



BRANDON SVEC

NATIONAL DIRECTOR
OF U.S. RETAIL ANALYTICS
CoStar Group

#CAROutlook



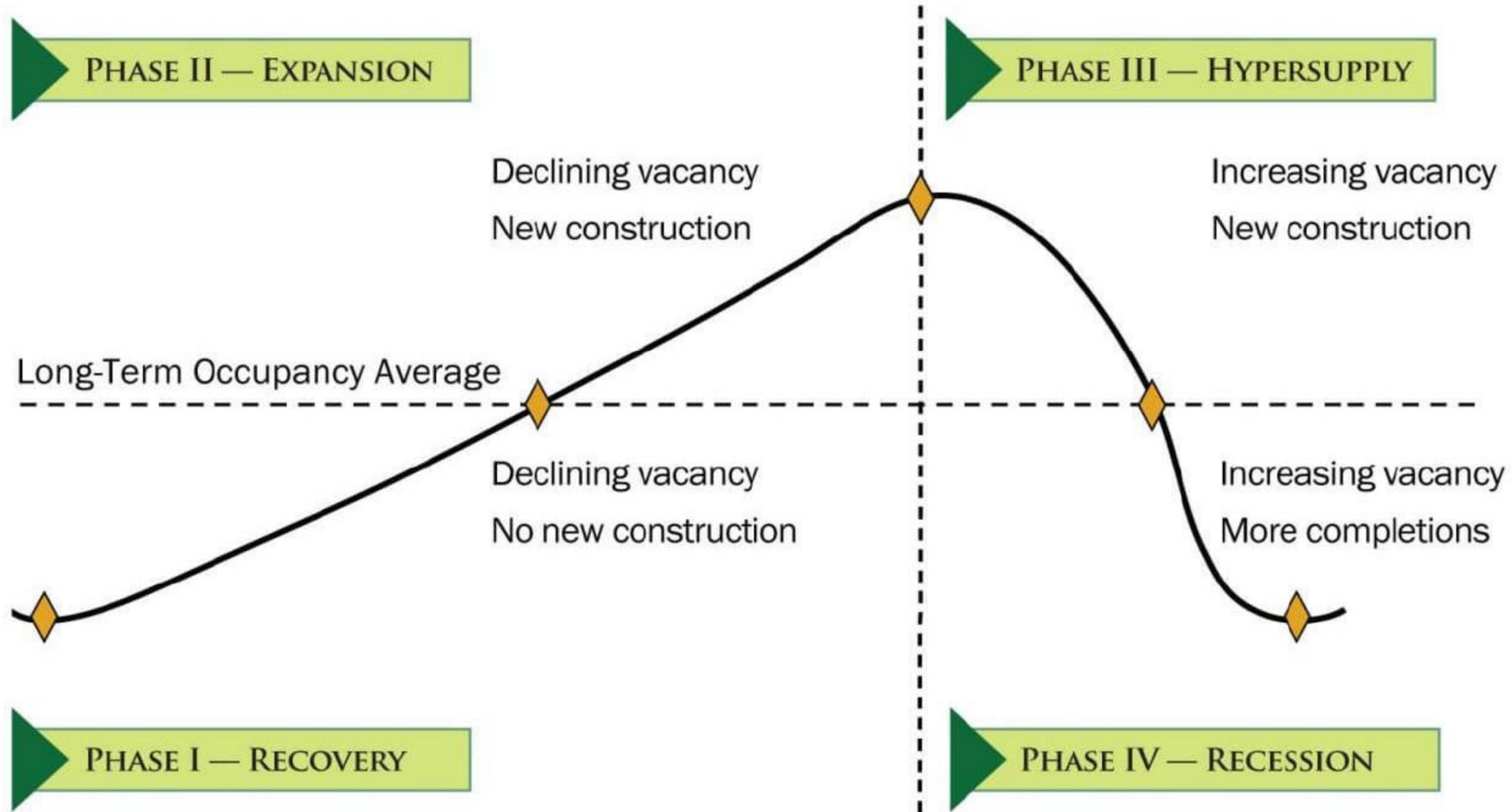
CRE Market Conditions Update



January 2024
Brandon Svec
National Director U.S. Retail Analytics



Commercial real estate is cyclical

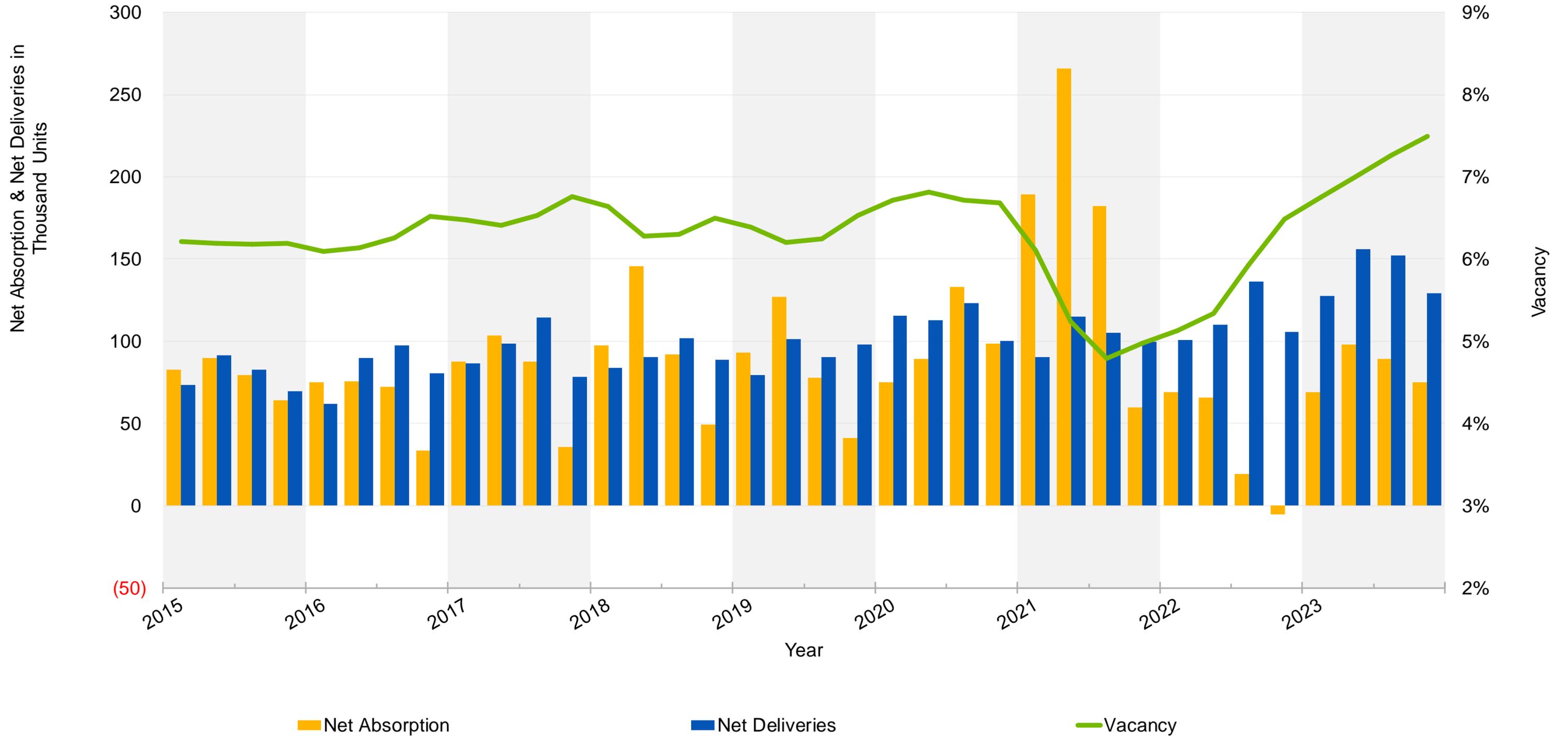


Source: Mueller, Real Estate Finance, 1995.

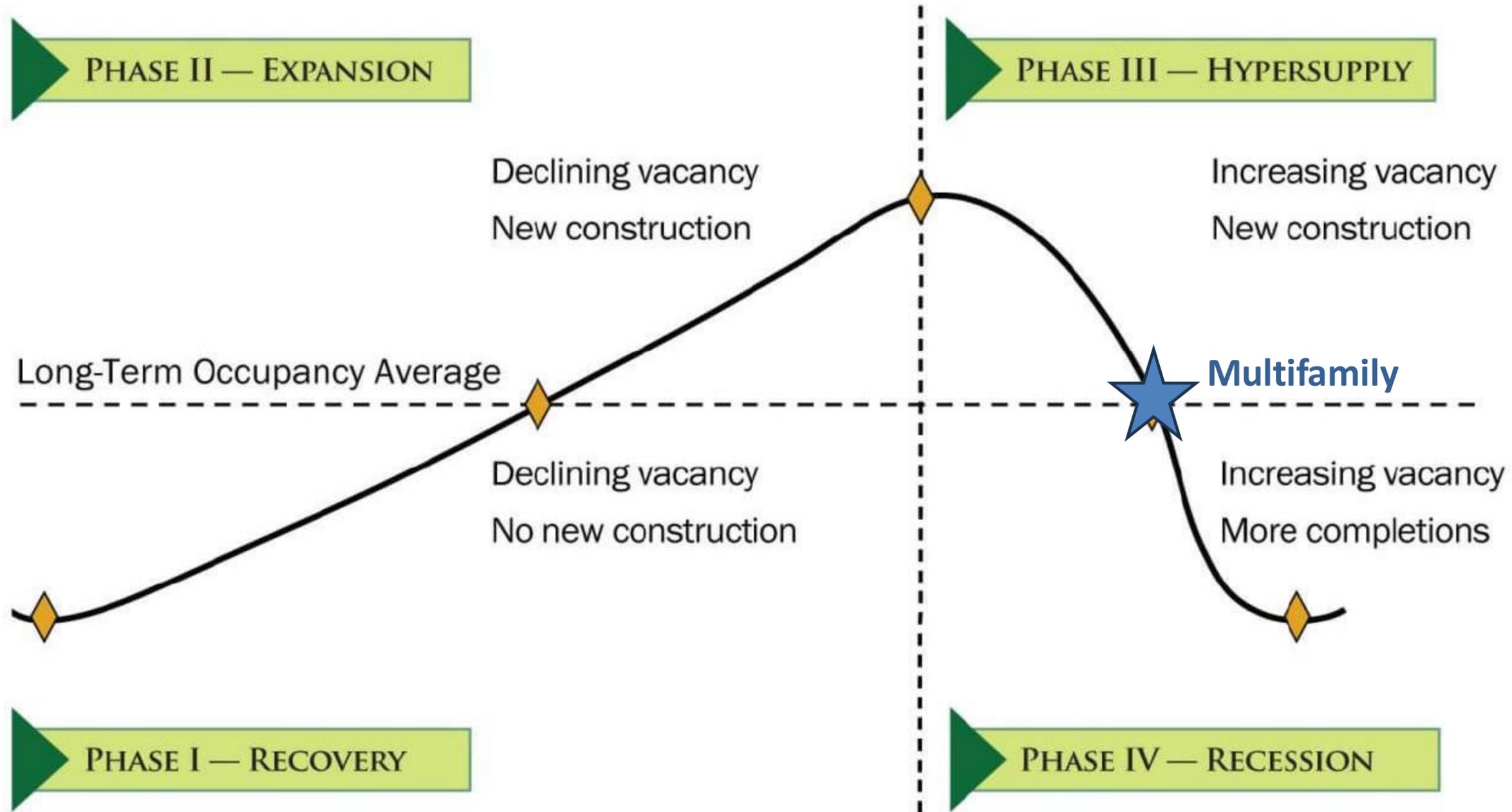
Multifamily



National multifamily fundamentals soften from historically tight level

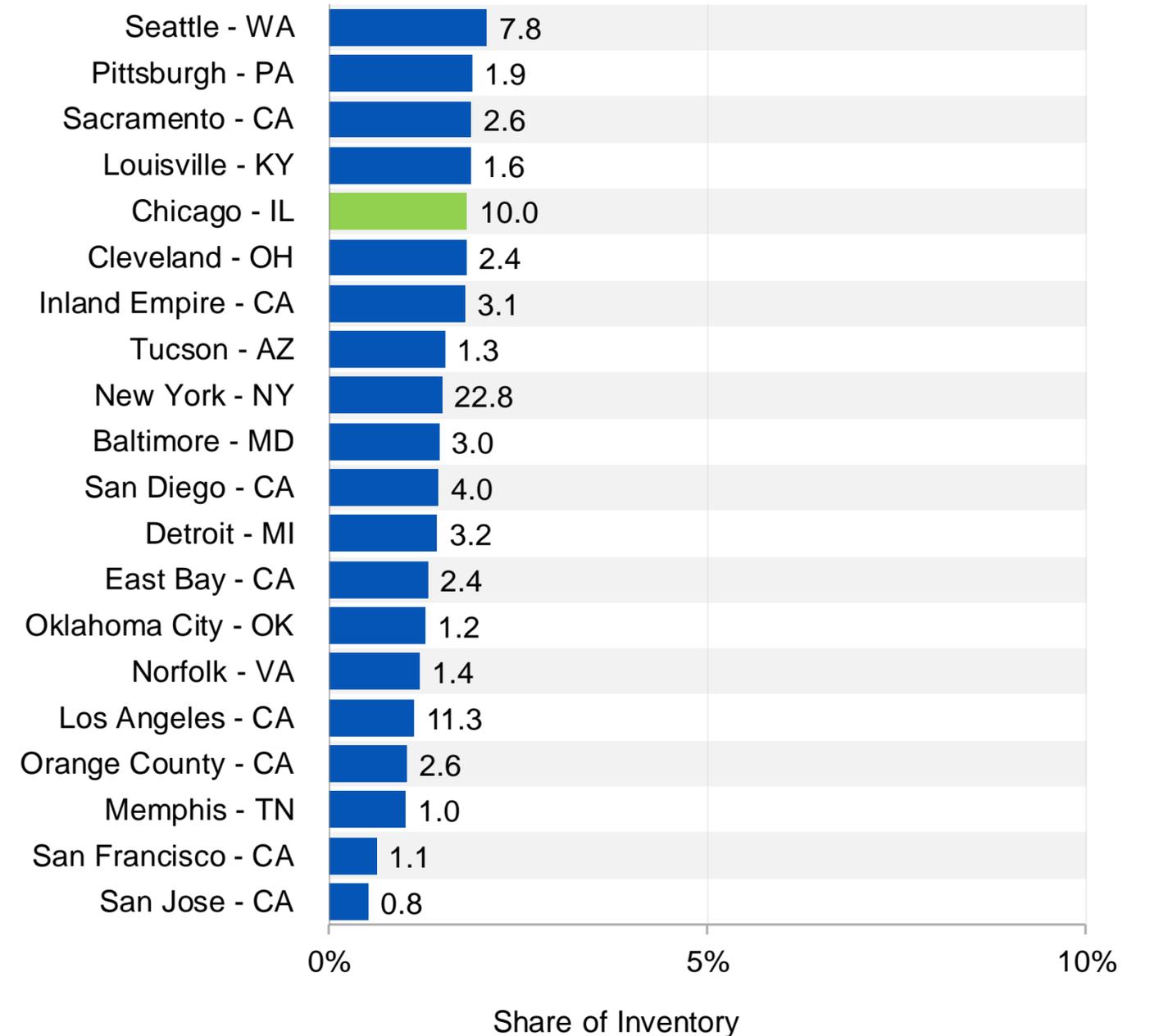
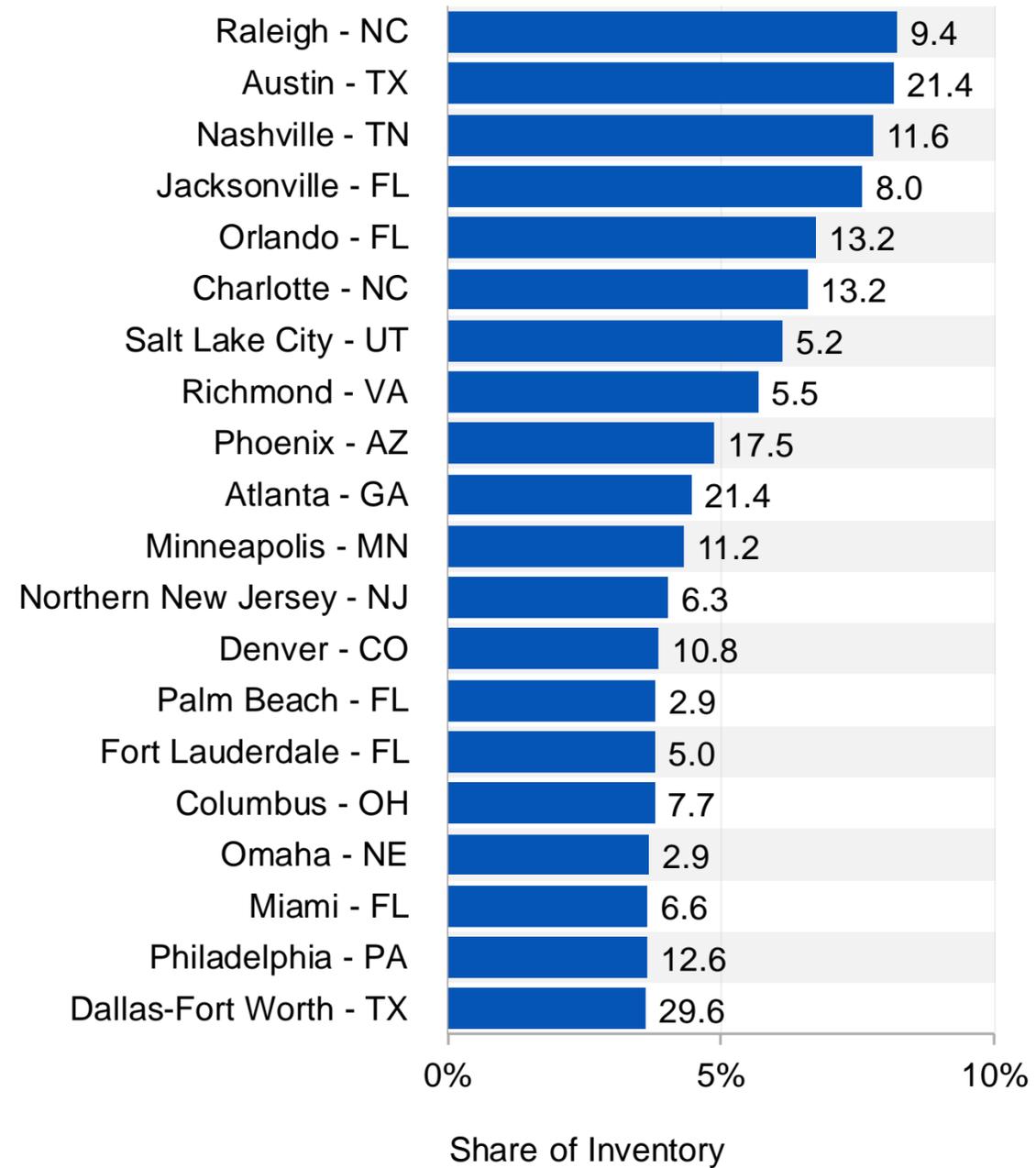


National multifamily phase of cycle



Source: Mueller, *Real Estate Finance*, 1995.

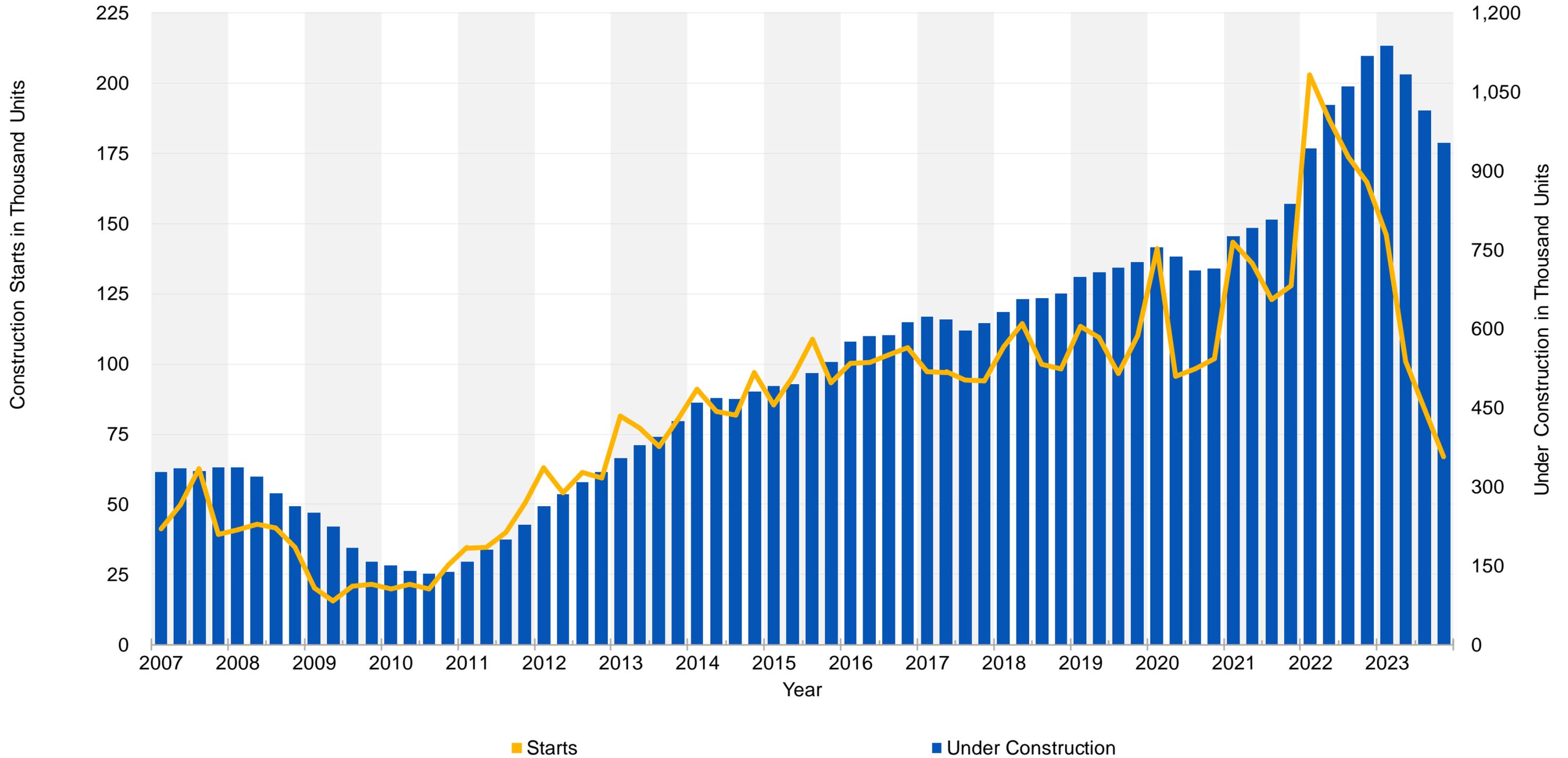
Sun Belt markets leading way in supply growth



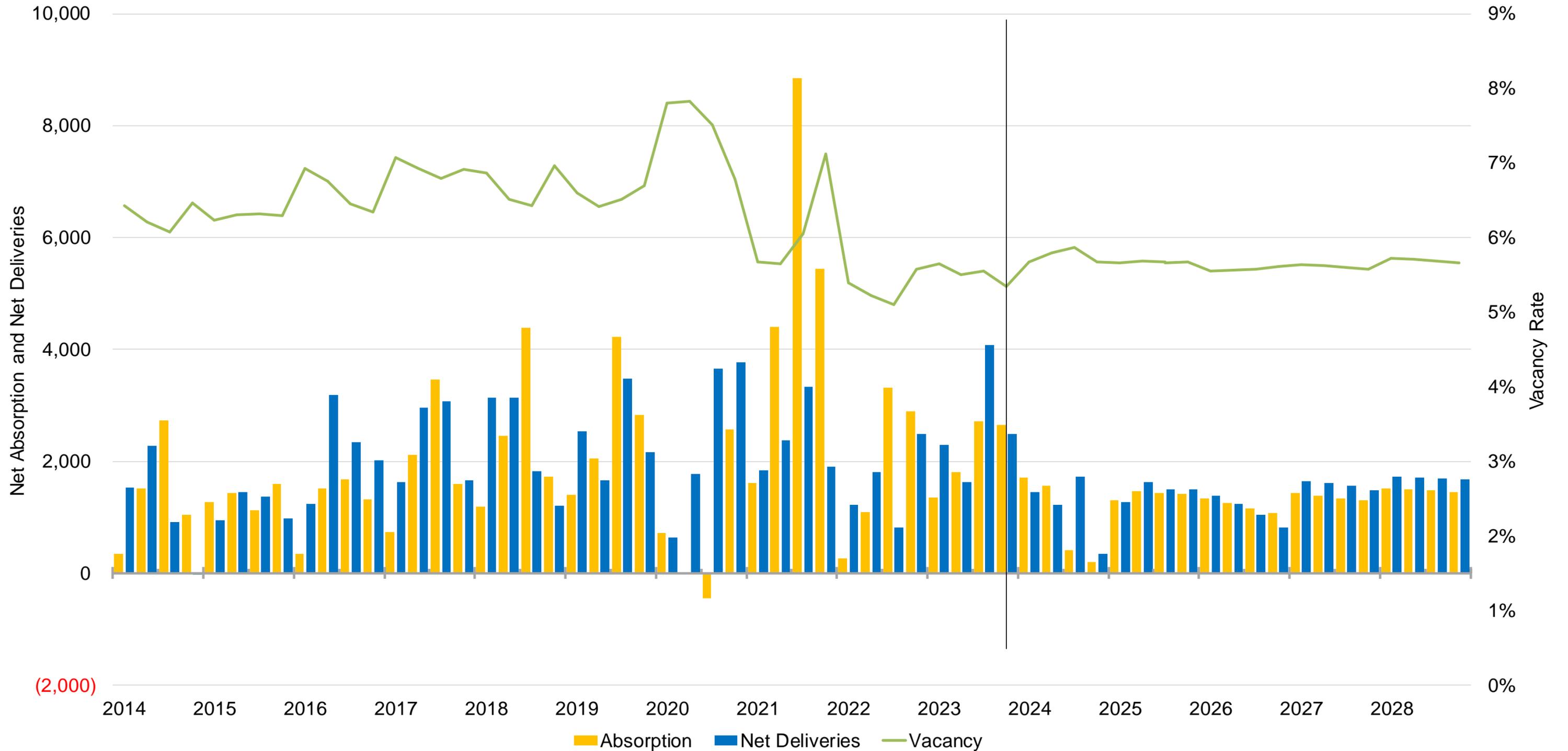
■ Net Deliveries (Last 4 Quarters)

Note: Includes markets with 75,000+ units inventory. Labels show Net Deliveries in Thousand Units.

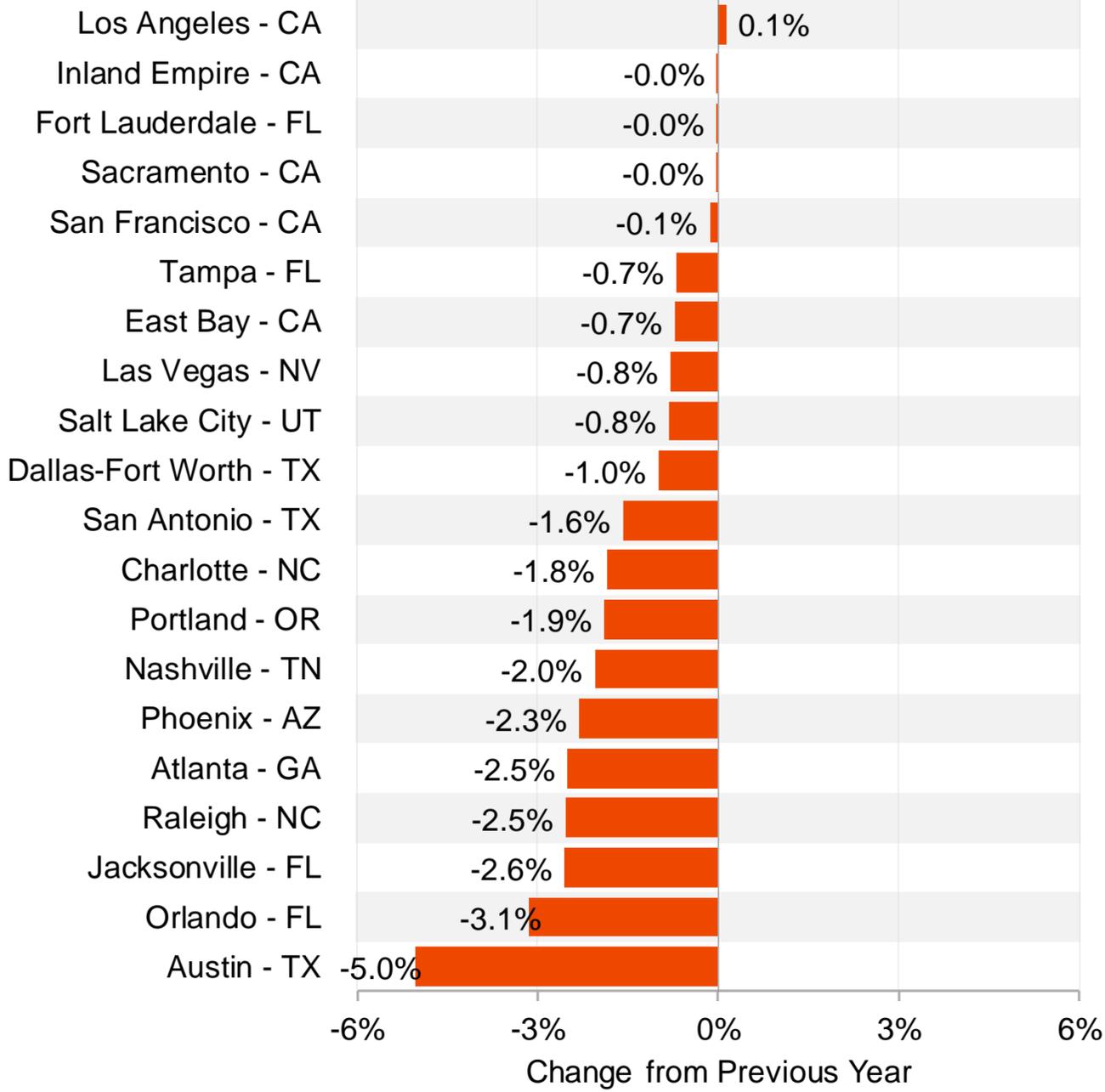
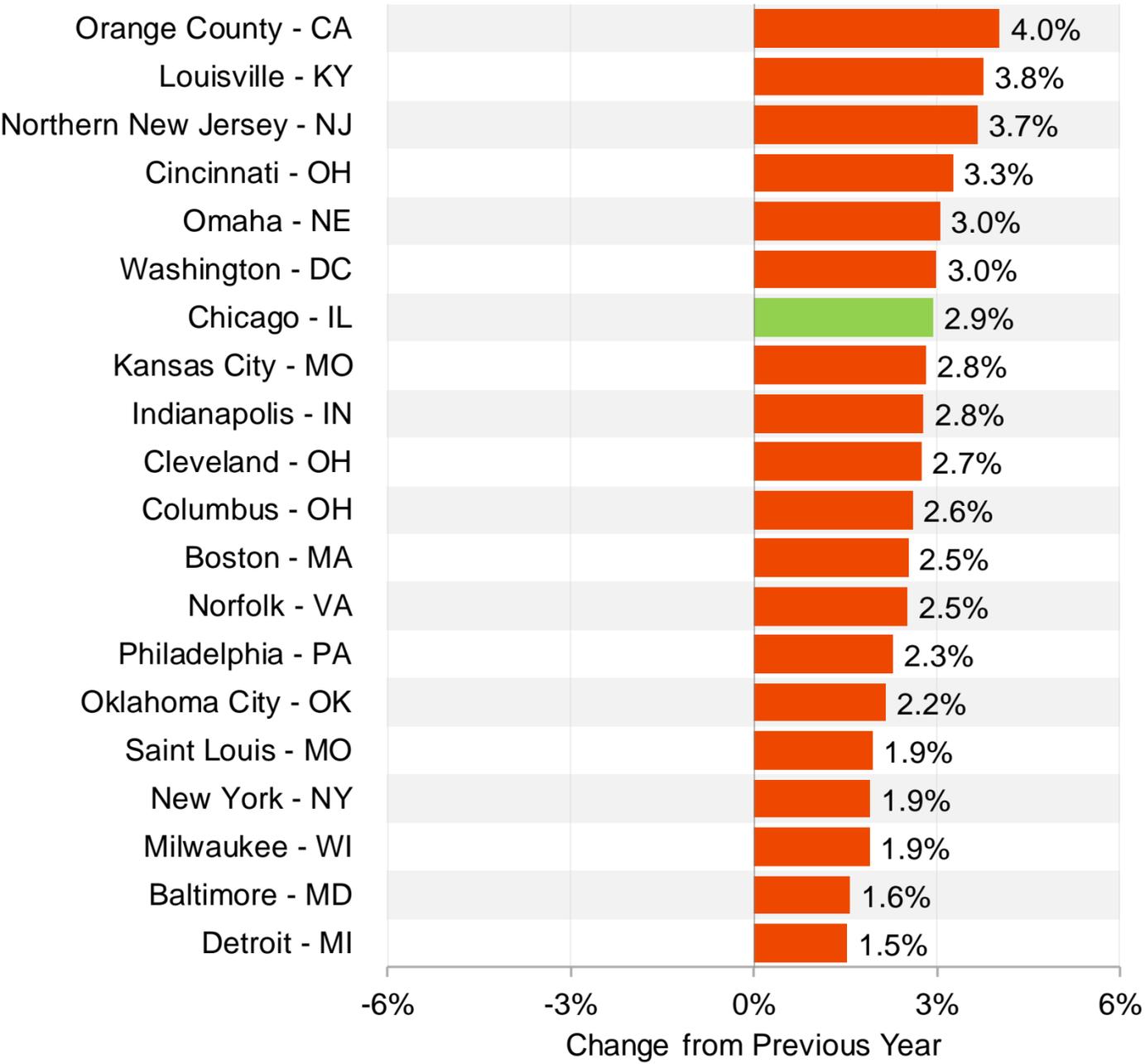
Under construction supply elevated, but falling



Chicago fundamentals maintaining balance despite national softening



Rent growth laggards have become leaders over the past year



■ Rent Growth

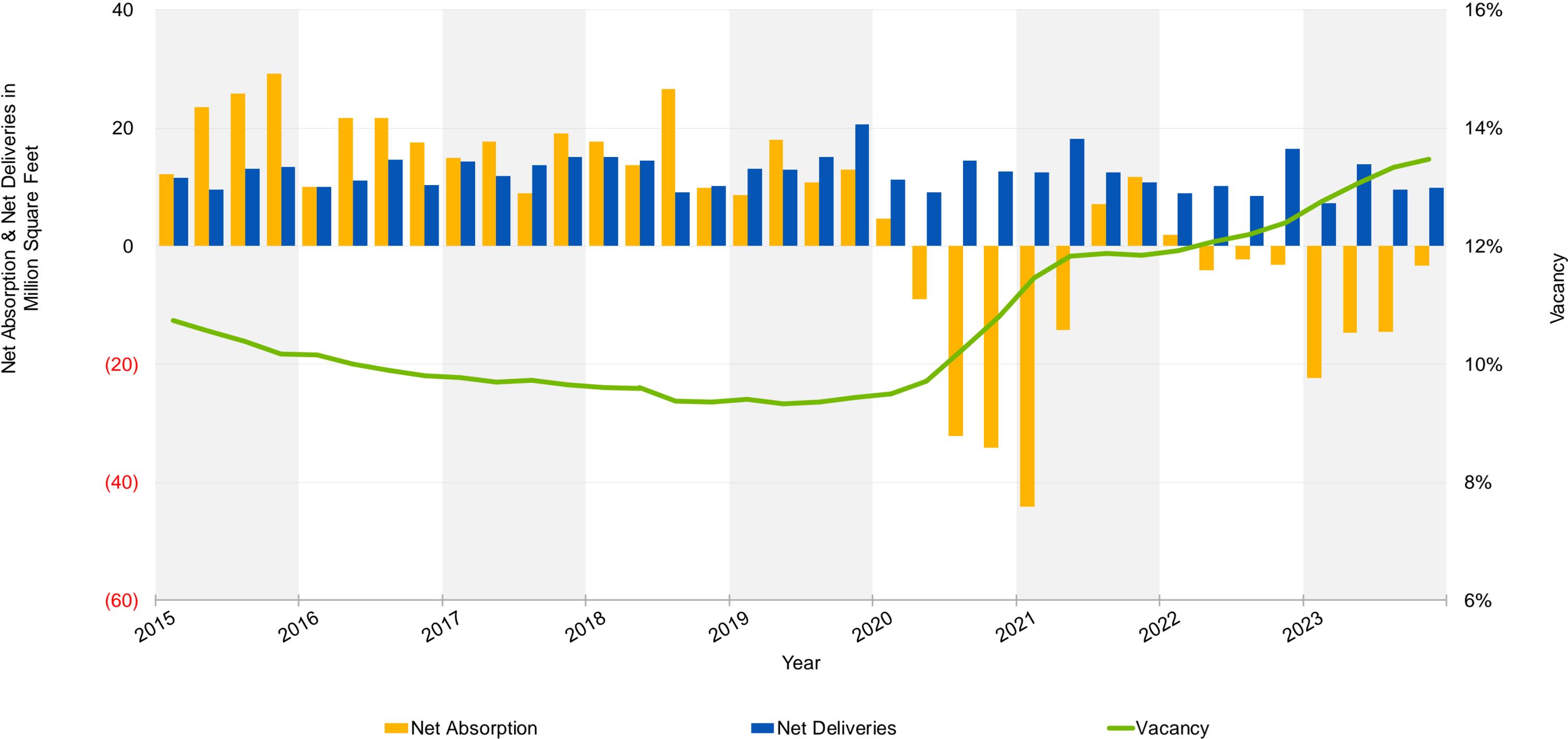
Note: Includes markets with 75,000+ units inventory.

Office

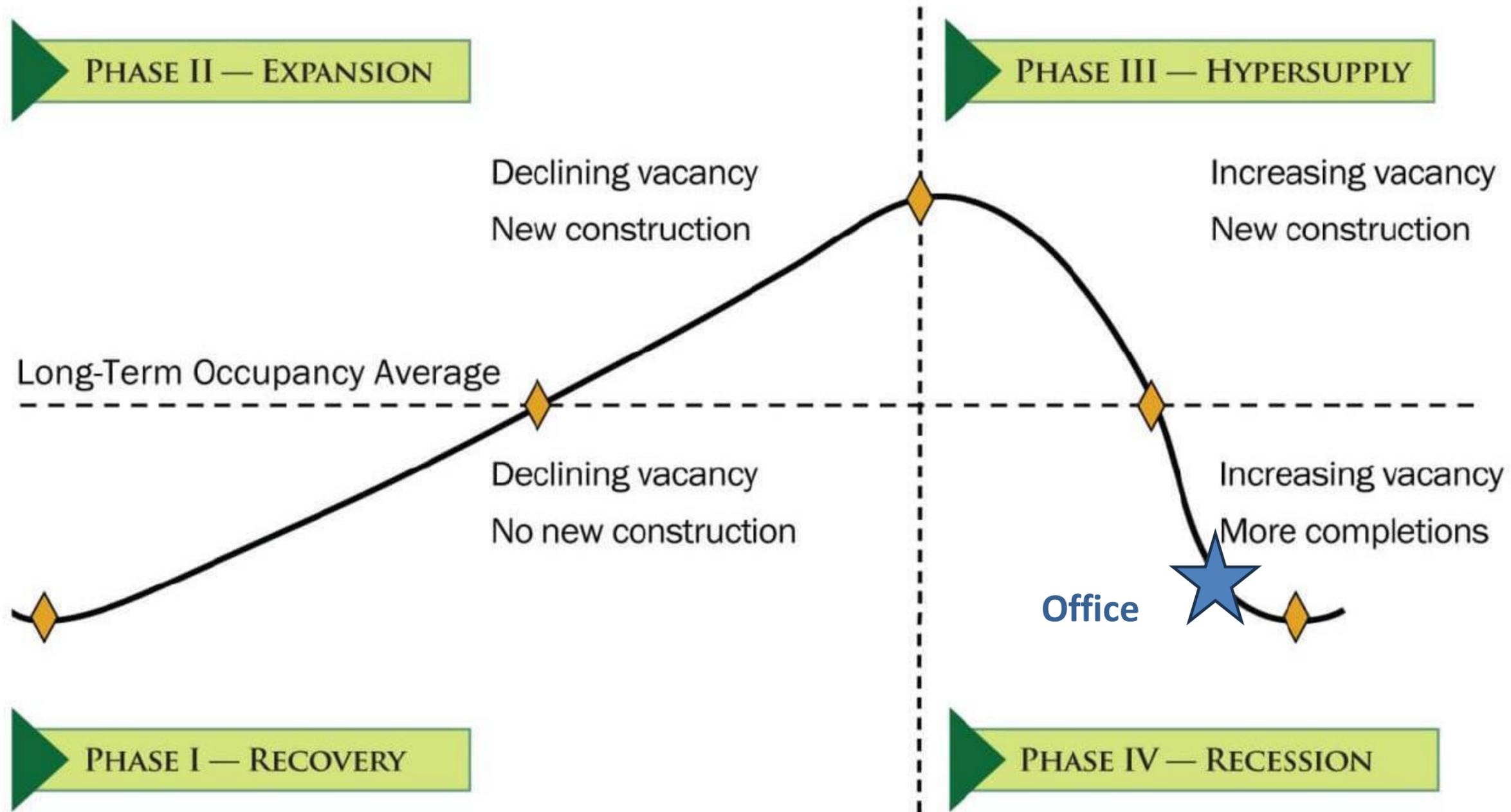
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National office fundamentals continue to soften

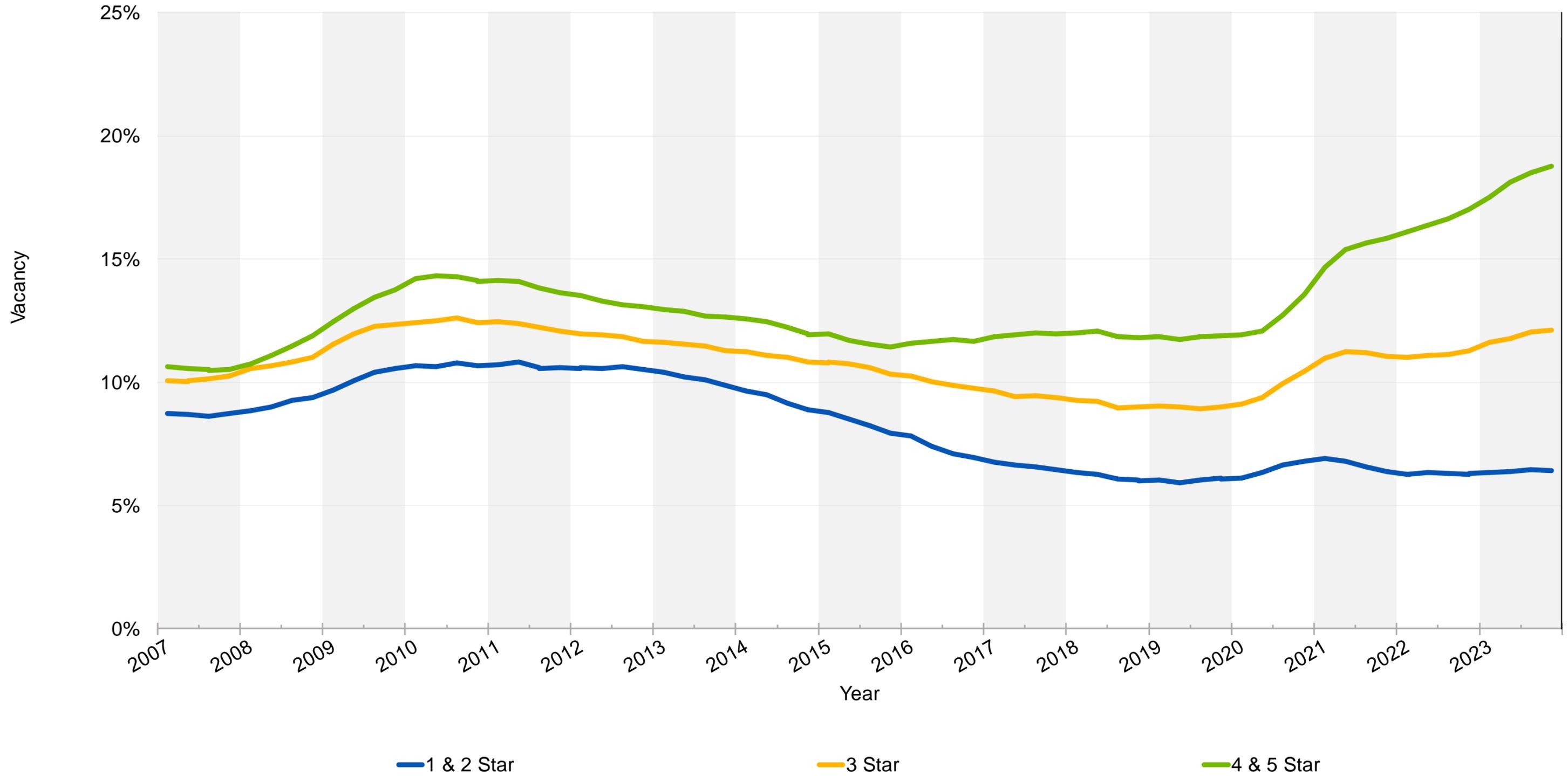


National office in recession phase of cycle

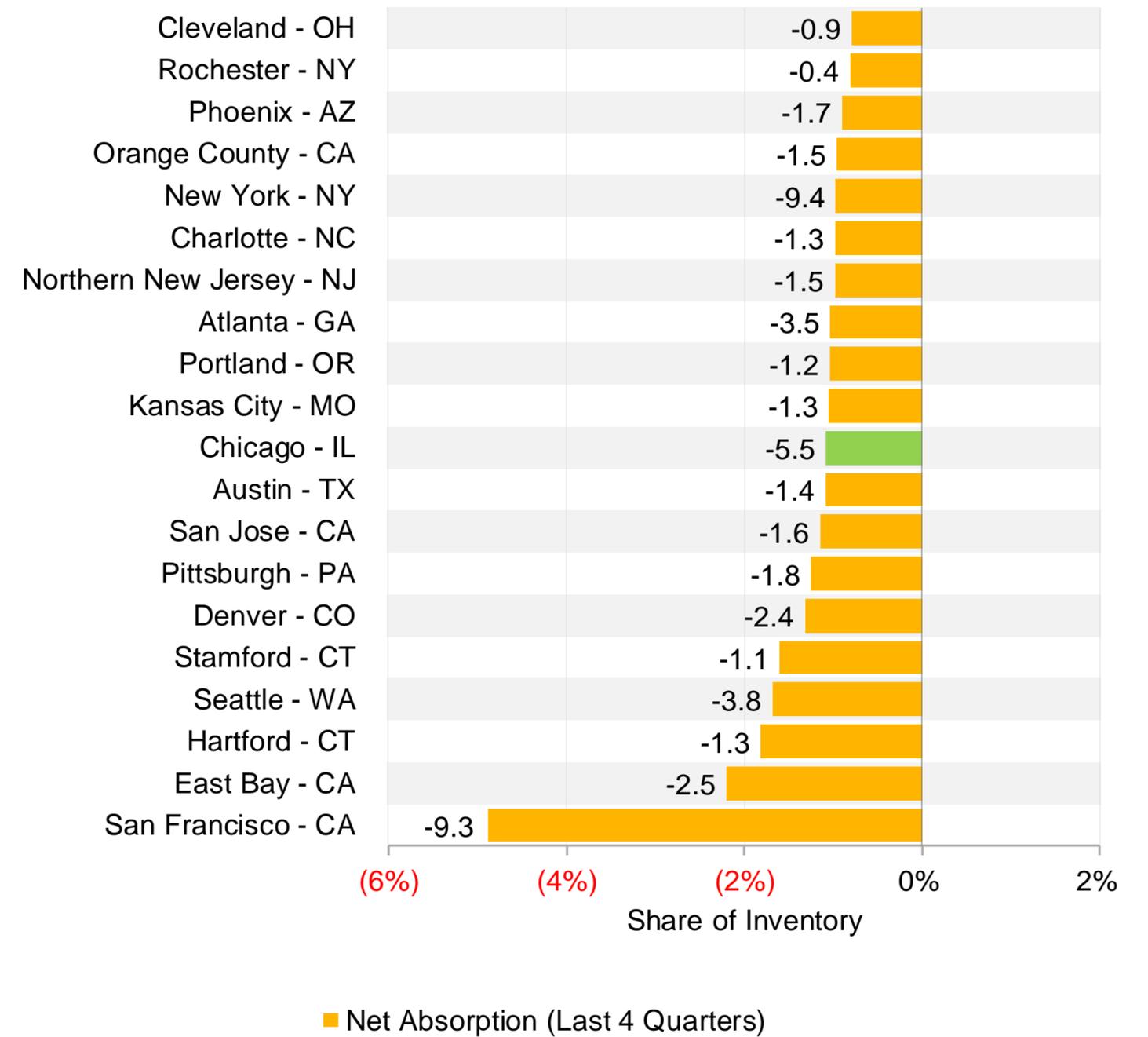
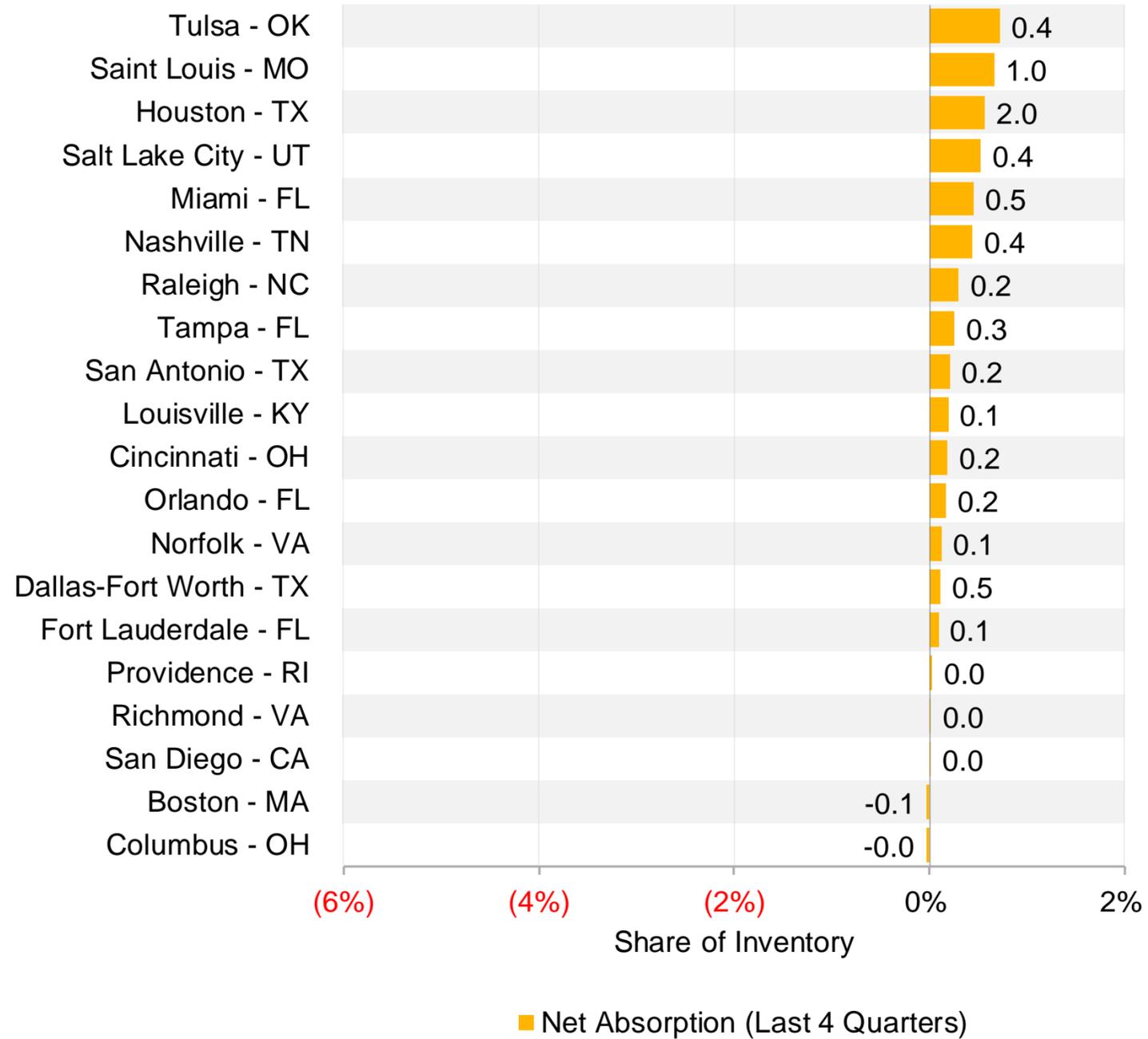


Source: Mueller, *Real Estate Finance*, 1995.

Higher quality buildings taking brunt of losses

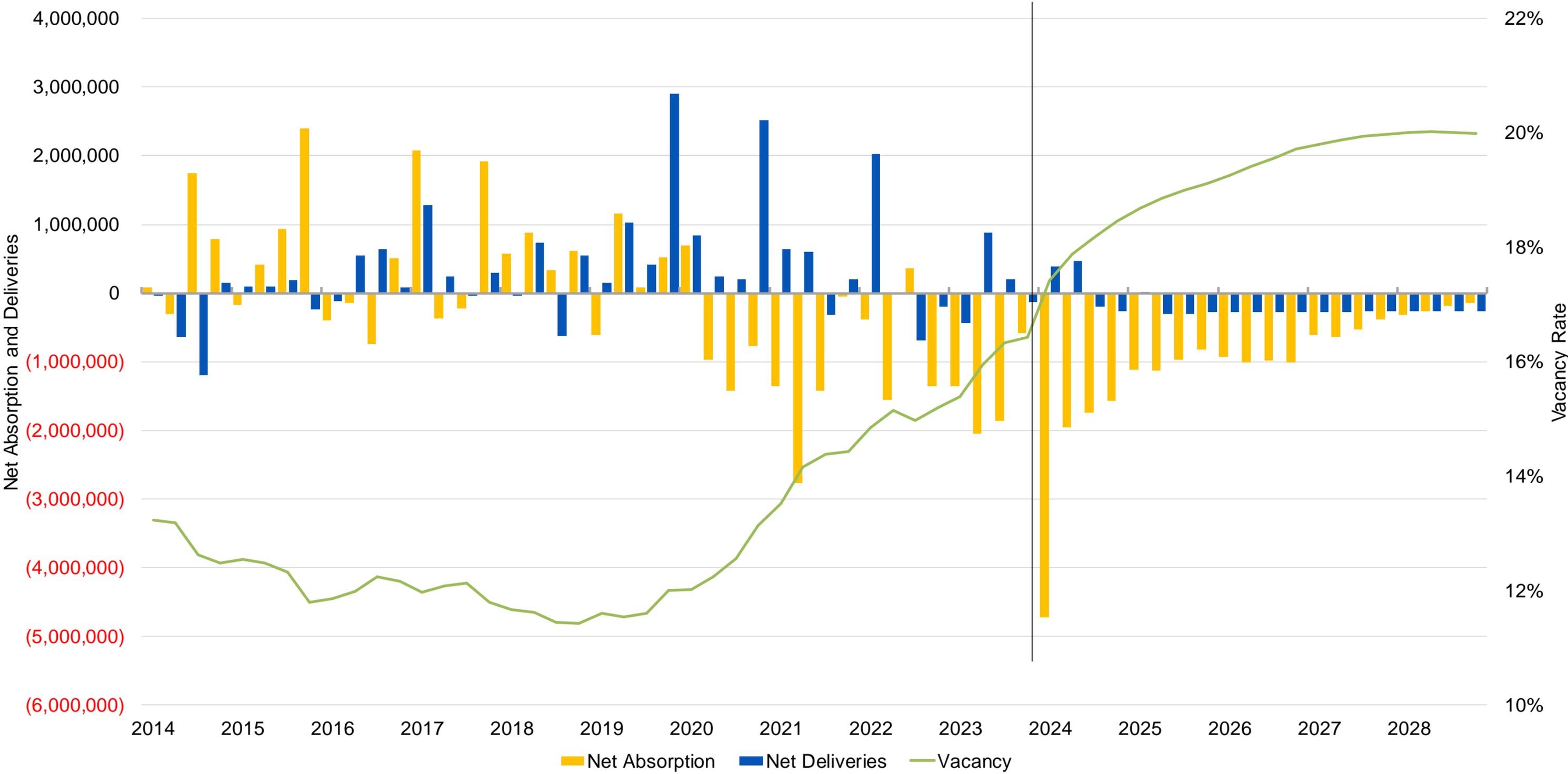


Majority of markets lost demand over past year



Note: Includes markets with 50 Million+ Square Feet inventory. Labels show Net Absorption in Million Square Feet.

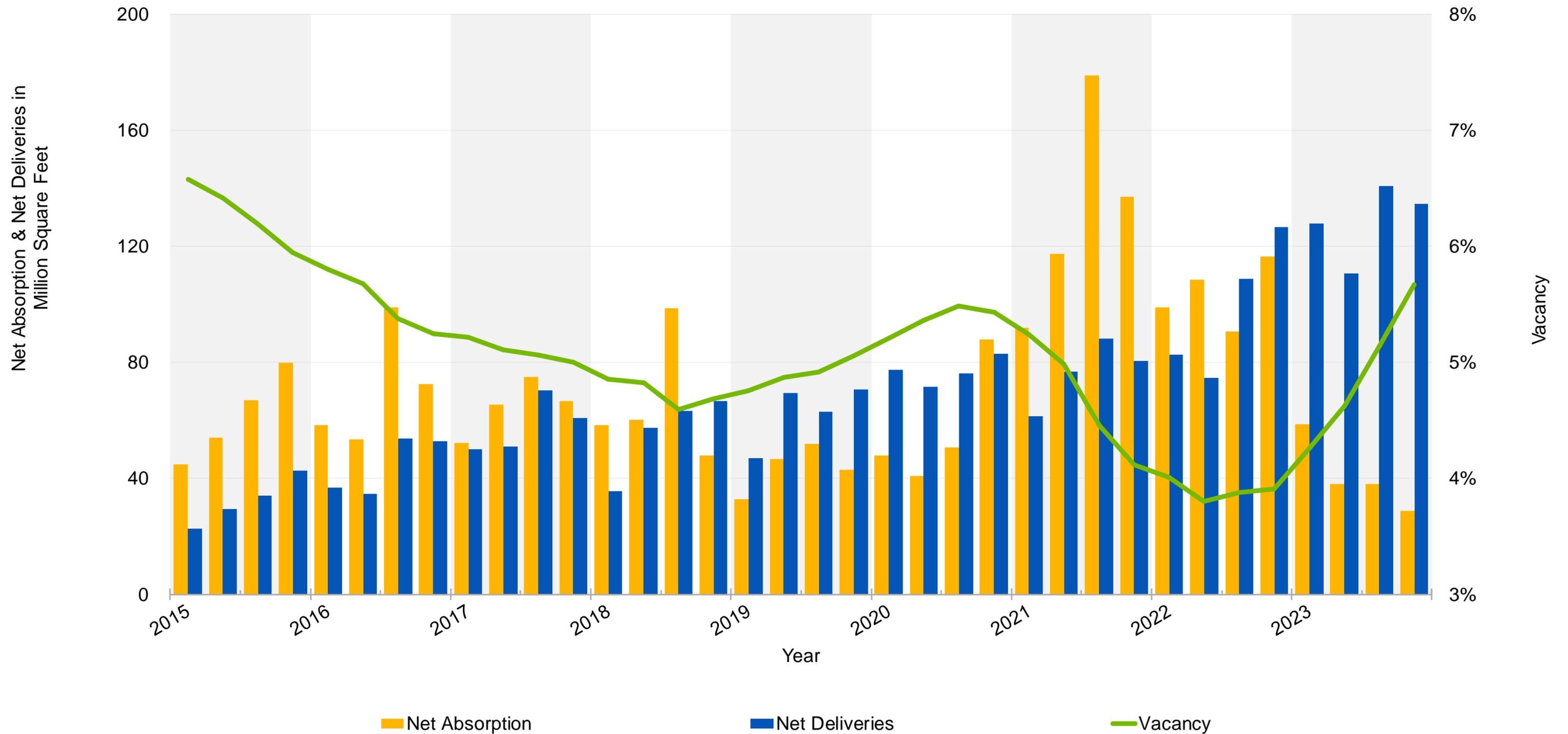
Chicago office fundamentals forecast to weaken further



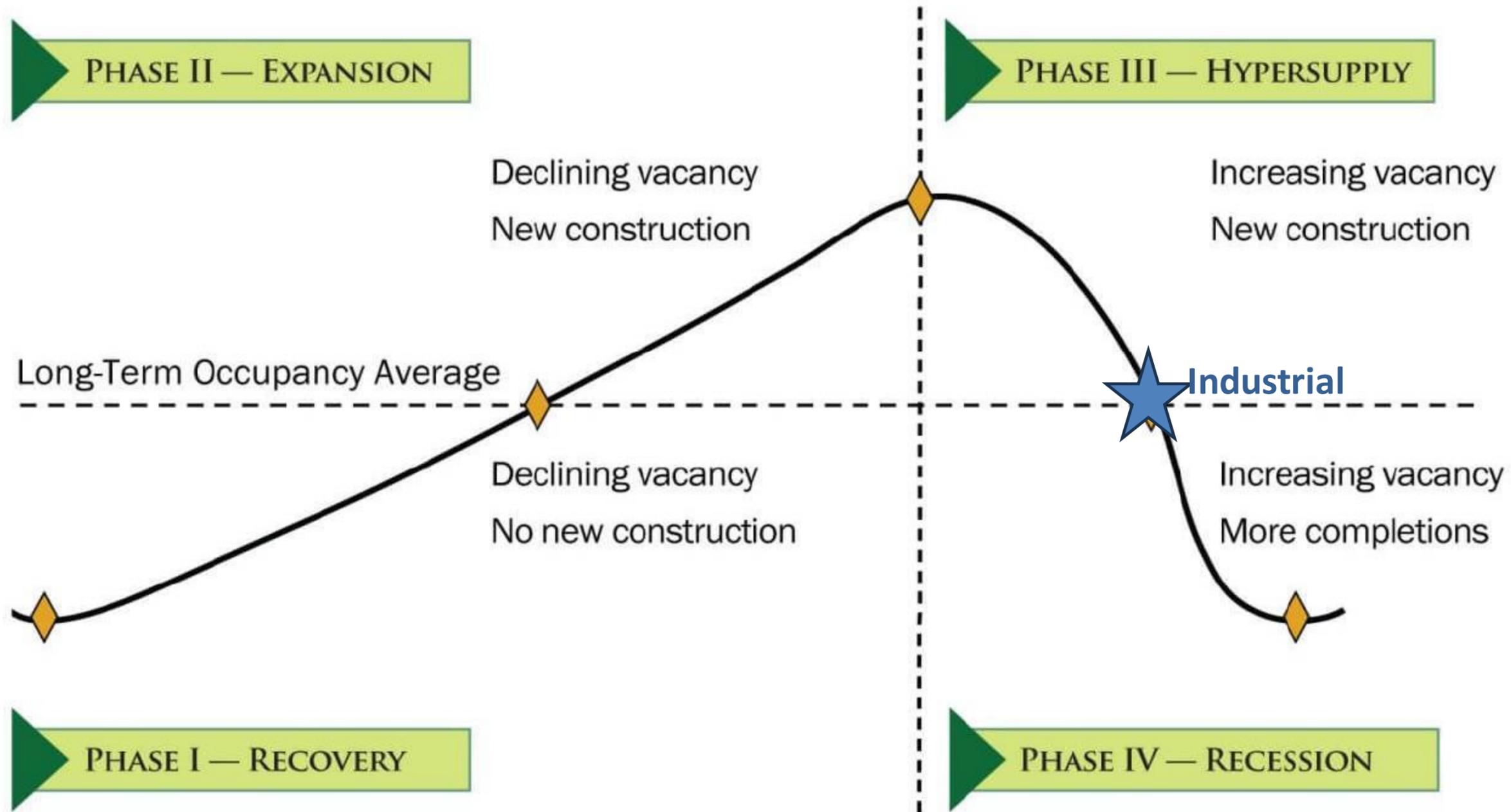
Industrial



National industrial fundamentals have turned quickly

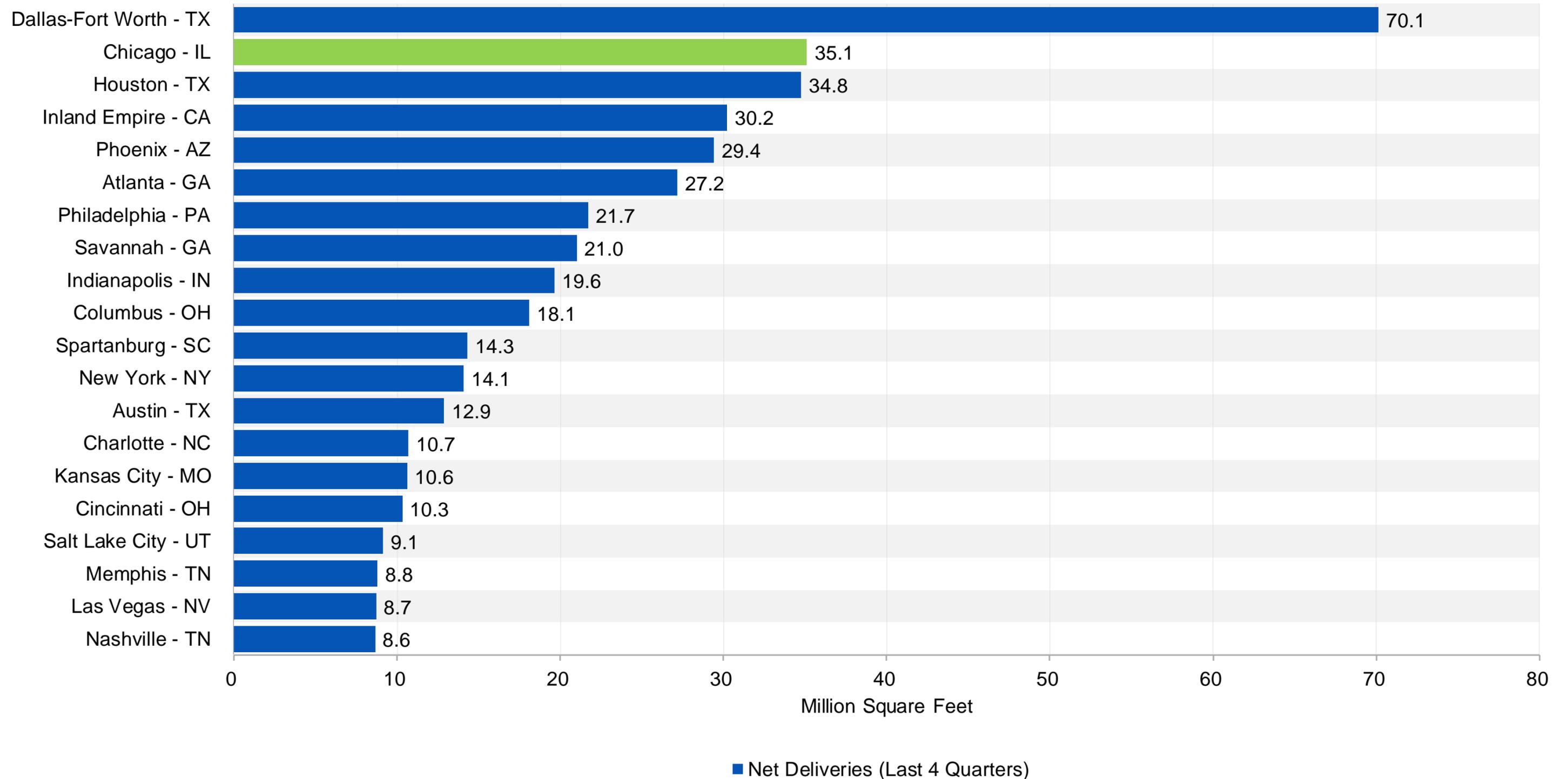


National industrial in moving into phase IV of cycle

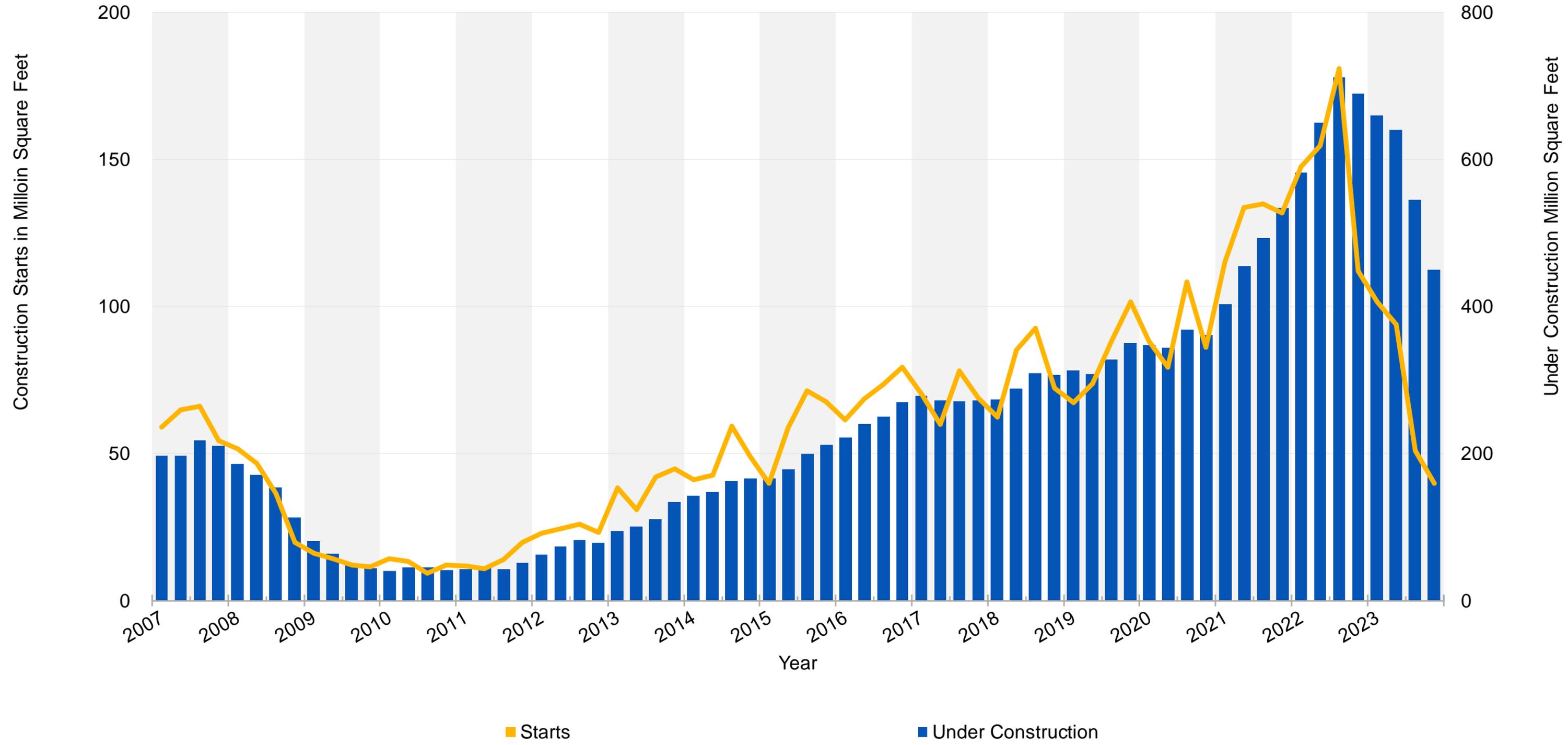


Source: Mueller, *Real Estate Finance*, 1995.

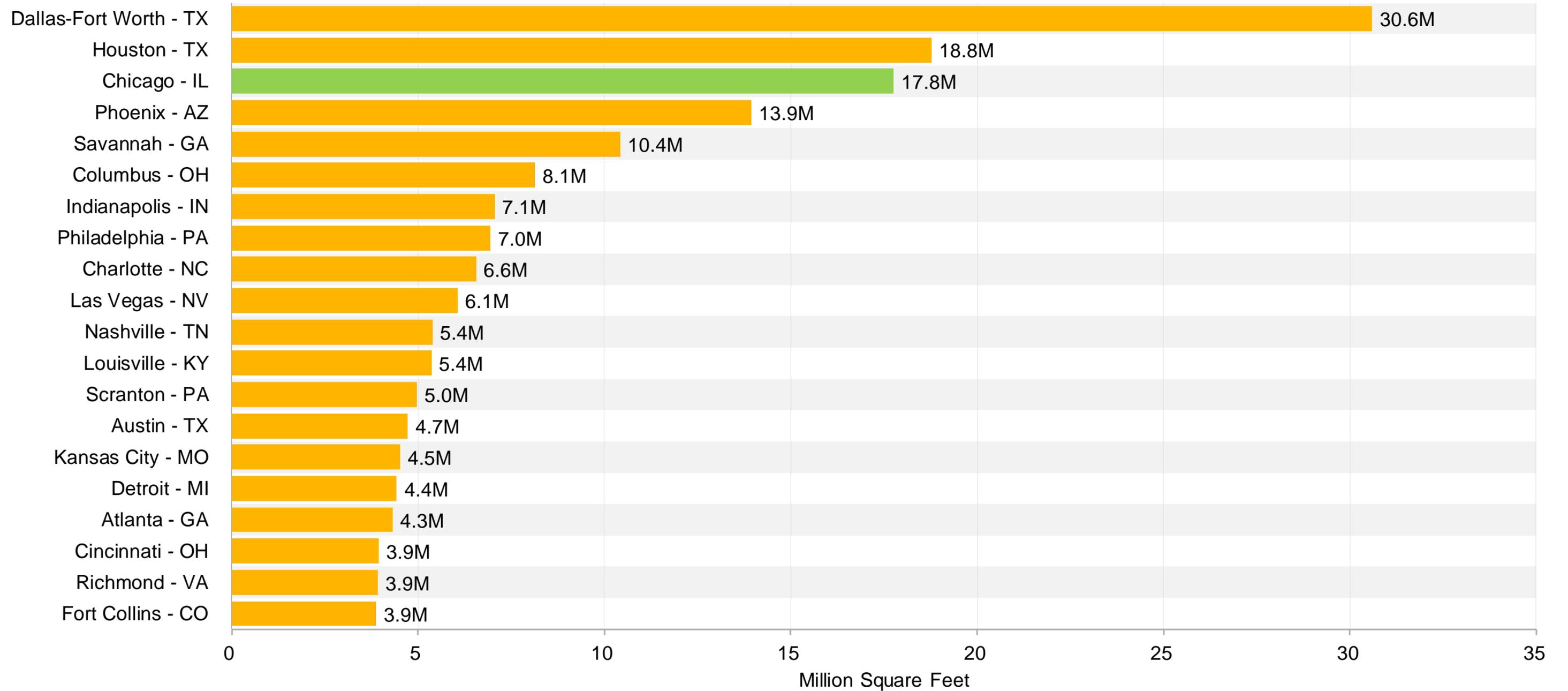
Major industrial markets seeing majority of new supply



Significant amount of supply underway, but starts are falling

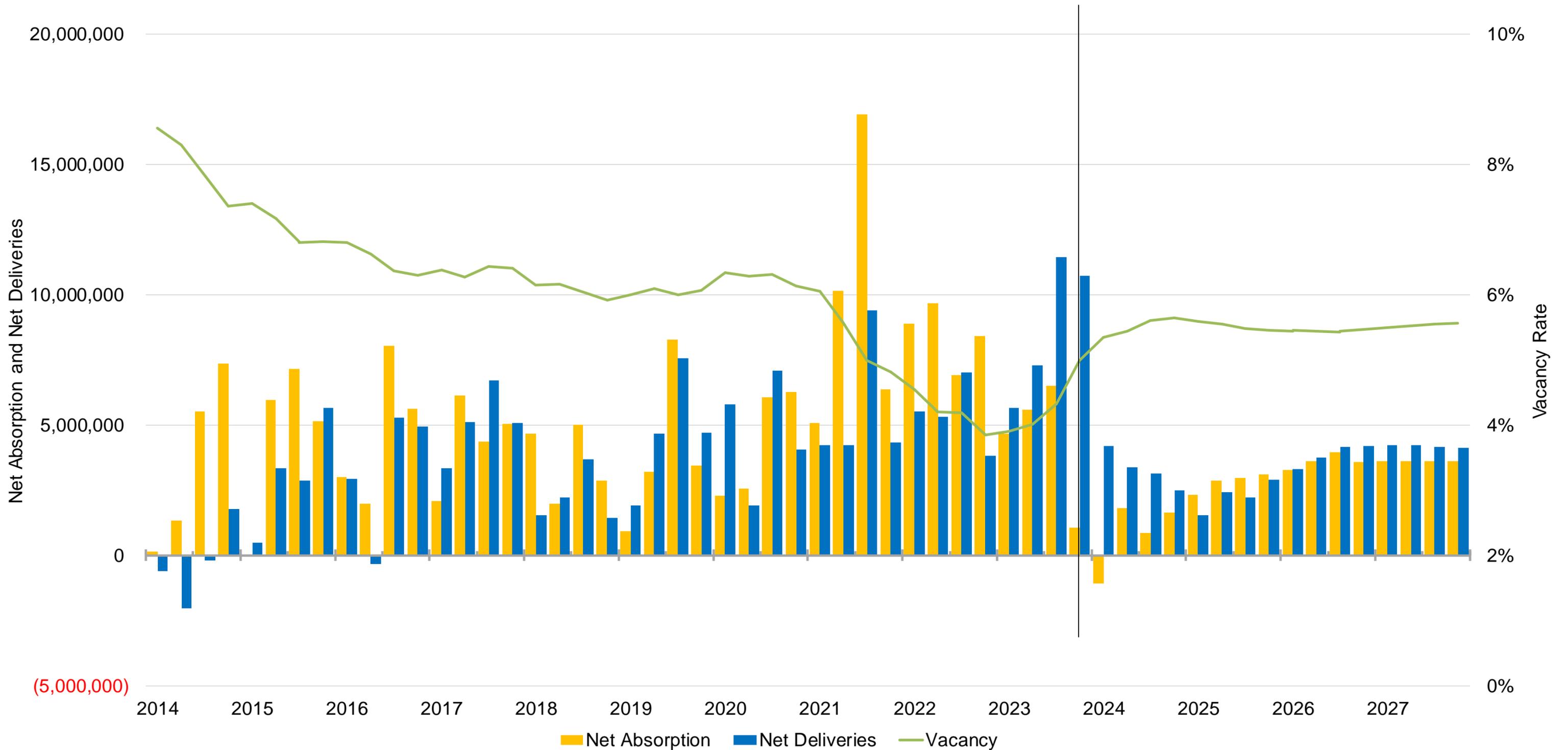


Demand flowing into both established and up and coming markets



■ Net Absorption (Last 4 Quarters)

Chicago industrial fundamentals forecast to remain stable

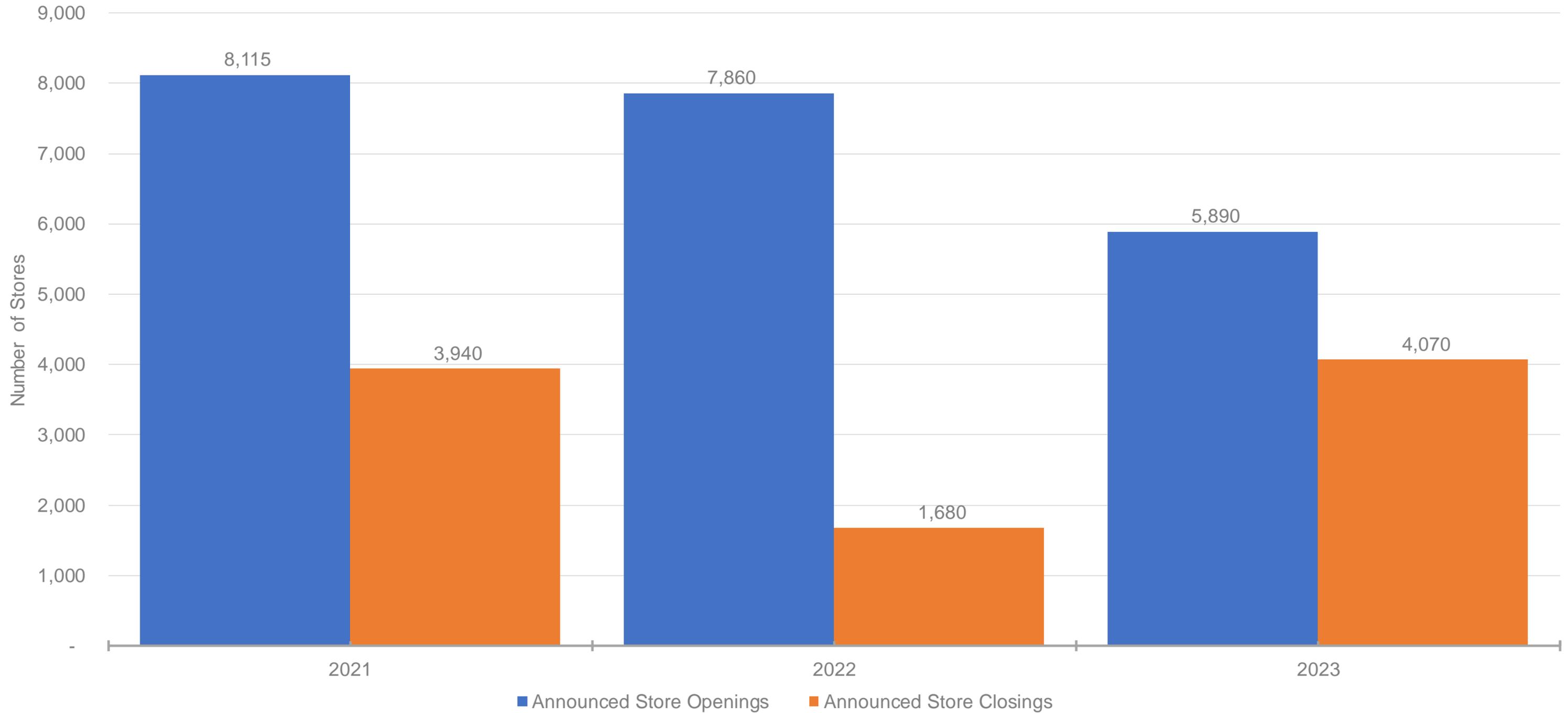


(5,000,000)

Retail

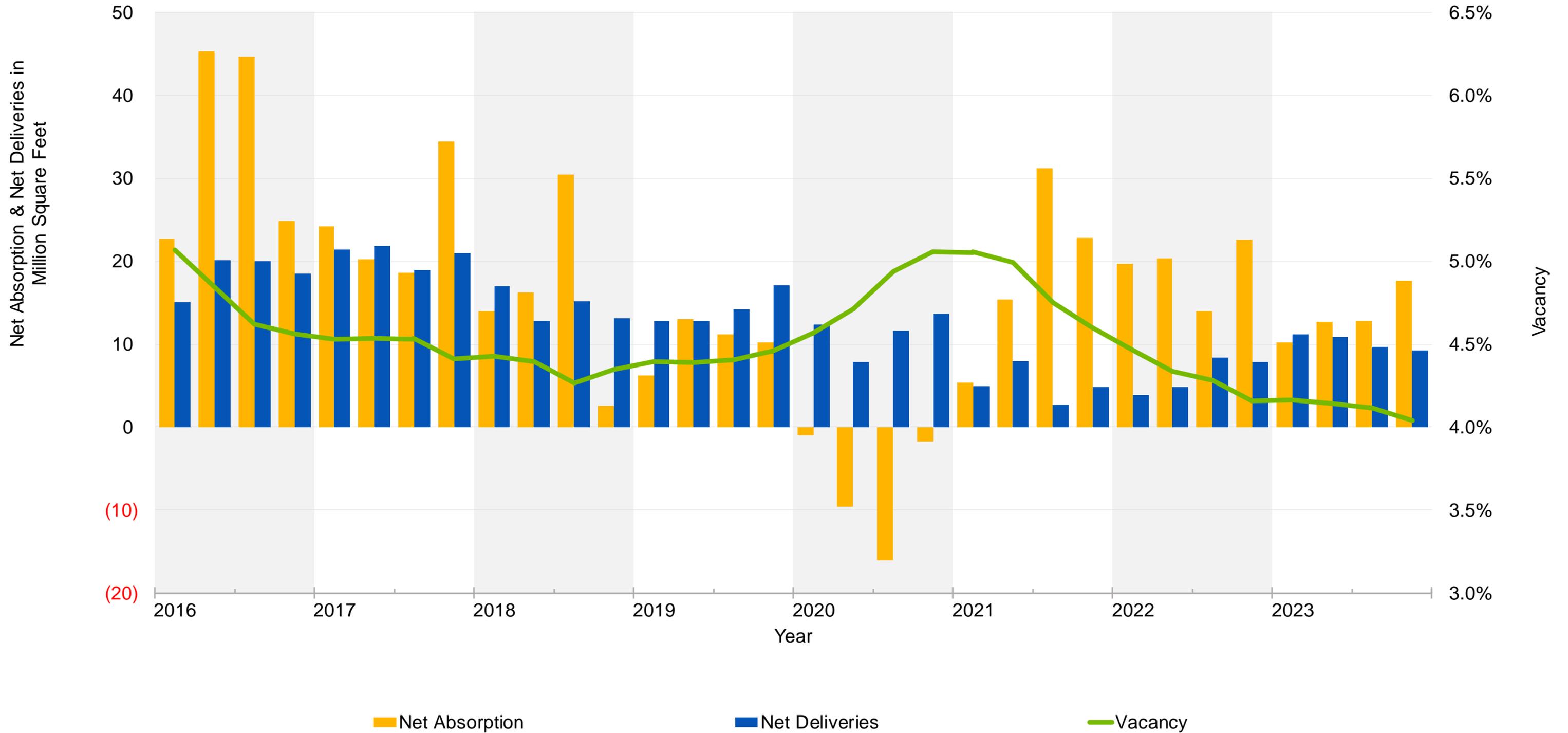


Announced Store Openings Exceed Closures For Third Consecutive Year

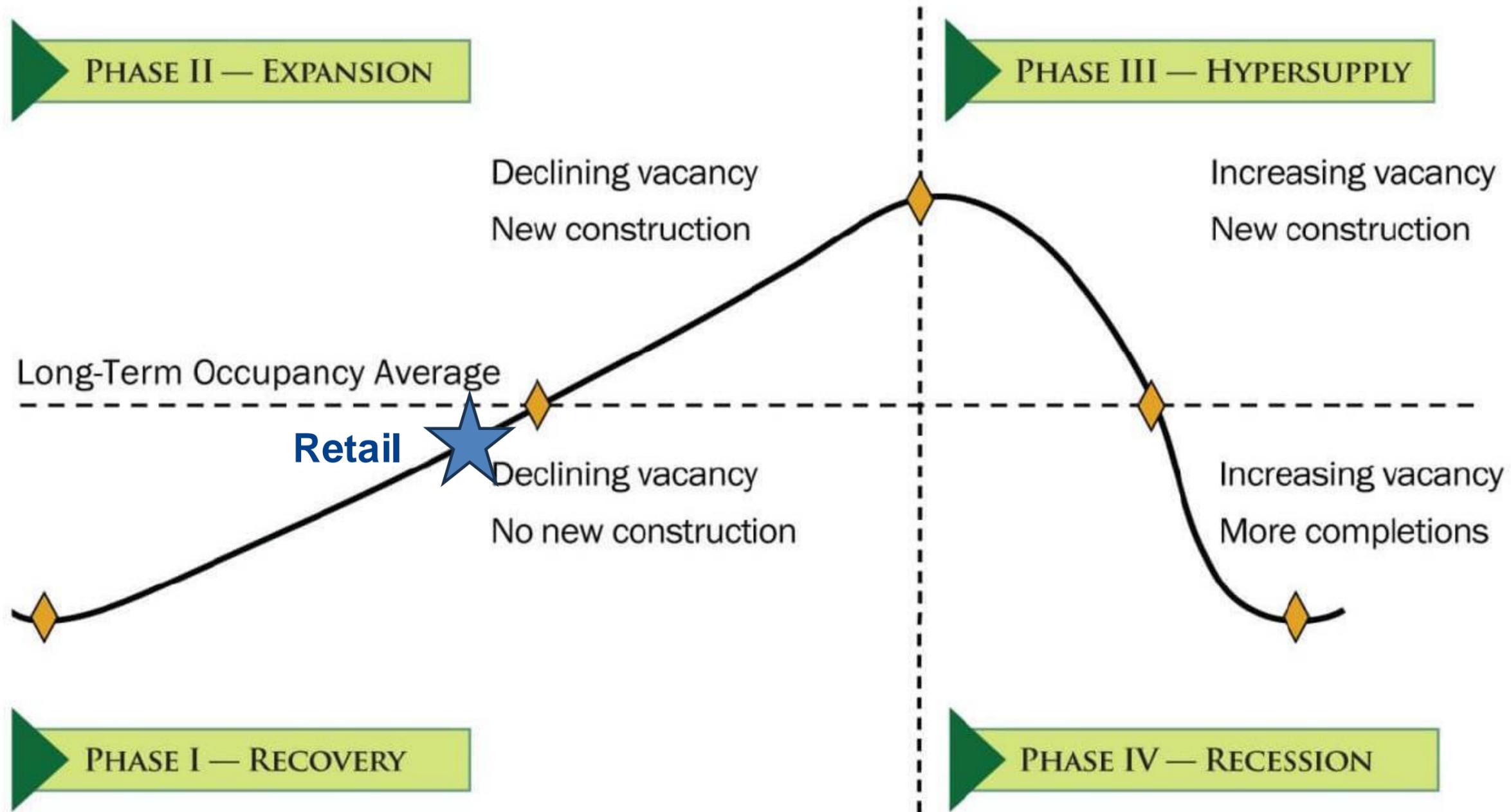


Source: Daily on Retail, January 2024

National retail fundamentals continue to tighten

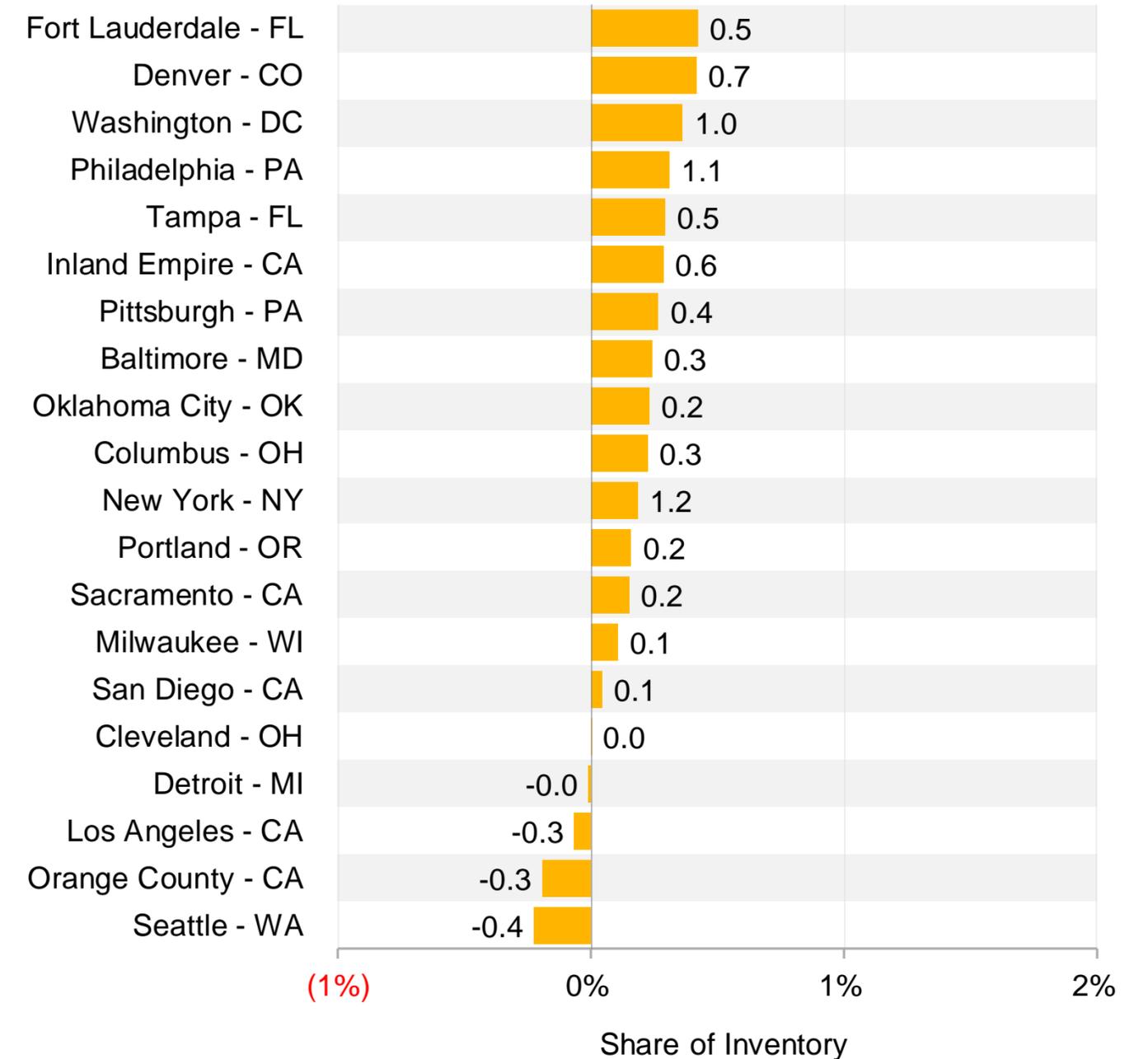
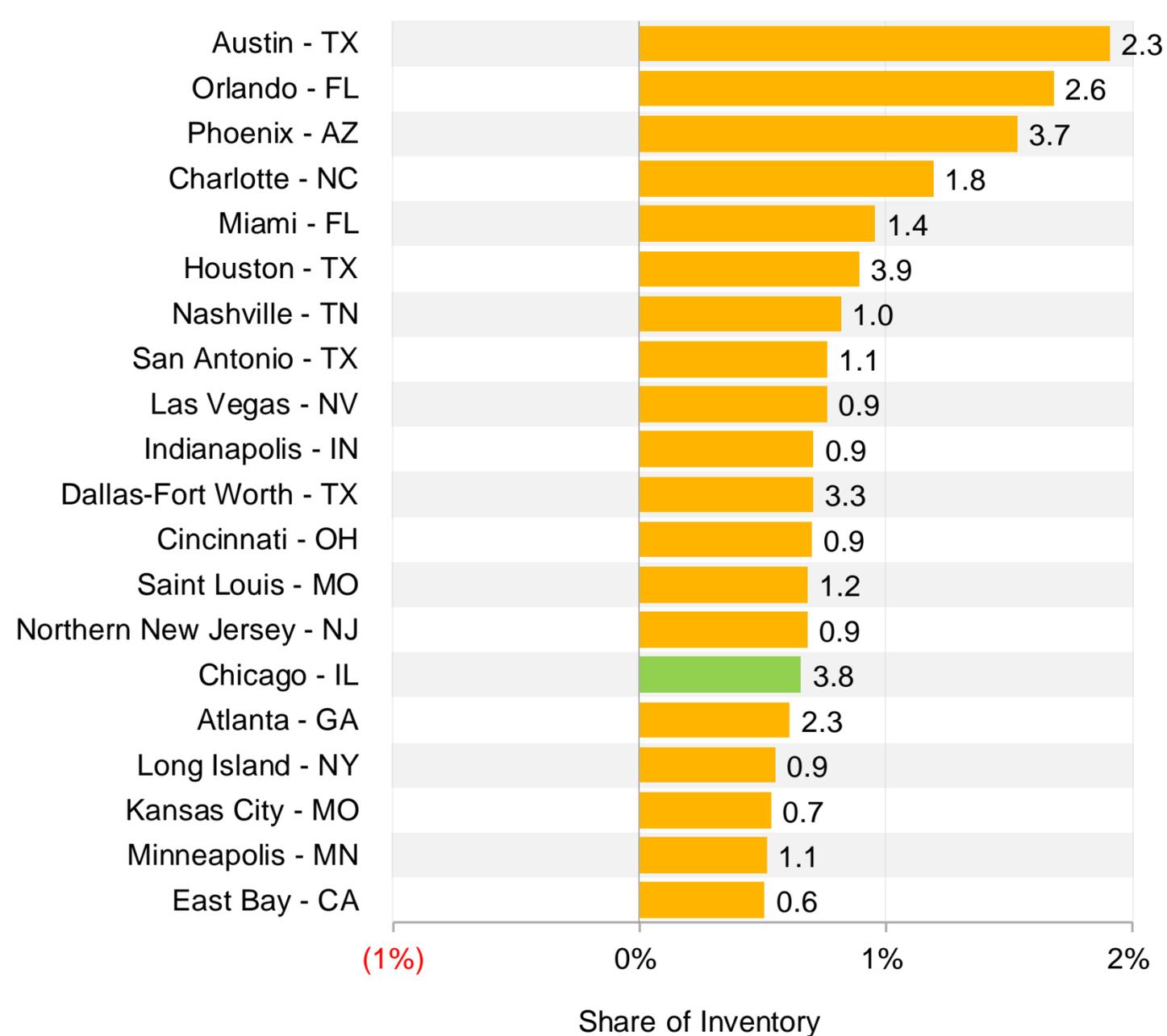


Retail (still) in recovery phase of cycle



Source: Mueller, *Real Estate Finance*, 1995.

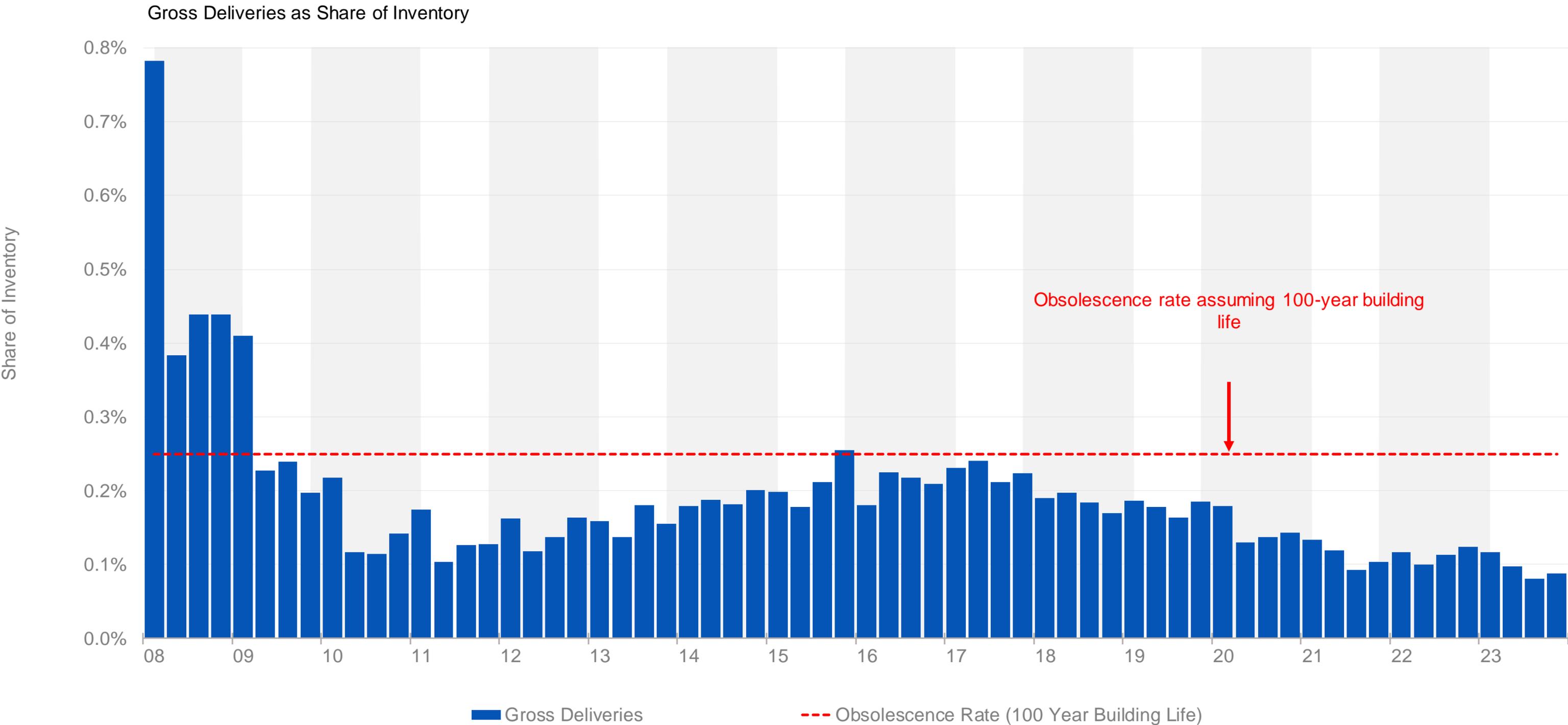
Most U.S. markets seeing retail demand growth



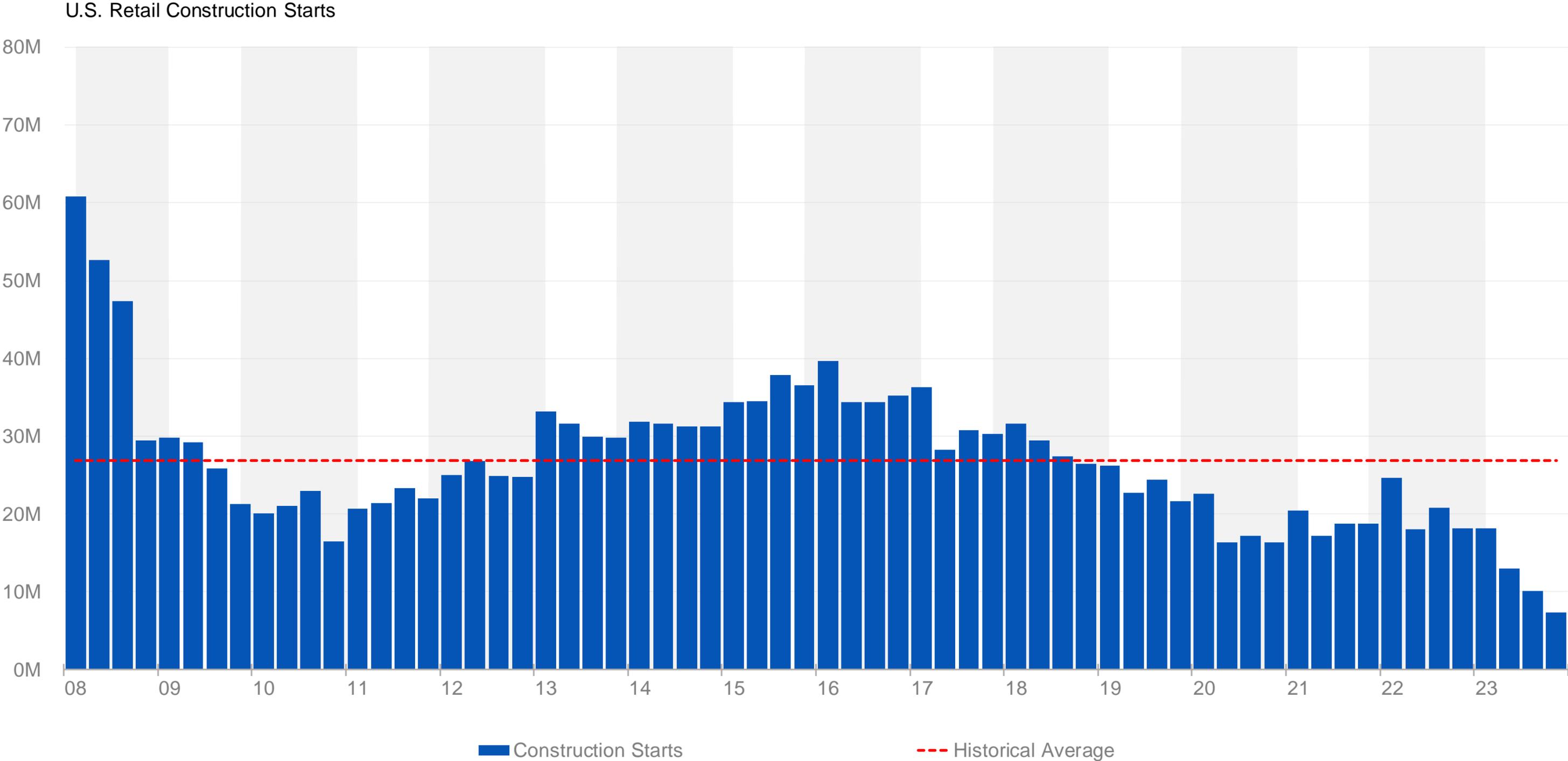
■ Net Absorption (Last 4 Quarters)

Note: Includes markets with 100 Million+ Square Feet inventory. Labels show Net Absorption in Million Square Feet.

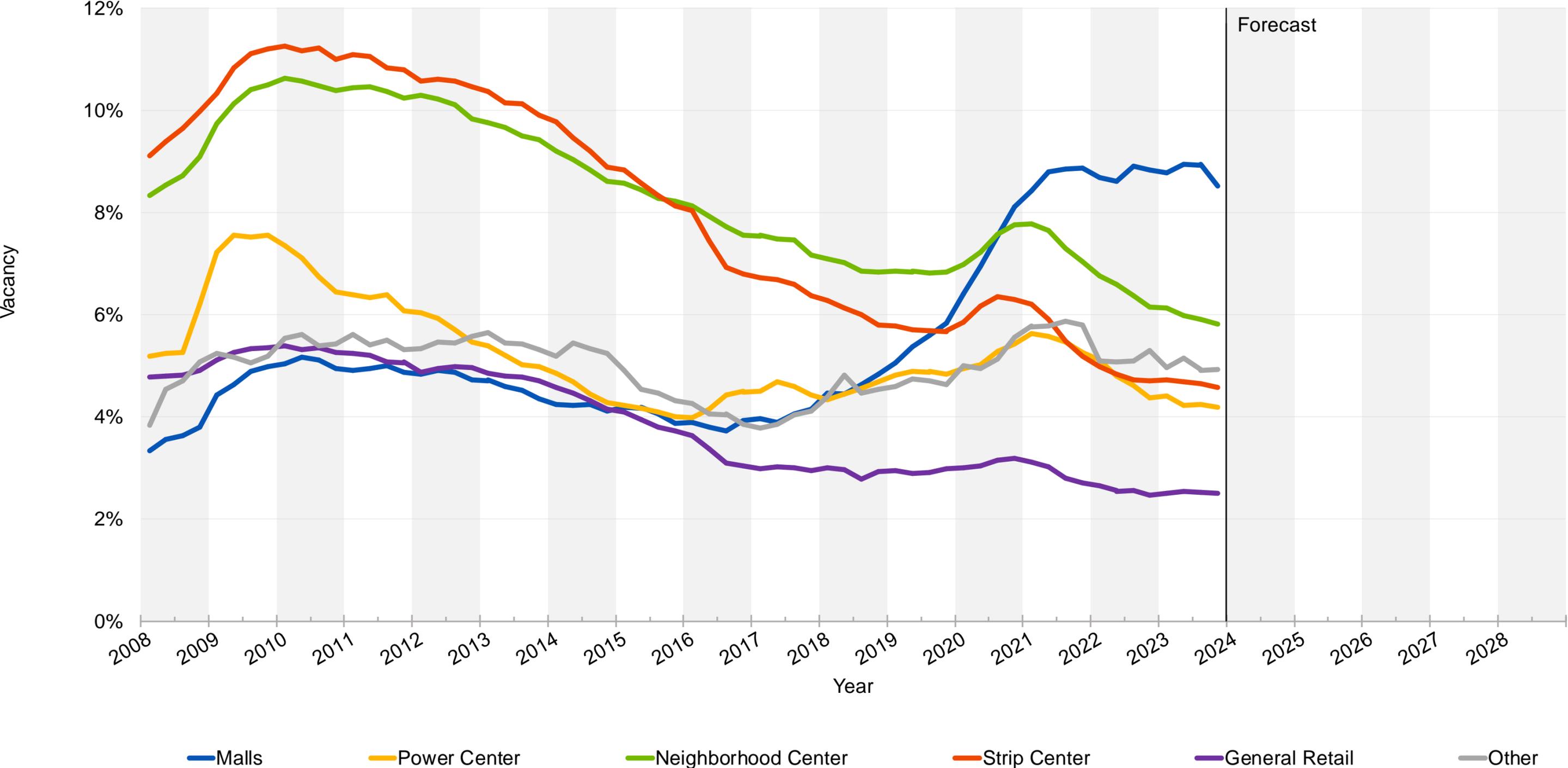
New retail deliveries not keeping up with obsolescence



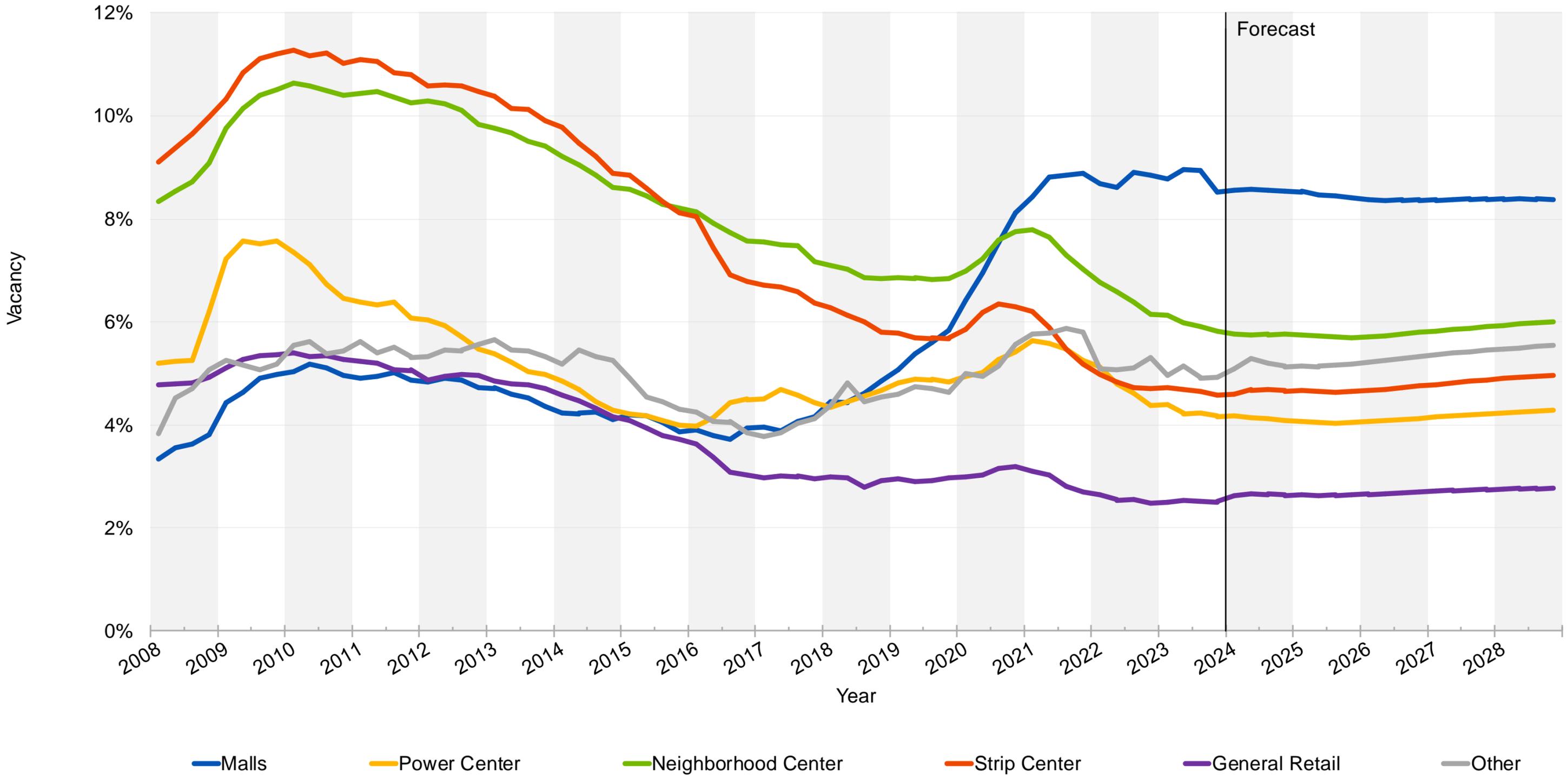
Higher rates and costs weigh on new construction starts



Lack of supply and steady demand gains push vacancy lower



Vacancy forecast to remain tight due to lack of new supply

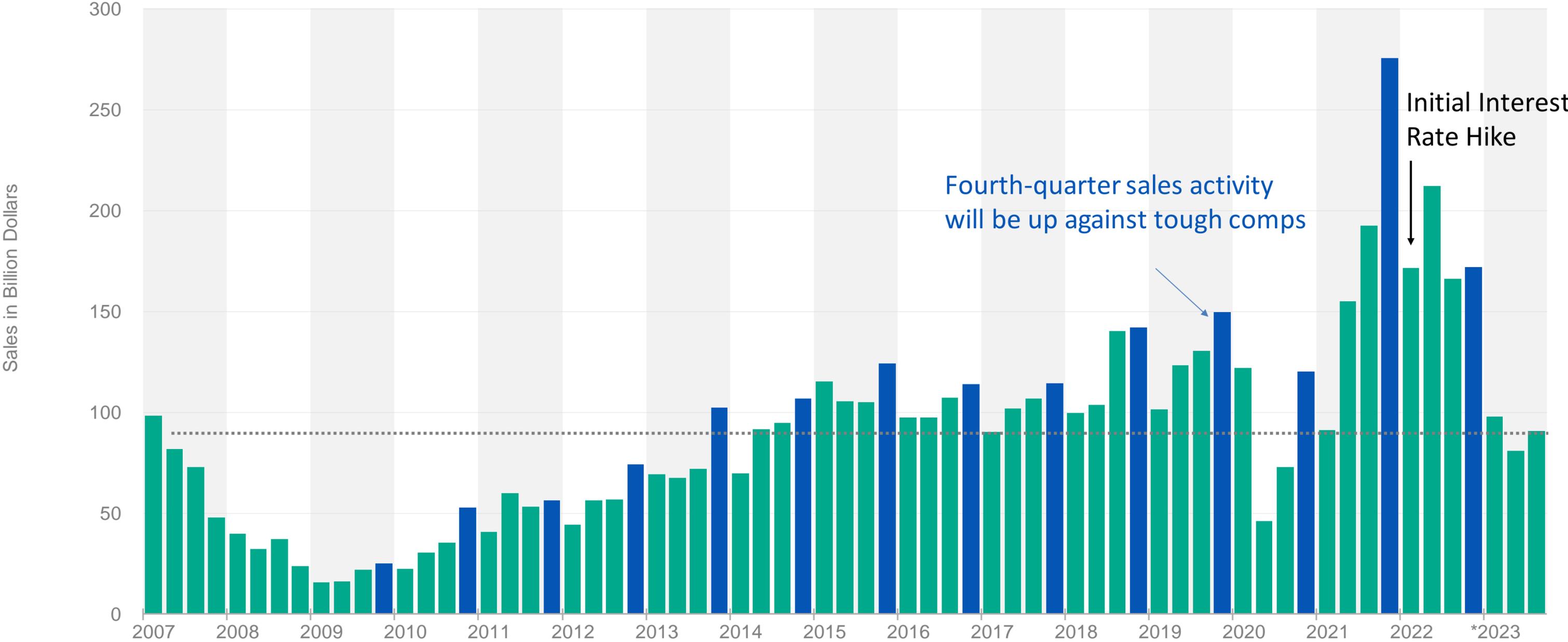


Capital Markets



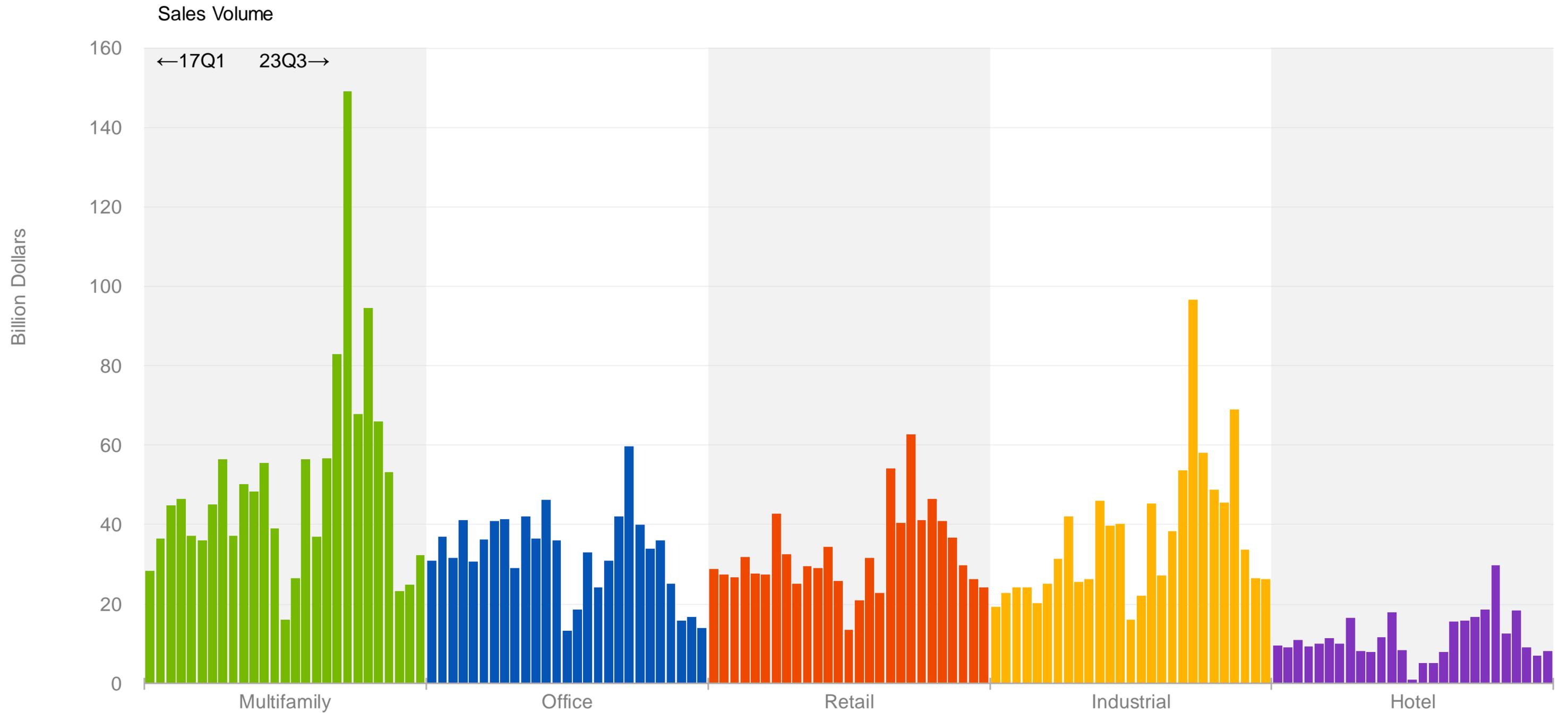
Year-over-year sales volume fell by 45% in 2023Q3

CRE Sales Transaction Volume



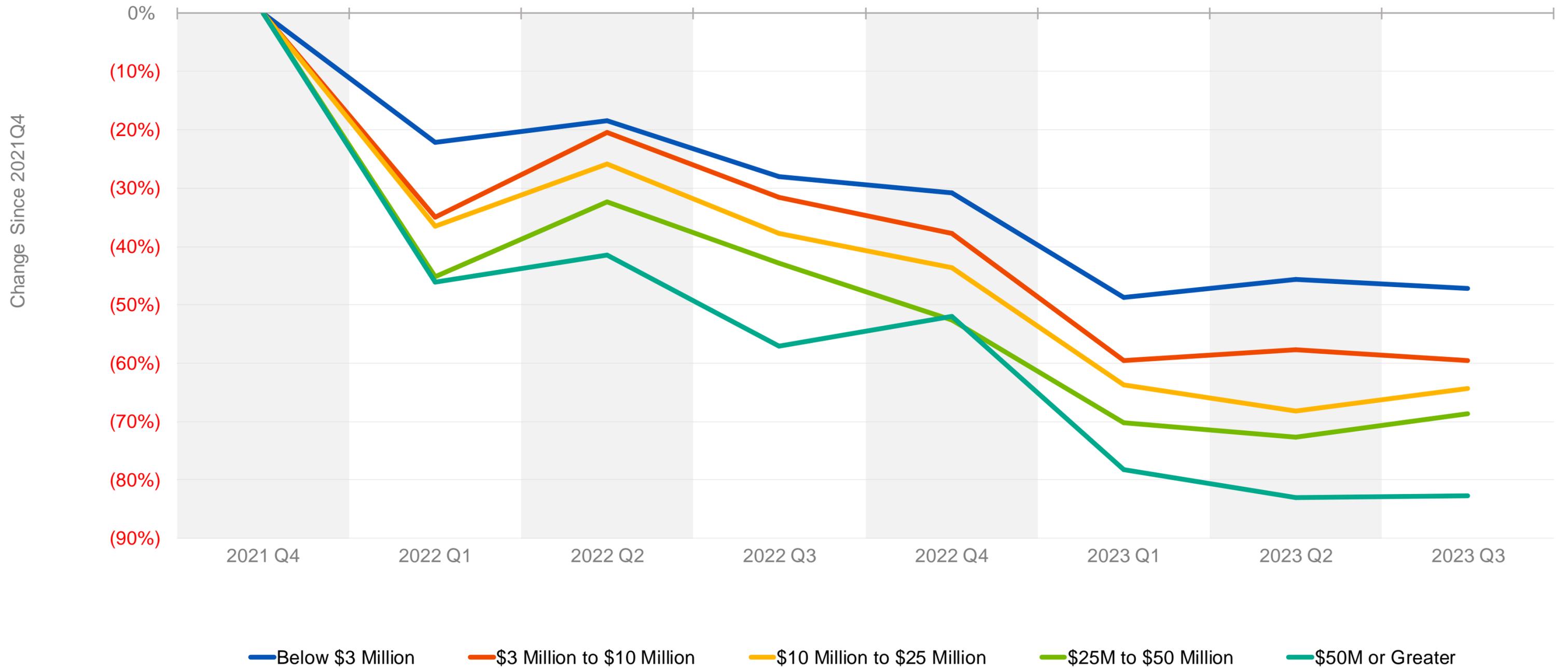
Quarter-to-date as of 9/30/23; Includes Multifamily, Office, Retail, Industrial, and Hotel; sales data collected during the quarter.

All property sectors see transaction volumes tumble



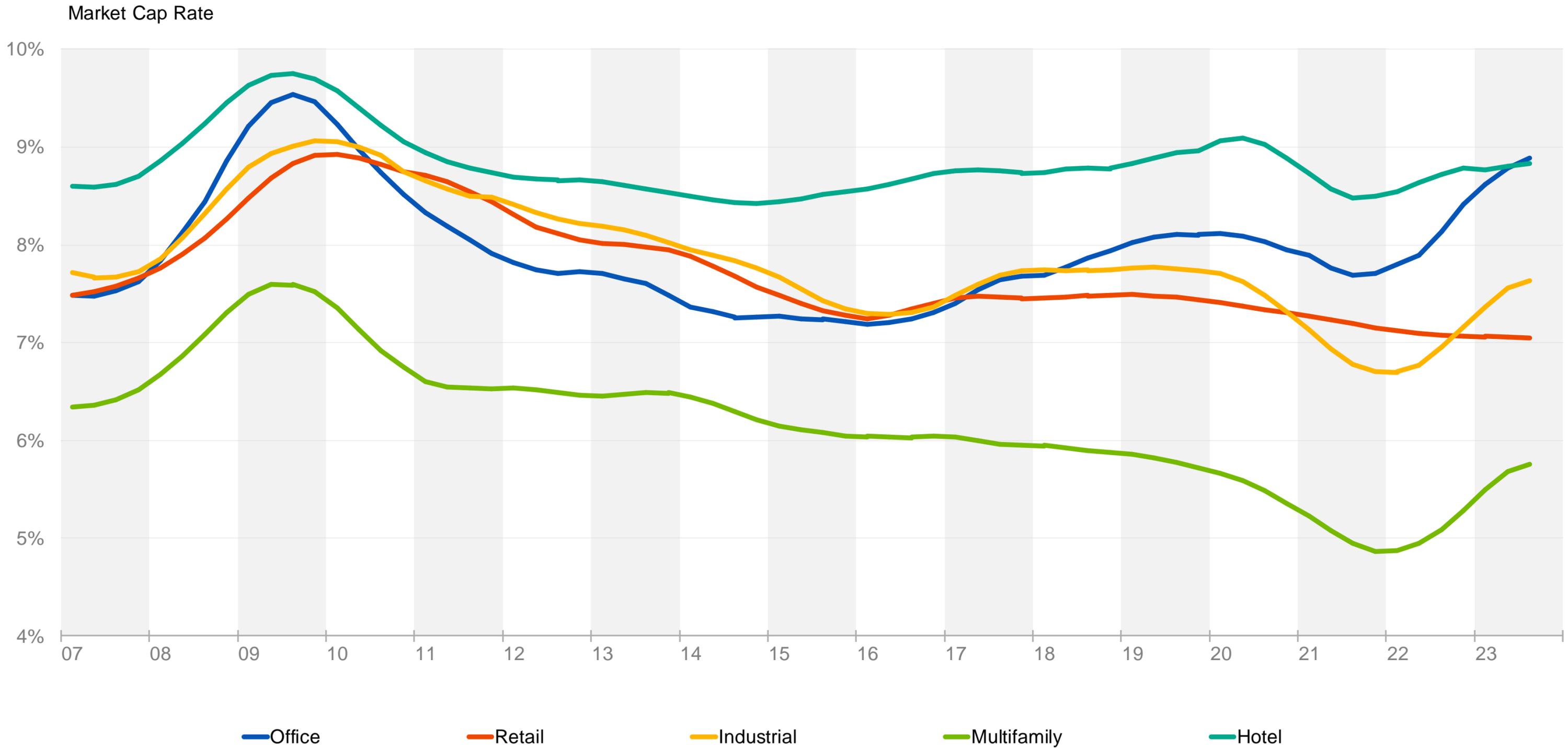
With bigger deals seeing the biggest drop in volume

Change in Sales Volume by Deal Size From Peak

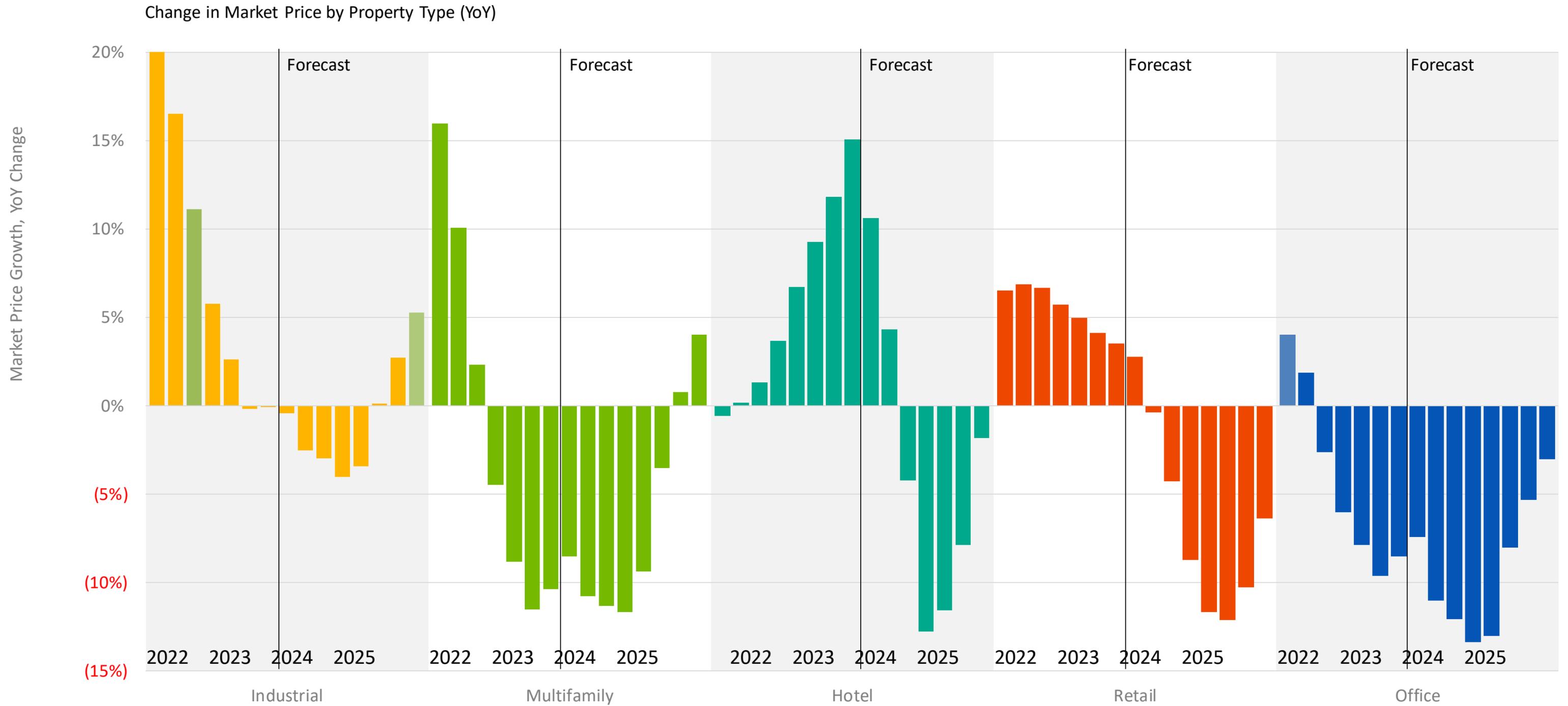


Includes Multifamily, Office, Retail, Industrial, and Hotel

Investor appetite for risk going down, cap rates rising



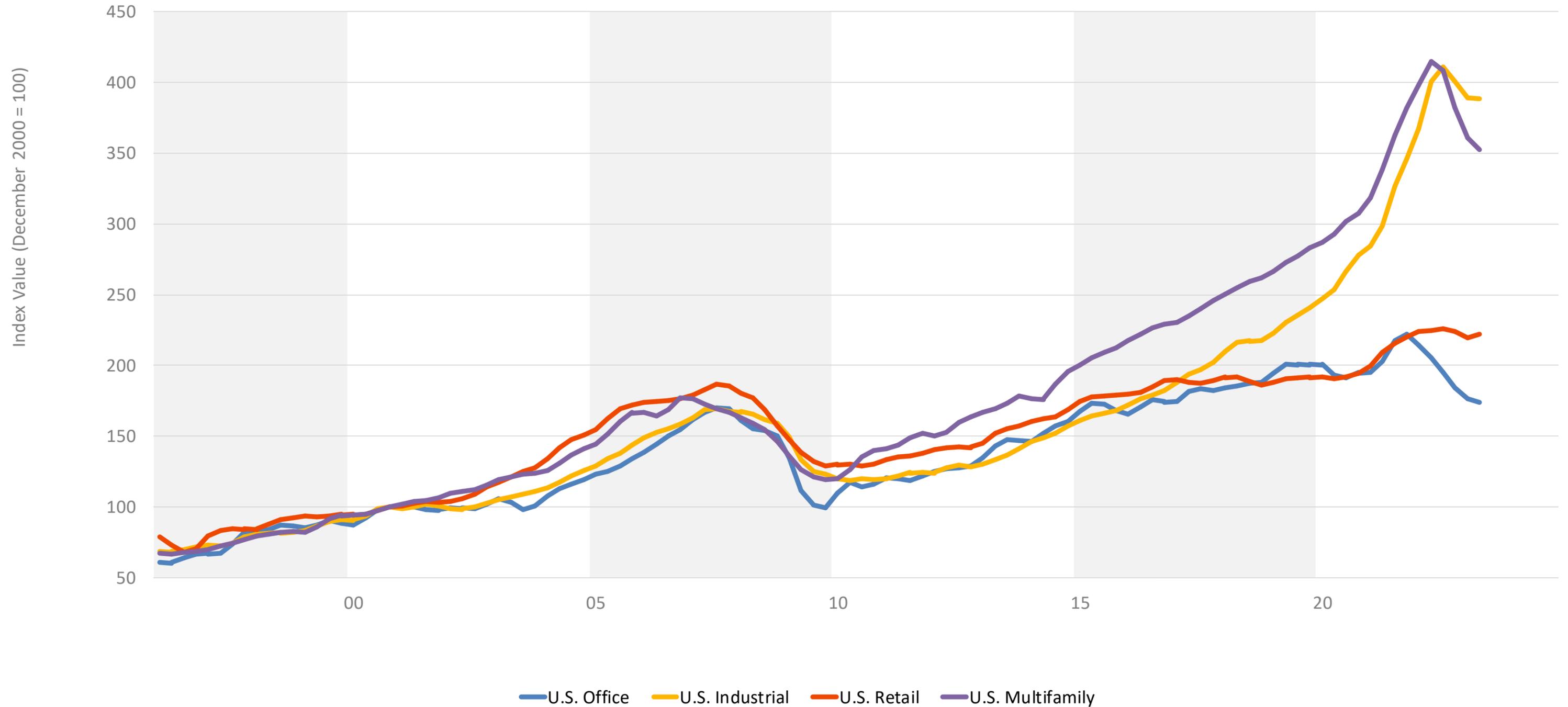
Causing prices to decline across all sectors



Source: CoStar, December 2023

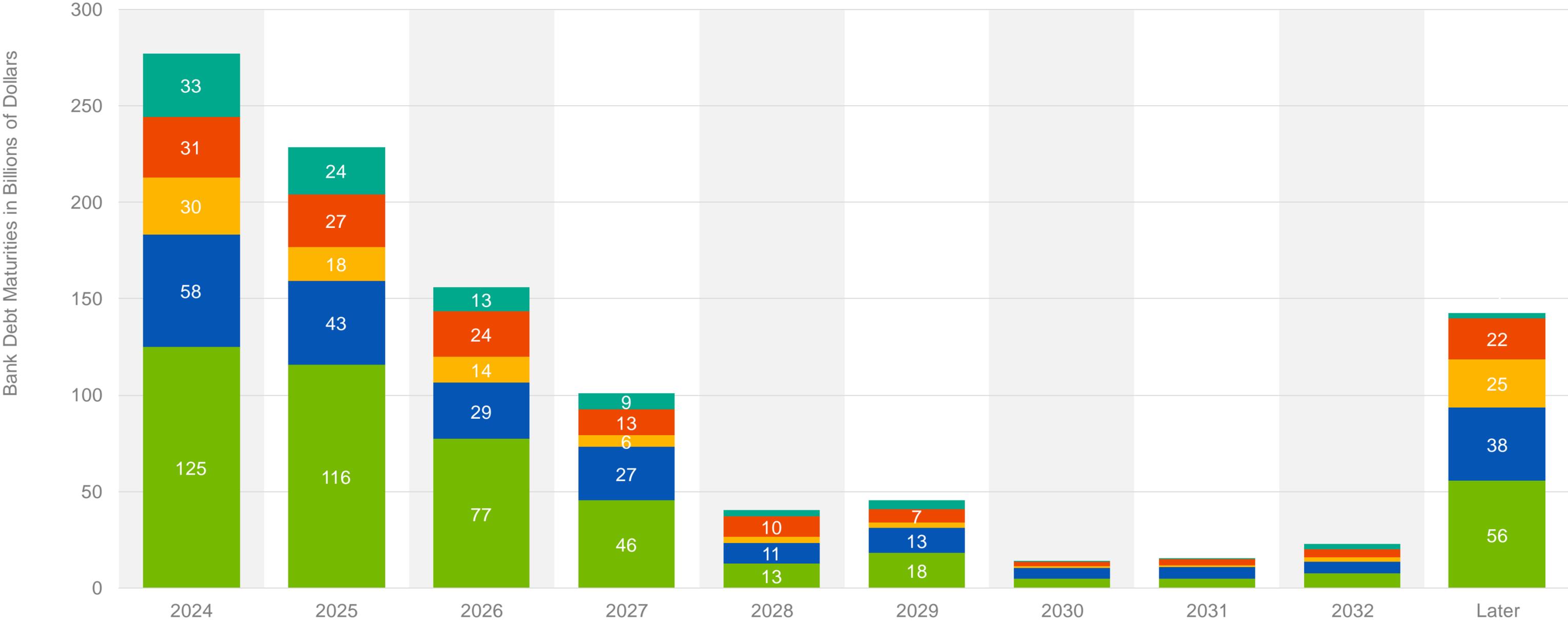
With large properties in primary markets see the largest value losses

CoStar's Value-Weighted Commercial Repeat-Sale Indices



\$766 billion in bank loans to mature between 2024 and 2026

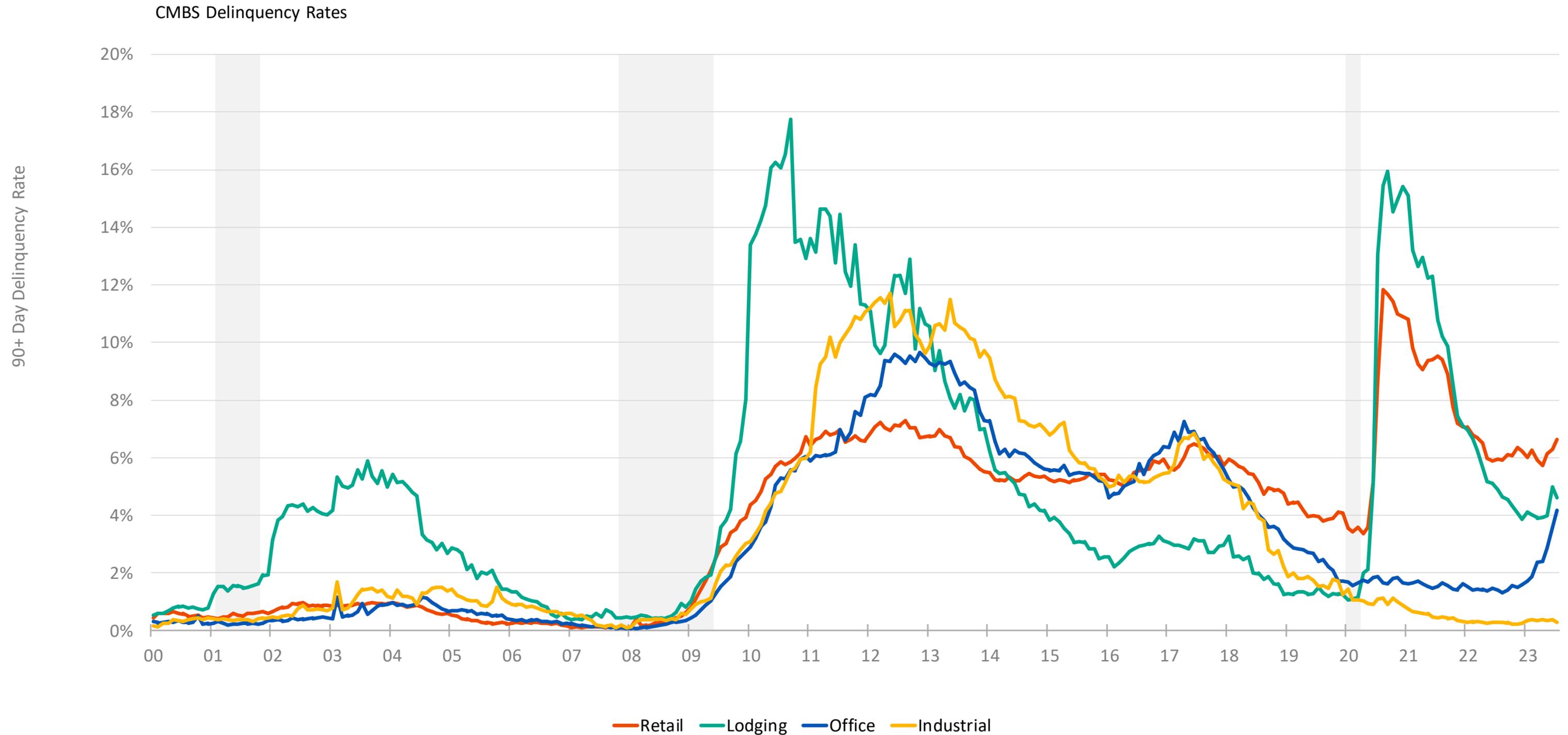
CRE Maturities at Depository Lenders



Source: MBA

■ Multifamily
 ■ Office
 ■ Industrial
 ■ Retail
 ■ Hotel

Office and hospitality maturities at risk with delinquency rates trending up



Source: CoStar; NBER; Trepp 90-day delinquency rates, August 2023

Thank you!



January 2024
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