COMMERCIAL REAL ESTATE

U.S. MARKET | Perspective for Investors

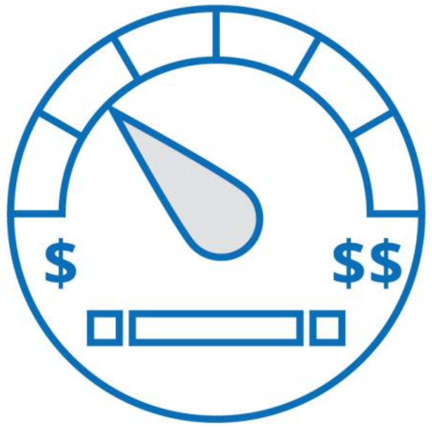
H2 2023

TRANSWESTERN

Investment

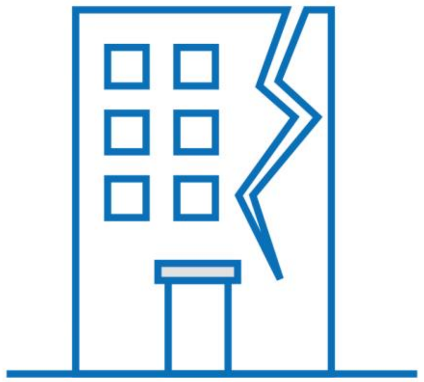
H2
2023

THE VIEW FROM HERE



Pricing declines moderated in the second half of 2023, but premature to call this the bottom

Private investors account for the bulk of transactions, a trend likely to continue in the coming quarters



While distressed assets continue to increase, volume should remain far below levels seen during GFC

	OFFICE	INDUSTRIAL	RETAIL	MULTIFAMILY
YTD Volume	**$52.0 B**	**$89.2B**	**$57.3 B**	**$119 B**
YoY Change	**-56%**	**-44%**	**-38%**	**-61%**
Cap Rate	**7.0%**	**6.1%**	**6.9%**	**5.5%**

Source: Real Capital Analytics, Senior Loan Officer Opinion Survey

TRANSWESTERN

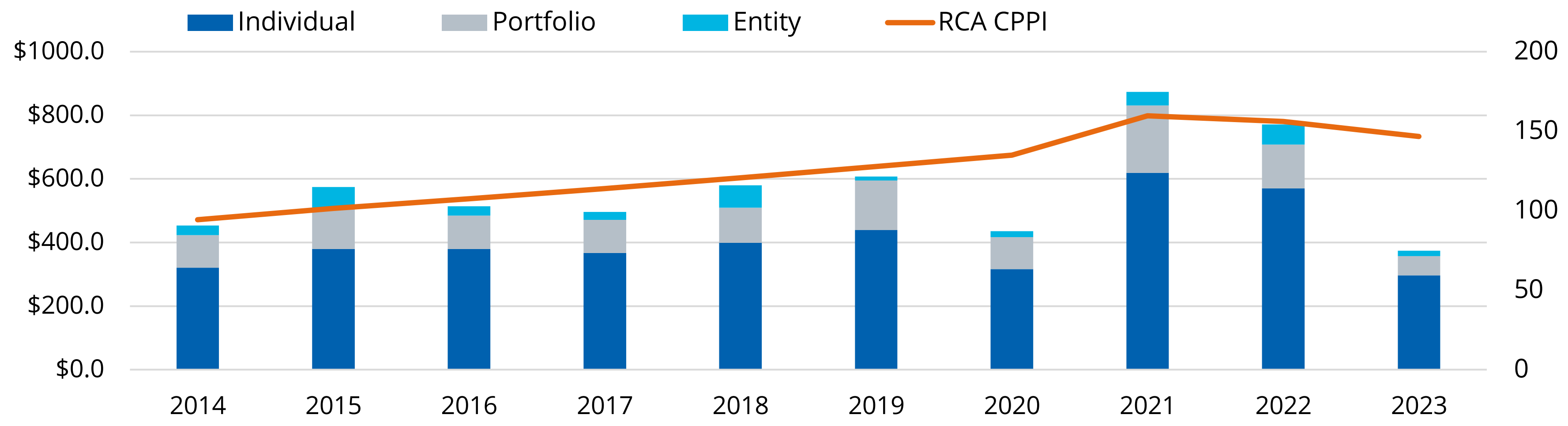
U.S. HIGHLIGHTS

- Feeling confident with extremely low interest rates in late 2021 and into 2022, investors poured money into the market. Then as rates started climbing, investment activity slowed to a trickle and pricing softened. Cap rates have continued their ascent since early 2022.
- 2023 was not the office market's worst year, but it was the toughest year since the GFC. In fact, it was the 3rd worst year on record when comparing Y-O-Y volume, and 2nd worst year for Y-O-Y price declines. Overall, office deals were down 56% compared to 2022, and pricing was down 16%.
- In 2023, the industrial sector stood out but wasn't immune to the trend of falling deals. This followed four years of smashing sales records, crossing $100 billion annually. The way deals were structured contributed to the decline. Entity level sales dropped to $2.5 billion from $25.2 billion in 2022. If we ignore the 90% plunge in these deals, the overall decrease in volume was just 36% year-over-year.
- In 2023, apartments were still the top dog in commercial real estate investment, even with a 61% drop in deal volume from the previous year. This sector was on a hot streak with record-breaking deal volumes in the two prior years, averaging $332 billion annually in 2021 and 2022. This was a big leap from the $195 billion peak in 2019, with the recent average pace outdoing that year's peak by 70%.
- Retail investment was mixed in 2023. Overall, both deal volume and property prices dropped. The year's investment activity did not match up to pre-pandemic levels, though prices were higher than before. A surge in entity level sales spiced up the 2023 stats, jumping 134% from the previous year with $12.5 billion in sales. But this buzz was mostly due to a few large deals, often REIT mergers. The picture wasn't as rosy for individual property sales, which saw a 44% decline from the previous year.

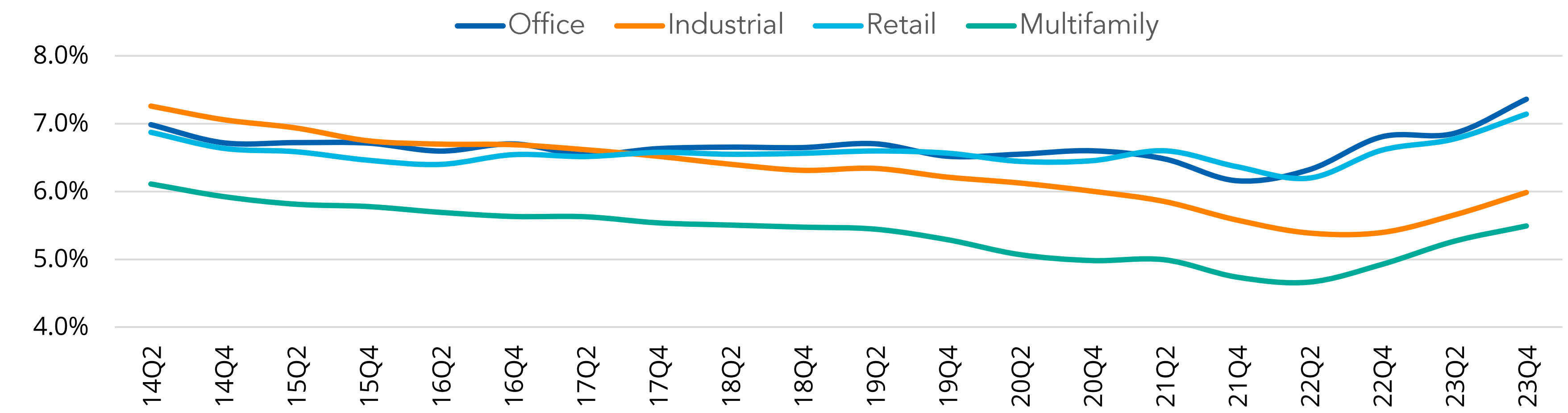
Source: Real Capital Analytics

U.S. HISTORICAL

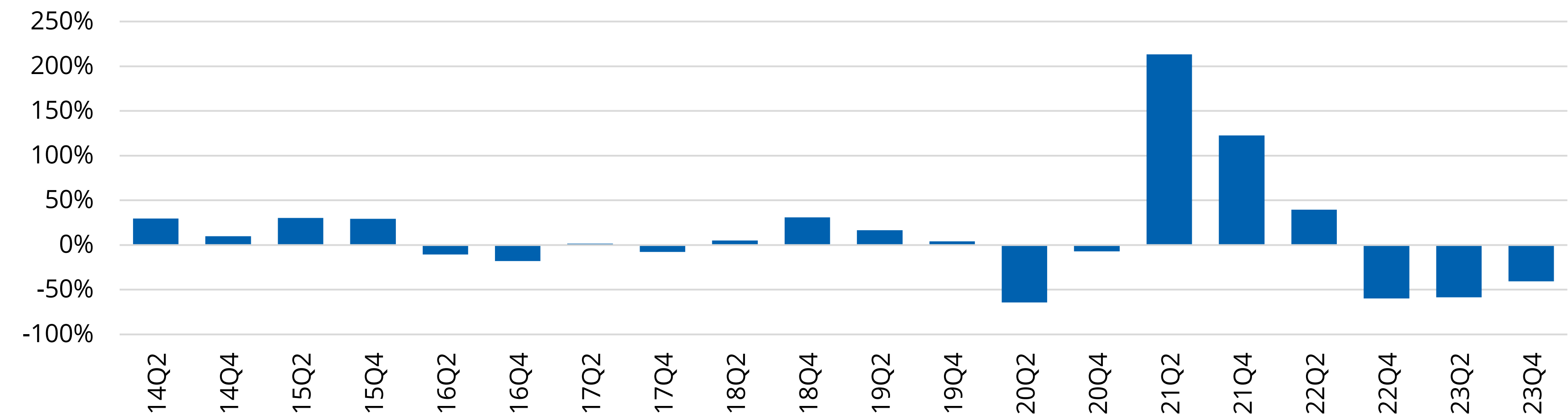
TRANSACTION VOLUME (BILLIONS) AND RCA CPPI



CAP RATES



VOLUME YOY CHANGE



ANNUAL TOTAL NCREIF RETURNS BY PROPERTY TYPE

NCREIF returns represent the institutional private market's performance, and like public markets, have heavily favored industrial and apartment in recent years.

- We have not seen negative returns across more than two of the sectors since the GFC.
- Hotel was the only asset class with positive gains for 2023 and, in a true plot twist, ranked number one over all other asset classes for total annual returns.
- After seven years at the top position, industrial slid into negative territory.
- While retail returns moved into negatives for 2023, returns remained relatively stable compared to industrial, apartment and office.

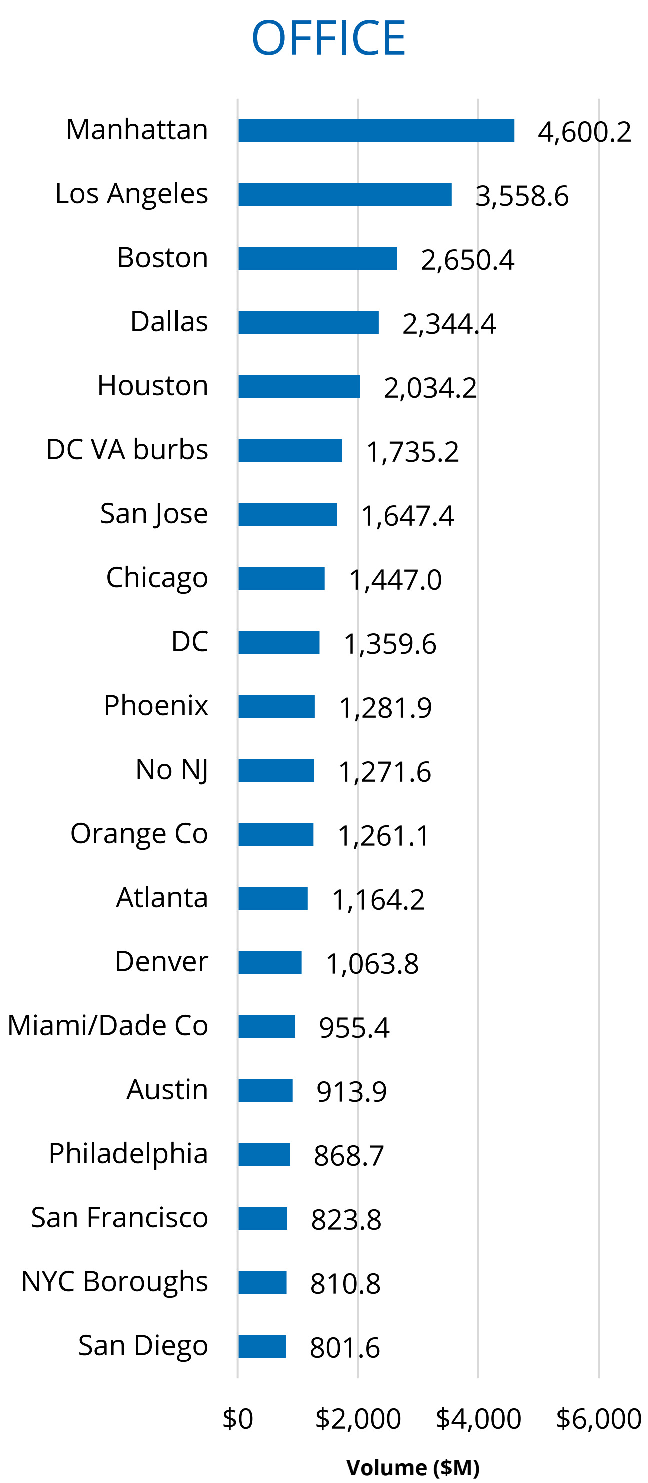
Rank	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
1	Retail -4.1%	Retail -10.9%	Apartment 18.2%	Apartment 15.5%	Retail 11.6%	Retail 12.9%	Industrial 13.4%	Retail 15.3%	Industrial 12.3%	Industrial 13.1%	Industrial 14.3%	Industrial 13.4%	Industrial 11.8%	Industrial 43.3%	Industrial 14.6%	Hotel 10.3%
2	Industrial -5.8%	Apartment -17.5%	Retail 12.6%	Industrial 14.6%	Apartment 11.2%	Industrial 12.3%	Retail 13.1%	Industrial 14.9%	Retail 9.0%	Apartment 6.2%	Hotel 7.6%	Office 6.6%	Apartment 1.8%	Apartment 19.9%	Hotel 10.0%	Retail -0.9%
3	Office -7.3%	Industrial -17.9%	Office 11.7%	Retail 13.8%	Industrial 10.7%	Apartment 10.4%	Office 11.5%	Hotel 13.2%	Apartment 7.3%	Office 6.0%	Office 6.8%	Apartment 5.5%	Office 1.6%	Office 6.1%	Apartment 7.1%	Industrial -4.1%
4	Apartment -7.3%	Office -19.1%	Industrial 9.4%	Office 13.8%	Office 9.5%	Office 9.9%	Hotel 11.1%	Office 12.5%	Office 6.2%	Retail 5.7%	Apartment 6.1%	Hotel 3.5%	Retail -7.5%	Hotel 5.5%	Retail 2.7%	Apartment -7.3%
5	Hotel -9.4%	Hotel -20.4%	Hotel 9.0%	Hotel 11.8%	Hotel 8.2%	Hotel 7.7%	Apartment 10.3%	Apartment 12.0%	Hotel 4.7%	Hotel 4.9%	Retail 2.2%	Retail 1.9%	Hotel -25.6%	Retail 4.2%	Office -3.4%	Office -17.6%

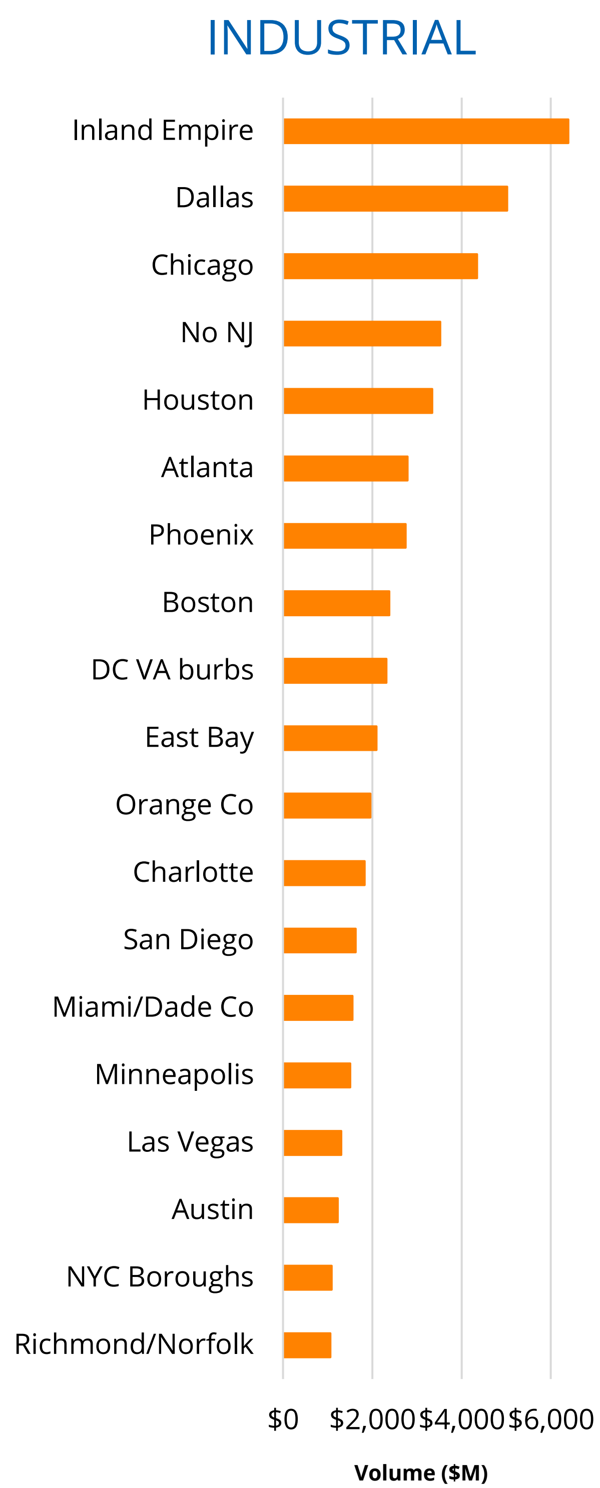
Percentages above are computed by adding the income return and capital appreciation.

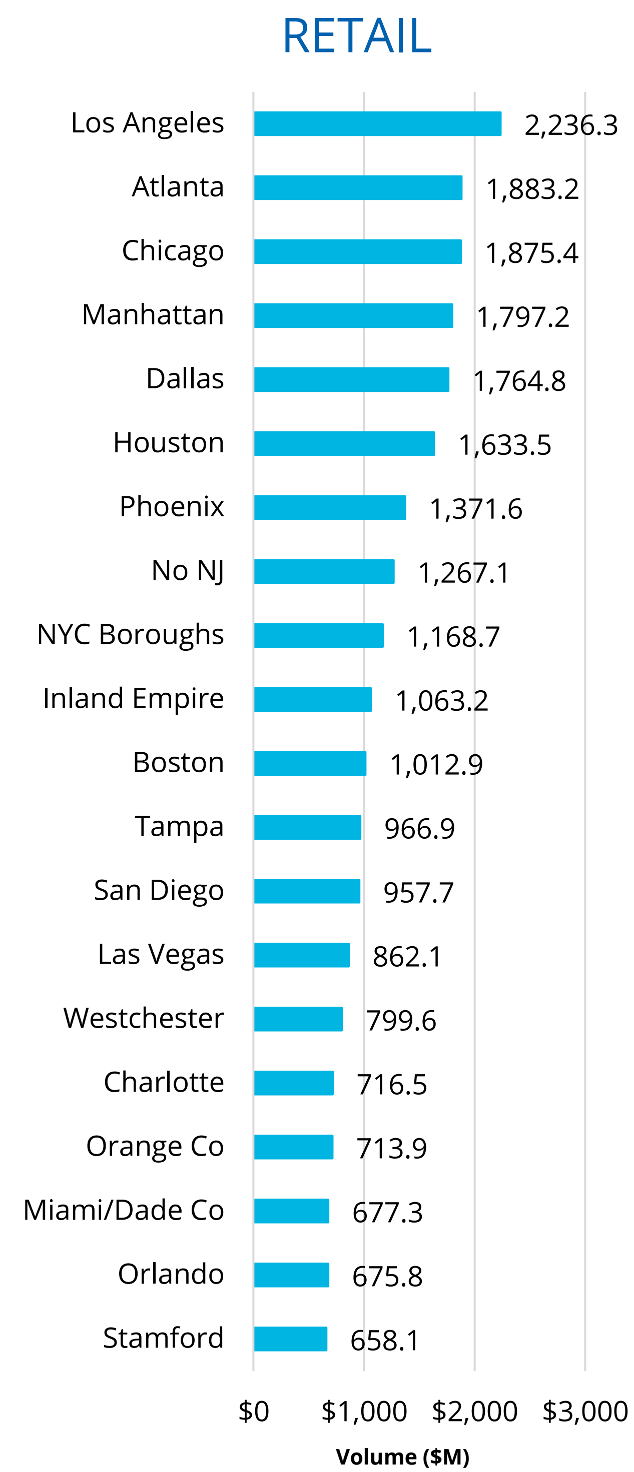
Source: NCREIF, Transwestern

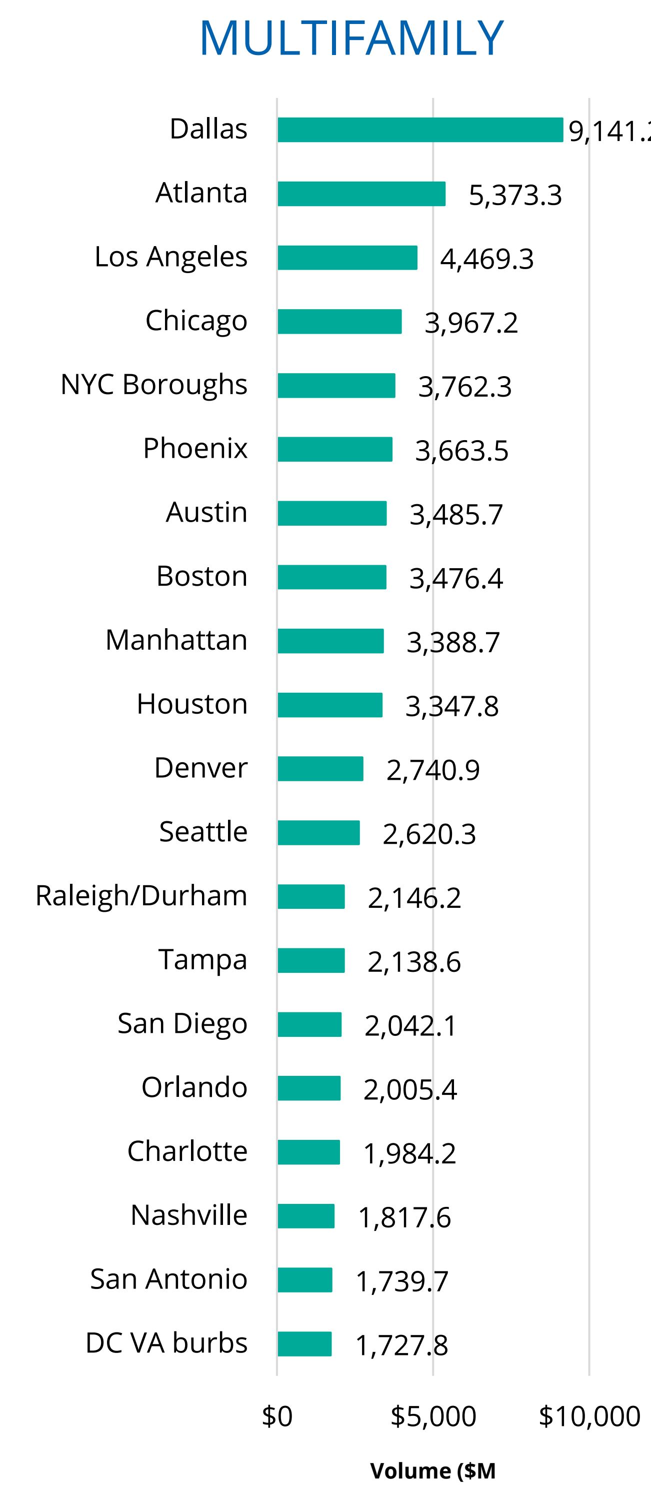
MOST ACTIVE INVESTMENT MARKETS BY VOLUME

Reported Closed Transactions 2023



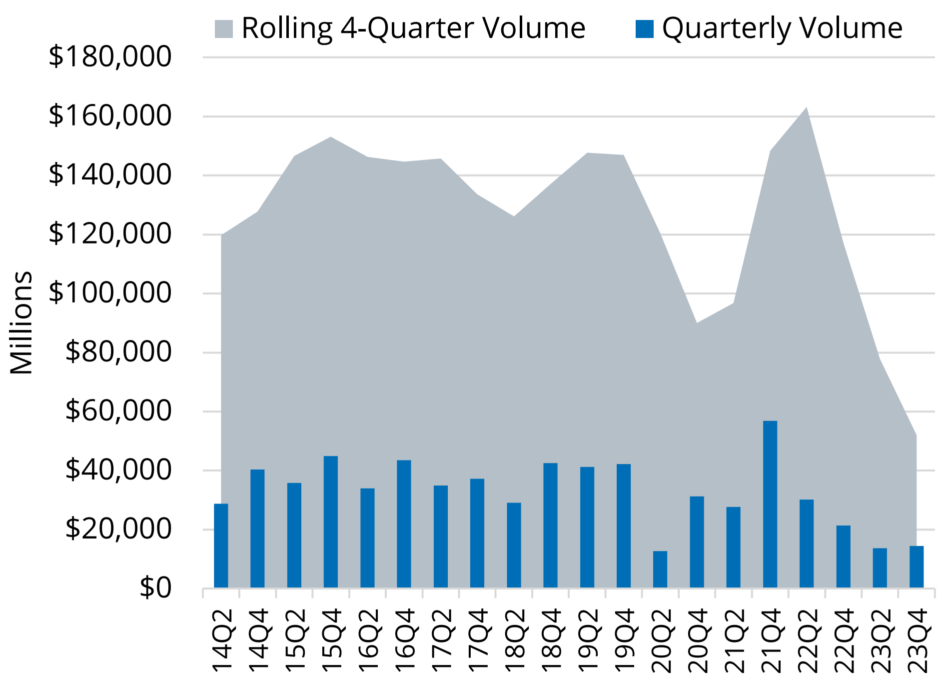




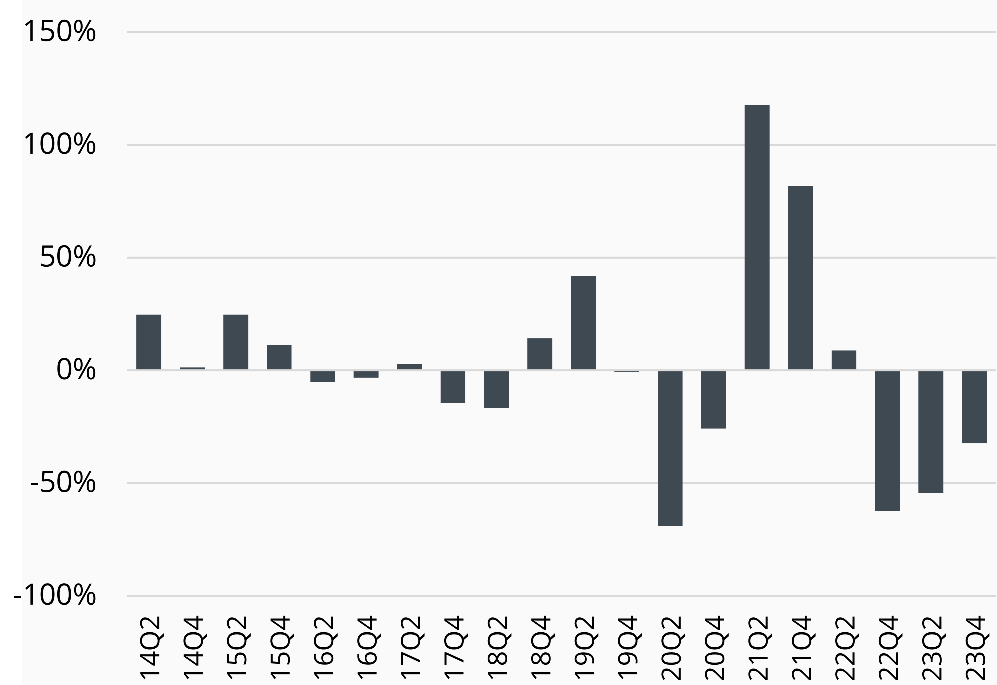


Source: Real Capital Analytics

SALES VOLUME



YEAR-OVER-YEAR VOLUME CHANGE



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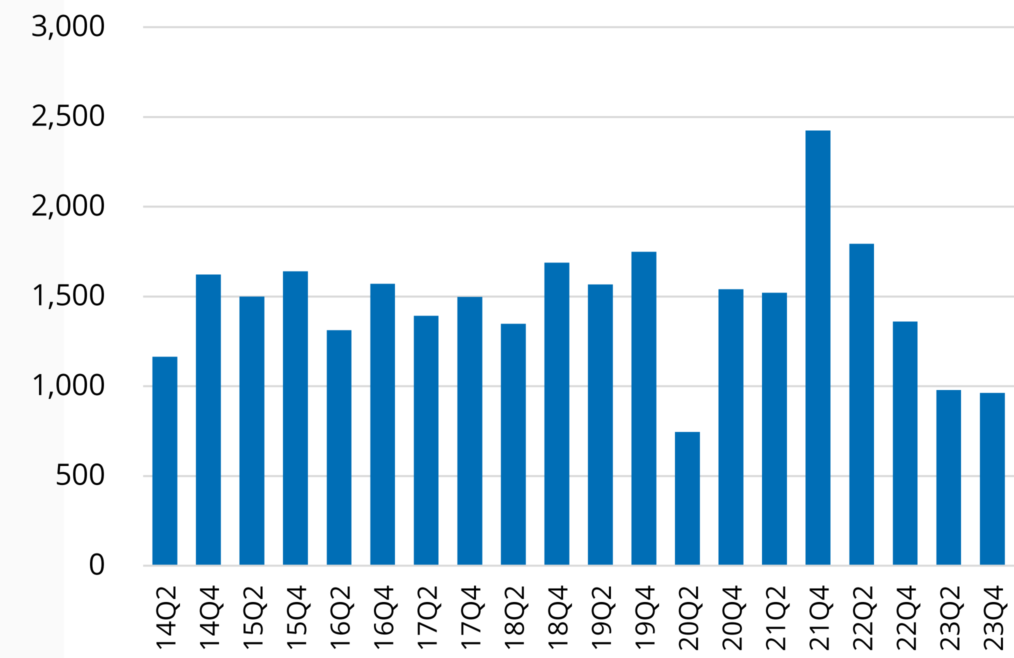
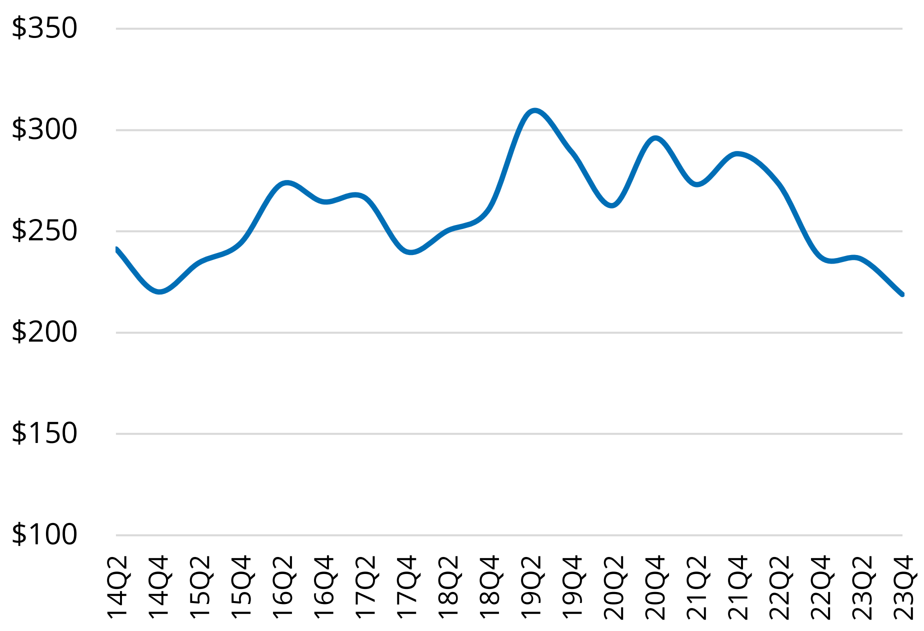
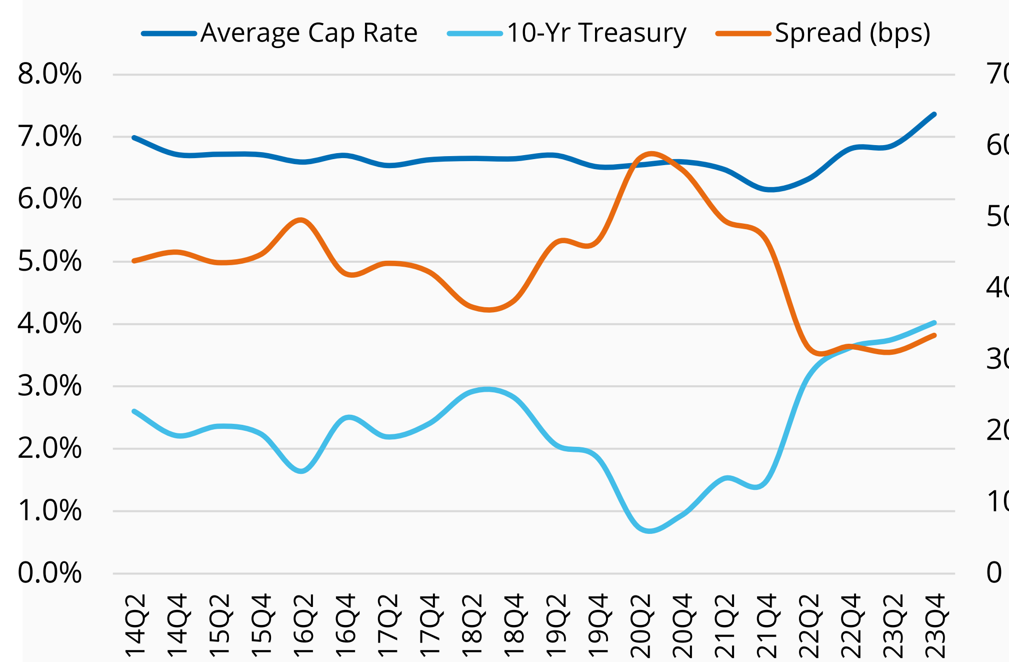


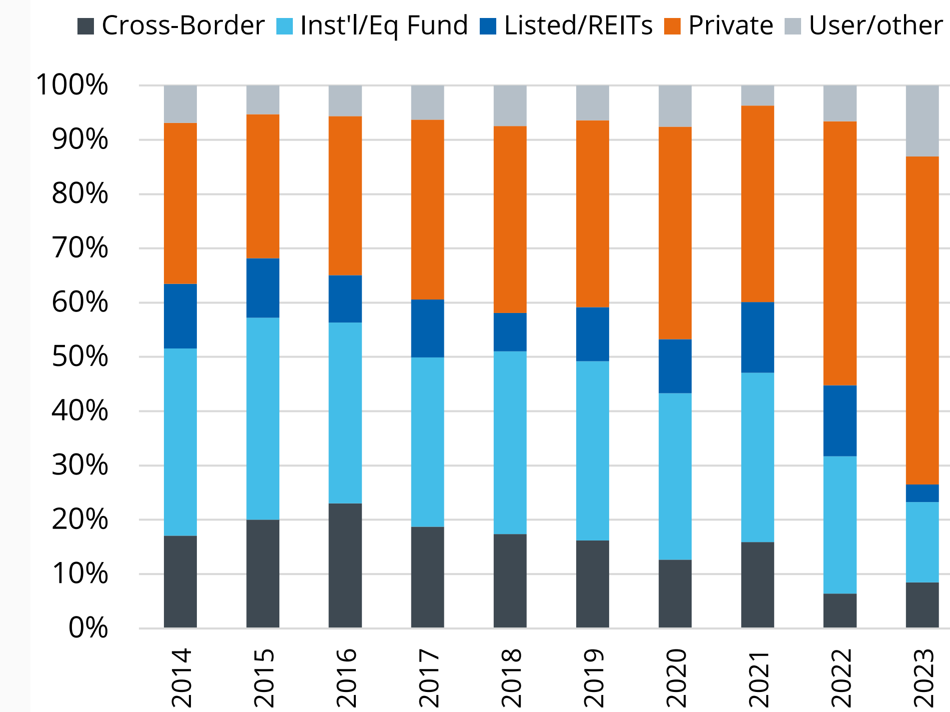
PRICE PER SQUARE FOOT



YIELD (CAP RATE)



BUYER COMPOSITION



Source: Real Capital Analytics

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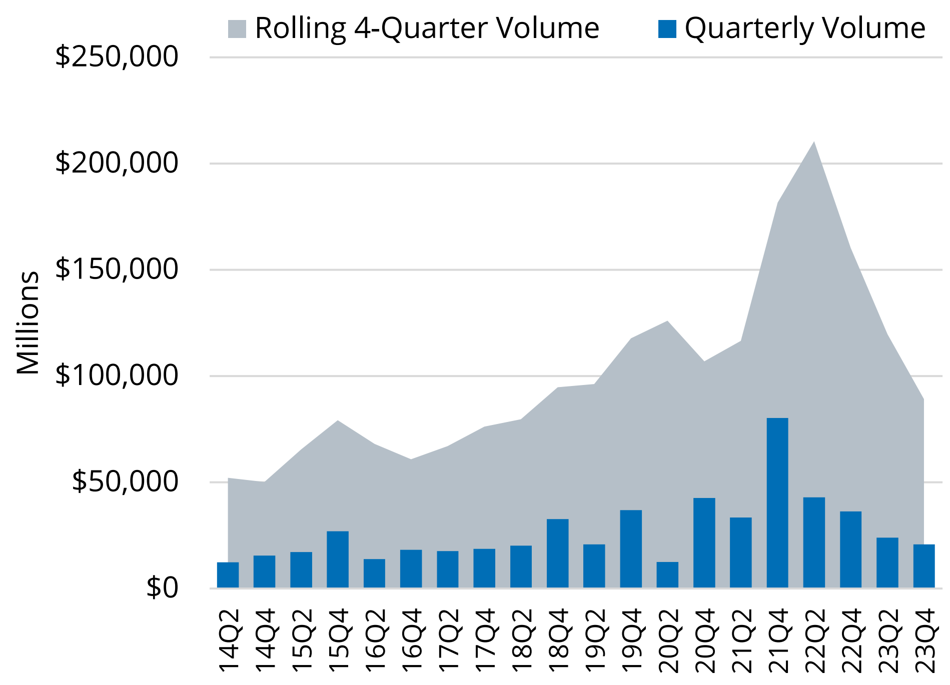
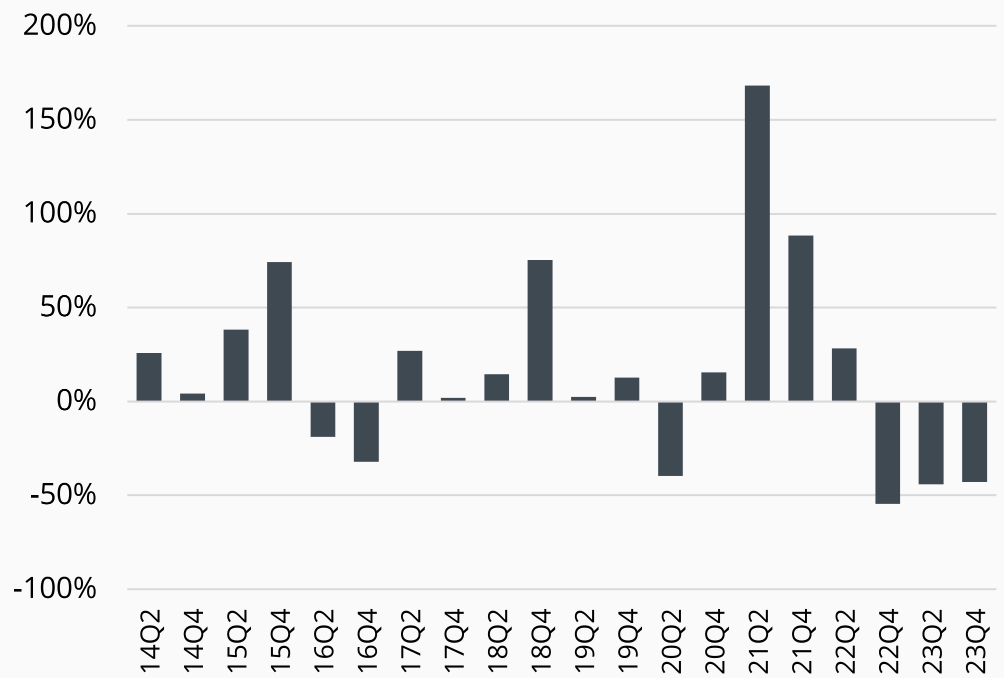


YEAR-OVER-YEAR VOLUME CHANGE



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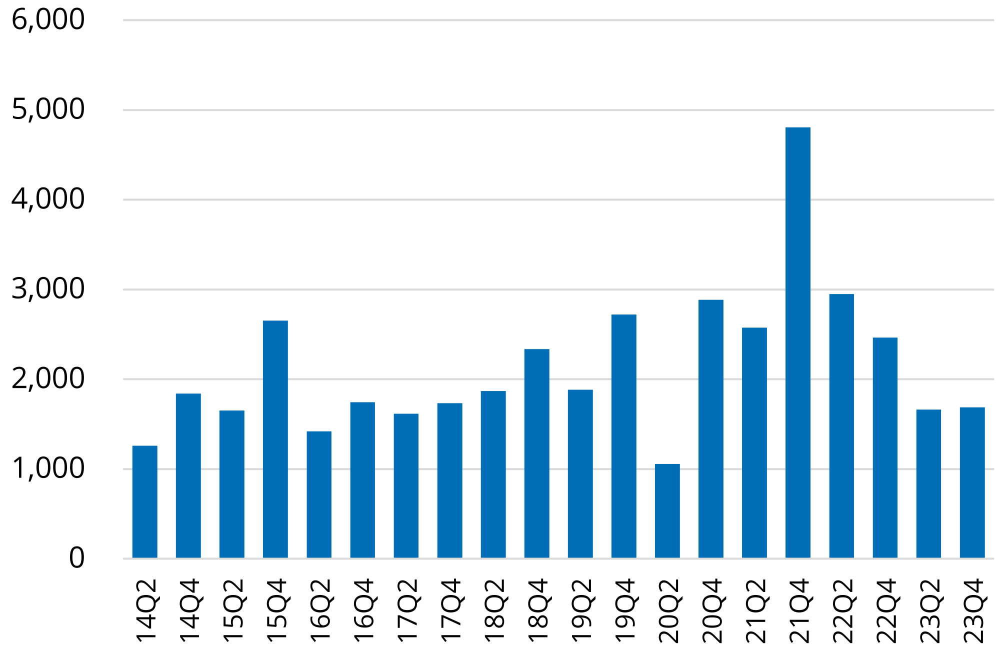

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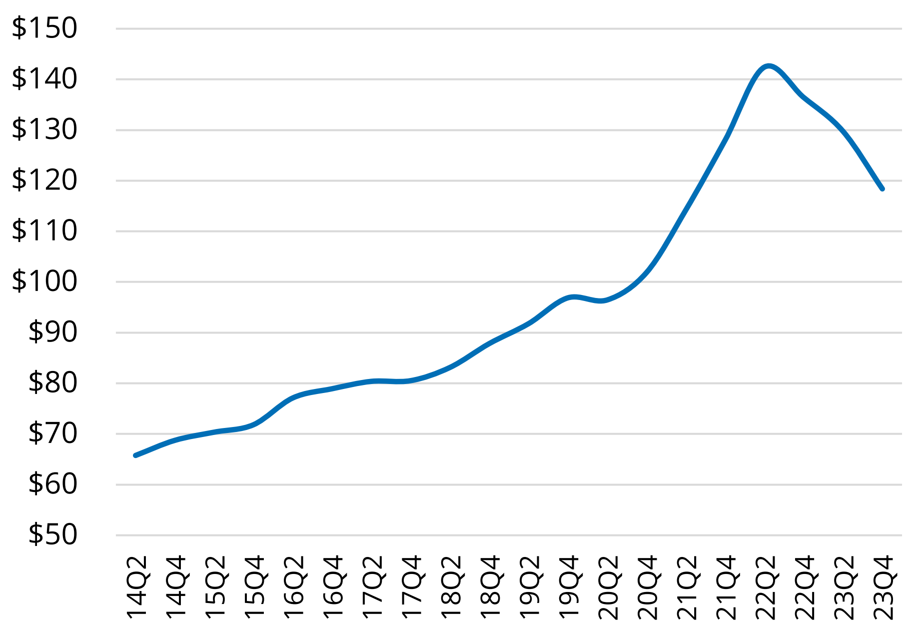
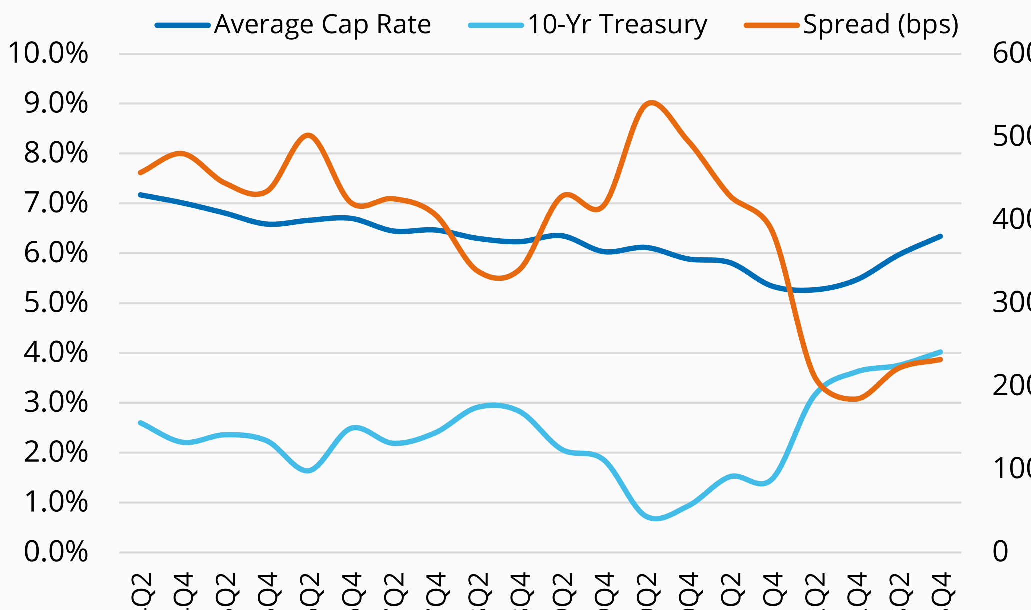


YIELD (CAP RATE)



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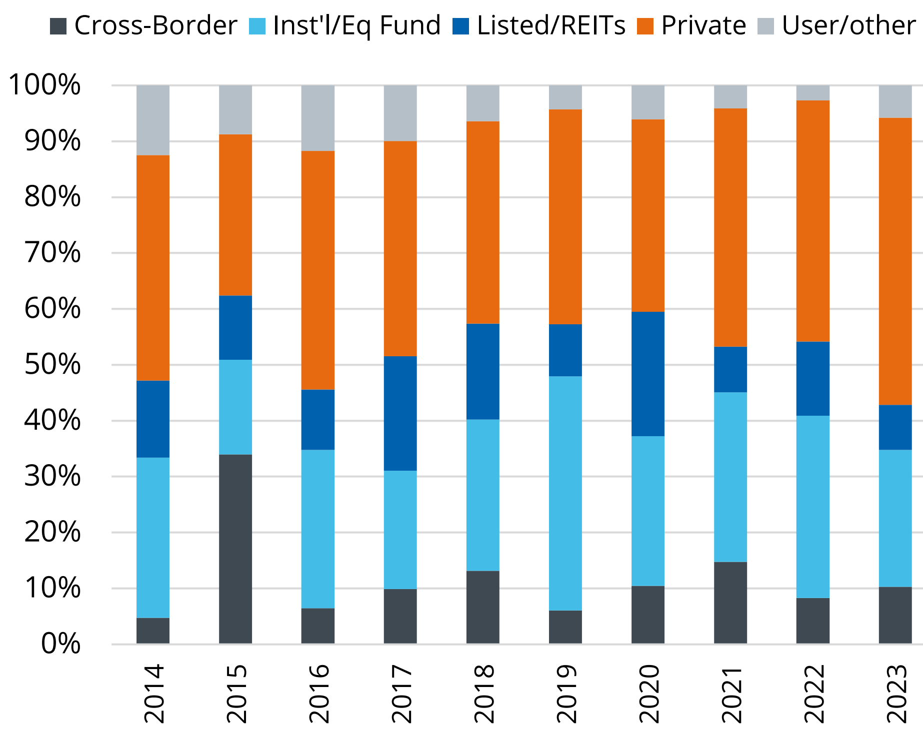

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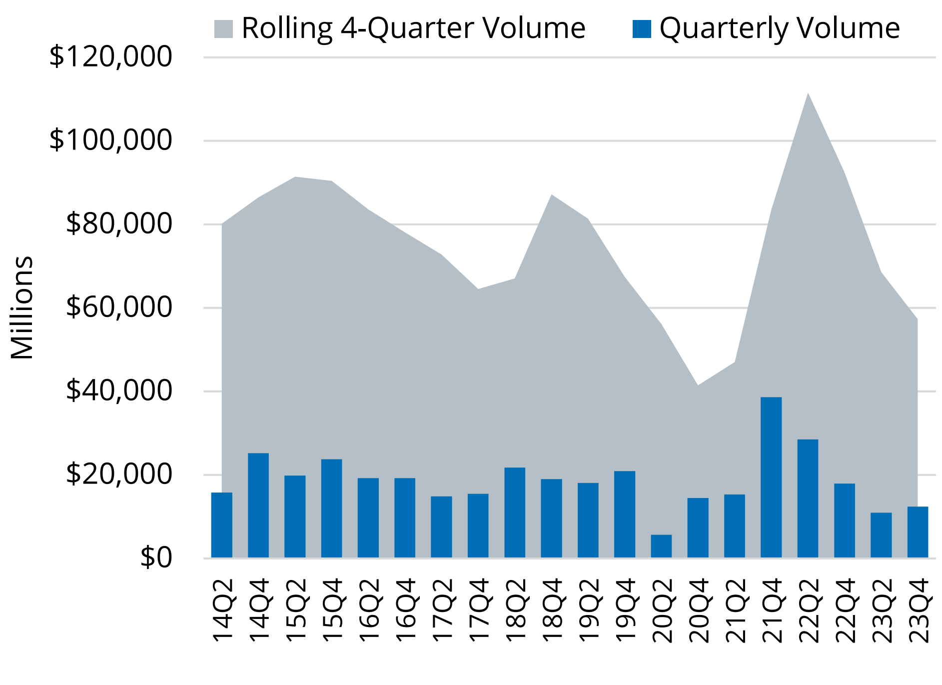
SALES VOLUME



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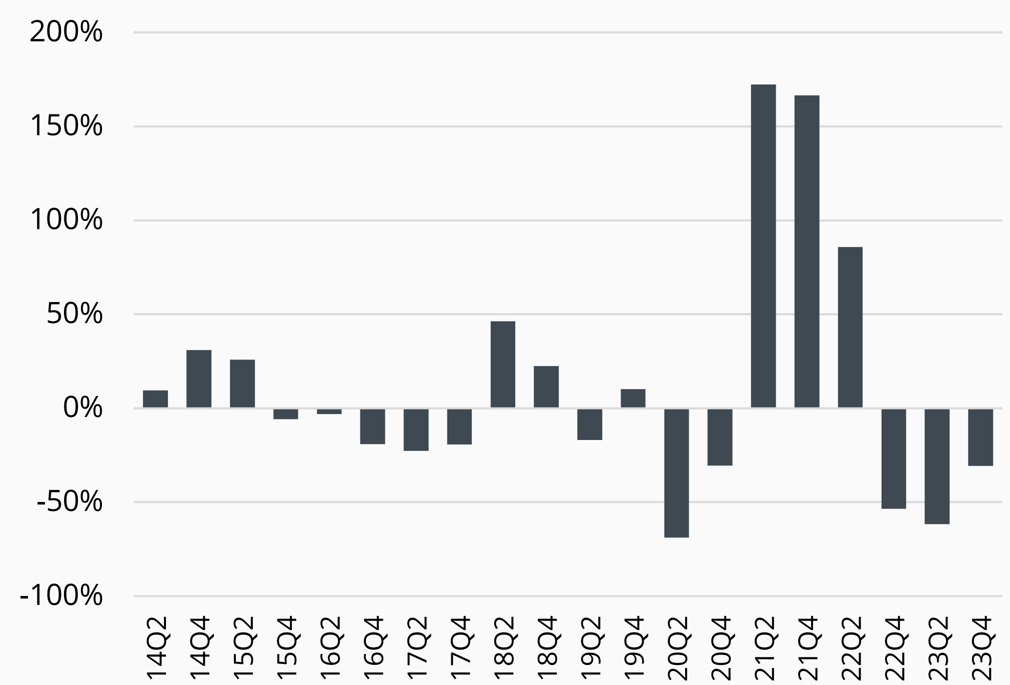

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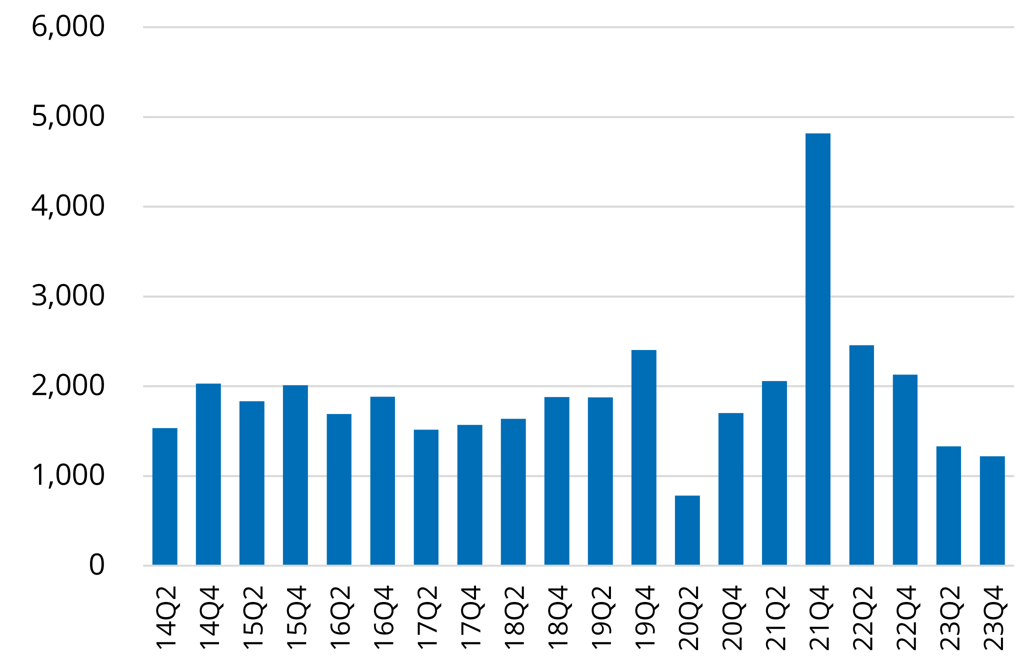

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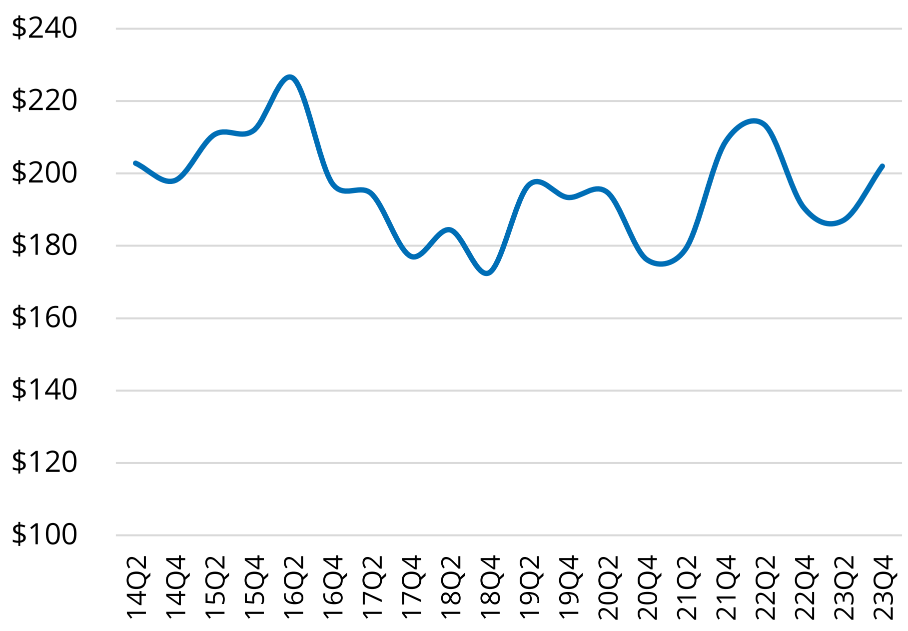
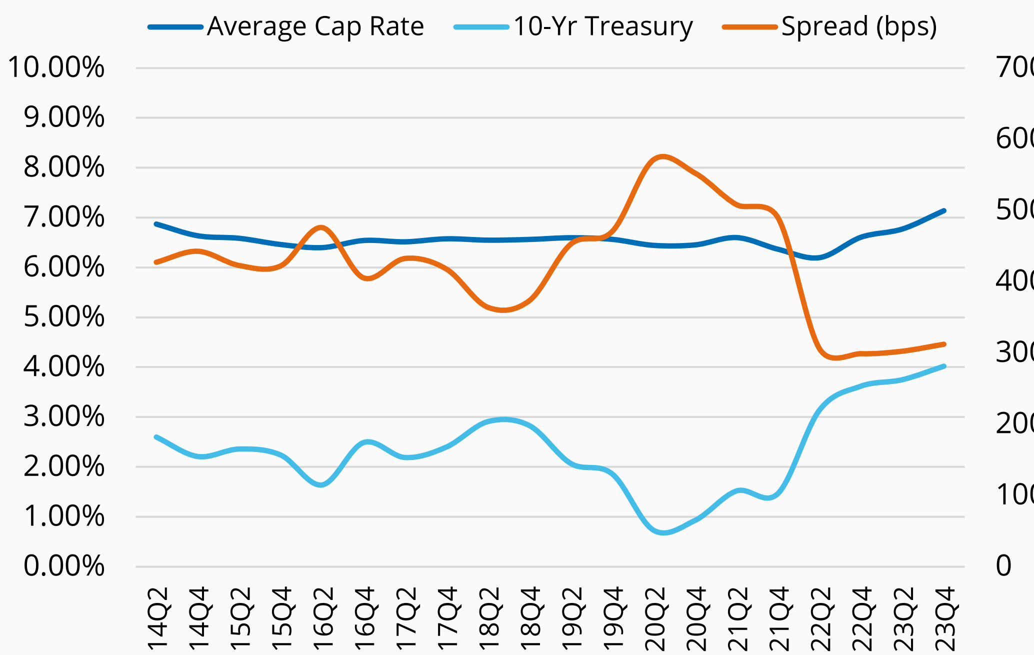


YIELD (CAP RATE)



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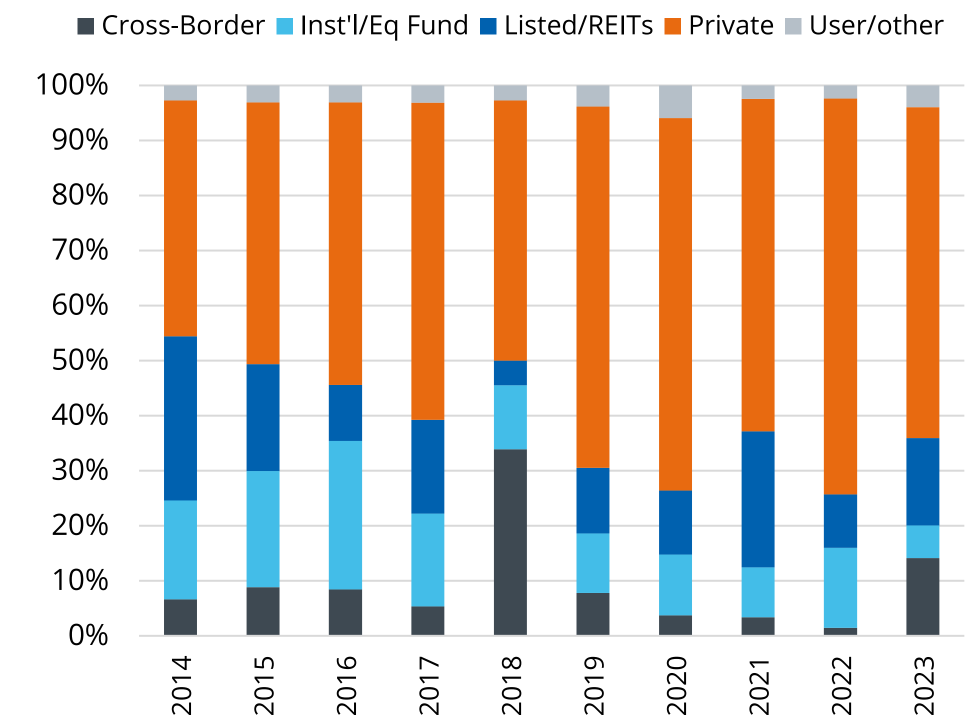

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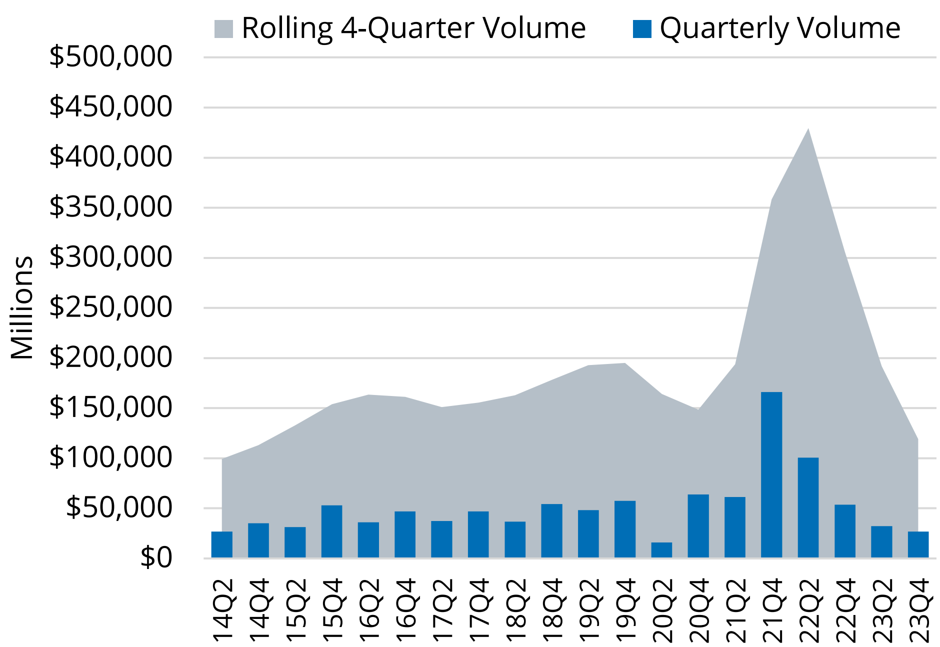
SALES VOLUME



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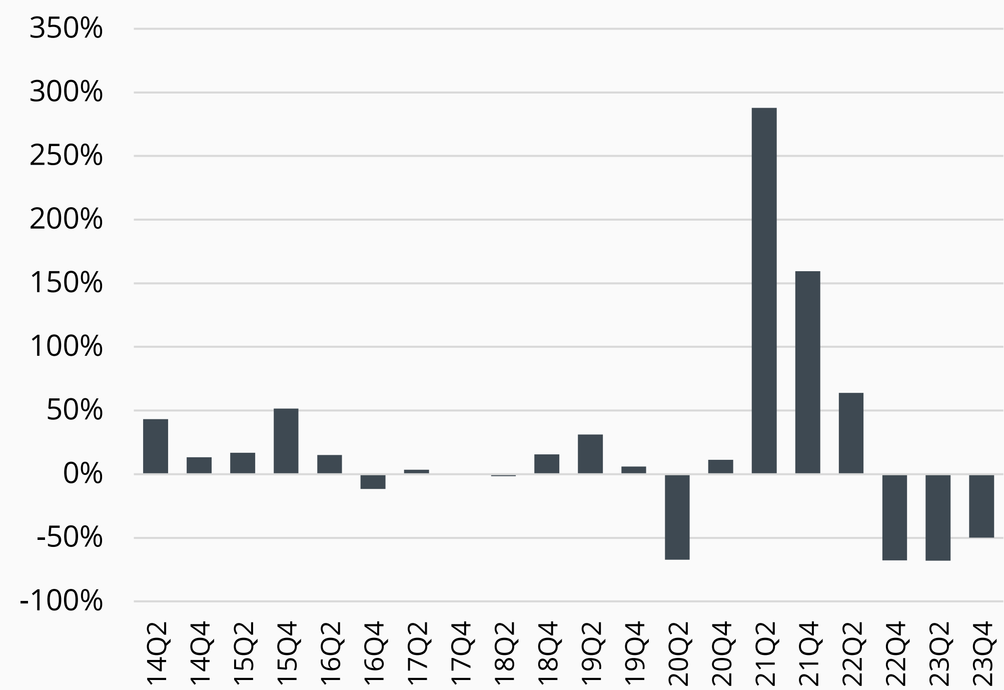

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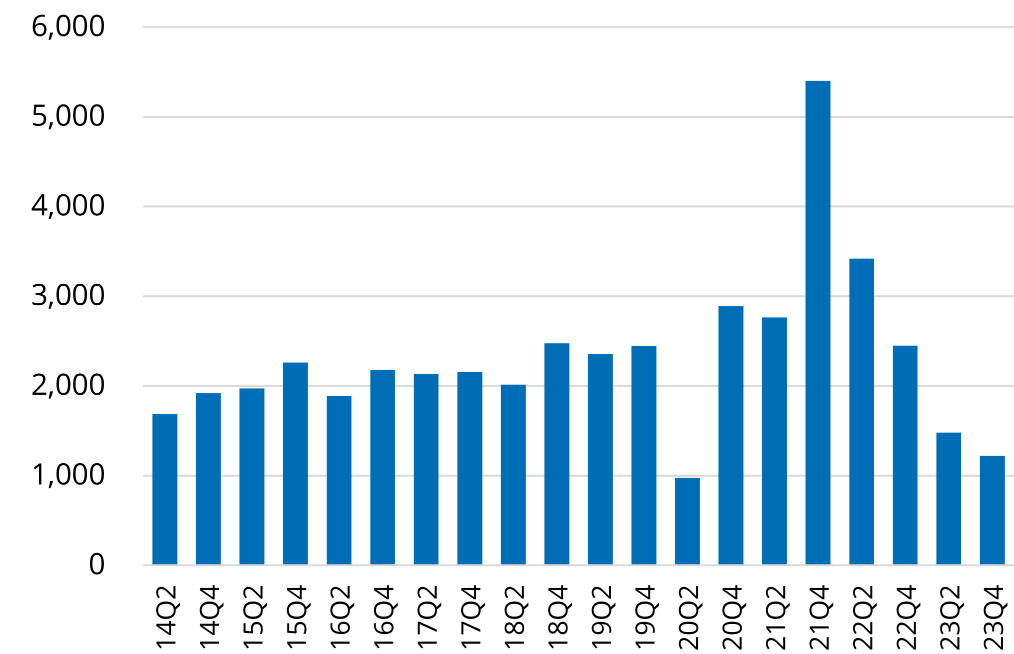

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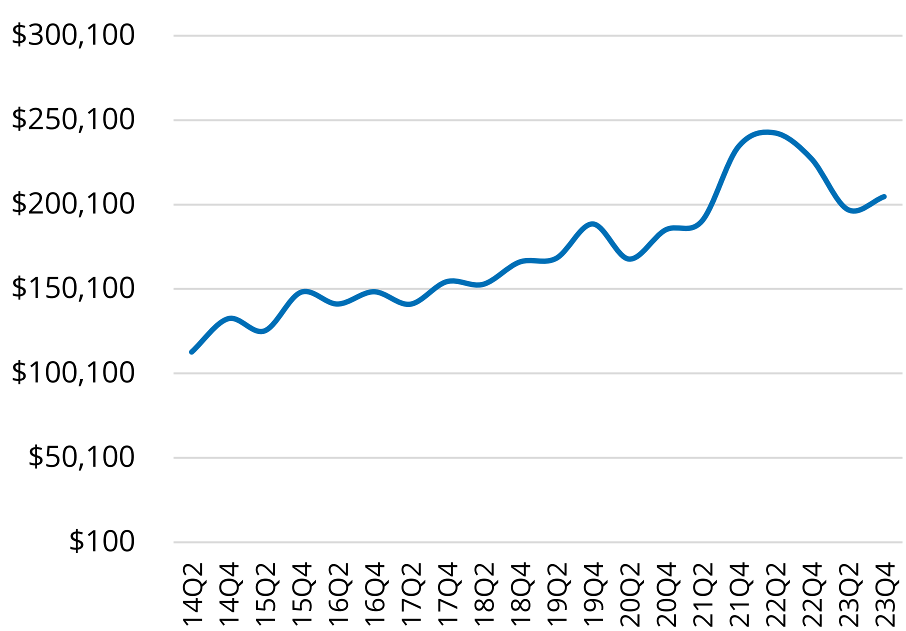
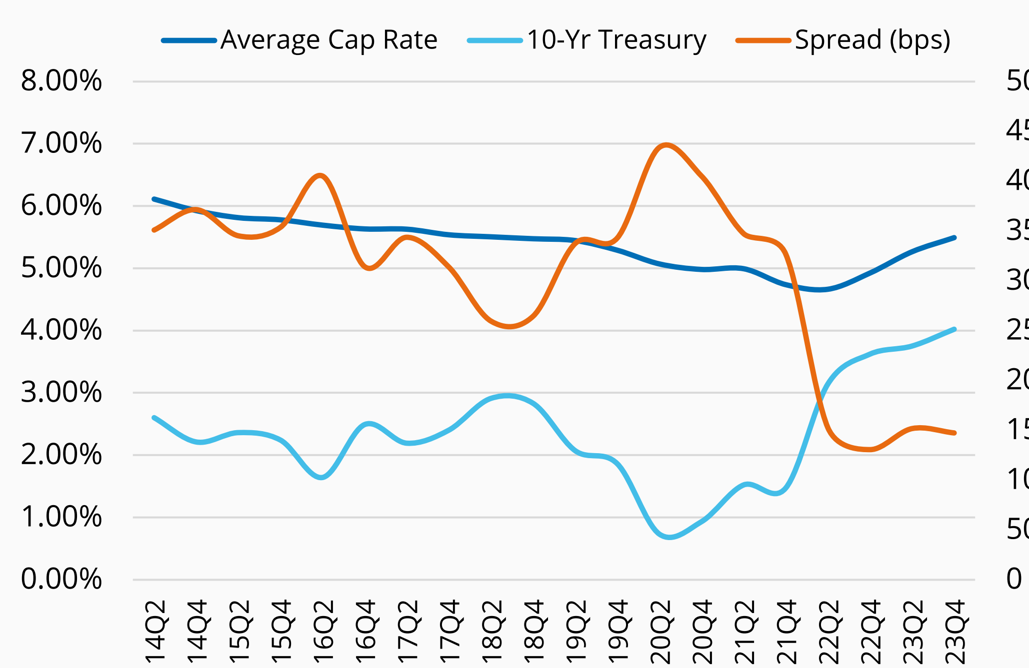


YIELD (CAP RATE)



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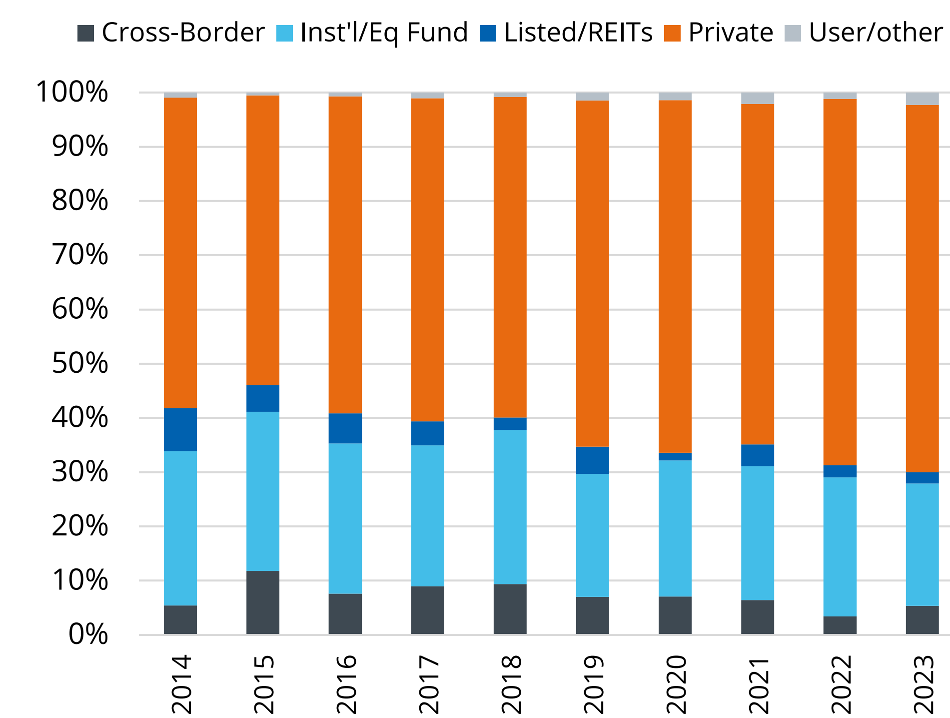

Source: Real Capital Analytics

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ABOUT TRANSWESTERN

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RESEARCH METHODOLOGY

The information and analysis in this report is based on a compilation of commercial real estate investing and transactions data from Real Capital Analytics (RCA) on select property types within the United States.