

ValTrends
4Q 2022 Webinar

March 14, 2023
2:00pm EST

Holding Pattern



**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 - 14

2.1

Office - 15

2.2

Apartment - 19

2.3

Retail - 24

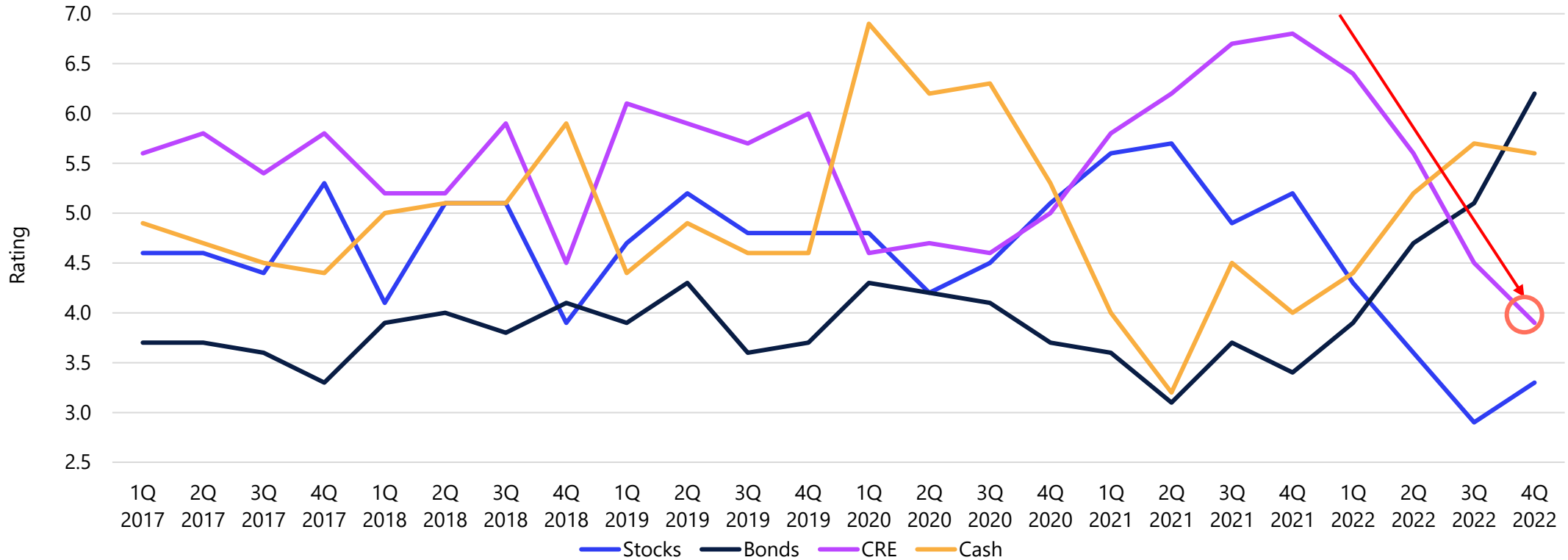
2.4

Industrial - 28



1.0 Capital Markets Overview

Preference for CRE Continues to Drop; Amid Rising Interest Rates, Investors Turn to Bonds

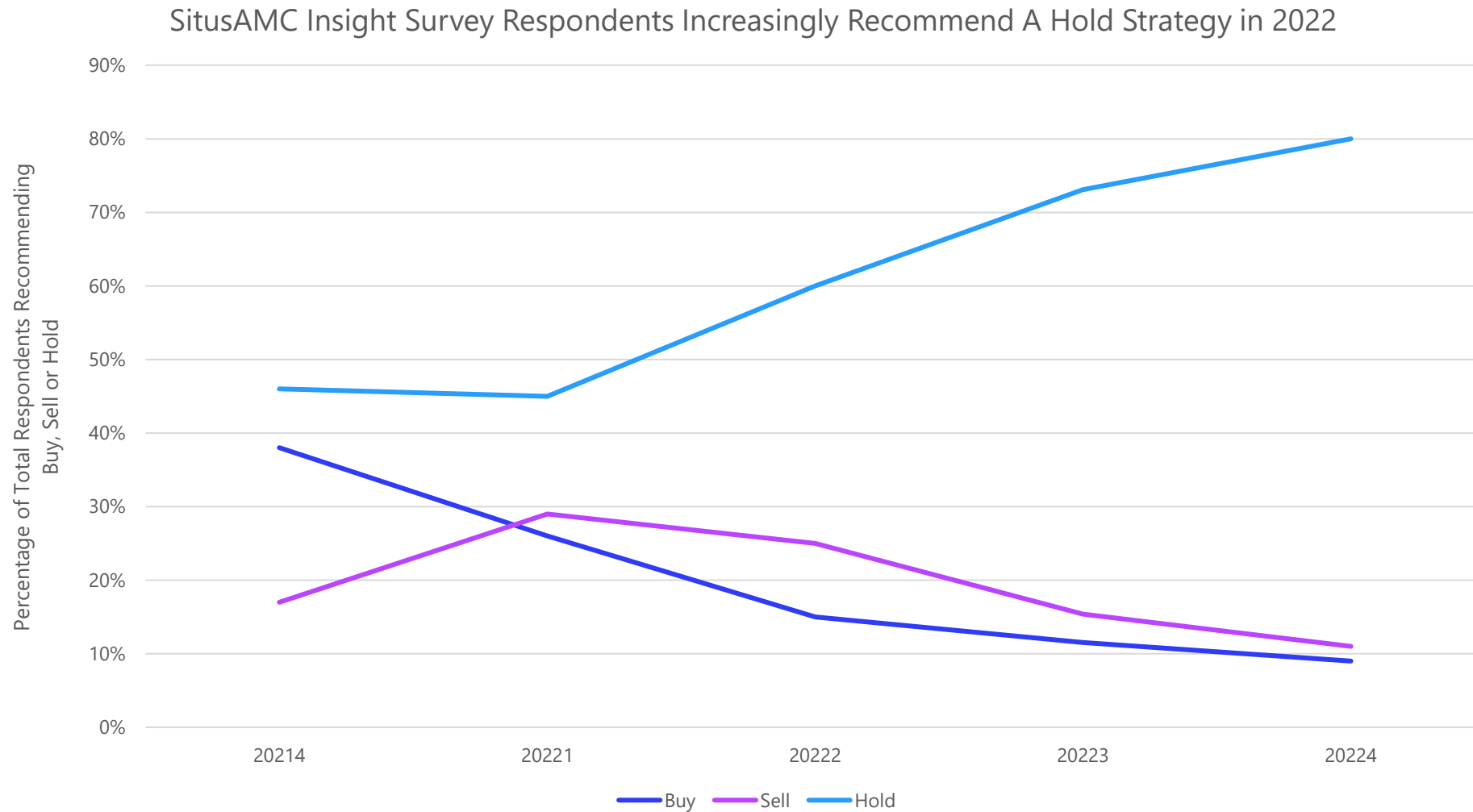


Note: Ratings are based on scale of 1 to 10 with 10 being excellent.
Sources: RERC, SitusAMC Insights, 4Q 2022.

Question 1: What is the best CRE investment strategy today?

- Buy
- Sell
- Hold

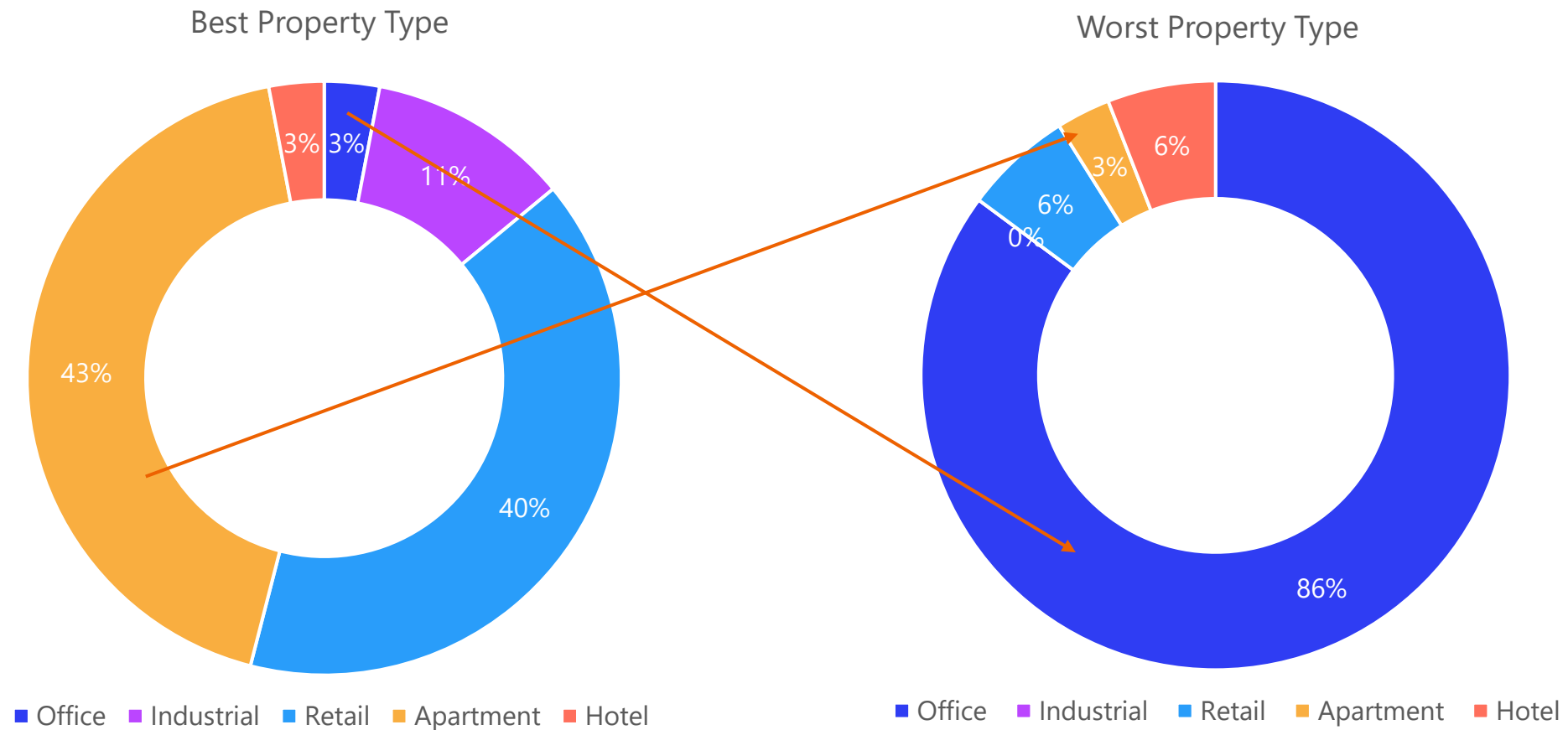
Investors in a Holding Pattern



Sources: RERC, SitusAMC Insights, 4Q 2022.

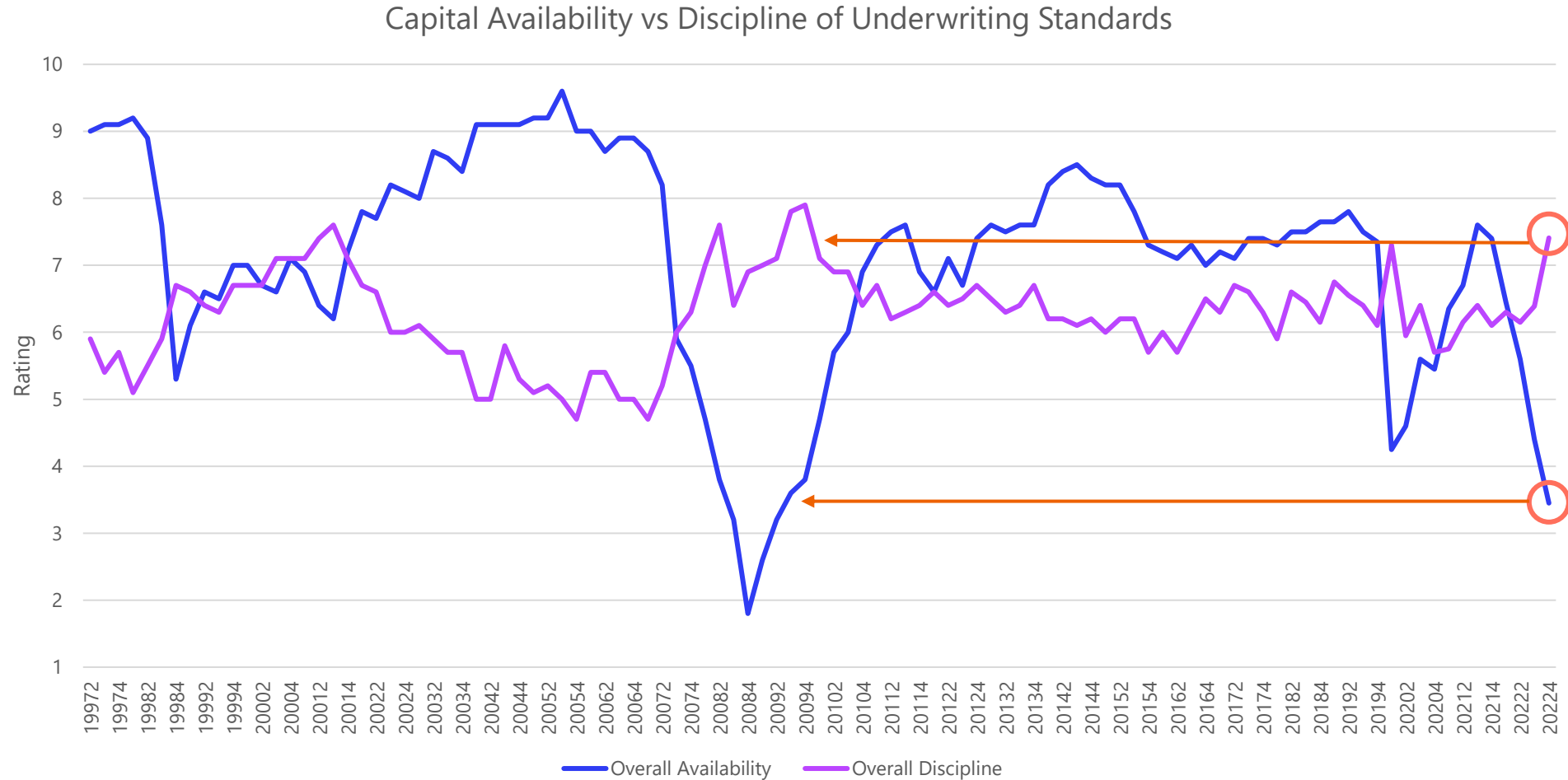
Apartment Barely Beats Retail (!) as the Best Property Type; Investors United on Office as the Worst

- 4Q 2021 Best Property Type
 - Retail: 12%
 - Apartment: 36%



Sources: RERC, SitusAMC Insights, 4Q 2022.

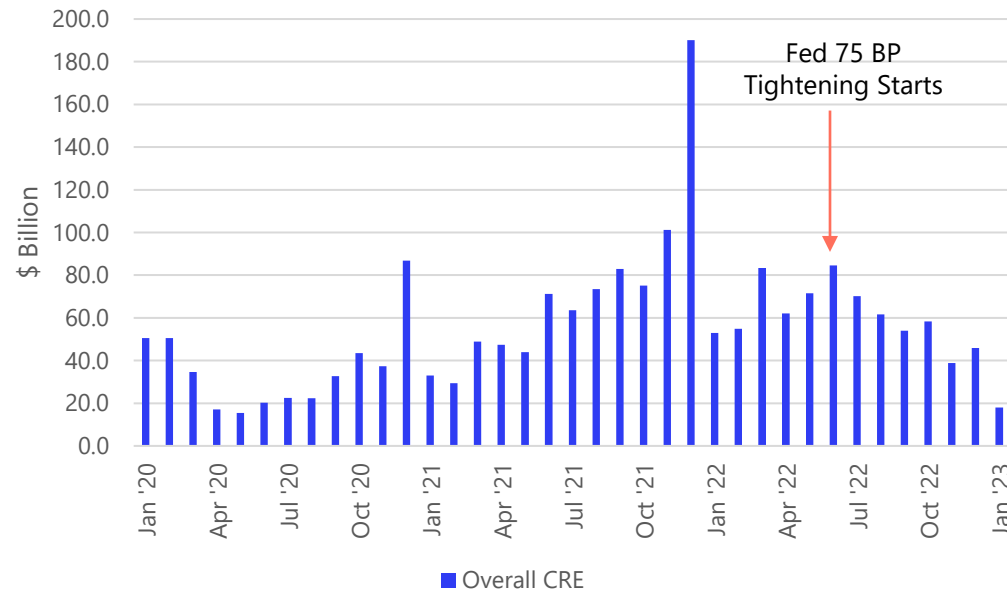
Capital Availability for CRE Lowest and Underwriting Most Restrictive Since GFC



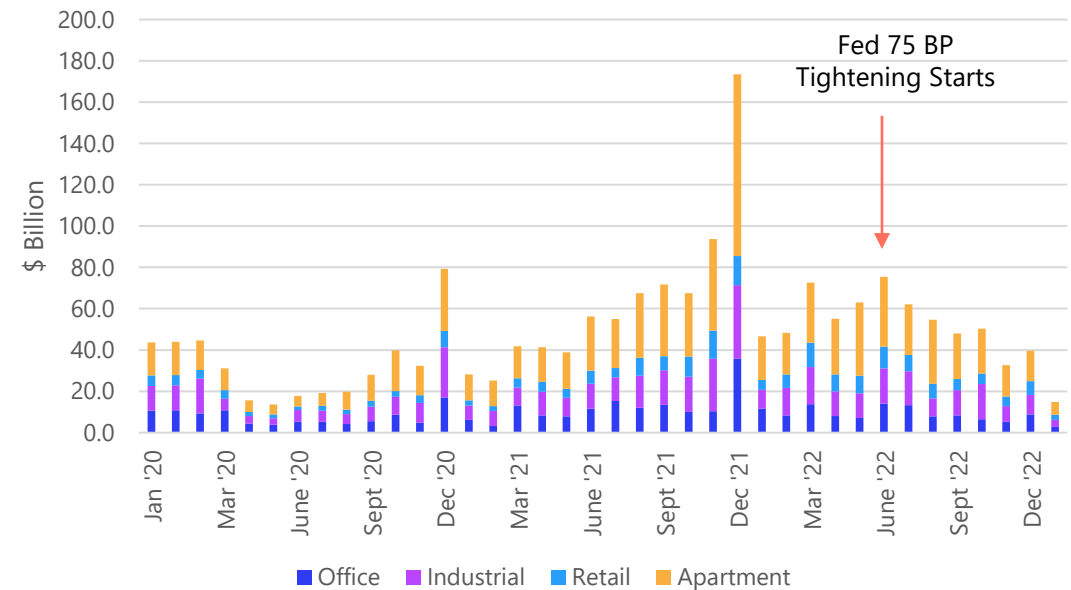
Availability ratings are based on scale of 1 to 10, with 10 being plentiful. Discipline ratings are based on a scale of 1 to 10, with 10 being extremely restrictive.
Sources: RERC, SitusAMC Insights, 4Q 2022.

CRE Transactions Plummet in 2H 2022 and Abysmal at Start of 2023; All Property Types with Lowest Transaction Volume Since GFC

Transaction Volume - Overall CRE



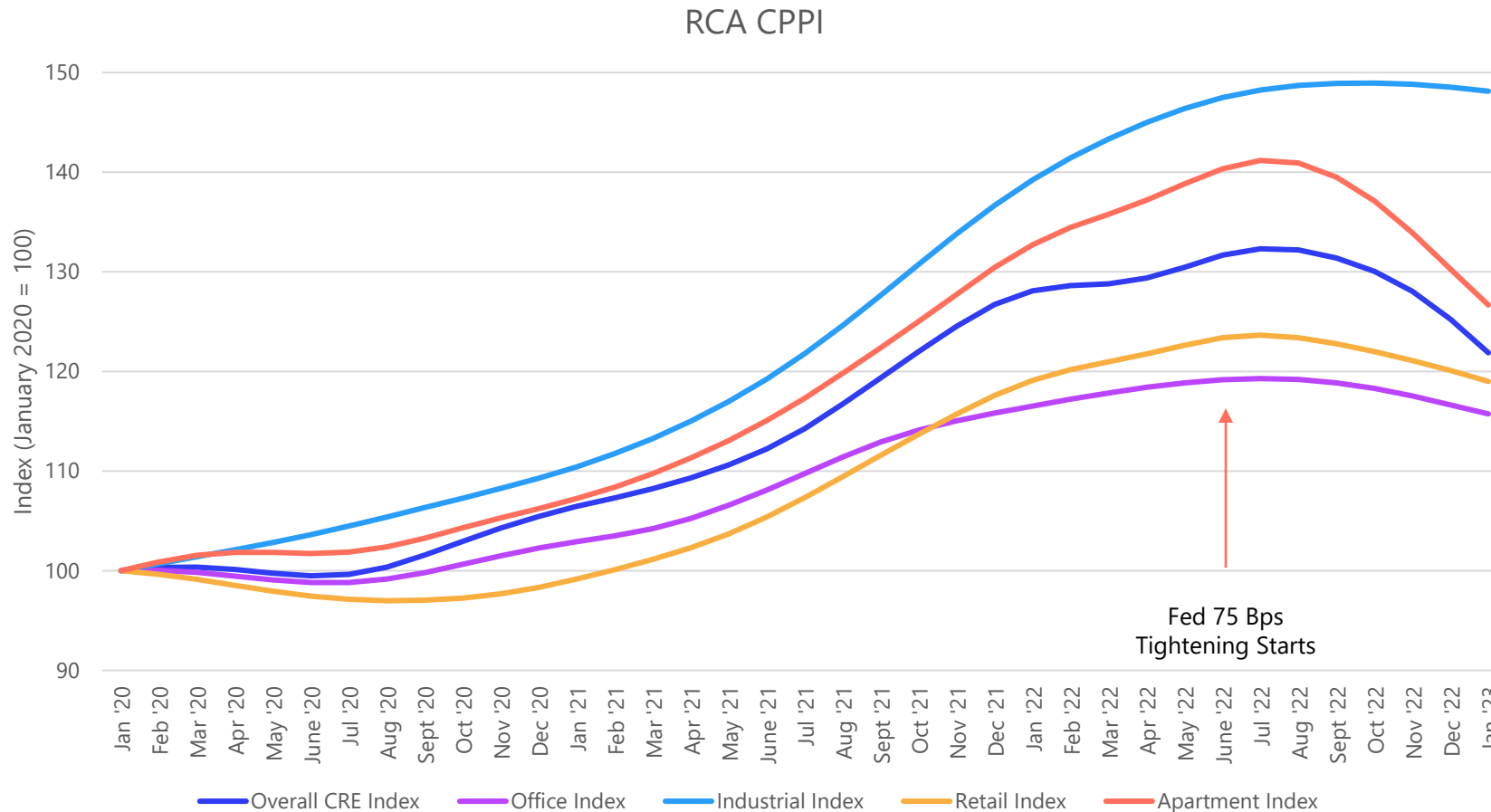
Transaction Volume by Property Type



	Change Since Aggressive Fed Tightening in June 2022	GFC Peak to Trough
Overall CRE	-78.8%	-95.4%
Apartment	-81.7%	-96.4%
Industrial	-80.4%	-95.1%
Office	-80.1%	-98.7%
Retail	-75.8%	-94.3%

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, January 2023.

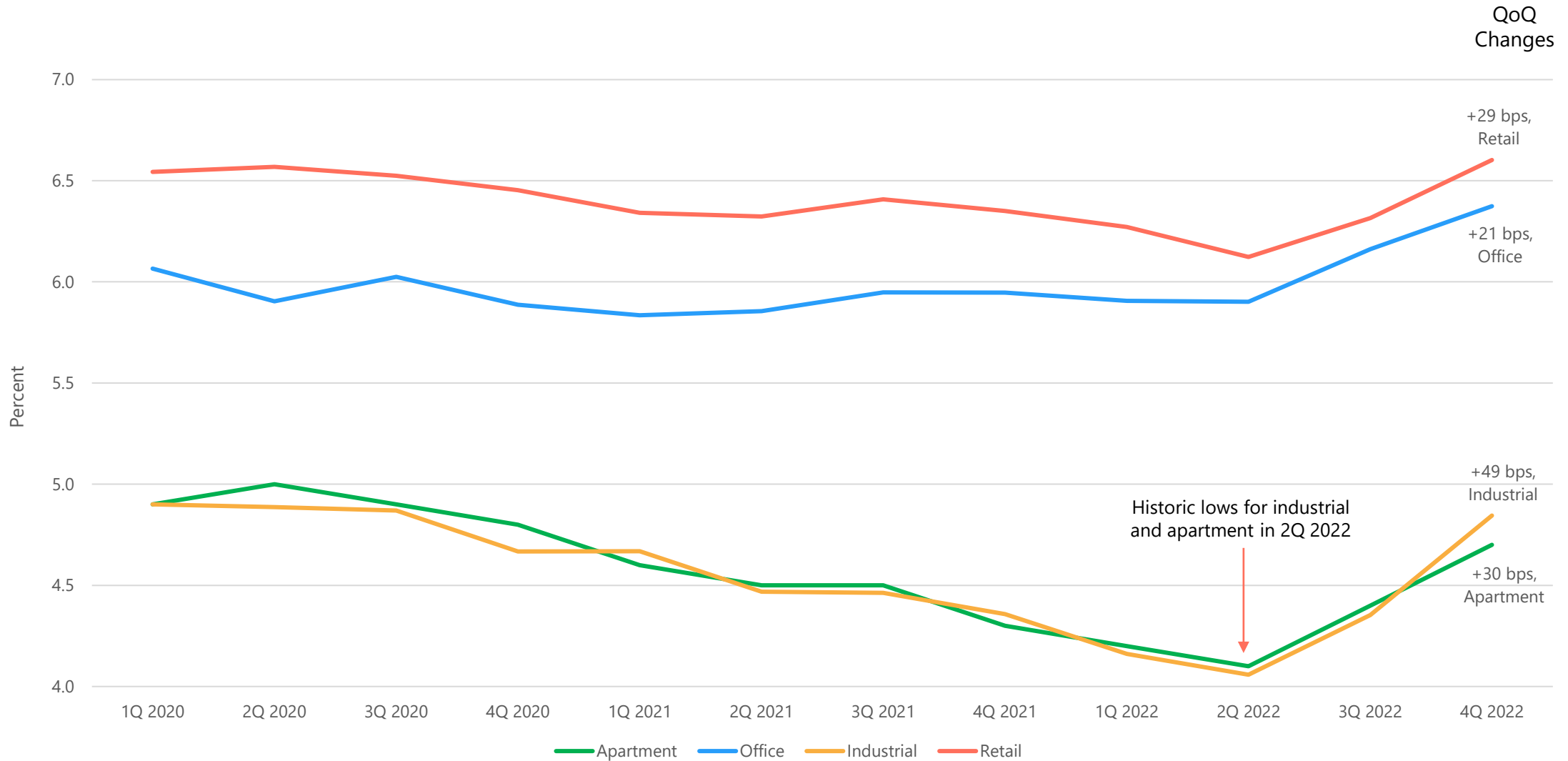
Prices Falling Since Aggressive Fed Tightening in 2022



	Change Since Aggressive Fed Tightening in June 2022
Overall CRE	-7.5%
Industrial	-0.1%
Office	-3.1%
Retail	-3.6%
Apartment	-9.8%

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

Our Data Shows the Dam Has Burst: Cap Rate Expansion Across Major Property Segments



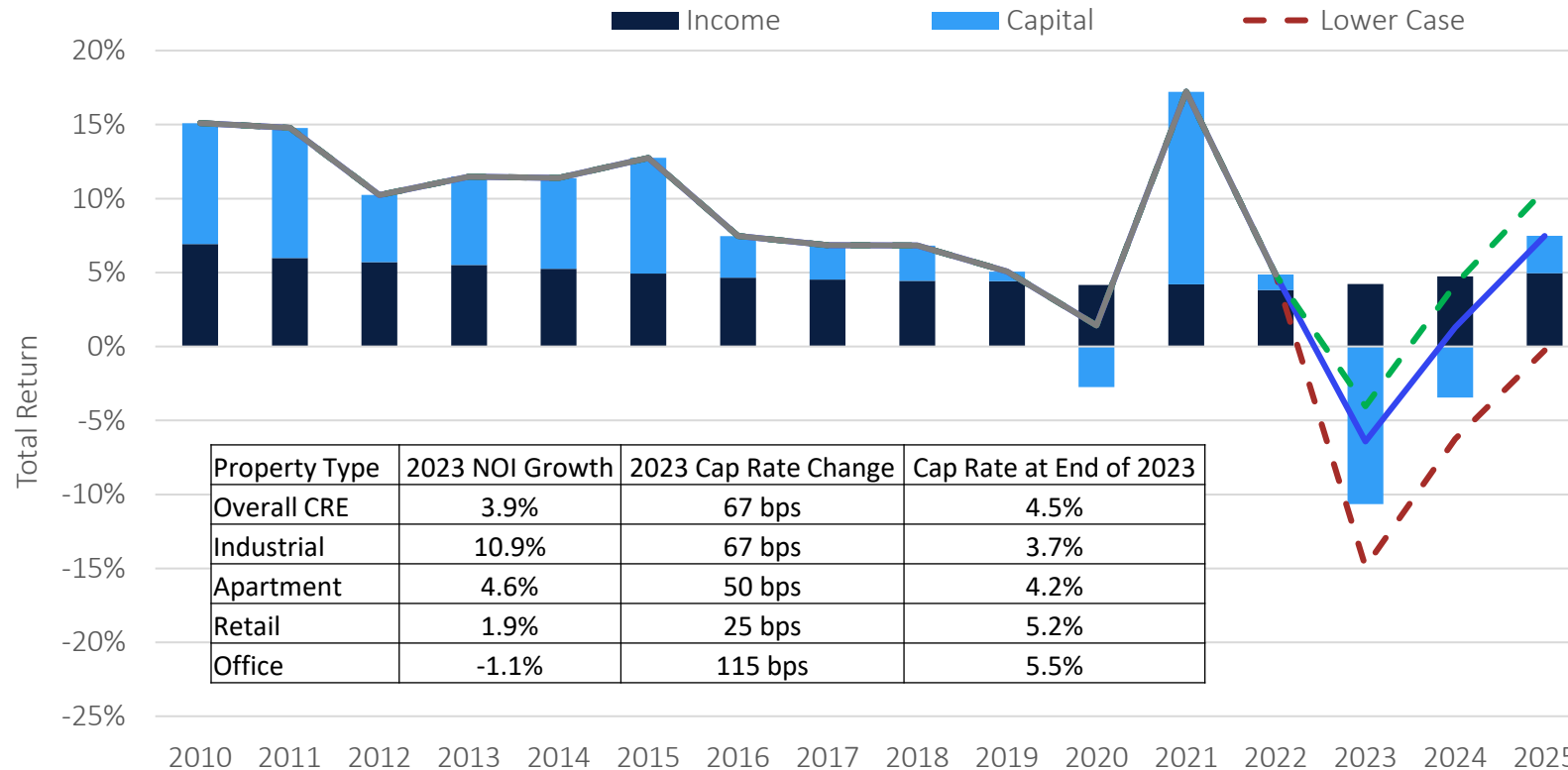
Source RERC, 4Q 2022.

Question 2: Where will capital returns be by year-end?

- Greater than +5%
- 0% to +5%
- -0.1% to -5%
- Less than -5%

CRE Returns Expected to Fall Almost 6.5% in 2023 as NOI Weakens and Cap Rates Expand

SitusAMC Total Return Forecast



Capital Returns by Property Type

	2022 Capital Return (Actual)	2023 Capital Return (Base Case Forecast)
Overall CRE	1.6%	-10.7%
Retail	-2.2%	-2.6%
Apartment	3.3%	-6.9%
Industrial	11.1%	-8.5%
Office	-7.4%	-21.0%

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, 4Q 2022.



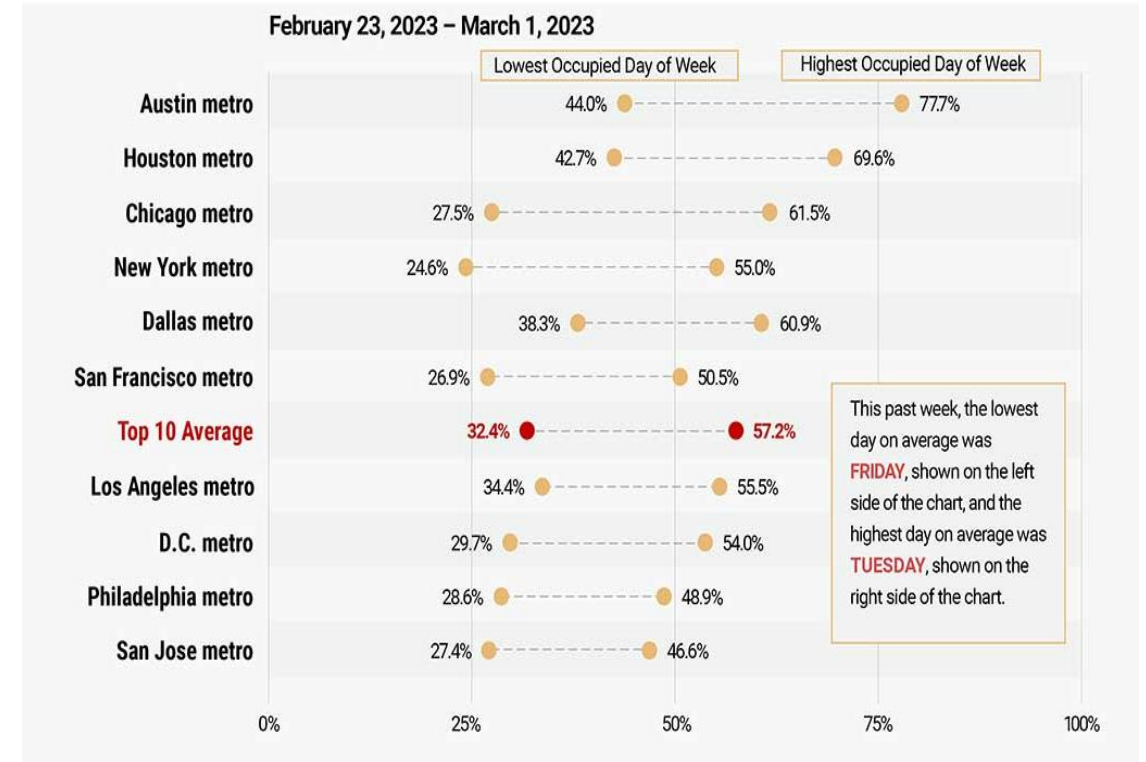
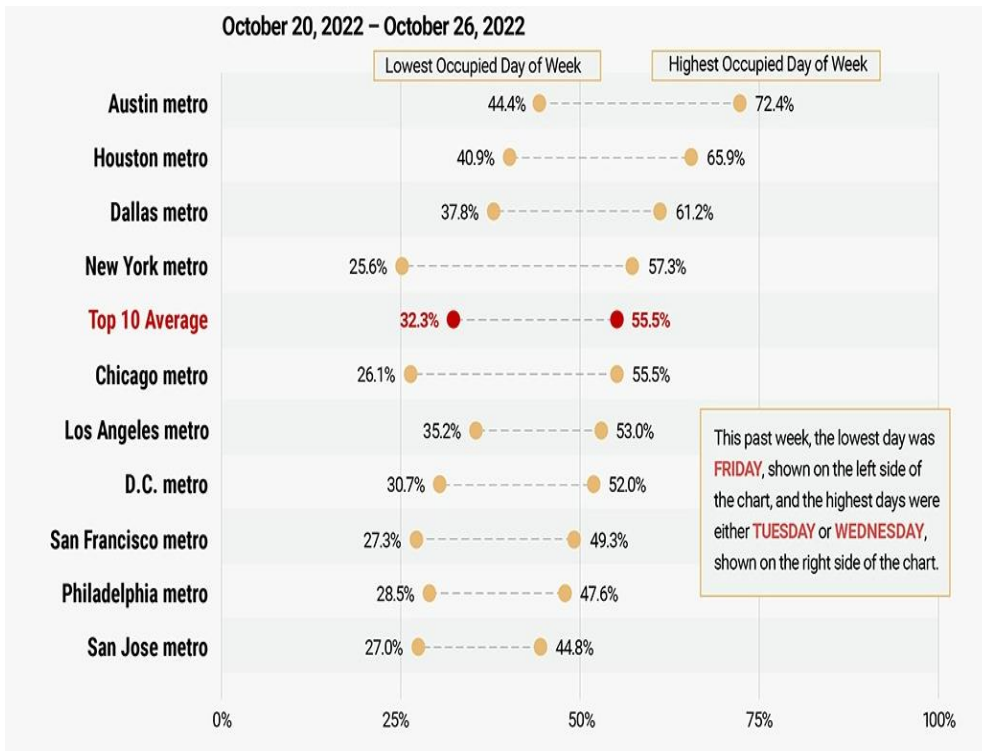
2.0 Space Market Fundamentals

2.1 Office

The background features a gradient from light blue at the top to a darker purple at the bottom. It is decorated with a fine grid of small white dots. Overlaid on this are several sets of thin, parallel, wavy lines in shades of blue and purple, creating a sense of motion and depth.

Overall National Workplace Occupancy Peaked in Late January at 50.4%; Daily Office Occupancy Trends Relatively Unchanged Since Last Quarter

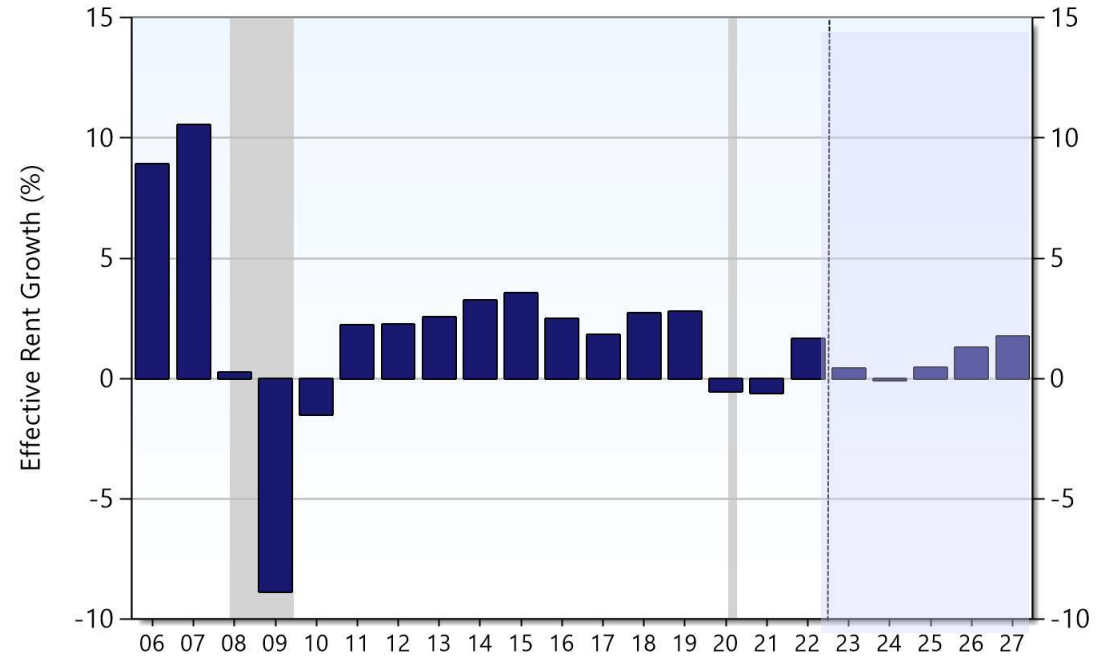
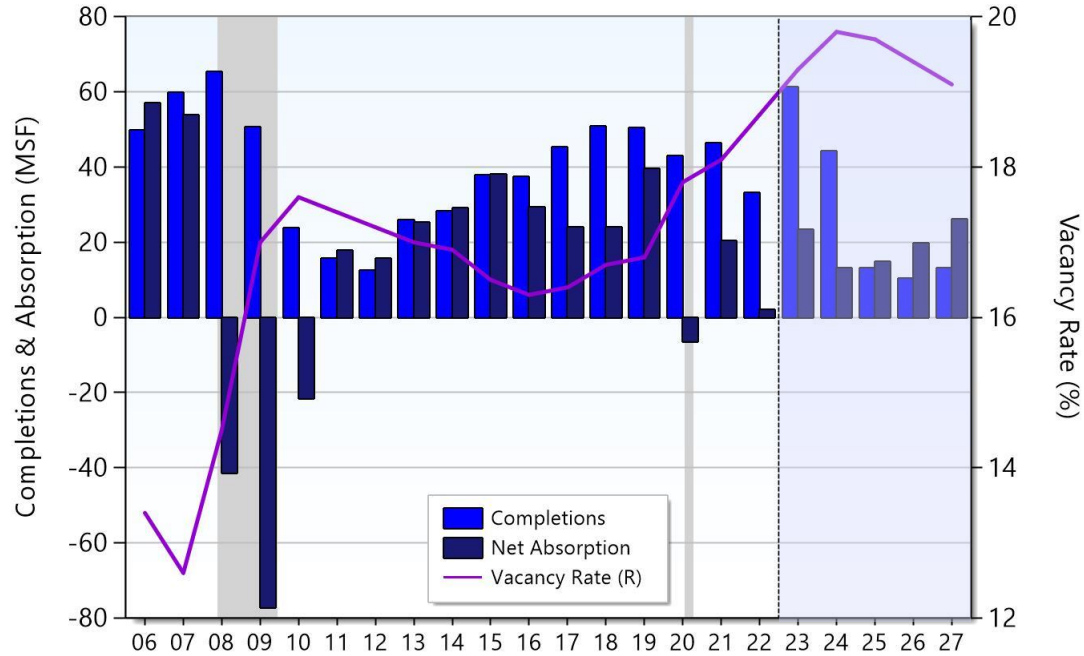
- Daily office usage highest on Tuesday/Wednesday; lowest on Fridays.
- National daily office usage range remained relatively stable between October and February (about 32% to 57% office usage during the week).
- Minimal changes in range for most markets.



Sources: Kastle Systems, SitusAMC Insights, March 2022.

As Tenants Reduce Space, and Development Continues to Add to Inventory, Office Fundamentals Will Remain Weak

SitusAMC Insights Office Fundamentals Forecasts – 4Q 2022



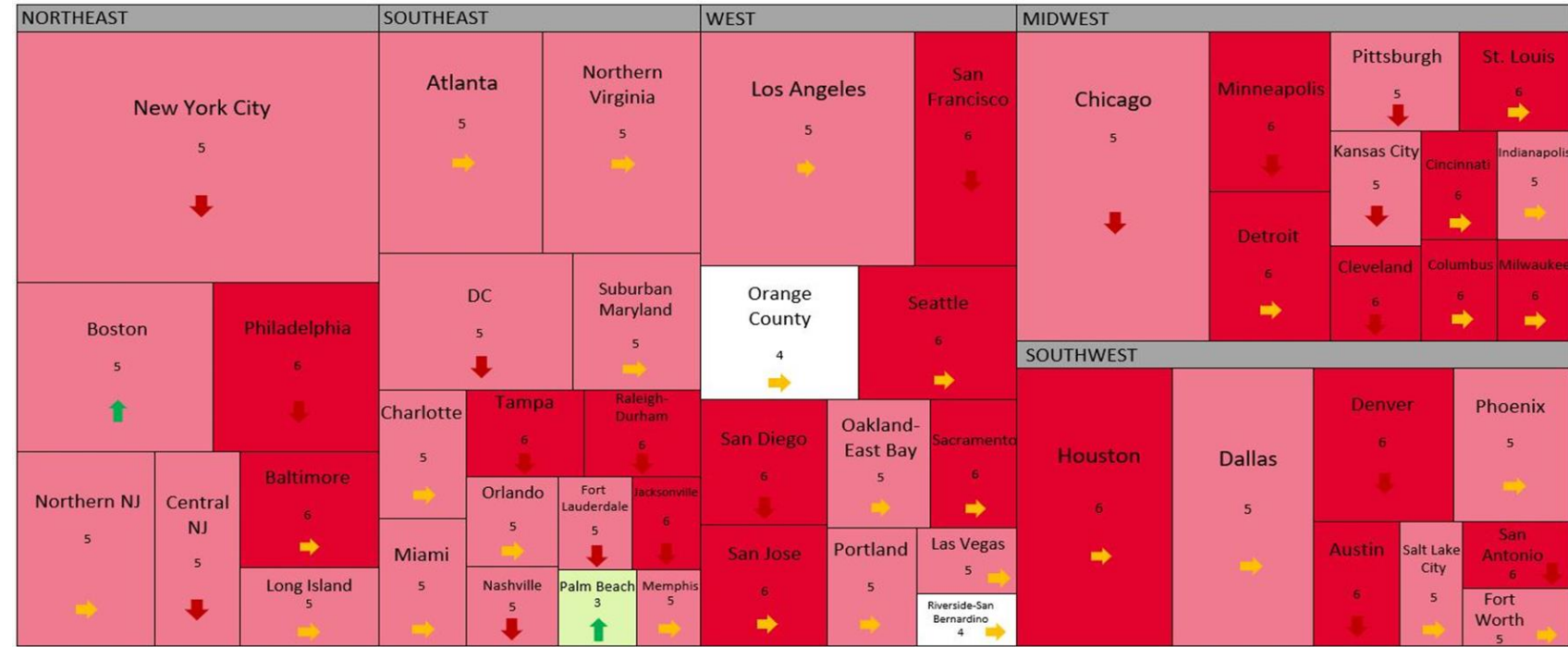
Sources: Reis, NBER, SitusAMC Insights Forecasts, 4Q 2022.

Office NOI Heat Maps

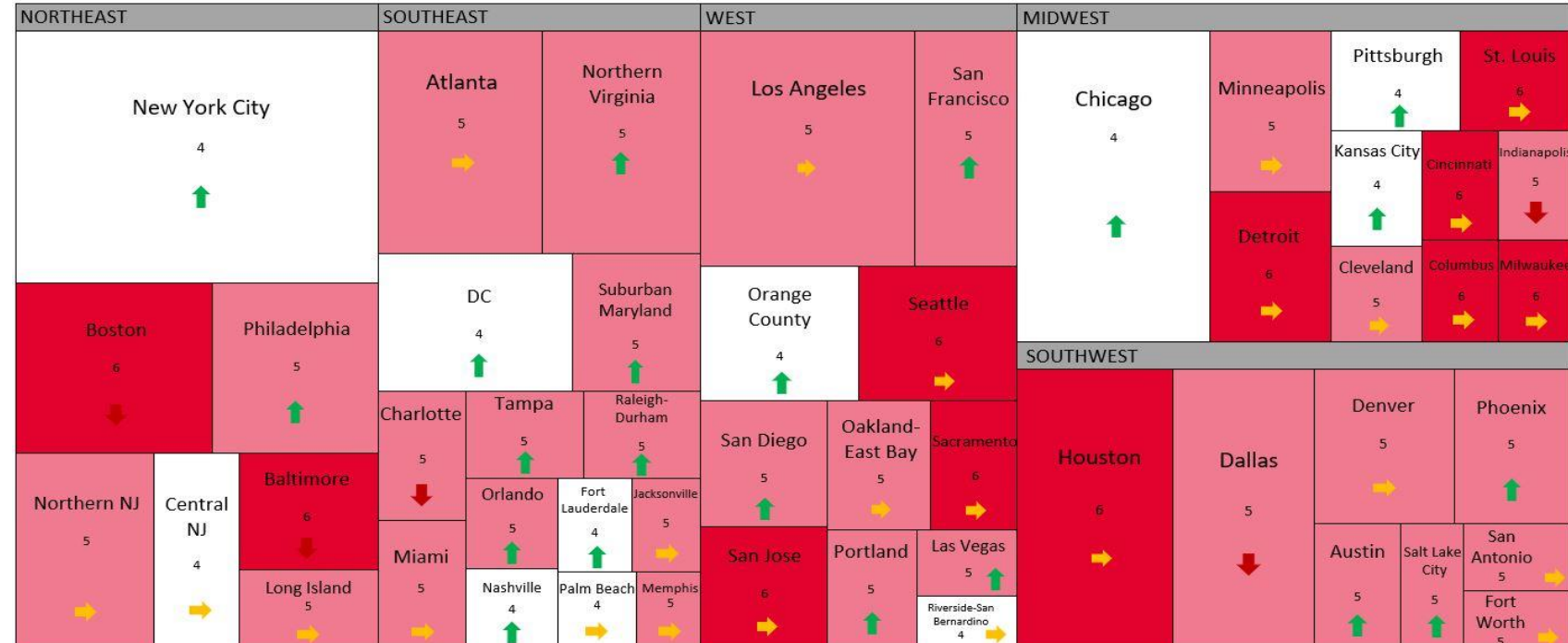
4Q 2022
Baseline:
Baseline scenario reflects an economic slowdown

Seeing Red

- The average office score deteriorated from 5.00 to 5.33.
- 1 upgrade (Palm Beach – new office space for ex-New Yorkers), was overwhelmed by 8 downgrades (all from 4 to 5).
- No region looks particularly good.

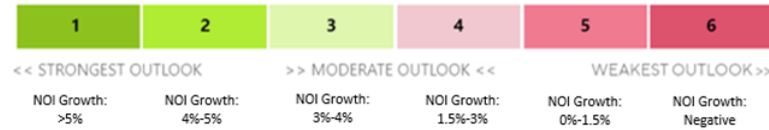


3Q 2022:



NUMERICAL RANKINGS & COLORS

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



ARROWS

- ↑ IMPROVED: 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.
- UNCHANGED
- ↓ DETERIORATED

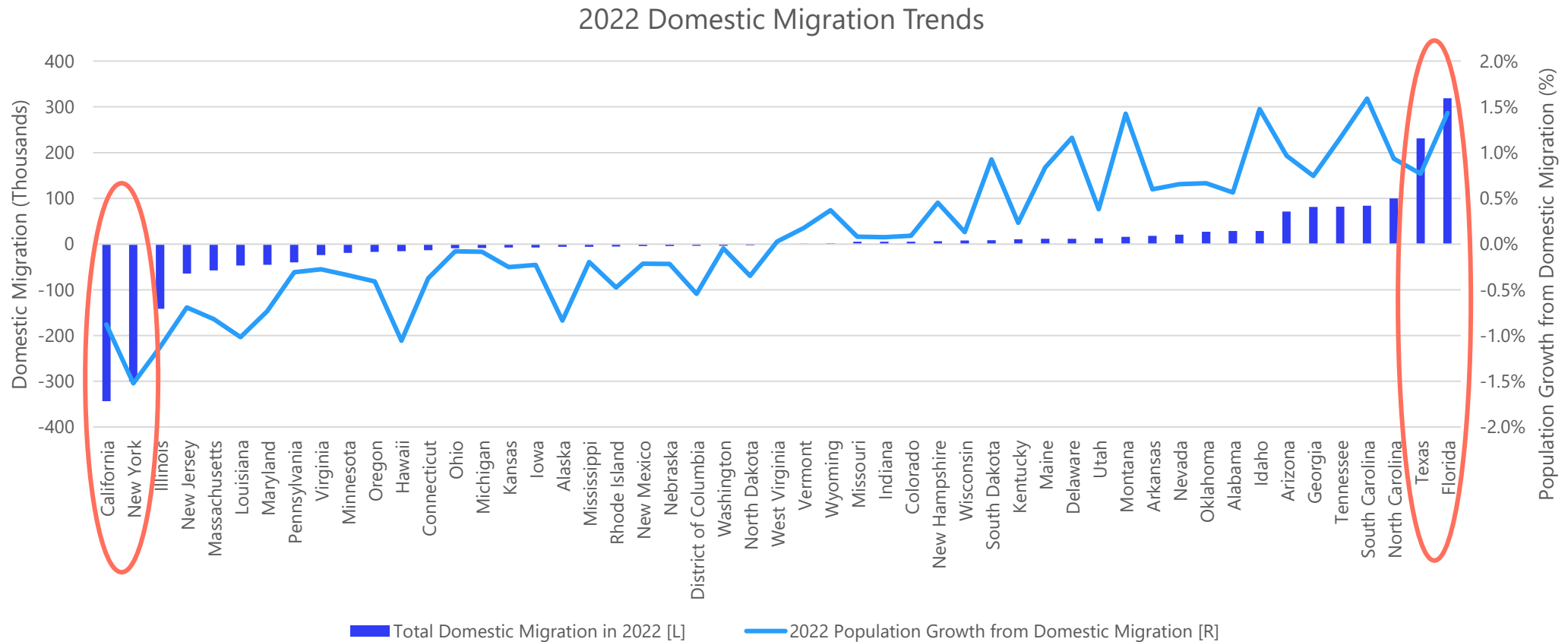
Sizing: The size of each market box represents each market's size by population for economic heat maps. The metros are aggregated by region; the combined size of each regional box represents the relative size of each region, enabling an at-a-glance take on regional conditions.

2.2 Apartment

The background features a vibrant blue and purple color palette. It is decorated with a fine, repeating dotted pattern and several large, flowing, wavy lines that create a sense of movement and depth. The text '2.2 Apartment' is positioned in the upper left quadrant, with '2.2' in a bright yellow and 'Apartment' in white.

Florida and Texas Benefit the Most from 2022 Domestic In-migration; Exodus of People from California and New York

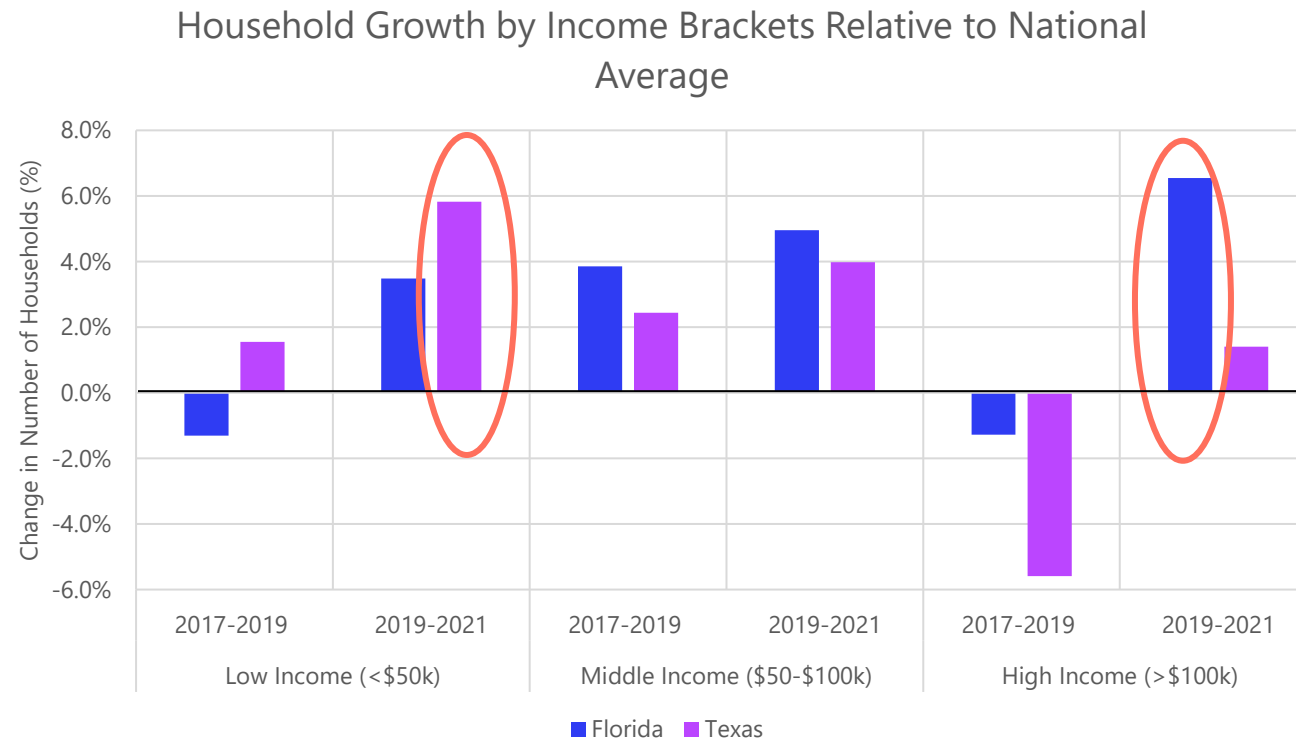
- Domestic migration has been, and continues to be, a valuable source of potential real estate demand.
- Florida had the largest domestic in-migration in absolute terms followed by Texas.
- Notable growth was seen on a percentage basis in smaller states, but Florida still ranked 3rd and Texas ranked 11th.
- California and New York experienced a swell in outmigration in absolute terms. New York ranked last in percentage terms and California ranked 5th.



Sources: Census Bureau, SitusAMC Insights, December 2022.

Case Study: Florida vs. Texas

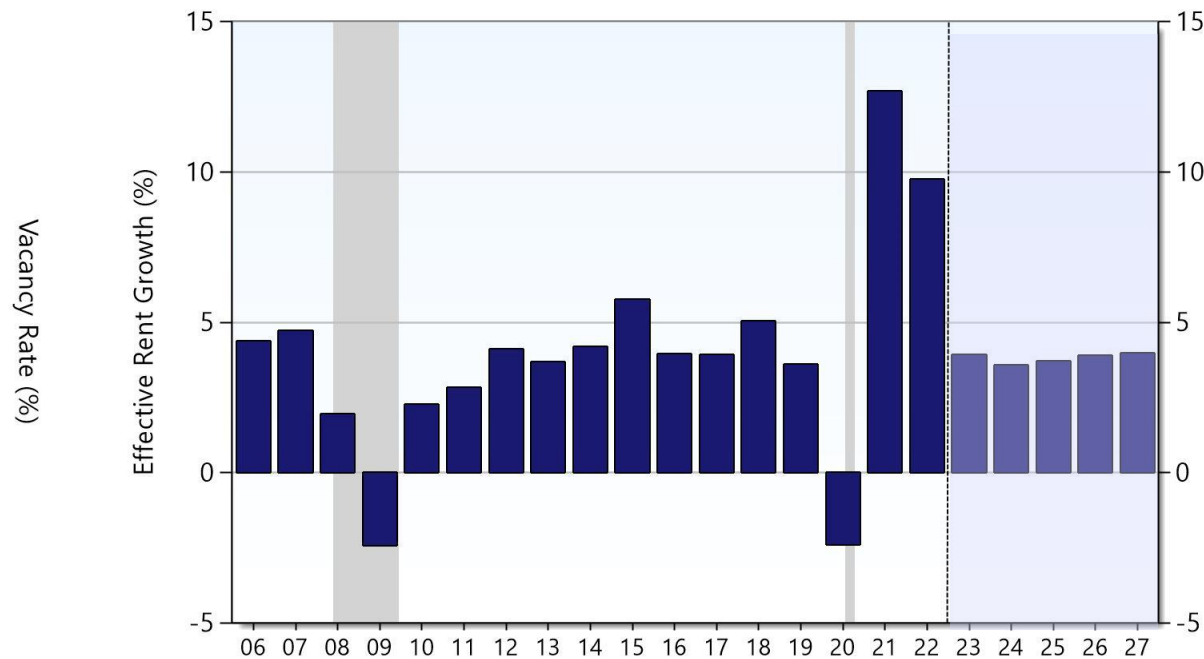
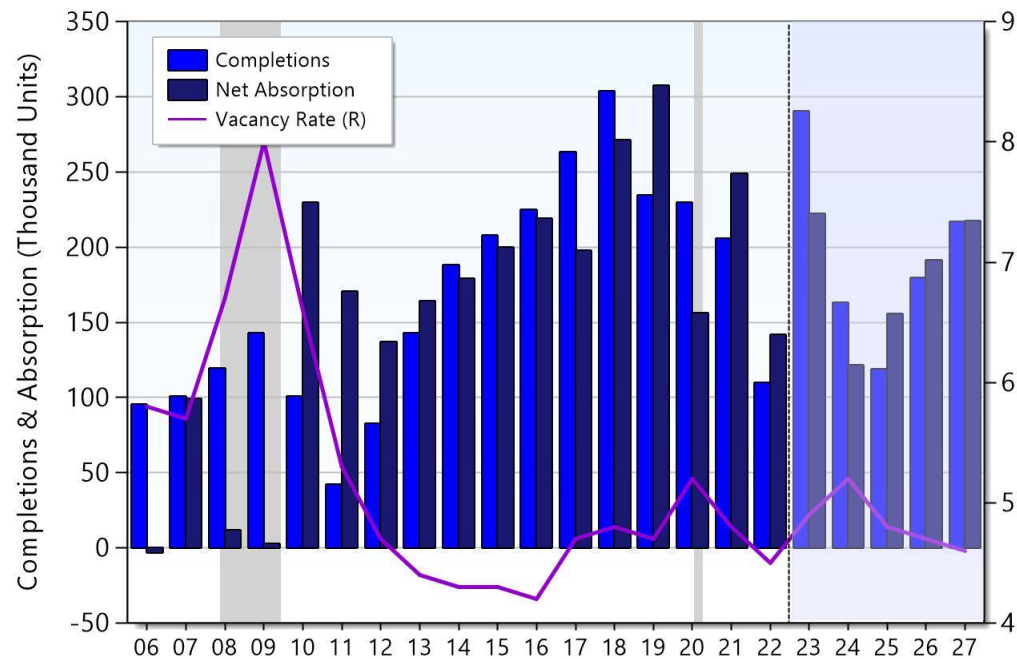
- While population migration still provides valuable investment information, income migration might provide a more comprehensive picture of where real estate demand will grow, particularly for the multifamily segment.
- Despite similar domestic migration trends, Florida and Texas experienced different income migration trends pre- and post-COVID-19.
- Florida saw a surge of high-income households during the pandemic, while Texas gained more low-income households.
- Housing affordability likely a greater problem in Texas; demand for luxury product may be higher in Florida.



Sources: Census Bureau, SitusAMC Insights, December 2022.

Strong Apartment Completions in 2023 Expected to Lead to Bump in Vacancies; Rent Growth to Slow from Blistering Pace But Remain Near Historical Averages

SitusAMC Insights Apartment Fundamentals Forecasts – 4Q 2022



Sources: Reis, NBER, SitusAMC Insights Forecasts, 4Q 2022.

Apartment NOI Heat Maps

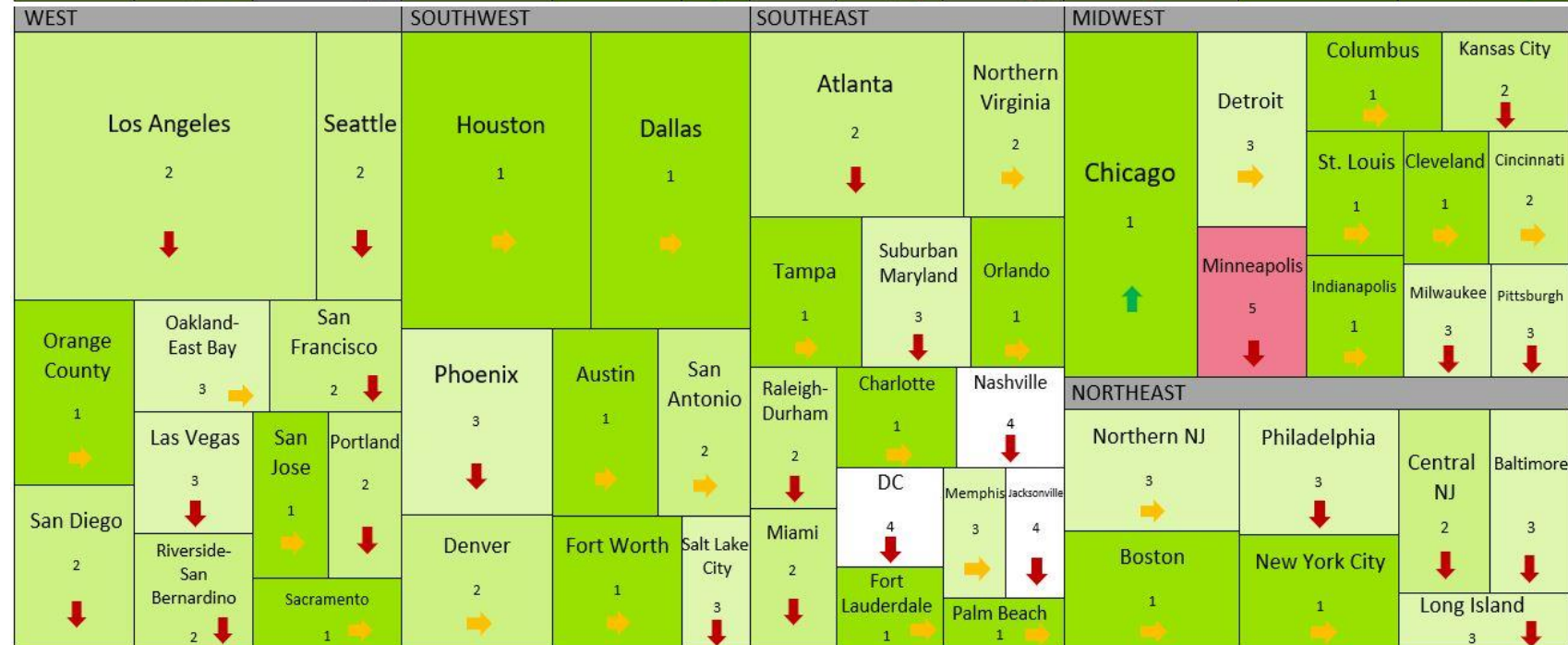
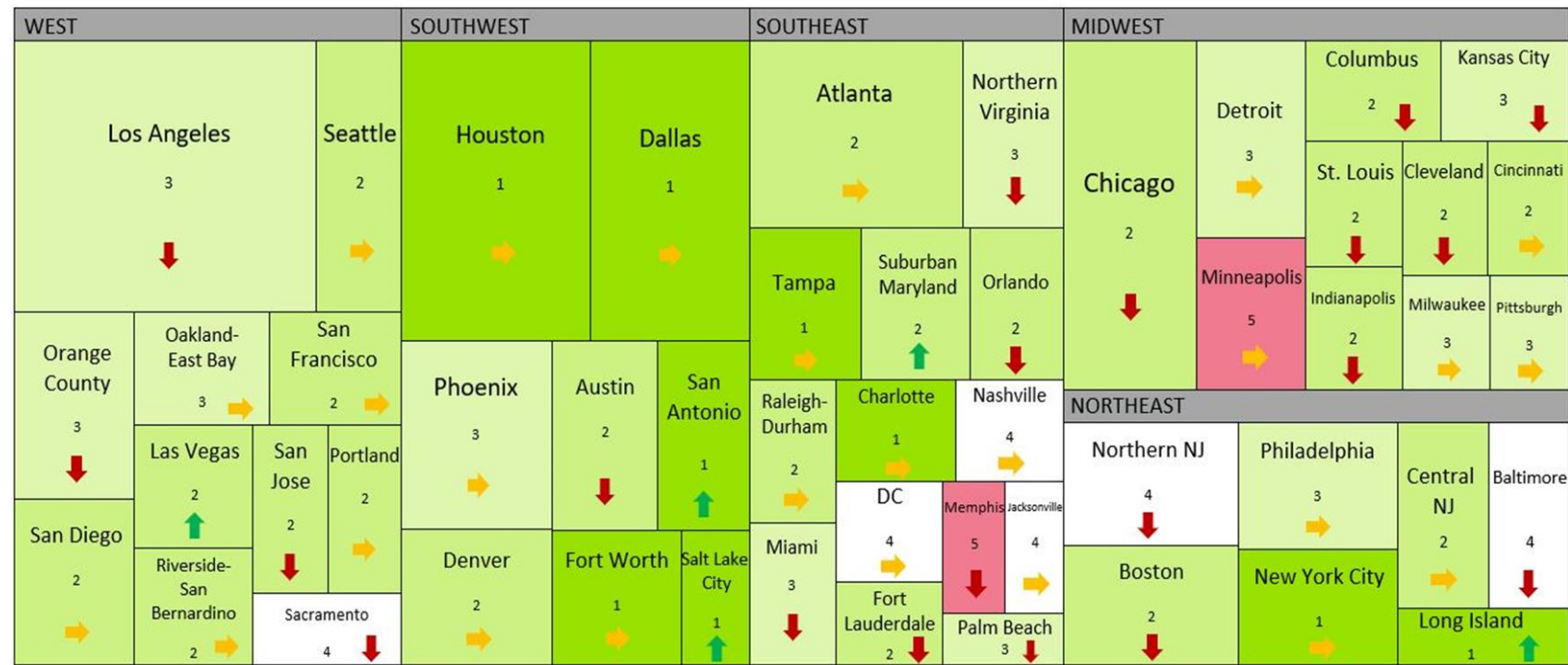
4Q 2022
Baseline:

Baseline scenario reflects an economic slowdown

Still Looking Good but Slowing

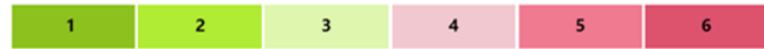
- Average score slipped from a fantastic 1.98 to a still-very-healthy 2.45.
- But there is widespread deceleration, with 20 downgrades.
- Las Vegas, San Antonio, Salt Lake City and Suburban MD were upgraded.
- The classic combo of higher expected 2023 completions and lower demand pulled the outlook down.

3Q 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% (1), NOI Growth: 4%-5% (2), NOI Growth: 3%-4% (3), NOI Growth: 1.5%-3% (4), NOI Growth: 0%-1.5% (5), NOI Growth: Negative (6)

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.

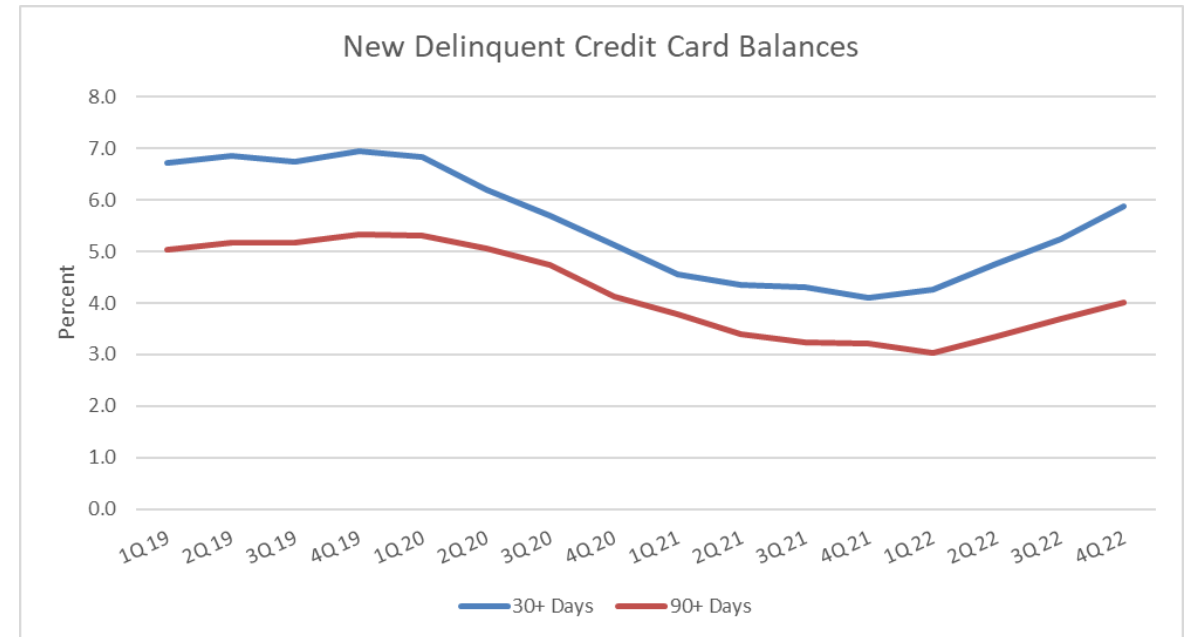
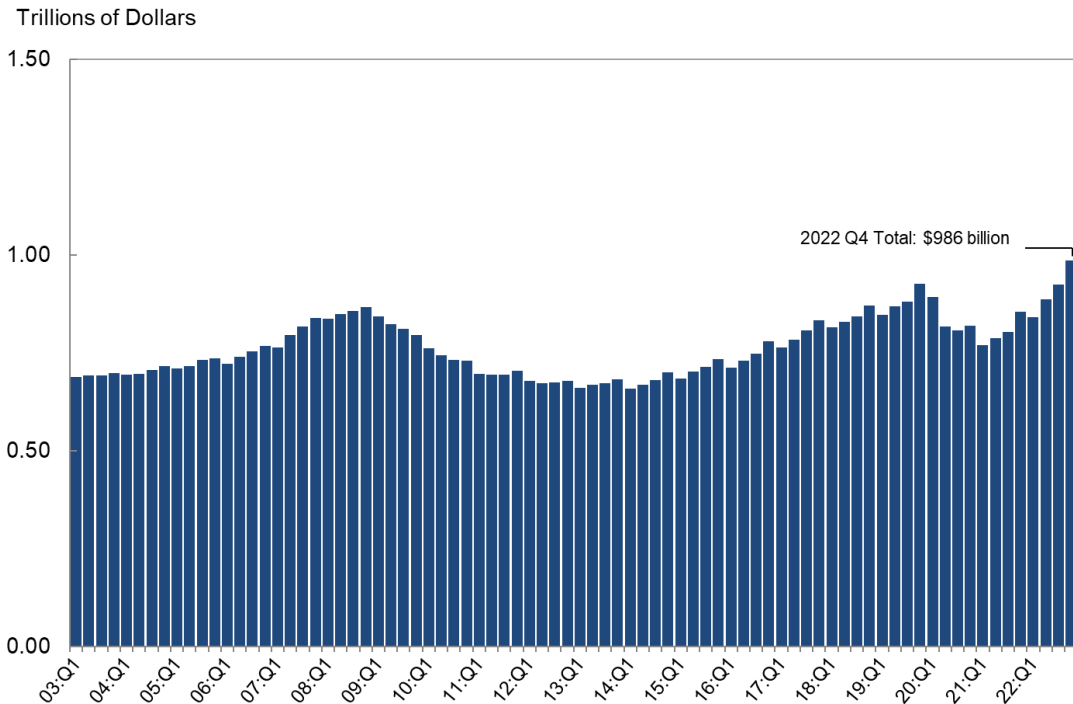
2.3 Retail

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.

Retail Risk – Prolonged Inflation Taking a Toll on Consumer Finances

- Credit card balances saw a \$61 billion increase (to \$986 billion) in the fourth quarter, surpassing the pre-pandemic high of \$927 billion.
- Credit card delinquencies rose 38% (30+ days) and 32% (90+ days) in 2022. Millennials have the highest delinquency rates.
- According to a PYMNTS/LendingClub report, the number of U.S. consumers living paycheck to paycheck reached 64.4% in Dec. 2022, a 3.5 pp increase YoY. High earners (\$100k+) experienced the greatest monthly increase in Dec. growing 3.7 pp to 50.8%.

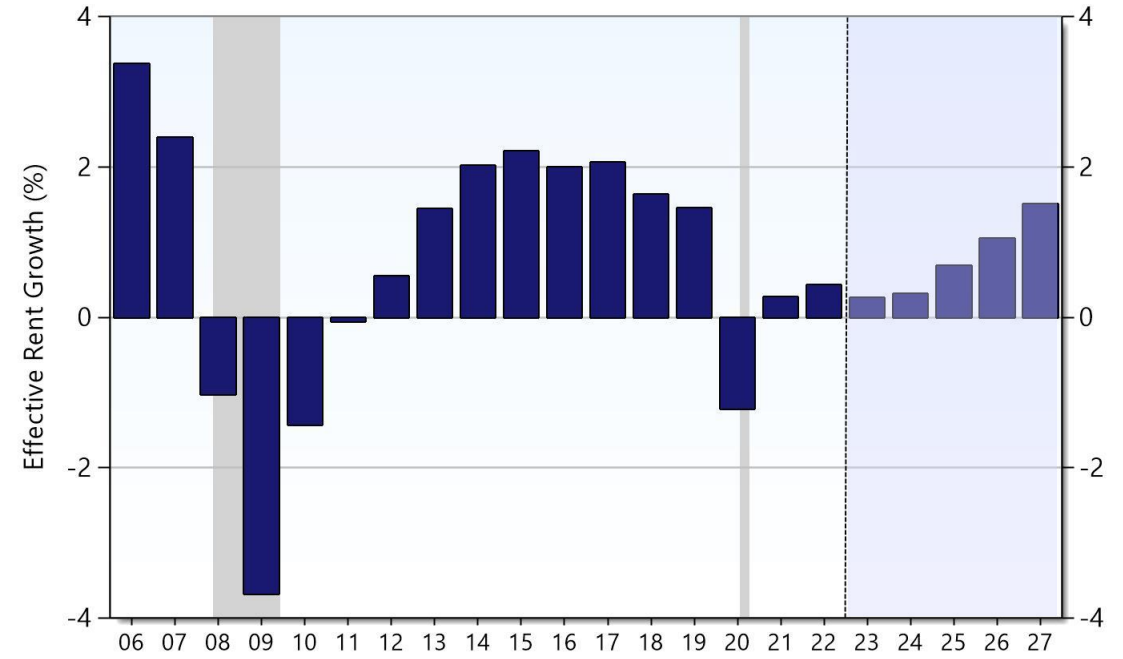
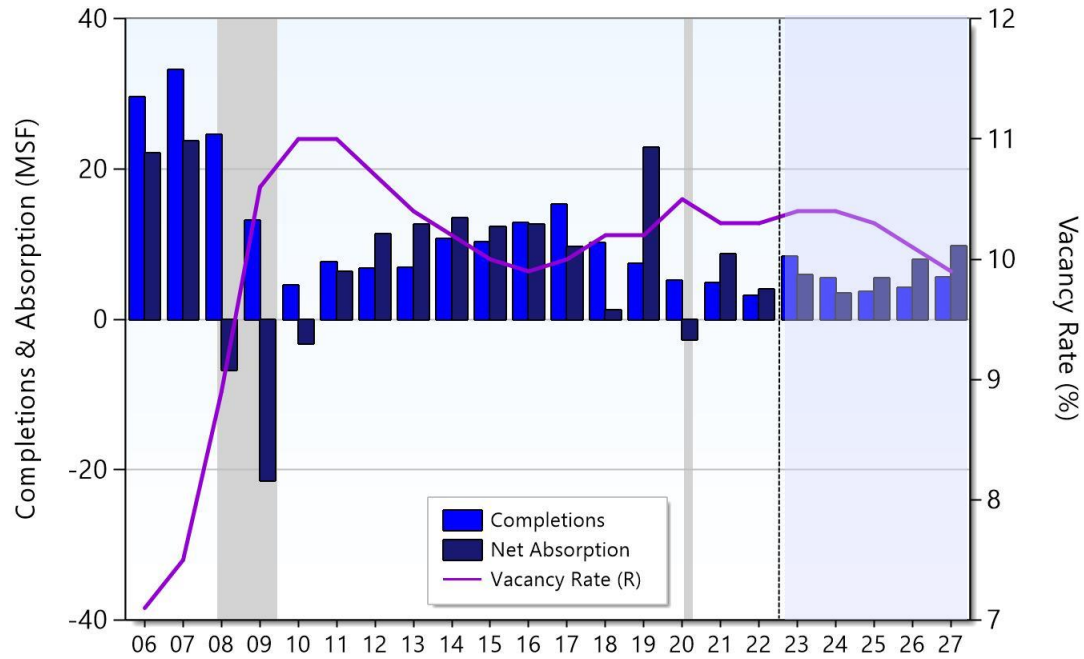
Credit Card Debt



Sources: New York Fed Consumer Credit Panel/Equifax,, SitusAMC Insights, December 2022.

Retail Occupancy, Absorption and Rent Expected to Moderate in 2023, But Gradually Improve Over the Next Four Years

SitusAMC Insights Retail Fundamentals Forecasts – 4Q 2022



Sources: Reis, NBER, SitusAMC Insights Forecasts, 4Q 2022.

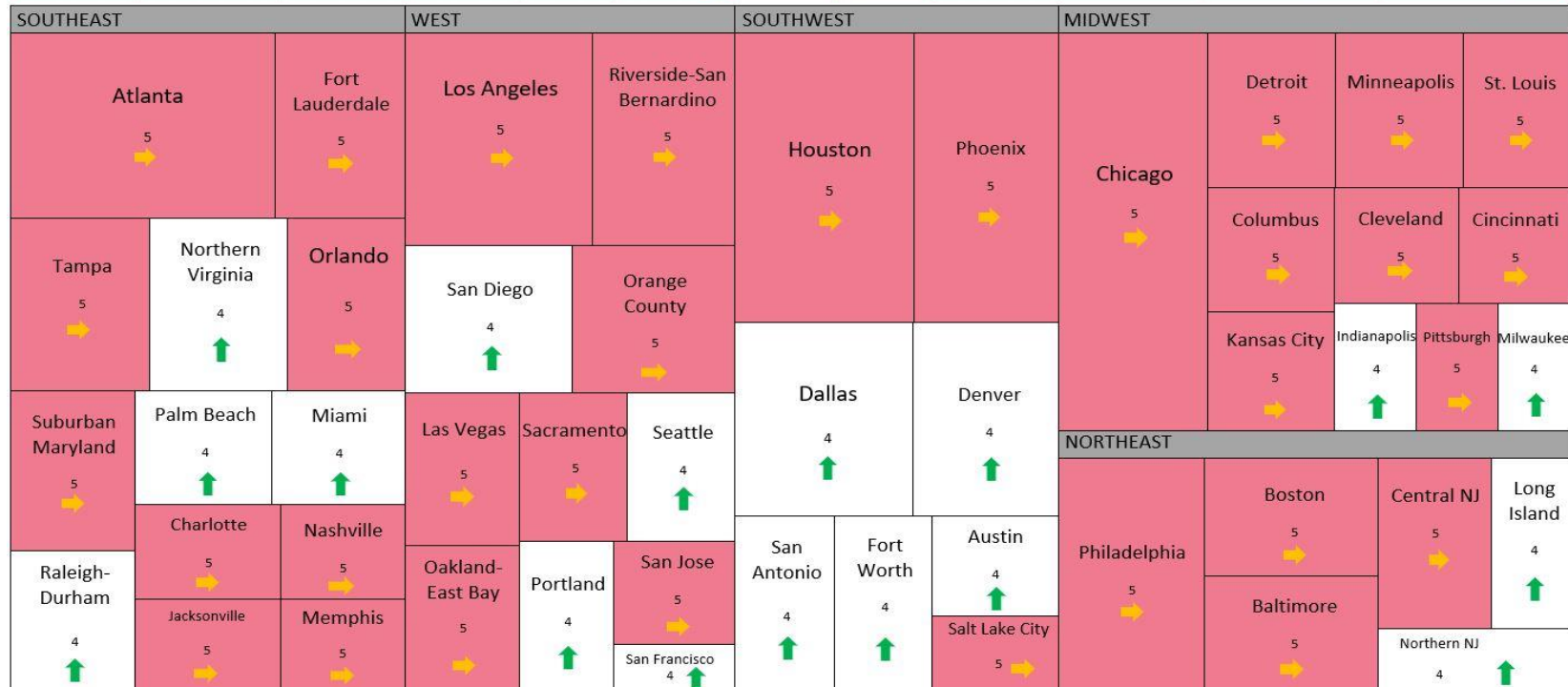
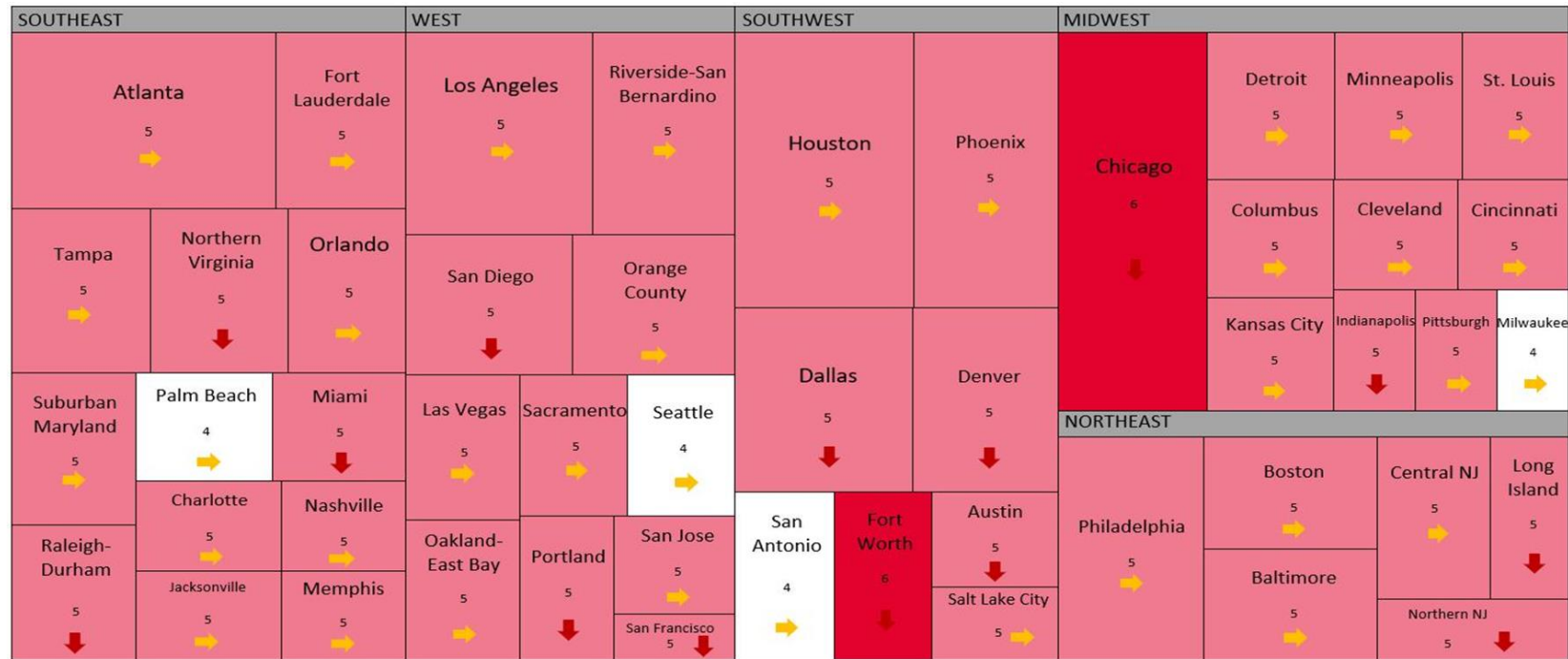
Retail NOI Heat Maps

4Q 2022
Baseline:
Baseline scenario reflects an economic slowdown

Cyclical Headwinds

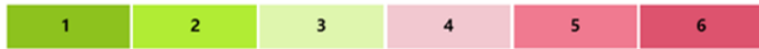
- Supply is not a problem for retail, but a softer economy will inhibit demand.
- The average retail rating deteriorated slightly to 4.96 from 4.76.
- The good news is office now has the worst average rating.
- A good number of markets that were looking better in the third quarter slipped in the fourth.

3Q 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

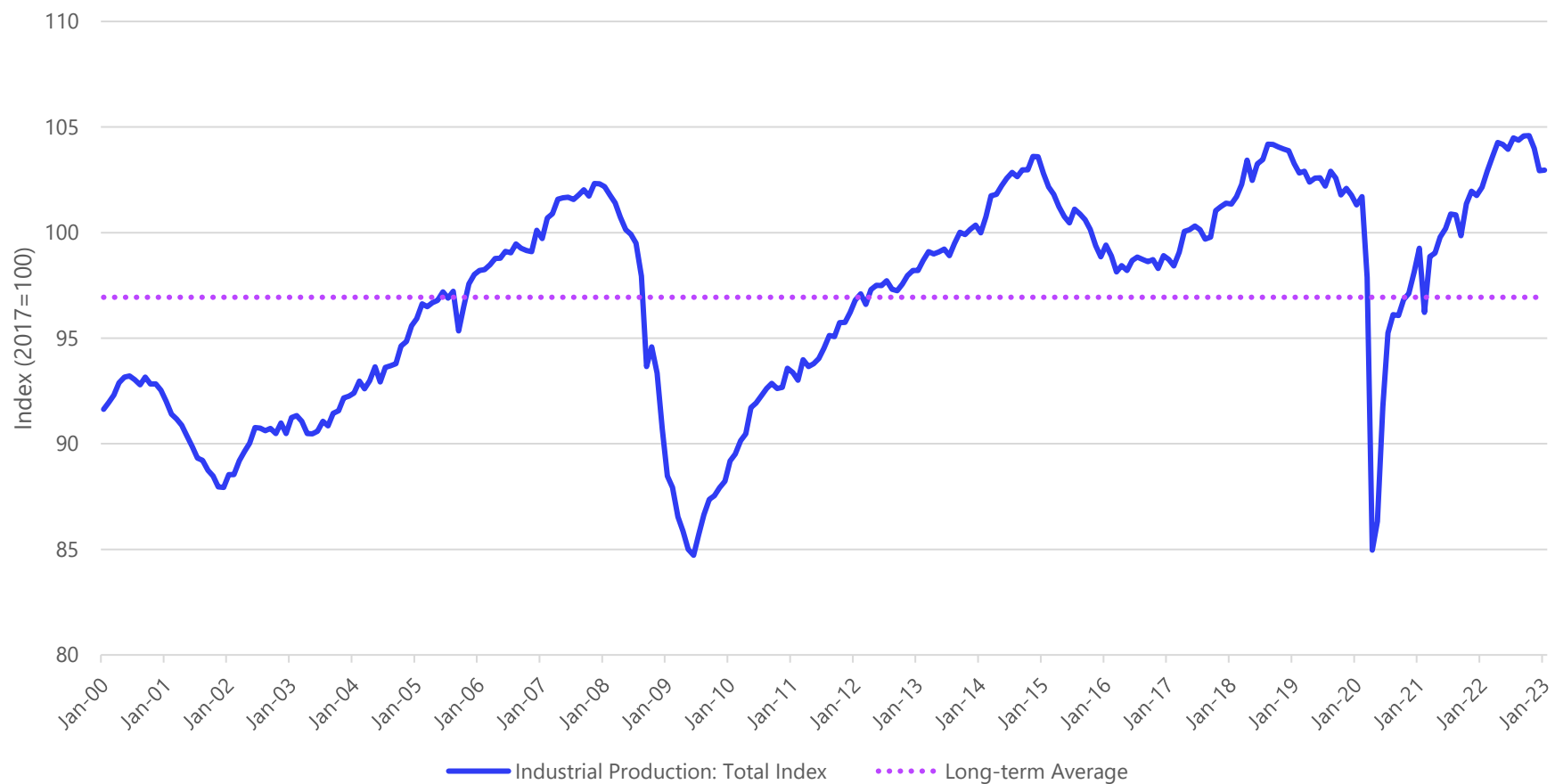
- ↑ IMPROVED: The arrows represent how each market is trending according to our most recent quarterly analysis. An upward arrow denotes an improved rating, a bar means the market is unchanged, while a down arrow signifies deterioration.
- UNCHANGED
- ↓ DETERIORATED

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.

2.4 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.

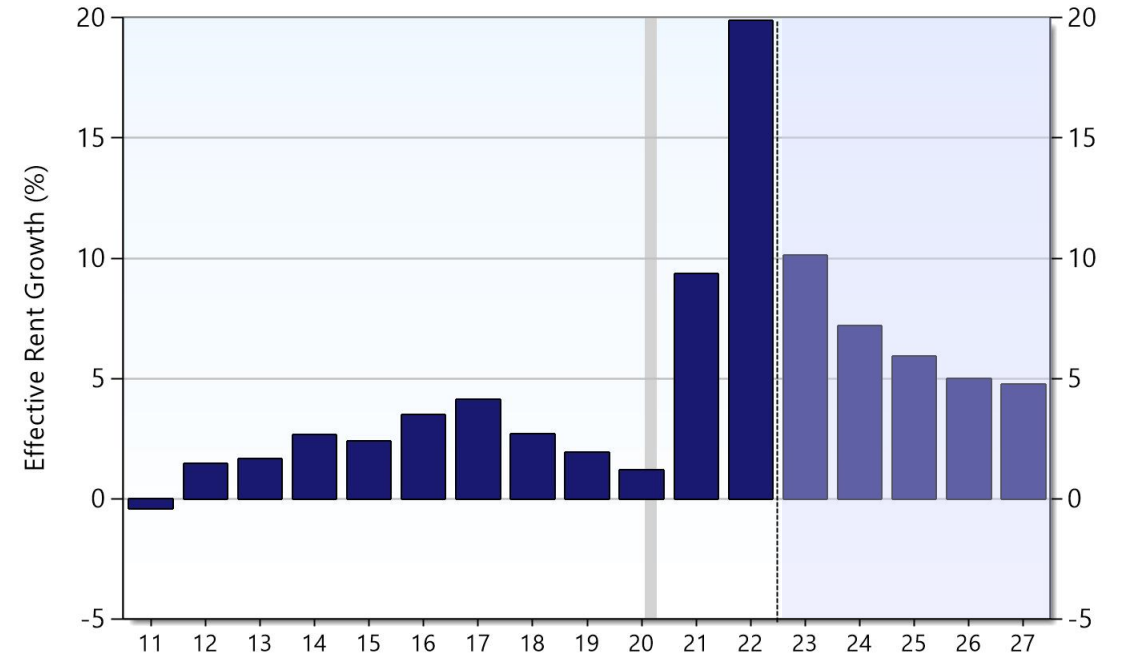
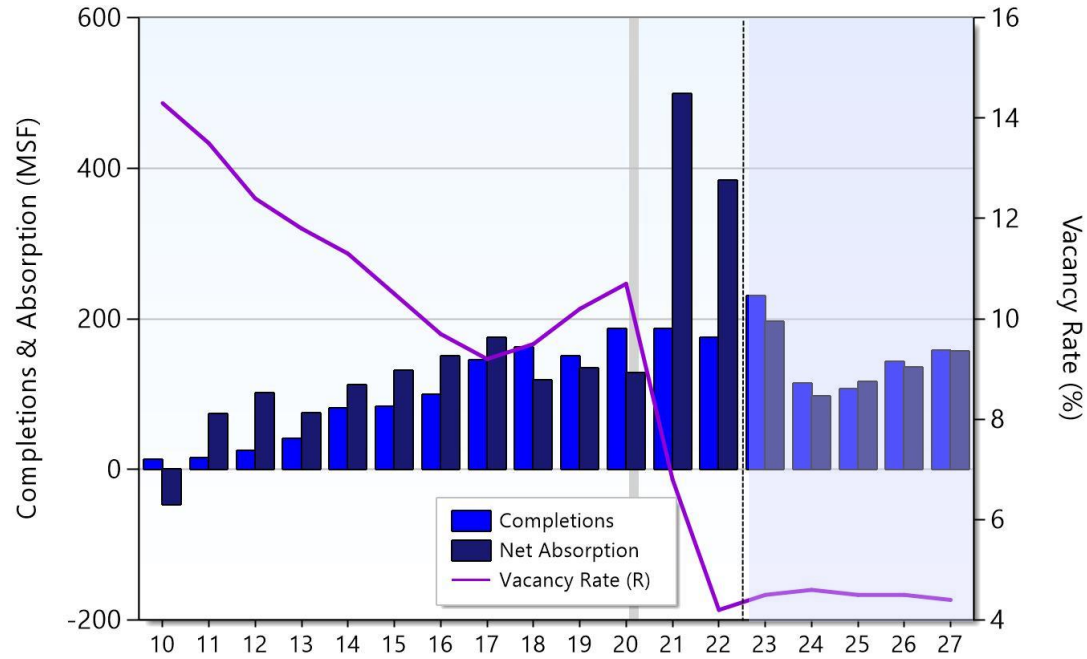
Industrial Production Slowing; Could Temper Industrial Demand



Sources: Federal Reserve, SitusAMC Insights, January 2023.

Industrial Fundamentals to Remain Exceptionally Strong Through Forecast Period

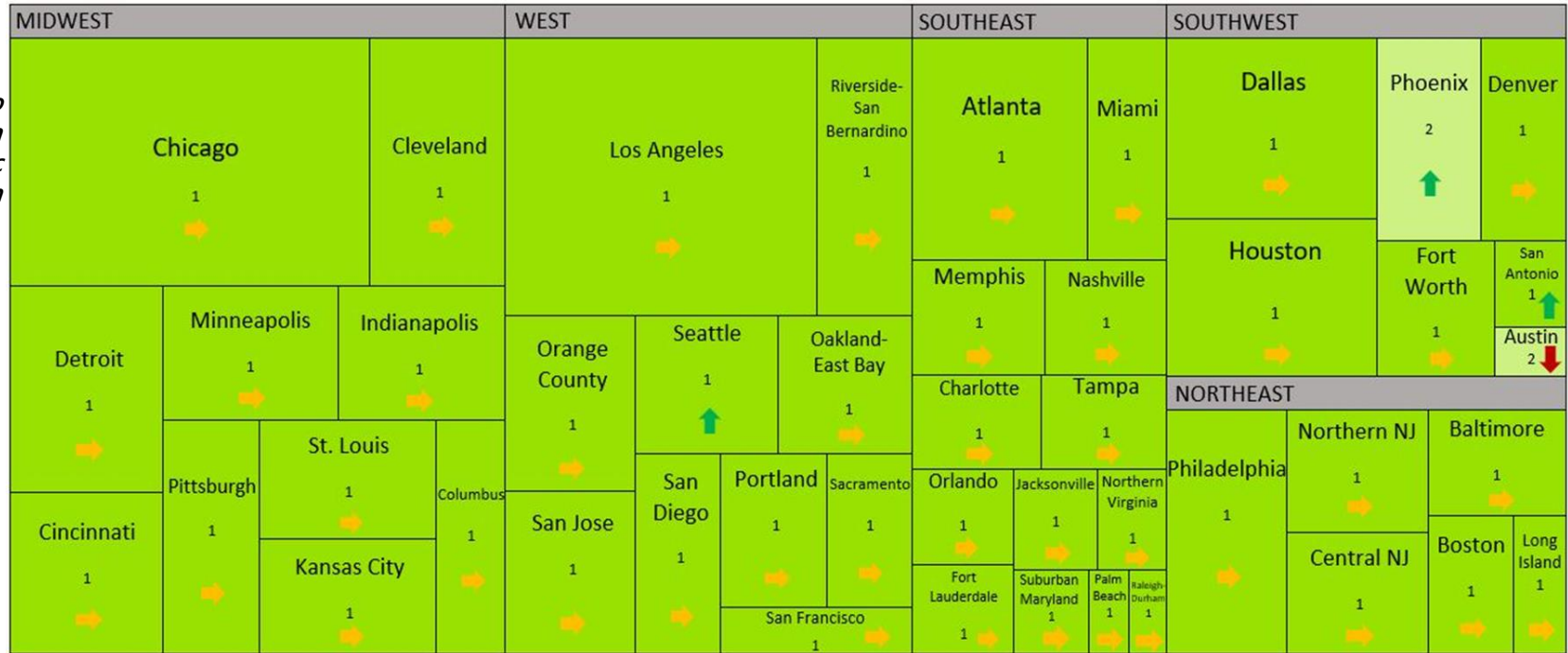
SitusAMC Insights Industrial Fundamentals Forecasts – 4Q 2022



Sources: Reis, NBER, SitusAMC Insights Forecasts, 4Q 2022.

Industrial NOI Heat Maps

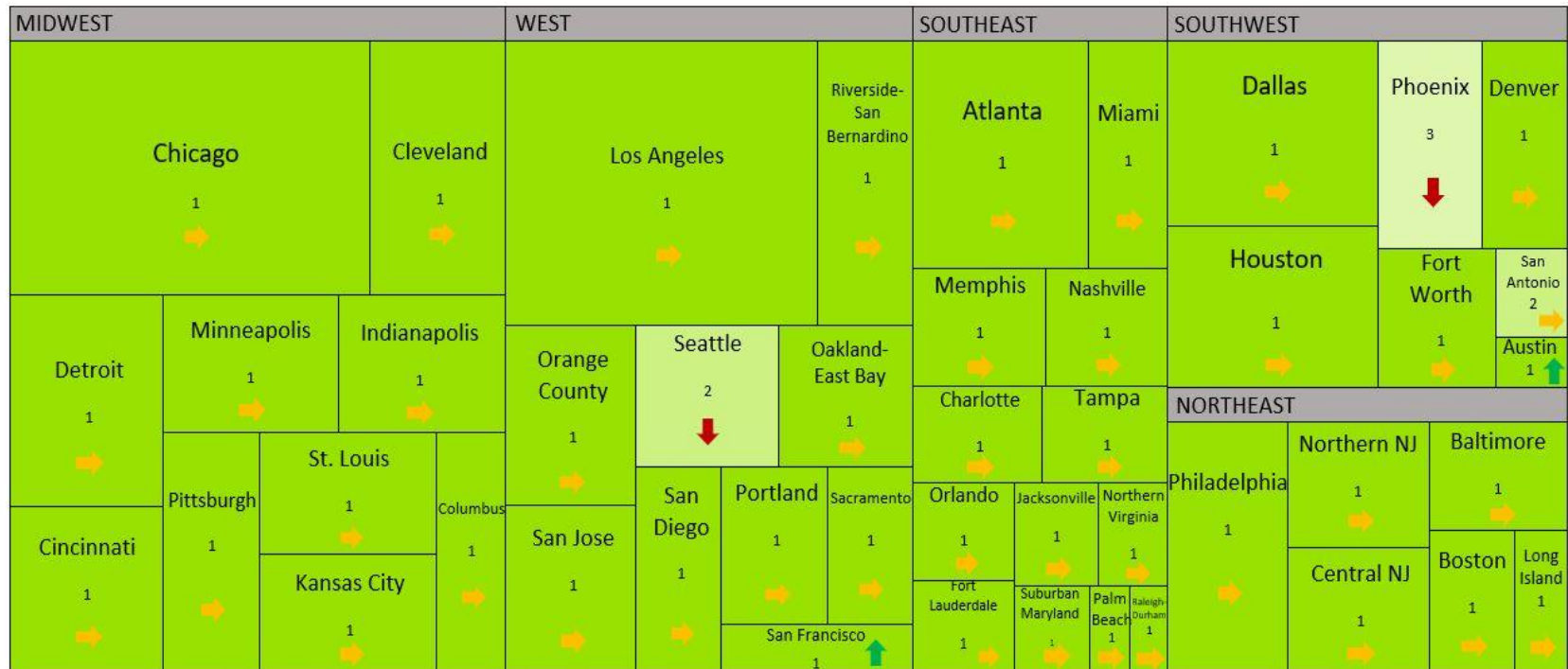
4Q 2022
Baseline:
Baseline scenario reflects an economic slowdown



How Green Is My Industrial?

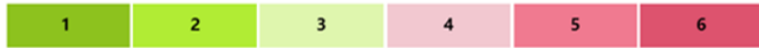
- Notwithstanding a shift in industrial segment capital market indicators, the space market still looks strong, even facing weaker economic growth.
- The average industrial rating remained near perfection, improving slightly to 1.04 from 1.09.

3Q 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: 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.
- UNCHANGED
- ↓ DETERIORATED

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 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, 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