vertical IQ

Commercial Brokers & Property Managers

NAICS: 531210, 531312
SIC: 6531

prepared February 18th, 2022

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Coronavirus Update

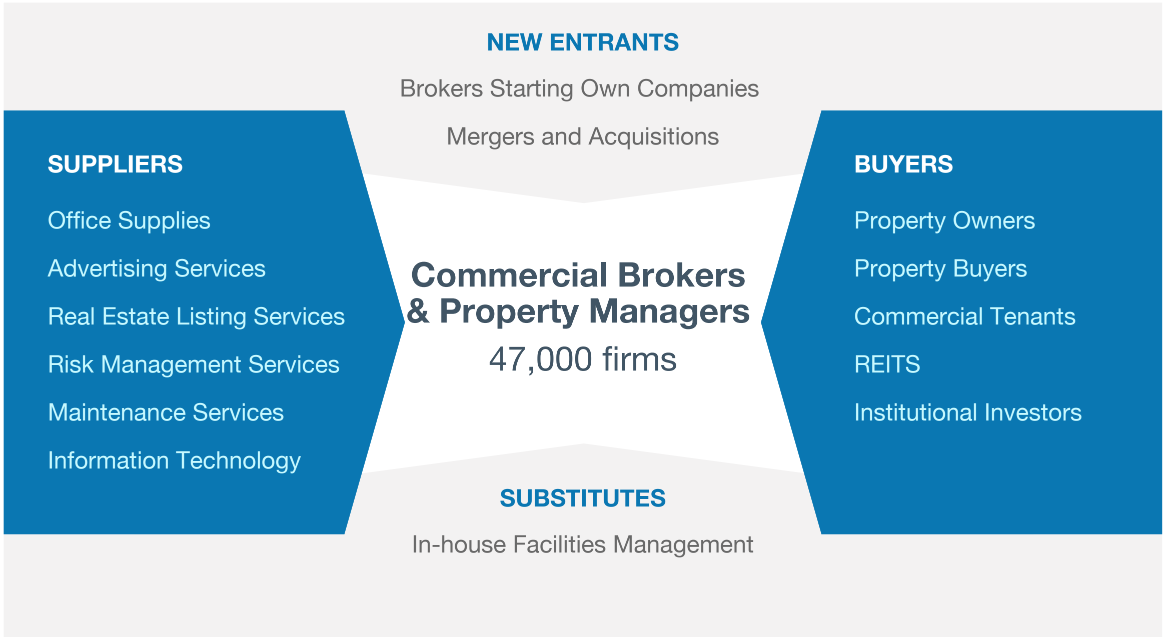
Jan 9, 2022 -- CMBS Delinquency Rate Increases

- The rate of delinquency among properties that secure debt in commercial-mortgage-backed securities loan portfolios increased in December 2021, according to Trepp, an analytics firm that monitors the CMBS market. It was the first increase in 18 months. CMBS are fixed-income investment products that are backed by mortgages on commercial properties rather than residential real estate. The delinquency rate is the percentage of commercial real estate loans that were 30 or more days past due or in foreclosure. A rising delinquency rate indicates that an increasing number of commercial property owners cannot pay the mortgages on those properties. The CMBS delinquency rate among the major real estate asset classes – office, multifamily, industrial, retail and hotels – rose to 4.57% in December, up from 4.38% in November. The percentage of CMBS properties marked as at least 30 days delinquent was 7.81% in December 2020.
- Store openings may have exceeded store closures for the first time in five years in 2021, according to Coresight Research. Analysts cite low rents, the need to have customers evaluate products in person, and a desire to raise brand awareness as key causes of the change. Rebecca Fitts, director of real estate at Leap and former real estate director at Warby Parker, said that demand among direct-to-consumer businesses to open brick-and-mortar locations has never been stronger.
- Conversion of empty office and industrial space to biotechnology laboratories in Greater Boston, MA, is driving a rebound in the region's commercial real estate market following the pandemic, but not everyone wants a laboratory next door. Opposition is increasing amid the early stages of a massive wave of renovations and retrofits, with 10 million square feet of office and industrial space in Greater Boston being converted for use by the booming life sciences industry. A common complaint revolves around the hefty HVAC systems that lab buildings need. They can be noisy and tall, sometimes 30 feet or more on a rooftop, an intrusive change for residential buildings nearby. Some critics also worry about safety in spaces where potentially hazardous materials are handled. Others dislike the labs' round-the-clock operations, with foot traffic and lights at all hours. Some of these conflicts may get resolved in the courts. In one of the first legal disputes, the owner of a five-story building in South Boston sued the city's Zoning Board of Appeal over the denial of a lab conversion.
- Building owners and investors are investing in life sciences and biomedical research facilities to take advantage of recent growth trends. Cities such as Boston, New York, and Atlanta are seeing an expansion in scientific lab spaces and office facilities, and building owners have found an immediate opportunity for growth in those areas. The COVID pandemic led to a lot of companies implementing work-from-home policies, which "created an opportunity for both landlords and life-science end-users," says Brent Zeigler, president of architecture and interiors firm Dyer Brown. "As demand plummeted for Class-A office space in the professional services, the investment community shifted their focus to industries that would weather the COVID crisis well. The result was an infusion of cash across the life sciences industry."
- Big Four accounting firm PricewaterhouseCoopers will allow 40,000 of its 55,000 workers to work remotely anywhere in the continental US. Experts say that the move could be the start of an even larger wave of similar remote work actions that may negatively impact office occupancy rates. "I think we'll see more announcements like this come from both large and small employers as the nature of work has shifted after the pandemic. More employers have started to take notice of remote work and are also beginning to offer more flexible remote options," said Marwan Forzley, CEO of online payments company Veem.
- The arrival of coronavirus variants and renewed concern and confusion over new safety rules haven't upset property management operations as much as thrown a new curve during a time when everyone has become used to change, according to the Bisnow news site. Existing labor market challenges, especially the shortage of workers willing to take jobs on the lower end of the pay spectrum, have been amplified by the delta variant. Hiring new personnel, including janitorial and office administration staff, has been difficult. Caroline Gadaleta, the regional managing director for property management for JLL, said that she's having to readjust expectations of when employees will return. Many firms had anchored their return-to-office calendars around Labor Day, but the delta variant has set those plans adrift, with many moving their internal goal posts back a few months and now turning their attention toward proof of vaccination and vaccine mandates.
- Some firms are seizing on the coronavirus pandemic's economic disruption to negotiate shorter leases at cheaper rents, according to The Commercial Observer industry news site. Companies that are not opting for traditional 10-year leases in Manhattan, for example, tend to be small and less tied to a specific office footprint, brokers say. Recent data suggest less interest in 10-year commitments even among larger companies. The average length of leasing deals of at least 100,000 square feet completed in

2020 through September in Midtown Manhattan, for instance, was 8.7 years, according to research from Colliers International. It was 12.5 and 12.7 years in 2018 and 2019, respectively, taking the years as a whole.

- Employment in the real estate industry increased 4.5% year over year in November 2021 but was up just 3% from the pre-pandemic month of November 2019. Employment of real estate agents and brokers increased 8.8% year over year in October and 8% from October 2019. Employment in the property management industry increased 3.5% year over year in October but was up 3.6% from October 2019.

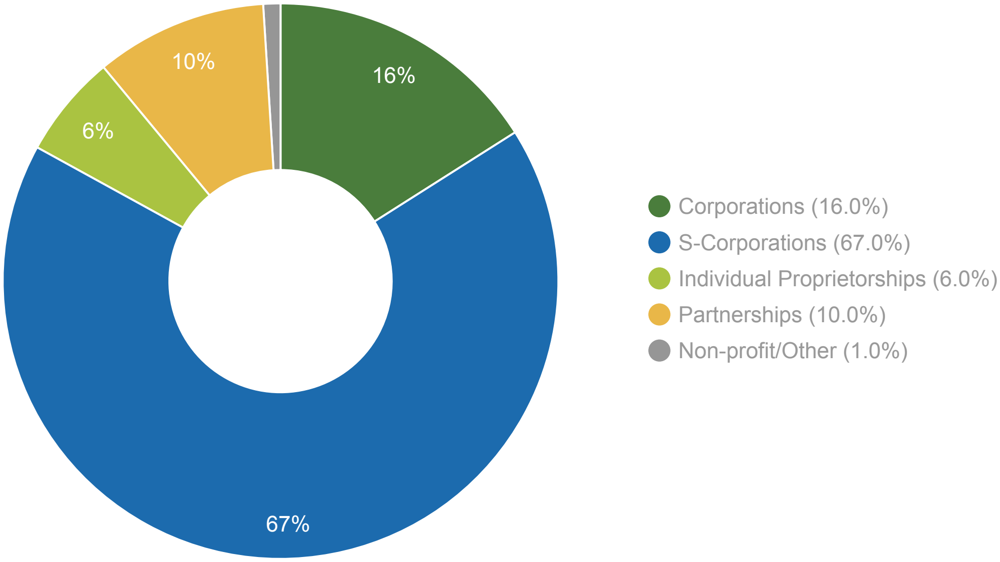
Industry Structure



The average commercial broker and property manager employs 3-4 workers and generates $1 million in annual revenue.

- There are about 47,000 offices in the US with $48 billion in annual revenue and 280,000 employees.
- The industry is highly fragmented with the 50 largest firms making up about 32% of industry revenue.
- Commercial real estate brokerage firms account for about 42% of total industry revenue, 60% of establishments and 68% of employment.
- The majority of industry employees are property managers and real estate agents. The remainder are office/administrative support and management.

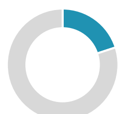
Industry Demographics



Source: US Census Bureau

Female Owned

46.0%



Minority Owned

20.0%

Veteran Owned

9.6%

Source: Census Bureau

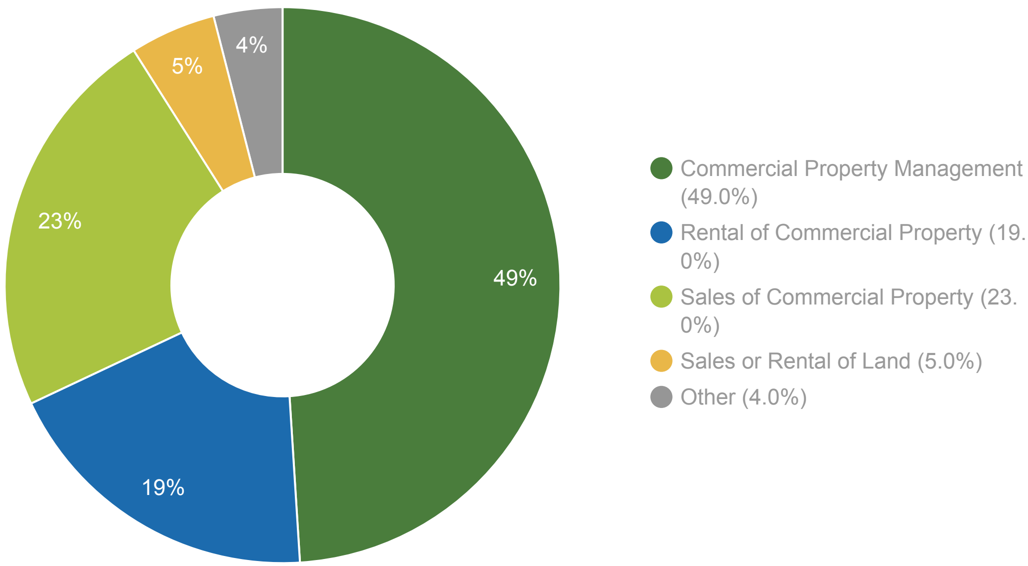
How Firms Operate

Products and Operations

Commercial real estate agents and property managers work with owners to find buyers for property for sale, lessees for rental property, and to maintain and manage physical property.

- Almost half of revenue comes from property management services.
- Commercial property includes office buildings, industrial buildings, warehouses, and other nonresidential buildings.

Commercial Brokers & Property Managers Revenue

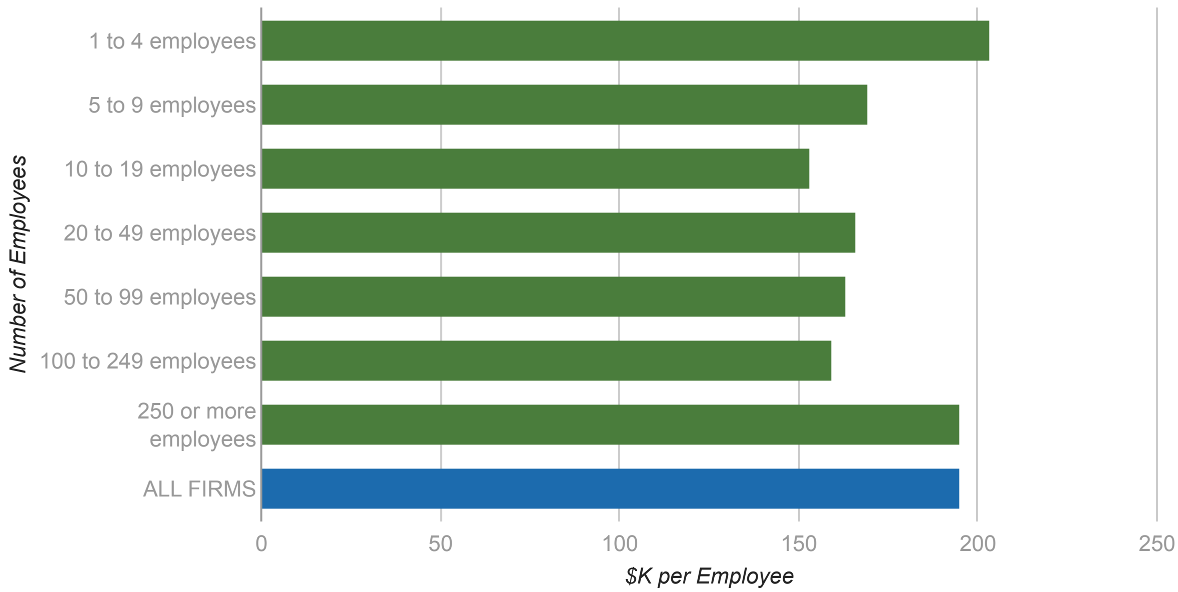


Source: US Census Bureau

Commercial real estate agents and brokers represent property owners in the process of identifying qualified buyers and lessees for office, retail, industrial, and multi-family housing properties. Commissions range from 4-8% of the sale price or lease value for deals under $1 million. Commission rates drops to 1-3% for deals over $10 million, because the value of the deal is much larger. Real estate agents are required to pass an exam in order to obtain a license issued by the state in which they work. The agent works for a broker, who must meet additional licensing and educational requirements in order to operate. In addition, in most states both agents and brokers are required to complete a certain number of continuing educational credits in order to renew their license.

Commercial property managers act as the liaison between the landlord and tenant. Duties include accepting rent, responding to and addressing maintenance issues, and managing the accounts and finances of the real estate properties. Property management revenues are generally based upon percentages of revenue or profit generated by the entities managed or the square footage managed. Real estate managers who buy or sell property are required to be licensed by the state in which they practice. Most employers hire college graduates for property management positions.

Revenue per Employee by Firm Size for Commercial Property Managers



Source: US Census Bureau

Profit Drivers

Growing Property Listings

Commercial brokers and property managers rely primarily on personal contacts and networking by agents to gain new client listings. Agents are supported by marketing programs and lead generation activities, but the most successful agents focus on personal contacts. Social media is also used to build awareness among prospects, but is not a substitute for networking and personal referrals. Firms typically provide tools and support staff to help agents in preparing formal proposals and presentations for clients to win new business.

Managing Operational Expenses

While the main focus of brokerages is on sales, they also need to manage administrative and overhead expenses to maximize profitability. A well-run office and responsive support staff can increase sales productivity and morale, so firms must balance expense reduction with providing a high level of support. Successful firms invest in information systems and processes to improve office productivity and regularly review and negotiate supply contracts to lower costs. Besides staffing, key expenses include rent and advertising.

Retaining Top Producers

Commercial brokers and property managers typically have a mix of agents, including new college graduates, mid-level performers, and top producers (often referred to as "whales"). Top producers bring in most of the new business for the brokerage and usually manage the largest clients, so losing them can have a big revenue impact. They may be lured away by competitors or may decide to start their own brokerage. To retain top producers, brokerages allow them to keep most, if not all, of their commissions and provide them with responsive administrative and marketing support.

Industry Trends

Trends are affected by the COVID-19 pandemic.

Changes in revenue, employment, business practices, trade and forecasts are occurring rapidly and data reporting by the government lags the changes. We are tracking changes in the “Coronavirus Update” chapter.

Outsourcing by Property Owners

Property owners are increasingly subcontracting their commercial real estate services in order to reduce costs, lower overhead, increase operational efficiency and focus more closely on core competencies. Outsourced services include transaction management, facilities management, project management, and property management.

Owners Consolidate Service Providers

Major property owners and corporate users are consolidating their service provider relationships on a regional, national and global basis. Advantages include more consistent execution across markets to achieve economies of scale and the benefits of streamlined management oversight. As a result, large owners and tenants are awarding an increasing share of this business to larger commercial real estate services providers, particularly those that provide a full suite of services across geographical boundaries.

Institutional Ownership of Real Estate

Over the last 10-15 years, institutional owners, such as pension funds, foreign institutions and other financial entities, have increased their acquisitions of real estate assets to diversify their investment portfolios. Many have invested through Real Estate Investment Trusts (REITs). By law, REITs are not allowed to operate or directly manage the properties they own. It is likely that many institutional owners will outsource management of their portfolios and consolidate their use of real estate services vendors.

Internet Marketing

In addition to using multiple listings services (MLS), commercial real estate brokers and property managers are increasing their use of the Internet to advertise available properties to prospective buyers and tenants. Many brokers utilize their own web sites and feature blueprints, geographical data, and virtual tours; they also may work with Internet marketing services to attract customers.

Benefits of Green Buildings

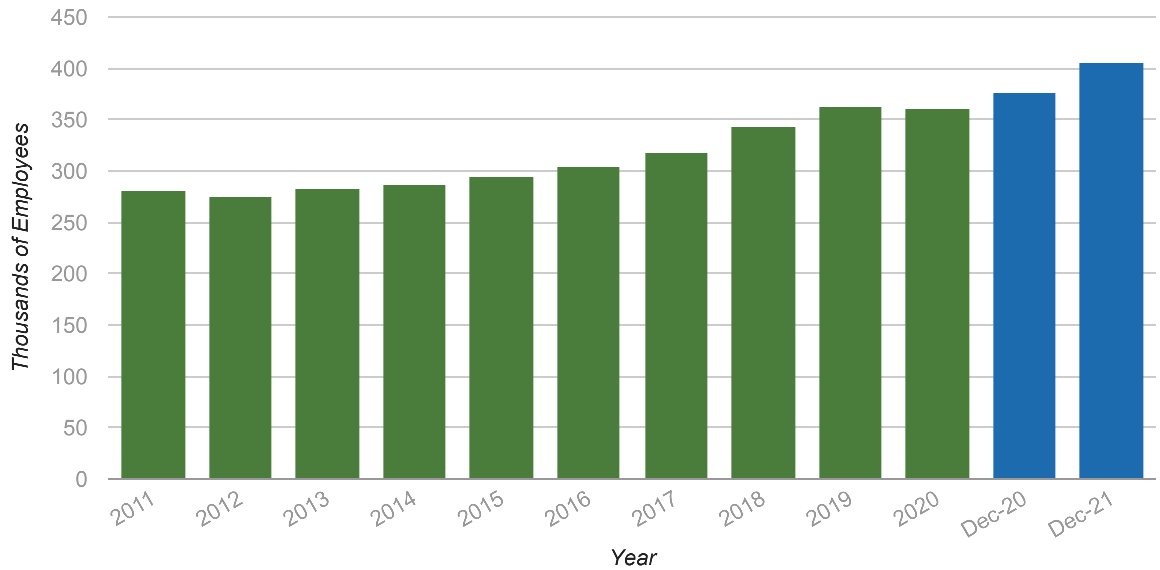
Government incentives and customer demand are driving construction of green buildings, which incorporate energy conservation, resource conservation, waste reduction, and preservation of indoor air quality. A study by the New Buildings Institute found that buildings certified by the US Green Building Council (USGBC) LEED system are performing 25-30% better on average than non-LEED certified buildings in terms of energy use. In addition, a study by CoStar Group found that buildings that are LEED-certified command rent premiums and have higher occupancy rates. The number of zero energy (ZE) projects has climbed from fewer than 100 in 2010 to nearly 700 in 2020, according to the New Buildings Institute. ZE projects have a median site energy use intensity (EUI) of 23 kBtu/sqft/yr (or less) and only use energy produced onsite with clean renewable sources, such as solar.

Employment and Wage Trends

Employment by real estate agents and brokers increases

Overall employment by real estate agents and brokers changed 7.7% in December compared to a year ago, according to the latest data from the Bureau of Labor Statistics.

Real Estate Agents & Brokers Employment

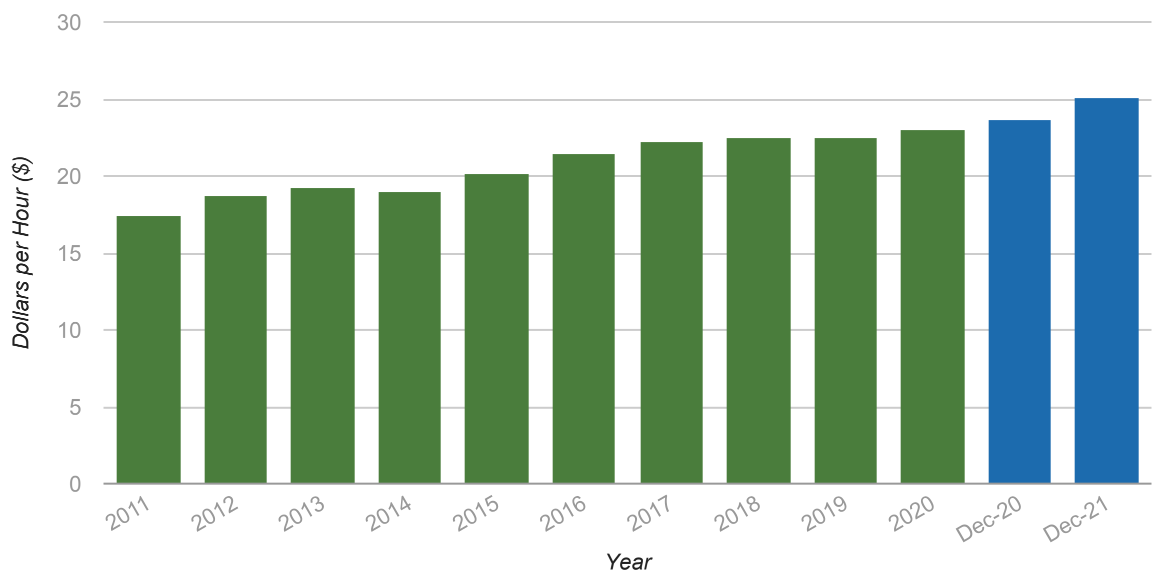


Source: Bureau of Labor Statistics

Wages at real estate agents and brokers rise

Average wages for nonsupervisory employees at real estate agents and brokers were $25.07 per hour in December, a 5.9% change compared to a year ago.

Average Wages for Nonsupervisory Employees



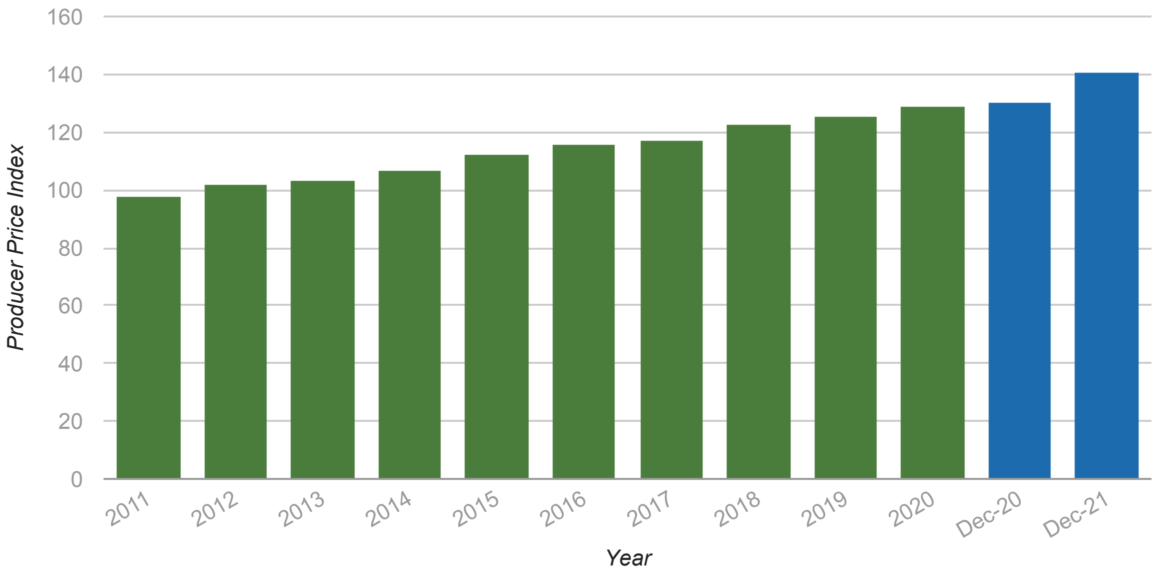
Source: Bureau of Labor Statistics

Price Trends

Producer Prices for nonresidential real estate agents and brokers rise

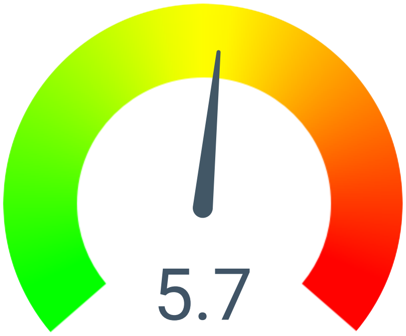
The Producer Price Index for nonresidential real estate agents and brokers changed 8.16% in December compared to a year ago, according to the latest data from the Bureau of Labor Statistics.

Producer Price Index for nonresidential real estate agents and brokers



Source: Bureau of Labor Statistics

Credit Underwriting and Risks



Industry Risk Rating:
Stable/Satisfactory

Business Exit Rates:	7.5	Higher than US average for all businesses
Cyclical Sensitivity:	8.0	Very high sensitivity
Barriers to Entry:	5.5	Low initial capital; low regulatory/technical barriers; moderate concentration
External Risk:	5.0	Moderate external risk
Industry Outlook:	5.3	higher than GDP; severe cyclical risk
Financial Summary:	3.3	Very high margins; moderate liquidity; moderate leverage

Key Metrics

METRIC	VALUE	COMPARISON
Business Exit Rate 2019–2020	11.6%	9.0% All Industries
Compound Annual Growth Forecast (2020–2025)	7.37%	6.1% GDP
SBA 7(a) Default Rate by Number of Loans (2010-2019)	1.95%	3.82% All Industries
SBA 7(a) Default Rate by Gross Loan Amount (2010-2019)	0.47%	1.21% All Industries

Underwriting Considerations

- As a service company, no inventory exists to lend against. AR or other source of collateral is needed.
- As this industry is cyclical, Bank clients in this industry should have stronger balance sheets with lower leverage and higher liquidity to manage through the slow downs in the economy. How did the company manage through the last economic turn?

Industry Risks

Dependence on Economy

Growth in the industry directly corresponds to growth in the economy. Periods of economic uncertainty lead to declines in acquisitions; sales and leasing activities; and property values, which reduces revenue gained from property management fees and brokerage commissions. Declining economic activity also leads to a decline in funds invested in existing commercial real estate assets and properties planned for development.

Rising Interest Rates

Growth in commercial real estate development is directly linked to construction of new office buildings, retail centers, apartments, and manufacturing and distribution facilities. Increases in interest rates raise the cost of construction and slow commercial real estate development, which decreases opportunities for both brokerage commissions on the sale and rental of properties, and fees for property management.

Impact of Technology

The increased integration of Internet and wireless communication technology may result in a decrease in demand for office, retail, and industrial properties. Companies are minimizing their need for office space by adopting policies that encourage employees to telecommute and/or share workspace. Increased consumer purchasing via the Internet has lowered demand for brick-and-mortar retail space, and manufacturers have reduced the number of links in the distribution and supply chains by integrating their inventory, purchasing, and delivery systems.

Government Regulation

The commercial real estate brokerage and property management industry operates in a highly regulated environment. Regulations designed to improve safety and efficiency, increase the use of sustainable building materials, and ensure buildings have the ability to withstand natural disasters may drive up the cost of construction to a point which cannot be recovered through increased sales prices and rent. In addition, the need to bring existing facilities into regulatory compliance may prove to be cost prohibitive and result in lower property values and rental prices.

Competition

This business is highly competitive and, because it is a service business, the barriers to entry are quite low. There are many competitors, and new competitors are entering the market all the time. Global, regional, and local firms regularly compete in the same markets.

Company Risks

Local Economic Conditions

Opportunities for growth vary widely for most small and regional firms, and are based on local economic conditions. In a community heavily dependent upon a major industry or a few significant companies, demand for commercial real estate may be dependent upon the economic cycles of those businesses, regardless of the performance of the broader economy. In addition, success in attracting new business to a community or region directly impacts the growth opportunity in commercial real estate.

Dependence on Key Talent

Success in the industry is related to client relationships and knowledge of the market. Most commercial real estate and property management firms are small and locally focused. The loss of a key agent or manager can have a significant impact on the company's ability to attract and retain clients.

Client Concentration

The majority of local and regional firms are relatively small, which increases the likelihood of reliance on one major account or a small number of significant accounts. Loss of any one of these clients could have a major impact on the company.

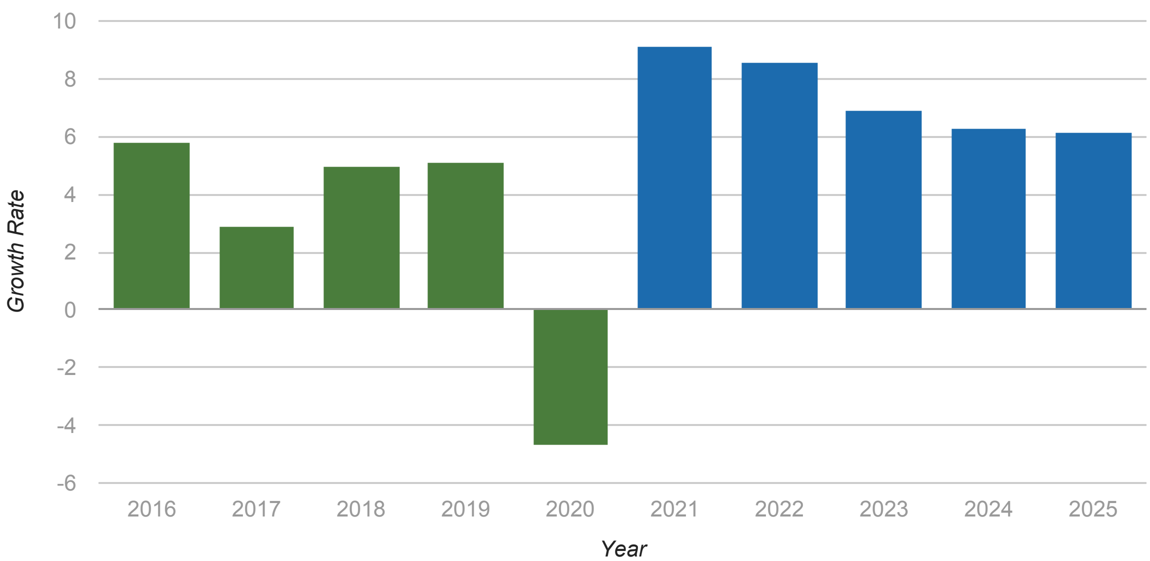
Industry Forecast

Sales for the US commercial brokers and property managers industry are forecast to grow at a 7.37% compounded annual rate from 2020 to 2025, greater than the growth of the overall economy.

Vertical IQ forecasts are based on the Inforum inter-industry economic model of the US economy. Inforum forecasts were prepared by the Interindustry Economic Research Fund, Inc.

Last Update: August 2021

Commercial Brokers & Property Managers Industry Growth



Source: Interindustry Economic Research Fund, Inc.

Working Capital

Sell and invoice

> 32% of real estate agents and property managers said they go to their accountant or bookkeeper for cash flow advice, while 22% turn to their banker, 18% turn to an industry partner or colleague, and 55% do not seek advice, according to a survey of small businesses by Barlow Research Associates.
>
> *Source: Barlow Research Associates.*

Commercial real estate brokers generate revenue through commissions earned when a property is sold or a tenant is found for a rental property. Commissions on the sale of property are typically paid at closing. Commissions on rental property are paid in two installments; one-half at lease execution and one-half upon tenant occupancy. Commissions typically range from 4-8% of the sale amount or lease value for deals under $1 million. Commission rates drops to 1-3% for deals over $10 million, because the value of the deal is much larger.

Commercial real estate property managers act as a liaison between a property owner and tenant. Duties include accepting rent, responding to and addressing maintenance issues, security, and maintaining occupancy levels. While some services are performed by the property manager's employees, many are contracted out to specialists. Revenues are generated in the form of fees based on the level of service provided and the amount of space managed. These fees are usually collected monthly.

Collect

Receivables range 13-21% of total assets. Fluctuations in receivable balances can have a significant impact on the cash position of a firm. Agents and brokers are particularly vulnerable because commissions are paid when contracts are signed and tenants take occupancy, which can occur many months apart.

Manage Cash

Revenues fluctuate throughout the year as deals are completed. In addition to commissions, some brokerage contracts require the owner to also pay out-of-pocket costs for preparing to sell the property. Property managers deal with large amounts of cash and have a more consistent cash flow.

Pay

The profitability of individual companies depends on efficient operations. Salaries and commissions are the largest expense, averaging 25-29% of revenue. Rent averages about 4-5% of revenue. Advertising averages 2-3% of revenue. During difficult economic times, commercial real estate companies reduce expenses through wage and bonus freezes, and layoffs or attrition.

Report

Occupancy rates are a key component in driving profitability and range from 83-88% for office and 93-95% for retail, industrial and multi-family housing. After-tax net profit averages 18-19% of sales.

Cash Management Challenges

Uneven Cash Flow From Property Sales

The timing of commercial property sales is difficult to predict and delayed closings of deals can affect cash flow for a particular month or quarter. Since a portion of commissions are tied to tenants taking occupancy of the property, further cash flow delays can occur if modifications to the space are required or tenants have existing lease obligations to fulfill.

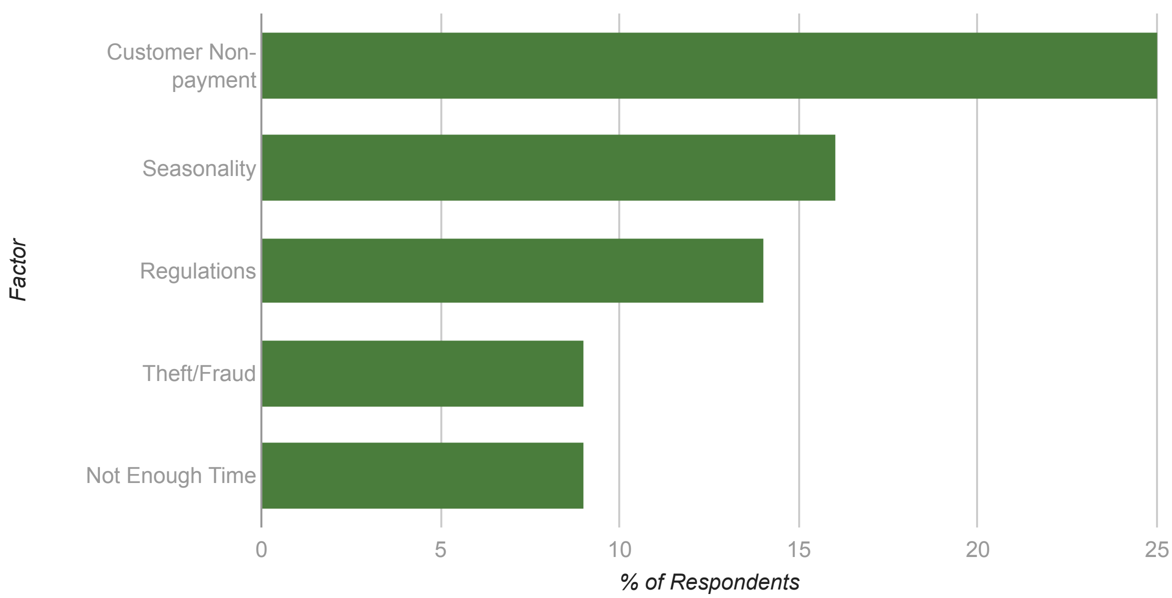
Efficiently Processing Rental Payments

Property managers may handle a high volume of monthly rent payments from tenants. Since lease rates and square footage vary across different properties, and even within a property, efficiently and accurately processing these varied payments can be a challenge. Property managers must also have processes in place to follow up with tenants who are late to pay.

Funding Marketing To New Clients

The commercial brokerage and property management industry is highly competitive and firms must actively market to new clients to grow sales and retain top talent. Regular spending on advertising and web site development is necessary to support the sales efforts of brokers. Use of the Internet to reach prospects and advertise properties is growing in importance for brokerage firms.

Factors Causing Cash Flow Stress: Real Estate Agents & Property Managers



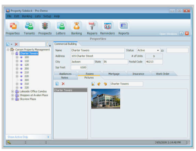
Source: Barlow Research Associates

Capital Financing

Barriers to entry for commercial real estate brokers and property managers are low, and accordingly, capital investments are relatively small. The industry is very fragmented and most companies operate locally with few employees. Some of the largest firms own property, in which case their capital needs reflect funds needed to develop, build, and maintain their holdings or to acquire assets through mergers and acquisitions.

Software that tracks customer relationships and property inventory, along with back office accounting and billing, are the largest investments. In addition, companies invest in setting up office space (furniture and fixtures). Financing is accomplished through local banking relationships or through vendors, and includes a mixture of purchase and lease arrangements.

Examples of Equipment Purchases



Commercial Property Management Software

Price varies by number of units and number of users

Web-based or PC software for managing property inventory, automating monthly billing, and managing relationships with prospects, owners, and tenants.

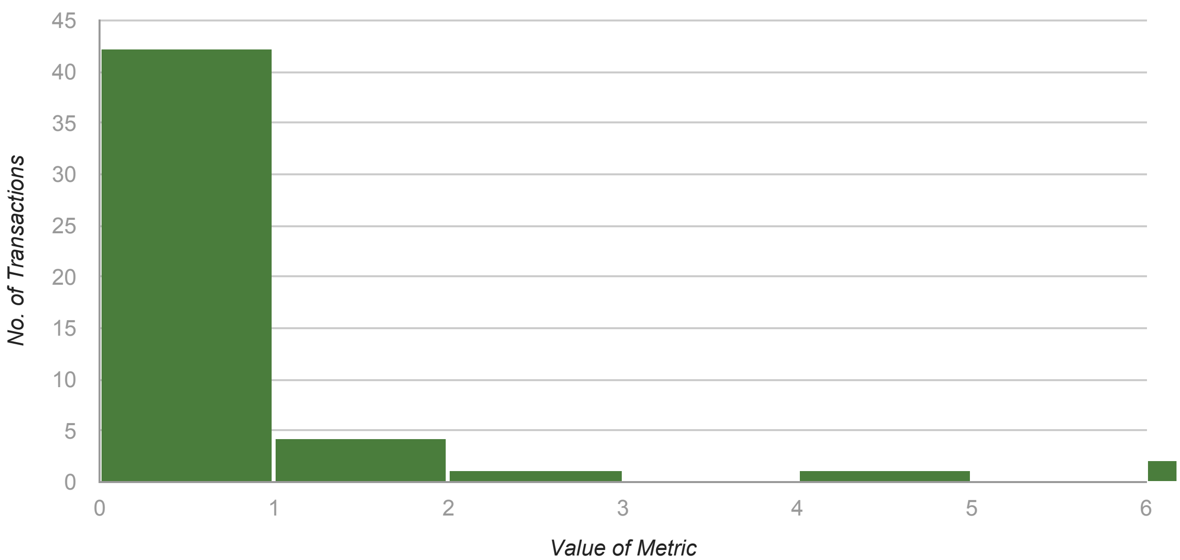
Business Valuation

This data on business valuations is supplied by DealStats, an online database with the most complete financial details on nearly 36,000 acquired companies. These companies are mostly small and medium-sized private firms.

Summary Valuation Data for Commercial Brokers & Property Managers

	MEDIAN	MEAN	# TRANSACTIONS	DATES
Price to Net Sales	0.37	1.33	50	10/10/1997–08/03/2020
Price to Gross Profits	0.59	1.69	48	10/10/1997–08/03/2020
Price to EBITDA	3.16	5.64	32	10/10/1997–08/03/2020
Price to EBIT	3.11	17.64	43	10/10/1997 –08/03/2020

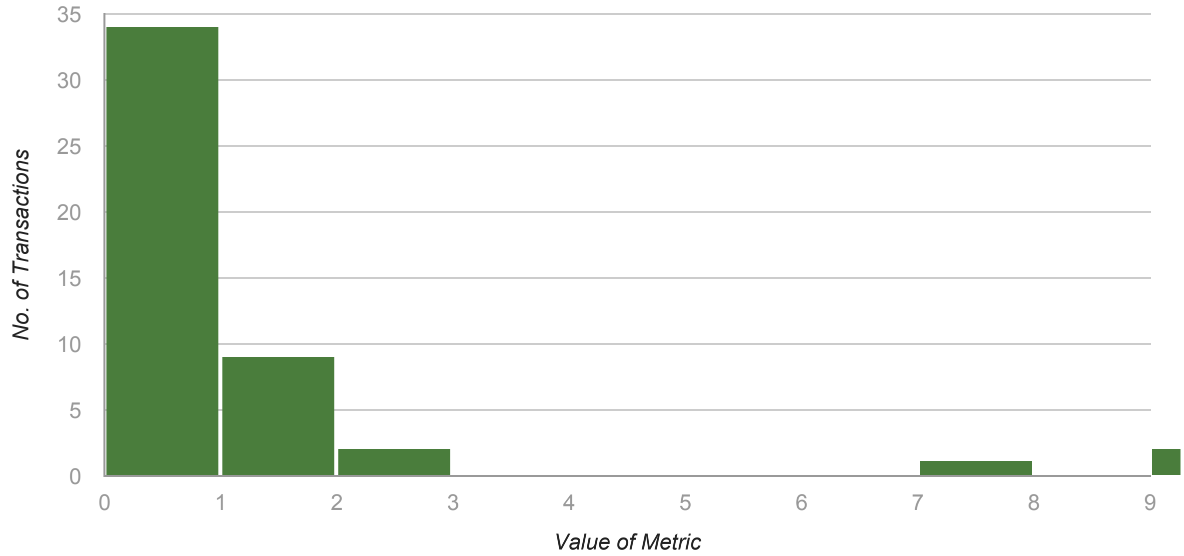
Click on the metric below to see a distribution of transactions for the industry:



Source: DealStats

Count: 50 **Min:** 0.03 **Max:** 31.46 **Mean:** 1.33 **Median:** 0.37

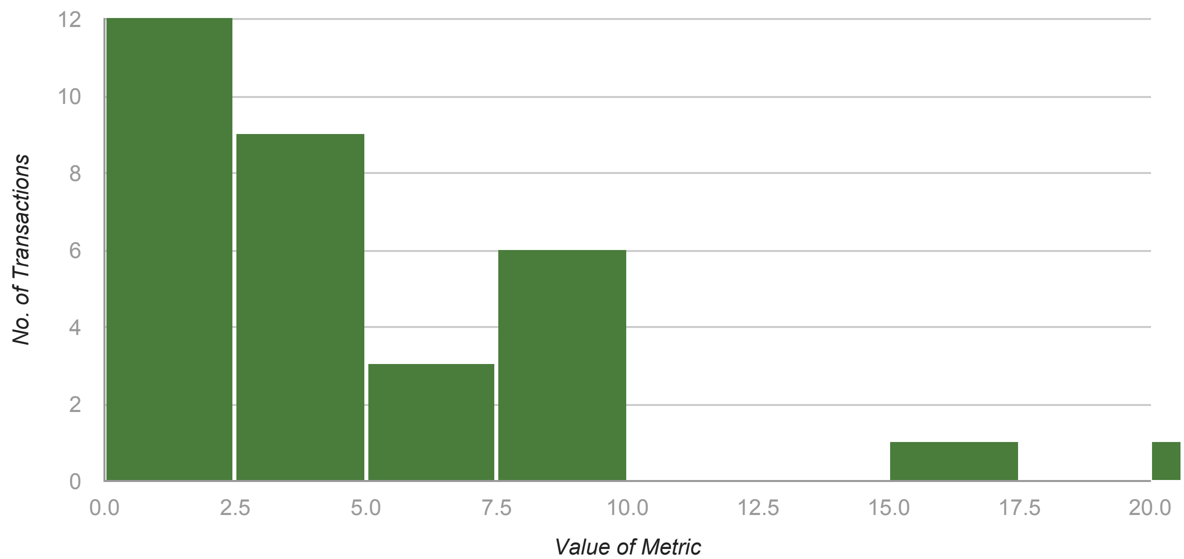
Price to Sales = Selling Price/Net Sales
Date range: 10/10/1997 - 08/03/2020



Source: DealStats

Count: 48 **Min:** 0.03 **Max:** 31.46 **Mean:** 1.69 **Median:** 0.59

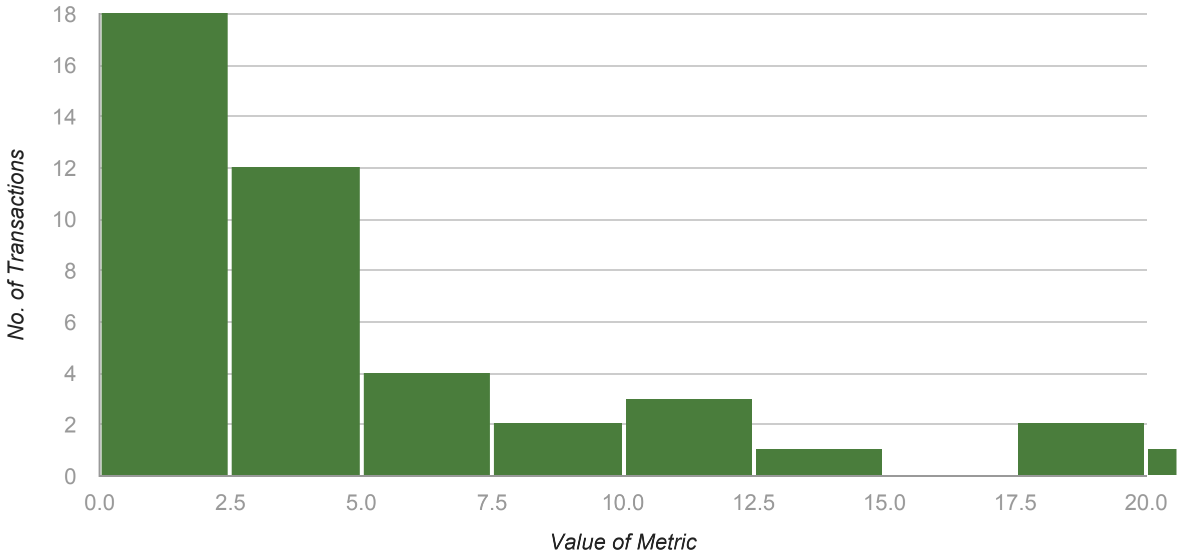
Price to Gross Profit = Selling Price/Gross Profit
Date range: 10/10/1997 - 08/03/2020



Source: DealStats

Count: 32 **Min:** 0.78 **Max:** 43.35 **Mean:** 5.64 **Median:** 3.16

Price to EBITDA = Selling Price/Operating Profit + Depreciation & Amortization
Date range: 10/10/1997 - 08/03/2020



Source: DealStats

Count: 43 **Min:** 0.75 **Max:** 570.87 **Mean:** 17.64 **Median:** 3.11

Price to EBIT = Selling Price/Operating Profit
Date range: 10/10/1997 - 08/03/2020

Selling Price, also known as MVIC (Market Value of Invested Capital) *is the total consideration paid to the seller and includes any cash, notes and/or securities that were used as a form of payment plus any interest-bearing liabilities assumed by the buyer. The MVIC price includes the noncompete value and the assumption of interest-bearing liabilities and excludes (1) the real estate value and (2) any earnouts (because they have not yet been earned, and they may not be earned) and (3) the employment/consulting agreement values. In an Asset Sale, the assumption is that all or substantially all operating assets are transferred in the sale. In an Asset Sale, the MVIC may or may not include all current assets, non-current assets and current liabilities (liabilities are typically not transferred in an asset sale).*

Source: DealStats 2019 (Portland, OR; Business Valuation Resources LLC). Used with permission. DealStats is available at https://www.bvresources.com/learn/dealstats

Financial Benchmarks

NOTE: For this industry and other real estate industries, rental income has been included in revenue when calculating financial ratios and income statement percentages.

Financial Ratios (Commercial Brokers & Property Managers, Industry-wide)

MEASURE	2018-19	2019-20	2020-21
Current Ratio	1.17	1.11	1.74
Quick Ratio	.88	.85	1.41
Days Inventory	6.6	15.16	7.51
Days Receivables	14	13	13
Days Payables	9.52	15.39	15.84
Pre-tax Return on Revenue	6.69%	6.81%	8.22%
Pre-tax Return on Assets	13.34%	15.74%	10.43%
Pre-tax Return on Net Worth	35.48%	52.65%	23.70%
Interest Coverage	10.24	11.76	10.21
Current Liabilities to Net Worth	.78	1.05	.43
Long Term Liabilities to Net Worth	0.88	1.29	0.84
Total Liabilities to Net Worth	1.66	2.35	1.27
Number of Firms Analyzed	*909*	*669*	*537*

Income Statement (Commercial Brokers & Property Managers, Industry-wide)

ITEM	2018-19	2019-20	2020-21
Revenue	100.0%	100.0%	100.0%
Cost of Sales	46.97%	49.02%	43.94%
Gross Margin	-8.01%	-11.68%	-6.99%
Officers Compensation	2.77%	2.59%	3.52%
Salaries-Wages	-13.1%	-14.15%	-10.57%
Rent	-2.37%	-2.42%	-2.75%
Taxes Paid	-1.38%	-1.42%	-2.7%
Advertising	-1.23%	-1.39%	-0.67%
Benefits-Pensions	-1.05%	-1.13%	-1.02%
Number of Firms Analyzed	*909*	*669*	*537*

ITEM	2018-19	2019-20	2020-21
Repairs	-0.47%	-0.51%	-1.3%
Bad Debt	-0.18%	-0.19%	-0.31%
Other SG&A Expenses	-26.62%	-28.02%	-24.36%
EBITDA	35.62%	34.96%	33.17%
Amortization-Depreciation	7.37%	7.29%	7.24%
Operating Expenses	-36.26%	-39.35%	-32.92%
Operating Income	28.25%	27.67%	25.93%
Interest Expense	9.23%	9.31%	8.55%
Other Income	-0.9%	-0.86%	-0.97%
Pre-tax Net Profit	19.92%	19.22%	18.35%
Income Tax	0.32%	0.09%	0.36%
After Tax Net Profit	19.6%	19.13%	17.99%
Number of Firms Analyzed	*909*	*669*	*537*

Balance Sheet (Commercial Brokers & Property Managers, Industry-wide)

ASSETS	2018-19	2019-20	2020-21
Cash	24.31%	24.22%	30.55%
Receivables	4.79%	5.23%	4.39%
Inventory	1.66%	1.71%	1.59%
Other Current Assets	5.14%	5.17%	4.71%
Total Current Assets	35.9%	36.33%	41.24%
Net Fixed Assets	45.49%	44.43%	40.87%
Net Intangible Assets	6.34%	6.58%	6.78%
Other Non-Current Assets	12.28%	12.65%	11.11%
Total Assets	*100.0%*	*100.0%*	*100.0%*

LIABILITIES			
Accounts Payable	3.37%	3.62%	2.29%
Loans/Notes Payable	10.13%	9.91%	14.05%
Other Current Liabilities	15.46%	15.43%	13.12%
Number of Firms Analyzed	*909*	*669*	*537*

LIABILITIES

Total Current Liabilities	28.95%	28.96%	29.46%
Total Long Term Liabilities	40.08%	37.59%	43.23%
Total Liabilities	69.03%	66.55%	72.7%
Net Worth	30.97%	33.45%	27.3%
Total Liabilities & Net Worth	100.0%	100.0%	100.0%
Number of Firms Analyzed	*909*	*669*	*537*

Vertical IQ financial benchmark data is based on data provided by the Risk Management Association (RMA) and Powerlytics, Inc. RMA's Annual Statement Studies provide comparative industry financial benchmarks based on financial statements of small and medium business clients of RMA's member institutions. Additional detail on income statement line items is provided using Powerlytics financial benchmarks, which are based on reporting submitted to the IRS. Additional detail on these data sources can be found at RMA and Powerlytics.

Bank Product Usage

The following table provides the frequency of bank product usage by Real Estate Agents and Managers, which includes Commercial Brokers & Property Managers, with less than $10 million in annual revenue. It is provided by Barlow Research Associates, Inc., the premier market research firm in the financial services industry.

Top Bank Products Used by Real Estate Agents and Managers

BANK PRODUCT	% OF FIRMS
Business checking account services	94.0
Business savings or money market account	66.0
Overdraft protection for business checking	61.0
Business debit card or business check card	58.0
Business credit card issued in your company's name (Visa, MasterCard, Amex, etc.)	57.0
Automated clearing house services (ACH)	56.0
Wire transfer services	56.0
Electronic payments initiated through the Internet (Bill Payment)	54.0
Point-of-sale credit card processing	49.0
Remote deposit capture (scanning checks at your office or by mobile device for electronic deposit)	40.0
Money market mutual funds or short-term investments	39.0
Commercial real estate mortgage	32.0
Credit lines secured by receivables, inventory, property or other assets	31.0
Commercial real estate mortgage (investment property)	28.0
Certificates of deposit	28.0
Unsecured short-term loans or working capital line of credit (less than one year)	27.0
Commercial real estate mortgage (company occupied building)	25.0
Payroll processing	22.0
Account reconciliation processing (ARP)	22.0
Overnight investment or sweep accounts	20.0
Company sponsored 401(k), SEP, pension or profit sharing plan	17.0
Term loans or equipment financing (one year +)	16.0
SBA loans	15.0
Equipment leasing	12.0
Accounts receivable collection (lockbox)	11.0

BANK PRODUCT	% OF FIRMS
International (foreign exchange, import/export letters of credit)	8.0

Barlow's Small Business Banking program is a multi-client research program sponsored by leading banks. Each quarter, a stratified random sample of businesses throughout the United States with sales between $100,000 to $10 million compiled from an independent list provider are invited to participate in a comprehensive banking survey of over 100 questions. The results measure channel adoption, bank satisfaction, brand power, account management, service quality, business product usage and the selling abilities of leading providers. The results in this chapter are calculated directly from the business product usage section and represent usage for the average small business ($100K-<$10MM).

For more information on Barlow's banking research, go to http://www.barlowresearch.com/

Quarterly Insight

4th Quarter 2021

Telecommuting Is A Bigger Threat Than The Pandemic

Office-owners have been spared any substantial pandemic-related demand shocks according to The Economist magazine, and sale prices in big cities have held up despite lower rents in many places. Delinquencies and distressed sales have been rare. There are still dangers, however. If remote working sticks, office space could become expendable. Demand could decrease 16% over the next decade. The price per square foot in America could fall by more than half if employees work from home for three days a week. Losses from the pandemic may take years to materialize, however, as corporate tenants are locked into long leases and workers are returning to the office.

3rd Quarter 2021

Office Buildings Make Way for Distribution Facilities

Developers, including some of the industry's biggest players, have started buying underperforming, underutilized office and flex buildings and demolishing them to make way for new warehouses. Northbridge Properties, for example, tore down two office buildings in Littleton, MA, and built an Amazon logistics facility, according to Littleton government records. The demolitions aren't cost-prohibitive, experts say, as rising rents make the undertaking worth it for developers in land-starved markets. "You've got this vacant office building that's not really doing anything because there's no tenants, the city's not making tax revenue on it," Oxford Properties Vice President of Investments Ankit Bhatt said. "Why not tear this thing down and build industrial, and solve the logistics problem, but also solve the jobs problem as well?"

2nd Quarter 2021

Home Rental Group Secures Funding

Investment firm Fundrise secured a $300 million credit facility from Goldman Sachs to finance the construction of built-to-rent houses owned by their investors and often managed by property management firms. Analysts say that Fundrise is betting that the boom in remote work, coupled with the cultural shift away from cities, means the demand for rentals has a 10-year trajectory. "If you're in your 30s, you have a kid and you can work out of your house rather than an 800-square-foot apartment, you will," Fundrise CEO Ben Miller said.

1st Quarter 2021

Commercial Mortgage Lending Increase Expected

The Mortgage Bankers Association (MBA) is forecasting commercial and multifamily lending to increase 11% in 2021. It represents only a partial recovery from pre-pandemic lending levels, however. "That 11% increase might look a little odd in the throes of the pandemic and the recession that it caused, but that's coming off a 27% decline last year," said Jamie Woodwell VP of commercial real estate research at the MBA. Woodwell expects industrial to remain the favored property type for investors and lenders. Woodwell also noted that the recovery in commercial real estate will likely become more broad-based by the second half of this year as mass vaccination plans begin to take hold and government stimulus programs make their impact felt.

4th Quarter 2020

Mergers and Acquisition Activity Expected to Increase

Nearly 87% of respondents to Dykema's 16th Annual M&A Outlook Survey, which was conducted in October, said that they expect commercial real estate industry mergers and acquisitions (M&A) to increase in the next 12 months. That was up from 33% in 2019. Cost of capital is low and industry stress is high, said Paul Ellis CEO of Orlando-based Foundry Commercial LLC. Those are the ingredients that typically are present before more mergers and acquisitions. M&A activity will also be driven by to the need for diversity in firms' platforms, especially as the pandemic has hurt the office, retail, and hospitality sectors, said Kurt Keaton, managing line president at Tampa-based Franklin Street. Diversification helps keep brokers and other workers occupied when one sector slows.

3rd Quarter 2020

Confidence Falls; More Transactions on Time; CMBS Delinquencies Still Rising

The July Snapshot Sentiment Survey by the Society of Industrial and Office Realtors (SIOR) revealed that market confidence fell to 6.3 from 6.61 in June (10-point scale). In the July survey, 39.2% of respondents reported transactions were on schedule, up from 37% in June. CMBS loan delinquencies increased again in July 2020 to 4.98%, up from 3.59% in June 2020 and 1.46% in May, according to Fitch Ratings. July's rate is the highest level seen since April 2014, when the rate was 5.13%. Property types with the highest delinquency rates include hotels (16.64%) and retail (11.58%). Fitch expects that COVID will continue to drive the total delinquency rate higher to a peak of between 8.25% and 8.75% by the end of 3Q 2020.

2nd Quarter 2020

Multiple Sectors Suffer, Prices to Drop

The retail sector was struggling even before the COVID-19 outbreak and dealing with bankruptcies and foreclosures of failing chains. Retail vacancies could rise to 14.5% by the end of 2021, according to a Moody's Analytics Report, with negative net absorption of retail space peaking at more than 60 million square feet by the end of 2020. Tourist destinations, the suburbs, and markets with an oversupply of retail space (Las Vegas, Austin, TX) are more likely to see rents decline. Record unemployment and the impending economic downturn have created a contraction in the US office leasing market, which could see vacancy rates rise to 21.4% by the end of 2021, higher than their peak in the recession. Vacancy rates were 16.4% at the end of 2019. Property owners expect to see a surge in subleases coming on the market, a trend that is already occurring on the west coast. The pandemic has created uncertainty over the ability for prospective tenants to make long-term commitments and where rents will be when the economy restarts. Commercial real estate prices are projected to fall 6% during 2020, according to Real Capital Analytics, compared to a 20.8% drop in 2008 and a 13.6% drop in 2009. Greater availability of debt financing today is expected to mitigate the decline compared to the last recession.

1st Quarter 2020

Better Data Will Drive Faster Transactions

The increasingly granular level of property data that's now being aggregated – along with advancements in intelligent, fully researched commercial real estate (CRE) tools to understand and analyze that data – is the next evolution in commercial real estate, according to Forbes Magazine. Five or 10 years ago, data was used solely to determine a property's value. Current CRE databases may contain flood maps, demographics reports, traffic counts, tenants and retailers, and EPA reports, enabling them to give a potential buyer an accurate idea of what their return on investment is going to be on day one. More granular data combined with CRE tools will accelerate decision making in the industry and boost transaction rates, according to Forbes. Investment in data infrastructure, networks, and analytics will therefore be the competitive advantage for CRE professionals for years to come.

Industry Terms

Leadership in Energy and Environmental Design (LEED)

A certification process developed by the USGBC to measure a building's effectiveness in meeting green building standards.

Multiple Listings Service (MLS)

Centralized listing of all available properties for sale or rent.

Occupancy Rates

The percentage of units, or square feet of space, occupied in a commercial property.

Real Estate Investment Trust (REIT)

Financial fund portfolio that invests in real estate properties

US Green Building Council (USGBC)

A non-profit organization that developed the certification process and standards for green building construction.

Web Links

National Association of Realtors

Association web site providing analysis, trends, and resources for the real estate industry.

Institute of Real Estate Management

Collection of analysis, industry trends, and resources.

Building Owners and Managers Association International

Resource for operational issues facing property owners and managers.

Society of Industrial and Office Realtors

Association web site providing analysis, reports, and insight for commercial real estate brokerage specialists.

Related Profiles

Commercial Building Contractors

NAICS: 2362 SIC: 1541, 1542

Janitorial Services

NAICS: 561720 SIC: 7349

Residential Brokers & Property Managers

NAICS: 531311, 531210 SIC: 6531

Title Abstract and Settlement Offices

NAICS: 541191 SIC: 6541