

ValTrends
3Q 2024

October 22, 2024
2:00pm EST

First Look Webinar



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RASMUSSEN, Ph.D.**

Vice President
SitusAMC Insights



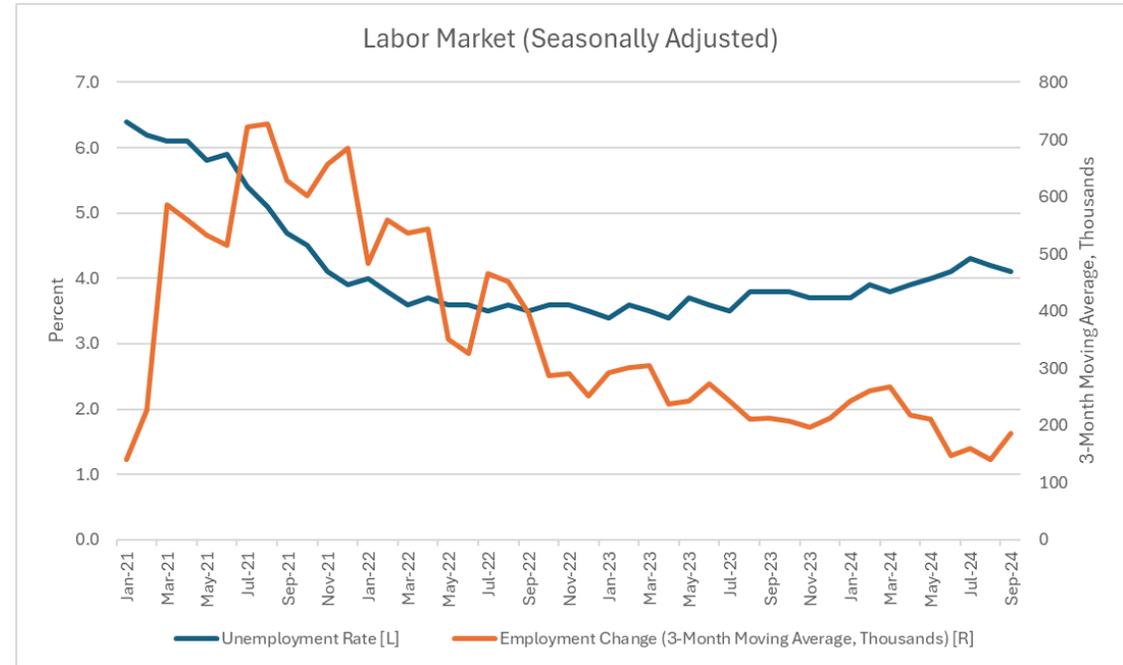
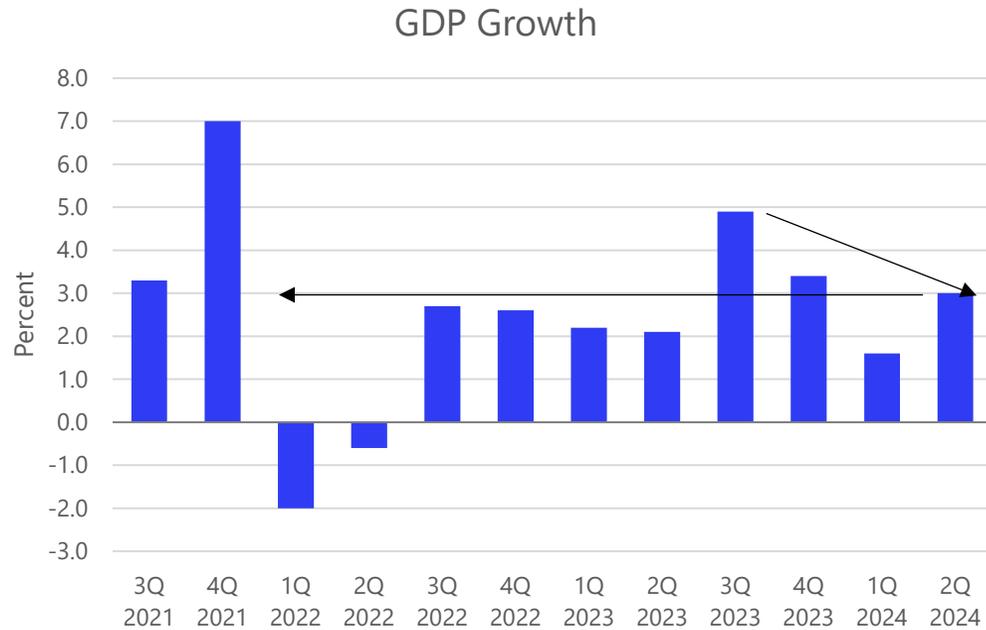
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Senior Director
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1.0

Macro Environment

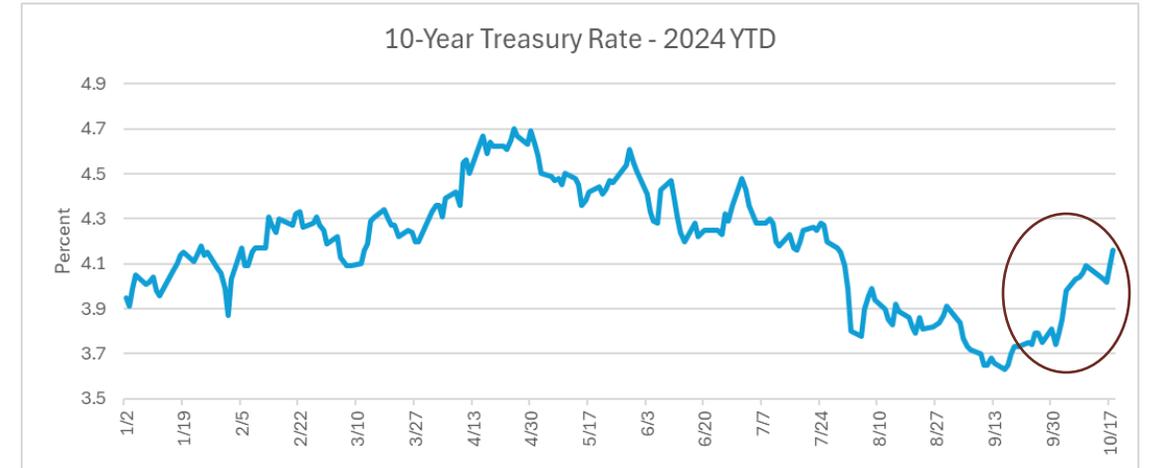
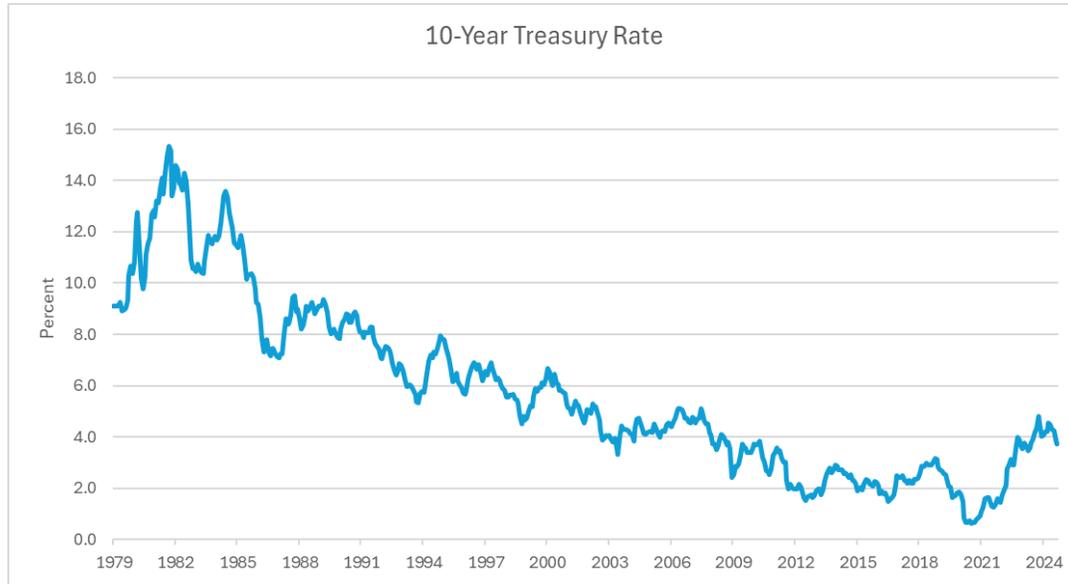
Growth Continues but Has but Economy Remains Resilient



2.0

Capital Markets

Increase in Interest Rates Was Traumatic for CRE; Eased but Then a Major Backup



FORECASTS

	SitusAMC Insights	Moody's	Wells Fargo	Goldman Sachs	WSJ Econ. Survey*
2022	3.0%	3.0%	3.0%	-	-
2023	4.0%	4.0%	4.0%	3.9%	-
2024(F)	4.0%	4.2%	4.0%	4.3%	4.1%
2025(F)	3.6%	4.2%	3.4%	4.1%	3.9%
2026(F)	3.8%	4.1%	3.5%	-	3.8%
2027(F)	3.9%	4.1%	-	-	-
2028(F)	4.0%	4.1%	-	-	-

Sources: Federal Reserve, Moody's, Wells Fargo, Goldman Sachs, WSJ, SitusAMC Insights. *:WSJ Economic Survey reflects closing yield.

POLL QUESTION

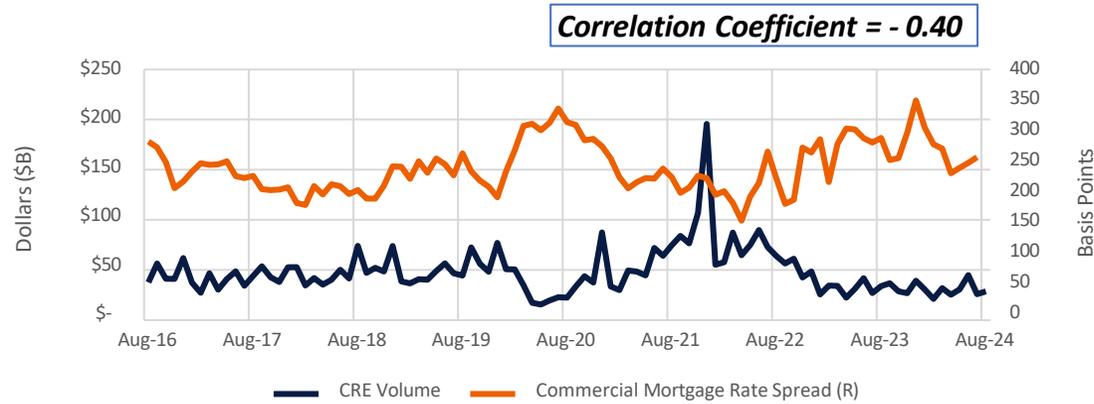
The Fed says it is on track to continue easing. However, the long end of the yield curve has backed up since the September rate cut.

When will long rates show sustained declines?

- A. 1 to 3 months
- B. 4 to 6 months
- C. 6 to 12 months
- D. More than 12 months

CRE Mortgage Spreads Continue to Tighten

MORTGAGE RATE SPREAD OVER 10-YEAR TREASURY VS CRE VOLUME

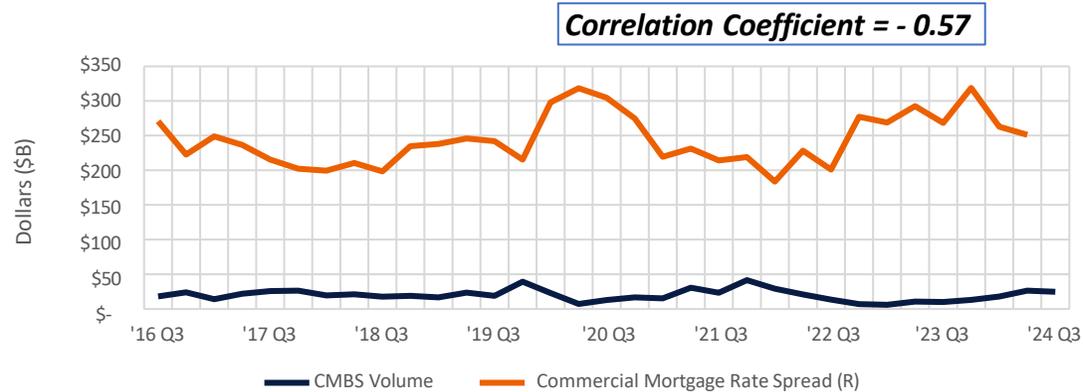


BY THE NUMBERS

CRE Deal Volume (\$B)		Mortgage Rate Spread	
Current as of August 2024	\$28.68	Current as of July 2024	260
Mo-to-Mo Change	+11.3%	Mo-to-Mo Change (Bps)	+9
Yr-to-Yr Change	-15.2%	Yr-to-Yr Change (Bps)	-24
8-year Average	\$47.96	8-year Average	245

Sources: FRB, MSCI REAL ASSETS, SitusAMC Insights *: The more negative the correlation coefficient, the greater the extent to which volume declines as spreads widen.

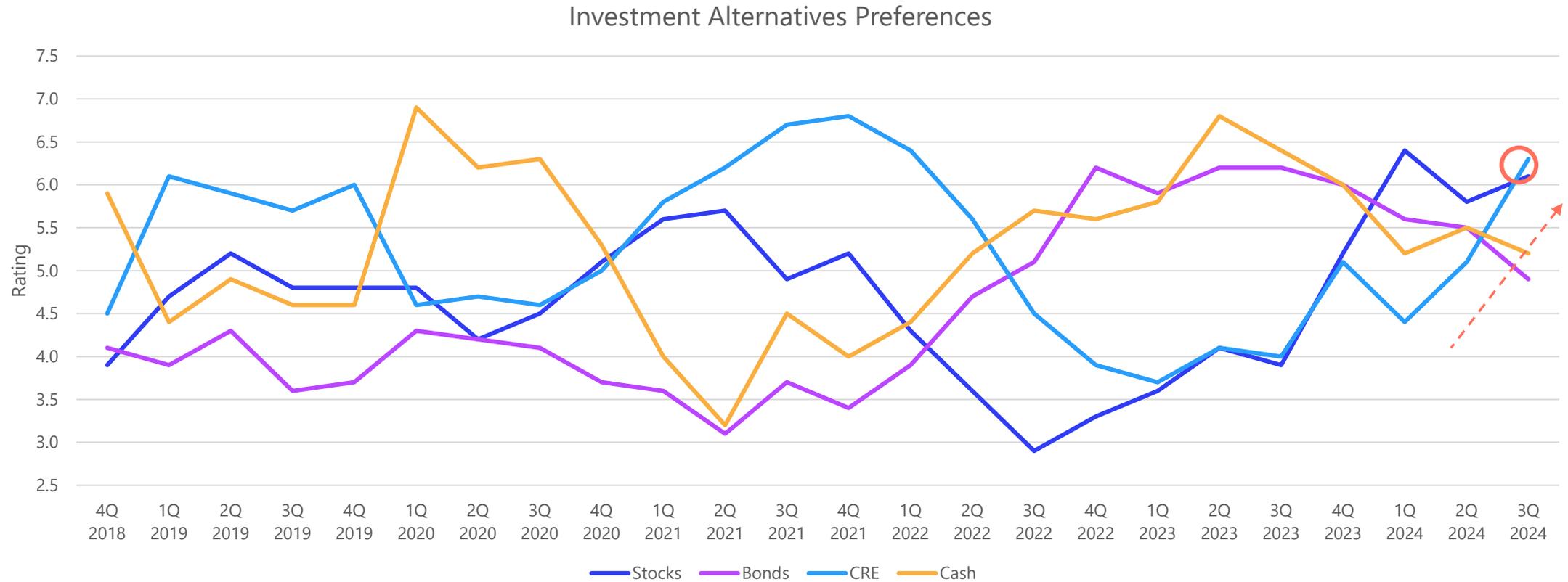
MORTGAGE RATE SPREAD OVER 10-YEAR TREASURY VS CMBS VOLUME



CMBS Deal Volume (\$B)		Mortgage Rate Spread	
Current as of 3Q 2024	\$24.66	Current as of 2Q 2024	251
Qtr-to-Qtr Change	-6.3%	Qtr-to-Qtr Change (Bps)	-12
Yr-to-Yr Change	+147.4%	Yr-to-Yr Change (Bps)	-41
8-year Average	\$19.83	8-year Average	244

Sources: FRB, MSCI REAL ASSETS, GreenStreet, SitusAMC Insights

CRE Now the Preferred Investment Alternative After Investor Preference Surges in Third Quarter



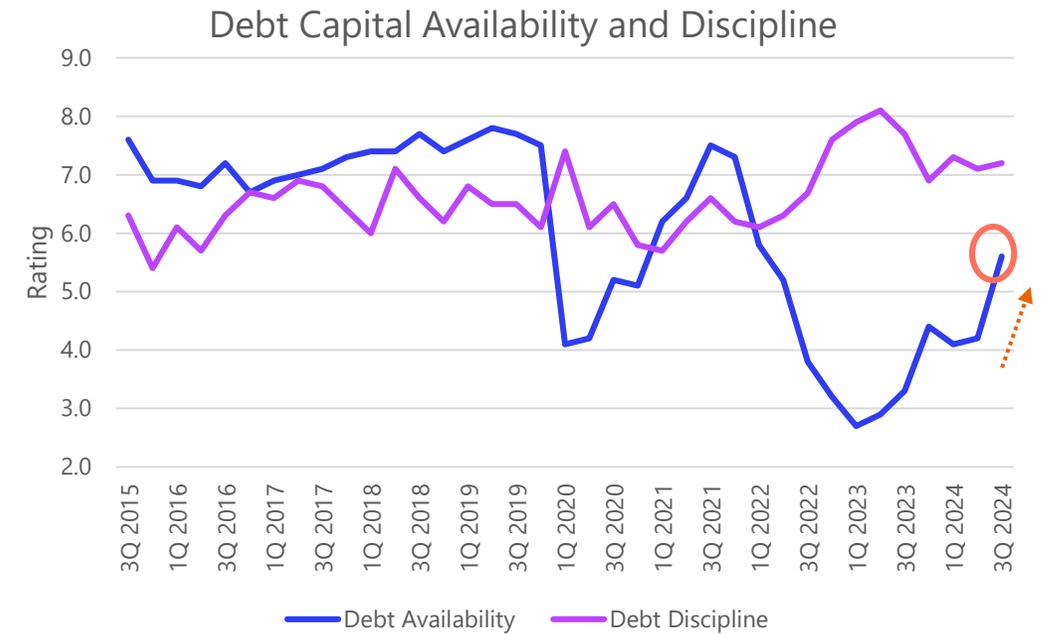
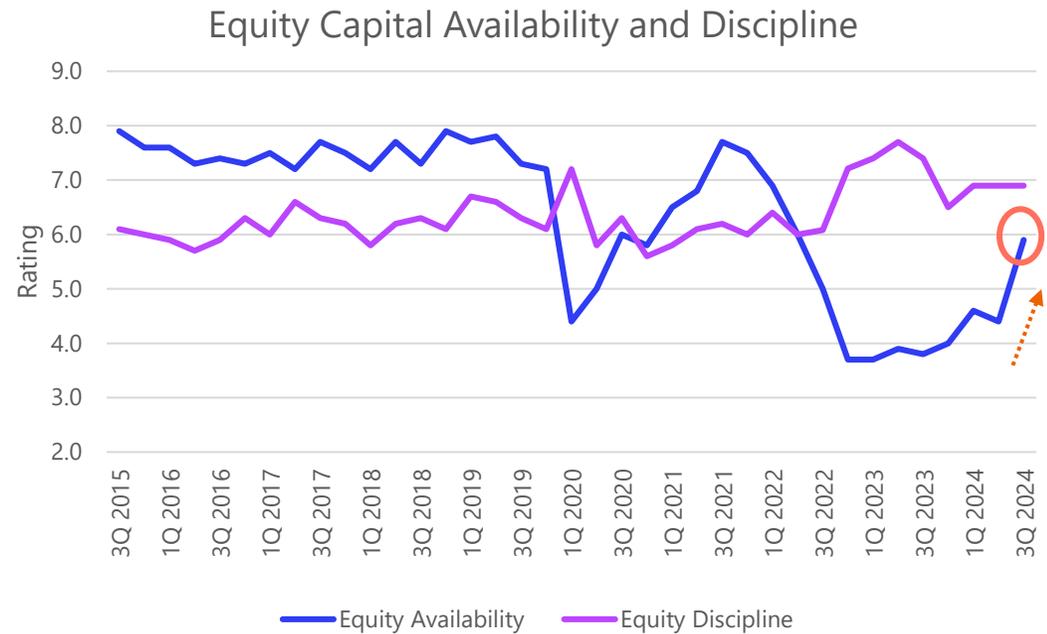
Note: Ratings are based on scale of 1 to 10 with 10 being excellent.
Sources: RERC, SitusAMC Insights.

POLL QUESTION

Is Capital Becoming More Available?

- A. Yes – For Equity Capital
- B. Yes – For Debt Capital
- C. Yes – For Both Equity and Debt Capital
- D. No – Neither Debt Nor Equity Capital

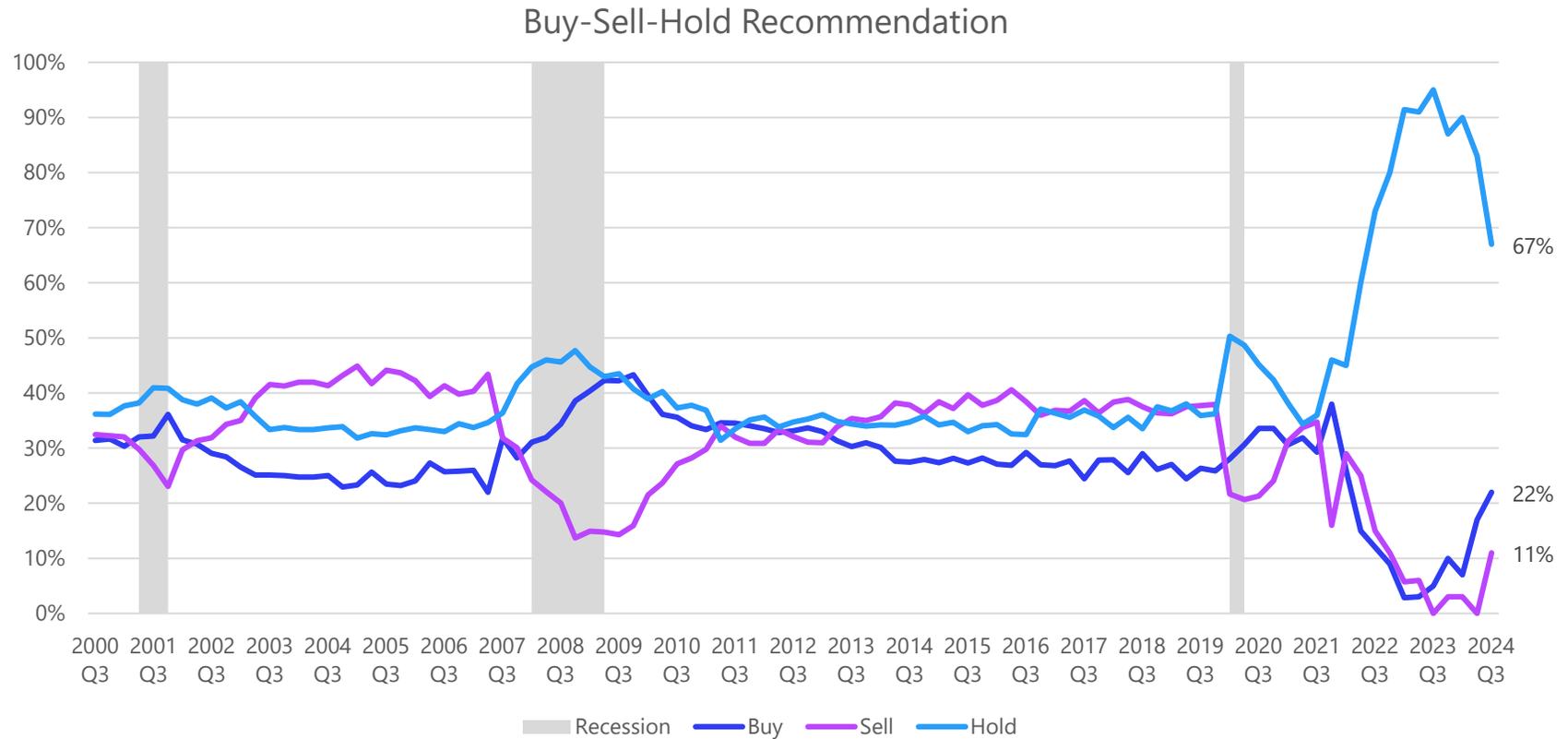
Equity and Debt Capital Availability Reach Highest Levels Since Mid-2022 While Discipline Remains Tight



Availability ratings are based on scale of 1 to 10, with 10 being plentiful. Discipline ratings are based on a scale of 1 to 10, with 10 being extremely restrictive.
Sources: RERC, SitusAMC Insights.

Signs of Market Thaw as Recommendation to Buy and Sell Increase

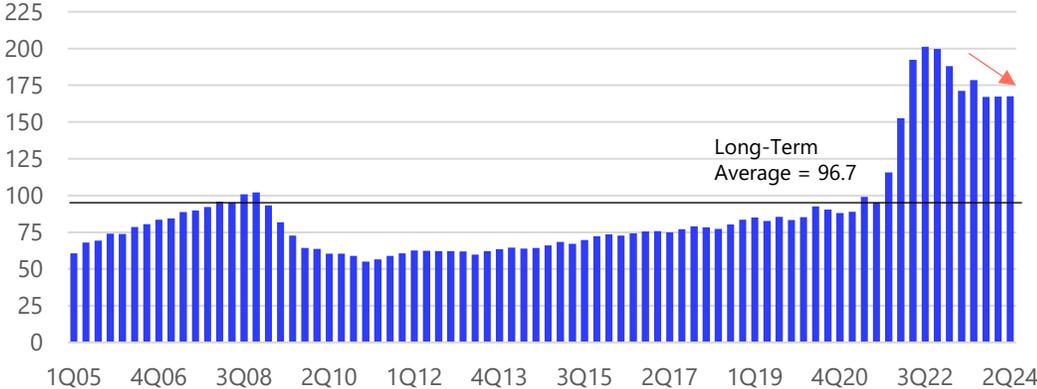
- GFC High
 - Hold: 48%
- GFC Lows
 - Buy: 31%
 - Sell: 14%



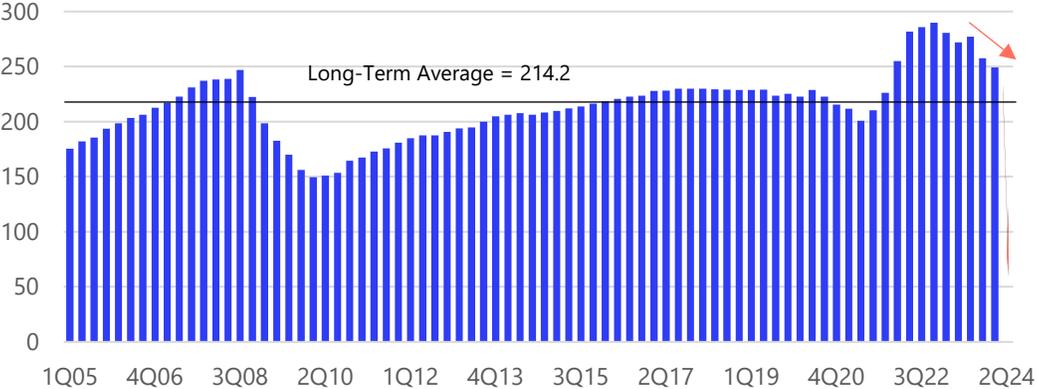
Bid-Ask Spreads Narrow But Remain Wide for Apartment and Industrial; Office Spreads Dipped Below Average in Second Quarter 2024

- Calculated as the spread between Green Street’s CPPI and NCREIF’s NPI Appreciation Index
 - Green Street CPPI is a Spot CPPI and represents "Bid"
 - NPI Appreciation Index is based on price changes in valuations and represents "Ask"

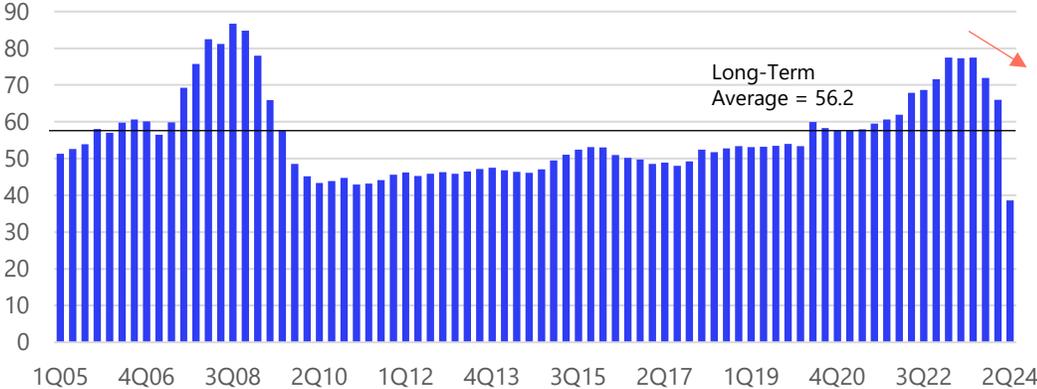
Industrial Bid-Ask Spread



Apartment Bid-Ask Spread

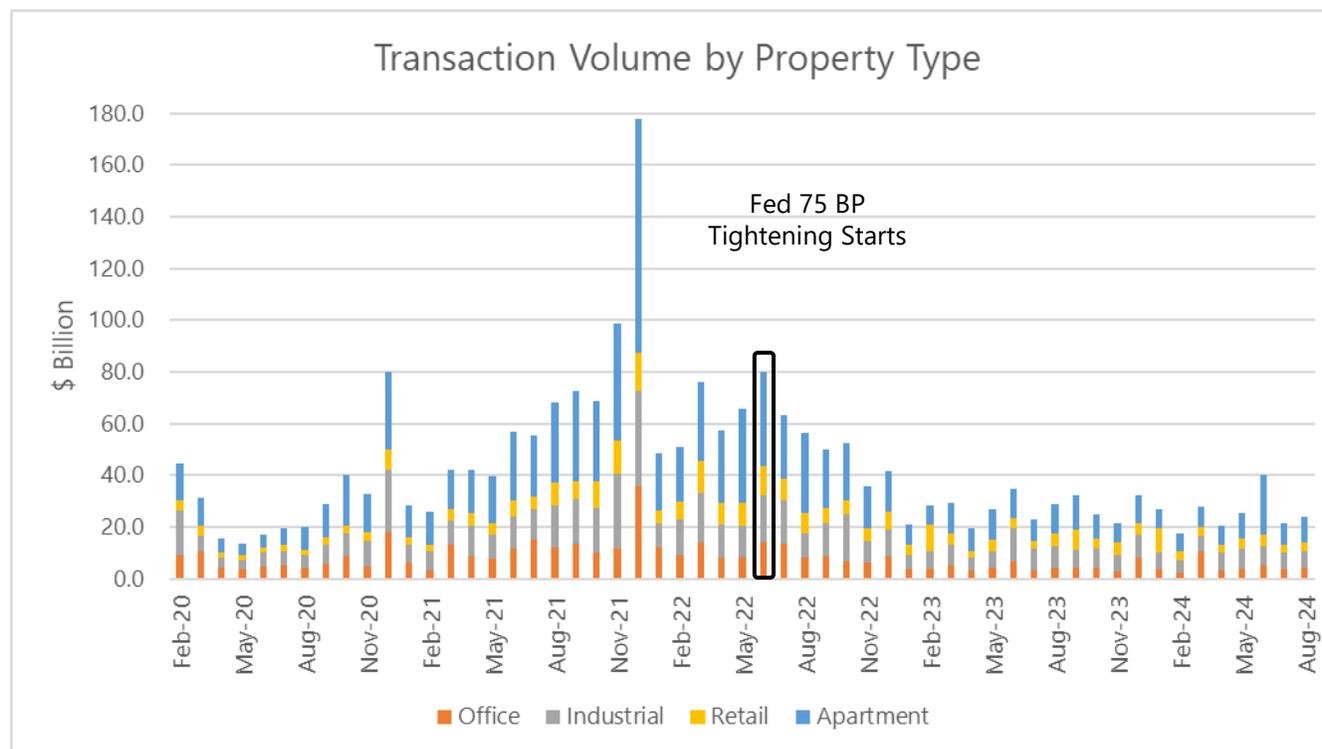


Office Bid-Ask Spread



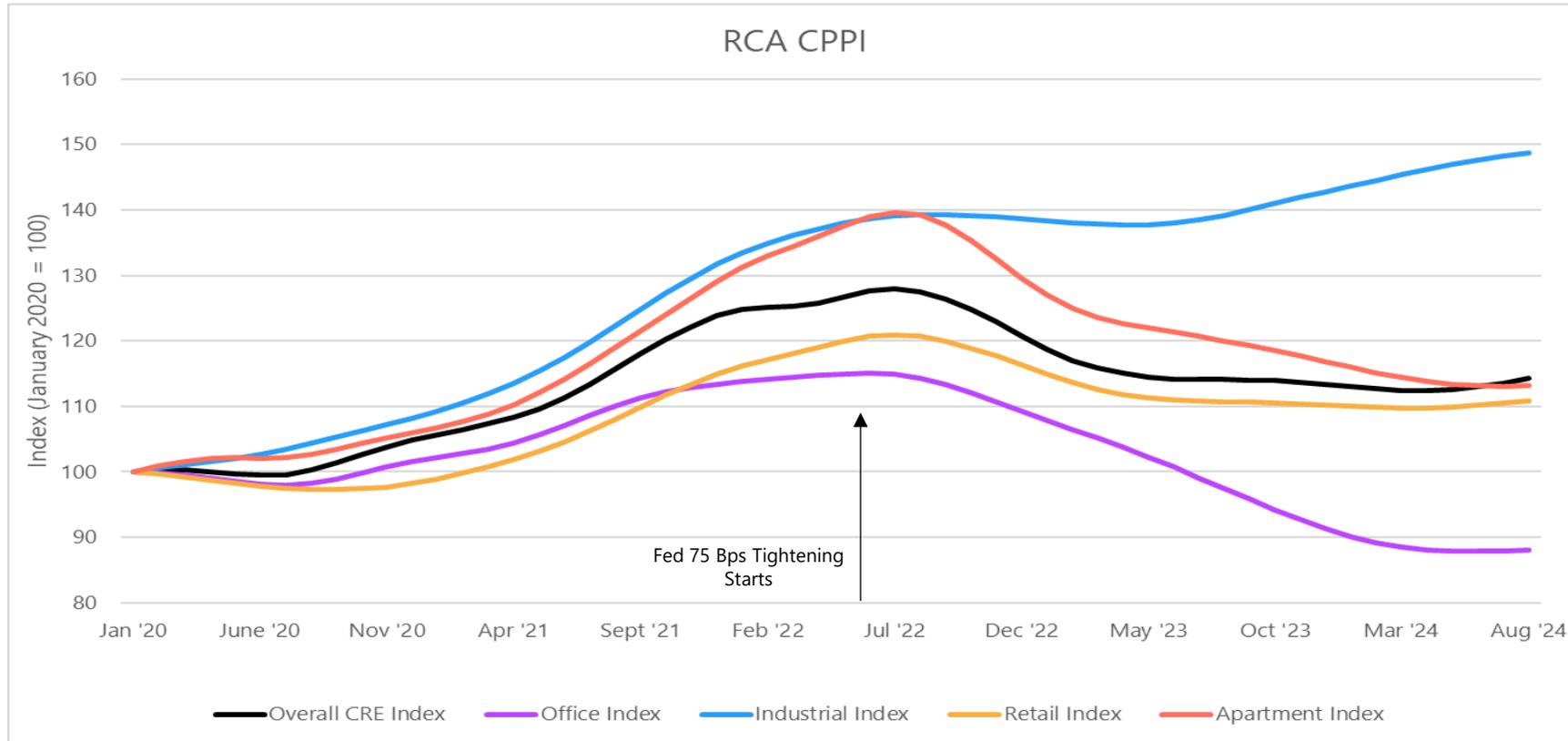
Sources: Green Street, NCREIF, SitusAMC Insights.

Deal Volume Remains Tepid; Overall CRE Volume Down 68% Since the Fed Began Its Aggressive Tightening



	Change Since Aggressive Fed Tightening in June 2022	GFC Peak to Trough
Industrial	-65.8%	-95.1%
Retail	-67.5%	-94.3%
Office	-70.0%	-98.7%
Apartment	-72.7%	-96.4%

Property Prices Look to Be Stabilizing



	Price Change Since Most Recent Peak
Industrial	+6.9%
Retail	-8.4%
Apartment	-18.9%
Office	-23.3%

POLL QUESTION

What property type is the best investment opportunity over the next year?

A. Office

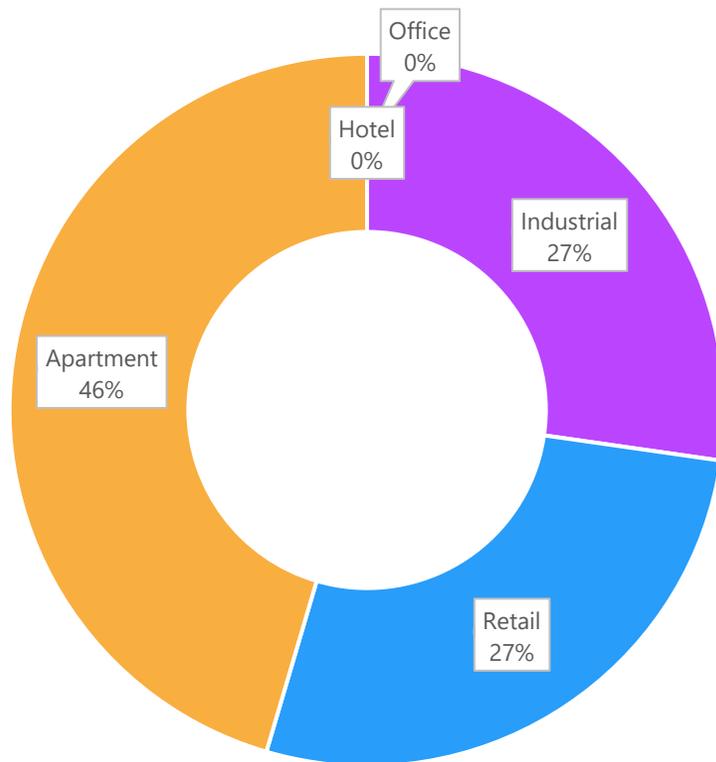
C. Retail

B. Industrial

D. Apartment

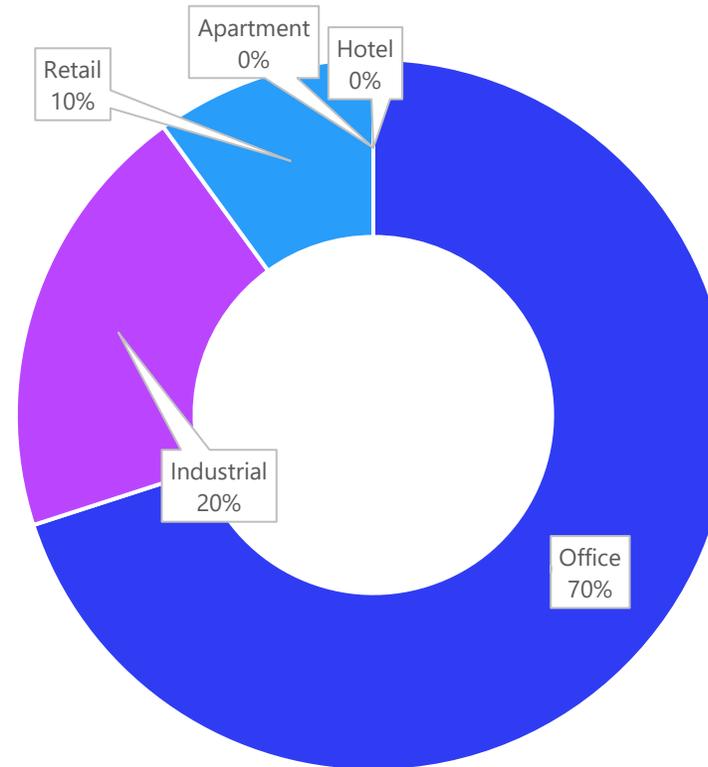
Out of the Woods: Investor Preference for Apartment Jumps in the Third Quarter – Now Ranked Best Property Type

Best Property Type



■ Office ■ Industrial ■ Retail ■ Apartment ■ Hotel

Worst Property Type

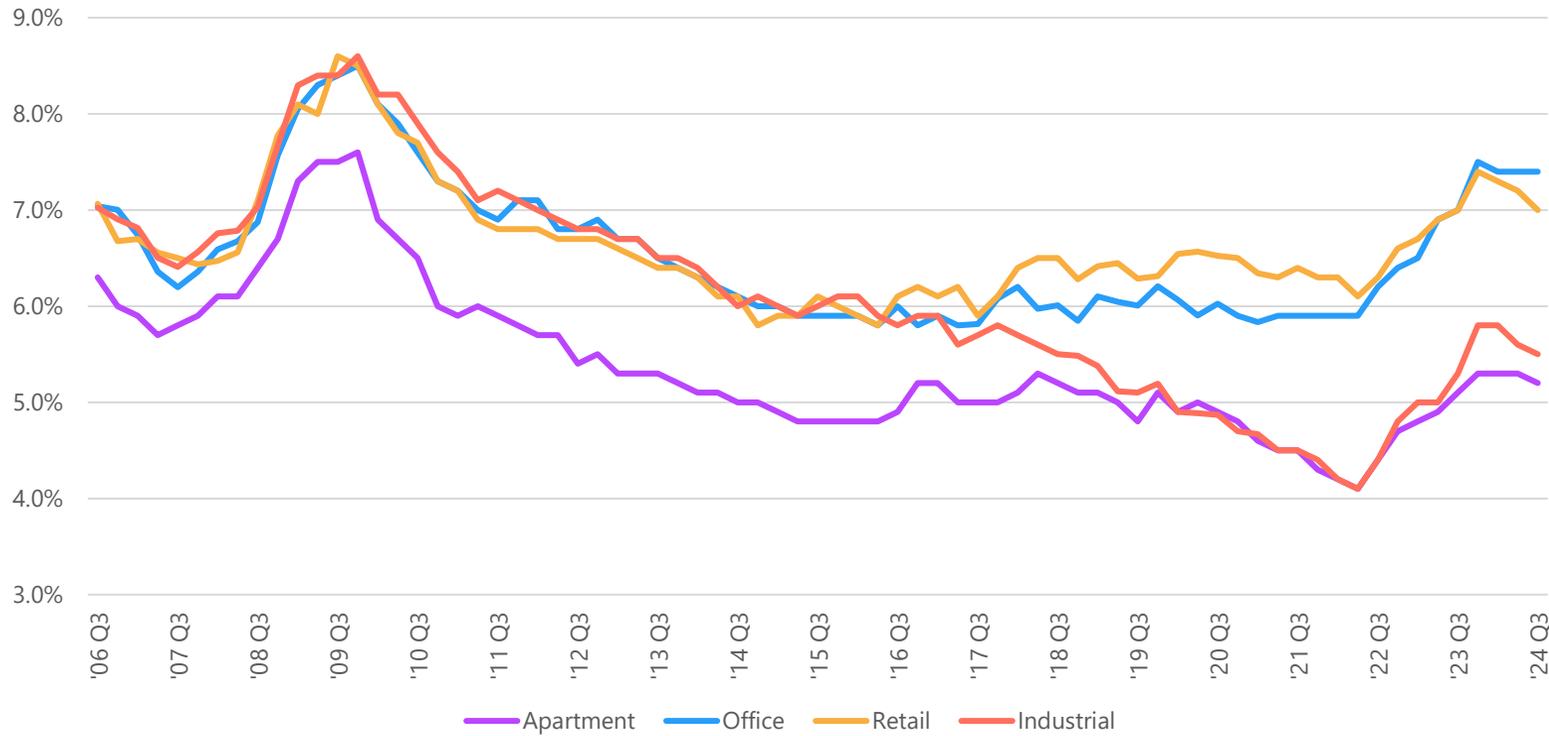


■ Office ■ Industrial ■ Retail ■ Apartment ■ Hotel

- 2Q 2024 Best Property Type
 - **Retail: 53%**
 - Apartment: 26%
 - Industrial: 11%
 - Office: 5%
 - Hotel: 5%

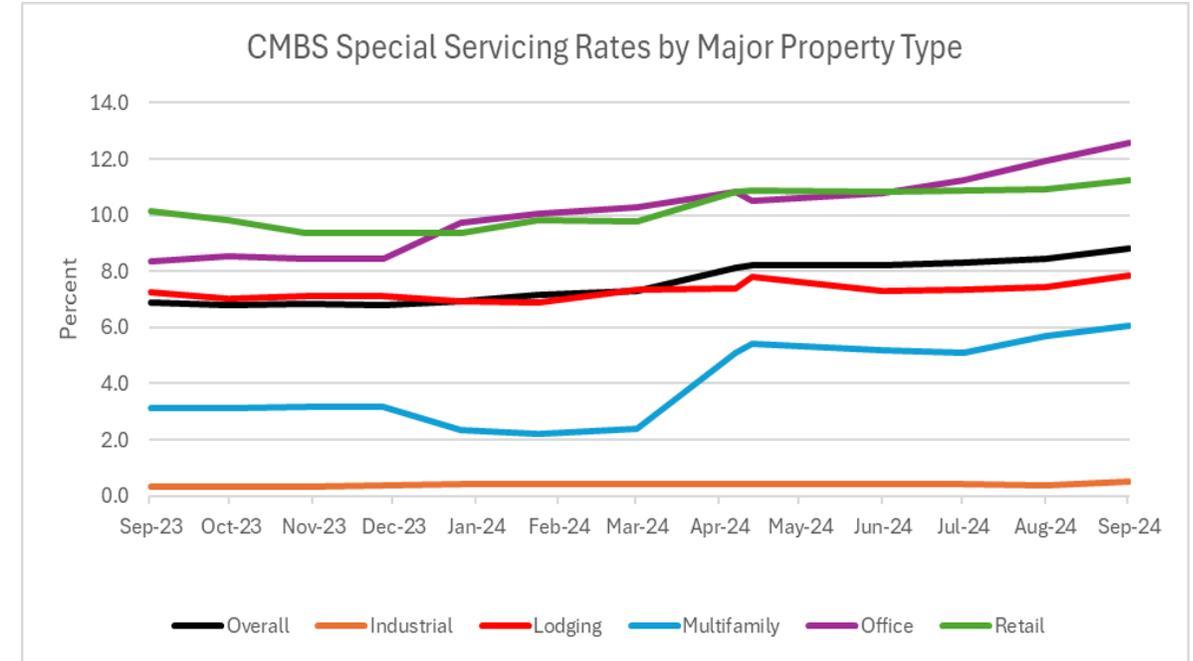
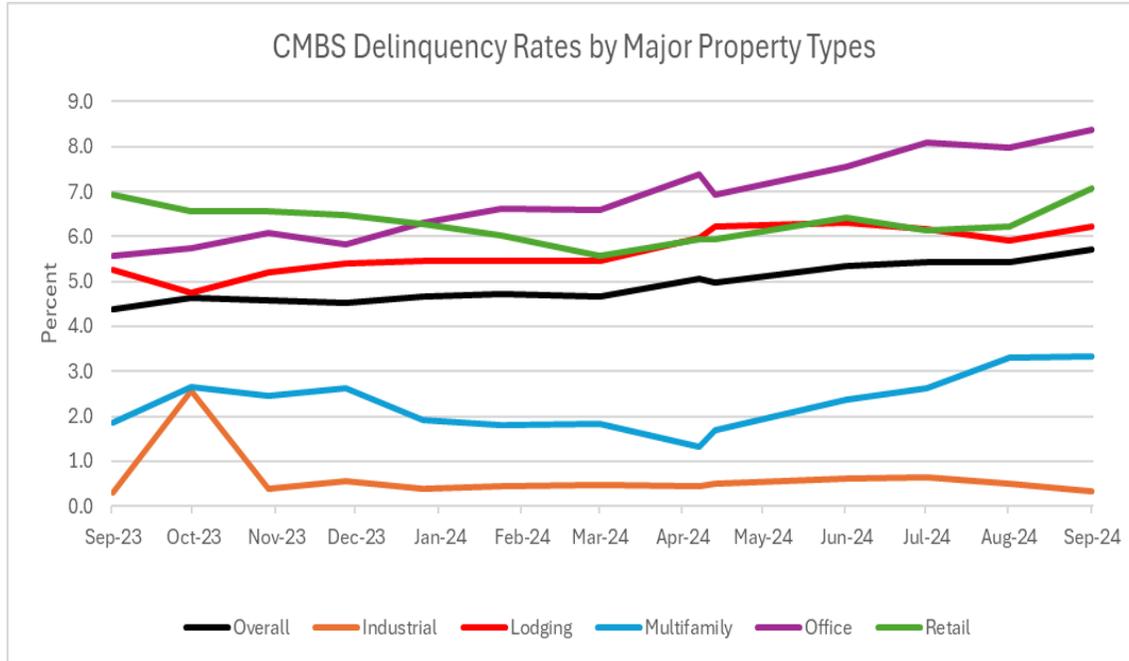
Cap Rates for All Segments Starting to Compress at Different Paces

RERC Cap Rates by Property Type



	Change from Peak
Retail	-40 bps
Industrial	-30 bps
Apartment	-10 bps
Office	-10 bps

Overall CMBS Delinquency and Special Servicing Rates Rise About 30 BPS Over the Month in September; Office and Retail Most Stressed



- September 2024 Delinquency Rates (30 days +)
 - Office: 8.4% (up 39 bps)
 - Retail: 7.1% (up 86 bps)
 - Lodging: 6.2% (up 32 bps)
 - Overall: 5.7% (up 26 bps)**
 - Multifamily: 3.3% (up 3 bps)
 - Industrial: 0.3% (down 18 bps)

- September 2024 Special Servicing Rates (CMBS Full)
 - Office: 12.6% (up 67 bps)
 - Retail: 11.2% (up 30 bps)
 - Overall: 8.8% (up 33 bps)**
 - Lodging: 7.8% (up 42 bps)
 - Multifamily: 6.1% (up 36 bps)
 - Industrial: 0.5% (up 11 bps)

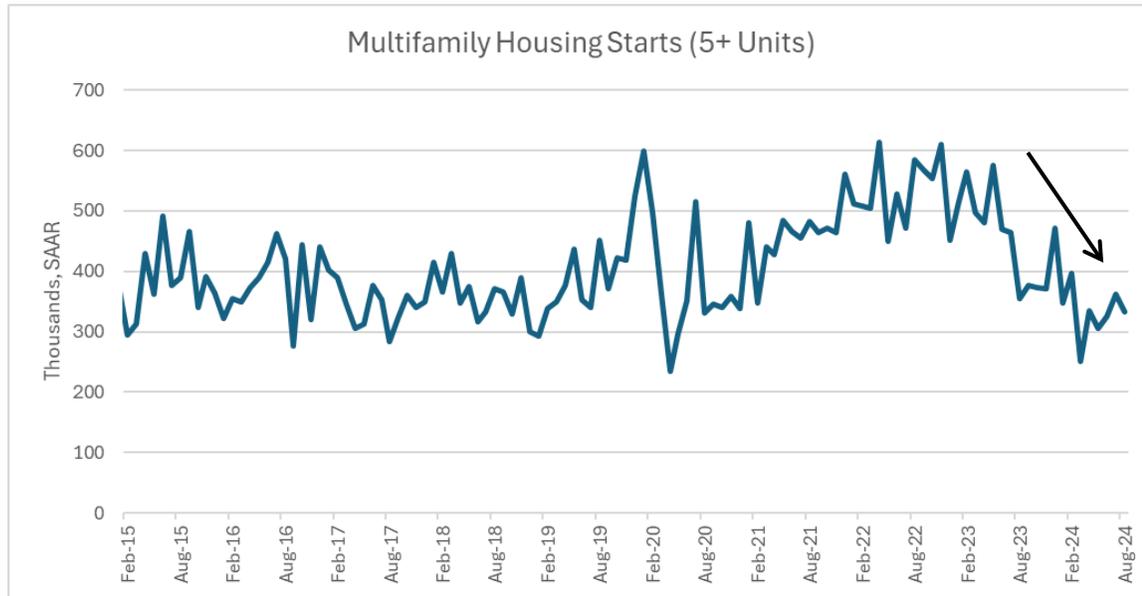
3.0

Property Types

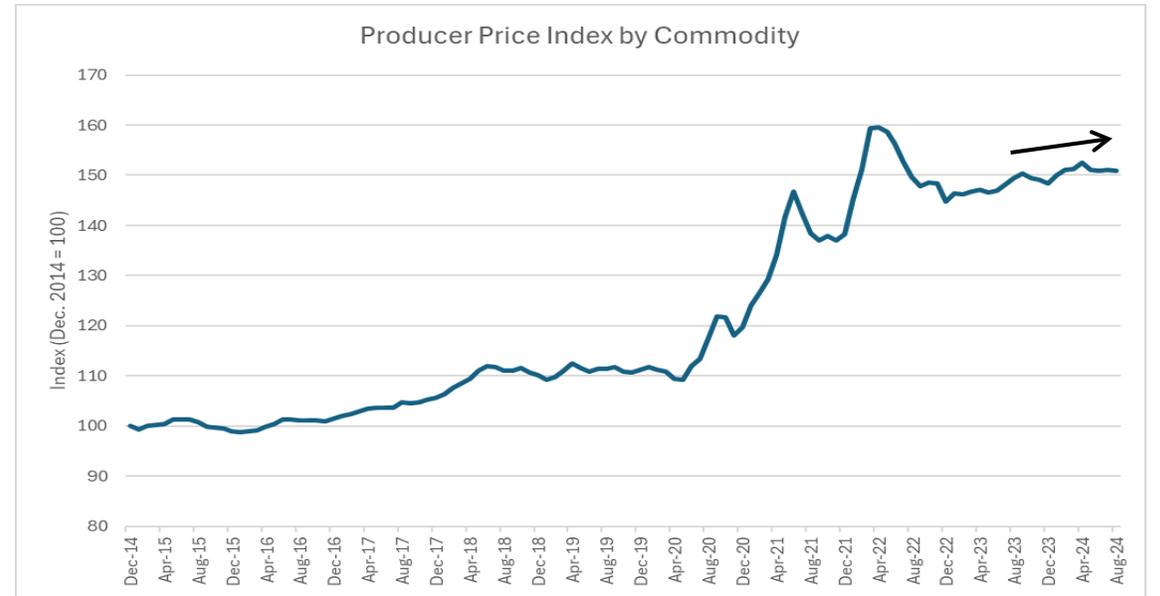
3.1 Apartment

Recent Multifamily Construction Trends Point to Slowing Supply

Multifamily Starts Have Cooled Following a COVID-19 Bump

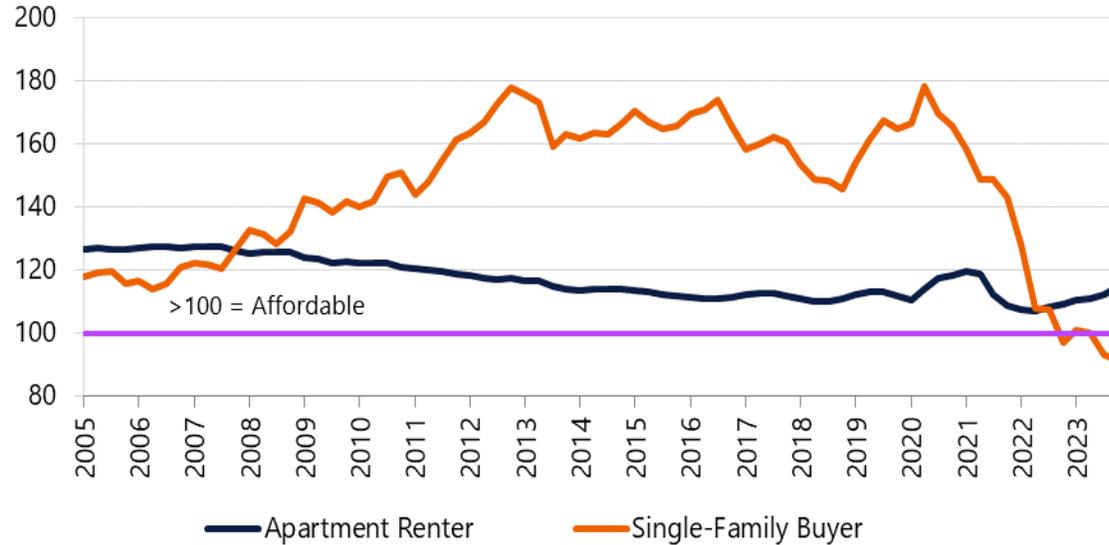


Multifamily Construction Costs Near Record Highs



Single-Family Affordability at Lowest Level on Record

SitusAMC Insights Affordability Index



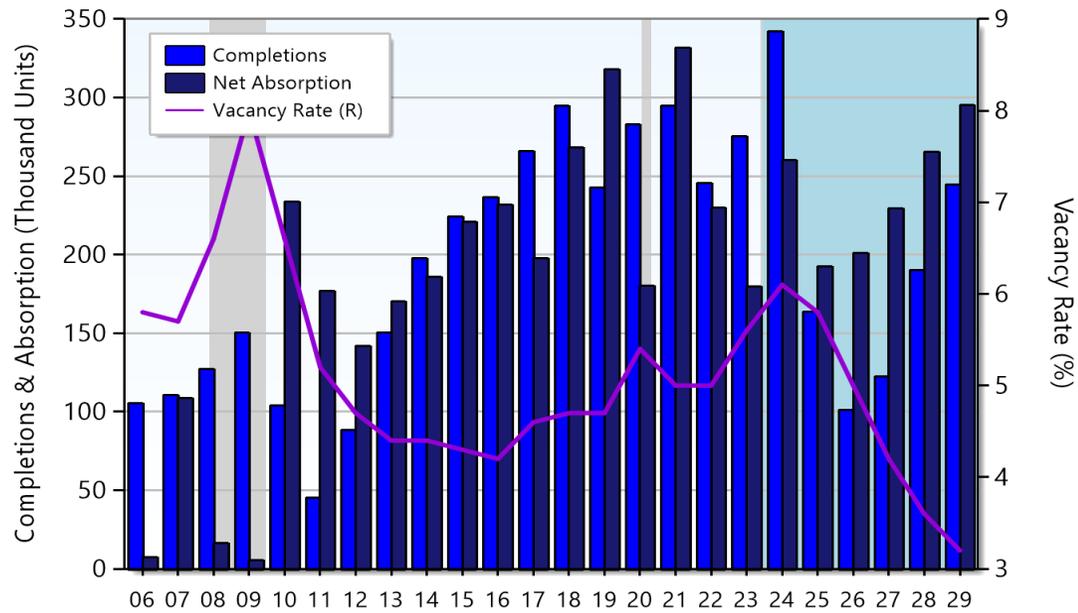
BY THE NUMBERS

	Single-Family	Apartment
Current as of 2024Q2	94.2	116.3
Qtr-to-Qtr Change (BPS)	-141	113
Yr-to-Yr Change (BPS)	-608	529
8-Year Change (BPS)	-7,951	538
8-Year Average	141.2	112.4

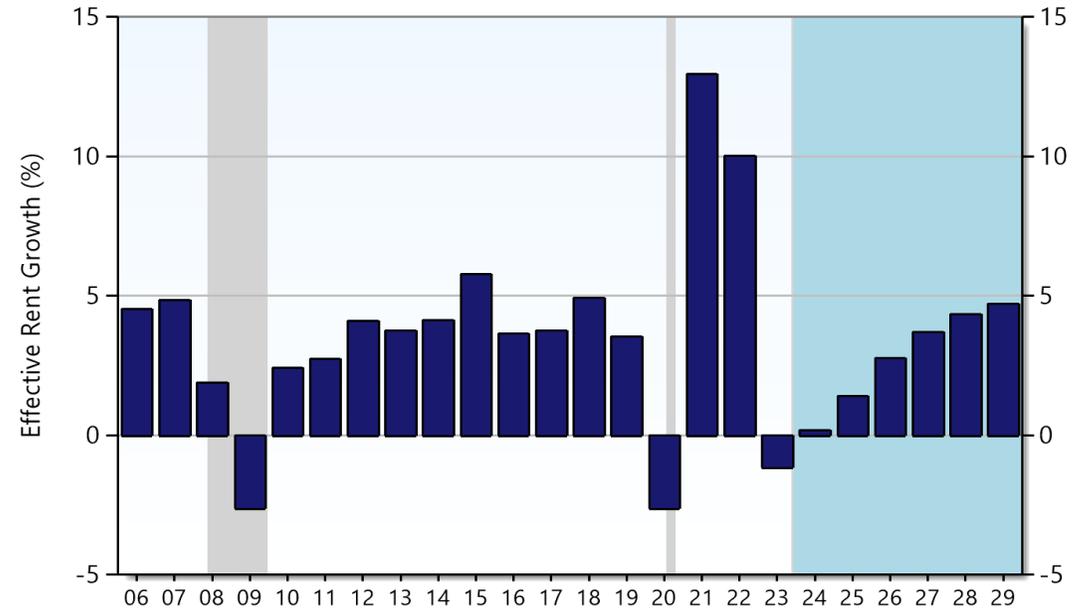
Apartment Fundamentals Expected to Improve Over the Forecast Period as Vacancies Drop Below the Long-term Average and Rent Growth Steadily Increases

Apartment Fundamentals Forecasts

Supply/Demand



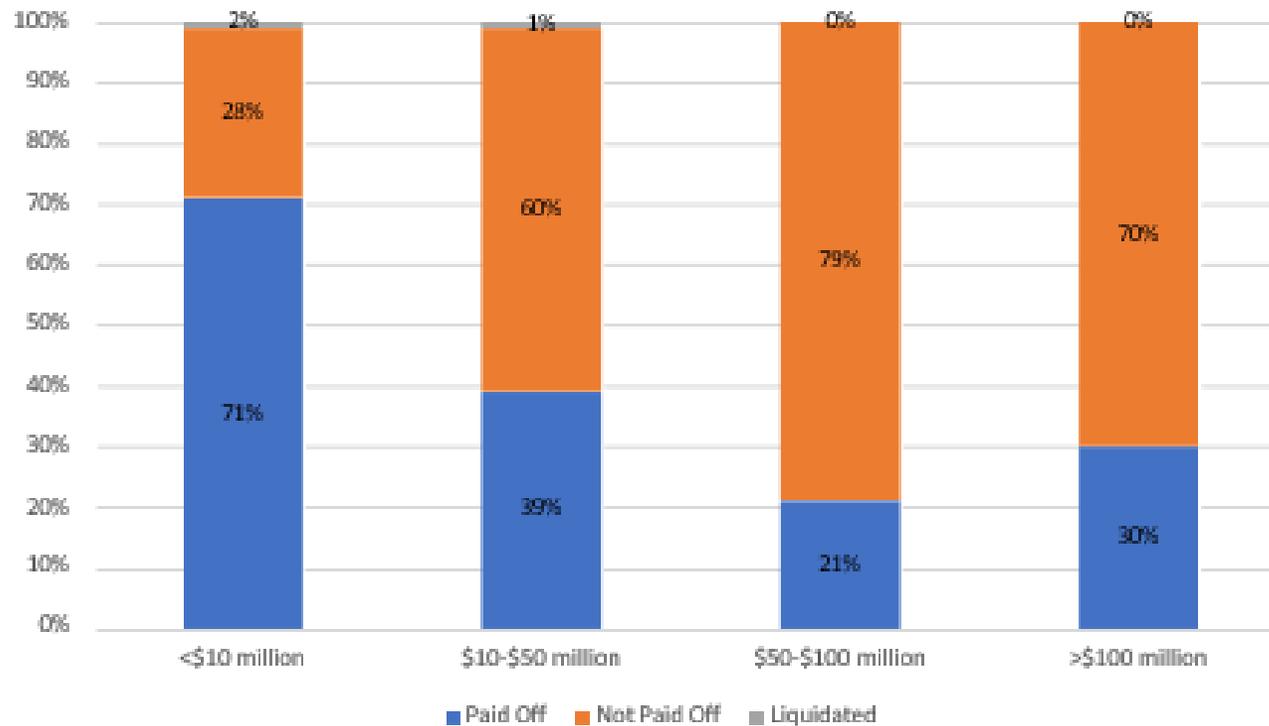
Effective Rent Growth



3.2 Office

Office Landlords Finding it Difficult to Secure Large Loan Financing

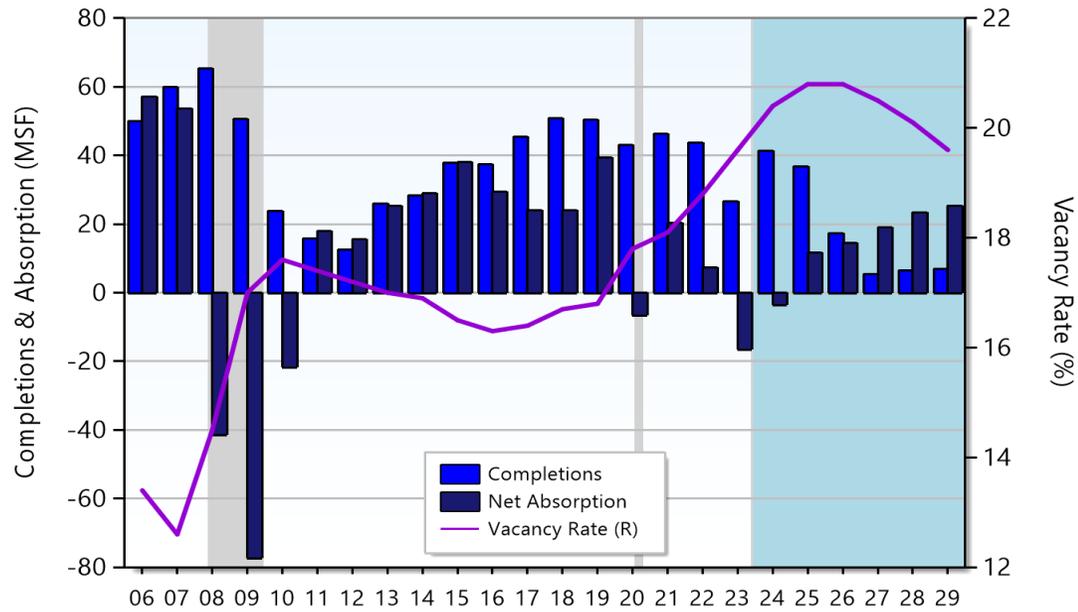
Office CMBS Payoff Rate by Loan Size



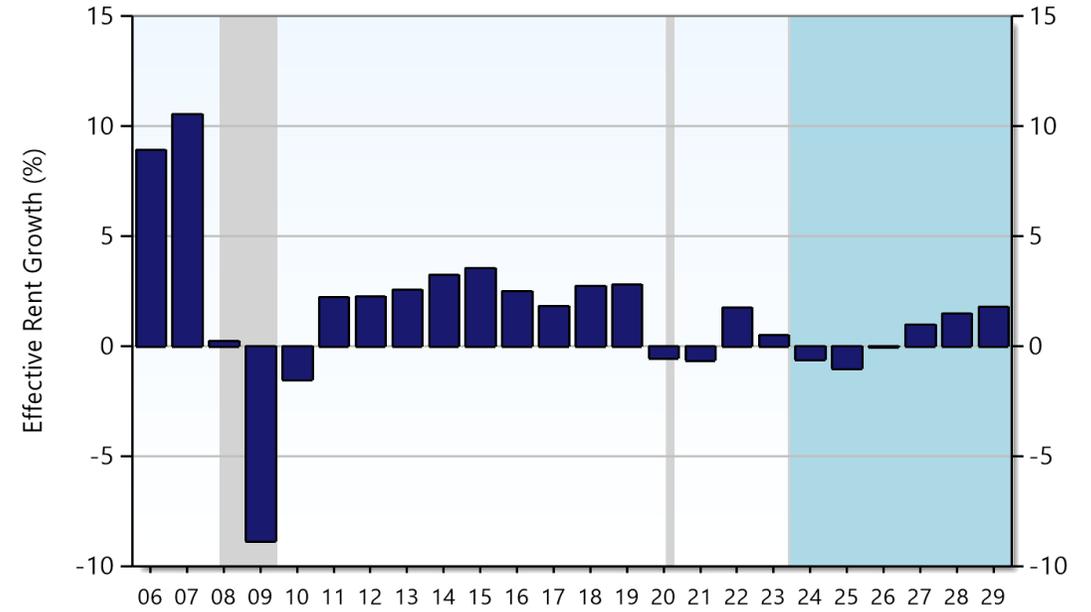
Office Suffers as Vacancies Continue Their Seemingly Inexorable Rise to Over 20%, Rent Growth Has Dissipated

Office Fundamentals Forecasts

Supply/Demand



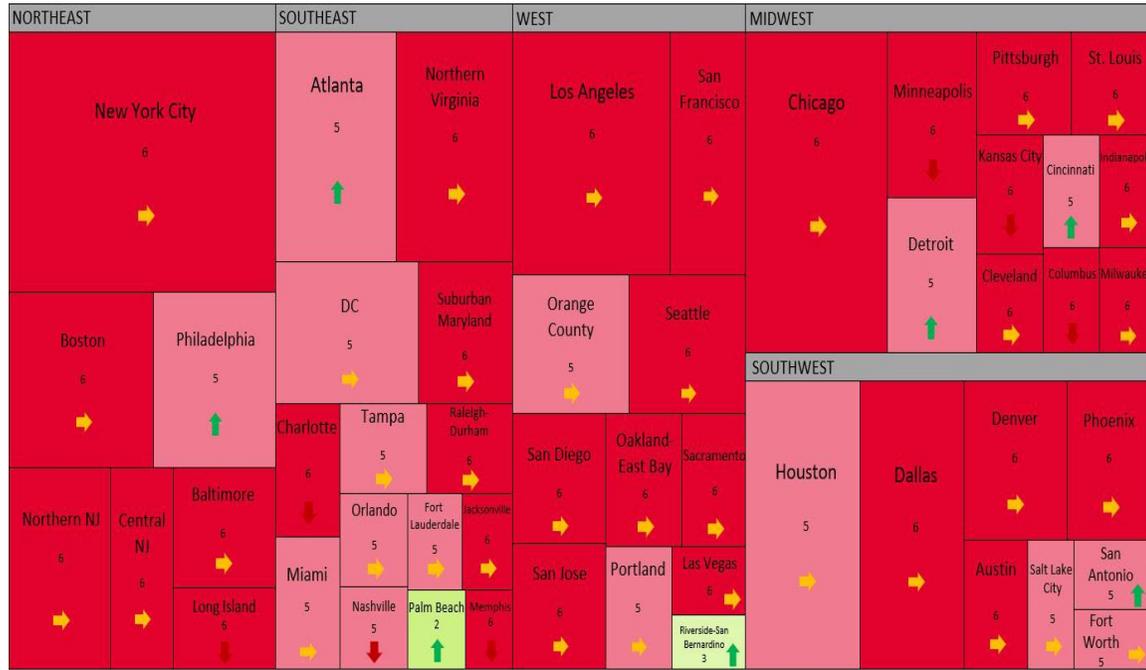
Effective Rent Growth



SitusAMC Insights Office NOI Heat Map: Improves Slightly from Last Quarter But Still a Bloodbath

2Q 2024

1Q 2024



NUMERICAL RANKINGS & COLORS

These represent the current and projected strength of each market through 2027.



ARROWS

- ▲ IMPROVED The arrows represent how each market is trending according to our most recent quarterly analysis. An upward arrow denotes an improved rating, a bar means the market is unchanged, while a down arrow signifies deterioration.
- ▬ UNCHANGED
- ▼ DETERIORATED

Sizing: The size of each market box represents each market's size by population for economic heat maps. The metros are aggregated by region; the combined size of each regional box represents the relative size of each region, enabling an at-a-glance take on regional conditions.

Average Score

- 2Q 2024: 5.5
- 1Q 2024: 5.6

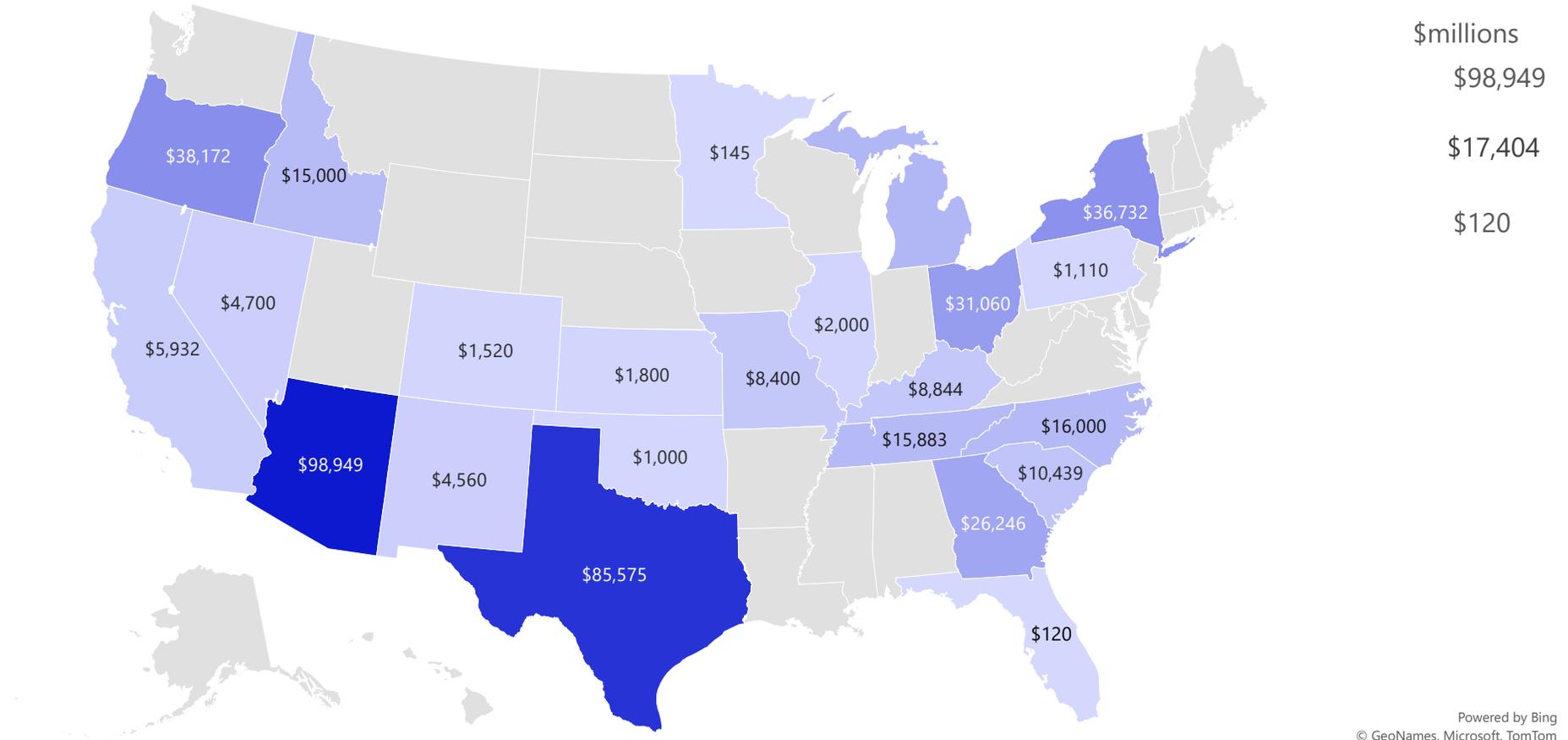
3.3

Industrial

Onshoring/Near Shoring Having Impact on Industrial Markets

Onshoring Investment by State Since 2020 (\$ Millions)

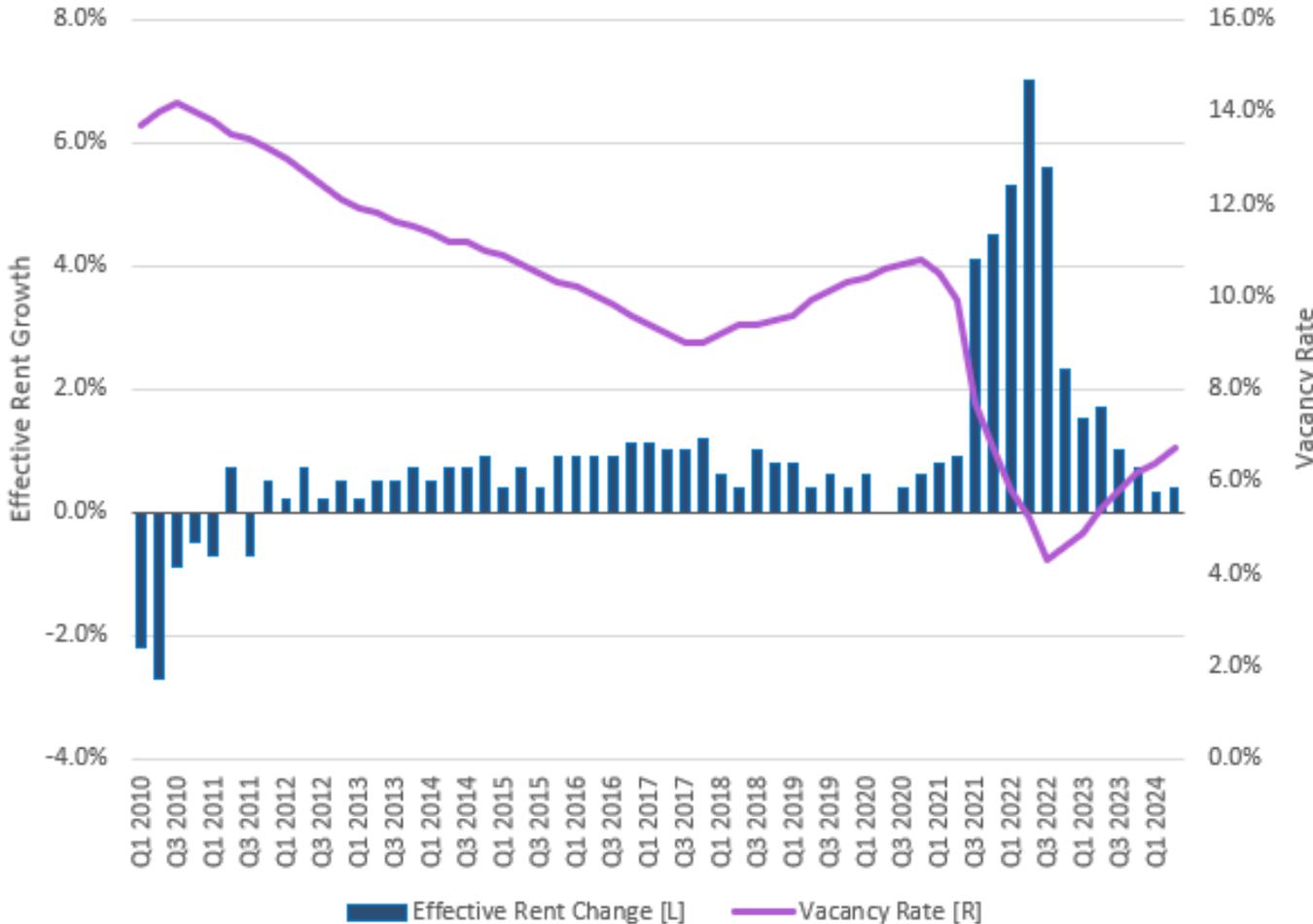
Onshoring Investment Since 2020 Top 5 Metros (\$millions)	
Phoenix, AZ	\$98,949
Austin, TX	\$45,065
Dallas, TX	\$40,450
Portland, OR	\$38,172
Columbus, OH	\$24,350



Sources: Green Street, SitusAMC Insights.

Warehouse Vacancies Continue to Tick Upward but Remain Low; Rent Growth Has Cooled

Quarterly Warehouse Fundamentals

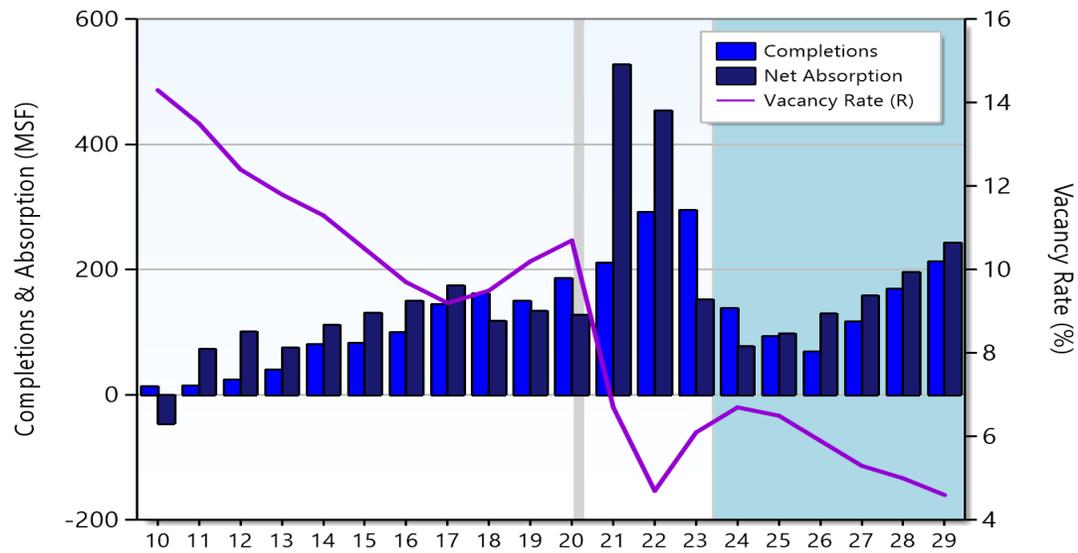


Sources: Reis, SitusAMC Insights.

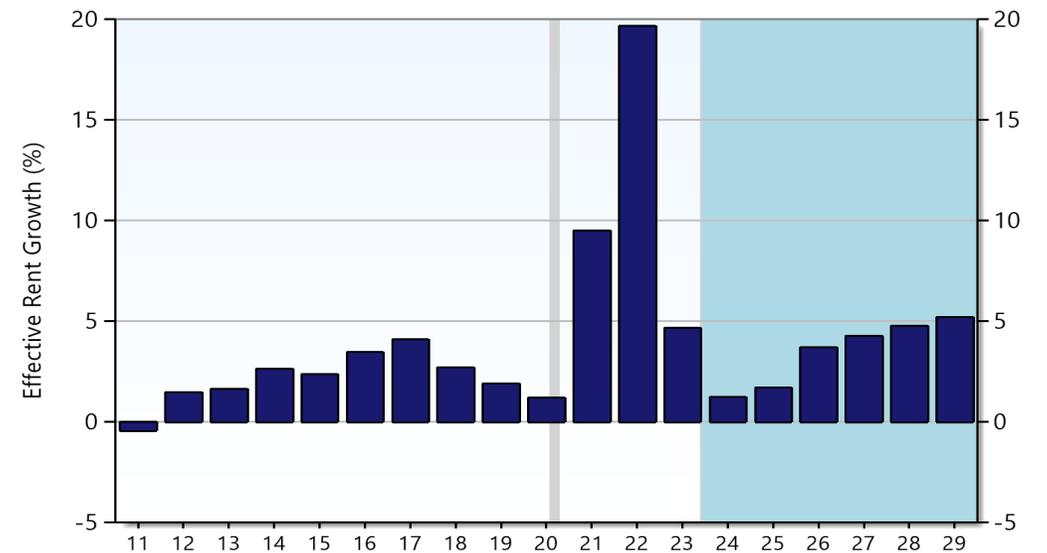
Our Industrial Fundamentals Forecast Shows Vacancies Moving Downward Amid Slowing New Supply; Rent Growth Improving to to Near Pre-Pandemic Levels

Industrial Fundamentals

Supply/Demand



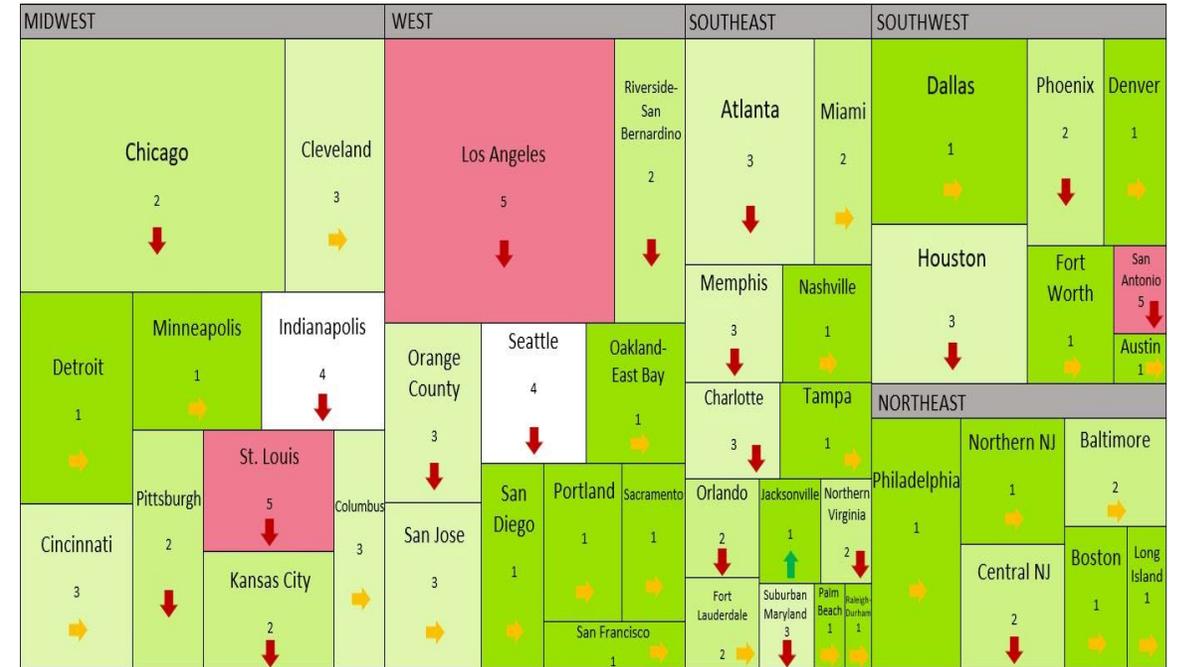
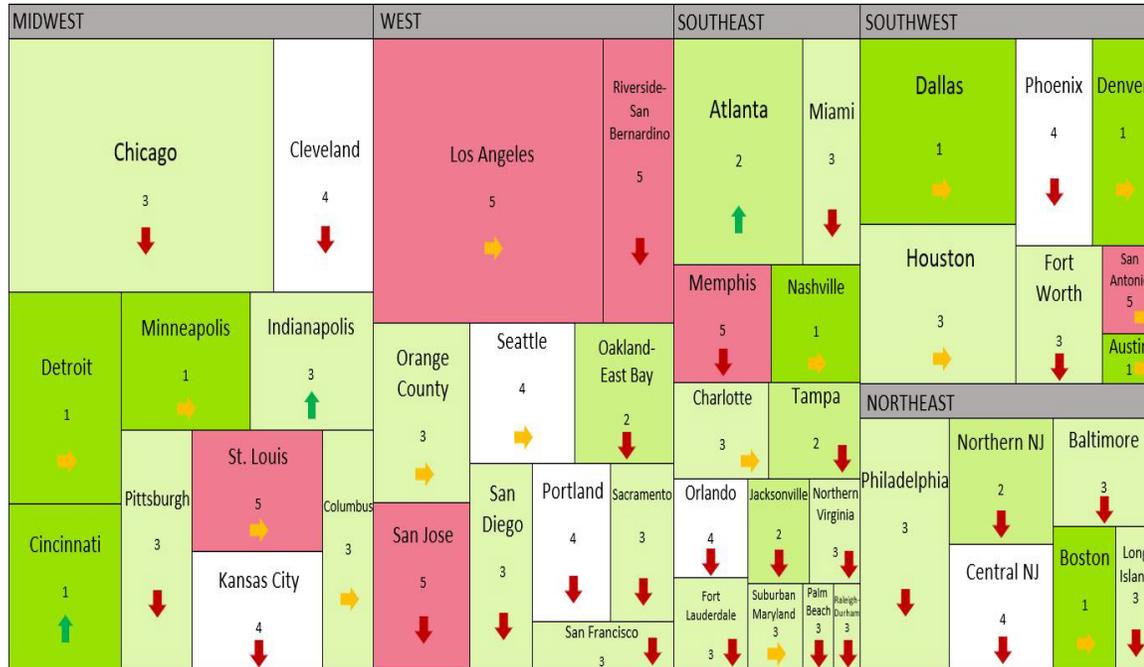
Effective Rent Growth



SitusAMC Insights Industrial NOI Heat Map: Conditions Weaken in Second Quarter

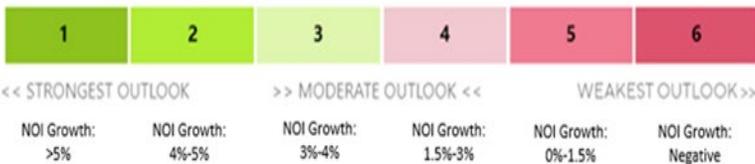
2Q 2024

1Q 2024



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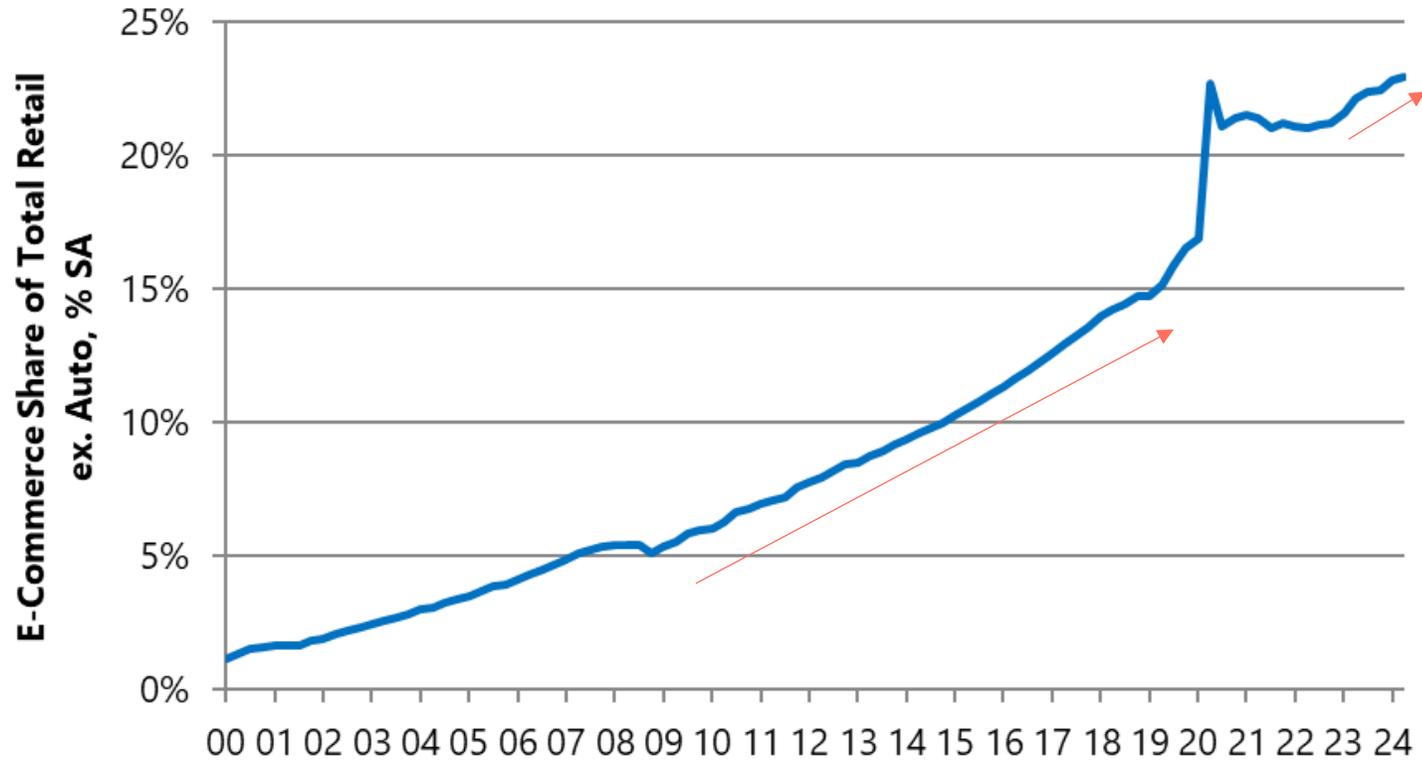
Average Score

- 2Q 2024: 3.0
- 1Q 2024: 2.1

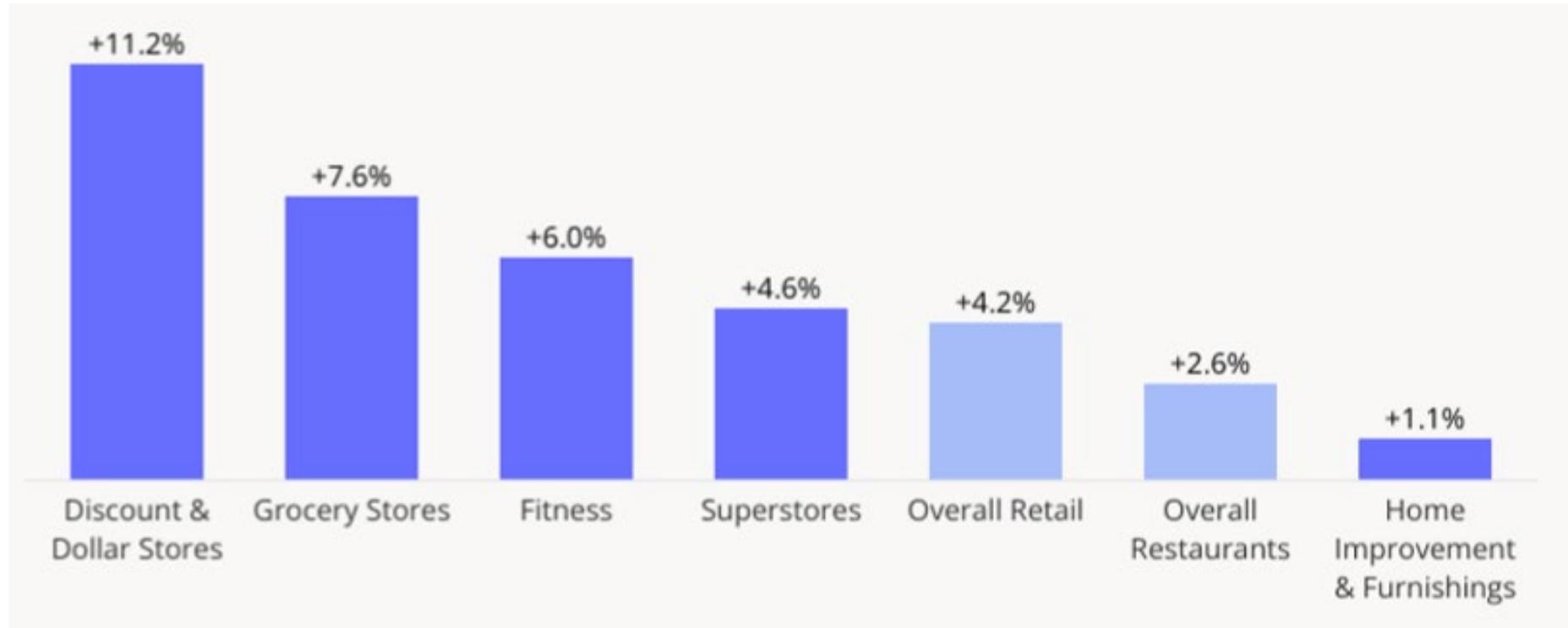
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Retail

The Online Portion of Retail Sales Increasing Again



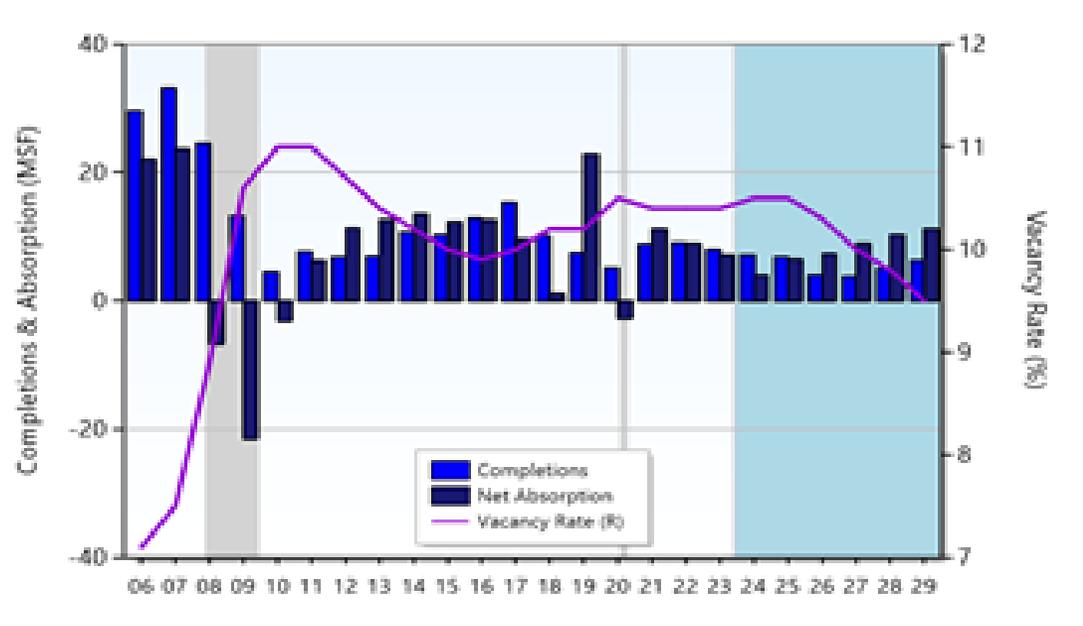
Overall Retail Visits Up 4.2% YoY Led By Needs-Based Retailers



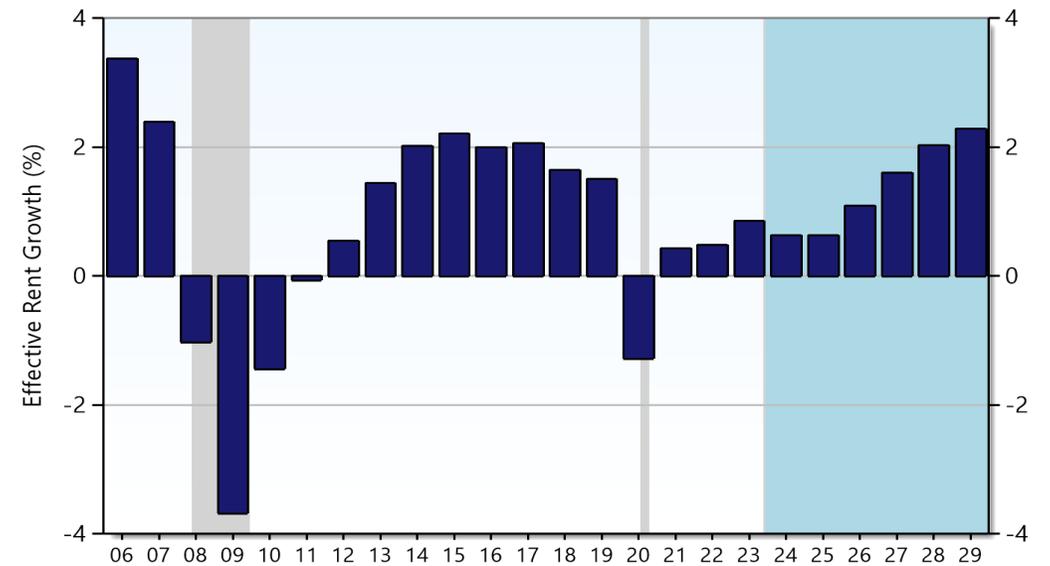
Retail Fundamentals to Remain Relatively Steady Over Next Two Years, Then See Vacancies Decline and Rent Growth

Retail Fundamentals

Supply/Demand



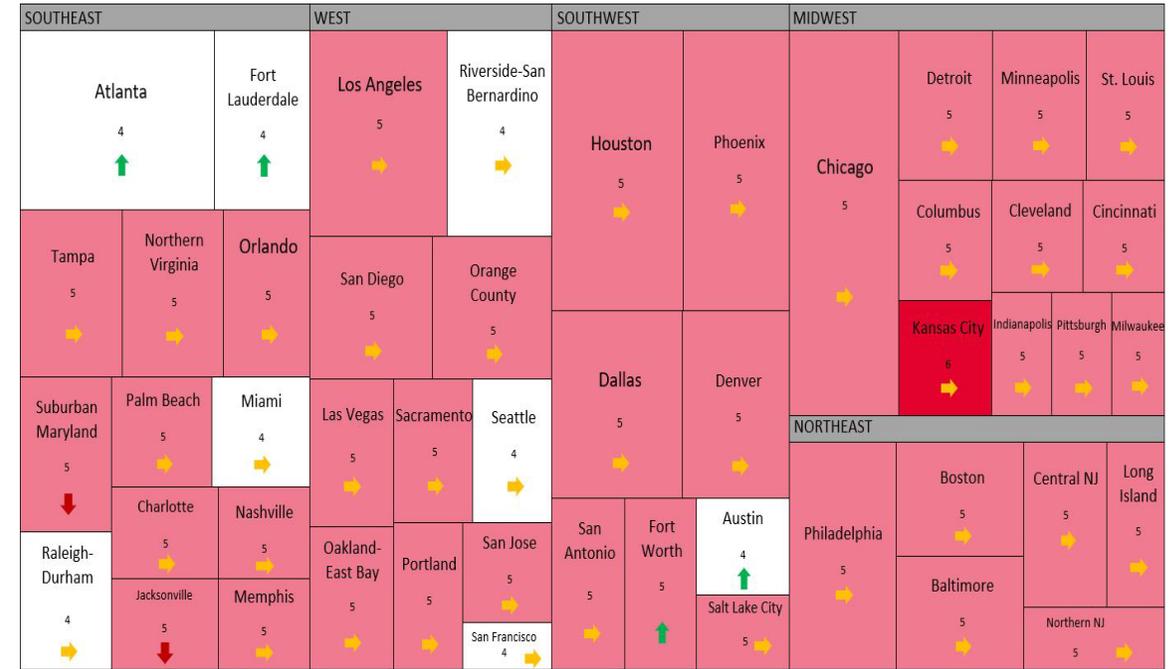
Effective Rent Growth



SitusAMC Insights Retail NOI Heat Map: Outlook Steady from Last Quarter

2Q 2024

1Q 2024



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Average Score

- 2Q 2024: 4.9
- 1Q 2023: 4.9

Sizing: The size of each market box represents each market's size by population for economic heat maps. The metros are aggregated by region; the combined size of each regional box represents the relative size of each region, enabling an at-a-glance take on regional conditions.

Thank You

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