

Property Prices Fell To Start Quarter, but Signs of Improvement Emerge Average Deal Size Increased in April While Sales Closed Faster, CoStar Data Shows

By Mark Heschmeyer

The start of the second quarter did little to reverse the slide in commercial property prices in the past year or so, but small signs of improvement emerged.

While CoStar Group's U.S. composite price indices fell in April, transaction activity picked up, the average deal size increased and the amount of time properties stayed on the market began to shrink.

All are indicators that suggest liquidity may be returning to the market, according to CoStar's Commercial Repeat-Sale Indices that track when a previously sold property trades hands again in a process called a repeat sale.

The number of repeat sales in April picked up over March, increasing from 942 to 1,041. The average deal size also grew in April.

Investment-grade sales volume was up 14.2% in April over the prior month with a total of \$4.2 billion, while the general commercial sub-index of small-dollar deals increased 12.9% to \$3.1 billion, according to the report.

"This suggests that larger players are starting to make acquisitions, starting with smaller bets," said Chad Littell, national director of U.S. capital markets analytics for CoStar and author of the CCRSI report.

Listed properties for sale have also been on the market for fewer days. The average time on the market for priced listings fell 8.4% in the 12 months ended in April.

In addition, the sale-price-to-asking-price ratio narrowed 2 basis points to 93.3%, showing buyers and sellers may be coming closer together in pricing expectations, according to Littell.

Meanwhile, the share of properties withdrawn from the market fell 4 basis points to 25.4% during the 12 months ended in April. This is another hopeful sign that sellers could be expecting better outcomes, according to the report.

But while trends are moving in a positive direction, overall pricing has not reversed course.

The value-weighted U.S. composite index, reflecting large property sales common in major cities, declined for the eighth consecutive month by dropping 1.4% in April from March. The index was down 10.9% in the 12 months ended in April, and it was off by 21.2% from the July 2022 all-time high.

Meanwhile, the equal-weighted U.S. composite index, showing the more numerous, lower-priced property deals typical in small markets, dipped 0.3% lower in April from March. The index increased 1.6% in the 12 months ended in April and was 1.1% below the September 2023 all-time high.

“The divergence between the smaller tertiary market deals and the larger primary market deals illustrates the impact of debt on the capital structure as Treasury yields climbed more than 60 basis points since the recent lows in December 2023,” Littell said.

Smaller-dollar sales are seeing a higher percentage of all-cash deals and thus more narrow price fluctuations tied to interest rates, Littell said.