



NAR Sept. 2023 commercial real estate market insights

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Washington, DC While the massive interest rate hikes have hammered the commercial real estate market, the recent Federal Reserve decision to hold rates unchanged will give the market a break. After 11 collective rate hikes in the last 18 months, commercial real estate credit has gotten even tighter as lenders have been more cautious after the recent collapse of the two regional banks in March 2023. According to the Federal Reserve survey, small and mid-sized banks — holding most commercial real estate loans — reported tighter lending standards in the year's second quarter. In the meantime, delinquency rates for commercial real estate loans have increased, albeit remaining historically low. Although the Federal Reserve is signaling more rate hikes to follow by the end of the year, this pause will give some time to assess the impact of higher rates on the economy.

As low-interest loans mature at higher rates, all commercial real estate sectors face challenges. Higher vacancy rates and slower rent growth remain the dominant trends of the current market. Negative net absorption and new supply have pushed the office vacancy rate to another all-time high at 13.3% in August 2023. Even though multifamily rent growth decelerated even further, demand for apartment buildings has increased as many people are priced out of the market due to higher mortgage rates. Retail availability remains tight as this sector holds the lowest vacancy rate of any other sector at 4.2%. Finally, the industrial real estate sector remains strong, with the fastest rent growth among other sectors, but demand seems to be sliding closer to the pre-pandemic level.

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