

THE RECAP

JANUARY 2025

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 January 2025.

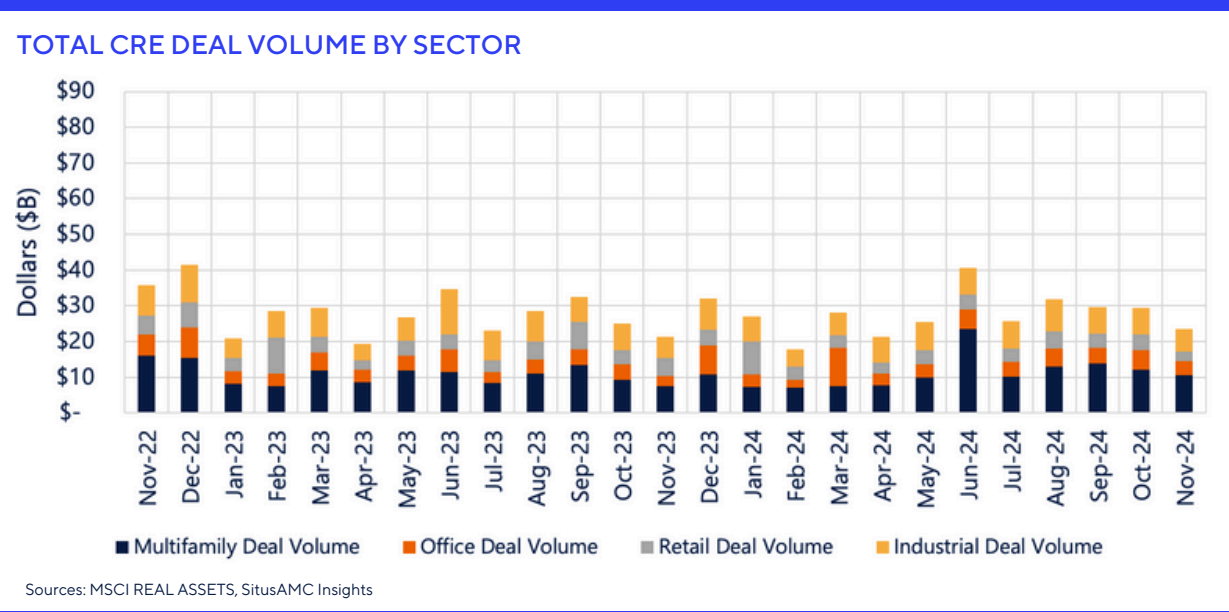
WHAT YOU NEED TO KNOW

The CRE market faces significant challenges as CMBS delinquency rates continue to rise, reaching a historic high of 6.57% in December 2024. Multifamily housing starts have declined by over 13% since May 2024, and Class A apartments are seeing a more rapid increase in vacancies than Class B/C apartments. Despite high vacancy rates, both Class A and Class B office rents saw slight increases over the quarter.

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.

OVERALL CRE DEAL VOLUME DECLINES IN NOVEMBER 2024, RETAIL SEGMENT SUFFERS THE MOST



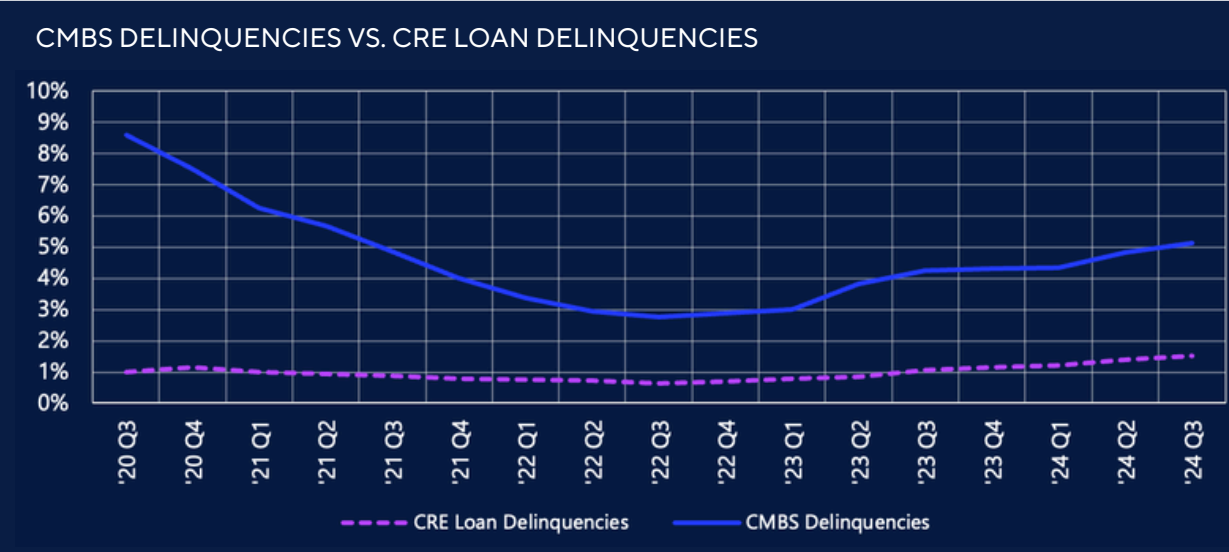
At \$25.7 billion in November, overall CRE deal volume was down more than 25% MoM to the lowest level since February 2024. All major property types experienced a decline in November, with retail suffering the most. However, deal activity was up YoY for all segments except retail. Despite continued weak transaction volumes, prices for all segments, except office, rose in November. Multifamily pricing was the most resilient over the month, with pricing the highest since November 2022.

As of November 2024, multifamily housing starts are down more than 13% since May 2024, which is likely to temper future supply and support nascent rent growth.

PETER MUOIO, PHD
Head of SitusAMC Insights

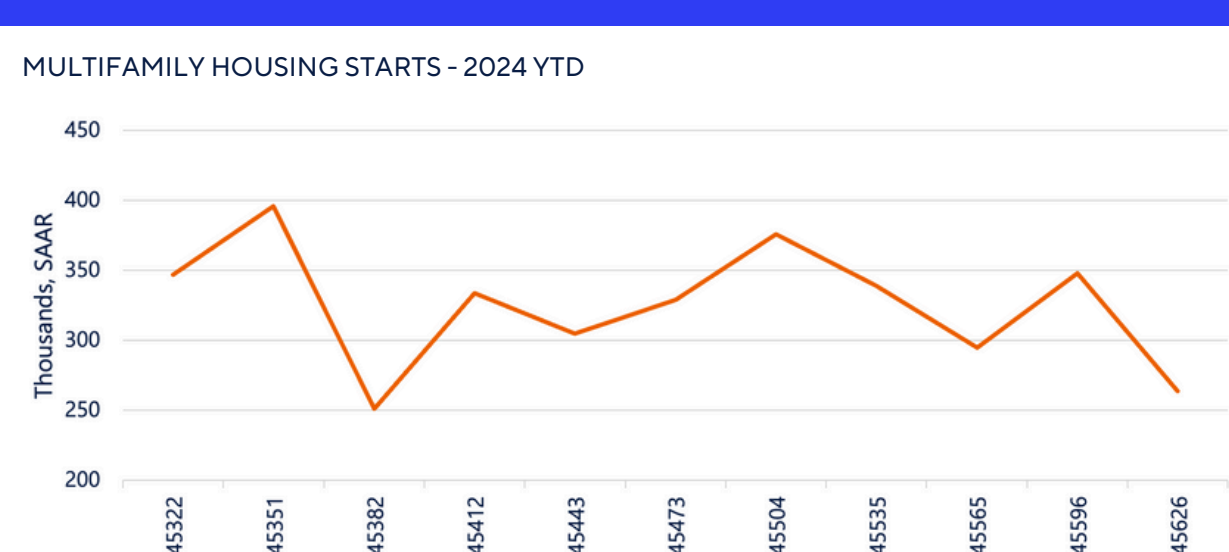


CMBS DELINQUENCY RATES CONTINUE TO RISE, REACHING 5.2% IN THIRD QUARTER 2024



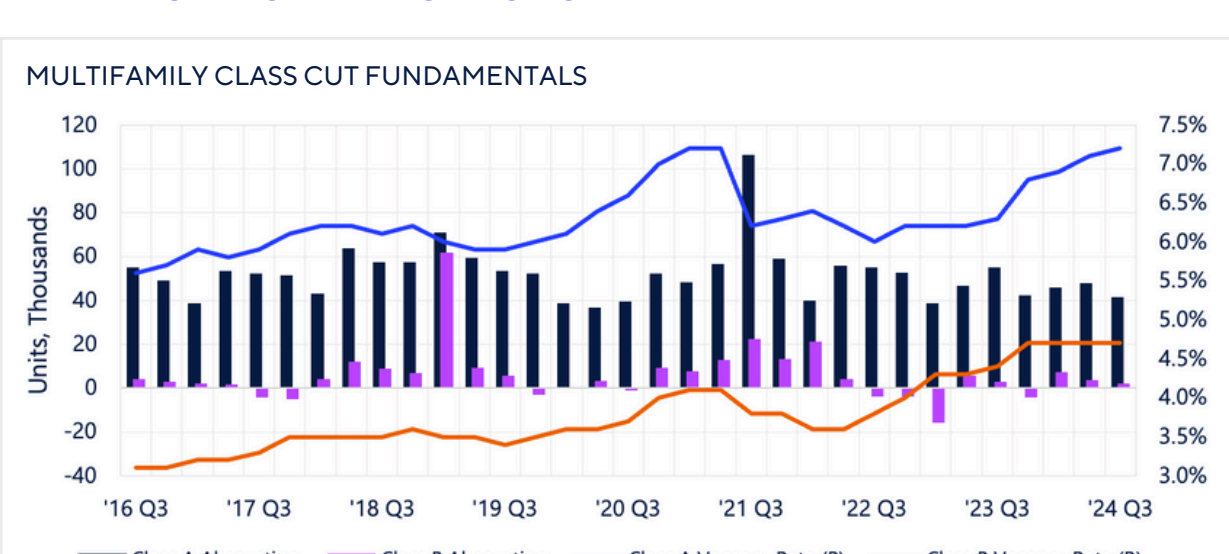
CMBS delinquencies (30+ days) increased to 5.2% in the third quarter, the highest rate in three years and historically elevated. Additional data from Trepp shows overall CMBS delinquencies increasing throughout the fourth quarter, reaching 6.57% in December. Trepp showed the office delinquency rate rose 63 basis points in December to over 11% for the first time since Trepp began tracking delinquency rates in 2000. The retail delinquency rate experienced the largest increase across property types, jumping almost 90 basis points to 7.4%, a 2.5 year high. The largest newly delinquent retail loan was a massive SASB loan with a balance of more than \$500 million.

MULTIFAMILY SEGMENT FACES DEVELOPMENT CHALLENGES AS HOUSING STARTS DOWN MORE THAN 13% SINCE MAY 2024



The multifamily segment continues to experience development challenges - high interest rates, tight lending standards, labor shortages and elevated construction expenses were making it hard for multifamily projects to pencil out. As of November 2024, multifamily housing starts were down more than 13% from May levels, which will likely temper future supply and support rent growth. Current multifamily starts are down 57% from their recent peak in April 2022 and are 23% lower than the post-GFC average.

CLASS A APARTMENTS SEE MINIMAL RENT GROWTH IN Q3, DESPITE RAPID INCREASE IN VACANCIES



The key story continues to be that Class A apartments are seeing a more rapid increase in vacancies than B/C apartments, as the tapering wave of completions hurts the Class A market. This has not shown up in rents, with Class A seeing minimal rent growth in the third quarter.

CLASS A AND CLASS B OFFICE RENTS EXPERIENCE SLIGHT INCREASES DESPITE HIGH VACANCY RATES



After experiencing a sharp rise in Class A office vacancies relative to Class B over the past couple of years, Class A vacancies have caught up to the Class B rate of about 20%. Despite the high vacancy rates, both Class A and Class B office rents had slight increases over the quarter.

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

