Q1 2024

Commercial Real Estate Industry Conditions & Sentiment Survey

US results and analysis

Introduction

Altus Group is pleased to share the results of our Commercial Real Estate Industry Conditions & Sentiment Survey for the US with survey participants and partners. This survey was conducted by Altus Group's Research Team in an effort to provide insights into the market sentiment, conditions, metrics, and issues affecting the commercial real estate (CRE) industry.

The survey captures the individual practitioner's perspective, representing various functions and across the capital stack. Participation in the survey is voluntary and responses will remain confidential.

As always, we invite you to share any feedback or questions with your Altus Group contact or reach out to Altus Group's Research Team directly at altusresearch@altusgroup.com.

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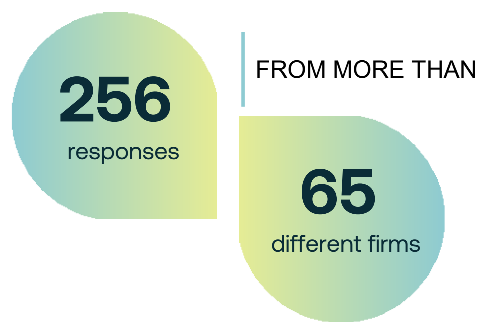
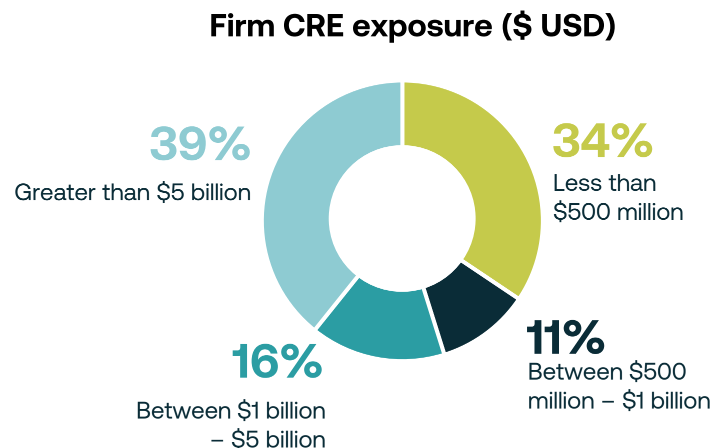
Survey size & methodology

Altus Group's Research Team surveyed industry participants across the US from January 23 to February 9, 2024. There were 256 respondents, representing at least 65 different firms[1].

Questions in the survey were optional and explored two main topics: current conditions and future expectations. Percentages represent the share of all responses received for each question, excluding "blank" or "not applicable" responses.



Firm CRE exposure ($ USD)



Notes: 1) Firm count based on participants who chose to identify themselves.

Organization type

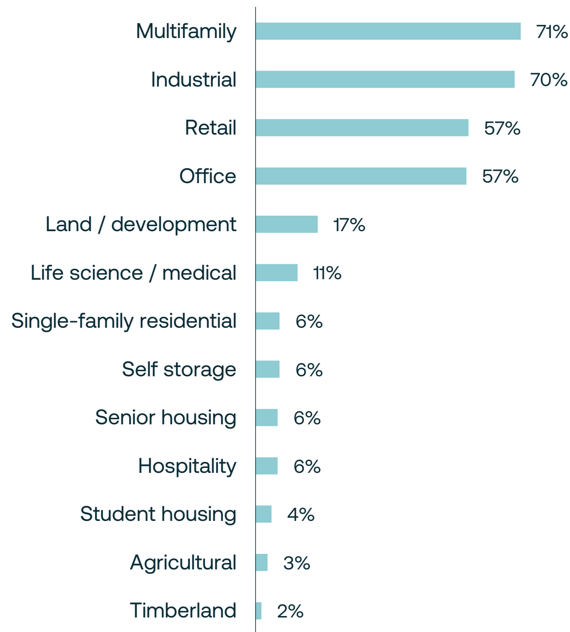
Organization type	Share
Service provider	34%
Investment manager	22%
Private equity or REIT	18%
Developer	7%
Asset management company	7%
Lenders (Bank or Non-bank)	4%
Other	3%
Family office or sovereign wealth fund	3%
Insurance company	2%
Endowment or foundation	1%

Functional area

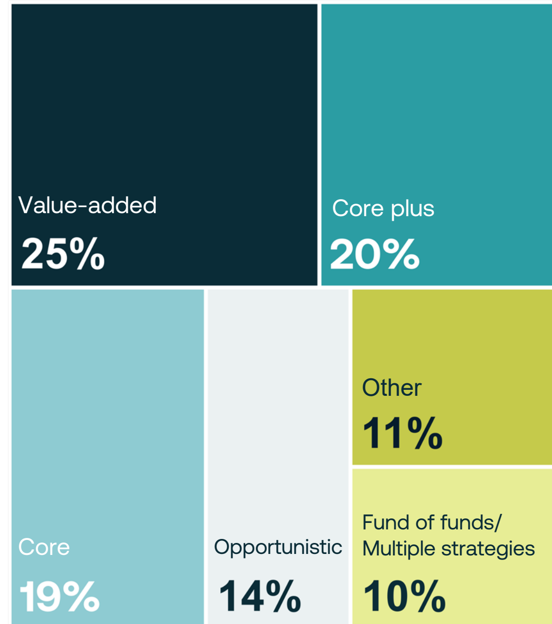
Functional area	Share
Appraisals / valuation	24%
Investments / fund / portfolio management	22%
Brokerage (investment sales or leasing)	21%
Senior management	14%
Other	9%
Asset or property management	6%
Capital markets / financing / lending	5%

Respondent characteristics

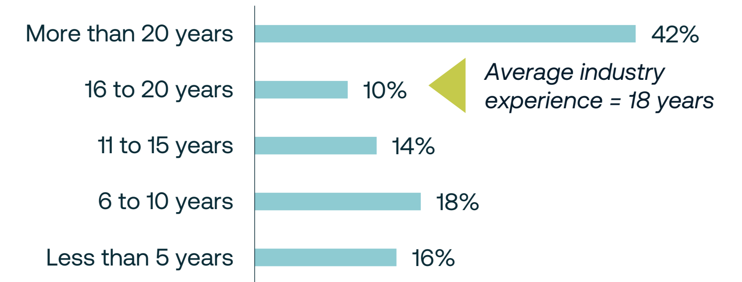
What property types does your firm primarily focus on?



How would you describe your firm's primary investment strategy?



How many years of experience do you have in the industry?



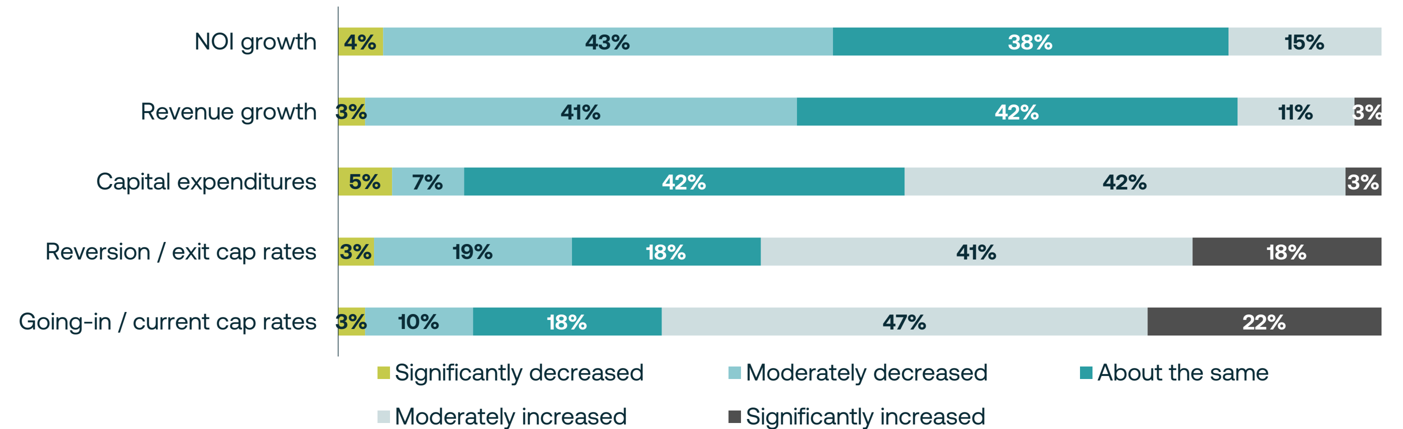
Current focus

What do you think your team's primary focus will be over the next 6 months?

Near-term capital deployment increasingly primary focus. The share of US respondents reporting “deploying capital” as their primary focus over the next six months surged from 7% in Q4 2023 to 25% in Q1 2024. As a greater portion of participants focused on capital deployment, the share of respondents focused on managing their existing portfolios fell from 57% in Q4 2023 to 42% in Q1 2024.

How have your expectations for your portfolio changed compared to 12 months ago?

Expectations for fundamentals diverging. Greater percentages of US respondents noted similar (“about the same”) expectations for revenue and NOI growth versus 12 months ago than noted so in 4Q 2023, suggesting that expectations for cash flows are stabilizing. However, the stabilizing effect was not seen for capital expenditures, as 45% of respondents indicated that their expectations for capital expenditures had increased over the last year, up from 33% in the previous quarter. For cap rates, the share of those that reported significantly increased expectations declined 20 percentage points for current cap rates and 13 percentage points for exit cap rates, again suggestive of expectations and deal assumptions stabilizing. Nearly 70% of respondents noted moderate to significant shifts in their expectations for going-in and current cap rates (down from nearly 80% in 4Q 2023), but there was minimal change in expectations for exit cap rates.

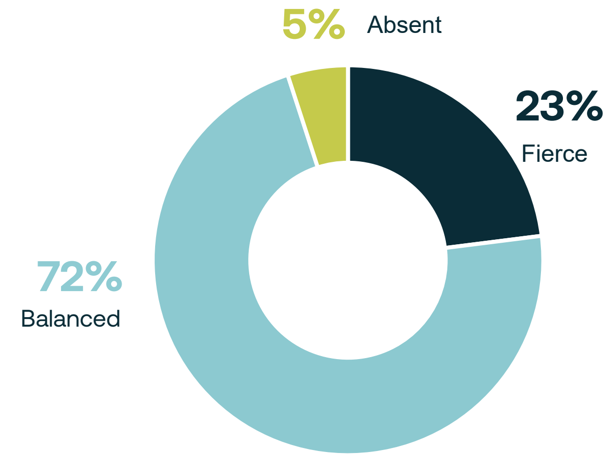


Percentages represent the share of all responses, excluding “blank” or “not applicable” responses.

Competition and pricing

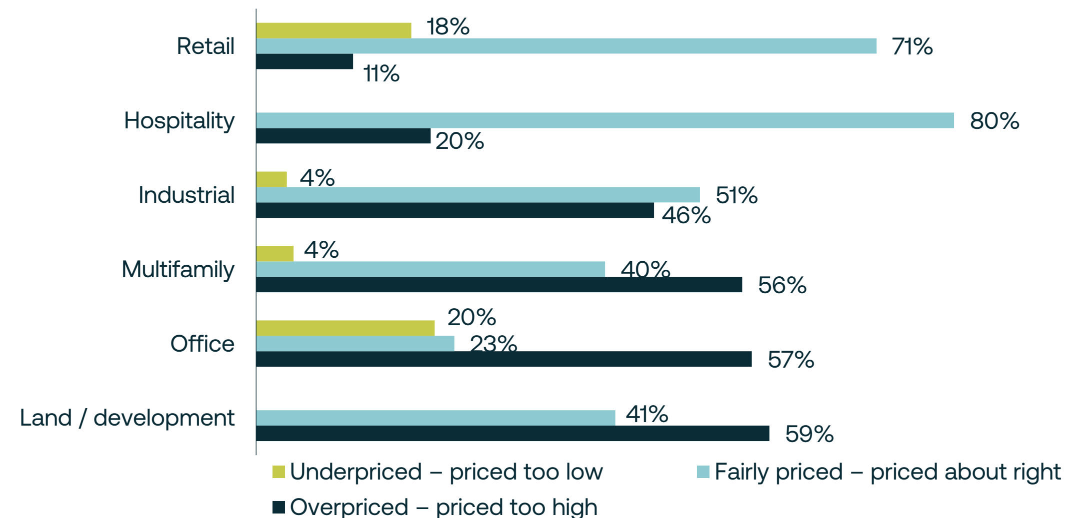
How would you describe the level of competition among your firm's peer group?

Competition steady versus prior quarter as majorities still view largest property types to be overpriced. Competition steady versus prior quarter as majorities still view largest property types to be overpriced. Similar to the previous quarter, while nearly one in four (23%) described current market competition as “fierce: often required to sacrifice deal economics to beat competitors”, a wide majority (72%) of respondents described the current level of competition as “balanced: win some, lose some”. Contributing to the view of competition as “balanced” is the belief among most respondents that some major property types – office, multifamily, land/ development – are overpriced. Majorities did however describe retail and hospitality as “fairly priced”, a significant divergence from other sectors.



How would you characterize current pricing for the following property types?

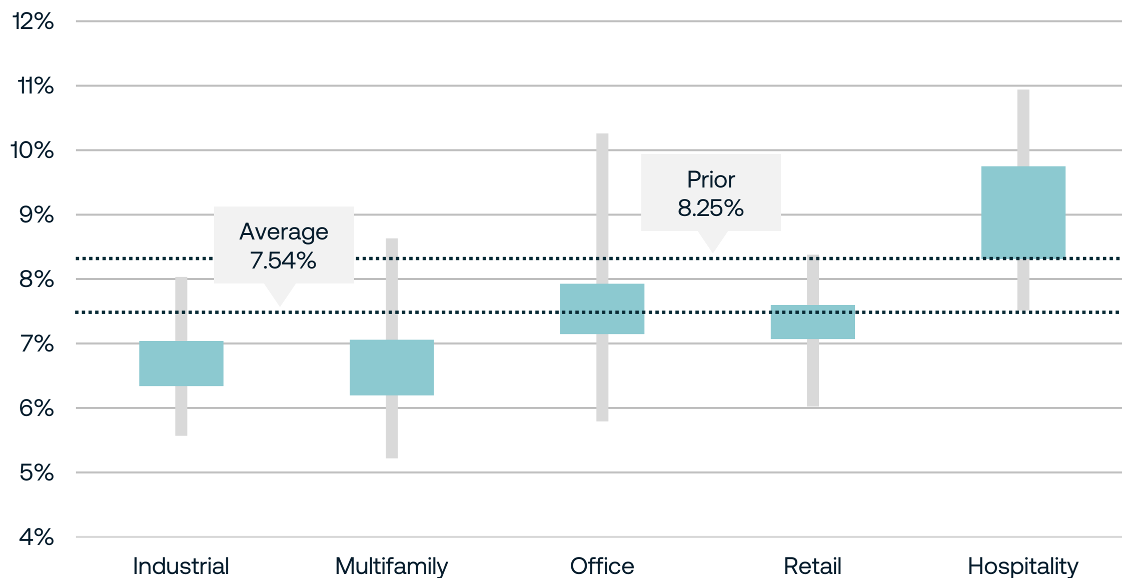
Despite a significant portion (41%) of survey participants still characterizing current pricing across all property types as being “overpriced”, this characterization saw a notable 21 percentage point decline compared to the prior quarter. This suggests that either the survey participants’ perception of what is “overpriced” has changed or that current pricing observed in the market has adjusted to be more in line with the participants’ perception of “fair”. While the “underpriced” descriptor is still a minority, and only applicable to a few properties, the most recent quarter responses show that 40% or more would characterize current pricing as “fair” for all property types except office.

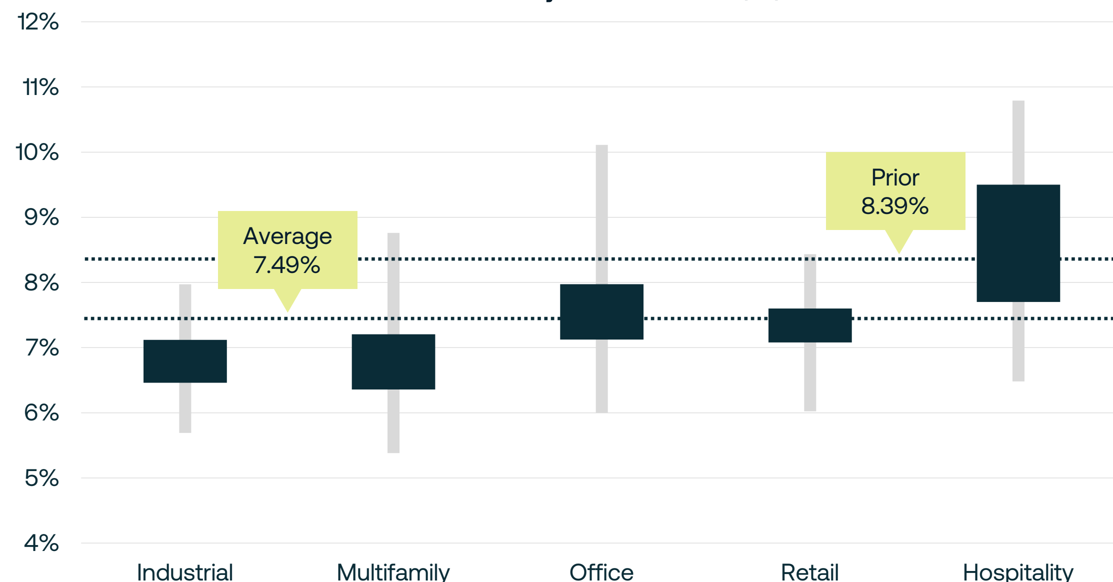


Note: Percentages represent the share of all responses, excluding “blank” or “not applicable” responses.

What all-in interest rates are you seeing in the market?

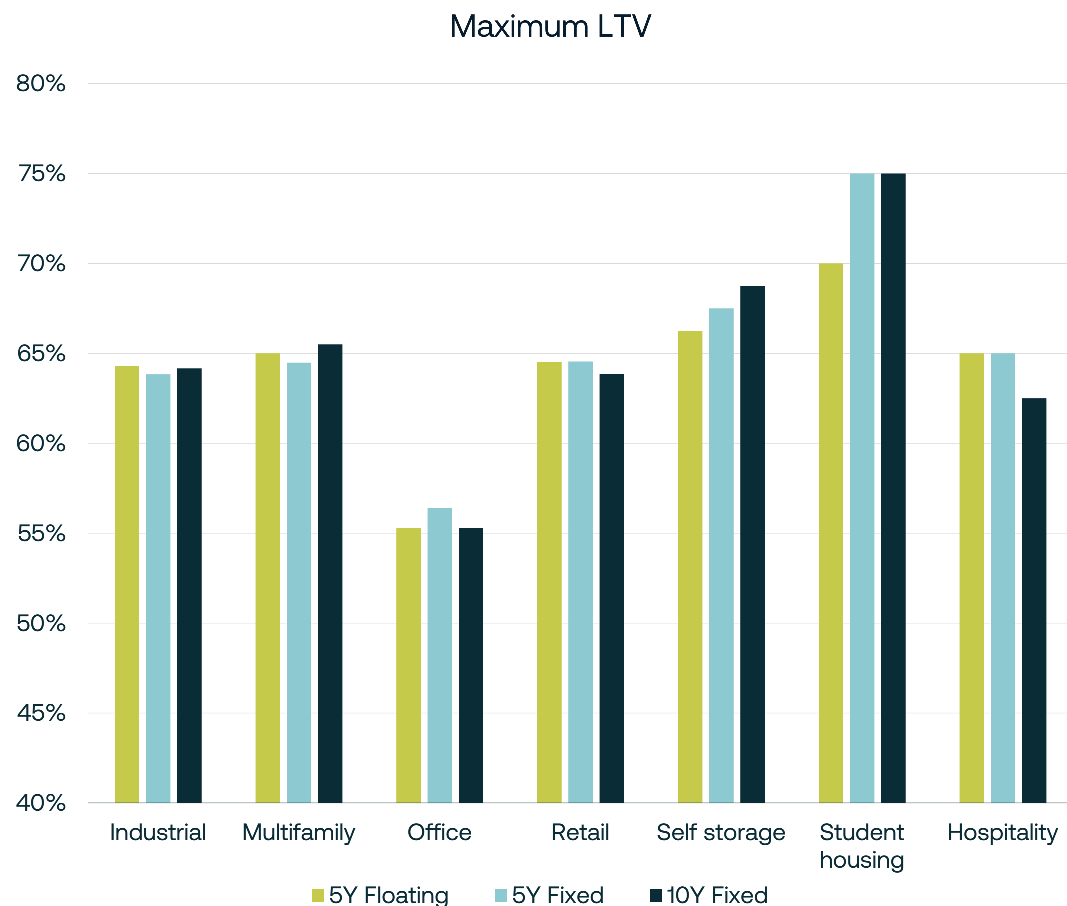
Debt financing costs drop across term, rate type, and collateral. The reported cost of debt financing seen in the market improved on the quarter, across different loan terms, rate types (fixed or floating), and collateral property types. The average all-in debt financing cost seen in current market by survey respondents dropped by approximately 70-90 bps across both 5-year and 10-year debt structures, with the largest decline seen for 5-year fixed rate structures (7.49% vs 8.39% in Q4 2023) and the smallest decline seen for 10-year fixed rate (7.54% vs 8.25% in Q4 2023). Multifamily and industrial continue to have the overall lowest rates, followed by retail, then office and hospitality, across fixed and floating rates. Overall ranges for reported interest costs compressed compared to the prior quarter. Reported ranges for retail compressed the most, compressing 293 bps for 5-year floating rate and 262 bps for 10-year fixed rate financing.

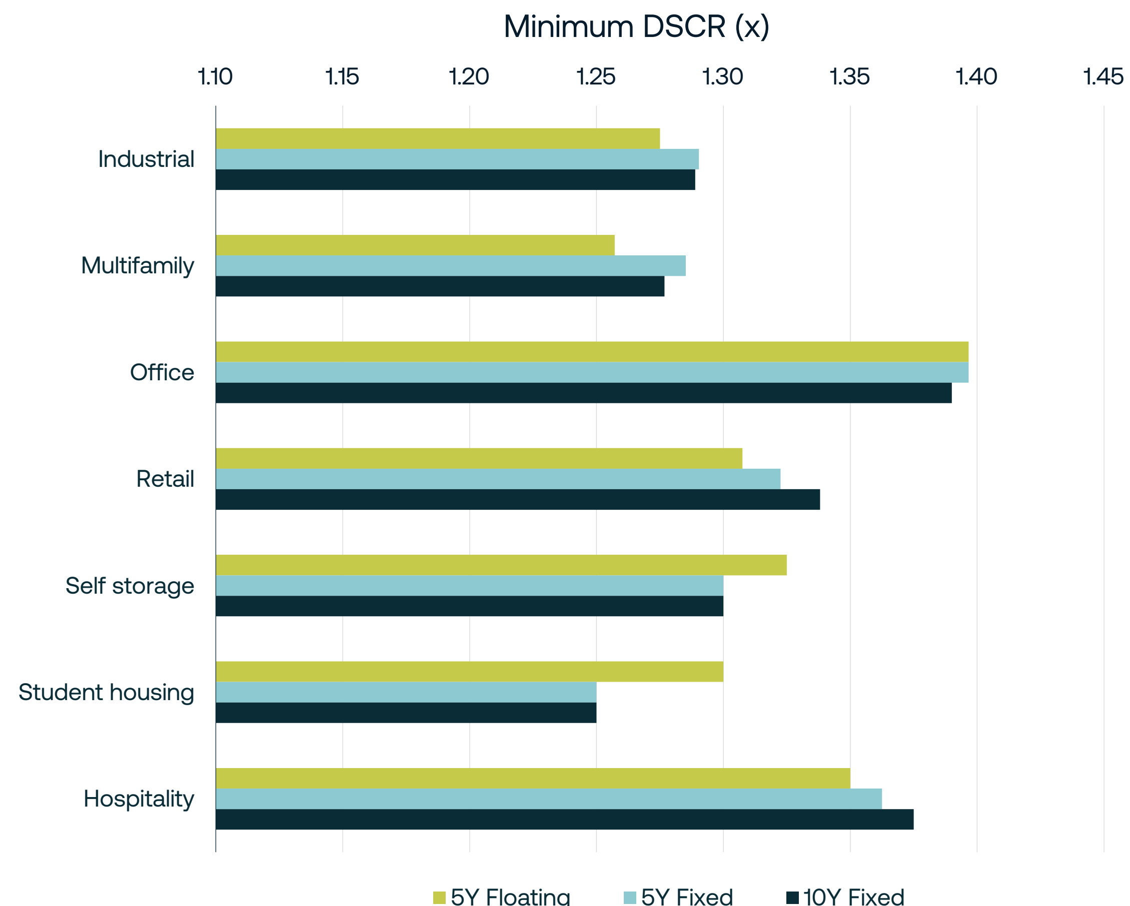




What senior debt financing terms are you seeing in the market?

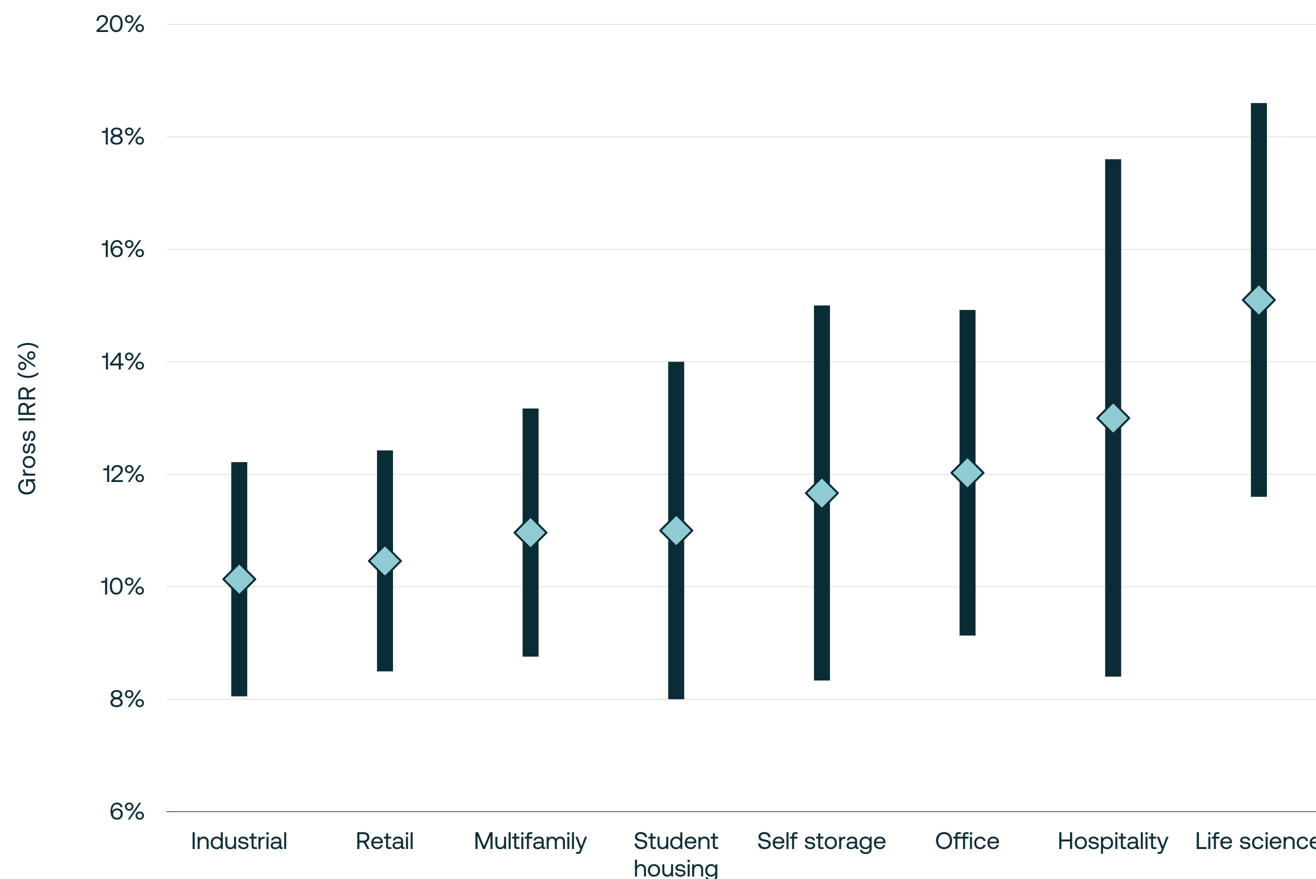
Little quarterly change seen in loan sizing criteria across loan types. Respondents noted that current senior mortgage maximum loan-to-value (LTV) ratios remain below 70%, with the exception of student housing. Reported max LTVs for Q1 2024 were little changed from the prior quarter, with a notable 240-550 bps increase for retail financing and a 160-590 bps decrease for office. Minimum underwritten debt service coverage ratios (DSCR) were also steady, though up 0.05x across all property types when compared to the Q4 2023 min DSCRs.





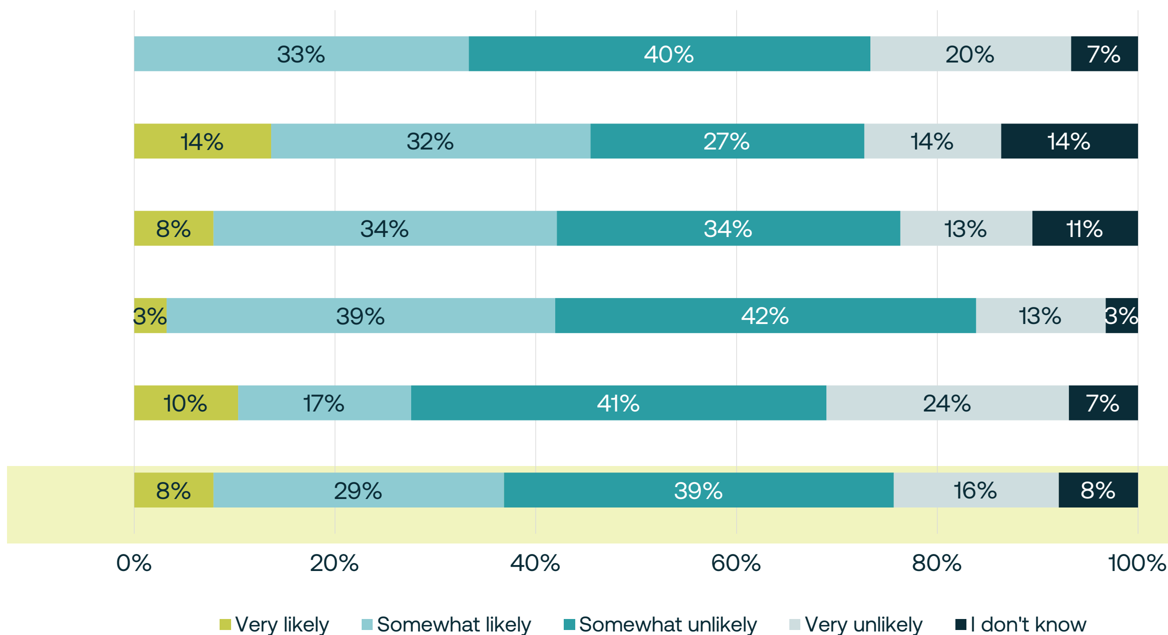
Reported current market gross IRRs

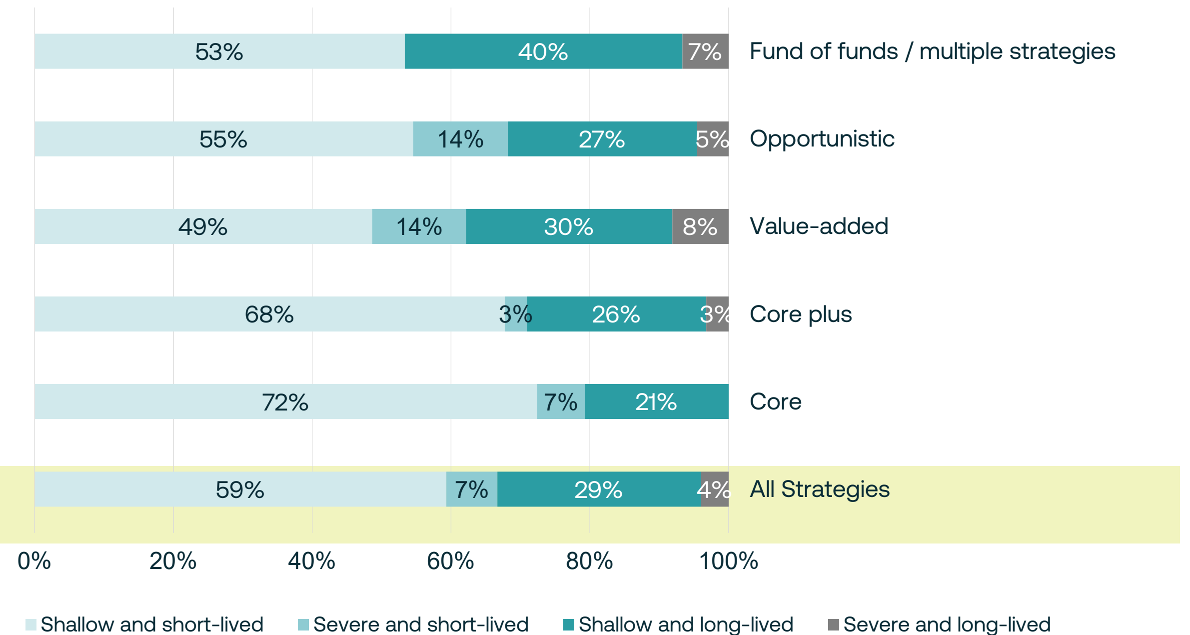
New fund targeted gross IRRs little change over the quarter. Targeted gross IRRs seen marketed for new funds and deals averaged 11.8% across all property types in Q1 2024, down 12 bps from the prior quarter. Across the four main property types (retail, multifamily, office, industrial), the reported average gross IRR was 10.9%, down 45 bps from Q4 2023. The biggest quarterly decline in reported gross IRR midpoint was seen in office, which fell by 201 bps to 12.0% in Q1 2024. The largest quarterly increase in midpoint IRRs was reported for life science, which saw its reported midpoint IRR increase by 260 bps over the prior quarter to 15.1%.



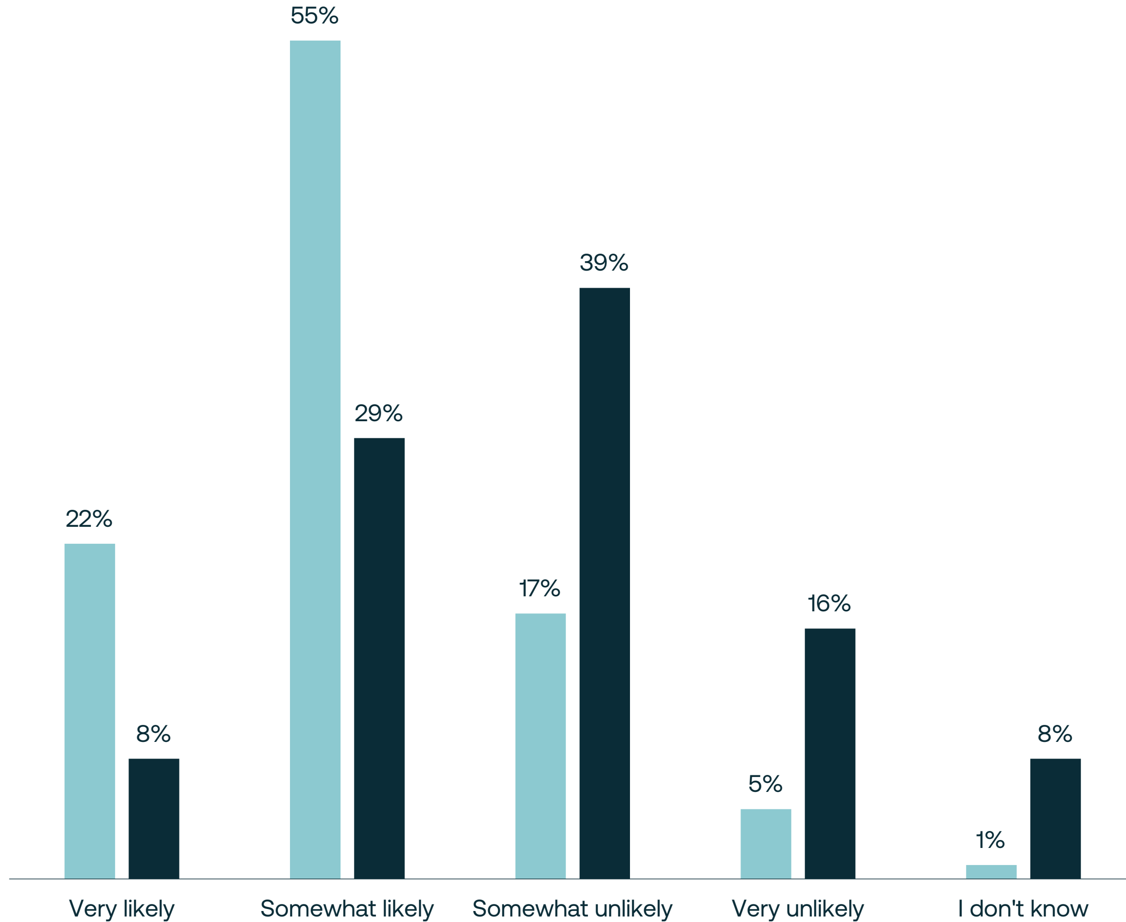
Recession expectations

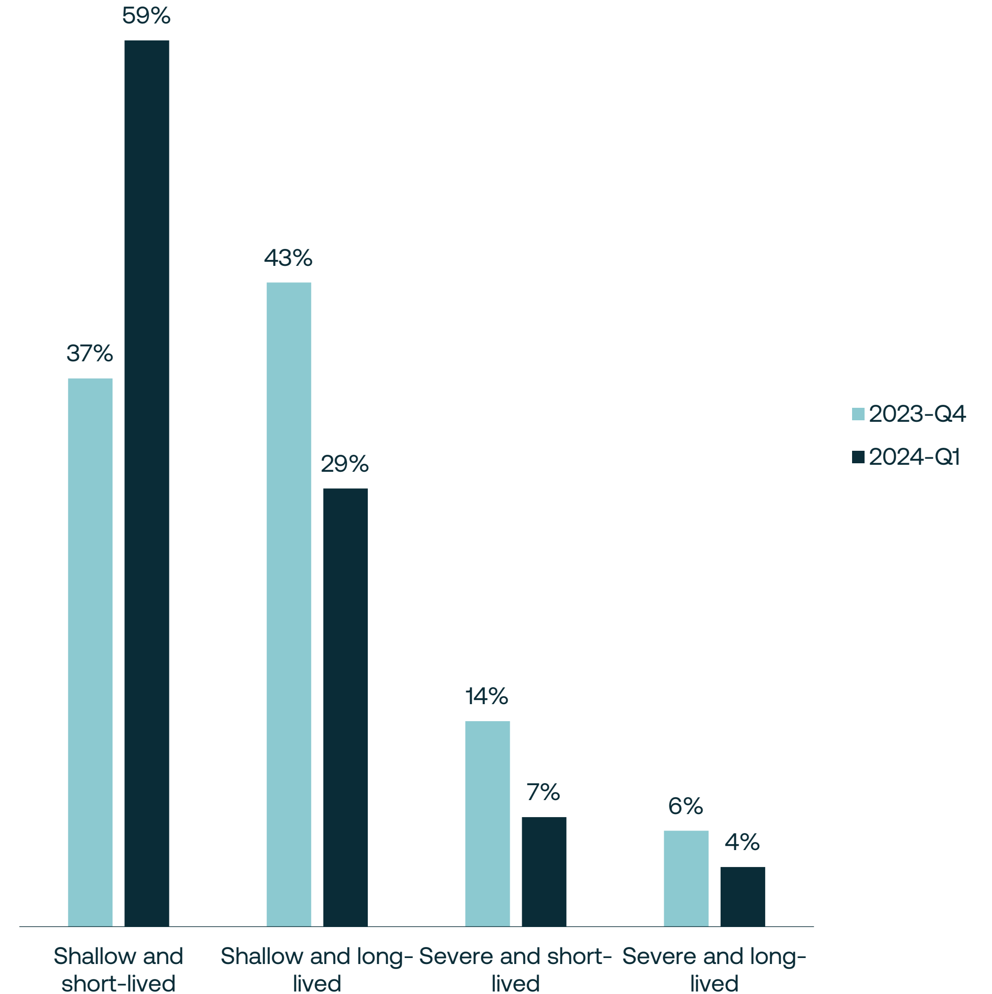
Recession concerns fade as likelihood declines and magnitude moderates. While 37% of respondents indicated that a recession is expected in the next 6 months, with 8% expecting a recession to be "very likely" and 29% expecting a recession to be "somewhat likely", this was a significant decrease from the prior quarter, when 77% thought a near-term recession was in the cards. This overall shift is possibly one of the most significant positive shifts in the survey results from last quarter, despite not being a CRE-specific question. The largest percentage point shifts were seen from "somewhat likely" to "somewhat unlikely" responses, and this shift was seen across all different strategies. While the shift is reflective of overall improved sentiment with the near-term macro backdrop, there was a notable increase in "I don't know" responses, from 1% (across All Strategies) in Q4 2023 to 8% in Q1 2024, a shift which could be reflective of overall uncertainty about how to interpret the macro climate. The highest percentages of "I don't know" responses were from the "Value-Added" and "Opportunistic" strategies, at 11% and 14%, respectively. The shape of the next recession is expected to be shallow. While a majority (89%) of respondents expected the next recession to be shallow, the expected duration of the next recession remained split, with 59% of participants expecting the next shallow recession to be short-lived and 29% expecting it to be long-lived, a notable 23 percentage point increase to the "short-lived" camp and 14 percentage point decrease to the "long-lived" camp from the prior quarter.





Recession expectations

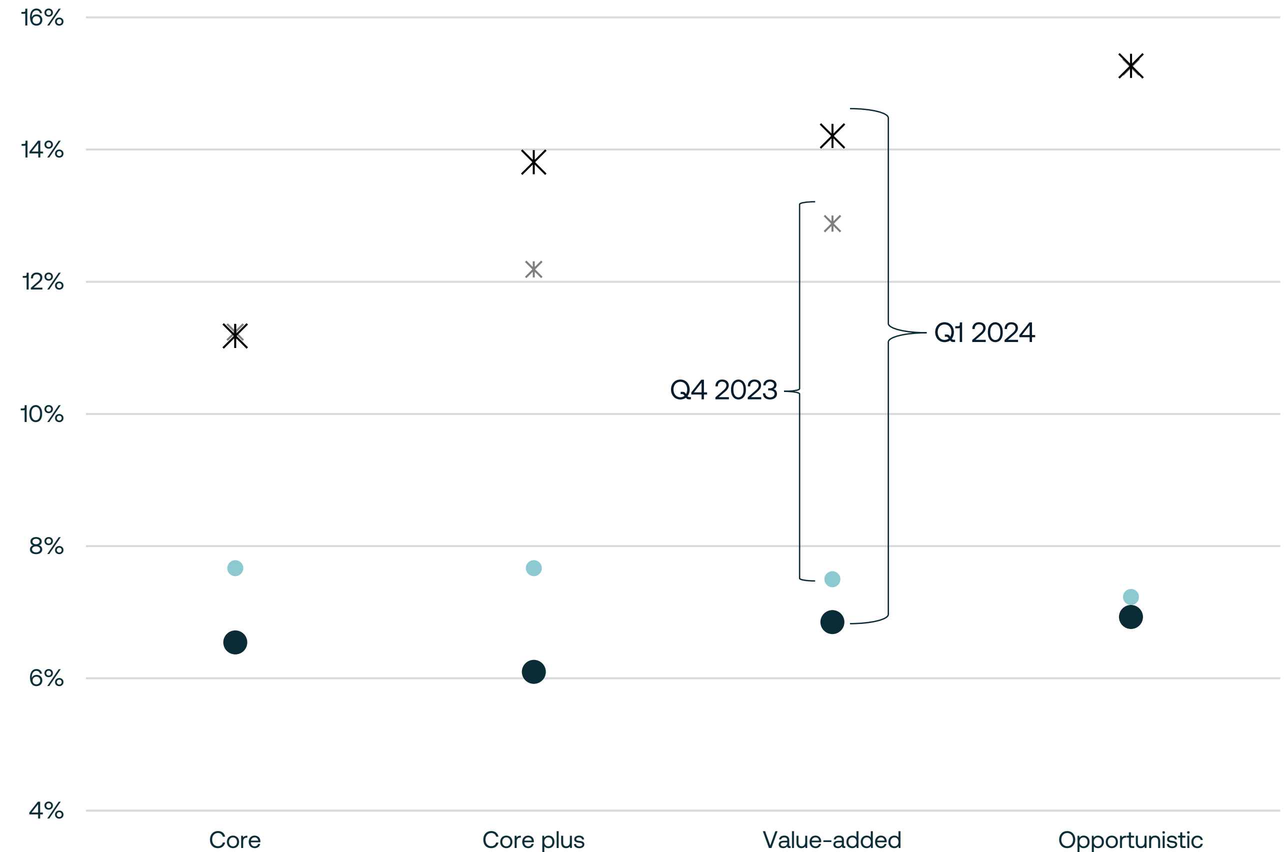




Source: Altus Group Research Team; Sample size = 185
Note: Percentages represent the share of all responses, excluding "blank" or "not applicable" responses.

Cost of capital expectations

Expected decline in cost of debt lifts returns to equity.
Respondents' 12-month forward view of all-in, fixed-rate financing remained range bound between 6.1-6.9%, across the main equity portfolio strategies, shifted down by 90 bps on average across all strategies from the prior quarter. Expectations of lower debt financing costs over the next year was accompanied by an increase in net returns to equity (net levered IRRs), which across all strategies increased by 70 bps on average compared to the prior quarter. The biggest shifts were seen in the Core-Plus and Value-Added strategies, where in all-in, fixed rate interest costs fell 160 bps and 60 bps compared to the prior quarter, respectively. Anticipated net IRRs for Core-Plus and Value-Added strategies increased 160 bps and 130 bps on the quarter, respectively.



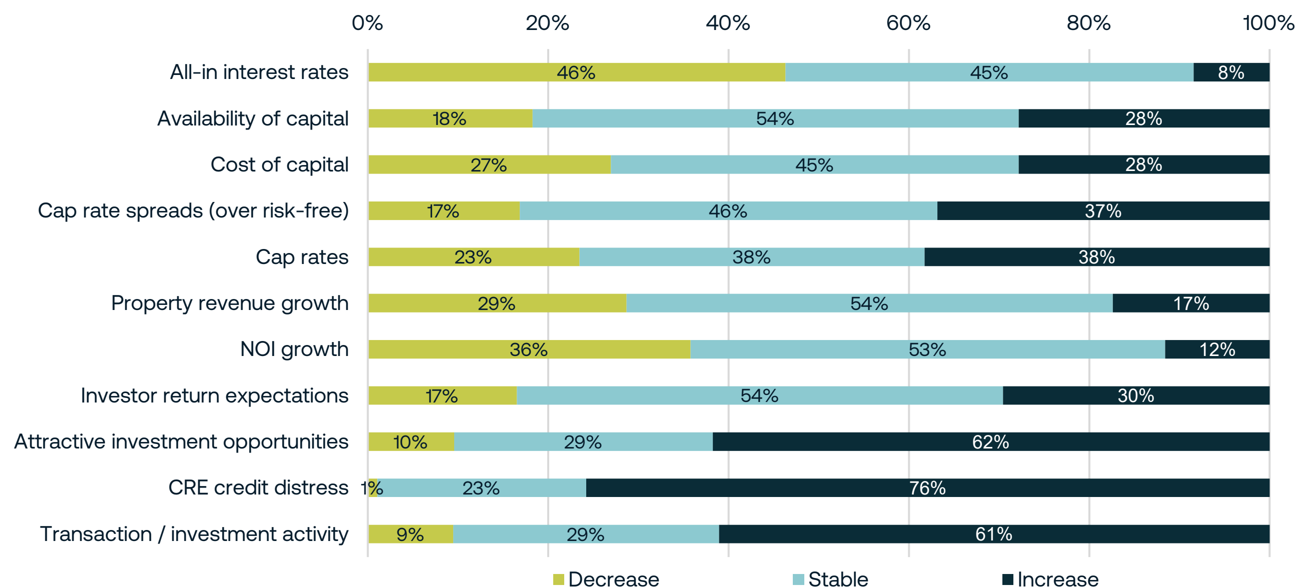
What changes do you anticipate to the following key metrics over the next 12 months?

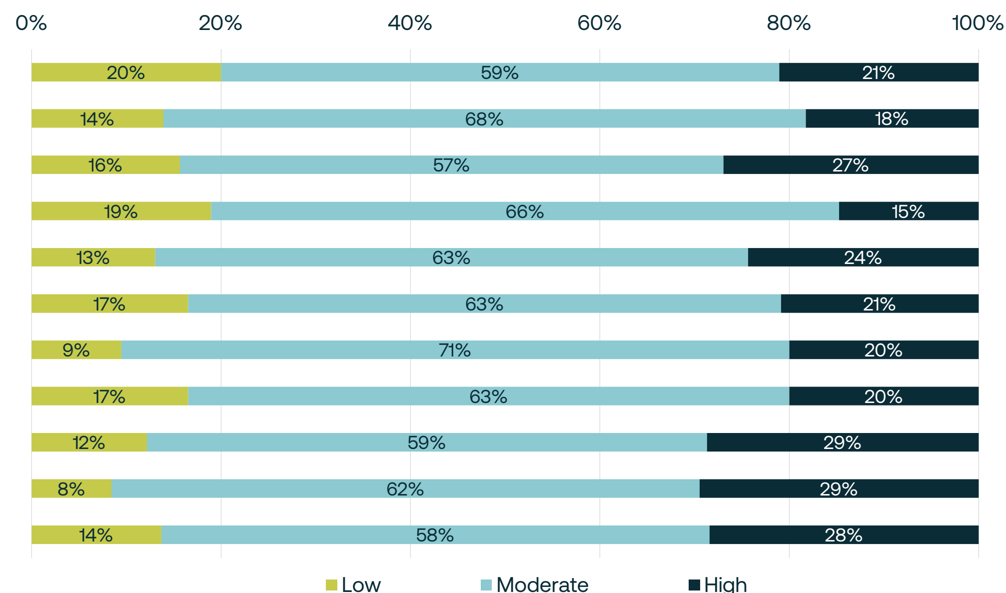
Capital concerns ease on expected lower cost, moderating availability. Respondents indicated that in aggregate they expect interest rates to remain stable (45%) or decrease (46%), with only 8% anticipating an increase over the next 12 months. There was a major shift in responses from the prior quarter, as 40 percentage points shifted away from increasing interest rates to the other directional responses. While the majority of respondents anticipate the availability of capital to be stable, the overall expectations for capital availability improved over the prior quarter as participants who expected it to decline fell to 18% in Q1 2024 from 43% in Q4 2023. Overall conviction in capital expectations was moderate, with the highest net conviction (11%) for cost of capital either decreasing or remaining stable.

Average cap rate expectations stabilize some. More than one fifth of respondents expect cap rates to decrease over the next 12 months; even though not a majority, the 21 percentage point jump over the prior quarter suggests that there is an increasingly varied perspective on the direction for multiple. Overall conviction for cap rate moves also declined, with the majority reporting only moderate conviction on their calls.

Slight change in revenue, NOI growth expectations versus prior quarter. Participants generally still expect revenue growth to be stable (54%) over the next 12 months, though 17% expect revenue growth to increase, up 10 percentage points from the prior quarter. Participants expect NOI growth will to be stable (53%) or decrease (36%). Compared to the prior quarter, these results fell by 10 percentage points and rose by 8 percentage points, respectively. Revenue and NOI growth expectations taken together could suggest that owners are anticipating a higher expense environment over the next year.

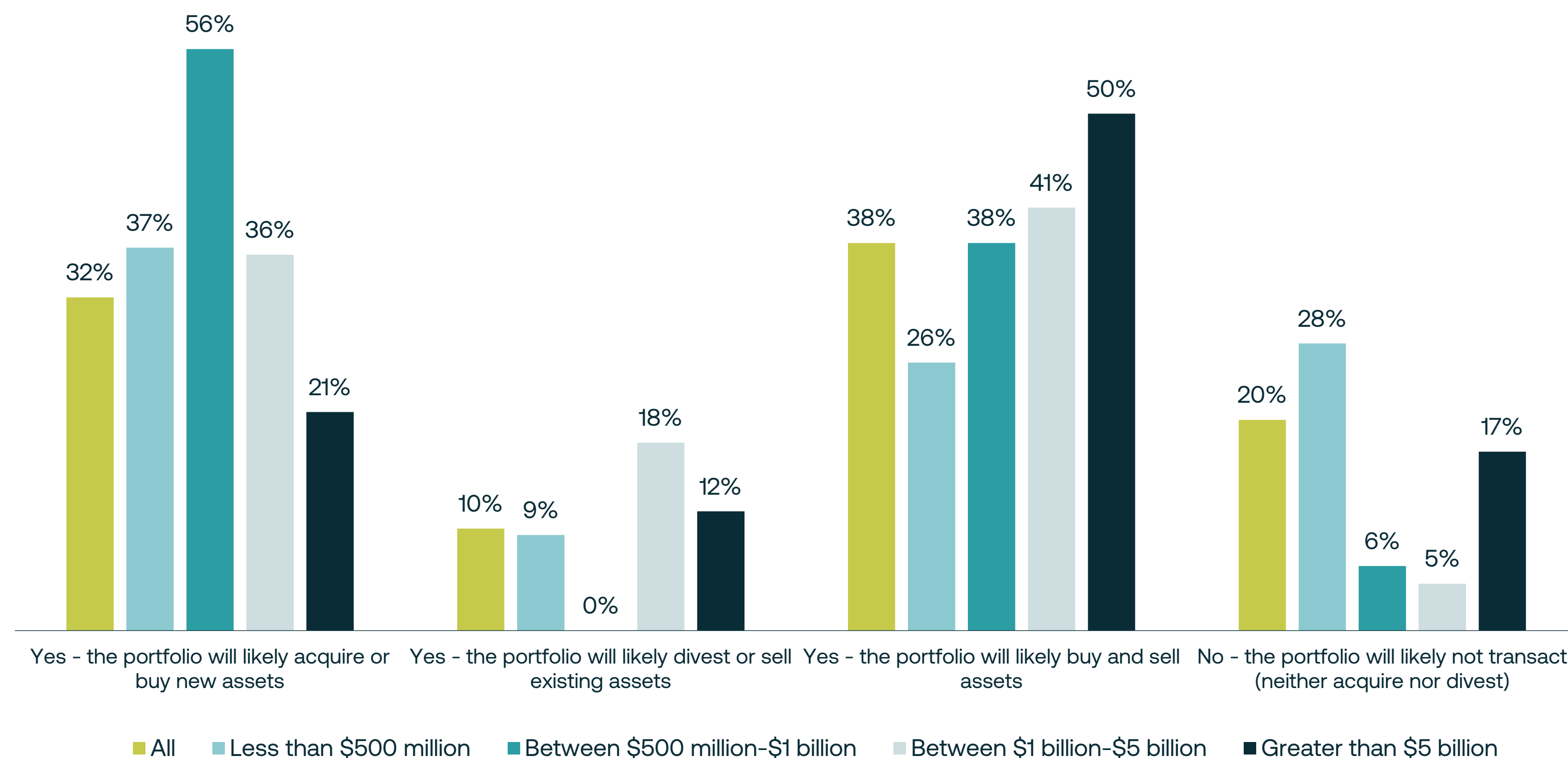
Increase in attractive opportunities, distress, transaction activity expected. 76% of respondents expect CRE distress to increase over the next 12 months, down 4 percentage points from the prior quarter, with only 29% of participants noting high conviction in their directional call – a 21 percentage point drop from Q4 2023. Despite expected increase in distress, nearly two thirds of participants expect attractive investment opportunities and transaction activity to pick up (62% and 61%, respectively). The expected increase in transactions jumped by 32 percentage points from Q4 2023.

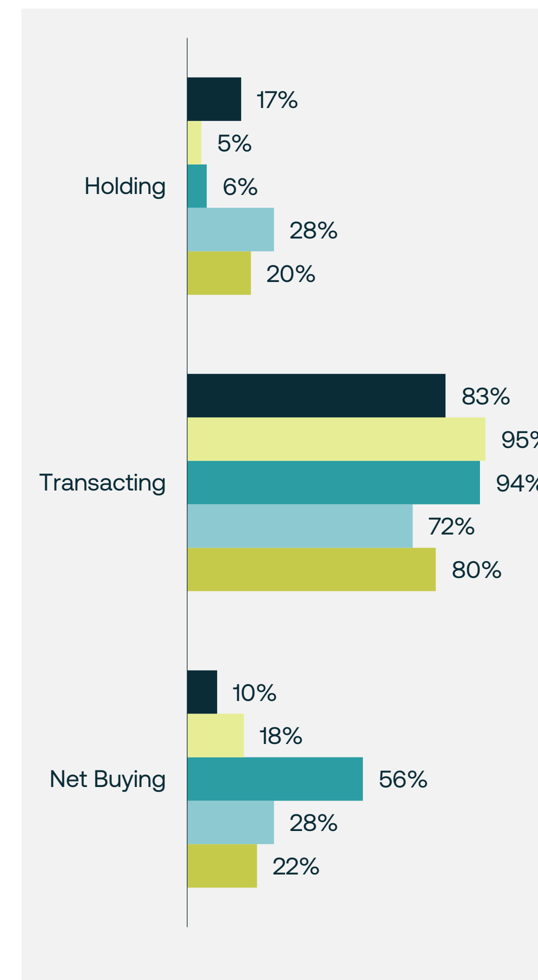




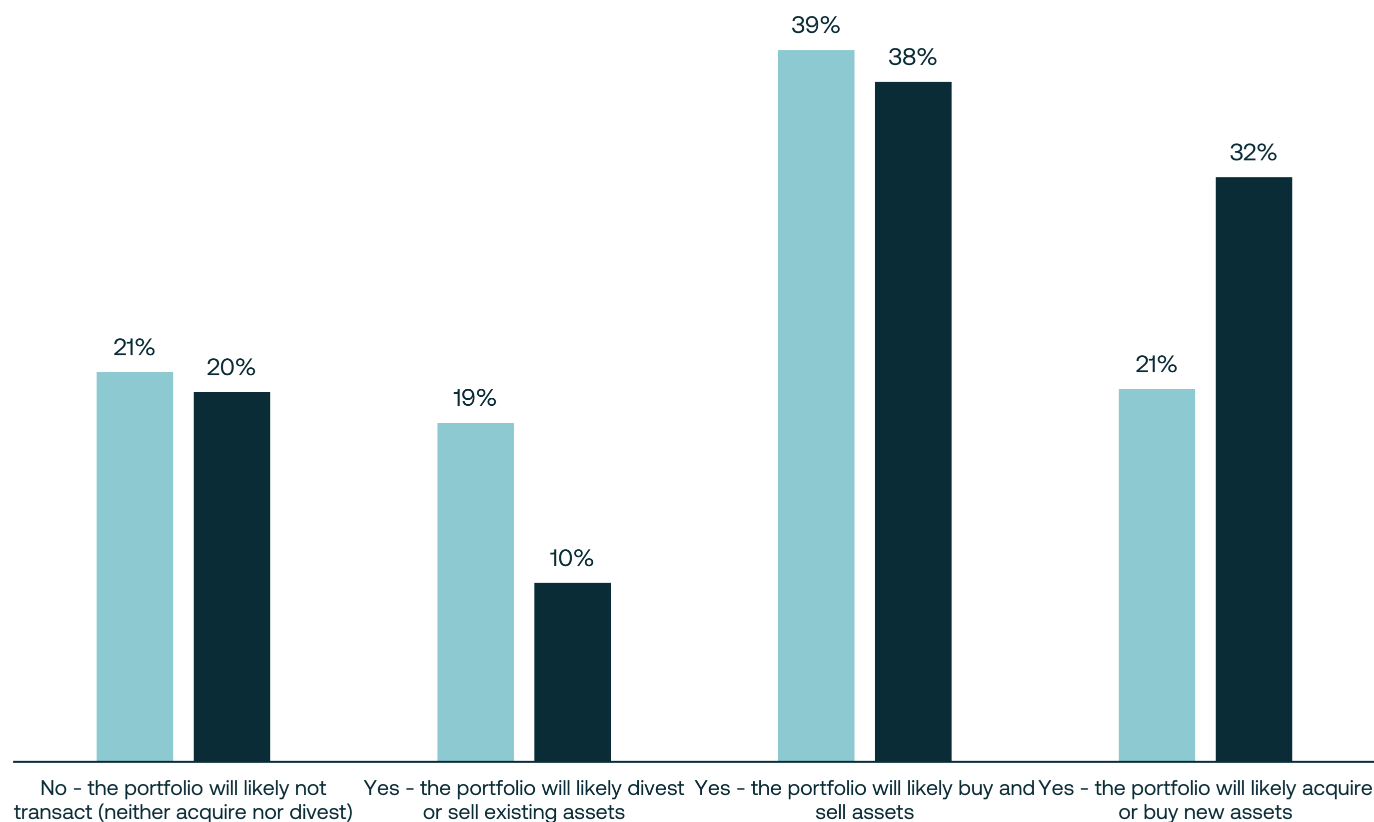
Transaction intentions over next 6 months

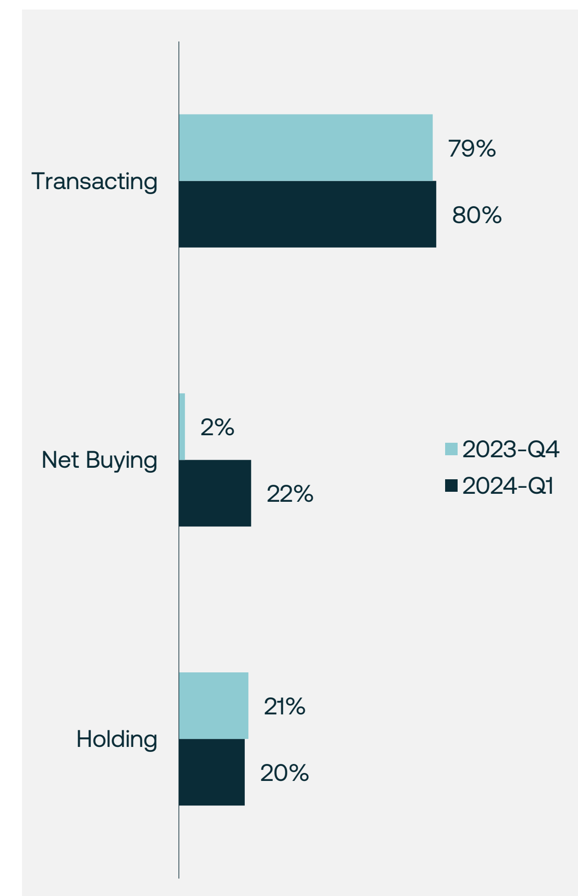
Survey signals increased expectations for near-term transaction activity; mid-, smaller-sized firms most active. Respondents indicated that they anticipate market activity to pick up over the coming 6 months, with the majority (80%) of survey participants anticipating transacting (buying, selling, or both). Institutions with $500 million to $1 billion in CRE assets plan to be the largest net buyers (56%), while the largest institutions (>$5 billion) are anticipating being net buyers, but only 10%. The proportion of largest institutions who said that they don't anticipate transactions in the near-term and will be holding, increased by more than five percentage points compared the prior quarter, the largest increase across firm sizes for anticipating "holding".





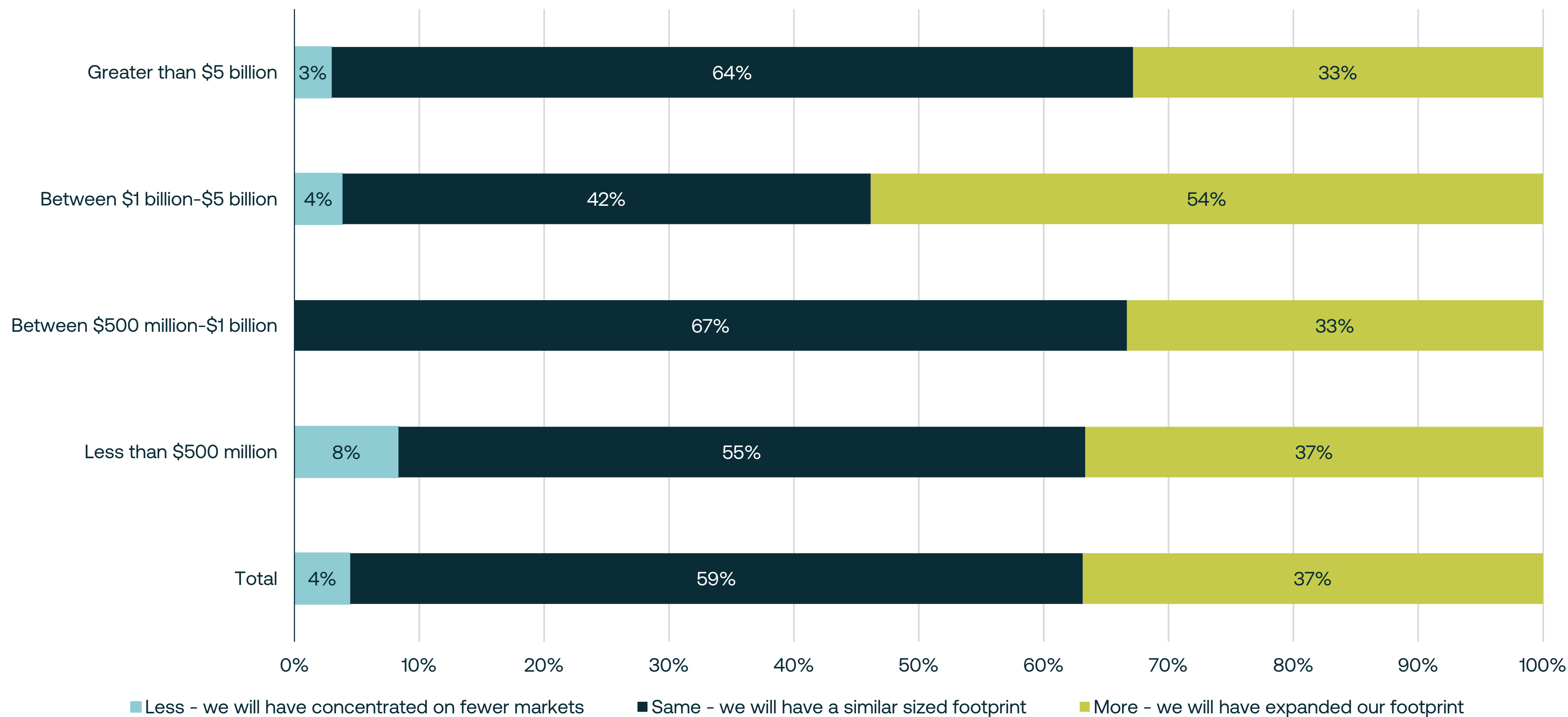
Transaction intentions over next 6 months





Note: Percentages represent the share of all responses, excluding “blank” or “not applicable” responses.

Geographic footprint expectations



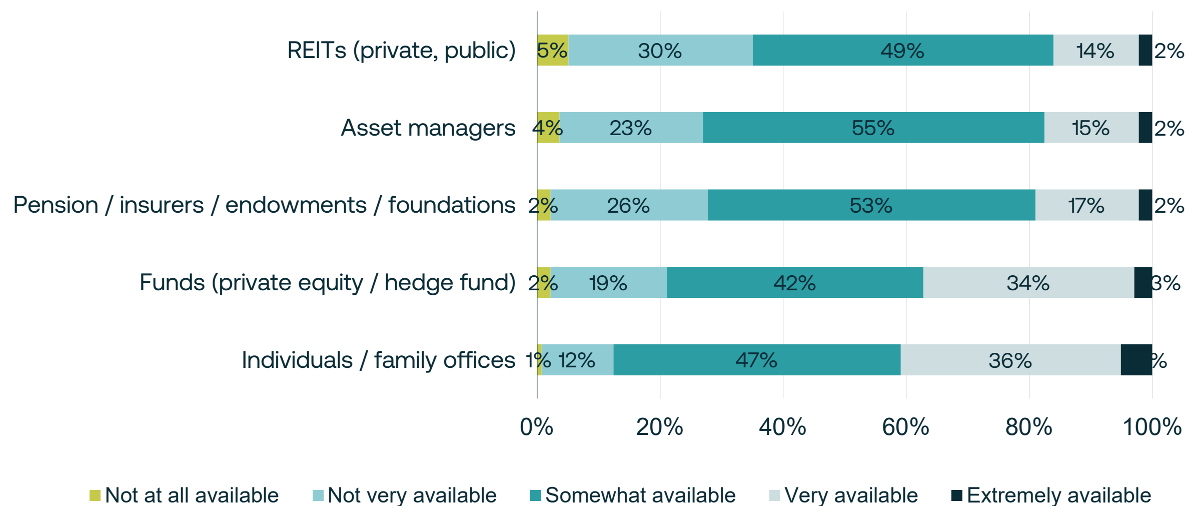
Note: Percentages represent the share of all responses, excluding “blank” or “not applicable” responses.

Capital availability

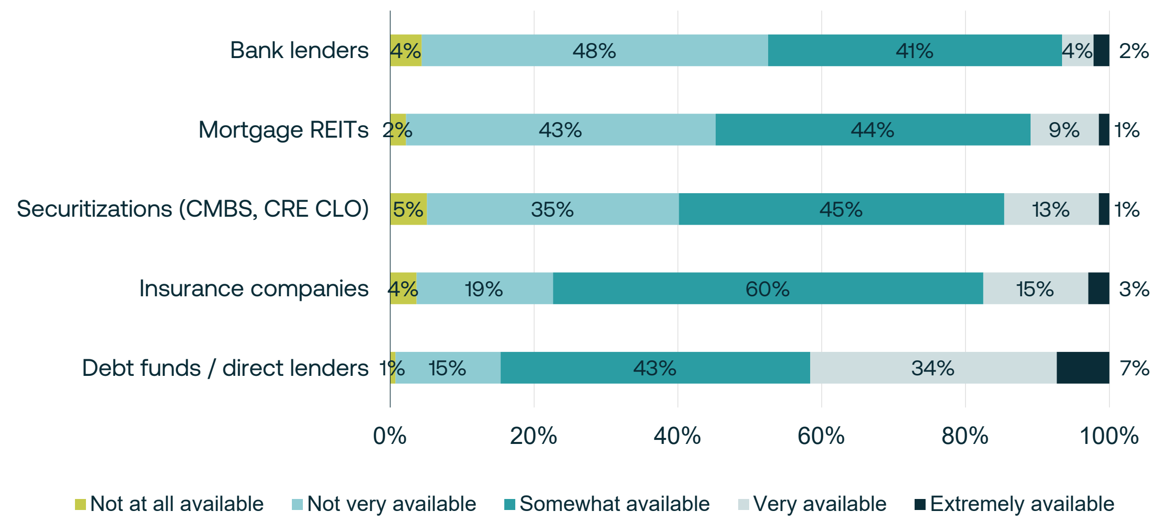
Capital availability expectations improving across debt sources. Expectations for debt capital availability have improved dramatically across numerous sources. While expectations for availability from securitizations is still low, net availability expectations (sum of responses for “extremely available” and “very available” less the sum of responses for “not very available” and “not at all available”) improved 20 percentage points, from -46% in Q4 2023 to -26% in 1Q 2024. A similarly large shift in net expectations was seen for debt funds, improving from +6% to +26% over the same period. However, much like in the prior quarter, few respondents expect banks to return to CRE lending within the next 12 months, with more than half (>52%) stating they expect banks to be “not at all available” or “not very available”. More than 40% of respondents reported that they expect all individual sources of debt and equity capital to be “somewhat available”, signaling that availability remains highly firm-, use case-, and/or relationship-specific.

What are your expectations for the availability of capital over the next 12 months?

by equity source



by debt source

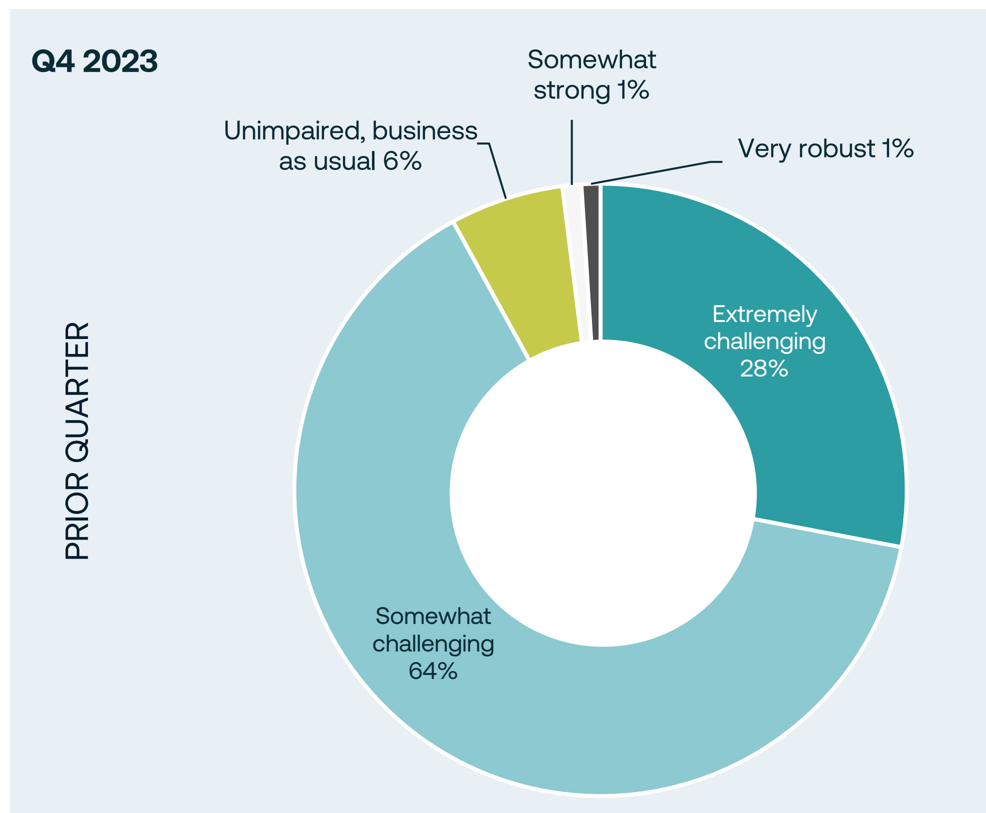


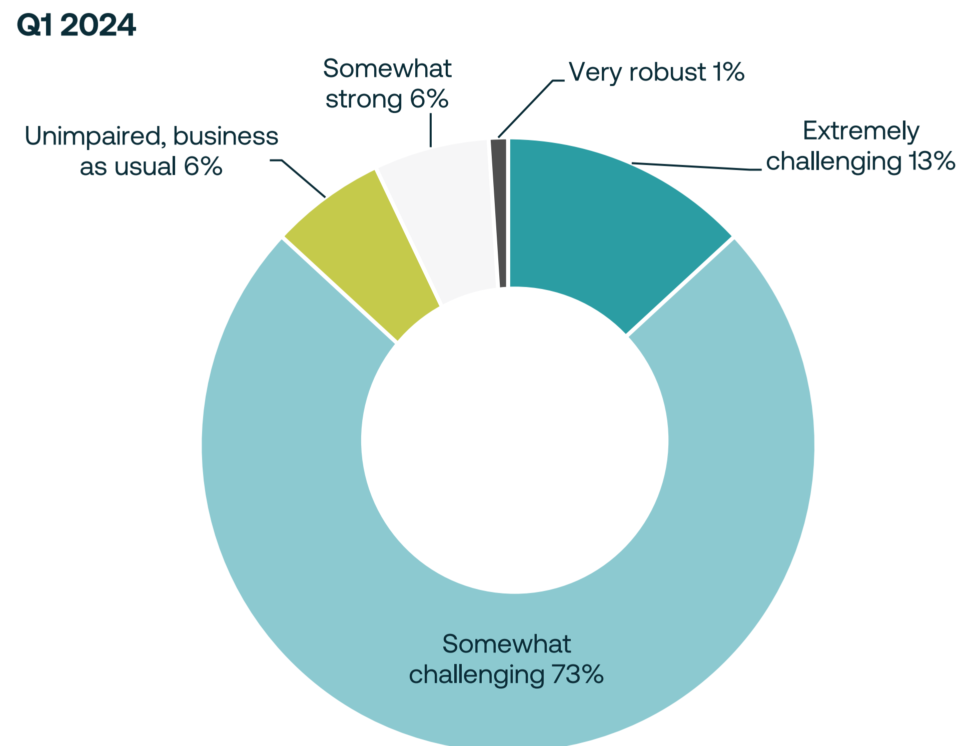
Note: Percentages represent the share of all responses, excluding “blank” or “not applicable” responses.

Expected operating environment

Operating environment expectations for the coming year soften. A similar percentage of respondents in the prior quarter (86% in 4Q 2023 vs. 92% in 1Q 2024) reported that the coming months will be "challenging", but expectations for the magnitude of said challenges have shifted. The percentage of respondents who expect the operating environment to be "extremely challenging" plunged 15 percentage points to just 13%. Many respondents instead shifted to stating the environment may be only "somewhat challenging", with the fraction increasing from 64% to 73%

What best describes your expectations for the operating environment over the next 12 months?



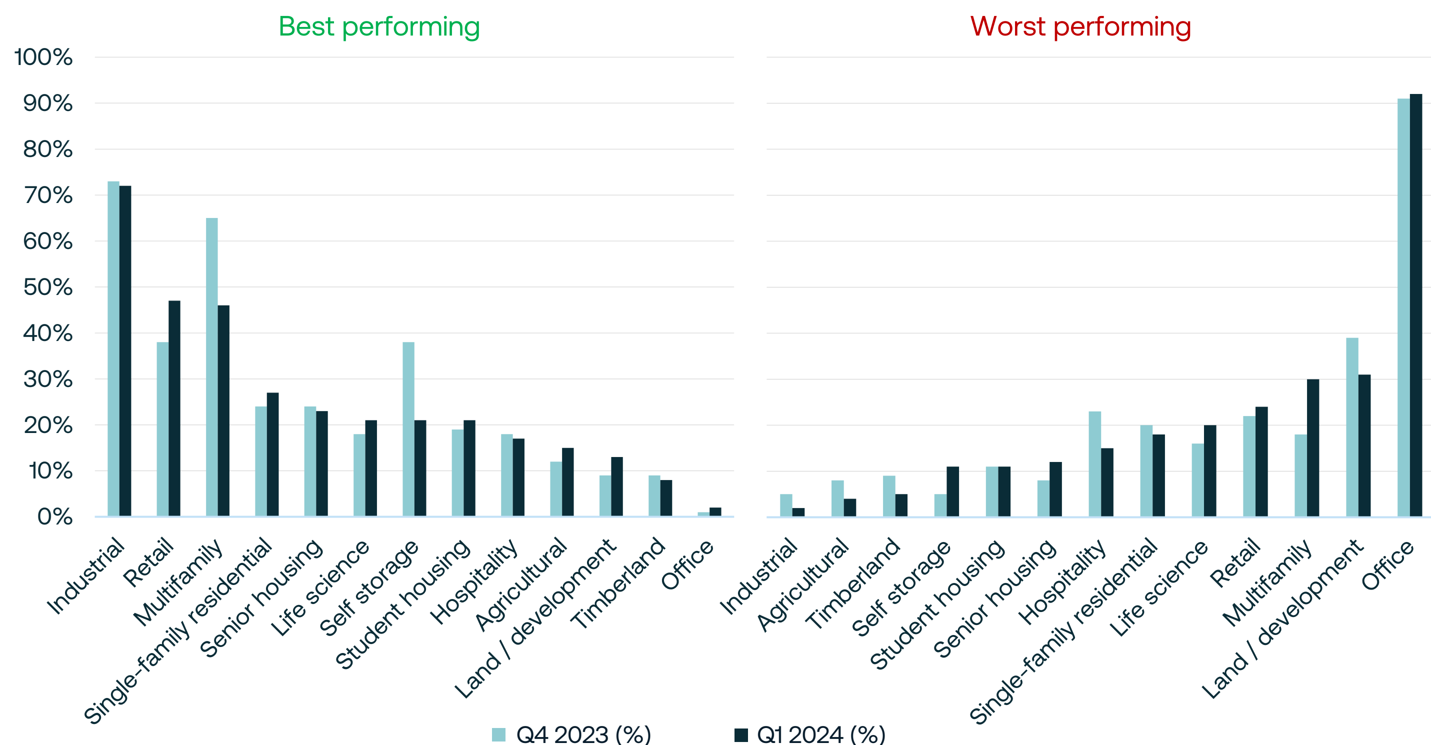


Note: Percentages represent the share of all responses, excluding "blank" or "not applicable" responses.

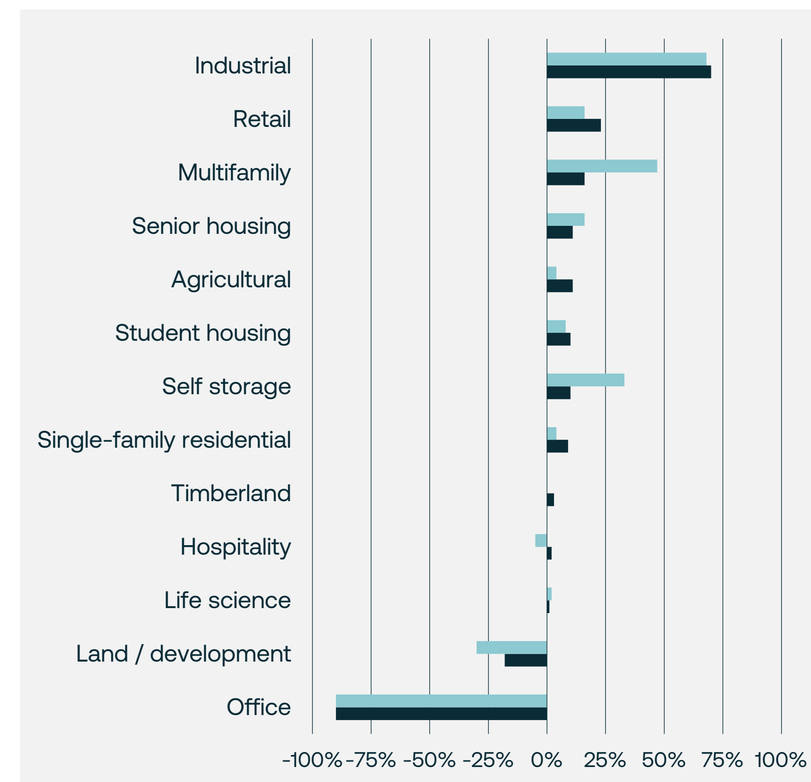
Expectations for property type performance

Expectations quickly souring for multifamily and self storage. Survey participants still expect industrial to be the best-performing property type and office to be the worst over the next 12 months, but retail has overtaken both multifamily and self-storage in terms of net favorability. Net expectations sentiment toward multifamily fell 31 percentage points to +16%, while falling 23 percentage points for self storage to +10%. Little change over the same period was noted for other sectors, though sentiment toward hospitality flipped positive from -2% to +5%.

Rank which property types you expect to be the best and worst performing in the next 12 months.



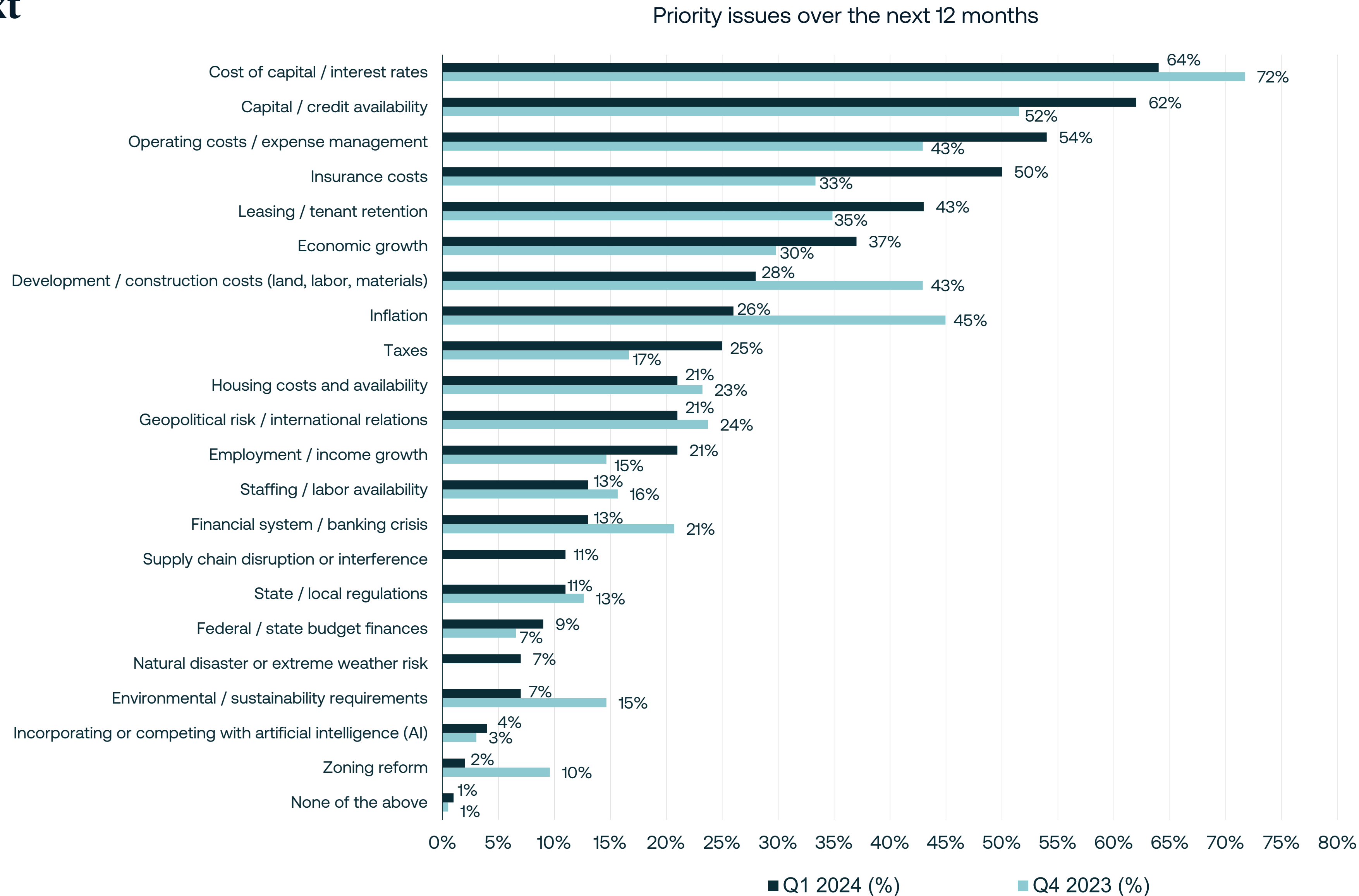
Net sector sentiment



Note: Percentages represent the share of all responses, excluding “blank” or “not applicable” responses.

Priority issues over the next 12 months

Expenses catching up to capital concerns as top priorities. Similar to the previous quarter, cost of capital and credit availability topped the list of expected priorities over the next 12 months, with 64% and 62% citing them respectively. These concerns were followed closely by operating costs (54%), insurance costs (50%), and leasing/ tenant retention (43%), which all saw spikes over the previous quarter. On the other hand, development costs and inflation saw large drops relative to Q4 2023, but are still the top priorities of more than one in four respondents. (Note: “Supply chain disruption or interference” and “Natural disaster or extreme weather risk” were added to the 1Q 2024 survey, so a comparison to the prior quarter’s results was not possible.)



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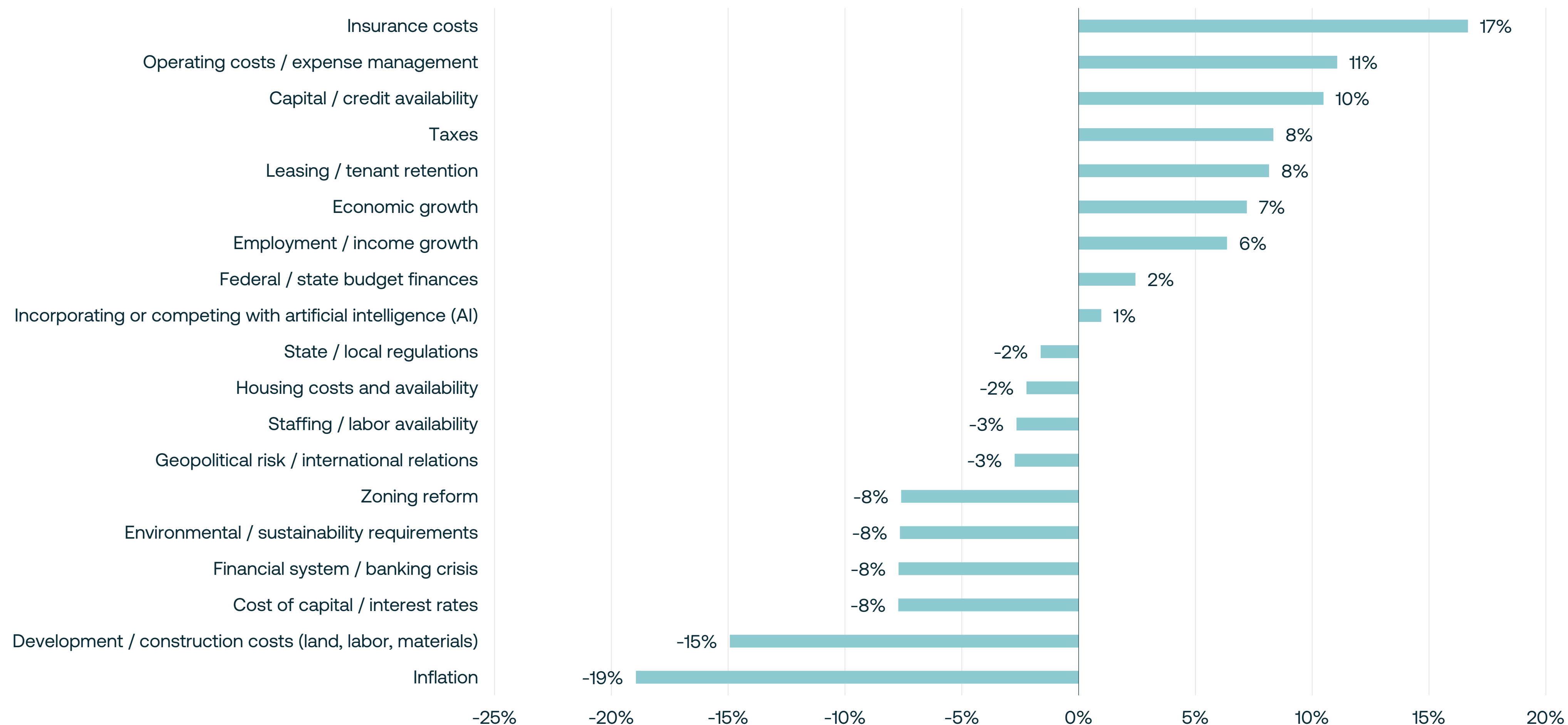
Priority issues over the next 12 months



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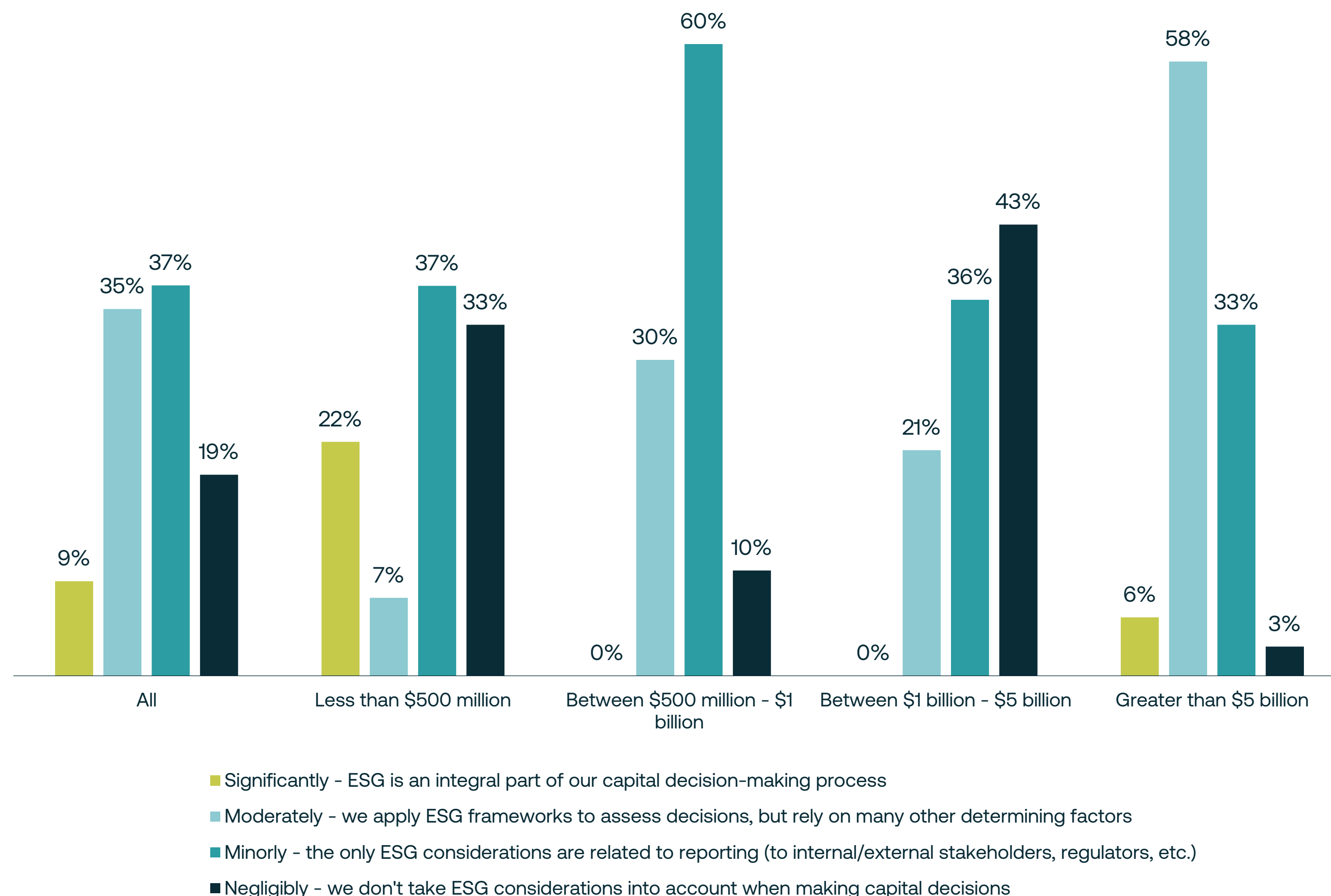
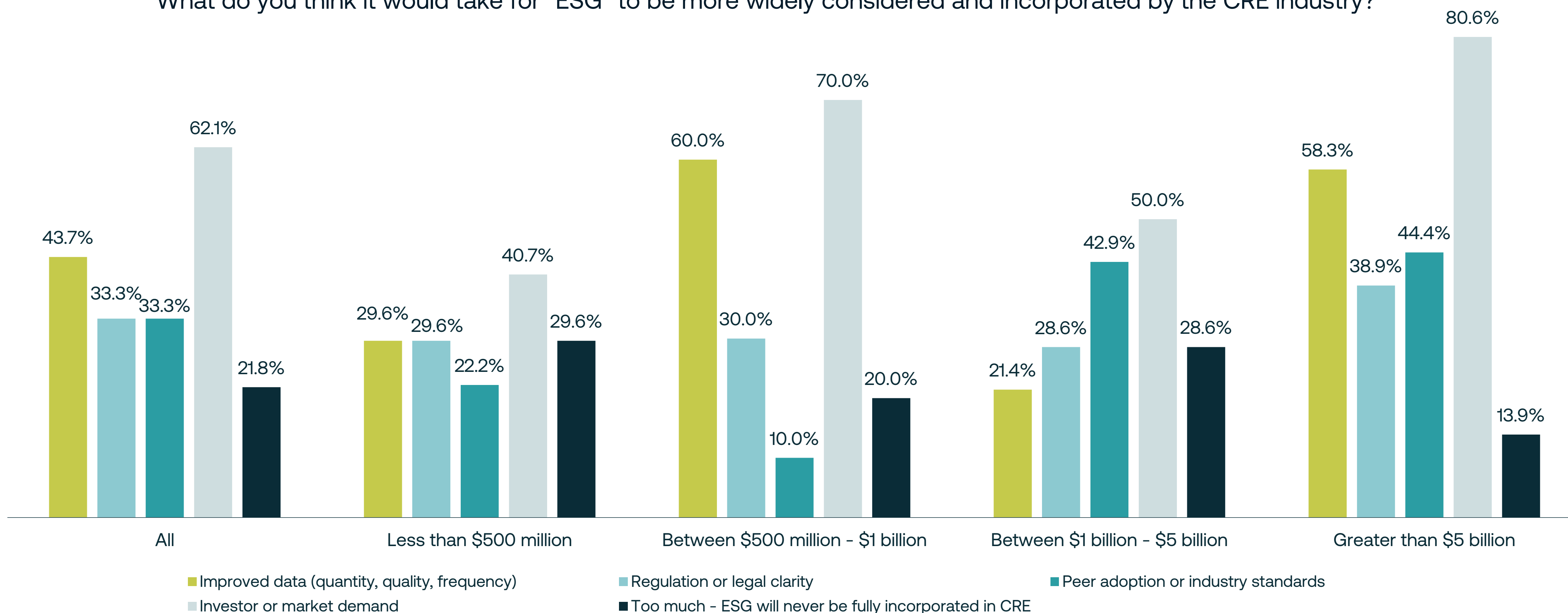
ESG considerations in capital decisions

ESG a minor to negligible consideration in the US currently. More than half (56%) of all US respondents indicated that ESG considerations factor into their investment decisions “minorly” or “negligibly”. Just over one in three respondents agreed that ESG factors into their decision-making process “moderately”. And fewer than 10% of US respondents stated that ESG was an integral part of their decision process, the clear minority. While firm size appeared to be a factor in the Canadian results for this question, size as measured by CRE exposure, was less clearly a factor for ESG consideration in the US.



Drivers of ESG adoption

Investor demand, improved data needed for ESG adoption. Nearly two in three US respondents (62.1%) reported that greater investor or market demand are needed for ESG considerations to be more widely applied across the industry; a belief shared by more than 80% of firms with more than $5 billion in assets. The second highest response, was "improved data (quantity, quality, frequency)". And unlike in the Canadian survey responses, the US CRE industry remains more skeptical of the full-scale adoption of ESG considerations, as more than one in five (21.8%) respondents indicated that they do not believe ESG will ever be fully incorporated into CRE, with this belief being most common among smaller firms (<$500 million in assets).



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