SitusAMC Insights

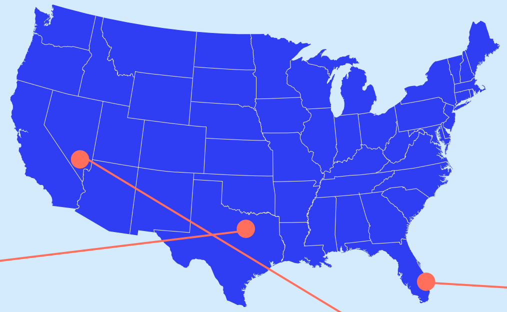
Top 3 Bottom 3 Metros

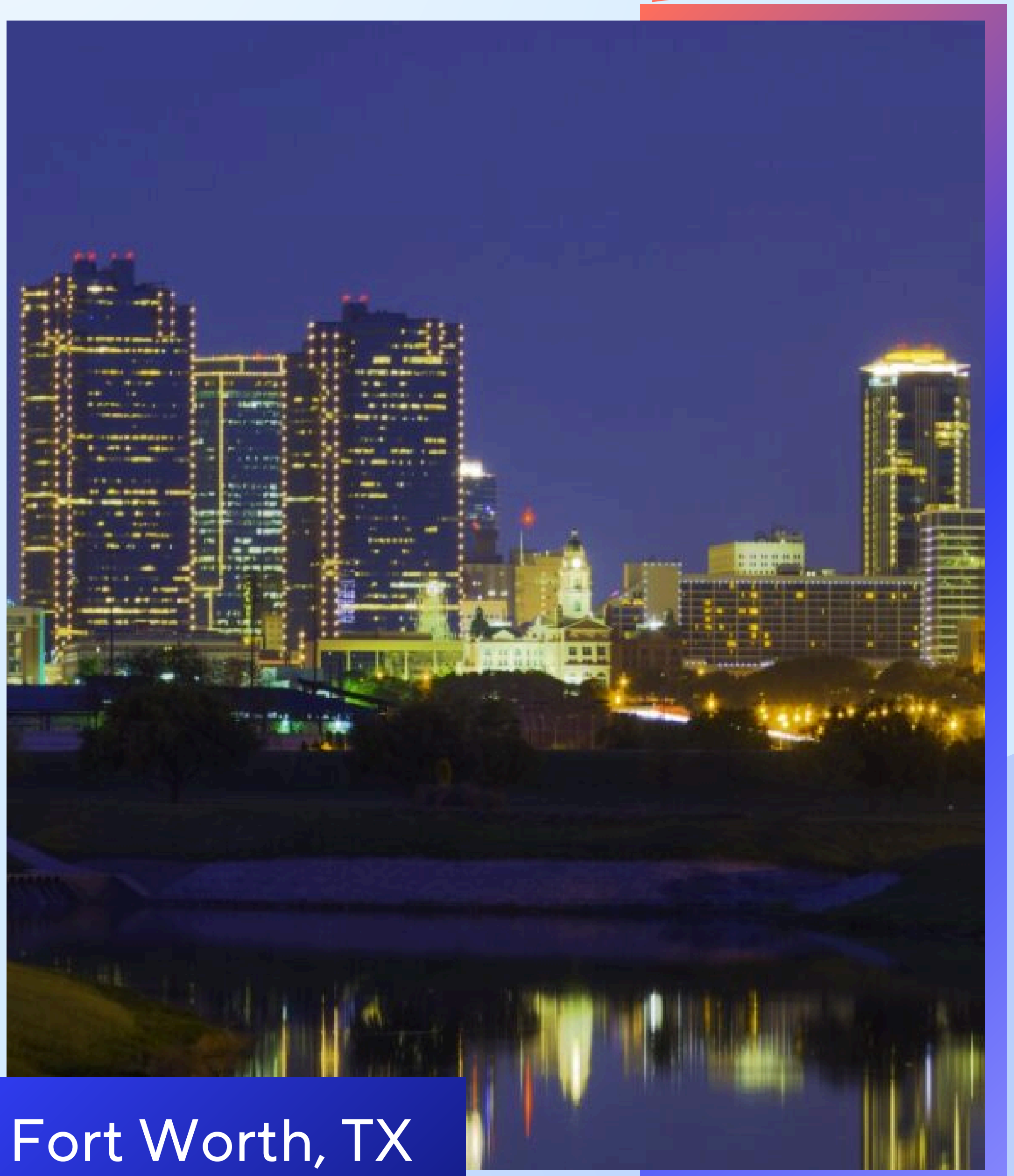
1Q 2024

Introduction

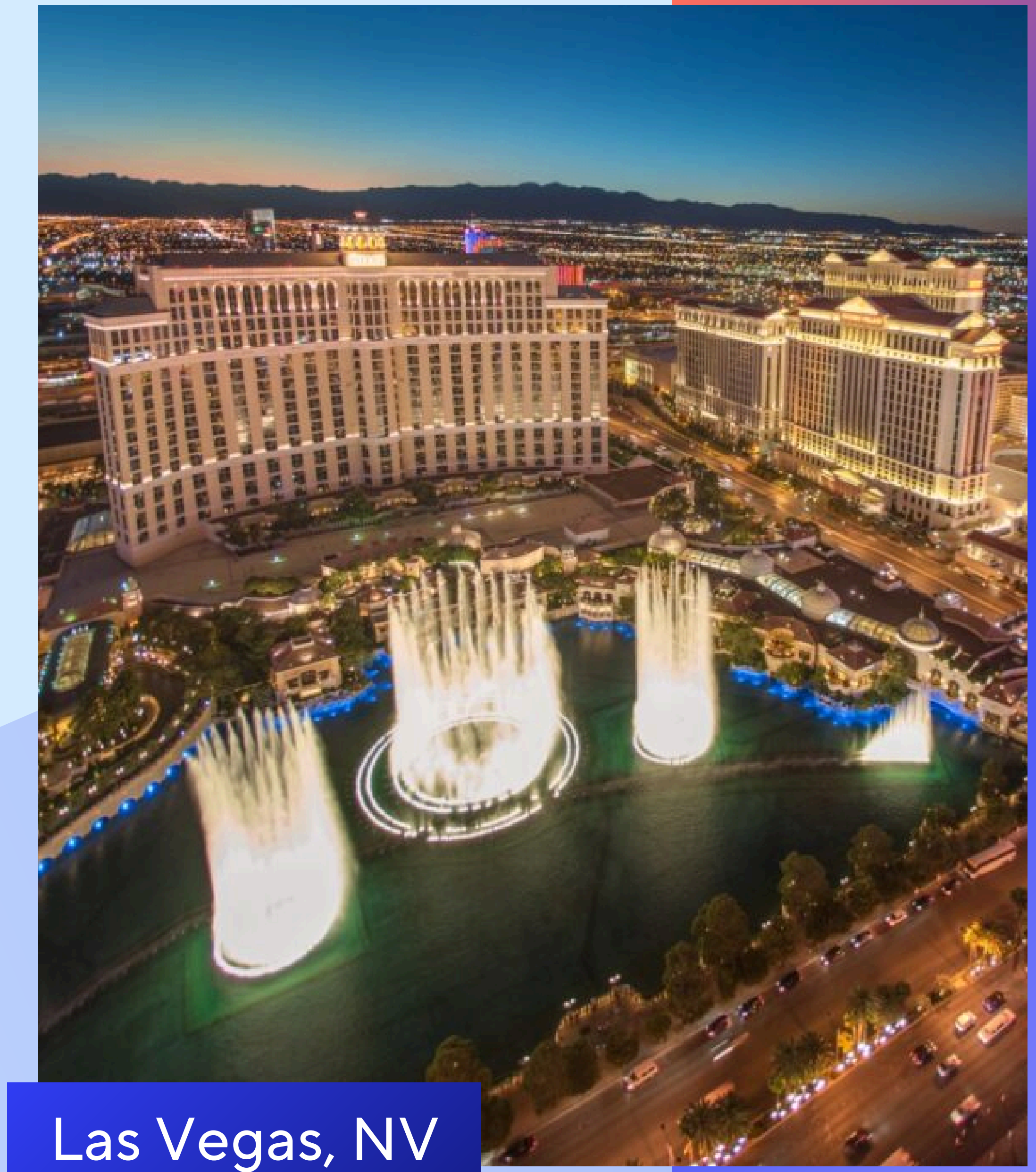
Our top three markets hail from the Sunbelt and boast excellent short-term economic outlooks. All three are benefitting from strong population and employment growth. Given the weak fundamentals and deteriorating pricing in the office sector, it comes as no surprise that the segment was the biggest driver of poor performance in our rankings. All of the bottom three metros have commercial real estate markets mostly comprised of office, with returns below the national average.

Top 3 Metros 2Q 2024

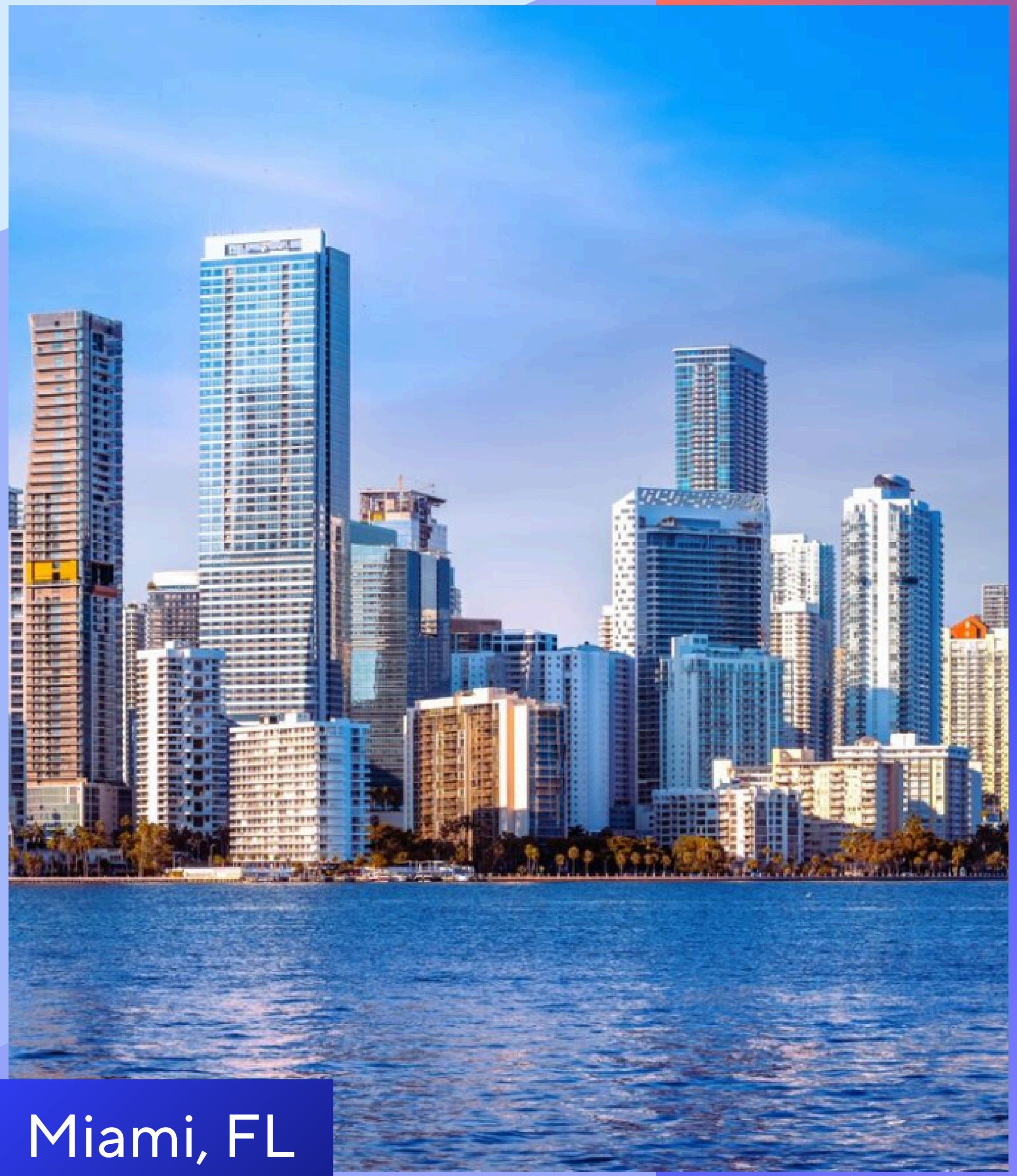




Fort Worth, TX



Las Vegas, NV



Miami, FL

Top 3 Metros 2Q 2024

1. Las Vegas, NV

Lady Luck was with Las Vegas in first quarter, with total NPI Classic CRE returns at 2.0%, the highest among the major markets. Returns were the highest since second quarter 2022 and the first time they were positive in the past year. Las Vegas owes its top ranking to strong performance in the retail segment, which accounts for 57% of the metro's total CRE market. At 2.9%, Las Vegas had the highest retail return among all markets in our analysis.

Fundamentals

Las Vegas retail occupancies were up 10 bps YoY, per Reis. Effective rents rose 2.9% YoY, 210 bps ahead of the U.S. pace. However, growing supply may temper further rent growth. SitusAMC Insights expects retail completions to average 176,000 units annually through 2028, 88% higher than their 10-year annual average. Las Vegas retail deal volume in first quarter was up 7% YoY, according to MSCI Real Assets. Retail pricing was down 11.4% YoY, 1,330 bps behind the national average.

2Q 2024 BY THE NUMBERS

Total Returns	Capital Returns	Income Returns
+2.0%	+0.7%	+1.3%

Source: NCREIF Classic NPI, 1Q 2024.

2. Miami, FL

Miami CRE shone brightly in first quarter, earning the second spot on our list. The market's NPI Classic return of 1.4% was the highest since third quarter 2022. Miami CRE has fared relatively well since the pandemic, with an average quarterly return of 1.9%. All four main property types had positive returns, contributing to the market's solid performance. Industrial accounts for the largest proportion of Miami's total CRE market (47%). At 1.9%, industrial was the top-performing sector in the market, despite being ranked seventh of the 30 markets in our analysis.

Fundamentals

Miami industrial occupancies were down 10 bps YoY, but 560 bps above their pre-pandemic level, per Reis. Effective rents were up 4.7% YoY, 120 bps ahead of the U.S. pace. Supply should be kept in check; SitusAMC Insights expects industrial completions to average 2,144,000 units per year through 2028, 28% lower than their 10-year annual average. Miami industrial deal volume in first quarter was up 87% YoY, according to MSCI Real Assets. Industrial pricing was down 0.1% YoY, 180 bps behind the national average.

2Q 2024 BY THE NUMBERS

Total Return	Capital Returns	Income Returns
+1.4%	+0.3%	+1.1%

Source: NCREIF Classic NPI, 1Q 2024.

Top 3 Metros 2Q 2024

3. Fort Worth, TX

A tip of the cowboy hat goes to Fort Worth for placing third best in our rankings. Fort Worth NPI Classic returns were 1.2% in first quarter. The metro turned in its best performance since second quarter 2022. Industrial comprises the majority of Fort Worth's CRE market at 67%. First quarter's industrial return was the highest in almost two years, though at 1.6%, it ranked only eighth among the 30 markets we analyzed.

Fundamentals

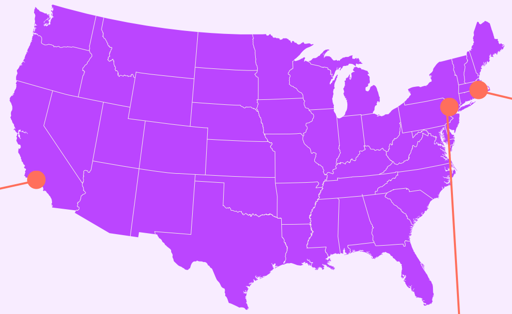
Fort Worth industrial occupancies were down 220 bps YoY, but 320 bps above their pre-pandemic level, per Reis. Fort Worth effective rents were up 4.9% YoY, 140 bps ahead of the U.S. pace. Limited new supply should benefit the market; SitusAMC Insights expects industrial completions to average 4,250,000 units per year through 2028, 40% lower than their 10-year annual average. According to MSCI Real Assets, Fort Worth industrial deal volume was up 15% YoY in first quarter. Industrial pricing was up 6.5% YoY, 490 bps ahead of the national average.

2Q 2024 BY THE NUMBERS

Total Return	Capital Returns	Income Returns
+1.2%	0.0%	+1.2%

Source: NCREIF Classic NPI, 1Q 2024.

Bottom 3 Metros 2Q 2024



San Francisco, CA

Northern New Jersey

Boston, MA

1. San Francisco, CA

San Francisco CRE continues to be blanketed in fog, with the metro performing worst in our analysis, the same as last quarter. Though increasing over 300 bps from last quarter, San Francisco had a first quarter return of -3.9%, according to NCREIF. No segment performed well in first quarter, with all major property type returns well into negative territory. Office performed worst among the property types at -4.4%. With the segment comprising 67% of San Francisco's CRE market, it was a major drag on metro performance. San Francisco office returns ranked in the bottom 10 of the markets in this analysis.

Fundamentals

San Francisco office occupancies were down 460 bps YoY, more than 1,000 bps below their pre-pandemic level, per Reis. San Francisco effective rents were down 4.4% YoY, 470 bps behind the U.S. pace. SitusAMC Insights expects office completions to average 290,000 units per year through 2028, 80.6% lower than their 10-year annual average. This will help, but demand is the real problem. San Francisco office deal volume was down 62% YoY, per MSCI Real Assets. Office pricing was down 25.6% YoY, 1,700 bps behind the national average.

2Q 2024 BY THE NUMBERS

Total Return	Capital Returns	Income Returns
-3.8%	-5.2%	+1.4%

Source: NCREIF Classic NPI, 1Q 2024.

2. Boston, MA

The Boston Celtics may be the best in the league, but the Boston CRE performance is extremely weak, earning the second-worst ranking in our list. Though posting a 110-bp improvement from last quarter, Boston CRE returns were substantially negative at -3.5%. The metro's returns have fallen for six consecutive quarters. Office returns were -5.7%, the sixth worst of the markets in our analysis and among the lowest since the Global Financial Crisis (GFC). With office comprising 55% of the overall Boston CRE market, the segment's poor performance weighed heavily on the results.

Fundamentals

Boston occupancies were down 140 bps YoY, 490 bps below their pre-pandemic level, per Reis. Effective rents were down 1.9% YoY, 210 bps behind the U.S. pace. SitusAMC Insights expects office completions to average 617,000 units per year through 2028, 62.8% lower than their annual average over the past 10 years. Boston office deal volume in first quarter was up 311% from a year ago, according to MSCI Real Assets. Office pricing was down 21.9% YoY, 1,330 bps behind the national average.

2Q 2024 BY THE NUMBERS

Total Return	Capital Returns	Income Returns
-3.5%	-4.6%	+1.1%

Source: NCREIF Classic NPI, 1Q 2024.

3. Northern New Jersey

The view of Manhattan from Northern New Jersey is stunning, but its CRE market is not. Though returns improved by nearly 200 bps QoQ, they were a meager -2.5%. While it was the best performance in six quarters, it was still among the worst returns since the GFC. Accounting for 39% of NNJ CRE market, office returns were -6.0%, the fifth worst office market in our analysis. NNJ office returns have been negative for nearly two years. Industrial was a lifeline for the market: It was the only property type with a positive, albeit moderate, return.

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Ranking Recap

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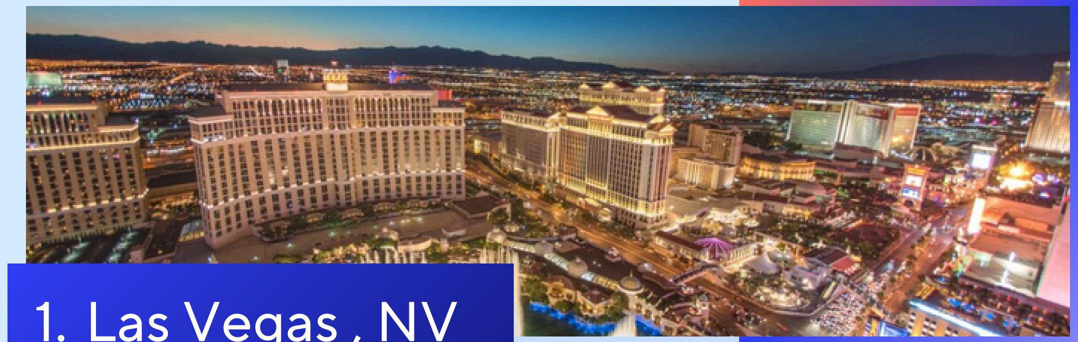

1. Las Vegas , NV

2. Miami, FL

3. Fort Worth, TX

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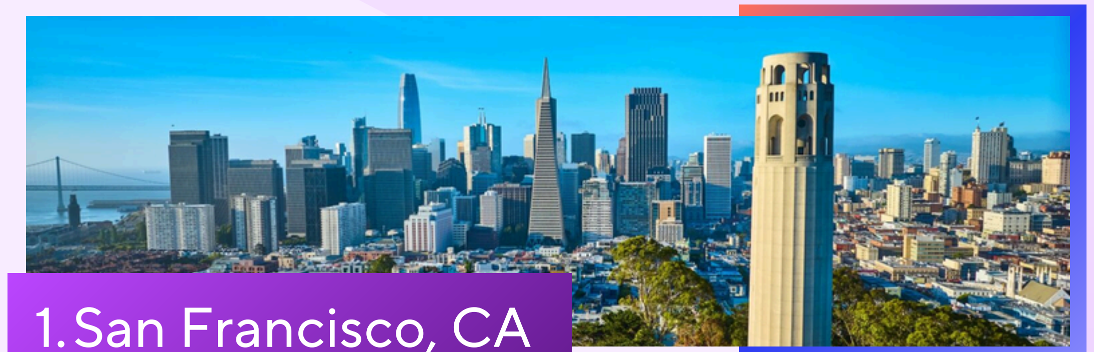

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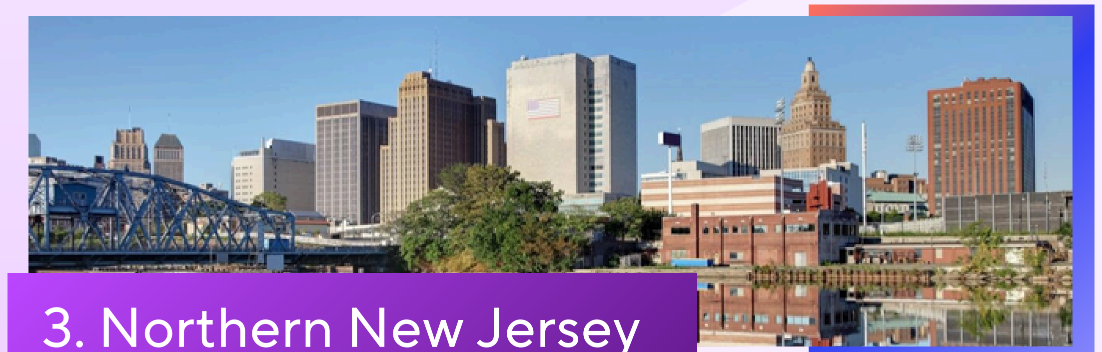
2. Boston, MA



3. Northern New Jersey

SitusAMC Insights

To learn more about SitusAMC's research, data, and analytic tools, email:

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