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**Commercial Real-Estate Sales and Values Surge to Records**

***Investors hunting for yield gobbled up apartment buildings, life-science labs and industrial properties during the third quarter***

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Investors purchased a record amount of commercial real estate in the third quarter, defying warnings that the Covid-19 pandemic would erode these property values and starve the industry of cash.

Instead, purchases of apartment buildings, life-science labs and industrial properties, which serve as e-commerce distribution centers, rocketed commercial sales to more than $193 billion in the quarter. That is up 19% compared with the same three months in 2019, before the pandemic, and the biggest quarter for commercial property sales ever, according to data firm Real Capital Analytics.

Sales activity for the first nine months of this year totaled $462.1 billion, up 10% from the same nine-month period in 2019 and the highest ever for the first three quarters of any year, Real Capital Analytics said.

The sales were so strong for the hottest sectors during the first nine months of 2021 compared with 2019 that their activity more than offset declining sales for office buildings and shopping centers during that period, according to Real Capital Analytics. Office buildings and malls traditionally have been core to any commercial real-estate rally.

“Coming out of Covid, we’re actually seeing an acceleration of fundamentals across a handful of sectors and that’s really driving investor attention,” said Nadeem Meghji, the head of real estate Americas for investment company Blackstone Inc., the largest buyer of U.S. commercial property this year, according to Real Capital.

This boom was also different from previous ones because a relatively large number of deals were for single properties, rather than being driven primarily by the largest investors snapping up real-estate companies and portfolios with multiple properties, Real Capital Analytics said.

Investors have flocked to commercial properties in part for the higher yields compared with the bond market. Pension funds, said Jim Costello, senior vice president of Real Capital Analytics, “are not going to be able to hit their 8% targets with just their bond portfolios.”

The surge in sales lifted commercial real-estate prices to a new high, according to an index by real-estate data and analytics firm Green Street. The index, which tracks property owned by real-estate investment trusts, is up nearly 22% from its pandemic low during the summer of 2020 and 8% above where it was before the pandemic.

When the pandemic-driven recession hit the economy, many expected the commercial real-estate sector to nosedive as it had during previous recessions. Big investors raised money for distressed real-estate funds, assuming they could scoop up beaten-down properties at cheap prices.

That widespread damage never happened. Many analysts credit the Federal Reserve for preventing the debt markets from seizing up, which gave even many troubled property owners access to new capital.

In the first nine months of 2021, financial institutions made $102 billion in loans to property owners that were carved up into commercial mortgage securities, the highest volume for a nine-month period since 2007, according to data firm Trepp LLC. Banks and unregulated nonbank lenders also began opening the debt spigots when the economy began recovering.

“The Delta variant is fading,” said Warren de Haan, co-chief executive of ACORE Capital LP, which has about $18 billion of mostly bridge loans under management and is on track to have record volume in the fourth quarter. “There’s reason to believe right now,” he added.

Not all the news for commercial real estate has been good. Shopping malls are still worth 13% less than they were before the pandemic and hotel values have fallen 4.2%, according to Green Street. Concern about the future of office buildings as remote work gains popularity has helped push those values down 5.6% from their pre-pandemic level, Green Street said.

But demand for warehouses and distribution centers intensified during the pandemic as e-commerce flourished and retailers sought more storage space. Multifamily property also has become hotter during the pandemic as prices soared in the home-sales market, forcing many would-be buyers to remain renters. Those sectors have increased in value by 41% and 19%, respectively, over their levels before Covid-19 hit, according to Green Street.

Institutional demand for commercial property is partly evidenced by the near-record $379.4 billion that private equity real-estate funds have to invest, according to data provider Preqin. The top three fundraisers for 2020 and 2021 combined were Blackstone, Starwood Capital Group and KKR & Co., Preqin said.

Many small investors are getting into the action by purchasing shares in nontraded real-estate investment trusts. The largest of these vehicles, Blackstone Real Estate Income Trust, raised $6.9 billion in the third quarter alone, according to Robert A. Stanger & Co., an investment-banking firm that tracks the market. That is about 87% of what the fund raised in all of 2020, Stanger said.

Foreign investors also are becoming more active. Meritz Alternative Investment Management of South Korea was the buyer in two of the largest commercial sales this year, purchasing a 49% stake in the News Building, at 220 E. 42nd St. in Manhattan, and a 49% stake in the office building at 655 New York Avenue NW in Washington, D.C.

The first major Korean commercial-property acquisition in the U.S. during the pandemic was a Seattle office building in the fall of 2020, and the pace has picked up since then, said Mark Chu, the co-head of the Asia-Pacific region for real-estate investment bank Eastdil Secured. The Seattle deal “got the juices flowing,” he said. “The ability to travel was pretty important.”