Small-Cap CRE Market Value Reaches $3.7 Trillion in Third Quarter

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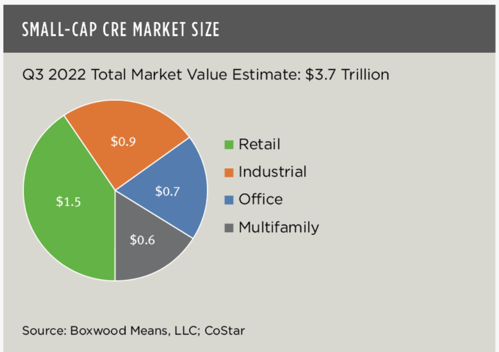
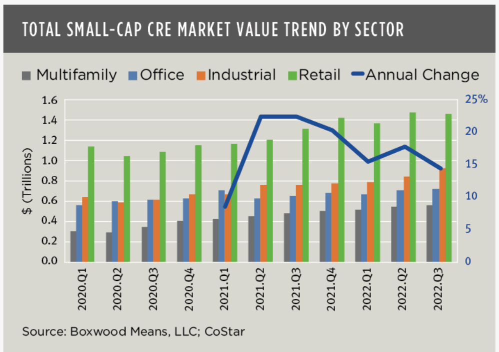
The aggregate market value of small-cap commercial real estate properties increased to a new peak during third quarter despite an emerging slowdown in sales transactions and asset price growth.

The total market or equity dollar value of small-cap CRE rose to an estimated $3.7 trillion during Q3 according to Boxwood Means' latest research, representing a 2.3% increase or $81 billion over the previous quarter and a robust 14.4% and nearly $460 billion added YOY. While recent growth in CRE asset prices has slowed amid a broad pullback in sales volume, there was still adequate price momentum in the market to sustain increases in asset values.

Furthermore, lofty prices for income-producing assets have been bolstered by historically low small-cap commercial vacancy rates and further net occupancy gains as noted in another Boxwood research report.



At an estimated $1.5 trillion, the retail sector maintained its outsized impact on the market's total dollar value followed by industrial ($0.9 trillion), office ($0.7 trillion) and multifamily ($0.6 trillion). See the nearby graph. Unsurprisingly, universally coveted industrial assets recorded the largest quarterly percentage increase by far (9.3%), followed by less than two percentage point gains for multifamily and office. The value of retail assets actually slipped by 80 basis points.

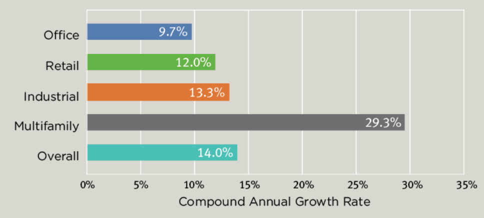


As illustrated in the next graph, the total equity positions of these property types have remained relatively consistent since Boxwood began tracking these figures in 2020 – with the exception of the industrial sector which has achieved a higher (and more valuable) profile over time. Importantly, what this graph also indicates (with the blue trend line) is that asset value growth is slowing: that is, the annualized change in total equity value has declined from a peak 12-month return of 22.4% – as the property investment market recovered from the pandemic – and has since eased to perhaps a more normalized pace of 14.4% in Q3.

Even so, in the short term we can anticipate additional pressure on CRE values in light of U.S. economic uncertainties and the dramatic rise in interest rates. As a case in point, Boxwood's analysis of CoStar data indicates that Q3 cap rates for small commercial and multifamily assets notably rose by 20 bps for the first time in many years (with the exception of a short quarterly blip during the onset of Covid).

Of course, valuations for certain property sectors with relatively strong fundamentals like multifamily and industrial may very well outperform in challenging times ahead. Moreover, over the long term this trillion-dollar market will continue to attract investors and small-balance lenders with substantial opportunities and healthy investment gains. As the last graph shows, the small-cap CRE market overall produced an enviable 14.0% compound annual growth rate (CAGR) over the last 10 quarters – despite the intervening impact of the pandemic – led by hefty returns for multifamily assets (29.3%) followed by industrial (13.3%), retail (12.0%), and office (9.7%).

SMALL-CAP CRE ANNUAL GROWTH IN MARKET VALUE



Source: Boxwood Means, LLC; CoStar

Boxwood Means, LLC is a leading national provider of commercial property valuations and data analytics in the small CRE property and loan markets

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