



2024

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# Commercial Economic Issues & Trends Forum

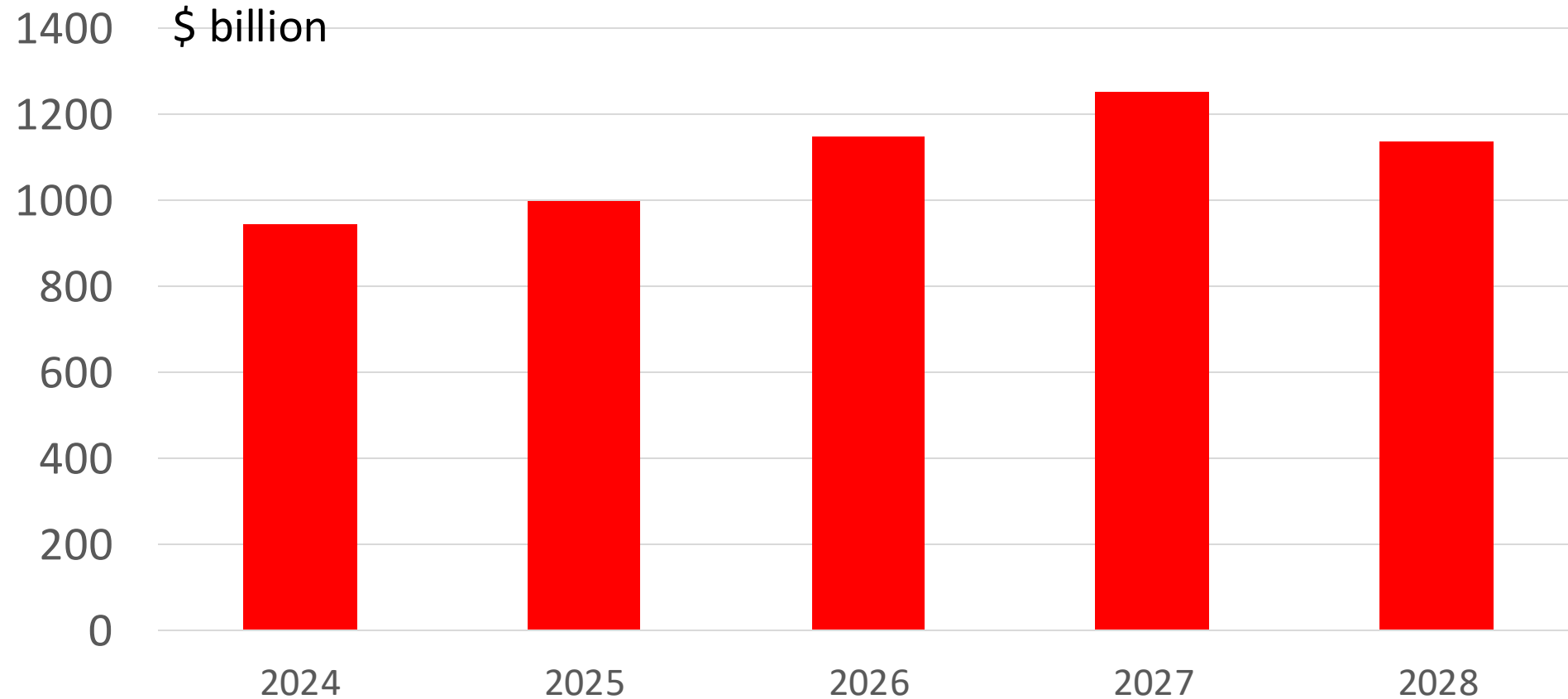
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**Lawrence Yun, NAR Chief Economist**

NAR NXT • Boston, MA • November 2024



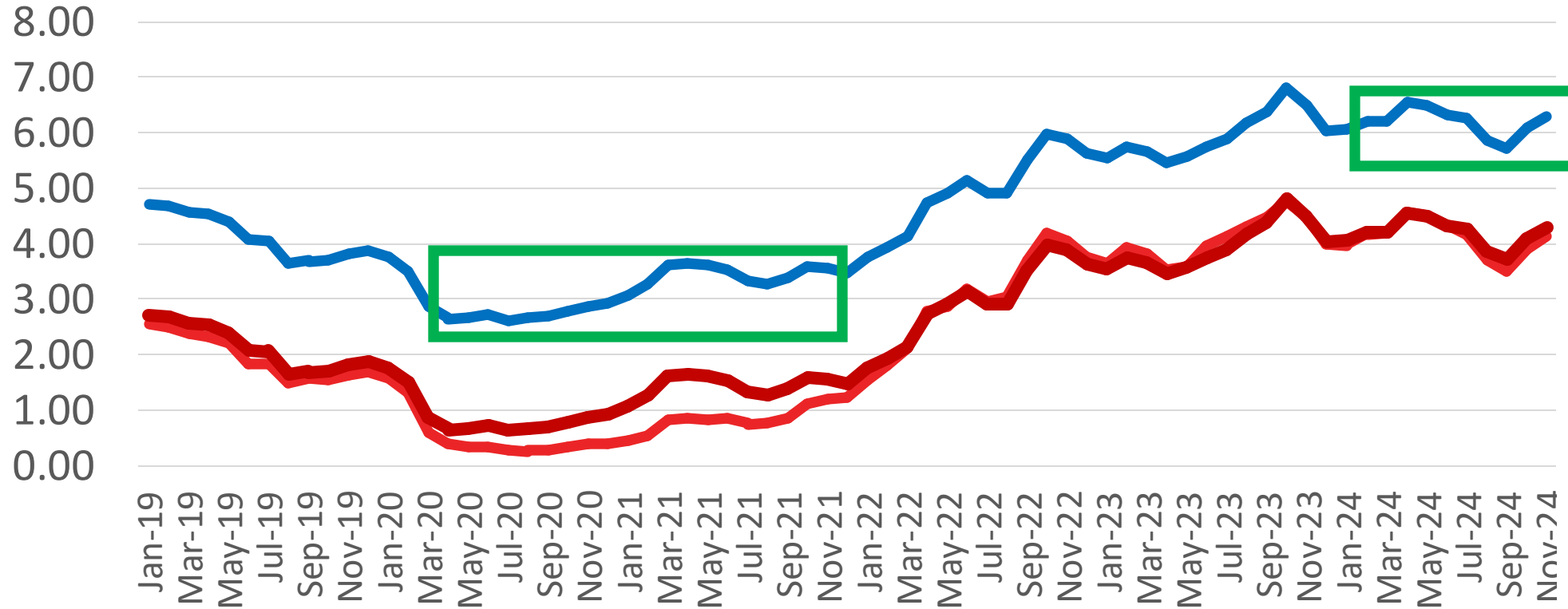
# Bad News: CRE Loans Coming Due



Source: S&P Global

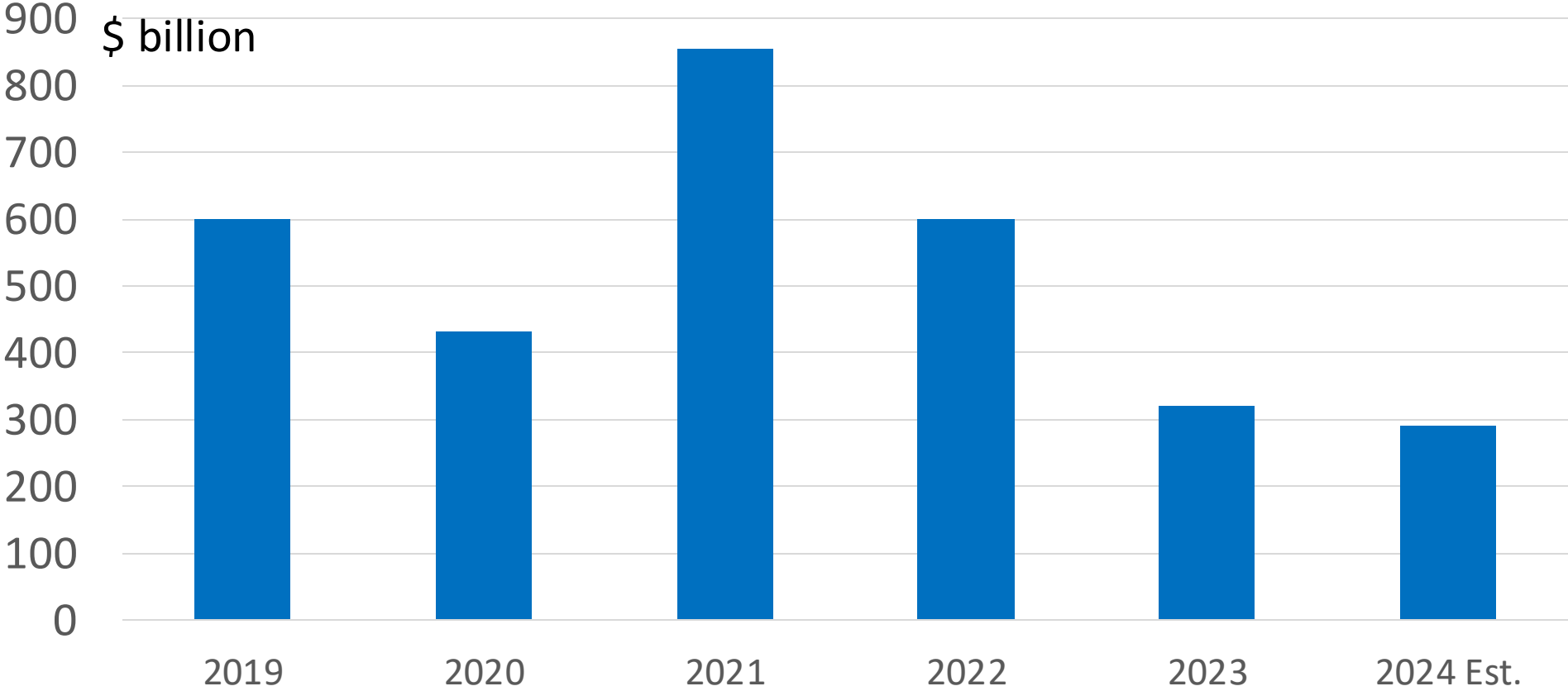
# Commercial Real Estate Loan Rate

## Based on 5-Year and 10-Year Treasury Yield



Source: U.S. Treasury and Federal Reserve, NAR Estimate of CRE loan rate

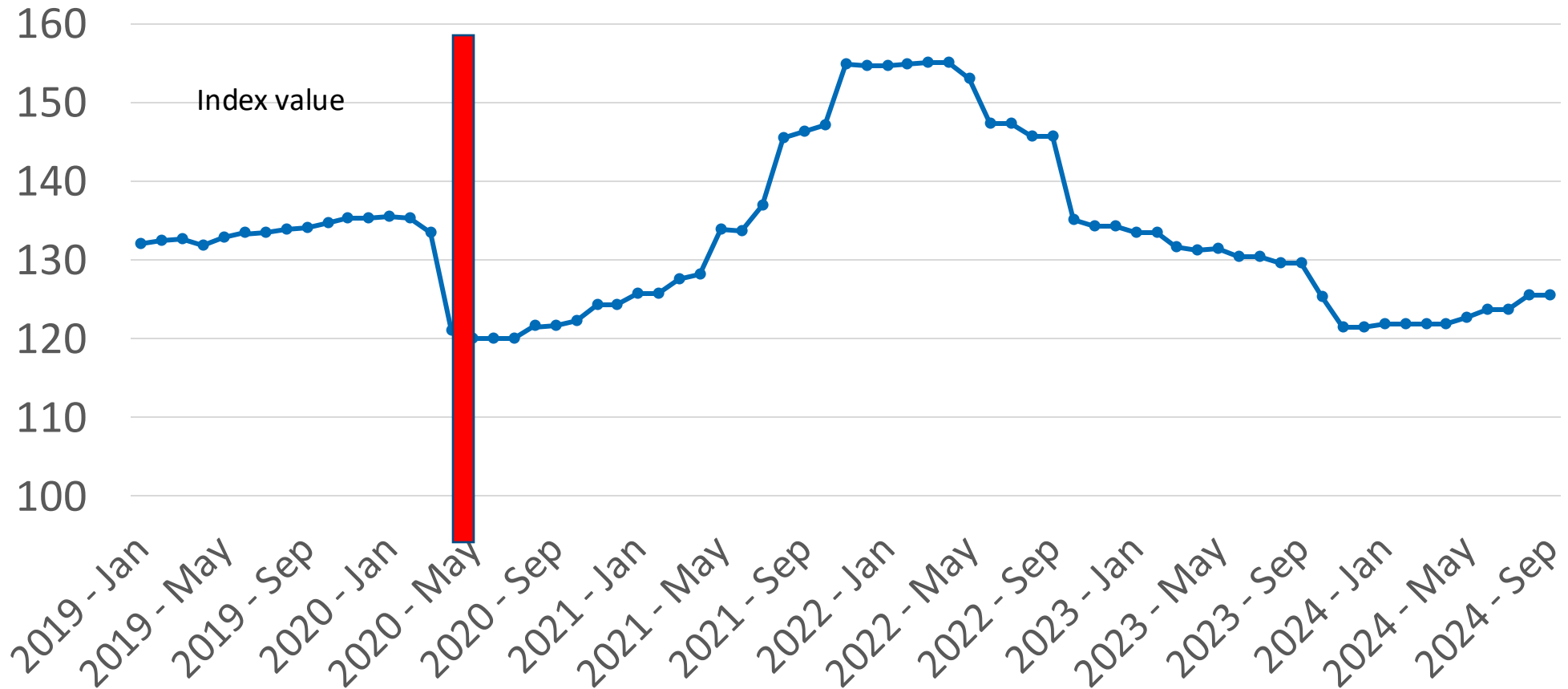
# Commercial Transaction Volume ... Below Pre-COVID



Source: MSCI, Real Capital Analytics

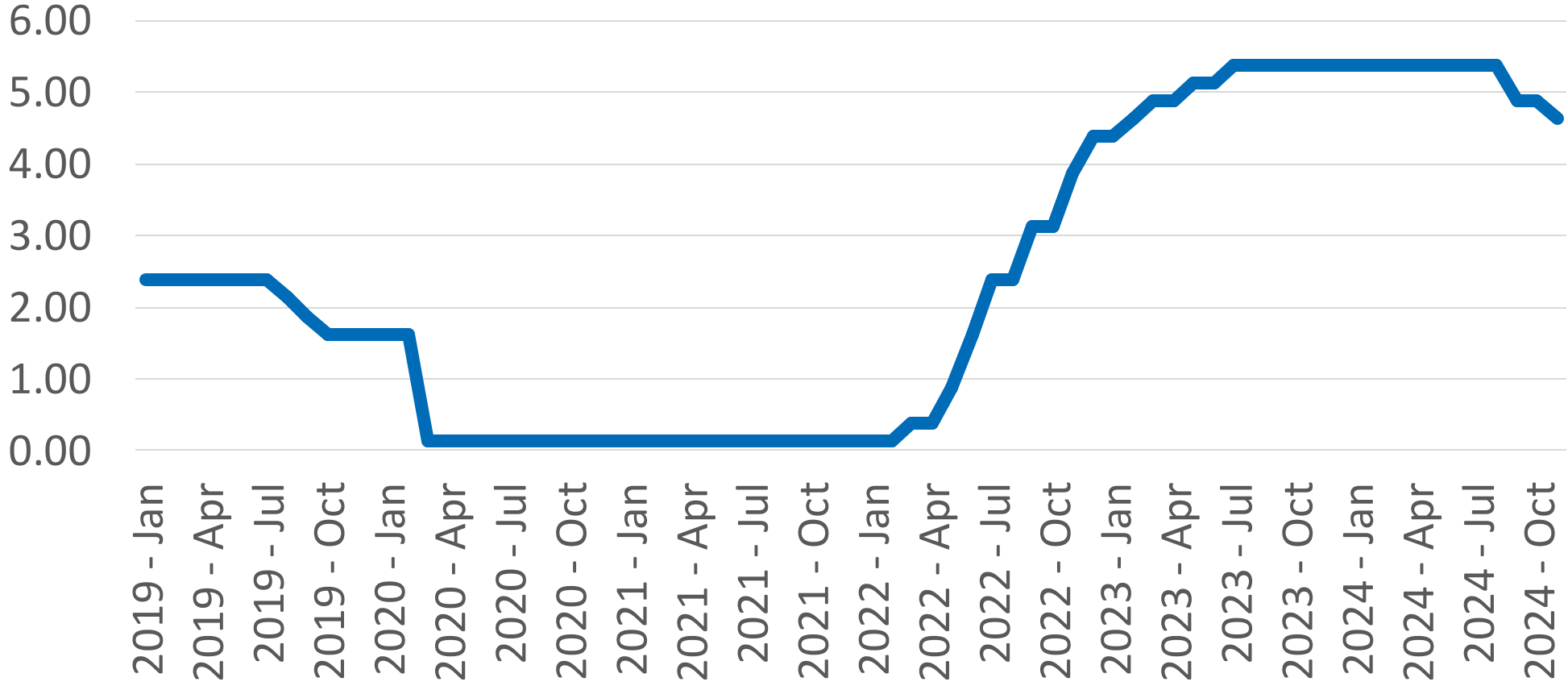


# Refinancing Easier if Commercial Property Prices Recover



Source: Green Street Commercial Price Index

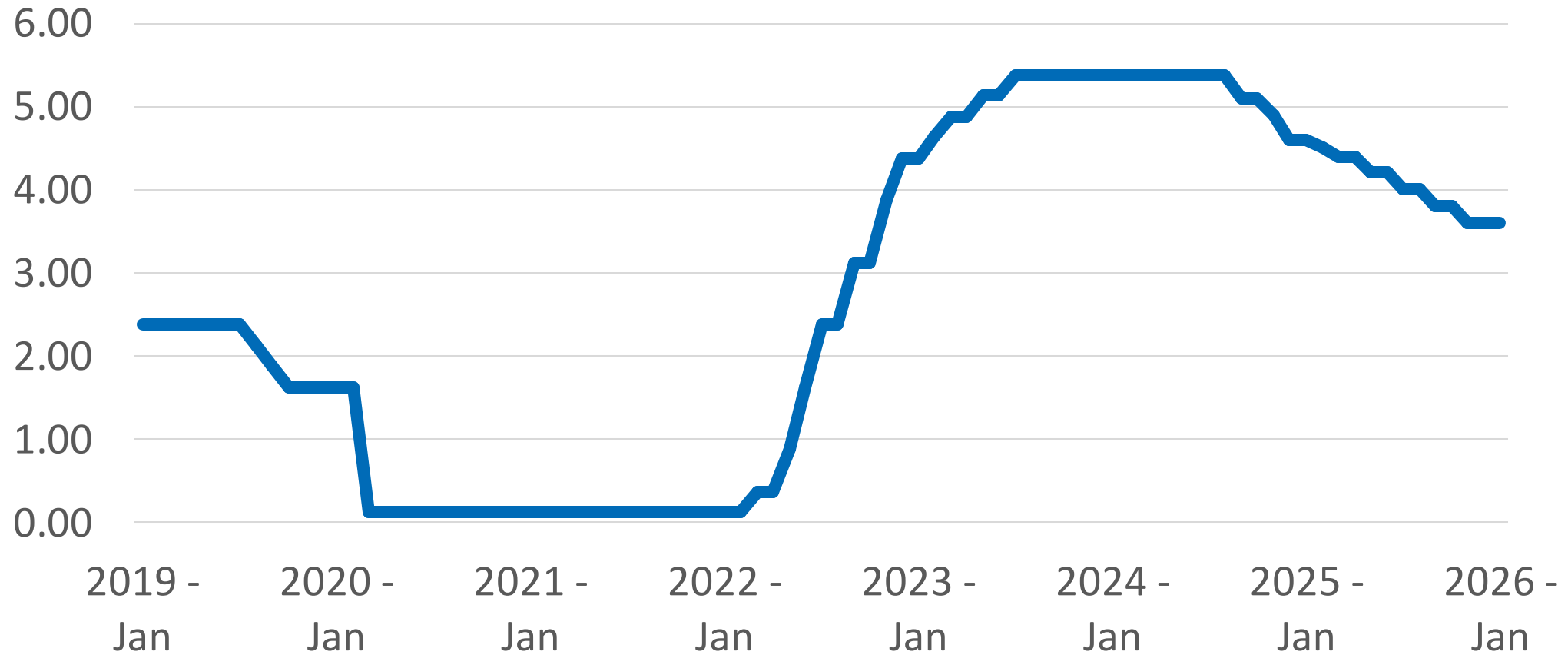
# Fed Funds Rate ... cut in September and November



Source: U.S. Treasury and Federal Reserve



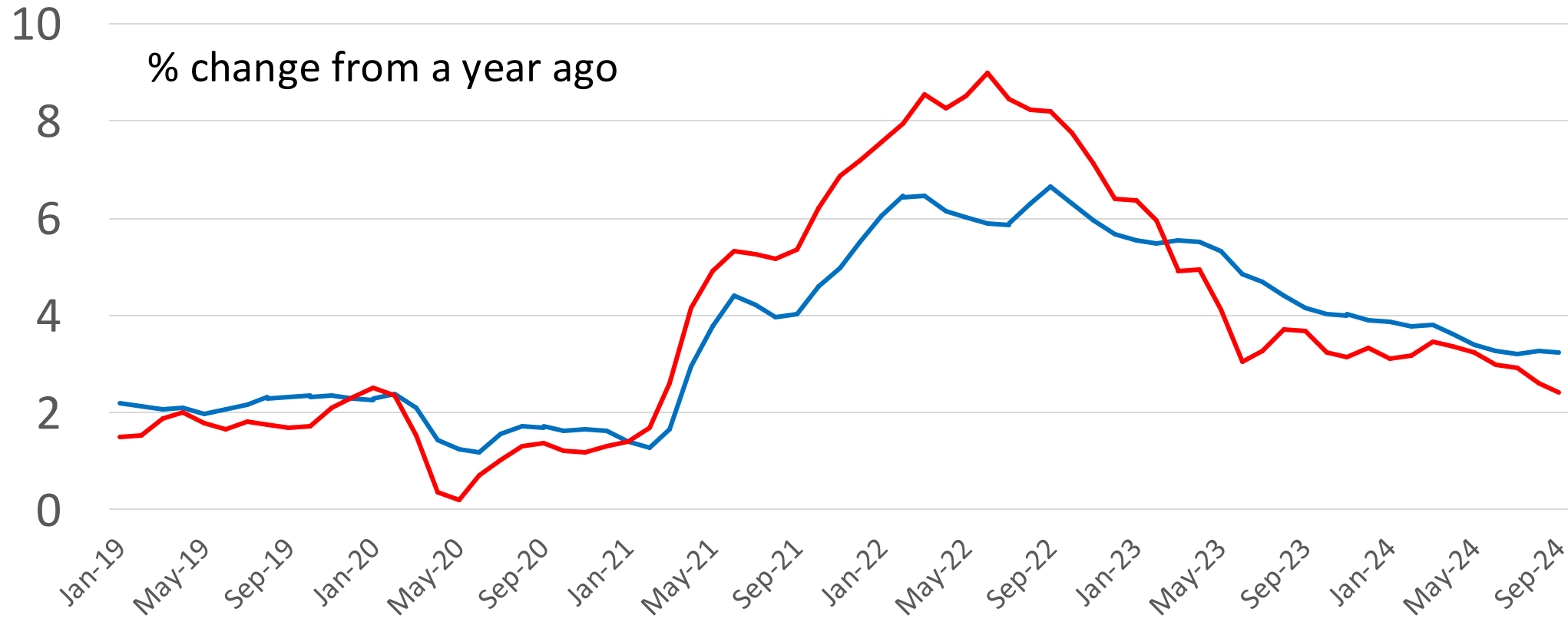
# Fed Funds Rate ... further cuts in 2025 ... but not back to 2019 level



Source: NAR Forecast



# Consumer Price Inflation (in red) ... above 2% Core CPI (in blue) ... above 3% Fed desires 2%



Source: BLS

**Upcoming Rent Growth should be Calmer**

**Future CPI should be Calmer**

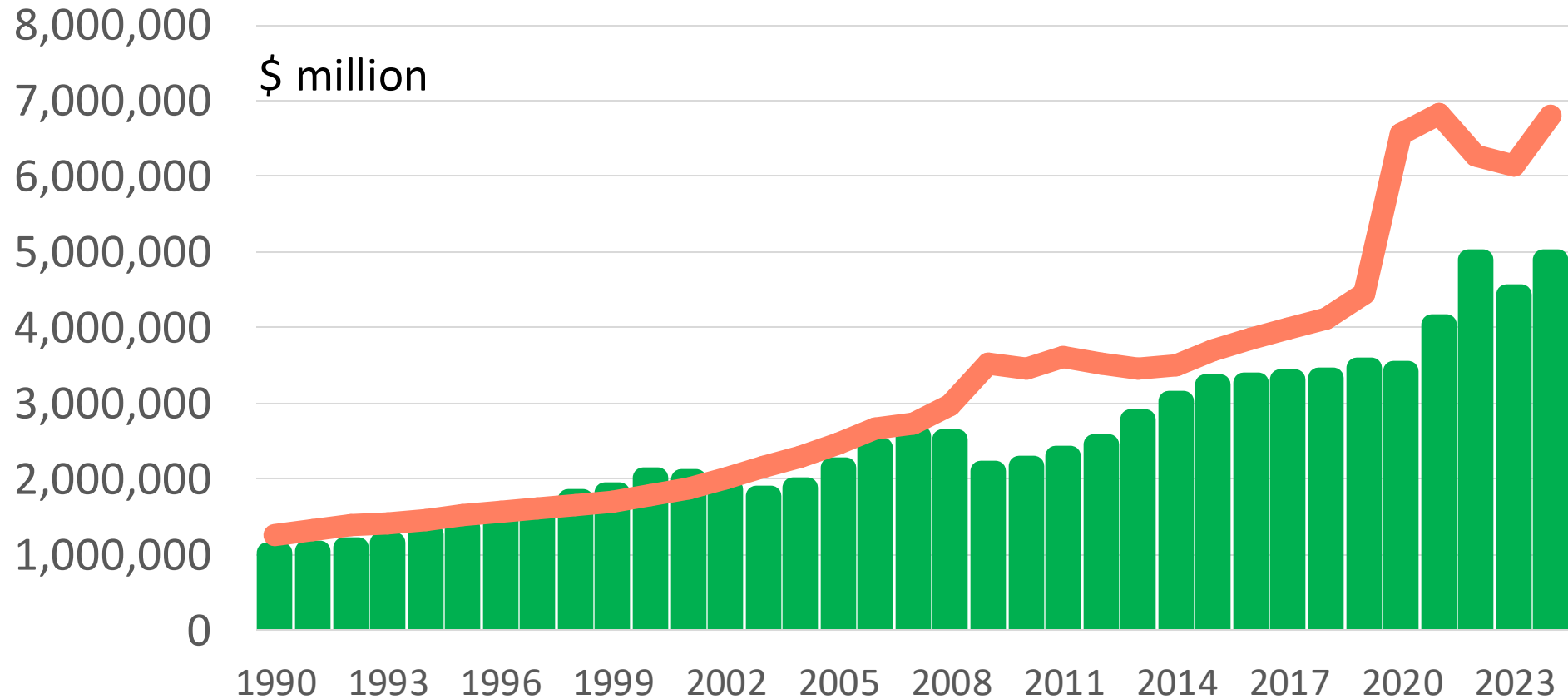
**The Fed can cut interest rates ... 6 to 8 rounds**

**But**

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

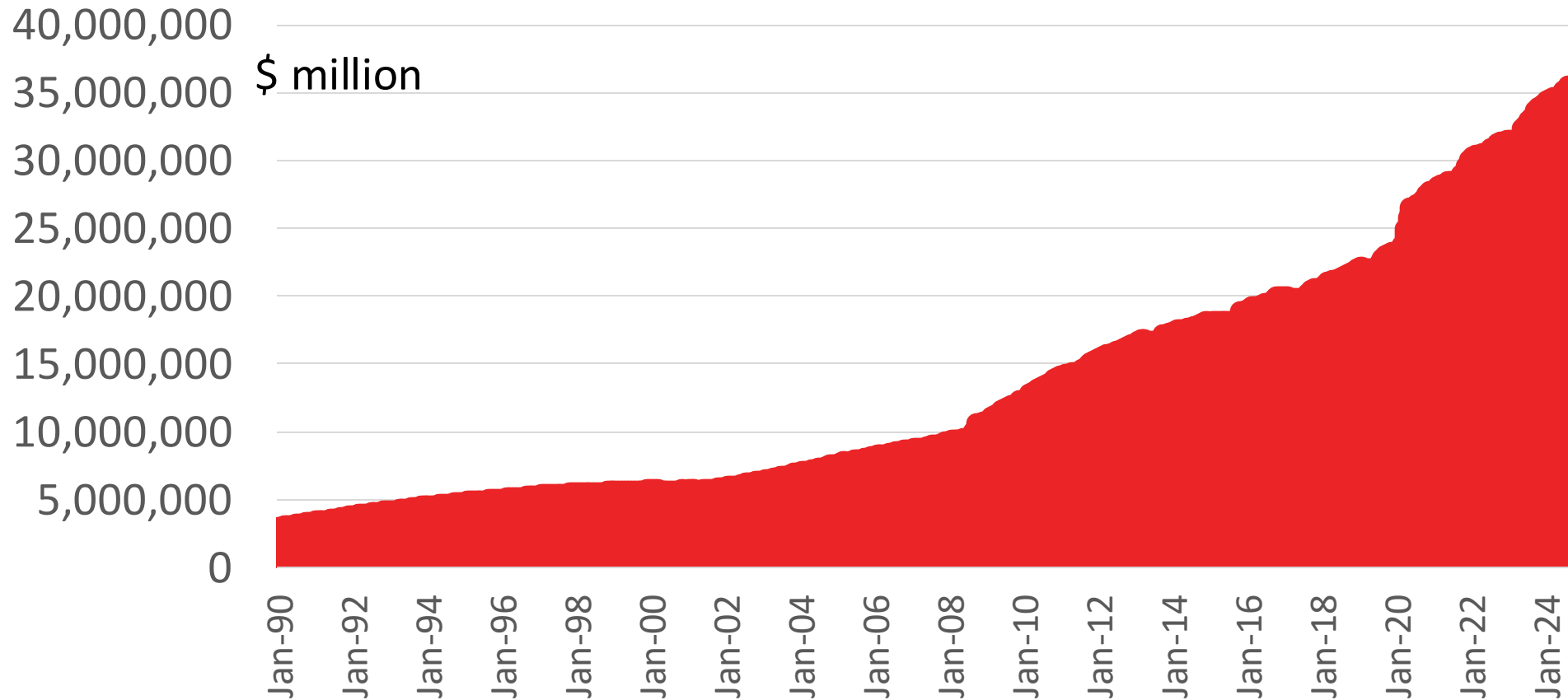
**Future Rent (in 2-3 years) could accelerate**

# Government Outlay > Tax Revenue



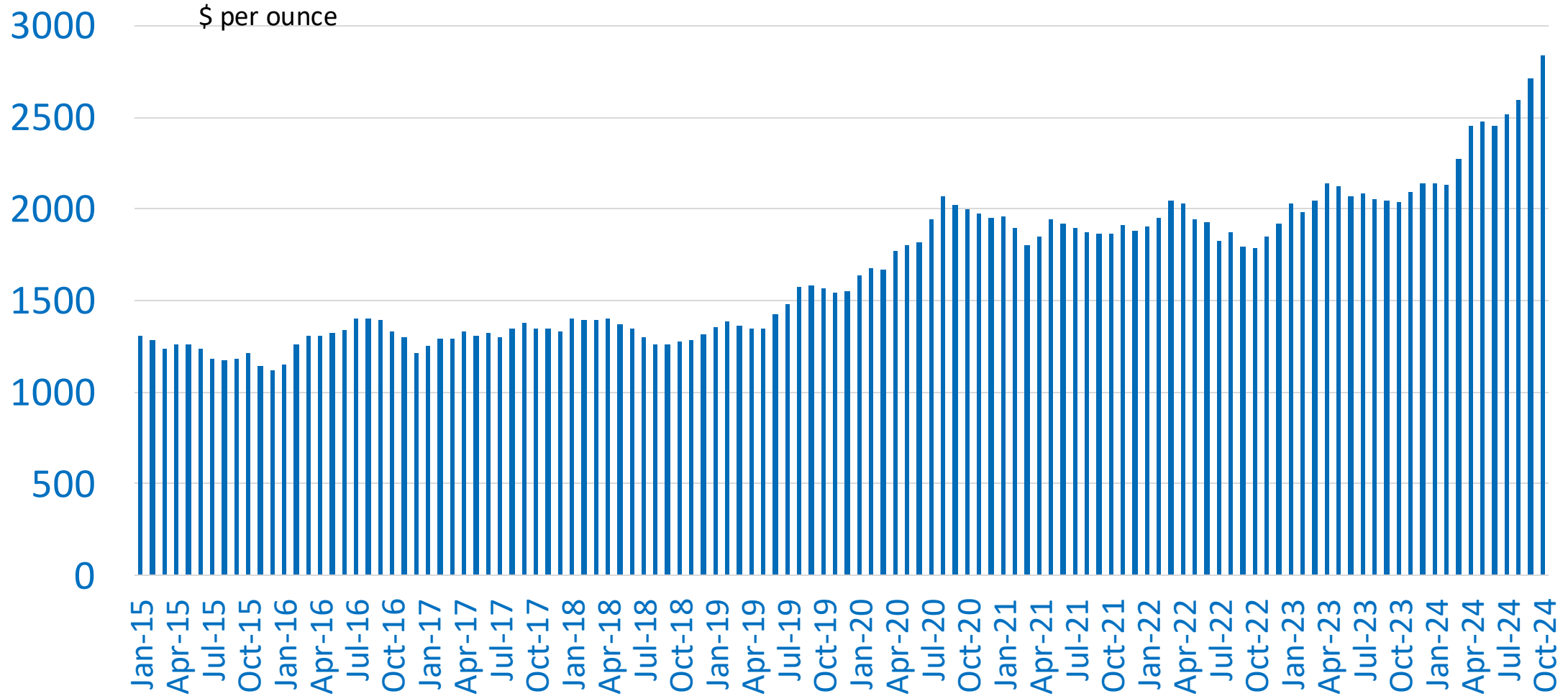
Source: Congressional Budget Office

# National Debt (cumulative of all past deficits)



Source: Congressional Budget Office

# Gold Price



Source: American Eagle Gold Price per troy ounce

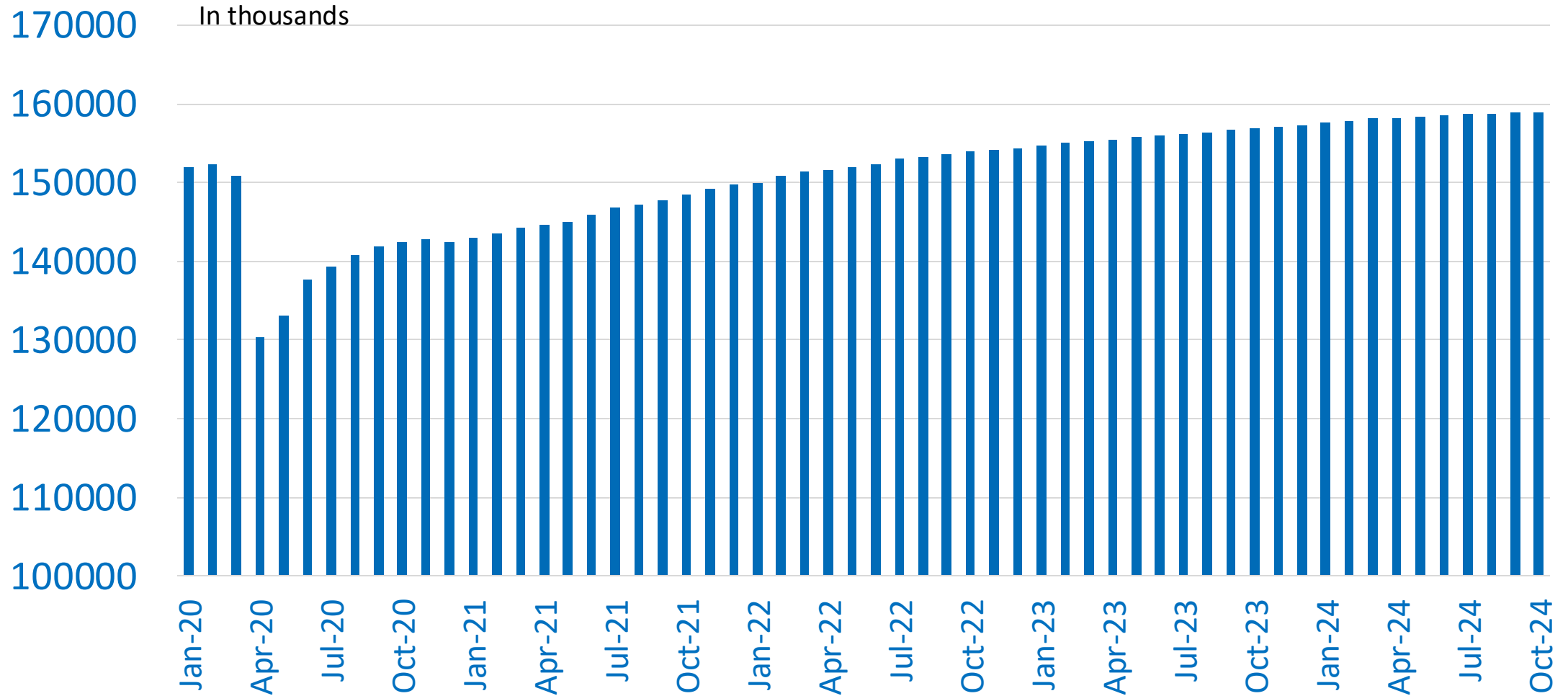


**Long-Term Real Estate Demand**

**Come from Jobs, Jobs, Jobs**

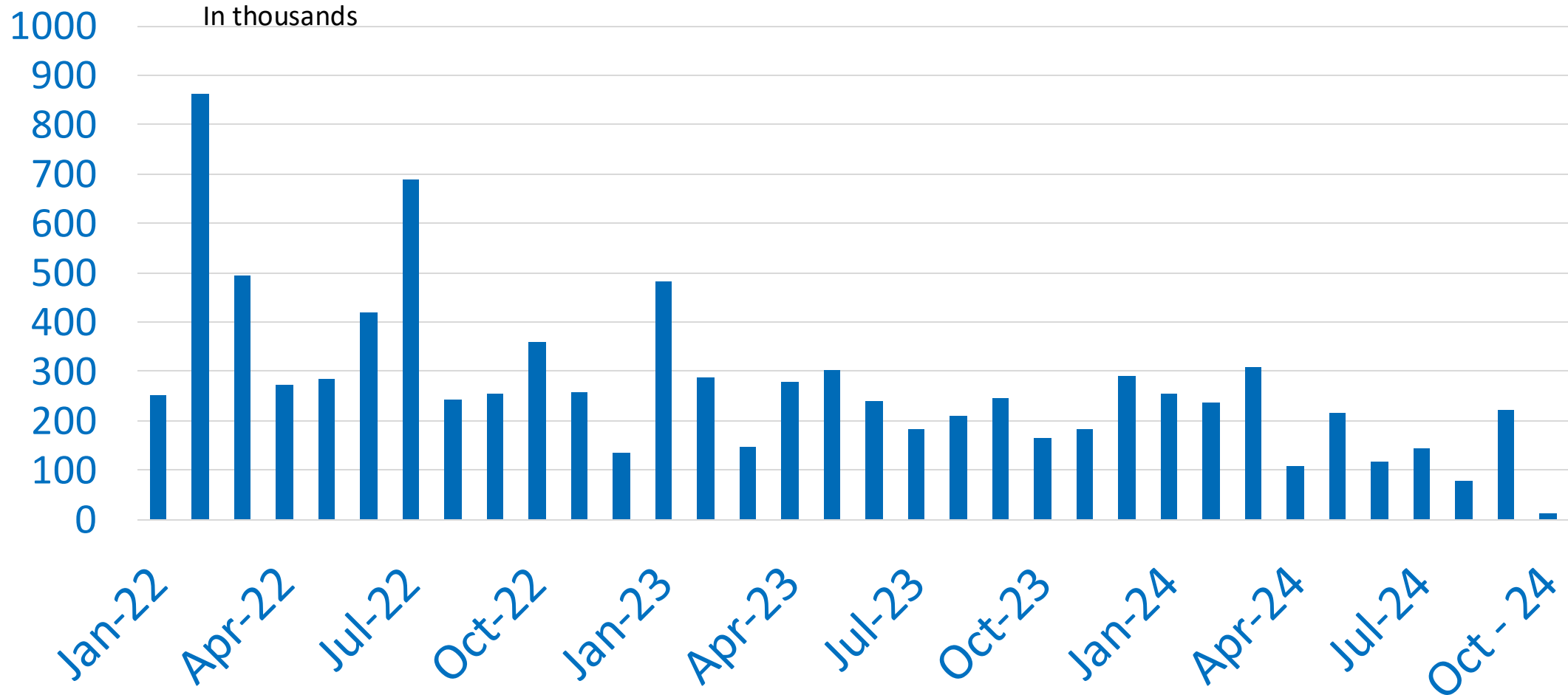
# Total Payroll Jobs

## 6.7 million more compared to pre-covid highs



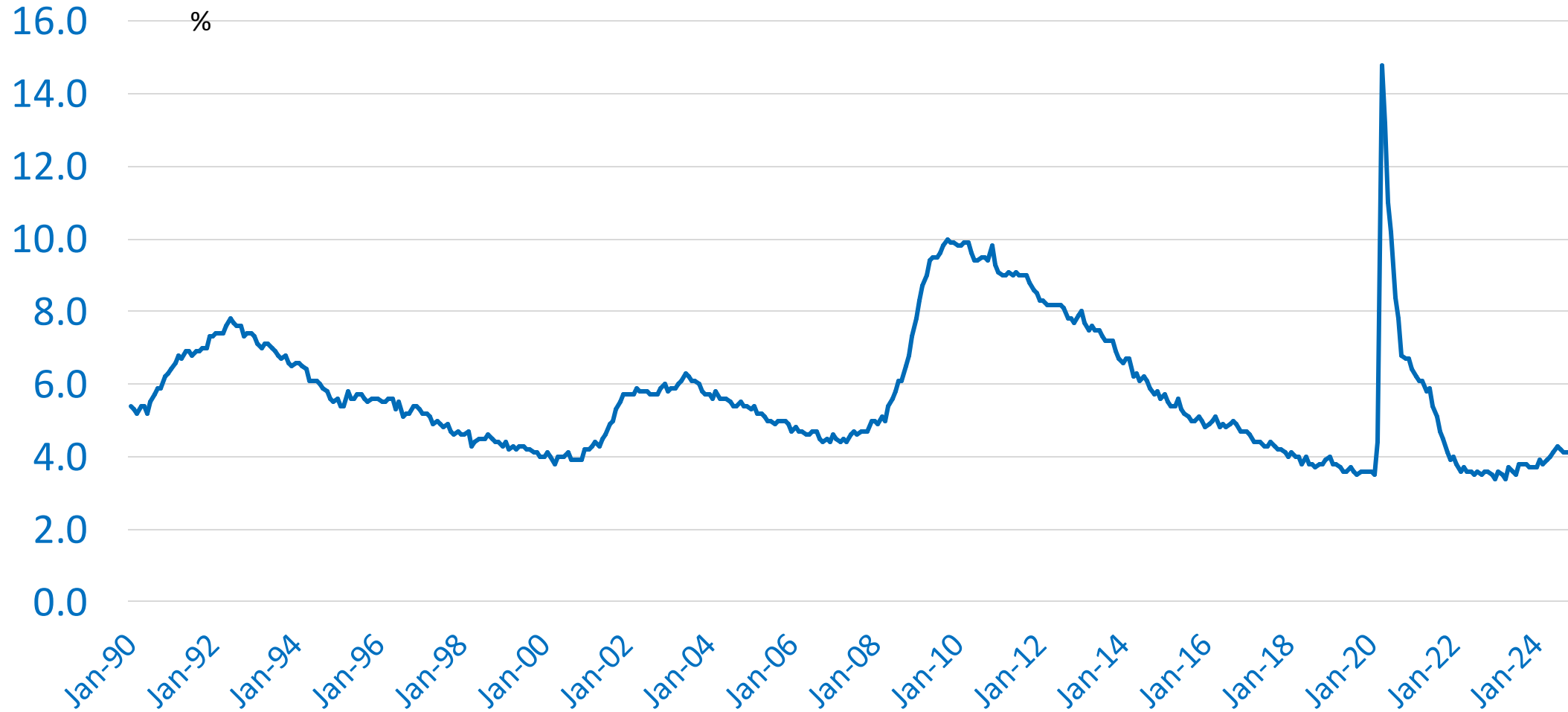
Source: BLS

# Monthly Net Payroll Job Additions .. Softening and only 12,000 in October



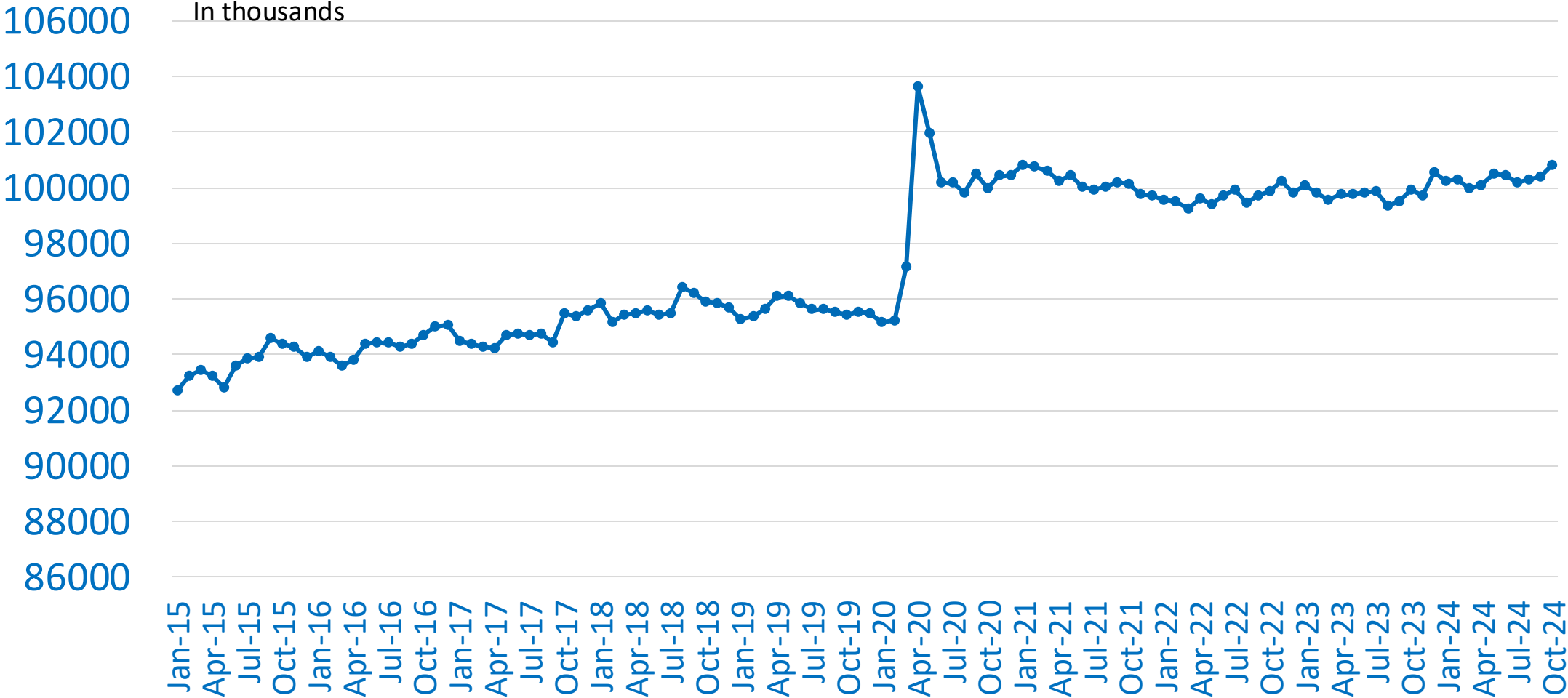
Source: BLS

# Latest Unemployment Rate of 4.1% (January 1960 to October 2024)



Source: BLS

# Not in the Labor Force

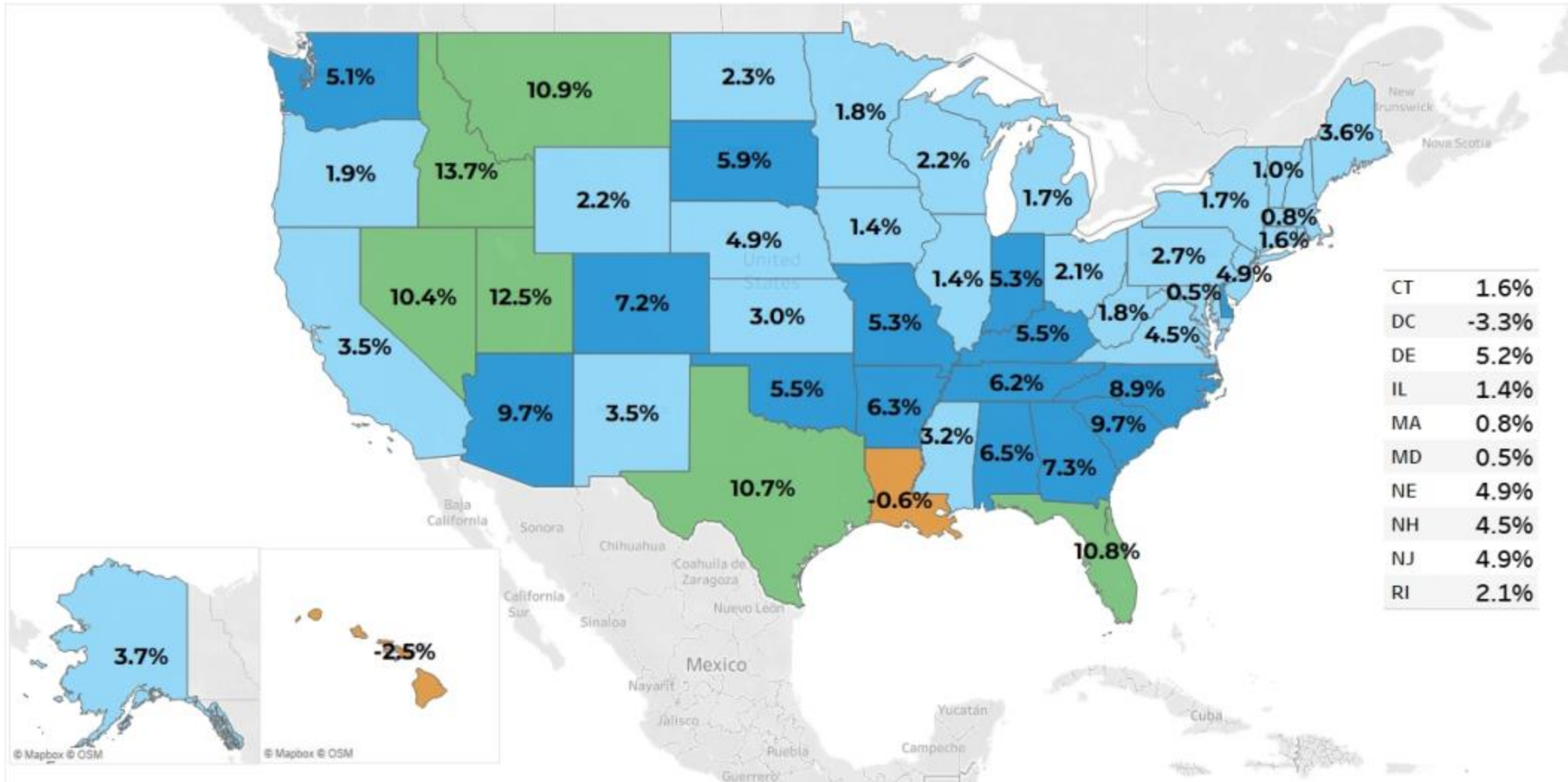


Source:



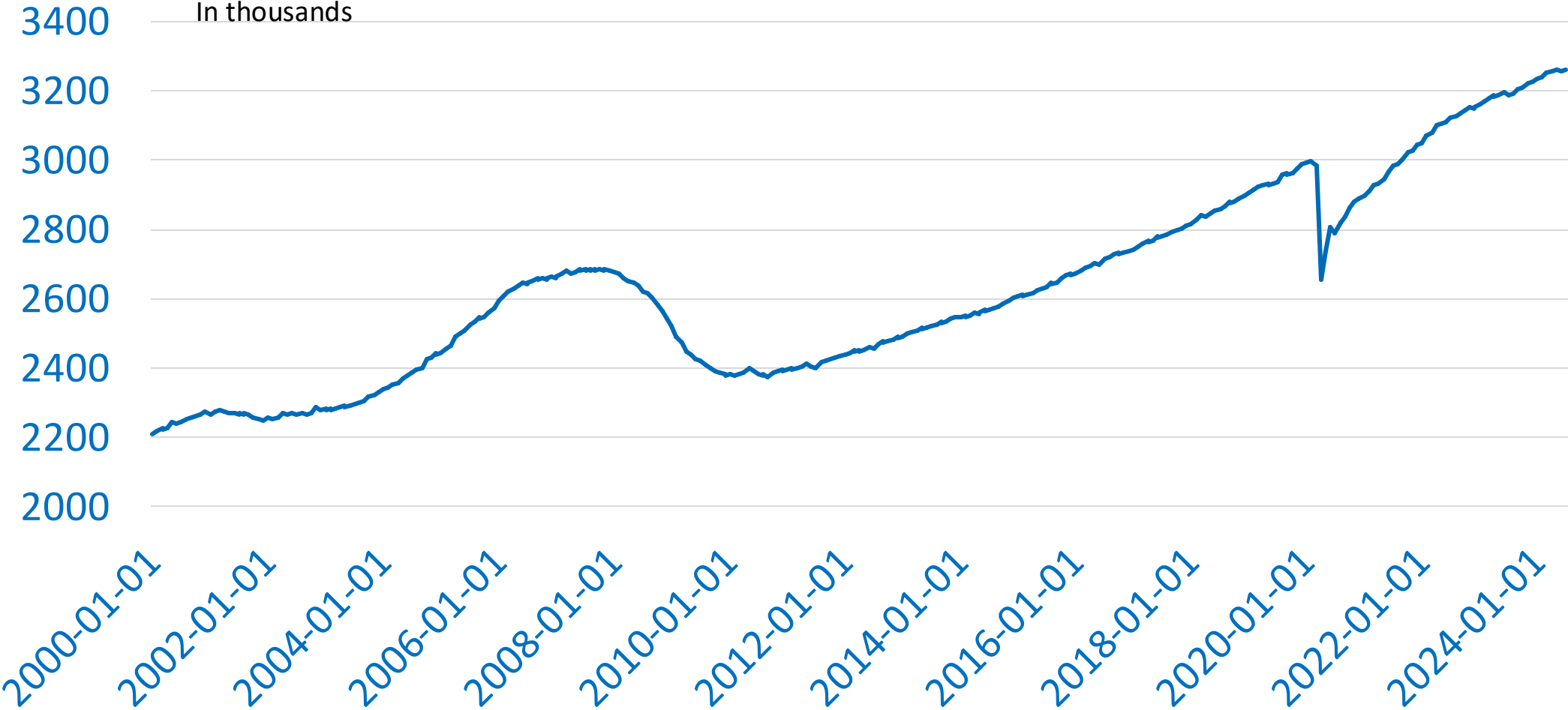
# Job Gains Since Pre-COVID Record High Payroll Employment

## % change from March 2020 to September 2024



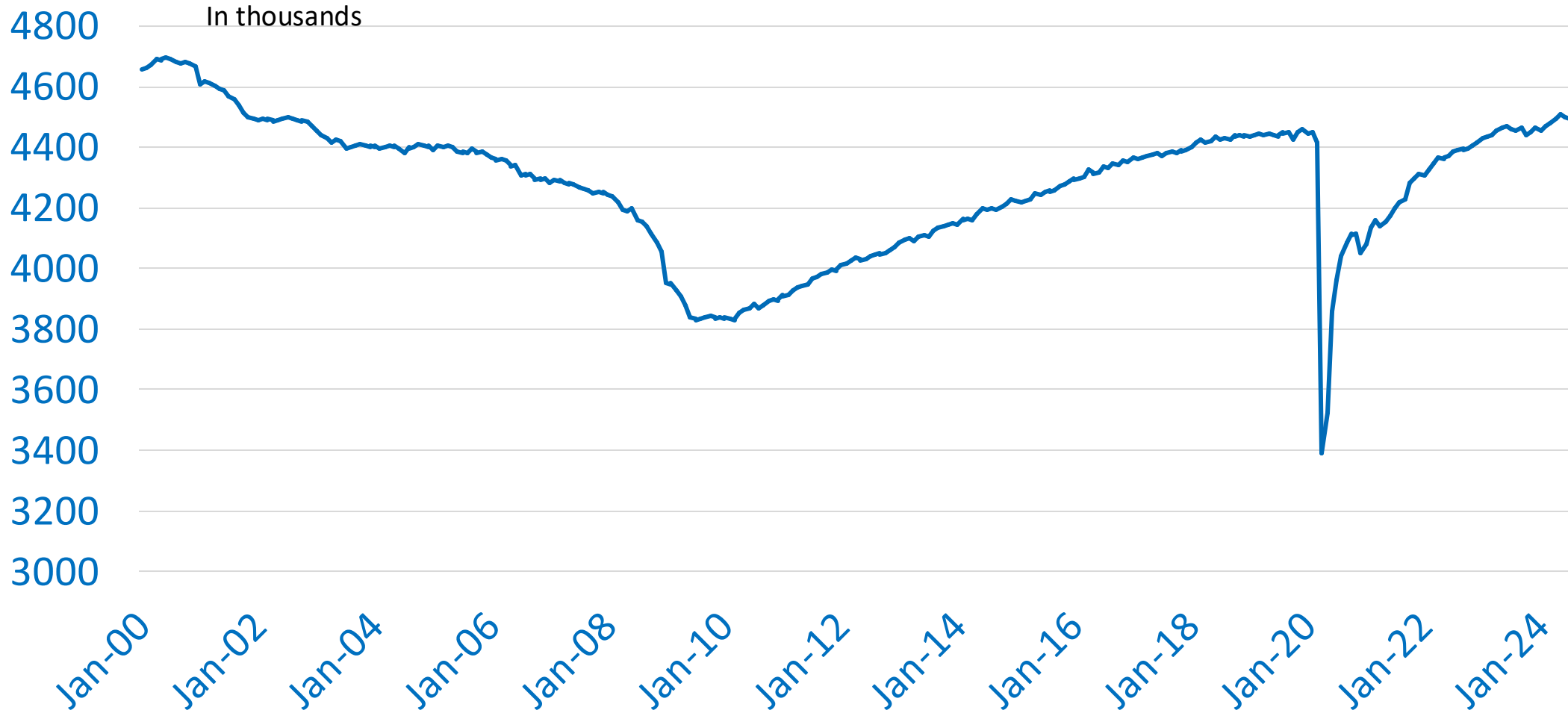
Source: NAR Analysis of BLS data

# Total Payroll Jobs in Arizona (+1 million from 2000)



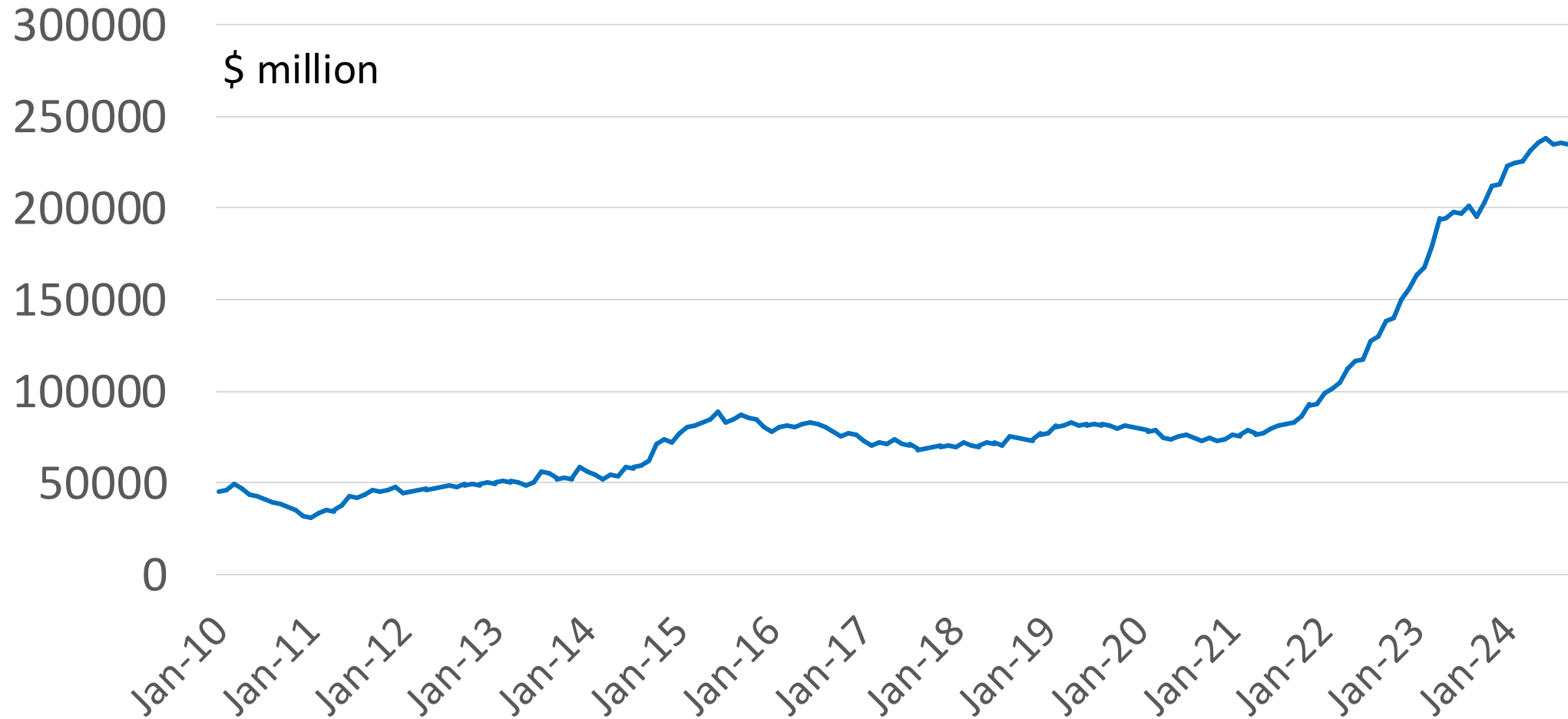
Source: BLS

# Total Payroll Jobs in Michigan (-150,000 from 2000)



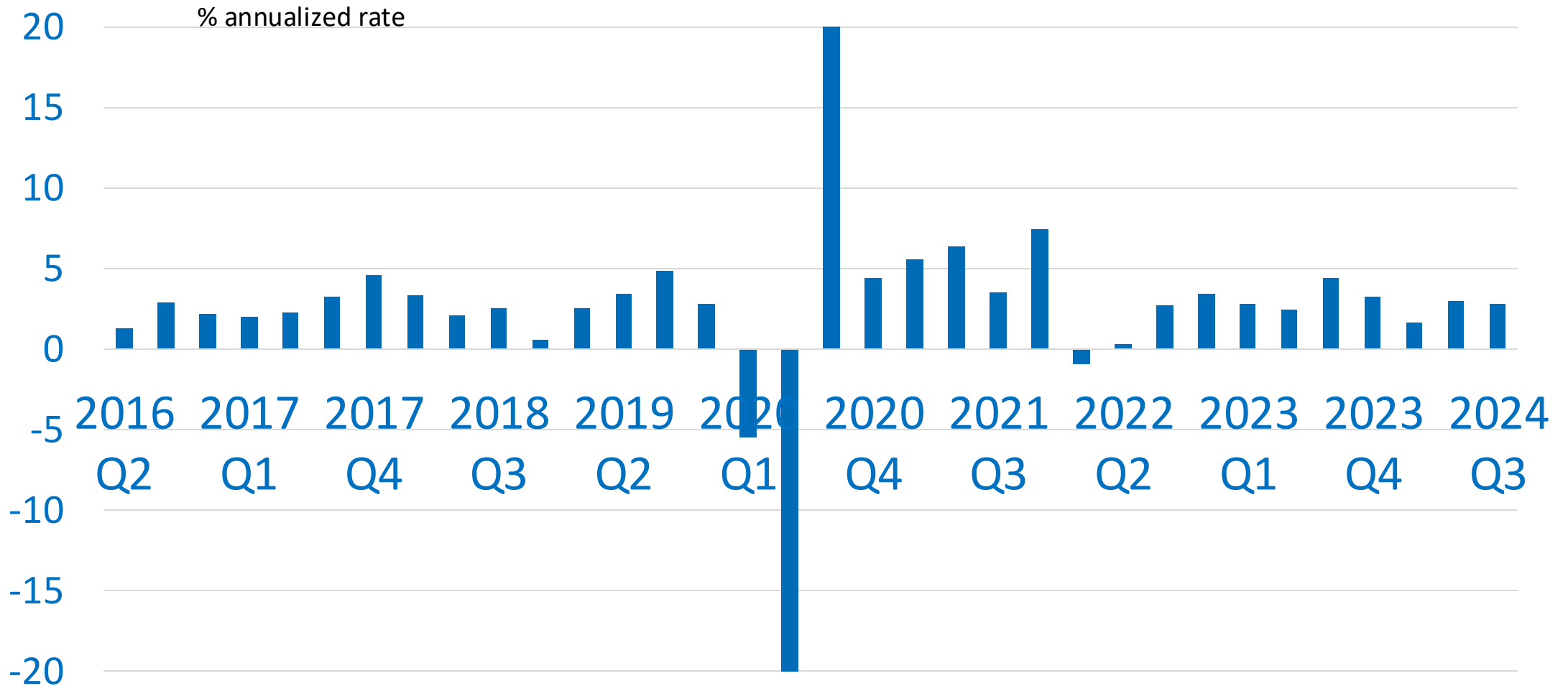
Source: BLS

# Construction Completion of Manufacturing Facilities ... In-shoring is Real



Source: BLS

# GDP Growth Rate ... Respectable 2.8% in Q3



Source: Department of Commerce



# Commercial Market Forecast

- **GDP Growth ... Boost Demand**
  - **Positive Net Absorption ... More Leasing**
  - **Lower Vacancy Rate ... Easier to Market**
  - **Improves Rent ... Higher Property Price**
  - **Better Financing ... More Investment Sales**
- **Supply Picture is Mixed**
  - **Temporary Oversupply in Multifamily and Industrial**
  - **Permanent Oversupply in Office**
  - **Restrained Supply in Retail and Hotel**
- **Large Local Market Variations**

# Multifamily

Absorption of units in the last 12 months: 534,668 units

Rent growth in the last 12 months: 1.2%

Cap rate: 6.1%

## Top 10 areas with the strongest 12-month absorption

	2024 Q3	2023 Q3
Dallas-Fort Worth, TX	25,648	8,910
New York, NY	24,102	18,887
Houston, TX	18,452	8,598
Phoenix, AZ	18,319	8,888
Austin, TX	18,171	7,068
Atlanta, GA	18,002	3,429
Washington, DC	16,231	9,116
Orlando, FL	14,232	4,718
Seattle, WA	11,932	5,569
Nashville, TN	11,764	5,697

## Top 10 areas with steepest 12 Mo rent declines

	2024 Q3	2023 Q3
Fort Myers, FL	-5.67%	0.28%
Austin, TX	-4.46%	-3.65%
Naples, FL	-4.03%	-0.24%
Raleigh, NC	-2.70%	-1.72%
Sarasota, FL	-2.57%	-1.59%
Jacksonville, FL	-2.25%	-1.22%
Huntsville, AL	-2.20%	-1.10%
Killeen, TX	-2.16%	2.84%
Phoenix, AZ	-1.83%	-1.99%
Atlanta, GA	-1.77%	-2.43%

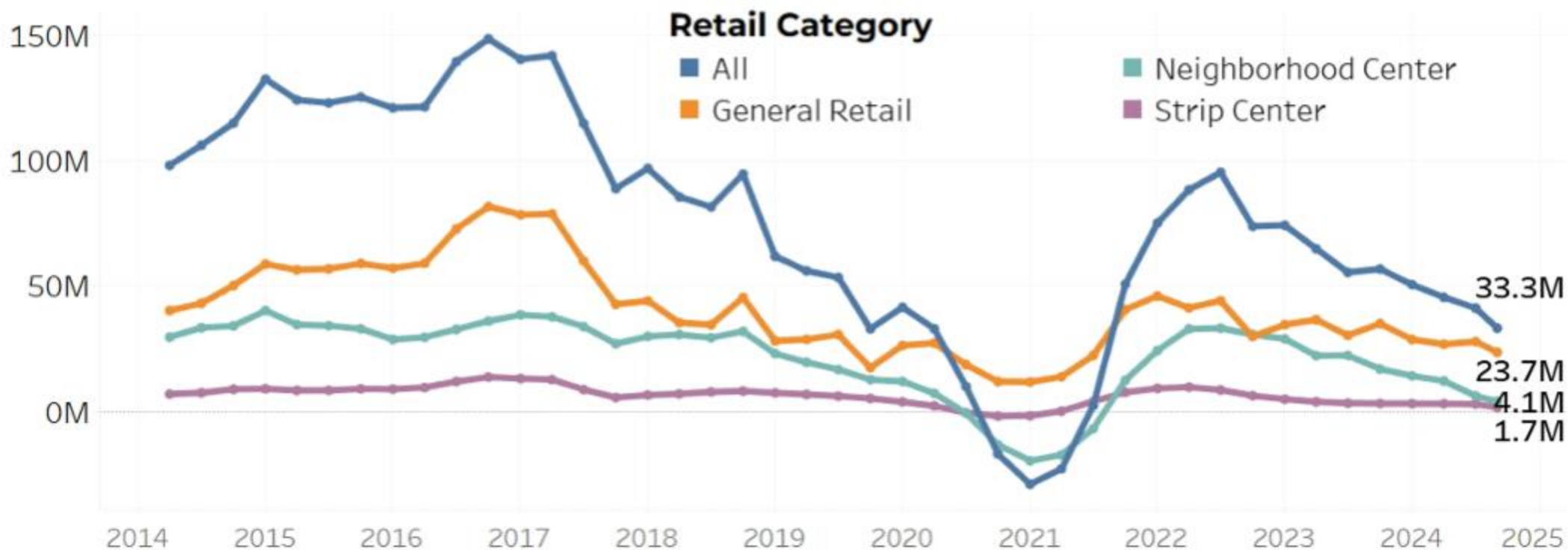
# Retail

Net absorption in the last 12 months: **33.3 million sq. ft.**

Rent growth in the last 12 months: **2.3%**

Cap rate: **6.9%**

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



# Industrial

Net absorption in the last 12 months: 105.2 million sq. ft.

Rent growth in the last 12 months: 3.2%

Cap rate: 7.3%

## Top 10 areas with the strongest 12-month absorption

	2024 Q3	2023 Q3
Dallas-Fort Worth, TX	21.83M	37.15M
Houston, TX	19.40M	24.01M
Phoenix, AZ	13.79M	19.38M
Savannah, GA	10.94M	11.33M
Nashville, TN	7.94M	5.81M
Austin, TX	7.59M	3.70M
Chicago, IL	7.24M	25.95M
Philadelphia, PA	6.59M	7.14M
Minneapolis, MN	6.00M	3.86M

## Top 10 areas with the weakest 12-month absorption

	2024 Q3	2023 Q3
Los Angeles, CA	-12.12M	-14.72M
Reno, NV	-4.68M	4.27M
Winston-Salem, NC	-2.86M	-0.14M
Harrisburg, PA	-2.79M	2.72M
Portland, OR	-2.42M	1.91M
San Diego, CA	-2.42M	-1.85M
Greensboro, NC	-2.28M	3.18M
New York, NY	-2.16M	-1.58M
Seattle, WA	-1.69M	0.50M
San Francisco, CA	-1.52M	-1.61M



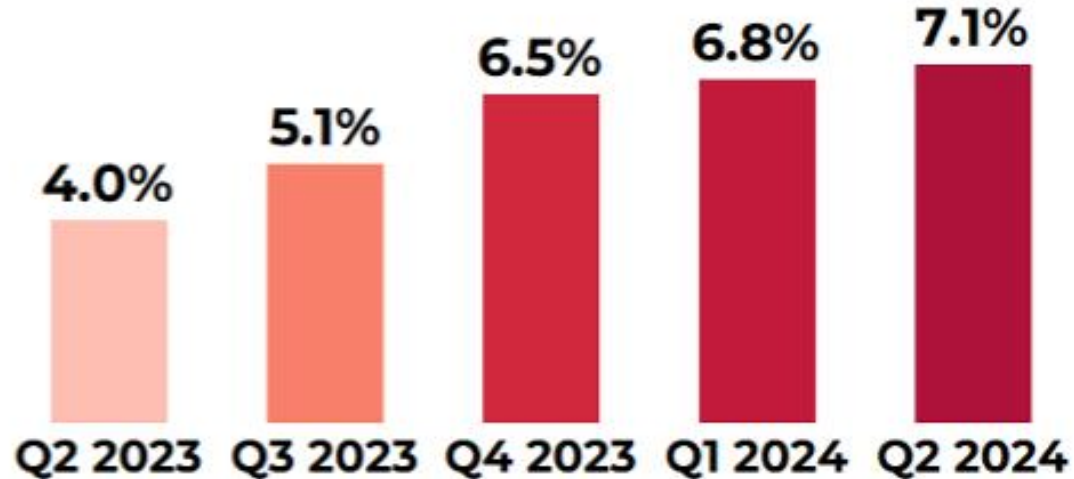
# Office

Net absorption in the last 12 months: -34.5 million sq.ft.

Rent growth in the last 12 months: 0.9%

Cap rate: 8.8%

## Delinquency rates for loans backed by office properties (Q2 2024)



Source Mortgage Bankers Association (MBA)

## Top 10 areas with the largest vacancy rates

	2024 Q3	2023 Q3
San Francisco, CA	22.52%	20.36%
Houston, TX	18.61%	18.54%
Dallas-Fort Worth, TX	18.15%	17.60%
Washington, DC	17.23%	16.08%
Denver, CO	17.02%	15.92%
Phoenix, AZ	16.84%	15.63%
Atlanta, GA	16.53%	15.79%
Austin, TX	16.50%	15.89%
Chicago, IL	16.25%	16.12%
Los Angeles, CA	16.11%	15.00%

# Hotel

Occupancy rate in the last 12 months: 62.9%

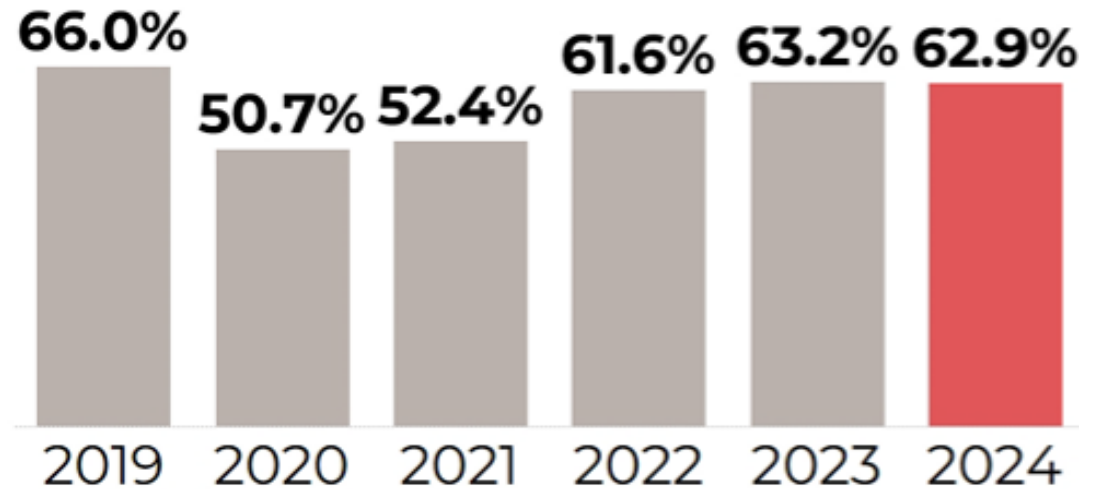
Average daily rate in the last 12 months: \$158/room

Revenue per available room in the last 12 months: \$99/room

## 12-month ADR and RevPAR in August

	Average daily rate	Revenue per available room
2019	\$131	\$87
2020	\$117	\$59
2021	\$113	\$59
2022	\$144	\$88
2023	\$154	\$98
2024	\$158	\$99

## 12-month Occupancy Rate in August







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