Commercial Update

Lawrence Yun, NAR Chief Economist
+175,000 Payroll Jobs in April
6 million more compared to pre-covid highs

In thousands

Source: BLS
Unemployment Rate

Source: BLS
Out-of-Labor Force
(retired, students not working, and others not looking for job)

In thousands

Source: BLS
Job Gains Since Pre-COVID Record High Payroll Employment
% change from March 2020 to March 2024

Source: NAR Analysis of BLS data
Wages Rising 4%
Higher than Consumer Price Rises ... 3.5%

% change from a year ago

Source: BLS
Cumulative Consumer Price Increase and Wage Gain Since President Biden Inauguration

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
Revenues lost yearly

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue Lost to Theft (in billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>49B</td>
</tr>
<tr>
<td>2017</td>
<td>47B</td>
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<tr>
<td>2018</td>
<td>51B</td>
</tr>
<tr>
<td>2019</td>
<td>62B</td>
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<td>2020</td>
<td>91B</td>
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<tr>
<td>2021</td>
<td>94B</td>
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<tr>
<td>2022</td>
<td>112B</td>
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<tr>
<td>2023*</td>
<td>122B</td>
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<td>2024*</td>
<td>132B</td>
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<tr>
<td>2025*</td>
<td>143B</td>
</tr>
</tbody>
</table>

Source: Capital One Shopping Research
Impact of Retail Crime

$125.7B in economic losses nationwide

$39.2B in lost wages nationwide

685,374 jobs lost nationwide

$14.9B in lost federal, state, and local tax revenue

Source: Chamber of Commerce
Industrial Net Absorption .... Tapped Out?

Source: NAR Analysis of CoStar data
Negative Office Net Absorption .... Post Covid

Source: NAR Analysis of CoStar data
Retail Vacancy Rate

Source: NAR Analysis of CoStar data
Industrial Vacancy Rate

Source: NAR Analysis of CoStar data
Office Vacancy Rate

Source: NAR Analysis of CoStar data
Alternate Measure of Office Vacancy Rate

Source: CBRE/ULI and NAR Forecast
Retail Rent Growth of 3.1% ... Respectable

Source: NAR Analysis of CoStar data
Industrial Rent Growth of 5.6% ... Good

Source: NAR Analysis of CoStar data
Office Rent Growth of 0.8% ... Stinks

Source: NAR Analysis of CoStar data
Office Loan Delinquency Rate

Source: Mortgage Bankers Association
Repurposing Office Spaces into Residential Units ... Difficult to do

Why Not? Retail/Restaurant Spaces

Why Not? Private School Learning Centers
Rental Housing Focus
Multifamily Net Absorption Reviving

- 2019 Q1: 93.1K units
- 2019 Q2: 127.9K units
- 2019 Q3: 78.2K units
- 2019 Q4: 41.4K units
- 2020 Q1: 76.5K units
- 2020 Q2: 89.8K units
- 2020 Q3: 98.9K units
- 2020 Q4: 134.0K units
- 2021 Q1: 190.9K units
- 2021 Q2: 267.5K units
- 2021 Q3: 182.9K units
- 2021 Q4: 60.8K units
- 2022 Q1: 70.5K units
- 2022 Q2: 65.0K units
- 2022 Q3: 21.6K units
- 2022 Q4: -6.4K units
- 2023 Q1: 68.4K units
- 2023 Q2: 97.3K units
- 2023 Q3: 87.1K units
- 2023 Q4: 67.1K units
- 2024 Q1: 109.2K units

Source: National Association of Realtors®
Rising Hotel Occupancy Rate
... Proxy for Rising Short-term Rentals

Source: CBRE/ULI and NAR Forecast
Multifamily Vacancy Rate
Annual Apartment Construction at 40-year Highs in 2021, 2022, 2023 ... Low likely in 2024

Source: Census/HUD
Rents no longer Rising

Source: NAR Analysis of CoStar data
Rents are Rising at 5.7% in Government CPI data

Source: BLS and CoStar
Fed Funds Rate Cuts Later in the Year?

Source: Federal Reserve
Future Rent Growth should be Calmer

Future CPI should be Calmer

The Fed can cut interest rates

But

Further Pivot could be limited by Budget Deficit
Government Deficit Further Pressuring Rate Rise?
Government Outlay > Tax Revenue

Source: Congressional Budget Office
National Debt as % of GDP ... higher than 60%

Source: Congressional Budget Office and OMB
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
Fed Rate Hikes Have Hurt Small-Sized Banks...

Commercial Real Estate Loans by Small Banks > Top 25
Large Banks

Source: Federal Reserve
Long-term Interest Rates to Fall?

1. Rents will calm down further ... Holds down CPI ... and make the Fed cut interest rates

2. Community banks are suffering from high interest rates

3. Spread with benchmark 10-year Treasury is abnormally high
2024 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