Commercial Real Estate Market Insights Report

October 2024

National Association of REALTORS®
Research Group

NATIONAL ASSOCIATION OF REALTORS®

Commercial Real Estate

An Overview

September brought positive news for the Commercial Real Estate (CRE) market as the Federal Reserve took steps to ease economic pressures by lowering interest rates by 50 basis points. This decision was highly anticipated by the industry, who welcomed the move as it offers potential relief for borrowing costs and financing conditions in the market. With additional rate cuts on the horizon, there is growing optimism for more favorable market conditions in the months ahead across the CRE sector. While demand for office space is improving with net absorption turning positive, additional supply continues to keep vacancy rates at record highs. In the retail sector, tightness persists due to limited new supply, whereas industrial vacancy rates have steadily risen, leading to a slowdown in rent growth for industrial properties. Meanwhile, the multifamily sector continues to experience a strong rebound, with demand nearing the record high levels seen in 2021.

Below is a summary of the performance of each major commercial real estate sector at the end of the third quarter of the year:

After over two years of negative **office** net absorption, the office sector saw positive net absorption in the third quarter. While many companies embraced remote work, some have gradually shifted back to in-person work. Although the increase was incremental, office spaces leased outnumber those vacated in the year's third quarter. Over half of metro areas now report higher net absorption than a year ago. Net absorption has turned positive in markets like Philadelphia, Dallas, Austin, Sacramento, and Houston, with more than 1 million square feet of office space leased than vacated. However, the office space sector still faces a long way to go for a full recovery. The national office vacancy rate remains at record highs and could increase further.

The **multifamily** sector continued its strong performance even though mortgage rates eased in September, nearing the 6% threshold. Net absorption doubled compared to the previous year, exceeding 530,000 units. However, despite this robust demand for rental units, elevated completions and units under construction have kept the multifamily vacancy rate near 8%, with rent growth holding steady at around 1% over the past year. Looking ahead, rent growth could increase next year as the pace of new deliveries is expected to slow.

Retail space remains exceptionally tight, with available space for lease consistently below 5% over the past couple of years. Demand continues to grow, adding pressure to the market. Particularly as new supply remains limited. In the past 12 months, net deliveries totaled just over 32 million square feet – about 40% below the 10-year average. With fewer retail spaces under construction and strong consumer spending, the sector's fundamentals are expected to remain tight. Additional rate cuts by the Federal Reserve are expected to boost household confidence, supporting further consumer spending.

The **industrial** sector continued to lose momentum in September. Net absorption was nearly 60 percentage points lower than a year ago, while rent growth decelerated significantly, dropping to 3.0% from 7.9%. With additional new supply, the vacancy rate also rose to 6.6% from 5.1%. However, further declines in inflation and interest rates in the coming months may boost demand for goods and the volume of projects that were previously shelved or halted during construction. This usually creates a ripple effect, increasing the need for industrial spaces to manage production, storage, and distribution.

Economy

Job growth (September 2024 compared to March 2020): 5.4%
Inflation (September 2024): 2.4%
Gross Domestic Product (GDP) Q3 2024: 2.8%

In September, the Federal Reserve cut interest rates by 50 basis points. That was a larger reduction than expected. In the meantime, the primary factor influencing the Fed's policy decisions continued to show further signs of easing in September. Inflation fell to 2.4%, approaching the 2% Fed's target. This creates favorable conditions for the Federal Reserve to implement additional rate cuts in the coming months.

The job market grew faster in September

In September, the market added 254,000 new jobs, which is above the average monthly gain of 203,000 over the past 12 months. As a result, the unemployment rate fell to 4.1% but remained higher than a year ago.

Specifically, the total number of job positions increased to 159.0 million in September. In the first 9 months of the year, the economy had welcomed about 1.7 million new jobs. Since the onset of the pandemic in March 2020, the U.S. has successfully generated over 8.1 million jobs.

Number of Jobs

March 2020	**150.9 million**
September 2023	**156.7 million**
September 2024	**159.0 million**

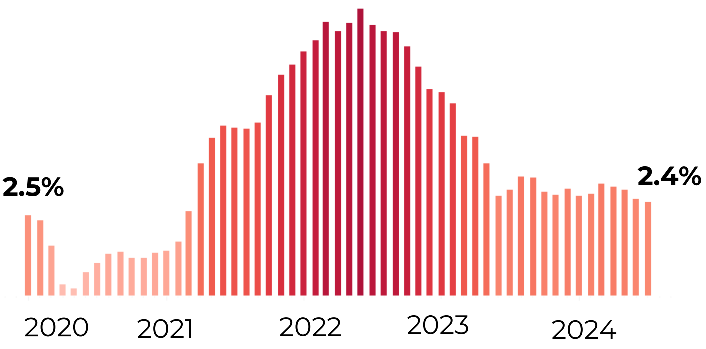
Source: NAR analysis of U.S Bureau of Labor Statistics data

Inflation fell to 2.4% in September

Inflation decreased further to 2.4% in September, the lowest seen since February 2021. Although inflation hasn't yet reached the Fed's 2% target, it has shown consistent signs of easing, which will allow the Fed to cut rates multiple times in the remainder of the year and the year ahead.

Meanwhile, data from the private sector suggests that rent growth, which usually represents 40% of the CPI basket, will decelerate further in the coming months. This will further help to bring down the inflation rate.

Inflation



Source: NAR analysis of U.S Bureau of Labor Statistics data

Interest rates are 50 basis points lower

The Federal Reserve reduced interest rates by 50 basis points - a larger cut than expected. With inflation slowing and job growth moderating, further rate reductions are expected in the coming months and into next year. As interest rates form the basis of borrowing costs, this decrease is anticipated to stimulate investment activity within commercial real estate.

The economy grew slightly slower in Q3 2024

In the third quarter of the year, the economy grew at a 2.8% pace in Q2 2024, slower than a 3.0% increase in the second quarter. Strong consumer spending has helped to keep growth close to the 3% mark, but the jump in imports has contributed to the slowdown from the previous quarter. However, compared to other countries, the U.S. economy continues to outperform.

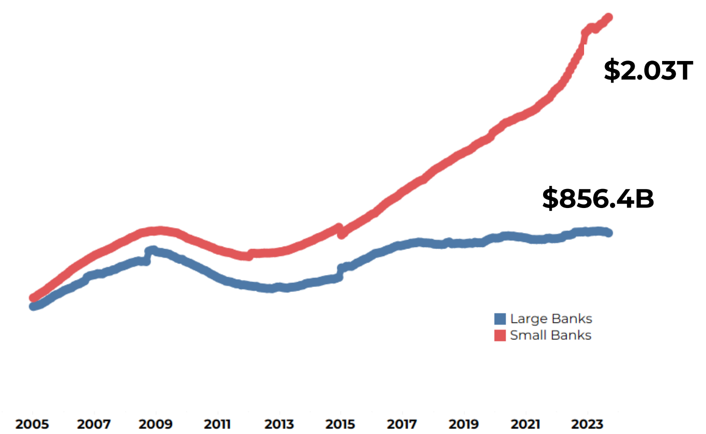
Commercial Real Estate Lending

CRE loans (September 2024): $3 trillion
Delinquency rate of CRE loans (Q2 2024): 1.42%
Office delinquency rate (Q3 2024): 7.8%

CRE debt fell slightly below $3 trillion in September
In September, commercial real estate debt fell below $3 trillion, even with the Federal Reserve's 50 basis points rate cut. However, additional rate reductions are expected to stimulate CRE investment activity in the months ahead.

By bank size, within large domestically chartered banks, the volume of CRE loans fell further to $856.4 billion from $881.6 billion a year earlier. Nevertheless, the CRE loans of small domestically chartered banks continued to grow in September, rising 4% compared to a year ago.

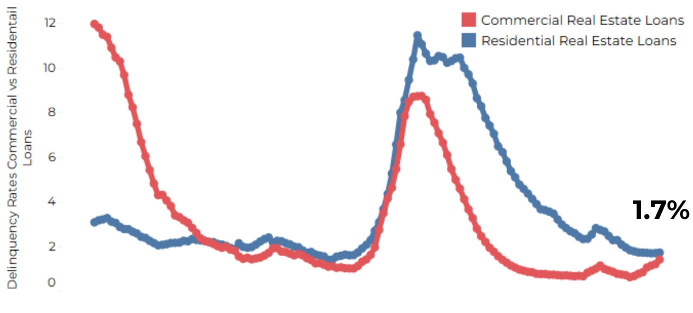
Commercial Real Estate Debt for Small and Large Banks (September 2024)



Source Federal Reserve

CRE delinquency rates significantly increased in Q2 2024
The Federal Reserve also provides data on delinquency rates for both commercial real estate (CRE) and residential loans. According to the latest data, delinquency rates for commercial loans significantly rose in Q2 2024. However, these loans maintained lower delinquency rates compared to residential loans. Specifically, the CRE delinquency rate was 0.85% in Q2 2023, and currently, it stands at 1.42%. Nonetheless, when delving into historical records, the delinquency rate for CRE loans consistently stays historically low, below 3.5%.

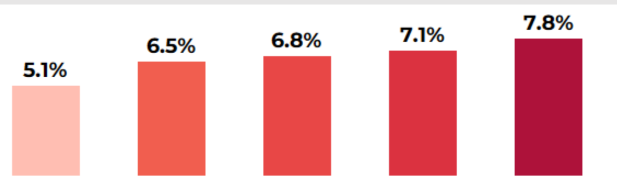
Delinquency rates Commercial vs Residential loans (Q2 2024)



Source Federal Reserve

Office delinquency rates rose again in Q3 2024
According to the Mortgage Bankers Association, 7.8% of office property loan balances were 30 days or more delinquent during the third quarter of the year, surpassing those of loans backed by retail and hotel properties. This is an increase from the 7.1% recorded at the end of the second quarter and a substantial jump from the 5.1% reported a year ago (Q3 2023). Although demand for office space is improving, concerns regarding the health of these commercial loans continue to grow. Given that delinquent loans backed by office properties represent nearly 30% of the Commercial Mortgage-Backed Securities (CMBS) outstanding, the condition of these office loans has a large impact on the outlook of this sector.

Delinquency rates for loans backed by office properties (Q3 2024)



Source Mortgage Bankers Association (MBA)

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Office

Net absorption in the last 12 months: -30.7 million sq.ft.
Rent growth in the last 12 months: 0.9%
Cap rate: 8.6%

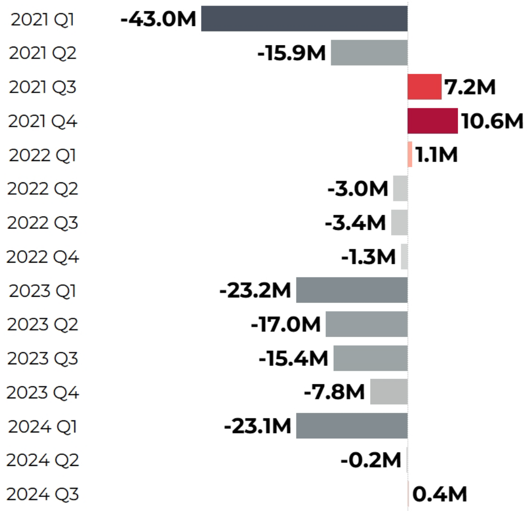
Remote and hybrid work trends persist, but office space absorption turned positive in Q3 2024—the first gain since early 2022—as employers encourage a return to offices. Vacancy rates held at 13.8%, while rent growth slowed to 0.9%. Although new office space deliveries are moderating, they continue to outpace absorption by a 13:1 ratio, highlighting a persistent supply-demand imbalance in the office market.

All office classes faced negative absorption, but Class A spaces were hit hardest, with vacancy rates up 1% to 20.2% over the past year. Class B spaces, with lower negative absorption for the fourth straight quarter, now have an 11.7% vacancy rate, below the 13.8% national average. Class C spaces, focused on cost-saving, have the lowest vacancy at 5.1%.

The largest outflow of office space occurred in Washington, DC, and Phoenix, AZ. While San Francisco still faces challenges, the pace of office exits has slowed significantly, from -3M SF a year ago to -0.5M SF this quarter.

Top markets like Dallas-Fort Worth and New York absorbed over 1M SF of office space this quarter. New York notably reversed from -1.75M SF a year ago to rank as a top 2 market.

Quarterly Net Absorption in sq. ft



Top 10 areas with the largest quarterly absorption

	2024 Q3	2023 Q3
Dallas-Fort Worth, TX	1.98M	0.84M
New York, NY	1.38M	-1.75M
Detroit, MI	0.81M	0.23M
Columbia, SC	0.64M	0.25M
Kansas City, MO	0.61M	0.02M
Jacksonville, FL	0.51M	-0.20M
Houston, TX	0.48M	-0.54M
Las Vegas, NV	0.45M	-0.02M
Little Rock, AR	0.44M	-0.16M
Memphis, TN	0.39M	-0.24M

Top 10 areas with the lowest quarterly absorption

	2024 Q3	2023 Q3
Washington, DC	-1.50M	-1.26M
Phoenix, AZ	-0.98M	-0.70M
Atlanta, GA	-0.84M	-1.15M
San Jose, CA	-0.69M	-0.04M
Minneapolis, MN	-0.61M	-0.66M
Buffalo, NY	-0.61M	0.16M
San Francisco, CA	-0.54M	-3.08M
Boston, MA	-0.42M	-0.08M
Scranton, PA	-0.35M	-0.13M
Akron, OH	-0.31M	-0.03M

Source: NAR analysis of CoStar data

Multifamily

Absorption of units in the last 12 months: 536,991 units
Rent growth in the last 12 months: 1.1%
Cap rate: 6.1%

With the third quarter of 2024 now concluded, the multifamily housing market is stabilizing amidst high absorption rates fueled by strong rental demand. A 115% increase in 12-month net absorption now totals nearly 537,000 units. Over the past year, deliveries have risen by 22%, while units under construction have been gradually tapering. Although new supply still outpaces absorption by 26%, vacancy rates have moderated slightly to 7.8%. Rent growth remains stagnant at a modest 1.1%, reflecting the current balance between demand and supply.

Class A multifamily properties have seen their vacancy rate increase by 0.7% over the past year to 10.8%, the highest among multifamily segments. These properties have recorded an annual rent growth of just 0.4%. In contrast, Class B properties, which usually have lower absorption rates, are seeing growing demand for the fifth quarter in a row. With a lower vacancy rate of 8.8%, Class B properties achieved a 1.0% increase in rent over the past year. This trend underscores financial challenges as more people seek affordable housing options amidst inflation, staying above the 2% target.

Although rent growth is slow across the country, certain Sun Belt metros are experiencing sharper drops due to property oversupply, with rents falling by over 3% in Fort Myers, FL, Austin, TX, and Naples, FL. In contrast, cities like South Bend and Evansville, IN, Rockford, IL, and Lancaster, PA, defy the trend, posting rent increases above 5%, well above the national average of 1.1%.

In large metros such as Dallas-Fort Worth, TX, and New York, NY, over 24,000 multifamily units were absorbed in the year ending September. This jump in demand highlights the rental market's resilience in these high-cost areas.

Top 10 areas with the strongest 12-month absorption

	2024 Q3	2023 Q3
Dallas-Fort Worth, TX	25,136	8,697
New York, NY	24,248	19,243
Houston, TX	19,215	8,720
Atlanta, GA	19,163	3,360
Austin, TX	18,681	6,972
Phoenix, AZ	18,255	8,973
Washington, DC	15,294	9,083
Orlando, FL	13,831	4,679
Seattle, WA	11,858	5,534
Nashville, TN	11,588	5,731

Top 10 areas with steepest 12 Mo rent rises

	2024 Q3	2023 Q3
Evansville, IN	6.82%	2.08%
South Bend, IN	5.83%	-0.23%
Rockford, IL	5.30%	7.82%
Lancaster, PA	5.16%	5.25%
Youngstown, OH	4.79%	5.21%
Montgomery, AL	4.79%	1.87%
Lexington, KY	4.57%	4.65%
Providence, RI	4.56%	5.48%
Poughkeepsie, NY	4.53%	2.56%
Hartford, CT	4.46%	4.10%

Source: NAR analysis of CoStar data

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Retail

Net absorption in the last 12 months: 32.4 million sq. ft.
Rent growth in the last 12 months: 2.3%
Cap rate: 6.9%

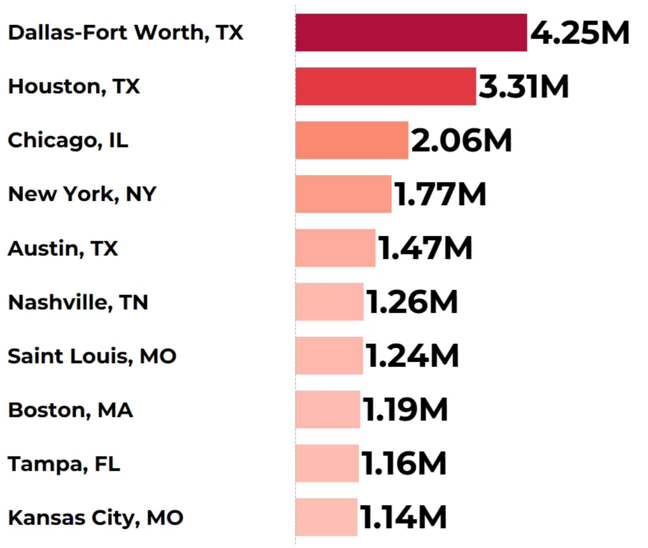
From 2014 to 2017, retail real estate saw strong net absorption, peaking before e-commerce began impacting demand. The growth of online shopping slowed retail absorption, even before COVID-19, which then accelerated this shift. Over the past year, net absorption declined by 44%, and rent growth dropped from 3.9% to 2.3%, reflecting a steady shift toward e-commerce and reduced demand for physical retail space.

General retail and neighborhood centers have driven around 82% of positive net absorption in the year ending September 2024. However, neighborhood centers' share of absorption fell from 30% in Q3 2023 to 11% in Q4 2024, while General Retail's share rose from 63% to 71%. Meanwhile, malls saw 1.9 million square feet vacated, pushing their vacancy rate to a record 8.7%.

The overall retail vacancy rate has remained at a record low of 4.1% for the 7th consecutive quarter, with deliveries only slightly surpassing absorption.

General Retail maintains the lowest vacancy rate at 2.5%. Neighborhood Centers and Strip Centers recorded the highest rent increases, at 5.9% and 4.7%, respectively.

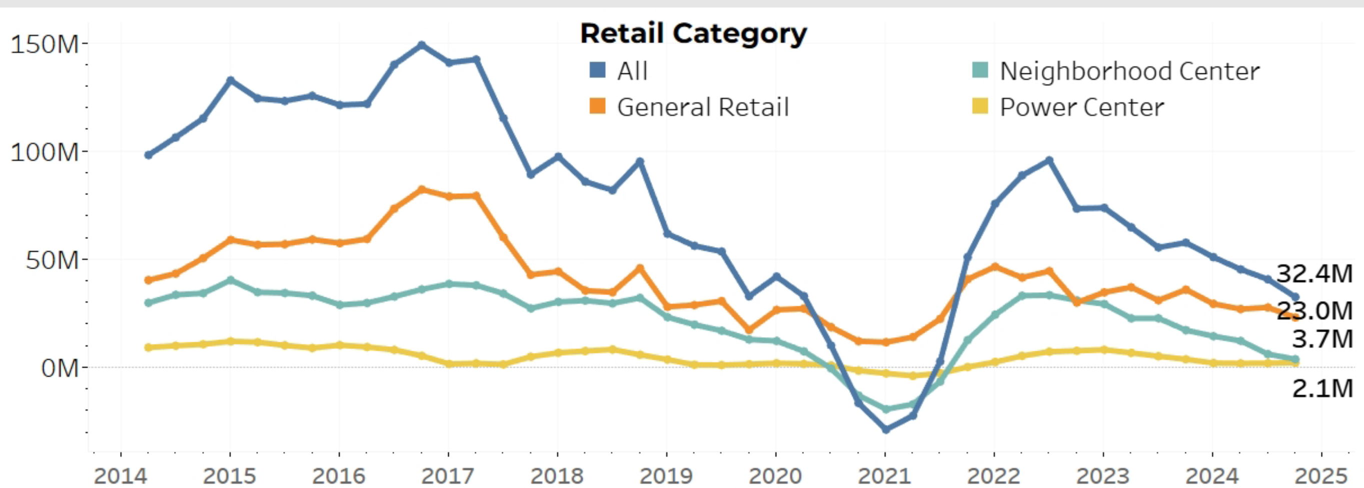
Top 10 areas with the strongest net absorption in the last 12 months



In September, Richmond, UT, Columbus, OH, and Atlanta, GA, saw rent increases exceeding 7% compared to the previous year. In contrast, Los Angeles, CA, faced rent decreases of over 3.9%.

Additionally, Texas is thriving in the retail real estate sector, with Dallas-Fort Worth and Houston achieving the highest retail space absorption rates in the country, each exceeding 3 million square feet as of September 2024.

Net Absorption 12 Mo by type (Q1 2014 – Q3 2024)



Source: NAR analysis of CoStar data

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Industrial

Net absorption in the last 12 months: 112.3 million sq. ft.
Rent growth in the last 12 months: 3.0%
Cap rate: 7.4%

The industrial real estate market, which boomed in 2022, has since slowed down. Between September 2023 and September 2024, net absorption dropped by 56%, hitting a decade low of 112.3 million square feet. Additionally, new property deliveries are exceeding absorption at a 4:1 ratio, pushing the vacancy rate up by 1.5% to 6.6%. Although rent growth has slowed to 3.0%, it still outpaces other sectors.

Logistics spaces remain the primary driver of positive absorption, contributing 28.9 million square feet this quarter. Specialized spaces followed, absorbing 6.6 million square feet—a significant turnaround from last quarter's negative absorption. In contrast, Flex spaces experienced a decline, with 5.2 million square feet vacated this quarter. Rent trends varied across segments: while Logistics and Specialized spaces saw a slight rent decline of 0.1%, Flex spaces managed to achieve a 0.2% increase in rent.

Dallas-Fort Worth, TX, led in industrial space absorption this quarter, followed closely by Houston, TX, with each market absorbing over 5 million square feet in Q3 2024. In contrast, Charlotte, NC, Reno, NV, and Boston, MA, each saw over 1.5 million square feet of industrial space vacated. Reno, NV, also had one of the nation's highest vacancy rates at 11.2% and one of the lowest rent growth of -1.4%.

This quarter, several metro areas saw notable shifts in rent growth. Cleveland, OH, Memphis, TN, and Saint Louis, MO, each posted significant rent increases, rising over 1.5%. On the other hand, Los Angeles, CA, Tampa, FL, and Seattle, WA, faced substantial declines, with rents dropping by more than 1.8% in Q3 2024.

Top 10 areas with the strongest quarterly absorption

	2024 Q3	2023 Q3
Dallas-Fort Worth, TX	5.97M	9.35M
Houston, TX	5.96M	6.98M
Savannah, GA	4.10M	2.41M
Indianapolis, IN	3.34M	1.68M
Chicago, IL	2.85M	6.16M
Denver, CO	2.62M	-0.20M
Salt Lake City, UT	2.55M	1.93M
Davenport, IA	2.53M	0.10M
Saint Louis, MO	2.08M	0.48M
Phoenix, AZ	2.07M	4.64M

Top 10 areas with the weakest quarterly absorption

	2024 Q3	2023 Q3
Charlotte, NC	-2.06M	1.22M
Reno, NV	-1.71M	0.70M
Boston, MA	-1.59M	0.47M
Detroit, MI	-1.34M	2.06M
Los Angeles, CA	-1.28M	-1.18M
Inland Empire, CA	-1.00M	-4.52M
Winston-Salem, NC	-0.93M	-0.82M
Milwaukee, WI	-0.86M	0.59M
Spartanburg, SC	-0.68M	0.59M
Greensboro, NC	-0.59M	0.53M

Source: NAR analysis of CoStar data

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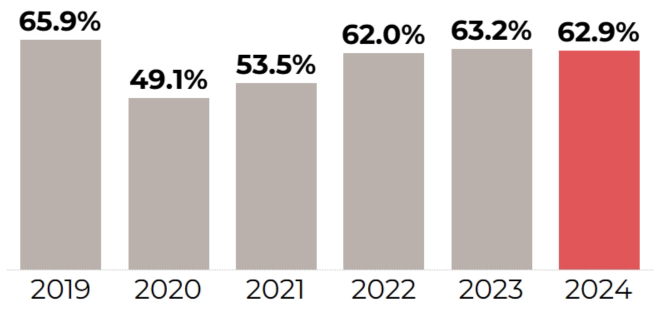
Hotel

Occupancy rate in the last 12 months: 62.9%
Average daily rate in the last 12 months: $158/room
Revenue per available room in the last 12 months: $99/room

As Q3 2024 concludes, the hospitality industry remains stable. Hotel occupancy rates are holding at around 63%, about 3% below pre-pandemic levels, indicating that a full recovery may be challenging due to the rise of remote work. However, average daily rates and revenue per available room have now surpassed pre-pandemic figures.

12-month Occupancy Rate in September



In September 2024, the average daily rate (ADR) for hotel rooms reached $158, reflecting a 20% increase since September 2019. Meanwhile, the revenue per available room (RevPAR) climbed to $99, marking a 15% rise compared to the same month in 2019.

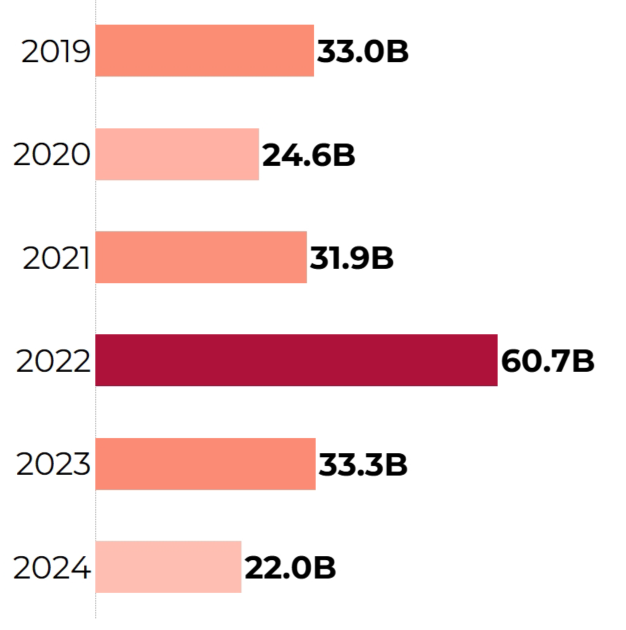
12-month ADR and RevPAR in September

	Average daily rate	Revenue per available room
2019	$131	$87
2020	$114	$56
2021	$116	$62
2022	$145	$90
2023	$155	$98
2024	$158	$99

ADR is the total revenue/number of rooms.
RevPAR is ADR x occupancy rate.

Sales acquisitions have declined since the last year. In September 2024, the 12-month sales volume dropped to $22.0 billion, from $33.3 billion in the previous year.

12-month Sales Volume as of September



Source: NAR analysis of CoStar data

At the local level, the hospitality sector on Hawaii's Kauai Island is flourishing, with the Average Daily Rate (ADR) increasing by 58%, Revenue per Available Room (RevPAR) rising by 52% from pre-pandemic levels, and an impressive occupancy rate of 70%. Maui Island leads the nation with outstanding figures, with an ADR of $544 and a RevPAR of $352. Meanwhile, New York City holds the highest hotel occupancy rate at 84%.

Conversely, regions in California, especially San Francisco/San Mateo and San Jose/Santa Cruz, are still facing significant challenges, with RevPAR remaining 10% and 12% below pre-pandemic levels, respectively, indicating ongoing recovery difficulties.

COMMERCIAL REAL ESTATE REPORT
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LAWRENCE YUN, PhD
Chief Economist & Senior Vice President for Research

MEREDITH DUNN
Research Manager

NADIA EVANGELOU
Senior Economist, Director of Real Estate Research

OLEH SOROKIN
Data Analyst, Commercial Real Estate

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500 New Jersey Avenue, NW
Washington, DC 20001
202.383.1000

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