

# US Capital Trends

  
Q1 2023

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April 25, 2023

# Today's Agenda

- 1 An Overview
- 2 U.S. Deal Activity in Q1'23
- 3 Pricing and Financial Headwinds
- 4 Challenges for CRE Debt
- 5 It's Not All Bad



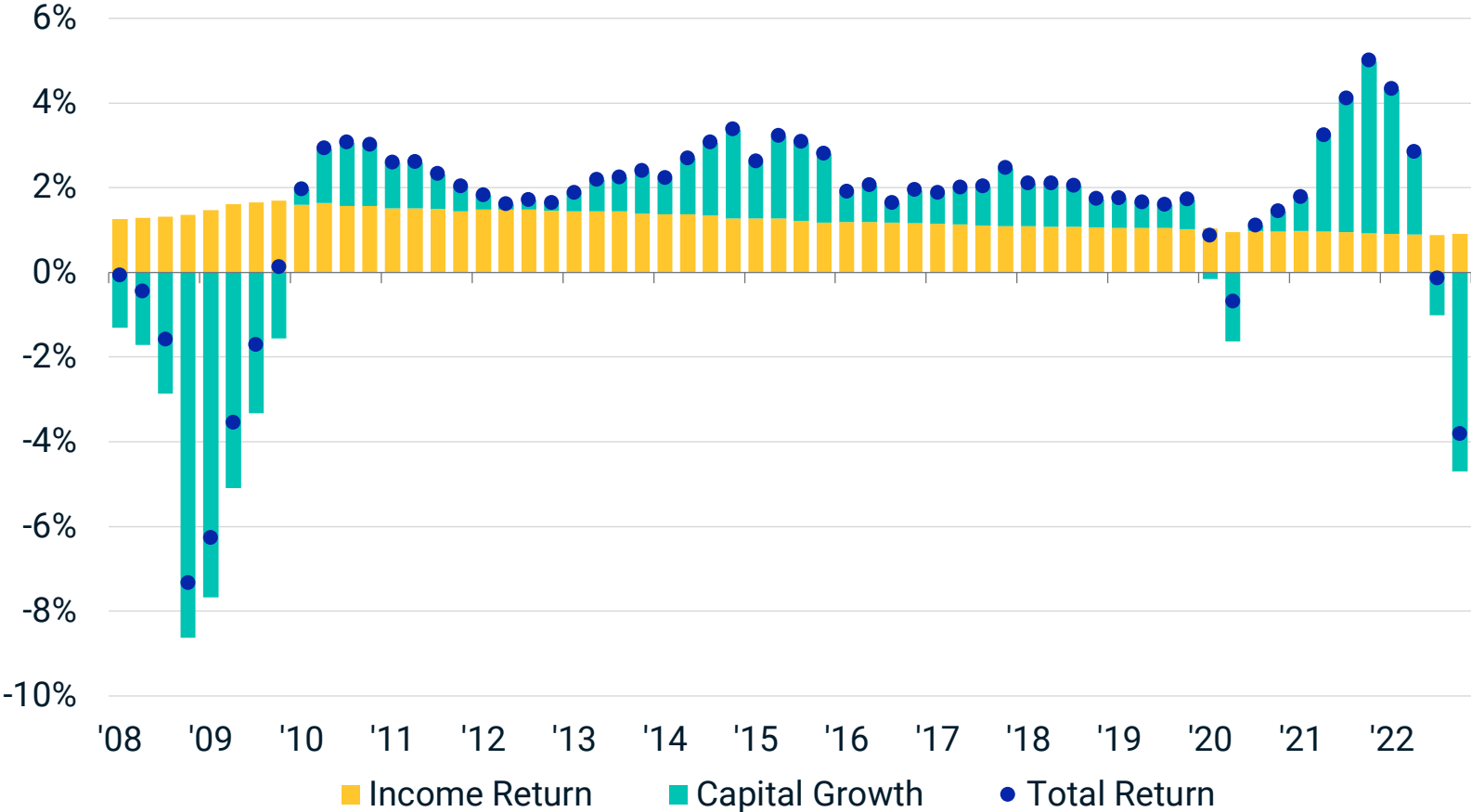
# An Overview

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EVERY CRE DOWNTURN IS DIFFERENT

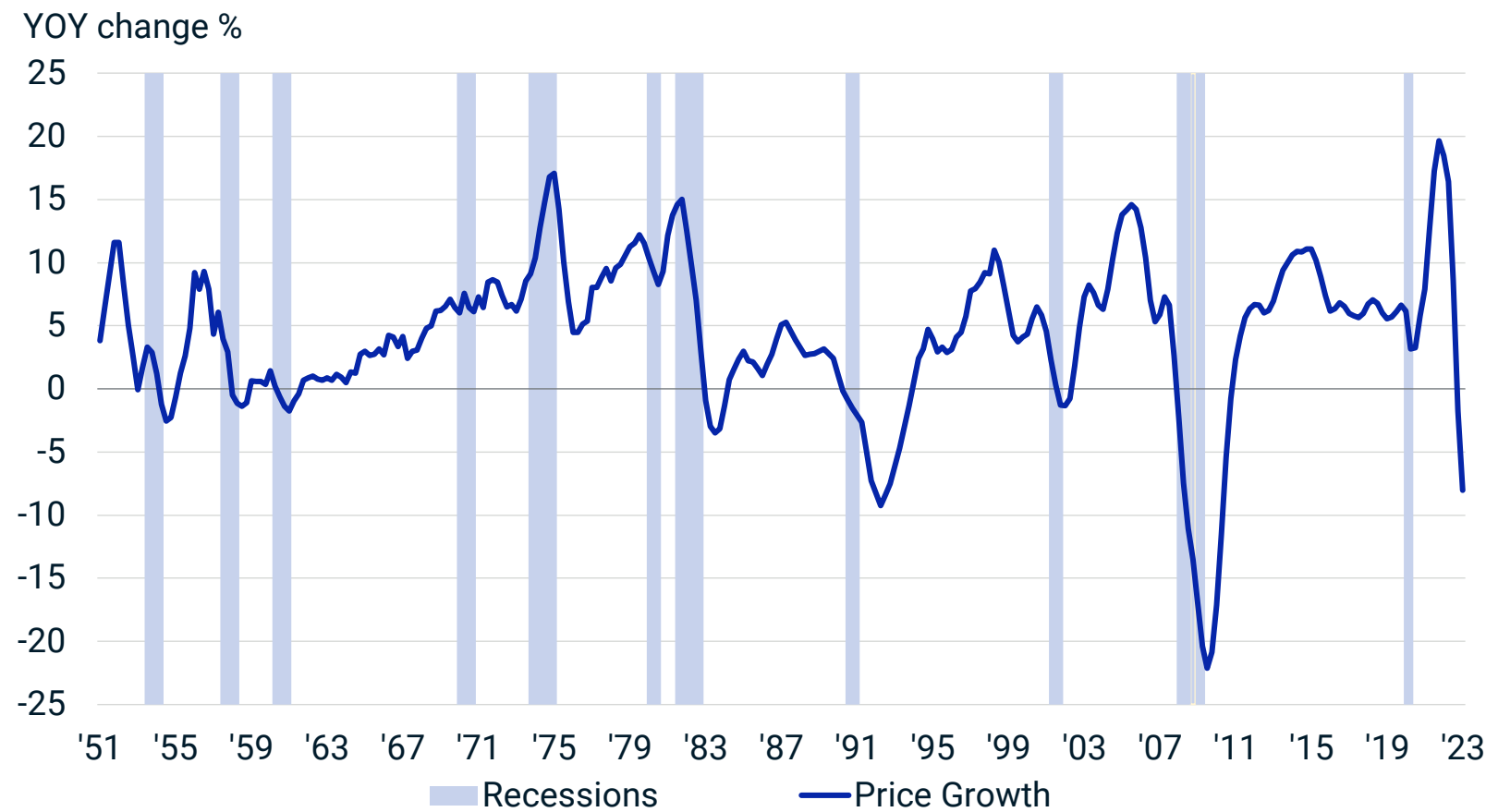
# Global Property Index 2022 Total Returns Near Post-GFC Low

Slide in total return is a story of changes in capital values.



# Long Term U.S. Commercial Property Price Growth

No recession yet, but price declines approaching S&L pace. A different shock today.



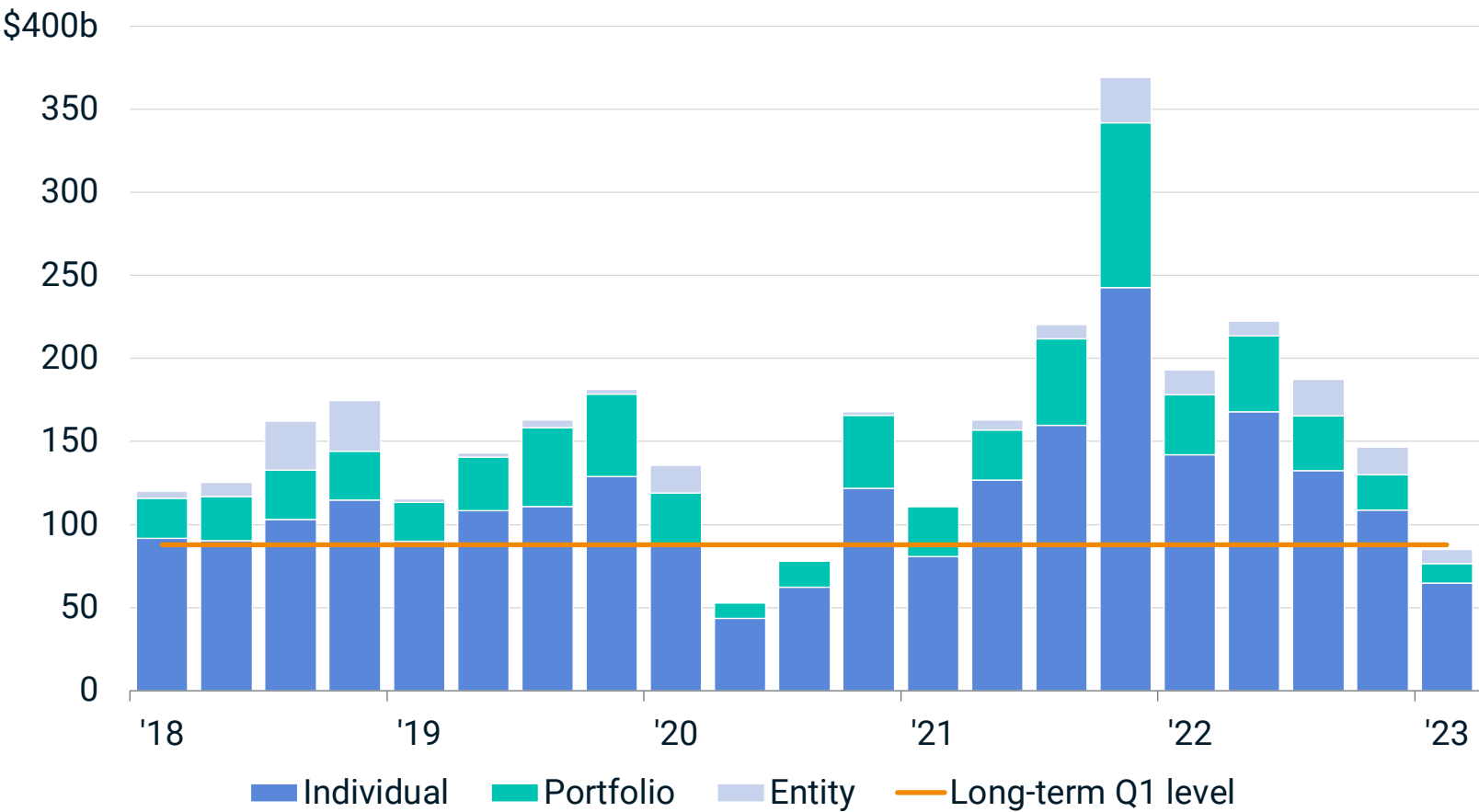
# Transaction Volume

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IS THE MARKET RETURNING TO THE NORMAL LEVELS OR  
SIMPLY WAVING GOODBYE AS IT SLIPS TO A NEW LOW?

# Deal Volume by Structure to Q1'23

Do you read the Q1 level as an adjustment from record highs or the start of a calamity?



# Deal Volume by Property Type

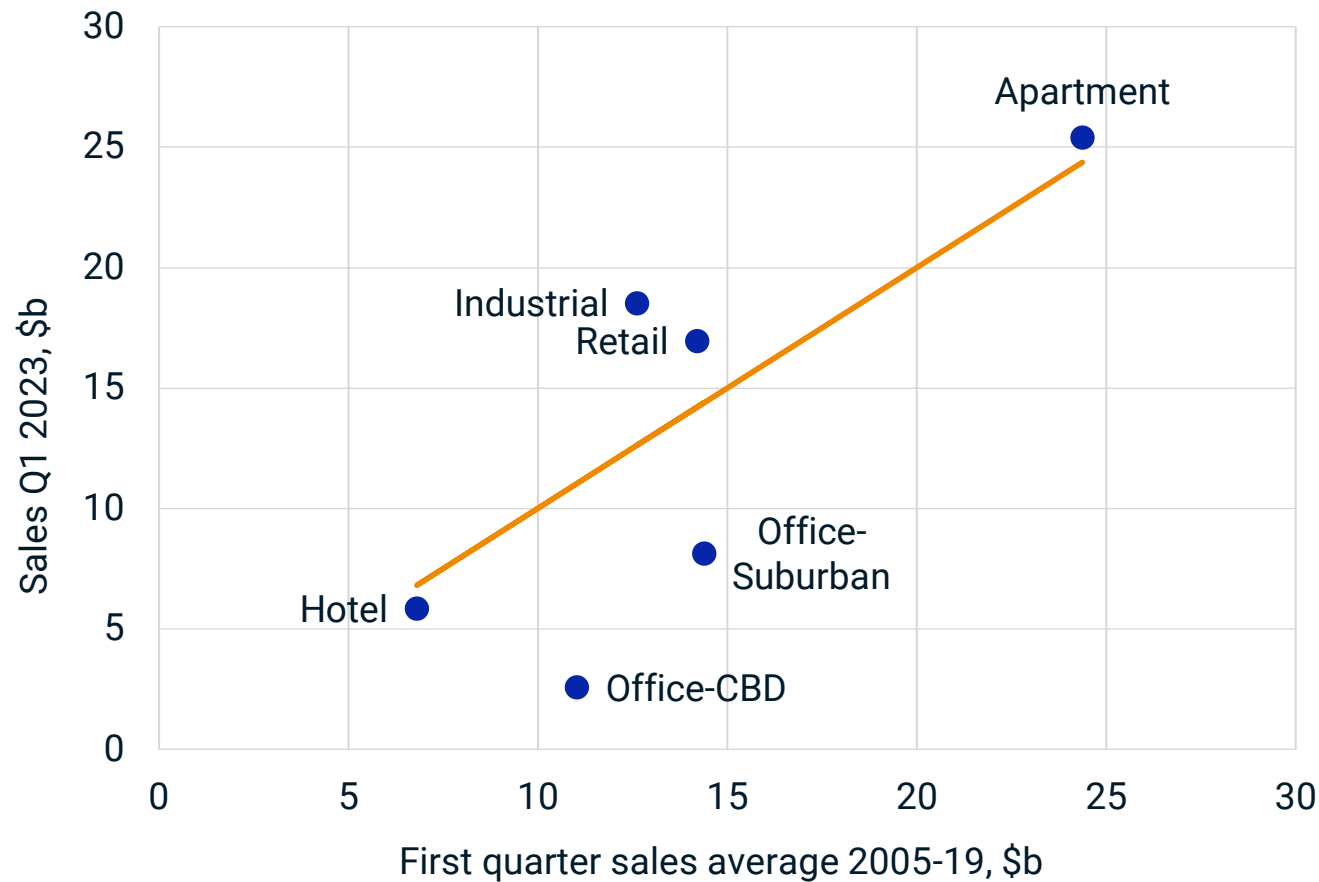
Surprising growth for retail, but it was all entity-level deals. Down 59% for the month otherwise.

	Q1'23		Last 12 mo	
	Vol (\$b)	YOY	Vol (\$b)	YOY
Office	10.7	-68%	90.6	-43%
Retail	16.9	-27%	82.1	-15%
Industrial	18.5	-54%	133.0	-32%
Hotel	5.9	-55%	40.1	-25%
Apartment	25.4	-64%	255.1	-34%
Seniors Housing & Care	2.5	-8%	13.1	-31%
Dev Site	5.1	-37%	27.5	-22%
Total	85.0	-56%	641.6	-32%
Portfolio & Entity	20.2	-60%	167.5	-39%
Single Asset	64.9	-54%	474.1	-29%



# Deal Volume by Sector in Q1'23

Divergent performance of sectors may color one's view on the world today.

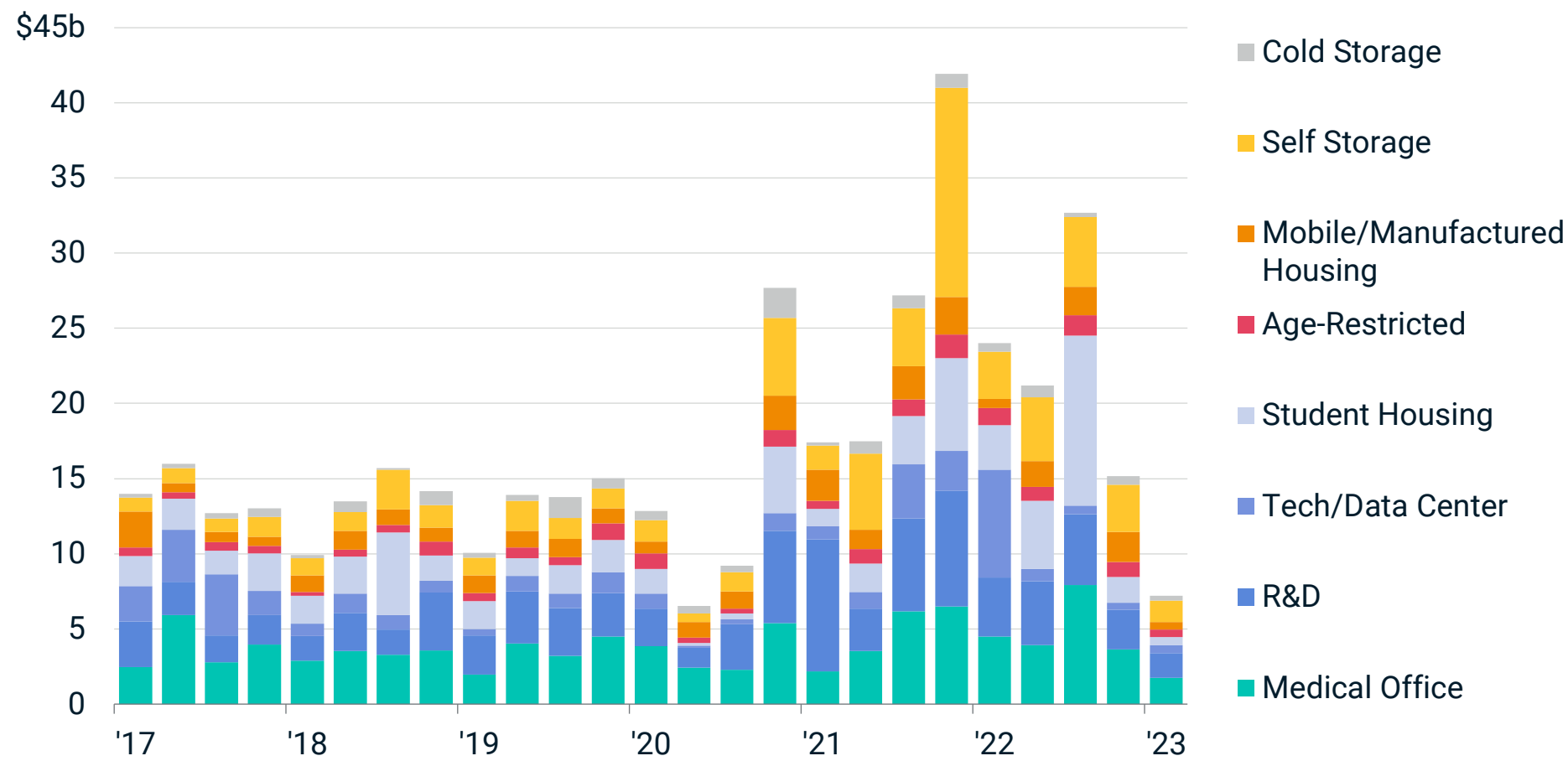


Any sector below the orange line saw deal volume lower than long-term averages in Q1'23

Retail is an outlier due to one entity-level deal in the quarter. Without it, individual asset sales would be right at the long-term average.

# Alternative Real Estate Sectors Into Q1'23

Retreated to lows close to the early panic of the pandemic.



# Alternative Real Estate Sectors Into Q1'23

**Lower levels of portfolio & entity-level activity problematic for these smaller sectors.**

	Q1'23 Volume (\$b)			YOY Change
	Single Asset	Portfolio & Entity	Total	
Medical Office	1.5	0.3	1.8	-61%
Mobile/Manuf Hsg	0.4	0.1	0.5	-16%
R&D	0.9	0.8	1.6	-59%
Self Storage	1.0	0.4	1.4	-55%
Student Housing	0.5	0.1	0.5	-82%
Age-Restricted	0.5	0.0	0.5	-55%
Cold Storage	0.2	0.1	0.3	-45%
Data Center	0.3	0.3	0.6	-92%

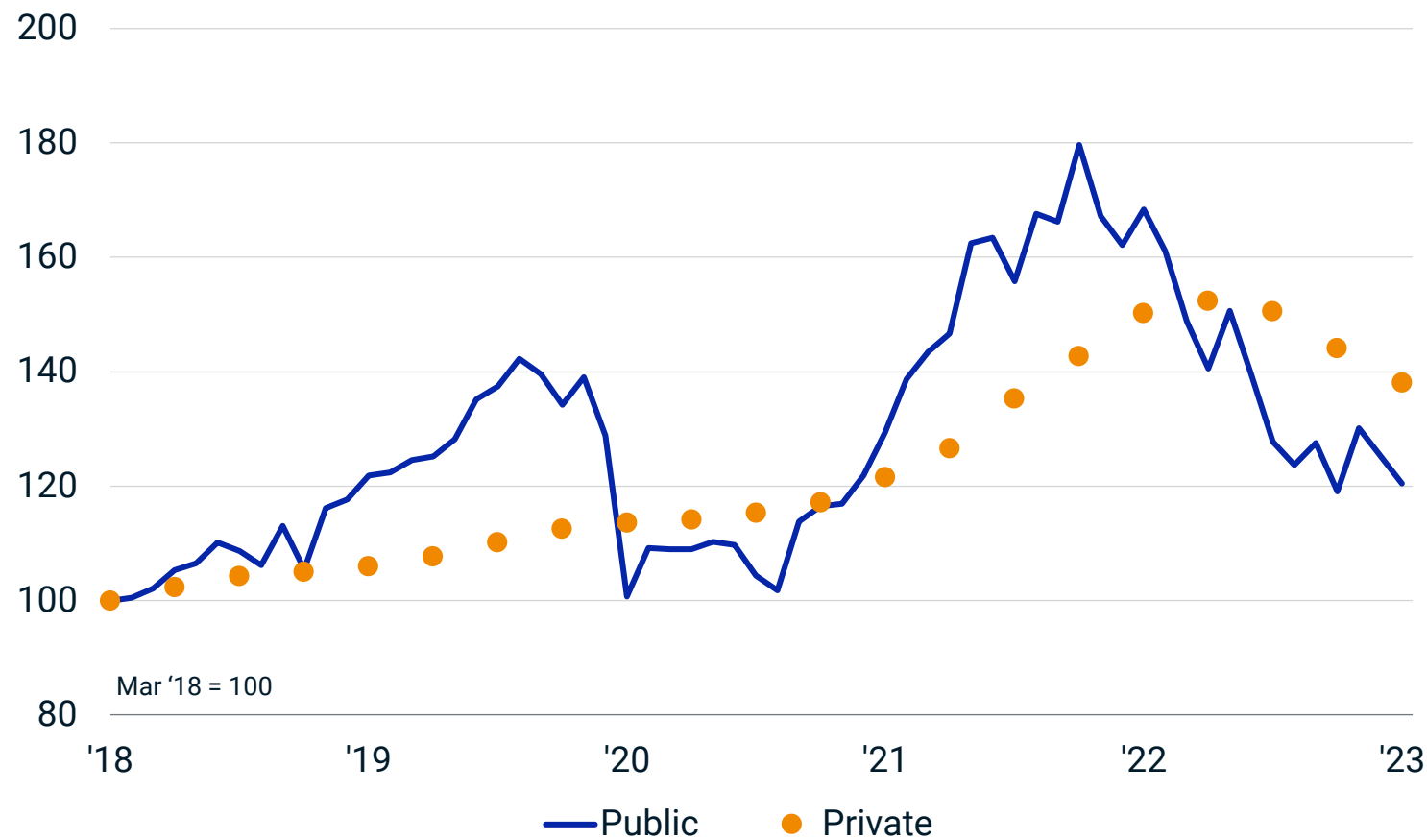
# Pricing and Headwinds

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PRIVATE MARKETS FINALLY MOVING

# Public vs. Private Apartment Pricing

Public markets on the downswing since late 2021. Finally seeing annual declines for private.



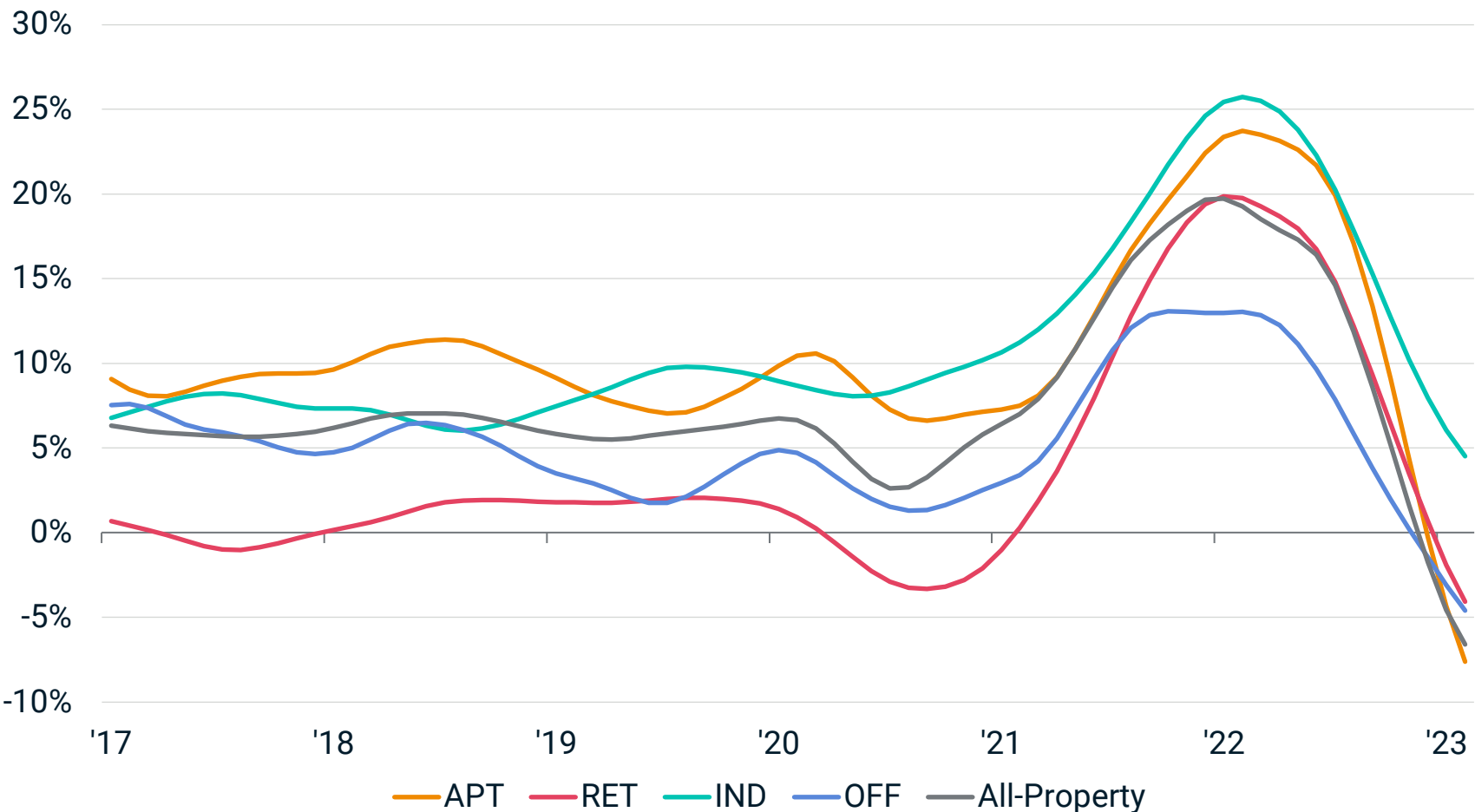
Apartment REITs fell 34% from Dec'21 to Dec'22.

Private real estate pricing for apartments off 9.4% from peak levels.

Recent optimism around REIT price trends. A sign of things to come?

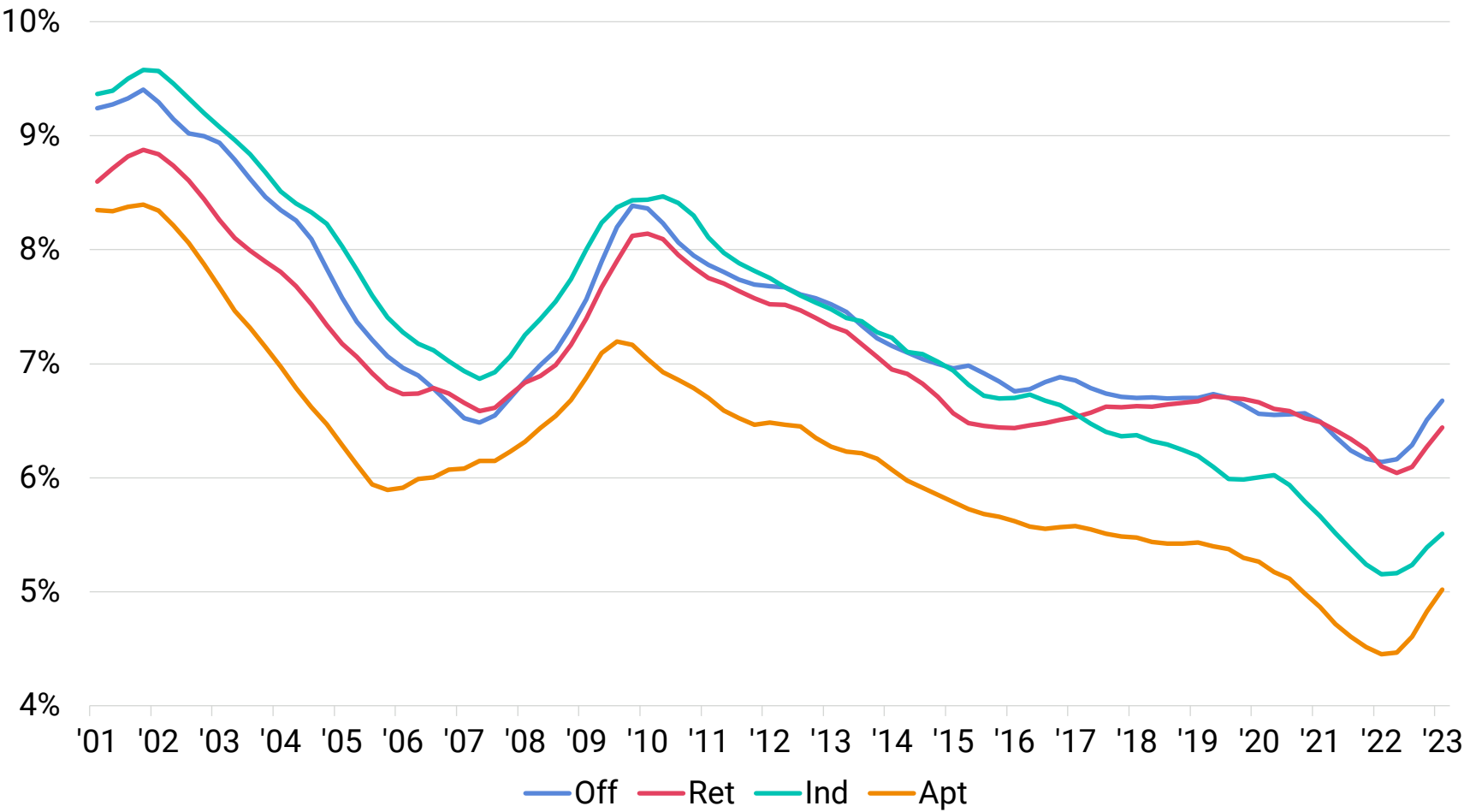
# MSCI RCA CPPI by Sector to March of 2023

Industrial is lone holdout with prices still growing, though at a sharply lower pace.



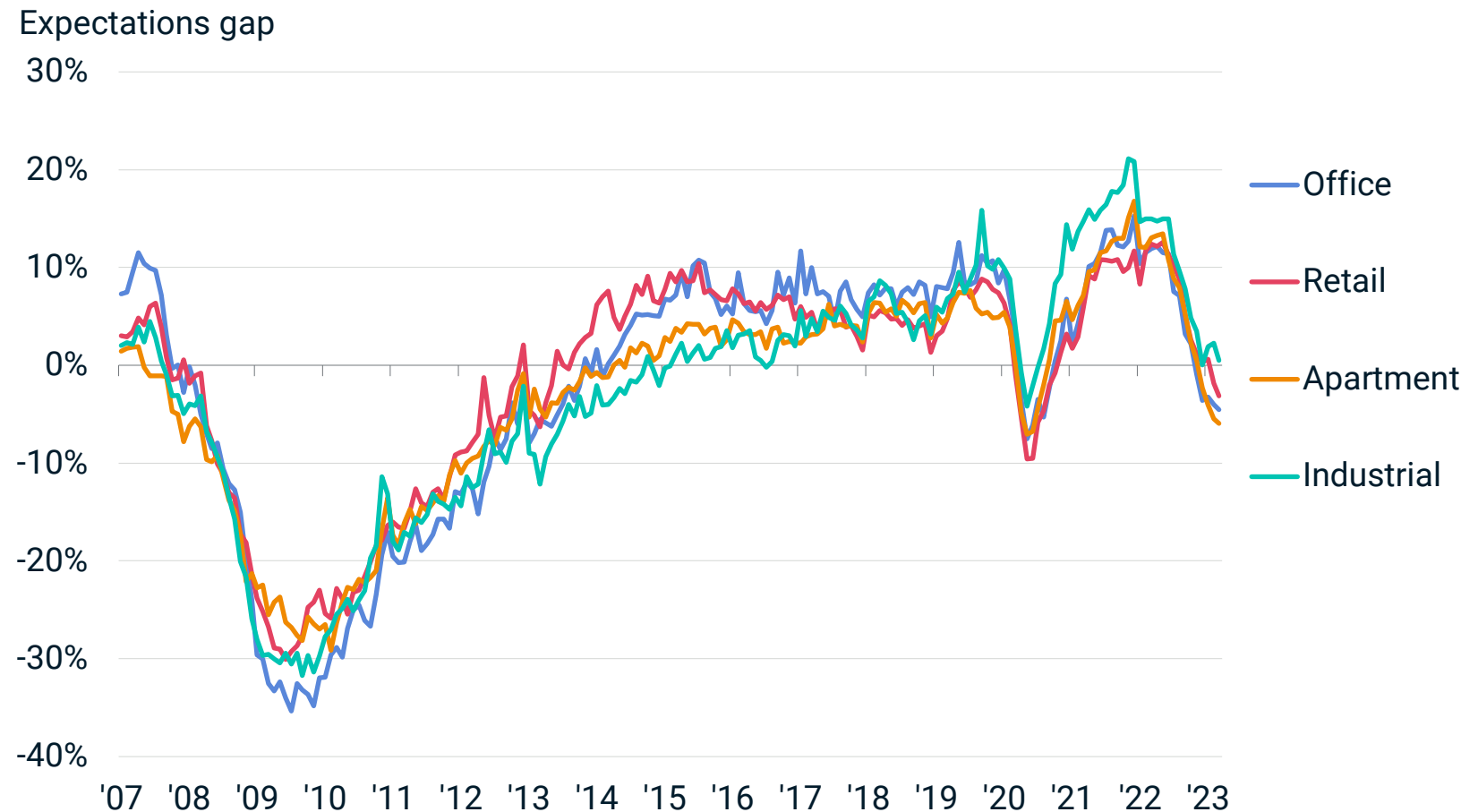
# Transaction Cap Rates by Property Sector

Not a huge move, but cap rates are on the rise across all major sectors.



# Price Adjustments Needed for Market Liquidity

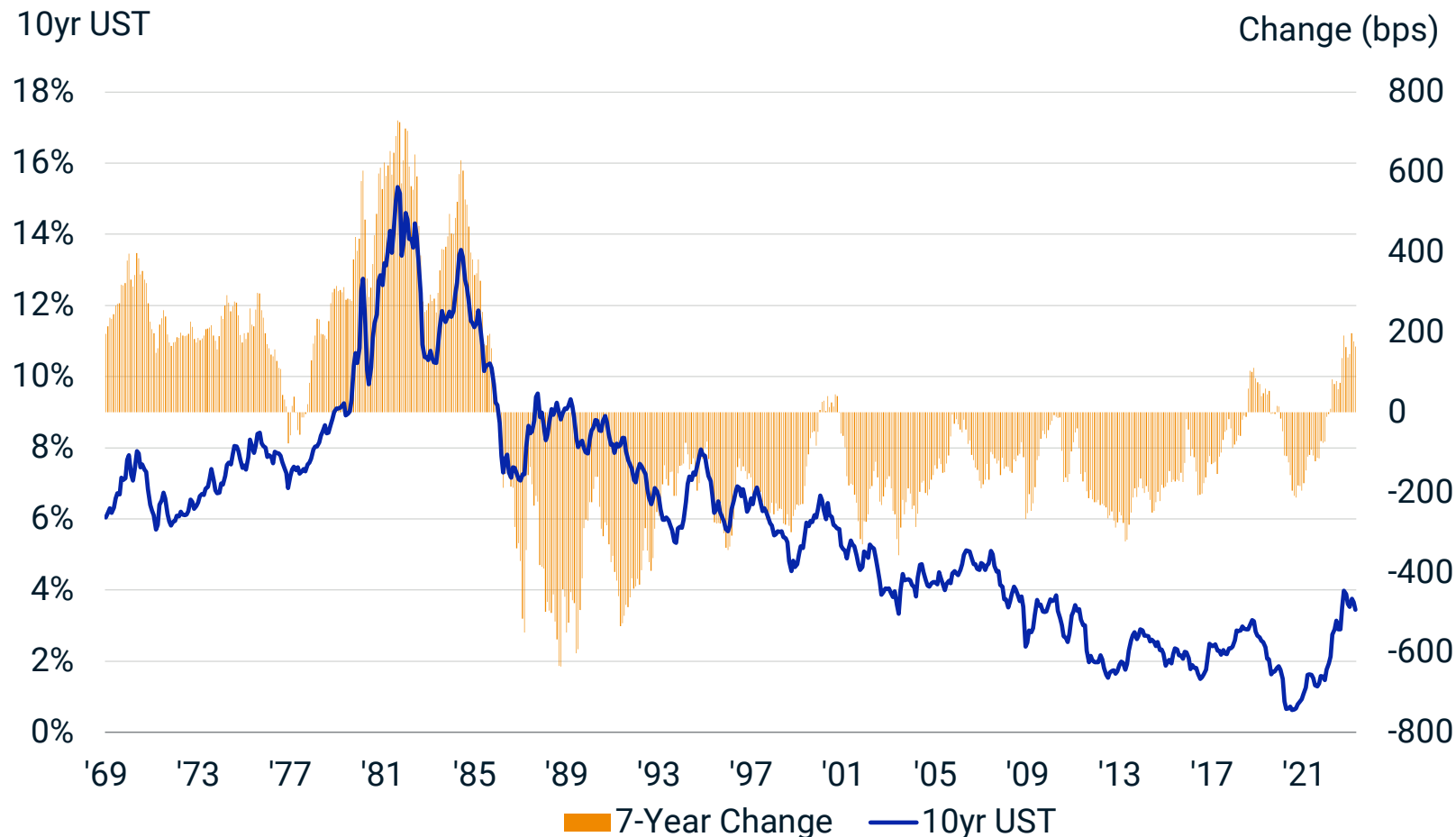
Price changes needed to bring deal volume back to “normal” levels.





# 10yr US Treasury vs. Seven-Year Change

Wind not at the back of investors for a typical seven-year holding period now.



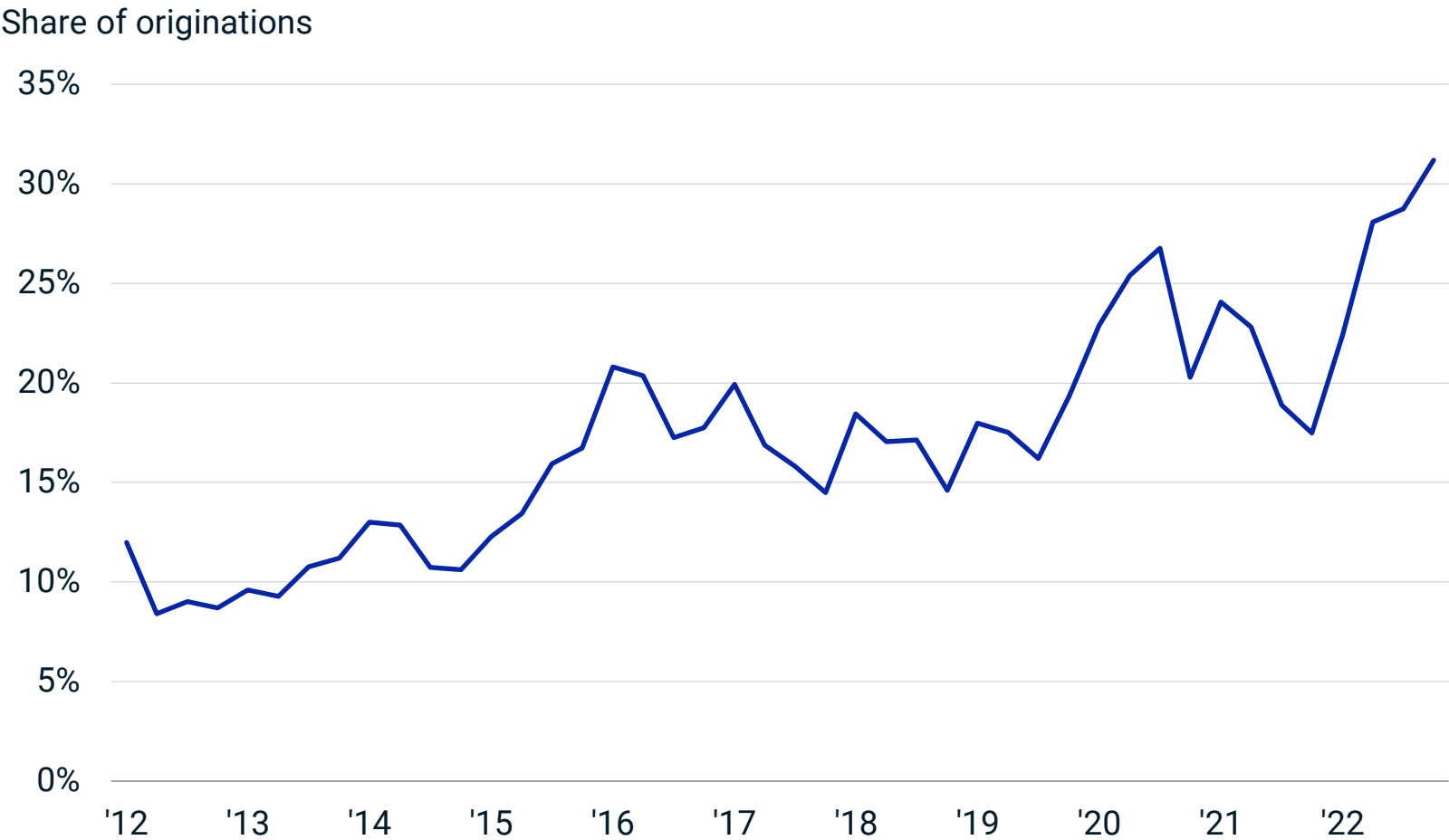
# Challenges for CRE Debt

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SOME CRAZINESS IN THE DEBT MARKETS RECENTLY

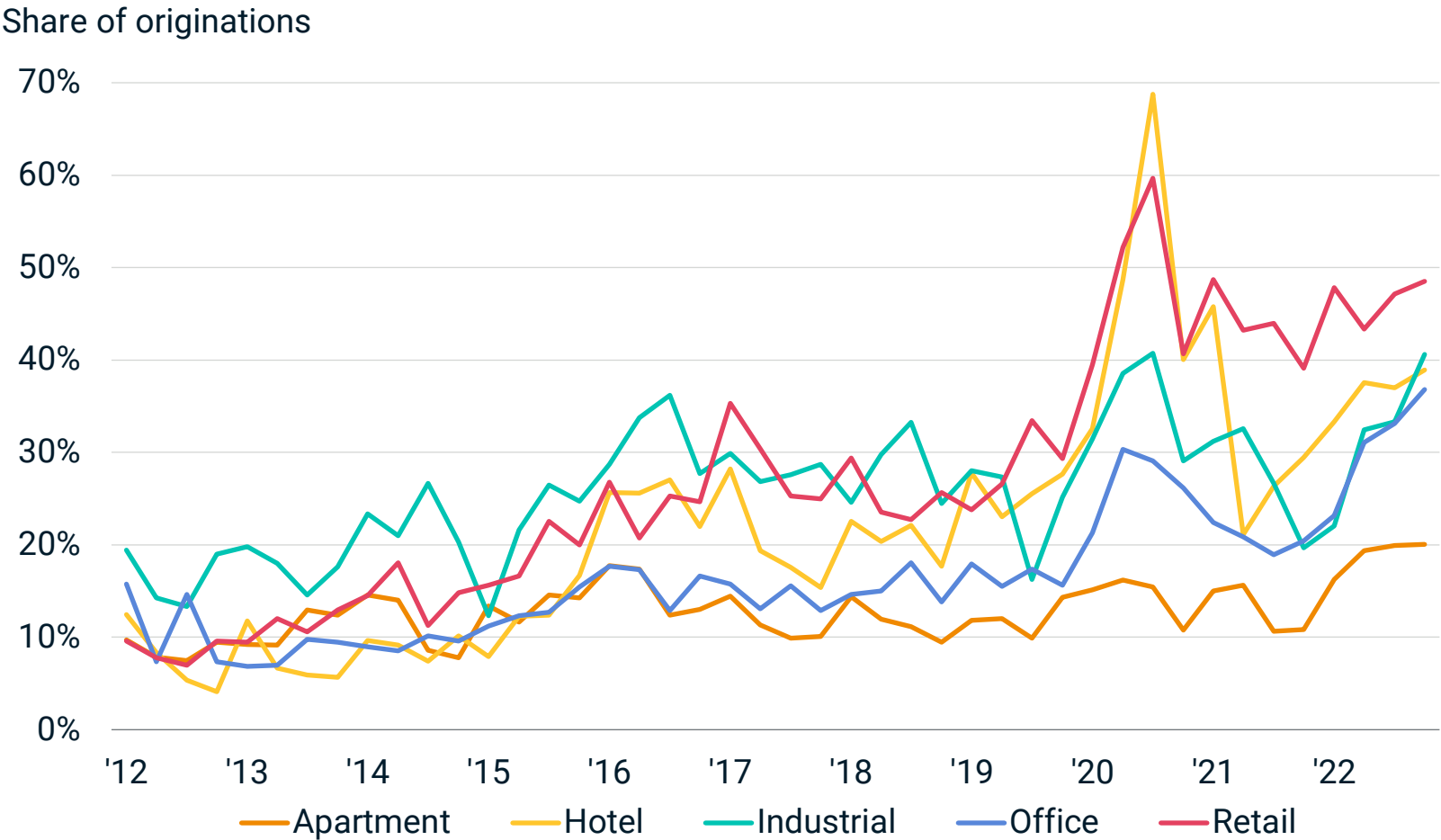
# Share of CRE Loan Originations by Regional/Local Banks

The 70% share quoted in the industry is misleading.



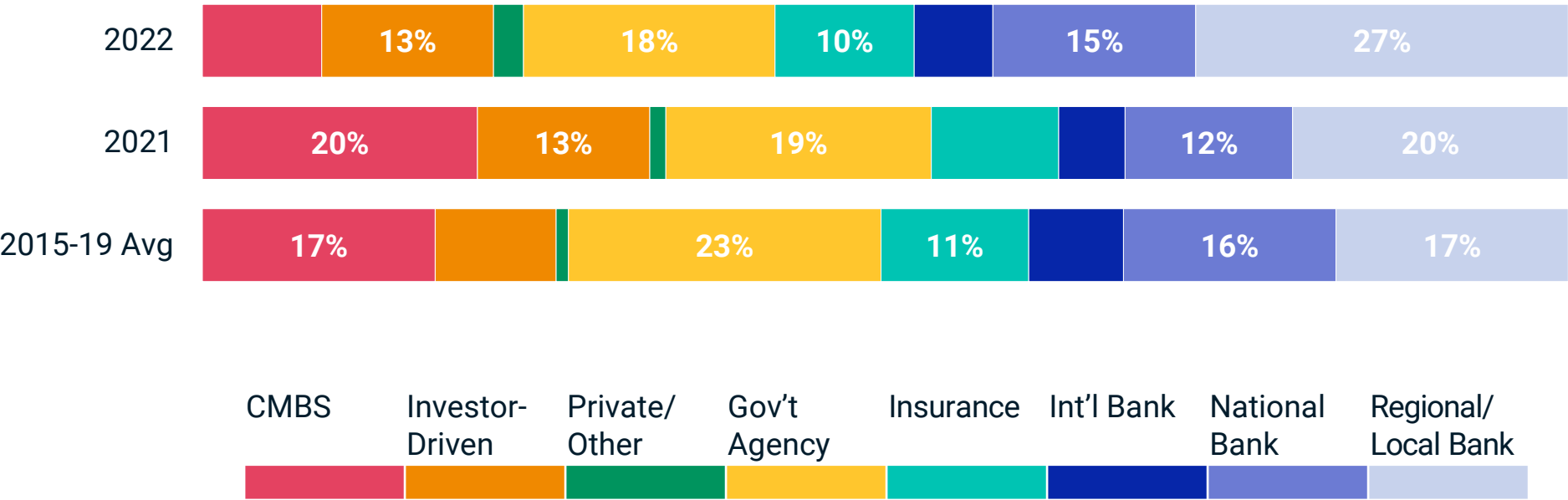
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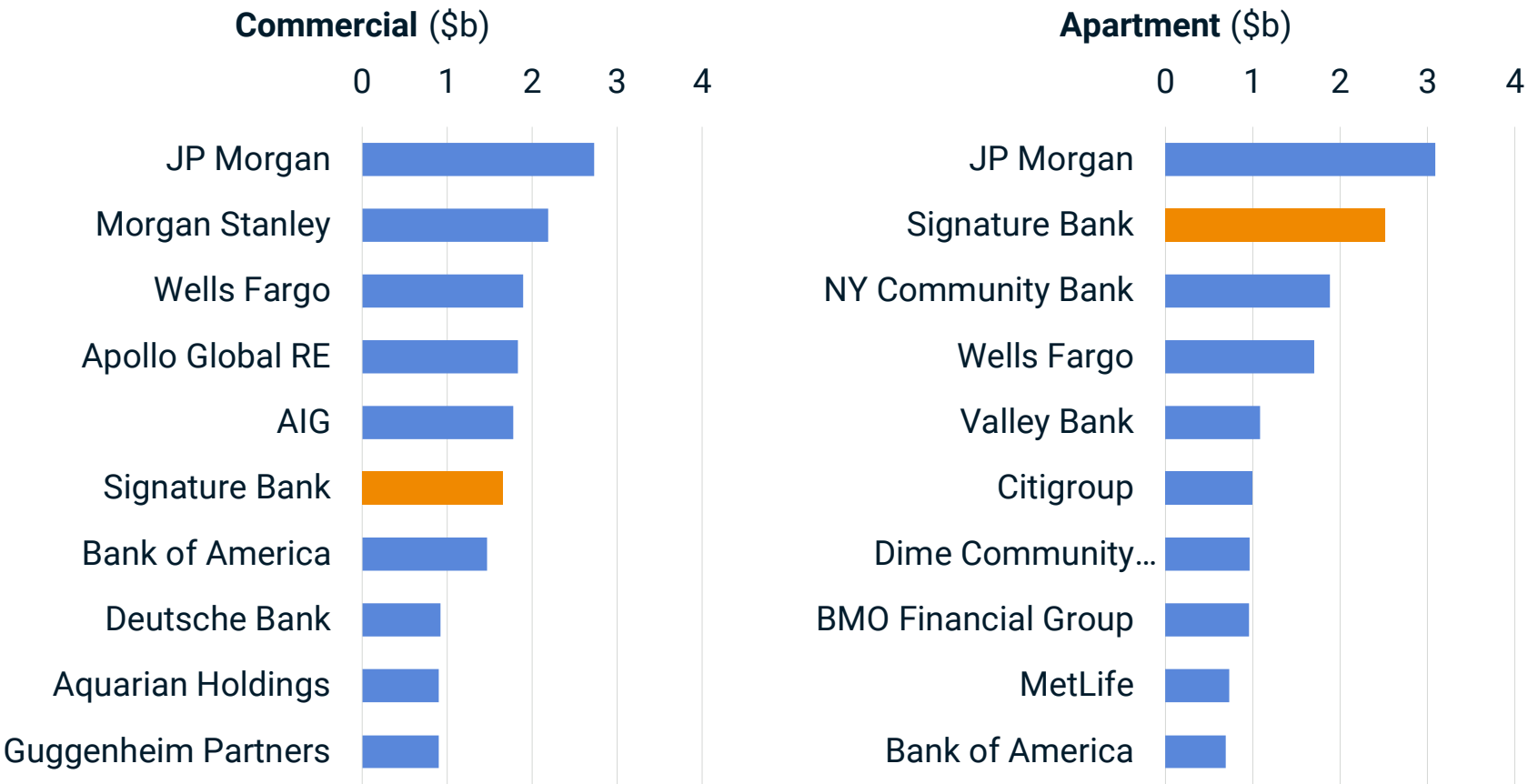
# CRE Lender Composition in 2022 vs. Previous Years

CMBS world faced more challenges than other originator types last year.



# Top Lenders for New York City in 2022

**Signature Bank was one of the leading lenders in the city last year.**

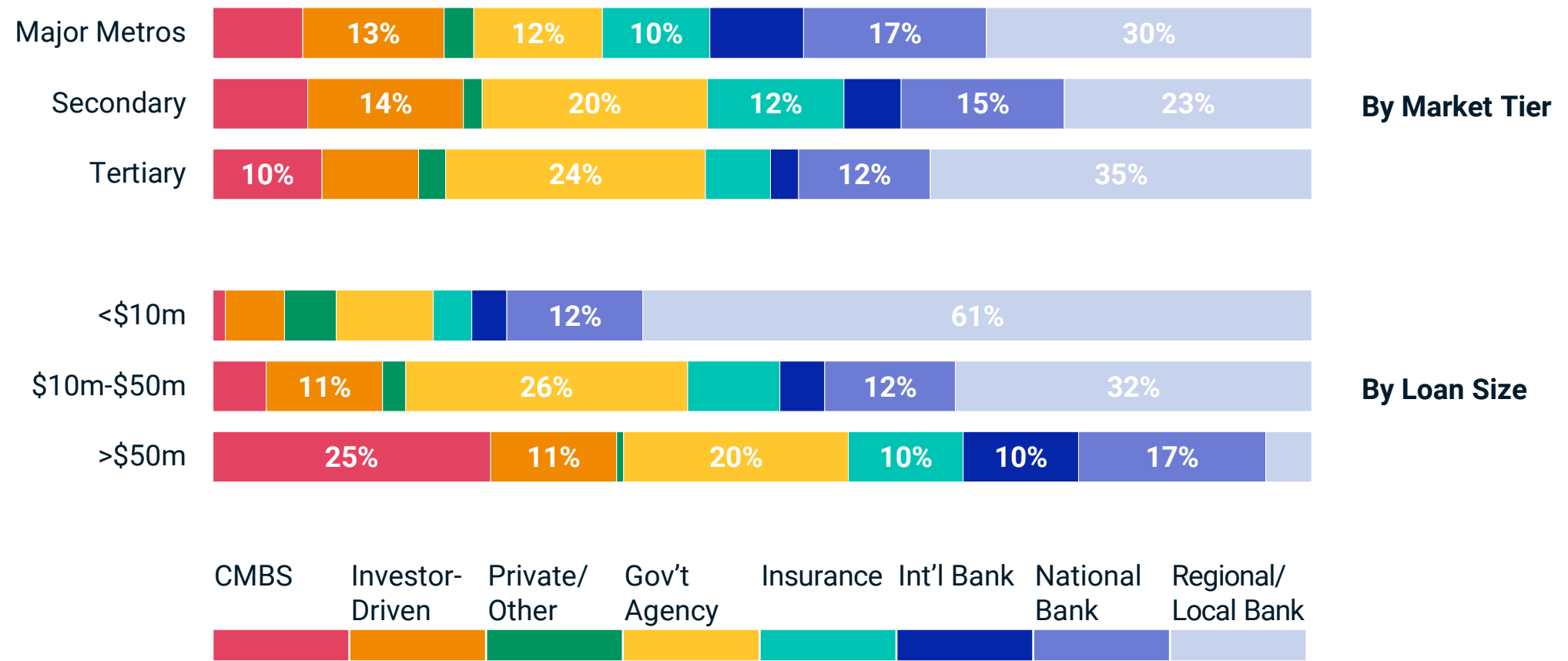


**Signature Bank was one of these smaller regional/local banks that the markets are worried about today.**

**There are many legs of the debt stool available in New York City so the removal of one leg is not a sign of apocalypse. Still, will it cause other lenders to compete less and use more caution in their underwriting?**

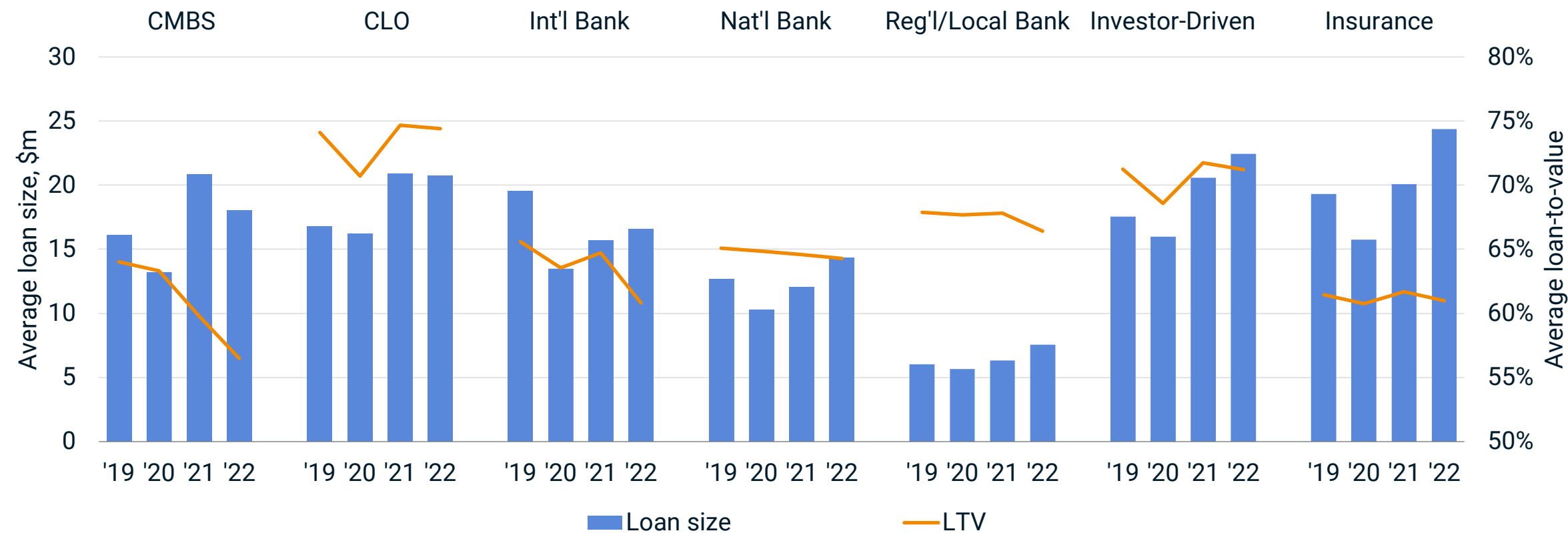
# CRE Lender Composition in 2022: Breakdown by Scale

Small banks dominate the smaller deals in the smaller markets. *Relationships matter.*



# Average First Mortgage Size and LTV by Lender Type

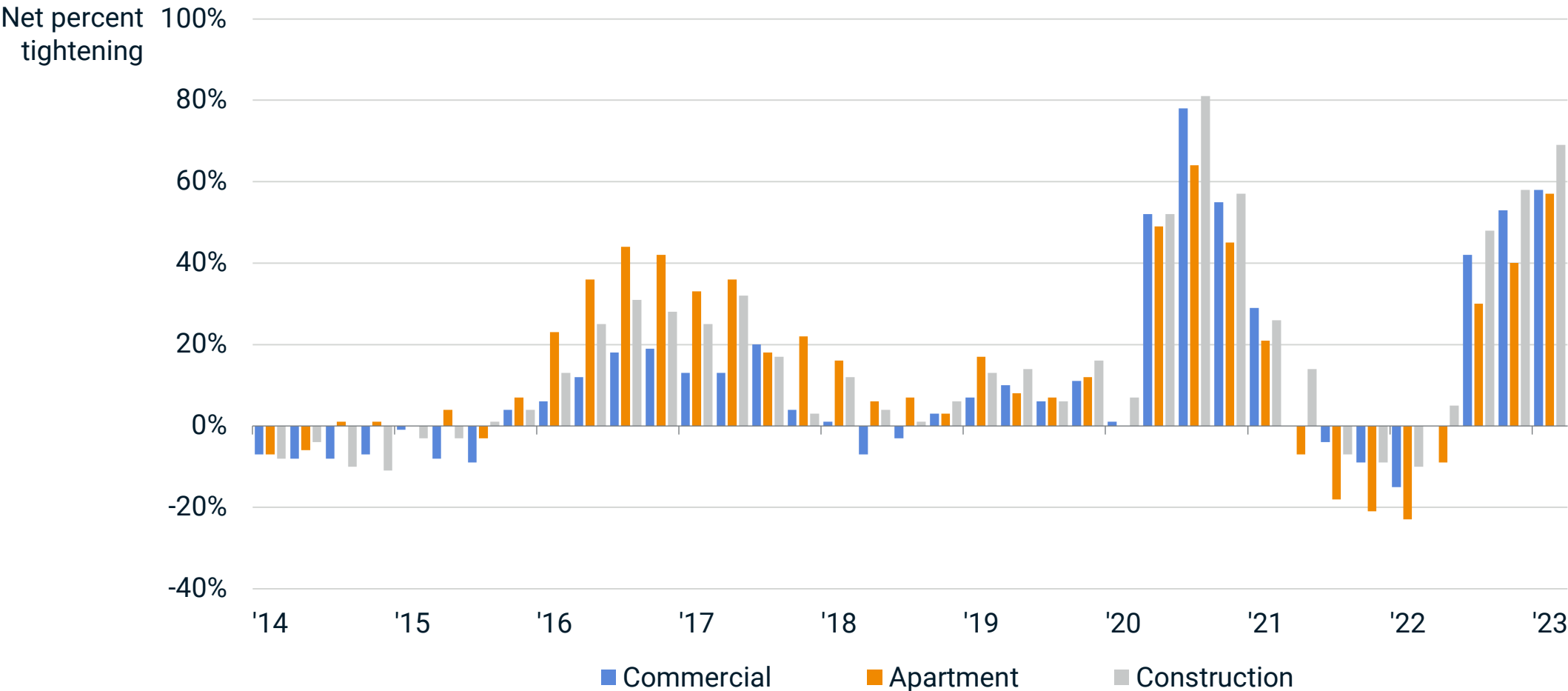
CMBS world faced more challenges than other originator types last year.





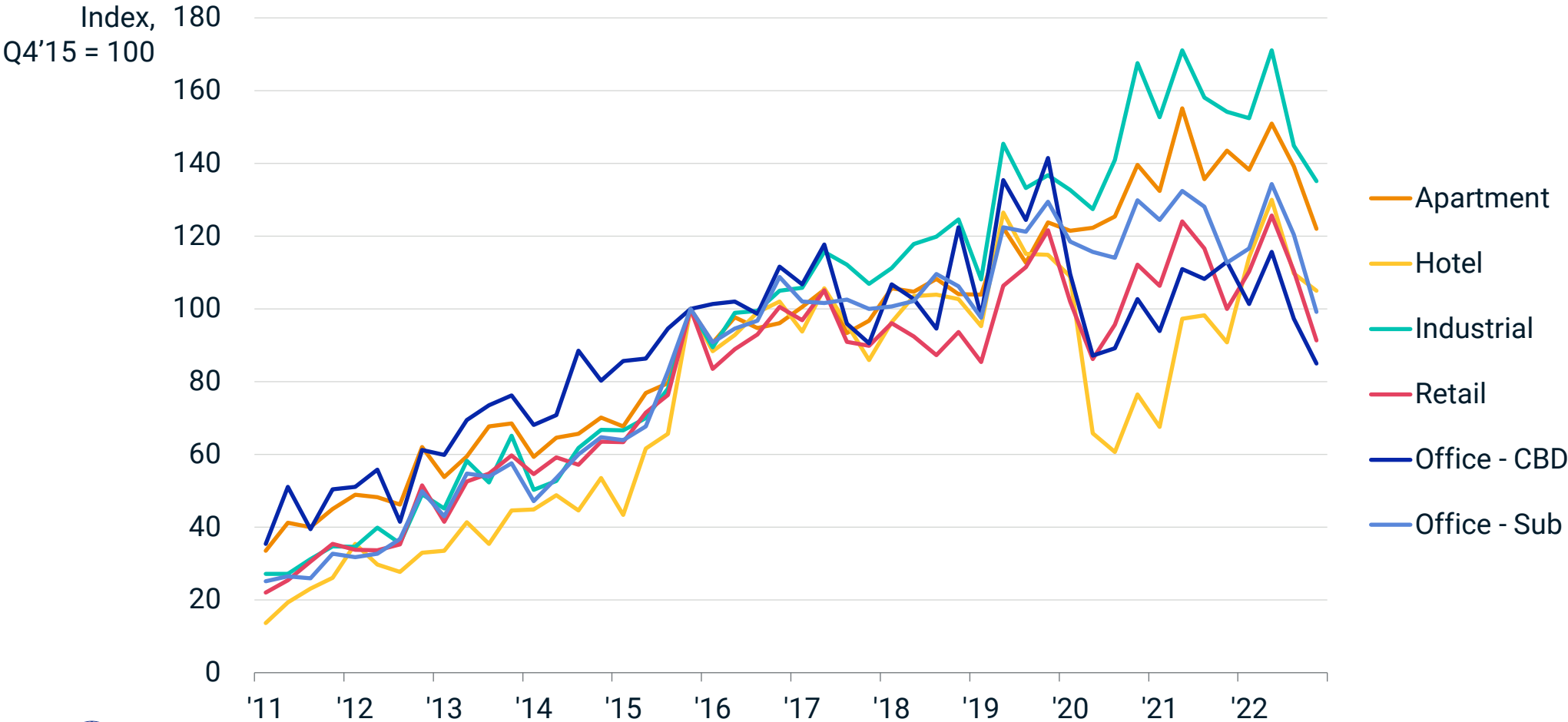
# Commercial Lending Standards Tightening

Tightening of the CRE mortgage market has been underway since midyear 2022.



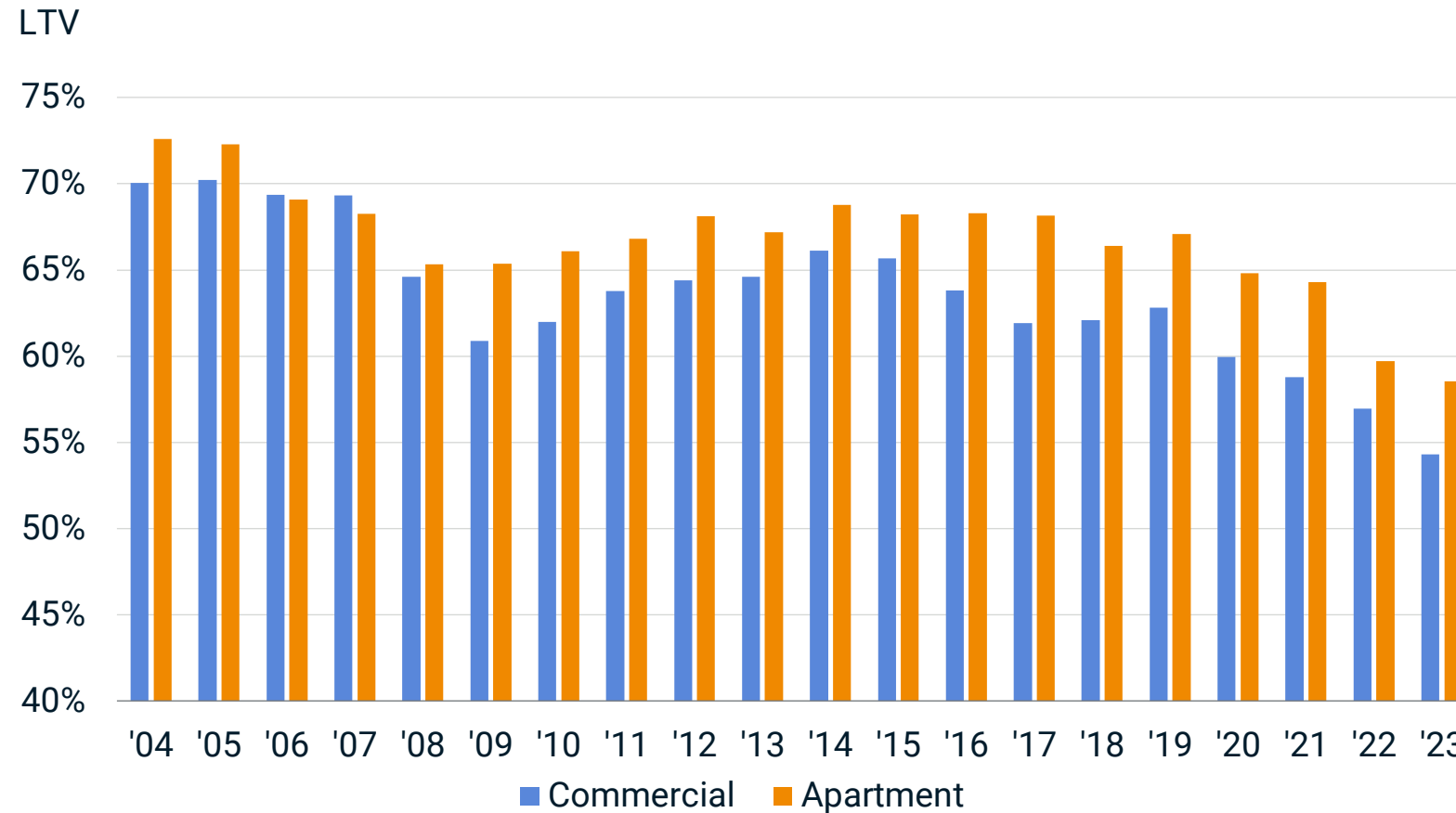
# Unique Lender Counts Falling Before Banking Challenges

Only hotels saw more unique lenders in Q4'22 than in Q4'21, all others falling.



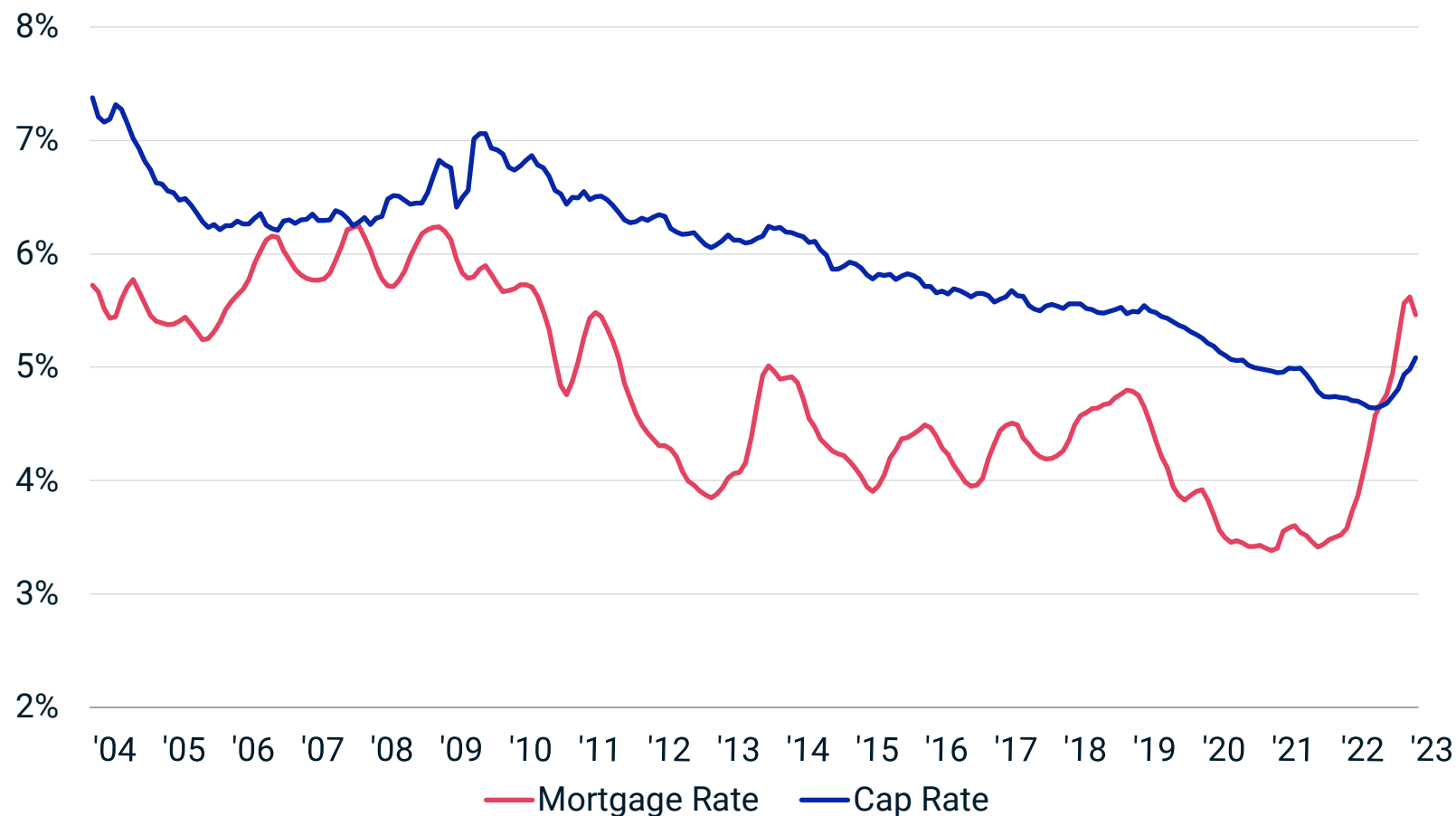
# Average LTV for First Mortgage Position by Major Type

Lenders pulling back on this measure since 2020, not as sudden as 2009 debt crunch.



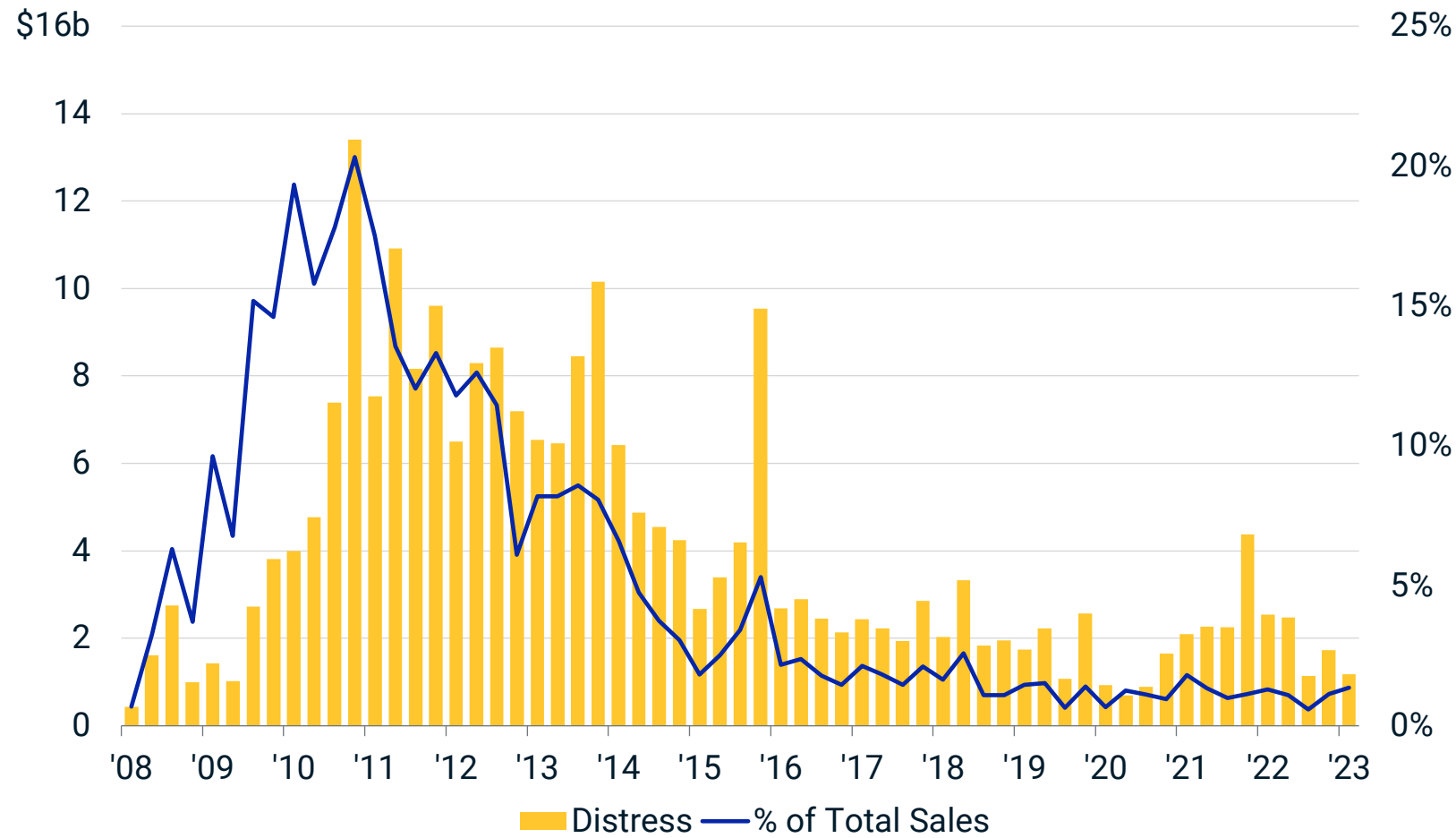
# Apartment Cap Rates vs. Mortgage Rates

Can deal activity continue with negative leverage seen over last eight months?



# Quarterly Distressed Sales

Distressed sales were still not really a thing through March, but maybe the rest of 2023?

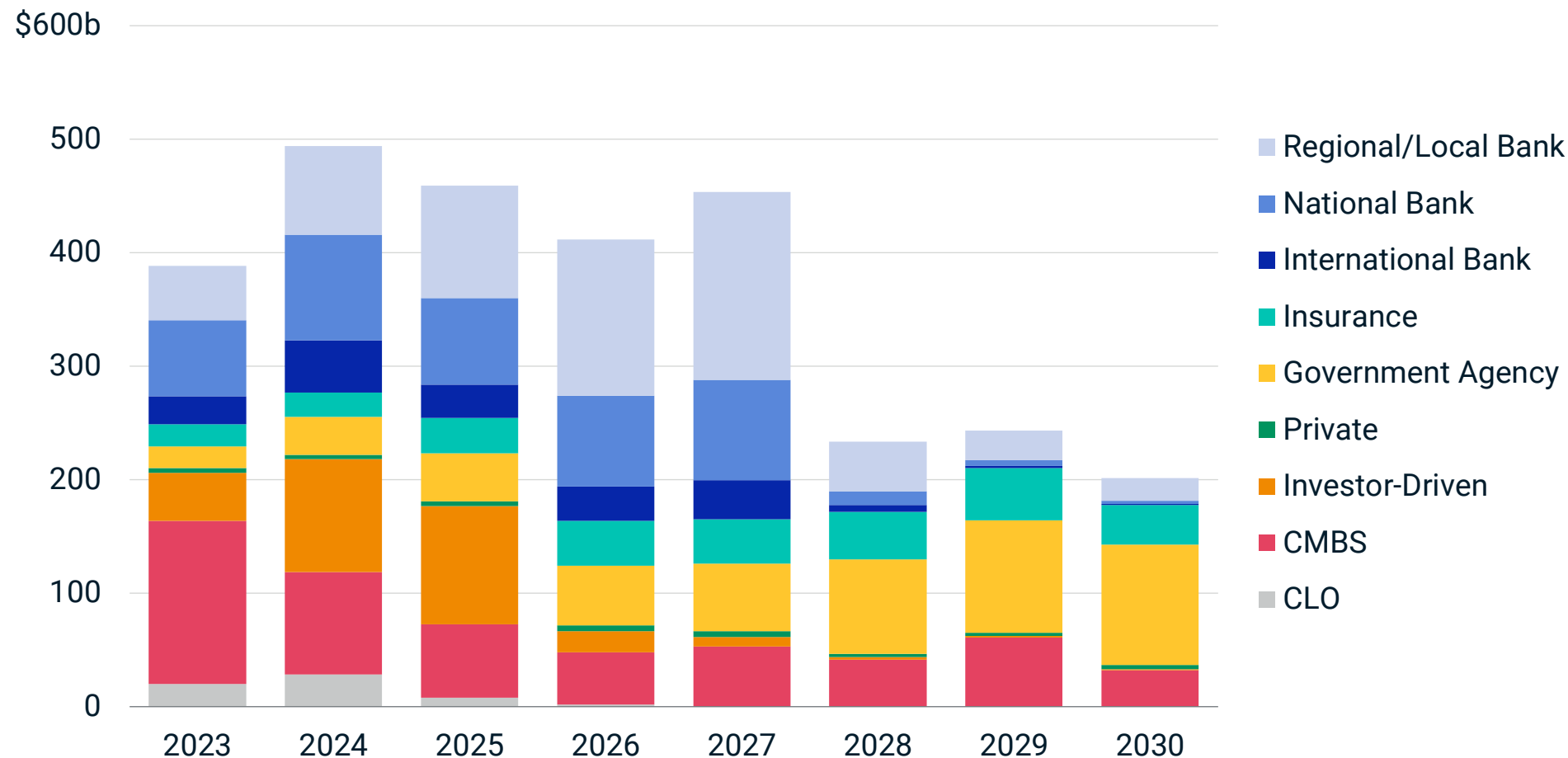


There is an opportunity in the repricing of the market but it has not fully materialized. Buyers and sellers were still too far apart on pricing and borrowers were not facing pressure from lenders to deal with any potential losses of value.

Will lending standards change and force some challenging discussions between owners and lenders?

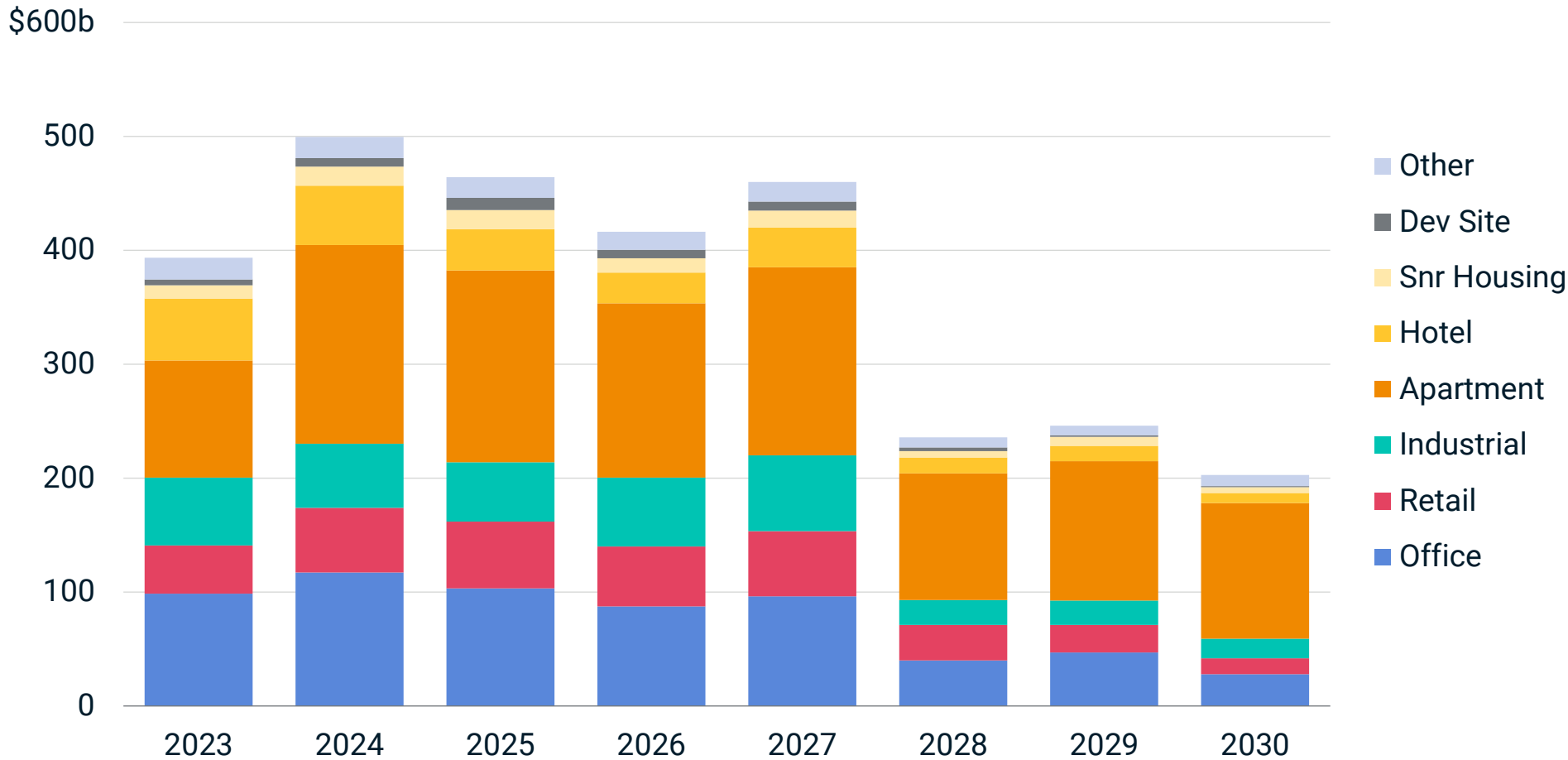
# Maturing Loans by Lender Type

There is \$2 trillion to be refinanced through 2027, and yes, small banks are a big portion.



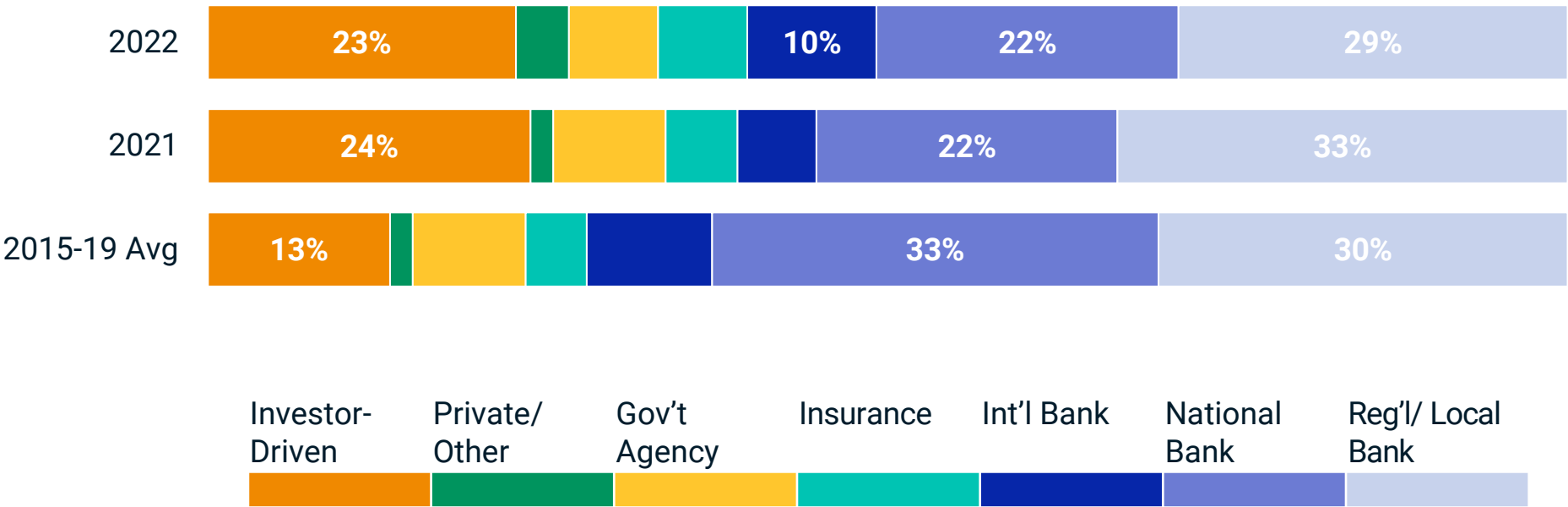
# Maturing Loans by Property Type

The largest sector to be refinanced is apartments.



# Construction Lender Composition in 2022 vs. Previous Years

National banks have pulled back but more investor-driven loans.





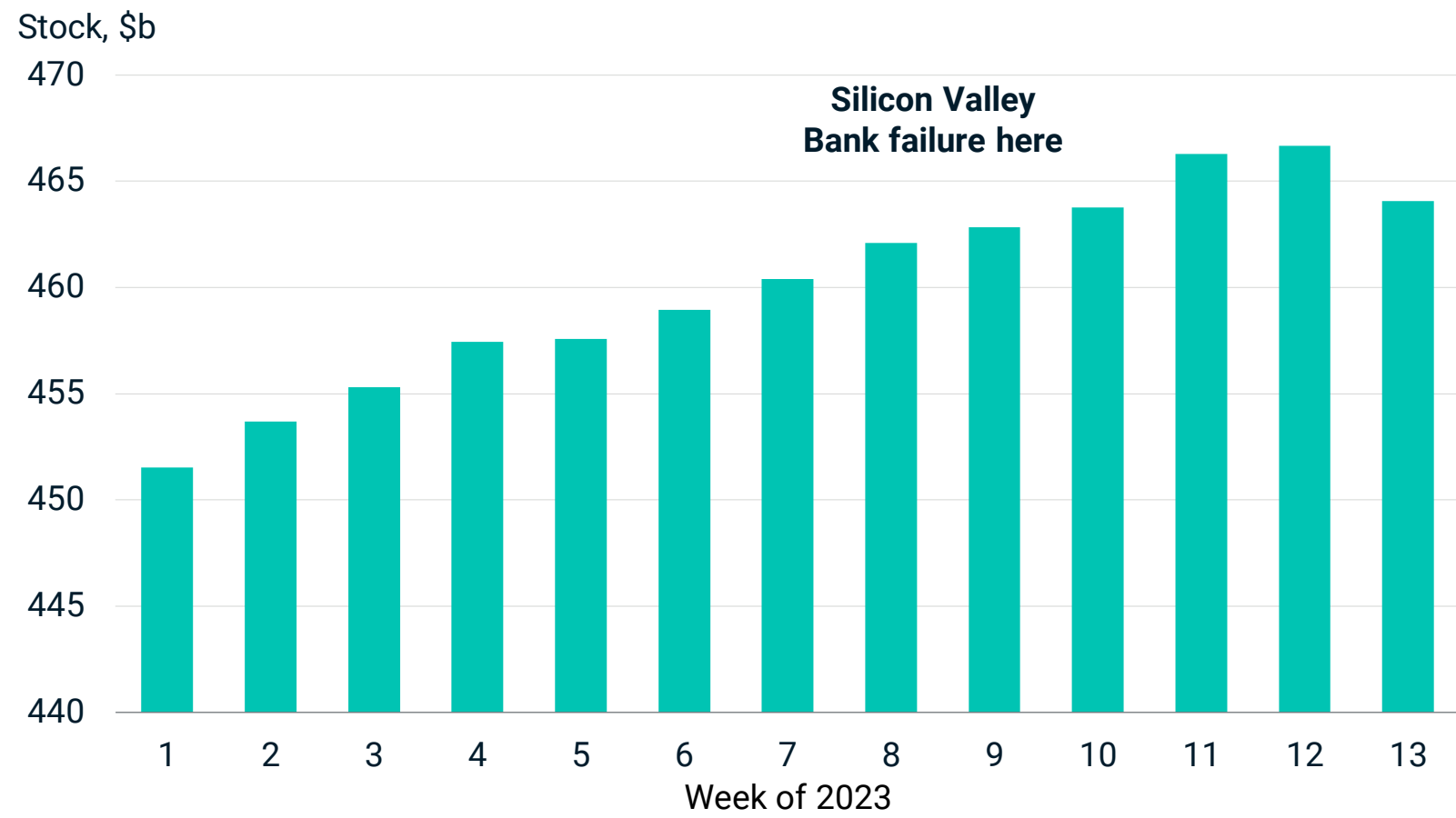
# Growth in Bank Construction Lending is Slowing

Will investor-driven lenders pick up the slack from new slowdowns for banks?



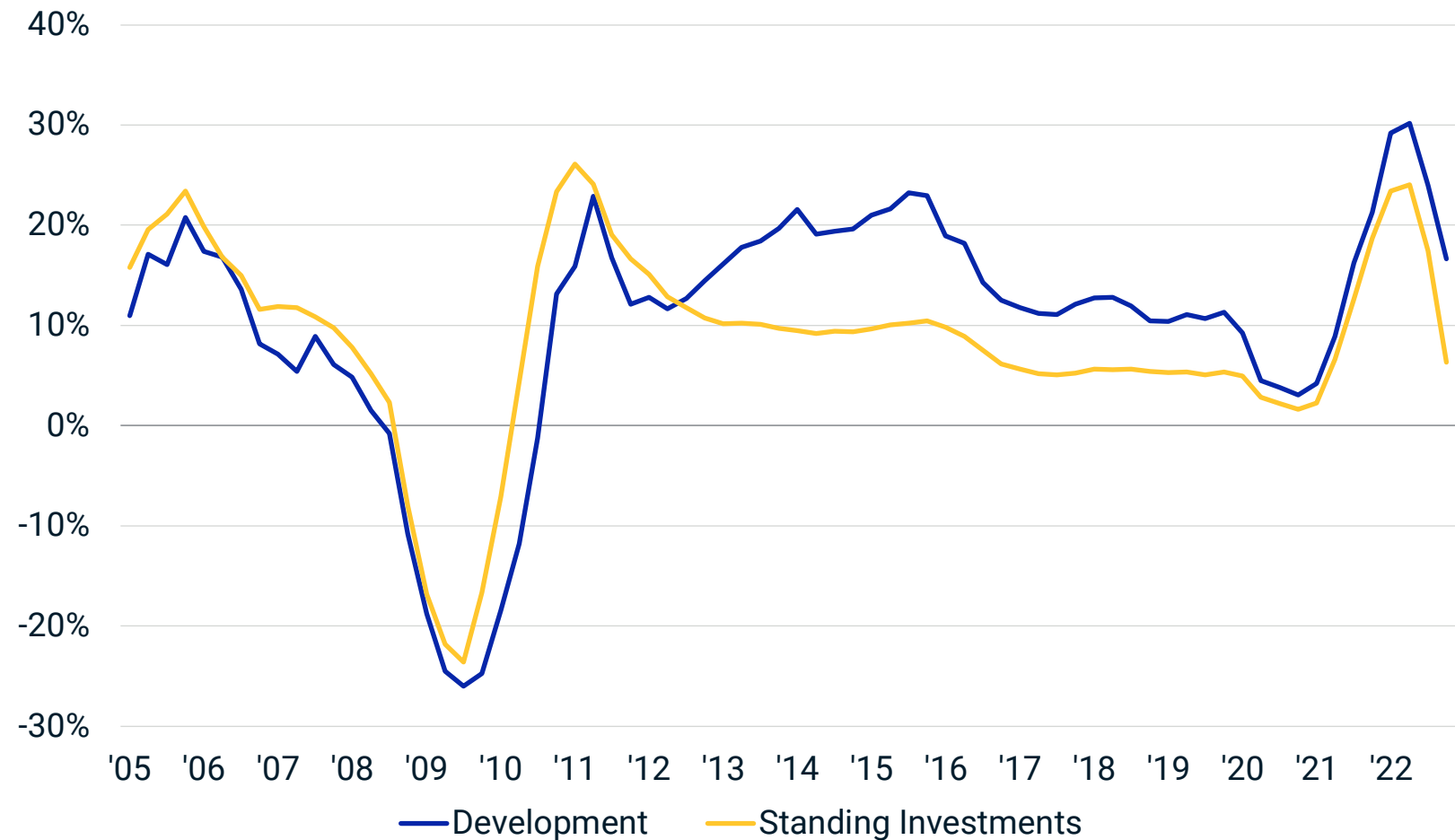
# Stock of Construction Loans at Banks by Week in 2023

Stock of loans in retreat the week of March 29<sup>th</sup> ... the start of a trend?



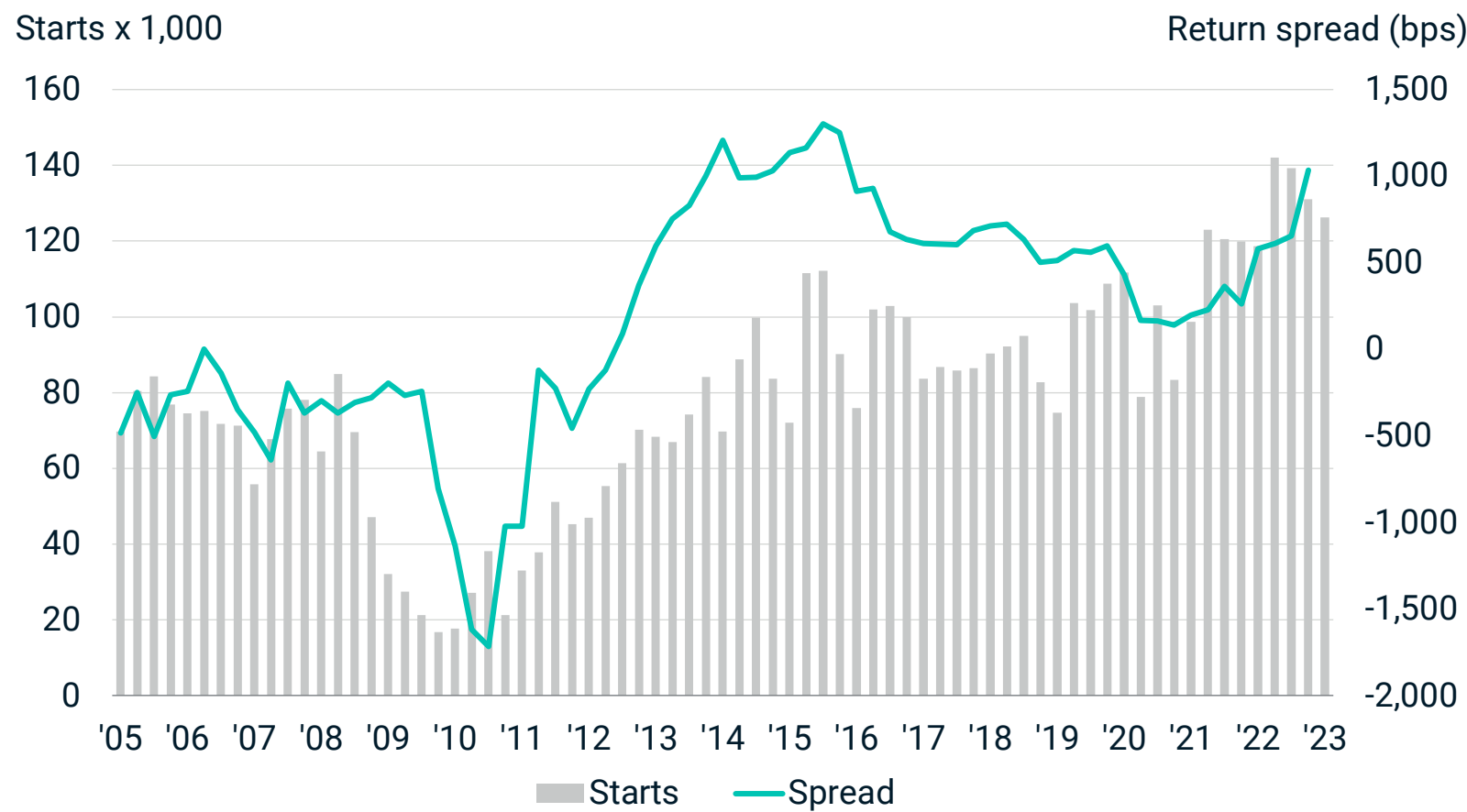
# U.S. Apartment Returns for Existing Assets vs. Construction

Investors have been rewarded for committing to apartment construction since 2013.



# Pace of 5+ Unit Apartment Starts vs. Excess Returns

Starts were increasing with higher capital values but can it continue at this pace?

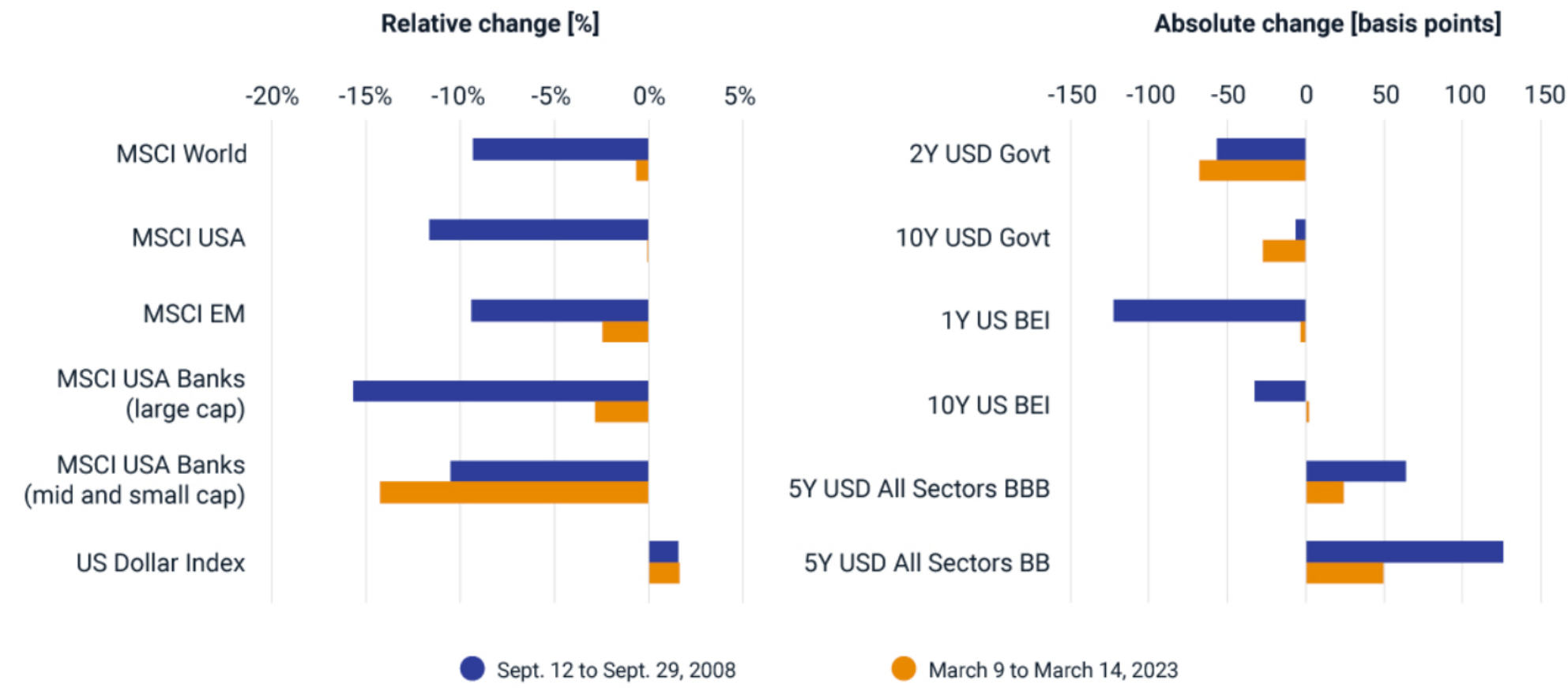


# It's Not All Bad

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BEWARE OF COMPARISONS TO OTHER DOWNTURNS

# This Is Not a Lehman-Level Crisis



“The effects on the broad equity and corporate-bond markets have been less strong; U.S. mid- and small-cap bank stocks experienced a steeper sell-off than in 2008; and breakeven-inflation rates dropped significantly less.”

Thomas Verbraken and Tamas Hanis: “[A Conundrum for the Fed](#)”, MSCI Research and Insights, March 15, 2023.

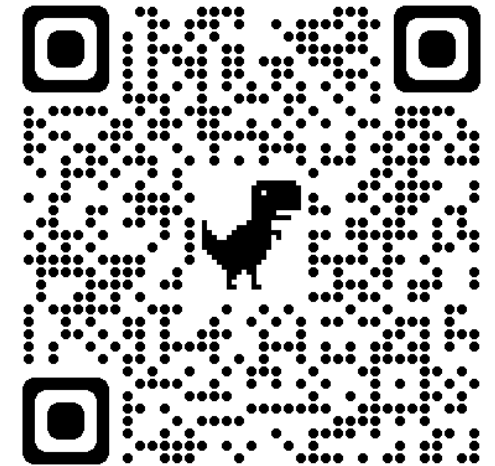
# Questions?



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