

**ValTrends**  
1Q 2024

April 18, 2023  
2:00pm EST

# First Look Webinar



**JEN  
RASMUSSEN, Ph.D.**

Vice President  
SitusAMC Insights

**PETER  
MUOIO, Ph.D.**

Senior Director  
SitusAMC Insights

**Economics &  
Demographics**

**3**

**Capital Markets**

**5**

**Property Types**

**23**

3.1 Apartment

24

3.2 Office

28

3.3 Industrial

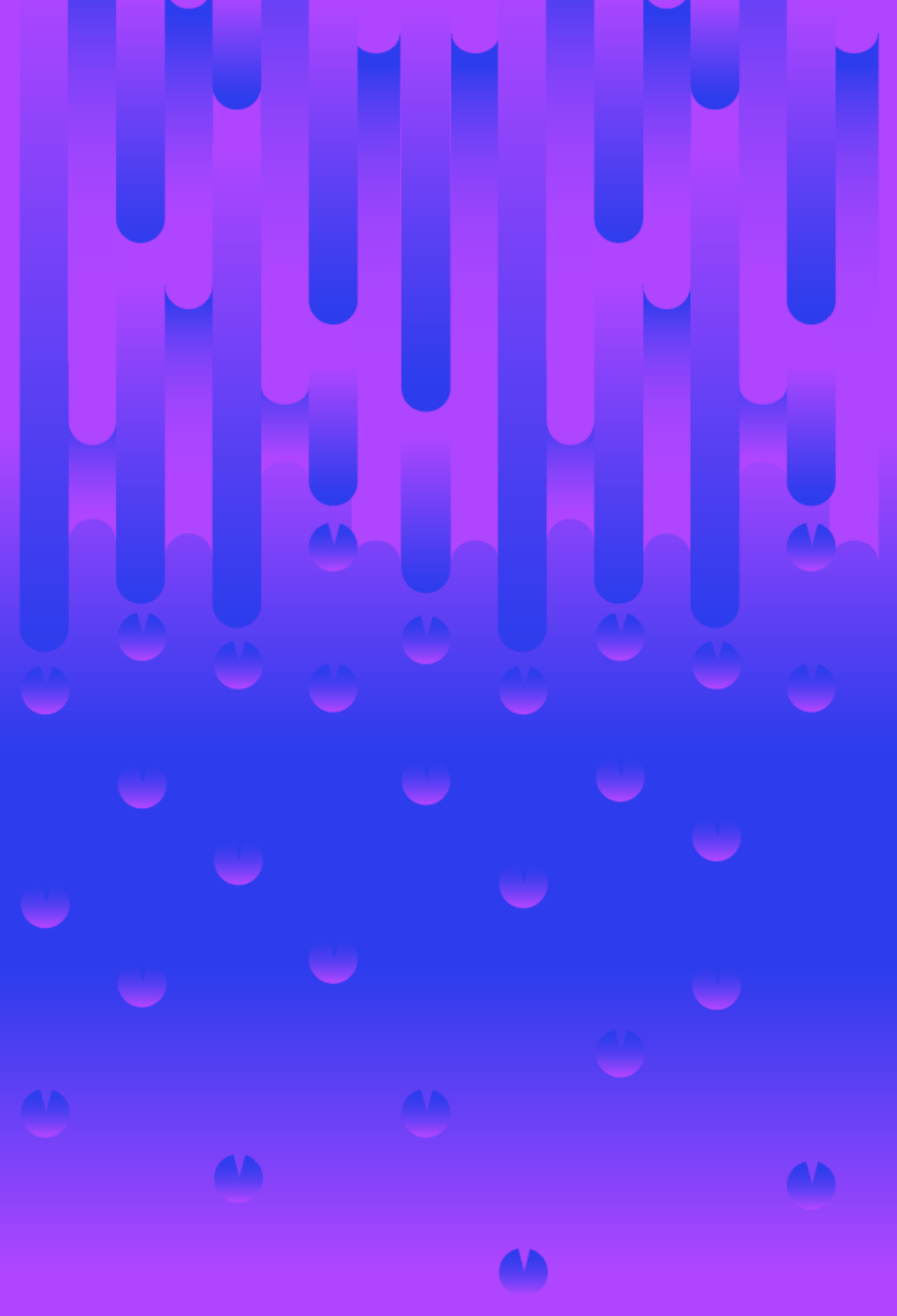
31

3.4 Retail

34

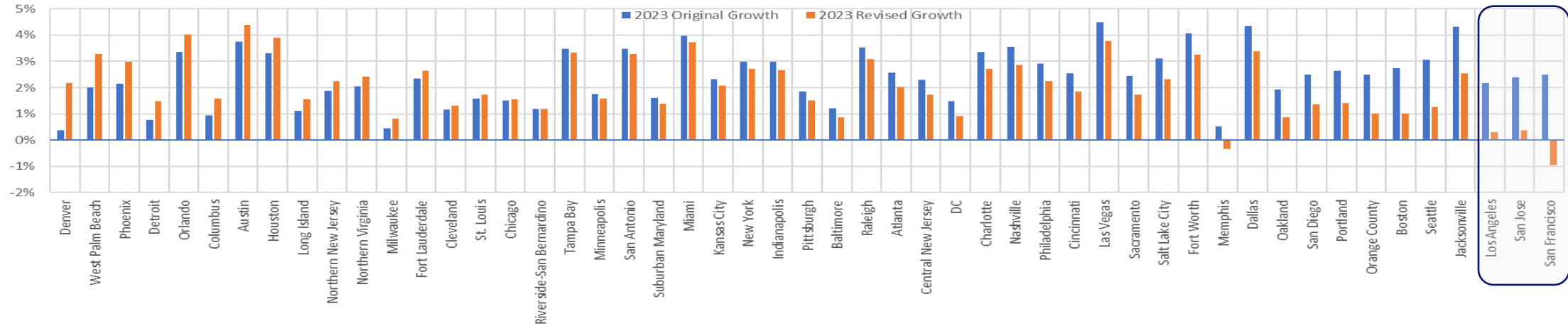
1.0

# Economics & Demographics

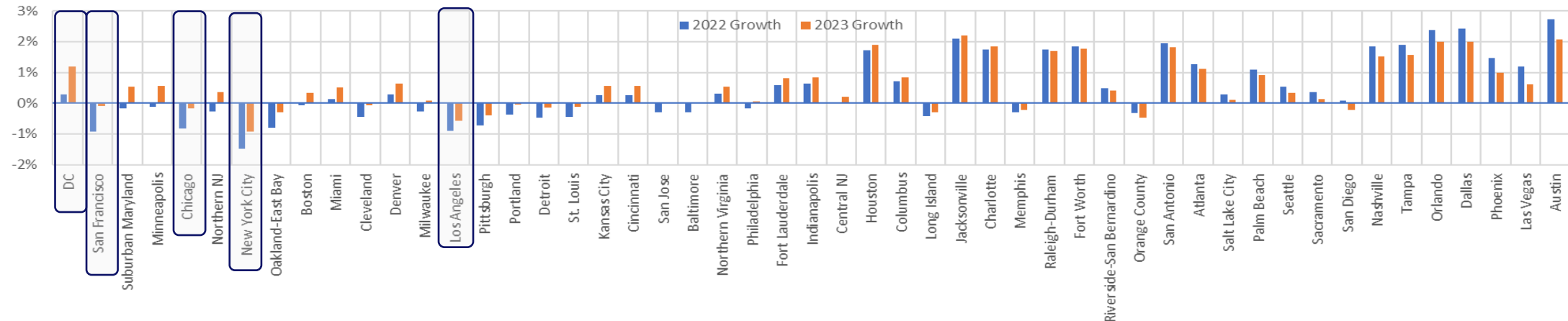


# West and Tech-Heavy Metros See Downward Revisions in Employment; Gateway Markets Show Improved Population Growth

## EMPLOYMENT GROWTH DIFFERENCES



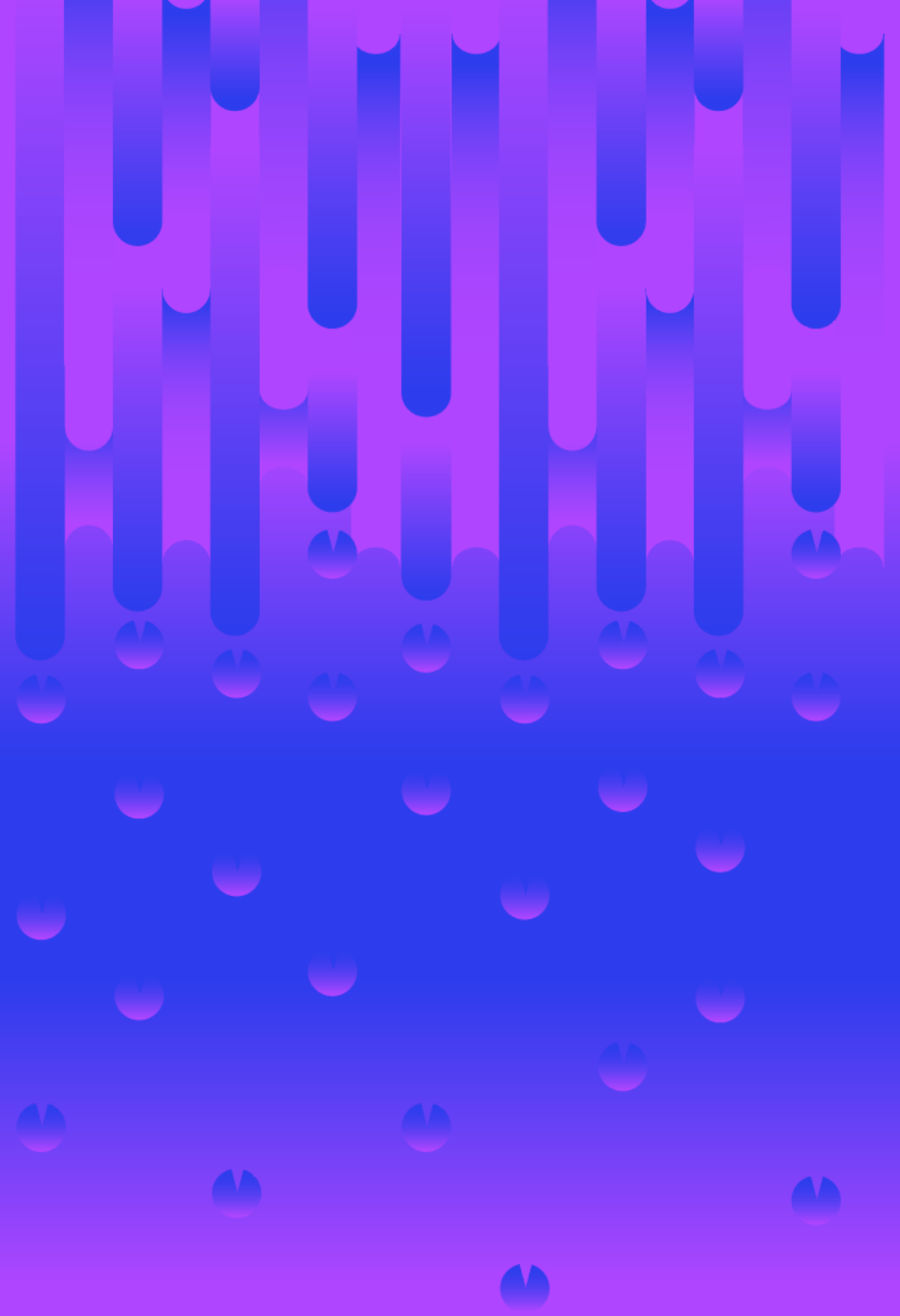
## POPULATION GROWTH DIFFERENCES



Sources: BLS, SitusAMC Insights, April 2024.

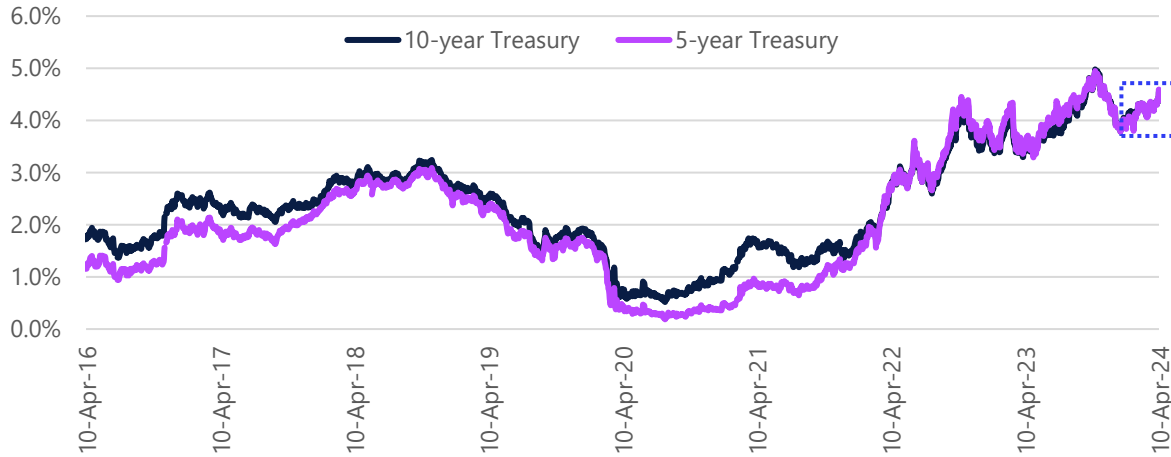
# 2.0

## Capital Markets

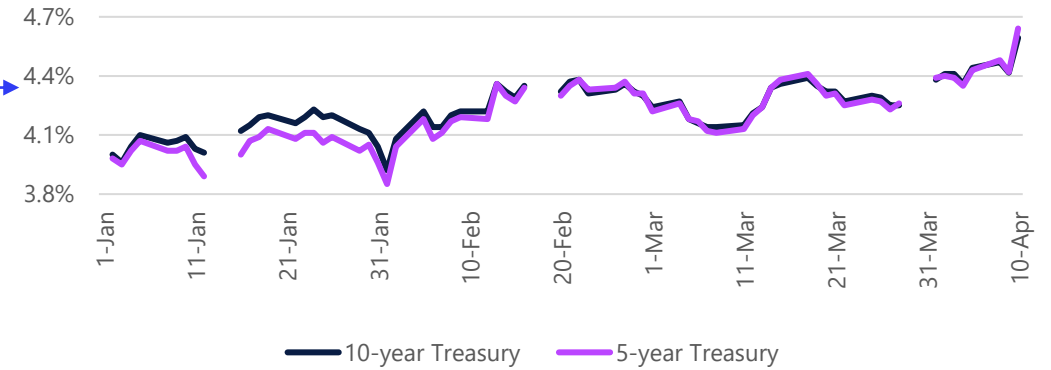


# The Treasury Roller Coaster Continues

## U.S. TREASURIES



## U.S. TREASURIES – 2024 YTD



## FORECASTS

	SitusAMC Insights	Moody's	Wells Fargo	Goldman Sachs	WSJ Econ. Survey*
2022	3.0%	3.0%	3.0%	-	-
2023	4.0%	4.0%	4.0%	3.9%	-
2024(F)	4.1%	4.2%	3.8%	4.0%	3.8%
2025(F)	3.9%	4.1%	3.5%	-	3.7%
2026(F)	4.0%	4.0%	-	-	3.7%
2027(F)	4.1%	4.0%	-	-	-
2028(F)	4.0%	4.0%	-	-	-

## BY THE NUMBERS

Current as of 04/10/24

10-year Treasury

4.54%

5-year Treasury

4.59%

Mo-to-Mo Change (Bps)

10-year Treasury

+38

5-year Treasury

+44

Yr-to-Yr Change (Bps)

+113

+113

8-Year Average

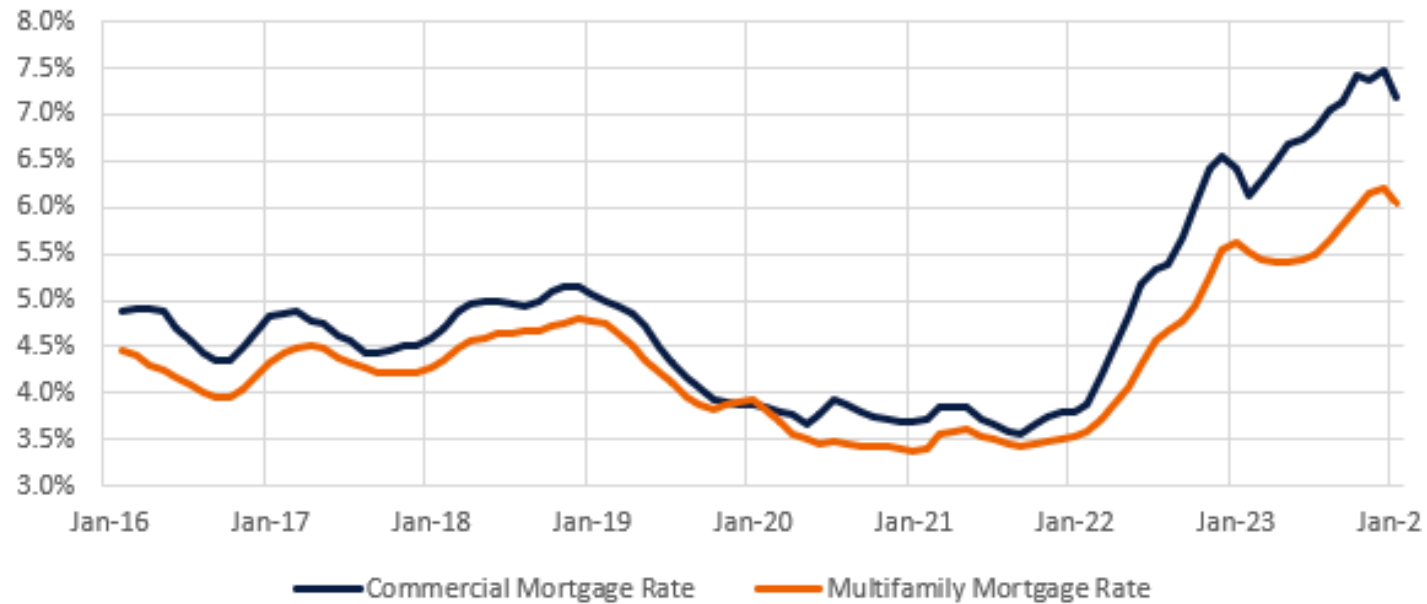
2.39%

2.14%

Note: WSJ Economic Survey reflects closing yield.

Sources: FRB, Moody's, Wells Fargo, Goldman Sachs, WSJ, SitusAMC Insights, April 2024.

# CRE Mortgage Rates Dip From Record Highs at End of 2023

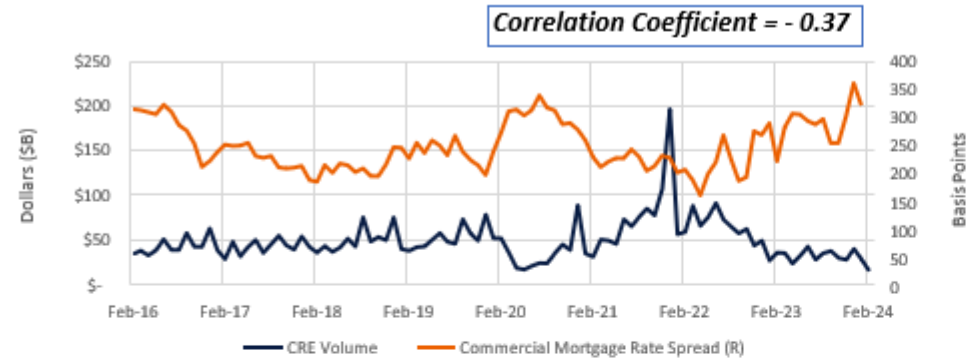


## BY THE NUMBERS

	Commercial	Multifamily
Current as of January 2024	7.2%	6.0%
Mo-to-Mo Change (Bps)	-29	-16
Yr-to-Yr Change (Bps)	+79	+42
8-year Average	4.8%	4.3%

# Mortgage Rate Spreads Over Treasuries Widen to 24-Year Highs at End of 2023, Though Some Narrowing in January

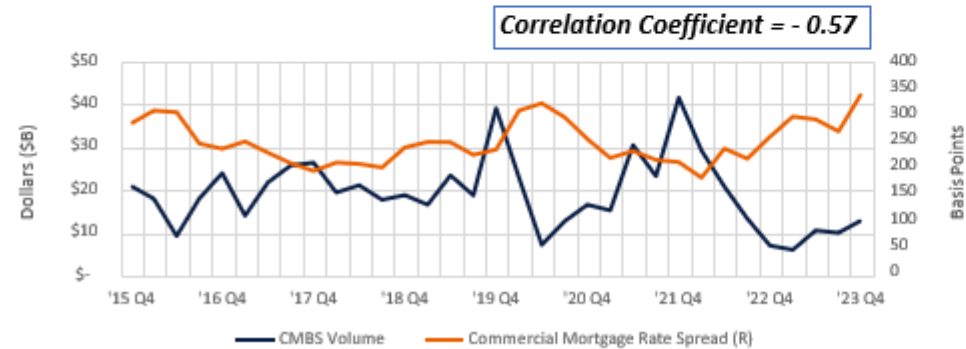
MORTGAGE RATE SPREAD OVER 10-YEAR TREASURY VS CRE VOLUME



## BY THE NUMBERS

CRE Deal Volume (\$B)		Mortgage Rate Spread	
Current as of February 2024	\$13.67	Current as of January 2024	320
Mo-to-Mo Change	-49.1%	Mo-to-Mo Change (Bps)	-40
Yr-to-Yr Change	-60.4%	Yr-to-Yr Change (Bps)	+32
8-year Average	\$48.08	8-year Average	248

MORTGAGE RATE SPREAD OVER 10-YEAR TREASURY VS CMBS VOLUME

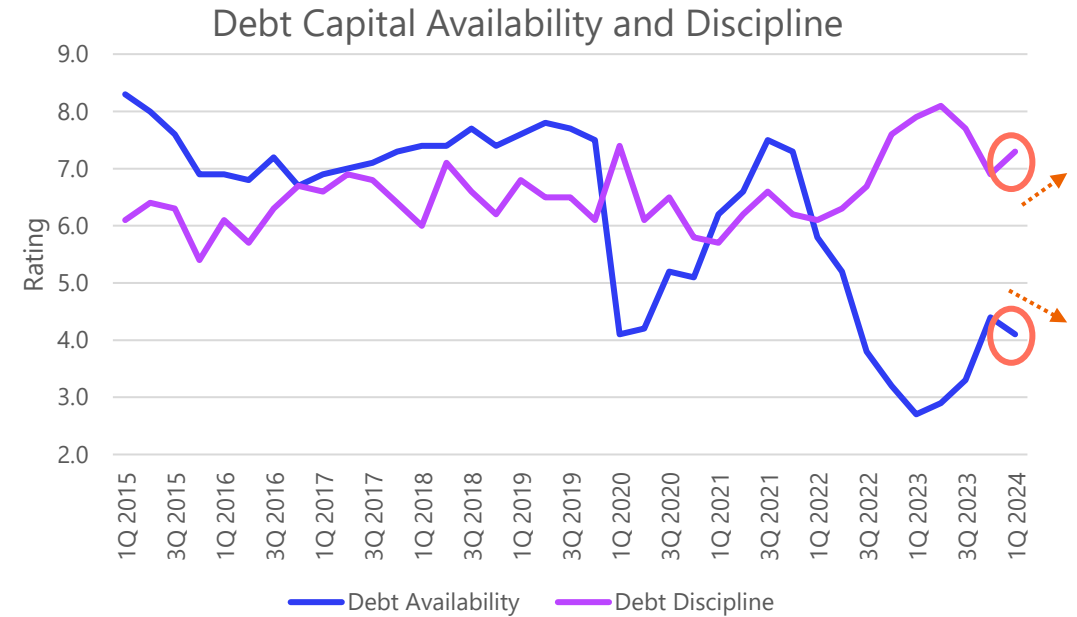
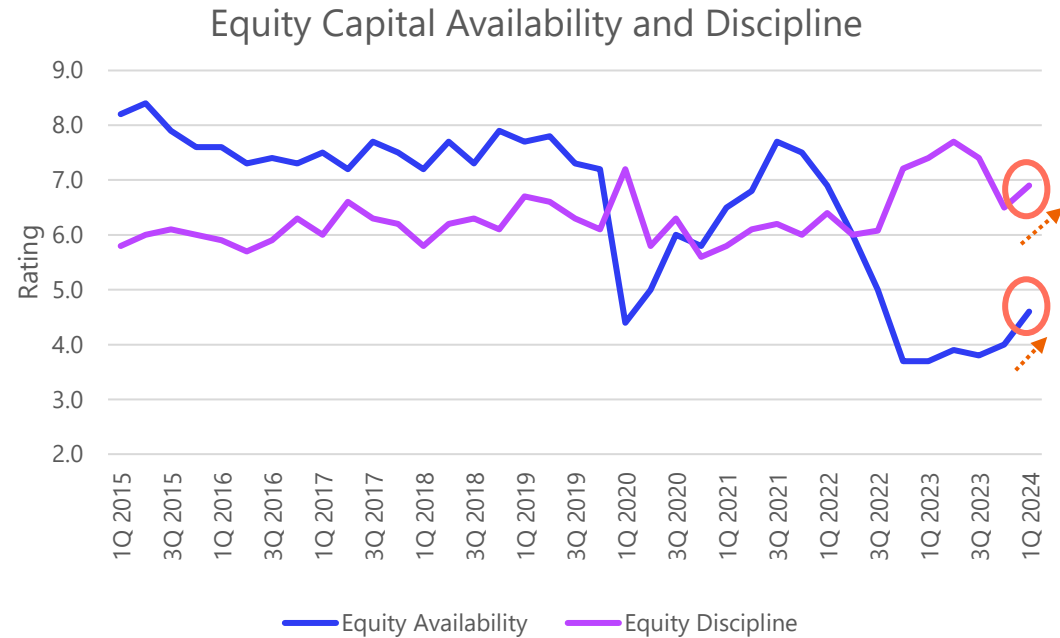


CMBS Deal Volume (\$B)		Mortgage Rate Spread	
Current as of 4Q 2023	\$12.87	Current as of 4Q 2023	340
Qtr-to-Qtr Change	+29.1%	Qtr-to-Qtr Change (Bps)	+71
Yr-to-Yr Change	+85.1%	Yr-to-Yr Change (Bps)	+82
8-year Average	\$19.09	8-year Average	248

Note: The more negative the correlation coefficient, the greater the extent to which volume declines as spreads widen.  
Sources: MSCI Real Assets, Green Street, FRB, SitusAMC Insights, February 2024.



# Equity Capital Availability Tight But Easing While Underwriting Standards Remain Conservative; Debt Availability Contracts While Discipline Tightens



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, 1Q 2024.

POLL QUESTION

# When Will CRE Transaction Volume Improve Materially?

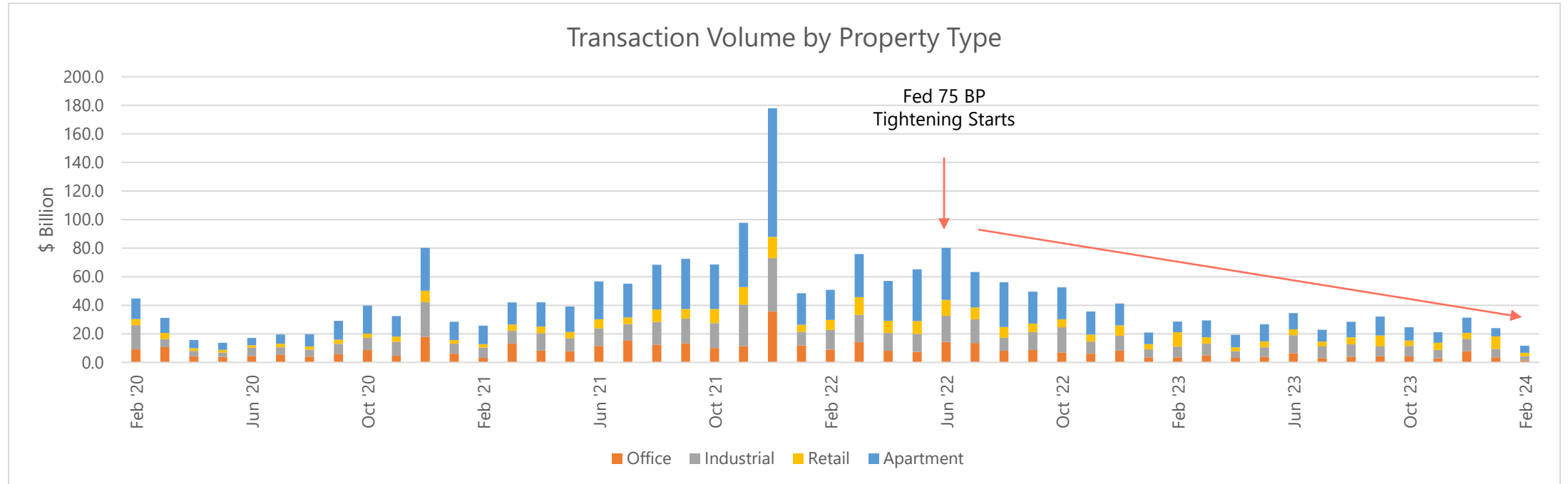
A. In 2Q 2024

B. In 3Q 2024

C. In 4Q 2024

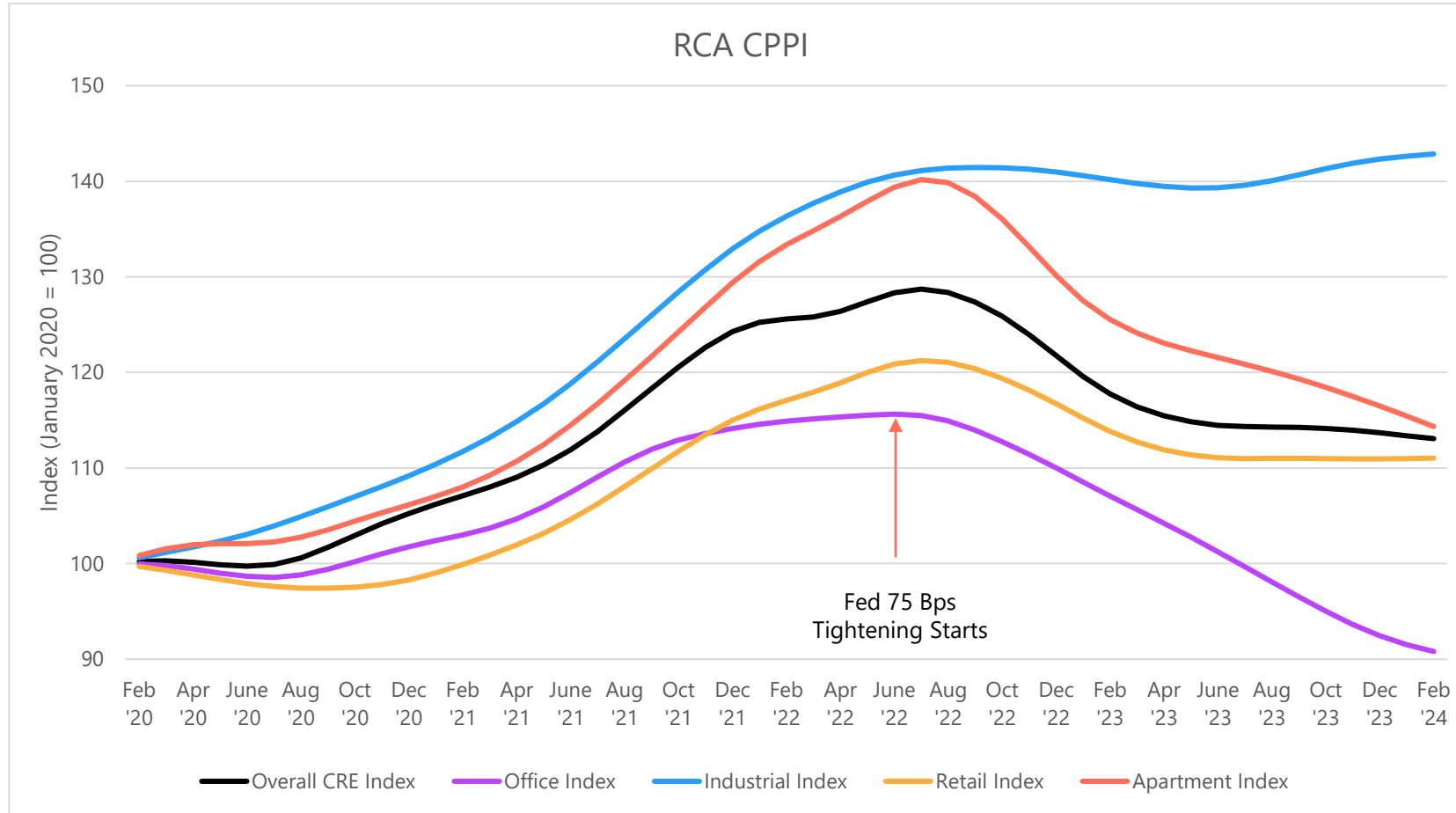
D. 2025 or Beyond

# Deal Activity Moribund Office Transactions Down More Than 90% Since Aggressive Fed Tightening



	Change Since Aggressive Fed Tightening in June 2022	GFC Peak to Trough
Retail	-77.6%	-94.3%
Industrial	-83.6%	-95.1%
Apartment	-86.6%	-96.4%
Office	-90.6%	-98.7%

# Industrial Prices Up 1% from Recent Peak; Prices Continue to Fall for Other Segments



	Price Change Since Most Recent Peak
Industrial	+1.0%
Retail	-8.4%
Apartment	-18.4%
Office	-21.5%

POLL QUESTION

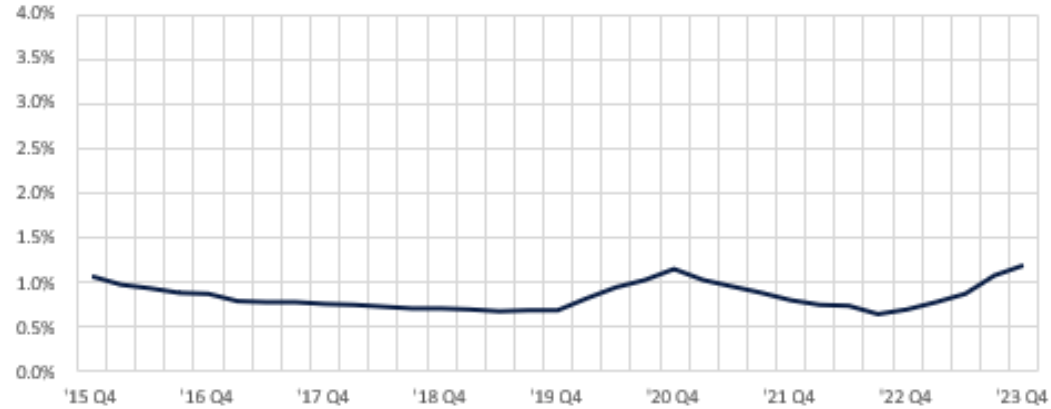
**Will CRE Delinquencies Deteriorate  
More Sharply in 2024?**

**A. Yes**

**B. No**

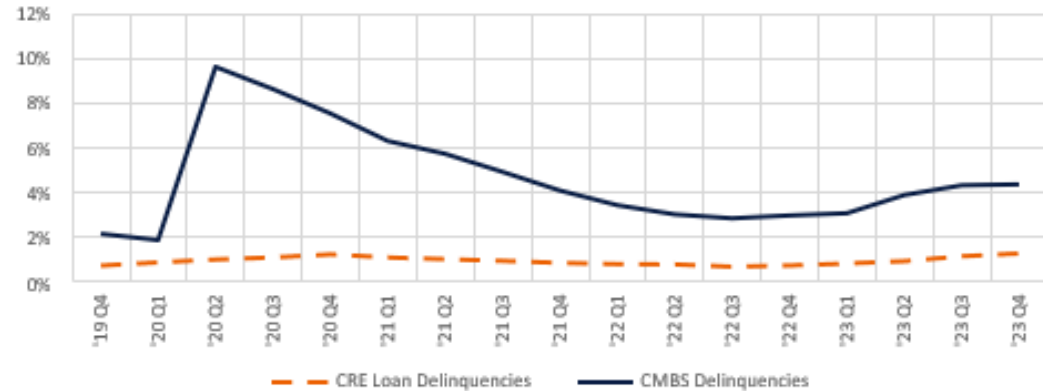
# CRE and CMBS Loan Delinquencies Tick Up at End of 2023 But Are Well Below GFC Levels

## CRE LOAN DELINQUENCIES



## BY THE NUMBERS

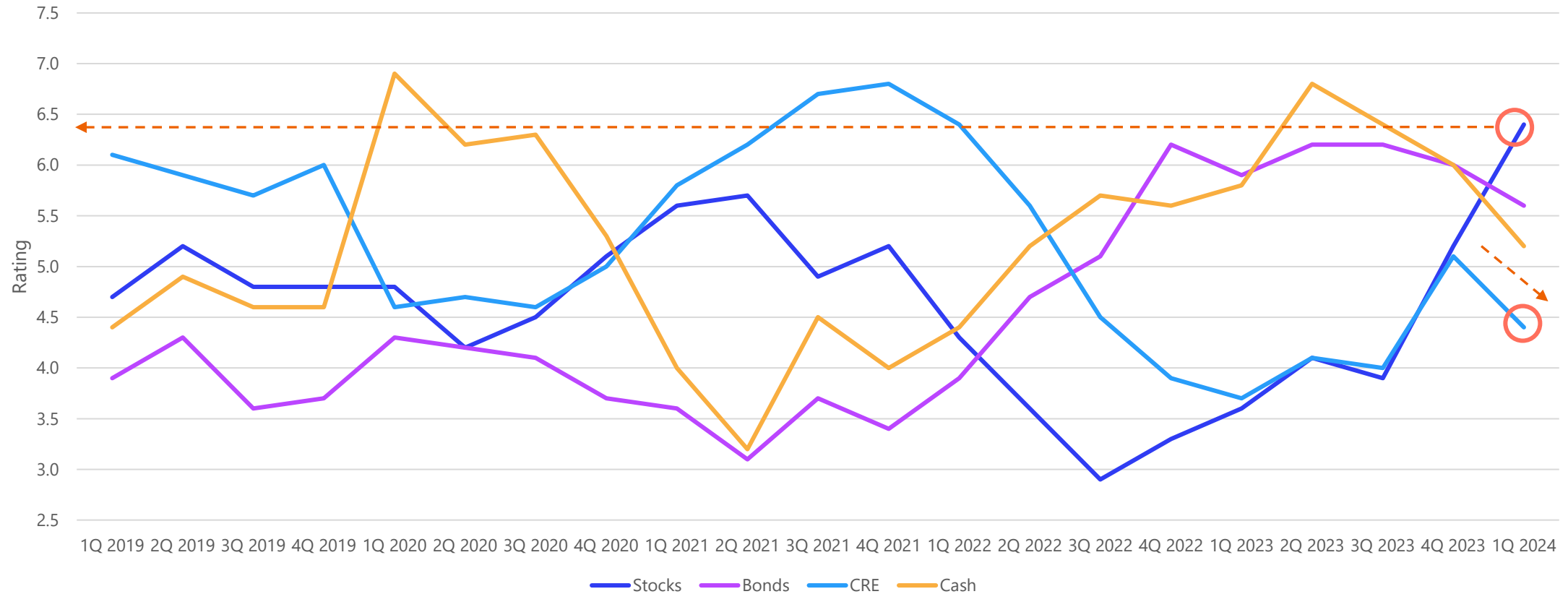
	CRE Loan Delinquencies
Current as of 4Q 2023	1.2%
Qtr-to-Qtr Change (Bps)	+11
Yr-to-Yr Change (Bps)	+48
8-year Average	0.8%
2001 Peak	1.9%
GFC Peak	8.9%
Covid Peak	1.1%



	CMBS Delinquencies 30+ Days
Current as of 4Q 2023	4.3%
Qtr-to-Qtr Change (Bps)	+4
Yr-to-Yr Change (Bps)	+140
8-year Average	4.4%
GFC Peak	9.8%
Covid Peak	4.3%

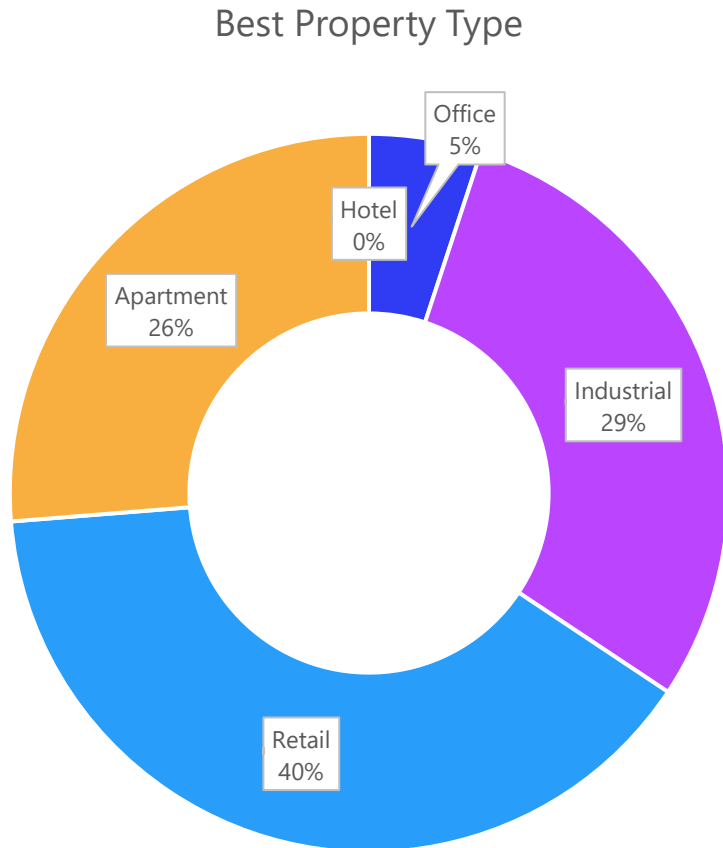
Note: CRE Loans include construction and land development loans, loans secured by multifamily residences, and loans secured by nonfarm, nonresidential real estate.  
Sources: FRB, MBA CREF, SitusAMC Insights, 4Q 2023.

# Investor Preference for Stocks Reaches Record High; CRE Least Preferred Among Asset Classes Following Sharp Decline

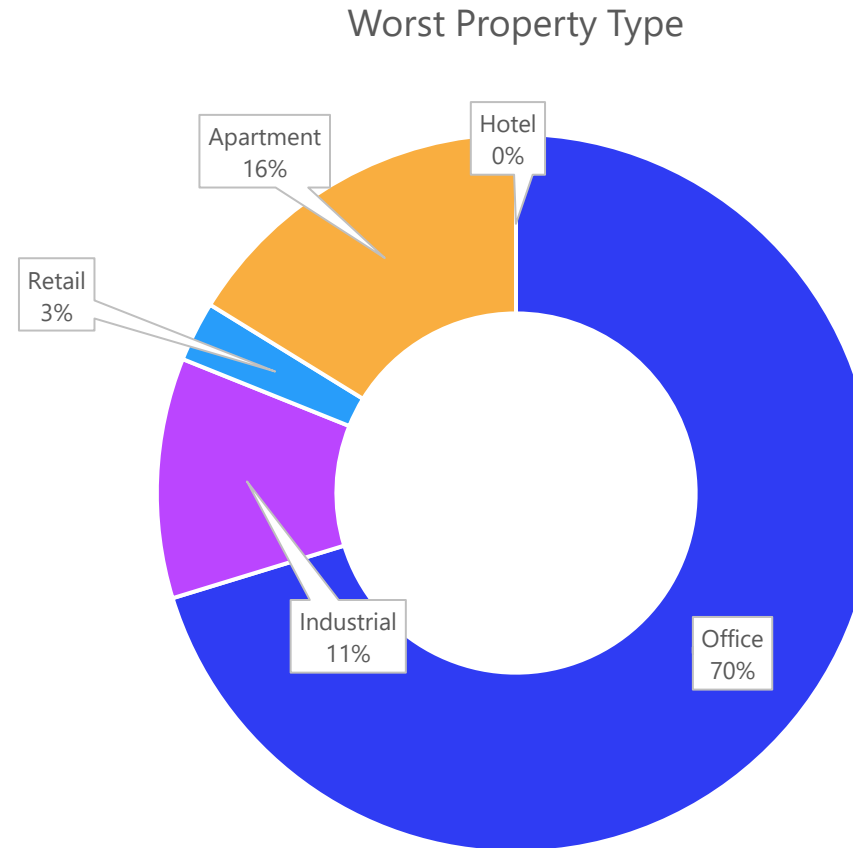


Note: Ratings are based on scale of 1 to 10 with 10 being excellent.  
Sources: RERC, SitusAMC Insights, 1Q 2024.

# Retail Jumps to Best Property Type Following Sharp Increase in First Quarter; Investors Remain Pessimistic on Office



■ Office ■ Industrial ■ Retail ■ Apartment ■ Hotel



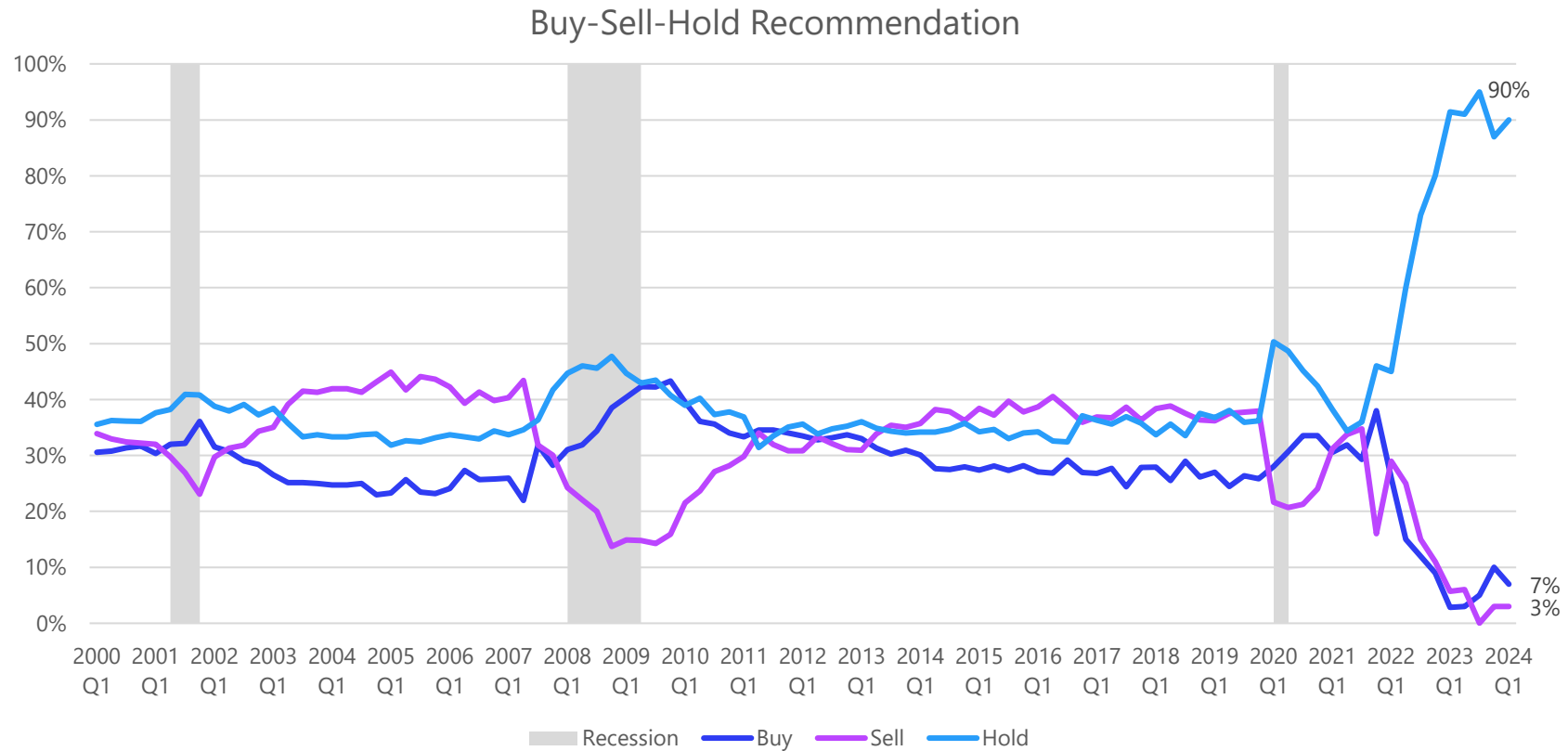
■ Office ■ Industrial ■ Retail ■ Apartment ■ Hotel

- 4Q 2023 Best Property Type
  - Industrial: 41%
  - Apartment: 33%
  - **Retail: 22%**
  - Hotel: 4%
  - Office: 0%



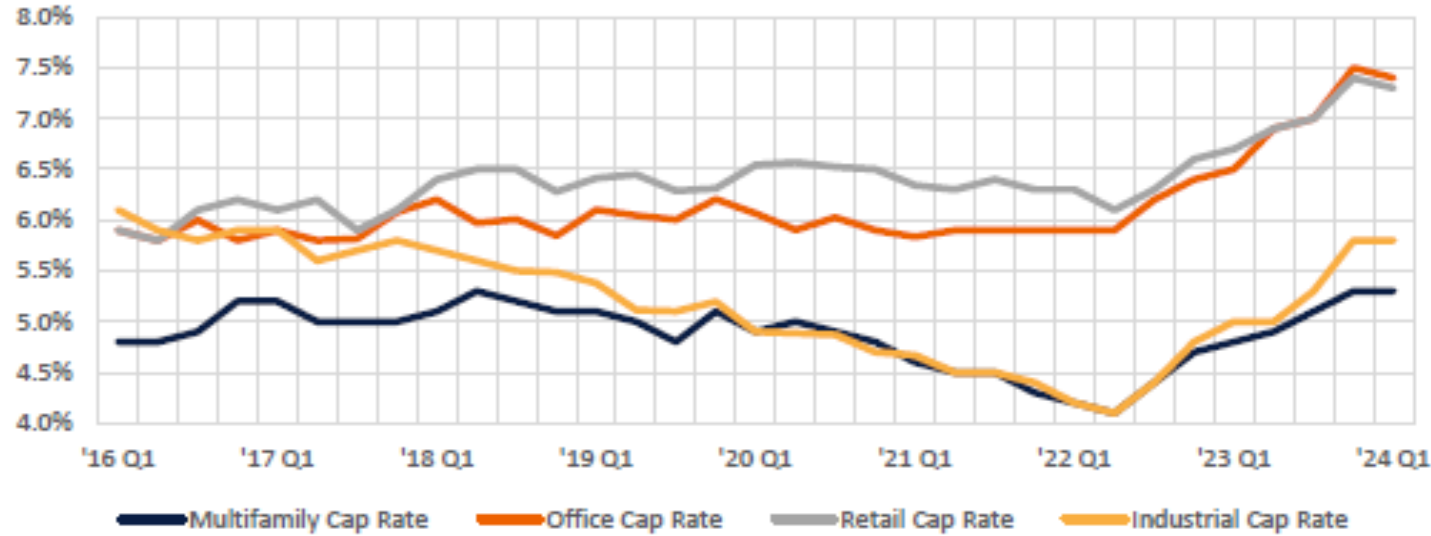
# Hold Recommendation Persists Amid Uncertainty and Still High Interest Rates; Little Buying and Selling

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



# Cap Rates Generally Steady in First Quarter; Slight Dip in Office Caps But Still Near Record High

## CAP RATES

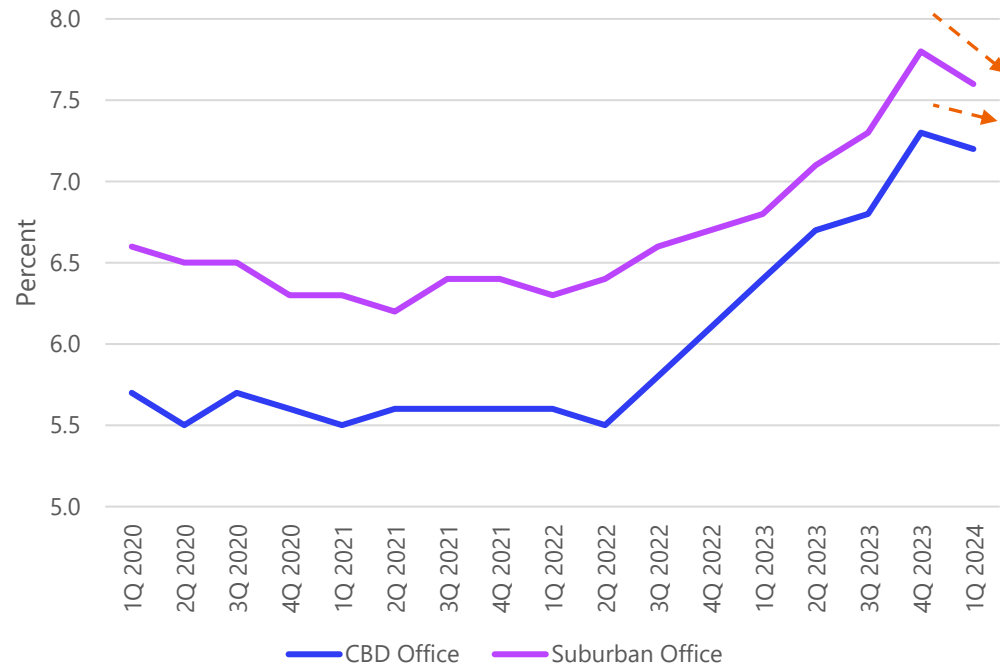


## BY THE NUMBERS

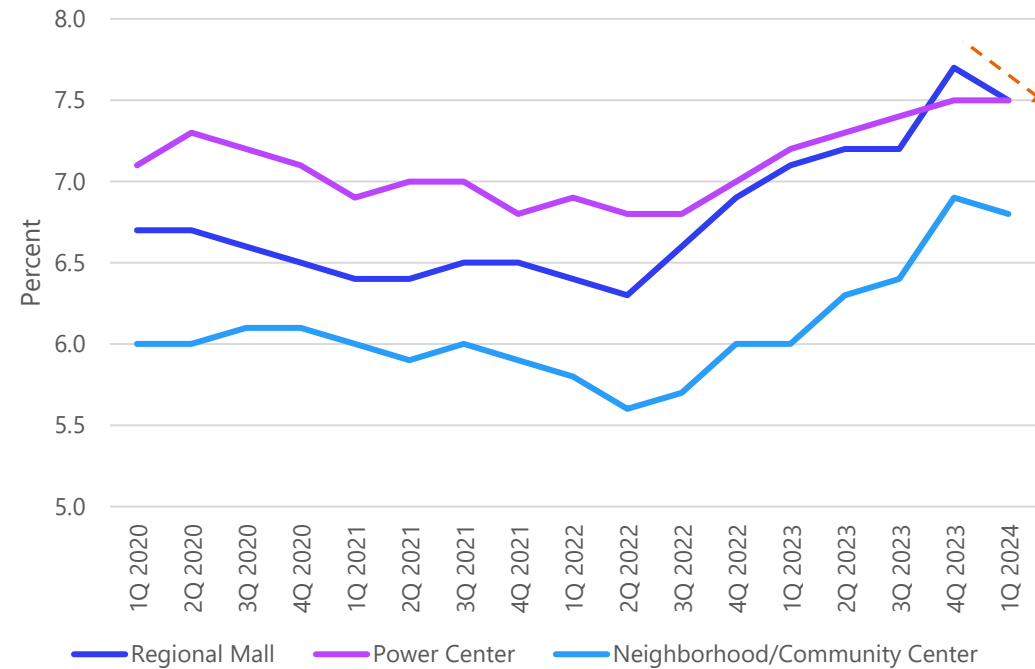
	Multifamily	Office	Retail	Industrial
Current as of 1Q 2024	5.3%	7.5%	7.4%	5.8%
Qtr-to-Qtr Change (Bps)	0	-10	-10	0
Yr-to-Yr Change (Bps)	+50	+90	+60	+80
8-year Average	4.9%	6.1%	6.4%	5.2%

# Office and Retail Cap Rate Compression Driven By High Quality Trades in Suburban Office and Regional Malls

## RERC Office Going-In Cap Rates

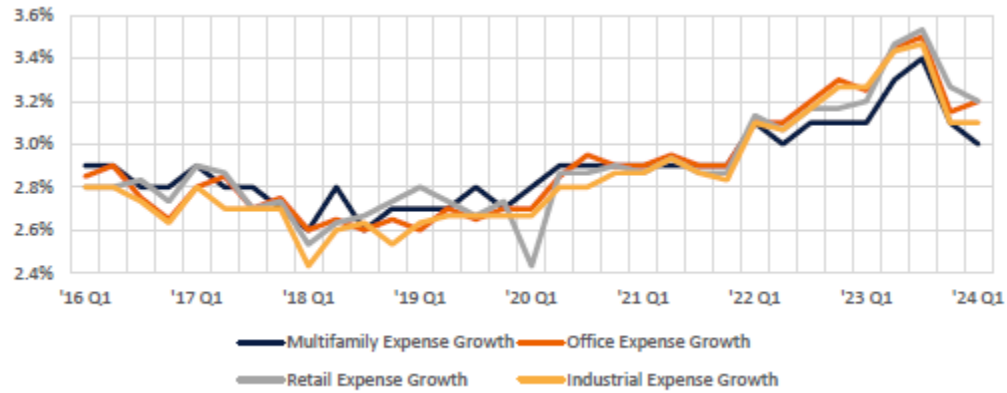


## RERC Retail Going-In Cap Rates



# Expense Growth Elevated But Still High for All Property Types; Retail and Office See Greatest Increase in Renewal Probabilities

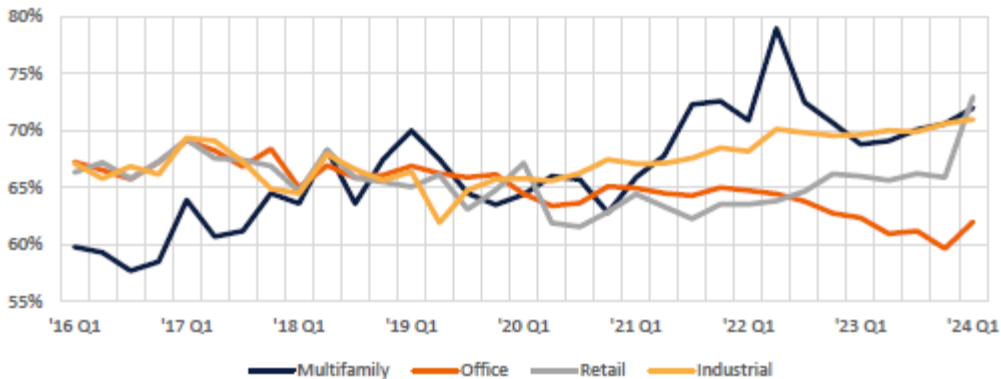
## EXPENSE GROWTH



## BY THE NUMBERS

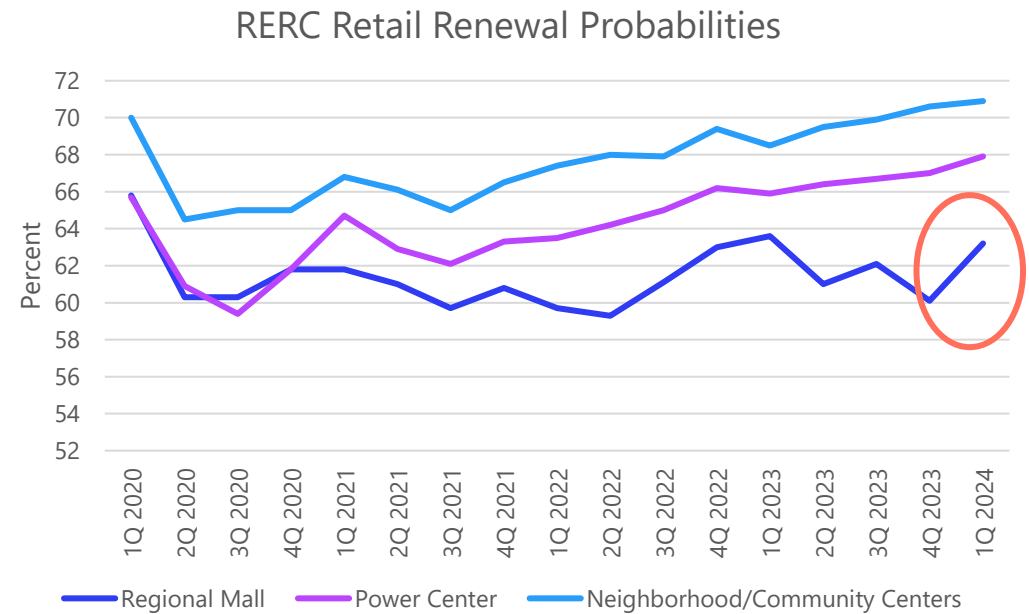
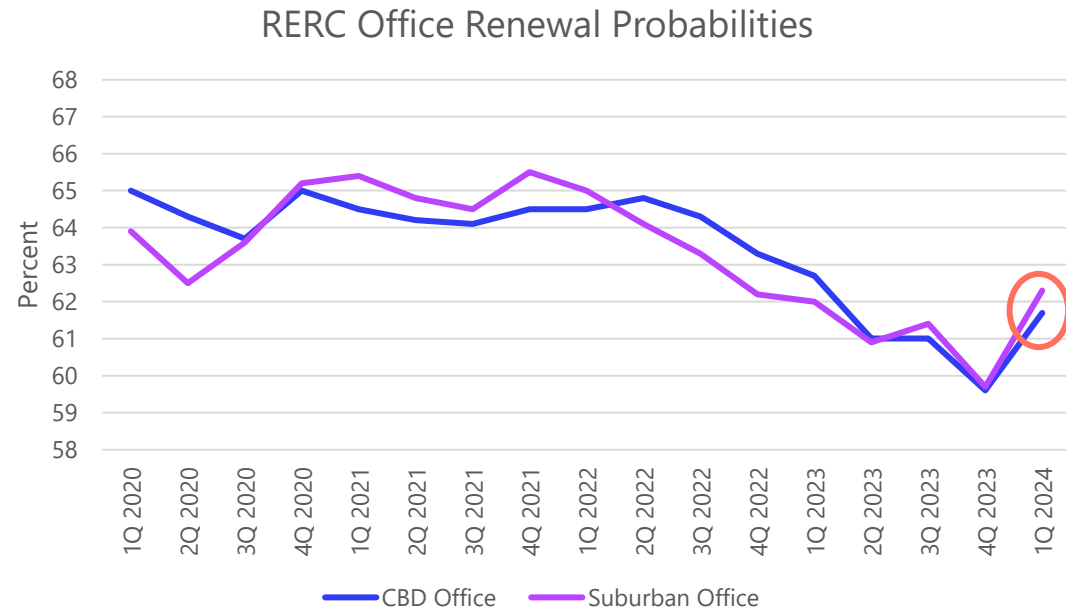
	Multifamily	Office	Retail	Industrial
Current as of 1Q 2024	3.0%	3.2%	3.2%	3.1%
Qtr-to-Qtr Change (Bps)	-10	+5	-7	0
Yr-to-Yr Change (Bps)	-10	-5	0	-17
8-year Average	2.9%	2.9%	2.9%	2.9%

## RENEWAL PROBABILITY

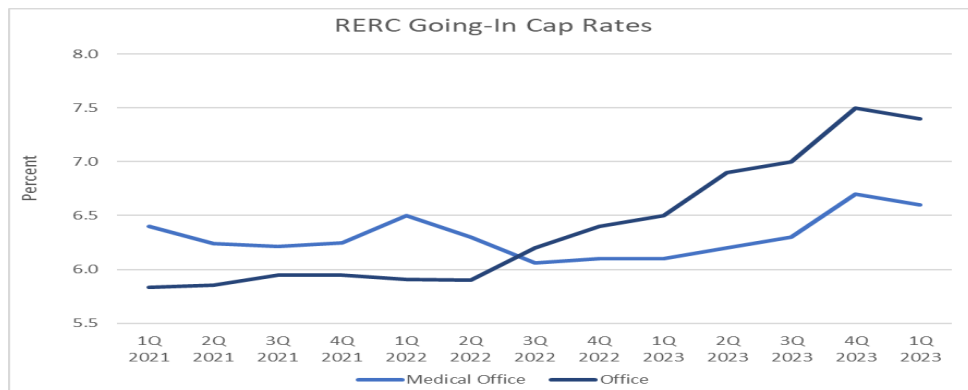


	Multifamily	Office	Retail	Industrial
Current as of 1Q 2024	72.0%	62.0%	73.0%	71.0%
Qtr-to-Qtr Change (Bps)	+140	+235	+710	+40
Yr-to-Yr Change (Bps)	+320	-35	+700	+137
8-year Average	66.5%	65.0%	65.6%	67.4%

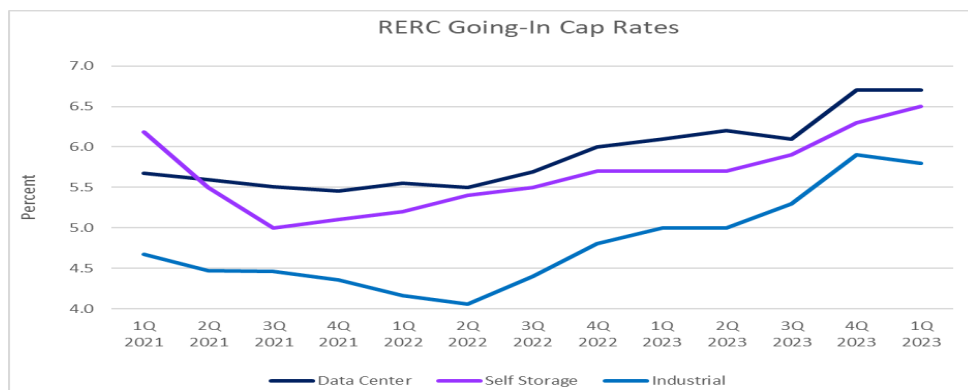
# Slightly Better Renewal Probabilities for Suburban Office, Though Tenants Downsizing at Renewal; Malls See Jump in Renewal Probabilities



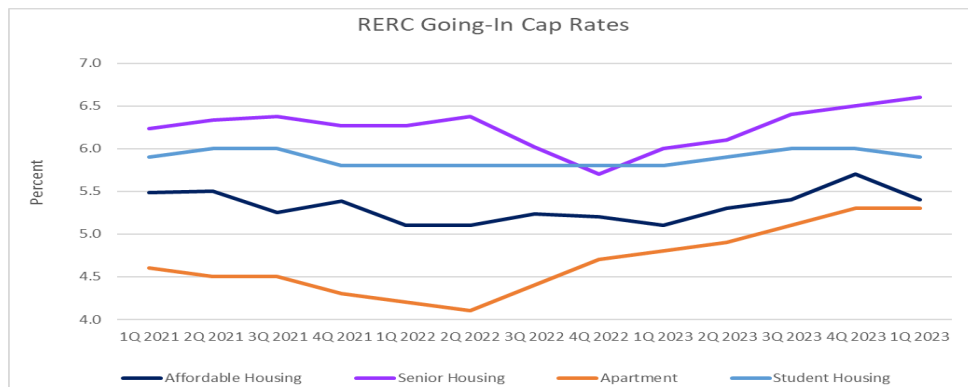
# Alternative Asset Classes Continue to Outperform Traditional Property Types



	Cap Rate Change Since Aggressive Fed Tightening in June 2022
Medical Office	+30 bps
Office	+150 bps



	Cap Rate Change Since Aggressive Fed Tightening in June 2022
Self-Storage	+110 bps
Data Center	+120 bps
Industrial	+174 bps

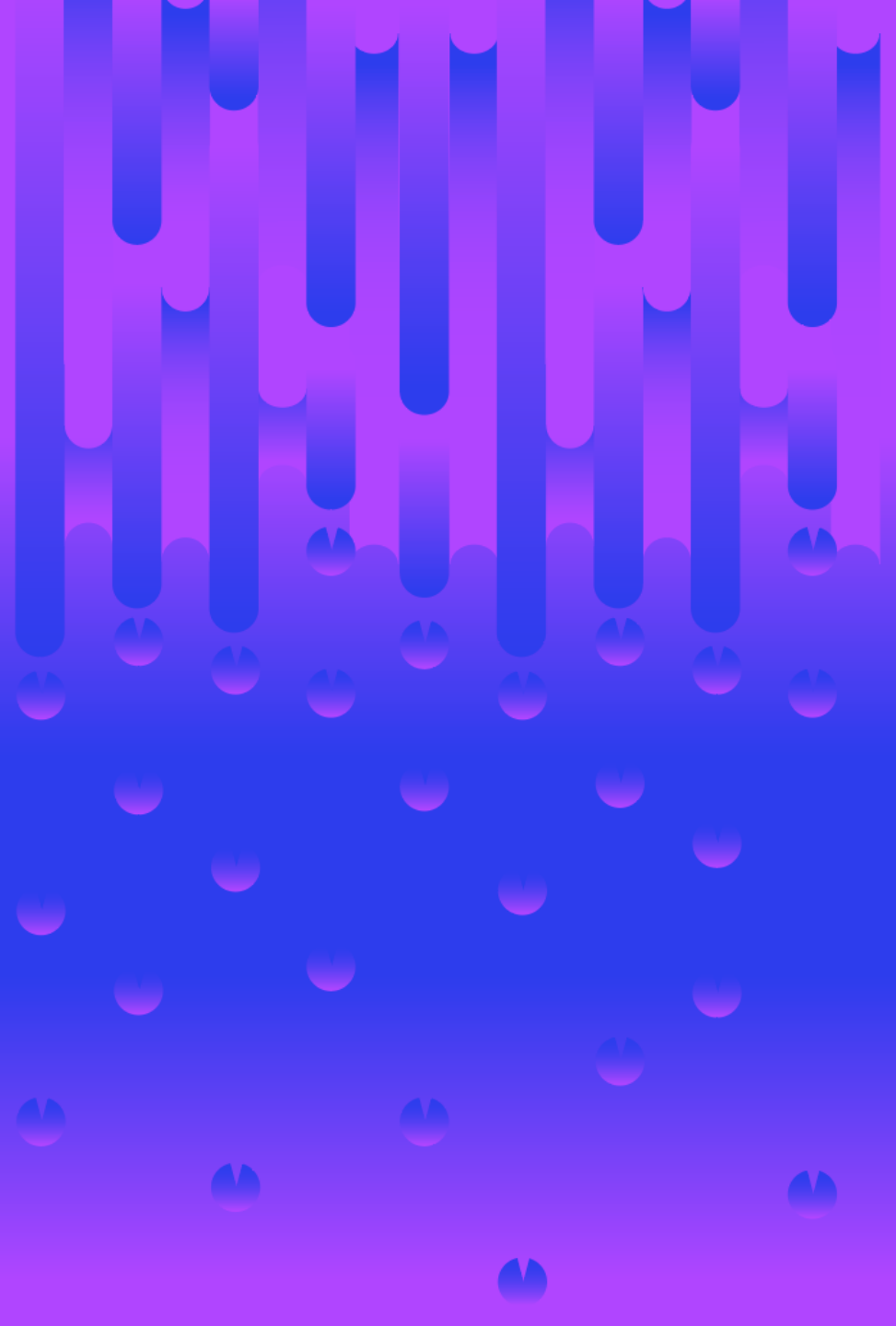


	Cap Rate Change Since Aggressive Fed Tightening in June 2022
Student Housing	+10 bps
Senior Housing	+23 bps
Affordable Housing	+30 bps
Apartment	+120 bps

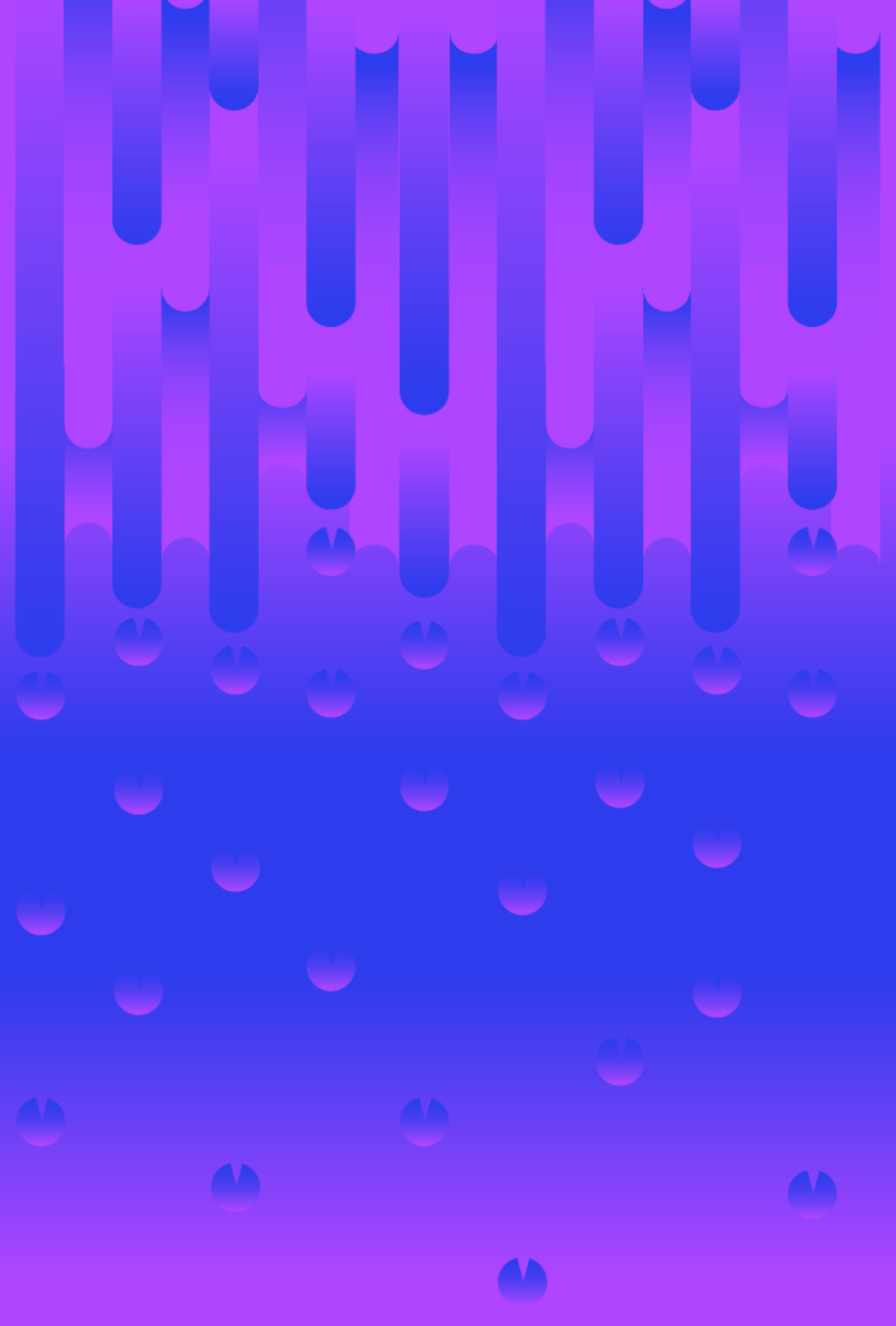
Note: Cap rates are for institutional-quality properties.  
Sources: RERC, SitusAMC Insights, 1Q 2024.

3.0

# Property Types

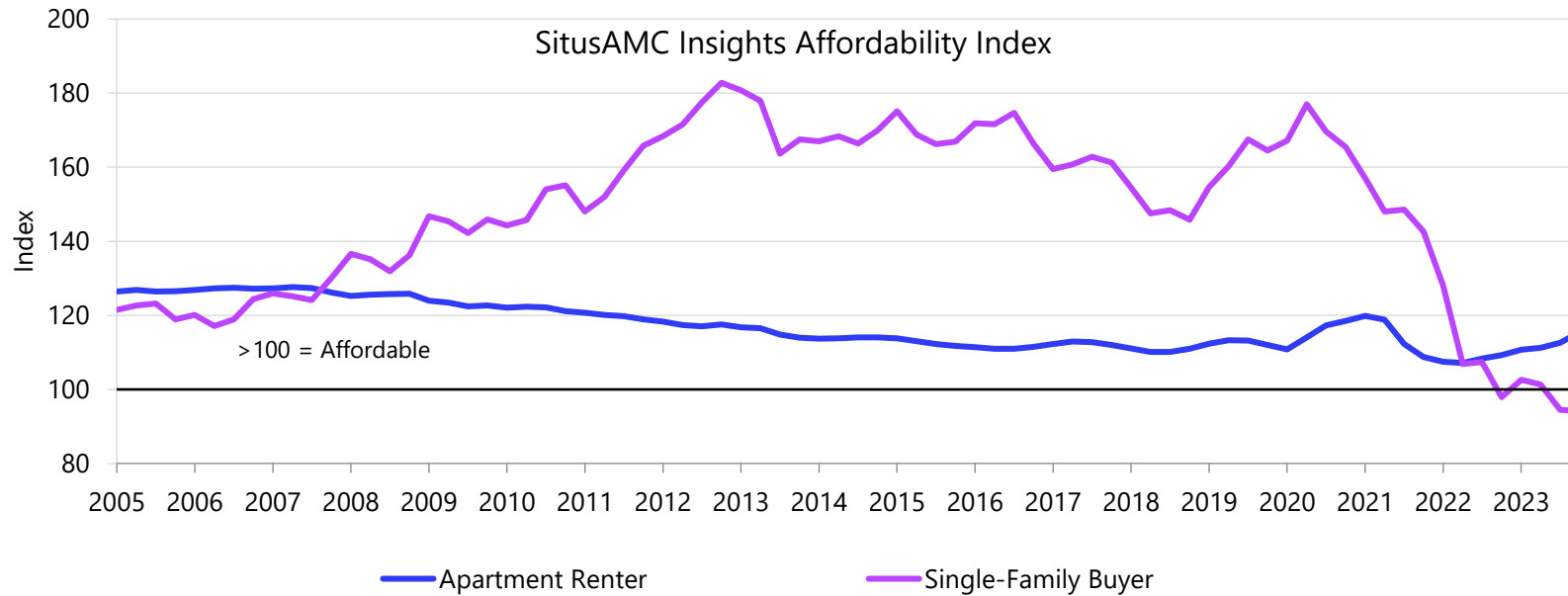


# 3.1 Apartment





# Single-Family Affordability the Lowest on Record While Apartment Affordability Increases for First Time in Nearly Three Years; More Affordable to Rent than Buy



	Single-Family	Apartment
Current as of 2023Q4	94.1	115.5
Qtr-to-Qtr Change (BPS)	-31	289
Yr-to-Yr Change (BPS)	-380	621
8-Year Change (BPS)	-7,776	413
8-Year Average	146.3	112.2

# Weakness in Apartment Demand Most Evident in Class B/C Properties; Rent Growth Negative YoY for Both Apartment Classes

MULTIFAMILY CLASS CUT FUNDAMENTALS



BY THE NUMBERS

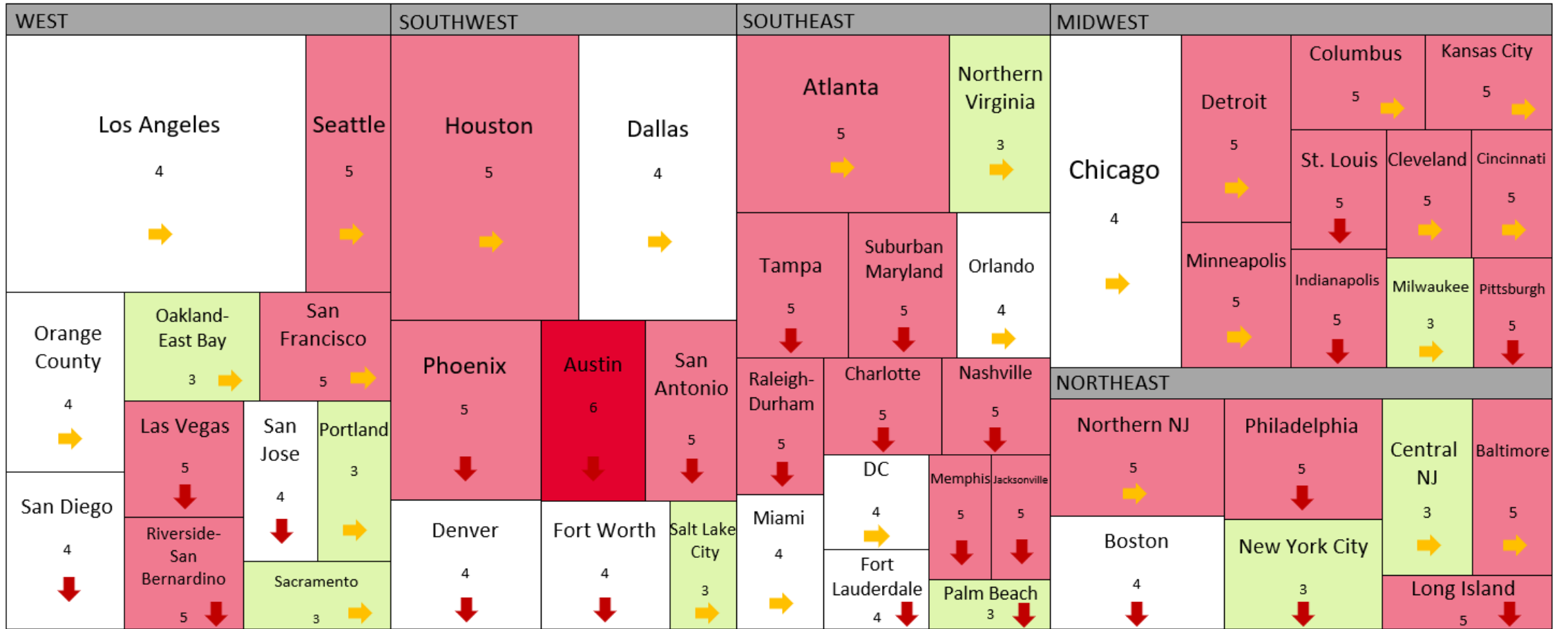
	Class A Vacancy	Class B Vacancy
Current as of 4Q 2023	6.4%	4.5%
Qtr-to-Qtr Change (Bps)	+30	+20
Yr-to-Yr Change (Bps)	+40	+60
8-year Average	6.2%	3.6%

MULTIFAMILY CLASS CUT RENT GROWTH



	Class A Rent Growth	Class B Rent Growth
Qtr-to-Qtr Change	-1.0%	-1.1%
Yr-to-Yr Change	-1.3%	-0.6%
8-year Yearly Average	4.6%	4.6%

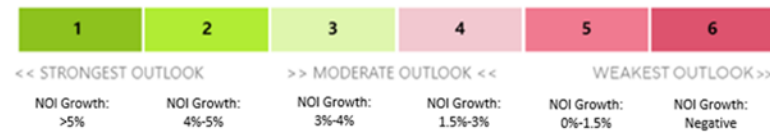
# SitusAMC Insights Apartment NOI Heat Map: South Regions See Most Downgrades



- The average apartment score deteriorated from 3.9 to 4.4.
- About half of all metros (25 of 51) were downgraded with most downgrades occurring in the Southeast and Southwest.
- There were no upgrades
- Nine metros received the highest ranking of 3; these metros were evenly distributed throughout the U.S.

### NUMERICAL RANKINGS & COLORS

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

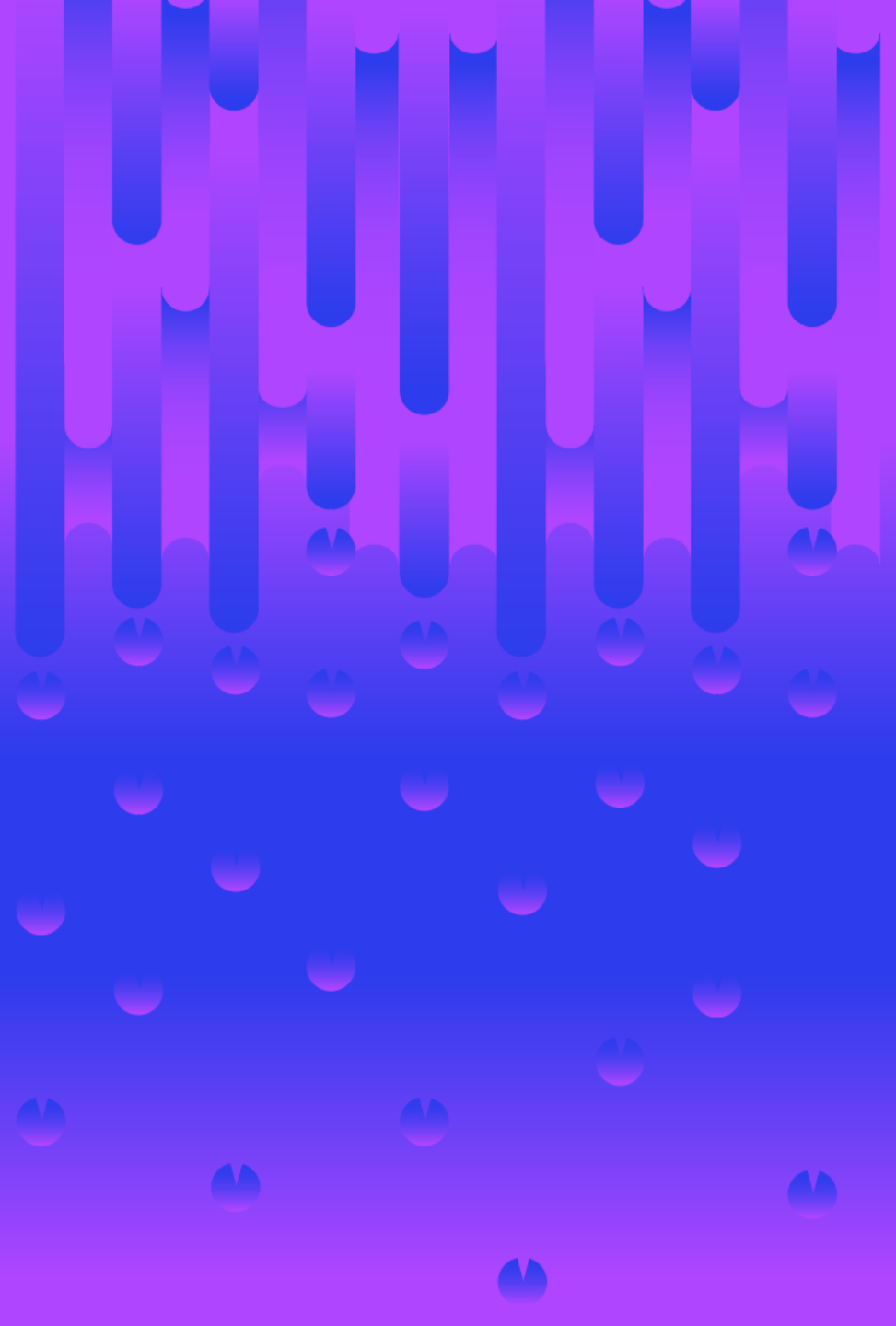


### ARROWS

- ▲ 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.

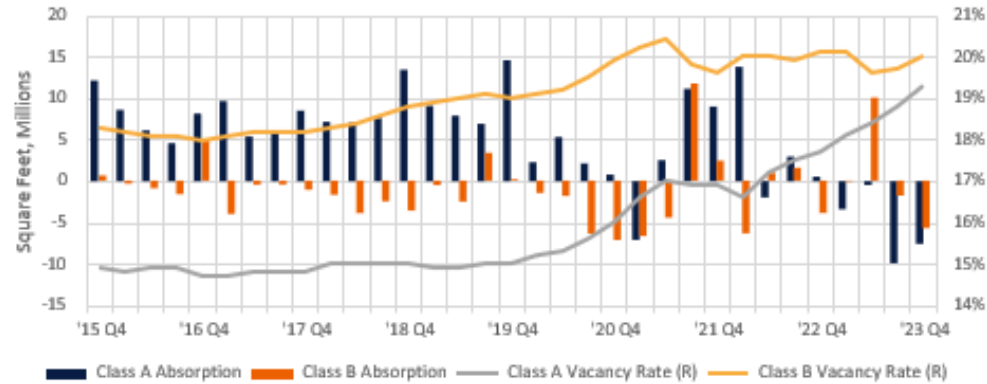
**Sizing:** The size of each market box represents each market's size by population for economic heat maps. The metros are aggregated by region; the combined size of each regional box represents the relative size of each region, enabling an at-a-glance take on regional conditions.

# 3.2 Office



# Class A Office Absorption Cannot Hold Up to New Supply

OFFICE CLASS CUT FUNDAMENTALS



BY THE NUMBERS

	Class A Vacancy	Class B Vacancy
Current as of 4Q 2023	19.3%	20.0%
Qtr-to-Qtr Change (Bps)	+50	+30
Yr-to-Yr Change (Bps)	+160	-10
8-year Average	16.0%	19.1%

OFFICE CLASS CUT RENT GROWTH

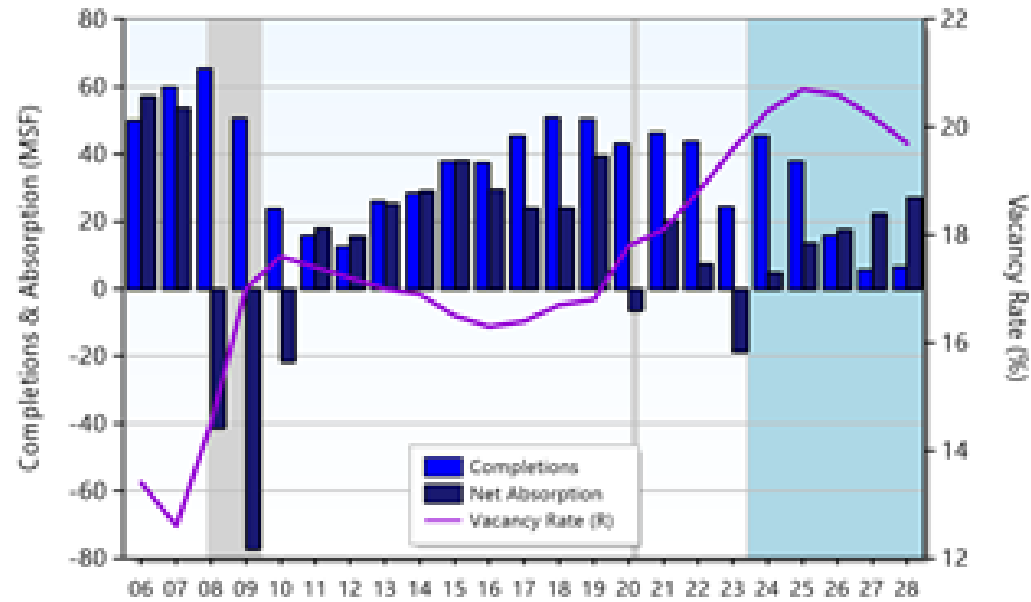


	Class A Rent Growth	Class B Rent Growth
Qtr-to-Qtr Change	+0.1%	-0.1%
Yr-to-Yr Change	+1.3%	+0.5%
8-year Yearly Average	1.6%	1.4%

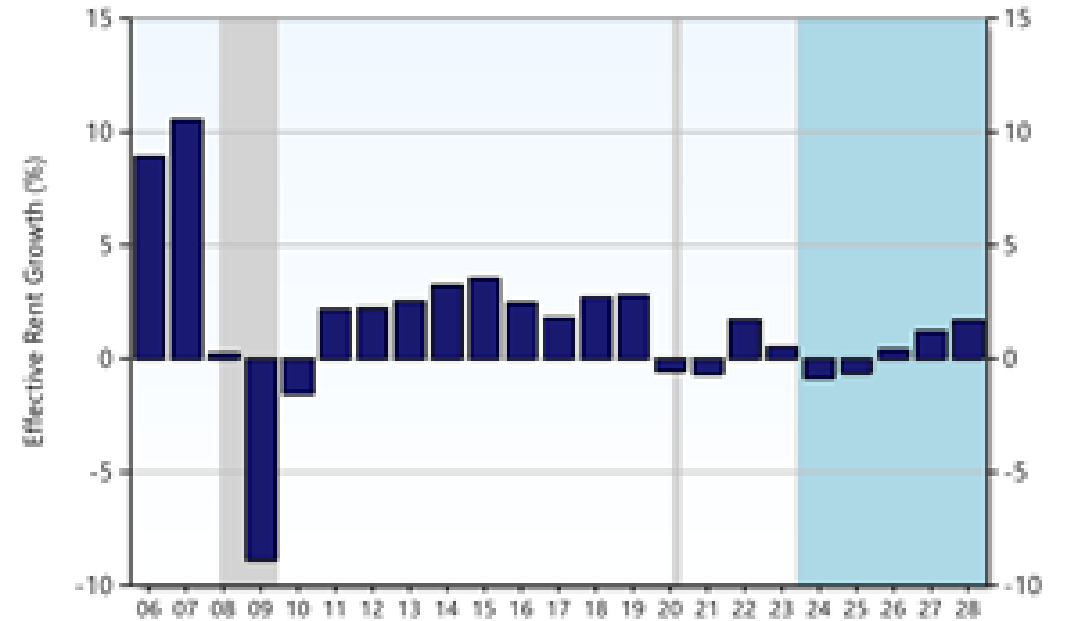
# Office Oversupply and Weak Demand Persist

## SitusAMC Insights Office Fundamentals Forecast

### Supply/Demand



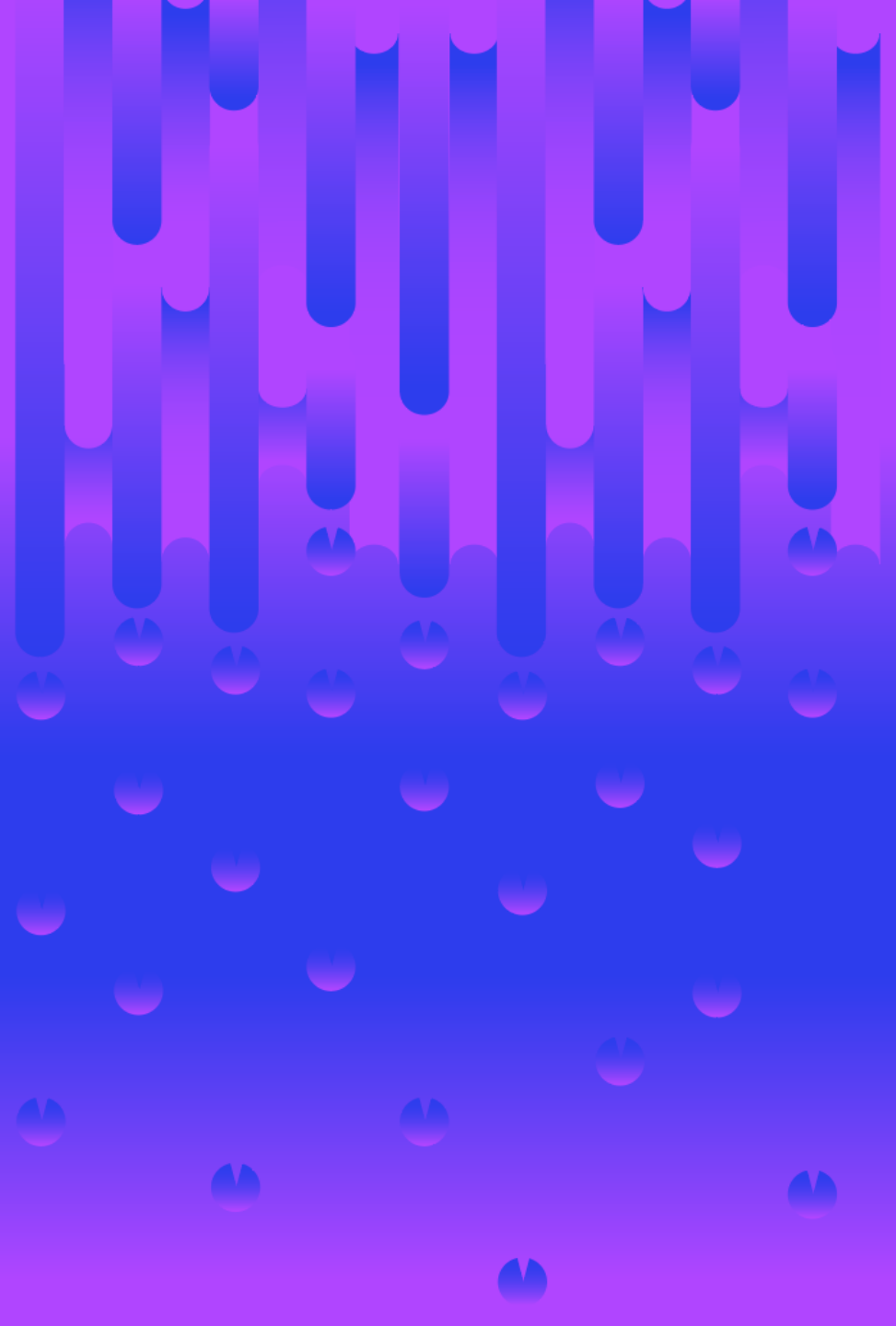
### Effective Rent Growth



Gray shading represents a recession. Blue shading represents the forecast.  
Sources: Reis, NBER, SitusAMC Insights Forecasts, 4Q 2023.

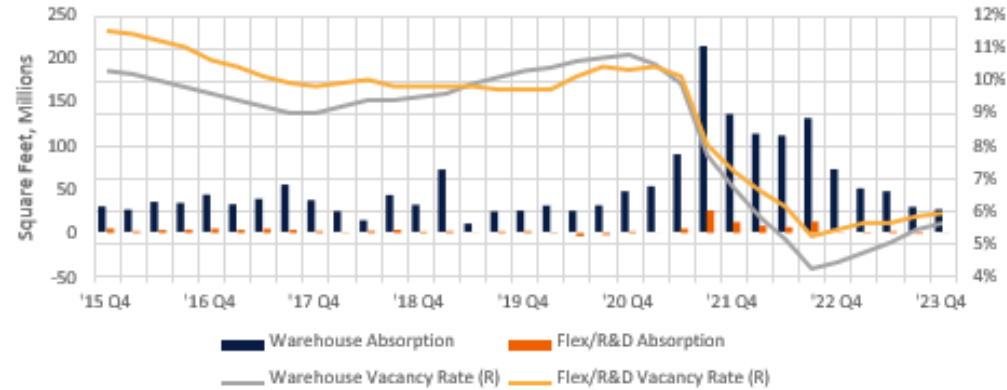
# 3.3

# Industrial



# Industrial Warehouse and Flex/R&D Subtype Vacancies Increase But Remain Healthy; Warehouse Rent Deceleration Outpaces Flex/R&D

## INDUSTRIAL COMPONENTS FUNDAMENTALS



## BY THE NUMBERS

	Warehouse Vacancy	Flex/R&D Vacancy
Current as of 4Q 2023	5.6%	5.9%
Qtr-to-Qtr Change (Bps)	+20	+10
Yr-to-Yr Change (Bps)	+120	+50
8-year Average	8.5%	8.9%

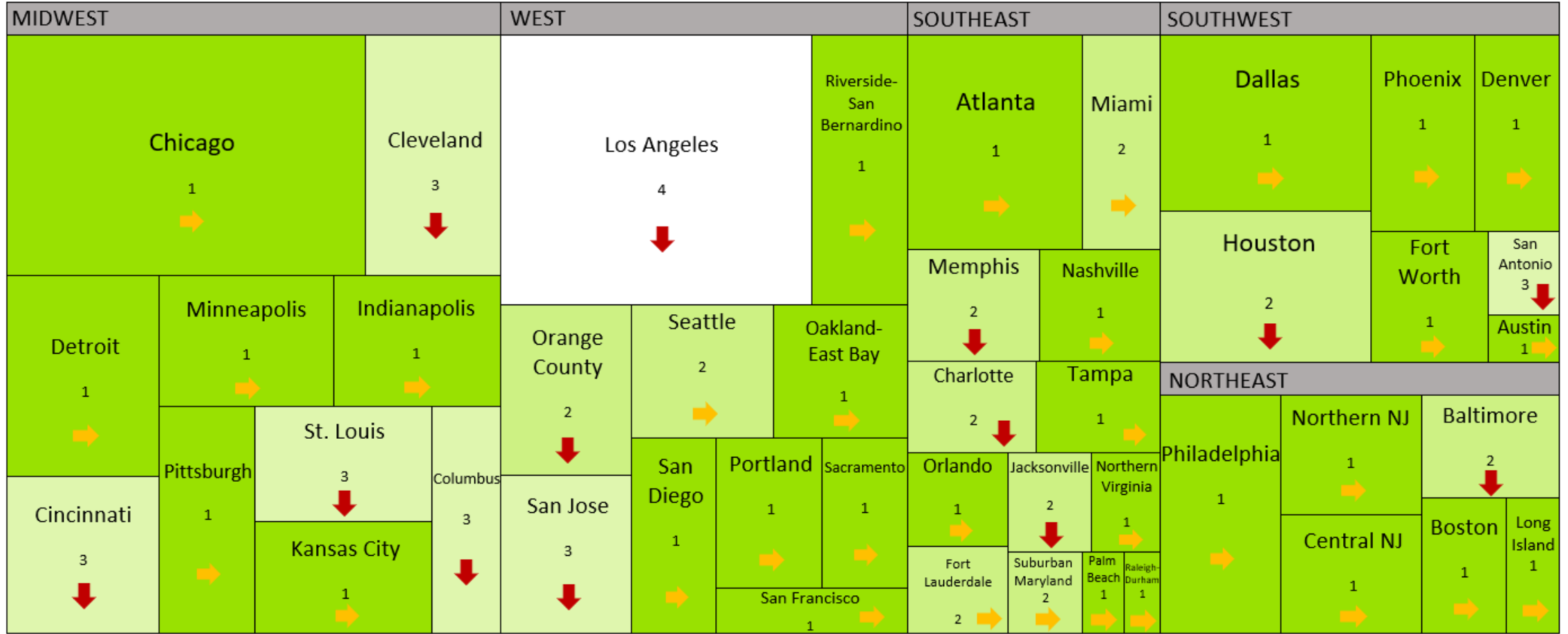
## INDUSTRIAL COMPONENTS RENT GROWTH



	Warehouse Rent Growth	Flex/R&D Rent Growth
Qtr-to-Qtr Change	+0.6%	+0.8%
Yr-to-Yr Change	+4.8%	+4.6%
8-year Yearly Average	5.8%	4.3%



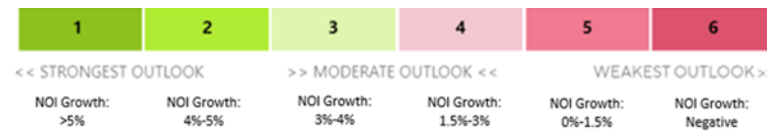
# SitusAMC Insights Industrial NOI Heat Map: Northeast Looking Pretty



- The average industrial rating worsened slightly from 1.2 to 1.5, but had the best NOI outlook among the property types.
- 13 of 46 metros were downgraded; there were no upgrades.
- 33 markets were stagnant, but these markets were already at a 1 or a 2.
- Cincinnati, San Antonio and San Jose had the greatest downgrades, fall by 2.

### NUMERICAL RANKINGS & COLORS

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

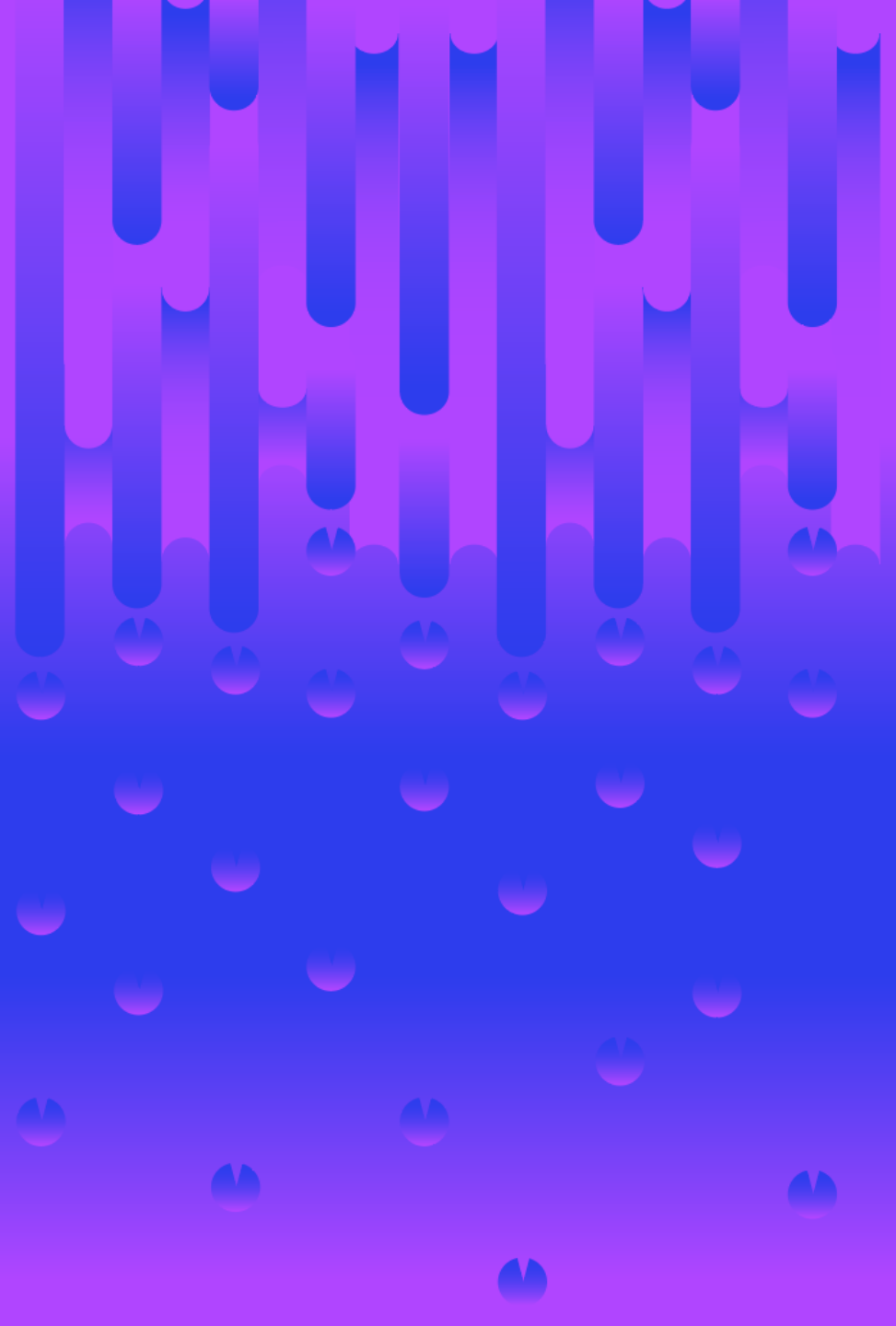


### ARROWS

- ▲ 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.

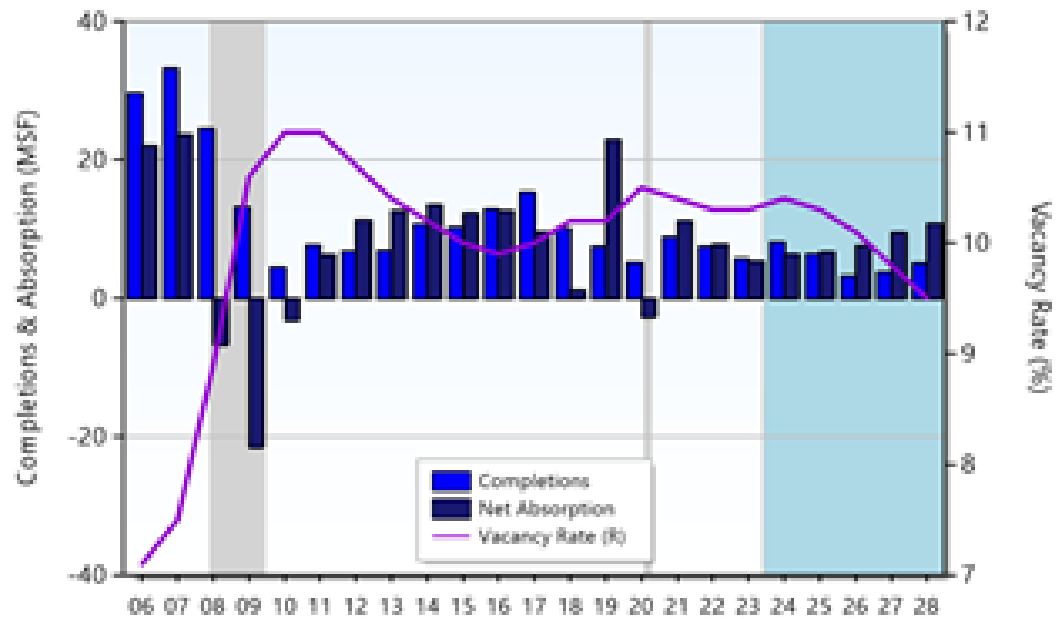
# 3.4 Retail



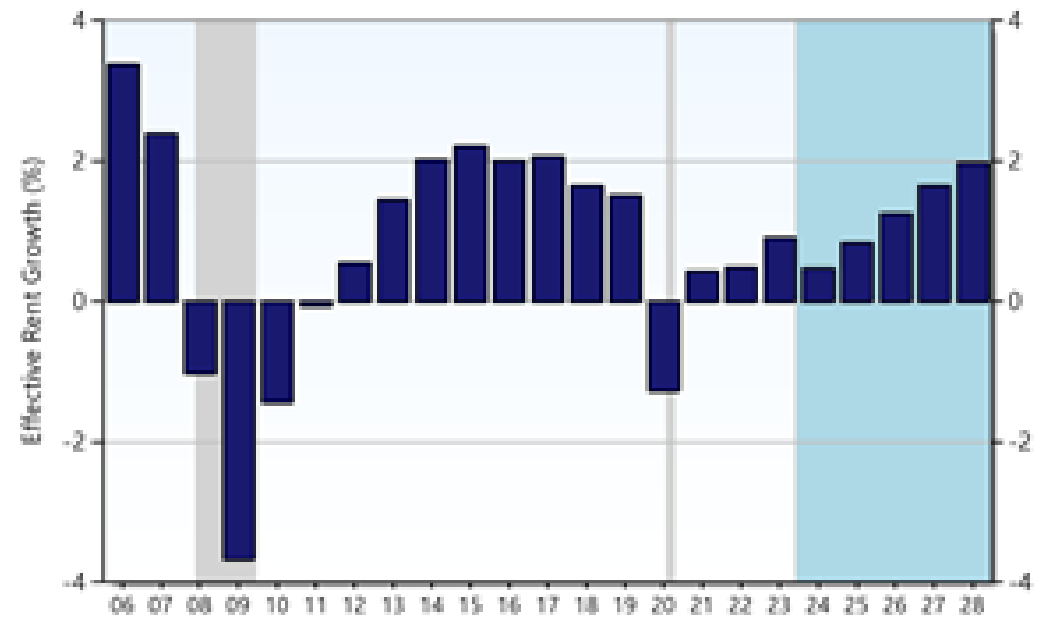
# The Outlook for Retail Remains Slow and Steady

## SitusAMC Insights Retail Fundamentals Forecasts

### Supply/Demand

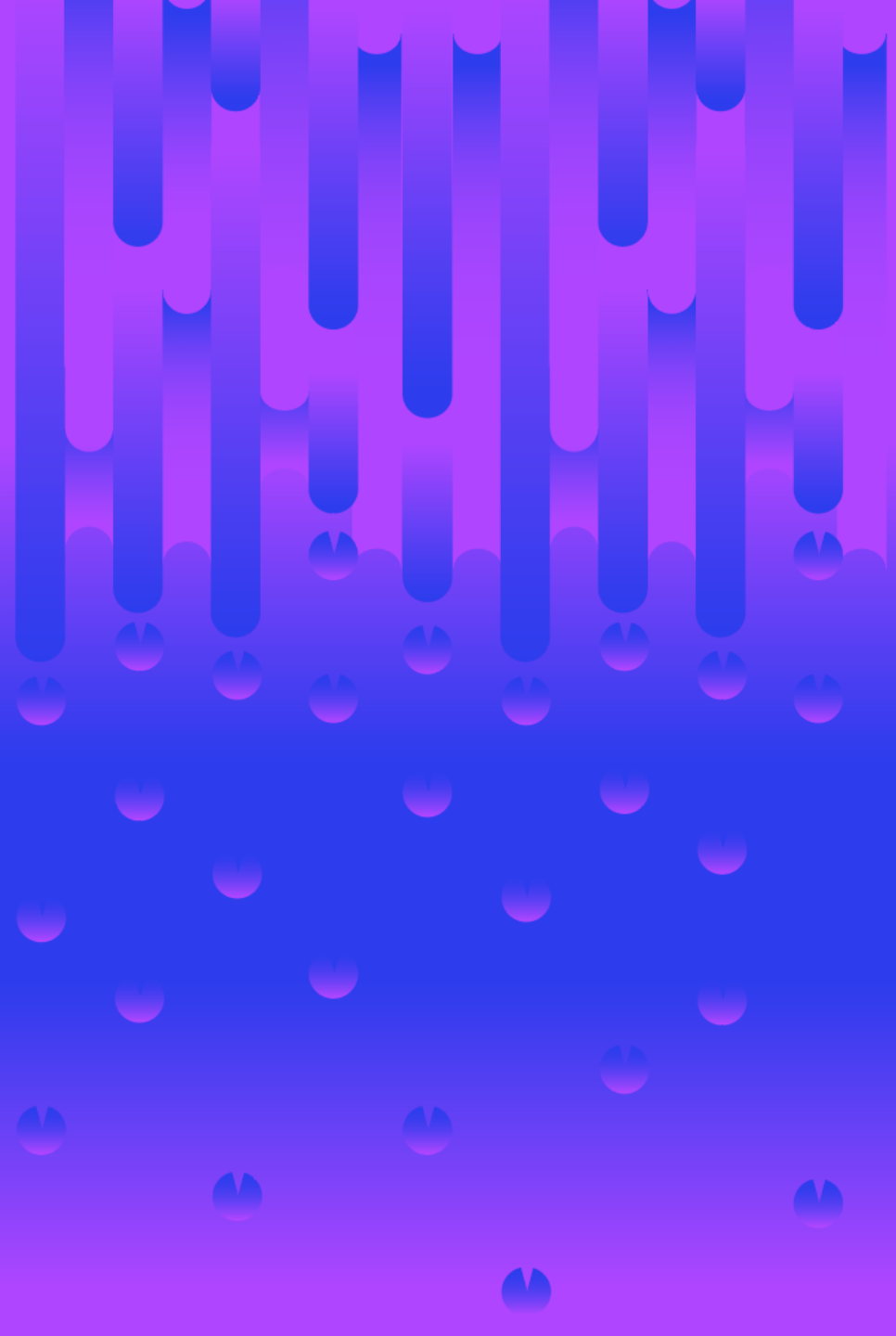


### Effective Rent Growth



Gray shading represents a recession. Blue shading represents the forecast.  
Sources: Reis, NBER, SitusAMC Insights Forecasts, 4Q 2023.

**Thank You**



# Contact Us



**Peter Muoio, PhD**

Senior Director  
SitusAMC Insights  
[petermuoio@situsamc.com](mailto:petermuoio@situsamc.com)



**Jen Rasmussen, PhD**

Head of Market Commentary  
SitusAMC Insights  
[jenniferrasmussen@situsamc.com](mailto:jenniferrasmussen@situsamc.com)



**Jodi Airhart**

Head of Data  
SitusAMC Insights  
[jodiairhart@situsamc.com](mailto:jodiairhart@situsamc.com)



**Cory Loviglio**

Head of Bespoke Research & Analytical Tools  
SitusAMC Insights  
[coryloviglio@situsamc.com](mailto: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