

ValTrends

4Q 2023

First Look Webinar

January 23, 2023
2:00pm EST

Winter Thaw



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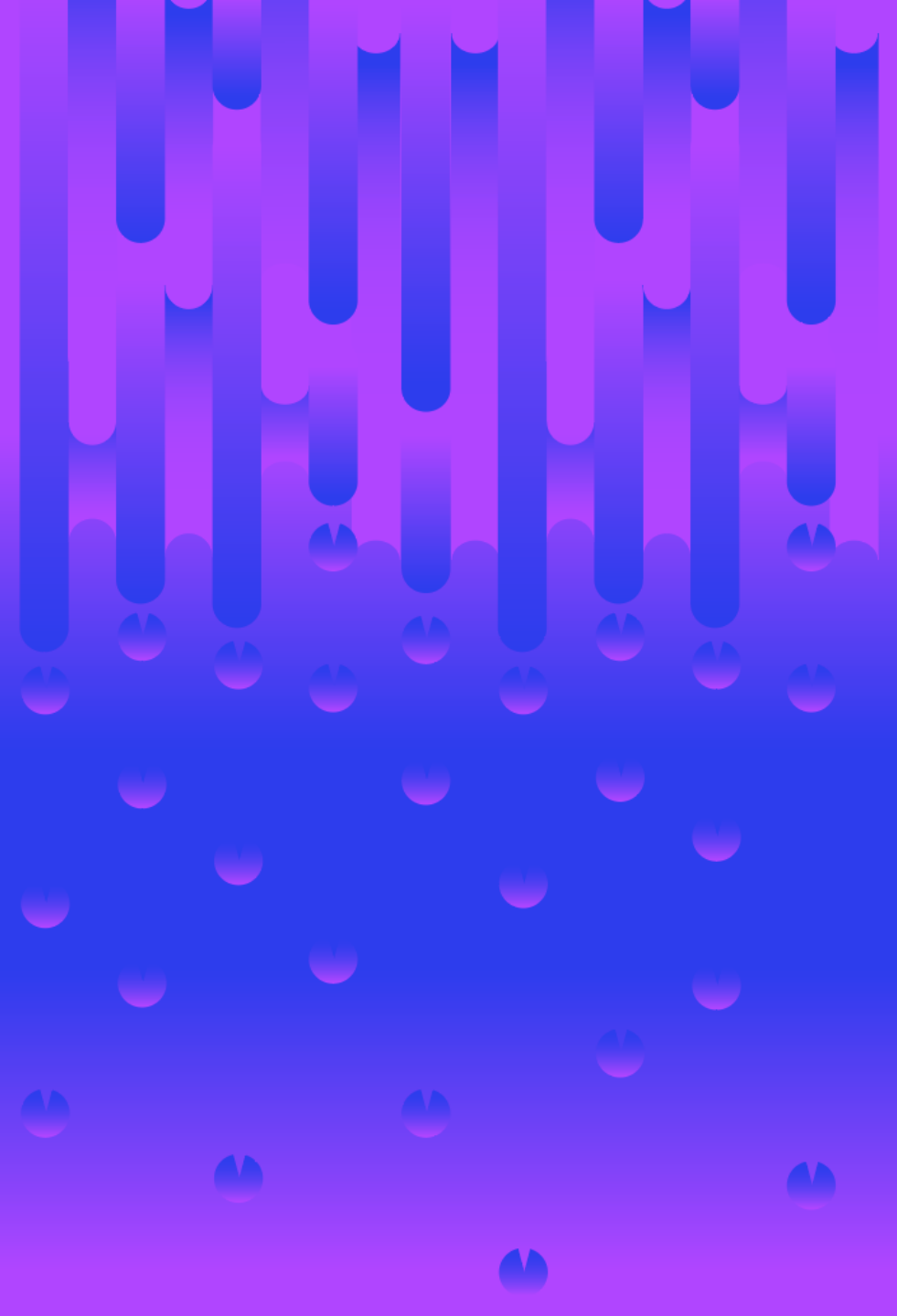
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WINTER THAW

1.0 Capital Markets



Interest Rates Drop at the End of 2023, But Tick Up in January to Near 15-Year Highs; Rates Forecast to Remain Near Current Levels in 2024

U.S. TREASURIES



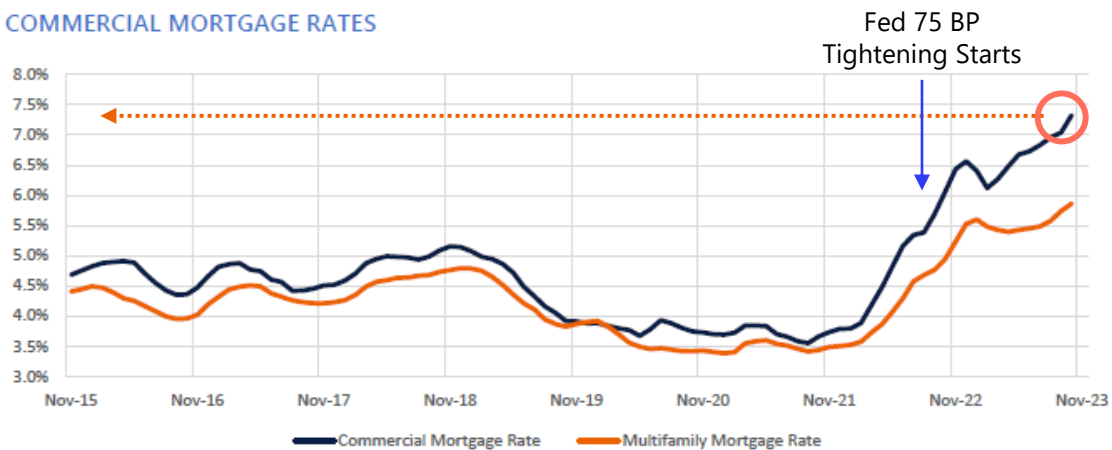
SITUSAMC INSIGHTS 10-YEAR TREASURY FORECAST

2022	3.0%
2023(F)	4.0%
2024(F)	4.3%
2025(F)	3.8%
2026(F)	4.0%
2027(F)	4.1%
2028(F)	4.0%

U.S. Treasuries	10-year	5-year
Current as of 01/18/24	4.1%	4.0%
Mo-to-Mo Change (Bps)	+19	+10
Yr-to-Yr Change (Bps)	+77	+61
8-year Average	2.3%	2.1%

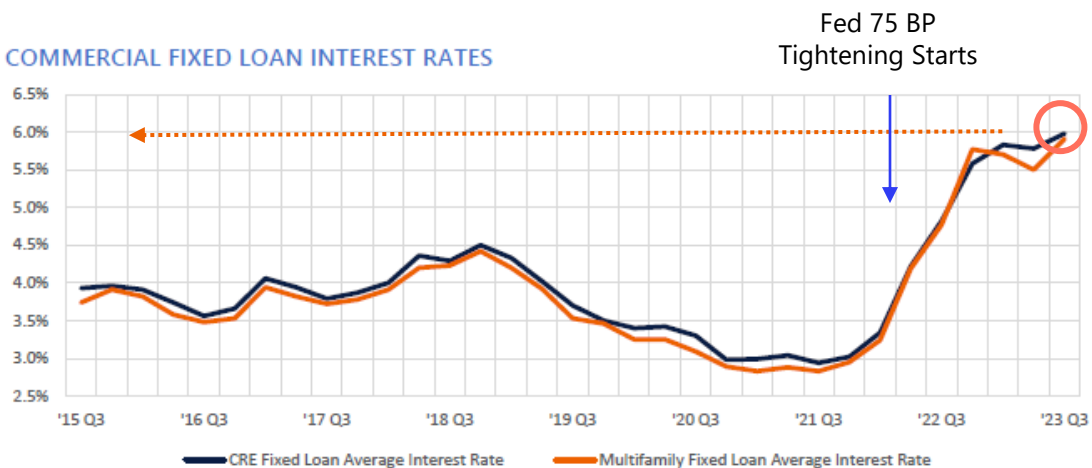
Commercial Mortgage Rates Up in Conjunction with Increase in Treasuries

COMMERCIAL MORTGAGE RATES



Mortgage Rates	Commercial	Multifamily
Current as of October 2023	7.3%	5.9%
Mo-to-Mo Change (Bps)	+29	+13
Yr-to-Yr Change (Bps)	+127	+92
8-year Average	4.7%	4.3%

COMMERCIAL FIXED LOAN INTEREST RATES



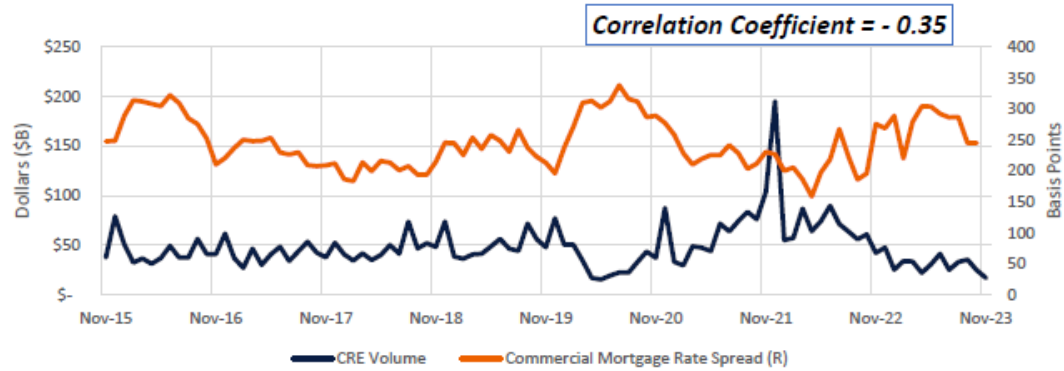
Sources: MSCI REAL ASSETS, SitusAMC Insights

Fixed Loan Interest Rate	CRE	Multifamily
Current as of 3Q 2023	6.0%	5.9%
Qtr-to-Qtr Change (Bps)	+20	+41
Yr-to-Yr Change (Bps)	+116	+114
8-year Average	4.0%	3.9%

Sources: ACLI, SitusAMC Insights

CRE and CMBS Volume Declines as Mortgage Rate Spreads Rise

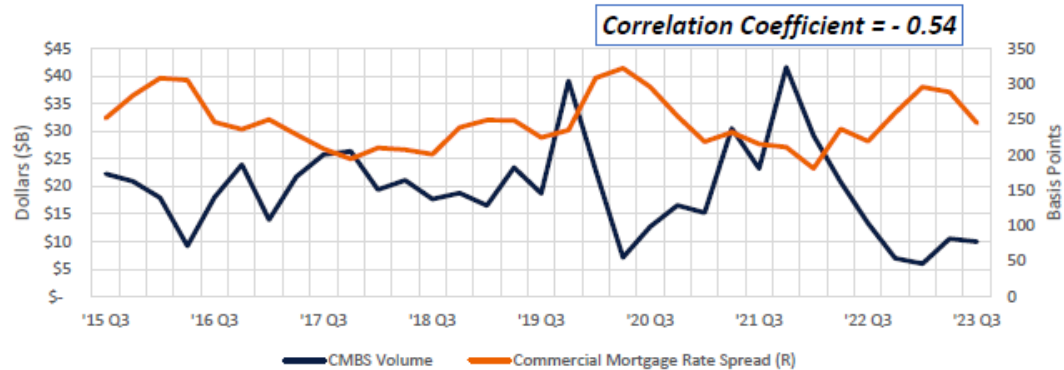
MORTGAGE RATE SPREAD OVER 10-YEAR TREASURY VS CRE VOLUME



CRE Deal Volume (\$B)		Mortgage Rate Spread	
Current as of November 2023	\$ 17.00	Current as of October 2023	245
Mo-to-Mo Change	-31.7%	Mo-to-Mo Change (Bps)	+0
Yr-to-Yr Change	-59.8%	Yr-to-Yr Change (Bps)	+49
8-year Average	\$ 48.73	8-year Average	245

Sources: FRB, MSCI REAL ASSETS, SitusAMC Insights *: The more negative the correlation coefficient, the greater the extent to which volume declines as spreads widen.

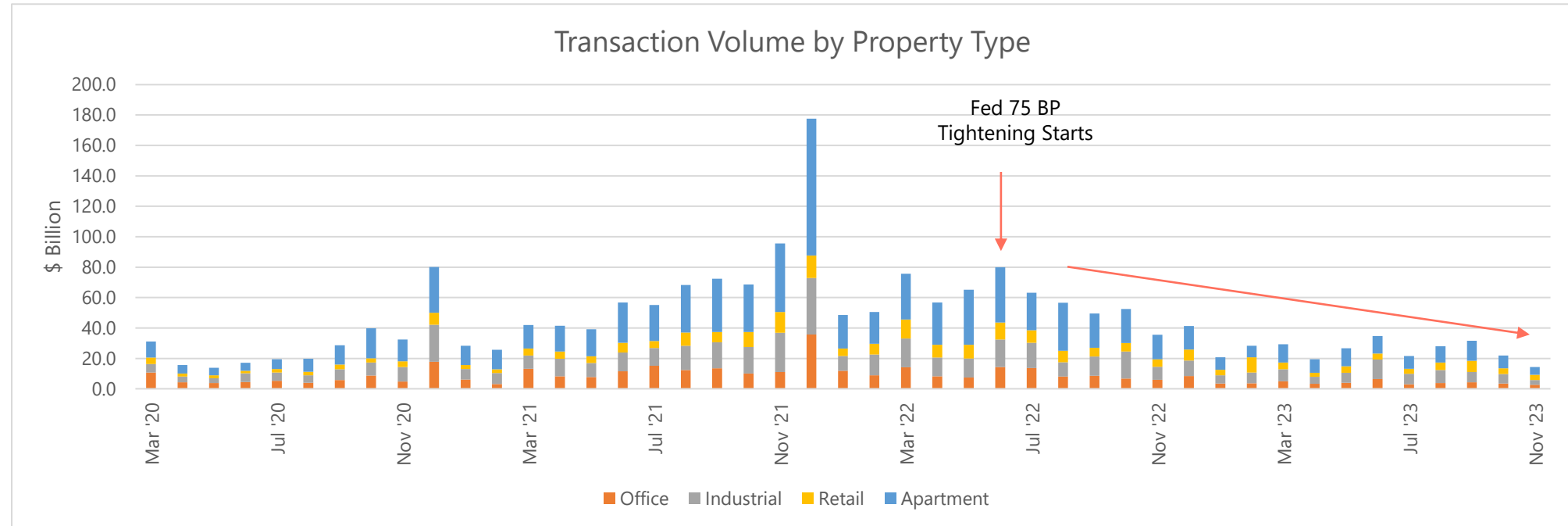
MORTGAGE RATE SPREAD OVER 10-YEAR TREASURY VS CMBS VOLUME



CMBS Volume (\$B)		Mortgage Rate Spread	
Current as of 3Q 2023	\$ 9.97	Current as of 3Q 2023	245
Qtr-to-Qtr Change	-5.2%	Qtr-to-Qtr Change (Bps)	-43
Yr-to-Yr Change	-25.1%	Yr-to-Yr Change (Bps)	+26
8-year Average	\$ 19.34	8-year Average	245

Sources: FRB, MSCI REAL ASSETS, GreenStreet, SitusAMC Insights

Deal Activity Sluggish; Apartments Still Account for Majority of Transactions



	Change Since Aggressive Fed Tightening in June 2022	GFC Peak to Trough
Retail	-69.2%	-94.3%
Office	-80.8%	-98.7%
Industrial	-83.3%	-95.1%
Apartment	-85.9%	-96.4%

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.

POLL QUESTION

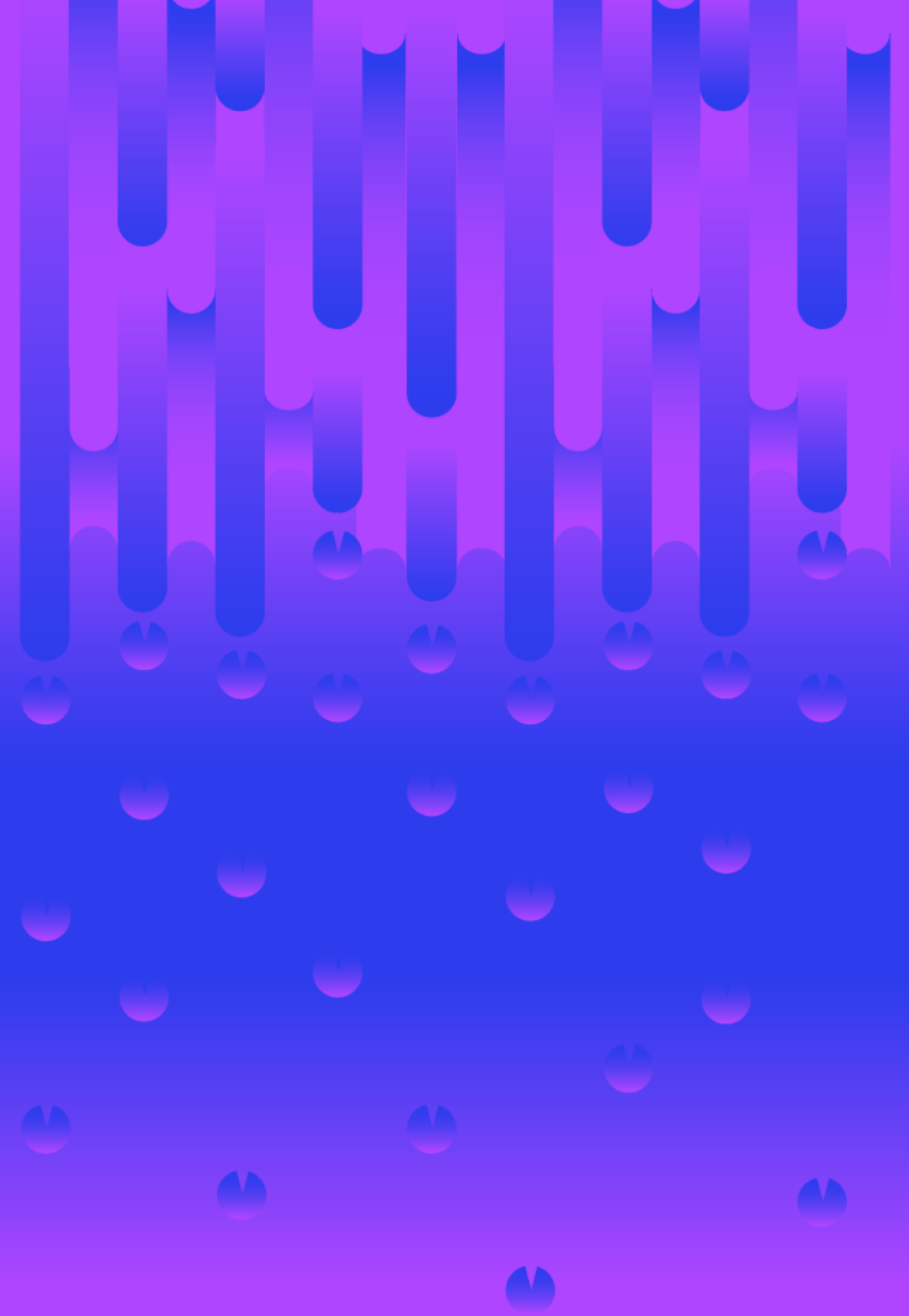
Which investment alternative has the best outlook?

A. Stocks

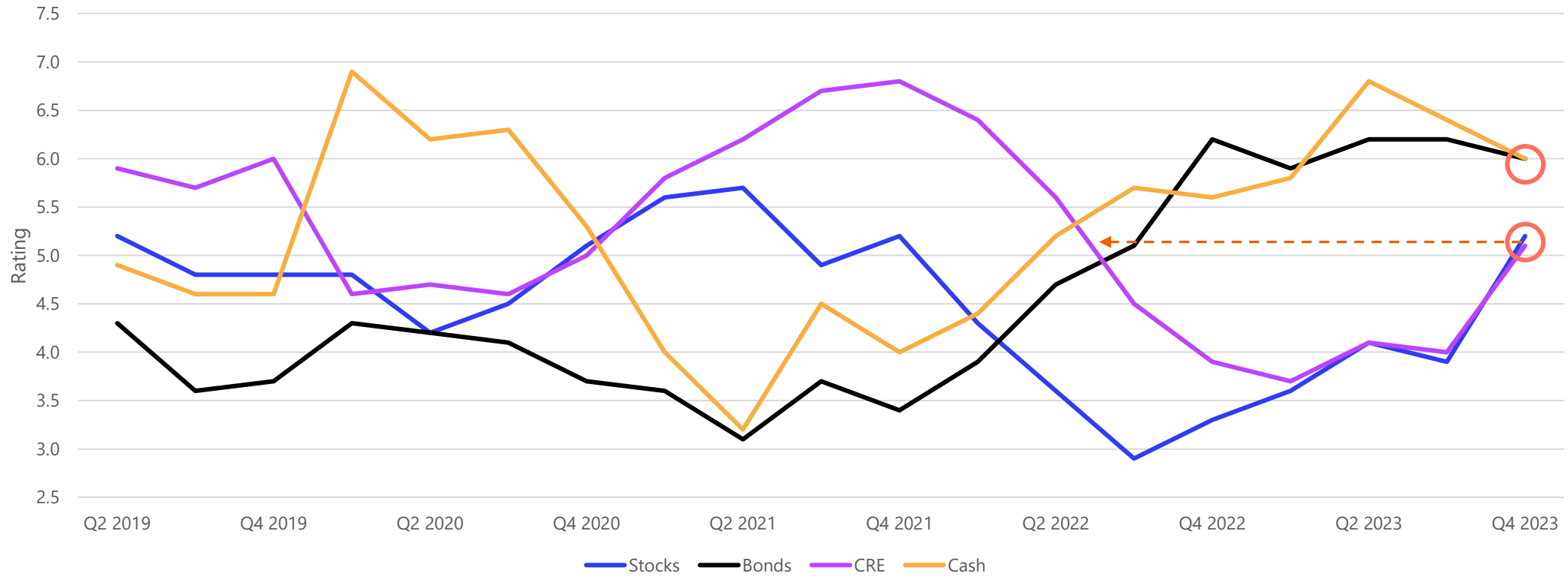
C. Cash

B. Bonds

D. CRE

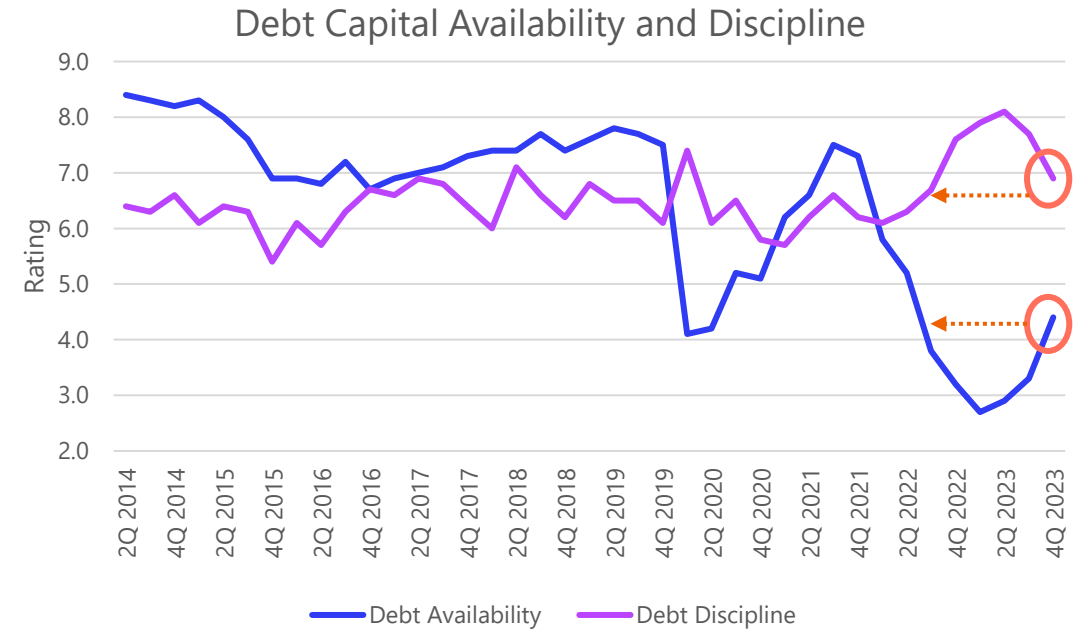
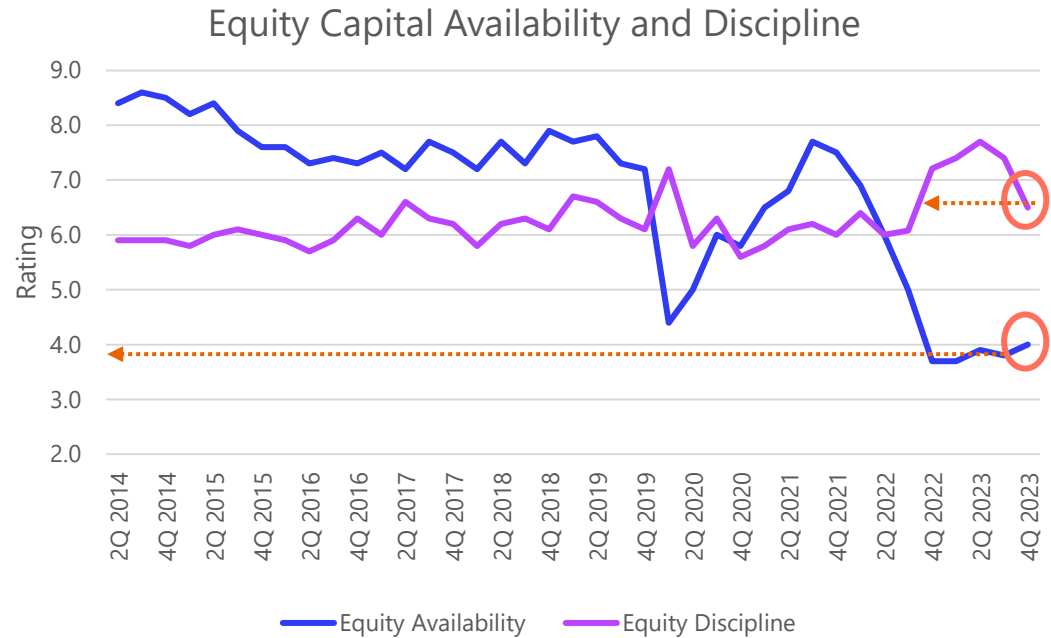


Investor Preference for CRE Rises to Highest Since Q2 2022 and CRE and Stocks Highest in Two Years; Bonds and Cash Still Most Preferred Asset Classes



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

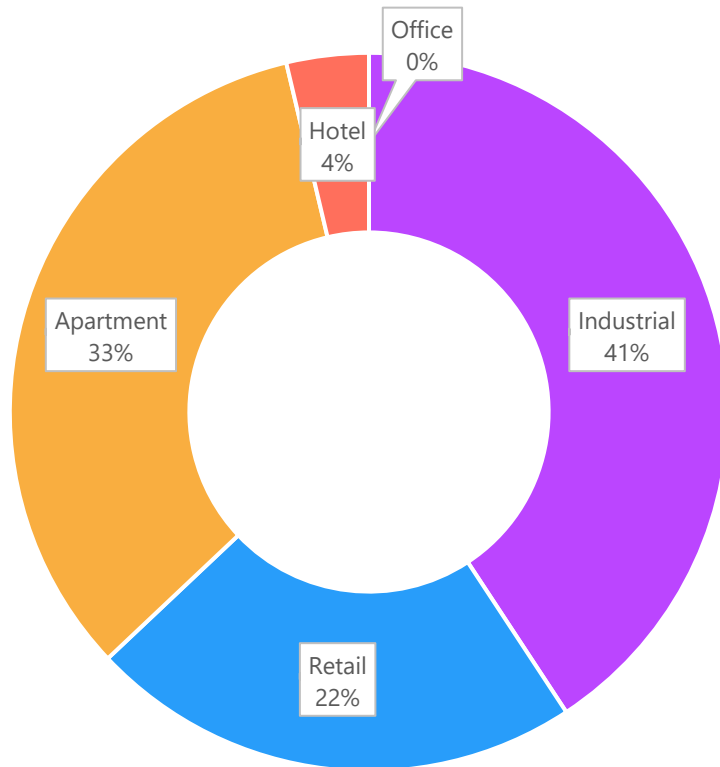
Equity Capital Availability Tight But Signs of Debt Capital Availability Easing; Both Equity and Debt Underwriting Standards Conservative But Also Easing



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.

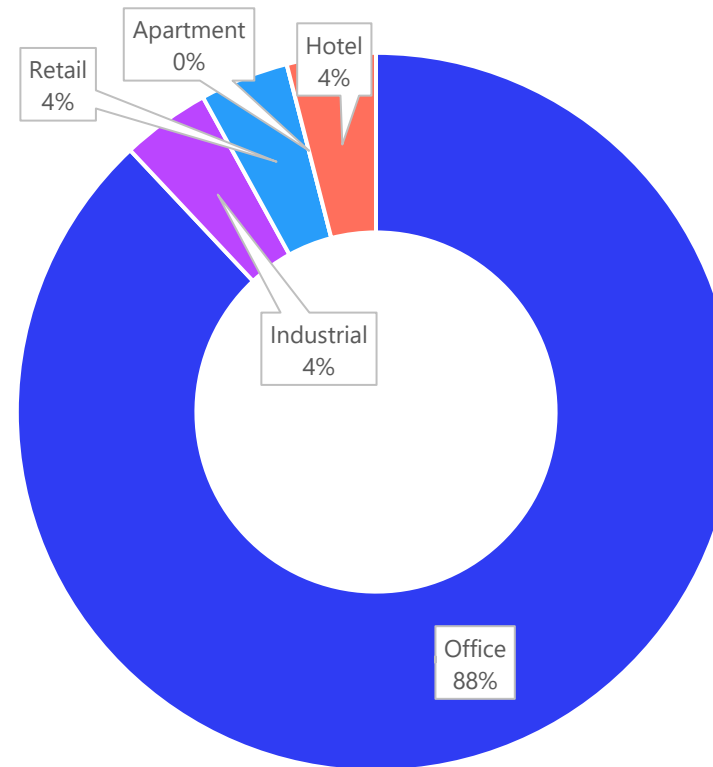
Industrial Earns Best Property Type Rating for First Time Since Q1 2022; Outlook Bleak for Office

Best Property Type



■ Office ■ Industrial ■ Retail ■ Apartment ■ Hotel

Worst Property Type



■ Office ■ Industrial ■ Retail ■ Apartment ■ Hotel

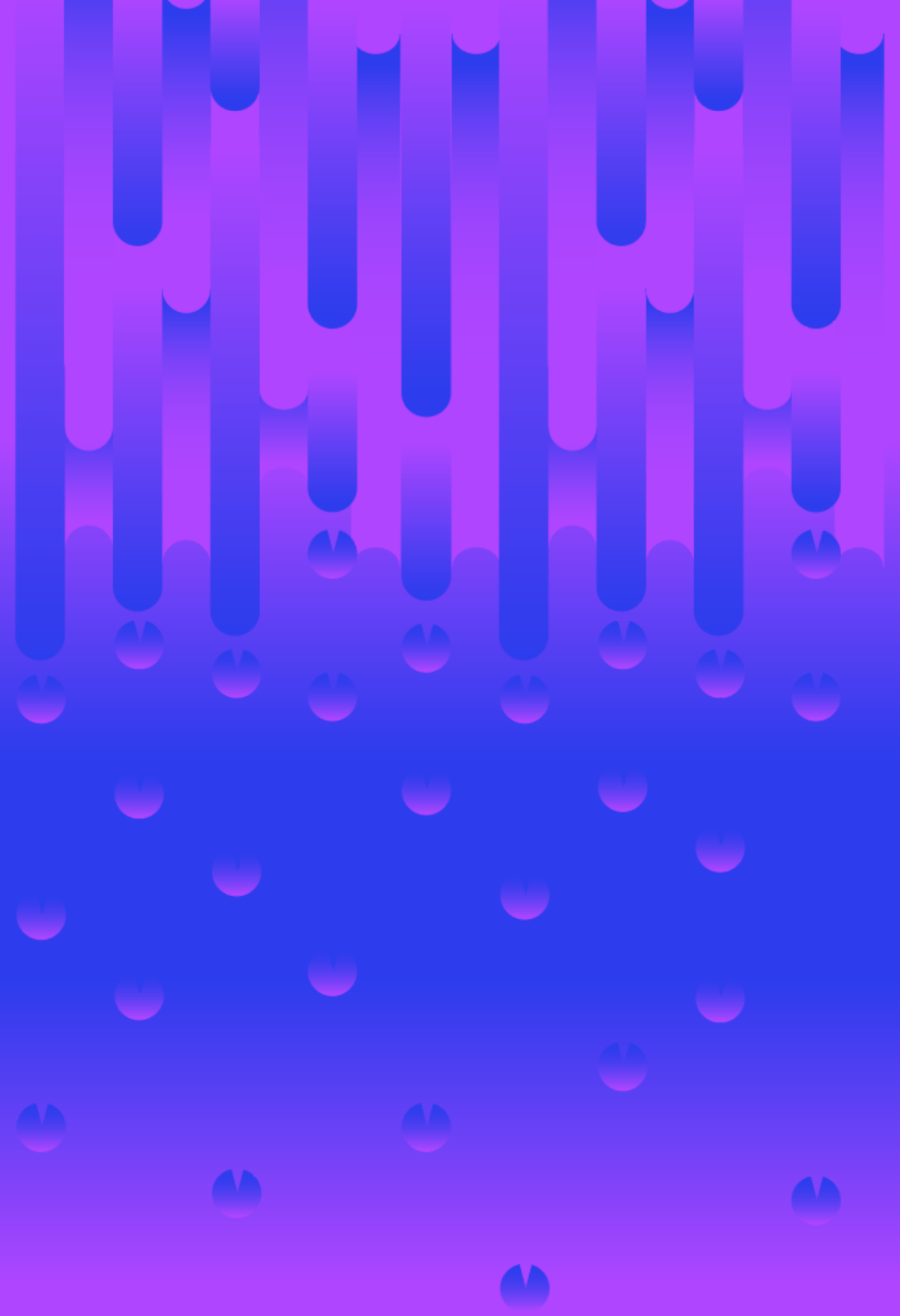
- QoQ Best Property Type
 - Apartment: 37%
 - Retail: 24%
 - **Industrial: 23%**
 - Hotel: 16%
 - Office: 0%

POLL QUESTION

Is the CRE market
starting to unfreeze?

A. Yes

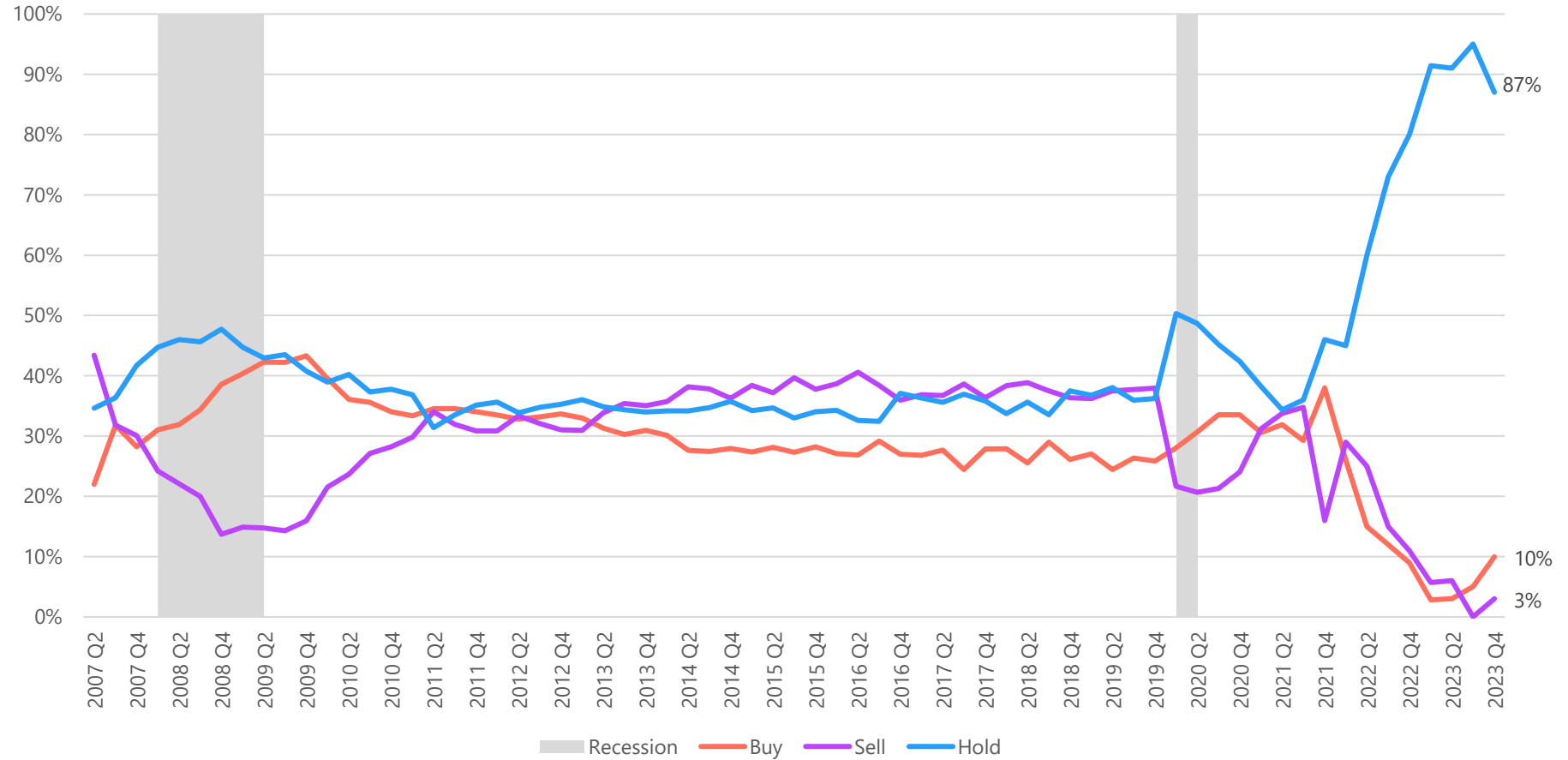
B. No



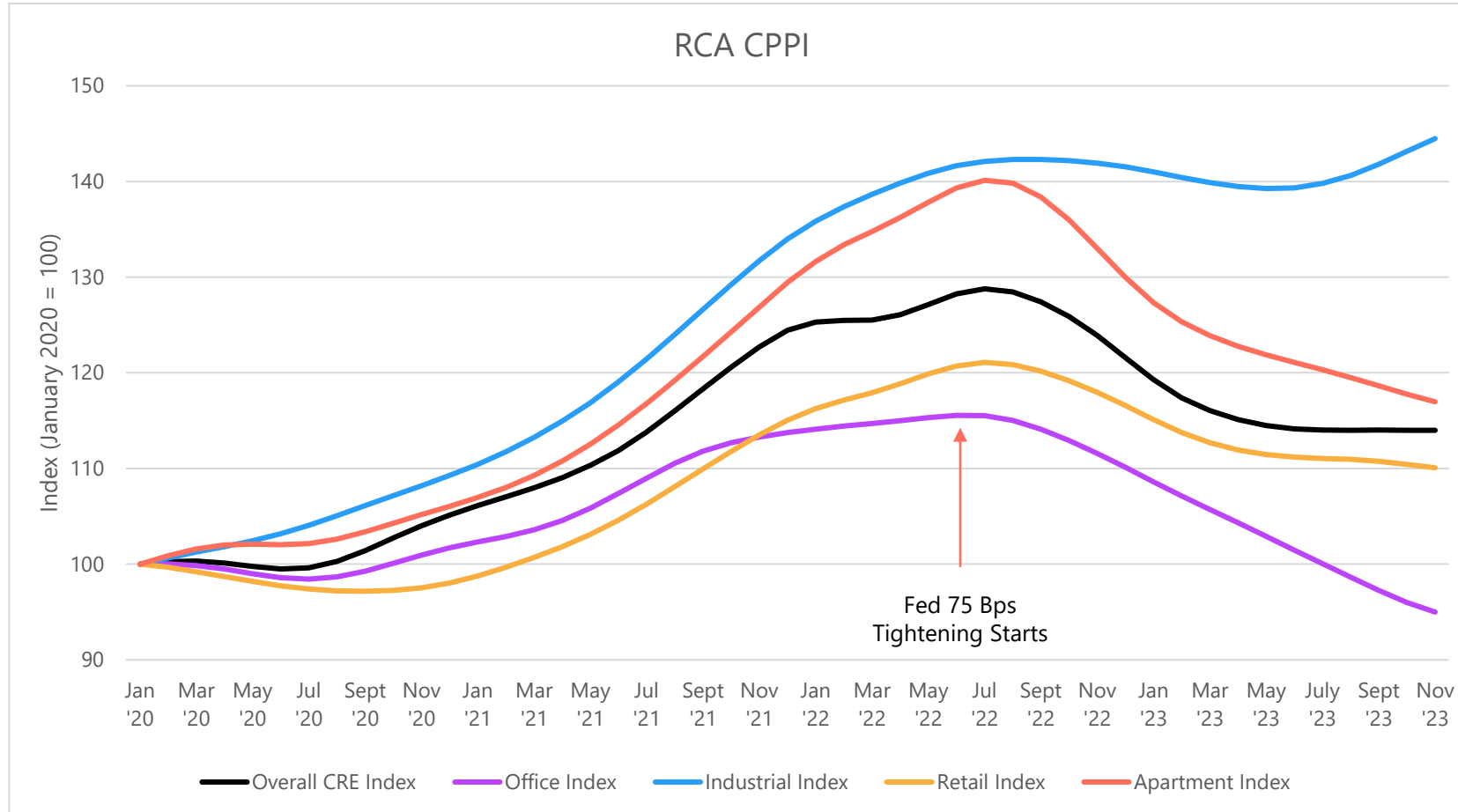
Hold Recommendation Reigns Supreme, But Budding Investor Interest in Buying and Selling

Buy-Sell-Hold Recommendation

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



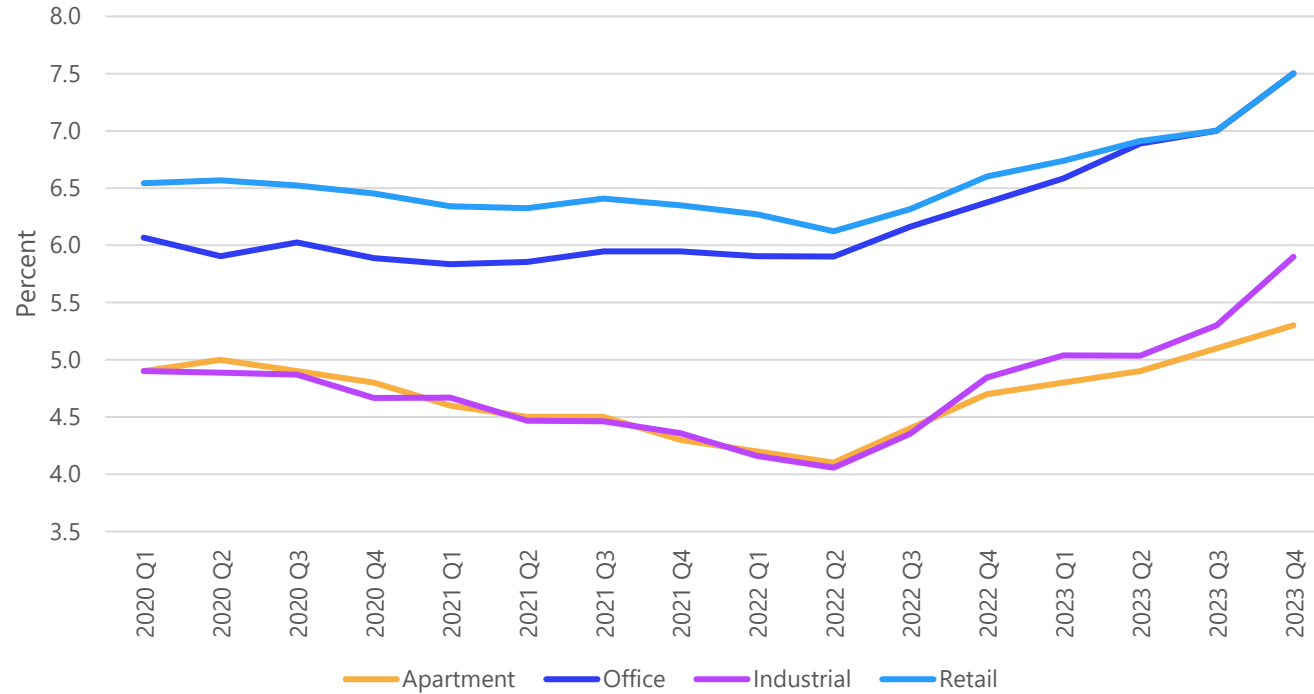
Industrial Prices Up 1.6% from Their Recent Peak; Prices Continue to Fall for Other Segments



	Price Change Since Most Recent Peak
Industrial	+1.6%
Retail	-9.1%
Apartment	-16.5%
Office	-17.8%

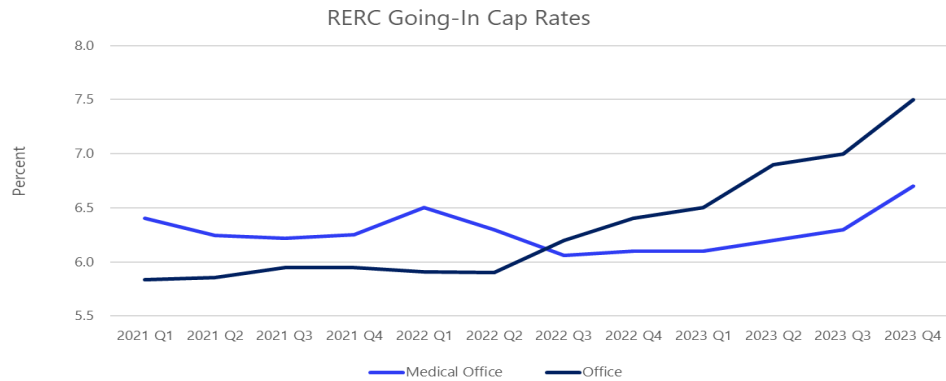
Cap Rates Continue to Expand Across All Property Segments

RERC Going-In Cap Rates

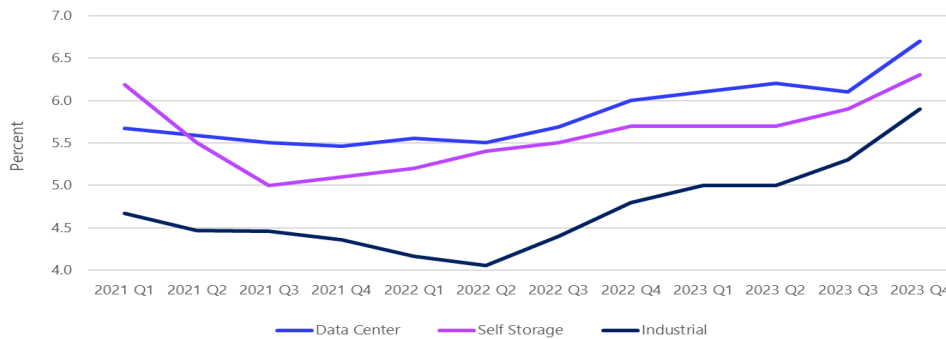


	Cap Rate Change Since Aggressive Fed Tightening in June 2022
Industrial	+180 bps
Office	+160 bps
Retail	+140 bps
Apartment	+120 bps

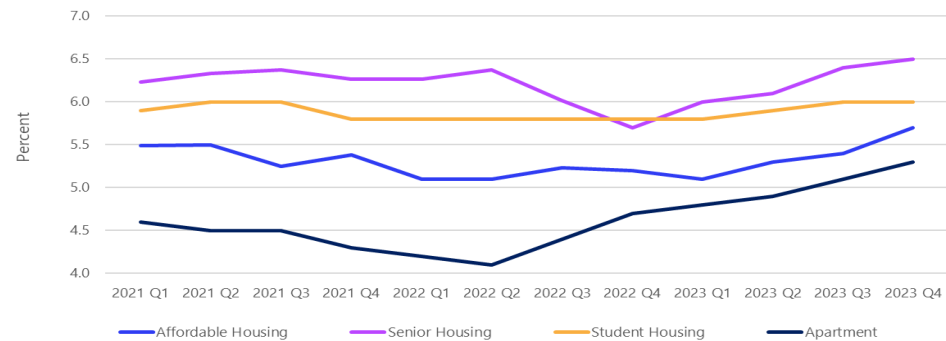
Our Cap Rates Show Better Opportunities in Niche Segments



	Cap Rate Change Since Aggressive Fed Tightening in June 2022
Medical Office	+40 bps
Office	+160 bps



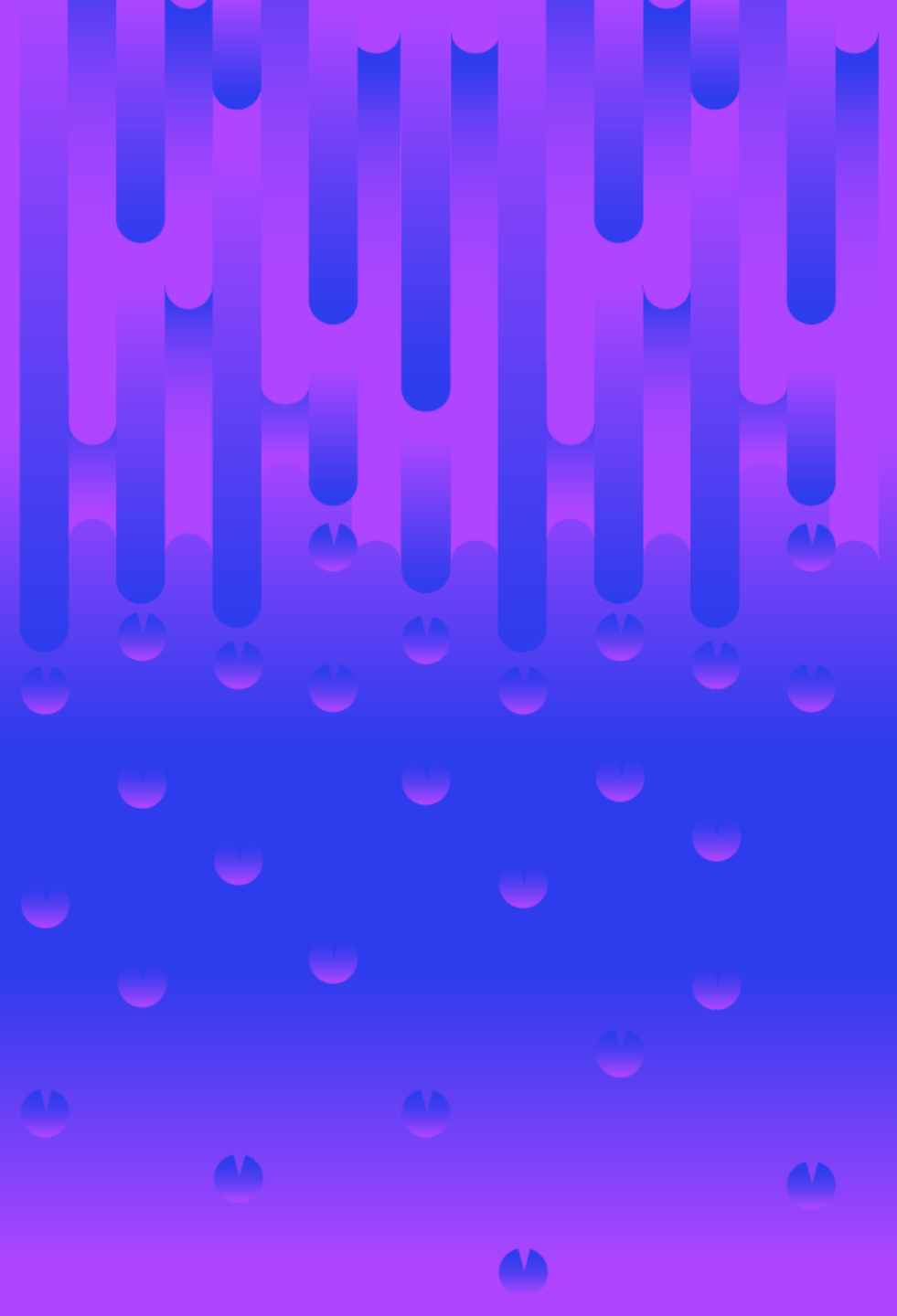
	Cap Rate Change Since Aggressive Fed Tightening in June 2022
Self-Storage	+90 bps
Data Center	+120 bps
Industrial	+180 bps



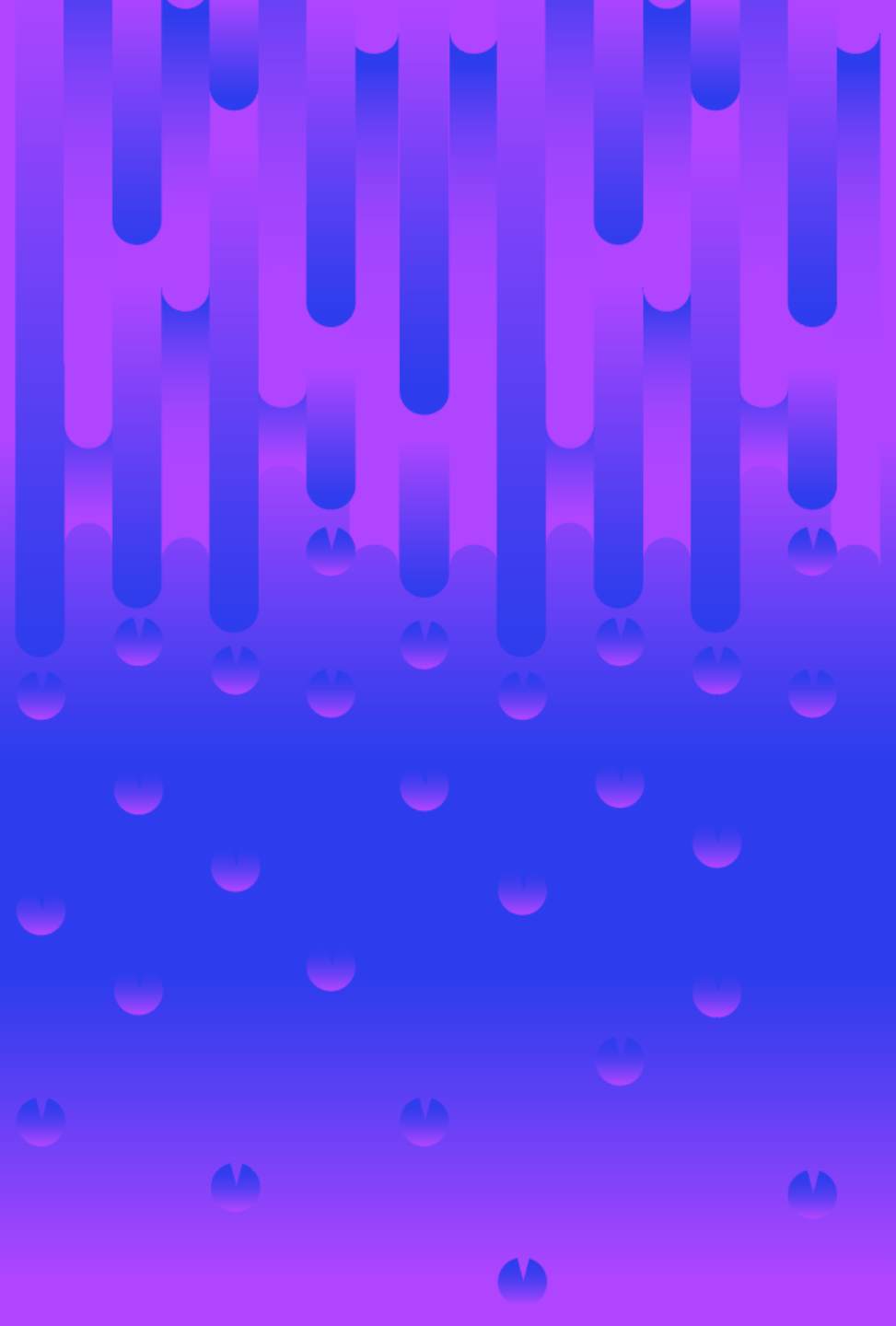
	Cap Rate Change Since Aggressive Fed Tightening in June 2022
Senior Housing	+10 bps
Student Housing	+20 bps
Affordable Housing	+60 bps
Apartment	+120 bps

2.0

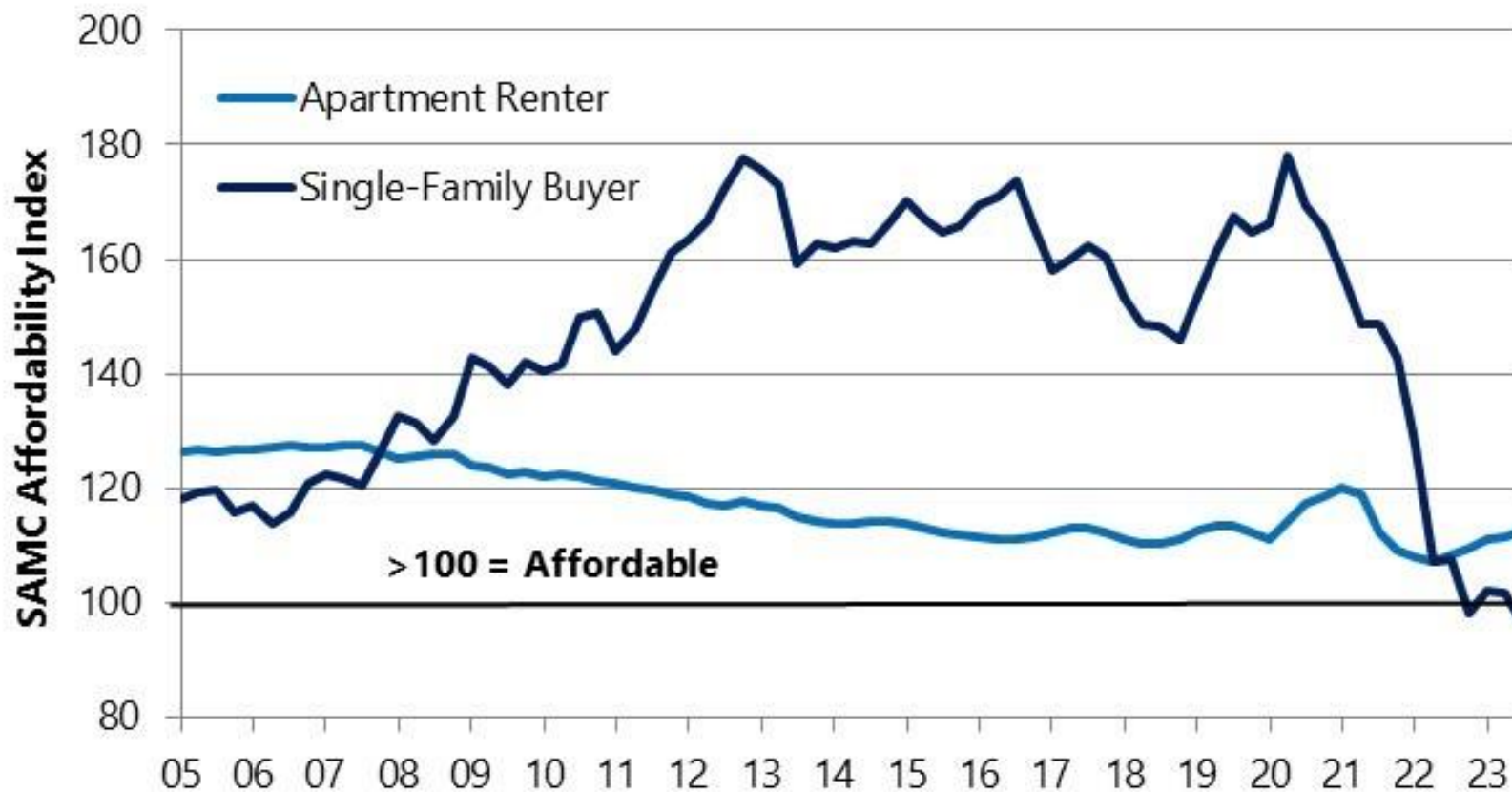
Property Types



2.1 Apartment



Soaring Mortgage Rates and Stubbornly High Prices Lead to Lowest Single-Family Affordability on Record; More Affordable to Rent than Buy

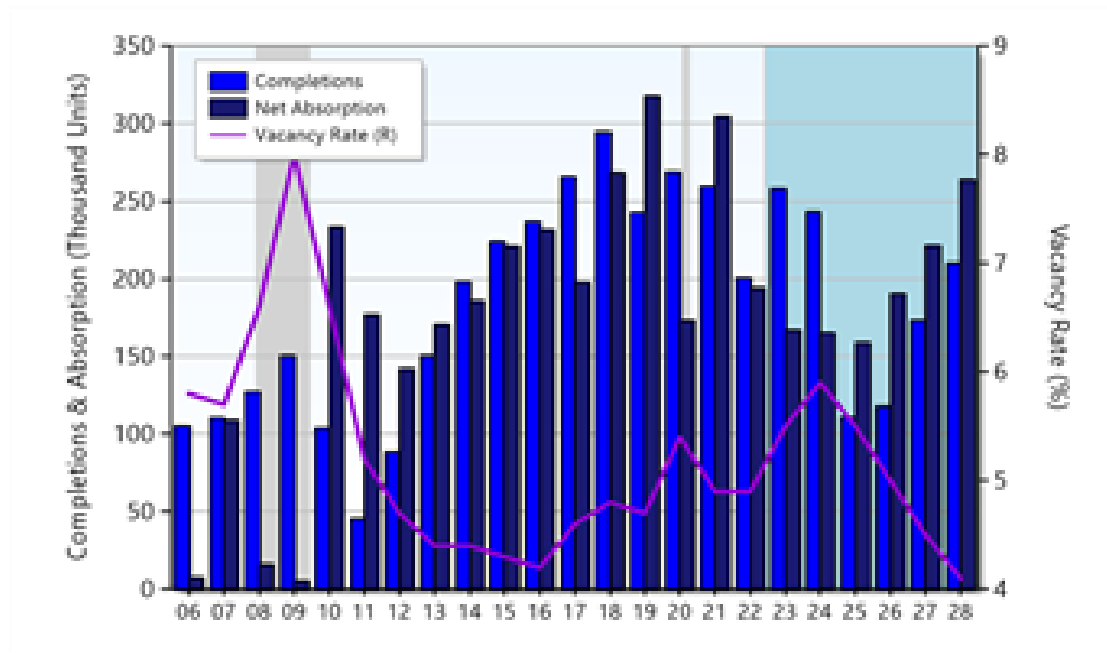


Sources: SitusAMC Insights, Reis, NAR, Moody's Analytics, Freddie Mac, US Census Bureau

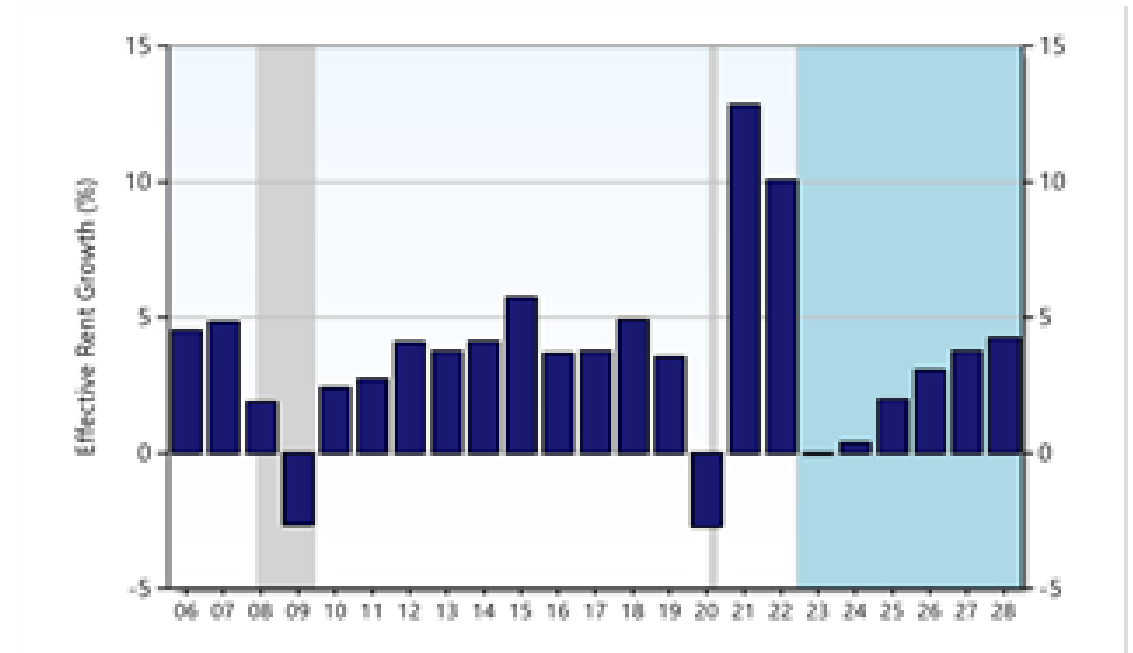
Apartment Vacancies Expected to Rise Through 2024 Amid Strong Completions and Rent Growth to Slow Over Next Two Years; Completions then Look to Moderate

SitusAMC Insights Apartment Fundamentals Forecasts

Supply/Demand

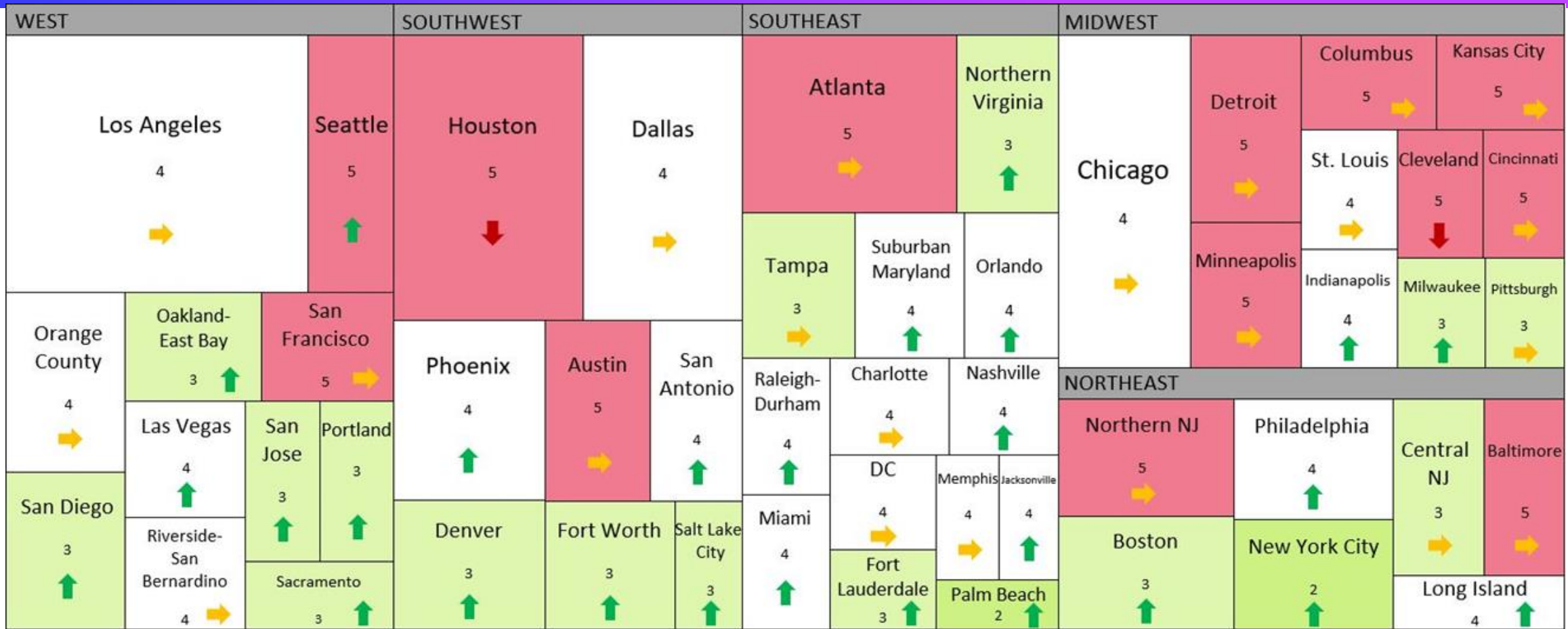


Effective Rent Growth



Gray shading represents a recession. Blue shading represents the forecast.
Sources: Reis, NBER, SitusAMC Insights Forecasts, 3Q 2023.

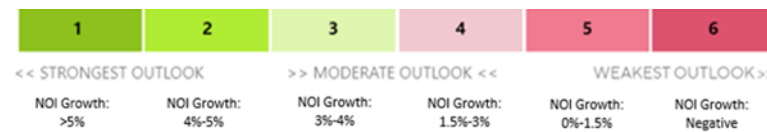
SitusAMC Insights Apartment NOI Heat Map: Outlook Improves as We Extend Forecast Horizon



- The average apartment score improved slightly from 4.2 to 3.9 and has a moderate NOI outlook.
- There were just 2 downgrades: Houston and Cleveland.
- There were 27 upgrades, with gains most heavily concentrated in the West
- Palm Beach and New York ranked highest at a 2.

NUMERICAL RANKINGS & COLORS

These represent the current and projected strength of each market through 2027.



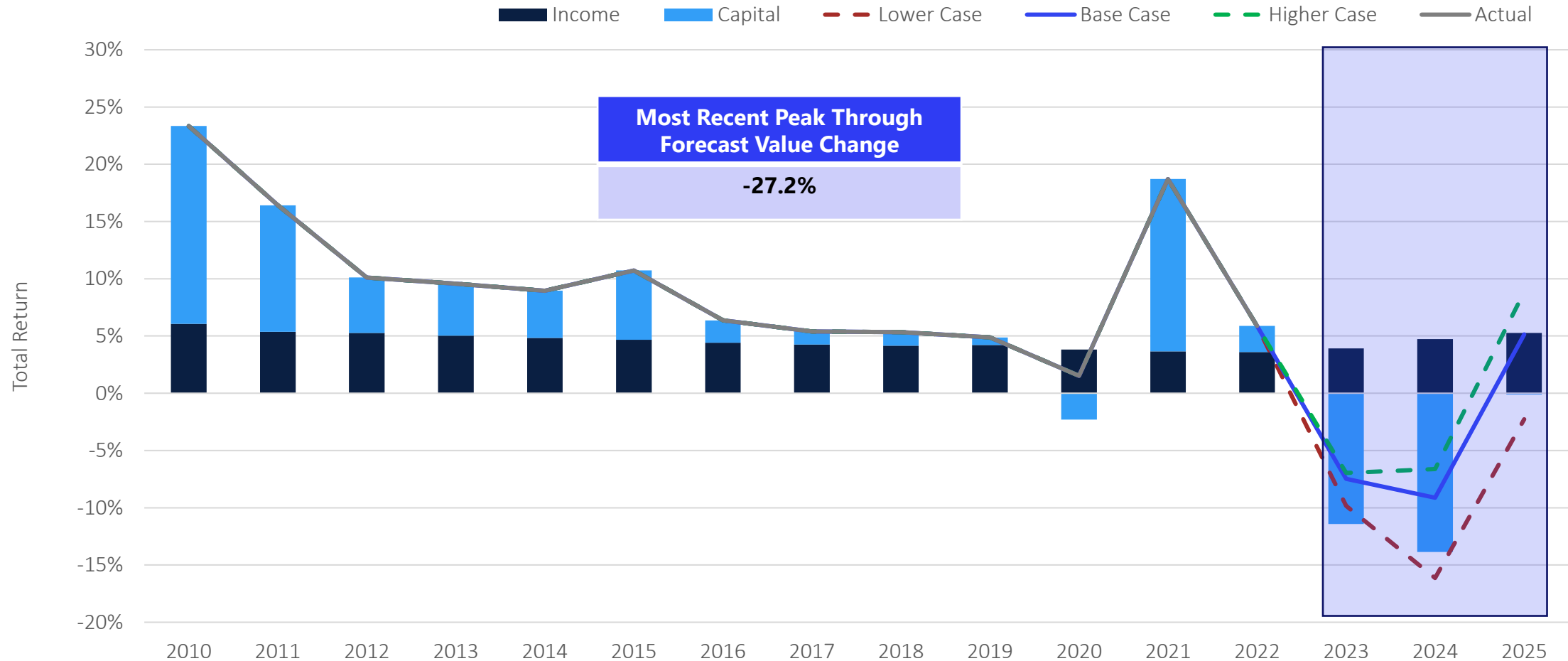
ARROWS

- ▲ IMPROVED
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- 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.

Further Weakness Expected in Apartment Returns Before Improvement

SitusAMC Insights Apartment Return Forecast

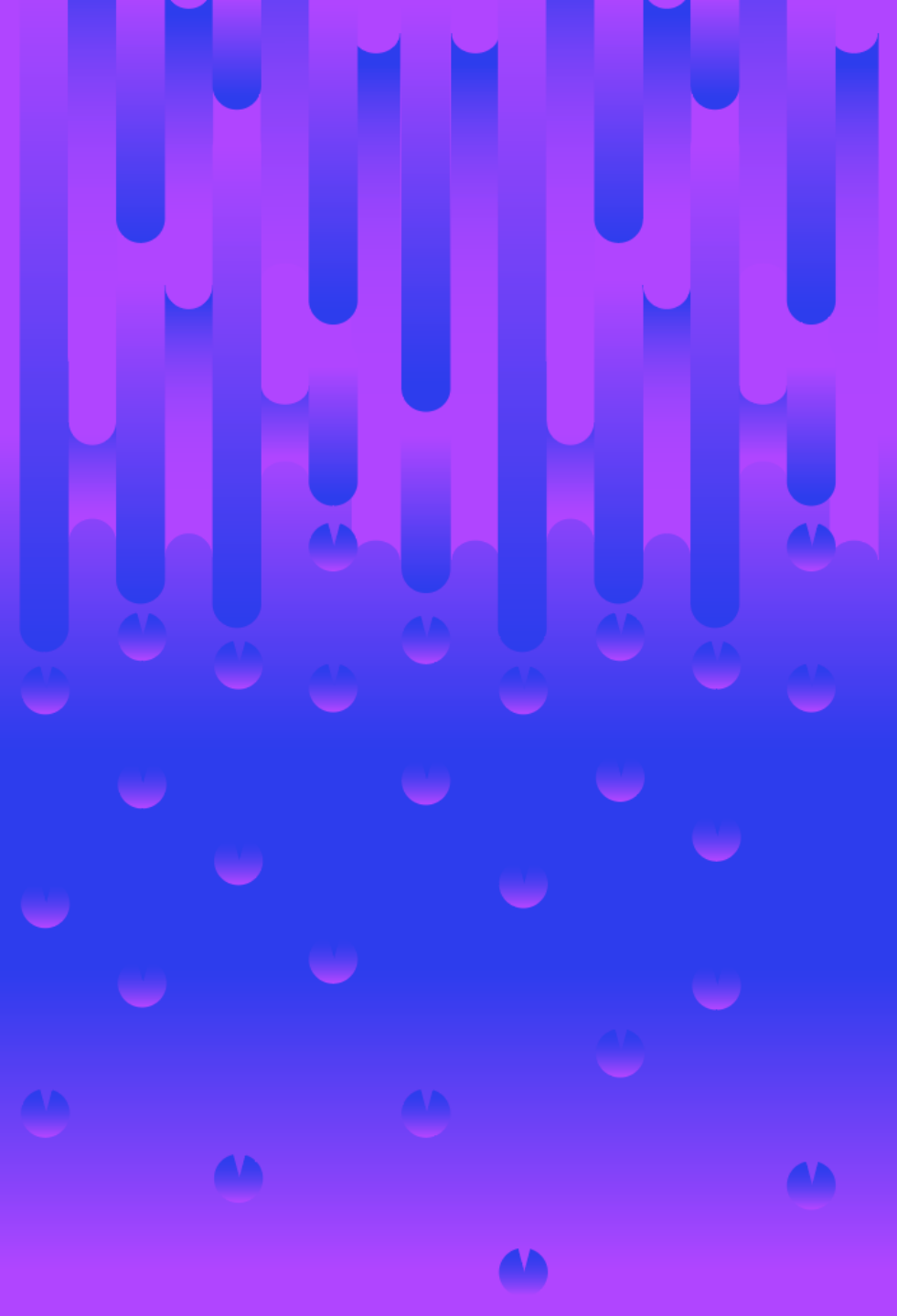


The total return forecast is SitusAMC's proprietary model based on SitusAMC data and data from NPI-ODCE, and is for unleveraged, institutional-grade properties. Total returns are derived from an income component and a capital appreciation/depreciation component. Shading represents the forecast.

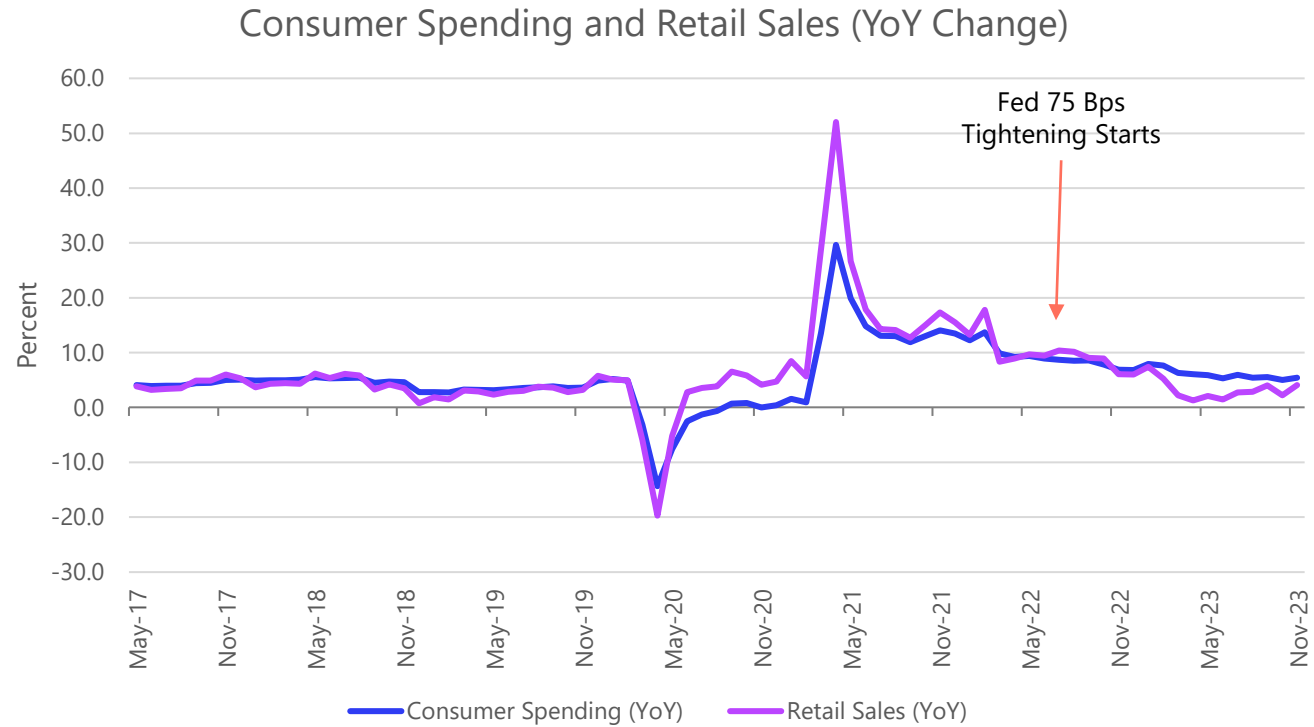
Sources: NCREIF NPI, SitusAMC Insights, 3Q 2023.

2.2

Retail



Consumer Spending and Retail Sales Decelerate in 2023, But Remain Historically Strong

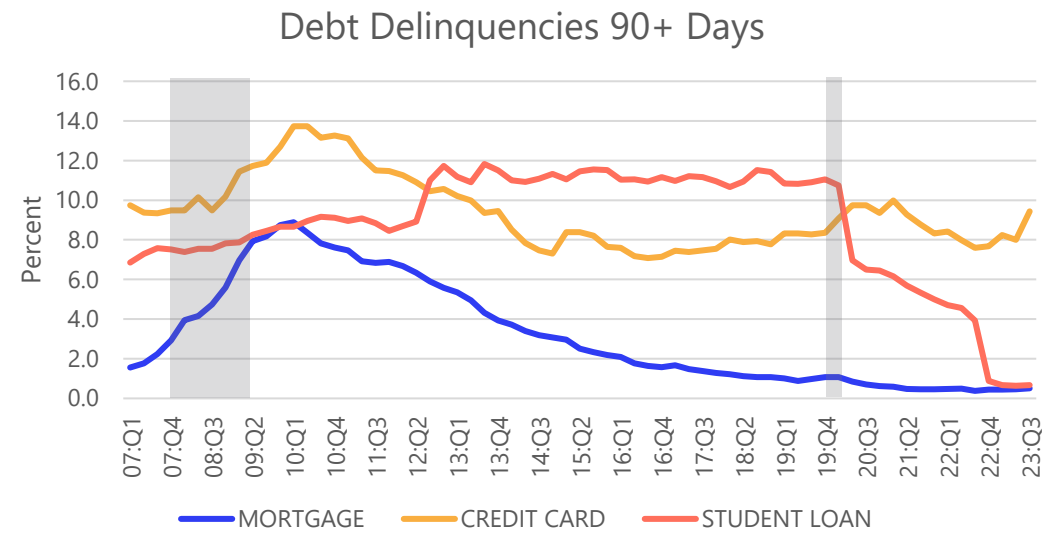
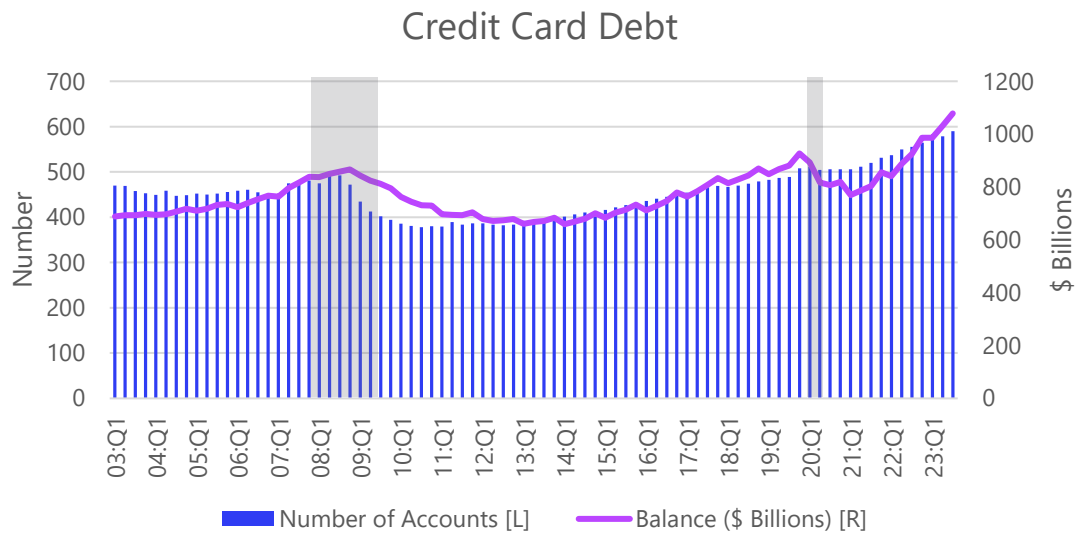


	YoY Change in Nov. 2023	Post-GFC to COVID-19 Average (YoY)
Consumer Spending	5.4%	3.7%
Retail Sales	4.1%	3.9%

Shaded areas represent recessions. The expectations index represents expectations six months hence.
Sources: BEA, Census Bureau, SitusAMC Insights (Seasonally Adjusted).

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

- Credit card balances were up 17% YoY in 3Q 2023 to \$1.08 trillion. Number of accounts also increased YoY by 6.2%.
- Credit card delinquencies (90+ days) rose 24% YoY; however, at 9.3% in 3Q 2023 are just 10 bps higher than the LTA.
- Mortgage delinquencies remain low.
- Student loan delinquencies plummeted during repayment pause; however, payments resumed in October.
 - 60% of the 22 million borrowers with payments due in October made those payments by mid-November, per US Department of Education.



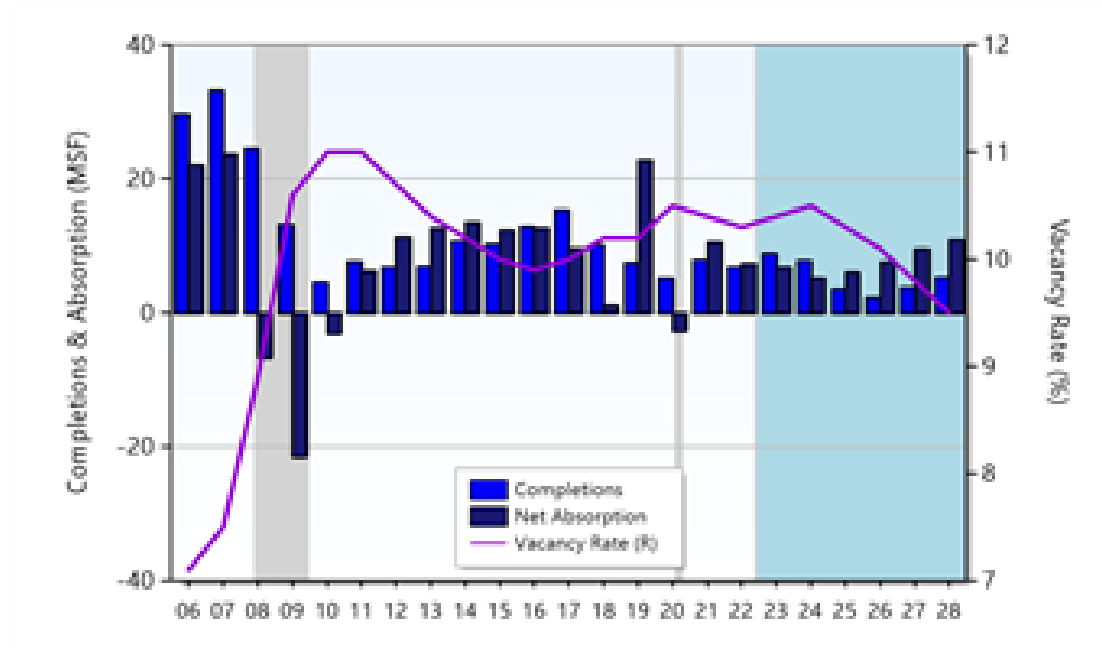
Shaded areas represent recessions

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

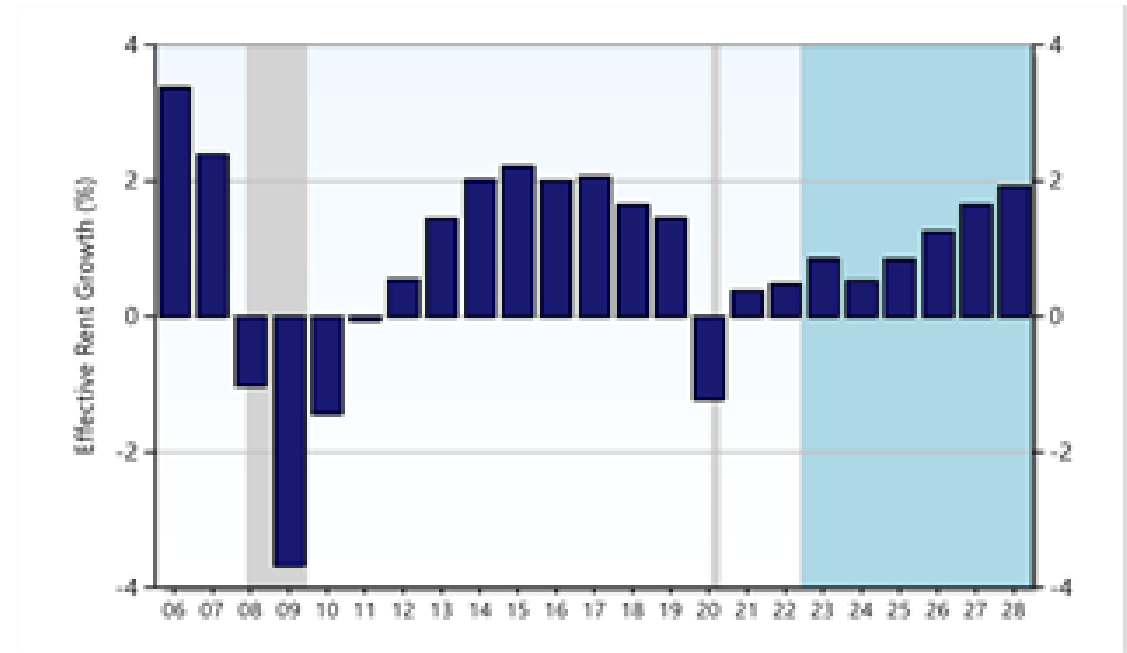
Retail Rent Growth Expected to Rise Toward End of Forecast Period as Vacancies Edge Down

SitusAMC Insights Retail Fundamentals Forecasts

Supply/Demand

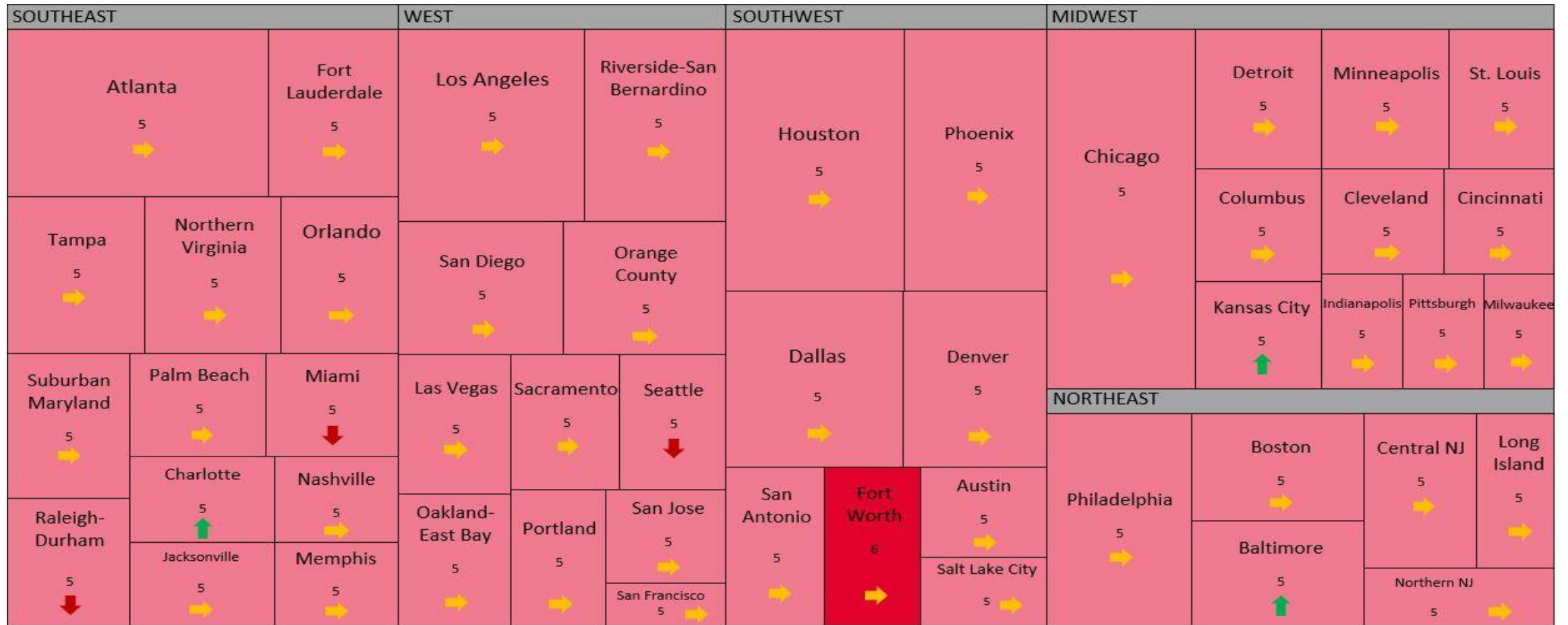


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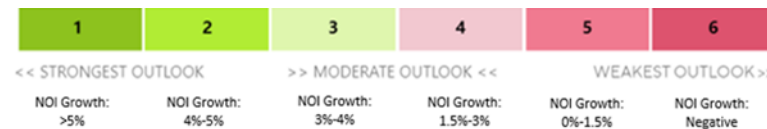
SitusAMC Insights Retail NOI Heat Map Stays in the Pink



- The average retail rating remained the same QoQ at a 5.0.
- All markets were ranked as a 5, except Fort Worth at a 6.
- Three metros improved to 5s – Charlotte, Baltimore and Kansas City.
- Three metros were downgraded – Raleigh-Durham, Miami and Seattle.

NUMERICAL RANKINGS & COLORS

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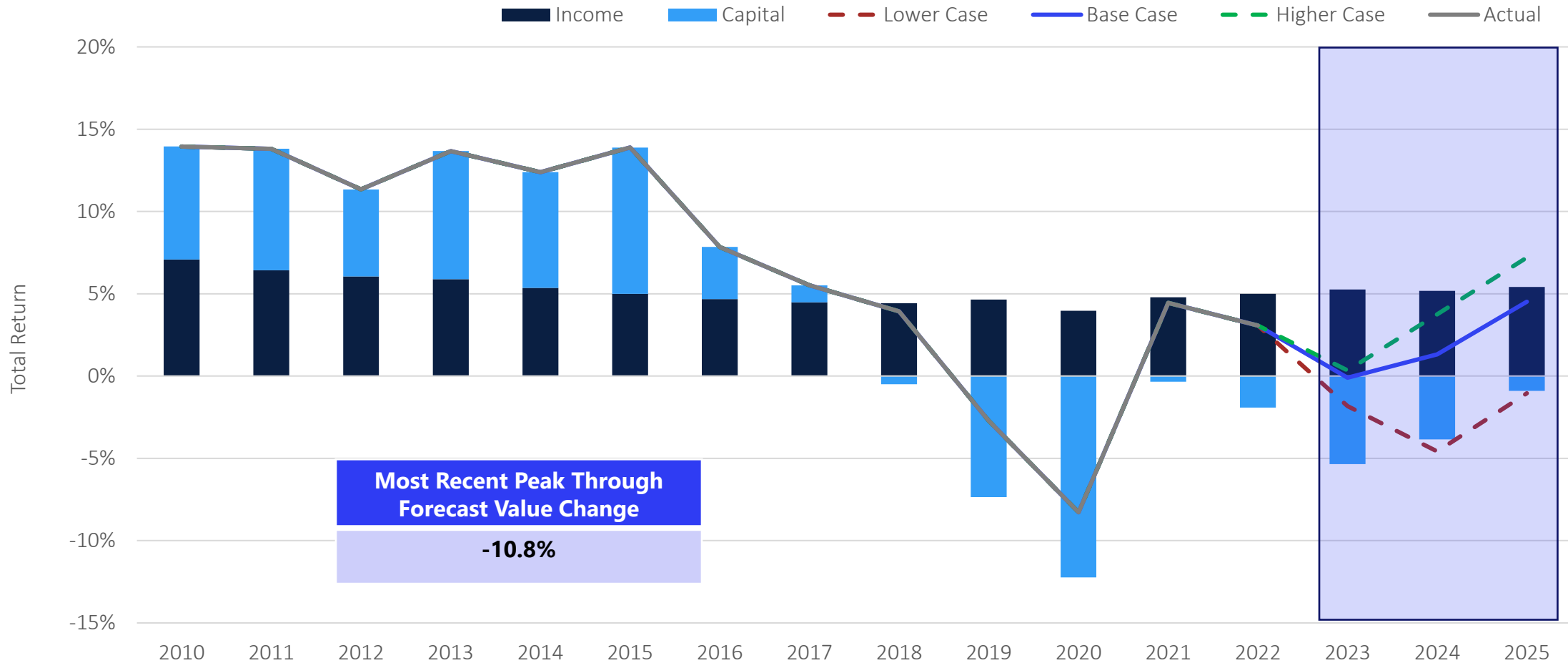
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Income Drives Positive Retail Returns in 2024 and 2025

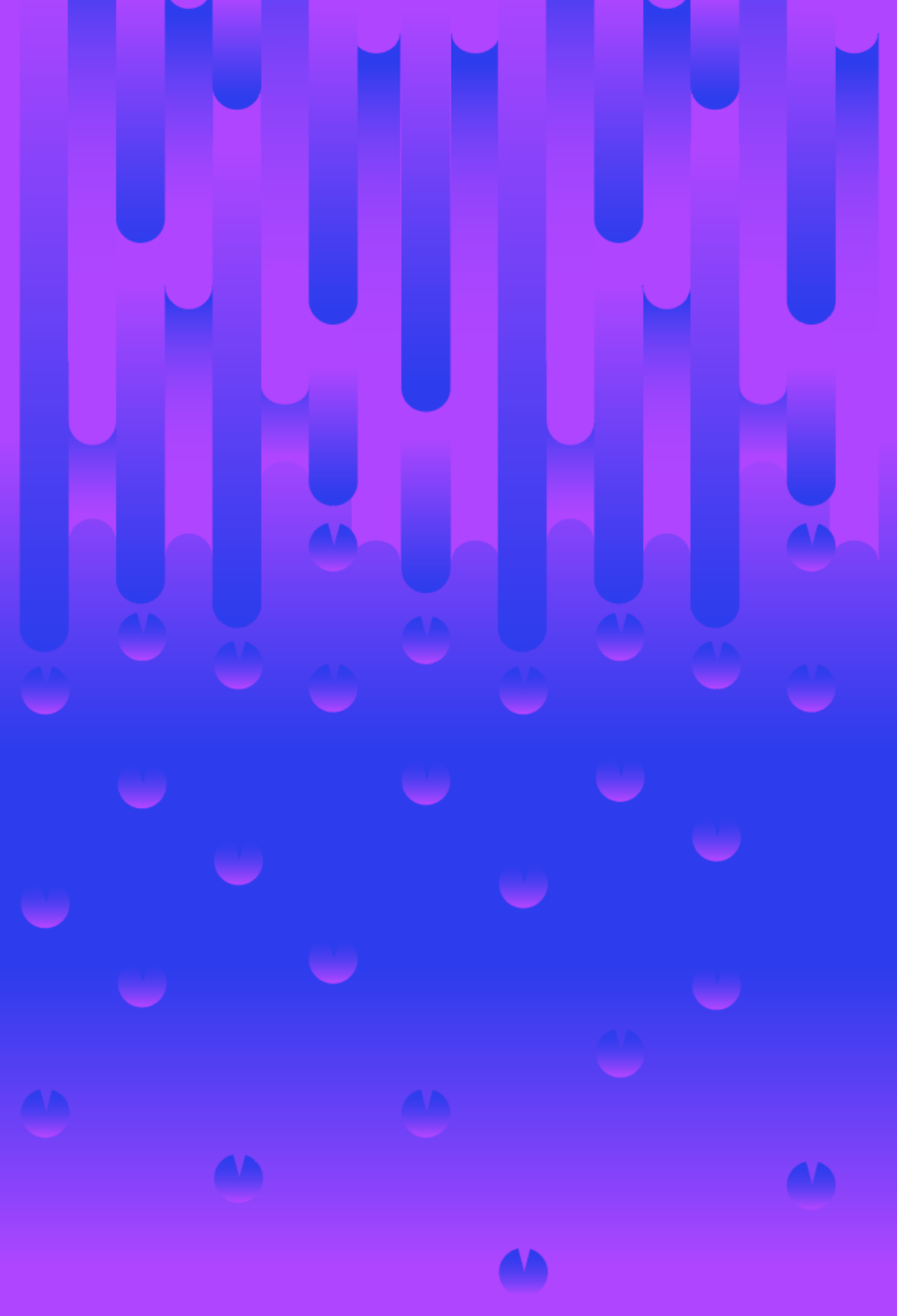
SitusAMC Insights Retail Return Forecast



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2.3

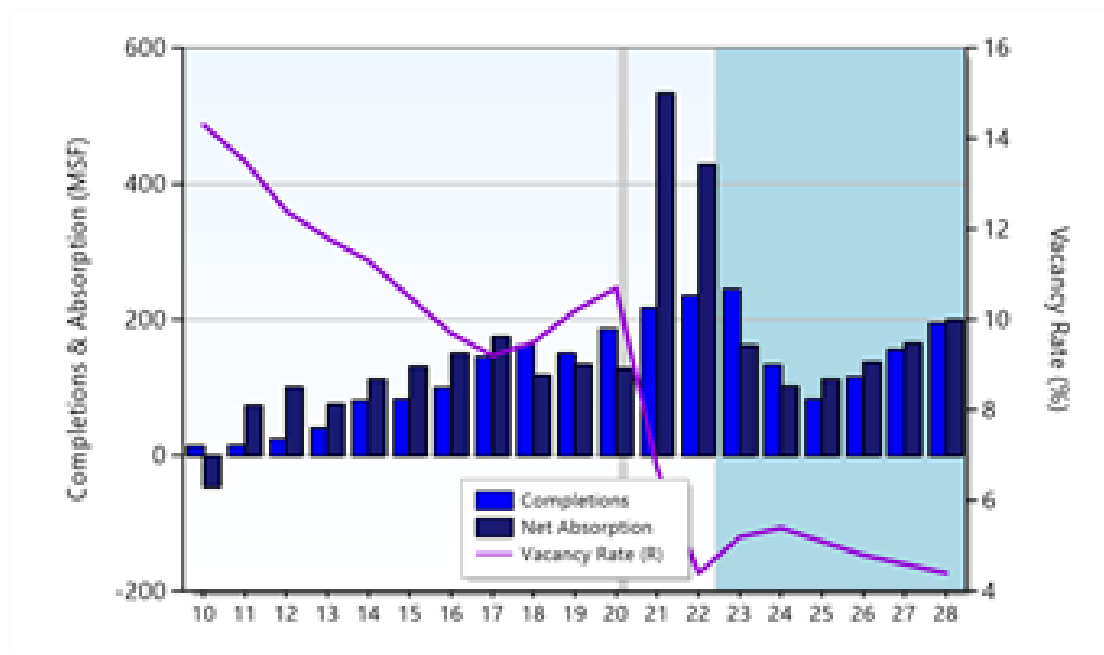
Industrial



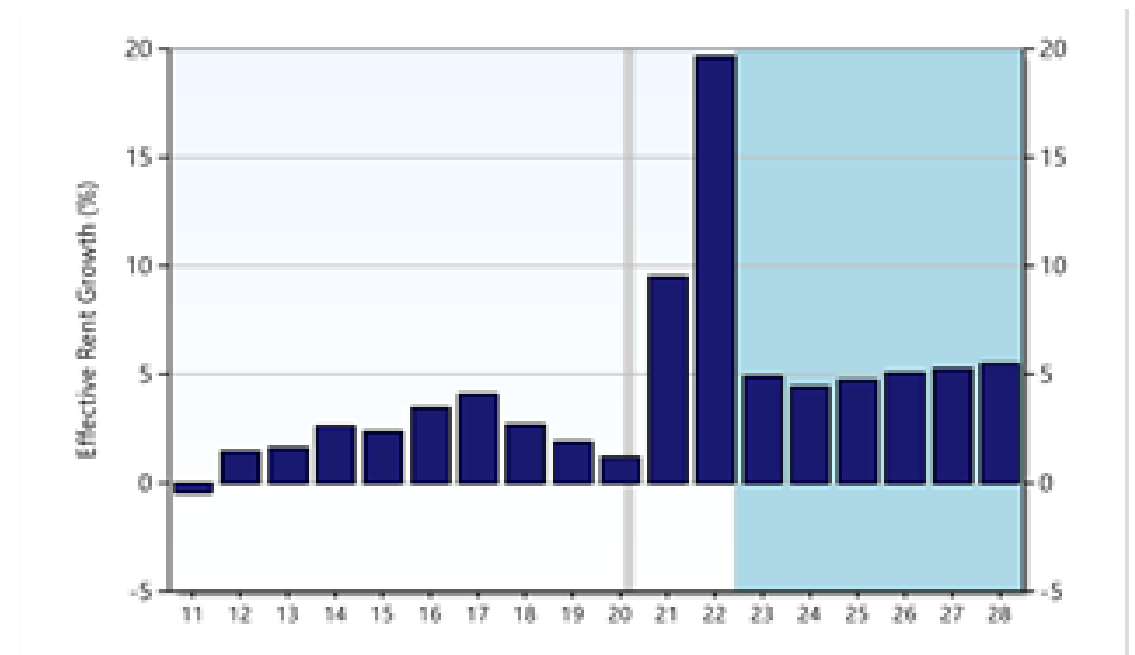
Industrial Vacancies to Remain Near Record Lows, Rent Growth to Moderate But Remain Strong

SitusAMC Insights Industrial Fundamentals Forecasts

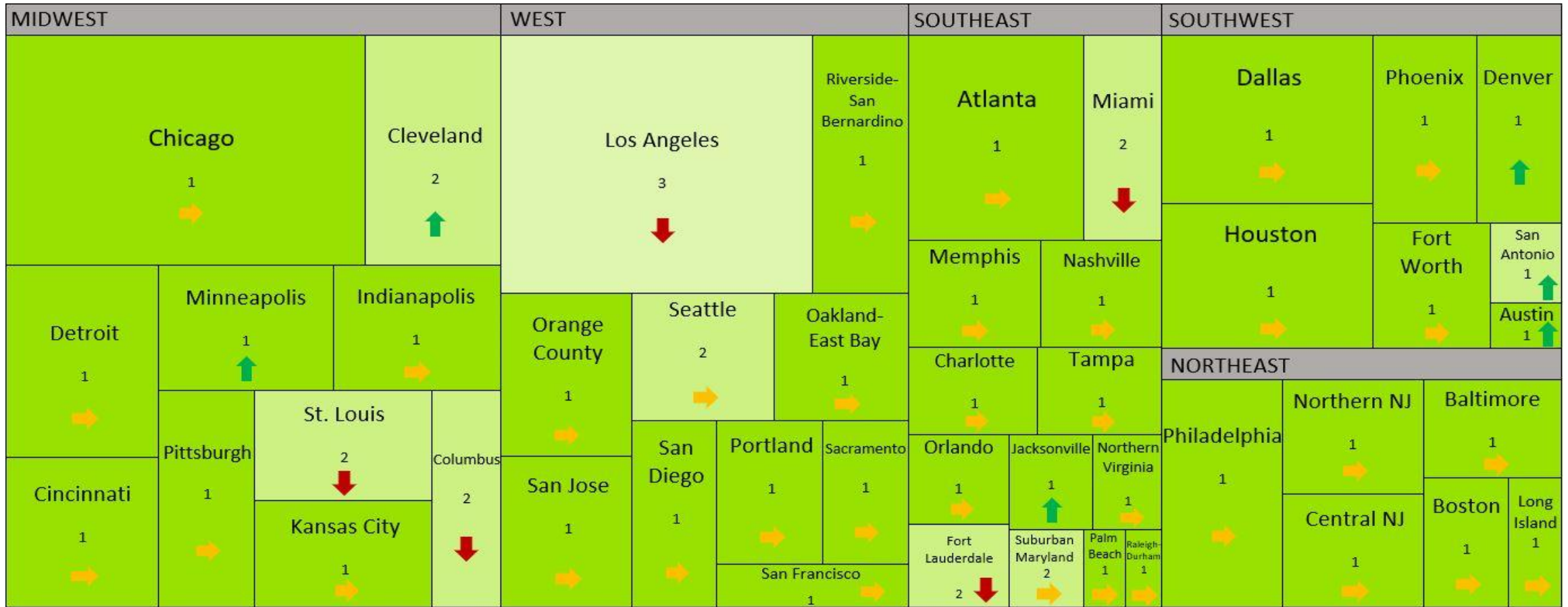
Supply/Demand



Effective Rent Growth



SitusAMC Insights Industrial NOI Heat Map Shows Industrial Is Still Strong

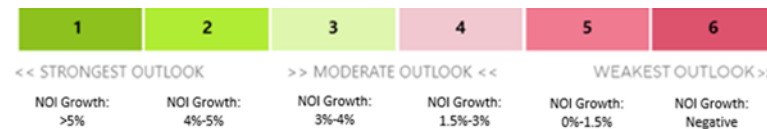


- The average industrial rating was unchanged QoQ at 1.2 and had the best NOI outlook among the property types.
- There were 6 upgrades and 5 downgrades.
- 35 markets were stagnant, but these markets were already at a 1 or a 2.
- The Southwest and Northeast had the best NOI outlooks with an average ranking of 1.

Source: SitusAMC Insights, 3Q 2023.

NUMERICAL RANKINGS & COLORS

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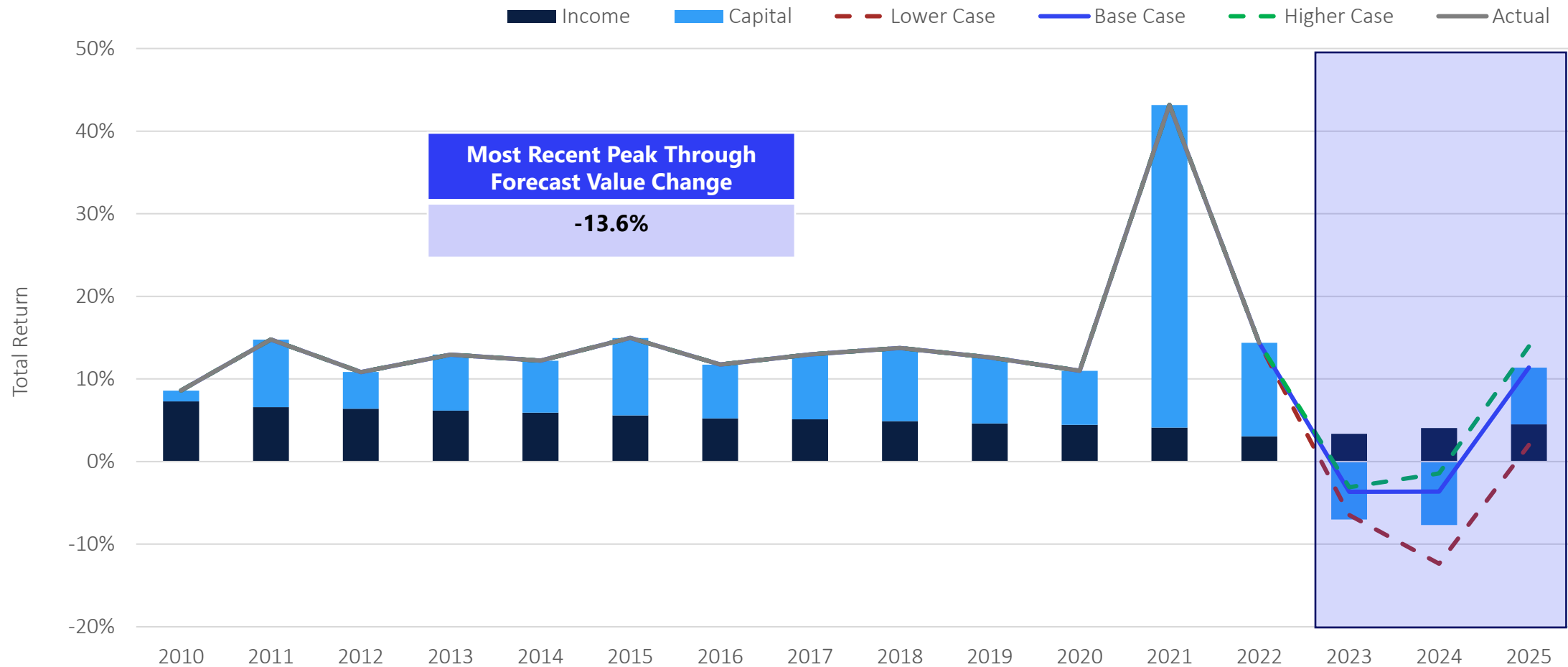
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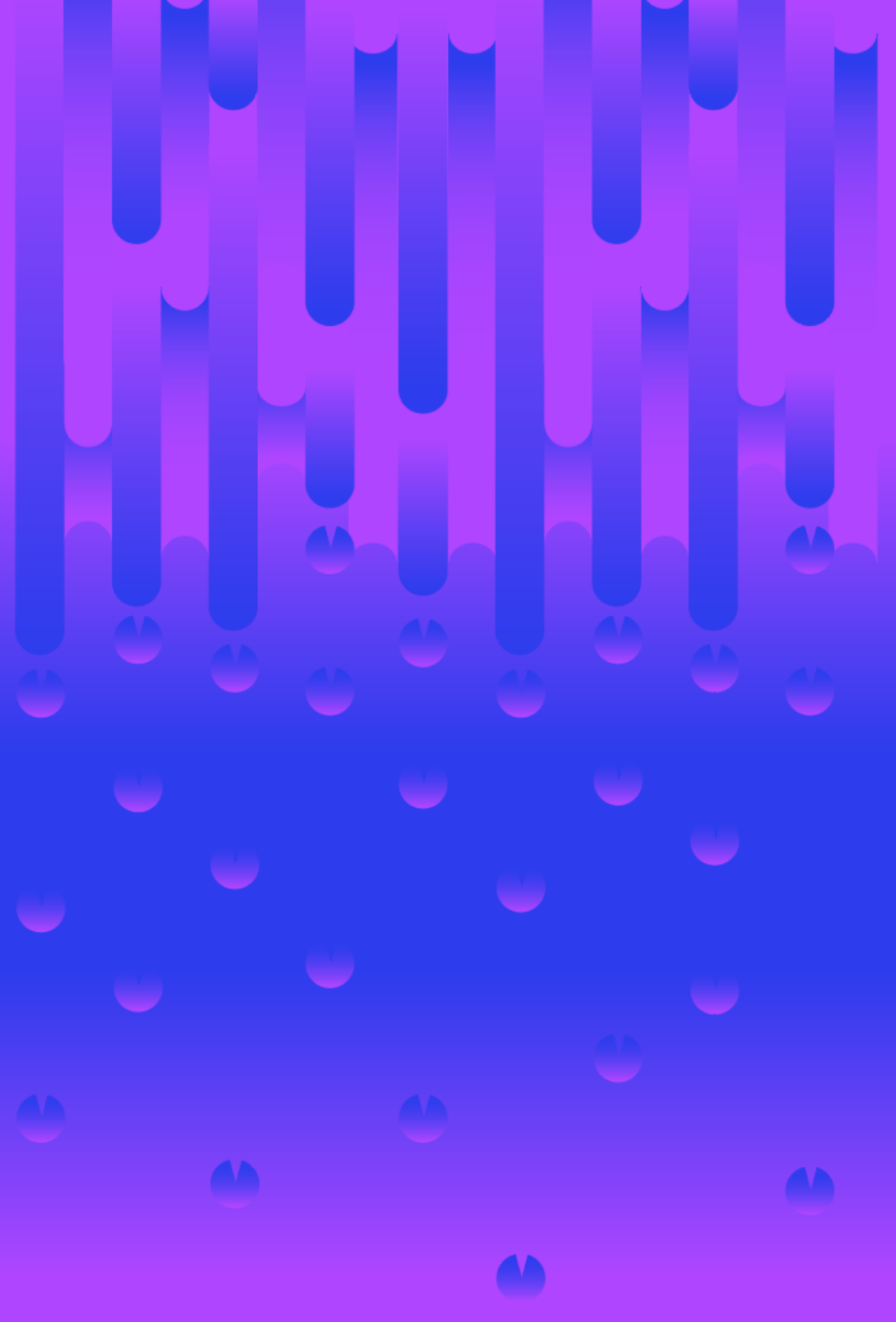
Another Down Year for Industrial; Appreciation Turns Positive in 2025

SitusAMC Insights Industrial Return Forecast



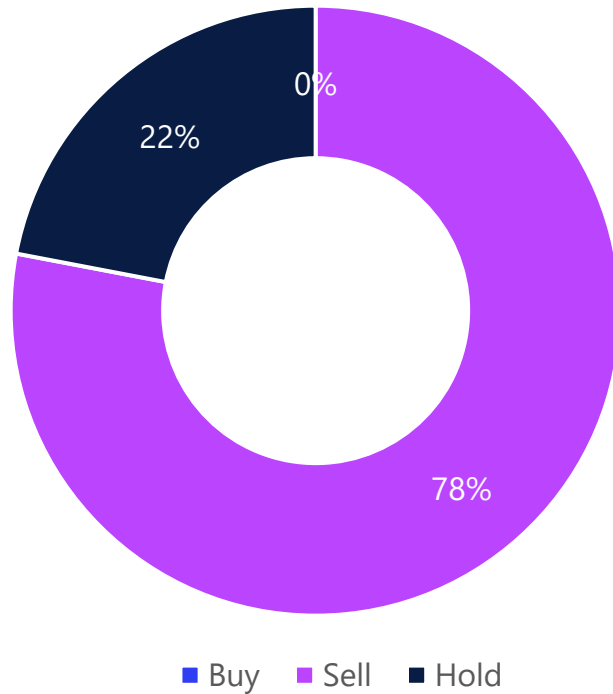
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2.4 Office

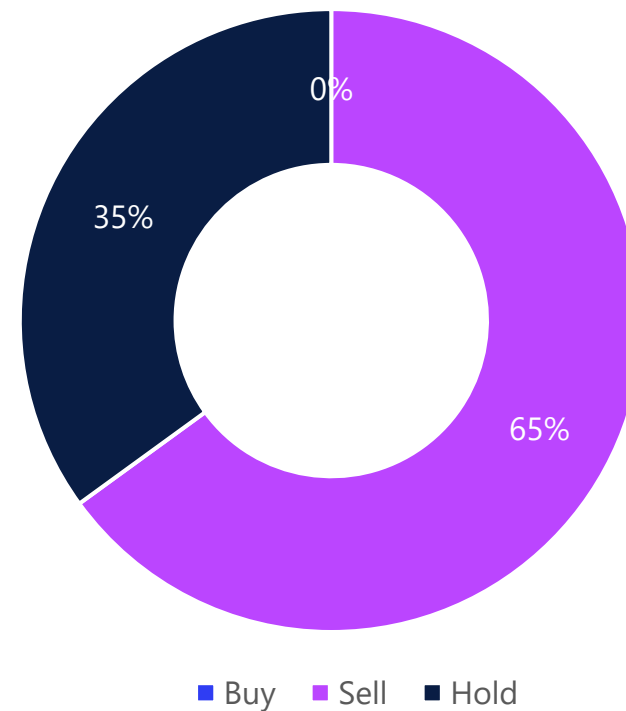


The Great Unloading: Investors Turn Away from Hold Recommendation to Sell for Office

CBD Office Investment Recommendations
4Q 2023



Suburban Office Investment Recommendations
4Q 2023

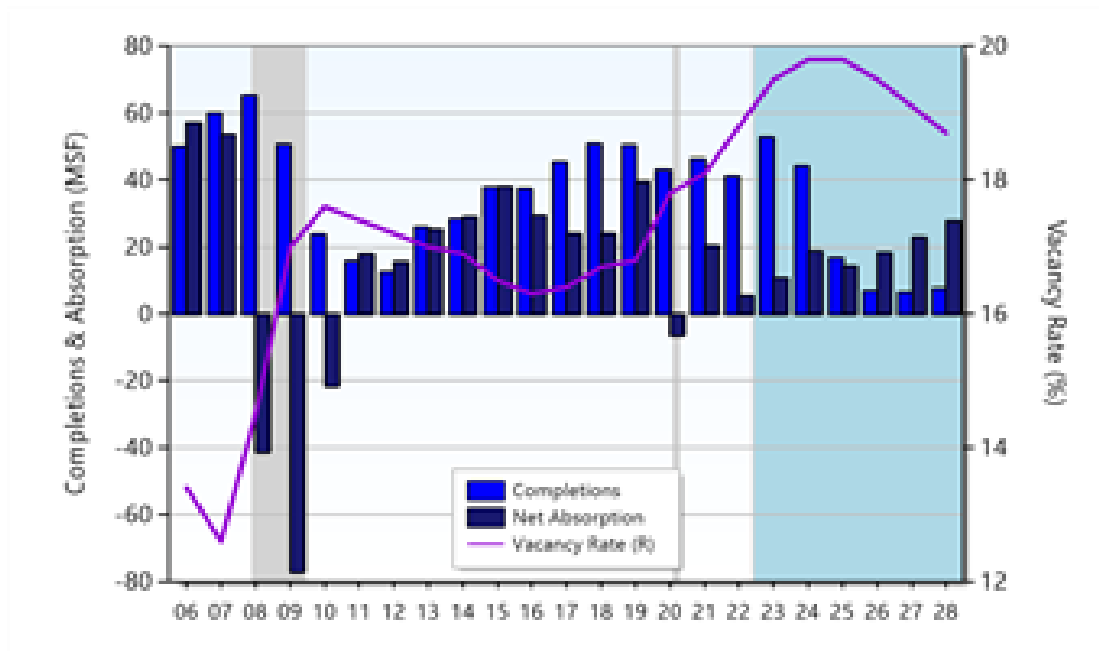


- 3Q 2023 CBD
 - Buy: 0%
 - Sell: 49%
 - **Hold: 51%**
- 3Q 2023 Suburban Office
 - Buy: 0%
 - Sell: 45%
 - **Hold: 55%**

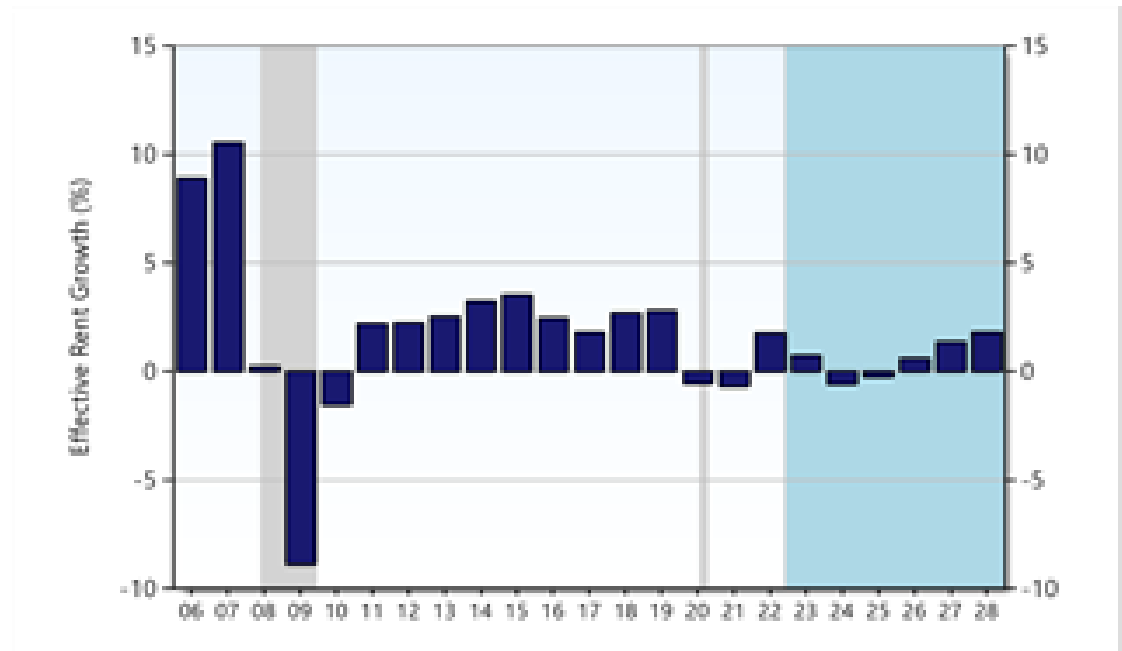
Office Oversupply and Weak Demand Will Likely Lead to Rent Declines Over Next Few Years

SitusAMC Insights Office Fundamentals Forecast

Supply/Demand

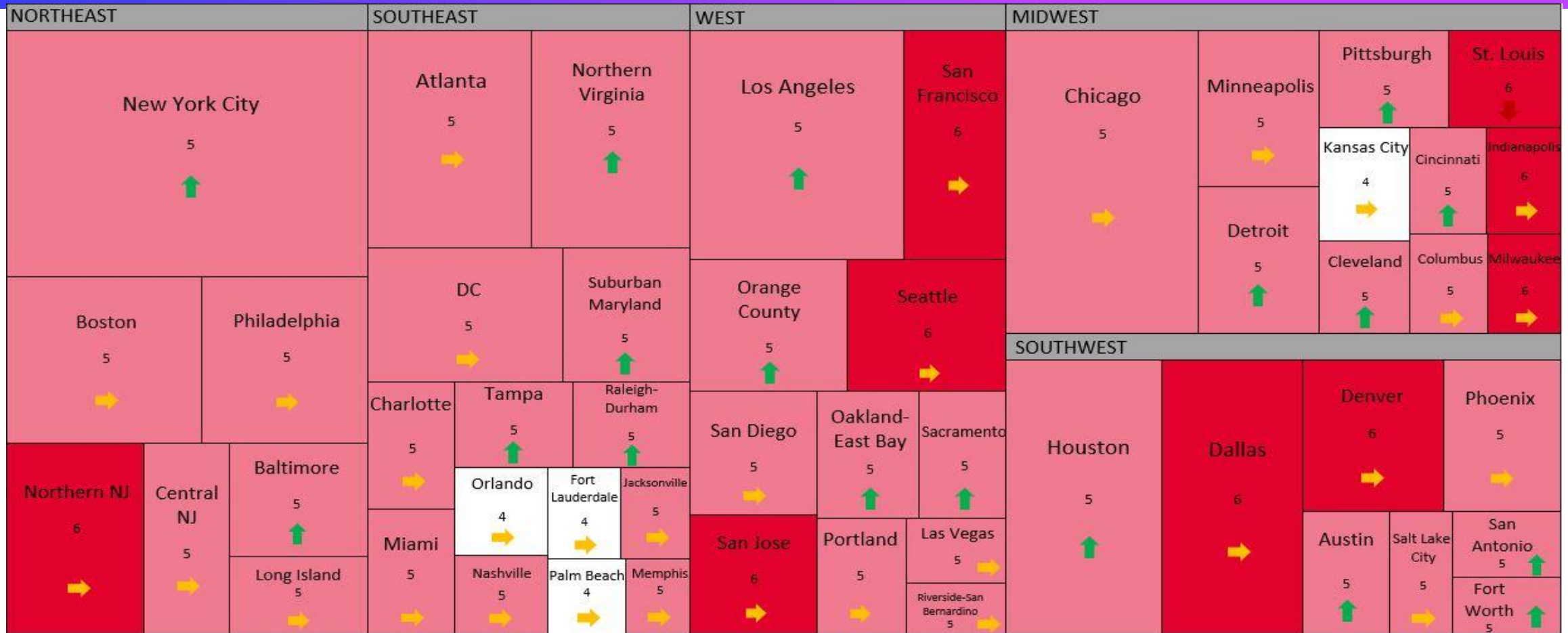


Effective Rent Growth



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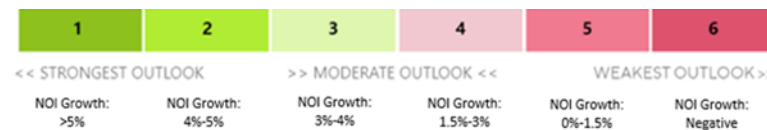
SitusAMC Insights Office NOI Heat Map: Weak But Improving



- The average office score improved slightly from 5.4 to 5.1 but is still weak.
- There were 18 upgrades, but no region looks particularly strong; St. Louis was the only downgrade.
- The best NOI outlooks are for Kansas City, Ft. Lauderdale, Orlando and Palm Beach ranked at a 4.

NUMERICAL RANKINGS & COLORS

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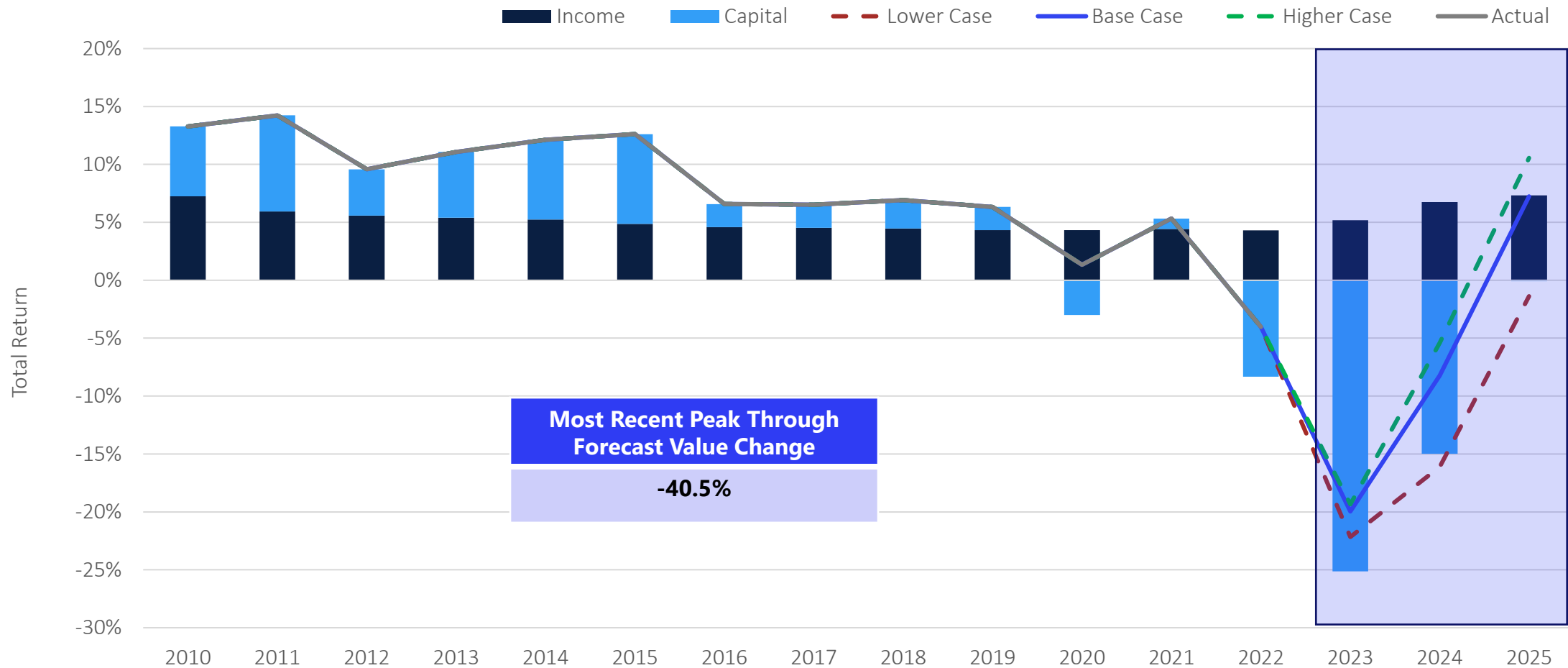
ARROWS

- ▲ 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.

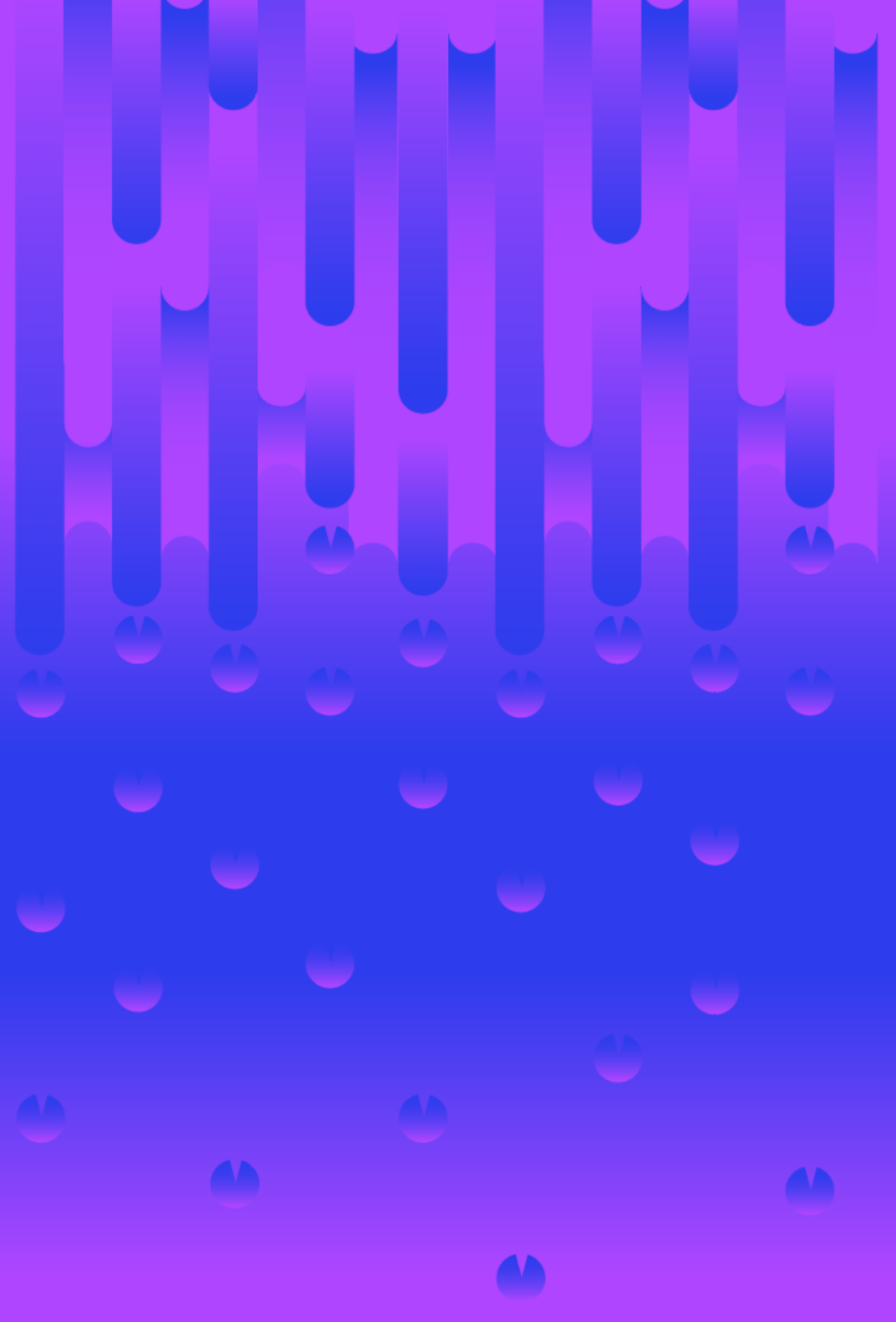
Positive Office Returns in 2025 to Be Driven By Income

SitusAMC Insights Office 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, 3Q 2023.

Thank You



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