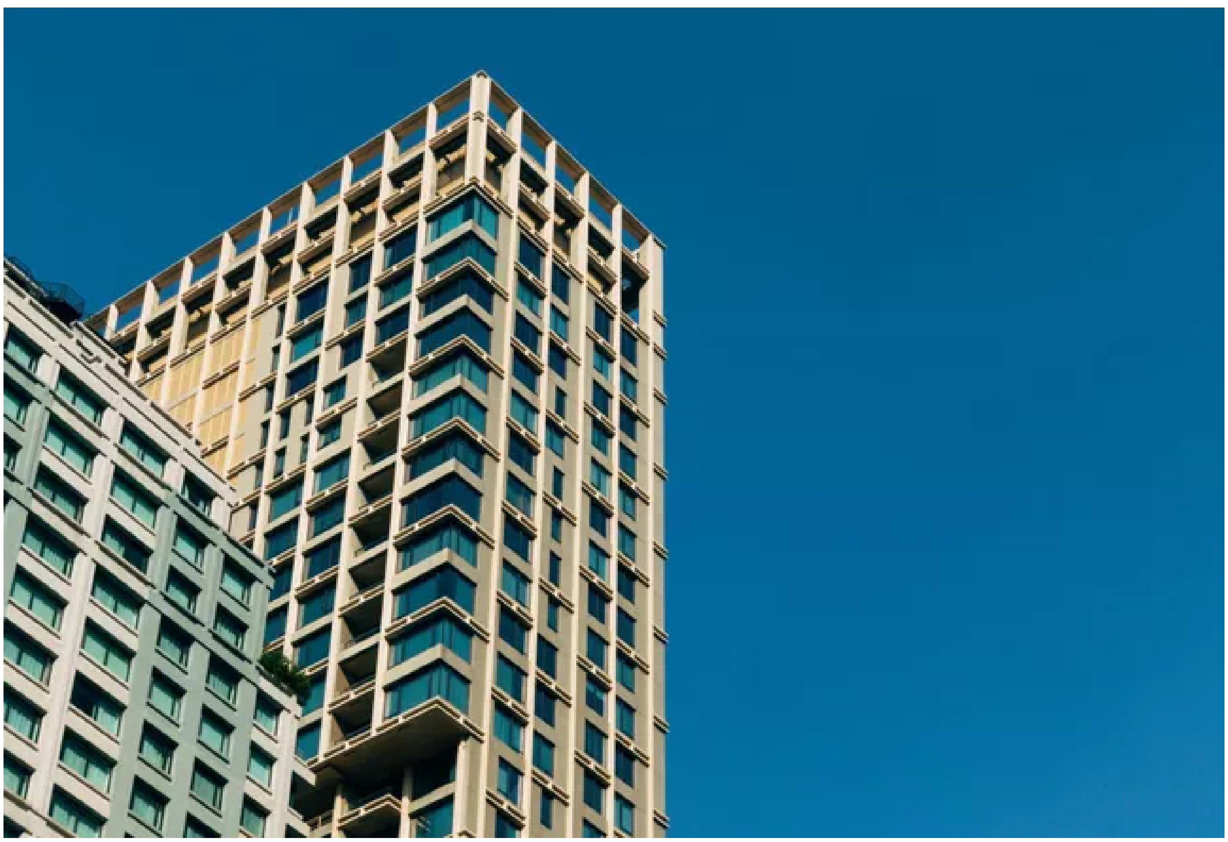
CRE Investor Demand 'Has Grown To New Heights,' With Multifamily Outpacing Industrial

March 10, 2022 | Katie Murar, Bisnow West Coast Editor (https://www.bisnow.com/author/katie-murar-528175) (mailto:katie.murar@bisnow.com)

Commercial real estate investment has more than recovered from its pandemic-induced slump and is slated to grow further this year, with CBRE (https://www.bisnow.com/tags/cbre) projecting a 10% investment increase year-over-year in 2022.



Multifamily saw the biggest increase in investor interest in 2021, accounting for almost half of all sales volume, according to CBRE's Cap Rate Survey H2 2021 (https://www.cbre.com/insights/reports/cap-rate-survey-h2-2021?utm_source=CampaignLogic&utm_medium=email&utm_campaign=U.S.+Cap+Rate
which cited data from Real Capital Analytics (https://www.bisnow.com/tags/real-capital-analytics). The sector outperformed "the ascendant industrial sector," which has soared to new highs as a result of burgeoning e-commerce demand during the pandemic.

CBRE (https://www.bisnow.com/tags/cbre)'s CRS report, an analysis of 3,600 cap rate estimates across more than 50 markets, found cap rates (https://www.bisnow.com/tags/cap-rates) dropped across the CRE spectrum last year. Though multifamily beat out industrial (https://www.bisnow.com/tags/industrial) when it came to 2021 investor interest, the industrial sector saw the most cap rate compression, indicating higher sales prices and lower perceived risk.

Cap rates for both sectors fell more than 100 basis points over the past two years, with industrial seeing cap rate drops of up to 200 basis points for Class-C properties.

For the entire CRE sector, cap rates fell during the second half of 2021 to 5.4% from 6.2% in the same period in 2020, and from 6.4% in 2019.

The multifamily sector generated more than $44B in sales volume during Q4 2021, the most of any product type; industrial generated the second-highest sales volume with nearly $25B invested in Q4 2021.

"As the U.S. heals from the pandemic, investors' demand for real estate has grown to new heights," Tom Edwards, global president of valuation and advisory services for CBRE, said in a press release (https://cbreemail.com/rv/ff0183c171ff5651967242042041b2a1444f1a26).

These investors include private equity giant Blackstone (https://www.bisnow.com/tags/blackstone), which has shelled out billions over the past year to become the country's top buyer of CRE properties across several property types, according to a Wealth Management (https://www.wealthmanagement.com/investment/blackstone-s-us-cre-push-suggests-sectors-strength-amid-uncertainty) report. Nearly half of Blackstone's revenue in 2021 came from its real estate portfolio, totaling $279B.

Multifamily's cap rate compression was largely seen in suburban (https://www.bisnow.com/tags/suburban) segments, with high-growth Sun Belt markets experiencing "the greatest declines relative to historic levels and are poised for stronger rent growth," the CBRE survey said.

In February, Blackstone announced it would pay (https://www.bisnow.com/national/news/multifamily/blackstone-to-pay-58b-for-preferred-apartment-communities-111891) $5.8B to acquire Preferred Apartment Communities (https://www.bisnow.com/tags/preferred-apartment-communities), which includes 40 properties located across the Sun Belt (https://www.bisnow.com/tags/sun-belt).

The office and retail sectors didn't get as much love last year compared to industrial and multifamily, though top-tier office properties have begun to attract more interest, CBRE said. The future of office is murky; survey respondents were split on whether office properties will see an increase or decrease in 2022 cap rates. Like multifamily, suburban submarkets are more likely to see more investor interest.

"Strong property market fundamentals, fueled by a robust economic recovery, will help maintain cap rates at current levels," said Richard Barkham (http://www.bisnow.com/tags/richard-barkham), global chief economist and Americas head of research at CBRE. "While the crisis in Ukraine (https://www.bisnow.com/tags/ukraine) and associated sanctions bring some near-term uncertainty into play, we do not currently believe that will be too disruptive to the U.S. economic outlook."

Preliminary data shows consumer sentiment is down in March, likely as a result of the Russia-Ukraine War (https://www.bisnow.com/tags/russia-ukraine-war), but that has yet to impede consumer spending, according to a JLL report (https://www.us.jll.com/en/trends-and-insights/research/powering-through).

"The U.S. economy remains well positioned to handle ongoing disruptions from inflation (https://www.bisnow.com/tags/inflation), supply and input shortages, geopolitical events, and the ongoing pandemic," JLL (https://www.bisnow.com/tags/jll) said in its report, released Wednesday.

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See Also: Allston Developers Quadruple Number Of Income-Restricted Housing Units Planned In Mixed-Use Project (/boston/news/affordable-housing/allston-developers-quadruple-the-number-of-workforce-housing-units-planned-in-big-mixed-use-project-112253)

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(https://www.bisnow.com/tags/blackstone-inc.), Tom Edwards (https://www.bisnow.com/tags/tom-edwards)