Altus Group

Q3 2023

Commercial Real Estate Industry Conditions & Sentiment Survey

US results and analysis

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Introduction

Q3 2023
Commercial Real Estate Industry Conditions & Sentiment Survey

Market uncertainty is a prevalent fixture of the current cycle for commercial real estate (CRE) in the US. To provide insights into the market sentiment, conditions, metrics, and issues affecting CRE, the Altus Research Team has conducted a CRE industry survey across the United States.

As this is the first time in 2023 that we have conducted the CRE Industry Conditions and Sentiment Survey, it represents a snapshot of individual practitioners' perspectives, representing various functions across the capital stack.

Survey size and methodology

Altus Research Team surveyed industry participants across the US from June 28th to July 25th. There were 176 respondents, representing at least 47 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.

176 responses FROM **47+** firms

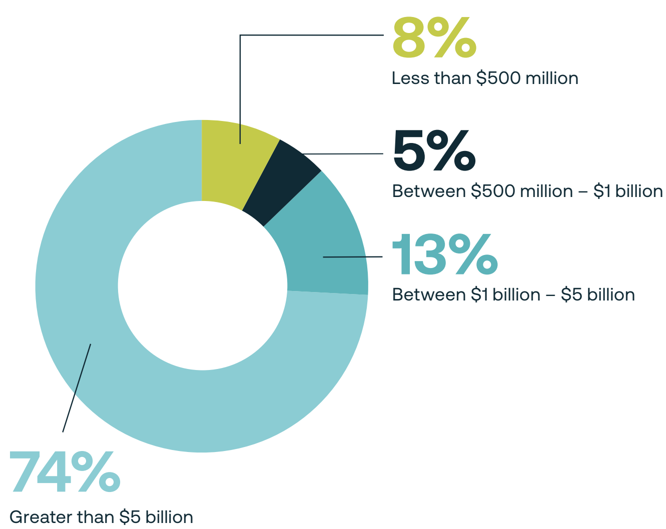
Organizational type

Investment manager	42%
Private equity or REIT	19%
Asset management company	13%
Service provider	10%
LifeCo or Pension	6%
Other	6%
Lender	4%

Functional area

Investments / fund / portfolio management	52%
Asset or property management	14%
Appraisals / valuation	14%
Capital markets / financing / lending	8%
Research / economic consulting	4%
Other	8%

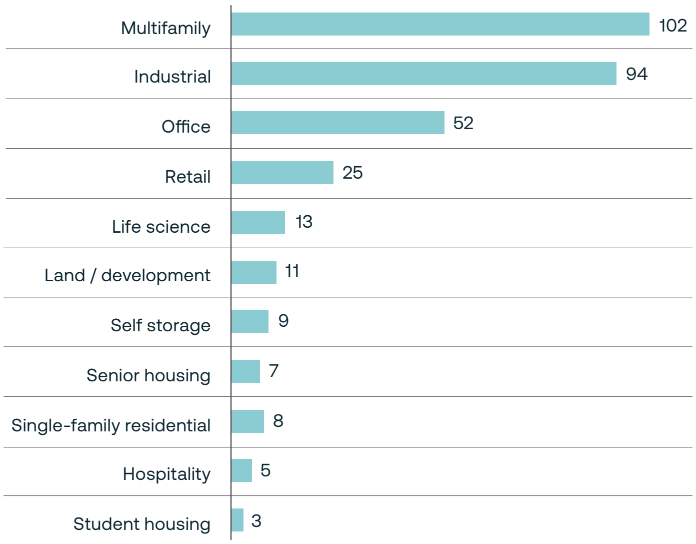
Firm CRE exposure



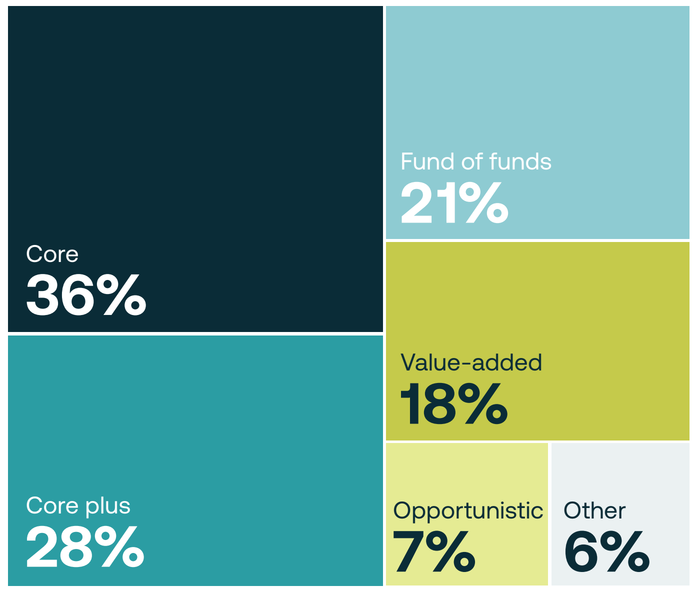
[1] Firm count based on participants who chose to identify themselves.

Respondent characteristics

What property types does your firm primarily target?

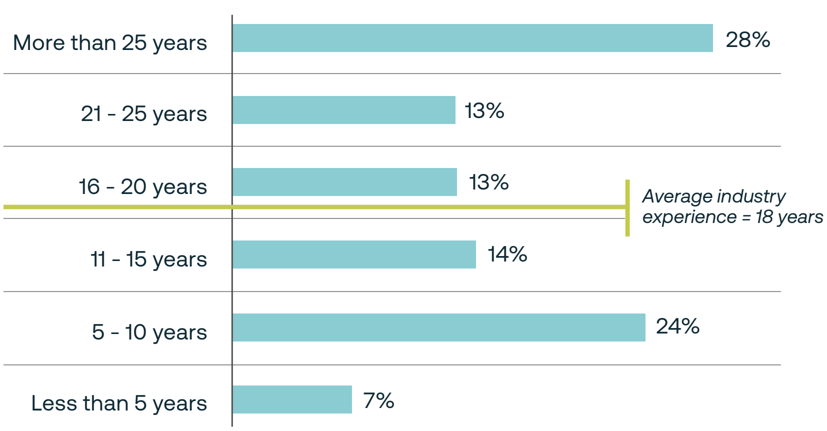


How would you describe your firm's primary investment strategy?



Respondent experience

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



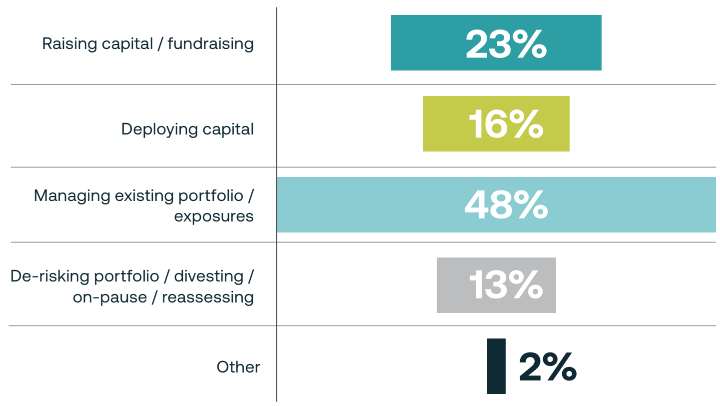
Current focus

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

Gearing up or hunkering down, CRE pros prep for feast-or-famine. While outlooks remain as mixed as the economic data, the industry appears to be getting ready for action. Thirty-nine percent of respondents noted that they are raising or deploying capital, while 13% are derisking their portfolio.

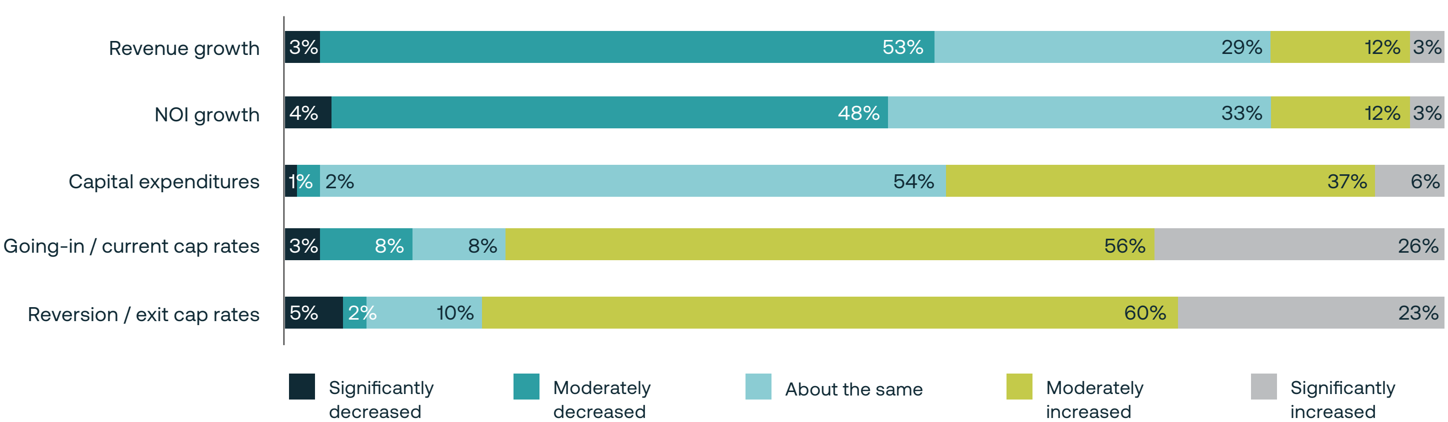
39% are raising or deploying capital

13% are derisking their portfolio



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

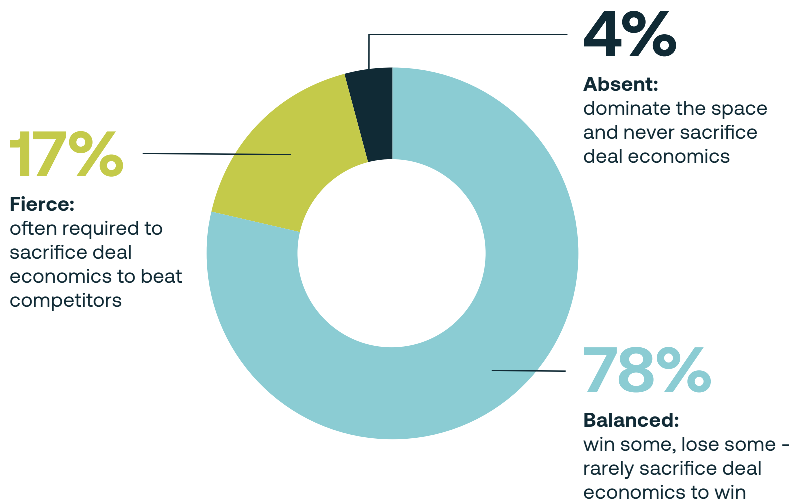
"Expectations recession". Despite the absence of an economic recession, the CRE industry's expectations have soured over the last 12 months. More than 80% of respondents noted moderately-to significantly-increased expectations for cap rates (going-in / current and reversion / exit cap rates). Meanwhile more than half the respondents have dropped their expectations for rent and NOI growth over the last 12 months.



Competition and pricing

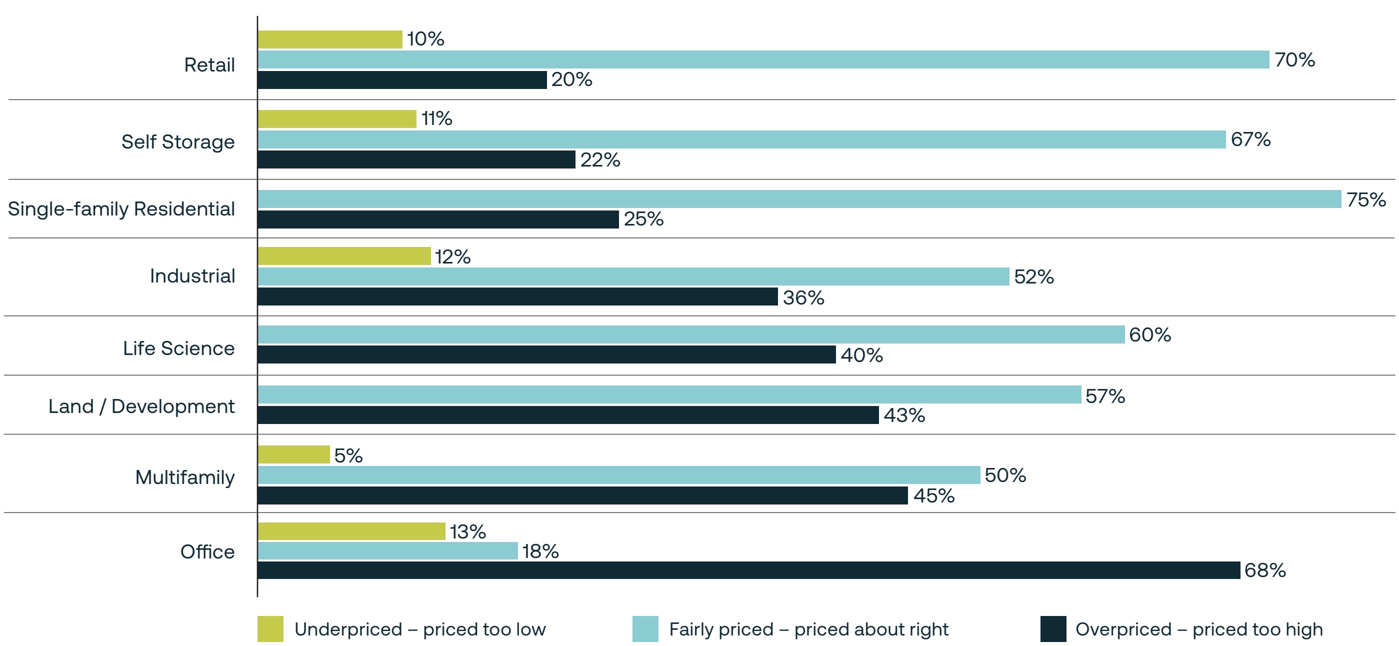
How would you describe the level of competition among your firm's peer group?

Treading carefully: competition in "overpriced" markets. More than one in six respondents (17%) described the current market competition as "fierce", while four-fifths (78%) described it as "balanced: win some, lose some." This suggests that despite the sharp decline in transaction volume seen in 1H 2023, the market remains competitive...



...by itself, the indication of competition would be positive, however, the survey results also show that at least a third of the respondents for multiple property types believe that that prices are too high: office (68%), multifamily (45%), land/development (43%), life science (40%), and industrial (36%). Taken together, this suggests that many firms may be competing in overpriced markets.

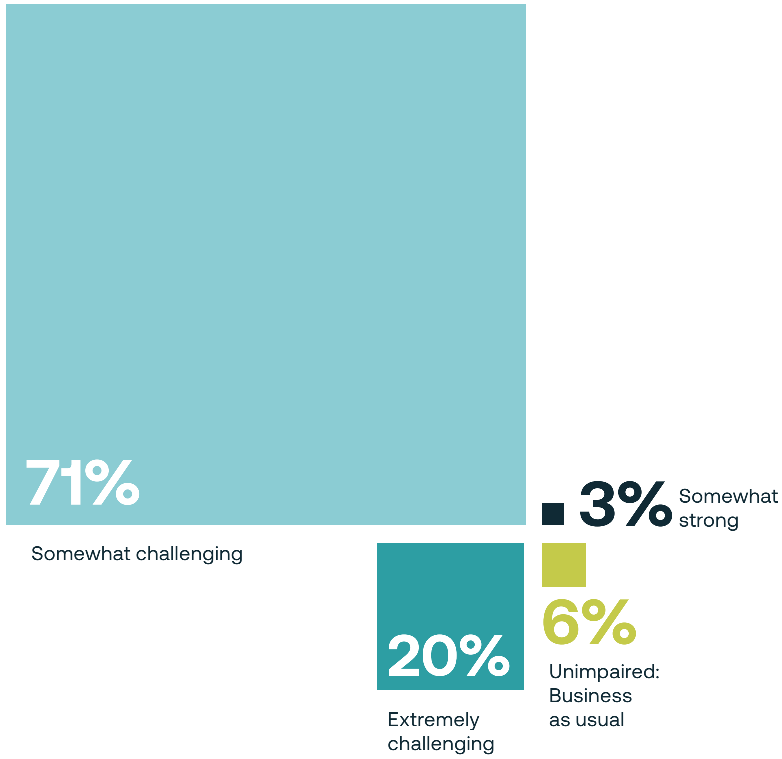
How would you characterize current pricing for the following property types?



Expected operating environment

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

Consensus sees challenges ahead, but the future may not be dire. While 91% of respondents anticipate the coming months to be more difficult and pose some degree of challenges, only one-fifth (20%) anticipates the coming months to be "extremely challenging" and the majority (71%) anticipate a more manageable "somewhat challenging" environment.



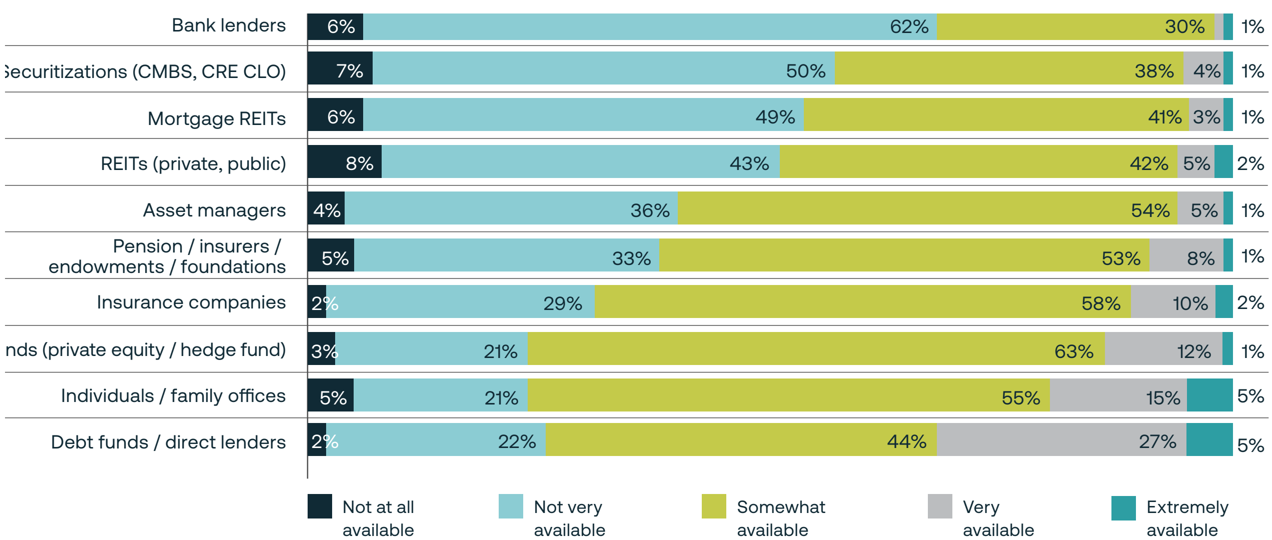
Capital availability and property outlooks

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

Shifts in lending landscape expected, adding to the challenges. More than half of the respondents expect a meaningful pullback by CRE's primary sources of debt financing as capital becomes less available at banks (68%), CMBS/CLO (57%), mREITs (55%). While responses indicated that they expect other lenders (notably funds and individuals / family offices) to be more available, it has yet to be seen if these lending groups will be able to provide sufficient lending capacity to make up for the bigger capital sources pulling back. The uncertainty around financing sources is made even more acute for the unanimous least-loved office sector, which 94% of the respondents lists as the expected worst performer over the next 12 months.

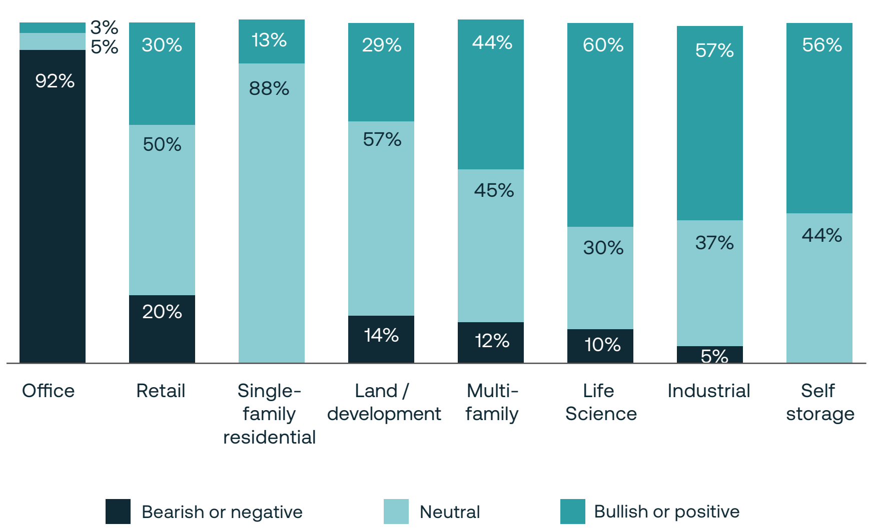
68%

expect bank lenders to pull back further over the next 12 months



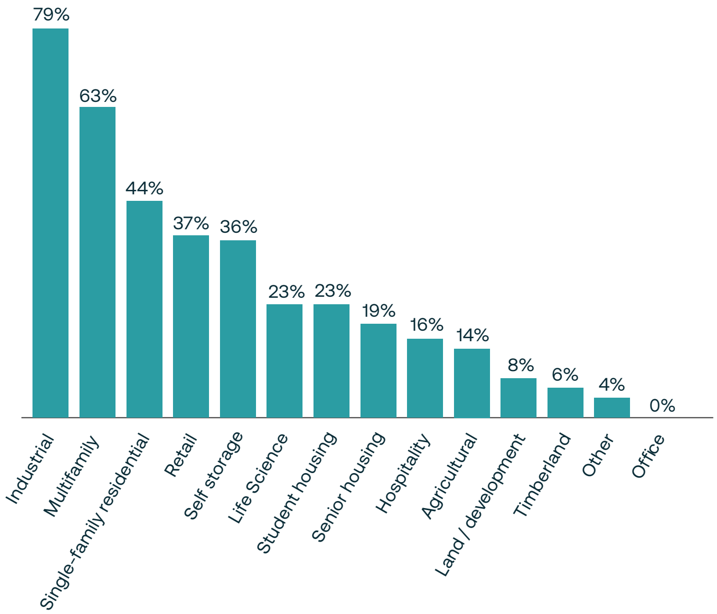
What is your current outlook for the following property types?

Not all doom and gloom; positivity prevails for self-storage, industrial, life science. While there was a clear bearish consensus for the office outlook, responses showed positive or neutral outlooks for nearly all other property types. Ranked by net sentiment (% positive less % negative), outlooks for office and retail showed the most pessimism. Excluding office, outlooks were net positive across all property types, but were above 50% for self storage (56%), industrial (52%), and life science (50%).

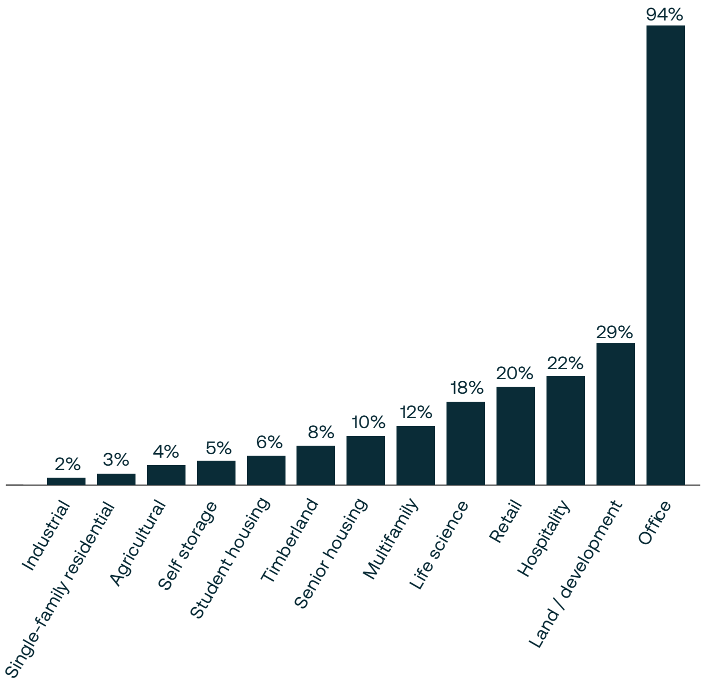


Ranked expected performance

Property types you expect to be the best performing in the next 12 months.



Property types you expect to be the worst performing in the next 12 months.



High expectations for industrial and residential; office expected to underperform.
Survey responses suggest that participants expect recent trends in performance to continue, with industrial, multifamily, and single-family rental leading the top-performing property types, while office underperforms. Expectations for retail and hospitality show that there are more mixed expectations for performance over the next year.

Anticipated direction and conviction

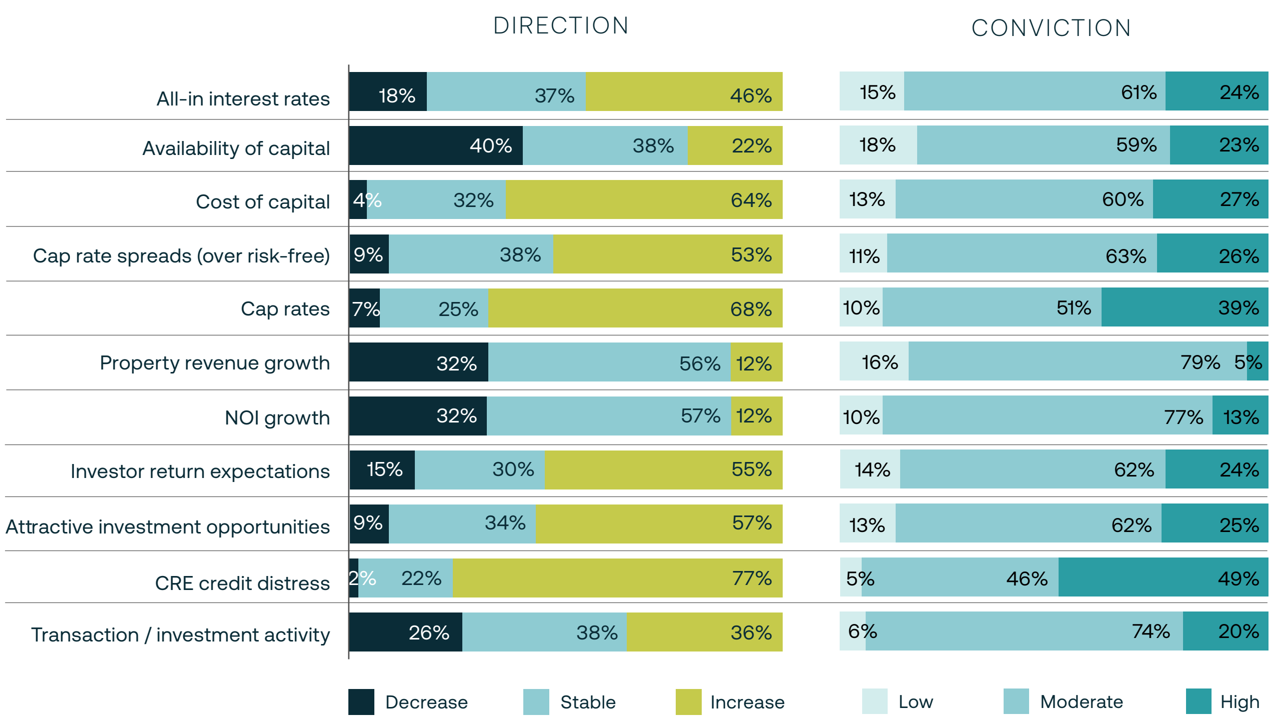
What changes do you anticipate to the following key metrics over the next 12 months?

Capital (cost, availability) remains front and center for CRE professionals. In assessing the survey responses indicating direction and conviction for the next 12 months, respondents indicated that in aggregate rates are expected to rise and capital will become less available – however, the conviction was weak to moderate suggesting collective uncertainty.

Survey shows high collective conviction: cap rates to increase. The highest net conviction (high conviction % less low conviction % = net conviction %), was exhibited with expected cap rate moves over the next 12 months. A net 61% of survey participants expect cap rates to move higher and a net 44% expect cap rate spreads to widen in the next 12 months.

Cash flow uncertainty. While survey participants indicated their collective expectation for both rent and NOI growth to decrease over the next year (net -20%), there was little net conviction to support this.

A special situation, too good to miss. 77% of respondents expect CRE distress to increase over the next 12 months (net 75%). This anticipated rise in distress also has the highest net conviction score (net 44%). This may help to explain why survey participants expect cap rates to rise, as well as why 57% believe that the next 12 months will see an increase in attractive investment opportunities.

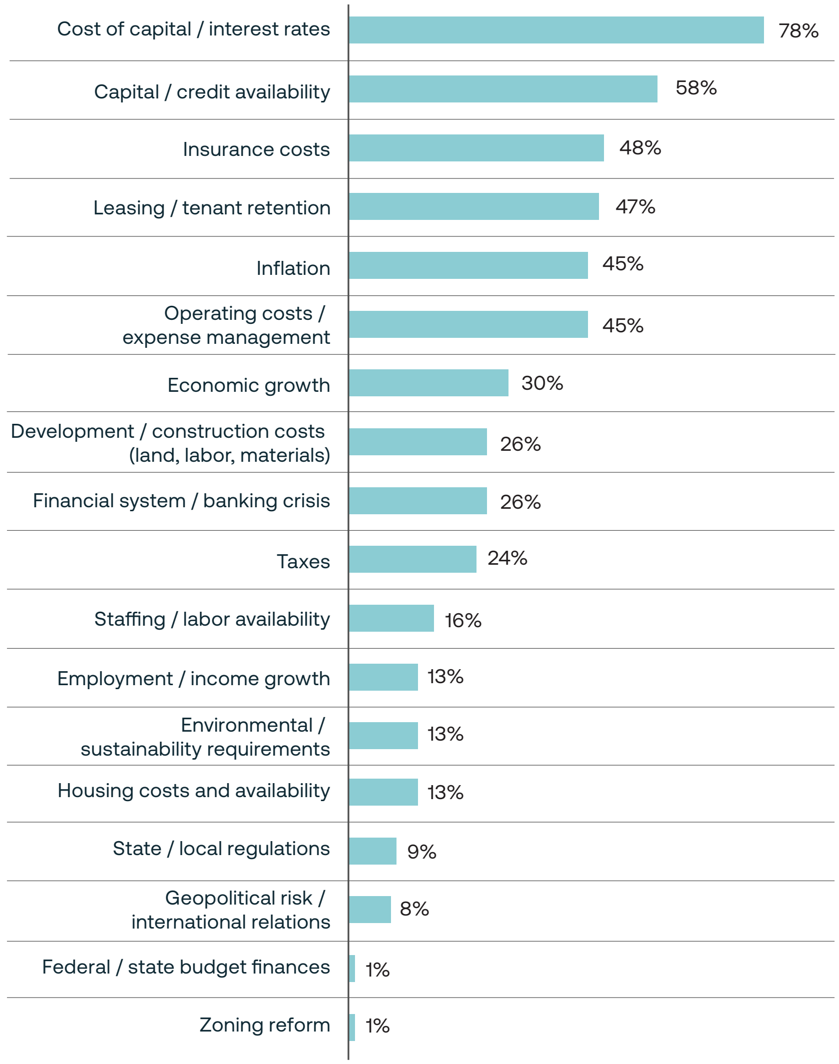


Priority issues over the next 12 months

Which of the following do you expect will be high priority issues for you professionally in the next 12 months?

Capital conundrum. Participants indicated that capital (cost and availability) was top priority for the coming 12 months. While there is nearly $380 billion in dry powder allocated to CRE funds (as of 4Q 2022), per Pitchbook, without cost-effective and available debt financing, this dry powder can only go so far, which could put a damper on the planned bargain buying expected and noted above.

Expense management concerns inflate. Apart from capital concerns, participants indicated that increasing expenses (notably insurance, tenant retention, operating costs, and general inflation) were areas they anticipate focusing more on in the coming quarters.



What's next

Quarterly surveys

Altus Group's CRE Industry Conditions and Sentiment Survey marks the beginning of an ongoing survey program. While our initial Q3 2023 results capture a moment in time, we're committed to conducting this survey quarterly so we can share how perspectives on the questions covered in this report trend over time.

A request for your participation

Our ability to share valuable market insights depends on the active participation of industry professionals like you. As we gather a diverse range of voices, the richness of the data deepens, allowing us to segment responses and paint a more detailed portrait of the industry's collective outlook.

Your participation is instrumental in shaping the narrative of the commercial real estate landscape, please support this survey program by sharing your perspective on our next installment of the CRE Industry Conditions and Sentiment Survey.

Participate in our survey

Altus Group

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