

ValTrends
1Q 2023 Webinar

June 14, 2023
2:00pm EST

Capital Dislocation



**JEN
RASMUSSEN, Ph.D.**

Vice President
SitusAMC Insights

**PETER
MUOIO, Ph.D.**

Senior Director
SitusAMC Insights

Table of Contents

1.0

Capital Markets
Overview- 3

2.0

Space Market
Fundamentals - 16

2.1

Office - 17

2.2

Apartment - 21

2.3

Retail - 25

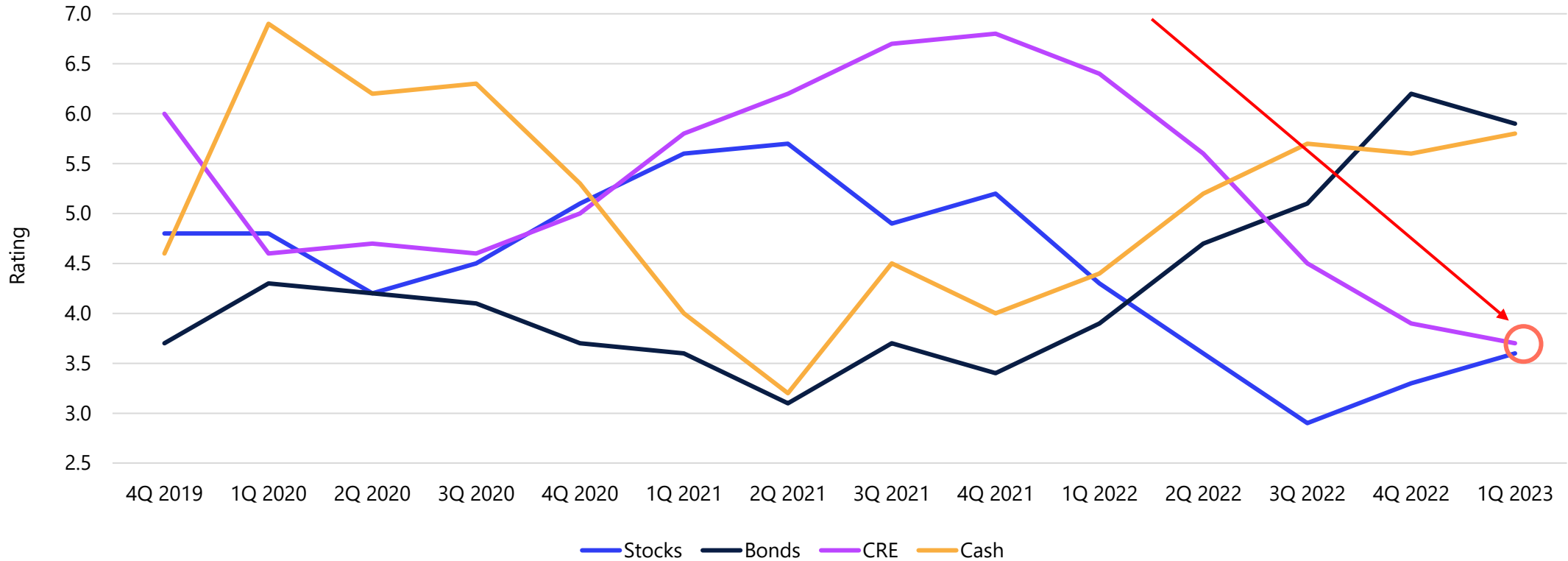
2.4

Industrial - 29



1.0 Capital Markets Overview

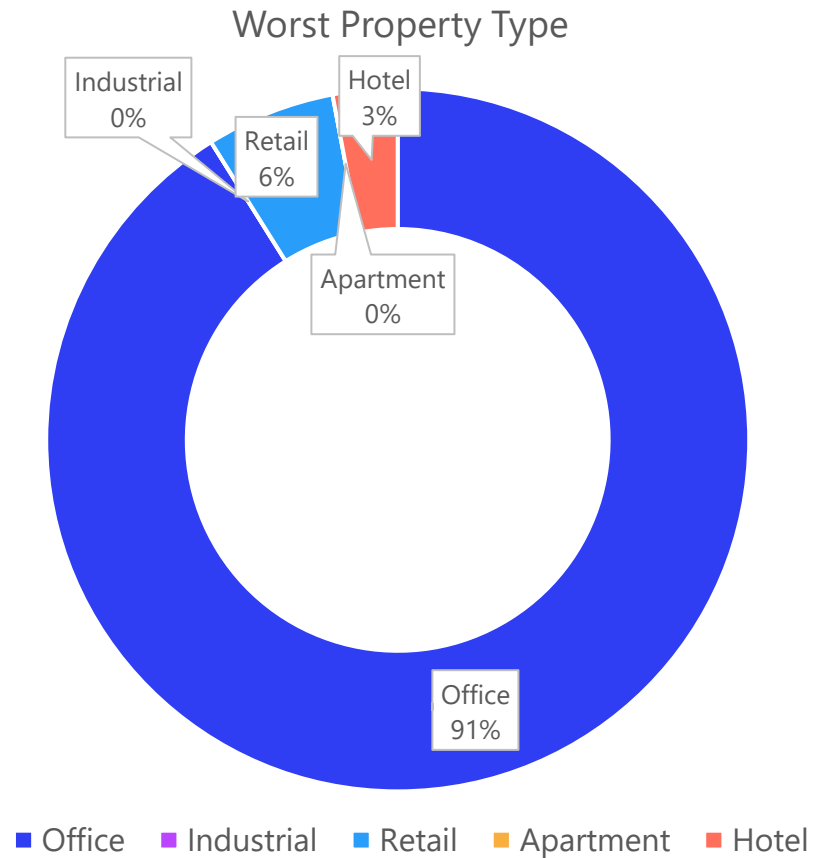
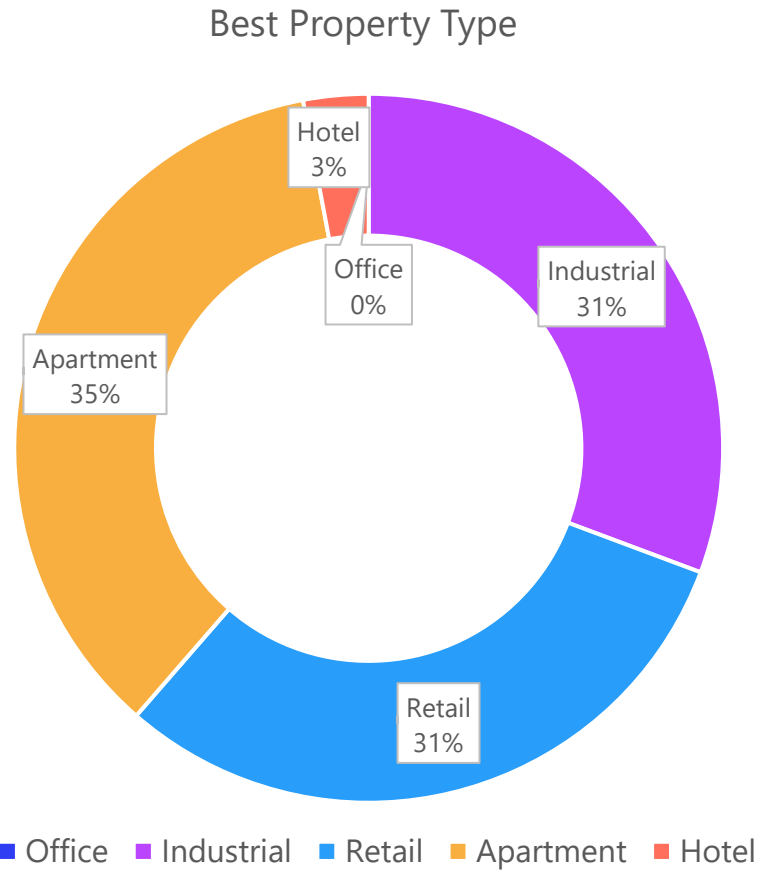
Preference for CRE Reaches Record Low; Amid Rising Interest Rates and Economic Uncertainty, Investors Turn to Bonds and Cash



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

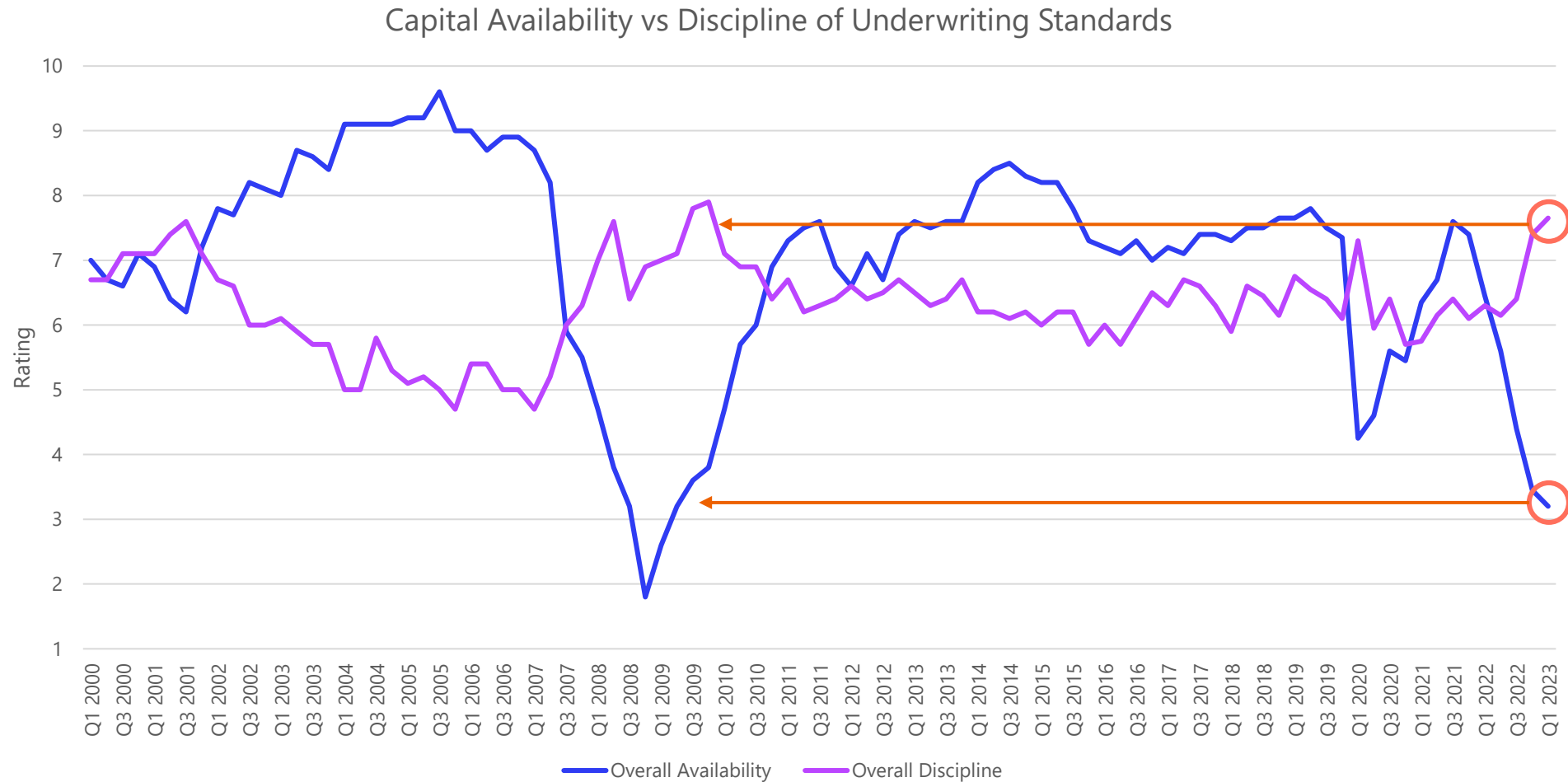
Apartment Barely Beats Retail (!) and Industrial as the Best Property Type; Investors United on Office as the Worst

- 1Q 2022 Best Property Type
 - Retail: 11%
 - Apartment: 21%
 - Industrial: 47%



Sources: RERC, SitusAMC Insights, 1Q 2023.

Capital Availability for CRE Lowest and Underwriting Most Restrictive Since GFC

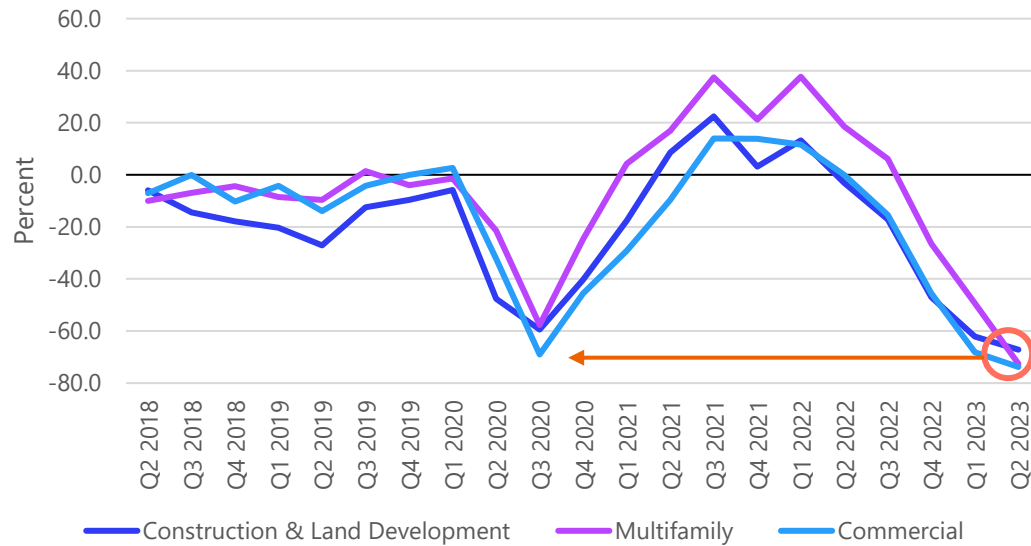


Availability ratings are based on scale of 1 to 10, with 10 being plentiful. Discipline ratings are based on a scale of 1 to 10, with 10 being extremely restrictive.
 Sources: RERC, SitusAMC Insights, 1Q 2023.

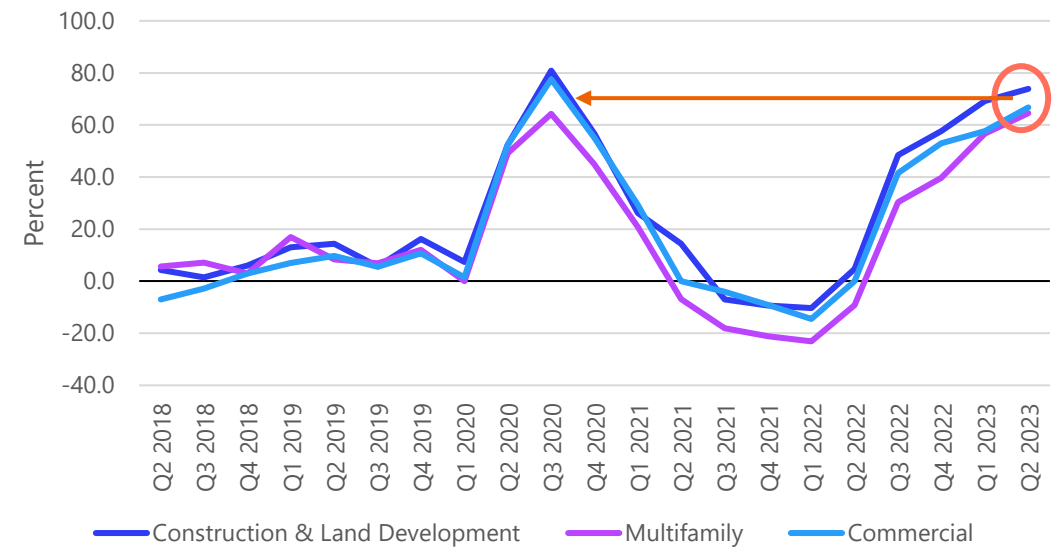
Demand for CRE Loans Plummet; Banks Use Stricter Underwriting Standards

- About 70% of banks expect CRE loan demand to decrease.
 - Higher interest rates have slowed financing for acquisitions.
 - Between 65% and 75% of banks plan to use stricter underwriting standards for CRE loans.

Net Percentage of Domestic Banks Reporting Stronger Demand for CRE Loans

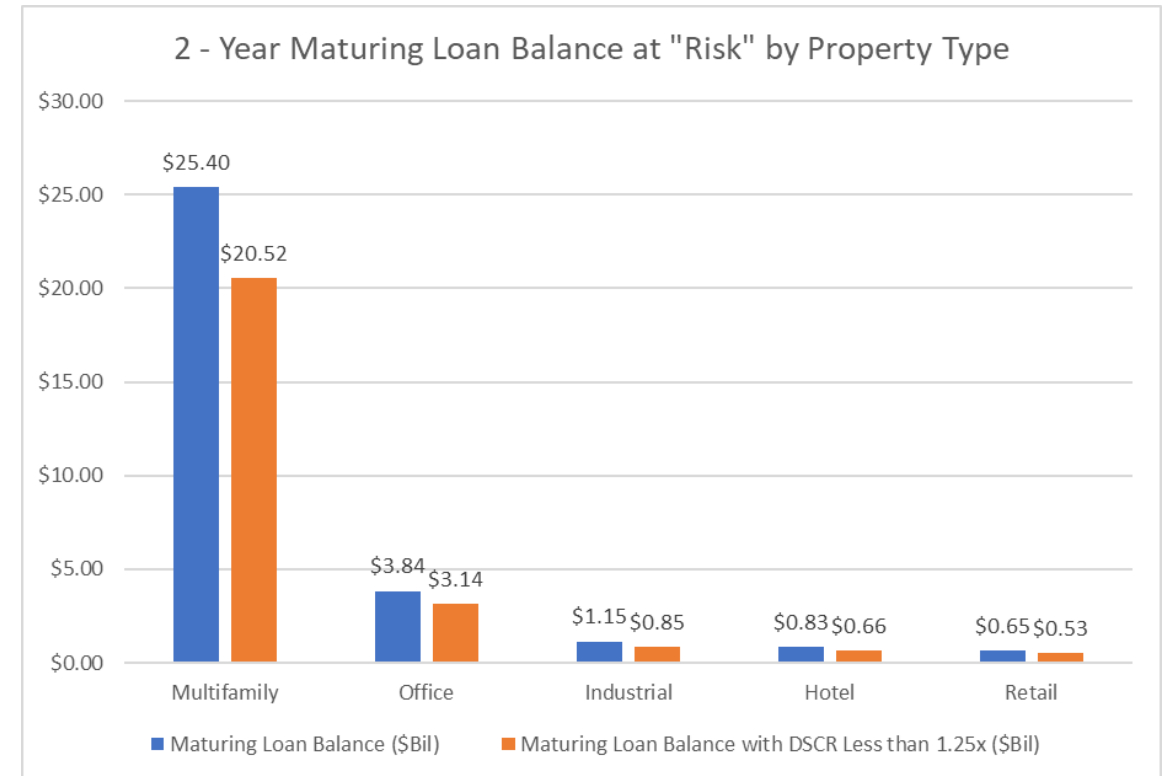
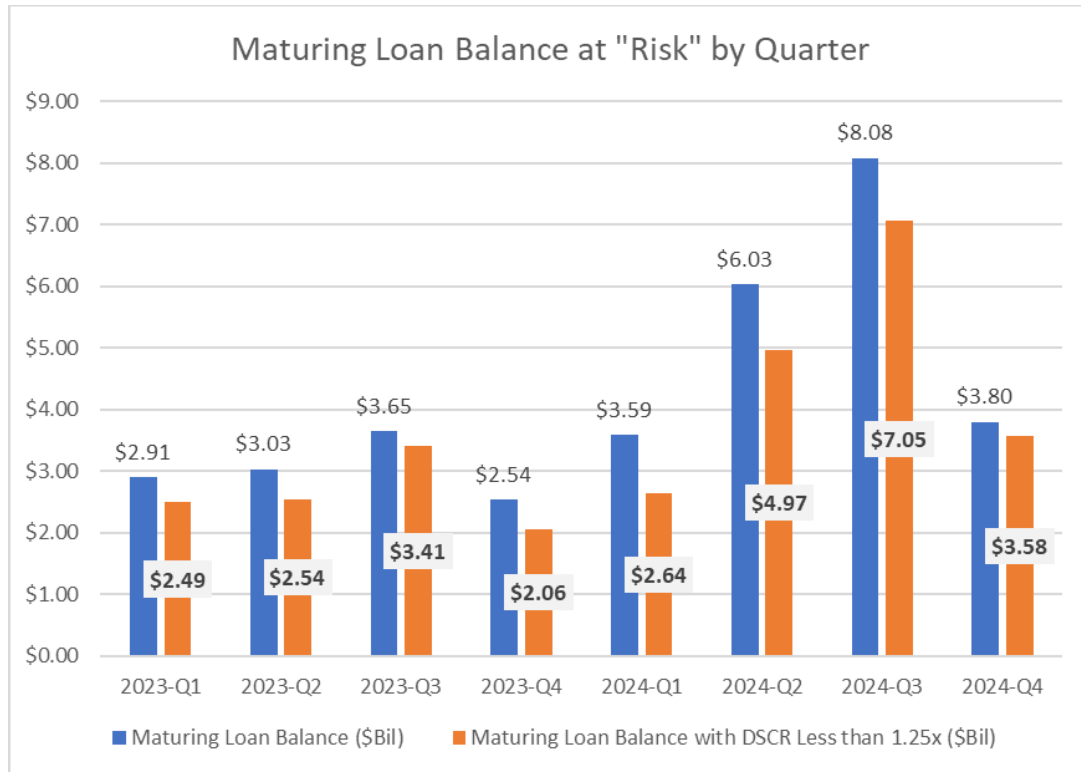


Net Percentage of Domestic Banks Tightening Standards for CRE Loans



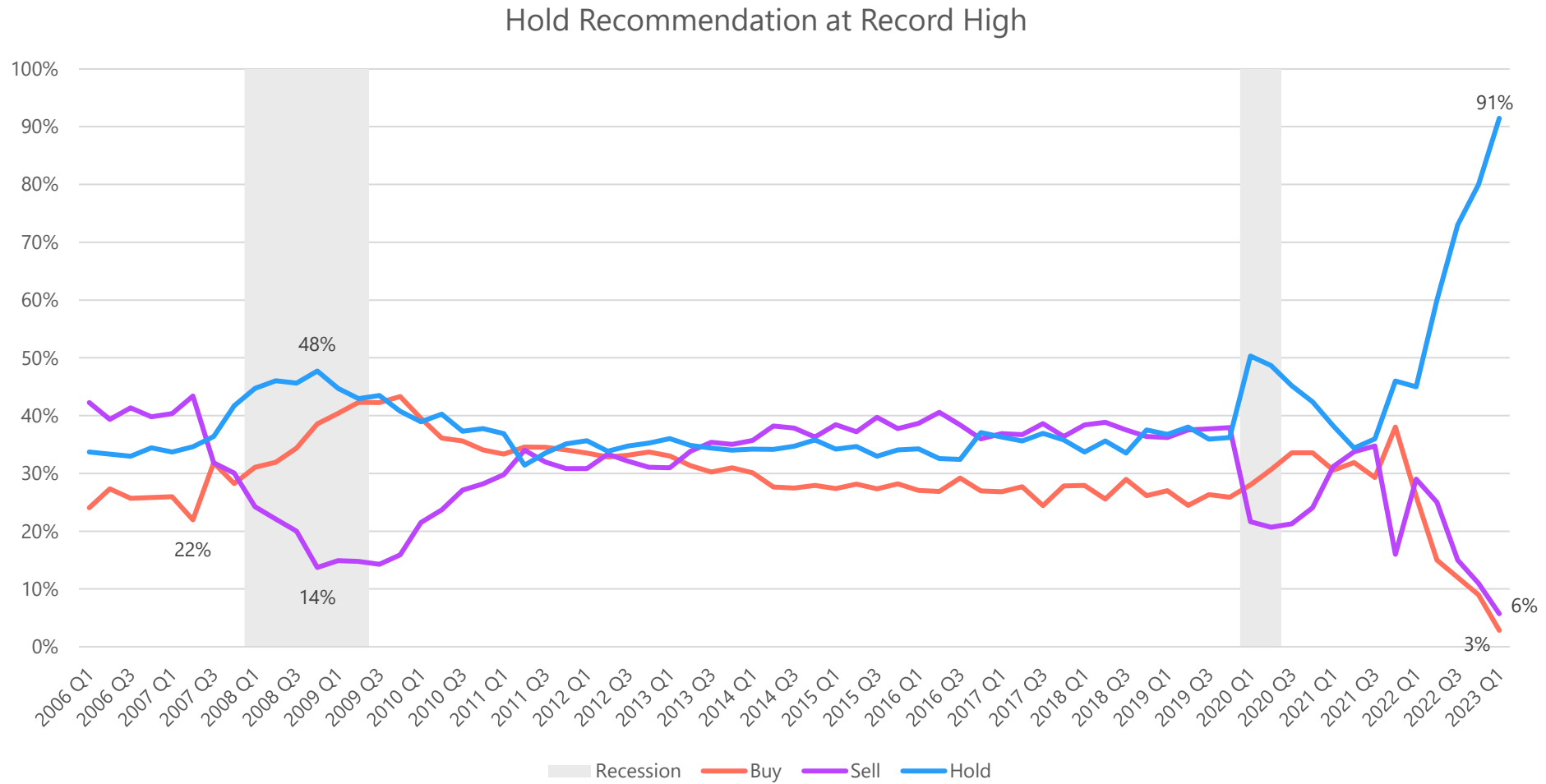
Sources: Federal Reserve, SitusAMC Insights, 2Q 2023.

Large Amount of Loans At Risk as Wave of Maturities Occurs in 2024



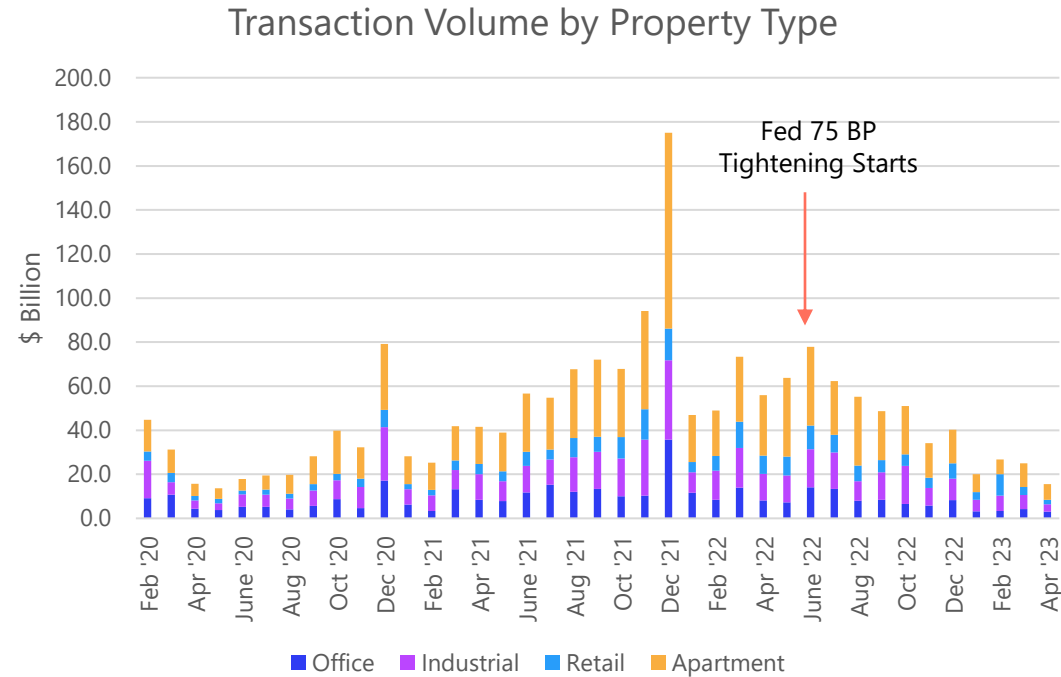
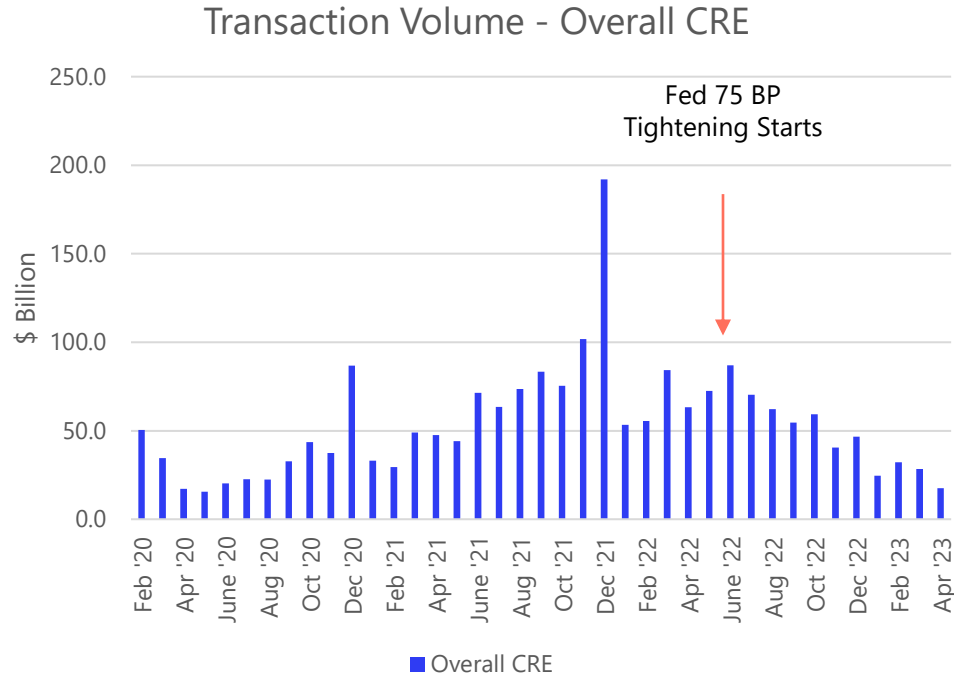
Sources: Trepp, SitusAMC Insights, 1Q 2023.

Market Participants Wait and See



Sources: RERC, SitusAMC Insights, 1Q 2023.

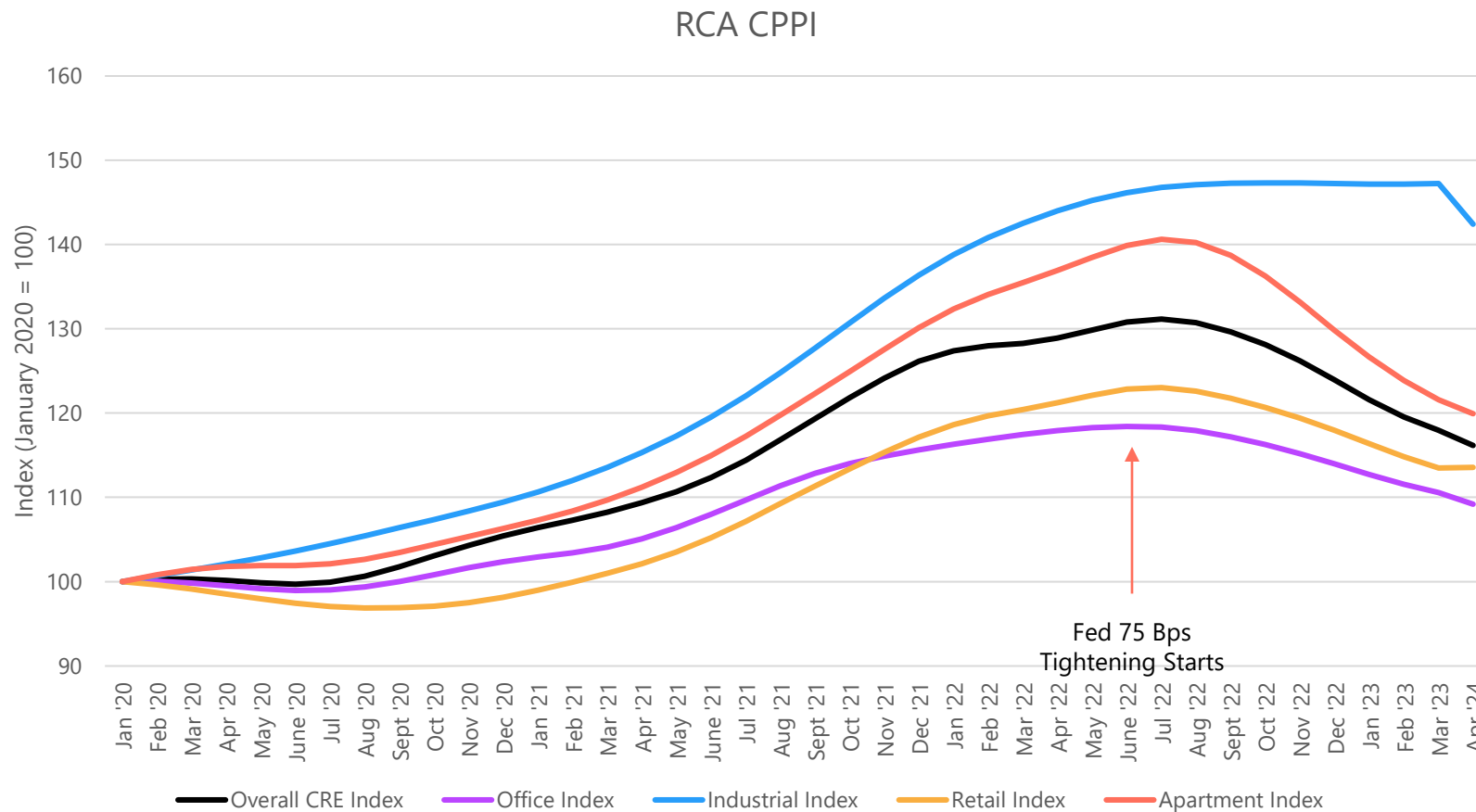
CRE Transaction Volume Sees Abysmal Start to the Year



	Change Since Aggressive Fed Tightening in June 2022	GFC Peak to Trough
Overall CRE	-79.8%	-95.4%
Office	-78.6%	-98.7%
Apartment	-80.2%	-96.4%
Retail	-80.3%	-94.3%
Industrial	-80.3%	-95.1%

Note: Sum of office, industrial, retail and apartment volume will not equal overall CRE volume. Overall CRE transaction volume includes additional property types.
Sources: MSCI Real Assets, SitusAMC Insights, April 2023.

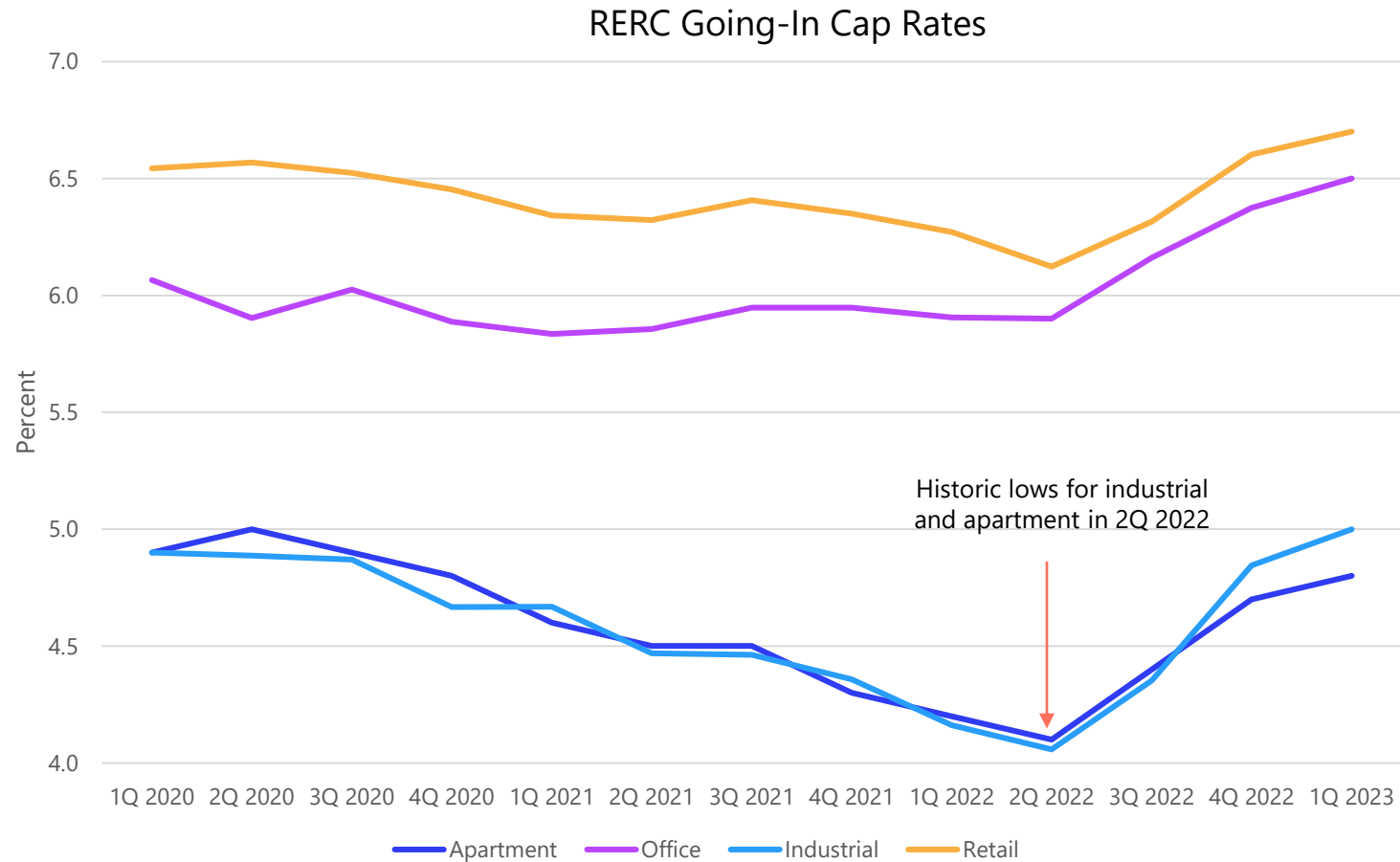
Prices Falling Since Aggressive Fed Tightening in 2022



	Change Since Aggressive Fed Tightening in June 2022
Overall CRE	-11.4%
Apartment	-14.7%
Office	-7.8%
Retail	-7.7%
Industrial	-3.3%

Sources: MSCI Real Assets, SitusAMC Insights, April 2023.

Our Data Shows Continued Cap Rate Expansion Across Major Property Segments

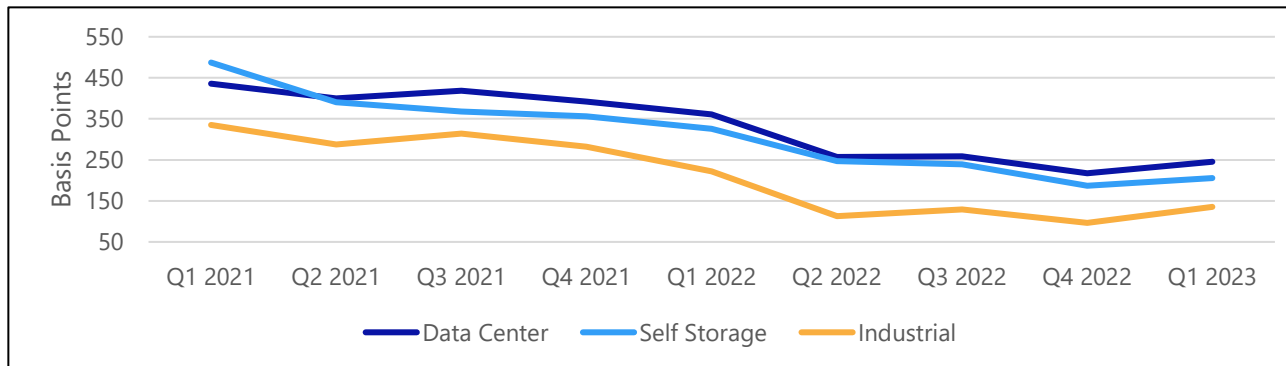
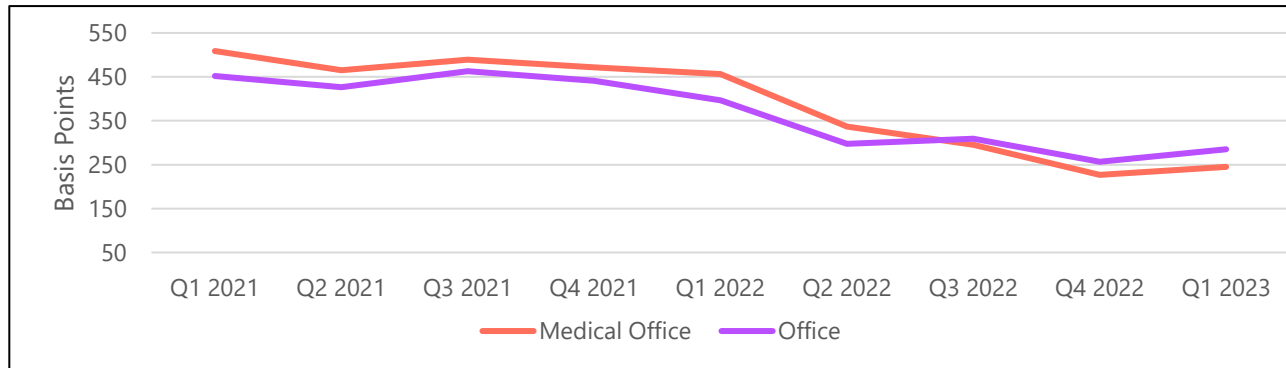
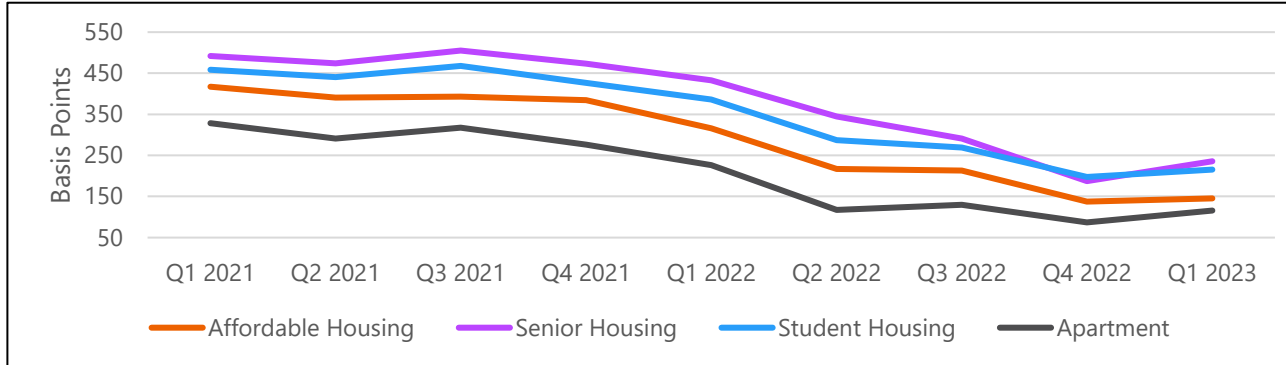


	Cap Rate Change Since Aggressive Fed Tightening in June 2022
Overall CRE	+49 bps
Industrial	+98 bps
Apartment	+70 bps
Office	+63 bps
Retail	+61 bps

Source RERC, SitusAMC Insights, 1Q 2023.

Many Alternative Property Segments Able to Absorb Rising Interest Rates

RERC Cap Rate Spreads Over 10-Year Treasury



	Cap Rate Change Since Aggressive Fed Tightening in June 2022
Overall CRE	+49 bps
Senior Housing	-38 bps
Affordable Housing	0 bps
Student Housing	0 bps
Apartment	+70 bps
Medical Office	-20 bps
Office	+60 bps
Self Storage	+30 bps
Data Center	+60 bps
Industrial	+94 bps

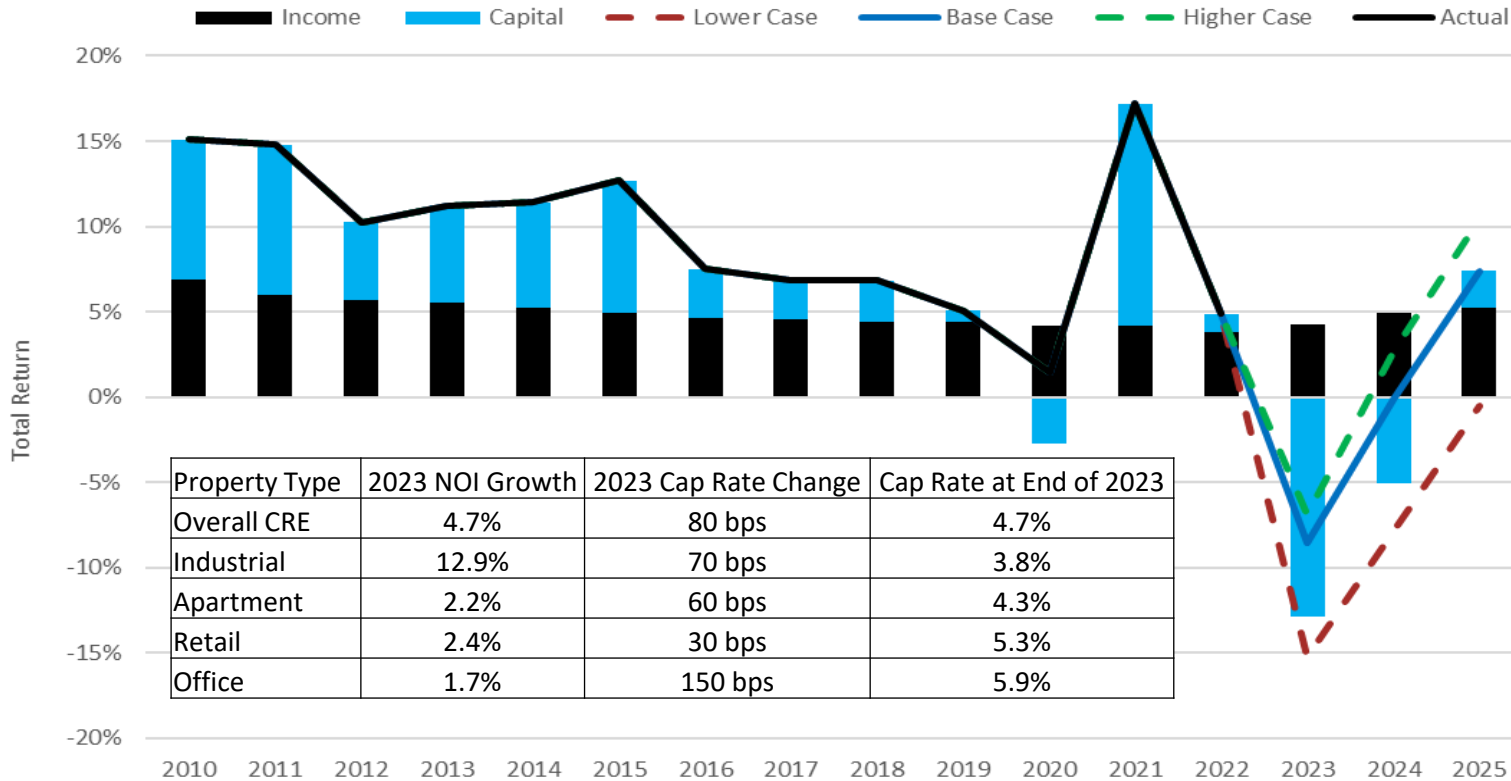
Note: Cap Rates are for institutional properties.
Source RERC, SitusAMC Insights, 1Q 2023.

Question 1: Will alternative property types continue to outperform the traditional property types?

- Yes
- No

CRE Returns Expected to Fall 8.6% in 2023 as Cap Rates Expand

SitusAMC Total Return Forecast



Capital Returns by Property Type

	2022 Capital Return (Actual)	2023 Capital Return (Base Case Forecast)
Overall CRE	1.1%	-12.9%
Retail	-1.9%	-2.7%
Industrial	11.4%	-9.6%
Apartment	2.3%	-11.0%
Office	-8.3%	-23.6%

The total return forecast is SitusAMC's proprietary model based on SitusAMC 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. Sources SitusAMC, NPI-ODCE, 1Q 2023.



2.0 Space Market Fundamentals

2.1 Office

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 wavy, parallel lines in shades of blue and purple, creating a sense of motion and depth. A fine, dotted pattern is visible in the upper portion of the image.

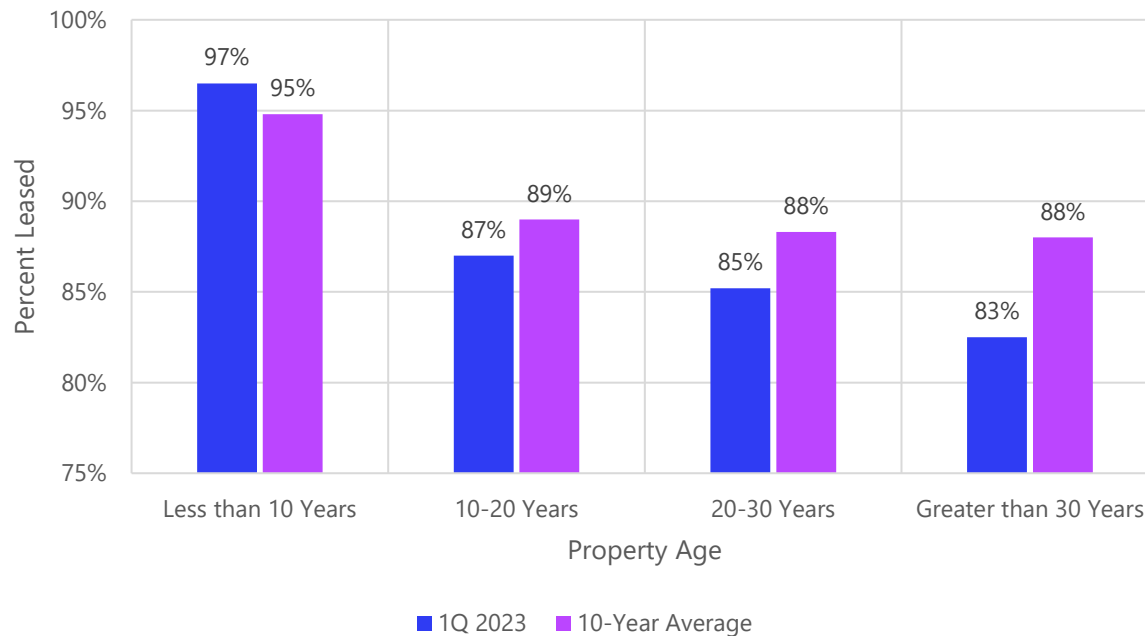
Question 2: What is the “new normal” for stabilized office occupancy?

- 95% or higher
- 90% to 94%
- 85% to 89%
- 80% to 84%
- Lower than 80%

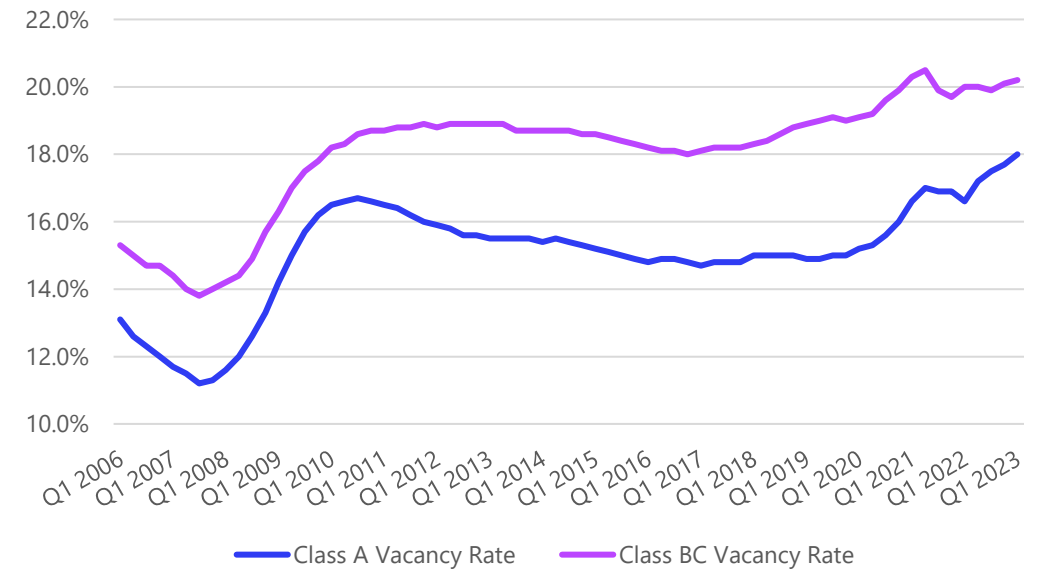
Office is Experiencing a Flight to Quality, Though a Reduced Need for Space

- Important to remember that any new office supply will be for Class A

Office Leasing Heavily Dependent on Age of Property



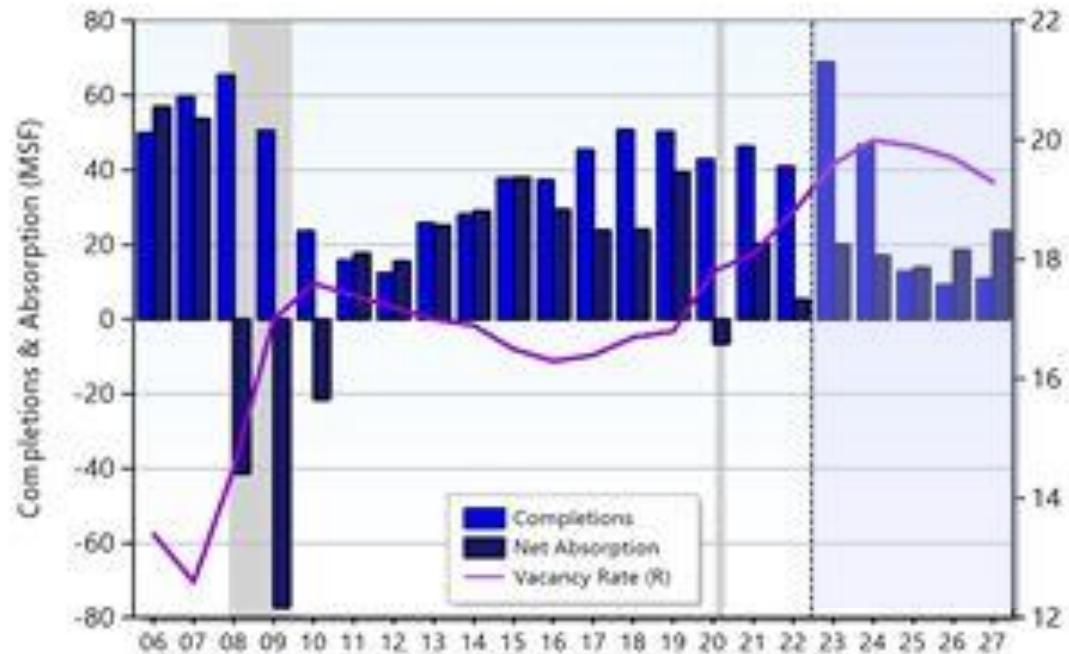
Office Class Cut
Vacancy Rates



Sources: NCREIF, SitusAMC, 1Q 2023..

Office Oversupply and Weak Demand Will Likely Lead to Rent Declines Over Next Few Years

SitusAMC Insights Office Fundamentals Forecasts – 1Q 2023



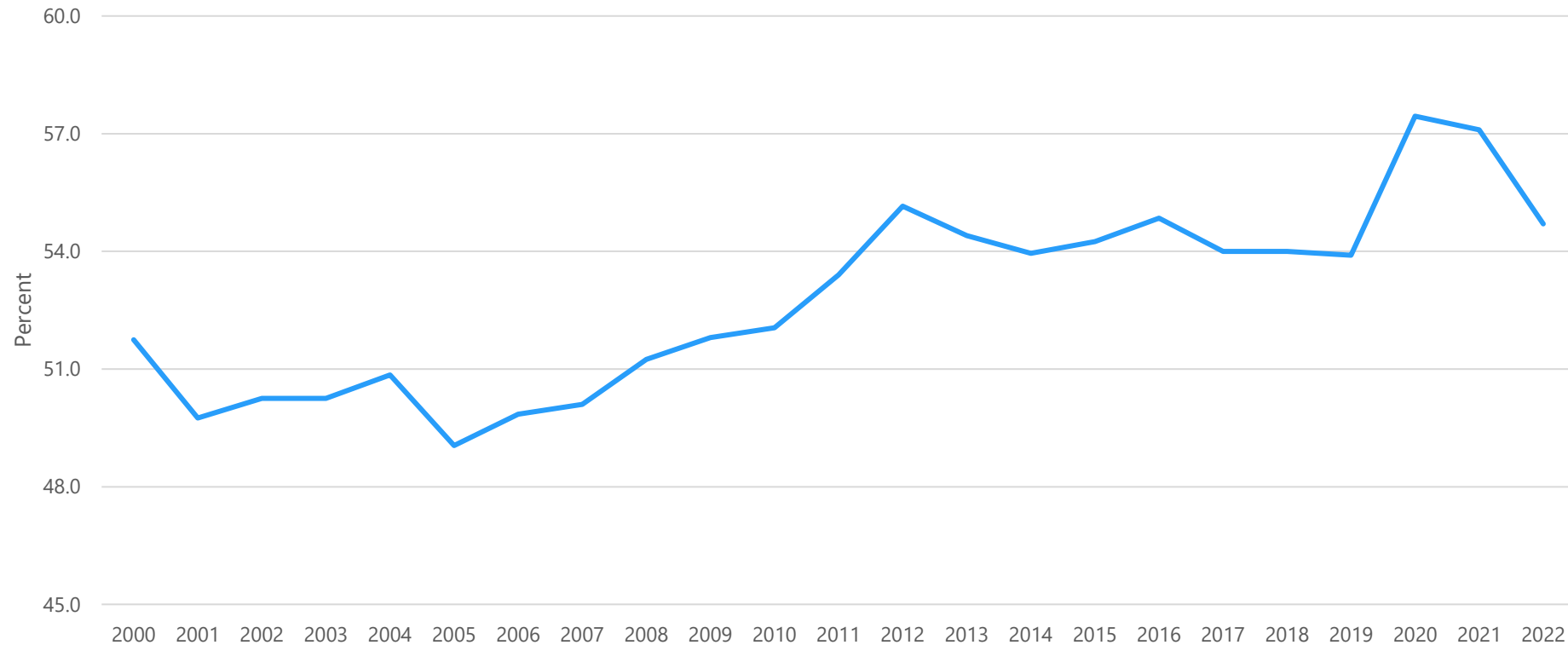
Sources: Reis, NBER, SitusAMC Insights Forecasts, 1Q 2023.

2.2 Apartment

The background features a vibrant blue-to-purple gradient. Overlaid on this are several sets of thin, parallel, wavy lines that create a sense of motion and depth. A fine, dotted pattern is visible in the upper portion of the image, adding texture to the overall design.

The Great Escape: Young Adults Moving Out of Parents' Home but Still Historically Very High

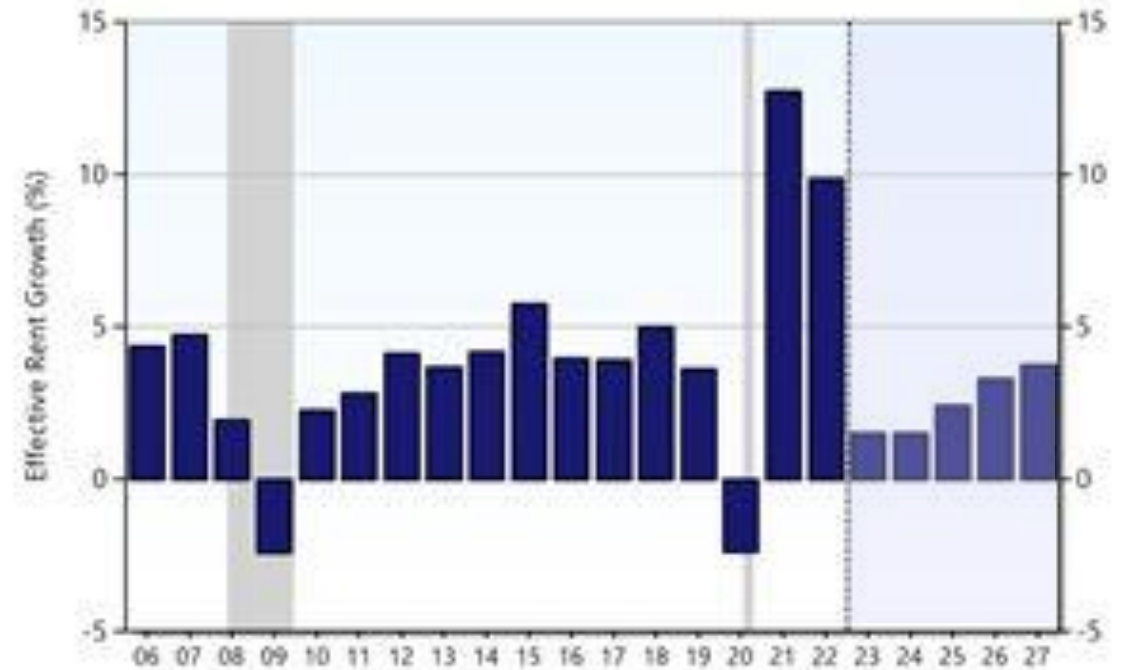
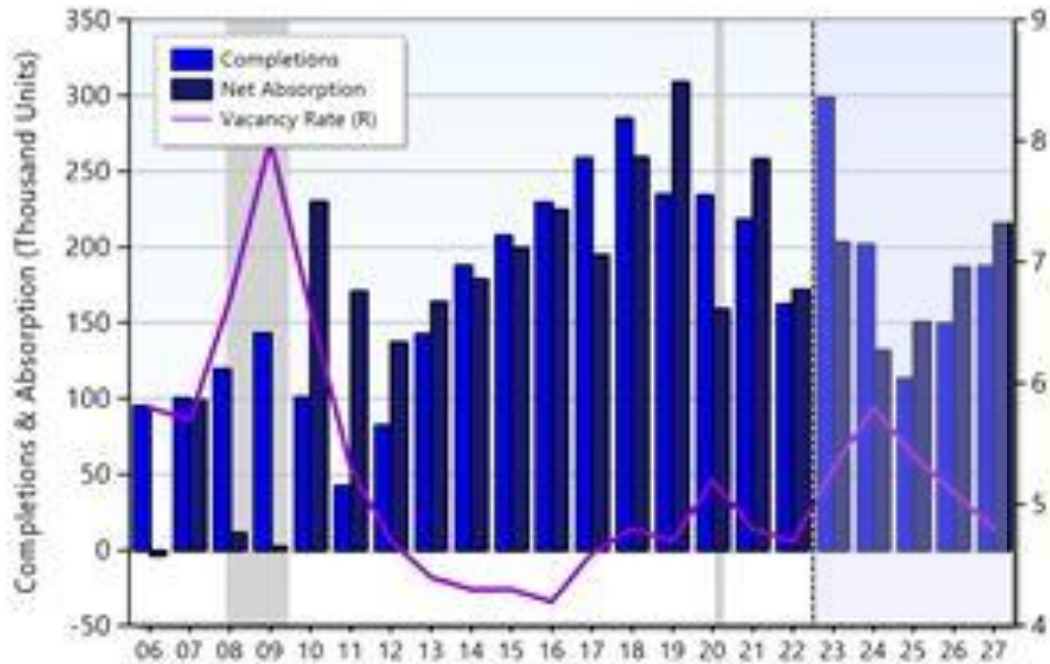
Percentage of Young Adults (Ages 18 to 24) Living with Their Parents



Sources: Census Bureau, SitusAMC Insights, 1Q 2023.

Apartment Vacancy Rate Expected to Rise Amid Strong Completions and Rent Growth Subdued Over Next Two Years

SitusAMC Insights Apartment Fundamentals Forecasts – 1Q 2023



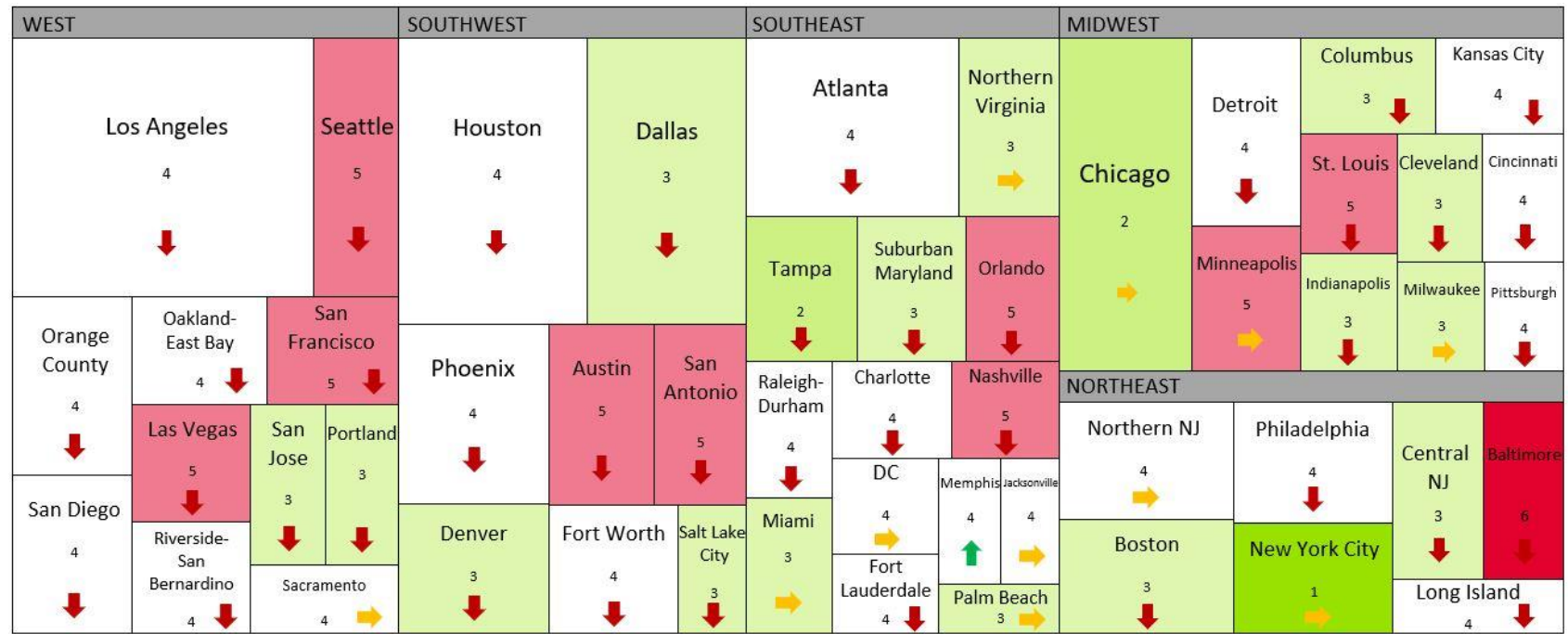
Sources: Reis, NBER, SitusAMC Insights Forecasts, 1Q 2023.

Apartment NOI Heat Maps

1Q 2023
Baseline:
Baseline scenario reflects an economic slowdown

Starting to See Red

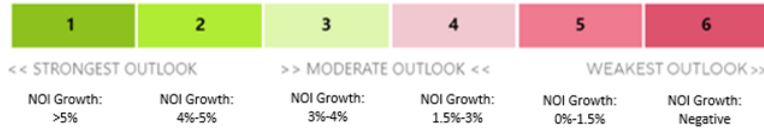
- Average score drops to moderate growth category from 2.45 to 3.78.
- Deceleration was widespread; 39 downgrades and just one upgrade (Memphis).
- San Antonio ranked worst at a -4.



4Q 2022:

NUMERICAL RANKINGS & COLORS

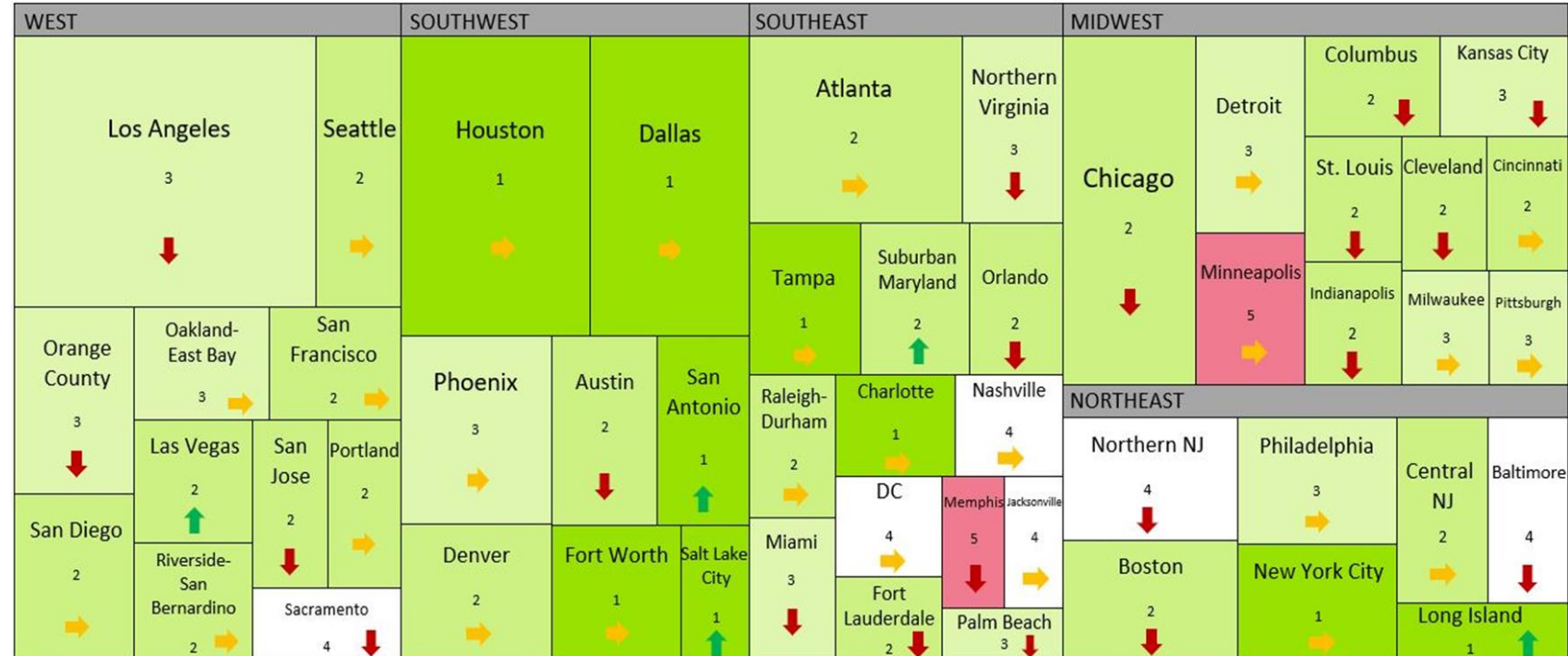
These represent the current and five-year projected strength of each market.



ARROWS

- ↑ IMPROVED
 - UNCHANGED
 - ↓ DETERIORATED
- 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.

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.



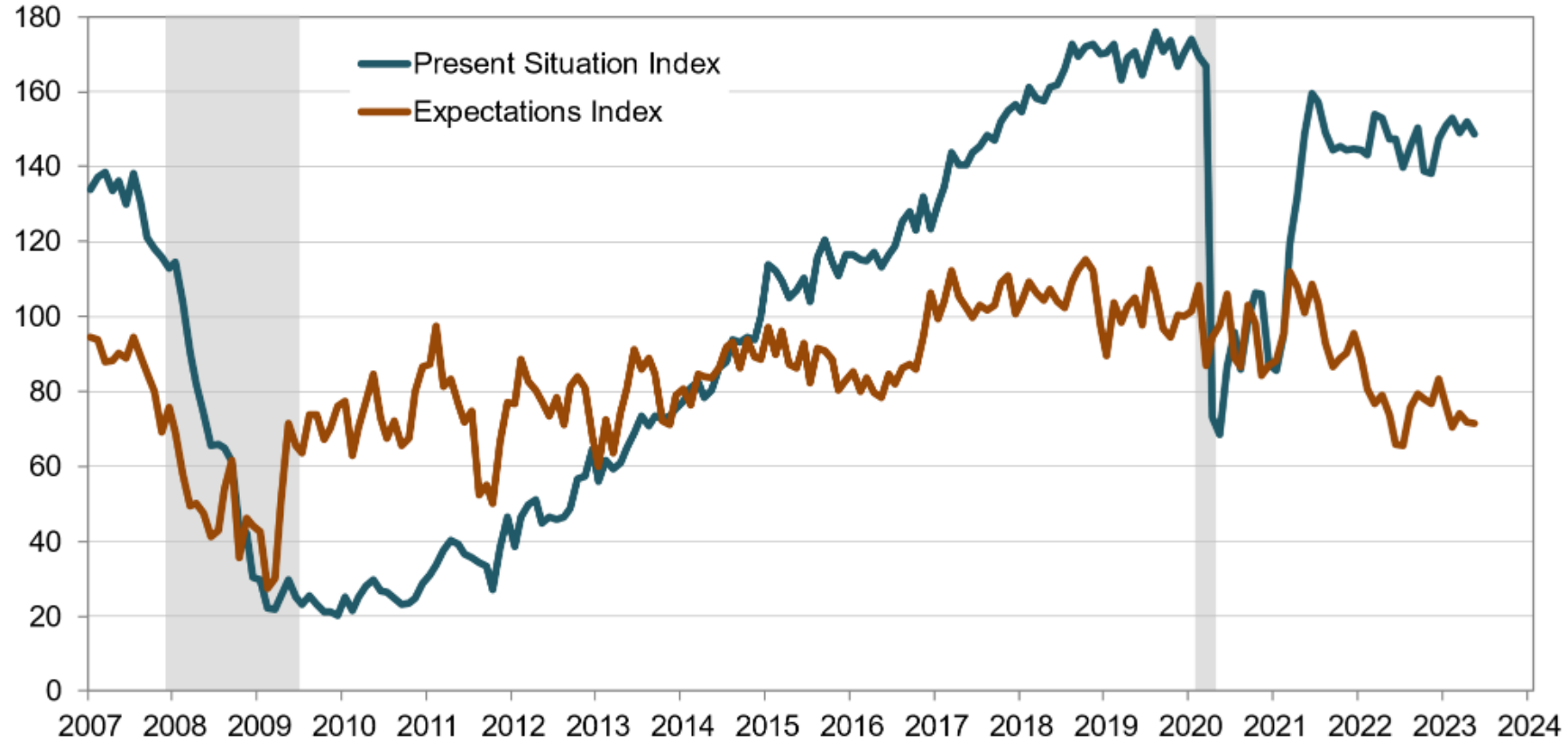
2.3 Retail

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 wavy, parallel lines in shades of blue and purple, creating a sense of motion and depth. A fine, dotted pattern is visible in the upper portion of the image.

Consumer Confidence Declines in May; Short-Term Outlook is Bleak

Consumer Confidence Index

Index, 1985 = 100

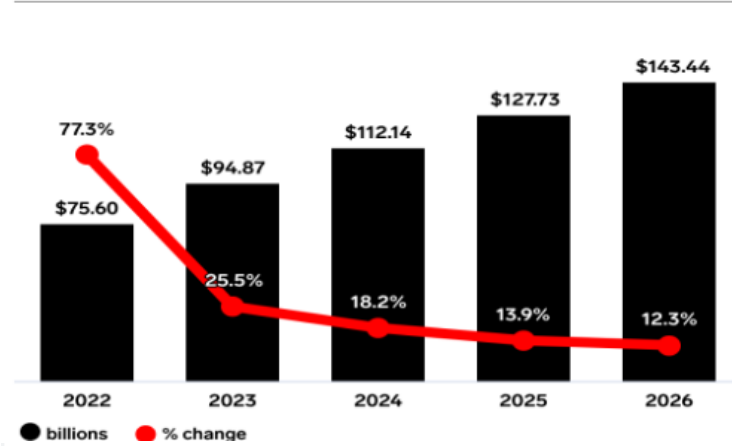


*Shaded areas represent periods of recession.
Sources: The Conference Board; NBER

Buy Now, Pay Later (BNPL) Surges During Pandemic Across All Age Groups; Market Value Expected to Top \$143 Billion by 2025

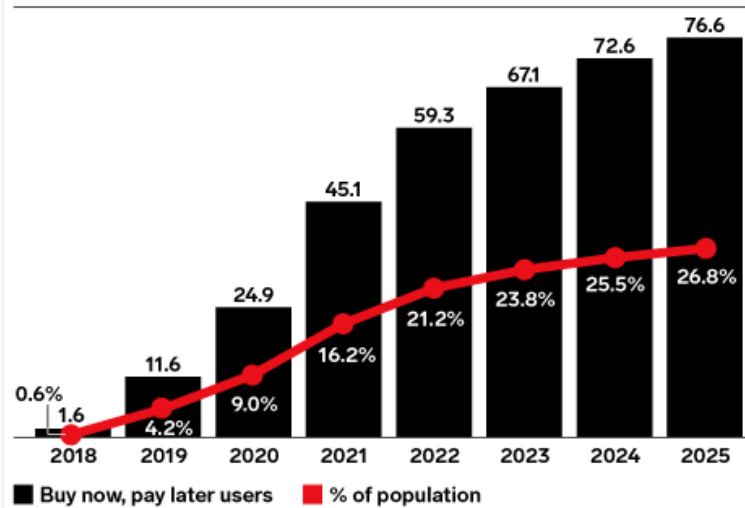
Buy Now, Pay Later Payment Value

US, 2022-2026



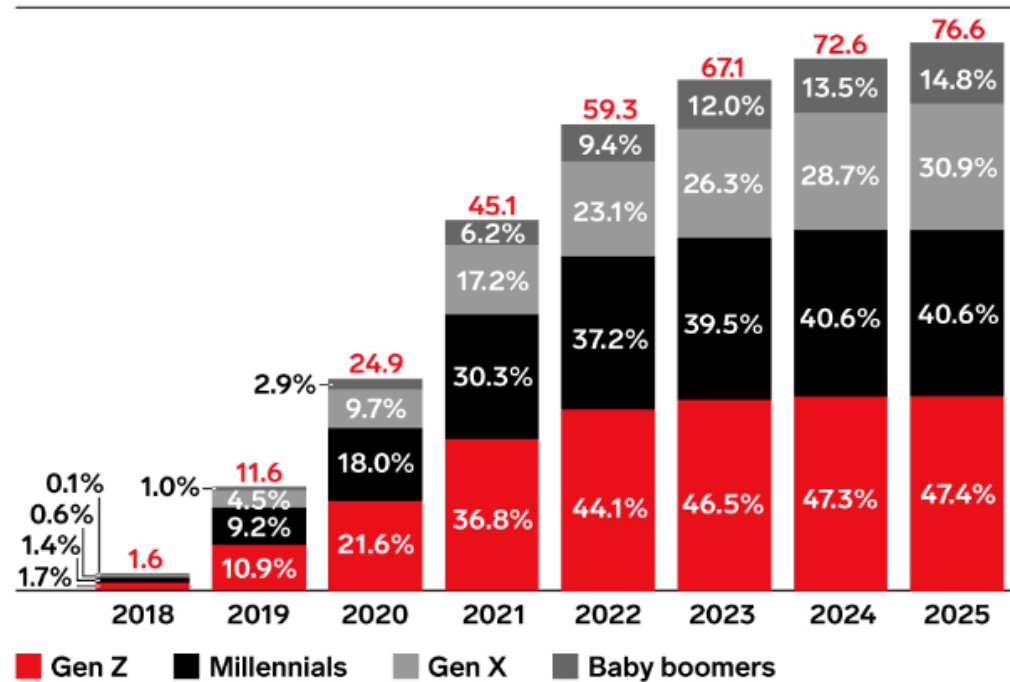
US Buy Now, Pay Later Users, 2018-2025

millions and % of population



US Buy Now, Pay Later (BNPL) Service Users, by Generation, 2018-2025

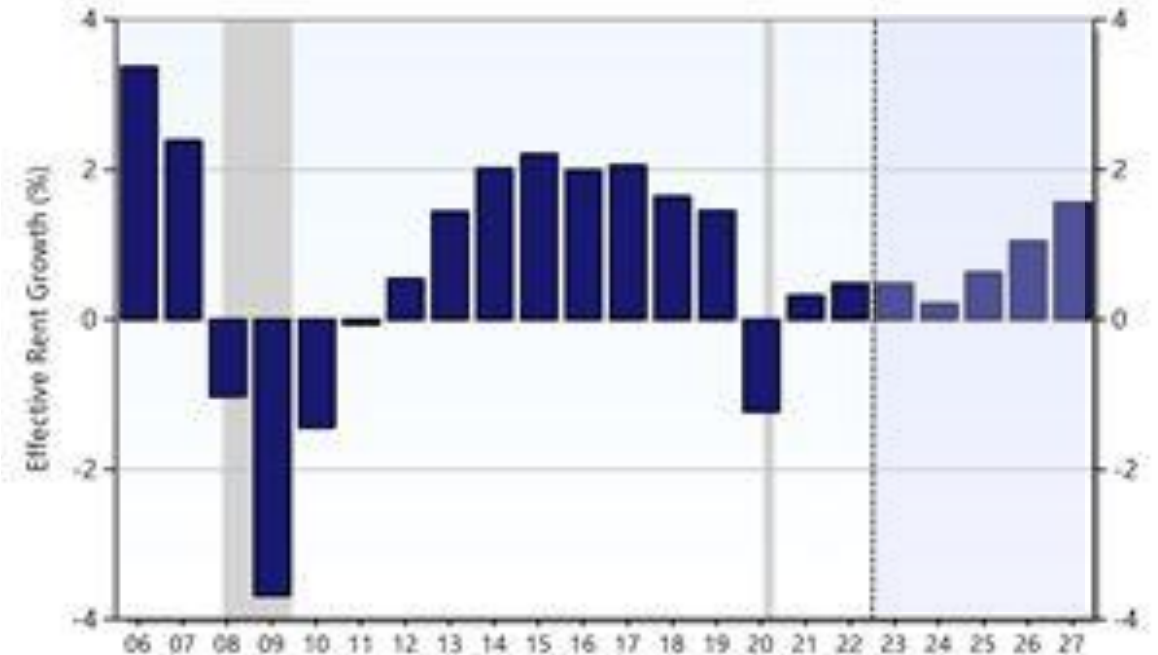
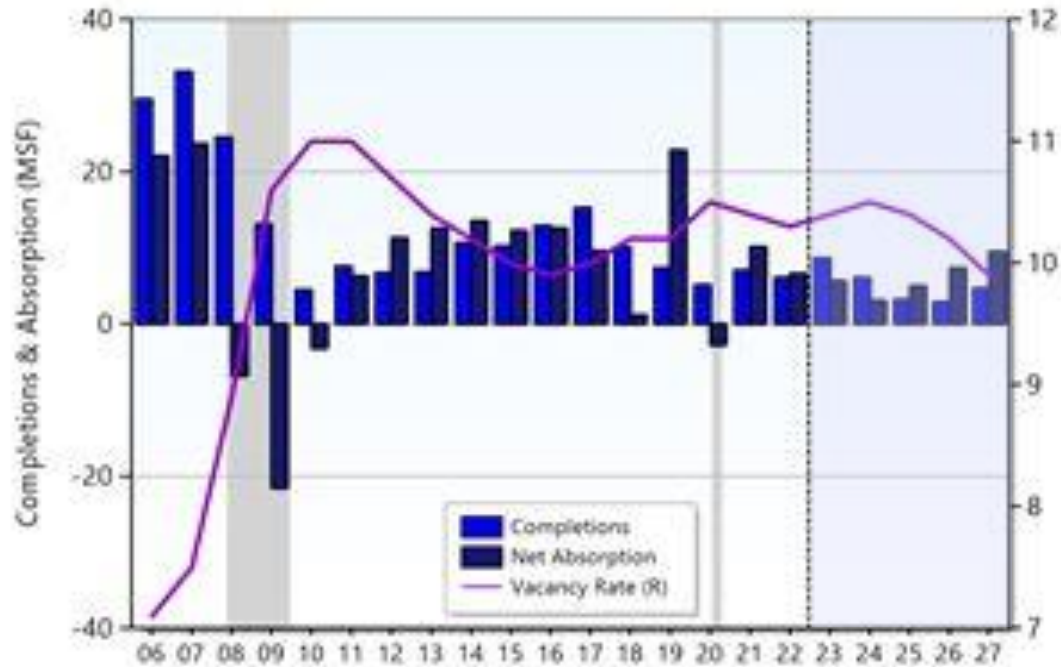
millions and % of digital buyers



Sources: Insider Intelligence, eMarketer, 2022.

Retail Rent Growth Expected to Rise Toward End of Forecast Period as Vacancies Tumble

SitusAMC Insights Retail Fundamentals Forecasts – 1Q 2023

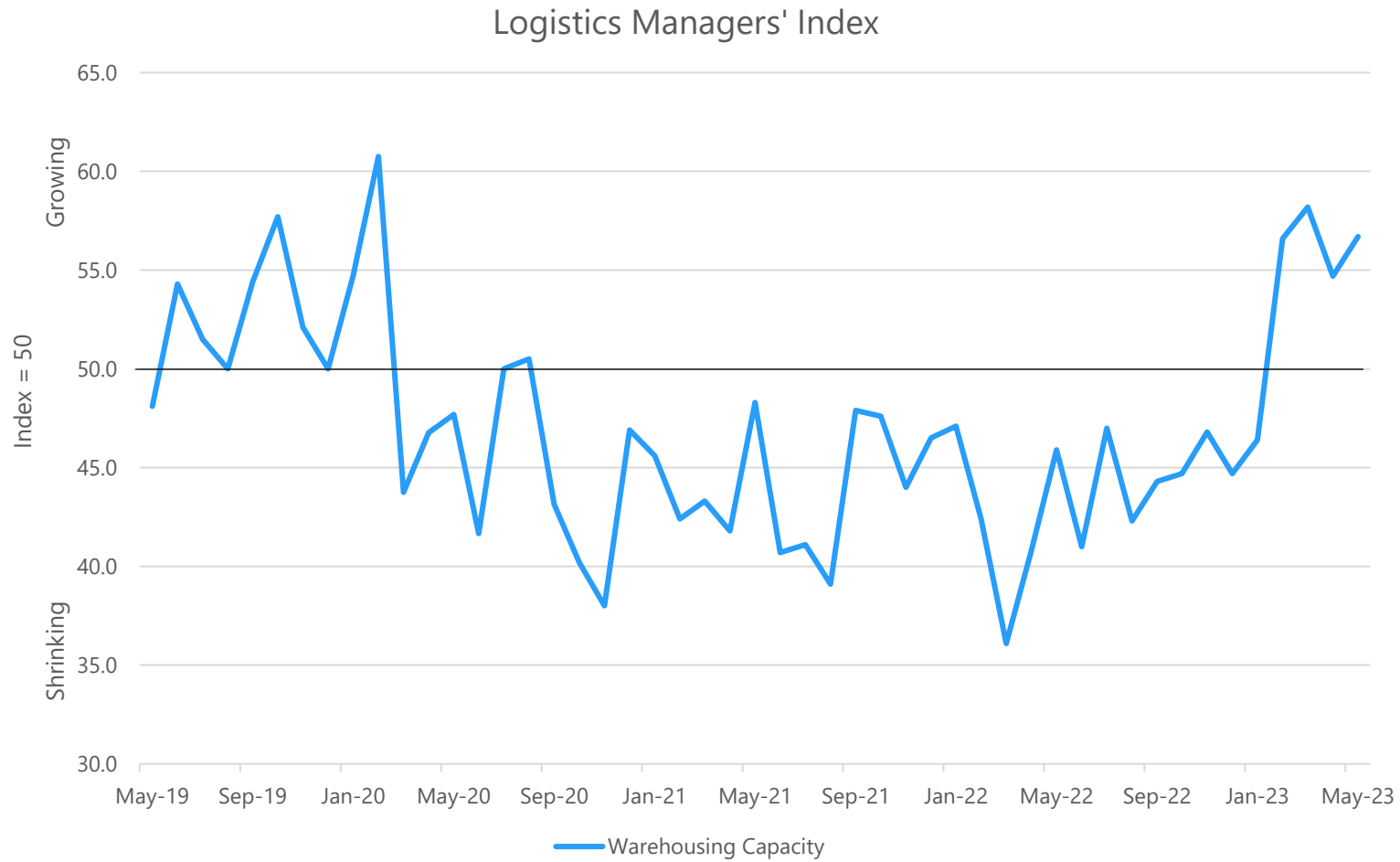


Sources: Reis, NBER, SitusAMC Insights Forecasts, 1Q 2023.

2.4 Industrial

The background features a gradient from light blue at the top to a darker blue at the bottom. Overlaid on this are several sets of wavy, parallel lines in shades of blue and purple, creating a sense of motion and depth. A fine, dotted pattern is visible in the upper portion of the image.

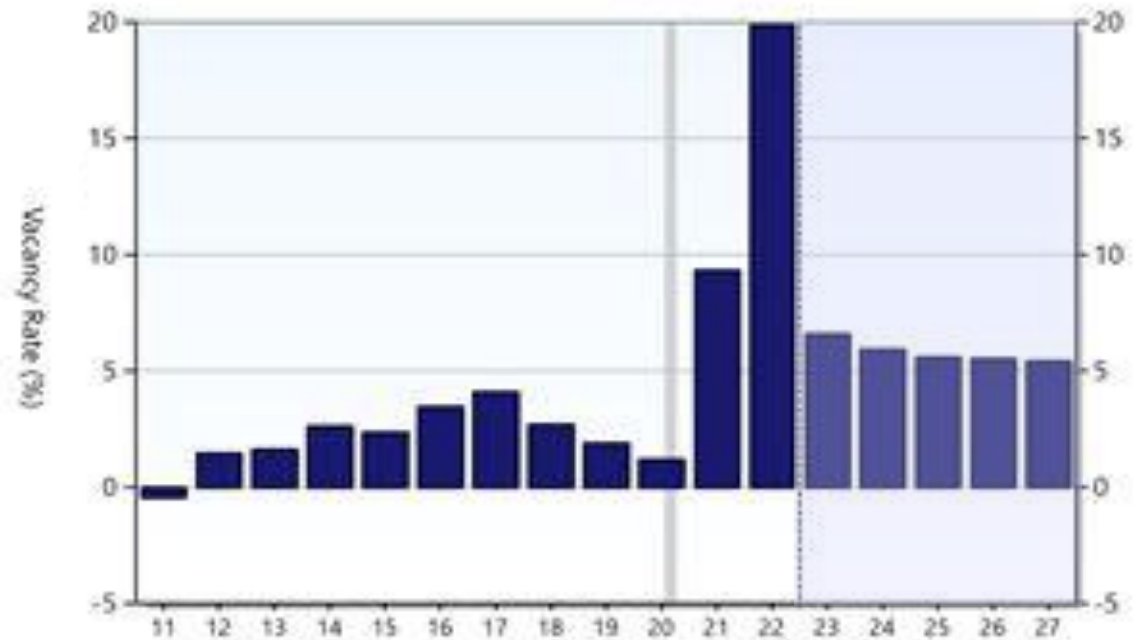
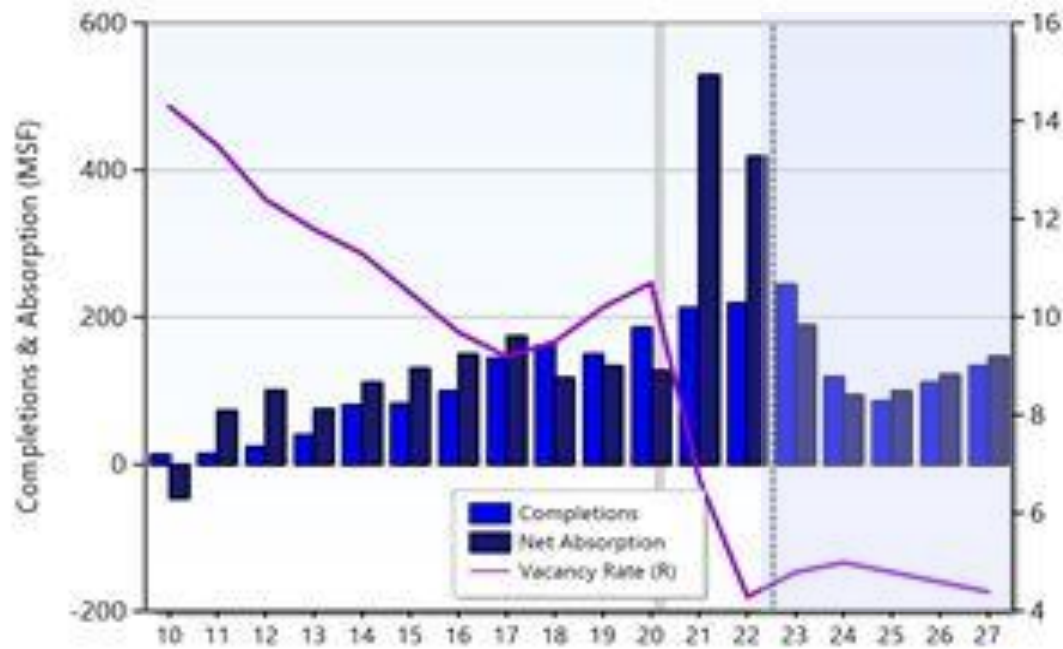
Warehouse Tenants Have Been Increasing Their Space Requirements Since Early 2023



Sources: Logistics Managers' Index (LMI) , SitusAMC Insights, May 2023.

Industrial Rent Growth Expected to Moderate While Vacancies Remain Near Record Lows

SitusAMC Insights Industrial Fundamentals Forecasts – 1Q 2023

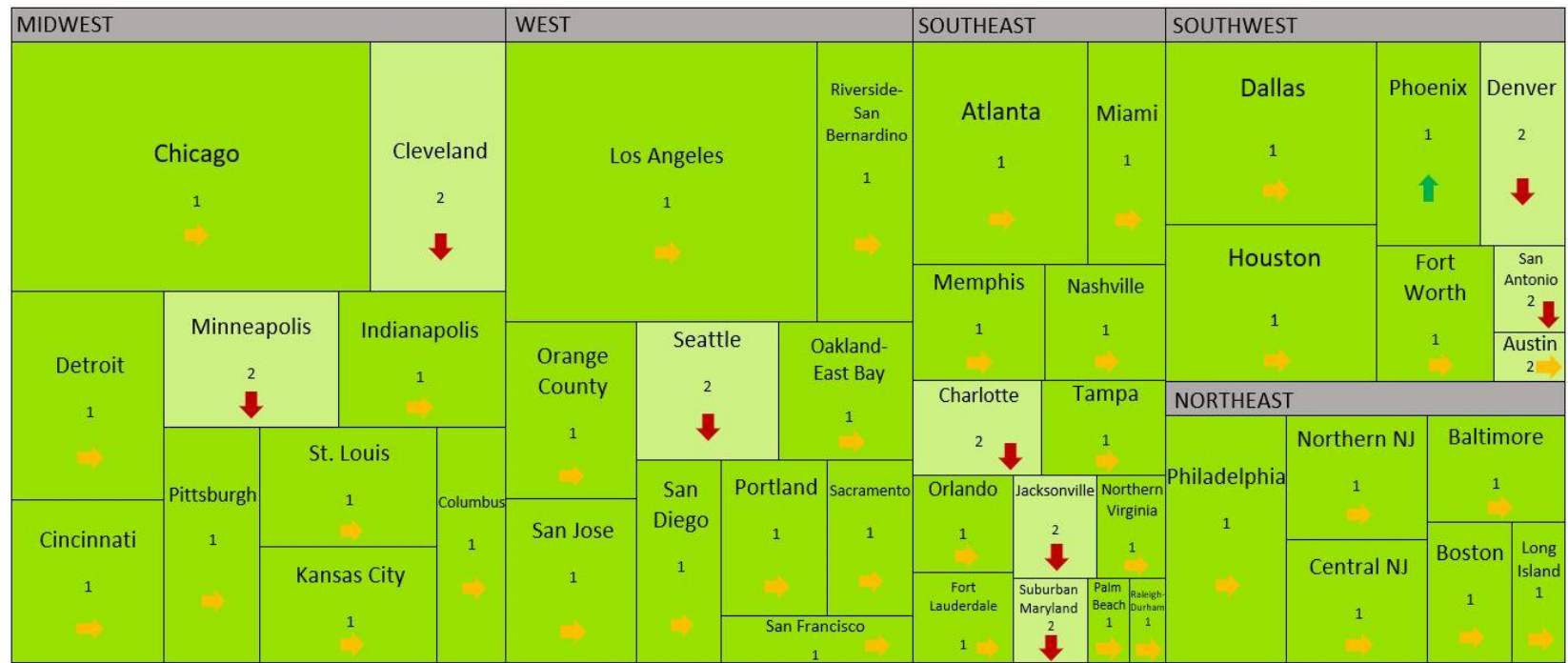


Sources: Reis, NBER, SitusAMC Insights Forecasts, 1Q 2023.

Industrial NOI Heat Maps

1Q 2023

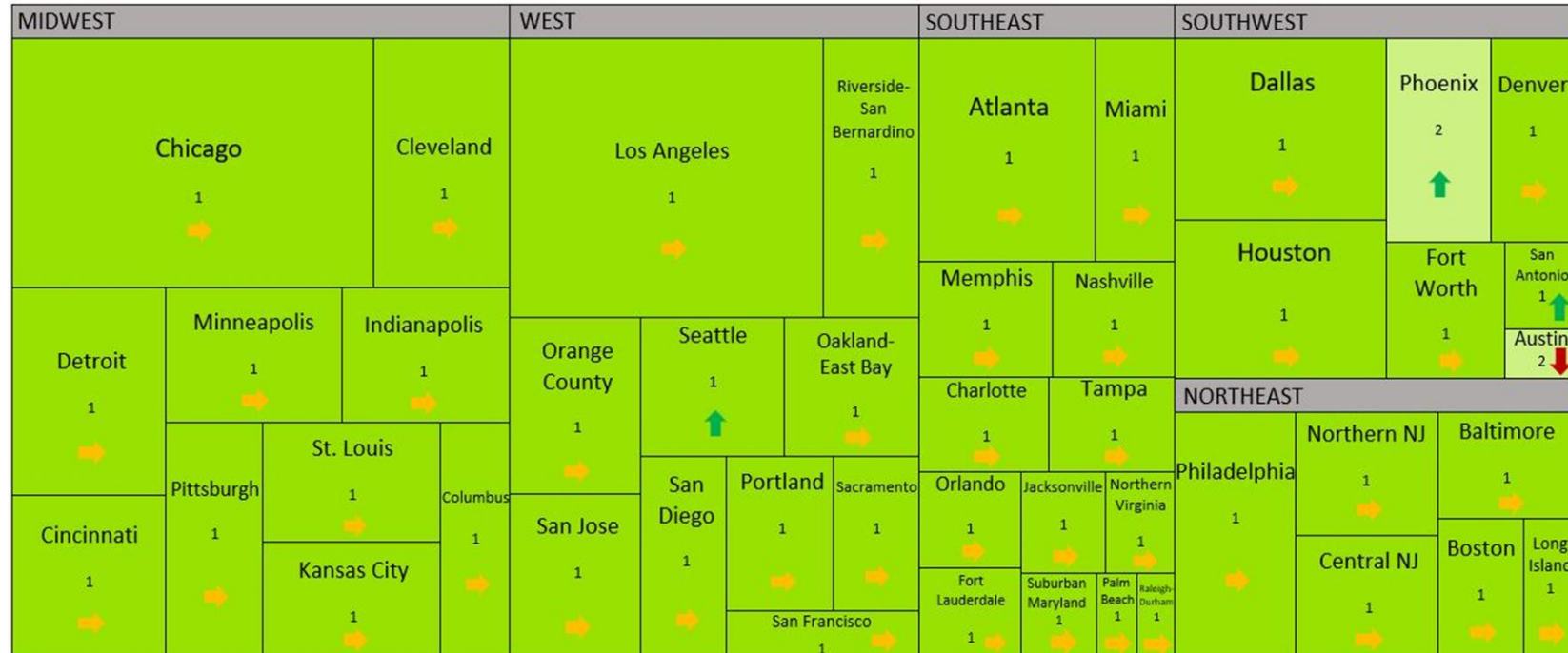
Baseline:
Baseline scenario reflects an economic slowdown



Industrial Still Strong

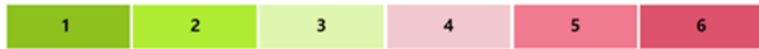
- The average industrial rating decelerated to 1.20 from 1.04.
- Despite 8 downgrades, NOI outlook is strong.
- 37 markets remained the same at a 1 rating.
- Phoenix was the only market to improve (from a 2 to a 1).
- Best NOI outlook among the property types.

4Q 2022:



NUMERICAL RANKINGS & COLORS

These represent the current and five-year projected strength of each market.



<< STRONGEST OUTLOOK >> MODERATE OUTLOOK << WEAKEST OUTLOOK >>

NOI Growth: >5% NOI Growth: 4%-5% NOI Growth: 3%-4% NOI Growth: 1.5%-3% NOI Growth: 0%-1.5% NOI Growth: Negative

ARROWS

- ↑ IMPROVED
 - UNCHANGED
 - ↓ DETERIORATED
- 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.

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

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 wavy, parallel lines in shades of blue and purple, creating a sense of motion and depth. A fine, dotted pattern is visible in the upper portion of the image, fading into the background.

Contact Us



Peter Muoio, PhD

Senior Director
SitusAMC Insights
petermuoio@situsamc.com



Jen Rasmussen, PhD

Head of Market Commentary
SitusAMC Insights
jenniferrasmussen@situsamc.com



Jodi Airhart

Head of Data
SitusAMC Insights
jodiairhart@situsamc.com



Cory Loviglio

Head of Bespoke Research & Analytical Tools
SitusAMC Insights
coryloviglio@situsamc.com



Powering
opportunity
everywhere.

Disclaimer

General

This disclaimer applies to this document and any and all verbal or written comments of any person(s) presenting it. This document, taken together with any such verbal or written comments, is referred to collectively as this "Proposal." SitusAMC taken together with its respective affiliates and subsidiaries are collectively referred to as "SitusAMC." The terms of this Proposal are for discussion purposes only and not intended to constitute a final definitive agreement for services, which each party reserves the right to negotiate and enter into at its sole discretion.

Confidentiality, Distribution of Proposal

This Proposal is produced solely for you and your internal purposes and may not be transmitted, reproduced (in whole or in part) or made available to any other person without the prior express, written consent of SitusAMC. By accepting receipt of this Proposal, you agree that you will acknowledge and agree to confidential nature of this Proposal, and shall treat this Proposal accordingly. This reminder should not, in any way, limit the terms and conditions of any documentation containing confidentiality provisions that you (or your organization) executed with SitusAMC.

Forward-Looking Statements

Forward-looking statements (including estimates, opinions or expectations about any future event(s)) contained in this Proposal are based on a variety of estimates and assumptions made by SitusAMC. 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's control. There can be no assurances 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 or representation that SitusAMC considers such forward looking statement to be a reliable prediction of future events and no forward looking statement should be relied upon as such. SitusAMC makes no representation or warranty regarding any forward looking statement.

Past Performance

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.

No Reliance, No Update, and Use of information

This Proposal is for informational purposes only. This Proposal does not purport to be complete on any topic(s) addressed herein. The information included in this Proposal is provided to you as of the dates indicated and SitusAMC does not intend to update the information after this Proposal is distributed to you. Certain information contained in this Proposal includes calculations and/or figures that have been prepared internally and have not been audited or verified by a third party. This Proposal may contain the subjective views of certain SitusAMC personnel and may not necessarily reflect the collective view of SitusAMC or certain SitusAMC business units.

No Advice

This Proposal is not intended to provide, and should not be relied upon, for advice of any kind, including, without limitation, accounting, investment, legal and/or tax advice.

Current Data

Unless otherwise noted, the information presented herein is as of the date of this Proposal.

Logos, Trade Names, Trademarks and Copyrights

Certain logos, trade names, trademarks and copyrights included in this Proposal 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. SitusAMC 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 Interlocking Circles design, SitusAMC, and Realizing Opportunities in Real Estate are registered trademarks of SitusAMC. © 2021 SitusAMC.

Financial Services and Markets Act

Nothing contained in this Proposal is intended to constitute a financial promotion for the purpose of Section 21 of the Financial Services and Markets Act 2000.0