

Where the Wind is Blowing

State of the Market

Washington DC | June 13, 2023

PRESENTED BY

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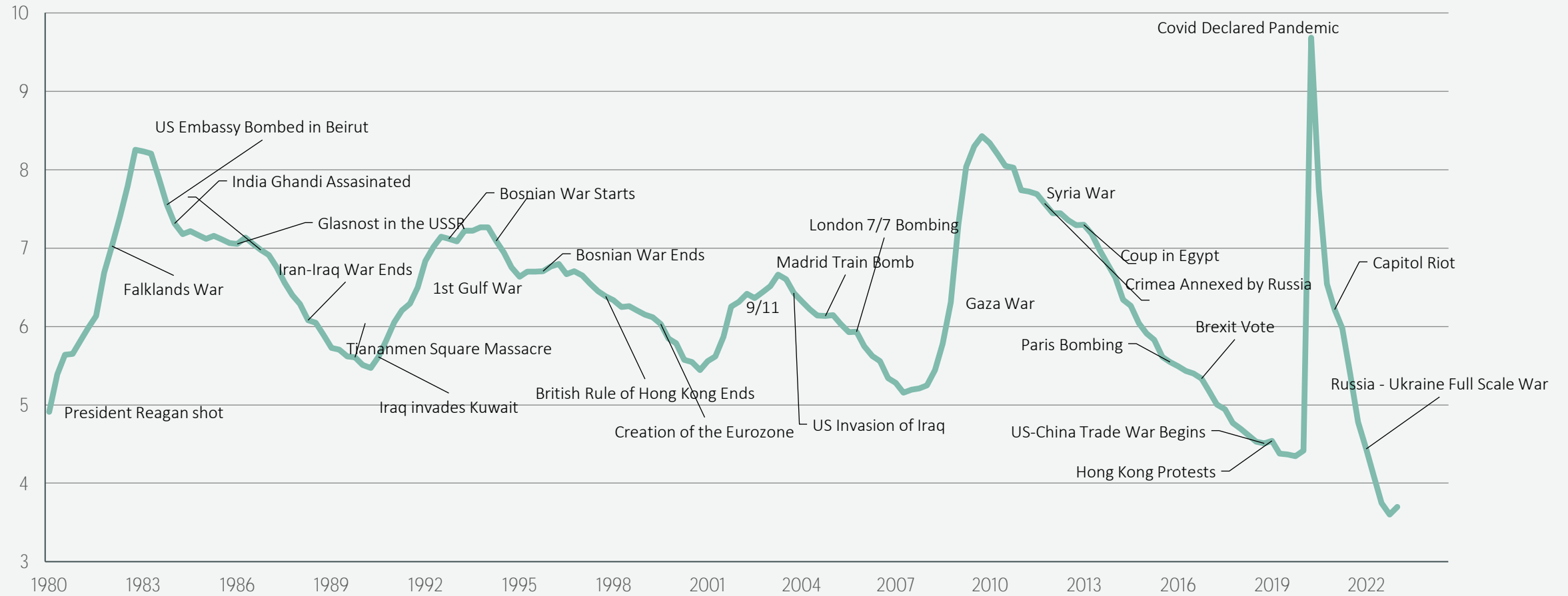






Geopolitics Does Not Typically Derail The Economy

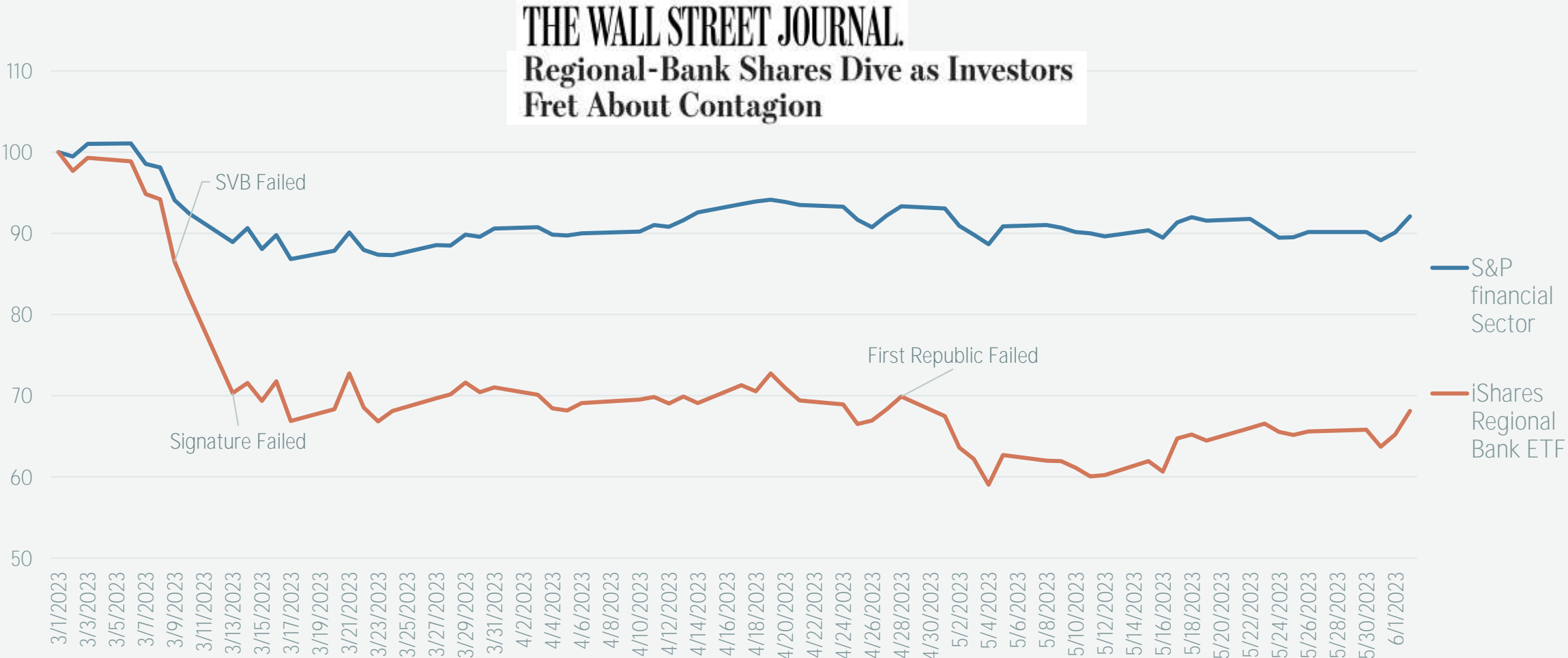
G7 Unemployment % (G7=Canada, US, Japan, UK, France, Italy, Germany)



Source: Eurostat, Wikipedia, CBRE Research, Q2 2022

Regional banks remain under pressure

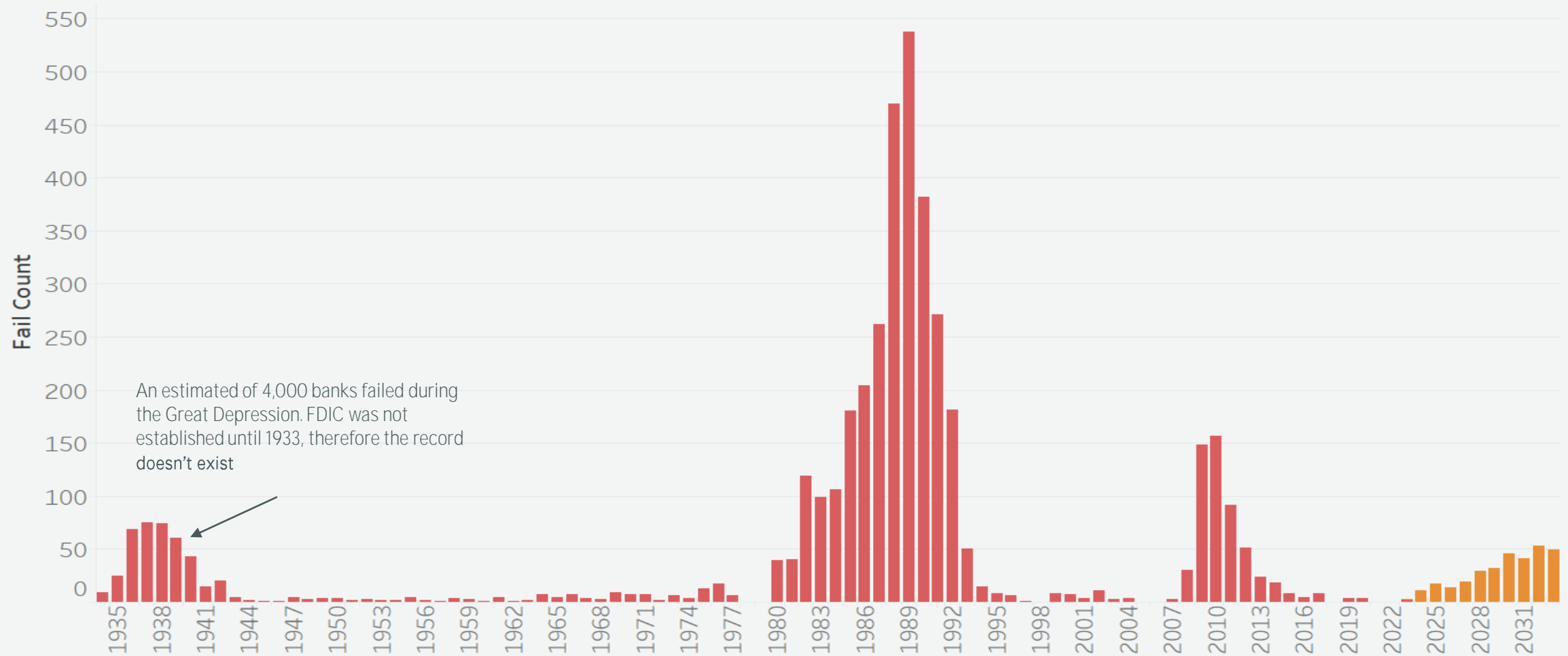
Stock Index (March 2023=100)



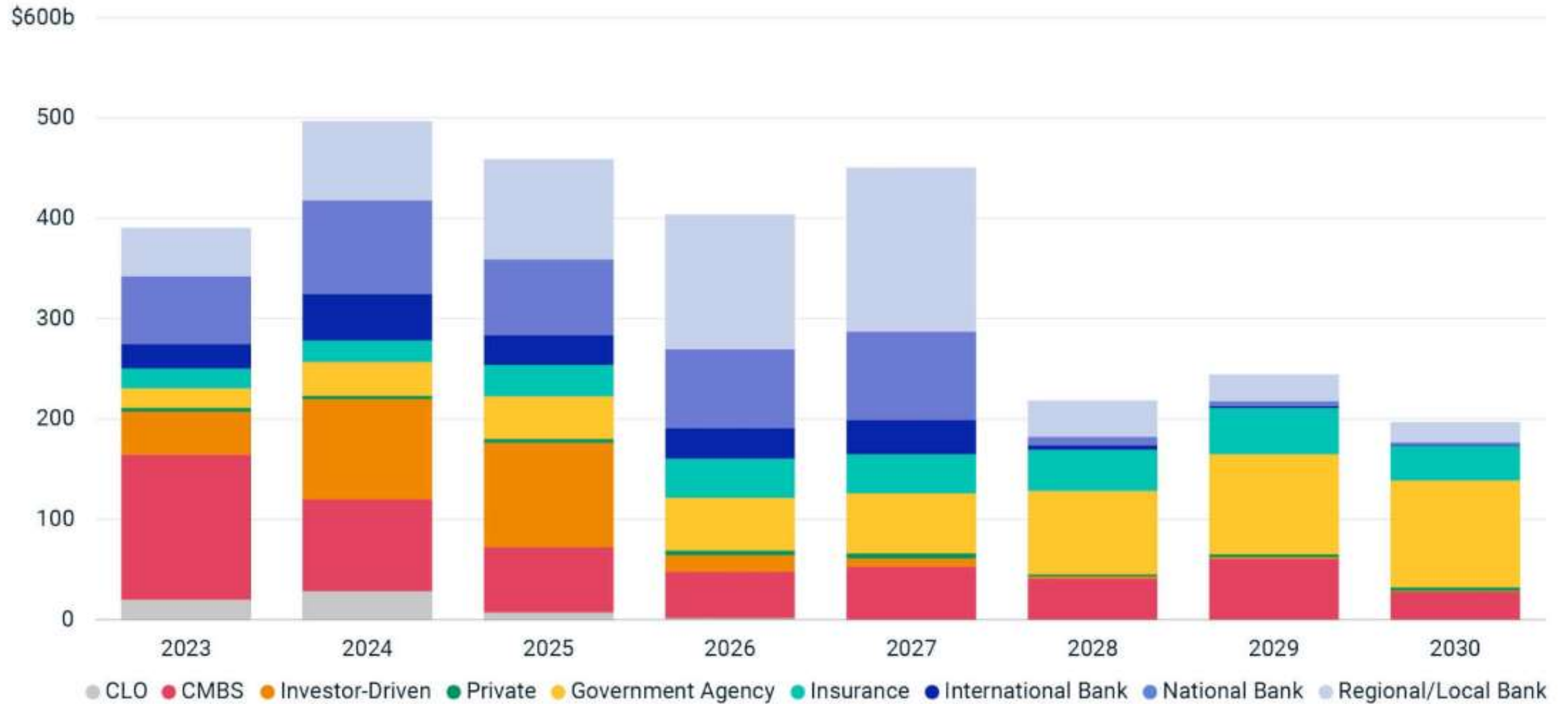
Source: Macrobond, CBRE Research Q2 2023

Our analysis - 311 banks to fail, roughly the equivalent of 3 SVBs

Bank Failures (Number of Banks)

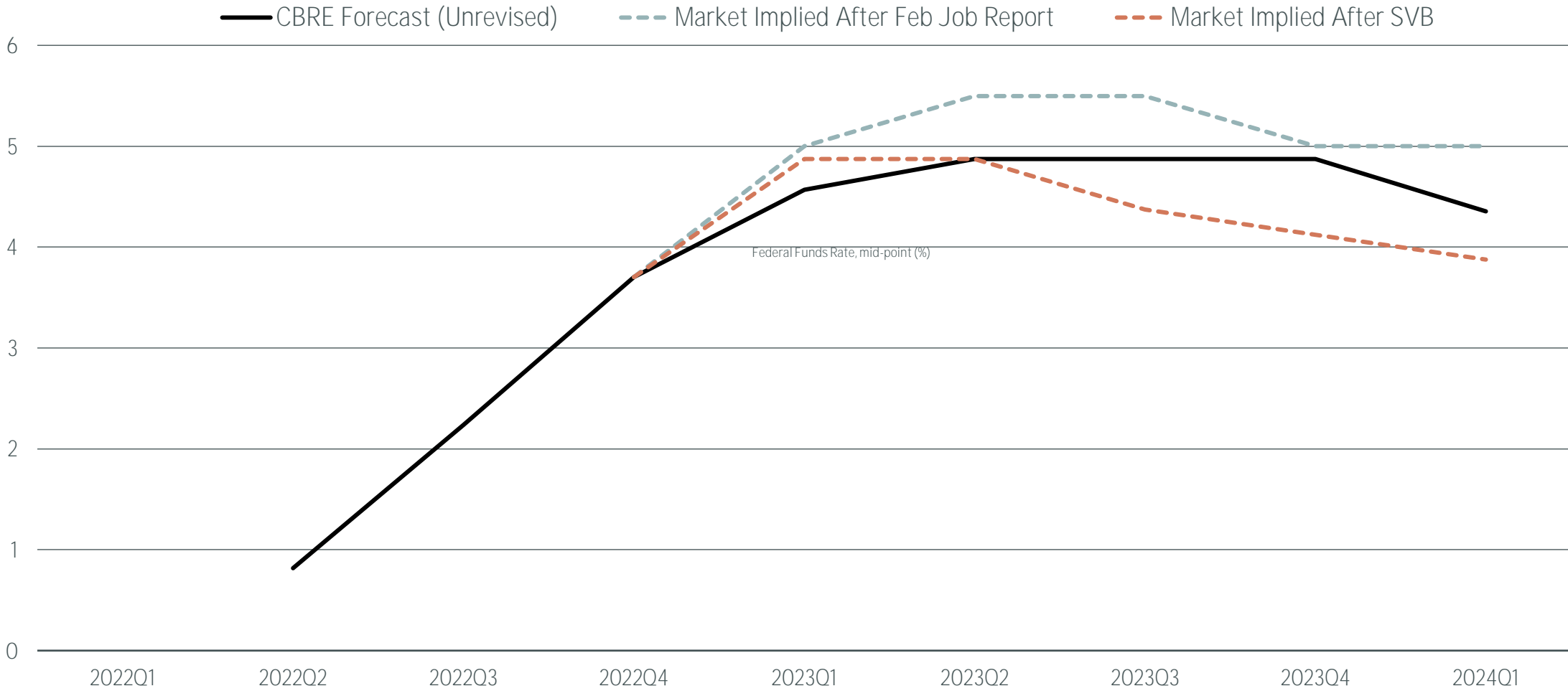


Volume of maturing commercial property loans by lender type



Source: MSCI, CBRE Research Q2 2023

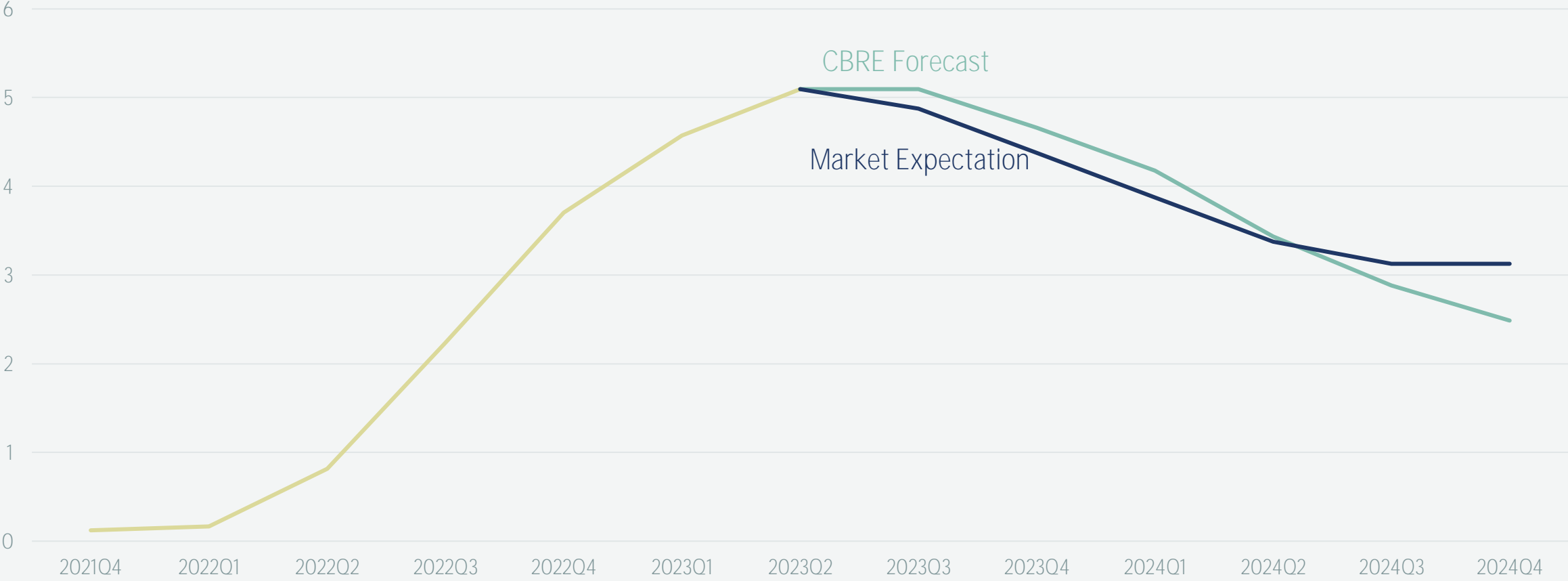
Our Fed Funds Forecast May Need to be Updated



Source: BLS, CBRE Research Q1 2023.

Market thinks that rates have peaked

Short Term Policy Rate, mid-point (%)



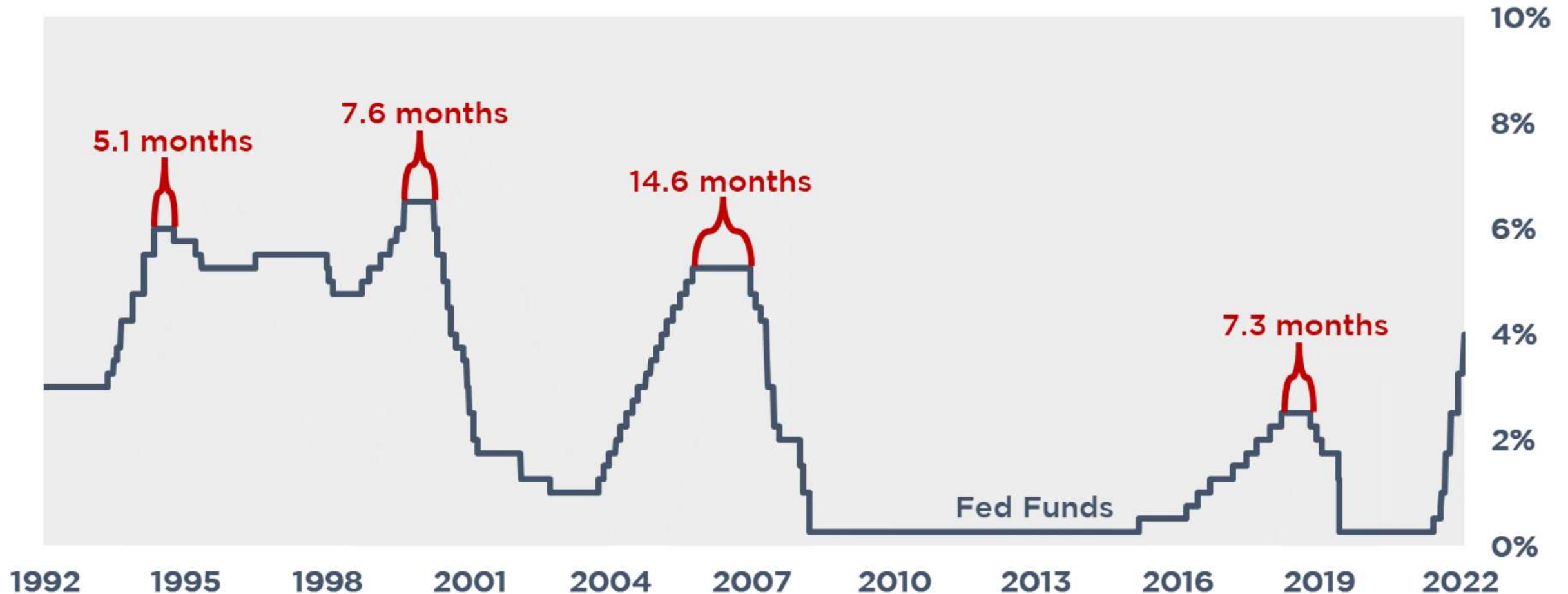
Source: CBRE Research, Q1 2023

Time Until Next Cut - From Last Hike

In the last four tightening cycles, the time between the *last* hike and first cut...

- Averaged 8.7 months
- Never exceeded 14.6 months

Source: Pensford Capital



But central banks leave room for further rate rises



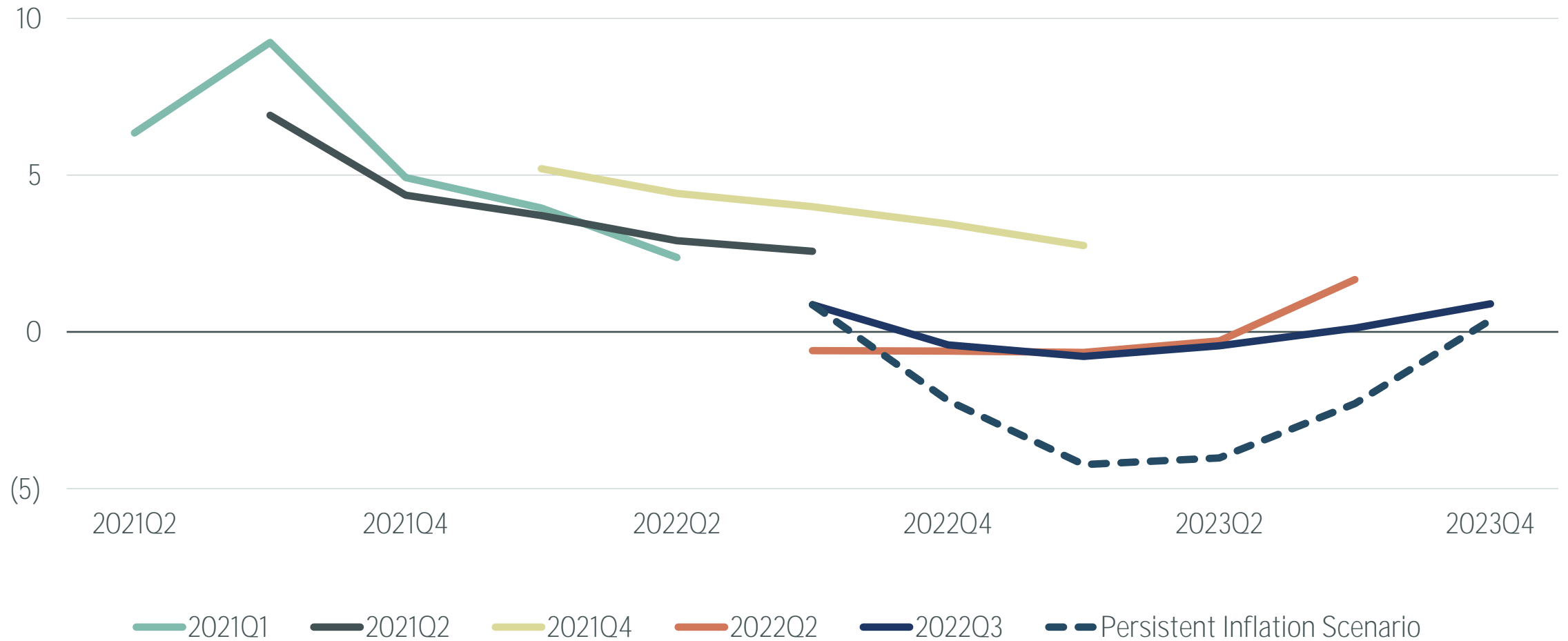
“...we are prepared to do more if greater monetary policy restraint is warranted.”



“We have more ground to cover and we are not pausing, that is extremely clear,”

We expect a Mild Recession in 2023

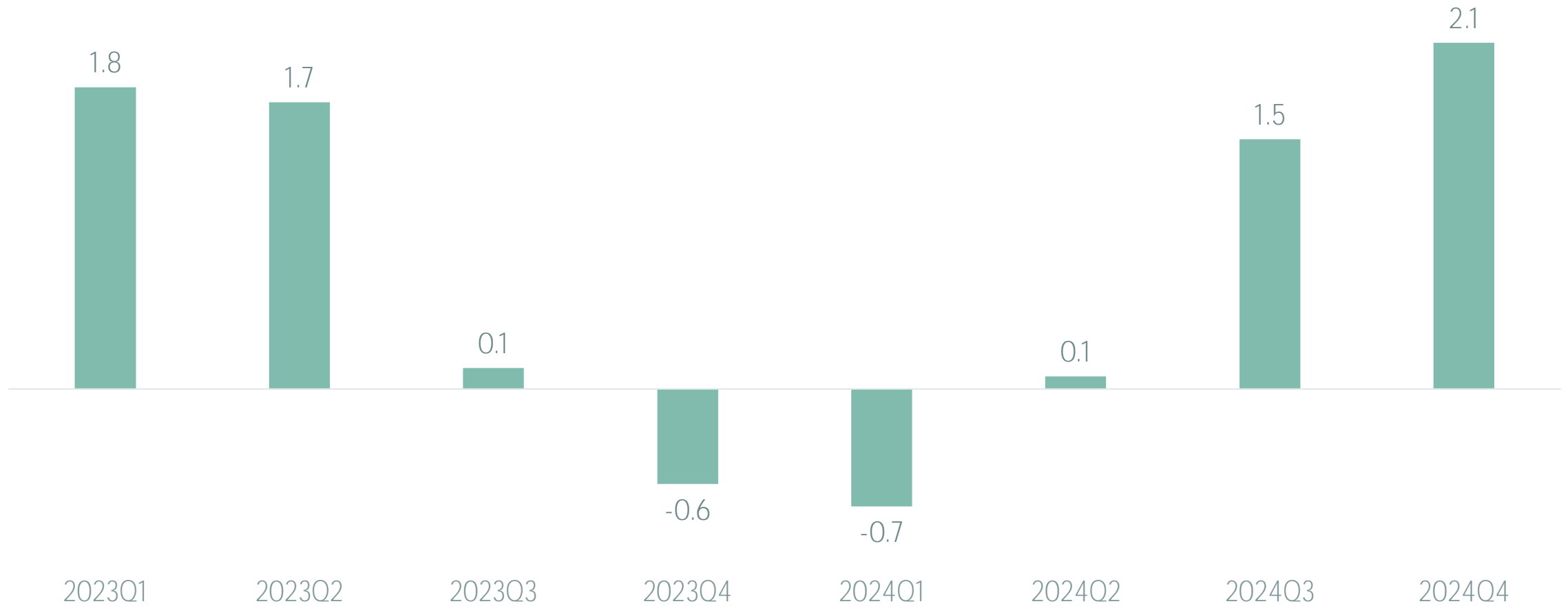
GDP, Y-o-Y Change (%) Across Forecast Vintages & Current Scenarios



Source: CBRE Econometric Advisors

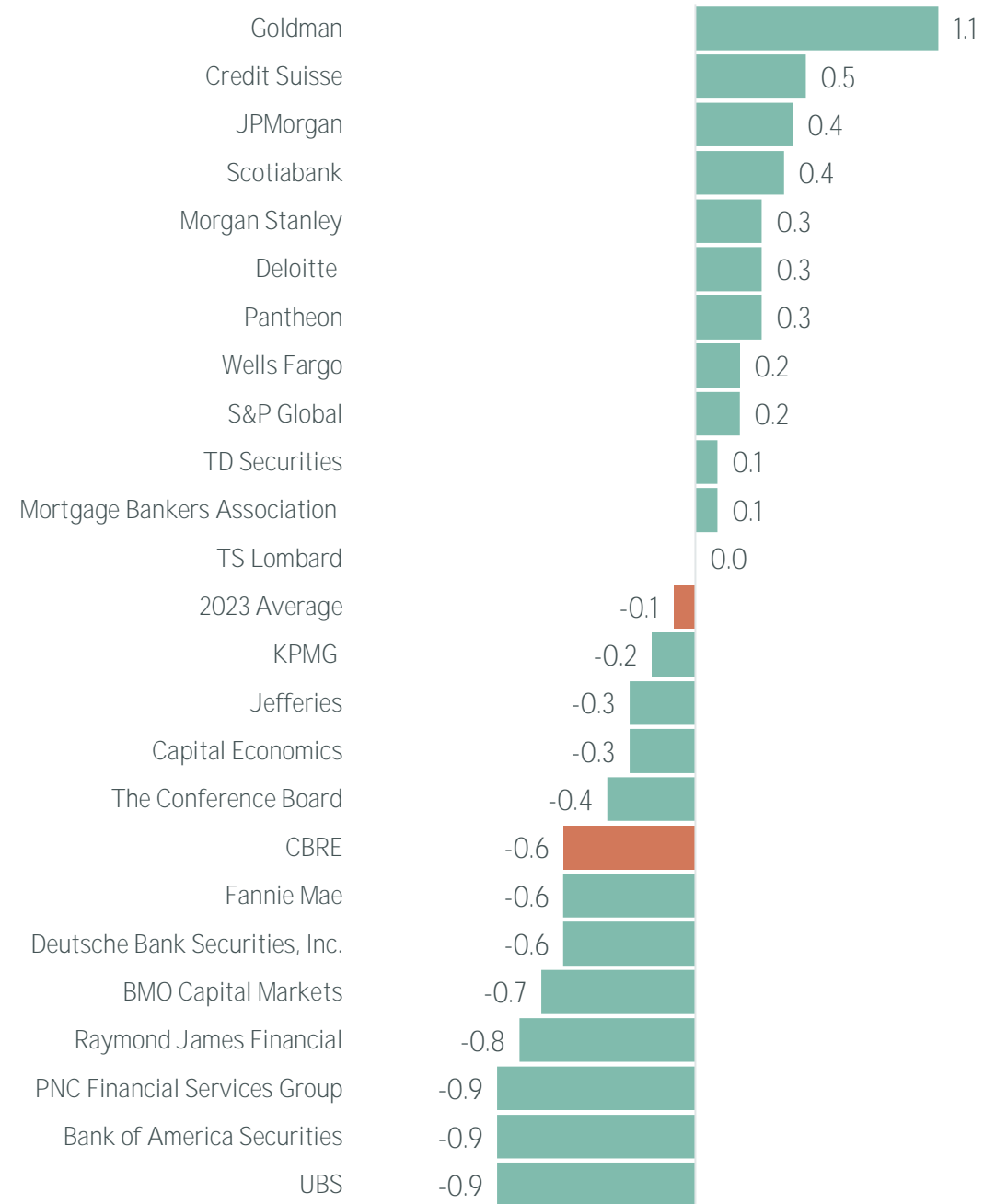
Mild recession late 2023

Y-o-Y GDP Growth (%)



2023 GDP Expectations

Q4 2023 over Q4 2022 GDP Growth (%)



Latest Forecasts

CPI (Q4)						
Geography	2021	2022	2023	2024	2025	2026
US	6.8	7.1	4.1	2.6	2.2	2.2
Euro Area	4.6	9.9	2.8	1.9	1.5	2.0

Latest Forecasts

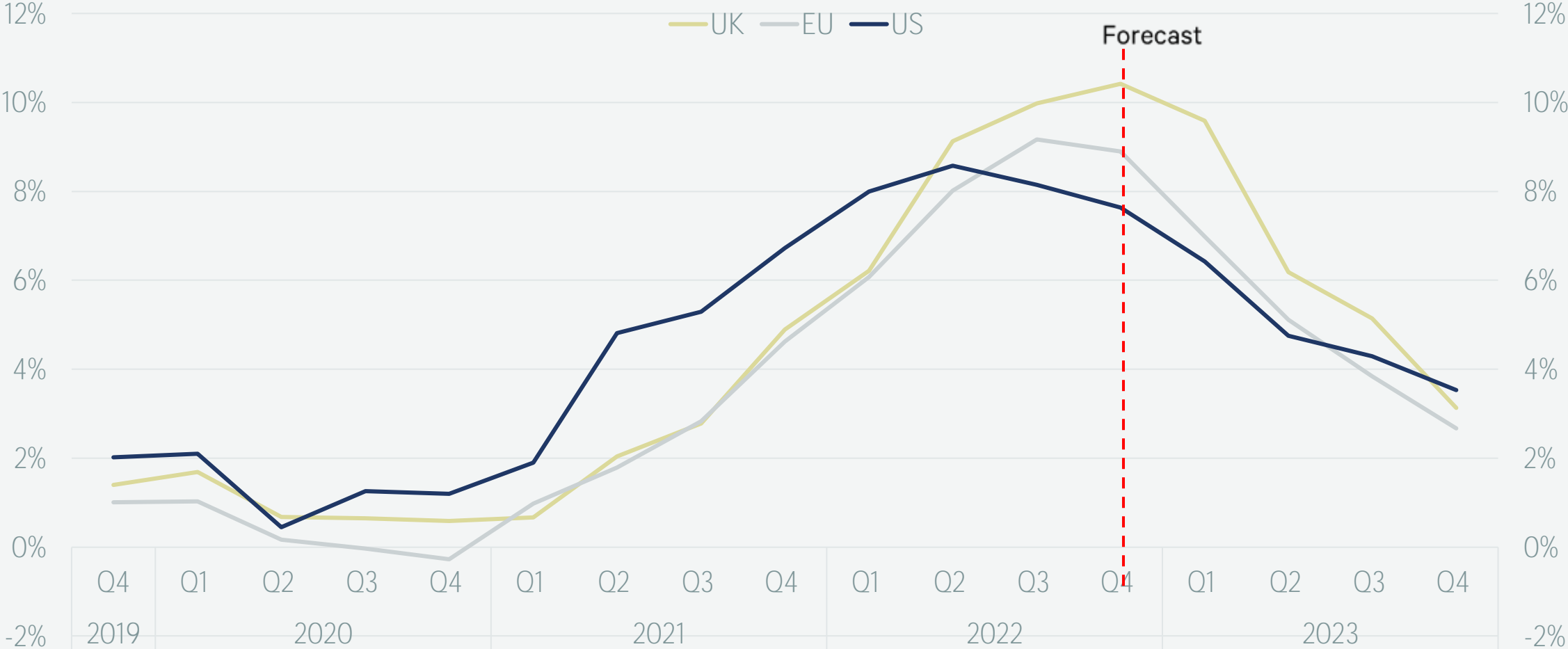
Short-term Interest Rates (3-mo)

Geography	2021	2022	2023	2024	2025	2026
US	0.13	3.70	4.66	2.41	1.72	1.84
UK	0.13	2.83	4.75	3.34	2.72	2.66
EU	0.00	1.81	4.25	3.24	2.42	2.08

CBRE Econometric Advisors, March 2023

Inflation Continue to Ease

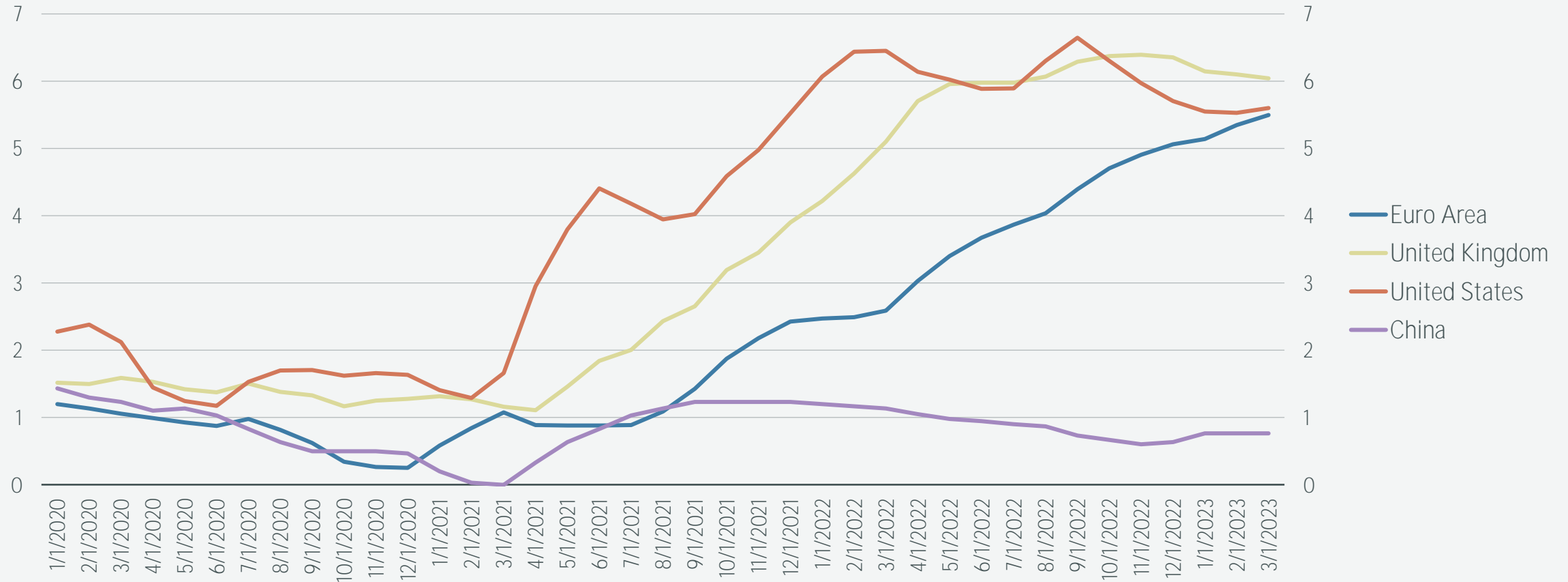
Y-o-Y Inflation Rate (%), Quarterly



Source: OECD, CBRE Research, Q4 2022

Core inflation proving very stubborn

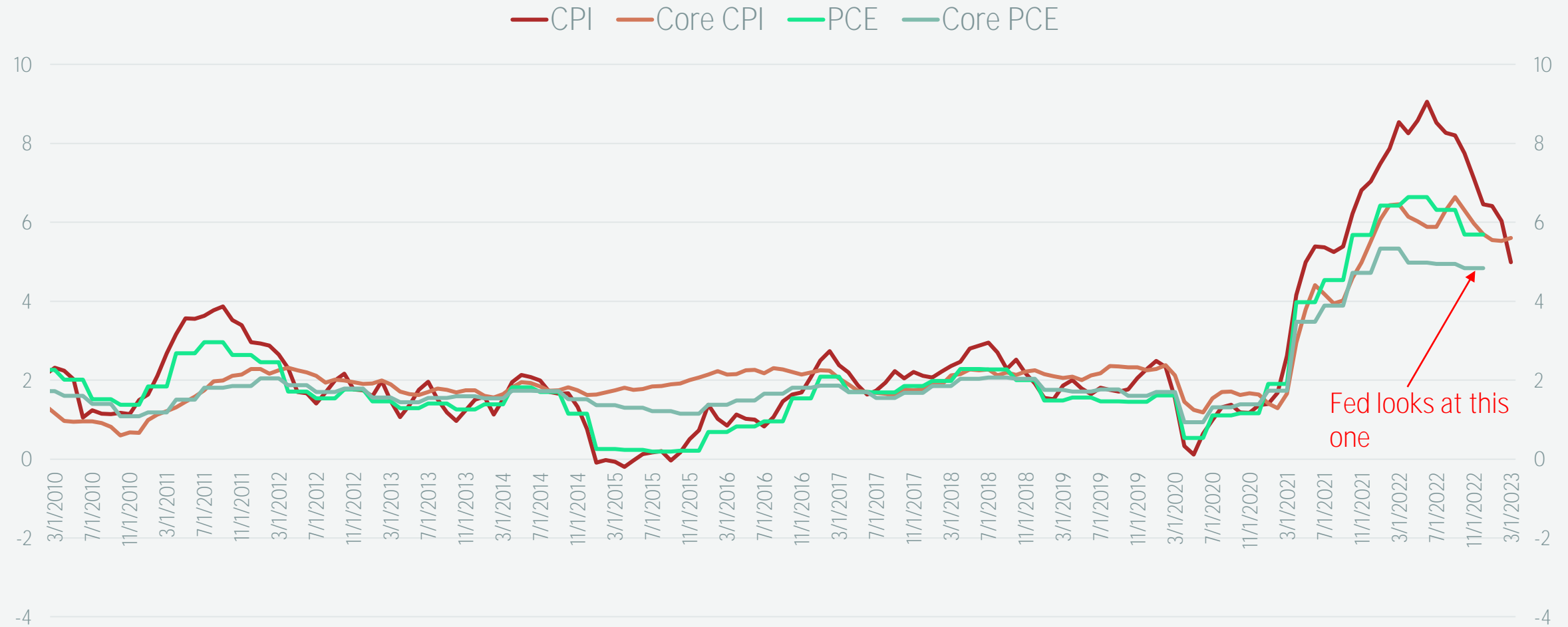
Inflation ex. food and energy (y-o-y%)



Note: The series are seasonally adjusted
Source: Macrobond, CBRE Research, Q2 2023

Core Inflation Proving Very Sticky

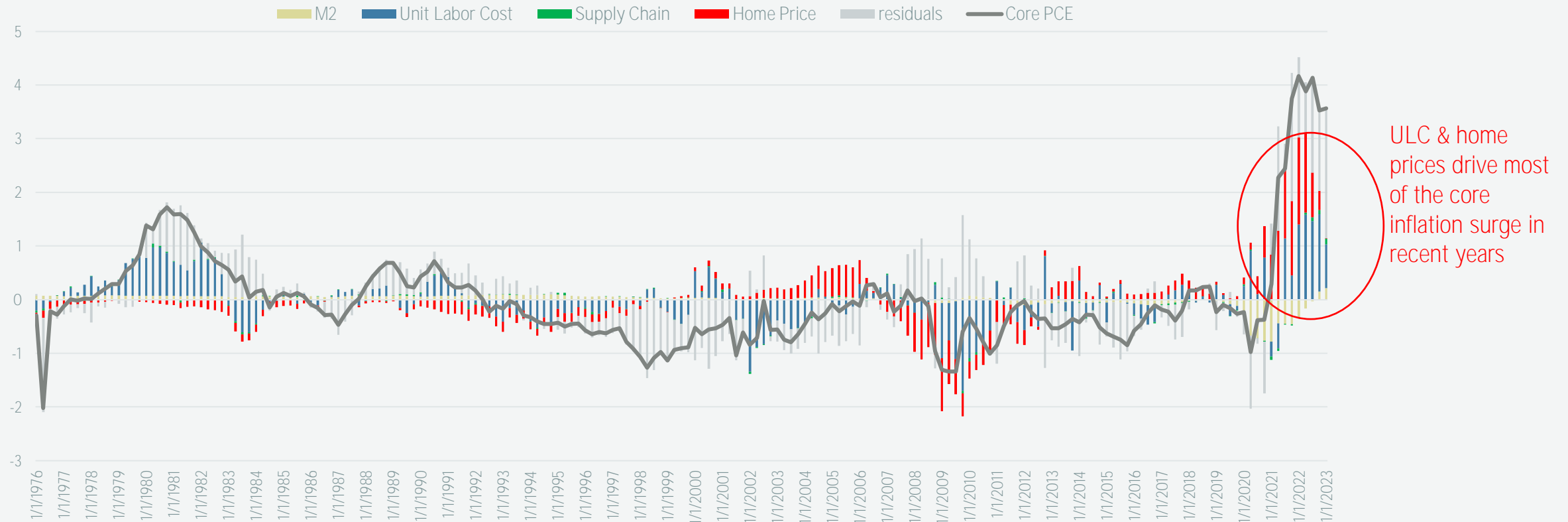
PCE/CPI Inflation (Y-o-Y)



Source: BLS, BEA CBRE Research, Q2 2023.

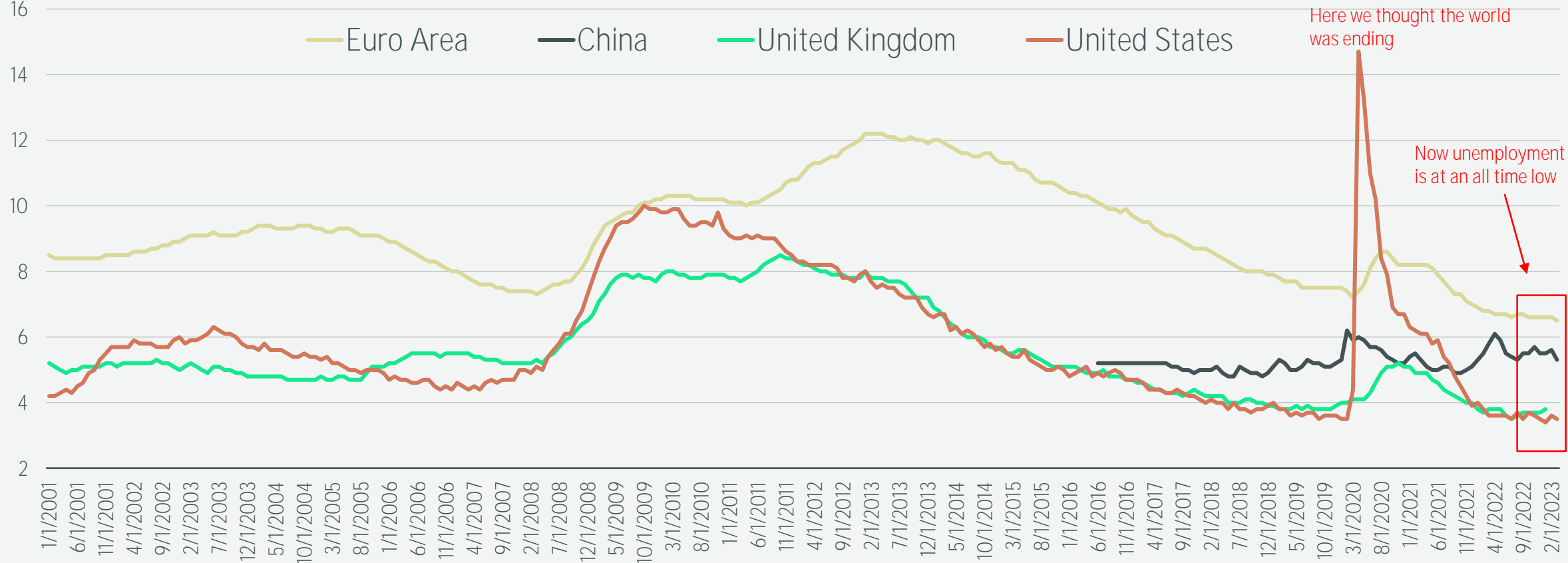
Home prices and labor costs dominant in the US

Decomposition of core PCE (y-o-y, deviation from Mean)



Uber tight labor market remain in place

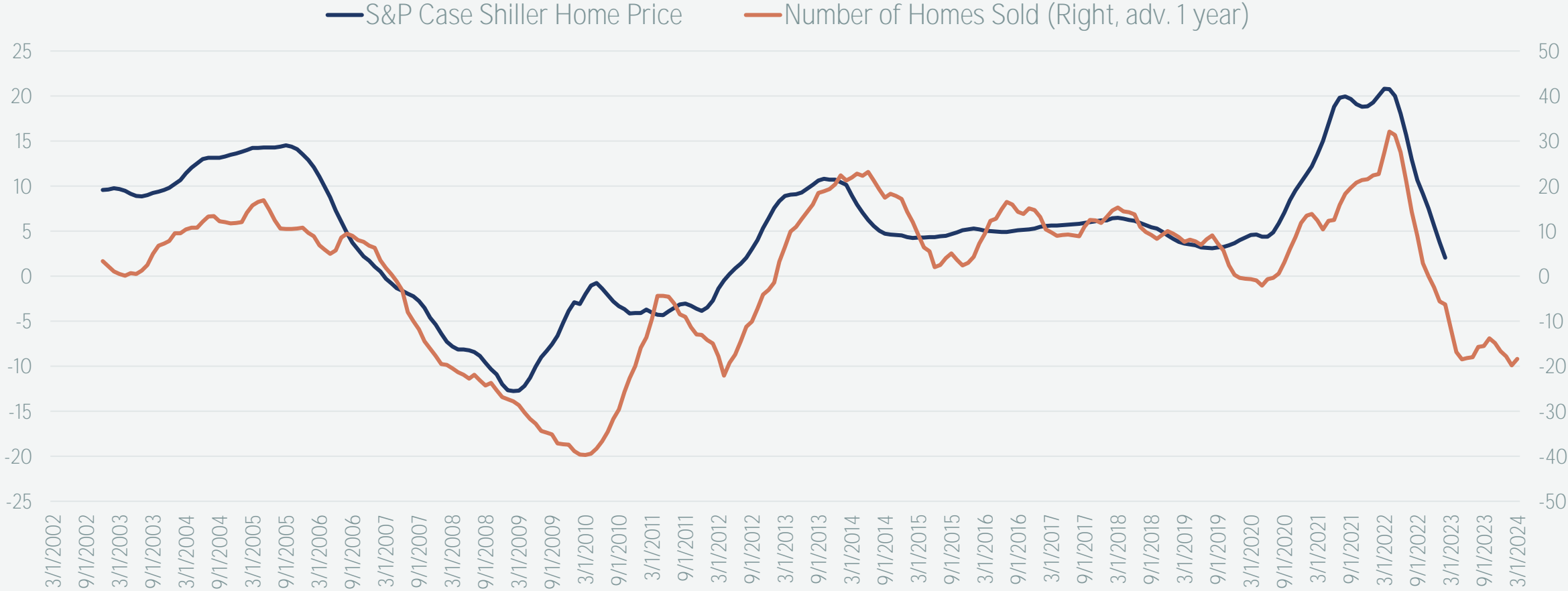
Unemployment Rate (%)



Source: Macrobond, CBRE Research, Q1 2023

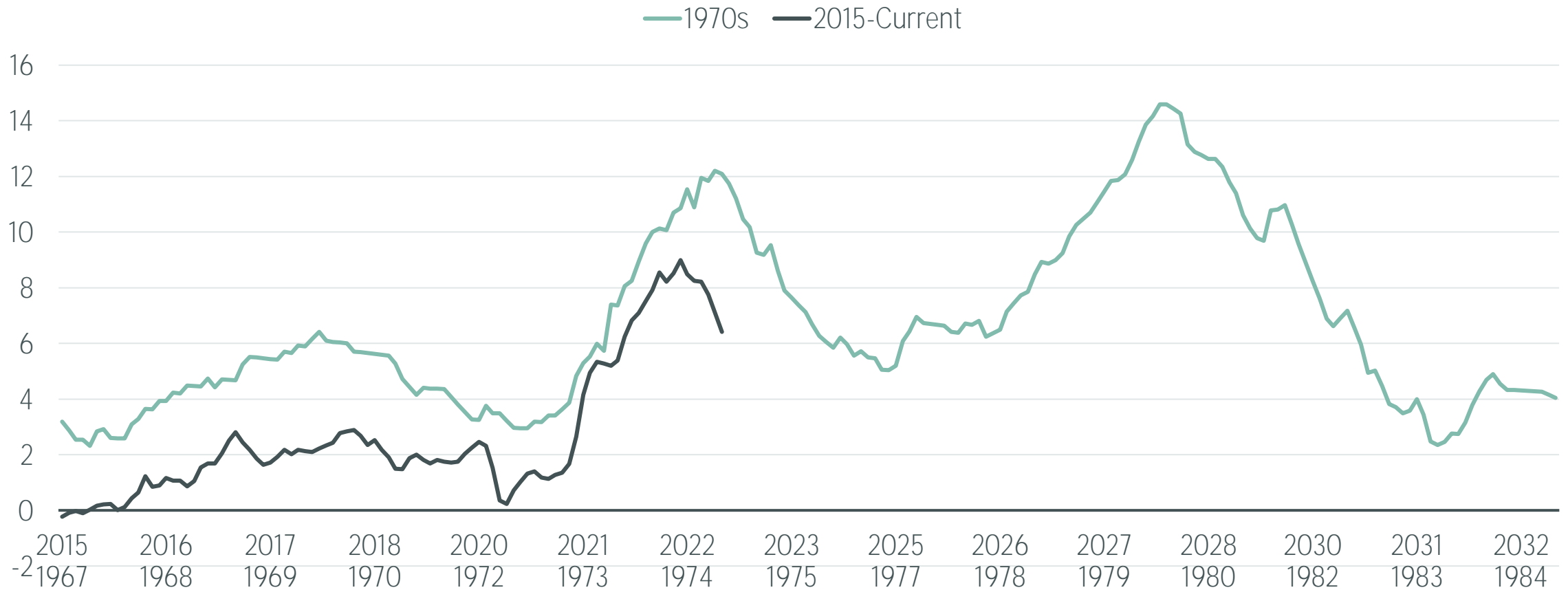
Home price falls will reduce core inflation in the near term

Y-o-Y Growth (%)



Source: S&P, Zillow, CBRE Research, Q2 2023

The Fed Doesn't Want to Repeat the 1970s



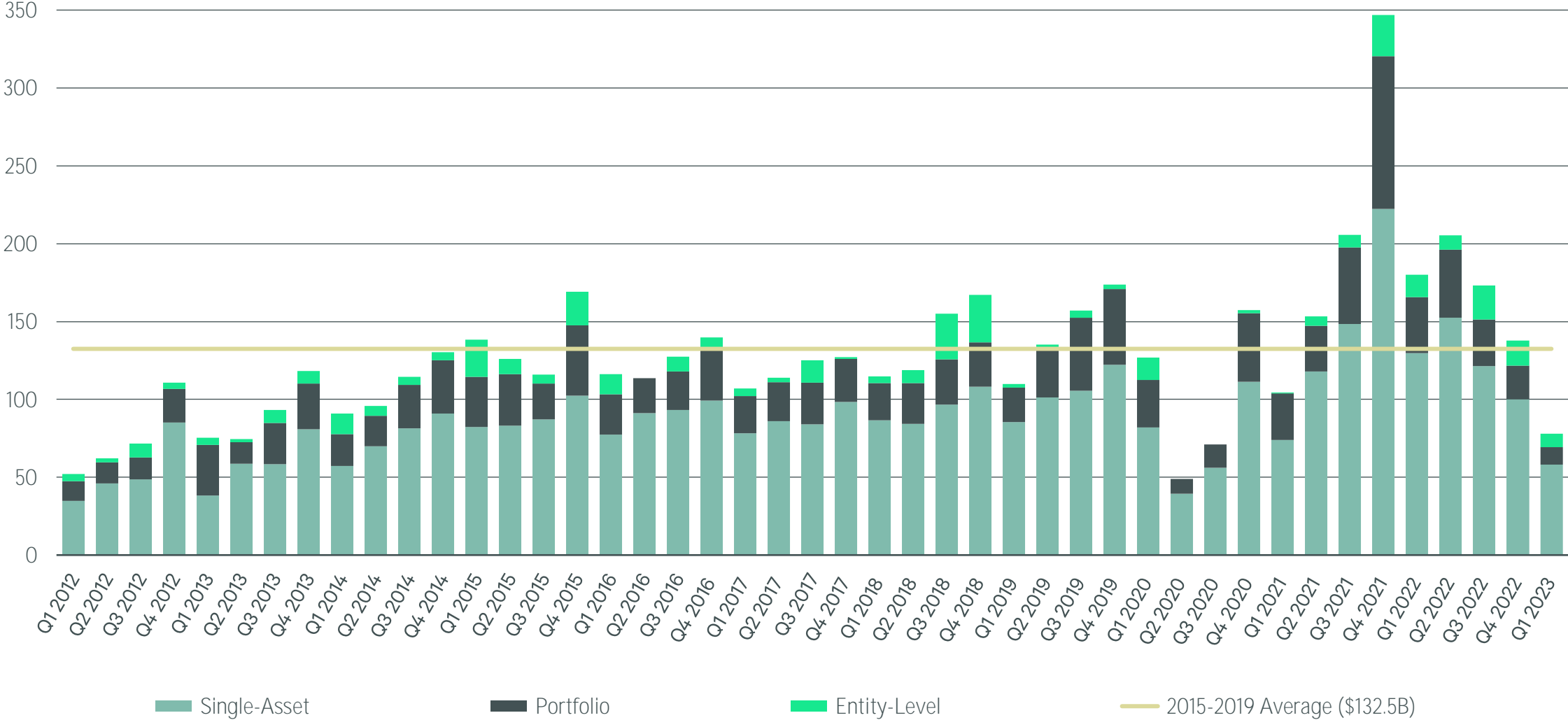
Source: Federal Reserve, CME, CBRE Research, Q4 2022.



Lenders & Borrowers

Commercial real estate investment volume

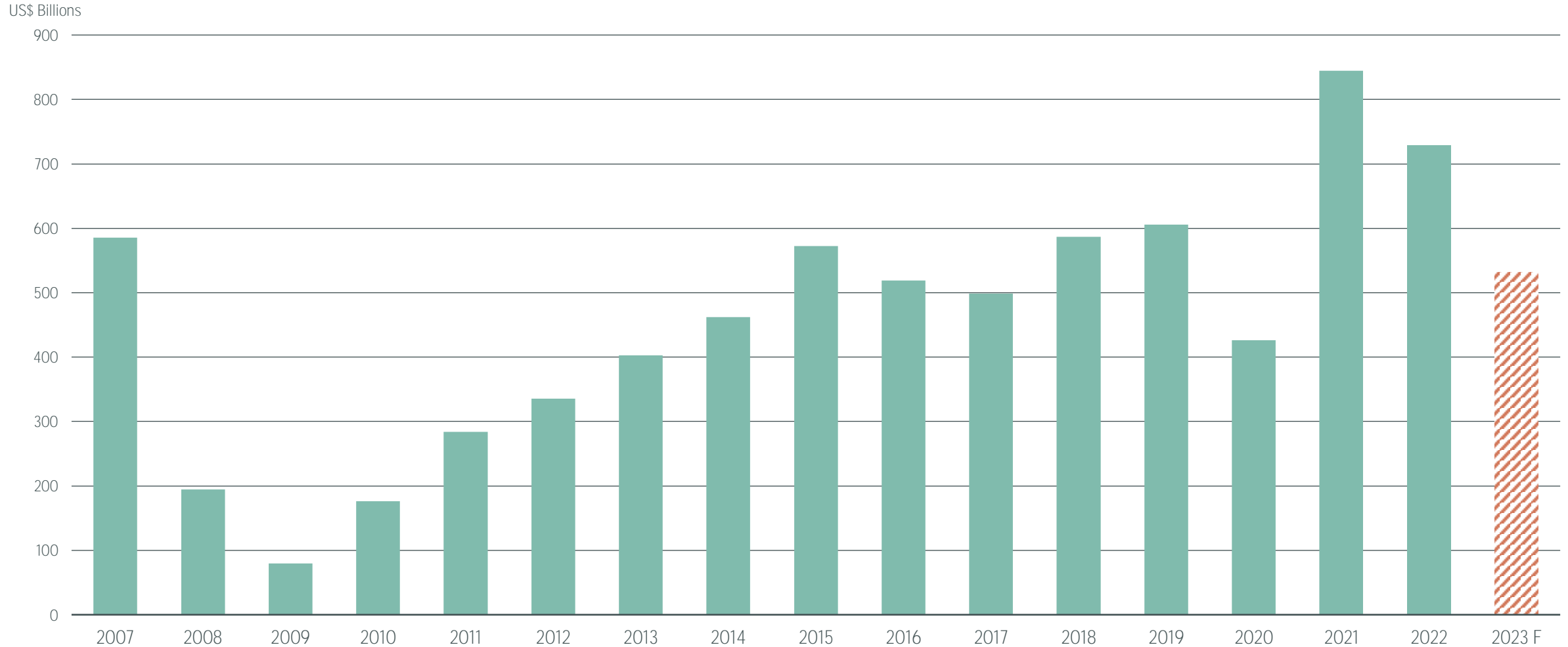
Investment Volume (\$ Billions)



Note: Volume excludes development site transactions.
Source: CBRE Research, MSCI Real Assets, Q1 2023.

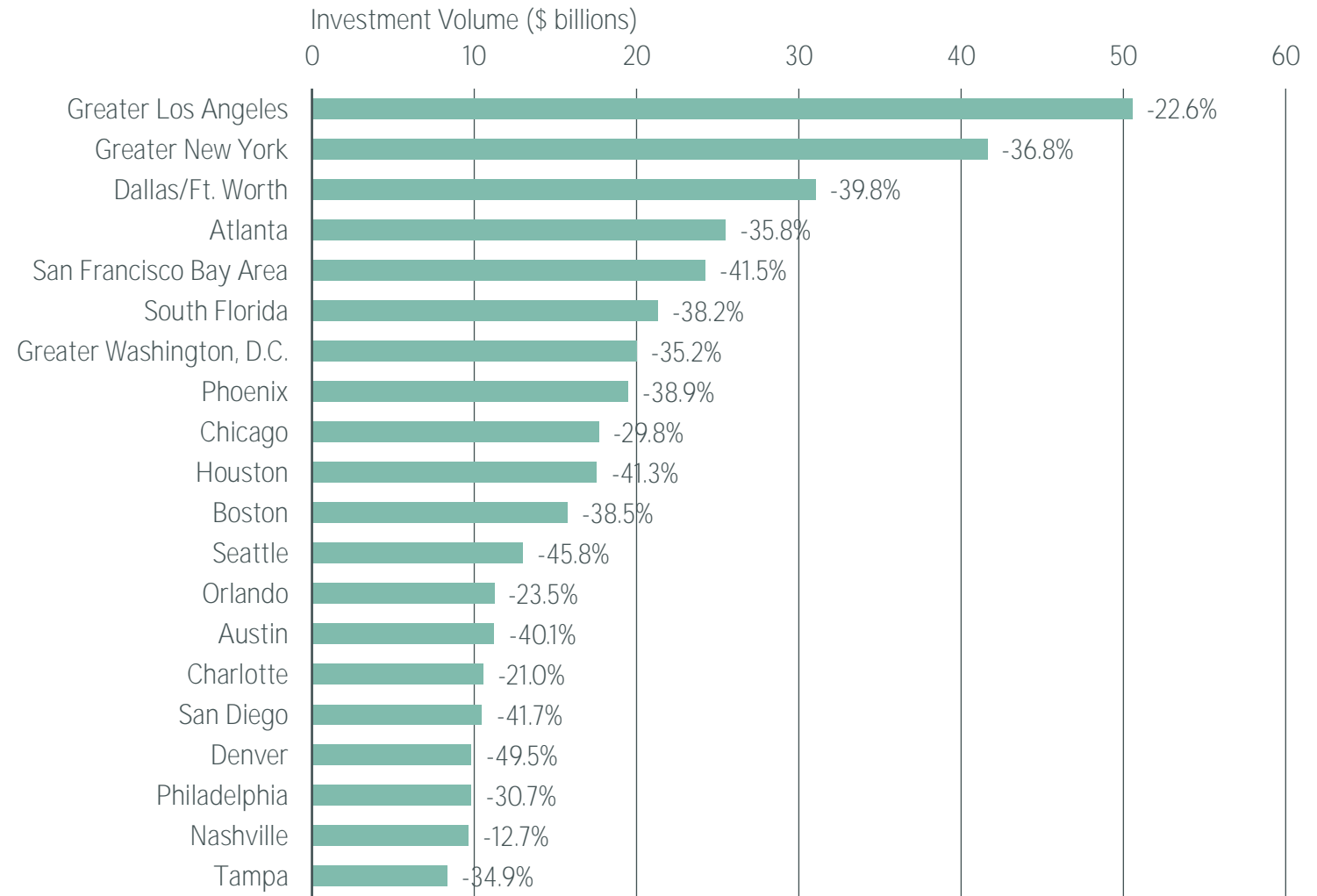
Investment volume expected to decline

Americas investment volume 2007 to 2023



Source: CBRE Research, MSCI Real Assets, Q1 2023

Top 20 markets for trailing-four-quarter investment volume & year-over-year change

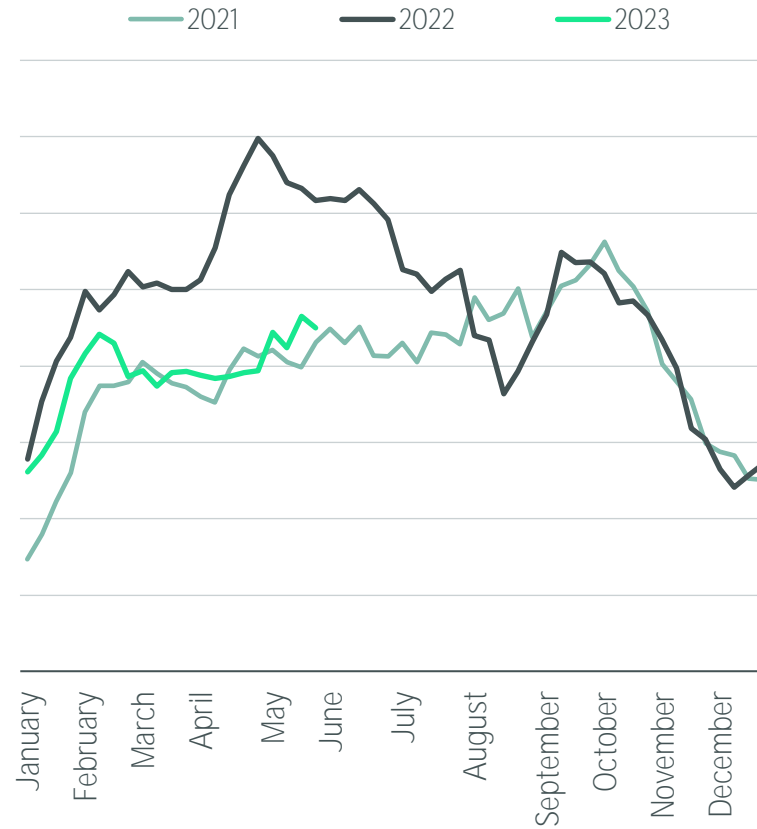


Note: Volume excludes development site transactions. Percentages are year-over-year change in totals.
 Source: CBRE Research, MSCI Real Assets, Q1 2023.

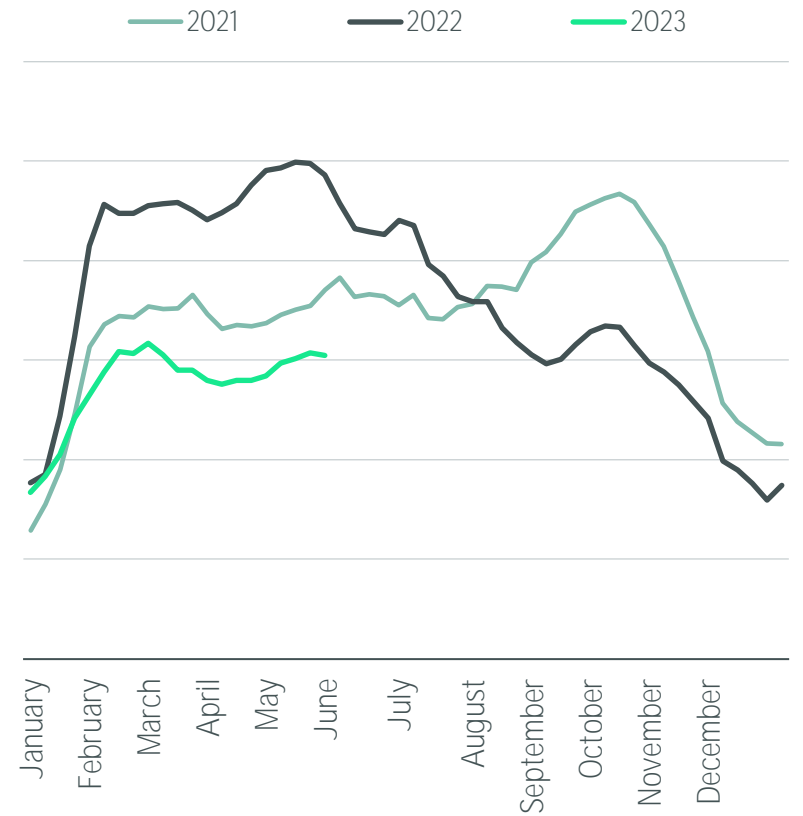
Number of Deals Launched & Number of Confidentiality Agreements (CAs) Signed

4-week Moving Average
2021 – YTD 2023

Number of Deals Launched



Number of Confidentiality Agreements (CAs) Signed

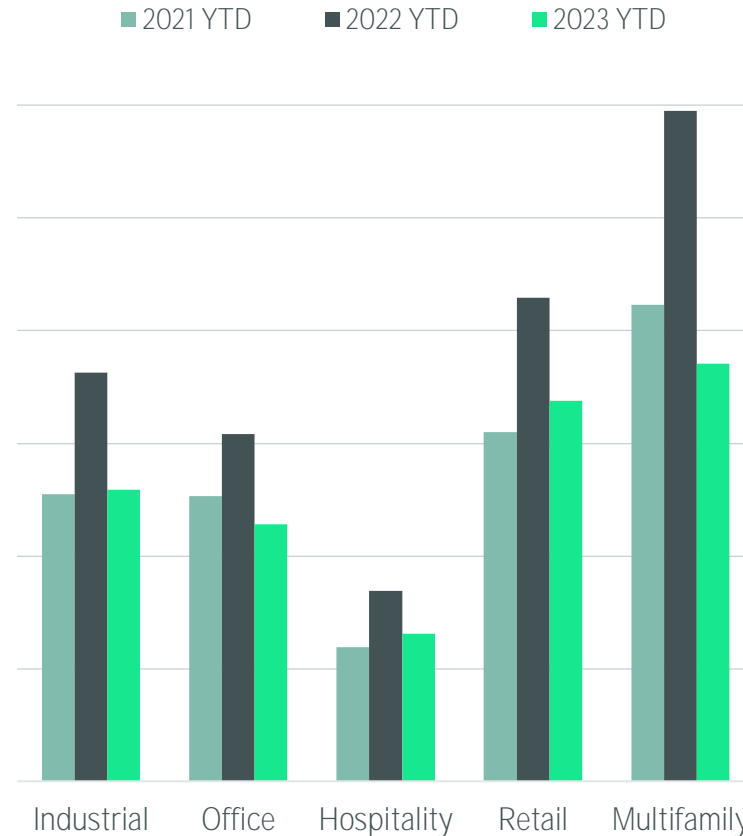


Source: CBRE Deal Flow, data through 5/27/2023

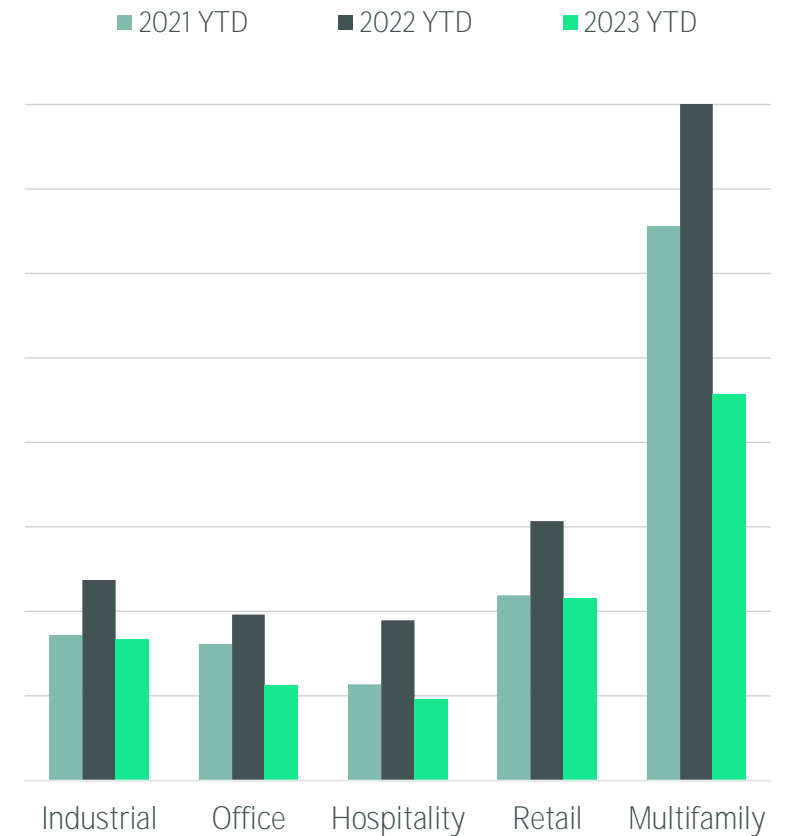
Number of Deals Launched & Number of Confidentiality Agreements (CAs) Signed

2023 YTD by Property Type

Deals Launched 2023 YTD through April



Confidentiality Agreements (CAs) Signed 2023 YTD through April

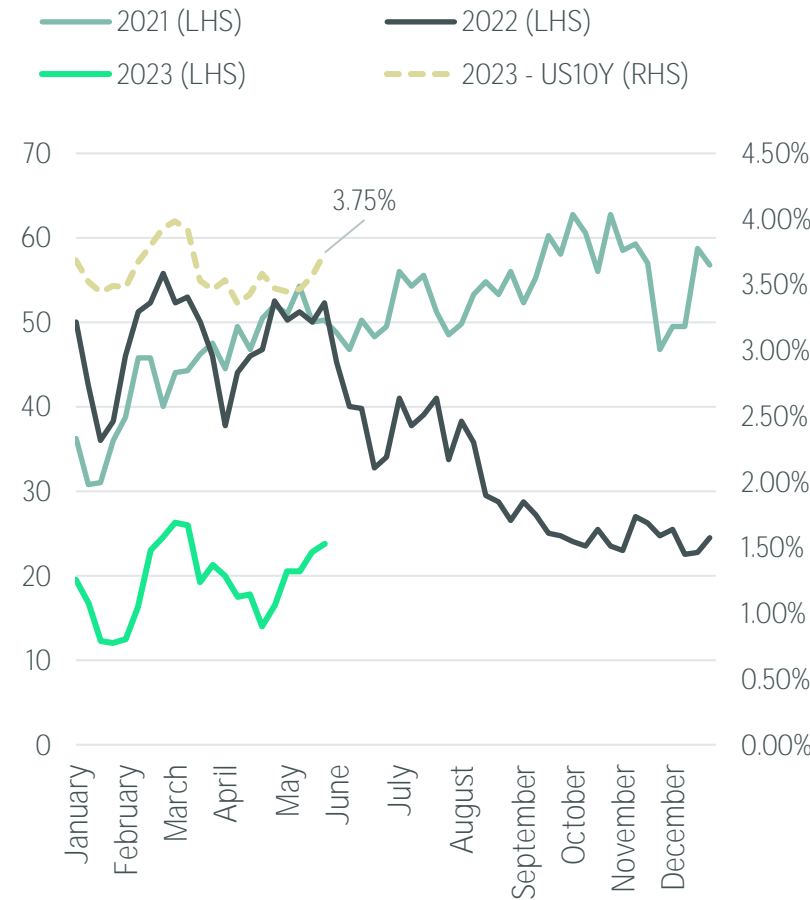


Source: CBRE Deal Flow, data through 5/27/2023

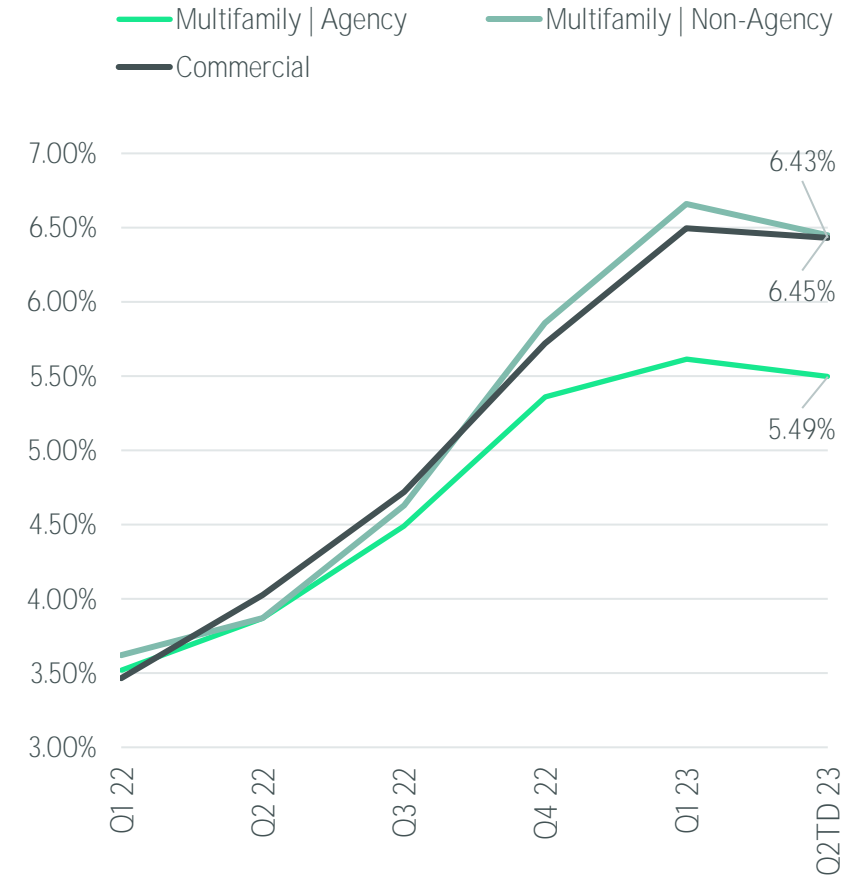
CBRE Loans Moving Under Application & Closed Loans

2021 – YTD 2023 | Deal Count

Loans Moving Under App – Deal Count – 4 Week Moving Average



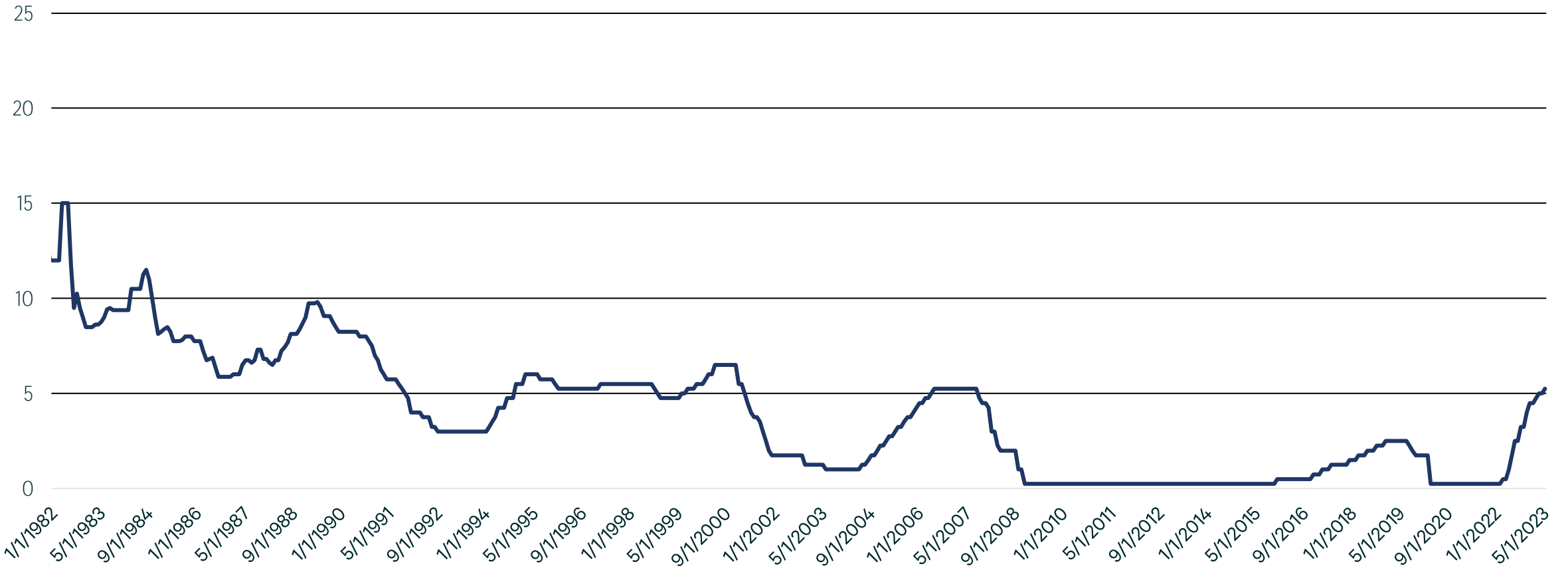
Closed Loans – Avg Loan Rate



Source: CBRE Deal Flow, data through 5/27/2023

The sharpest rise in interest rates in 40 years

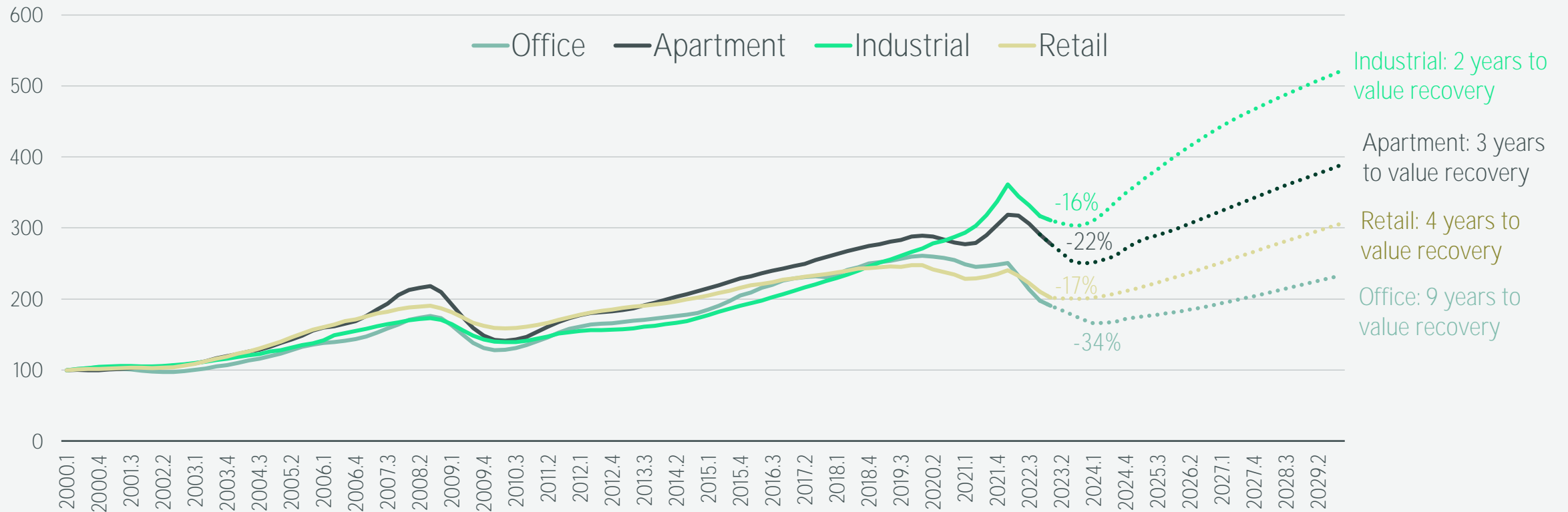
Federal Funds Rate (%)



Source: Federal Reserve, CBRE Research, Q2 2023

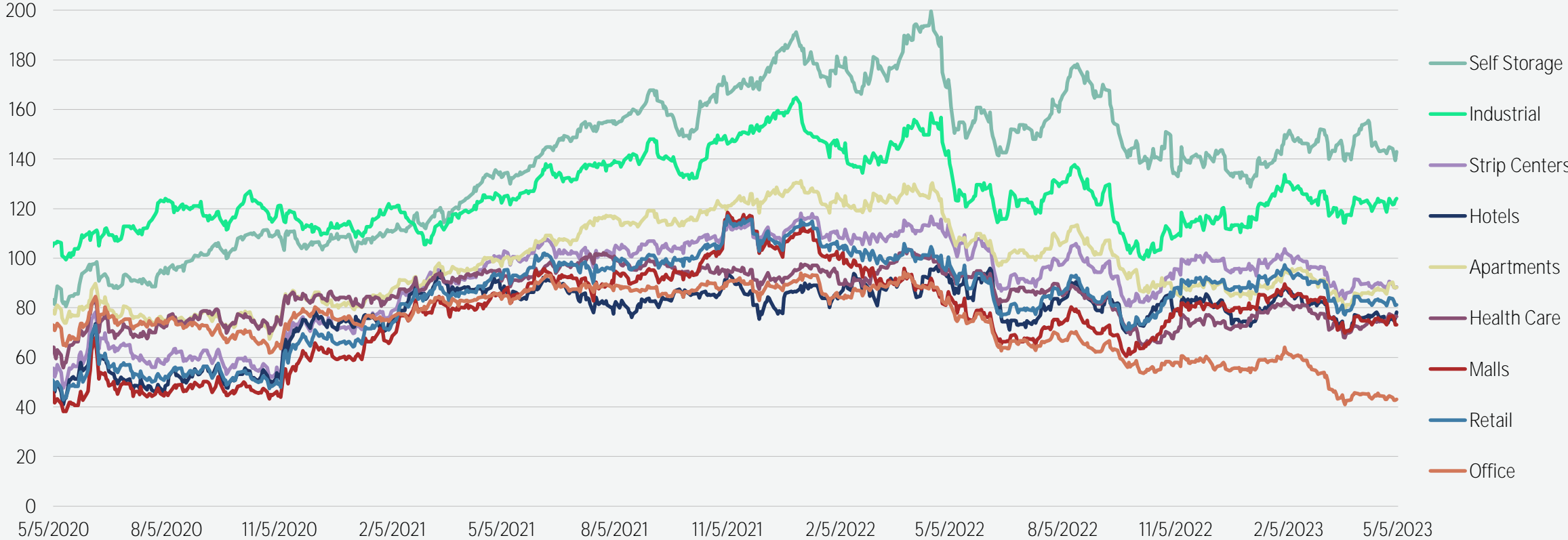
Has caused values to drop in all sectors

Index of Capital Values (2000=100)



US REITs Performance by Sector

U.S REIT Index by Sectors
Index (Feb. 2020 = 100)



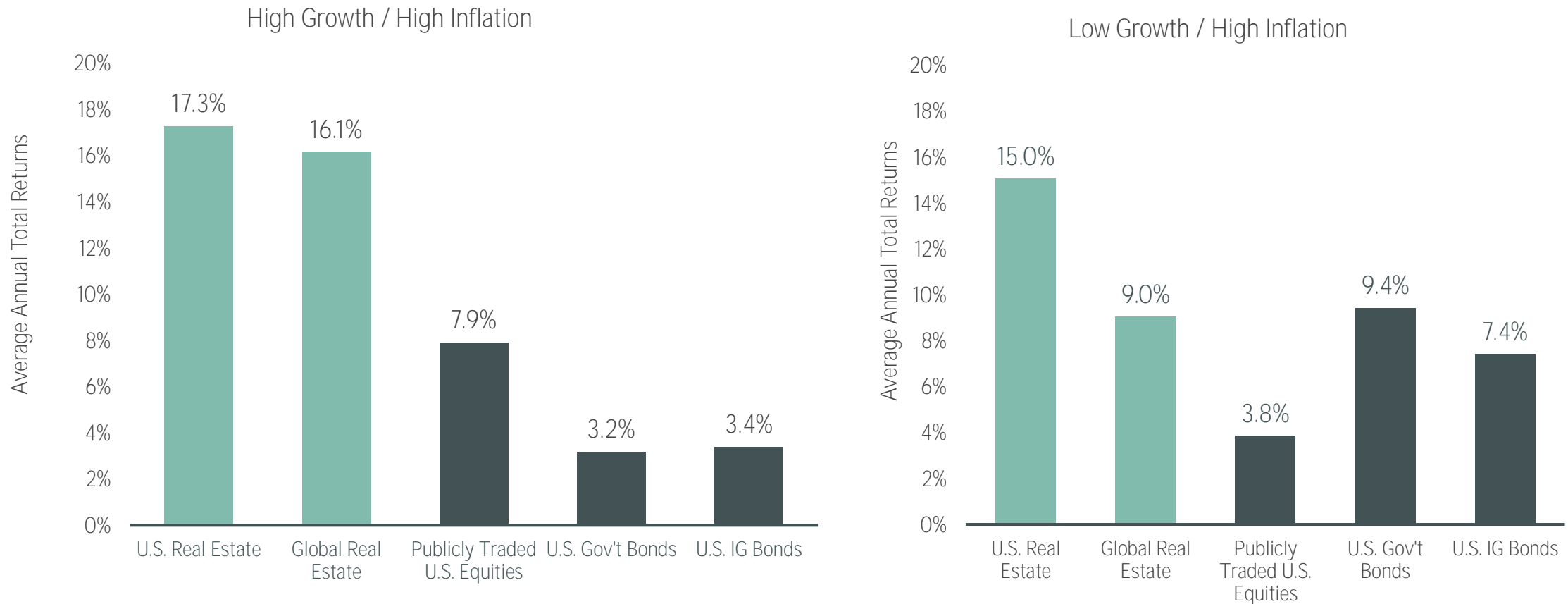
Source: Wilshire Associates Incorporated, CBRE Research

NAV Premiums by sector



Source: Green Street, CBRE Research, June 2023.

Real Assets Tend to Outperform in Highly Inflationary Environments

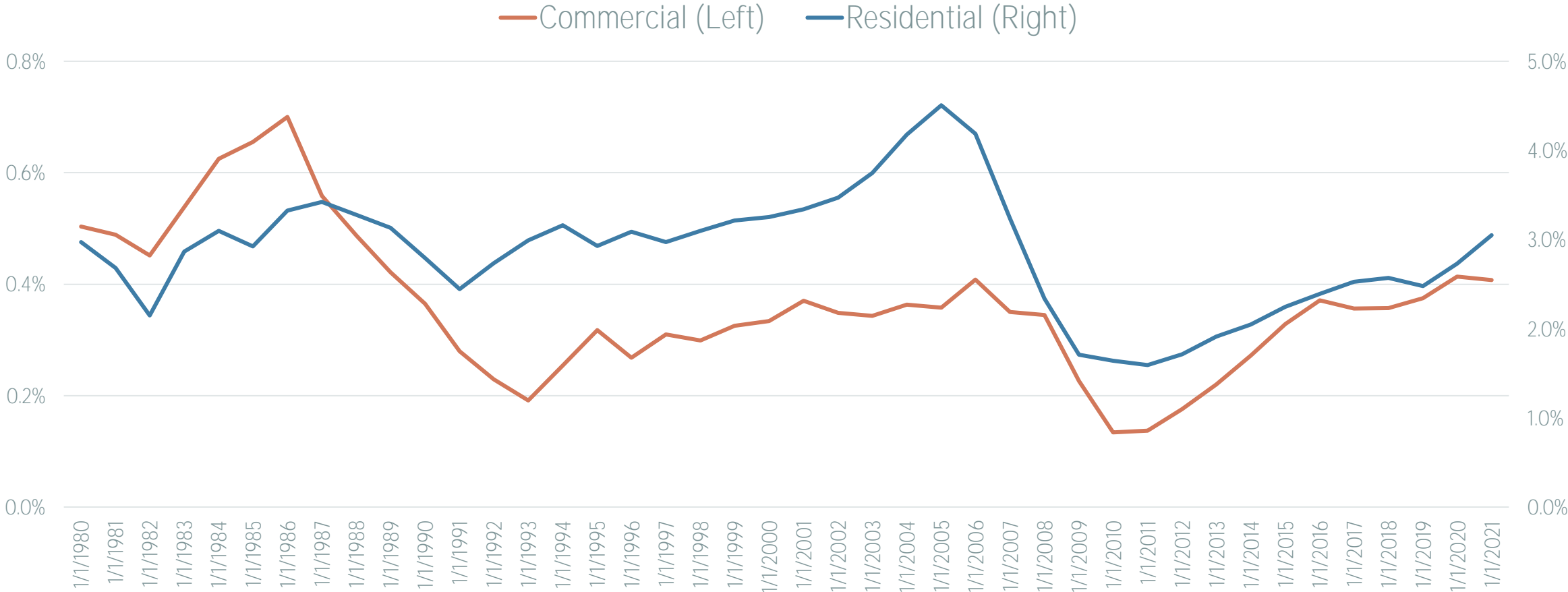


Real assets deliver robust performance amidst stagflation

Note: Analysis conducted on annual data between 2001 and 2020. High Inflation is defined as the year-over-year change in the US CPI greater than 2.5% and High Growth is defined as the year-over-year change in US real GDP greater than 2.5%. Analysis uses the Bloomberg Barclays US Aggregate Index for US Government and IG Bonds, S&P 500 for US Equities, the NCREIF Property Index for US Real Estate, the Cambridge Global Real Estate Index for Global Real Estate. Source: Bloomberg, Standard & Poor's, NCREIF, Cambridge, KKR GBR Analysis, EDHEC, Bureau of Economic Analysis, Bureau of Labor Statistics.

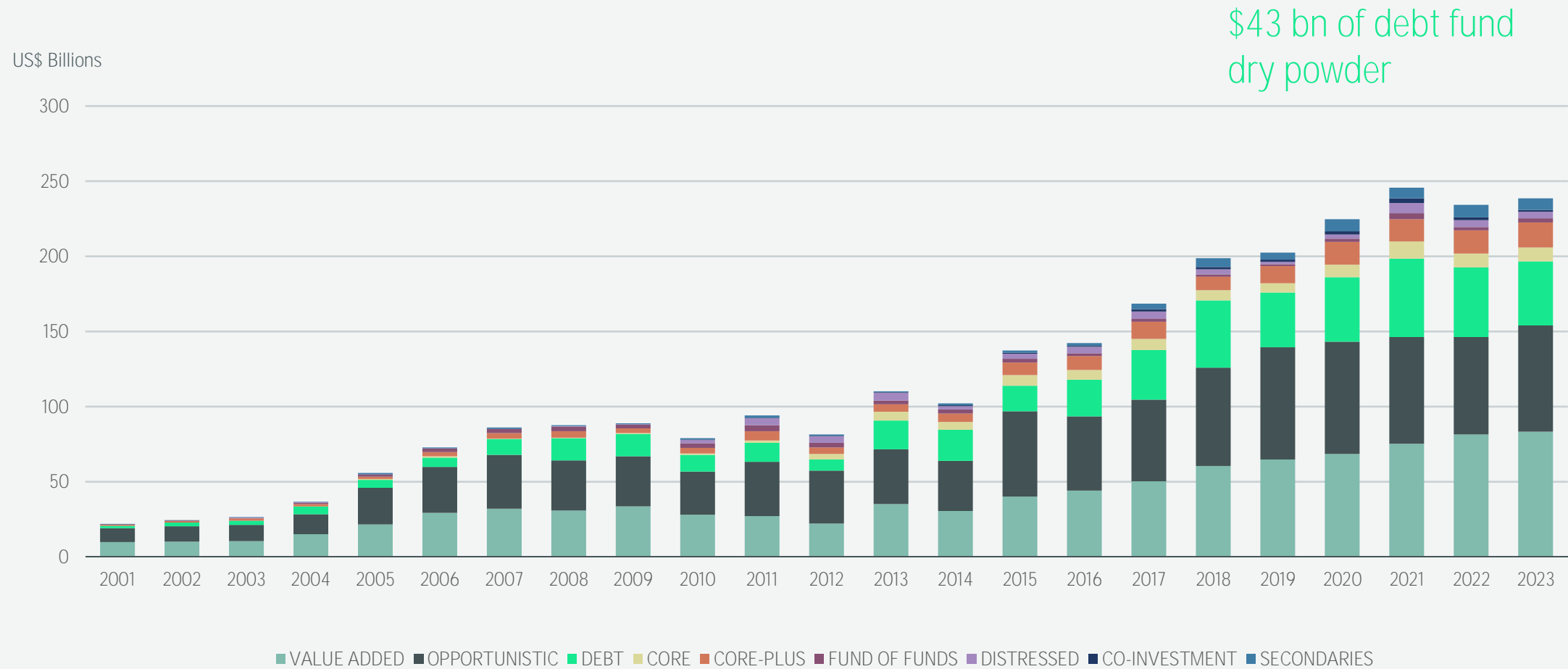
Unlike late 80s or 2006, there is no wall of new construction

Real Estate Construction as % of GDP



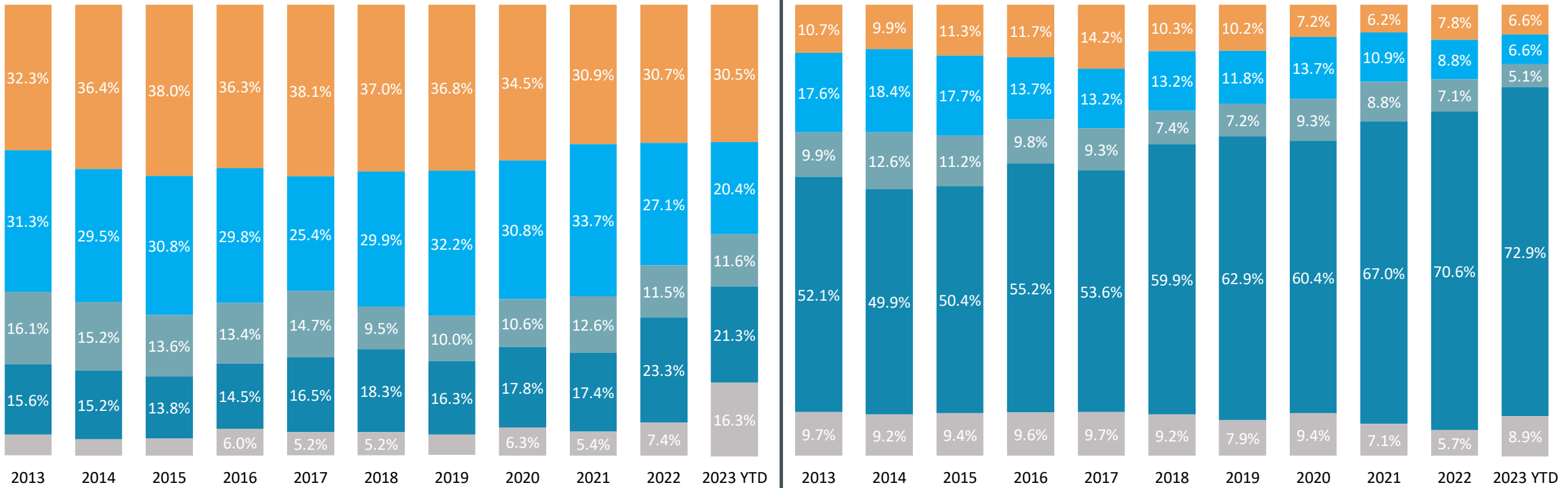
Source: BEA, CBRE Research Q2 2023

There's plenty of "dry powder" capital waiting in the wings



Source: Preqin, CBRE Research, March 2023.

Office buyer composition



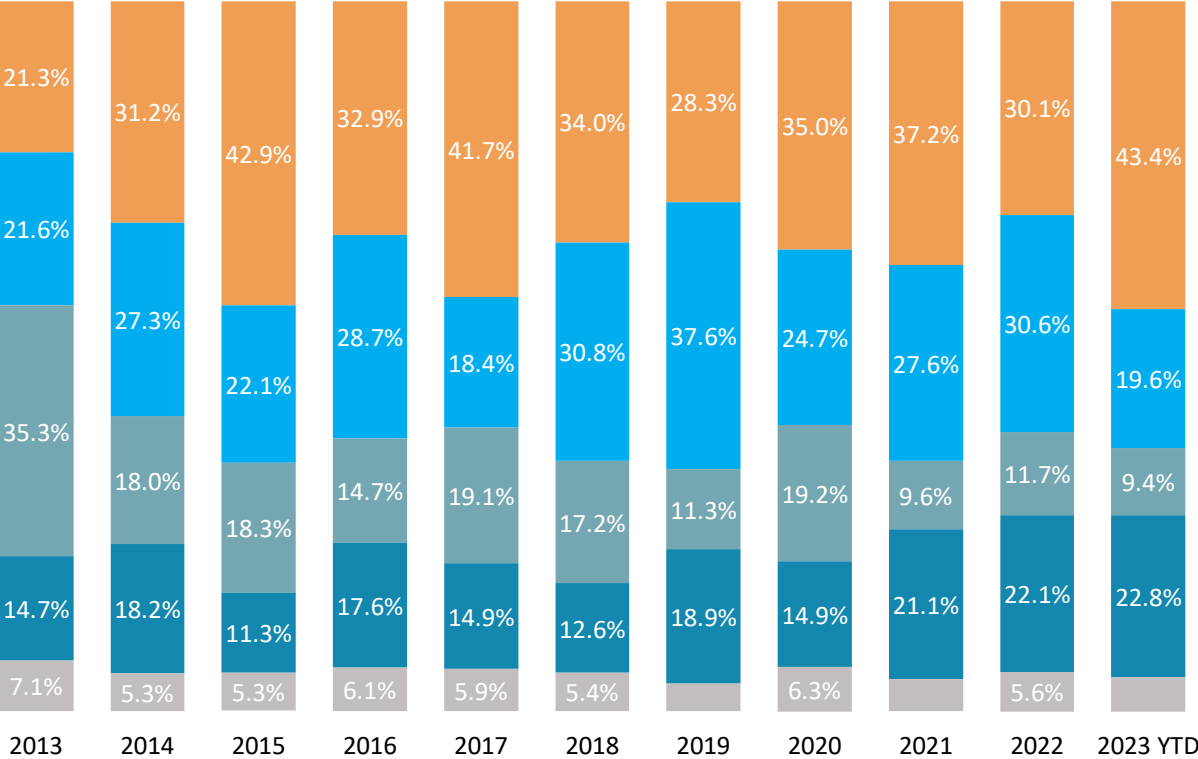
Large Transactions (>\$20M)

Small Transactions (<\$20M)

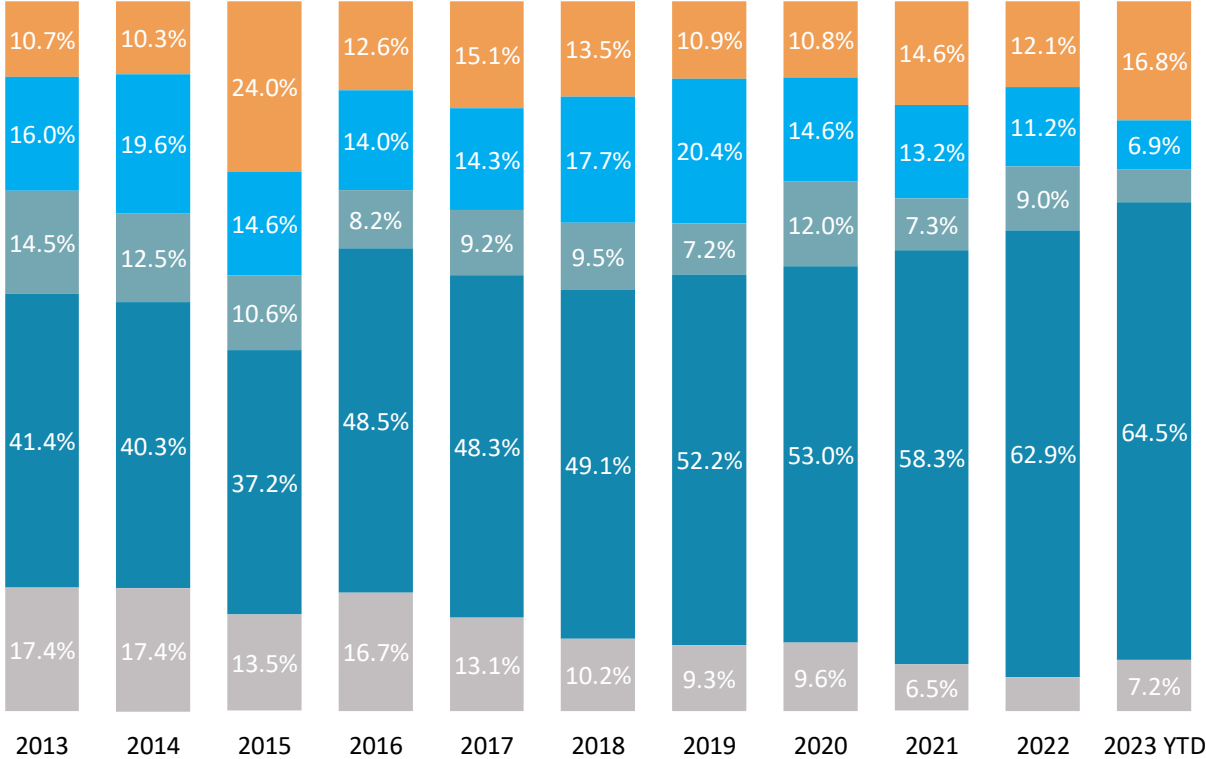


Source: MSCI, CBRE Research, June 2023.

Industrial buyer composition



Large Transactions (>\$20M)

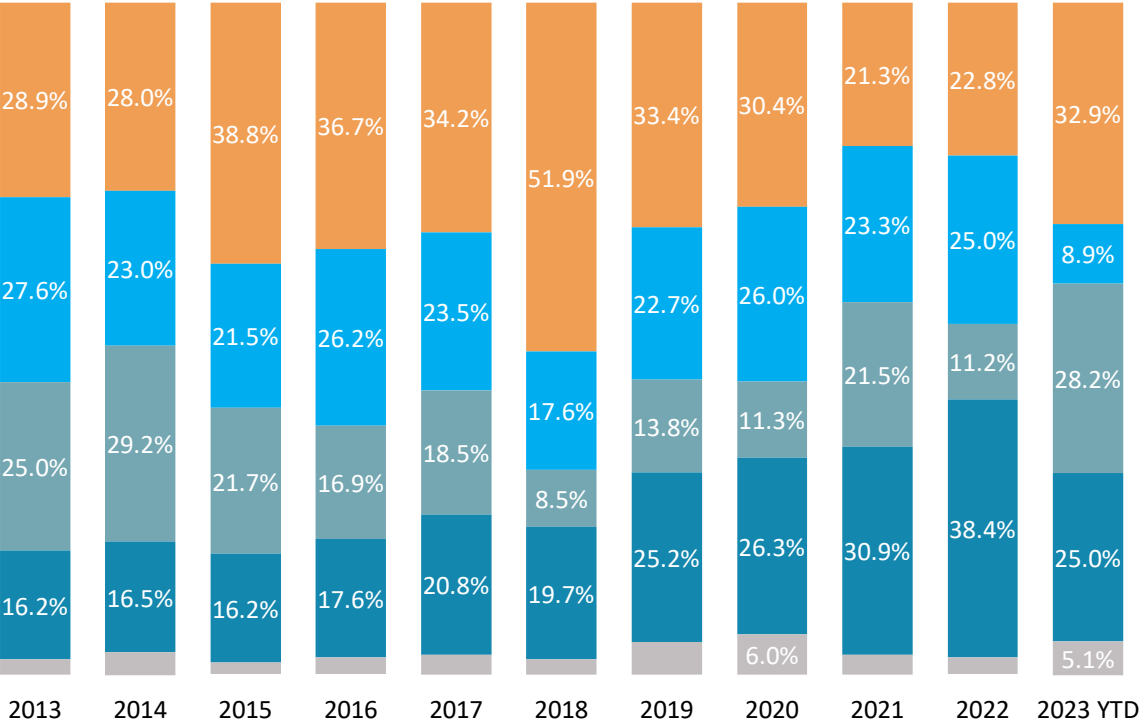


Small Transactions (<\$20M)

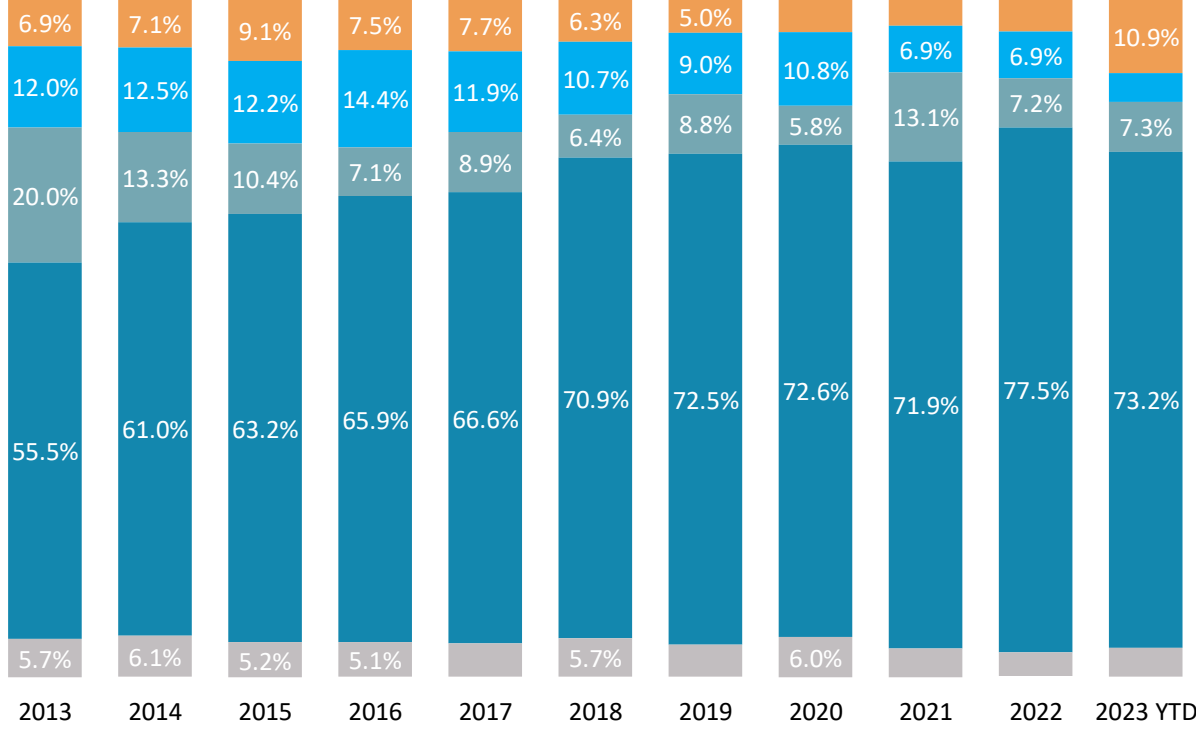


Source: MSCI, CBRE Research, June 2023.

Retail buyer composition



Large Transactions (>\$20M)

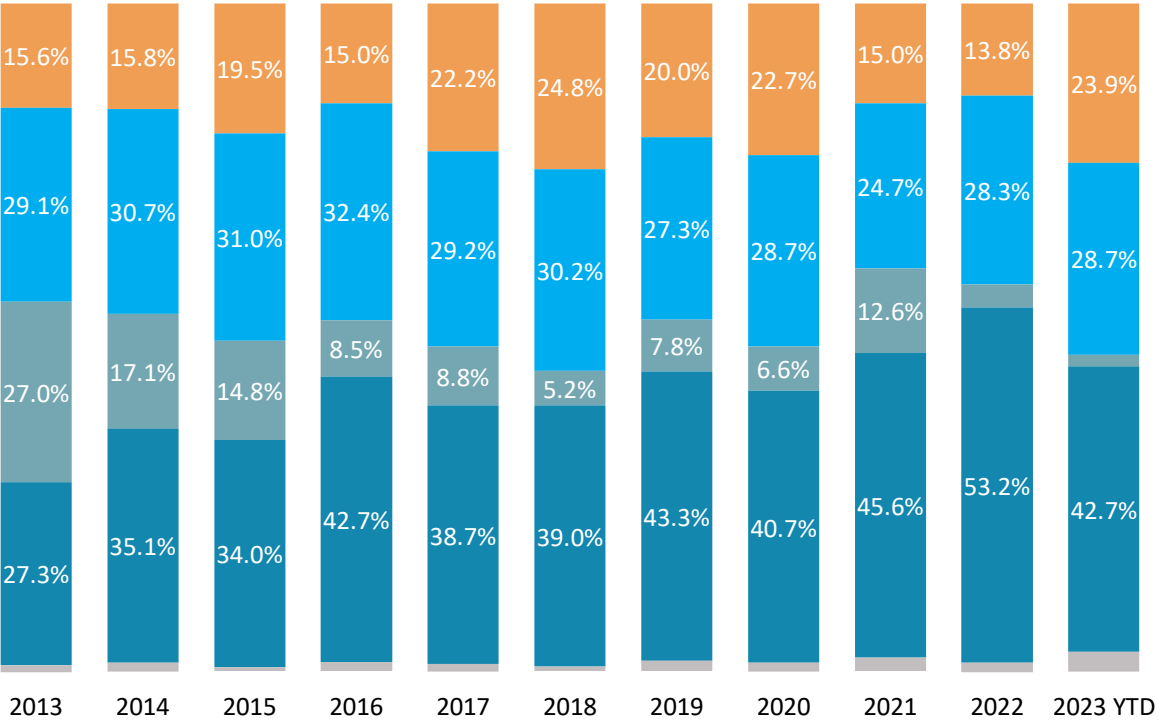


Small Transactions (<\$20M)

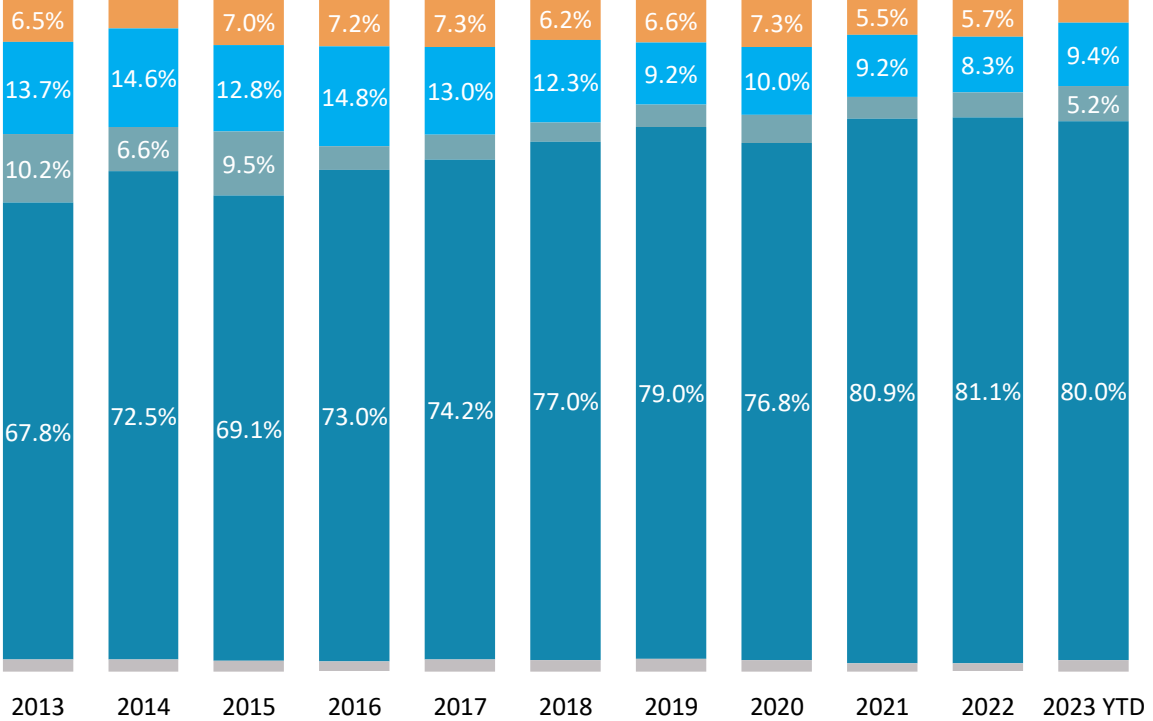


Source: MSCI, CBRE Research, June 2023.

Multifamily buyer composition



Large Transactions (>\$20M)

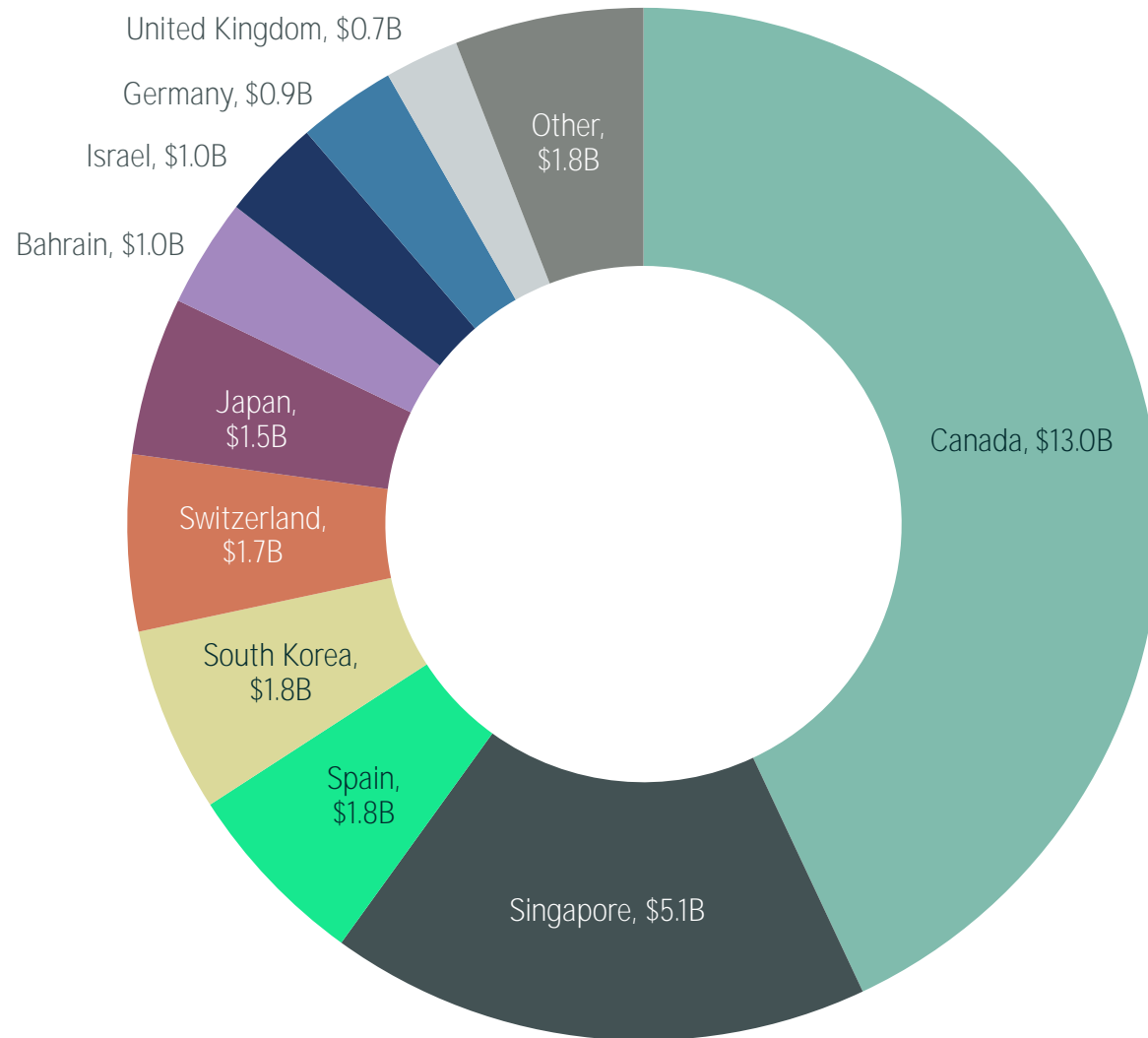


Small Transactions (<\$20M)



Source: MSCI, CBRE Research, June 2023.

Cross-border investment by country of origin, trailing four quarters ending in Q1 2023



Weighting	25%			25%				25%			25%			100%
	FUNDAMENTALS			INFRASTRUCTURE				POLITICAL RISK			ENVIRONMENTAL RISK			OVERALL RATING
MARKET	Historical Supply/Demand	Quality of Tech Labor Market	Affordability	Water	Energy	Transportation	Schools	Philosophy Toward Affordability	Urban Policing/Security	Tax Burden/Pension Liability	Natural Disasters	Pollution (Air & Water)	State & Local Government	
Los Angeles	1	2	1	1	1	3	1	0.5	2	2	1	2	2	1.50
San Francisco	1	3	1	1	1	1	2	0.5	1	1	1	3	3	1.52
Houston	1	1	2	1	1	3	2	3	1	3	1	1	1	1.60
Tulsa	1	1	3	2	2	1	1	3	1	2	2	1	1	1.63
Chicago	1	1	2	3	3	1	1	2	1	1	3	2	2	1.75
Dallas	1	2	2	2	1	2	3	2	2	2	2	1	1	1.75
Miami	1	1	1	1	1	3	3	3	1	2	1	3	2	1.75
Washington D.C.	1	3	1	3	2	2	1	0.5	3	2	1	1	3	1.79
San Diego	2	2	1	2	1	2	1	1	3	1	1	3	3	1.79
Las Vegas	1	1	2	2	3	2	2	2	1	2	3	1	2	1.81
New York	1	3	1	3	1	2	1	1	2	2	1	3	3	1.85
Nashville	1	2	2	3	3	2	2	2	2	2	2	1	1	1.88
Albuquerque	2	1	3	1	3	1	1	3	1	2	3	1	2	1.88
Atlanta	3	2	2	2	3	3	1	2	1	1	2	1	2	1.90
Savannah	1	2	3	2	2	2	2	3	2	2	1	2	1	1.92
Seattle	1	3	1	3	2	2	1	1	1	3	2	2	3	1.92
Portland	1	3	1	2	2	3	2	0.5	1	3	3	2	2	1.94
Orlando	2	2	2	1	1	3	1	2	2	3	2	3	1	1.96
Colorado Springs	3	3	2	1	3	1	2	2	1	1	2	3	2	2.02
Huntsville	2	3	3	3	2	1	1	3	1	1	2	2	2	2.02
Boston	1	3	1	3	3	2	2	1	3	2	1	2	3	2.04
Philadelphia	3	3	2	1	1	1	2	2	3	1	2	2	3	2.06
Kansas City	2	1	3	2	1	3	3	3	1	2	3	1	2	2.06
Denver	1	3	1	2	2	1	3	2	3	2	2	2	3	2.08
Omaha	3	1	3	2	3	1	2	3	2	2	3	1	1	2.08
Pittsburgh	2	2	3	1	2	2	2	3	3	1	2	2	2	2.10
Columbus	2	1	3	3	2	1	1	3	2	2	3	1	3	2.10
Phoenix	2	2	2	1	3	3	3	2	2	1	3	2	2	2.13
Austin	1	3	2	2	2	3	3	3	2	2	1	3	1	2.13
Tampa	3	2	2	3	1	2	2	2	3	3	1	3	1	2.17
Charlotte	1	2	3	3	3	3	3	3	1	3	2	1	1	2.17
Oklahoma City	3	1	3	3	1	2	3	3	1	3	2	2	2	2.23
Minneapolis	1	2	2	3	3	3	3	2	1	2	3	2	3	2.25
Grand Rapids	1	3	3	2	1	1	3	3	2	2	3	3	2	2.27
Raleigh-Durham	1	3	2	3	3	2	2	3	3	3	2	2	2	2.38
Indianapolis	3	1	3	3	3	2	3	3	2	3	2	2	2	2.44
Salt Lake City	2	3	2	2	2	3	3	3	3	3	3	1	2	2.46
Boise	3	3	2	3	3	3	3	3	3	3	3	2	2	2.75
Madison	3	2	3	3	3	1	3	3	3	3	3	3	3	2.79

A New Way of Underwriting

LEGEND
Red = High Investment Risk
Yellow = Mild Investment Risk
Green = Low Investment Risk

Source: Yardi Matrix

Office



THE
WeeklyTAKE

Chris Noble

Group Vice President
Property
Walgreens

EPISODE 337

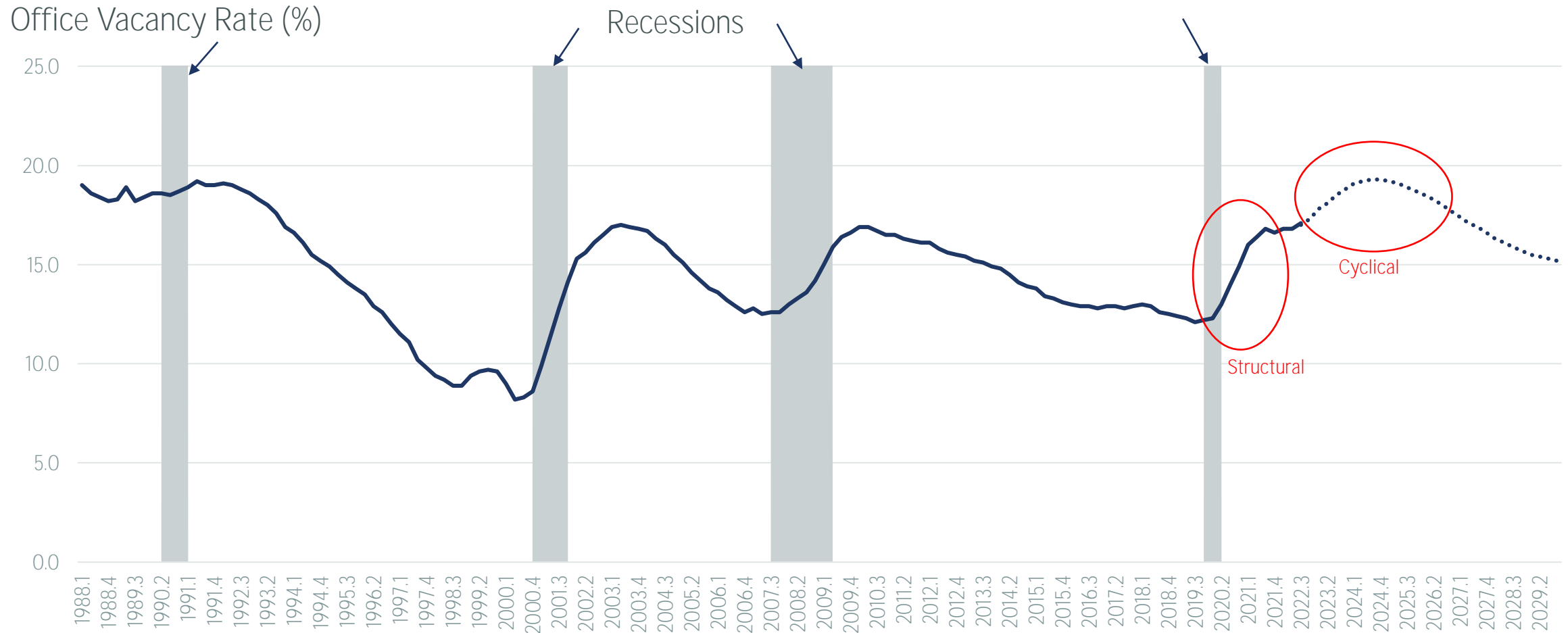
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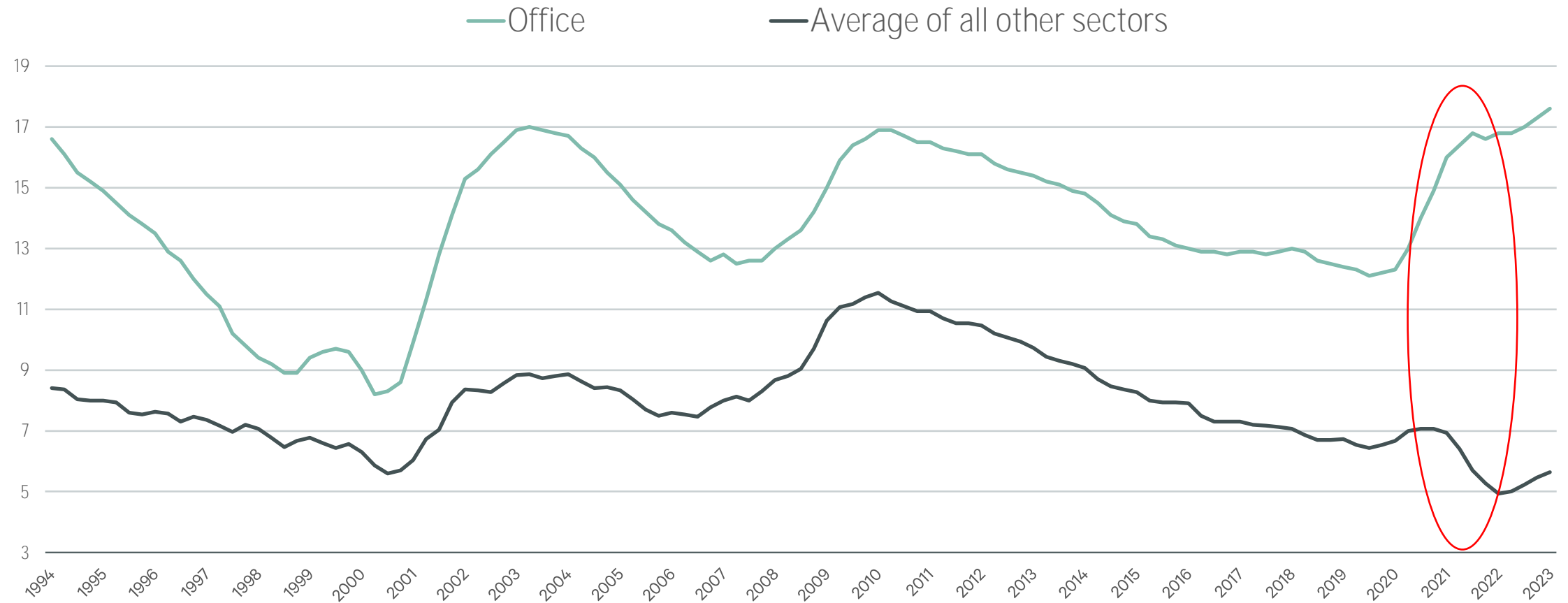


Surge in vacancy to historically high levels



Office took a pandemic hit, all others get a pandemic boost

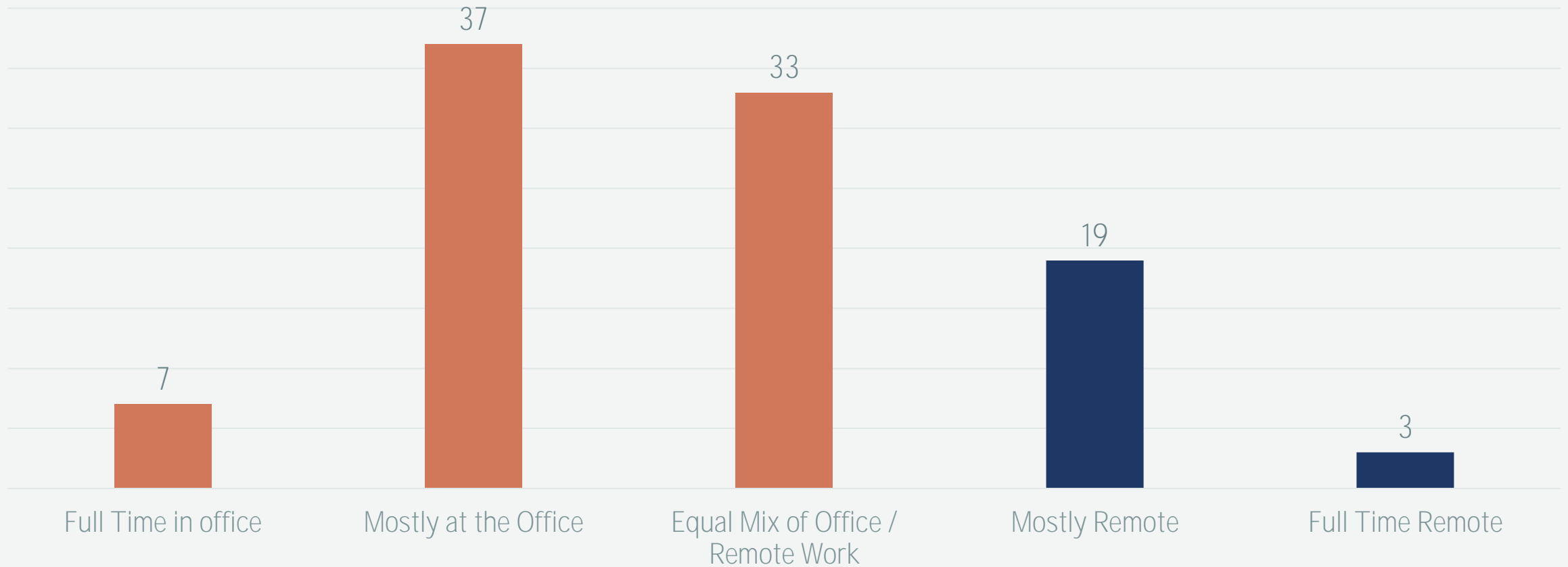
Vacancy Rate (%)



Source: CBRE EA, CBRE Research Q2 2023

77% of companies remain committed to the office sector

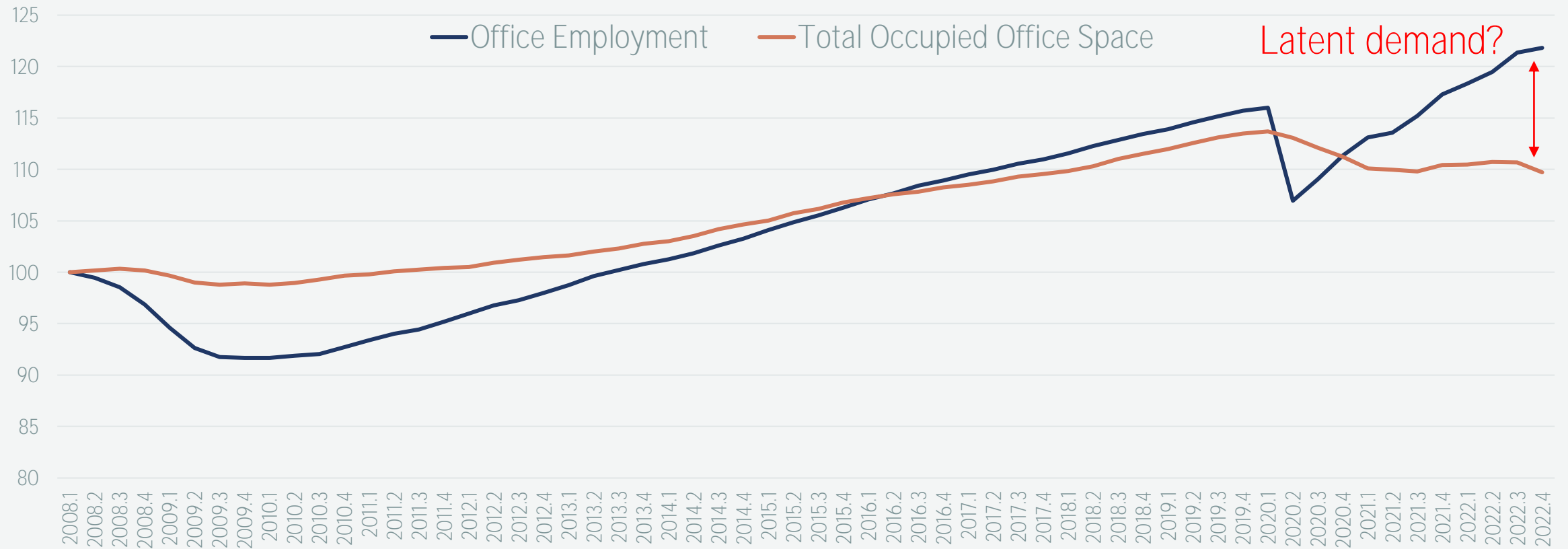
2023 Company Goals for Steady-State Office Utilization (%)



Source: CBRE Occupier Survey, CBRE Research Q2 2023

Plenty of scope for office occupancy to rise again

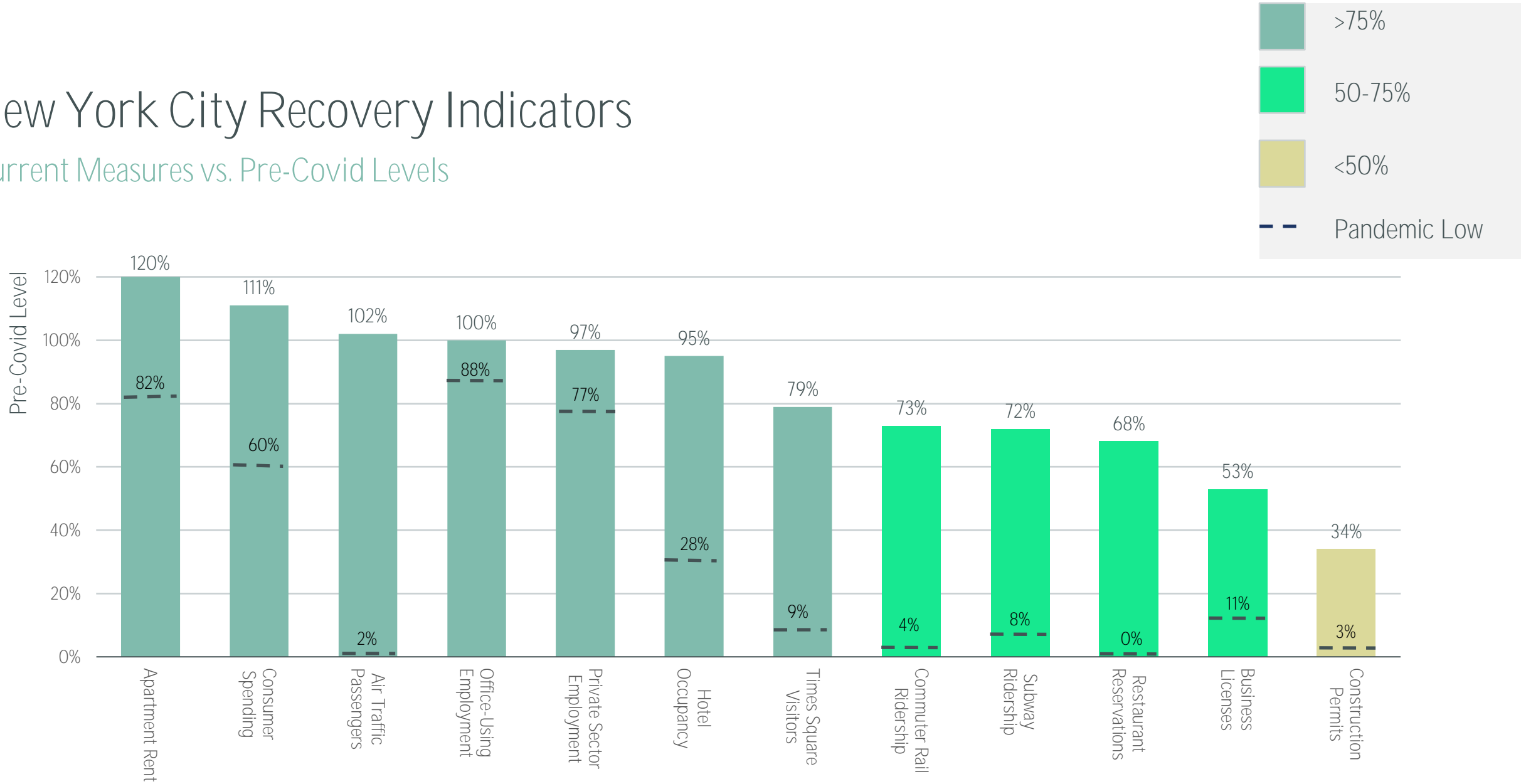
U.S. Office-Using Employment and Occupied Office Space (Q1 2008=100)



Source: CBRE Research, Q2 2023.

New York City Recovery Indicators

Current Measures vs. Pre-Covid Levels

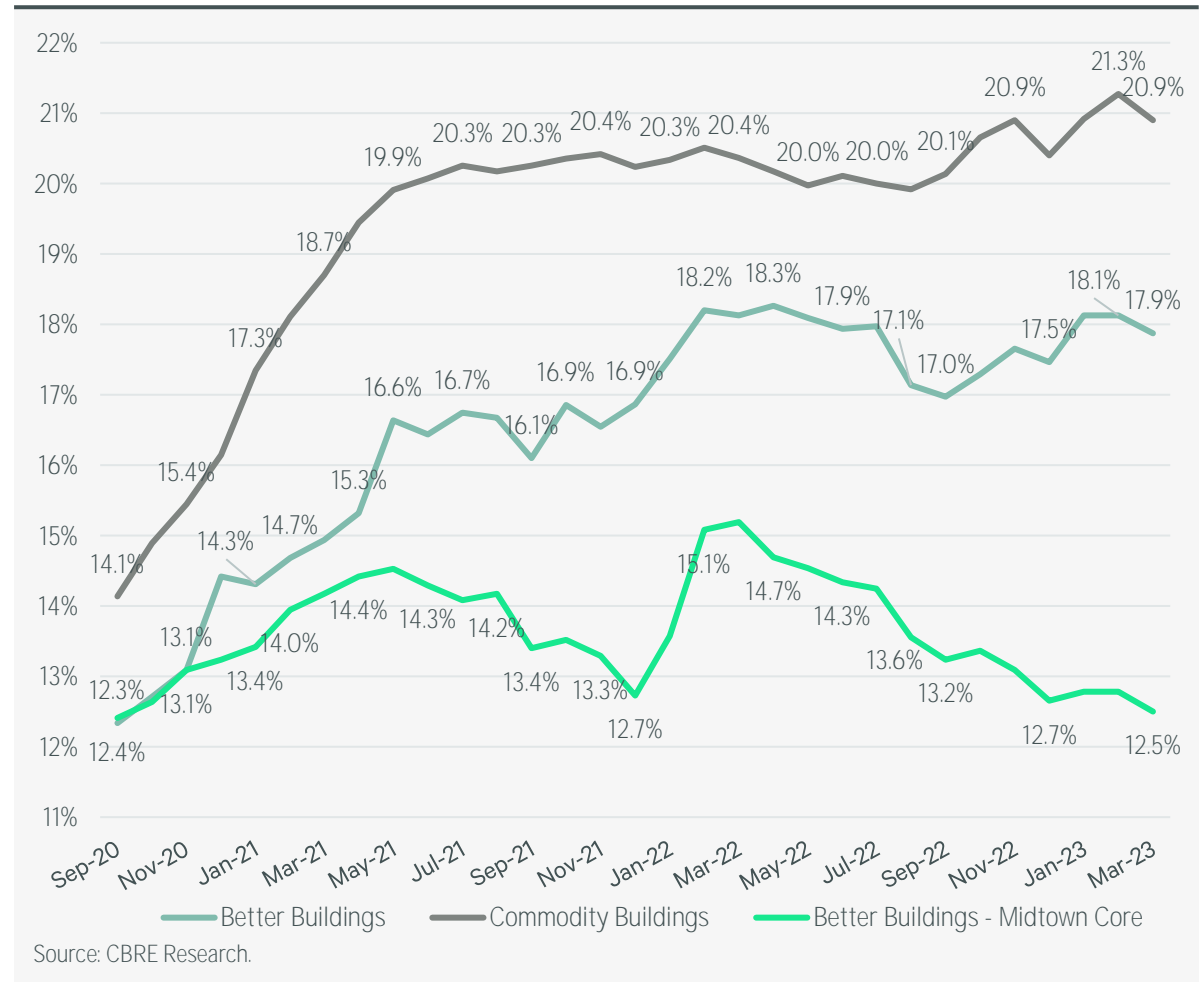


Manhattan Better Buildings Availability rates are substantially lower in better buildings

12.5%

availability rate within better buildings located in the core of Midtown

Data as of April 1, 2023.

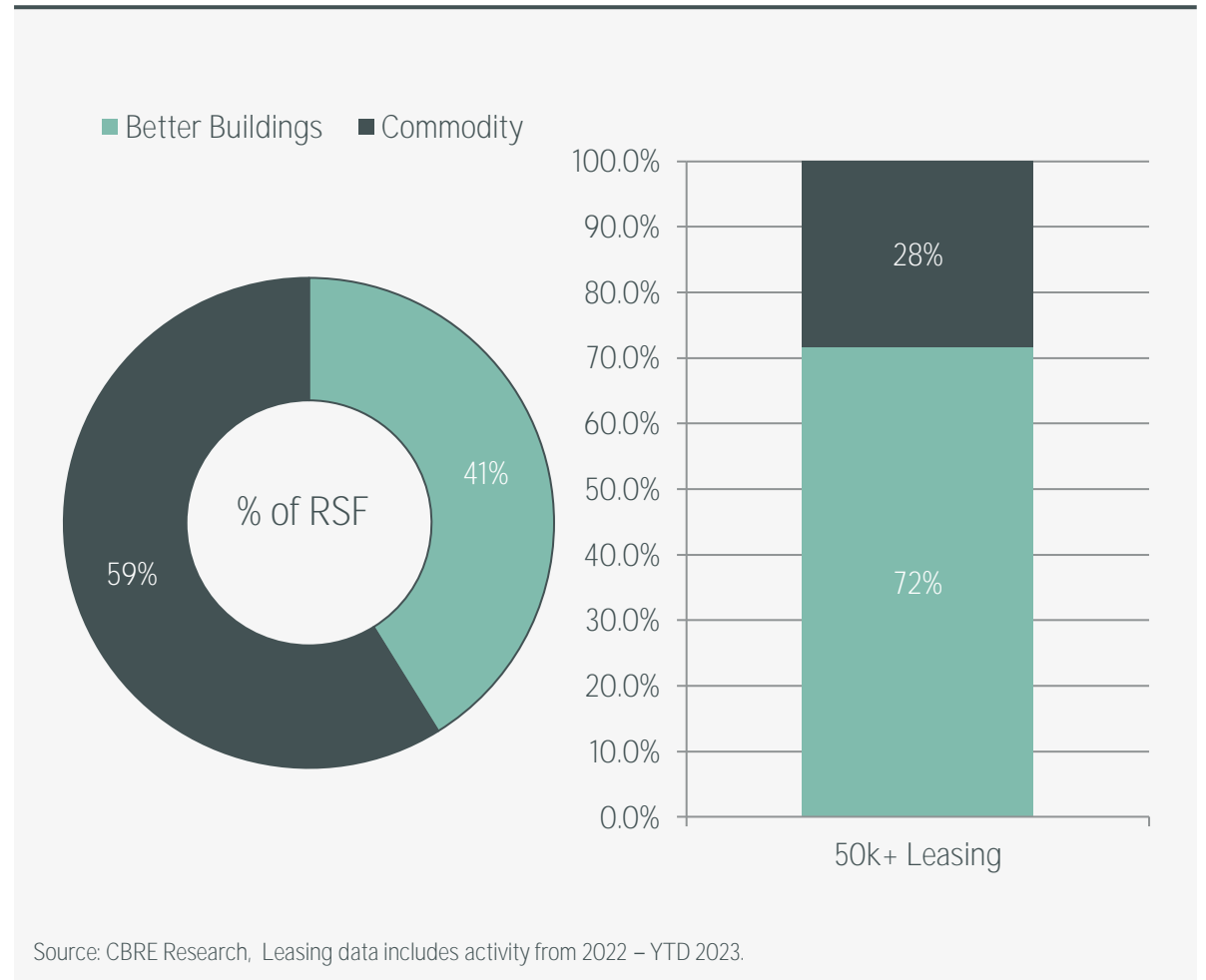


Manhattan Better Buildings Flight to quality is happening

72%

of all leasing activity 50k+ was **done in “better buildings” in 2022 and YTD 2023**

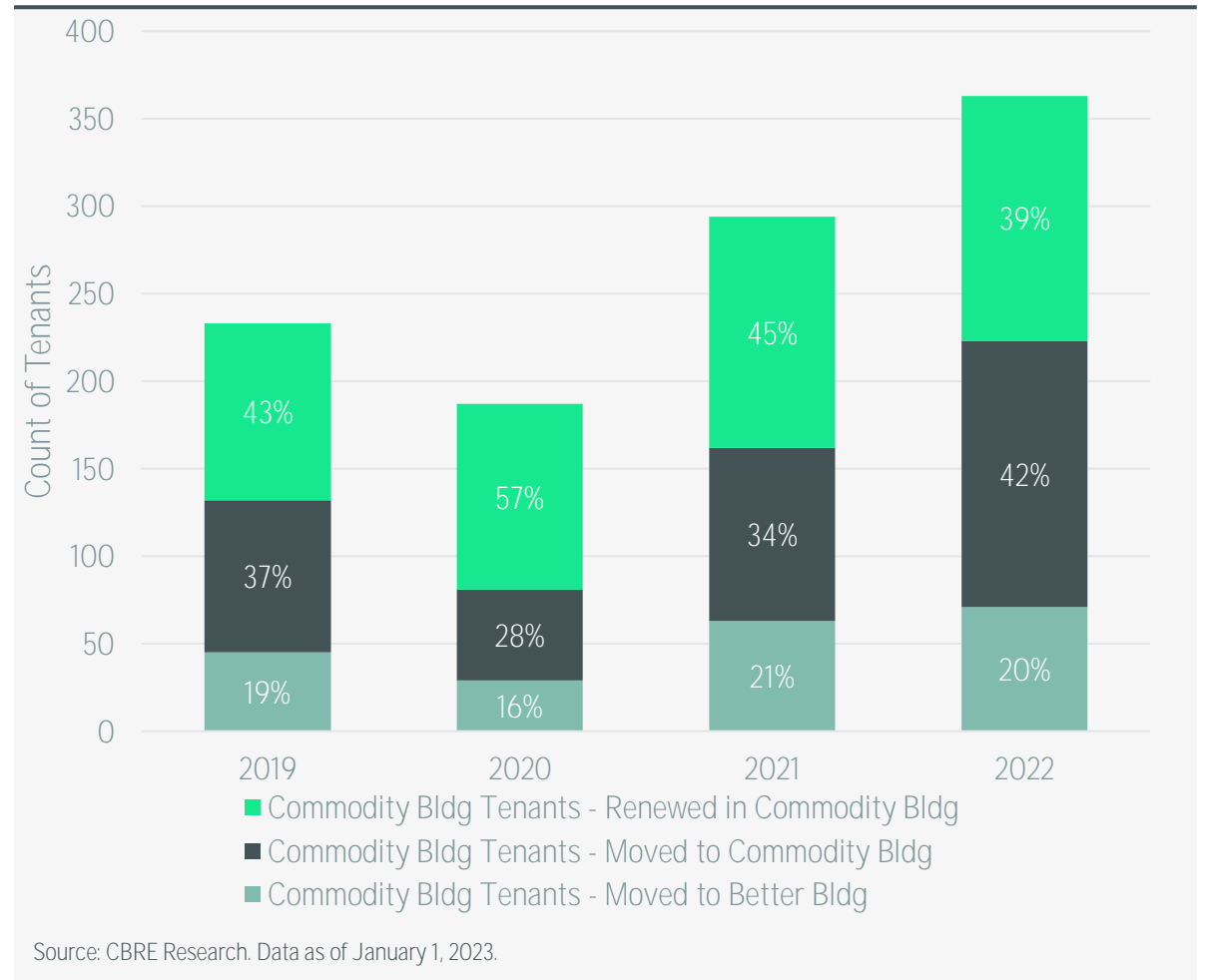
Data as of April 1, 2023.



Manhattan Commodity Buildings Activity in Commodity Buildings is Still Happening

80%

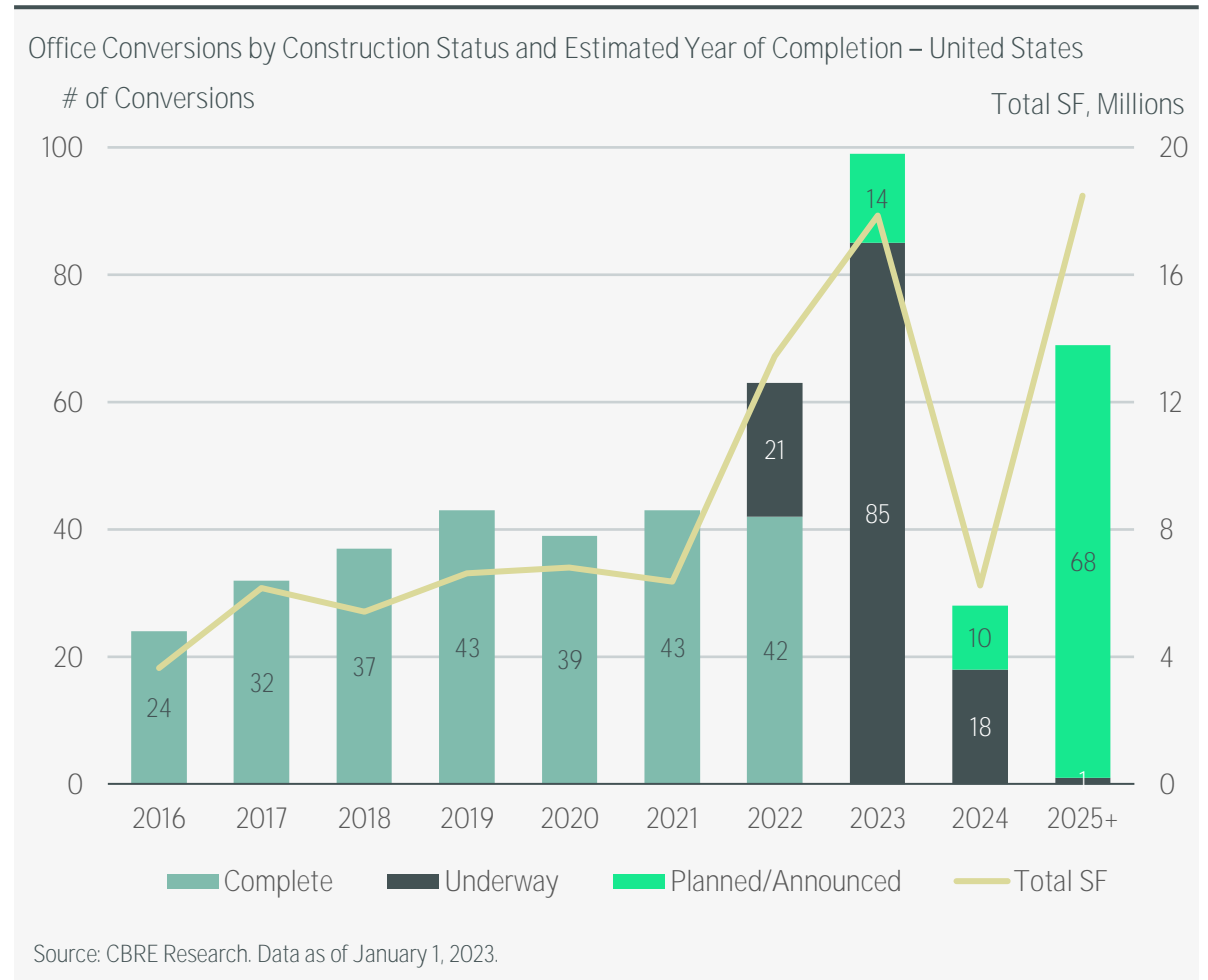
of tenants in commodity buildings either renewed or moved to a different commodity building



Conversion - National Trend Data

Completed Office Conversions Haven't Significantly Increased Since Pandemic

39 conversions
on average annually across the United States





Housing

THE
WeeklyTAKE

Ed Glaeser

Economics Professor
Harvard University

EPISODE 415

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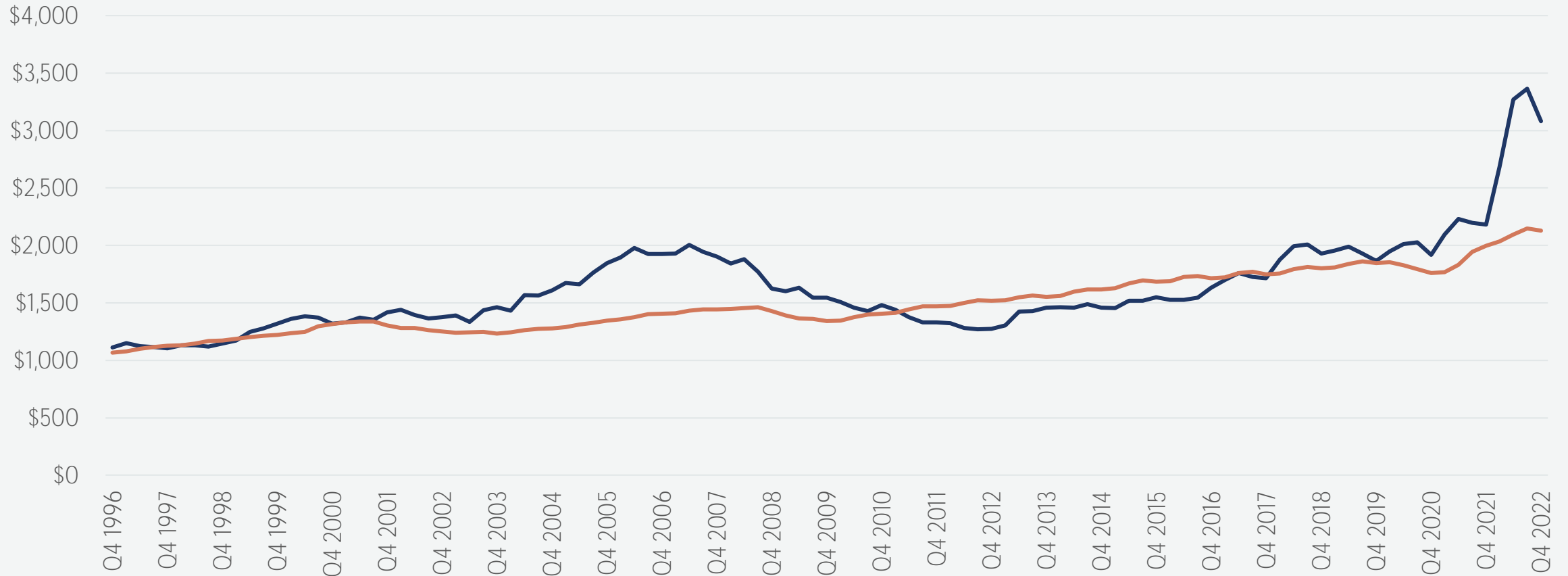
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Current economics favors renting

Average Monthly Payment Own v.s. Rent

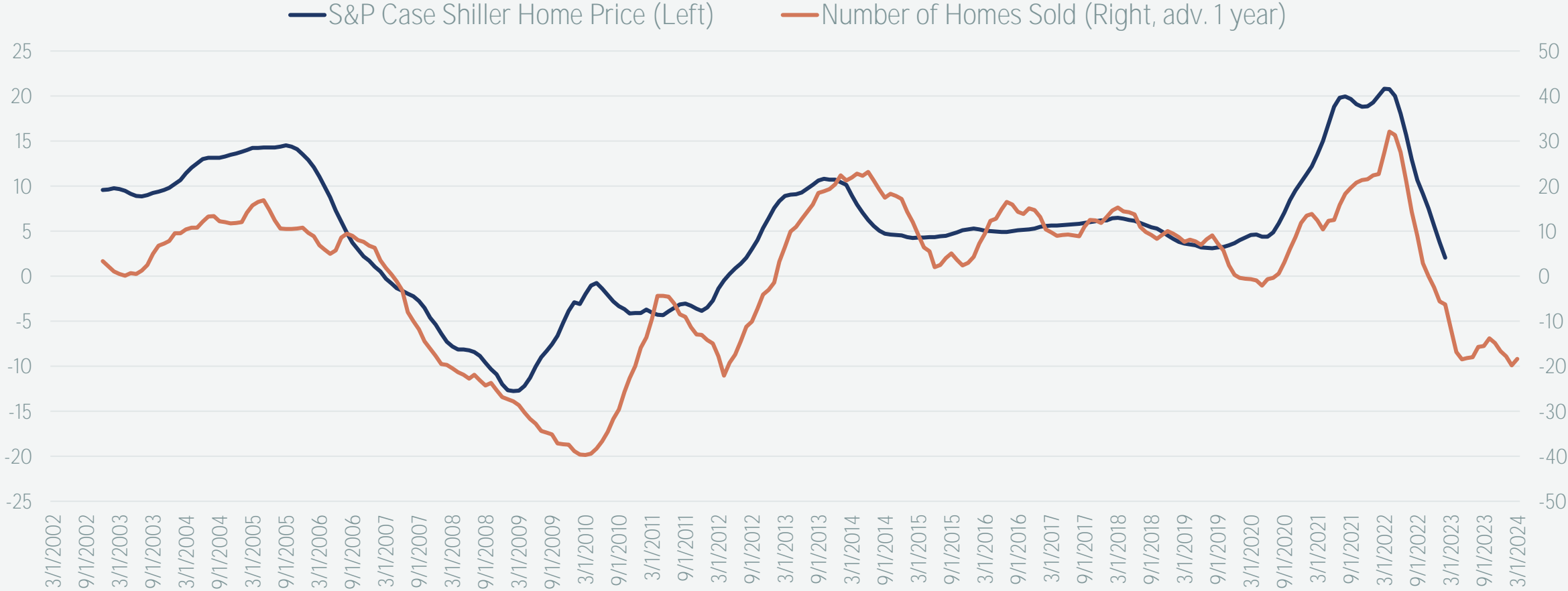
— Mortgage — Apartment Rent



Source: CBRE Research, CBRE Econometric Advisors, Realtor, Freddie Mac, December 2022

Prices have fallen and maybe further to go

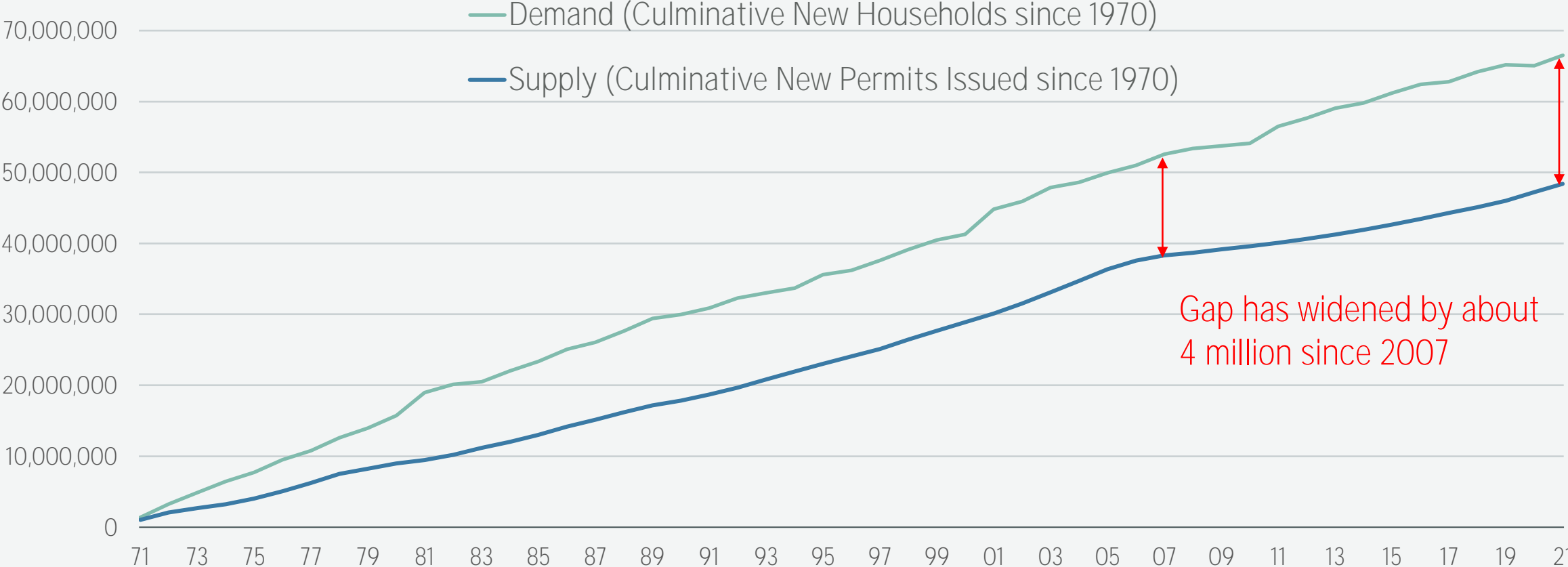
Y-o-Y Growth (%)



Source: S&P, Zillow, CBRE Research, Q2 2023

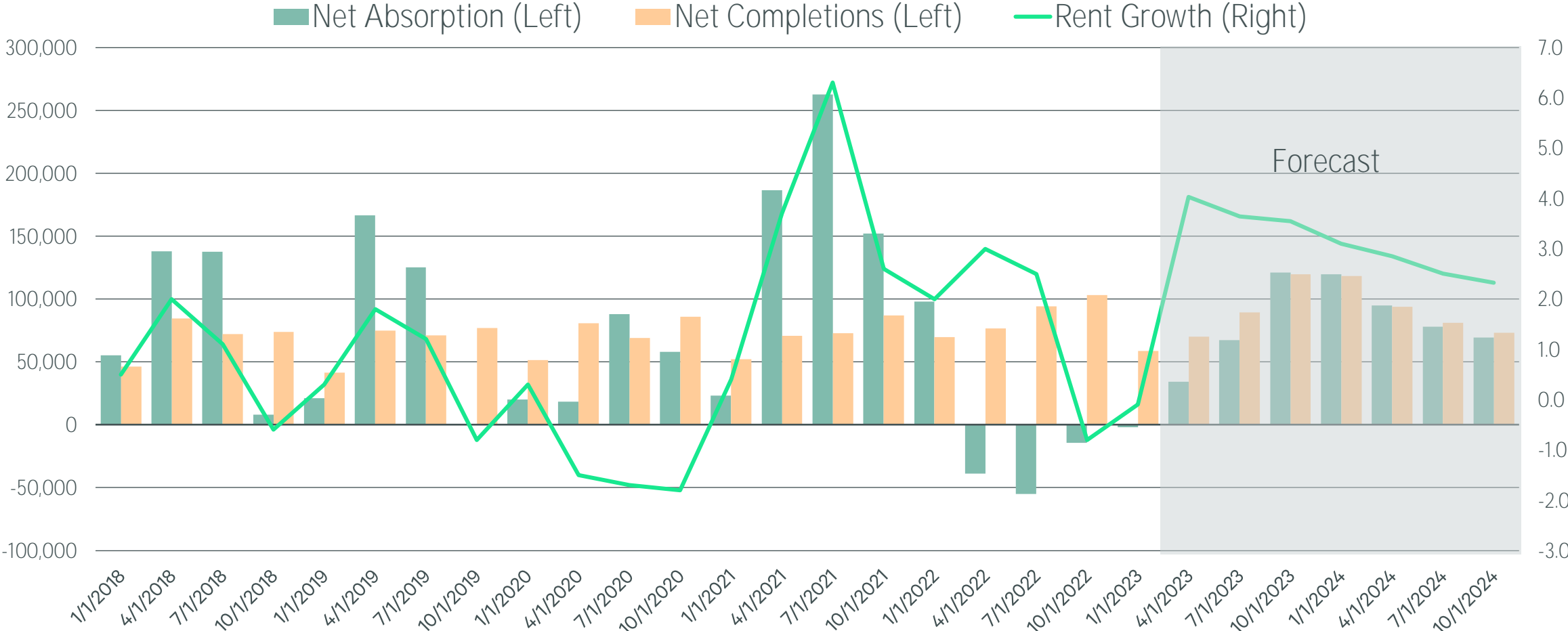
Long term shortage supports the residential sector

Number of U.S. Household Growth and New Construction Permits



Source: National Association of Realtors, Macrobond, U.S. Census Bureau, CBRE Research, January 2022.

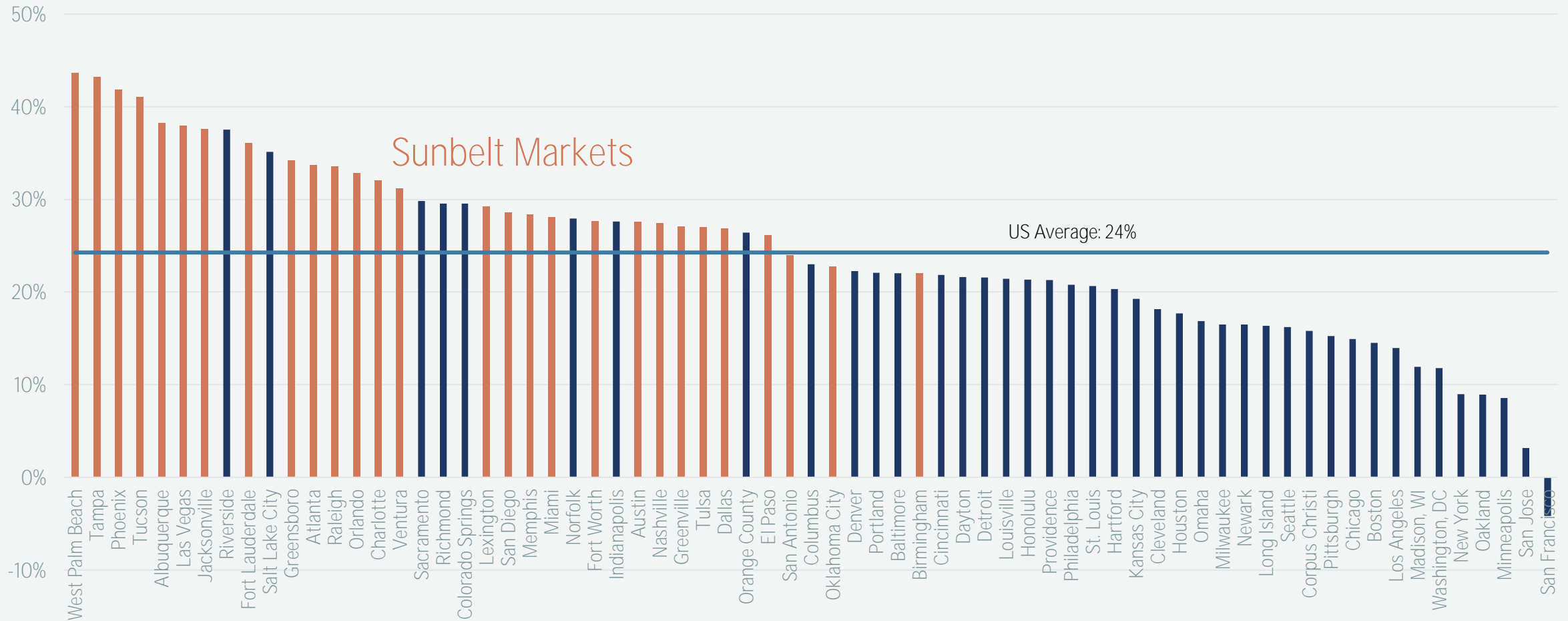
For the first time in ages, supply is ahead of demand



Source: CBRE EA, CBRE Research Q2 2023

But that is a good thing

Multifamily Rental Growth (Q4 2022-Q4 2019)



Source: CBRE EA, CBRE Research Q2 2023

THE
WeeklyTAKE

Daryl Carter

CEO
Avanath Capital

EPISODE 216

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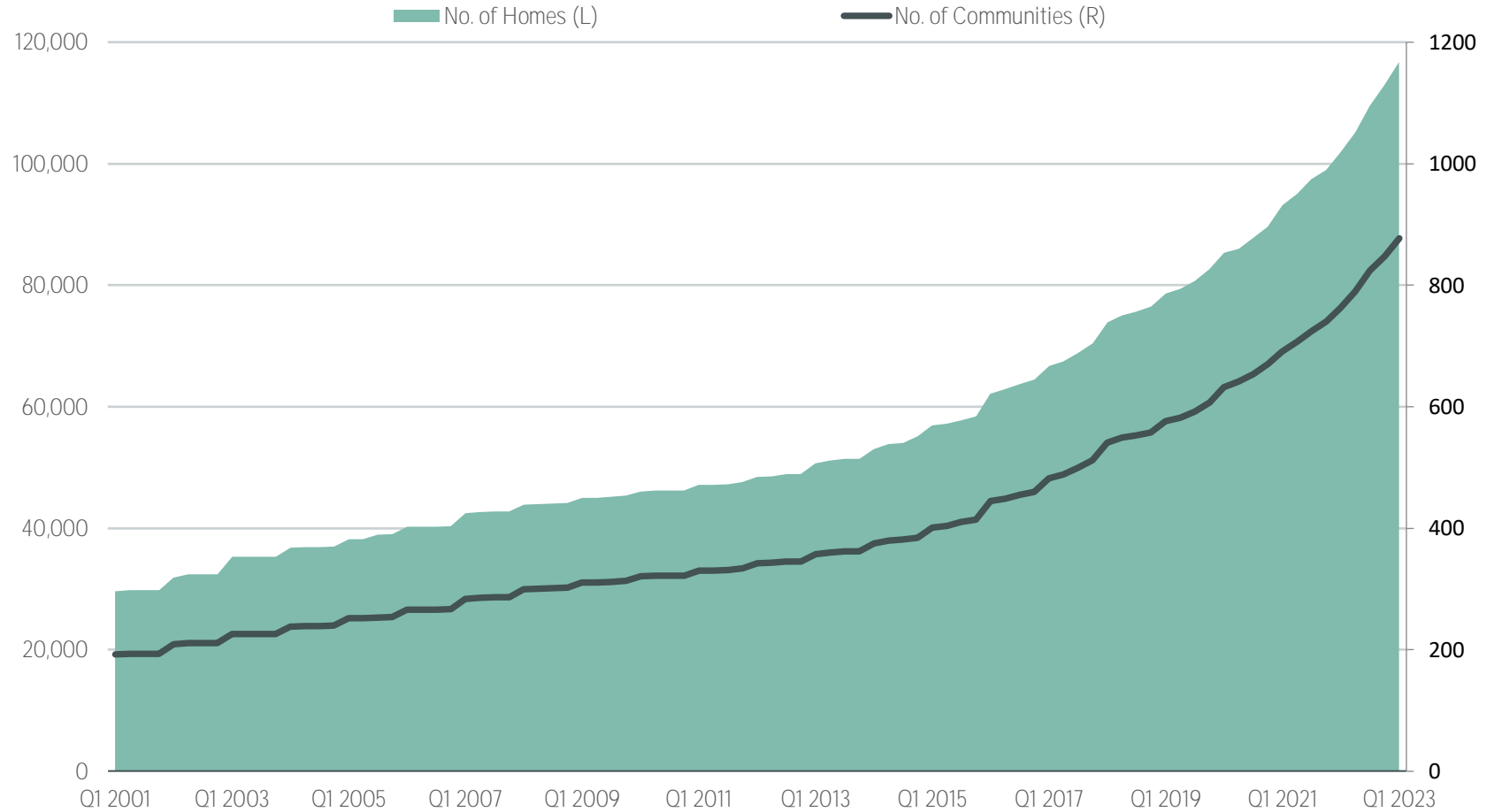


Spectacular growth in BTR communities

BTR homes in Q1 are more than double a decade ago

- While the number of homes in BTR communities remains miniscule compared to conventional multifamily, the count is rising rapidly.
- Based on our inventory of about 880 communities, there are 117,000 homes in existing BTR communities and another 43,000 homes under construction.

BTR community inventory



Source: CBRE Research, Yardi Matrix, Q1 2023.

THE
WeeklyTAKE

Jay Byce

CoFounder
ResiBuilt Homes

EPISODE 422

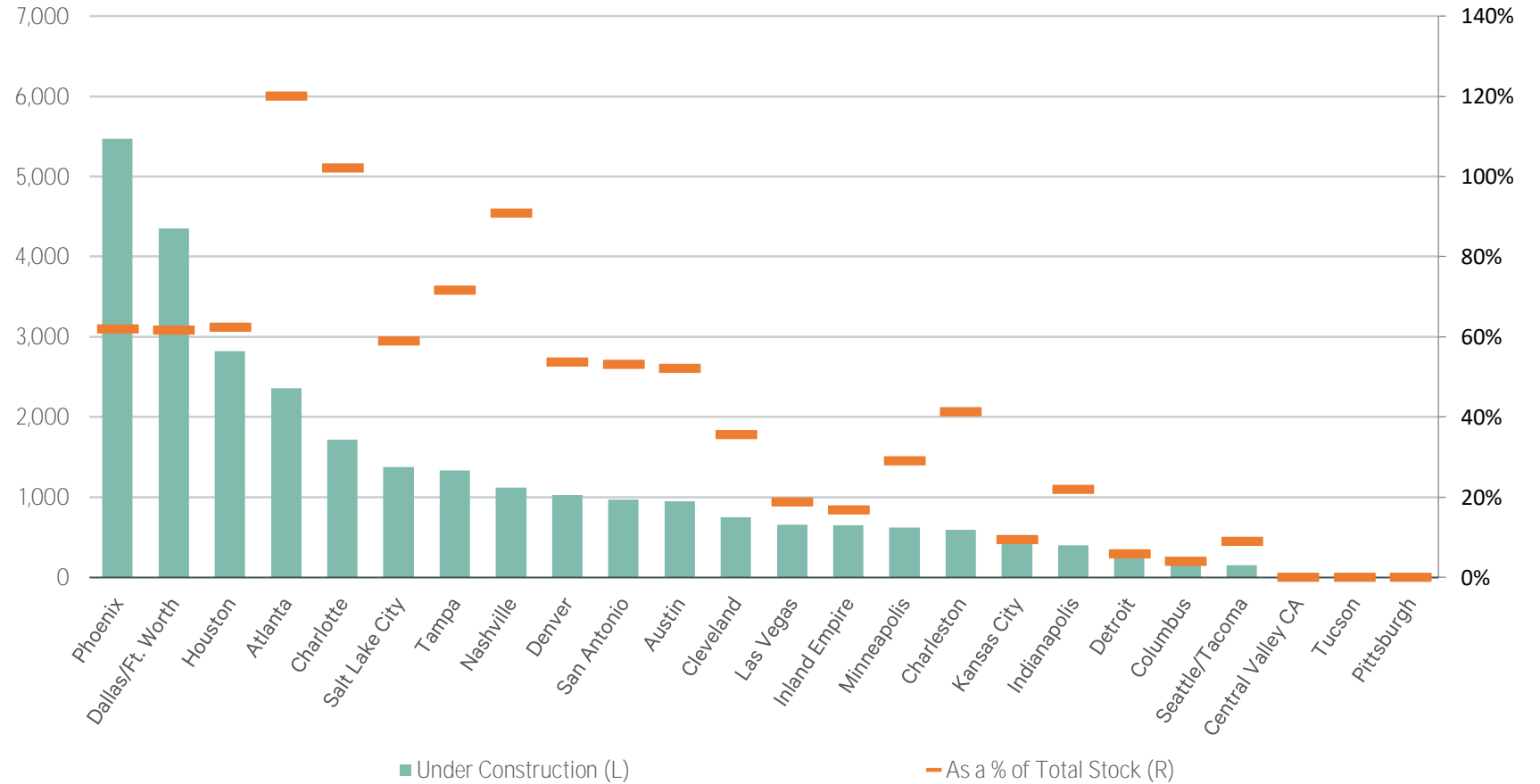
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Sunbelt markets dominate the landscape for construction as the top 11 markets looking to grow their current supply by at least 50% with their current pipelines.

The largest BTR markets ranked by Units Under Construction

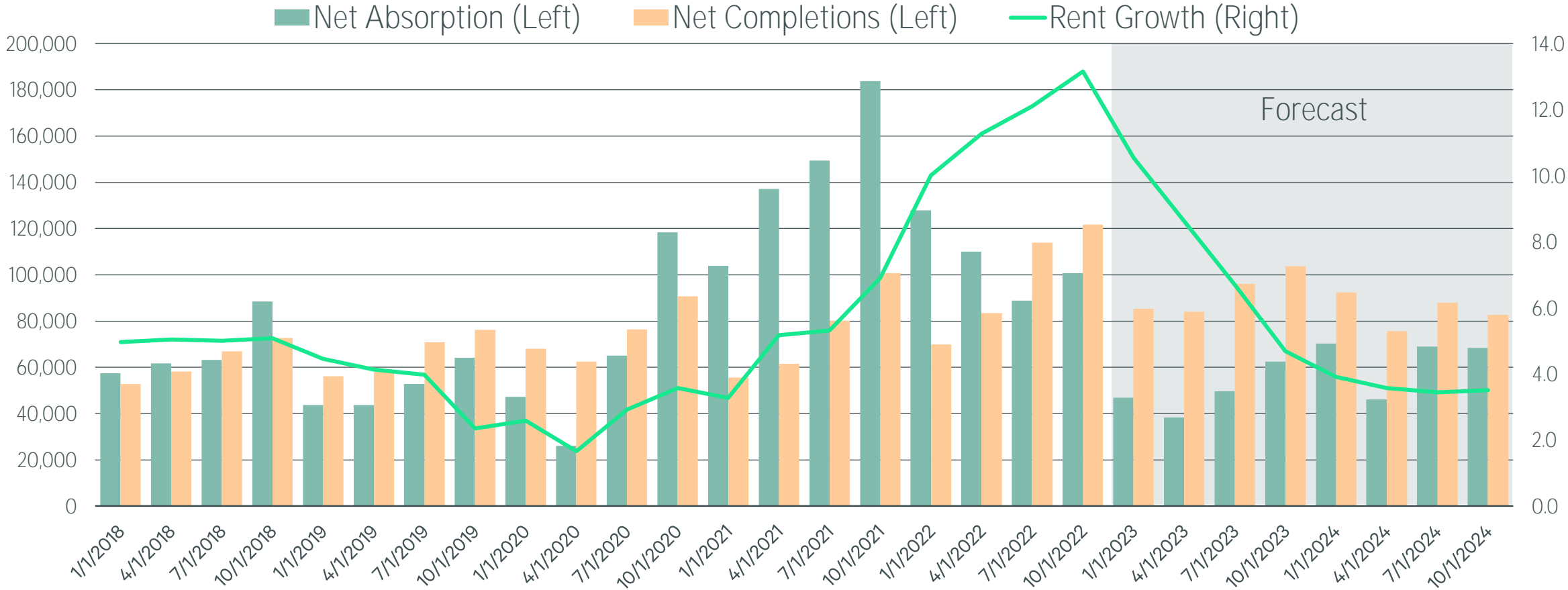


Source: CBRE Research, Yardi Matrix, Q1 2023.



Industrial & Logistics

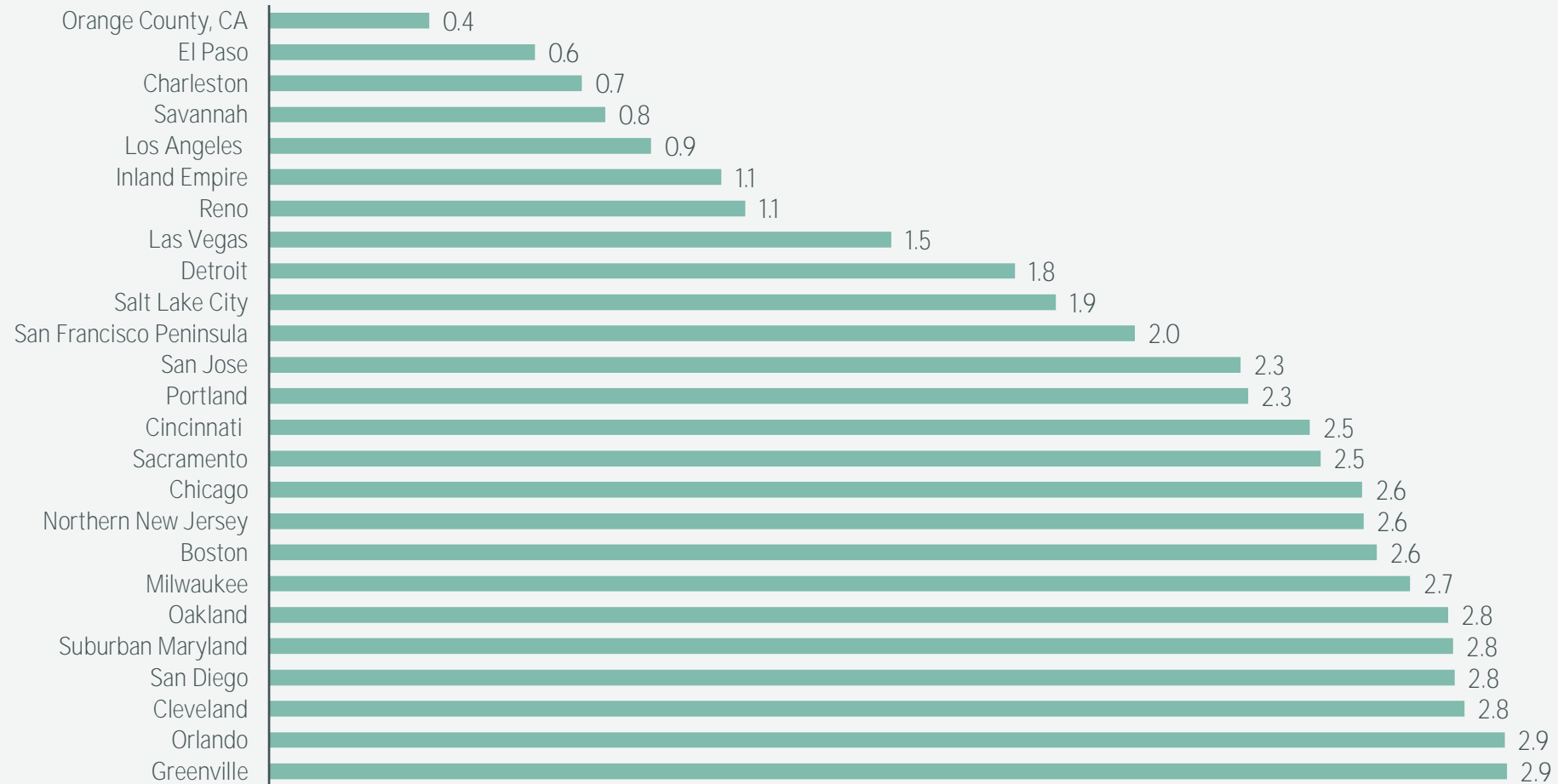
US industrial supply pulls ahead of demand



Source: CBRE EA, CBRE Research Q2 2023

Again, this is unequivocally a good thing

Industrial Vacancy Rate, top 25



Net industrial
absorption falls
below
10-year average

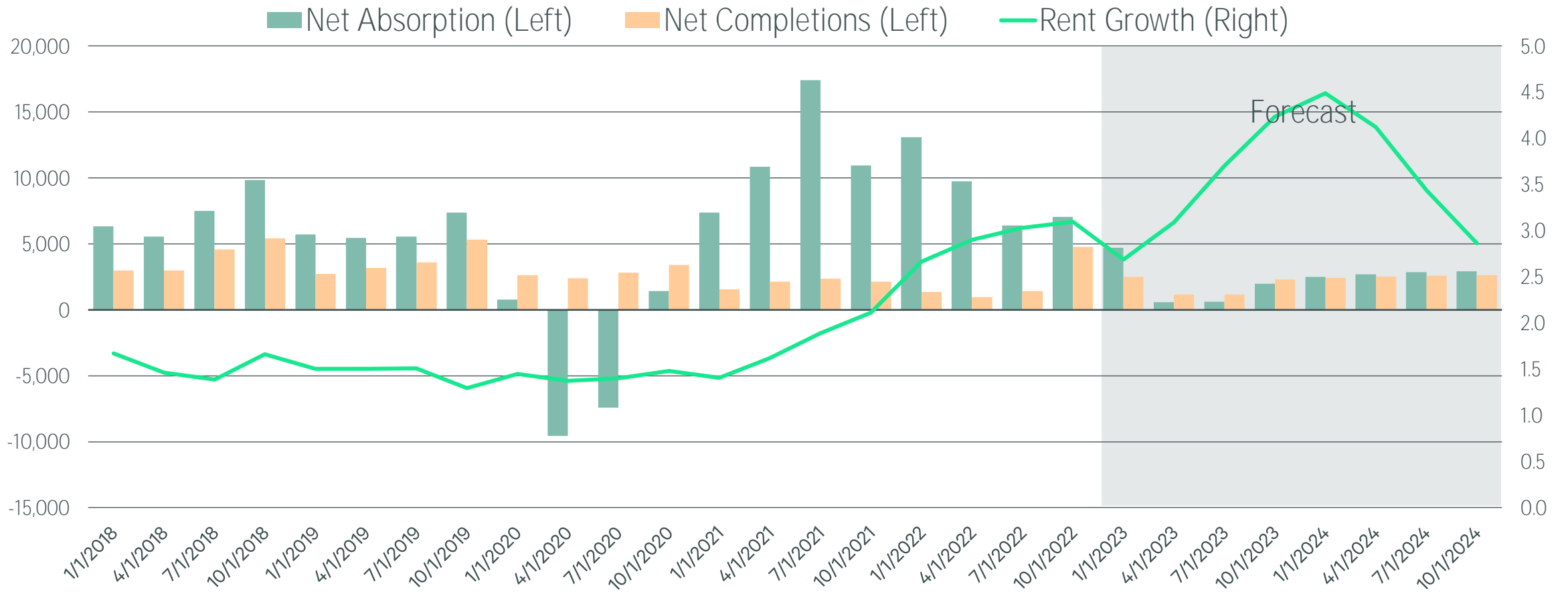


Source: CBRE Econometric Advisors, Q1 2023.

Retail



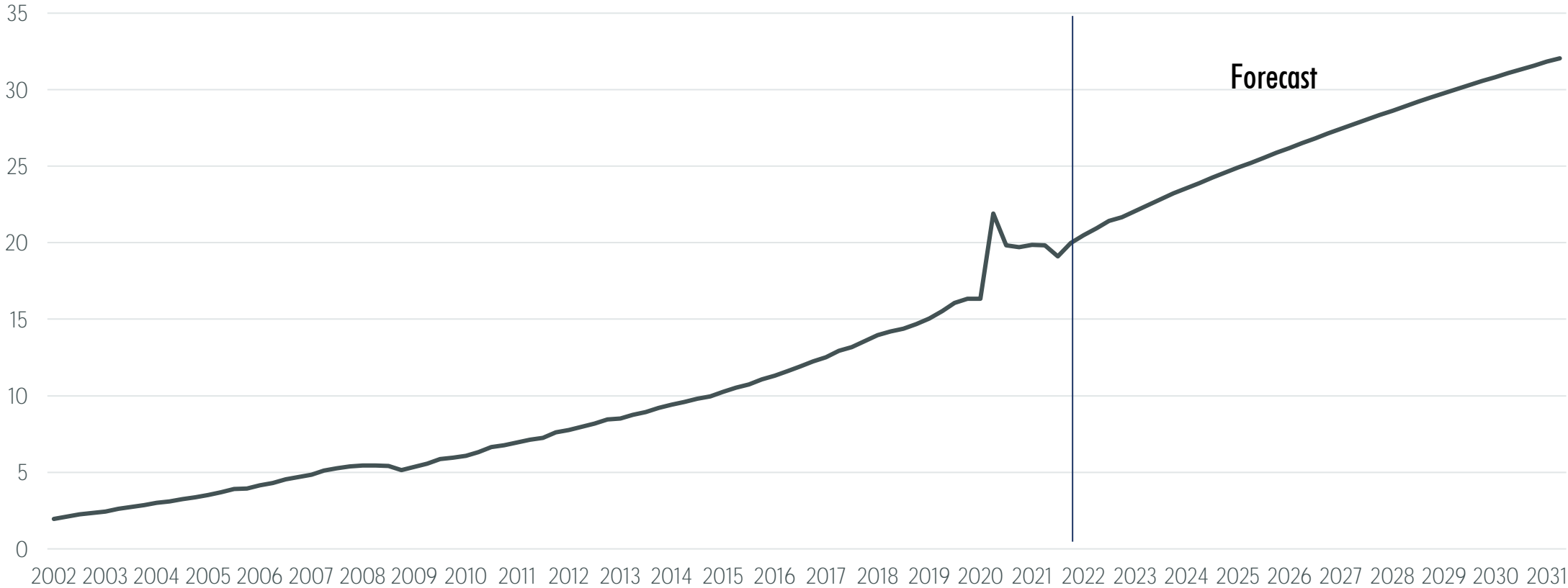
We haven't built any stores in the last 15 years



Source: CBRE EA, CBRE Research Q2 2023

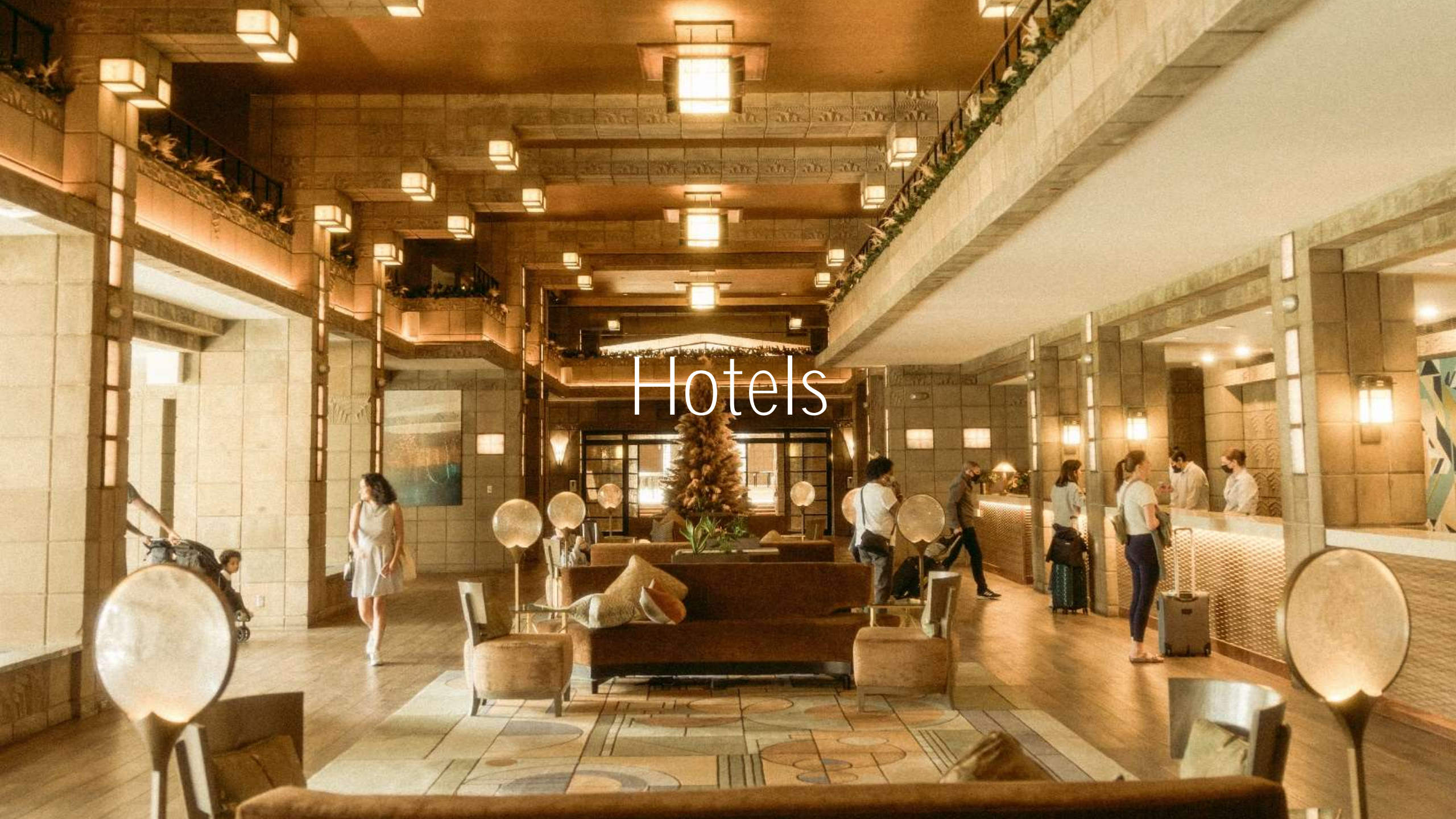
E-commerce remains a key tailwind

E-commerce Share of Total Retail Sales ex Motor Vehicles and Gas Inflation Adjusted (%)



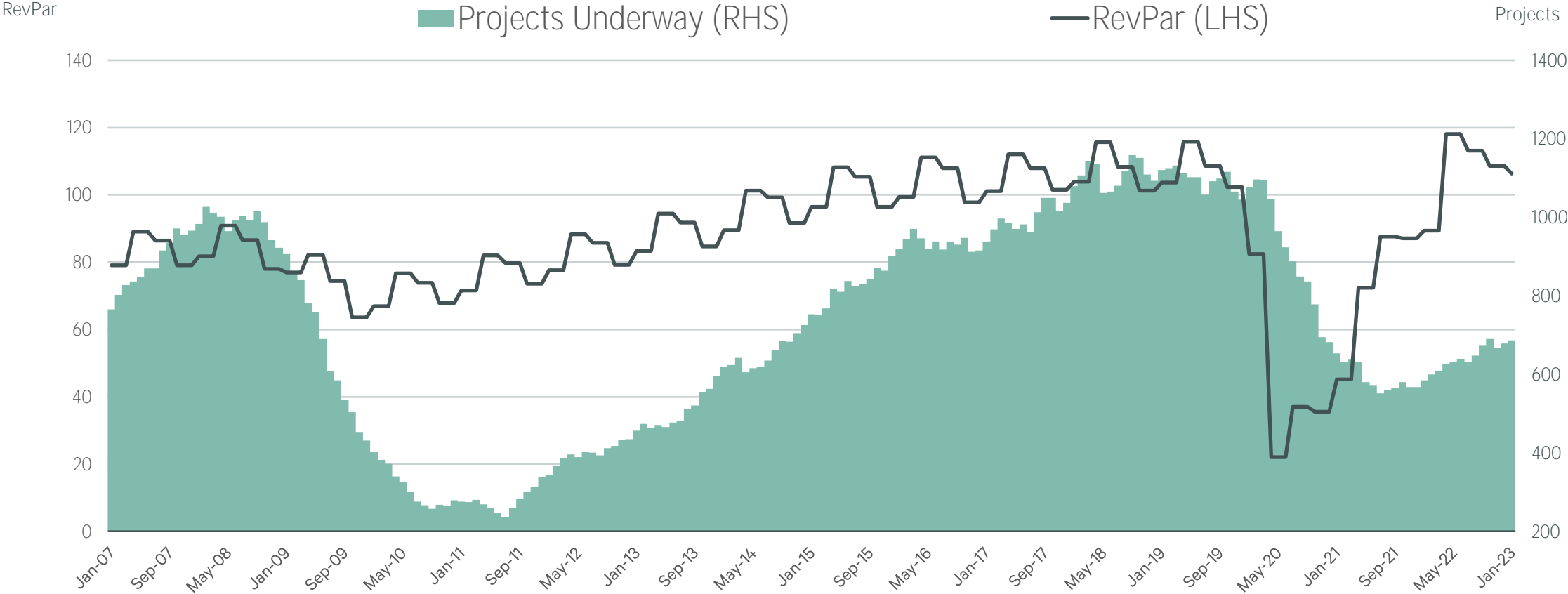
Source: CBRE Econometric Advisors
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Hotels



Hotels look likely to buck the recession

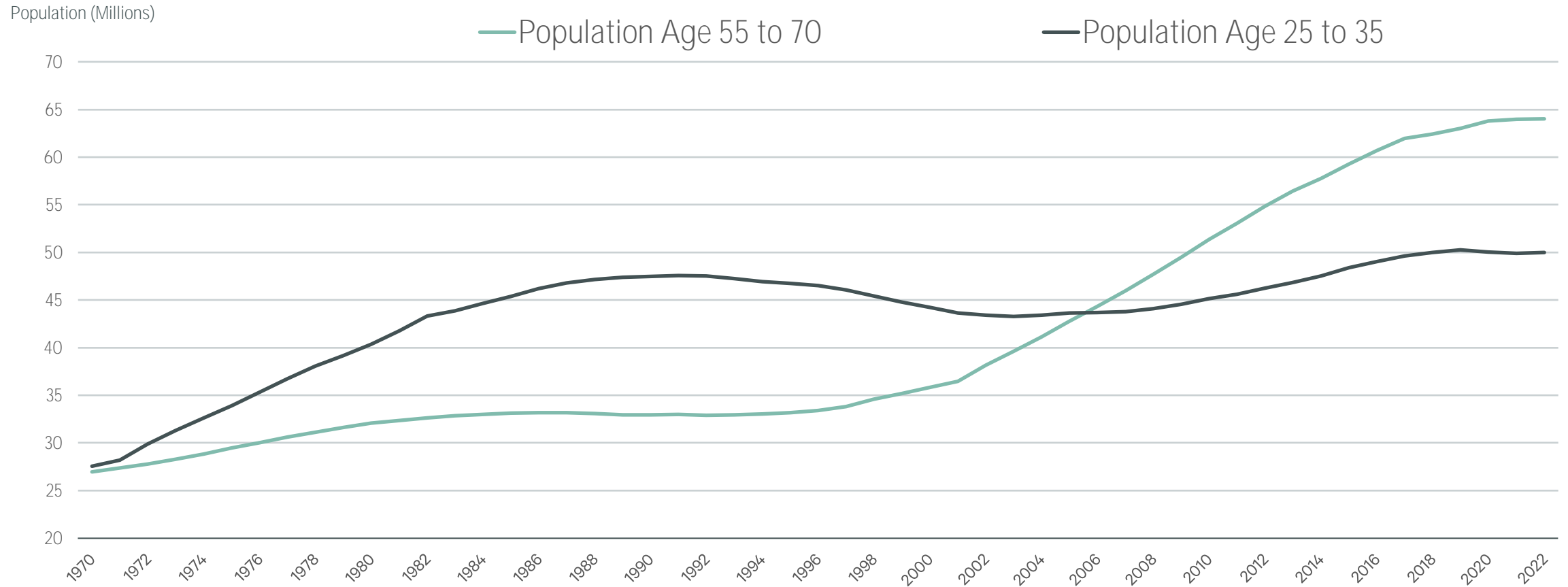
New Hotels Under Construction & Revenue Per Available Room (RevPar)



Source: CBRE Hotels Research, Kalibri Labs, BLS

Strong growth in key travel demographics

U.S. Population - Prime Travel Age Segments



Source: CBRE Research, U.S. Census Bureau

Where the Wind is Blowing

State of the Market

Washington DC | June 13, 2023

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