U.S. CRE Capital Markets Update

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CBRE

NAR NXT Presentation
Inflation
Core Inflation Finally Trending Down

U.S. CPI, Core CPI (year-over-year % change)

Source: CBRE Research, BLS, BEA, September 2023.
Deconstructing Core Inflation – The Role of Shelter

Total CPI (100%)
- Core CPI (79%)
  - Food (14%)
  - Energy (7%)
- Rent of Shelter (34%)
  - Cars, Apparels, and other commodities (21%)
  - Medical Care Services (7%)
  - Transportation (6%)
  - Recreation (5%)
  - Education & Communication (6%)

Source: CBRE Research, BLS, Q3 2023.
Rent CPI Playing Catch up with Reality

CPI Rent and EA Rent, Y-o-Y Growth (%)

Rent of Primary Residence
CBRE EA Rent Growth

Source: CBRE Research, CBRE Econometric Advisors, BLS, Q3 2023.
CPI Would Be On Target With Real-Time Shelter Data

Source: CBRE Research, CBRE Econometric Advisors, BLS, Q3 2023.

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The Role of Multifamily
Multifamily Remains Most Preferred Sector

**Investors’ Sector Preference in 2023**
- Multifamily: 38%
- Hotel/Resort: 12%
- Industrial & Logistics: 28%
- Office: 10%
- Retail: 9%
- Other: 3%

**Investors’ Favored Multifamily Sub-Sector**
- Multifamily (apartments): 94%
- Build-to-Rent (BTR) communities: 2%
- Student housing: 2%
- Singly family rentals: 2%

Multifamily is #1 for U.S. CRE Investment

Source: CBRE Research, MSCI Real Assets, Q3 2023.
Investors Prefer Sun Belt and Select Secondary Markets

Top 10 Most Preferred Markets

1. Dallas / Ft. Worth
2. Austin
3. Miami / South Florida
4. Los Angeles
5. Nashville
6. Atlanta
7. Charlotte
8. Phoenix
9. Boston
10. Raleigh - Durham

Investment Activity Steady Through Q3

U.S. Multifamily Investment Volume ($, billions)

Source: CBRE Research, CBRE Econometric Advisors, MSCI Real Assets, Q3 2023.
How Have Cap Rates Actually Moved?
The 10-Year and the Cap Rate

Cap Rates (%)

Source: CBRE Research, MSCI Real Assets, Federal Reserve Bank of St. Louis, Q3 2023.
Public Market Volatility Overstates Change in Yields, Private Markets Understate. Reality is Between Them.

Source: CBRE Research, MSCI Real Assets, Q3 2023.
Just How Much Have Cap Rates Actually Risen?

Source: CBRE Research, MSCI Real Assets, Q3 2023.
The Shape of Things to Come

U.S. cap rates by sector (%)

Source: CBRE Research, CBRE Econometric Advisors, Q2 2023.
Ten Things to Help You Sleep at Night
#1 Income Growth has Outpaced Rents Since GFC

Median Annual Household Income and Rent Index (Q2 2007 = 100)

#2 Very Little New Retail Supply

Retail Completions (MSF)

- Total Retail Completions (L)
- Rolling 12-Month Completions (R)

Source: CBRE Research, CBRE Econometric Advisors, Q3 2023.

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#3 Growing E-commerce Will Buoy I&L Demand

E-commerce as a percentage of non-auto or gas related sales

- **COVID Peak**: 22.8%
- **Now**: 22.7%

Source: CBRE Research, Q3 2023.

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#4 U.S. Housing Shortage: at least 3.1 Million

### Historical Housing Shortage by Housing Type

- **Apartment Surplus/Shortage**
- **SFH Surplus/Shortage**

<table>
<thead>
<tr>
<th>Year</th>
<th>Apartment Surplus/Shortage</th>
<th>SFH Surplus/Shortage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>-0.35</td>
<td>0.0</td>
</tr>
<tr>
<td>2013</td>
<td>-0.15</td>
<td>0.5</td>
</tr>
<tr>
<td>2014</td>
<td>-0.10</td>
<td>0.0</td>
</tr>
<tr>
<td>2015</td>
<td>-0.05</td>
<td>0.0</td>
</tr>
<tr>
<td>2016</td>
<td>-0.00</td>
<td>0.0</td>
</tr>
<tr>
<td>2017</td>
<td>0.00</td>
<td>0.0</td>
</tr>
<tr>
<td>2018</td>
<td>0.00</td>
<td>0.5</td>
</tr>
<tr>
<td>2019</td>
<td>0.00</td>
<td>1.0</td>
</tr>
<tr>
<td>2020</td>
<td>0.00</td>
<td>1.5</td>
</tr>
<tr>
<td>2021</td>
<td>0.00</td>
<td>2.0</td>
</tr>
<tr>
<td>2022</td>
<td>0.00</td>
<td>2.5</td>
</tr>
</tbody>
</table>

#5 Buying a Home? Not So Fast...

U.S. Average Rent vs. New Mortgage Payment ($)

- **New Monthly Mortgage Payment**
- **Effective Rent**

#6 Multifamily Starts are Trending Down

Estimated Quarterly Multifamily Starts (Units)

Source: CBRE Research, CBRE Econometric Advisors, Q3 2023.

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#7 New Supply Is Where Demand is Strongest

Top 25 Markets for Largest 4-Quarter Deliveries as of Q3 2023

Source: CBRE Research, CBRE Econometric Advisors, Q3 2023.
#8 Variation Among Market Vacancy

**Vacancy Rate (%)**

<table>
<thead>
<tr>
<th>City</th>
<th>Q2 2023</th>
<th>Average (2010-2019)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Las Vegas</td>
<td>7.4%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Phoenix</td>
<td>6.8%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Austin</td>
<td>5.0%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Salt Lake City</td>
<td>5.4%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Denver</td>
<td>5.9%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Nashville</td>
<td>5.3%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Sacramento</td>
<td>5.7%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Portland</td>
<td>5.0%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Oakland</td>
<td>5.4%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Seattle</td>
<td>5.5%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Riverside</td>
<td>5.6%</td>
<td>5.4%</td>
</tr>
<tr>
<td>Sum of Markets</td>
<td>5.8%</td>
<td>5.6%</td>
</tr>
<tr>
<td>San Francisco</td>
<td>8.0%</td>
<td>7.8%</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>5.9%</td>
<td>5.7%</td>
</tr>
<tr>
<td>San Jose</td>
<td>5.3%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Boston</td>
<td>6.2%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Ventura</td>
<td>5.8%</td>
<td>5.6%</td>
</tr>
<tr>
<td>San Diego</td>
<td>6.4%</td>
<td>6.2%</td>
</tr>
<tr>
<td>Orange County</td>
<td>5.1%</td>
<td>4.9%</td>
</tr>
<tr>
<td>New York</td>
<td>5.7%</td>
<td>5.5%</td>
</tr>
</tbody>
</table>

Source: CBRE Research, CBRE Econometric Advisors, Q3 2023.
#9 Larger Markets Will Add Most New Jobs

New Jobs Added (next 5 years), Top 20 Markets

Source: CBRE Research, CBRE Econometric Advisors, Q3 2023.
#10 Most Office Buildings are 95% leased.

Share of U.S. Office Buildings (%)

- 95%+: 60% (Q2 2023)
- 90% to 94.9%: 6% (Q2 2023)
- 80% to 89.9%: 11% (Q2 2023)
- 50% to 79.9%: 16% (Q2 2023)
- Greater than 0%, Less than 50%: 5% (Q2 2023)
- 0%: 2% (Q2 2023)

Source: CBRE Research, CBRE Econometric Advisors, Q2 2023.
Connect with us

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