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News & Information

July 11, 2023

NAR's First Quarter CRE Report Is In: Here's How the Year Got Started

The start of 2023 was "anything but boring for commercial real estate (CRE)." That was the succinct tagline that opened the National Association of Realtor's (NAR's) recent Commercial Market Insights Report, which presents data on Q1 2023 for each sector.

NAR cited the recent issues in the banking sector, along with high vacancy rates and slow rent price growth, as key factors in the complicated outlook after Q1. With that said, the report also noted that things were definitely a mixed bag when considered sector by sector.

Silver Linings in Retail and Industrial

Strength and resilience are probably the two keywords that could be best applied to industrial and retail real estate over the past few years and the start of 2023 was no exception.

NAR noted that industrial vacancy stayed low at 4.3% in Q1, while the rent growth rate was 10.3% overall, with warehouses showing a "remarkable" 11.7%.

Meanwhile retail had "the lowest vacancy rate among all the sectors in March 2023", buoyed by strong consumer spending. As a result, NAR says, the sector "continues to perform better than pre-pandemic."

Multifamily Slowing

There was mixed news for multifamily, with NAR noting that even though rent growth in the sector has slowed from the highs seen in 2021, it's simply returning to what was "considered normal" pre-pandemic.

Net absorption is, however, lower than last year and multifamily's vacancy rate has increased from 5.0% last year to 6.7% in 2023.

Overall, NAR notes that the sector is still expected to perform strongly in the long term "owing to favorable demographics and a strong job market that promotes household formation."

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Office Vacancies Reach "Record High"

Things are less promising on the office front, with the vacancy rate reaching 12.9% (up from last year's 12%.) The report points out the 'usual culprits' of remote and hybrid work as the primary factor behind the trend but adds that there may be interest from universities in renting office space to "attract more students back to the classroom."

Looking Ahead

The rest of 2023 promises to be an interesting time for CRE as well. In a recent forecast, NAR Chief Economist Lawrence Yun estimated that CRE transaction volume might "decline by 27%" in 2023.

He added, however, that net absorption has been mostly positive across the US, and that the multifamily, retail and industrial sectors are "helping to keep the industry relatively stable" for the time being.

Yun also provided some nuance in the multifamily conversation, noting that the uptick in apartment vacancies could be attributed to "robust new supply."

Another factor highlighted in Yun's forecast was the job market, with areas that showed strong job gains predicted to perform considerably better when it came to occupancy and overall CRE prospects.

Key Conclusions

Taken together, these figures and predictions show that, while the challenges are far from over in 2023, there are also still strong opportunities for savvy CRE professionals. As is often the case, however, finding those opportunities is very much a question of keeping close track of market trends, focusing on fundamentals, and finding the right prospect for the deal.

As Yun sums up: "The lack of capital, higher costs of financing and refinancing, and the weakening economy will contribute to a lower overall valuation of commercial real estate prices. Weaker prices will mean opportunities for those with deeper pockets to get deals done in the months and years ahead."