CREXI

National Trends Report

Q1 2022

INTRODUCTION

The start of 2022 represented a clean slate beyond the impact of the pandemic, with investor, tenant, and transaction activity in commercial real estate reaching new heights. While the hurdles and uncertainties of the pandemic still resonate with many, most CRE players were able to adapt, adjust, and conduct business at an even faster clip. 2022's first quarter witnessed the fruit of that preparation and hinted at what's likely to be a positive year for the sector.

While inflation, rising interest rates, worker shortages, global conflict, and supply chain disruptions represent their fair share of challenges, the commercial real estate industry is well-equipped to handle headwinds.

New technologies and innovative ways of doing business have prepared CRE professionals with the tools needed to quickly navigate the market and leverage opportunities despite uncertainties. At the same time, plentiful dry powder and a desire to avoid inflation pressure have positioned commercial real estate as an attractive asset, already capturing surges in investor attention.

Our quarterly overview report dives into buying and leasing activity on Crexi throughout Q1 2022, comparing it to quarterly metrics and year-over-year data. With this unique information, we seek to shed light on the undercurrents of commercial real estate activity with an eye toward the sector's future.

WHAT HAPPENED IN Q1 2022

Inflation and rising interest rates are motivating investor capital in commercial real estate.

Ongoing efforts by the Fed to temper rising inflation – which hit 8.6% annually in March 2022 – via interest rate hikes have made commercial real estate attractive to investors. Real estate is a historic buffer against inflation. It provides reliable long-term ROI compared to stocks and other investment options more subject to volatility.

While still raising rates, financial institutions and lenders are keeping them close to historic lows to encourage continued borrowing. And it's working: a recent CBRE report projected global commercial real estate investment to increase a moderate 8% in 2022 despite global headwinds.

Geopolitical conflict's impact on oil prices and supply chain shortages.

Rising oil prices have led the U.S government to tap into national reserves to manage the globally-shared embargo on Russian-produced oil supplies, following Russia's invasion of Ukraine. With increasing fuel costs comes a share of economic hurdles, adding to the Fed's growing list of challenges from the fallout of the pandemic, and compromising consumer sentiment that's so crucial to investment activity.

However, the undercurrents of uncertainty only highlight real estate's longer-term ROI and recession-resistant attributes. Supply chain shortages complicate construction processes and tighten available investment supply, driving up property values and further supporting the sector's resistance to inflation.

Sustainability in commercial real estate attracts higher focus in the face of climate change.

Sustainability, formerly viewed as a fringe concern in the CRE sector, has moved to the forefront, as the U.S. and several state governments make sustainability-driven initiatives the focus of their administrations. Many corporations and investment trusts have made net-zero commitments and developed reporting standards, while climate risks pose a genuine threat to annual returns (by up to 40%), according to a recent McKinsey analysis.

Many new construction projects are configuring climate-friendly focuses into their developments while owners are updating older buildings to fit emissions targets. Climate change opens up new possibilities for investors and tenants alike. Those who take changing climate conditions into portfolio consideration will mitigate risks and be able to potentially recoup positive ROI on their action.

CREXI'S COMMERCIAL REAL ESTATE NATIONAL TRENDS

Seller Behavior Trends

Time Period	Avg. Price Per SF	% Change	Avg. Cap Rate	Avg. Asking Price	Avg. Square Foot	Avg. Occupancy	% of Listings Unpriced
2020 Q4	$218.72	8.62%	6.43%	$1,699,825.45	18,496.93	77.17%	12.65%
2021 Q1	$232.13	6.13%	6.44%	$1,714,486.20	19,943.49	78.11%	14.71%
2021 Q2	$245.12	5.6%	6.13%	$2,073,019.25	19,725.61	80.43%	13.43%
2021 Q3	$236.87	-3.37%	6.07%	$1,853,509.69	21,121.93	81.03%	15.10%
2021 Q4	$245.37	3.59%	5.89%	$1,957,134.79	20,644.71	80.65%	16.17%
2022 Q1	$260.05	5.98%	5.72%	$2,034,468.86	21,302.05	81.96%	13.92%

Last year rounded out a return to a market that favored property sellers, with pricing fluctuations pointing to more demand and increasing valuation across the board. Particularly in a world where inflation and supply chain woes make other investment options seem more risky, commercial real estate's long-term, gradual returns attracted additional capital to the space.

At the beginning of 2022, the seller's market continued with a second subsequent quarter of pricing gains. The average asking price per square foot on Crexi **climbed by nearly 6%**. Annual pricing growth points to a more rosy picture of CRE's emergence from the doubting pause induced by COVID-19. Year-over-year, average asking prices for new properties on Crexi **increased by a noticeable 12%**, and were over **28% higher** than Q1 2020, right before the pandemic.

In the same period, occupancy steadily rose in its second subsequent quarter of growth, pointing to a healthy return of tenants to their physical spaces – particularly in offices and retail. Overall occupancy rates on Crexi hit their highest levels since Q3 2020, where most tenants began to relinquish space and renegotiate out of their leases as the pandemic pressed on. Now as occupancy rates **sit at 82%** (as of Q1), we look forward to the continued space acquisition by tenants and property sellers looking to capitalize on their leased assets.

There were also fewer overall unpriced listings on Crexi this quarter, pointing again to improved seller confidence in property values. Only **14% of new listings** were added as unpriced on Crexi, compared to **more than 16.2%** last quarter.

Buyer Behavior Trends

We ended the previous fiscal year witnessing an unprecedented volume of buyer activity on Crexi. In Q1 2022, buyer engagement with commercial real estate listings significantly rose, **up 34%** from the previous quarter and almost double Q1 2021. This increase suggests heightened demand for CRE investments, alongside a surge in using digital tools to seek and acquire assets.

Indeed, the average number of days on the market for Crexi listings continued to accelerate, and deals closed faster across all asset classes. Industrial and office spaces saw the largest change in days on the market. In contrast, multifamily transaction speed tapered as investors broadened their consideration of other property types.

We also observed continued distribution in buyer locations compared to where they deployed investment capital. In Q1 2022, **46% of buyer traffic** came from in-state interest, whereas **54%** came from other states. Of note, most buyers were looking for property in Florida metros like Miami and Tampa, with other markets in California, Texas, and elsewhere in the Sunbelt attracting a majority of search activity.

Landlord Trends

Time Period	Avg. Monthly Rate	% Difference	Avg. Rentable SF
2020 Q4	1.158	-0.22%	8,397.94
2021 Q1	1.1539	-0.35%	8,042.82
2021 Q2	1.2012	4.10%	8,696.96
2021 Q3	1.2147	1.12%	8,535.96
2021 Q4	1.2379	1.91%	9,839.72
2022 Q1	1.2084	-2.38%	8,683.86

As average asking rates adjust, they indicate a heightened interest in getting tenants back at the most opportune time, as occupants finalize their return-to-work plans and retail expansions in a practically post-COVID marketplace. This is also the first asking rate decrease since Q1 2021, so future growth is expected as we move further into 2022.

Tenant Behavior Trends

Tenants on Crexi were back in full force in the first quarter of 2022, using our platform to browse for lease spaces and identify the best fit for their business needs. In Q1 2022, we observed a **419% increase** in tenant-related activity on our platform from the previous quarter.

Retail and offices, in particular, were the most popular for lease spaces, capturing **166% and 137% more tenant attention** than Q4 2021 and **70.7% of overall tenant activity**. Houston was the most popular leasing market, and Omaha and Chicago claimed second and third place in tenant interest.

ASSET TYPE TRENDS

Industrial

Industrial proved one of the pandemic winners in terms of attractive, in-demand property types. Following 2021's high demand, the first quarter of 2022 proved no different.

The increasing need for e-commerce facilities and consumer demand for fast-acting delivery drove investor interest in distribution centers. At the same time, supply chain shortages instigated an increased need for U.S.-based manufacturing plants. These facilities are popping up more and more in secondary and tertiary markets, following homeowners and renters migrating away from more populated metros.

Industrial's annual average pricing gains in 2021 indicated no slowing despite less supply.

On Crexi, the average asking price per square foot for new listings **rose 6.5%** from the previous quarter, posting a second consecutive period of pricing gains. In the same period, occupancy rates held steady, **averaging 76%** and showing a confident seller positioning despite absorption of a for-sale space.

These gains occurred amid constricting supply as construction becomes increasingly expensive: in Q1 2022, we observed an overall drop in both # of assets and the average size of those assets. Crexi's platform recorded a **5% drop** in newly available warehouses for sale and a **14.5% drop** in distribution assets, though manufacturing hub supply **rose by 8.5%.**

Industrial assets spent fewer days on the market, closing faster as buyers made decisive moves.

On the buyer side, industrial assets' activity **increased by 26%** quarter-over-quarter, sharing the top spot for most growth with multifamily in the same period. This continues the upward trend in buyer certainty and interest in industrial assets.

Over the last year, offers were up twice as much as in Q1 2021. The average days on the market for industrial assets saw the fastest acceleration in transaction speed, hitting an **average of 179 days** from list to close in Q1 2022.

For-lease industrial assets posted continuous growth in 2021 with noticeable surges in tenant demand.

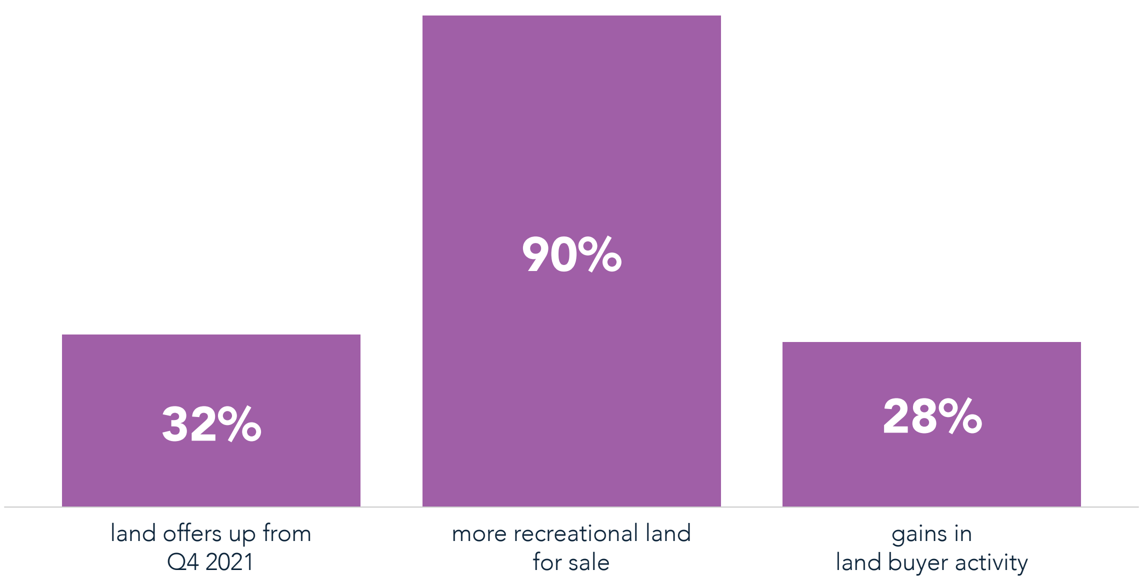
Industrial space for lease continued steady growth in the first quarter of 2022, albeit with fewer gains than the end of last year. Average asking rates **rose 1.28%**, representing a slight steadying in landlord expectation of tenant demand following the **9.2% surge** in rates entering Q4 2021.

Despite the slowdown in rate increases, the first quarter of 2022 saw industrial reach all-time high average asking rates alongside a **111% increase** in industrial-related tenant activity. Demand for warehouses and other industrial facilities is far from slowing, and we expect to see a continued surge in industrial rental activity throughout the year.

Land

Land assets on Crexi saw impressive pricing increases in the first quarter of 2022, thanks to investors and tenants seeking to take advantage of land's versatility and develop plots into in-demand property types.

Land stands strong as one of the most plentiful property types on Crexi, attracting **28% more buyer activity** in Q1 2022, with offers **up another 32%**. We observed land assets' average asking price **surge 25%** from the previous quarter in the same period, a promising kick-off to the rest of 2022 for continued seller confidence and sector demand.



Interestingly, supply gains appeared across a gamut of land subtypes, including a **33.5% increase** in new agricultural land and an impressive **90% gain** in available recreational land for sale. This may suggest a slight slowdown in transaction velocity moving forward, as sellers compete for demand attention.

Retail

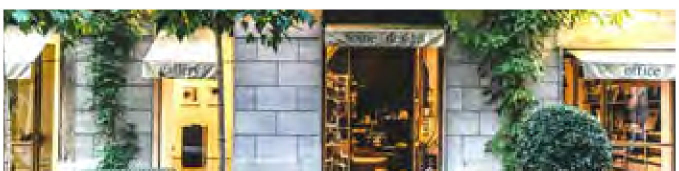
To date, retail transaction activity suggests a far cry from the asset class' unsettling performance during the pandemic. With a new year, retail property for sale is poised to shine, with rising property valuations, higher occupancy levels, and surging asking rates across different retail sectors.

The current retail market endured the pandemic's closures and uncertainty and is starting 2022 in style as a newly re-proven sector. The challenges of COVID-19 accelerated worn-out and struggling retail concepts and bolstered confidence in assets that survived the worst of it.

Among these, restaurants and shopping centers made surprising comebacks with noticeable supply gains on the site. At the same time, grocery stores and gas stations attracted consistently high levels of investor attention on Crexi.

Asking prices for retail increase valuation while occupancy steadily recovers.

The average asking price for retail assets added in Q1 2022 **rose 4.1%** quarter-over-quarter, continuing their steady climb from pandemic-era lows. This growth also appeared on an annual scale, with pricing metrics showing a **10% gain** from values amid COVID-19 while occupancy levels **rose 6%** from the previous year.



17.7%

increase in shopping centers for sale

22.9%

increase in restaurants for sale

These complementary metrics – increased occupation by retail tenants corresponding with an increasing value in for-sale retail assets despite growing supply – spell a promising future for the sector, one that's been a Crexi favorite throughout the platform's existence.

Retail remains a buyer favorite on Crexi, with a surge in offers and overall buyer activity.

14.6%

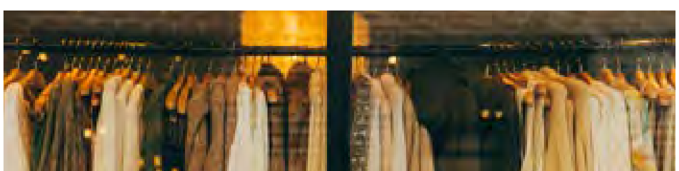
retail offers up from the previous quarter

25%

buyer activity up, nearly twice as much as the next highest buyer interest

While valuations are up, available space faces some tenant competition despite a surge in leasing activity.

Retail average asking rates per square foot were primarily unchanged from the previous quarter. The same number of assets came online as in Q4, continuing retail's reign as the most numerous for-lease type on Crexi. This is for good reason, as retail had the most noticeable surge in tenant activity last quarter, **jumping 166%** from the end of 2021.



166%

increase in tenants interested in retail

174.5%

increase in tenants interested in restaurants

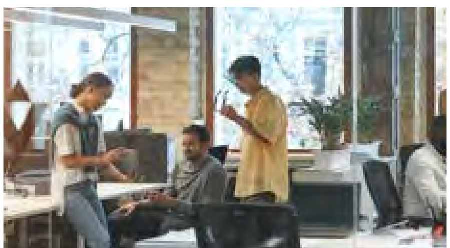
On the restaurant side, asking rents slightly **compressed by 4.25%** from their highest-ever levels last quarter, but this could be due to increased supply competing for tenant attention. However, there's plenty of attention to go around, as Crexi observed a **175% increase** in tenant activity surrounding restaurants.

Office

The dust has settled around the many return-to-work headlines of the last year. As pandemic variants seem to deter office occupancy plans no longer, many businesses are opting for hybrid models that suit the flexibility desired by their employees.

Different markets and different-sized tenants have handled COVID restrictions differently. Still, most metros have opened office spaces for business to return, encouraging lease signing at a gradual rate. Office occupancy rates **improved in 84%** of metro areas covered by a recent NAR national survey.

Flexible coworking spaces, in particular, are a hot-ticket item that allow businesses to attract talent and recognize the necessity of in-office collaboration, while balancing the needs of employees who have relocated or prefer to work from home. And while vacancies are still slow-moving in many metros, investors and sellers are confident that the office is here to stay.



18.6%

increase in coworking space for lease

30%

increase in executive office space for lease

11%

increase in medical office space for lease

Office assets saw a slight pricing increase but are taking over as one of Crexi's fastest-closing property types.

While the average asking price per square foot **rose only 2.5%** from the previous quarter, this increase represents approximately seven consecutive quarters of valuation growth – a promising ramp-up for one of the most compromised sectors during the pandemic.

Occupancy rates also hit their fourth consecutive quarter of growth, hitting an **average of 67.4%** in the first quarter of 2022. While still low, these rates are a far cry from their **five-year low of 62%** in Q4 2020, pointing to office's blooming return.

Demand surrounding offices increased with improvements in overall offers submitted.

Buyers' activity with office property for sale **rose 24%** from the previous quarter, indicating improved investor confidence in the sector. Offices remained the second-least examined asset class in Q1 2022. However, they still commanded more overall activity than industrial in terms of leads and offer volume. Indeed, offers on office assets **rose 20%** from the previous quarter, as more investors committed to deploying capital in the recovering sector.

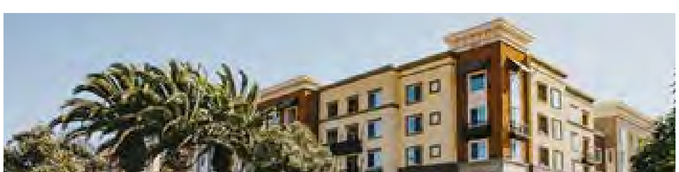
Tenants actively sought to acquire space, with growing supply making lease-signing more attractive.

Office tenants were **137% more active** in their search for office space in Q1 2022 than Q4 2021, arising in response to the slight compression in average asking rates. Rents for new office listings **dropped 4%** this quarter from their all-time highs, but this only motivated tenants to quickly snap up highly desirable spaces in secondary and tertiary office markets.

Multifamily

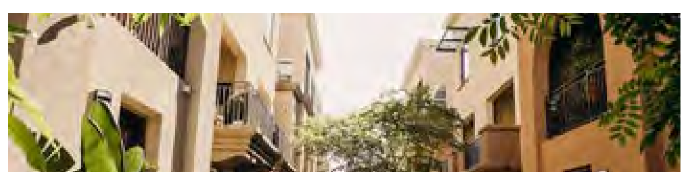
Multifamily has spent the last few years as an investor favorite, particularly amid the pandemic. Its essential nature (everyone needs a place to live) and entry-level friendliness to first-time investors kept activity swinging through the last few years. In the first quarter of 2022, multifamily continued to show impressive levels of growth, indicating continued investor interest in the asset class even as formerly impacted property types return to their prime.

Per the National Multifamily Housing Council's monthly rent tracker, rent collections reached stable activity by the end of 2021 – so much so that the NMHC discontinued its tracking measures. This institutional level of confidence aligns with our data at the top of 2022. We saw improved valuations and seller activity in the asset class as owners decided now was the opportune time to achieve positive multifamily ROI.



22%

increase in apartment building supply in Q1 2022



72%

increase in multifamily buyer activity

Remote and hybrid workspace trends continued to support the desire for larger apartment spaces with more amenities and more affordable options in suburban markets. Amid labor shortage and inflation, businesses need to provide higher wages to attract talent, which will, in turn, drive rent growth thanks to renters' increased disposable capital.

Average asking prices for multifamily surged to the highest all-time levels on Crexi.

Indeed, in Q1 2022, we saw some of the highest gains in multifamily asking prices for new multifamily assets across the board. The average asking price per square foot **jumped 10.2%** from the previous quarter and achieved all-time highs on our platform.

This corresponded with an increase in average square footage: even though the same number of assets came online in Q1 2022, the average facility size **jumped by about 6,656 square feet**. **Buyers are still all-in on multifamily, but transaction speed isn't increasing as fast as other assets.**

Buyer activity was **up 26%** in the first quarter of 2022, driven by a high-demand interest in the number of apartments with improved occupancy levels, which have **held steady at about 88%** for the last year. Multifamily properties also attracted the second-highest number of offers made in the first quarter – behind only retail – while posting **13% more proposals** than those submitted in Q4 2021.

Multifamily is still the fastest-closing asset type, but other property classes are gaining in terms of days on the market. This is due to a few factors: with increased valuations, improved forecast in office and retail industries, and a glut of new supply onboarded in the last quarter, investors have more factors to consider when playing in the sector.

METRICS AND METHODOLOGY

This article relies on data from Crexi's marketplace. In particular, to ascertain timely and representative trends in seller sentiment, this article focuses on offering metrics, such as average asking price per square foot, cap rate, and monthly rents, in addition to listed occupancy, tenancy, and square footage. Using these listing-based metrics and changes therein, we can use seller expectations at the time of listing to approximate overall valuation trends.

While these data aggregations may broadly reflect prevailing market conditions, it is essential to note that variations can also be affected by inventory changes, asset size, etc. We pair these data points with internal data from Crexi buyers on search trends and acquisition-related actions performed on Crexi to provide a holistic understanding of where both sides of commercial real estate are headed.

DISCLAIMER

The information in this report is based on Crexi's internal marketplace data and additional external sources that we consider reliable, but we do not represent it is accurate or complete.

Crexi internal marketplace data consists of aggregated property-level data points provided by brokers and reviewed internally by Crexi. While these data aggregations may largely reflect prevailing market conditions, variations can also be affected by inventory changes, asset size and other factors.

Nothing contained on this report or website is intended to be construed as investing advice. Any reference to an investment's past or potential performance should not be construed as a recommendation or guarantee towards a specific outcome. The information, opinions, estimates and forecasts contained in this report are as of the date of the article and are subject to change without prior notification.

TERMS

Occupancy: The percentage of occupied square feet in a building.

Absorption: A measurement of the net change of the supply of commercial space in a given real estate market over a specific period of time. Total absorption is new square footage leased by tenants minus vacated square footage vacated by tenants and made available on the CRE market.

Asking Price per Square Foot: The asking price per square foot of a building for sale.

Asking Rate per Square Foot: The landlord's asking rent rate per square foot for a building or market.

Asset Type: Also called "Asset Class" or "Property Type," one of four main categories in commercial real estate: retail, industrial, multifamily, and office. Also can refer to smaller categories including land, hospitality, etc.

Asking Cap Rate: Net Operating Income divided by the Asking Price.

Vacancy Rate: The rate of vacancy in the listed property.

Buyer Activity: Acquisition-related actions taken by users on Crexi sales property pages.

Buyer Searches: Internal site searches taken by users on Crexi sales or lease.

Lease Activity: Leasing related actions taken by users on Crexi lease property pages.

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