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News & Information

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After a Bumper 2021 for US CRE, Will the Momentum Carry into 2022?

According to a report by Real Capital Analytics, 2021 was the year that deal-making activity got back into full swing. The commercial real estate (CRE) market showed spectacular growth in Q4, pushing the year's deals to a record high of over $800 billion dollars.

The report highlights the apartment sector as a major driver of activity, stating: "The apartment sector was the largest, most liquid portion of the U.S. market in 2021, representing 42% of all deal activity."

Industrial properties were next in line, accounting for 21% of 2021's investment activity. Changes in supply chain needs and logistics models are thought to be the key factors bolstering the sector.

Price Growth also on the Uptick

RCA's CPPI US National All-Property Index also reached a new high, growing 15.9% YoY according to CRE Herald, driven by "intense investor demand for commercial properties". The deal-making growth seen for apartments and other top-performing sectors was reflected through growth in their respective price indices as well. CRE Herald notes that: "The apartment index climbed 16.8% from a year ago, the fastest rate in the history of the RCA CPPI for this sector."

Industrial prices also powered ahead – gaining 18.9% year-on-year (YoY), while offices showed a 13.7% YoY increase as of October 2021. CRE Herald adds: "Suburban office prices continued to drive gains, increasing 15.6% YOY. The CBD office index rose 0.9% YOY, an improvement from the declines seen for most of 2021."

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Trending in 2022

For 2022, the outlook remains rosy for leading sectors according to the National Association of Realtors (NAR). The good news comes despite the predicted 75 basis point rise in interest rates, which NAR indicates is not expected to severely impact investments activity.

By sector, NAR shows that the trend remains bullish for industrial space with 460 million square feet under construction, but adds:

“NAR foresees that this construction will lead to slower industrial rent growth of 7.4% on an annual basis from the current rate of about 8.4% as of 2021 Q4 (6.7% in 2021). The vacancy rate is expected to slightly increase to 5% (4.9% in 2021).”

Meanwhile, office vacancy rates are expected to increase to 13.5% (from 12.2% in 2021), but there’s strong potential in the space for adaptive reuse, with housing and lab space conversions driving investor interest in this class of property.

Forging Ahead

On balance, these forecasts suggest that 2022 may be set to rival 2021’s price and deal-making action. Key factors will be how space is reused and adapted, and how the changes brought about by the last few years continue to play out across different CRE sectors. For now, however, a sense of cautious optimism may well be warranted.