

ValTrends
3Q 2022 Webinar

December 13, 2022
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Receding Tide



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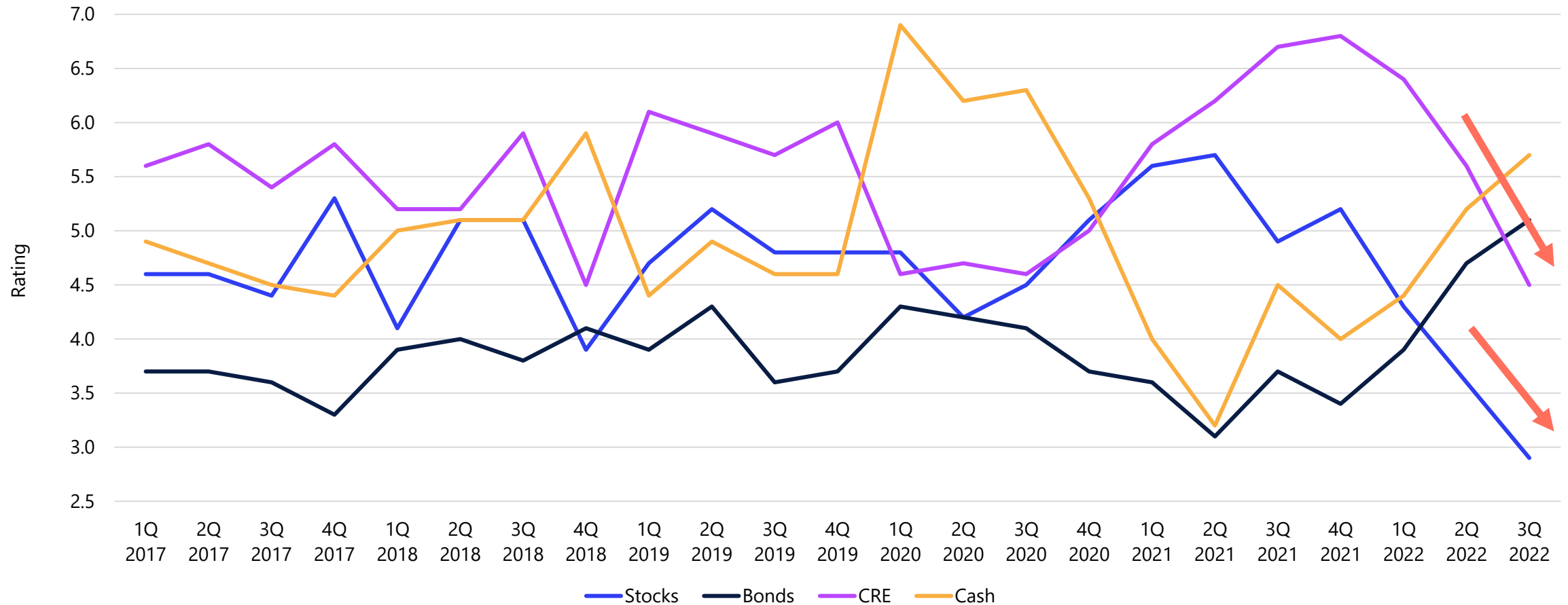


1.0 Capital Markets Overview



Question 1: Where do you put your money in today's environment?

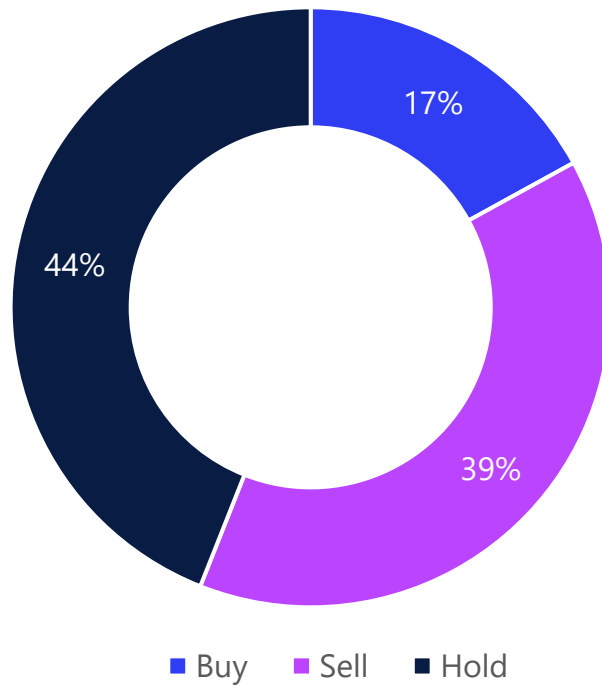
Amid Uncertainty Cash Is King; Preference for Stocks Reaches Record Low and CRE Lowest Since GFC



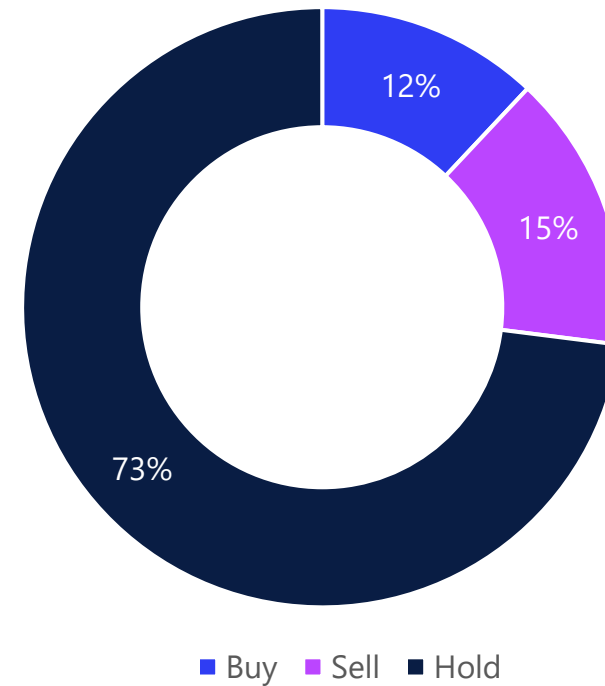
Note: Ratings are based on scale of 1 to 10 with 10 being excellent.
Sources: RERC, SitusAMC Insights, 3Q 2022.

Uncertainty Leads to Strong Hold Position for CRE

Investment Recommendations - 3Q 2021

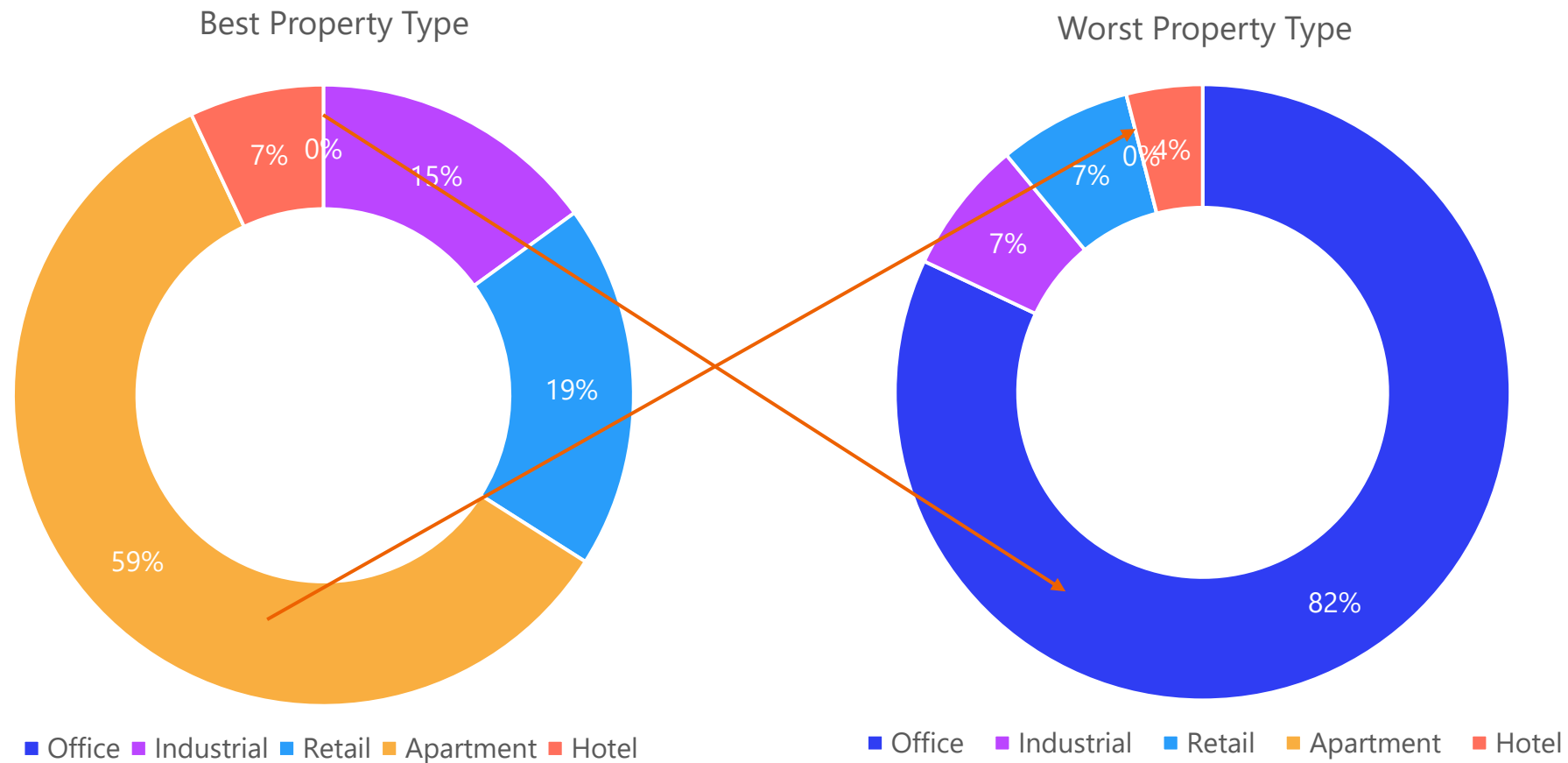


Investment Recommendations - 3Q 2022



Sources: RERC, SitusAMC Insights, 3Q 2022.

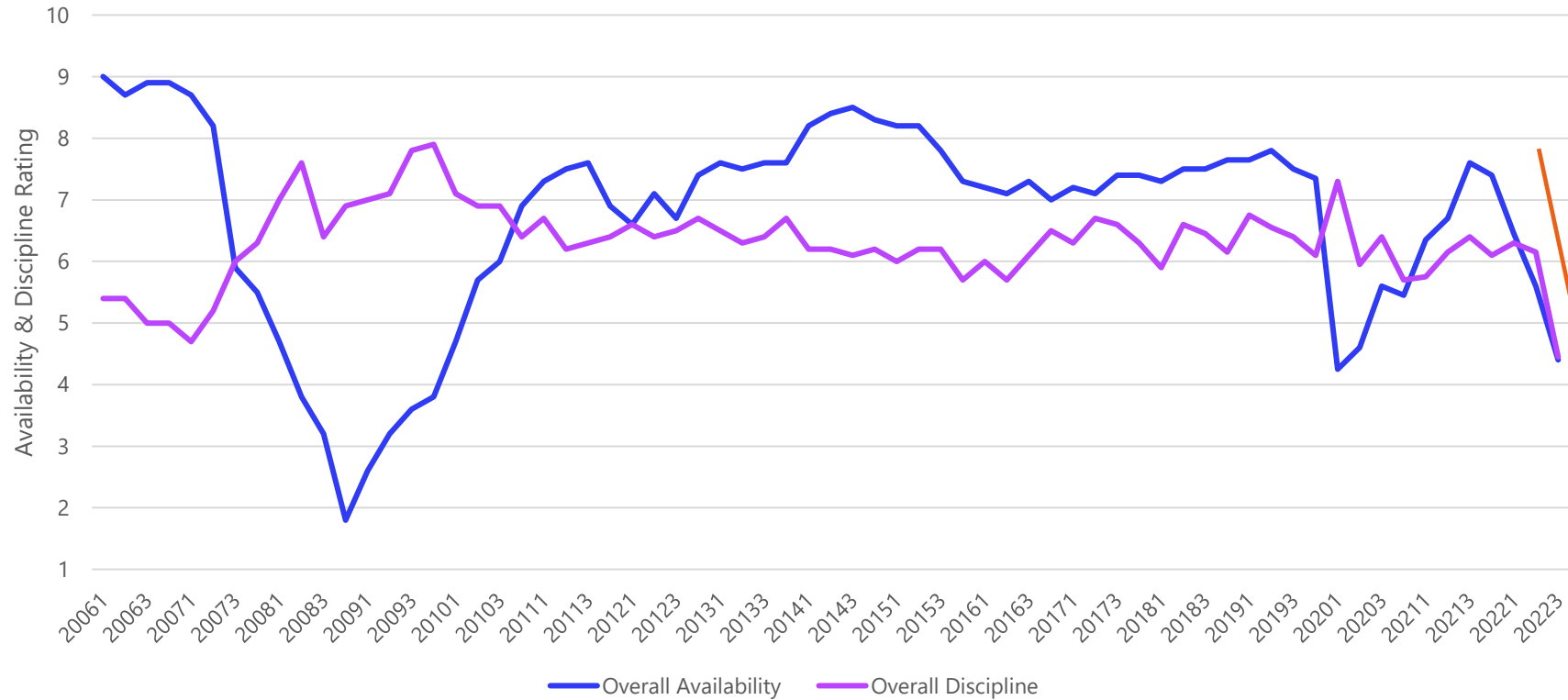
Apartment Is the Darling of Investors, Office Not So Much



Sources: RERC, SitusAMC Insights, 3Q 2022.

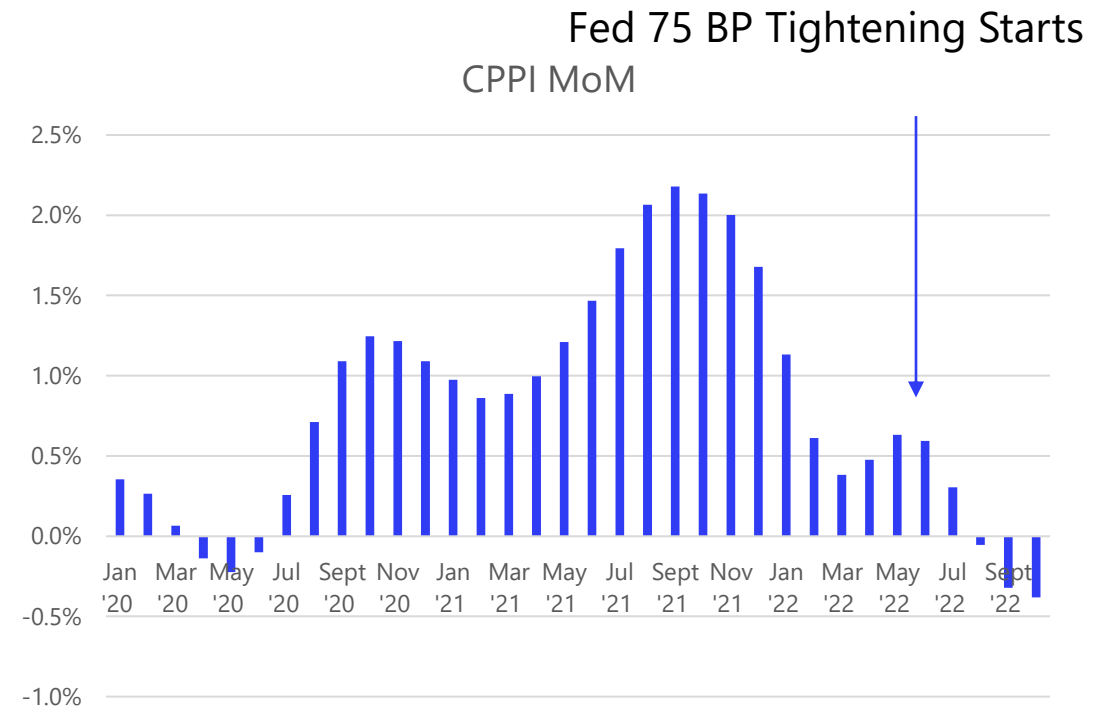
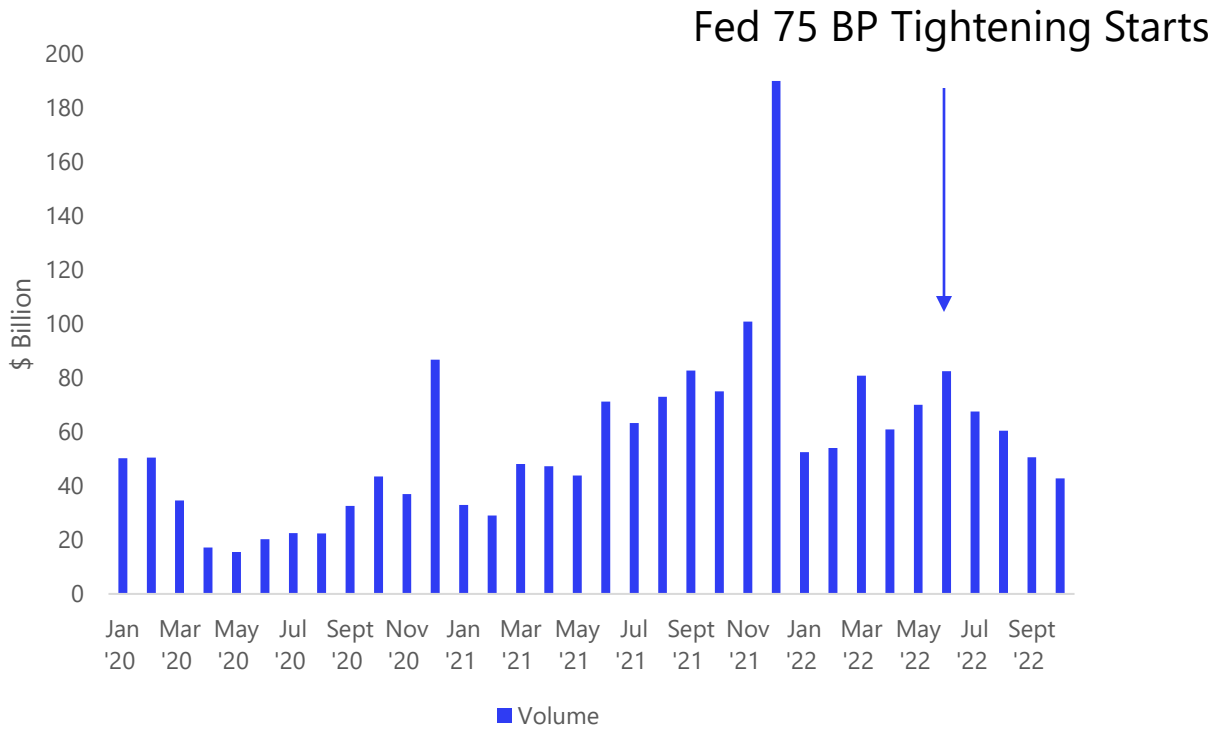
Question 2: How have lender underwriting standards changed compared to the previous quarter?

Capital Availability and Discipline Plummet Over Past Two Quarters



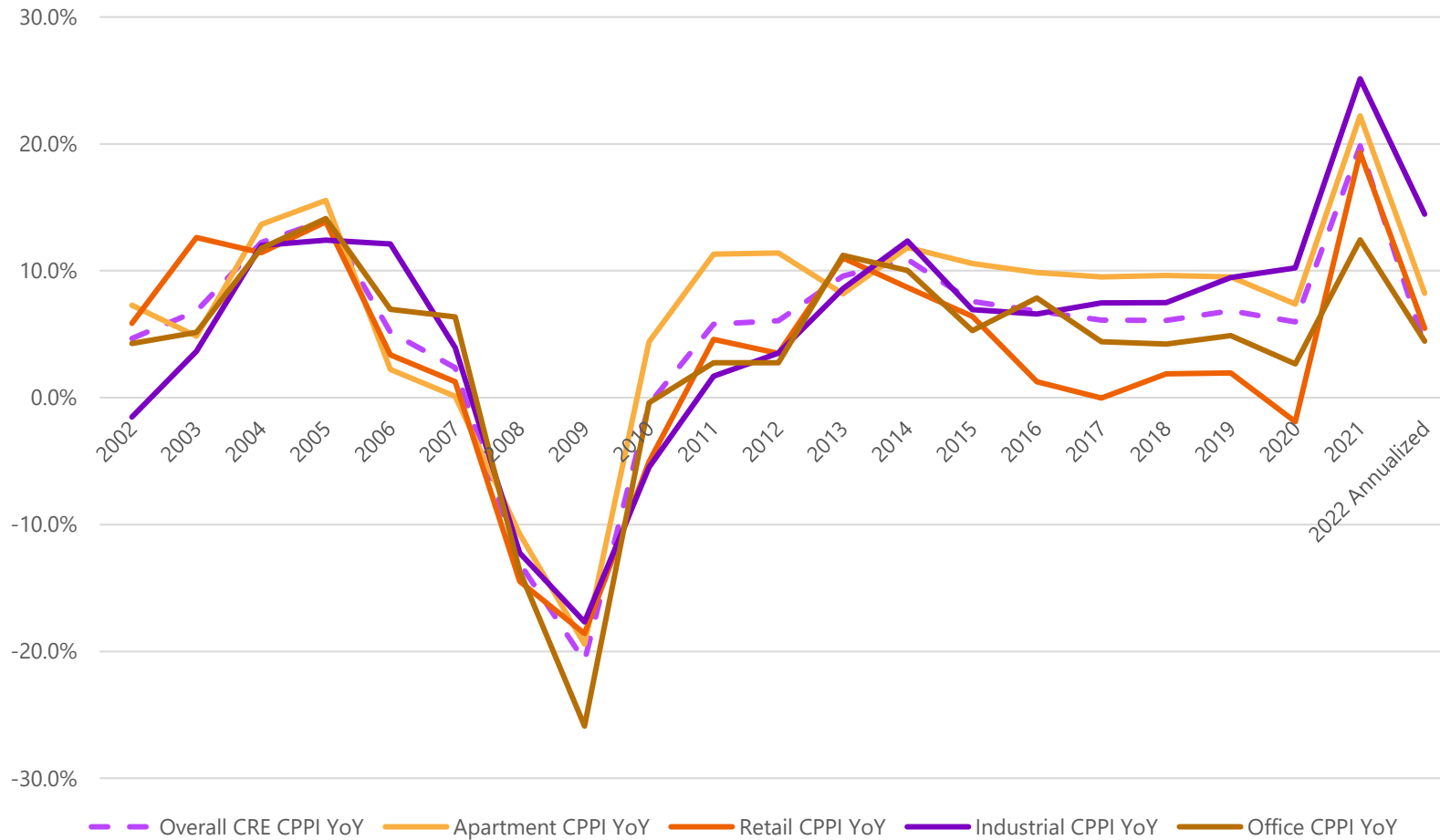
Note: Ratings are based on scale of 1 to 10, with 10 being excellent.
Sources: RERC, SitusAMC Insights, 3Q 2022.

Receding Tide of CRE Transactions as Rising Interest Rates Increase Financing Costs and Leave Buyers and Sellers Far Apart



Sources: MSCI Real Assets, SitusAMC Insights, Oct. 2022..

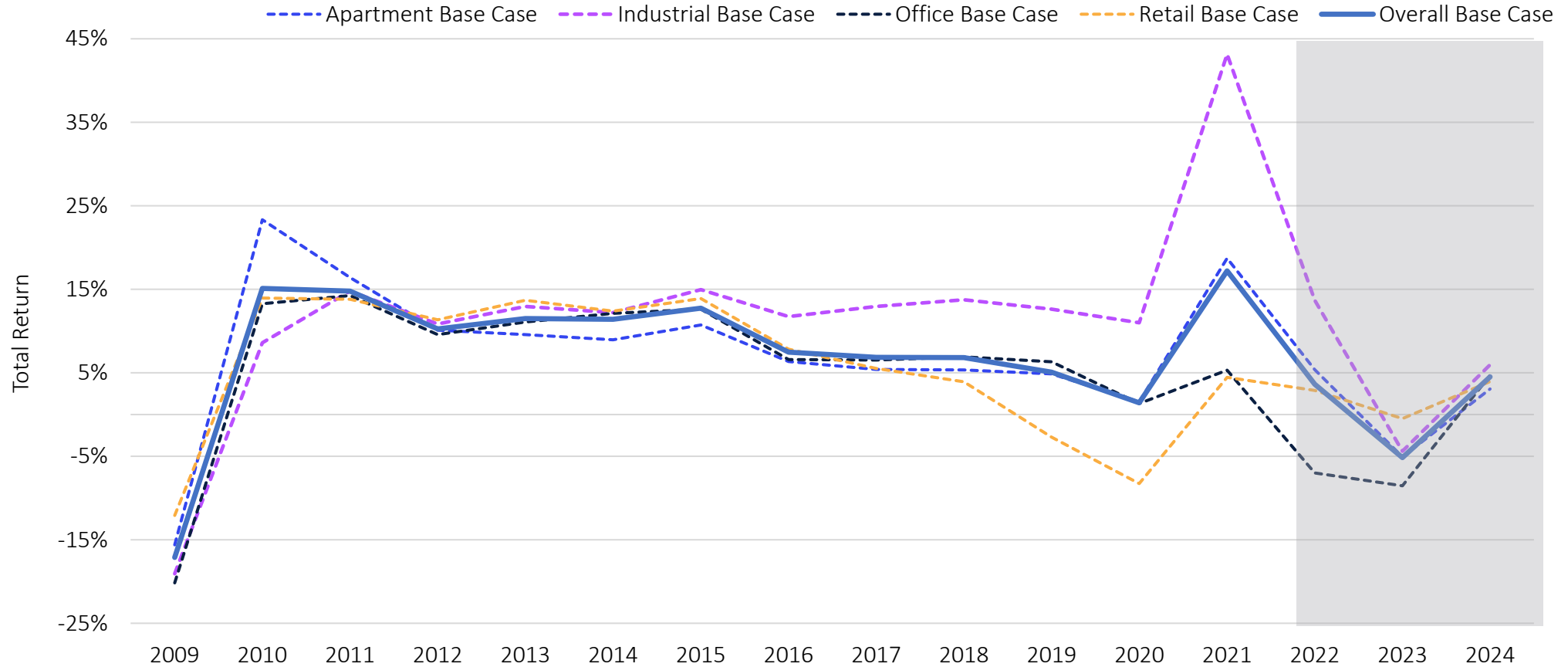
Price Growth for All Segments Slows in 2022



Sources: MSCI Real Assets, SitusAMC Insights, October 2022. Data for 2022 is YTD annualized.

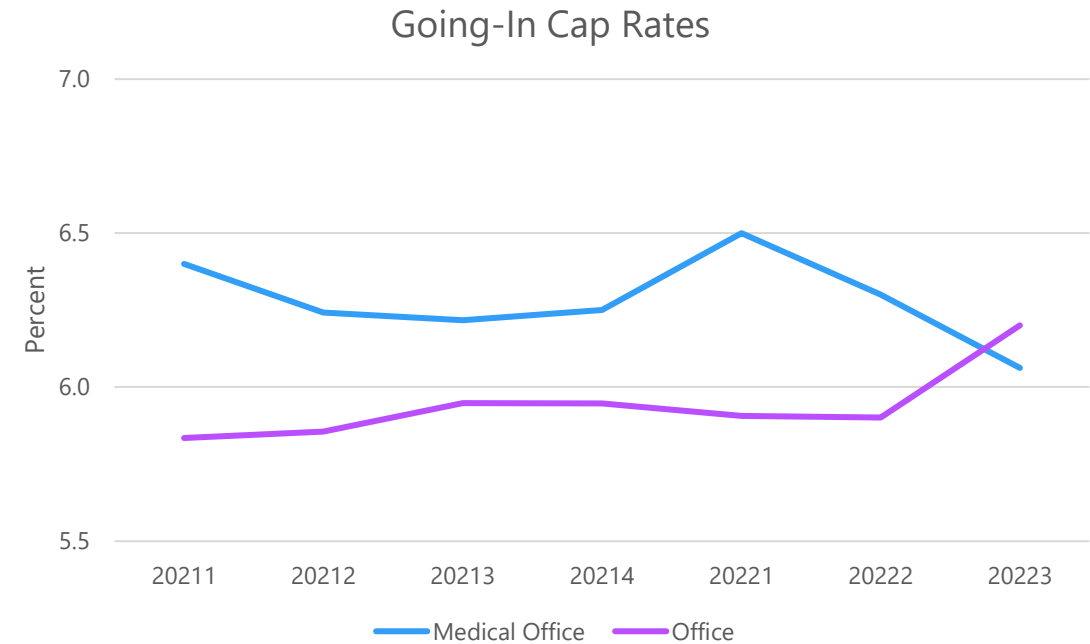
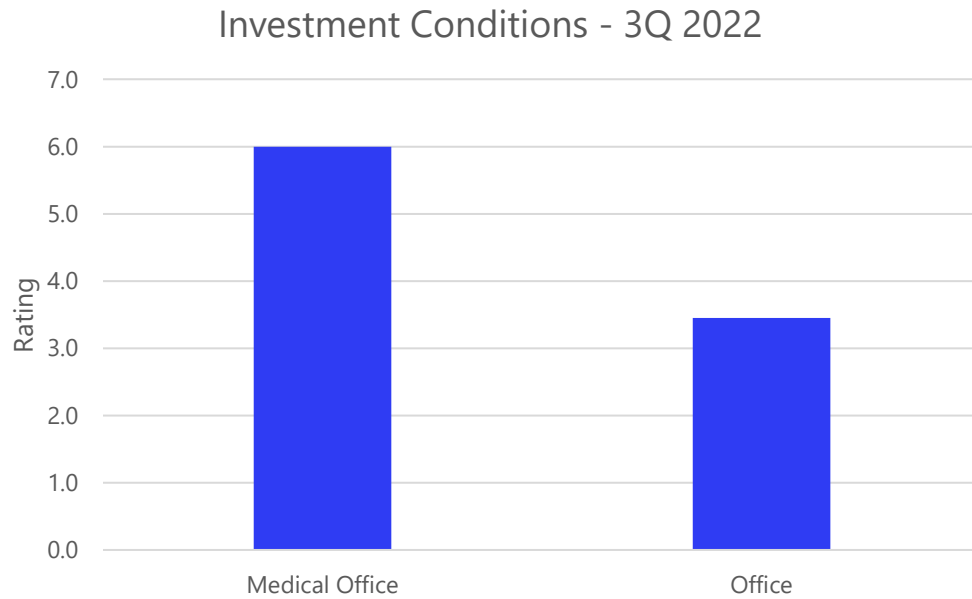
CRE Total Returns Expected to Decline Through 2023

RERC Total Return Forecast by Property Type (Base Case)



The total return forecast is RERC's proprietary model based on RERC data and data from NPI-ODCE, and is for unleveraged, institutional-grade properties. Total returns are derived from an income component and a capital appreciation/depreciation component. Shaded area indicates forecast. Sources RERC, NPI-ODCE, SitusAMC Insights 3Q 2022.

Alternative Property Types – Medical Office Bright Spot for Beleaguered Sector



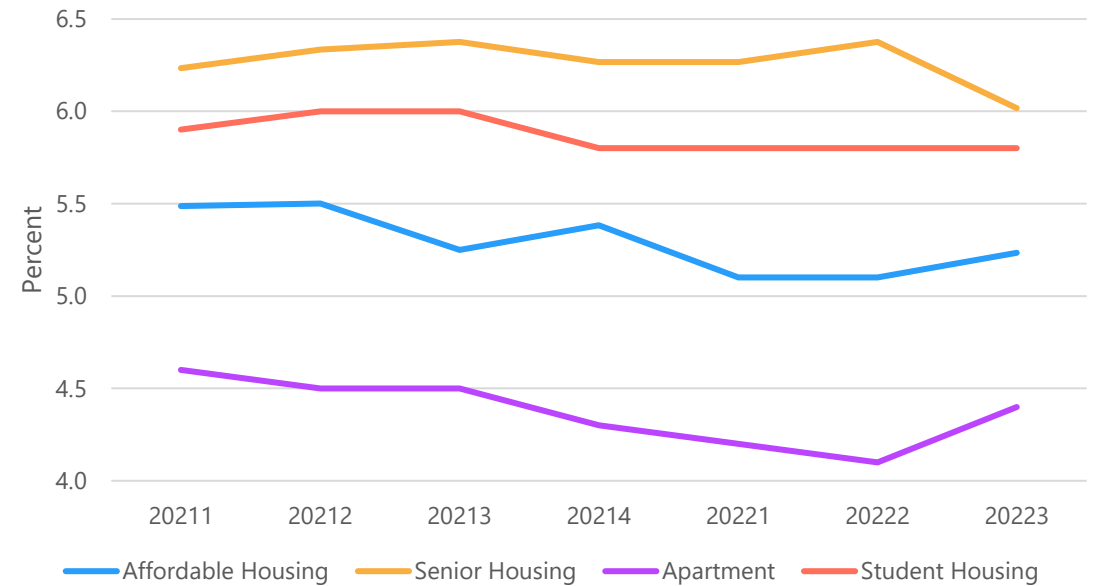
Investment Conditions rated on a scale of 1 = poor to 10 = excellent.
Sources: RERC, SitusAMC Insights, 3Q 2022.

Alternative Property Types – Investors Bullish on Affordable Housing, Though Sector Facing Headwinds from Rising Interest Rates

Investment Conditions - 3Q 2022



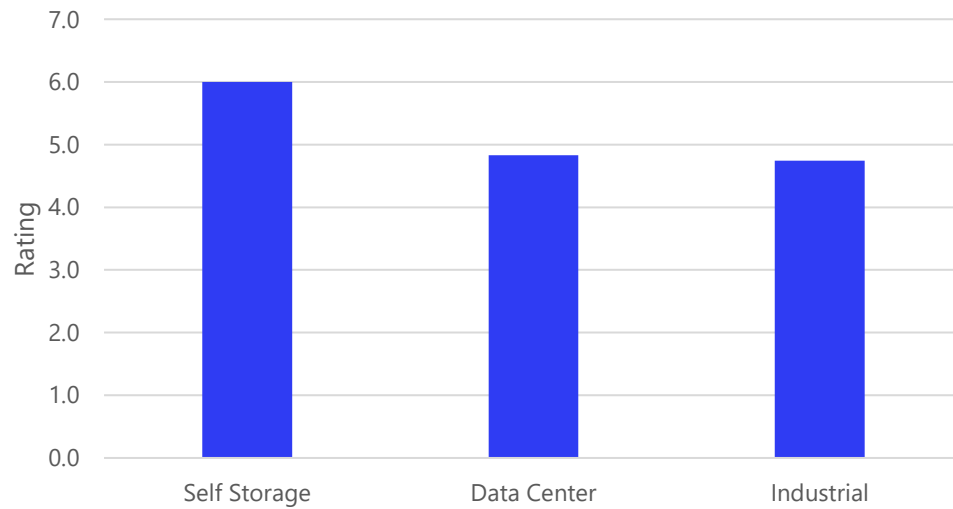
Going-In Cap Rates



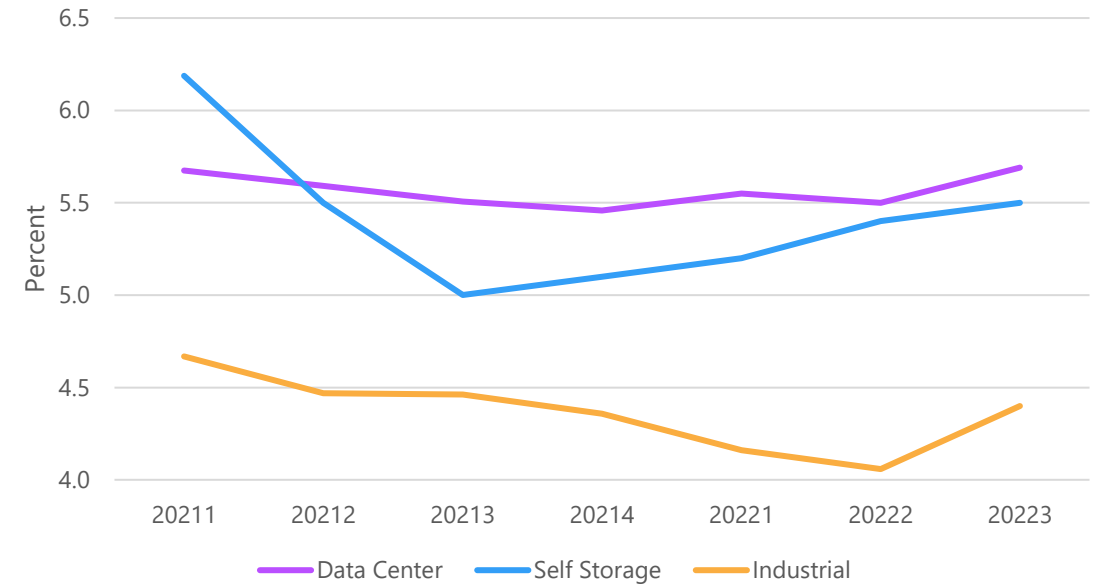
Investment Conditions rated on a scale of 1 = poor to 10 = excellent.
Sources: RERC, SitusAMC Insights, 3Q 2022.

Alternative Property Types – Self Storage and Data Centers Not Immune to Rising Interest Rates

Investment Conditions - 3Q 2022



Going-In Cap Rates

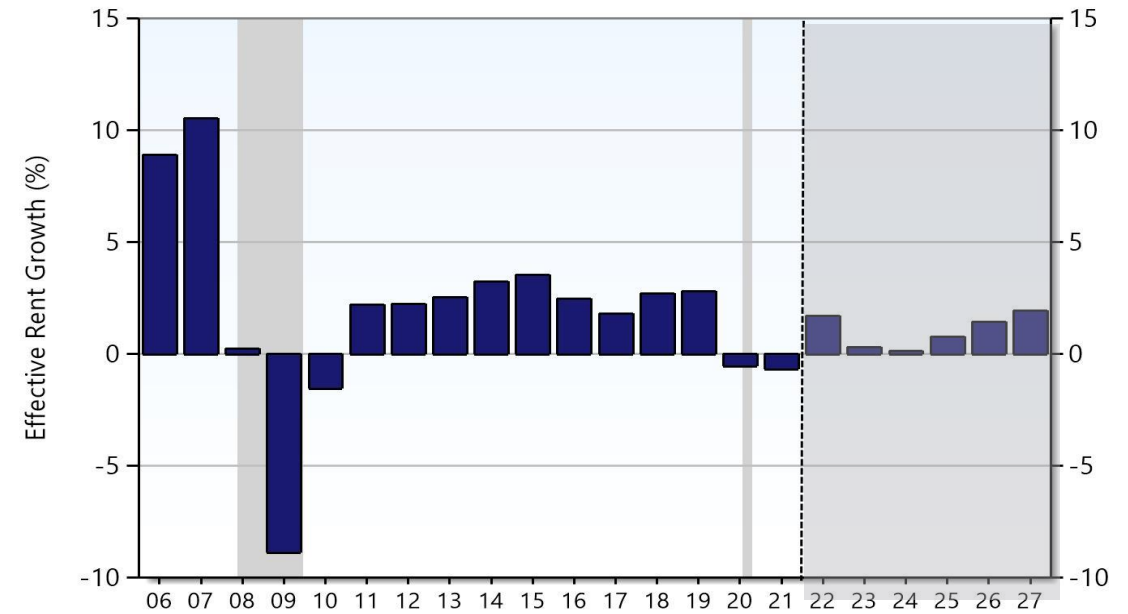
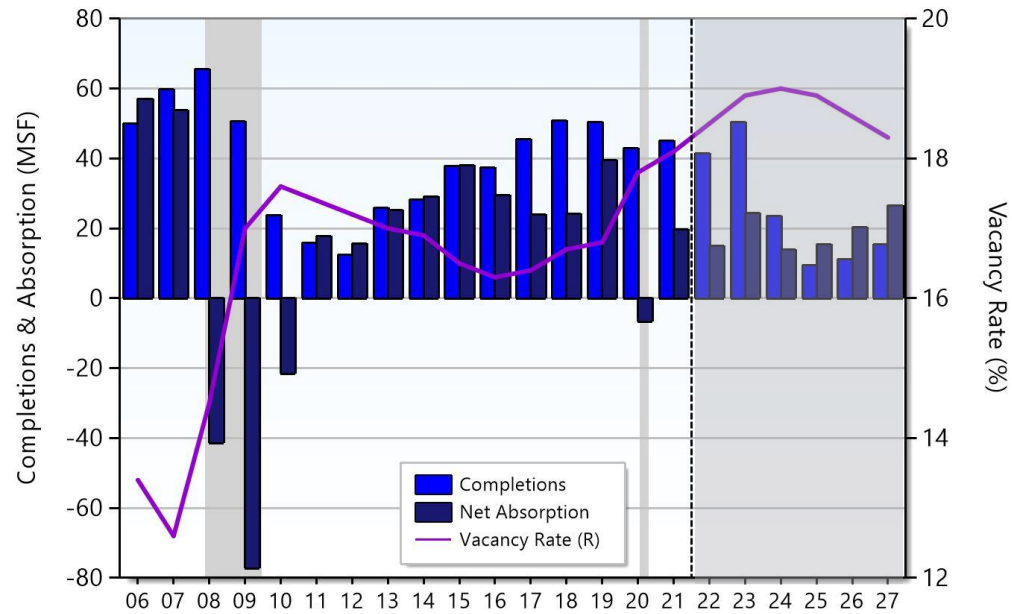


Investment Conditions rated on a scale of 1 = poor to 10 = excellent.
Sources: RERC, SitusAMC Insights, 3Q 2022.



2.0 Space Market Fundamentals

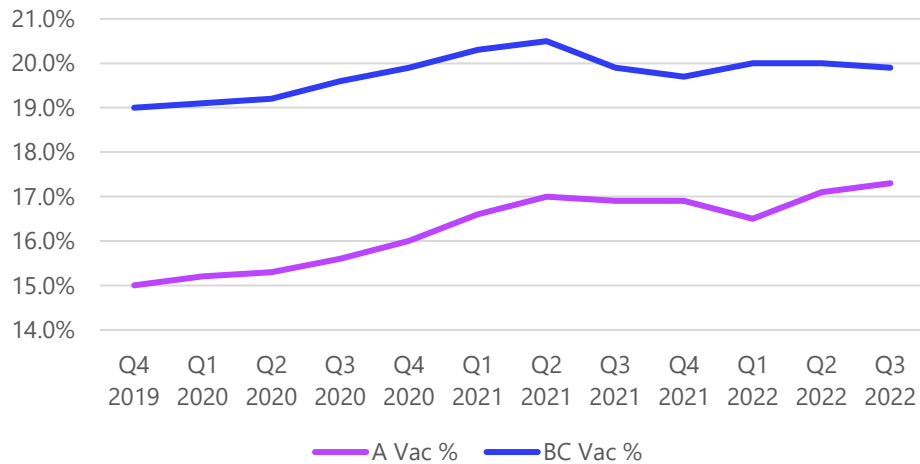
As Tenants Re-Think Space, and Development Continues to Add to Inventory, Office Fundamentals Will Remain Weak



Sources: Reis, NBER, SitusAMC Insights Forecasts, 3Q 2022.

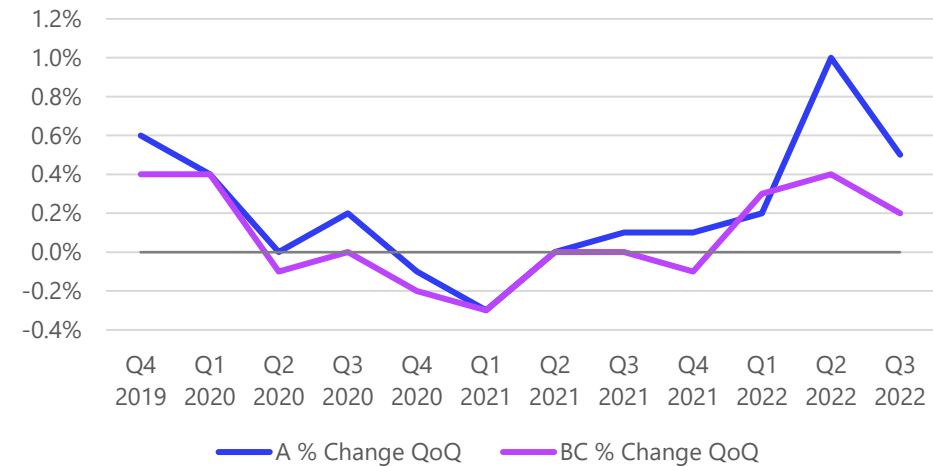
Class A Vacancies Rise at Faster Pace than Class BC Owing to New Supply During Pandemic, But Rent Growth Stronger with Higher Occupancy

Office Vacancy Rates by Class



- Class A vacancy rate 230 bps above pre-pandemic level.
- Class BC vacancy rate 90 bps above pre-pandemic level.

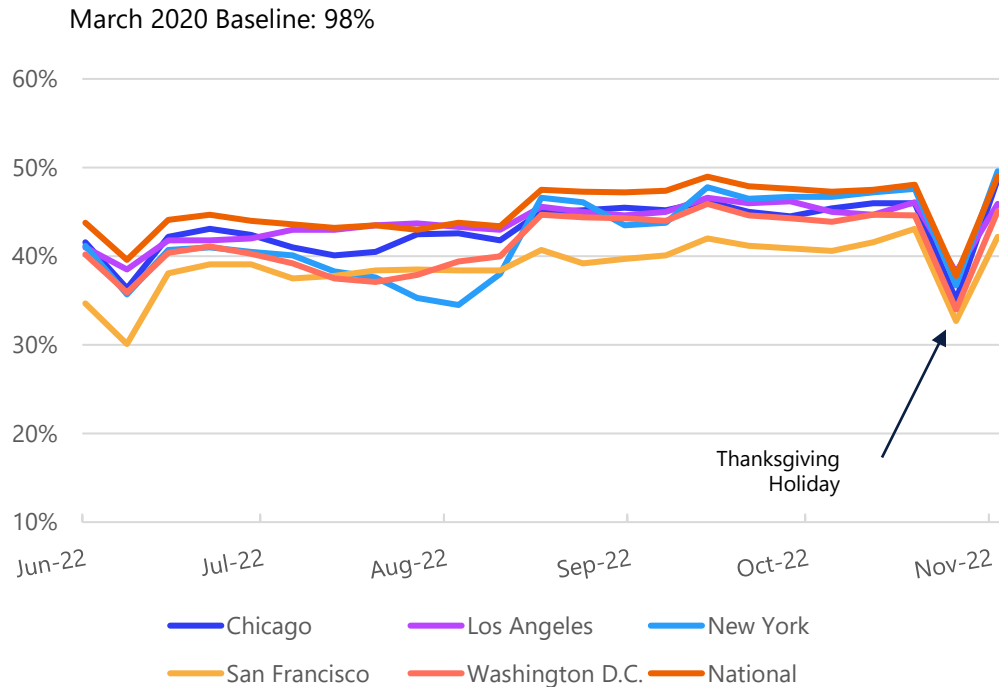
Office Asking Rent by Class



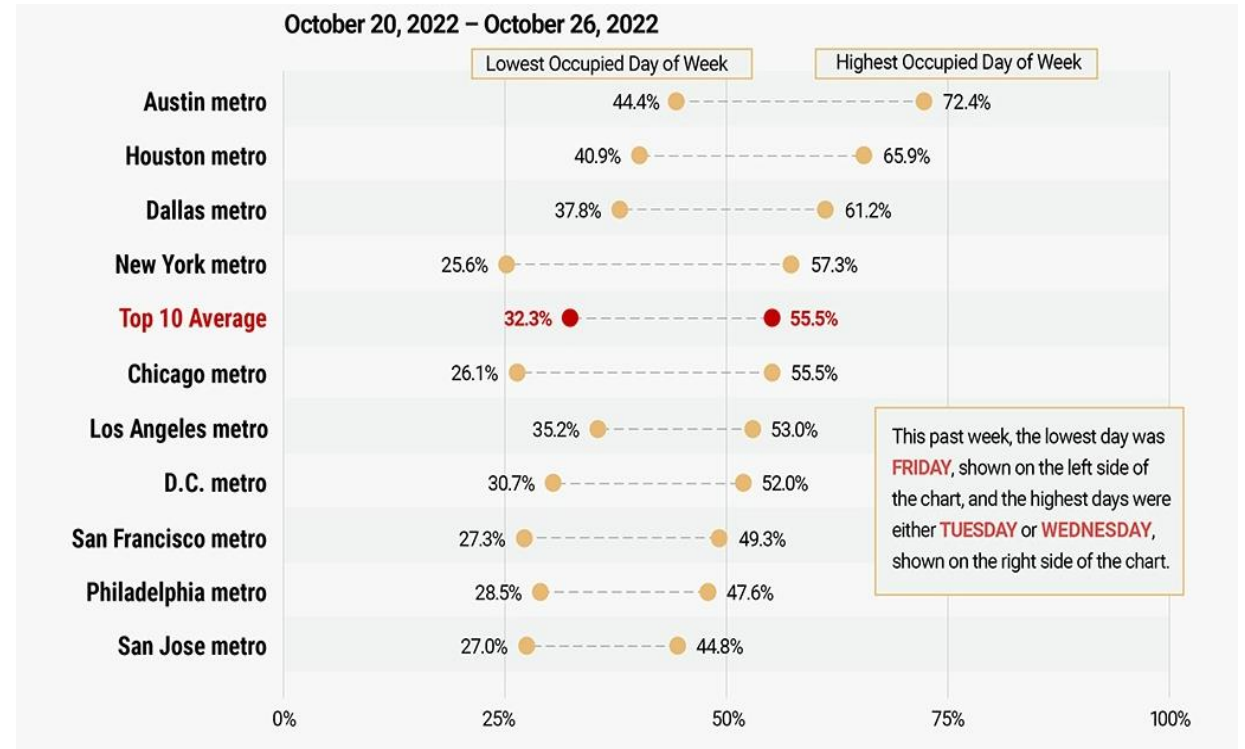
- Class A asking rents up 2.1% compared to pre-pandemic levels.
- Class BC asking rents up 0.6% compared to pre-pandemic levels.

National Daily Office Usage Relatively Stable Since September (Excluding Holidays); National Average Still Below 50%

- Chicago, New York and the national average hit pandemic record usage the week of Nov. 30.

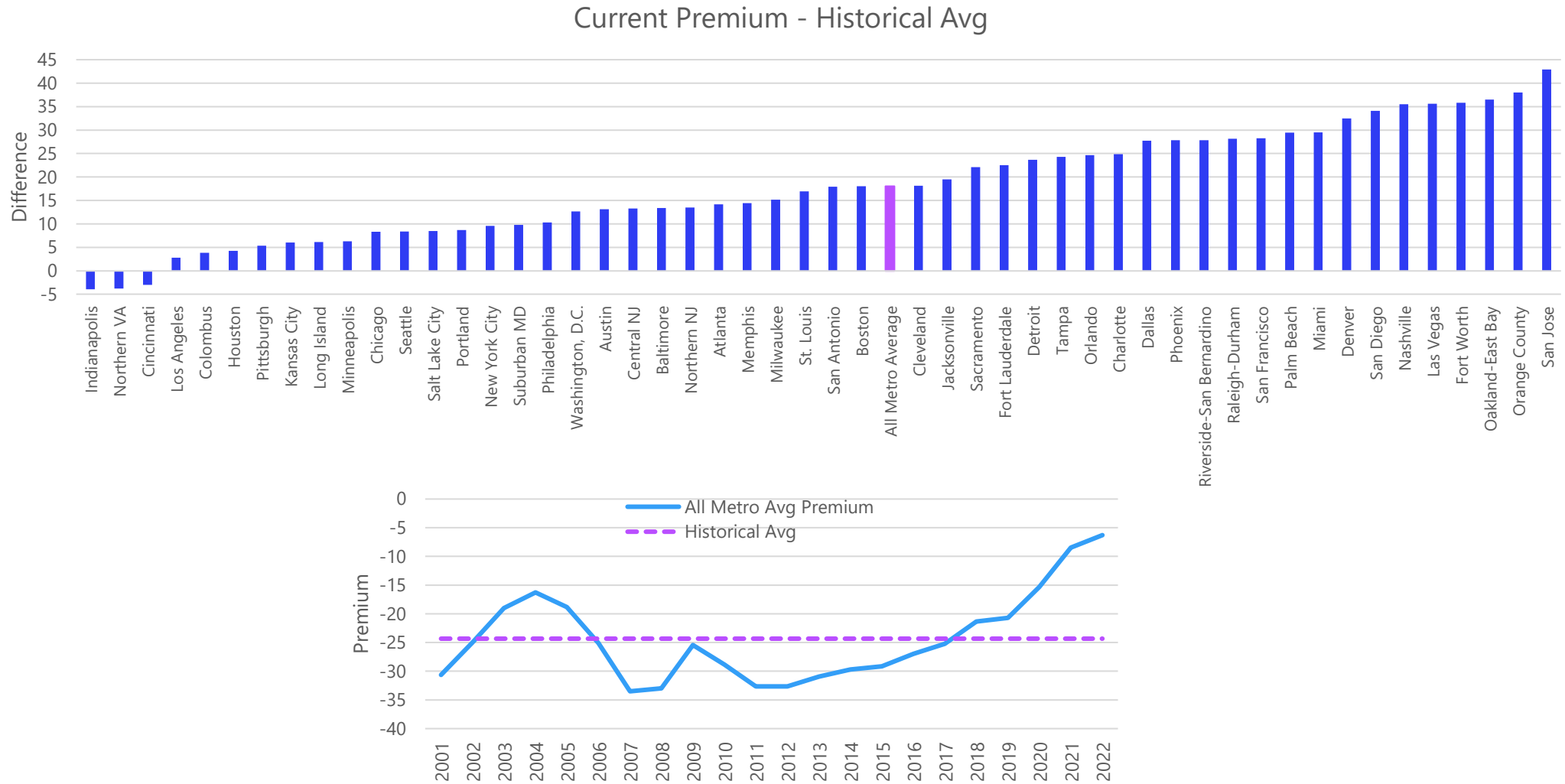


- Daily office usage highest on Tuesday/Wednesday; lowest on Fridays.
- Hybrid work resulting in ranges of 32% to 56% office usage during the week.



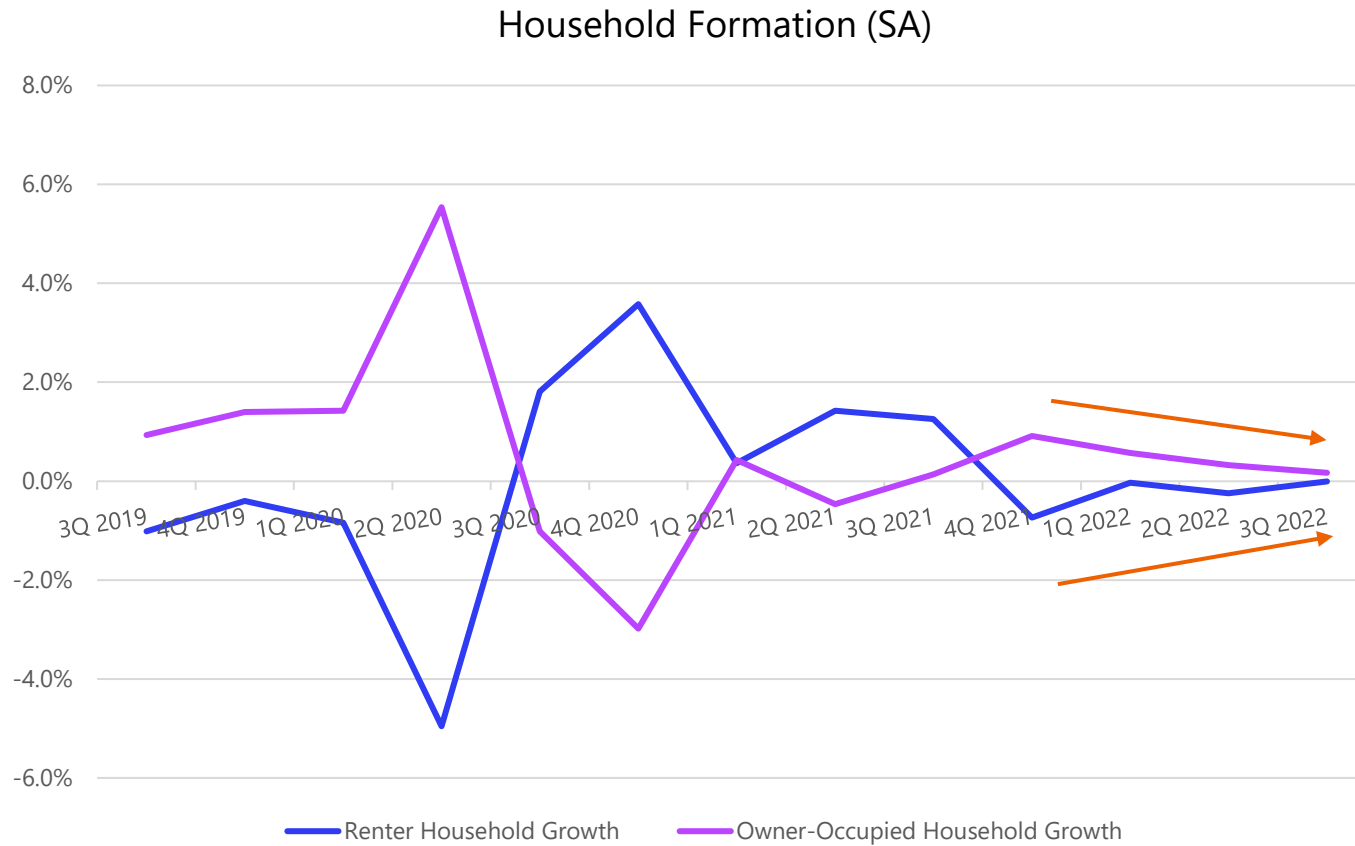
Sources: Kastle Systems, SitusAMC Insights, November 2022.

Office in Most Markets Trading at a Premium; Office Premium Has Exceeded Long-Term Average Since 2018



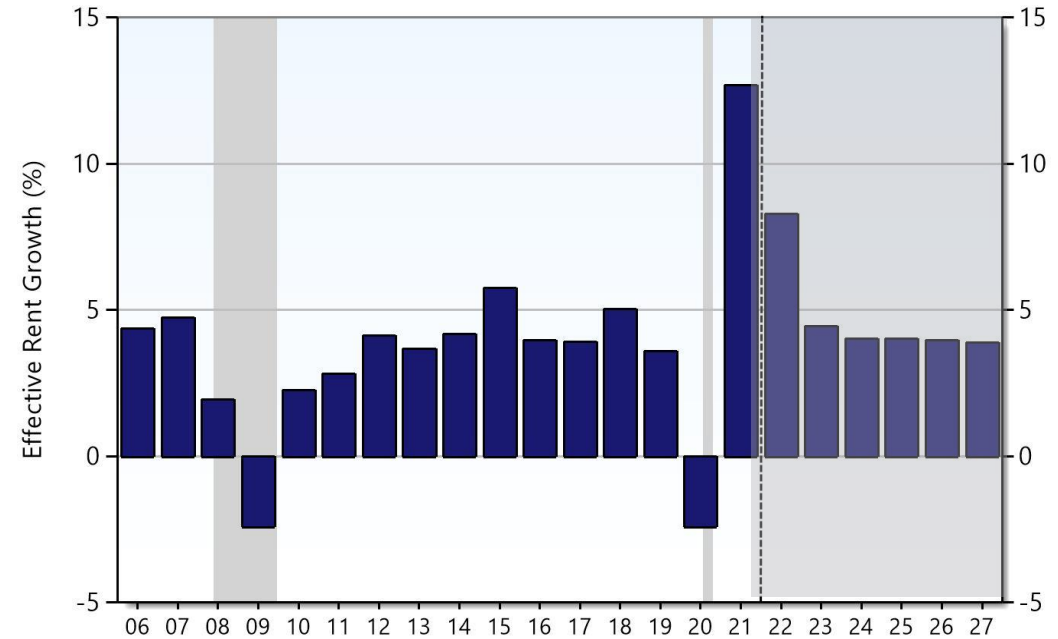
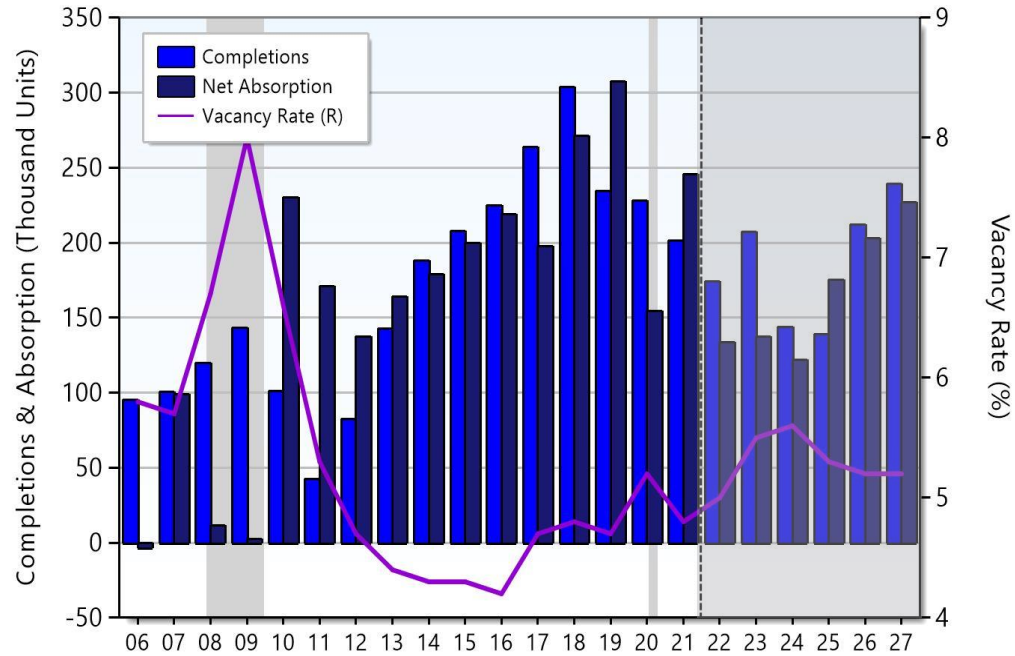
Sources: MSCI Real Assets, Reis, RERC, SitusAMC Insights, 3Q 2022.

Rental Household Growth on the Rise in 2022...



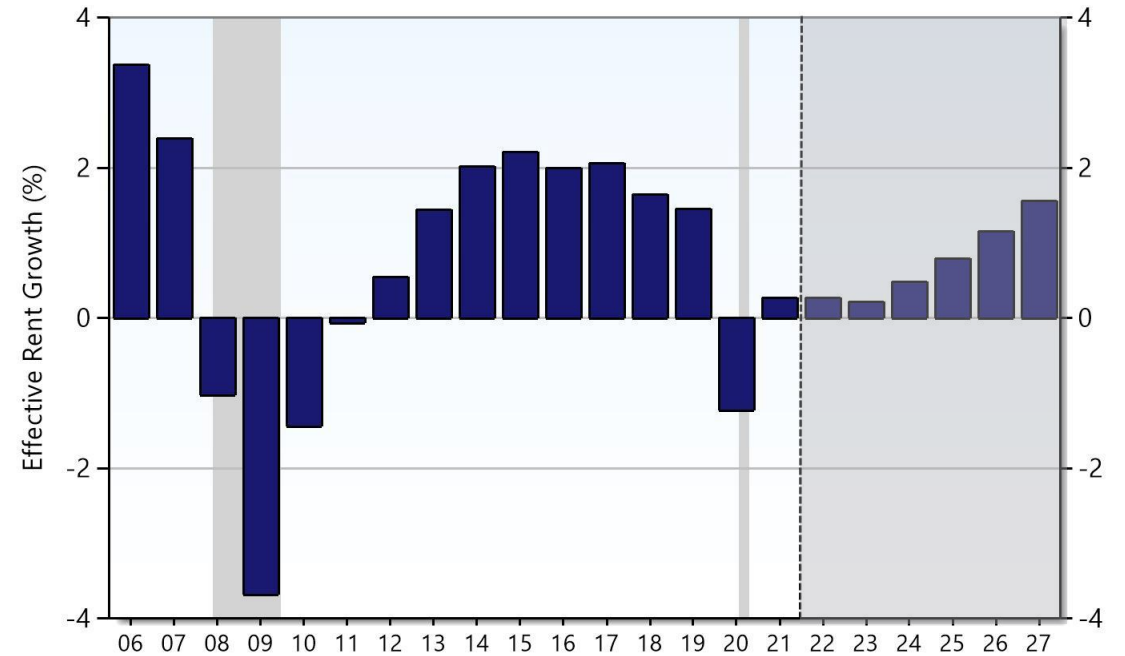
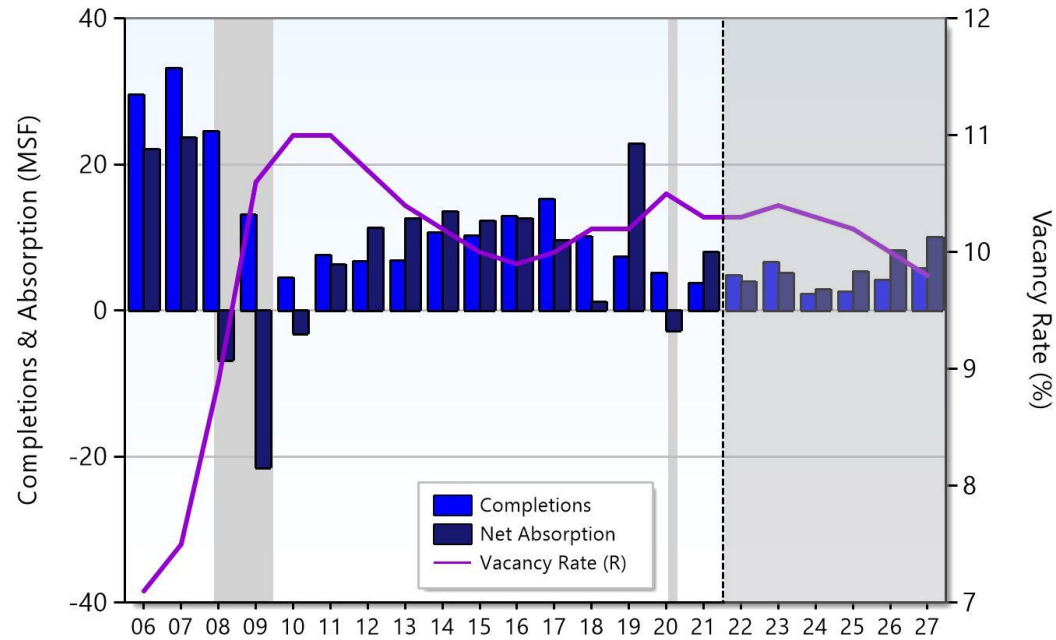
Sources: Census Bureau, FRED, SitusAMC Insights, 3Q 2022.

Cooldown in Apartment Absorption, Occupancy and Rent Growth Expected, But Rent Growth Healthy



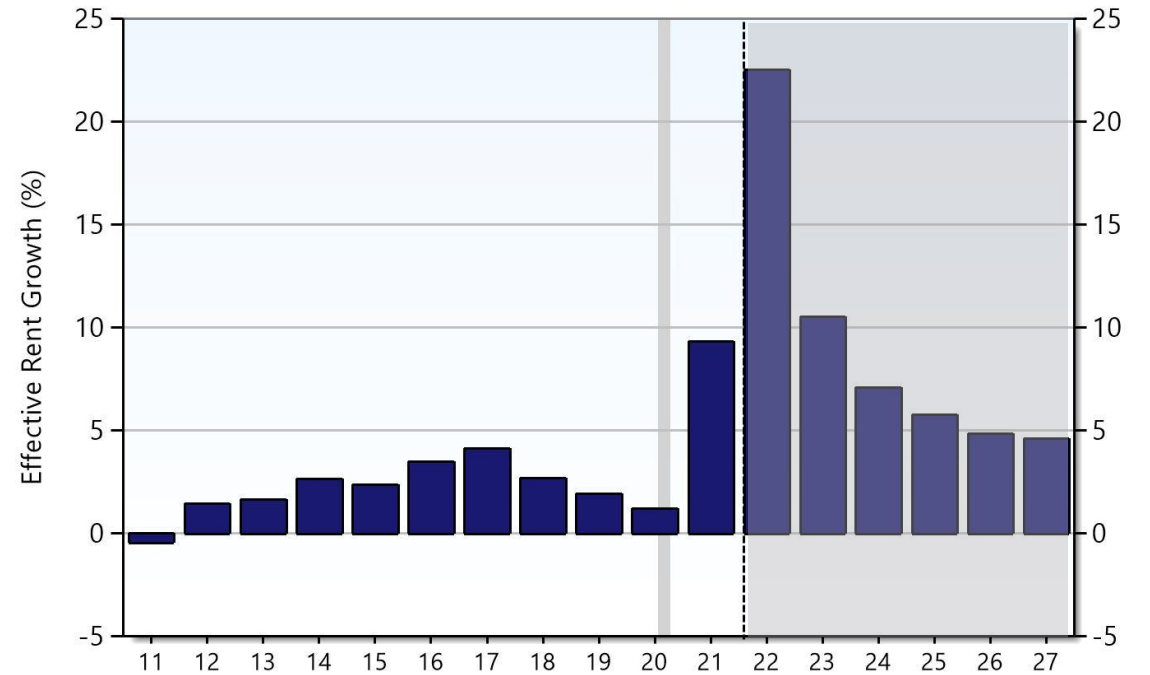
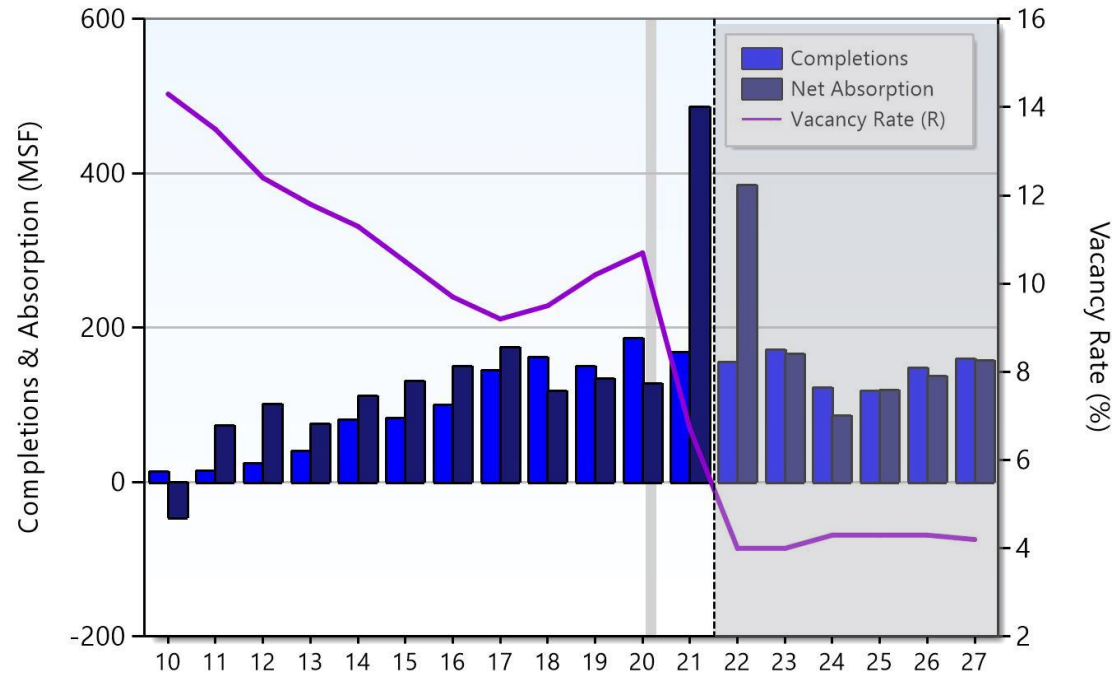
Sources: Reis, NBER, SitusAMC Insights Forecasts, 3Q 2022.

We Expect Continued Modest Improvement in Retail Fundamentals



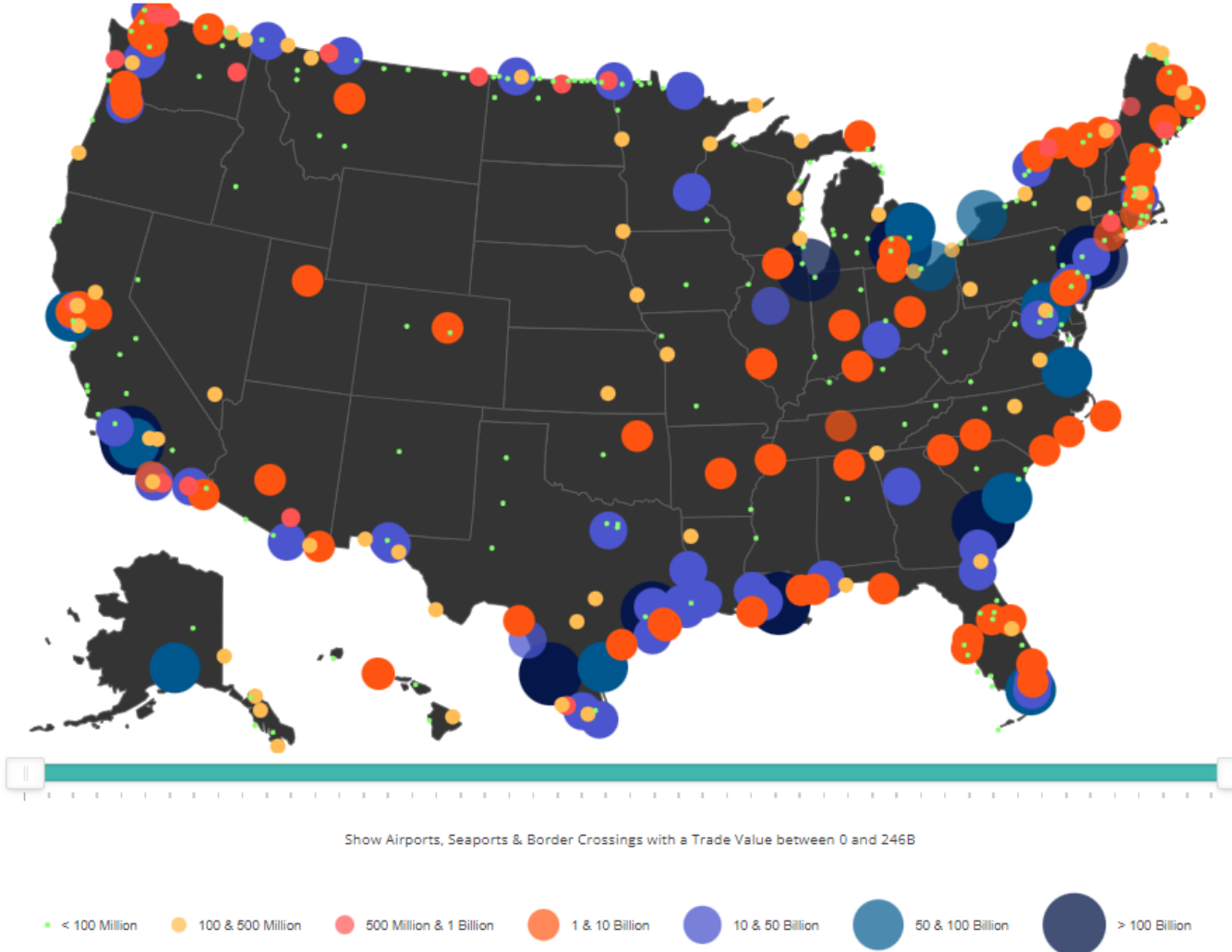
Sources: Reis, NBER, SitusAMC Insights Forecasts, 3Q 2022.

While Capital Markets Perceptions of Industrial Have Shifted, Space Market Conditions Look to Remain Strong



Sources: Reis, NBER, SitusAMC Insights Forecasts, 3Q 2022.

Airport, Seaport and Border Crossing Data Identify Potential Areas of Demand



<u>Rank</u>	<u>Location</u>	<u>Value (YTD)</u>	<u>YoY Percent Change (YTD)</u>
1	Chicago O'Hare International Airport	\$305.0	6.8%
2	Port of Los Angeles	\$296.7	5.6%
3	Port Laredo	\$248.5	5.8%
4	John F. Kennedy International Airport	\$236.3	4.7%
5	Port of Newark	\$228.5	5.0%
6	Port of Houston	\$170.7	4.5%
7	Detroit Ambassador Bridge, Mich.	\$142.9	3.1%
8	Port of New Orleans	\$141.1	2.9%
9	Los Angeles International Airport	\$139.3	2.9%
10	Port of Savannah, Ga.	\$127.7	2.8%

Sources: US Trade Numbers, SitusAMC Insights, Through Sept. 2022.

Thank You

The background features a gradient from light blue at the top to a darker purple at the bottom. Overlaid on this are several sets of thin, parallel lines that form a series of overlapping, wavy shapes. These shapes are filled with a fine, dotted pattern, creating a textured, almost 3D effect. The overall aesthetic is modern and digital.

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