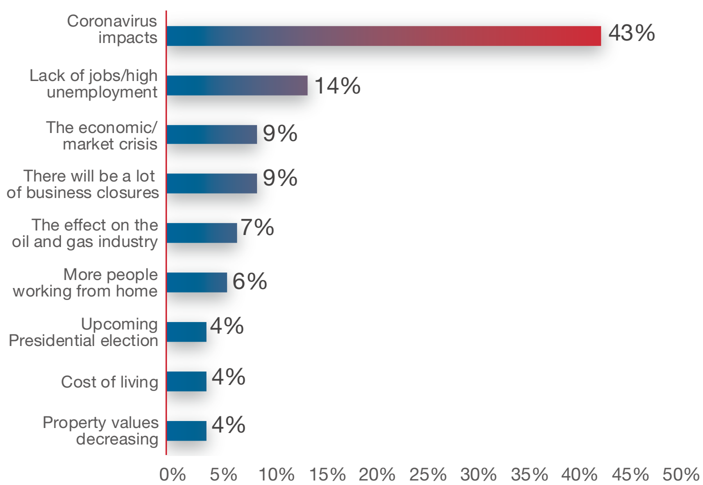
2020 Real Estate Market Survey

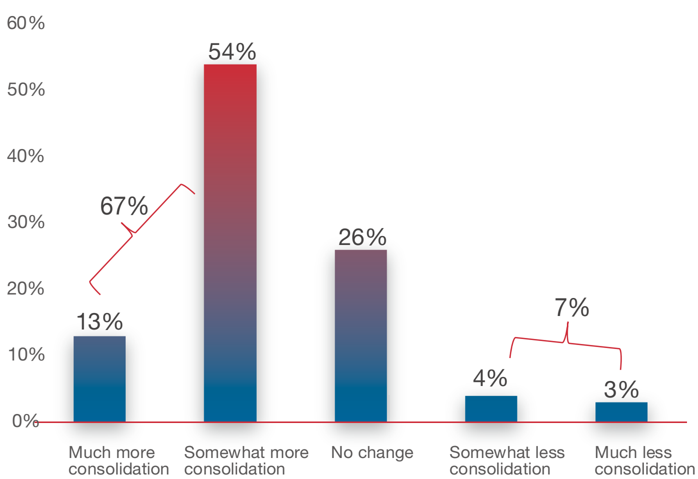
NAI Global commissioned South Carolina-based Regina Corso Consulting, a market research firm, to conduct a Real Estate Outlook study by surveying NAI professionals from over 30 U.S. states and a dozen international countries. The survey was conducted between April 6 and 27, 2020 and 252 professionals completed the survey. The survey focused on three core product categories: office, retail and industrial properties, and also gathered responses on the impact of the Coronavirus to the property markets and the general economy.

Overview: Coronavirus and Impact on Commercial Property Markets and the Economy

There is really just one thing impacting the markets this year, the Coronavirus, and almost all of the other key drivers that will have an impact are an offshoot of that one huge driver.



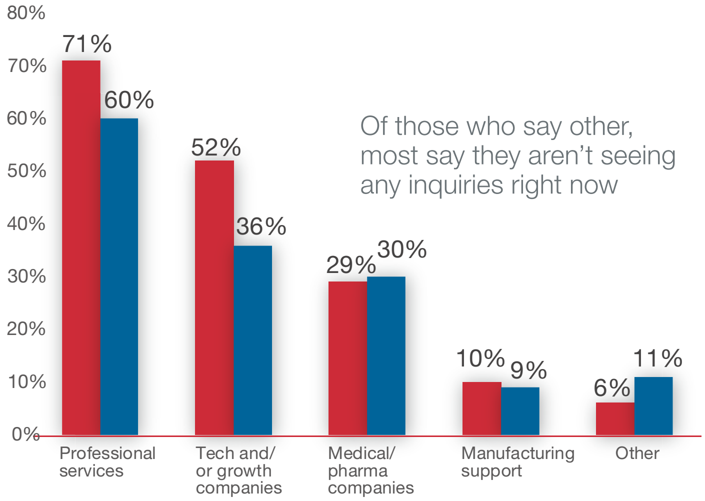
Two-thirds of those knowledgeable about at least one of the markets say there is more consolidation in the commercial real estate industry now when compared to a few years ago with one-quarter saying there has been no change.



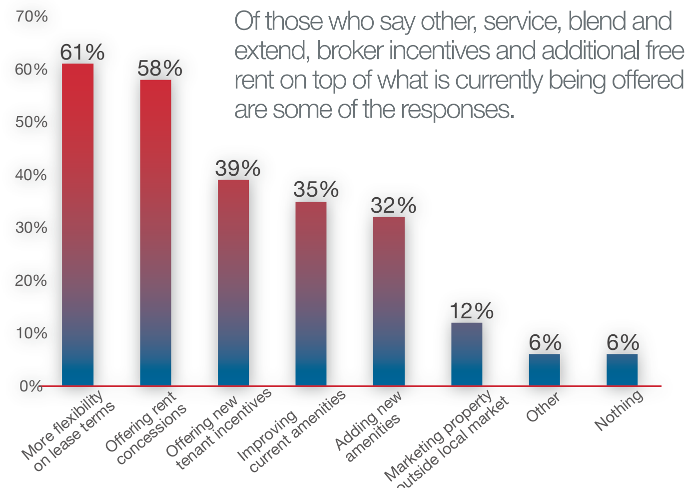
- 92% said the rise and spread of the virus would seriously (and negatively) impact the commercial real estate (CRE) markets in the coming year.
- The rise of property technology would have a positive impact in the coming year (64%).
- Two-thirds (67%) said they anticipated more consolidation in the industry compared with a few years ago when only one-quarter of NAI Global respondents expected an increase in consolidation (Regina Corso Consulting conducted a similar survey in 2016).
- Opinions differed substantially on the question of changes to co-working space, with 21% saying the virus and economy would have a positive impact on co-working space, 37% saying there would be no impact to the niche, while 41% said conditions would have a negative impact on co-working space in the coming year.
- Two-thirds (65%) said market conditions had already changed by April, while 23% said market conditions are getting ready to change and 12% think Pre-COVID market conditions would continue a few more years.
- Over four in five (83%) say the industrial and retail real estate sectors have seen an “Amazon effect” in their respective markets, meaning store closures in combination to greater demand for Class A distribution-focused industrial buildings is clearly evident and driven by the ever-expanding reach of e-commerce. (Editorial note: about 100,000 stores are expected to close over the next five years – more than triple the number shut after the Great Recession, as e-commerce jumps to a one-quarter of U.S. retail sales compared with 15% last year, according to UBS)
- The Coronavirus is the greatest threat to the CRE industry in general (43%) and the three specific property sectors and the other major issues are negative derivatives of the virus’ impact, led by high unemployment (14%), economic crisis (9%), business closures (9%), and a weakened oil and gas industry (7%).
- One sentiment expressed that if the economy were to be reopened by late May the economy could bounce back later this year, and if mandatory business closures are to continue into June there would be a recession lasting one or two years.

The State of the Office Leasing Market

Professional services companies and tech and/or growth companies continue to be the ones making the most inquiries about new office space.



Around three in five of those knowledgeable about office leasing markets say landlords are offering more flexibility on lease terms and rent concessions to attract and/or retain tenants.

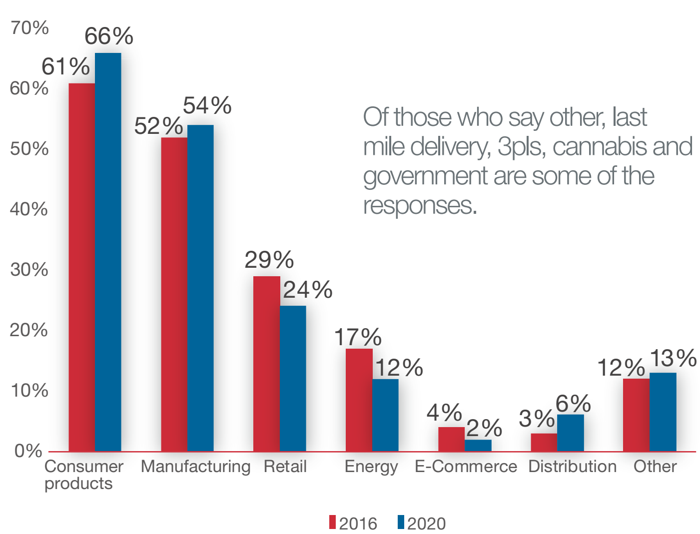


- Over half (51%) of office market specialists said their markets were cooling down or cold in terms of leasing inquiries while 40% said leasing activity was flat and 9% say it is hot or heating up. The numbers contrast substantially with the 2016 survey, when only 10% said office leasing was cold and over 37% said it was hot.
- In terms of office supply and demand, 49% say there is moderate supply with few choice properties available, one-quarter (25%) say inventory is low and 21% report oversupply in their local markets. Only 14% say there is adequate construction to meet future demand, an indication that there will be greater demand for office space in the future than developers may deliver.
- Regarding office occupiers by industry, three in five (60%) say professional services are in the market for office space, 36% of inquiries are coming from high tech/or growth companies, 30% are fielding calls from medical and pharmaceutical companies and 9% are from manufacturing support companies. The sector with the greatest change from 2016 is tech/growth, when 52% of office leasing inquires came from those industries, a 16-point decline.
- Mid-market size firms are leading the way in terms of office space inquiries – 57% have between 11 and 100 employees, while 39% are hearing from small companies (between 2 and 10 people) and just 4% are showing space or touring with large companies defined as 100 employees or more.
- In a sudden flip from being a landlord's market, tenants are now in the driver's seat, with 61% of landlords offering rent concessions and 39% offering new tenant incentives, such as improving current amenities (35%) and 32% reporting they are adding new amenities to their properties. Some landlords (12%) are marketing their properties outside of traditional geographic boundaries to attract new tenants.
- In their markets, 21% say rental rates are decreasing and 17% report rents are increasing in their markets, in stark contrast to the 2016 survey when 44% said office rents were increasing, half (51% said rents were flat and only 5% said rents were decreasing.
- In terms of office property sales, 64% of the buyers are individual investors, 60% are business owner/users and 39% of recent office acquisitions have gone to institutional investors. By comparison in 2016, 46% of the buyers were institutional investors, 32% were individual investors and 22% were owner/occupiers.

The State of the Industrial Leasing Market

- Industrial leasing activity and inquiries are hot or heating up according to the majority of respondents (51%) while 20% say it is cooling down or cold and 29% say industrial leasing activity is flat.
- Regarding supply and demand, 21% say there is a moderate supply of industrial product in their respective markets and even less supply of quality industrial buildings. Two-thirds (65%) say inventory supply is low and over one-third (36%) say the amount of product under construction is not adequate to meeting demand while 29% say the amount of new industrial buildings under construction is adequate to meet demand. Nearly one in 10 (9%) say there is an industrial building boom underway and just 5% say their markets are over-supplied.
- As far as industrial occupiers by industry are concerned, 66% say consumer-product companies are driving demand for industrial properties, while over half (54%) of demand is driven by manufacturing companies and about one-quarter (24%) of demand is coming from retailers. Respondents said 12% of demand is from energy companies, only 6% is from distribution companies and just 2% of industrial property demand is by e-commerce companies.

Among those knowledgeable about the industrial market, two-thirds say consumer product companies are driving demand in their area while over half say manufacturing companies are.



"Three in five (62%) say landlords are offering more flexibility on lease terms while 59% say rent concessions are being offered by landlords to attract new tenants and even to retain existing tenants."

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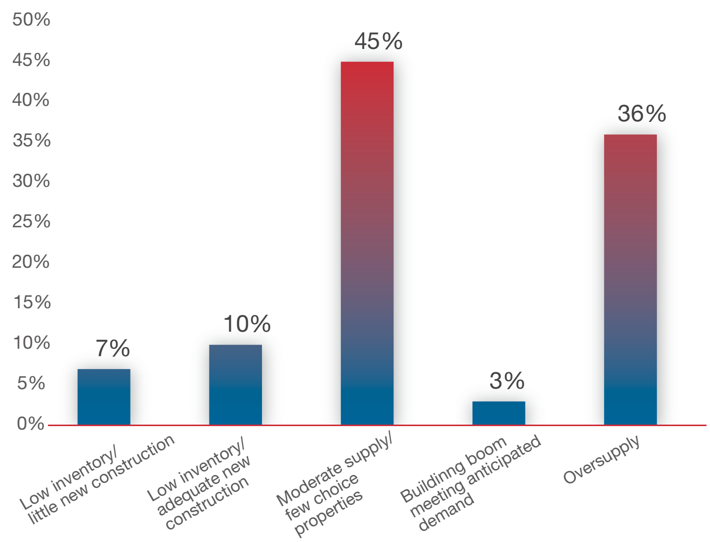
- Market forces driving demand for industrial space include business growth of industrial space occupiers that require more square footage (49%), 38% say it's because their geographic location has become desirable to industrial occupiers, while 37% expressed the quality of life, lesser commute times and lower cost of living in their respective communities as reasons for industrial site selection. Nearly a third (30%) say the availability of industrial properties is spurring growth and 29% say corporate relocations has increased demand for industrial buildings in their regions.
- In terms of activity with industrial property, 81% say leasing drives activity while 9% say acquisitions and dispositions drives activity.
- Similar to the office market, the COVID economy has reversed the multi-year trend of it being a landlord's market to the current status as a market favoring tenants. Accordingly, three in five (62%) say landlords are offering more flexibility on lease terms while 59% say rent concessions are being offered by landlords to attract new tenants and even to retain existing tenants. Even so, less than half (45%) of the landlords in their markets are offering incentives, respondents say, and one-quarter (26%) are marketing their properties beyond their traditional geographic zones to attract new tenants. Over two in five (22%) are improving current amenities and 13% of landlords are adding new amenities to their properties.

The State of the Retail Leasing Market

- The majority of survey respondents say the retail market is cooling down or cold (59%). 32% say the retail market is flat and 10% say it is heating up or hot. However, those figures move slightly when asked what the retail market would look like in six months. Cooling down or cold increased to 61%, flat decreased to 29% and heating up or hot stayed the same at 10%.
- Regarding supply and demand, two in five (45%) say there is a moderate supply of retail real estate with little to choose from in terms of Class A product and 17% say inventory is low. Less than one in 10 (7%) say construction activity is low in their markets and 10% say the amount of new retail projects under construction should deliver an adequate amount of supply. Over one-third (36%) say retail is over-supplied in their markets and just 3% report a building boom in their markets in order to meet anticipated demand.
- As for market drivers by brands, local, regional and national retailers had similar numbers. Survey respondents say 49% of the retail market is driven by local brands and chains (mom n' pop + local store operators with multiple locations), regional brands and chains also scored 49% while national brands and chains are driving retail demand in their respective markets for 47% of respondents.
- On retail rents, three in five (60%) say retail rents are flat, 14% expressed opinions that rents are rising in their markets while 26% reported that rents are decreasing where they live and conduct business.

Over one-third of those knowledgeable about the retail market say there an oversupply in their market while almost half say there is moderate supply with few choice properties available.



**As a reminder, the opinions expressed by survey respondents reflect market conditions in their respective local markets, which can vary considerable among the more than 42 markets represented in this survey and report.*

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