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Commercial Real Estate Trends: **A Comprehensive Review of 2023 and Projections for 2024**

Executive Summary

The commercial real estate (CRE) industry witnessed significant shifts in 2023, marked by challenges such as rising interest rates, economic uncertainty, and evolving market dynamics. Insights gleaned from comprehensive reports by DLA Piper offer valuable guidance for navigating the complexities of the CRE landscape in 2024.

Key trends from 2023 include the dominance of multifamily properties in acquisition activity, followed by industrial assets, while office space transactions remained relatively low. Retail experienced a notable uptick, driven partly by the continuation of hybrid work arrangements, highlighting the importance of amenities in residential areas. Financing contingencies saw an increase, with buyers seeking protection amidst economic uncertainties, although sellers maintained leverage in negotiations.

Property management and construction practices remained relatively stable, with minimal shifts in fees and costs as a percentage of property revenue and project expenses, respectively. Notable variations were observed across asset classes, with multifamily and mixed-use properties incurring higher construction management fees compared to senior housing and industrial properties.

Looking ahead to 2024, stakeholders can anticipate continued emphasis on multifamily and industrial properties, alongside evolving trends in retail and mixed-use developments. Financing contingencies are expected to remain prevalent, reflecting ongoing economic uncertainties. Property management and construction practices are poised to adapt to changing market conditions, with stakeholders leveraging competitive pressures to negotiate favorable terms.

Overall, proactive strategies informed by market insights will be essential for success in the dynamic landscape of CRE in 2024. Through continued monitoring and adaptation, stakeholders can position themselves to capitalize on emerging opportunities and navigate potential challenges, ensuring resilience and success in an ever-evolving industry environment.



Introduction

The commercial real estate (CRE) market experienced significant turbulence in 2023, characterized by a mix of challenges including rising interest rates, economic slowdown, and increased volatility. Despite these hurdles, insights gathered from the previous year provide valuable lessons for navigating the complexities of the industry in 2024. In this blog, we delve into key trends and observations from two comprehensive reports by DLA Piper, shedding light on the evolution of CRE transactions and offering predictions for the year ahead.

Trends in Acquisition and Disposition

According to DLA Piper's year-end real estate trends report, multifamily properties emerged as the most active asset class in 2023, comprising 39% of total transactions. This was followed by industrial properties, which accounted for 22% of investment activity. Notably, office space transactions constituted only 7% of the market, while retail experienced a surge, representing 10% of total deals, indicating a significant shift from previous years.

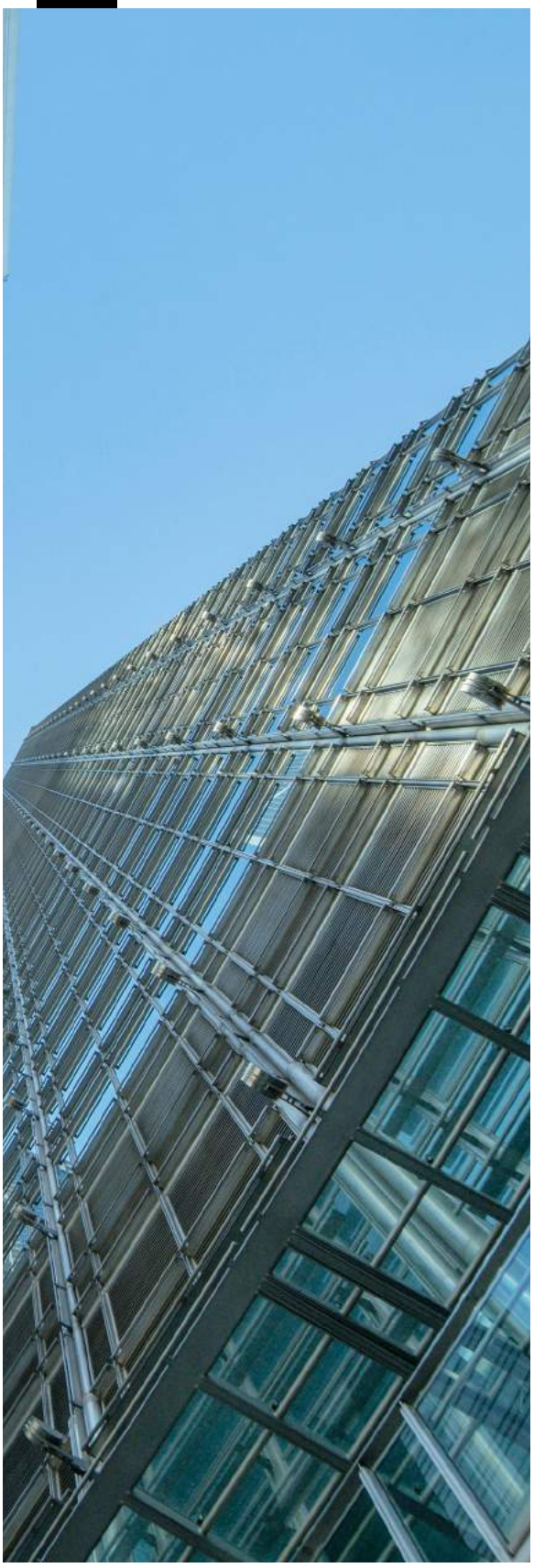
One notable trend observed was the increased acquisition of neighborhood and grocery-anchored retail properties. This uptick can be attributed, at least partially, to the continuation of hybrid work arrangements, leading to higher demand for amenities in residential areas. Mixed-use developments also saw heightened investment activity, while the life science sector experienced a notable decline, dropping from 6% in 2022 to 1% in 2023.

Financing Contingencies on the Rise:

In 2023, financing contingencies witnessed a notable increase, with 92.5% of agreements having none at the beginning of the year, but this figure slightly rose by almost 2% by year-end. This rise primarily manifested in the form of loan assumption conditions, indicating a growing trend towards securing financing as a condition for sale. Economic uncertainties and the increasing cost of debt likely contributed to this shift, with buyers seeking protection against unfavorable financing terms.

While financing contingencies favor buyers, sellers maintained leverage in negotiations, with few buyers willing to risk losing deposits due to challenges in securing financing. However, experts anticipate that such contingencies will remain the exception rather than the rule in 2024, reflecting a cautious but relatively stable market sentiment.





Trends in Construction and Property Management:

Property management fees remained relatively stable throughout 2023, with minimal changes in fees as a percentage of property revenue. Similarly, construction management costs saw little variation as a percentage of overall project expenses. The most common property management fee ranges were between 3% and 3.99% for office, multifamily, industrial, and life science assets, while data centers and mixed-use buildings typically fell between 2% and 2.99%.

For construction management fees, multifamily and mixed-use properties often incurred costs of 5% or more of the total project expenses, while data centers, medical office buildings, and life science assets ranged between 2% and 5%. Notably, senior housing and industrial properties tended to have lower construction management fees, typically within the range of 2% to 2.99%.

Conclusion

As we reflect on the trends that shaped the commercial real estate landscape in 2023, it's evident that adaptability and strategic planning are crucial for navigating the evolving market dynamics. While uncertainties and challenges persist, insights gleaned from the past year provide valuable guidance for stakeholders in 2024.

Looking ahead, the industry can expect continued emphasis on multifamily and industrial properties, alongside evolving trends in retail and mixed-use developments. Financing contingencies are likely to remain prevalent, reflecting ongoing economic uncertainties and the importance of securing favorable financing terms.

Property management and construction practices are also expected to adapt to changing market conditions, with stakeholders leveraging competitive pressures to negotiate favorable terms. Overall, while challenges persist, proactive strategies informed by market insights will be key to success in the dynamic landscape of commercial real estate in 2024.

Through continued monitoring and adaptation, stakeholders can position themselves to capitalize on emerging opportunities and navigate potential challenges, ensuring resilience and success in an ever-evolving industry landscape.



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