THE RECAP

DECEMBER 2024

The RECAP is SitusAMC's monthly Real Estate Commentary, Analytics and Perspectives on the commercial real estate market.

Our team of experts aggregates the latest trends and perspectives across commercial real estate (CRE) finance to help you stay up to date on market developments and make more informed decisions. Here are key developments to watch in December 2024.

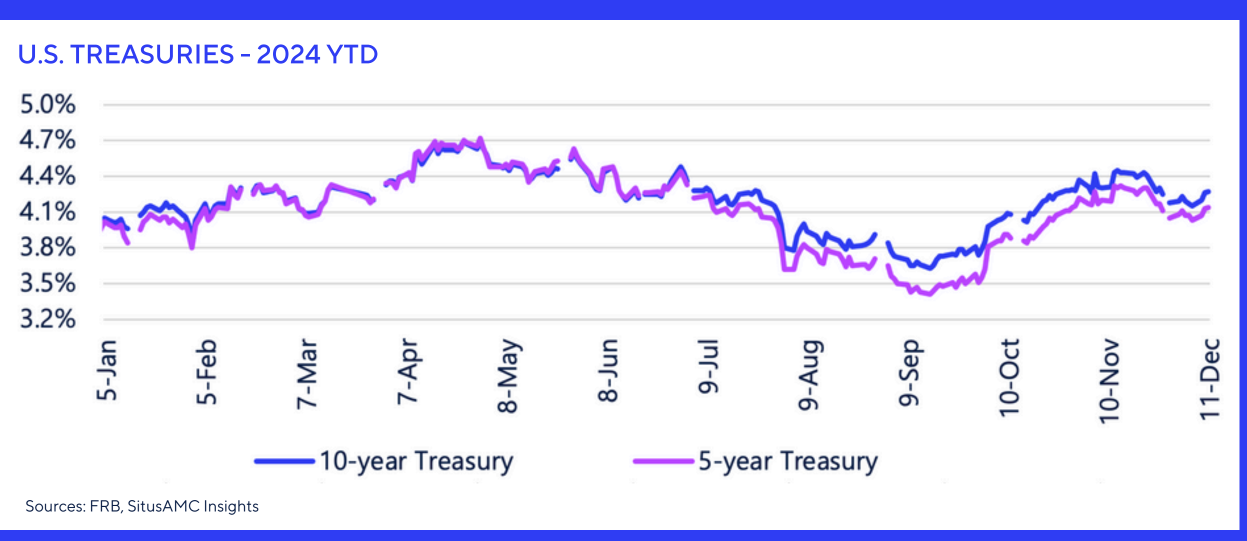
WHAT YOU NEED TO KNOW

Treasuries continue to waver amid mixed economic and political data. Overall CRE deal volume declined in September and October. Third-quarter CRE loan delinquencies continued to creep up, reaching 1.5%, while CMBS delinquencies remained flat QoQ. The forecast for overall CRE returns in 2024 is improving. Office rent growth is up but high vacancies continue to plague the sector.

OUR ANALYSIS

SitusAMC's analysis in THE RECAP leverages current data, our bespoke research and exclusive surveys of leading institutional and regional commercial real estate executives.

TREASURIES CONTINUE TO WAVER AFTER ELECTION ON UNCERTAINTY



Sources: FRB, SitusAMC Insights

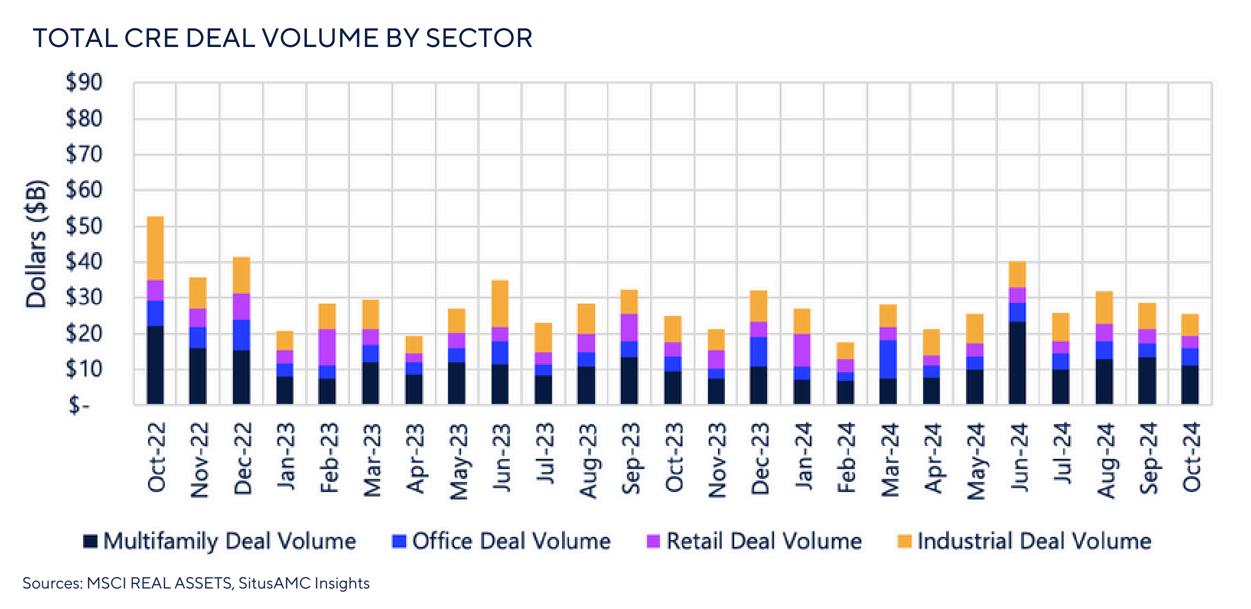
The 10-year Treasury yield continues to waver amid mixed economic and political data. Rates dipped briefly after the tepid November jobs report before rising again. The volatility is largely driven by concerns that Trump administration policies could stoke inflationary pressures. But the uncertainty surrounding them is leaving lots of room for interpretation of the potential impact. As of December 12, the 10-year Treasury yield stood at 4.3%, compared to 4.26% on November 15.

> *Treasuries continues to waver amid mixed economic and political data.*
>
> **PETER MUOIO, PHD**
> Head of SitusAMC Insights

4.30%

10-YEAR TREASURY - DECEMBER 12

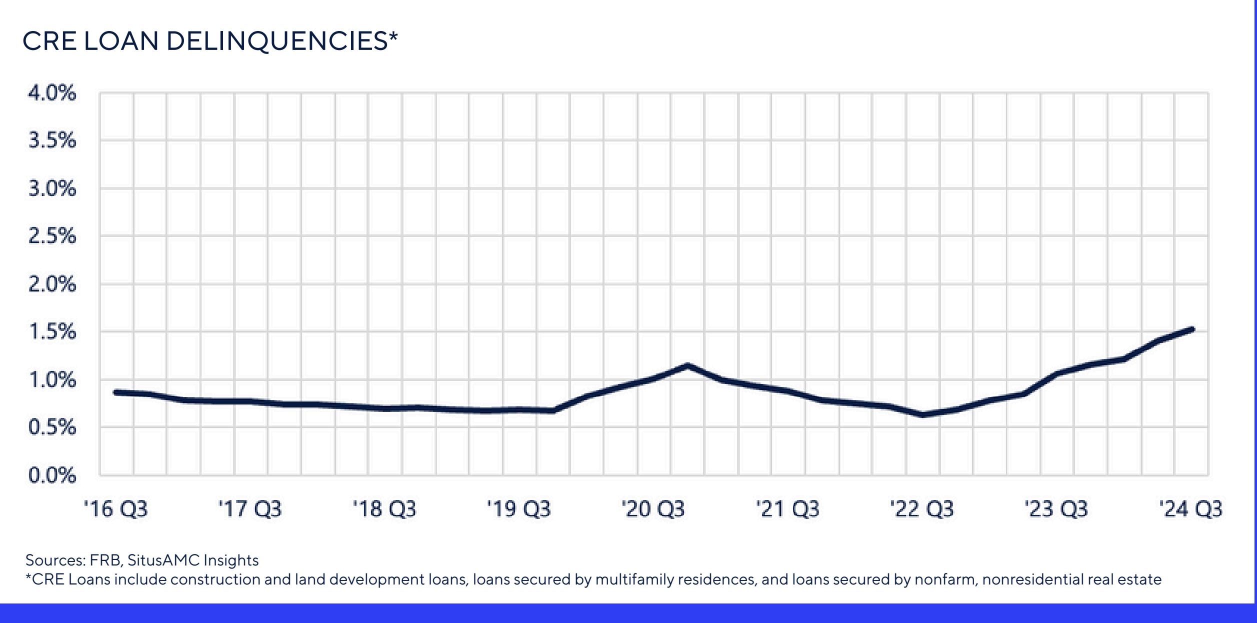
CRE TRANSACTION VOLUME DECLINED IN THE SEPTEMBER AND OCTOBER



Sources: MSCI REAL ASSETS, SitusAMC Insights

Following sparks of deal activity in June and August, overall CRE transaction volume declined in September and October. Total CRE deal activity dipped 7% MoM in October to about $30 billion, as measured by MSCI Real Assets -- the slowest month since April 2024. Overall CRE volume has fallen 67% since the Fed's aggressive rate hikes began in June 2022, and 85% since the peak in December 2021. With the exception of the office sector, transaction volumes tumbled for all major property types, most notably for retail. Surprisingly, office activity surged almost 29% in October following a 23% monthly decline in September. The growth is attributed to individual property transactions as portfolio deals continued to subside. In particular, 701 Brickell in Miami, the top-performing office building in the nation in terms of occupancy and rent growth, sold in October for $443 million -- the second largest office sale in Florida's history.

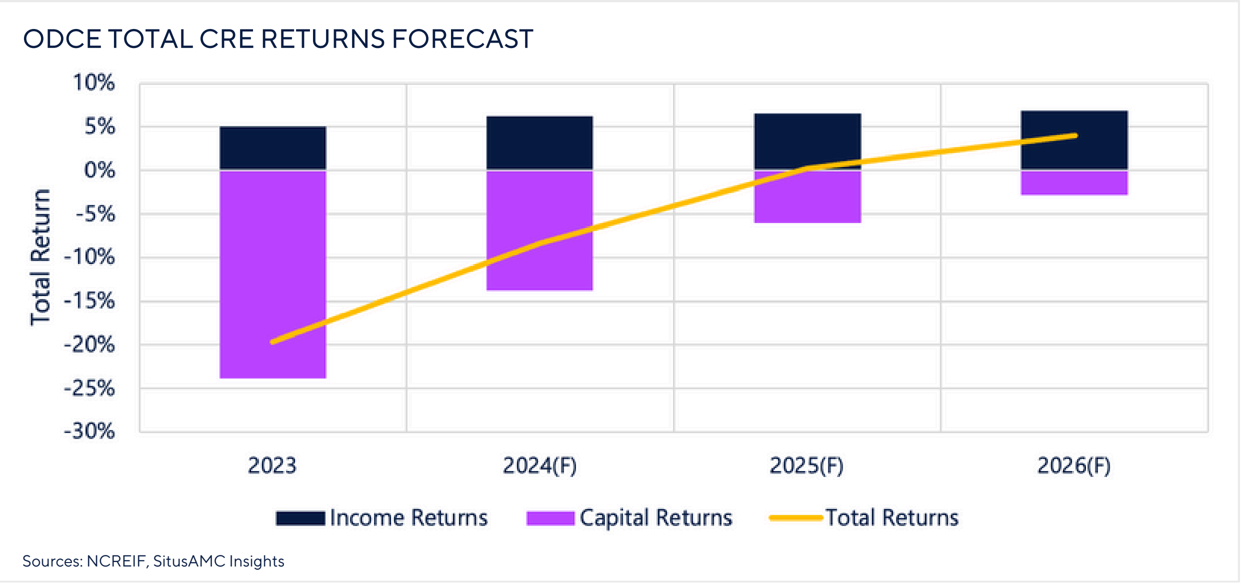
CRE LOAN DELINQUENCIES RISE



Sources: FRB, SitusAMC Insights
*CRE Loans include construction and land development loans, loans secured by multifamily residences, and loans secured by nonfarm, nonresidential real estate

Third-quarter CRE loan delinquencies continued to creep up, reaching 1.5%, an 11-bps increase from the previous quarter, and the highest rate since 2014. CRE delinquencies were highest in the New England, Middle Atlantic and East North Divisions, while delinquencies in the East South and West North Central were the lowest. CMBS delinquencies were essentially flat over the quarter at 4.8%, the highest level in three years.

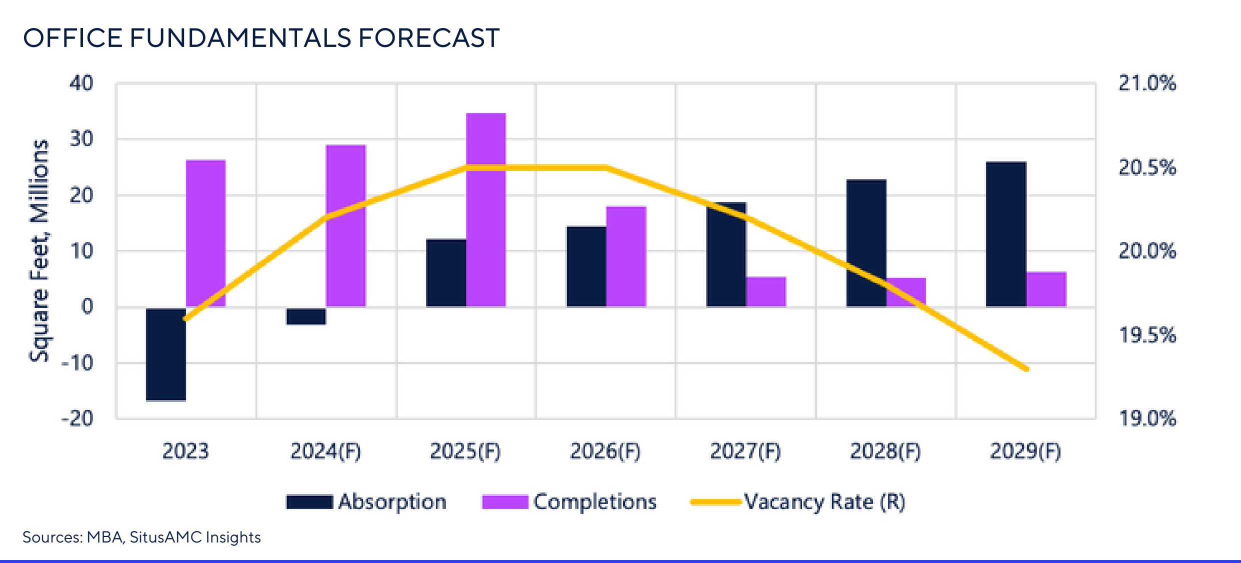
SITUSAMC FORECAST IMPROVES FOR OVERALL CRE RETURNS IN 2024



Sources: NCREIF, SitusAMC Insights

Forecasts for overall CRE returns are improving relative to last quarter, according to SitusAMC's recently released NCREIF ODCE return forecasts. Overall CRE total returns are now expected to be slightly positive through the end of this year, with capital appreciation turning positive in 2025. Office is expected to see the greatest one-year improvement in returns (1135 bps), with total returns turning slightly positive in 2025. Multifamily, retail and industrial returns should turn positive by the end of 2024.

RENT GROWTH IS IMPROVING BUT HIGH VACANCIES PLAGUE THE OFFICE SECTOR



Sources: MBA, SitusAMC Insights

Although office rent growth improved by 50 bps, it is expected to remain negative through 2026, and the sector continues to suffer vacancy rates of around 20%, according to SitusAMC's forecast. The percentage of companies requiring workers to be full time in the office has declined 16 percentage points since the first quarter of 2023, the earliest these data became available from Flex Index, a global database of 10,000+ companies representing 75,000+ offices. However, "structured hybrid" policies have become more prevalent, with 71% of companies requiring some form of in-office work. A growing consensus on hybrid work may help occupiers clarify their space needs and give them the confidence to sign new leases.

ABOUT SITUSAMC

SitusAMC is the leading independent provider of innovative, trusted solutions powering the lifecycle of commercial real estate finance. THE RECAP is our monthly snapshot that aggregates the latest trends and perspectives across commercial real estate finance in an easy to digest format.

situsamc.com/CRErecap