SitusAMC

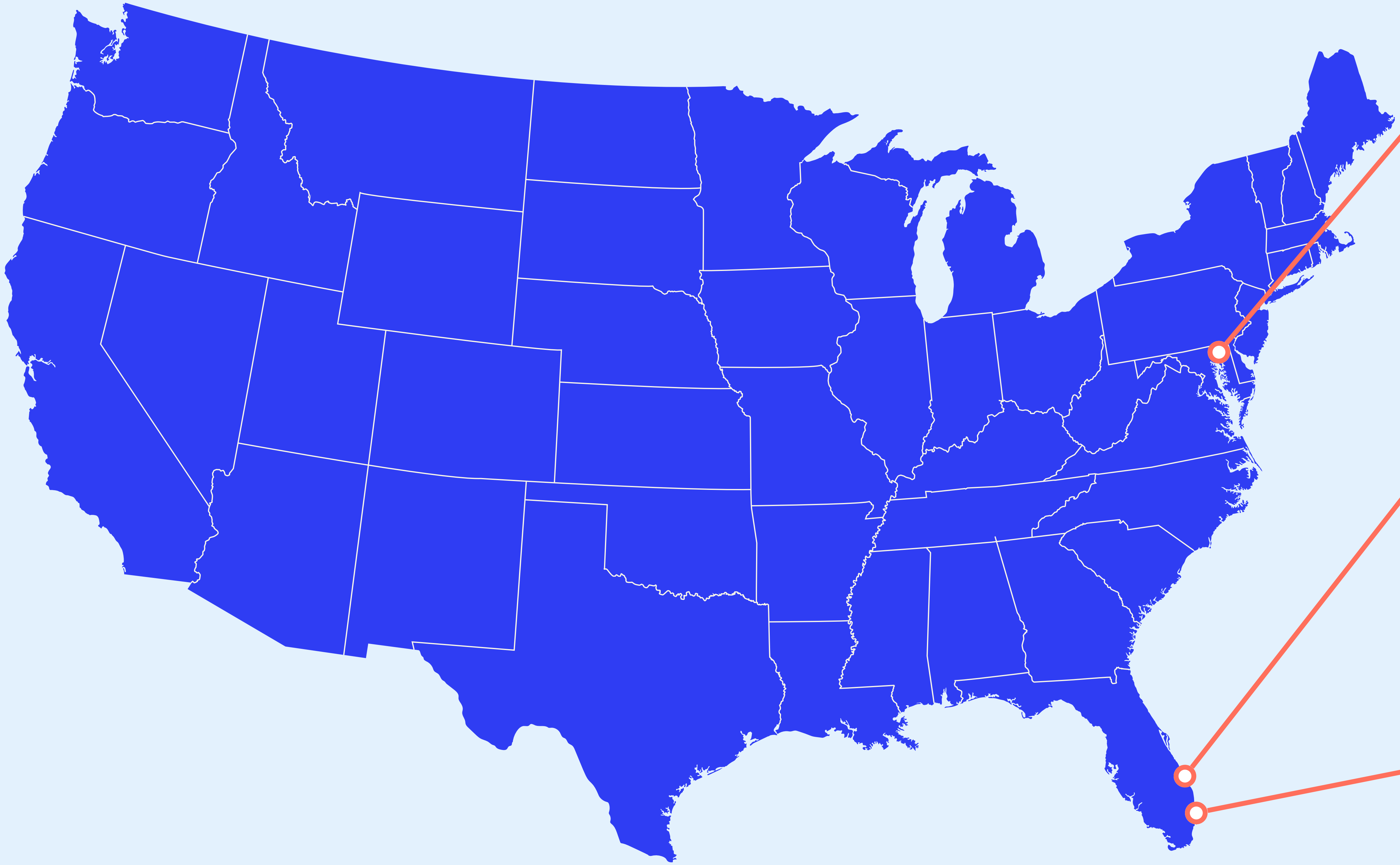
TOP 3
BOTTOM 3

Metros 4Q 2023

INTRODUCTION

The Sunshine State earned two of the top three metro spots, while California dominated the worst-performing markets. Industrial returns were the biggest driver of success or failure for most of the markets. Our two Florida metros posted industrial returns more than 270 bps over the national average, while the California markets came in at nearly 50 bps and 125 bps below the national average. Our winner, an East Coast city, benefitted from a low unemployment rate and high home prices relative to the national average, helping to boost apartment returns. Our biggest loser, on the opposite coast, suffered from a concentration in the troubled office segment.

TOP 3 METROS 4Q 2023



TOP 3

1. BALTIMORE, MD

At negative 1.1%, Baltimore posted the best NPI total return of the markets analyzed. It was the weakest return in a year and well below the long-term average (LTA) return of 2.2%. Though the apartment return was weak historically at -1.3%, it was the second highest among the 30 metros we analyzed. Retail was the only standout, with a positive return of 0.4%, fifth-highest among the metros. Industrial comprises 57% of the Baltimore CRE market, and at -1.5%, was middling compared to others in our analysis. Industrial returns were the second lowest for Baltimore since the GFC.

FUNDAMENTALS

The apartment occupancy rate, though declining 20 bps, was 30 bps above pre-pandemic levels and almost 40 bps higher than the LTA, according to Reis. New supply has fallen to historical lows over the past two years. Effective rents remain nearly 14% higher than pre-pandemic levels. Baltimore saw almost $500 million in transactions, a 25% drop QoQ and 42% below the LTA, per MSCI Real Assets. Deal activity has fallen 86% since the peak in 4Q 2021; by comparison, volume dropped 97% during the GFC. Industrial accounted for about half of all deals, with activity more than doubling QoQ to $244 million.

4Q 2023 BY THE NUMBERS

Total Returns	Capital Returns	Income Returns
-1.1%	-2.2%	+1.1%

Data: NCREIF, 4Q 2023

TOP 3

2. FORT LAUDERDALE, FL

Fort Lauderdale ranked second with a total return of -1.1%, according to NCREIF. The city saw its second consecutive quarter of negative returns and the worst performance since 4Q 2022. At 0.6%, industrial returns ranked highest among our 30 markets. Apartment accounts for the majority of Fort Lauderdale's CRE market at 51%, and with a -2.4% return, the segment was the biggest drag on performance. The sector still managed to rank ninth among the 30 metros in this dismal quarter.

FUNDAMENTALS

Fort Lauderdale's warehouse sector has enjoyed 12 consecutive years of effective rent growth, according to Reis, and reached a record high due to strong demand and minimal new supply over the past year. Fort Lauderdale's industrial occupancy grew 10 bps QoQ and is 630 bps above the pre-pandemic level, despite being down 70 bps from the peak a year ago. On the deal side, transaction volume declined 47% to $630 million, per MSCI Real Assets. Deal activity has plummeted 87% from its peak in 4Q 2021, similar to the 89% drop from the peak in the GFC. Apartments accounted for the bulk of transactions at 45%, and almost $287 million. That's the lowest volume since the pandemic's start, and down 91% from the peak in 4Q 2021.

4Q 2023 BY THE NUMBERS

Total Return	Capital Returns	Income Returns
-1.1%	-2.2%	+1.1%

Data: NCREIF, 4Q 2023

TOP 3

3. MIAMI, FL

At -1.3%, Miami placed third despite a 240 bps drop QoQ in its total return. Performance was the third worst for the market since the GFC, per NCREIF. The industrial segment, comprising 47% of Miami's market, saw a positive return of 0.4%, one of the lowest since the GFC, but third highest among our 30 markets. Apartment makes up nearly 30% of Miami's CRE market and was the second-best performing segment, with a return of -2.4%, placing eighth among the metros. Retail and office returns, at -3.8% and -3.3%, respectively, weighed on performance, though each segment only accounts for about 10% of total market value.

FUNDAMENTALS

Like Fort Lauderdale, Miami's warehouse sector is experiencing strong demand. Occupancy was unchanged from the previous quarter, down 80 bps from the record set a year earlier, but 600 bps above pre-pandemic levels, according to Reis. Effective rents hit record highs following more than 12 straight years of growth, but that's slowing as new supply has come online over the past year.

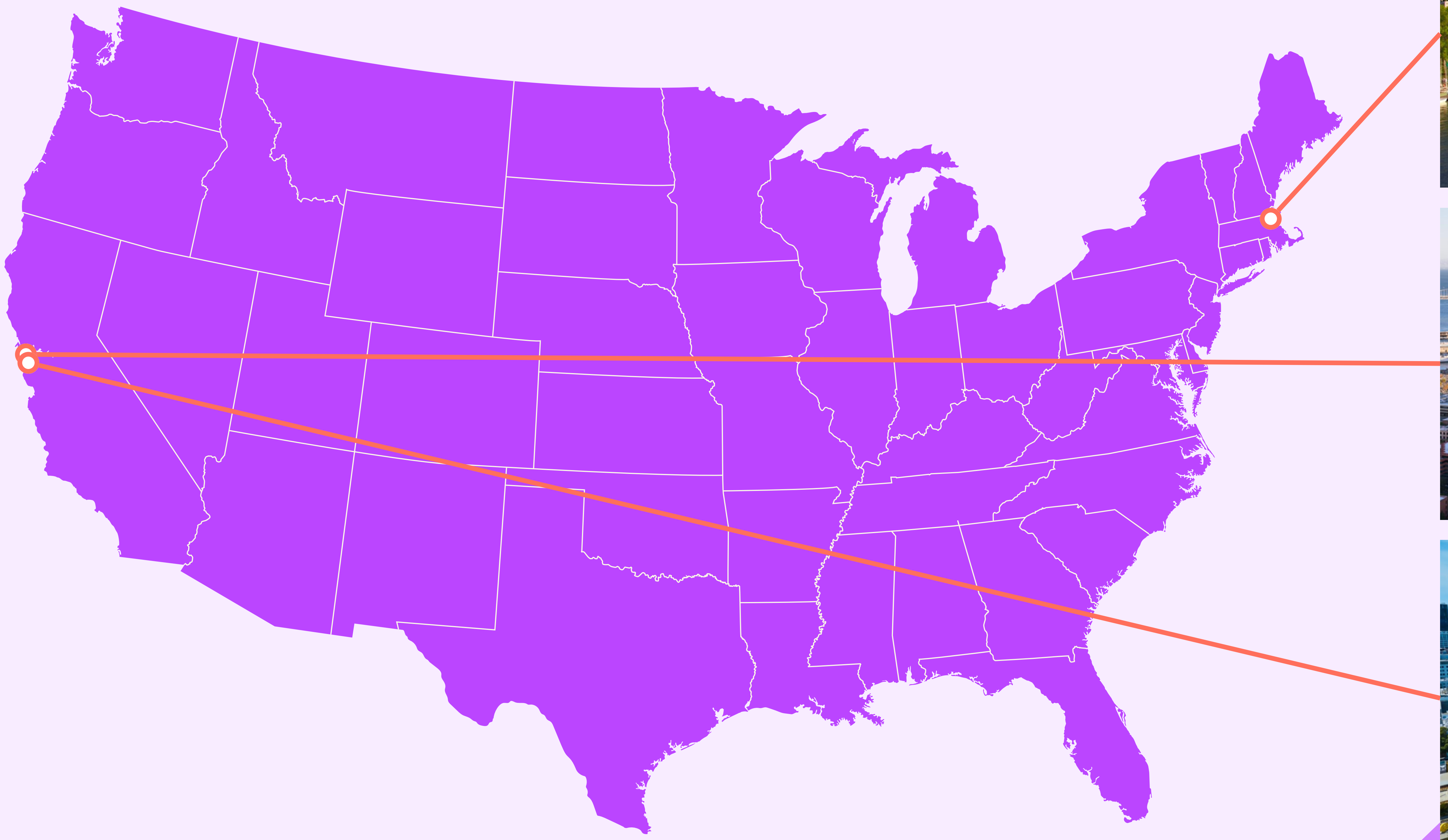
Miami deal activity has been relatively resilient amid high interest rates, up 9.6% QoQ to $1.5 billion, the most activity in a year and more than triple the LTA, per MSCI Real Assets. But that's down 74% from its recent peak; by comparison, volume dropped 95% during the GFC. The industrial sector accounted for nearly half of activity. Volume has declined just 7.8% from its peak in 3Q 2022 compared to nearly 50% during the GFC.

4Q 2023 BY THE NUMBERS

Total Return	Capital Returns	Income Returns
-1.3%	-2.4%	+1.0%

Data: NCREIF, 4Q 2023

BOTTOM 3 METROS 4Q 2023



BOTTOM 3

1. SAN FRANCISCO, CA

At -7.0%, San Francisco's return was the lowest since the GFC, according to NCREIF, earning it the worst-performing spot in our analysis. The –7.7% return for office, which comprises almost 68% of the CRE market, was the biggest drag on performance, and second-worst among the metros analyzed. The industrial, apartment and retail segments also stumbled, with returns of -2.8%, -5.7% and -7.1%, respectively.

FUNDAMENTALS

Work-from-home and tech layoffs have thrashed the office segment, with occupancy falling 230 bps QoQ to the lowest level since 2004, per Reis. San Francisco and other California metros consistently rank at the bottom of Kastle's Back-to-Work Barometer, often at less than half pre-pandemic occupancy. Occupancy has plunged more than 1,000 bps from the pandemic's onset. Effective rents fell for the fifth consecutive quarter to the lowest level since 2017. Rents are down nearly 9% from their peak in 3Q 2020. San Francisco saw $605 million in transactions, up 17% QoQ, per MSCI Real Assets. But deal volume was 87% below its 4Q 2021 peak; by comparison, volume fell 97% during the GFC. Office accounted for most activity at 46%, but office deals are down 90% from the peak in 4Q 2021 -- more than the 81% drop seen during the GFC.

4Q 2023 BY THE NUMBERS

Total Return	Capital Returns	Income Returns
-7.0%	-8.1%	+1.2%

Data: NCREIF, 4Q 2023

BOTTOM 3

2.OAKLAND/EAST BAY, CA

Placing second to the bottom, Oakland's return of –4.5% was the lowest since the GFC, according to NCREIF. Industrial comprises 46% of the market and has fallen five consecutive quarters, posting its second-worst performance since the GFC. Though industrial had the highest return of Oakland's property segments at -3.5%, it ranked fourth worst among the markets in our analysis. At -5.6%, retail was the worst-performing segment.

FUNDAMENTALS

Warehouse occupancy neared record highs despite a 10 bps decline in the rate, per Reis. The occupancy rate was 700 bps and nearly 590 bps above pre-Covid-19 and LTA levels, respectively. However, East Bay has seen a relatively high and consistent amount of new supply over the past few years, weighing on rent growth. Rent growth at Oakland warehouse -- positive throughout the pandemic -- slowed dramatically to 0.7%, from a peak of 5.5% in 3Q 2022. East Bay deal volume was $660.7 million, the slowest quarter since the pandemic's start, according to MSCI Real Assets. Sales activity has tumbled nearly 80% from its Covid-19 peak, relative to a 93% decline during the GFC. With $287 million in volume, industrial dominated deal volume, but is down 81% from its peak in 3Q 2022, compared to a fall of 96% during the GFC.

4Q 2023 BY THE NUMBERS

Total Return	Capital Returns	Income Returns
-4.5%	-5.6%	+1.1%

Data: NCREIF, 4Q 2023

BOTTOM 3

3. BOSTON, MA

Boston's return fell 4.4%, its fifth straight quarterly loss, according to NCRIEF, making it third worst among metros analyzed. Office, which comprises 57% of total CRE market value, saw a return of -6.0%, its worst quarter since the GFC, and seventh-worst among our metros. Industrial was top performer, though still a drag on performance with a -1.5% return.

FUNDAMENTALS

Office occupancy fell 30 bps QoQ to the lowest level since 2005, per Reis. Demand has fallen 370 bps since the onset of the pandemic. Effective rents declined 0.8% to the lowest level in a year, though still about 5% above pre-Covid-19 levels. Oversupply plagues the market; the segment experienced near-record completions at the end of 2022 and the beginning of 2023. However, with no new deliveries in the latter half of 2023, rents may stabilize this year.

Boston saw over $2.5 billion in CRE transactions, according to MSCI Real Assets, down 74% from its 4Q 2021 peak but 1.5% above the LTA. Industrial and office comprised most of the activity at 30% and 29%, respectively. Industrial transactions, though down 60% from their peak, were more than double the LTA. Office activity, on the other hand, was almost half that of its LTA, and has fallen 87% from its peak in 4Q 2021. For comparison, industrial and office fell 98% and 99%, respectively during the GFC.

4Q 2023 BY THE NUMBERS

Total Return	Capital Returns	Income Returns
-4.4%	-5.5%	+1.1%

Data: NCREIF, 4Q 2023

4Q 2023 METRO RANKING RECAP

TOP 3

1. BALTIMORE, MD

2. FORT LAUDERDALE, FL

3. MIAMI, FL

BOTTOM 3

1. SAN FRANCISCO, CA

2. OAKLAND/ EAST BAY, CA

3. BOSTON, MA

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To learn more about SitusAMC's research, data and analytic tools, contact:

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