ValTrends
2Q 2023 Report

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

Pockets of Opportunity

SitusAMC

Executive Summary

Page 3

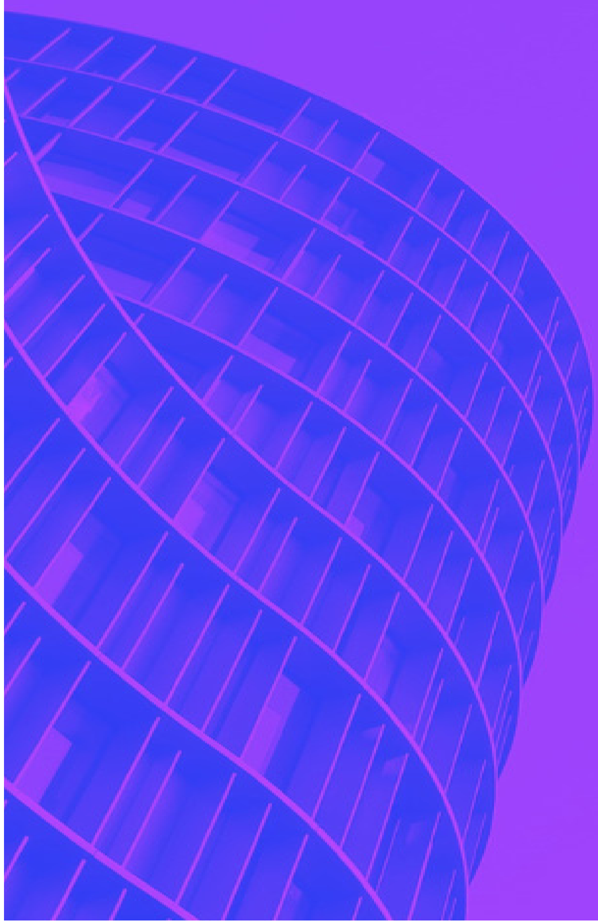
01 Capital Market ValTrends

Page 5

02 ValTrends by Property Type

Page 15

Office	18	Apartment	23
Industrial	20	Hotel	24
Retail	21		



*The continued resiliency of the economy has set the stage for **pockets of opportunity** in the commercial real estate (CRE) market, despite overwhelmingly difficult capital markets conditions. There have been some faint signals of renewed movement in the capital markets, though challenges certainly remain. While the CRE market is not emerging from the woods yet. solid fundamentals for many property segments remain a bright spot for the CRE market, especially if we see more substantial thaw in the capital markets.*

The Federal Reserve continued its hawkish stance, increasing interest rates for the 11th consecutive time in July to the highest level since 2001. Inflation has eased since last year's fervent pace, while economic growth and the labor market remain relatively strong. Fears of a recession are beginning to subside among economists and market participants and the consensus is that the Fed will pause raising rates once again to ascertain if the hikes so far are achieving the goal of bringing inflation back in line.

In the CRE market, a large bid-ask spread continues to keep investors in a holding pattern. Over 90% of investors in our quarterly survey advocated a hold position, unchanged from the prior quarter at a record high. However, the preference for CRE compared to other asset classes increased considerably quarter over quarter (QoQ), though the rating remains among the lowest since the global financial crisis (GFC).

Investors also saw a slight uptick in the overall availability of capital in second quarter, though it remains among the lowest levels since the GFC. Debt availability was substantially lower than equity availability. Historically high levels of dry powder are waiting on the sidelines, but cash buyer yield expectations are high as they want to take advantage of their ability to move in the current loan-deprived market.

Overall CRE returns declined 20 bps QoQ to the second lowest rate since the GFC; however, income returns remain strong at the highest rate in nearly two years. With a 4.0% total return, hotel had the strongest performance among the property types in second quarter. Though retail returns fell into negative territory, income returns for the segment were among the highest in eight years. Apartment and industrial returns improved QoQ, though they remained negative. Unsurprisingly, the pain continues in the office segment, with returns at the lowest since the GFC and occupancy near a record low.

Overall CRE deal activity slowed again in second quarter to $83.6 billion, as measured by MSCI Real Assets. It was the weakest level since third quarter 2020, but well above the activity seen during the GFC. Total volume has declined steadily for four consecutive quarters and is currently down 78% from the peak in fourth quarter 2021. However, month over month (MoM) changes paint a slightly rosier picture; overall transaction volume rose by 35% and 37% in May and June, respectively. All property types had MoM increases in May. Deal volume grew in June for office, industrial and hotel, but declined for retail and apartment. Prices have fallen for overall CRE and each of the major property types every quarter since the Fed began its aggressive rate hike policy in June 2022, though the pace of these declines slowed in second quarter for all segments.

We find **pockets of opportunity** in the industrial, apartment and retail segments. Warehouse occupancy was near the highest level on record, according to Reis. Though warehouse rent growth has slowed considerably from the record pace in 2021 and 2022, rents are more than 40% higher than pre-pandemic rates. Apartment demand and rent growth continued to cool from the fervent pace in 2021 and 2022, but second quarter completions were the lowest in a decade. Apartment rents are over 20% higher than those pre-pandemic. Retail demand continues to improve, with occupancy the highest since the onset of the pandemic. Effective rents have grown for nine consecutive quarters, and have returned to pre-pandemic levels. Likely supporting further rent growth, completions fell 65% QoQ to a record low in second quarter.

01

CAPITAL MARKET VALTRENDS

Capital Markets Still Very Cold, But Perhaps a Nascent Thawing

Economy & Financial Markets

GDP accelerated to an annual rate of 2.1% in the second quarter of 2023 (second estimate), up from first quarter's rate of 2.0%. The acceleration in second quarter was primarily attributable to increases in consumer and government spending and nonresidential fixed investment.

The labor market has cooled over the past few months. In August, the economy added 187,000 jobs and the unemployment rate rose 30 bps to 3.8% from July. The number of jobs added in June, July and August were the fewest since the end of 2020 and August's unemployment rate was the highest since February 2022. However, the labor force participation rate ticked up to 62.8% in August, the highest since the pandemic began. The pace of wage growth slowed between July and August at 0.2%, the slowest growth since February 2020, a positive sign in the fight against inflation. This less robust but still healthy job market is exactly the sweet spot the Fed would like to see. The increase in labor force participation takes some of the heat off of wage growth.

The Fed raised the target rate in July by 25 bps to 5.25% to 5.50%. It was the 11th consecutive rate increase to the highest level since January 2001. Federal Reserve Chair Jerome Powell indicated that the Fed is no longer

CRE & Investment Alternatives

	YTD[6]	1-Year Trailing	3-Year Trailing	5-Year Trailing	10-Year Trailing	15-Year Trailing
NPI[1]	-3.8%	-6.6%	6.8%	5.9%	7.8%	6.1%
NFI-ODCE[1]	-6.2%	-10.7%	7.0%	5.6%	7.8%	4.7%
NAREIT Index (All Equity REITs)[2]	3.0%	-4.4%	6.1%	4.8%	6.8%	7.1%
Consumer Price Index[3]	0.8%	4.1%	5.8%	3.9%	2.7%	2.3%
Dow Jones Industrial Average[2]	4.9%	14.2%	12.3%	9.6%	11.3%	10.4%
Nasdaq Composite[4]	31.7%	25.0%	11.1%	12.9%	15.0%	12.7%
NYSE Composite[4]	4.6%	9.6%	10.1%	4.9%	5.7%	4.1%
S&P 500[2]	16.9%	19.6%	14.6%	12.3%	12.9%	10.9%

	2Q 2023	2Q 2022	2Q 2020	2Q 2018	2Q 2013	2Q 2008
10-Year Treasury Bond[5]	3.6%	2.9%	0.7%	2.9%	2.0%	3.9%

[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 SitusAMC Insights, 2Q 2023.

forecasting a recession given the resiliency of the economy and will proceed carefully on future rate hikes. The 10-year Treasury rate has risen 100 bps from its 2023 trough in April. It topped 4.3% on August 21, the highest rate since 2007, before retreating to 4.1% by the end of the month.

The consumer price index (CPI) slowed from a peak of 8.9% in June 2022 to 3.1% in June 2023. Though July's rate ticked up to 3.3%, it was among the lowest rate in over two years. Core CPI, which excludes food and energy, was 4.7% in July, down almost 200 bps from its peak last September. Core personal consumption expenditures (PCE), the Fed's preferred inflation measure, ticked up 10 bps to 4.2% in July on the back of strong consumer spending. However, the month over month (MoM) gain of 0.2% was considerably more modest than the feverish pace last year.

The Dow, S&P 500, and Nasdaq saw gains of about 3.4%, 8.3% and 13.8%, in second quarter 2023, respectively. Gains were steady across all three months, except for the Dow which saw a slight decline at the start of June. Stocks continued to rise throughout July with monthly increases of 3.3% (Dow), 3.1% (S&P 500) and 4.0% (Nasdaq). Nevertheless, stocks fell through August back to values seen at the end of the second quarter.

Spreads between RERC real estate yields and the 10-year Treasury expanded in second quarter, with an increase in real estate yields and a decrease in the 10-year Treasury. Second quarter real estate yield increases outpaced the rise in corporate bond rates, resulting in growing spreads QoQ. Despite the increases, spreads were among the narrowest since the GFC.

The second quarter CRE yield over 10-year Treasury spread was 160 bps below the LTA. Second quarter real estate yield spreads over Moody's Baa and Moody's Aaa were each 110 bps below the LTA.

4.1%
up 15 bps QoQ

Treasury Yield Spread
CRE over 10-Year Treasury

2.0%
up 2 bps QoQ

Baa Yield Spread
CRE over Moody's Baa Corporate

3.1%
up 3 bps QoQ

Aaa Yield Spread
CRE over Moody's Aaa Corporate

Sources: Federal Reserve, Moody's, SitusAMC Insights, 2Q 2023.

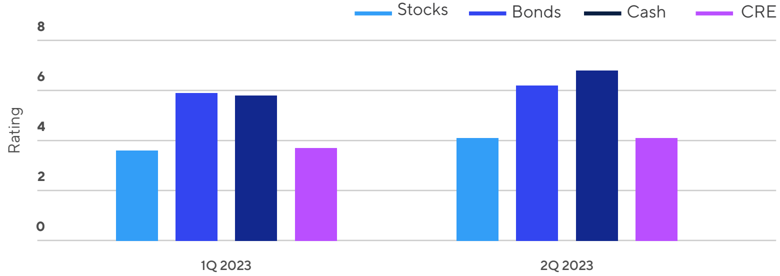
CRE & Investment Alternatives

Amid a relatively strong economic backdrop, investor preference for all asset classes increased QoQ. However, investors continue to express concerns about future macroeconomic risks and volatility in the other asset classes and thus prefer the risk-free returns on cash holdings. Cash earned the highest rating among the asset classes in second quarter; the preference for cash was the second highest on record, trailing only the rating seen at the start of the pandemic. With interest rates near 16-year highs, bonds earned the second highest rating among the asset classes. Investor preference for bonds were the highest since at least 2007, when RERC began collecting these data.

> “Cash has low risk in an increasing risk market.”
>
> - WEST REGION INVESTOR

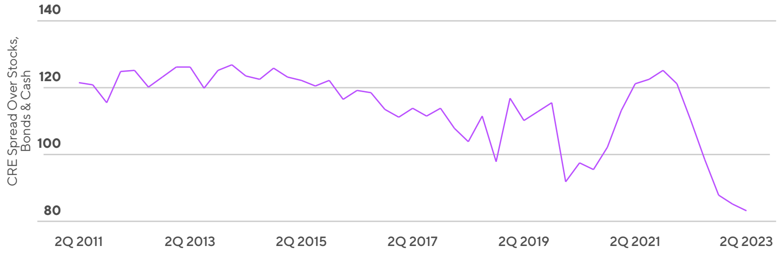
Investors are saying that the increase in Treasury yields is putting pressure on other investments given the risk/return profile. Stocks and CRE were rated as the least preferred asset classes by institutional investors, despite a sizeable quarterly increase for both. While significantly lower than the LTA, the preference for stocks was the highest rating over the past year. Preference for CRE was among the lowest since the GFC, trailing only the ratings of the past two quarters.

Ratings of Investment Alternatives



Ratings are based on a scale of 1 to 10, with 10 being excellent.
Sources: RERC, SitusAMC Insights, 2Q 2023.

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. Sources: RERC, SitusAMC Insights, 2Q 2023.

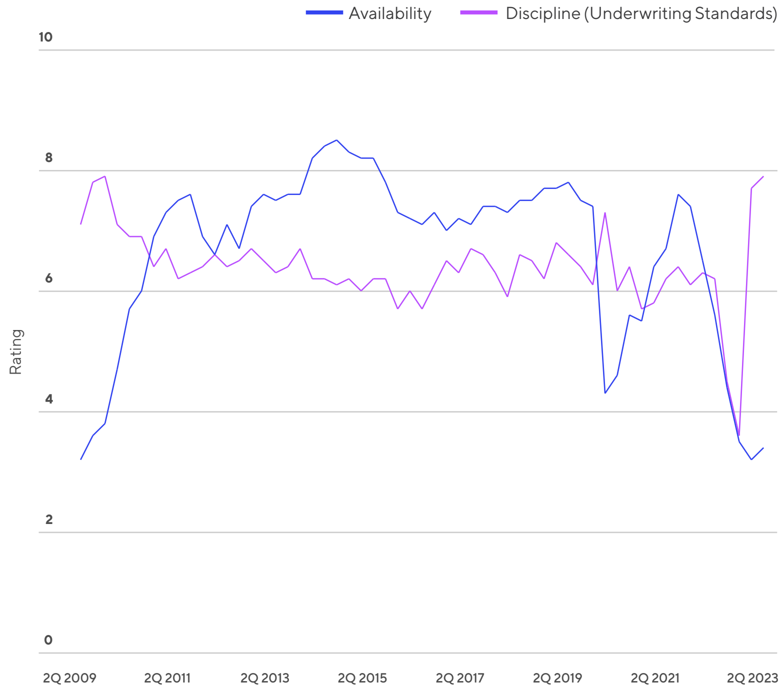
Availability & Discipline of Capital

After six consecutive quarterly declines, investor ratings on availability of capital (equity and debt combined) showed a modest increase in second quarter. Still, the availability of capital is the second lowest since the GFC. According to our survey respondents, investors are reserving capital for only the best available opportunities. Underwriting standards tightened for a fourth consecutive quarter and were rated as the most restrictive since at least 1997, when RERC began collecting these data. Investors note the difficulty in refinancing given the higher rates and lower loan-to-value (LTV) ratios. Interestingly, several investors are seeing extensive dry powder. However, cash buyer yield expectations are high as they want to take advantage of their ability to move in the current loan-deprived market.

In 2014, RERC began collecting data on the availability and discipline of equity and debt capital separately. The availability of both debt and equity capital increased slightly QoQ, but both remain

> “Lenders are being cautious about overall CRE exposure.”
>
> - INSTITUTIONAL INVESTOR

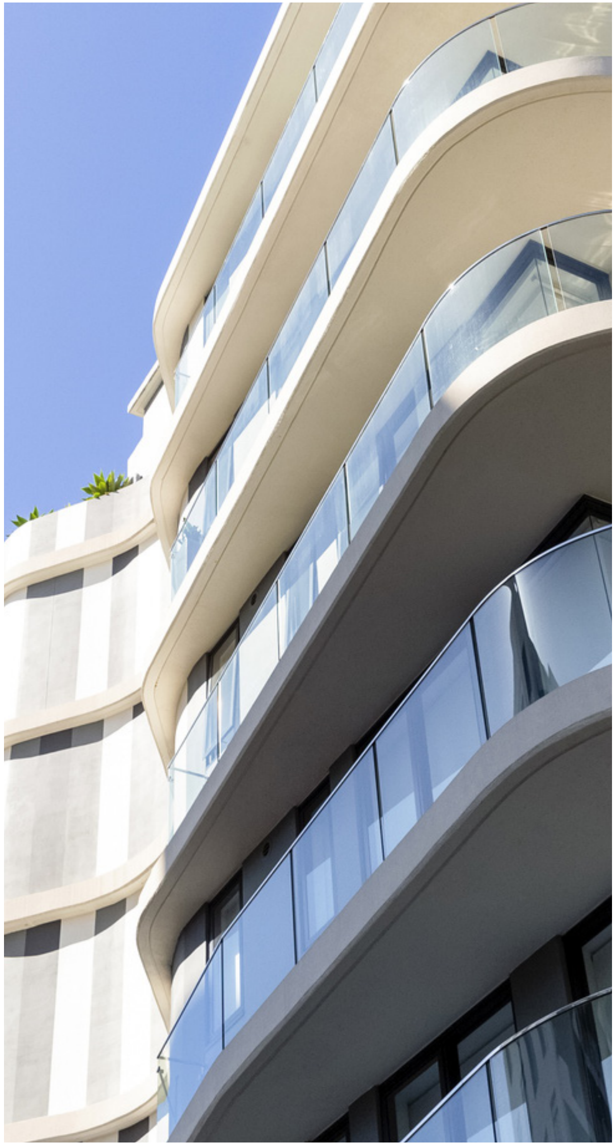
Historical Availability & Discipline of Capital – Equity & Debt Combined



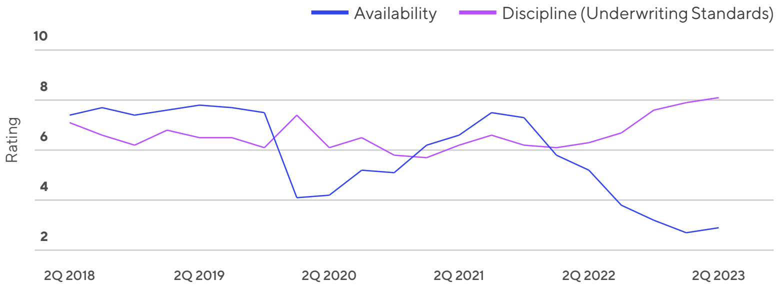
Ratings are based on scale of 1 to 10, with 10 being excellent.
Sources: RERC, SitusAMC Insights, 2Q 2023.

near record lows. Debt availability was substantially lower than equity availability in the second quarter, as it has since the onset of the pandemic. Debt and equity underwriting standards became more restrictive in second quarter, reaching record tight ratings. Debt discipline was more restrictive than equity in the second quarter, as has been the case since 2019.

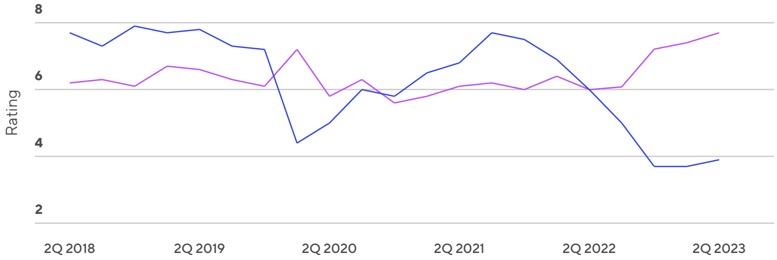
Equity investors are wary of interest rates, upward cap rate pressure and the lack of acquisition options due to a large amount of low-interest existing debt. Debt underwriters are also wary of the value inflation that has occurred. Banks, life insurance lenders, and other private lenders have reduced lending levels, the availability of debt has decreased dramatically for many property types.



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.
Sources: RERC, SitusAMC Insights, 2Q 2023.

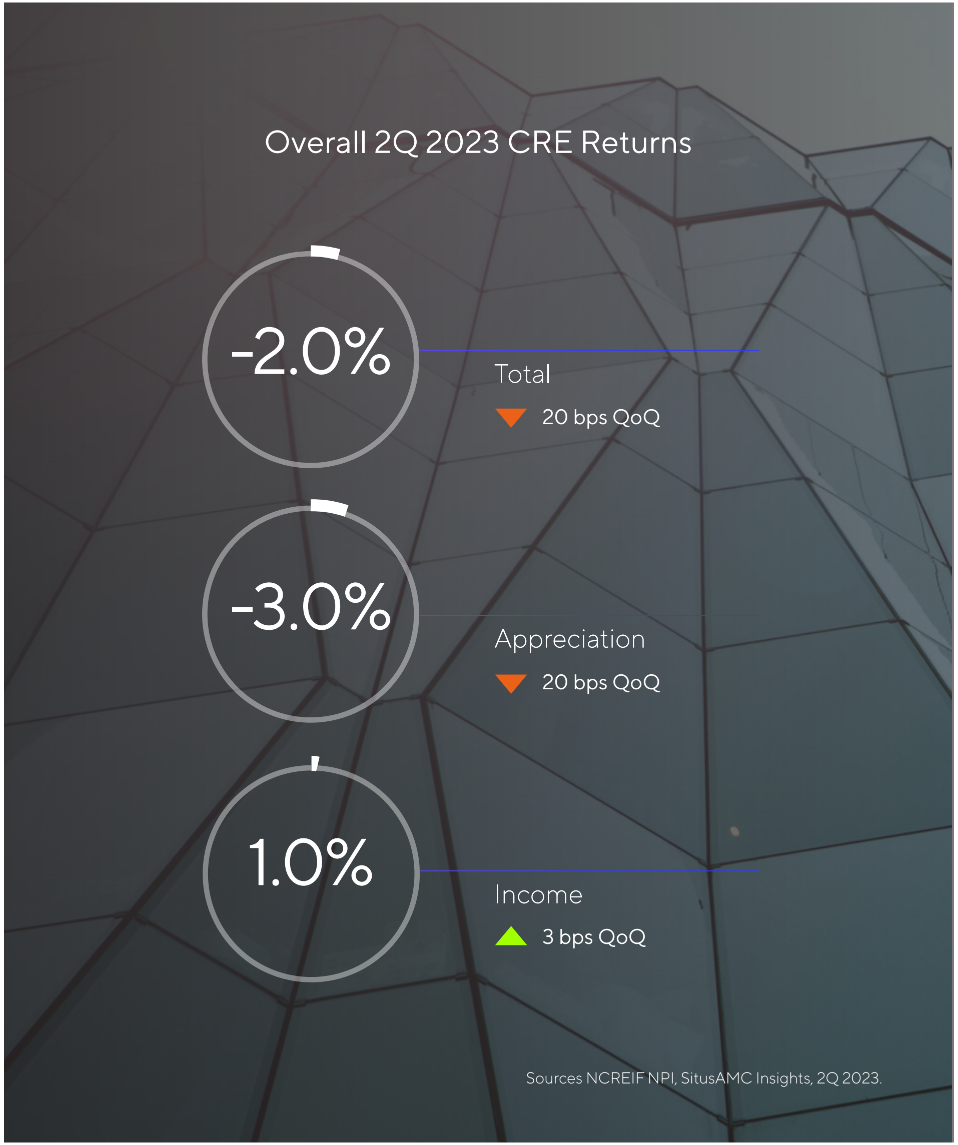
CRE Returns, Volume & Pricing

Returns

Second quarter NCREIF NPI overall CRE total returns were -2.0% after declining 20 bps QoQ. It was the third consecutive quarter of negative returns and the second lowest since the GFC. Income returns increased slightly in second quarter to the highest rate in nearly two years; however, at -3.0%, appreciation was the second lowest since the GFC. One-year trailing returns were down 500 bps QoQ to -6.6%. It was the second consecutive quarter of negative one-year trailing returns, something not seen since the GFC.

Hotel had the strongest second quarter returns among the main property types at 4.0% and the only segment to have positive returns. Hotel has performed well over the last year with one-year trailing returns of 12.9%, the highest in nearly eight years. However, hotel has not been able to claw back its pandemic losses despite over two years of positive growth. One-year trailing returns were strong at 13.0%, an increase of 240 bps QoQ and the highest since 2015.

Retail had the second highest returns among the property segments in second quarter, despite falling 70 bps into negative territory, according to NCREIF. Though total returns were nearly 230 bps lower than the LTA, income returns were among the highest in eight years. Regional malls and, surprisingly, neighborhood retail were the worst performing subtypes at -0.7% and -0.5%, respectively. Community centers and fashion/specialty centers were the only subtypes with positive returns at 0.1% and 0.6%, respectively. One-year trailing returns fell to -0.9%, a 180 bps decline QoQ. Despite strong one-year



Overall 2Q 2023 CRE Returns

-2.0%

Total

▼ 20 bps QoQ

-3.0%

Appreciation

▼ 20 bps QoQ

1.0%

Income

▲ 3 bps QoQ

Sources NCREIF NPI, SitusAMC Insights, 2Q 2023.

trailing income returns in second quarter, it was the first time in two years that retail total returns were negative.

Apartment total returns remained negative for the third consecutive quarter, though improving from the previous quarter by 110 bps. In the second quarter, returns were 330 bps below the LTA; however, income returns increased slightly to the highest level in three years. Among the apartment subtypes, low-rise was the top performing in second quarter despite having a negative return of 0.3%. High-rise apartments were the worst performing subsector at -1.2%. One-year trailing apartment returns continued their descent, declining 470 bps QoQ to -5.1%. Second quarter's one-year trailing return was the lowest since the GFC.

Industrial performance continued to improve from a weak fourth quarter 2022, increasing 7 bps QoQ in the second quarter. Still, returns were among the worst since the GFC and 330 bps below the LTA. Among the industrial subtypes, Flex and R&D were the only industrial subtypes to eke out positive returns in second quarter at 0.2% and 0.8%, respectively. Warehouse was the worst performing subtype at -0.8%. One-year trailing returns fell into negative territory for the first time since 2010 following a 640 bps decline QoQ to -4.0%.

Office was the worst performing segment in the NPI in second quarter. Office returns fell for the fourth consecutive quarter, reaching the lowest level since the GFC. Income returns, however, increased slightly to 1.2%, the highest in eight years. Suburban office outperformed CBD office in second quarter by 280 bps, but both subtypes were strongly negative. One-year trailing returns were -14.5%, the lowest in fourteen years.

Volume

Overall CRE deal activity slowed again in second quarter to $83.6 billion, as measured by MSCI Real Assets. It was the weakest level since third quarter 2020, but well above the activity seen during the GFC. Second quarter volume was down 78% from the peak in fourth quarter 2021. However, because of record transaction volume in 2021 and 2022, the precipitous drop in deal volume is not as stark from a historical perspective. Second quarter 2023 volume was just 6.7% below the second quarter LTA (between 2001 and 2023). Among the property types, office, industrial and apartment saw quarterly gains in volume, while retail and hotel had significant declines.

Monthly data provide a more nuanced look at volume. Overall CRE volume increased MoM in May and June by 35% and 37%, respectively. All property types had MoM increases in May. Deal volume grew in June for office, industrial and hotel, but declined for retail and apartment. The most recent data from July, however, shows MoM declines for overall CRE and all property types.

Apartments accounted for the greatest share of deal volume in second quarter at 34% following a quarterly increase in investor allocation to the segment. Volume increased 3% QoQ to about $28.2 billion, though apartment deal activity has fallen 83% since its peak in fourth quarter 2021. Still, second quarter 2023 volume was about 10% higher than second quarter LTAs.

Industrial was the second most active segment at 27% of total volume, transacting $22.3 billion in second quarter. Volume increased 11% QoQ, the highest second quarter increase among the property types. However, sales activity is down 72% from its fourth quarter 2021 peak. Second quarter deal activity was historically strong at 62.5% above second quarter LTAs.

Retail deal activity fell 47% QoQ to $9.5 billion, the slowest since first quarter 2021. Retail comprised over 11% of total volume, on par with pre-pandemic levels. Second quarter sales have fallen 75% from their fourth quarter 2021 peak and are historically low – almost 30% below the second quarter LTA.

Office volume ticked up 3% QoQ to $12.5 billion. Still, second quarter deal activity was down almost 48% of second quarter LTAs and 78% from its most recent peak. This reflects sentiment from our most recent quarterly survey in which no institutional investors selected office as the best segment. Office comprised about 15% of total deal volume in second quarter, among the lowest percentages on record, far below the average of 36% it garnered during its dominating status before the GFC.

Hotel volume declined by almost 13% in the second quarter to about $5 billion (6% of total volume). It was the slowest quarter since the onset of the pandemic and over 40% below second quarter LTAs.

Pricing

With interest rates at 13-year highs and a persistently wide bid-ask spread, pricing continued to deteriorate in second quarter across all property types. Prices have fallen for overall CRE and each of the major property types every quarter since the Fed began its aggressive rate hike policy in June 2022, though the pace of these declines slowed in second quarter for all segments.

The National All-Property RCA CPPI, a gauge of property prices, was down 1.3% in second quarter. Though the pace of price declines slowed 280 bps QoQ, it was the third largest decline since the GFC and down almost 10% from their peak in second quarter 2022. However, because of the sharp run-up in prices over the last couple of years, overall CRE market pricing is up almost 17% since the pandemic began. There may be a pocket of optimism with the most recent monthly data with prices inching up 0.3% between June and July. However, the only major segment to see a monthly increase in prices was apartment.

Apartment prices fared best among the property types in second quarter, with a 0.8% decrease. Following the huge run-up in prices in 2021 and 2022, apartment prices are 24% above pre-pandemic levels, but down over 12% from their pandemic peak.

Industrial prices fell by 1.2% QoQ, the second worst quarter for the segment since the GFC, trailing only last quarter's decline. Industrial prices have been the most resilient to interest rate increases among the property types, down just 2% from their peak in September 2022. Industrial prices are a whopping 40% higher than they were pre-pandemic.

Office prices continued to fall in second quarter, down 1.8% QoQ and 8.2% from its peak in June 2022. The most recent monthly data reveals 12 consecutive months of price declines. Still, second quarter overall office prices were 7.4% higher than they were pre-pandemic; however, a bifurcation exists, with suburban office gaining almost 10% since the pandemic, but CBD falling nearly 5%.

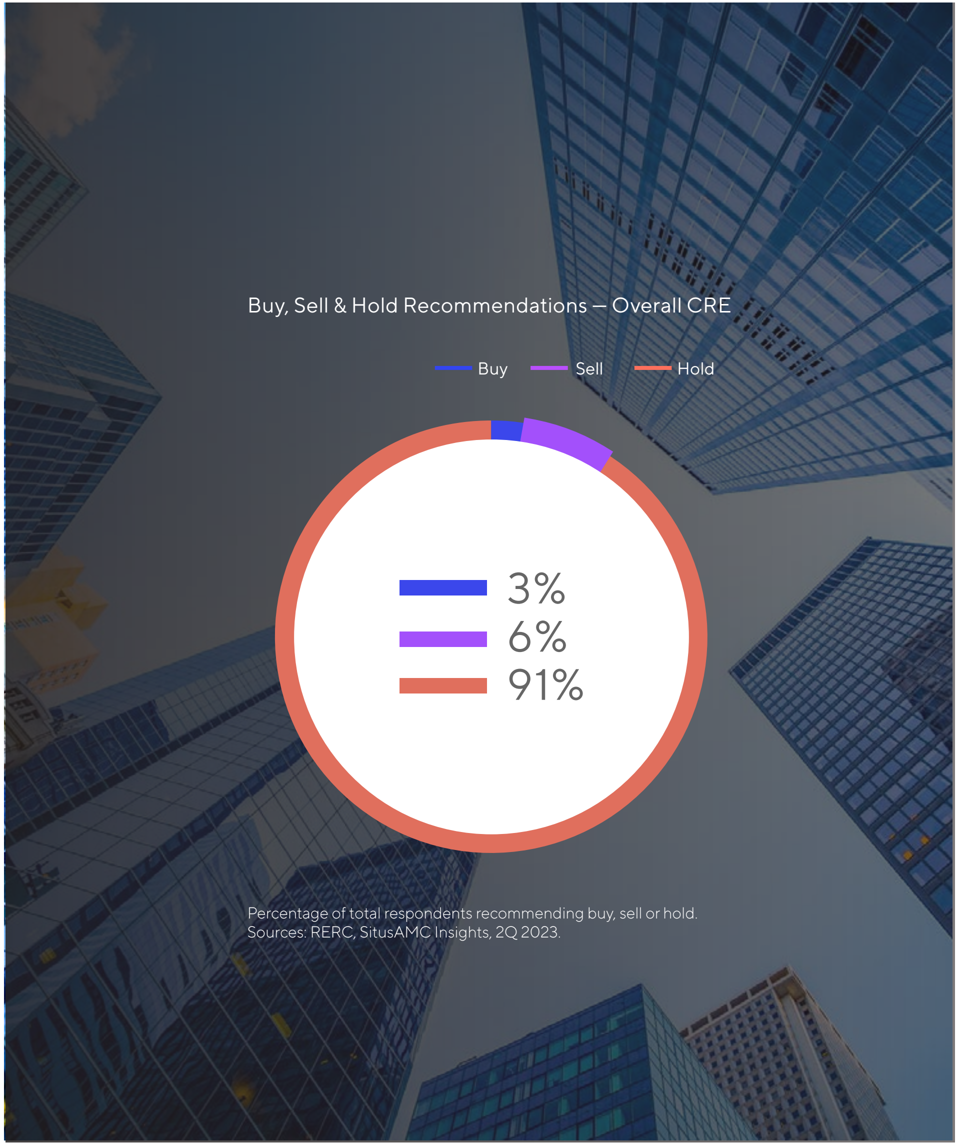
Retail prices declined 1.9% QoQ, among the worst quarterly losses since the GFC. the largest quarterly decline since the GFC. Retail prices peaked in second quarter 2022 and have since fallen by 7.9%. However, retail prices were up over 11% in the second quarter from pre-pandemic levels.

RERC Buy, Sell or Hold

Continuing uncertainty in the financial markets and ongoing lack of pricing transparency kept investors waiting in a hold position in second quarter. The recommendation to hold was unchanged QoQ at 91%, remaining at the highest hold endorsement since RERC began collecting these data in 1996. Second quarter's hold recommendation was about double the level seen during the height of the GFC. Investors were least likely to recommend buying; preference for the strategy was unchanged QoQ at 3%. The recommendation to sell remained at 6% in second quarter. The recommendation to buy and sell stayed at record lows in second quarter.

Investors recommended holding for the overwhelming majority of property types: warehouse, R&D, flex, regional mall, power center, neighborhood and community retail and hotel. Investors recommend selling CBD and suburban office, but buying apartment. Several of the alternative property types garnered a buy recommendation – affordable housing, senior housing and medical office. Student housing, self-storage and data centers received a hold recommendation.

> “Increases in interest rates will further freeze the market.”
>
> -INSTITUTIONAL INVESTOR


Buy, Sell & Hold Recommendations — Overall CRE

Percentage of total respondents recommending buy, sell or hold.
Sources: RERC, SitusAMC Insights, 2Q 2023.

02

VALTRENDS BY PROPERTY TYPE

Pockets of Opportunity Exist in Industrial, Retail and Apartment

RERC Perceived Return Relative to Risk

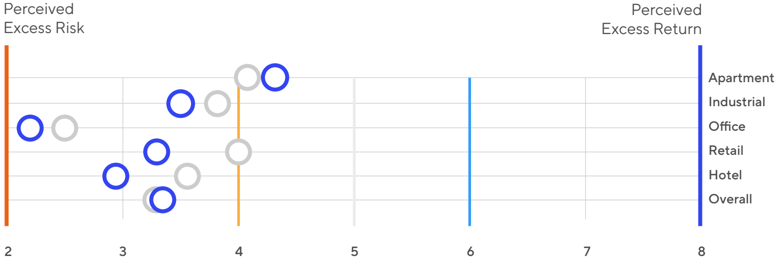
Though the rating increased slightly QoQ, investors perceive the risks in the overall CRE market far outweigh the returns. Second quarter's rating was the second lowest since at least 2007, when RERC began collecting these data. Some significant CRE risks identified by investors include high borrowing costs and the rising costs of utilities, insurance and property taxes.

All property segments were deemed risky relative to returns in the second quarter. Perceptions of returns relative to risk deteriorated for all property types, except apartment. Office was perceived as the riskiest relative to return among the property types and second quarter's rating was the lowest in history. Tenant renewal risk, increasing cap rates and lack of investor demand are concerns for office investors.

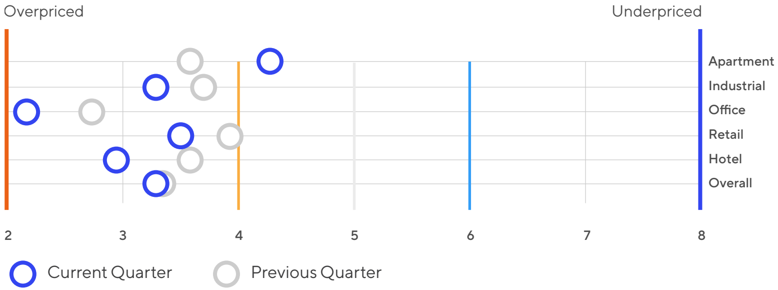
Apartment garnered the highest rating among the property types following a slight bump QoQ. However, the rating is among the lowest on record. Industrial earned the second highest rating among the property segments, despite a sizeable drop QoQ to a record low for the segment. Investors note upside in industrial and apartment due to supply limitations.

Retail and hotel experienced substantial declines QoQ, both reaching the lowest ratings since 2020. Investors state that internet retail sales still eroding the need for brick-and-mortar-based retail and that inflation has created instability in the hotel sector.

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. Sources: RERC, SitusAMC Insights, 2Q 2023.

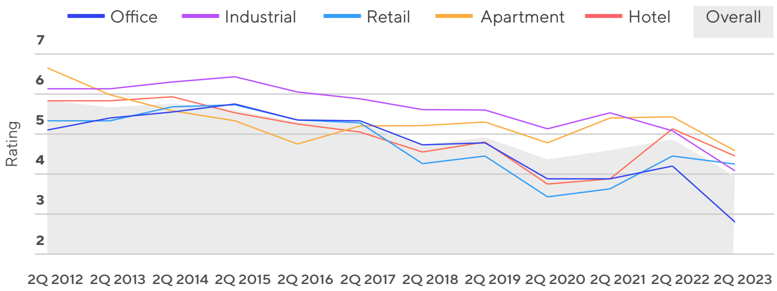
RERC Relative Value Sentiment

Relative value sentiment declined QoQ for overall CRE and all the property types, except apartment. The overall CRE market, office, industrial and retail segments were rated the most overpriced in history and hotel had the lowest relative value sentiment since the GFC. Investors note that several asset types are clearly historically overpriced, but there still seem to be buyers. However, the next 18 months will reveal where the real overpricing is occurring as more debt matures, especially for CBD office.

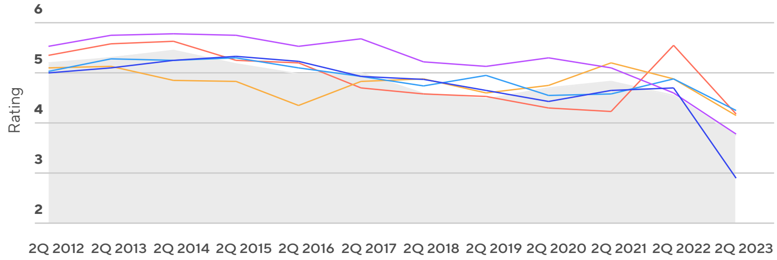
According to investors, rising office vacancy is increasing holding costs and debt service may not be offset by cashflow under higher vacancy levels since expenses are not decreasing. Rents for warehouse are beginning to soften and cap rates are increasing, but owners are lagging to recognize these trends. Additionally, dwindling consumer cash reserves and available personal debt are cited as retail and hotel risks by investors.

Apartment was rated the least overpriced among the property types. Still, the second quarter's rating was among the lowest since the onset of the pandemic and well below the historical average. Investors note that too many buyers have been chasing so few apartment properties, which has put upward pressure on values.

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. Sources: RERC, SitusAMC Insights, 2Q 2023.

SitusAMC Office Insights

Though office occupancy increased 20 bps QoQ, demand remains weak near the record low, according to Reis. Net absorption turned positive in second quarter to the highest level in more than a year; however, absorption was about 60% lower than pre-pandemic levels.

Surprisingly, effective rents increased 0.4% QoQ, marking eight consecutive quarters of modest gains. Rents are over 1% above pre-pandemic levels. Completions fell by 62% QoQ to the lowest level on record.

Occupancy rates reached a record low for Class A office after dropping 30 bps QoQ. Class BC occupancy rose 50 bps in second quarter to the highest rate in nearly two years. However, Class BC occupancy is down 2.8% from its LTA. The Class A occupancy rate was 130 bps higher than the Class BC rate in second quarter. Occupancy losses have been worse for Class A offices

NPI Total Return	-5.8%
Occupancy Change	+20 bps QoQ
Effective Rent Growth Change	+0.4%

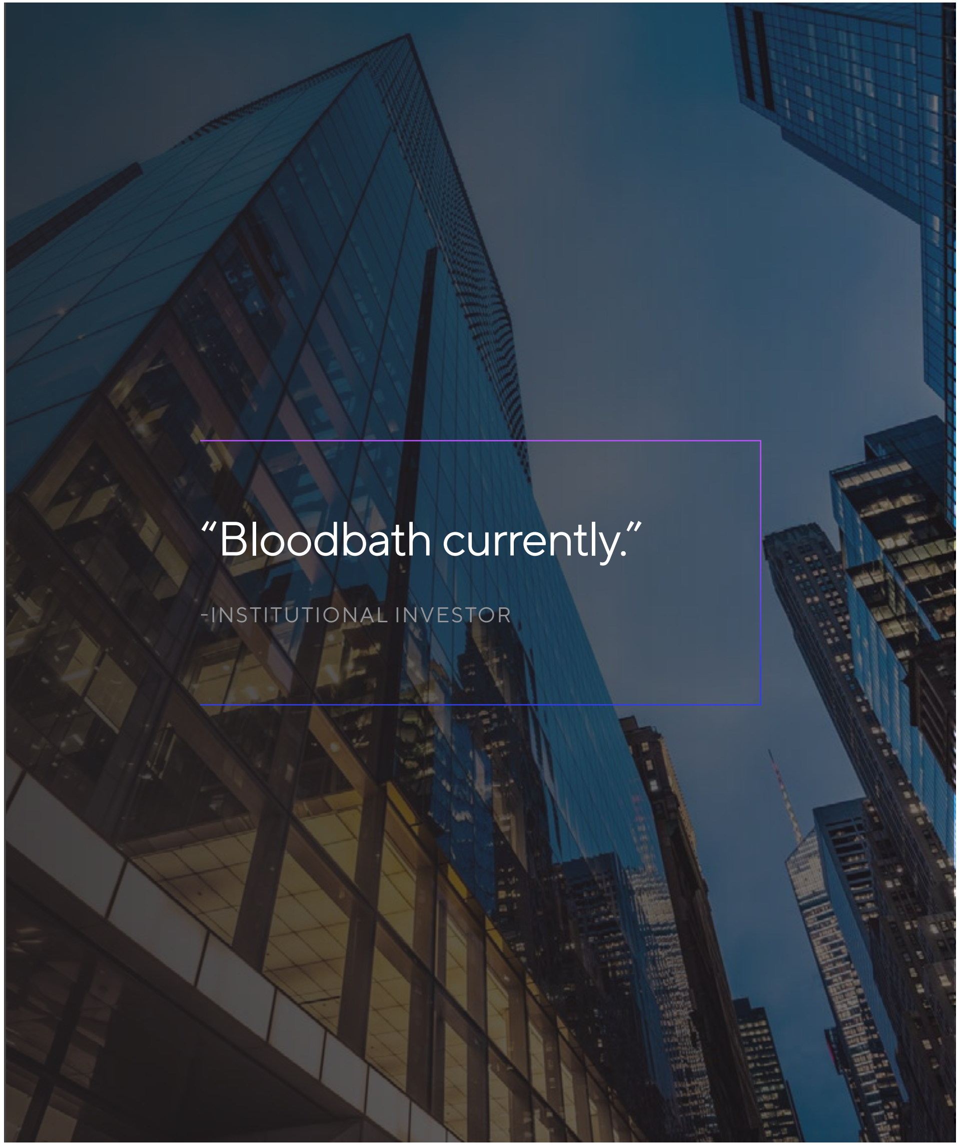
Sources: NCREIF, Reis, SitusAMC Insights, 2Q 2023.

during the pandemic, with Class A down 390 bps compared to 70 bps for Class BC. Investors note that CBD office will continue to struggle as tenants reduce space, allow hybrid work, and/or move to the suburbs. This is particularly the case for lower quality A properties and below.

Asking rents rose 0.1% for Class A and 0.3% for Class BC office in second quarter; both asset classes had rent growth near 19% above their quarterly LTAs. Rents have surpassed their pre-pandemic highs by 2.9% and 1.6% for Class A and Class BC, respectively.

Investors are concerned about the substantial debt maturing soon, especially on CBD office, that may not have the adequate rents and cap rates to support refinancing without loss of equity. Multiple office properties will struggle to meet typical debt-coverage ratios when loans come due. The risk in this class means that bargains will be available in the future, but this asset class should not be viewed as a place for traditional investments.

In August, New York City Mayor, Eric Adams, announced plans to ease regulations in Midtown Manhattan to allow for more office-to-residential conversions by enacting zoning changes and expanding the types of buildings that are eligible for conversions. This follows similar legislation in California, which went into effect in July, that aims to streamline the approval process for affordable housing projects, including residential conversions from areas zoned for office, retail and parking uses.



> “Bloodbath currently.”
>
> -INSTITUTIONAL INVESTOR

SitusAMC Industrial Insights

Warehouse occupancy remained unchanged QoQ, near the highest level on record, per Reis. Net absorption remained positive in second quarter, as it has since the GFC. However, absorption has slowed to the lowest level since the early stages of the pandemic and is more than 30% below its LTA.

Warehouse effective rents grew 1.7% in second quarter, a 30 bps increase from the previous quarter, but near the slowest pace in nearly two years. Still, rents are more than 40% higher than pre-pandemic rates and almost 50% above the LTA following the tremendous run-up in rents in 2021 and 2022. Rent growth should continue to be relatively strong amid constrained supply and owners will continue to reap the benefit of significant releasing bumps as leases expire owing to the run-up in recent years. Second quarter completions fell by more than 45% QoQ, the lowest level in over four years.

Industrial warehouse production grew by 0.5% between June and July. And was down just 0.01% from its pandemic peak in October 2022. Current manufacturing production is historically high, just 0.6% from its record peak before the start of the GFC.

Investors are gaining interest in solar panel plants amid new clean-energy-related grants and incentives, including those from the Inflation Reduction Act. Firms recently announced plans to invest about $1 billion dollars each for solar plants in Louisiana and New Mexico, which is expected to create high-paying jobs and attract other regional investments and contribute to reshoring and upscaling the U.S. solar supply chain.

Austin is becoming a hub for reshoring as it brings manufacturing back to the U.S. Samsung is spending $17 billion to set up a semiconductor manufacturing plant just outside of Austin and the project is expected to be operational in 2024. The facility should attract high-paying skilled worker and tech jobs to the area, boosting the economy.

NPI Total Return	-0.8%
Warehouse Occupancy Change	0 bps QoQ
Warehouse Effective Rent Growth Change	+1.7%

> "Least amount of uncertainty in projected demand/supply balance."
>
> -INSTITUTIONAL INVESTOR

Sources: NCREIF, Reis, SitusAMC Insights, 2Q 2023.

SitusAMC Retail Insights

Retail demand continues to improve. The occupancy rate increased 10 bps QoQ to the highest since the onset of the pandemic, according to Reis. Retail has enjoyed 10 consecutive quarters of positive net absorption, though the second quarter's level was almost 55% lower than the segment's LTA.

Effective rents have grown for nine consecutive quarters, and have returned to pre-pandemic levels. Likely supporting further rent growth, completions fell 65% QoQ to a record low in second quarter.

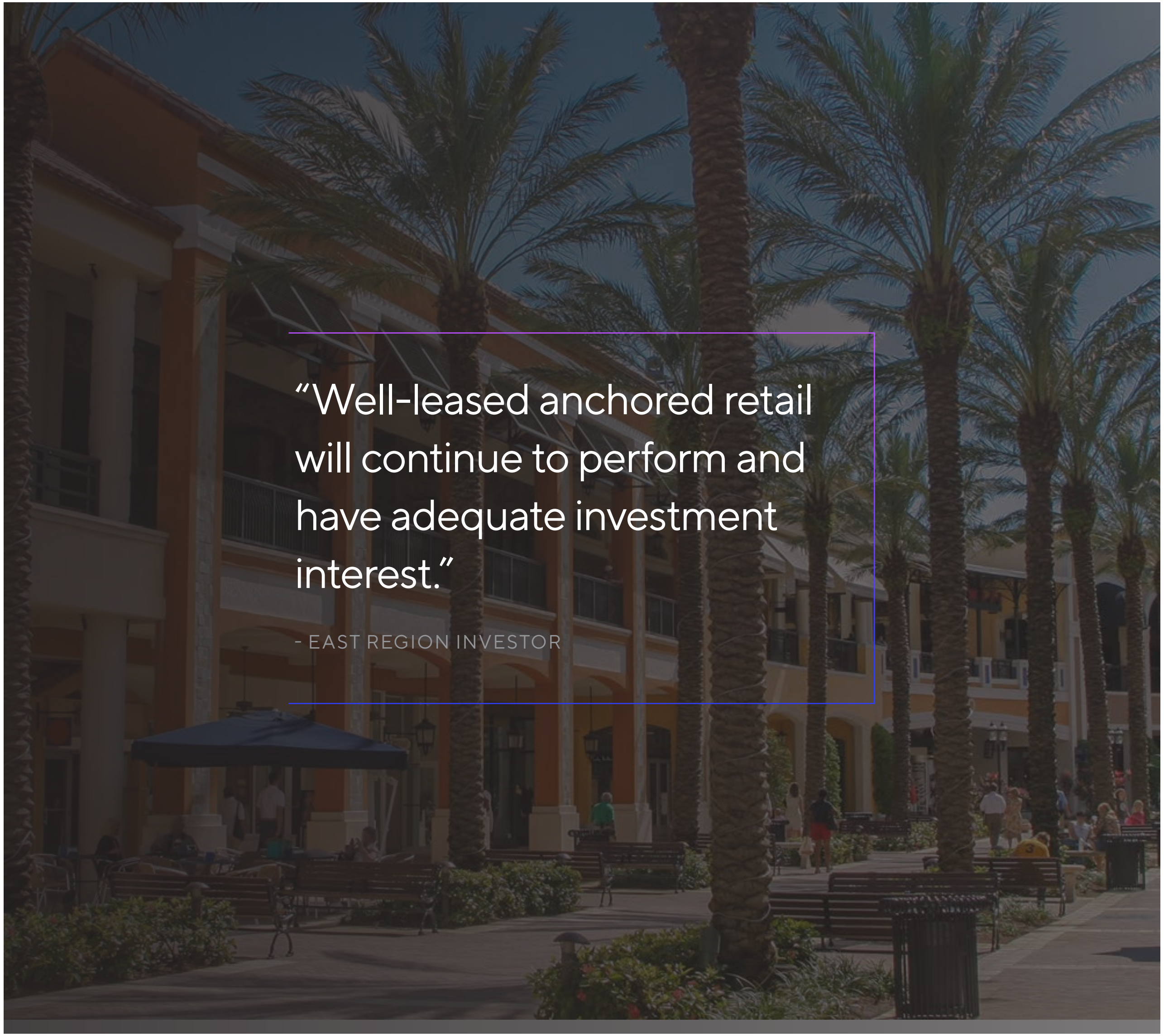
Landlords report solid demand for retail space, despite several liquidations and pressures from high inflation and interest rates. Retailers are on track to open 1,000 net new stores this year and consumer spending increased four consecutive months in July. While low-end, enclosed malls continue to struggle, high-end malls and dollar stores continue to sign leases at a robust pace.

NPI Total Return	-0.2%
Occupancy Change	+10 bps QoQ
Effective Rent Growth Change	+0.2%

Sources: NCREIF, Reis, SitusAMC Insights, 2Q 2023.

Investors expect neighborhood centers to perform the best over the next couple of years due to the costs of construction and diminishing available space. A recent study by Moody's Analytics showed a positive correlation between retail and multifamily performance such that increases in the average effective revenue (an amalgamation of effective rents and vacancy) of multifamily is associated with increases in the averaged effective revenue of retail.

Consumer spending remained robust in July, up 0.8% to the highest rate since January. However, risk may be on the horizon for retail. The Consumer Confidence Index fell in August, erasing the gains accrued during the earlier part of the summer. Both the Present Situation Index and the Expectations Index (short-term outlook) declined in August. Consumers cite ongoing inflation, particularly for groceries and gasoline, and high interest rates as the culprits. In addition, credit card debt reached a record high in second quarter and credit card delinquencies have steadily increased since early 2022.



> "Well-leased anchored retail will continue to perform and have adequate investment interest."
>
> - EAST REGION INVESTOR

SitusAMC Apartment Insights

Apartment demand continues to cool from its fervent pace in 2021 and 2022. Per Reis, apartment occupancy remained unchanged QoQ, at the lowest rate since mid-2021. Net absorption turned positive in the second quarter, but was about half its LTA and down 58% YoY.

Lower supply may offset the decline in demand. Completions fell for the fourth consecutive quarter to the lowest level in over a decade. Effective rents grew 0.8%, following a decline in the previous quarter. The pace of rent growth has slowed substantially from the robust pace in 2021 and 2022, down 230 bps YoY. Rents are over 20% higher than those pre-pandemic.

Class A apartment occupancy rates increased 10 bps QoQ and are at pre-pandemic rates. Class BC occupancy was unchanged in second quarter, but remains 60 bps below the pre-pandemic rate. Class BC occupancy is 190 bps above Class A occupancy, likely due to affordability issues driving tenants into lower cost properties, along with static supply.

Asking rents grew for both Class A and Class BC in second quarter, though the pace of growth was quicker for Class BC than Class A at 0.8% and 0.1%, respectively. While gains, these increases are off the heady pace of the previous two years.

A recent report by the National Association of Home Builders (NAHB) found improving sentiment for the new multifamily housing market among builders and developers. Investors state that multifamily demand is being supported by the high cost and low supply of single-family housing; however, reduced availability of credit for new construction, difficulty getting projects approved and increases in operating expenses, especially insurance costs, are headwinds for development.

Builder price response to softening in the for-sale single-family residential market will determine the number of people who seek for-sale homes versus renting, according to investors participating in our quarterly survey.

NPI Total Return	-1.0%
Occupancy Change	0 bps QoQ
Effective Rent Growth Change	+0.8%

> “Highly supply-constrained and will always decline later and recover sooner over market cycles.”
>
> -INSTITUTIONAL INVESTOR

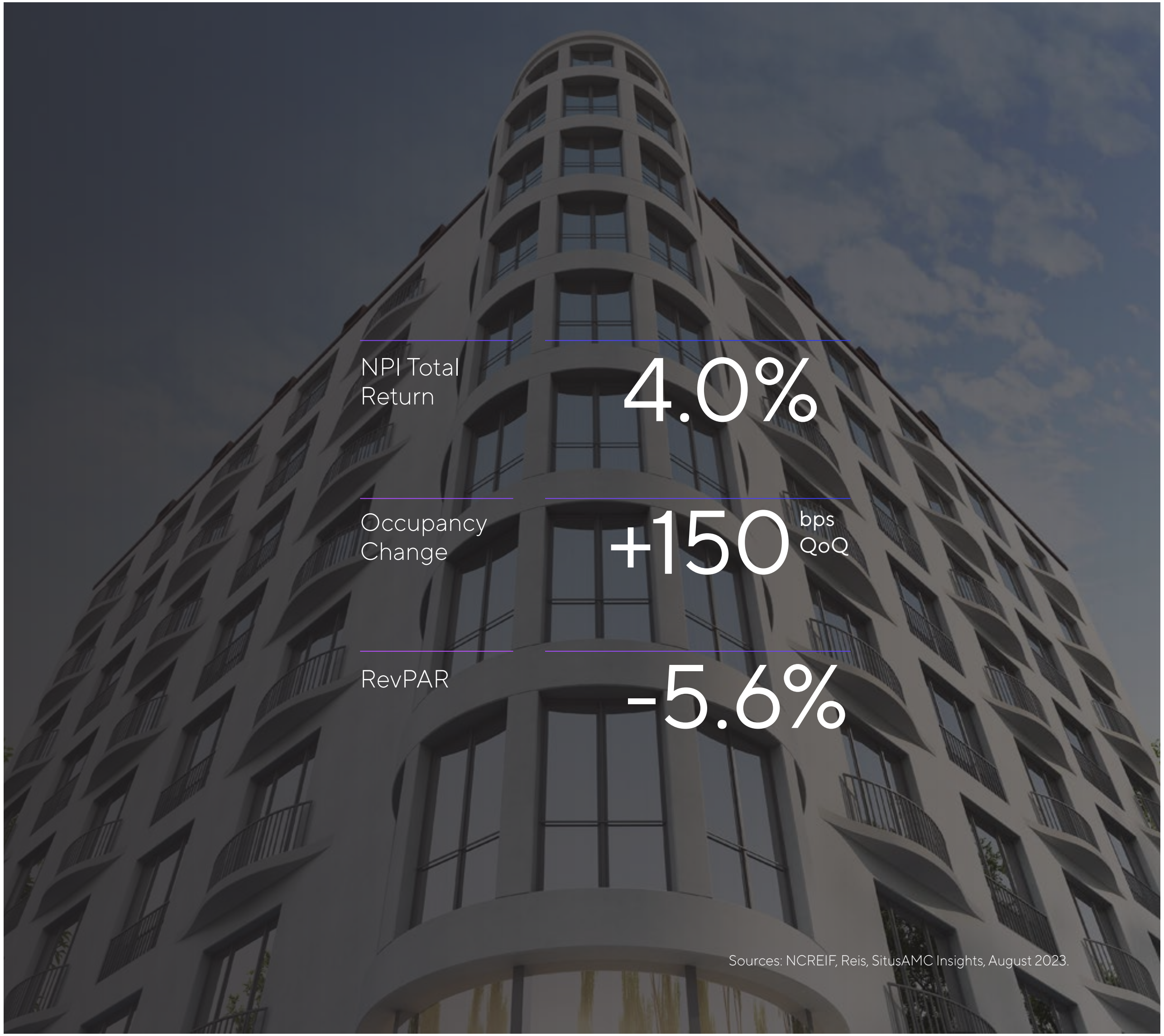
Sources: NCREIF, Reis, SitusAMC Insights, 2Q 2023.

SitusAMC Hotel Insights

Seasonally adjusted hotel occupancy grew for the second consecutive quarter, per Reis. The current occupancy rate is about 300 bps higher than the LTA, but remains about 330 bps below the pre-pandemic high. Hotel occupancy data has been extremely volatile since the onset of the pandemic, but Reis forecasts the occupancy rate to surpass pre-pandemic levels by year-end.

Growing occupancy did not lead to an increase in room rates, however. Seasonally adjusted room rates and RevPAR declined in second quarter by almost 8% and 5.5%, respectively. Despite the declines, room rates are almost 10% above pre-pandemic levels; RevPAR is over 4% higher.

Upper-tier hotel occupancy soared 300 QoQ; lower-tier hotel occupancy grew 80 bps. Both upper-tier and lower-tier hotel occupancy remains below pre-pandemic levels by 1.8% and 6.9%, respectively. Second quarter occupancy was well above the historical average for both hotel classes.



NPI Total Return 4.0%

Occupancy Change +150 bps QoQ

RevPAR -5.6%

Sources: NCREIF, Reis, SitusAMC Insights, August 2023.

Room rates fell 5.8% QoQ for upper-tier hotels and 2.5% for lower-tier hotels. However, upper-tier and lower-tier room rates are about 10% and 14% higher, respectively, than pre-pandemic levels. RevPAR declined in second quarter for both hotel tiers in the face of dropping ADRs. Lower-tier hotels have performed considerably worse than upper tier hotels over the past year, declining by about 19% and 7%, respectively.

According to investors, hotel is still coming out of the shock of the pandemic. High inflation has eaten into travelers' wallets and has created instability in the sector.

PwC projects that demand growth from individual business travel and groups will offset a softening in leisure demand for the rest of 2023 and into 2024, with outbound international leisure travel outpacing inbound, given the relative strength of the dollar.

Extended-stay hotels continue to gain favor with investors due to their growing popularity and lower operating costs. With extended-stay hotels also easier and cheaper to build, major hotel chains, including Hilton, Marriott and Hyatt, all have announced new extended-stay brands this year, following new brands launched by Best Western and Wyndham last year.

> "Hotels have been somewhat of a rollercoaster ride over the last year."
>
> - WEST REGION INVESTOR

ValTrends by SitusAMC

This disclaimer applies to this publication and the oral or written comments of any person presenting it. No part of this publication may be reproduced in any form or incorporated into any information retrieval system without the written permission of SitusAMC Holdings Corporation.

This publication is sold with the understanding that the publisher is not engaged in rendering legal or accounting services. The publisher advises that no statement in this publication is to be construed as a recommendation to make any real estate investment or to buy or sell any security or as investment advice. The examples contained in this publication are intended for use as background on the real estate industry as a whole, not as support for any particular real estate investment or security.

Forward-looking statements (including estimates, opinions or expectations about any future event) contained in this publication are based on a variety of estimates and assumptions made by SitusAMC Holdings Corporation. These estimates and assumptions are inherently uncertain and are subject to numerous business, competitive, financial, geopolitical, industry, market and regulatory risks that are outside of SitusAMC Holdings Corporation's control. There can be no assurance that any such estimates and/or assumptions will prove accurate, and actual results may differ materially. The inclusion of any forward-looking statements herein should not be regarded as an indication that SitusAMC Holdings Corporation considers such forward-looking statement to be a reliable prediction of future events and no forward-looking statement should be relied upon as such.

This publication does not purport to be complete on any topic addressed. The information included in this publication is provided to you as of the dates indicated, and SitusAMC Holdings Corporation does not intend to update the information after this publication is distributed. Certain information contained in this publication includes calculations and/or figures that have been provided by third parties, and/or prepared internally and have not been audited or verified. This publication may contain the subjective views of certain SitusAMC Data & Analytics personnel and may not necessarily reflect the collective view of SitusAMC or certain SitusAMC business units.

Although this publication uses only sources that it deems reliable and accurate, SitusAMC Holdings Corporation does not warrant the accuracy of the information contained herein and does not have a duty to update it. In all cases for which historical performance is presented, please note that past performance is not a reliable indicator of future results and should not be relied upon as such.

Certain logos, trade names, trademarks and copyrights included in this publication are strictly for identification and informational purposes only. Such logos, trade names, trademarks and copyrights may be owned by companies or persons not affiliated with SitusAMC Holdings Corporation. SitusAMC Holdings Corporation makes no claim that any such company or person has sponsored or endorsed the use of any such logo, trade name, trademark and/or copyright.

The SitusAMC ValTrends Report is published four times a year by: SitusAMC Holdings Corporation, located at 1075 Jordan Creek Pkwy, Suite 240, West Des Moines, IA 50266. *Copyright © 2023 by SitusAMC Holdings Corporation. All rights reserved.*

SitusAMC is the leading independent provider of innovative, trusted solutions to the commercial and residential real estate finance industries.

We help clients identify and capture opportunities in their real estate businesses through industry-leading services and innovative technologies that drive operational efficiency, increase business effectiveness, and improve market agility across the entire lifecycle of their global real estate activity.

Learn more at SitusAMC.com

SitusAMC is not a law firm and does not render legal advice to its clients. SitusAMC does not engage in lobbying contacts on behalf of its clients. Each client should consult an attorney regarding legal obligations including possible registration under the Lobbying Disclosure Act.

About ValTrends

The ValTrends Report is produced by SitusAMC Insights, the research division of SitusAMC. Designed with the institutional investor in mind, the ValTrends quarterly analysis offers SitusAMC's proprietary insights into the economy, financial markets, capital markets, and property types to support better real estate decision making. This report incorporates data from internal SitusAMC valuation experts and from RERC, the survey arm of SitusAMC Insights, which has been polling institutional investors every quarter for more than 50 years.

Learn more at SitusAMC.com/data-analytics-research-solutions

SitusAMC™

© Copyright 2023 SitusAMC. All rights reserved.