U.S. Capital Markets Report

Q2 2024

AVISON YOUNG

Capital Markets trends

-24.06%

Change in debt origination relative to 2023 YTD

Commercial real estate debt origination remains challenged in light of elevated interest rates. While 2024's YTD **$213B** is well behind 2023 H1 levels, the amount of active lenders is also significantly down. There is a myriad of reasons for this, such as overexposure to troubled assets, but this has paved the way for opportunistic buyers to take advantage of the conditions. A looming issue to monitor is the regional bank lending mechanism—which largely drove CRE lending over the last cycle—has virtually shut down, with no clear alternative in sight.

-32.21%

Change in investment sales volume relative to 2023 YTD

Equity markets, much like debt markets, remain a heavily challenged environment, and the 2024 YTD total of **$102B** in investment sales shows suppression across the board that is not limited to office. Institutional investors have been notably more present in Q2 2024 relative to Q1 2024, a sign that prices have begun to bottom in certain markets.

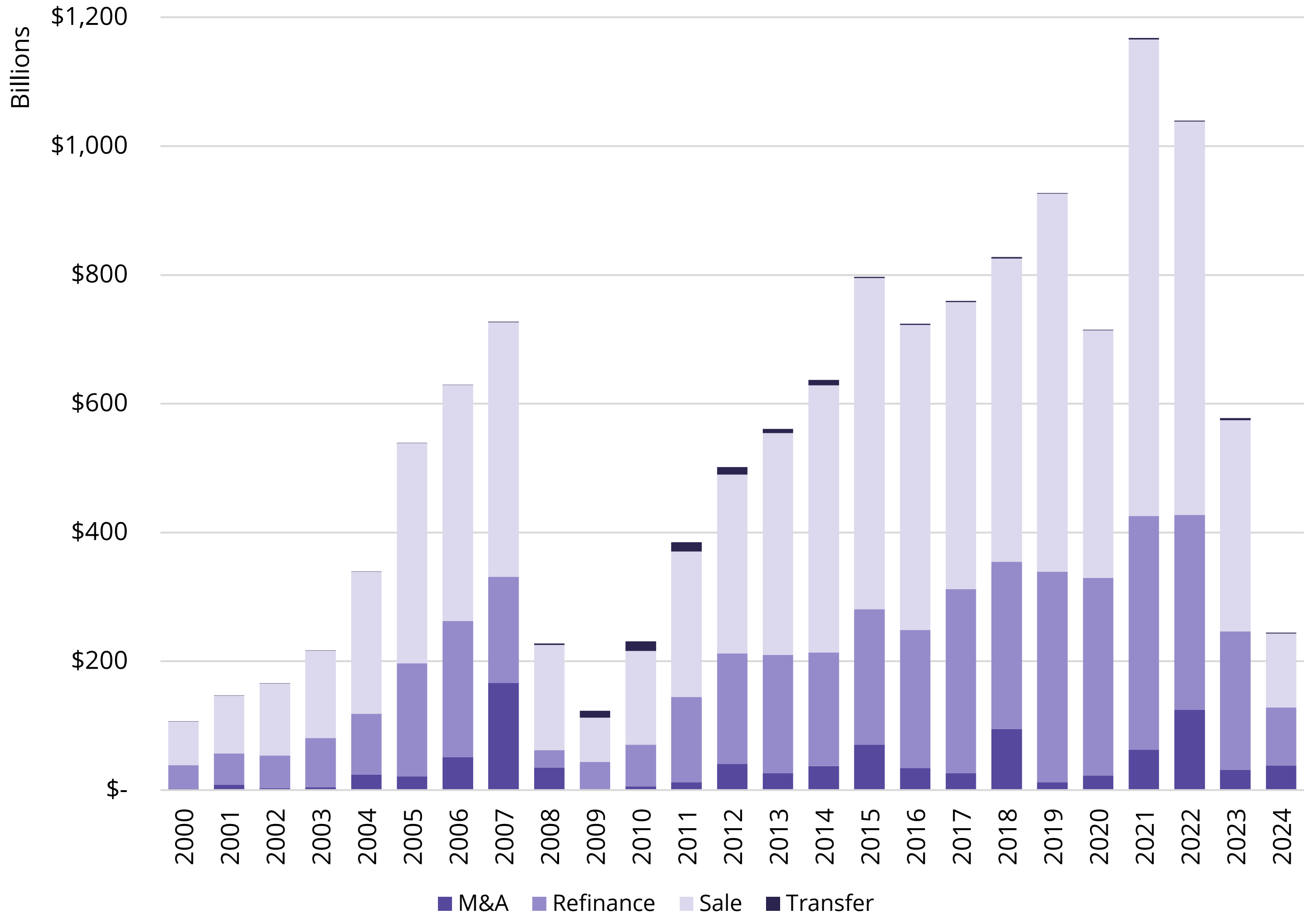
$184B

Dry powder at close-ended funds with a vintage from 2014-2024

The amount of dry powder that is ready to be deployed sits overwhelmingly in the opportunistic or value-add vehicles, with Blackstone raising **$30B** in the largest real estate fund ever, specifically for opportunistic investments. An overwhelming majority of these opportunistic funds are targeting IRRs over 20%, which would indicate a heavy bet on a rebound in pricing as interest rates are cut. Note that this figure includes all property sectors, including diversified funds.

Source: AVANT by Avison Young, RCA, CoStar

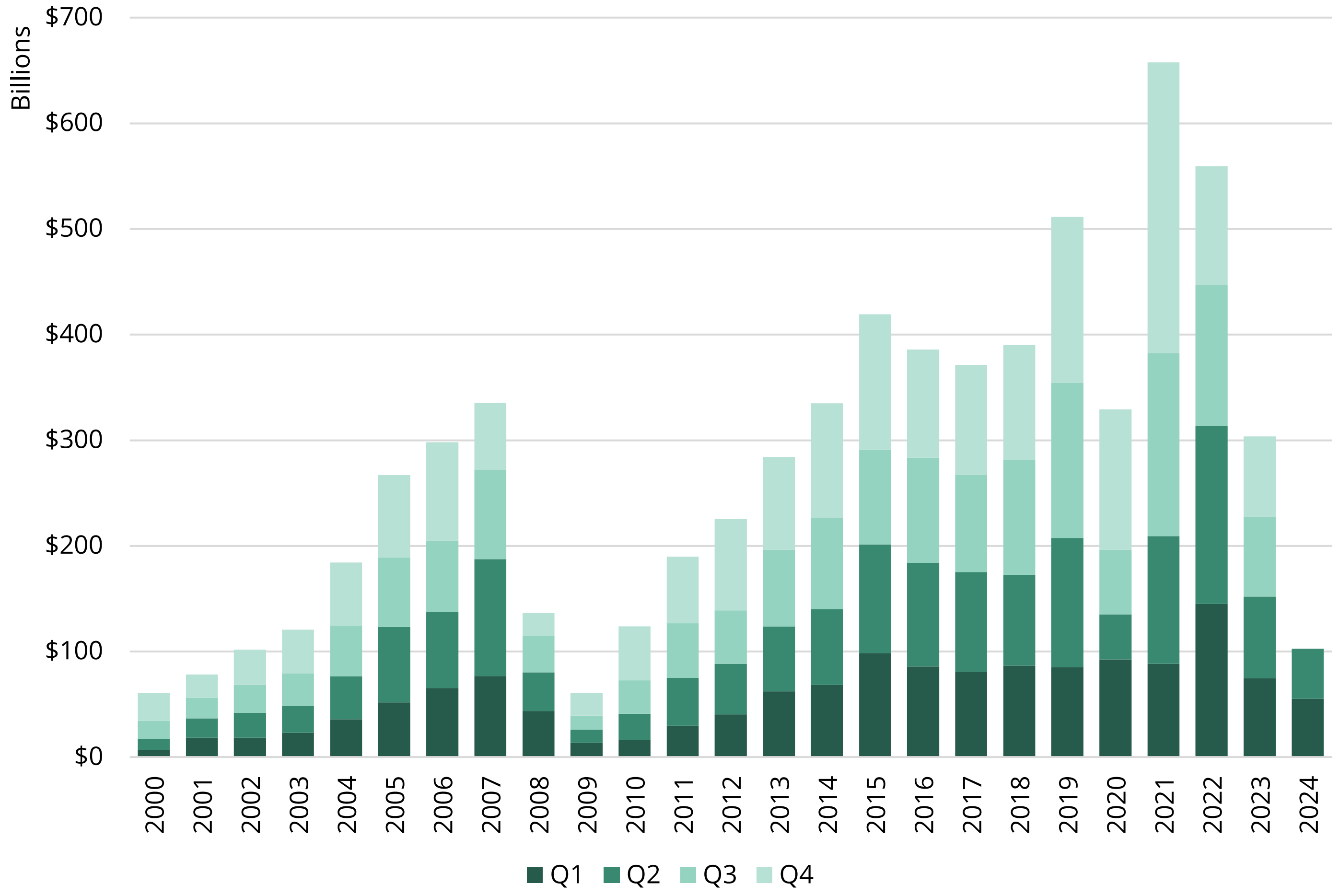
Debt origination



Commercial real estate debt origination has remained highly suppressed through H1 2024, experiencing over a **24% decline** from the level reached through H1 2023. Elevated interest rates have made refinancing assets significantly more expensive. However, with a large quantity of commercial real estate loans set to mature this year, transactional activity and origination are poised to increase.

Source: AVANT by Avison Young, CoStar, RCA

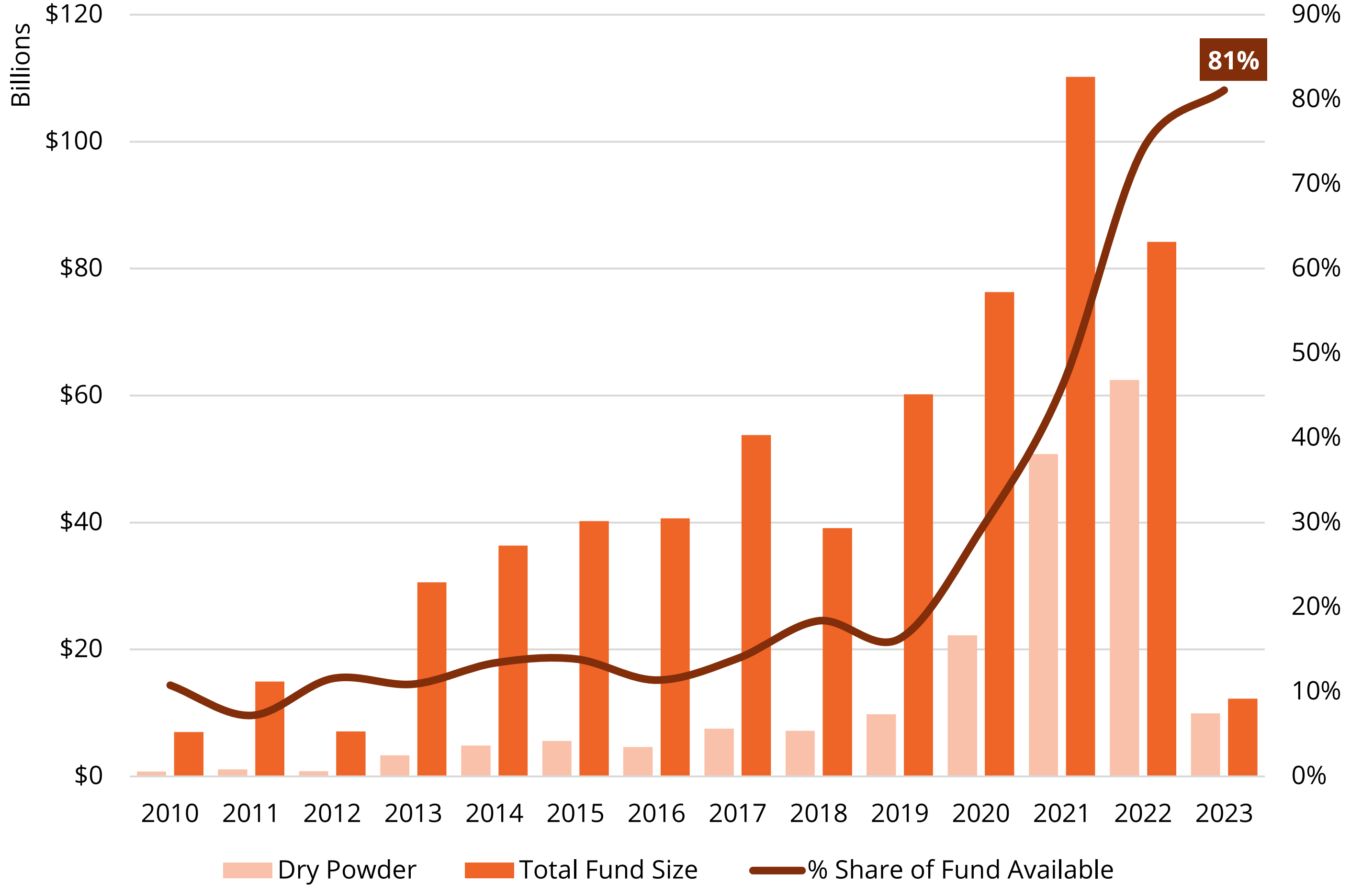
Investment sales



U.S. investment sales across all major property types currently sits **32%** below the level observed through the halfway point of 2023. Individually, Q1 and Q2 2024 were both behind their respective 2023 figures.

Source: AVANT by Avison Young, CoStar, RCA

Supply of capital – fund vintage



Source: AVANT by Avison Young, CoStar
Note, Closed-ended funds only

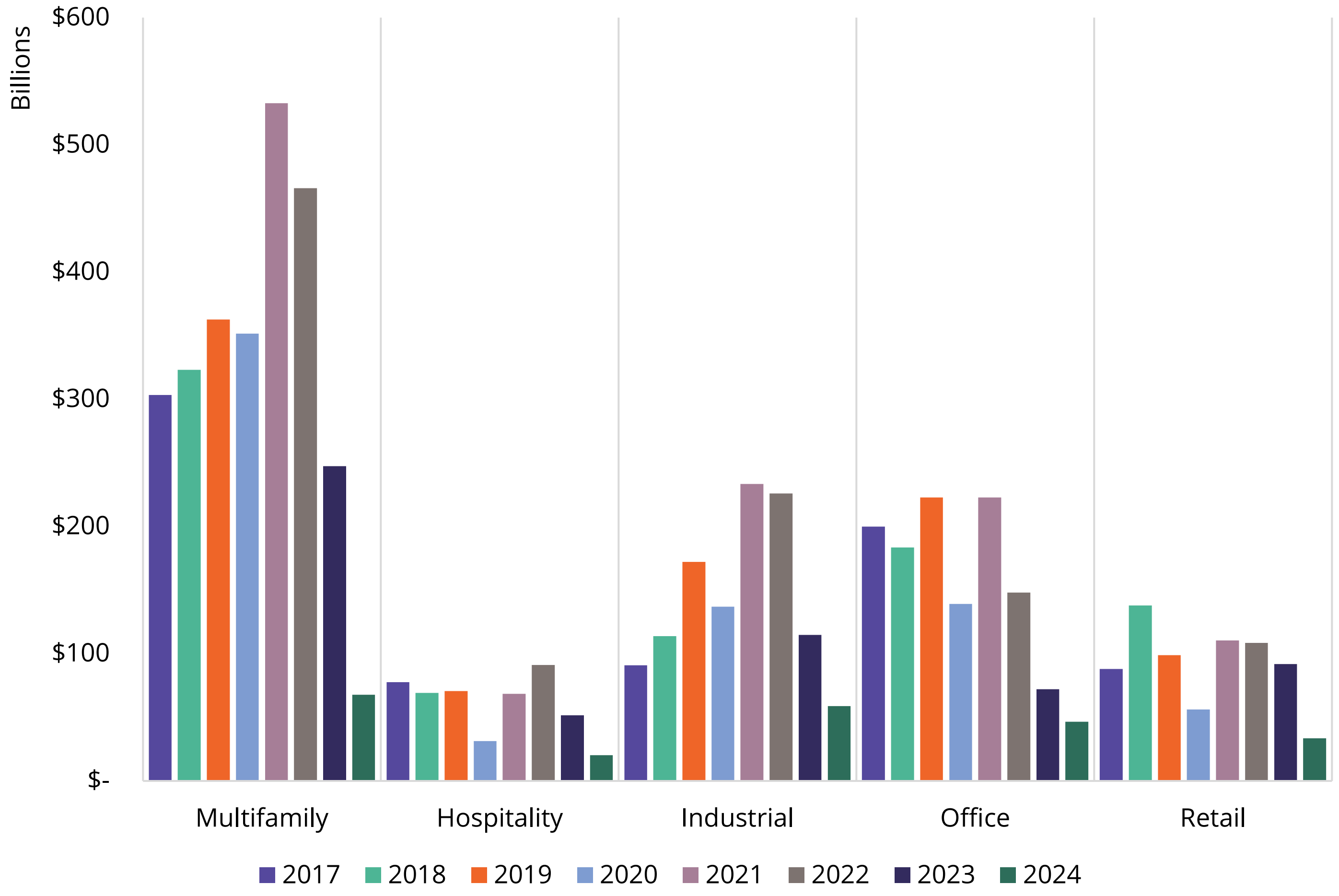
Despite heavily suppressed transactional activity, dry powder remains plentiful, with an overwhelming majority of 2021 and 2022 vintage funds utilizing opportunistic strategies. Capital deployment is a trend to monitor, with investors seeking attractive entry valuations.

81% of the funds raised in 2023 remain available for deployment.

AVANT by AVISON YOUNG

Debt Markets

Origination volume by property type

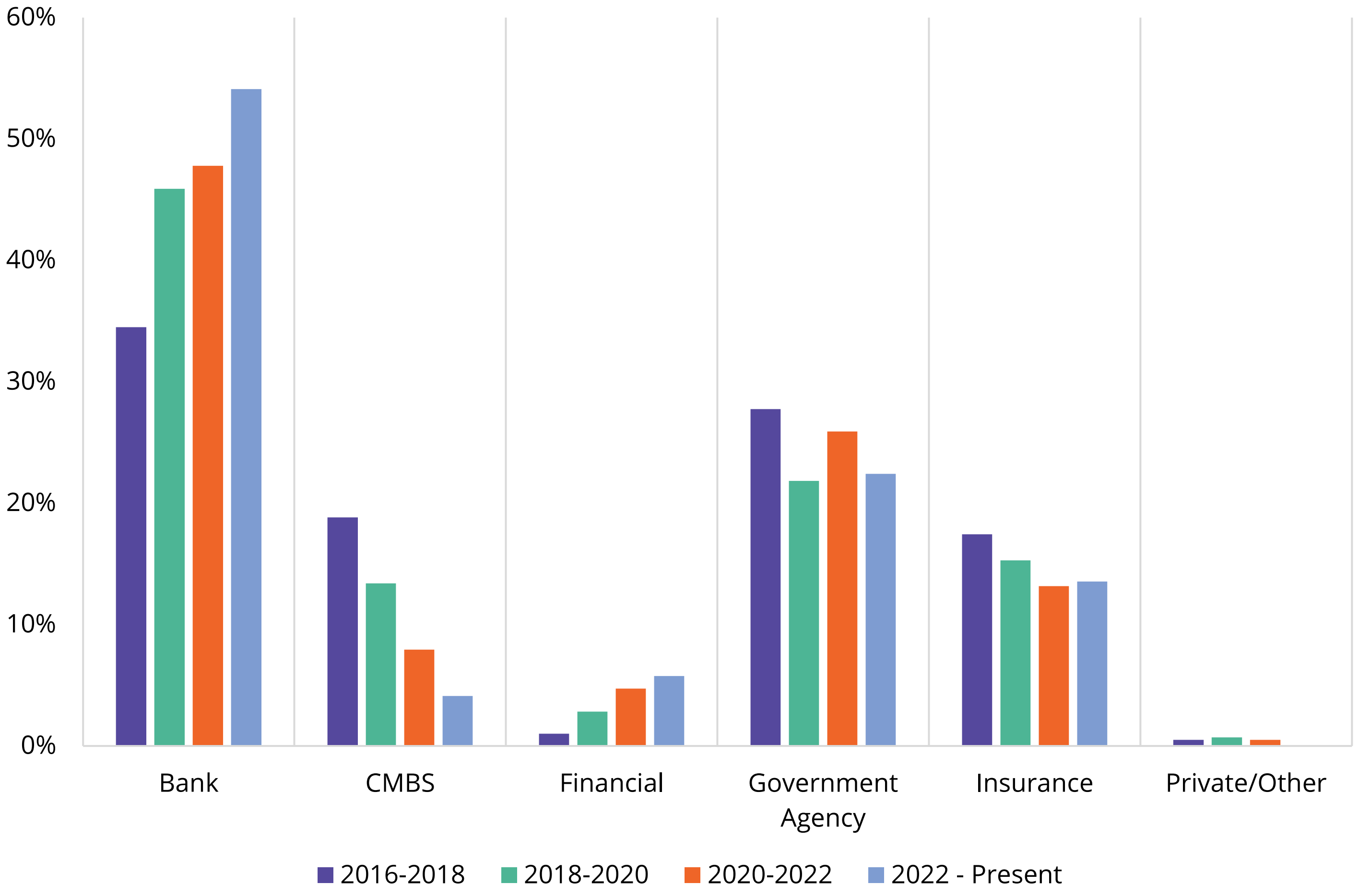


As a result of the elevated interest rate environment, lending activity has fallen across all major property sectors. Multifamily has seen the largest year-over-year decline, and office has seen the slowest year-over-year decline, albeit, significantly down from the period leading up to the pandemic.

Source: AVANT by Avison Young, CoStar, RCA

AVANT by AVISON YOUNG

Originations by lender type

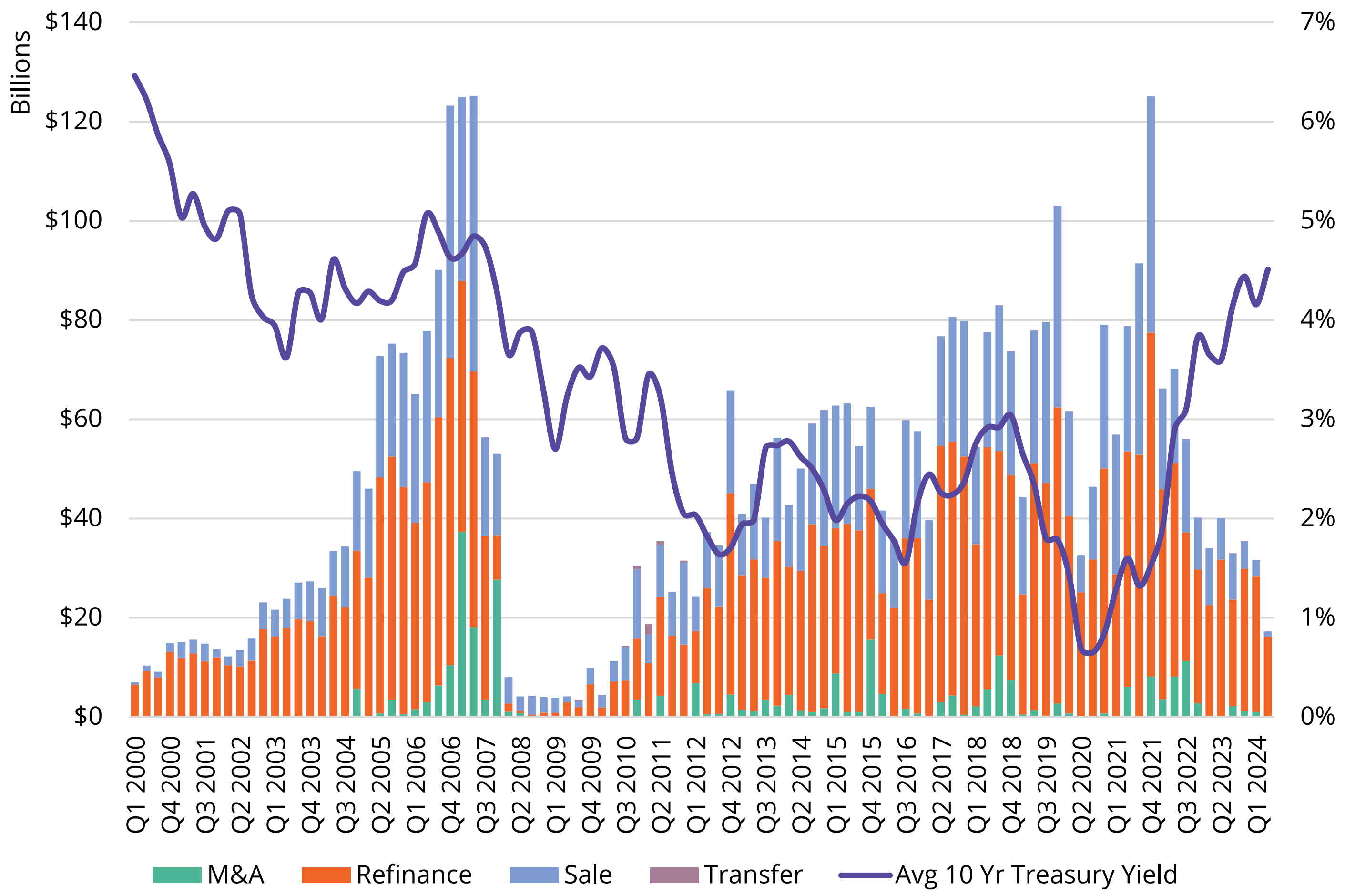


Banks have captured a larger pro-rata share of lending over time, with much of this lending confined to smaller regional banks. CMBS has accounted for a smaller share of overall lending from 2022 to present; however, there is a recent uptick in interest from CMBS lenders, which while not reflected in data yet, should prove to be an interesting trend to monitor.

2023 volatility as it relates to bond spreads tremendously hampered CMBS vehicle's ability to lend, and with spreads tightening, CMBS lenders are attempting to take advantage of clearer market conditions.

Source: AVANT by Avison Young, CoStar, RCA

CMBS issuance

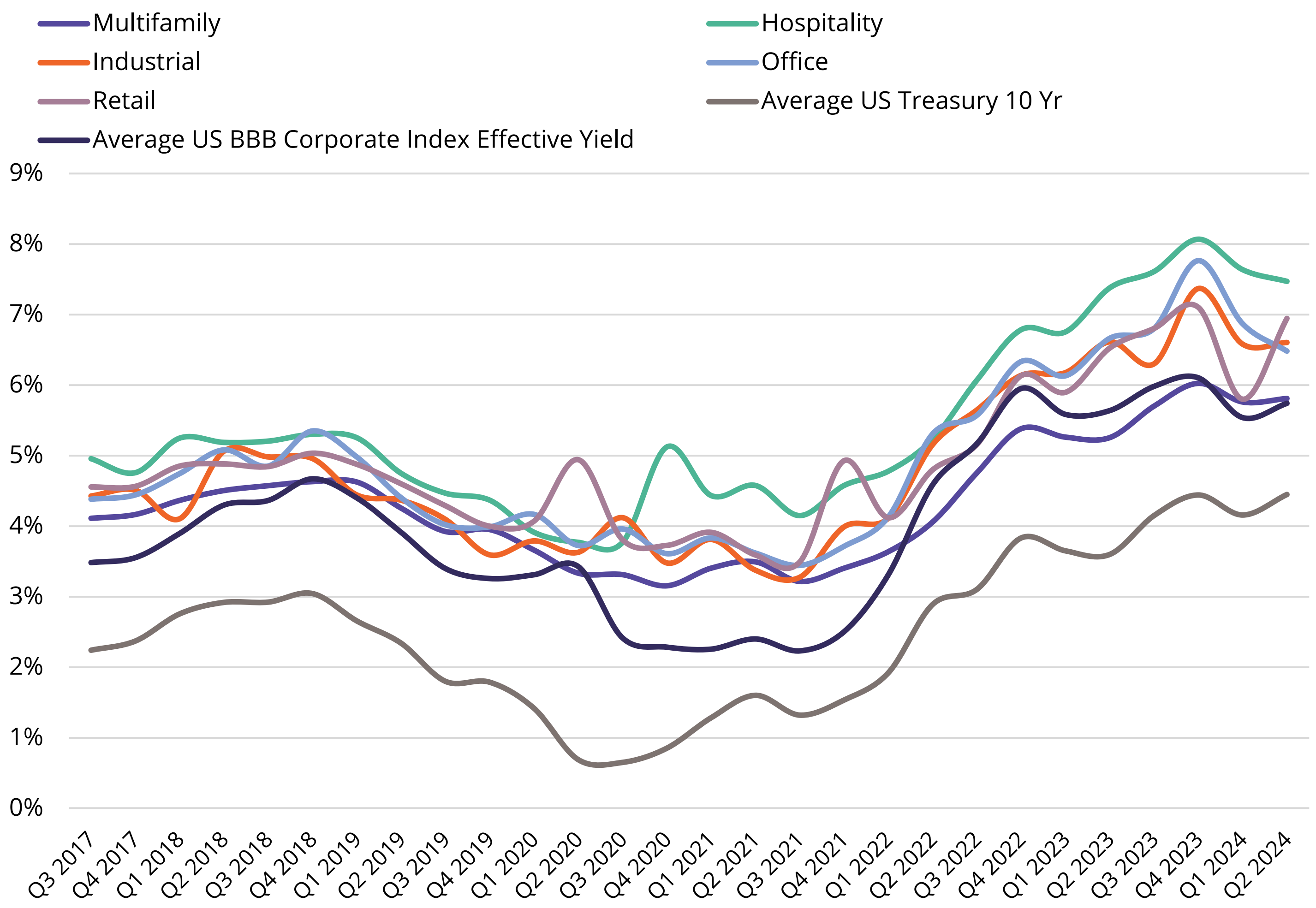


Source: AVANT by Avison Young, CoStar, RCA

The scope for growth in securitized markets could surpass their current scale, reminiscent of the pre-Global Financial Crisis era. However, recent rises in interest rates have markedly affected these markets. While spreads have adjusted, the heightened volatility in rates has amplified the risk involved in originating loans for securitization.

AVANT by AVISON YOUNG

Fixed-rate debt costs



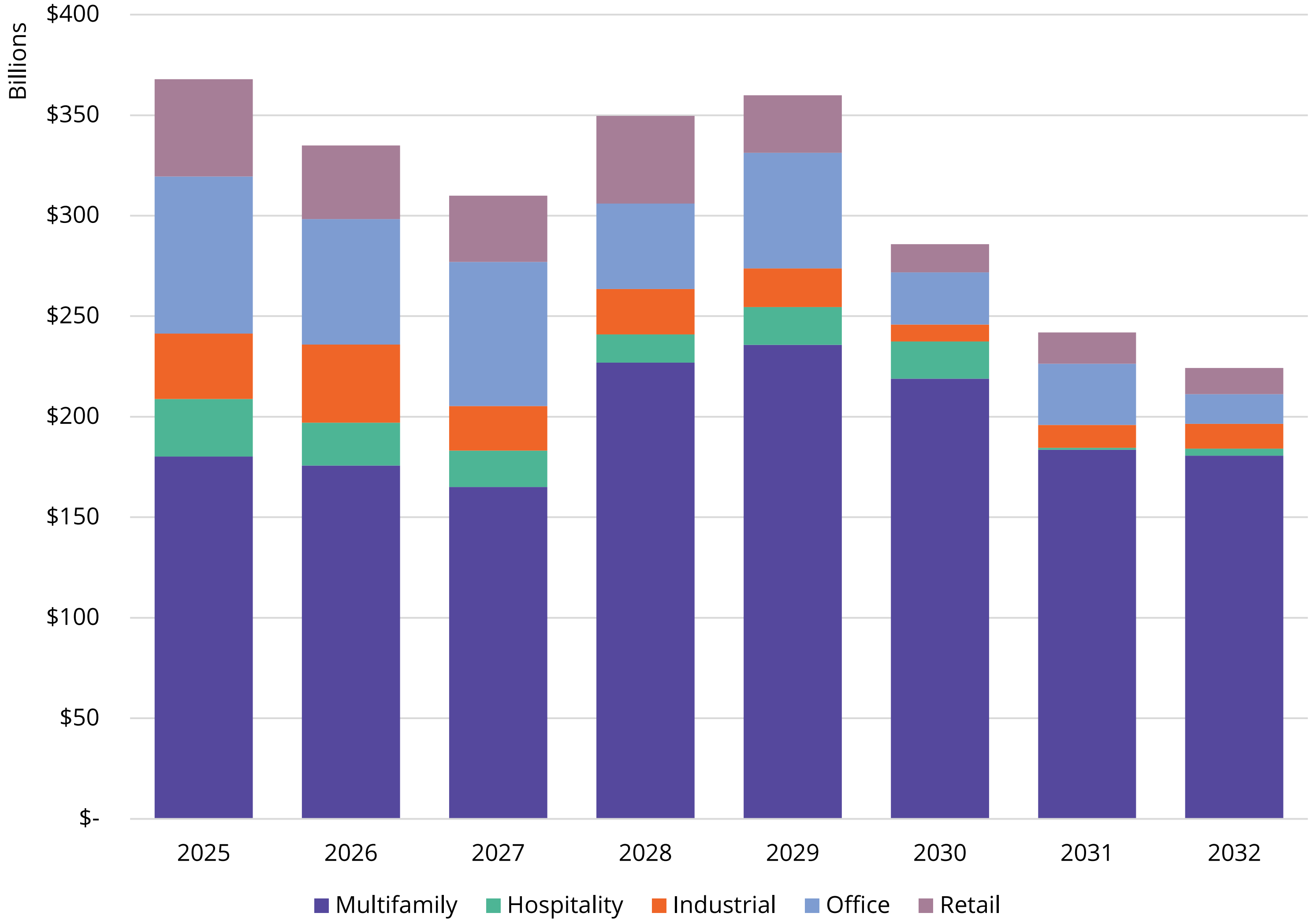
Source: AVANT by Avison Young, CoStar, RCA, FRED Economics

The Fed's rate hiking cycle and corresponding increases in yields across the Treasury curve have been the primary drivers for elevated debt costs. With inflation still not below the Fed target, expect rates to remain higher for longer.

Certain sectors of the broader commercial real estate market have shown signs of relief as it relates to cost of capital, likely largely a function of highly suppressed valuations and elevated levels of distress.

AVANT by AVISON YOUNG

Loan maturities by property type

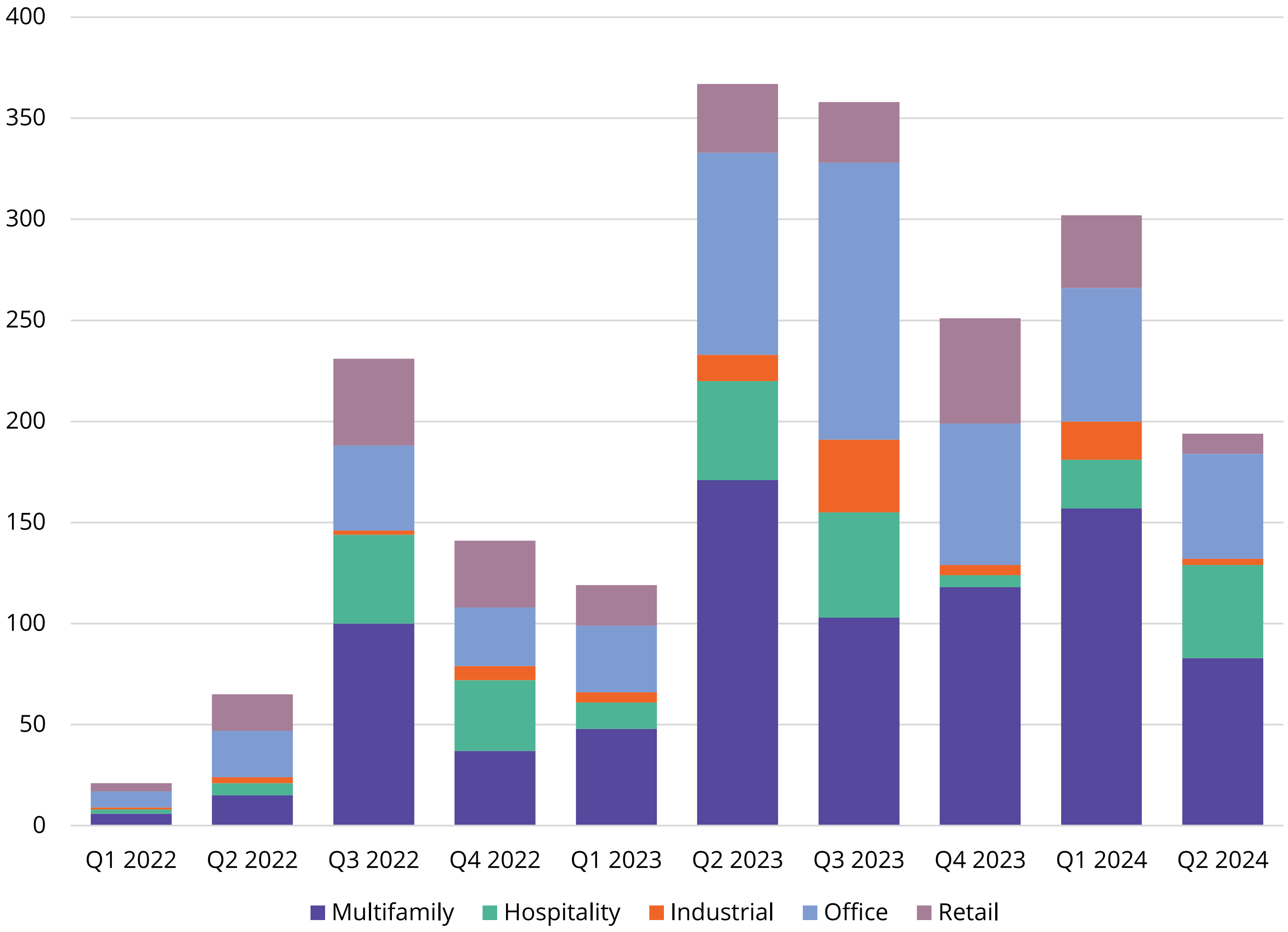


Office and multifamily loans comprise an overwhelming majority of maturing loans over the coming years. Many of these loans were originated in lower interest rate environments and will require substantial cash injections in order to refinance, or a sale at a suppressed valuation.

Source: AVANT by Avison Young, RCA

AVANT by AVISON YOUNG

Foreclosure initiations by quarter

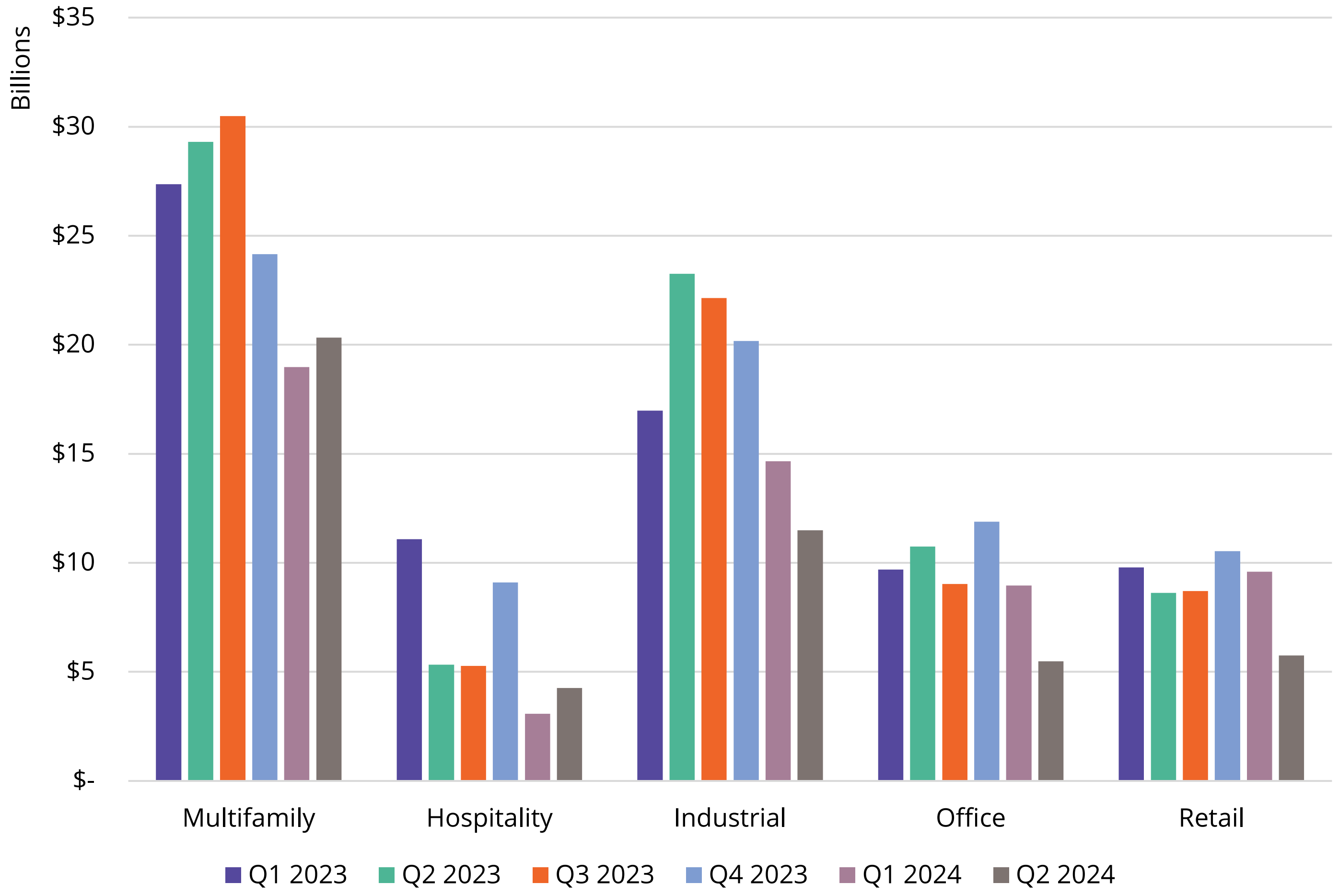


Correlating with the hike in interest rates beginning in Q1 2023, a large quantity of foreclosures were initiated—office and multifamily make up the majority. However, the volume of foreclosure initiations have seemingly cooled off, which can be attributed to a rise in lender-initiated sales.

Source: AVANT by Avison Young, RCA

Equity Markets

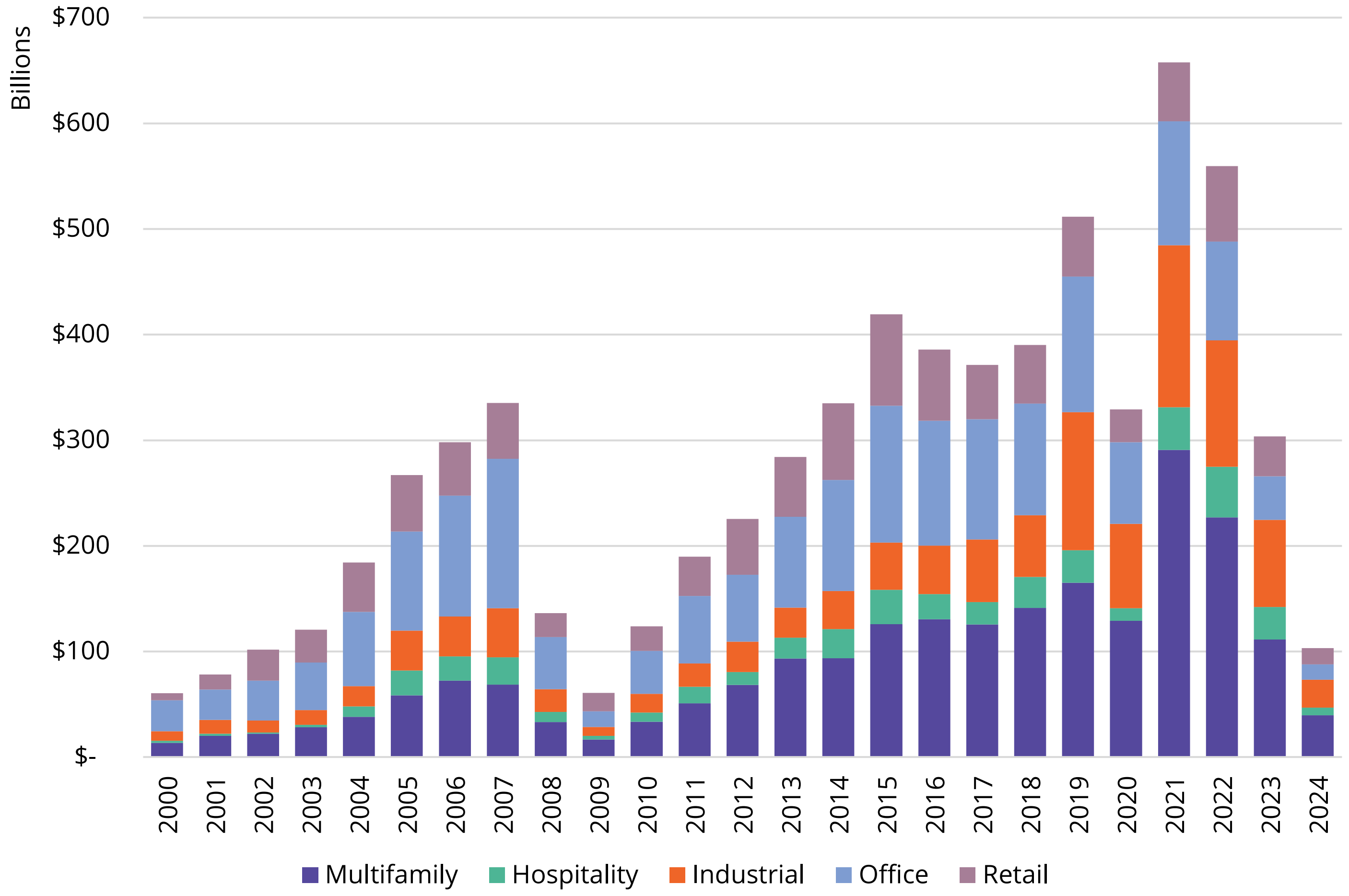
Investment sales by property type - quarterly



Through the first half of 2024, the multifamily and hospitality sectors have seen an uptick in terms of investment sales volume quarter-over-quarter, albeit, still below historical norms. Even property sectors with strong fundamentals have seen suppressed investment volume—a function of a more difficult lending environment, and a continued disconnect between buyers and sellers as it relates to values.

Source: AVANT by Avison Young, CoStar, RCA

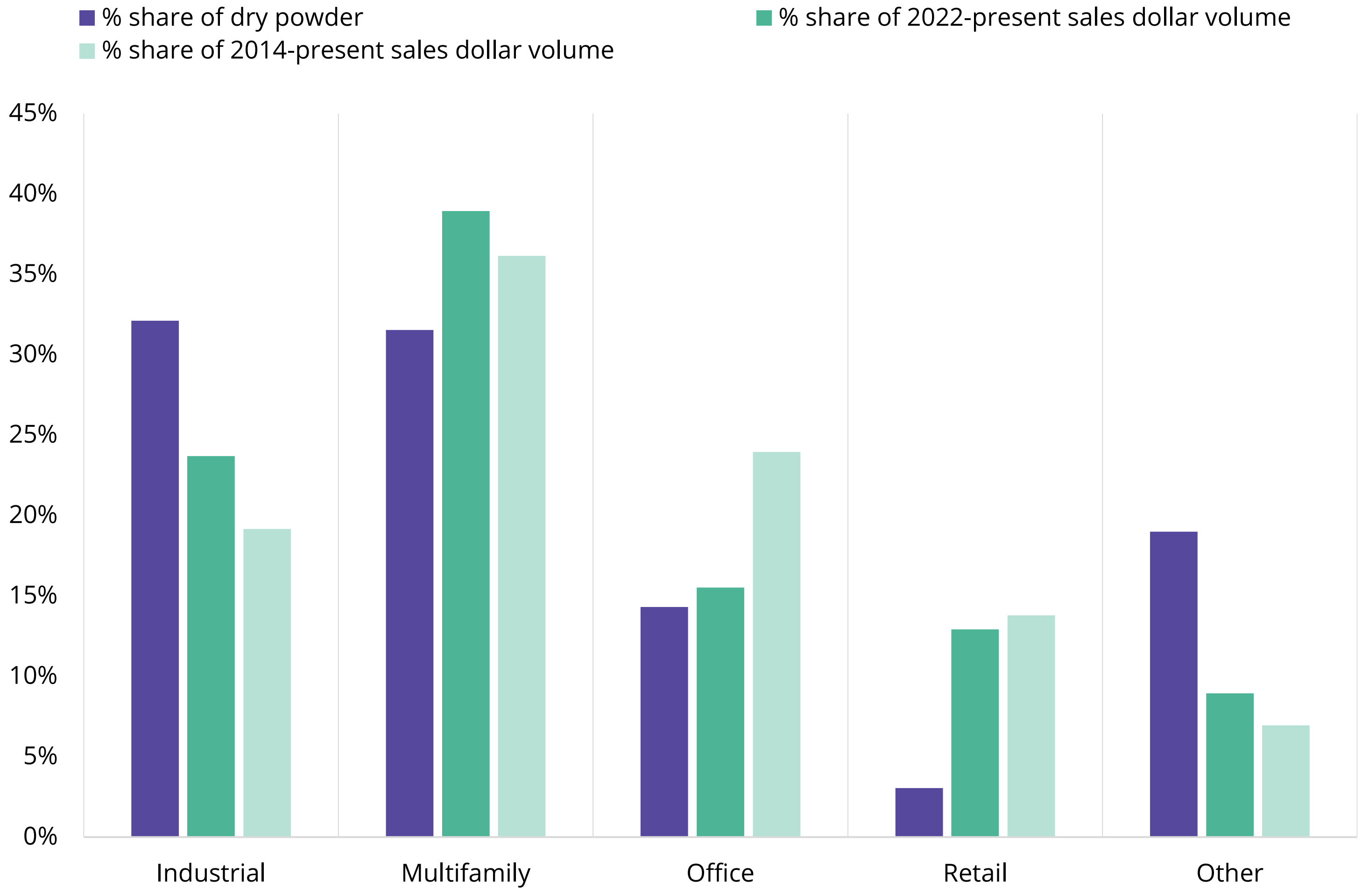
Investment sales by property type – annually



Despite certain segments of the market outperforming on a quarter-over-quarter basis, investment sales activity on the aggregate remains down **32%** year-over-year across the key property sectors.

Source: AVANT by Avison Young, CoStar, RCA

Sales volume vs. dry powder



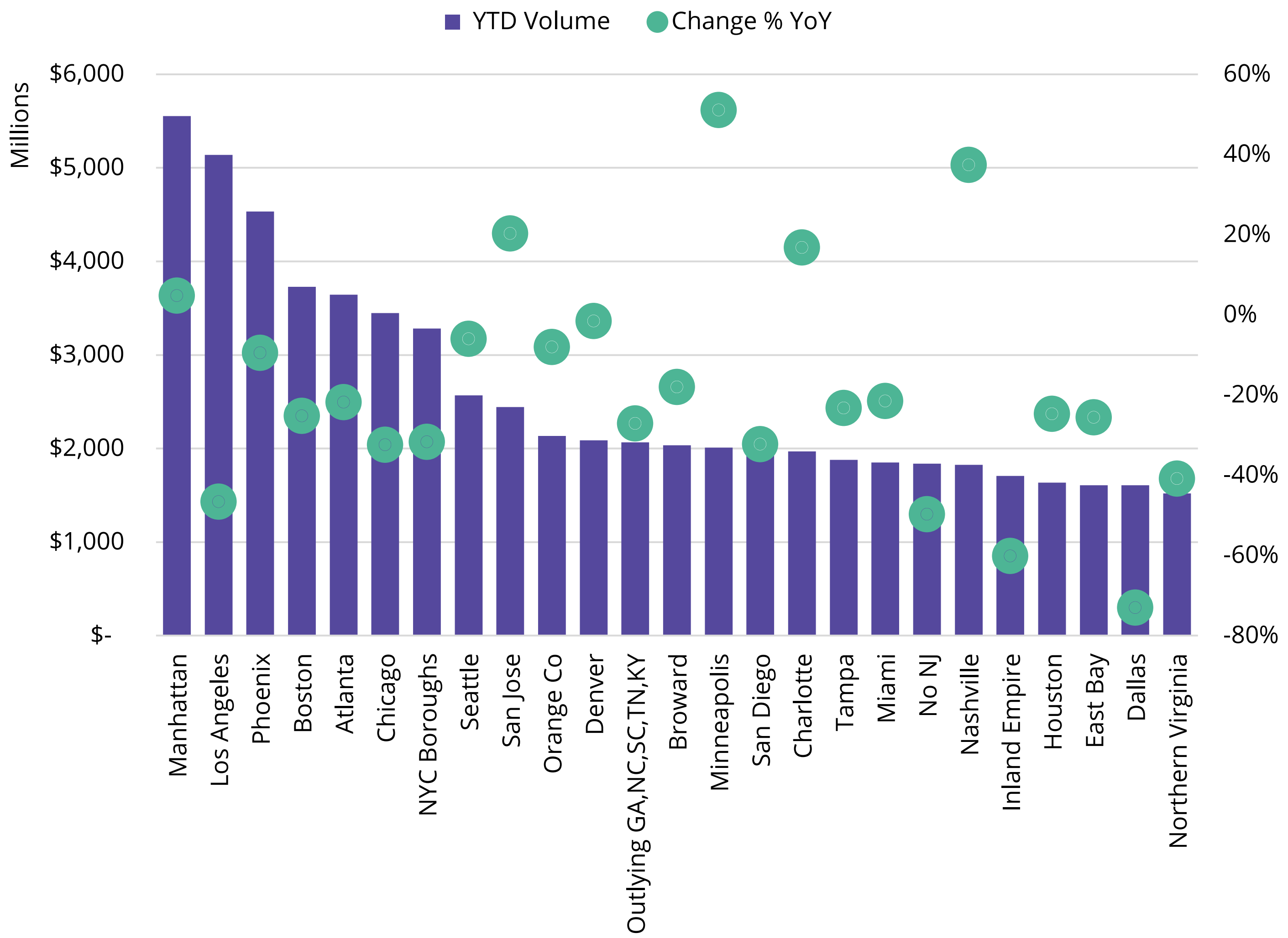
Investor appetite can be monitored over time by comparing historical sales volume with dry powder allocations.

Although multifamily has remained relatively consistent, investor sentiment toward the office sector has clearly shifted.

Source: AVANT by Avison Young, CoStar

AVANT by AVISON YOUNG

Top U.S. markets by investment sale volume

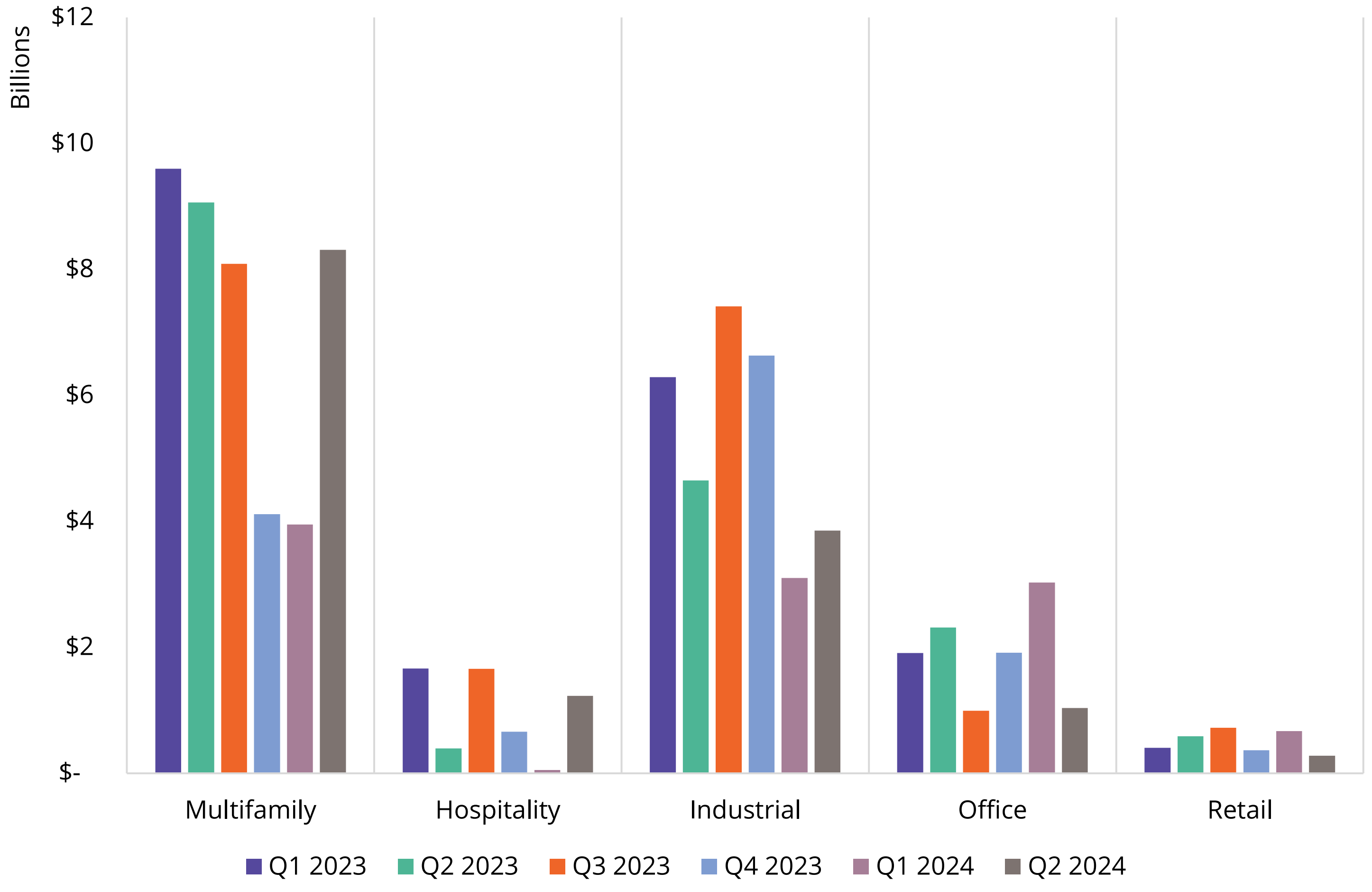


Source: AVANT by Avison Young, RCA

Despite suppressed investment volume on the aggregate, several gateway U.S. markets have seen elevated investment volume on a year-over-year basis, such as Manhattan, San Jose, and Minneapolis.

AVANT by AVISON YOUNG

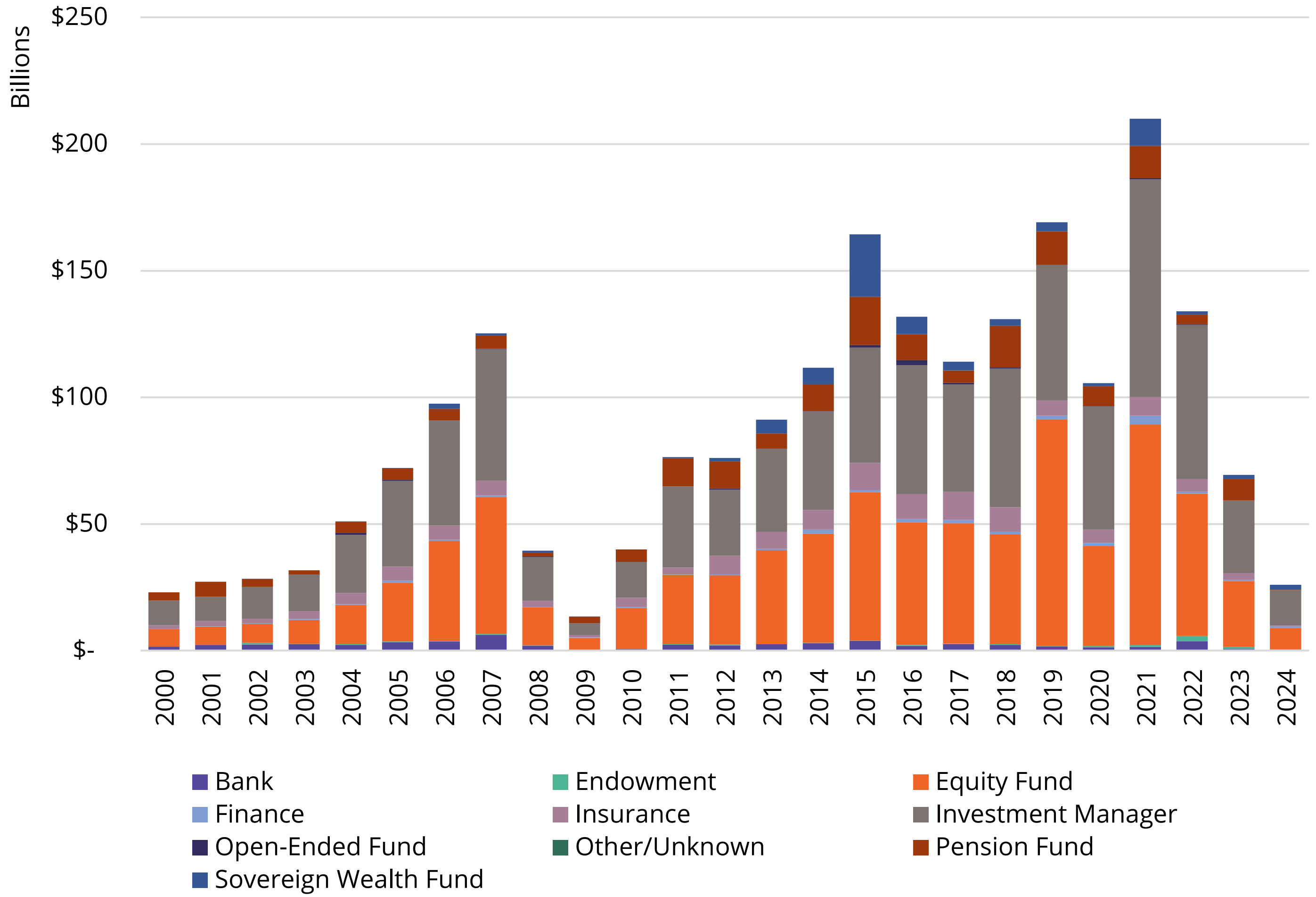
Institutional investment allocation



A reflection of the shifting sentiment on the part of institutional investors, multifamily and industrial represent the only major property sectors to show marked increases in acquisitions quarter-over-quarter on the part of institutional investors. While hospitality also showed an increase, Q1 2024 volume was virtually non-existent.

Source: AVANT by Avison Young, RCA

Institutional investment by capital type

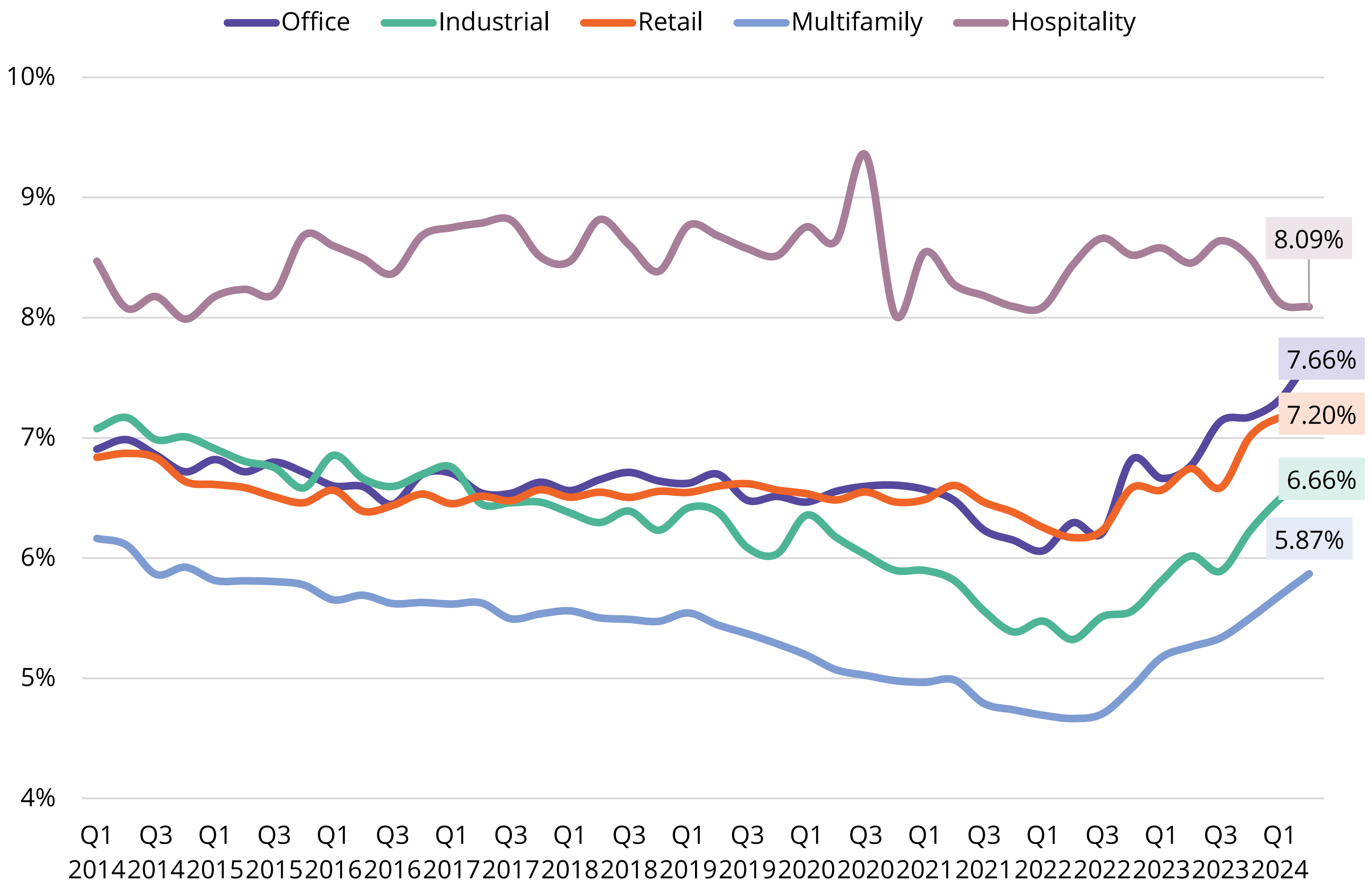


Equity funds and investment managers represent a bulk of the institutional acquisition volume through the halfway point in 2024. Notably absent are pension funds and sovereign wealth funds.

Source: AVANT by Avison Young, RCA

AVANT by AVISON YOUNG

Average cap rates



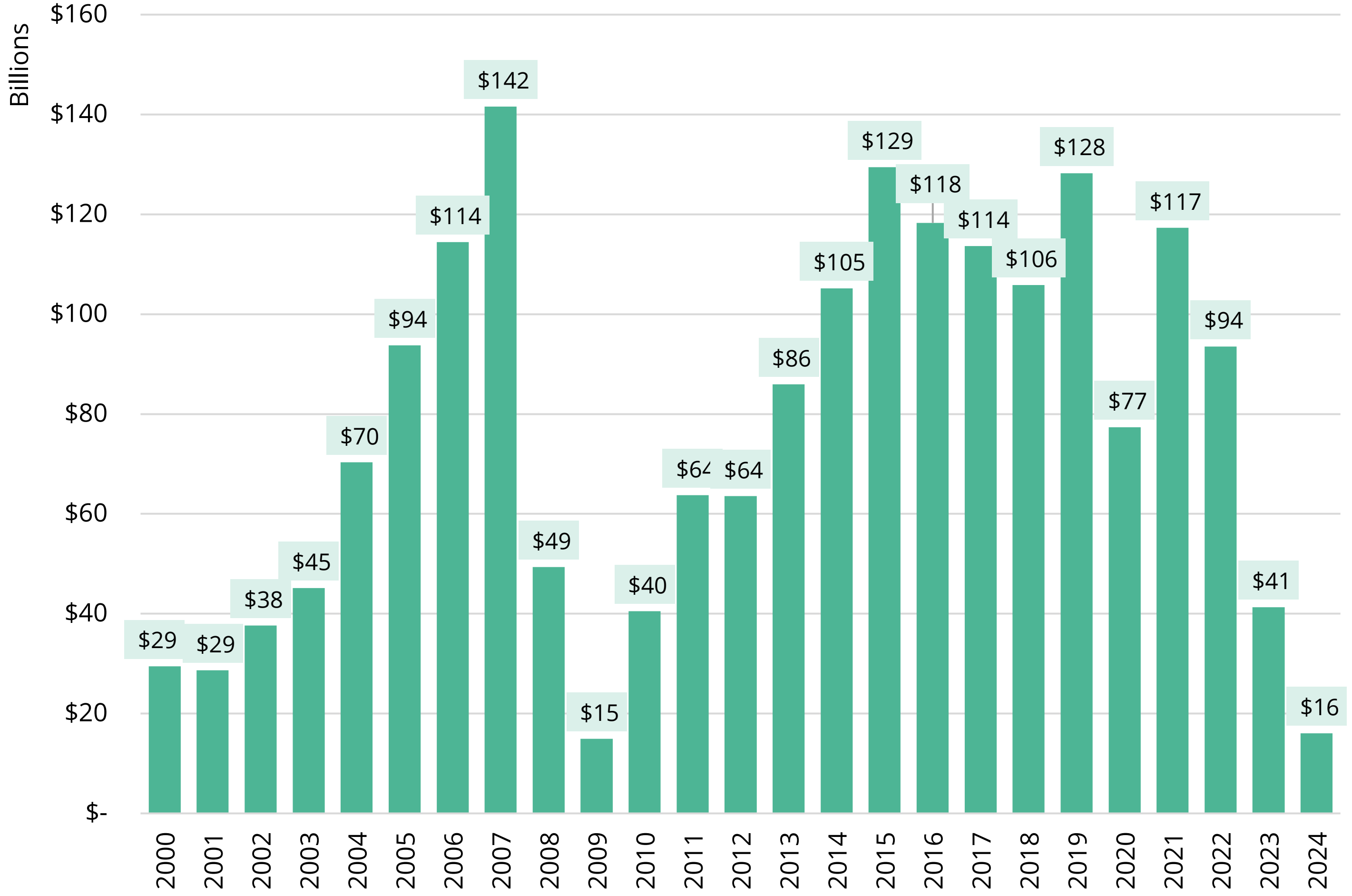
Cap rate expansion has generally been observed over time for major property verticals, corresponding with the Fed rate hiking cycle. The compression of industrial cap rates over the last 10 years illustrates how investor sentiment has shifted toward the sector, with it being viewed as more stable and critical to the U.S. economy than in 2014.

Source: AVANT by Avison Young, RCA
Note: Only sales over $2.5MM USD

AVANT by AVISON YOUNG

Office Investment Themes

Office investment volume



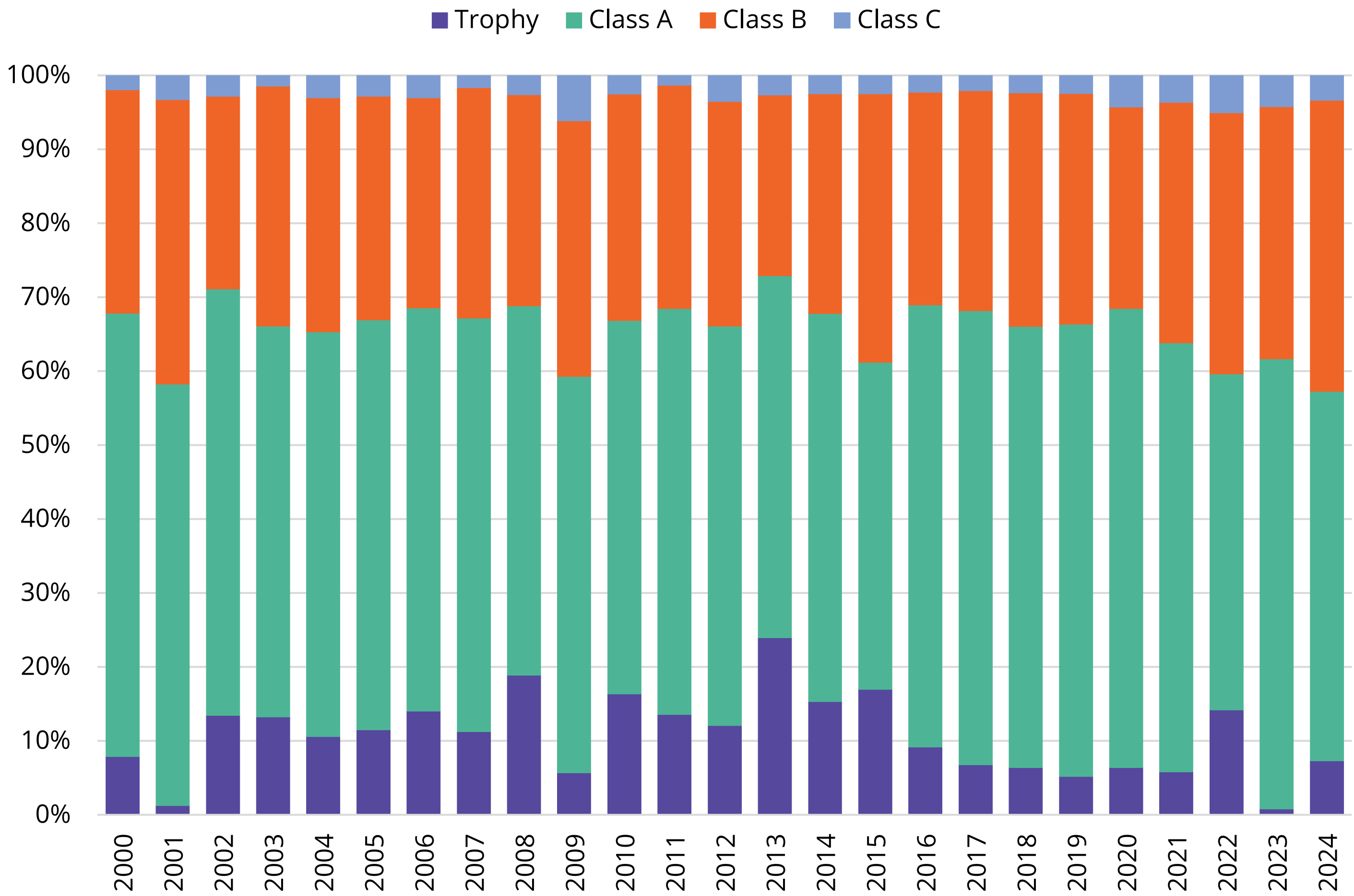
Transactional volume has fluctuated as lenders have been more open to loan modifications.

Although Q2 2024 saw an increase of investment dollar volume compared to the previous quarter, the U.S. market has not fully rebounded.

Source: AVANT by Avison Young, CoStar

AVANT by AVISON YOUNG

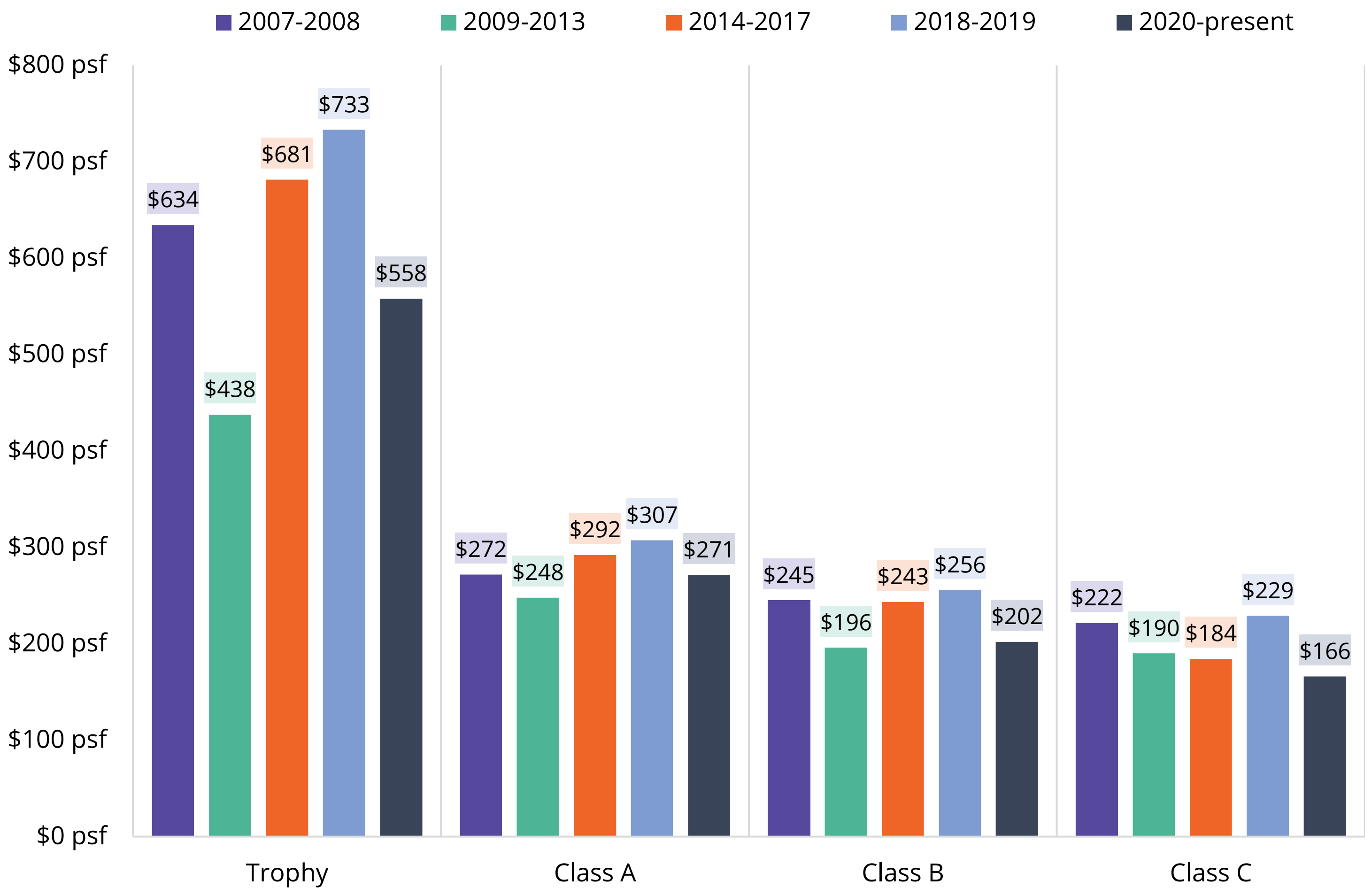
Office investment volume – by class



Trophy office sales have comprised a larger share of total office investment sales in 2024 than 2023, a sign that there is more investor interest in the sector, and that quality assets with stable cashflow can be attractive, even in an elevated interest rate environment.

Source: AVANT by Avison Young, CoStar

Office investment pricing by era



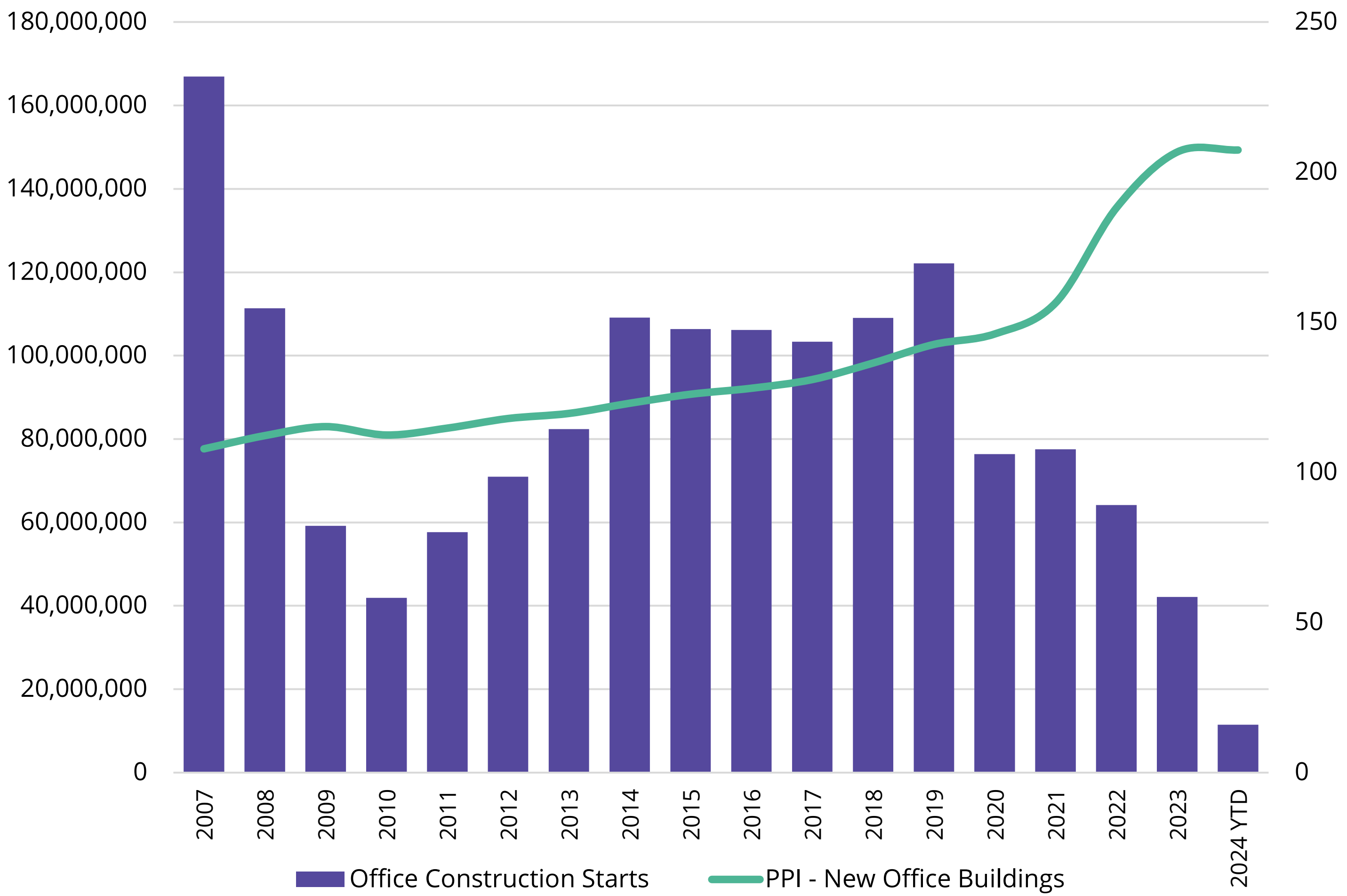
Source: AVANT by Avison Young, CoStar

Trophy office properties have seen a significant post-pandemic correction in value of all office asset classes, correcting by almost 24% since the last cycle.

However, pricing remains above the great financial crisis in 2009 levels in these higher quality assets.

AVANT by AVISON YOUNG

Office construction & pricing



Despite a marked drop-off in new office construction starts since 2019, the producer price index for new office buildings has effectively doubled since 2010. Given the suppressed demand for materials and labor, costs should come down allowing development projects to make economic sense.

Source: AVANT by Avison Young, CoStar, BLS

For more market insights and information visit **avisonyoung.com**

Alex Ern

U.S. Capital Markets Lead
Market Intelligence
alex.ern@avisonyoung.com