CPA Practice Advisor

next year, but strong leasing demand and investor appetite in smaller markets should keep the sector on solid ground, according to the latest National Association of ...

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Commercial real estate price growth in large markets is expected to flatten over the next year, but strong leasing demand and investor appetite in smaller markets should keep the sector on solid ground, according to the latest National Association of Realtors quarterly commercial real estate forecast, https://www.nar.realtor/reports/commercial-real-estate-outlook.

Backed by the ongoing stretch of outstanding job creation in recent years, national office vacancy rates are forecast by Realtors to retreat 1.1 percent to 11.9 percent over the coming year. The vacancy rate for industrial space is expected to decline 1.1

more of the same growth to close out the year, which bodes well for sustained interest in all types of commercial space."

According to Yun, the appetite for commercial property is high, but investment activity does appear to be entering the maturation phase of the current cycle. The investor shift away from large markets to smaller ones is creating a divergence in sales activity. In the second quarter, large markets saw a 5 percent annual decline in sales, while Realtors® reported a sales boost of 4 percent in small markets.

"While inventory shortages are still driving prices higher in most markets, shrinking cap rates and the higher interest rate environment are expected to lead to a plateau in price growth over the next year, especially for Class A assets in large markets," said Yun. "As a result, investors will continue to look to small and tertiary markets for properties that have the best opportunity to provide stability and generate solid returns."

Led by the industrial and multifamily sectors, Realtors® continue to report that leasing fundamentals for the four major commercial sectors are strong. Last quarter, the considerable appetite for industrial space — primarily from ecommerce and trade — resulted in distribution warehouses and logistic centers driving close to 70 percent of new construction leasing. Although 225.4 million square feet of additional space is currently in the pipeline, vacancy rates are still expected to trend downward as supply slowly catches up with demand.

In the apartment sector, the pace of new construction is finally slowing in many markets after considerable building in recent years. However, rising household formation and the supply and affordability barriers to homeownership will continue to keep vacancies low and cause rents to maintain their trajectory of outpacing incomes.

“The economy is healthy for the most part, but headwinds abound in the short

making up the bulk of new businesses.

Small Business