U.S. CAPITAL MARKETS

Major Investors Return to the Market

2024 Q2 Market Snapshot

Overview

Signs of a market recovery emerged in Q2, but the start of Q3 has created uncertainty. Underlying data indicated a stronger-than-anticipated economic backdrop with Q2 GDP outperforming, stock indices hitting all-time highs, and job growth, while slowing, still performing well. Venture capital investment posted one of its strongest quarters ever, indicating potential future job gains and, in turn, occupier demand. On the investment sales front, volume increased quarter-over-quarter and year-over-year, marking the first such increase since 2022 Q2.

Major investors are back in the market, bidding on properties and acquiring portfolios. Statements from investors support the idea that now is an ideal moment to acquire commercial real estate. At the same time, private investment has kept the market moving. Near-record reserves are waiting to be deployed, with investors looking across the capital stack on both the debt and equity sides. Value-add and core-plus capital are competing with one another in certain asset classes and cases. Lenders are beginning to take properties back or move them off their books, unlocking investment opportunities for others. Cap rates appear to have peaked, though borrowing costs have investors facing negative leverage across a wide swath of transactions. While this situation can be successful depending on the deal, historically, cap rates have been above borrowing costs.

The second half of the year has started with volatility, politically and financially. In the past, election years have led to decreased investment sales activity. Additionally, central banks across the globe are beginning to ease their rate cycles, while the Federal Reserve kept interest rates flat through its July meeting. The market has priced in a September cut, but the July jobs print sent the stock market spiraling, domestically and globally, in early August. Conditions have settled since.

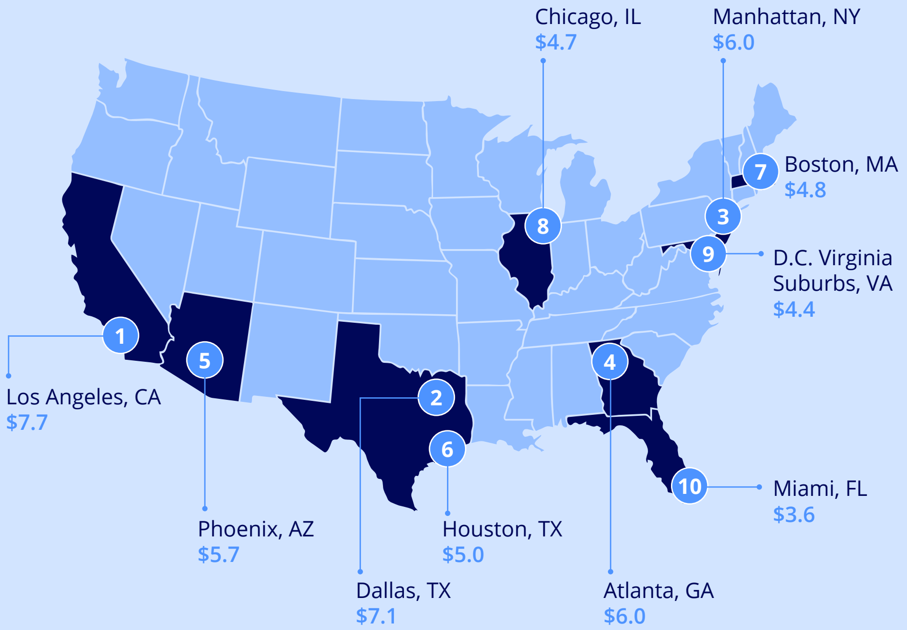
Commercial real estate investors will be closely monitoring conditions as the year progresses. The recent fall in the 10-year Treasury suggests a potential rush to refinance or secure debt at a more attractive basis. Whether lenders are willing to play and their economic outlooks will significantly influence market sentiment and liquidity in Q3 and Q4.

ASSET VALUES

	Office	Industrial	Multifamily	Retail	Hospitality
MSCI Qtrly Pricing Direction	↓	↑	↓	↑	↓
Colliers Qtrly Pricing Forecast	– –	↑	– –	– –	– –

Sources: Colliers, MSCI

FIRST-HALF VOLUME LEADERS ($bn)



Sources: Colliers, MSCI

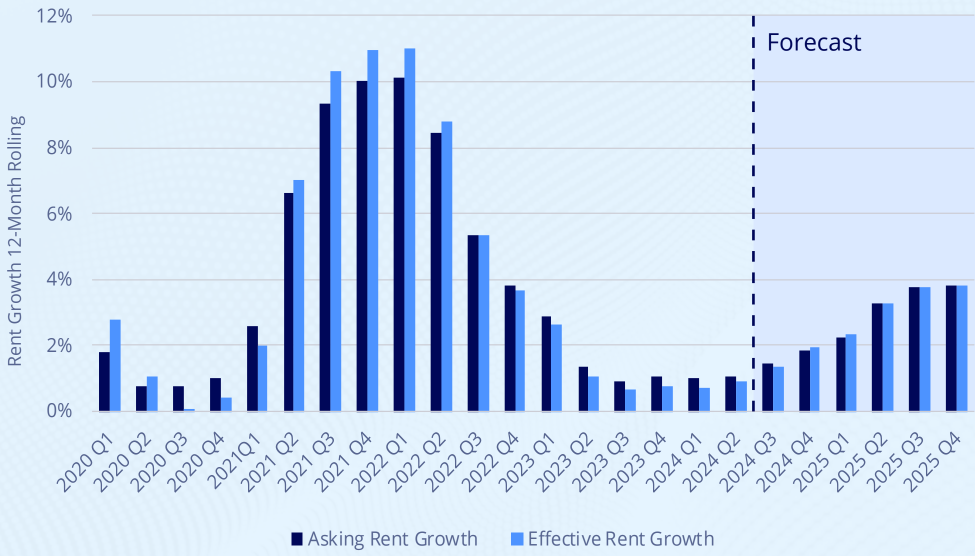
Multifamily

Multifamily volume popped in Q2 as the Blackstone/AIR deal closed. In total, $38.8 billion traded, broadly in line with pre-pandemic averages between 2016 and 2019. Several big-ticket trades have occurred, which has helped break some logjams. Meanwhile, development is beginning to ease, and construction starts have cooled. At the same time, absorption trends have been exceptional, rivaled only by the demand surge during the pandemic, keeping fundamentals from unwinding. In addition, rent growth, while slow, is positive.

Investors can underwrite with greater confidence than in recent quarters. They can predict the market recovery with fundamentals rebalancing and a brighter future for rent growth. Distress is emerging, and receivers are taking on more properties. Overpriced bank deals tend to sit, as nobody wants to take a loss.

Buyers are seeking neutral leverage to the best of their ability, and basis plays are an attractive and popular bet. Many deals are available where the cost of acquisition is below replacement cost, creating interest now that this cycle's construction has peaked. Additionally, land deals are becoming more widespread, offering those with a development lean a new basis for the next generation of projects.

RENT GROWTH IS RETURNING



Sources: Colliers, CoStar

QUARTERLY VOLUME

$38.8 Billion ↑

YEAR-OVER-YEAR PRICE CHANGE

-7.5% ↓

KEY TRANSACTION

Blackstone/AIR Privatization
$10 Billion
27,385 Units

TOP MARKETS

Los Angeles, CA
Dallas, TX
D.C. VA Suburbs, VA

WHAT TO WATCH

Demand Strength
Emerging Distress
Construction Starts

Sources: Colliers, MSCI

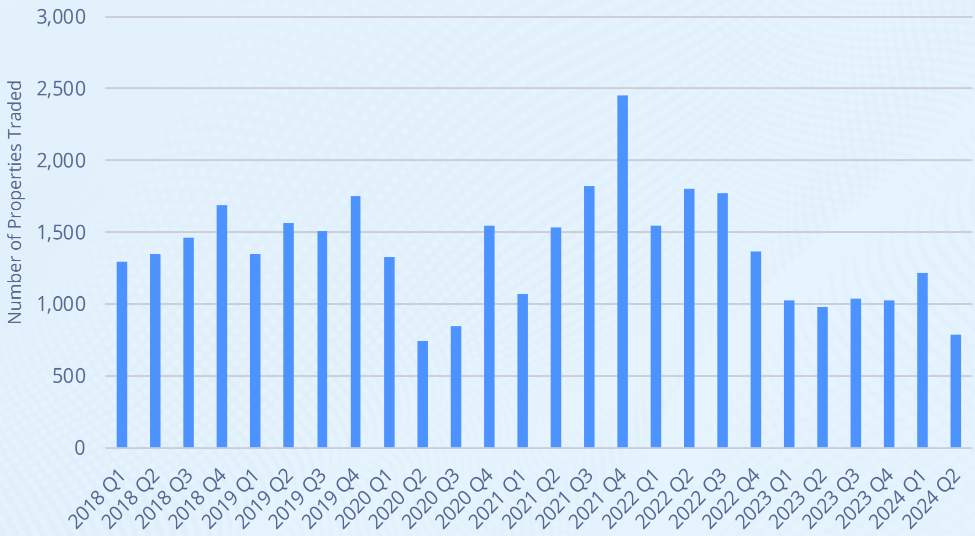
Office

Office remains in a form of price discovery. Financing is still limited, though lenders will come to the table for the right deals. In many markets, properties facing occupancy challenges are selling for less than $100/SF, with towers trading between $100-$150/SF. Well-occupied properties are not receiving the proper credit for tenancy and WALT and are seeing cap rates in the 8-9% range, with double-digit cap rates not unheard of.

Lenders and special servicers are becoming more active regarding short sales, deeds in lieu of foreclosure, loan sales, and foreclosures. As these properties come to market, not only is the equity wiped out, but the original loan is often impaired. Buyers are looking at cap rates, cash-on-cash returns, return on cost, basis, and even equity multiples. Seller financing remains possible with the right groups, which can help get deals over the threshold.

Private capital, including new capital, remains dominant today, with high-net-worth investors, family offices, and private equity actively participating. It is not uncommon for first-time office buyers to step up to the plate with a cash or low-leverage offer. Investors are intensely focused on interest rates and, in general, expect them to fall, creating a wait-and-see environment.

OFFICE SALES REMAIN LIMITED



Sources: Colliers, MSCI

QUARTERLY VOLUME

$11.0 Billion ↓

YEAR-OVER-YEAR PRICE CHANGE

-12.4% ↓

KEY TRANSACTION

980 Madison Avenue
Manhattan, New York
$560 Million
134,843 SF

TOP MARKETS

Manhattan, NY
Boston, MA
Dallas, TX

WHAT TO WATCH

Short Sales
New Buyers
Interest Rates

Sources: Colliers, MSCI

Industrial

Among the major asset classes, the return of institutional investors seems most prevalent for industrial properties. Bidding sheets are getting deeper, with prominent buyers making a strong comeback. However, private capital remains active, too. Volume rose quarter-over-quarter, a trend similar to Q2 of last year.

Fundamentals between supply and demand are returning to equilibrium. This shift is expected to occur in the near future, providing buyers with more confidence in their underwriting. The industry's tailwinds remain, setting up future absorption and rent growth. Few construction starts are taking place, so as this cycle's projects wrap up, little is coming in behind it.

The consensus among a majority of investors is that cap rates have leveled off with the price discovery period largely in the rearview mirror, with cap rate compression observed on select deals in specific markets. Distress remains relatively limited, with CMBS delinquency rates the lowest by a wide margin. Industrial values continue to grow, per MSCI figures, counter to most other asset classes. Potential future distress is in line with retail and hospitality and well below that of office and multifamily, per MSCI figures. Buyers are taking advantage of basis plays, acquiring properties below both replacement cost and the height of the last cycle.

VACANCY INCREASES ARE EASING

Source: Colliers

QUARTERLY VOLUME

$20.0 Billion ↑

YEAR-OVER-YEAR PRICE CHANGE

8.0% ↑

KEY TRANSACTION

EQT Exeter Minnesota Portfolio Acquisition
$434 Million
4.4 Million SF

TOP MARKETS

Los Angeles, CA
Dallas, TX
Houston, TX

WHAT TO WATCH

Rent Growth
Private vs. Institutional Capital
Portfolio Activity

Sources: Colliers, MSCI

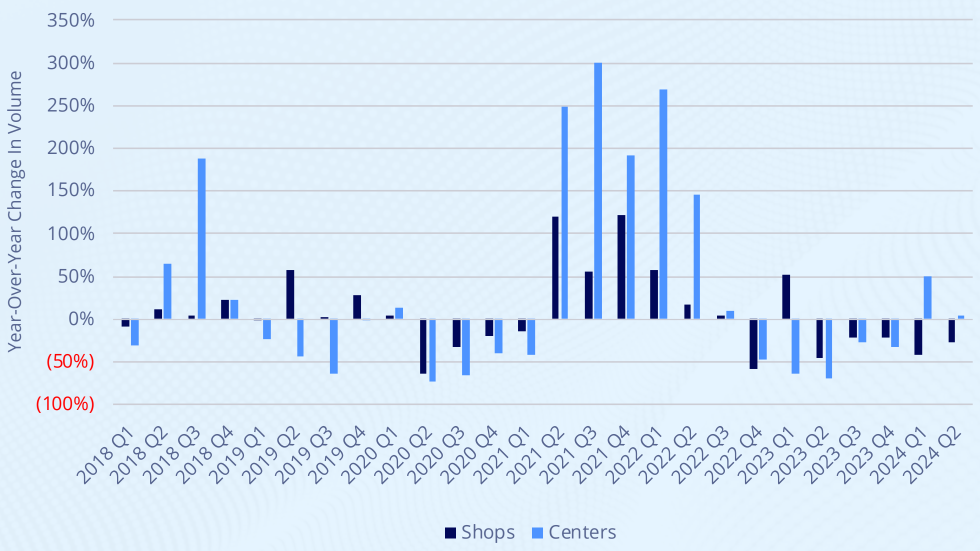
Retail

Retail investment sales remain constrained. Activity in Q2 marks a new cyclical low for volume and the number of properties traded. Without large-scale entities and limited portfolio deals, quarterly activity took a step back. This trend is similar to 2023 Q2, which marked the previous low point. Shopping centers have posted back-to-back quarters of sales gains compared to the year prior. Meanwhile, the shops subcategory, has yet to turn the corner. Private capital sources are driving the bulk of activity, but REIT sources such as Federal Realty have also been on the buy side.

Retail fundamentals remain sound, with vacancies at decade lows, manageable construction, and rising rents. This should provide a strong backdrop for future investment, especially given that retail has cap rates accretive to financing costs. One notable bright spot remains street-level retail in prominent shopping destinations like Fifth Avenue and Madison Avenue in Manhattan.

A still-healthy job market, rising wages, and strong immigration are recipes for continued retail spending. A shakeout is inevitable in a crowded retail landscape. However, merchants that have adapted to consumers' shifting needs stand to remain top-of-mind when it comes to spending.

SALES VOLUME CHANGE: CENTERS VS. SHOPS



Sources: Colliers, MSCI

QUARTERLY VOLUME

$9.9 Billion ↓

YEAR-OVER-YEAR PRICE CHANGE

0.7% ↑

KEY TRANSACTION

Pine Tree/SITE Centers Portfolio
$495 Million
2.5 Million SF

TOP MARKETS

Manhattan, NY
Chicago, IL
Atlanta, GA

WHAT TO WATCH

Unemployment Rate
Consumer Leverage
Wage Growth

Sources: Colliers, MSCI

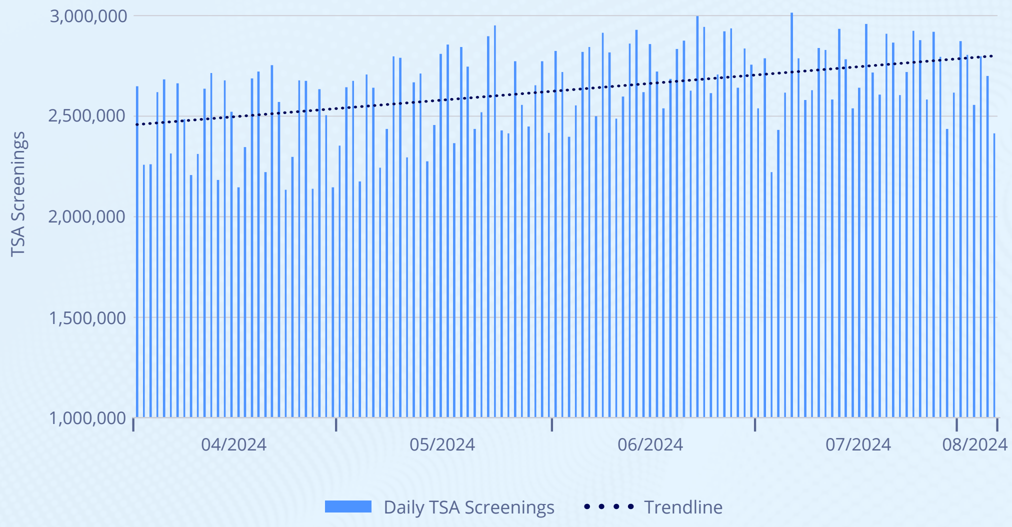
Hospitality

Hospitality is one of the few asset classes to post quarter-over-quarter and year-over-year increases in sales volume in Q2. This growth is even more impressive given that the number of properties transacted was the lowest yet in this market cycle. Larger-scale transactions drove the market in the quarter, with prominent deals in Phoenix, Nashville, Manhattan, San Antonio, Brooklyn, and Boston. These trades pushed full-service hospitality sales up, while limited-service properties continue to pull back, with quarterly and annual declines in volume.

Sales activity ties into performance metrics, with luxury, upper-upscale, and upscale assets outperforming their budget counterparts for occupancies and room rates in recent quarters. This trend realigns with longer-term patterns, although it differs from the market conditions during the early part of the pandemic and subsequent recovery.

The travel industry continues to thrive, at least from a throughput perspective. More passengers are boarding planes than ever before, with the TSA recently reporting record daily screening figures. Investors need to keep in mind where hotel demand is most robust and how this may shift in the quarters ahead. Still, purely from a volume standpoint, there are plenty of potential room nights to compete for.

DAILY AIRPORT SCREENINGS TOP 3 MILLION



Sources: Colliers, Transportation Security Administration

QUARTERLY VOLUME

$6.7 Billion ↑

YEAR-OVER-YEAR PRICE CHANGE

-5.7% ↓

KEY TRANSACTION

Arizona Biltmore Resort
Phoenix, Arizona
$705 Million
705 Rooms

TOP MARKETS

Phoenix, AZ
Nashville, TN
Los Angeles, CA

WHAT TO WATCH

Traveler Counts
Budget Performance
Distress

Sources: Colliers, MSCI

Contacts

David Amsterdam
President, Capital Markets | U.S.
David.Amsterdam@colliers.com
+1 212 716 3556

David Goodhue
Head of Multifamily Capital Markets | U.S.
Executive Managing Director | Boston
David.Goodhue@colliers.com
+1 617 330 8082

Aaron Jodka
Director of Research, Capital Markets | U.S.
Aaron.Jodka@colliers.com
+1 617 330 8059

Capital Markets Board of Advisors | U.S.

Will Mathews
Multifamily Lead
Will.Mathews@colliers.com
+1 404 877 9285

Frank Petz
Office Lead
Frank.Petz@colliers.com
+1 617 330 8123

Michael Kendall
Industrial Lead
Michael.Kendall@colliers.com
+1 949 724 5545

El Warner
Retail Lead
El.Warner@colliers.com
+1 949 724 5690

Mark Owens
Hospitality Lead
Mark.Owens@colliers.com
+1 212 355 7537

Jeff Black
Debt & Equity Lead
Jeff.Black@colliers.com
+1 617 330 8049

Peter Nicoletti
Portfolio Sales Lead
Peter.Nicoletti@colliers.com
+1 212 716 3620

Raul Saavedra
Data Center Lead
Raul.Saavedra@colliers.com
+1 415 293 6202

Jordan Selbiger
Healthcare Lead
Jordan.Selbiger@colliers.com
+1 404 574 1065

Colliers | 1114 Sixth Avenue, New York, NY 10036