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Small-Cap Property Sector Sees Healthy Absorption, Vacancy Levels in 1H

Total absorption in the small-capital property market, which includes office, industrial and retail properties, amounted to 58.8 million square feet, according to Boxwood Means LLC.

While that was down roughly 16 percent when compared with last year's first half, it was in line with the volume of absorption during the same periods in the years prior to the coronavirus pandemic.

Industrial absorption totaled 16.8 million sf, down 54 percent from a year ago, while retail absorption totaled 28.5 million sf, down 5 percent. But again, their absorption numbers roughly matched those recorded during similar periods prior to the pandemic. The office sector had 13.6 million sf of absorption, up 8 percent from last year.

Boxwood Means, a Stamford, Conn., valuation and consulting company that specializes in the small-cap property sector, noted that office leases in the small-cap market typically have shorter terms than those in the larger-cap market. So, tenants were able to give back space more readily as needs declined following the pandemic. They've been filling space back up as the economy has bounced back.

Boxwood Means classifies buildings with less than 50,000 sf each as being small cap.

Vacancy rates declined across the three sectors when compared to the middle of last year. The office rate declined by 80 basis points from last year to 6.5 percent; for retail, it was down 70 bps to a record low of 3.6 percent; and the industrial vacancy rate was down 70 bps to 2.9 percent - also a record.

Meanwhile, Boxwood Means, which relies on data from CoStar Group, projects that this year roughly 6,600 buildings will be added to the country's inventory, roughly the same as

last year. The bulk of the additions will be in the retail sector, which should see nearly 4,000 buildings added. About 1,400 industrial buildings will be added, while 1,200 office buildings will be added.

The company noted that the total market value of the small-cap property sector increased at the end of the first half by 19.1 percent from the same period a year ago, to \$3.6 trillion. A total of 9.1 percent, or \$300 billion, of that increase came in the second quarter.

A total of \$1.5 trillion of that total capitalization was allocated to the retail sector, which the company attributed to the relatively high sales prices for properties. It estimates that the country has roughly 8 billion sf of small-cap retail space.

While the country has 8.4 million sf of small-cap industrial properties, the sector's aggregate value is \$900 billion. That's because of properties' low prices - relative to those of the other sectors. The country's small-cap office inventory, meanwhile, is valued at \$700 billion and multifamily is valued at \$600 billion.

Boxwood Means noted that the compounded annual growth rate for small-cap properties over the past two years was 14.8 percent, with that for multifamily leading the pack at 30 percent, followed by industrial at 14.5 percent, retail at 12.8 percent and office at 10 percent.

But the company warned that increasing interest rates should result in a softening of values. It noted, however, that the sector's super-low vacancy rates ought to serve as a mitigant.

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