U.S. Capital Markets report

Q1 2024

AVISON YOUNG

Capital Markets trends

-48.54%

Change in Debt Origination relative to 2023 YTD.

Commercial real estate debt origination remains challenged in light of elevated interest rates. While 2024's YTD **$56.04 billion** is well behind 2023 Q1 levels, the amount of active lenders is also significantly down. There are a myriad of reasons for this, such as overexposure to troubled assets, but this has paved the way for opportunistic buyers to take advantage of the conditions. A looming issue to monitor is the regional bank lending mechanism, which largely drove CRE lending over the last cycle, has virtually shut down, with no clear alternative in sight.

-54.86%

Change in Investment Sales volume relative to 2023 YTD.

Equity markets, much like debt markets, remain a heavily challenged environment, and the 2024 YTD total of **$29.64 billion** in investment sales shows suppression across the board that is not limited to office. Notably sidelined are institutional investors, likely due to the increased sensitivity as it relates to cost of capital.

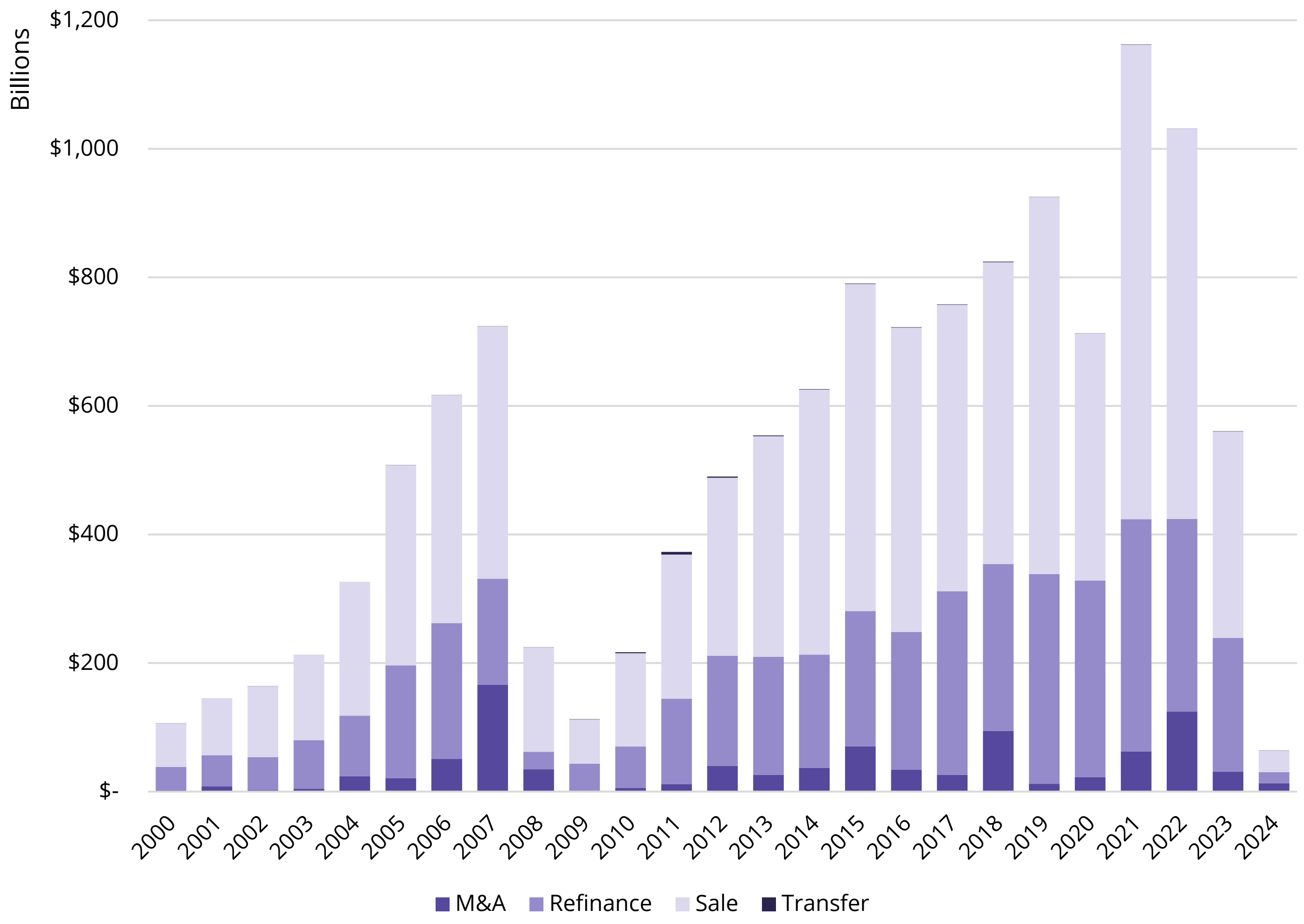
$99.5B

Dry powder at close-ended funds with a vintage from 2014-2024.

The amount of dry powder that is ready to be deployed sits overwhelmingly in the opportunistic or value-add vehicles, with Blackstone raising **$30 billion** in the largest real estate fund ever, specifically for opportunistic investments. An overwhelming majority of these opportunistic funds are targeting IRR's over 20% which would indicate a heavy bet on a rebound in pricing as interest rates are cut.

Source: AVANT by Avison Young, RCA

Debt Origination



Commercial real estate debt origination has remained highly suppressed through Q1 2024, sitting over **48% below** the level reached through Q1 2023. Elevated interest rates have made refinancing assets significantly more expensive. However, with a large quantity of commercial real estate loans maturing this year, transactional activity and therefore, origination, is poised to increase.

Source: AVANT by Avison Young, CoStar, RCA

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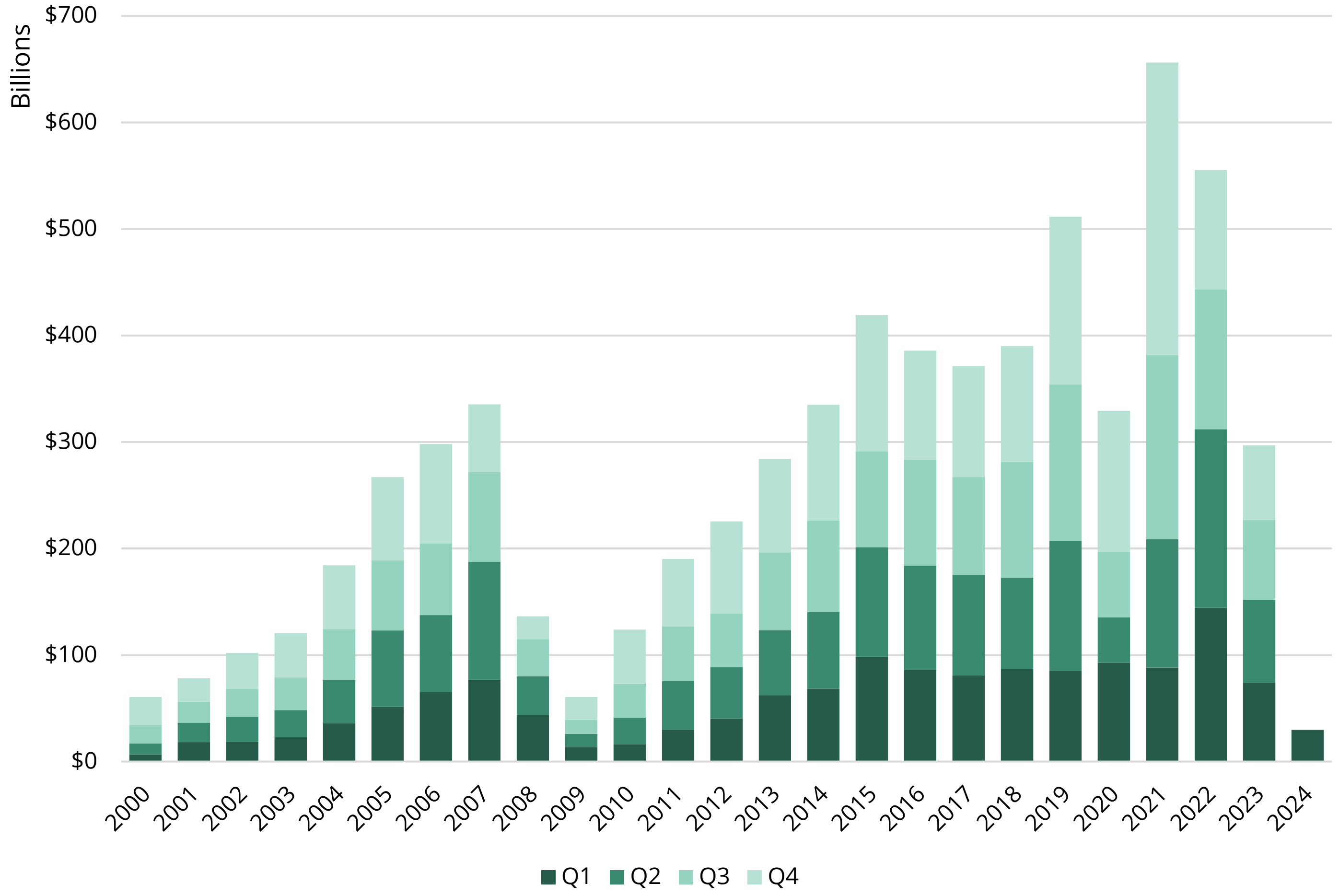
Investment Sales



U.S. investment sales across all property types registered the lowest Q1 volume since 2010, this is in large part due to an elevated interest rate environment impacting asset valuations, as well the structural headwinds specific to the office sector. Lenders have been offering many short-term extensions to mortgages, which has delayed price correction and stalled the sales market.

Source: AVANT by Avison Young, CoStar, RCA

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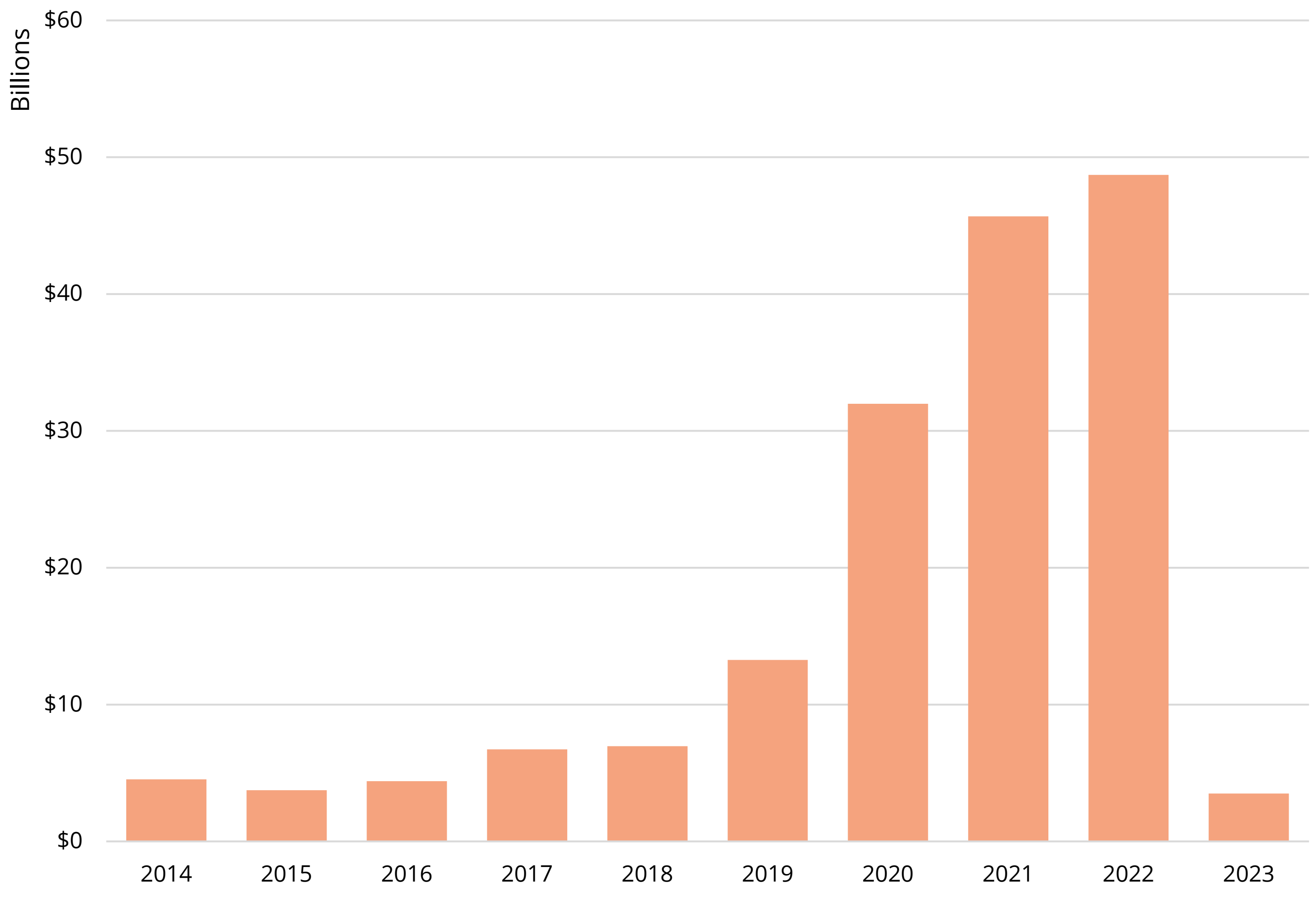
Supply of Capital – Fund Vintage



Despite heavily suppressed transactional activity, dry powder remains plentiful, with an overwhelming majority of 2021 and 2022 vintage funds utilizing opportunistic strategies. Capital deployment is a trend to monitor, with investors seeking attractive entry valuations.

Source: AVANT by Avison Young, CoStar
Note, Closed-ended funds only

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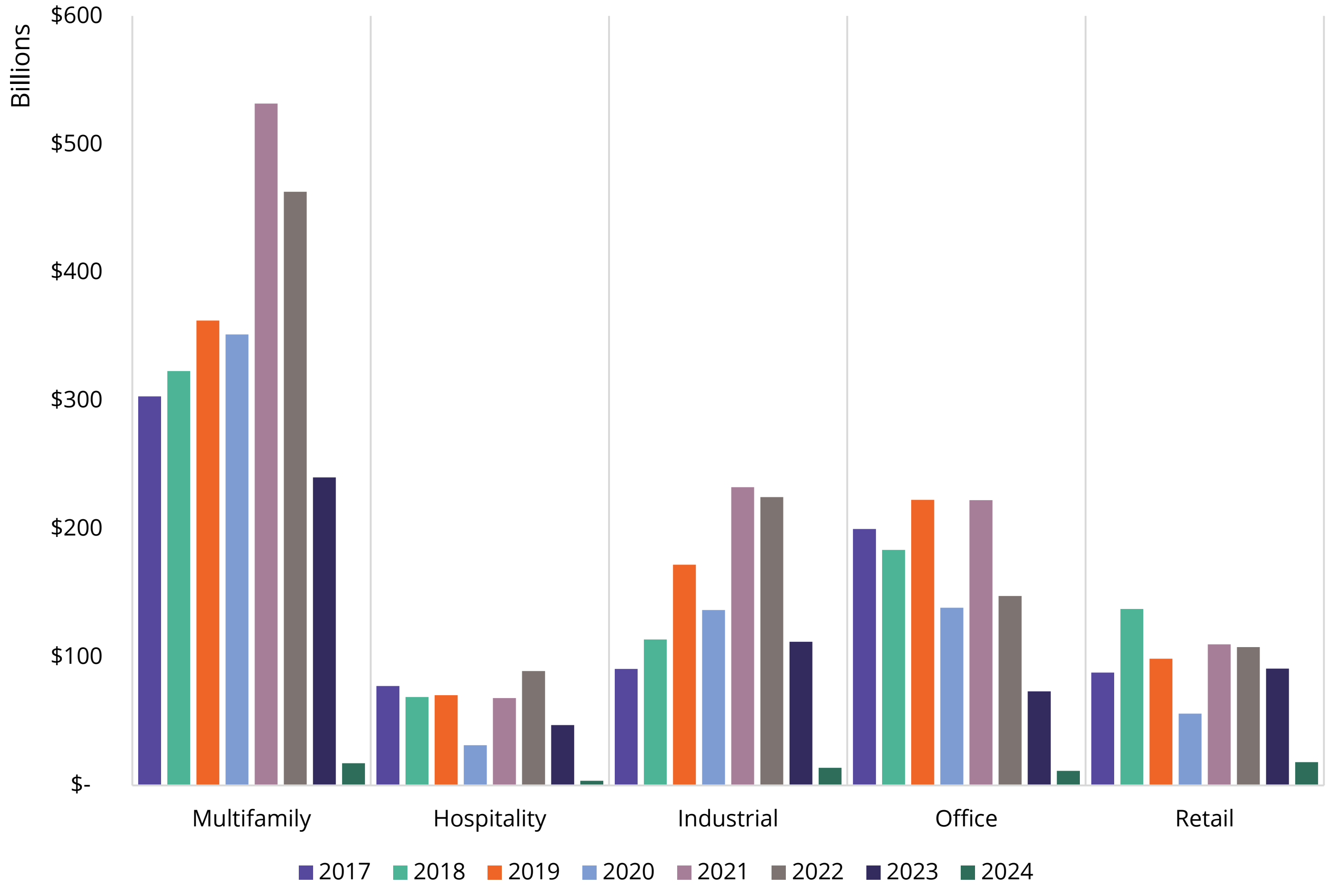
Debt Markets

Origination Volume by Property Type



Following two years of elevated origination volume, multifamily origination has dropped sharply since the beginning of 2023. Office has continued to fall out of favor with investors as a result of structural shifts fundamentally changing the way office space is utilized. Retail and Industrial properties continue to outperform their peers.

Source: AVANT by Avison Young, CoStar, RCA

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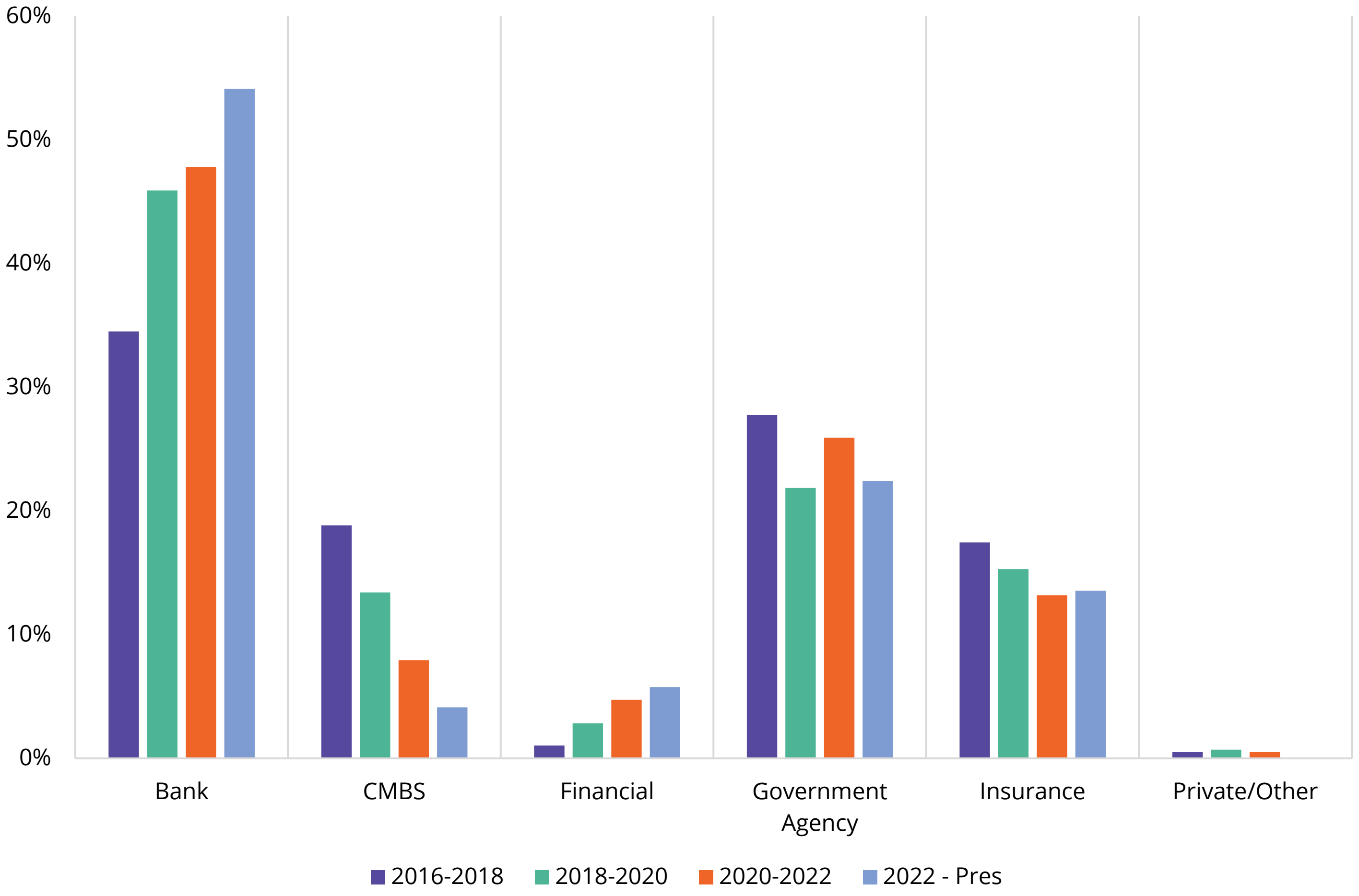
Originations by lender type

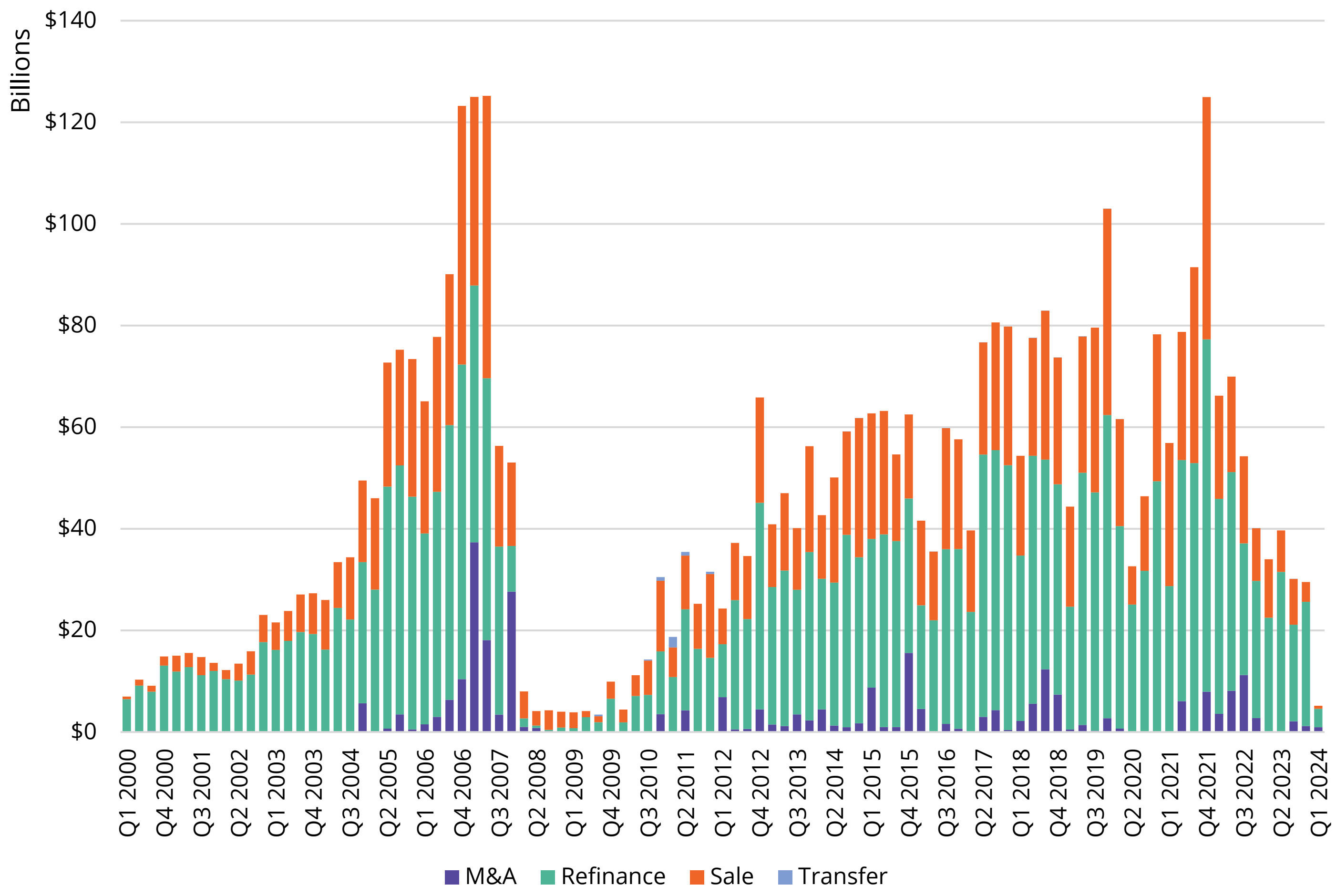


Banks have captured a larger pro-rata share of lending over time, with much of this lending being confined to smaller regional banks. CMBS has accounted for a smaller share of overall lending from 2022 to present, however, there is a recent uptick in interest on the part of CMBS lenders, which while not reflected in data yet, should prove to be an interesting trend to monitor.

2023 volatility as it relates to bond spreads tremendously hampered CMBS vehicle's ability to lend, and with spreads tightening, CMBS lenders are attempting to take advantage of clearer market conditions.

Source: AVANT by Avison Young, CoStar, RCA

CMBS Issuance



The scope for growth in securitized markets could surpass their current scale, reminiscent of the pre-Global Financial Crisis era. However, recent rises in interest rates have markedly affected these markets. While spreads have adjusted, the heightened volatility in rates has amplified the risk involved in originating loans for securitization.

Source: AVANT by Avison Young, CoStar, RCA

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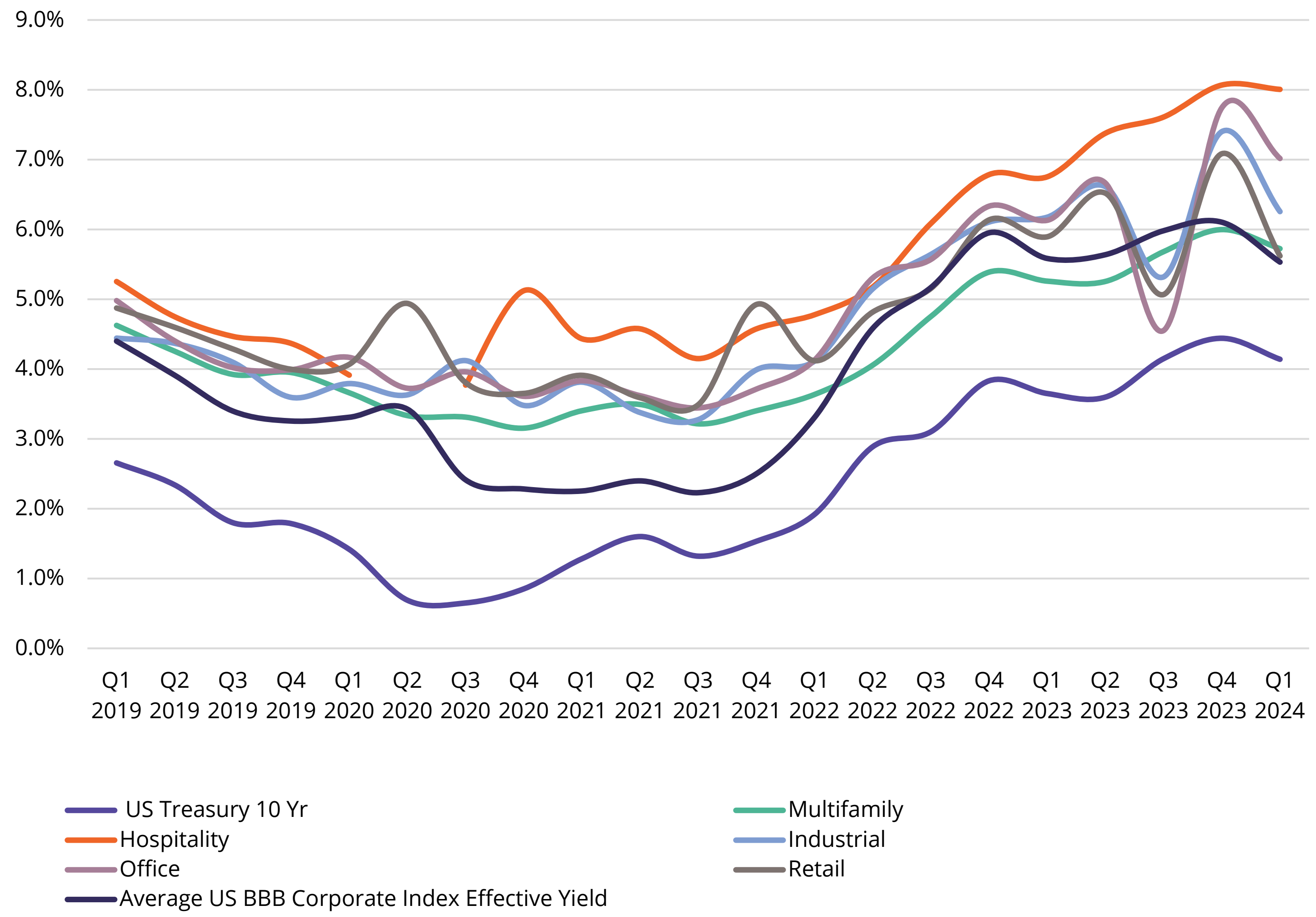
Fixed-Rate Debt Costs



Source: AVANT by Avison Young, CoStar, RCA

The Fed's rate hiking cycle and corresponding increases in yields across the Treasury curve have been the primary drivers for elevated debt costs. With inflation still not below the Fed target, expect rates to remain higher for longer.

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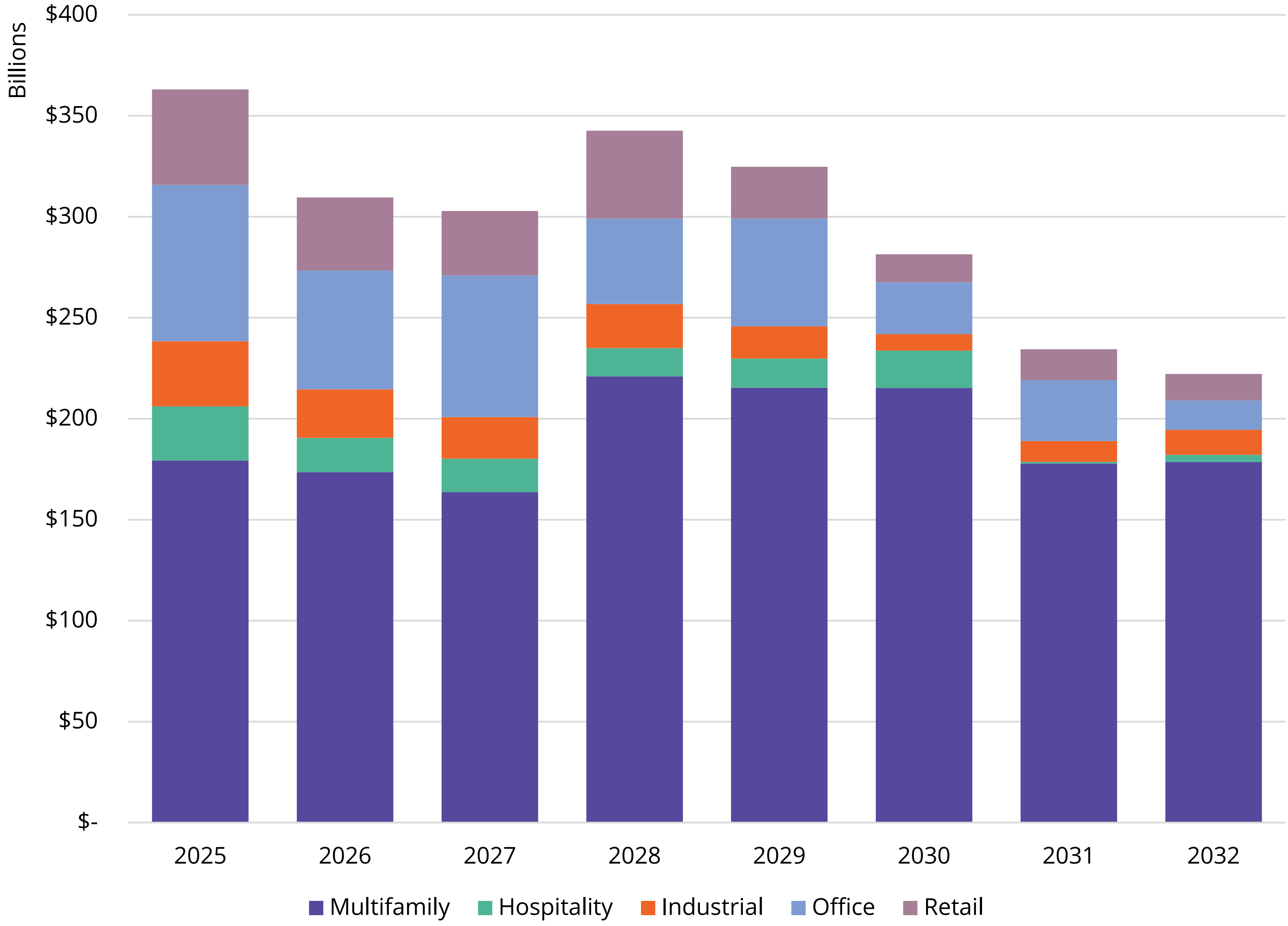
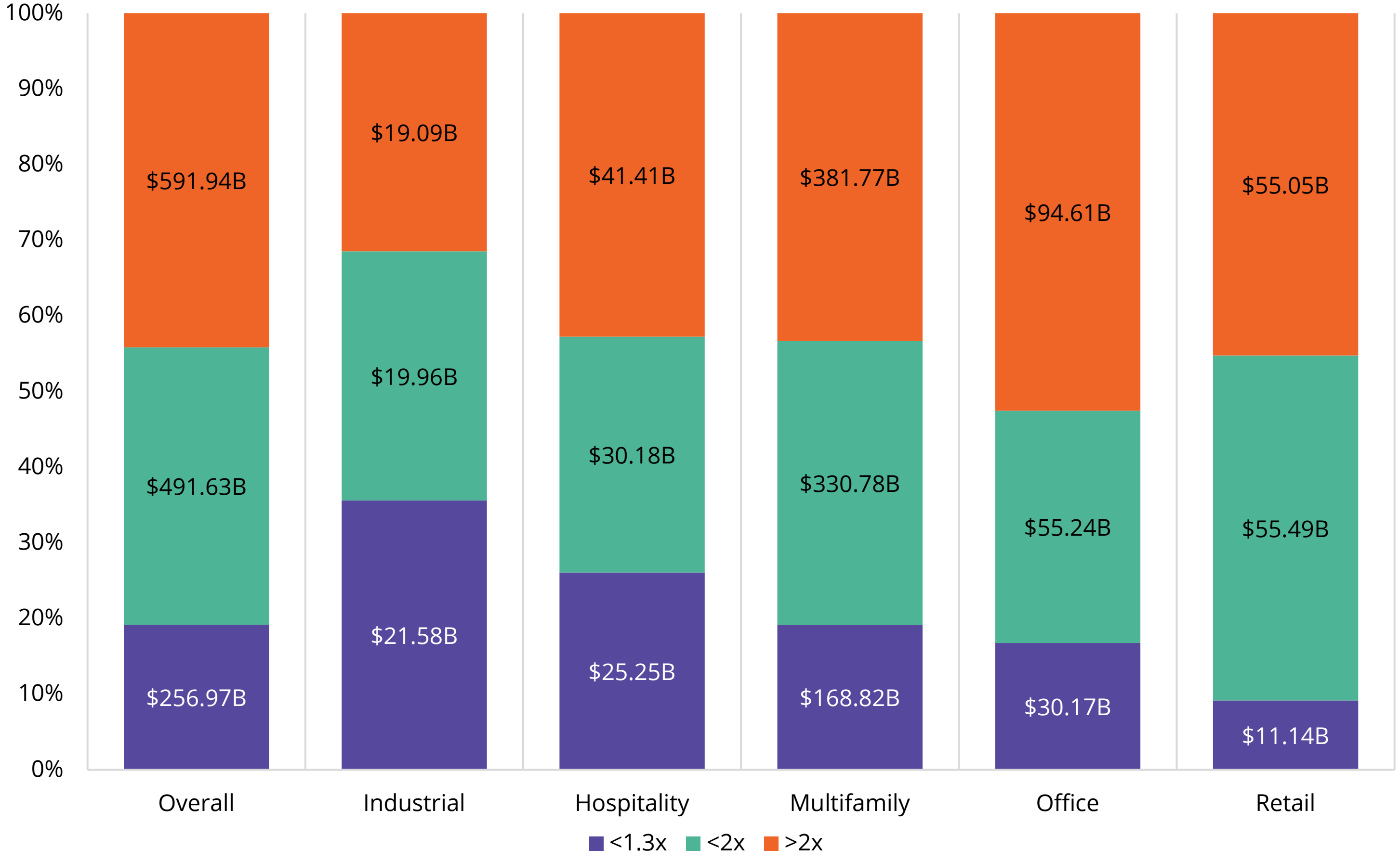
Loan Maturities by Property Type



Source: AVANT by Avison Young, RCA

Despite the scrutiny on office, multifamily makes up the overwhelming majority of maturing loans over the coming years.

Securitized debt DSCR breakdown by property type



Source: AVANT by Avison Young, Trepp

Distress can be found even in property types with strong underlying demand fundamentals, such as multifamily or Industrial. This is purely an interest rate-driven phenomenon, especially in the case of floating rate loans, which comprise a significant portion of debt originated.

While office remains under the microscope as it relates to distress, multifamily loans with a DSCR below 1.3 sit at roughly **5.6x** the total amount of office.

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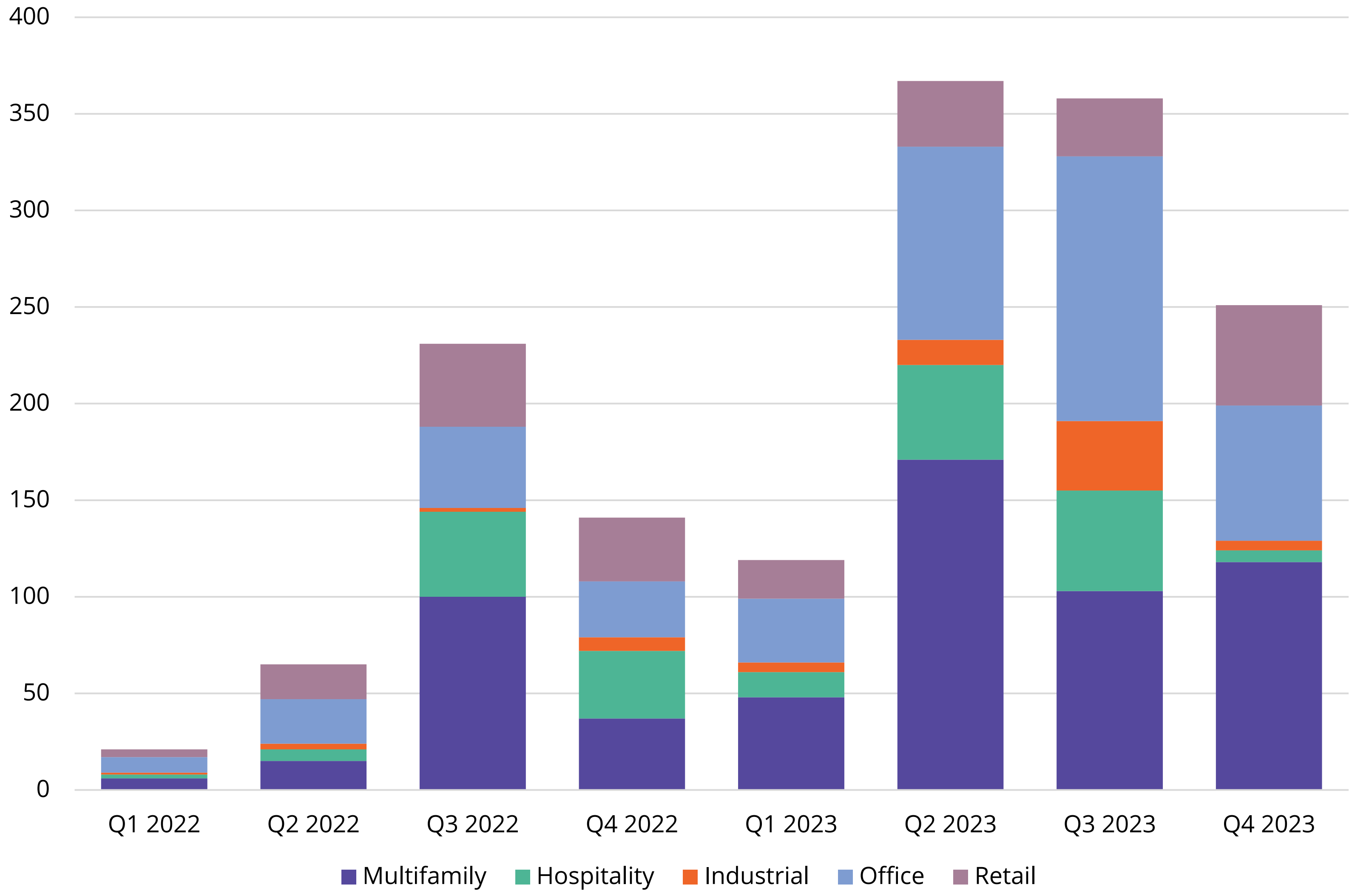
Foreclosure initiations by Quarter



Correlating with the hike in interest rates beginning in Q1 2023, a large quantity of foreclosures were initiated. Office and Multifamily make up the majority.

Source: AVANT by Avison Young, RCA

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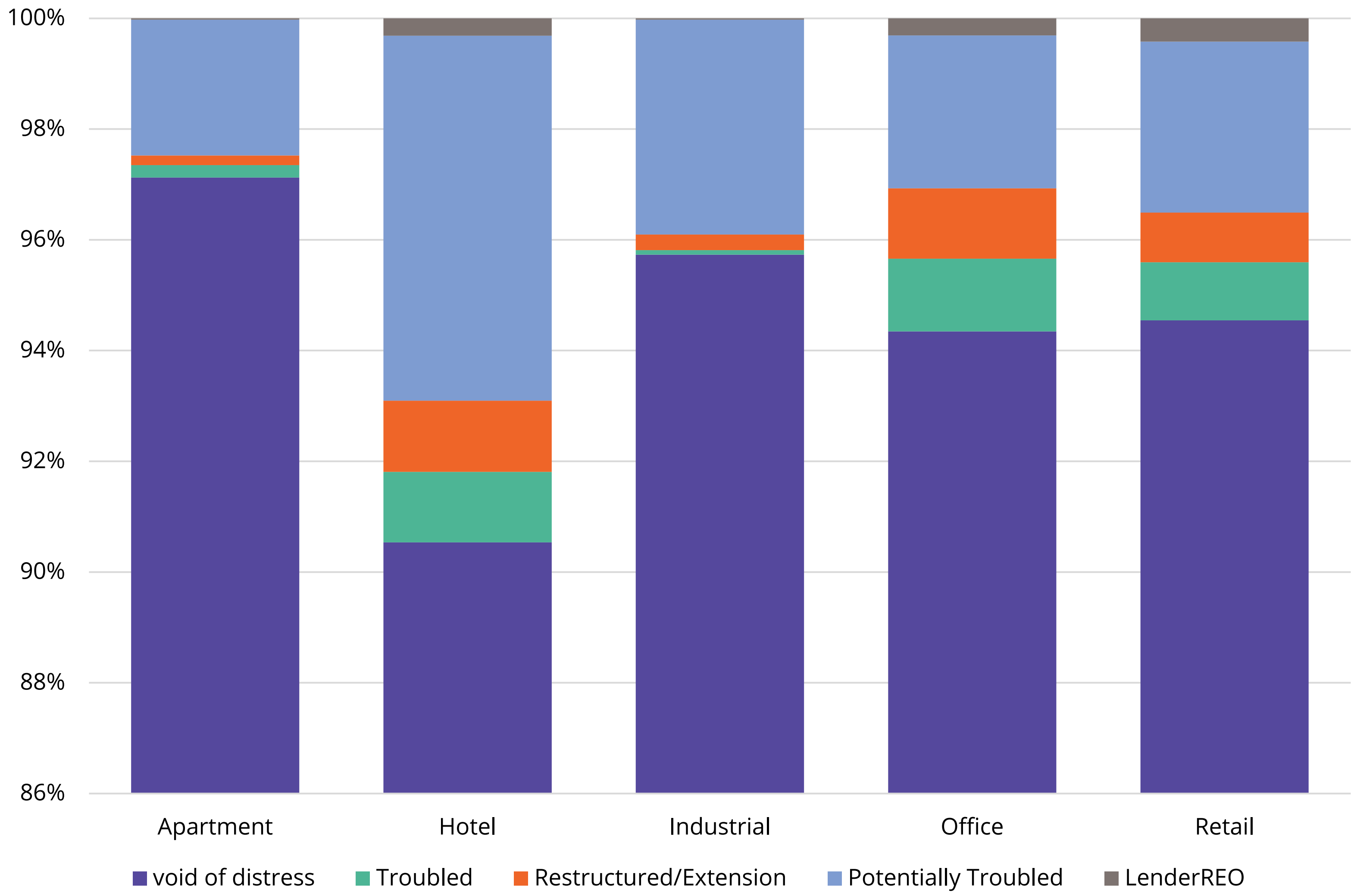
Distressed Loans by Property Type



Hotels are proving to be a source of upcoming distress, with a notable drop off in business travel taking its toll on non-resort hotels.

Source: AVANT by Avison Young, RCA

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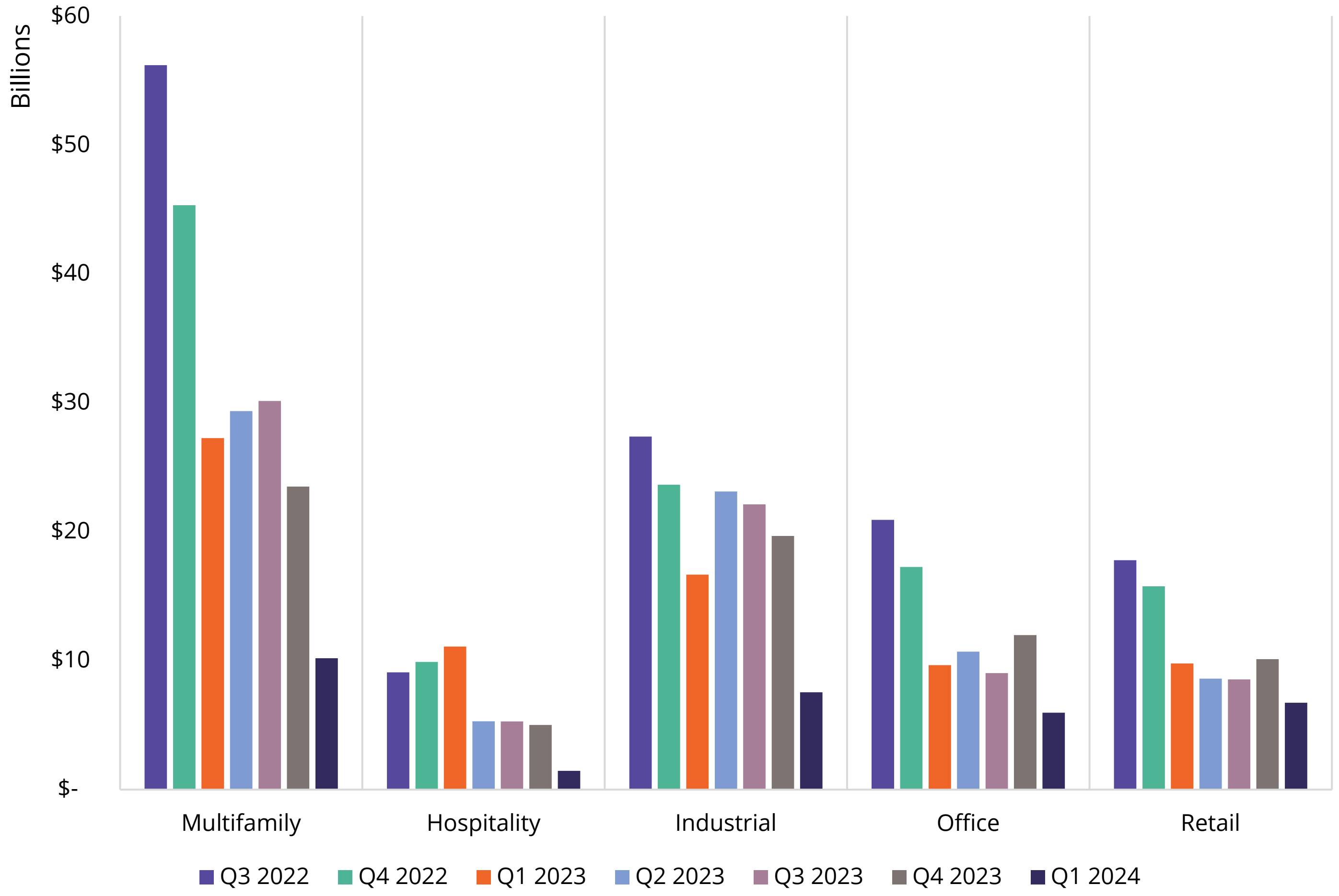
Equity Markets

Investment Sales by property type - Quarterly



Even property types with strong fundamentals such as multifamily or industrial have seen suppressed volume as of late, with every tracked property type registering their lowest quarterly total of investment volume in the last seven quarters. Much of this is an interest rate driven phenomenon, but there are property types, such as office, facing structural demand shifts.

Source: AVANT by Avison Young, CoStar, RCA

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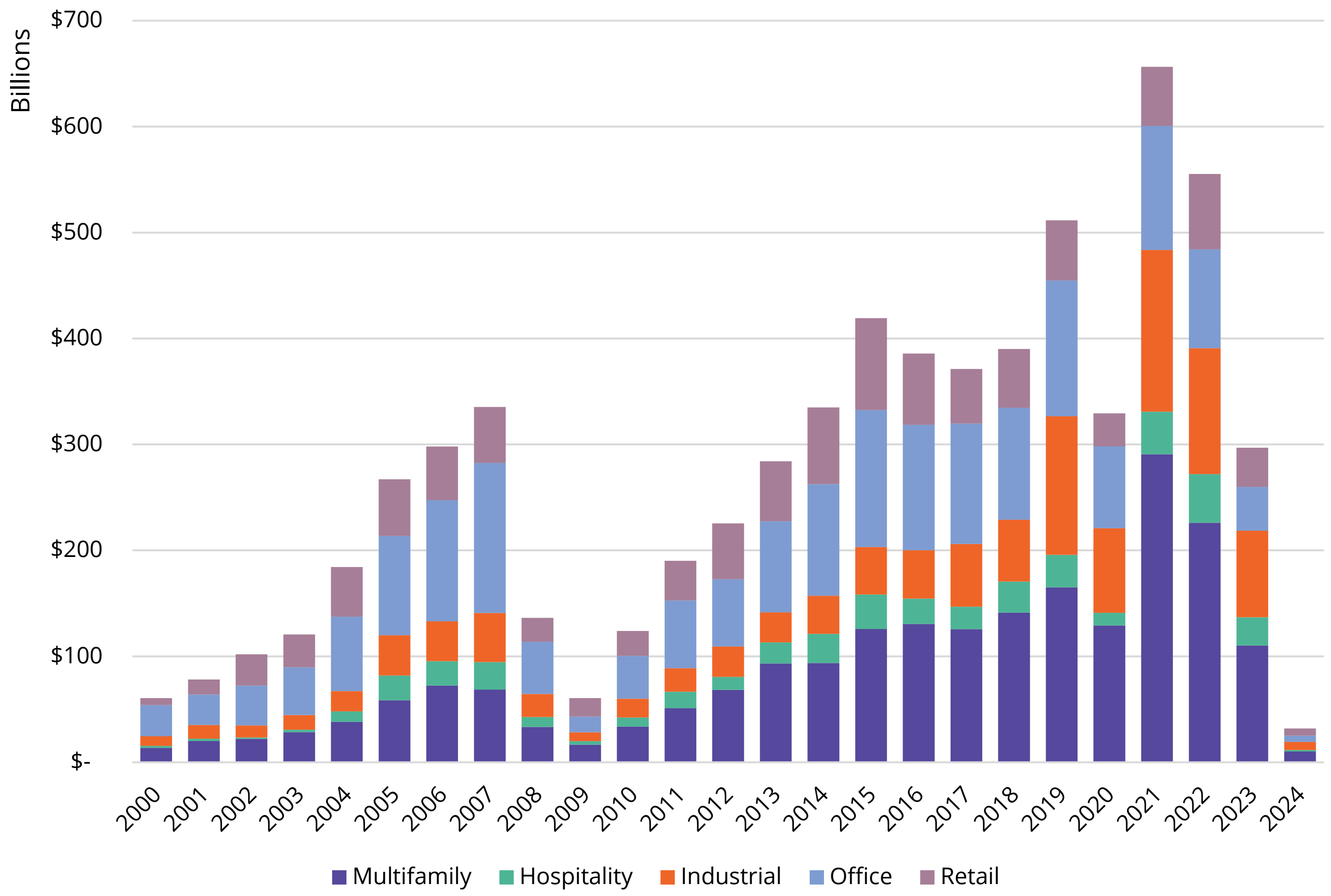
Investment Sales by property type – Annually



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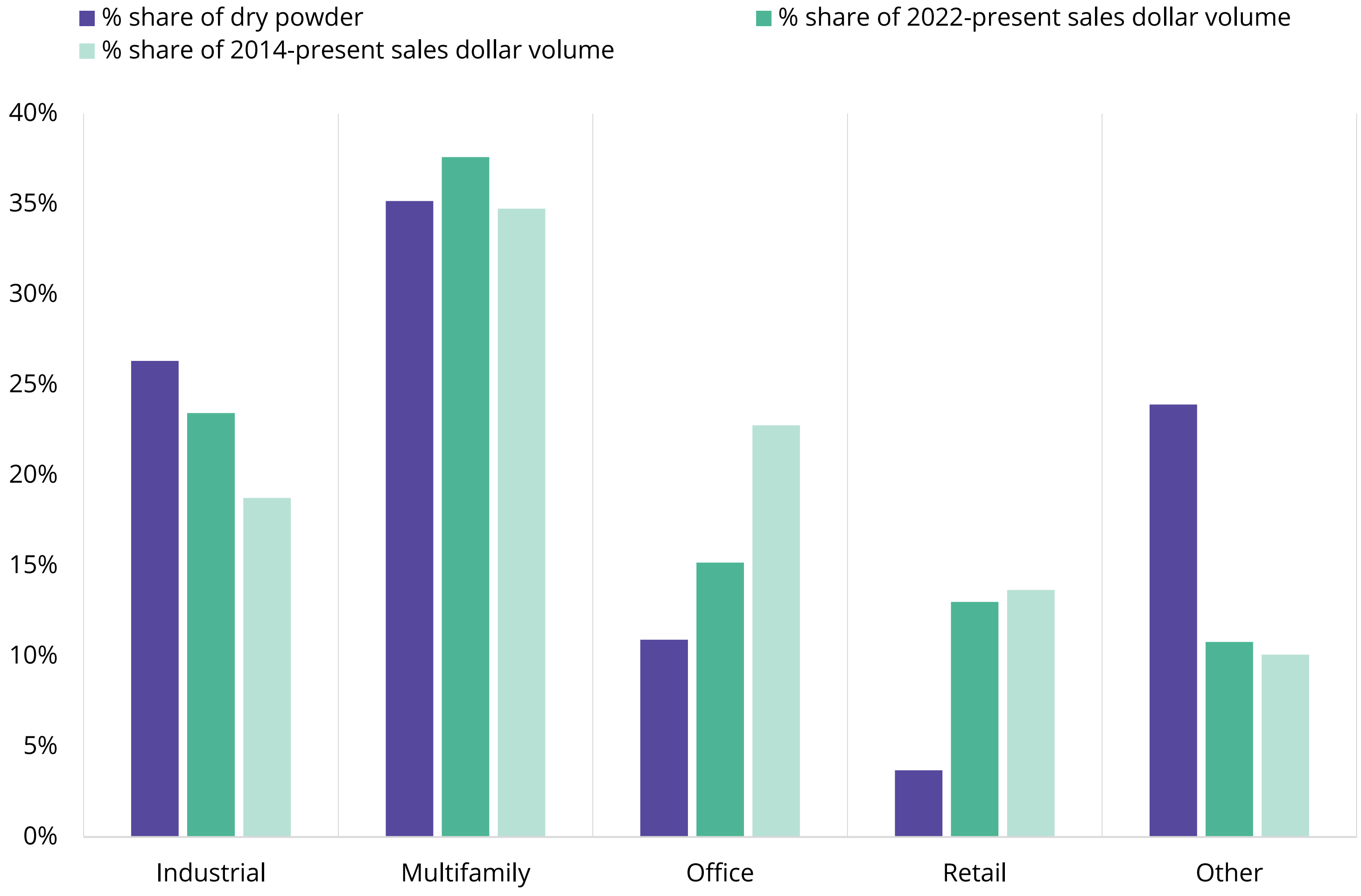
Source: AVANT by Avison Young, CoStar, RCA

Sales Volume vs. Dry Powder



Comparing historical sales volume with dry powder allocations demonstrates how investor appetite has shifted over time. Multifamily has remained relatively constant, but it is clear how investor sentiment toward office has shifted.

Source: AVANT by Avison Young, CoStar

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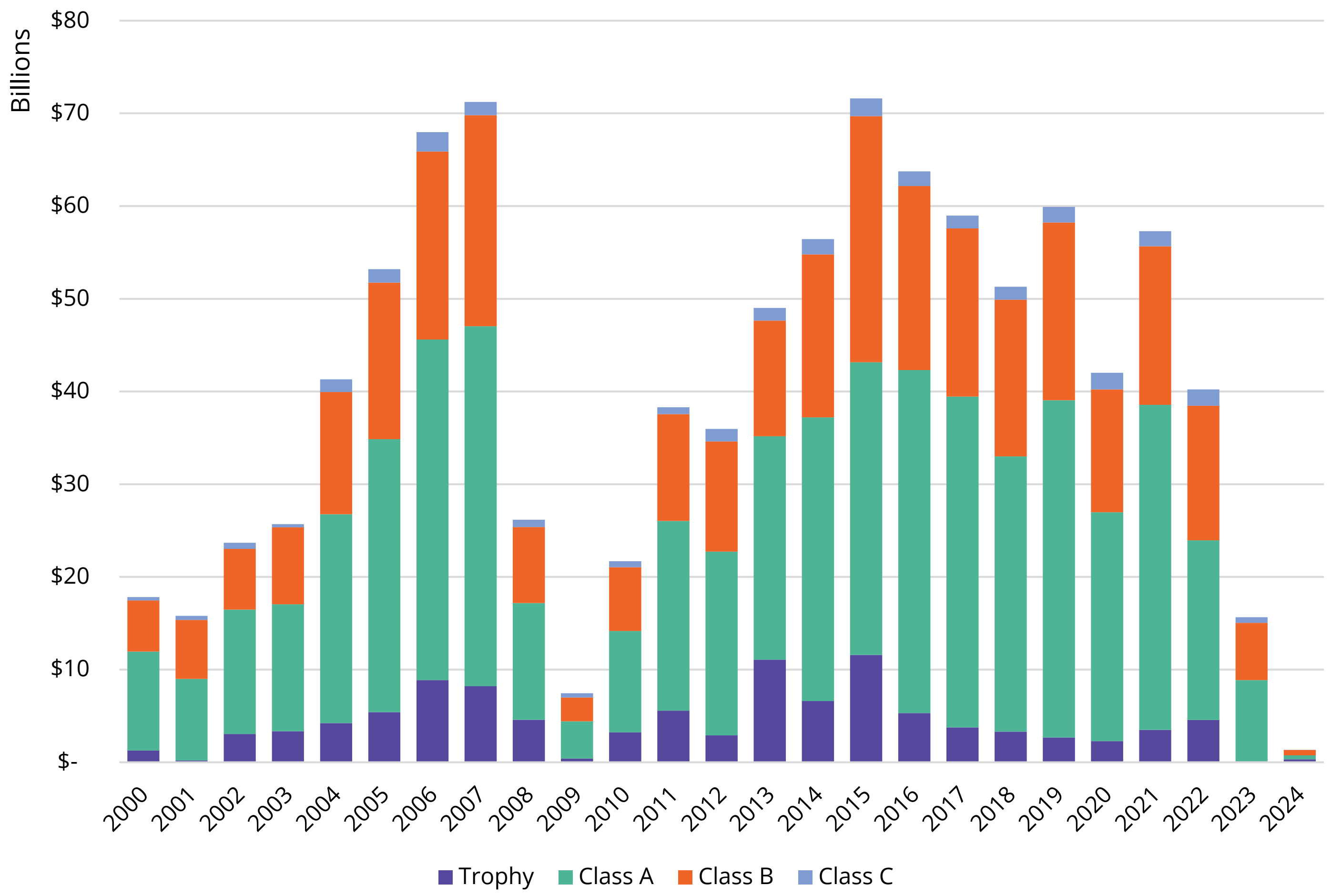
Office investment volume by class



Source: AVANT by Avison Young, CoStar
Note: Not included in this chart is tertiary markets

As lenders have been open to loan modifications and extensions, it has come at the expense of transactional volume. At just **$1.3 billion** of investment sales volume for office buildings through Q1 2024, the U.S. is on pace to have the lowest total sales volume since 2009.

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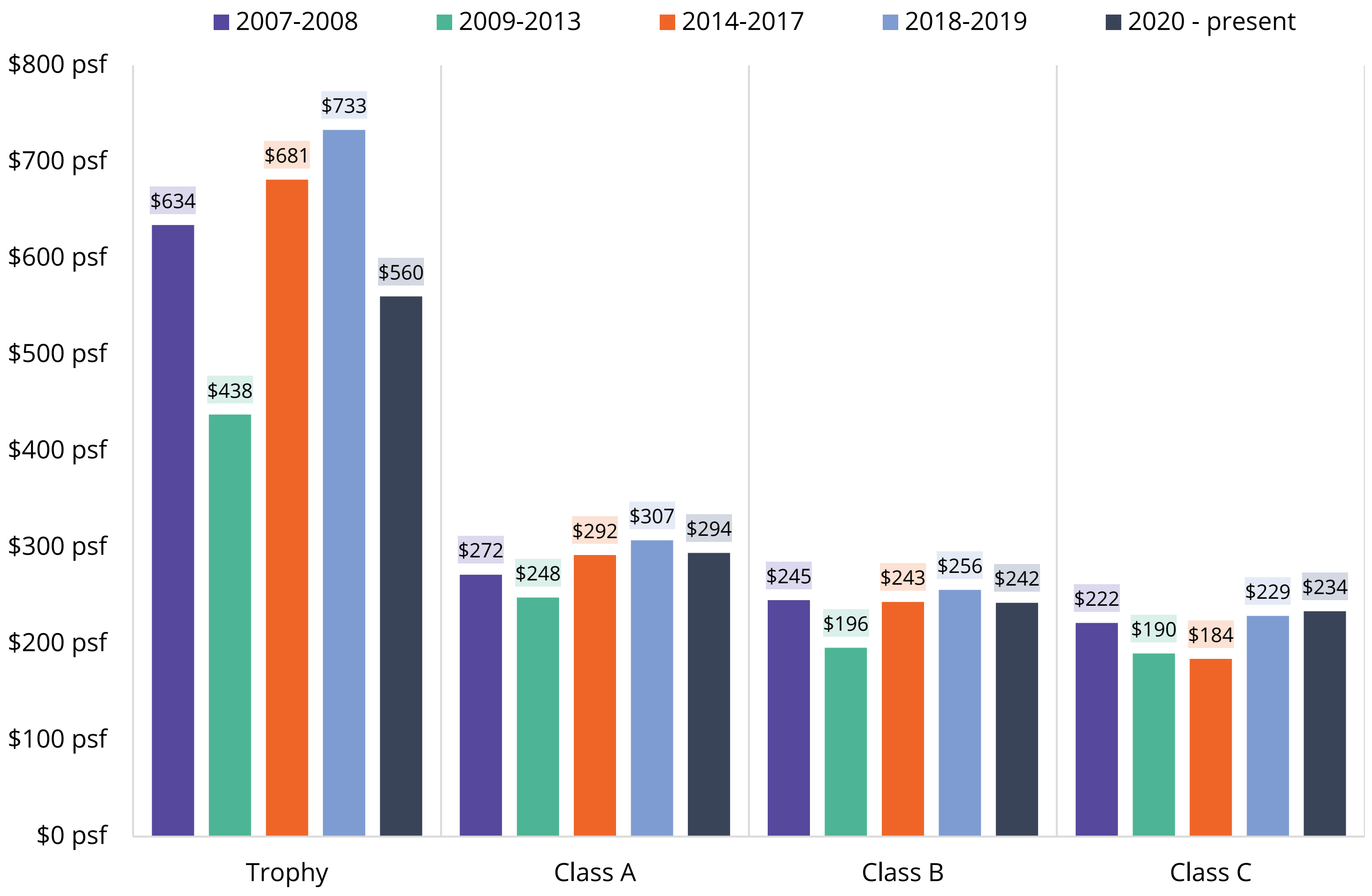
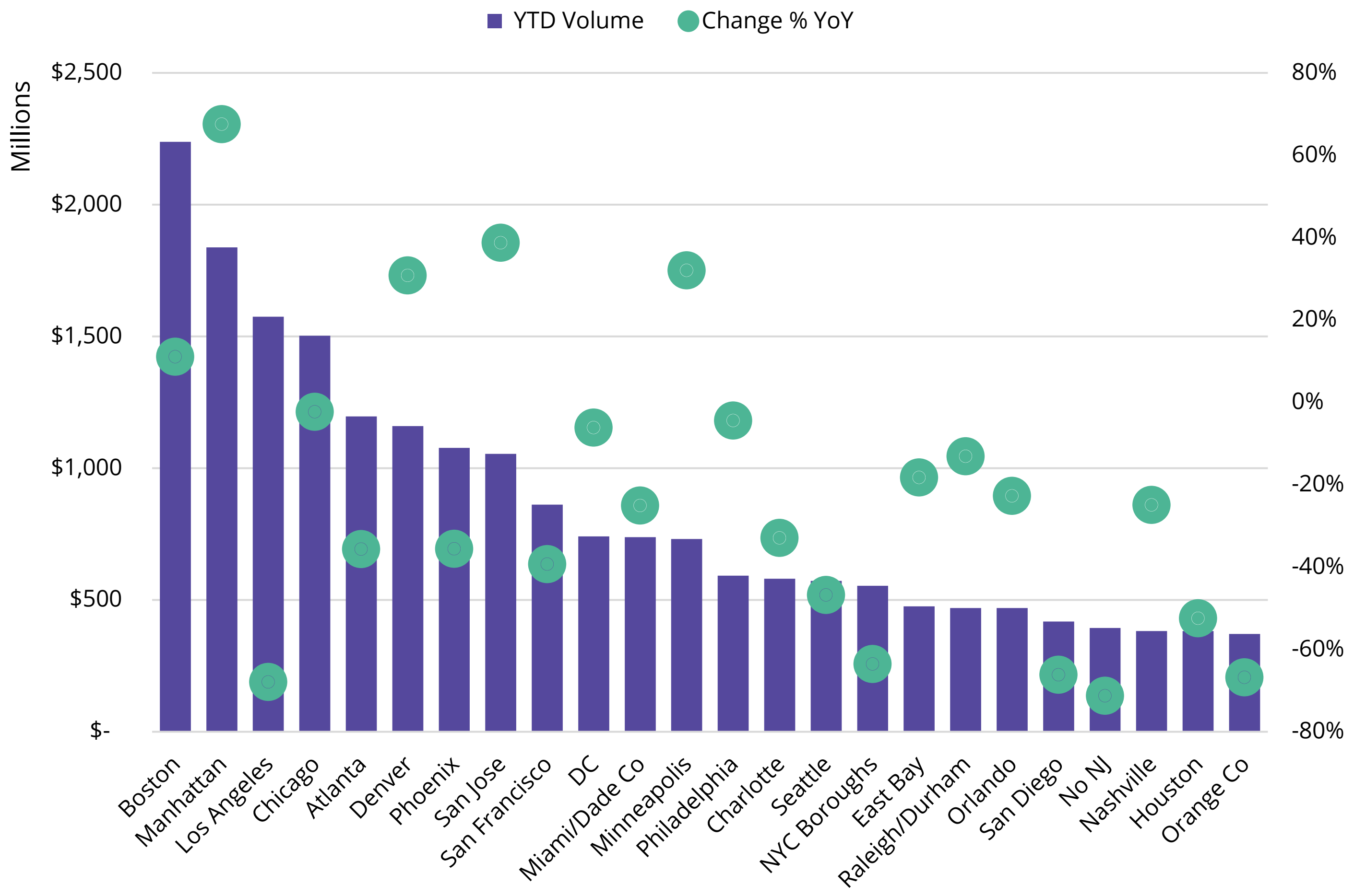
Office investment pricing by era



Source: AVANT by Avison Young, CoStar

Trophy office properties have seen the largest post-pandemic correction in value of all office asset classes, correcting by over 20% since the last cycle. However, pricing still remains above levels observed in the wake of the Great financial crisis in 2009.

Top U.S.Markets by Investment Sale Volume



Despite suppressed investment volume on the aggregate, several gateway U.S. markets have seen elevated investment volume on a year-over-year basis, such as Manhattan, Denver and Phoenix.

Source: AVANT by Avison Young, CoStar

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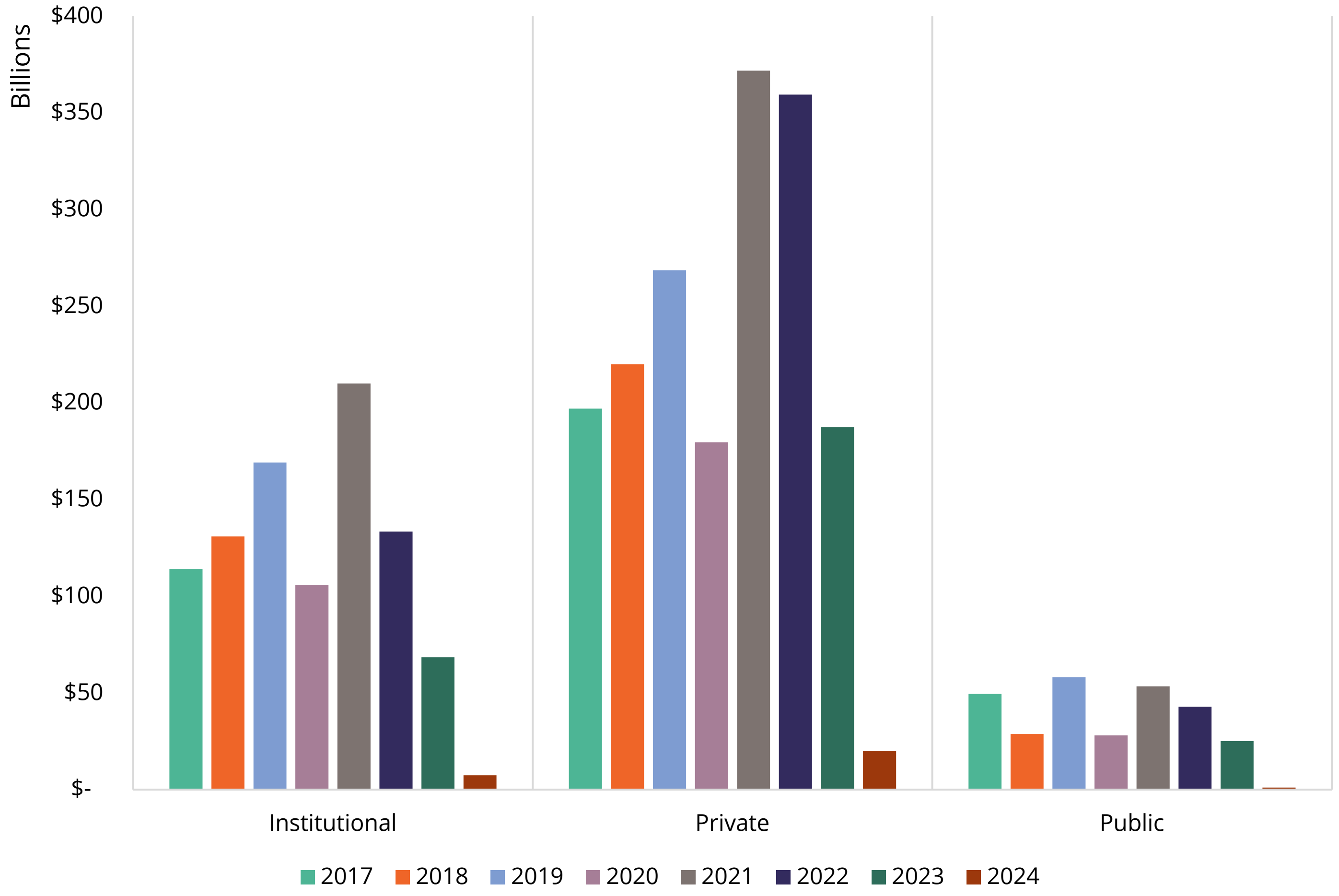
Acquisitions by buyer group



Private buyers have generally had an easier time navigating turbulent debt markets, so its unsurprising that private buyers captured an outsized portion of acquisitions in 2023, and this trend will likely continue into 2024. However, opportunistic institutional money has been more active as of late, specifically with regard to office assets.

Source: AVANT by Avison Young, CoStar

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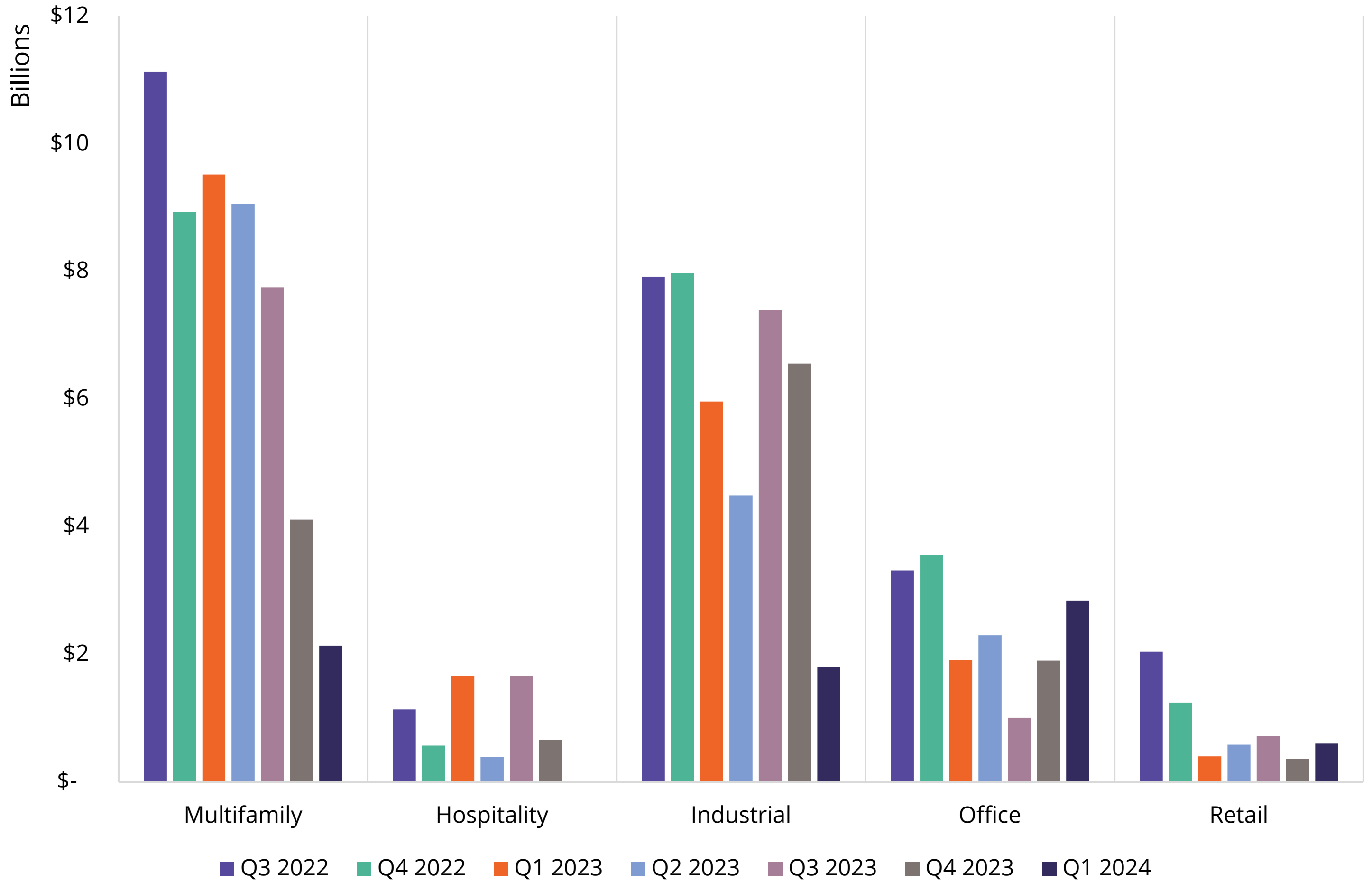
Institutional Investment allocation



While office has remained a highly scrutinized asset class, for a myriad of reasons, institutional investment has picked up YTD 2024. Many institutional funds are leveraging opportunistic vehicles to take advantage of softened pricing conditions.

Source: AVANT by Avison Young, CoStar

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