

Market Opportunities in Commercial Real Estate

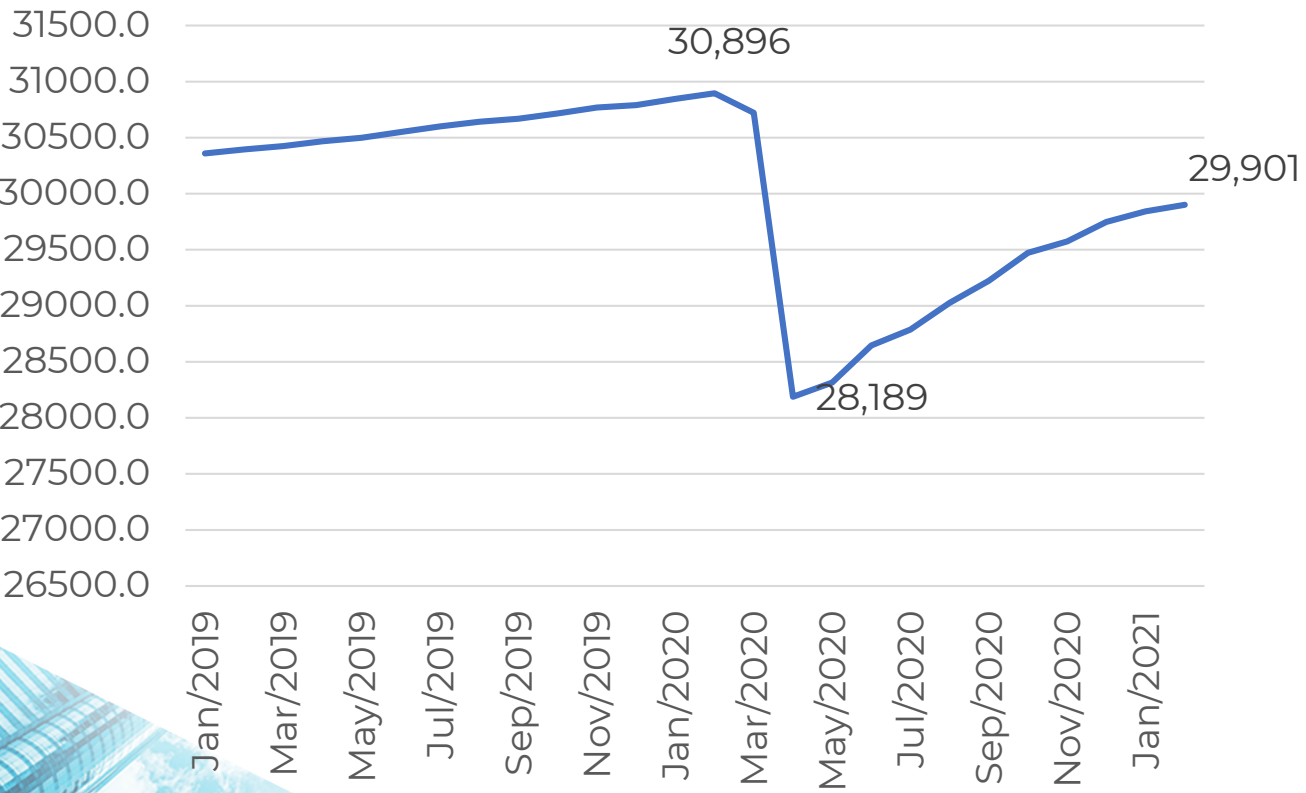
Gay Cororaton

Senior Economist, Director of Housing and Commercial Research

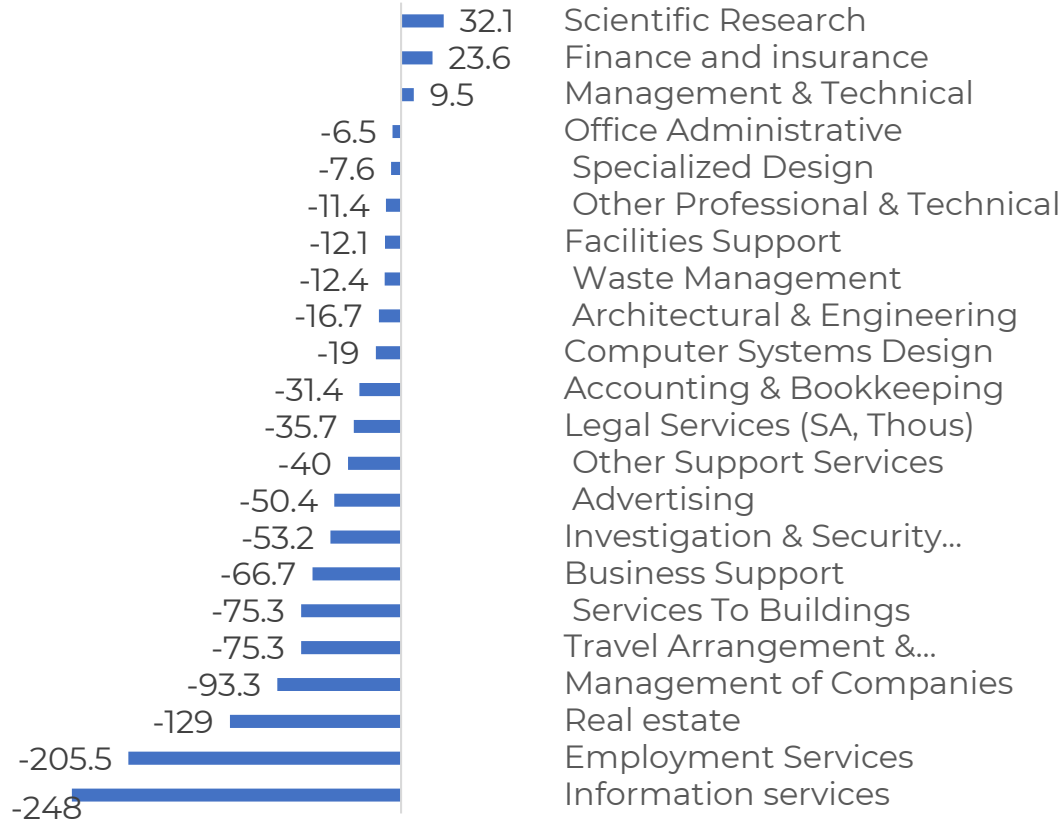
National Association of REALTORS®

Partial recovery of jobs in office-using industries* (+1.7 M since May, 1M more to recover)

995,000 Fewer Office Using Jobs as of February 2021 (in thousands)



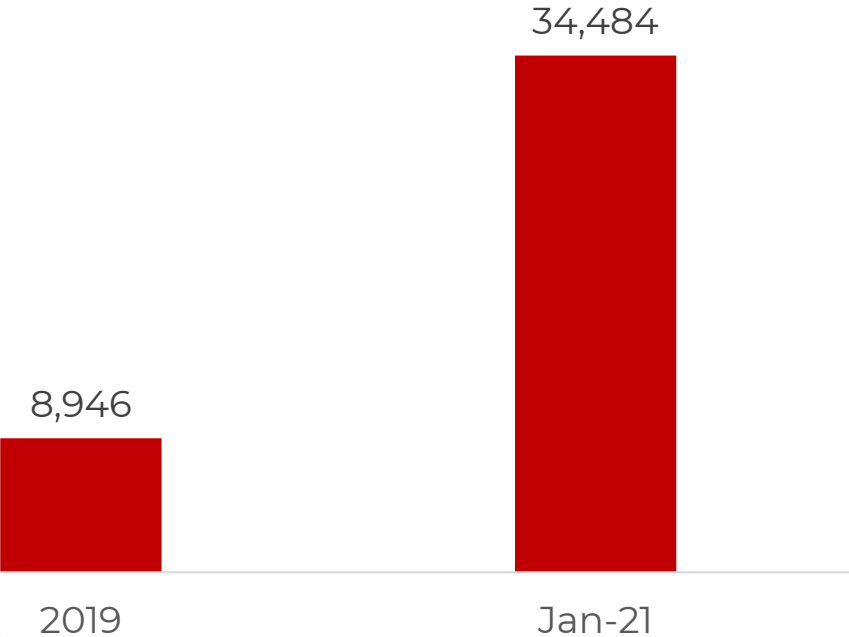
Net Jobs ('000) as of Feb 2021 vs. Feb 2020



*Office –using jobs are those in information services, financial activities (finance and insurance , real estate), and professional and business services. Information services includes publishing, motion picture and sound recording, broadcasting, telecom, web services
 Source of data: BLS

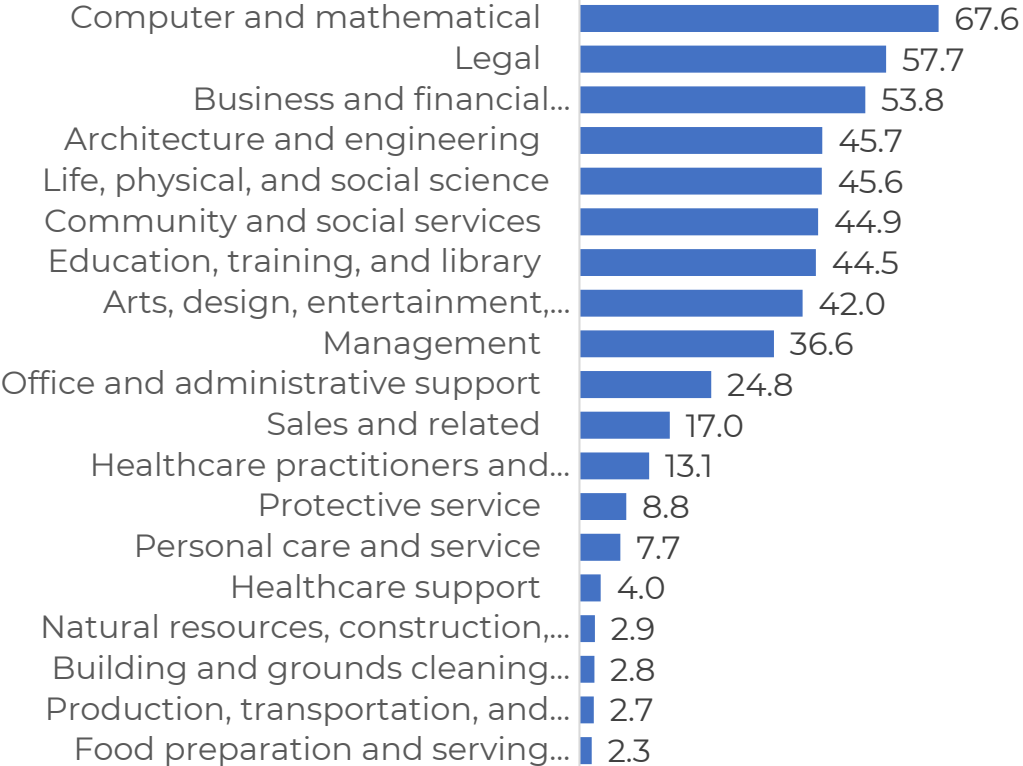
4x more workers working from home (23% FT/PT WFH in Jan 2022, 6% FT WFH in 2019)

Number of employed 16 years old and over who worked from home



Source: BLS

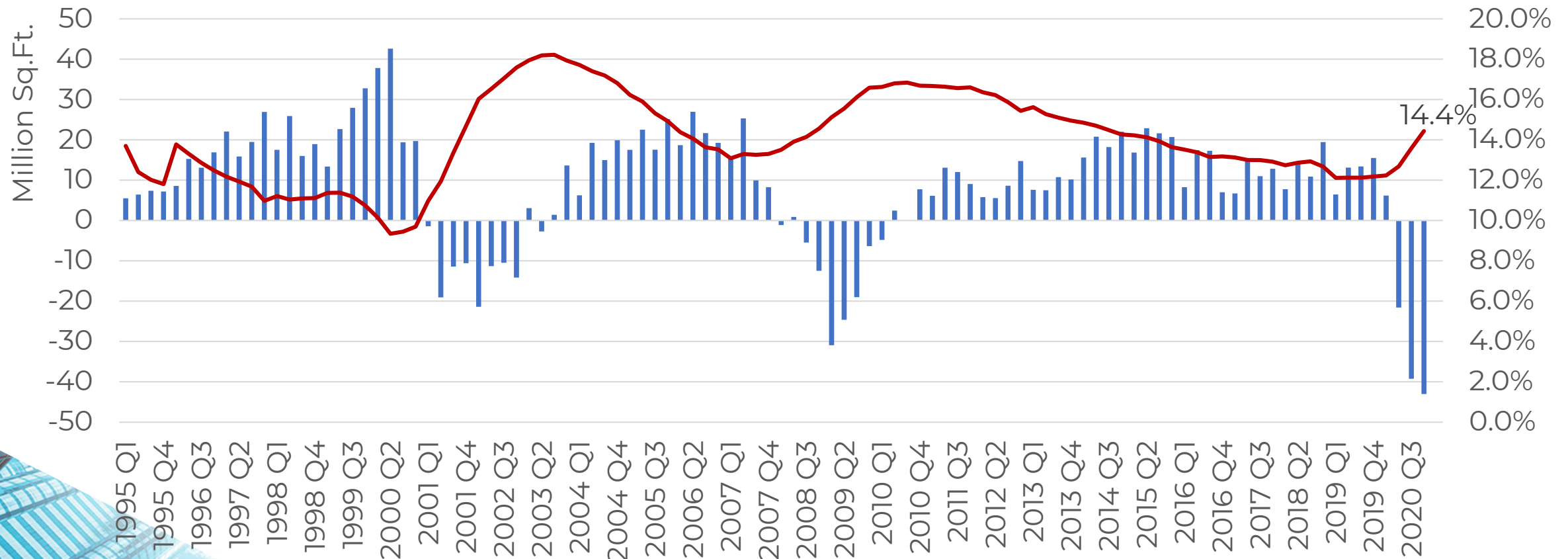
Percent working from home, by occupation



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Decline in office occupancy, rising vacancy rate (-98 MSF, + 2% vacancy rate)

Net Absorption of Office Space and Overall Vacancy Rate

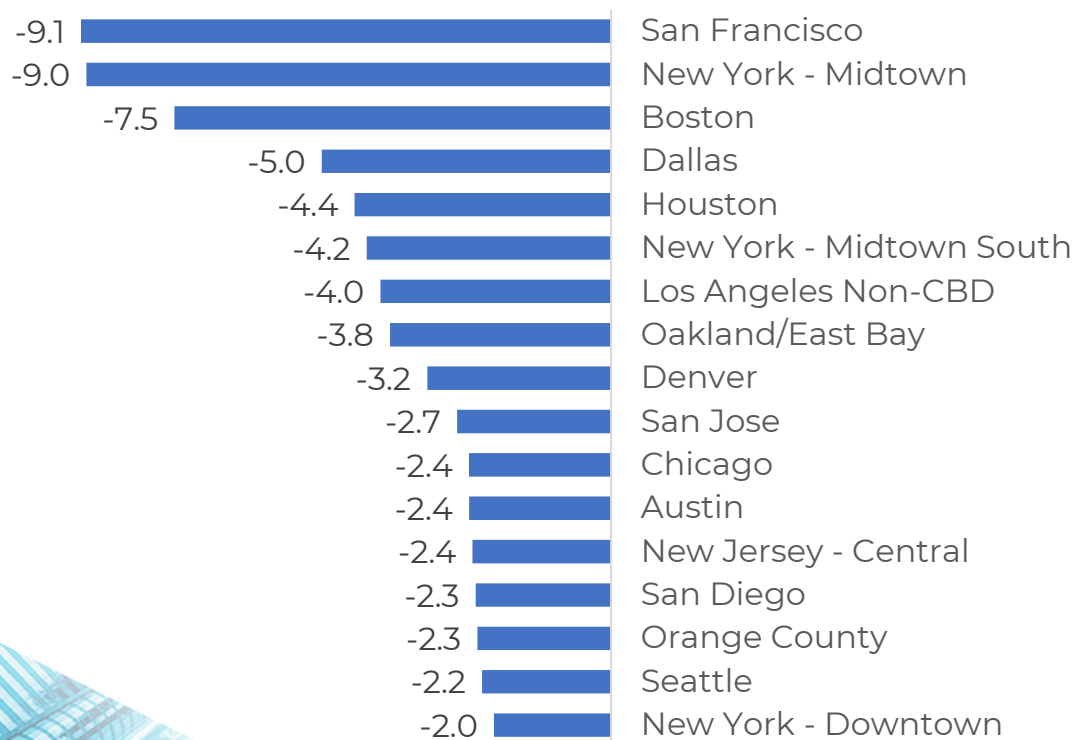


Source: Cushman and Wakefield

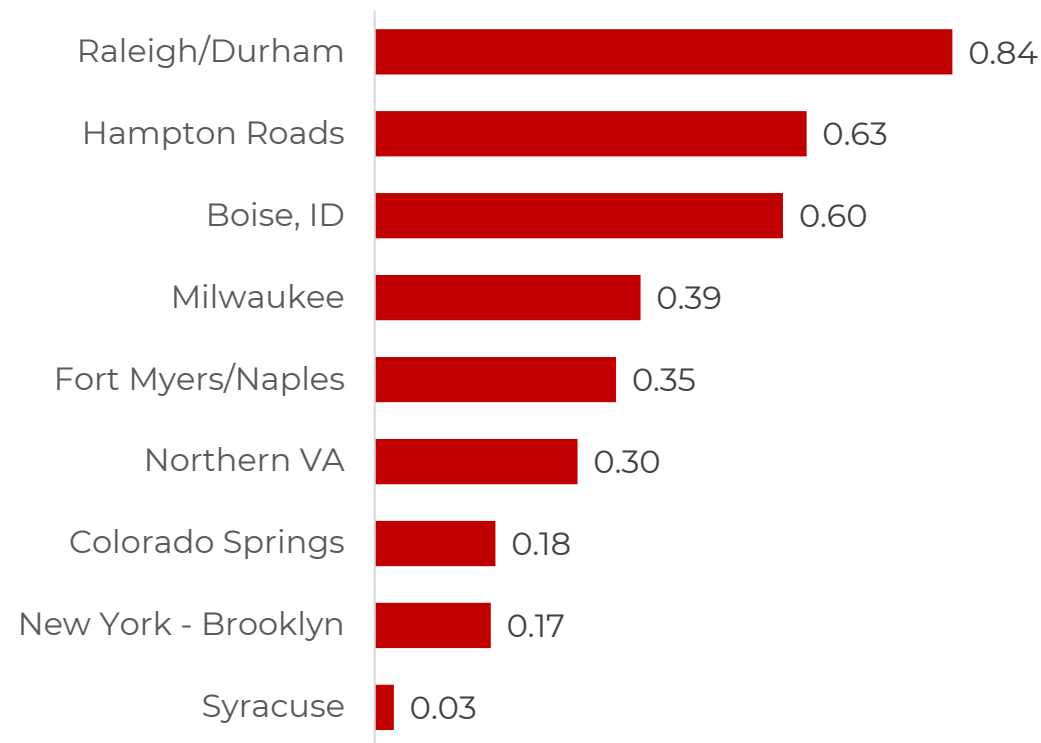
Overall Vacancy Rate: Space vacant and available both directly and through sublease, divided by the inventory. Space in properties under construction or under renovation is not included. Overall Absorption: The change in occupied built space for a given period of time, including sublease space.

Biggest decline in occupancy in large cities

Overall Net Absorption of Office Space in 2020 (Million Sq. Ft.)



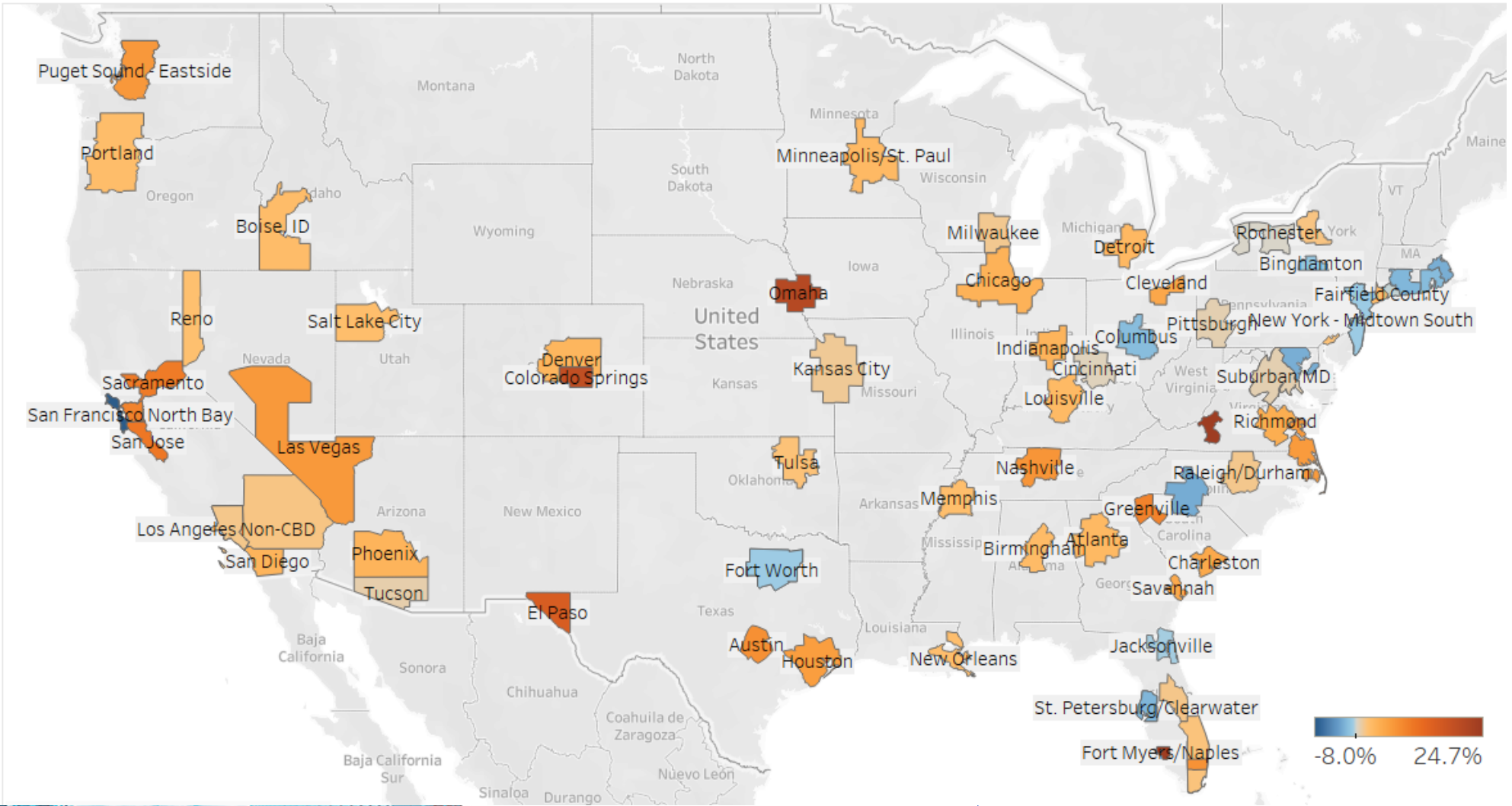
Overall Net Absorption of Office Space in 2020 (Million Sq. Ft.)



Source: Cushman and Wakefield

Falling Asking Rents in Major Markets But Office Rents Held Firm in Many Markets

Year-over-year percent change in office rent as of 2020 Q4
(blue areas: rents are falling)

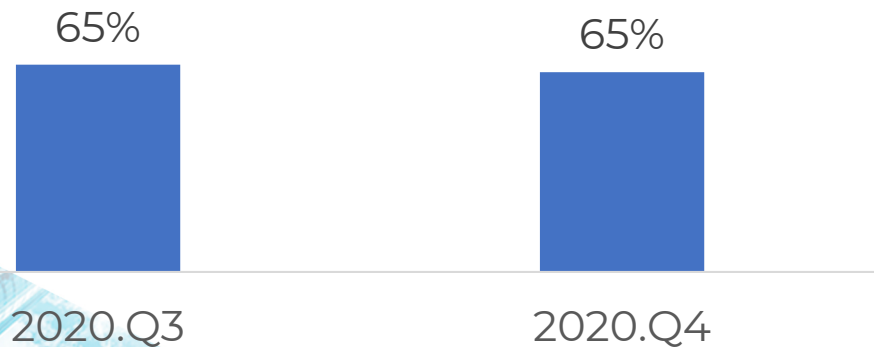


San Francisco	-8.0%
New York - Midtown South	-4.3%
Orange County	-4.1%
New York - Downtown	-2.8%
Charlotte	-2.8%
Palm Beach	-2.7%
Boston	-2.6%
Baltimore	-2.6%
St. Petersburg/Clearwater	-2.2%
Hartford	-2.2%
Providence	-1.8%
Columbus	-1.8%
San Juan	-1.2%
Binghamton	-1.2%
New York - Brooklyn	-0.8%
Dallas	-0.7%
Jacksonville	-0.6%
San Mateo County	-0.6%
New Haven	-0.3%
Buffalo	0.0%
Rochester	0.0%
Cincinnati	0.3%
Northern VA	0.6%
Pittsburgh	0.6%
Tucson	0.7%

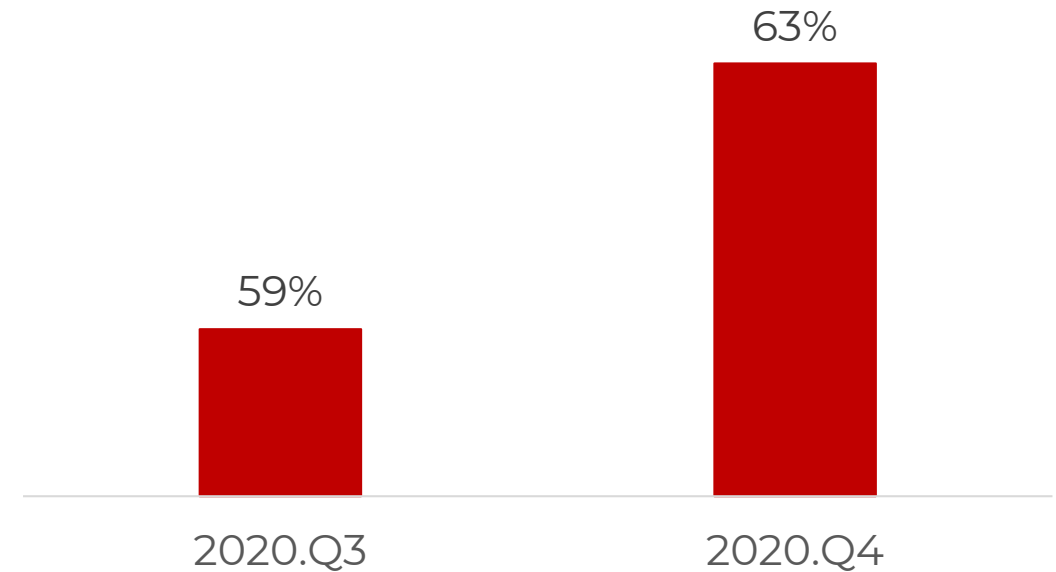
Source: Cushman and Wakefield

More landlords providing rent concessions and shorter-term leases

Percent of respondents who reported "More" landlords offering tenant rent concessions compared to January 2020

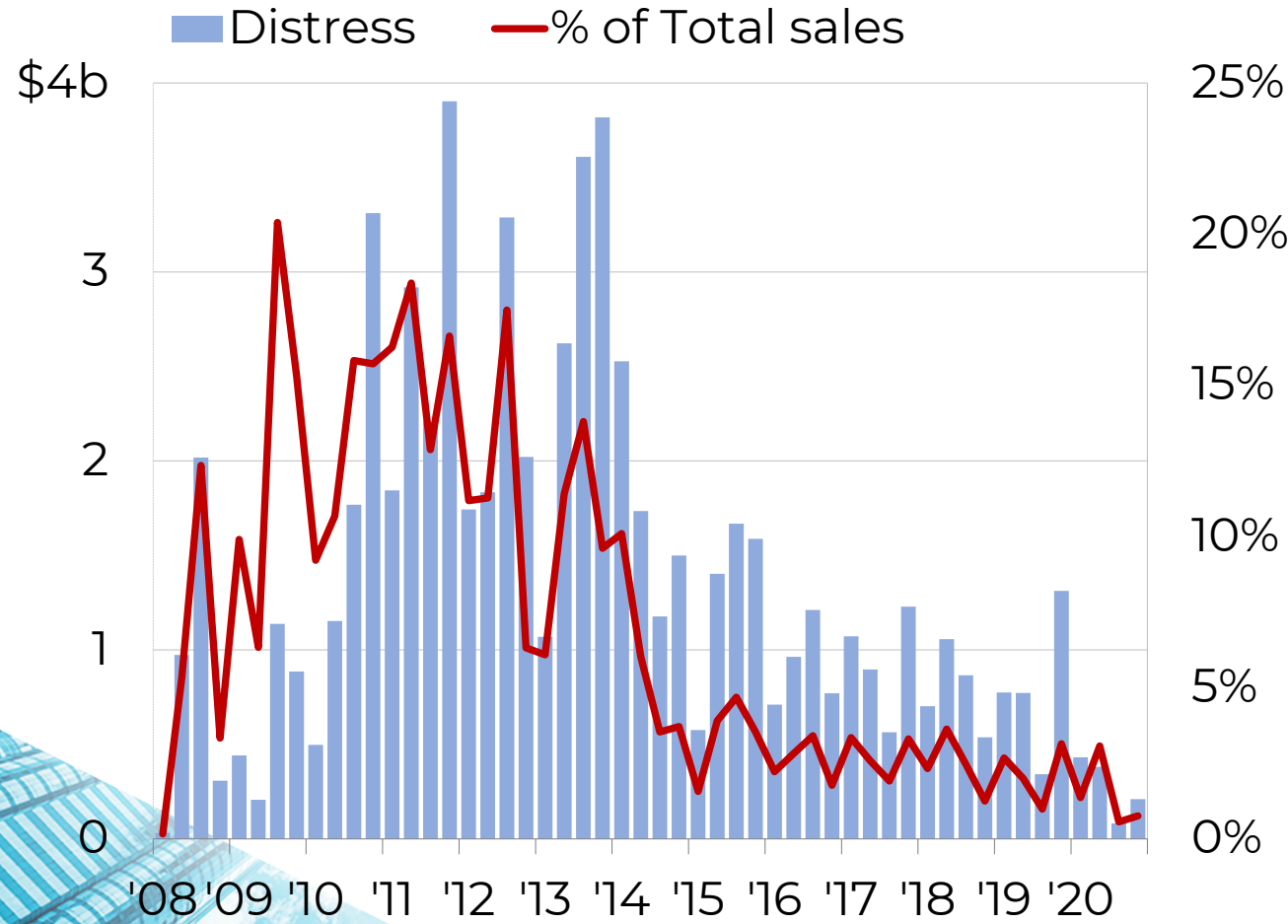


Percent of REALTOR® respondents who reported "More" short-term office leases of 2 years or less

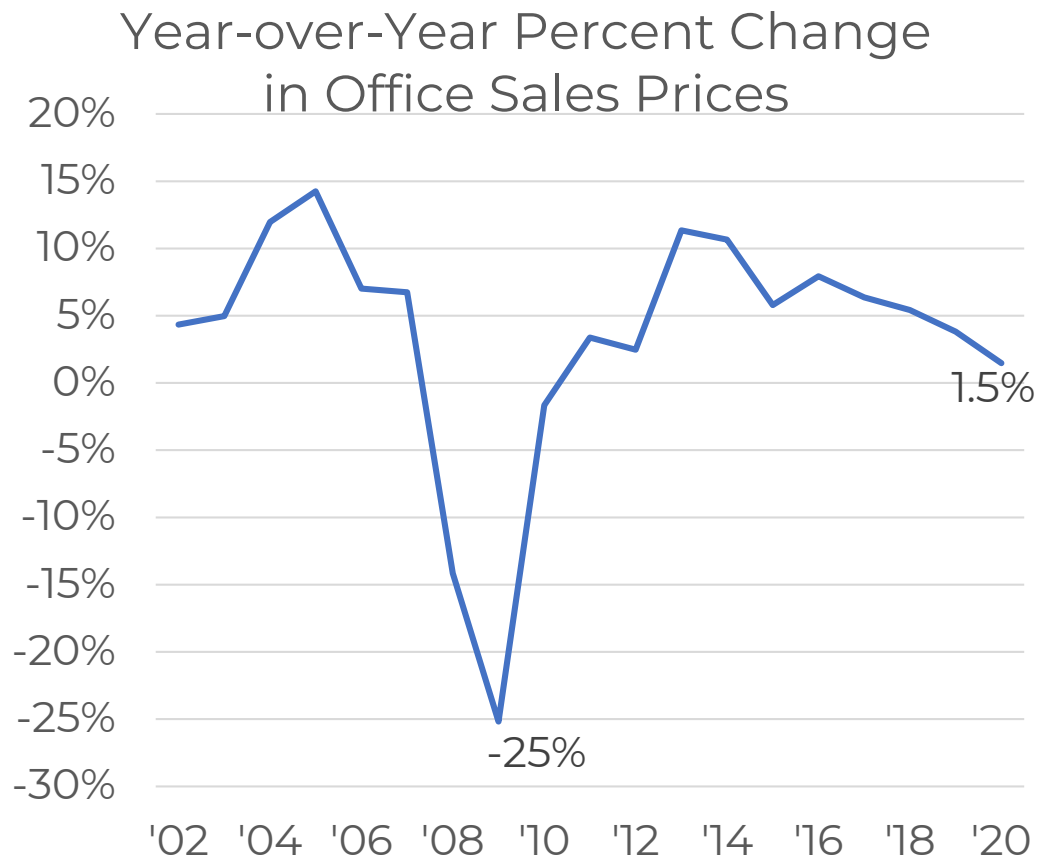


Source: NAR Commercial Quarterly Survey

Minimal distressed sales so prices not collapsing

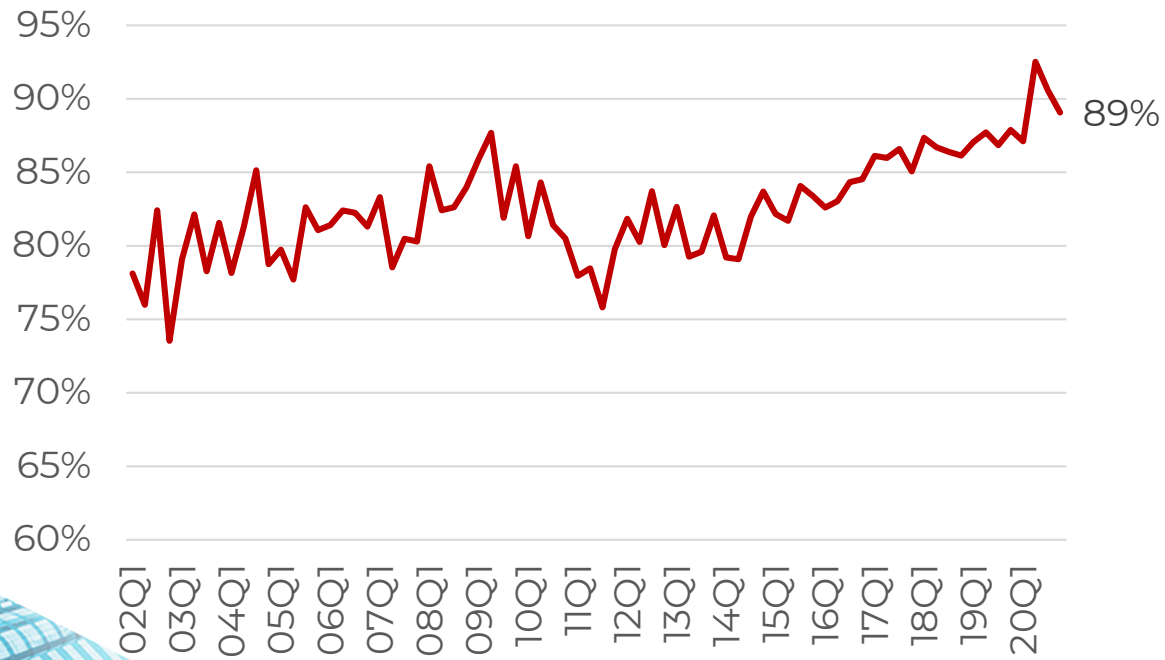


Source: Cushman and Wakefield



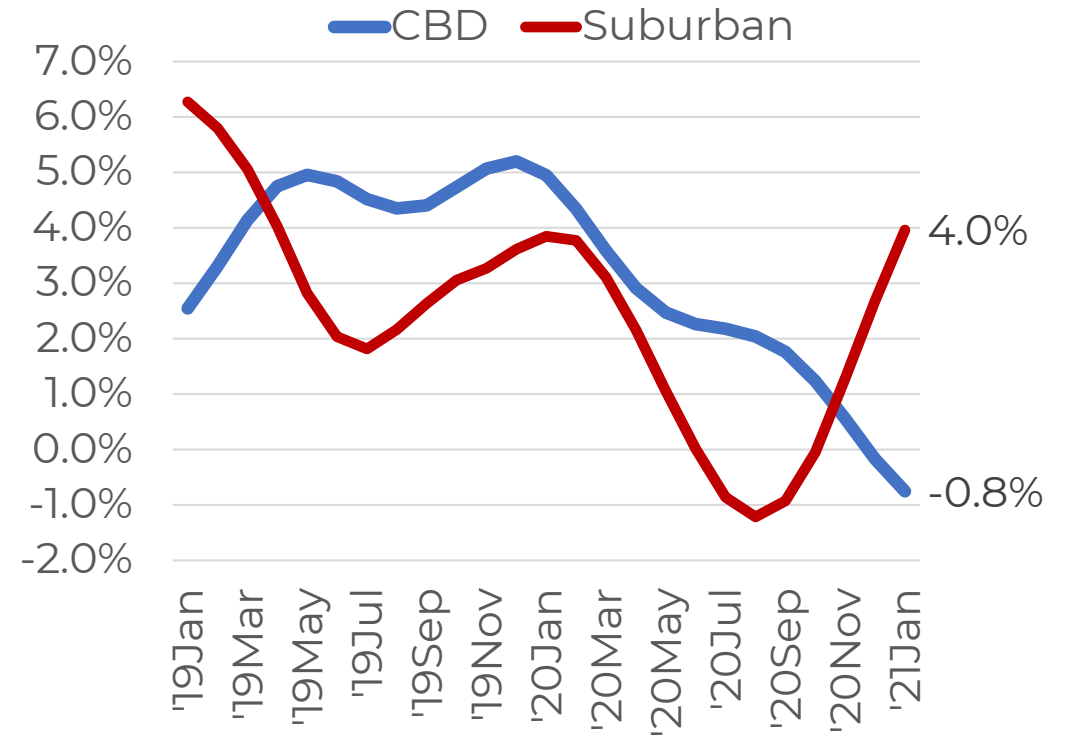
Suburban Office Market Sales and Prices Recovering Faster than in CBDs

Rising Share of Suburban Office Property Transactions to Total Transactions



Source: Real Capital Analytics

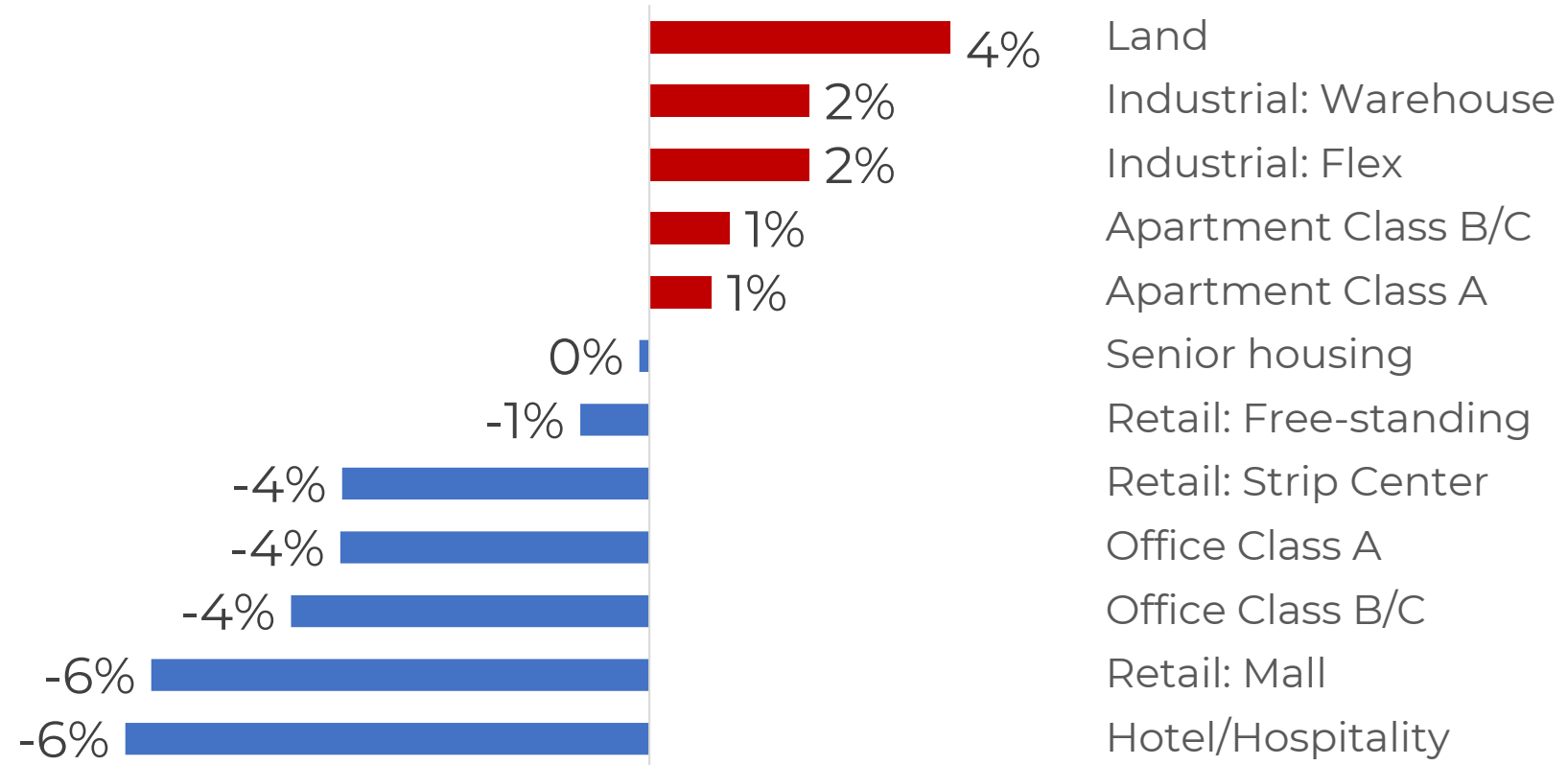
Y/Y Percent Change in Commercial Office Prices



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Land, Industrial, and Multifamily are Bright Spots

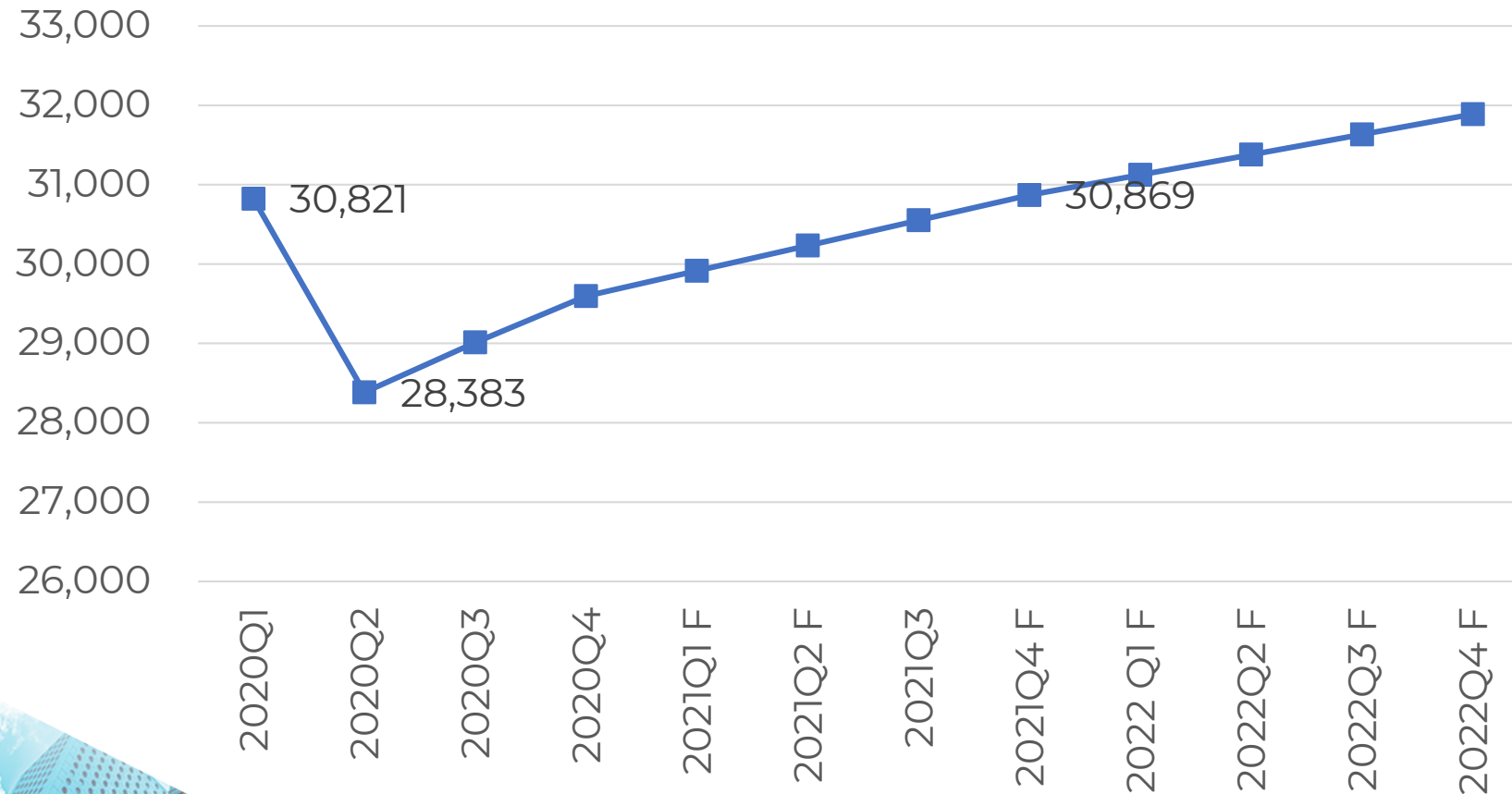
YoY % Change of Commercial Sales Prices in 2020
Q4 Reported by REALTORS®



Source: NAR 2020 Q4 Quarterly Commercial Market Survey

Outlook: Office-using employment back to pre-pandemic level by 2022 Q2

Office-Using Jobs Forecast (in thousands)



Source: NAR Forecast

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What percent of the workforce could be fully working from home?

10% *(from 6% in 2019)*

If 25% of office-using workers fully worked from home (around 9% in 2019)*

Source: NAR Analysis

12%

NAR December 2020 Real Estate Forecast Summit panel of economists

(Source: NAR Panel of Economists)

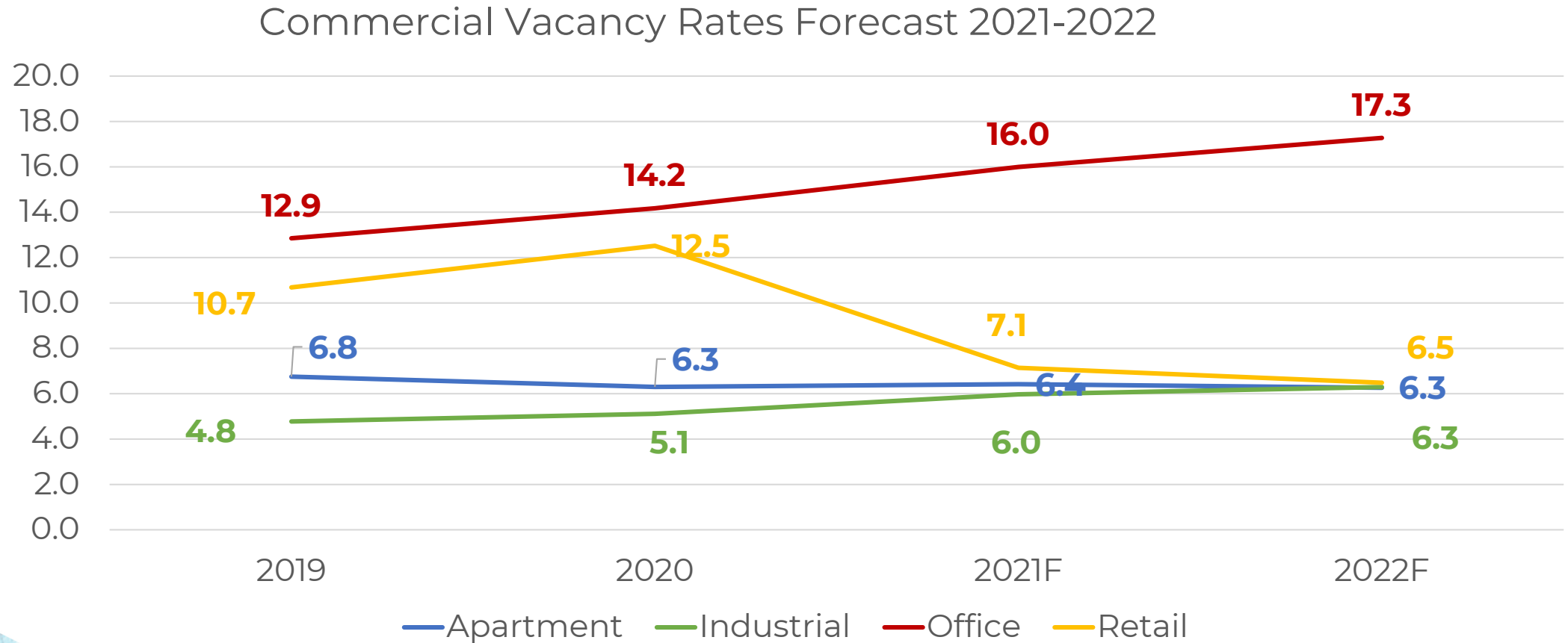
22%

Workforce that could work remotely 3 to 5 days a week without loss of productivity

Source: McKinsey Global Institute

**Office-using occupations: (engineering (ENG), science and research (SCI), computer and information systems (CMM), business (BUS), finance (FIN), and legal (LGL) occupation workers)*

NAR Commercial Vacancy Rate Outlook



Source: NAR analysis. Office vacancy rate forecast assumes an additional 2% of the office workforce will be working from home by 2022 Q4 (or around 20% increase in the number of office workers fully working from home); 9% of office-using occupations fully worked from home based on 2019 ACS PUMS

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

TOP 10 METRO AREAS WITH THE STRONGEST COMMERCIAL MARKET CONDITIONS

SEATTLE - TACOMA - BELLEVUE, WA

LAS VEGAS - HENDERSON - PARADISE, NV

SALT LAKE CITY, UT

NASHVILLE - DAVIDSON - MURFREESBORO, TN

RALEIGH, NC

PHOENIX - MESA - SCOTTSDALE, AZ

TUSCON, AZ

AUSTIN - ROUND ROCK, TX

CHARLESTON - NORTH CHARLESTON, SC

CAPE CORAL - FORT MEYERS, FL

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REAL ESTATE FORECAST SUMMIT

Top 10 Areas with Strongest Commercial Real Estate Market Conditions*

Metro area	YY Pct change in non-farm employment, Dec 2020	Net domestic migration, 2019	Rental vacancy rate, 2020 Q4	Apartment rent, Dec 2020	Apartment rent to wages, Dec 2020	Office vacancy rate, 2020 Q4	Office rent, 2020 Q4	Industrial vacancy rate, 2020 Q4	Industrial rent, 2020 Q4	Y/Y % chg, retail trade employment, Dec 2020
US	-6.0	-	6.5	\$1,114	26.8	15.5	\$35.1	5.2	\$6.76	-2.2
Raleigh, NC	-4.6	18,476	2.5	\$1,227	29.6	10.2	\$27.1	4.6	\$8.00	-1.8
Charleston-North Charleston, SC	-5.4	10,340	28.8	\$1,310	33.9	9.4	\$27.6	7.0	\$5.74	0.5
Cape Coral-Fort Myers, FL	-4.4	15,043	12.8	\$1,245	42.3	5.7	\$19.6	3.4	\$9.90	-5.4
Nashville-Davidson-Murfreesboro-Franklin, TN	-4.1	20,419	8.5	\$1,219	30.4	15.0	\$30.3	2.1	\$7.42	3.9
Austin-Round Rock, TX	-1.0	41,334	3.0	\$1,332	31.7	17.3	\$42.4	5.7	\$11.03	1.5
Phoenix-Mesa-Scottsdale, AZ	-2.3	71,657	3.9	\$1,338	31.8	15.4	\$28.1	8.1	\$7.71	0.9
Tucson, AZ	-3.4	8,801	7.2	\$1,124	35.0	9.2	\$20.5	5.7	\$6.64	8.8
Las Vegas-Henderson-Paradise, NV	-9.4	31,643	2.9	\$1,302	37.4	13.5	\$24.5	6.4	\$9.07	-0.3
Salt Lake City, UT	-0.5	(81)	5.5	\$1,257	30.9	15.7	\$24.7	4.8	\$6.49	8.6

* Shaded areas indicate the class of property where the metro area has strong market conditions for commercial development.

Source: NAR analysis based on data from Cushman and Wakefield, ApartmentList.com, US Bureau of Labor Statistics, US Census Bureau. Data as of December 2020 or 2020 Q4.

Download the [NAR Commercial Real Estate Metro Market Reports](#)

THANK YOU
FOR ATTENDING



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APPENDIX: MARKET DATA



Development/Investment Opportunities:

Raleigh, North Carolina

- Multifamily: 2.5% rental vacancy rate
- Office: +10% vacancy rate (15.5% nationally); low rent at \$27/sq.ft. (\$35/sq.ft. nationally)
- Unemployment rate of 5.4% (6.7% nationally); GDP growth: 3% in 2019 (2.2% nationally);

Charleston-North Charleston, South Carolina

- Multifamily: affordable housing, with 34% of wages spent on rent
- Unemployment rate: 4.1% (6.7% nationally); GDP growth: 3% in 2019 (2.2% nationally)

Cape Coral–Fort Myers, Florida

- industrial: 3.4% vacancy rate (5.2% nationally)
- Office : 5.1% vacancy rate (15.5% nationally); lowest office rent at \$20/sq.ft.
- Unemployment rate: 5.4% (6.7% nationally); GDP growth: 2.9% in 2019 (2.2% nationally)

Development/Investment Opportunities

Nashville-Davidson–Murfreesboro-Franklin, Tennessee

- Industrial: 2.1% vacancy rate (5.2% nationally)
- Retail: Retail trade employment rose 3.9% y/y as of December 2020 (-2.2% nationally)
- Unemployment rate: 5.5% (6.7% nationally); GDP growth: 2.3% in 2019 (2.2% nationally)

Austin-Round Rock, Texas

- Multifamily: 3% rental vacancy rate (6.5% nationally), with renters spending 32% of wages on rent
- Industrial: +6.1 million sq.ft. is construction is underway
- Retail: Had the second largest net domestic migration among top 10 (41,334 in 2019)
- Unemployment rate: 5.4% (6.7% nationally); GDP growth: 3.1% in 2019 (2.2% nationally)

Phoenix-Mesa-Scottsdale, Arizona

- Multifamily: 3.9% rental vacancy, with renters spending 32% of wages on rent
- Industrial: 7.7 million sq.ft. in industrial space absorbed in 2020, the largest among top 10
- Retail: Had the largest net domestic migration among top 10 (71,657 in 2019)
- Unemployment rate: 7.2% (6.7% nationally); GDP growth: 3.3% in 2019 (2.2% nationally)

Development/Investment Opportunities:

Tucson, Arizona

- Office: 9% vacancy rate (15.5% nationally); low rent at \$20/sq.ft. compared to Phoenix (\$28/sq.ft.); Only one of two among 52 metro areas that had an increase positive absorption of office space in 2020
- Retail: retail trade jobs rose 8.8% y/y
- Multifamily: potential to attract more residents because of lower rent, at \$1,124, compared to Phoenix (\$1,338)
- Unemployment rate: 7.9% (6.7% nationally); GDP growth: 3.3% in 2019 (2.2% nationally)

Las Vegas-Henderson-Paradise, Nevada

- Multifamily: 2.9% rental vacancy rate, with renters spending 37% of wages on rent
- Industrial: 2.1 million sq.ft. absorbed in 2020 (second to Phoenix) 6.3 million sq.ft. of construction is underway
- Among top 10, had 3rd largest number of movers (31,643 in 2019)
- Unemployment rate: 10.5% (6.7% nationally); GDP growth: 2.4% in 2019 (2.2% nationally)



Development/Investment Opportunities:

Salt Lake City, Utah

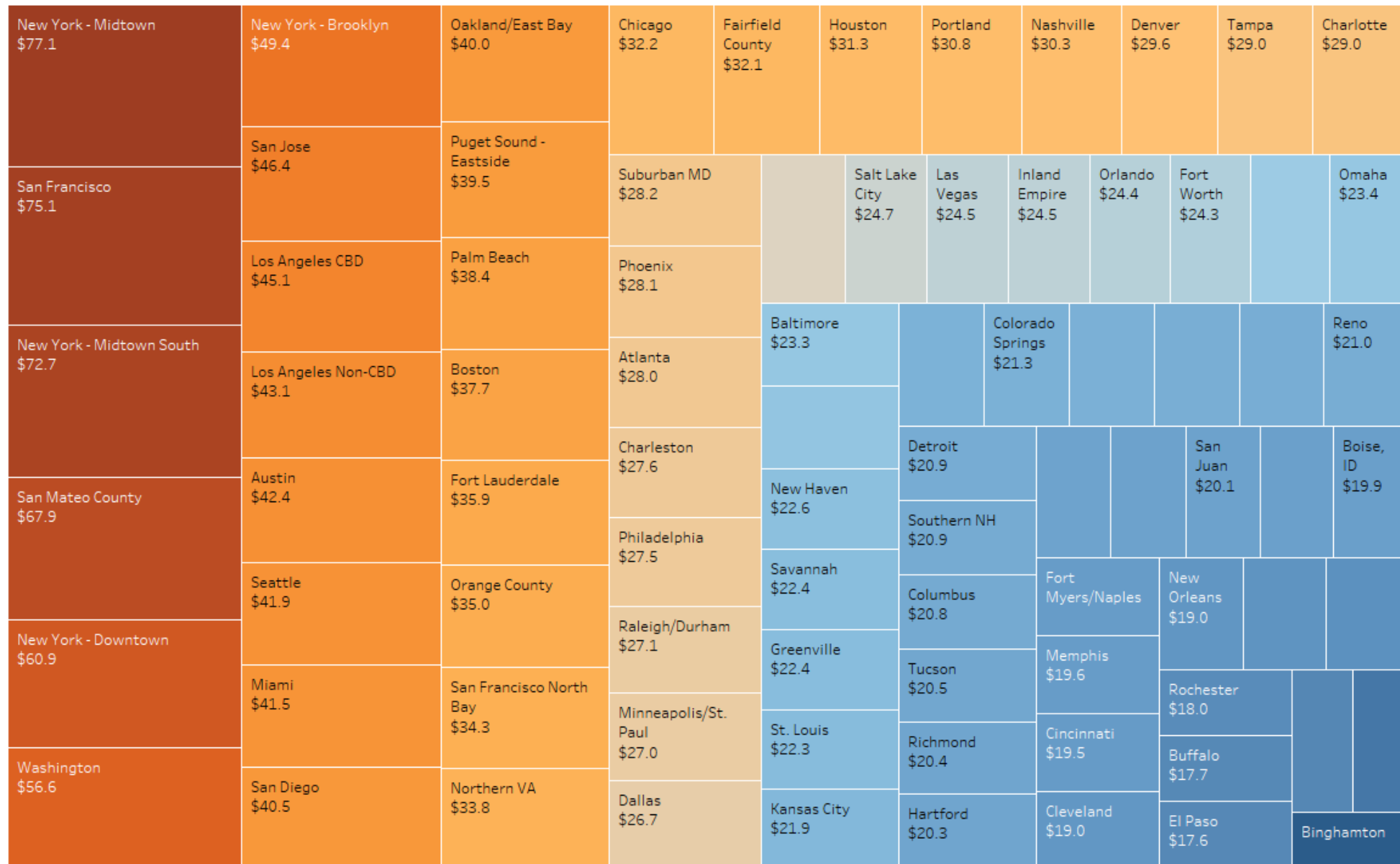
- Multifamily: 5.5% rental vacancy rate, with renters spending 31% of wages on rent
- Retail: retail trade employment: 8.6% (-2.2% nationally)
- Office: relatively cheaper office rent of \$24/sq.ft.; lower office rent than California metro rents (over 40/sq.ft.)
- Unemployment rate: 3.8% (6.7% nationally); GDP growth: 3.5% in 2019 (2.2% nationally)

Seattle-Tacoma-Bellevue, Washington

- Multifamily: 4.5% rental vacancy, with renters spending 28% of wages on rent
- Industrial: 7.7 million sq.ft. is under construction
- Unemployment rate: 7.8% (6.7% nationally); GDP growth: 5.1% in 2019 (2.2% nationally)



Office Rent Per Square Foot as of 2020 Q4



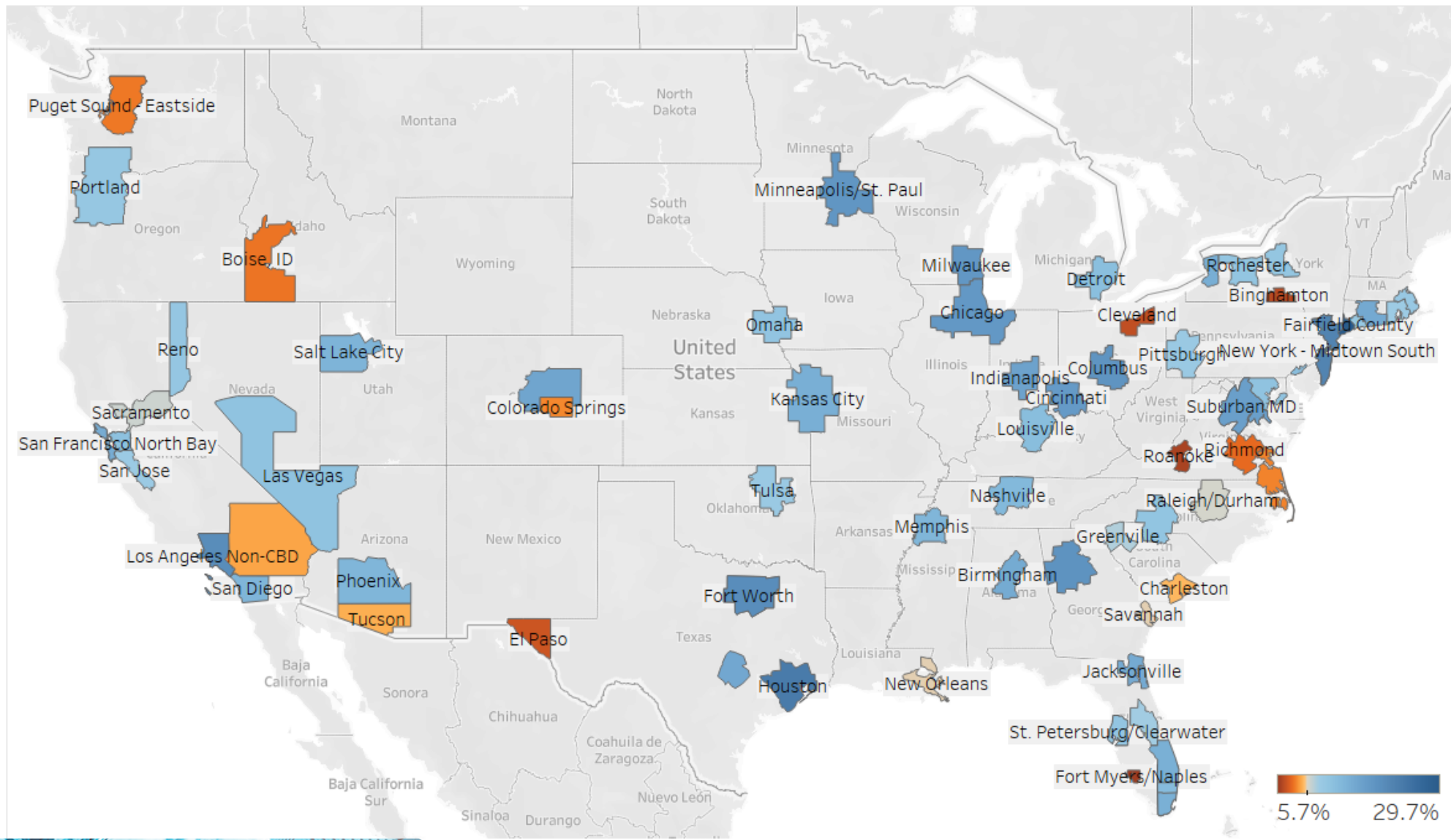
Binghamton	\$13.0
Tulsa	\$16.0
Syracuse	\$17.5
El Paso	\$17.6
Buffalo	\$17.7
Rochester	\$18.0
Louisville	\$18.4
Providence	\$18.7
New Orleans	\$19.0
Cleveland	\$19.0
Cincinnati	\$19.5
Memphis	\$19.6
Fort Myers/Naples	\$19.6
Boise, ID	\$19.9
Hampton Roads	\$20.0
San Juan	\$20.1
Roanoke	\$20.1
Pittsburgh	\$20.2
Hartford	\$20.3
Richmond	\$20.4
Tucson	\$20.5
Columbus	\$20.8
Southern NH	\$20.9
Detroit	\$20.9
Reno	\$21.0

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Source: Cushman and Wakefield

Double-Digit Office Vacancy Rates in Many Markets as of 2020 Q4

(blue areas: over 10%)



Fairfield County	29.7%
Westchester County	25.1%
Houston	24.3%
New York - Brooklyn	22.9%
Los Angeles CBD	21.5%
Dallas	21.4%
Atlanta	20.5%
Columbus	20.3%
Minneapolis/St. Paul	19.9%
Milwaukee	19.8%
Chicago	19.5%
Suburban MD	19.4%
Cincinnati	19.2%
Northern VA	18.6%
Indianapolis	18.0%
Denver	17.7%
Austin	17.3%
Los Angeles Non-CBD	17.3%
Hartford	17.1%
Washington	17.1%
Jacksonville	17.0%
Birmingham	16.9%
San Francisco	16.7%

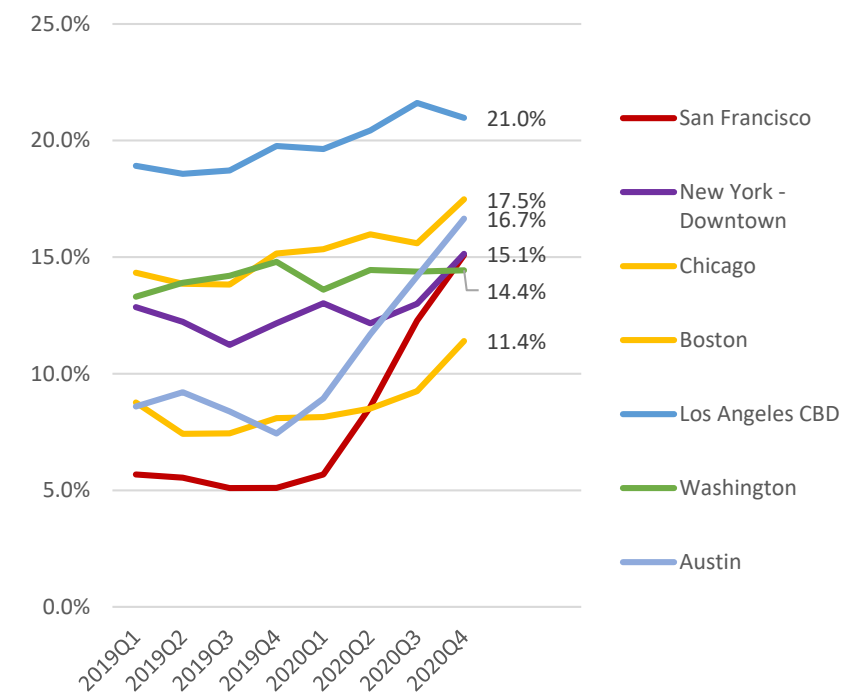
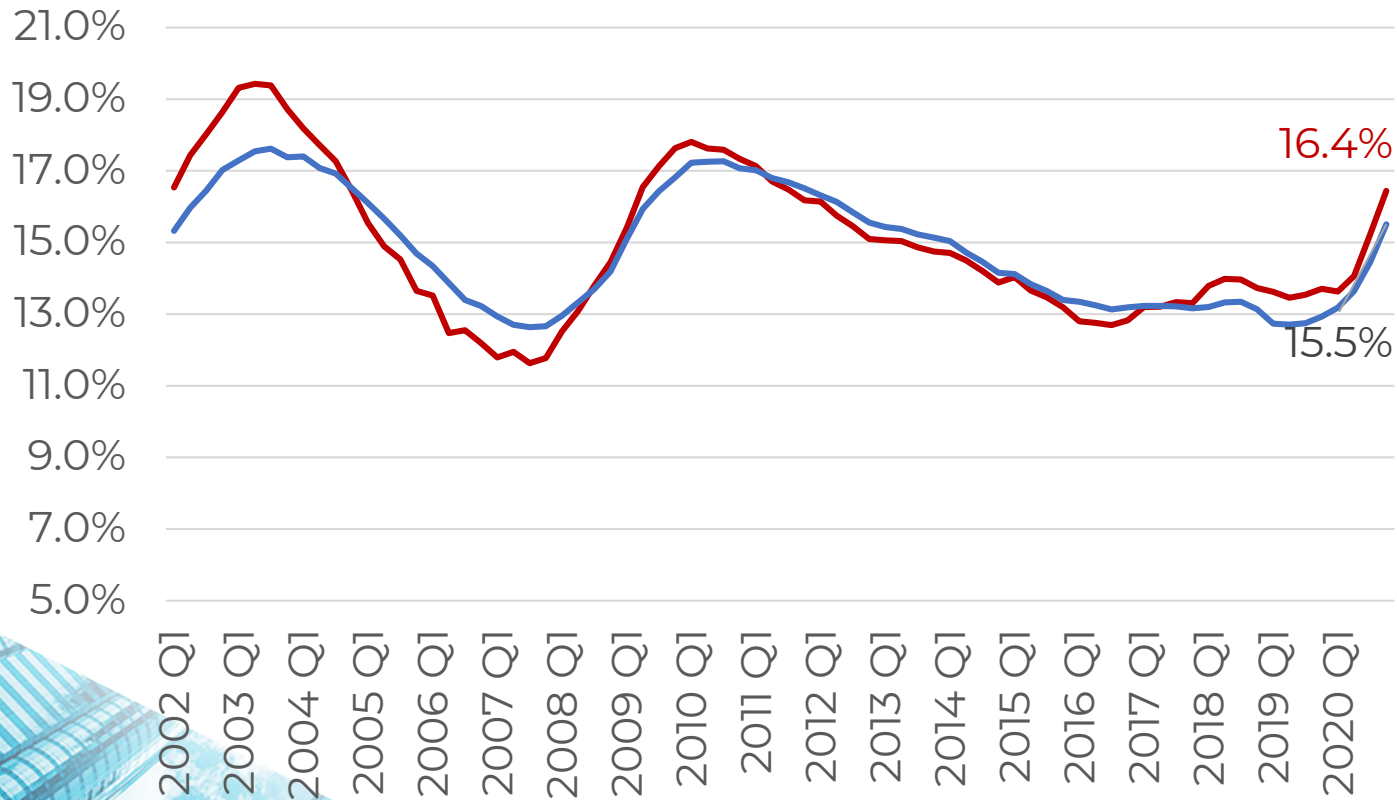
Source: Cushman and Wakefield

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Higher vacancy rate in Class A offices

Overall Vacancy Rates

— Class A — All office



* For example, in San Francisco, Class A vacancy rate rose from 5% in 2019 Q4 to 15% in 2020 Q4

Source: Cushman and Wakefield