

# Commercial Real Estate Trends and Outlook

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August 25, 2024 | Chicago, IL

# Lawrence Yun

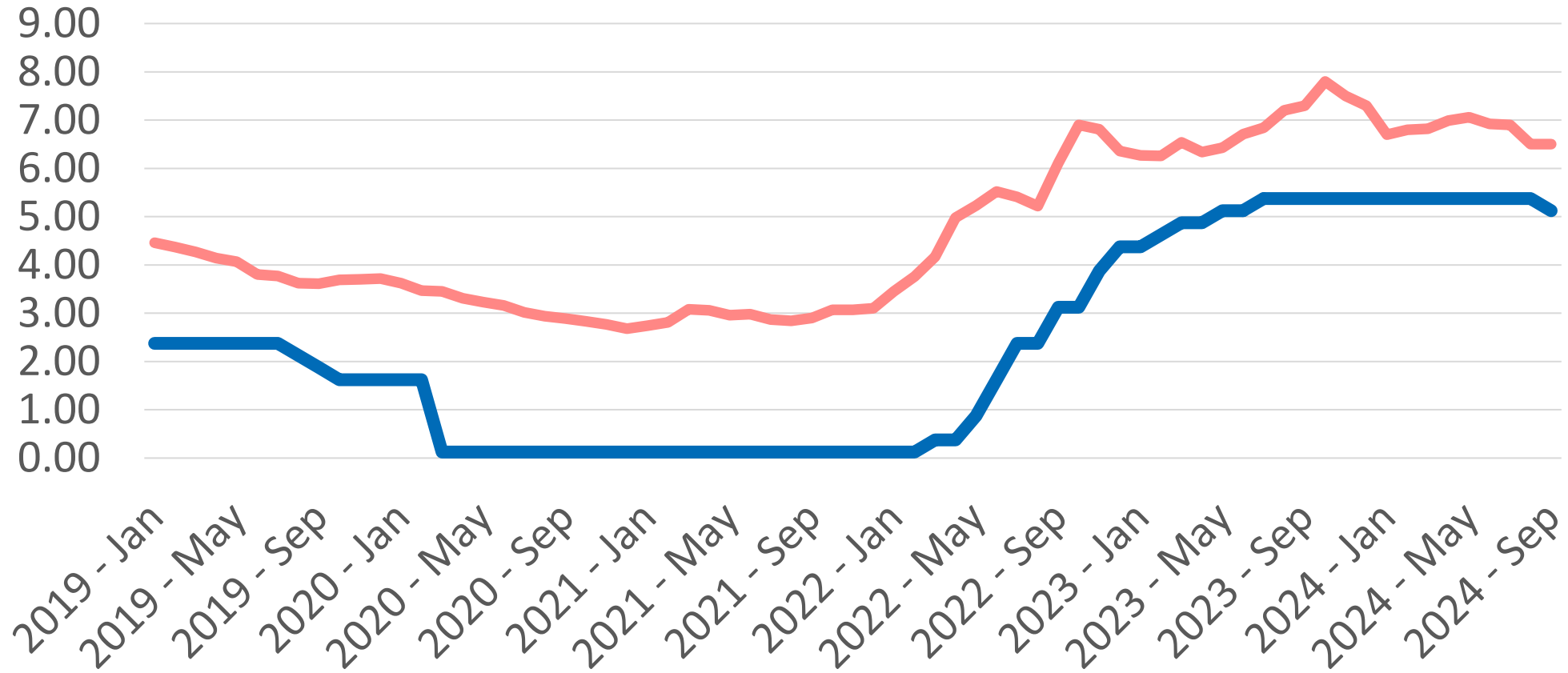
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**Chief Economist, NAR**

Washington, D.C.

# SECTION BREAK

# 30-year Mortgage and Fed Funds Rate ... High Rate Environment

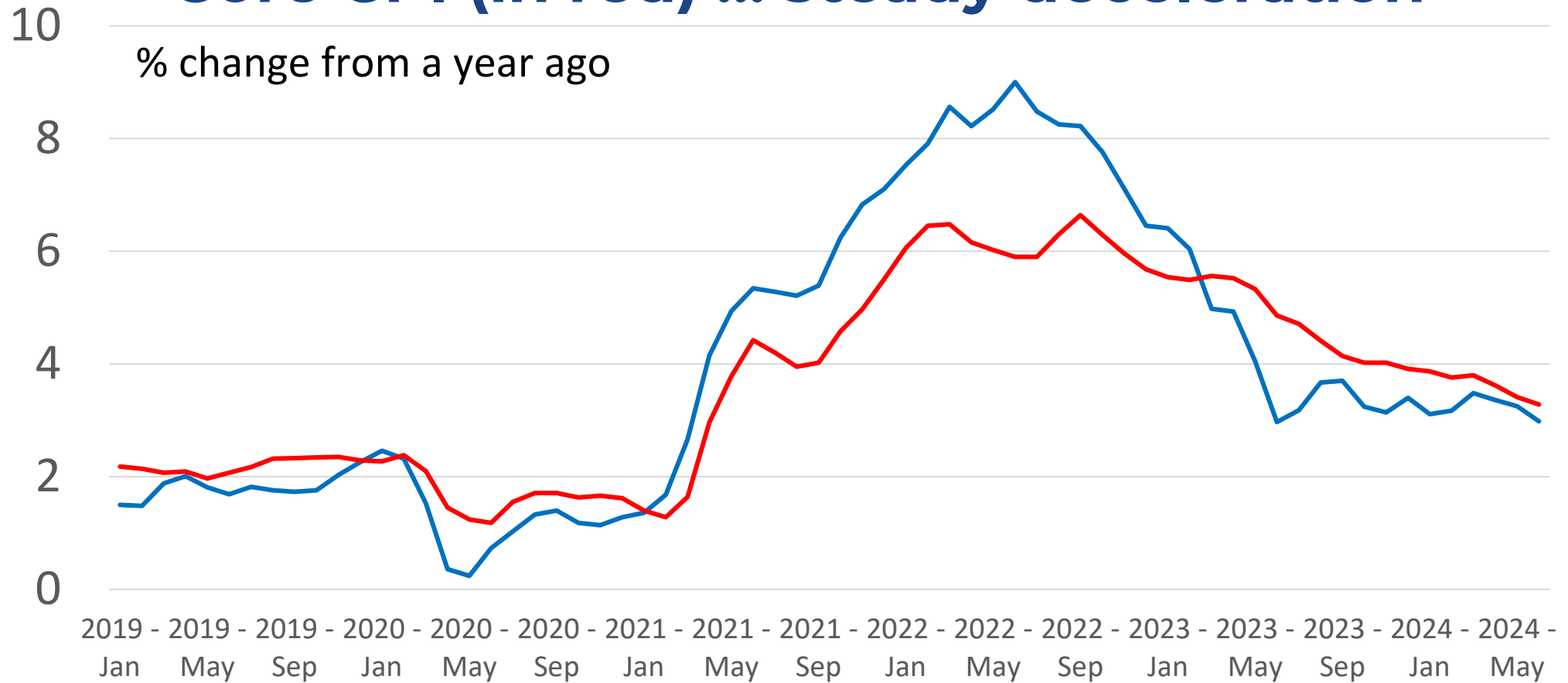


Source: U.S. Treasury and Federal Reserve

# Fed is waiting for CPI to reach 2%

## CPI ... 3.0% in June

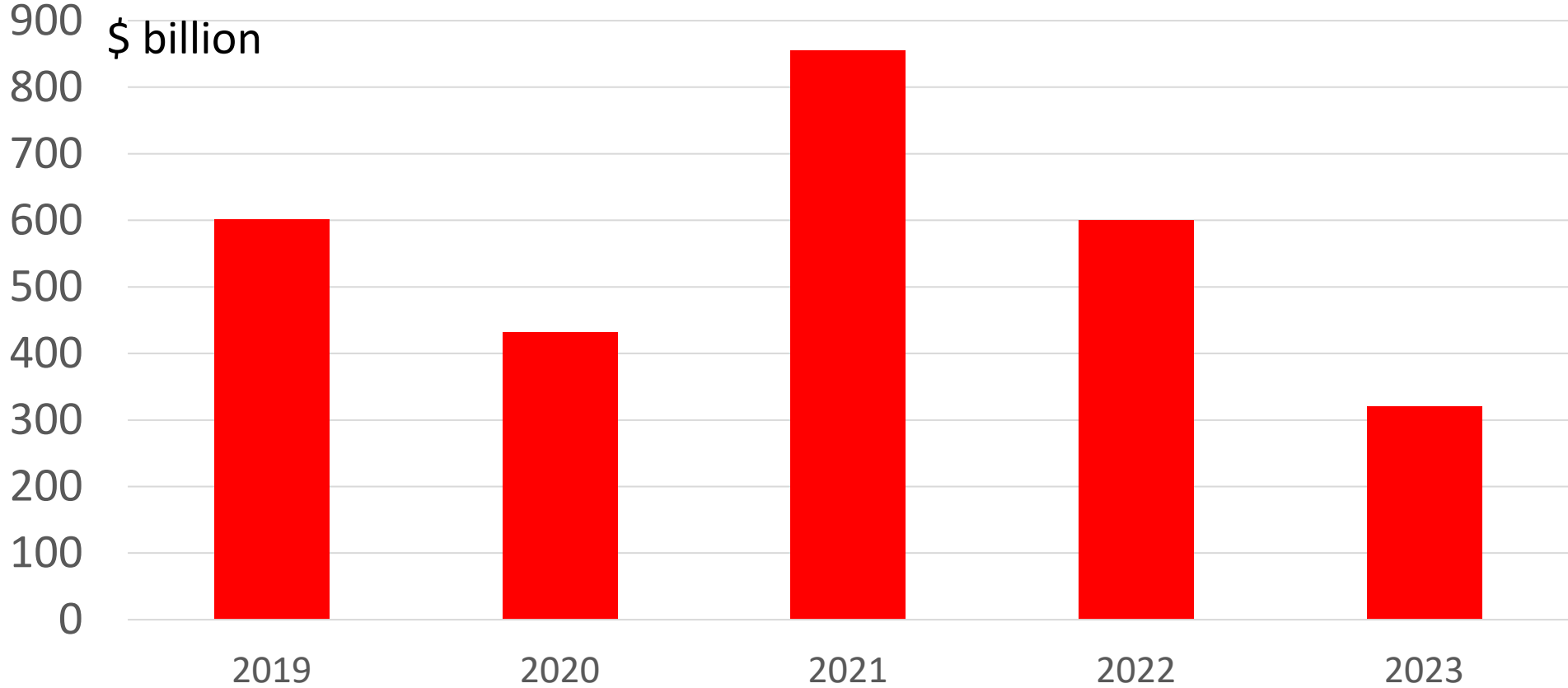
### Core CPI (in red) ... steady deceleration



Source: BLS

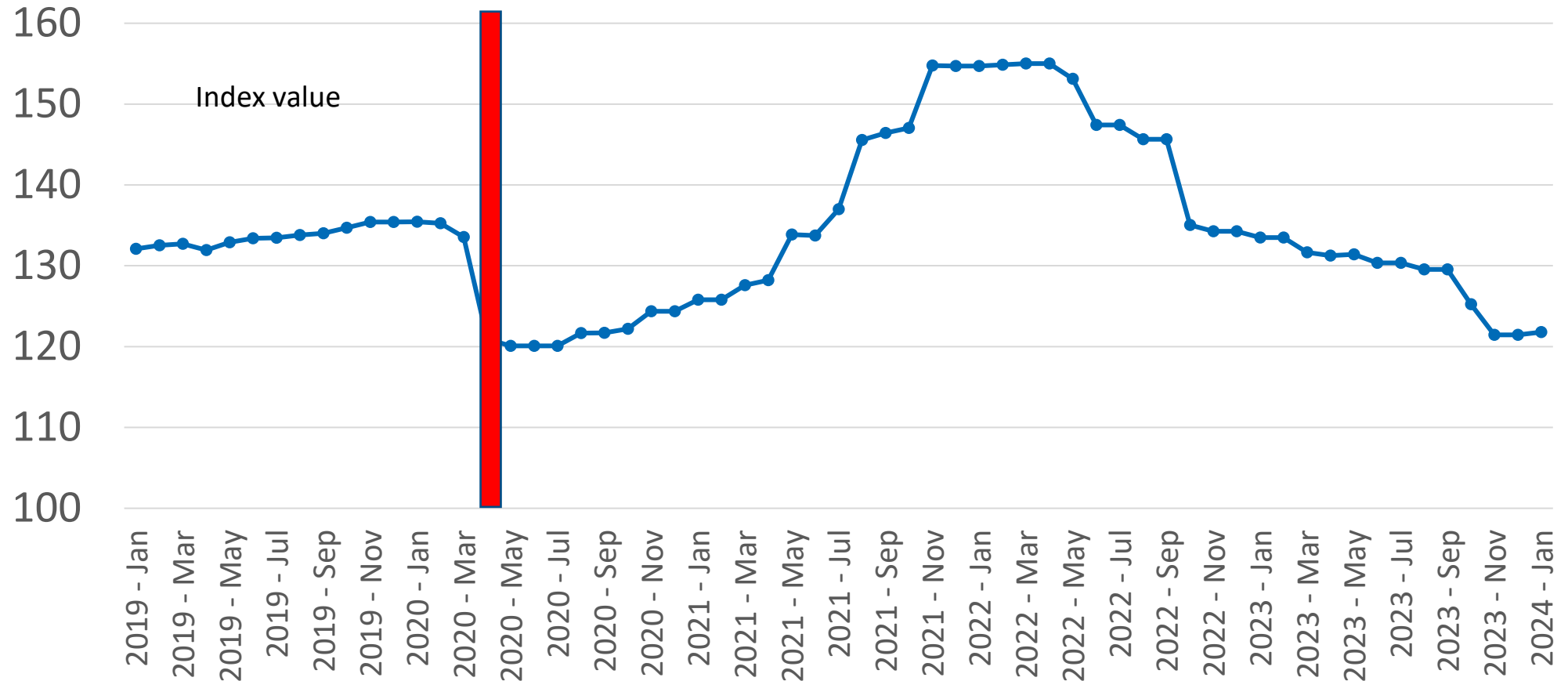
# **High Interest Rate Not Good for Commercial Real Estate**

# Commercial Transaction Volume ... Below Pre-Covid



Source: MSCI, Real Capital Analytics

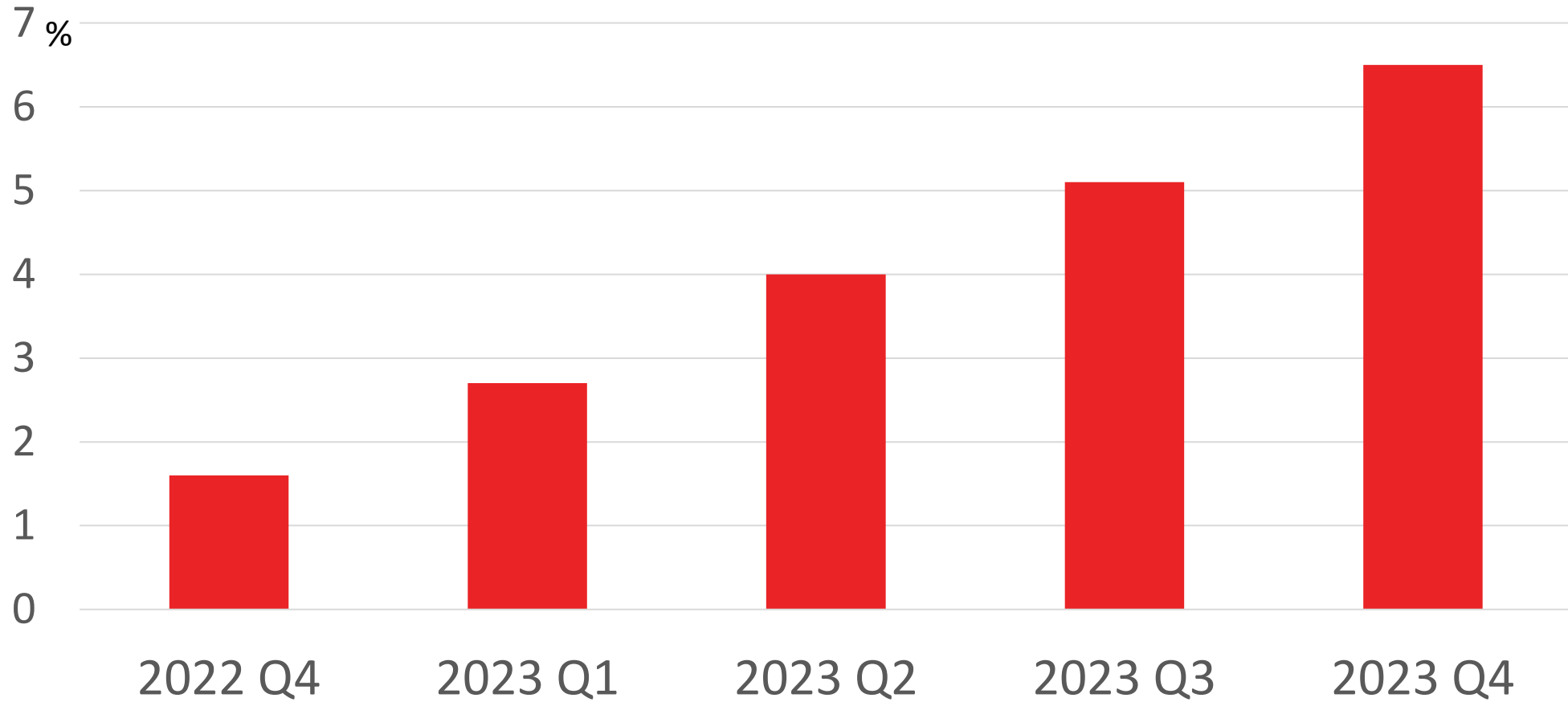
# Commercial Property Prices Falling ... Below Pre-COVID



Source: Green Street



# Office Loan Delinquency Rate



Source: Mortgage Bankers Association

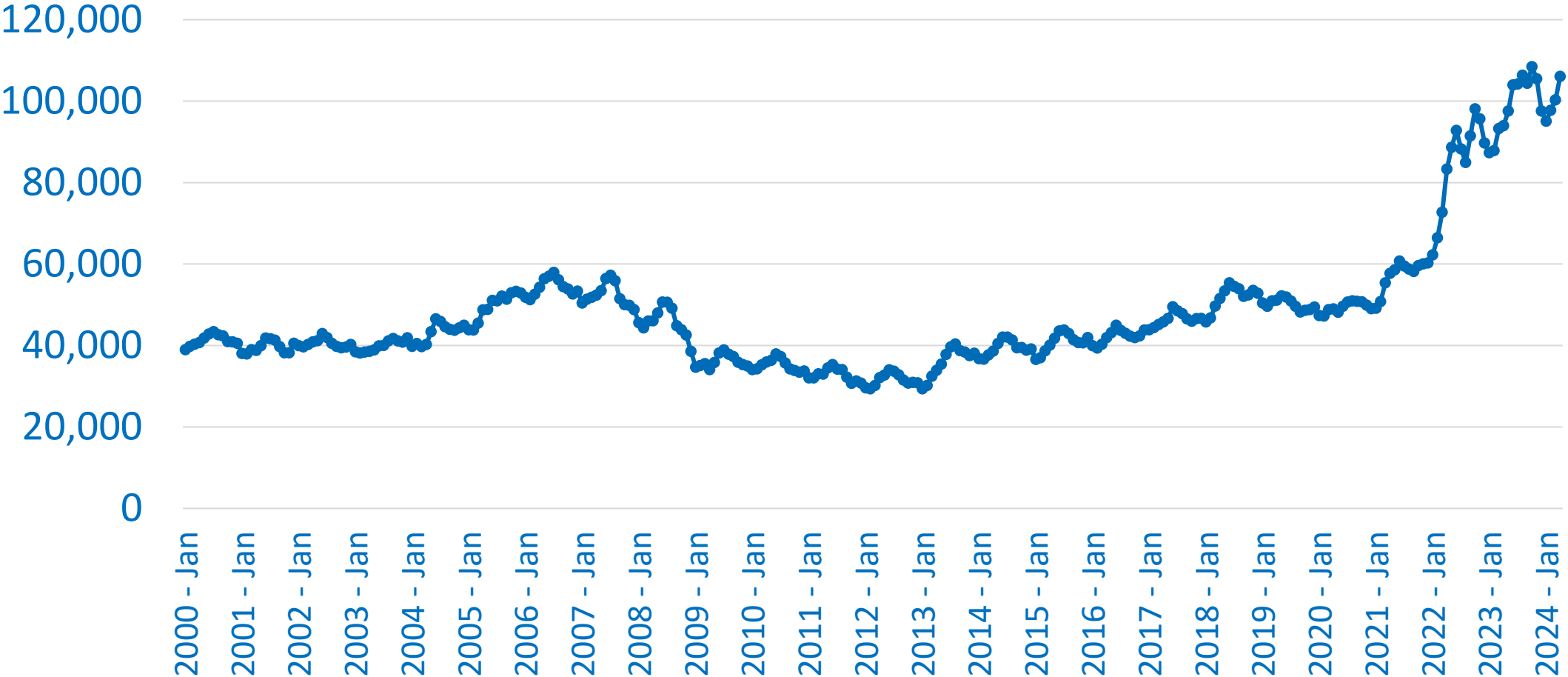
**High Interest Rate**  
**Also Not Good for Residential Sales**

# Pending Contracts in June ... Near Lowest (since 2001)



Source: NAR

# Income Required to Buy Median Priced Home



Source: NAR



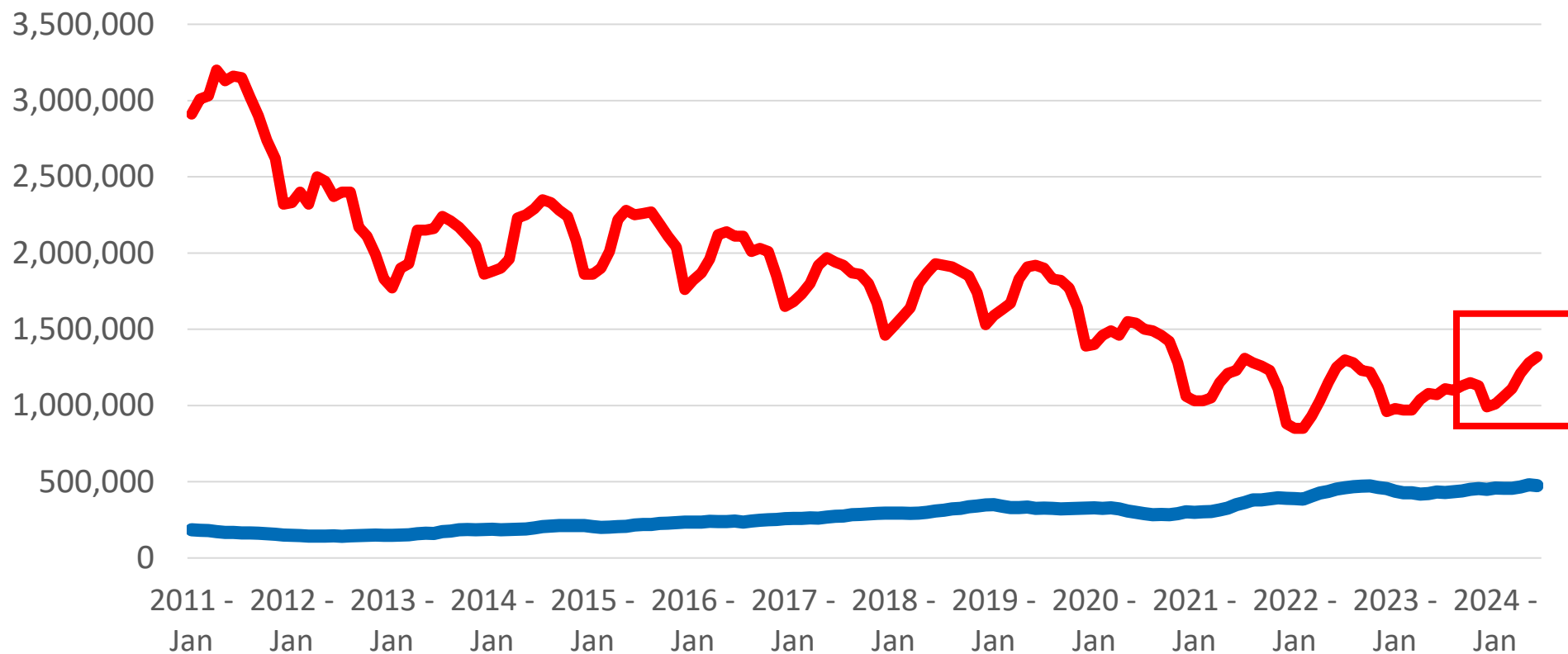
## 3 years before and after Covid: Existing vs. New Sales

Year	Existing Home Sales	New Home Sales
2017	5.51 m	613 k
2018	5.34 m	617 k
2019	5.34 m	683 k
2020	5.64 m	822 k
2021	6.12 m	771 k
2022	5.03 m	641 k
2023	4.09 m	666 k
2024 so far	Same as last year	Same as last year

Source: NAR and Census

# Inventory of Existing Homes Finally Turning Up

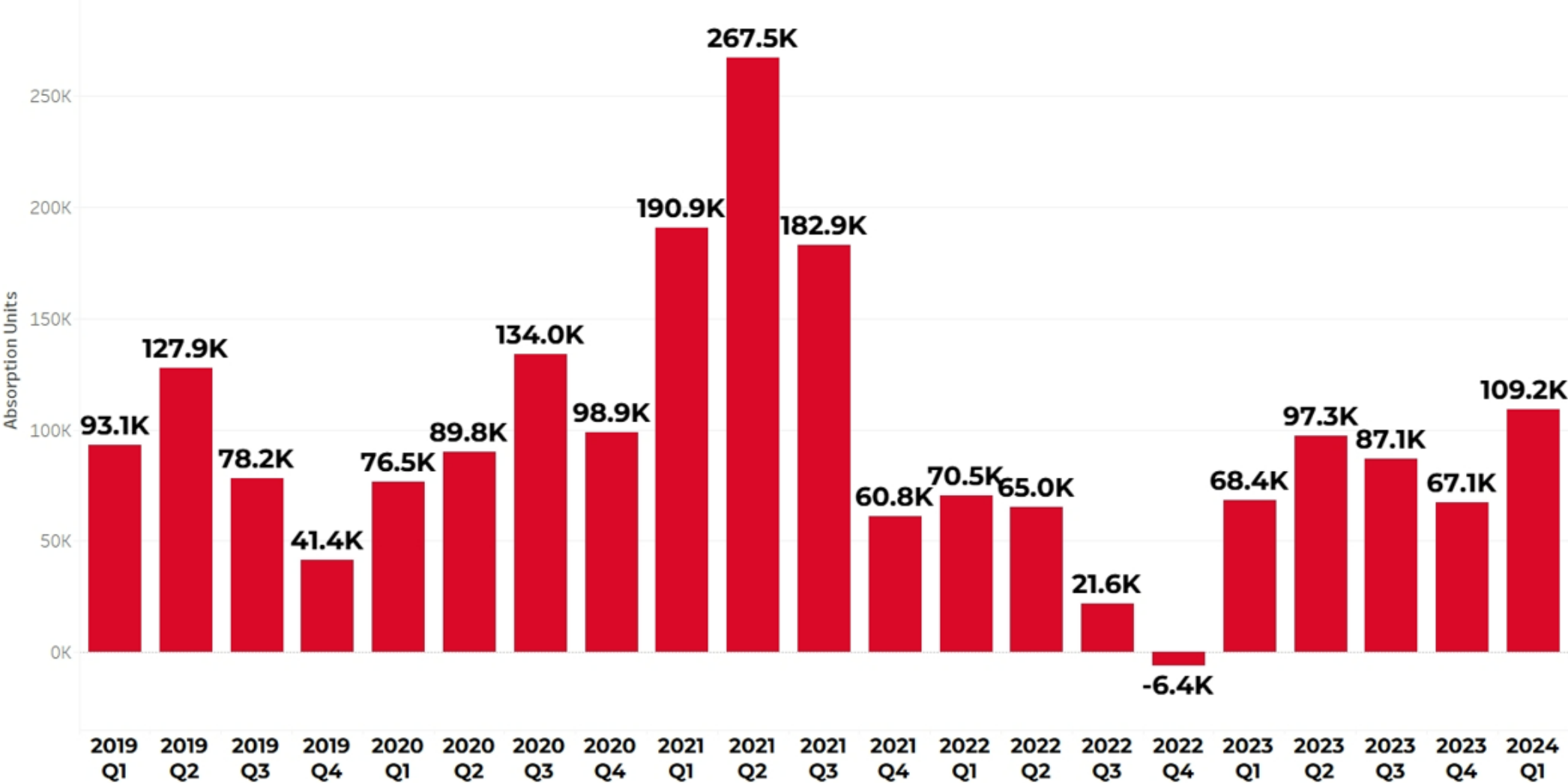
## Inventory of New Homes Up and Up



Source: NAR

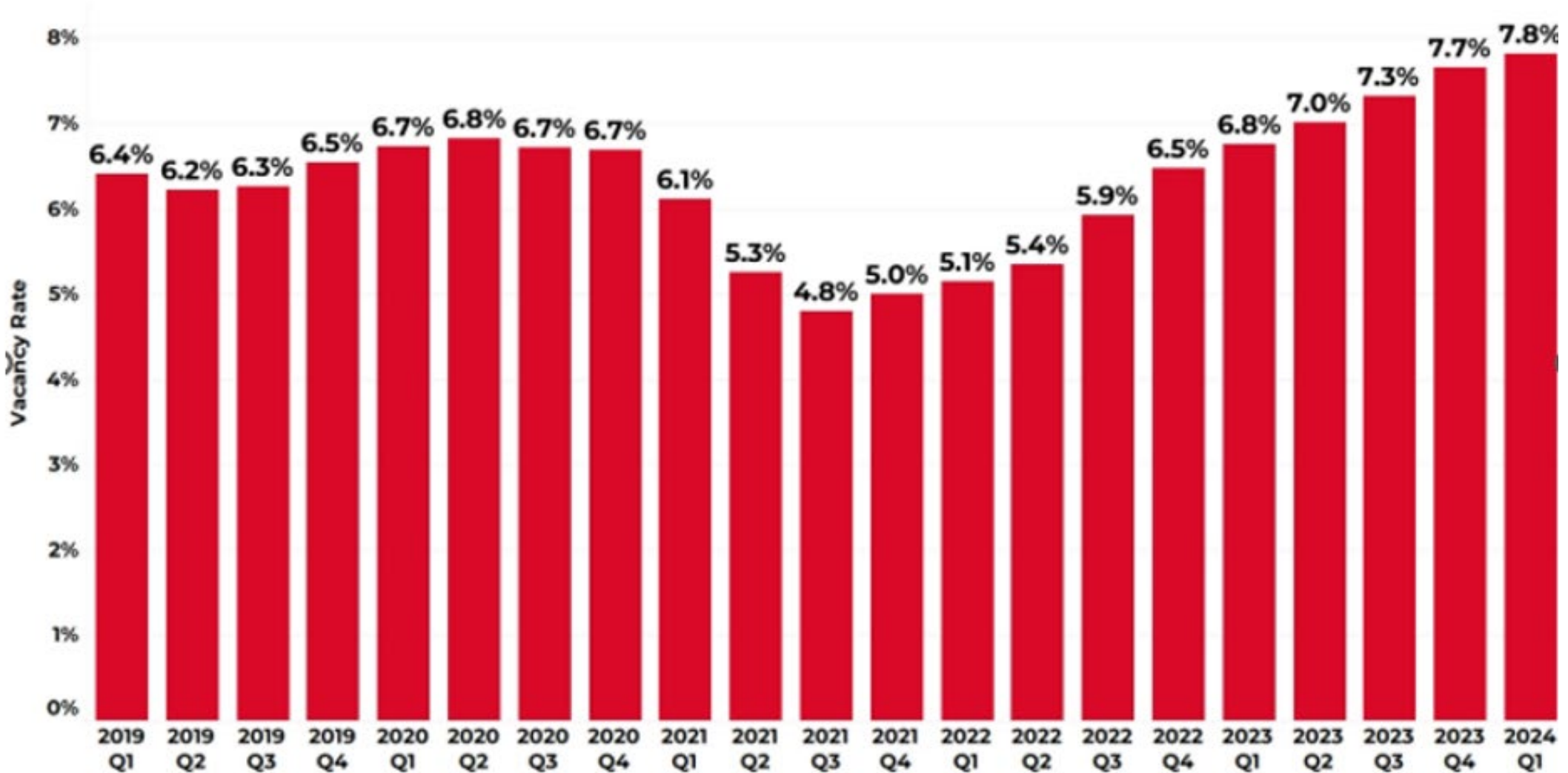
# Rental Market

# Multifamily Net Absorption Reviving

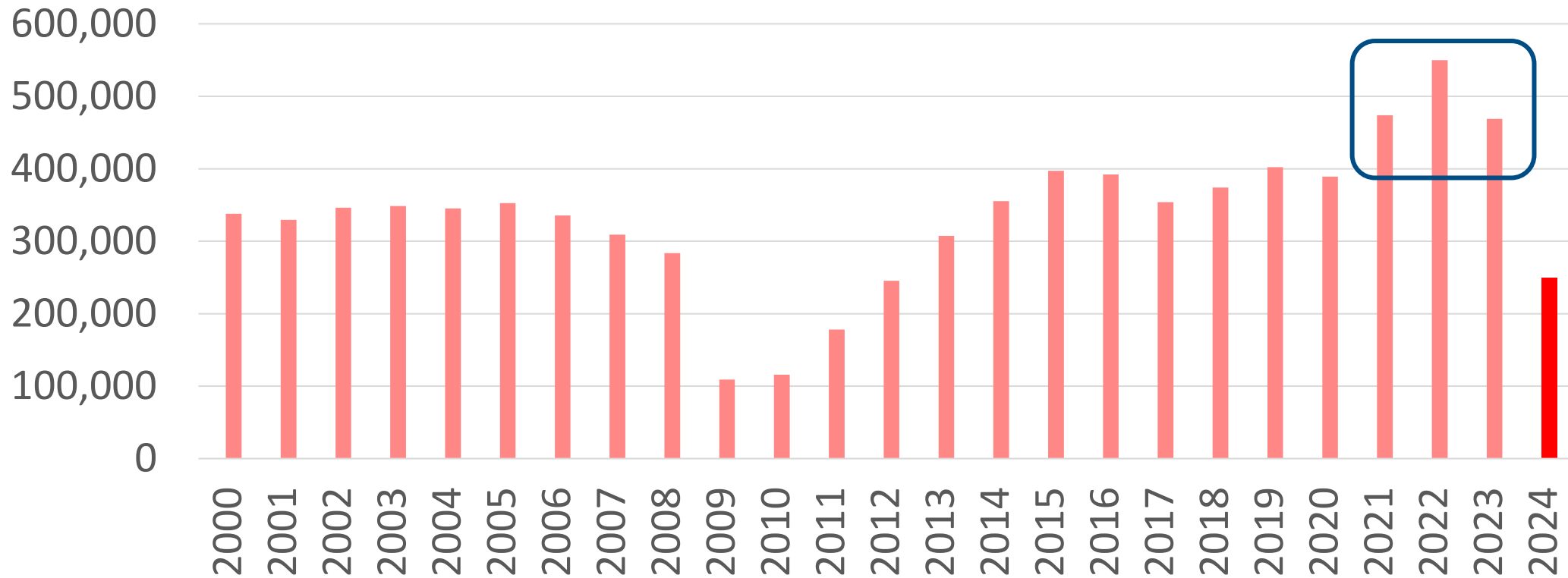




# Multifamily Vacancy Rate

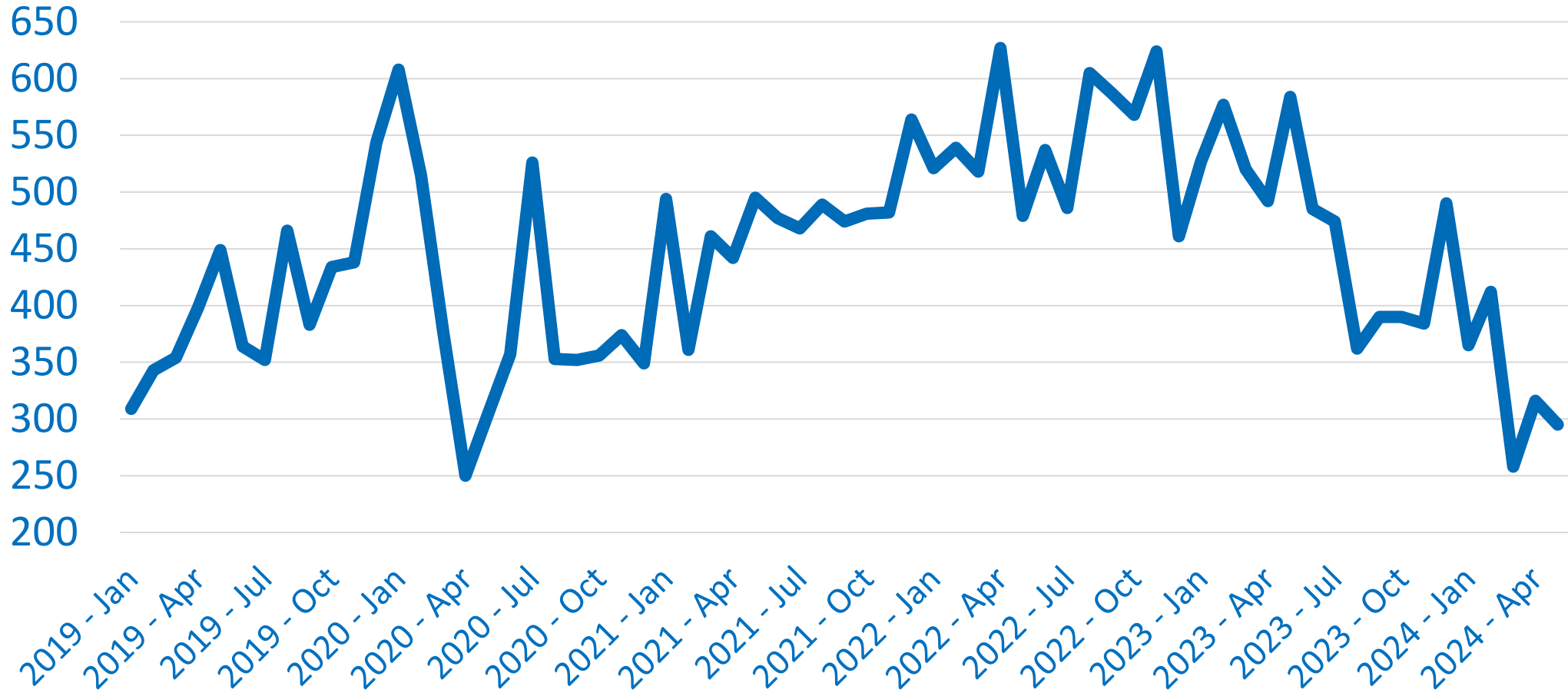


# Annual Apartment Construction at 40-year Highs in 2021, 2022, 2023 ... Low likely in 2024



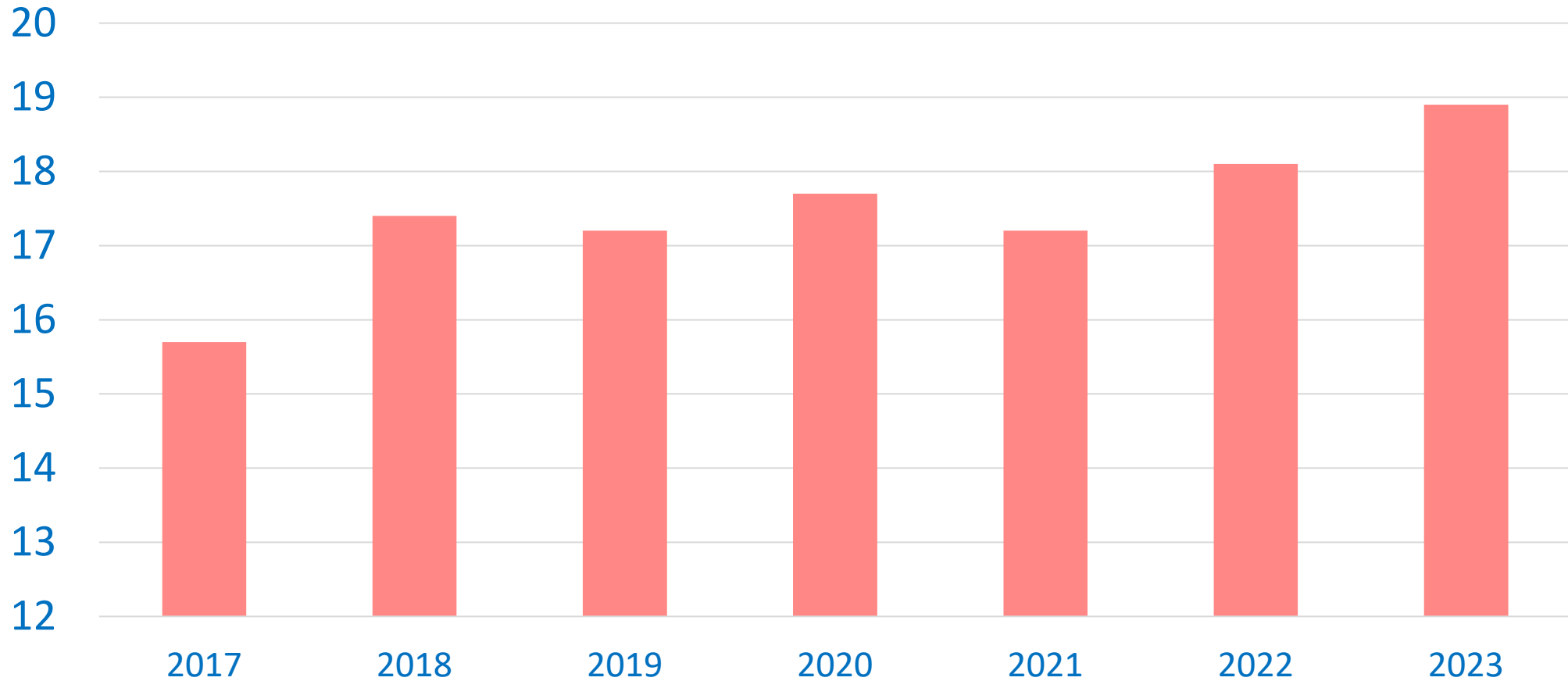
Source: Census/HUD

# Monthly Multifamily Starts are Collapsing



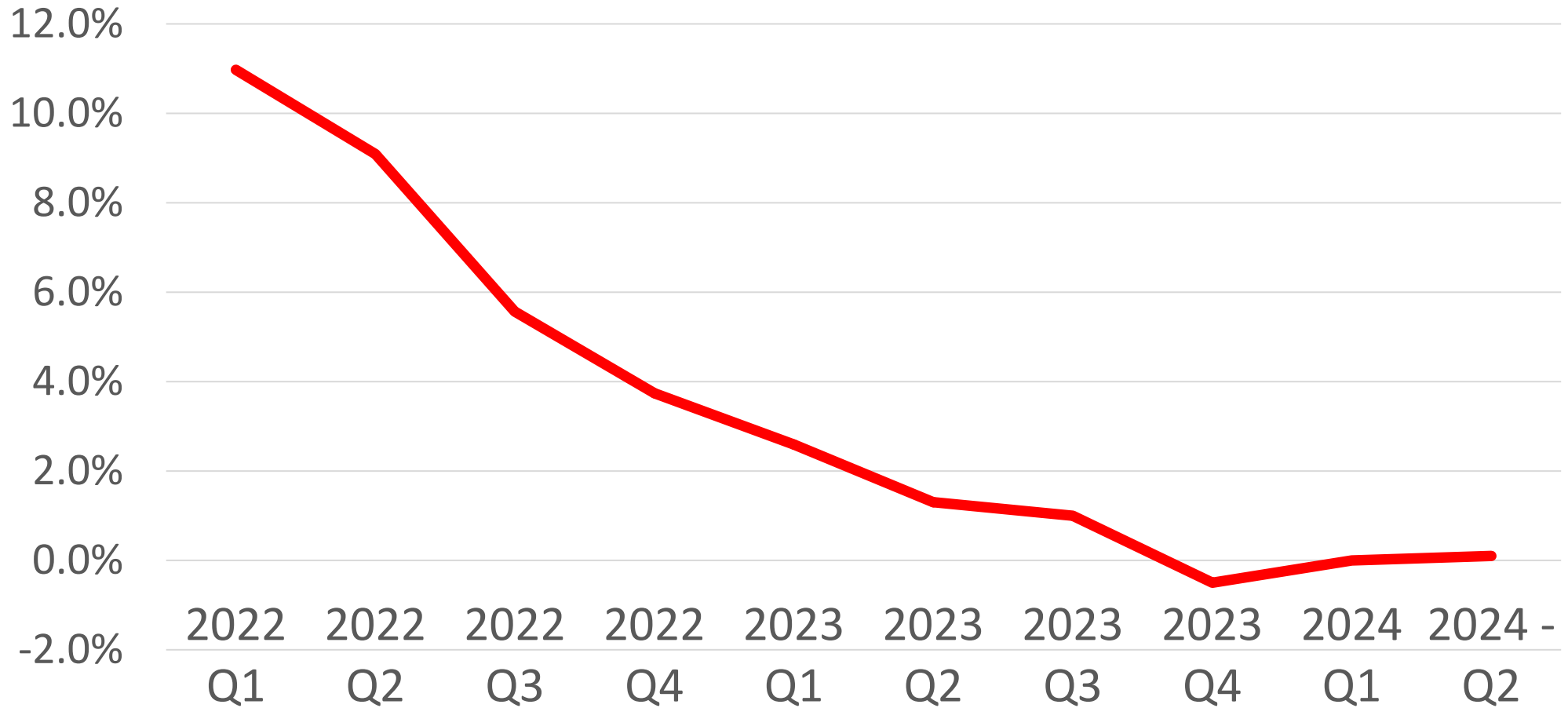
Source: NAR

# Months to Complete from Start time for Multifamily 20+ units



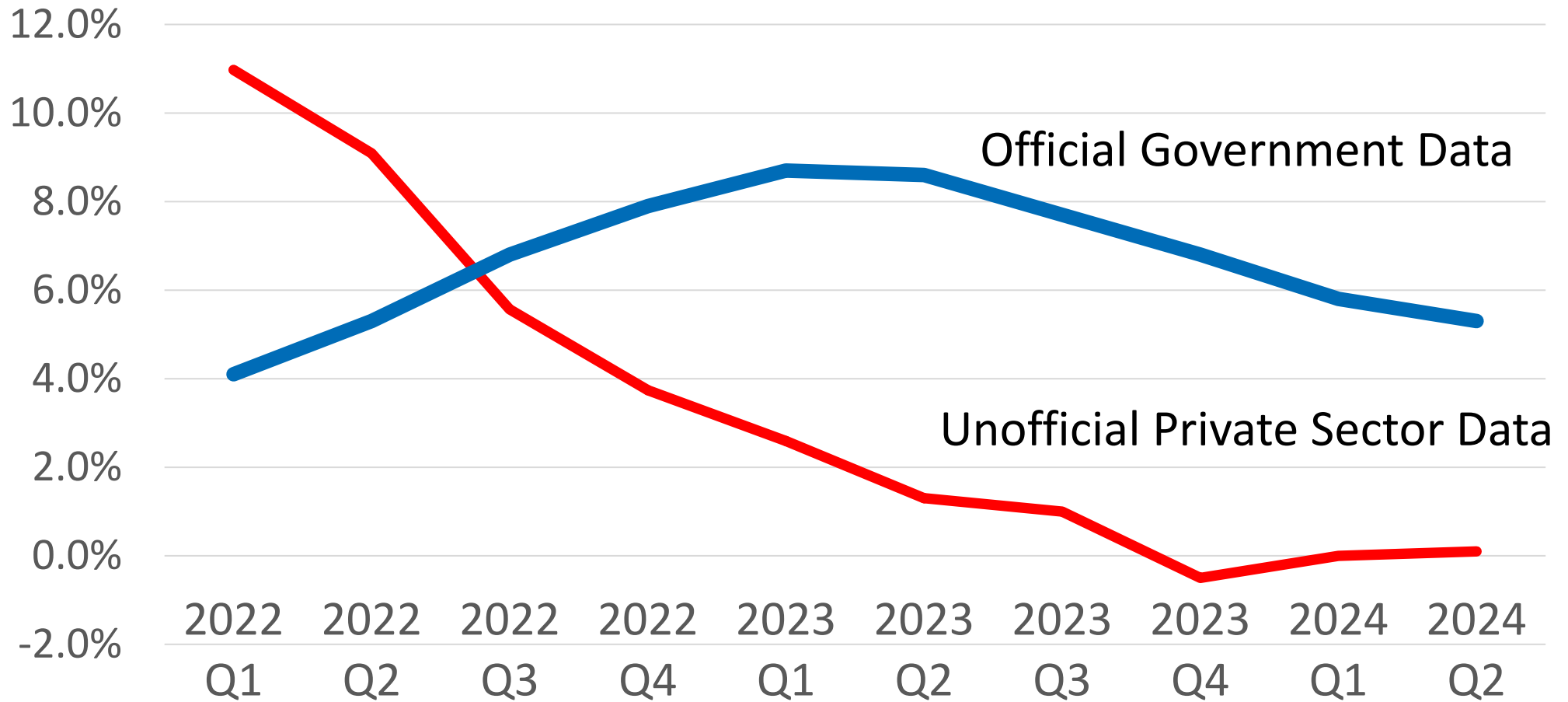
Source: NAR

# Rents no longer Rising in private sector data



Source: NAR Analysis of CoStar data

# Rents are Rising at 5.3% in Government CPI data



Source: BLS and CoStar

**Upcoming Rent Growth should be Calmer**

**Future CPI should be Calmer**

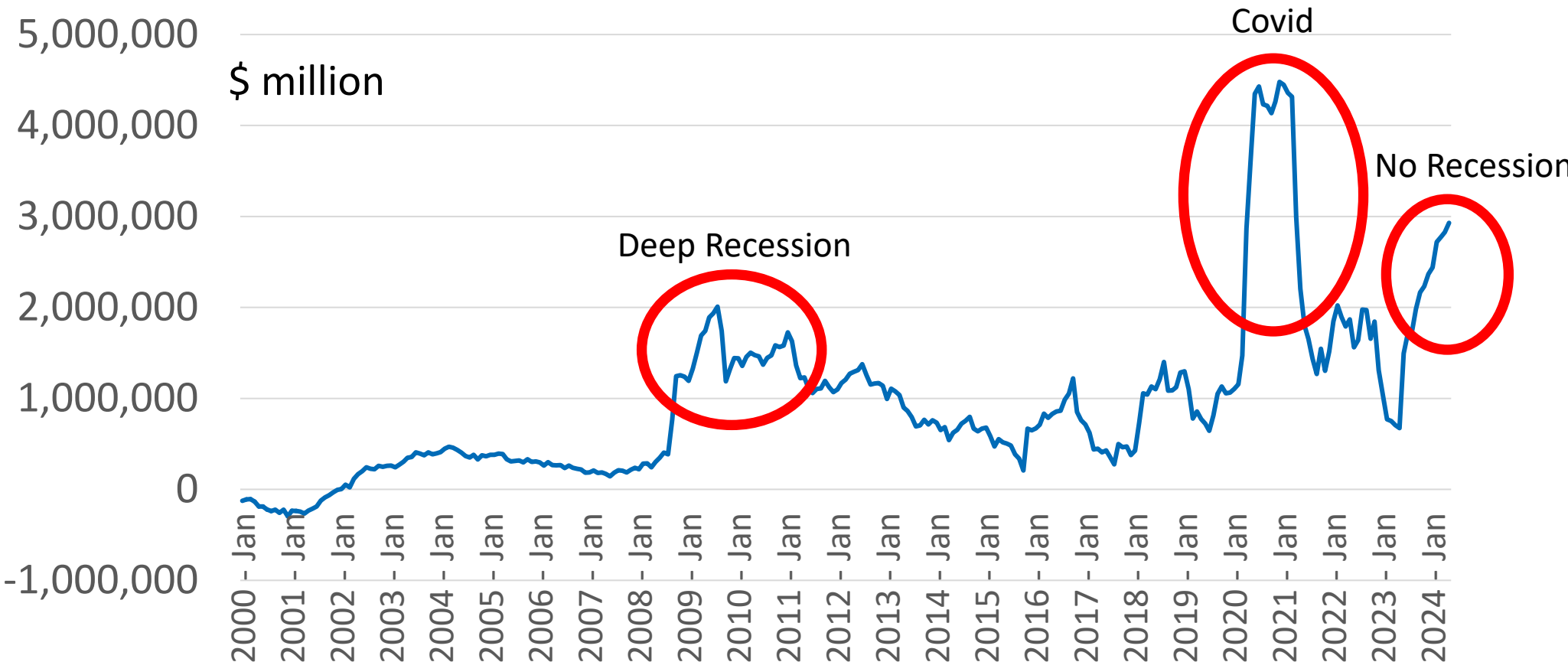
**The Fed can cut interest rates ... 6 to 8 rounds**

**But**

**Further Pivot could be limited by Budget Deficit**

**Future Rent (in 2-3 years) could accelerate**

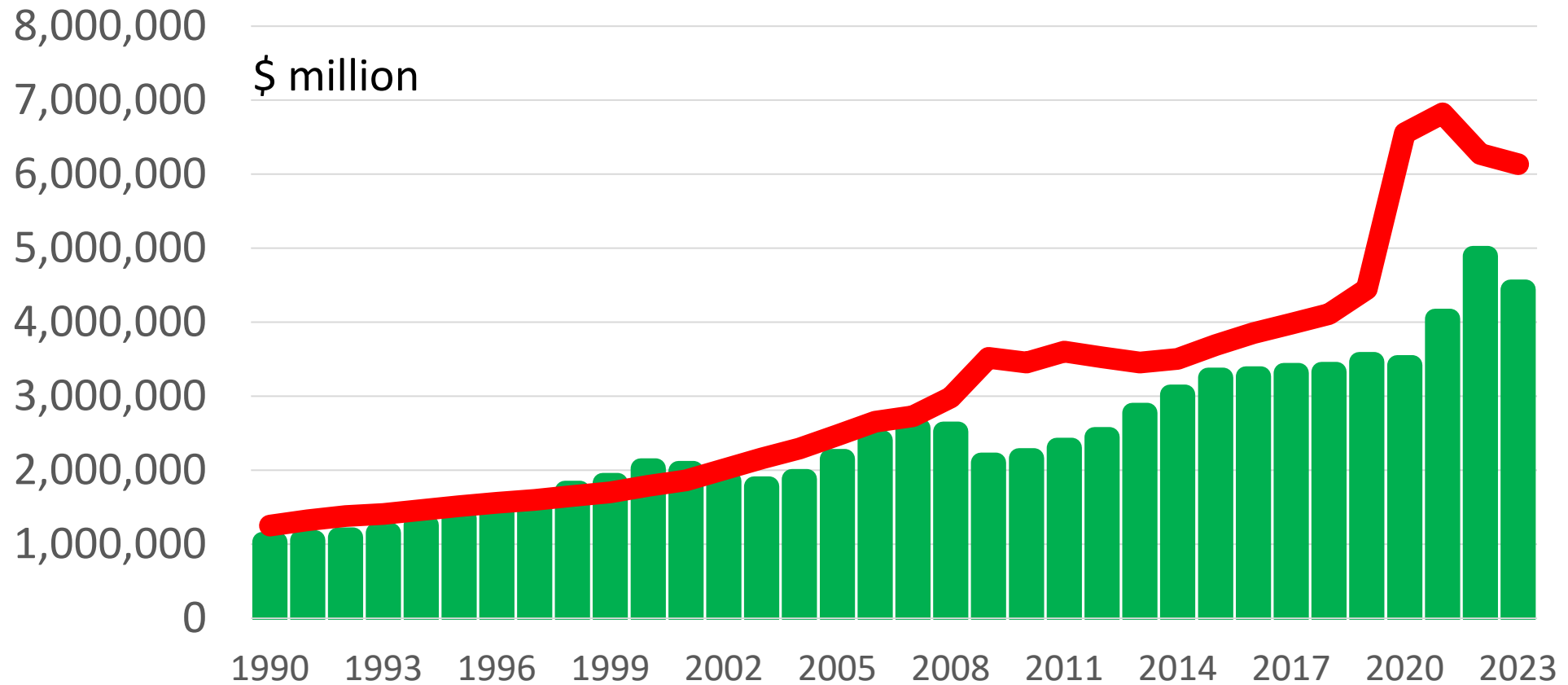
# 12-month total of Public Borrowing



Source: Congressional Budget Office



# Government Outlay > Tax Revenue



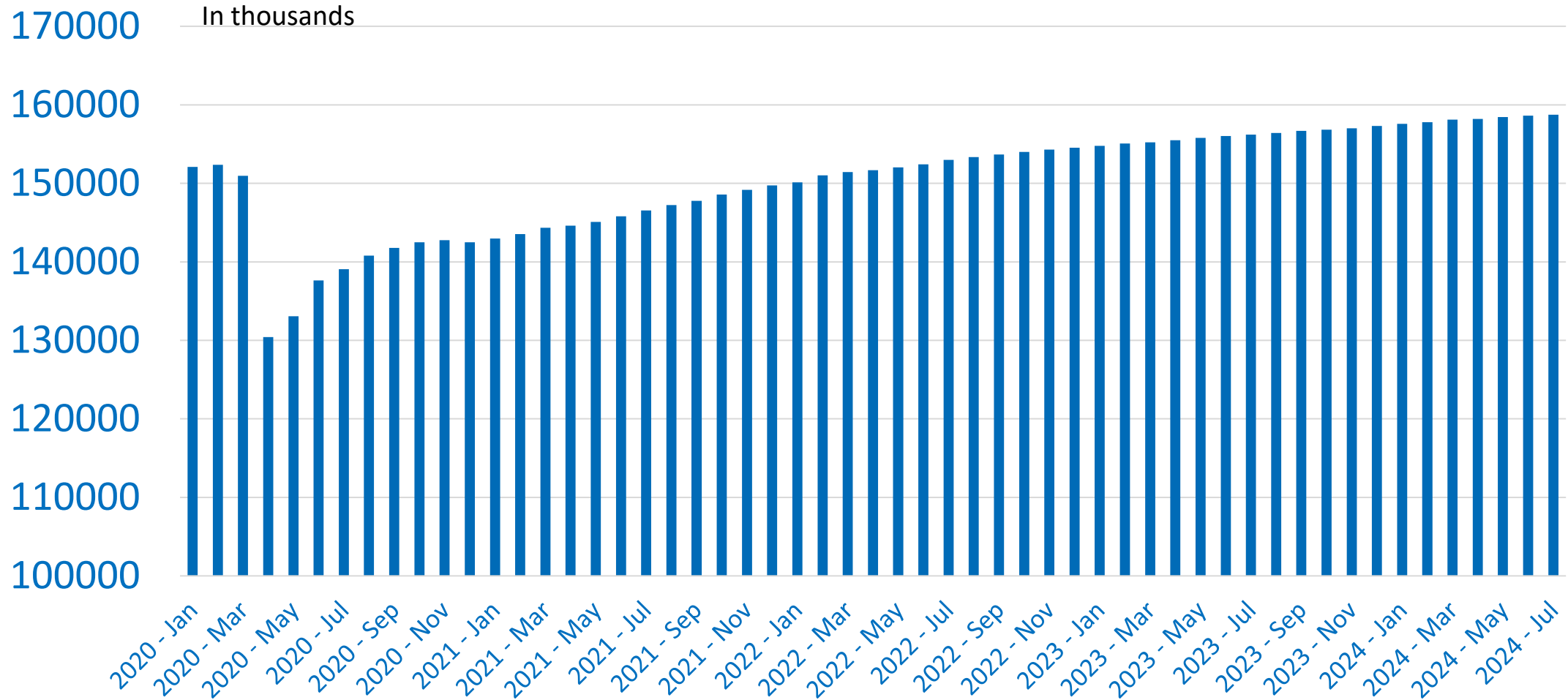
Source: Congressional Budget Office

**Long-Term Real Estate Demand**

**Come from Jobs Jobs Jobs**

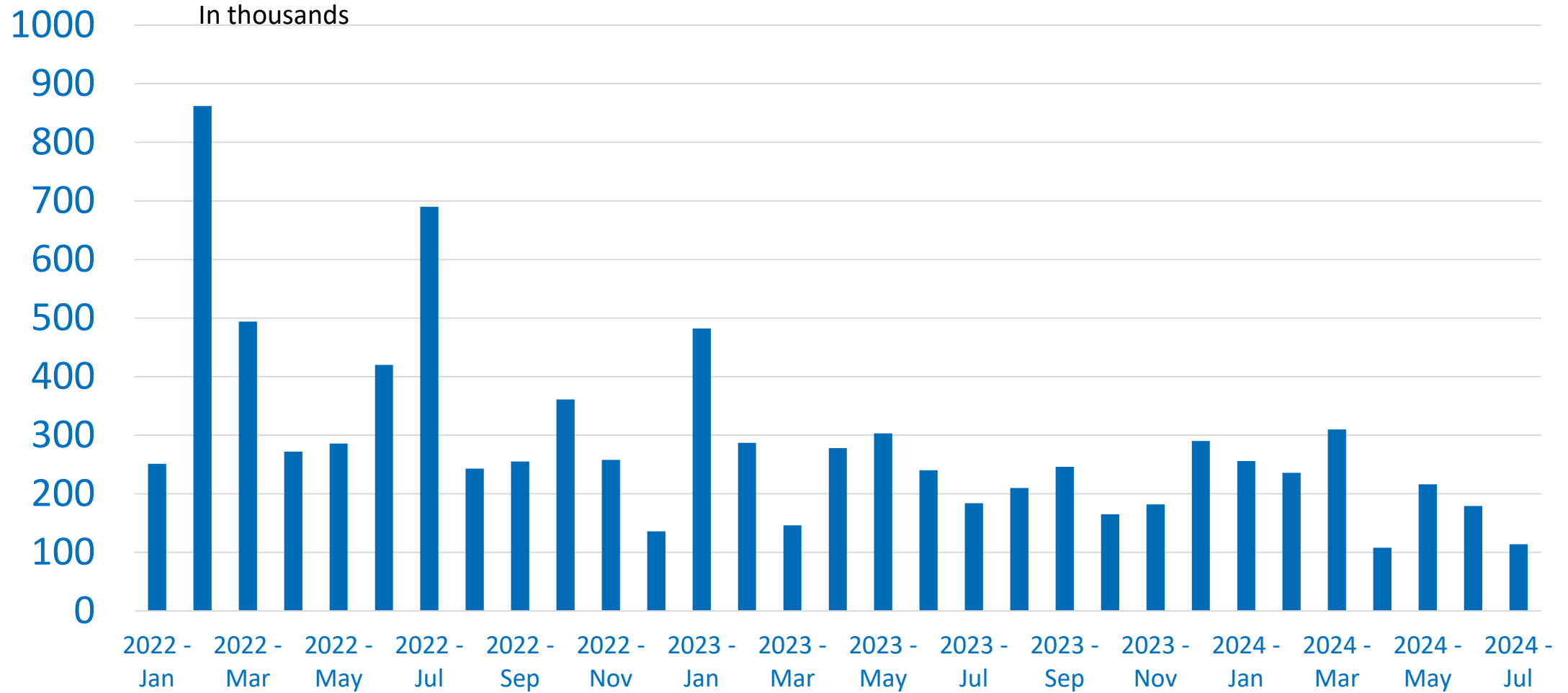
# Total Payroll Jobs

## 6.3 million more compared to pre-covid highs



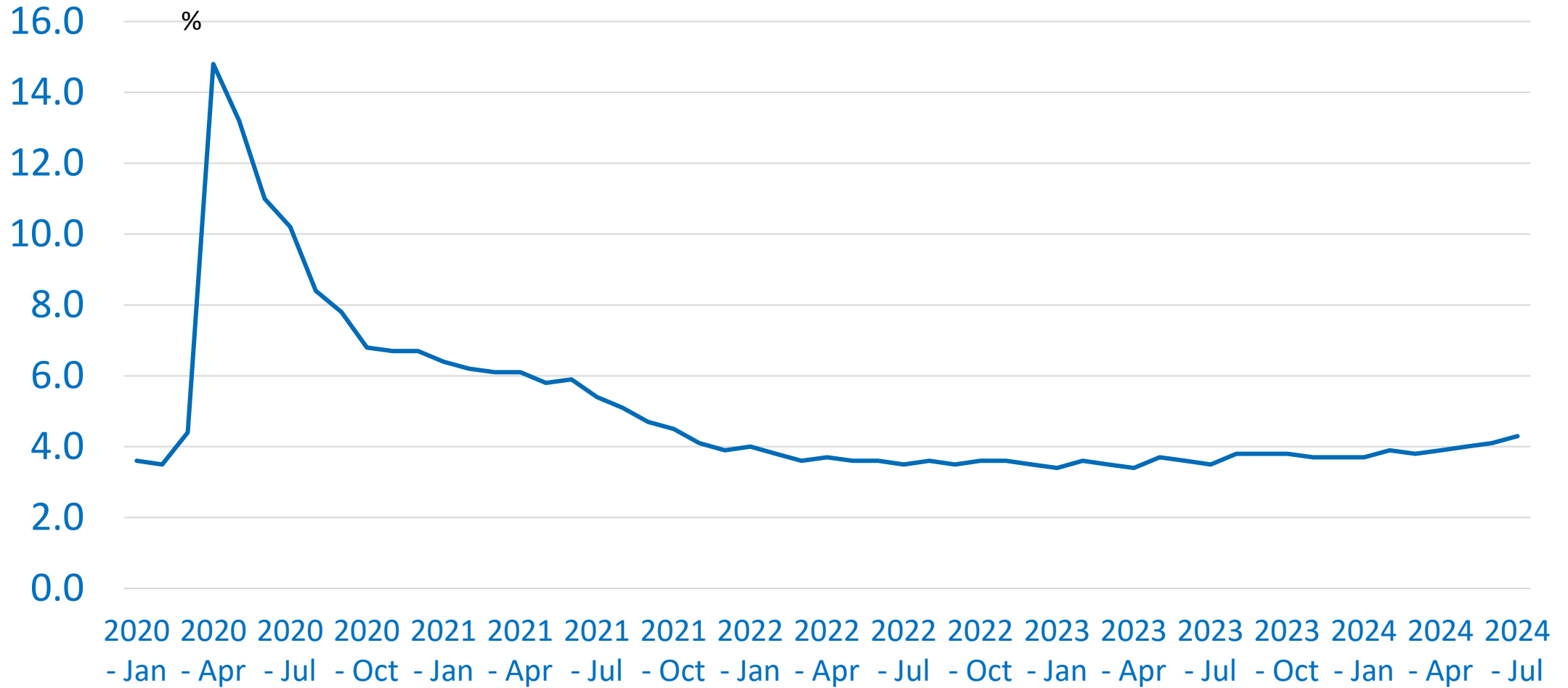
Source: BLS

# Monthly Net Payroll Job Additions .. Lighter



Source: BLS

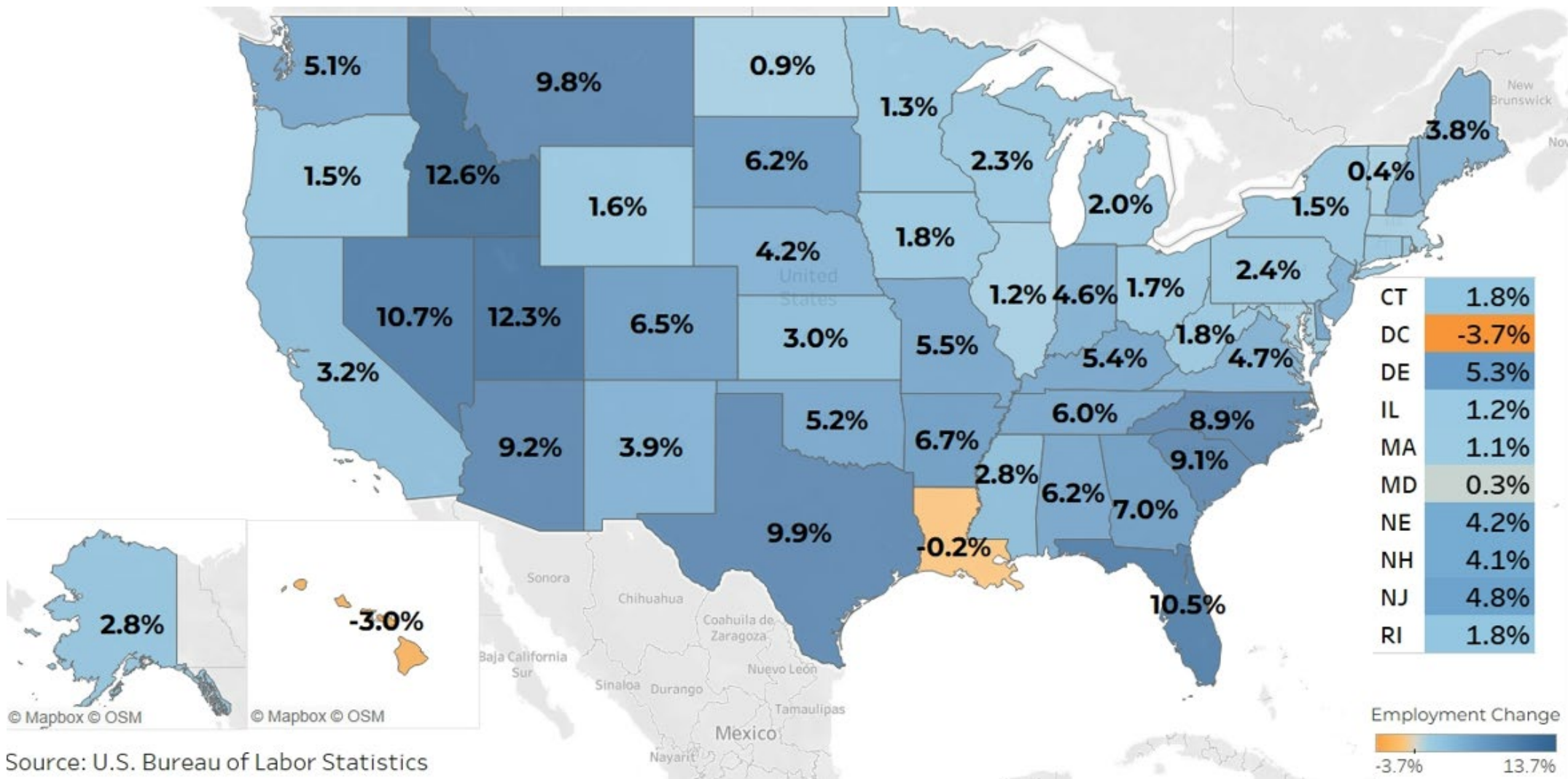
# Unemployment Rate at 4.3%



Source: BLS

# Job Gains Since Pre-COVID Record High Payroll Employment

% change from March 2020 to June 2024 (July not yet available)



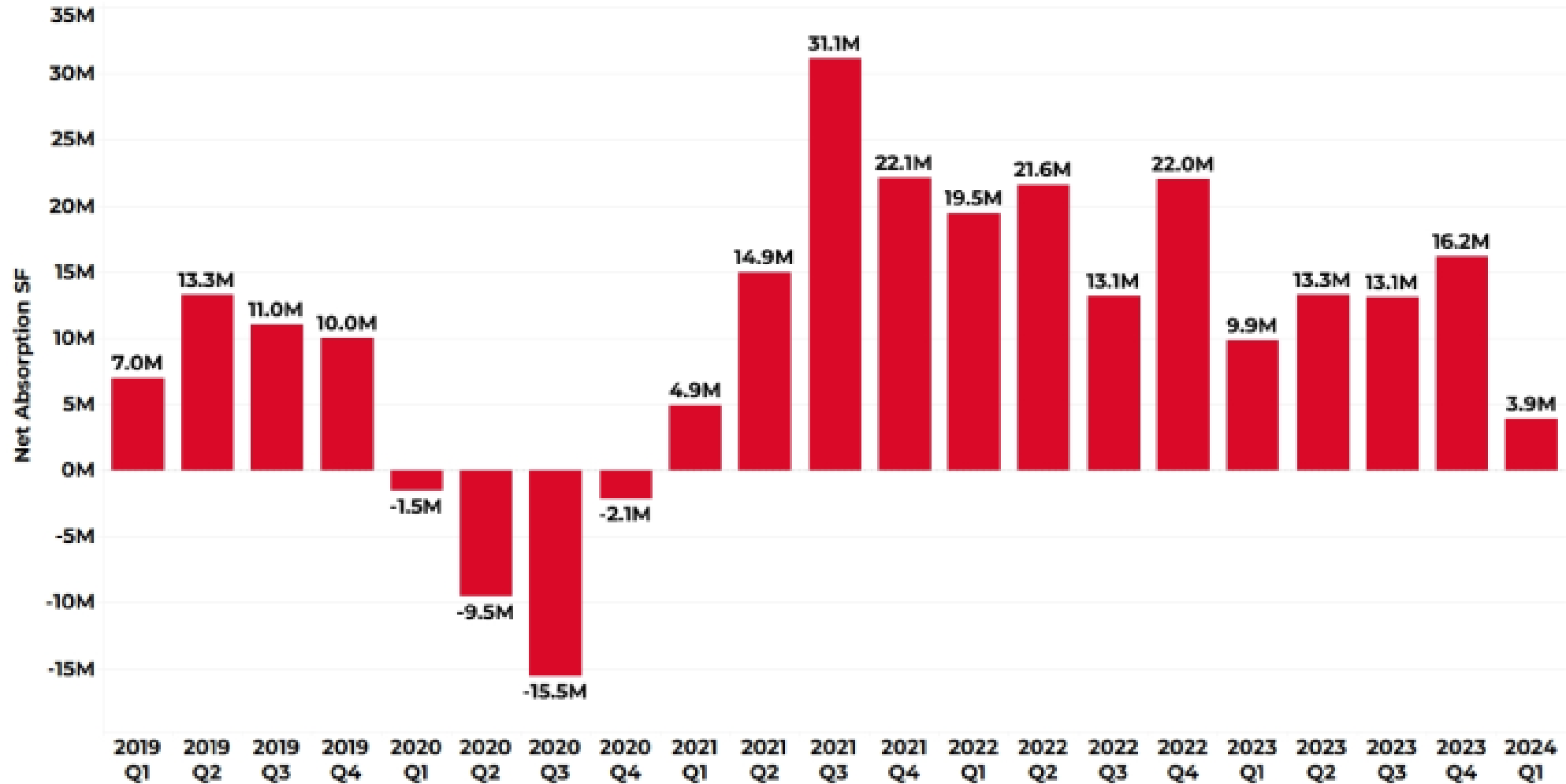
Source: U.S. Bureau of Labor Statistics

Source: NAR Analysis of BLS data

**Job Creating Economy**

**But Lackluster Demand for Commercial Spaces**

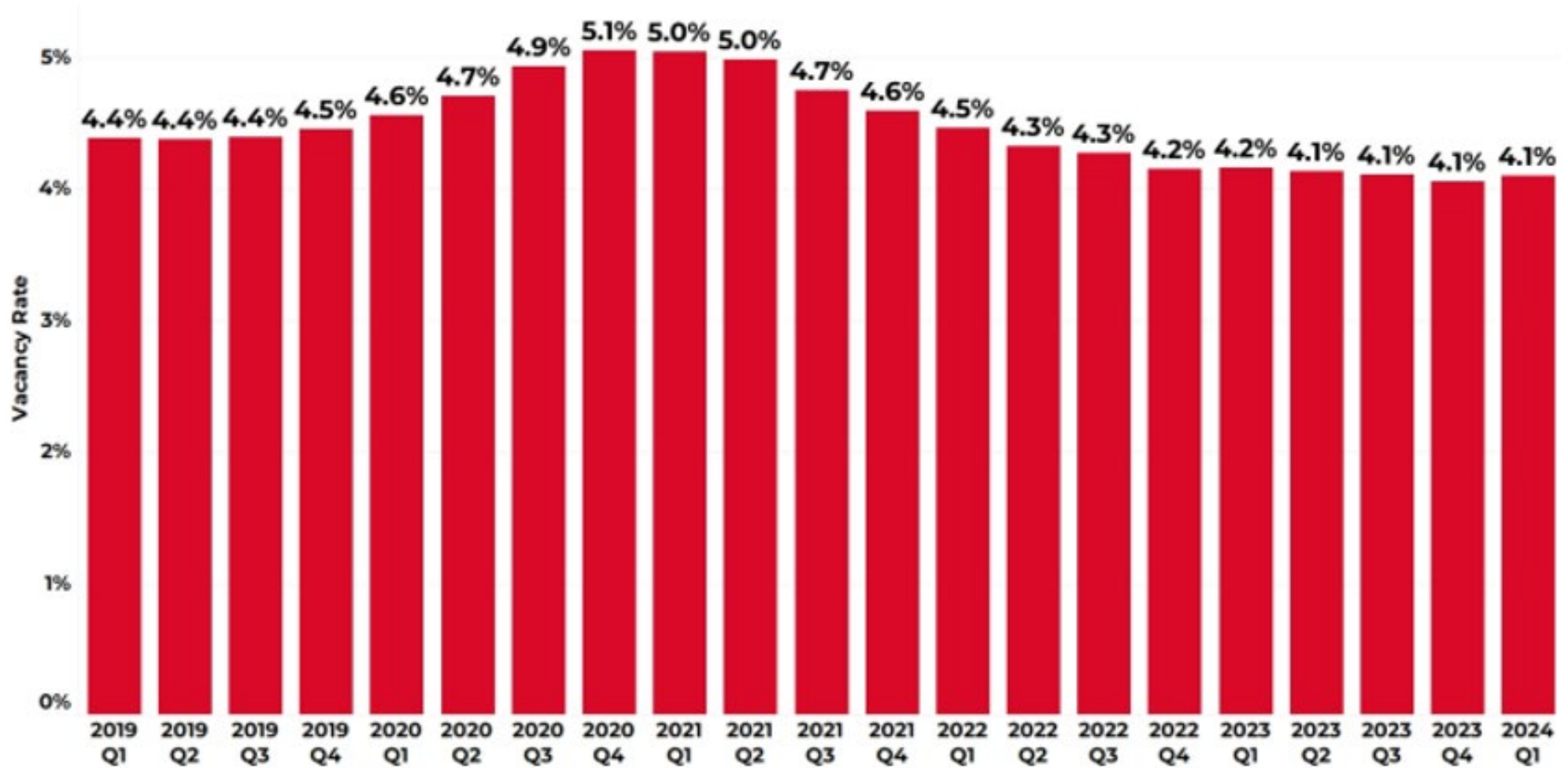
# Retail Net Absorption ... Tapped Out?



Source: NAR Analysis of CoStar data

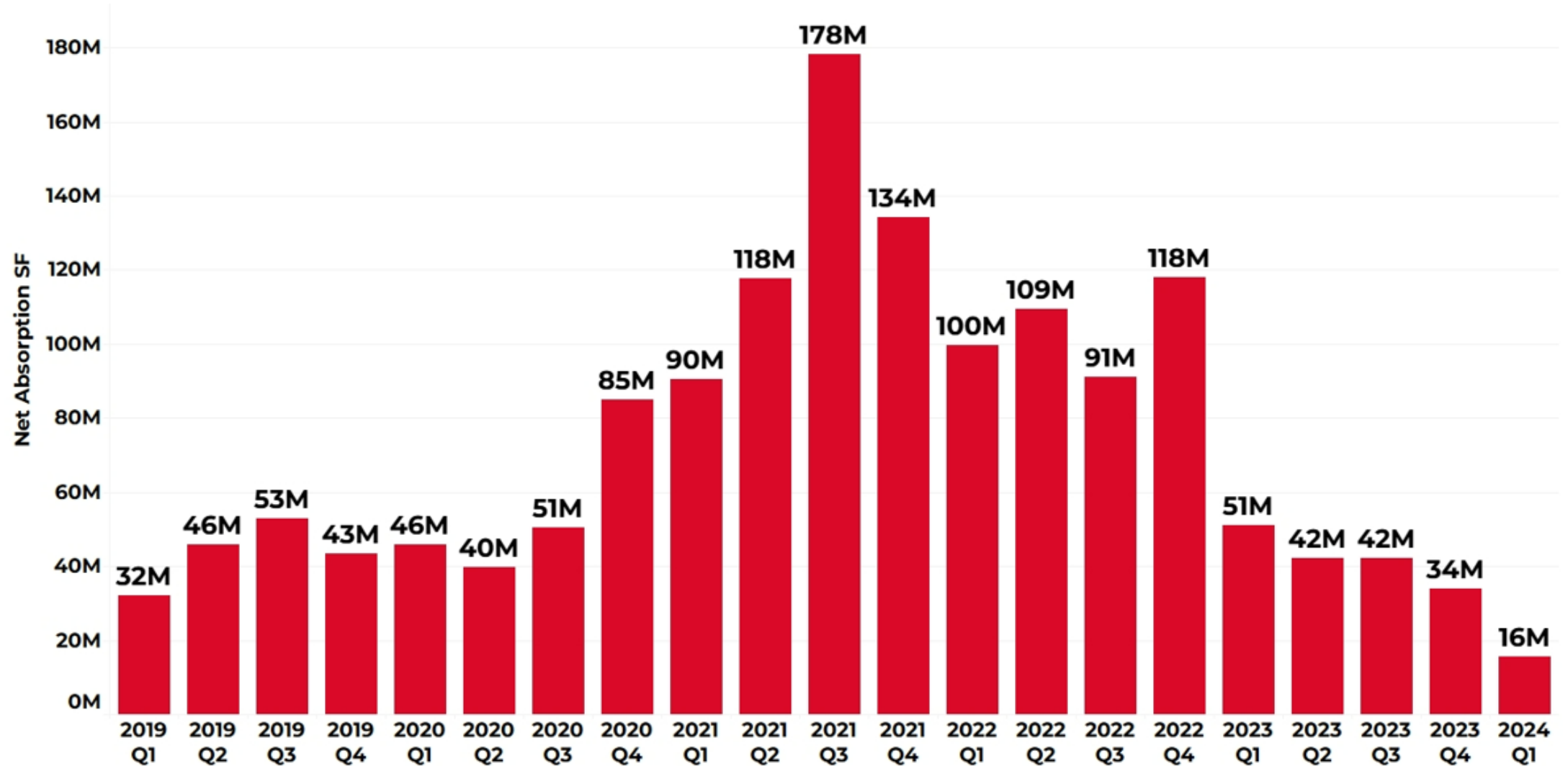


# Retail Vacancy Rate



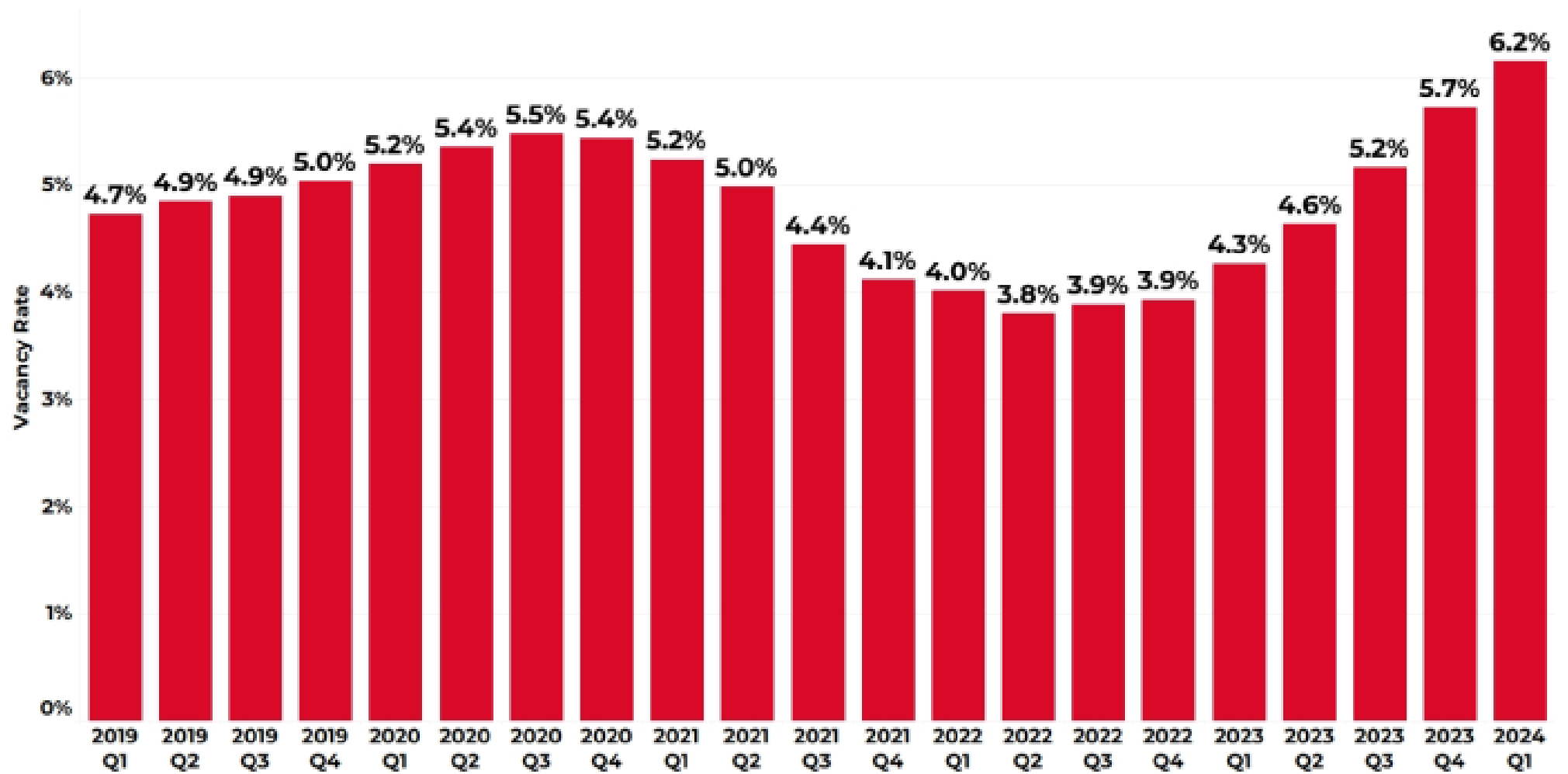
Source: NAR Analysis of CoStar data

# Industrial Net Absorption ... Tapped Out?



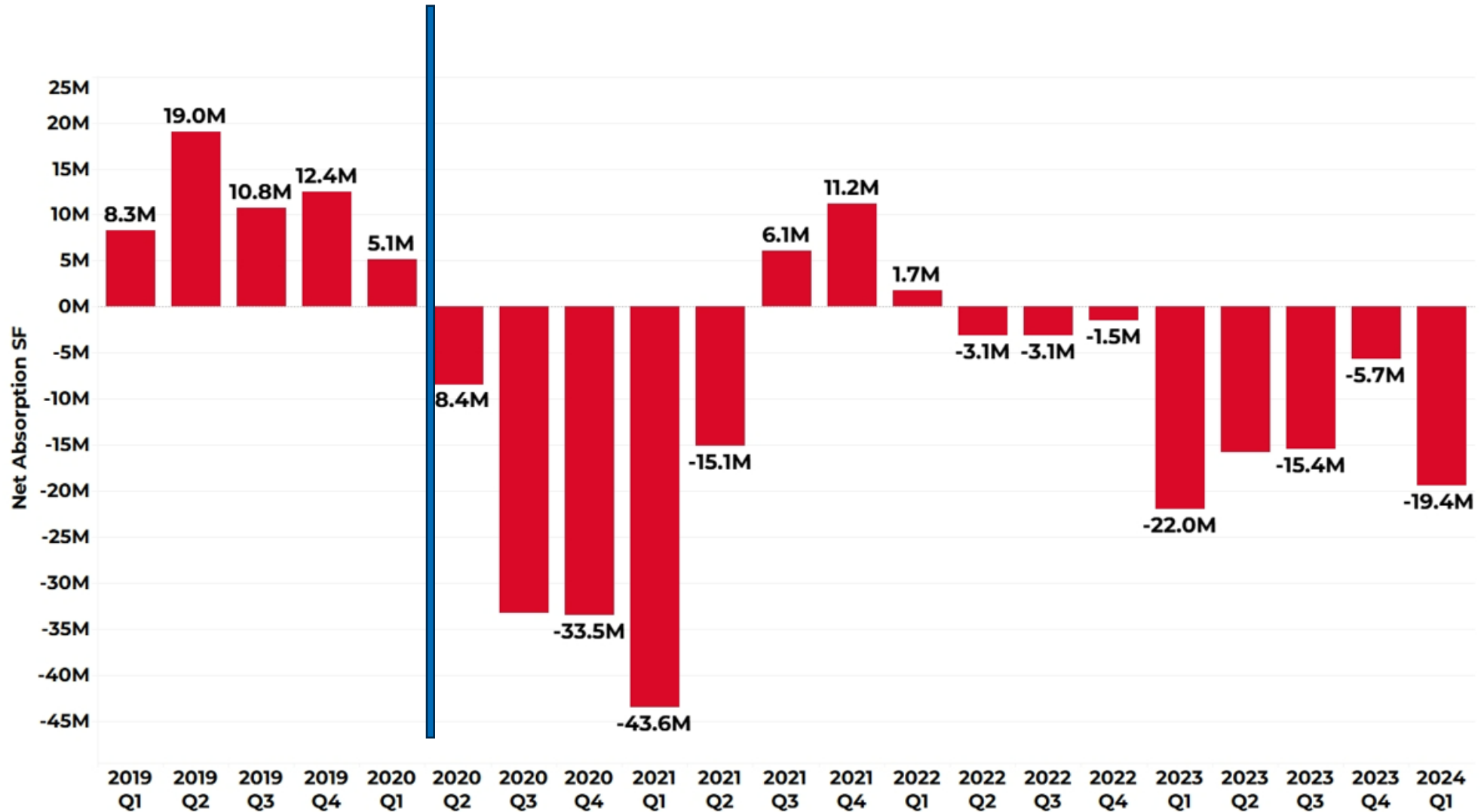
Source: NAR Analysis of CoStar data

# Industrial Vacancy Rate



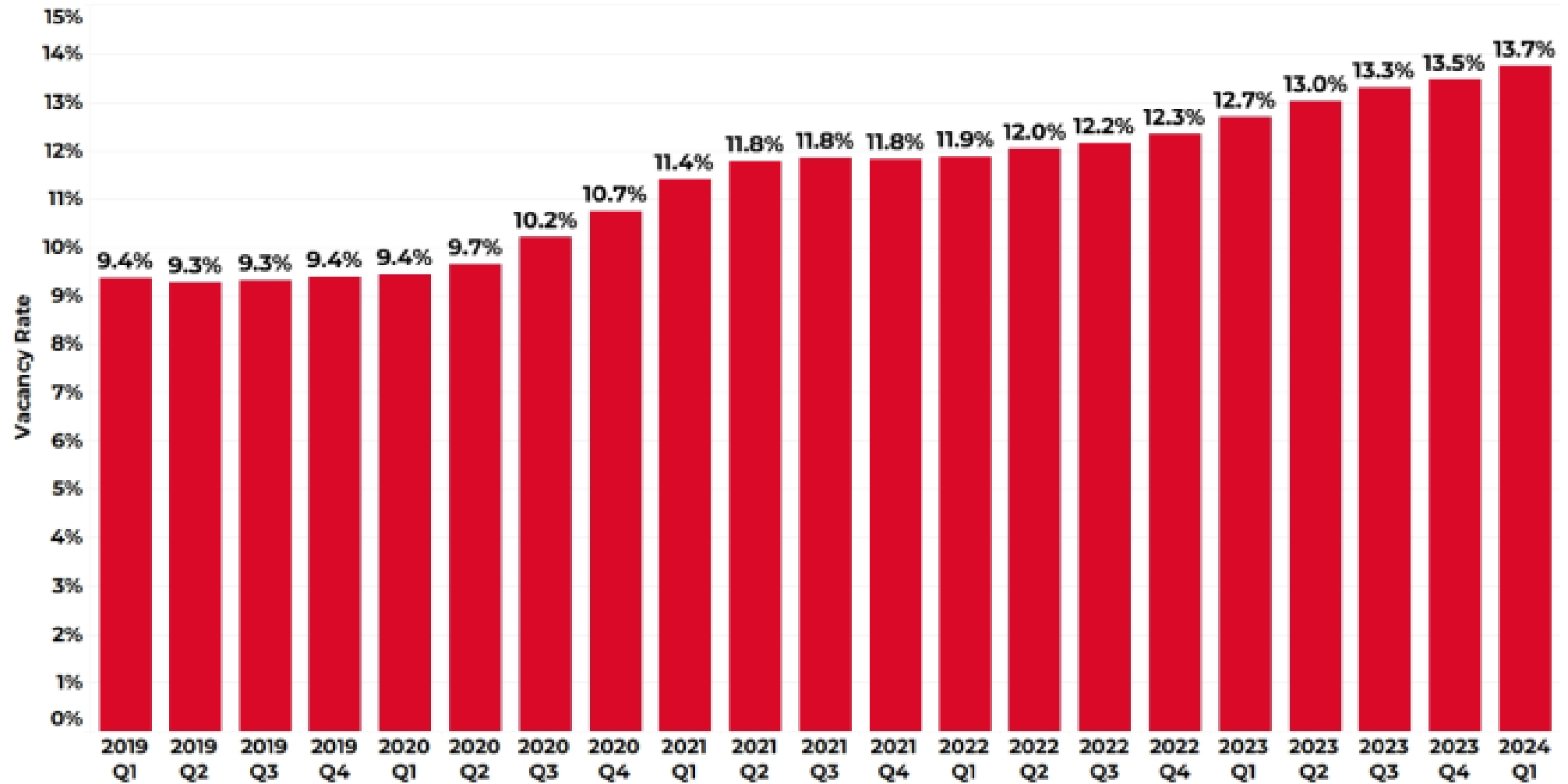
Source: NAR Analysis of CoStar data

# Negative Office Net Absorption ... Post Covid



Source: NAR Analysis of CoStar data

# Office Vacancy Rate



Source: NAR Analysis of CoStar data

# Repurposing Commercial Office Spaces into ???

**Residential Units .. Difficult to do**

**Retail/Restaurant Spaces**

**Private School Learning Centers**

# Outlook

- **Fed to Cut Interest Rates in 2024 and 2025 ... Maybe 6-8 times**
- **10-year Treasury yield settle down at 3.5%**
- **Commercial Property Prices Stabilize and Recover (except Office)**
- **Moderate GDP growth still adds to net leasing and investment sales**
- **Land and Single-family development to do well**

# THANK YOU.



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