

# Commercial Real Estate Market Analysis

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**Fidelman & Co.**



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# Discovery

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## Goals

To provide an in-depth market analysis of commercial real estate in the US. Specifically, this analysis is based on the commercial real estate type - apartment/multifamily, purpose - acquisition or disposition, deal range of \$ 1 million to \$20 million, cap rate - between 5% to 10%, and the number of units - more than 20. This will also include the total number of transactions and the total volume of transactions in USD.

## Findings

### Commercial Real Estate in the US by Type: Apartment/Multifamily

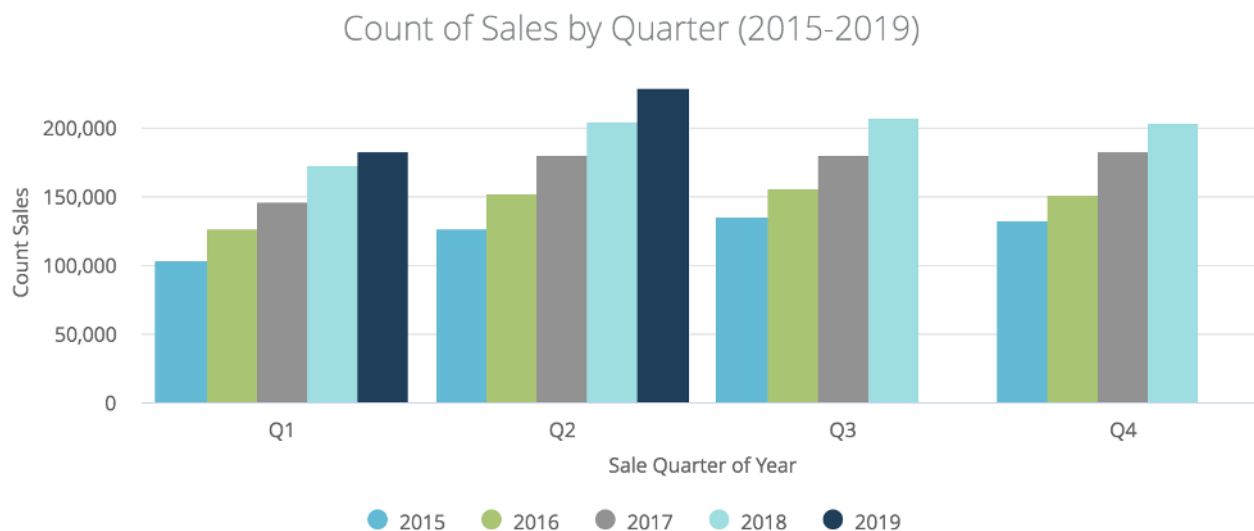
- Along with the industrial category, the multifamily category remains the [strongest leg](#) of the commercial real estate market, in both transactions for structures and land.
- Vacancy rates for affordable multifamily housing will remain [relatively low](#) in 2021.
- With improving market conditions in the US, investment volume in the multifamily category is expected to increase in 2021. "CBRE Research predicts U.S. multifamily investment volume will reach about [\\$148 billion](#) in 2021, lower than 2019's record level of [\\$191 billion](#) but a [33%](#) gain over the 2020 estimate of [\\$111 billion](#)."
- Apartment buildings in the US account for about [25%](#) of the total U.S. commercial real estate market.
- The transaction volume for the multifamily category in 2019 was [\\$127.762 billion](#).
- "Nearly [411,800](#) multi-unit properties traded hands in the first half of the year – representing an [8.9%](#) increase in national deal volume year-over-year."

# Commercial Real Estate Market Analysis

The total investment sales volume of multifamily assets in the US that are \$1 million-\$20 million, with a cap between 5%-10%, and has more than 20 units, doesn't exist pre-compiled. However, based on our assumptions and calculations surrounding the niche criteria, the total multifamily transaction volume in the US was \$34.96 billion in 2019 while in terms of the number of transactions, it was about 149,858. We have also provided useful information on small multifamily assets.

## Total Deal Volume: Sales (# and \$)

- The total investment sales volume or total transaction volume (TTV) in the multifamily category was [\\$138.7 billion](#) in 2020. It was [\\$184 billion](#) in 2019.
- In terms of the number of transactions, Reonomy provides that "the number of properties to trade hands nationally jumped [15% YOY](#) to [788,725](#) in 2018. Despite a slow start to the year, 2019 appeared to be back on pace for another record-breaker with [411,765](#) in recorded sales during the first half of the year." There was no data for the number of transactions in 2019.



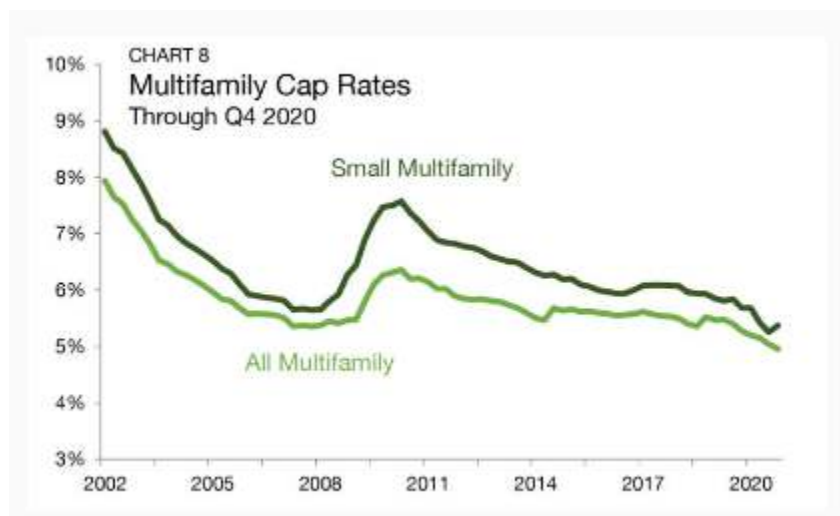
### Source

## Cap Rate

- The US average cap rate for all multifamily assets has remained stable, staying well within [5% to 10%](#) since 2001. It was [5.08%](#) in Q4 2020 and [5.1%](#) in CY 2020.
- With this, the cap rate range requested fits other criteria, such as multifamily types, classes,

size, and among others, as the range remains well within 5% to 10%. [Arbor](#) corroborates with a chart that shows the cap rate of the multifamily and small multifamily assets in the US from 2002 to 2020.

- In summary, the cap rate, as a criterion, will not impact the outcome or final figure of the triangulation process.



Source

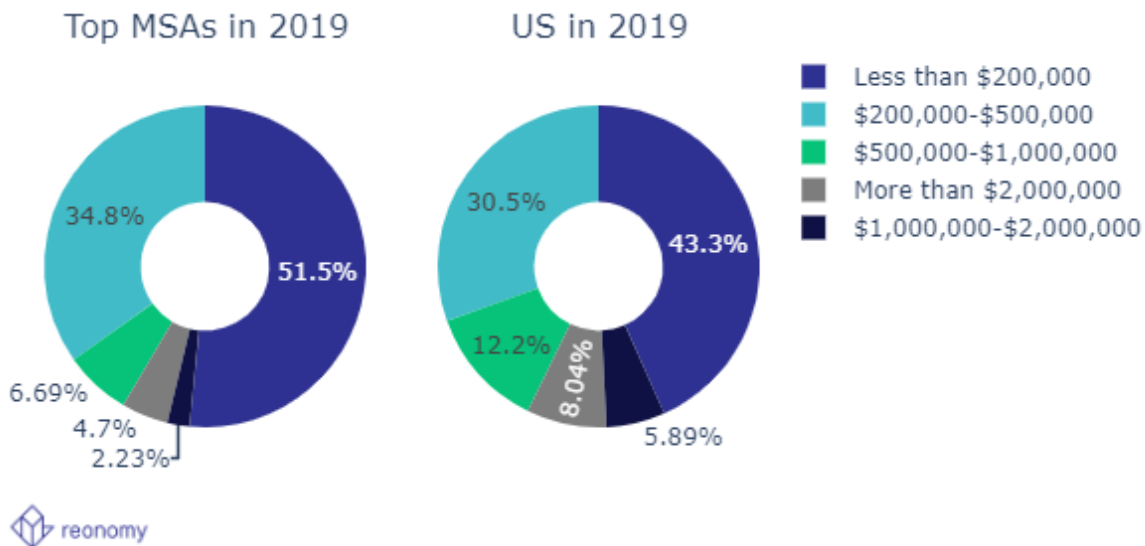
## Unit Mix

- No report provides any segmentation of the deal volume in terms of specific unit-mix; however, CBRE segments the deal volume in terms of garden/low-rise and mid-/high-rise multifamily. This segmentation is [graphically represented](#).
- The garden-style category accounted for the majority (64%) of the total multifamily transaction volume (TTV). On the other hand, mid-/high-rise multifamily transactions accounted for only 36% of the total multifamily transaction volume (TTV) in 2019.
- According to definitions provided by [Reonomy](#), [Fidelity Management](#), and [Freddie Mac](#), examples of low-rise buildings include garden-style multifamily assets. And while there are limited definitions of these structures in terms of the unit mix (except by the number of stories), the illustrations and examples provided by Energy Star suggest that mid-/high-rise multifamily assets have more than 20 units.
- From their illustrations, as corroborated by Energy Star, they classified a four-story, 16 units multifamily as a low-rise while a 6-story, 30 units multifamily was classified as a mid-rise. With this, for this project, we assume that multifamily assets with more than 20 units are mid-/high-rise multifamily assets, and they accounted for 36% of the total transaction volume (TTV) in 2019.
- In summary, based on the unit mix (more than 20 units): 36% of TTV are multifamily assets =  $0.36 * TTV$

## Price Range

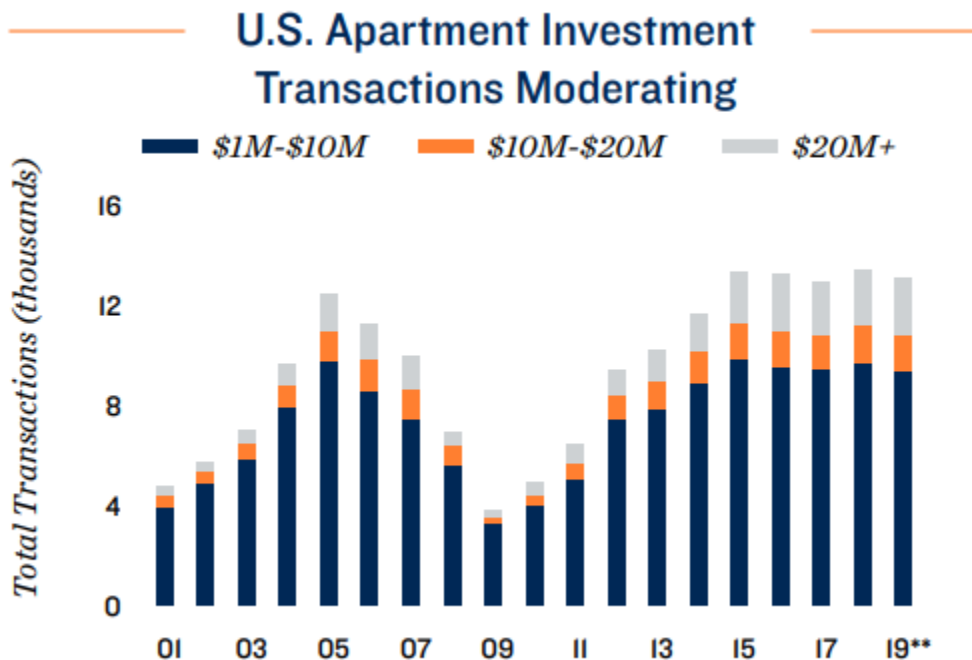
- There is no segmentation of the total multifamily transaction volume by price. However, according to Reonomy, [5.89%](#) of multifamily transactions in the US were \$1 million-\$2 million, and [8.04%](#) were \$2 million and above. These sum up to 13.93% of the total multifamily transaction volumes (TTV) that were \$1 million and above in 2019.

### Proportion Sold in Each Price Range



### Source

- The above – 13.93% of the total multifamily transaction volumes that were \$1 million and above in 2019 – implies:
  - Total multifamily transaction volume that is \$1 million and above = 13.93% of TTV = 0.1392 \* TTV
- Furthermore, the Zupancic Group provides segmented data – a [chart](#) that segments the US apartment investment transactions in 2019, by price: \$1 million-\$10 million, \$10 million-\$20 million, and \$20 million+.



Source

- Leveraging an [online reverse graphical tool](#), we measure that about [1,500](#) apartment transactions were \$10 million-\$20 million ( $10,900 - 9,400 = 1,500$ ). This (apartments that are \$10 million-\$20 million) accounted for about 11.4% (i.e.,  $(1,500 / 13,200) * 100$ ) of the total apartment transactions that are \$1 million-\$20 million+ or in other words, \$1 million and above, in 2019.
- Note that while the segmented data [above](#) bases on the number of apartment transactions, they would be similarly segmented in proportion to the dollar volume, with transactions that are \$1 million-\$10 million accounting for the most transactions. Also, since apartments are [similar](#) to multifamily assets, we assume that multifamily assets will share a similar ratio (11.4%) of transactions that are \$1 million-\$10 million. Hence, we assume similarly that 11.4% of the total multifamily transaction volumes that are \$1 million and above are \$10 million-\$20 million. See below:
  - Multifamily assets that are \$10 million-\$20 million = 11.4% of (13.93% of TTV) = 11.4% of  $(0.1392 * TTV) = 0.0158688 * TTV$ .
  - In summary, based on the price range (\$10 million-\$20 million):  $0.0158688 * TTV$ .
  - Where TTV = Total multifamily transaction volume = [\\$184 billion](#).

### Total Multifamily Asset Transaction Volume: Cap Rate, Unit Price, and Price Range

- Since the [cap rate](#) will not affect the calculation, the total multifamily transaction volume in 2019 is impacted by the unit price and price volume criteria. And bringing down the summary

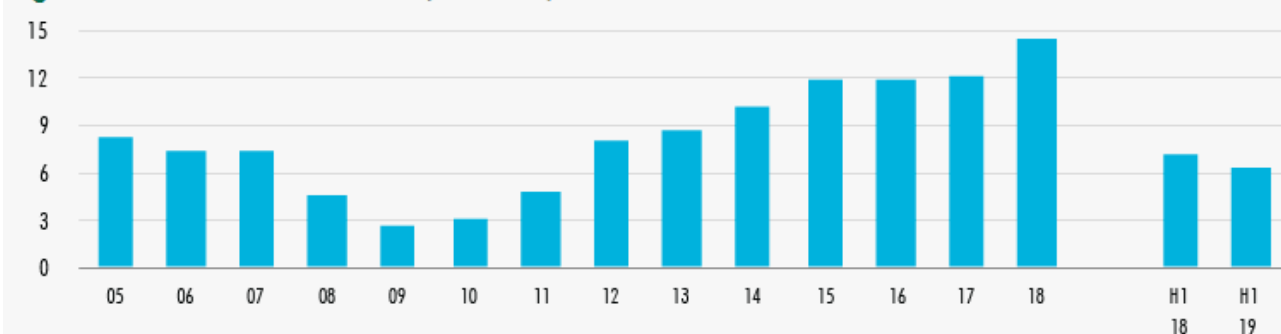
expressions for each criterion below:

- Unit mix (More than 20 units):  $0.36 * TTV$
- Price range (\$10 million-\$20 million):  $0.0158688 * TTV$
- Based on the expressions above, we cannot determine how the two criteria intersect to jointly account for the total multifamily transaction volumes; however, a predictive approach would be to gauge how both criteria jointly impact the total multifamily transaction volumes (TTV). Therefore, taking the average of the two criteria ( $0.36 * 2 / 0.0158688$ ), we'll have the average as  $\sim 0.19$ . Therefore, it is \$34.96 billion (i.e.,  $0.19 * TTV = 0.19 * \text{\$184 billion}$ ). In terms of deal count, assuming that the number of deals in 2018 is similar to the 2019 levels, it'll be about 149,858 (i.e.,  $0.19 * \text{788,725}$ ).
- With this, the total multifamily transaction volumes in the US that are \$1 million-\$20 million, with a cap between 5%-10%, and has more than 20 units was \$34.96 billion in 2019 while in terms of the number of transactions, it was about 149,858.

## Small Multifamily Assets

- CBRE defines small multifamily assets as multifamily assets with [5 to 50 units](#) each and between [\\$2.5 million](#) and [\\$10 million](#) in sales price.
- "RCA's historical cap rate data reveals a consistent trend of small asset cap rates being lower than overall multifamily averages. Lower operating costs and the strong appeal of the product – whether for current income or value-add opportunity – help keep cap rates low." In Q2 2019, the figure stood at [5.5%](#), maintaining a value between [5%-10%](#) since 2005.
- These small multifamily assets accounted for [1,531](#) or [36.7%](#) of the total multifamily acquisitions in H1 2019. The percentage of these small assets in 2019 was projected to be in line to exceed the [35%](#) annual average since 2010, comparably reaching the [\\$12.8 billion](#) annual average of 2016 to 2018.
- In terms of dollar volume, "small asset sales totaled [\\$6.4 billion](#) in H1 2019, [10.1%](#) lower than in H1 2018 and accounted for [7.8%](#) of total multifamily investment volume."

**Figure 2: Historical Sales Volume (\$ Billions)**



[Source](#)



- "The average sales price for Q2 acquisitions was only [\\$4.2 million.](#)"

## Research Strategy

Given the niche criteria provided for this research, the research team wasn't able to gather any pre-compiled data that address the research. This is broadly because there was no market research report or industry report that provides the transaction volume and segments it within the specified criteria, especially the [price range](#) and the unit mix. While there are reports that provide multiple segmentations of the total transaction volume, the details on criteria include disposition, deal range, cap rate, and the number of units. The majority of the reports provide segment data for categories like class, tier, and others.

In triangulating the requested information, we leveraged multiple pieces of information that provide insights into individual criteria. Hence, with logical assumptions and estimations, we put together, triangulated, and calculated the total multifamily transactions based on the criteria provided, in dollar value and deal count.

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