

## Commercial Property Prices Ease in July Demand Remains Strong Even as Transaction Volume Subsides

By Mark Heschmeyer

Commercial real estate property prices pulled back a fraction in July from the new heights reached a month earlier. But there were still signs of healthy demand.

Price declines hit across sales of all dollar amounts and in all markets. The higher-dollar deals in both large and small markets dropped the furthest, 0.8% versus 0.3% for lower-dollar sales, according to the CoStar Commercial Repeat Sale Indices, which monitor price differences in repeat sales of the same property.

The easing came as transaction volume fell to its lowest level in five months.

“Prices took a breather in July after hitting historic highs in June, as the economy faces a downshift in activity due to the Federal Reserve’s battle with inflation,” said Christine Cooper, chief U.S. economist for CoStar Group and lead author of the CCRSI report. “The number of deals fell to their lowest level since February 2021, highlighting some caution and uncertainty in the investment environment as the Fed raises rates, pushing borrowing costs higher.”

Repeat-sales transactions in July totaled \$15.9 billion, compared to the upwardly revised volume of \$22.5 billion one month earlier. July volume represents a 29.2% decline over the previous month.

Transactions in the investment-grade property segment, more heavily influenced by high-dollar-value assets, pulled back in July by 27.9% to \$10.6 billion. Deals in the general commercial segment, more heavily influenced by smaller, lower-priced assets, fell by 31.7% to \$5.3 billion.

“Investment activity collapsed after four months of strong volumes, suggesting a pause in investment strategy in an economy that appears to be transitioning from recovery to recession,” Cooper said.

### Some Bright Spots

Despite the reduced transaction volume and pricing, other measures point to strong demand for commercial real estate, Cooper added.

Properties sold faster. The average time on the market fell for the 11th consecutive month to 206.7 days in July, a dip of 0.6% over the prior month and the lowest it has been since January 2020.

Sellers are still getting offers close to their asking price. The sale-price-to-asking-price ratio retreated by just 0.3 percentage points to 94.8% in July and remains near the historic high reached in May

2022, pointing to an incredibly competitive buying market, Cooper said.

And most sellers in July showed reluctance to withdraw their properties from the market. The share of properties delisted by discouraged sellers rose by just 0.5 percentage points but remained lower than the level a year ago. Still near the historic lows reached in May, the indicator suggests that sellers are mostly achieving their sales targets, Cooper said.

Also, as has been the case throughout most of the coronavirus pandemic, the share of repeat-sale trades that were distressed remains low. Only 25 of the 1,643 repeat-sales trades in July, or about 1.5%, were distressed sales.

The CCRSI report is based on 1,643 sale pairs in July and data collected on more than 276,000 repeat sales since 1996.