U.S. Capital Markets Report

Q3 2024

AVISON YOUNG

Capital Markets trends

+80.4%

Change in debt origination in Q3 2024 compared to 1H 2024

Commercial real estate debt origination almost doubled in the third quarter compared to the first half of 2024 with **$197 billion** in origination volume bringing the YTD total to **$441 billion**. The large uptick can be attributed mainly to an increase in refinancing activity; however, the injection of debt into the market remained significantly below historical levels.

-21.4%

Change in investment sales volume relative to 2023 YTD

Equity markets, much like debt markets, remain a heavily challenged environment, and the 2024 year-to-date total of **$181 billion** in investment sales shows suppression across the board that is not limited to office. Private investors have been notably more present in the third quarter of the year relative to the second quarter—a sign that prices have begun to bottom out in certain markets.

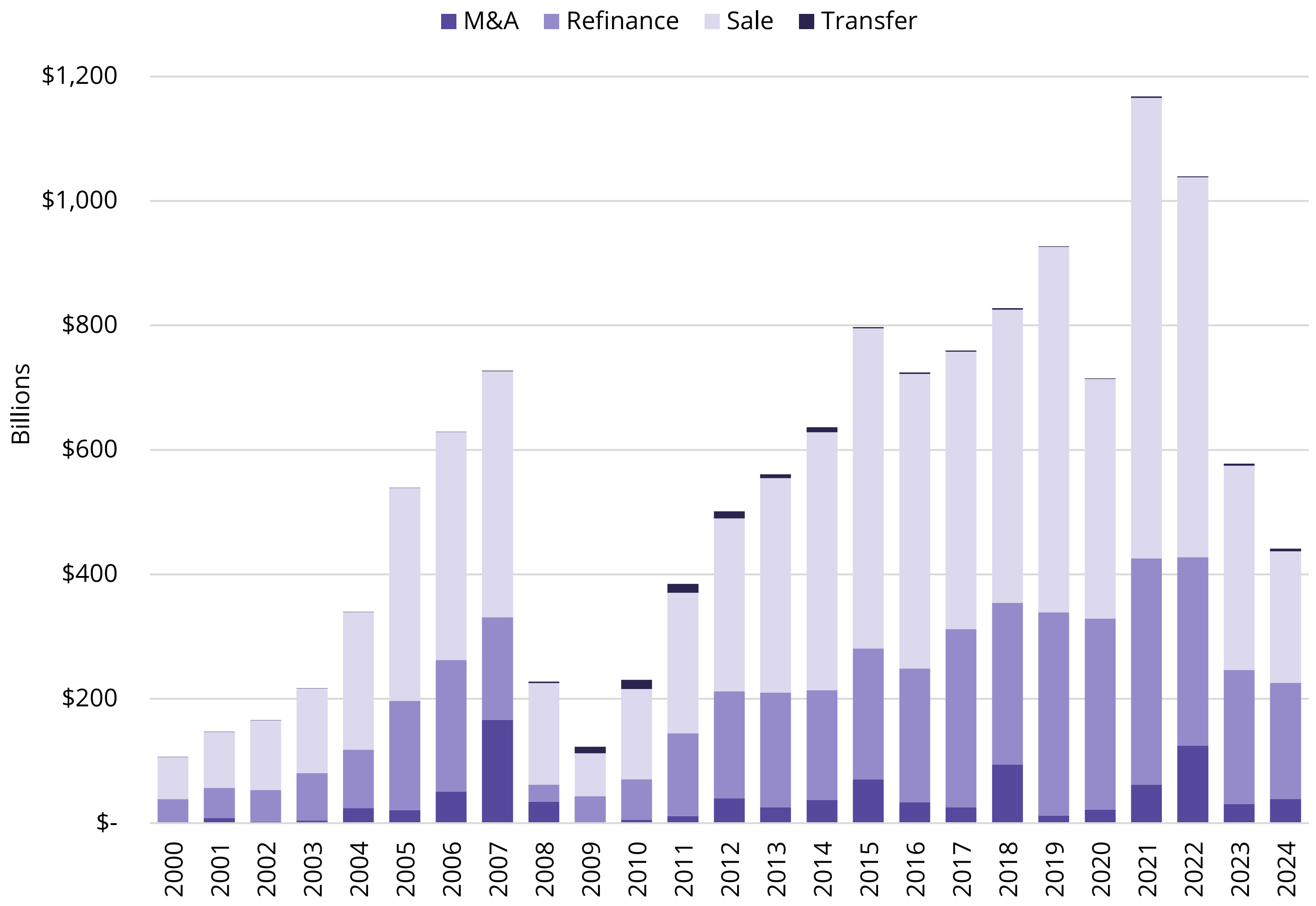
$184B

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 **$30 billion** 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: this figure includes all property sectors, including diversified funds.

Source: AVANT by Avison Young, RCA, CoStar

Debt origination

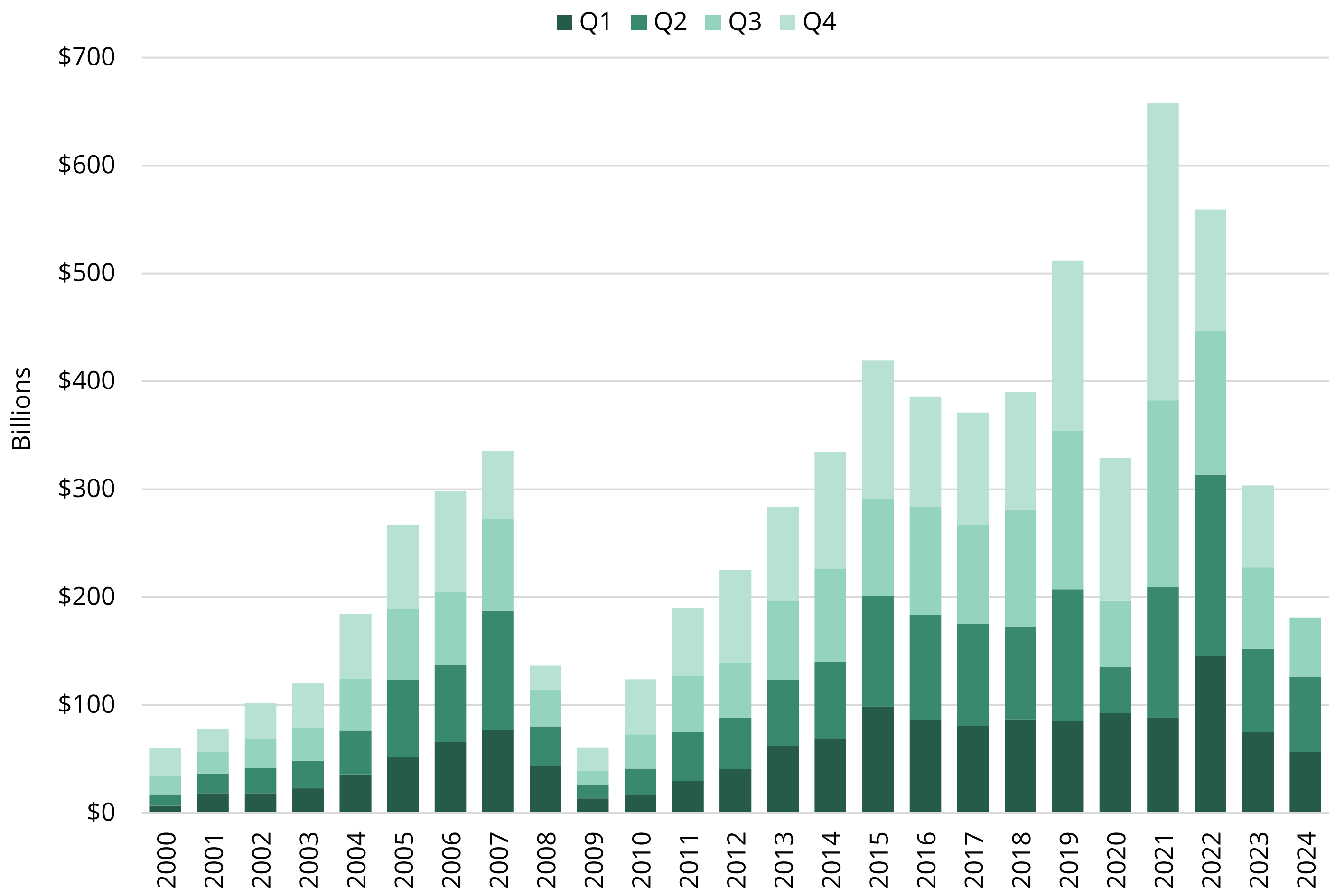


Driven by increased refinancing activity, debt origination levels are on pace to match or exceed 2023 levels.

With the Fed beginning to place downward pressure on interest rates, refinancing is expected to remain elevated as investors capitalize on a refreshed borrowing environment. Property sales, on the other hand, are not expected to drive an increase in debt origination until next year, with many acquisitions being placed on hold due to political uncertainty surrounding the U.S. presidential election.

Source: AVANT by Avison Young, RCA

Investment sales

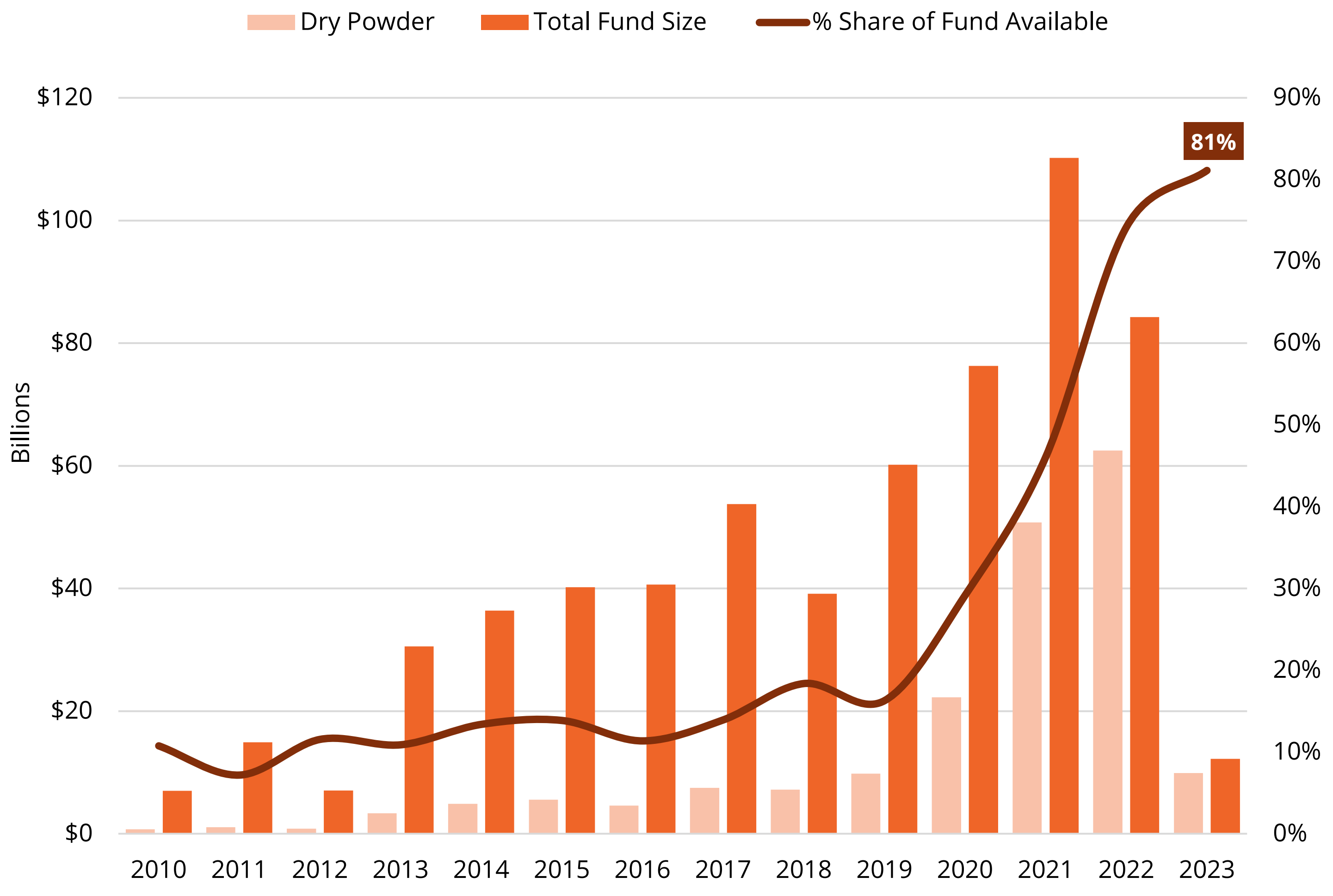


U.S. investment sales across all major property types currently sit **21%** below the level observed during the first three quarters of 2023, with the third quarter of 2024 accounting for the lowest amount of sales volume since the second quarter of 2020.

Assuming a significant uptick in property sales does not occur in the fourth quarter, 2024 is expected to account for the lowest amount of investment volume since 2010.

Source: AVANT by Avison Young, CoStar, RCA

Supply of capital – fund vintage



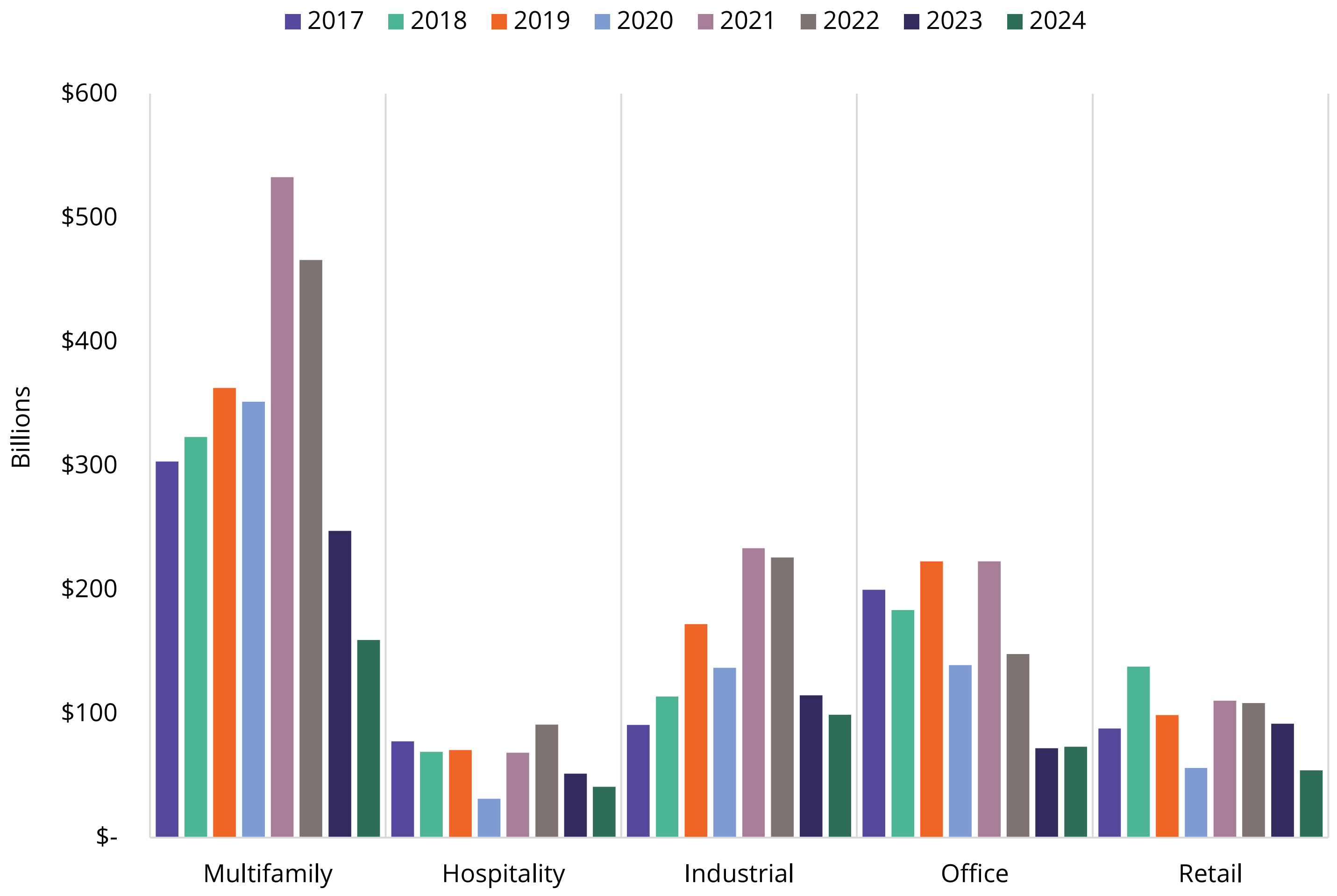
Source: AVANT by Avison Young, CoStar
Note: Closed-ended funds only

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

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

Debt Markets

Origination volume by property type



As a result of the Fed's September interest rate cut, lending activity spiked across the hospitality, industrial, and office sectors—all of which are on pace to see stronger lending levels than 2023. Multifamily and retail debt originations remain well behind 2023 levels.

Source: AVANT by Avison Young, CoStar, RCA

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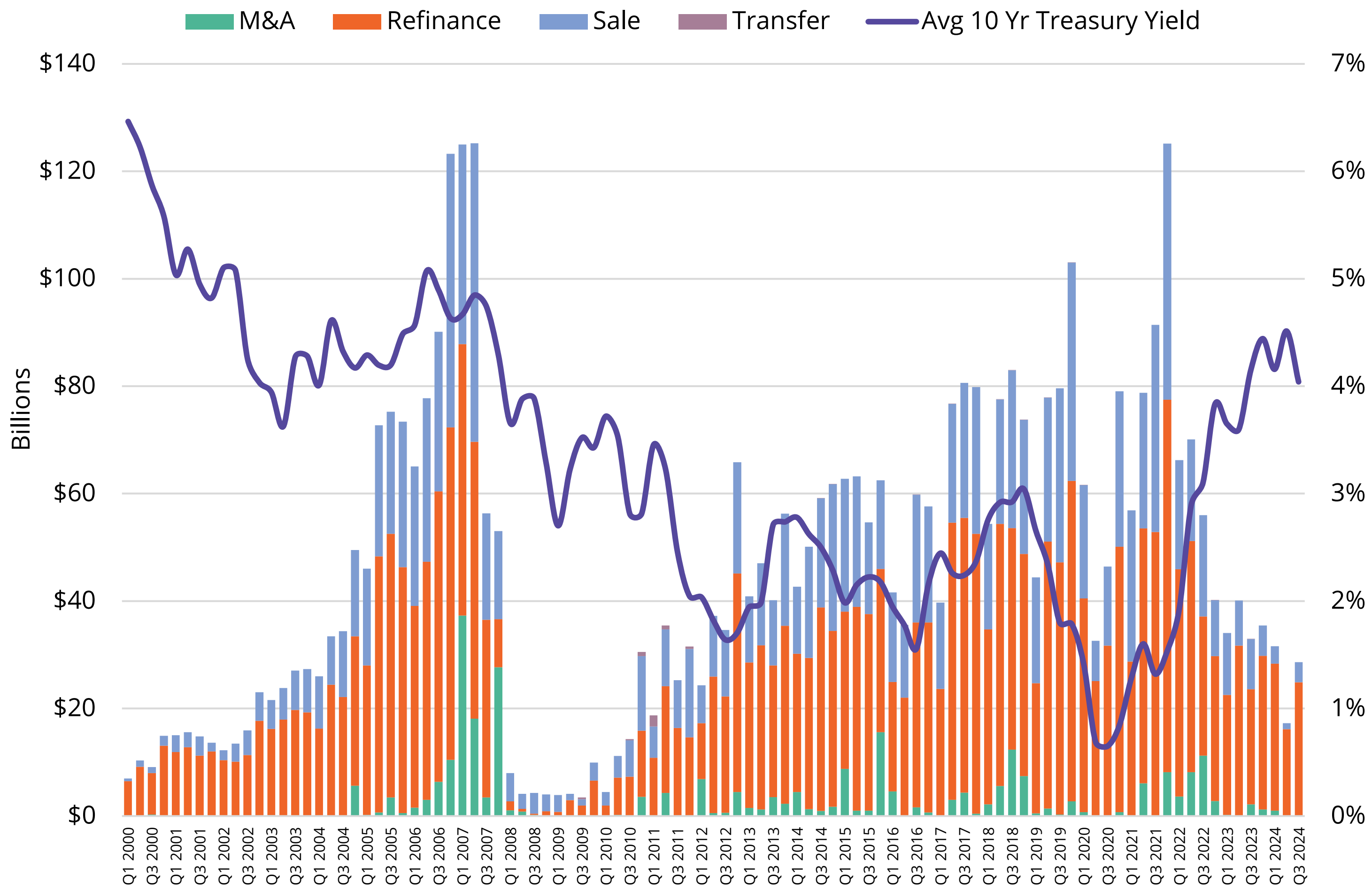
CMBS issuance

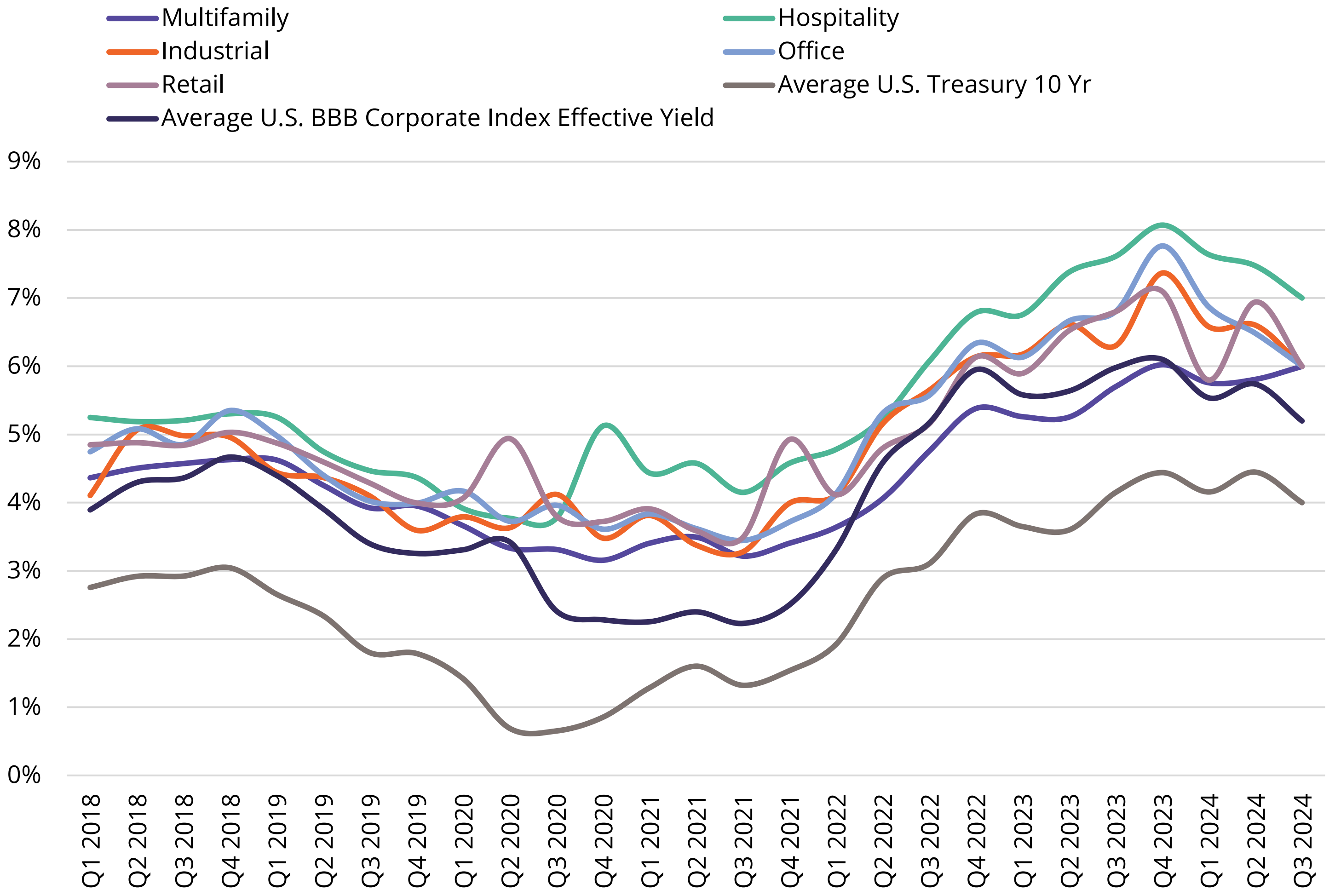


The recent decrease in interest rates has given way to increased issuances compared to the second quarter. Assuming the Fed maintains downward pressure on interest rates, issuances are expected to rise in the coming quarters.

Additionally, lower rates are expected to boost investor demand for CMBS as yields on alternative investments decline, making CMBS a more attractive option.

Source: AVANT by Avison Young, CoStar, RCA

Fixed-rate debt costs



The Federal Reserve's rate-hiking cycle and the resulting rise in yields throughout the Treasury curve have been the main factors behind increased debt costs.

However, increasing capital flows and the Fed’s recent decision to place downward pressure on interest rates suggests fixed-rate debt costs are starting to compress.

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

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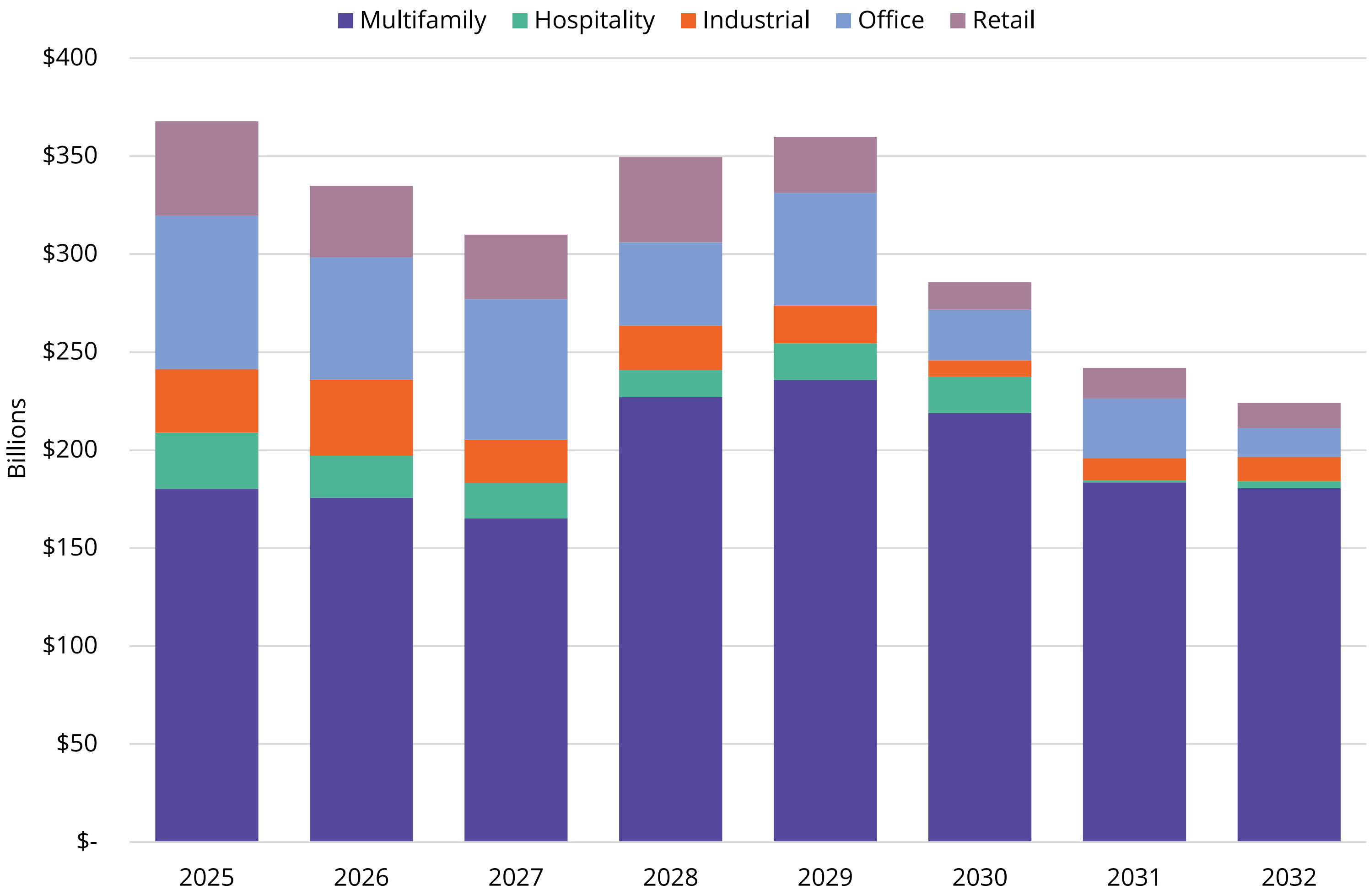
Loan maturities by property type



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

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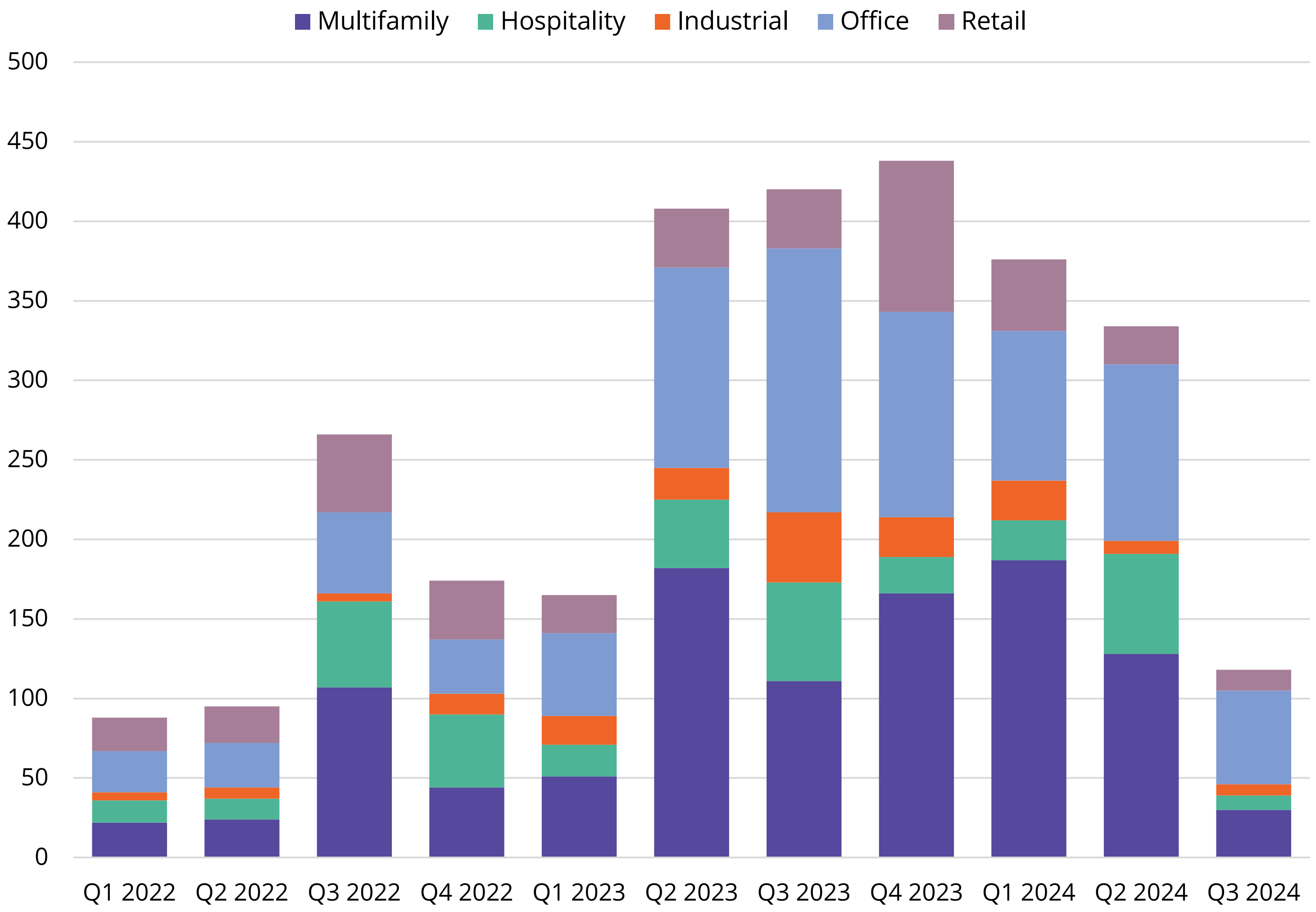
Foreclosure initiations by quarter



Source: AVANT by Avison Young, RCA

Correlating with the hike in interest rates beginning in the first quarter of 2023, a large quantity of foreclosures were initiated. Office and multifamily make up the majority. However, the Fed's September interest rate cut, coupled with improving multifamily and office market conditions, have helped mitigate foreclosure initiation this quarter.

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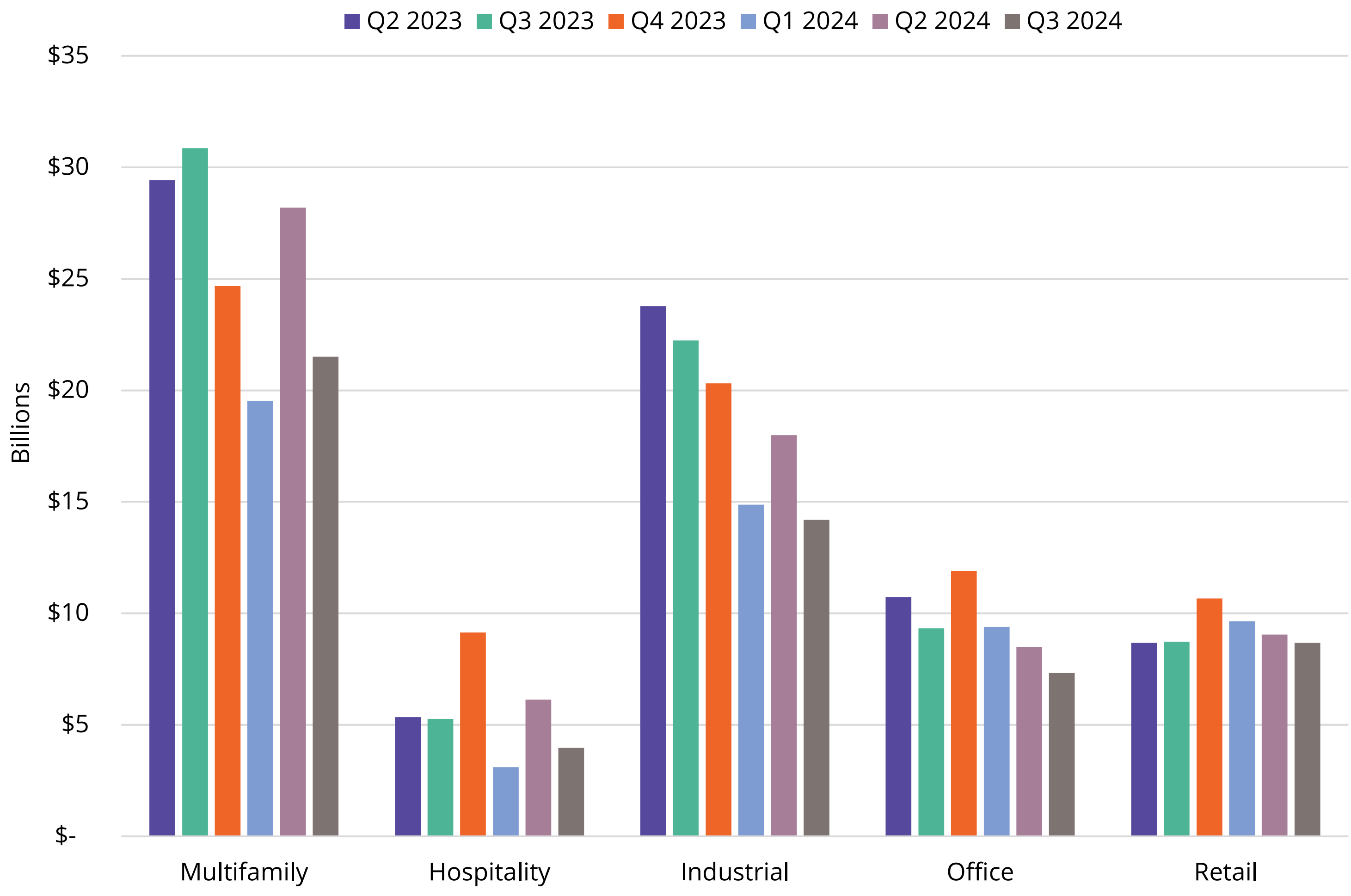
Equity Markets

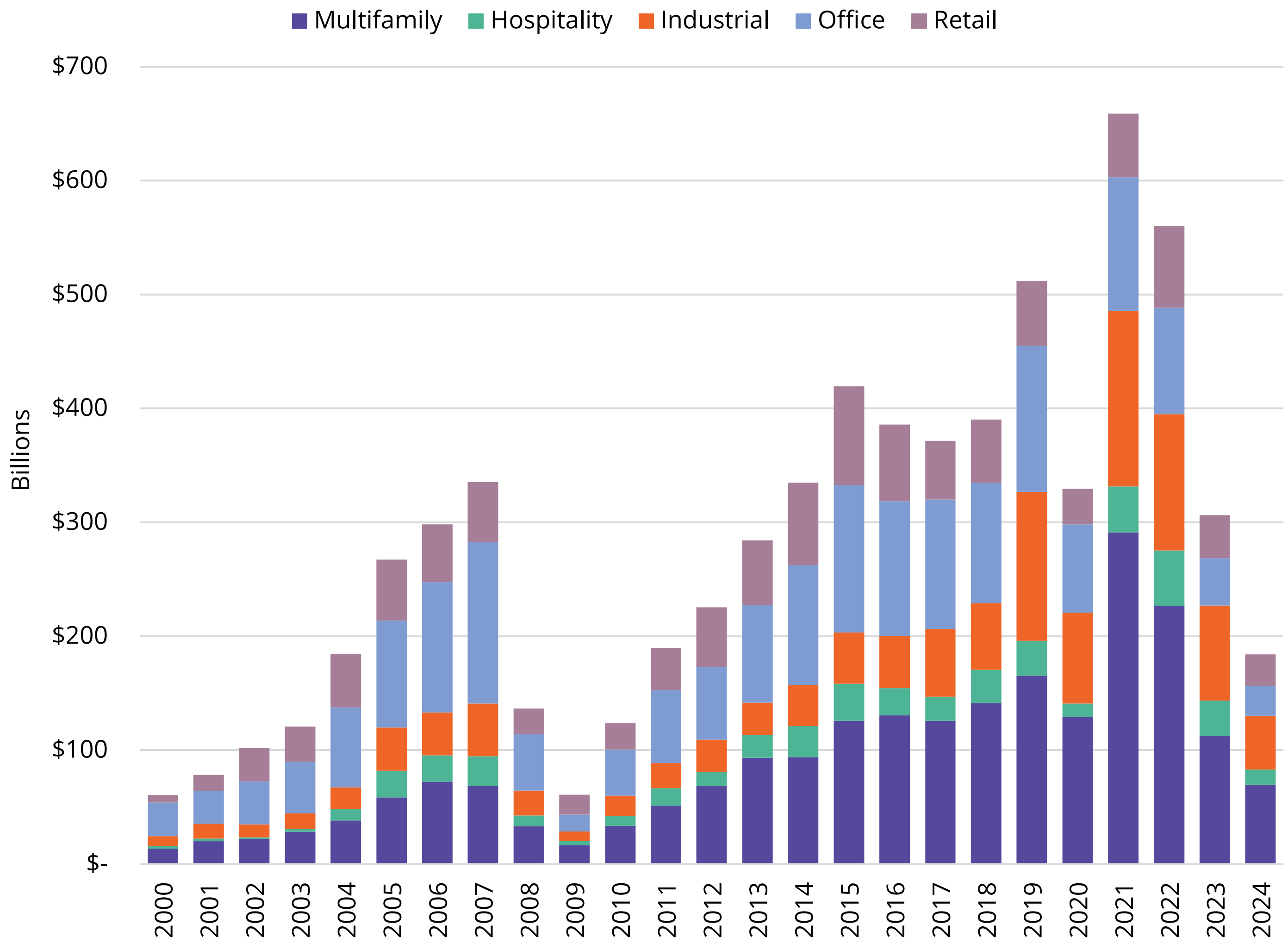
Investment sales by property type - quarterly



During the third quarter of 2024, each sector saw a downtick in terms of investment sales volume quarter over quarter, with multifamily seeing the largest at $6.7 billion. Although investor sentiment may not be at its strongest, the action of a rate cut provides optimism for future quarters.

Source: AVANT by Avison Young, CoStar, RCA

Investment sales by property type – annually



Source: AVANT by Avison Young, CoStar, RCA

Across the key property sectors, investment sales activity on the aggregate is down **20%** year over year. Currently, none of the sectors are on pace to outperform 2023's activity.

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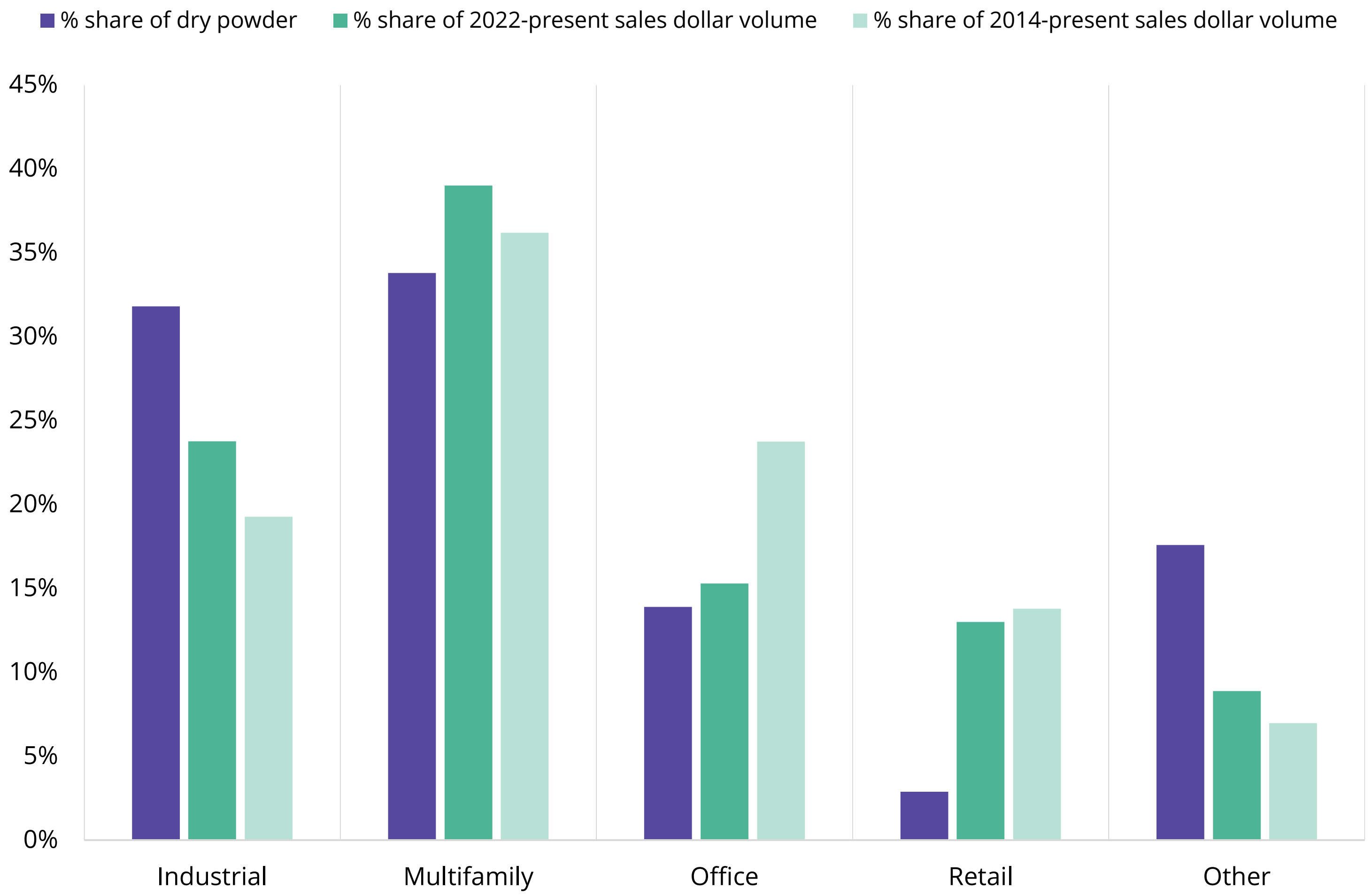
Sales volume vs. dry powder



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 office has clearly shifted.

Source: AVANT by Avison Young, CoStar

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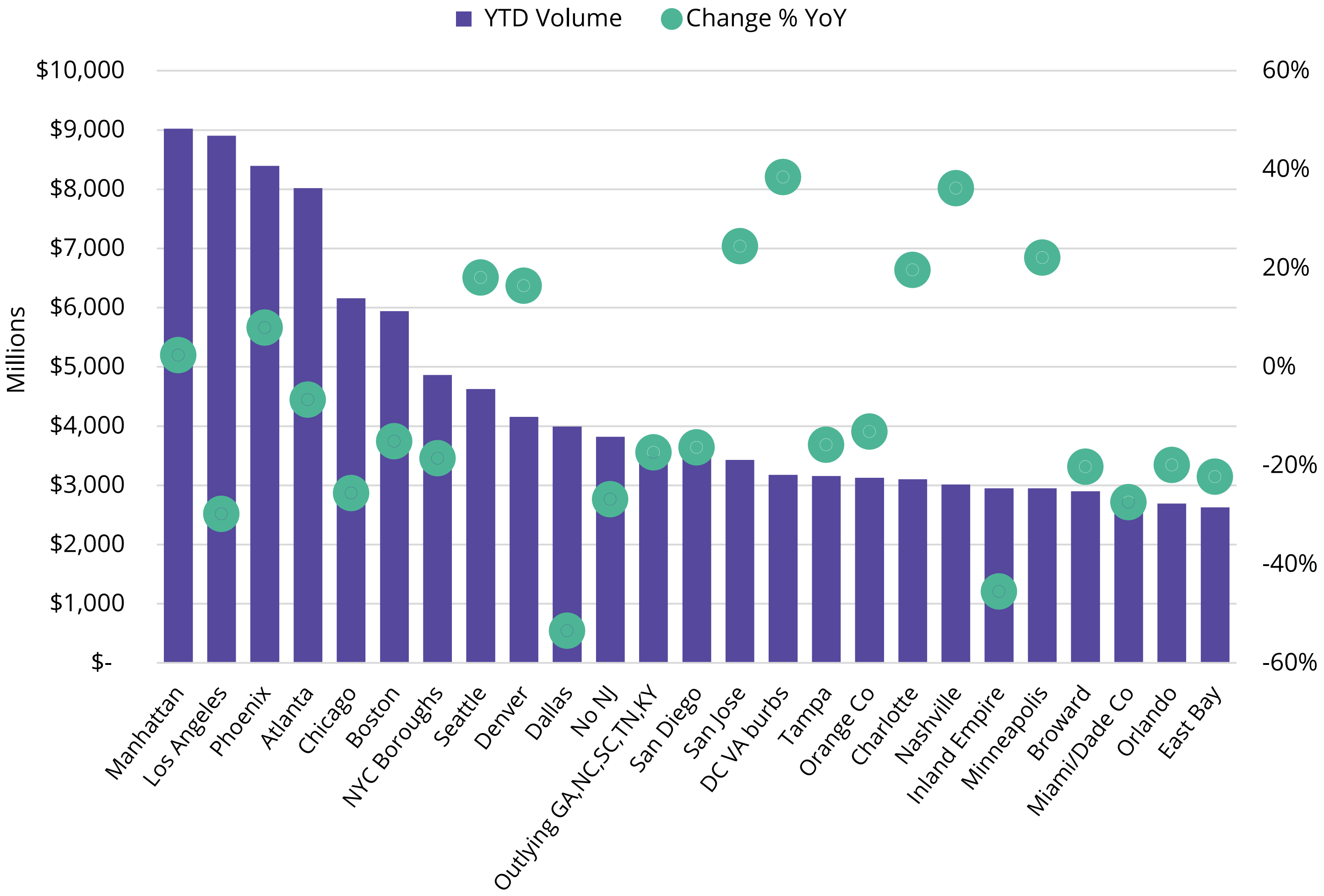
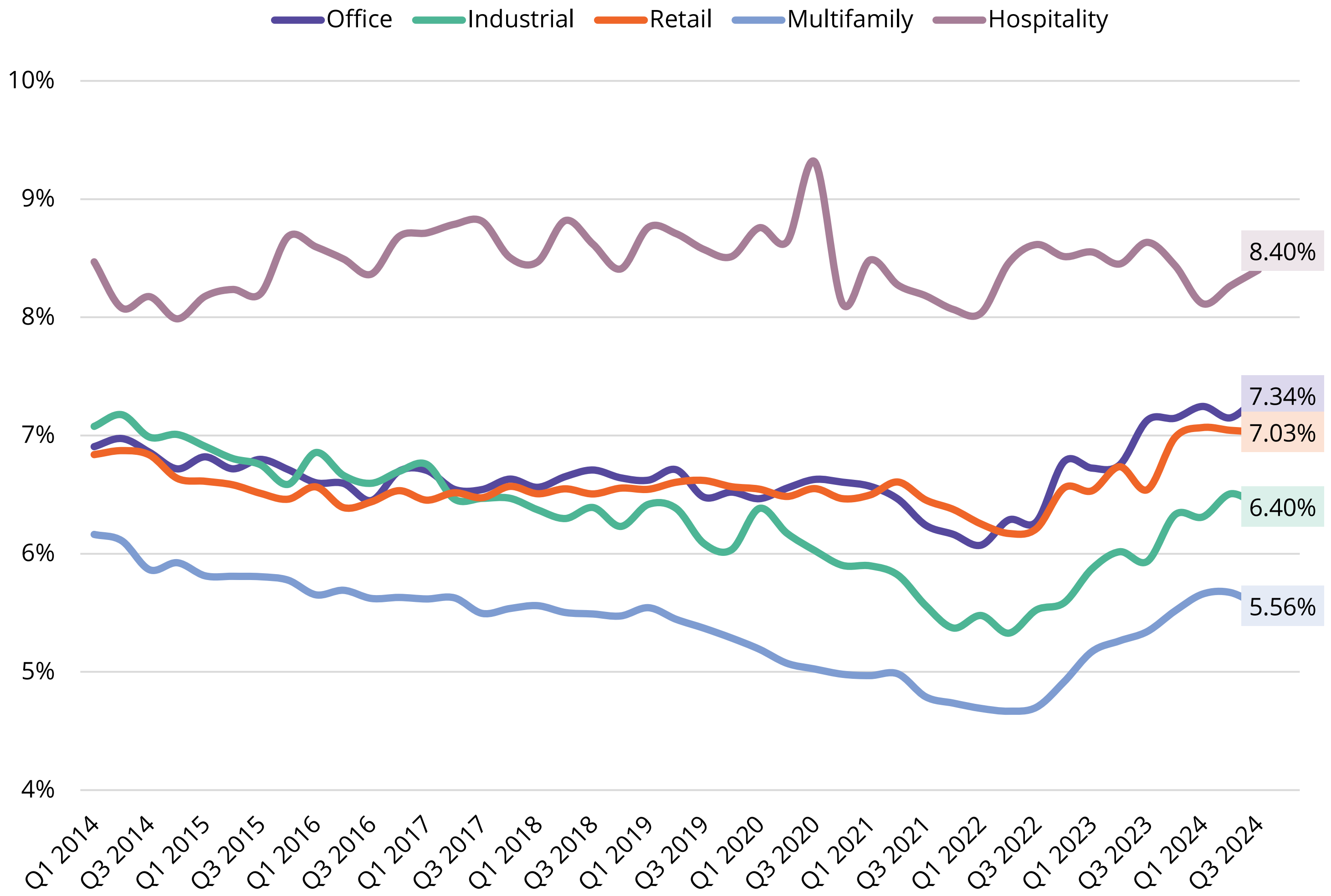
Top U.S. markets by investment sale volume



Despite suppressed investment volume overall, several gateway U.S. markets have seen elevated investment volume above 20% on a year-over-year basis, such as San Jose, DC/VA suburbs, Nashville and Minneapolis.

Source: AVANT by Avison Young, RCA

Average cap rates



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

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.

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