

Trends to Watch 2024



Chad Littell

National Director

Capital Markets Analytics



Today's Roadmap

What to Watch 2024

01

Growth
Slowing

02

Rates
Sideways

03

Sales to
Rebound

Entering the Second Half of Price Discovery

2022-2023

- 1 Rising Interest Rates
- 2 Atypical Rise in Cap Rates
- 3 Lending Standards Tighten
- 4 Transaction Activity Stalls

2024-2025

- 5 Peak Supply As Demand Fades
- 6 Interest Rates Flat or Falling
- 7 Cap Rates Adjust to Lower Rent Growth
- 8 Transactions Increase, Prices Fall

What to Watch 2024



Growth
Slowing

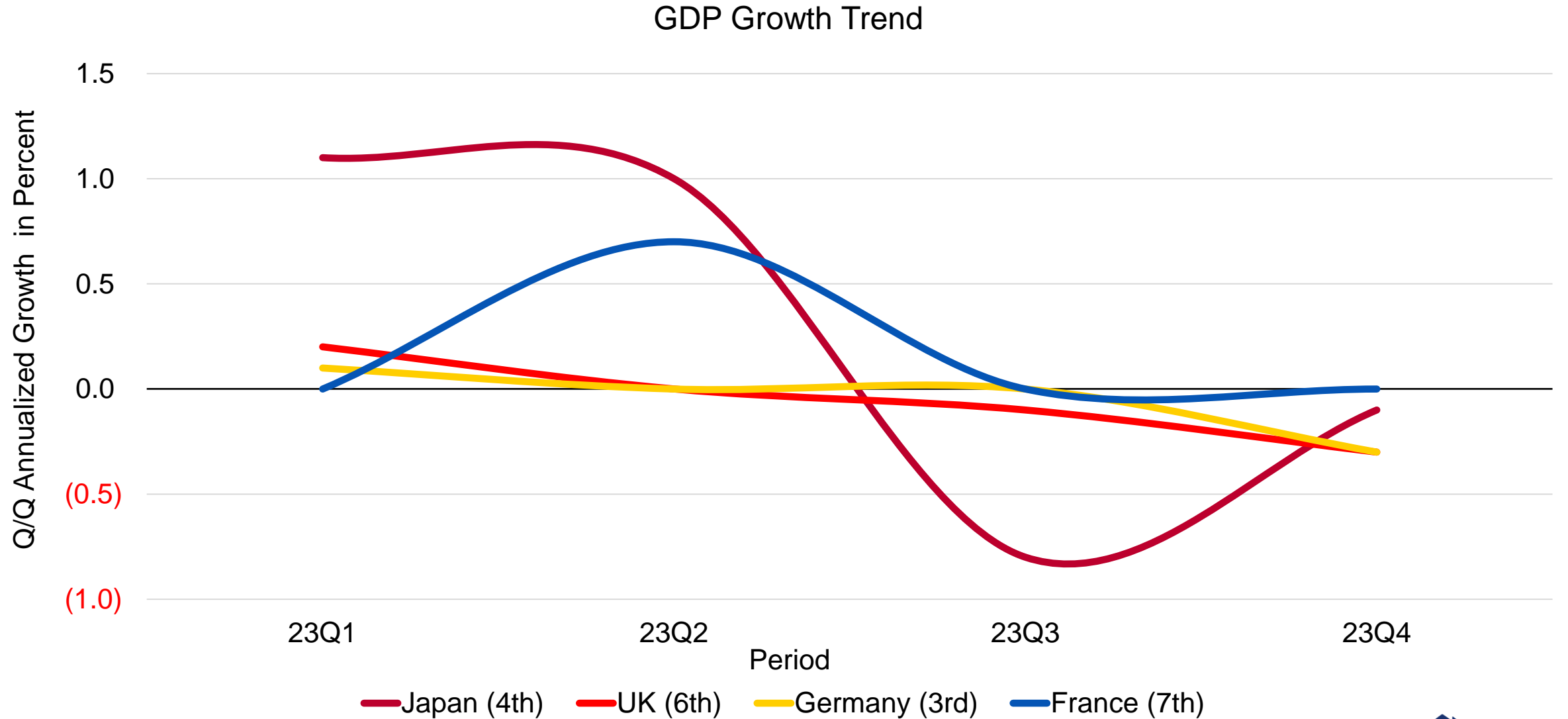
02

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Sideways

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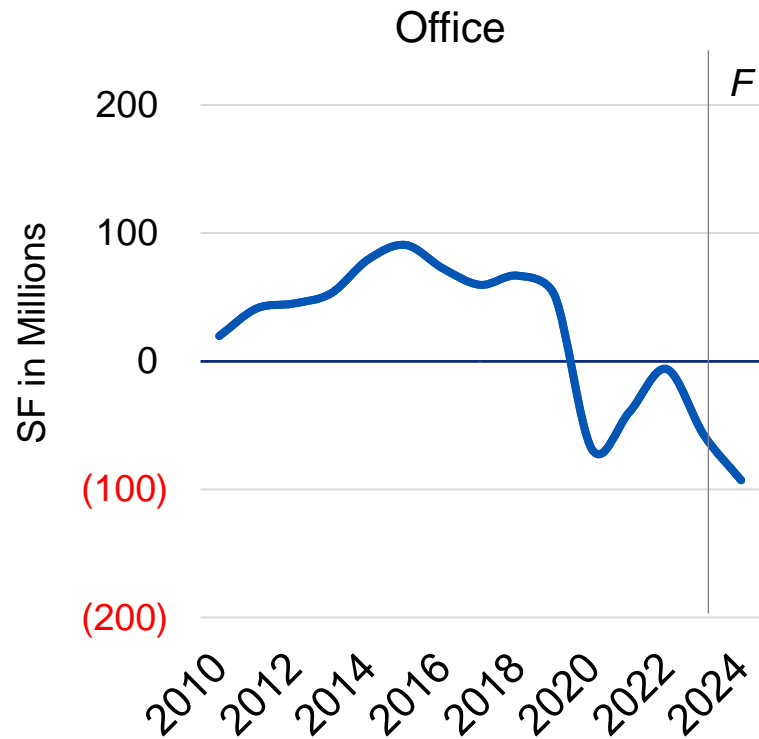
Sales to
Rebound

Growth Slowing Among World's Largest Economies

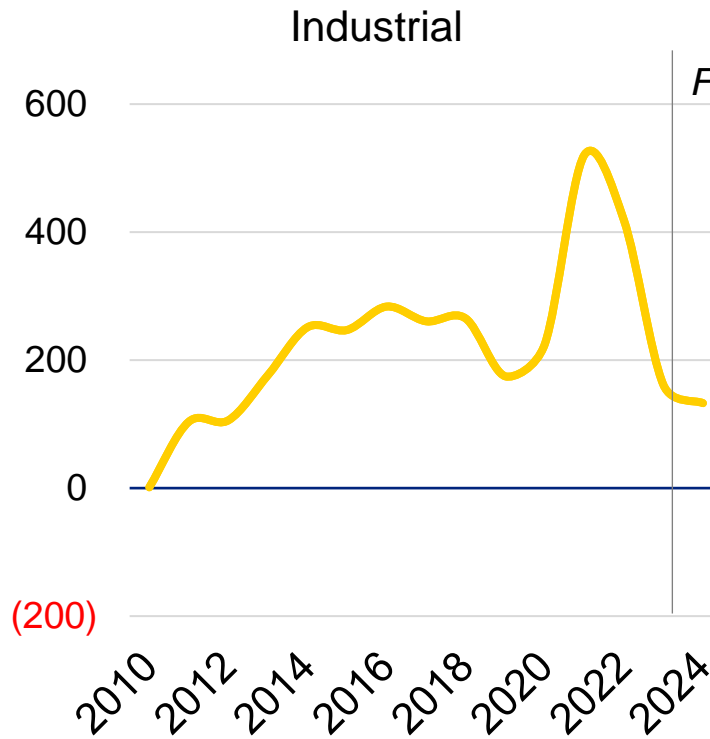


Net Absorption Decelerating Across Property Types

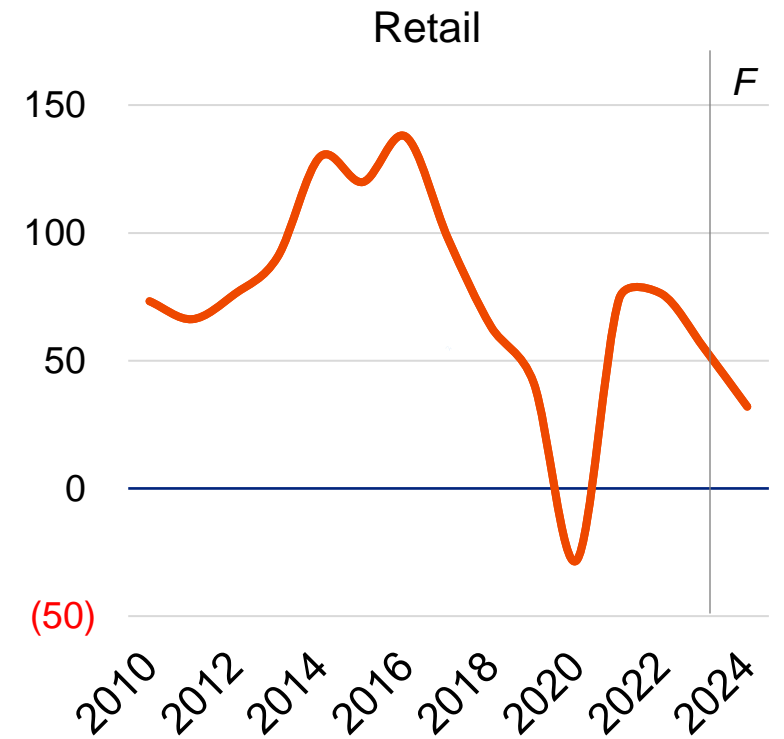
Annual Net Absorption Trends with 2024 Forecast



(22) MSF net absorption
YTD through February



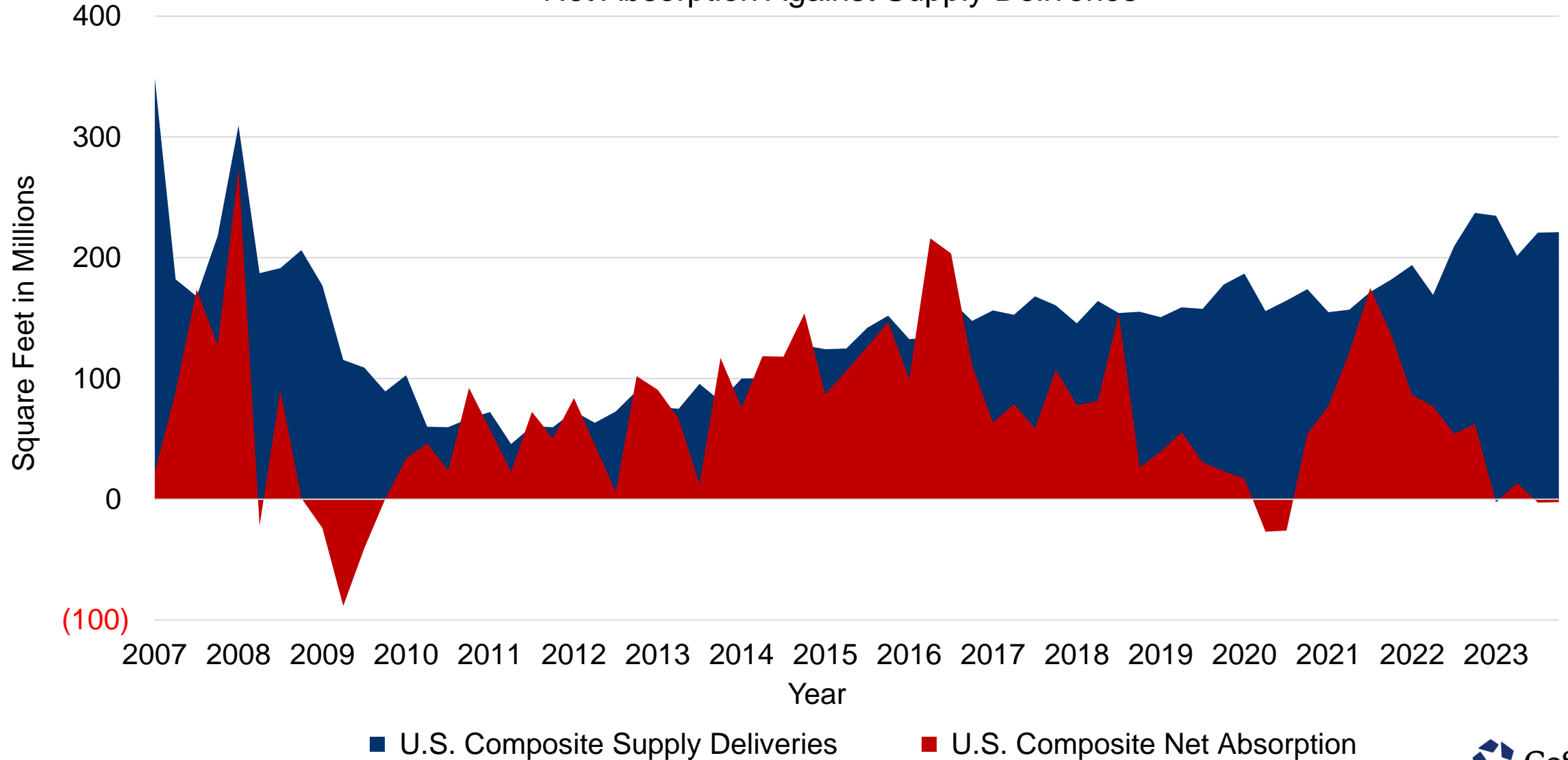
(8) MSF net absorption
YTD through February



(3) MSF net absorption
YTD through February

Demand Turning Negative While Supply Peaks

Net Absorption Against Supply Deliveries



Source: CoStar, as of February 2024

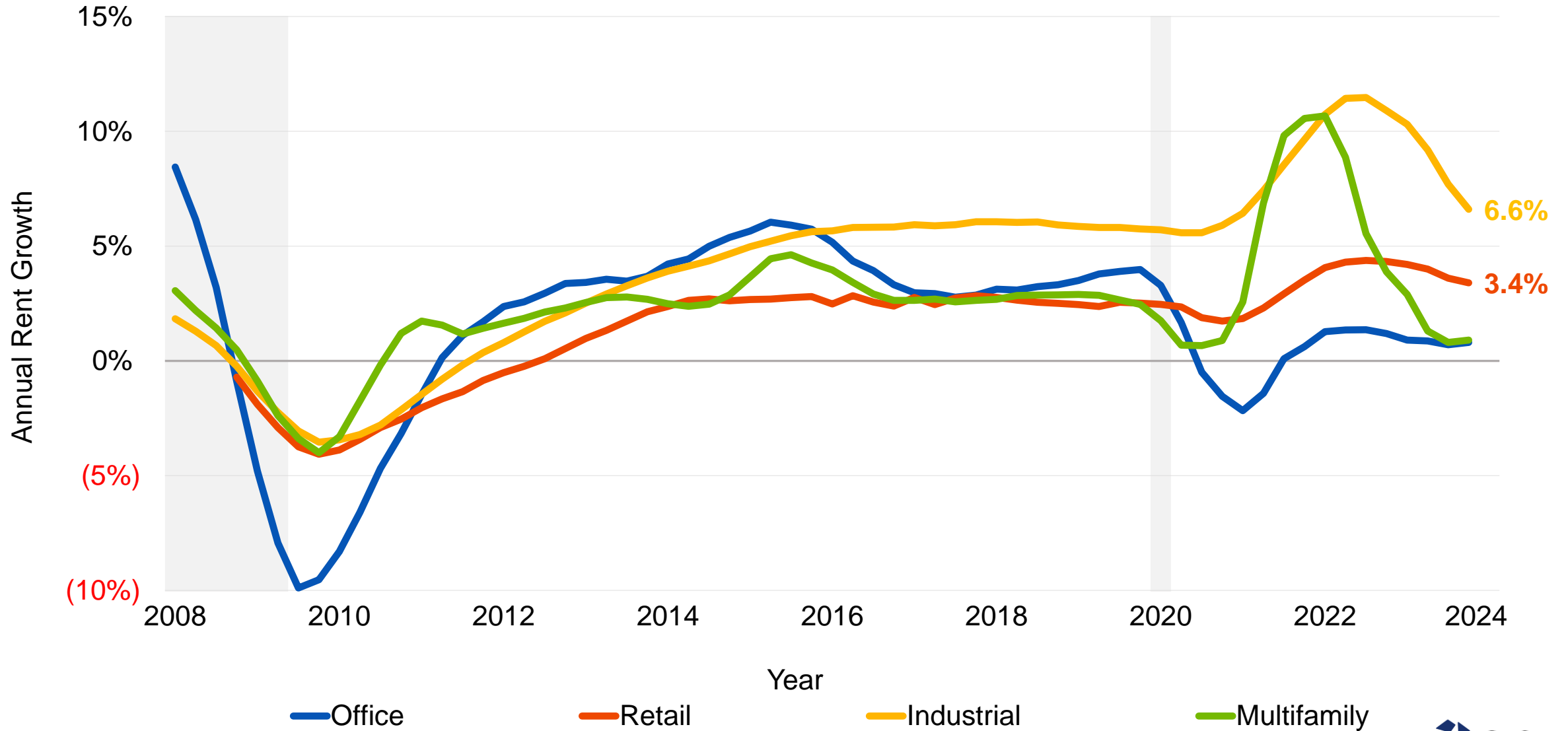
NOI Growth Assuming Downward-Facing Dog



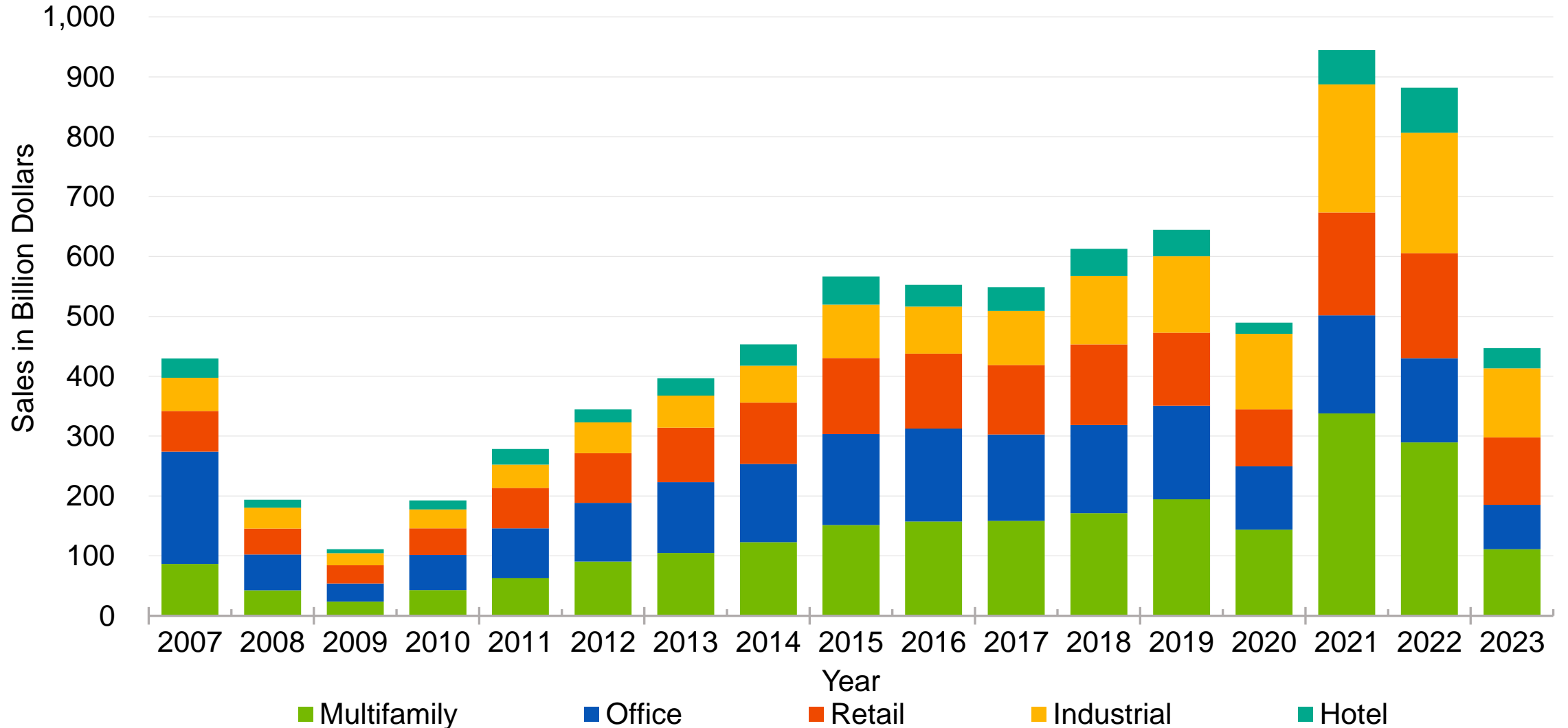
Source: Nareit T-Tracker as of 23Q3; Includes office, industrial, retail, apartments, and lodging; CoStar



Rent Growth Drawing Capital Into Two Sectors



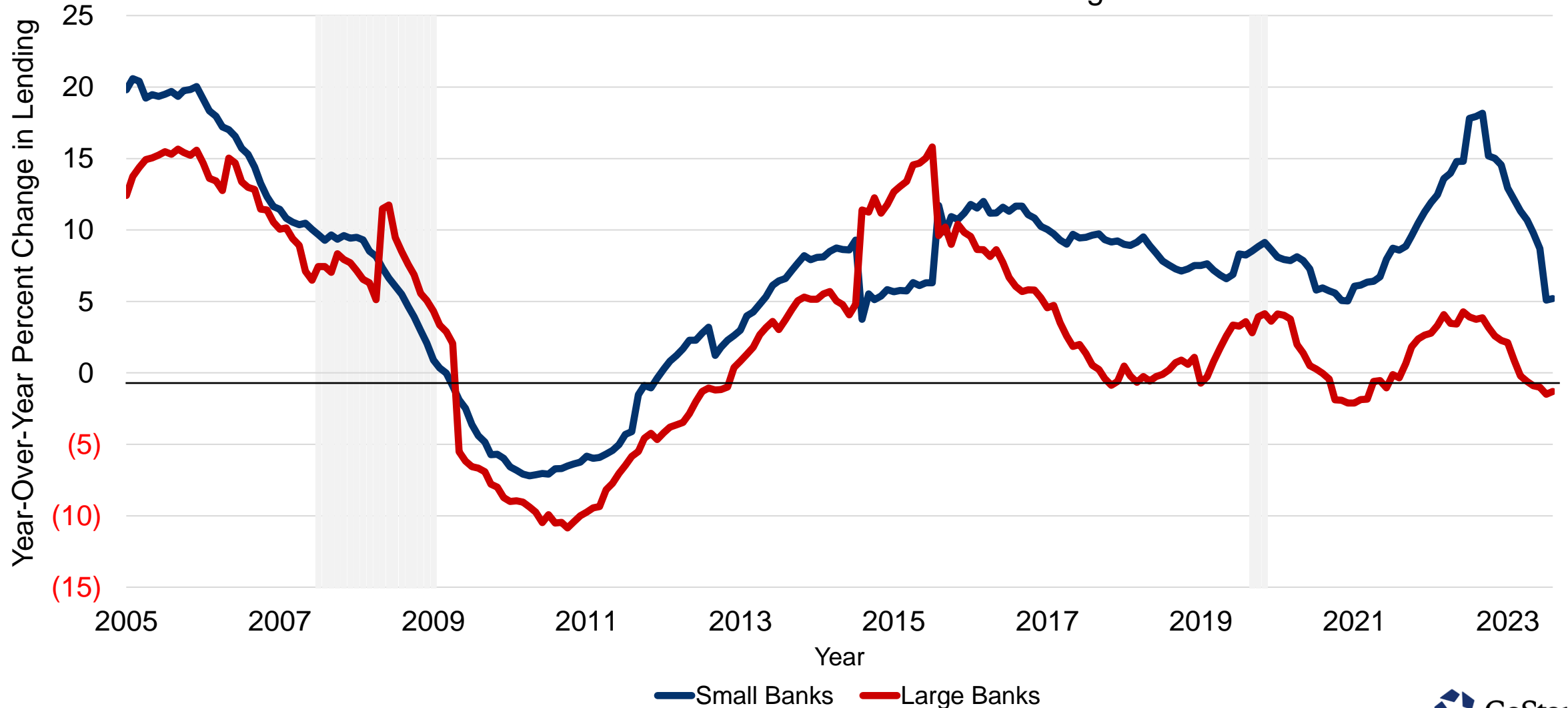
Annual Property Sales Down 50% to 2014 Levels



Source: CoStar, as of 2/5/24

Large Bank CRE Exposure Continues to Shrink

Commercial Real Estate Loans Outstanding



Source: CoStar, February 2024; Board of Governors of the Federal Reserve System (US), Real Estate Loans

Double-Digit Price Declines Across All Property Types

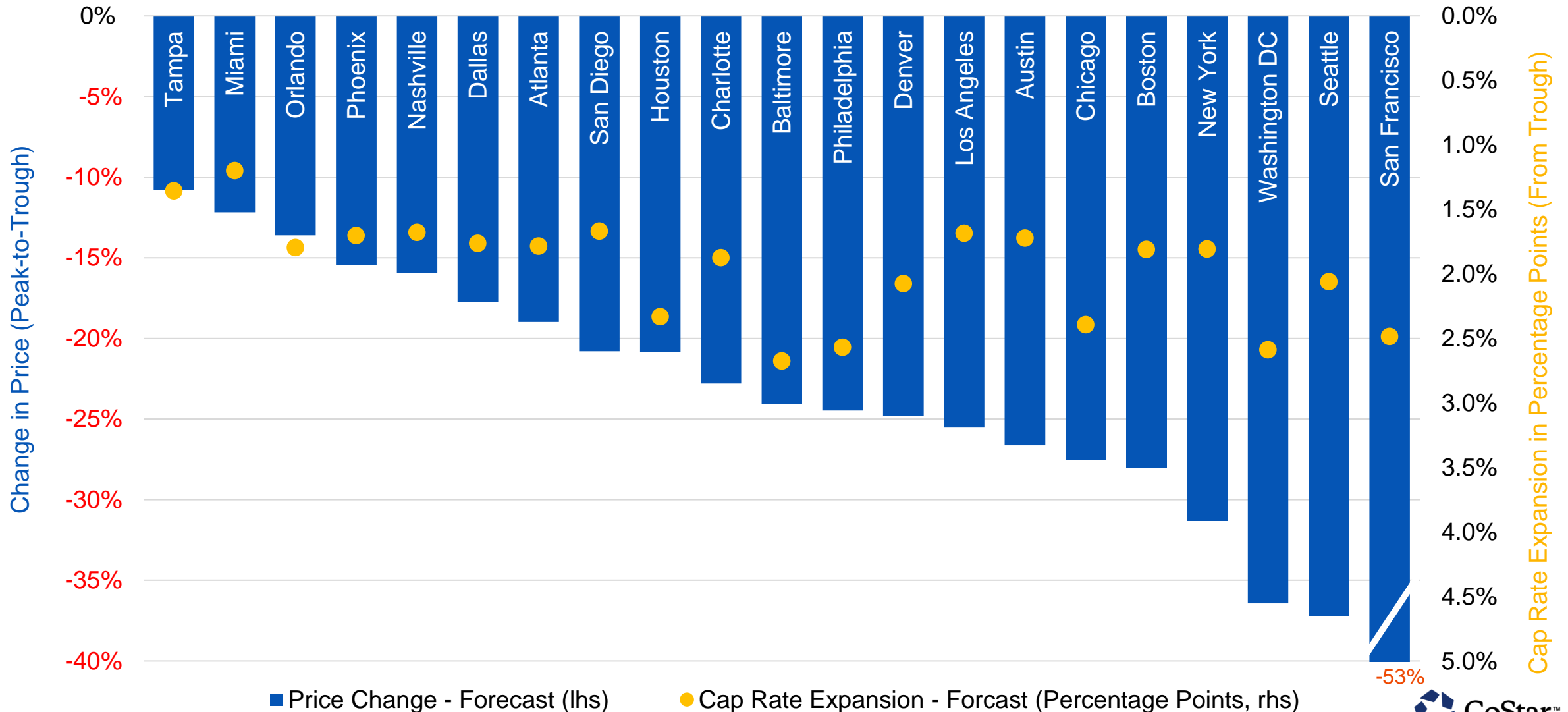
Cumulative Price Change From Peak
Investment Sales Above \$10 Million



Source: CoStar, February 2024; Two-quarter moving average of investment sales above \$10 million; excludes owner-user sales.

Value Declines Are Expected to be Sharpest in Primary Markets

Price Declines and Cap Rate Expansion Forecasts



Source: CoStar, February 2024

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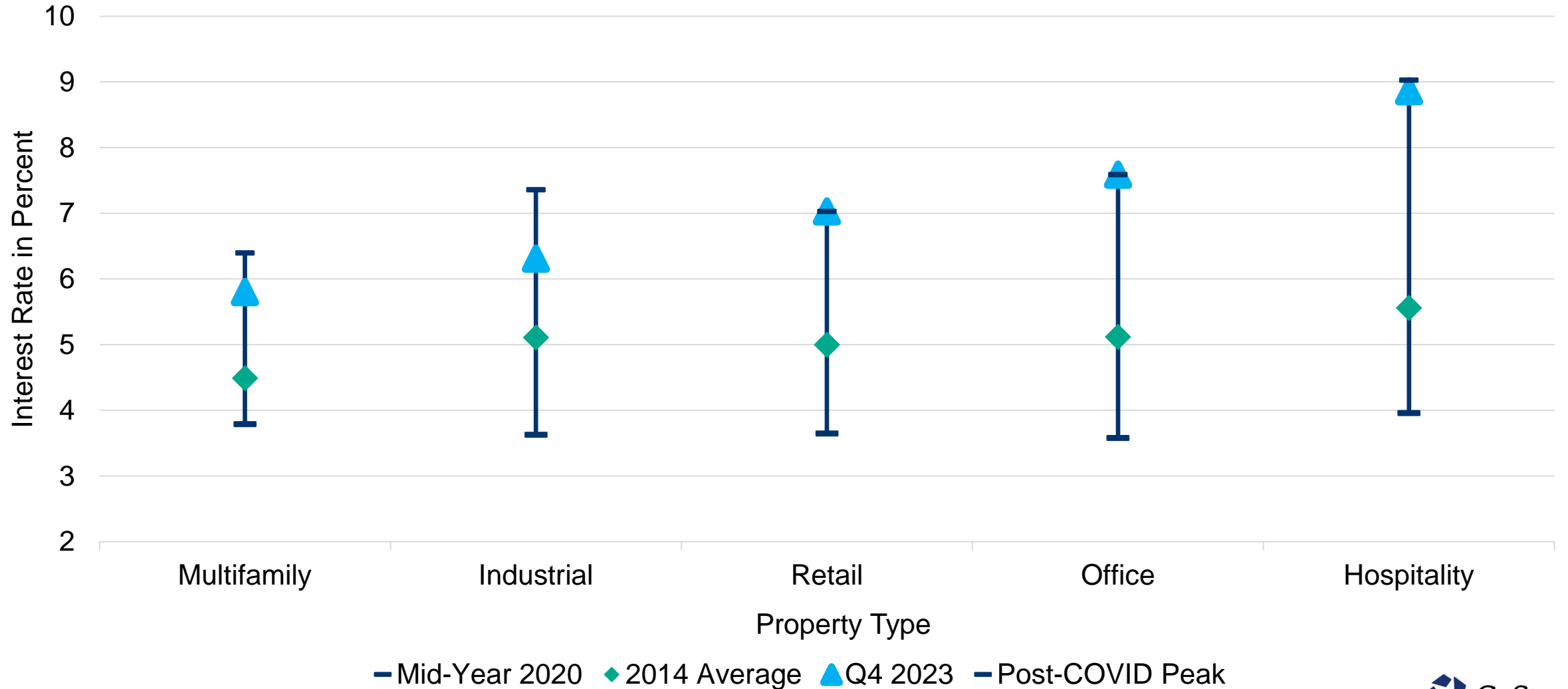
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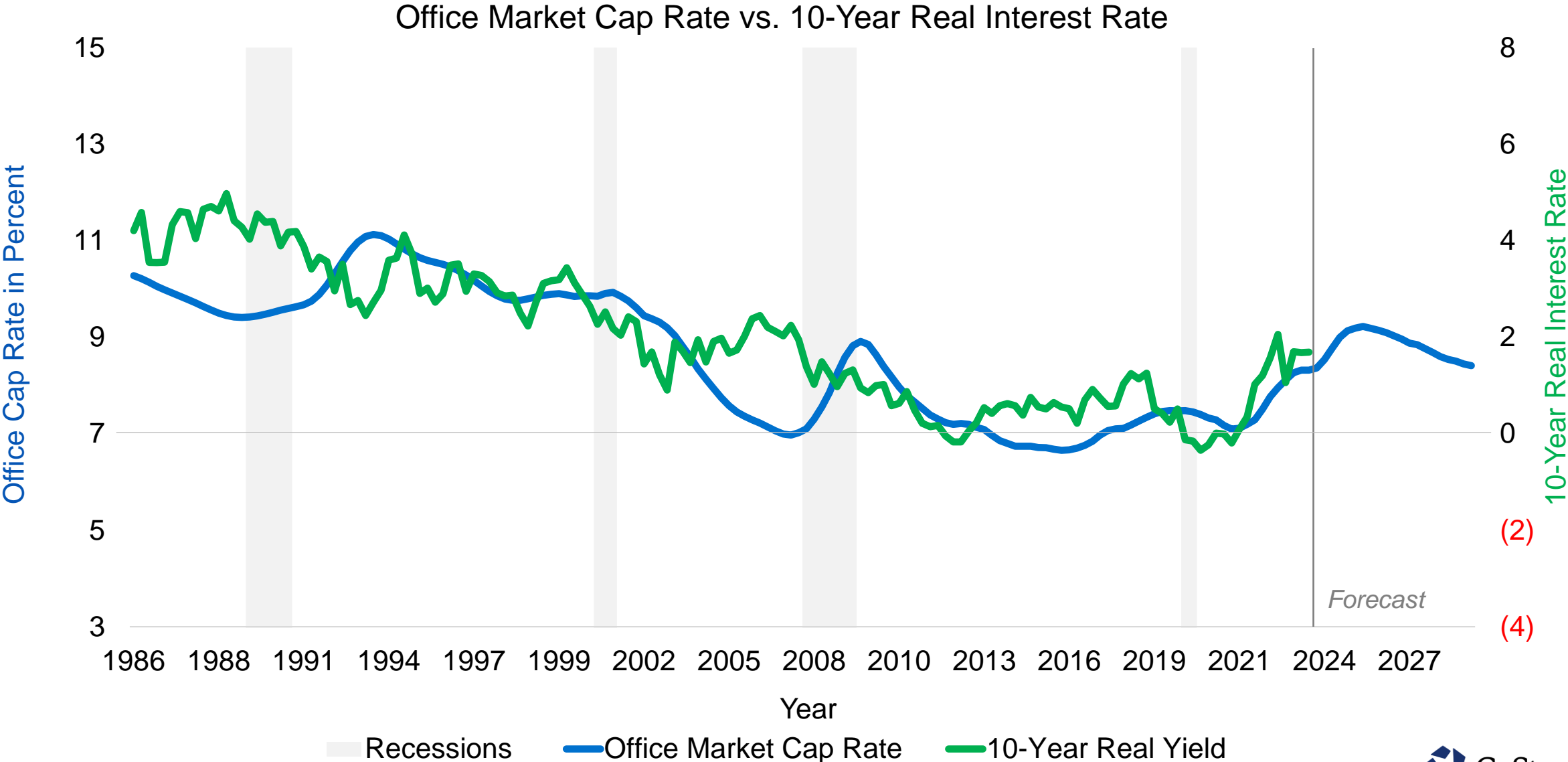
Sales to
Rebound

Financing Rates Remain Near Top of Cycle Range

CMBS Interest Rate Ranges



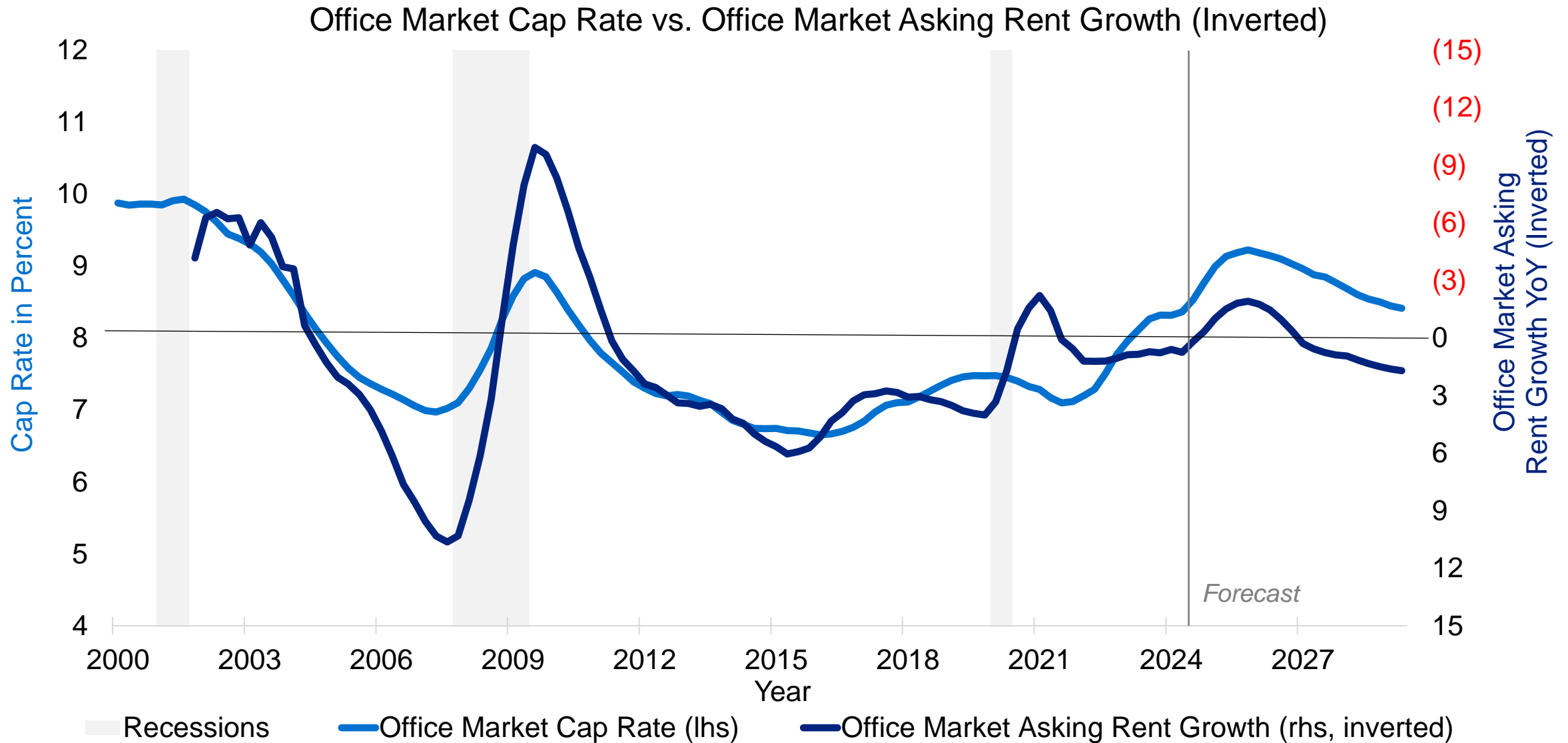
Inverse Relationship Between Cap Rates and Real Yields



Source: CoStar, January 2024; Recessions Shaded

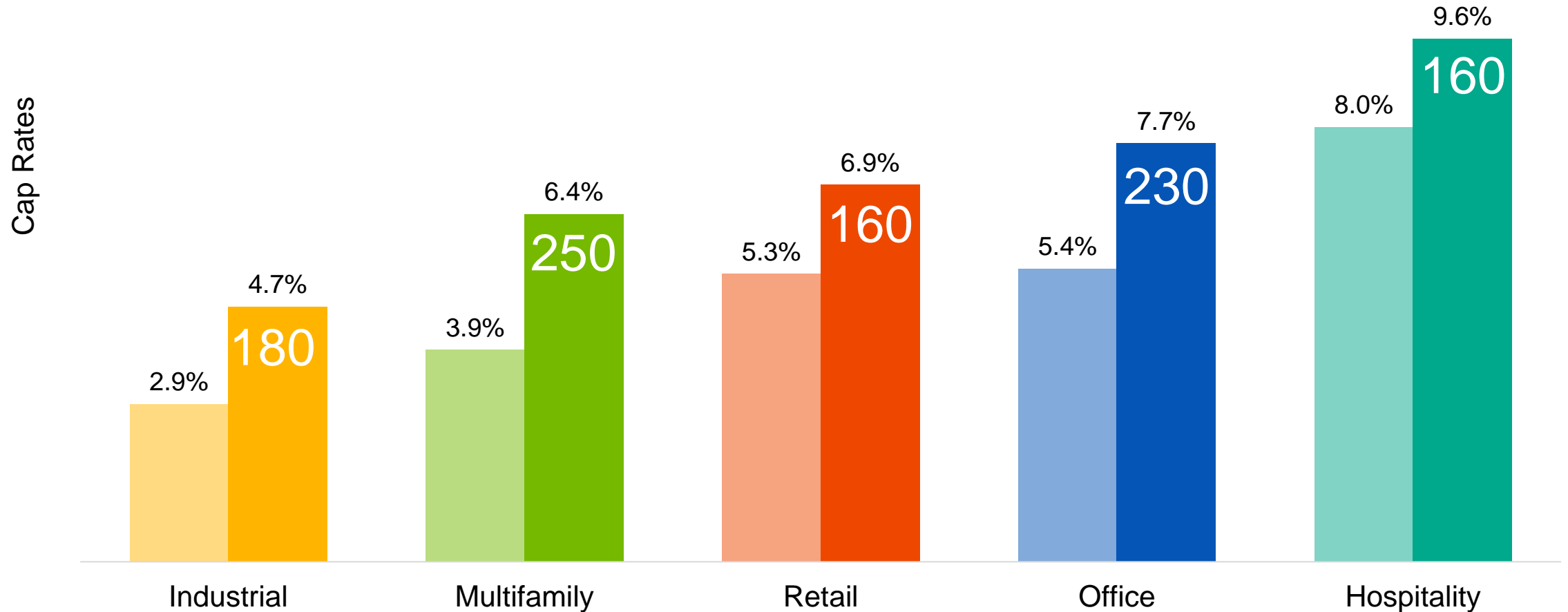


Cap Rates Rise As Annual Asking Rent Growth Slows



Reinforcing Upward Pressure on Cap Rates

Public Equity REIT Implied Yields

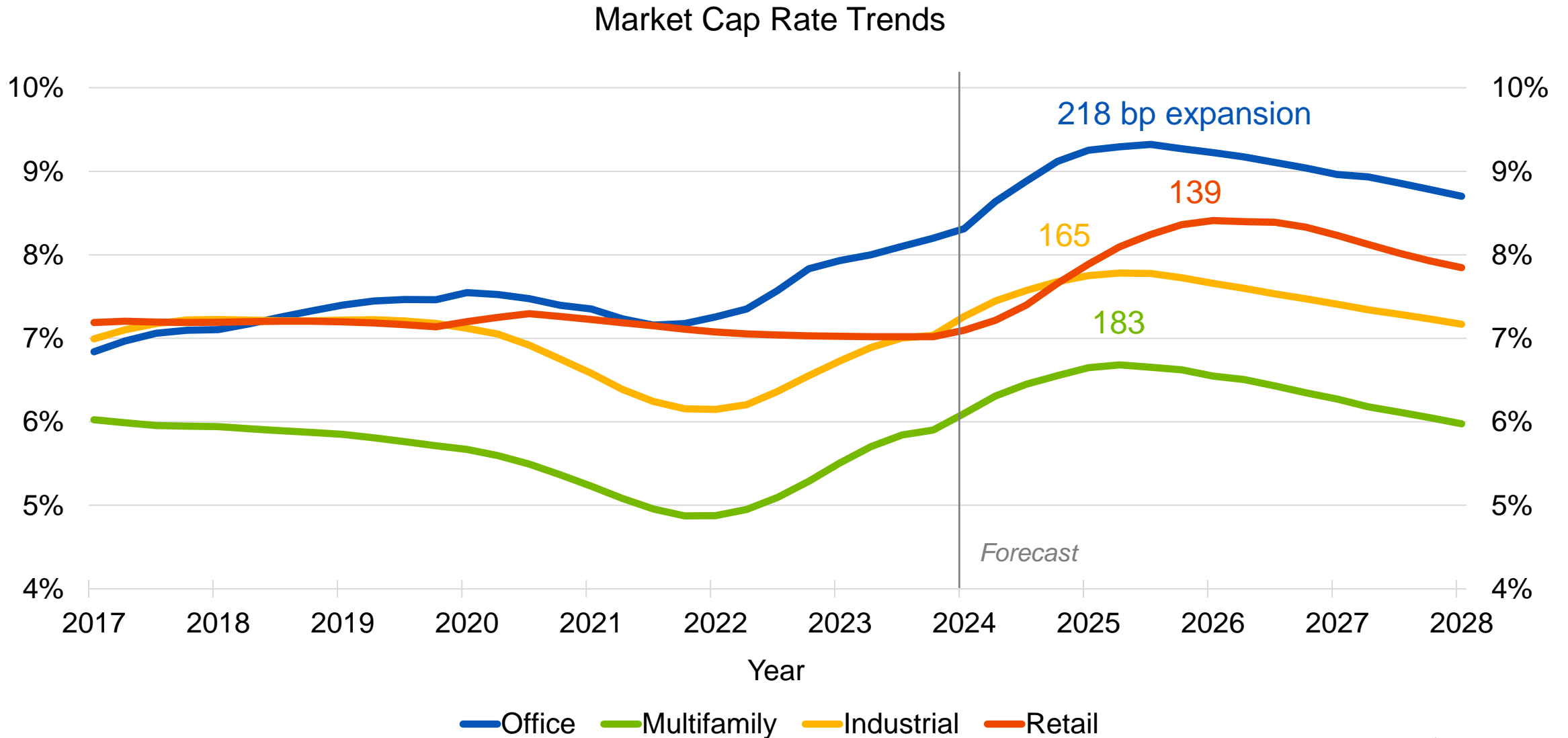


Source: Nareit T-Tracker as of 23Q3

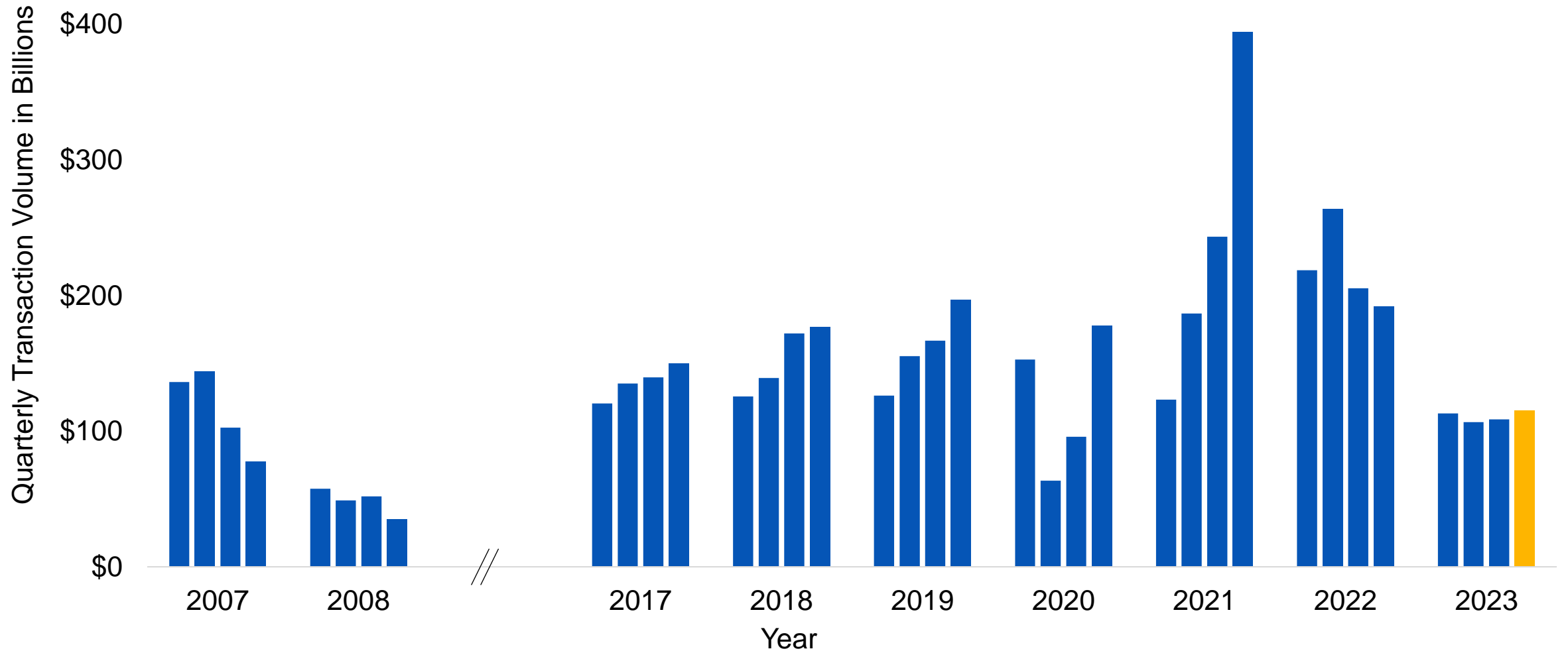
■ Trough ■ 23Q3



CoStar Market Cap Rate Series to Peak in 2025



Transaction Volume Moved Sideways in 2024



Source: CoStar, February 2024

■ Quarterly Transaction Volume ■ Estimated Transaction Volume



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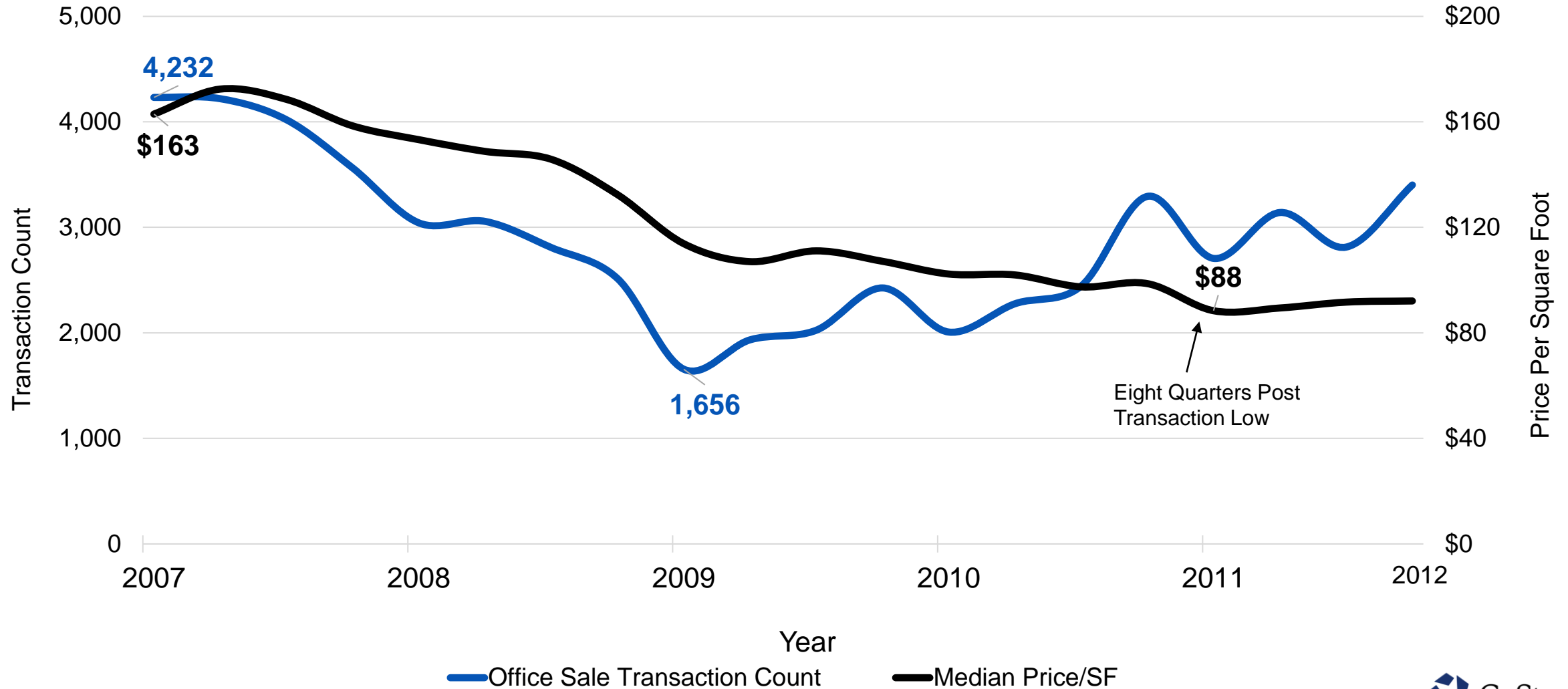
Rates
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Sales to
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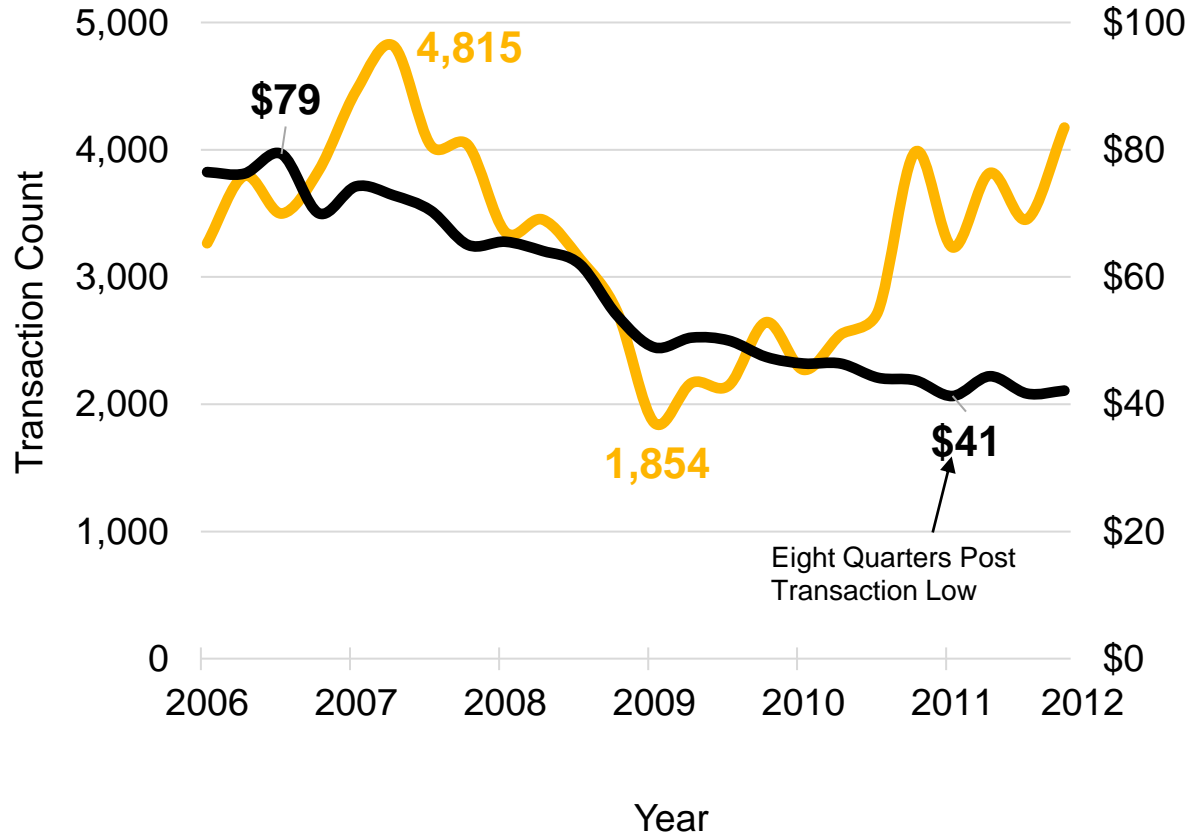
Office Pricing Bottomed Two Years After Sales Volume

Office Transaction Counts And Median Price Per Square Foot

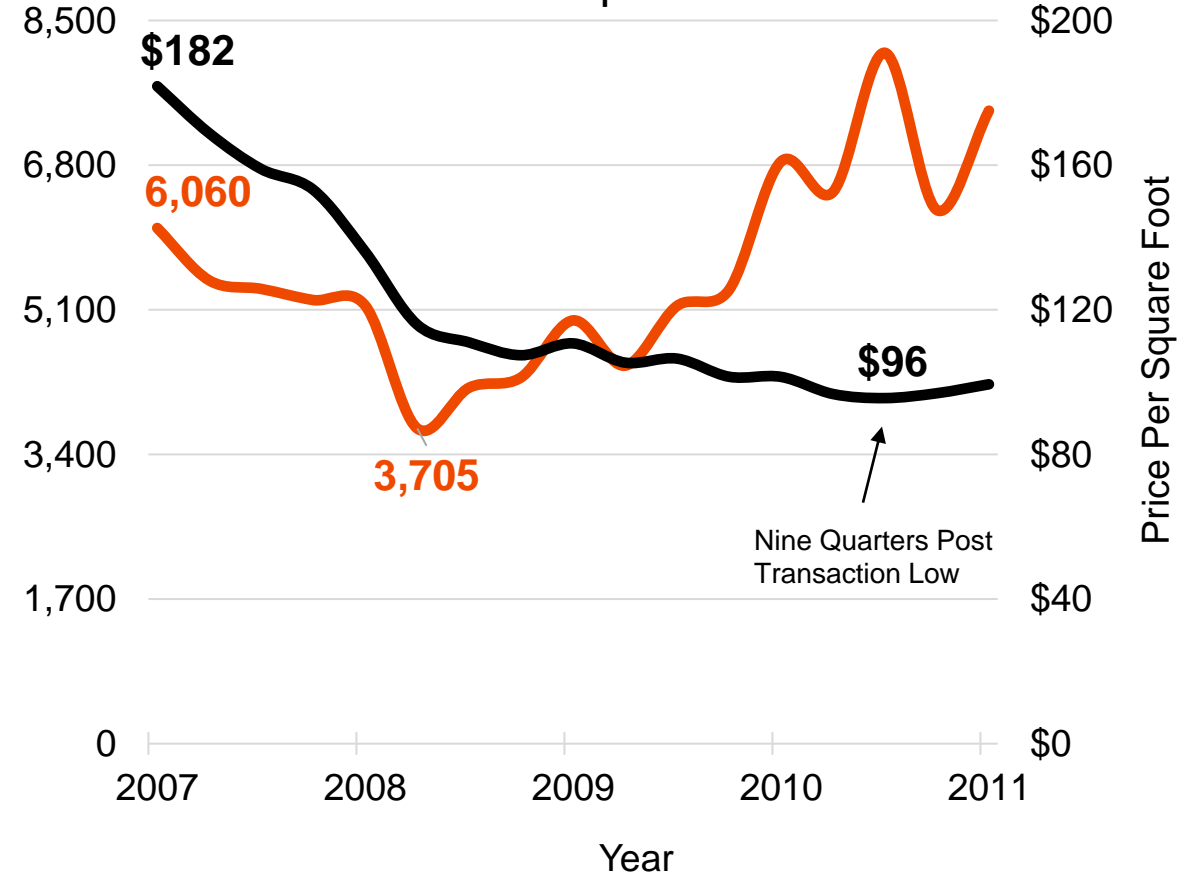


Industrial And Retail Prices Also Troughed Two Years Later

Industrial Transaction Counts And Median Price Per Square Foot



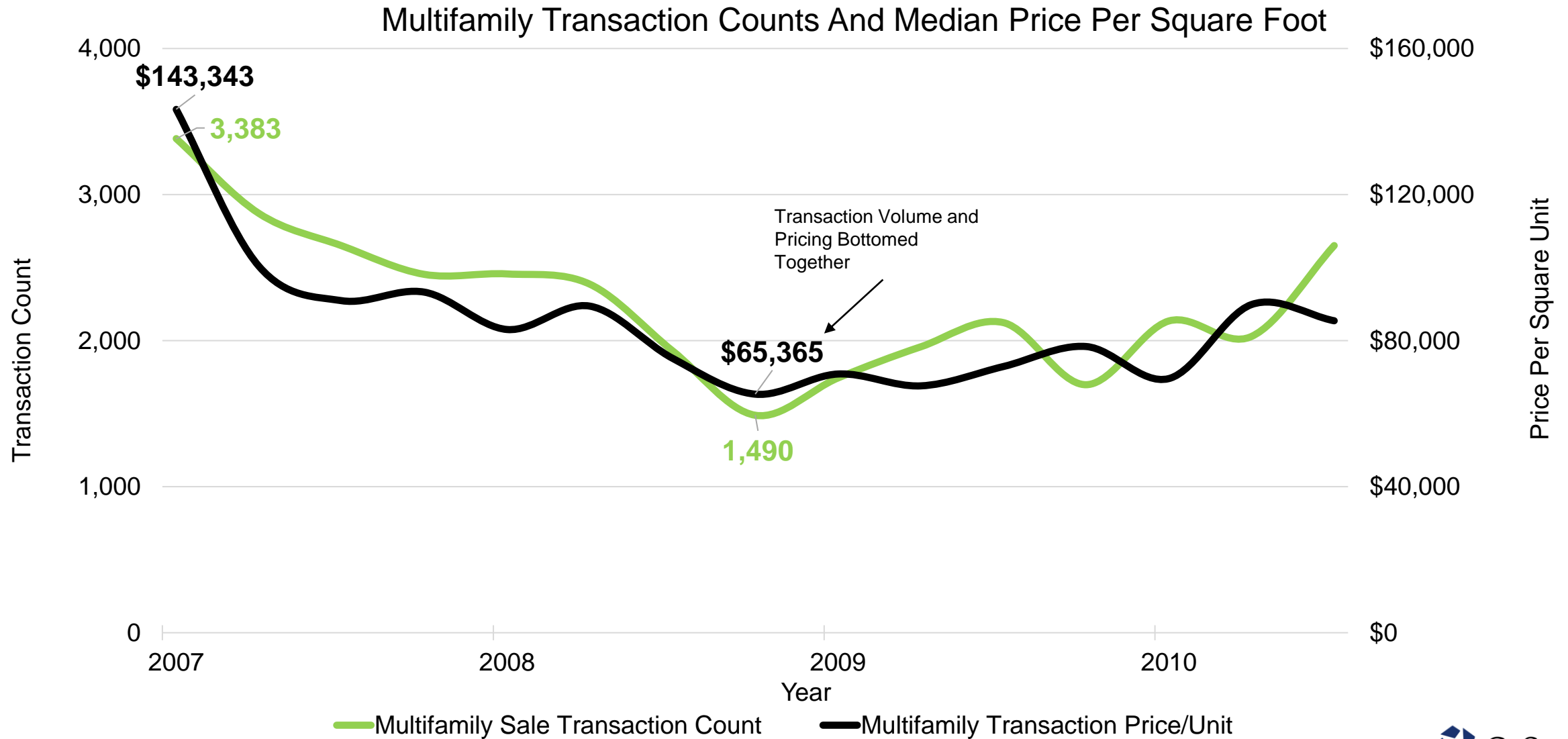
Retail Transaction Counts And Median Price Per Square Foot



— Industrial Sale Transaction Count — Industrial Median Price/SF

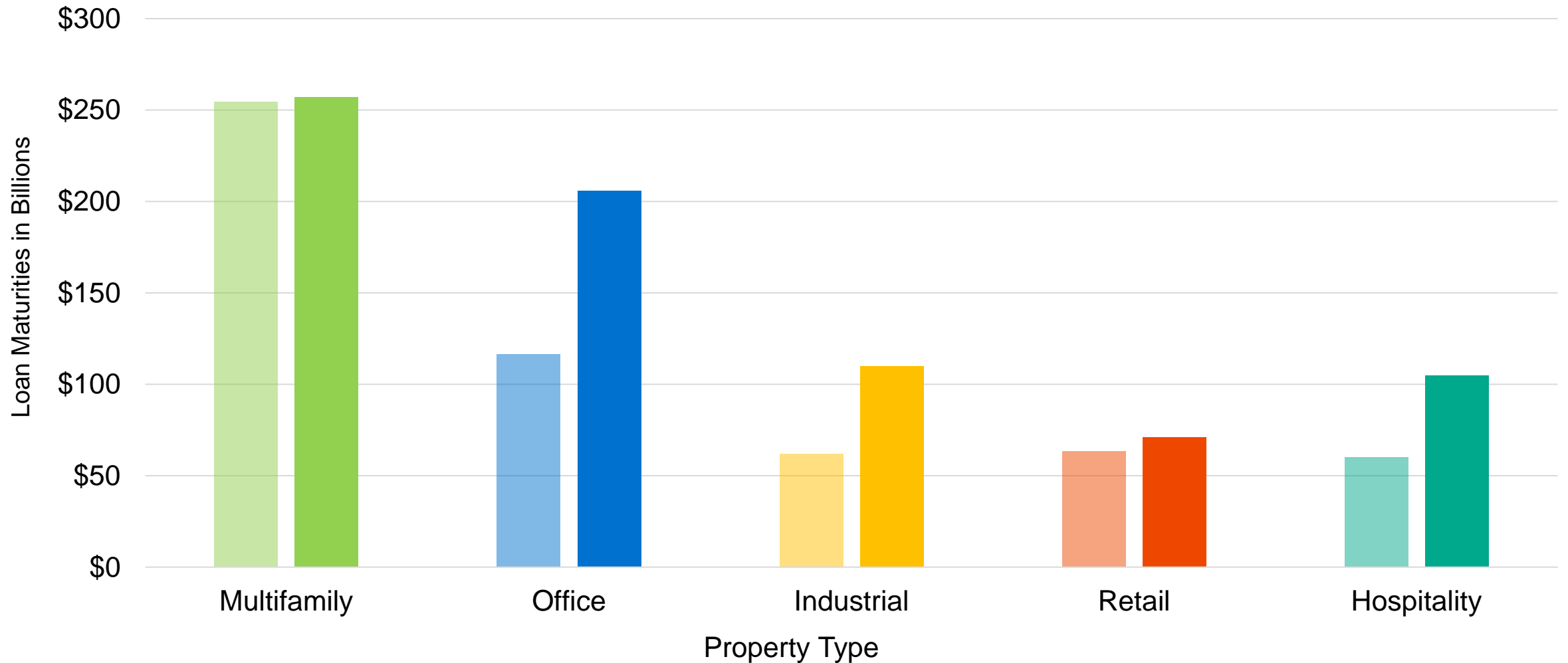
— Retail Sale Transaction Count

Multifamily Pricing Mirrored Transaction Volume Low



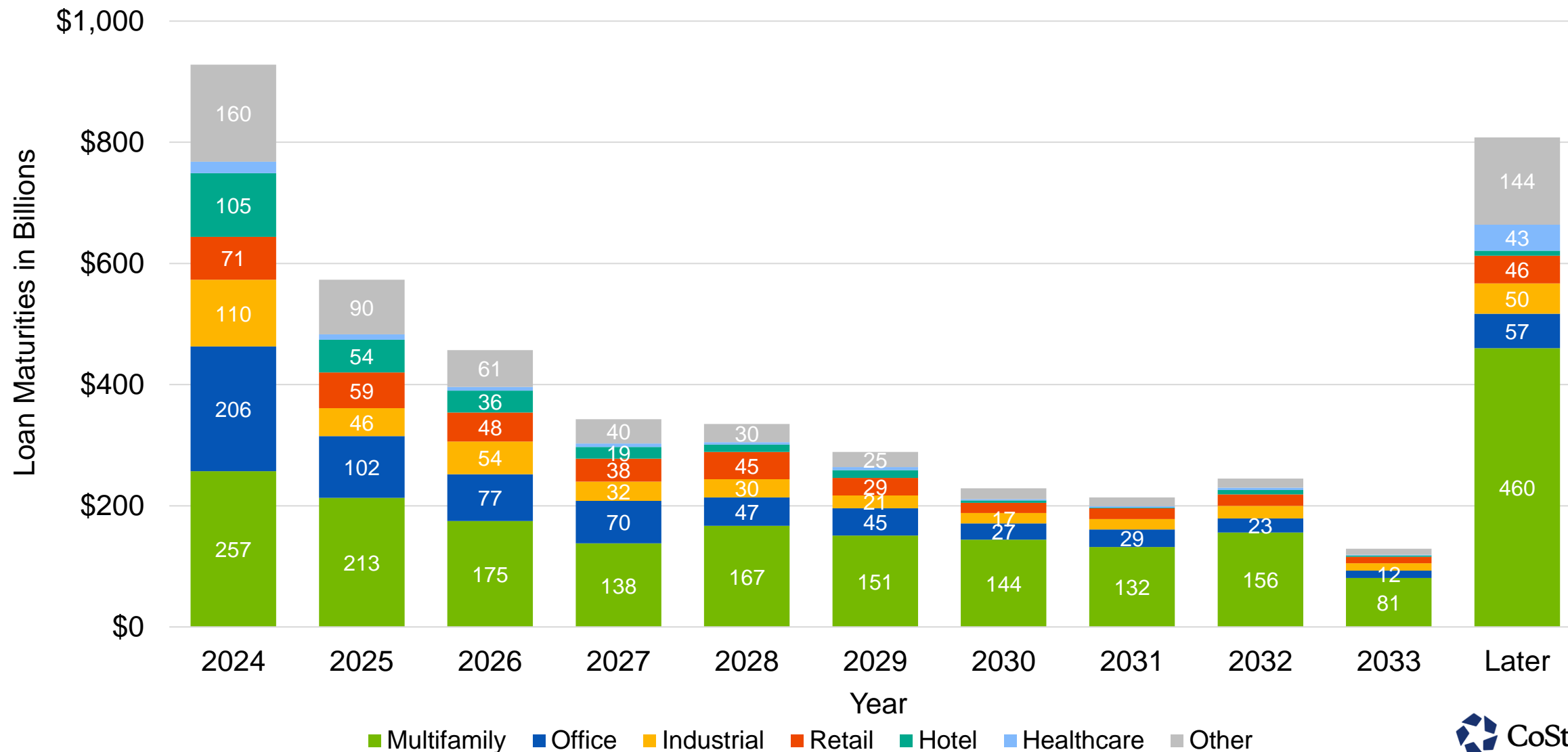
2023 Maturities Pushed to 2024 And Beyond

Change in 2024 Loan Maturities Due to Extensions/Modifications



\$1.5T of Loan Maturities in 2024 and 2025

Total Estimated Commercial Loan Maturities

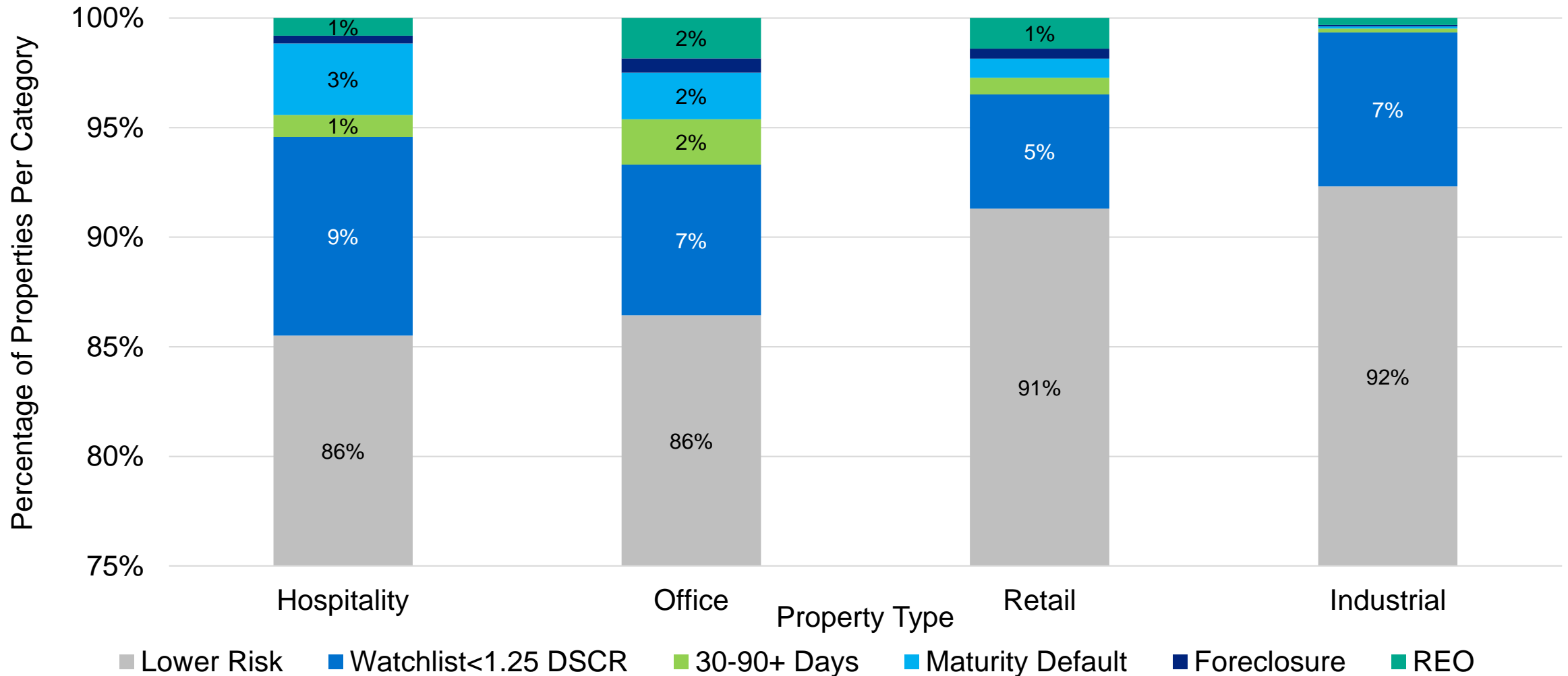


Source: CoStar, MBA; as of February 2023



Current CMBS Distress by Property Type

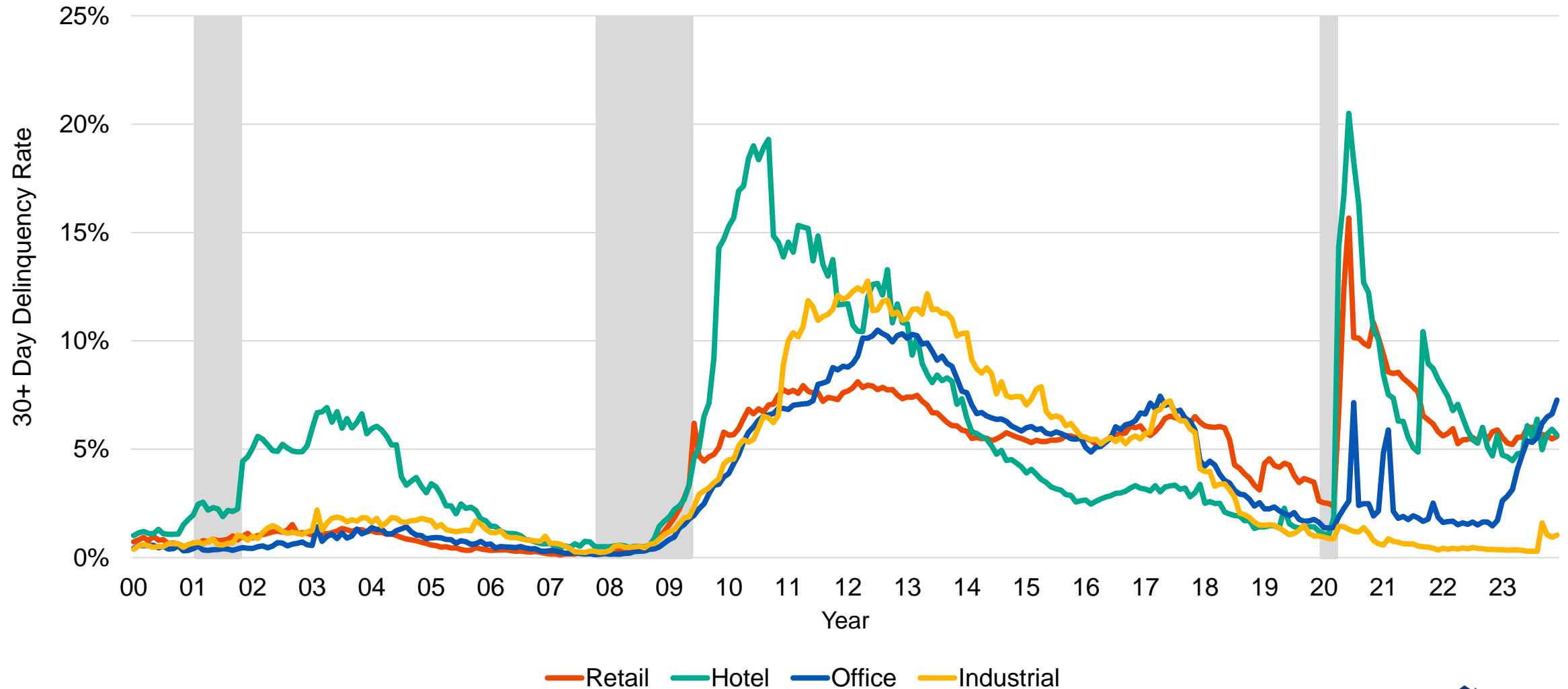
Composition of CMBS Loan Status



Source: CoStar, as of January 2024

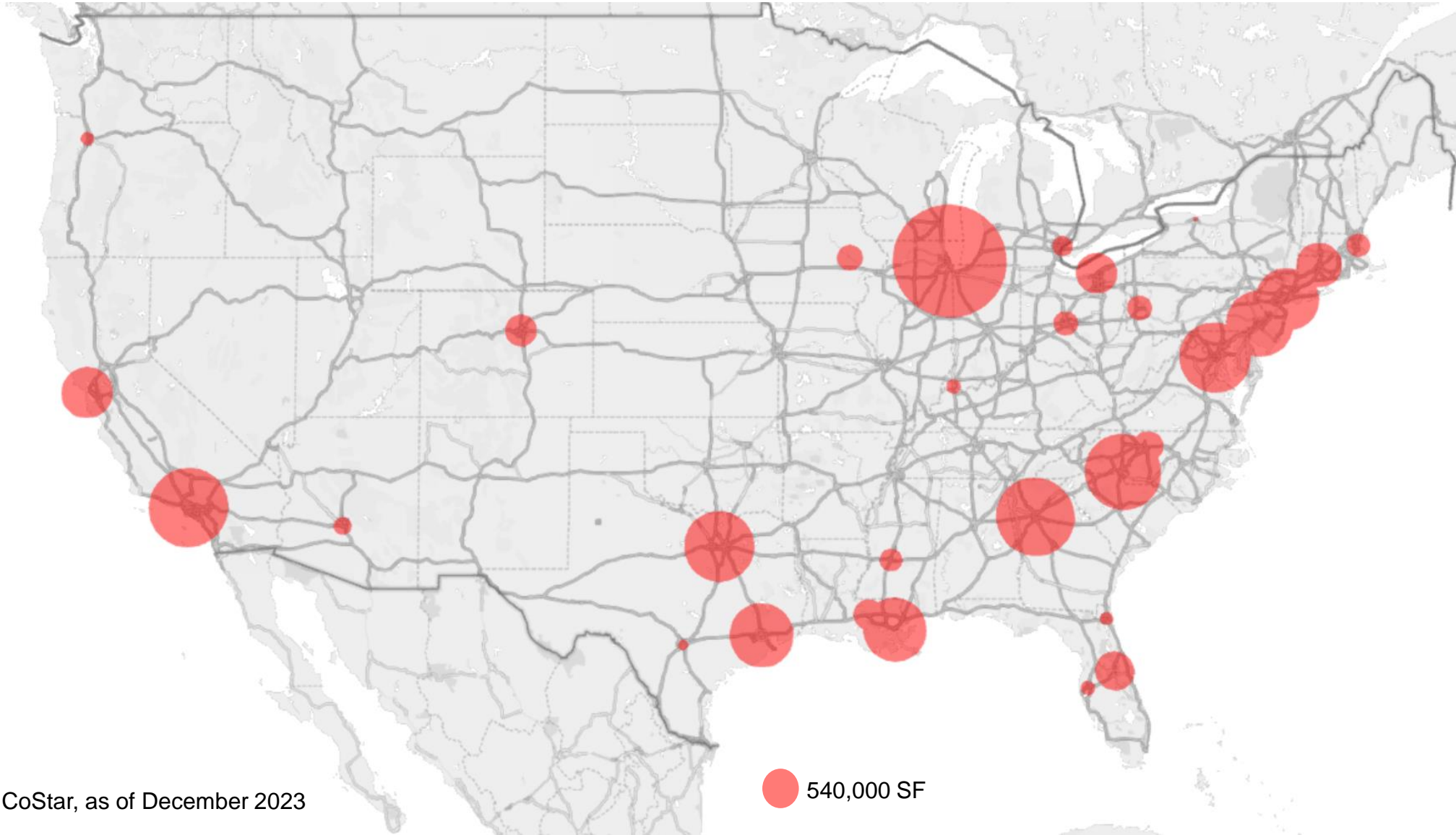
Office and Retail Delinquency Rates are Trending Higher

CMBS Delinquency Rate Trends



Source: CoStar Risk Analytics; NBER; January 2024

Concentration of Office CMBS Delinquencies (30+ Days)



Source: CoStar, as of December 2023

● 540,000 SF





Questions?