

4Q24

# State of the U.S. Capital Markets

**NEWMARK**



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# Market Observations

- **Economy.** The fourth quarter of 2024 saw expectations for the U.S. economy firm up for the first time in a long time. GDP growth in 2024 came in at a strong 2.8%, with solid growth from consumers. 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 to 80 basis points above the Fed's long term target since May. Rate market expectations have largely settled on 2 rate cuts, though longer term yields have been more volatile, ranging anywhere from 3.7% to 4.6% during the 4<sup>th</sup> quarter, and was as high as 4.8 in January, 2025. 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% to low 4% range even after the Fed has normalized its policy stance.
- **Debt Markets.** CRE debt origination activity picked up momentum to end 2024, though volumes remain well below pre-pandemic averages. Overall, origination volume was up 15% in 2024. The number of active lenders has appeared to bottom out, and the 4<sup>th</sup> quarter posted the most unique lenders since 2023Q4, though still down nearly 30% from peak. Originations rose in 2024 in every sector aside from Retail and Dev Sites offsetting declines in other sectors. Banks were the only lender group to see volume decline year-over-year, but the 4<sup>th</sup> quarter showed positive momentum for the lending group, increasing 35% compared to 24Q3. 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. 448 basis points at the end of 2024. 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 \$542 billion in debt maturing between 2024 and 2026 is potentially troubled.
- **Equity Markets.** Investment sales increased 6% year-over-year in 2024 but down 29% compared with the 2017-to-2019 average. Office sales were up 65% quarter-over-quarter, while multifamily was up 20%. Liquidity has been strongest for smaller transactions. Deals under \$100M made up 66% of volume traded in the last four quarters. Institutional investment was up in 2024 by 28%, with a 49% increase in Office acquisitions, though institutional remains net sellers of Office.
- **Supply of Capital.** Dry powder at closed-end funds currently sits at \$328 billion, down 12% since December 2022. Dry powder at value-added, opportunistic and debt funds are now well-off their peak levels, with most of that targeting Residential and Industrial properties. Much of this dry powder was raised from prior vintages. ODCE fund flows decelerated showed net outflows for an 9th 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. 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 4Q24 and posted its second straight quarter of positive returns. All sectors recorded positive total returns except for office. 80% of markets recorded positive total returns in 3Q24 up from 69% in 4Q23.



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4Q24 US CAPITAL MARKETS REPORT

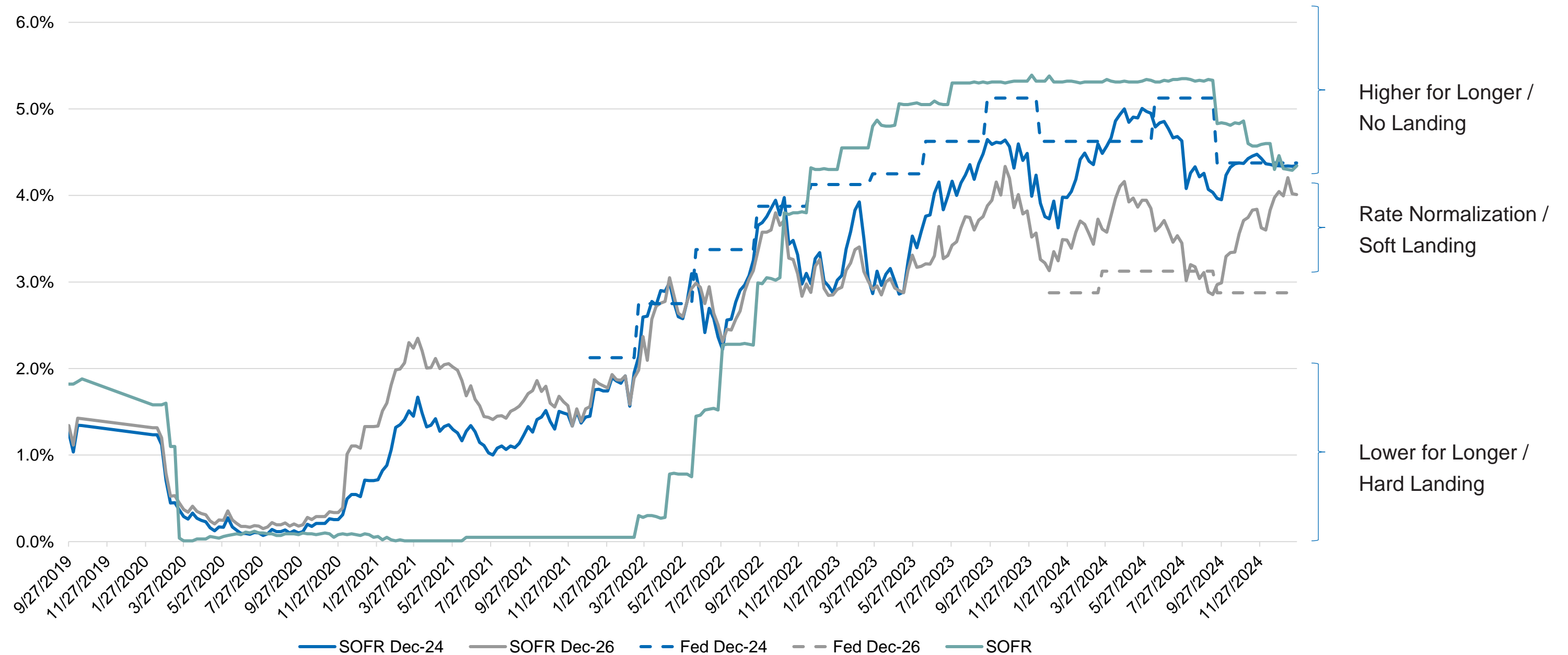
# Debt Capital Markets



# 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 1/24/2025

# Newmark Scenario Weighted Terminal 10-Year Treasury Yield Up To 4.3%

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 4.3%.**

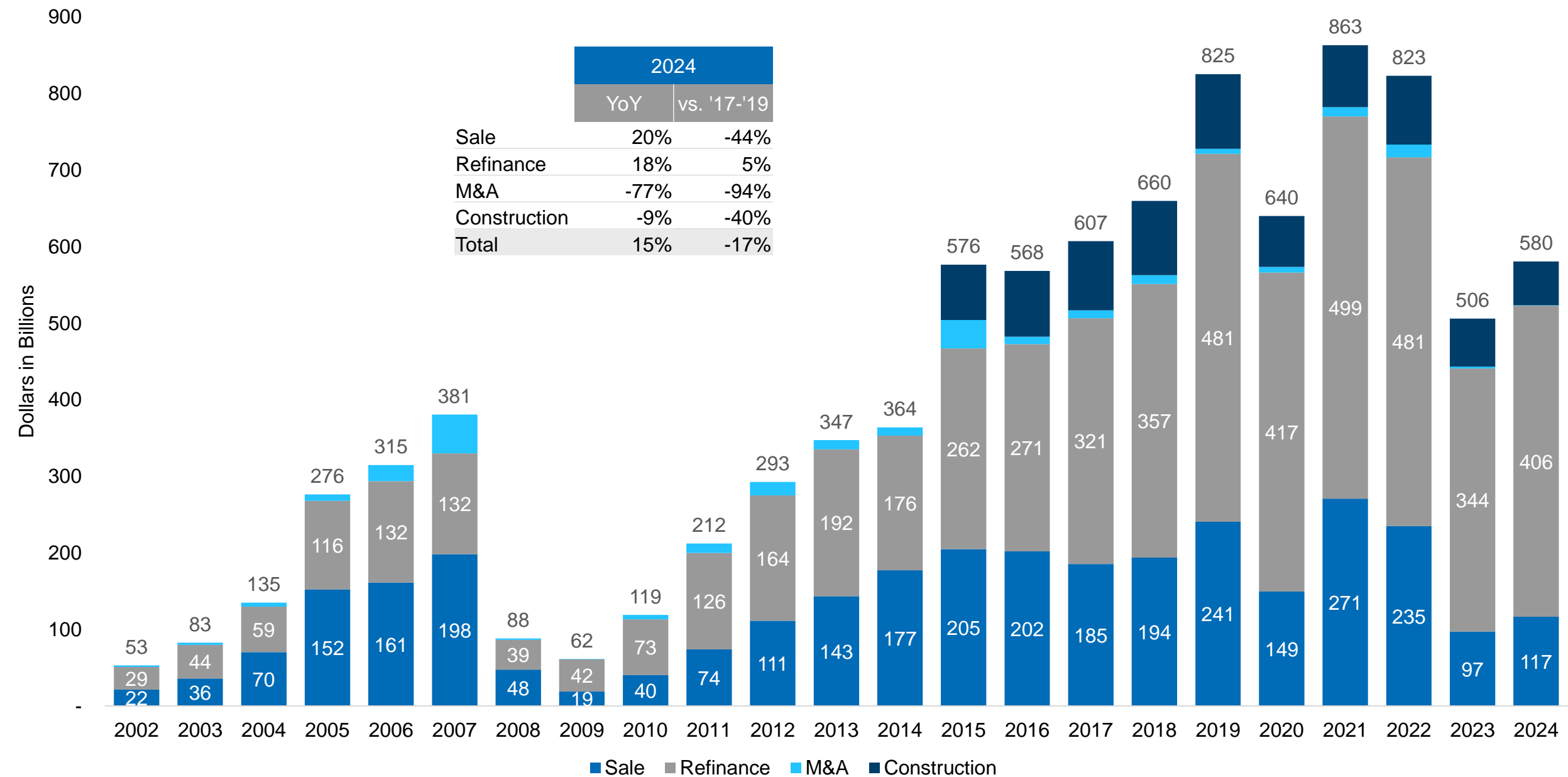
Narrative	Definition	Dominant Narrative Dates	Fed Funds in December 2025	Long-term Fed Funds	10Y Treasury	Credit Spreads (vs. History)	NMRK Research Probability (NTM)
No Landing	Economic growth remains above long-term trend and inflation moderates without significant rate cuts	October 2023	4.00% to 4.50%	4.00% or greater	5.00% or greater	Stay Low	15%
Inflation Stubborn, Growth Moderate	Inflation remains significantly above Fed target even as growth moderates	April 2024	4.25% to 4.75%	3.50% to 4.50%	4.00% to 5.00%	Average To Moderately Tight	40%
Soft Landing	Inflation returns to target, growth returns to long term average. Fed normalizes monetary policy	June 2023	3.50% to 4.00%	3.00% to 3.50%	3.50% to 4.20%	Return to Average	35%
Hard Landing	Economy falls into recession and inflation drops to target or lower; Fed cuts aggressively	August 2024, Dec/Jan 2023	0.00%	2.50% to 3.00%	2.50% to 3.50%	High	10%

Source: Newmark Research as 1/14/2025

# Debt Origination Up 15% YoY in 2024; Refinancings Above '17-'19 Average

In 2024, loan origination volumes have shown signs of recovery, with 2024 figures surpassing those of 2023. Refinancing volume improved over the 2017-2019 average while acquisition financing continues to lag. Both sales and refinancing activities increased particularly strongly in the fourth quarter, supported by a more favorable interest rate environment for commercial real estate lending. However, the Federal Reserve also decreased their expected 2025 cuts from 4 to 2, forcing markets to price in higher rates going forward.

## Commercial Real Estate Debt Origination Volume



Source: RCA, Newmark Research as of 1/21/2025

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



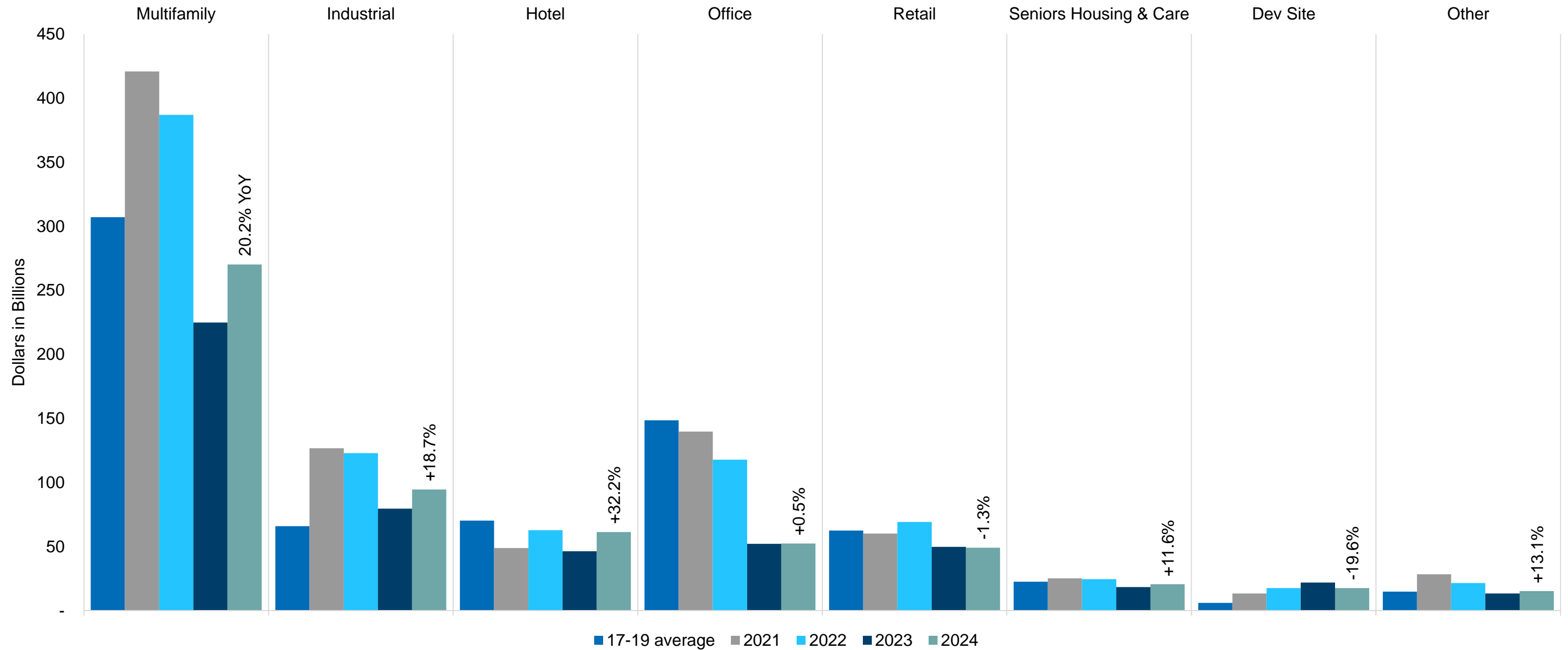


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# Originations Increased in 2024 Outside Of Retail Sector

However, Office (-65%), Retail (-21%), and Multifamily (-12%), lending remained below their respective 2017-to-2019 averages. In contrast, industrial originations were up 19% year-over-year and up 44% compared with the 2017-to-2019 average.

## Commercial Real Estate Debt Origination Volume

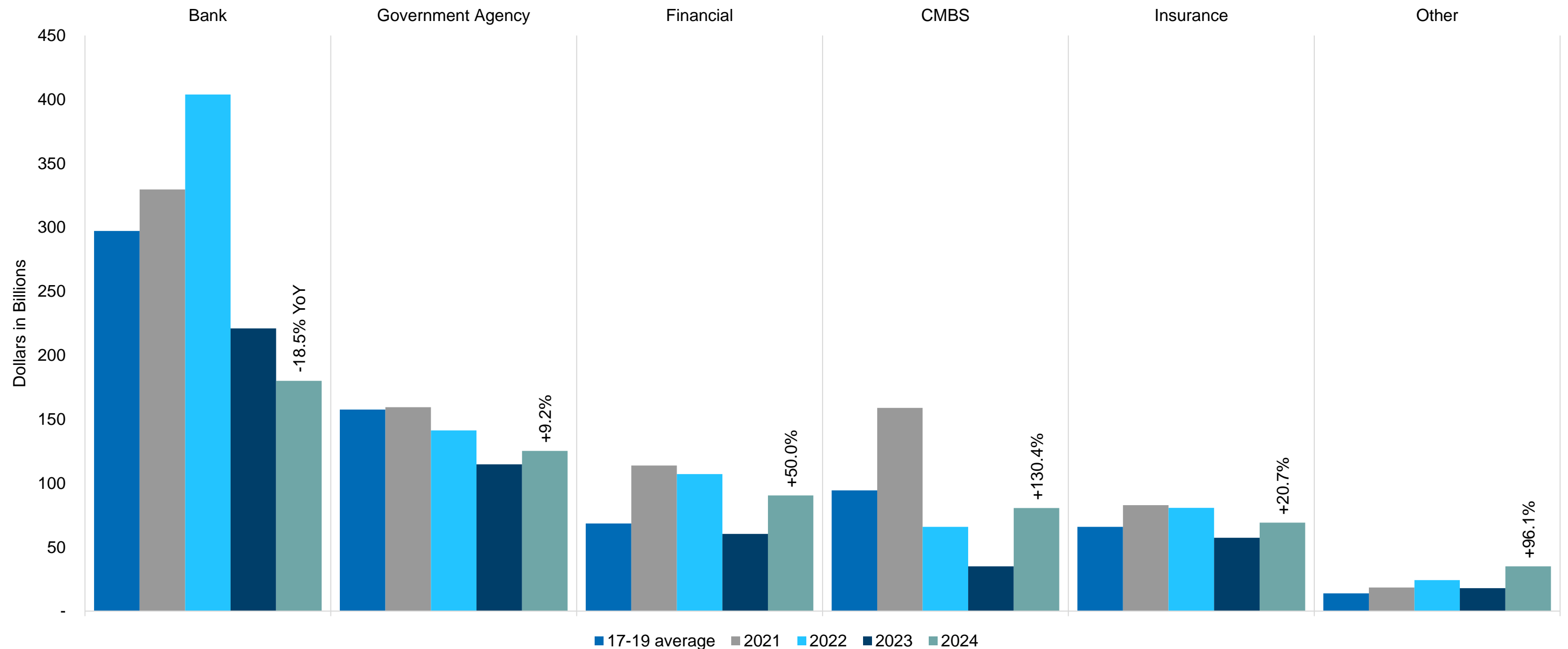


Source: RCA, Newmark Research as of 1/21/2025  
 Note: Loan origination volumes are adjusted for future expected revisions using Newmark's proprietary models.

# Everything But Banks Increased Origination Volume in 2024

Banks originations remained weak in 2024, down 19% YoY compared to 2023. Bank origination volume in 24Q4 did pick up 35% compared to 3<sup>rd</sup> quarter, providing some momentum going into the new year. Banks' weakness was more than offset by increased lending from securitization, debt funds and insurance companies. SASB in particular has surged, with multiple office deals pricing in 2024 after zero office SASB issuances in 2023. Government agency lending picked up significantly in the 4<sup>th</sup> quarter, driving the annual increase.

## Commercial Real Estate Debt Origination Volume

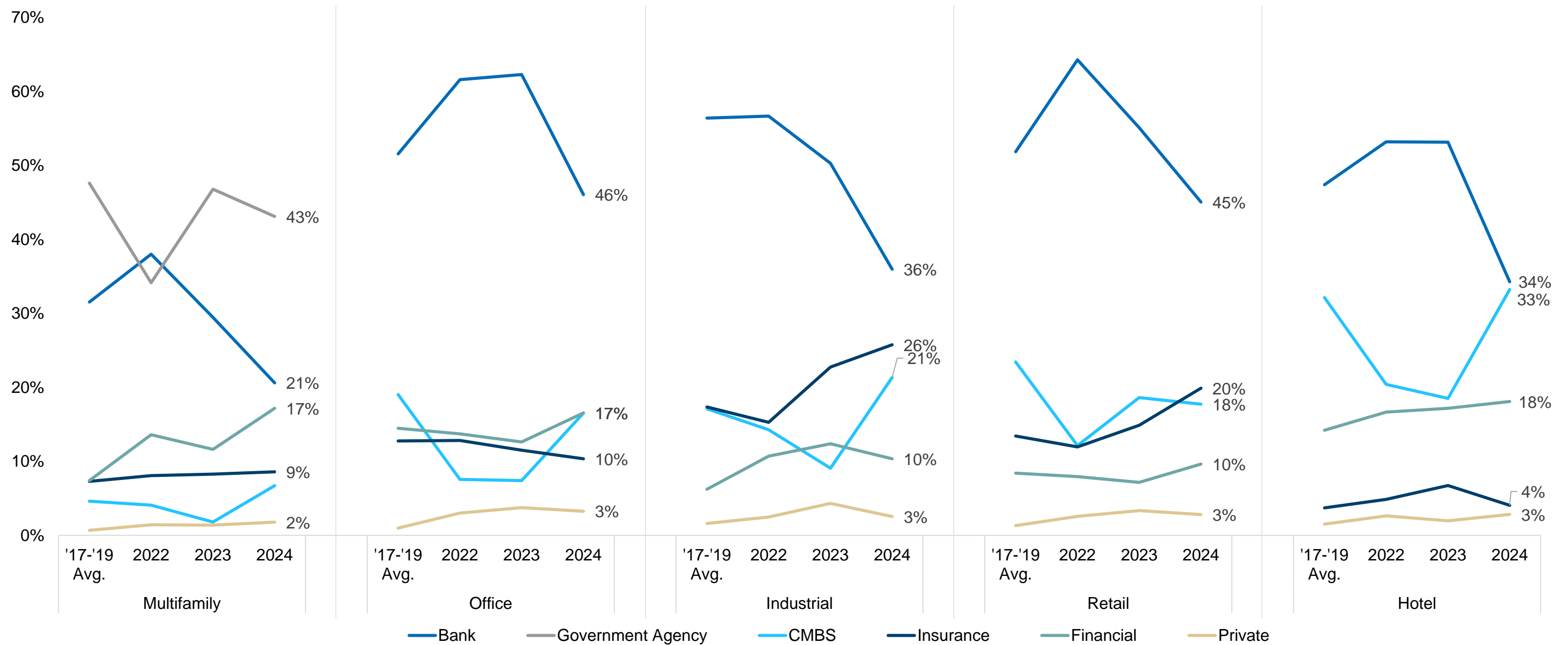


Source: RCA, Newmark Research as of 1/21/2025  
 Note: Loan origination volumes are adjusted for future expected revisions using Newmark's proprietary models.

# Bank Share of Originations Fell Sharply in 2024

Banks remain the dominant source of CRE financing, though their market share fell sharply in 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 1/21/2025  
 Note: Loan origination volumes are adjusted for future expected revisions using Newmark's proprietary models.



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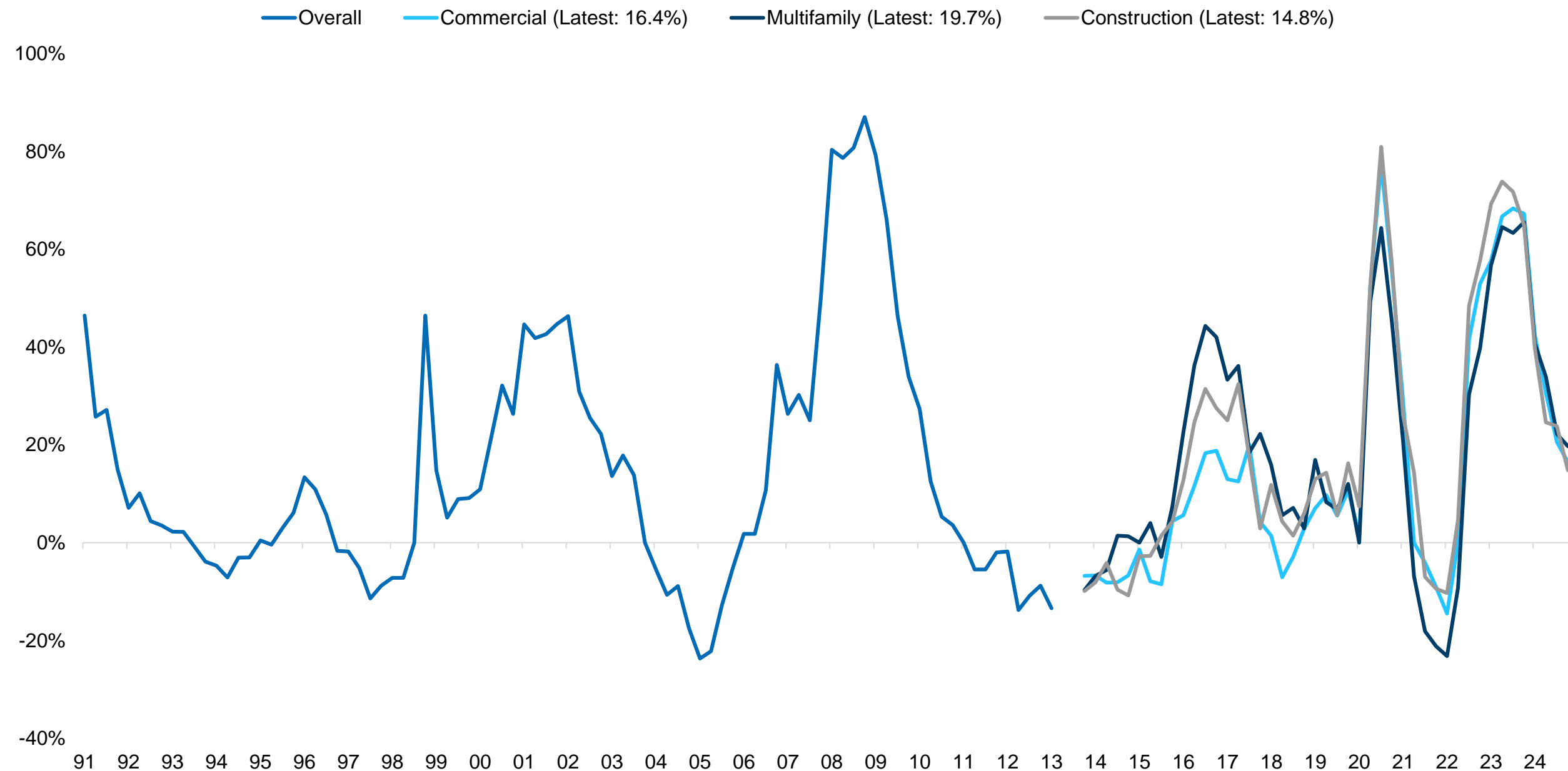


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# Banks Are Still Tightening Standards, But Pace of Tightening Has Slowed

Banks continued tightening lending standards in 4Q24; 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 12/31/2024



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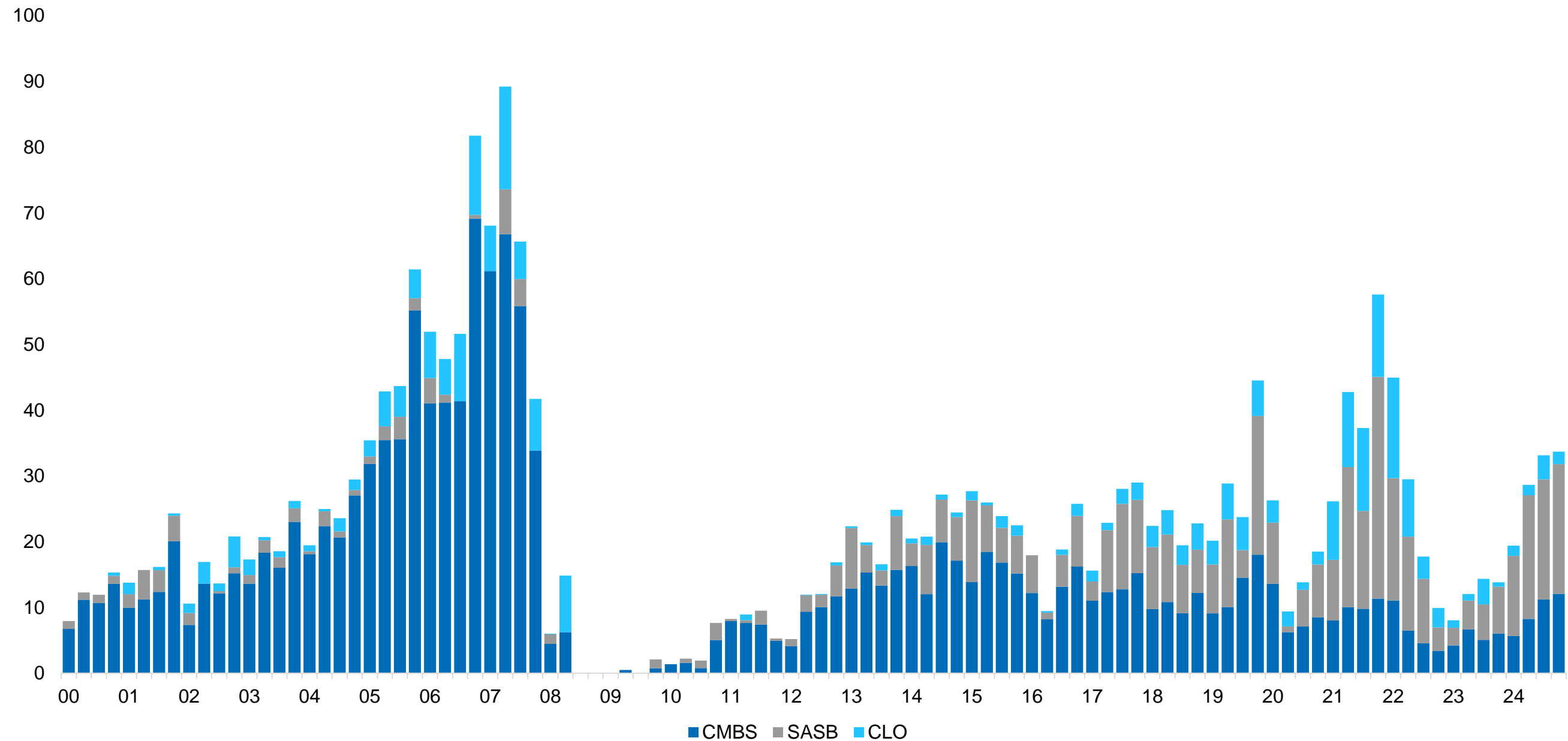
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Banks are likely to spend the next several years reducing their CRE exposures. This means less overall credit availability but also opportunities for non-bank lenders.

# 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 accounted for 60% of originations in 2024 and drove much of the increase. Moreover, Blackstone-affiliated vehicles have accounted for 29% of SASB issuance in 2024, raising the question of whether less well-known sponsors could expect similar market access.

## Quarterly CMBS Issuance

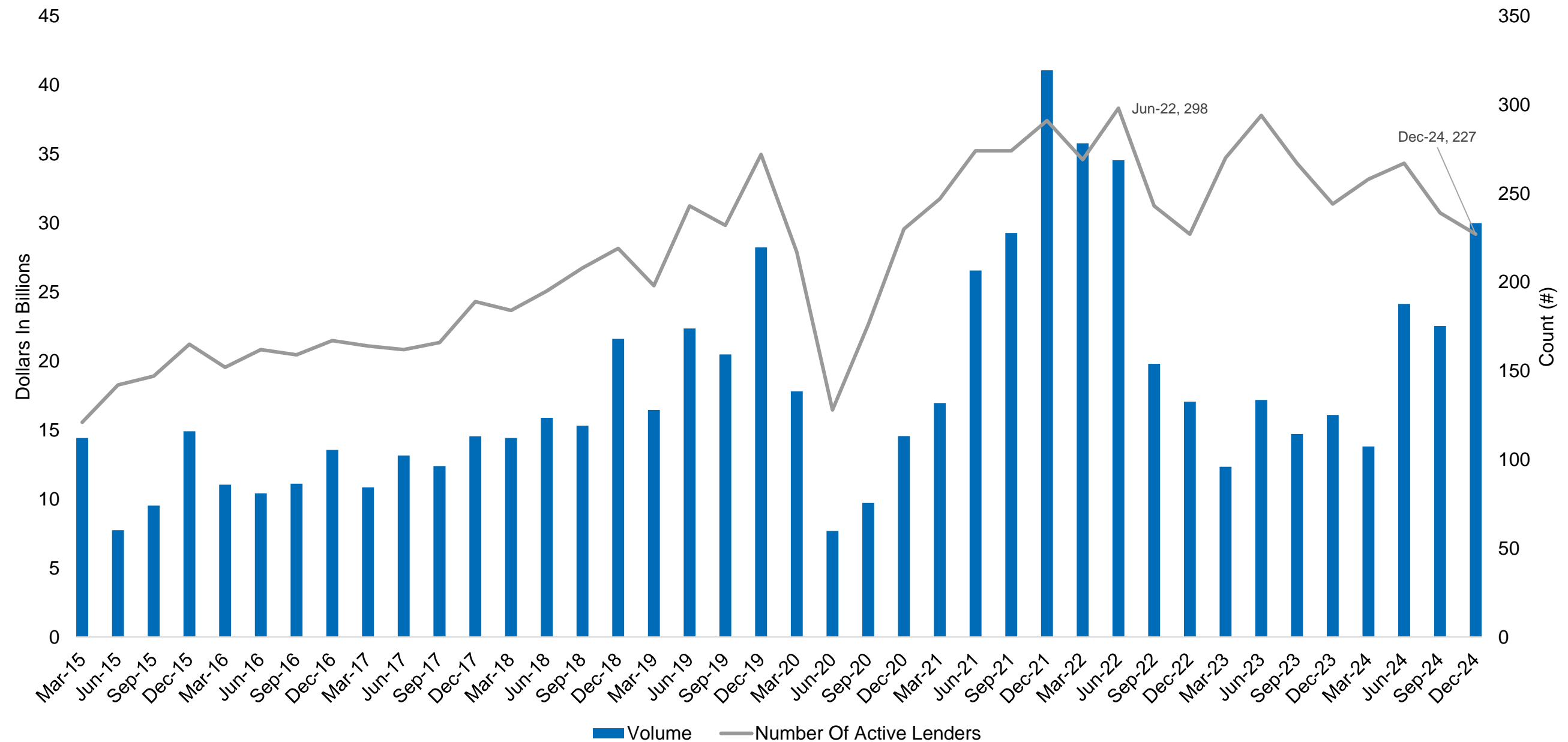


Source: Green Street, Newmark Research as of 1/27/2025

# Financial Company Lenders Have Been Active Throughout The Rate Cycle

Private lenders have continued lending throughout the cycle, with volume increasing significantly in the last three quarters. Financial firms focus on transitional financing, focusing on floating rate, shorter term loans. While the count of lenders has come down 24%, that is 10 percentage points less than overall lender count average.

Commercial Real Estate Debt Origination Volume and Unique Lender Count – Financial Companies

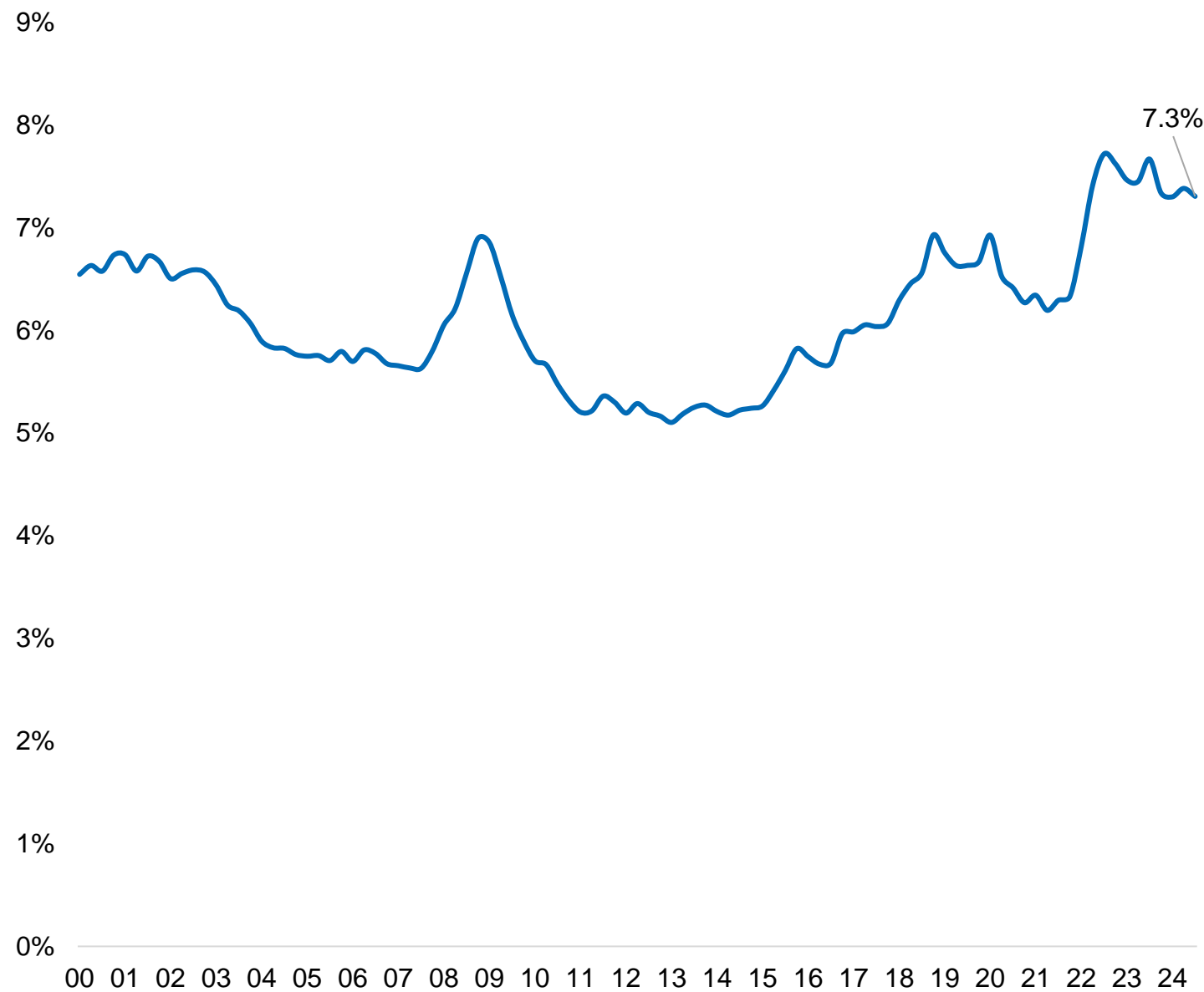


Source: RCA, Newmark Research as of 1/21/2025

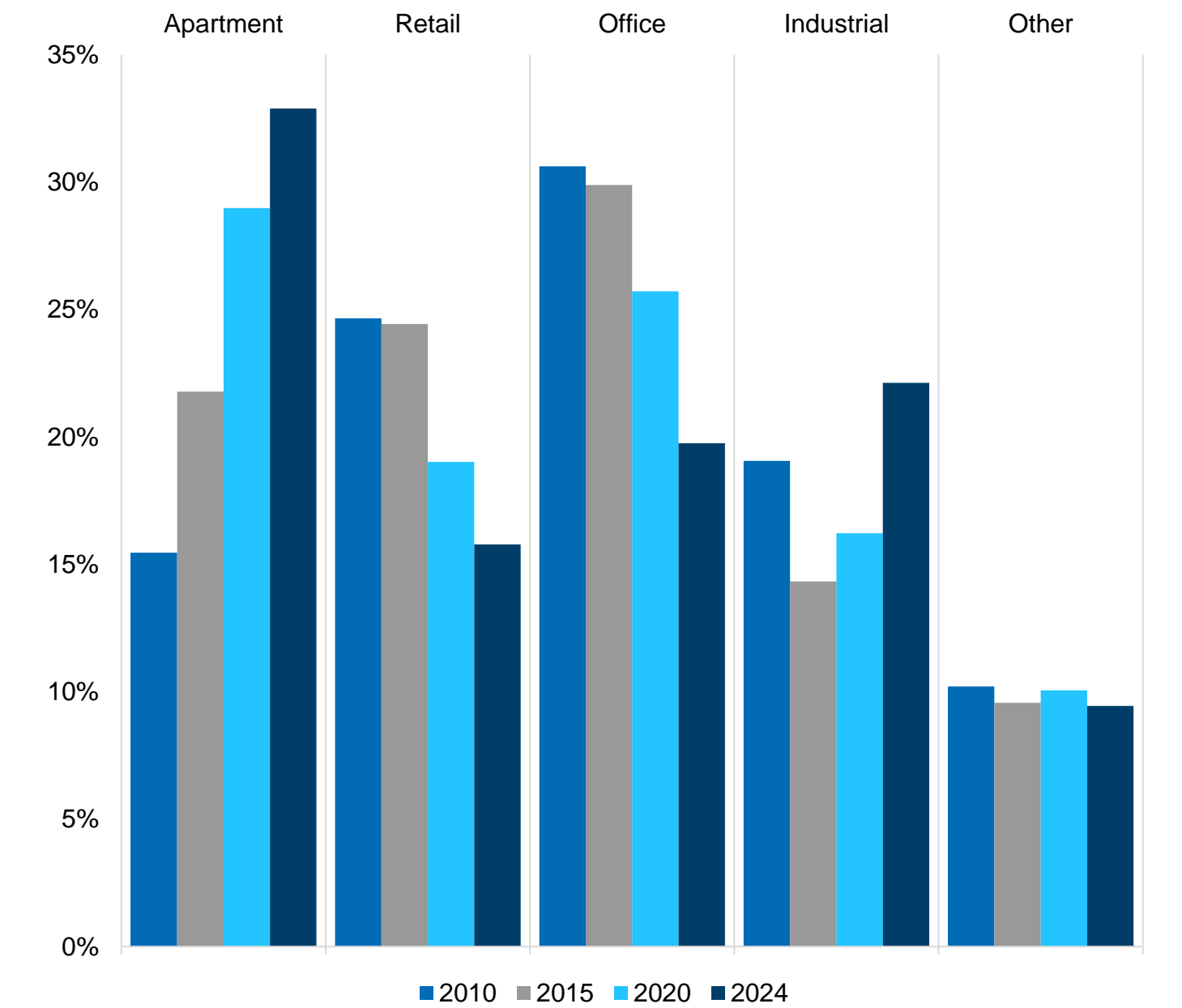
# Insurance Companies Unlikely to Fill Gap in CRE Credit Availability

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. Notwithstanding the above, as of early 2025, life insurance companies are exhibiting pronounced appetite for CRE lending, likely reflecting the more attractive yields available compared to corporate credit markets.

CRE Debt Share Of Total Life Co. Assets



CRE Debt Allocation Of Life Co's



Source: ACLI; Federal Reserve; Newmark Research; As of 1/21/2025



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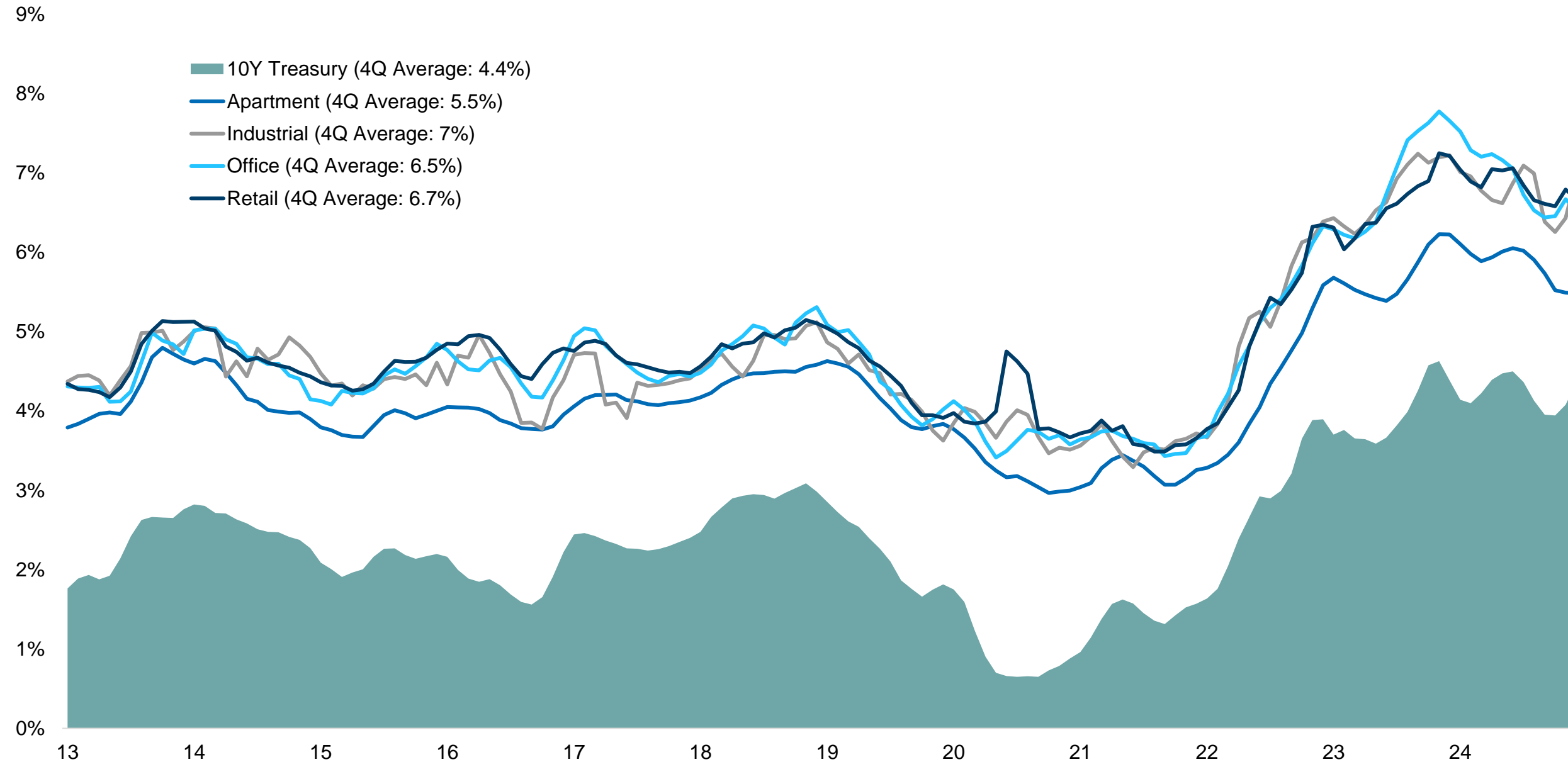


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# Fixed-Rate Debt Costs Held Steady In 4Q24, Spreads Near Long Term Average

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 fourth 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

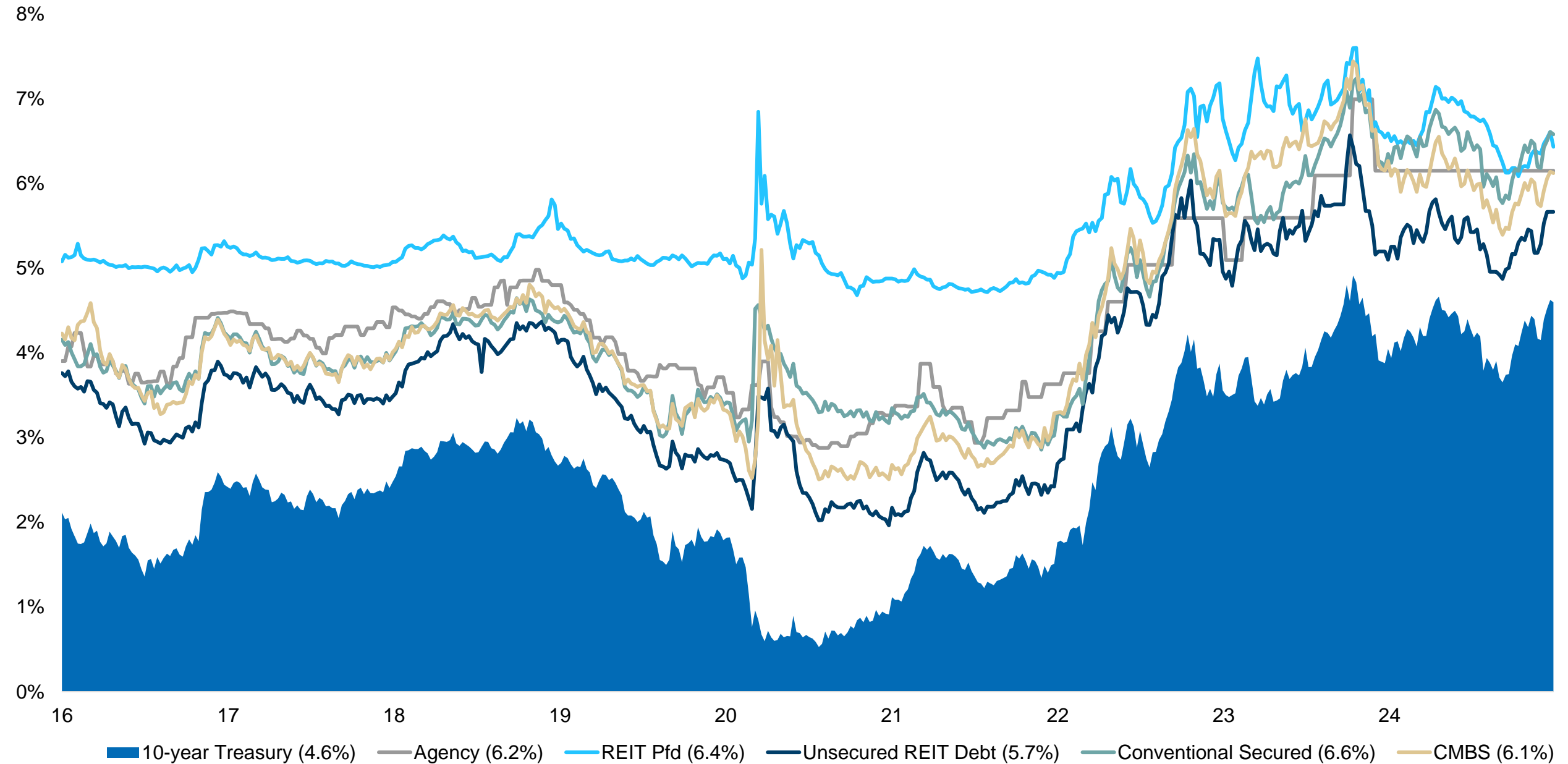


Source: Real Capital Analytics, Newmark Research as of 1/21/2025

# Public Benchmarks Point to Rising Cost of Capital Alongside Treasuries

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

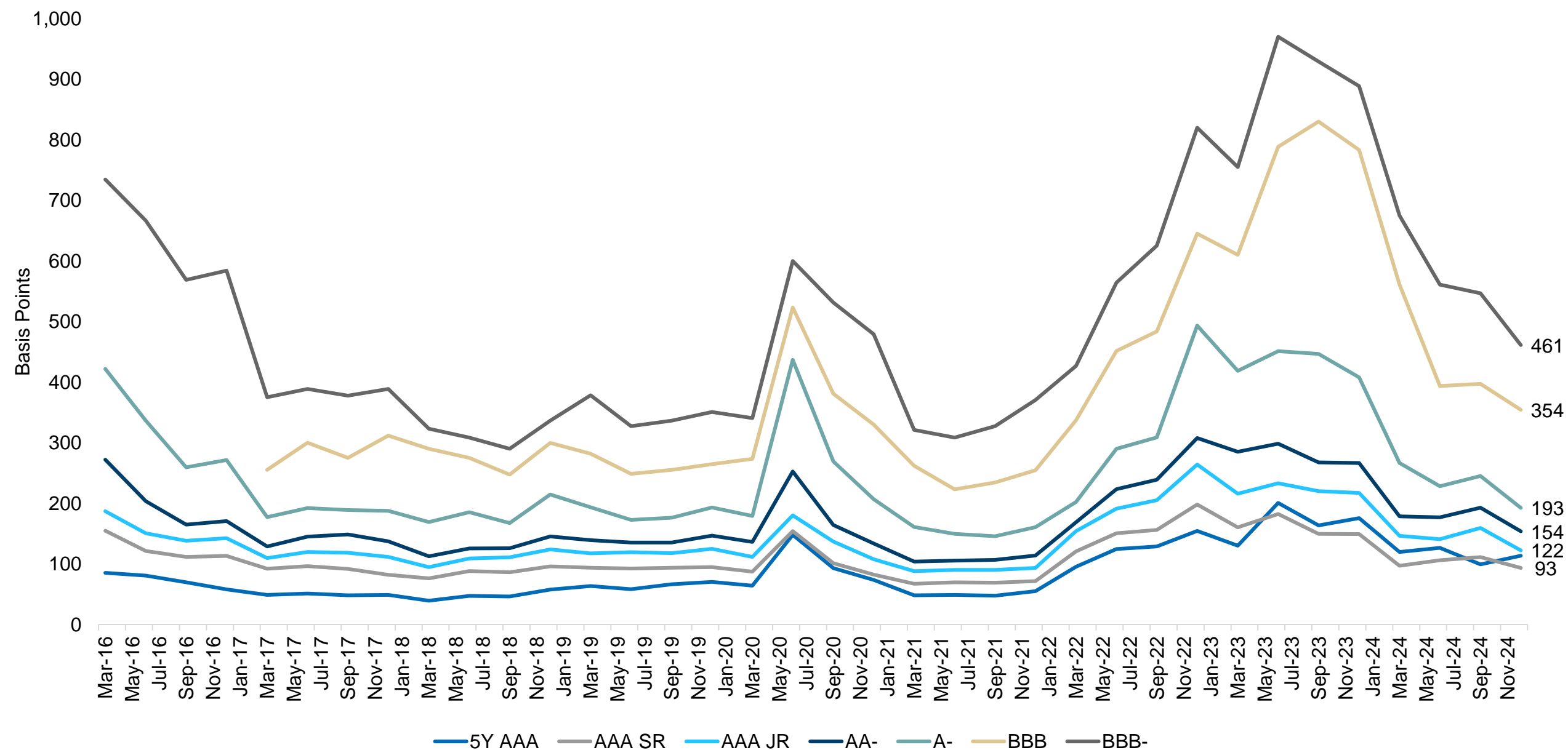


Sources: Newmark Research, Green Street as of 1/21/2025

# 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 1/27/2025



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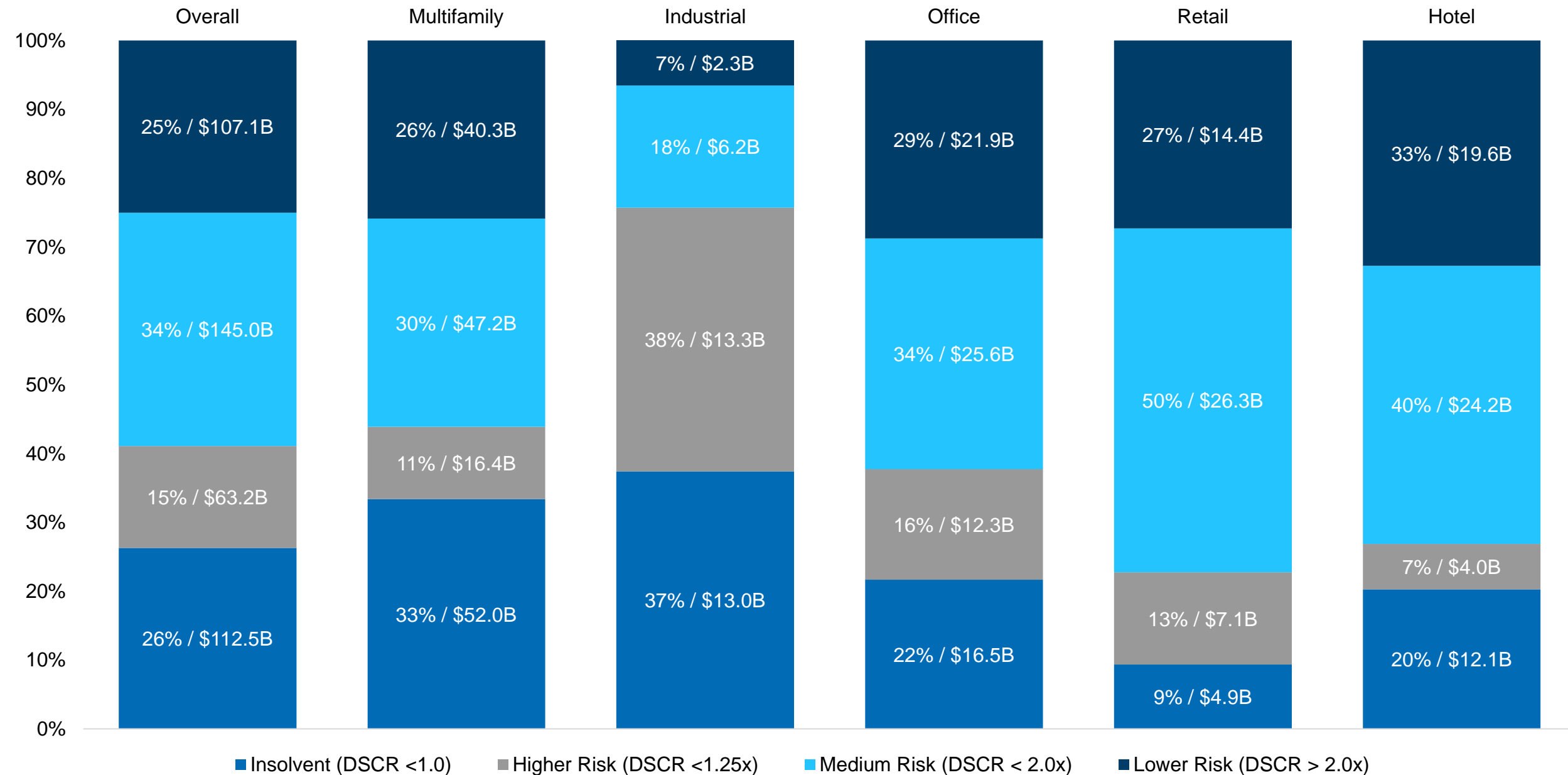
We estimate \$598 billion in loans maturing between 2024 and 2026 are potentially troubled. Office, Multifamily, and floating rate loans are of particular concern.



# 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 2027



Source: Trepp, Newmark Research as of 1/14/2025



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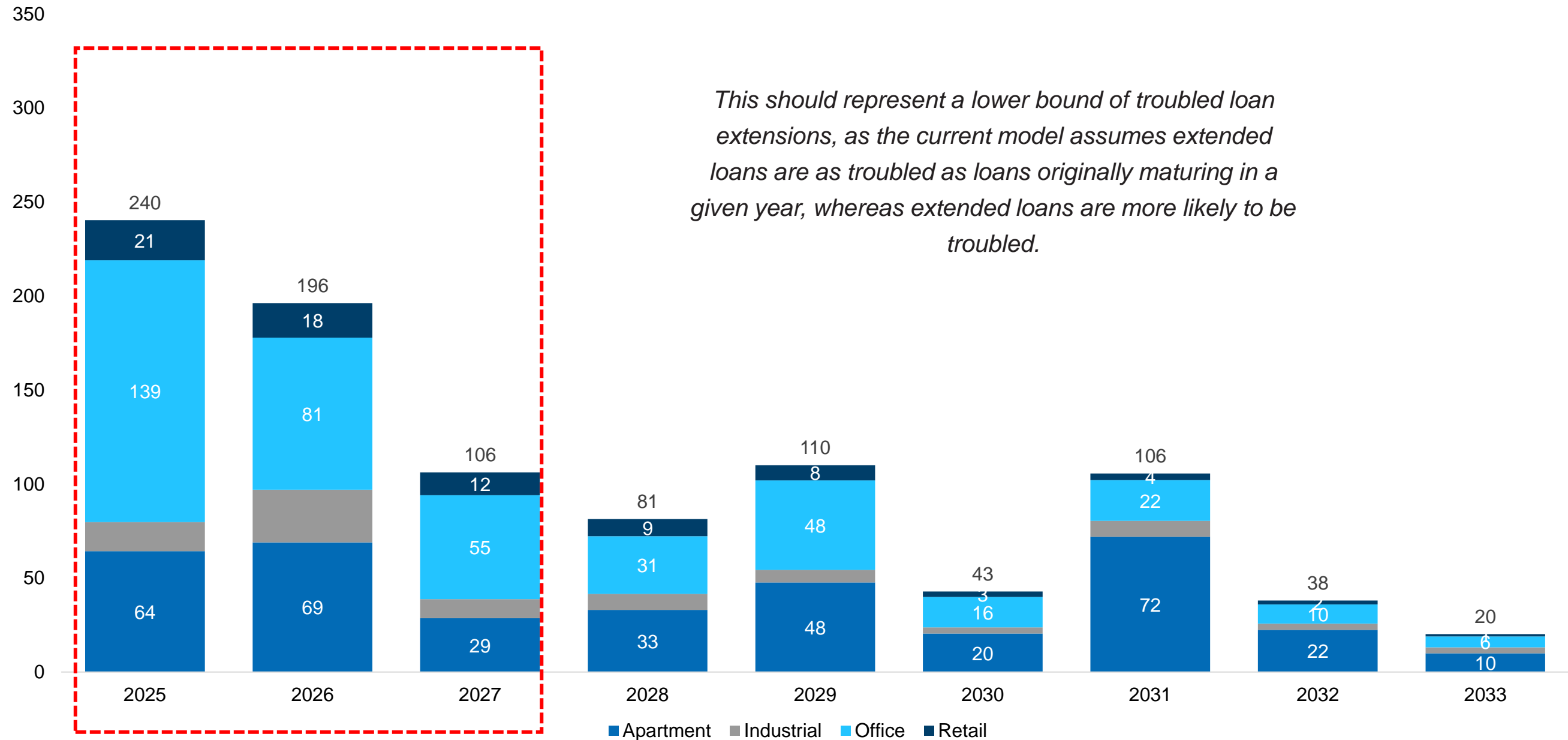


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# Nearly \$1T of Outstanding CRE Debt is Potentially Troubled, \$542B Maturing in '25-'27

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 2025-to-2027 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 1/21/2025

\*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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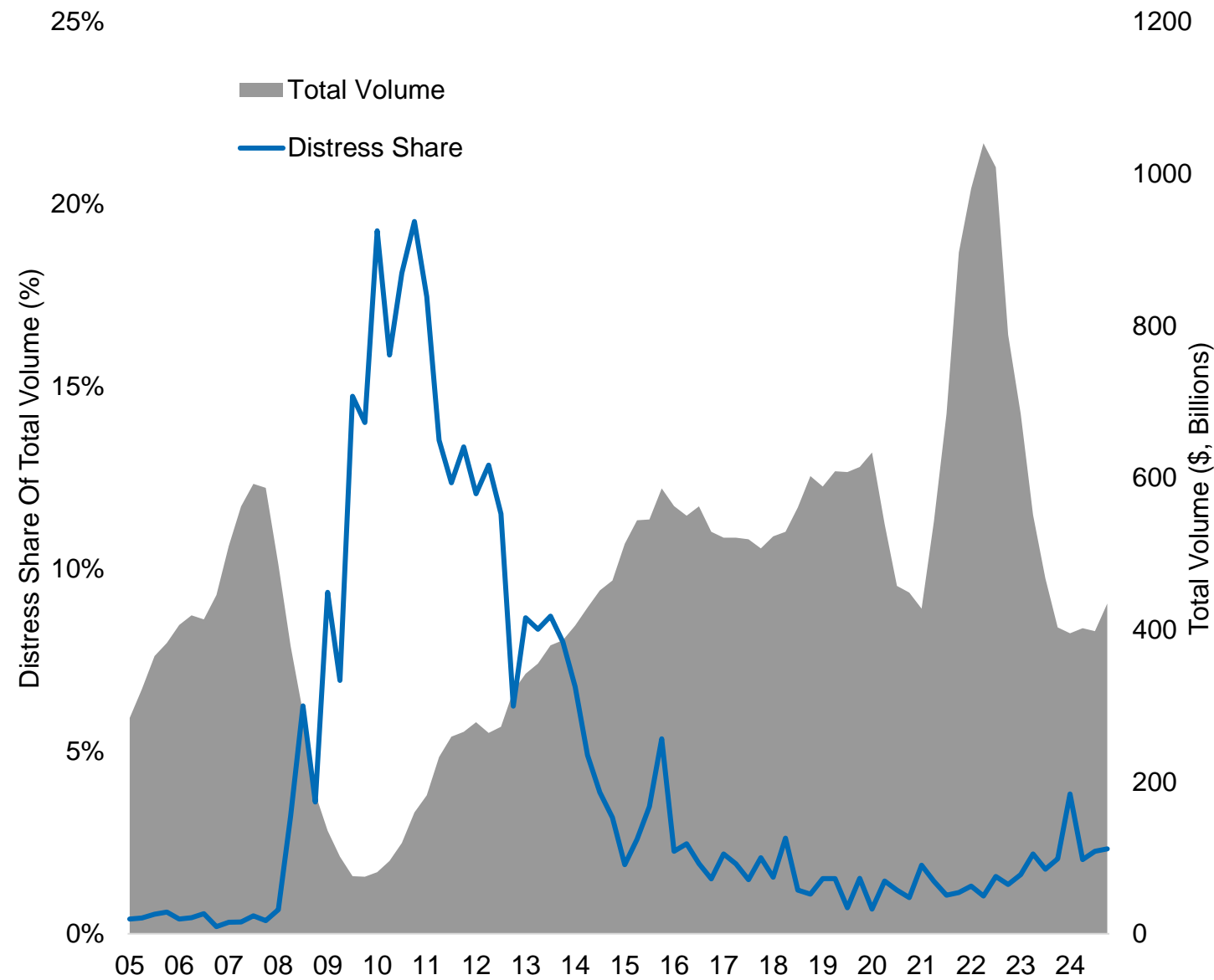
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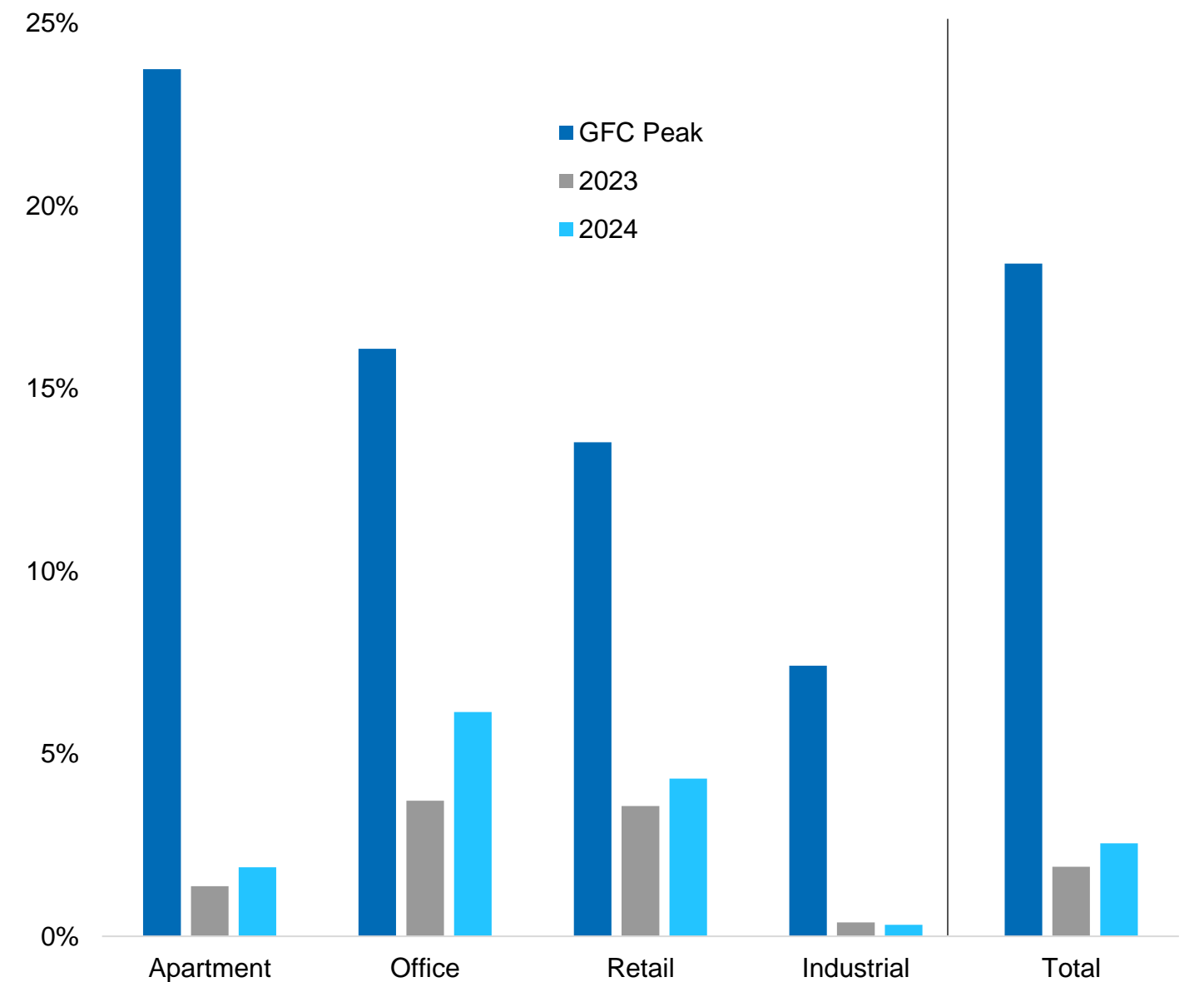
# Distress Sales Low, But Picking Up As A Share Of Total

Distress share of total volume remains well below the peaks seen during the financial crisis but has been trending up since 2022. During the last crisis distress played an important part in kickstarting the new investment cycle. Roughly 24% of the increase in volume in 2010 was due to distressed sales (mostly multifamily). In 2024, Office distress volume share passed 6%, and is roughly double 2023 levels. *Paradoxically, further increases in distressed sales would be among the most positive indicators for recovering investment sales.*

Distress Volume Share And CRE Volume - 12-Month Rolling



Distress Sale Share By Property Type

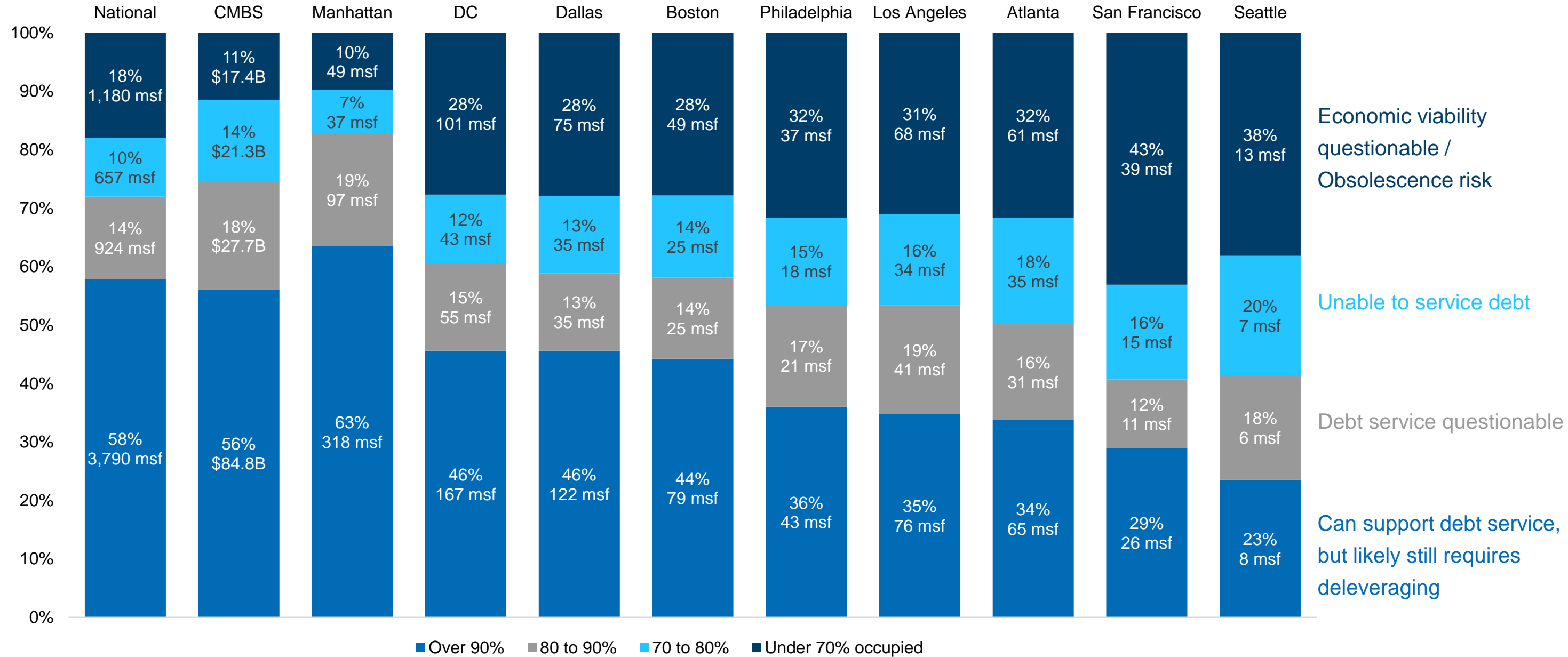


Source: RCA, Newmark Research as of 1/29/2025  
\*Based on first maturity date

# Vacancy Is Not Evenly Distributed Within Markets, Nor Will Impairments Be

A significant portion of the office market is structurally impaired from an occupancy standpoint, with debt issues likely to accelerate declines. Conversely, many offices maintain healthy occupancy levels. While some may still be over-leveraged, they have a clear path to solvency.

## Distribution of Office Vacancy



Source: Costar, Newmark Research as of 1/23/2025

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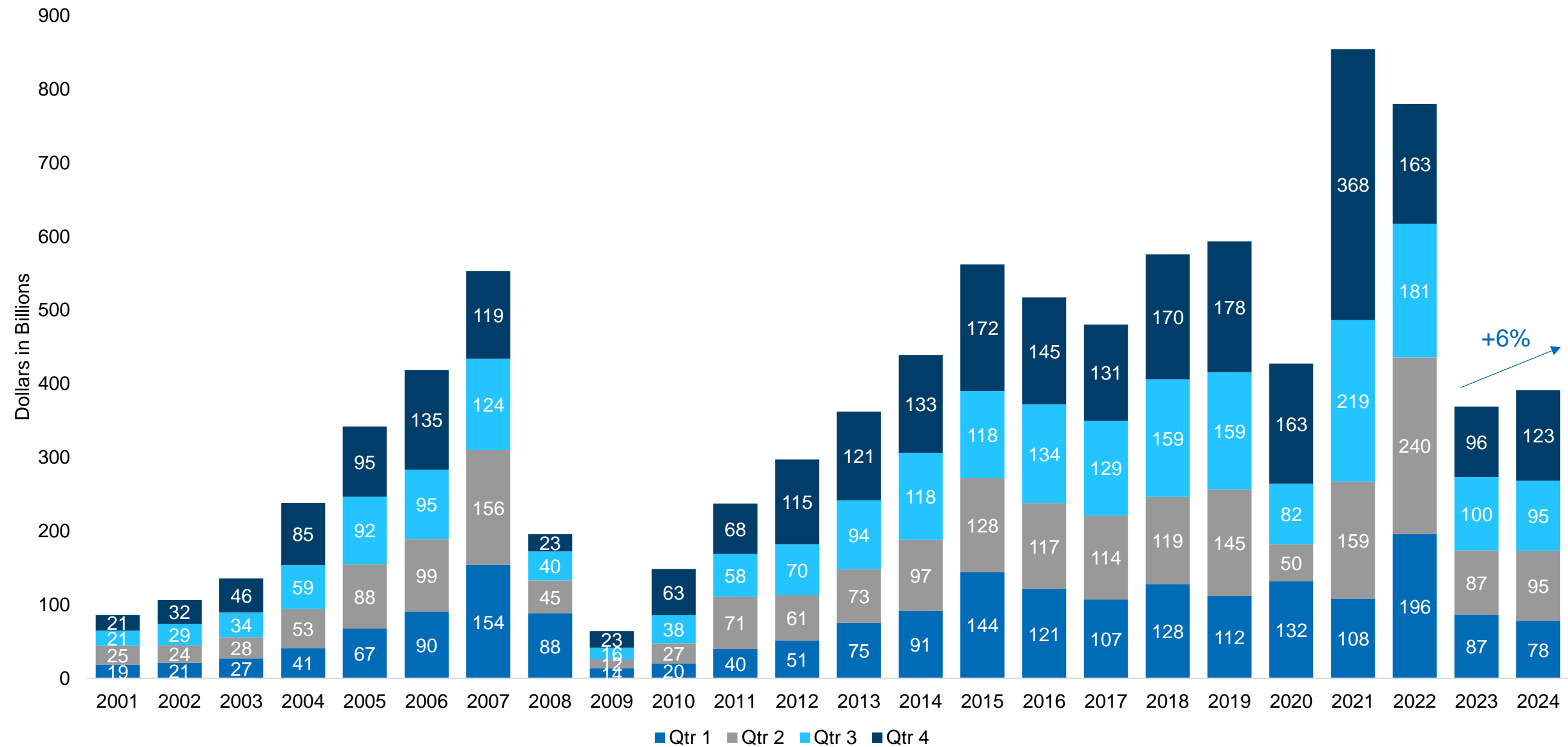
# Equity Capital Markets



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

Sales increased 6% year-over-year in 2024 but remained down 29% 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, but the fourth quarter showed some momentum, clocking its highest volume quarter in two years. Fed rates cut did help thaw the market, but strong economic data has pushed up terminal rate expectations, complicating the picture for CRE investors.

## Investment Sales Volume

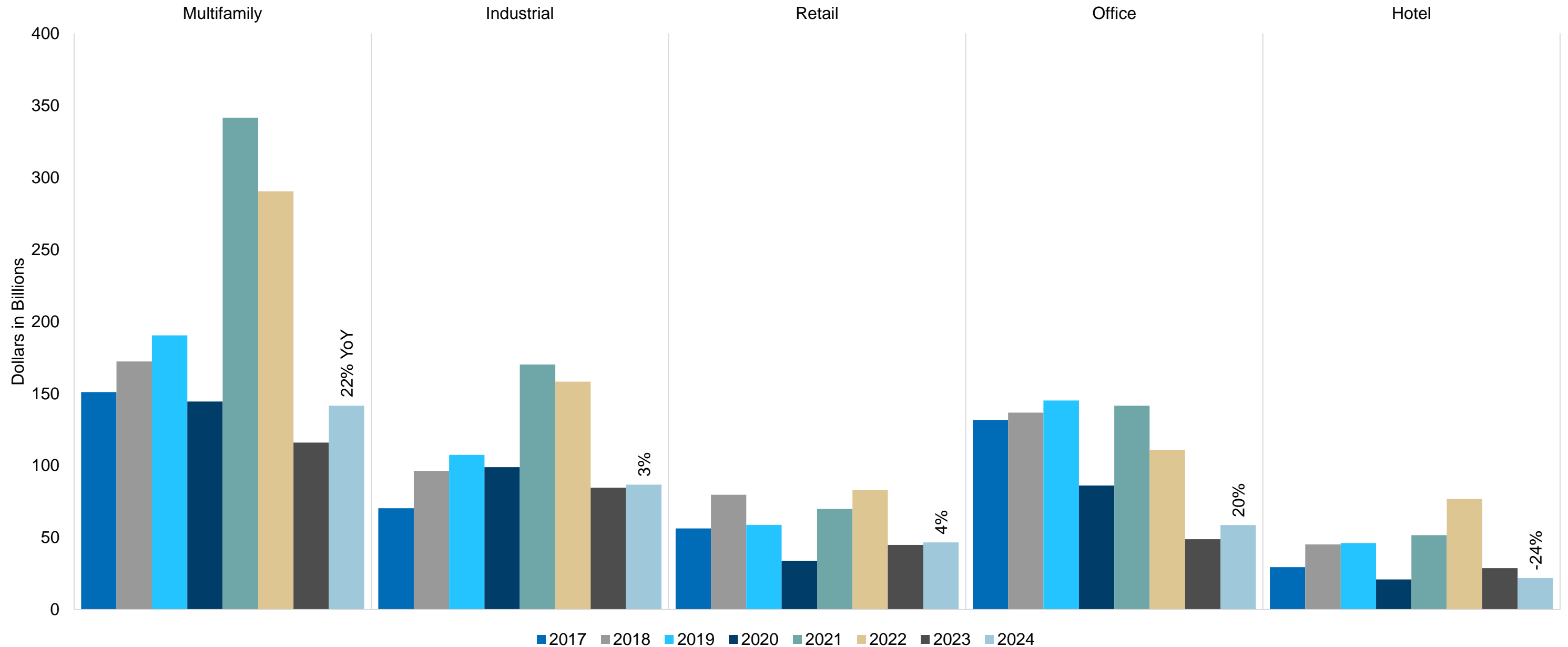


Source: RCA, Newmark Research as of 1/21/2025  
 \*Volumes are adjusted for future expected revisions using Newmark's proprietary models

# Investment Sales Rose Across Most Property Types in 2024, Notably Office and Multi

Both office (+20%) and multifamily (+22%) sales rose strongly year-over-year in 2024. However, while multifamily sales were only down 17% from the its 2017-2019 average, the comparable office figure is down 60%. Meanwhile, industrial and retail sales were essentially flat year-over-year and modestly down from their respective 2017-2019 averages. Investment sales surged in 4Q24, especially for office (+65% QoQ) and industrial (+50% QoQ).

## Investment Sales Volume

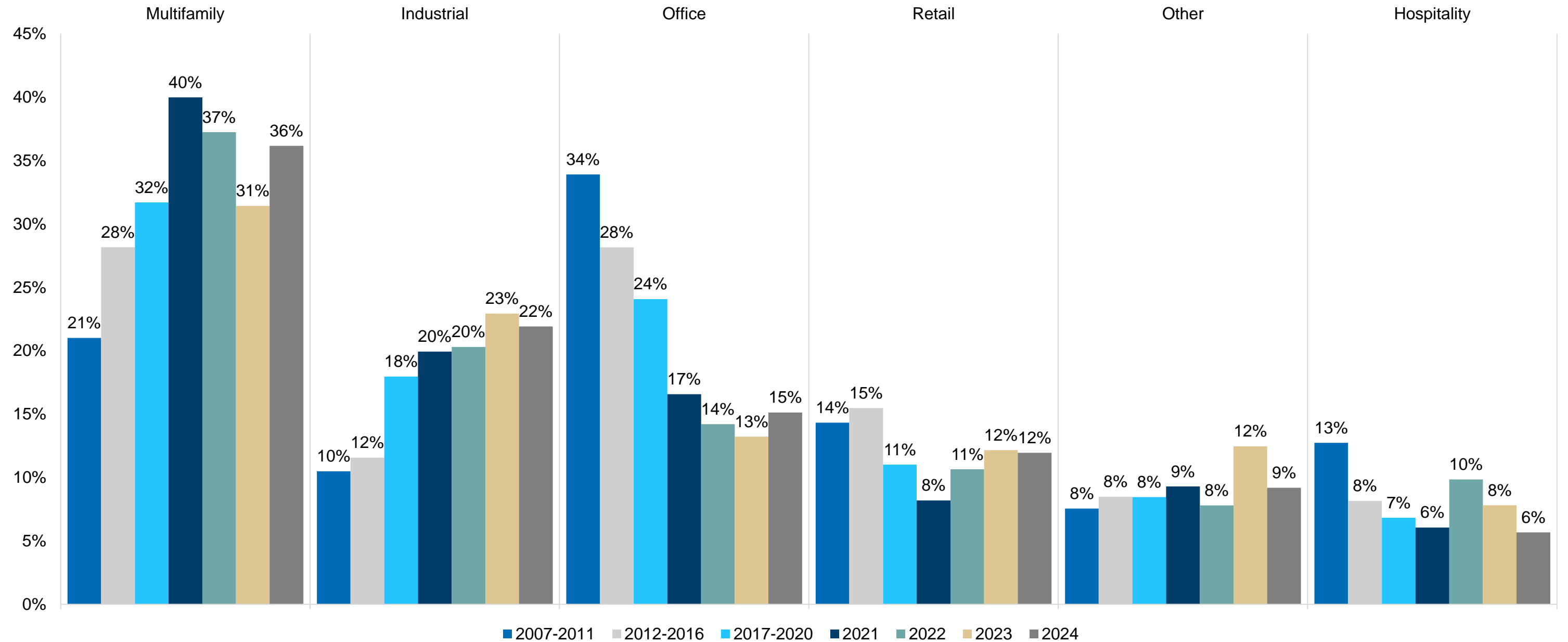


Source: RCA, Newmark Research as of 1/21/2025  
 \*Volumes are adjusted for future expected revisions using Newmark's proprietary models

# Transaction Activity Continues To Rebalance with Multifamily, Office Rebounding

The multifamily (36%) share of investment sales rebounded in 2024, 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 ticked up compared to 2023, with 1<sup>st</sup> and 4<sup>th</sup> quarter volume driving the gains.

## Investor Allocation over Time



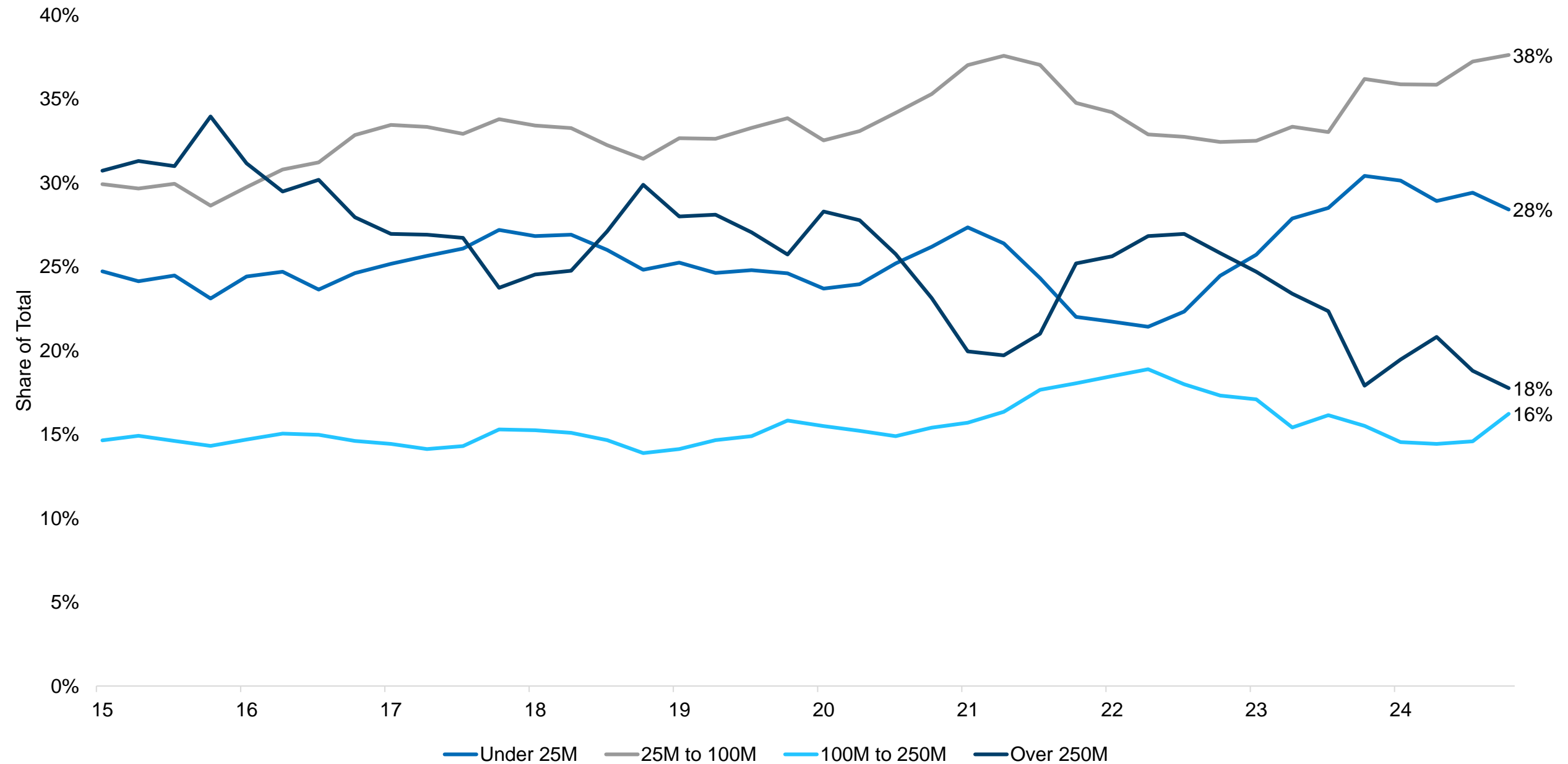
Source: Real Capital Analytics, Newmark Research as of 1/21/2025

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 66% 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, though the share decreased 2 percentage points throughout 2024. 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

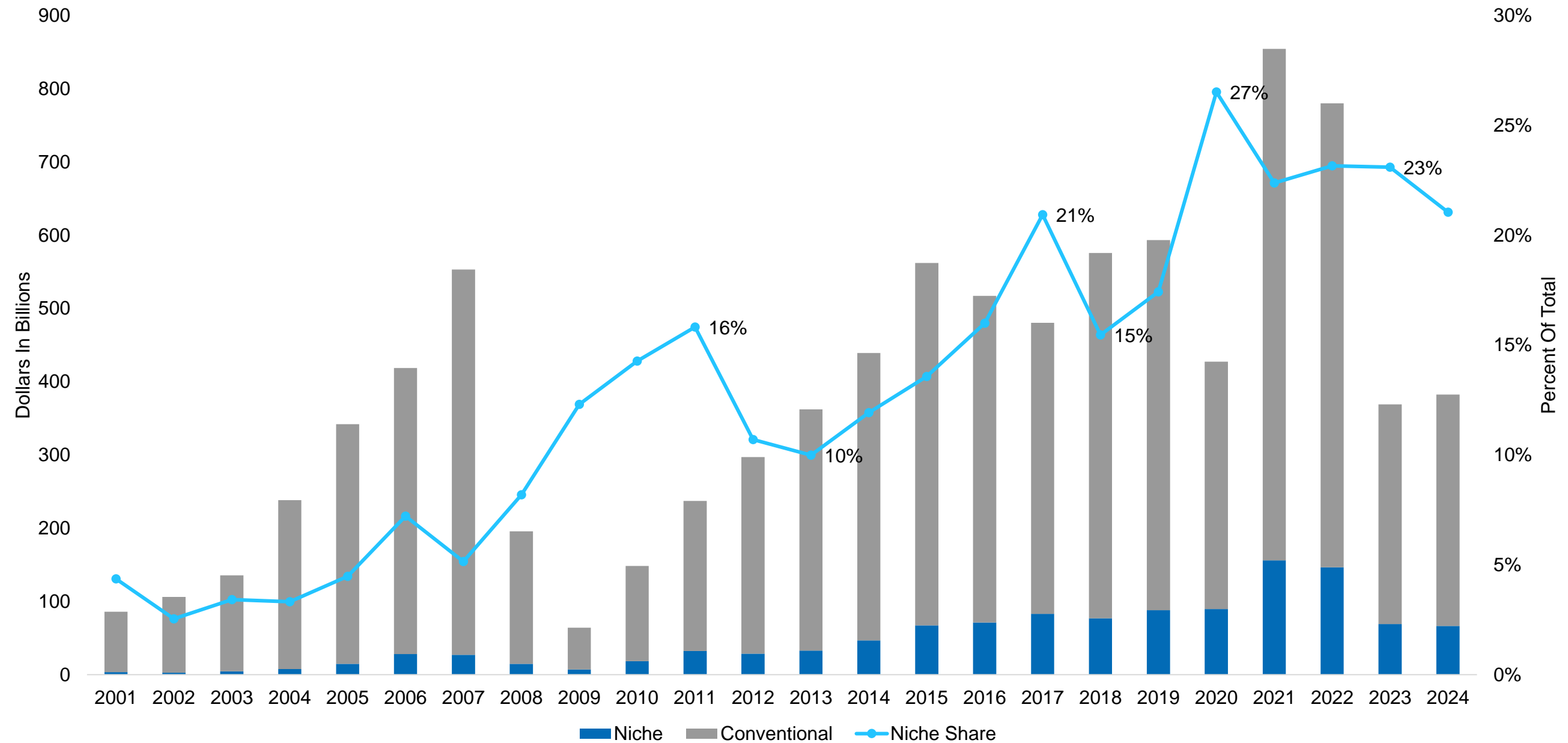


Source: RCA, Newmark Research as of 1/21/2025

# Niche Sector Investment Share Fell in 2024 But Remains Above Pre-Pandemic Level

Niche sector acquisitions accounted for 21% of volume in 2024, down from 23% in 2023. Niche investment was weak in 1Q24 but accelerated through 2H24. Acquisition volume rose 24% compared to H1 with quarter-over-quarter gains in both Q3 and Q4. 2024 represents the 5th straight year Niche sector allocation was at or above pre-pandemic record levels, as CRE investment continues to diversify.

## Investment Sales Volume



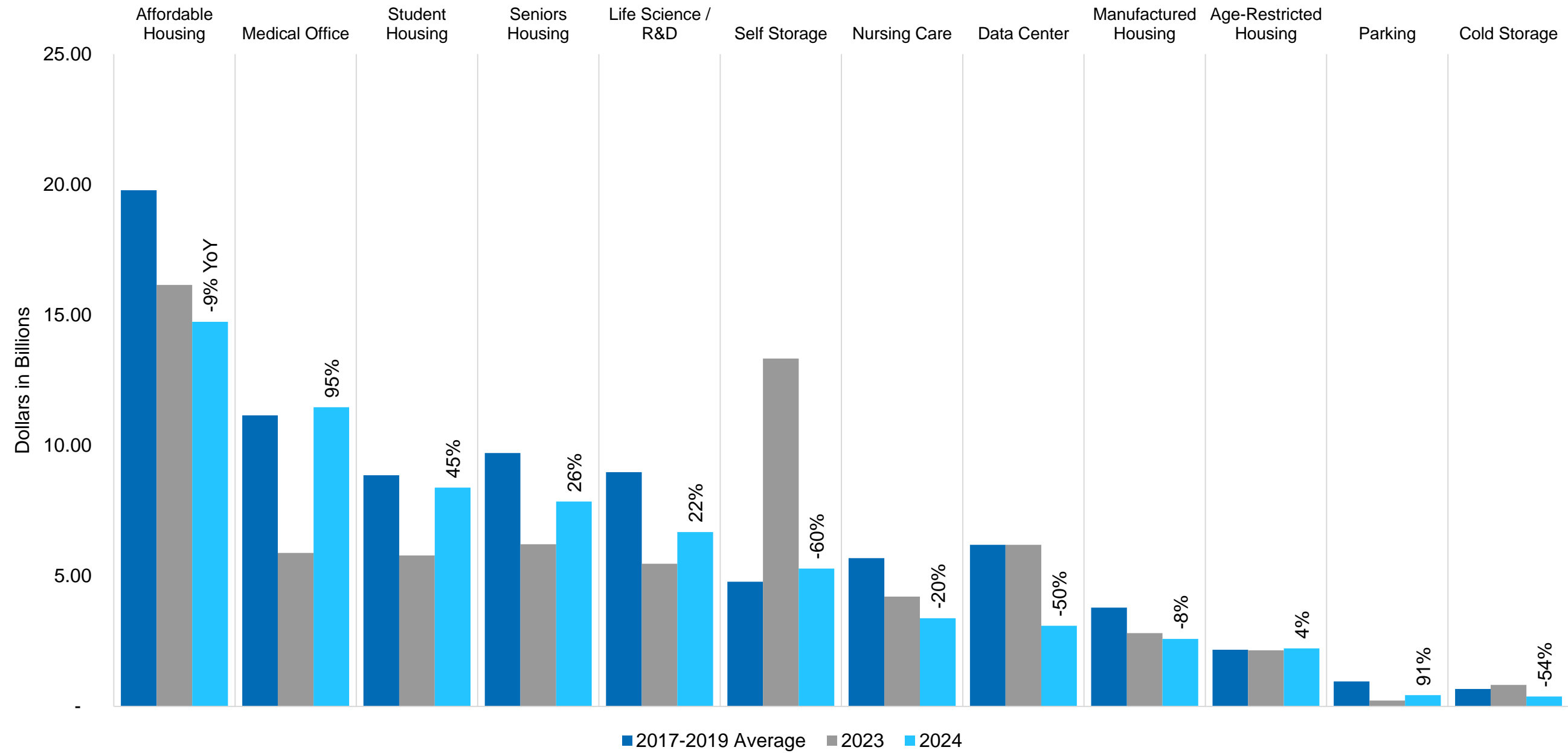
Source: RCA, Newmark Research as of 1/21/2025



# Most Niche Asset Sectors Recorded Increased Volumes Year-over-Year In 2024

Medical office sales were strong in 2024 – up 3% compared with the 2017-to-2019 average and even more compared to 2023. Self-storage and age-restricted housing were the only other sectors with volumes above their 2017-to-2019 average, while other sectors saw increases year-over-year. For example, sales of student housing rose 45% YOY in 2024. Seniors housing (+26%) and parking (+91%) recorded year-over-year increases as well.

## Investment Sales Volume

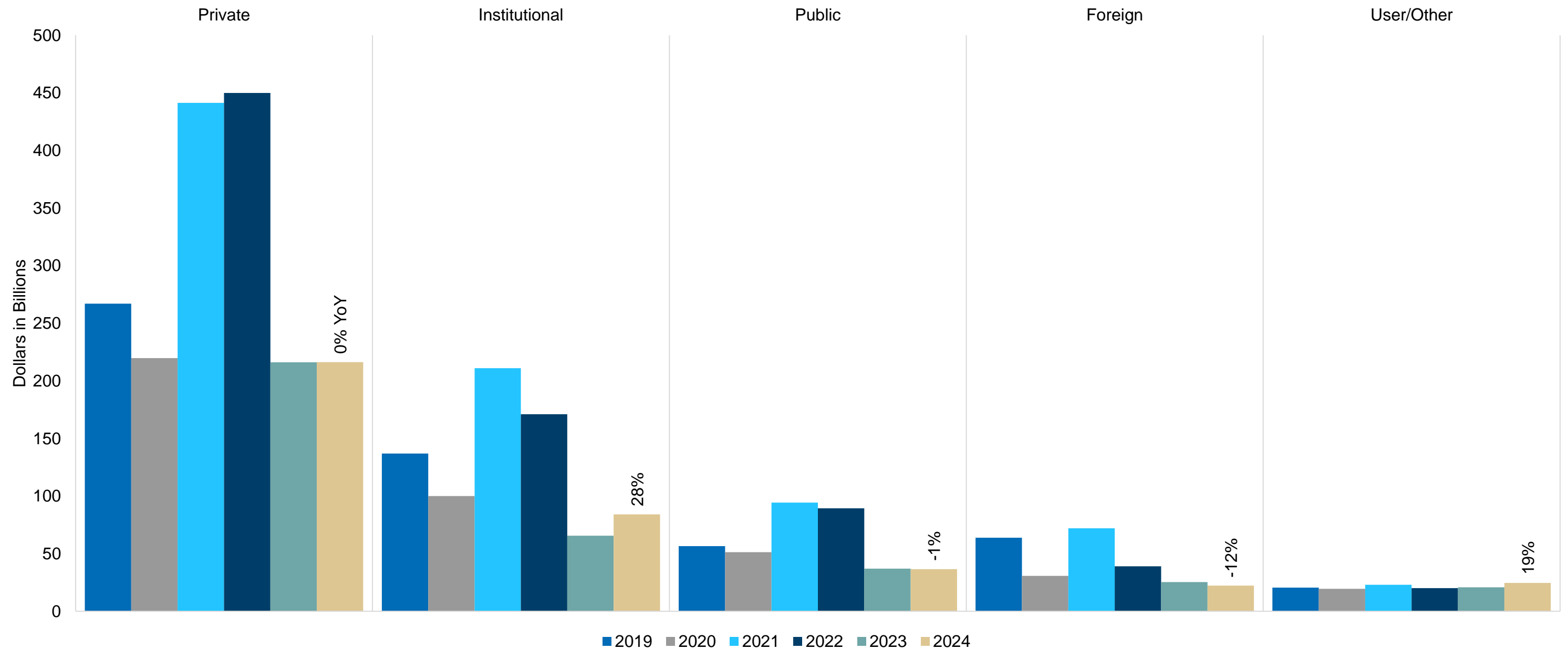


Source: RCA, Newmark Research as of 1/21/2025

# Institutional and Occupiers Picked Up Volume In 2024

Private capital remains the most active segment, accounting for 56% of acquisitions. Institutions deployed 28% more capital in 2024 than in 2023, though most 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 1/21/2025

\*Volumes are adjusted for future expected revisions using Newmark's proprietary models

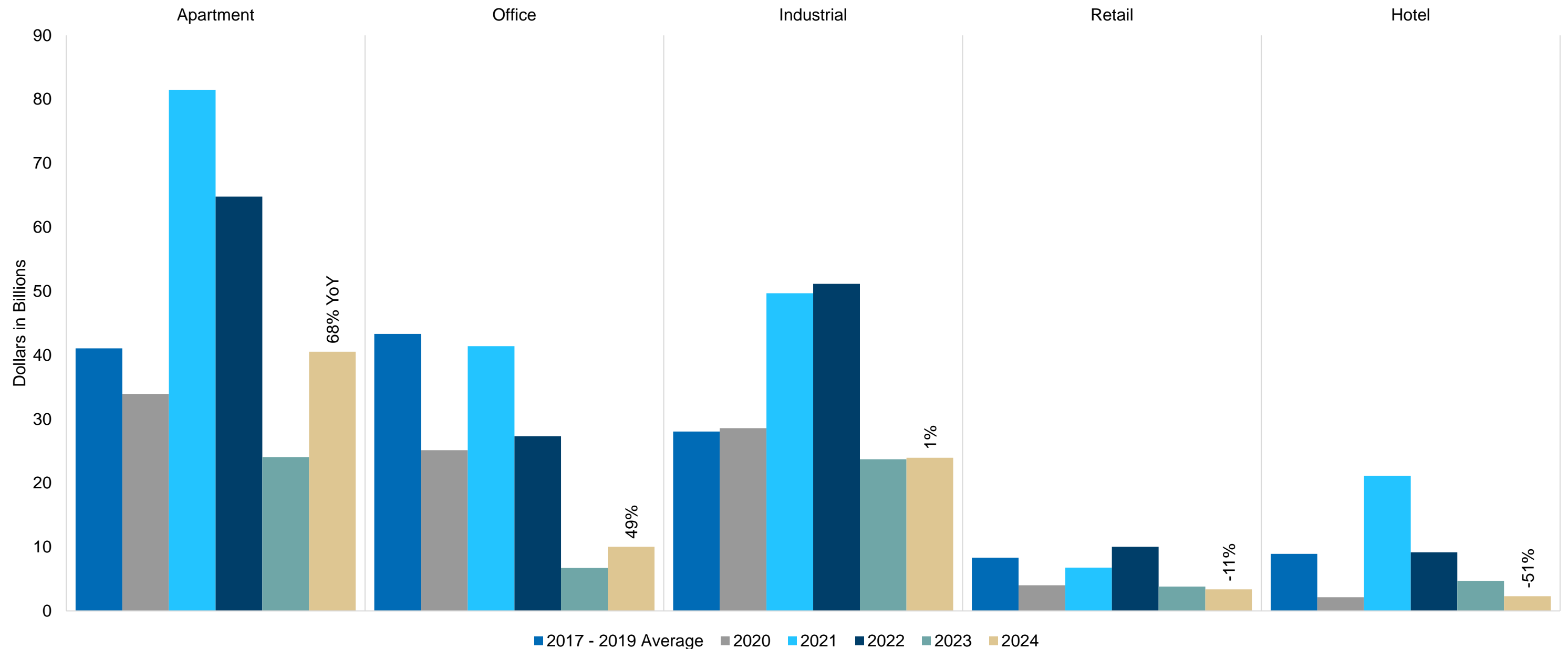


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# Institutional Capital Has Picked Up In 2024 Through Large Entity Deals

Institutional acquisitions increased 28% YoY in 2024. Acquisitions of Retail and Hotel properties declined while Industrial acquisitions were flat. 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 3<sup>rd</sup> quarter, where volume was 73% higher than the third quarter of 2023.

## Institutional Acquisitions Volume



Source: RCA, Newmark Research as of 1/21/2025

\*Volumes are adjusted for future expected revisions using Newmark's proprietary models



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Volume picked modestly, and there appears to be light at the end of the tunnel as Office and Multifamily drove pick ups in activity.



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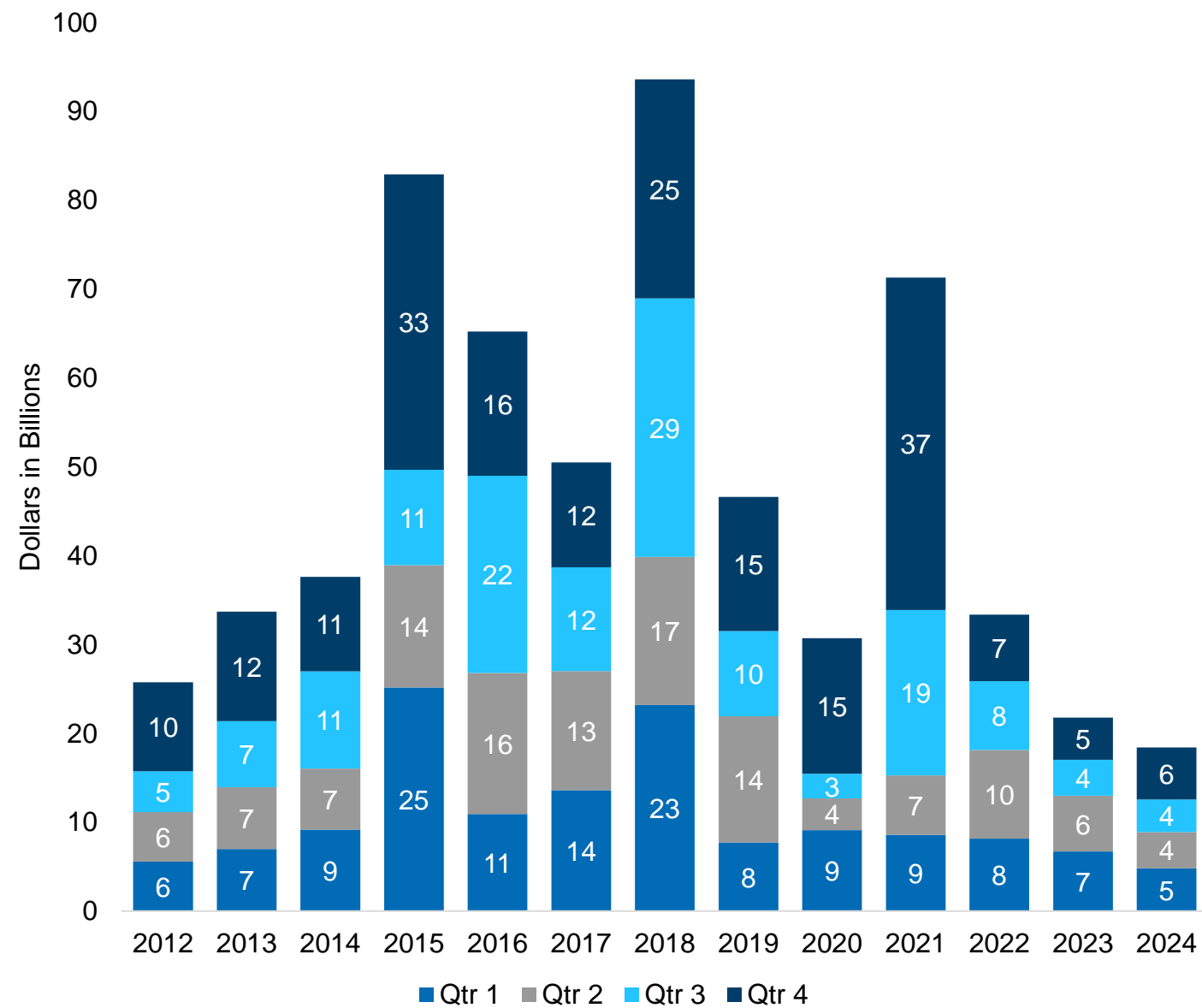
Owner occupiers have been taking advantage of market dislocation, while Industrials' multi-year streak of institutional inflow barely continued.



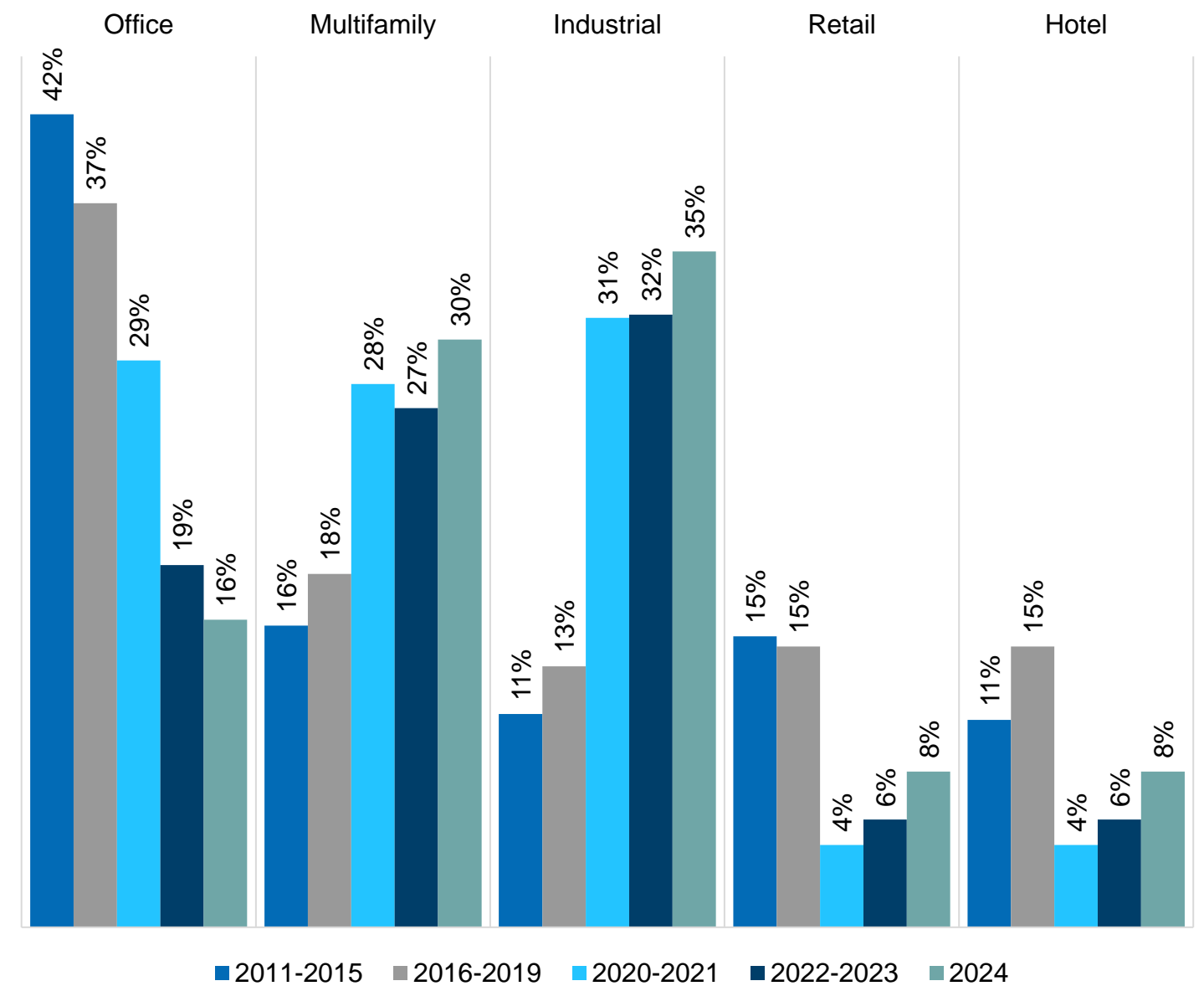
# Foreign Investment Declined 15% Year-over-Year In 2024

While Foreign Investment in Commercial Real Estate remains well below historic averages, and still declined year-over-year, the fourth quarter saw some uptick in activity. Foreign investors have keyed in on Multifamily and Industrial, though have begun to increase their allocations to Retail and Hotel as well. Continued momentum in foreign investment is likely to be complicated by a strengthening dollar, however.

Cross-Border Acquisitions Volume



Allocation of Cross-Border Acquisitions

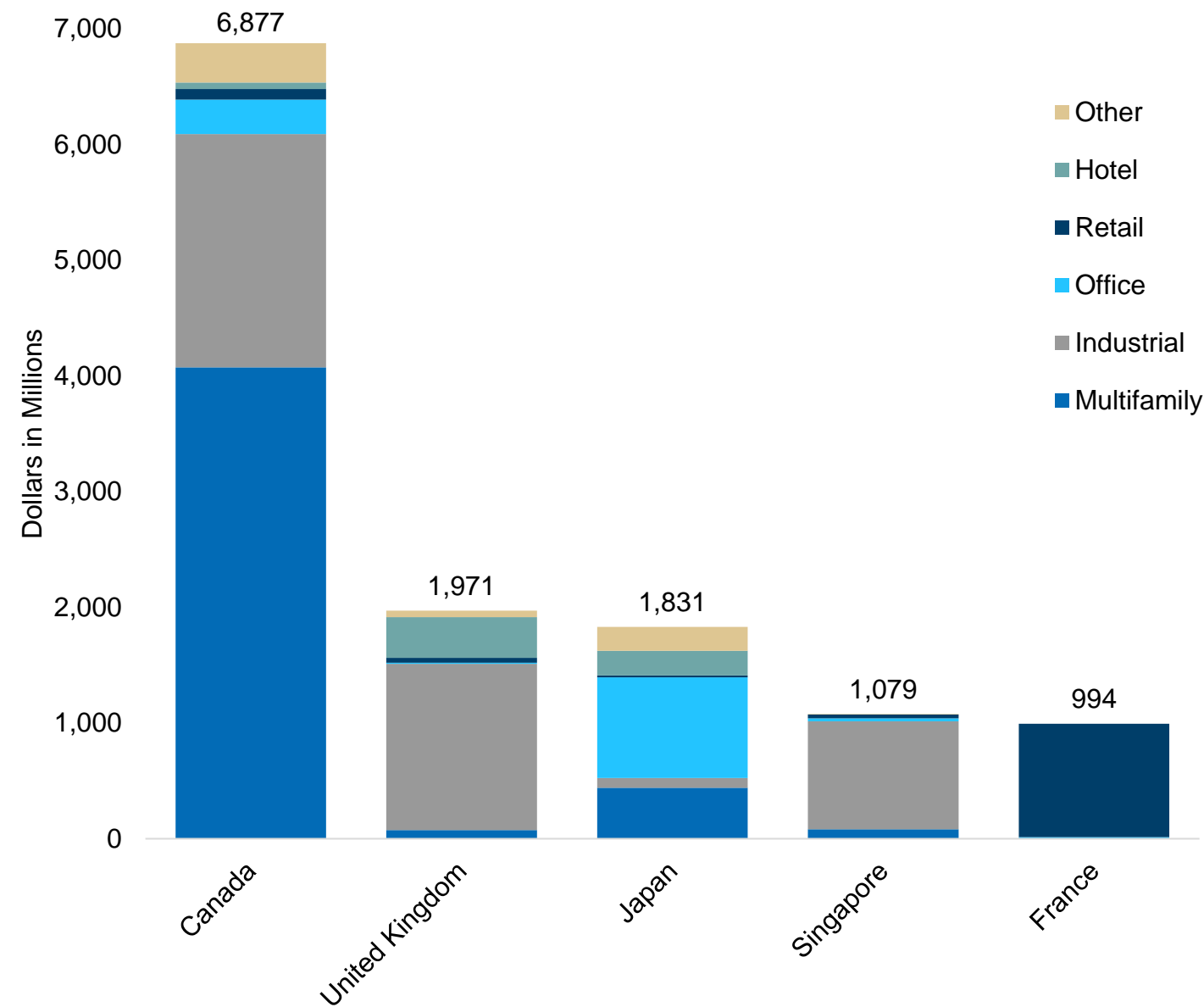


Source: Newmark Research, Real Capital Analytics as of 1/25/2025

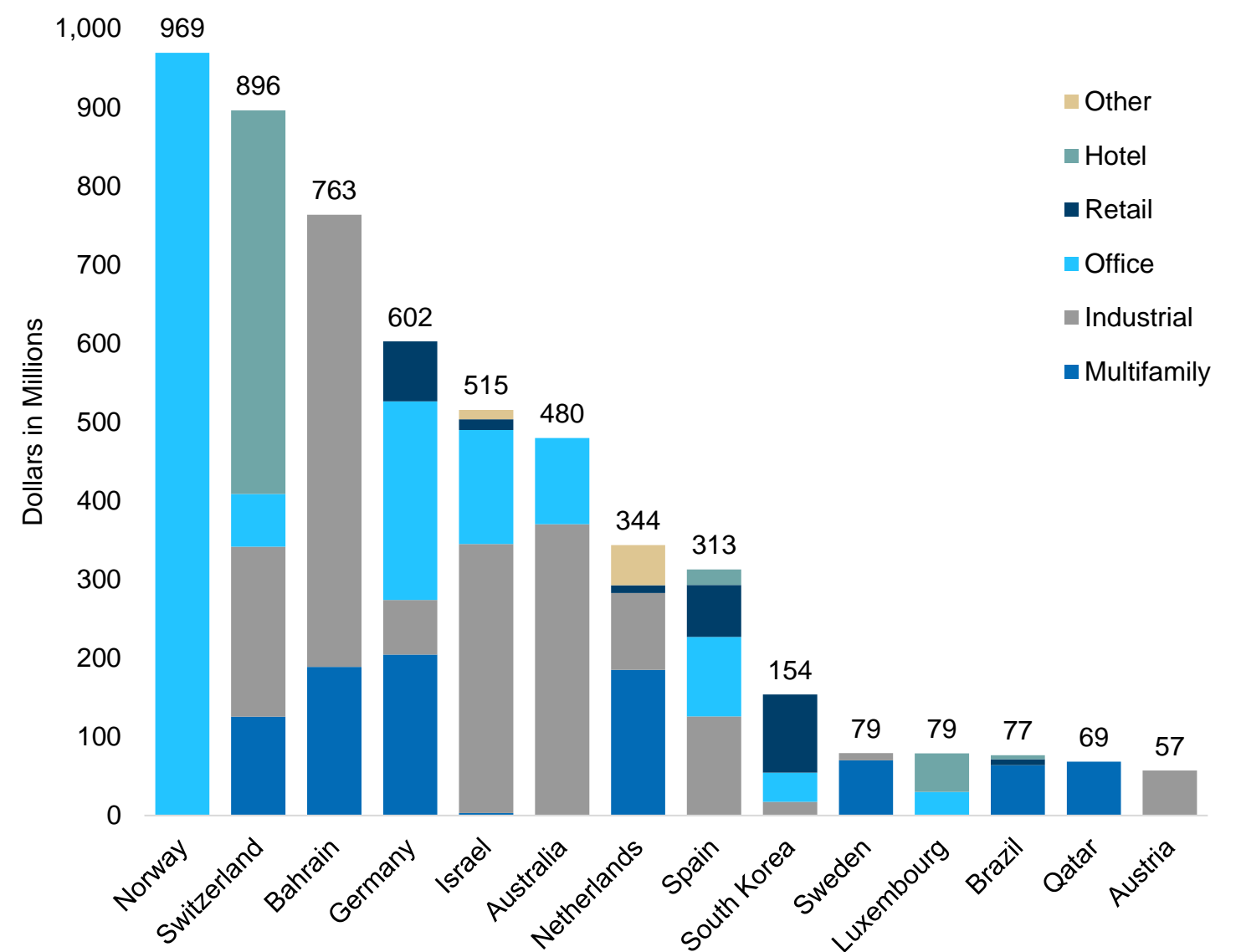
# Major Inbound Investors Vary In Property Type Focus

Canada, per usual, led inbound investment in the last 12 months with a pronounced focus on industrial and multifamily investment. United Kingdom followed, concentrated on industrial. After the U.K. came Japan, Singapore, and France. Norway stood apart in having relatively high office investment, with all of its investment coming from buying out its partner in a gateway office portfolio J.V.

**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 1/21/2025

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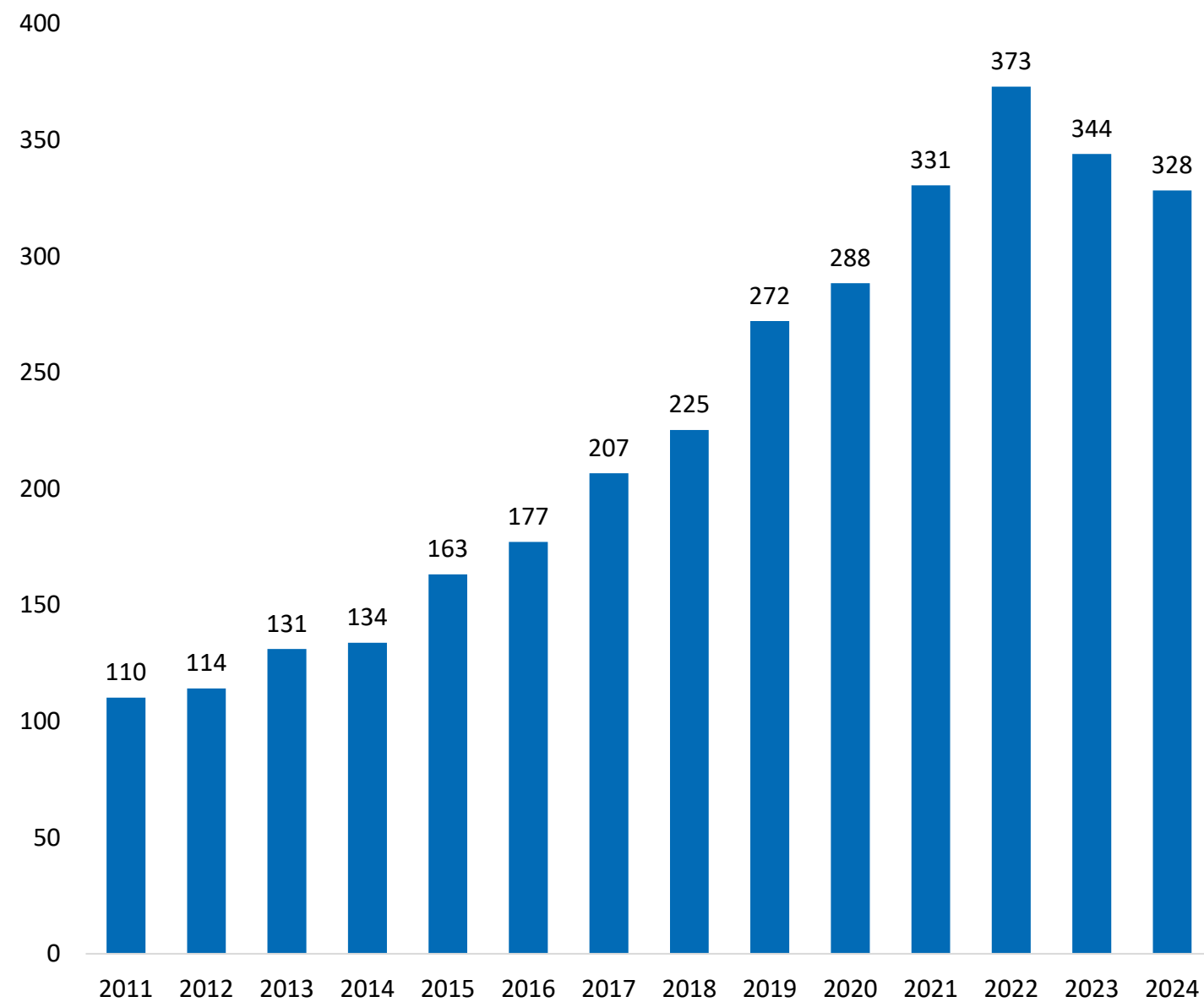
# Supply of Capital



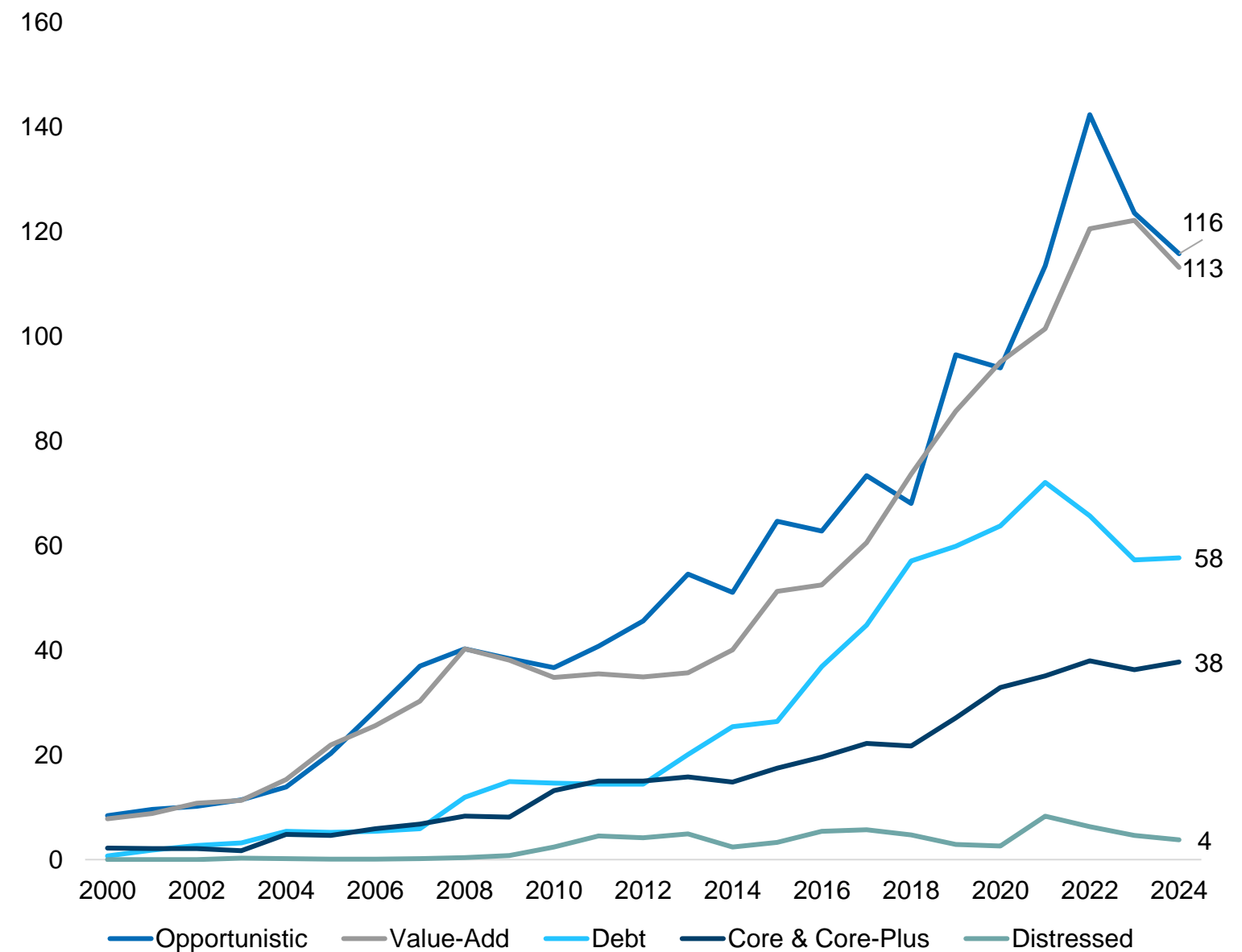
# Private Equity Dry Powder Has Declined From 2022 Peak, But Still Elevated Overall

Dry powder at closed-end funds is 12% below its December 2022 peak, reflecting declines in dry powder at value-add, opportunistic funds and Debt Funds. Core and value add dry powder has remained relatively flat, while distressed and opportunistic has seen significant decreases, though unrealized values in those strategies increased 6% over the last two years.

Dry Powder – Closed-End Funds



Dry Powder by Strategy\*



Source: Newmark Research, Preqin as of 1/30/2025  
 \*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.

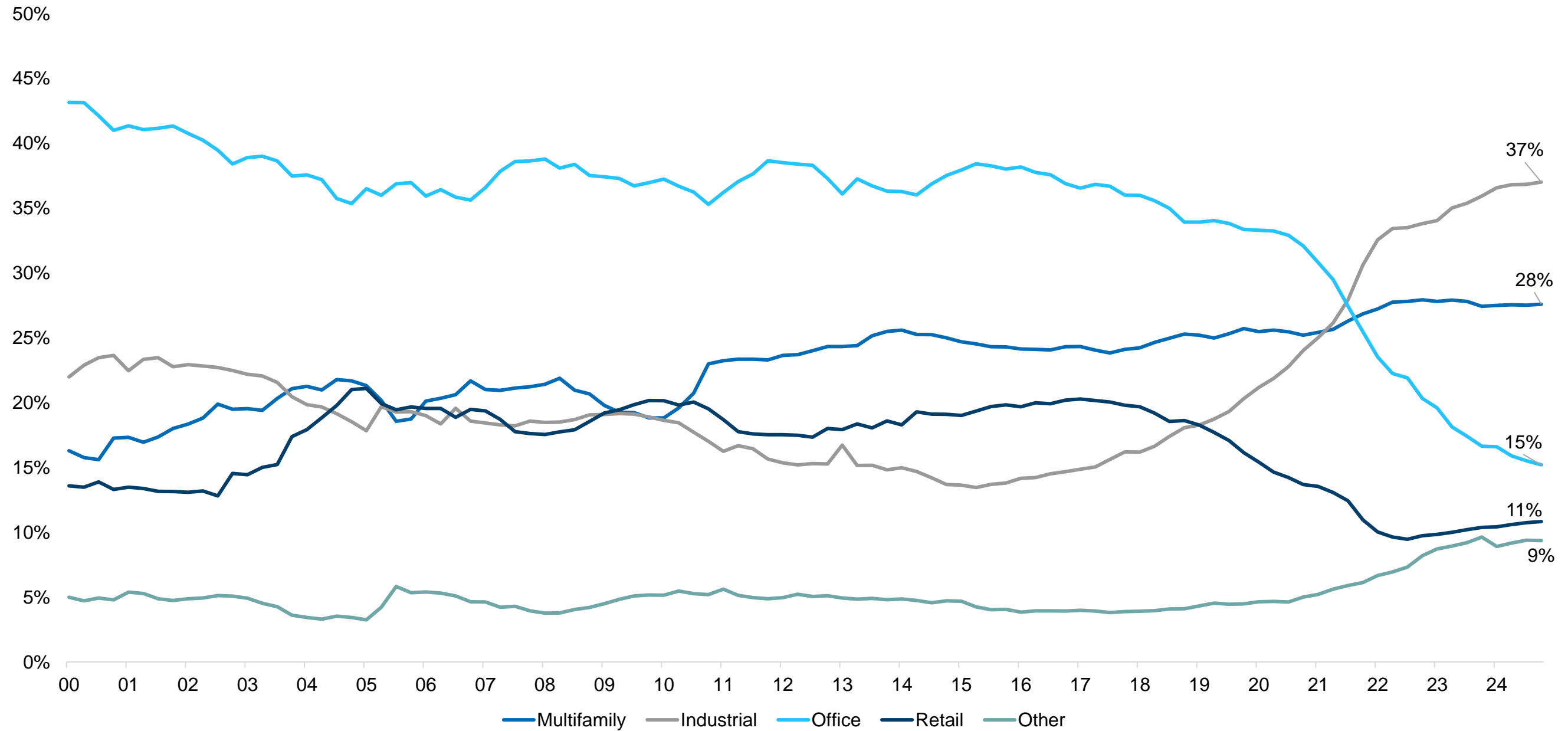


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# ODCE Has Undergone An Industrial Revolution

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 6%, similar to the 7.5% 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 1/30/2025

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# Pricing and Returns

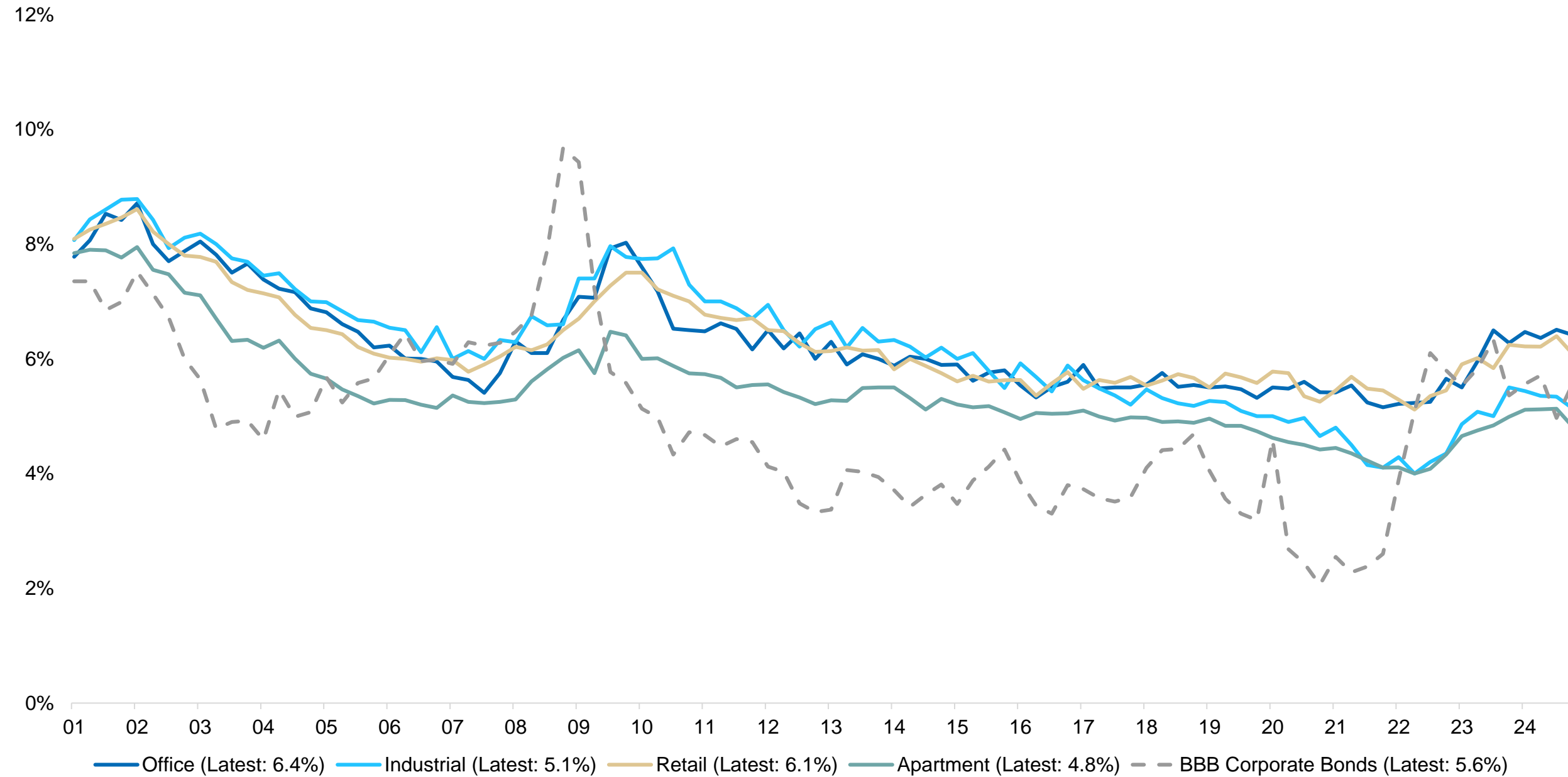




# Transaction Cap Rates Stable In 2024, Rate Pressure Eased Briefly Before Strengthening

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 4.8% by early January. 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 1/21/2025  
\*Quarterly



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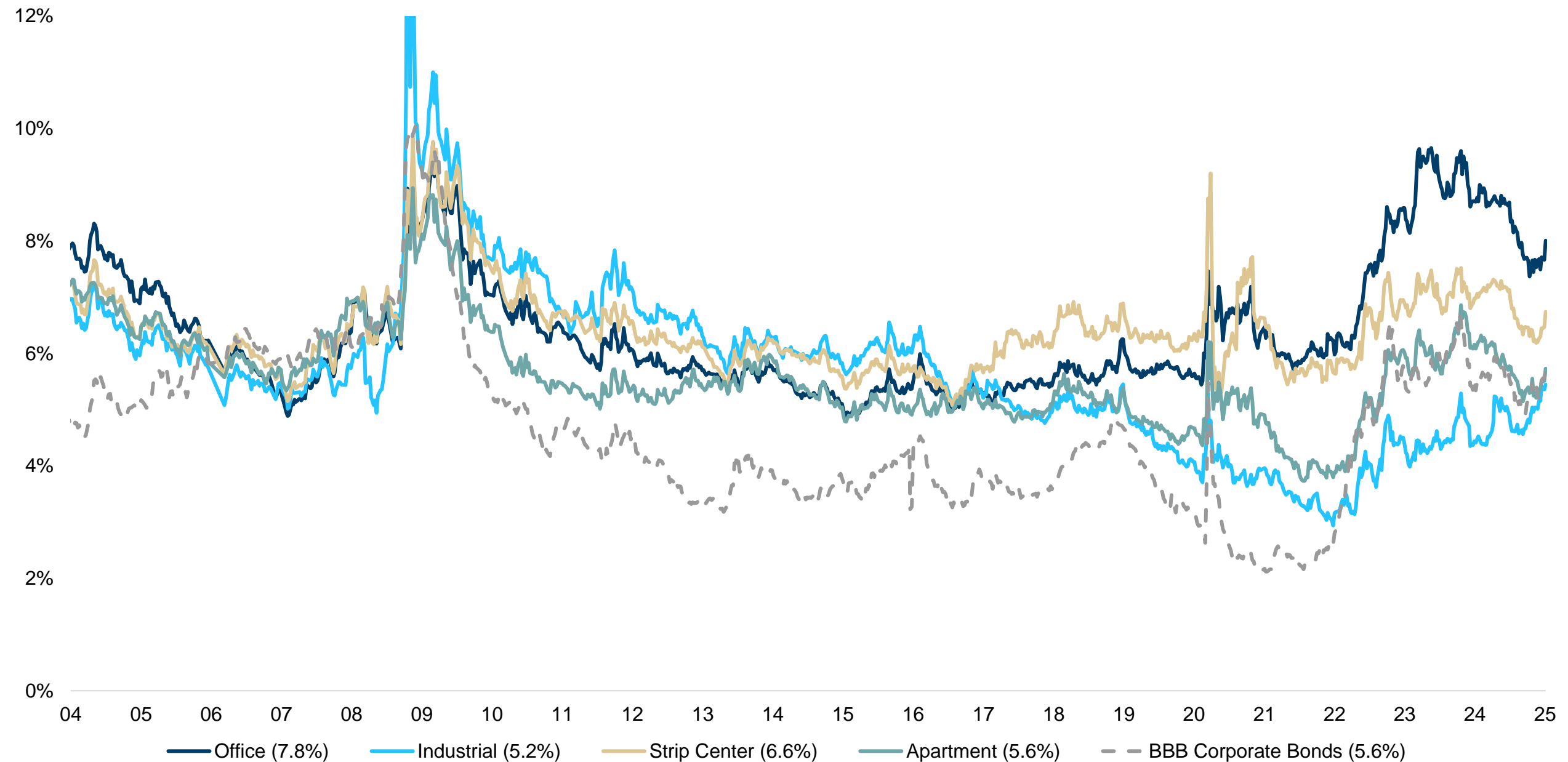


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# Public Markets Highly Sensitive To Rates; Continue To Underprice Risk

Office spread is 61<sup>st</sup> percentile relative to history\*, apartment 13<sup>th</sup>, industrial 15<sup>th</sup> and strip center 24<sup>th</sup>. 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 1/21/2025  
\*Using normal distribution

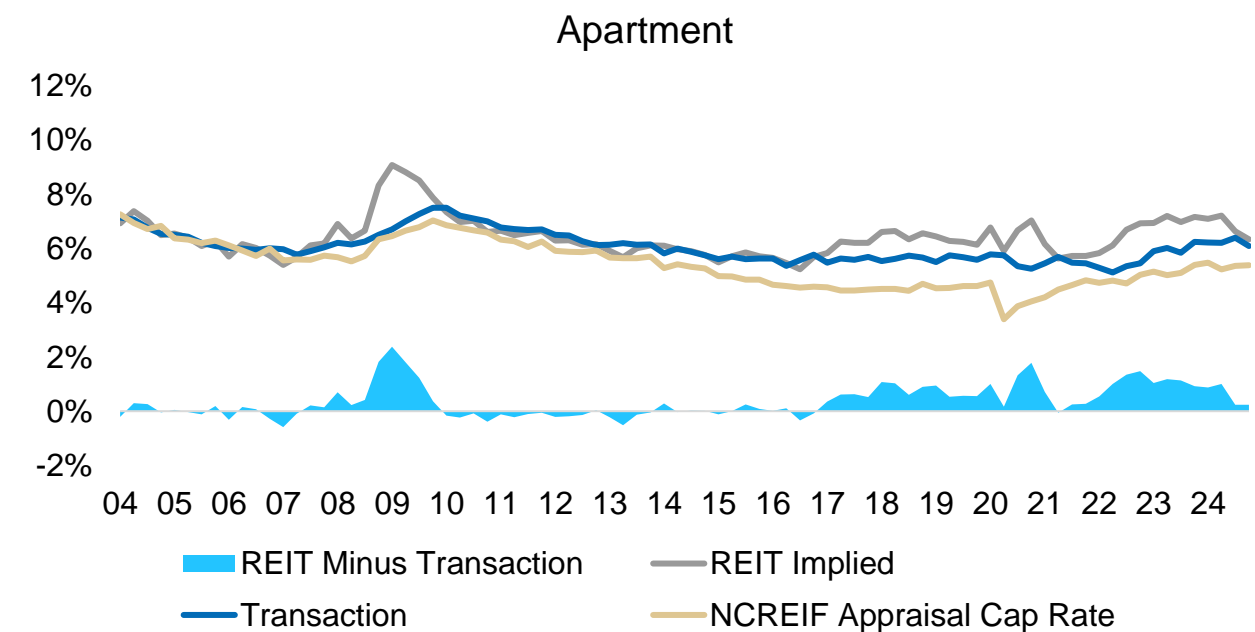
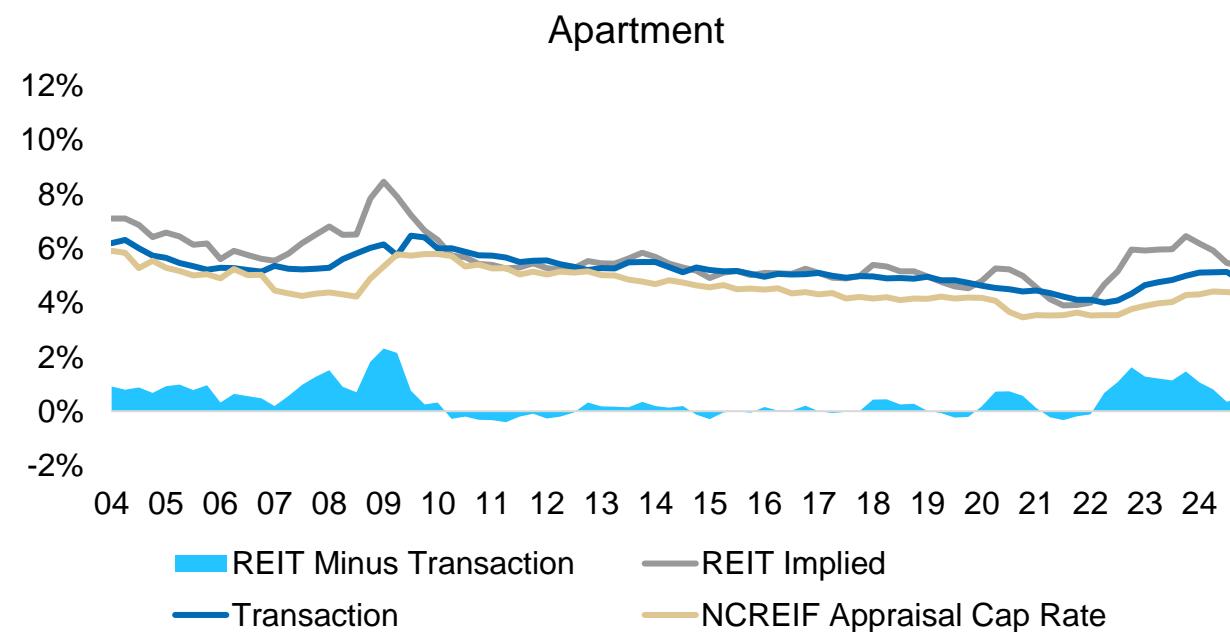
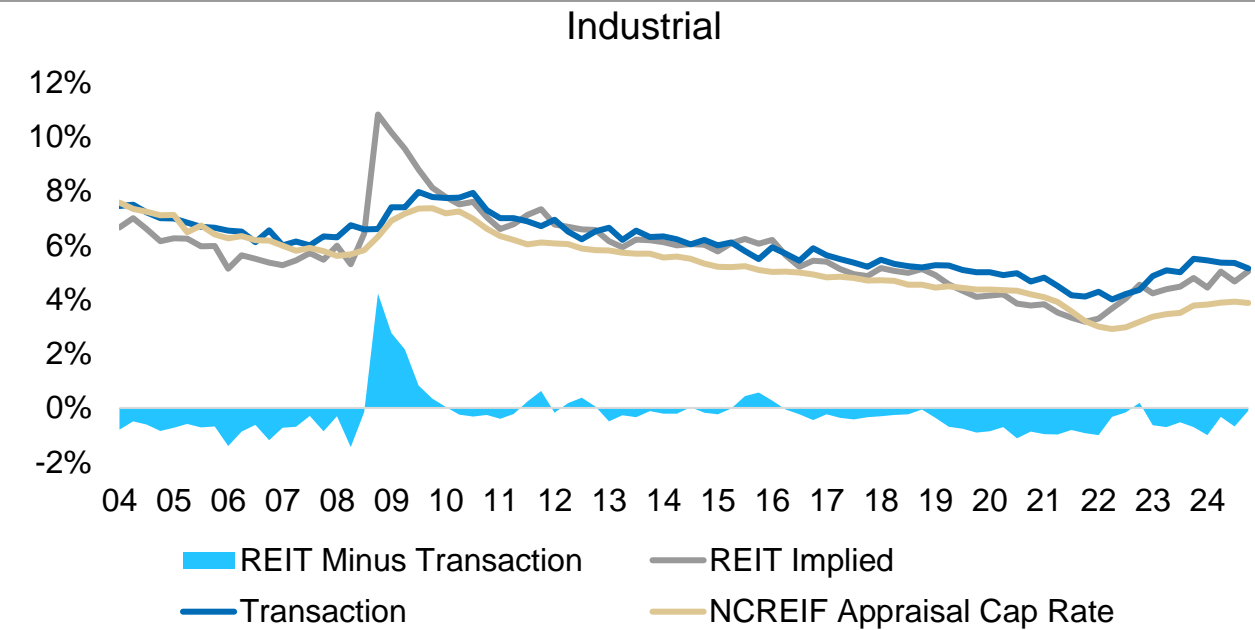
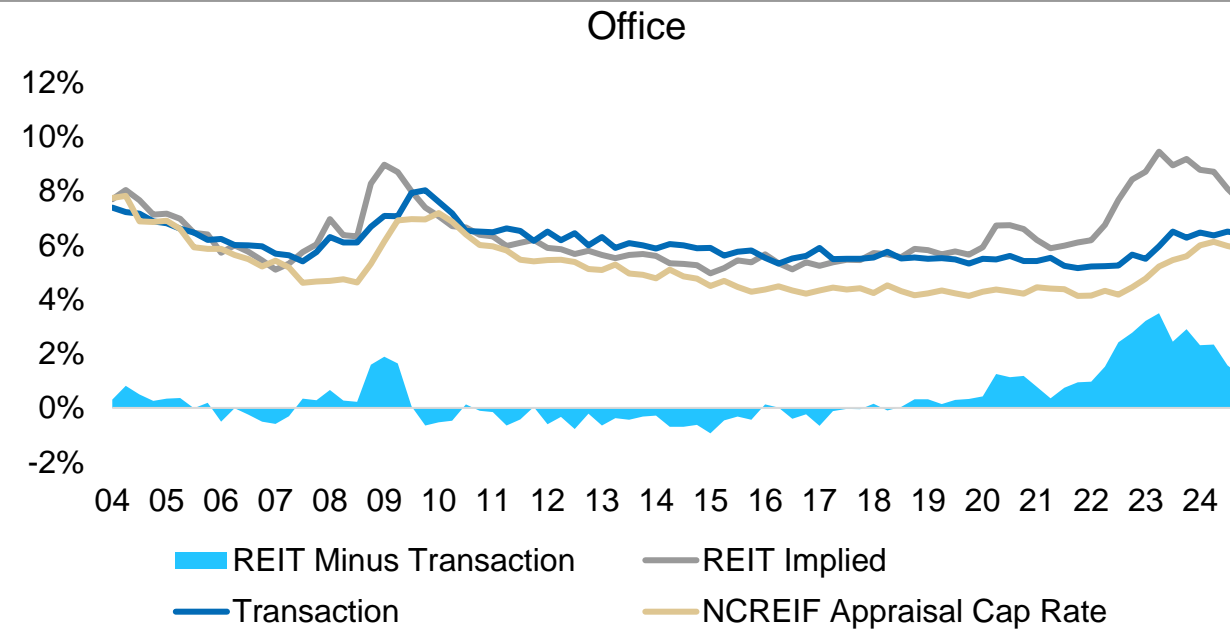


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# REIT Valuations Attractive Relative To Core Properties Trading In Private Market

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 1/30/2025

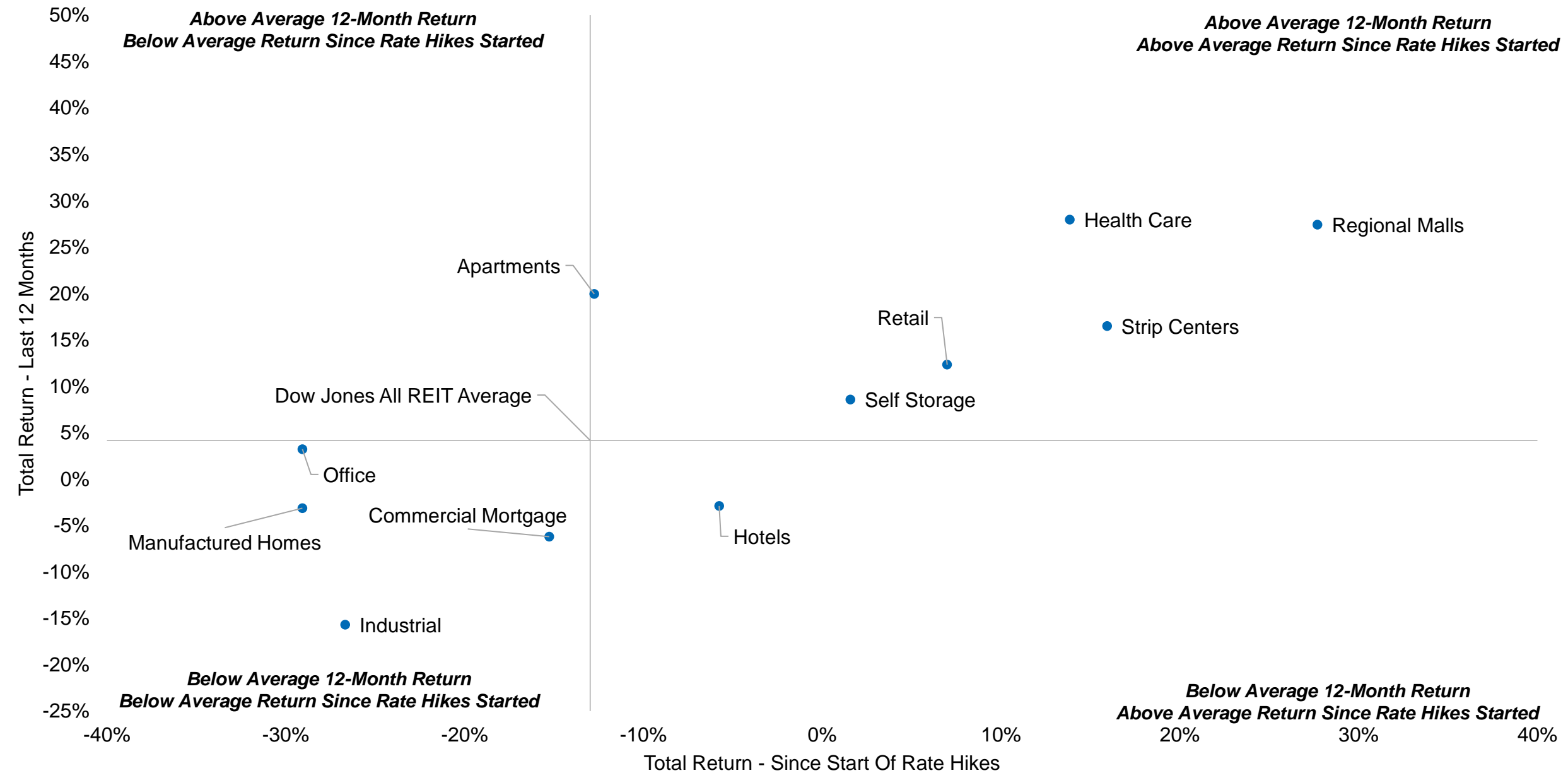
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Cap rate spreads remain narrow, though are beginning to approach normal ranges. Public market and transaction cap rates continue to indicate additional cap rate movement.

# Most REIT Returns Were Positive In 2024

All REIT sectors aside from Strip Centers and Regional Malls took a step back in 24Q4, though most ended the year positive. In 2024, Health Care (+28%), Regional Malls (+27%), and Apartments (+20%) have outperformed the overall REIT index (+4%). Apartment REITs, however are still recovering from a pullback in 2023, while Hotels (-2.9%), Manufactured Homes (-3.1%), Commercial Mortgage (-6.2%), and particularly Industrial (-15.7%) REIT pricing in 2024 continues to lag behind the All REIT index average.

## Dow Jones REIT Index Total Returns



Source: Dow Jones, Moody's, Newmark Research as of 1/28/2025



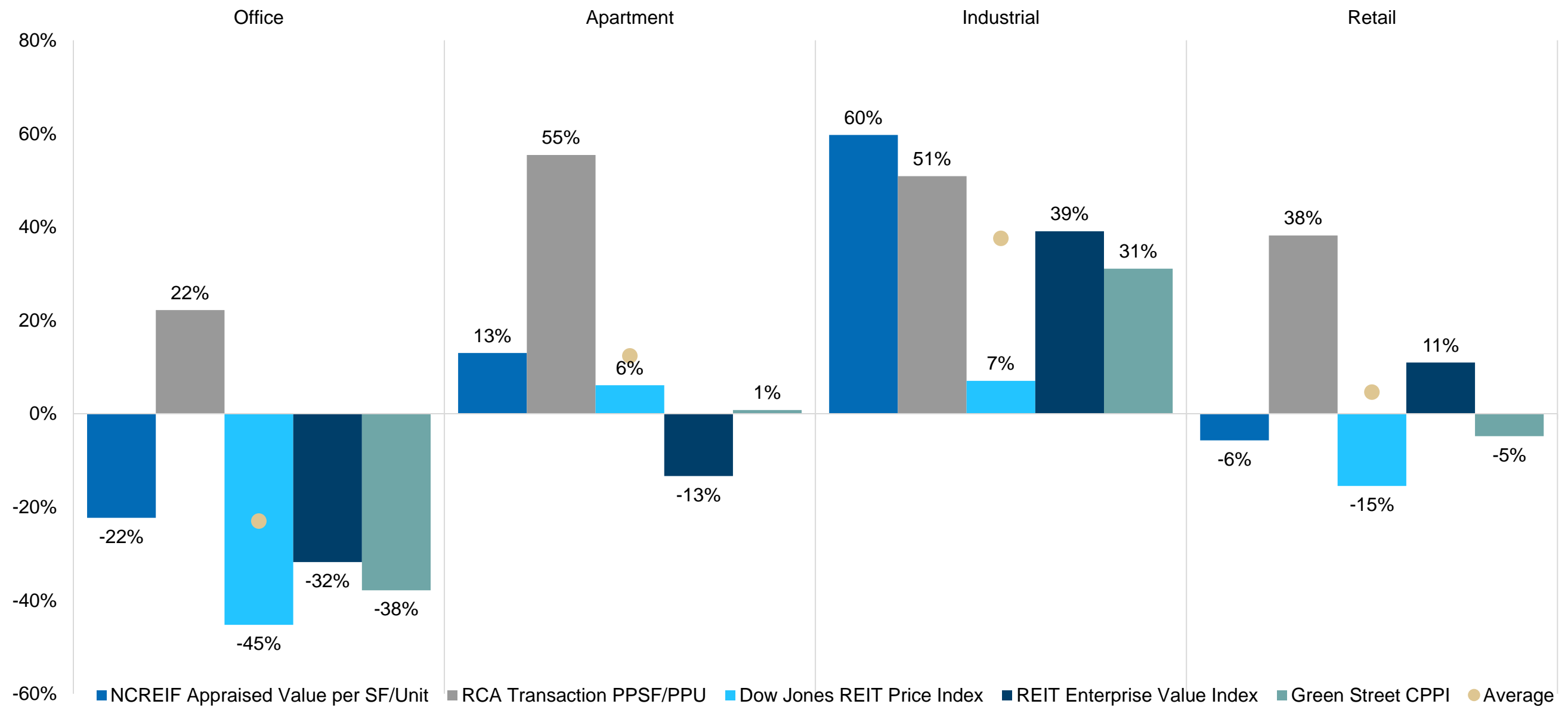


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# What Has Happened To Values? Depends On The Benchmark

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

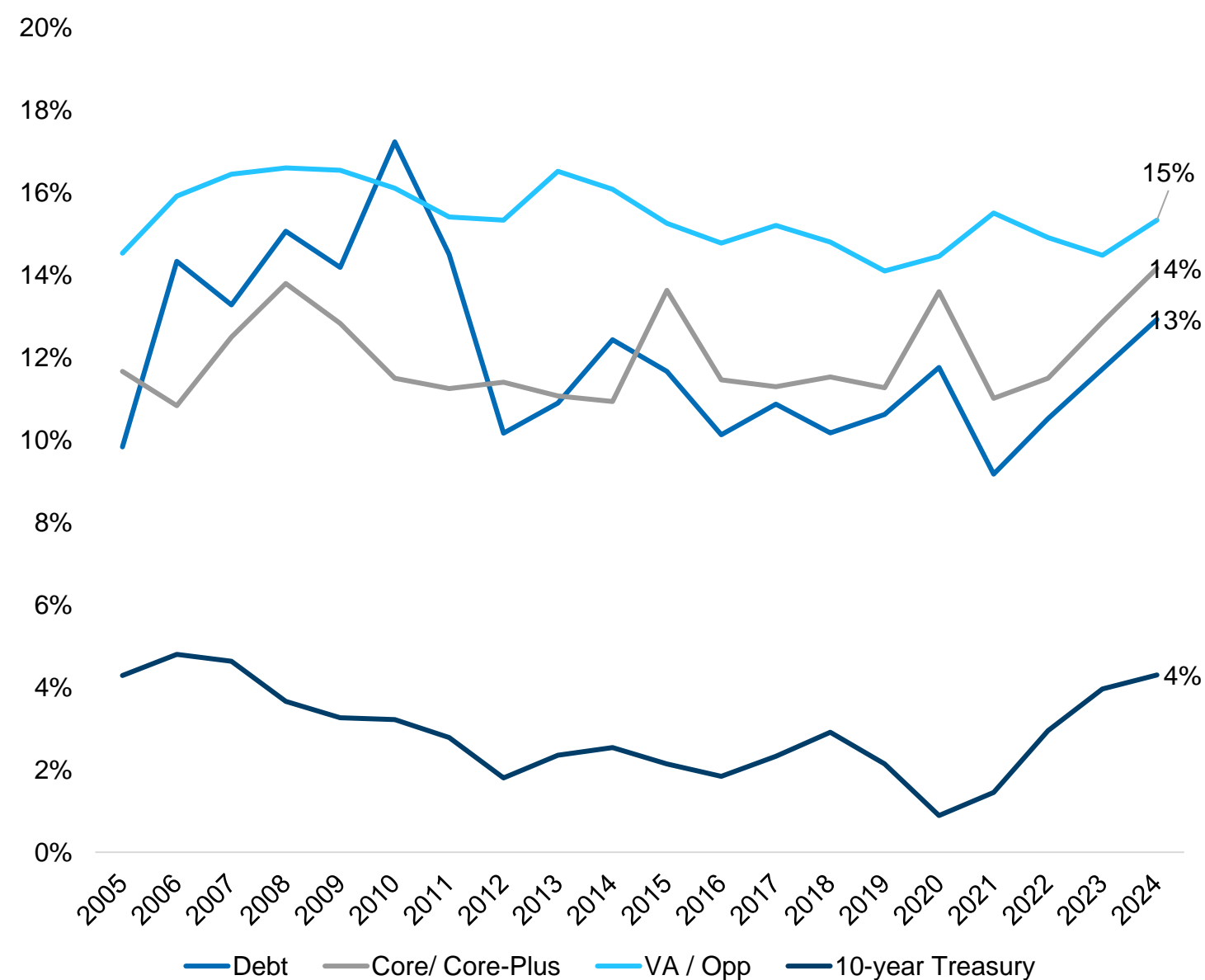


Source: NCREIF, RCA, Dow Jones, Green Street, Moody's Analytics, Newmark Research as of 1/25/2025

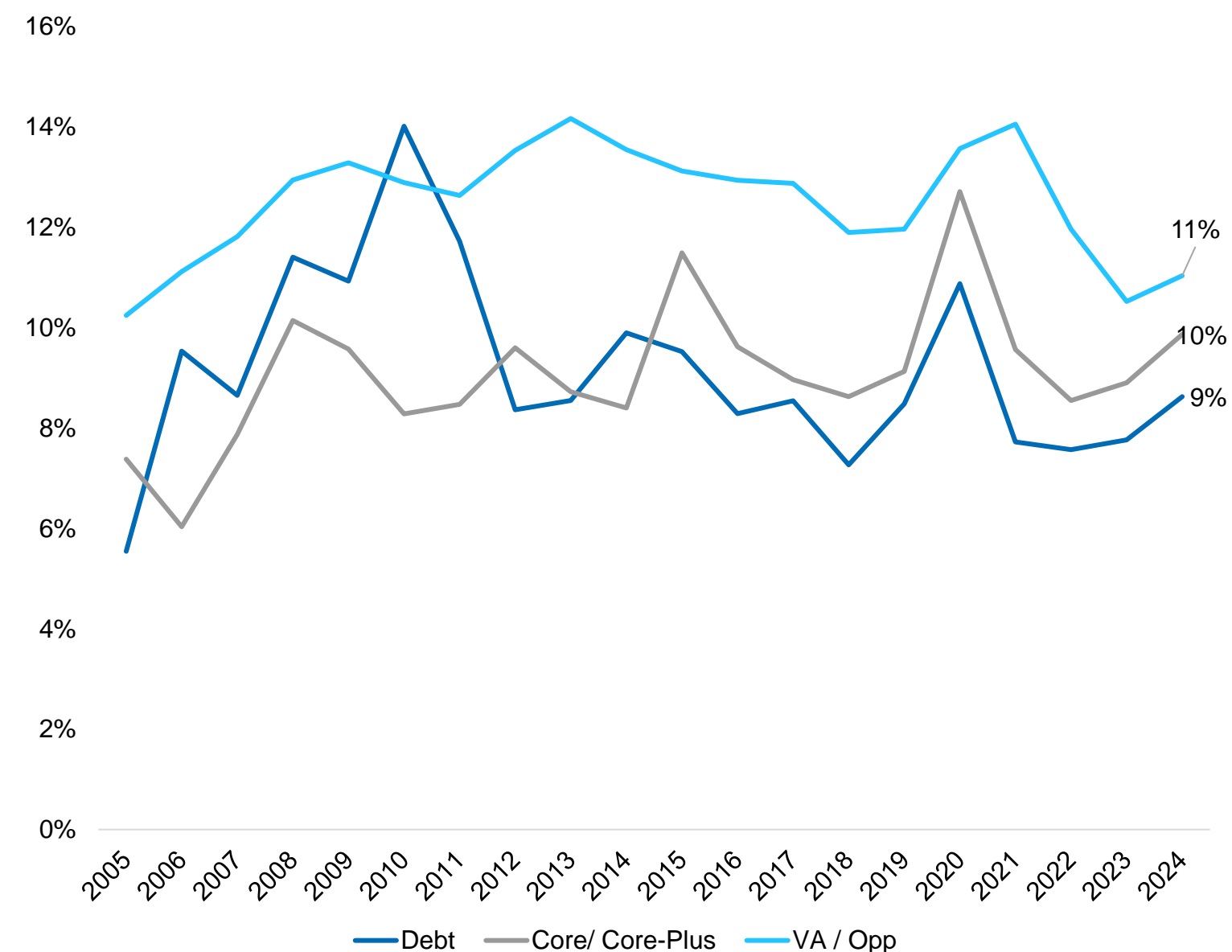
# Private Equity Target Returns Surprisingly Insensitive To Changes In Rate Environment

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

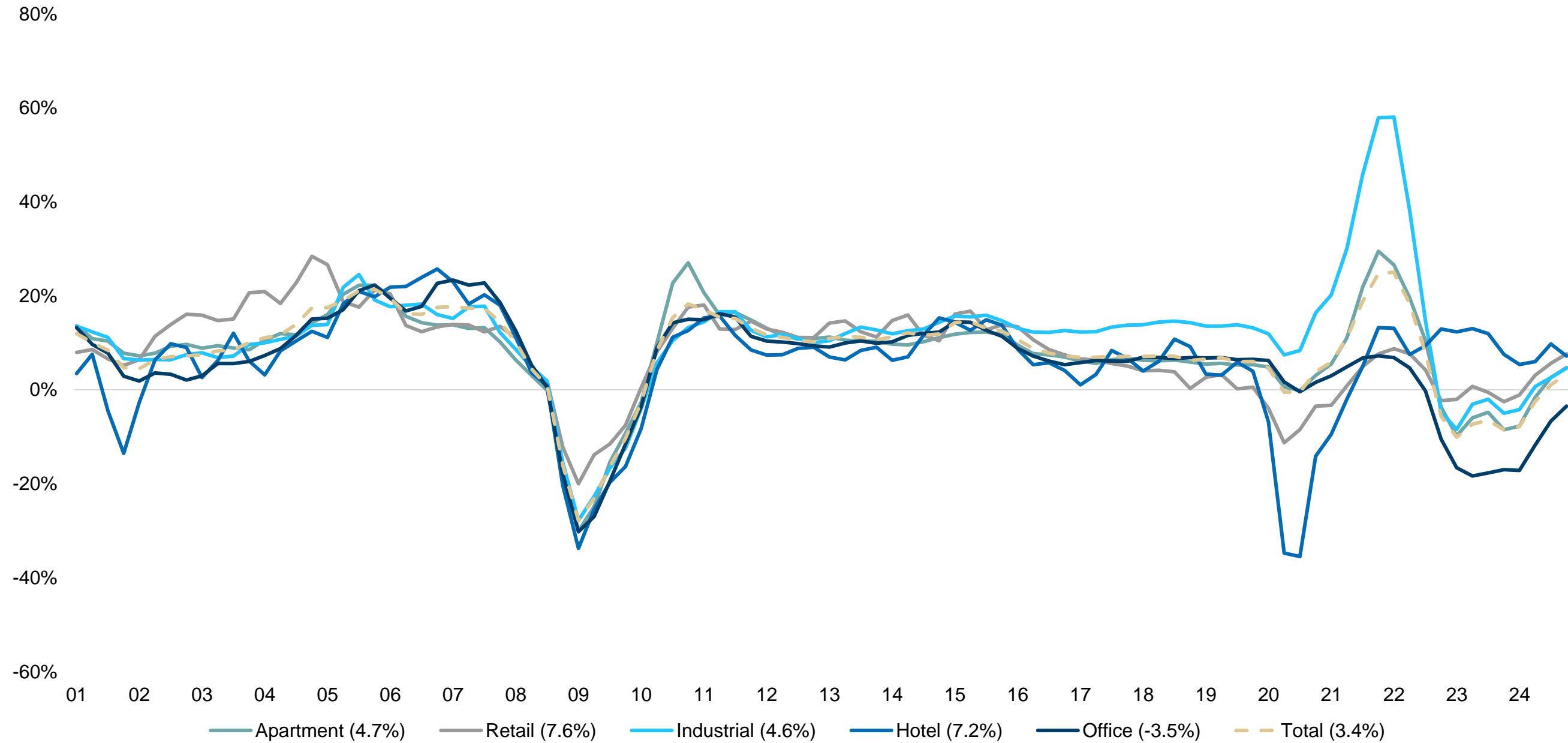


Source: Preqin, Federal Reserve, Newmark Research as of 1/30/2025

# Private Market Core Property Returns Continued To Accelerate In 4Q24

Property returns improved broadly in 4Q24 according to NCREIF. The 6-month average annualized Total Return (+3.4%) 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 -3.5%, while Retail (+7.6%) returns beat the total return index for an 9<sup>th</sup> straight quarter.

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

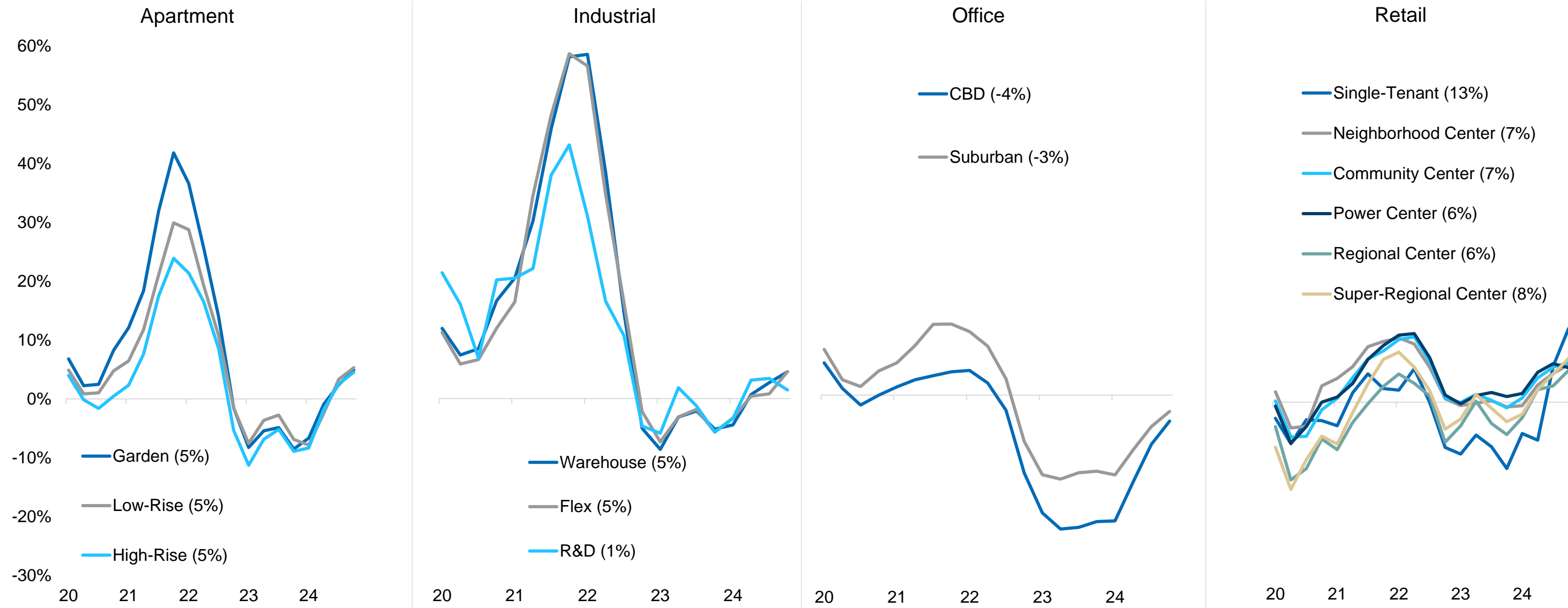


Source: NCREIF, Newmark Research as of 1/30/2025

# Returns Broadly Improved Sequentially Across Property Subtypes In 4Q24

Multifamily returns continued to improve in 4Q24 with little difference in the subtypes. Warehouse, R&D, and Flex returns were positive a third 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 4Q24. Retail performance was strongest in Single-Tenant, Neighborhood, and community centers.

## NCREIF National Property Index Rolling 12-Month Average Annualized Returns



Source: NCREIF, Newmark Research as of 1/30/2025

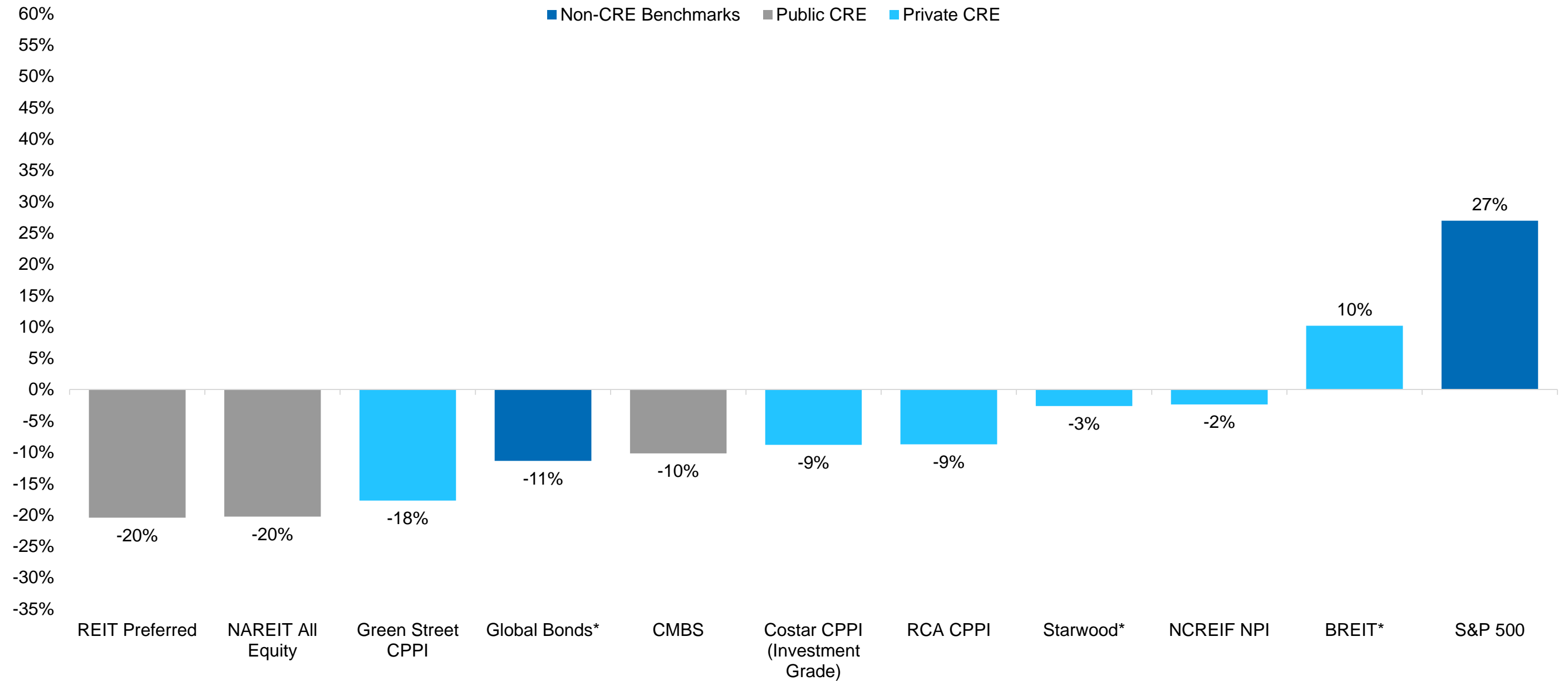


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# Private Markets Continue To Lag Public Markets In Adjusting Valuations

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 1/30/2025

\*Total return; all else price return

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