



DAILY ROUNDUP

Commercial Deals Forecasted To Drop by Half, Supreme Court Sides Against New Water Protection Rules, Inflation Exceeds Income Growth

What You Need To Know To Start Your Day



U.S. commercial property sales volume is expected to end 2023 at less than half the level of 2021, according to a forecast report from Urban Land Institute. (Getty Images)

By [Lou Hirsh](#)
CoStar News

May 29, 2023 | 4:30 P.M.

Commercial Deals Forecasted To Drop By Half

Commercial real estate transactions are expected to end 2023 at volumes 50% below those seen just two years ago, as high interest rates and persistent inflation curb investor and developer appetites, according to a new forecast report from the Urban Land Institute.

Based on surveys of real estate economists and analysts, the Washington, D.C.-based research organization predicted deal volume of \$425 billion for full-year 2023, far below the \$860 billion reached in 2021 and \$730 billion in 2022. Transaction volume should rebound to \$525 billion in 2024, rising to a predicted \$695 billion in 2025 as investment conditions improve.

Commercial property prices are also expected to continue retreating this year, finishing with a projected annual decline of 8% for 2023, which would be the largest decline since the 2010 drop during the Great Recession. Researchers said pricing prospects are looking better in the coming two years, with growth of 2.6% expected for 2024 and 5% for 2025.

The upbeat forecast for the next two years is driven largely by further relief from high inflation, as the rate has generally been trending down over the past six months. “The inflation rate is forecast to decline significantly over the forecast period, to 4.1% in 2023, 2.8% in 2024, and ending the forecast period at the long-term average of 2.5%,” the ULI report said.

The forecast predicts industrial rents will grow 6.2% this year before moderating to 4% growth over the next two years, with apartment rents averaging 2.8% annual growth for 2023 through 2025 and retail rents growing 2.1% annually. Rents in the beleaguered office category are expected to decline 2.8% this year and drop 2% in 2024, before registering no annual change in 2025.

Supreme Court Sides Against New Water Rules

Real estate and builder trade groups were among the organizations applauding a U.S. Supreme Court ruling against proposed new federal rules that would have extended the

definition of federally protected water bodies. Opponents said changes could infringe on property owners' rights to develop their land or unnecessarily delay projects.

The court on May 25 ruled unanimously in the case known as Sackett v. EPA that the federal Clean Water Act extends only to wetland areas that have a continuous connection with protected water bodies, after the Environmental Protection Agency sought to extend protections to non-contiguous land parcels that are upstream or downstream from those bodies.

The court's decision "finally clarifies the legal test needed to determine whether a federal wetlands permit is required for a development project," the real estate group NAIOP, formerly known as National Association for Industrial and Office Properties, said in a statement. "This will go a long way to reducing the uncertainty and added costs of delay that were the result of the legal ambiguity that existed."

The EPA in December issued new definitions intended to clarify what types of water bodies qualify for federal protection within "Waters of the U.S." rules under the 50-year-old Clean Water Act, after protections were extended in 2015 to include some lakes and wetlands that cross state borders. The EPA said new rules were needed to clarify protections for "upstream water sources," but the changes sparked several legal challenges nationwide.

"Those additional hurdles would have created permitting delays, added development costs and created additional legal risks that would exacerbate housing challenges in communities across the country," the National Multifamily Housing Council and National Apartment Association said in a joint statement on the court ruling.

The ruling was also praised by groups including the National Association of Home Builders and Associated General Contractors of America. "This decision will allow vital infrastructure and development projects to proceed in a timely manner while still providing strong protections for the actual waters of the U.S.," Stephen Sandherr, CEO of the contractor group, said in a statement.

Inflation Exceeds Income Growth

A price inflation gauge that is closely watched by the Federal Reserve showed April's consumer spending based on price increases rising 4.4% from a year earlier, while disposable personal income increased by just 0.4%, the Commerce Department reported May 26.

The Commerce Department's inflation number is actually lower than a similar and better known index reported earlier this month by the Labor Department, showing annual inflation at 4.9% in April. But both numbers are still above the target 2% level that the Fed has indicated would prompt a stop to hikes in its key interest rate, after 10 increases over the past 14 months.

The Fed's next rate-setting meeting is scheduled for June 13-14. The agency will be considering other factors including a job market that remains tight by historical standards, with the April unemployment rate at 3.4%.

The Commerce Department said April's \$151.7 billion annual increase in personal consumption spending was fueled largely by spending in service areas including healthcare, insurance and other financial services. Spending increases for goods were led by categories including pharmaceutical products and motor vehicles and parts.

Follow us on Social Media

Have feedback or questions? Email us at news@costar.com



RELATED RESULTS

Stockpile Levels Signal Near-Term Risk for Industrial Space Demand

Demand for Biotech Space Drops With Decline in Pandemic-Fueled Venture Funding, Development

Sale Prices Diverge Between Large and Small Properties

Hyundai, LG Energy Plan \$4.3 Billion Electric Vehicle Battery Factory in Georgia

Demand for Hotels in Japan Blossoms Once Again

Execs Advocate Tearing Down Walls Between Lifestyle Hotels, Residential

How Recent Decisions by the NLRB Could Affect Hoteliers

CREFC Europe: Refinancing 'Cliff', US Contagion and Back Leverage Dominate Lender Landscape

Credit Agency Issues Warning Amid Debt Ceiling Debate, Pending Home Sales Stall, Jobless Claims Increase

World's Second-Largest Movie Theater Operator Plans To Exit Bankruptcy in July