

**ValTrends**  
2Q 2023 Webinar

September 11, 2023  
2:00pm EST

# Pockets of Opportunity



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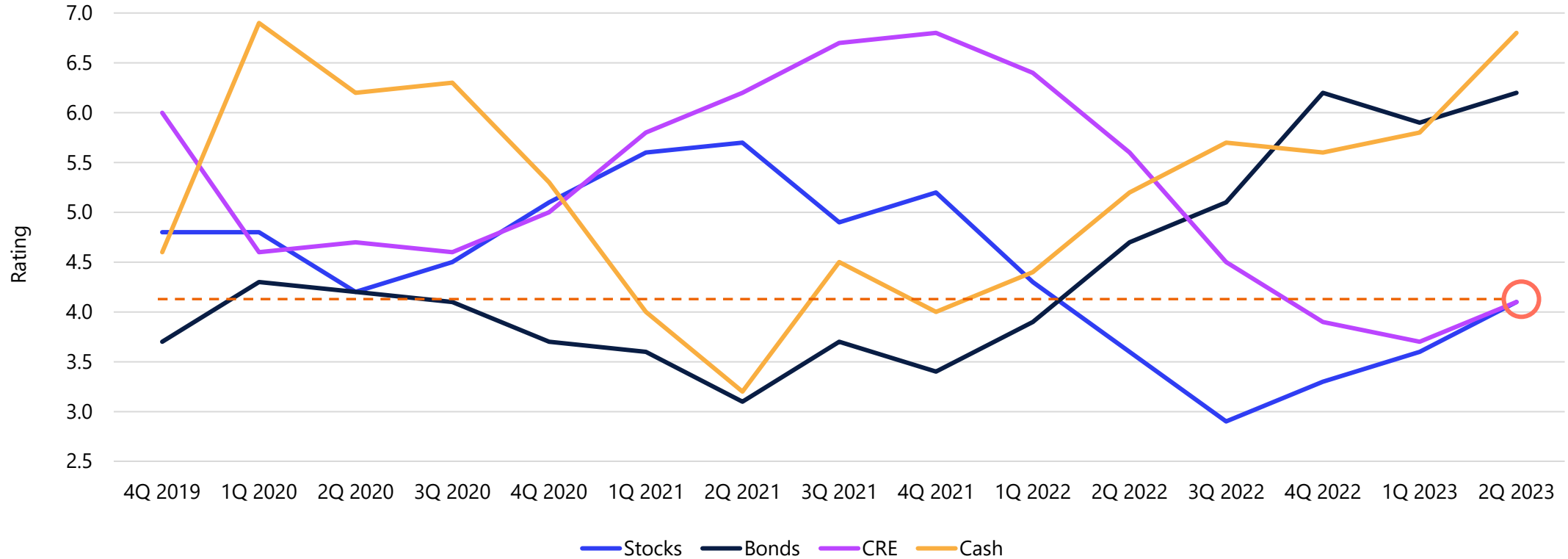
## 2.5

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# 1.0 Capital Markets Overview

# Investors More Bullish on All Asset Classes QoQ, but Preference for CRE Still Among the Lowest in History

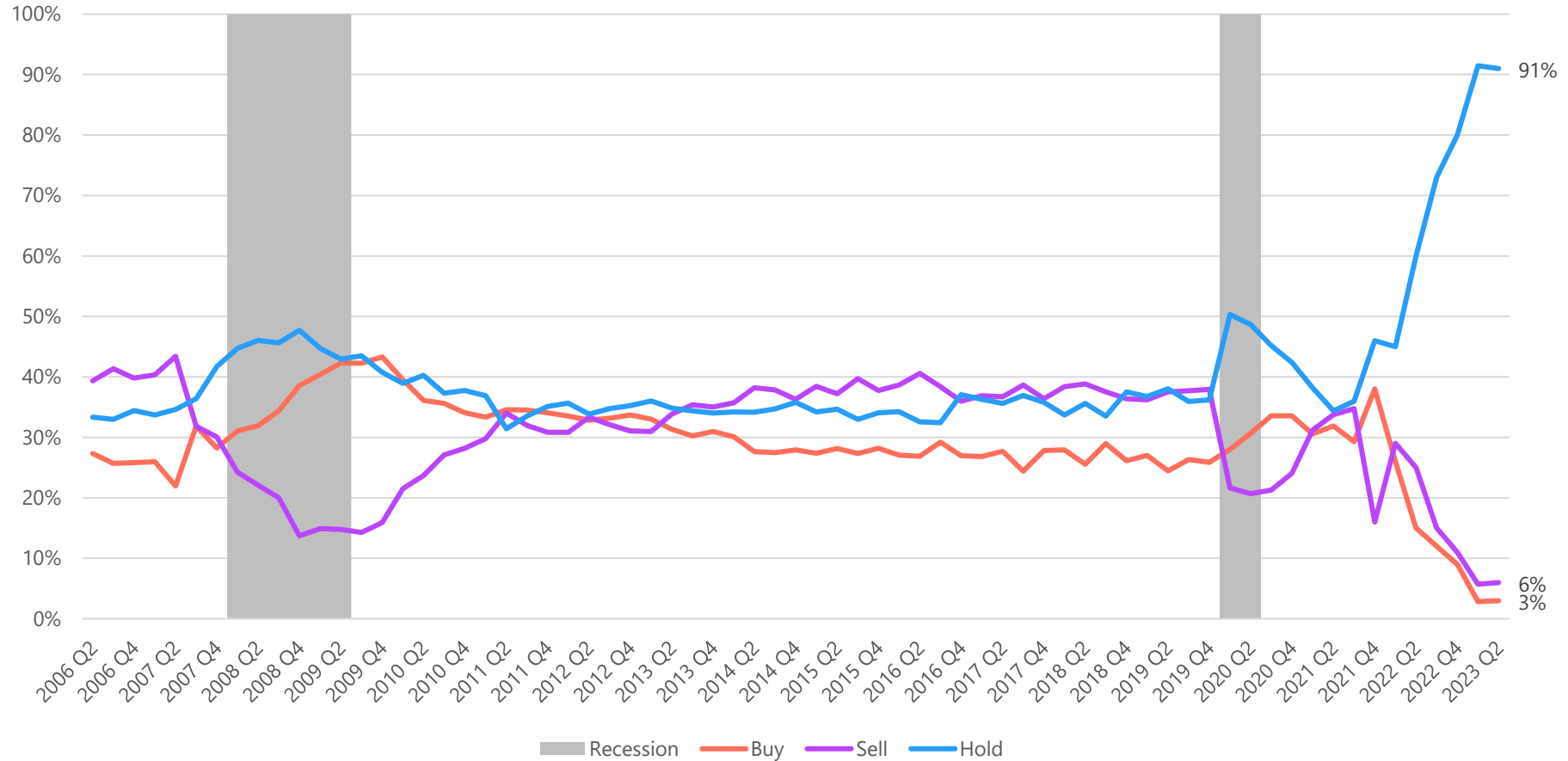


Note: Ratings are based on scale of 1 to 10 with 10 being excellent.  
Sources: RERC, SitusAMC Insights, 2Q 2023.

# Institutional Market Participants on the Sidelines

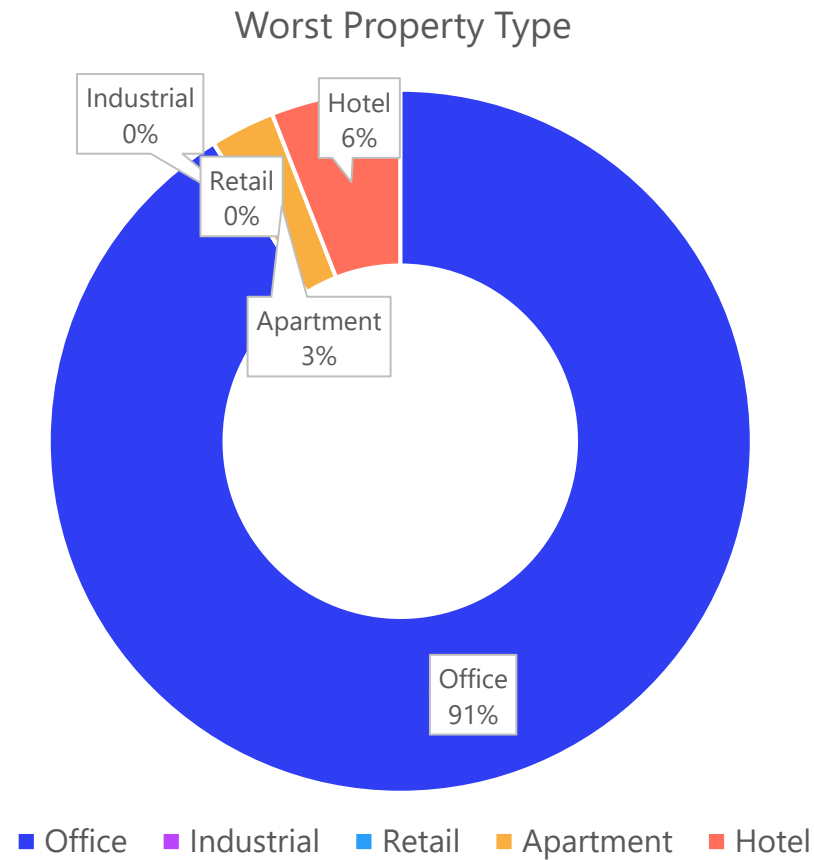
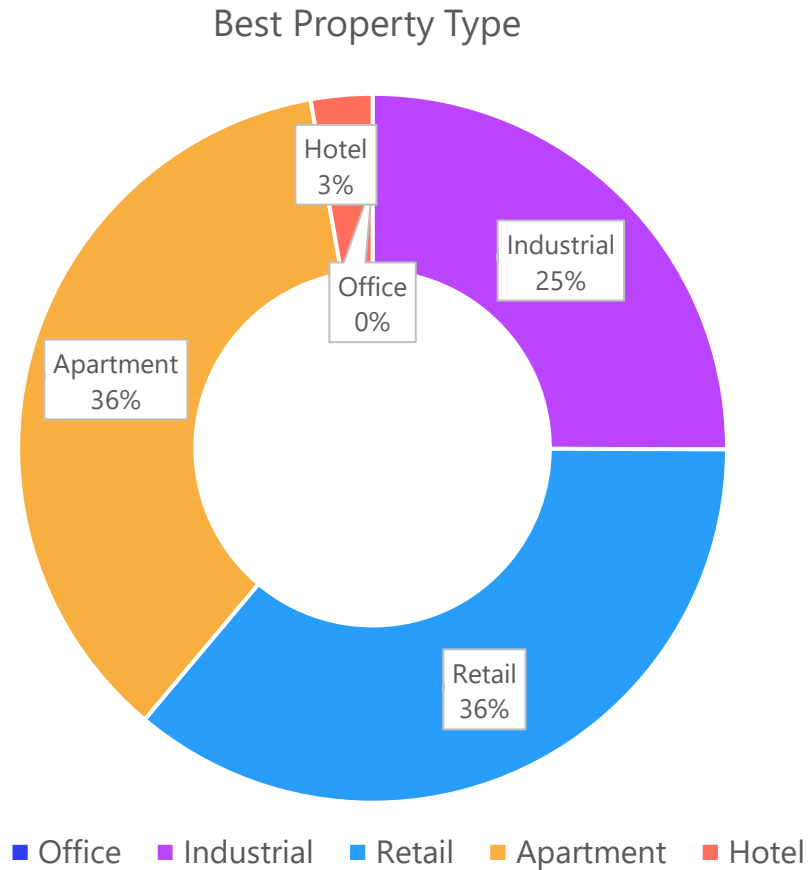
Hold Recommendation at Record High

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



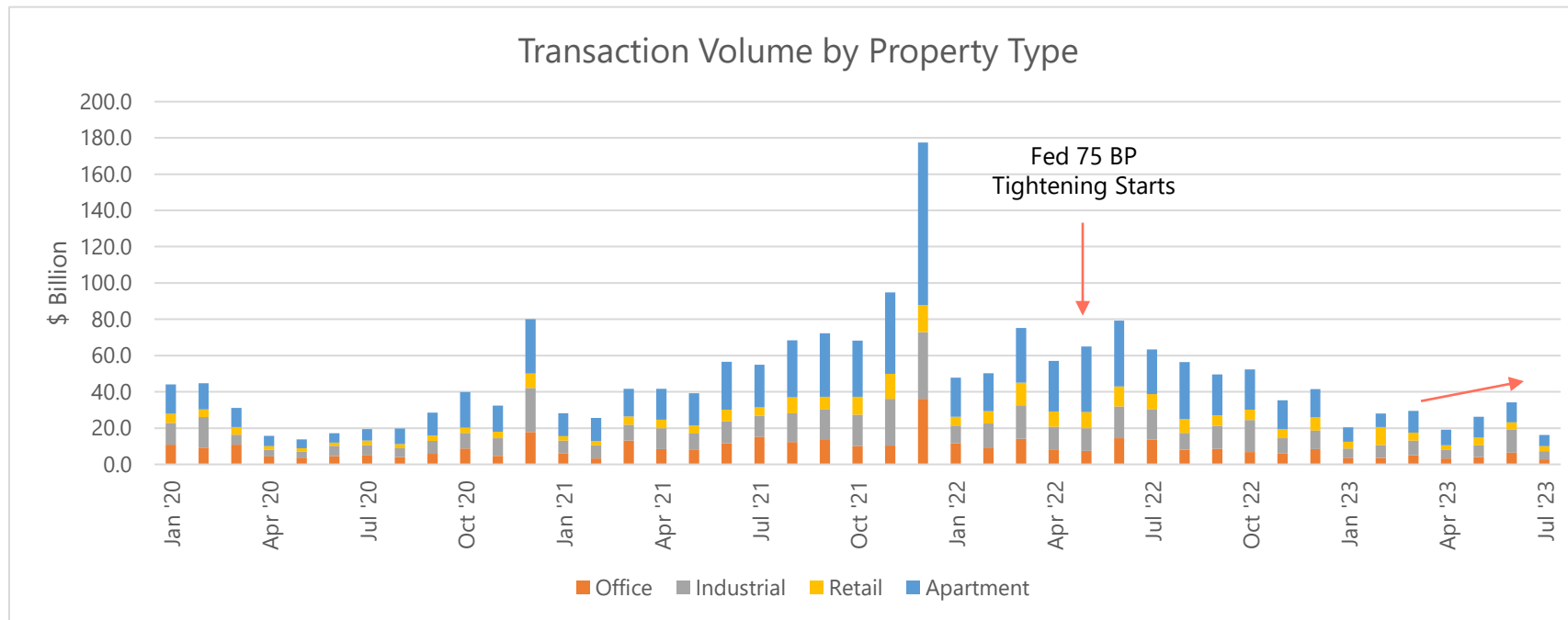
Shaded areas represent a recession.  
Sources: RERC, SitusAMC Insights, 2Q 2023.

# Retail Ties Apartment and Beats Industrial for Best Property Type in 2Q 2023; Investors United on Office as the Worst



- 2022 Comparison for Best Property Type:
  - Industrial: 47%
  - Apartment: 21%
  - Office: 16%
  - **Retail: 11%**
  - Hotel: 5%

# Transaction Volume Still Anemic



	Change Since Aggressive Fed Tightening in June 2022	GFC Peak to Trough
<b>Apartment</b>	<b>-83.30%</b>	<b>-96.40%</b>
<b>Office</b>	<b>-81.00%</b>	<b>-98.70%</b>
<b>Retail</b>	<b>-74.70%</b>	<b>-94.30%</b>
<b>Industrial</b>	<b>-73.80%</b>	<b>-95.10%</b>

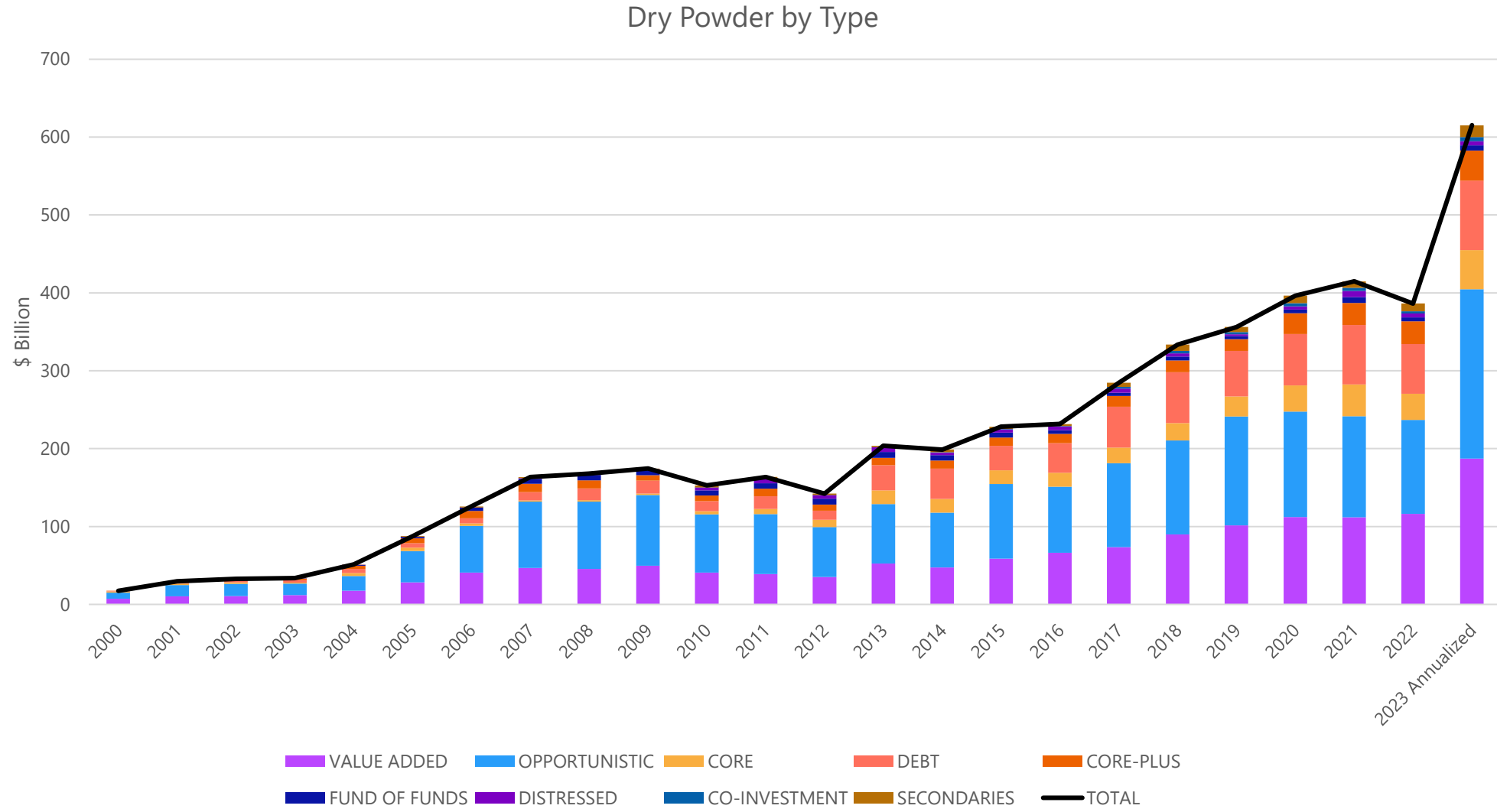
Note: Sum of office, industrial, retail and apartment volume will not equal overall CRE volume. Overall CRE transaction volume includes additional property types.  
Sources: MSCI Real Assets, SitusAMC Insights, July 2023.

# Poll Question: Is there more, the same or less dry powder looking to invest in CRE?

- More
- Same
- Less

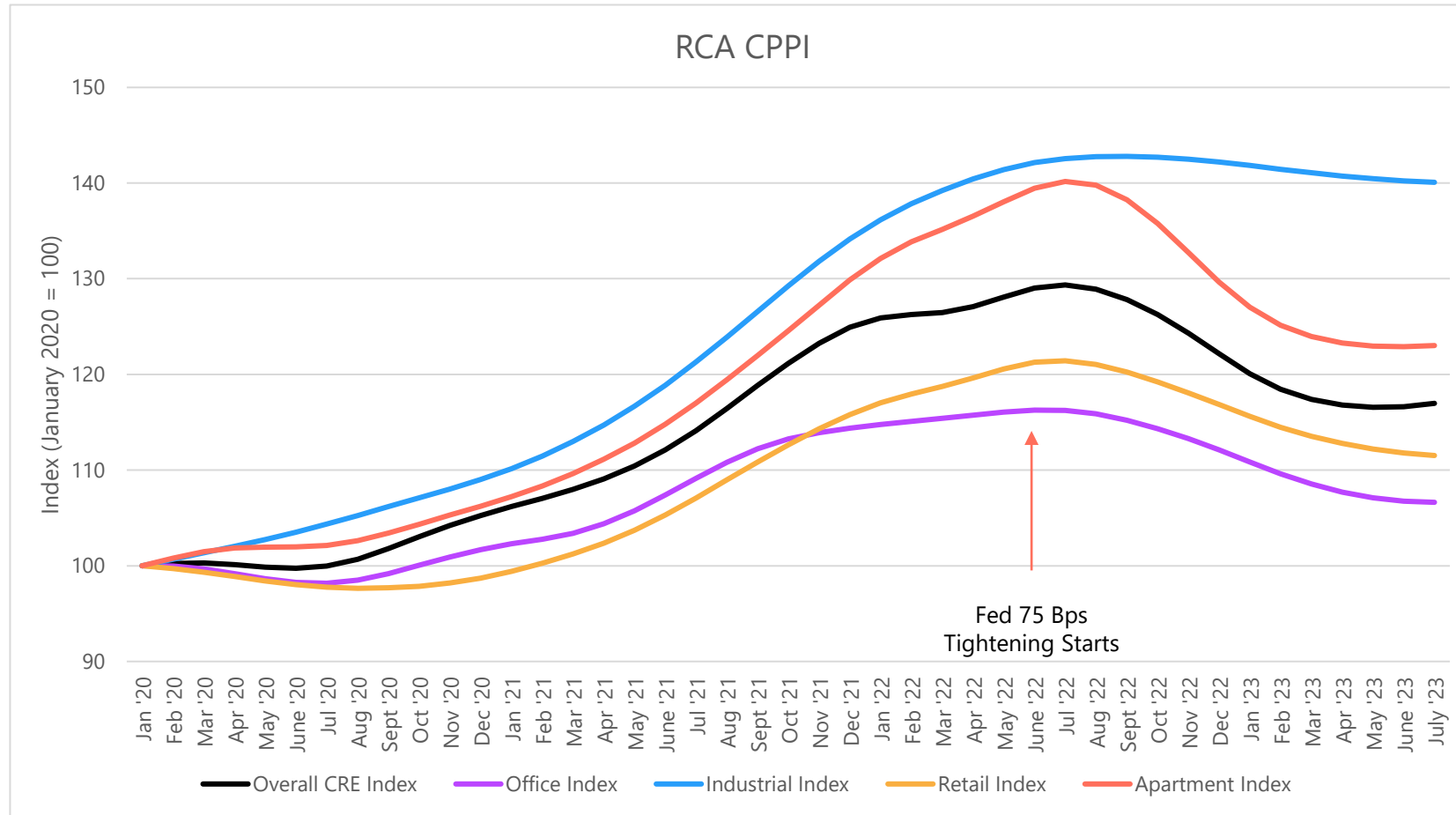


# Total Dry Powder Expected to Reach Record Levels in 2023 for All Real Estate Strategies



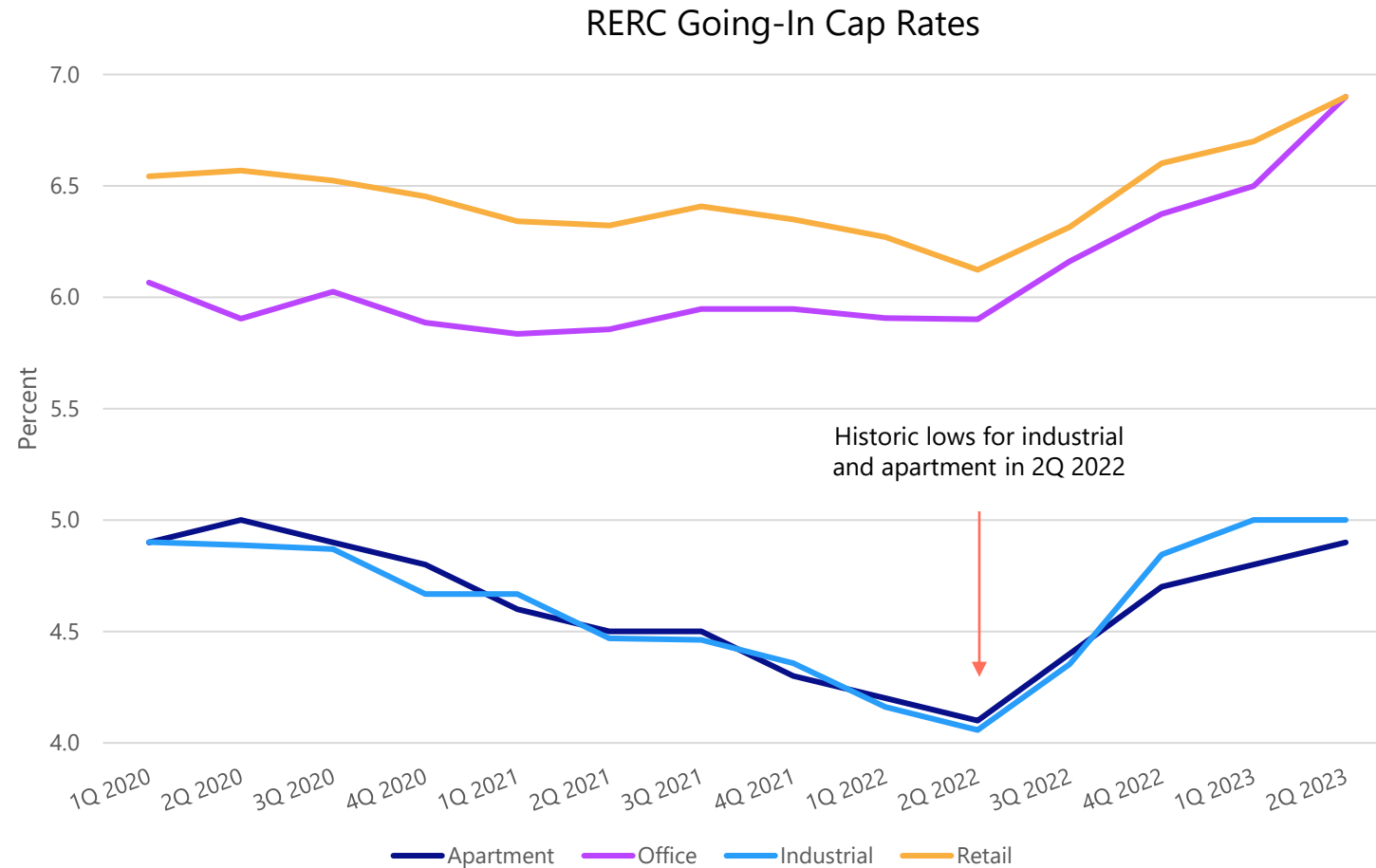
Note: Data are for North America.  
Source Preqin, SitusAMC Insights, Aug. 2023.

# Prices Falling Since Aggressive Fed Tightening in 2022; Industrial Prices Resilient



	Price Change Since Aggressive Fed Tightening in June 2022
<b>Apartment</b>	<b>-11.8%</b>
<b>Office</b>	<b>-8.3%</b>
<b>Retail</b>	<b>-8.0%</b>
<b>Industrial</b>	<b>-1.4%</b>

# Our Data Show Significant Cap Rate Expansion Across Major Property Segments Over the Past Year



	Cap Rate Change Since Aggressive Fed Tightening in June 2022
<b>Office</b>	<b>+100 bps</b>
<b>Industrial</b>	<b>+90 bps</b>
<b>Apartment</b>	<b>+80 bps</b>
<b>Retail</b>	<b>+80 bps</b>

## 2.0 Property Types

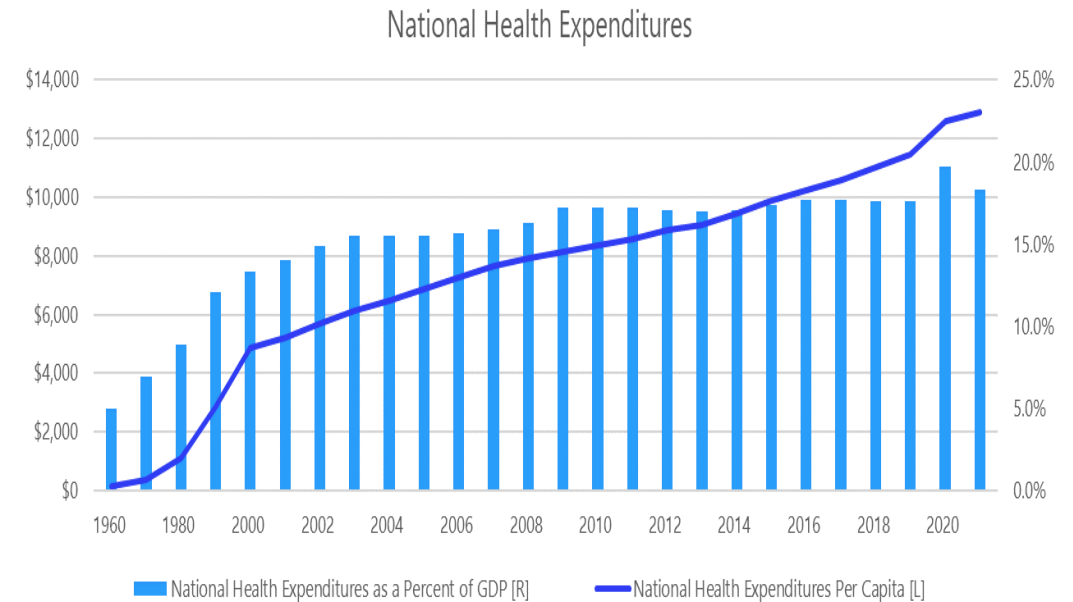
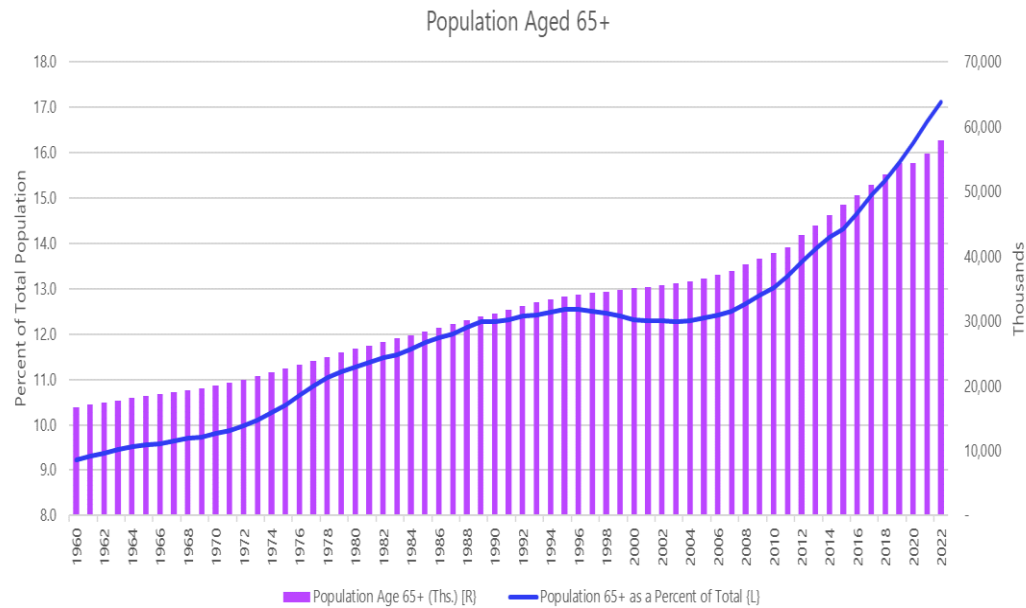
The background features a vibrant blue and purple color palette. It is decorated with a fine grid of small white dots and several thick, flowing, wavy lines in shades of blue and purple that create a sense of movement and depth.



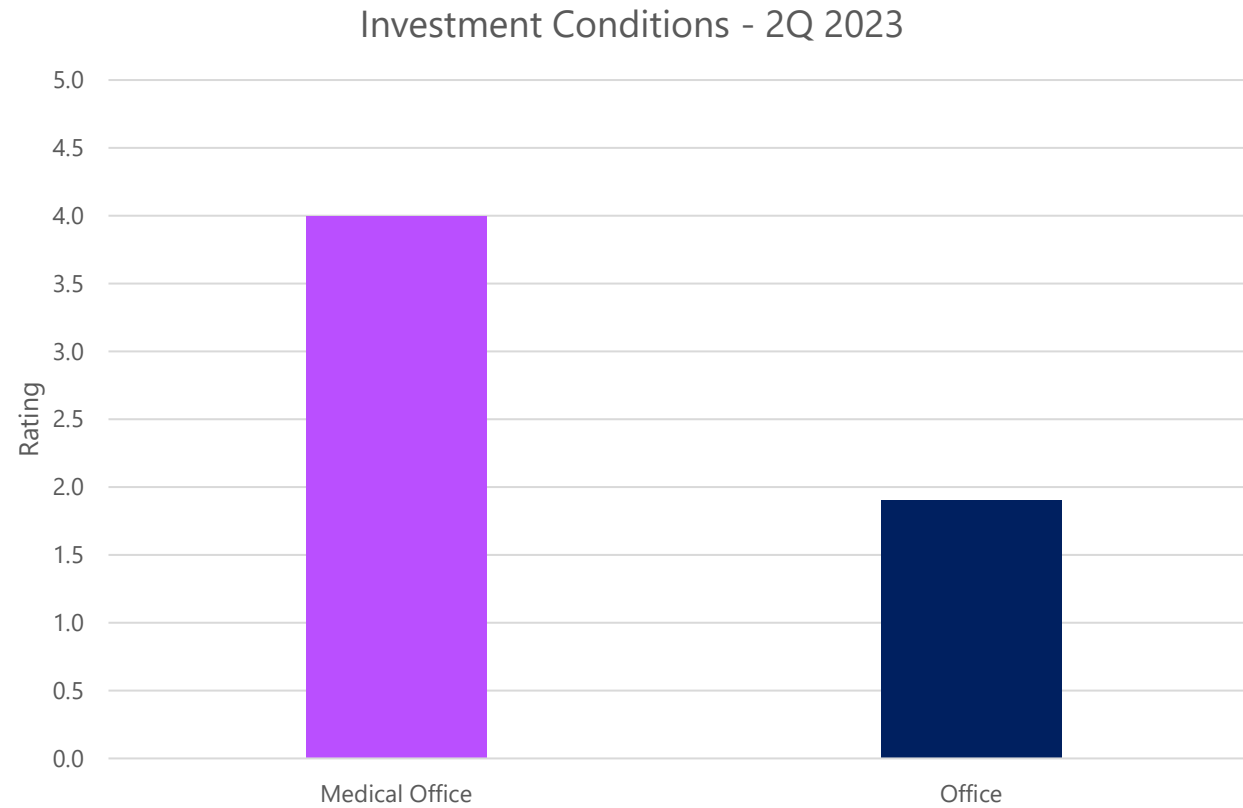
## 2.1 Alternative Property Types

# Population Aged 65 and Above Soars Post-GFC; Spending on Healthcare Has Soared in Recent Years

- U.S. older population grew from 2010 to 2020 at fastest rate since 1880 to 1890.
- About 1 in 6 people are 65 or older

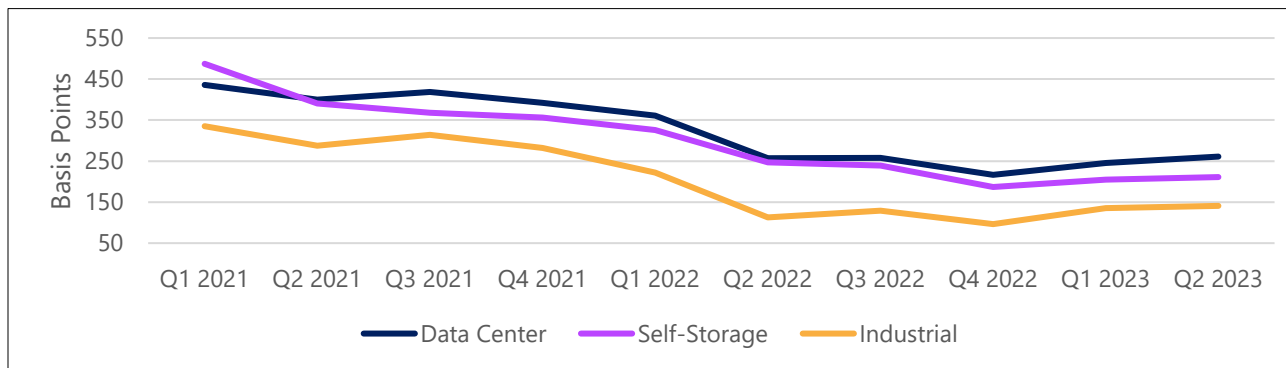
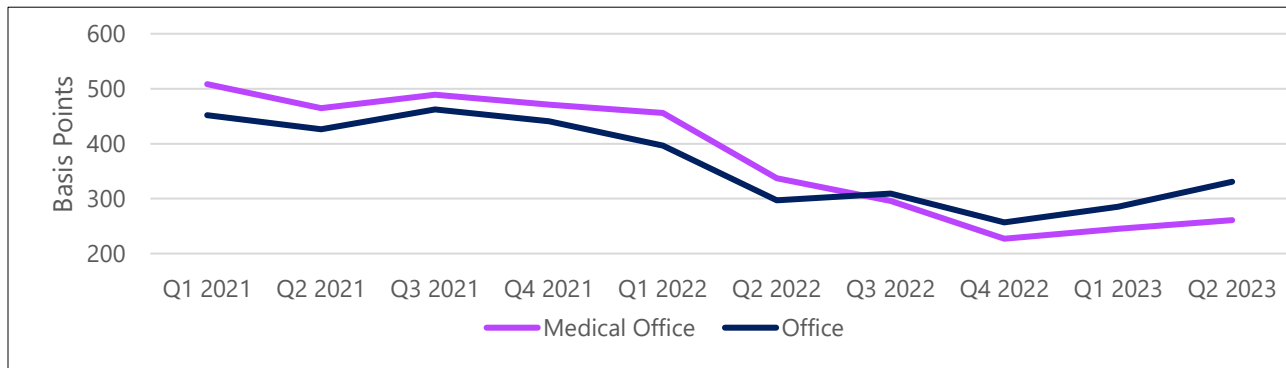
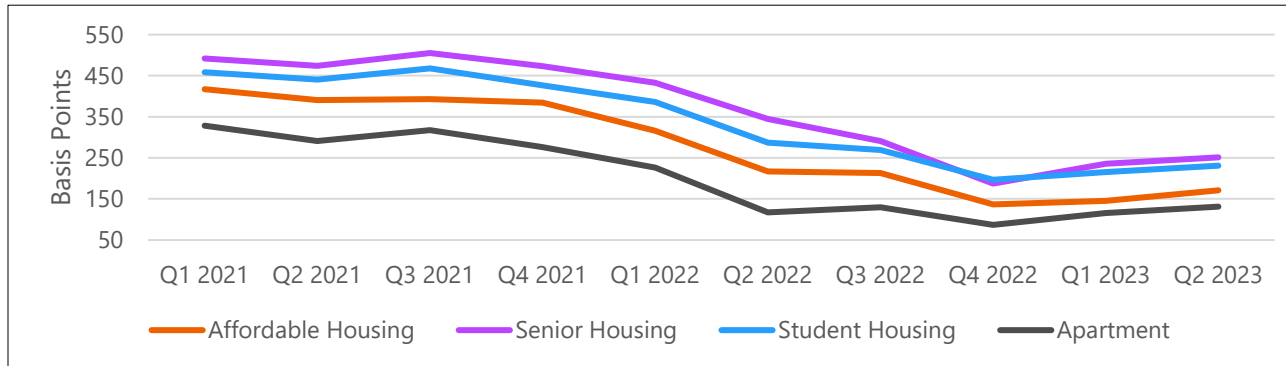


# Alternative Property Types – Medical Office Bright Spot for Beleaguered Sector



# 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
<b>Medical Office</b>	<b>-10 bps</b>
<b>Senior Housing</b>	<b>0 bps</b>
<b>Student Housing</b>	<b>+10 bps</b>
<b>Affordable Housing</b>	<b>+20 bps</b>
<b>Self Storage</b>	<b>+30 bps</b>
<b>Data Center</b>	<b>+70 bps</b>
Apartment	+80 bps
Industrial	+90 bps
Office	+100 bps

Note: Cap Rates are for institutional properties.  
Source RERC, SitusAMC Insights, 2Q 2023.



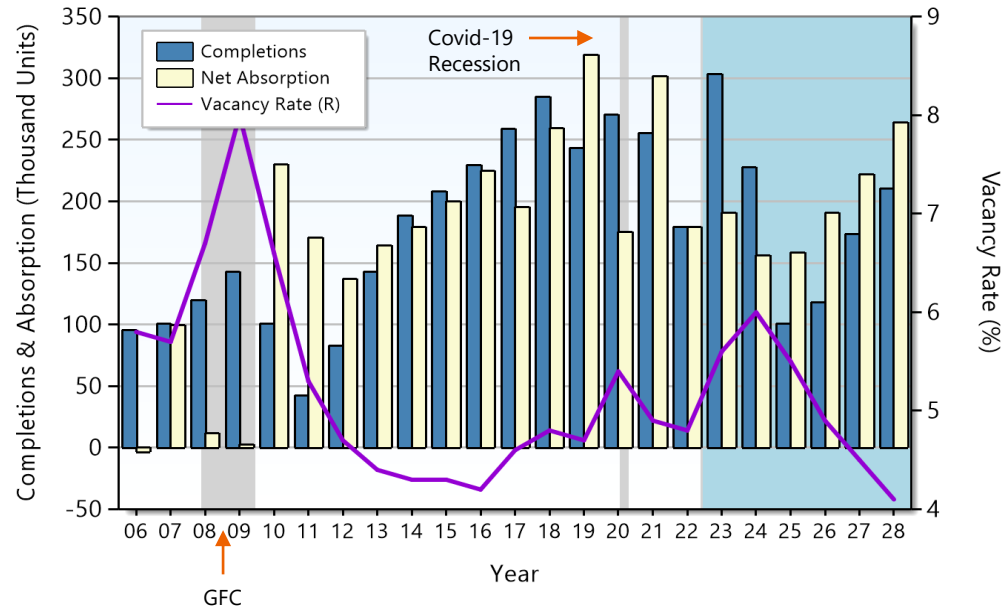
## 2.2 Apartment

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, wavy 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.

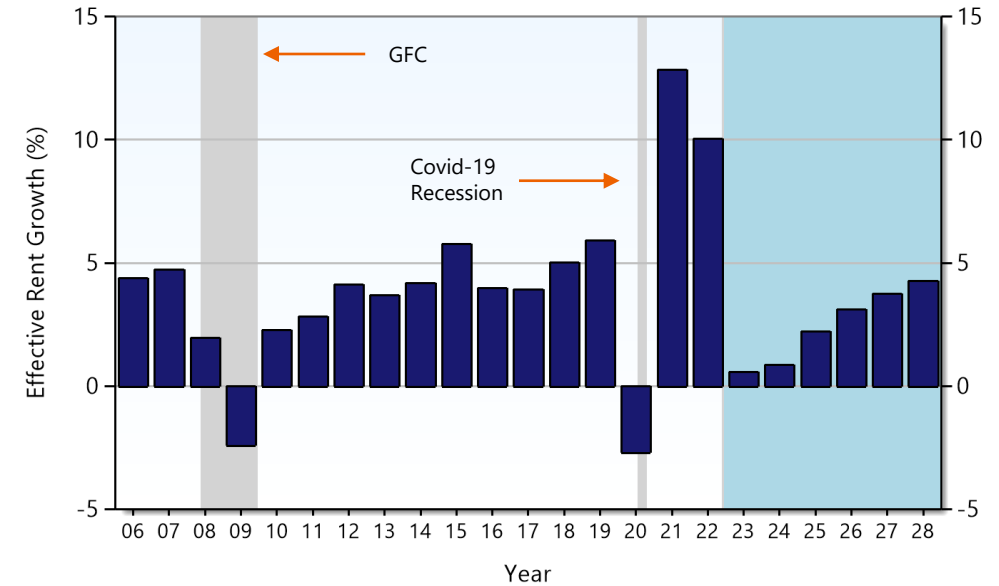
# Apartment Vacancy Rate Expected to Rise Through Next Year Amid Strong Completions and Rent Growth to Be More Subdued Over Next Two Years

## SitusAMC Insights Apartment Fundamentals Forecasts – 2Q 2023

### Supply/Demand



### Effective Rent Growth



Gray shading represents a recession. Blue shading represents the forecast.  
Sources: Reis, NBER, SitusAMC Insights Forecasts, 2Q 2023.

# Apartment NOI Heat Maps

2Q 2023  
Baseline:

Baseline scenario reflects an economic slowdown

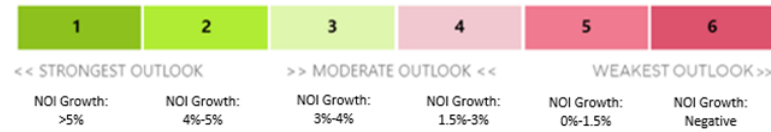
## National Downturn in Apartment

- The segment has undergone a quick and dramatic turn from the end of last year.
- Average score in 2Q is 4.4 (moderate NOI outlook)
- Average score is significantly weaker than in 4Q 2022, when it was a 2.5.
- Deceleration was widespread with 28 downgrades QoQ.

4Q 2022:

### NUMERICAL RANKINGS & COLORS

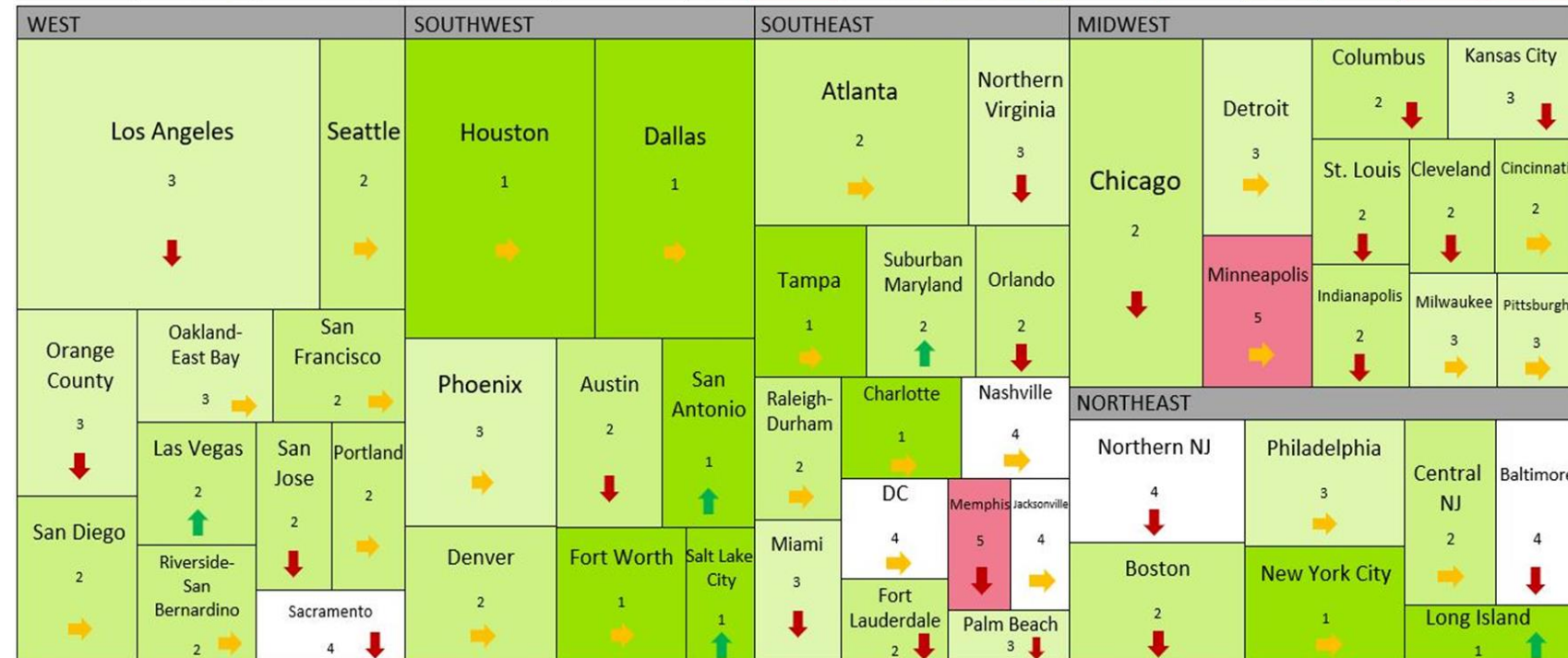
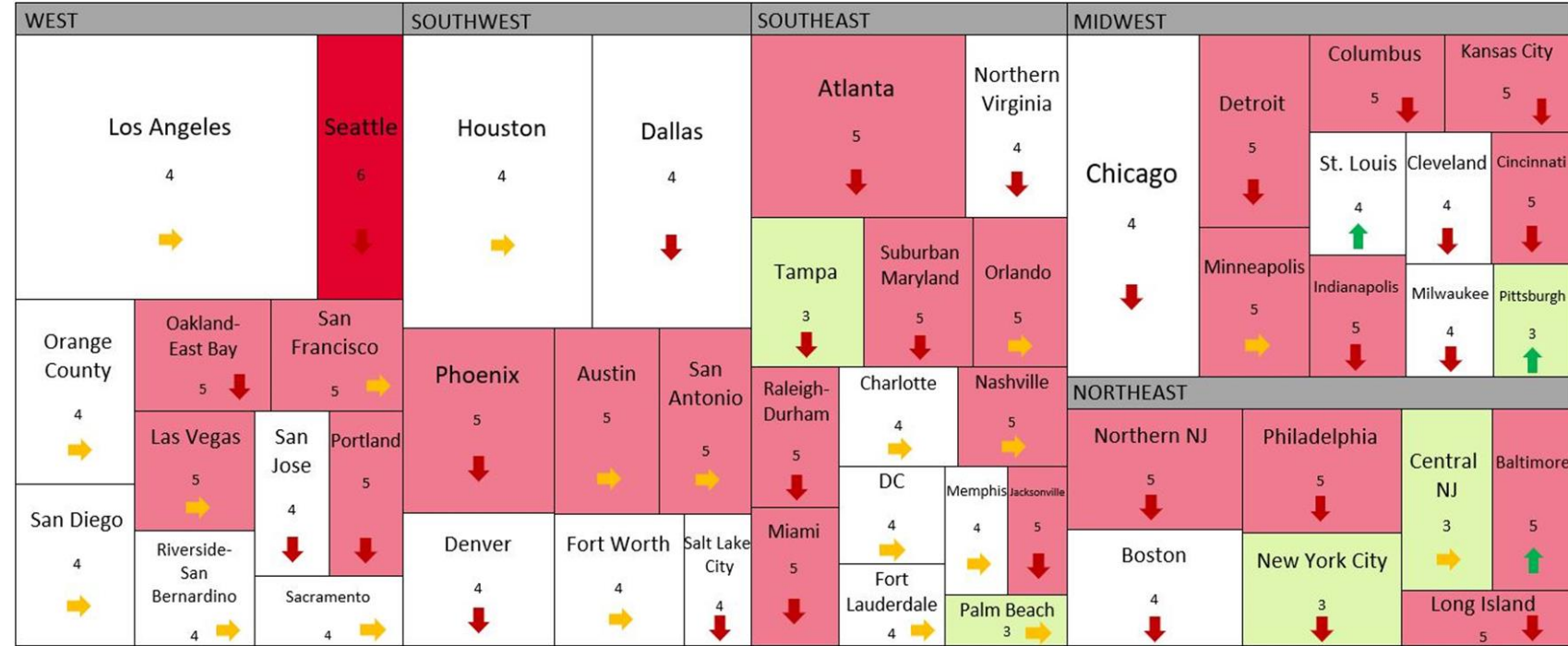
These represent the current and five-year projected strength of each market.



### ARROWS

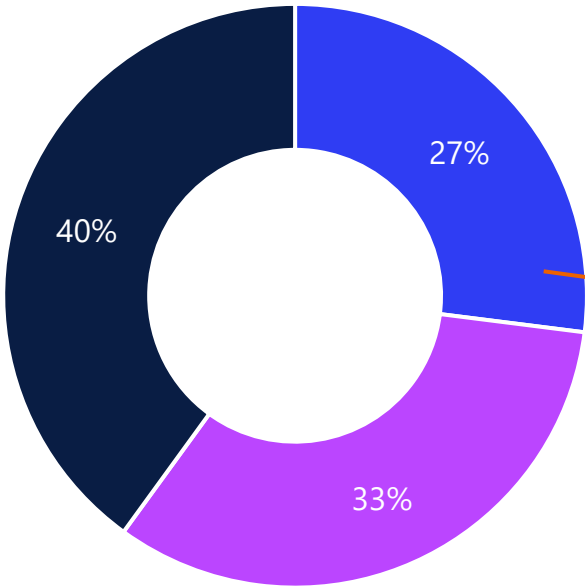
- IMPROVED: Green arrow pointing up
  - UNCHANGED: Orange arrow pointing right
  - DETERIORATED: Red arrow pointing down
- The arrows represent how each market is trending according to our most recent quarterly analysis. An upward arrow denotes an improved rating, a bar means the market is unchanged, 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.



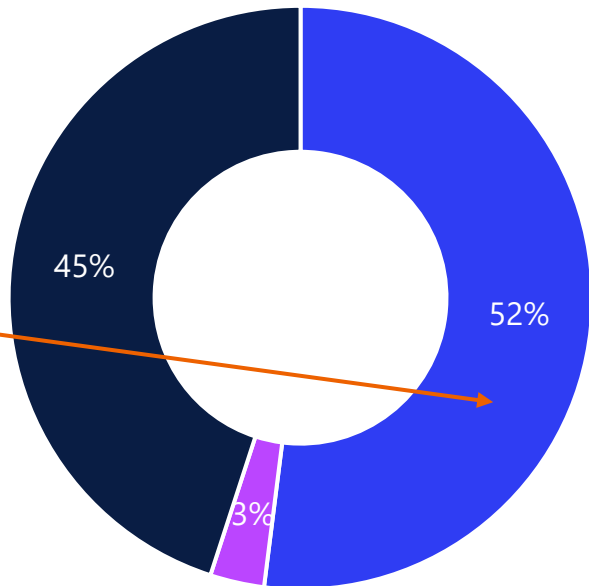
# Despite Recent Downshift in Rent Growth and Higher Vacancies, Apartment Investors Much More Bullish Compared to a Year Ago

Investment Recommendations – Apartment  
2Q 2022



■ Buy ■ Sell ■ Hold

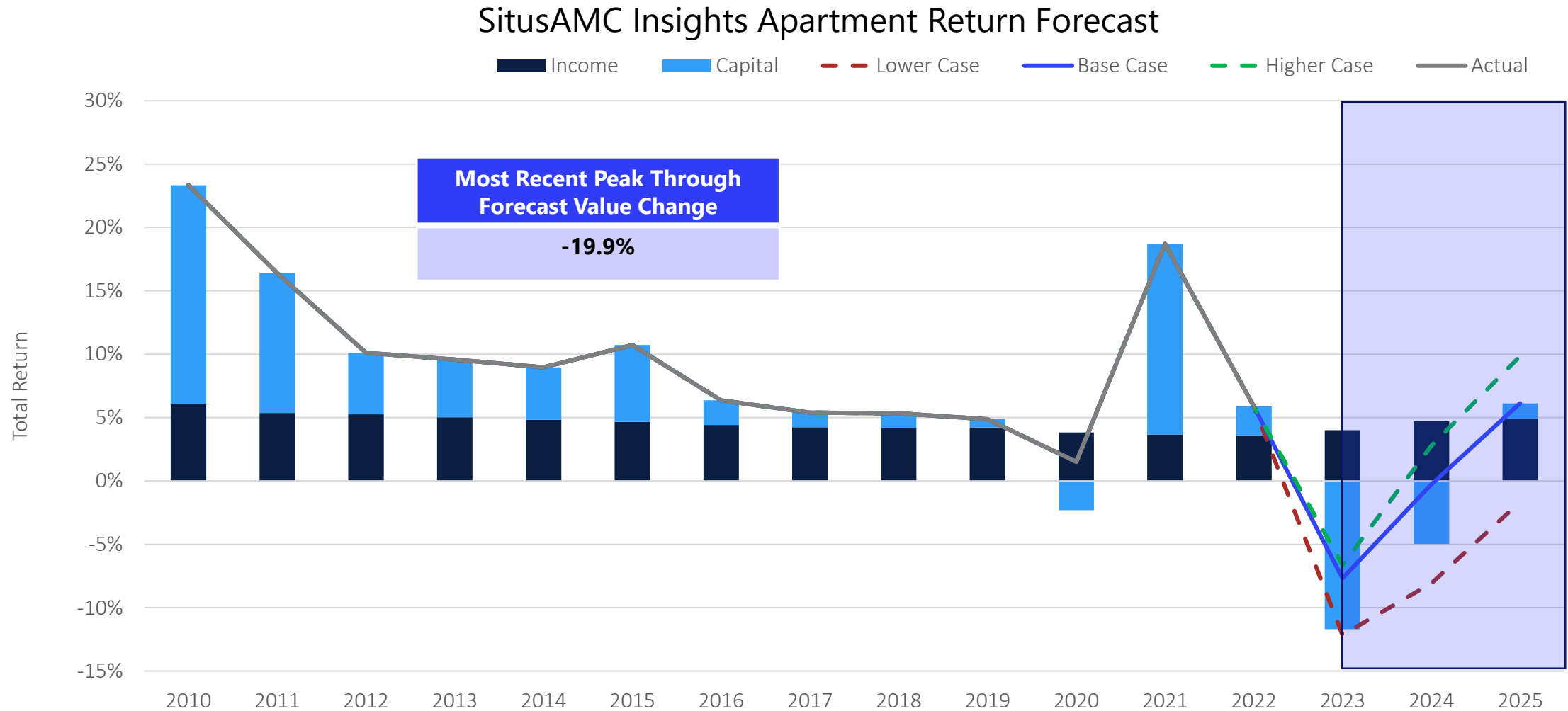
Investment Recommendations – Apartment  
2Q 2023



■ Buy ■ Sell ■ Hold

Sources: RERC, SitusAMC Insights, 2Q 2023.

# Apartment Returns Expected to Turn Positive in 2024 Under Base Case Scenario



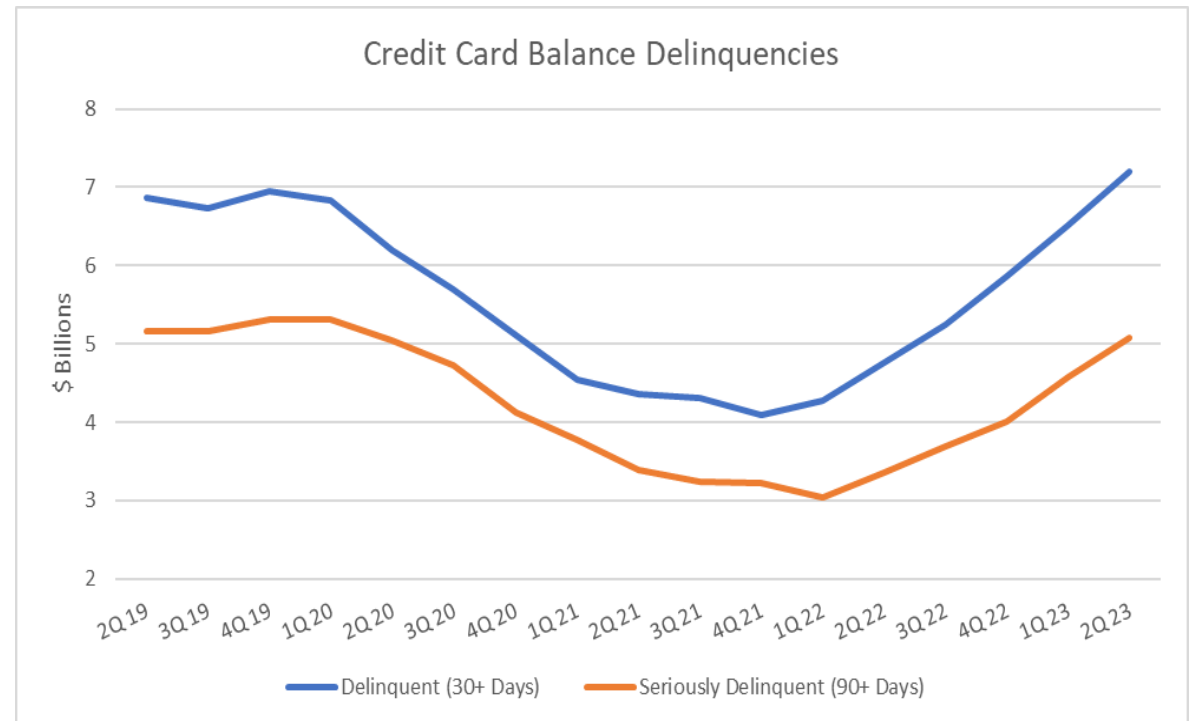
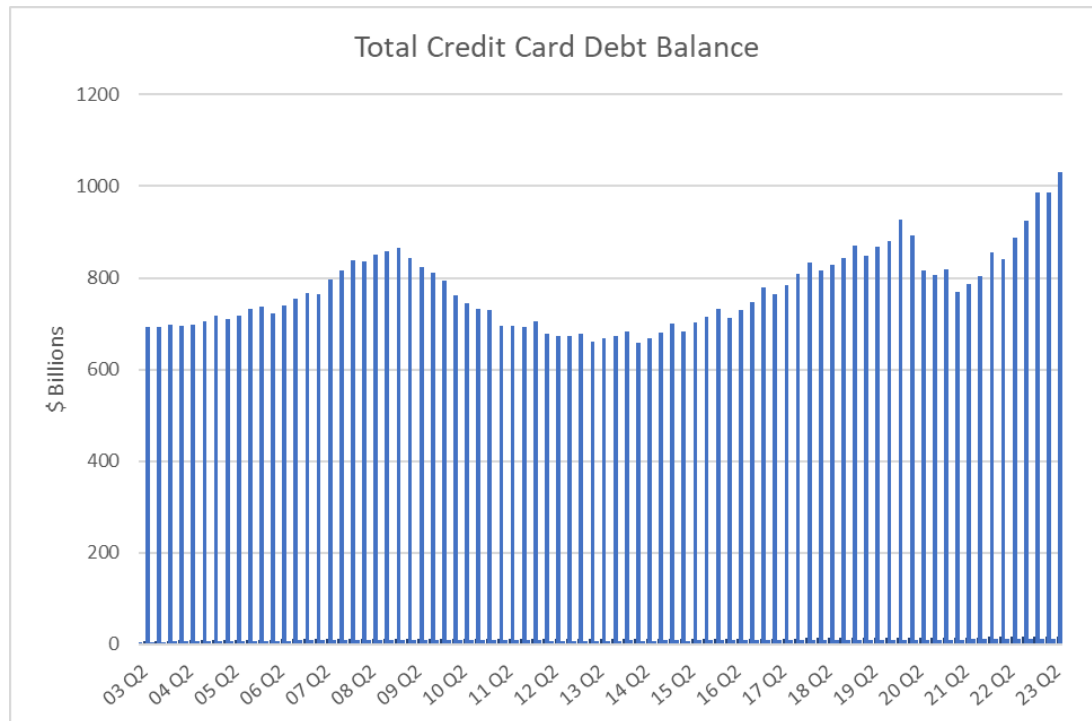
The total return forecast is SitusAMC's proprietary model based on SitusAMC data and data from NPI-ODCE, and is for unleveraged, institutional-grade properties. Total returns are derived from an income component and a capital appreciation/depreciation component. Shading represents the forecast.  
Sources: NCREIF NPI, SitusAMC Insights, 2Q 2023.

## 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.

# Concern Rising Over Stress on Consumer Finances: Credit Card Debt Reaches Record High and Delinquencies on the Rise

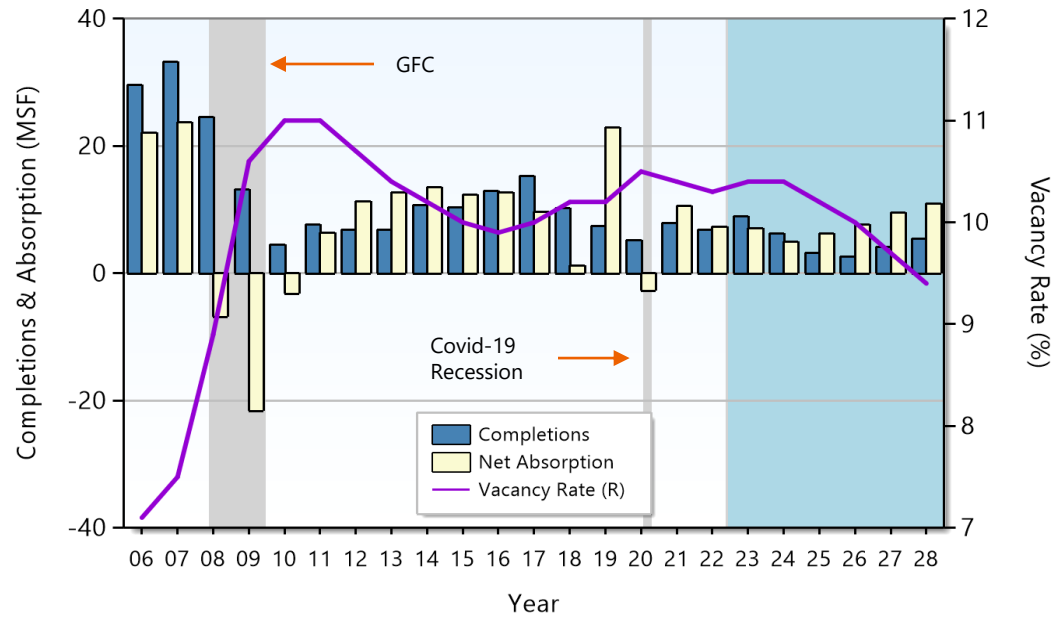
- Credit card balances were up 16% YoY in 2Q 2023 to \$1.03 trillion in 2Q 2023.
- Credit card delinquencies rose 51% (30+ days) and serious credit card delinquencies rose 52% (90+ days) YoY.
- Beneficiaries of the student loan payment moratorium significantly increased borrowing on credit cards, mortgages and loans. Payments resume in October.
  - Over 43 million paused student loan payments; 1 in 5 may be facing payments of \$500 or more per month.



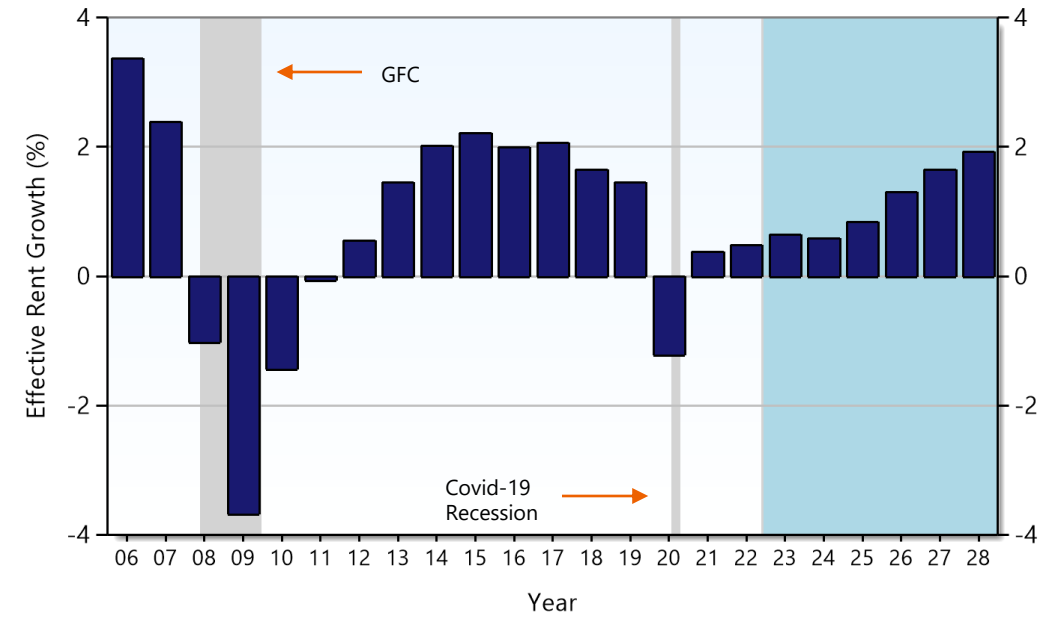
# Retail Rent Growth Expected to Rise Toward End of Forecast Period as Vacancies Edge Down

## SitusAMC Insights Retail Fundamentals Forecasts – 2Q 2023

### Supply/Demand



### Effective Rent Growth

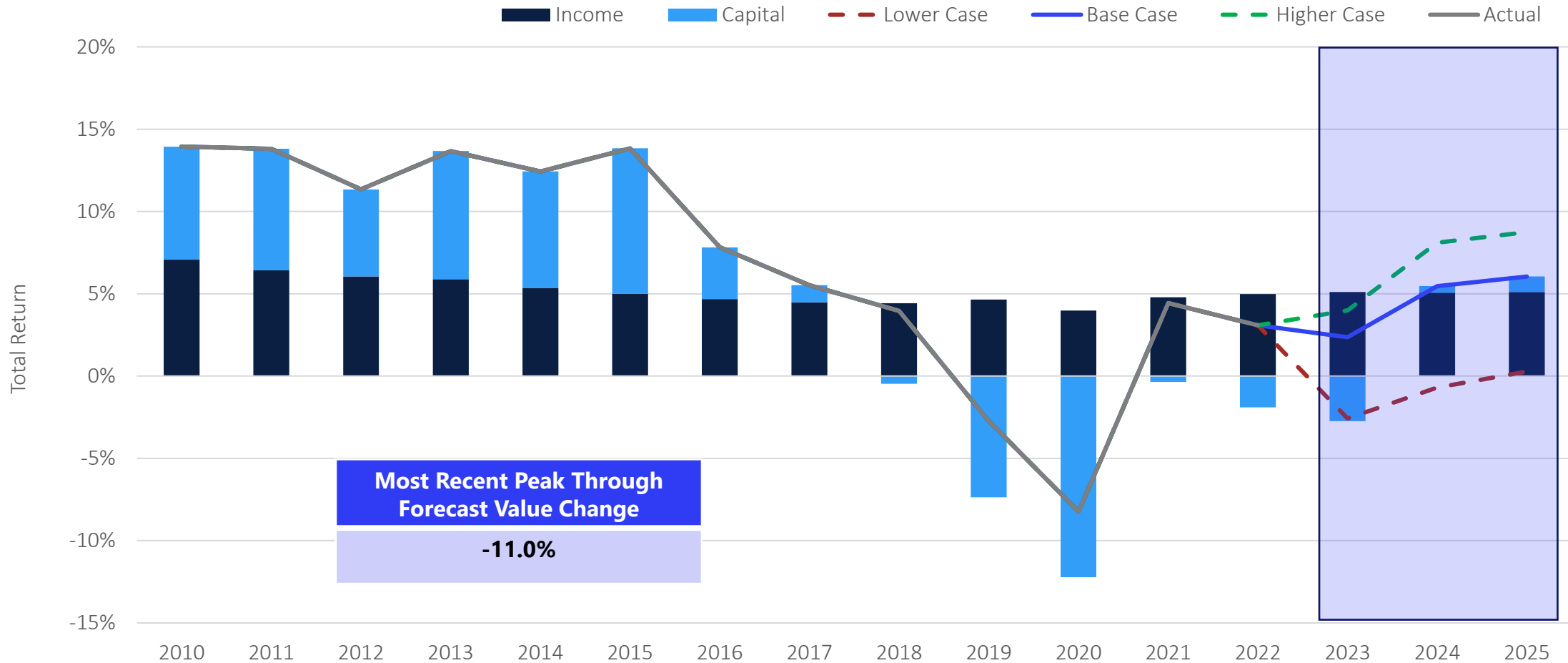


Gray shading represents a recession. Blue shading represents the forecast.  
Sources: Reis, NBER, SitusAMC Insights Forecasts, 2Q 2023.



# Retail Returns Expected to Reach 7-Year High in 2024

## SitusAMC Insights Retail Return Forecast

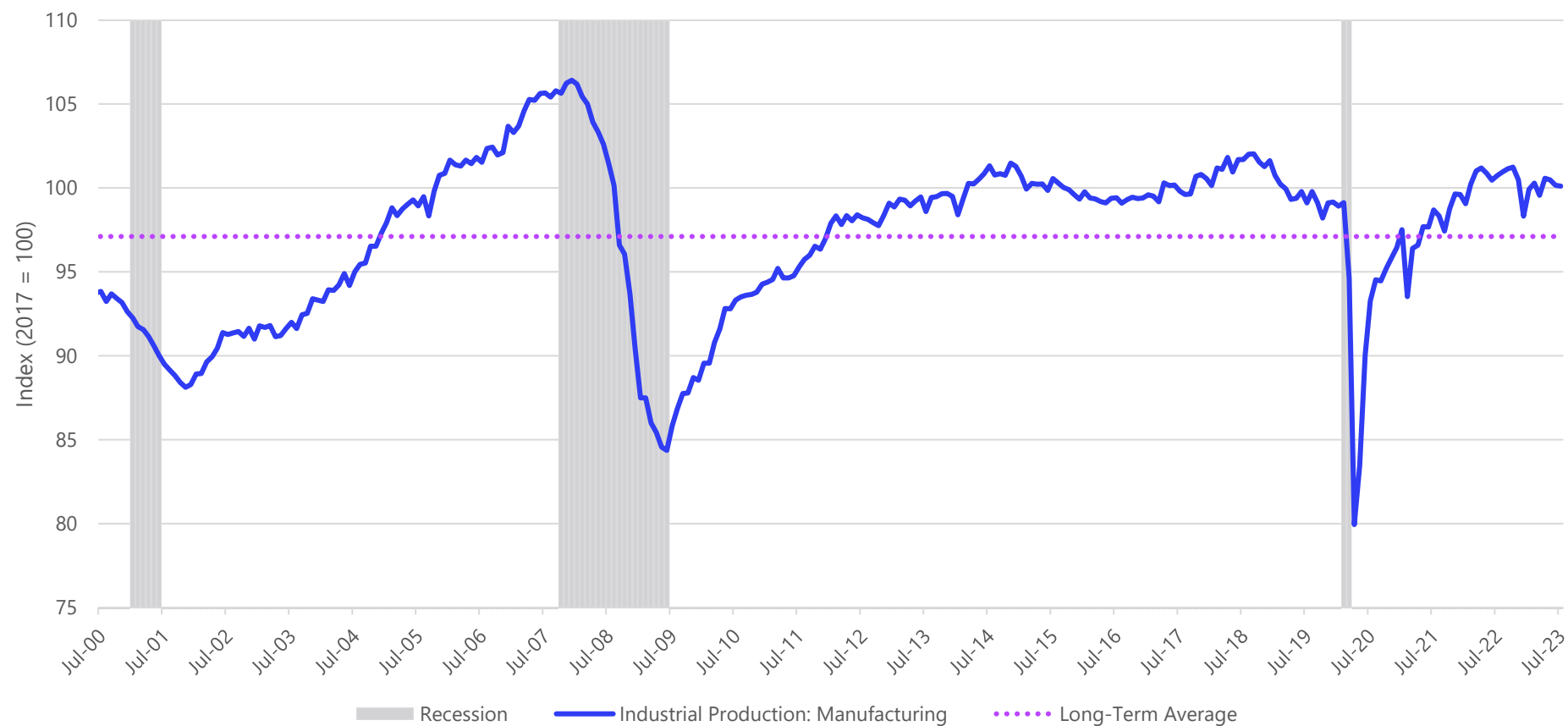


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## 2.4 Industrial

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# Industrial Manufacturing Production Remains Strong

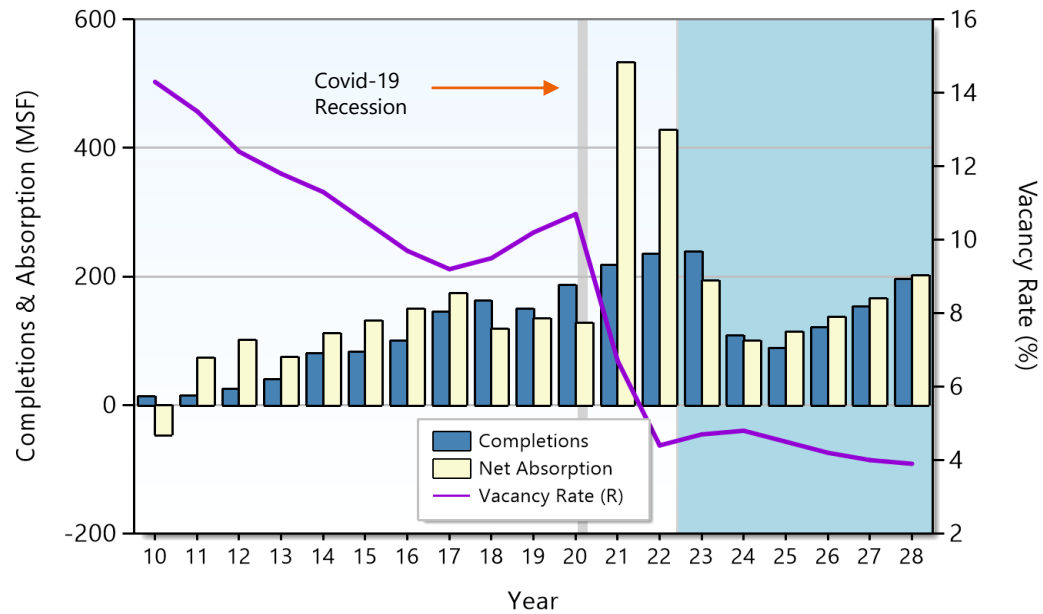


Note: Shaded areas represent a recession.  
Sources: Federal Reserve, SitusAMC Insights, July 2023.

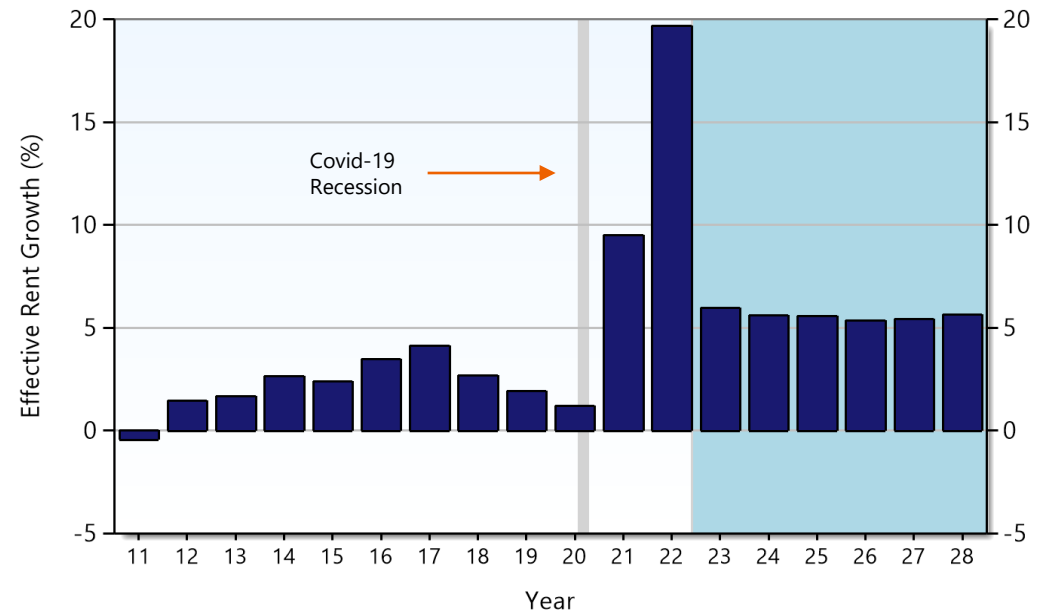
# Industrial Vacancies to Remain Near Record Lows, Rent Growth to Moderate But Remain Strong

## SitusAMC Insights Industrial Fundamentals Forecasts – 2Q 2023

### Supply/Demand

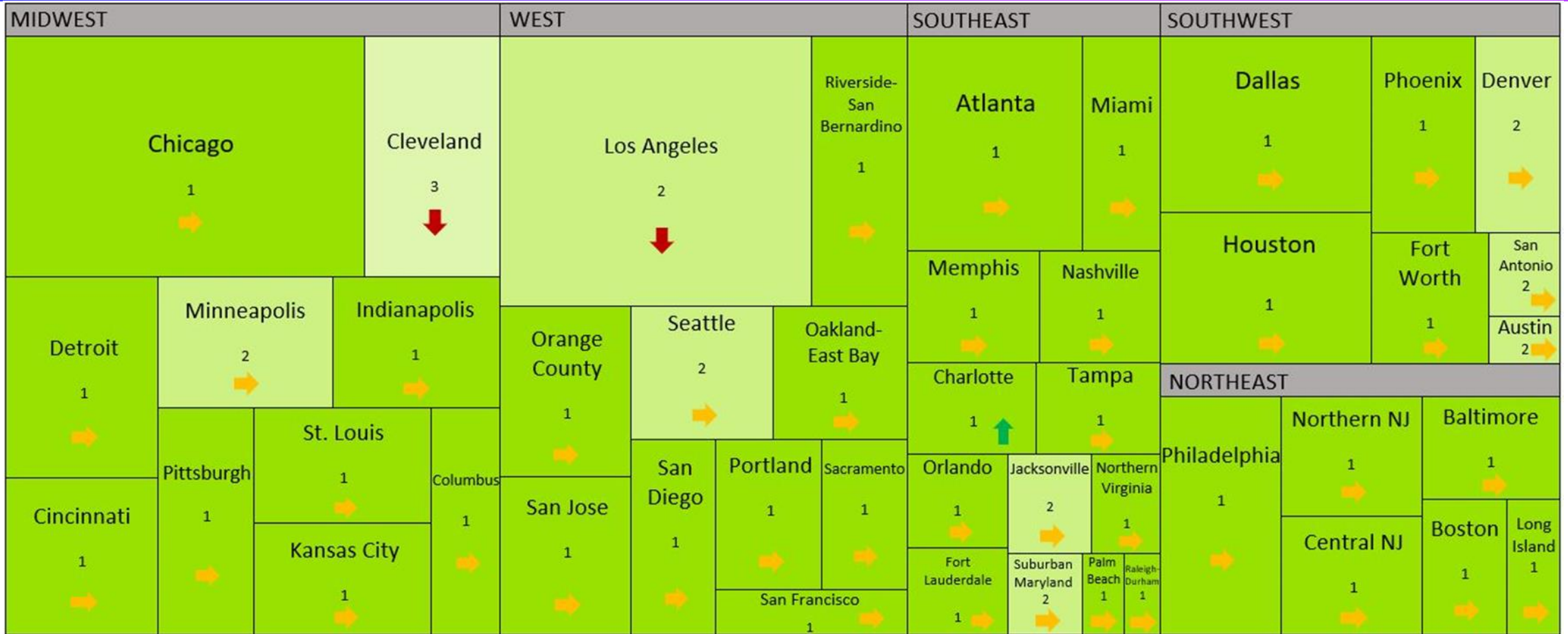


### Effective Rent Growth



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Sources: Reis, NBER, SitusAMC Insights Forecasts, 2Q 2023.

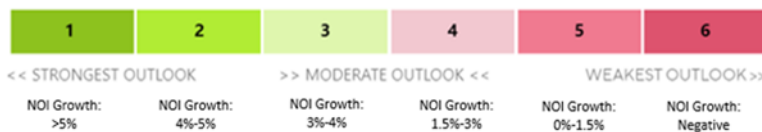
# SitusAMC Insights 2Q 2023 Industrial NOI Heat Map Shows Industrial Is Still Strong



- The average industrial rating slightly decelerated to 1.21 from 1.20.
- One market improved in second quarter (Charlotte) and two were downgraded.
- 43 markets were stagnant, but most markets were already at a 1 or a 2.
- Best NOI outlook among the property types.

### NUMERICAL RANKINGS & COLORS

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



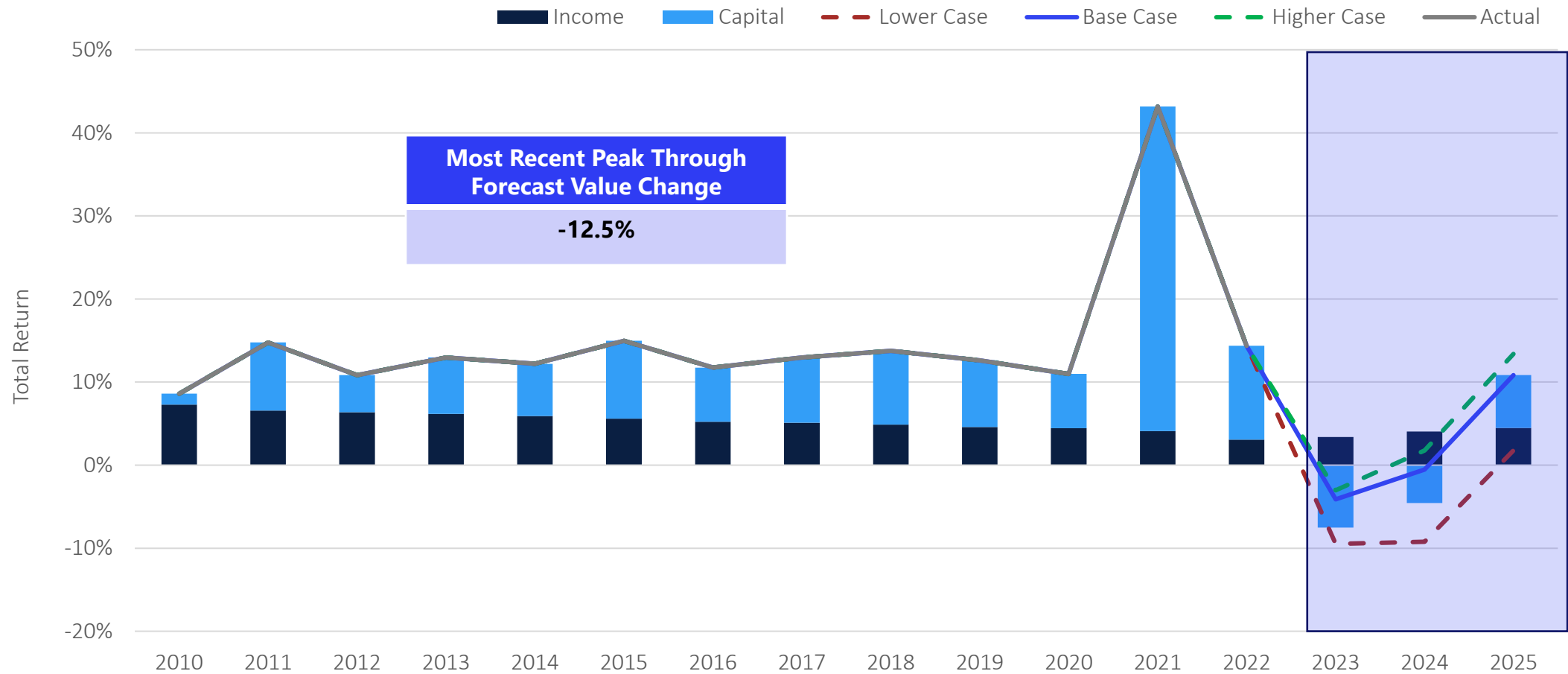
### ARROWS

- ▲ 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.

# Industrial Returns Expected to Top 10% by 2025 – Above Post-GFC Average

## SitusAMC Insights Industrial Return Forecast



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. Shading represents the forecast. Sources SitusAMC, NPI-ODCE, 2Q 2023.

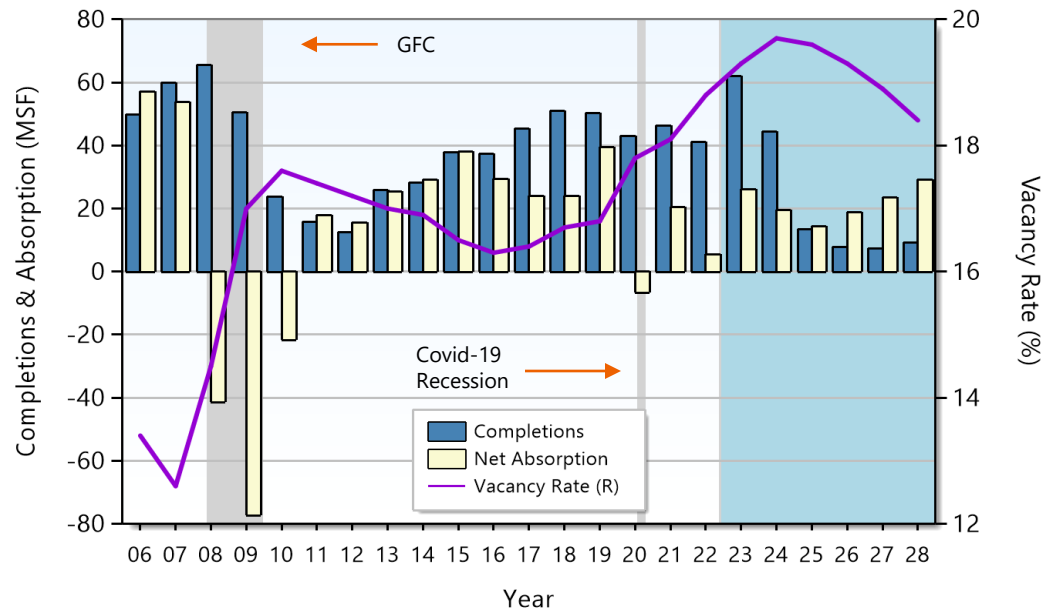
## 2.5 Office

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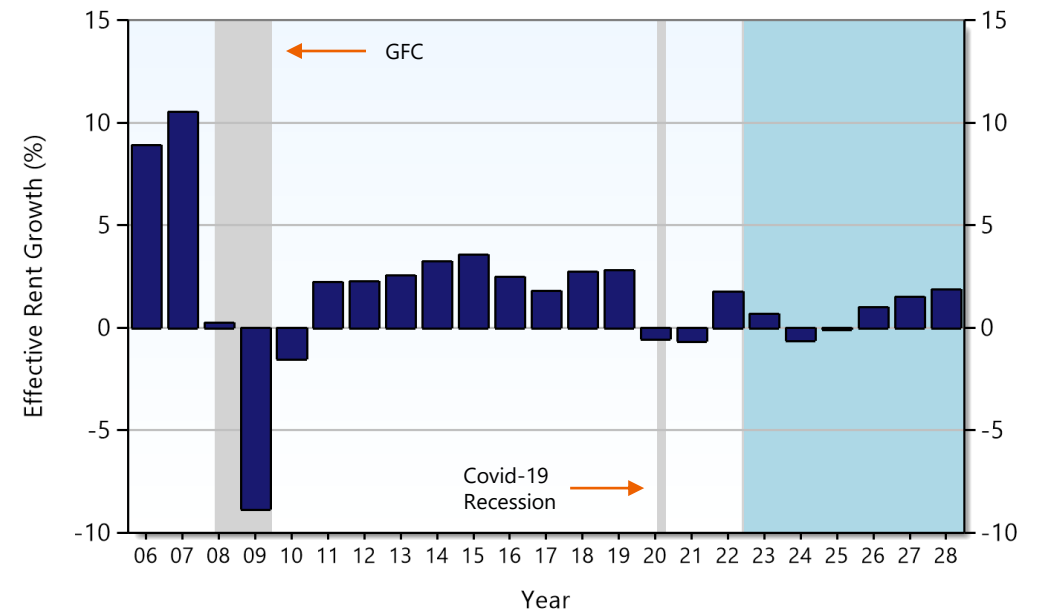
# Office Oversupply and Weak Demand Will Likely Lead to Rent Declines Over Next Few Years

## SitusAMC Insights Office Fundamentals Forecasts – 2Q 2023

### Supply/Demand



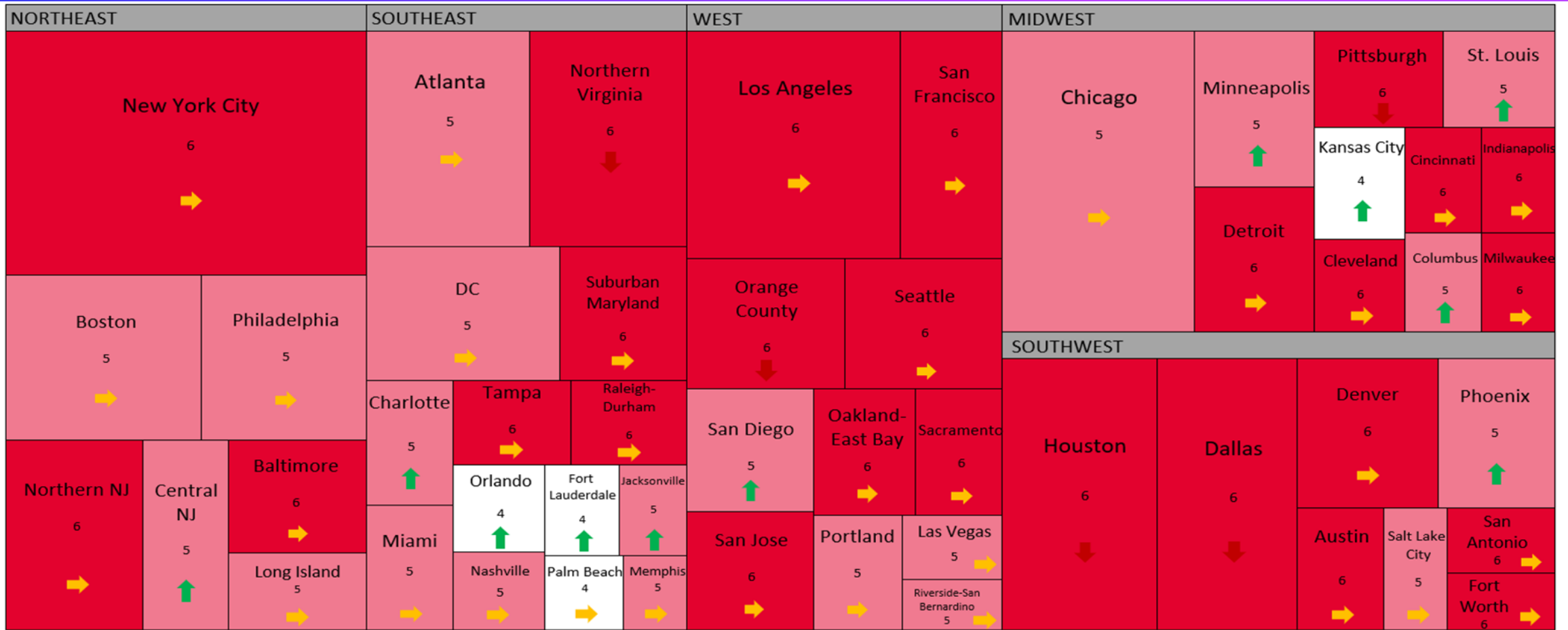
### Effective Rent Growth



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Sources: Reis, NBER, SitusAMC Insights Forecasts, 2Q 2023.



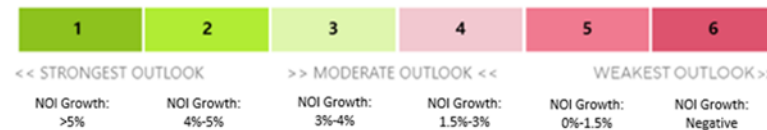
# SitusAMC Insights 2Q 2023 Office NOI Heat Map: Bloodbath Continues



- The average office score improved slightly from 5.57 to 5.43, but still exceptionally weak.
- 5 downgrades and 11 upgrades.
- Orlando, Fort Lauderdale and Kansas City are highest at a 4.
- No region looks particularly good.

## NUMERICAL RANKINGS & COLORS

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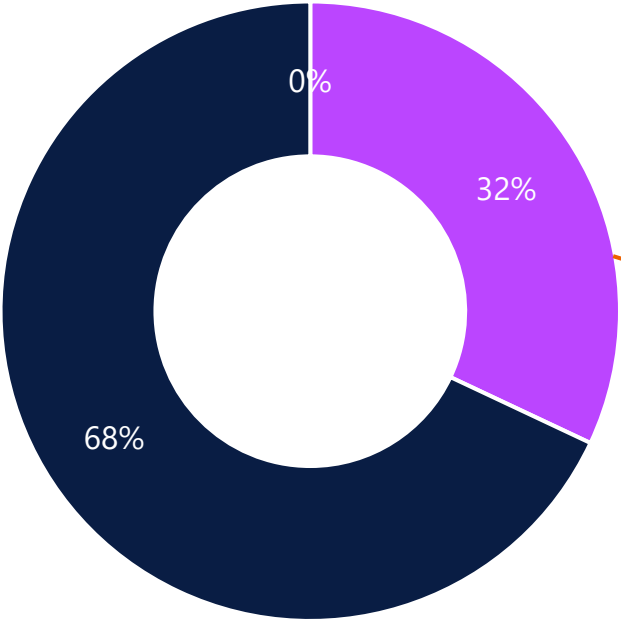
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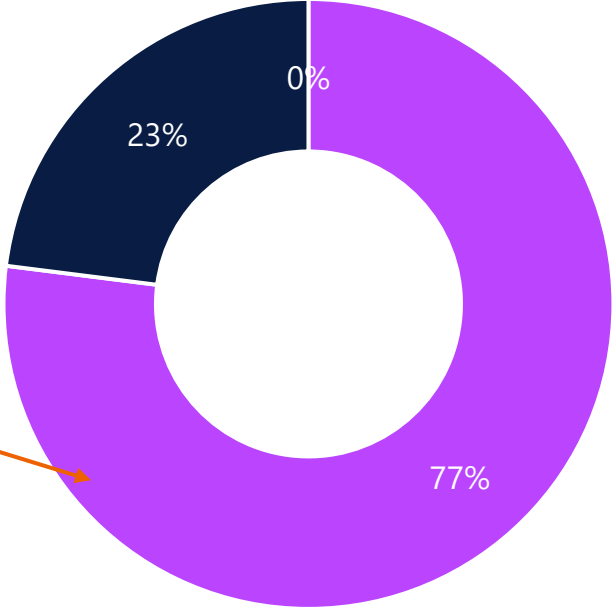
# Investors Sour on Office

Investment Recommendations – Office  
2Q 2022



■ Buy ■ Sell ■ Hold

Investment Recommendations –Office  
2Q 2023

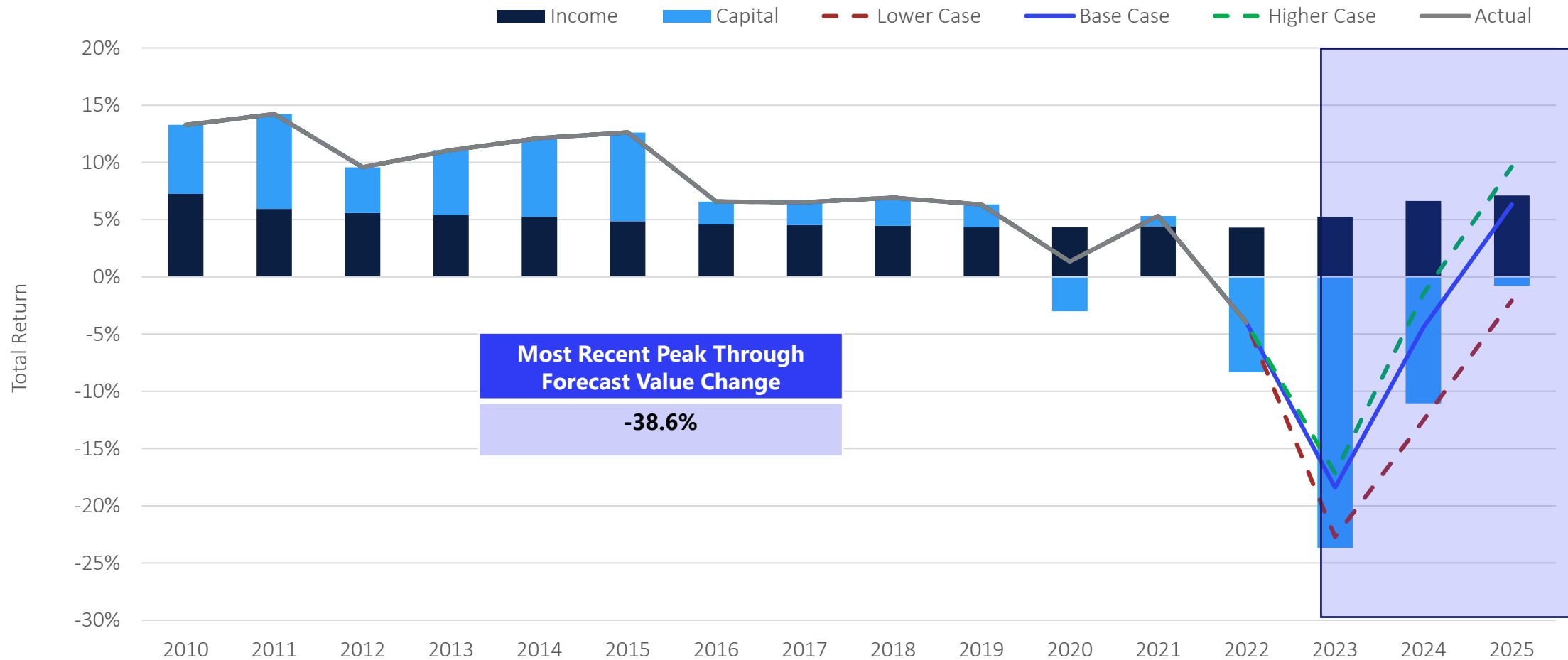


■ Buy ■ Sell ■ Hold

Sources: RERC, SitusAMC Insights, 2Q 2023.

# Office Returns Expected to Turn Positive in 2025

## SitusAMC Insights Office Return Forecast



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**Thank You**

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# Contact Us



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