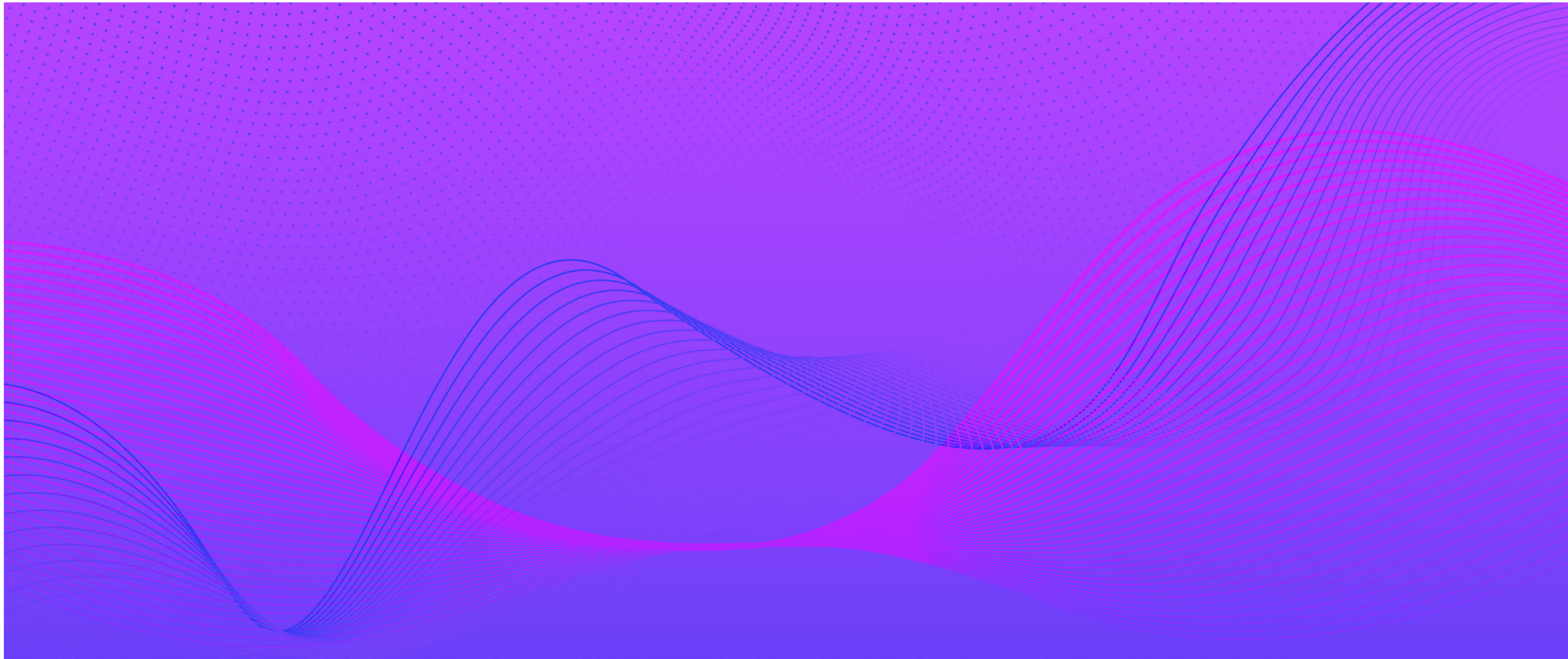
ValTrends
2Q 2022 Report

Inflection Point

Since 1931, the most trusted investment analysis in the commercial real estate industry.



SitusAMC

Contents

As we look toward the second half of 2022, it appears we are at an ***inflection point*** *in the economy, financial markets and commercial real estate (CRE) markets.*

Negative GDP growth and inverted yield curves are the harbingers of a potential recession. Second quarter GDP decreased at an annual rate of 0.6% (second estimate), marking two consecutive quarters of negative growth. While this development fits the short-hand definition of a recession, it remains to be seen if the National Bureau of Economic Research (NBER), as the recession referee, will declare one based on a wider array of economic indicator.

In potentially good news for consumers and businesses, inflation may have peaked. The consumer price index (CPI) slowed to an annual rate of 8.5% in July from 9.1% the prior month. Core CPI was 5.9% in July, unchanged from the previous month but down 50 bps from the 2022 high in March. The personal consumption expenditures (PCE) price index, the Fed's preferred measure of inflation, decelerated 50 bps from June to July to 6.3%. Still, all metrics are near 40-year highs.

The 10-year Treasury reached 3.5% in mid-June (the highest rate in over 10 years), though it retreated 90 bps by August 1st. The 10-year minus two-year treasury spread, a reliable indicator of future recessions, briefly fell into the red in April for the first time since August 2019. The two- to 10-year yield curve inverted again in July and has remained negative since.

As interest rates continue to rise, investor sentiment of capital availability fell for a second quarter in a row. RERC's proprietary measure of capital availability is at its lowest level since the onset of the pandemic. The pace of price growth and transaction volume is slowing from 2021's fervent pace. Second-quarter overall CRE transaction volume, as measured by RCA, topped $190 billion, a 17% increase YoY. However, the pace of sales continued to slow from the record pace of recent quarters in the second quarter, from the triple-digit gains seen in mid- to late-2021. With debt market dynamics becoming increasingly challenging, it is likely that transactions will slow. The RCA CPPI, a gauge of property prices, was up 18.5% YoY in second quarter, but the pace of growth continued to slow from fourth quarter 2021's record.

The industrial and apartment segments' 2021 boom may be reversing. Industrial returns tumbled over 500 bps in second quarter to the lowest level since the beginning of 2021. Apartment returns retreated by 140 bps in second quarter. Returns for both sectors remain historically elevated, though.

At the same time, retail and hotel are coming into their own, buoyed by improving consumer spending and a continued easing of COVID-19 restrictions. Retail net absorption was significantly stronger QoQ, increasing by nearly 1.3 million square feet (SF), according to Reis. Effective rents also grew in second quarter and future supply constraints bode well for further rent increases, with completions falling 85% QoQ to a record low, also per Reis. NCREIF NPI hotel returns were steady QoQ at 1.8% and are about 50 bps higher than the long-term average (LTA). One-year trailing returns were almost 10.5%, the highest since 2016. Seasonally adjusted room ratesand RevPAR were the second highest in history, trailing only last quarter's record.

Second quarter NCREIF NPI overall CRE total returns dropped by over 200 bps QoQ to 3.2%. RERC data also suggest an inflection point for valuations. Our proprietary overall CRE relative value sentiment indicator plummeted in the second quarter, tying ratings seen at the onset of the GFC for the most overpriced on record. Some investors are expecting capitalization (cap) rates to increase but say these have not been memorialized by transactions yet, thus values are less than ask prices.

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Capital Market ValTrends

Possibility of recession looms over CRE.

Economy & Financial Markets

GDP decreased at an annual rate of 0.6% (second estimate) in the second quarter of 2022, marking two consecutive quarters of negative growth following the robust growth of 6.9% in the fourth quarter of 2021.

The U.S. unemployment rate improved to 3.5% in July 2022 from 3.6% in the previous month. July's unemployment rate was among the lowest in 50 years. The labor force participation rate was 62.1% in July, 200 bps above the pandemic low. July's rate remains among the lowest in 45 years, however, constraining the labor market.

The consumer price index (CPI) slowed to an annual rate of 8.5% in July from 9.1% the prior month. Core CPI was 5.9% in July, unchanged from the previous month but down 50 bps from the 2022 high in March. The personal consumption expenditures (PCE) price index, the Fed's preferred inflation measure, decelerated 50 bps between June and July to 6.3%. All major inflation measures are near 40-year highs, but down slightly from recent months.

CRE & Investment Alternatives

	YTD[6]	1-Year Trailing	3-Year Trailing	5-Year Trailing	10-Year Trailing	15-Year Trailing
NPI[1]	8.7%	21.5%	10.2%	8.9%	9.7%	7.2%
NFI-ODCE[1]	12.0%	28.3%	11.7%	9.6%	10.2%	6.0%
NAREIT Index (All Equity REITs)[2]	-19.2%	-5.9%	5.3%	6.7%	8.3%	6.4%
Consumer Price Index[3]	2.4%	8.6%	4.6%	3.6%	2.5%	2.3%
Dow Jones Industrial Average[2]	-14.4%	-9.1%	7.2%	10.0%	11.7%	8.4%
Nasdaq Composite[4]	-29.5%	-24.0%	11.3%	12.4%	14.2%	10.1%
NYSE Composite[4]	-15.6%	-12.5%	3.5%	4.3%	6.4%	2.6%
S&P 500[2]	-20.0%	-10.6%	10.6%	11.3%	13.0%	8.5%

	2Q 2022	2Q 2021	2Q 2019	2Q 2017	2Q 2012	2Q 2007
10-Year Treasury Bond[5]	2.9%	1.6%	2.3%	2.3%	1.8%	4.8%

[1]NCREIF NPI is a property-level (unleveraged) total return index, gross of fees; NCREIF NFI-ODCE is a fund-level (leveraged equity) total return index, net of fees.
[2]Based on total return index, and includes the dividend yield.
[3]Based on the published data from the Bureau of Labor Statistics (seasonally adjusted).
[4]Based on price index, and does not include the dividend yield.
[5]Based on average quarterly T-bond rates.
[6]Year-to-date (YTD) averages are not compounded annually except for CPI and NAREIT.
Sources BLS, Federal Reserve Board, S&P, Dow Jones, NCREIF, NAREIT, compiled by RERC, 2Q 2022.

The 10-year Treasury reached 3.5% in mid-June (the highest rate in over 10 years) but retreated 90 bps by August 1st. The second quarter average was 2.9%, up from 2.0% in first quarter.

Stocks had a disastrous second quarter, with the S&P 500, Nasdaq, and Dow Jones dropping by 17%, 13%, and 6%, respectively. YTD losses through second quarter were 20% (S&P 500), 30% (Nasdaq), and 14% (Dow). However, a summer rally from mid-June to mid-August boosted the S&P, Nasdaq, and Dow indices by 17%, 23%, and 14%, respectively. Stock indices retreated again in late August on fears of aggressive interest rate hikes.

Spreads between RERC real estate yields and the 10-year Treasury and corporate bonds compressed QoQ, as realestate yields declined and bond rates increased.

The second quarter CRE yield over 10-year Treasury spread was almost 150 bps below than the LTA. Second quarter spreads were the narrowest since 2007.

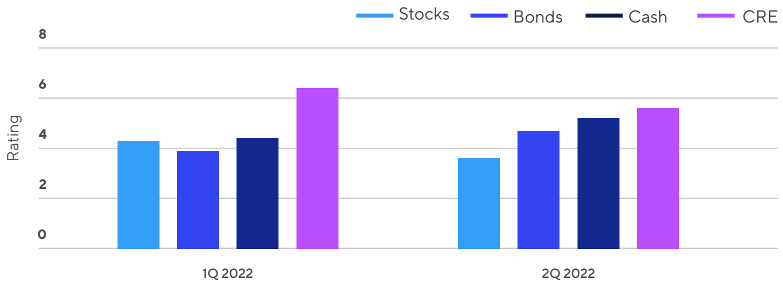
Second quarter real estate yield spreads over corporate bonds were among the narrowest in over 12 years. The CRE yield over Moody's Baa and Moody's Aaa spreads were 100 bps below their LTAs.

CRE & Investment Alternatives

According to RERC data, investor preference for the CRE asset class declined QoQ to the lowest rating since 3Q 2020. However, investors remain bullish on CRE, with preference for the asset class well above that for stocks, bonds and cash. Investors tout CRE as a safe investment vehicle amid ultra-high inflation and forecasts for recession. Investors also note that favorable supply and demand characteristics, as well as opportunities for value-add plays, bode well for future CRE performance.

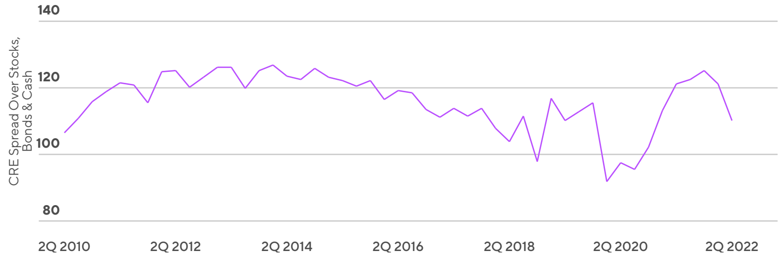
> "With the recent tightening, the thought is top-tier real estate will provide better risk-adjusted cash flows than the current volatile stock market."
>
> - INSTITUTIONAL RESPONDENT

Ratings of Investment Alternatives



Ratings are based on a scale of 1 to 10, with 10 being excellent.
Source RERC, 2Q 2022.

CRE Attractiveness Index[1]

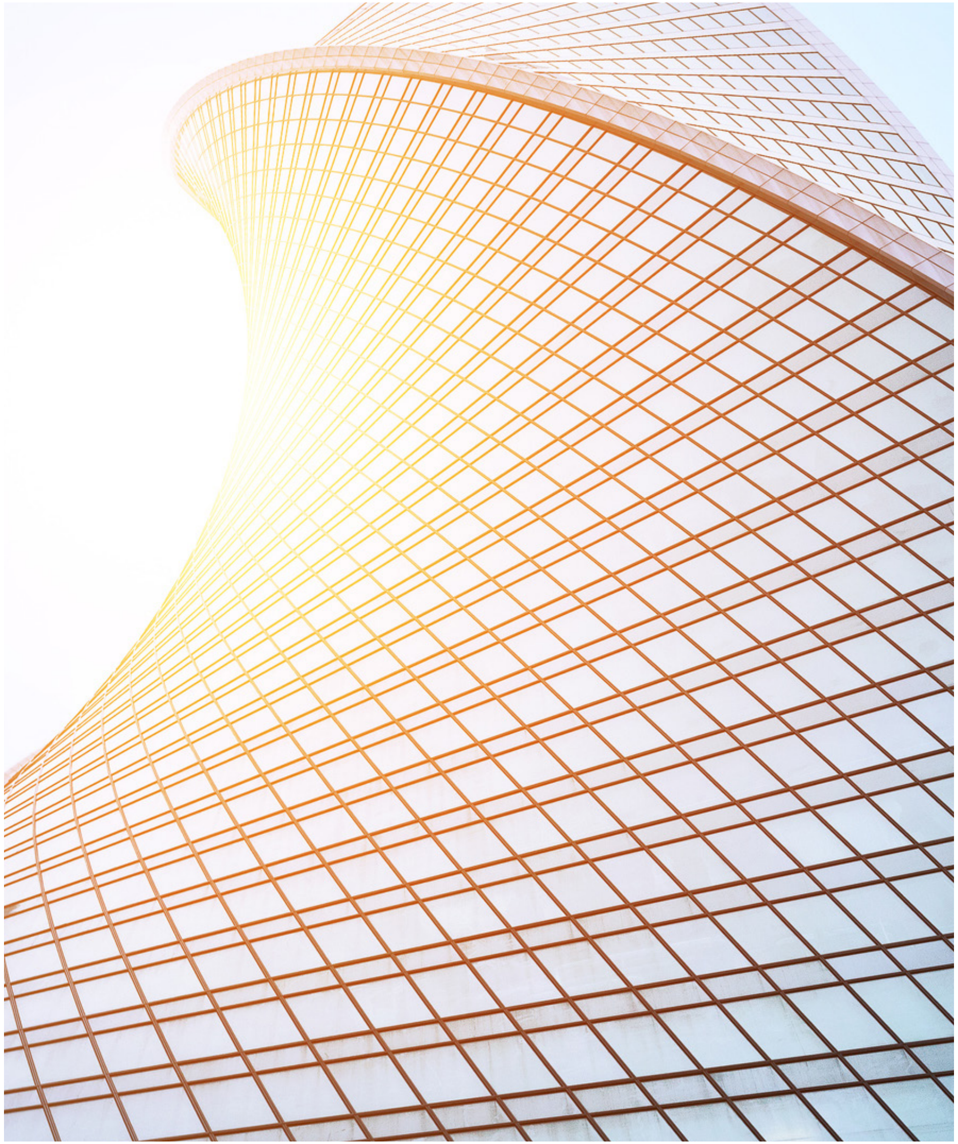


[1]The RERC Attractiveness Index shows CRE investors' changing preferences for CRE over the traditional asset classes. The baseline of 100 indicates that investors feel traditional assets and cash, on average, are as attractive as CRE. Source RERC, 2Q 2022.

Institutional investors were more bearish on stocks in the second quarter. Stocks were the least favored asset class among investors, with preference for the asset class falling to a record low. Investors are concerned about the extreme volatility of stocks relative to other asset classes and the ability of values to hold up to inflation and rising interest rates.

The preference for bonds increased QoQ to the highest since 2010 and is well above the LTA. Investors expressed that bonds mitigate downside risk given an uncertain macroeconomic outlook.

Amid market uncertainty and high valuations in other asset classes, the preference for cash and cash equivalents increased substantially in the second quarter. The rating is the highest since 4Q 2020 and is well above the LTA. Investors state that cash is a solid strategy in times of uncertainty and fears of potential recession.

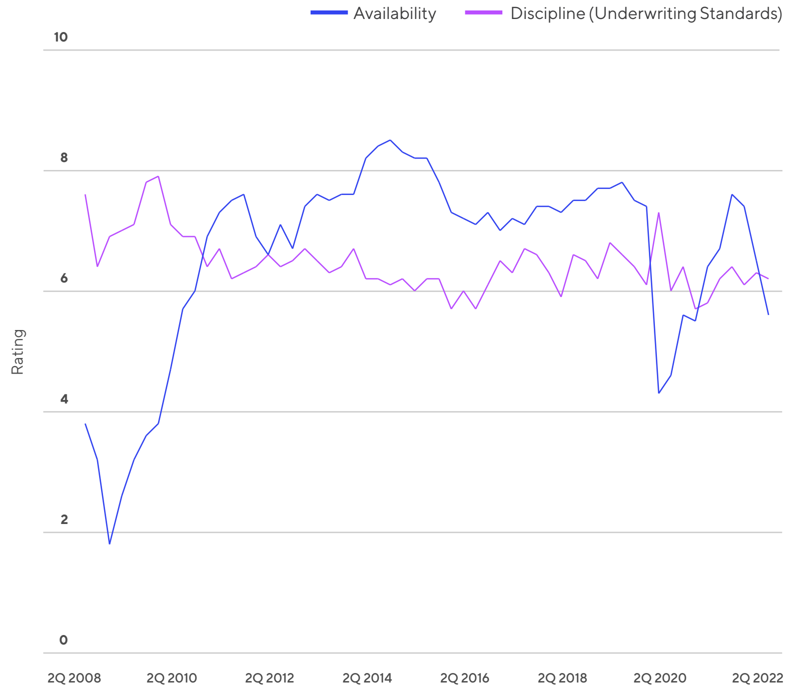


Availability & Discipline of Capital

As interest rates continue to rise, capital availability fell for a second quarter in a row. Capital availability is at its lowest level since the onset of the pandemic. Still, investors report above-average capital availability in the market, even though second quarter's rating is well below the LTA. Because of surging borrowing costs, assignable debt is becoming more of a factor, especially for deals with a large dollar value. These deals are becoming increasingly tougher to sell because buyers will be sinking so much equity into them. Discipline of underwriting standards eased slightly in second quarter and remains on par with pre-pandemic levels and the LTA. Underwriting standards have been consistently high since the GFC.

> "There is a resistance to recalibrate return expectations following tightening credit markets."
>
> - INSTITUTIONAL RESPONDENT

Historical Availability & Discipline of Capital – Equity & Debt Combined

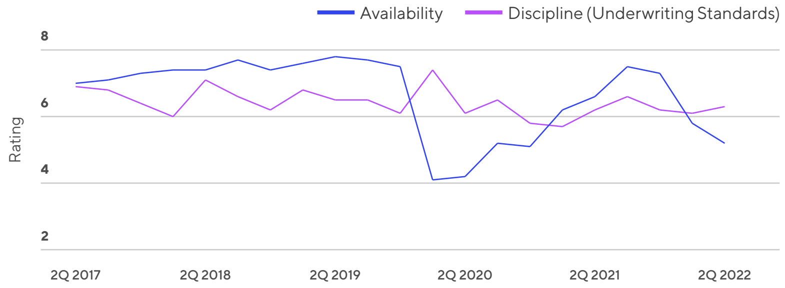


Ratings are based on scale of 1 to 10, with 10 being excellent.
Source RERC, 2Q 2022.

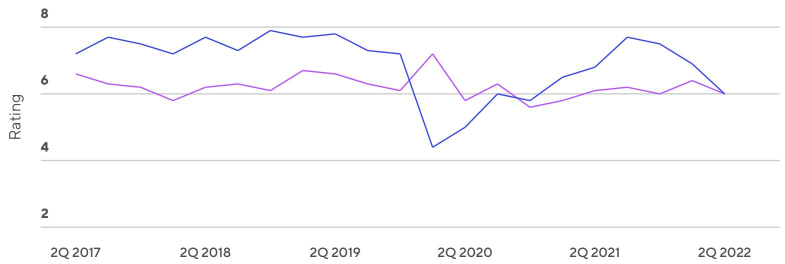
Investors report a drying up of capital in both the debt and equity markets, though there is considerably more equity capital than debt. Availability of capital for both debt and equity markets is considerably lower than the LTA.

Equity underwriting standards loosened QoQ, while debt standards tightened, but both are near LTAs. There is a drive to deploy funds that were raised when money was cheap (or free), but likely near-term future interest rate increases are causing uncertainty in the markets, according to investors.

Historical Availability & Discipline of Capital – Debt



Historical Availability & Discipline of Capital – Equity



Ratings are based on scale of 1 to 10, with 10 being excellent.. Source RERC, 2Q 2022.

CRE Returns, Volume & Pricing

Returns

Second quarter NCREIF NPI overall CRE total returns dropped by over 200 bps QoQ. At 3.2%, returns were more than double what they were pre-pandemic and are 100 bps above the LTA. One-year trailing returns were 21.5%, the second highest since 1980, trailing only last quarter's return. Despite a substantial quarterly drop, capital appreciation was triple its LTA.

Office returns dropped nearly 100 bps in second quarter, marking three consecutive quarters of slowing growth. Current returns are about 130 bps lower than the sector's LTA. Suburban office outperformed CBD in 2Q 2022, as it has done since the start of the pandemic. With a 110 bps quarterly decline, CBD office returns were about -0.1%.

CBD office had the lowest, and only negative, return of any property type in the NPI.

Industrial returns tumbled over 500 bps in second quarter to the lowest level since the beginning of 2021. Still, returns are about 300 bps above the LTA. The segment produced a one-year trailing return of over 47.7%, lagging only last quarter's record level. Industrial flex outperformed warehouse and R&D.

Retail returns declined by 60 bps QoQ to 1.7% and are about 40 bps shy of the LTA. The sector has finally clawed its way back from pandemic losses, though. Super regional malls were the lowest-performing subtype in the second quarter at 1.0%; power centers performed the best at 2.7%.

Apartment returns retreated by 140 bps in second quarter but are still about 170 bps above the LTA. Thanks to staggering returns at the end of 2021, the segment produced a one-year trailing return of over 24%, the highest since 1980. Garden apartments outperformed high-rise and low-rise apartments, the dominant trend since 2015.

Hotel returns were steady QoQ at 1.8% and are about 50 bps higher than the LTA. Even after five consecutive quarters of positive returns, hospitality has yet to regain the steep losses experienced throughout the height of the pandemic. One-year trailing returns were almost 10.5%, the highest since 2016.

Volume

Second quarter overall CRE transaction volume, as measured by RCA, topped $190 billion, a 17% increase YoY and a 2.5% increase from the previous quarter. It was the most active second quarter since RCA began collecting these data in 2001. However, the pace of sales continued to slow in second quarter, from the triple-digit gains seen in mid- to late-2021. Retail and apartment posted substantial YoY increases in deal volume; hotel deals dropped dramatically. With debt market dynamics becoming increasingly challenging, it is likely that transactions will slow. SitusAMC valuation experts are seeing thinning buyer pools for industrial, office and trophy, Class A++ malls.

Deal volume was greatest in the non-major metros, per RCA. The most active markets through the first half of 2022 were Dallas, Los Angeles, Atlanta, Houston and Phoenix, all of which recorded record high transaction volume.

Apartments accounted for the greatest amount of total deal volume, as it has for over five years. Apartment comprised 45% of total deal volume, the highest percentage on record, about 100 bps higher than the previous record set in 4Q 2021. Second quarter transaction volume was $86 billion, the third most active quarter on record and a 42% increase YoY. Garden apartments accounted for 67% of total apartment volume, with second quarter activity at over $57 billion, a 39% increase YoY.

Industrial was the second most active segment (19% of total volume), transacting $35 billion in second quarter, an 8% increase YoY and over 140% above the LTA. It was the highest second-quarter activity level on record. Warehouse comprised 82% of industrial deal activity and was 11% higher YoY at almost $29 billion.

Retail jumped over 45% YoY in second quarter to $22.6 billion (12% of total volume). It was the second highest second quarter activity level on record and almost 60% greater than its LTA. The centers subtype accounted for 73% of retail volume; deal activity for centers nearly doubled YoY to about $16.5 billion. The shops subtype, however, declined by 18% YoY to $6 billion.

Hotel volume declined by 37% in second quarter to $9.7 billion (5% of total volume). Still, second quarter deal activity was 19% higher than the LTA. At almost $5 billion, full-service barely edged out limited service for the most active subtype, accounting for 51% of hotel volume. Full-service and limited service experienced substantial YoY declines in volume, at -17% and -50%, respectively.

Office volume was nearly $25 billion in second quarter (13% of total volume), a 9% decrease YoY and 3% lower than its LTA. At just over $18 billion (a 7% decline YoY), suburban office comprised 73% of office deal volume. Suburban office activity outpaced CBD, as it has for six years.

Pricing

The RCA CPPI, a gauge of property prices, was up 18.5% YoY in second quarter, but the pace of growth continued to slow from fourth quarter 2021's record. Each of the major property types experienced double-digit YoY price gains. YoY growth was stronger in the non-major metros than the six major metros.

Industrial led the way in price growth as it has since second quarter 2022, with a 27% YoY increase. Apartment price growth was also strong at almost 24%. Retail prices increased almost 19% YoY.

Hotel price growth increased by about 12% YoY in second quarter – respectable – but slower than the previous quarter. Office prices lagged the other segments, with a 10% YoY increase. Looking at the two major office subtypes, suburban price growth, at 9.7%, outpaced CBD price growth on a YoY basis by about 200 bps.

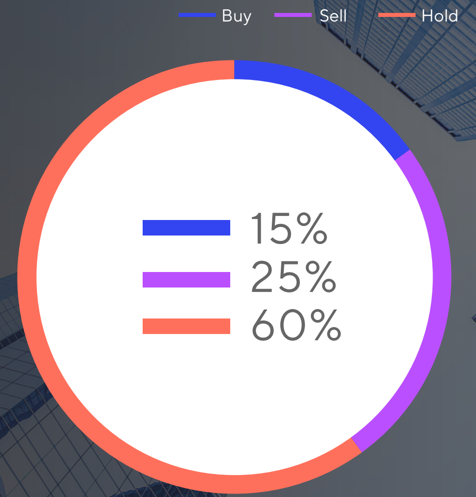
RERC Buy, Sell or Hold

Investors maintained a hold position for overall CRE in second quarter, with the recommendation increasing QoQ from 45% to 60%. Investors were least likely to recommend buying; preference for the strategy fell 11 percentage points QoQ to 15%, the lowest buy endorsement since 3Q 2021. The recommendation to sell decreased QoQ from 29% to 25%.

Buy vs. sell recommendations were the same for all property types QoQ. Appetite for high-priced industrial continued to wane as all three subtypes once again garnered a sell recommendation. Investors remain bullish on neighborhood and community centers, apartments and hotels, with each earning a buy recommendation. Hold was the top recommendation for the other subtypes (CBD and suburban office, regional malls and power centers).

> “Warehouse has seen such an elevation in price that there is risk that it is over-frothy.”
>
> - EAST RESPONDENT

Buy, Sell & Hold Recommendations — Overall CRE



Percentage of total respondents recommending buy, sell or hold.
Source RERC, 2Q 2022.

ValTrends by Property Type

Signs of weakness in industrial; hotel blossoms.

RERC Perceived Return Relative to Risk

Investors' perceptions of returns relative to risk for the overall CRE market deteriorated slightly in the second quarter. With high inflation putting pressure on interest rates and investor returns, investors deem overall CRE as having greater risk relative to return for the second consecutive quarter.

Despite a considerable drop QoQ, apartment earned the second highest rating among the segments. Risk and return are in relative equilibrium, according to investors, but second quarter's rating was the lowest in six quarters. Rental rates continue to climb, though the pace of gains has been slowing.

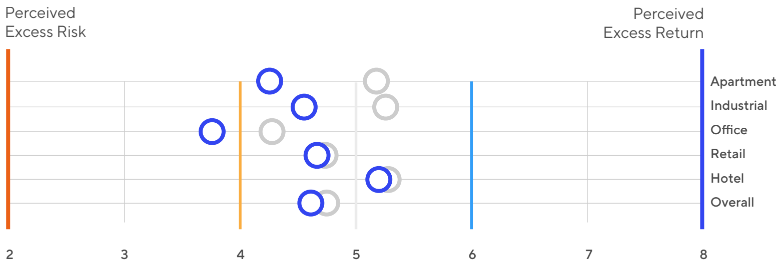
Perceptions of return relative to risk for retail remained the same QoQ. Second quarter's rating was the highest in three years, but the segment is still seen as relatively risky. Investors see risk bifurcation in the sector, with malls and power centers facing pressures from an inflationary-related drop in consumer spending, but need-based retail, like neighborhood grocery-anchored, thriving.

Hotel garnered the highest rating among the property types in second quarter and is well above the sector's LTA rating. Investors are noting that the formerly out-of-favor sector is coming back strong; however, increased risk may be on the horizon as inflationary and recessionary pressures mount.

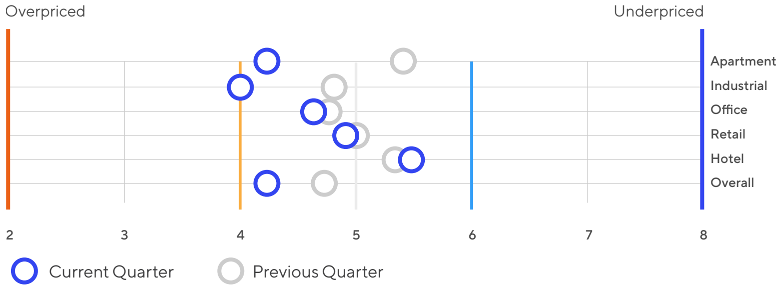
Industrial ratings suffered a precipitous drop QoQ; second quarter's rating was the third lowest in history, trailing only those seen at the height of the GFC and the beginning of the pandemic. There is increasing concern among the investment community that the risk of recession has not been adequately priced for the industrial market.

Office segment perceived return relative to risk soured QoQ. Second quarter's rating was tied for the third lowest in history; only in the beginning of the pandemic was the sector seen as riskier relative to returns. Market participants explain that the new hybrid economy still evolving but does not bode well for office sector at least in the interim.

RERC Perceived Return Relative to Risk



RERC Relative Value Sentiment



Ratings are based on a scale of 1 to 10, with 10 indicating that return far exceeds risk or value far exceeds price. Source RERC, 2Q 2022.

RERC Relative Value Sentiment

Overall CRE relative value sentiment plummeted in the second quarter, tying ratings seen at the onset of the GFC for the most overpriced on record. The overall CRE market has been perceived as overpriced for over five years. Some investors are expecting cap rates to increase but say these have not been memorialized by transactions yet, thus values are less than ask prices. However, with bid-ask spreads separating further, there is a lower probability there will be defining transactions happening in the near term.

Hotel was rated underpriced for the fifth consecutive quarter, following an increase in the rating QoQ. In second quarter, hotel was the only segment to be rated as underpriced. After years of uncertainty, the hotel segment is on the mend with travel activity rebounding over the summer.

Industrial's relative value sentiment fell for the third consecutive quarter to a record low as cap rates continued to compress in second quarter.

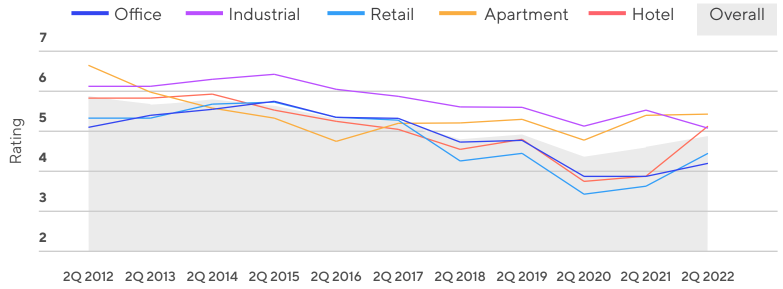
Investors report that the cost for industrial space is too high forcing low returns.

Investors see the retail segment as fairly priced, as they did last quarter. Second quarter's rating rivals that at the onset of the pandemic and remains well above the LTA. Investors see the segment as offering upside potential as valuations remain relatively low relative to other property types.

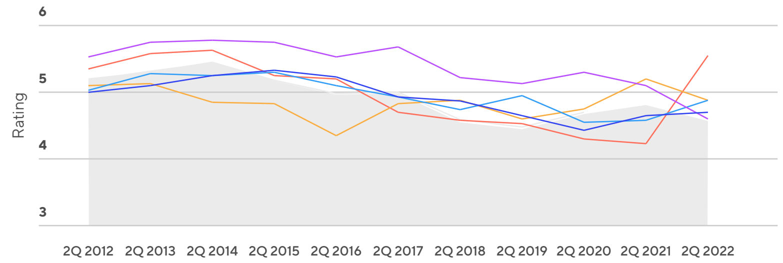
Relative value sentiment for the office sector ticked downward QoQ; the sector is seen as overpriced. The second quarter's rating is below the LTA but remains on par with pre-pandemic levels. Several investors stated that they are seeing tenants downsize as leases rollover, which will likely result in a glut of space.

Apartment relative value sentiment tumbled QoQ to its second lowest rating in history. Apartment tied with industrial for the most overpriced segment. With inflation high, investors are concerned that increased operating costs could eat into returns.

RERC Perceived Return Relative to Risk — Average Annual Ratings



RERC Relative Value Sentiment — Average Annual Ratings



Ratings are based on a scale of 1 to 10, with 10 indicating that return far exceeds risk or value far exceeds price. Data represent four quarter moving averages. Source RERC, 2Q 2022.

SitusAMC Office Insights

Office market fundamentals remain weak. The occupancy rate declined substantially QoQ. Second quarter occupancy is about 160 bps below pre-pandemic levels and about 270 bps below the LTA. Net absorption was negative in second quarter for the first time over the past year.

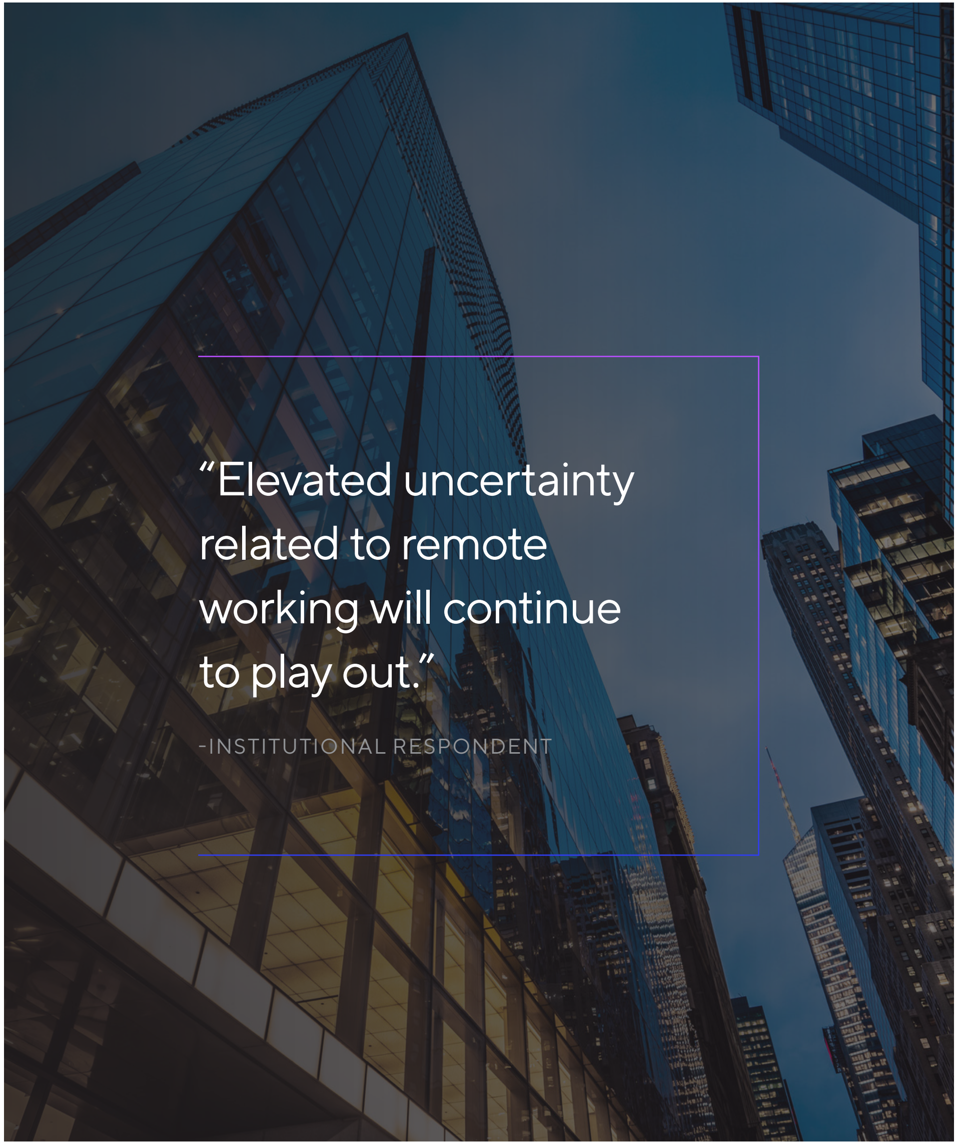
Since the onset of the pandemic, occupancy rates for Class A office have declined at a more rapid pace than Class BC, by 190 bps and 90 bps, respectively. Occupancy rates for Class A office reached a record low in second quarter.

Despite four consecutive quarters of positive rent growth, effective rent is still 0.5% shy of pre-pandemic levels. Completions increased QoQ by about 7% but remained historically subdued. Second quarter completions were less than half the LTA.

Data on daily office usage has remained between 40% and 45% since early March, according to Kastle Systems.

Amid remote and hybrid work arrangement uncertainty, Amazon halted construction for six office buildings in the Bellevue, WA and Nashville areas, without a timeline for resuming work. KPMG signed a new lease in Hudson Yards in late August cutting its office space by more than 40%.

The bidding pools have become very shallow and there is little price reconciliation today because of the large bid-ask spreads. Many sellers are pulling properties off the market to instead hold the assets.



SitusAMC Industrial Insights

Warehouse occupancy set another record in second quarter, rising 80 bps. The occupancy rate is over 500 bps higher than it was pre-pandemic. Net absorption was positive but slowed QoQ; second quarter absorption was about double the LTA.

Meanwhile, supply remains extremely constrained. Completions fell by more than half QoQ to the lowest level in nine years. Effective rents set another record. Rents are about 13% greater than they were pre-pandemic.

Fundamentals in super-tight markets are really propping up increases to yield. In Southern California, Florida and New Jersey, SitusAMC is still seeing big leaps in market rent. Where there is less scarcity of product, like Dallas or Chicago, our valuation experts are scaling back rent growth (and future rent growth), which is having an impact on values.

Capital markets are much quieter. Most of the buyers are now strictly cash buyers, life insurance companies or closed-end funds. The leveraged buyer is not active right now resulting in smaller buyer pools and much larger spreads or ranges in the offers.

Moody's Analytics Supply-Chain Stress Index increased 6% in the first half of 2022. With the continued inability to reliably source raw and finished goods internationally, there is a growing trend of onshoring or reshoring manufacturing, driving many companies to expand their domestic storage space.

The acceleration of North American trade activity will likely fuel demand for industrial in border locations with easy access to rail and truck lines, including Detroit, San Diego and San Antonio. Industrial demand in the Atlantic port markets continues to grow as the backlog in the Ports of LA and Long Beach persist.

NPI Total Return	5.9%
Warehouse Occupancy Change	+80 bps QoQ
Warehouse Effective Rent Growth Change	+1.9%

"Econ 101 - supply demand issues are not anywhere near being resolved."

-EAST RESPONDENT

Source NCREIF, Reis, SitusAMC Insights, 2Q 2022.

SitusAMC Retail Insights

Retail's occupancy rate remained the same in second quarter, but it is still 10 bps lower than the pre-pandemic rate. Net absorption was significantly stronger QoQ, increasing by nearly 1.3 million SF. Despite the increase, net absorption was only a third of its LTA.

Effective rents grew in second quarter but are still about 1% lower than their pre-pandemic levels. However, future supply constraints bode well for further rent increases. Completions continued their descent, falling 85% QoQ to a record low.

Coresight reports that the general retail merchandising sector is strong with over twice as many store openings than closures through the first half of 2022. Over 4,200 store openings were announced through the end of June, estimated to result in demand for about

NPI Total Return	1.7%
Occupancy Change	0 bps QoQ
Effective Rent Growth Change	+0.1%

Source NCREIF, Reis, SitusAMC Insights, 2Q 2022.

73 million SF of retail space. Discount stores and fast casual and franchise restaurants are expanding; doctor's offices and urgent-care clinics are also gobbling up retail space. Department stores and footwear and apparel stores are making up the bulk of closures.

According to Placer.ai data, store visits were up in second quarter relative to pre-pandemic levels for discount and dollar stores (20.5%), fitness centers (15.8%), superstores (2.3%) and grocery stores (1.8%). Quick service restaurant traffic was just barely down from pre-pandemic levels by 0.2%.

July's University of Michigan's Consumer Sentiment Index was the second lowest on record amid ongoing concerns about inflation and softening labor market expectations. The one-year outlook fell to its lowest reading since 2009.

The business outlook for large retailers is much rosier than small-to-midsize retailers, as access to a greater amount of capital can provide cushion against economic headwinds in the near-term.

SitusAMC Apartment Insights

Second quarter apartment completions were the lowest in over a decade, while net absorption remained positive near the LTA. The occupancy rate rose to a five-year high following a 20 bps quarterly increase.

Though the pace of rent growth has cooled considerably since hitting a record in 3Q 2021, the current quarter's effective rent growth is still 200 bps above the LTA.

Occupancy rates have fared better during the Pandemic for Class BC apartments than Class A, increasing by 50 bps and 20 bps, respectively. Asking rents for both Class A and Class BC grew about 15% each during the same period.

Single-family housing affordability continues to decline with high prices and 30-year mortgage rates at 13-year highs. This is good news for single-family rental and multifamily landlords who say they are well-positioned as more would-be home buyers have little choice but to rent.

Increasing costs for maintenance, capital expenditures and insurance for older apartment properties combined with a narrowing of the cap rate spread between newer and older properties is leading many investors to turn to newer or core assets with higher risk-adjusted returns.

As the apartment market becomes more competitive, investors are rethinking value-add strategies to include managerial value-add, financial value-add and ESG-related value-add in addition to physical renovations.

The Affordable New York tax provision (known as 421a) expired at the end of June. According to WSJ, nearly 70% of New York's rental housing built over the last decade used the tax abatement and many developers will likely stop pursuing their rental projects, either waiting for a 421a replacement or instead looking to shift to constructing condominiums or nonresidential properties.

NPI Total Return	3.9%
Occupancy Change	+20 bps QoQ
Effective Rent Growth Change	+2.8%

"Tight fundamentals will allow you to push rents to keep up with inflation. This sector is probably less impacted by a recession than others."

-INSTITUTIONAL RESPONDENT

Source NCREIF, Reis, SitusAMC Insights, 2Q 2022.

SitusAMC Hotel Insights

Following a sharp increase in the occupancy rate in first quarter, occupancy ticked up another 10 bps in second quarter, as COVID-19 restrictions continued to ease. The rate is still over 300 bps lower than pre-pandemic levels.

Room rates and RevPAR declined slightly QoQ by 2.8% and 2.7% (seasonally adjusted), respectively. However, second quarter room rates and RevPAR were the second highest in history, trailing only last quarter's record. Both metrics are expected to moderate through mid- to late-2023.

Upper-tier hotel occupancy returned to pre-pandemic levels in second quarter; lower-tier hotel occupancy remains 130 bps below pre-pandemic levels. Upper-tier room rates and RevPAR increased in second quarter while declining for lower-tier hotels.

Both lower-tier and upper-tier room rates and RevPAR are above pre-pandemic levels, but growth has been more substantial for upper-tier hotels. Upper-tier RevPAR has increased 9.8% since the onset of the pandemic (vs. 3.4% for lower-tier); room rates for upper-tier hotels are up 10% (vs. 6% for lower-tier).

Travel activity in August was about 6% shy of pre-pandemic levels, according to TSA checkpoint data. However, investors are anticipating that business travel will pull back as companies look to cut costs during a potential recession and that leisure travel will be hurt by high gas prices and the rising air fares.

A prolonged labor shortage may hinder the hotel segment's growth. The American Hotel & Lodging Association states that 97% of hotels are facing staff shortages and 49% are severely understaffed. Hotels have increased wages and are offering more benefits to attract workers, which will eat into profits.

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The RERC ValTrends Report is published four times a year by: RERC, LLC, a SitusAMC affiliate company, located at 1075 Jordan Creek Pkwy, Suite 240, West Des Moines, IA 50266.

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