



Commercial Real Estate Markets Update (October 2020)

The US economy contracted at an annual rate of 31.4% during the second quarter of 2020. The inflation rate was 1.3% for the 12 months ending in August 2020. The unemployment rate increased 440 basis points from one year ago and stood at 7.9%.

Uncertainty throughout the COVID-19 crisis will be one notable economic challenge as the world tries to return to normal. The Fed has pledged to keep rates near zero through at least 2023 to get the economy back to full speed. Metro areas that have high levels of technology, healthcare and professional and business service jobs will likely lead the office market rebound, although the tech sector's shift to more remote work is an obstacle. Once economic conditions begin to normalize, industrial assets are likely to be well-positioned. The explosion of e-commerce during the pandemic reflects a transition to new shopping habits, many of which will remain in place even after the pandemic is over.

Below are key takeaways from the following reports:

National Office Market – *Newmark Knight Frank* – [Link](#)

National Industrial Market – *Newmark Knight Frank* – [Link](#)

National Office Market

Newmark Knight Frank

- The US office market weakened during Q3. Absorption was negative for the third quarter in a row and occupancy declined by 35.4 million square feet. Asking rents rose by 3.9% from a year ago but are offset by a spike in large concession offerings.
- New York City and San Francisco have been hit the hardest with vacancy rising to 7.5% in NY and 10.3% in SF. Many tech and finance companies have expressed a new, more remote working structure for their employees going forward, giving worry to the negative absorption that does not look to be slowing down in those cities.
- Office construction has reached a cyclical peak, totaling 107.7 million square feet. The large pipeline and slowing demand will likely result in oversupply.
- Sub-lease availability was gradually rising in the beginning months of the pandemic but has jumped to a cyclical high of 1.7%

National Industrial Market

Newmark Knight Frank

- Demand for industrial space continues to increase. Asking rents are up and vacancy remains low. There was 47.6 million square feet of positive absorption in the third quarter alone.
- Asking rents are at \$7.73/SF, a 5.2% uptick from a year ago
- New construction totaled 75.2 million square feet in Q3, although financing has been a slowing factor for new industrial space
- Sales volume in Q3 was \$7.1B, less than half of the 2019 Q3 total of \$16.1B