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This Asset Class Posted the Largest Price Growth in 2021

Unlike the price gains notched in multifamily and industrial, suburban office appreciation is not well supported by rent growth.

By **Lynn Pollack** | October 06, 2021

In a surprising twist, suburban office achieved the greatest price growth at 14.8% of all CRE asset classes over the last year, besting investor favorites multifamily and industrial.

John Chang of Marcus & Millichap notes that the price growth in the sector reflects three factors: “a pricing bounce, a disproportionate share of well-leased properties in the sales data, and some investor speculation.”

Unlike the price gains notched in multifamily and industrial, suburban office appreciation is not well supported by rent growth, which was only up by 0.6% or vacancy rate change.

“Part of the gain is an anomaly,” Chang says. “Suburban office prices dipped last year in the early stages of the pandemic, so part of the gains are the property types simply recovering losses. Second, the sales market has been dominated by well-leased properties—high-quality tenants with long-term leases in place. The sales composition is a bit different and there were fewer weaker assets in the deal mix that would normally drag prices down.”

Chang also says investors are taking note of the widely-held belief that to facilitate employees' return to the office, **companies will have to open locations closer to people's homes** (<https://www.globest.com/2021/09/27/suburban-office-prices-skyrocketed-in-august/>).

“A lot of workers, especially millennials relocated to the suburbs because of the pandemic, and a new trend is forming. Investors are positioning ahead of that curve buying low rise suburban buildings,” he says. “Investors are betting on history repeating itself. A significant portion of suburban office stock was built in the 80s when baby boomers migrated there. It looks like millennials are in the process of making that same move.”

The second fastest price growth, according to data from Real Capital Analytics, was in apartment properties, which came in at a 14.7% increase. These values are supported by a 90 basis point vacancy reduction through Q2, Chang says. And again, **investors have millennials to thank** (<https://www.globest.com/2021/09/13/millennials-arent-abandoning-apartments-after-all/>).

“Investors are pursuing multifamily properties because of demographics,” Chang says. “The aging millennials are now entering their thirties en masse, which is driving household formation up aggressively. Basically, there are so many millennials trying to move out on their own that there are simply not enough housing units to meet the demand. That trend is expected to run five years or longer, supporting the underlying thesis for multifamily investment.”

Industrial came in third, with price gains of 13.6% over the last year. That reflects average rent growth of 5.9% over the last year and a 30 basis point vacancy drop to 5% nationally, as well as cap rate compression of about 20 bps.

“Industrial properties have drawn increased investor attention over the last couple of years as e-commerce thrived during the pandemic,” Chang says. “The supply chain issues of recent months have also brought forth the importance of industrial property as businesses are stockpiling increased inventories to mitigate shipping and delivery risk. Industrial real estate has one of the strongest investment outlooks like investors penciling in aggressive rent gains into their valuation models.”

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