3Q24

State of the U.S. Capital Markets

NEWMARK

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Market Observations

- **Economy**. Strong economic data was the hallmark of the third quarter of 2024, despite the continuing effects of 2-decade high interest rates. GDP growth in the third quarter of 2024 came in at a strong but slightly below expectations 2.8%, with solid growth from both consumers and business investment. Unemployment remains low, and finished the quarter at 4.1%, the same as June. The U.S. economy has made some headway on inflation, however YoY core PCE has remained stubbornly 60 basis points above the Feds long term target since May. Rate market expectations have been volatile, seeming to live from economic data print to economic data print. The market recently has been pricing 50 basis points of cuts in 2024, with another 100 to 15 basis points of cuts in 2025, though the election results are moving these expectations significantly. 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 began to show signs of growth in the third quarter, though volumes remain well below pre-pandemic averages. Overall, origination volume was up 7.1% in the first 3 quarters of 2024. The number of active lenders continued to decline, now down 30% from peak. Industrial, Multifamily, and Hotel originations rose in 2024 offsetting declines in other sectors. Overall, securitized, insurance and debt fund lending all rose as well, more than 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. 46% of this maturing debt was originated while the fed funds rate was less than 25 basis points, vs. 513 basis points at the end of 3Q24. Additionally, many loans are underwater or nearly so, especially recent loan vintages of most property sectors and broad swaths of office debt. <u>We estimate that $529 billion in debt maturing between 2024 and 2026 is potentially troubled</u>.

- **Equity Markets.** <u>Investment sales declined 4.7% year-over-year in the first 3 quarters of 2024 and negative 33% compared with the 2017-to-2019 average</u>. Office sales were flat compared to the second quarter, while multifamily took a step back after an M&A heavy second quarter. Liquidity has been strongest for smaller transactions. Deals under $100M made up 67% of volume traded in the last four quarters. Institutional investment continues to outpace 2023, with a 38% increase in Office acquisitions, though institutional remains net sellers of Office.

- **Supply of Capital.** Dry powder at closed-end funds currently sits at $326 billion, down 11.7% 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. ODCE fund flows decelerated showed net outflows for an 8th straight quarter. 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, <u>both in the private and public markets, cap rates appear distinctly unattractive relative to the cost of debt capital, possibly excepting office REITs</u>. 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 3Q24 and was positive for first time since 3Q23. All sectors recorded positive total returns except for office. 77% of markets recorded positive total returns in 3Q24 up from 41% in 3Q23.

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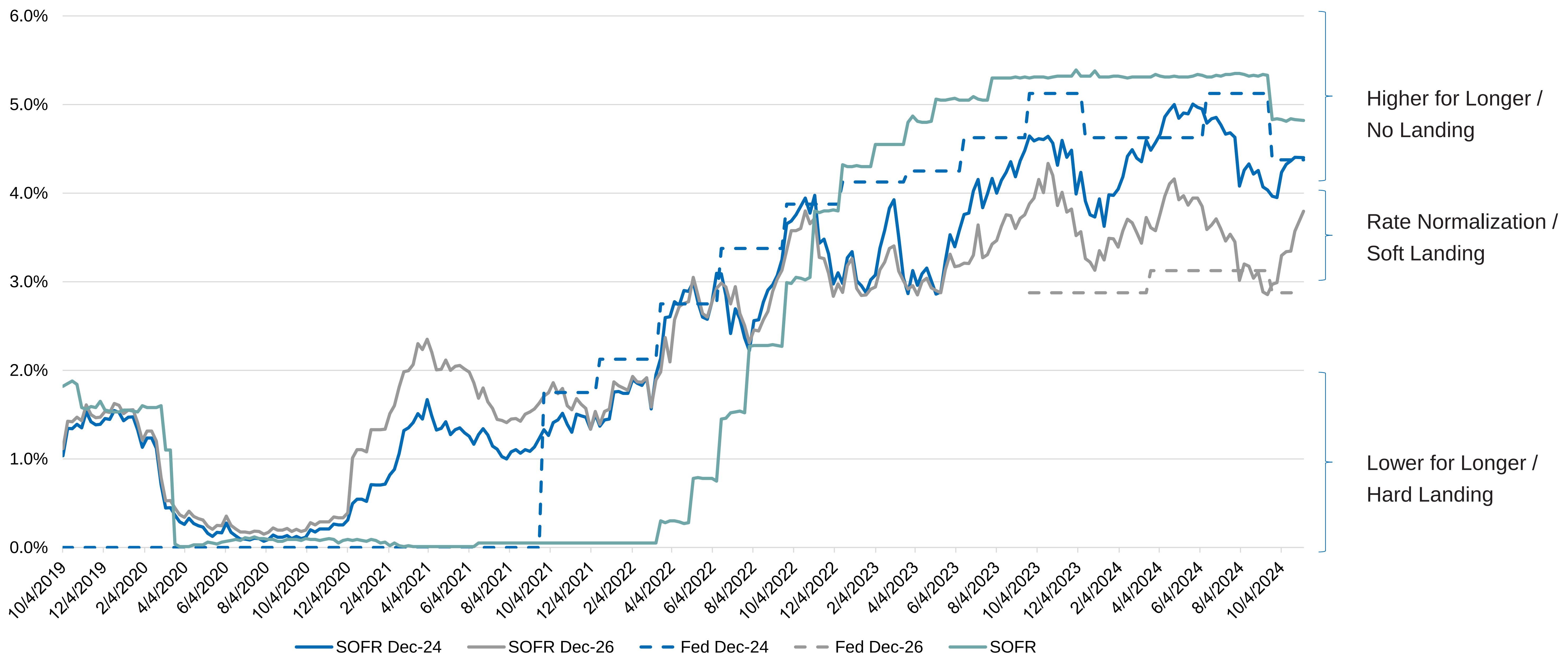
Debt Capital Markets

Rate Expectations Volatile But Generally Point to A Return to Pre-GFC Environment

The terminal rate, which we proxy with the December 2026 3M SOFR futures contract, is driving much of the action in longer-dated treasuries. Over the last several years, expectations have oscillated between 3.0% and 4.5% while the Fed's expectations have been more stable.

3M SOFR Futures vs. Fed Dot Plot Median



Source: Bloomberg, Federal Reserve, Newmark Research as of 11/6/2024

Newmark Scenario Weighted Terminal 10-Year Treasury Yield Up To 4.1%

Markets are constantly weighing different narratives about the future. Each new data point shifts the credibility of each outcome vs. all others. 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. Markets are primarily pricing a soft landing but also some odds of recession and stubborn inflation, particularly after the election. This helps account for the lower Fed Funds rate priced in the forward market compared to the dot plot, which is a soft landing scenario estimate. **Newmark research's probabilities imply the 10Y is fairly valued in a trading range around 4.1%.**

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	15%
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%	Average To Moderately Tight	25%
Soft Landing	Inflation returns to target, growth returns to long term average. Fed normalizes monetary policy	June 2023	3% to 3.5%	3% to 3.5%	3.5% to 4.2%	Return to Average	50%
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	10%

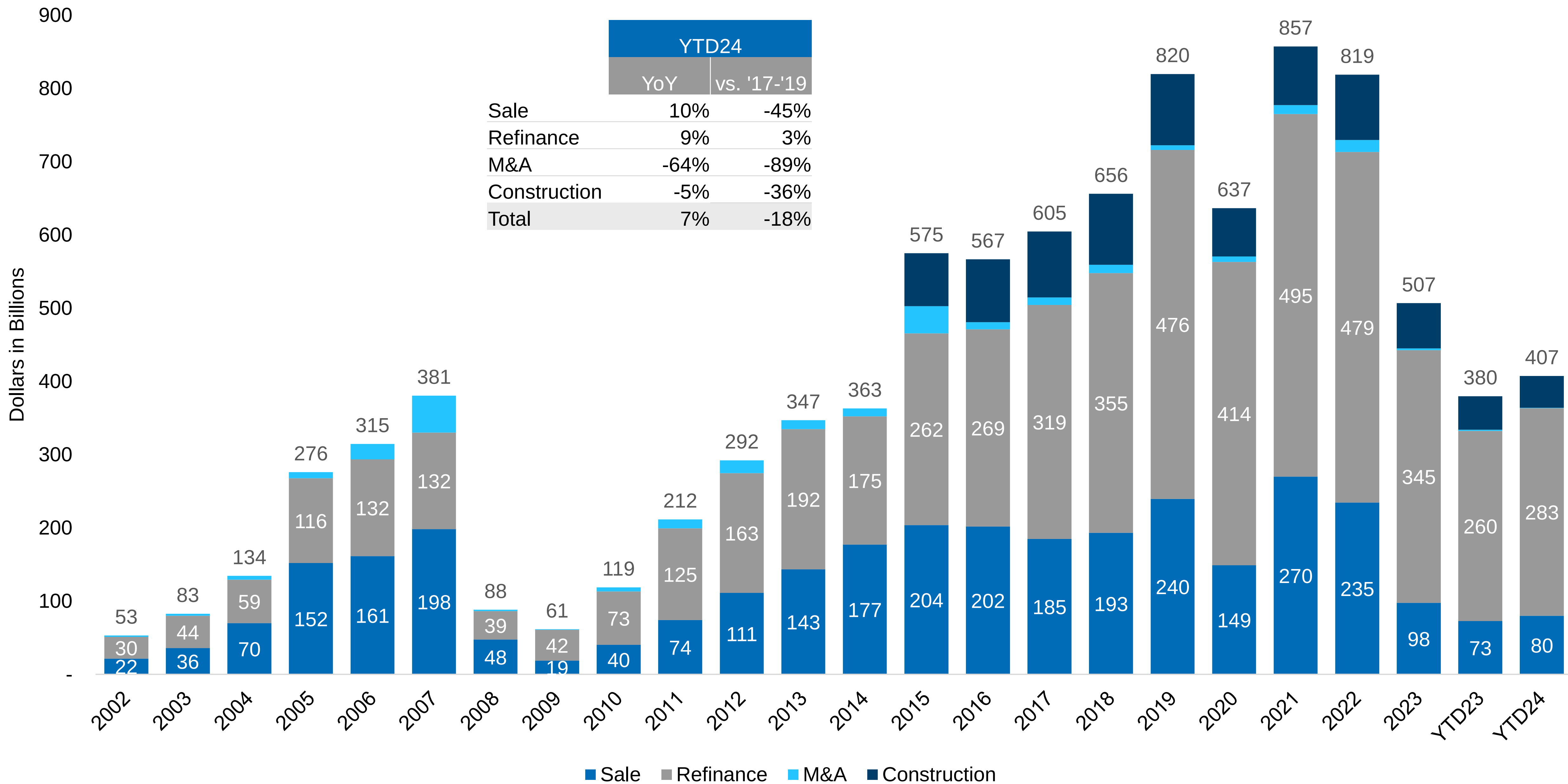
Source: Newmark Research as 10/31/2024

Debt Origination Up Slightly In First 3 Quarters Of 2024

In 2024, loan origination volumes have shown signs of recovery, with year-to-date figures surpassing those of 2023. Both sales and refinancing activities increased in the third quarter, supported by a more favorable interest rate environment for commercial real estate lending. Notably, the Federal Reserve implemented its first rate cut since 2020 during this period. However, robust economic data has led markets to adjust their expectations, anticipating higher terminal rates.

Commercial Real Estate Debt Origination Volume

	YTD24 YoY	YTD24 vs. '17-'19
Sale	10%	-45%
Refinance	9%	3%
M&A	-64%	-89%
Construction	-5%	-36%
Total	7%	-18%



Source: RCA, Newmark Research as of 10/23/2024

Note: Loan origination volumes are adjusted for future expected revisions using Newmark's proprietary models.

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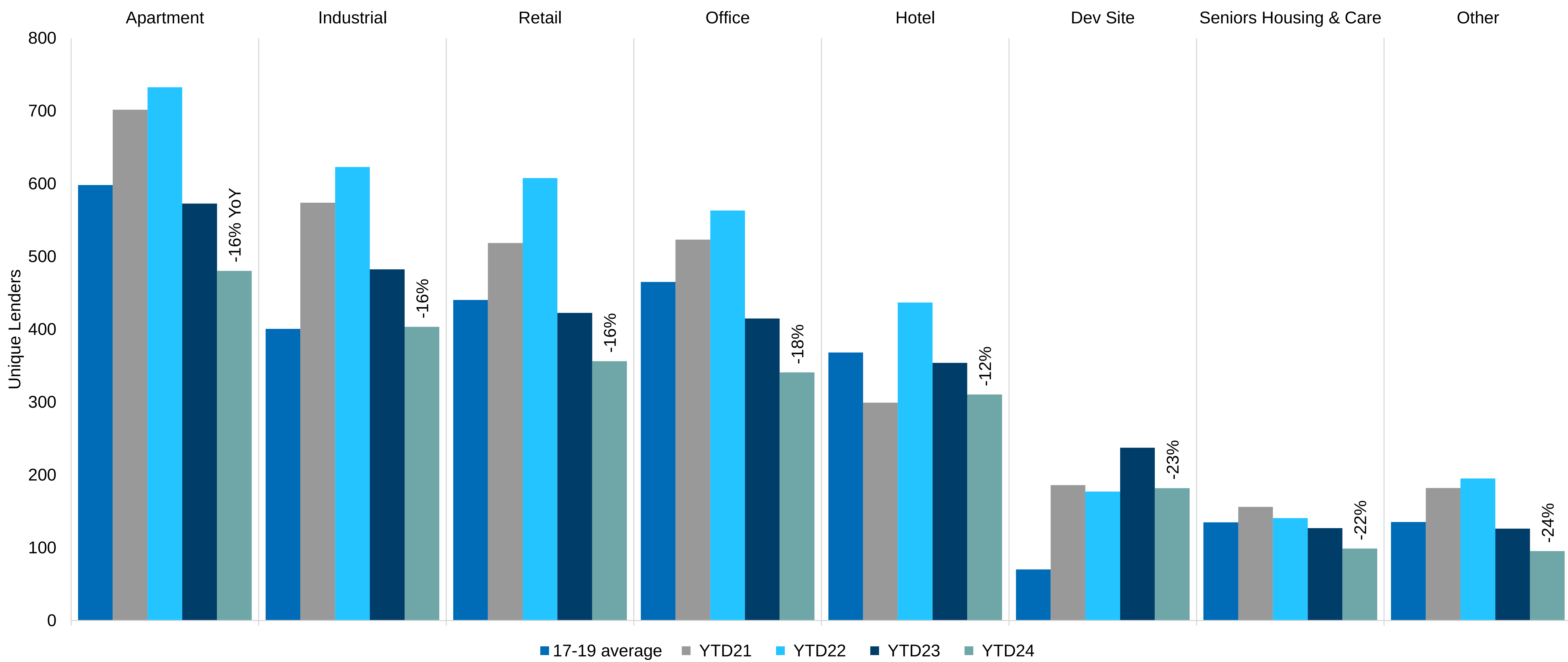
Unique Lender Count Down Across Lender Type

The number of unique lenders dropped uniformly across property types from 2023. Compared to pre-pandemic averages, the decline is more pronounced for multifamily and office than for industrial and retail, highlighting lender concerns about concentration risk. While falling interest rates would likely convince some lenders to re-enter the market, many will still need to deal with existing loans originated at near-zero interest rates.

Commercial Real Estate Unique Lender Count By Property Type

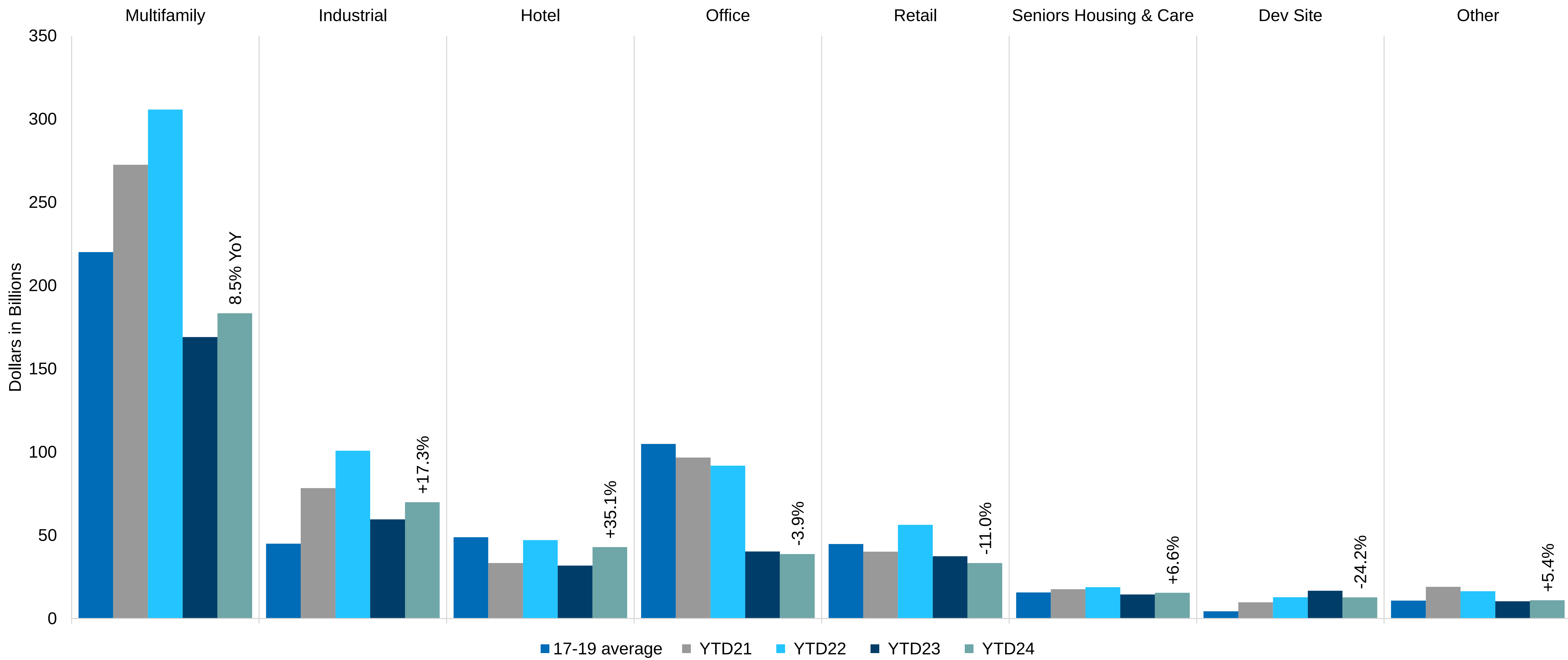


Source: RCA, Newmark Research as of 10/23/2024

Originations Increased YTD in 2024 Outside Of Office and Retail Sectors

Office (-63%), Retail (-27%), and multifamily (-17%), lending declined the most in the first 3 quarters of 2024 compared with their respective 2017 to 2019 averages. In contrast, industrial originations were up 17% year-over-year and up 55% compared with the 2017-to-2019 average.

Commercial Real Estate Debt Origination Volume

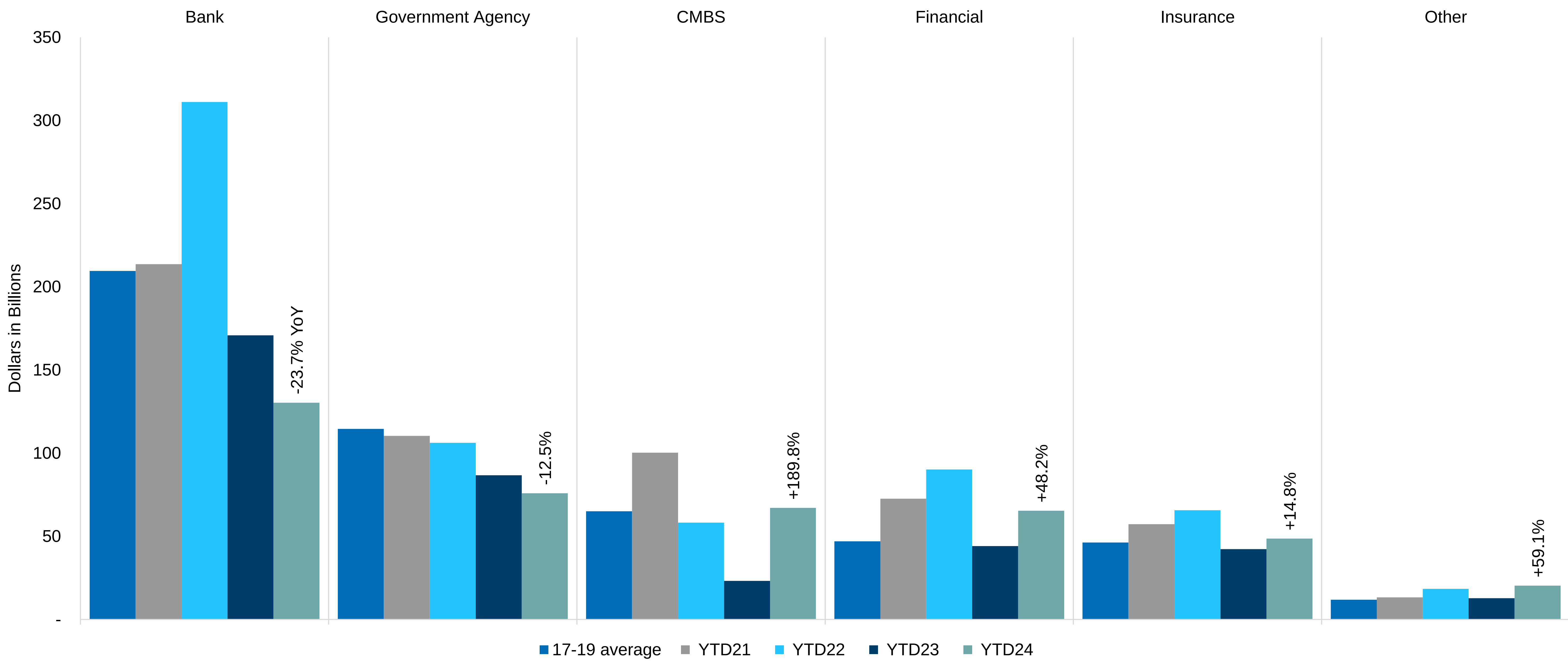


Source: RCA, Newmark Research as of 10/23/2024
Note: Loan origination volumes are adjusted for future expected revisions using Newmark's proprietary models.

Debt Funds, LifeCos and Securitized Lenders Increased Volume In 2024

Banks originations remained weak through the first 3 quarters of 2024, down 24% YoY compared to 2023. This was more than offset by increased lending from securitization, debt funds and insurance companies. SASB CMBS in particular has surged, with multiple Office deals pricing in 2024 after zero office SASB issuances in 2023. Government agency lending pricked up slightly in the 3rd quarter but remains sluggish.

Commercial Real Estate Debt Origination Volume



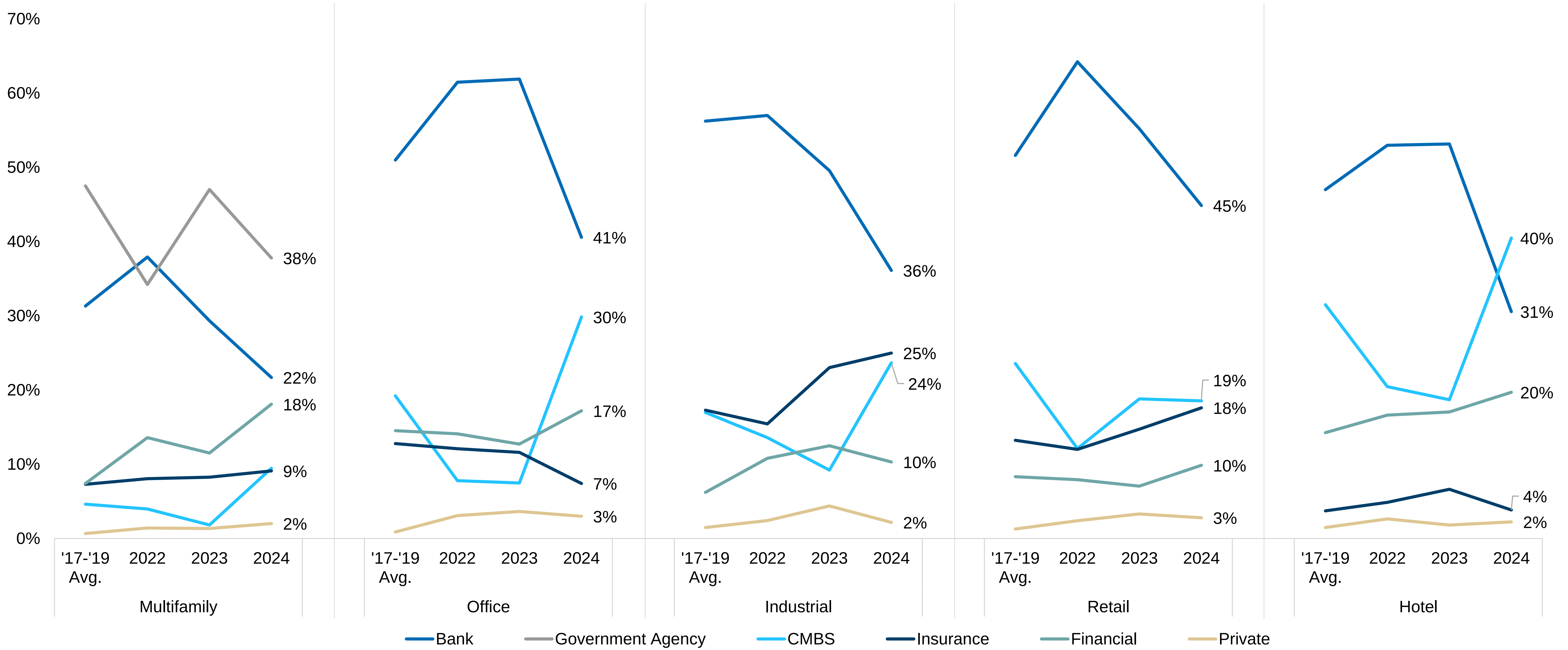
Source: RCA, Newmark Research as of 10/23/2024

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 financing, though their market 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 10/23/2024

Note: Loan origination volumes are adjusted for future expected revisions using Newmark's proprietary models.

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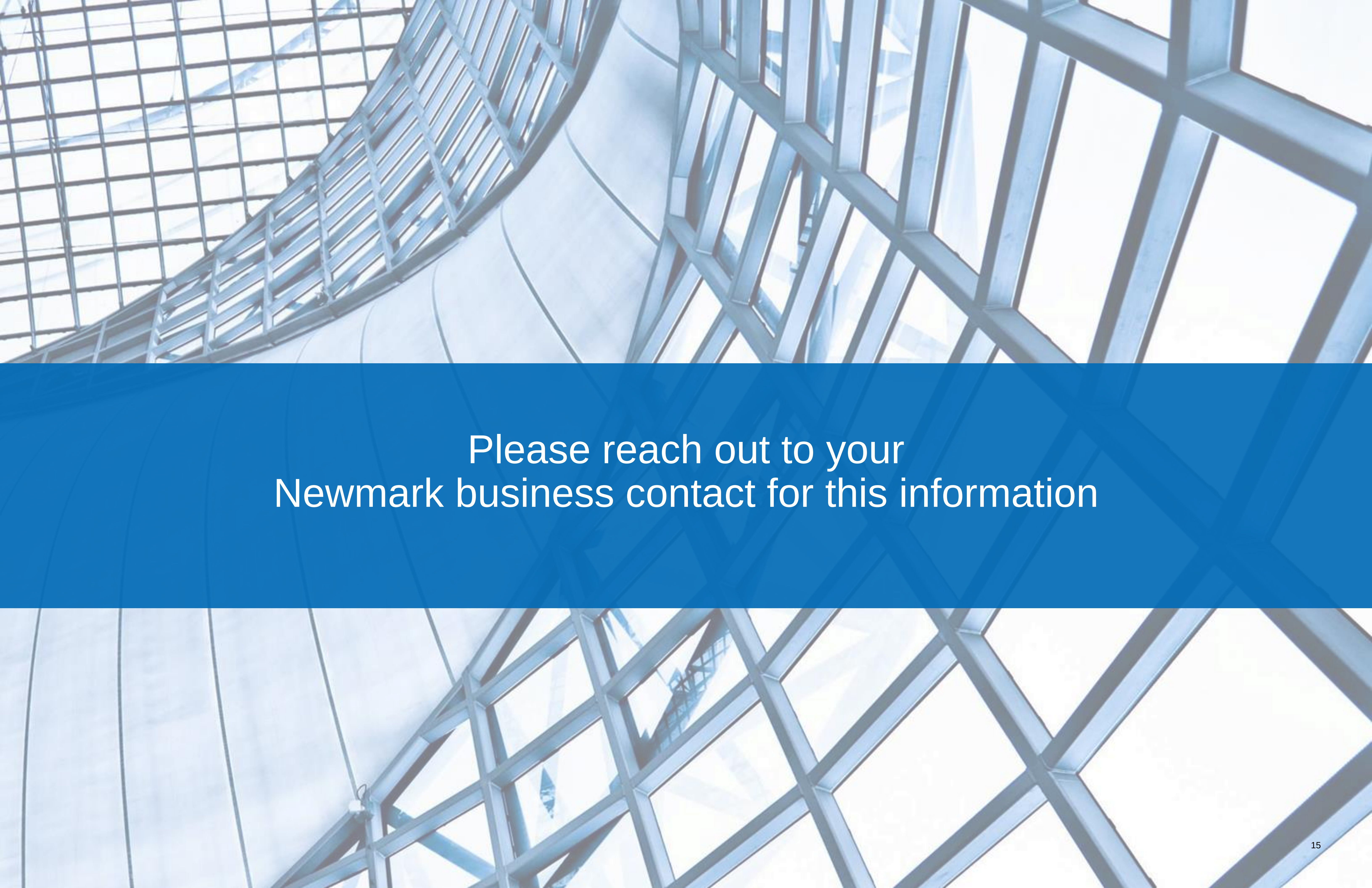
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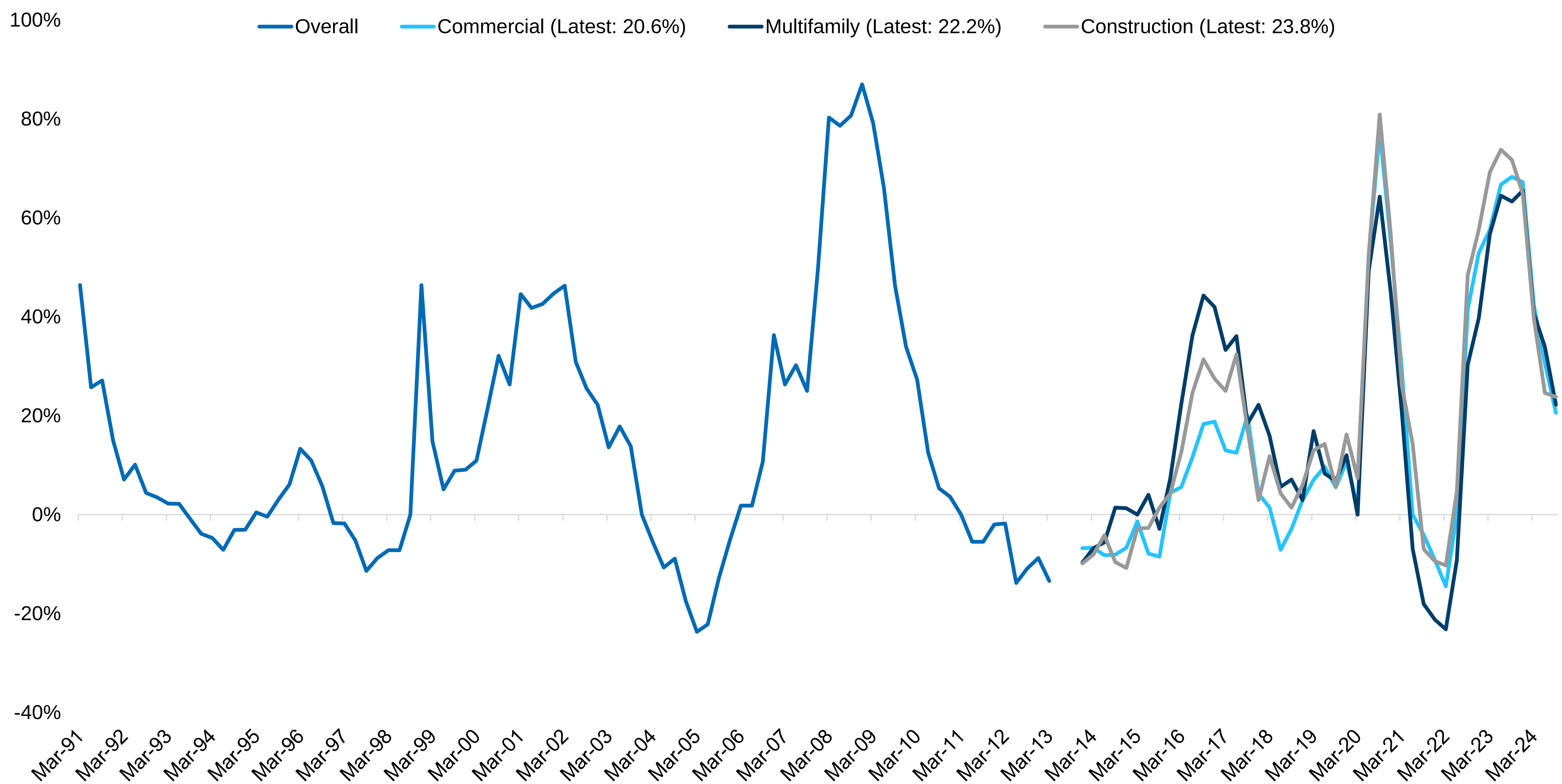
Banks Are Still Tightening Standards, But Pace of Tightening Has Slowed

Banks continued tightening lending standards in 3Q24; however, the net share tightening came sharply down from a peak of ~65%. This is a salutary development, but it's 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, pushing them down the road. 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 9/12/2024

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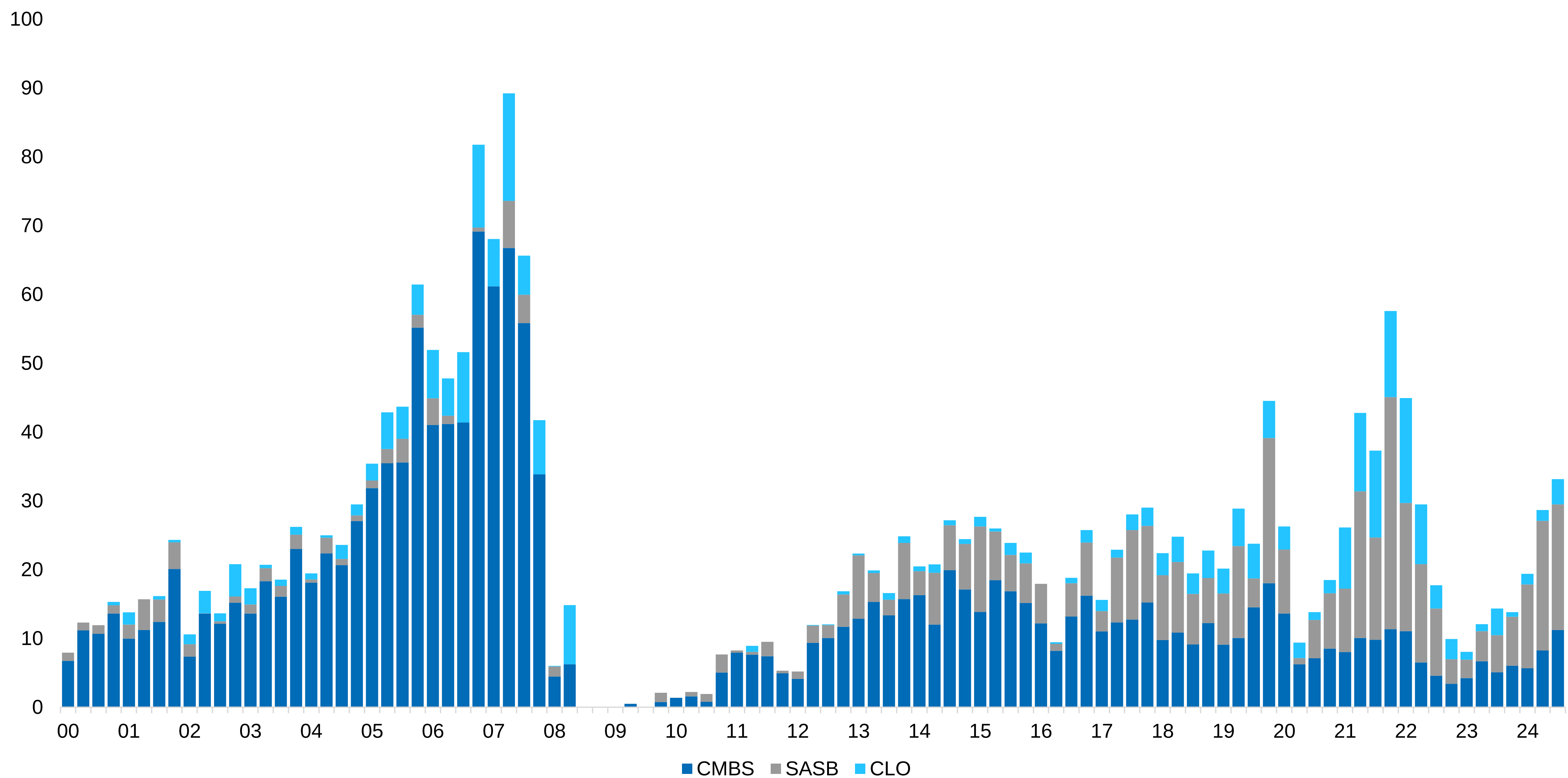
Banks are likely to spend the next several years reducing their CRE exposures. This would be a negative supply shock to the CRE finance ecosystem.

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 61% of originations year-to-date and drove much of the increase. Moreover, Blackstone-affiliated vehicles have accounted for 30.6% of SASB issuance year-to-date, raising the question of whether less well-known sponsors could expect similar market access.

Quarterly CMBS Issuance

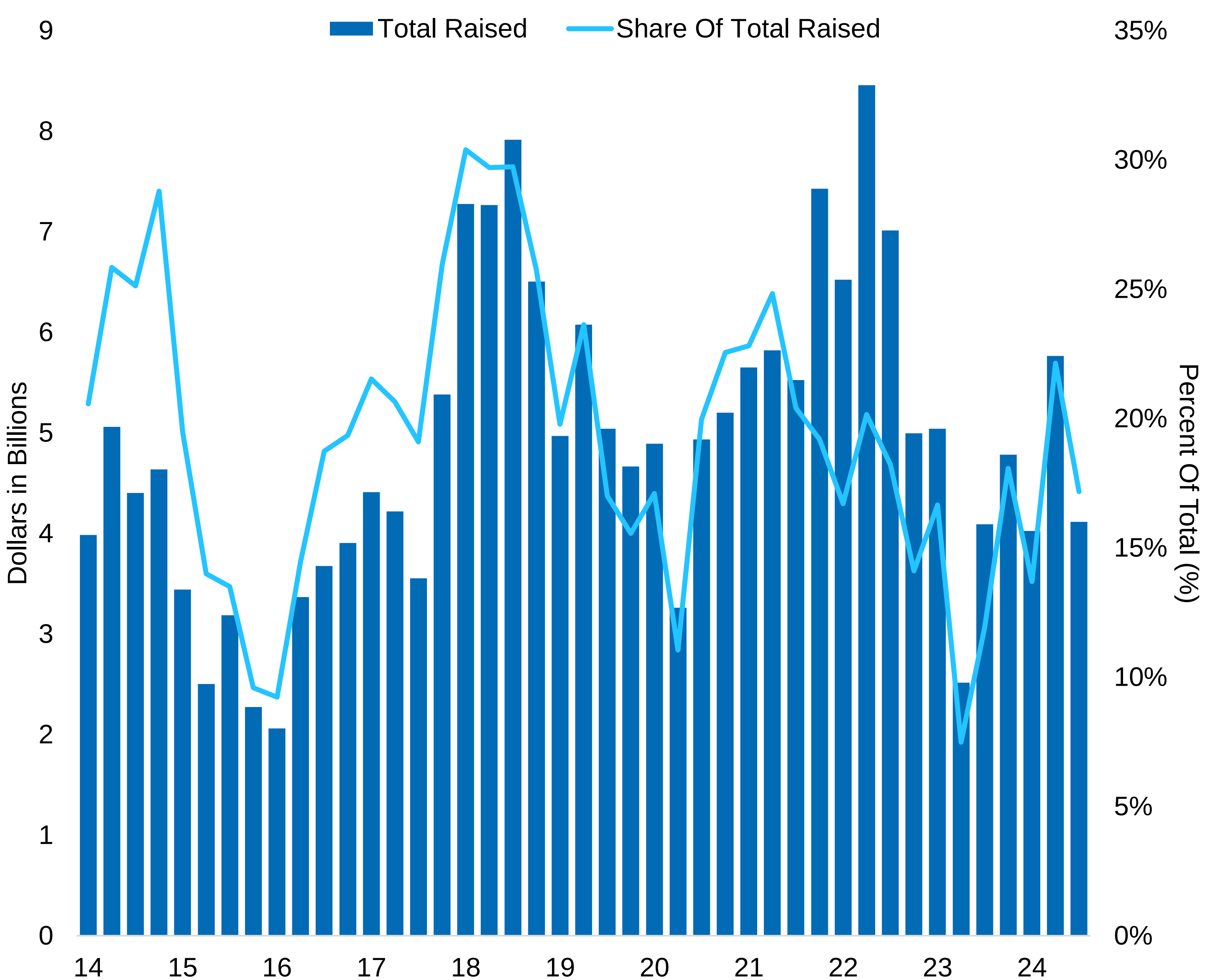


Source: Green Street, Newmark Research as of 10/23/2024

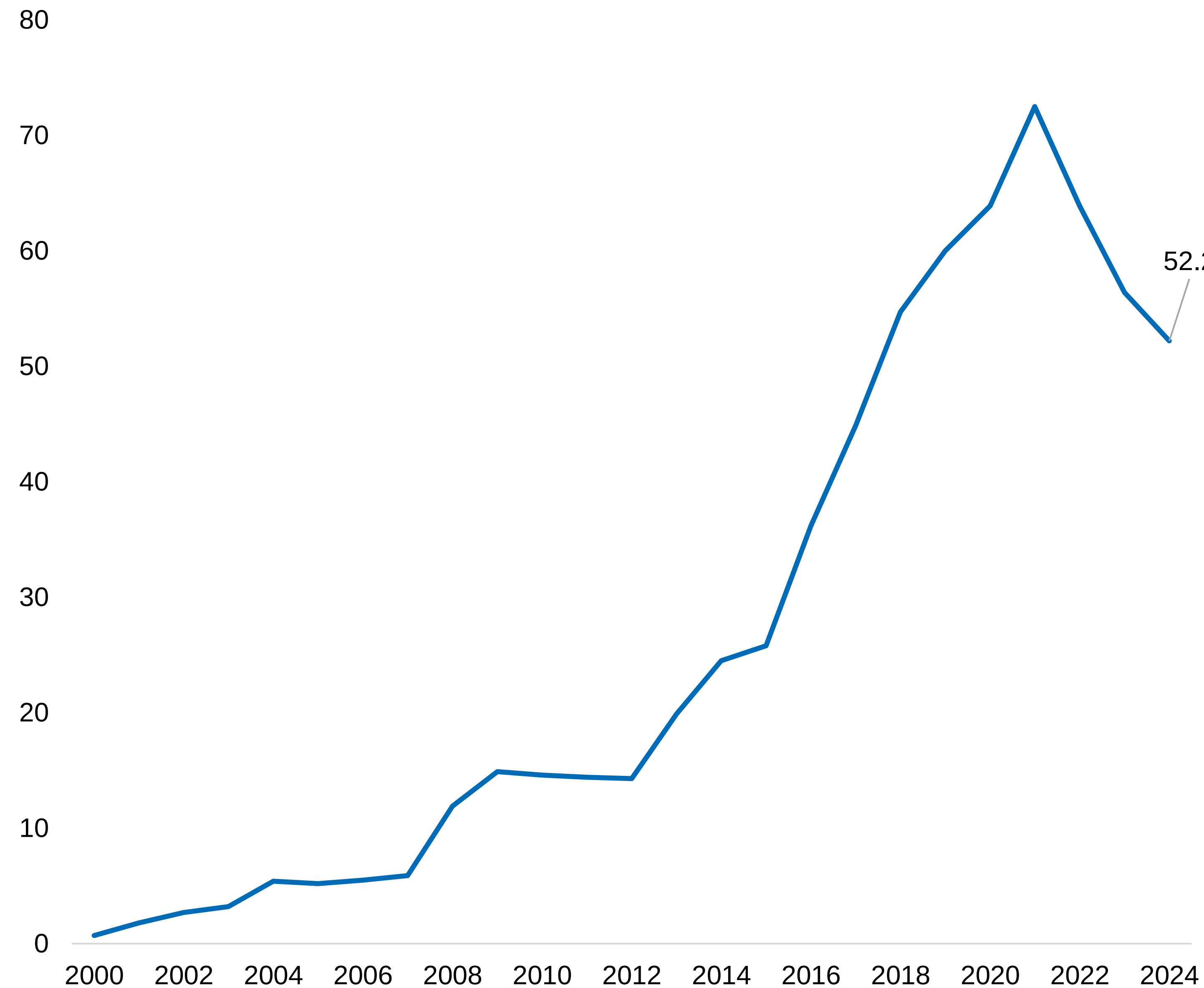
Debt Fund's Have Taken Capital Raising Market Share, But Dry Powder Has Fallen

Debt funds have continued to capture CRE capital market share, coming in at nearly 20% of total raised in 3Q24. Private debt is raising capital on 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 been falling since 2022, as demand for capital outpaces debt funds ability to raise it.

Debt Fund Fundraising Total And Market Share



Debt Fund Dry Powder

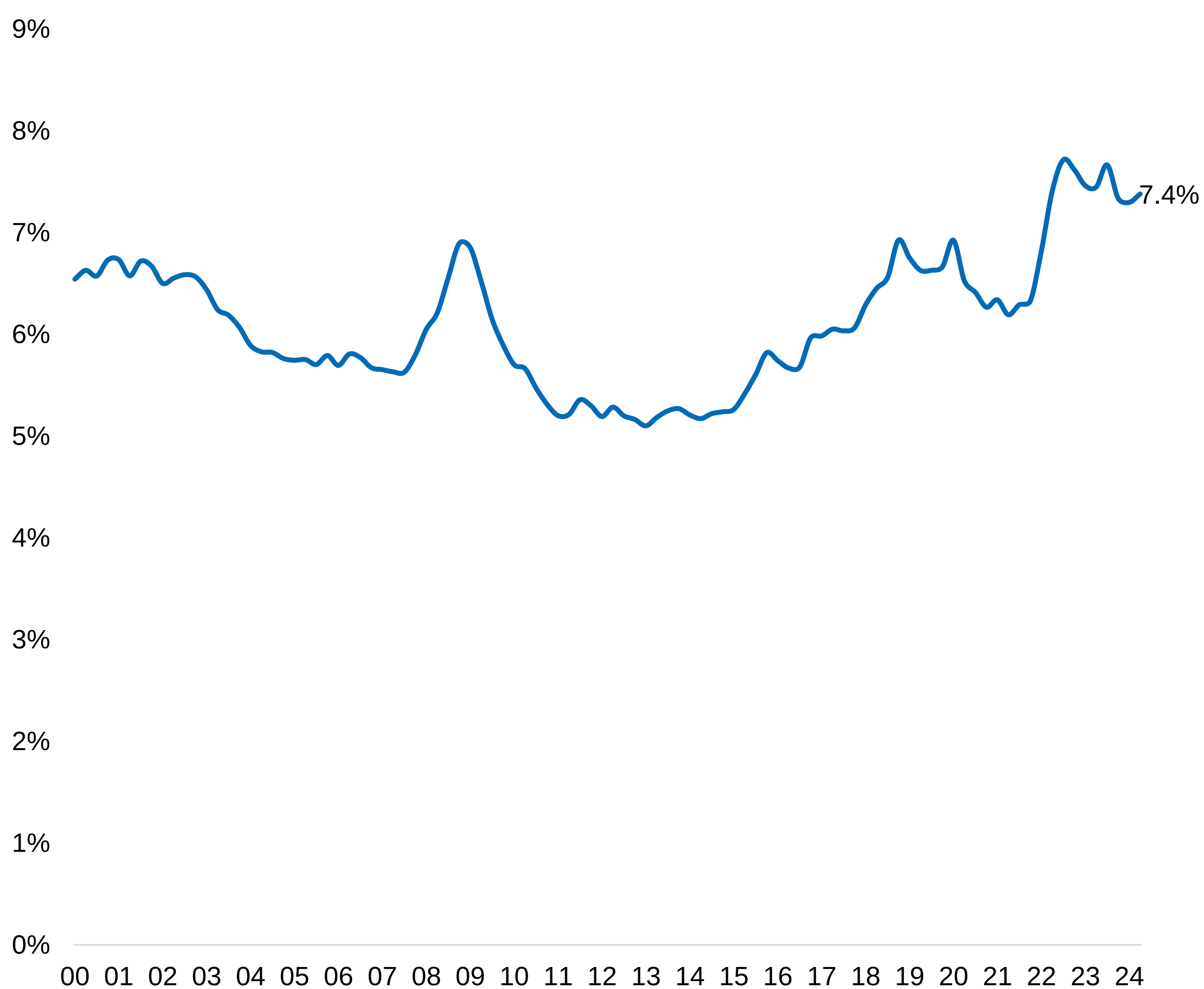


Source: Newmark Research, Preqin as of 10/28/2024

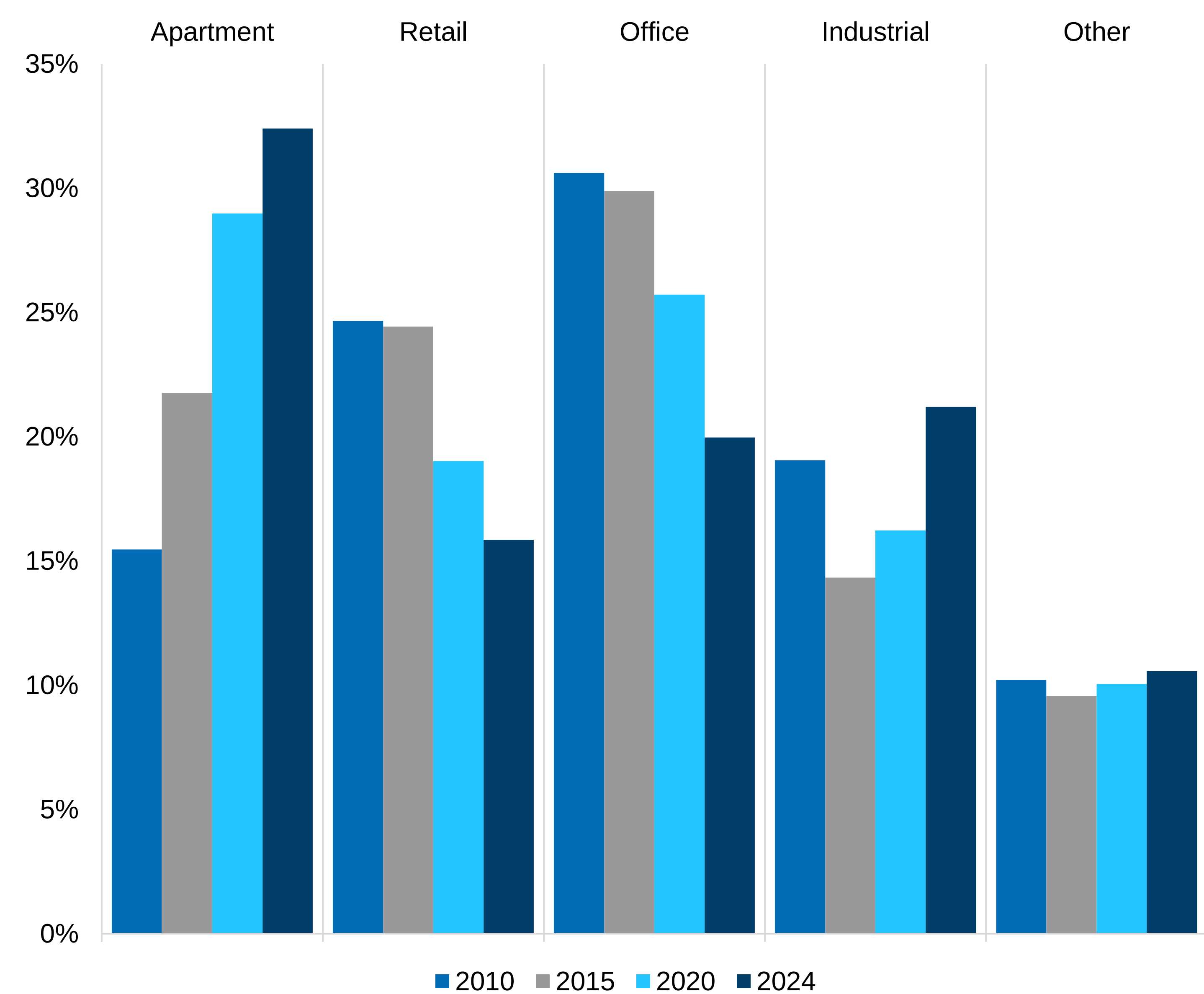
Insurance Companies Unlikely to Fill Gap in CRE Credit Availability

Life Insurance companies are near record levels of allocation to commercial real estate. However, the allocation increase has been driven primarily by lending into industrial and multifamily, and away from retail and office, where the lack of credit is likely to be felt more acutely.

CRE Debt Share Of Total Life Co. Assets



CRE Debt Allocation Of Life Co's



Source: ACLI; Federal Reserve; Newmark Research; As of 10/22/2024

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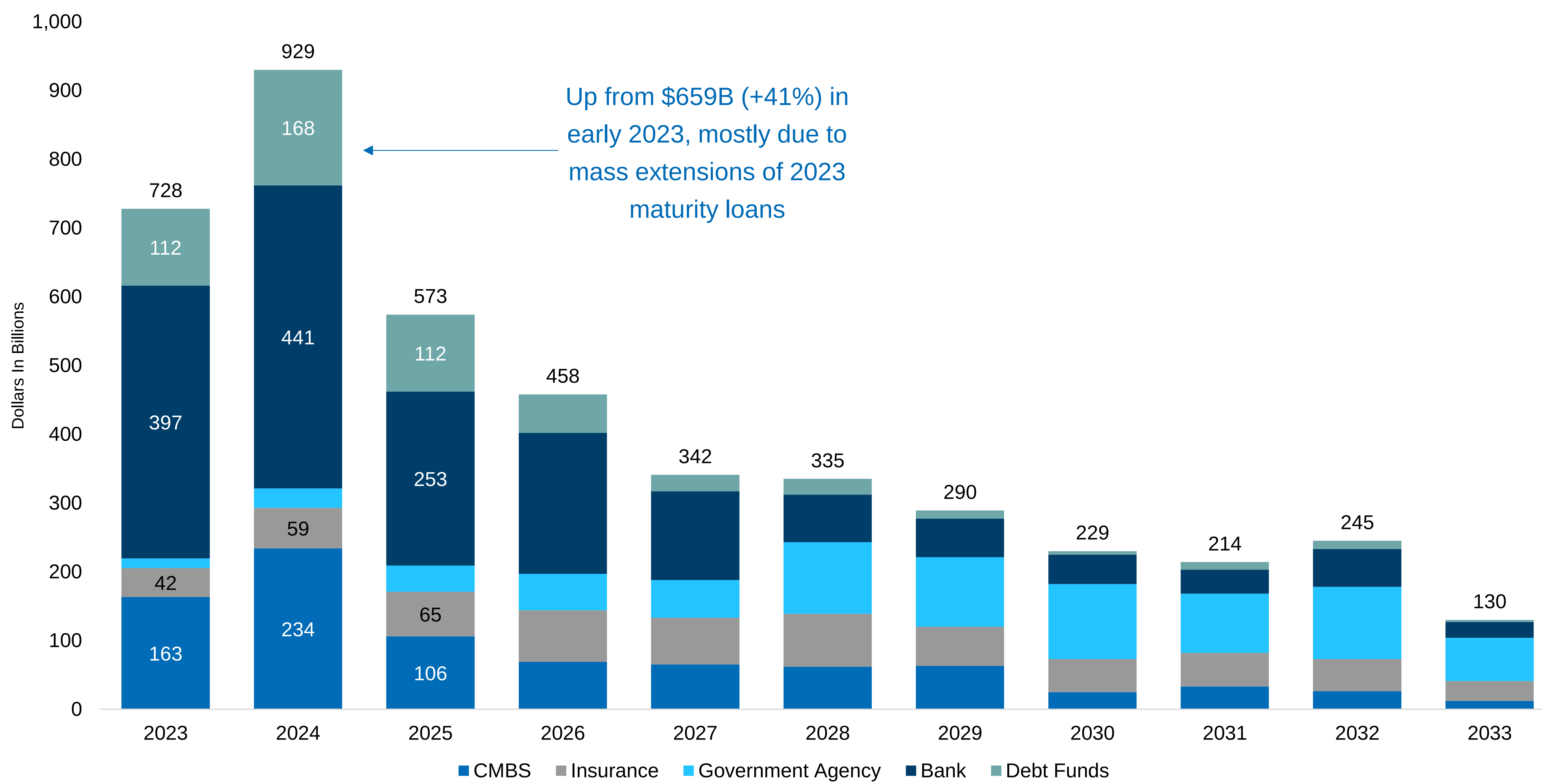
Market Face Record Maturities in 2024

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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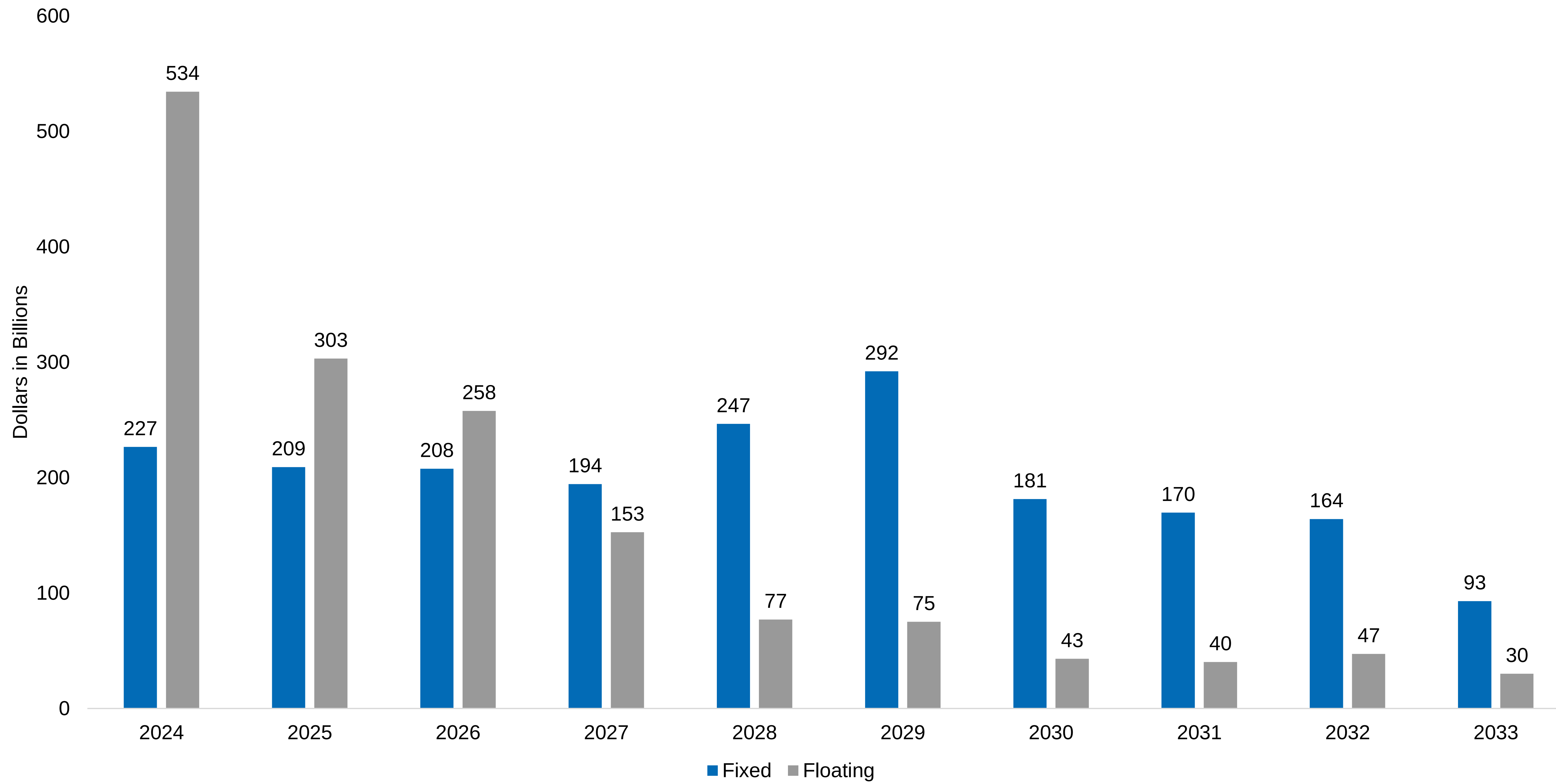
Estimated $534 Billion in Floating Rate Loans Mature in 2024, $1.1 Trillion in ’24-’26

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 10/23/2024

*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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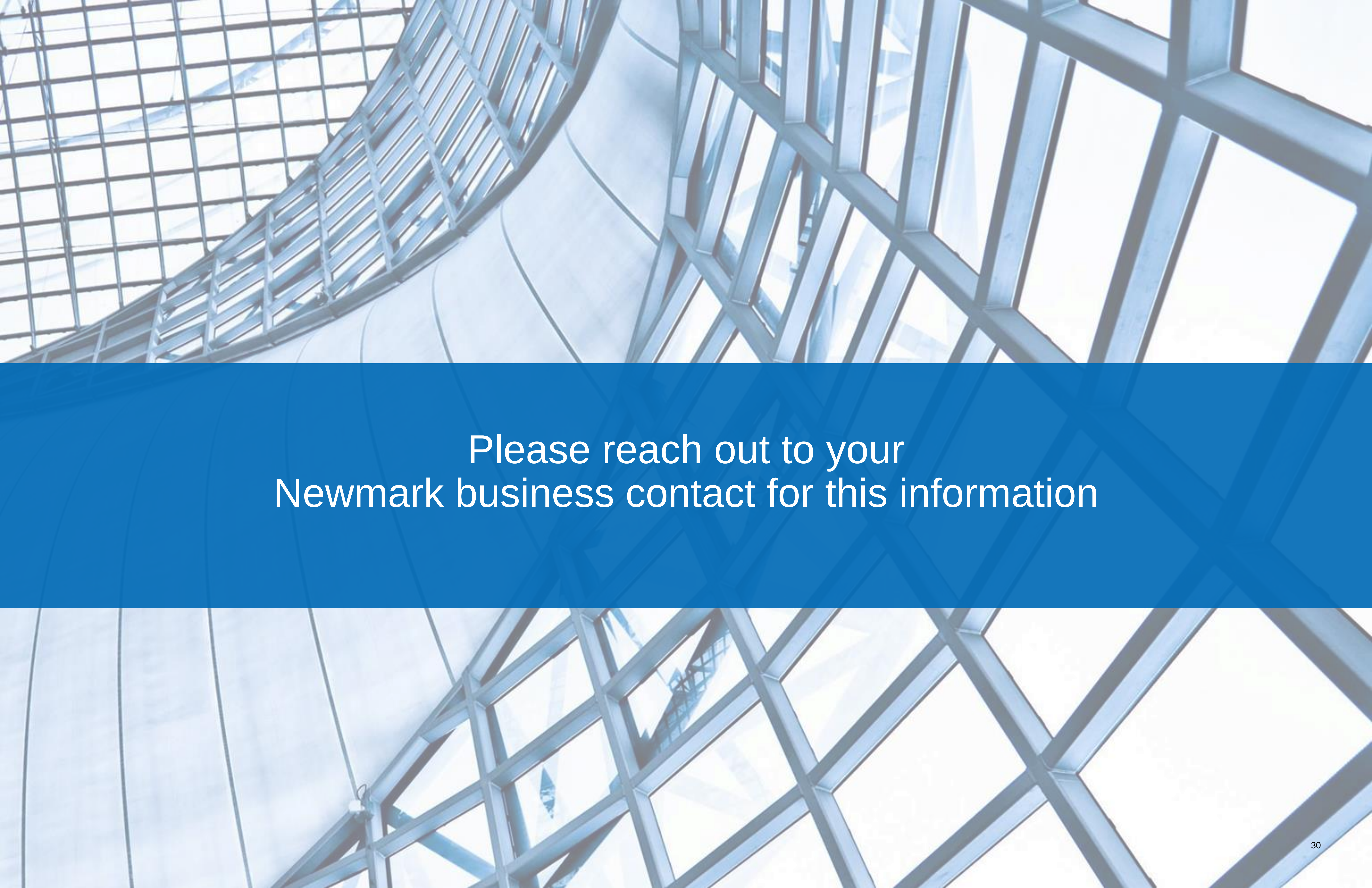
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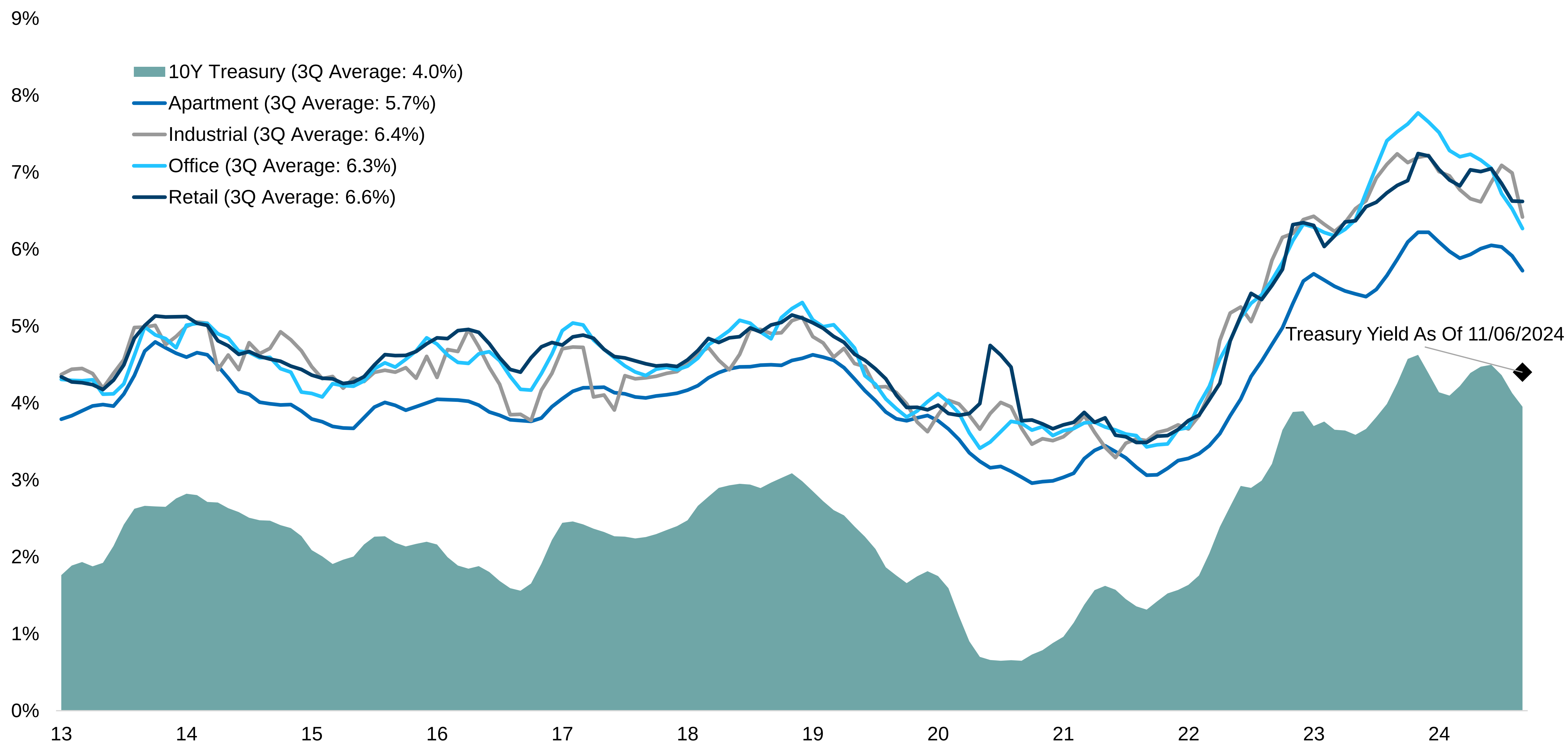
Fixed-Rate Debt Costs Declined Again In 3Q24, Spreads At Long Term Average

Debt costs peaked in 4Q23, coinciding with the peak in 10Y treasury yields. While treasury benchmark rates have been volatile throughout 2024, fixed-rate CRE debt costs have largely declined as spreads compressed. Interest rate spreads in the third quarter were largely in line with long-term averages, though spreads may compress going forward as benchmark rates have moved up on the heels of the election, strong economic data and higher terminal rate expectations.

Average Interest Rate on Fixed Rate CRE Originations

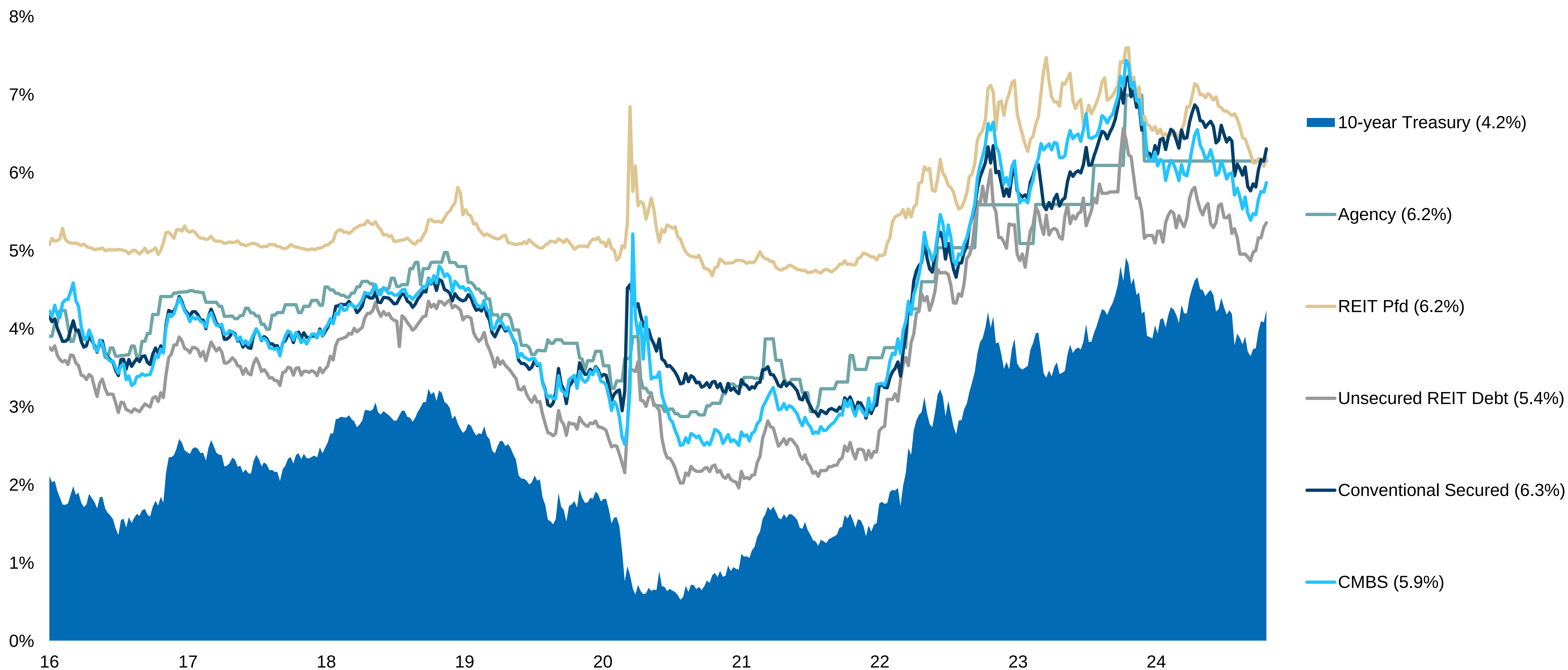


Source: Real Capital Analytics, Newmark Research as of 10/23/2024

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

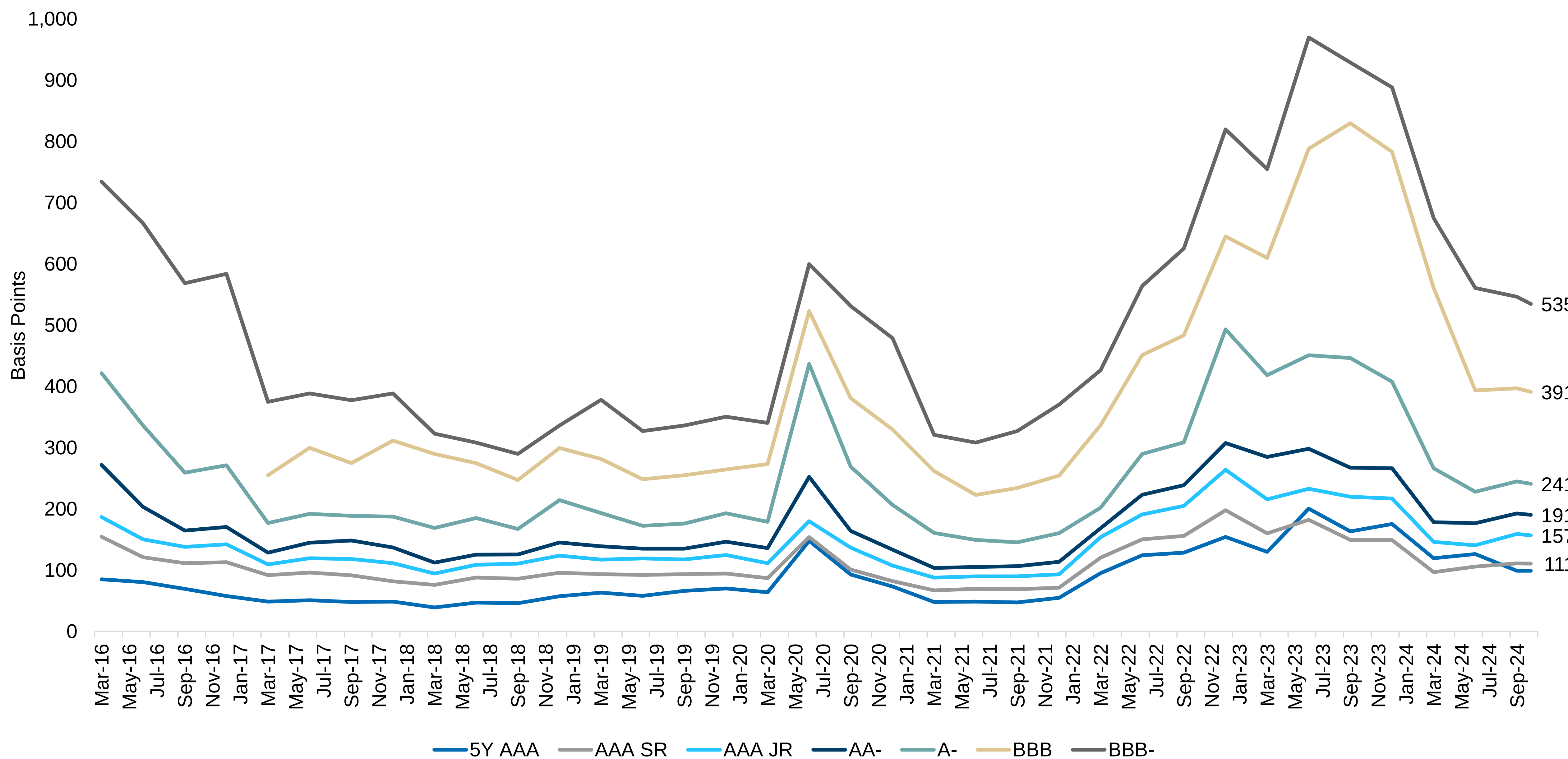


Sources: Newmark Research, Green Street as of 10/11/2024

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 Swaps



Source: Trepp, Newmark Research as of 10/29/2024

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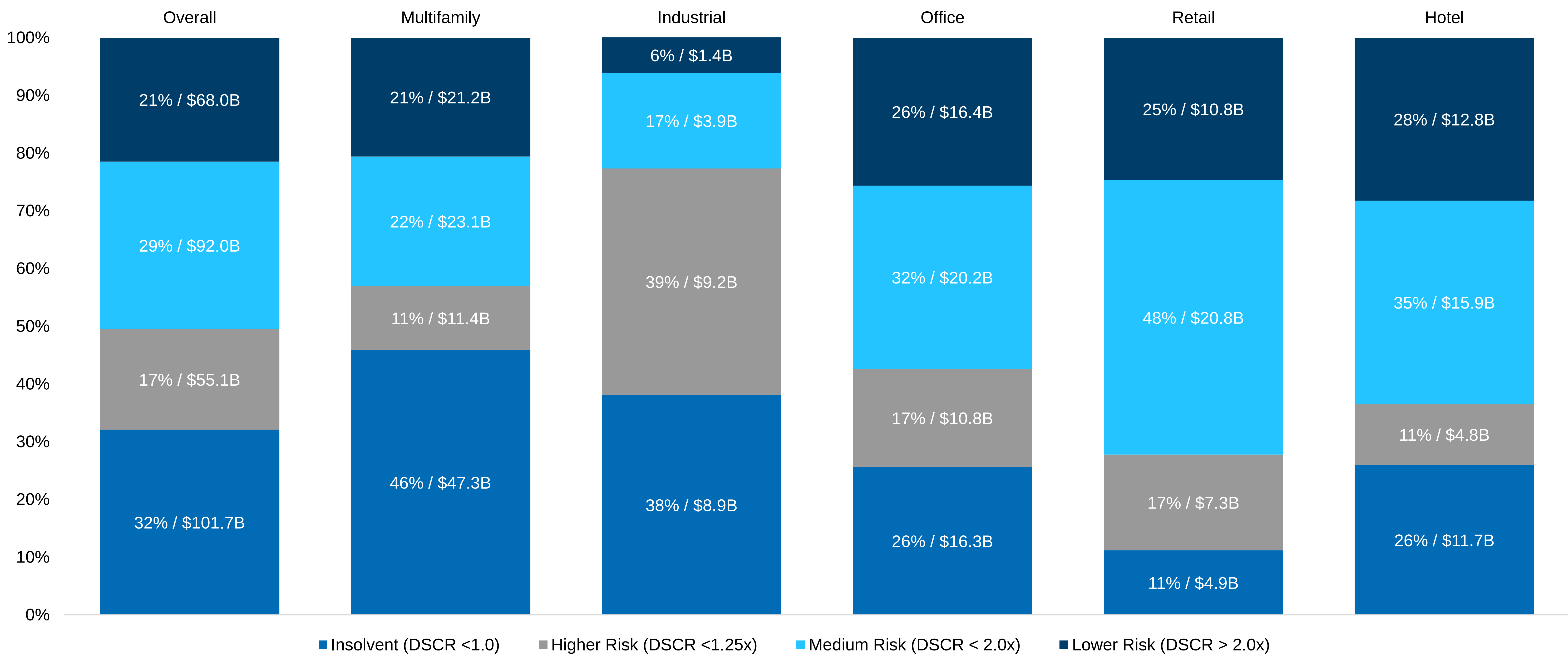
We estimate $529 billion in loans maturing between 2024 and 2026 are potentially troubled. Office, Multifamily, and floating rate loans are of particular concern.

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 10/29/2024

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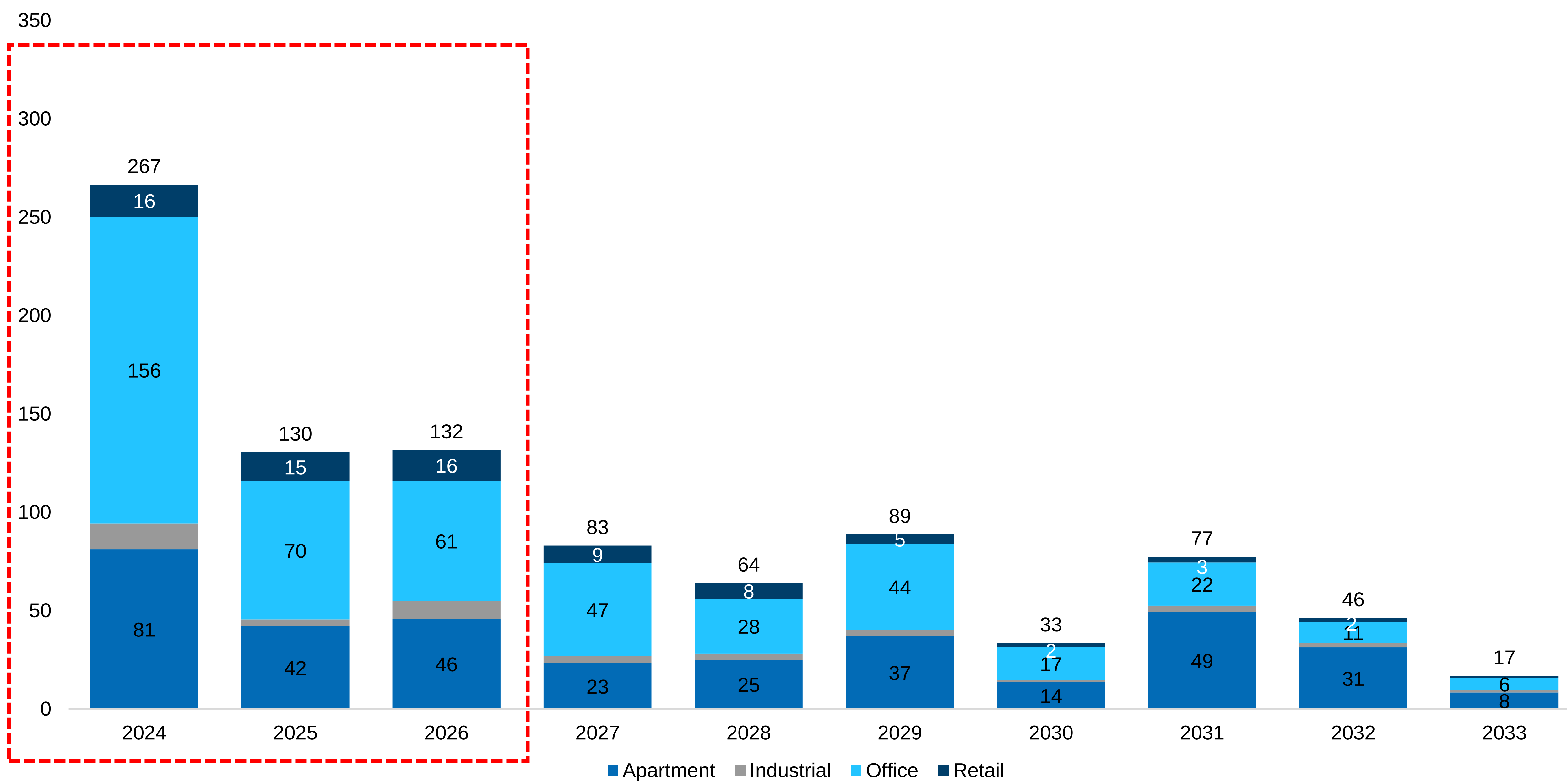
Nearly $1T of Outstanding CRE Debt is Potentially Troubled, $529B Maturing in ’24-’26

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: Moodys, Green Street, RCA, Trepp, MBA, Newmark Research as of 10/23/2024

*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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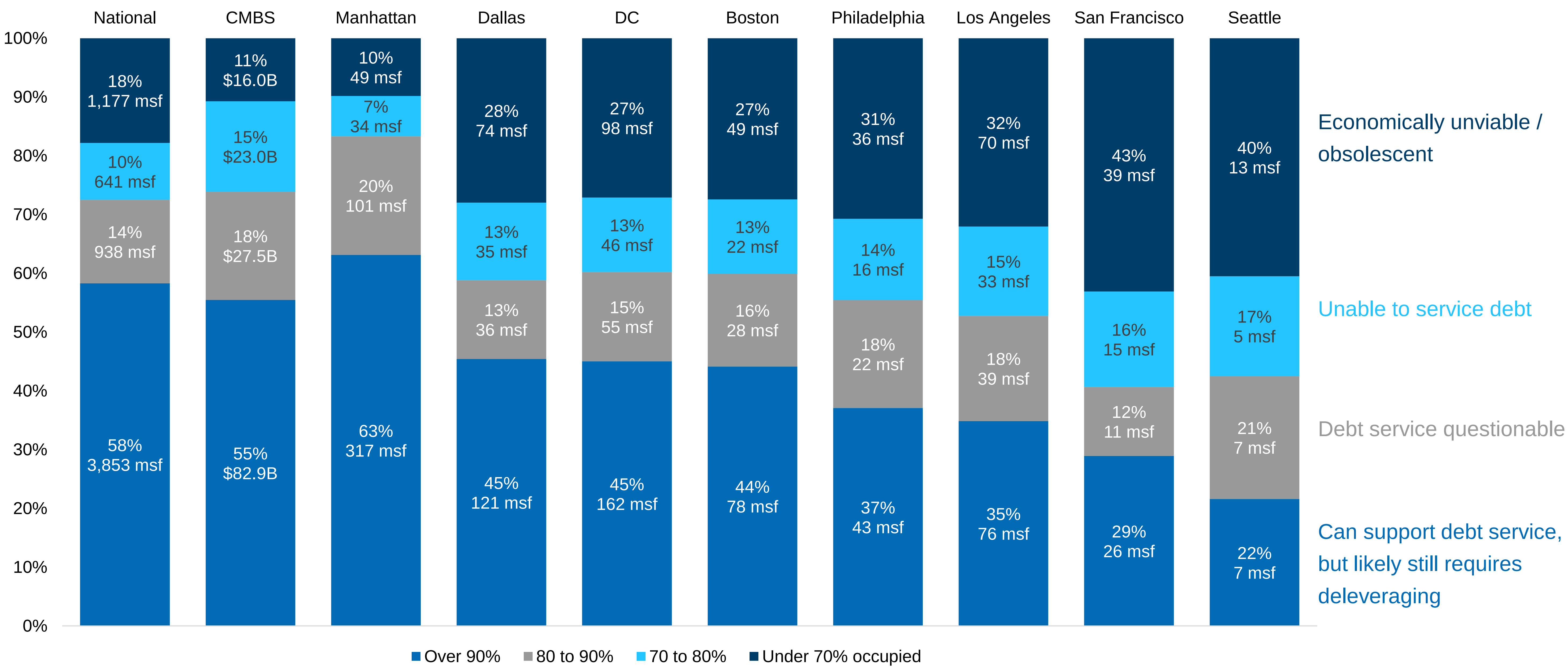
Vacancy Is Not Evenly Distributed within Markets, nor Will Be Impairments

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

Distribution of Office Vacancy



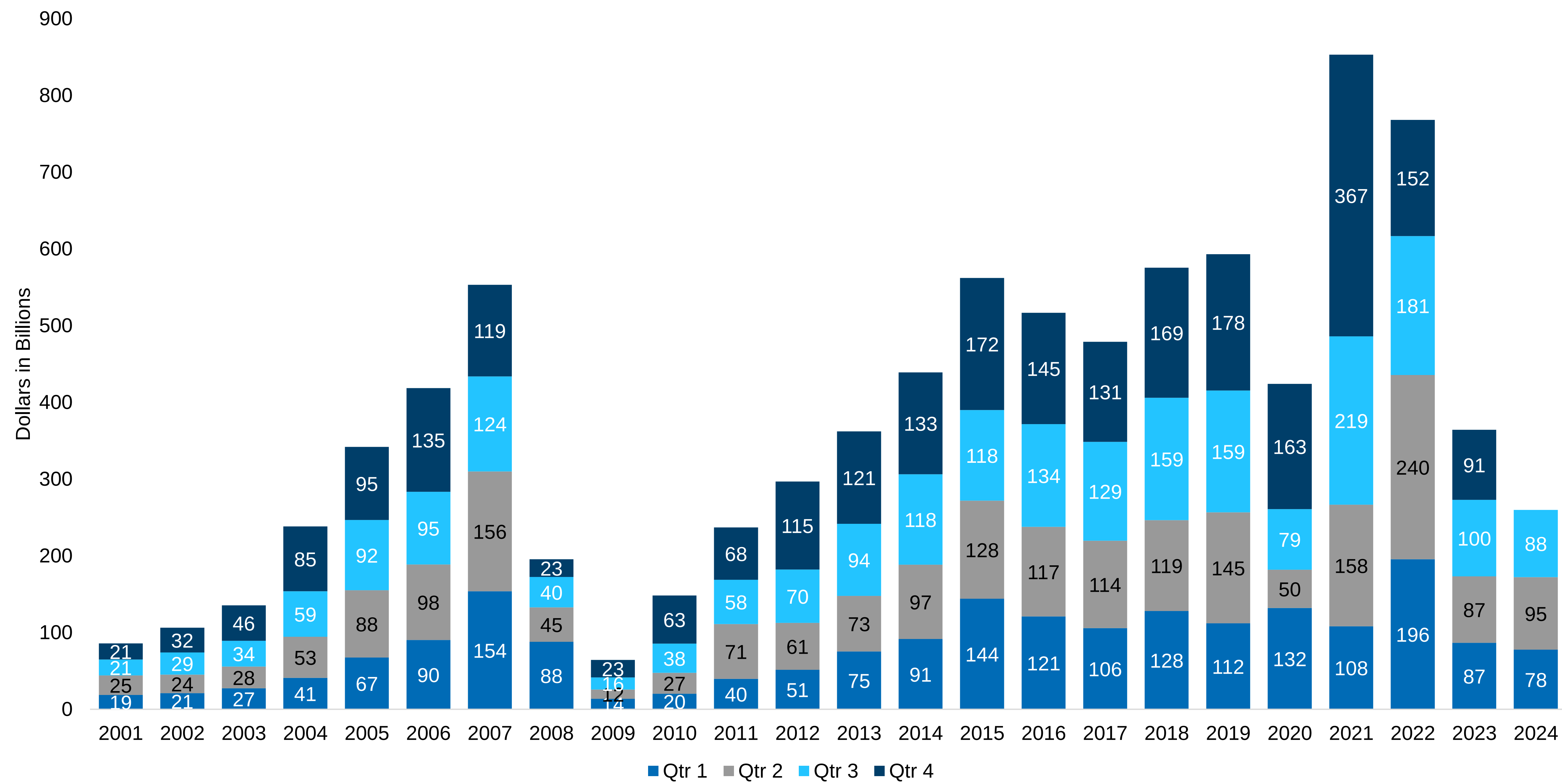
Source: Costar, Newmark Research as of 10/25/2024

Equity Capital Markets

Sales Activity Remains Anemic, With A Possible Light At The End Of The Tunnel

Sales declined 4.7% year-over-year in the first three quarters of 2024 and negative 33% compared with the 2017-to-2019 average. This represents little improvement compared to 1Q24 which was down 33% relative to the 2017-to-2019 average. The Feds September 50 basis point rate cut did help thaw the market, even if it really has not turned up in the data yet, but strong economic data has pushed up terminal rate expectations, complicating the picture for CRE investors.

Investment Sales Volume



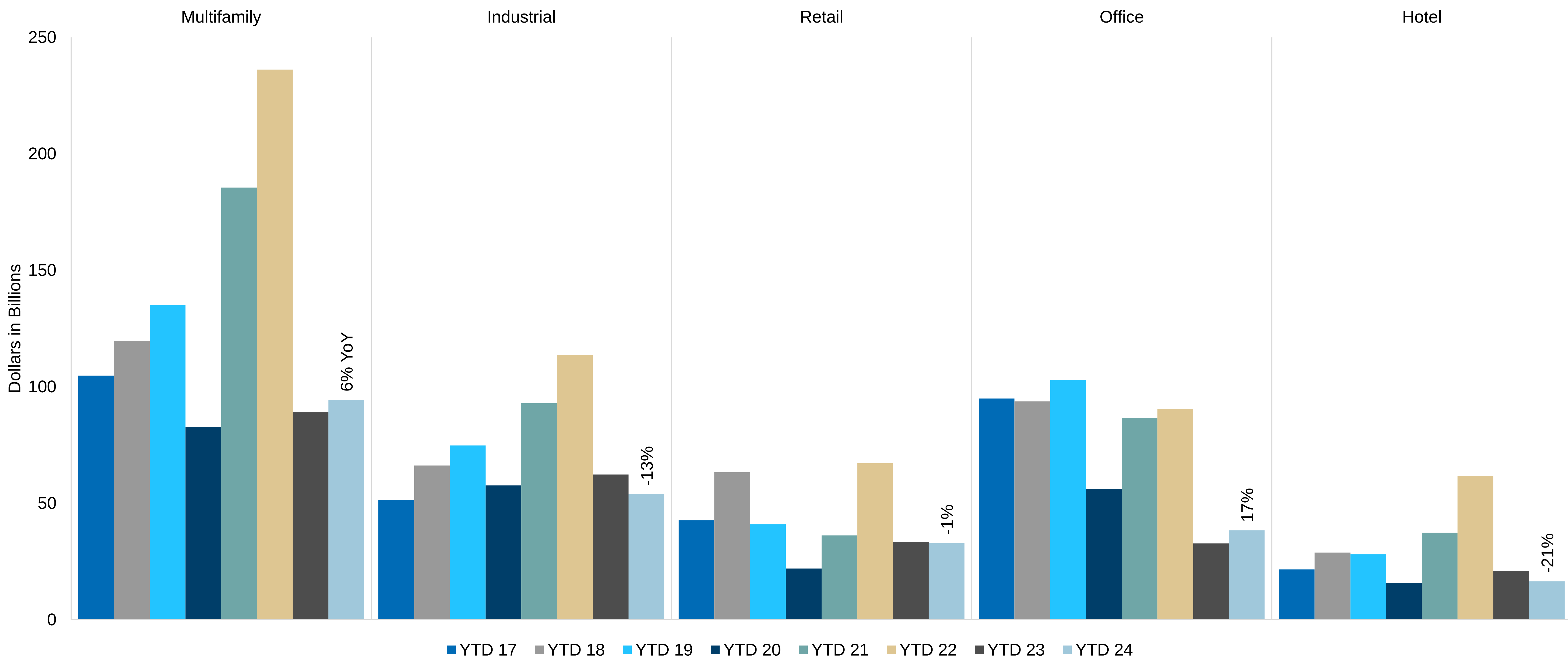
	Qtr 1	Qtr 2	Qtr 3	Qtr 4
2001	19	25	21	21
2002	21	24	29	32
2003	27	28	34	46
2004	41	53	59	85
2005	67	88	92	95
2006	90	98	95	135
2007	154	156	124	119
2008	88	45	40	23
2009	14	12	16	23
2010	20	27	38	63
2011	40	71	58	68
2012	51	61	70	115
2013	75	73	94	121
2014	91	97	118	133
2015	144	128	118	172
2016	121	117	134	145
2017	106	114	129	131
2018	128	119	159	169
2019	112	145	159	178
2020	132	50	79	163
2021	108	158	219	367
2022	196	240	181	152
2023	87	87	100	91
2024	78	95	88	

Source: RCA, Newmark Research as of 10/23/2024

Transaction Activity In 3Q24 Roughly Flat YoY

Office and Retail saw significant growth compared to 3Q24. Office sales YTD are up 17% from 2023, though are still well below their pre-pandemic averages, 61% below 2017-2019 average. Multifamily sales volume took a step back from a strong 2nd quarter, but remained above 2023 levels. Industrial sales, however, are down 13% YoY. Retail volume was 33% below its pre-pandemic average and down 1% YoY, but posted the best QoQ growth of the major property types.

Investment Sales Volume



Source: RCA, Newmark Research as of 10/23/2024

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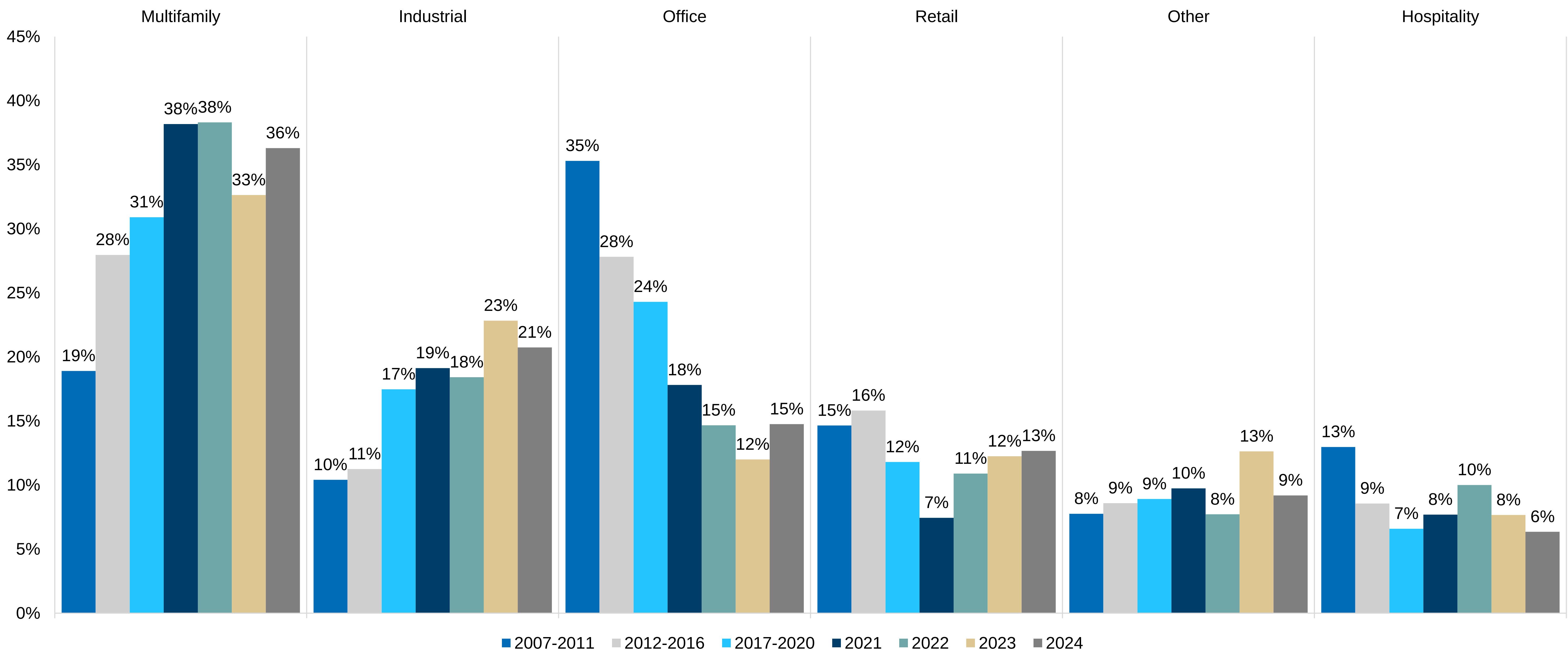
Transaction Activity Continues To Rebalance with Multifamily, Office Rebounding

The multifamily share of investment sales rebounded in 2024, making up 36% of total volume, though M&A activity drove much of the increase. The retail share has been rising consistently since bottoming in 2021, though M&A deals in other property types has caused its share to fall slightly. The industrial share has been relatively steady and remains above its pre-pandemic level. Office share YTD has ticked up compared to 2023, though most of the increase is due to activity in Q1, with second and 3rd quarter activity on par with last year.

Investor Allocation over Time



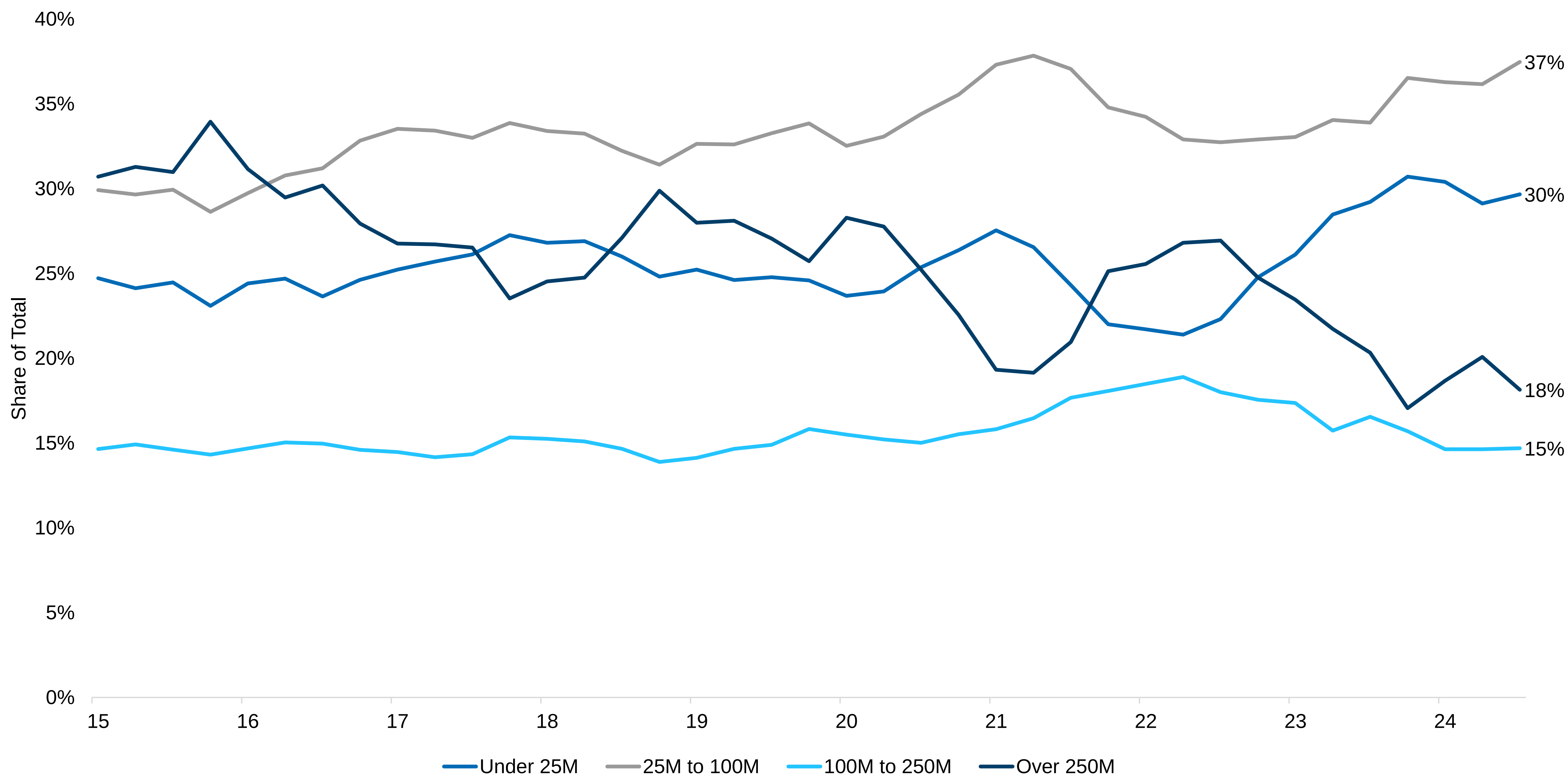
Source: Real Capital Analytics, Newmark Research as of 10/23/2024

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 67% 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 2 percentage points higher than the 2017-2019 average. The share of deals over $250M has declined sharply to just 18%, 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 10/23/2024

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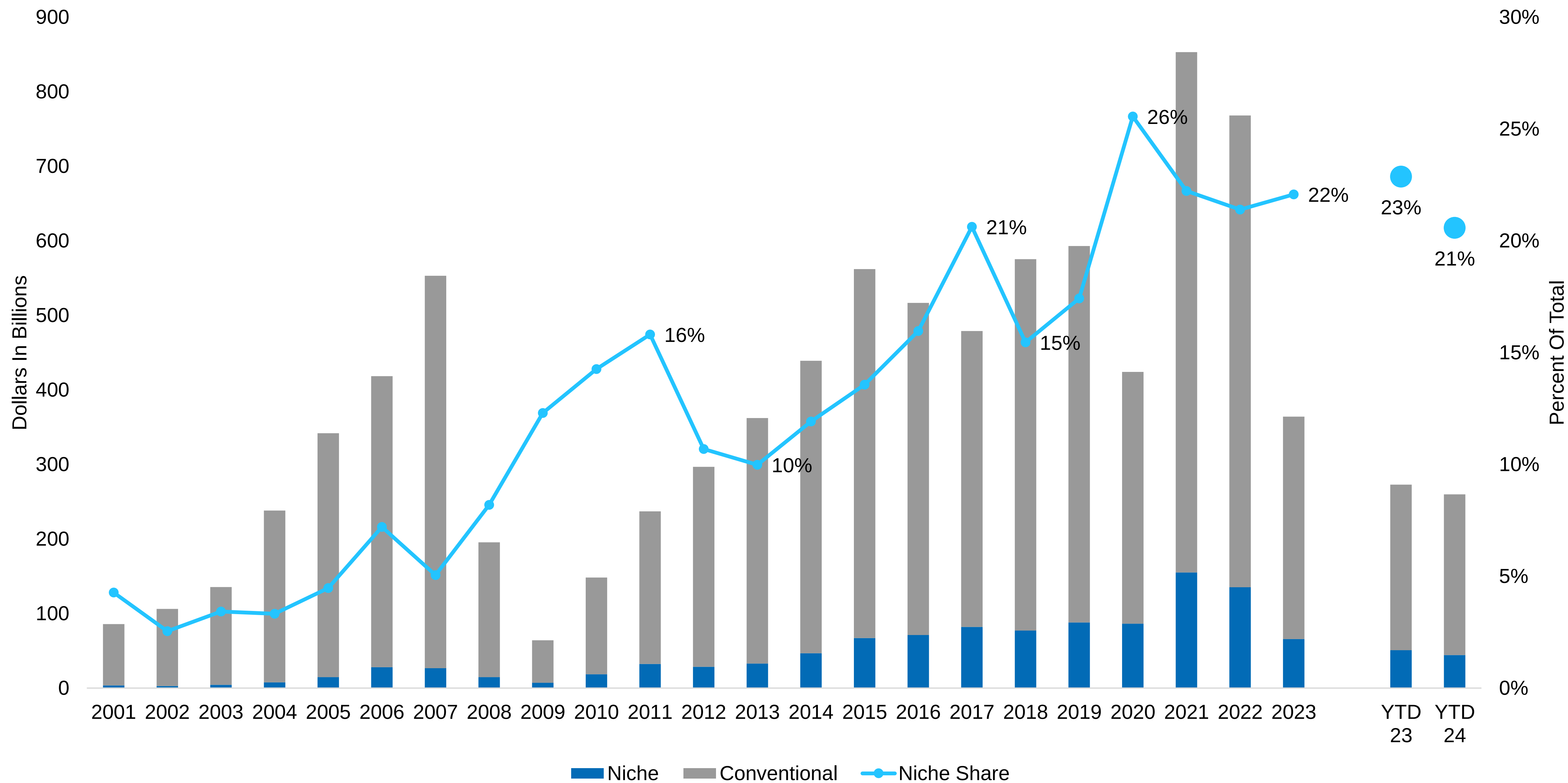
Niche Sector Allocation Has Been Elevated In 2024

Niche sector acquisitions account for over 20% of volume in 2024, though dipped slightly compared to 2023. 3Q24 saw a 9% jump in Niche acquisitions compared to Q2, the highest QoQ increase since 23Q3. Assuming Niche volume share remains flat, 2024 would represent the 5th straight year Niche sector allocation was at or above pre-pandemic record levels.

Investment Sales Volume

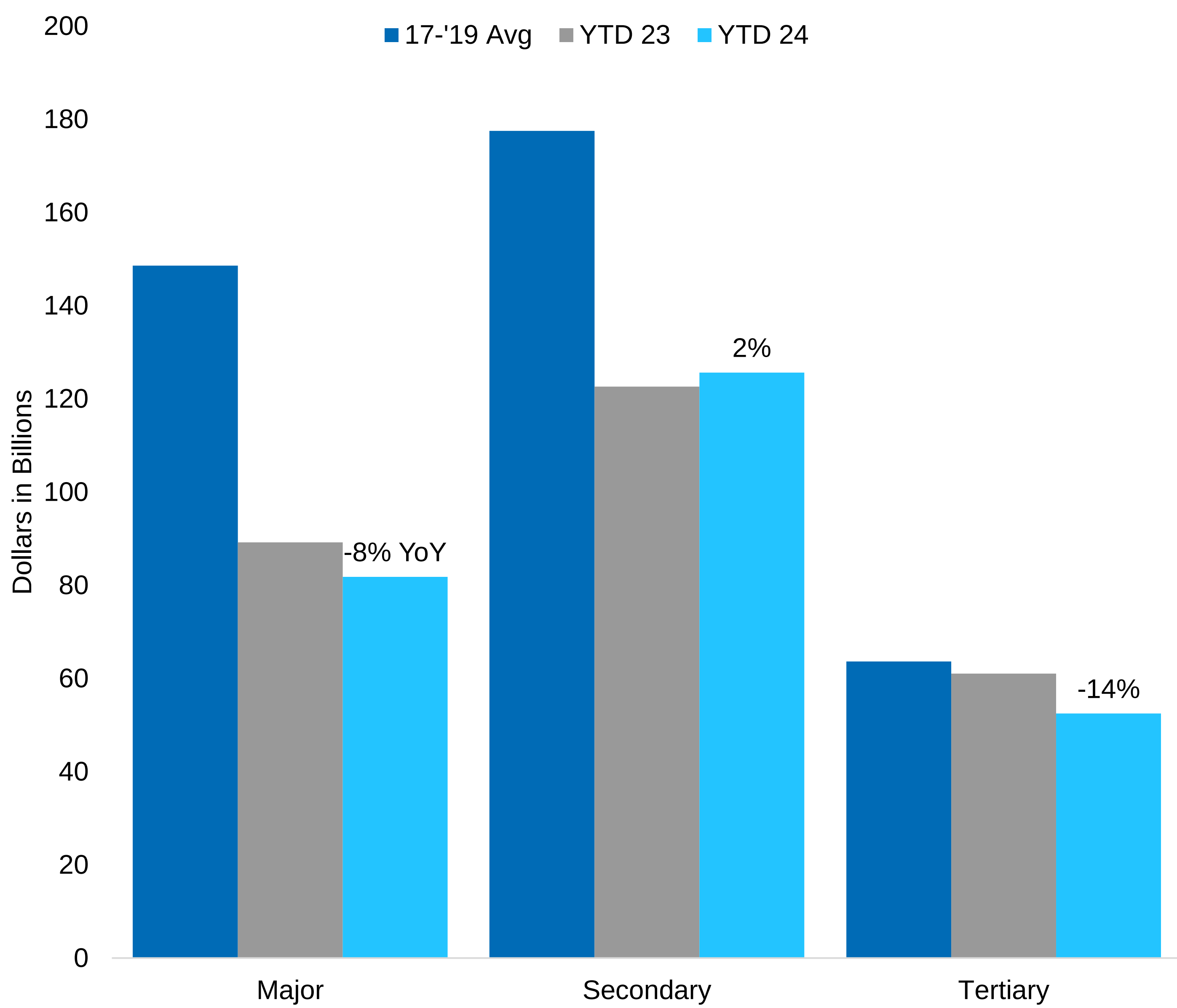


Source: RCA, Newmark Research as of 10/23/2024

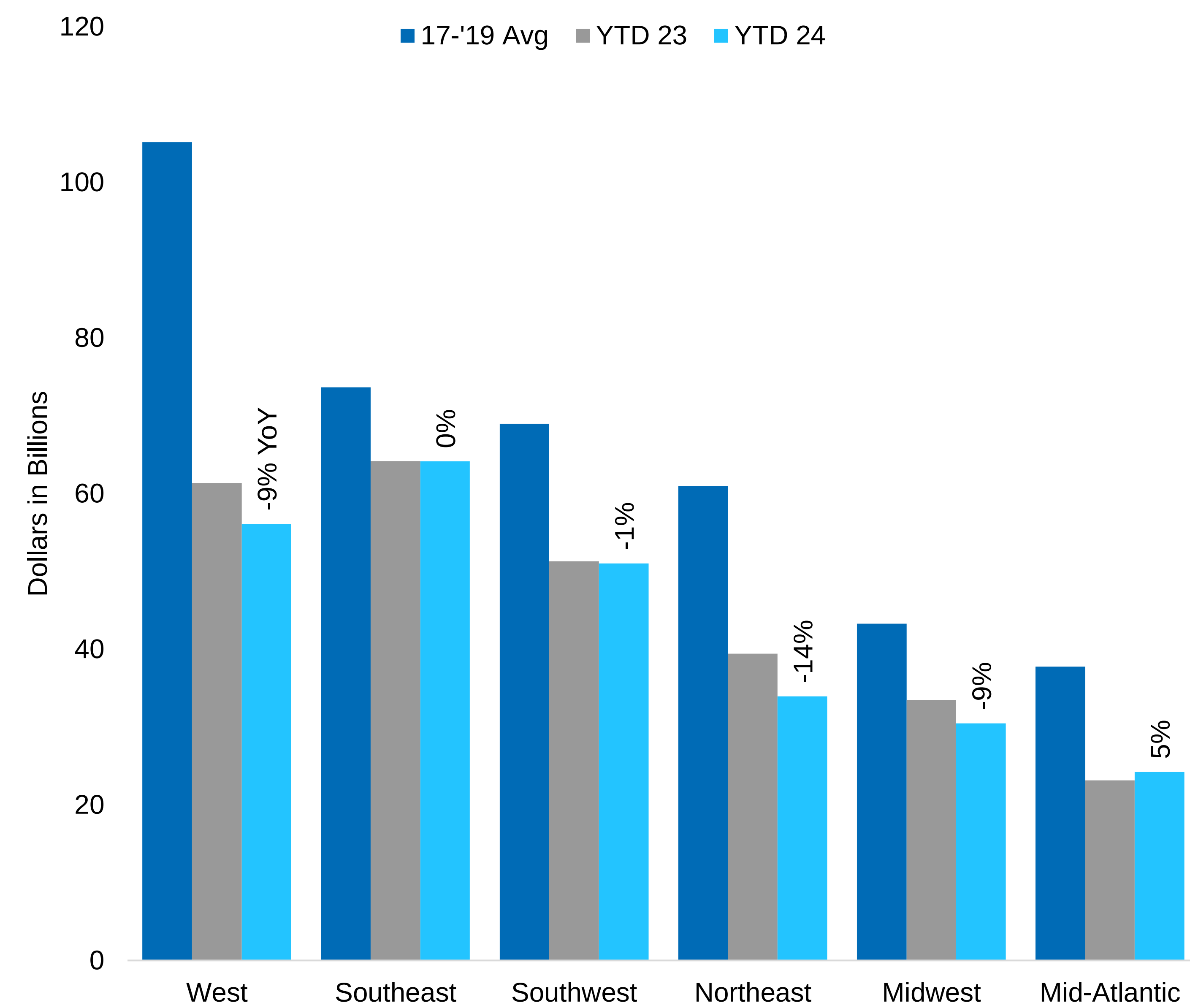
Sales Volume Continues To Fall Sharply across Market Tiers and Regions

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

Investment Sales Volume by Market Tier



Investment Sales Volume by Region



Source: RCA, Newmark Research as of 10/23/2024

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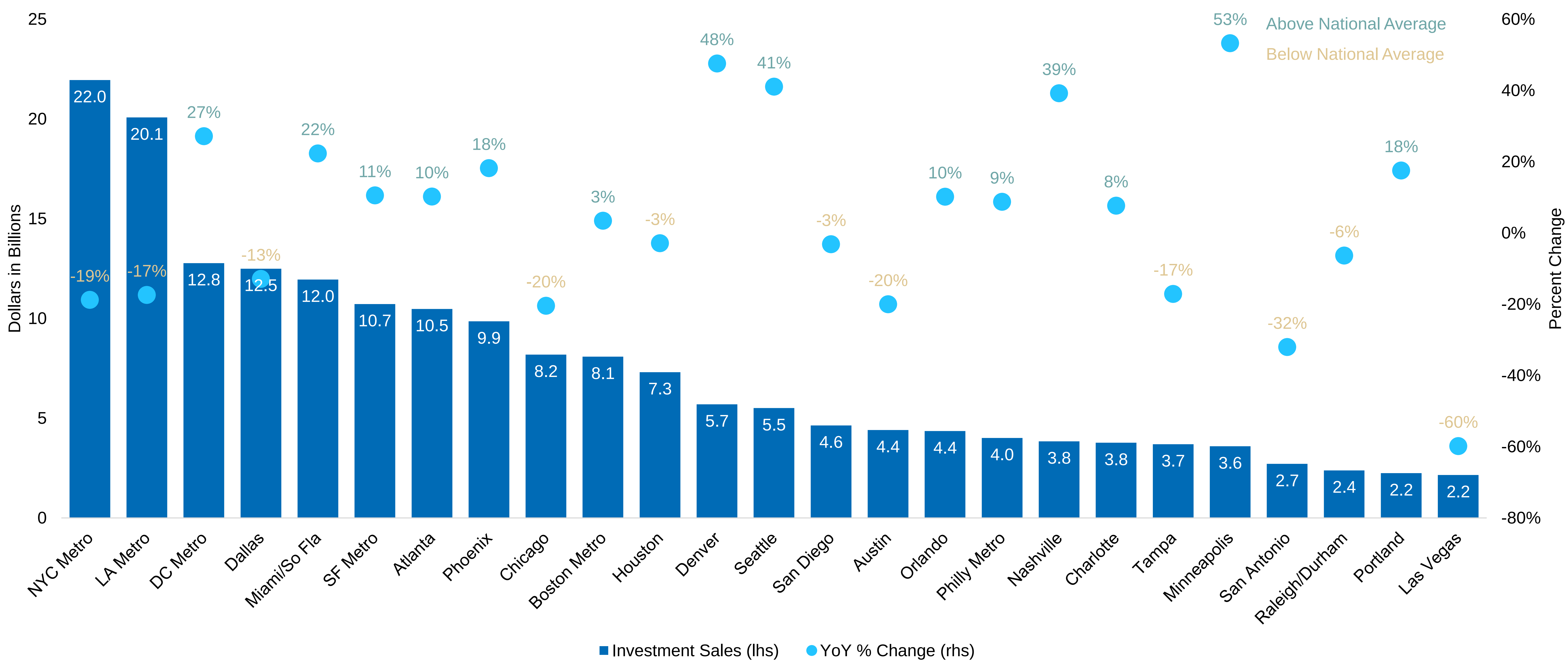
Investment Sales Increased Year-over-Year in 14 out of 25 Top Metros in YTD

NYC Metro and LA Metro were the top markets by investment volume in the US in YTD. Volumes declined year-over-year in all the top 25 metros in 2023, but 2024 has been more mixed. 14 out of 25 recorded higher investment sales volumes compared with a year ago, notably Denver, Minneapolis, Seattle and Nashville. After a significant pullback in volume, high demographic growth Sun Belt markets such as Charlotte, Phoenix, and Orlando have begun to see strong positive gains in volume.

Top 25 Metro Markets by YTD Volume

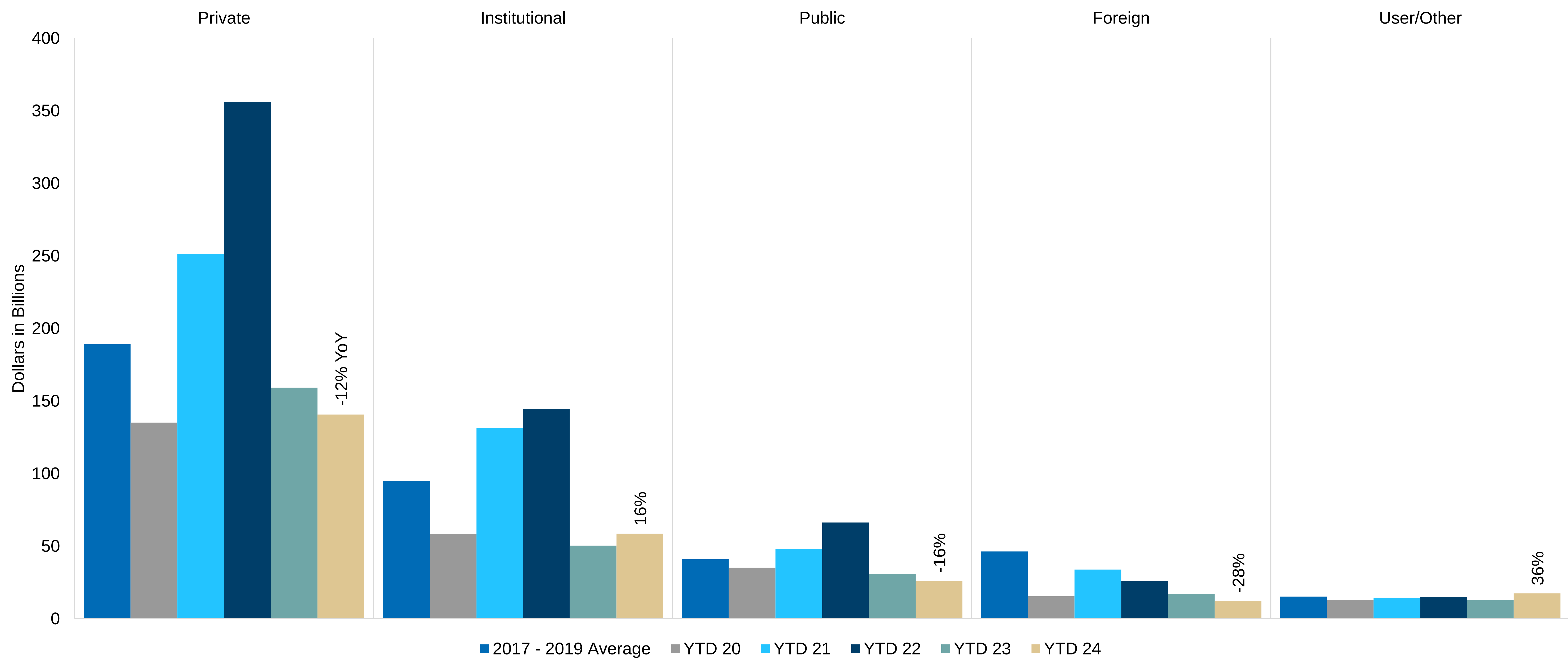


Source: RCA, Newmark Research as of 10/23/2024
Note: Excludes tertiary markets from ranking.

Institutional and Occupiers Picked Up Volume In 3Q24

Private capital remains the most active segment, accounting for 55% of acquisitions. Institutions deployed 16% more capital in the first 3 quarters of 2023 than in 2024, though all of the difference in volume is due to large M&A deals. Without those deals, institutional volume has been flat year-over-year. Foreign investment also continued to decelerate, owing in part to 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

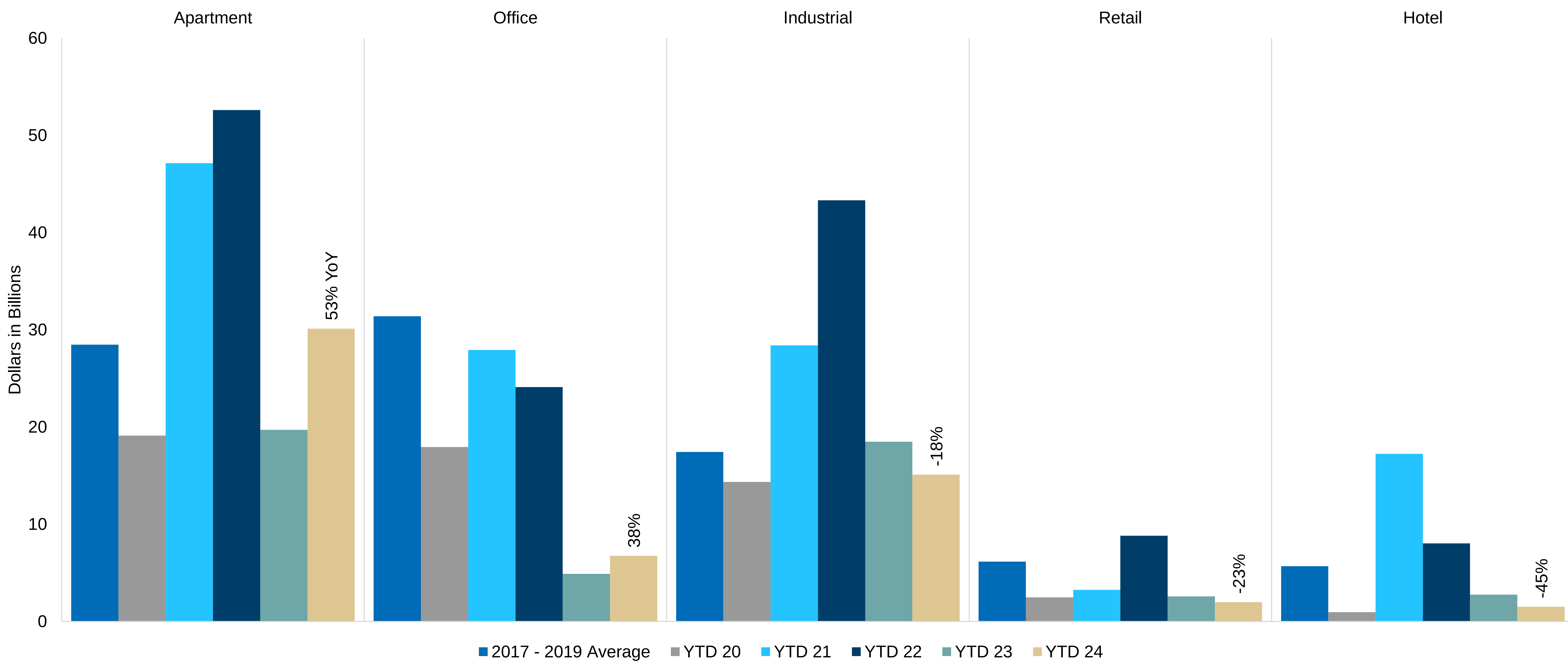


Source: RCA, Newmark Research as of 10/23/2024

Institutional Capital Has Picked Up In 2024 Through Large Entity Deals

Institutional acquisitions have increased 16% year-to-date in 2024, with allocations to Industrial, Retail, and Hotel dropping the most. However, Office and Multifamily volume more than made up the difference, particularly Multifamily, where a few large REIT acquisitions in 2Q24 pushed volume up significantly. Office has also seen an uptick in volume, particularly in the 3rd quarter, where volume was 73% higher than the third quarter of 2023.

Institutional Acquisitions Volume



Source: RCA, Newmark Research as of 10/23/2024

Volume has continued to fall, but there appears to be light at the end of the tunnel as Office and Multifamily have seen modest pick ups in activity.

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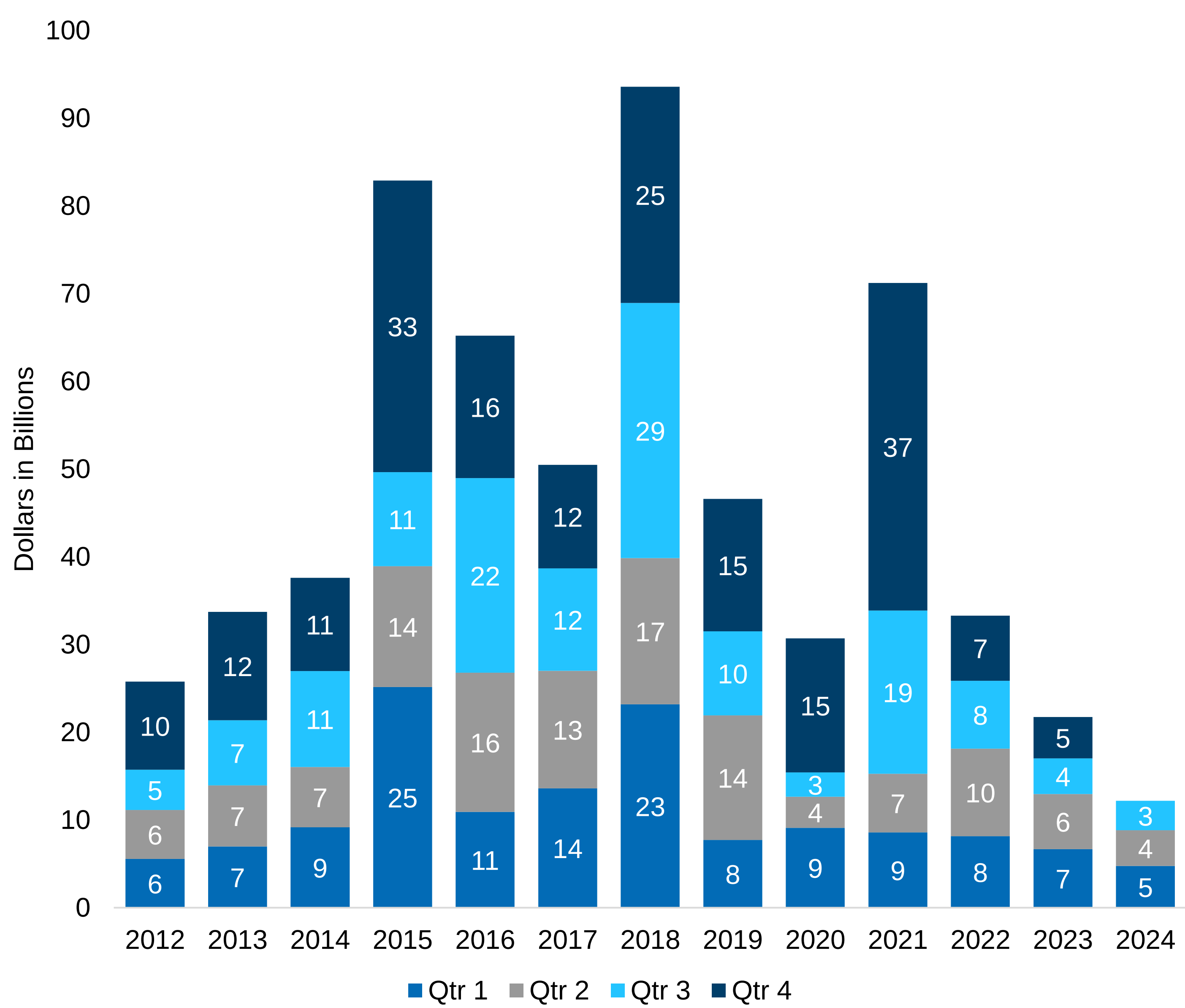
Owner occupiers have been taking advantage of market dislocation, while Industrials' multi-year streak of institutional inflow is at risk.

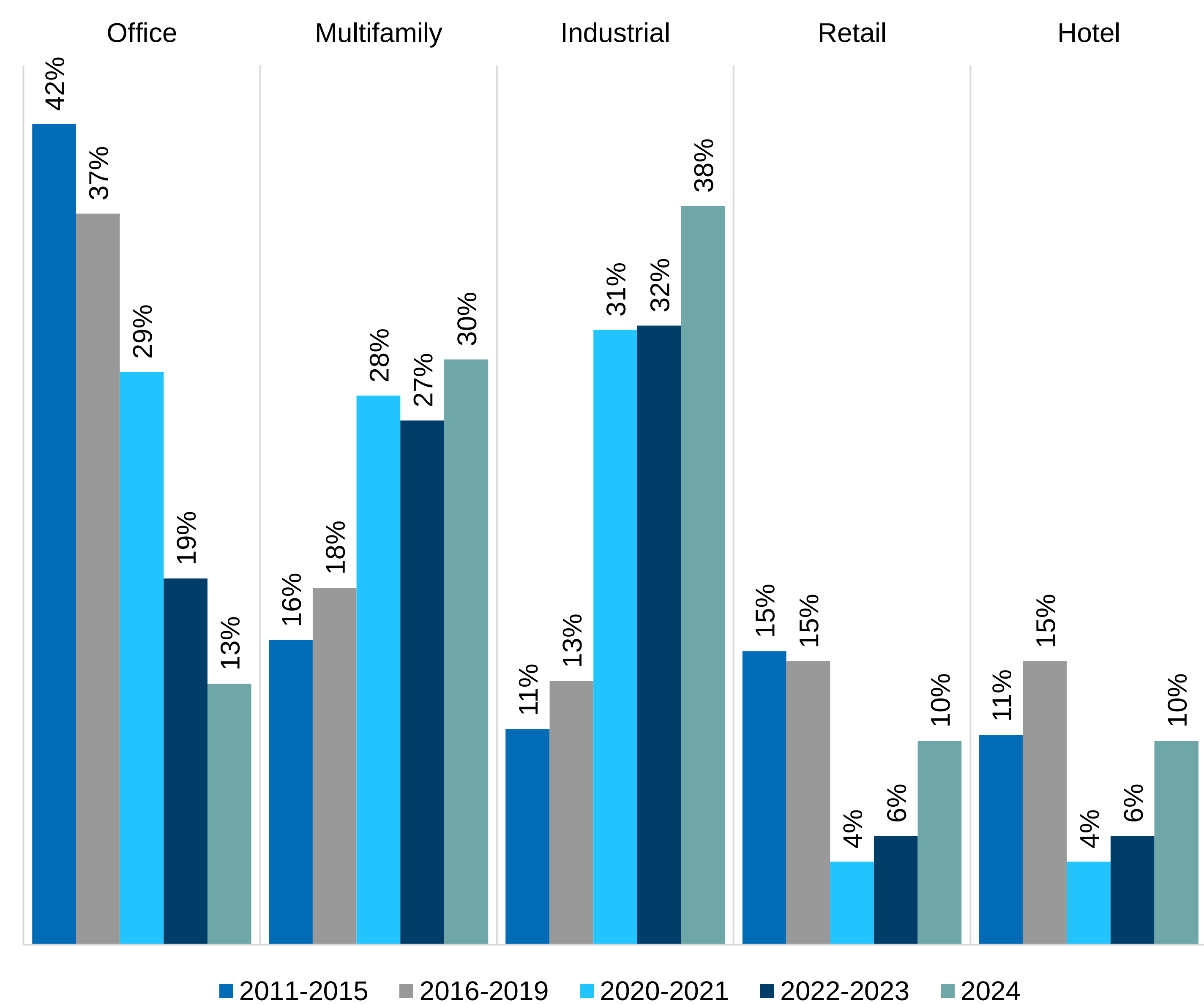
Foreign Investment Declined 28% Year-over-Year In First 3 Quarters Of 2024

Foreign investment was at its lowest ebb since 3Q20. 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

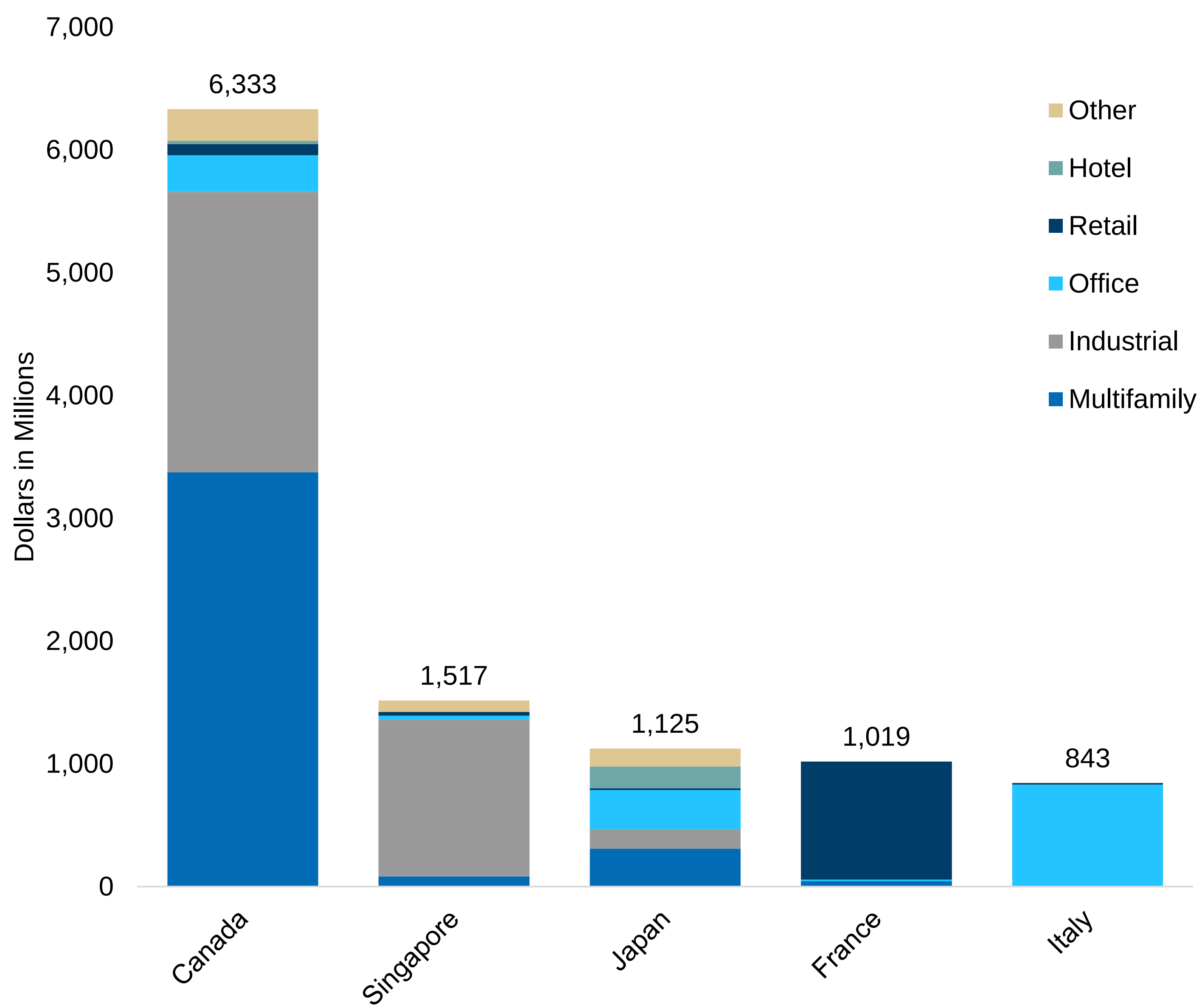


Source: Newmark Research, Real Capital Analytics as of 10/23/2024

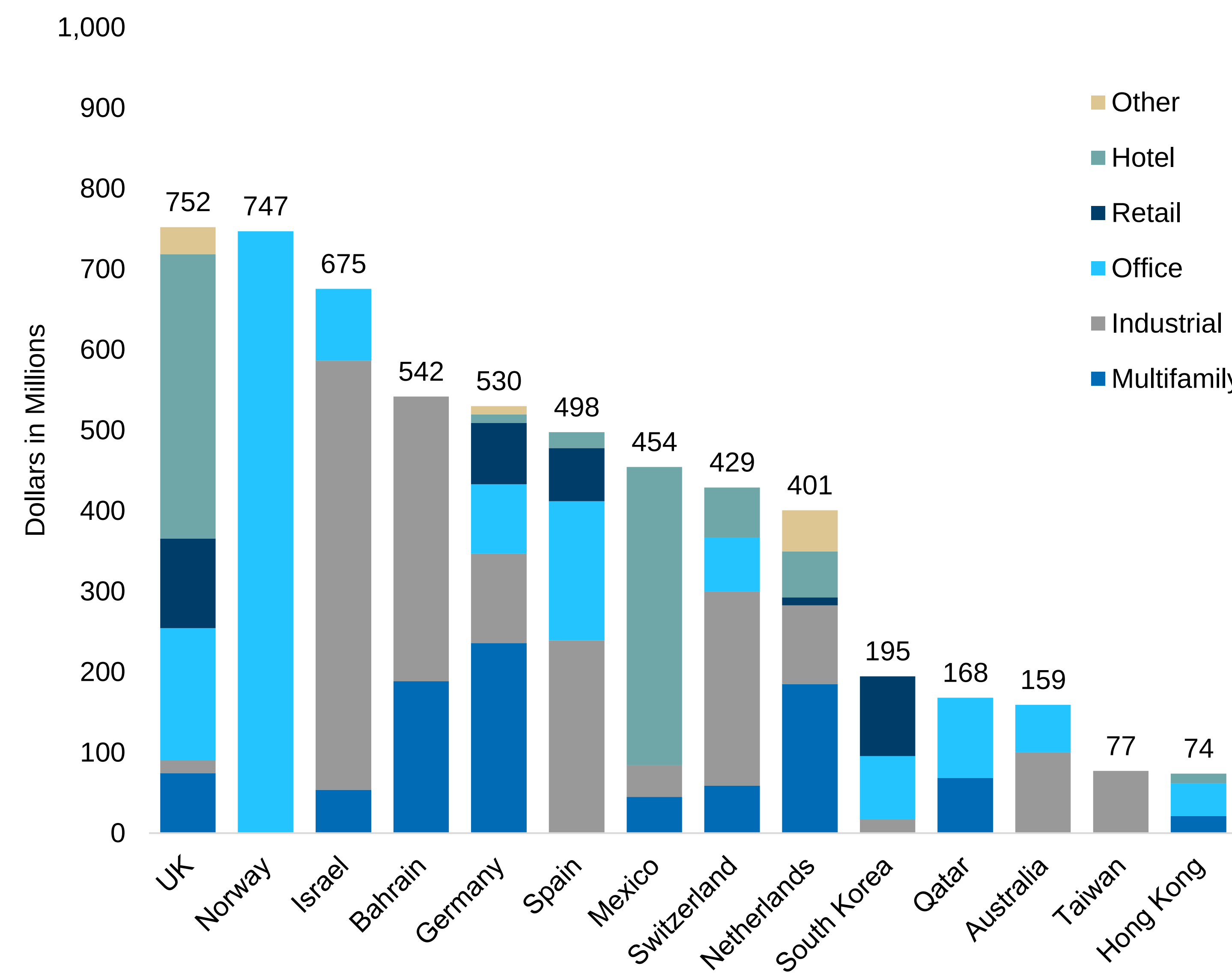
Major Inbound Investors Vary In Property Type Focus

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 Japan, France, and Italy. Italy, and Norway stood apart in having relatively high office investment, while the UK, and Mexico inbound capital was mainly concentrated on hotel, And France was focused on Retail.

Top Five Sources of Inbound Capital: 2024 Year-To-Date



Remaining Sources of Inbound Capital: 2024 Year-To-Date



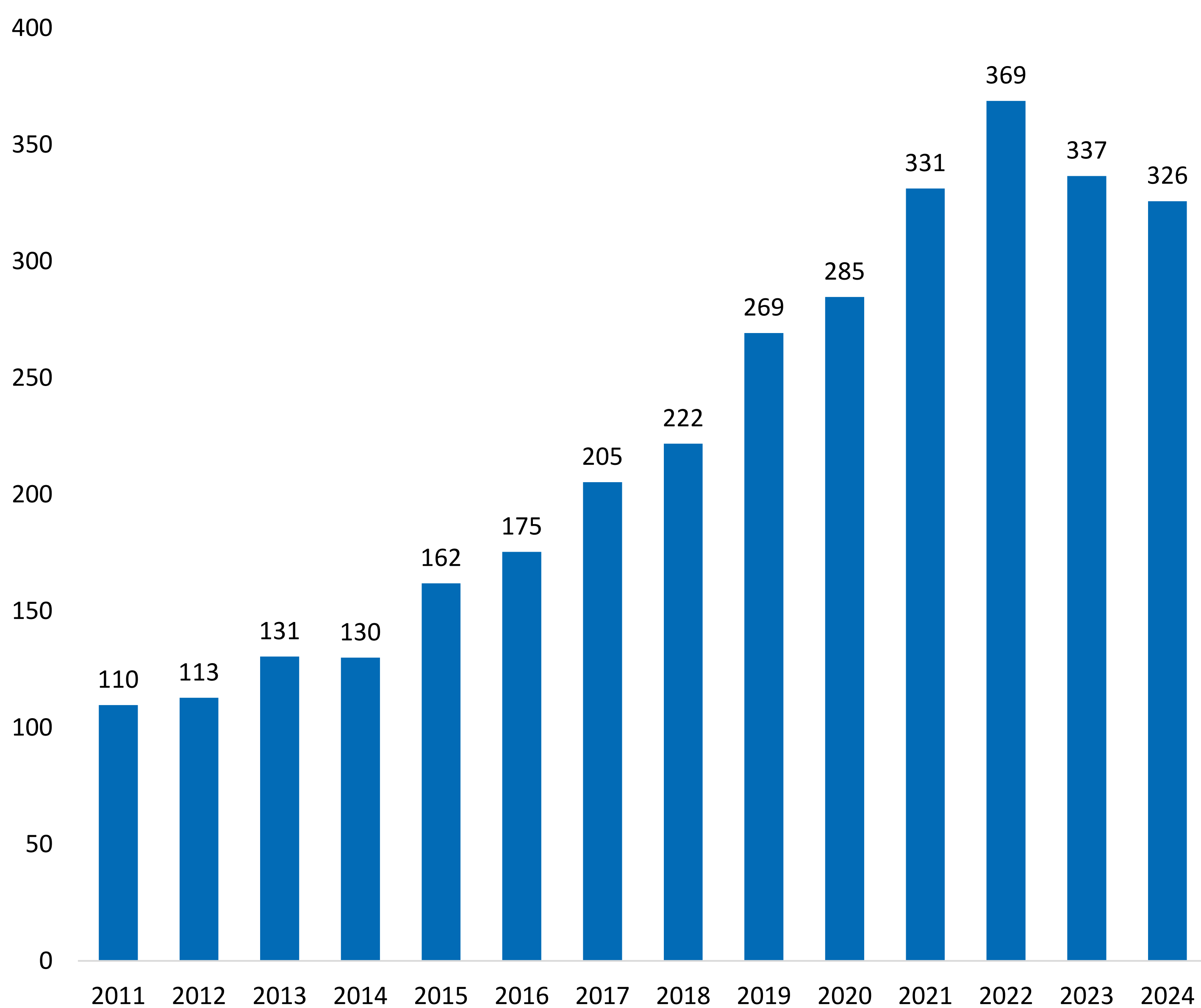
Source: RCA, Newmark Research as of 10/23/2024

Supply of Capital

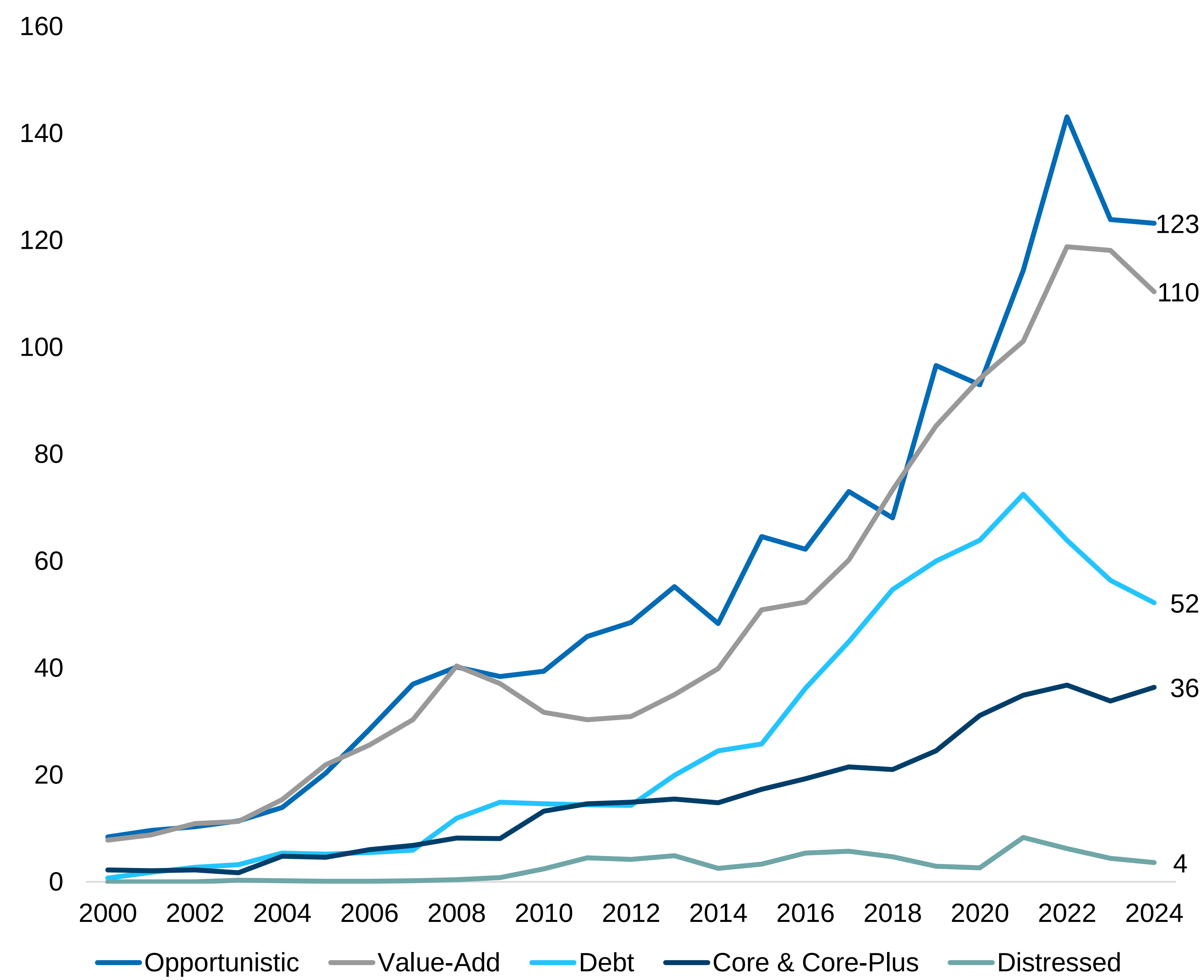
Private Equity Dry Powder Has Declined From 2022 Peak, But Still Elevated Overall

Dry powder at closed-end funds is 11.7% below its December 2022 peak, reflecting declines in dry powder at value-add, opportunistic funds and Debt Funds. Similarly, new fundraising has declined from $213B in 2022 to $132.5B in the last twelve months. Fundraising data for more recent quarters has yet to finalize, but the second quarter of 2024 matched 2017-2019 averages, mostly on the back of a strong quarter from debt funds and opportunistic funds, which represented 52% of all funds raised in the second quarter.

Dry Powder – Closed-End Funds



Dry Powder by Strategy*



Source: Newmark Research, Preqin as of 10/30/2024

*Not shown: Fund of funds, co-investments, and secondaries strategies

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Institutional returns are positive for the first time in two years, but ODCE outflows have largely continued unabated.

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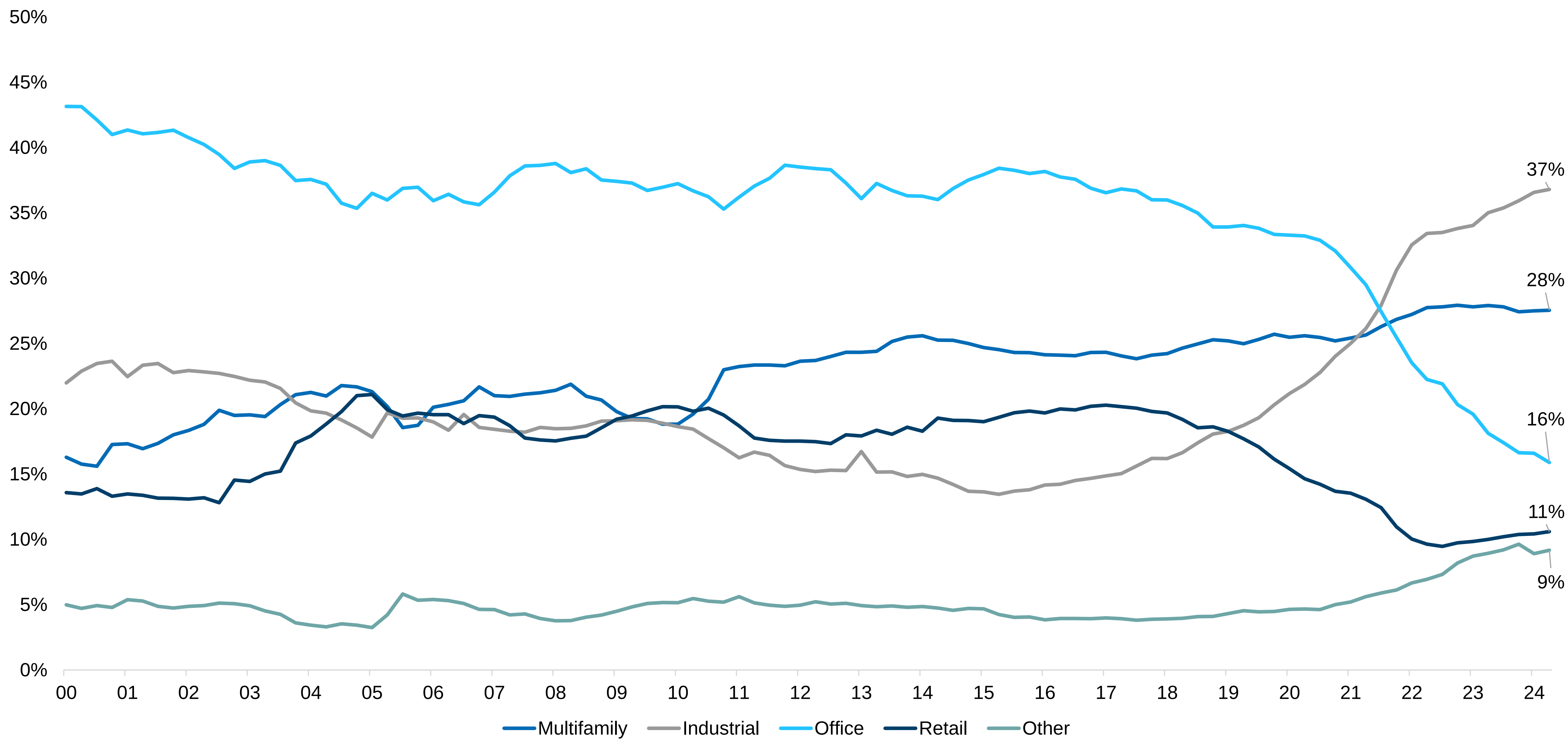
ODCE Has Undergone An Industrial Revolution

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 and the number of properties held by ODCE funds has only decreased by 5%, similar to the 6% decline in property count overall, greater write-downs in office have driven the industrial share still higher.

ODCE Value-Weighted Property Allocation

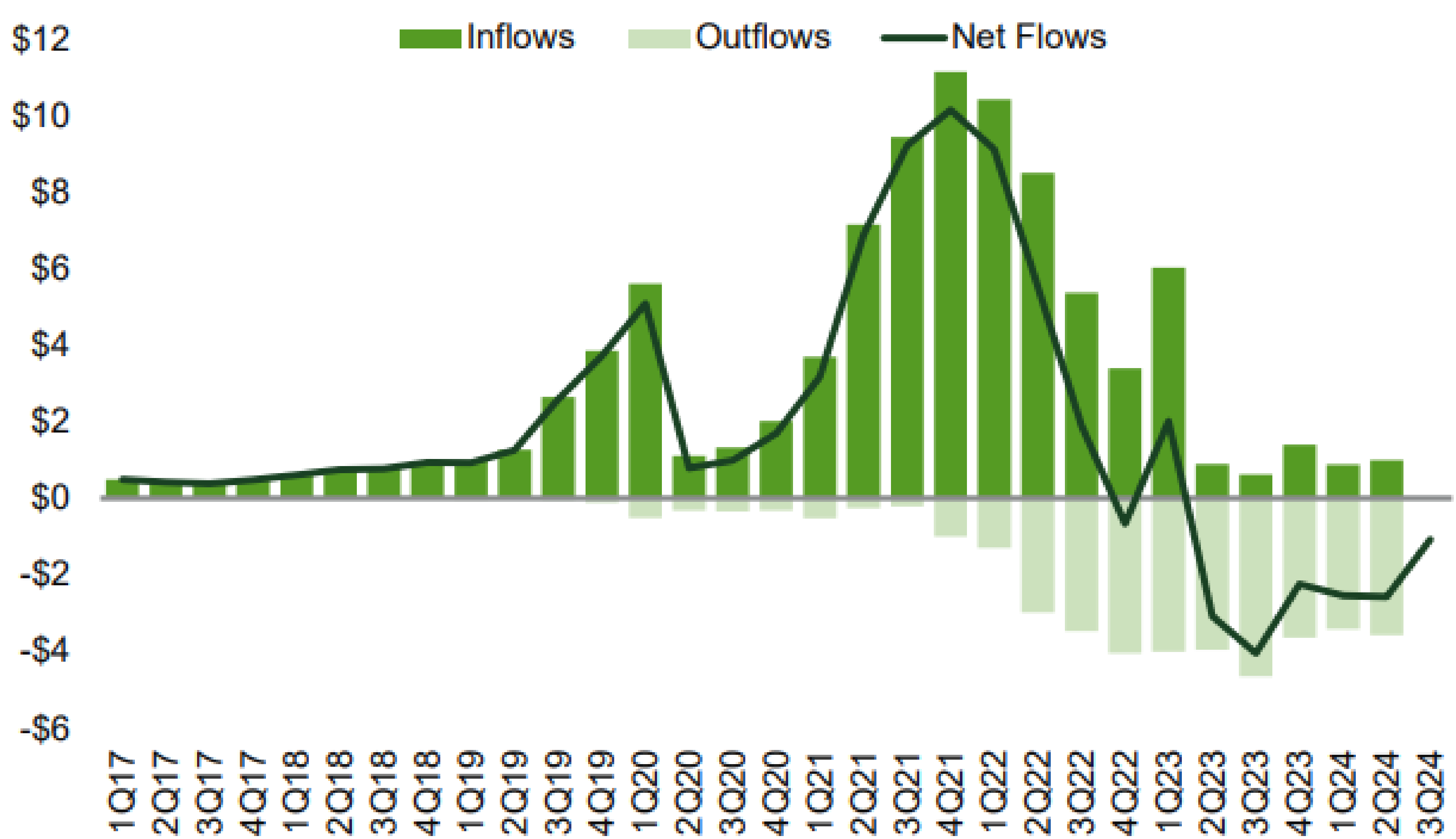


Source: NCREIF, Newmark Research as of 10/30/2024

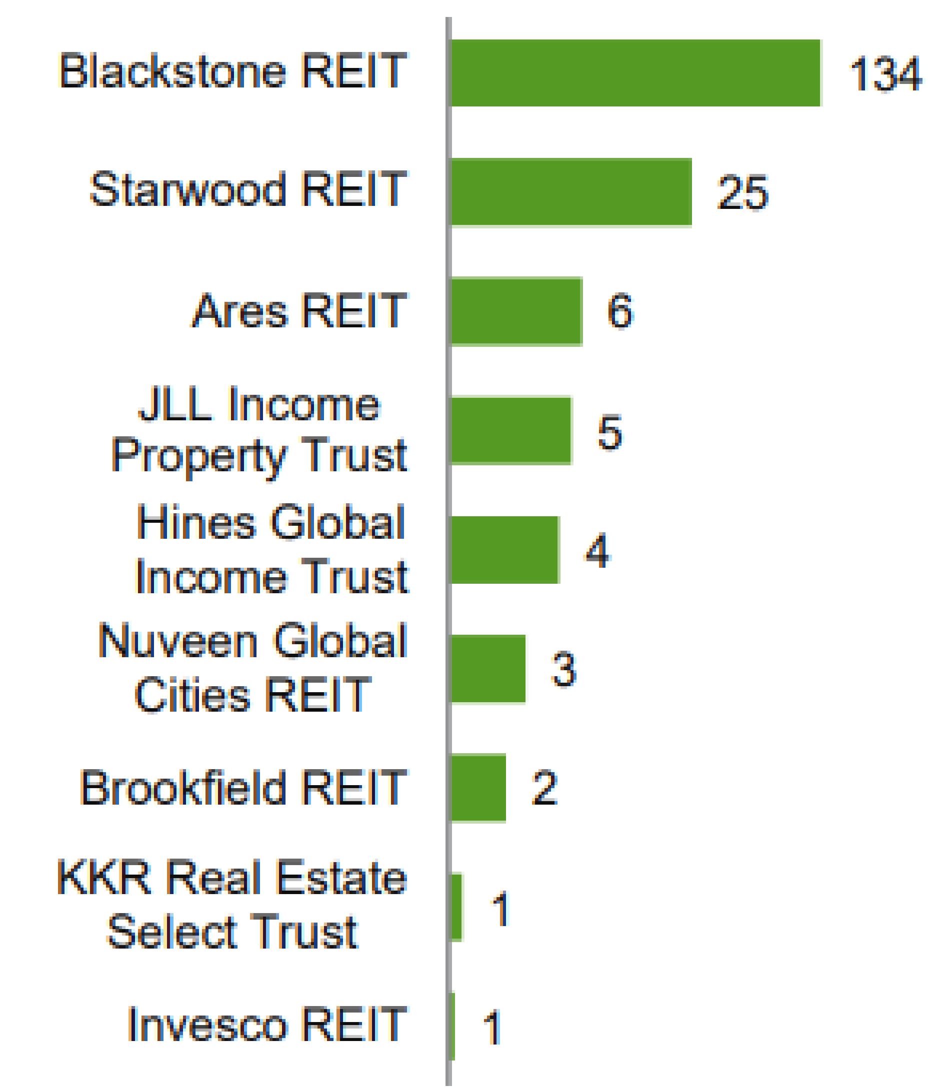
Net Capital Flows Into Non-Traded REITs Negative But Improving

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)

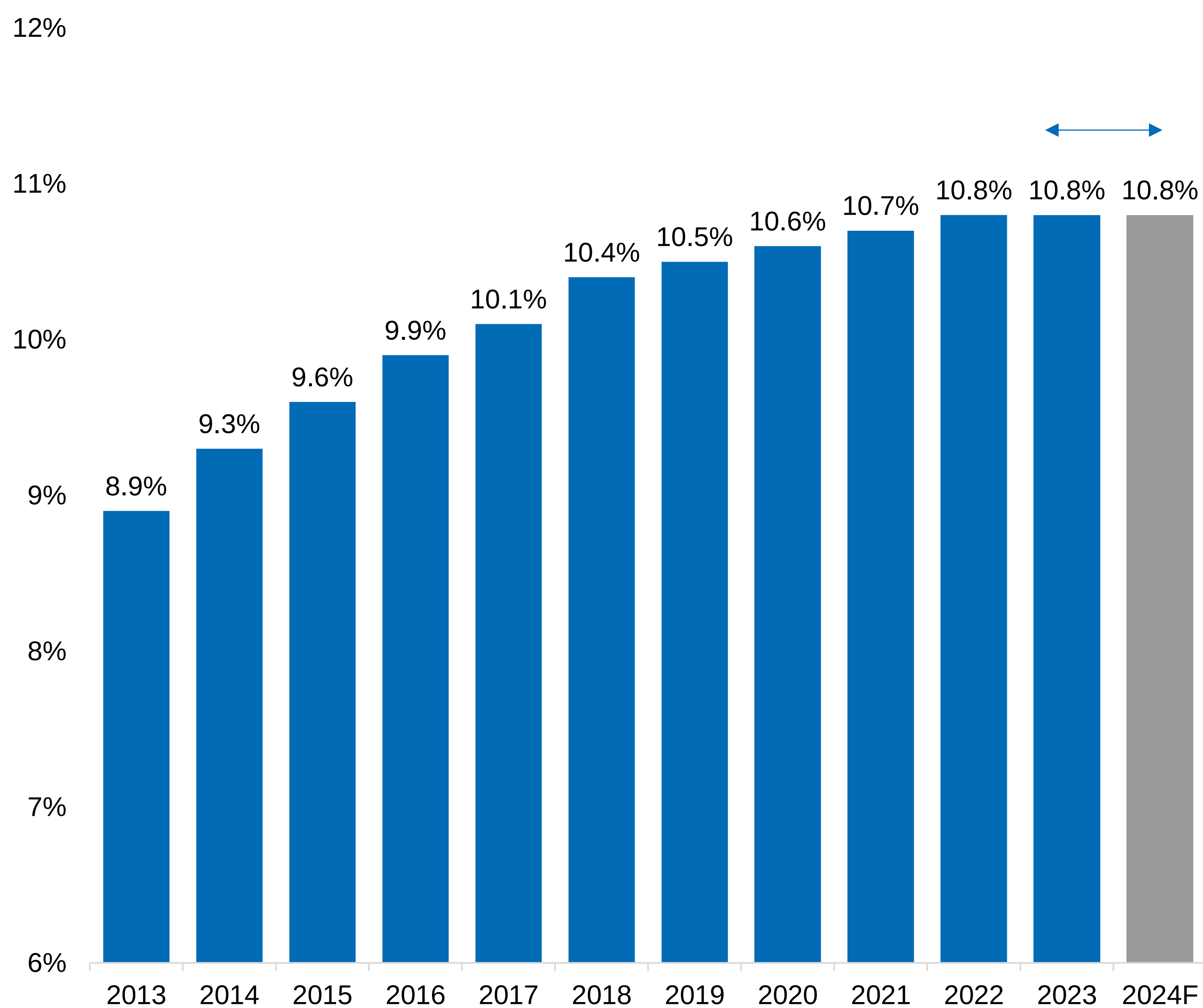


Sources: Newmark Research, Green Street FlowTracker Report as of 9/17/2024

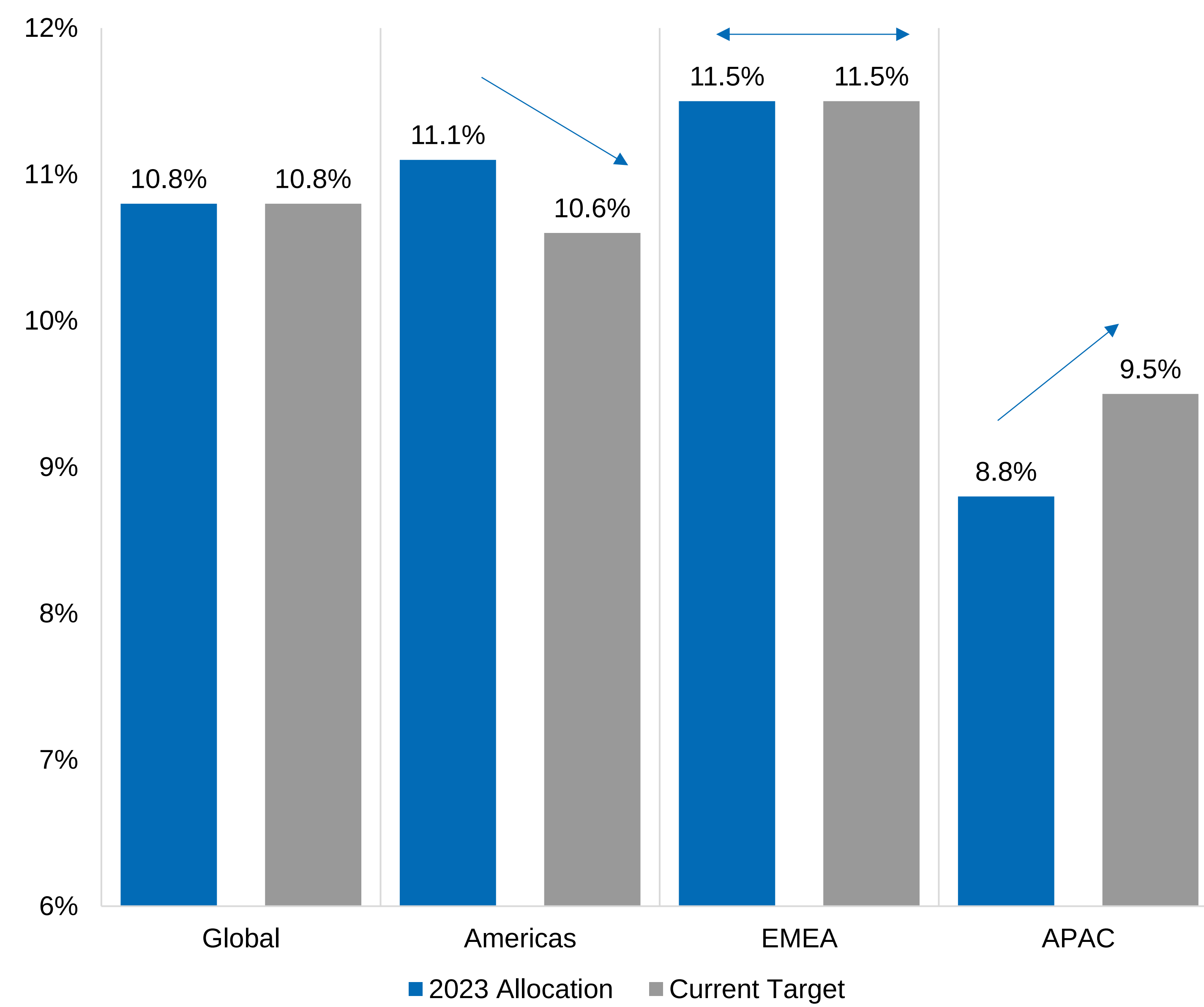
Institutional Allocations Approaching Stabilization After A Decade of Increase

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



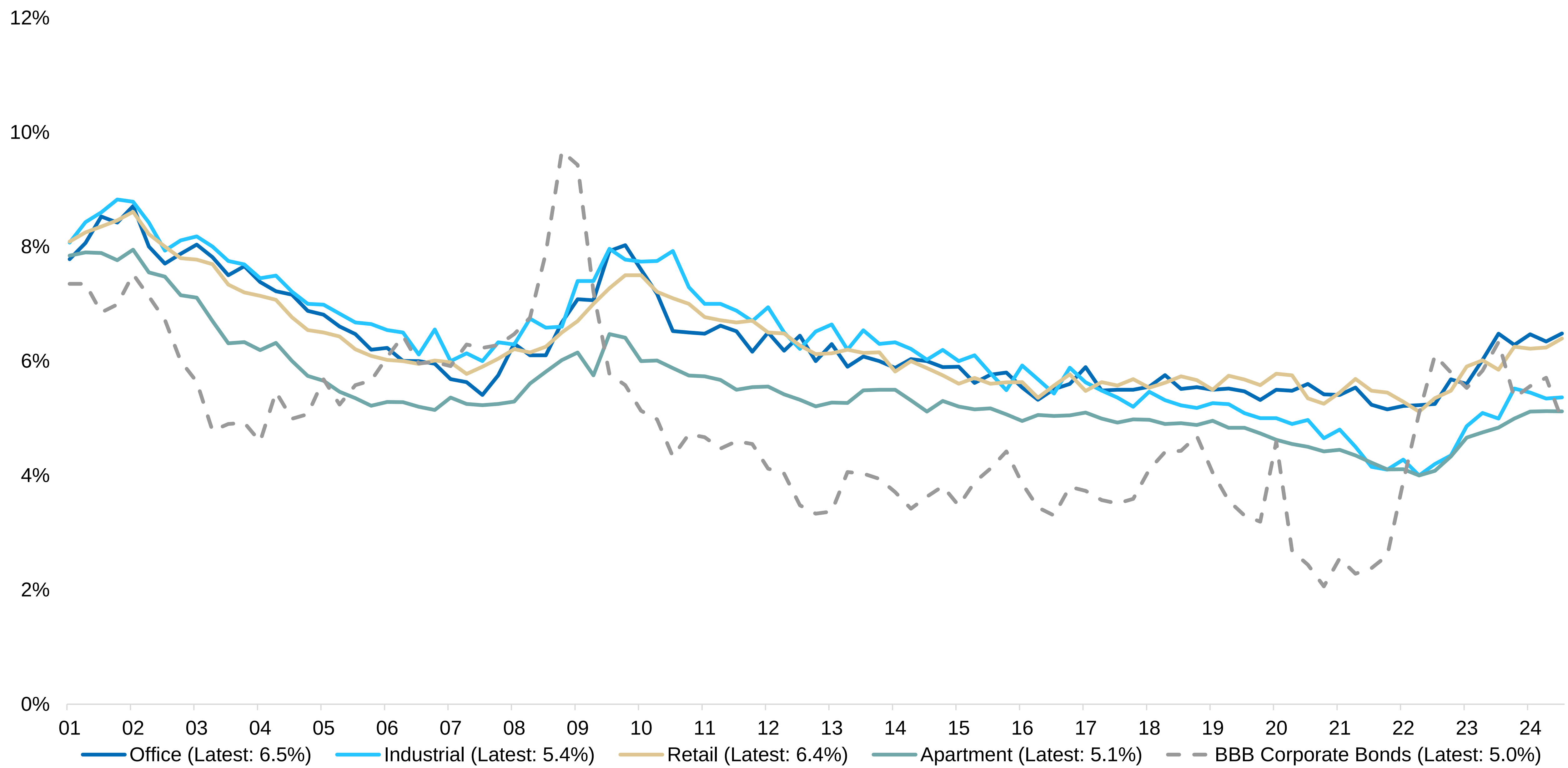
Source: Hodes-Weill Institutional Real Estate Allocations Monitor November 2023, Newmark Research

Pricing and Returns

Transaction Cap Rates Stable In 2024, Rate Pressure Eased Briefly Before Strengthening

Cap rates continue to face upward pressure from elevated debt costs and higher yields on alternatives to CRE investments; however, in 3Q24, transaction cap rates were effectively flat across the major property types. Treasury yields were volatile during the same period, falling from 4.4% at the start of July to 3.6% by the end of September, and back up to 4.3% by mid October. Spread normalization remains the primary downside risk and 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 10/23/2024
*Quarterly

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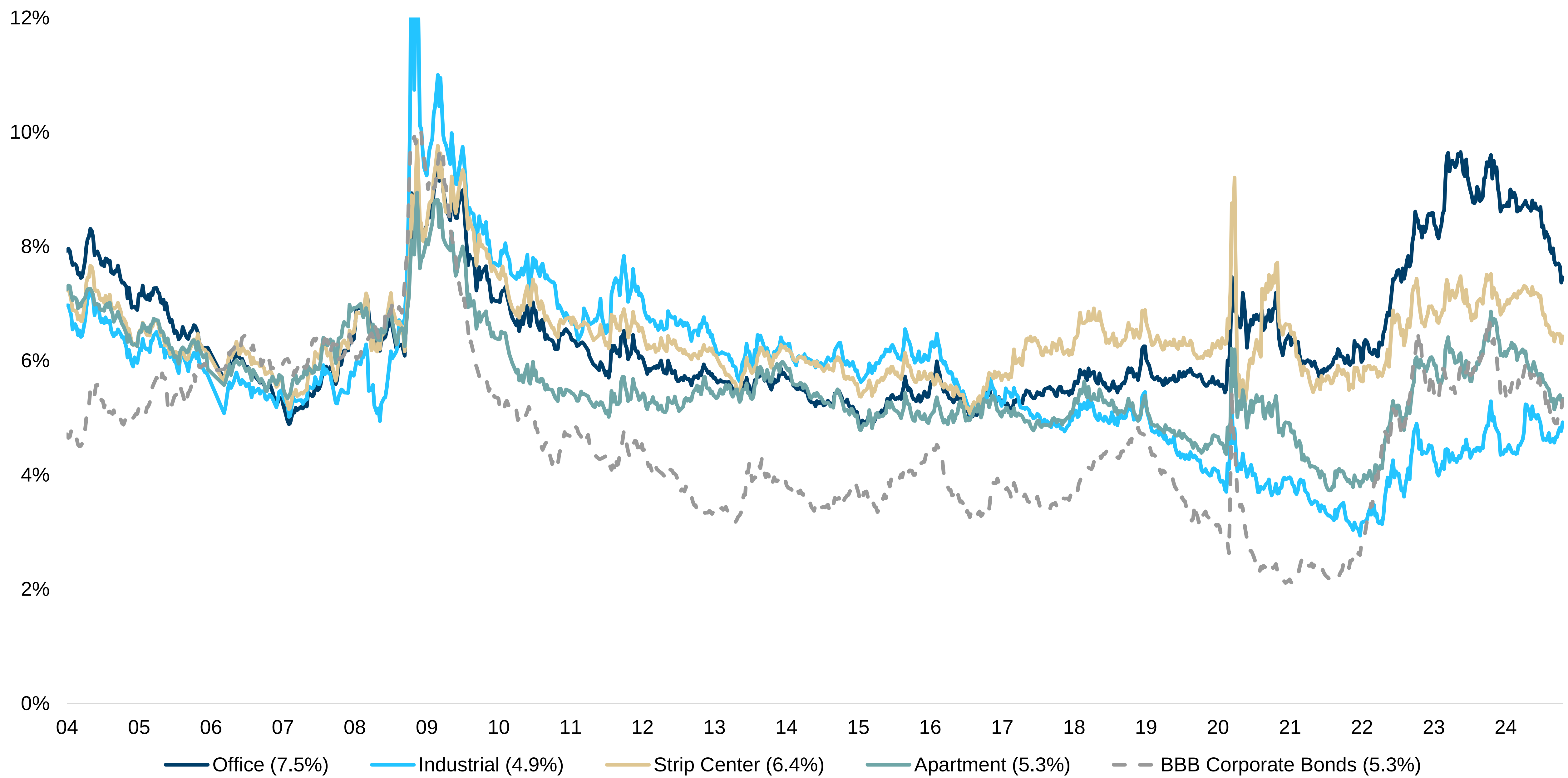
Public Markets Highly Sensitive To Rates; Continue To Underprice Risk

Office spread is 59th percentile relative to history*, apartment 12th, industrial 14th and strip center 24th. 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 10/30/2023

*Using normal distribution

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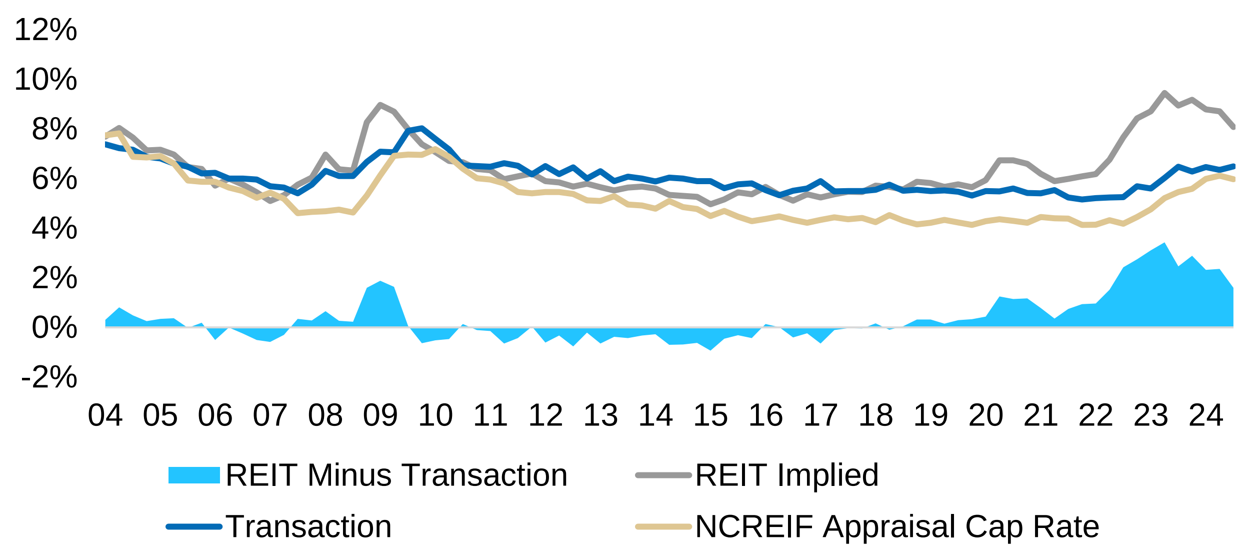
REIT Valuations Attractive Relative To Core Properties Trading In Private Market

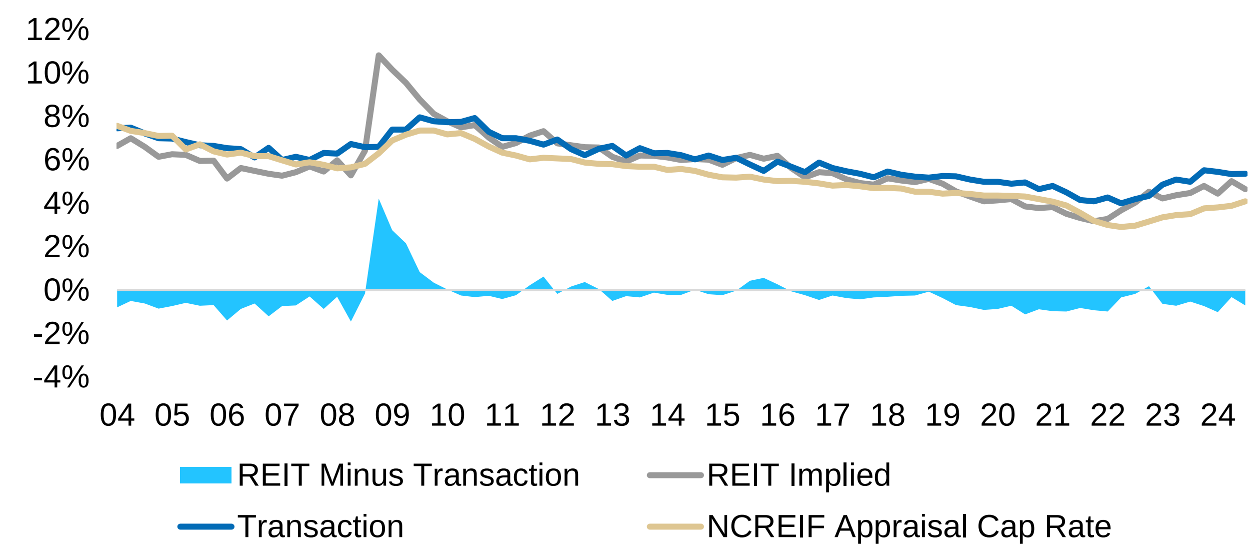
Over the last 20 years, private and public market cap rates have largely tracked one another with only ephemeral periods of disconnect. Public markets are certainly more volatile, but they have also proved reliable forward indicators for subsequent movements in private market pricing. The disconnect 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

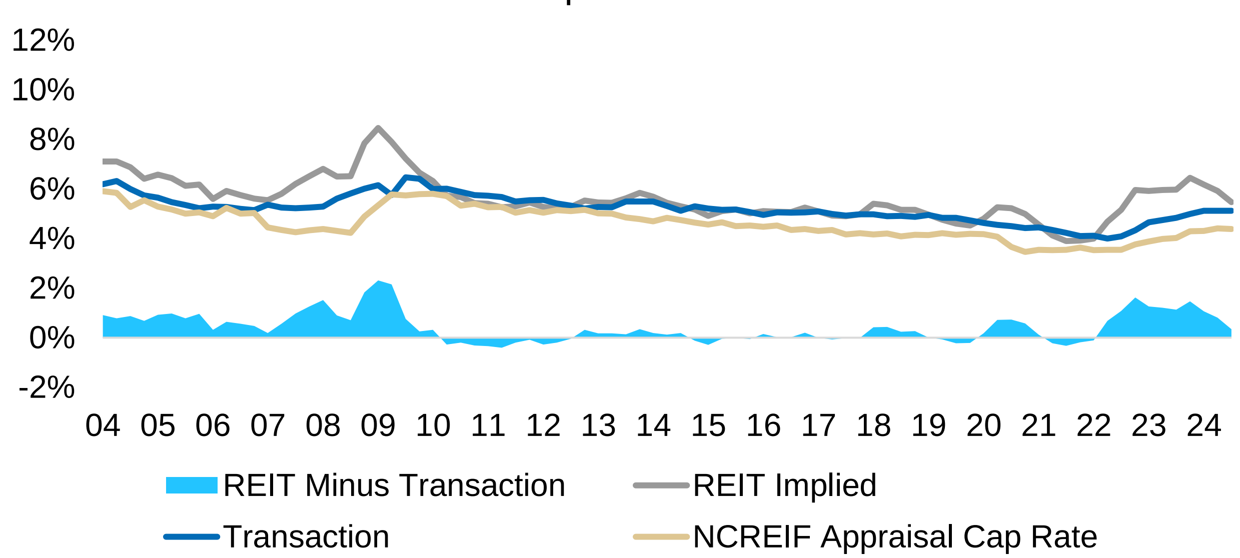
Office



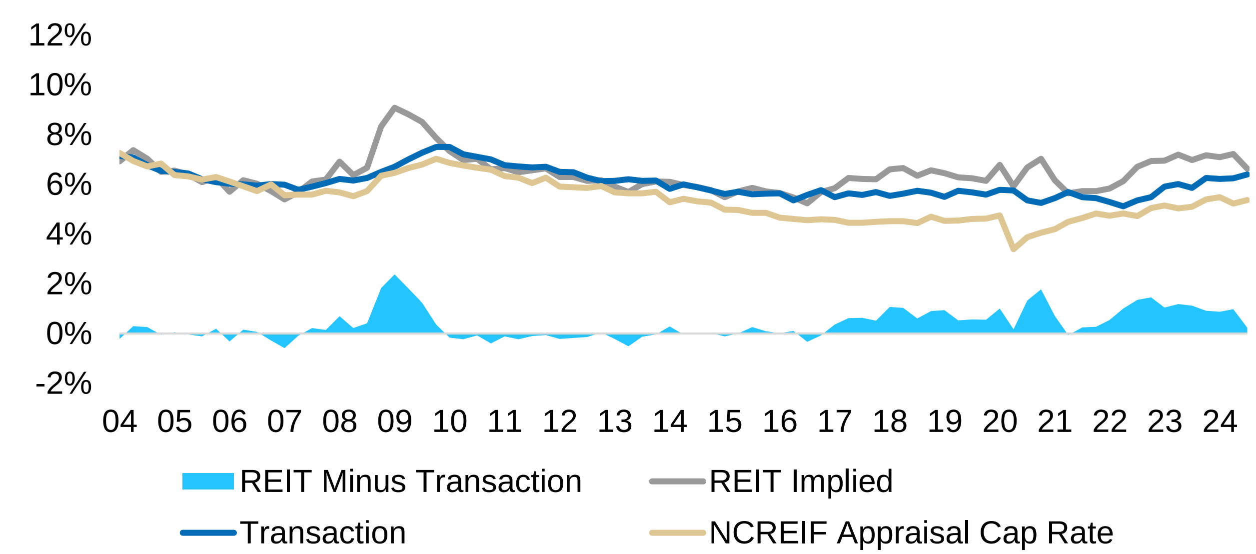
Industrial



Apartment



Retail



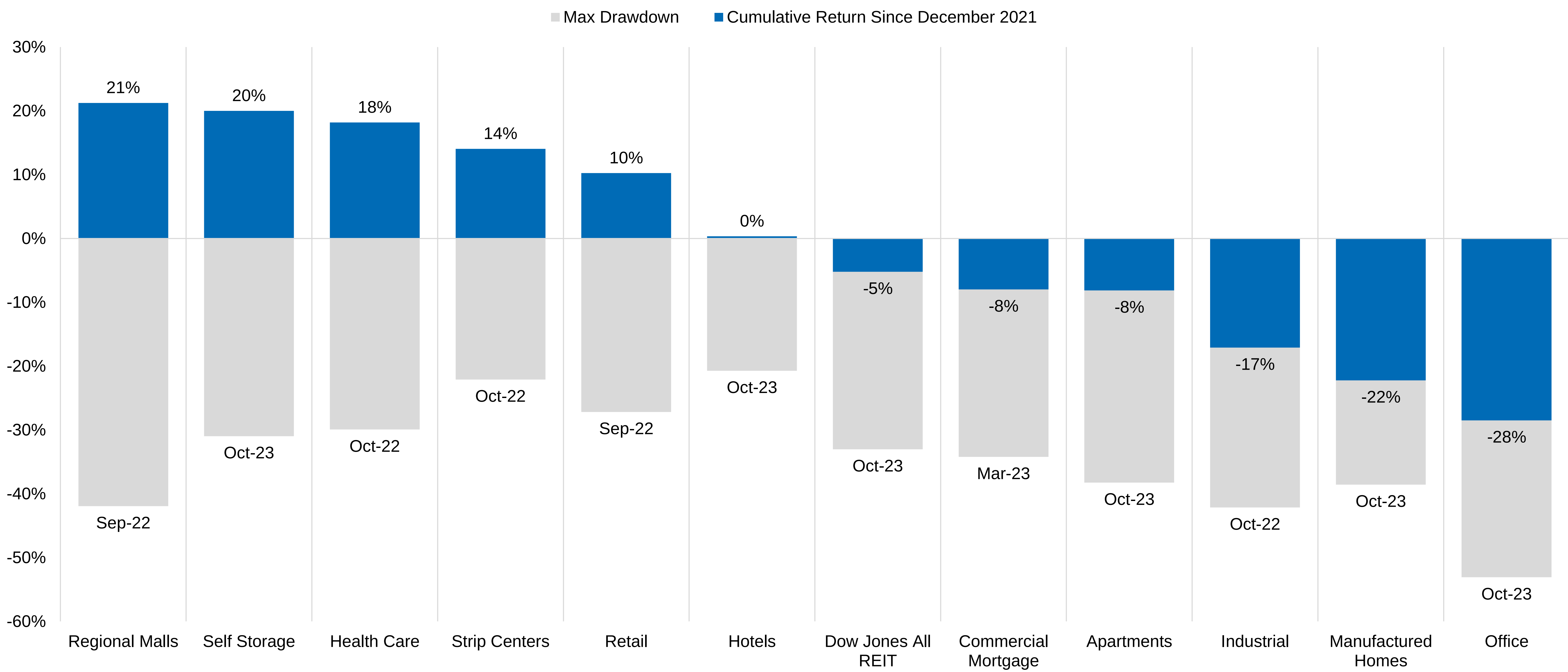
Source: Green Street, RCA, Newmark Research as of 10/23/2024

Cap rate spreads remain narrow, though are beginning to approach normal ranges. Public market and transaction cap rates continue to indicate additional cap rate movement.

REIT Returns Have Rallied Significantly From Post-2021 Lows

All REIT sectors saw growth in the 3Q24, though some benefitted more than others. Year-to-date, Health Care (+24%), Apartments (+17%), and Self Storage (+15%) have outperformed the overall REIT index (+6%). Apartment REITs, however are still recovering from a pullback in 2023, while Office (+1.2%), Industrial (-3.8%) and Commercial Mortgage (-5.6%) REIT pricing YTD continues to lag behind the All REIT index.

Dow Jones REIT Index Total Returns



Source: Dow Jones, Moody's, Newmark Research as of 10/28/2024

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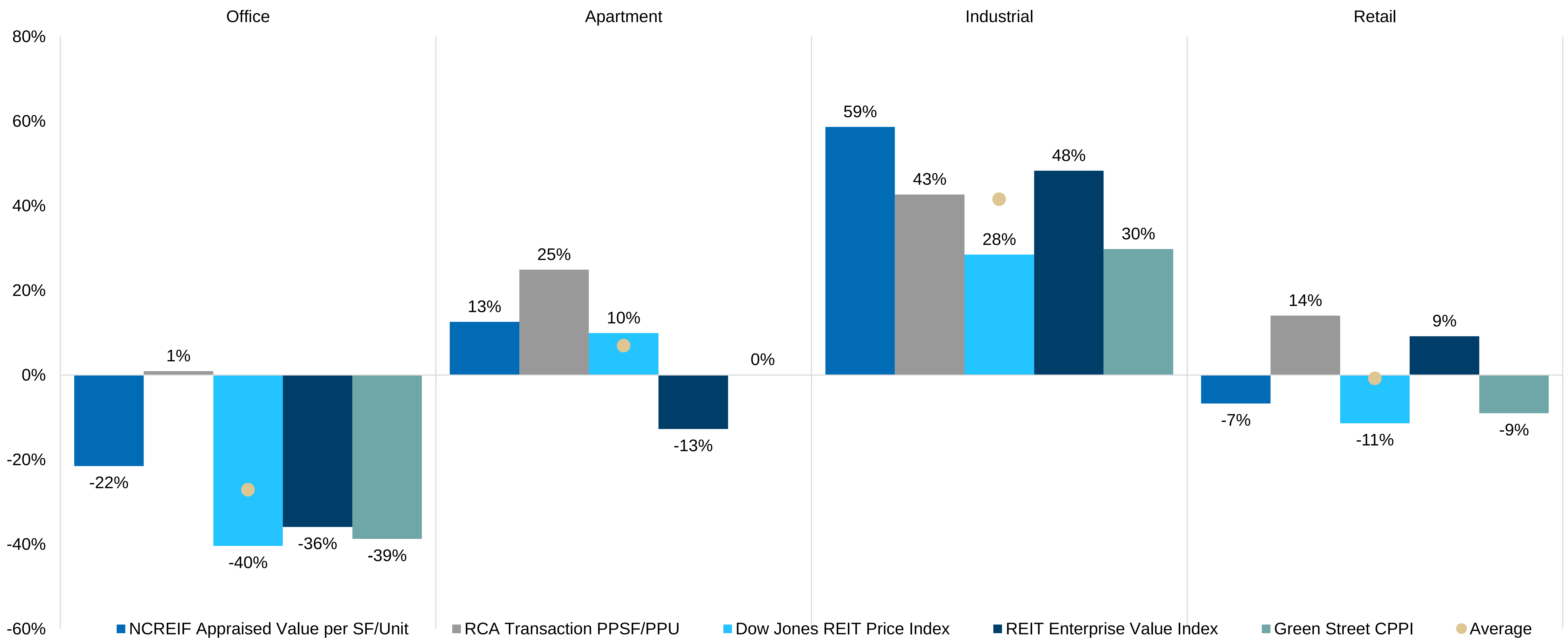
What Has Happened To Values? Depends On The Benchmark

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 a clear outlier. Retail measures, on the other hand, have little consistency.

Comparison of Value Benchmarks: Cumulative Index Change since 4Q19

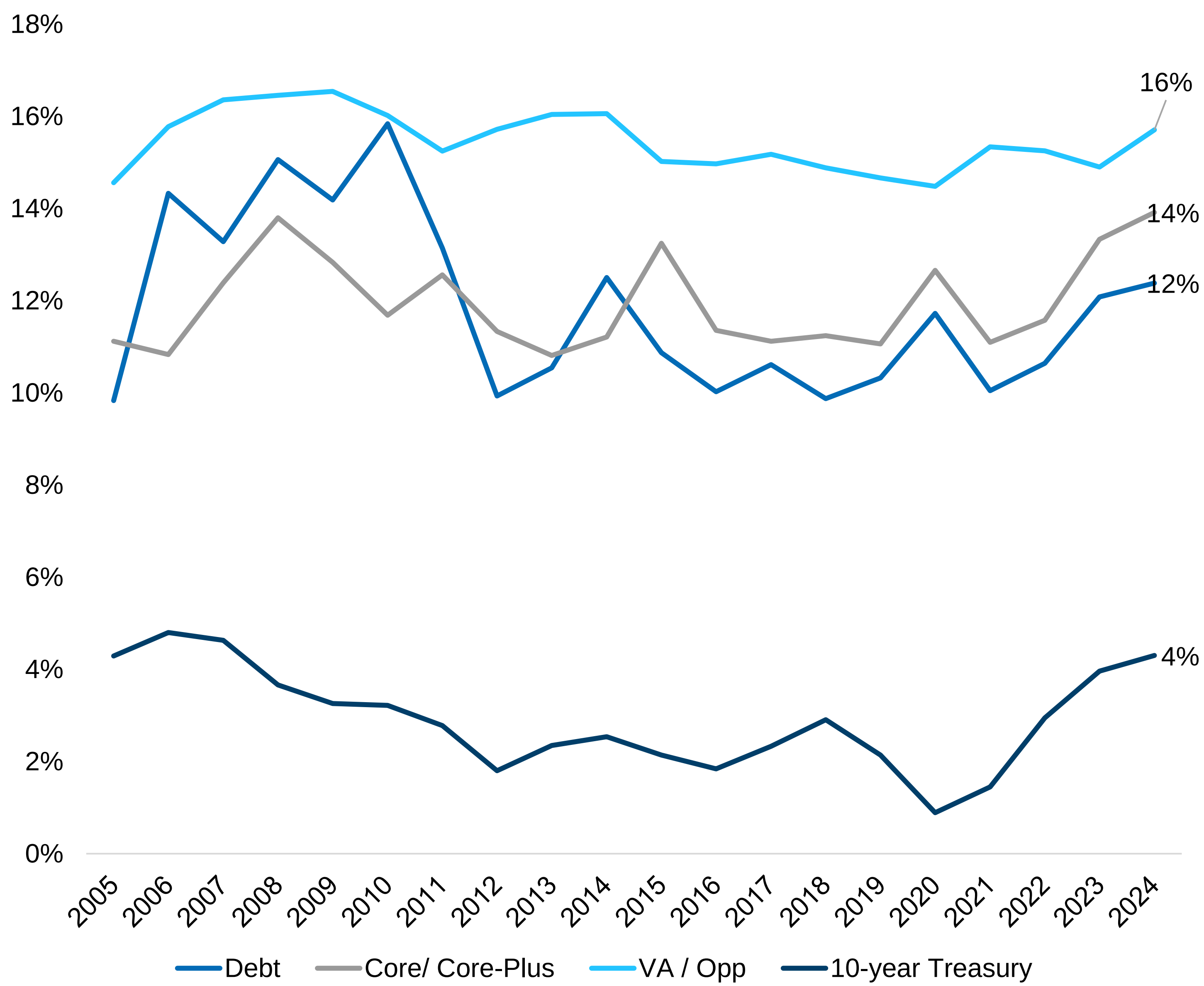


Source: NCREIF, RCA, Dow Jones, Green Street, Moody's Analytics, Newmark Research as of 10/23/2024

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



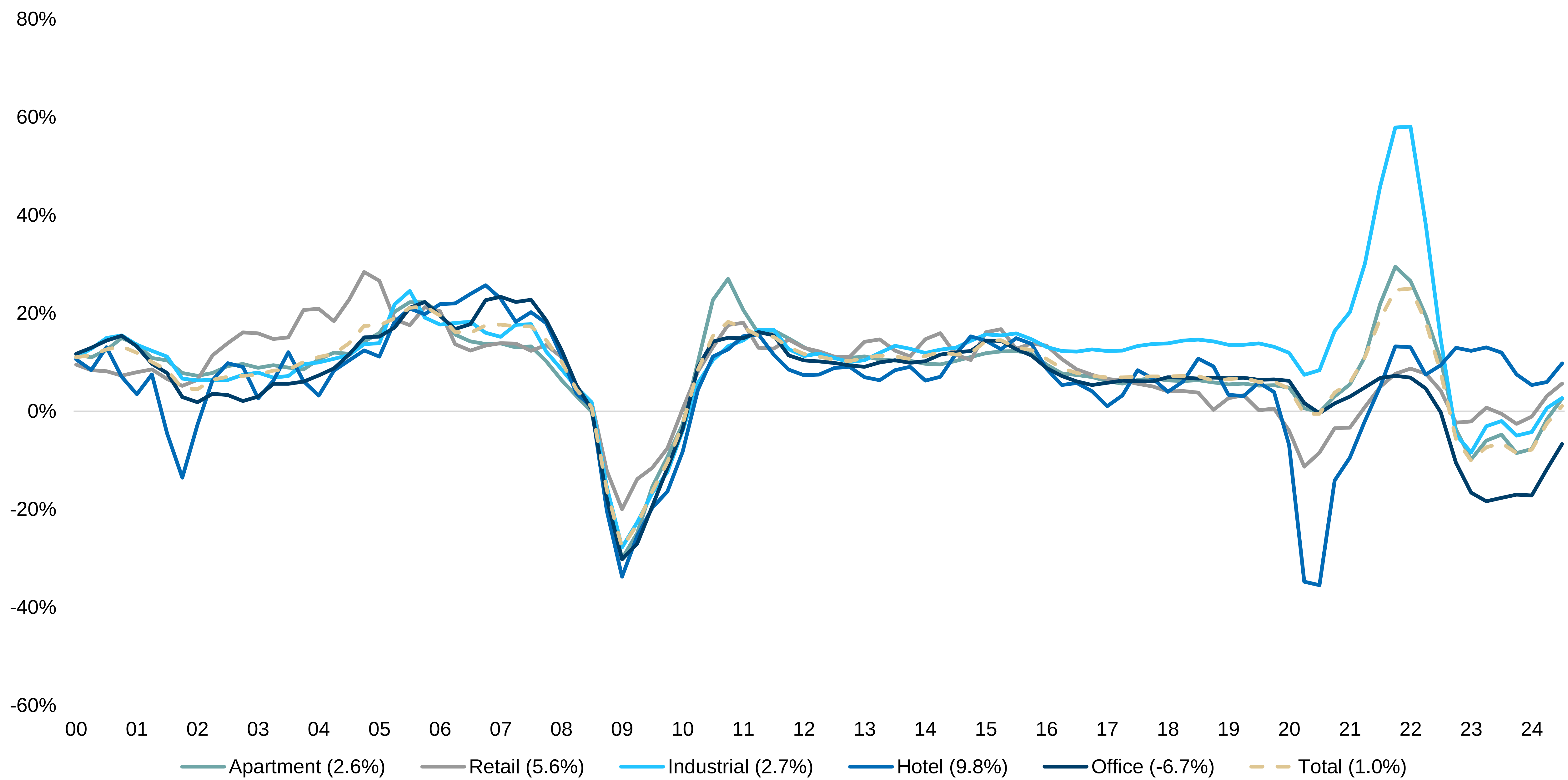
Average Target IRR less 10-Year Treasury Yield

Source: Preqin, Federal Reserve, Newmark Research as of 10/30/2024

Private Market Core Property Returns Continued To Accelerate In 3Q24

Property returns improved broadly in 3Q24 according to NCREIF. The 6-month average annualized Total Return (+1.0%) index turned positive for the first time in two years, buoyed by an acceleration return in all major property types. The only property type with negative returns, Office, saw a significant acceleration with average annualized returns of -0.7%, while Retail (+5.6%) returns beat the total return index for an 8th straight month.

NCREIF National Property Index 12-Month Average Quarterly Annualized Total Return



Source: NCREIF, Newmark Research as of 10/30/2024

Returns Broadly Improved Sequentially Across Property Subtypes In 3Q24

Multifamily returns continued to improve in 3Q24 with little difference in the subtypes. Warehouse, R&D, and Flex returns were positive a second straight quarter after 2 years of negative returns. Suburban Office continues to outperform CBD, however both are recovering and reposted their best quarterly return since 2022. All retail subtypes recorded positive total returns in 3Q24. Retail performance was strongest in community and power centers.

NCREIF National Property Index Rolling 12-Month Average Annualized Returns

Source: NCREIF, Newmark Research as of 10/30/2024

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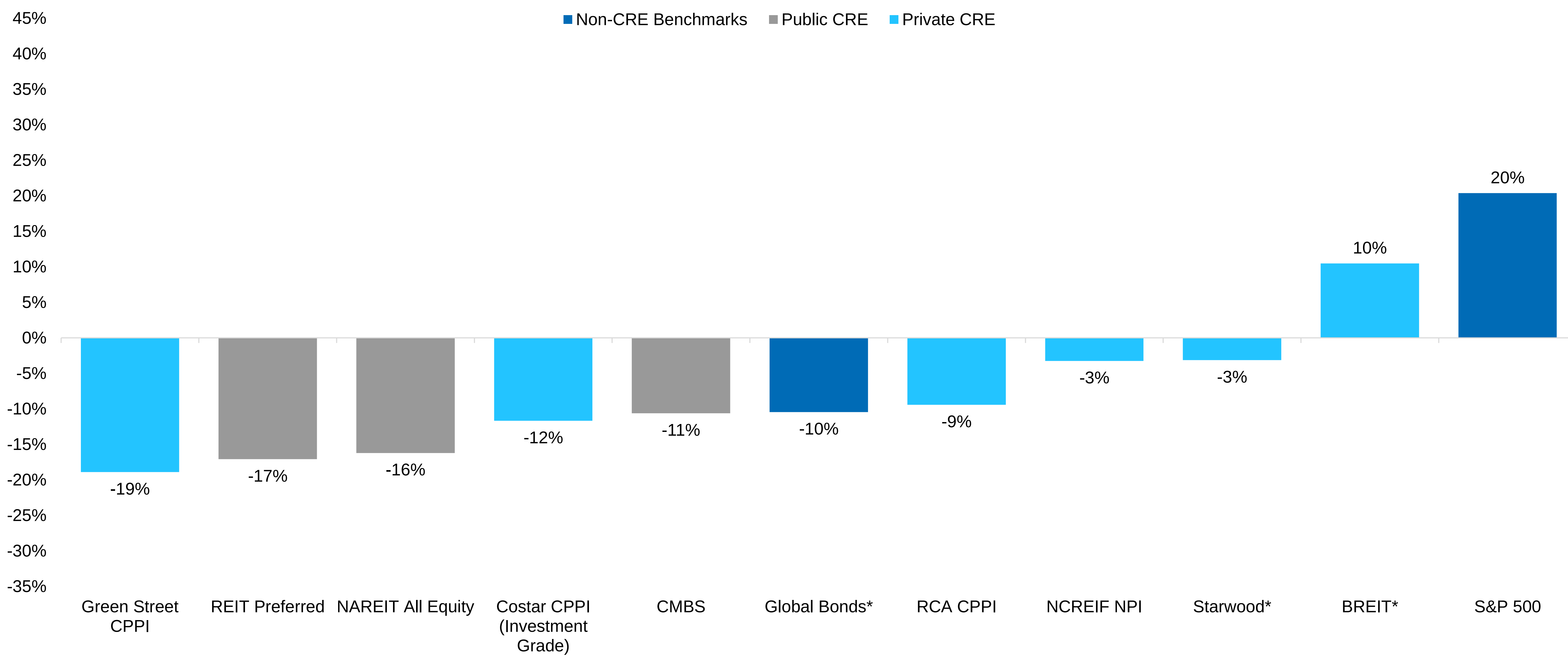
Private Markets Continue To Lag Public Markets In Adjusting Valuations

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 10/302024

*Total return; all else price return

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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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