

United States Commercial Real Estate Market - Growth, Trends, Covid-19 Impact, and Forecasts (2023 - 2028)

Market Report | 2023-01-23 | 120 pages | Mordor Intelligence

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Report description:

The United States Commercial Real Estate Market is estimated to be valued at more than USD 1 trillion and is expected to record a CAGR of over 3.5% during the forecast period.

While the COVID-19 pandemic continued to impact the US real estate market, specific sectors began to show signs of moderate recovery throughout 2021. With the deployment and increasing availability of COVID-19 vaccines during Q1 and Q2 2021, many US states completed phased "re-openings" of their economies, ending stay-at-home and lockdown orders and eliminating real estate capacity restrictions. These measures drove up the consumer demand for goods and services, which was subdued throughout the lockdown. This demand resulted in a modest increase in performance among previously-depressed markets, particularly hospitality, through mid-2021.

Driven by a marked increase in leisure travel, the monthly hotel occupancy rate in the country returned to near pre-pandemic levels during the summer of 2021, with a 69.6% monthly occupancy rate by the end of July, the highest since August 2019.

Retail vacancy levels decreased slightly through mid-2021, continuing a slightly encouraging downward trend that began in Q4 2020. Similarly, a push toward the end of remote work in many industries resulted in a significant quarterly decrease in the rate of new vacancies in Q2 2021.

Despite these positive developments, the overall vacancy levels for the hotel and office sectors remain above pre-pandemic levels, due in part to continued remote work and the lack of a rebound in business travel due to the pandemic. For example, the total US hotel occupancy rate by the end of Q2 2021 was down by 17% compared to Q2 2019. Similarly, the overall national office vacancy level increased by 50 basis points in Q2 2021 to 16.5%. This is just below the peak vacancy level of 16.8%, which was

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recorded following the global financial crisis of 2008. Based on the current speeds of increase in occupancy levels, a full recovery in either sector is not expected until late 2022.

In the retail sector, despite the decreases evidenced in Q1 and Q2 2021, vacancy levels remain at historic highs due to the continued shift in consumer sentiment towards online shopping and rising inflation resulting in part from the pandemic.

US Commercial Real Estate Market Trends

Industrial Sector Expected to Record High Demand

The US commercial real estate market ended 2021 with unprecedented demand, exceptionally low vacancy rates, and record-setting rental growth. Though the supply chain crisis added pressure to many economic factors, the industrial sector benefited from supply chain reconfigurations. While industry demand shifted away from e-commerce in 2021, the existing online shopping practices drove up the demand for 3PL and logistics and distribution.

Since the onset of the pandemic, industrial leasing has increased by more than 24%. The scarce availability of properties in the market continued to push vacancy down in 2021. For the first time in history, vacancy dropped below the 4% threshold, with a vacancy rate of 3.8% reported in 2021. With the strong leasing from prior quarters and tenants shifting properties throughout 2021, the net absorption increased by more than 81% year-over-year. The net absorption significantly exceeded expectations that year, recording over 496.3 million sq. ft. Rents also continued to trend upward as the market grew even more competitive, with the average asking rate at USD 7.11 per sq. ft. Also, the year-over-year rent was up by 11.3%.

Chicago's Office Sector Closed 2021 on a High

After much turbulence, the Chicago suburban office market closed 2021 on a high after realizing year-over-year growth in new lease transactions and improved levels of capital market activity. Overall, leasing realized a slight uptick quarter-over-quarter, but the total activity realized throughout the year grew 14% compared to 2020. The average term increased consecutively over the last three quarters, as tenants became more comfortable signing longer-term deals in the second half of the year. The current average is 66 months, which remains 13% below pre-pandemic standards. While new leasing grew over the course of the year, tenants are disproportionately favoring Class A offices, which accounted for nearly 70% of the new leases executed in 2021.

The overall absorption levels began to plateau as Q4 realized -50,807 sq. ft of absorption. The largest move-outs came from AT&T at 903 National Pkwy and Lake Forest Graduate School at 1300 E Woodfield for 106,380 sq.ft and 56,000 sq.ft, respectively. Much the like the rest of the nation, the Class B office inventory continued to underperform. This was due to large tenant downsizes and a shift in preference to high-quality Class A buildings in order to motivate employees to return to physical workplaces.

Property sales grew substantially in the second half of the year after nine buildings traded hands from Q3 to Q4. A total of 14 buildings were sold in 2021 for just over USD 0.5 billion in transactional volume, which is slightly lower than the usual levels. The largest transaction closed in Deerfield after the four-building 700,000 sq. ft campus, Corporate 500, closed for USD 178 million or USD 256 per square feet. The transaction marked the highest sale price recorded over the last three years.

US Commercial Real Estate Market Competitor Analysis

Commercial real estate in the United States has a low level of market share concentration. The industry is extremely diverse and covers a large sector of the economy. Commercial real estate activity has a medium level of capital intensity. The competition among providers may continue to drive market pricing and contractual terms, creating aggressive leasing scenarios. The key players in the market are Simon Property Group, Franklin Street, Shannon-Waltchack, and Progressive Real Estate Partners.

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The market estimate (ME) sheet in Excel format
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