ValTrends
3Q 2023 Report

Still Adrift

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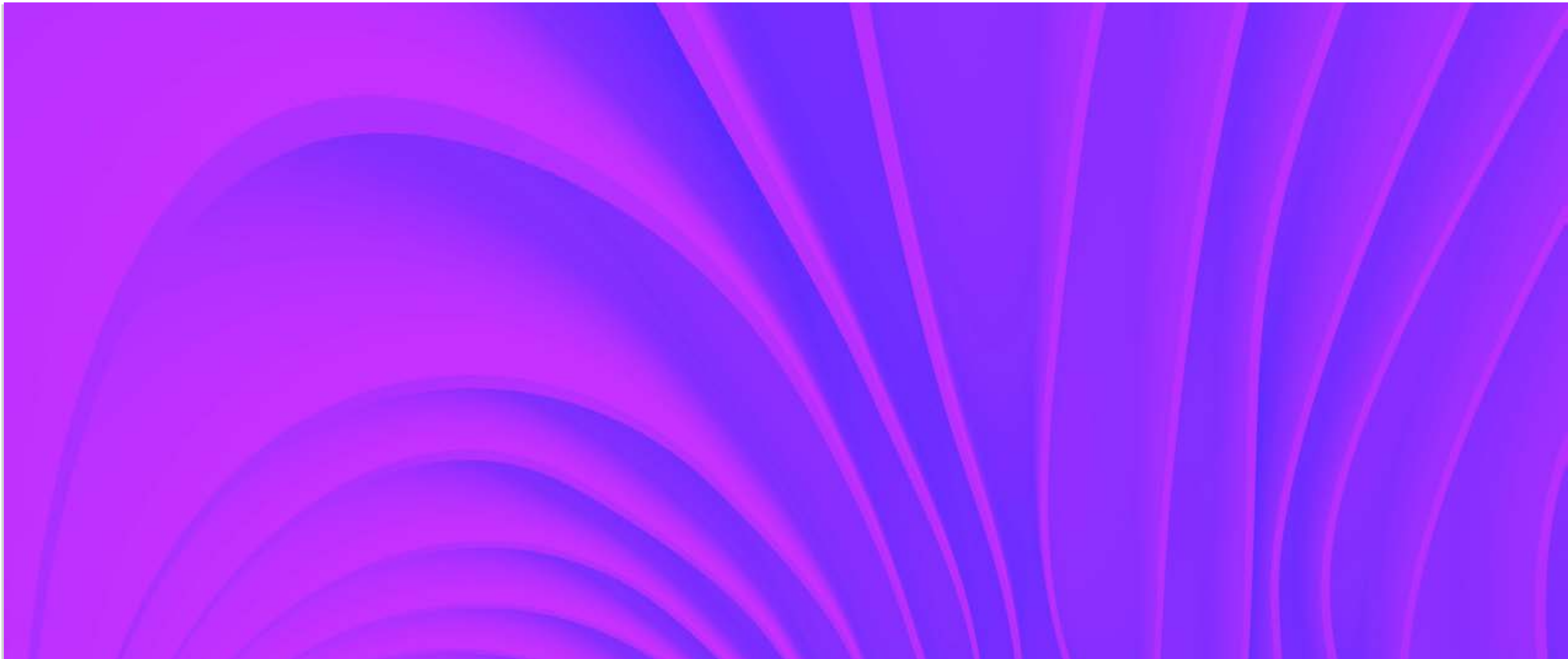
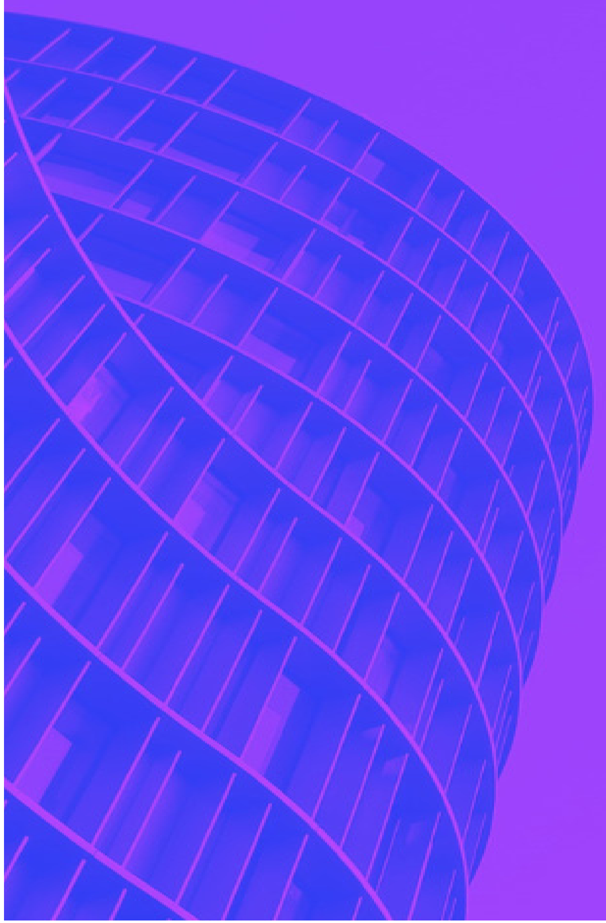


SitusAMC™



With the economy still showing resilience, commercial real estate (CRE) performance improved slightly in third quarter, with NCREIF NPI overall CRE returns up by 60 bps quarter over quarter (QoQ). However, the CRE market remains weak, with returns in the red for the fourth consecutive quarter at -1.4% and one-year trailing returns down 8.4%.

GDP increased at a 5.2% annual rate in third quarter, the strongest level since fourth quarter 2021. Inflation slowed from its peak of 8.9% in June 2021 through June 2023 and has remained under 4% since. The Fed backed off its aggressive rate hikes, taking a wait-and-see approach by keeping interest rates steady in September and November and hoping for a soft landing.

Interest rates remain elevated; however, with the 10-year Treasury rate reaching a 16-year high in October. As such, the CRE capital markets remain depressed. Overall CRE deal activity slowed again in third quarter to $92.8 billion, as measured by MSCI Real Assets. It was the lowest level of deal activity since the early stages of the pandemic. Fourth quarter was off to a rough start with the most recent data showing a 45% drop in volume month over month (MoM) in October. Since the Fed began its aggressive rate increases in June 2022, volume has declined substantially for overall CRE (-59%) and all the major property types, between about 45% (retail) and nearly 70% (apartment).

It is important to keep in mind that transaction volume was at or near record levels in 2021 and 2022 for overall CRE and the major property segments. As such, volume declines are not nearly as stark, with overall CRE activity just 4.1% below the third quarter long-term average (LTA). Apartment, retail and industrial activity is strong by historical standards, with volumes up from their third quarter LTAs by 7.8%, 10.6% and an astonishing 39.1%, respectively. The situation is bleak for the office segment as investors notice a sharp pullback in leasing activity as a surge of loans reach maturity. Third quarter office volume was almost 55% below the third quarter LTA.

Similarly, prices, as measured by the RCA CPPI, have declined 10% through October for the overall CRE market since the Fed began its aggressive rate hike policy. However, the run-up in prices over the last couple of years has resulted in a 16.3% increase in prices during COVID-19. CRE prices in October returned to the levels seen in May 2023.

Prices for all the major property types except industrial have fallen since the Fed's aggressive rate hikes. The retail price decline was the lowest (-8.6%), followed by office (-11.2%). Because of the surge in pricing immediately prior the aggressive interest rate hikes, apartment prices are down 15.8% over the same time frame. After six months of price increases, industrial prices are now 2% higher than those in June 2022. Taking a more historical perspective, pricing has gone up for all property types since the onset of the COVID-19 pandemic. Retail and apartment prices have grown about 10% and 18% since the beginning of COVID-19, respectively, while industrial is up a whopping 44.5%. Even the office segment, which is still undergoing extensive structural changes, has seen a 3.5% price increase since the onset of the pandemic.

Fundamentals in the major property types are flat-to-down. Occupancy was unchanged in third quarter for retail and apartment, but declined 20 bps for warehouse, according to Reis. Office occupancy dropped 30 bps QoQ, reaching a record low. All major segments experienced effective rent growth in third quarter, except for office.

Capital market and fundamental trends generally sync with investor sentiment regarding the property types. In its third-quarter survey, SitusAMC Insights asked institutional investors which property type had the best outlook over the next year. At 37%, investors were most bullish on apartments among the four main property types. Retail edged out industrial as the second choice for best property type, earning a 24% and 23% endorsement, respectively. The sentiment for office is unsurprisingly sour, with no investors selecting it as the best property type.

01

CAPITAL MARKET VALTRENDS

CRE Still Adrift Amid High Interest Rates

Economy & Financial Markets

GDP increased at a 5.2% annual rate in third quarter (second estimate), the strongest level since fourth quarter 2021. The acceleration was primarily attributable to increases in consumer spending and inventory investment.

Despite a slight decline in the unemployment rate in November (20 bps to 3.7%), the labor market has cooled in the latter half of 2023. In November, the economy added 199,000 jobs, among the fewest jobs added since the end of 2020. However, the labor force participation rate hovered around 62.8% in August, the highest since the pandemic began. The pace of wage growth declined steadily between June and November to the slowest in two years – a positive sign in the fight against inflation.

The consumer price index (CPI) slowed in October to 3.2% from 3.7% in September. October posted the second-lowest growth rate since early 2021. Core CPI, which excludes food and energy, was 4.0% in October, down almost 100 bps in just four months. Core personal consumption expenditures (PCE), the Fed's preferred inflation measure, dipped 20 bps to 3.5% in October, the slowest since early 2021.

CRE & Investment Alternatives

	YTD[6]	1-Year Trailing	3-Year Trailing	5-Year Trailing	10-Year Trailing	15-Year Trailing
NPI[1]	-5.1%	-8.4%	6.0%	5.3%	7.4%	6.0%
NFI-ODCE[1]	-8.1%	-12.9%	6.2%	4.7%	7.2%	4.7%
NAREIT Index (All Equity REITs)[2]	-5.6%	-1.7%	2.7%	2.8%	6.2%	6.1%
Consumer Price Index[3]	1.9%	3.6%	5.7%	4.0%	2.8%	2.3%
Dow Jones Industrial Average[2]	2.7%	19.2%	8.6%	7.1%	10.8%	10.5%
Nasdaq Composite[4]	26.3%	25.0%	5.8%	10.4%	13.4%	13.1%
NYSE Composite[4]	1.4%	14.3%	6.6%	3.3%	4.8%	4.9%
S&P 500[2]	13.1%	21.6%	10.2%	9.9%	11.9%	11.3%

	3Q 2023	3Q 2022	3Q 2020	3Q 2018	3Q 2013	3Q 2008
10-Year Treasury Bond[5]	4.2%	3.1%	0.7%	2.9%	2.7%	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, 3Q 2023.

Taking a wait-and-see approach, the Fed has kept the target rate steady at 5.25% to 5.50% since July following 11 consecutive increases during the 2022-2023 cycle. Interest rates remain historically high, however, with the 10-year Treasury rate reaching a 2023 peak of 4.98% on October 19. The rate has fallen steadily since, declining about 80 bps as of early December. November witnessed the biggest tightening of interest rates in 38 years.

In the third quarter, all three major stock indexes suffered their worst losses since last year's third quarter and erased much of the gains enjoyed in the first half of the year. The Dow, S&P 500 and Nasdaq experienced losses of about 2.7%, 3.3% and 4.1%, respectively in third quarter. October was mixed for all three indexes; however, each ended the month near 2023 troughs. November witnessed a rally in the stock market; by December 11, the Nasdaq was at the highest level since June, the S&P 500 was at the highest level in two years and the DJIA was near a record high. All three indexes posted YTD gains as of December 11 of 9.8% (DJIA), 20.4% (S&P 500) and 37.9% (Nasdaq).

With the 10-year Treasury rate at a 16-year high, spreads between RERC real estate yields and the 10-year Treasury compressed in third quarter following an increase in both real estate yields and the 10-year Treasury. Third quarter corporate bond rate increases outpaced the rise in real estate yields, resulting in narrowing spreads QoQ. Third quarter spreads were among the narrowest since the GFC.

The third quarter CRE yield over 10-year Treasury spread was 200 bps below the LTA. Second quarter real estate yield spreads over Moody's Baa and Moody's Aaa were each about 125 bps below the LTA.

CRE & Investment Alternatives

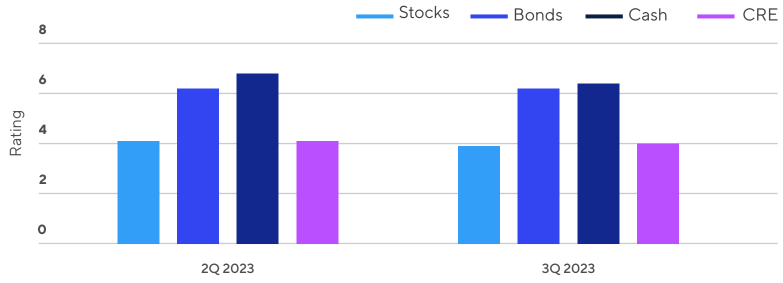
Investor optimism for all asset classes, except bonds, declined in third quarter. The rating for bonds remained unchanged. As has been the case for over a year, cash and bonds have been the most preferred assets amid the combination of high interest rates (bonds) and significant economic uncertainty (cash), while CRE and stocks were the least preferred (for the same reasons).

According to investors, the intention of the Fed to keep rates higher for longer combined with the possibility of a soft landing may extend the opportunity to earn higher yields on lower-rated debt vehicles. There is a window for the next few months to lock in good rates if purchasing bonds. Cash availability allows flexibility as market forces change and investors note that the relatively high Interest rates on cash provide a good, safe return relative to the high risk in other asset classes.

The risk differential is keeping money in short-term Treasuries and near risk-free assets and given the uncertainty in the markets, stocks – including REITs – were perceived as the least preferred asset class among investors. For CRE, investors note that most sectors are stagnant and many property owners are returning the keys to the lender when their loan resets.

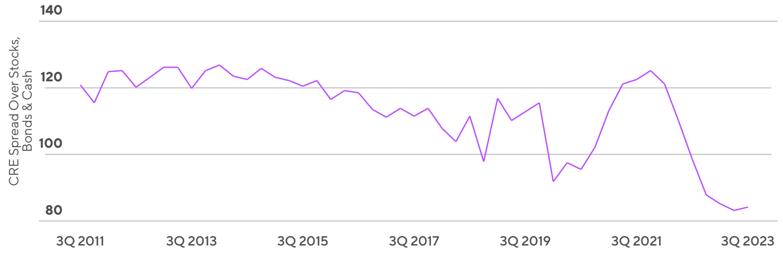
> “A cautious course of investment is most prudent at this juncture.”
>
> - SOUTH REGION INVESTOR

Ratings of Investment Alternatives



Ratings are based on a scale of 1 to 10, with 10 being excellent.
Sources: RERC, SitusAMC Insights, 3Q 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, 3Q 2023.

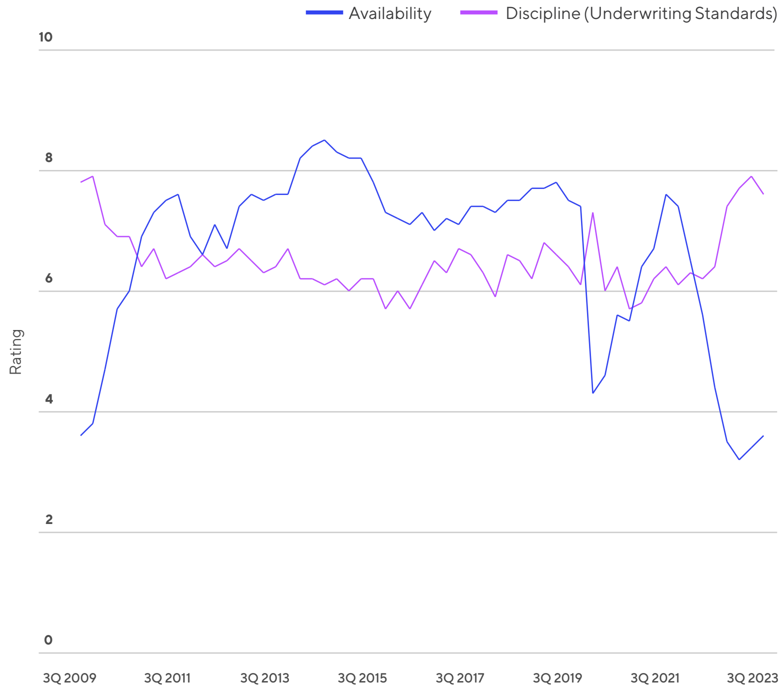
Availability & Discipline of Capital

According to investors, capital was slightly more available and discipline loosened in third quarter. Still, the availability of capital was rated as among the lowest since the GFC, as it has for the past year. Similarly, the discipline of underwriting standards remains among the tightest since the GFC. According to investors, the rising cost of capital and its implications on the availability of debt and valuations are causing groups to pause on transaction activity. There is still lots of cash available to invest, but the investors are becoming more selective.

In 2014, RERC began collecting data on the availability and discipline of equity and debt capital separately. Equity capital remains more plentiful than debt capital, as it has since the onset of the pandemic, despite a sizeable increase in debt availability ratings QoQ. Though equity and debt availability ratings were among the lowest on record, they were the highest in the last year. While there is demand, the lack of sales suggests that equity availability and discipline are very cautious at this time, according to investors. Higher interest rates appear to be discouraging borrowers and investors note that equity is cheaper than borrowing at the moment.

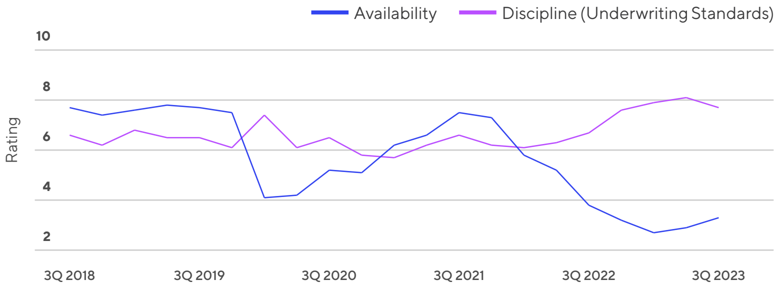
> "Lenders are husbanding capital."
>
> - SOUTH REGION INVESTOR

Historical Availability & Discipline of Capital – Equity & Debt Combined

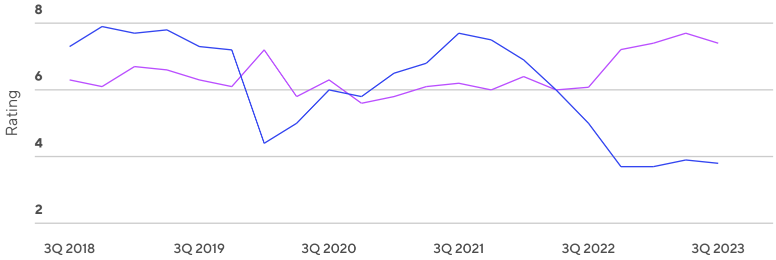


Ratings are based on scale of 1 to 10, with 10 being excellent.
Sources: RERC, SitusAMC Insights, 3Q 2023.

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, 3Q 2023.

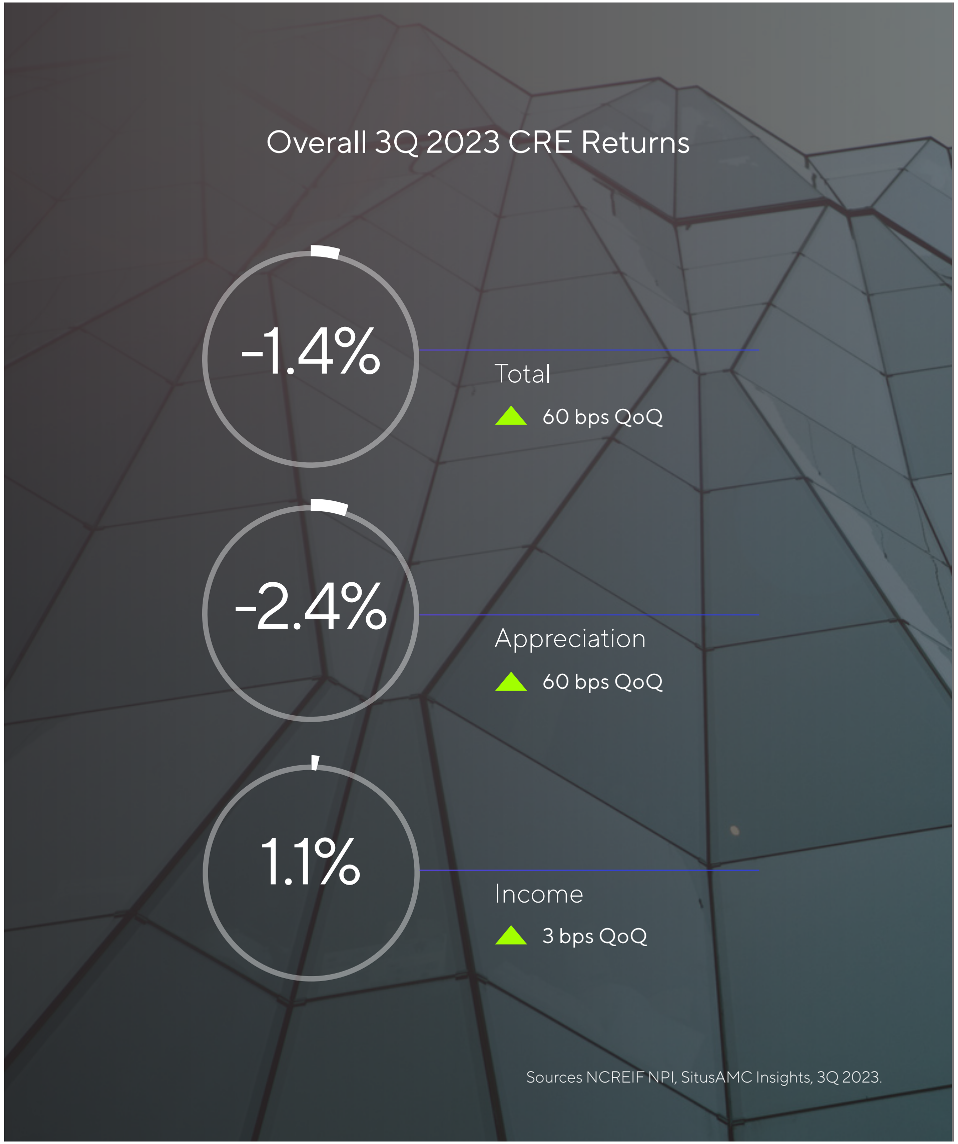
CRE Returns, Volume & Pricing

Returns

Third quarter CRE performance improved slightly in third quarter, with NCREIF NPI overall CRE returns up by 60 bps quarter over quarter (QoQ). However, the CRE market remains weak, with returns in the red for the fourth consecutive quarter at -1.4% and one-year trailing returns at -8.4%. Over the past year, returns have been the worst since the GFC.

Hotel had the strongest third quarter returns among the main property types at 1.9% and was the only segment to earn a positive quarterly return. Hotel had negative appreciation in third quarter for the first time in over two years; however, this was offset by the second-highest income return seen during the pandemic. Still, hotel has performed well over the last year with one-year trailing returns of 12.0%, among the highest in nearly eight years.

Retail returns were relatively flat in the third quarter and earned the second-highest returns among the property segments, despite remaining in negative territory. Though total returns were nearly 210 bps lower than the LTA, income returns were among the highest in eight years. Returns have fallen 240 bps since their pandemic peak set in early 2022. Neighborhood centers, community centers and power centers were able to eke out positive returns of between 0.5% to 0.6% each in the third quarter. Single-tenant retail was the worst-performing subtype. One-year trailing returns were -1.4%, the lowest in over two years.



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 in the third quarter from the pandemic trough in fourth quarter 2022, increasing almost 50 bps QoQ. Still, returns were negative, among the worst since the GFC and 300 bps below the LTA. All of the major industrial subtypes posted negative returns in third quarter, with flex performing the worst at -0.5%. One-year trailing returns were -5.3%, the lowest since the GFC.

NPI apartment returns were the second lowest among the property types, according to NCREIF. Apartment total returns remained negative for the fourth consecutive quarter, retreating from the previous quarter by 40 bps. Third quarter returns were 340 bps below the LTA and have fallen precipitously since their pandemic peak at the end of 2021, down 820 bps. However, income returns increased slightly to the highest level since the onset of the pandemic. Among the apartment subtypes, garden performed worst in third quarter. It was the first time since 2014 that garden apartments were the worst-performing subtype. One-year trailing returns were -7.6%, the lowest since the GFC.

Office returns were in the red for the fifth consecutive quarter despite being up more than 200 bps QoQ. The segment was once again the worst-performing in the NPI. Income returns, however, increased slightly to the highest level since 2014. Suburban office outperformed CBD office in third quarter by 230 bps, but both subtypes were substantially negative. The past year has been unkind to the sector with one-year trailing returns at -17.1%, the lowest since the GFC.

Volume

Overall CRE deal activity slowed again in third quarter to $92.8 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 is currently down 75% from the peak in fourth quarter 2021. However, because of record transaction volume in 2021 and 2022, the precipitous drop in deal volume seen since the Fed began its aggressive tightening policy is not as stark from a historical perspective. Third quarter 2023 volume was just 4.1% below the third quarter LTA (between 2001 and 2023).

Among the property types, all property types except retail saw quarterly drops in volume. Office, unsurprisingly, showed the greatest quarterly decline among the property types. However, the most recent data from October showed substantial MoM declines for overall CRE and each of the property types following the ongoing capital markets turmoil and high interest rates.

Apartment and industrial comprised the majority of transactions at 34% and 24%, respectively. These allocations are elevated compared to historical levels; apartment allocations were up 4 percentage points from their LTA and industrial allocations were more than 7.5 percentage points above the LTA. Investors increased their allocation to retail by 5 percentage points to 17% in third quarter, slightly above the LTA allocation of 14%. Office allocations continued to fall in third quarter to just 12%, about half of its LTA allocation. Hotel allocations remained roughly the same QoQ near 6.5% and are similar to the LTA of about 7.5%.

Third-quarter apartment volume was about $31.6 billion, a 1.2% decline QoQ and almost a 70% drop from their peak in fourth quarter 2021. Still, apartment deal activity was almost 8% above its third quarter LTA. However, apartment sales activity continued to deteriorate MoM in October, falling 52%.

Industrial volume fell 8.4% in third quarter to $21.9 billion; activity dropped 52% MoM in October. Though industrial volume is down about 73% from its peak in fourth quarter 2021, it is still nearly 40% above the third quarter LTA, following the record investor interest in the segment in 2021 and 2022.

Retail experienced somewhat of a renaissance in third quarter, with volume increasing 42% QoQ to $15.5 billion. Though retail transaction volume has fallen by 45.5% since the Fed began its aggressive rate hikes in June 2022, retail volume is more than 10% higher than its third quarter LTA. However, deal activity fell 60% MoM in October, the largest decline among the property types.

Consistent with poor investor sentiment for the segment and abysmal returns, office activity slowed by almost 20% QoQ to just $11 billion, the lowest since the GFC and nearly 55% below its third quarter LTA. The latest data from October show a 29% decline in volume MoM.

At nearly $6 billion, hotel experienced a 5.8% decline in transaction volume in third quarter, down more than 60% from its peak in second quarter 2021 and about 20% lower than the third quarter LTA. Hotel volume fell 40% MoM in October.

Pricing

As the Fed held interest rates steady at its September and November meetings, the National All-Property RCA CPPI, a gauge of property prices, was unchanged in third quarter. On a monthly basis, prices were stable from August to October, following a full year of depreciation. Since the Fed began its aggressive interest rate policy in June 2022, overall CRE prices are down 10%.

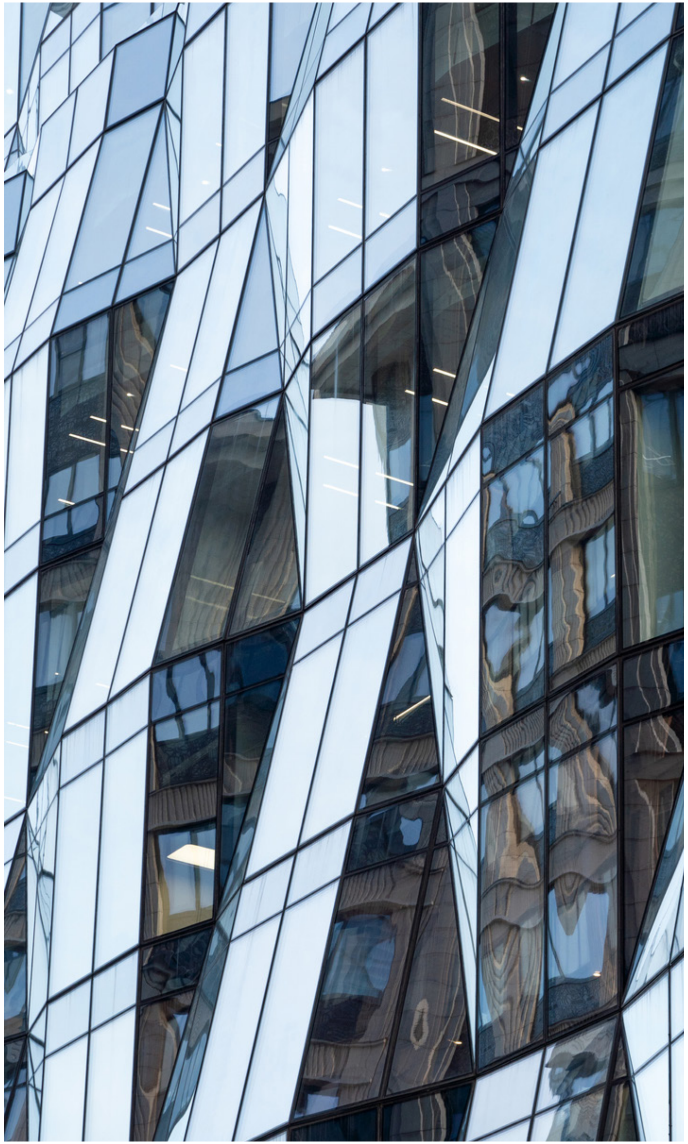
Every segment except industrial saw price declines QoQ. Industrial was also the only property type to experience a price increase MoM. However, because of the sharp increase in prices over the previous couple of years, prices for the overall CRE market and each of the major property types are up relative to COVID-19 levels despite their drop since midyear 2022. The national all-property CPPI is over 16% higher than pre-pandemic levels.

Industrial prices grew 1.3% in third quarter, on par with the LTA quarterly growth of 1.1%. Third quarter prices picked up steam in August 2023, with monthly increases through October. Because of the rally, industrial prices are now 1.5% above their previous peak in October 2022 and up a whopping 45% since the onset of the pandemic.

Retail price growth slowed to -0.7% in third quarter, and experienced another decline of 0.3% MoM in October. Despite the decline in prices, retail fared second best among the main property segments. Though prices are down 8.6% from their peak in July 2022, they are over 10% higher than pre-pandemic levels.

Office prices fell 1.7% in third quarter, marking five consecutive quarterly declines. Since the price peak in July 2022, prices are down just over 11%. Fourth quarter is not starting out any better with a 1.5% decline MoM in October. Still, pricing remains above pandemic levels by 3.5%; however, a bifurcation exists, with suburban office gaining 5.5% since the pandemic, but CBD falling over 7.5%.

Apartment prices had the greatest quarterly decline among the segments at -2.4%. It was the fifth straight quarter of declines following the massive run-up in pricing in 2021 and 2022. Prices have fallen over 16% from their peak in July 2022, but are 18.3% above pre-pandemic levels.



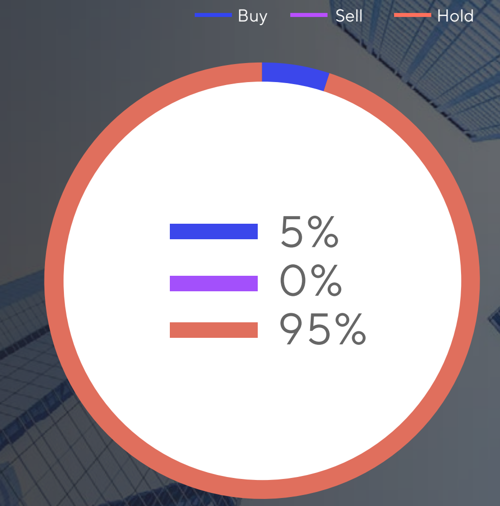
RERC Buy, Sell or Hold

Continuing uncertainty in the financial markets and ongoing lack of pricing transparency kept investors waiting in a hold position in third quarter. The recommendation to hold grew four percentage points to 95%, remaining at the highest hold endorsement since RERC began collecting these data in 1996. For perspective, third quarter's hold recommendation was about double the level seen during the height of the GFC. Investors were least likely to recommend selling with preference for the strategy dropping from 6% to 0%. Buy recommendations increased QoQ from 3% to 5%. The recommendation to buy and sell stayed near record lows in third quarter, roughly 20 percentage points and 15 percentage points below GFC levels, respectively.

Investors recommended holding for the overwhelming majority of property types: suburban office, warehouse, R&D, flex, regional mall, power center, apartment and hotel. Investors were bullish on apartments; it was the only main property type with a buy rating. CBD office was the only segment to earn a sell rating.

> "Sellers are taking lower offers with greater down and less financing."
>
> -MIDWEST REGION INVESTOR

Buy, Sell & Hold Recommendations – Overall CRE



Percentage of total respondents recommending buy, sell or hold.
Sources: RERC, SitusAMC Insights, 3Q 2023.

02

VALTRENDS BY PROPERTY TYPE

Hotel Stands Out; All Else Flat to Down

RERC Perceived Return Relative to Risk

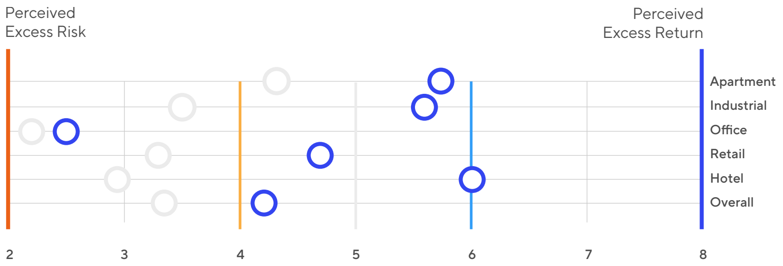
Ratings for overall CRE and all the property types improved in third quarter; however, investors perceive the risks in the overall CRE market continue to outweigh the returns. Sentiment varied widely by property type, with office being seen as the riskiest relative to return and hotel having the most favorable risk and return profile. All property types, except office had third quarter ratings above their LTAs.

Following nearly two years of deteriorating sentiment, ratings for office increased slightly QoQ. Still, third quarter's rating was among the lowest since at least 2007, when RERC began collecting these data. Retail ratings jumped significantly to the highest level in three quarters. However, the sector is seen as risky relative to returns.

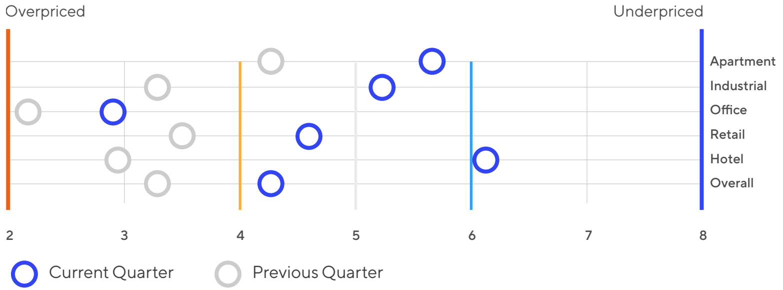
Industrial and apartment ratings improved substantially in third quarter and these sectors are now perceived as having greater return potential relative to risk for the first time since first quarter 2021 and third quarter 2022, respectively. The rating for industrial was the highest in three years and investor perceptions of risk-adjusted returns were the most favorable in a decade.

Hotel ratings surged QoQ to the highest since third quarter 2022 and were among the highest rankings on record. Investors cite strong demand combined with the outlook for a mild or no recession in 2024 as reasons for the optimism in hotel.

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, 3Q 2023.

RERC Relative Value Sentiment

Relative value sentiment improved QoQ for overall CRE and each of the property types. Hotel, apartment and industrial were rated as underpriced in third quarter, with hotel and apartment each being rated as the most underpriced since at least 2007 when RERC began collecting these data.

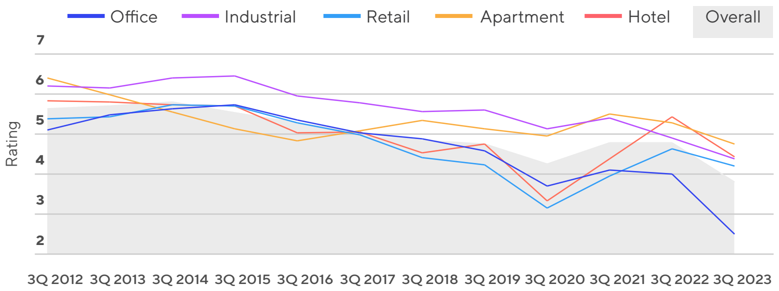
With strong demand and little vacant land for new construction, industrial fundamentals remain strong, according to investors.

Apartment demand outstrips supply now that completions are dropping, so investors see upside for the segment. Apartments are seen by investors as a strong option, with demand outstripping supply and providing an inflation hedge.

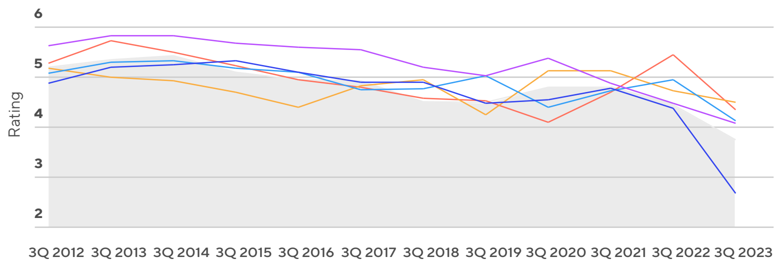
Despite the slight uptick in ratings QoQ, office was seen as the most overpriced sector. Ratings over the past year have been the lowest on record. In addition to the structural concerns over work from home, investors remark that suburban and downtown office markets continue to show weakness as tenants downsize.

Though retail experienced a substantial increase in ratings QoQ, the sector is still perceived as overpriced. Investors note a bifurcation of the sector. For grocery-anchored centers, low vacancy is pressuring rents higher, creating upside potential. Malls, however, continue to perform poorly, according to investors.

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, 3Q 2023.

SitusAMC Office Insights

Office fundamentals continued to deteriorate, with occupancy dropping 30 bps QoQ to a record low, per Reis. Third-quarter net absorption was substantially negative and among the weakest since the GFC.

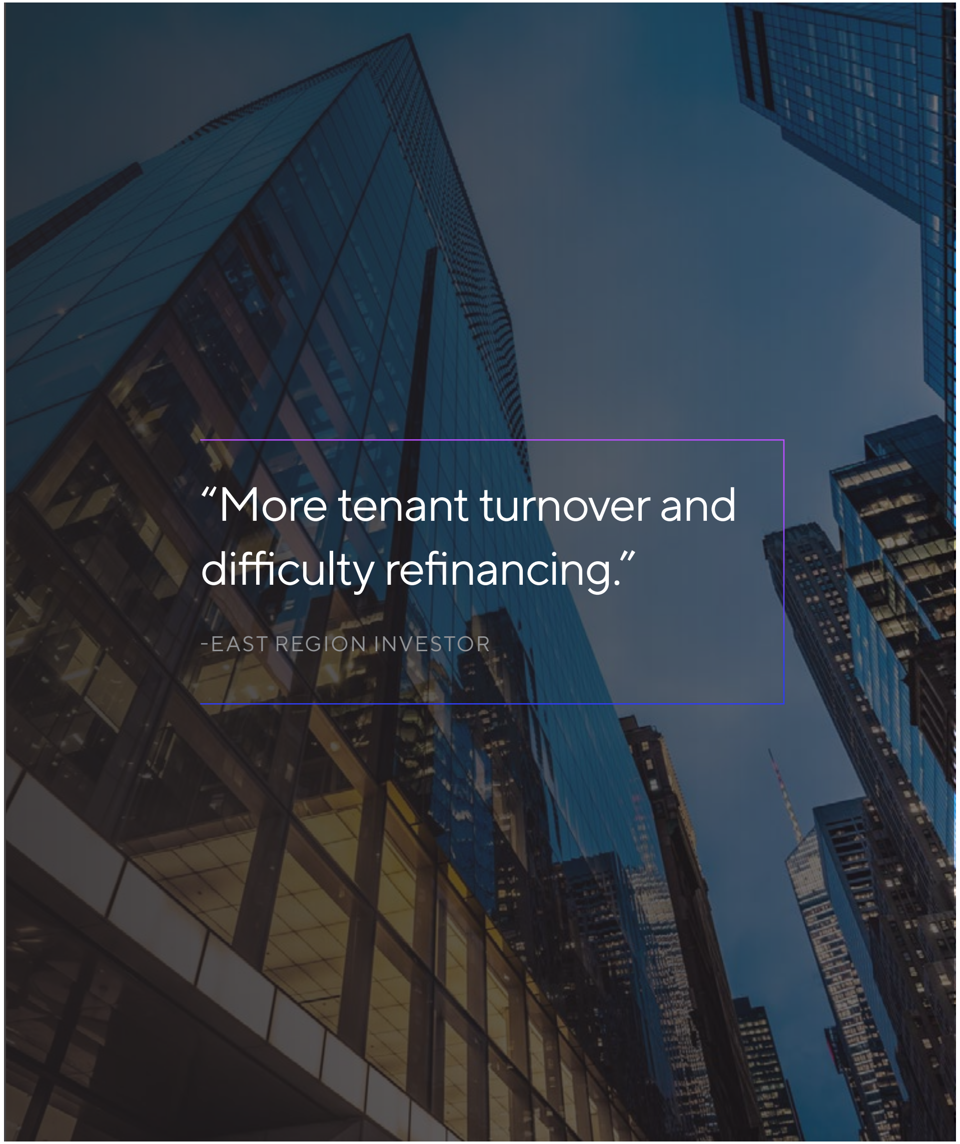
Effective rents slightly declined in third quarter, marking the first decrease since mid-2021. Rents are 1.5% above pre-pandemic levels. Completions fell by 78% QoQ to the lowest level on record.

Class A office occupancy was the lowest on record in third quarter and was an astonishing 430 bps below the LTA. Third-quarter Class BC occupancy was 70 bps higher than the pandemic low set in second quarter 2021, but was 240 bps below the LTA. Class A asking rents were unchanged in third quarter following 8 quarters of minimal increases; Class BC rents increased 0.1%, the seventh consecutive quarterly increase. Rents are up relative to pre-pandemic levels by 3.5% and 1.7% for Class A and Class BC, respectively.

SitusAMC states that debt maturities are a large issue for the office segment where significantly higher interest rates are resulting in owners having to infuse a large amount of capital just to refinance. This, combined with lower NOI, makes it difficult for owners to stay in the market and many are handing back the keys. Cash deals or seller financing are driving most of the sales activity.

While key card data from Kastle has pegged office activity in the 10 metros they cover averaging around 50% of pre-pandemic levels throughout 2023, recent cell phone tracking data from Placer.ai finds office activity in the top 26 downtowns at about 65% of pre-pandemic levels, according to Bloomberg. Business districts in San Antonio, Nashville, Midtown Manhattan, and San Diego have recovered more than 75%, while Portland, San Francisco and Denver lag list at around 50%.

Amid decreased demand and a wall of maturities, the Urban Land Institute reports a coming wave of distressed office, which could present opportunities for large returns for keen investors. Buyers should be focused on property fundamentals, tenant creditworthiness and lease terms in addition to capital requirements. MSAs facing the largest amount of office distress include New York, Washington, D.C. and Chicago.



SitusAMC Industrial Insights

Warehouse occupancy retreated from near-record highs by 20 bps in the third quarter. Occupancy remained near 550 bps above pre-pandemic levels and the LTA, per Reis. Net absorption remained positive in the third quarter, as it has since the GFC. However, absorption slowed to the lowest level since 2019 and was more than 60% below its LTA.

Warehouse effective rent growth continued to lose steam from record levels, growing by 0.8% in third quarter, the slowest pace since early 2021 but on par with the historical average. Still, rents are 42% above pre-pandemic levels following the epic run-up in 2021 and 2022. Ongoing supply shortages should keep rent growth afloat. Third-quarter completions declined by 40% to the lowest level since early 2019.

SitusAMC is seeing a paring back of industrial growth, especially in terms of rent. Amazon and other major tenants remain on the sidelines, often not seeking big spaces, and smaller tenants have become more price conscious, which is significantly hampering rent growth. Nevertheless, the dramatic rent increases over the past few years have helped mute the blow of recent rate expansion.

Excitement over AI is powering a boom in data centers. Developers are rushing to build hundreds of data centers that can provide the increased power and cooling capabilities required by AI computing. According to The Wall Street Journal, Blackstone has grown its data center development pipeline to more than $15 billion from only $1 billion in two years. Rising interest rates are less of a concern for data center owners because of extremely strong demand and the willingness of tenants to pay higher rates. Data center owners are less deterred by rising rates because their business is booming and their tenants are willing to pay higher rents, according to analysts and data-center companies.

NPI Total Return **-0.3%**

Warehouse Occupancy Change **-20** bps QoQ

Warehouse Effective Rent Growth Change **+0.8%**

"Strong occupancy and rent stability."

-WEST REGION INVESTOR

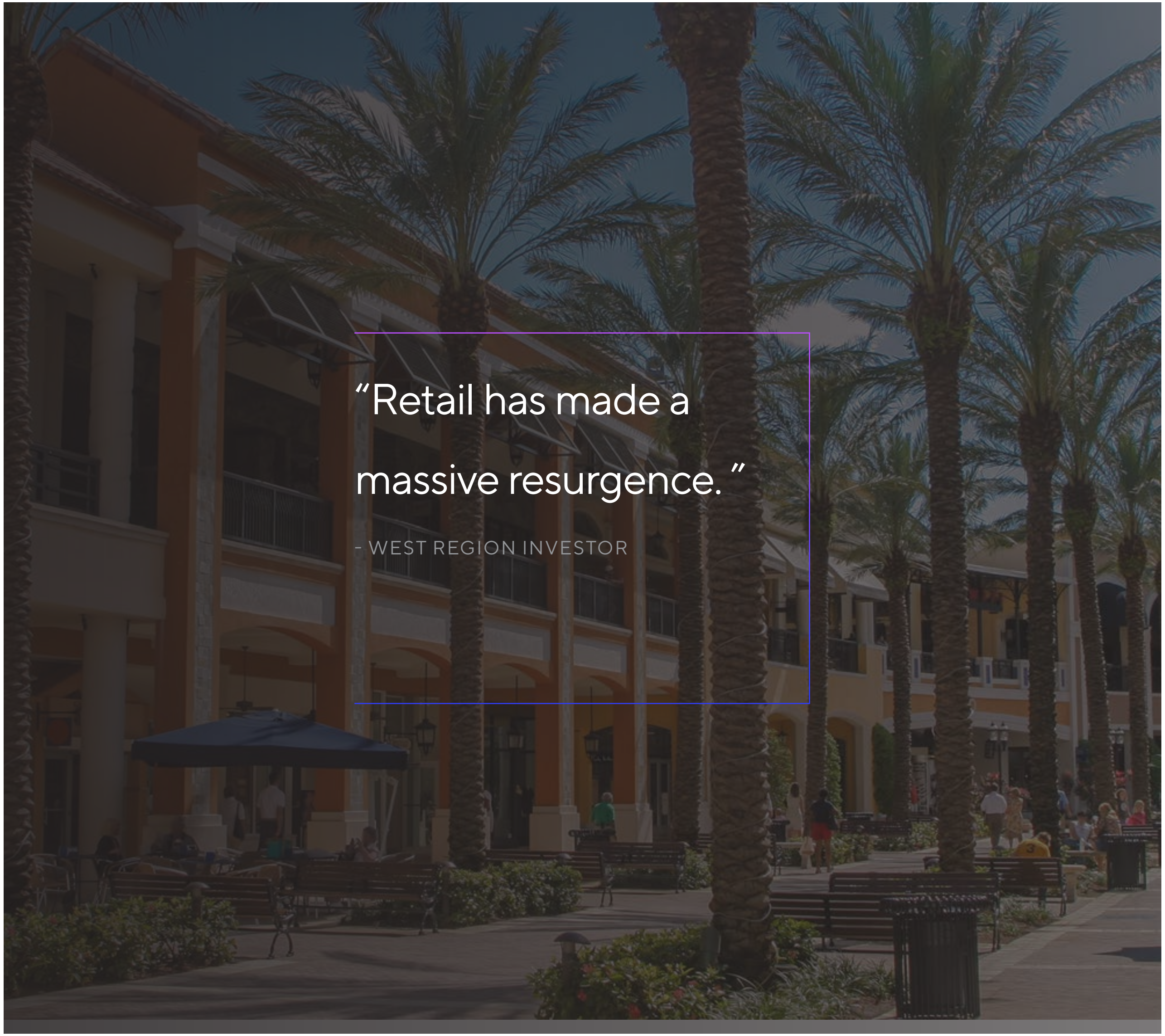
Sources: NCREIF, Reis, SitusAMC Insights, 3Q 2023.

SitusAMC Retail Insights

Retail fundamentals were solid, with the third quarter occupancy rate remaining unchanged for the third consecutive quarter at the highest level since the beginning of the pandemic, according to Reis. Occupancy is still 120 bps below the LTA, however. Third-quarter retail completions were the lowest on record. Net absorption slowed substantially in the third quarter, though it remained positive, as it has for the last 11 quarters. Effective rents grew for the tenth consecutive quarter and have surpassed pre-pandemic levels.

In general, retail is finally seeing similar, though not as dramatic, investment rate changes as the other property types, according to SitusAMC. Unlike many of the other property types, retail did not see as much of a write-up over the last couple of years, so now it is not seeing as many write-downs.

The Wall Street Journal reports that the owner of Westfield Malls is dialing back its plans to sell nearly all of its U.S. properties this year, instead holding on to some top-tier, high-performing malls. Major mall operators are reporting strong tenant sales this year and occupancy in many high-end, Class A malls has reached or surpassed 2019 levels.



SitusAMC Apartment Insights

Apartment demand remained steady, though relatively weak, in the third quarter with occupancy unchanged QoQ at the lowest rate since mid-2021, according to Reis. Third-quarter occupancy was below both pre-pandemic and long-term average levels by 40 bps and 20 bps, respectively. Net absorption declined nearly 17% QoQ, but remained positive and near the LTA.

However, lower supply may offset the decline in demand. Completions fell for the fifth consecutive quarter to the lowest level since 2014. Effective rents ticked up slightly by 0.1% following an increase of 0.9% in the previous quarter. Rent growth has slowed tremendously from its peak in third quarter 2021; however, rents remain over 20% than pre-pandemic levels.

Class A occupancy grew 10 bps QoQ and was unchanged for Class BC. Class A occupancy has returned to pre-pandemic levels and was near the LTA. However, Class BC occupancy was among the lowest in a decade, though still 60 bps above the LTA.

Asking rent growth was slightly stronger in the third quarter for Class BC than Class A at 0.3% and 0.1%, respectively. Class BC asking rent growth has outpaced Class A during COVID-19, at 20.2% and 18.4%, respectively.

According to SitusAMC, apartments are seeing some of the largest valuation declines in recent years. Driven by investment rates and partly by budgets, valuations have seen declines anywhere from 2% to over 5% since last quarter. Because of the sharp Treasury rate expansion, multifamily borrowing costs have skyrocketed, which is weighing on appraisals and recent transactions.

The number of new apartment starts has fallen dramatically this year, a consequence of higher interest rates, declining rents and prior overbuilding in certain markets, according to The Wall Street Journal. Builders have also cited an increase in materials costs and rising expenses, such as insurance, as reasons that development projects are becoming difficult to pencil out.

NPI Total Return **-1.4%**

Occupancy Change **0** bps QoQ

Effective Rent Growth Change **+0.1%**

"Apartment vacancy rates are very low and demand is still not being met."

-EAST REGION INVESTOR

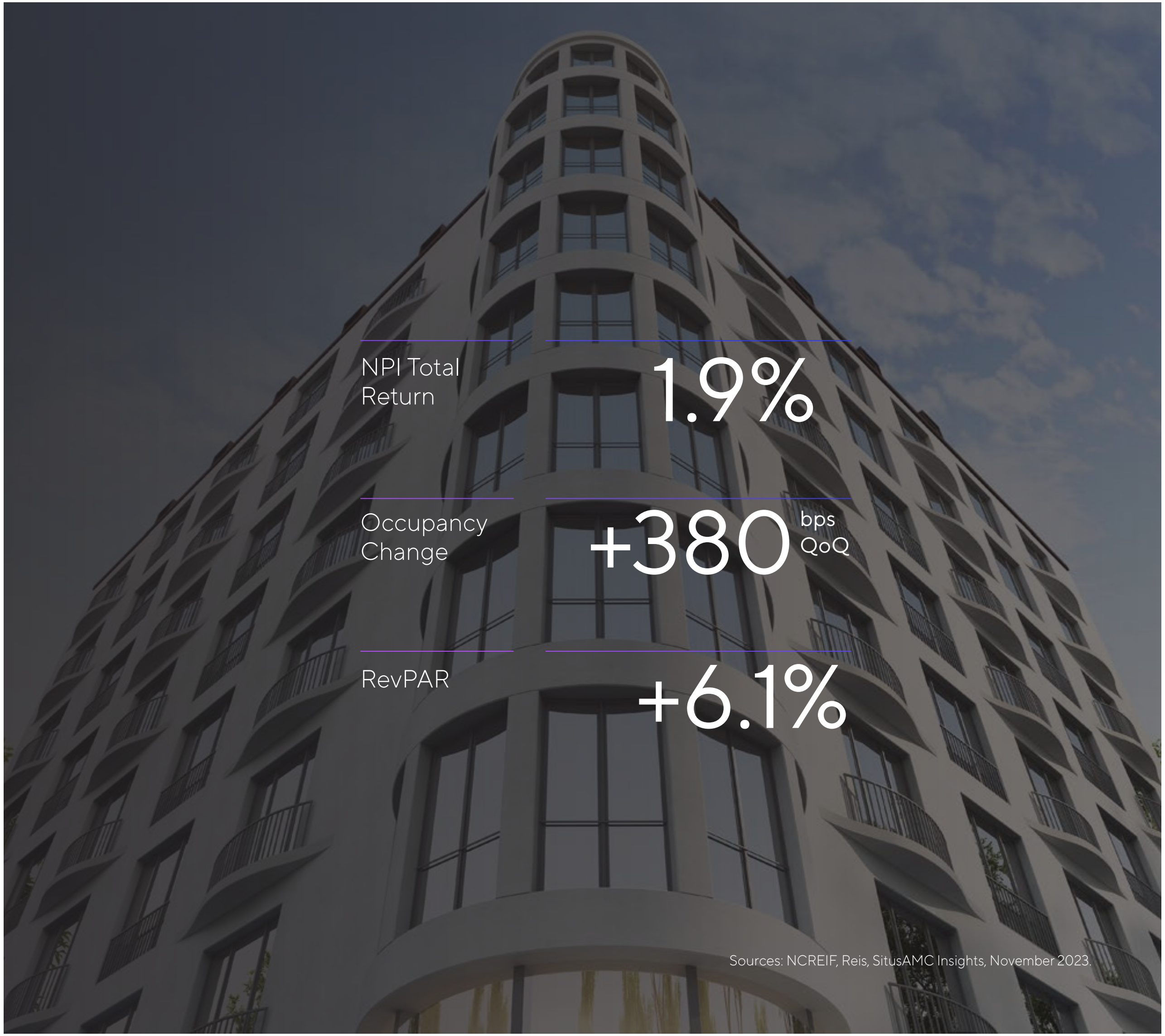
Sources: NCREIF, Reis, SitusAMC Insights, 3Q 2023.

SitusAMC Hotel Insights

Seasonally adjusted hotel occupancy surged in third quarter to the highest level over the past year. According to Reis, the current occupancy rate is almost 500 bps higher than the LTA, but remains about 140 bps below the pre-pandemic rate. 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.

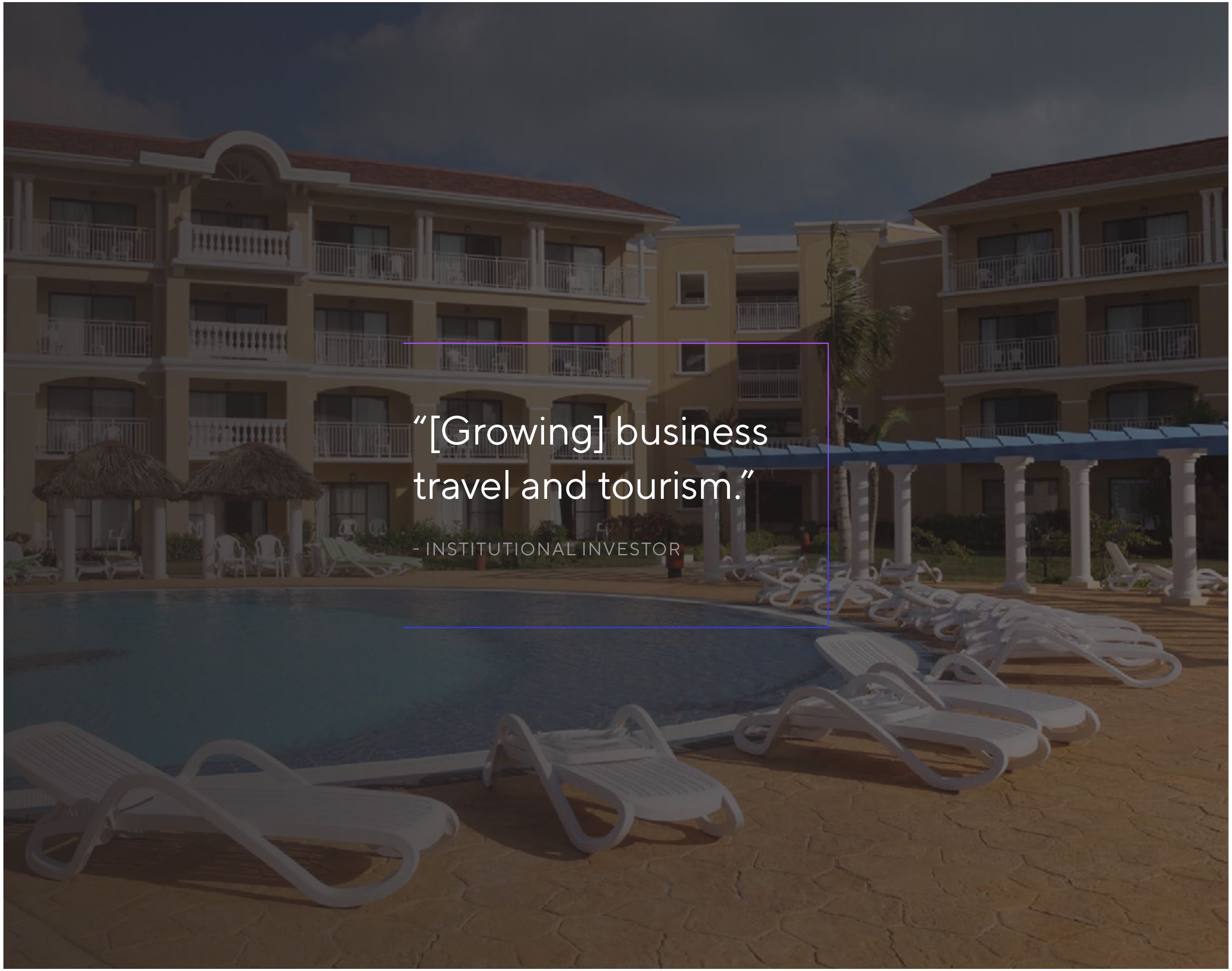
Seasonally adjusted room rates declined for the second consecutive quarter by 0.1%, reaching the lowest level since mid-2022. The third quarter jump in occupancy more than offset the decline in room rates, however, leading to a considerable increase in RevPAR for the quarter. Third-quarter room rates and RevPAR are 15% and 13% above pre-pandemic levels, respectively.

Both upper-tier and lower-tier hotels have yet to return to pre-pandemic occupancy. While third quarter lower-tier hotel occupancy was 60 bps shy of the pre-pandemic level, upper-tier occupancy was 220 bps



lower. Lower-tier hotels have outperformed upper-tier hotels throughout the pandemic. Lower-tier hotel RevPAR was 16% above pre-pandemic levels in third quarter, but was up just 7.3% for upper-tier hotels.

As reported in GlobeSt. the disconnect between solid demand and growth prospects and uncertain financing conditions is creating a sizable gap between the expectations of buyers and sellers in the hotel asset class. Buyers should be patient and very selective in their deals, looking for motivated sellers and taking advantage of minimal institutional competition for listed properties. Sellers who are not getting the price they want will likely need to wait for the cost of capital to decline, which should increase the buyer pool.



ValTrends by SitusAMC

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