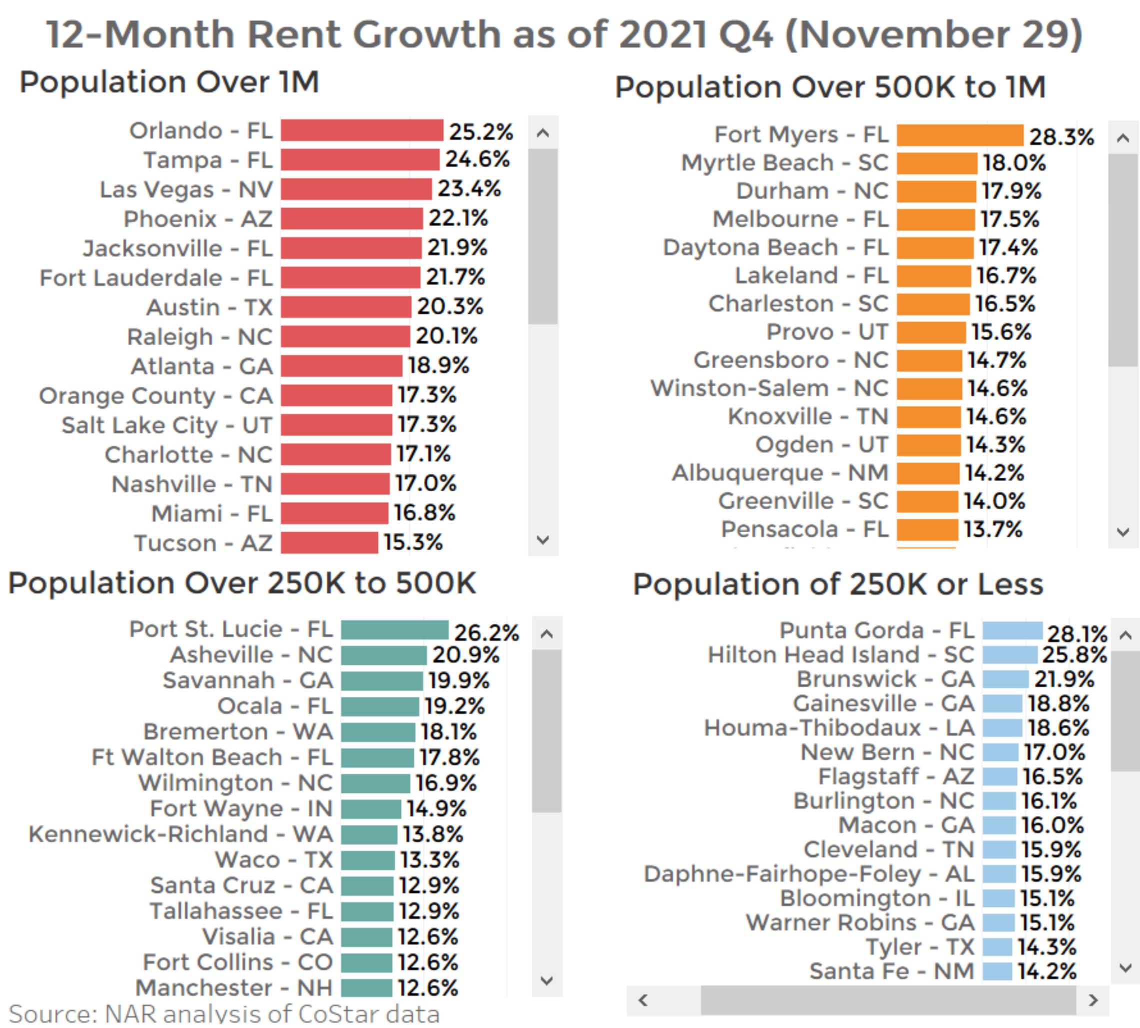

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Multifamily

Investment opportunities due to low vacancy rates and high rent

Below are the metro areas that are good investment opportunities because rents are rising (over 10%), vacancy is low (below 5%), cap rates are relatively high (over 5% to 10%), and demand is high (absorption of at least 1,000 units in the past 12 months) based on market data as of November 29. As of 2021 Q3, the metro areas with the highest rent growth that make it to this list are in the Sunbelt areas of Tampa, Fort Lauderdale, Miami, Knoxville, Chattanooga, Norfolk, and Reno, and in Provo, Baltimore, and Boston.

Where can investors potentially find profitable deals?

	Y/Y Market Asking Rent Growth	Vacancy Rate	Cap Rate	Absorption Units 12 Mo
Tampa - FL	24.6%	4.7%	5.7%	10,537
Fort Lauderdale - FL	21.7%	3.7%	5.8%	7,902
Miami - FL	16.8%	3.4%	5.6%	12,630
Provo - UT	15.6%	2.6%	5.8%	1,367
Knoxville - TN	14.6%	3.1%	6.3%	1,909
Chattanooga - TN	12.1%	4.2%	8.6%	1,083
Norfolk - VA	11.8%	2.9%	5.6%	2,591
Baltimore - MD	10.7%	3.6%	5.5%	5,292
Boston - MA	10.4%	4.4%	7.4%	16,722
Reno - NV	9.7%	4.9%	5.0%	2,107
Philadelphia - PA	9.7%	3.5%	6.4%	13,268
Lexington - KY	9.6%	3.5%	8.6%	1,156
Providence - RI	9.1%	2.2%	8.2%	1,142
Cincinnati - OH	8.1%	4.0%	9.2%	3,213
Detroit - MI	7.9%	4.1%	6.5%	5,308
Columbus - OH	7.8%	5.0%	8.0%	8,687
New Haven - CT	7.6%	2.1%	8.3%	1,020
Hartford - CT	6.6%	3.1%	8.1%	1,185
Omaha - NE	6.4%	4.8%	7.2%	2,570
Northern New Jersey - NJ	6.2%	4.3%	7.3%	4,519
Sioux Falls - SD	6.1%	4.6%	7.3%	1,561
Cleveland - OH	5.6%	4.4%	6.7%	3,735
New York - NY	5.5%	2.4%	5.5%	42,204
Albany - NY	5.4%	2.4%	8.0%	1,870

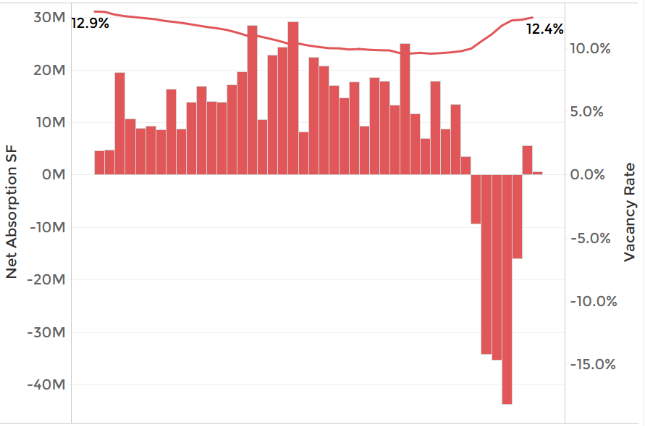
Source: NAR analysis based on CoStar data as of NOvember 29, 2021
These metro areas have a population of at least 250,000 where cap rates are at least 5%, vacancy rates are below 5%, and absorption over past 12 months is at least 1,000 units. Note: This analysis is not an investment advice and the information presented here should not be the sole source of information for making an investment decision.

Office

Positive net absorption since 2021 Q3 but still a long recovery

The net positive absorption of office space in the third quarter (5.5 million sq. ft.) was followed by another 661,338 million square feet of office space in the past three months as of November 29. Absorption, while positive, was more modest as the surge in Delta variant cases during the July through September pushed back the return to work schedules of companies, including major tech companies like Apple®, Google® Facebook®, and Salesforce®. Google® expects 20% of its employees to work from home permanently, while Salesforce® expects the majority to work from home permanently.[1]

3-Month Net Absorption of Office Space in Million Square Feet as of November 29, 2021



Source: NAR analysis of CoStar data

However, since 2020 Q2, office occupancy is still down on a net basis by 132.2 million square feet, with the largest losses in the primary metro areas of New York, Los Angeles, San Francisco, Washington DC, Chicago, and Boston.

On the other hand, secondary metros such as Boise, Palm Beach, San Antonio, and Durham, each of which had positive absorption of at least 1 million square feet.

Negative Net Absorption Since 2020 Q2

New York - NY	-30,958,022
Los Angeles - CA	-11,828,966
San Francisco - CA	-11,002,895
Washington - DC	-9,852,805
Chicago - IL	-9,177,964
Boston - MA	-6,230,736
Denver - CO	-5,798,542
Philadelphia - PA	-5,433,935
Seattle - WA	-4,089,110
East Bay - CA	-4,053,564
Northern New Jersey - NJ	-3,882,027
Atlanta - GA	-3,869,102
Dallas-Fort Worth - TX	-3,367,583
Houston - TX	-3,341,929
Orange County - CA	-3,220,039
Portland - OR	-2,782,655
Detroit - MI	-2,772,739
Minneapolis - MN	-2,641,044
Charlotte - NC	-2,222,337
Pittsburgh - PA	-2,136,974

Positive Net Absorption Since 2020 Q2

Boise - ID	1,399,543
Palm Beach - FL	1,354,856
San Antonio - TX	1,339,919
Durham - NC	1,303,416
Inland Empire - CA	816,633
Pensacola - FL	798,935
Springfield - IL	795,457
Nashville - TN	655,547
Northwest Arkansas - AR	638,216
Provo - UT	629,830
Las Vegas - NV	586,622
Norfolk - VA	572,374
Fargo - ND	558,811
Baton Rouge - LA	552,919
Miami - FL	516,740
Austin - TX	513,687
Fort Myers - FL	500,644
Worcester - MA	485,860
Fort Smith - AR	476,857
Orlando - FL	474,374

Source: NAR analysis of CoStar® data

1 Cupertino Today, https://cupertinotoday.com/2021/08/25/tech-companies-push-back-return-to-work-targets-to-2022-bay-area-vaccine-mandates-continue/

Office

Major metro areas continue to see declining occupancy

Amid rising cases of Delta variant over the summer, New York, San Francisco, and Seattle continue to struggle to maintain occupancy, suffering a decline in occupancy (negative net absorption) in the three months as of November 29 after occupancy rose in the third quarter, as cases of Delta variant surged in the summer. However, occupancy still increased in metro areas like Orange County, Washington DC, and East Bay.

Quarterly Net Absorption of Office Space

	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4
Dallas-Fort Worth - TX	-725,060	-4,004,320	-729,690	-5,407,110	792,919	934,558	2,409,416
Houston - TX	-2,354,446	-3,112,122	-1,772,382	-788,127	-1,428,171	757,882	1,798,989
Orange County - CA	-853,893	-1,893,174	-1,712,418	-2,177,800	-656,716	-122,729	982,082
Boston - MA	-555,722	-2,797,748	-3,909,136	-5,768,877	-206,692	-51,041	836,209
Washington - DC	1,678,712	-4,513,678	-3,049,990	-7,053,359	-5,817,951	-1,393,988	456,824
East Bay - CA	-1,319,136	-2,582,299	-913,614	-2,525,071	-685,260	-500,354	426,100
Pittsburgh - PA	-363,824	-592,520	-171,086	-1,789,056	-1,311,890	-311,698	293,194
San Jose - CA	641,048	-1,993,374	-633,018	-1,011,782	-1,215,658	788,936	49,689
Northern New Jersey - NJ	-861,622	161,020	-4,392,814	-2,580,131	218,132	-330,620	45,298
Minneapolis - MN	-889,555	-342,120	-1,270,961	-1,849,145	-452,955	-413,458	35,479
Detroit - MI	-793,872	-2,499,956	-917,814	51,390	-525,672	-762,787	-85,847
Charlotte - NC	-379,290	-1,087,761	-1,282,223	-782,710	27,582	-578,078	-357,878
Atlanta - GA	-288,411	-562,730	-3,865,066	-6,119,117	98,098	3,764,074	-698,603
Philadelphia - PA	-65,852	-2,761,202	-3,476,445	-3,436,451	-1,404,970	1,002,443	-756,965
Los Angeles - CA	-2,977,474	-7,495,815	-4,245,510	-4,586,708	-1,734,760	-1,807,008	-801,594
Portland - OR	-117,542	-1,596,988	-1,804,108	-1,717,478	626,404	-120,578	-809,879
Seattle - WA	1,056,020	-1,456,220	-2,694,237	-3,859,554	-638,734	781,263	-1,354,241
Denver - CO	-1,537,346	-2,323,191	-3,042,216	-2,842,724	-919,700	513,406	-1,419,341
Kansas City - MO	-618,346	-1,212,402	-185,152	248,848	-1,231,348	615,150	-1,663,030
Chicago - IL	-818,996	-2,329,792	-3,056,302	-1,397,728	-6,039,534	-2,241,702	-2,433,142
San Francisco - CA	-5,195,464	-3,824,850	-4,766,064	-6,373,602	838,537	497,350	-3,167,475
New York - NY	-160,949	-10,116,811	-15,704,099	-18,364,199	-11,897,790	1,878,035	-7,479,598

Source: NAR analysis of CoStar data

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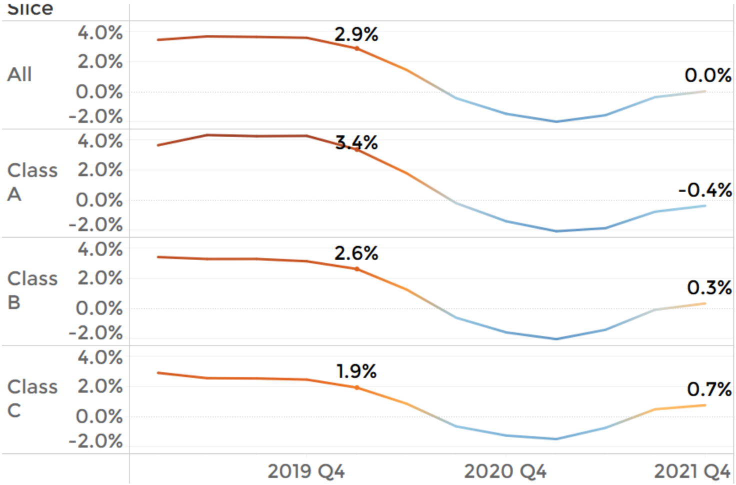
Office

Office rents are rising in Class B/C and secondary markets

Office asking rents continue to decline for Class A office properties, but are rents are rising for Class B/C properties.

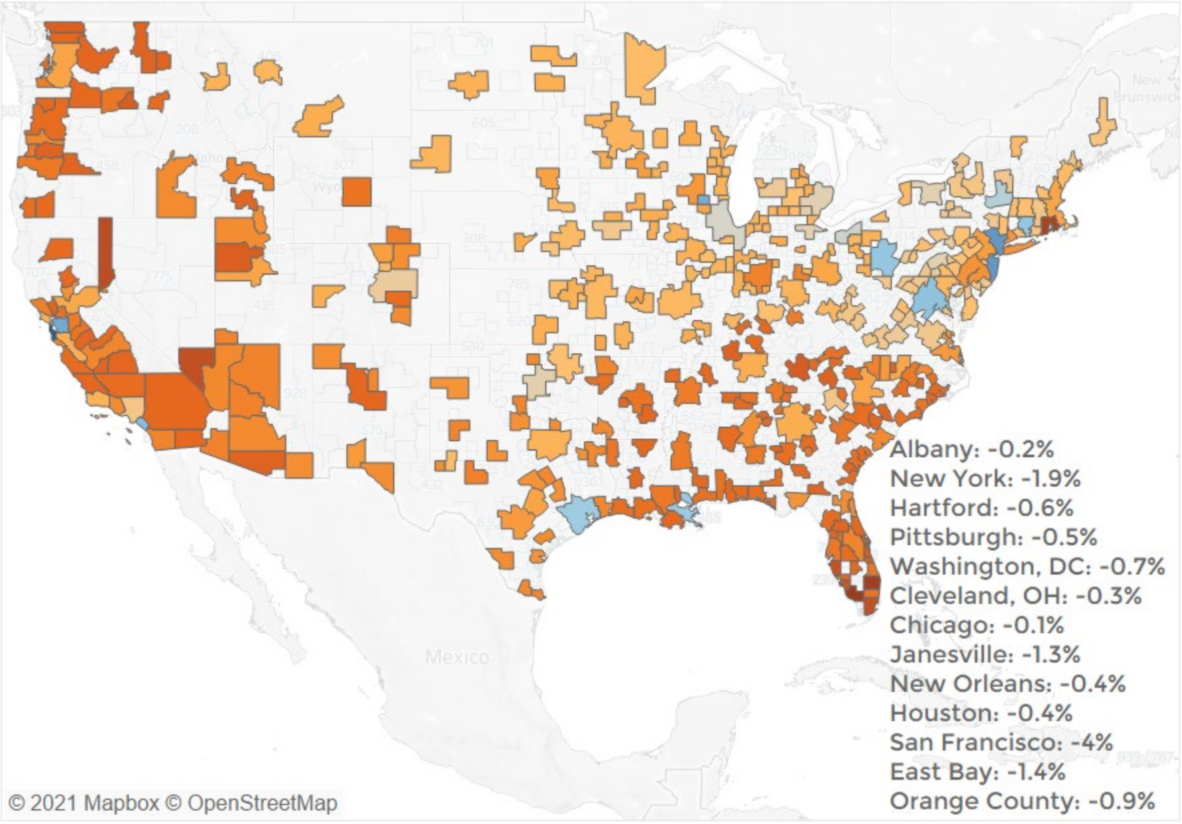
Office rents are still declining as of November 29 on a year-over-year basis in 12 markets, including San Francisco (-4%), New York (-2.2%), Washington DC (-0.6%), Chicago (-0.1%), East Bay (-1.4%), and Orange County (-0.9%).

Y/Y percent change in asking rent by class of office space during 2019 Q1 to 2021 Q4



Source: NAR analysis of CoStar data

Office asking rent growth as of 2021 Q4 (November 29)



Source: NAR analysis of CoStar data

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Industrial

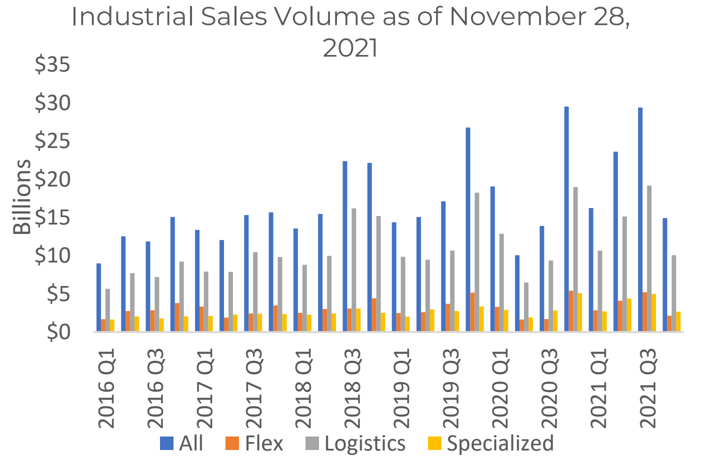
Demand for logistic space remains higher than other industrial assets

As of November 28, total sales volume of industrial properties totaled $14.9 billion thus far in Q4 2021 and totaled $84.2 billion year-to-date (ytd), with sales totaling $14.3 billion for flex, logistics ($55 billion) and specialized ($14.7 billion) through ytd according to CoStar® data.

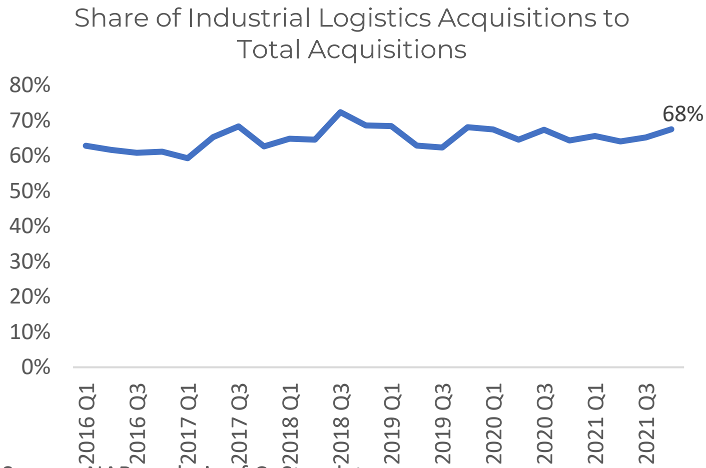
Logistics sales volume growth continues to make up the majority of all industrial sales volume at 68% in Q4 as of November 28. The most recent data for logistic property sales remains true on a year-to-date basis as well. YTD through Q4 2021, of the $84.2 billion all industrial sales volume, logistic sales captured 65%, as investor preference for this asset continues.

The average sales price per square foot for industrial properties rose to $133, up from $127 in the prior quarter.

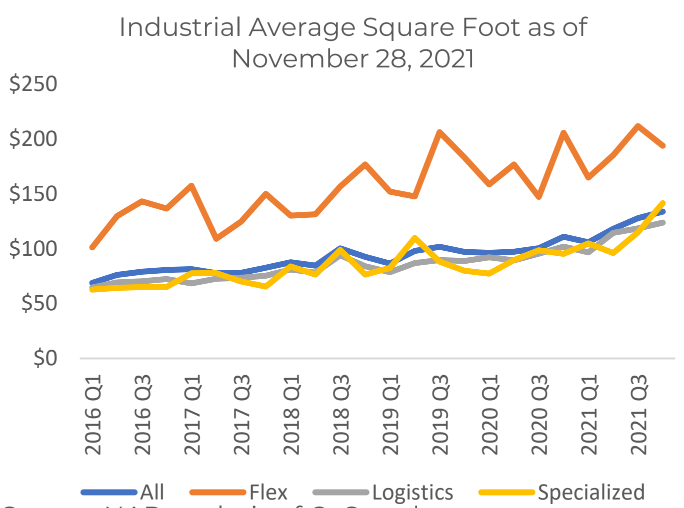
Overall industrial cap rates were unchanged through Q4 as of November 28 from Q3. Cap rates averaged 6.3% for all of industrial where center cap rates were highest in Flex at 7.4%, 6.1% for specialized acquisitions and lowest in Logistics, 6.0%.



Source: NAR analysis of CoStar data



Source: NAR analysis of CoStar data



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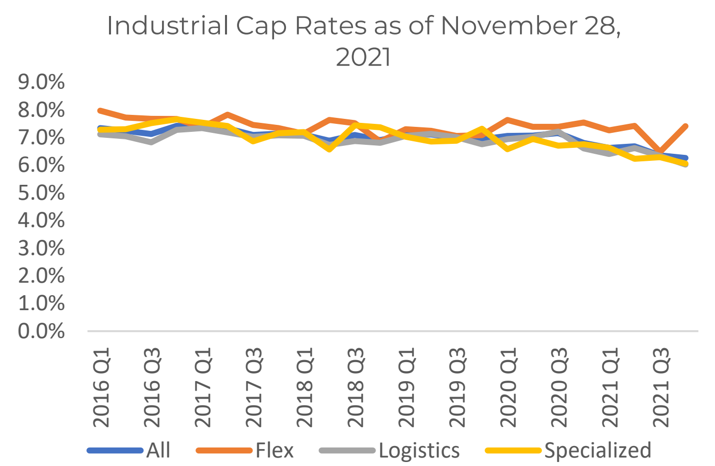


Source: NAR analysis of CoStar data

Industrial

Strong net absorption and asking rent trends continue

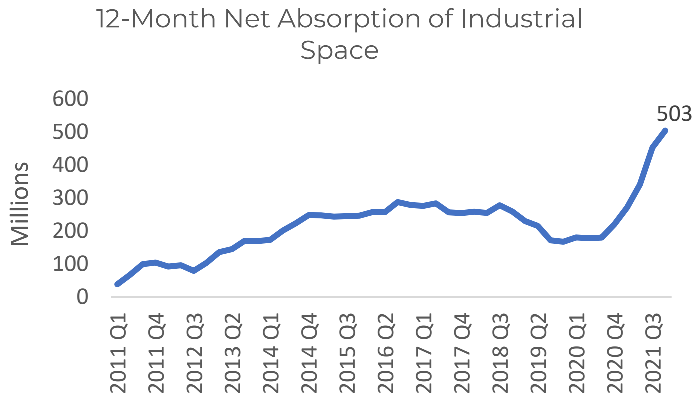
Demand for industrial properties remain strong with solid fundamentals. Net absorption of industrial spaced reached its highest level ever recorded last quarter at 452 million square feet (msf) and now, two months into Q4 2021 and that record has fallen as 12-month net absorption totals more than 503 msf.

Logistic industrial space remains the preferred asset amongst other industrial space given trends in e-commerce. Logistic space 12-month net absorption totaled 454 msf in Q4 as it makes up 91% of industrial net absorption.

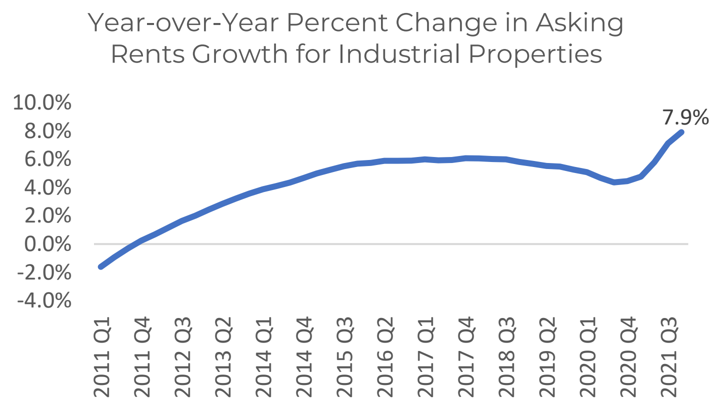
Two months into Q4 and the top industrial markets by net absorption were Dallas (48 msf), Inland Empire (33 msf), Atlanta (32 msf), Chicago (32 msf) and Houston (27 msf).

On average, asking rents were up in all 390 metros covered by CoStar. Asking rents reached a new high of 7.9% year-over-year as available supply and strong demand continue to rents upwards.

Of the top 10 metro areas with the highest rent growth, two were in Florida and two were in Georgia. Largest rent growth was in Miami, FL at (13.3%), Northern New Jersey (12.8%), Columbus, OH (12.5%), Inland Empire, CA (12.4%), Nashville, TN (12.1%), Philadelphia, PA (12.0%), Salt Lake City, UT (12.0%), Fort Lauderdale, FL (11.7%), Hinesville, GA (11.6%), and Atlanta, GA (11.1%).



Source: NAR analysis of CoStar data



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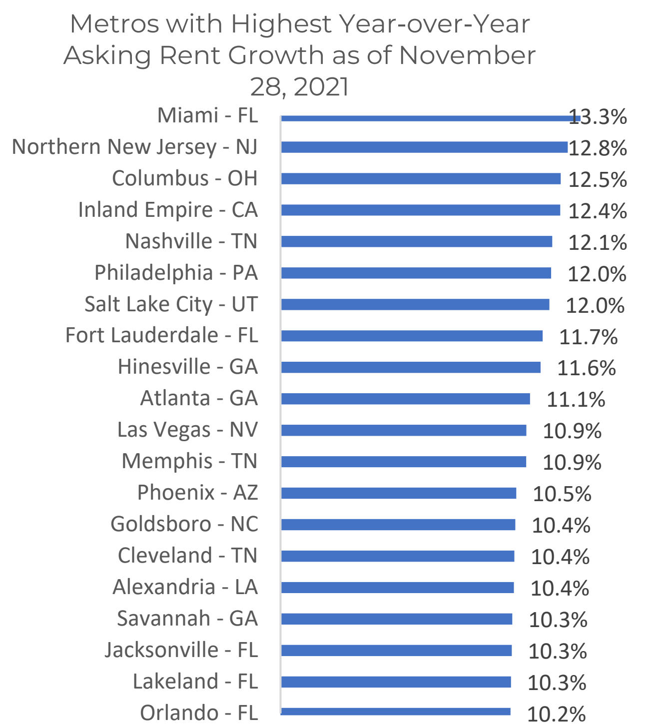


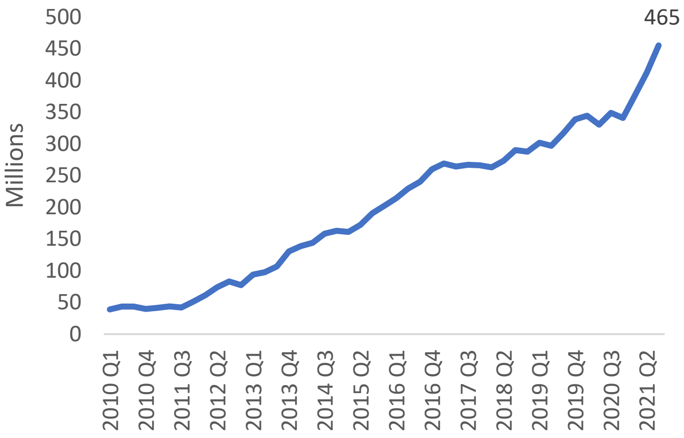
Industrial

Most industrial developments occurring in DFW, Atlanta, and Phoenix

As of Q3 2021, there was more than 465 msf of industrial space under construction, according to CoStar® data. The majority of this (88%) was logistic space.

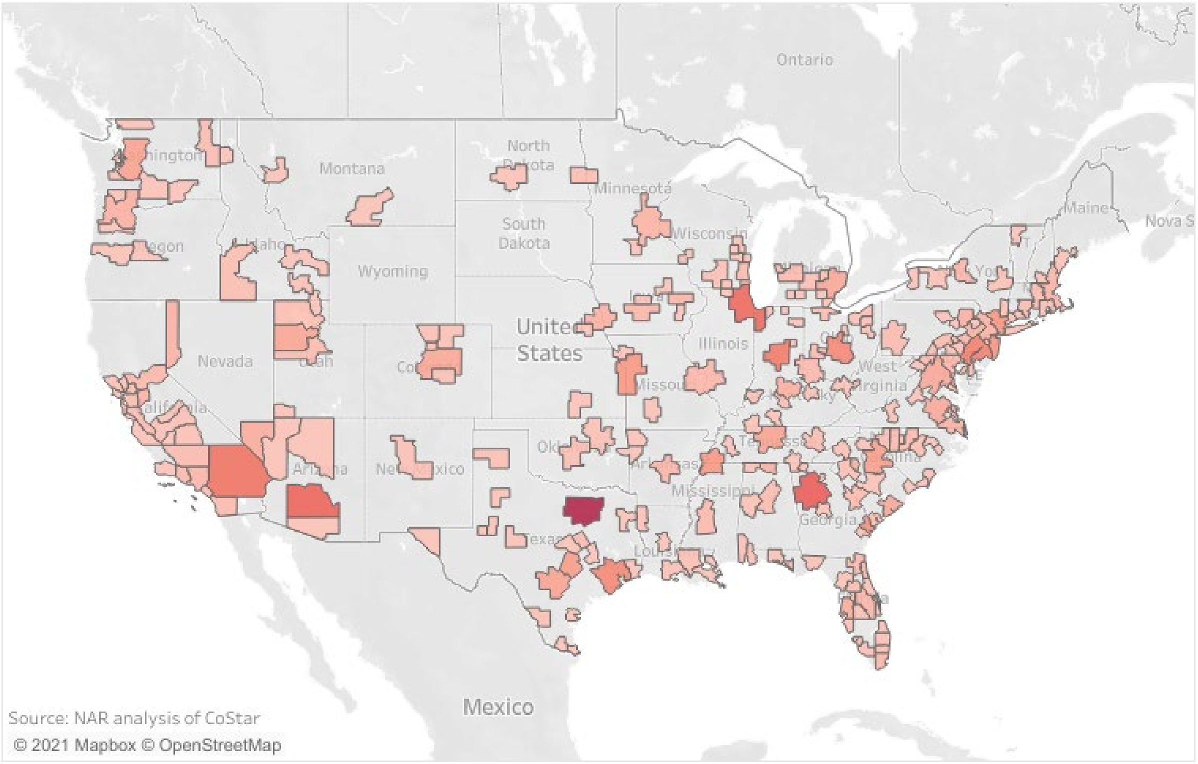
At the metro level, of the markets with corresponding data, the most construction activity was seen in Dallas-Forth Worth (49 msf), Atlanta (29 msf), Phoenix (27 msf), Chicago (26 msf), Inland Empire (23 msf), Indianapolis (21 msf) and Philadelphia (20 msf).

Industrial Space Under Construction as of Q3 2021



Source: NAR analysis of CoStar data

Industrial Space Under Construction as of Q3 2021



Source: NAR analysis of CoStar
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Retail

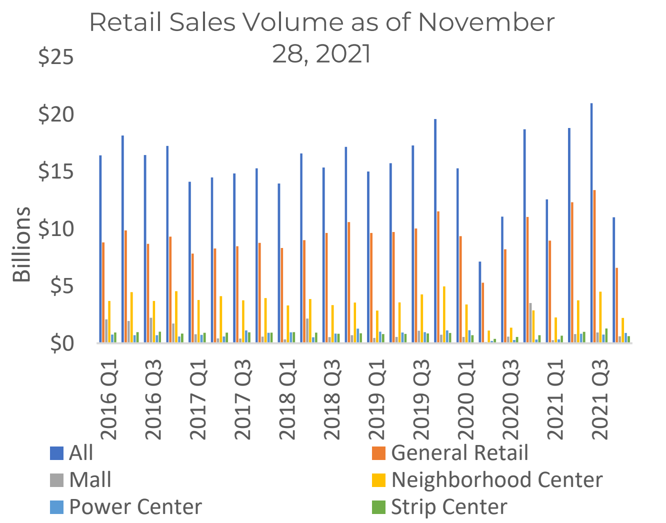
Retail acquisitions of general retail outpace all other retail assets

As of November 28, total sales volume of retail properties totaled $11 billion thus far in Q4 2021 and totaled $63.3 billion year-to-date (ytd), with sales totaling $6.6 billion for general retail, mall ($621 million), neighborhood centers ($2.2 billion), power centers ($913 million) and strip centers ($626 million) in Q4 according to CoStar® data.

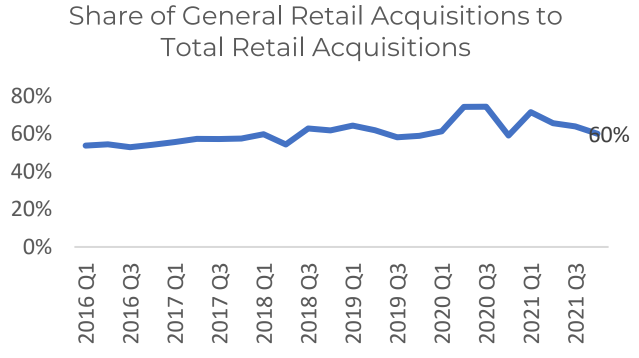
General retail sales volume growth outpaces the other retail assets as sales volume total 60% of all retail sales in Q4 as of November 28. YTD through Q4 2021, of the $63.3 billion all retail sales volume, general retail sales share was 65%, malls (4.2%), neighborhood centers (20%), power centers (4.5%) and strip centers (5.7%).

The average sales price per square foot for retail properties significantly increased to $233 as of November 28, up from $202 in Q3.

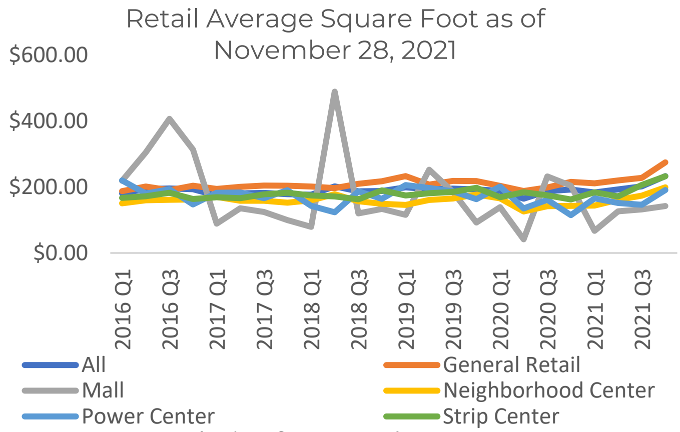
Overall retail cap rates declined in Q4 as of November 28 from Q3 by 0.2%. Cap rates averaged 6.2% for all of retail where three of the five retail property types saw declines. General retail, neighborhood center, and strip center saw declines in cap rates from Q3 to 6.1%, 6.1% and 6.8% respectively, while malls and power centers increased to 6.9% and 6.4%.



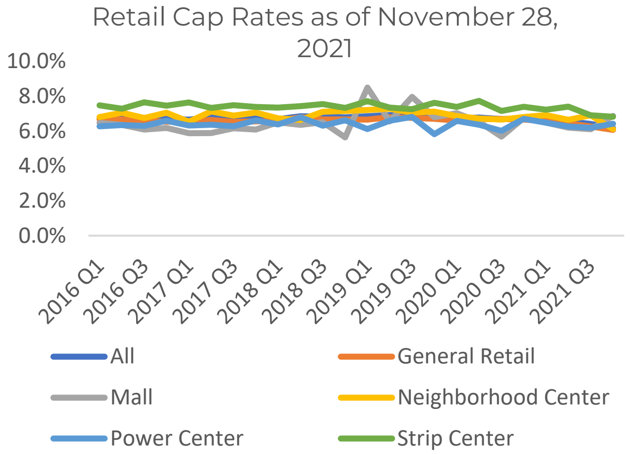
Source: NAR analysis of CoStar data



Source: NAR analysis of CoStar data



Source: NAR analysis of CoStar data



Source: NAR analysis of CoStar data

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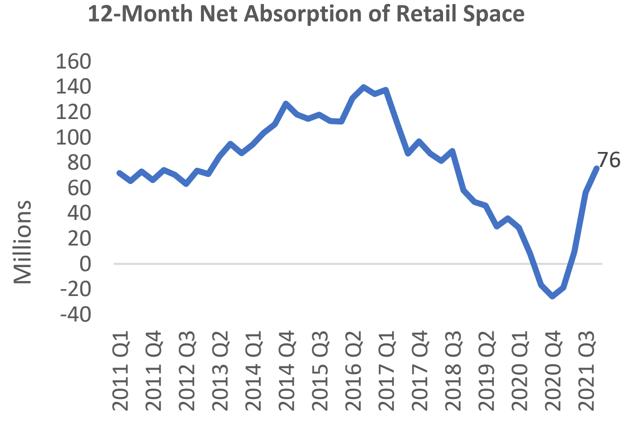
Retail

Increasing retail sales support the demand for retail properties

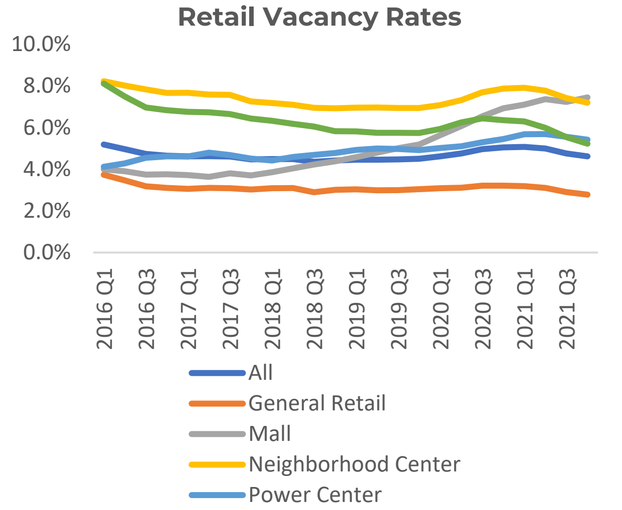
With retail sales continuing to increase, so does the demand for retail space. Net absorption of retail space in the past 12 months as of November 28, 2021 was 75 msf. Q4's most recent data is up from the 52 msf recorded in the prior quarter as retail sales support the demand for retail real estate.



Source: NAR analysis of CoStar data

Of the 75 msf net absorption of retail space, the largest share is held for general retail (58%). Furthermore, all retail property types saw positive net absorption with the exception of malls for which saw -4.9 msf returned to the market. Despite malls returning space to the market, as of November 28, 2021, this is 1 msf less than it returned in Q3 2021. Malls remain the retail property asset that is most vulnerable considering its quivering fundamentals. But, it is not all bad as foot-traffic has returned.

According to CoStar® data, of the metros with positive absorption, the top markets by 12- month net absorption were Houston-TX (5.6 msf), Atlanta-GA (4.2 msf), Dallas-Fort Worth-TX (4.1 msf), Chicago-Il (2.8 msf), New York-NY (2.6 msf) and Inland Empire-CA (2.4 msf), while negative net absorption was led by to by East Bay-CA, Knoxville-TN, Columbus-OH and Wausau-WI.



Source: NAR analysis of CoStar data

Retail vacancy rate continued its downward trend as of November 28, 2021 where it stood at 4.6% and was down .2% from Q3. Mall vacancy rate was the only to increase in Q4 and did so by .2% towards 7.4% as it holds the highest vacancy rate amongst retail property types. General retail space remains the retail asset with the lowest vacancy rate at 2.8%

On average, as of November 28, 2021, asking rents were up 3.3% towards $20.26 sf. Of the 390 metro areas covered, 97% of metros saw positive year-over-year growth in asking rents which was led by Akron-OH (9.6%), Tulsa-OK (8.5%), Las Vegas-NV (8.0%), Jacksonville-FL (7.9%) and Atlanta-GA at7.7%. Markets that saw negative rent growth were San Francisco-CA (-5.2%), New Haven-CT (-1.9%) and Providence-RI (-1.5%).

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Hotel

Rising occupancy and revenues as travel resumes

With increased travel due to the progress in vaccinations, hotel occupancy has been generally trending upwards. The average 3-month hotel vacancy rate during October was 62.6%, up from 48.5% in the same period one year ago. The hotel industry's revenue metrics— average daily rate (ADR) and revenue per available room (RevPAR) — also improved in the past three months ended October compared to one year ago. RevPAR rose to $85, or double the $49/room rate one year ago while the ADR rose to $135 from $100 one year ago. Sales over a 12-month period have also picked up, increasing to $33 billion as of October, up a low of $10 billion in February 2021. Cap rates have remained relatively stable at 8.7%.

The highest occupancy rates are in Portland (Maine), Southern Louisiana, Gatlinburg, and Central California.

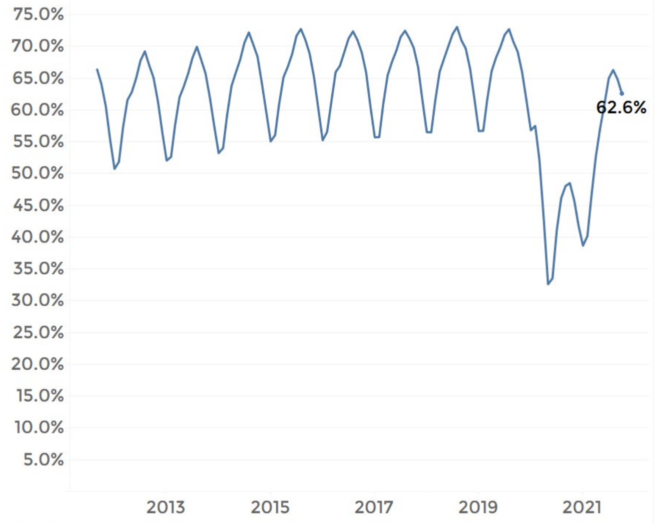
Hotel Occupancy as of November 2021

Portland - ME	72.2%
Louisiana South	68.4%
California North	68.3%
Gatlinburg/Pigeon Forge - TN	68.2%
Allentown & Reading - PA	68.1%
California Central Coast	66.8%
Long Island	66.7%
Richmond/Petersburg - VA	66.3%
Colorado Springs - CO	66.2%
California North Central	65.9%
Charleston - SC	65.6%
San Diego - CA	65.3%
California South/Central	65.2%
New York - NY	64.8%
Oakland - CA	64.6%
Phoenix - AZ	64.4%
Austin - TX	64.4%
Arizona Area	64.3%
Florida Keys	64.3%
Chattanooga - TN	64.2%
Los Angeles - CA	64.0%
Sacramento - CA	63.9%

Source: NAR analysis of CoStar data

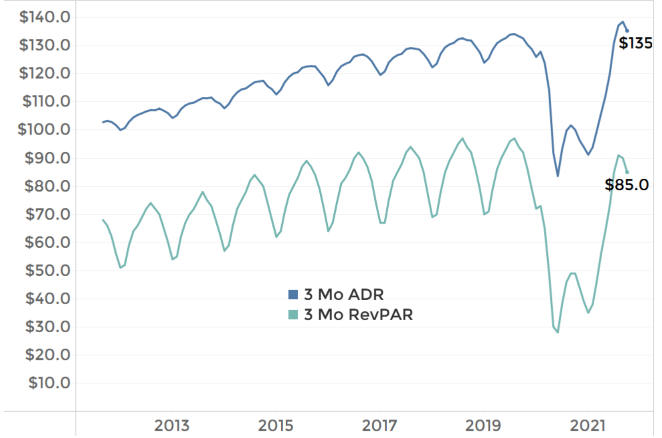
RevPAR is ADR x occupancy rate.

3-Month Hotel Occupancy Rate as of October 2021



Source: NAR analysis of CoStar data

3-Month Average Daily Revenue and Revenue Per Available Room as of October 2021



Source: NAR analysis of CoStar data

12-Month Sales Volume as of October 2021

Source: NAR analysis of CoStar data

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COMMERCIAL MONTHLY INSIGHTS REPORT
November 2021

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