

ValTrends
2Q 2022 Webinar

September 12, 2022
2:00pm EST

Inflection Point



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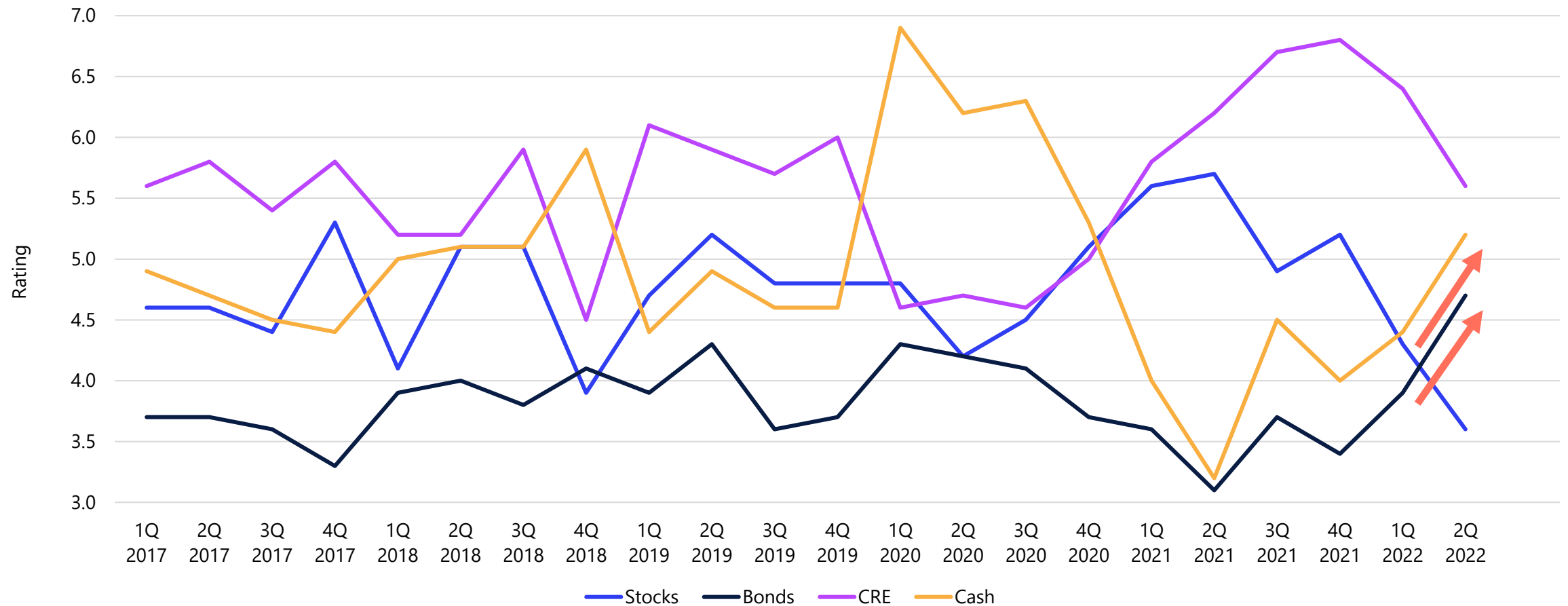
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1.0 Uncertainty Creeps Into Capital Markets

The background of the slide is a solid blue color. It features several decorative elements: a pattern of small, light blue dots in the upper half, and a series of flowing, wavy lines in shades of blue and purple that sweep across the lower half, creating a sense of movement and depth.

Investor's Prefer Safety of Bonds and Cash; Preference for CRE and Stocks Declines

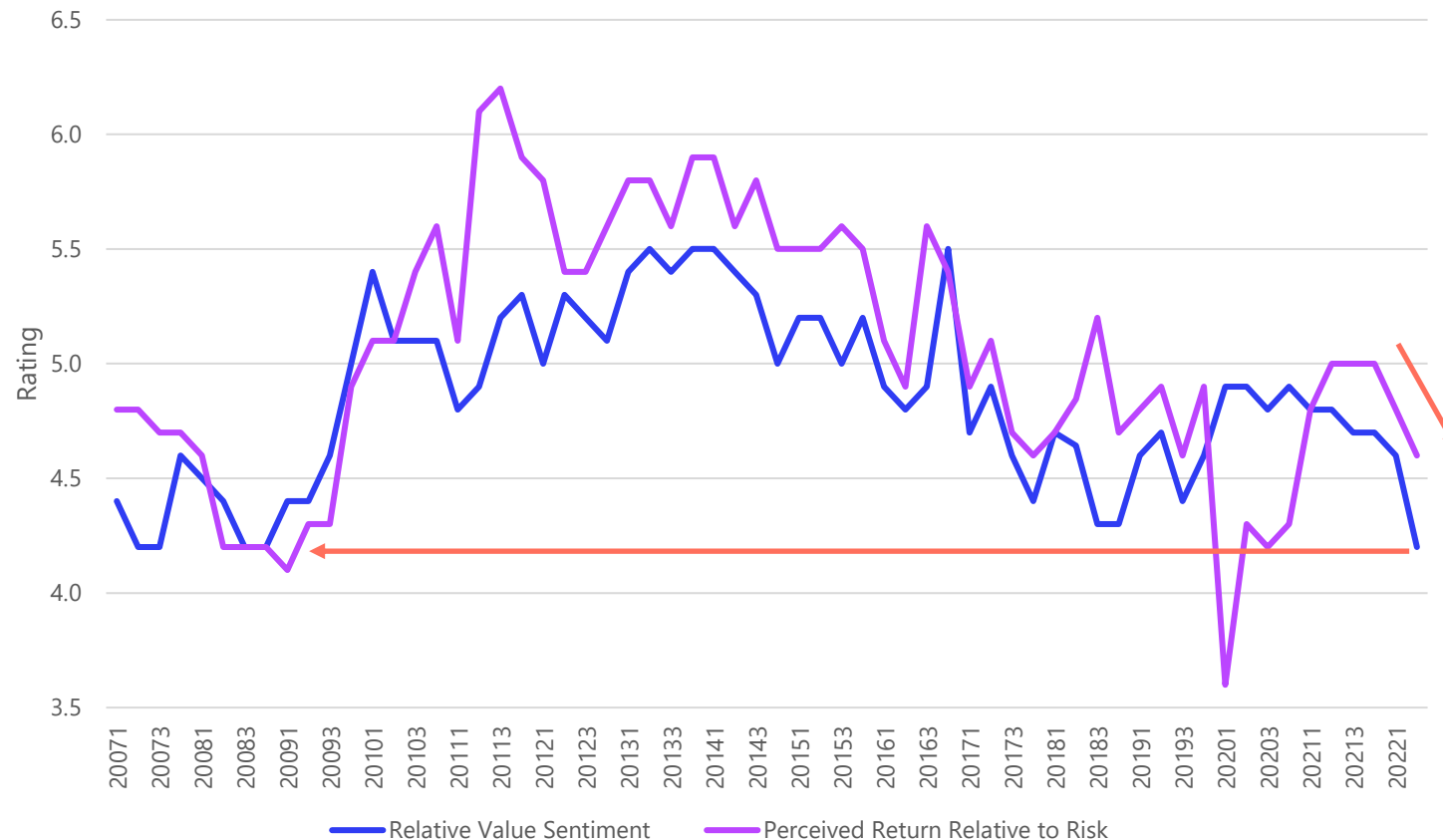


Ratings are based on scale of 1 to 10 with 10 being excellent.
Source RERC, 2Q 2022.



Question 1: Do you feel that current CRE values are reflective of the risk environment?

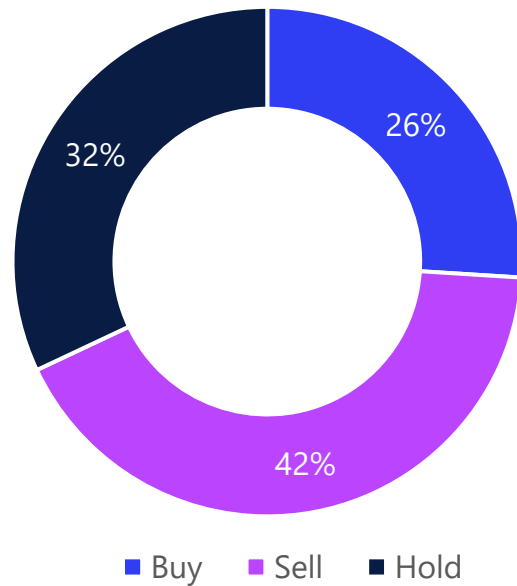
CRE Perceived as Most Overpriced Since 2008; Perceived Return Relative to Risk Has Fallen Sharply Since Beginning of Year



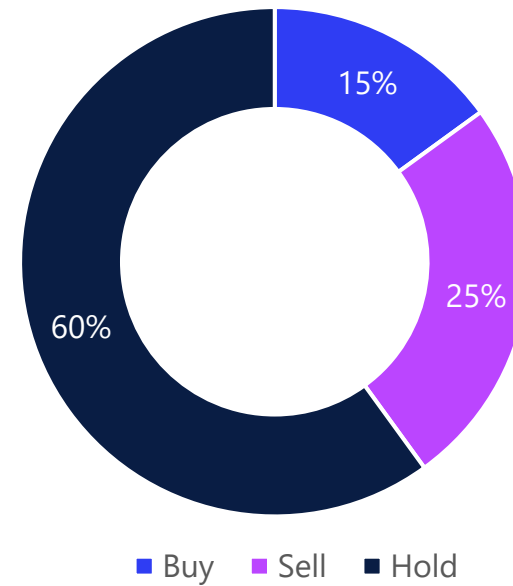
Ratings are based on scale of 1 to 10 with 10 indicating that return far exceeds risk or value far exceeds price.
Source RERC, 2Q 2022.

Amid Uncertainty, CRE Hold Recommendation Soars; Buy and Sell Shrink

Investment Recommendations - 2Q 2021



Investment Recommendations – 2Q 2022

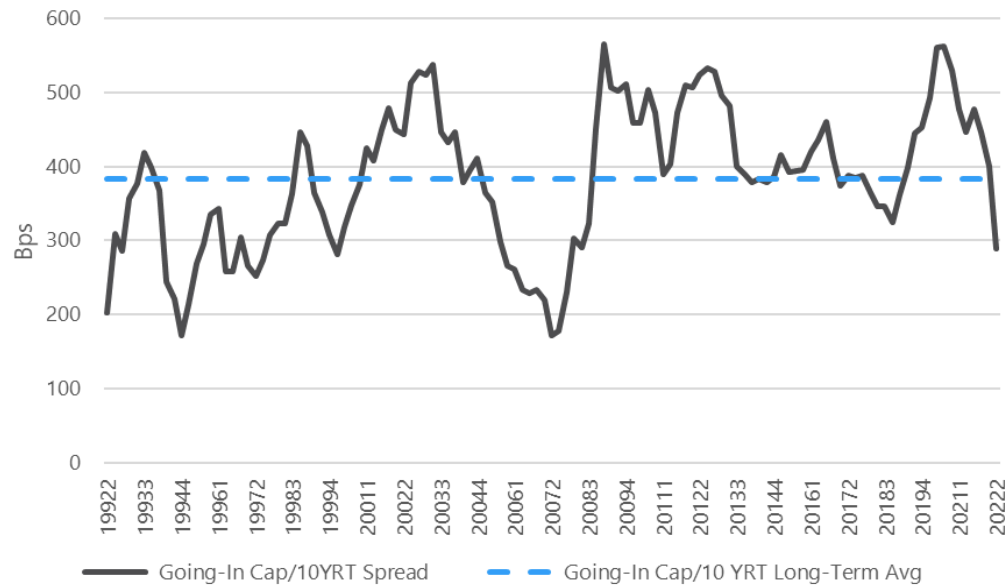


Source RERC, 2Q 2022.

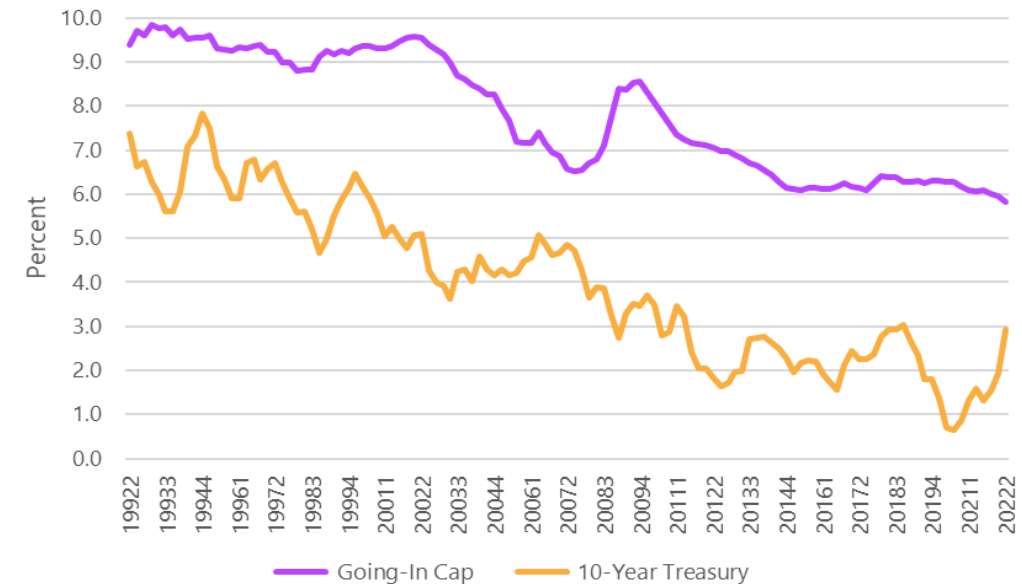
Question 2: Is there cushion for cap rates to compress amid rising Treasury rates?

RERC Cap Spreads Fall Below Long-Term Average for First Time Since 1Q 2019; How Long Can Caps Defy Rising Treasury Rates?

Cap Rate/10-Year Treasury Spread

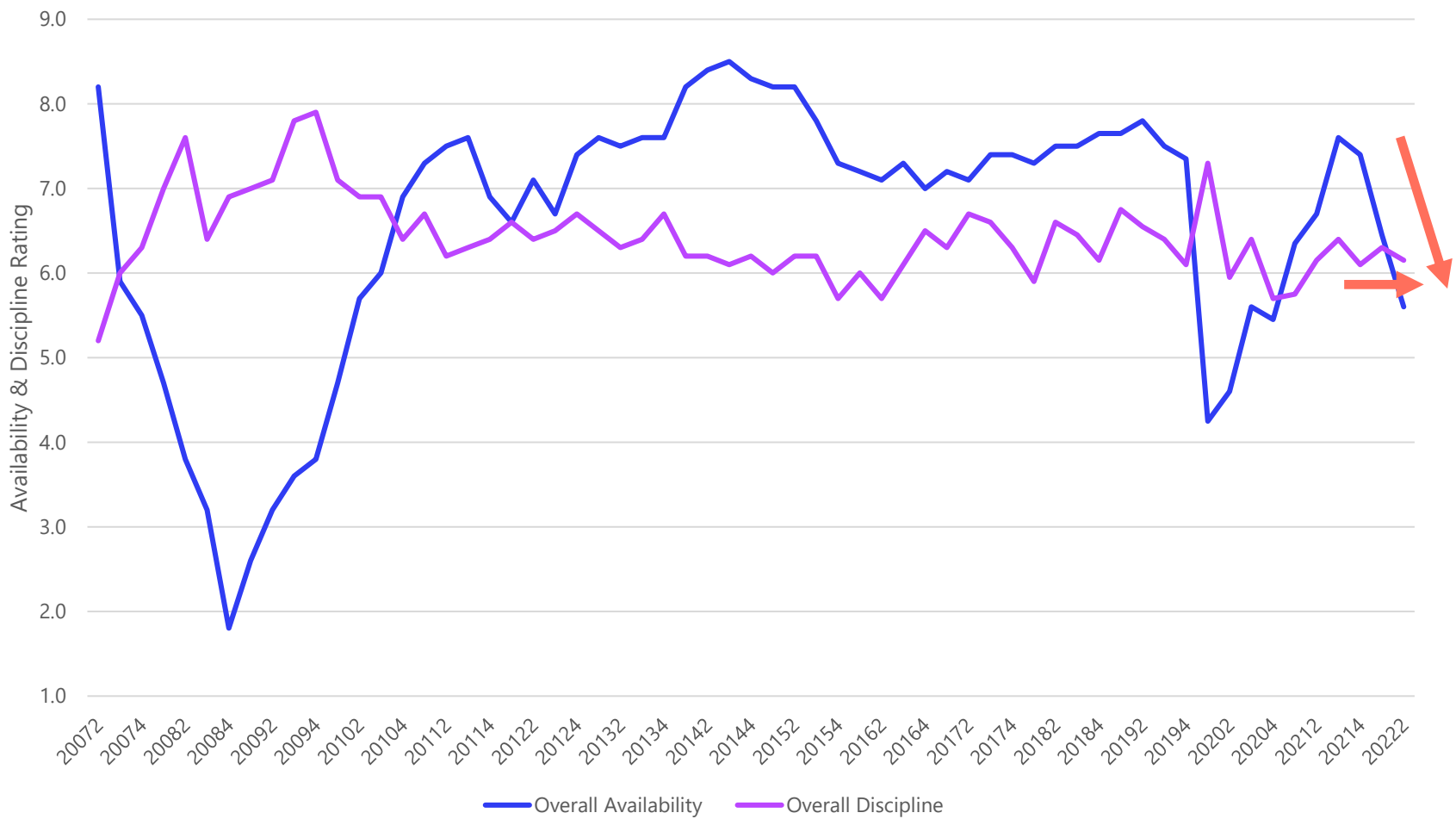


Cap Rate and 10-Year Treasury Rate



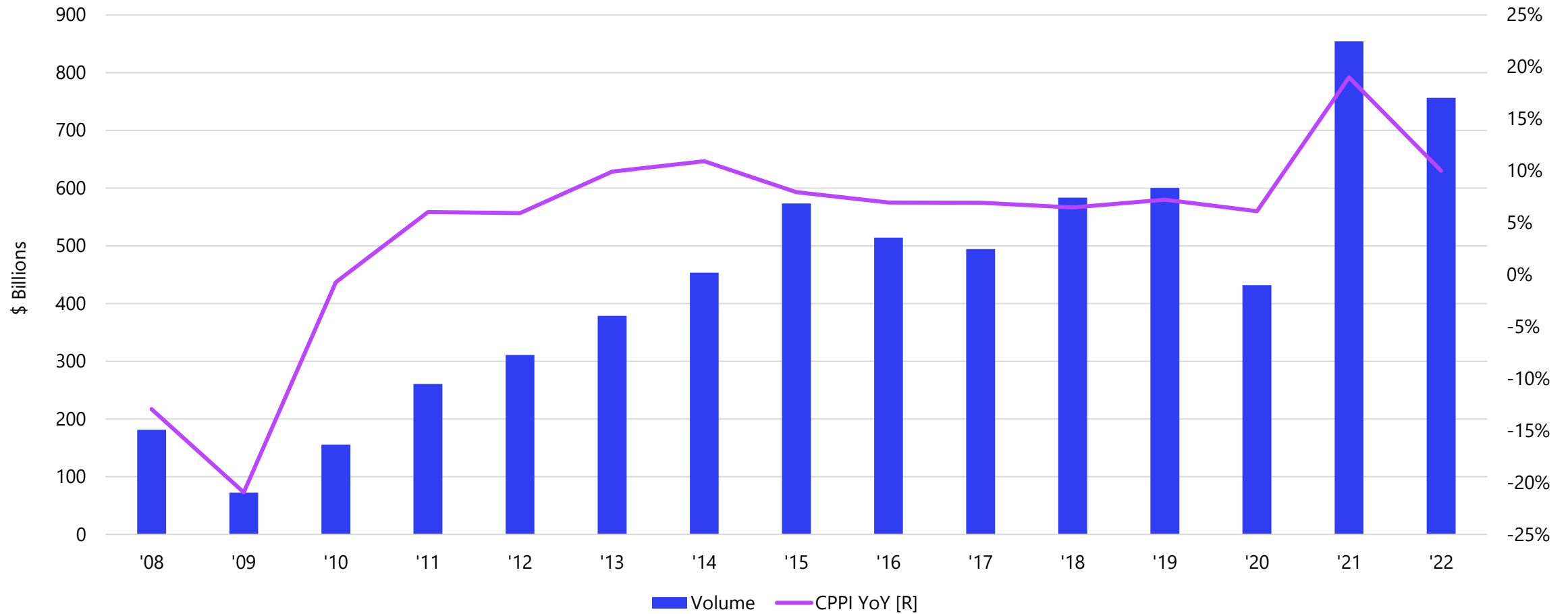
Source: RERC, 2Q 2022.

Capital Availability Continues to Fall; Underwriting Discipline Relatively Stable Over Past Year



Ratings are based on scale of 1 to 10, with 10 being excellent.
Source RERC, 2Q 2022.

Volume and Price Growth Retreat from Record Highs, But Remain Elevated; Will Likely Fall Further With Interest Rate Hikes



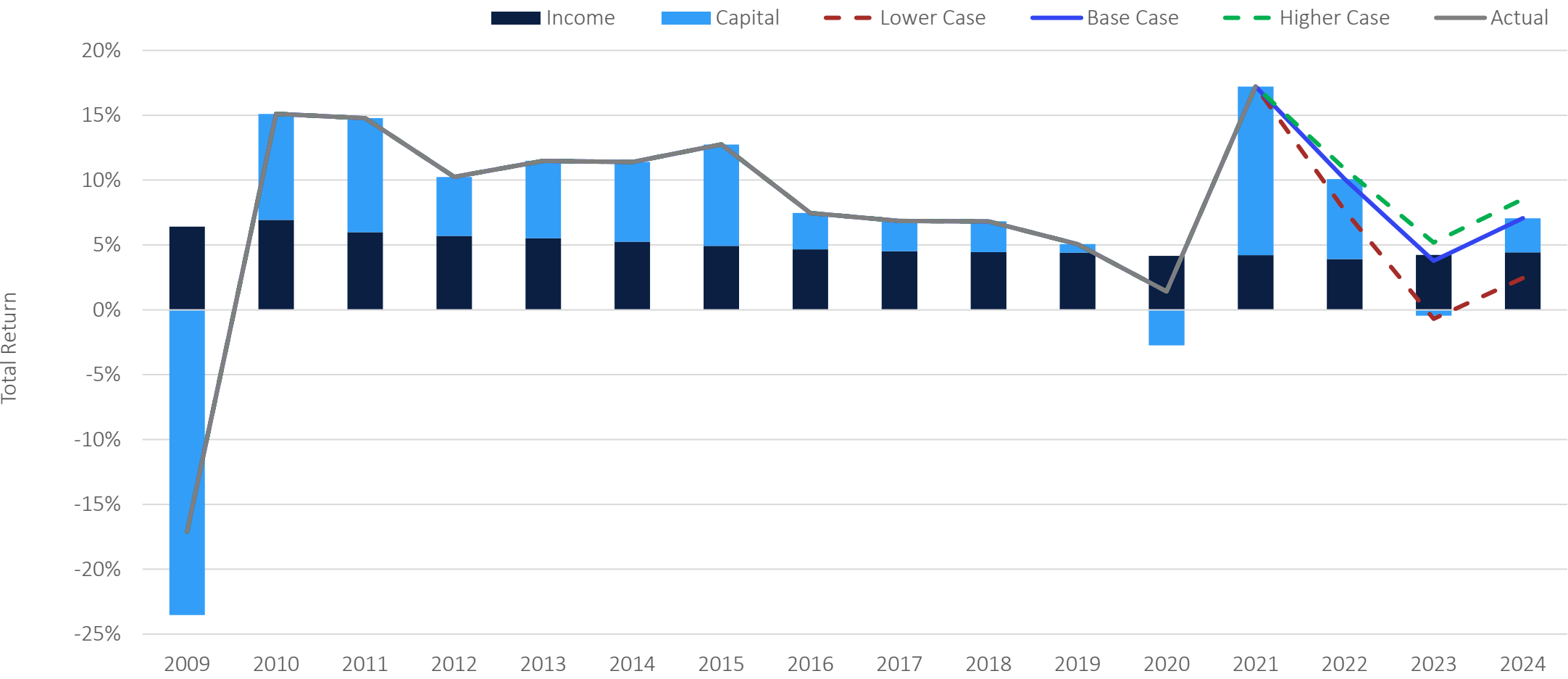
Source RCA, July 2022. Data for 2022 is YTD annualized.

Overall CRE Returns Fall Sharply from Recent Tear but Remain Strong



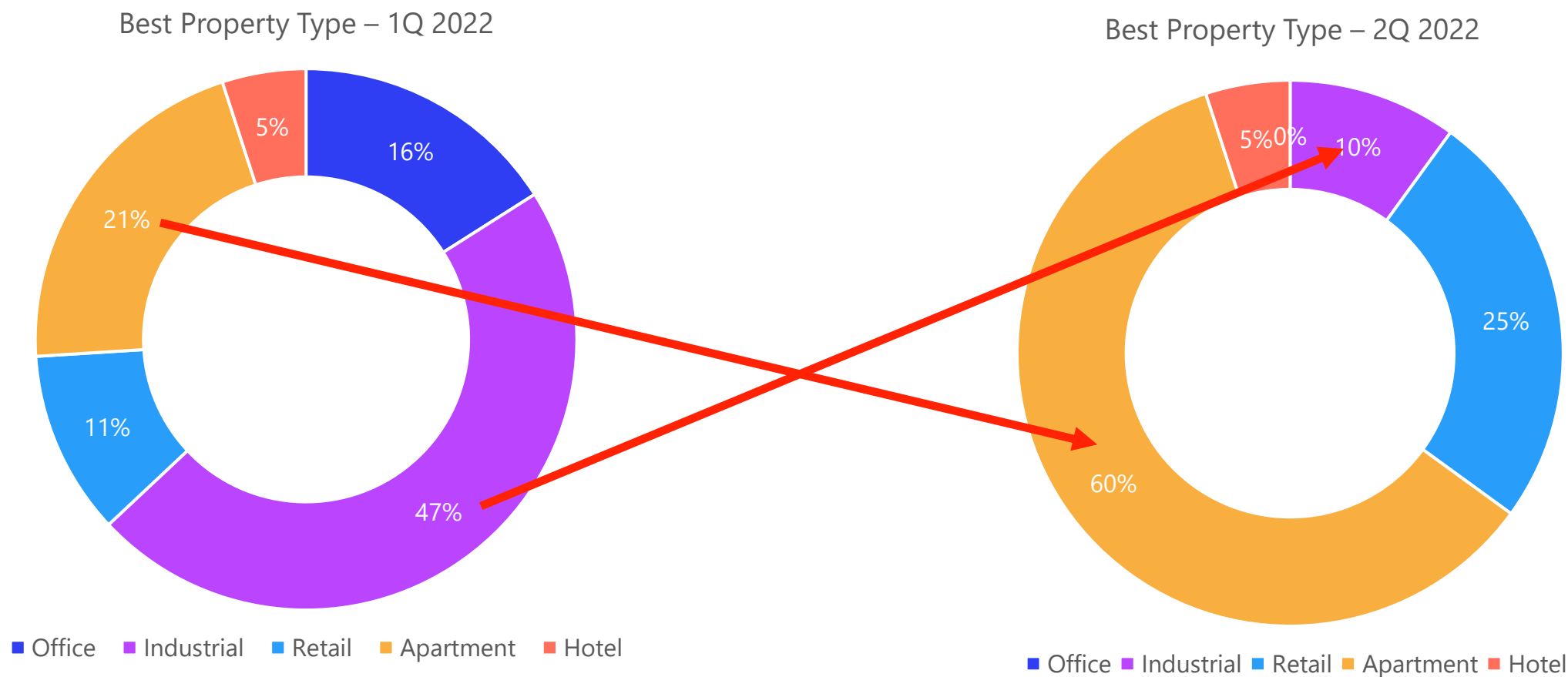
Sources NCREIF NPI, 2Q 2022.

As CRE Returns Pivot from Record Highs in 2022; We Expect Continued Moderation Ahead



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.
Sources RERC, NPI-ODCE, 2Q 2022.

Investor Interest Has Shifted Sharply from Industrial to Apartments; Retail Also Gaining Favor, Office “Off the Charts”

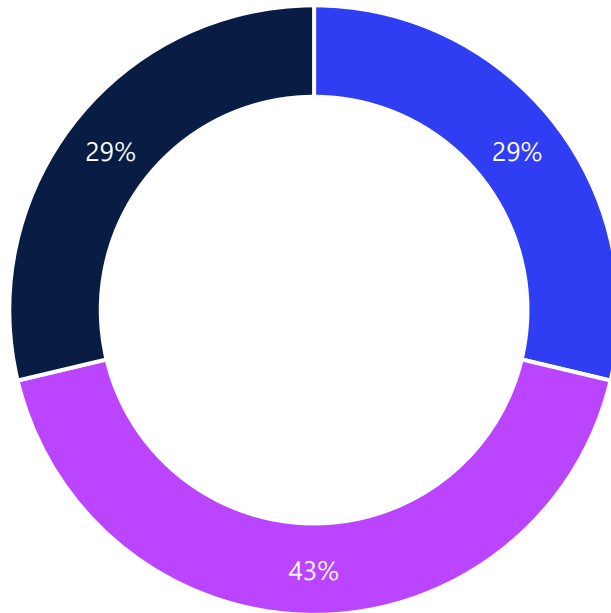


Source RERC, 2Q 2022.

2.0 Investors Cool on Industrial

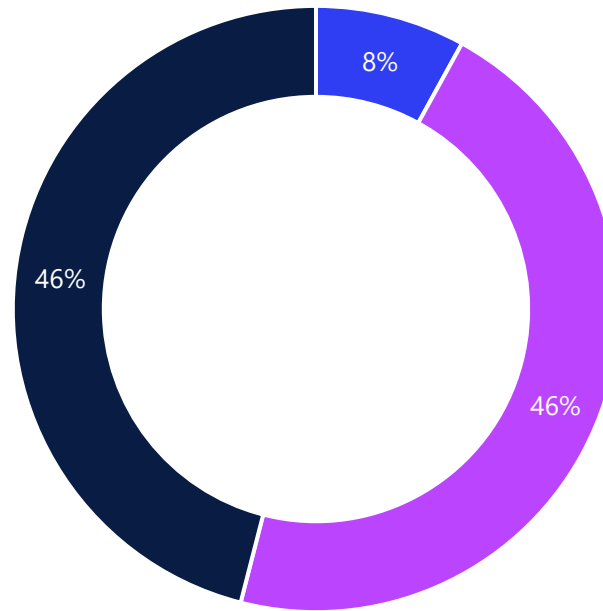
Industrial Falls Out of Favor With Investors: Sell Recommendations Across the Board

Investment Recommendations -
WHSE



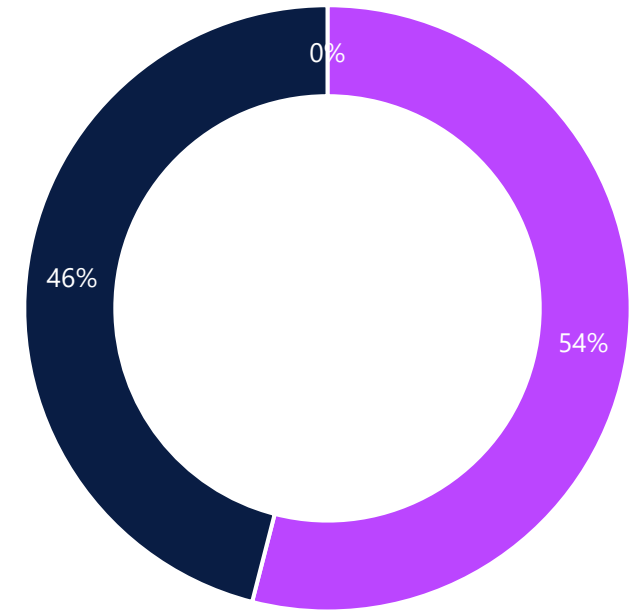
■ Buy ■ Sell ■ Hold

Investment Recommendations - R&D



■ Buy ■ Sell ■ Hold

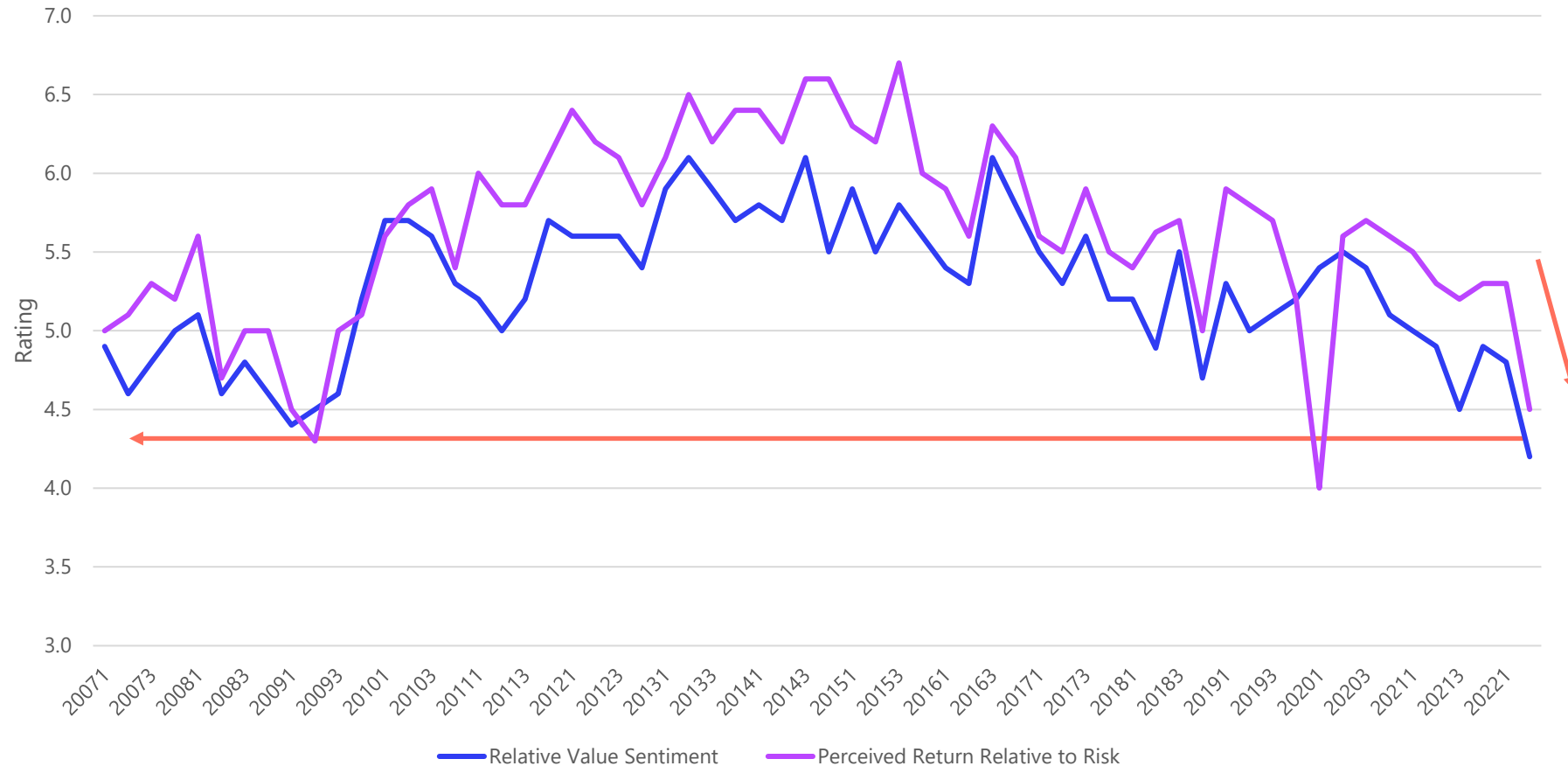
Investment Recommendations - Flex



■ Buy ■ Sell ■ Hold

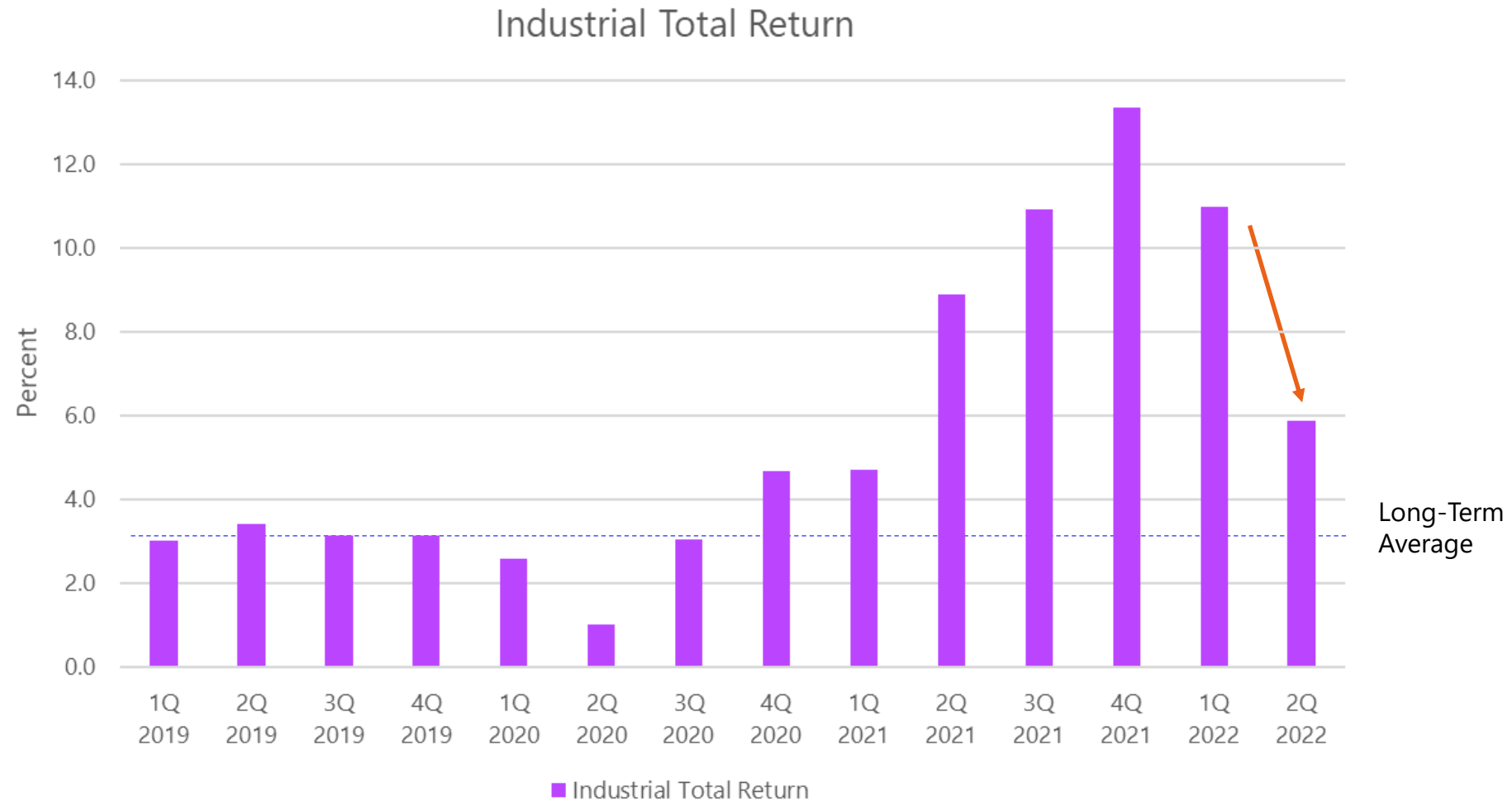
Source RERC, 2Q 2022.

Sell Reflects Investors View; Industrial Most Overpriced on Record and Sharply Worse Return Relative to Risk



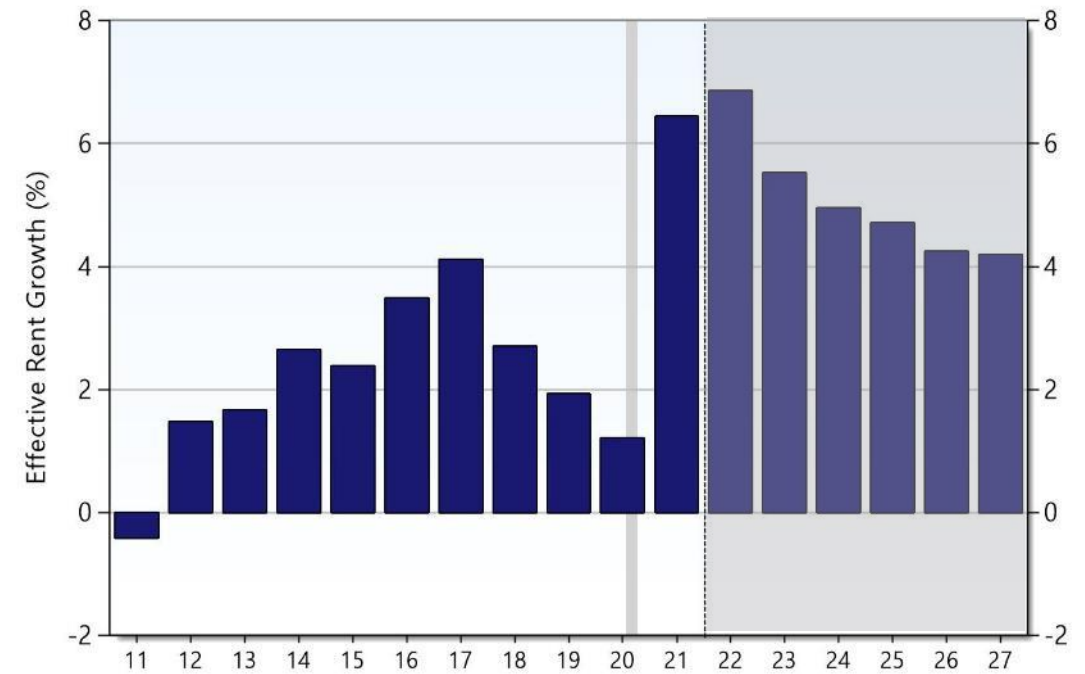
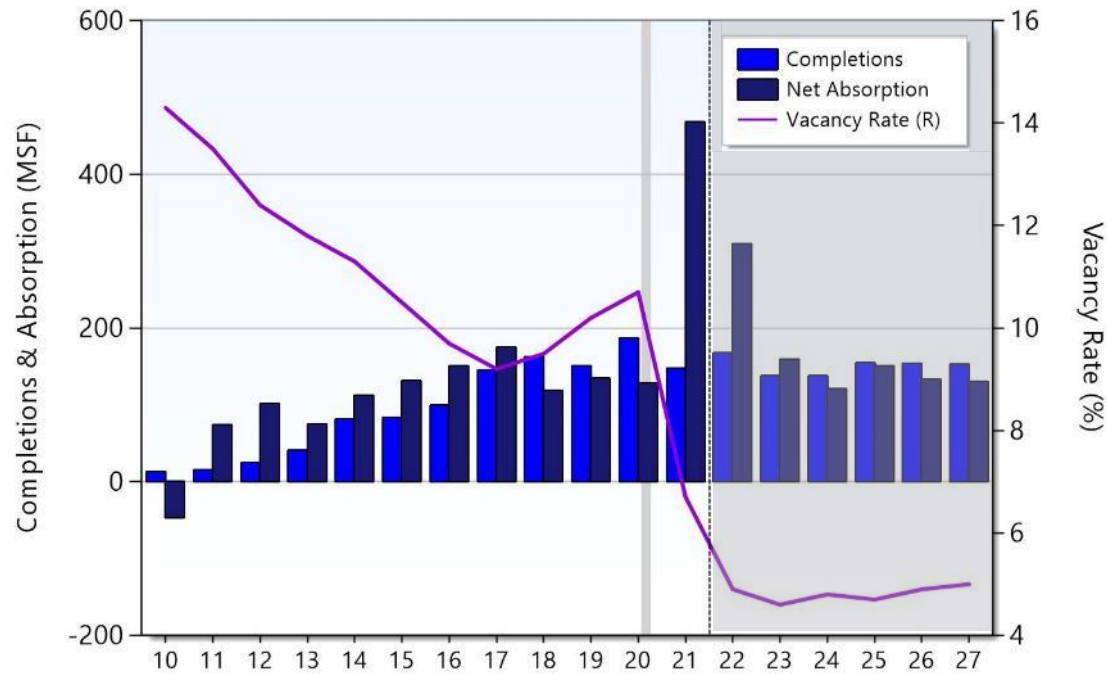
Ratings are based on scale of 1 to 10 with 10 indicating that return far exceeds risk or value far exceeds price.
Source RERC, 2Q 2022.

Industrial Returns Tumble 500 Basis Points QoQ, Though Still Strong



Sources NCREIF NPI, 2Q 2022.

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



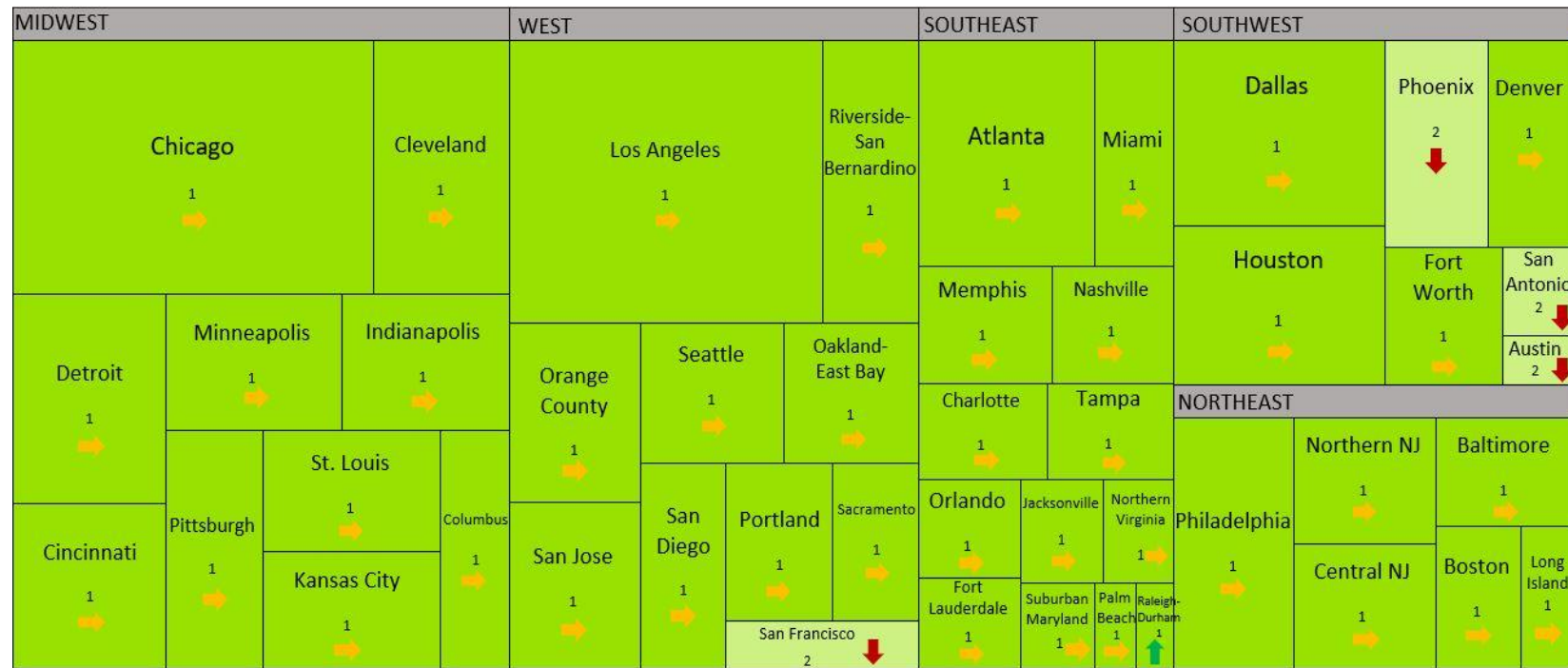
Source: Reis, SitusAMC Insights Forecasts, 2Q 2022.

Industrial Heat Maps

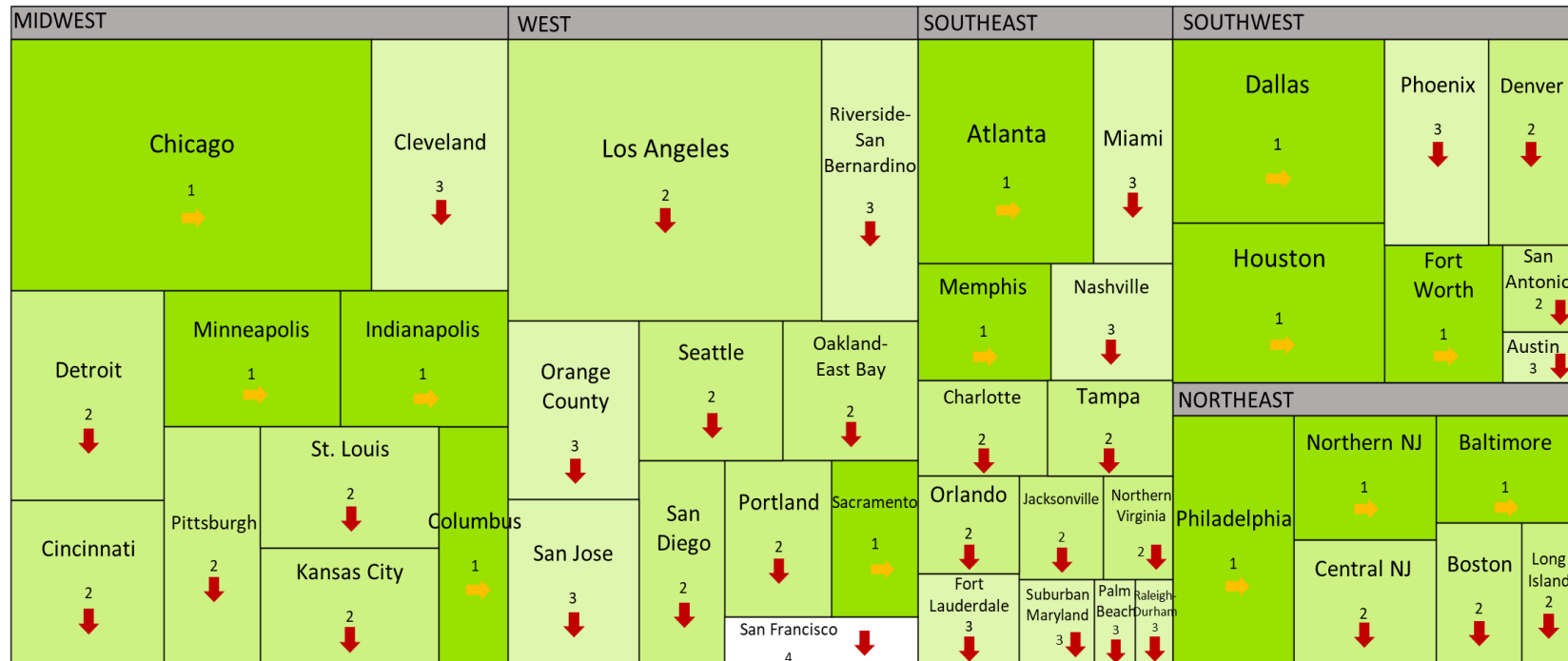
2Q 2022

Baseline:

Baseline scenario reflects an economic slowdown

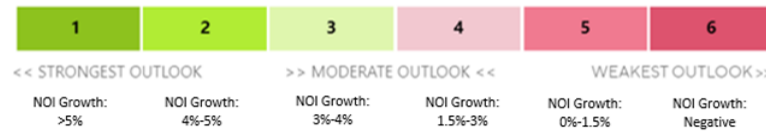


Recession:



NUMERICAL RANKINGS & COLORS

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



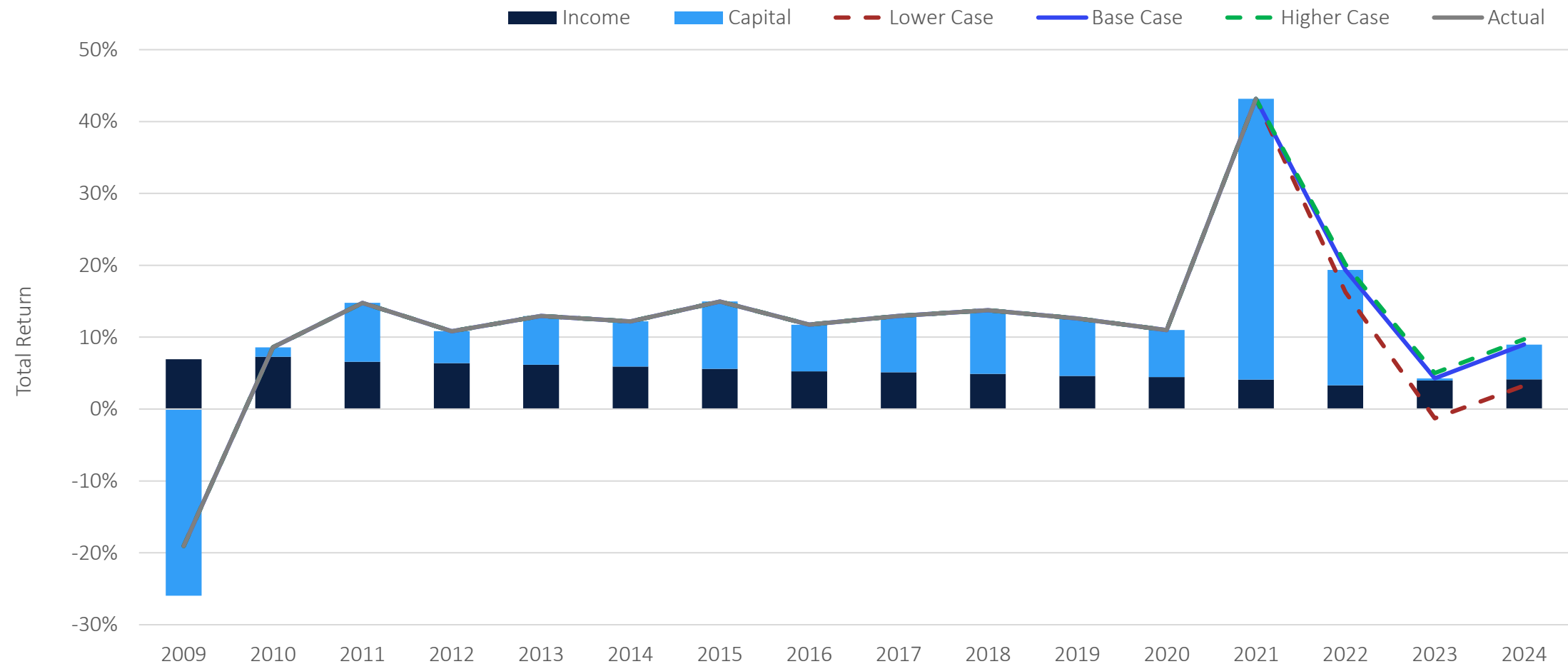
ARROWS

↑ 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.

Sharp Pullback in Industrial Returns in 2022 Expected to Continue



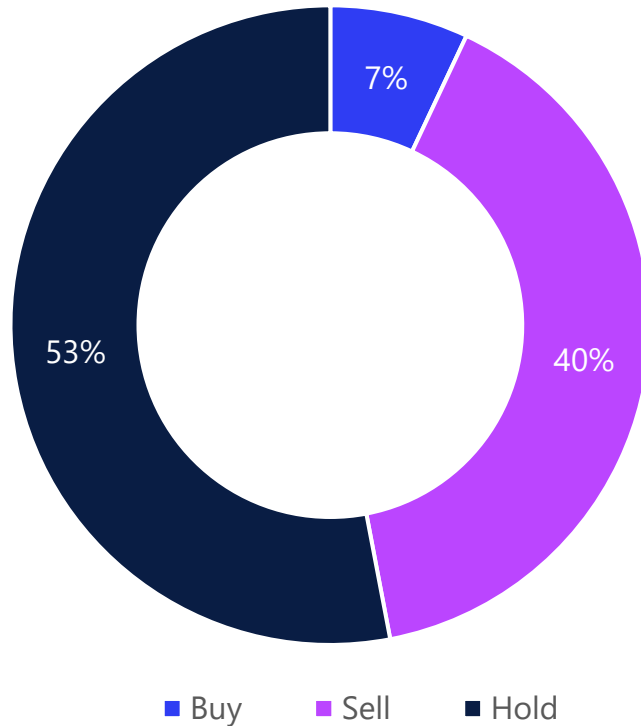
The total return forecast is RERC's proprietary model based on RERC data and data from NPI-ODCE, and is for unleveraged, institutional-grade properties. Total returns are derived from an income component and a capital appreciation/depreciation component.
Sources RERC, NPI-ODCE, 2Q 2022.



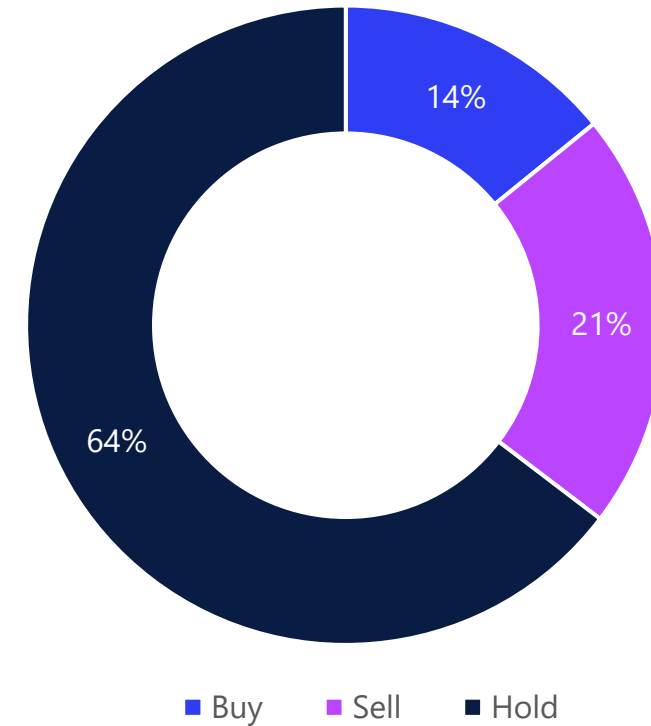
3.0 Investor Sentiment More Positive for Retail

Mall Sentiment May Have Bottomed, as Sell Recommendation Drops and Buy Increases Modestly

Investment Recommendations - 1Q 2022

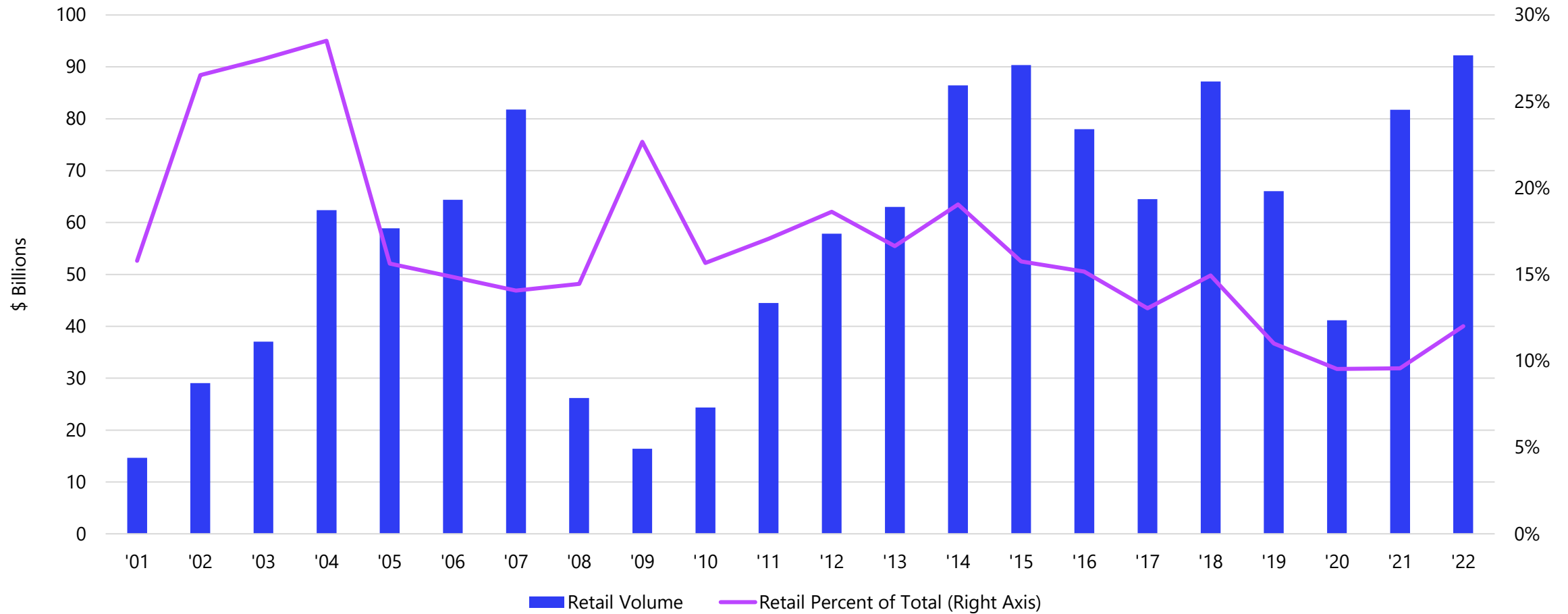


Investment Recommendations – 2Q 2022



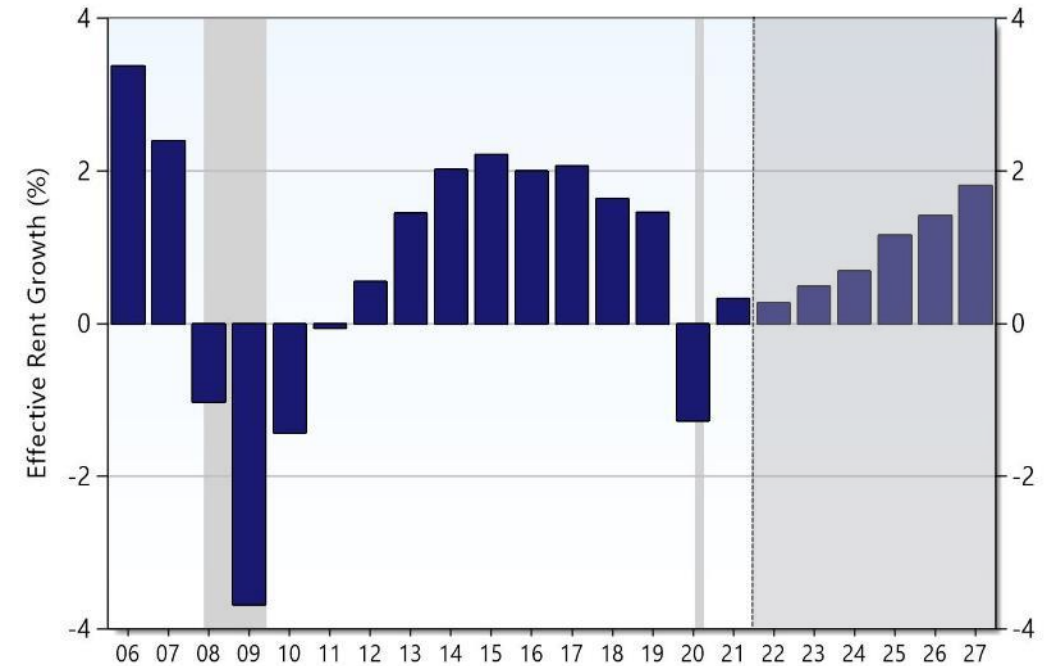
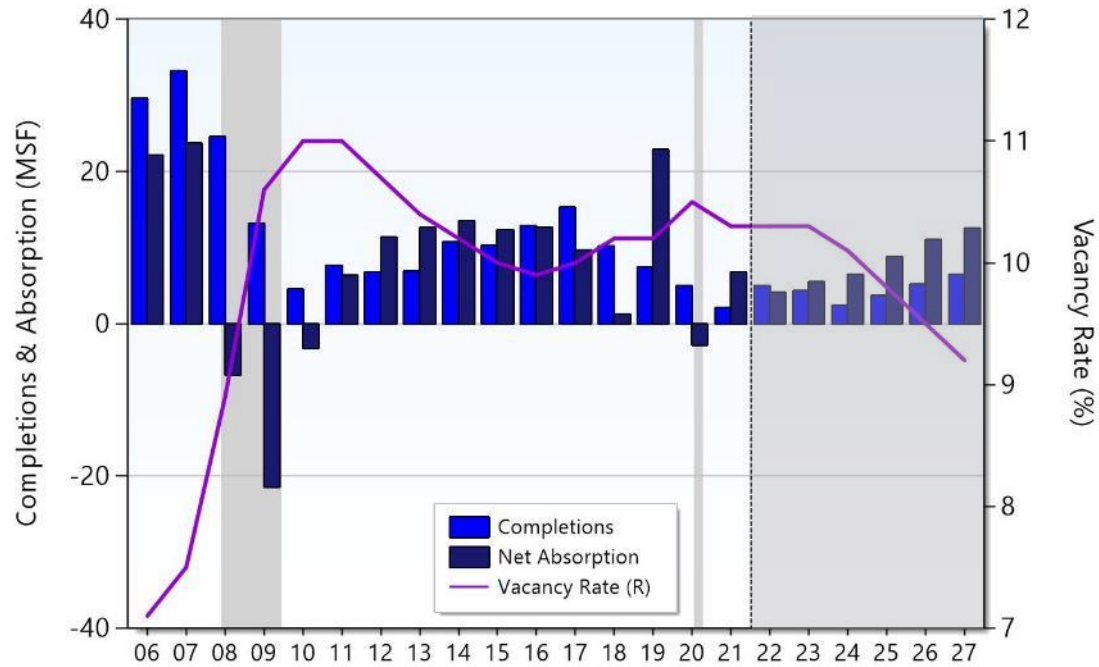
Source RERC, 2Q 2022.

Investors Showing More Interest in Retail; Only Property Type with Increased Volume and Allocations in 2022 YTD



Source RCA, July 2022. Data for 2022 is YTD annualized.

We Expect Continued Modest Improvement in Retail Fundamentals



Source: Reis, SitusAMC Insights Forecasts, 2Q 2022.

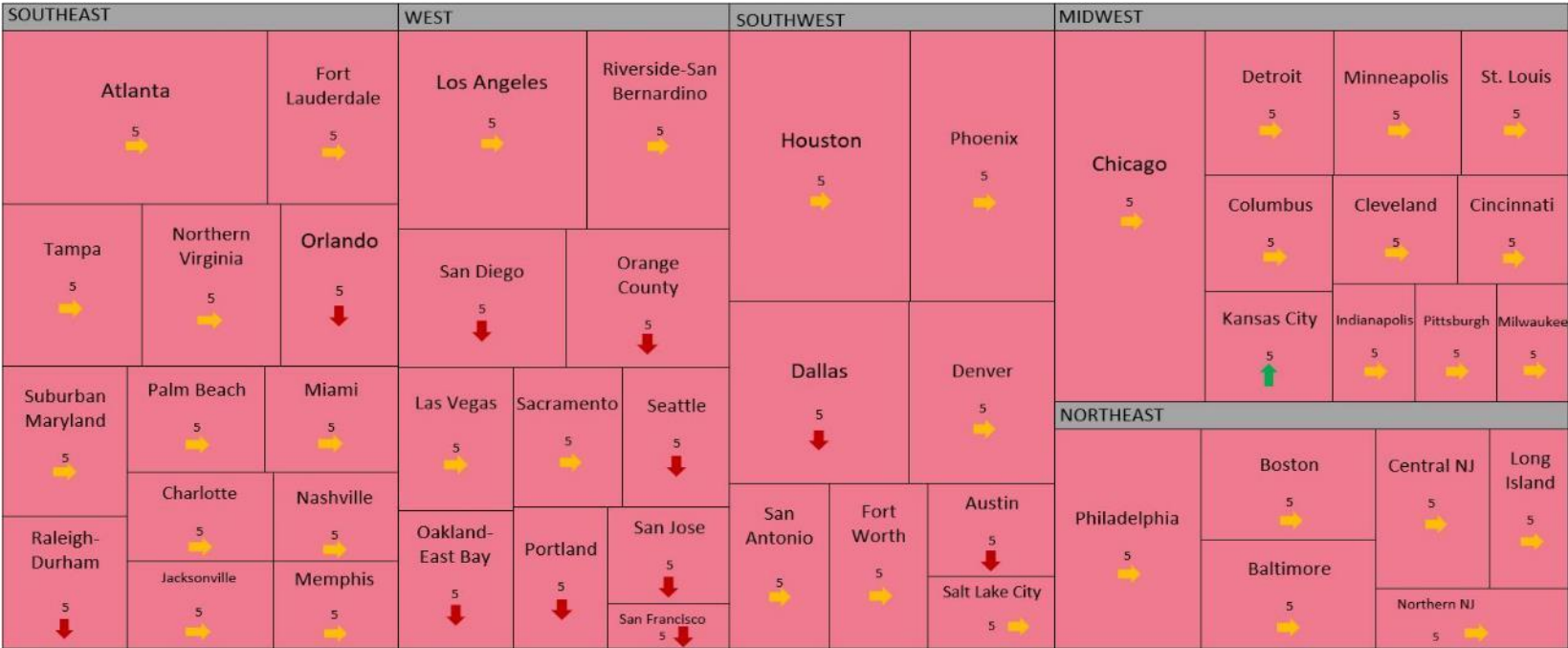
2Q 2022

Baseline:

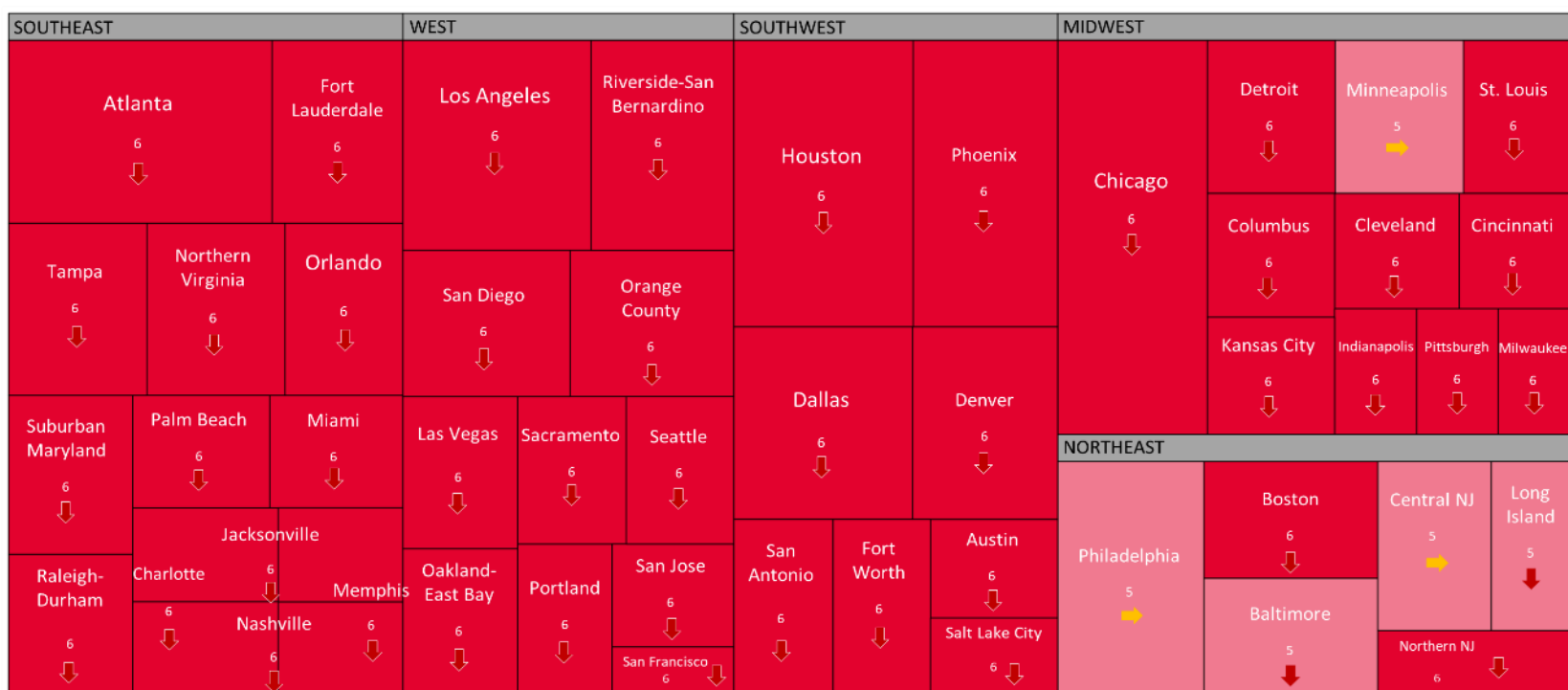
Baseline scenario
reflects an
economic
slowdown

Retail Heat Maps

- As we consider weaker growth ahead, retail fares poorly; 11 downgrades and one upgrade worsened the average score from 4.8 to 5. The West saw the majority of downgrades (7), but the entire map is now one color as every single market is a 5.
- A recession would hit retail even harder; the overall average declines from a 5 to a 5.9. All but 5 markets receive a 6 rating. The Northeast faring the best (though still poorly) among the regions.

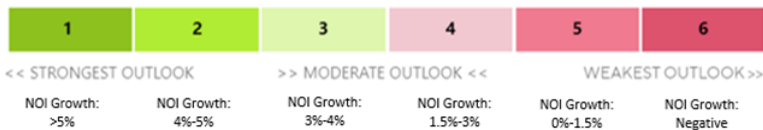


Recession:



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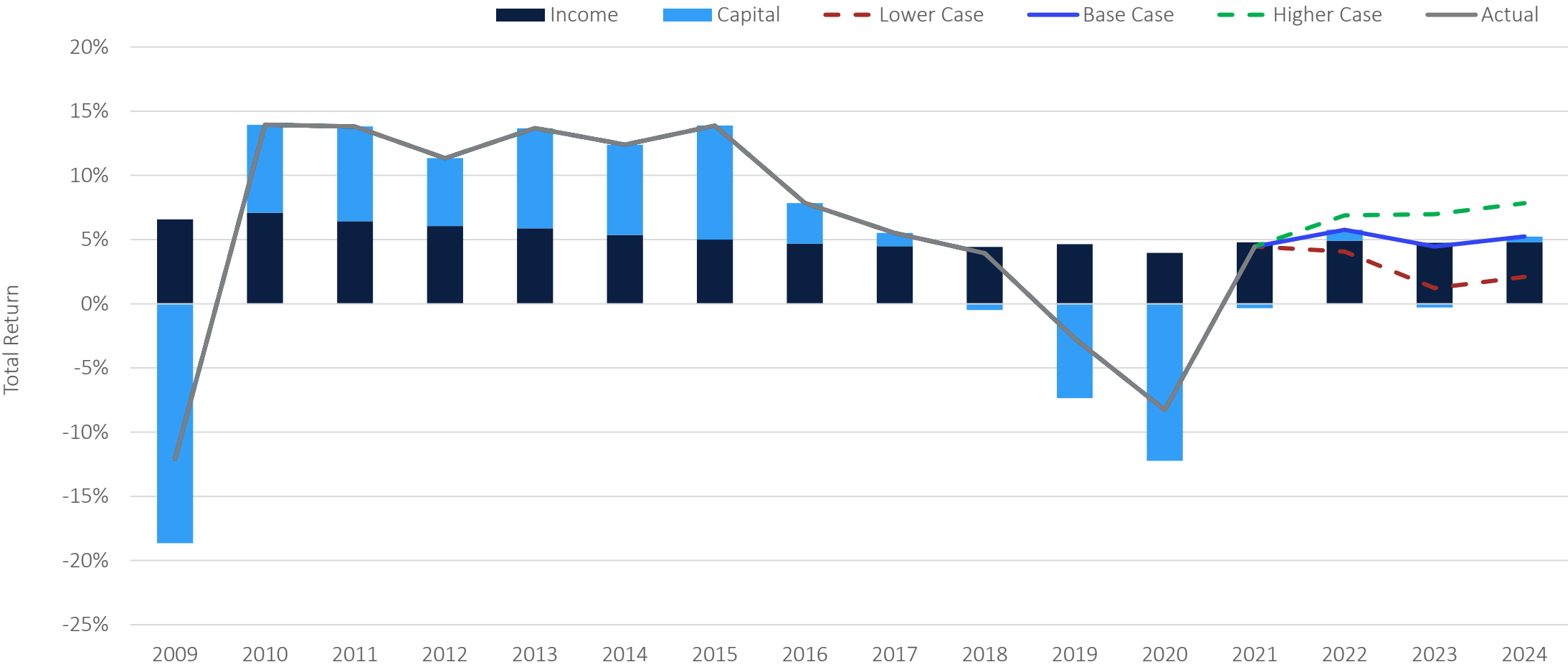


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Moderate Retail Total Returns Forecast Over Next Several Years

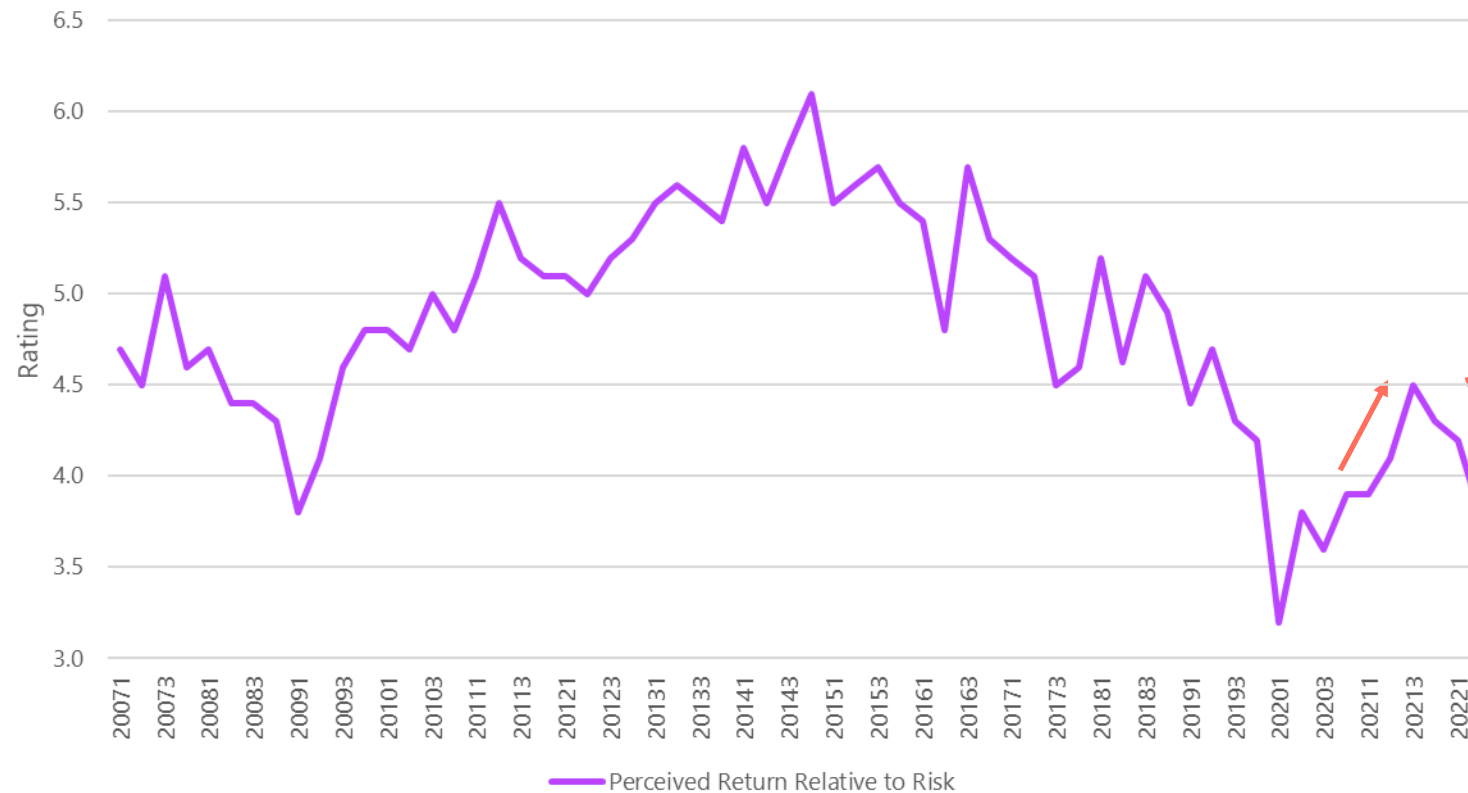


The total return forecast is RERC's proprietary model based on RERC data and data from NPI-ODCE, and is for unleveraged, institutional-grade properties. Total returns are derived from an income component and a capital appreciation/depreciation component.
Sources RERC, NPI-ODCE, 2Q 2022.

4.0 Office Sentiment Deteriorates

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Office Uncertainty Drives Risk-Adjusted Return Perceptions Downward Following the Sector's Sentiment Improvement in 2021

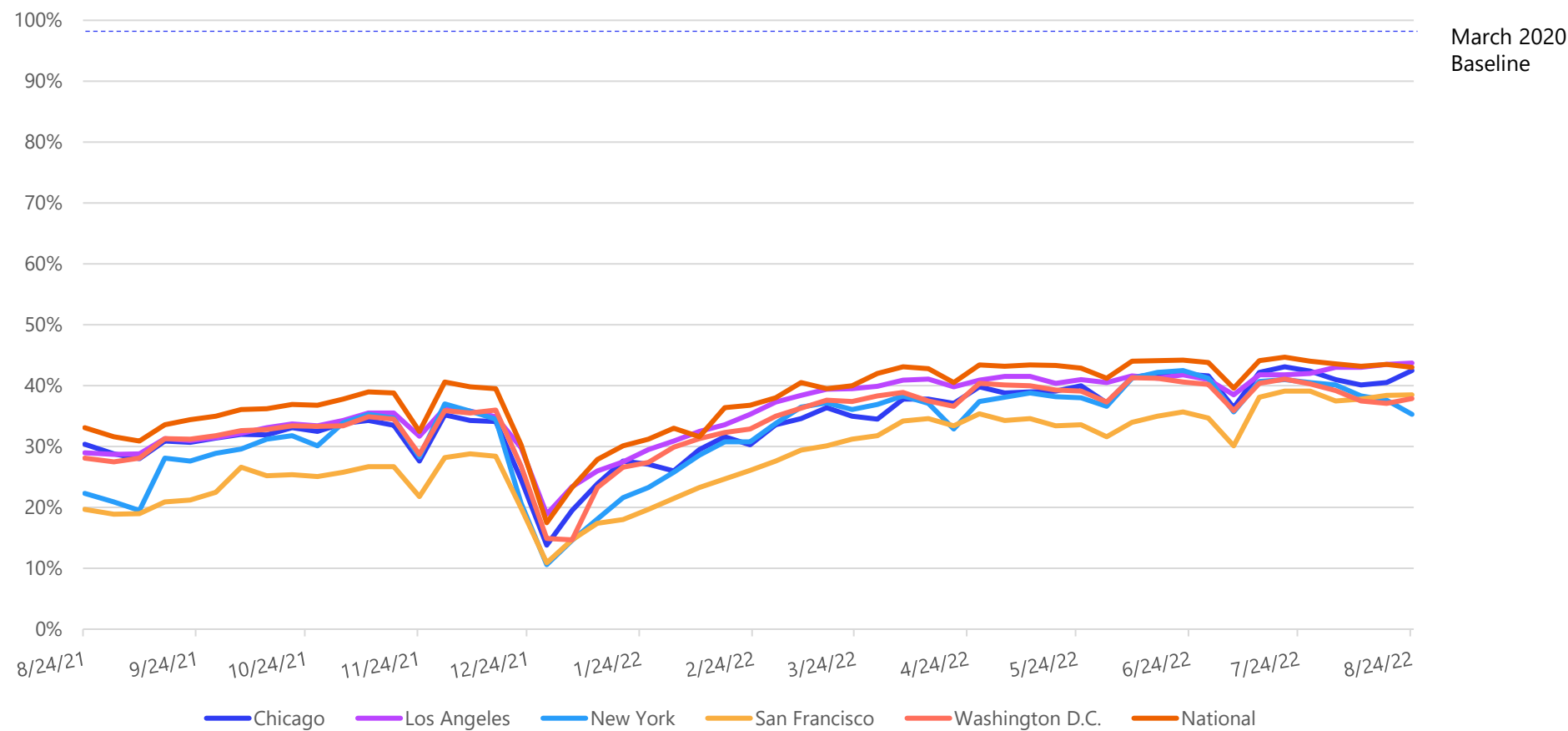


Ratings are based on scale of 1 to 10 with 10 indicating that return far exceeds risk.
Source RERC, 2Q 2022.

Question 3: How does a new normal of hybrid work (2-3 days per week in office) affect office demand?

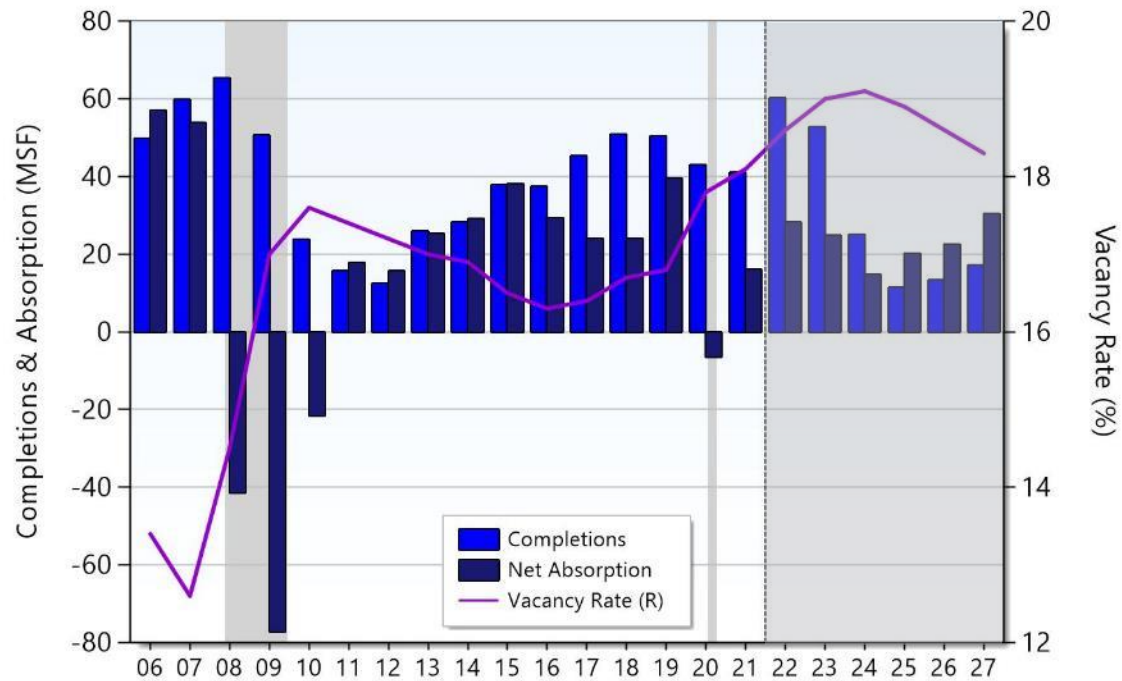
Daily Office Usage Stubbornly Flat Since Spring

New York lags gateway markets in office usage at 38% in August; Los Angeles has highest occupancy at 43%.



Sources Kastle Systems, SitusAMC Insights, August 2022.

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



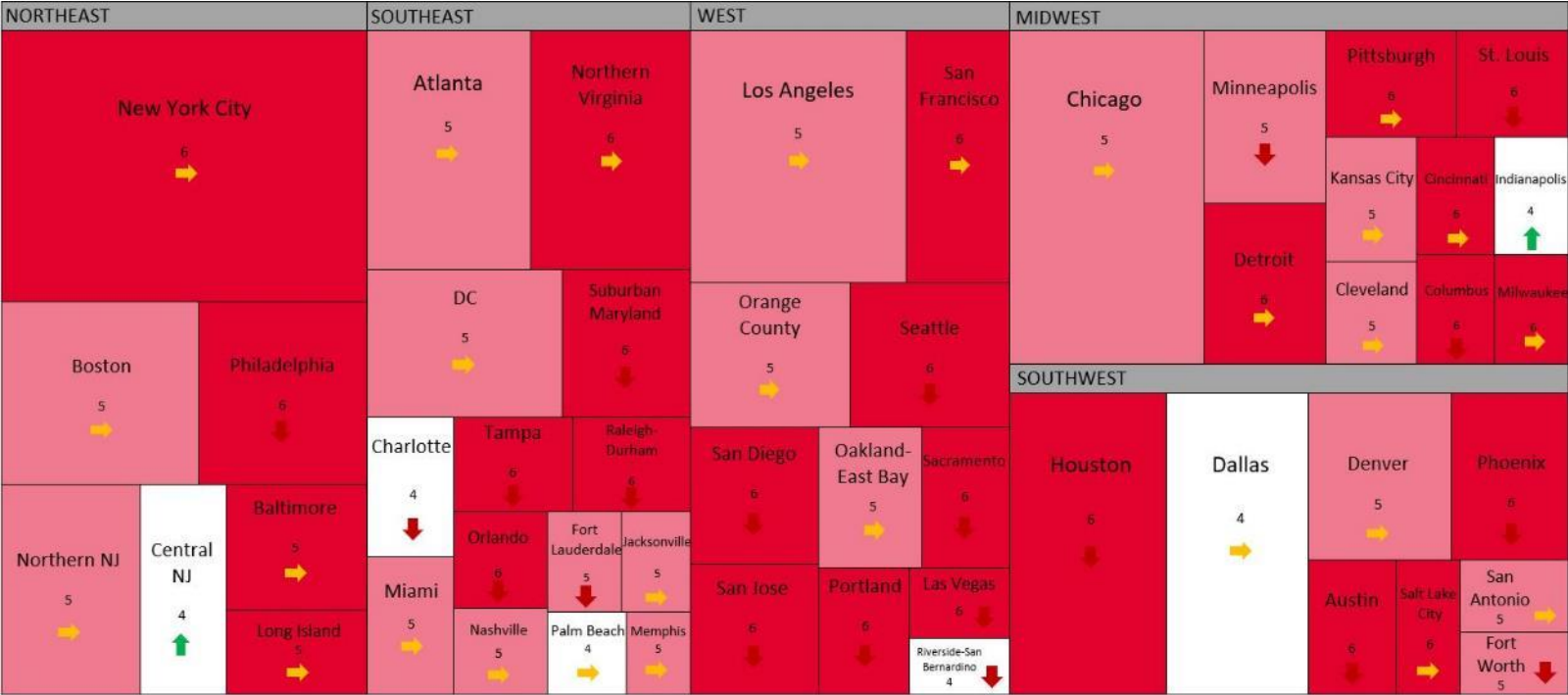
Source: Reis, SitusAMC Insights Forecasts, 2Q 2022.

Office Heat Maps

2Q 2022
Baseline:

Baseline scenario reflects an economic slowdown

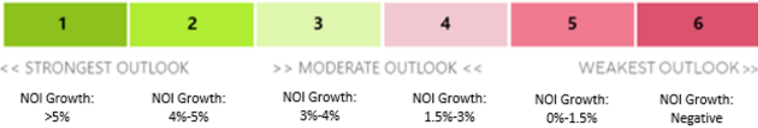
- As we factor in the likelihood of slower growth ahead, the impact on office was significant for the beleaguered segment. The average score deteriorated from 4.9 to 5.4, with 22 downgrades and just 2 upgrades. The Northeast was only responsible for one downgrade, while the rest of the downgrades were fairly spread across the regions.
- The office sector fares worst in the event of a recession; the overall average declines from a 5.4 to a 6.0, with negative NOI growth in all markets.



Recession:

NUMERICAL RANKINGS & COLORS

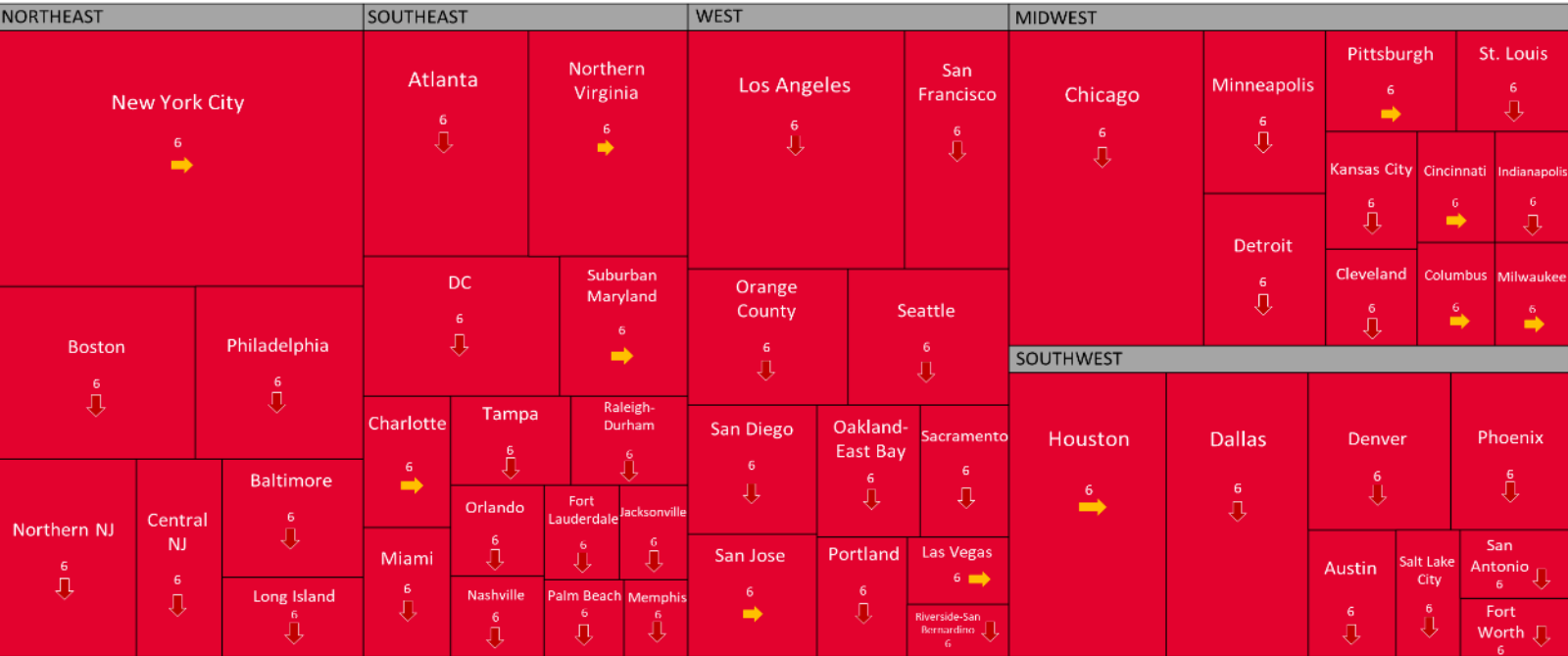
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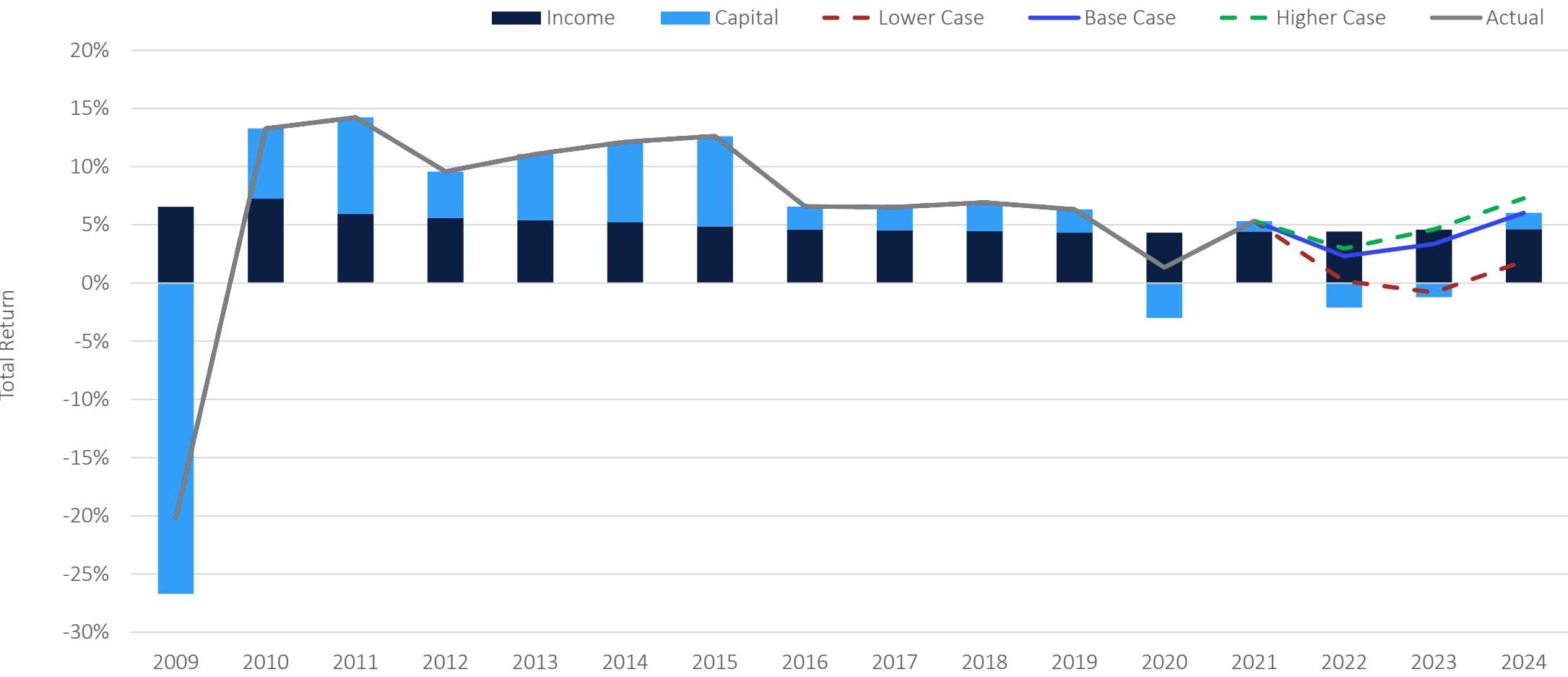
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Turbulent Capital Markets and Weak Fundamentals Suggest Poor Office Returns in 2022 and 2023



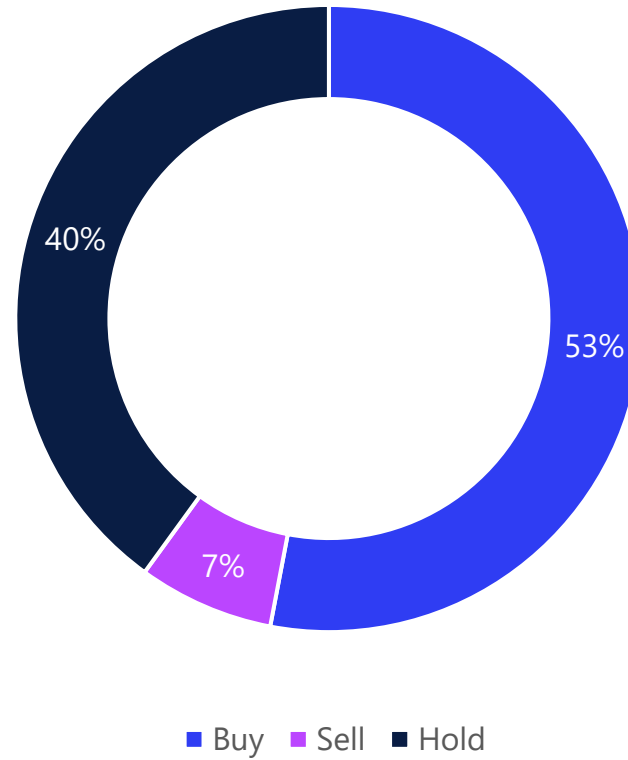
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Sources RERC, NPI-ODCE, 2Q 2022.



5.0 Apartment Market Maintains Momentum

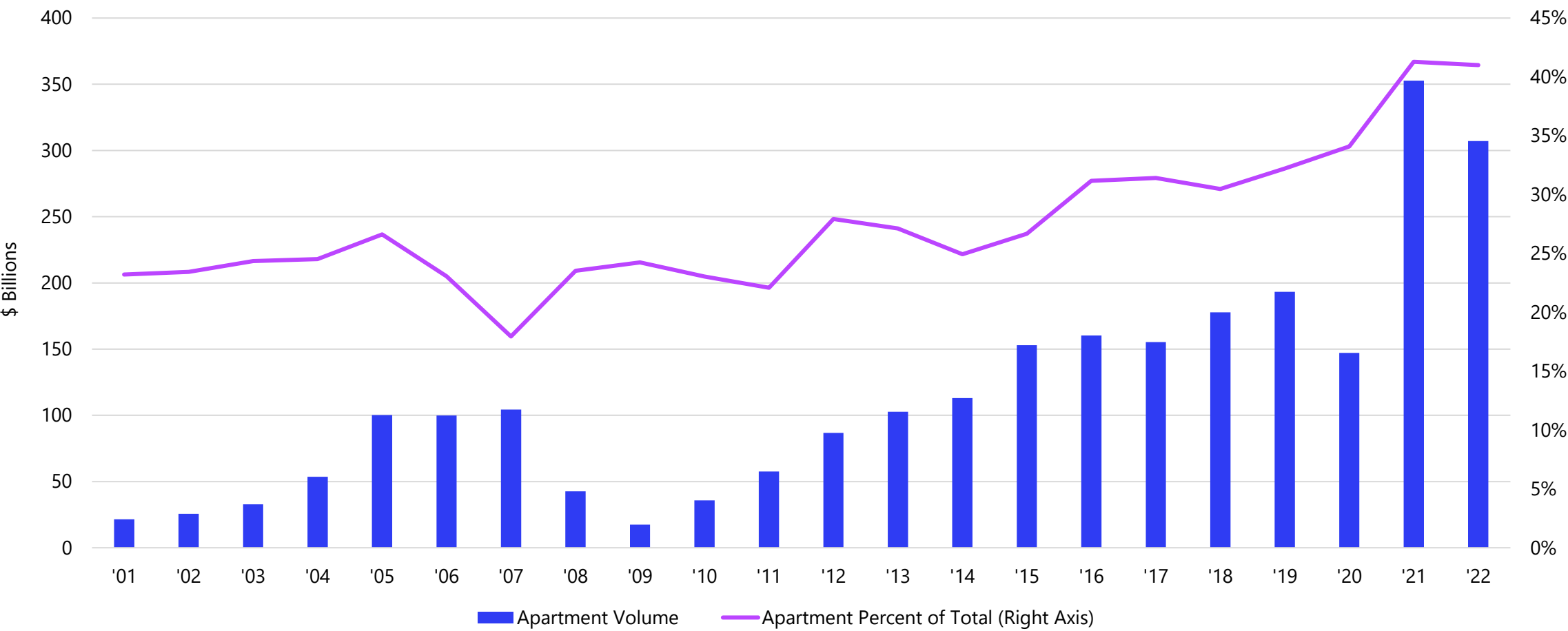
Investors Bullish on Apartments

Investment Recommendations - Apartment



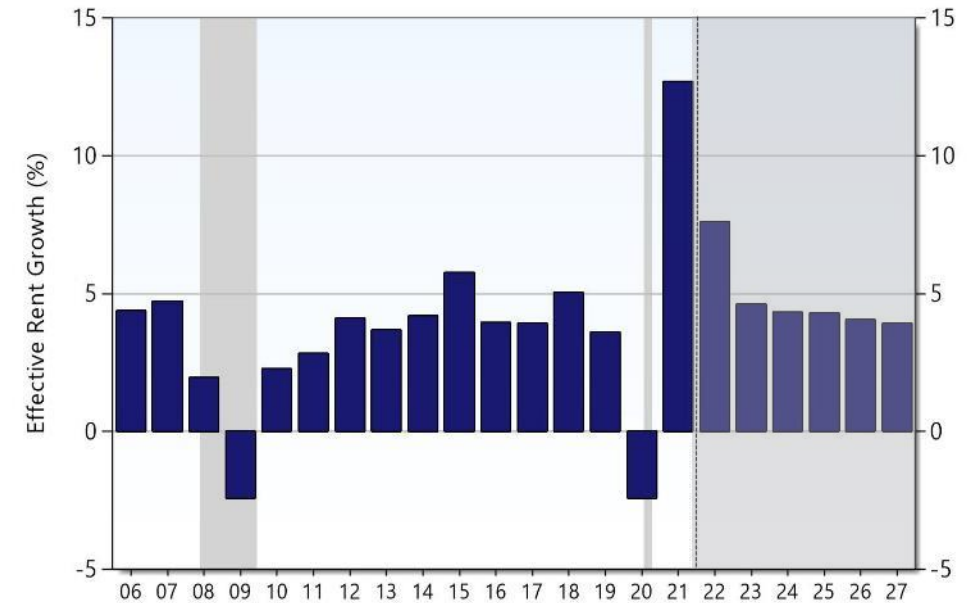
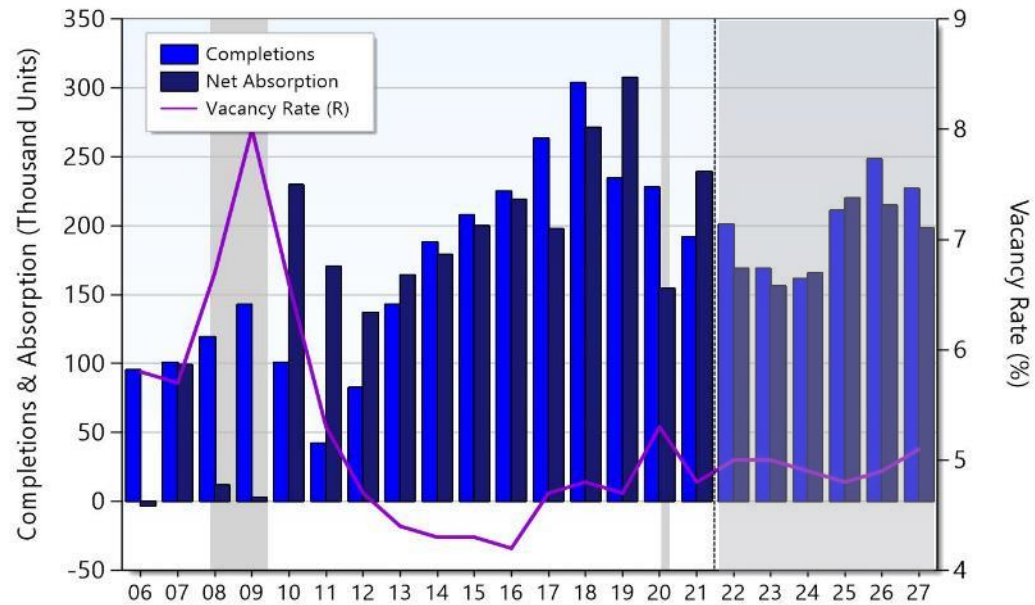
Source RERC, 2Q 2022.

Investor Allocations for Apartment Remain Strong, Despite 2022 Pullback from Record Highs



Source RCA, July 2022. Data for 2022 is YTD annualized.

Cooldown in Apartment Absorption and Rent Growth Expected, But Vacancies Look to Remain Low and Rent Growth Healthy



Source: Reis, SitusAMC Insights Forecasts, 2Q 2022.

Apartment Heat Maps

2Q 2022

Baseline:

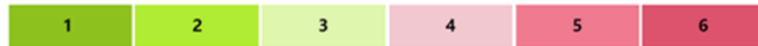
Baseline scenario reflects an economic slowdown

- Apartment saw 11 downgrades and 3 upgrades this quarter as the forecast factored in slower growth but remains predominantly green across the map. The average moved from 1.3 to a still solid 1.6. The Northeast was the only region that saw its average improve this quarter.
- The apartment segment fairs relatively well in the recession scenario, with all markets garnering a 4 or higher. The overall average declines from a 1.6 to a 3.0; all but 4 markets have lower scores. The Southeast fares best and the West the worst during a recession.

Recession:

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
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ARROWS

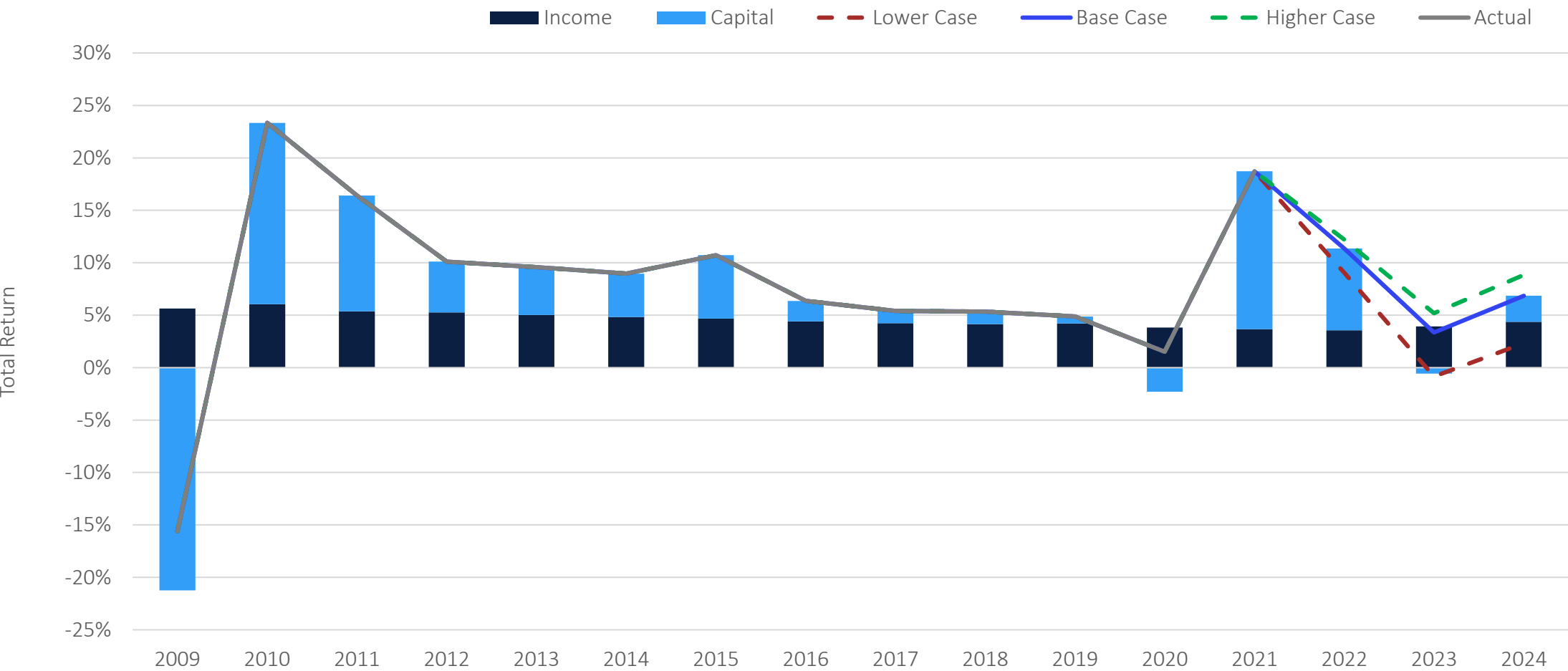
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Apartment Total Returns Forecast to Slow in 2022 but Remain Exceptionally High



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.
Sources RERC, NPI-ODCE, 2Q 2022.

Thank You

The background features a vibrant blue and purple color palette. In the lower half, there are fluid, wavy lines in shades of blue and purple that create a sense of movement. The upper half is filled with a fine, dotted pattern in a lighter blue hue, which contrasts with the solid colors below.

Contact Us



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