Biggest Property Price Drop Since Great Recession Deepens

Multifamily Prices Post Eighth Straight Monthly Decline

Commercial real estate prices are responding to higher interest rates as the Federal Reserve battles decades-high inflation. (Wikimedia Commons)

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CoStar News

March 31, 2023 | 3:55 P.M.

Property prices are plunging at the fastest rate since the Great Recession as higher interest rates slow demand across the United States.

The fallout stems partly from commercial real estate investors closely watching economic developments, particularly the Federal Reserve’s decision to raise interest rates eight times in the 12 months through February, according to Chad Littell, national director of capital markets analytics for CoStar.

"This increase in the cost of capital happened at the fastest pace in the last 40 years, causing ripples to flow through markets and flattening the growth of asset prices in the latter half of 2022," he said.

CoStar data shows lower prices in its two composite indices that monitor price differences in repeat sales of the same property. The first, a value-weighted U.S. composite index that reflects larger property sales common in major cities, has dropped 16% since its peak last spring — for the fastest decline since 2008.

This index, which treats a $50 million property sale as 50 times more important than a $1 million sale, fell 0.2% in February from the prior month for its seventh straight monthly drop.

Meanwhile, an equal-weighted U.S. composite index reflecting price changes more common in small markets, sank 0.1% over the prior month, registering the fourth straight monthly decline. This index, in which a $50 million property sale carries the same weight as a $1 million sale, has fallen 7% since its peak last summer.

"Both composite indices have been on a broad deceleration trend in year-over-year growth for the last eight consecutive months as markets respond to an environment of higher interest rates," said Littell, the author of a report on the indices.

Multifamily Prices Fall

Prices fell for multifamily properties, which are highly sensitive to changes in interest rates. As of February, CoStar's multifamily sub-index posted its eighth monthly price decline.

That's a major turnaround from the earlier significant growth during the low interest rates that took hold in April 2020, according to Littell.

"Yearly price appreciation began slowing in June of 2022 and turned negative in December for the first time since June 2010," he said.

Demand has slowed. An estimated 140.9 million square feet more U.S. office, retail and industrial space was moved into than moved out of during the 12 months ending in March, a drop of 72.1% from the 12 months ending in March 2022, the indices show.

CoStar expects final March data to show tenants giving back more space than they took on during the first quarter. That would be the first negative result for a quarter since the three months through September 2020 as the pandemic wreaked havoc on commercial property markets.

Newly built space across office, retail and industrial properties is expected to reach 769.4 million square feet in the 12 months ending in March, up 12.3% from the same time in 2022.

The latest CoStar indices are based on 864 sale pairs in February and 287,655 repeat sales since 1996.