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National Property Sector Overviews

Coming off a period of heightened uncertainty resulting from the COVID-19 pandemic, there appears to be more visibility in the commercial real estate markets. Based on FTI Consulting’s research, overall real estate sector highlights and a more detailed discussion for each of the four core property types (office, industrial, multi-family apartment and retail) are as follows:

Overall

- Rising interest rates will likely reduce spending (consumer and business) and result in lower investment activity.
- Operating expenses will rise.
- Higher expenses will impact tenants’ ability to absorb higher rents.
- The rising cost of construction will likely result in contracts or projects being delayed or cancelled.
- Despite numerous headwinds, investors still consider real estate a favorable asset to combat inflation as compared to fixed-income vehicles.
- Per the AFIRE 2022 International Investor Survey Report,¹ U.S. commercial real estate will continue to be viewed as an attractive asset class by global investors.
- Although investors have amassed a large amount of capital to deploy, the gap between buyer and seller expectations will likely weigh on investment volume in select markets.
- Investors will continue to explore secondary and tertiary (smaller) markets, expanding property acquisition beyond core assets in gateway markets in the search for greater yields.
- Environmental, Social and Governance (ESG) in commercial real estate will continue to take on greater importance as more potential investors consider ESG when the assessing the long-term ability of an asset to attract quality tenants.

Office Market

- Market fundamentals have been mixed. Demand for space has weakened, resulting in a higher vacancy rate, driven by sublet space, which has increased 10% YoY.
- Net absorption rebounded in the first part of 2022 following several consecutive quarters of negative figures.
- Rent growth is now positive in most major markets.
- Investment sales activity has returned to pre-COVID-19 levels, driven by elevated demand for strategically located, stabilized trophy buildings.
- From September 2021 to August 2022, net absorption turned positive from the negative 87 million square feet recorded during the prior 12-month period.

National Office Market Indicators

	Current	YoY Change	Trend
Market Rent (psf)	\$34.94	1.2%	▲
Vacancy Rate	12.4%	30 BPS	▲
Sublet (sf)	188 M	17.2 M	▲
Under Construction (sf)	141 M	(4.7 M)	▼
Deliveries (sf) - past 12 Mos	63.9 M	(8.3 M)	▼
Net Absorption (sf) - past 12 Mos	13.7 M	101 M	▲
Sale Transactions - past 12 Mos	23,838	3,036	▲
Sale Volume - past 12 Mos	\$110 B	\$28.3 B	▲
Market Sale Price (psf)	\$340	\$13	▲
Cap Rate	6.80%	(10 BPS)	▼

Source: Data compiled from CoStar (as of August 2, 2022).

Below are key metrics for the largest office markets in the United States:

10 Largest Office Markets (by Inventory) Comparison

Vacancy Rate	Net Absorption (12 Mos)	Construction Deliveries (12 Mos)	Under Construction	Rent Growth (12 Mos)	Sales Volume (12 Mos)	Avg Sale Price Per SF	Cap Rate
	Million SF	Million SF	Million SF		(In Billions)		
Boston 9.5%	Atlanta 4.3	New York 6.6	New York 17.4	Dallas/Ft Worth 2.1%	New York \$14.9	New York \$688	New York 5.3%
Seattle 10.0%	Boston 3.6	Dallas/Ft Worth 5.6	Boston 16.5	Atlanta 1.7%	Boston \$11.1	Seattle \$525	Los Angeles 5.4%
Philadelphia 10.2%	Dallas/Ft Worth 3.3	Washington D.C. 4.9	Seattle 9.8	Los Angeles 1.3%	Washington D.C. \$8.3	Boston \$478	Seattle 5.5%
New York 12.2%	Houston 1.1	Houston 4.1	Washington D.C. 9.6	Boston 1.1%	Los Angeles \$6.4	Los Angeles \$469	Boston 5.8%
Atlanta 13.6%	Seattle 0.2	Boston 3.9	Dallas/Ft Worth 7.3	Seattle 1.1%	Seattle \$6.1	Washington D.C. \$366	Dallas/Ft Worth 6.8%
Los Angeles 13.8%	Los Angeles (0.4)	Atlanta 3.1	Atlanta 4.8	Chicago 0.8%	Atlanta \$4.4	Dallas/Ft Worth \$243	Atlanta 7.0%
Chicago 15.2%	Washington D.C. (0.4)	Seattle 2.8	Houston 4.7	Philadelphia 0.4%	Chicago \$4.3	Atlanta \$228	Washington D.C. 7.0%
Washington D.C. 15.4%	Philadelphia (0.6)	Chicago 2.8	Los Angeles 4.5	Houston 0.2%	Dallas/Ft Worth \$3.1	Chicago \$226	Chicago 7.3%
Dallas/Ft Worth 17.6%	Chicago (1.5)	Los Angeles 2.8	Philadelphia 2.7	New York 0.1%	Philadelphia \$2.2	Houston \$220	Houston 7.8%
Houston 19.1%	New York (2.3)	Philadelphia 0.9	Chicago 2.4	Washington D.C. (0.2%)	Houston \$1.8	Philadelphia \$198	Philadelphia 7.8%

Source: Data compiled from CoStar Office National Report - United States (August 2, 2022). 12 Mos - represents Sept. 2021 to Aug. 2022 period.

Source: Data compiled from CoStar Office National Report - United States (August 2, 2022). Source: Data compiled from CoStar Office Capital Markets Report - United States (August 2, 2022). 12 Mos - represents Sept. 2021 to Aug. 2022 period.

Insights:

Office market recovery faces numerous headwinds.

- Hybrid work models and recession fears driven by aggressive Federal Reserve policy to combat high inflation have created uncertainty.²
- Office utilization is still a fraction of pre-pandemic levels and improvement has been slow.
- Firms will continue reevaluating their leases and square footage per employee, which was already shrinking before the pandemic.
- Although recent net absorption has been positive, weak demand from continuing space consolidation will put upward pressure on vacancy rates.

Industrial Market

- Market strength continues, characterized by record low vacancy rates, strong rental rate growth, and net absorption.
- Robust demand from logistics/big-box users and third-party logistics services (3PLs) seeking locations near strategic transportation linkages continue to place upward pressure on rental rates.
- A record influx of new development is occurring in attempts to satisfy strong demand.
- Investor interest remains healthy despite an uptick in commercial mortgage rates.

National Industrial Market Indicators

	Current	YoY Change	Trend
Market Rent (psf)	\$10.61	11.6%	▲
Vacancy Rate	3.9%	(100 BPS)	▼
Sublet (sf)	64.3 M	(11.4 M)	▼
Under Construction (sf)	665 M	197 M	▲
Deliveries (sf) - past 12 Mos	363 M	27.2 M	▲
Net Absorption (sf) - past 12 Mos	479 M	18.3 M	▲
Sale Transactions - past 12 Mos	28,212	3,474	▲
Sale Volume - past 12 Mos	\$140B	\$52.2 B	▲
Market Sale Price (psf)	\$150	\$21	▲
Cap Rate	6.10%	(10 BPS)	▼

Source: Data compiled from CoStar (as of August 2, 2022).

Below are key metrics for the largest industrial markets in the United States:

10 Largest Industrial Markets (by Inventory) Comparison

Vacancy Rate	Net Absorption (12 Mos)		Construction Deliveries (12 Mos)		Under Construction		Rent Growth (12 Mos)		Sales Volume (12 Mos)		Avg Sale Price Per SF	Cap Rate	
	Million SF		Million SF		Million SF				(In Billions)				
Inland Empire CA 1.9%	Houston	38.4	Dallas/Ft Worth	35.7	Dallas/Ft Worth	75.9	Inland Empire CA	19.2%	Los Angeles	\$10.6	Los Angeles	\$323	Inland Empire CA 3.9%
Los Angeles 2.0%	Dallas/Ft Worth	38.0	Chicago	26.9	Phoenix	44.7	Phoenix	15.3%	Chicago	\$9.0	New York	\$269	Los Angeles 4.2%
Atlanta 3.5%	Chicago	37.2	Houston	24.6	Atlanta	39.9	Atlanta	14.2%	Inland Empire CA	\$8.5	Inland Empire CA	\$250	New York 5.0%
New York 3.5%	Atlanta	26.4	Atlanta	23.3	Inland Empire CA	36.4	Dallas/Ft Worth	13.7%	New York	\$8.3	Phoenix	\$166	Phoenix 5.6%
Phoenix 3.9%	Phoenix	23.7	Inland Empire CA	19.1	Chicago	35.0	Los Angeles	13.4%	Atlanta	\$6.7	Dallas/Ft Worth	\$111	Atlanta 5.8%
Philadelphia 4.1%	Inland Empire CA	20.3	Phoenix	19.0	Philadelphia	23.3	Philadelphia	12.2%	Phoenix	\$6.5	Philadelphia	\$111	Dallas/Ft Worth 6.3%
Chicago 4.5%	Philadelphia	14.4	Philadelphia	16.1	Houston	23.1	New York	11.0%	Philadelphia	\$4.8	Atlanta	\$101	Philadelphia 6.3%
Detroit 4.6%	New York	10.4	New York	9.1	New York	20.2	Detroit	9.9%	Dallas/Ft Worth	\$4.1	Houston	\$100	Houston 6.4%
Dallas/Ft Worth 5.3%	Detroit	5.9	Detroit	7.2	Detroit	9.8	Chicago	8.9%	Houston	\$2.6	Chicago	\$92	Chicago 6.6%
Houston 5.8%	Los Angeles	3.3	Los Angeles	3.1	Los Angeles	6.1	Houston	5.7%	Detroit	\$1.0	Detroit	\$74	Detroit 8.5%

Source: Data compiled from CoStar Industrial National Report - United States (August 2, 2022). 12 Mos - represents Sept. 2021 to Aug. 2022 period.

Source: Data compiled from CoStar Industrial National Report - United States (August 2, 2022). Source: Data compiled from CoStar Industrial Capital Markets Report - United States (August 2, 2022). 12 Mos - represents Sept. 2021 to Aug. 2022 period.

Insights:

- In May, Amazon, the industrial market’s largest tenant, announced plans to sublease or vacate roughly 10 to 30 million square feet, raising questions about whether overall demand for industrial space may finally be cooling.^{3,4}
- Demand for warehouse space may moderate in the upcoming months due to reduced capacity needs from slower consumer spending.
- As vacancy rates in most of the nation's largest distribution hubs remain near historic lows, developers continue to seek developable land sites and available product in surrounding areas.
- Higher transportation costs, more integration of e-commerce, the onshoring of manufacturing, and the repositioning of global supply chains should boost long-term demand for industrial space.
- Investment may slow from its record pace set during the past 12 months, but buyer confidence in future industrial NOI growth remains high.

Multi-Family Market

- Record rent growth is moderating, but housing supply remains low in most markets.
- Demand is greater for relatively affordable units, where vacancy rates trend closer to 4.0%, in contrast to higher-end units, with vacancy rates upwards of 7.0%.
- Material shortages and supply chain disruptions have caused delays and raised the cost for new construction.
- Sales activity continues to outpace the other three major property types.

National Multi-Family Market Indicators

	Current	YoY Change	Trend
Market Rent (per unit)	\$1,641	8.3%	▲
Vacancy Rate	5.1%	(10 BPS)	▼
Concession Rate	0.6%	(20 BPS)	▼
Under Construction (units)	845,548	62,429	▲
Deliveries (units) - past 12 Mos	397,128	(8,468)	▼
Net Absorption (units) - past 12 Mos	348,064	(385,471)	▼
Sale Transactions - past 12 Mos	25,309	4,822	▲
Sale Volume - past 12 Mos	\$302 B	\$141 B	▲
Market Sale Price (per unit)	\$260K	\$24.6K	▲
Cap Rate	5.00%	(10 BPS)	▼

Source: Data compiled from CoStar (as of August 2, 2022).

Below are key metrics for the largest multi-family markets in the United States:

10 Largest Multi-Family Markets (by Inventory) Comparison

Vacancy Rate	Net Absorption (12 Mos)	Construction Deliveries (12 Mos)	Under Construction	Rent Growth (12 Mos)	Sales Volume (12 Mos)	Avg Sale Price Per Unit	Cap Rate
	Units	Units	Units		(In Billions)		
New York 2.4%	New York 29,810	New York 26,018	New York 57,187	Dallas/Ft Worth 11.3%	Atlanta \$20.9	New York \$445,917	Los Angeles 3.9%
Los Angeles 3.4%	Dallas/Ft Worth 21,230	Dallas/Ft Worth 20,380	Dallas/Ft Worth 36,941	Atlanta 8.8%	Phoenix \$18.3	Seattle \$428,135	Phoenix 3.9%
Philadelphia 3.9%	Los Angeles 18,682	Houston 19,000	Washington D.C. 34,862	Seattle 8.6%	New York \$15.9	Los Angeles \$422,185	Seattle 3.9%
Chicago 4.8%	Houston 17,411	Phoenix 13,412	Atlanta 29,281	Philadelphia 7.8%	Los Angeles \$14.7	Washington D.C. \$348,254	New York 4.2%
Seattle 5.3%	Washington D.C. 16,067	Seattle 11,200	Phoenix 28,829	Phoenix 7.6%	Washington D.C. \$12.0	Phoenix \$298,225	Atlanta 4.5%
Washington D.C. 5.8%	Chicago 12,190	Washington D.C. 11,156	Los Angeles 27,441	Washington D.C. 7.5%	Seattle \$9.2	Chicago \$240,734	Washington D.C. 4.5%
Dallas/Ft Worth 6.3%	Seattle 9,954	Los Angeles 9,170	Seattle 23,040	Los Angeles 6.6%	Dallas/Ft Worth \$8.7	Atlanta \$232,834	Dallas/Ft Worth 4.6%
Atlanta 7.1%	Philadelphia 5,689	Atlanta 8,642	Houston 21,085	Chicago 6.5%	Chicago \$5.9	Philadelphia \$227,884	Philadelphia 5.1%
Phoenix 7.7%	Phoenix 3,350	Chicago 6,793	Philadelphia 19,052	New York 6.3%	Houston \$4.6	Dallas/Ft Worth \$197,522	Houston 5.2%
Houston 7.9%	Atlanta 1,947	Philadelphia 5,418	Chicago 12,039	Houston 6.2%	Philadelphia \$3.4	Houston \$165,324	Chicago 5.6%

Source: Data compiled from CoStar Multi-Family National Report - United States (August 2, 2022). 12 Mos - represents Sept. 2021 to Aug. 2022 period.

Source: Data compiled from CoStar Multi-Family National Report - United States (August 2, 2022). Source: Data compiled from CoStar Multi-Family Capital Markets Report - United States (August 2, 2022). 12 Mos - represents Sept. 2021 to Aug. 2022 period.

Insights:

- Market fundamentals are expected to remain strong due to favorable demographic drivers.
- Elevated levels of development will attempt to satisfy rental demand as high home prices and interest rates keep potential buyers in rental housing.
- Demographic trends show that the exodus from urban centers has slowed.
- Despite high costs, apartments incorporated into walkable, mixed-use developments and proximate to job centers and transit hubs continue to be favored by tenants.
- Heightened investment demand for multi-family assets is projected to keep cap rates near historical lows.

Retail Market

- Retail sales were unchanged in July 2022 from the prior month, largely due to declining gas prices and lower auto sales.
- Foot traffic at retail businesses has returned to pre-pandemic levels.
- During the past year, key metrics improved, due in part to limited new development.
- The majority of new construction consists of single-tenant build-to-suit projects.
- Sales volume totaled a record high since the Great Recession.

National Retail Market Indicators

	Current	YoY Change	Trend
Market Rent (psf)	\$23.34	4.4%	▲
Vacancy Rate	4.3%	(60 BPS)	▼
Sublet (sf)	16.5 M	(5.5M)	▼
Under Construction (sf)	60.3 M	4.8 M	▲
Deliveries (sf) - past 12 Mos	41.8 M	(12.7 M)	▼
Net Absorption (sf) - past 12 Mos	91.1 M	42.4 M	▲
Sale Transactions - past 12 Mos	57,608	9,326	▲
Sale Volume - past 12 Mos	\$107 B	\$44.8 B	▲
Market Sale Price (psf)	\$238	\$13	▲
Cap Rate	6.80%	(10 BPS)	▼

Source: Data compiled from CoStar (as of August 2, 2022).

Below are key metrics for the largest retail markets in the United States:

10 Largest Retail Markets (by Inventory) Comparison

Vacancy Rate	Net Absorption (12 Mos)		Construction Deliveries (12 Mos)		Under Construction		Rent Growth (12 Mos)		Sales Volume (12 Mos)		Avg Sale Price Per SF		Cap Rate	
	Million SF		Million SF		Million SF				(In Billions)					
Boston 2.7%	Dallas/Ft Worth 6.7	Dallas/Ft Worth 3.2	Houston 4.6	Atlanta 6.8%	New York \$6.6	New York \$427	Los Angeles 5.2%							
Atlanta 3.9%	Houston 5.8	Houston 2.7	Dallas/Ft Worth 3.1	Dallas/Ft Worth 5.6%	Los Angeles \$6.5	Los Angeles \$421	New York 5.9%							
New York 4.0%	Atlanta 5.1	Atlanta 1.8	New York 3.1	Detroit 5.2%	Atlanta \$4.9	Washington D.C. \$338	Washington D.C. 6.0%							
Philadelphia 4.6%	Chicago 3.3	Chicago 1.4	Los Angeles 2.1	Houston 4.3%	Chicago \$4.9	Boston \$264	Boston 6.1%							
Dallas/Ft Worth 4.7%	New York 2.0	New York 1.4	Washington D.C. 1.9	Boston 3.8%	Boston \$3.1	Dallas/Ft Worth \$255	Dallas/Ft Worth 6.4%							
Washington D.C. 5.0%	Philadelphia 2.0	Washington D.C. 1.3	Atlanta 1.8	Chicago 3.8%	Philadelphia \$2.9	Houston \$235	Houston 6.8%							
Houston 5.1%	Boston 1.2	Los Angeles 1.0	Chicago 1.4	Washington D.C. 3.8%	Washington D.C. \$2.9	Atlanta \$198	Atlanta 7.0%							
Los Angeles 5.1%	Los Angeles 1.1	Philadelphia 1.0	Philadelphia 1.0	Los Angeles 3.7%	Houston \$1.3	Chicago \$190	Philadelphia 7.1%							
Detroit 5.2%	Detroit 0.8	Boston 0.9	Boston 0.8	New York 2.1%	Dallas/Ft Worth \$1.2	Philadelphia \$184	Chicago 7.3%							
Chicago 5.8%	Washington D.C. 0.7	Detroit 0.4	Detroit 0.6	Philadelphia (0.8%)	Detroit \$0.7	Detroit \$129	Detroit 7.7%							

Source: Data compiled from CoStar Retail National Report - United States (August 2, 2022). 12 Mos - represents Sept. 2021 to Aug. 2022 period.

Source: Data compiled from CoStar Retail National Report - United States (August 2, 2022). Source: Data compiled from CoStar Retail Capital Markets Report - United States (August 2, 2022). 12 Mos - represents Sept. 2021 to Aug. 2022 period.

Insights:

- Although consumer sentiment increased slightly in July 2022, it remains near all-time low levels amid concerns over inflation and an upcoming economic recession.⁵
- Besides inflationary worries, retailers continue to deal with headwinds such as labor shortages and supply chain disruptions.
- Leasing and rental growth will accelerate in markets with the strongest population growth, particularly in the Sunbelt and western regions.
- Investors will continue targeting single-tenant net lease assets and grocery-anchored neighborhood centers in high-growth areas.
- Repositioning and transforming older vacant retail assets into new, consumer-driven venues and mixed-use projects that feature more food, entertainment, and non-traditional tenants in the strongest markets will continue despite challenging conditions.
- Many retail centers in secondary and tertiary markets will remain vacant due to very limited demand for alternative uses.

¹ *AFIRE 2022 International Investor Survey Report*, The Association of Foreign Investors in Real Estate, underwritten by CBRE & Holland Partner Group (April 20, 2022), [2022 AFIRE/AFIRE.org](https://www.afire.org).

² Wiseman, Paul, *Fed's aggressive rate hikes raise likelihood of a recession*, Associated Press (June 16, 2022), [Associated Press](https://www.associatedpress.com).

³ Soper, Spencer, *Amazon Aims to Sublet, End Warehouse Leases as Online Sales Cool*, Bloomberg (May 21, 2022), [Bloomberg.com](https://www.bloomberg.com).

⁴ Kirk, Patricia, *Amazon's Plan to Sublease Industrial Space May Just Be the Start*, Wealth Management (June 9, 2022), [wealthmanagement.com](https://www.wealthmanagement.com).

⁵ Fontdegloria, Xavier, *U.S. Consumer Sentiment Remained Subdued in July; Inflation Expectations Fell -- University of Michigan*, MarketWatch, Inc. (July 15, 2022), [marketwatch.com](https://www.marketwatch.com).

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