2Q24

State of the U.S. Capital Markets

Market Observations

– **Economy**. Despite the weak July labor market report, the U.S. economy on balance continues to prove resilient to higher interest rates. GDP in the second quarter of 2024 surprised to the upside, while real consumer spending growth has held steady and credit card delinquencies continue to rise. Unemployment remains low, but has been increasing at an accelerating rate, creating concern the Fed is behind the curve. The U.S. economy has made some headway on inflation and core PCE is now below the Fed's June meeting projection for 2024. Rate market expectations have been volatile, seeming to live from CPI print to CPI print, though going forward, the Fed and markets will likely be more sensitive to labor market data. The market recently has been pricing anywhere from 50 to 125 basis points of cuts in 2024, but the more important message is that the market has been consistently pointing to an equilibrium federal funds rate of 3.0% or greater, which would anchor long-term Treasury yields in the mid-3% range even after the Fed has normalized its policy stance.

– **Debt Markets.** CRE debt origination activity remained constrained in 1H24, though it showed signs of a potential bottom. Overall, origination volume was down just 4.5% year-over-year in 1H24. The number of active lenders continued to decline, now down 33% from peak. Industrial originations rose strongly in 1H24 offsetting declines in other sectors. Refinancings via securitized lending drove the year-over-year increase in industrial originations. Overall, securitized, insurance and debt fund lending all rose as well, mostly offsetting a decline in originations from banks whose lending fell sharply. Regional banks face a protracted deleveraging from CRE. All this is occurring while the market is set to absorb $2.0 trillion in debt maturities in the 2024-to-2026 period. 45% of this maturing debt was originated while the fed funds rate was less than 25 basis points, vs. 533 basis points in 2Q24. Additionally, many loans are underwater or nearly so, especially recent loan vintages of most property sectors and broad swaths of office debt. We estimate that $632 billion in debt maturing between 2024 and 2026 is potentially troubled.

– **Equity Markets.** Investment sales declined 10% year-over-year in 1H24 and negative 32% compared with the 2017-to-2019 average. Office sales took a step back after a strong first quarter, while multifamily more than made up for the decline in the commercial space. Liquidity has been strongest for smaller transactions. Deals under $100M made up 65% of volume traded in the last four quarters. Institutional investment rebounded strongly in the 2nd quarter on the back of three large multifamily portfolio deals, mainly the acquisition of the multifamily REIT AIR.

– **Supply of Capital.** Dry powder at closed-end funds currently sits at $253 billion, down 10.3% since December 2022. Dry powder at value-added, opportunistic and debt funds are now well-off their peak levels. We estimate that 78% of this capital is targeting residential and industrial assets. Much of this dry powder was raised from prior vintages. Indeed, fundraising weakened from $140B in 2022 to $96B in the last 12 months. ODCE fund flows decelerated in 2Q24 after several quarters of improvement. Redemption queues remain an issue for many funds, driven by persistent if narrowing gaps between NAV and market values.

– **Pricing and Returns.** Transaction markets now show clear increases in transaction cap rates, following the public markets. Lower corporate bond yields have driven improvement in mortgage bond spreads. Nonetheless, both in the private and public markets, cap rates appear distinctly unattractive relative to the cost of debt capital, possibly excepting office REITs. This is not surprising in the private markets, where transaction volumes are muted and reflect selection bias and appraisal-based valuations lag market conditions. Extremely narrow cap rate spreads in the REIT markets are harder to justify and seem to require a rapid decline in debt costs, historically abnormal NOI growth or a combination of the two. Notwithstanding the structural deficiencies in NCREIF valuations during periods of rapid change like today, NCREIF NPI broadly improved in 2Q24 to negative 1.0% annualized overall. All sectors recorded positive total returns except for office. 76% of markets recorded positive total returns in 2Q24 up from 32% in 2Q23.

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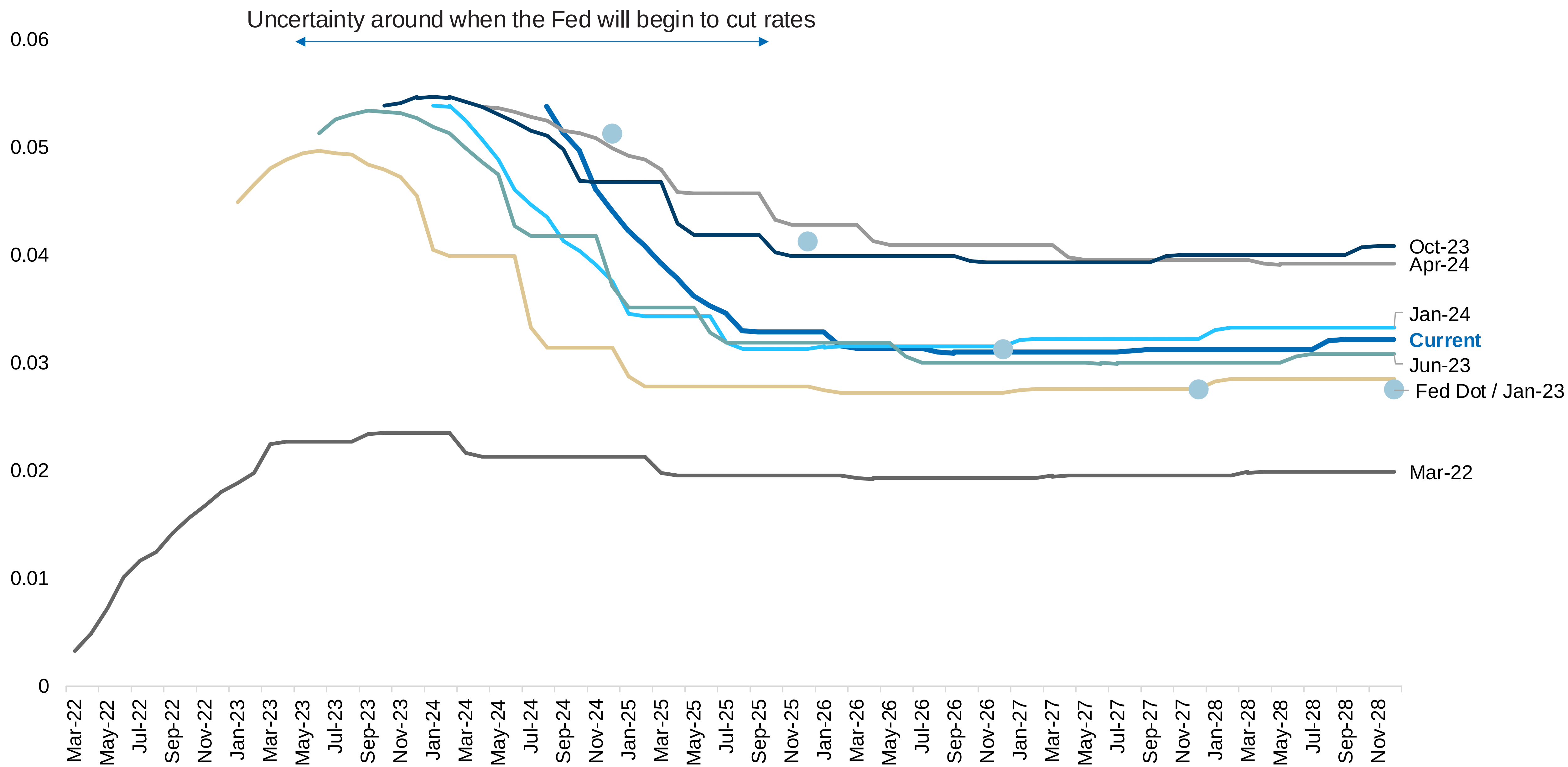
2Q24 US CAPITAL MARKETS REPORT

Debt Capital Markets

Market Is Highly Reactive Amid Low Conviction On Economic Future

Forward rate projections have varied widely over the last 24 months, but at no time have they anticipated a rapid return to post-GFC short rates. Until they have conviction on the question of Recession vs. Soft Landing, expect forward curves to continue to be highly volatile, especially around new Economic data releases.

U.S. Rates Forward Curve: 1-Month SOFR



The market continues to have little conviction about where terminal rates will end up, which is more important for long-term yields and cap rates

Source: Chatham Financial, Newmark Research as of 8/6/2024

Markets Are Pricing A Range of Scenarios at All Times

Markets are constantly weighing different narratives about the future. Each new data point shifts the credibility of each outcome vs. all others. Sometimes these shifts are small, but in a low conviction market, like present, small amounts of data tend to produce quantum shifts in what the dominant narrative is. This manifests in nonlinear changes in market pricing. One such shift occurred on Friday (8/2) as a weaker than expected payroll report led to the hard landing narrative becoming dominant. This is unlikely to be the last shift we see in the next six months.

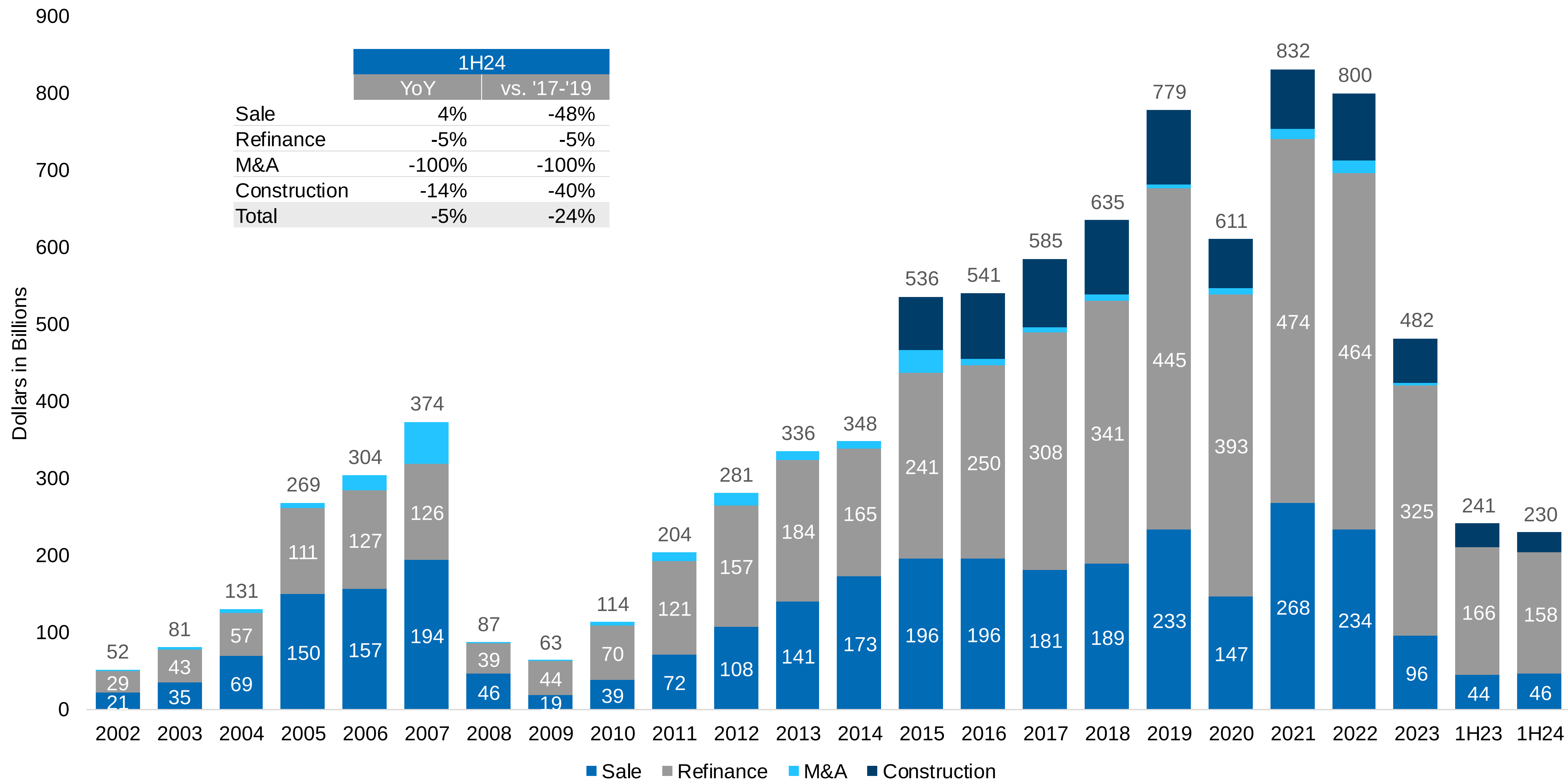
Narrative	Definition	Dominant Narrative Dates	Fed Funds in December 2025	Long-term Fed Funds	10Y Treasury	Credit Spreads (vs. History)	NMRK Research Probability (NTM)
No Landing	Economic growth remains above long-term trend and inflation moderates without significant rate cuts	October 2023	4.0% to 4.5%	4.0% or greater	5.0% or greater	Stay Low	5%
Inflation Stubborn, Growth Moderate	Inflation remains significantly above Fed target even as growth moderates	April 2024	4.0% to 4.5%	3.5% to 4.5%	4.0% to 5.0%	Return to Average	10%
Soft Landing	Inflation returns to target, growth returns to long term average. Fed normalizes monetary policy	June 2023	2.8% to 3.2%	2.8% to 3.2%	3.5% to 4.2%	Return to Average	55%
Hard Landing	Economy falls into recession and inflation drops to target or lower; Fed cuts aggressively	August 2024, Dec/Jan 2023	0%	2.5% to 3.0%	2.5% to 3.5%	High	30%

Source: Newmark Research as 8/5/2024

Debt Origination Flat Year-over-Year in First Half of 2024

Activity in the first half of 2024 indicated loan origination volume may have bottomed. Originations were down slightly in 1H24 and compared with 1H23. A small decline in refinancings weighed on overall originations, with sale financing making up some of the deficit. The second quarter of 2024 was marked by a pull back in market expectation of rate cuts, particularly in April and May, though more recent inflation and employment data has rekindled bets for multiple 2024 rate cuts.

Commercial Real Estate Debt Origination Volume



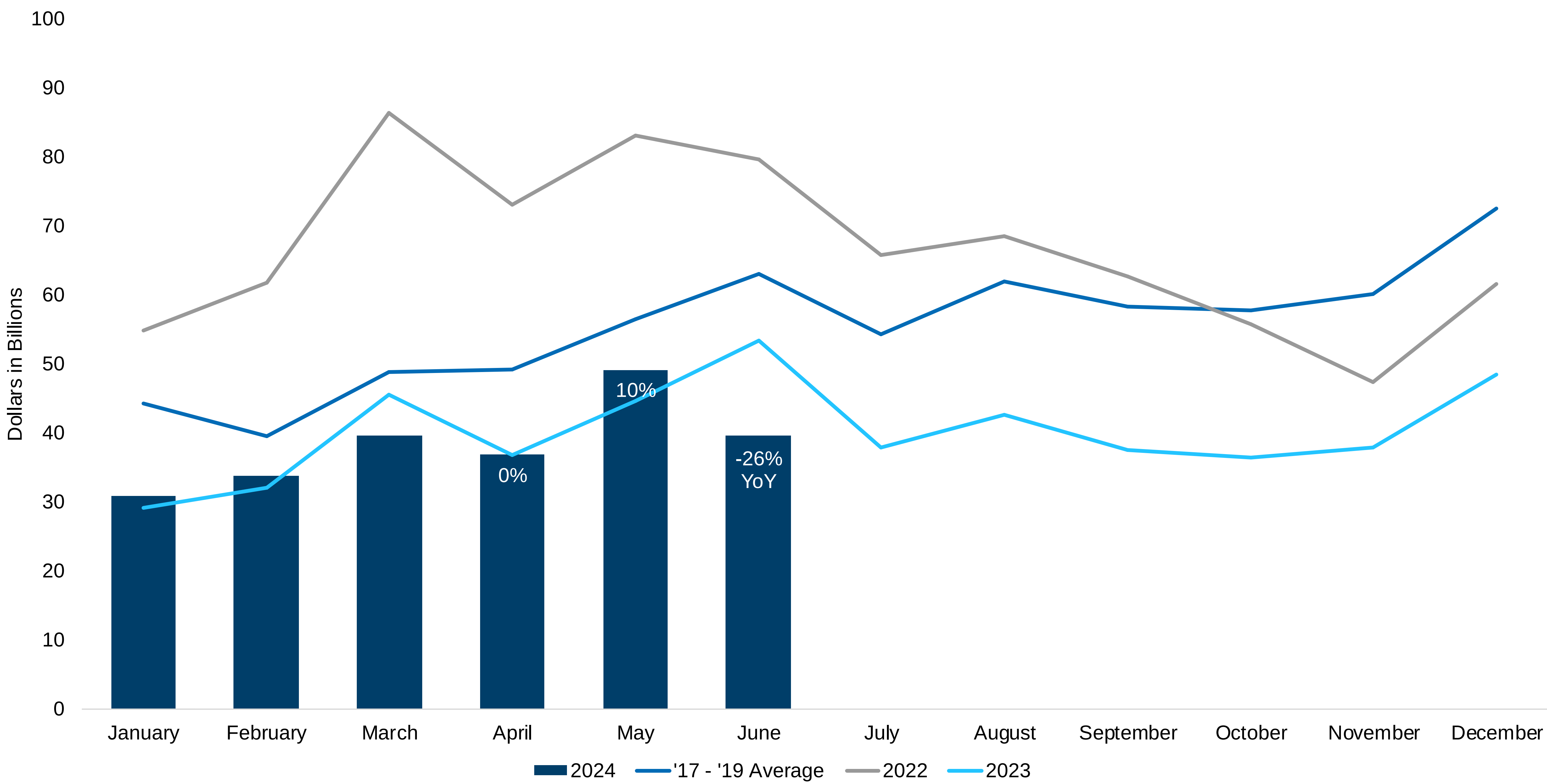
	1H24	
	YoY	vs. '17-'19
Sale	4%	-48%
Refinance	-5%	-5%
M&A	-100%	-100%
Construction	-14%	-40%
Total	-5%	-24%

Source: RCA, Newmark Research as of 7/22/2024
Note: Loan origination volumes are adjusted for future expected revisions using Newmark's proprietary models.

Monthly Originations Broadly In-Line with 2023 Levels

With the benefit of more data and Newmark's new revision forecasting model, it is now possible to see that the market did experience a seasonal boost in financings in December – further supported by sharp declines in Treasury yields at that time. Originations in May ran above the year-ago pace, though no month so far in 2024 has matched its pre-pandemic average. These deals were supported by strong sentiment in late spring/early summer, particularly around future rates.

Monthly Commercial Real Estate Debt Origination Volume



Source: RCA, Newmark Research as of 7/22/2024
Note: Loan origination volumes are adjusted for future expected revisions using Newmark's proprietary models.

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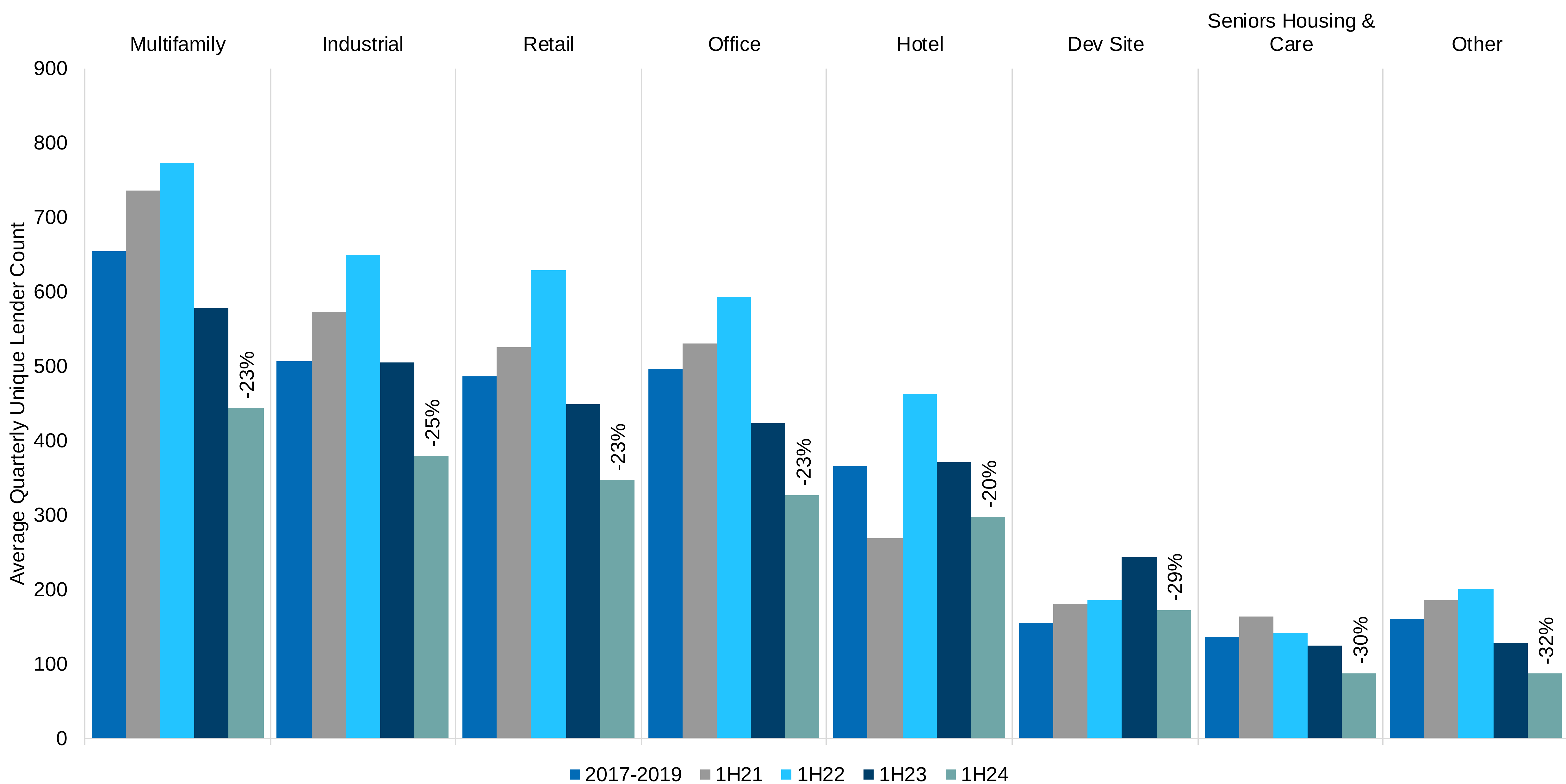
Unique Lender Count Down Across Lender Type

The number of unique lenders dropped uniformly across property types from 2023. Compared to pre-pandemic averages, the number of unique lenders fell more for multifamily and office than it did for industrial and retail, reflecting the concerns of concentration risk of lenders. Falling interest rates would likely convince some lenders to re-enter the market, however many lenders will need to deal with existing loans originated at near-zero interest rates.

Commercial Real Estate Unique Lender Count By Property Type

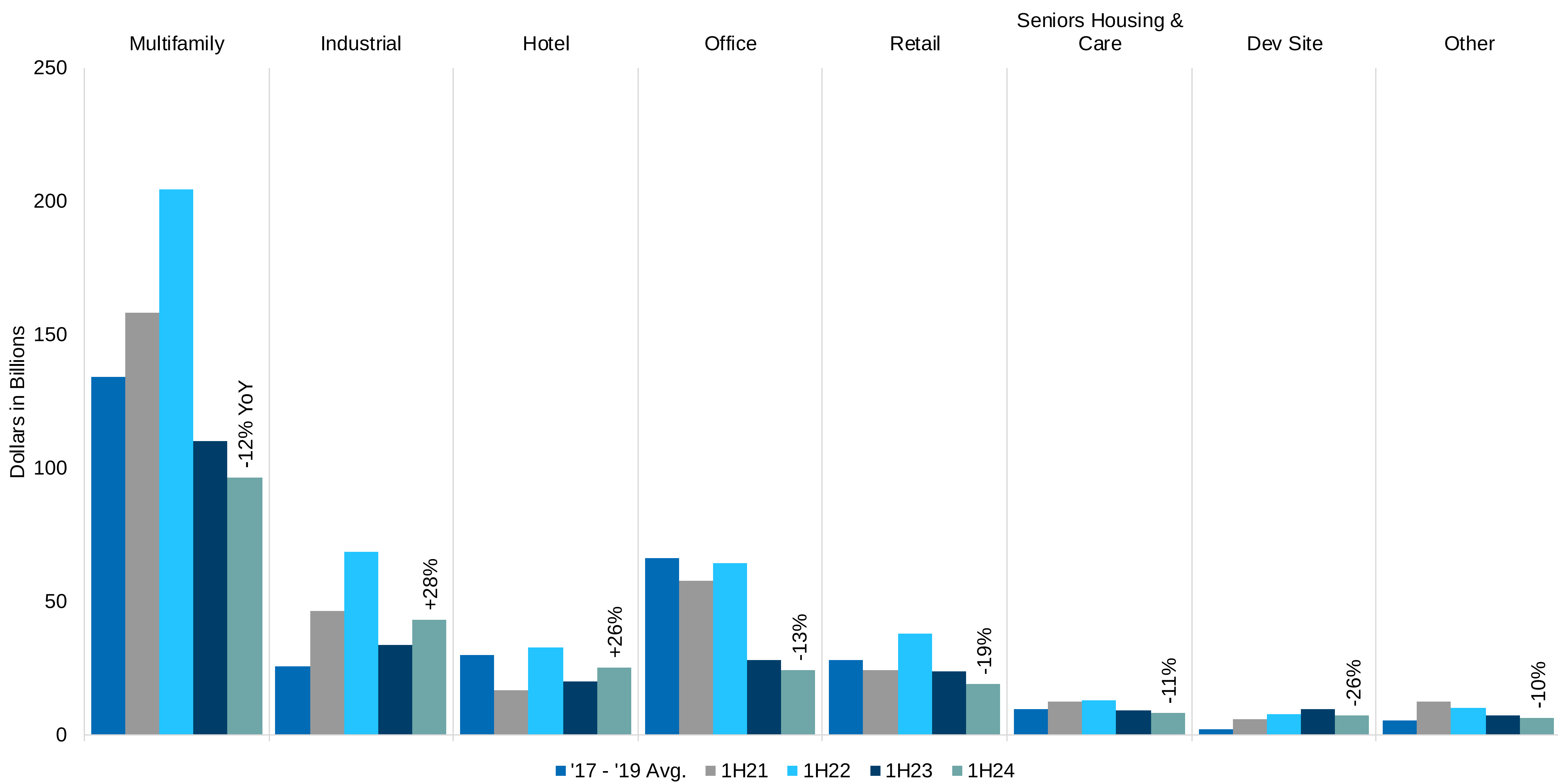


Source: RCA, Newmark Research as of 7/22/2024

Originations Declined Year-over-Year in 1Q24, Except for Industrial

Office (-62%) Retail (-32%) and multifamily (-28%) lending declined the most in 1H24 compared with their respective 2017 to 2019 averages. In contrast, industrial originations were up 28% year-over-year and up 67% compared with the 2017-to-2019 average.

Commercial Real Estate Debt Origination Volume

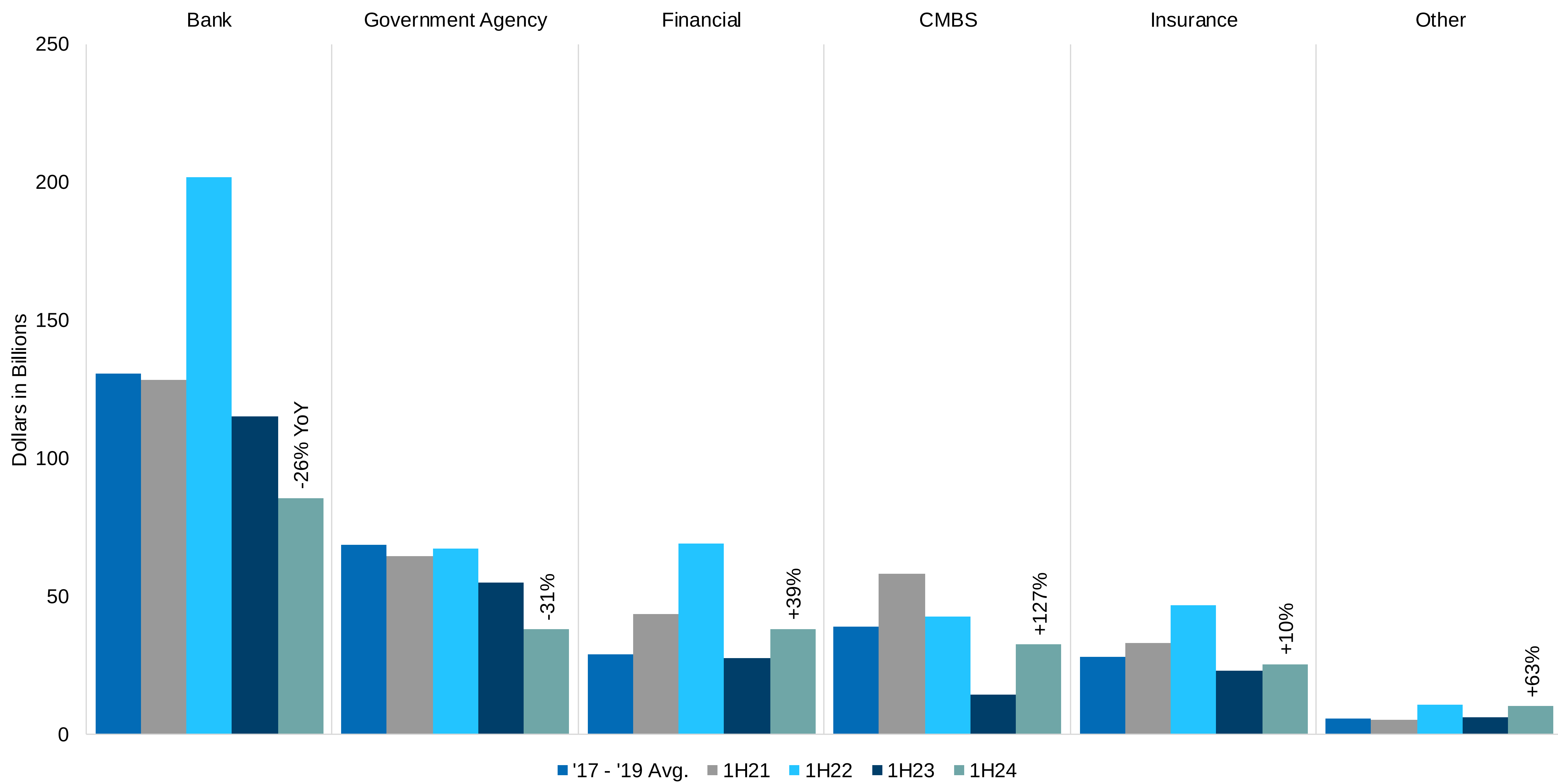


Source: RCA, Newmark Research as of 7/22/2024
Note: Loan origination volumes are adjusted for future expected revisions using Newmark's proprietary models.

Debt Funds, LifeCos and Securitized Lenders Increased Activity in 1Q24

Banks originations remained weak in 1H24, down 26% compared with 1H23 and down similarly compared with the 2017-to-2019 period. This was largely offset by increases in lending for securitization, debt funds and insurance companies, though the pick up in securitization increase was largely due to one lender. Government agency lending struggled in the 2nd quarter, consistent with Fannie Mae reporting of a decline in new business volumes.

Commercial Real Estate Debt Origination Volume

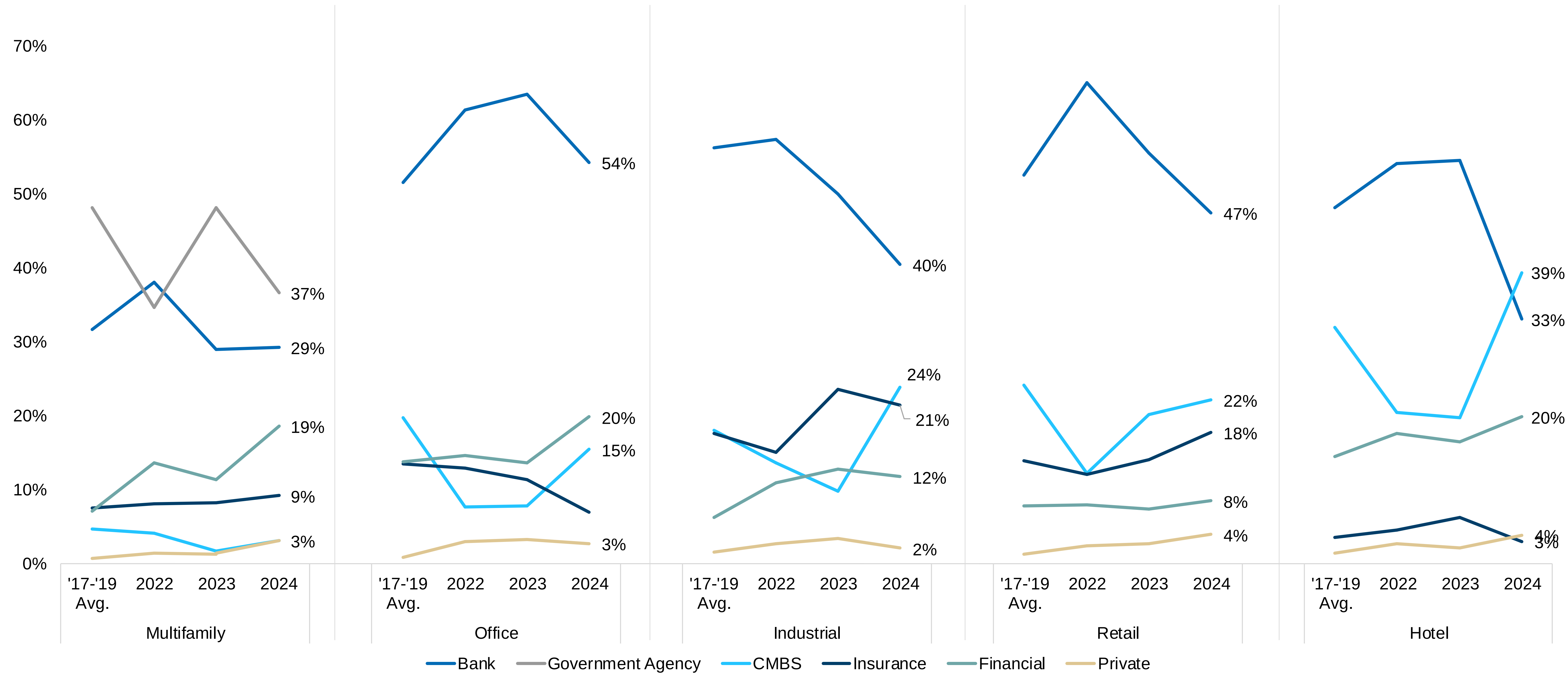


Source: RCA, Newmark Research as of 7/22/2024
Note: Loan origination volumes are adjusted for future expected revisions using Newmark's proprietary models.

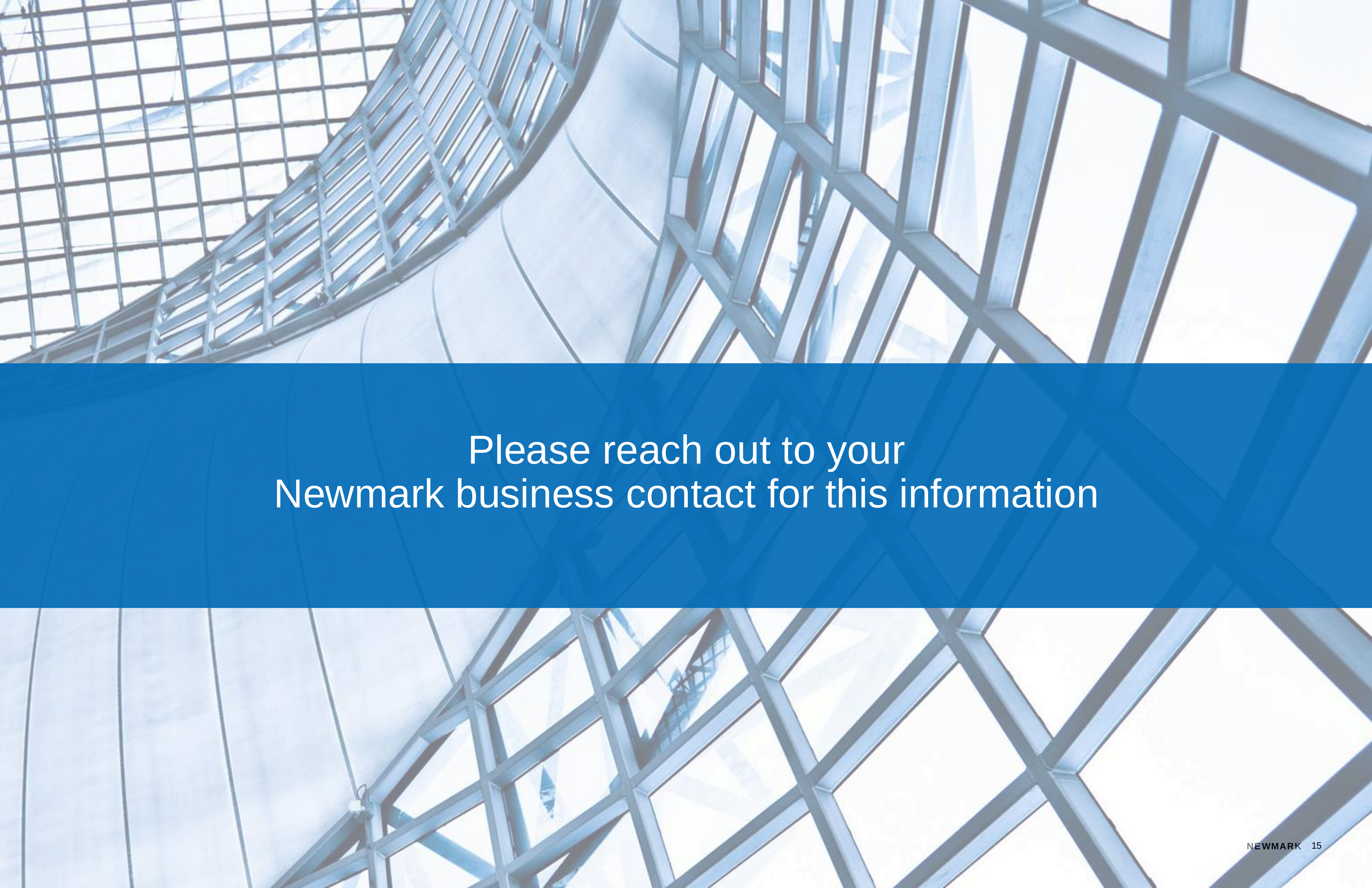
Bank Share of Originations Beginning to Fall

Banks remain the dominant source of CRE finance, but the bank share fell sharply in the first half of 2024 across property types. On the other hand, securitized and debt fund financing are broadly rising.

Composition of Commercial Mortgage Debt Originations



Source: RCA, Newmark Research as of 7/22/2024
Note: Loan origination volumes are adjusted for future expected revisions using Newmark's proprietary models.



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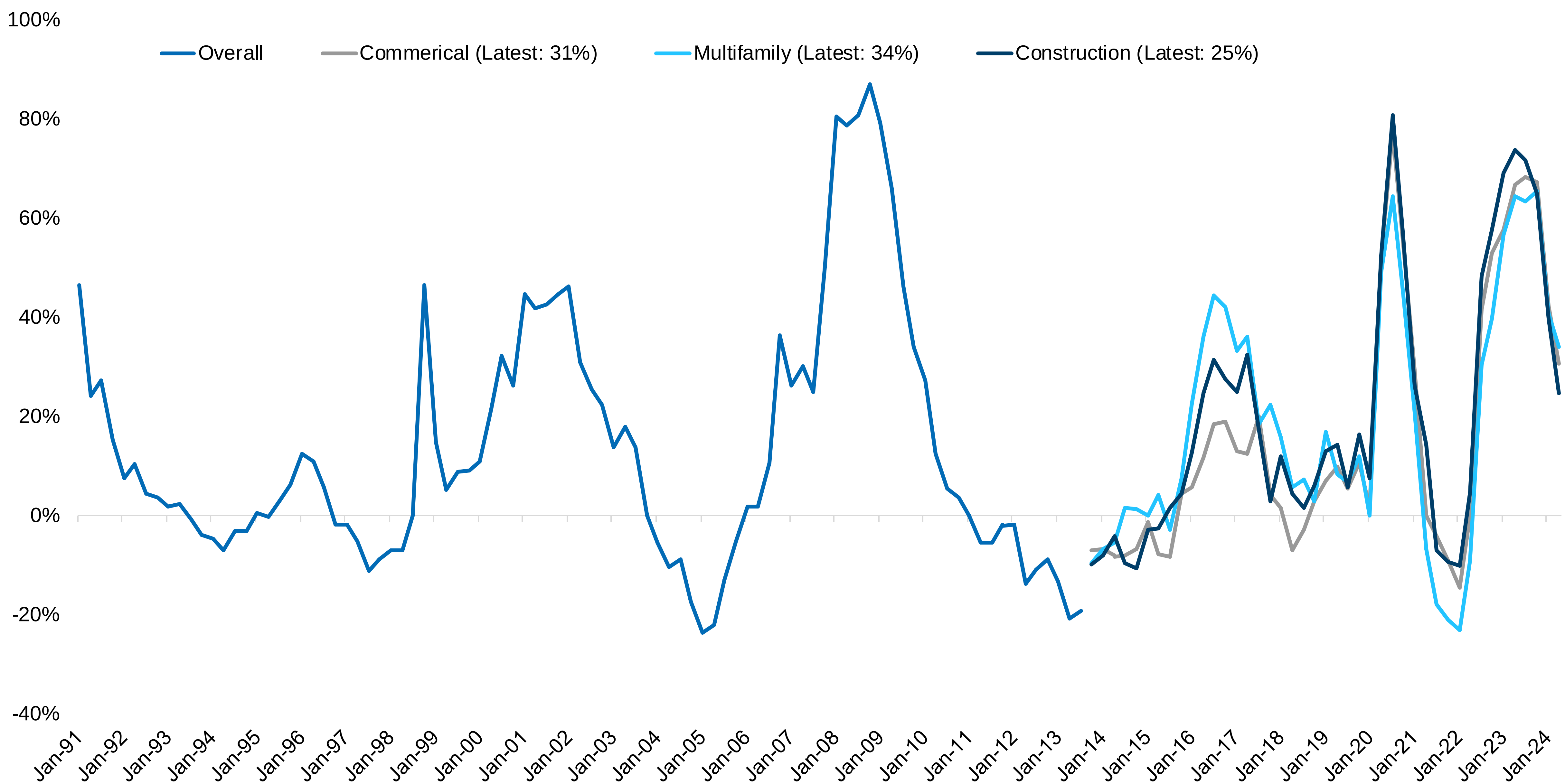
Banks Are Still Tightening Standards, But Pace of Tightening Has Slowed

Most banks expect to continue tightening lending standards in 2Q24; however, the net share tightening came sharply down from a peak of ~65%. This is a salutary development, but it's still the first step on what is still likely to be a long road to a healthy CRE finance environment. Encouraged by their regulators, banks took at best muted steps to resolve issues in their CRE books in 2023, pushing them to 2024. Financial conditions have improved but not enough to resolve most problem loans. As a result, banks will have limited capacity to extend new credit.

Net Percentage of Banks Tightening Lending Standards



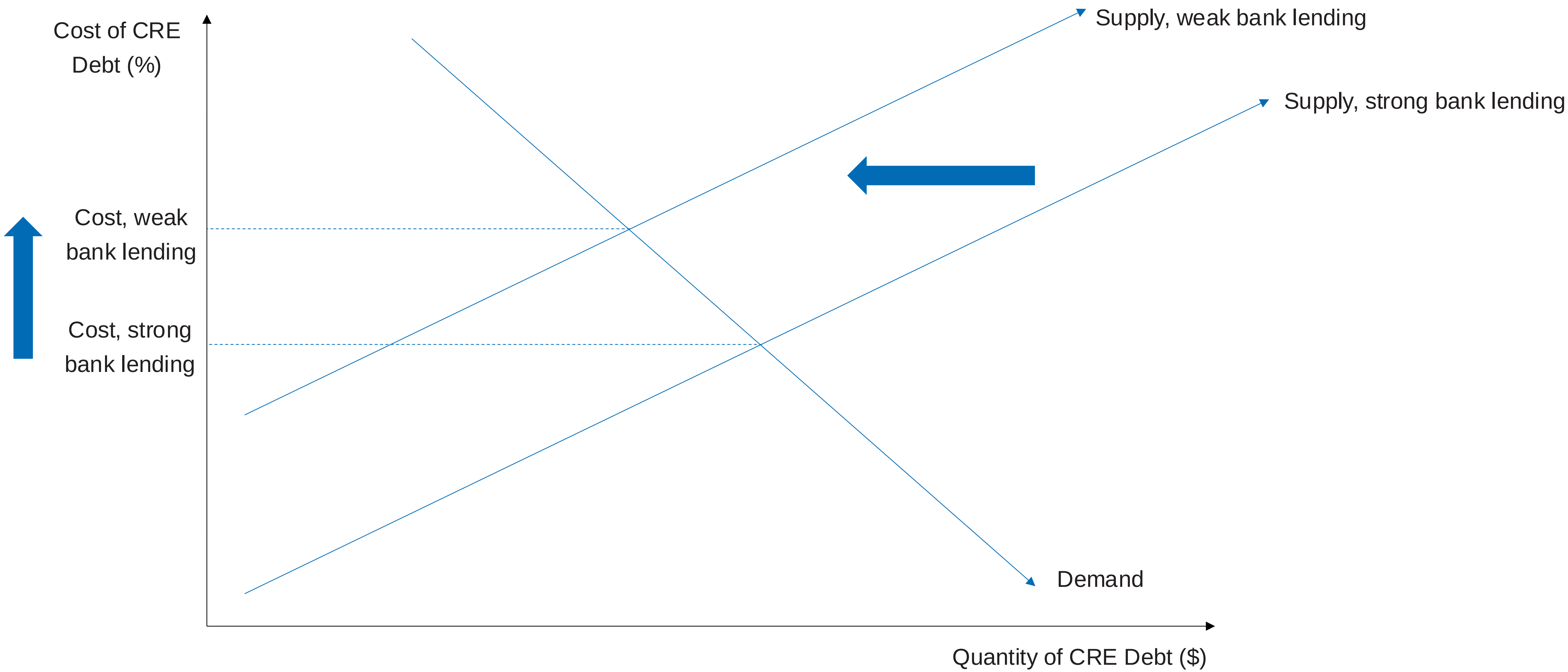
Source: Federal Reserve, Newmark Research as of 5/7/2024

Banks are likely to spend the next several years reducing their CRE exposures. This would be a negative supply shock to the CRE finance ecosystem.

If Banks Continue to Pull Back, Debt Costs Increase

Higher yields are needed to induce banks to sustain lending and attract other sources of capital to lend to the sector. This is not always a smooth process, resulting in lags during which interest rates could easily overshoot their eventual equilibrium. It's important to keep in mind that this supply shock is *in addition to* the supply shock resulting from the increases in Treasury yields. As such, not only does bank retrenchment signal higher rates, but also higher *relative* rates.

Supply and Demand of CRE Credit

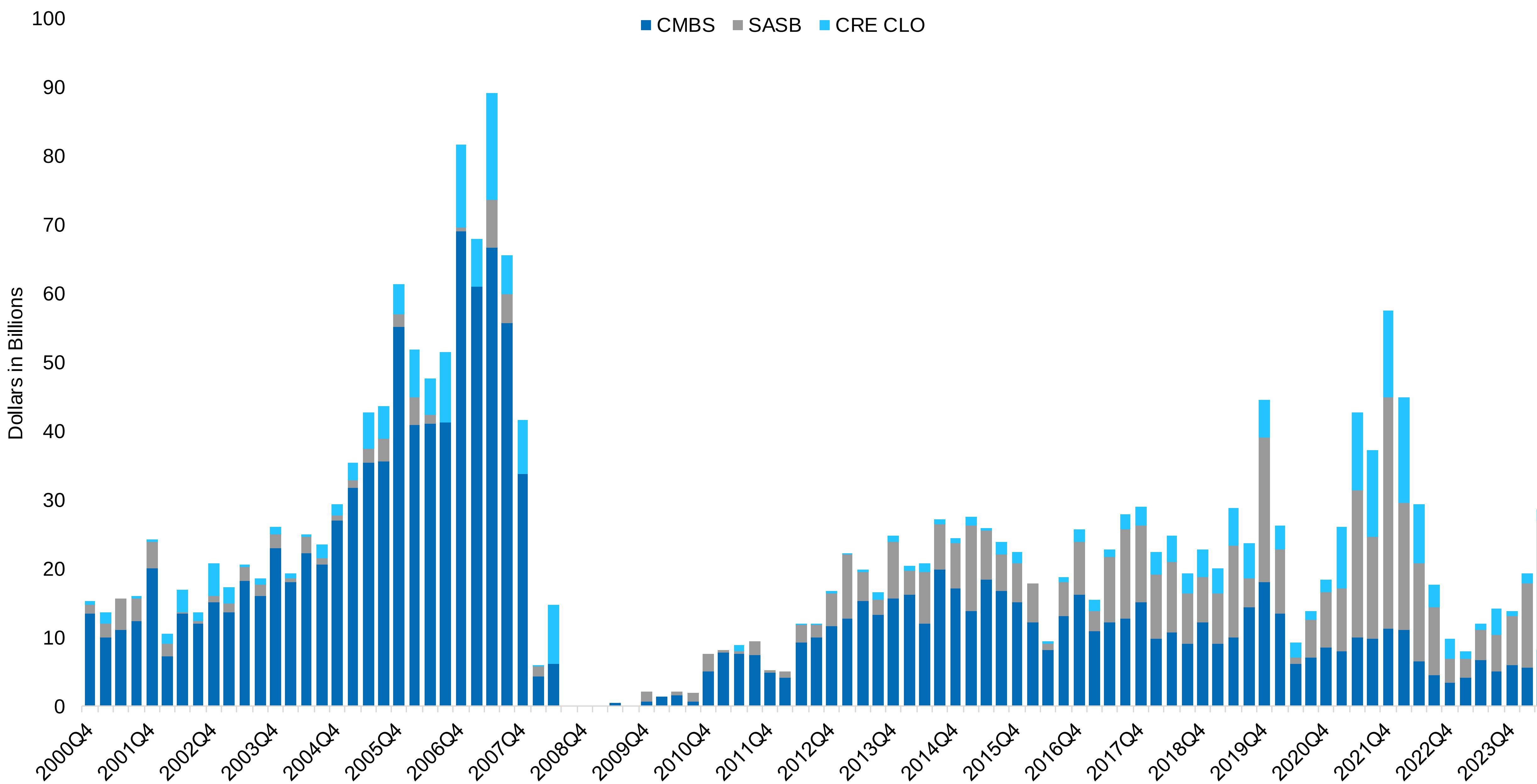


Source: Newmark Research

Securitized Markets Re-accelerating, Particularly SASB

Demand for CRE securitizations has increased in recent months due to higher spreads on offer as compared with corporate debt. SASB structures have accounted for 67% of originations year-to-date and drove much of the increase. Moreover, Blackstone-affiliated vehicles have accounted for 41.8% of SASB issuance year-to-date, raising the question of whether less well-known sponsors could expect similar market access. Regardless, the improvement in securitized markets struggles the backfill declining bank lending.

Quarterly CMBS Issuance

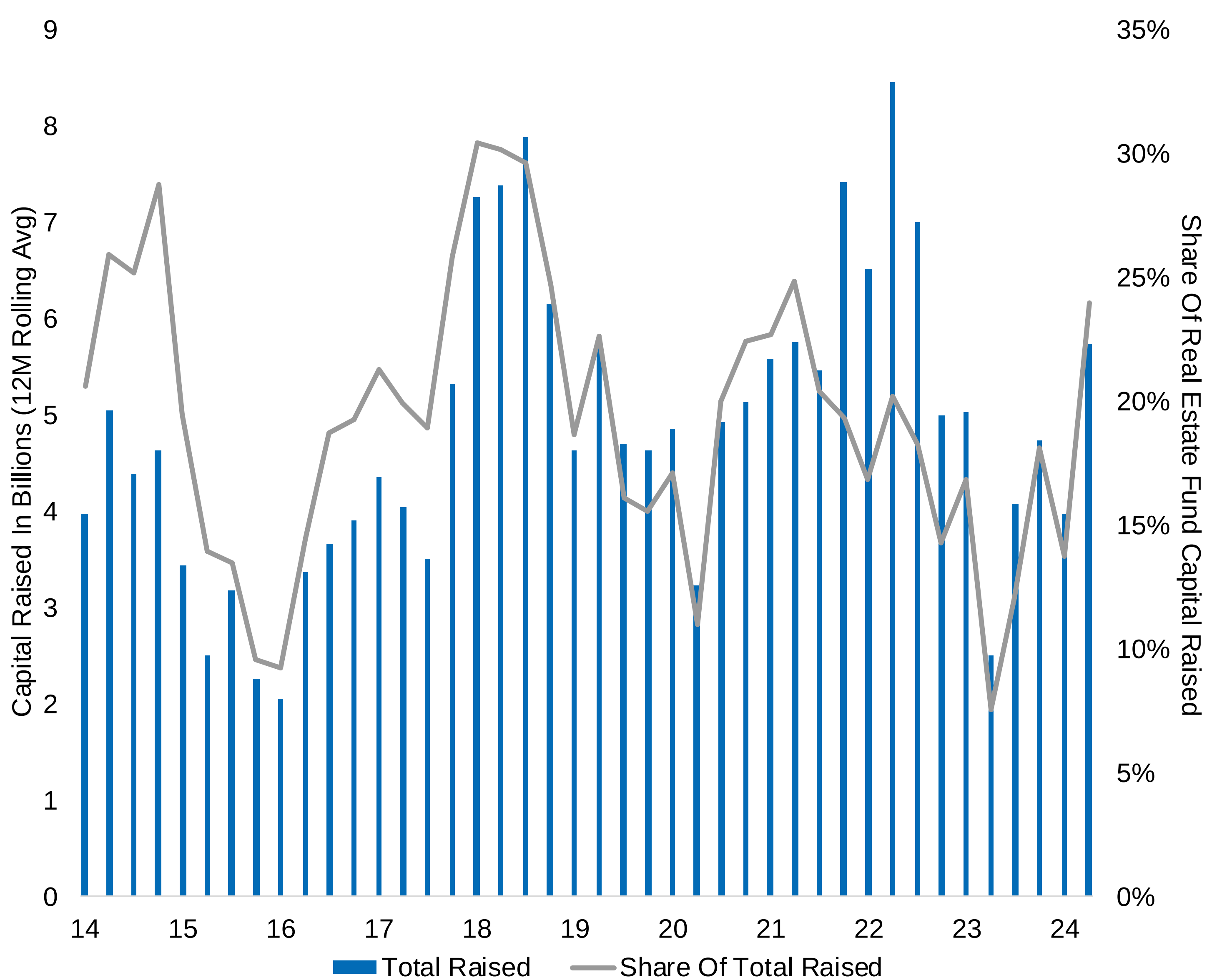


Source: Green Street, Newmark Research as of 7/22/2024

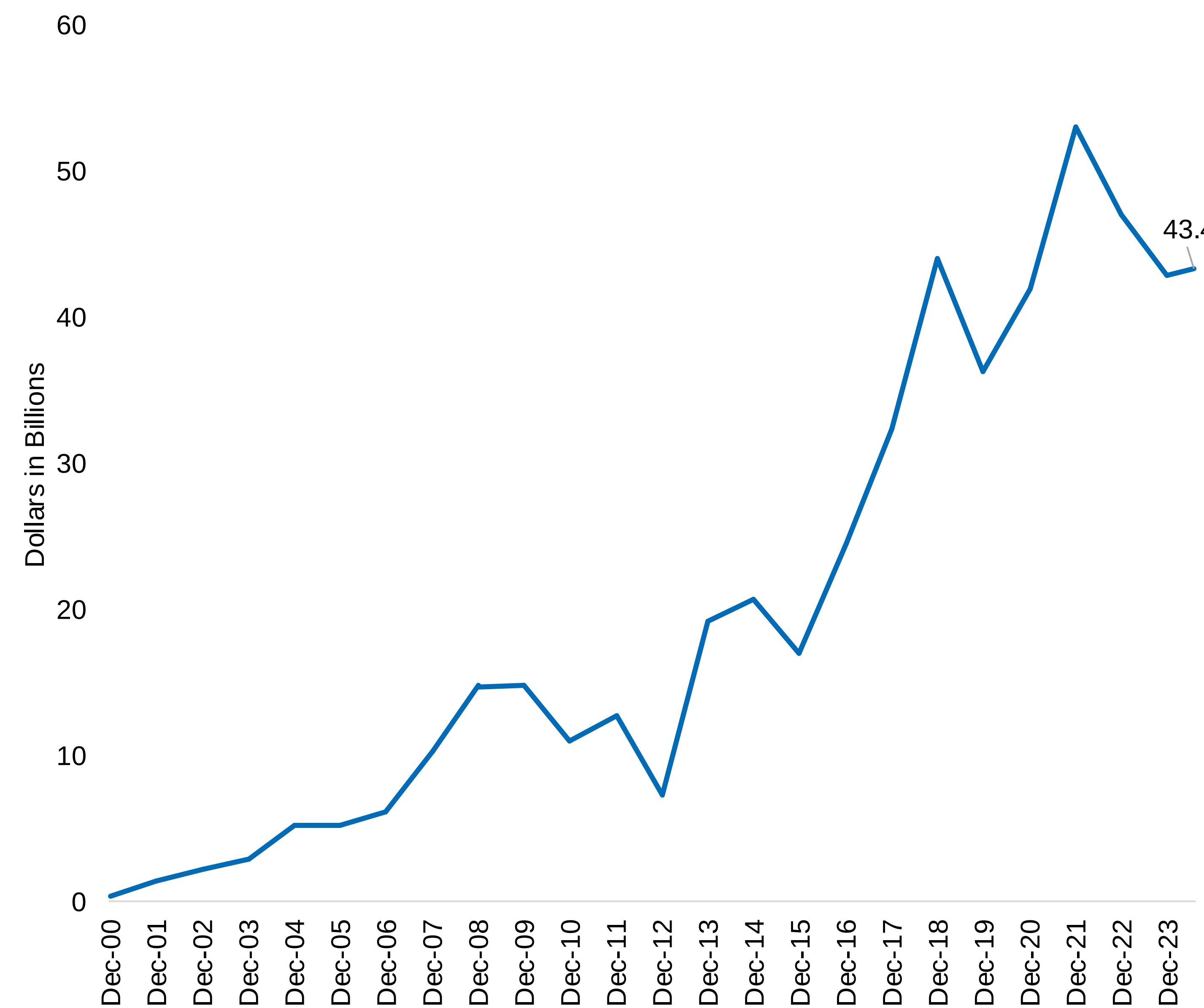
Debt Fund’s Have Taken Capital Raising Market Share, But Dry Powder Remains Flat

Debt funds have continued to gain CRE capital market share, coming in at nearly 25% of total raised in 2Q24. Private debt is raising capital off the expectation regulatory pressure on banks continues to push more CRE debt out of the commercial banking sector; however, dry powder to plug the funding gap left by more traditional lenders has barely budged in the first half of 2024 as many of the issues hitting banks, CMBS and insurance companies also plague existing debt funds.

Debt Fund Fundraising Total And Market Share



Debt Fund Dry Powder



Source: Newmark Research, Preqin as of 7/22/2024

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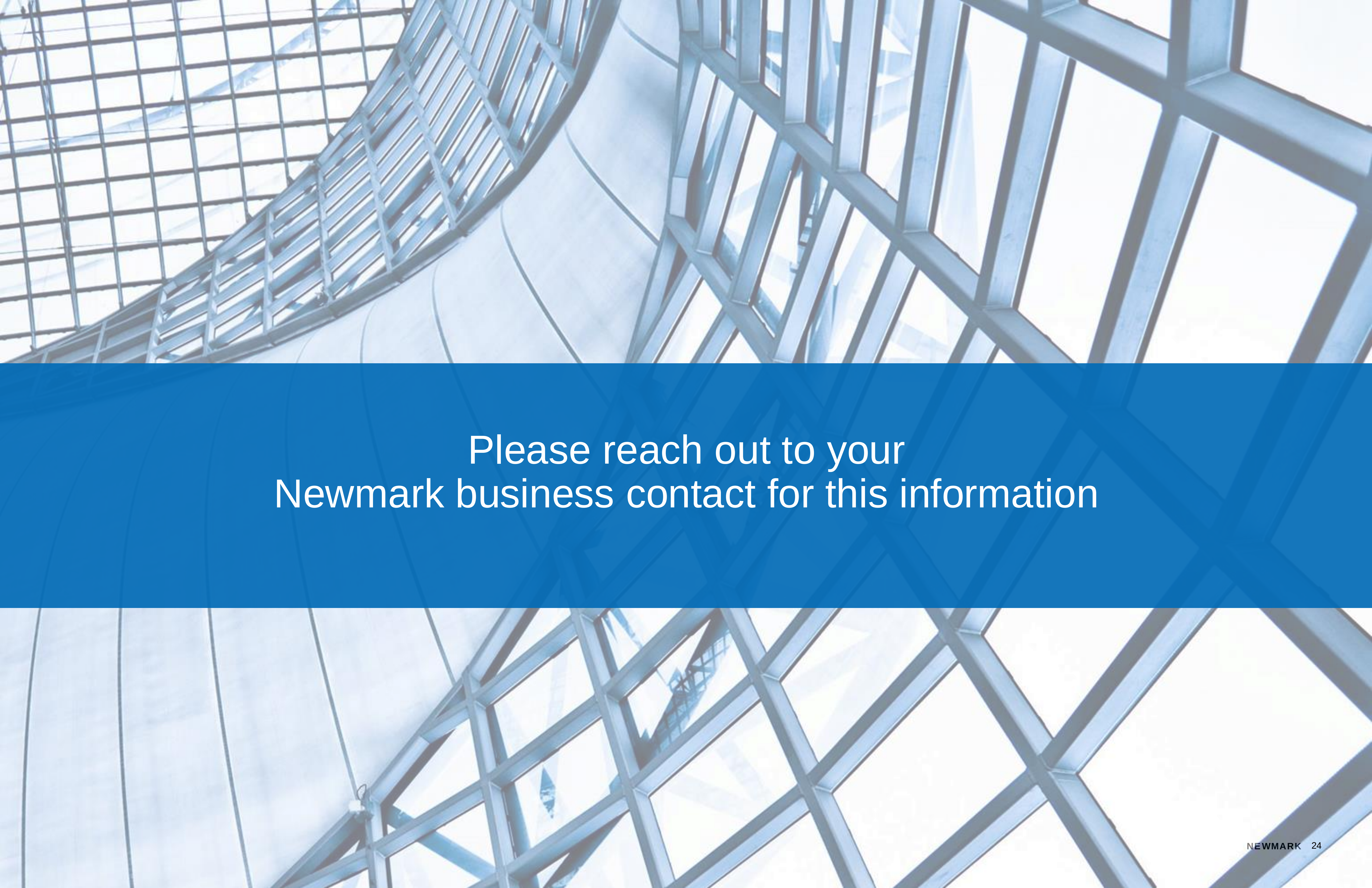

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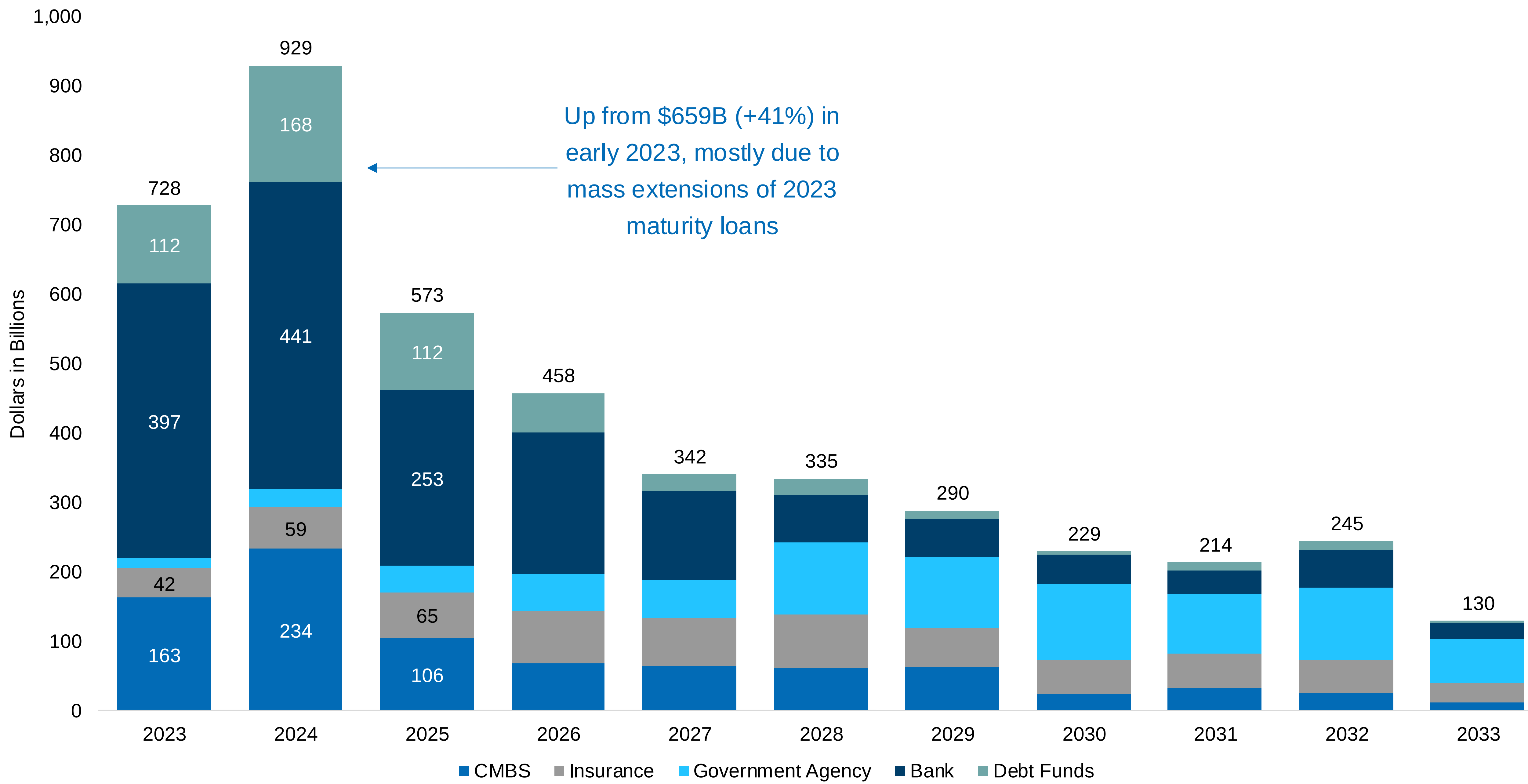
Market Face Record Maturities in 2024

Bank, CMBS/CRE CLO and debt fund maturities are particularly heavily front-loaded over the next 12 months.

Commercial Mortgage Maturities



Source: MBA, Newmark Research as of 2/12/2024

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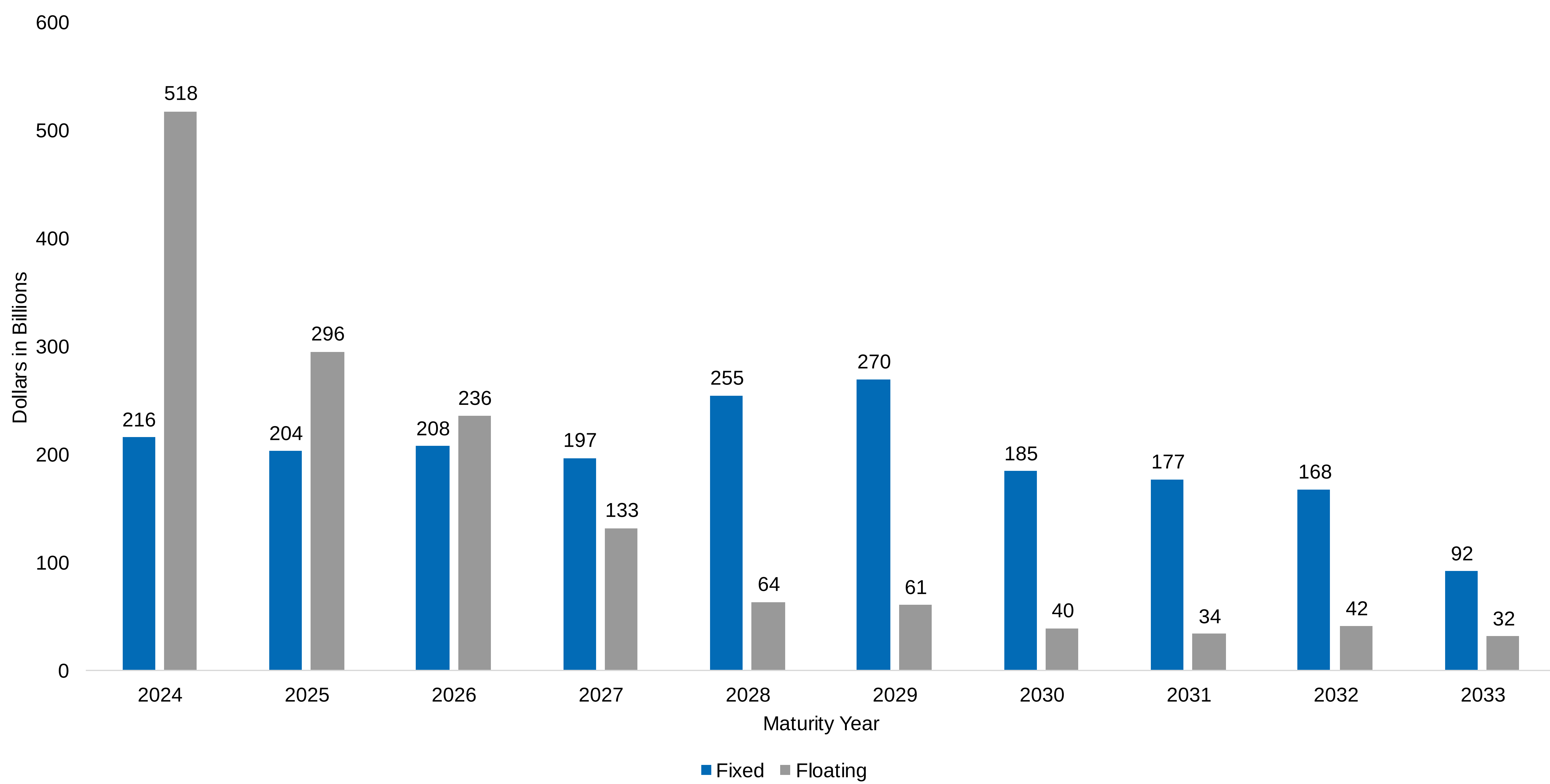
Estimated $518 Billion in Floating Rate Loans Mature in 2024, $1.1 Trillion in ’24-’26

Floating rate loans are the most likely to be facing cash flow problems. Extensions of existing loans at in-place rates offer little comfort to these borrowers in contrast to the fixed rate market. As such, floating rate loans are most likely to exhibit distress.

Commercial Mortgage Maturities: Fixed Rate vs. Floating Rate*



Source: RCA, MBA, Newmark Research as of 7/22/2024
*Includes office, multifamily, industrial, retail, hotel and healthcare property sectors. These figures are estimates and may differ both from MBA’s published figures and from Newmark’s model projections for property and lender sector totals. Analysis does not incorporate the effects of rate caps.

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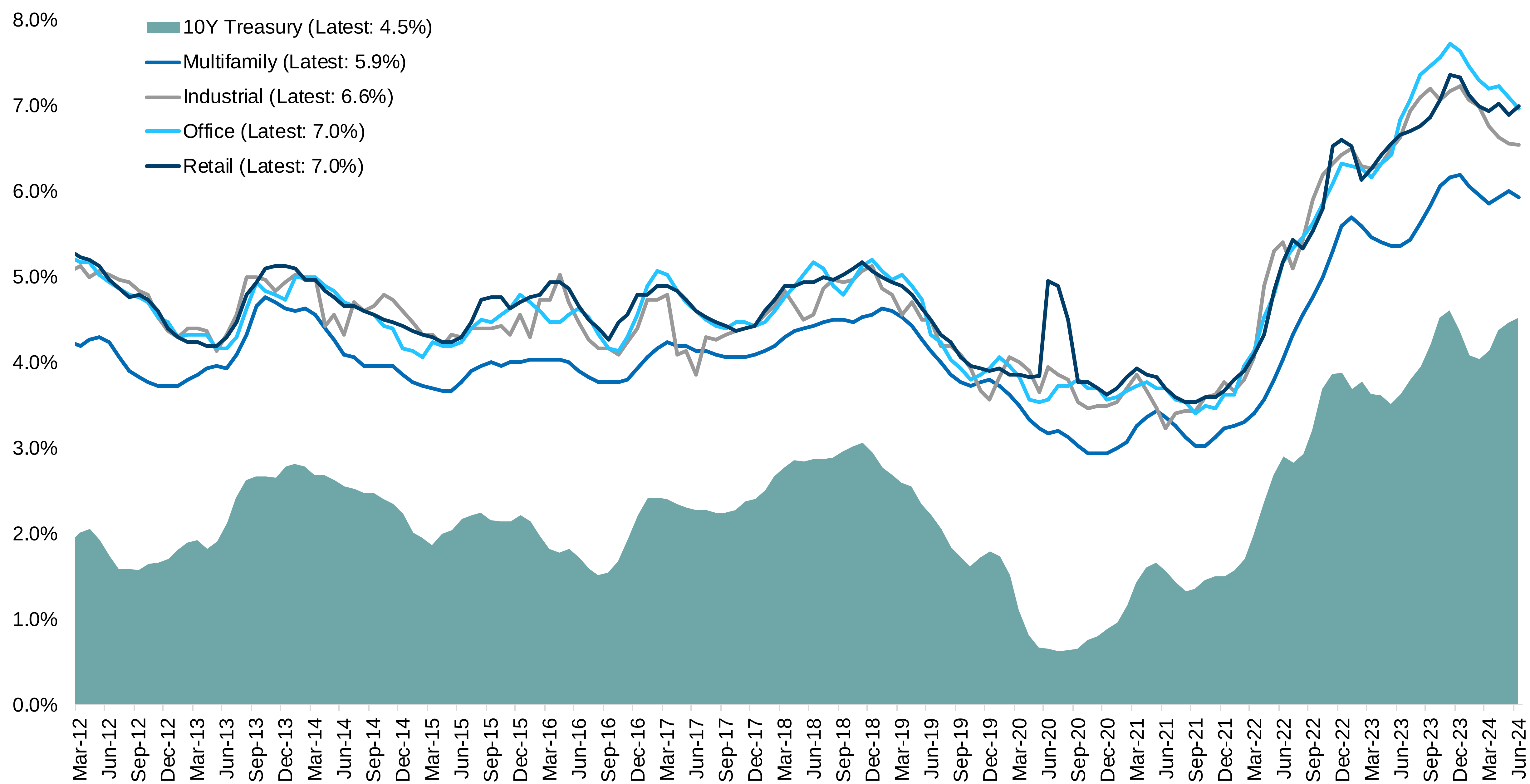
Fixed-Rate Debt Costs Declined in 1H24 But Remain Elevated

Debt costs peaked in 4Q23, coinciding with the peak in 10Y treasury yields. While treasury benchmark rates have continued to be volatile in 1H24, fixed-rate CRE debt costs have steadily declined as spreads compressed. Non-multifamily spreads to treasuries are currently at long-term averages (2.3%) whereas multifamily spreads are more aggressively priced (1.4% vs. 1.8% average). A hard landing scenario could see moderate further reductions on 10Y treasury yields but would be accompanied by spread widening.

Average Interest Rate on Fixed Rate CRE Originations

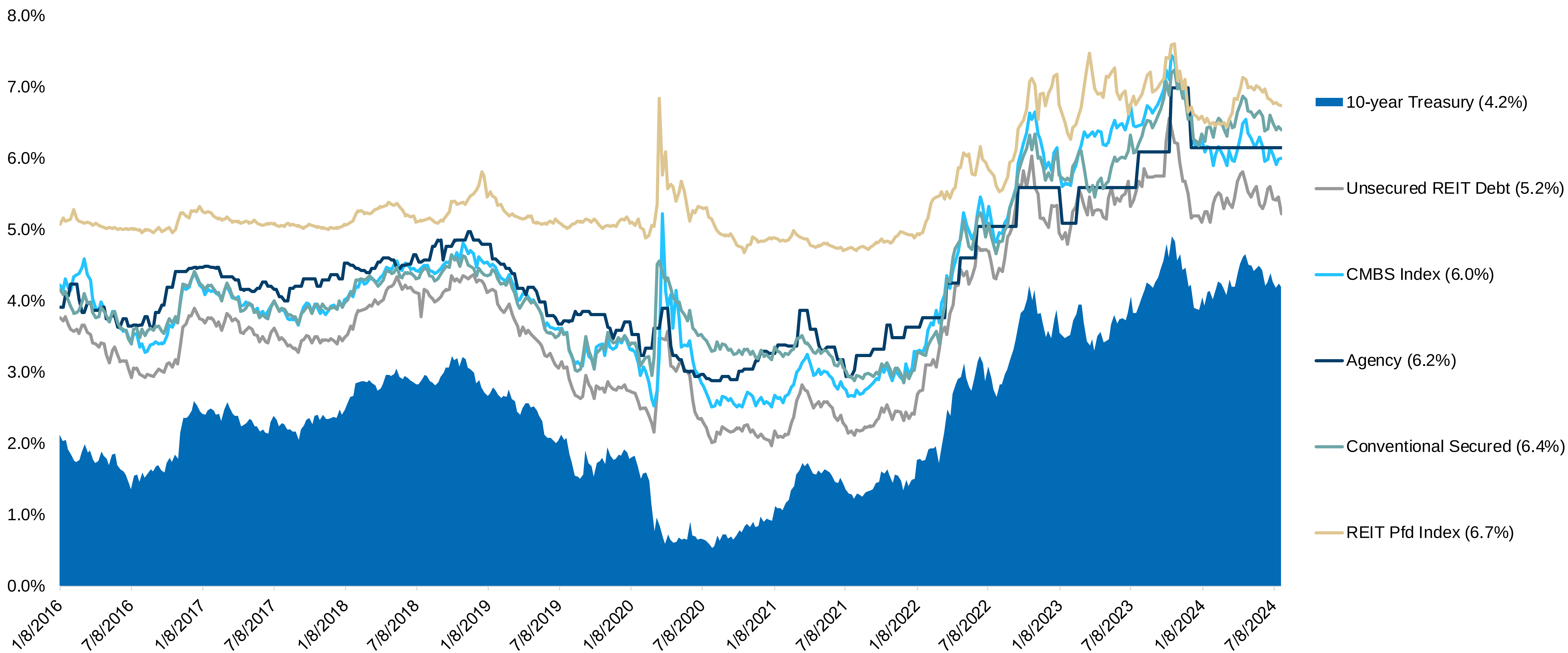


Source: Real Capital Analytics, Newmark Research as of 8/5/2024

Public Benchmark Yields Have Been Highly Sensitive to Treasury Yields

Public market benchmarks were faster to rise than private transaction-based measures. Both through direct lending and by purchasing publicly-traded instruments, fixed-income investors are now able to pick up additional yield by investing in CRE relative to corporate credit. This should attract some capital inflows from lenders with optionality, namely LifeCos. Public market measures continue to move in-line with Treasuries and corporate debt. Spreads are broadly in-line with post-2016 averages.

Public CRE Cost of Debt Benchmarks vs. Treasuries

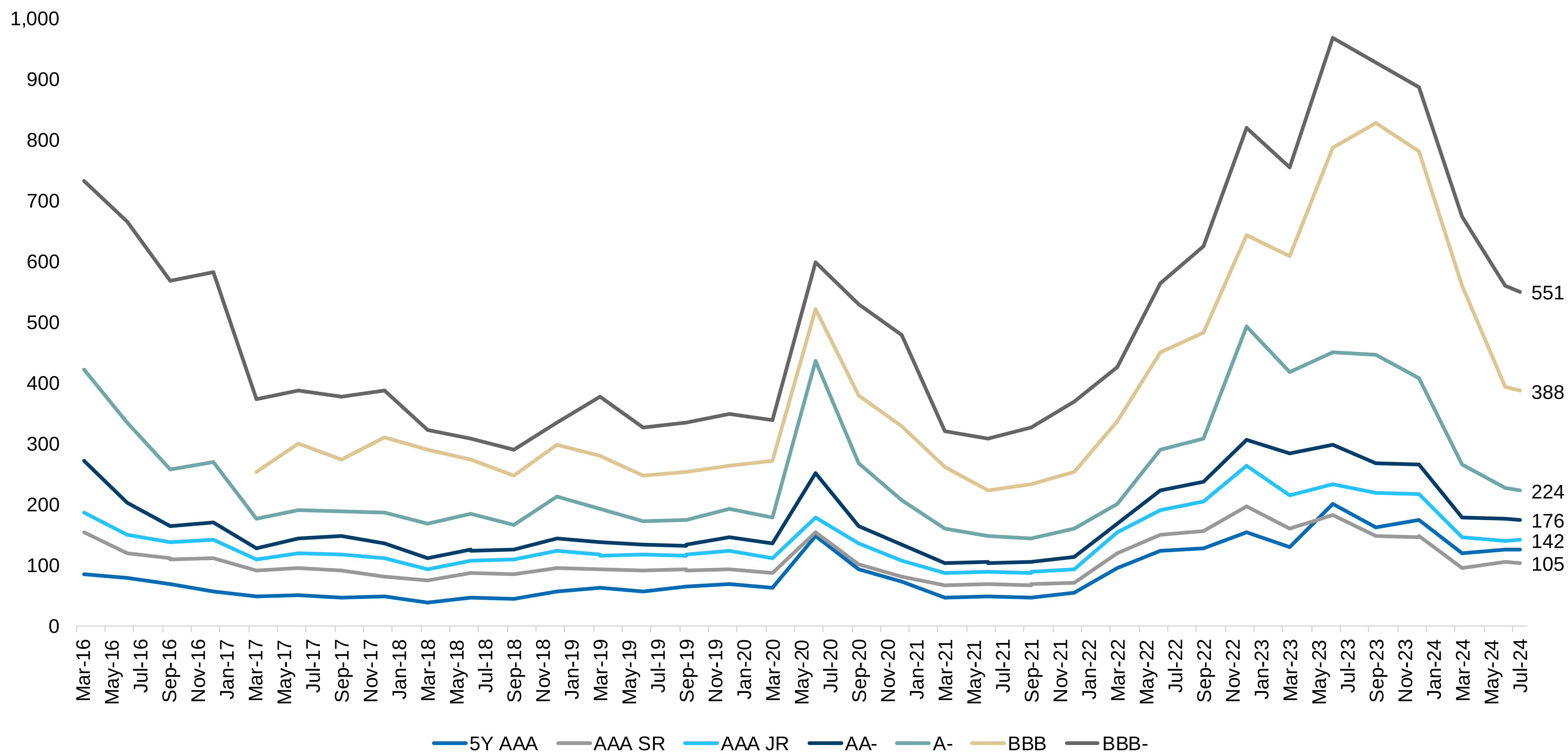


Sources: Newmark Research, Green Street as of 7/26/2024

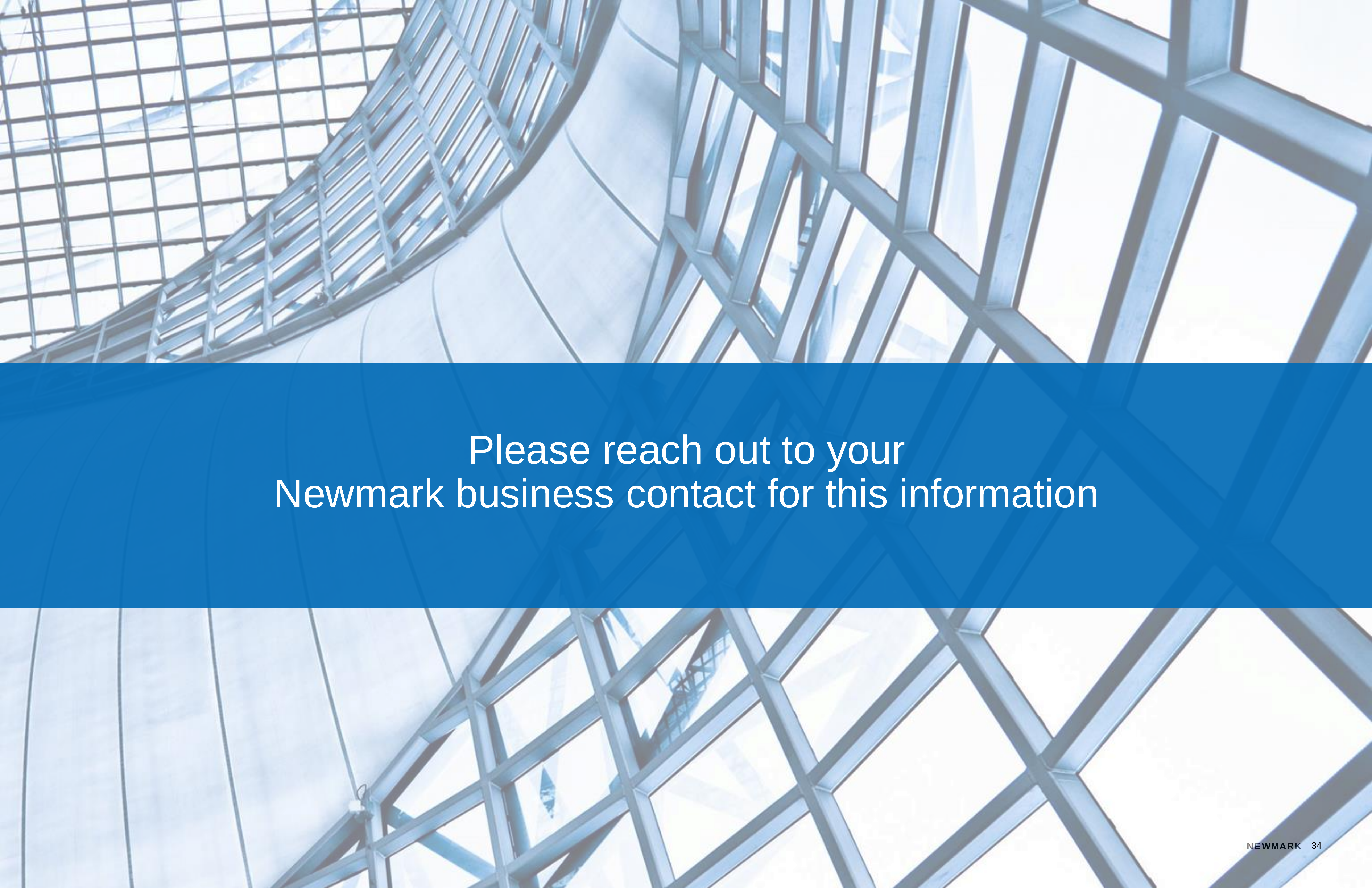
Spreads Have Fallen Sharply, Including for Riskiest Tranches

In contrast to corporate bonds, new issue CMBS are offering wider spreads both compared with 2021 and with the pre-pandemic average across tranches. BBB/BBB- spreads have come in dramatically since mid-2023, though remain considerably wide of historical averages, suggesting that the market remains wary of distress. One factor that is helping new issues is greater faith in the accuracy of the underwriting on newer loans whereas CMBS in the secondary market were underwritten with excessively optimistic appraised values.

Average CMBS Conduit New Issuance Spreads to SOFR



Source: Trepp, Newmark Research as of 7/22/2024



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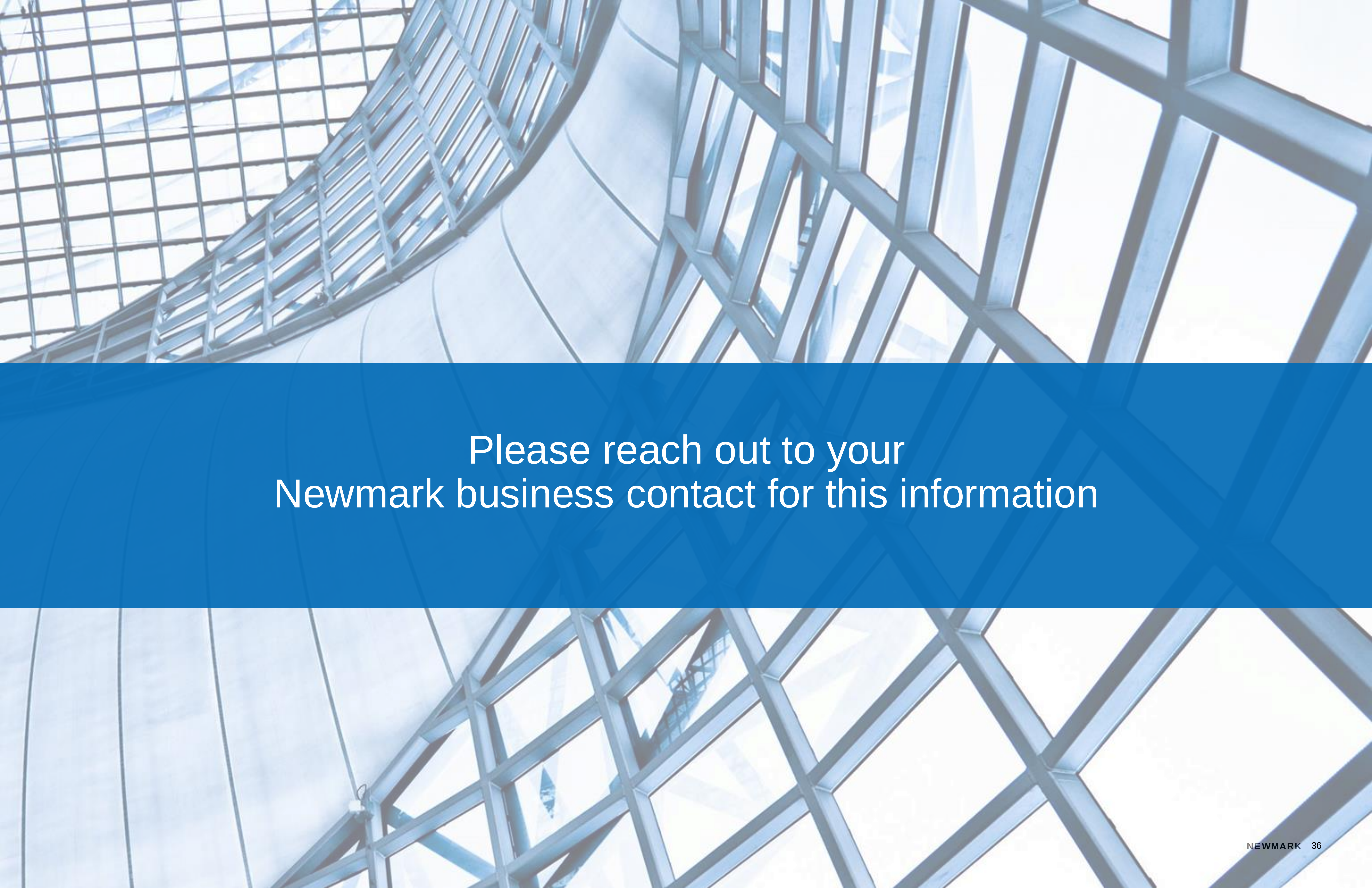
Some Loans Will Be Able to Absorb Higher Interest Costs – Many Will Not

Even property types with strong operating fundamentals could face challenges covering new, higher interest costs. Floating rate loans on transitional product – a significant portion originated by debt funds and securitized in CRE CLO – are particularly fraught. This is largely responsible for the high portion of at-risk loans in the multifamily and industrial sectors. The securitized markets are not an isolated problem; banks engaged in a great deal of this newly risky lending. New bank regs give them a "pass" on underwater loans but not DSCRs.

DSCR Profile of Outstanding Securitized CRE Debt Maturing Before 2026

Source: Trepp, Newmark Research as of 7/23/2024



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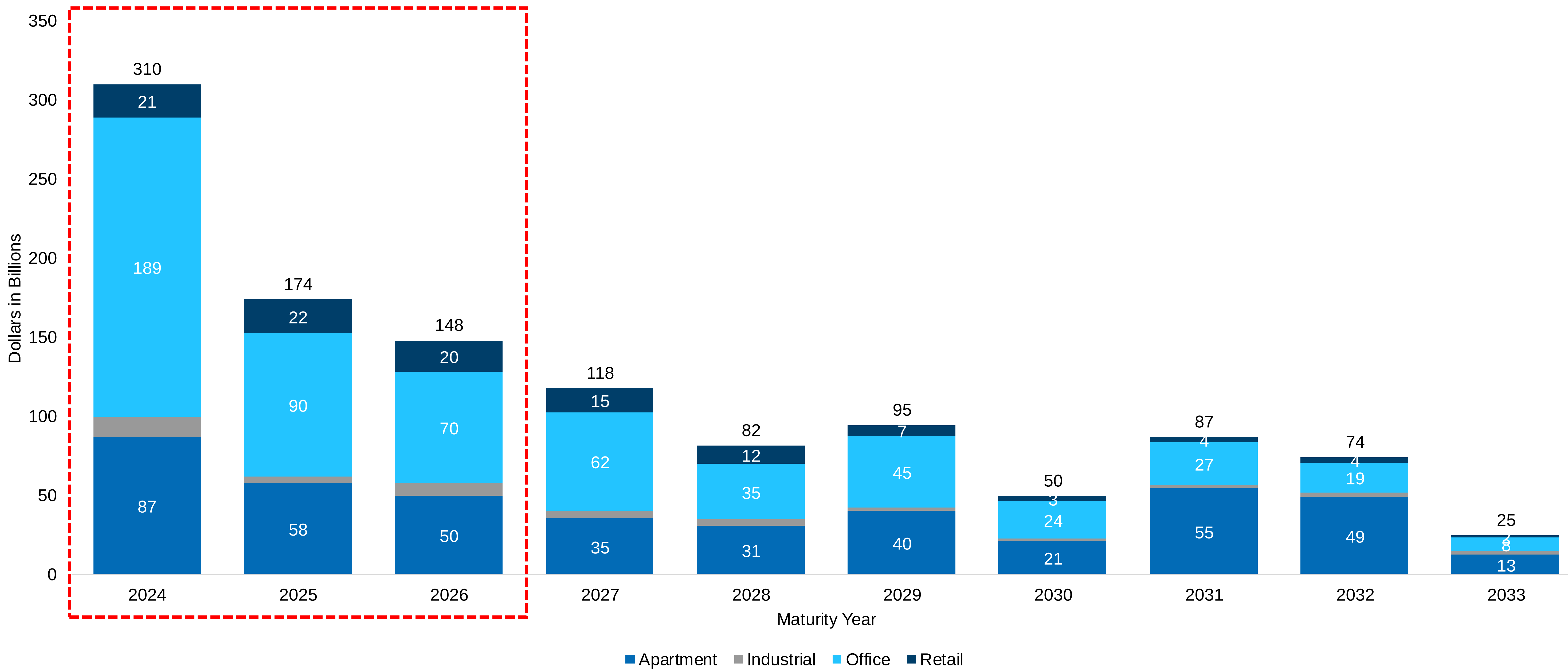
$1.2T of Outstanding CRE Debt is Potentially Troubled, $632B Maturing in '24-'26

Combining our analysis of mark-to-market LTVs with the structure of debt maturities, we estimate the volume of debt that currently is potentially troubled.* Office and multifamily loans constitute most potentially troubled loans, particularly in the 2024-to-2026 period. The high office volume results from most loans being underwater. The distribution of LTV ratios for multifamily are more favorable overall, but the greater size of the multifamily market and the concentration of lending during the recent liquidity bubble drive high nominal exposure.

Potentially Troubled Loans by Maturity Year*



Source: Green Street, NCREIF, RCA, Trepp, MBA, Newmark Research as of 7/31/2024
*Loans with an estimated senior debt LTV of 80% or greater are potentially troubled. The loans are marked-to-market using an average of cumulative changes in the Dow Jones REIT sector price indices, REIT sector enterprise value indices and Green Street sector CPPI.

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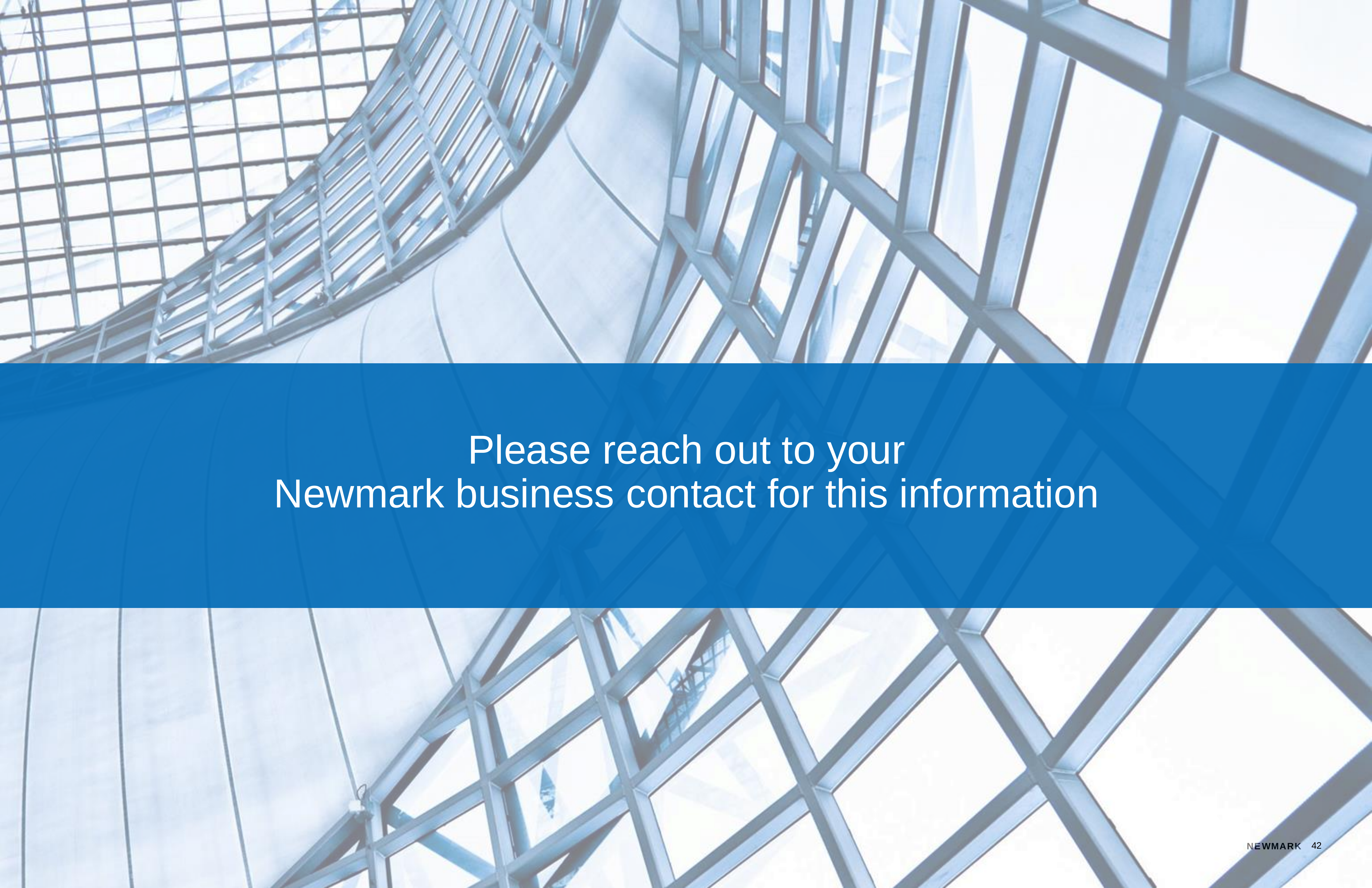

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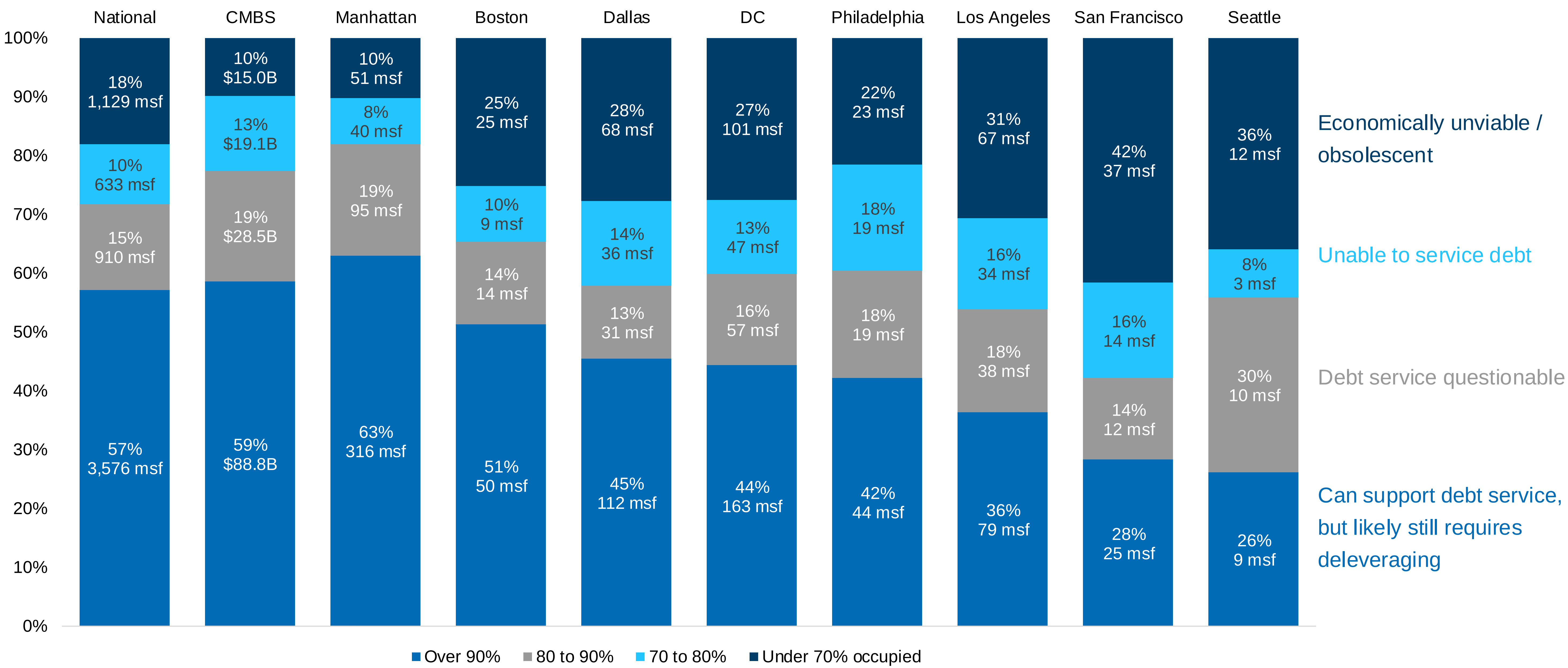
Vacancy Is Not Evenly Distributed within Markets, Nor Will Be Impairments

Significant portions of the office market are structurally impaired purely from an occupancy perspective. Debt issues will accelerate their demise. On the other hand, a great deal of offices have healthy occupancy profiles. While they may still be over-levered, there is a clear fundamental path to solvency.

Distribution of Office Vacancy



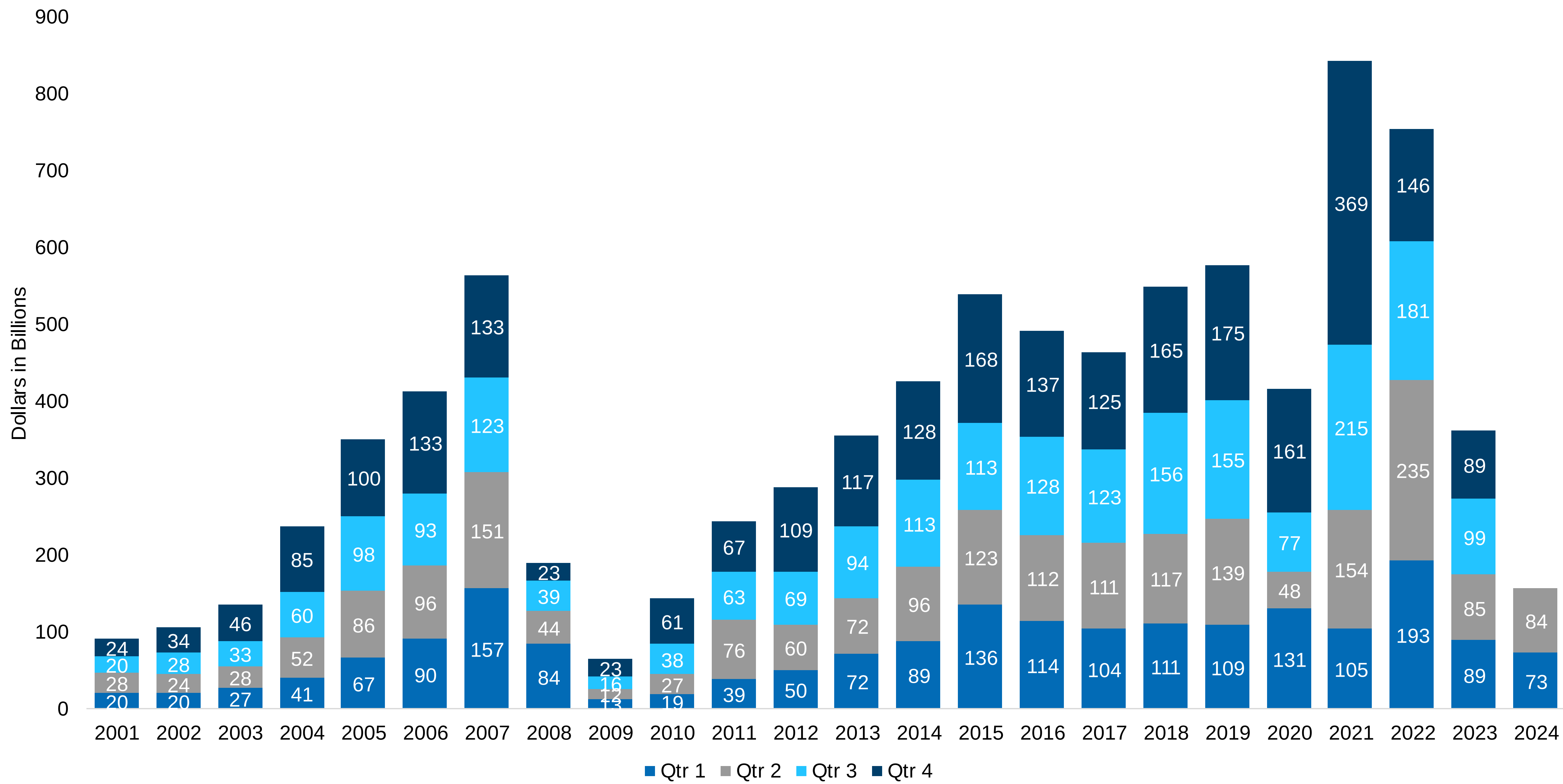
Source: Costar, Newmark Research as of 5/8/2024

Equity Capital Markets

Sales Activity Picked Up Slightly In 2Q24, But Remains Anemic

Sales declined 10% year-over-year in 1H24 and negative 32% compared with the 2017-to-2019 average. This represents a modest improvement compared to 1Q24 which was down 35% relative to the 2017-to-2019 average. Rate cut expectations bottomed out in late May and early June, with recent data providing market participants with some optimism of dovish Fed moves on the horizon; however, extend-and-pretend strategies continue to impede sales activity as borrowers and lenders wait for better market conditions, a precarious strategy.

Investment Sales Volume

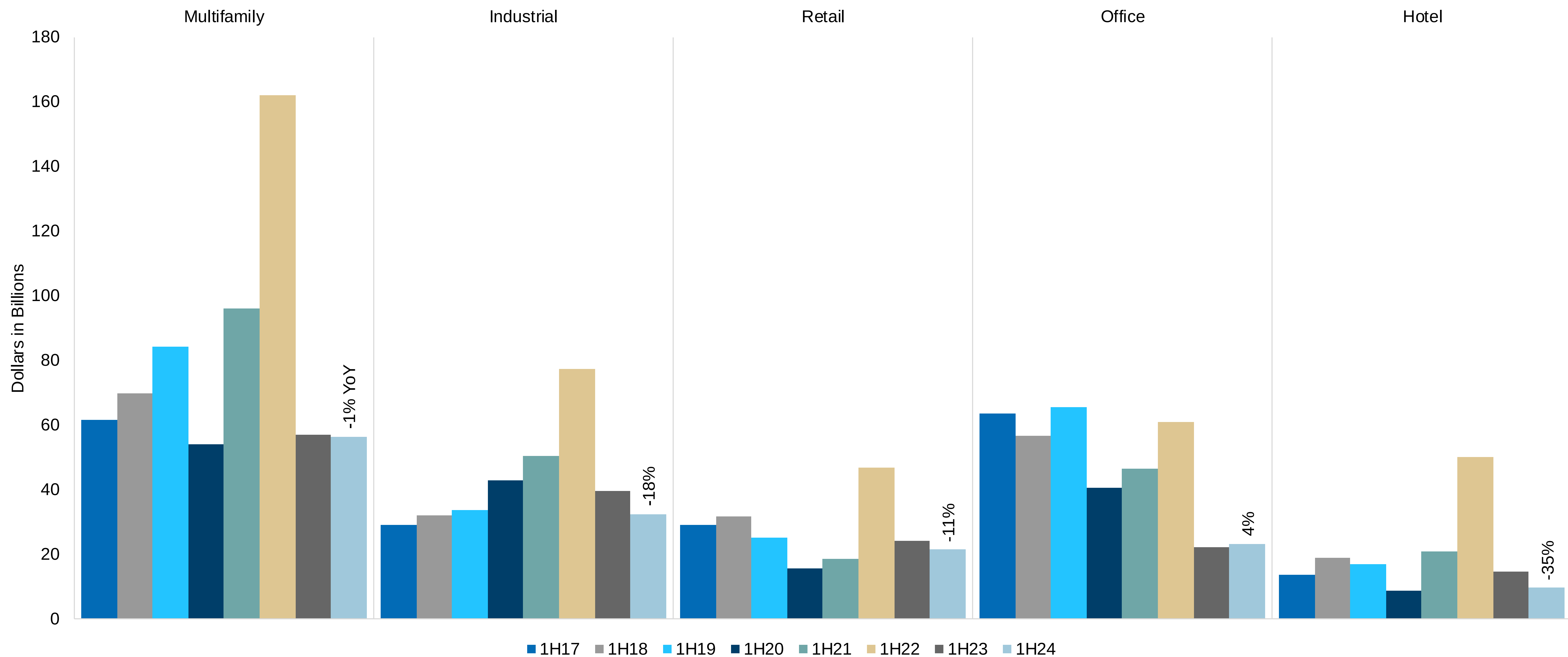


Source: RCA, Newmark Research as of 7/22/2024

Transaction Activity Broadly Declined Year-over-Year in 2Q24

Multifamily, industrial, and hotel saw significant growth compared to 1Q24, but Hotel sales are still down sharply both year-over-year and compared to is 2017-2019 average. Multifamily sales volume had its best quarter since 4Q22 and was down only 1% YoY, driven by three portfolio deals that made up 36% of total volume. Industrial sales, however, are down 18% YoY but are 3% higher than its 2017-2019 average. Office sales took a step back this quarter and are still 62% below their 2017-2019 average for the 1st half of a year, but are up 4% YoY. Retail volume was 25% below its pre-pandemic average and saw transaction volume decline from the first quarter to the second quarter.

Investment Sales Volume

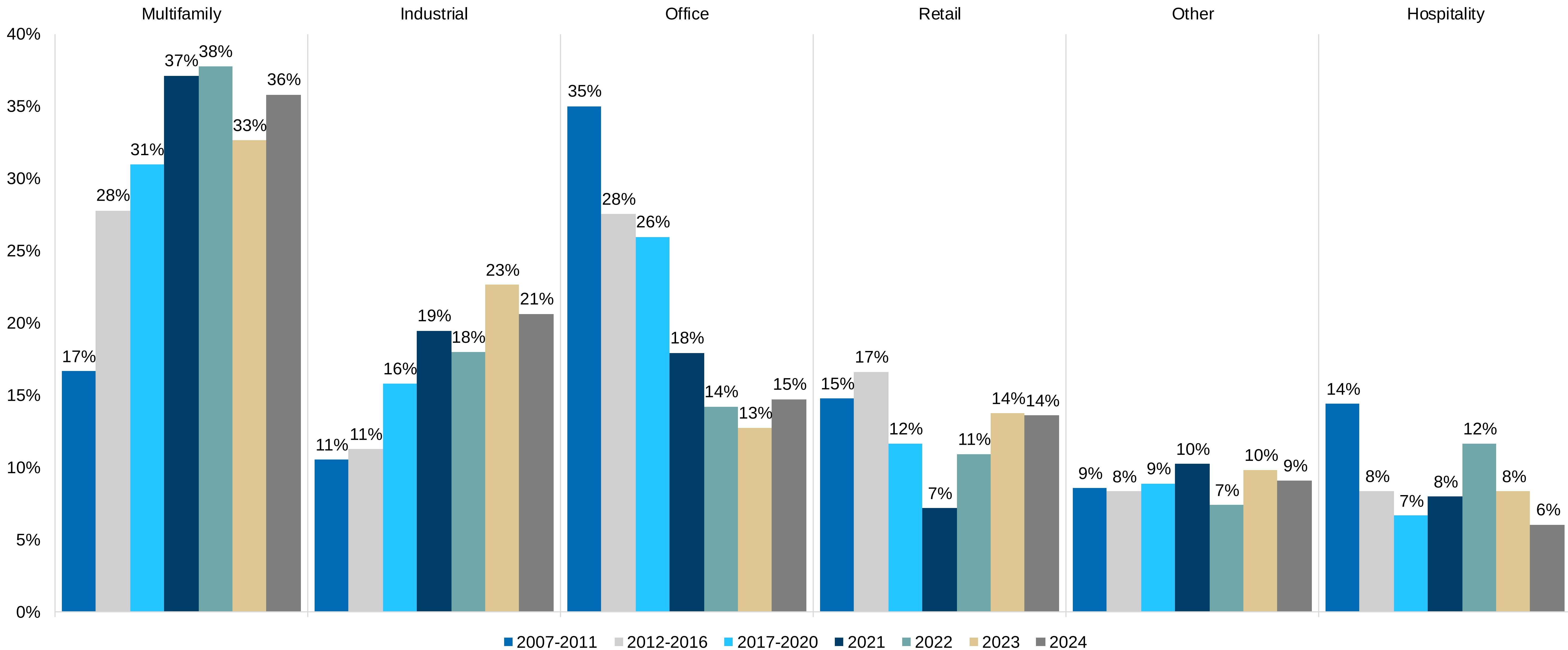


Source: RCA, Newmark Research as of 7/22/2024

Transaction Activity Continues to Rebalance with Multifamily Rebounding in 2Q24

The multifamily share of investment sales rebounded in the 2nd quarter of 2024, making up 44% of total volume, though excluding AIR's acquisition, multifamily's share is on par with 2023. The retail share has been rising consistently since bottoming in 2021 but only maintained in the 1H24. The industrial share has been relatively steady and remains above its pre-pandemic level. Office share in the second quarter saw less activity, bringing the YTD share of transaction share for Office back below its 2021 average.

Investor Allocation over Time

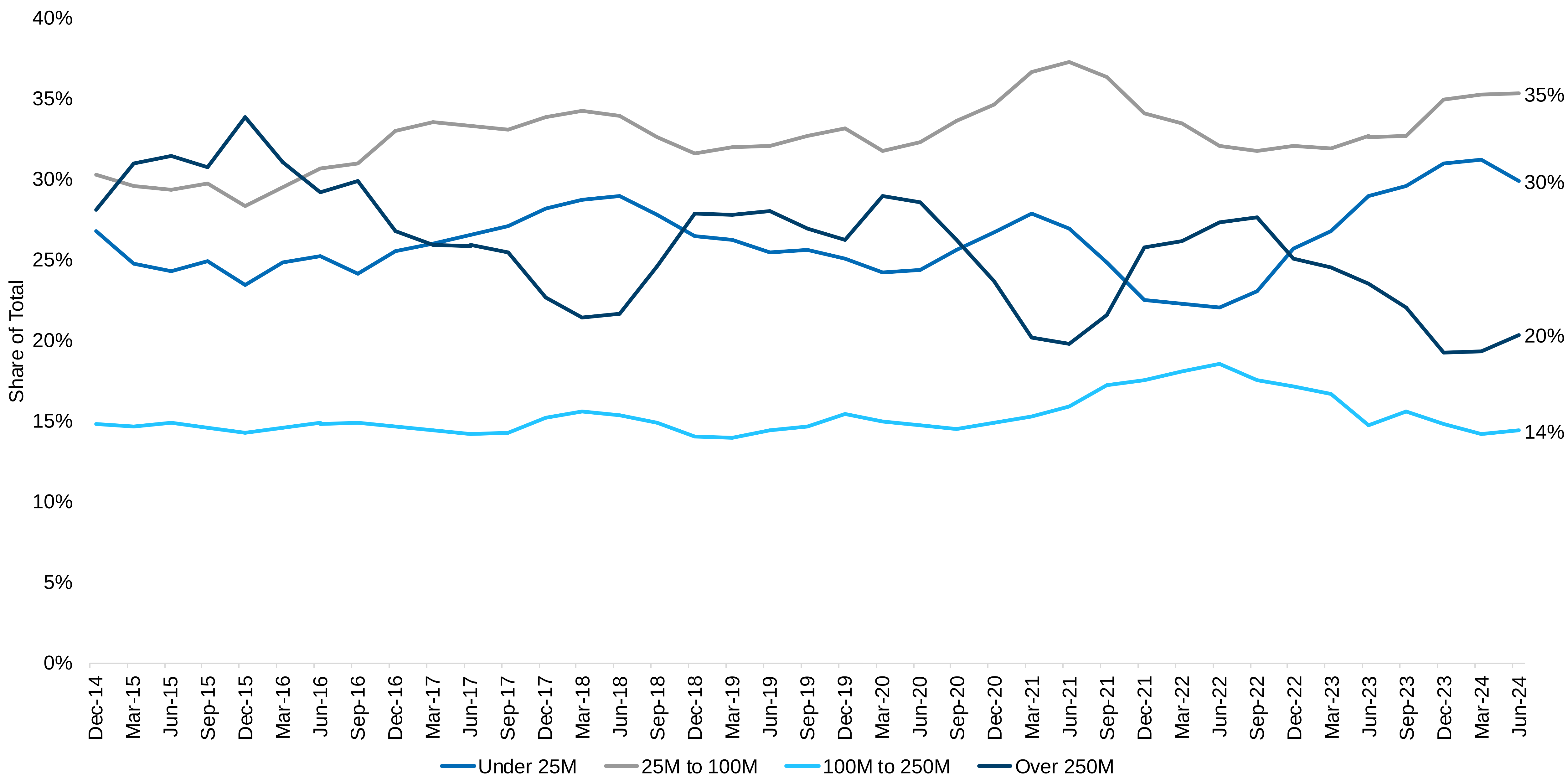


Source: Real Capital Analytics, Newmark Research as of 7/22/2024
Note: "Other" includes development sites, senior housing and nursing care, self storage, parking and manufactured housing.

Liquidity Has Shifted Towards Smaller Deals

Deals under $100M accounted for 65% of investment sales volume in the last four quarters as compared with a long-term average of 59%. The sharpest increase has been in deals under $25M, which are 3 percentage points higher than the 2017-2019 average. The share of deals over $250M has declined sharply to just 20%, though it continues to outnumber the volume in the $100M-to-250M range. These trends are interrelated with the decline in the institutional share of sales activity in favor of smaller, private capital buyers.

Rolling 4-Quarter Investment Sales Volume by Deal Size



Source: RCA, Newmark Research as of 7/22/2024

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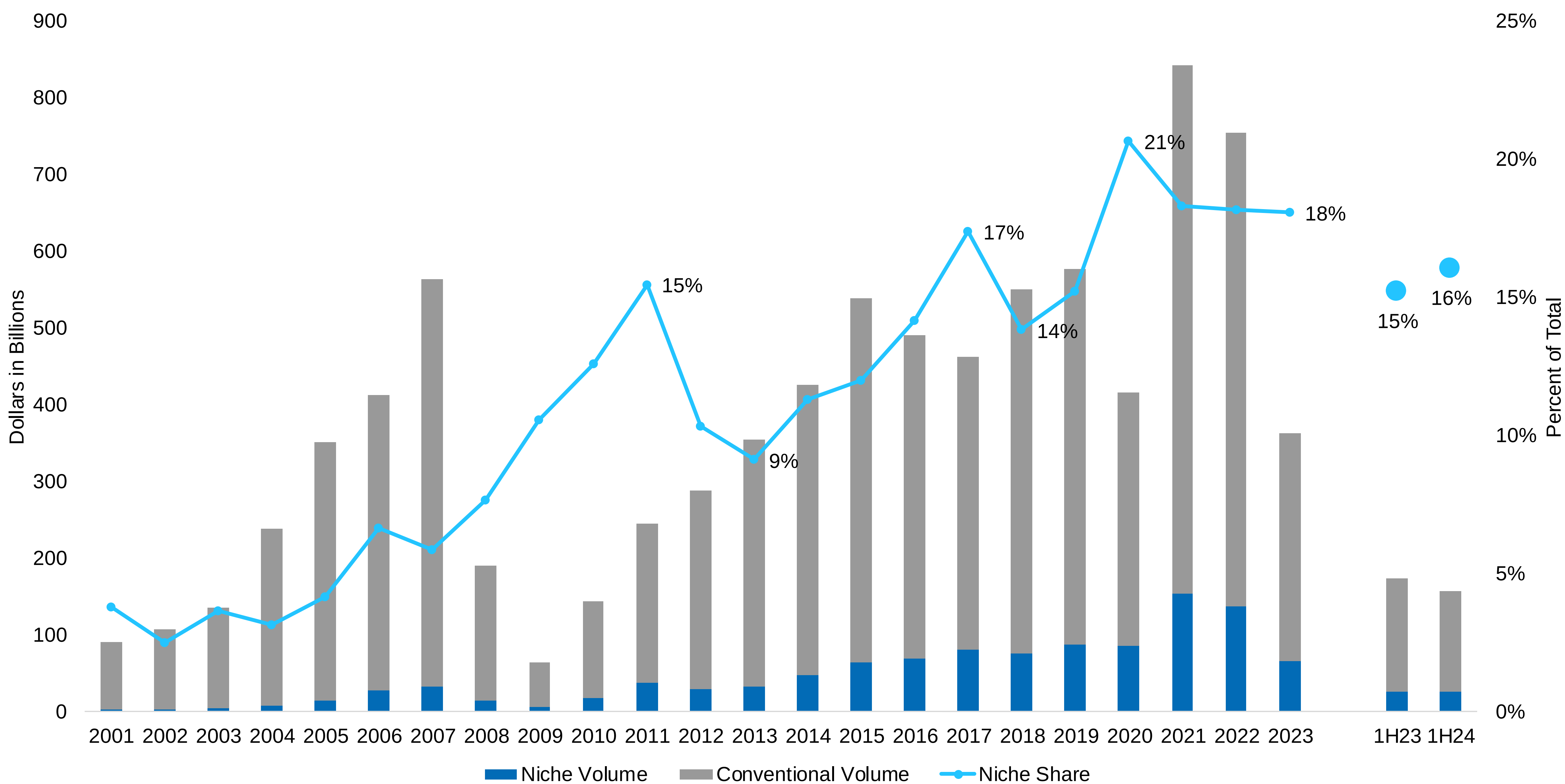
Niche Sector Allocation Increased 84 basis points from 1H23 to 1H24

Niche sector acquisitions outperformed conventional on a year-over-year basis as the latter was down 11% while niche was down 5%. Niche investment is slightly front running its 2023 allocation share, with 19% of total volume going to Niche in 1H24, vs. 15% in 1H23. The niche asset share while down from it's 2020 peak remains at historically high levels. This is supported by increasing institutional interest in niche asset categories as reflected in rising shares in ODCE funds.

Investment Sales Volume



Source: RCA, Newmark Research as of 7/22/2024

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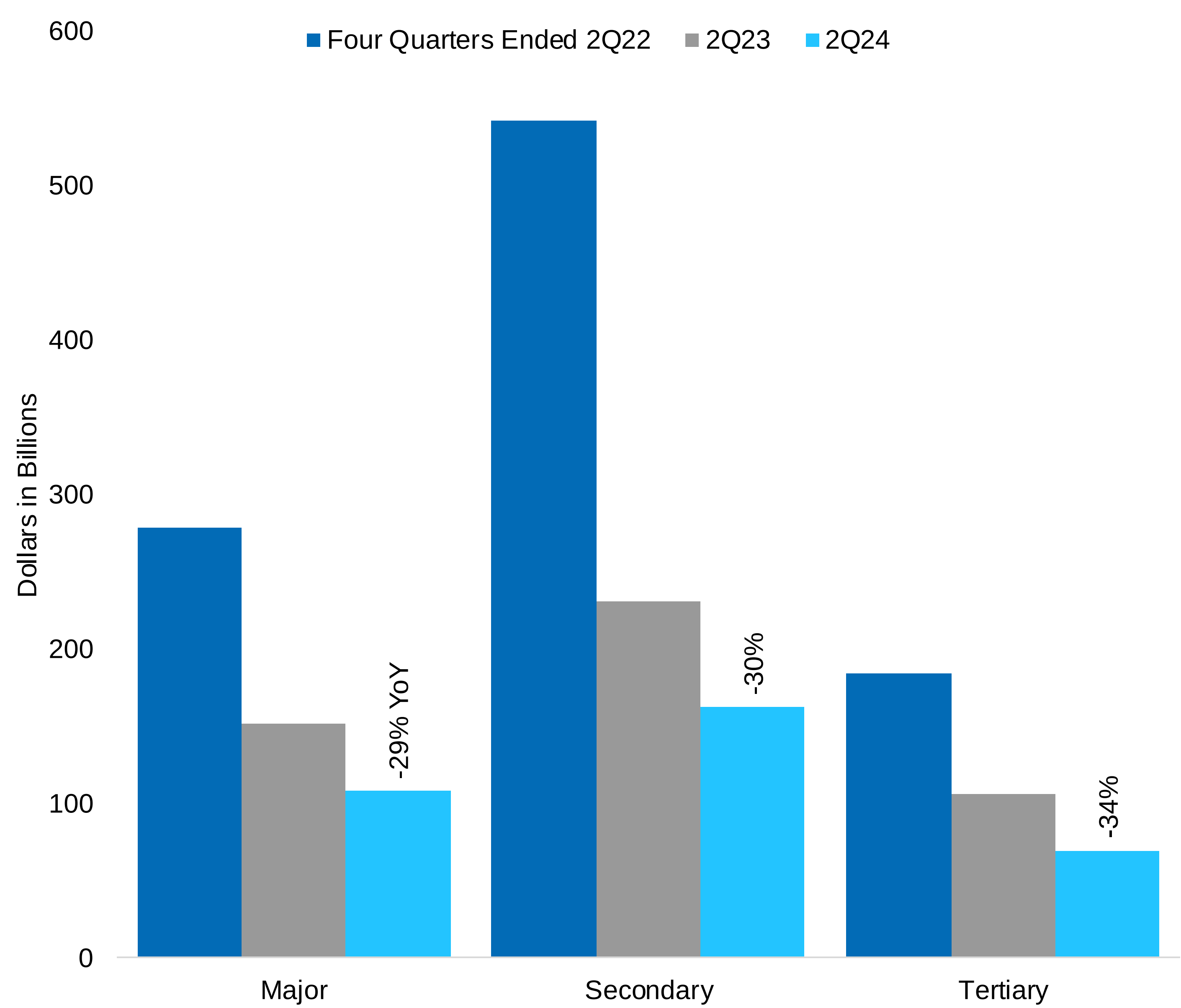
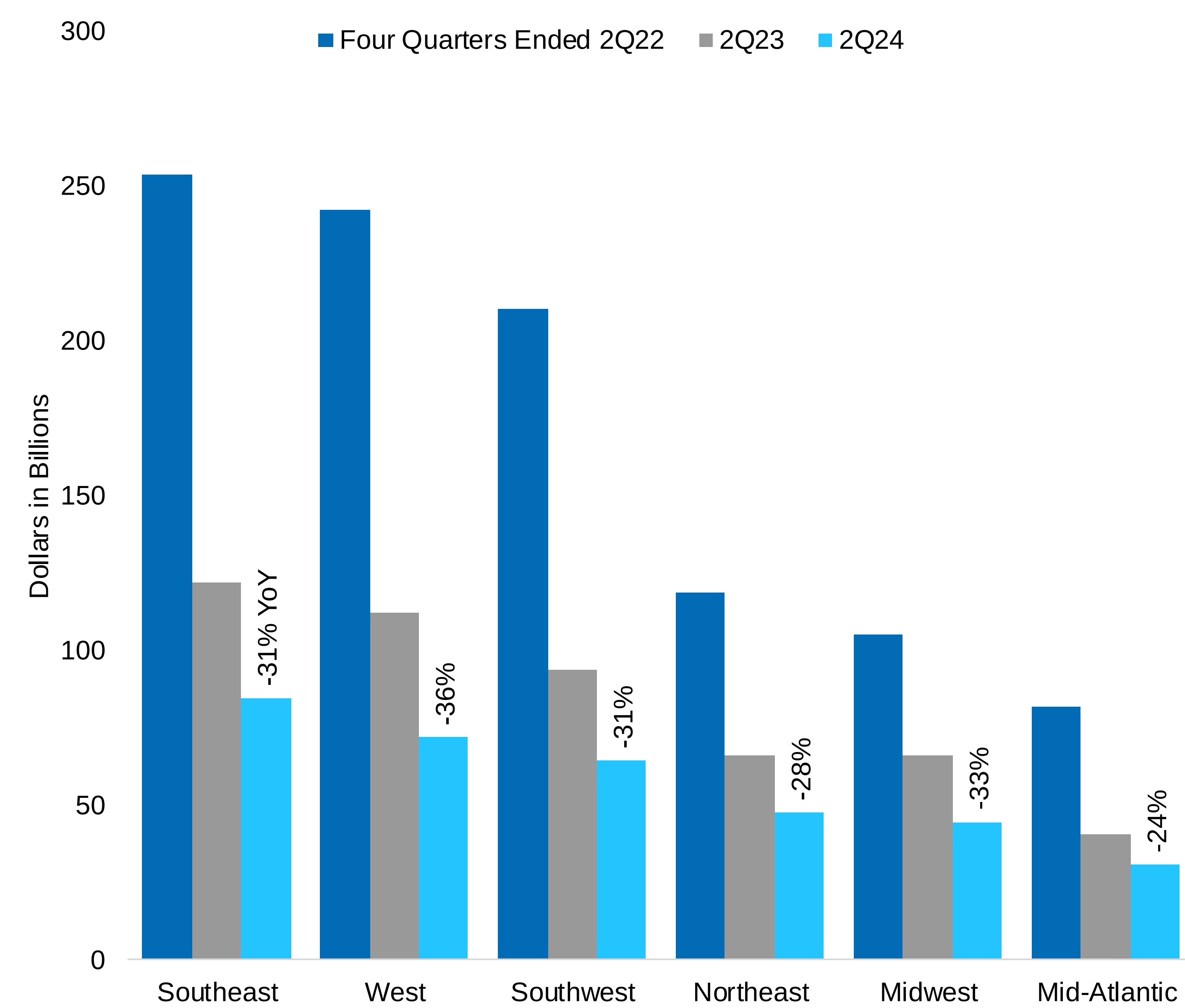
Sales Volume Continues to Fall Sharply across Market Tiers and Regions

Against this negative backdrop, major and tertiary markets have been moderately less impacted. The West and Southeast regions were the most liquid overall, while the Mid-Atlantic and Northeast contracted least year-over-year.

Investment Sales Volume by Market Tier



Investment Sales Volume by Region

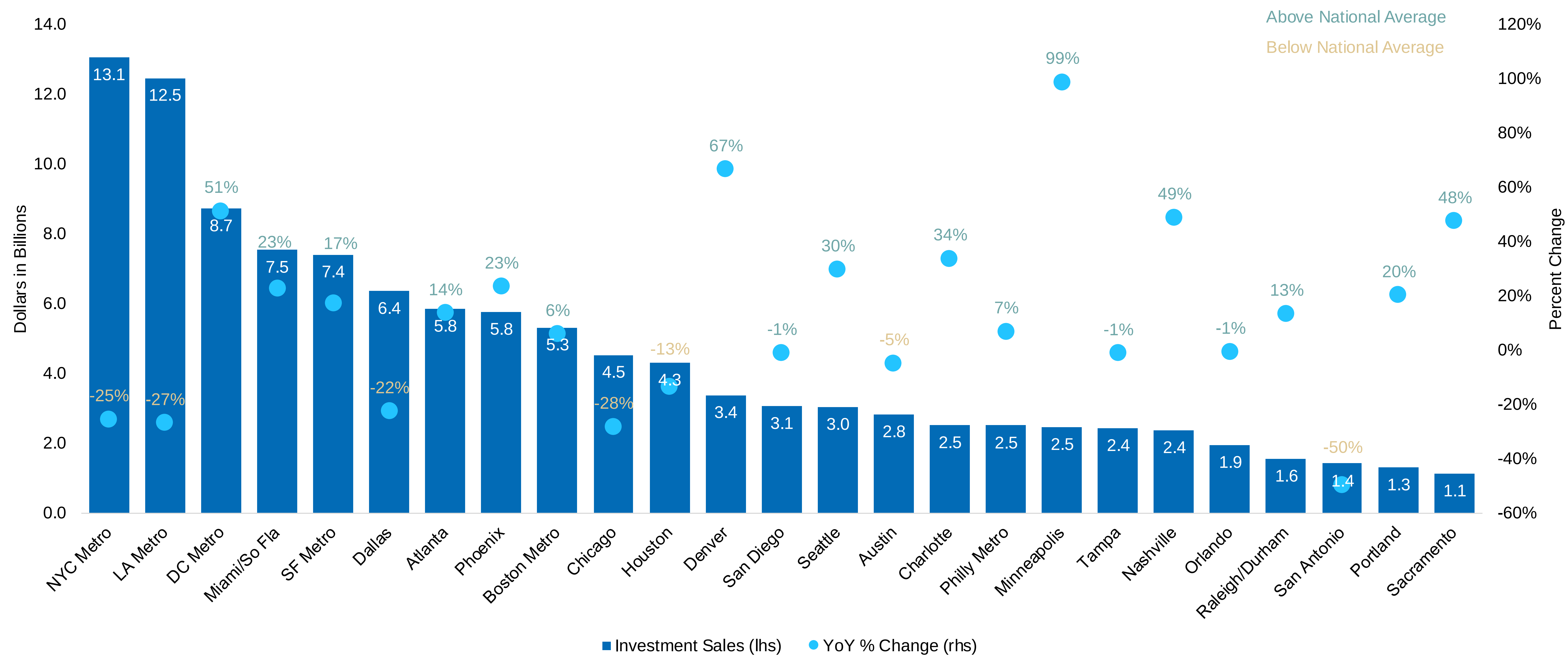


Source: RCA, Newmark Research as of 7/22/2024

Investment Sales Increased Year-over-Year in 15 out of 25 Top Metros in 1H24

NYC Metro and LA Metro were the top markets by investment volume in the US in 1H24. Volumes declined year-over-year in all the top 25 metros in 2023, but 1H24 is off to a more favorable start. 15 out of 25 recorded higher investment sales volumes compared with a year ago, notably Denver, Minneapolis, DC and Nashville. After a significant pullback in volume, high demographic growth Sun Belt markets such as Charlotte, Phoenix, and Raleigh have begun to see strong positive gains in volume.

Top 25 Metro Markets by 1H24 Volume

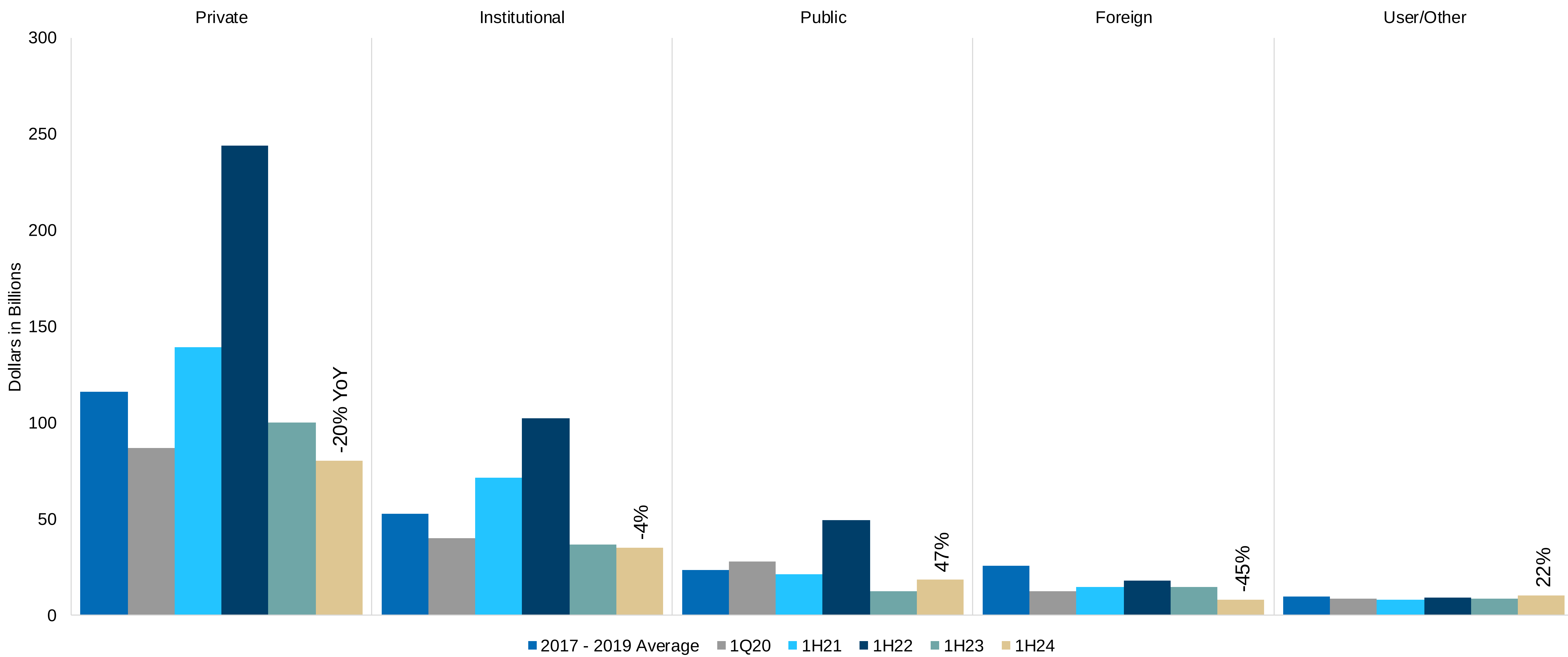


Source: RCA, Newmark Research as of 7/22/2024
Note: Excludes tertiary markets from ranking.

Public Vehicle Acquisitions Helped Offset Weak Investment by Institutions

Private capital remains the most active segment, accounting for 51% of acquisitions. Institutions deployed 4% less capital compared with 1H23, however the second quarter saw institutions pick up activity significantly with three $1 billion plus portfolio deals. Foreign investment also continued to decelerate; these investors face additional constraints in the form of a strong dollar and elevated hedging costs. Occupiers increased acquisitions potentially seeing opportunity in the void left by other groups.

Acquisitions Volume by Capital Group



Source: RCA, Newmark Research as of 7/22/2024

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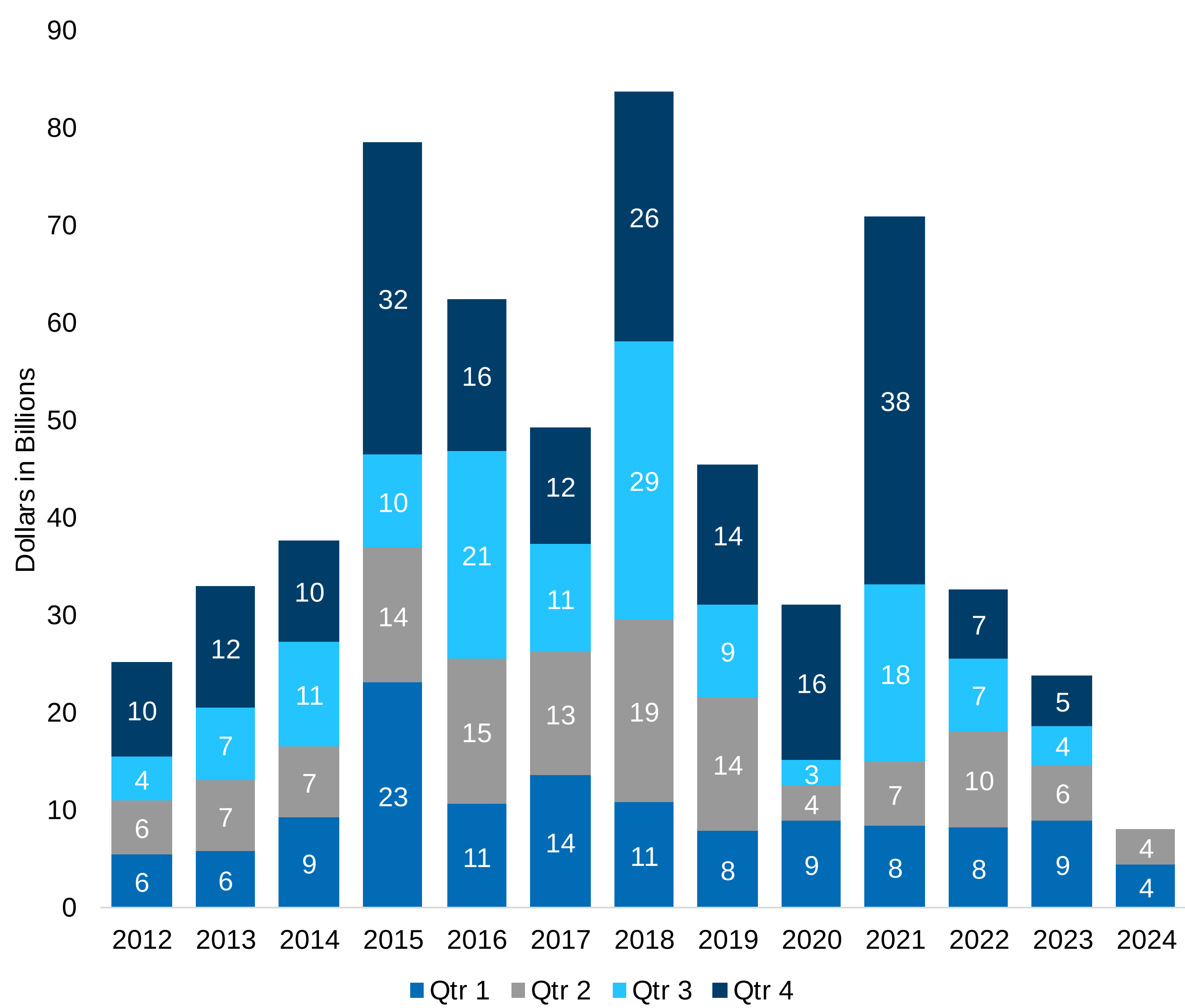
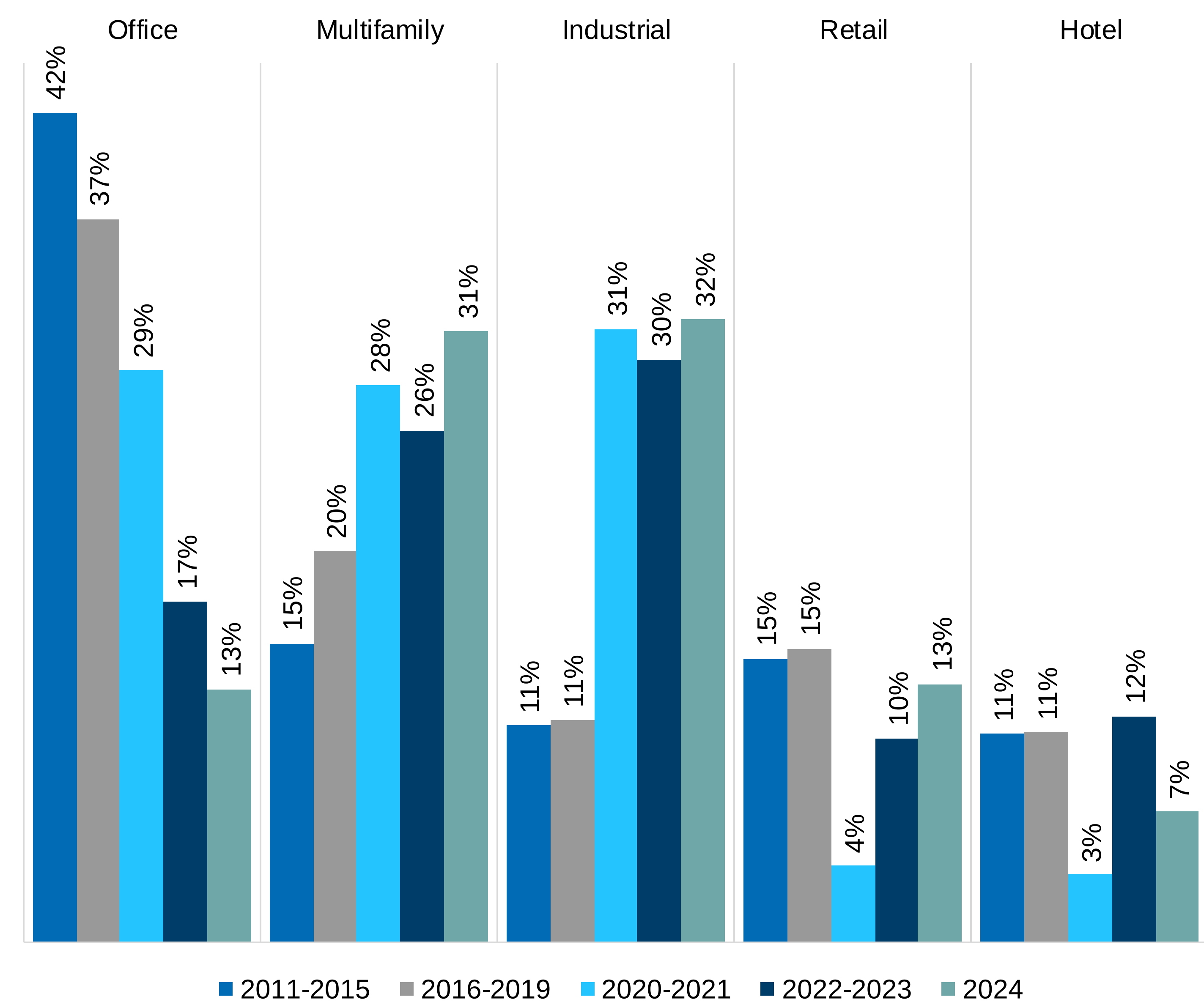
Foreign Investment Declined 45% Year-over-Year in 1H24

Foreign investment was at its lowest ebb since 3Q22 or since 2011 for a first quarter. The foreign share of investment 4.5%, well below the 8.3% long-term average. Looking at the last 12 months, industrial constitutes the largest share of foreign investment nearly tripling pre-pandemic shares. The same is true of multifamily, albeit less dramatically. Retail shares of foreign investment have rebounded in the same period though still below pre-pandemic, while office remains dramatically below pre-pandemic levels.

Cross-Border Acquisitions Volume



Allocation of Cross-Border Acquisitions

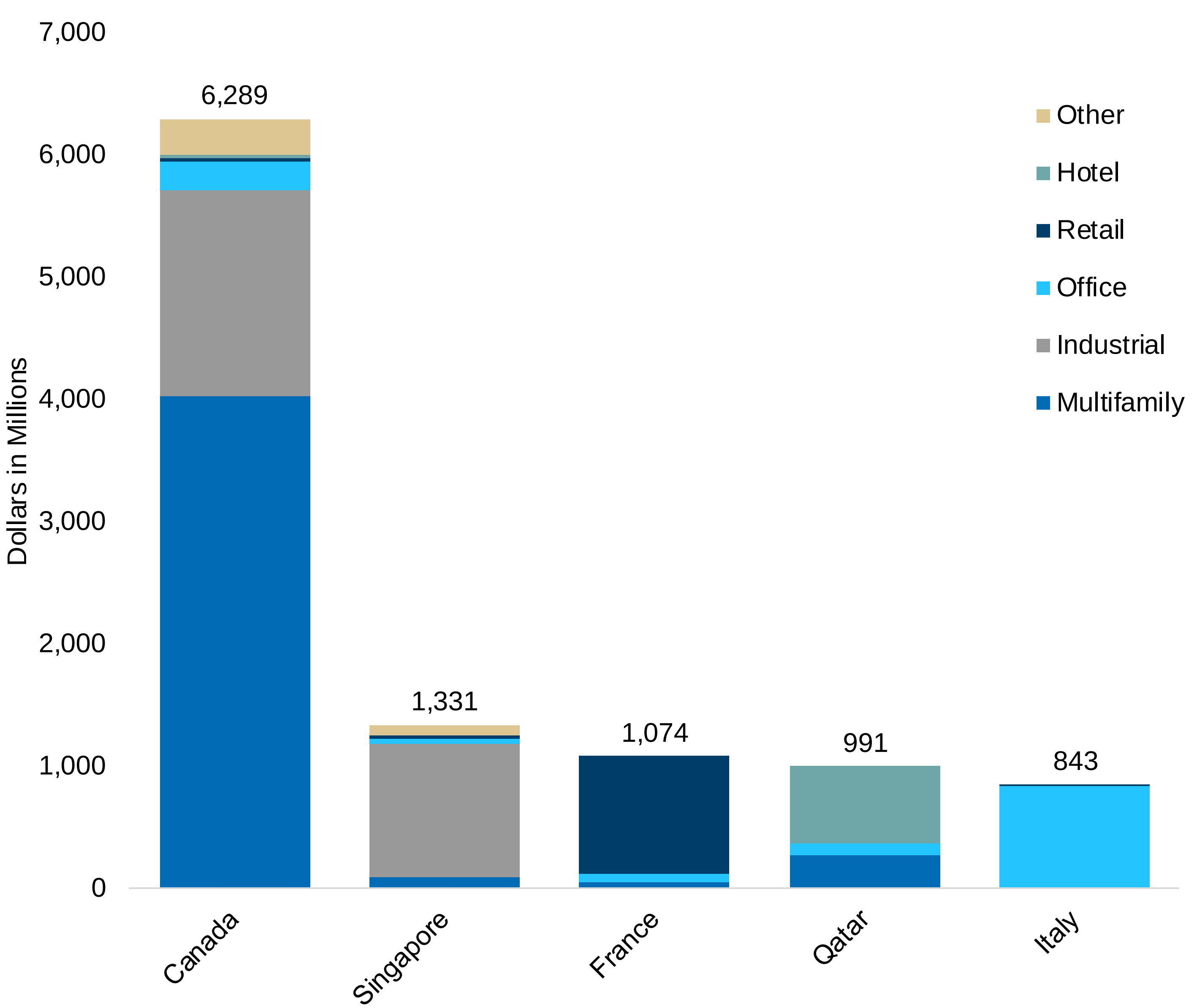


Source: Newmark Research, Real Capital Analytics as of 7/22/2024

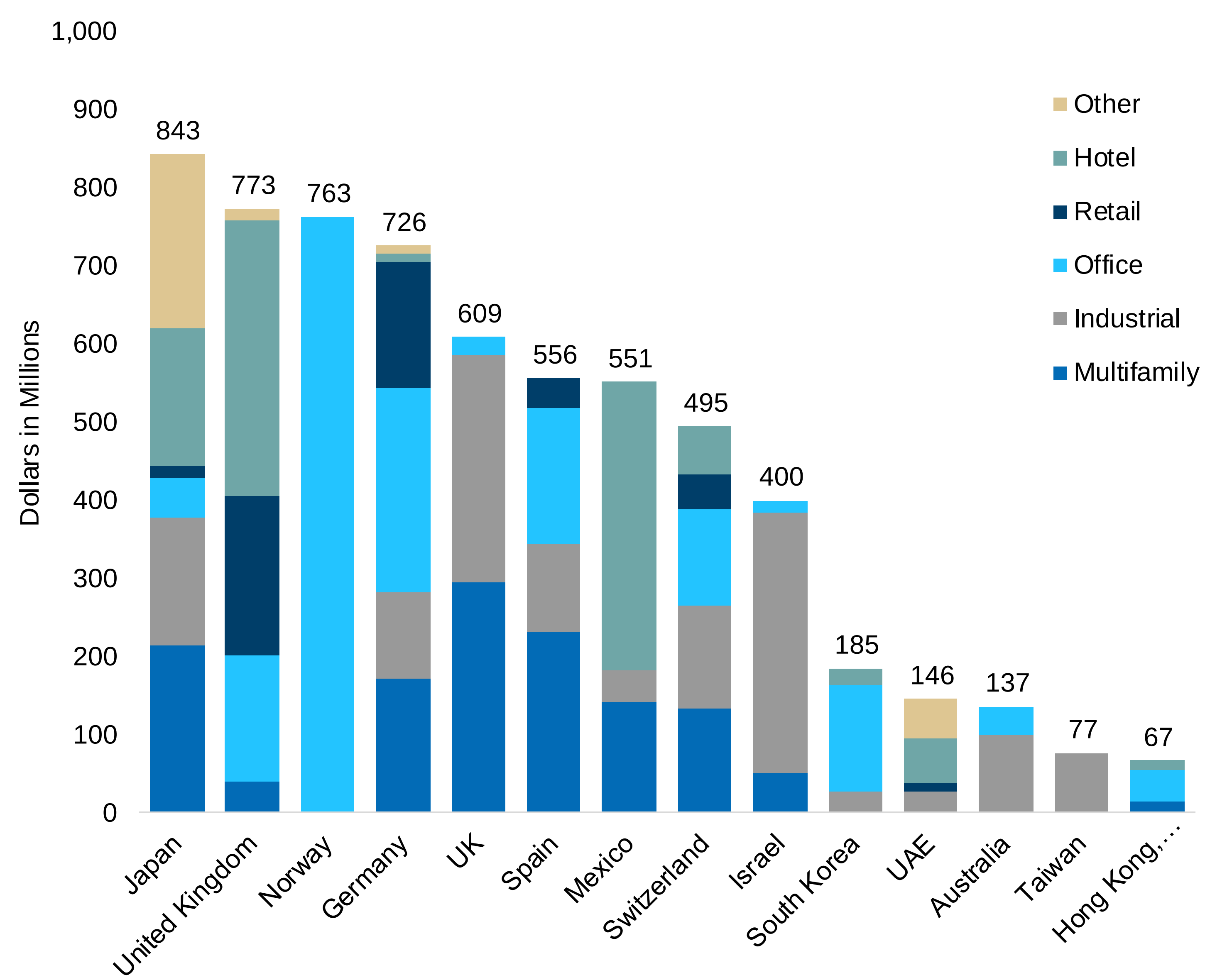
Major Inbound Investors Vary In Property Type Focus

Canada, per usual, led inbound investment in the last 12 months with a pronounced focus on industrial and multifamily investment. Singapore followed, concentrated on industrial. After Singapore came France, Qatar and Italy. Italy, and Norway stood apart in having relatively high office investment, while Qatar, UK, and Mexico inbound capital was mainly concentrated on hotel.

Top Five Sources of Inbound Capital: Last 4 Quarters



Remaining Sources of Inbound Capital: Last 4 Quarters



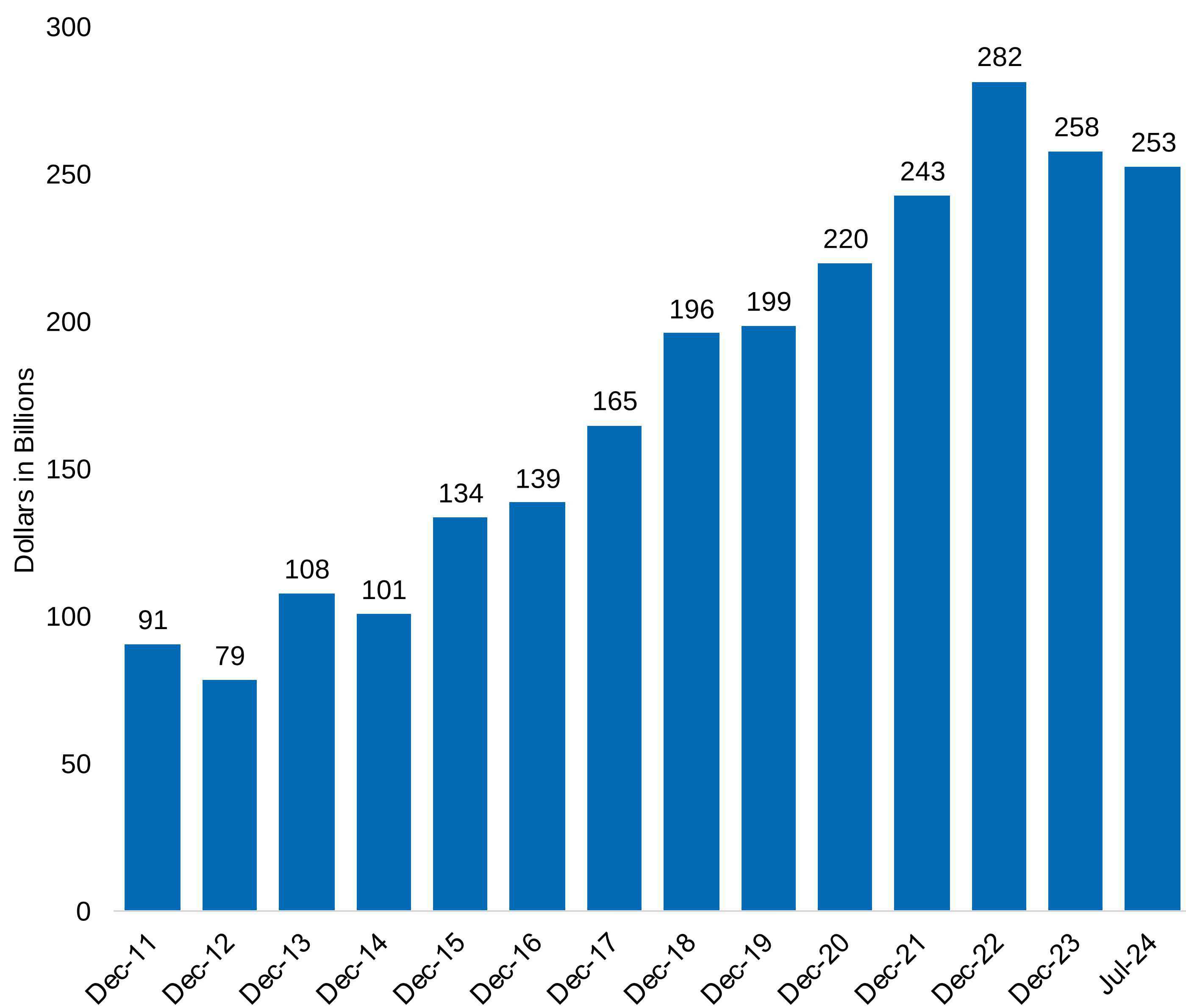
Source: RCA, Newmark Research as of 7/22/2024

Supply of Capital

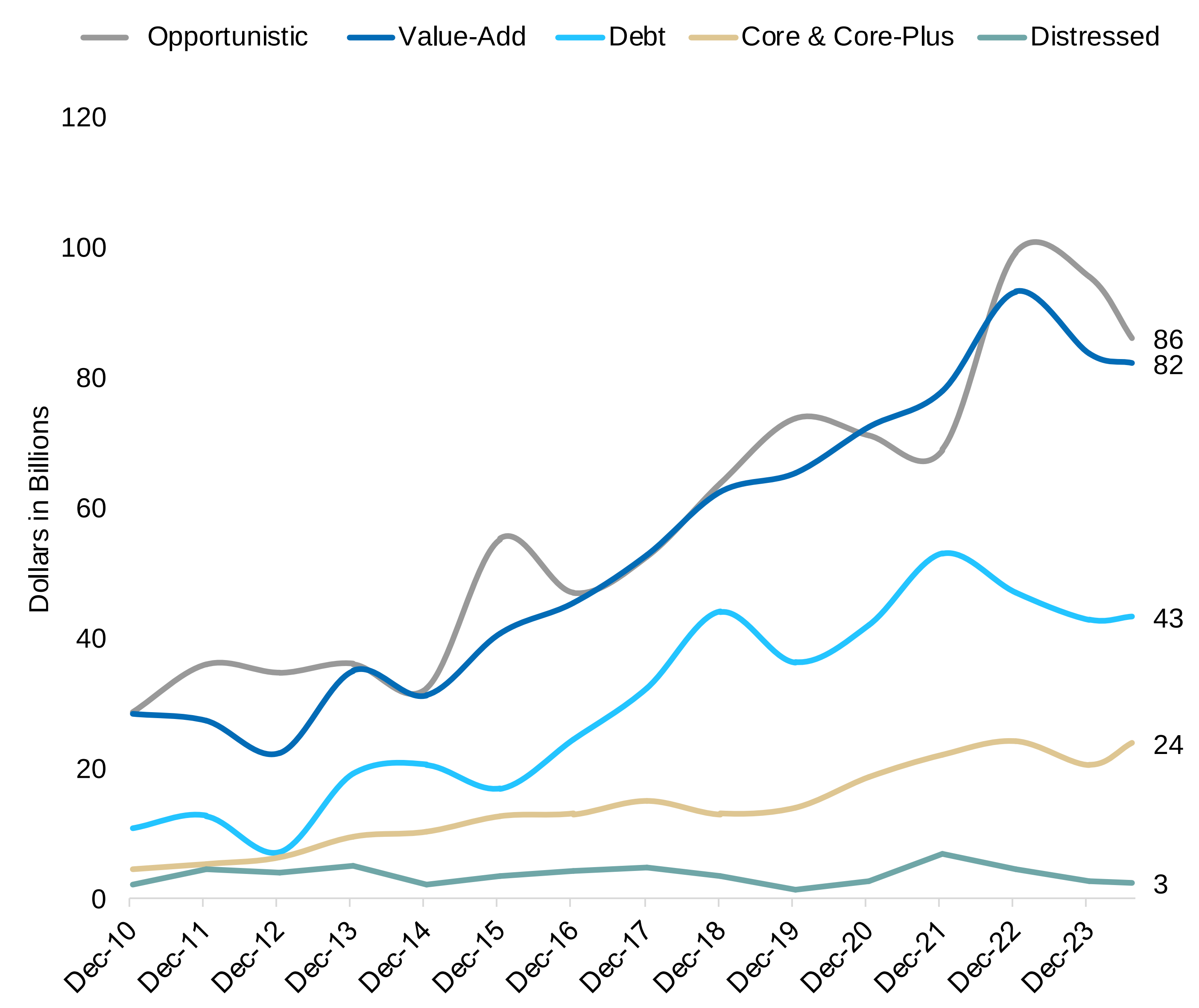
Private Equity Dry Powder Has Declined from 2022 Peak, But Still Elevated Overall

Dry powder at closed-end funds is 10.3% below its December 2022 peak, reflecting declines in dry powder at value-add and opportunistic funds. Debt fund vehicles are also off their peak but by a smaller margin. Similarly, new fundraising has declined from $140.0B in 2022 to $104.8B to $95.8B in the last twelve months. More positively, fundraising in the second quarter ($29.1B) increased 31% quarter-over-quarter. Even more notably, the number of funds raising capital (139) rose sharply to the highest level since 4Q22 (169).

Dry Powder – Closed-End Funds



Dry Powder by Strategy*



Source: Newmark Research, Preqin as of 7/26/2024
*Not shown: Fund of funds, co-investments, and secondaries strategies

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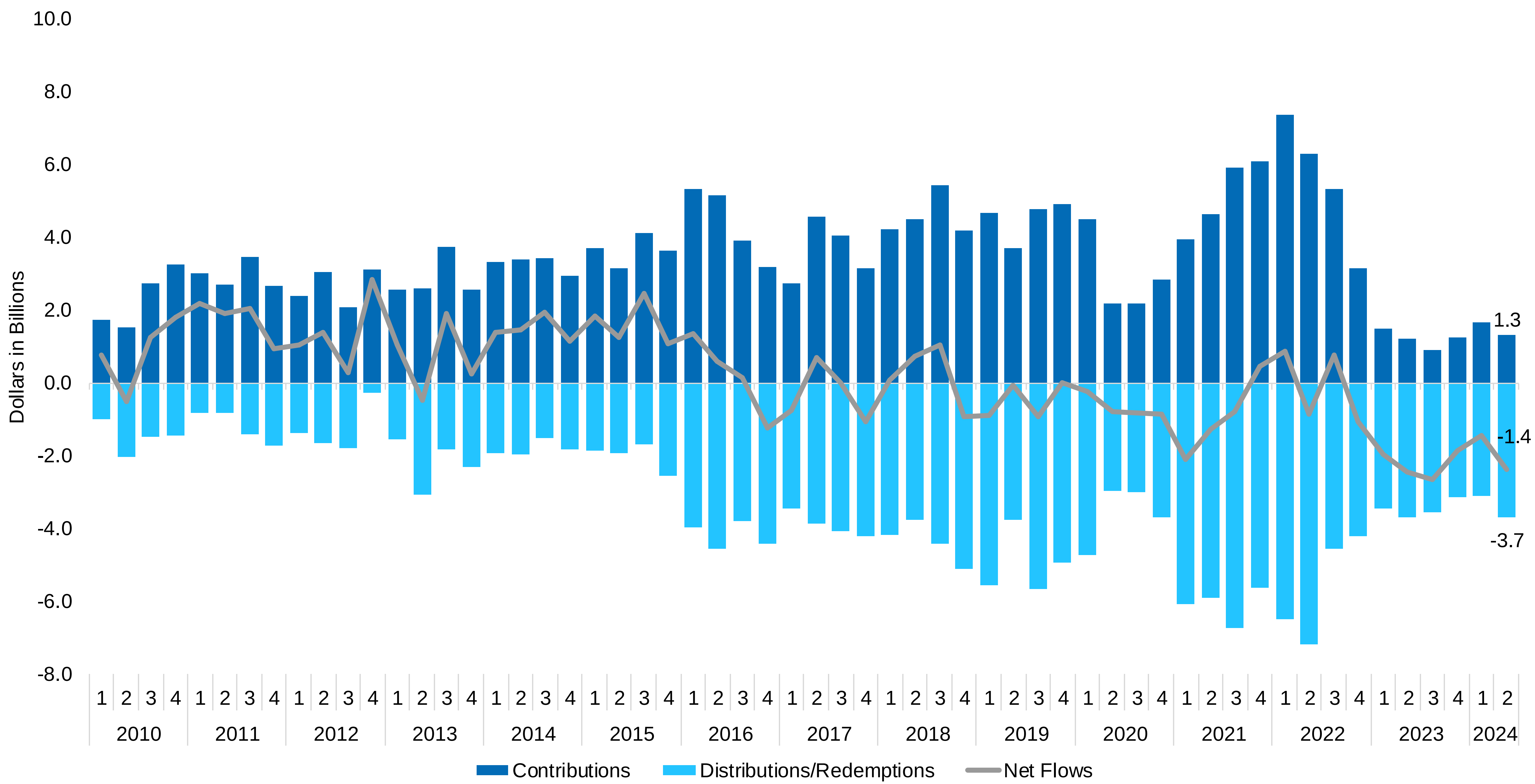
ODCE Fund Flows Remain under Pressure, But Contributions Rising

ODCE funds continued to hemorrhage cash for the seventh consecutive quarter in 2Q24. Net cash flow continued to improve due to rising contributions. Redemption queues remain an issue for a variety of funds as asset write-downs proceed methodically but have not yet converged with market values. The lack of dry powder presents fund managers with a predicament as it constrains their ability to take advantage of market dislocations.

ODCE Fund Flows

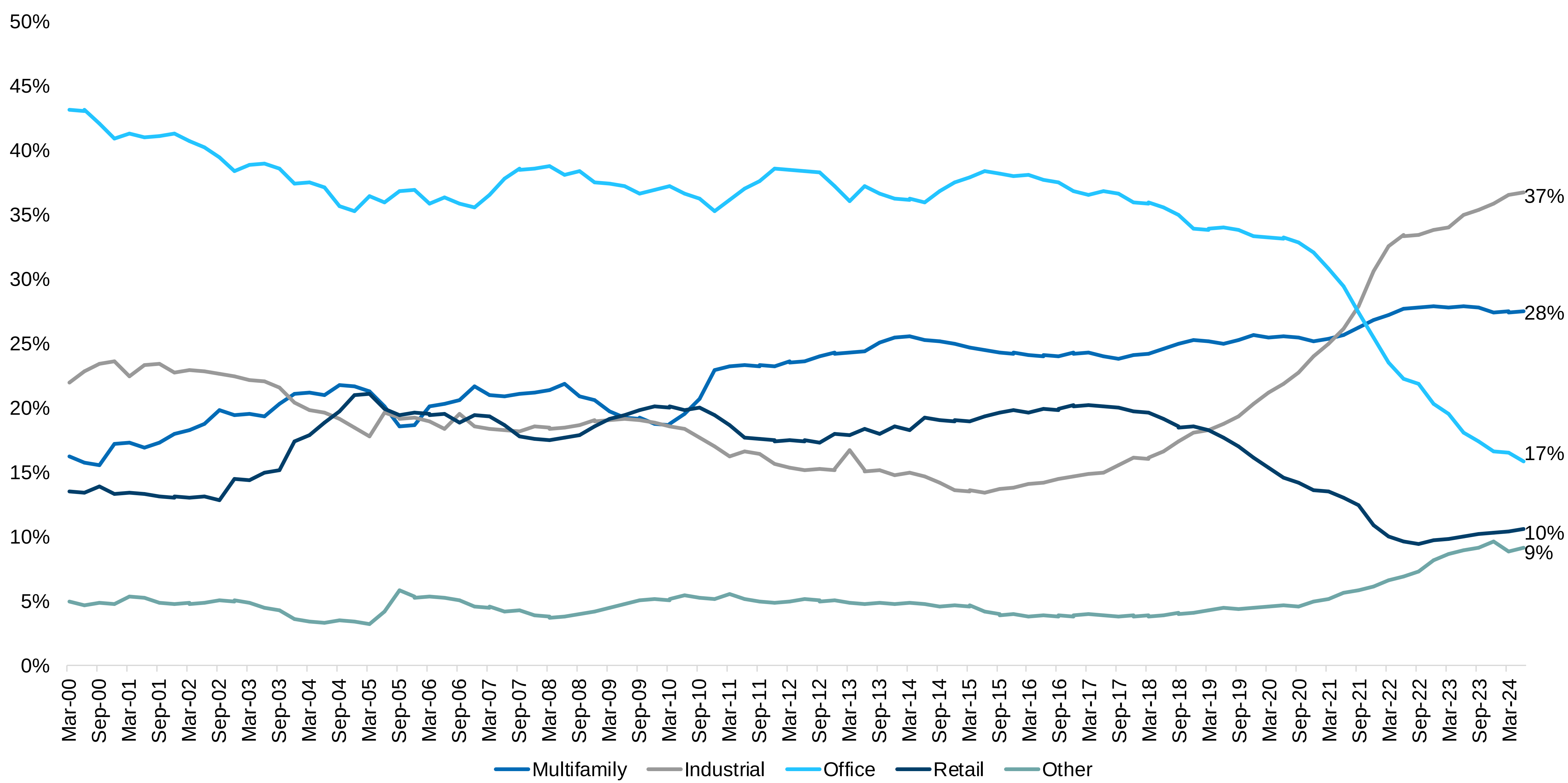


Source: Newmark Research, NCREIF as of 5/15/2024

ODCE Has Undergone an Industrial Revolution

In recent years, industrial has emerged as the dominant property type within the ODCE fund universe. This has occurred through a combination of reducing office holdings both by property count and by holding value in absolute terms and even more so relative to industrial. While industrial values have been written down since 3Q22, the number of properties held by ODCE funds has remained steady and greater write-downs in office have driven the industrial share still higher.

ODCE Value-Weighted Property Allocation

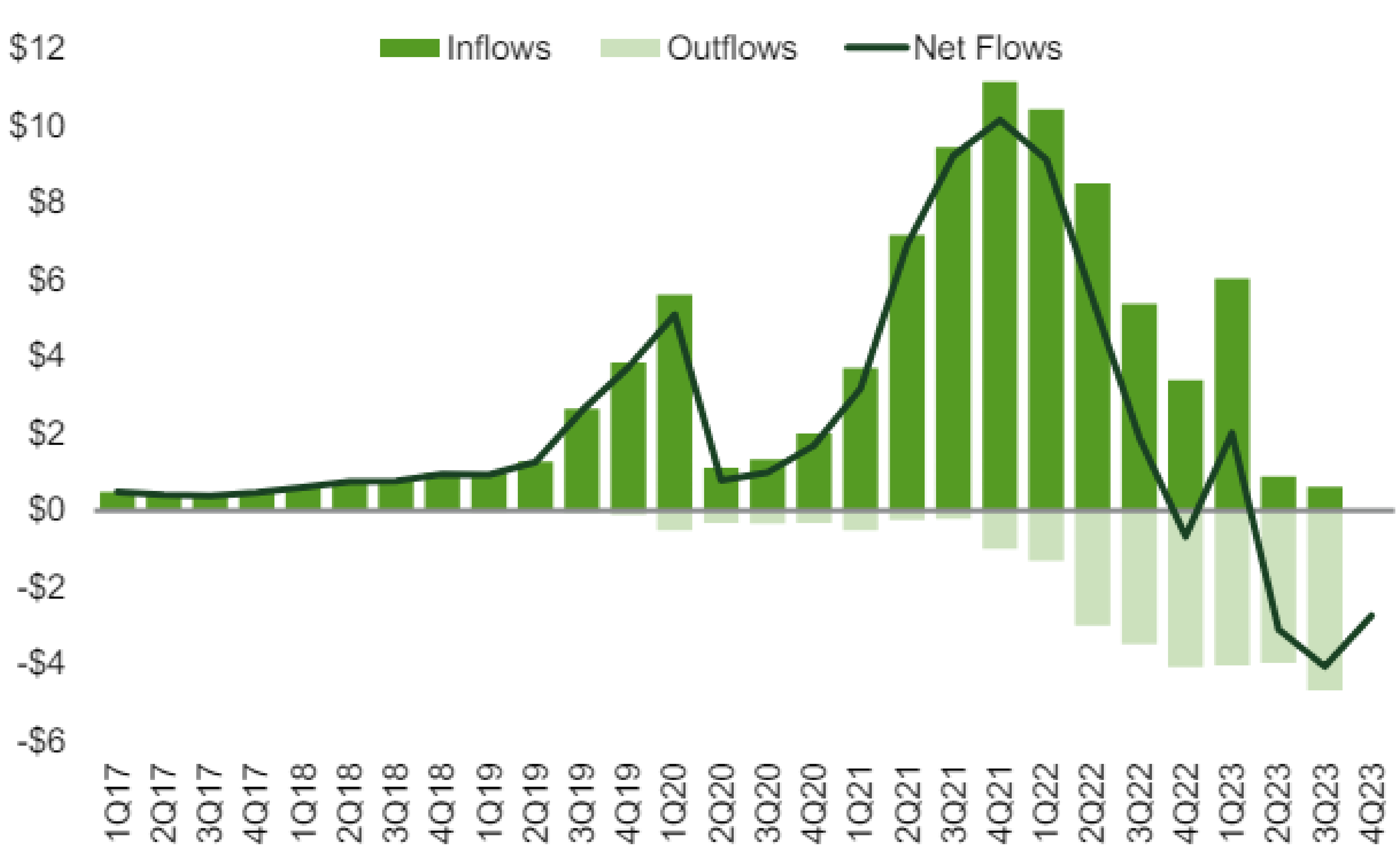


Source: NCREIF, Newmark Research as of 5/15/2024

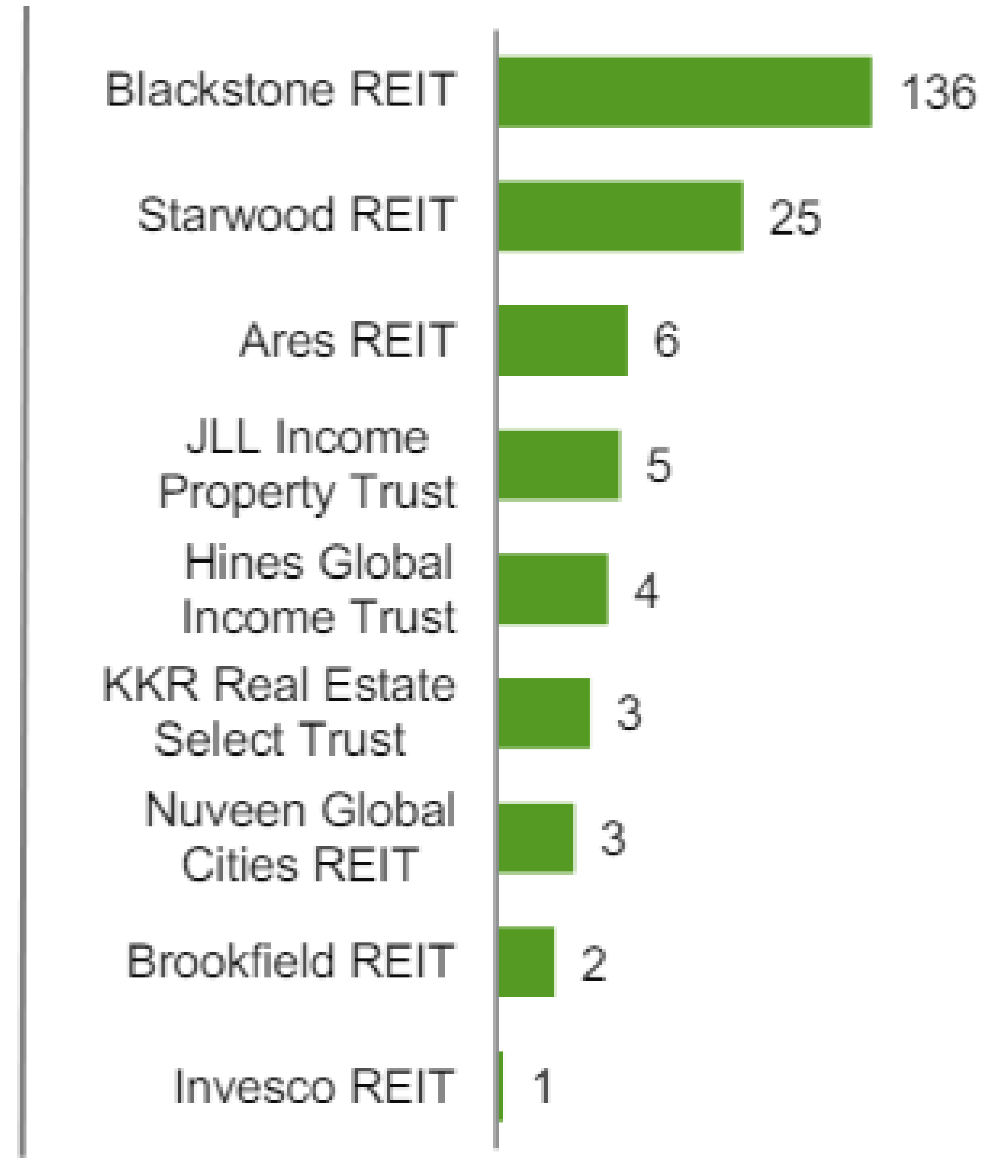
Net Capital Flows into Non-Traded REITs Show Signs of Bottoming

New commitments have declined as redemptions have gained momentum, creating negative pressure on net flows. Cash flows will remain negative for as long as appraised values remain at a premium to market values. The current situation essentially offers redeeming shareholders an arbitrage. That said, there is significant heterogeneity across individual fund vehicles vis-à-vis redemption queues and the ability to meet them. In general, redemption queues appear to have shrunk in recent months, pointing to a potential inflection point, though a return to 2021-to-2022 inflows seems unlikely for now.

Non-Traded REIT Net Flows ($B)



Non-Traded REIT Asset Value ($B)

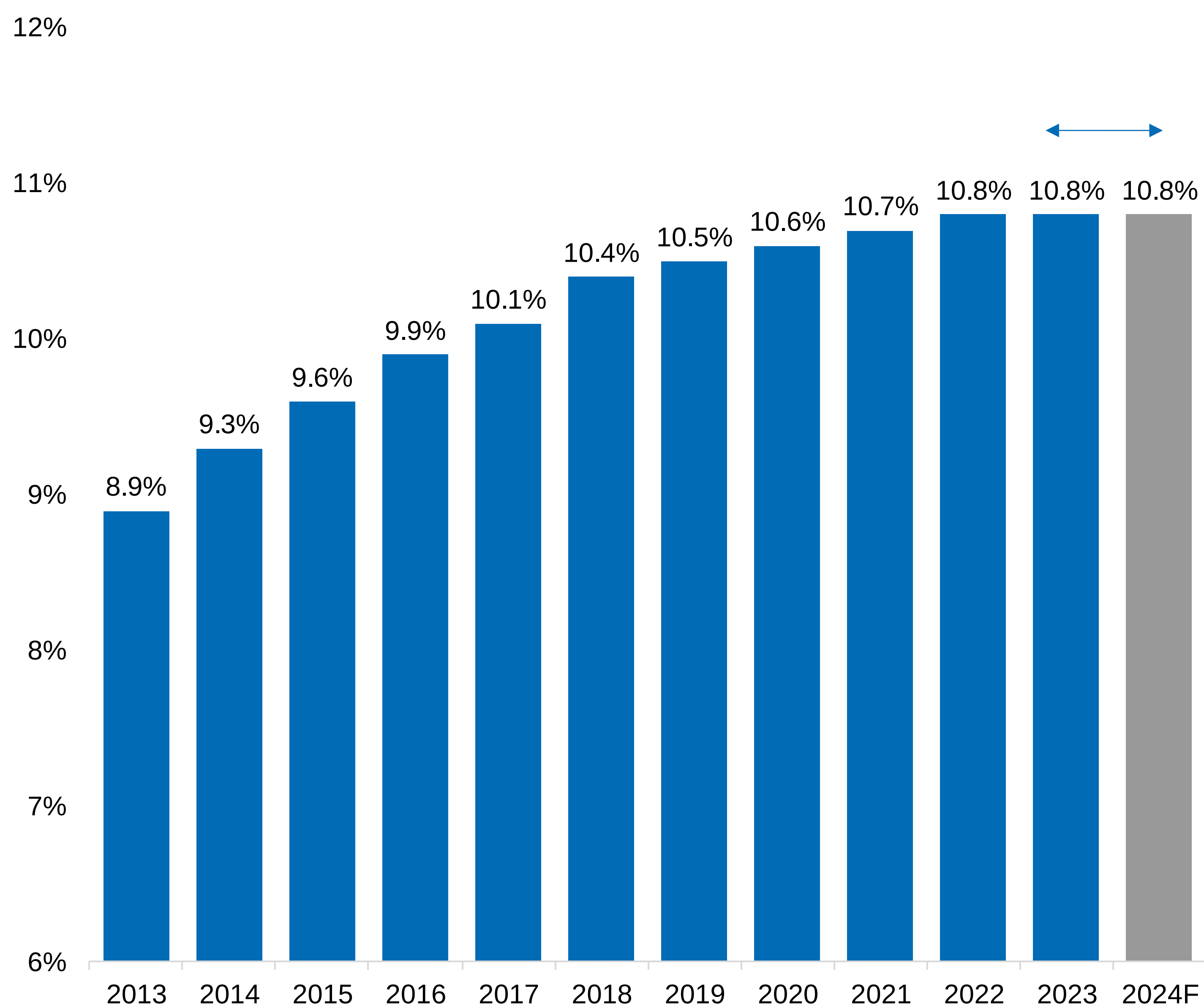


Sources: Newmark Research, Green Street FlowTracker Report as of 3/14/2024

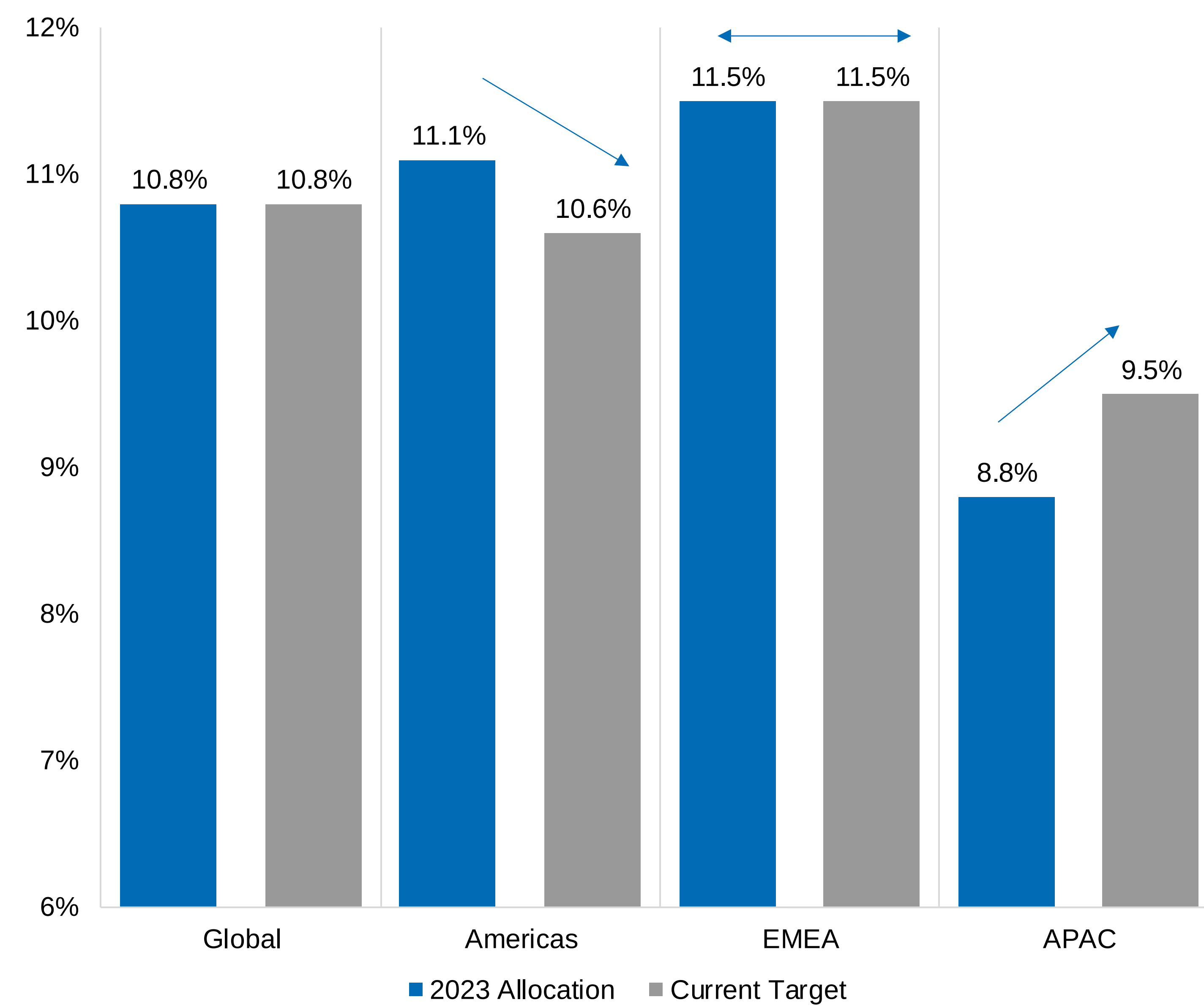
Institutional Allocations Approaching Stabilization after a Decade of Increase

When Hodes-Weill, a consultancy, surveyed 175 global institutions with $10.2 trillion in AUM, they found that: 1) globally institutions aim to hold their real estate allocations steady and that they have closed a heretofore persistent gap between actual and target allocations; 2) there is regional nuance with institutions in the Americas now above their targets and APAC institutions still below. Overall, this represents a deterioration in the outlook and curtails the prospect for a significant rotation of capital into the sector.

Target Allocation to Real Estate, All Institutions



2023 Actual vs. Target Allocation by Region of Institution



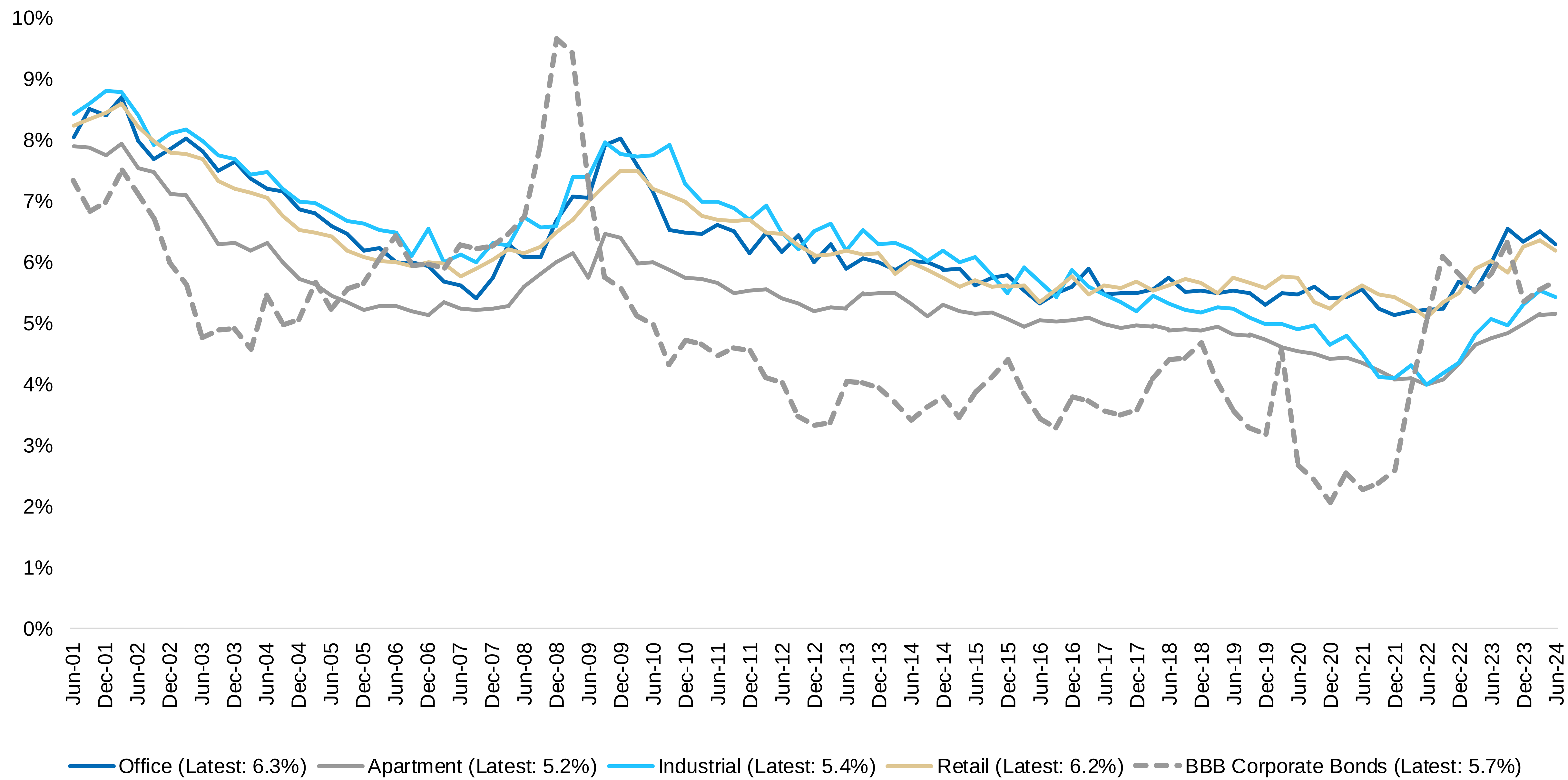
Source: Hodes-Weill Institutional Real Estate Allocations Monitor November 2023, Newmark Research

Pricing and Returns

Transaction Cap Rates Stable in 2Q24, Despite Continued Rate Pressure

Cap rates continue to face upward pressure from rising debt costs and higher yields on alternatives to CRE investments; however, in 2Q24, transaction cap rates were flat to slightly down across the major property types. Treasury yields were volatile during the same period with a swift run-up to 4.7% in late April before falling to 4.17% as of late July. Spread normalization remains the primary downside risk and, at a minimum, is likely to limit any cap rate compression in the event of further reductions in long-term interest rates.

Top Quartile Transaction Cap Rate*



Source: Real Capital Analytics, Federal Reserve Bank of St. Louis, Moody's as of 7/29/2024
*Quarterly

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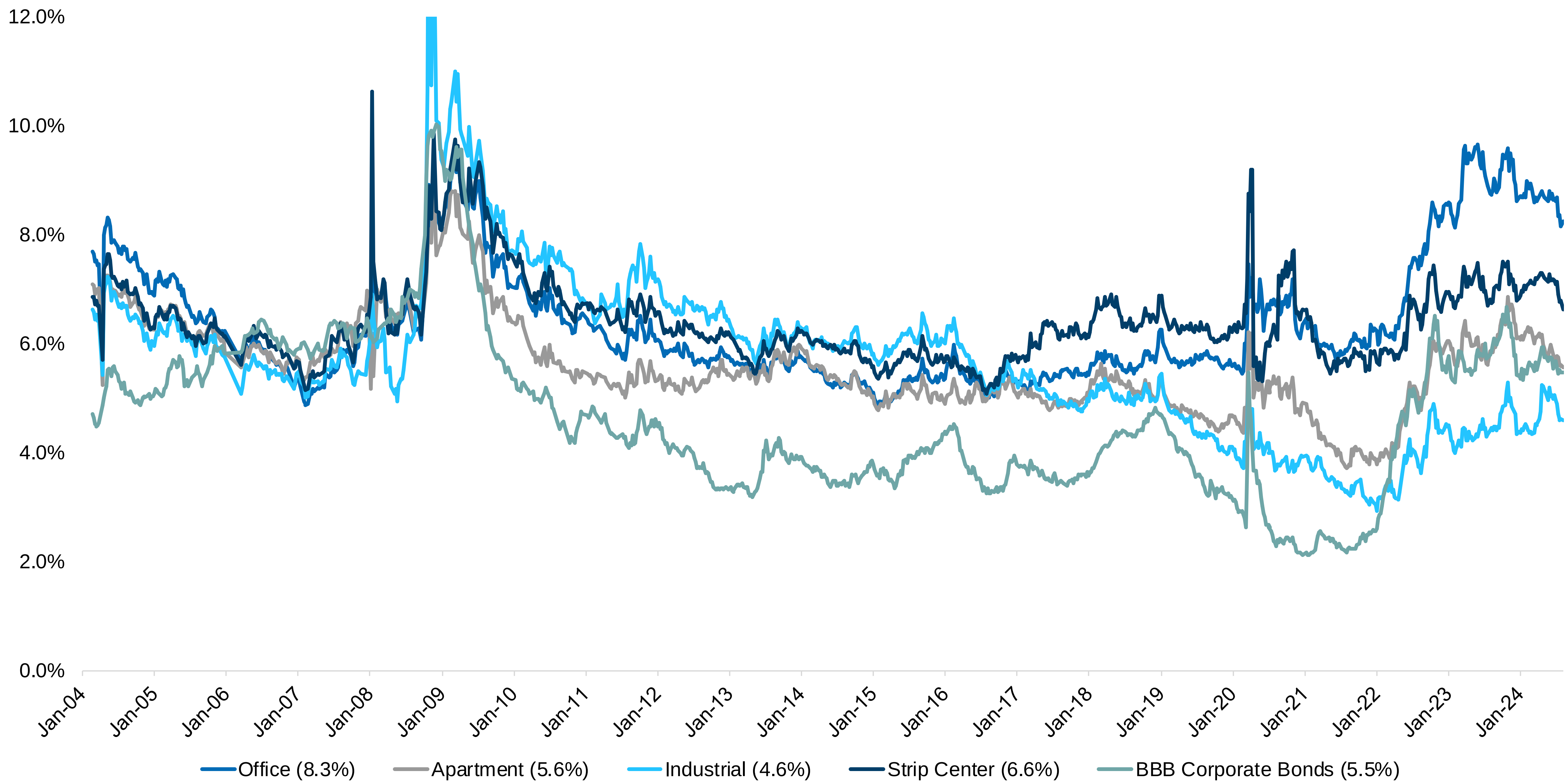
Public Markets Highly Sensitive to Rates; Continue to Underprice Risk

Office spread is 79th percentile relative to history*, apartment 15th, industrial 8th and strip center 26th. Investors need to ask themselves is, "Is this asset class really less risky than it has been except for X percent of the time?" That's what accepting these spreads signifies. This is coherent if 1) long-term rates fall significantly further and faster than current market pricing suggest 2) credit spreads fall materially from already historically tight levels 3) NOI growth is materially higher than history and/or 4) investors accept lower returns per unit risk.

REIT Implied Nominal Cap Rate



Source: Green Street, FRED, Moody's, Newmark Research as of 8/5/2024
*Using normal distribution

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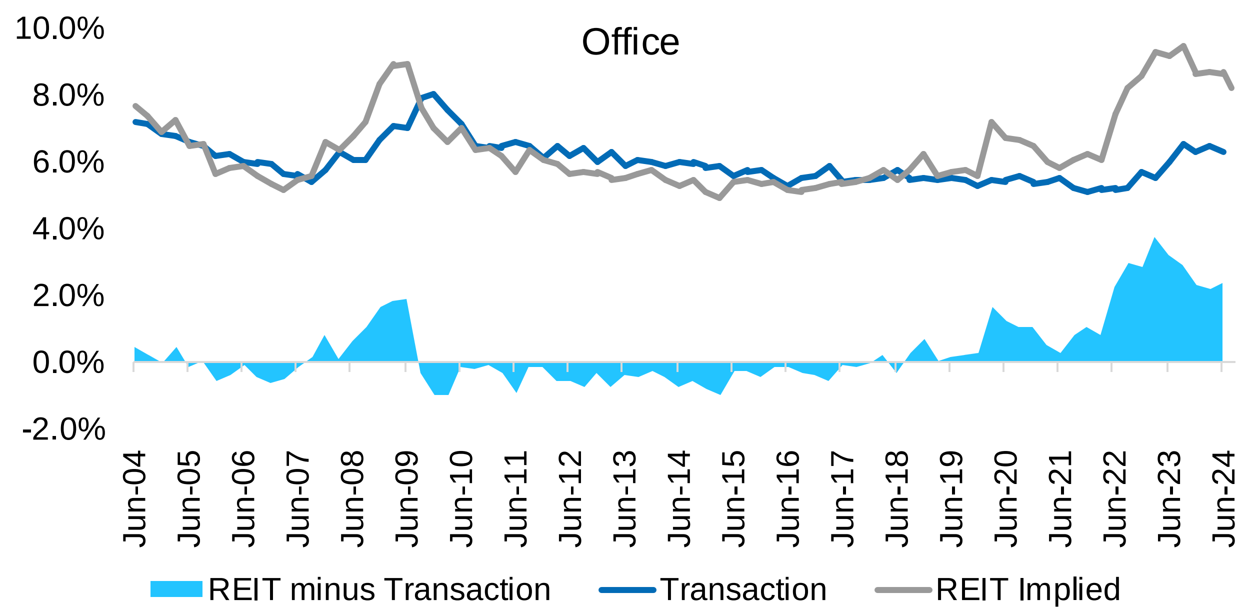
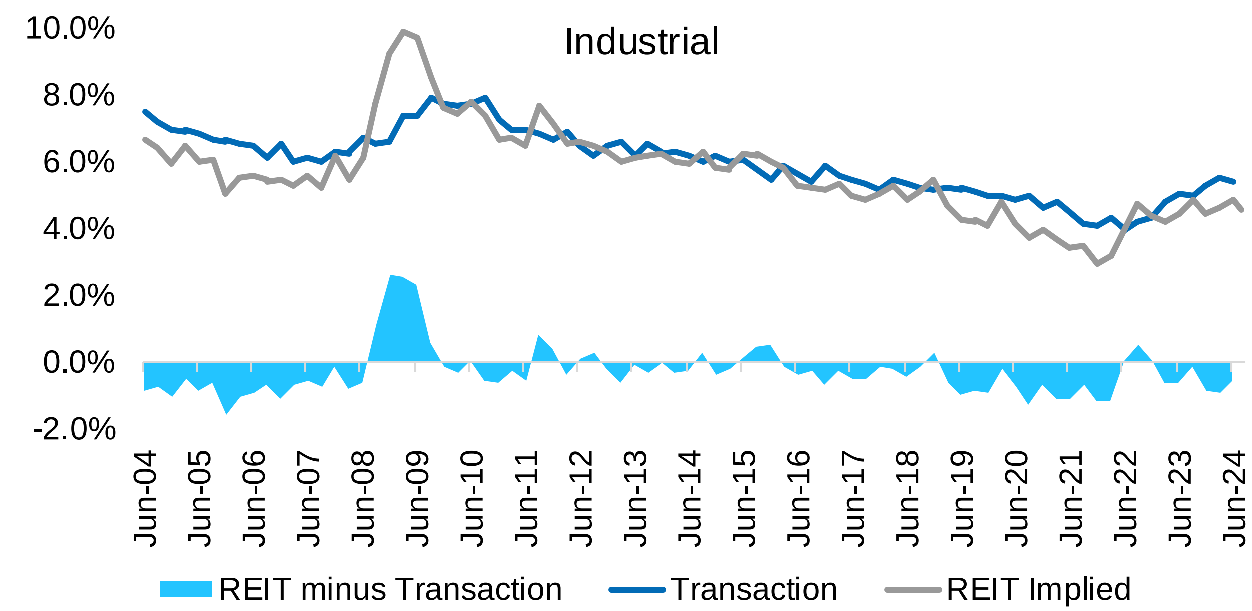
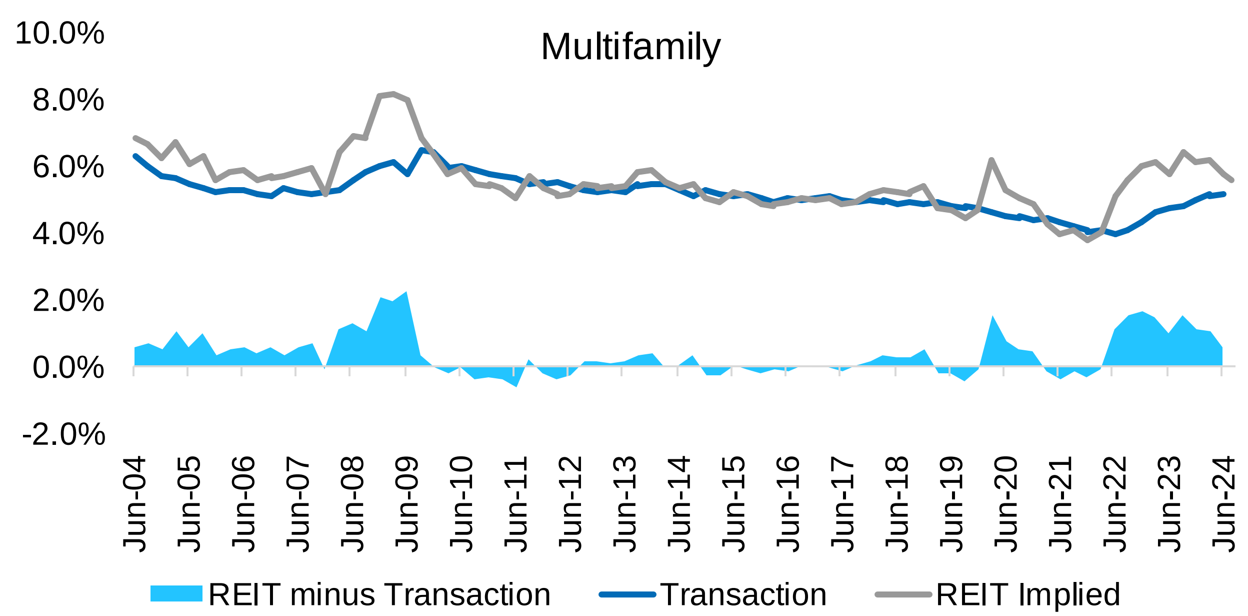
REIT Valuations Attractive Relative to Core Properties Trading in Private Market

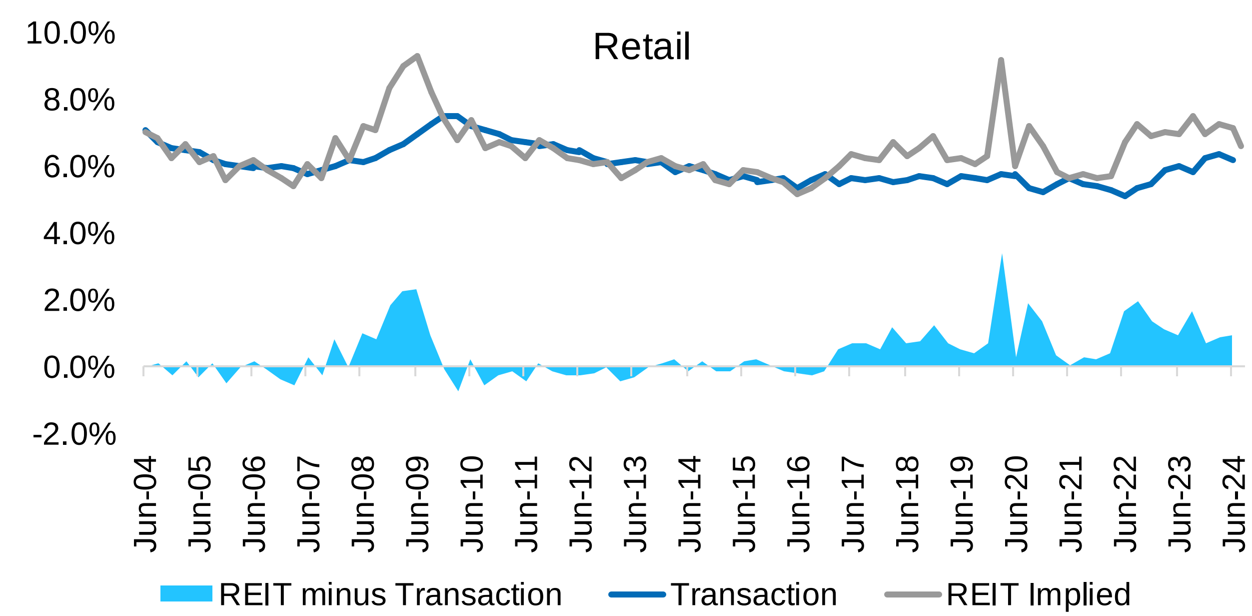
Over the last 20 years, private and public market cap rates have largely tracked one another with only ephemeral periods of disconnect. Public markets are certainly more volatile, but they have also proved reliable forward indicators for subsequent movements in private market pricing. The disconnect between REIT and transaction pricing is historically large with REITs offering significant discounts, especially for office. Investors should look to take advantage (or take cover) as reconvergence occurs over the coming quarters.

Top Quartile Transaction Cap Rates vs. REIT Implied Cap Rates







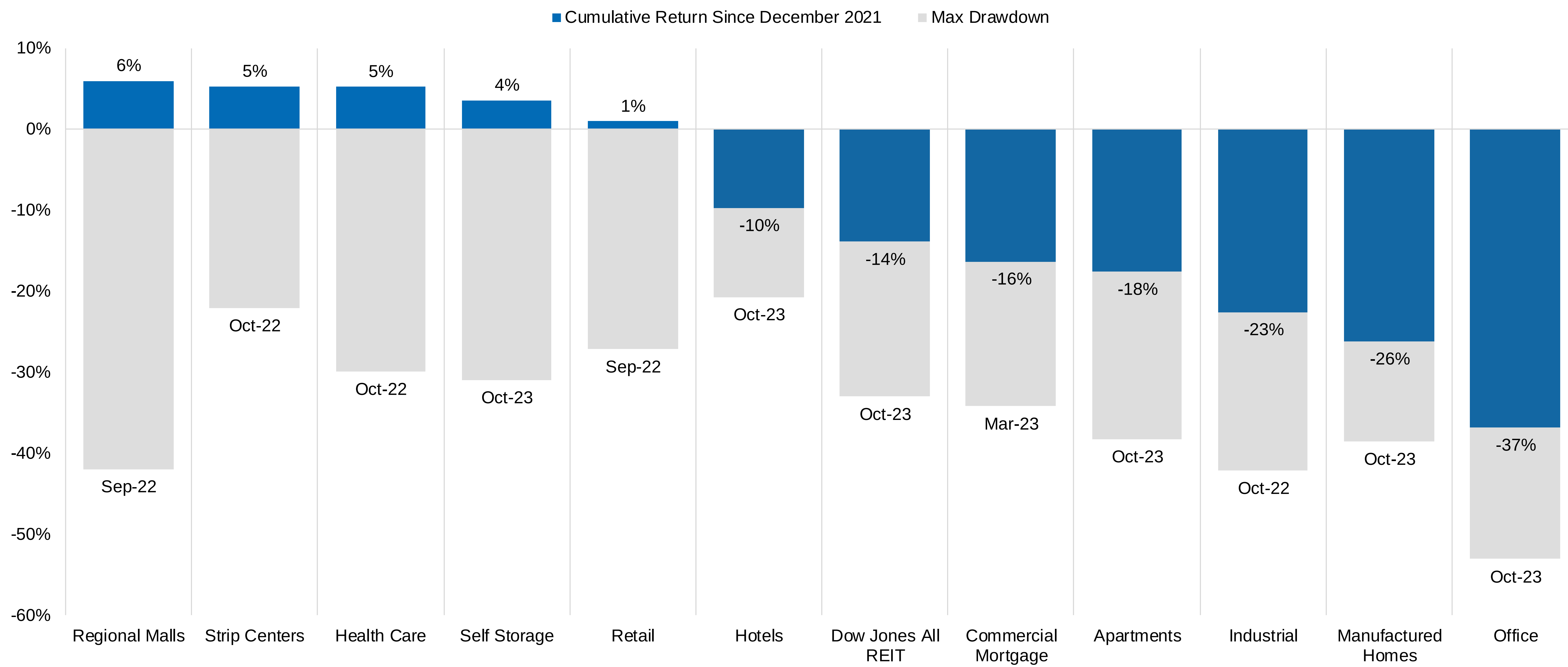


Source: Green Street, RCA, Newmark Research as of 8/5/2024

REIT Returns Have Rallied Significantly from Post-2021 Lows

All REIT sectors experienced significant drawdowns since the beginning of the Fed's hiking cycle; however, all sectors have pared their losses, and the retail, health care and self storage sectors have entirely recovered to post positive cumulative total returns. Office, industrial and apartment REITs continue to be the most negatively impacted sectors overall. Year-to-date, health care (+18.3%), apartment (+13.3%), retail (+6.0%) and self-storage REITs (+10.7%) have outperformed the overall index (+3.1%).

Dow Jones REIT Index Total Returns



Source: Dow Jones, Moody's, Newmark Research as of 8/5/2024

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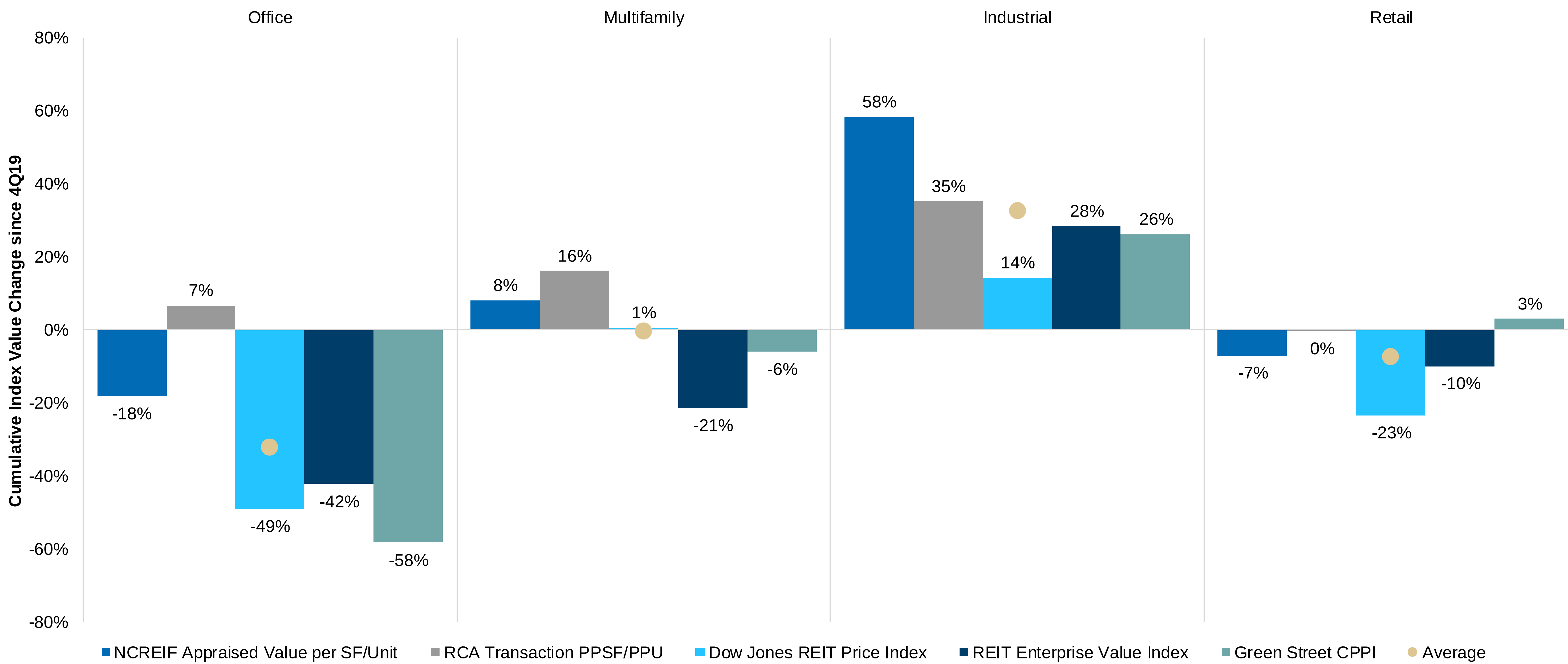
What Has Happened to Values? Depends on the Benchmark

Industrial is the only sector for which a range of benchmarks show large and significant gains since 4Q19. Conversely, most benchmarks show office values down, but there is a large difference between appraisal / transaction-based measures, which show modest depreciation and measures informed by the public markets. The latter seem far more realistic. Multifamily markets show the same cleavage with the enterprise value and NCREIF measures clear outliers. Retail measures generally point to modest declines in value.

Comparison of Value Benchmarks: Cumulative Index Change since 4Q19

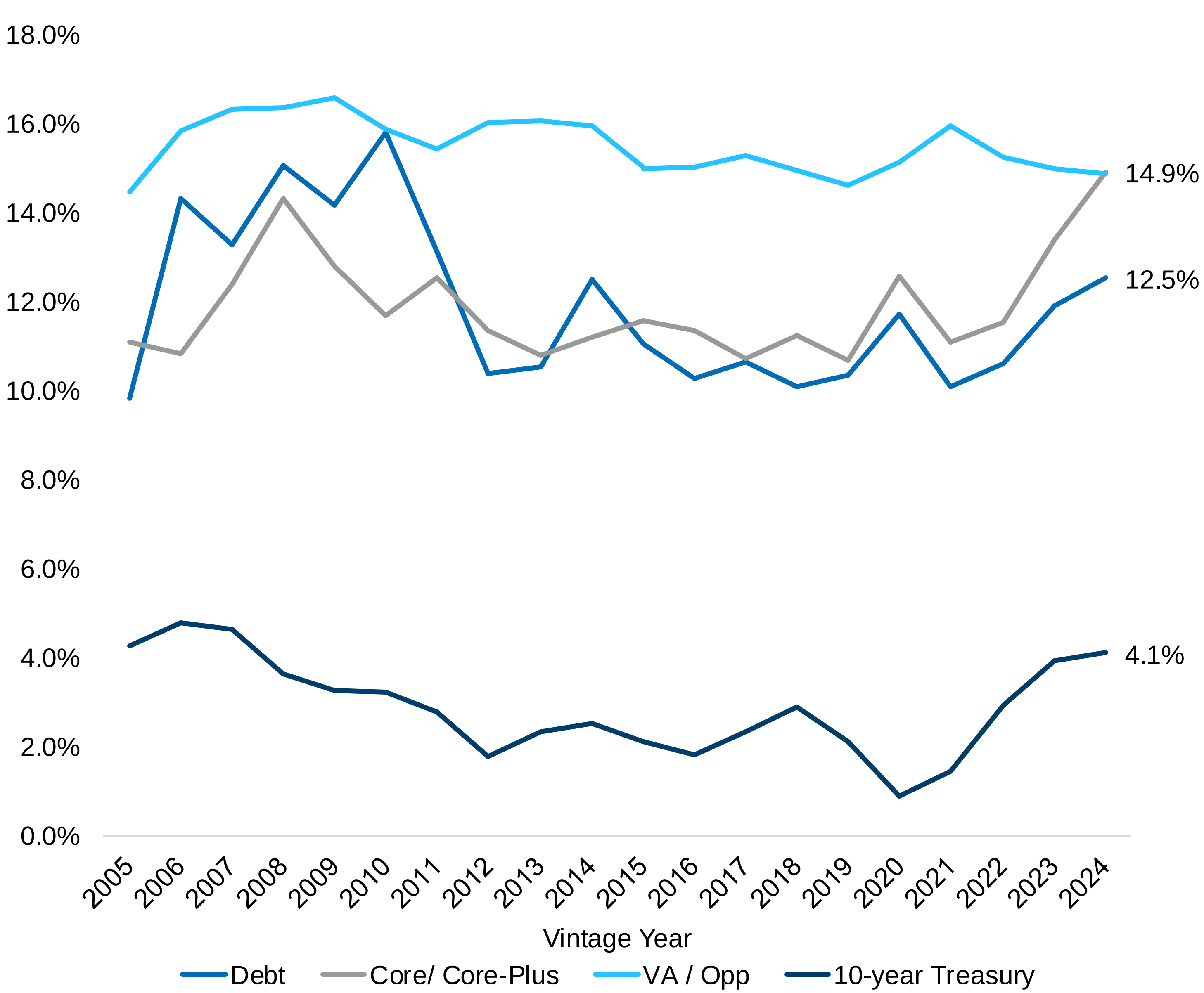


Source: NCREIF, RCA, Dow Jones, Green Street, Moody's Analytics, Newmark Research as of 7/31/2024

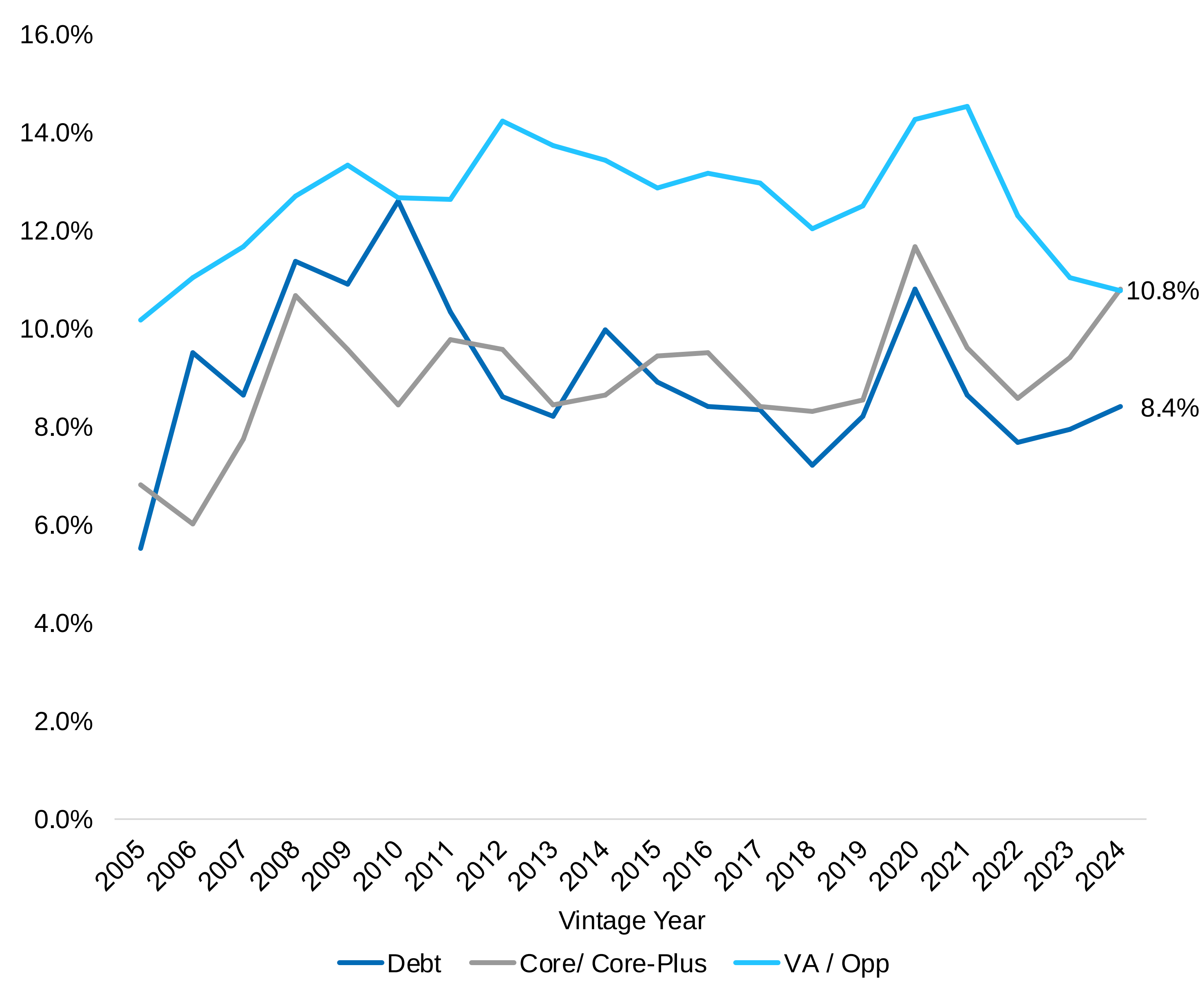
Private Equity Target Returns Surprisingly Insensitive to Changes in Rate Environment

Generally, investors should only be willing to invest in risky strategies to the extent that they expect higher returns compared to less risky investments. Accordingly, if the return to low-risk investments (e.g. Treasuries) rise, then required rates of return should rise for riskier strategies, such as real estate private equity. Since 2005, private-equity target IRRs have born little relation to changes in Treasury yields. In effect, this blunts the impact of rate volatility on valuations. This may have begun to change – at least for debt and core funds, which are now targeting returns within spitting distance of value-added and opportunity funds. This in turn could limit the latter's ability to raise capital.

Average Target Net IRR at Private Equity Real Estate Funds by Vintage Year



Average Target IRR less 10-Year Treasury Yield

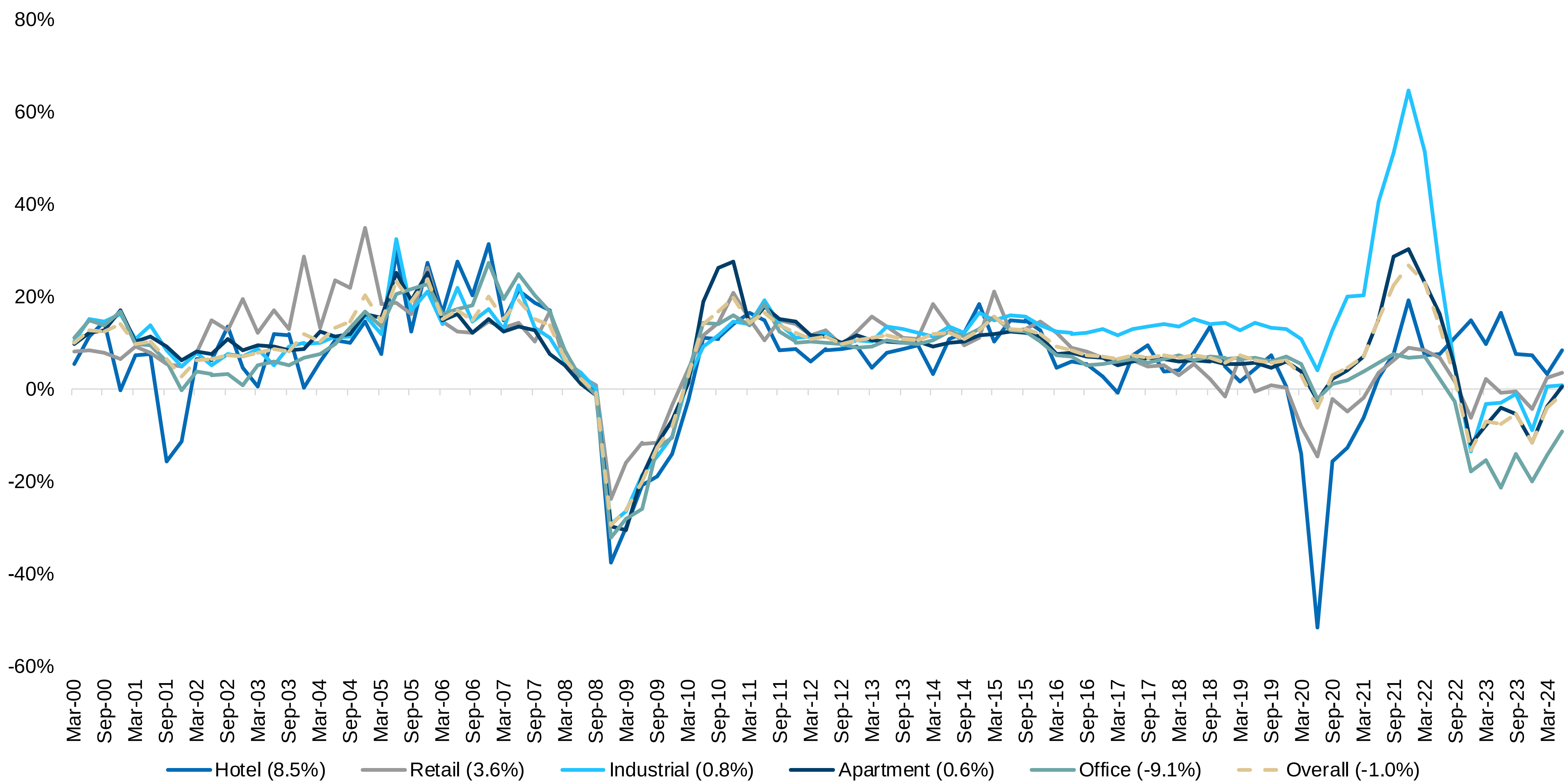


Source: Preqin, Federal Reserve, Newmark Research as of 7/31/2024

Private Market Core Property Returns Continued to Accelerate in 2Q24

Property returns improved broadly in 2Q24 according to NCREIF. For the overall index, total return accelerated from -3.9% annualized in 1Q24 to -1.0%. Hotel properties continue to outperform by a significant margin followed by retail. Apartment total returns accelerated to 0.6% annualized, the first positive print for the sector since 3Q22. Office returns remain deeply negative (-9.1% annualized) but improved compared to 1Q24 (-14.4%).

NCREIF National Property Index Quarterly Annualized Total Return

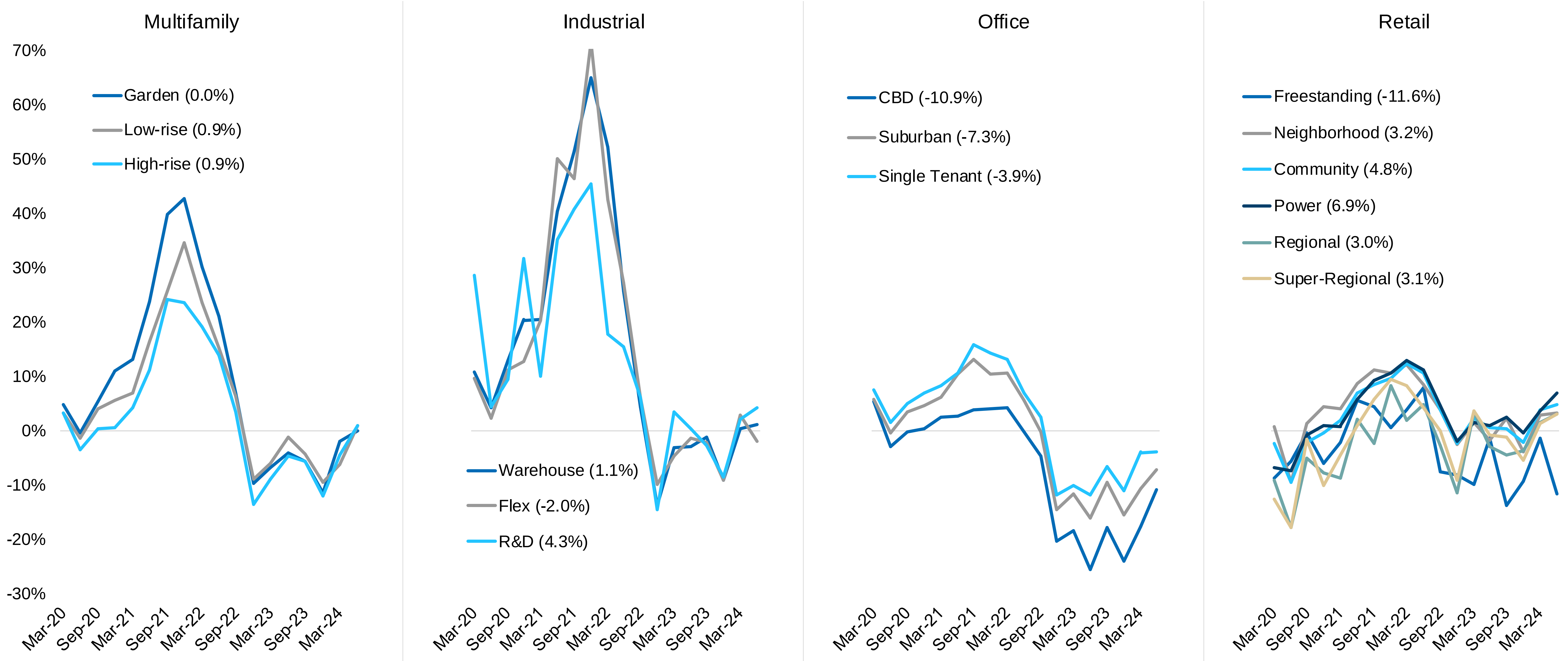


Source: NCREIF, Newmark Research as of 7/31/2024

Returns Broadly Improved Sequentially across Property Subtypes in 2Q24

Multifamily returns continued to improve in 2Q24 with low-rise and high-rise properties outperforming. Warehouse and R&D properties posted positive returns while flex lagged. Single tenant office continues to outperform, though both suburban and CBD office improved significantly quarter-over-quarter. All retail subtypes with the exception of freestanding shops recorded positive total returns in 2Q24. Retail performance was strongest in community and power centers.

NCREIF National Property Index Quarterly Total Return (Percent Annualized)



Source: NCREIF, Newmark Research as of 7/31/2024

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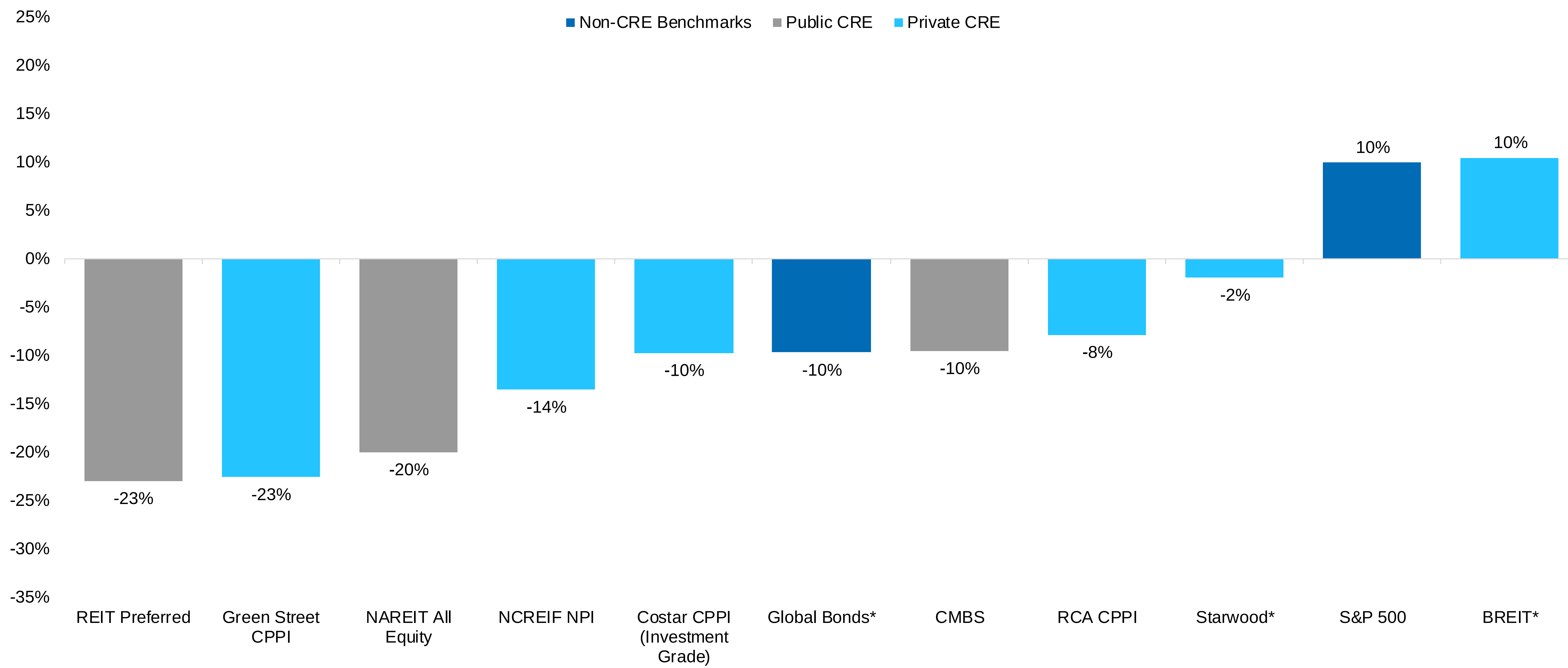
Private Markets Continue to Lag Public Markets in Adjusting Valuations

The non-traded REIT sector seems to be particularly disjointed from other benchmarks.

Cumulative Return Since December 2021



Source: Standard & Poor's, NAREIT, Bloomberg, iShares, RCA, Green Street, Costar as of 8/6/2024
*Total return; all else price return

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