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LEGISLATIVE MEETINGS

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NATIONAL HARBOR, MD • MAY 1-6, 2022



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COMMERCIAL REAL ESTATE TRENDS AND OUTLOOK

Lawrence Yun, PhD

Chief Economist, SVP for Research, NAR

Commercial Economic Issues and Trends Forum
May 4, 2022 | 1 – 2 pm
Maryland, USA

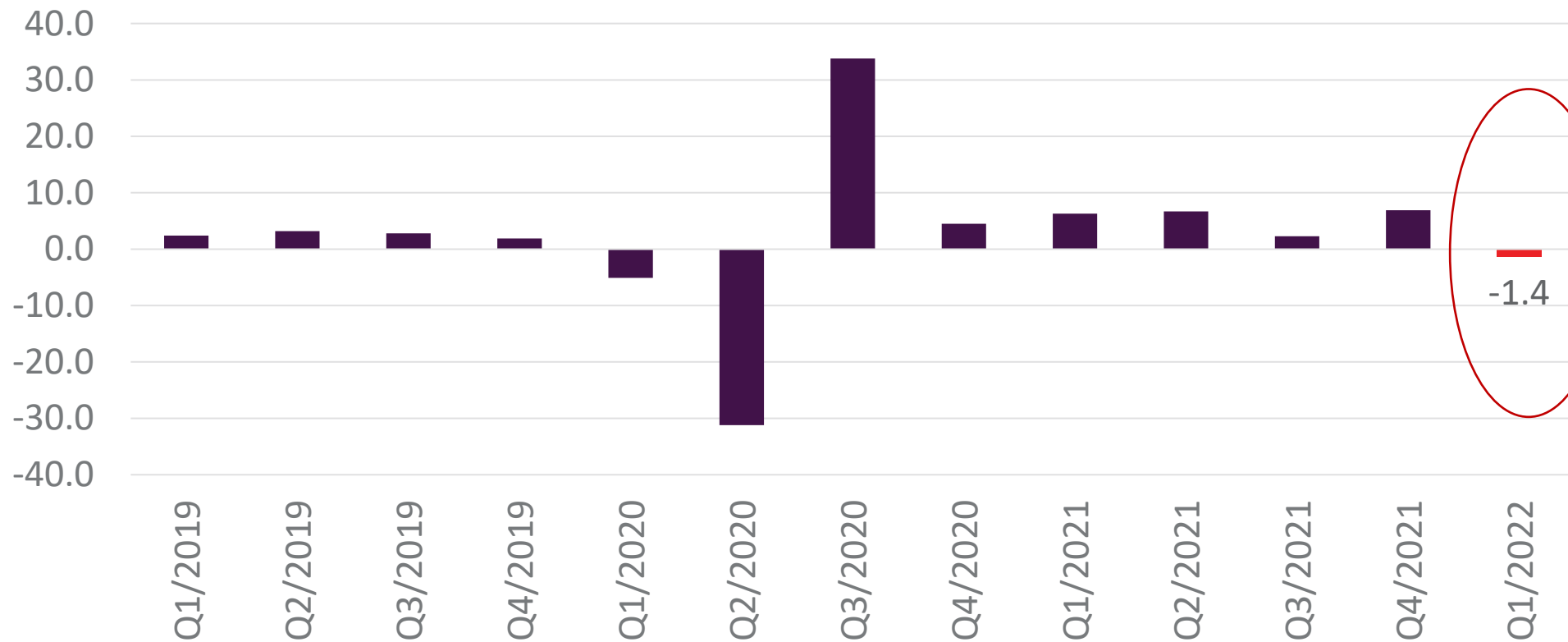
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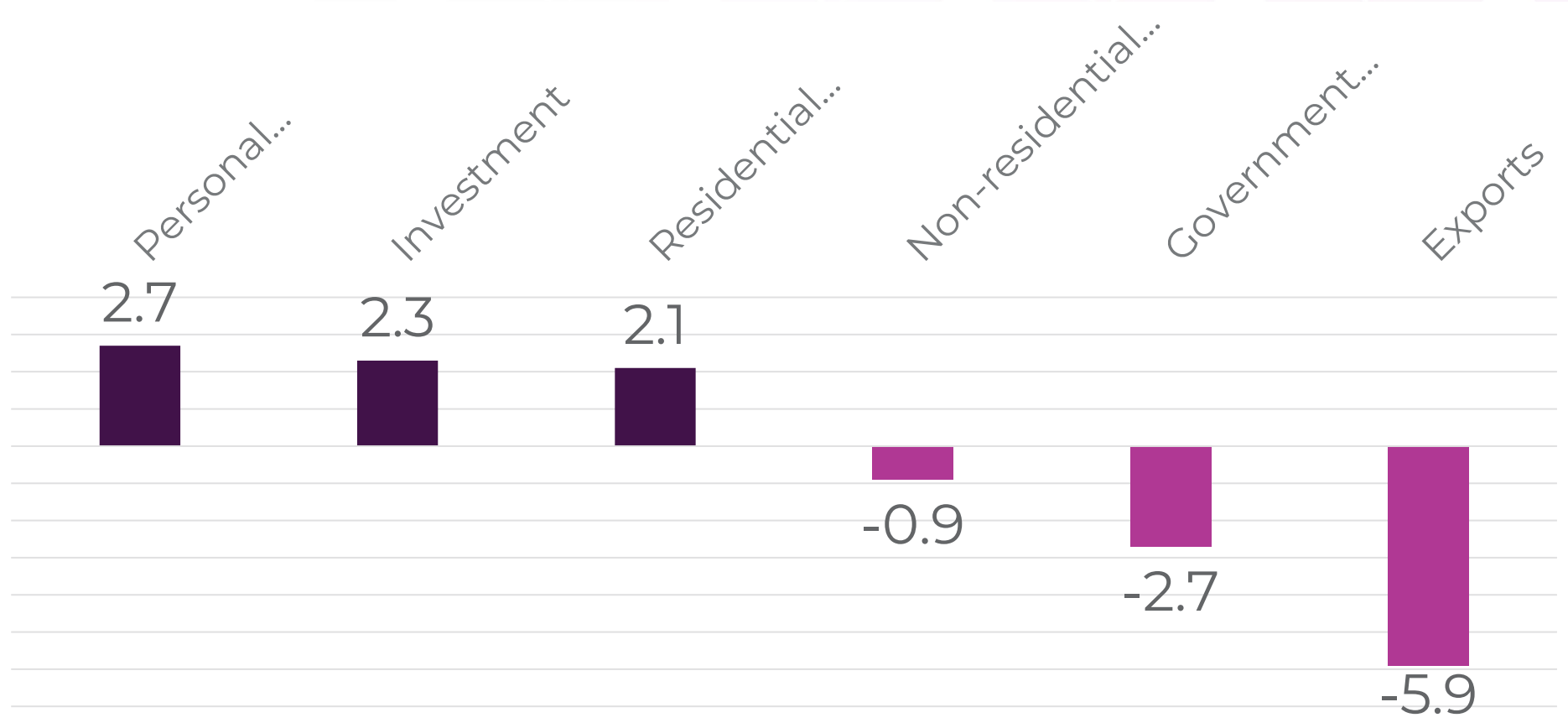
ECONOMY CONTRACTS 1.4% IN 2022 Q1

Annualized seasonally adjusted quarterly percent change

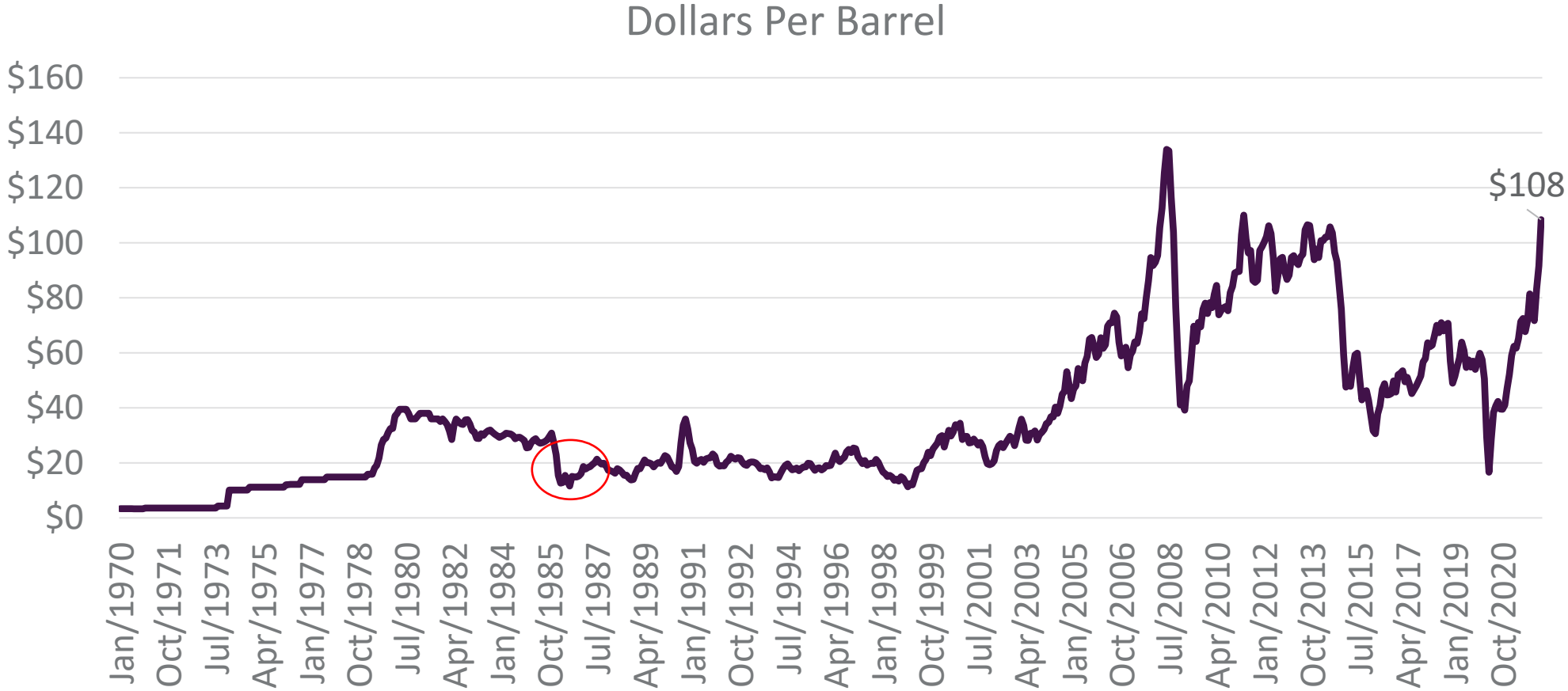


NON-RESIDENTIAL BUILDING CONSTRUCTION, FISCAL SPENDING, AND EXPORTS DECLINED

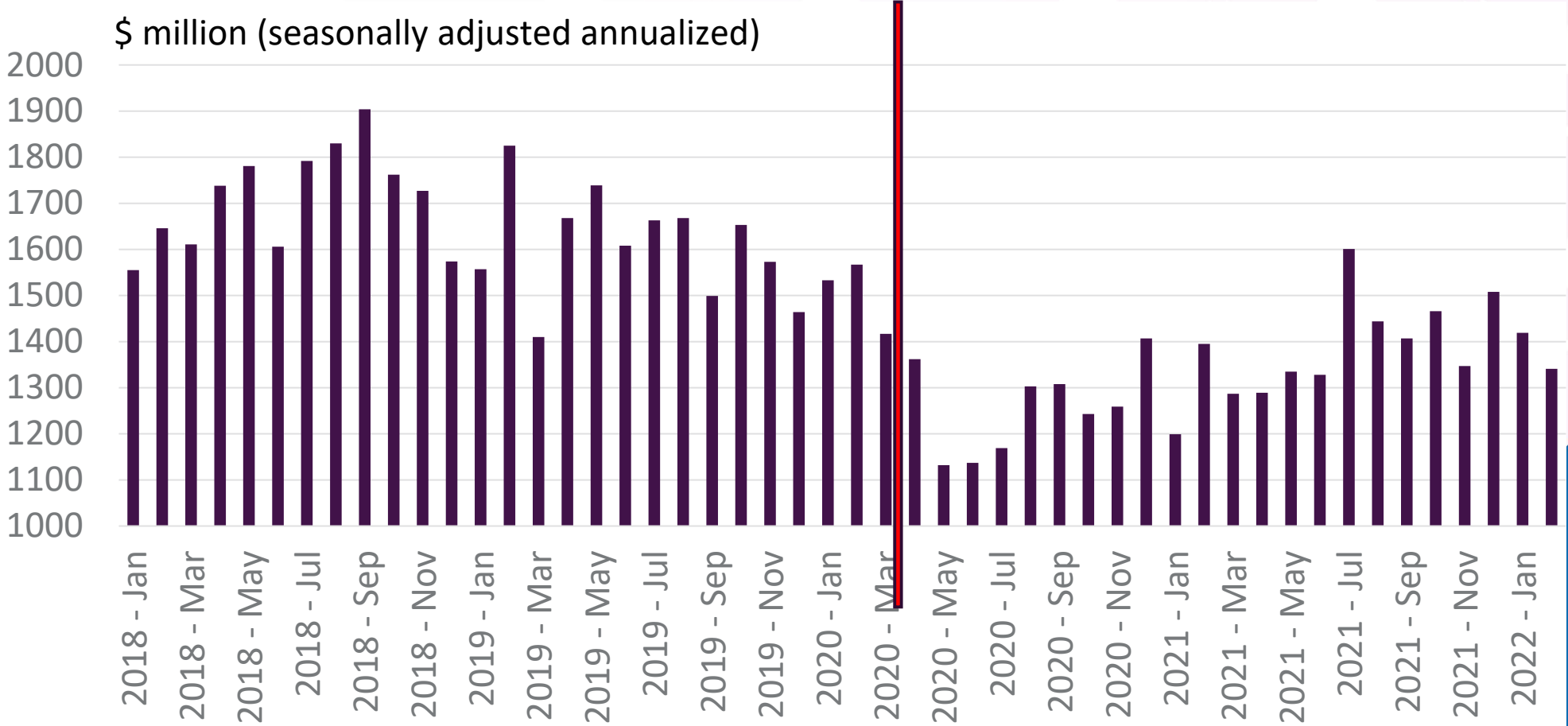
Annualized seasonally adjusted quarterly percent change



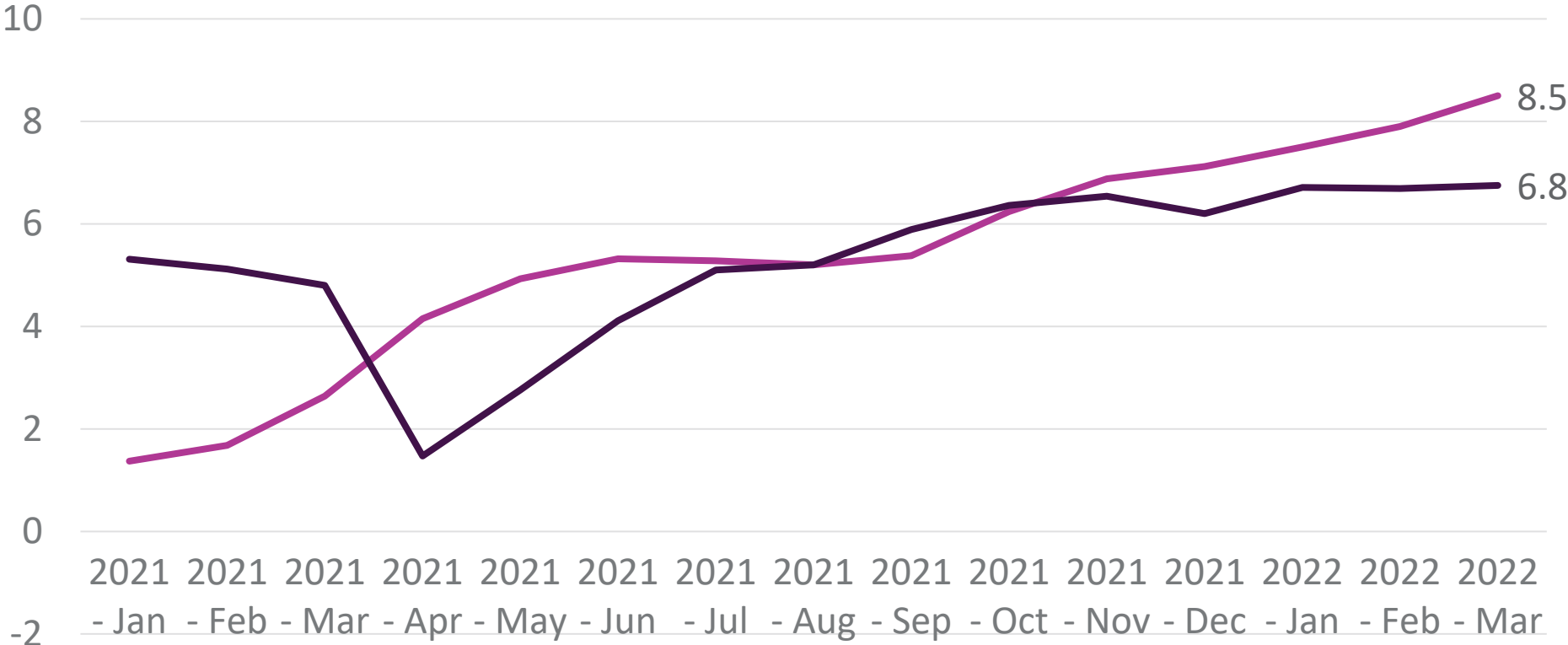
WEST TEXAS CRUDE OIL PRICE HITS OVER \$100



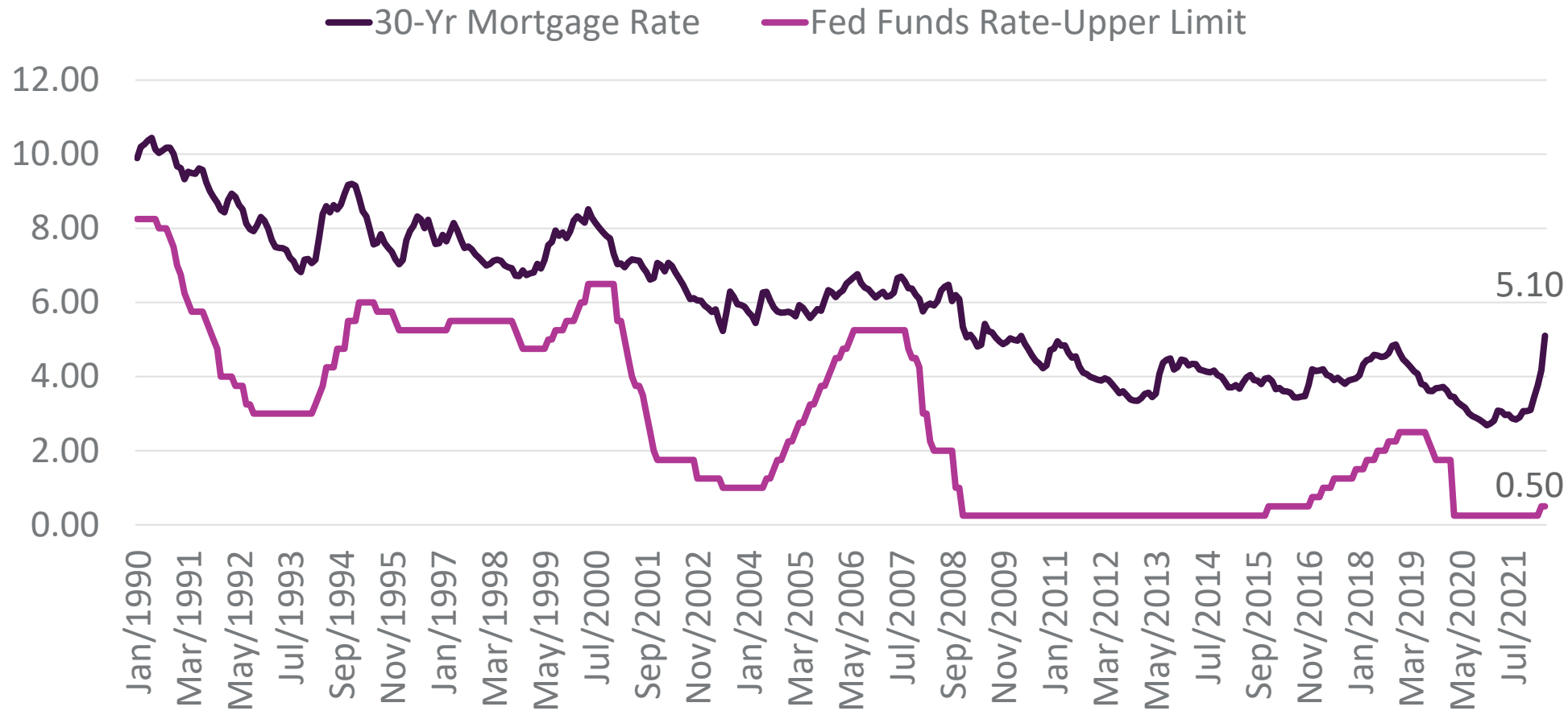
ORDERS OF DRILLING EQUIPMENT



CONSUMER PRICE INFLATION AT 8.5%, WAGE GAINS AT 6.8%

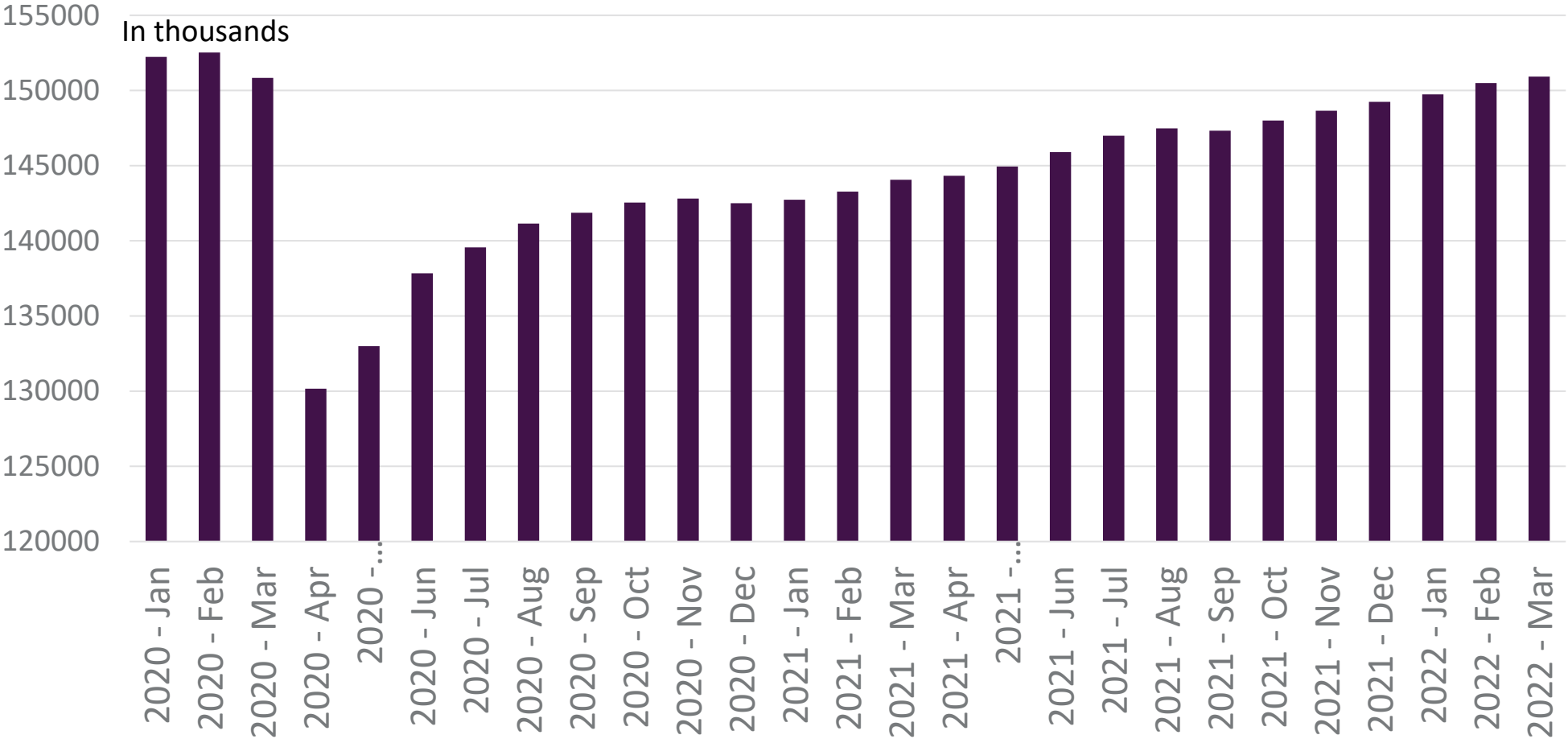


FED RAISES RATES TO CONTROL INFLATION

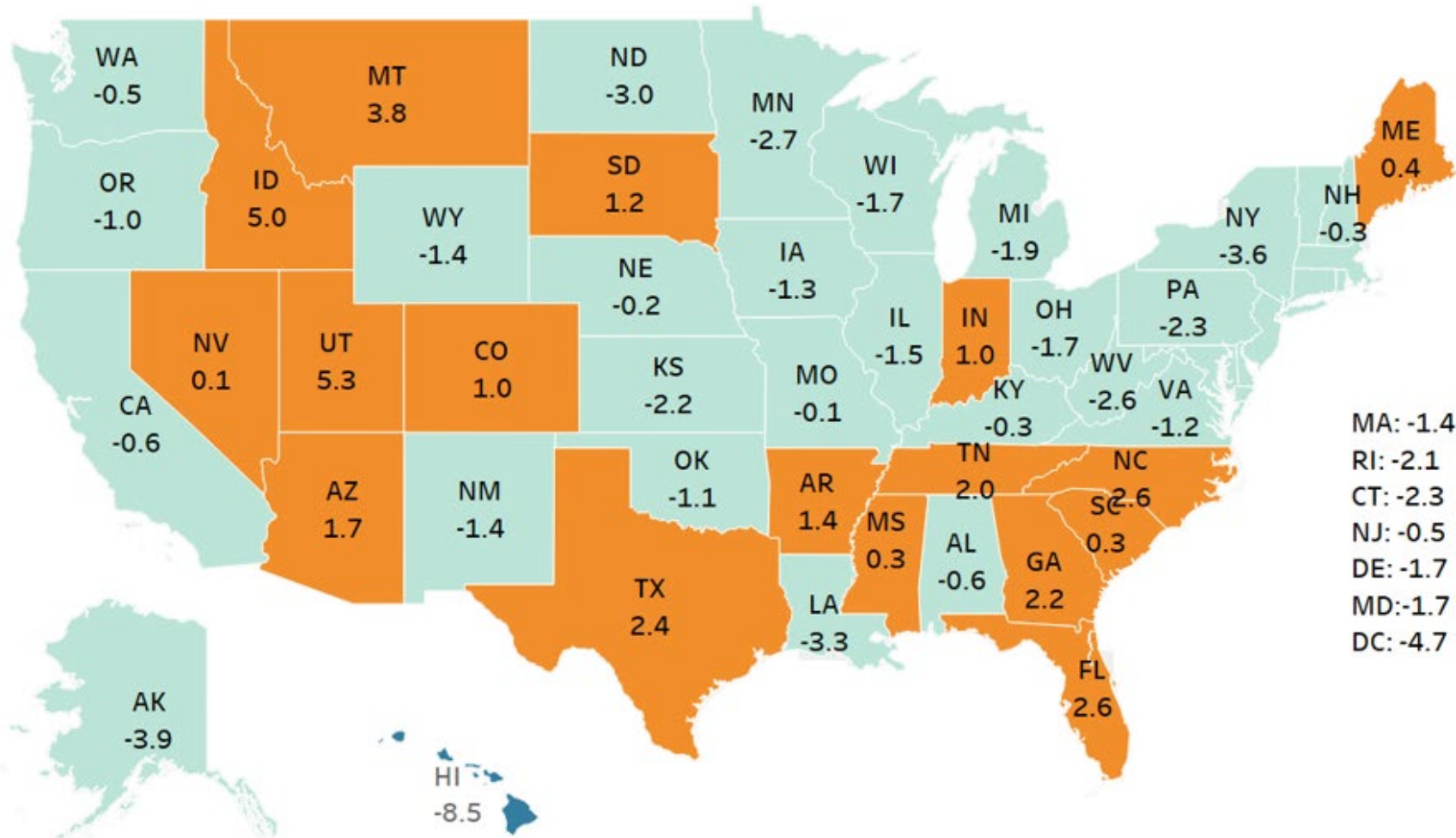


*Federal Open Market Committee of the Federal Reserve Board

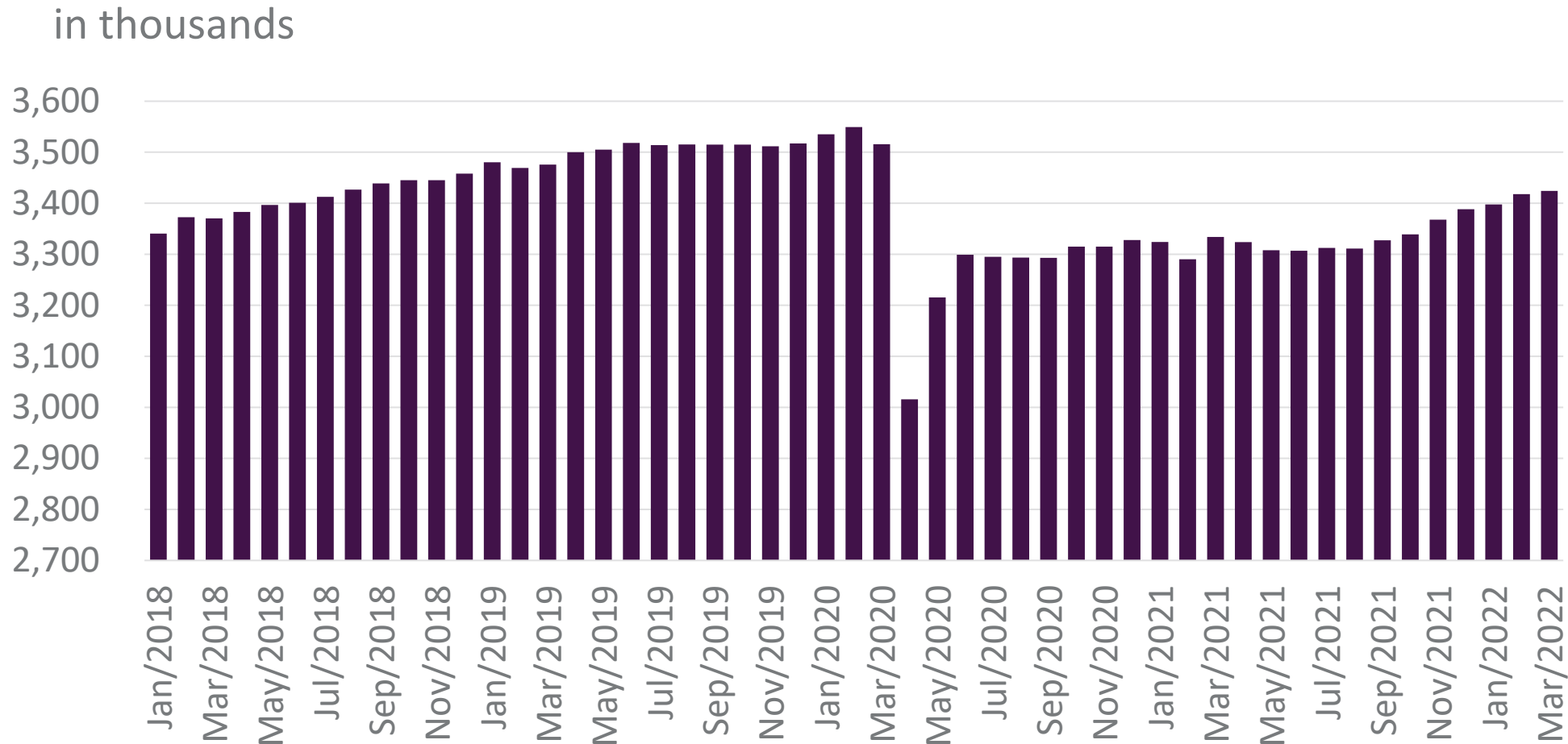
TOTAL PAYROLL JOBS... ALMOST BACK TO PRE-COVID DAYS



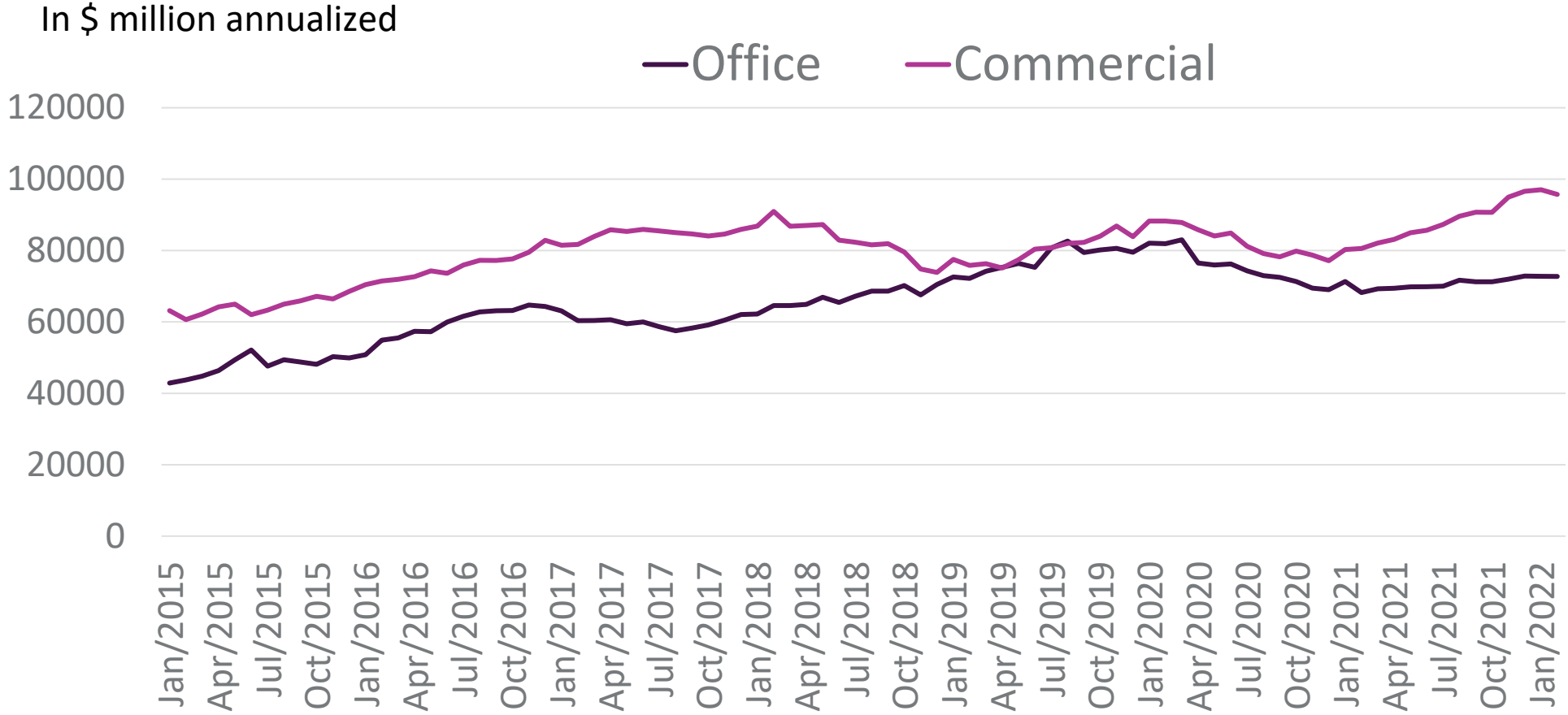
JOBS RECOVERY AS OF MARCH 2022 COMPARED TO PRE-COVID DAYS



... BUT COMMERCIAL REAL ESTATE CONSTRUCTION AND CONTRACTOR JOBS STILL BELOW PRE-COVID

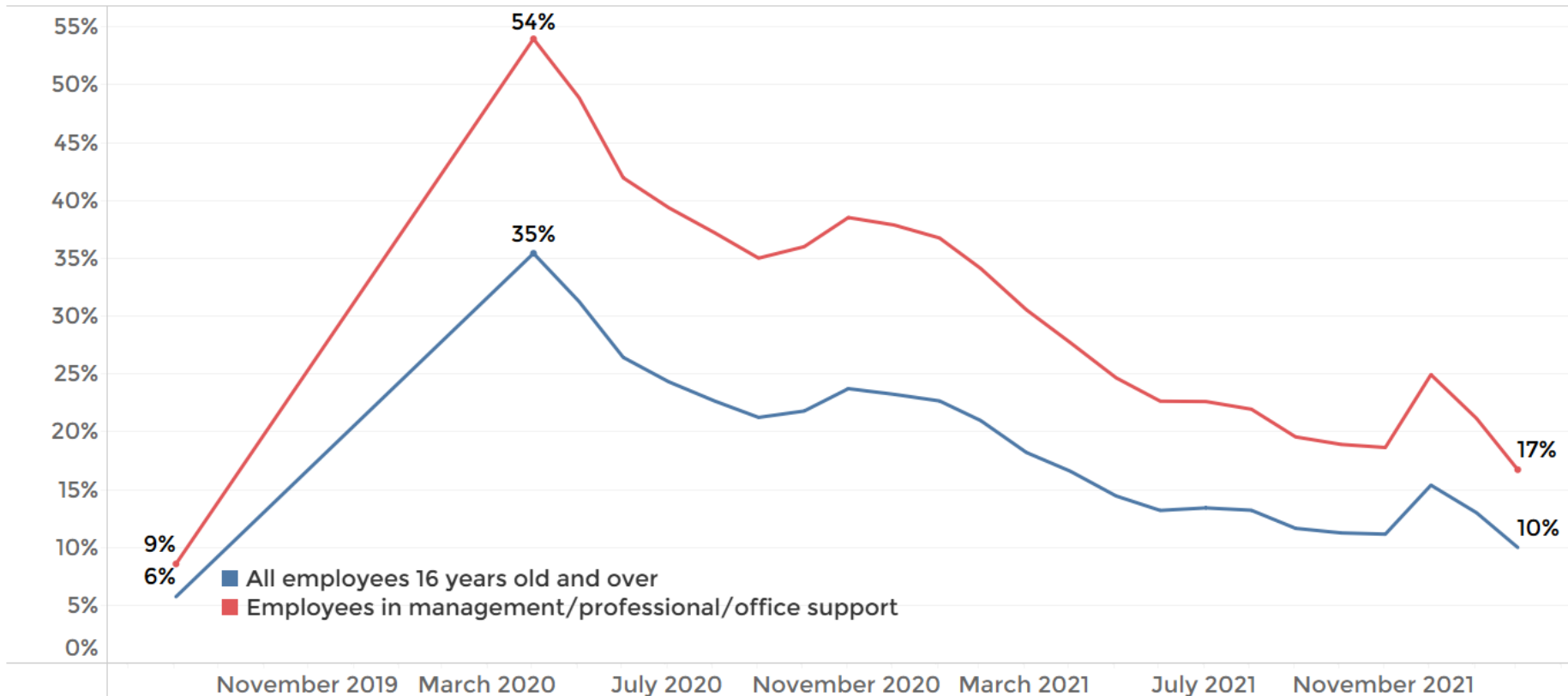


CONSTRUCTION SPENDING: COMMERCIAL/RETAIL SPENDING IS ABOVE PRE-COVID BUT NOT OFFICE CONSTRUCTION



NOT ALL WORKERS HEADING BACK TO OFFICE

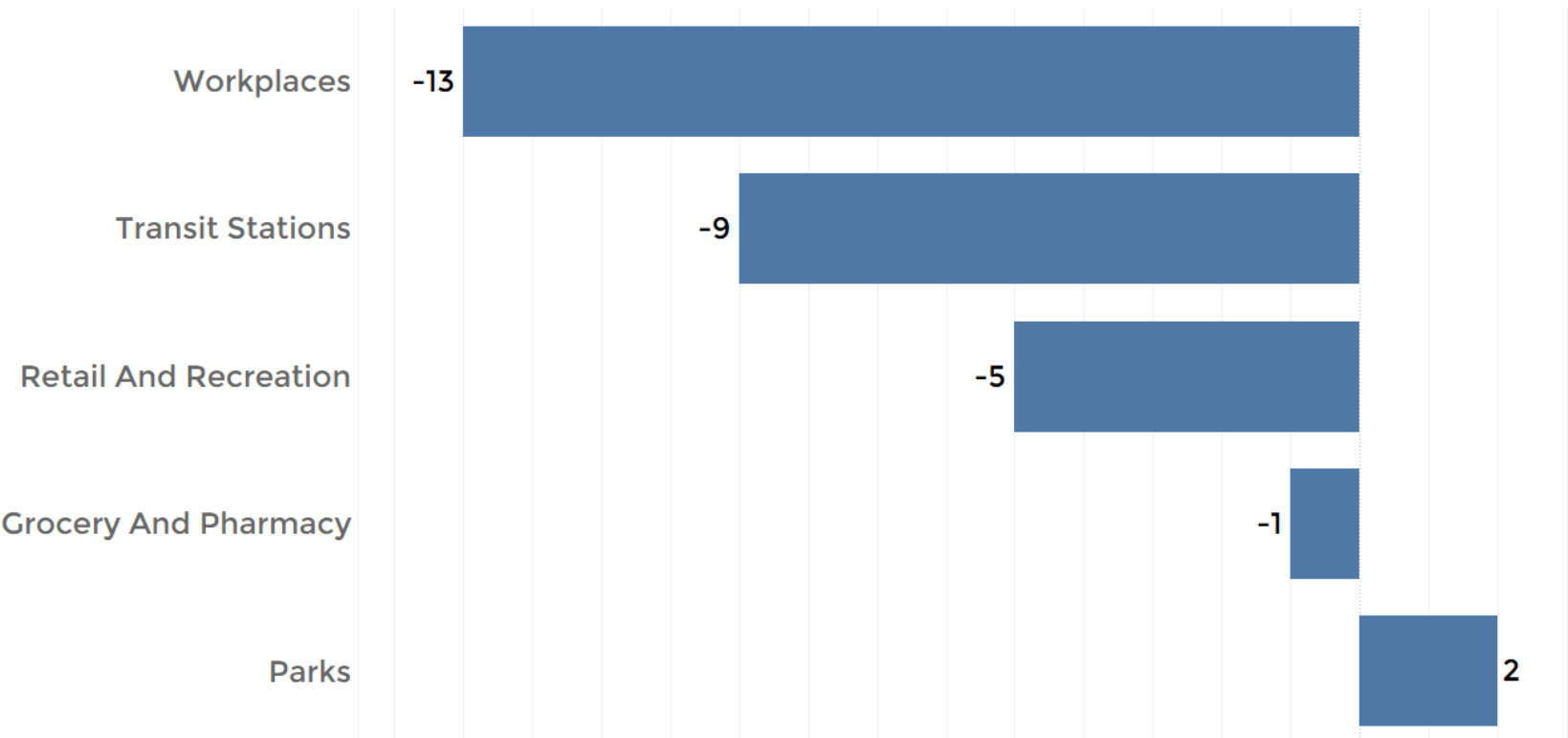
Percent of employed 16 years old and over who teleworked because of the coronavirus pandemic as of March 2022



Source: Bureau of Labor Statistics COVID Supplement and 2019 American Community Survey. Office-using occupations are management, professional and related occupations and office administrative support workers.

... BUT RETURN TO THE OFFICE LAGS MOBILITY TO RETAIL AND RECREATIONAL PLACES

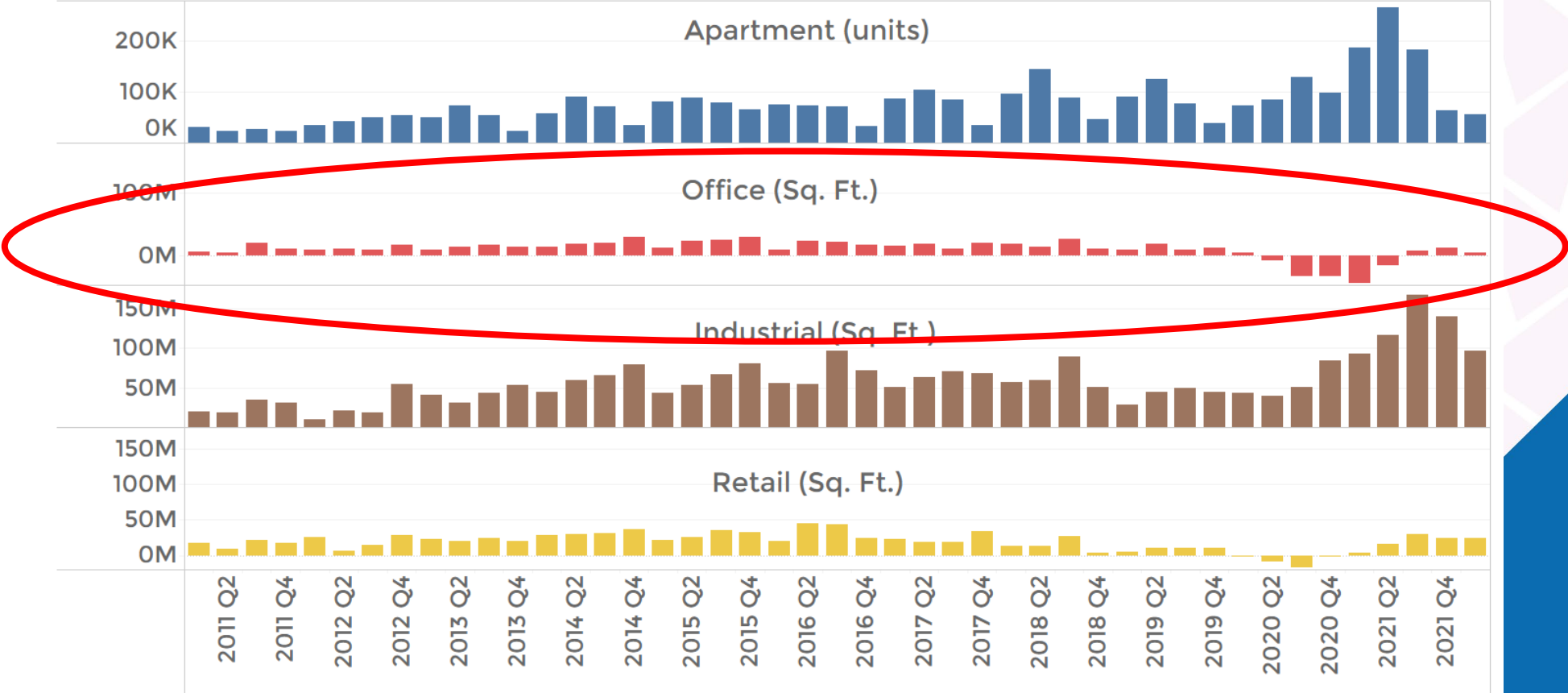
Google® Mobility Trends: Percent Change in Daily Number of Visitors in 2022 Relative to Baseline (Jan 3- Feb 6, 2020)



Period in 2022 refers to January 1- April 27

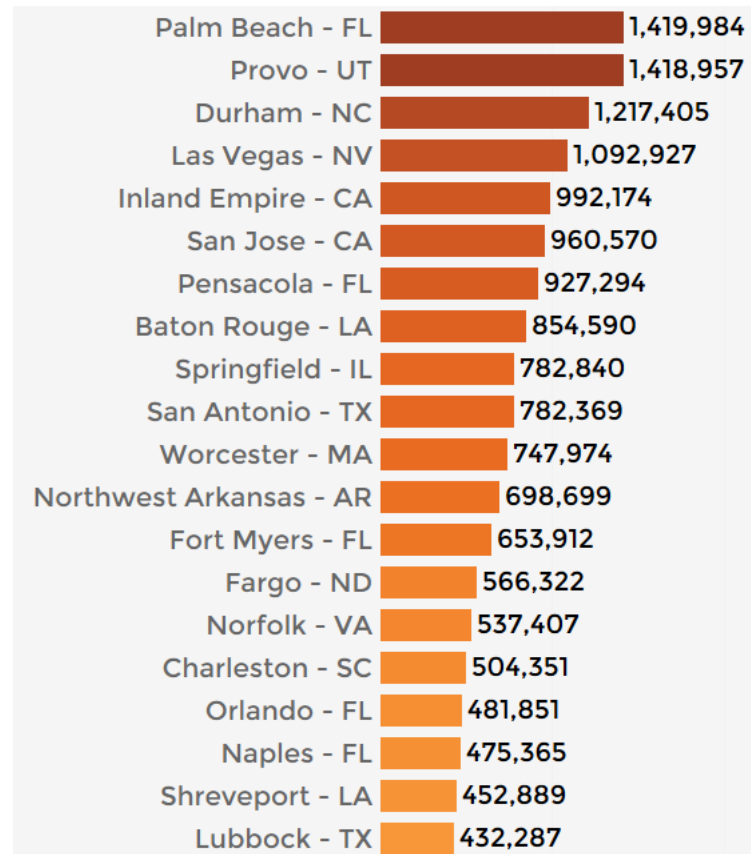
OCCUPANCY INCREASES ACROSS ALL PROPERTY TYPES ... including Office

3-Month Net Absorption as of 2022 Q1

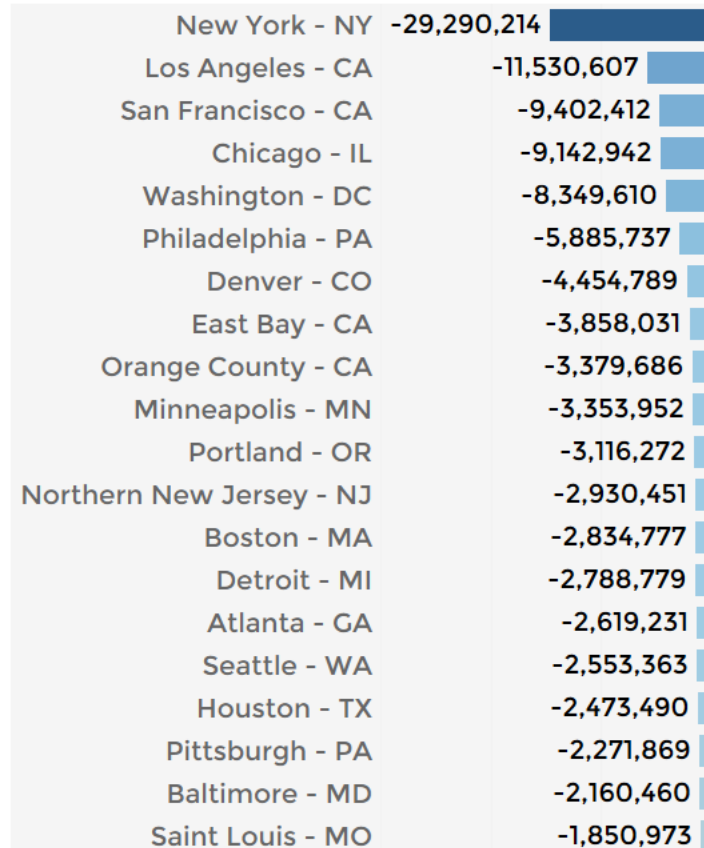


OFFICE MARKET GAINERS AND LOSERS

Positive Net Absorption Since 2020 Q2 as 2022 Q1



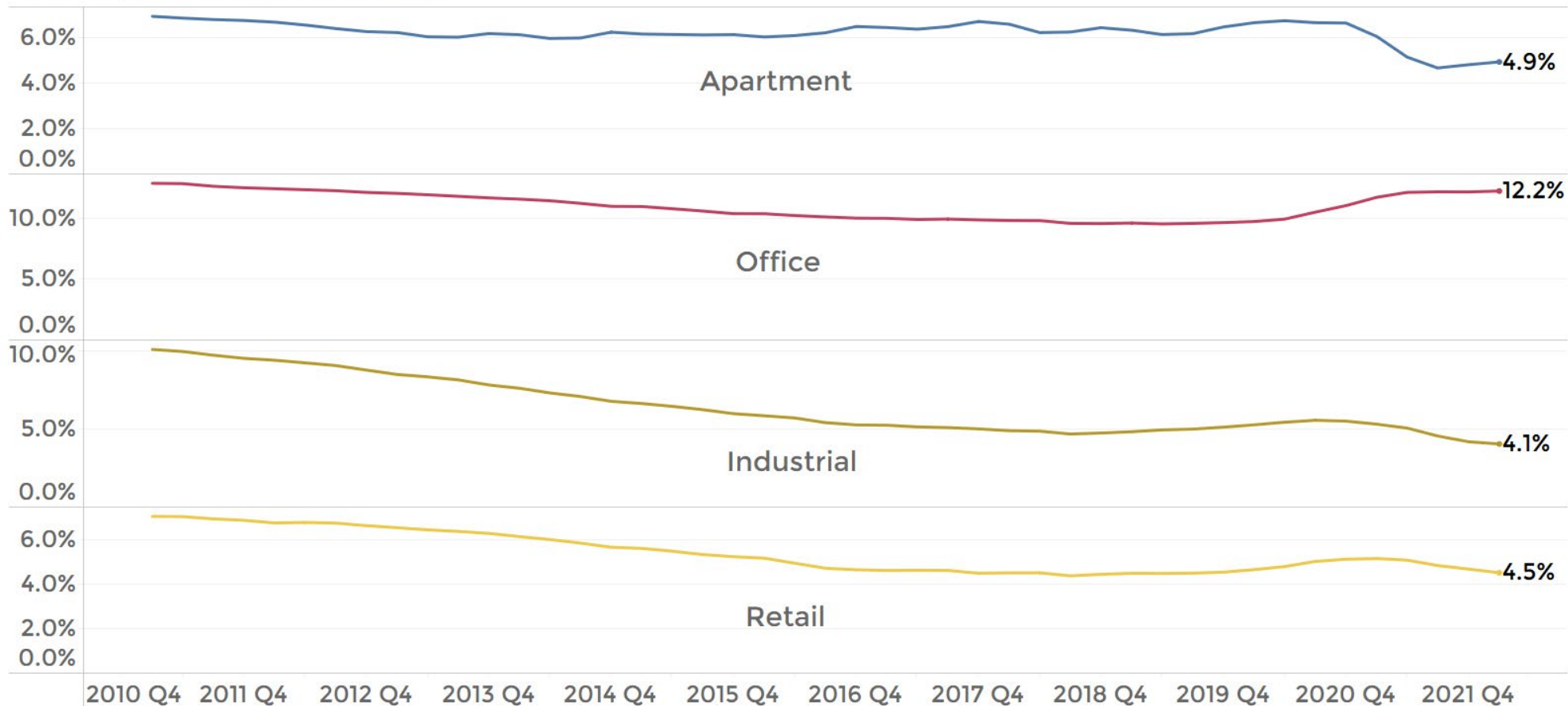
Negative Net Absorption Since 2020 Q2 as of 2022 Q1



Source: CoStar

VACANCY RATES DECLINE EXCEPT IN OFFICE

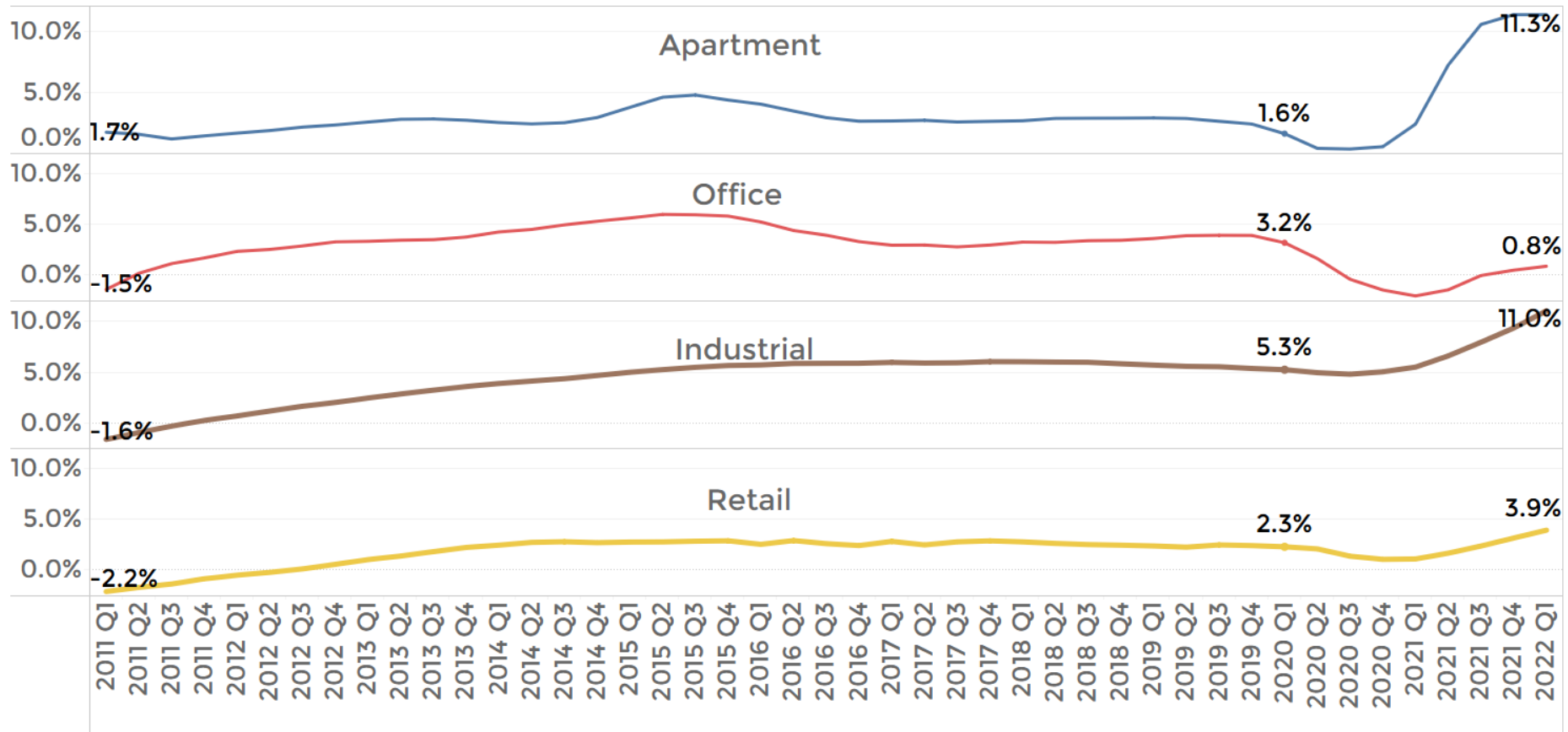
Vacancy Rates as of 2022 Q1



Source: CoStar

RISING RENTS ACROSS ALL PROPERTIES

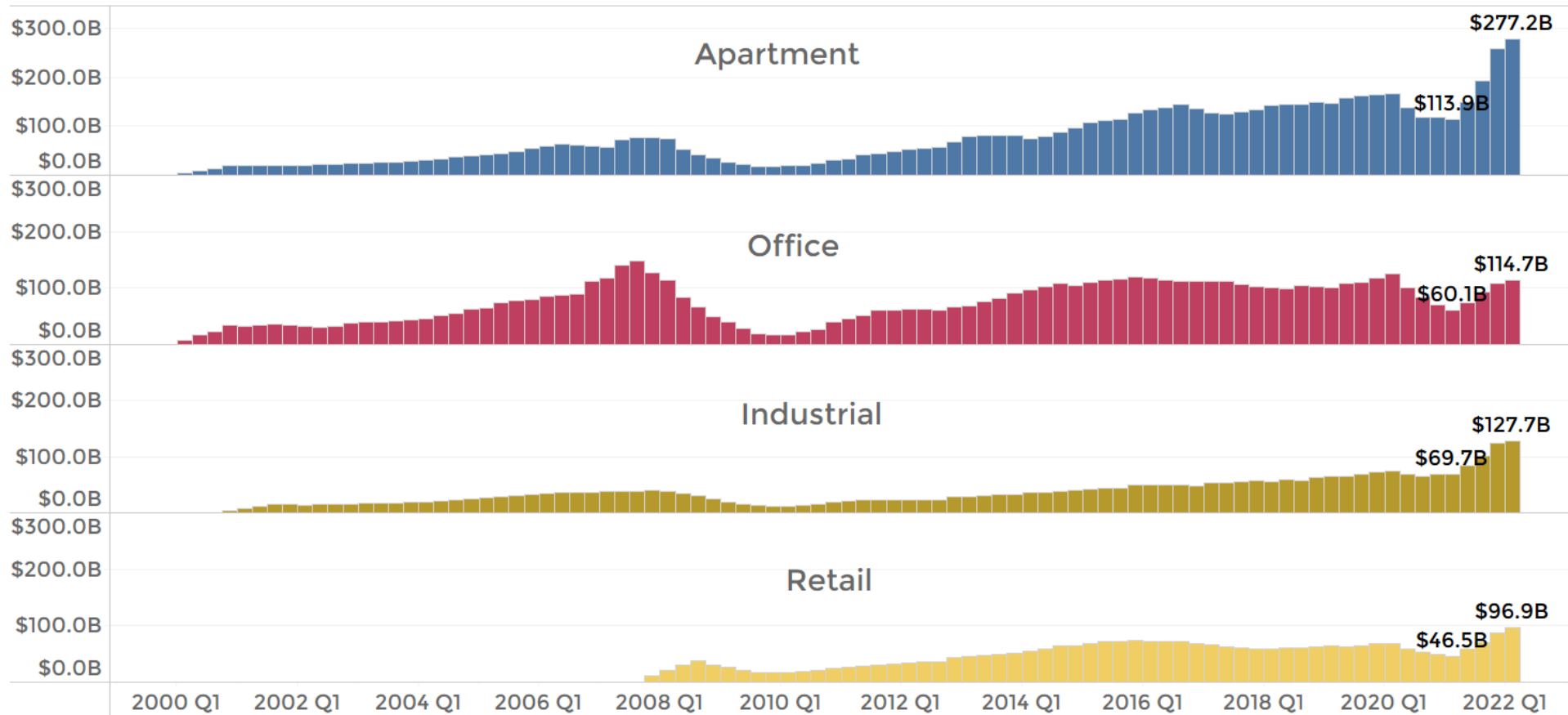
Rising Asking Rents in All Market as of 2022 Q1



Source: CoStar

INVESTORS STEPPED UP ACQUISITIONS WITH LARGEST INVESTMENTS IN MULTIFAMILY

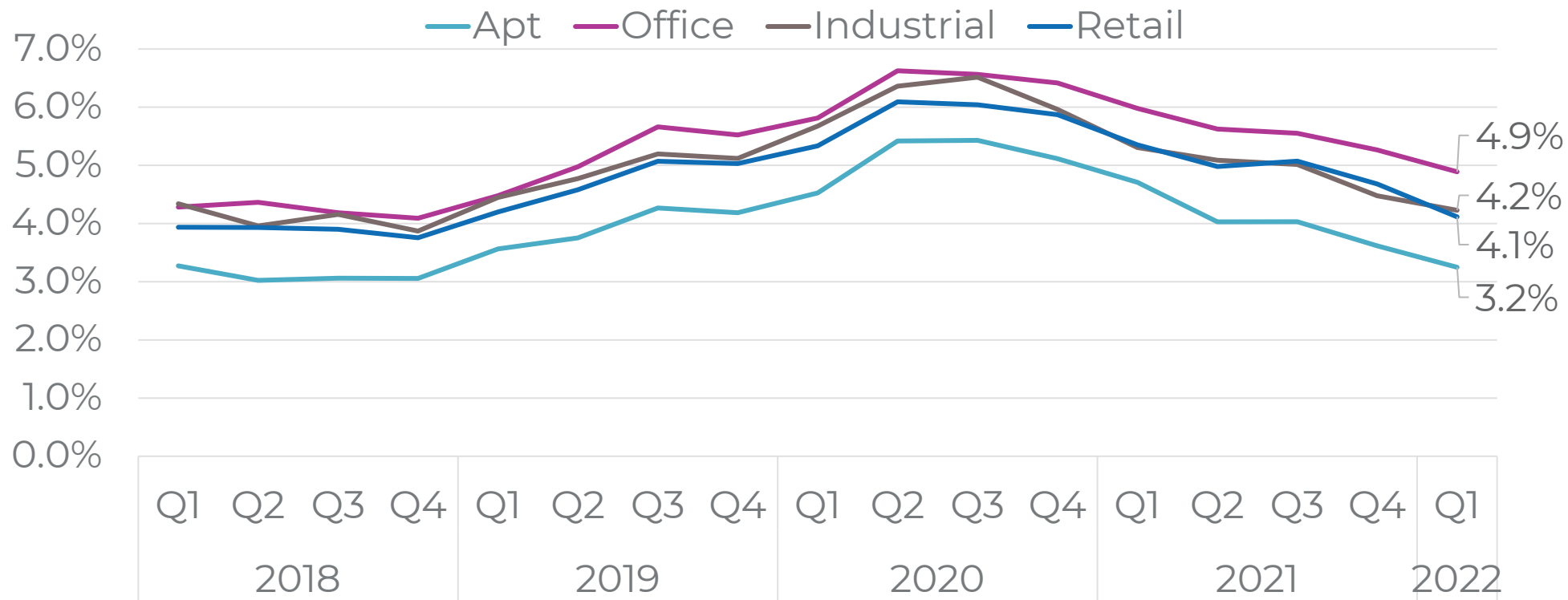
4-Quarter Sales Volume as of 2022 Q1



Source of data: CoStar

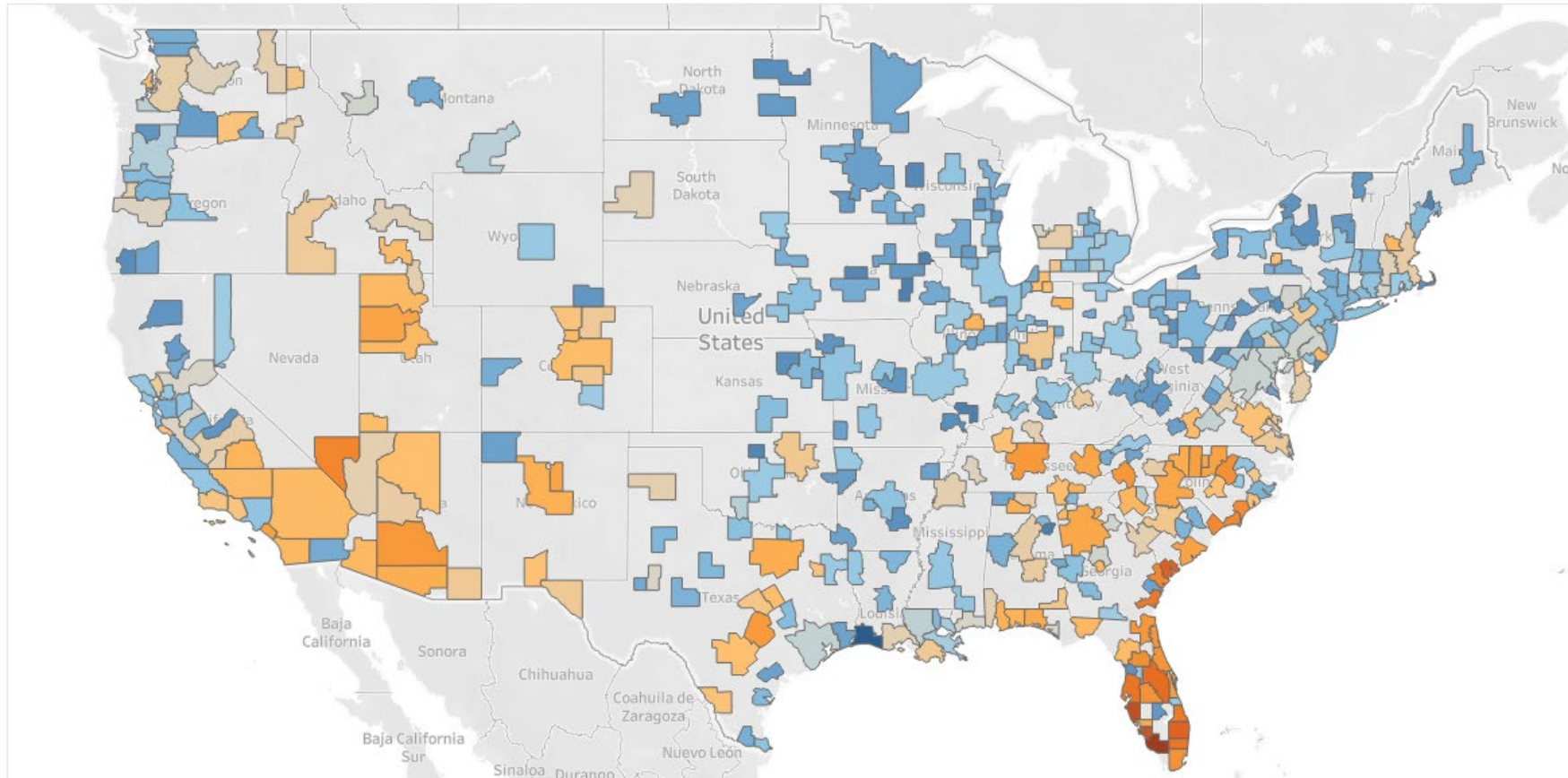
CAP RATE COMPRESSION: LOWEST RISK PREMIUM FOR MULTIFAMILY, HIGHEST FOR OFFICE

Cap Rate Less 10-Year T-Note Yield (Risk Premium)



APARTMENT RENT GROWTH

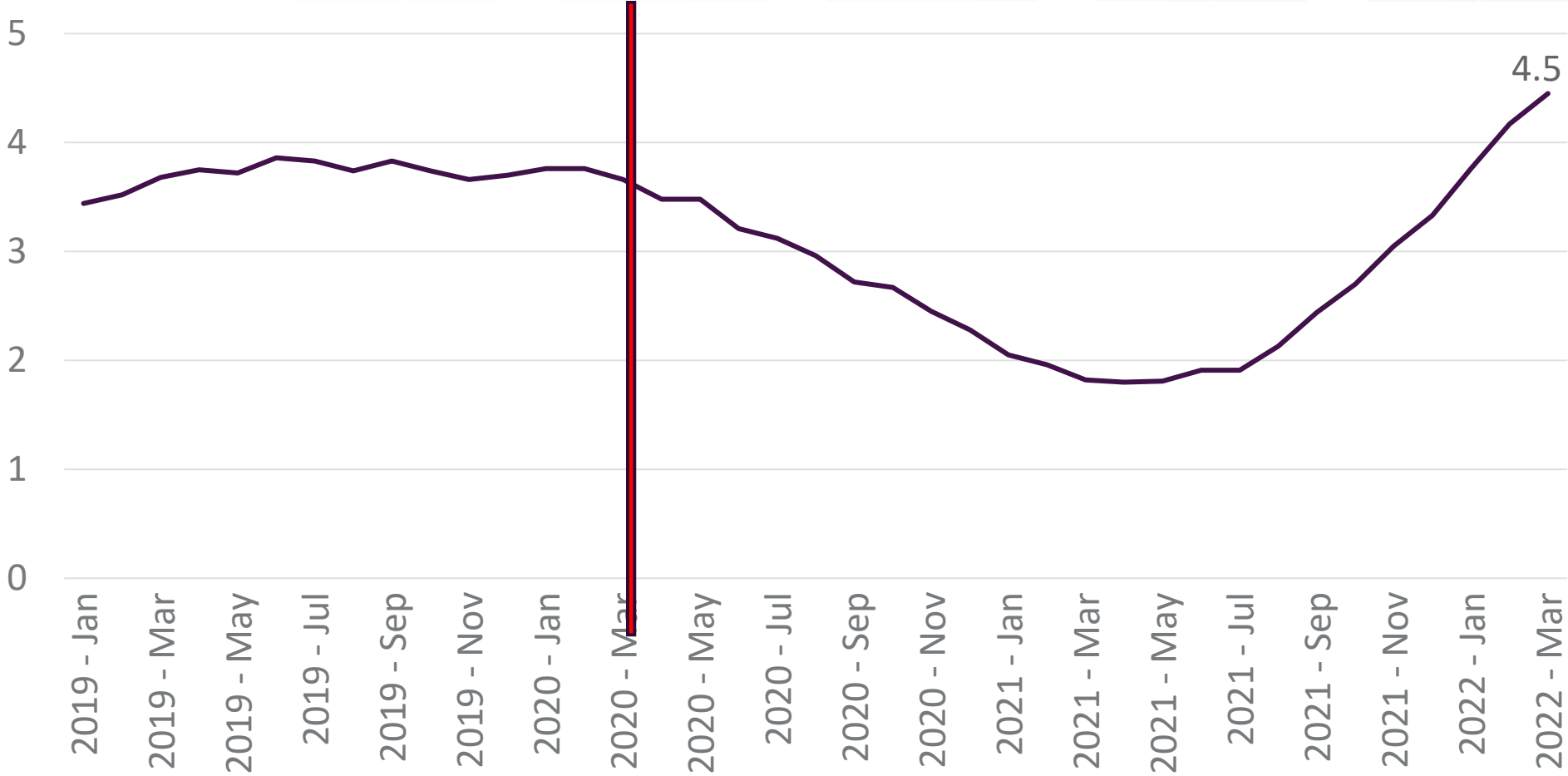
34% of metro areas have double-digit apartment asking rent growth (orange areas)



Top Rent Growth in 2022 Q1

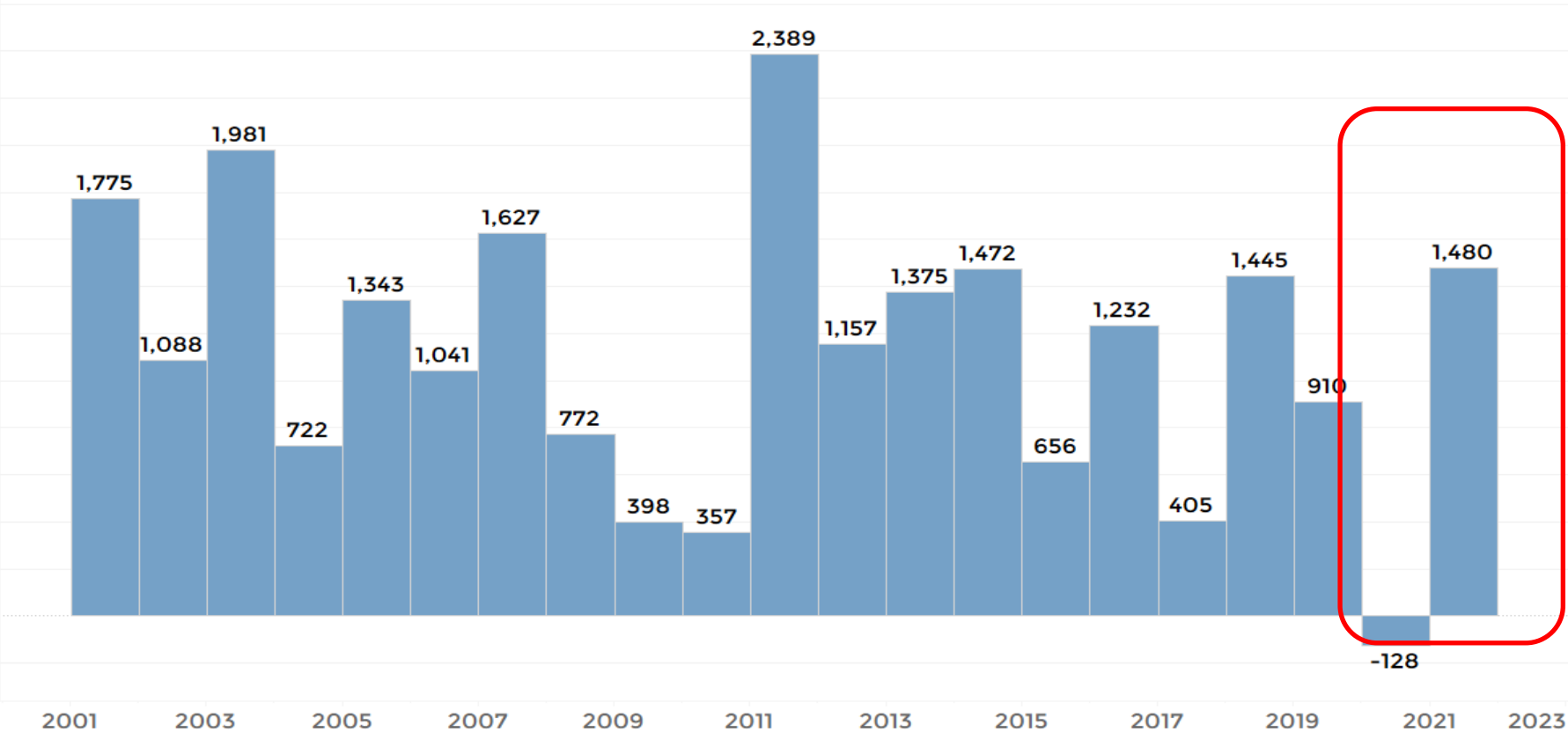
Naples - FL	38.7%
Sarasota - FL	32.4%
Fort Myers - FL	29.9%
Hilton Head Island - SC	27.0%
Palm Beach - FL	26.7%
Orlando - FL	24.6%
Tampa - FL	23.2%
Fort Lauderdale - FL	22.9%
Brunswick - GA	22.7%
Port St. Lucie - FL	22.3%
Las Vegas - NV	21.0%
Savannah - GA	20.7%
Myrtle Beach - SC	20.5%
Wilmington - NC	20.0%
Ocala - FL	19.6%
Raleigh - NC	19.5%
Miami - FL	19.3%
Lakeland - FL	19.3%
Daytona Beach - FL	18.9%
Asheville - NC	18.6%
Jacksonville - FL	18.6%

HOUSING RENT GROWS AT 4.5% (according to government data)



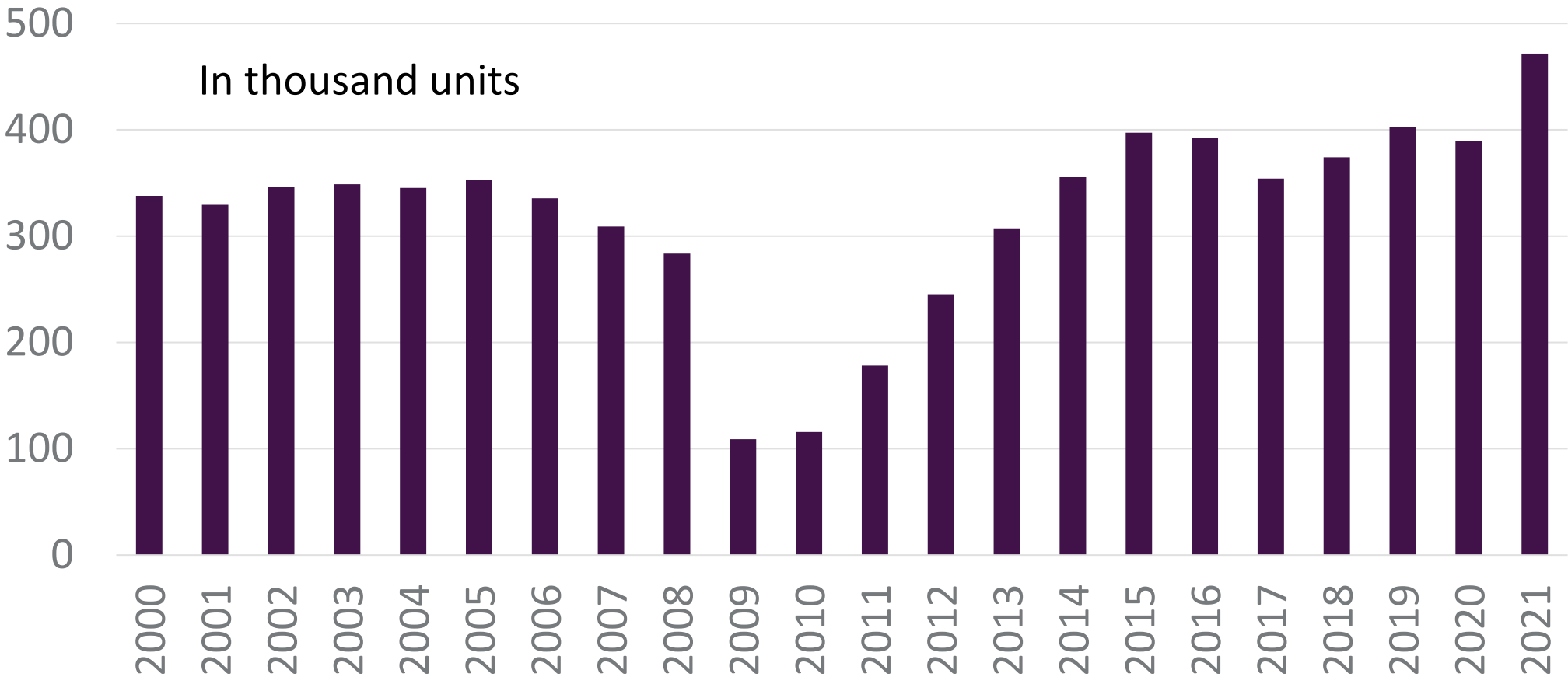
HOUSEHOLD FORMATION RECOVERS IN 2021

Net Household Formation (in thousands)



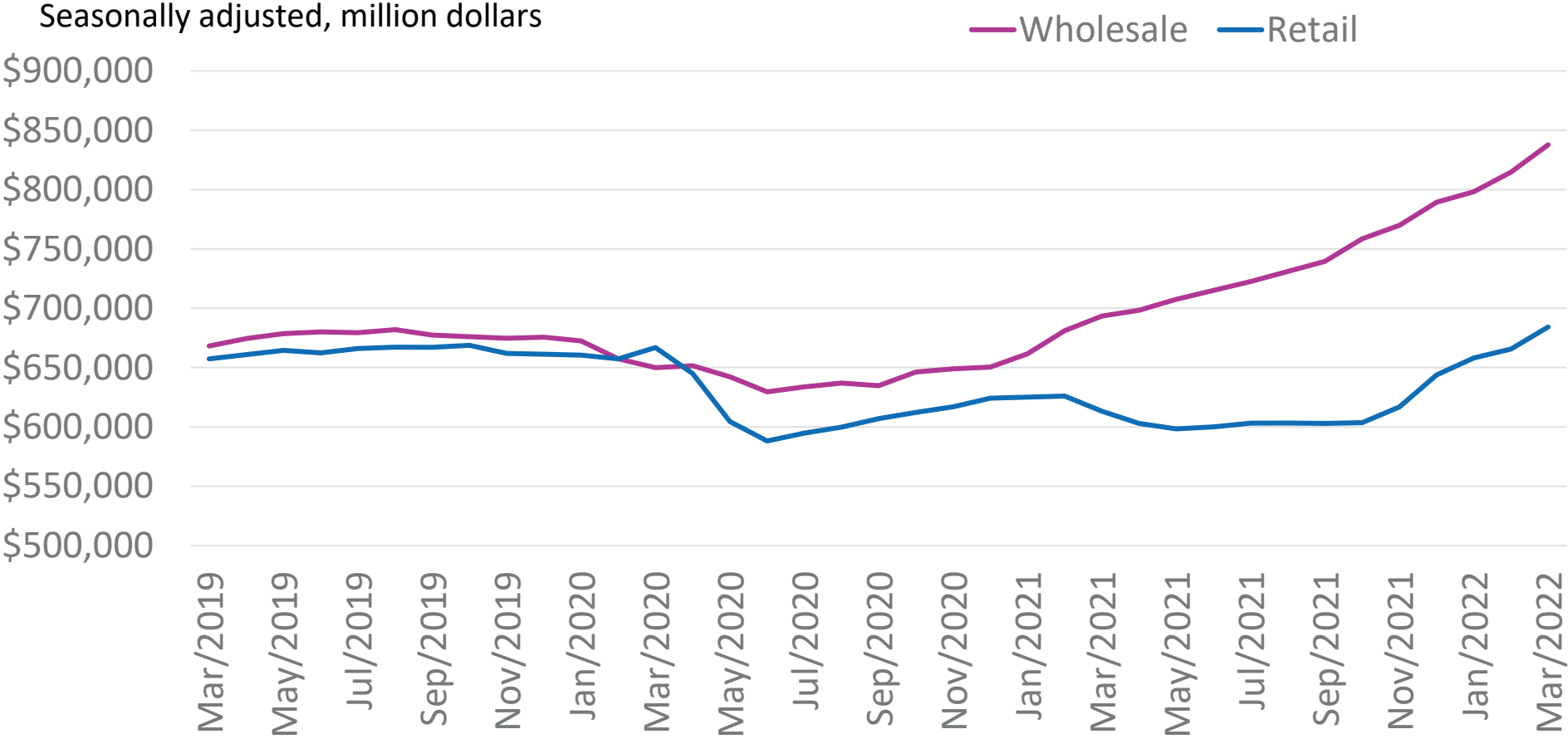
Source: US Census Bureau, Current Population Survey (as of March)

MULTIFAMILY HOUSING STARTS CYCLICALLY HIGH



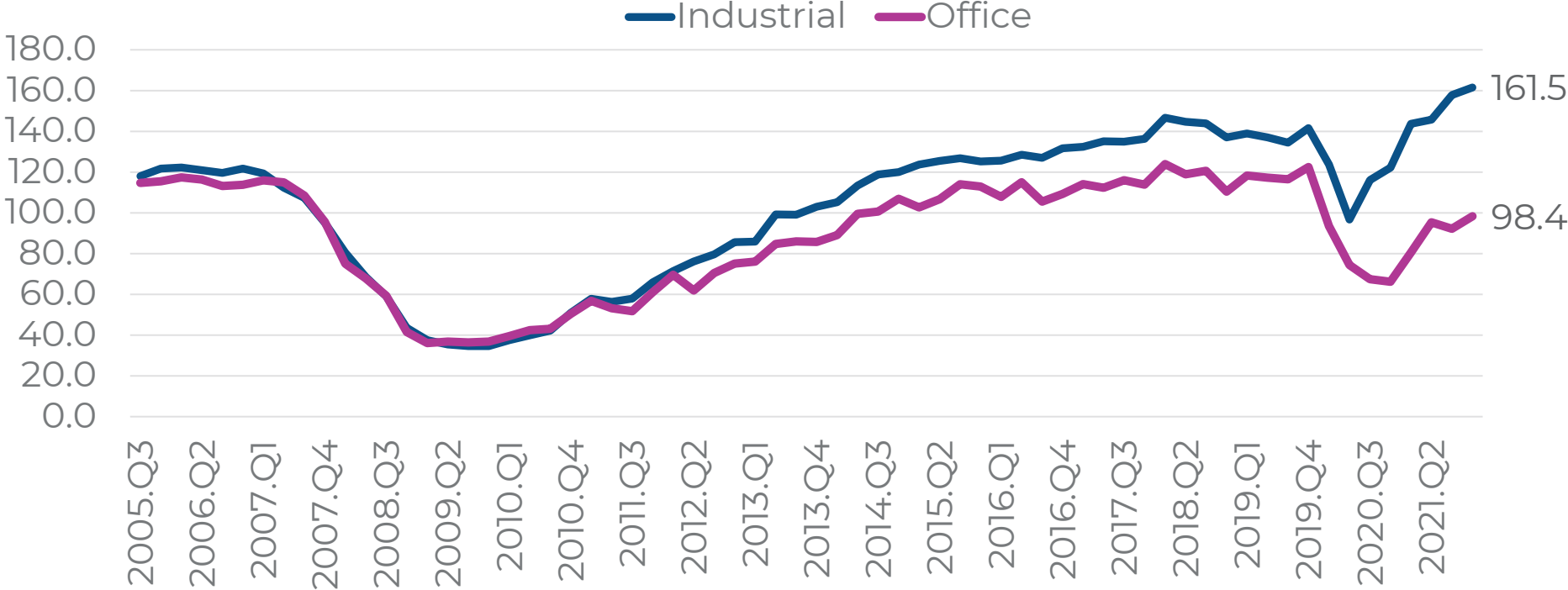
WHOLESALE INVENTORIES BOOMING to Relieve Supply-Chain Disruptions

RETAIL IS RECOVERING



SIOR® MEMBERS REPORT STRONG INDUSTRIAL AND WOBBLY OFFICE MARKET CONDITIONS*

SIOR Commercial Real Estate Index by Property Sector in 2021 Q4

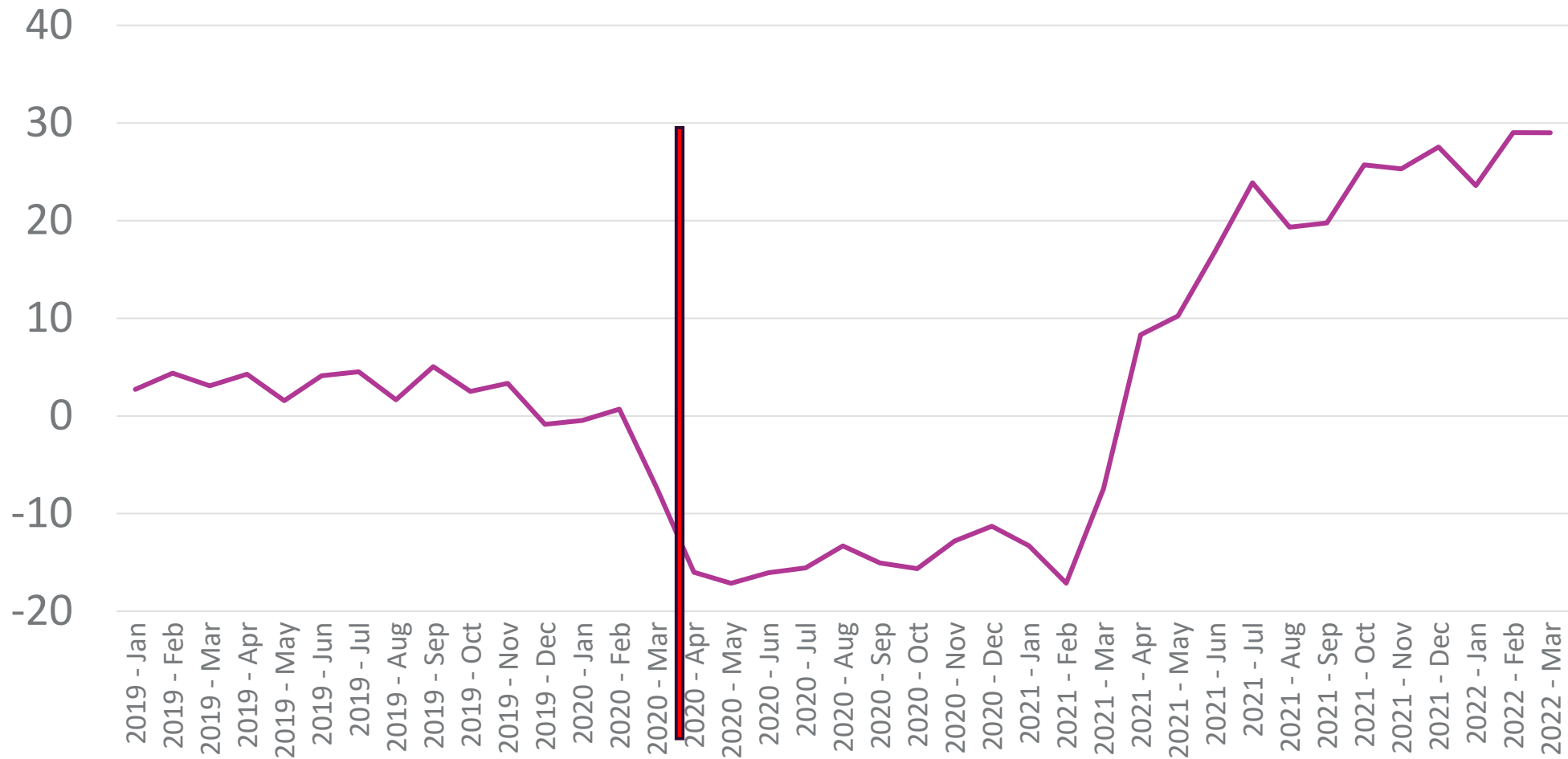


*Index over 100 means strong or above normal market conditions

Source: SIOR, NAR

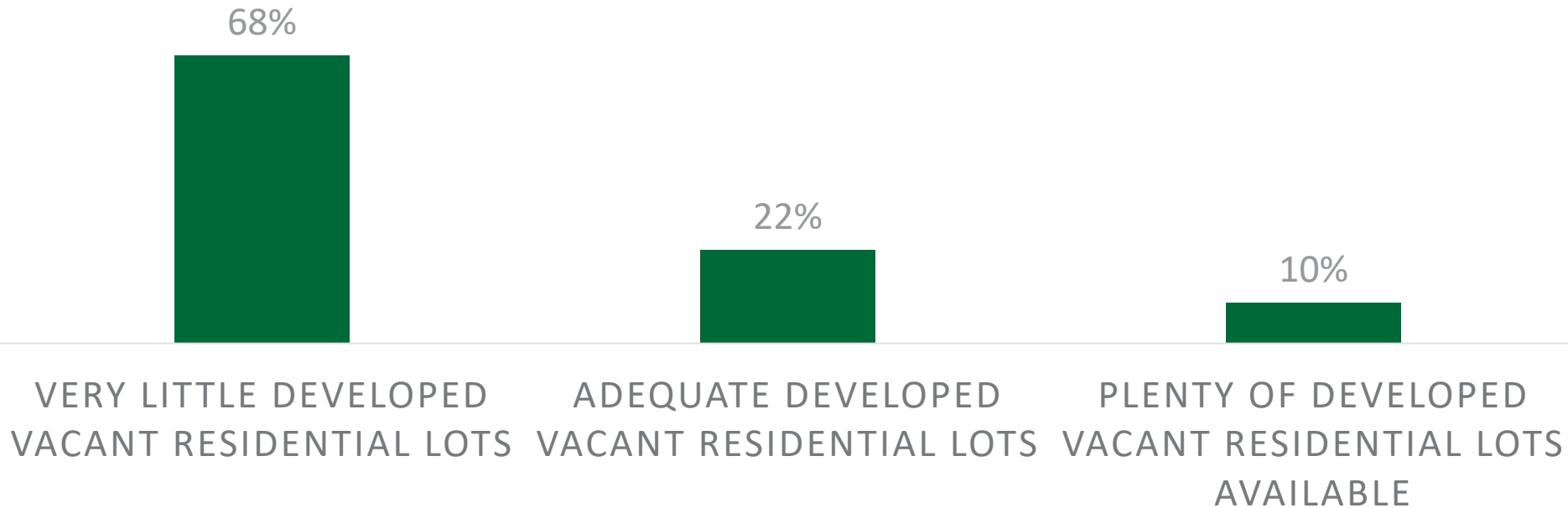


HOTEL AND MOTEL NIGHTLY RATE AT 30% GROWTH



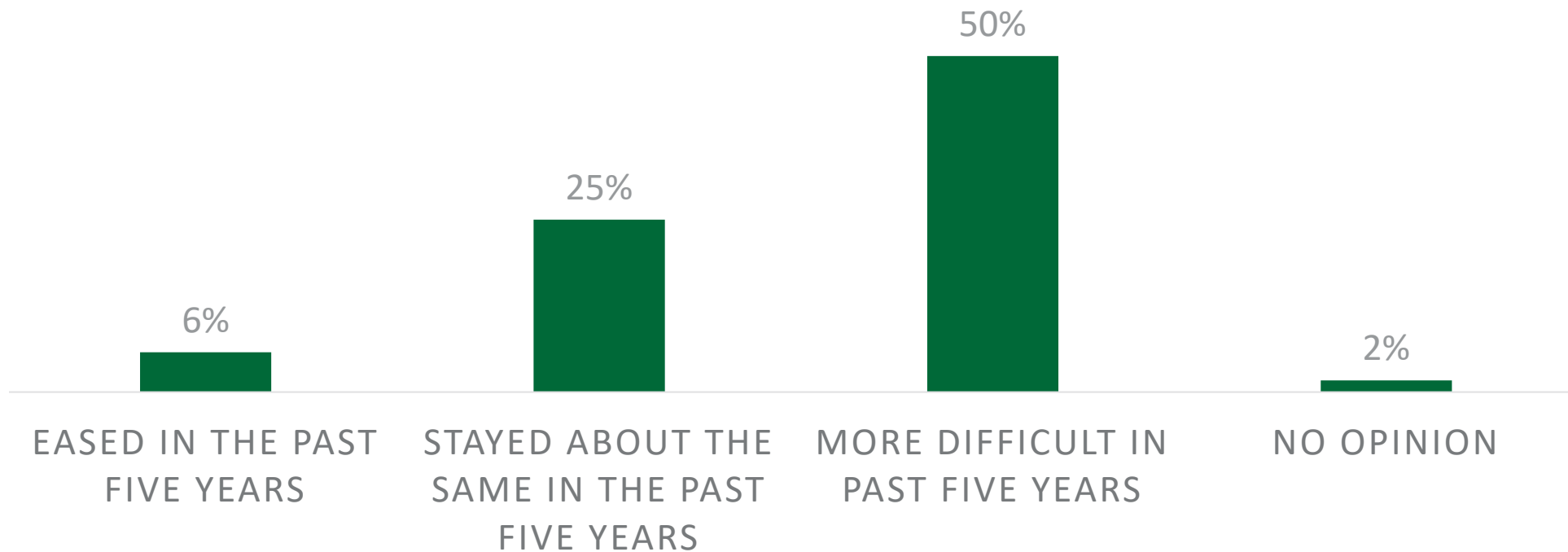
SCARCITY OF AVAILABLE DEVELOPED LOTS

AVAILABILITY OF DEVELOPED RESIDENTIAL LOTS



REGULATION AND ZONING ORDINANCE DIFFICULTY IN PAST FIVE YEARS

LAND ZONING ORDINANCES AND REGULATIONS FOR NEW RESIDENTIAL DEVELOPMENT IN THE PAST FIVE YEARS



Summary

- **Jobs Recovery intact though some risk from higher interest rates**
- **Commercial Real Estate follows Economy ... though Office different this time**
- **Housing shortage means good rent growth into the future**
- **Industrial sector getting second wind from Just-in-Case Inventory build up**
- **Consider Land Development as Opportunity**

ECONOMIC OUTLOOK: 2022-2023

	2021 Actual	2022 F	2023 F
Real GDP, annualized percent change	4.7%	2.2%	1.7%
inflation rate	4.7%	8.2%	5.1%
10-Year T-Note yield	5.1%	3.7%	3.8%
30-year fixed mortgage rate	3.0%	4.9%	5.4%
% Change in existing-home sales	8.5%	-9.0%	-1.4%
% Change in median existing-home sales price	17.0%	8.4%	4.1%

APARTMENT OUTLOOK: 2022-2023

Rising mortgage rates will prop up demand for apartments, which will tend to lower vacancy rates in 2022-2023 and sustained double-digit rent and price growth which will further push down cap rates to the lower 5%.

Apartment	2021 Actual	2022 F	2023 F
Vacancy Rate	5.2%	4.8%	4.8%
Rent Growth	8.3%	12.8%	12.8%
Price Growth	9.5%	12.2%	11.8%
Cap Rate	5.5%	5.2%	5.3%

OFFICE OUTLOOK: 2022-2023

With workers continuing to head back to the office, the higher demand for office space is expected to moderate the decline in demand due to slower new business formation. This will slightly reduce vacancy rates although the vacancy rate will likely remain above 10%. Rent and price growth will remain modest but the stronger sales price appreciation will push cap rate towards 6%.

Office	2021 Actual	2022 F	2023 F
Vacancy Rate	12.0%	12.0%	11.8%
Rent Growth	-0.8%	1.4%	2.0%
Price Growth	0.5%	2.5%	2.6%
Cap Rate	6.4%	6.0%	6.0%

INDUSTRIAL OUTLOOK: 2022-2023

Slower economic growth is expected to slightly reduce the demand for industrial space. However, as businesses increase the level of inventory to minimize supply chain disruptions, this will increase demand for industrial space. Moreover, the current construction of industrial space that amounts to 3% of inventory will ease vacancy rates, lower rent and price growth to below 10%, and push cap rates upwards to the lower 6%.

Industrial	2021 Actual	2022 F	2023 F
Vacancy Rate	4.8%	4.3%	4.8%
Rent Growth	7.4%	10.7%	9.8%
Price Growth	11.5%	13.1%	9.2%
Cap Rate	6.4%	6.0%	6.2%

RETAIL OUTLOOK: 2022-2023

Rising inflation will hit the retail sector the most, as consumers cut back on non-essential spending. However, neighborhood centers that are anchored around grocery stores are likely to do well compared to malls. As vacancy rates rose, rent and price growth will slow which will tend to push cap rate upwards. Given the low level of construction activity in this property market, vacancy rates are likely to stay at around 5%.

Retail	2021 Actual	2022 F	2023 F
Vacancy Rate	4.9%	4.8%	5.0%
Rent Growth	4.9%	3.4%	3.0%
Price Growth	3.3%	2.8%	2.6%
Cap Rate	6.5%	6.2%	6.3%

THANK YOU.

2022 REALTORS® LEGISLATIVE MEETINGS **MAY 1-6**
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THAT'S WHO WE



SECTION BREAK