Commercial Real Estate Markets Update (October 2019)

Uncertainty is causing strategic shifts in particular asset classes in order to meet changes in lifestyles. Institutional investors are leading the way in the search for stronger cap rates in secondary and tertiary markets, and new development begins to slow down across all sectors with increasing construction costs and tighter availability to construction capital.

Below are key takeaways from the following reports:

1st Half 2019 Commercial Real Estate Investment Outlook – Marcus & Millichap – Report Link
Q2 2019 US Capital Markets Figures – CBRE – Report Link
Q2 2019 MarketBeat – Cushman & Wakefield – Report Link

1st Half 2019 Commercial Real Estate Investment Outlook

Marcus & Millichap

- As millennials form families and transition out of core areas, retail and multifamily in the suburbs are seeing a rapid increase in demand. Employers are positioning their office space around this demographic shift.
- A strong economic footing has led to a surplus of job openings and increased wages. Retailers are benefiting from an increase in consumer spending and multifamily absorption is up – a record high 182,000 units were absorbed in the second quarter.
- Developers are still trying to keep pace with demand in all sectors but are seeing an increase in construction costs and tighter lending standards, weakening yields in new construction
- Unresolved trade talks have restrained leasing activity in industrial properties and retailers are taking a hit, causing an increased investor focus on office and multifamily. This has also caused viable value-add opportunities within retail and industrial as values are temporarily suppressed.

Q2 2019 US Capital Markets Figures

CBRE

- Total CRE investment volume of $121.5 billion in Q2 increased 3.4% Y-o-Y and was the highest Q2 total since 2015
- Office properties registered the largest annual increase in sales volume (30.5%), followed by multifamily (20.6%). Total industrial volume decreased.

MarketBeat U.S. Capital Markets Q2 2019

Cushman & Wakefield

- Transaction Activity pushes toward secondary and tertiary markets. Tech-driven markets are not losing momentum.
- Private capital has been a major driver of acquisition activity, accounting for 55% of investment in Q2. The majority of private capital is focusing on apartment and office, while investments in industrial and retail are slowing considerably.
- Access to capital will become more stringent in the next 12 months as total returns across all asset classes will moderate and deployment of capital will become more difficult