



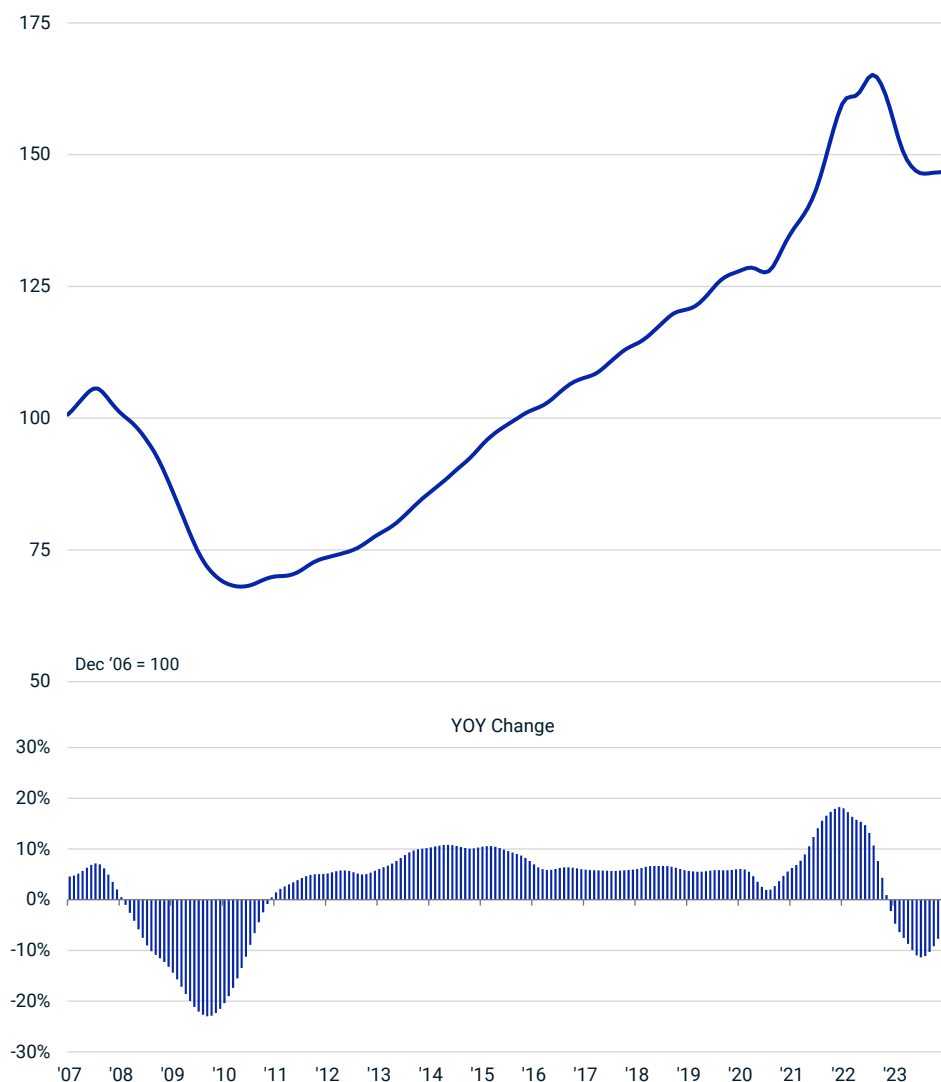
RCA CPPI™ US

Commercial property price indexes

-5.9% Change past year

0.0% Change past month

National All-Property Index



The pace of decline in U.S. commercial real estate prices decelerated in December, led by improvements in the industrial sector. The RCA CPPI National All-Property Index fell 5.9% from a year ago and was little changed from November. At the end of the third quarter, prices had been falling at a 10.3% YOY rate.

The industrial index was the only property type to post annual or monthly price growth in December. Industrial prices rose 0.5% from a year earlier and 0.3% from November. High mortgage costs have subdued deal activity and property pricing through most of 2023 but talk by the Federal Reserve of easing rates appears to have influenced property pricing more recently.

Prices in the apartment sector declined 8.4% from a year ago and were little changed relative to November. The pace of decline has been decelerating in recent months and the annualized change in December from November suggests just a 0.2% drop. Apartment prices now sit 15.0% below their all-time high in July of 2022.

The retail sector index fell 5.5% YOY in December. Retail prices have slid for 17 months in a row, coming off an all-time high that also occurred in July of 2022. On the month, retail prices fell 0.1%, which when annualized would be a decline of only 0.6%.

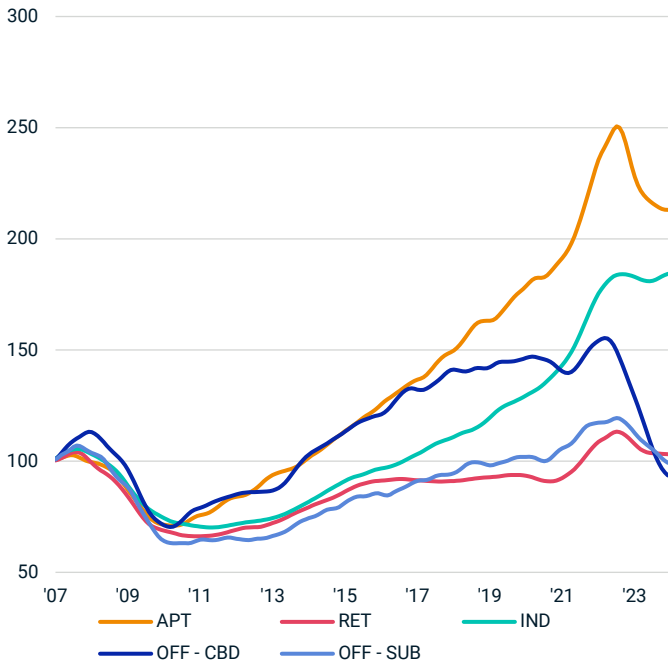
Change in RCA CPPI December 2023

	1-mth	3-mth	1-yr	3-yr	5-yr	10-yr
Office	-1.3%	-4.2%	-16.1%	-9.2%	-4.1%	27.9%
Office - CBD	-1.4%	-5.6%	-29.2%	-33.8%	-34.0%	-8.2%
Office - Sub	-1.0%	-3.3%	-13.2%	-5.4%	0.9%	34.3%
Industrial	0.3%	1.1%	0.5%	30.1%	55.7%	127.3%
Retail	-0.1%	-0.3%	-5.5%	12.4%	11.3%	31.0%
Commercial	-0.1%	-0.2%	-4.6%	8.8%	17.6%	52.8%
Apartment	0.0%	-0.5%	-8.4%	12.3%	30.6%	111.8%
All Types	0.0%	0.1%	-5.9%	8.8%	21.7%	71.8%
6 Major Metros All Types	-0.1%	-0.4%	-4.8%	2.2%	9.0%	56.3%
Non-Major Metros All Types	0.3%	0.9%	-6.1%	12.0%	27.5%	80.1%

The office sector registered the largest monthly and annual declines of the property types due to challenges with tenant demand and a contraction of deal activity. CBD office prices fell 29.2% from a year ago and suburban office prices dropped 13.2%.

Total U.S. deal volume fell 51% in 2023, the sharpest year-over-year pace of decline since 2009, as reported in the new edition of *US Capital Trends*. All the major property types posted double-digit declines in sales volume in the fourth quarter.

National Property Types

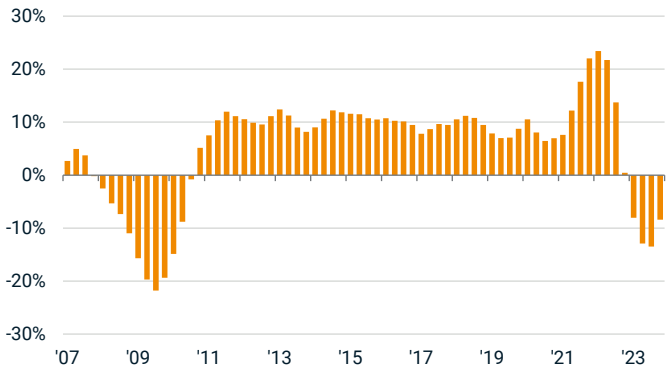


Major Metros vs Non-Major Metros

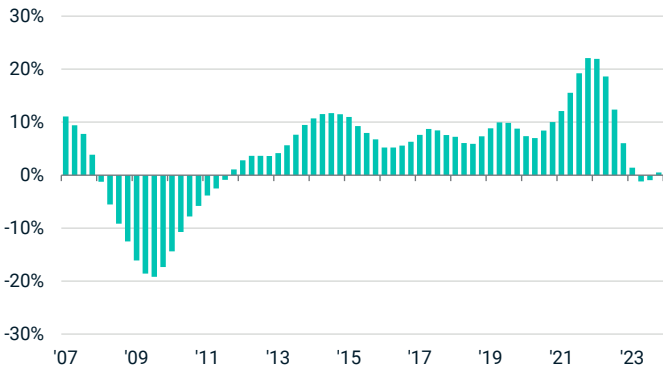


Year-Over-Year Change by Property Type

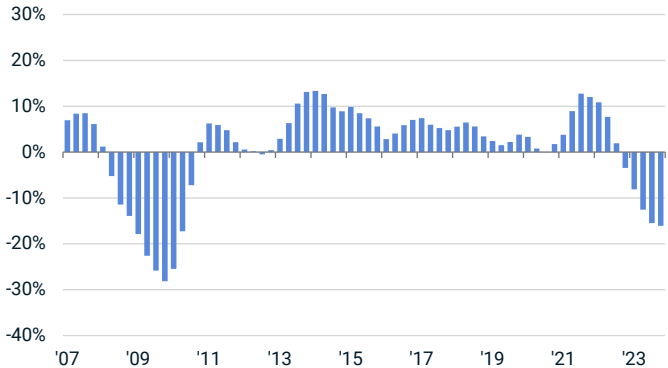
Apartment



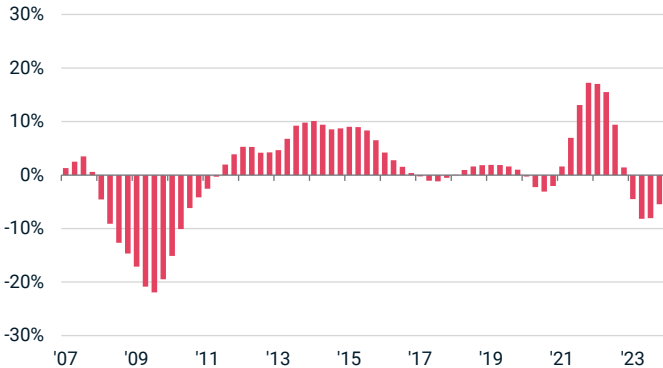
Industrial



Office



Retail



The Disparity in Office Pricing

Office deal volume in the fourth quarter of 2023 stood 66% below the average fourth quarter pace set over the years 2015 to 2019. The RCA CPPI for offices fell 16.1% from a year earlier for the fourth quarter but that pace of decline simply was not enough to entice investors to step in from the sidelines and acquire more office assets. Unless some outside force drives sudden new excitement around office investment, current owners of assets will need to endure further price declines if they need immediate liquidity for their holdings of office buildings.

We can use the MSCI Price Expectations Gap to measure how much more prices would need to decline to bring market activity back in line with long-run averages. This measure shows that the challenges for CBD office assets are more severe than for any other part of the investment market.

The RCA CPPI for CBD office assets peaked at a record-high level in the first quarter of 2022 and prices have fallen a cumulative 40% since then. The RCA CPPI is an index not tied to any particular price level, but if we peg the index level for the first quarter of 2022 to the simple average of \$408 per square foot for all buildings sold in that period, it implies that these same assets would have sold for \$245 PSF in the fourth quarter of 2023.

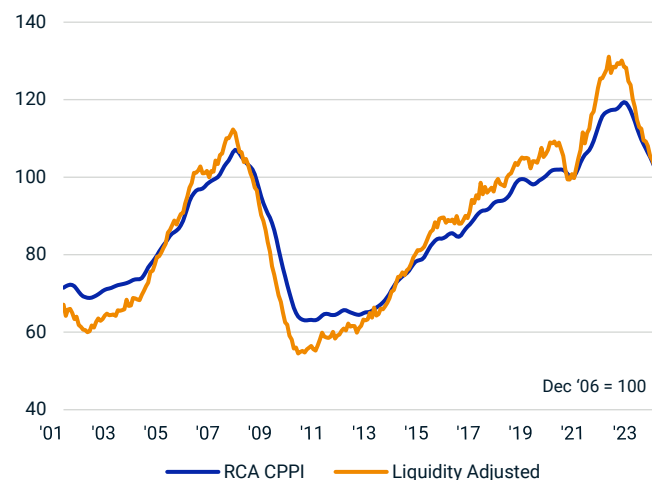
But not all assets would be able to close at that \$245 PSF price level. The MSCI Price Expectations Gap for CBD offices stood at -19.7% for the fourth quarter of 2023. That percentage means that there was a -19.7% gap between the expectations of asset values for buyers and sellers. If buyers and sellers meet halfway on that gap, it implies a market clearing price of \$221 PSF.

So where are prices for that average CBD office asset that sold for \$408 PSF in the first quarter of 2022? Realistically, the price is somewhere between \$245 and \$221 PSF. The buyer of that CBD office asset in the first quarter of 2022 would realize a loss of somewhere between 40% and 46%, then, if they went to market in the fourth quarter.

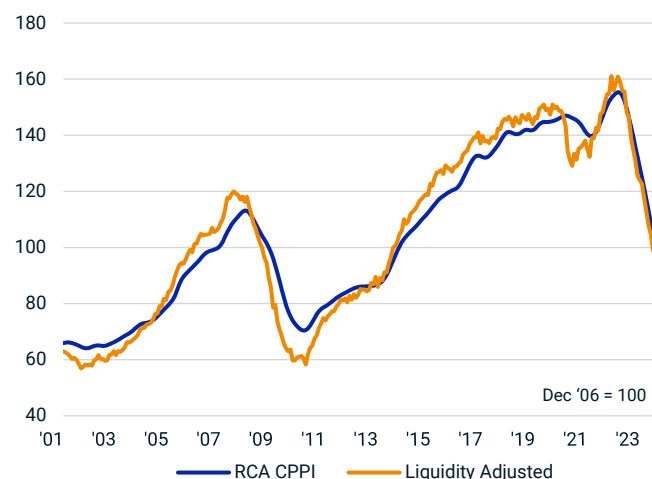
For suburban assets, the decline was not as severe. The MSCI Price Expectations Gap stood at -9.5% in the fourth quarter of 2023. Given the cumulative 17% decline in the RCA CPPI for suburban assets seen between the peak in the third quarter of 2022 and the end of 2023, that gap implies that investors would realize a loss of somewhere between 17% and 21%.

This gap is a moving target. In the third quarter of 2023, buyers and sellers stood only -11% apart on price expectations for CBD office assets. It is unclear how much more deal volume and

Suburban Office Pricing



CBD Office Pricing



prices will move. That said, the pace of decline is moderating for the headline RCA CPPI for CBD office assets. While the index fell 29.2% on a year-over-year basis in the fourth quarter, it only fell 20.4% on an annualized basis from the third quarter.

One challenging sign is that a liquidity-adjusted version of the RCA CPPI for CBD office assets fell 33% from a year ago in the fourth quarter, but was down more on an annualized basis from the third quarter. That higher frequency measure needs to improve before annual improvements will be seen.

Listen to Jim Costello, chief economist at MSCI Real Assets, as he discusses market challenges in our quarterly webinar **Real Assets in Focus: US**. [Register here](#) for this virtual event on Wednesday, Feb. 14.

Pricing Signals from Public Markets

Understanding the connection between pricing in public commercial real estate markets and private markets could be helpful for those trying to anticipate when a potential turning point may arrive for private real estate. With private market prices declining since mid-2022, does the recent rally in public pricing presage stronger trends for private prices too?

While there is a historical connection, public markets do not always lead private markets. Further, comparing the magnitude of movements is hard due to the presence of leverage in the public market indexes. Still, the recent upturn in public prices, as shown by the MSCI USA IMI Core Real Estate Index, could offer some basis for optimism on private trends.

Public market pricing for office had sunk to its lowest level since the Global Financial Crisis in October of 2003, down some 60% from its post-Covid peak in early 2022. Since that October low point, prices have climbed by 34%. However, an improvement in the RCA CPPI for offices is yet to be seen, and the index fell 16.1% YOY in December.

Unlike offices, the CPPI for industrial has begun to inch up following a plateau of several months. Public pricing, by contrast, increased 34% between October and December.

Apartment, too, has shown an uptick in public pricing. This upturn comes after public prices fell 40% from the post-Covid peak in December of 2021 to October of 2023. For private assets, the CPPI peaked two quarters after public markets and since then has tumbled a cumulative 15%.

In retail, meanwhile, the start of the decline in private prices in mid-2022 lagged public pricing by some six months. For this property type, private prices are yet to see a recovery, though the pace of decline has moderated.

If public markets incorporate signals in the marketplace faster than private markets, the trends in public pricing measures might provide a leading indicator. Whether the recent rebound in public prices will be sustained, though, is another question.

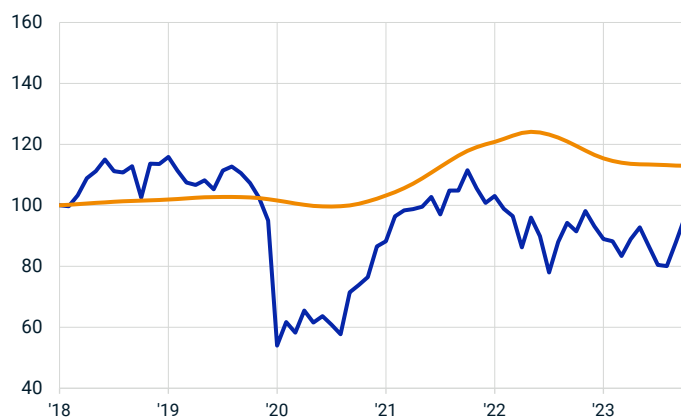
Public and Private Pricing

Public Private

Industrial



Retail



Apartment



Office



Indexed: March '18 = 100. Public pricing represented by MSCI USA IMI Core Real Estate Index for industrial, retail, residential, office. Private pricing is RCA CPPI.

Notes & Definitions

The RCA CPPI is based on repeat-sales (RS) transactions that occurred at any time up through the month of the current report. This CPPI report published January 2024 provides price indexes through December 2023. These indexes are estimated using transaction data collected through the month of January 2024 to the date of production. Because CPPI allows for backward revisions and incorporates any new data we receive subsequent to publishing, full history (from inception to current month) of future indexes will reflect adjustments due to additional transaction data.

The 6 Major Metros (6MM) are Boston, Chicago, Los Angeles, New York, San Francisco and Washington DC. Non-Major Metros (NMM) refers to all secondary and tertiary markets.

All indexes are benchmarked to 100 at December 2006 and the time series extends to January 2001.

About the RCA CPPI™

The RCA CPPI (commercial property price indexes) are transaction-based and accurately measure commercial real estate price movements using repeat-sales regression methodology. There are currently over 350 indexes which provide direct comparability across markets and property types in 15 countries.

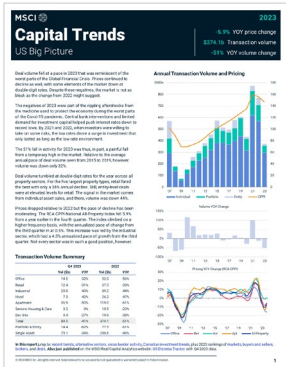
A price indicator is a custom index generated using the same process as the RCA CPPI but is not part of the official suite of indexes.

The RCA CPPI Global Cities report is published quarterly and the RCA CPPI US report monthly.

About MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 50 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process. To learn more, please visit www.msci.com.

Published Jan. 25, 2024.



Also from MSCI Real Assets

The 2023 year in review edition of US Capital Trends explores deal activity and pricing trends across property types. Clients can [click here](#) to download the latest edition. If you are not yet a client, [contact us](#) for more information.