



CRE AT THE CROSSROADS

MARKET SHIFTS & RISK IMPLICATIONS

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How do we sort out the signals, headlines, and narratives?



Bear Cases Recently in the News

These tariffs are going to cause widespread inflation. Widespread job loss. A financial market meltdown.

- University Professor

Brokers, builders, and architects say that everyone is spooked.

- CRE Publication

The economy is on the precipice of recession.

- An Economist



Bull Cases Recently in the News

Multifamily housing stands out as a safe harbor.

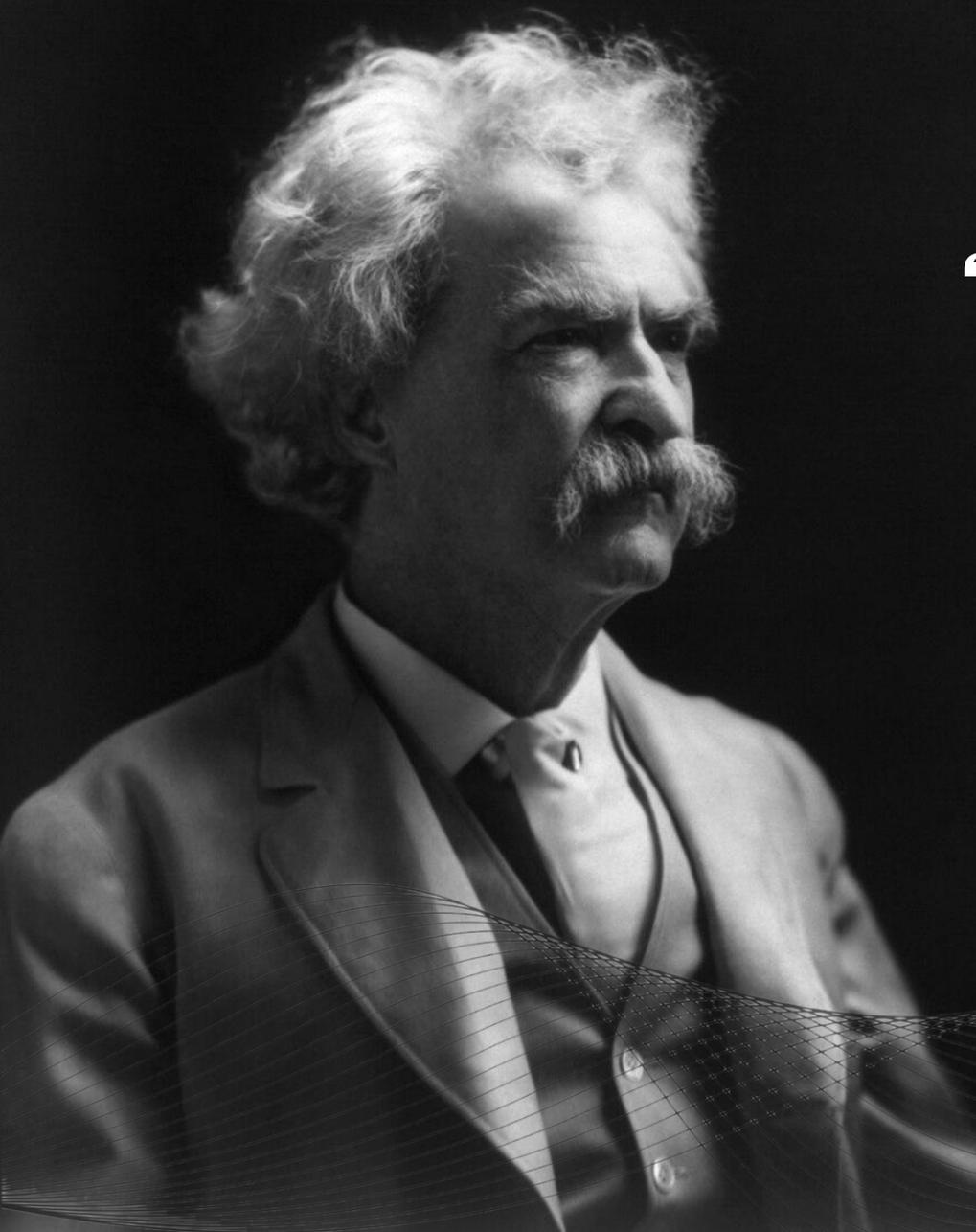
- CRE Strategist

Long-term, the tariffs could benefit the industrial sector...

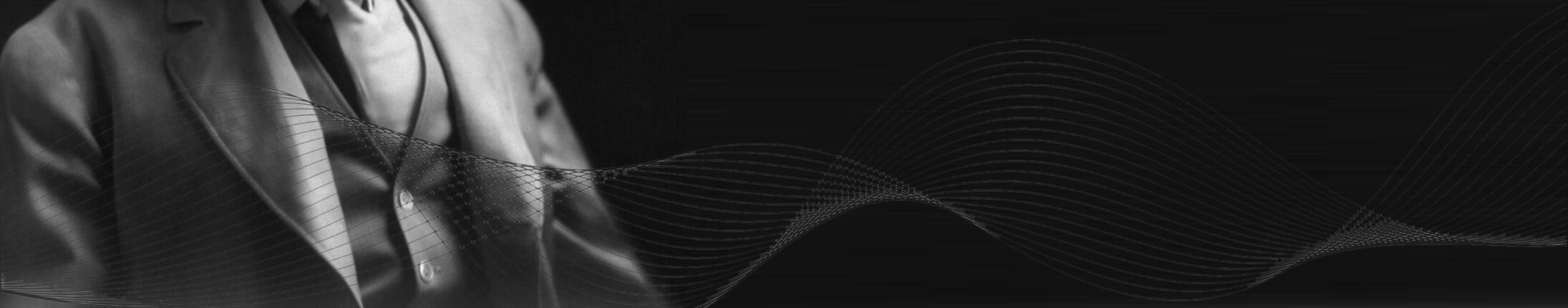
- CRE Executive

We believe real estate will be less affected by the direct impact of the tariffs.

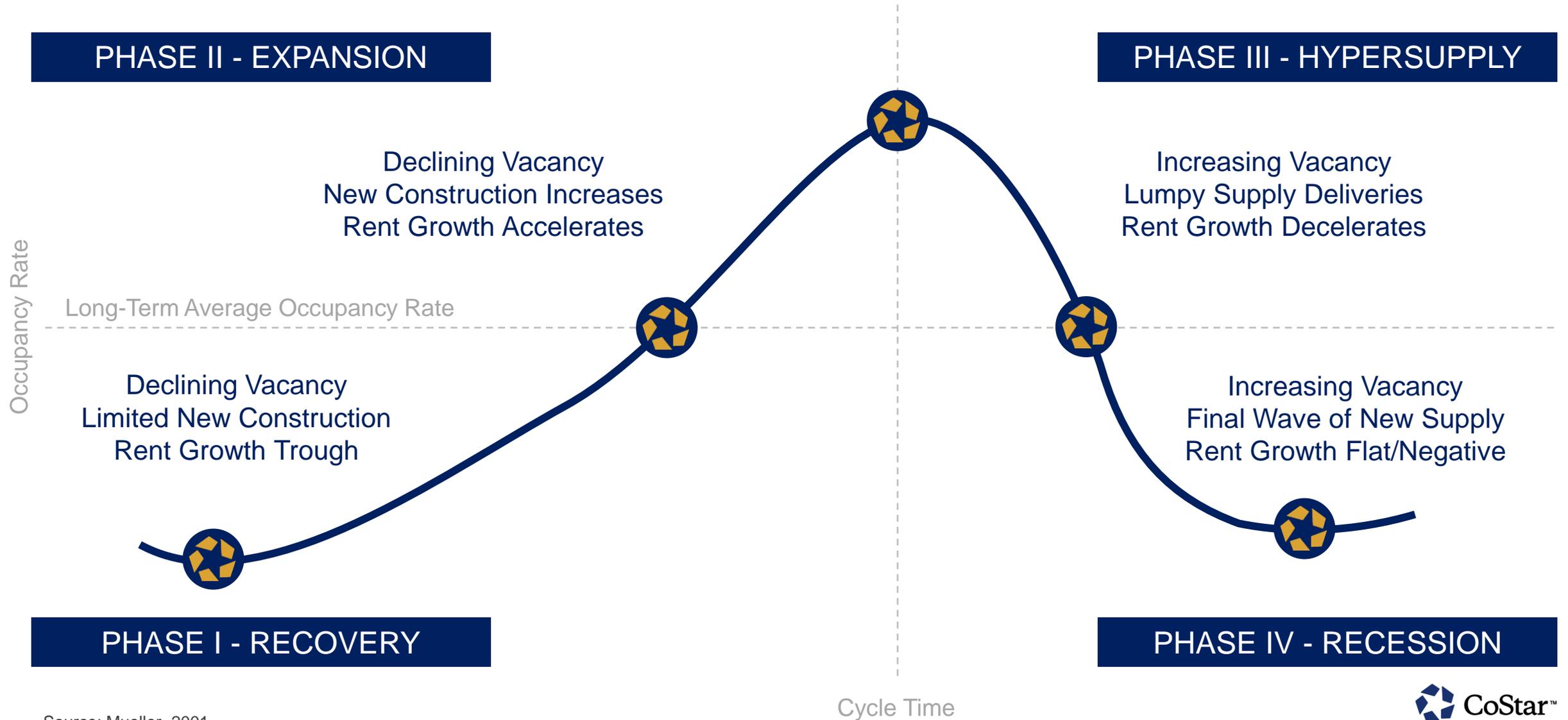
- Asset Manager



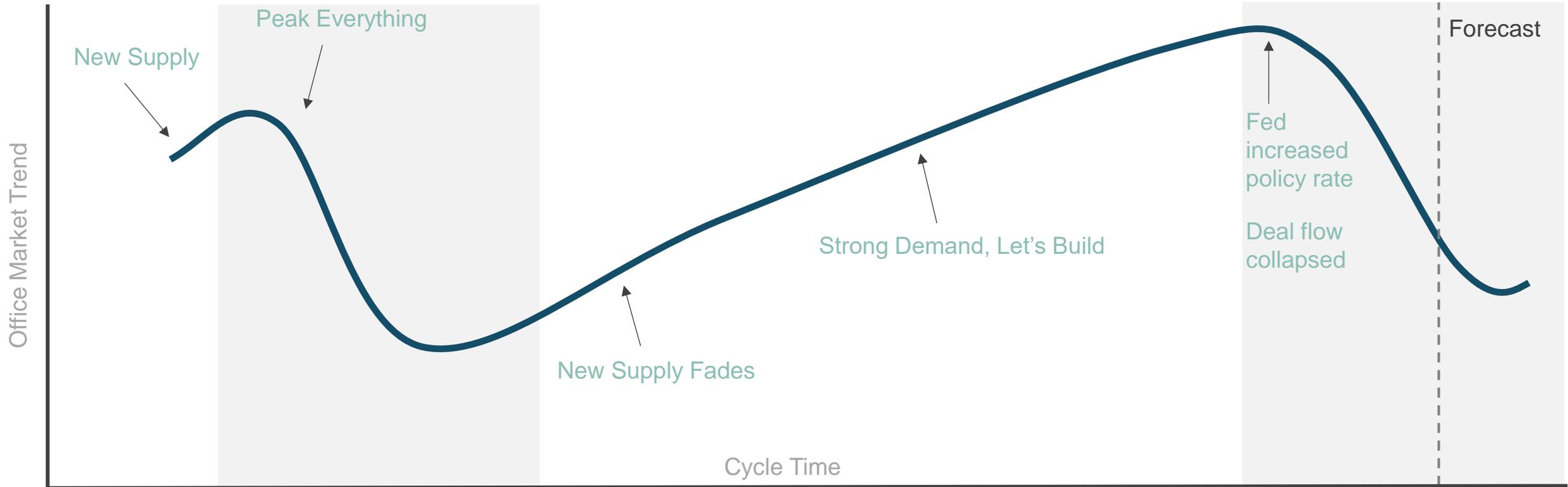
**“HISTORY DOESN’T REPEAT ITSELF,
BUT IT OFTEN RHYMES.”**



CRE Cycle Quadrants



A real-life cycle—U.S. office market



YEAR END	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Market Price Per SF	\$220.20	\$241.09	\$197.61	\$168.10	\$193.13	\$217.84	\$227.48	\$246.97	\$269.02	\$289.34	\$296.31	\$291.64	\$298.52	\$308.41	\$317.12	\$331.56	\$311.84	\$281.97	\$265.72	\$262.34	\$272.47
Market Cap Rate	7.1%	7.1%	8.2%	8.8%	8.0%	7.4%	7.2%	7.0%	6.7%	6.7%	6.7%	7.1%	7.3%	7.5%	7.3%	7.1%	7.7%	8.5%	8.7%	8.9%	8.6%
Sales Volume Y/Y		-38%	-72%	-28%	281%	8%	33%	34%	-14%	9%	-2%	-10%	-3%	25%	-38%	68%	-62%	-31%	66%		
Transactions	2,699	2,808	1,904	1,764	2,367	2,362	3,580	3,770	3,731	3,917	3,745	3,251	3,704	4,043	3,667	5,123	3,185	2,497	2,948		
Net Absorption MSF 12 Mo	129	91	31	-48	19	42	46	54	79	93	71	64	67	51	-68	-41	-6	-63	-22	-21	-2
Net Delivered MSF 12 Mo	104	117	115	78	38	18	16	23	29	49	46	58	49	61	50	54	41	35	25	32	8
Vacancy Rate	9.7%	9.9%	10.8%	12.3%	12.5%	12.1%	11.7%	11.3%	10.7%	10.1%	9.7%	9.5%	9.3%	9.3%	10.7%	11.7%	12.2%	13.3%	13.8%	14.4%	14.5%
Market Asking Rent Growth 12 Mo	8.6%	10.4%	-1.0%	-9.7%	-3.1%	1.7%	3.4%	3.7%	5.4%	5.7%	3.3%	2.8%	3.4%	4.1%	-1.7%	0.8%	1.4%	1.2%	1.1%	1.1%	1.1%
Unemployment Rate	4.4%	4.8%	6.9%	9.9%	9.5%	8.6%	7.8%	6.9%	5.7%	5.0%	4.8%	4.2%	3.8%	3.6%	6.8%	4.2%	3.6%	3.8%	4.1%		

Note: The trendline is approximate and meant for illustration only to represent sales activity, pricing, and fundamentals. The highlighted text indicates periods of inflection, in which 2009 represented the lows for many indicators during the Great Recession. Values in 2025 and 2026 are based on CoStar's House View forecast.

Source: CoStar; Federal Reserve, August 2025.

Key drivers of the cycle



GDP Growth

Rising GDP correlates with increased demand



Rent Growth

Output of supply, demand, and vacancy



Rates

Shaped by growth, inflation, and policy



Sentiment

Spreads reflect market risk appetite



Sales Volume

Transaction activity expresses optimism

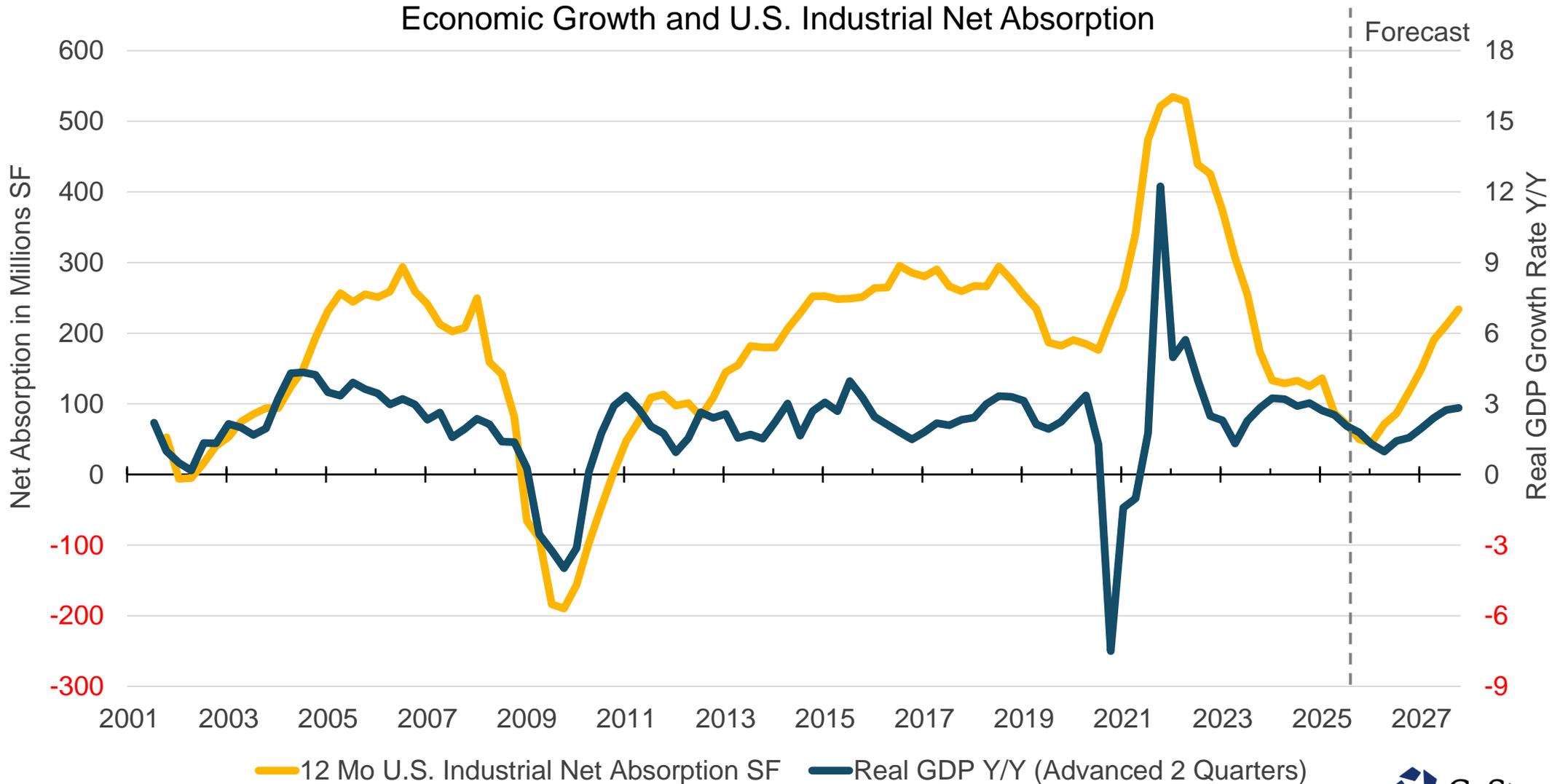


Prices

Follow transaction volume

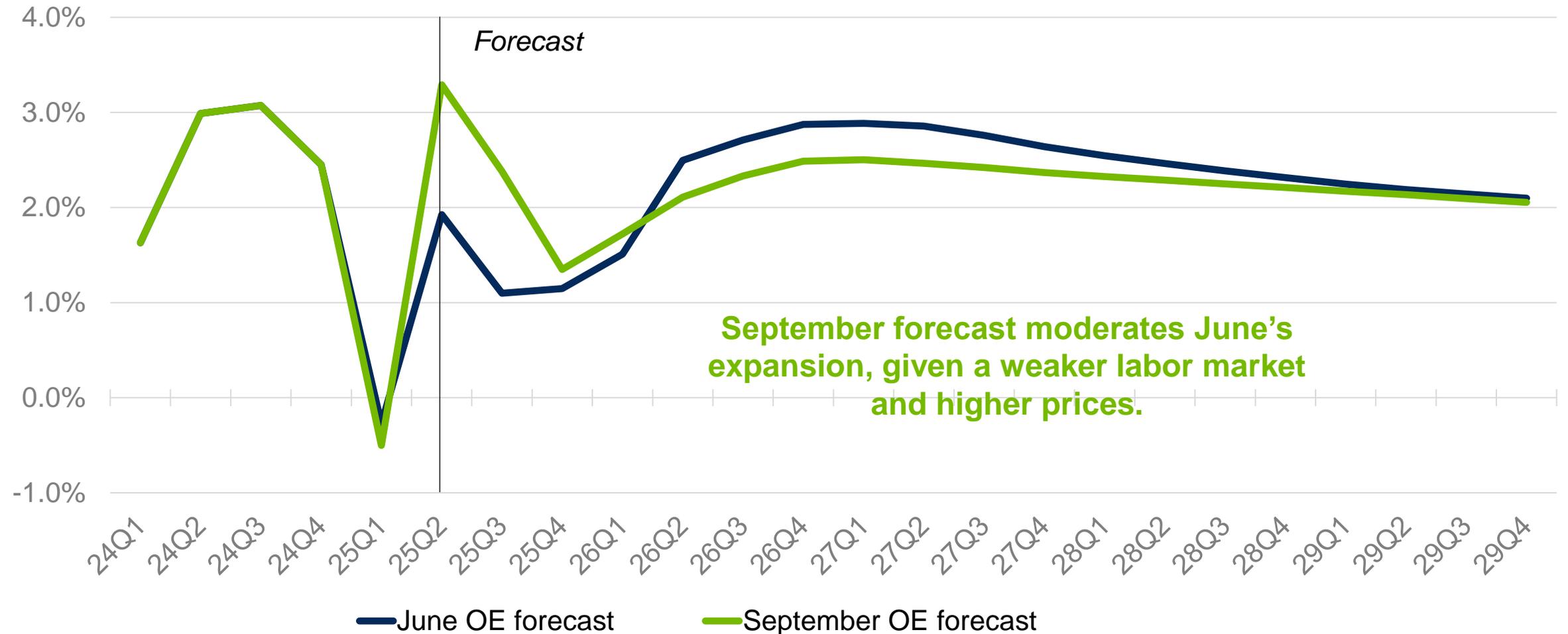
Economic growth rate cycle leads CRE demand

GDP Growth



Fiscal policies will boost growth

Gross Domestic Product Change from Previous Quarter

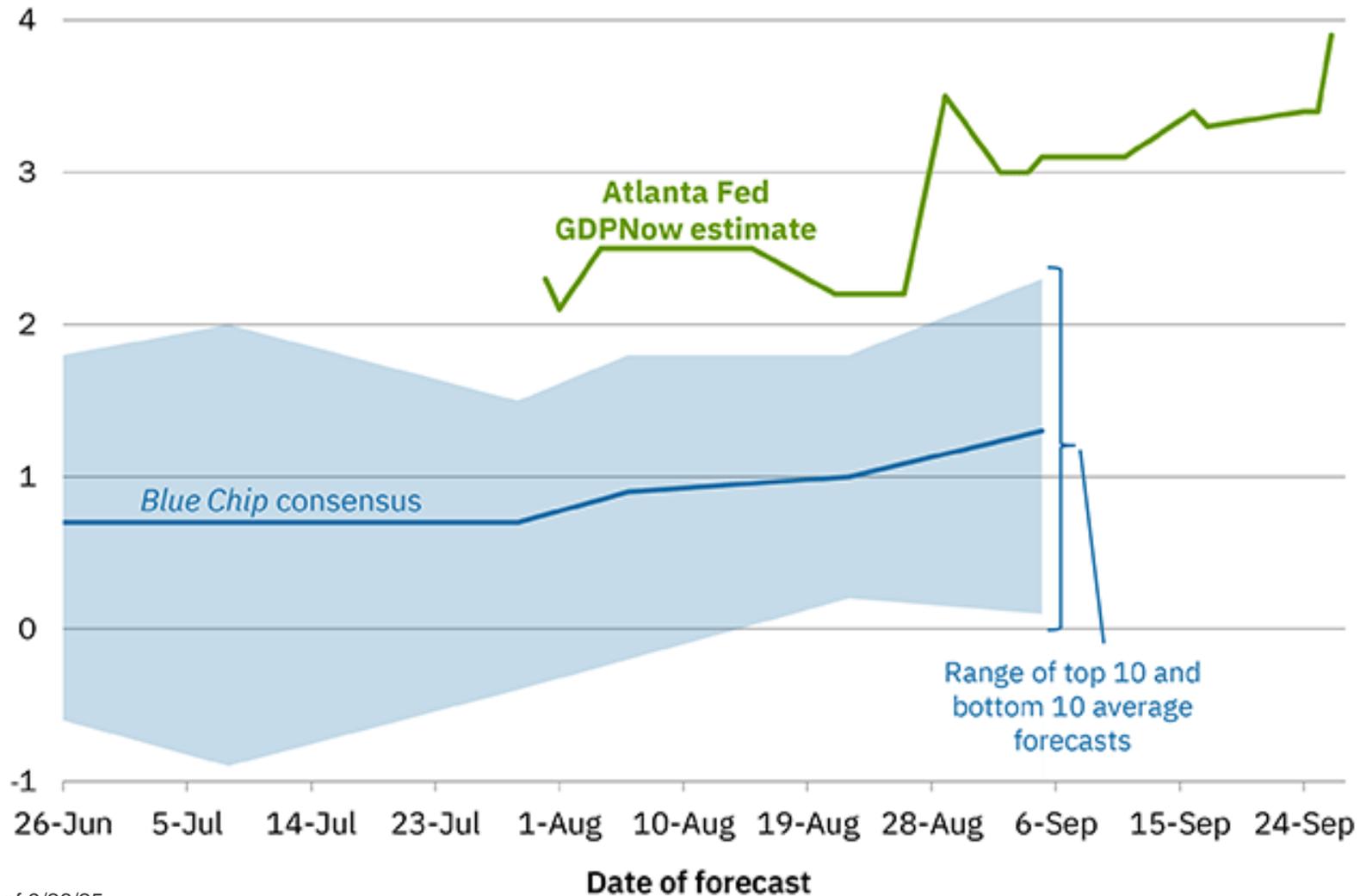


Sources: Bureau of Economic Analysis, Oxford Economics (September 2025)

GDP estimates continue to be revised higher

Evolution of Atlanta Fed GDPNow real GDP estimate for 2025: Q3

Quarterly percent change (SAAR)



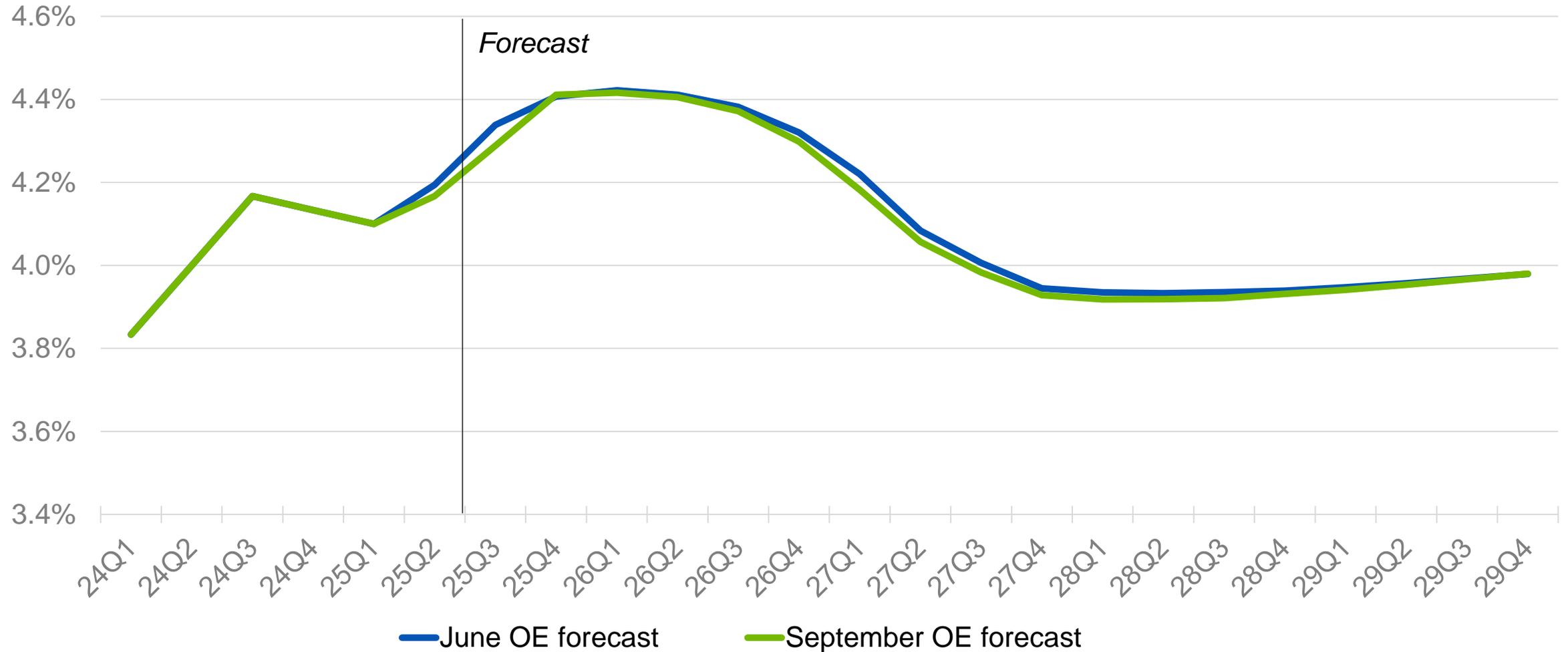
Unemployment rate unchanged from one year ago



Source: U.S. Bureau of Labor Statistics U-3 measure of labor underutilization, Oxford Economics.

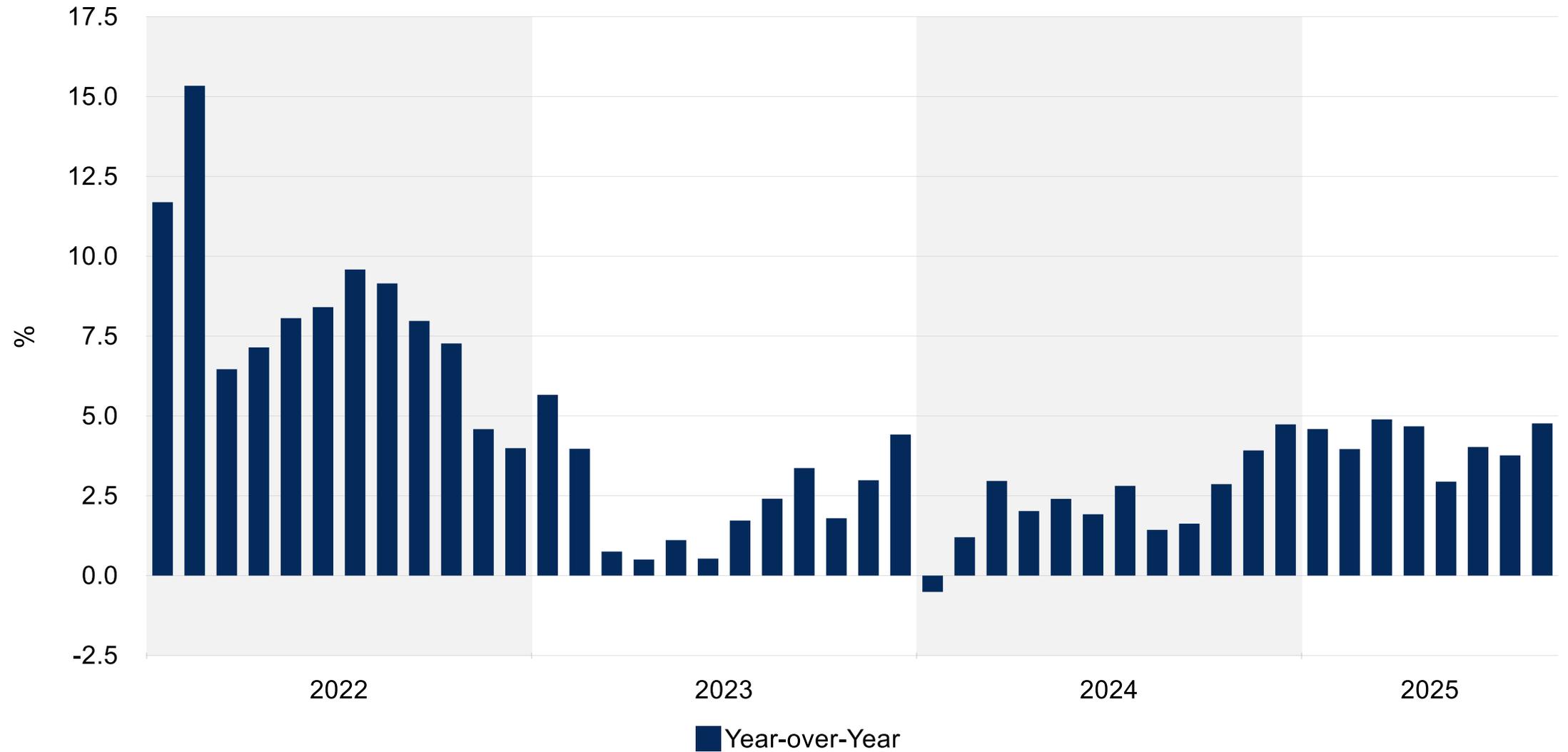
Unemployment rate to rise, but weak labor supply to keep it low

Total Employment Growth Y/Y



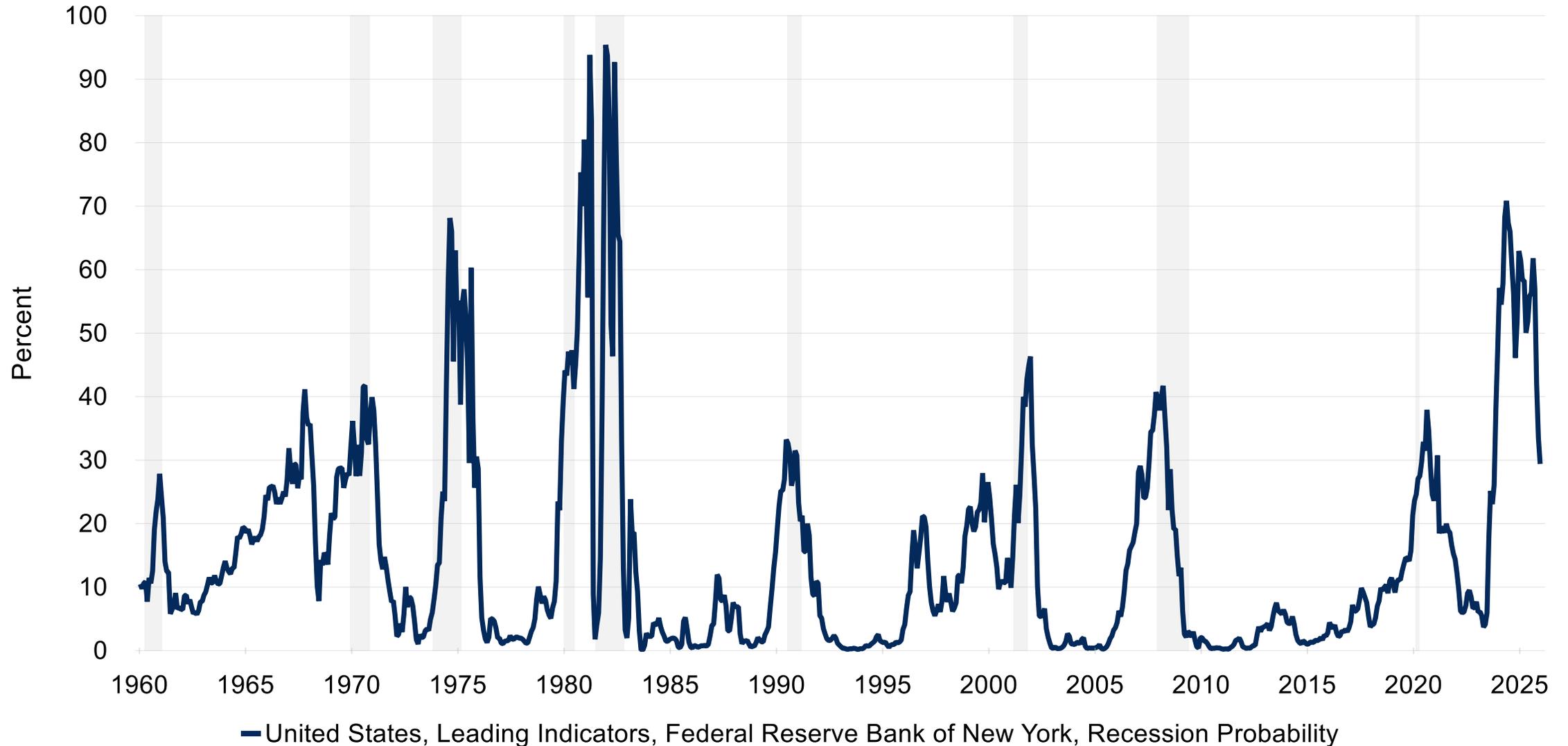
Sources: Bureau of Economic Analysis, Oxford Economics, September 2025

Retail sales growth still positive



Source: CoStar, U.S. Census Bureau, 8/2025

Growth concerns are easing

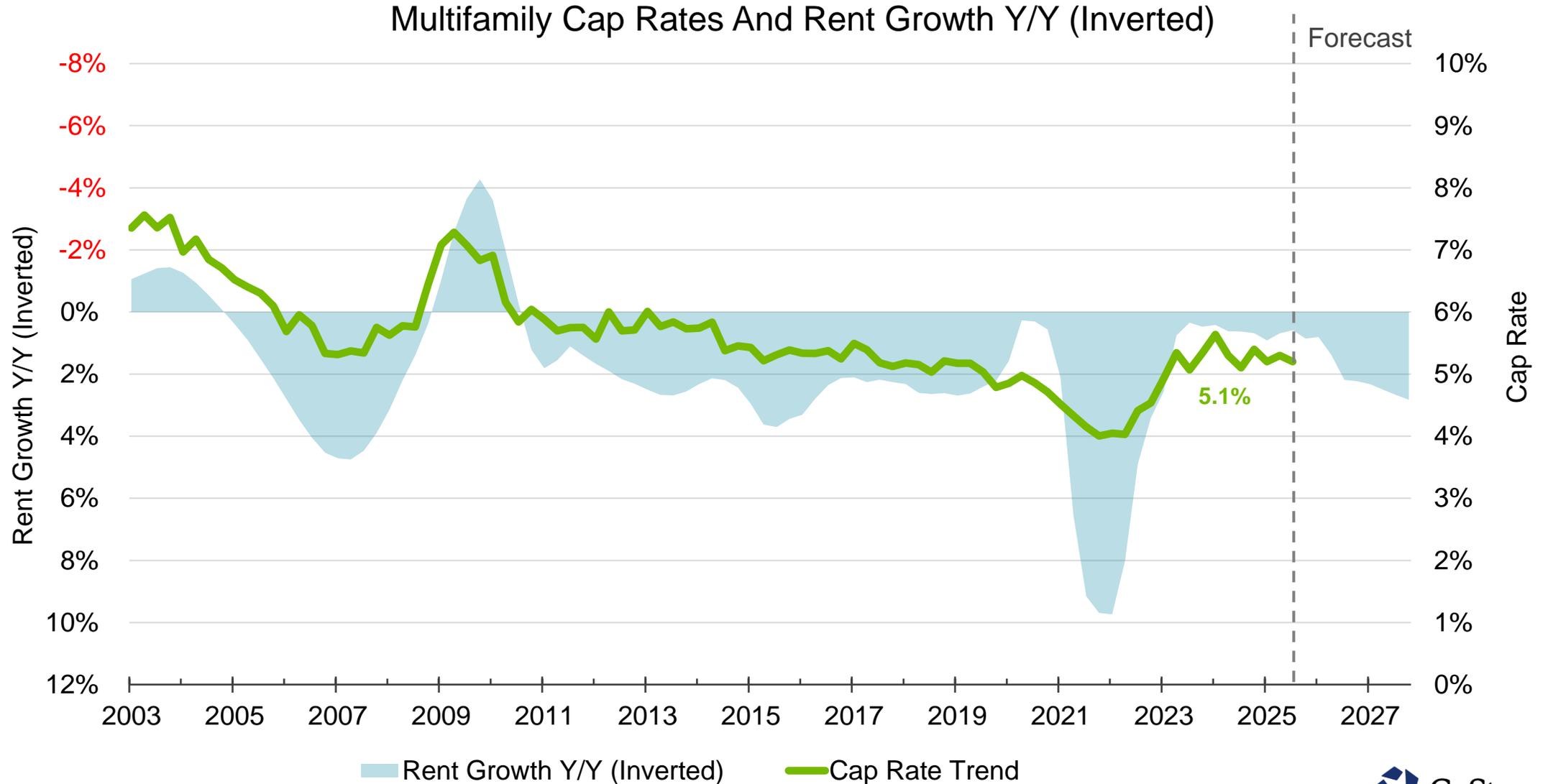


Source: Federal Reserve Bank of New York, 8/2026

Rent growth is a primary driver of cap rates



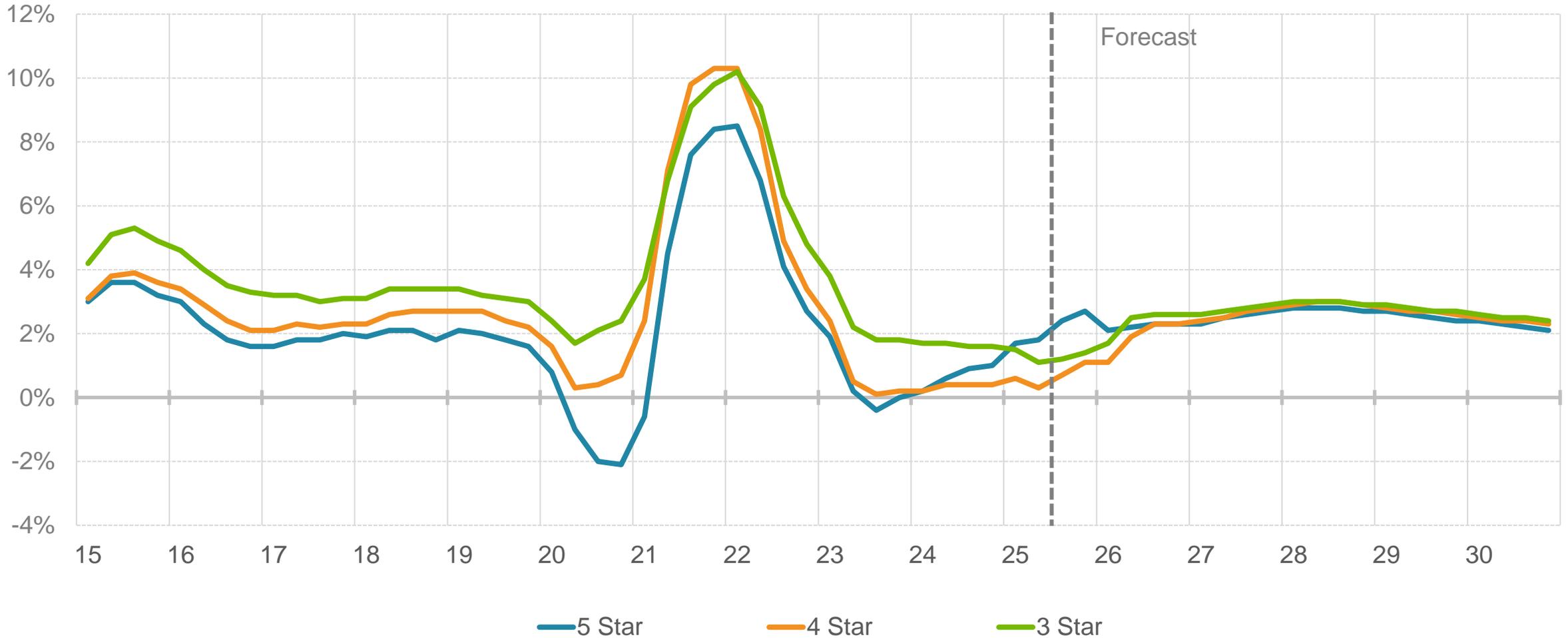
Rent Growth



Source: CoStar, September 2025; deals over \$10M; 4/5-star Multifamily over 50 units.

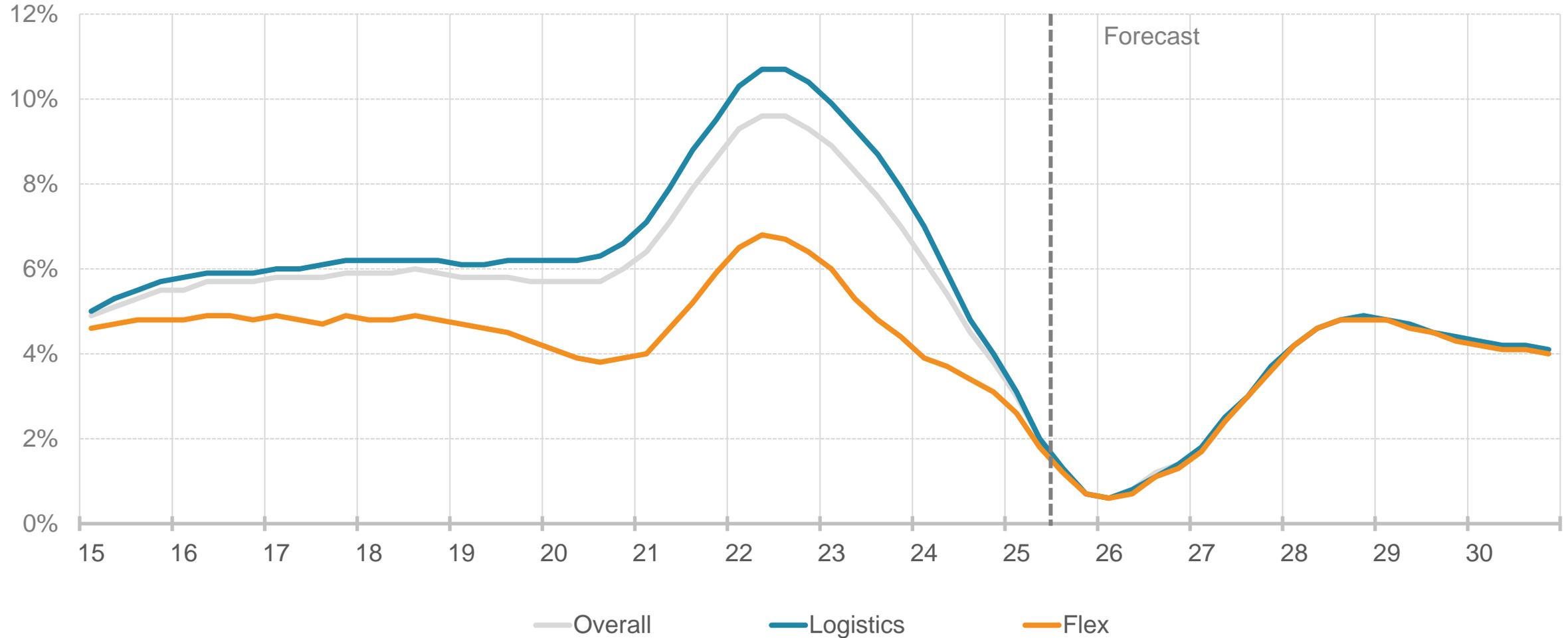
5 Star rent growth has been accelerating since mid-2023

Multifamily Annual Rent Growth



The low in rent growth was pushed out to 26Q1

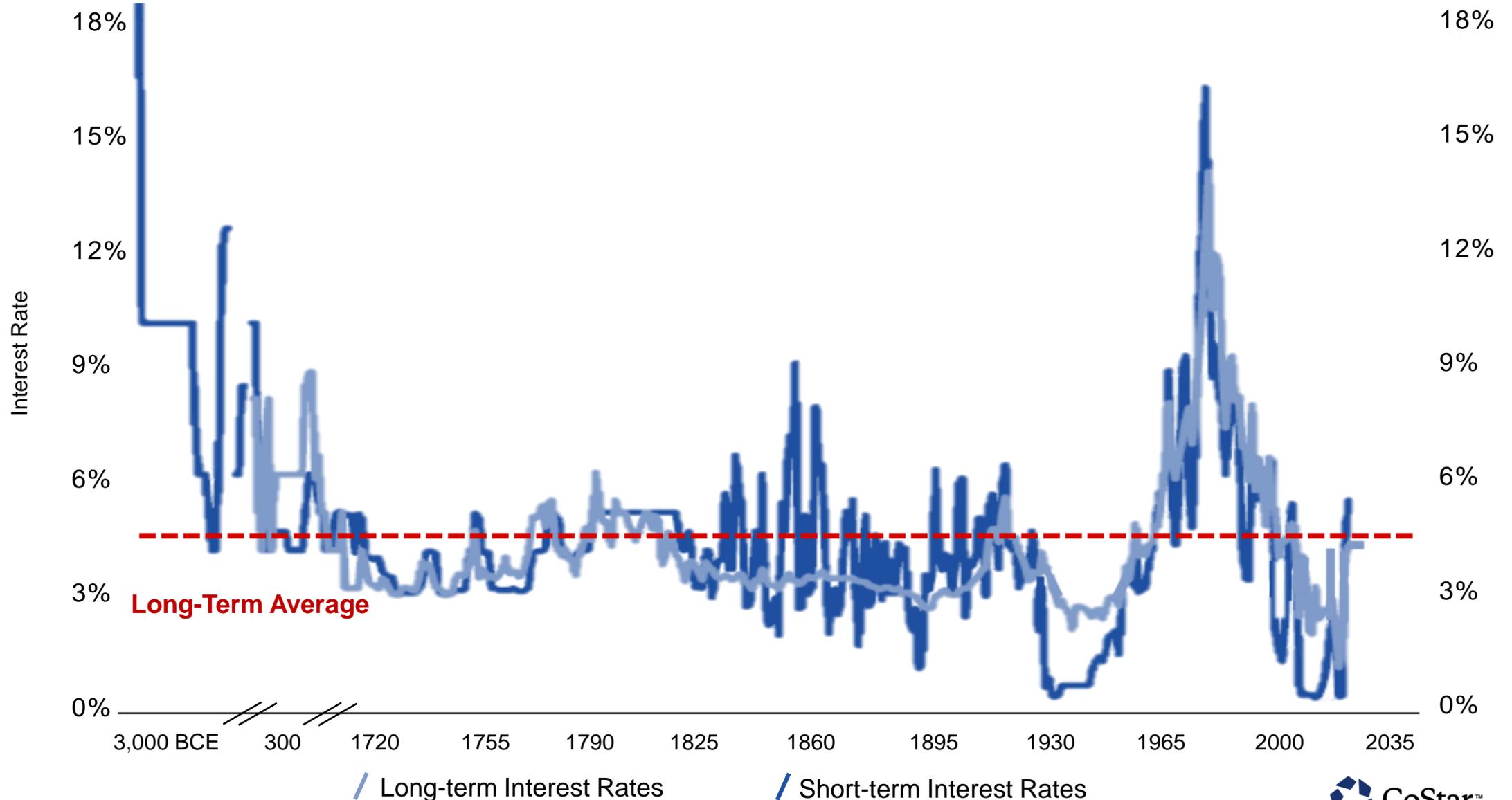
Industrial Annual Rent Growth



We're back to average interest rates over the last 5,000 years

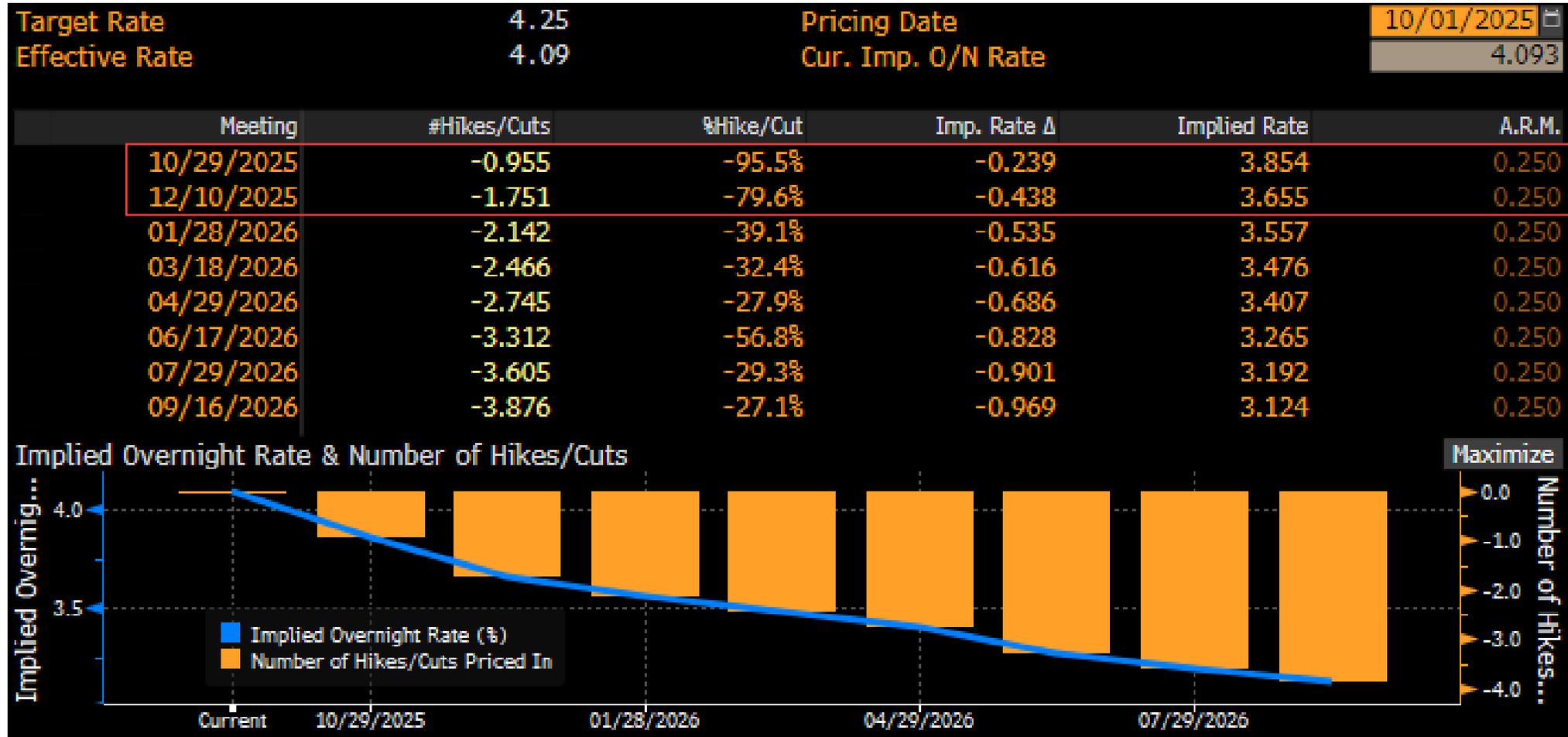


Rates

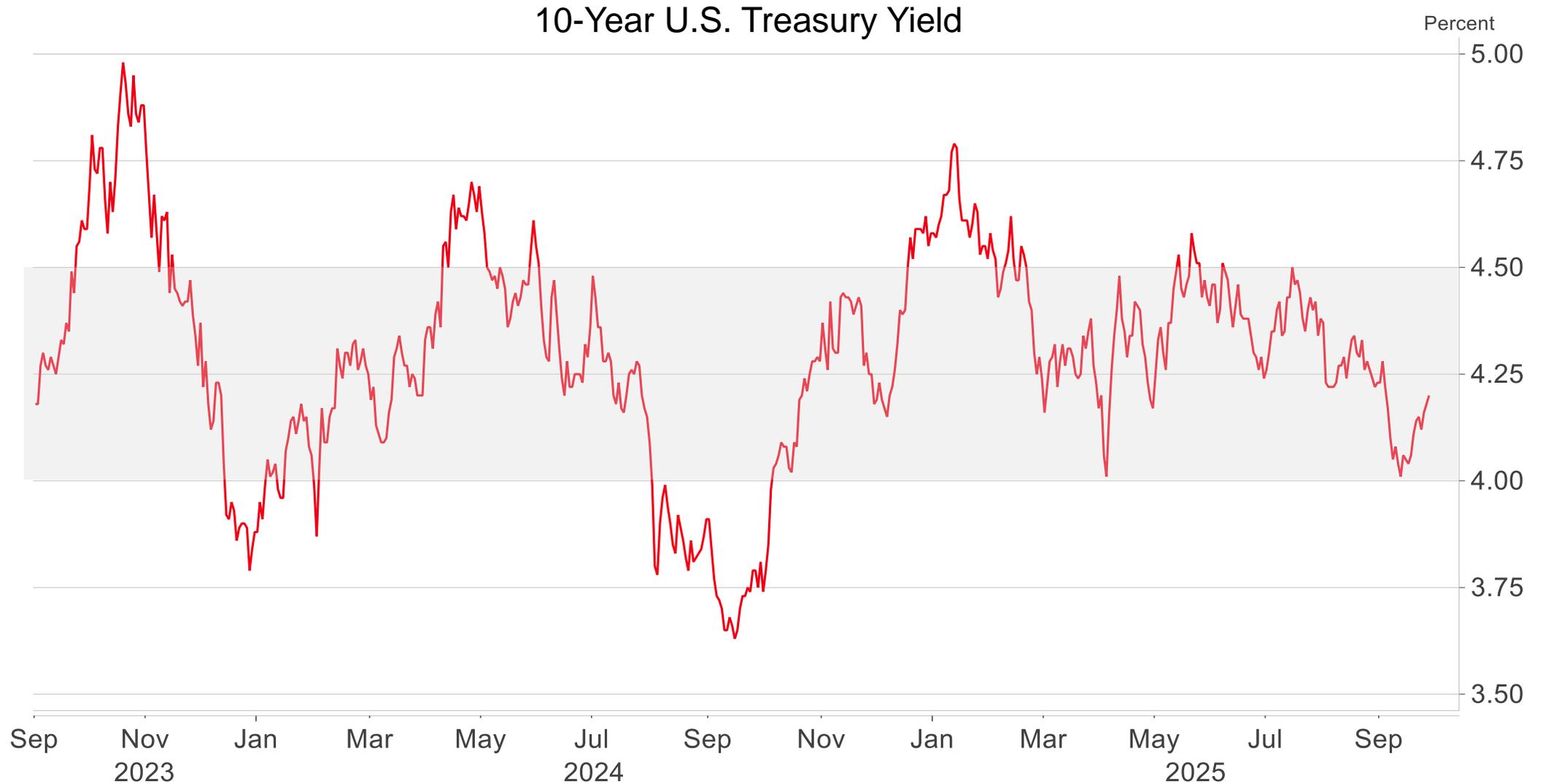


Sources: Bank of America, The Public Domain Review, Staatsbibliothek Berlin, Trustnet

Market is pricing in two more rate cuts this year



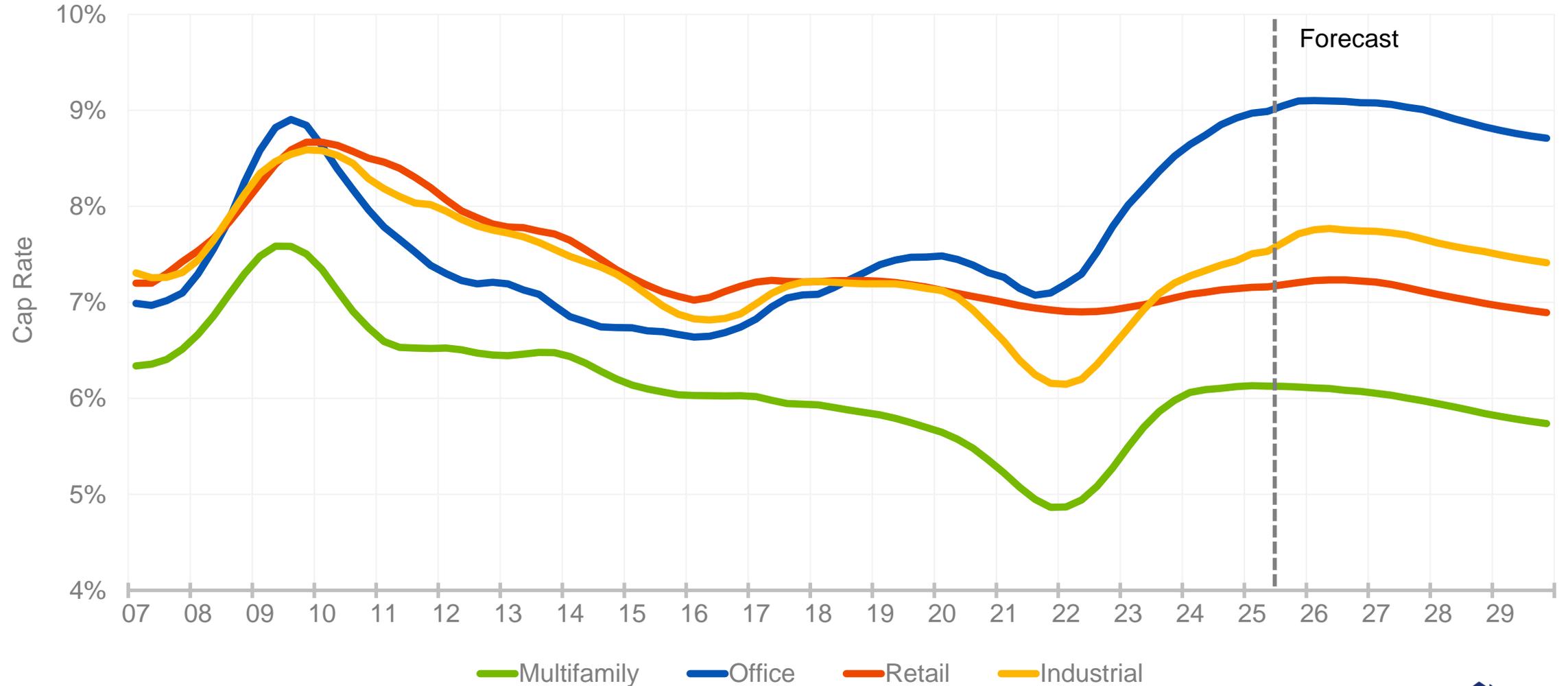
Noisy yes, but basically unchanged in two years



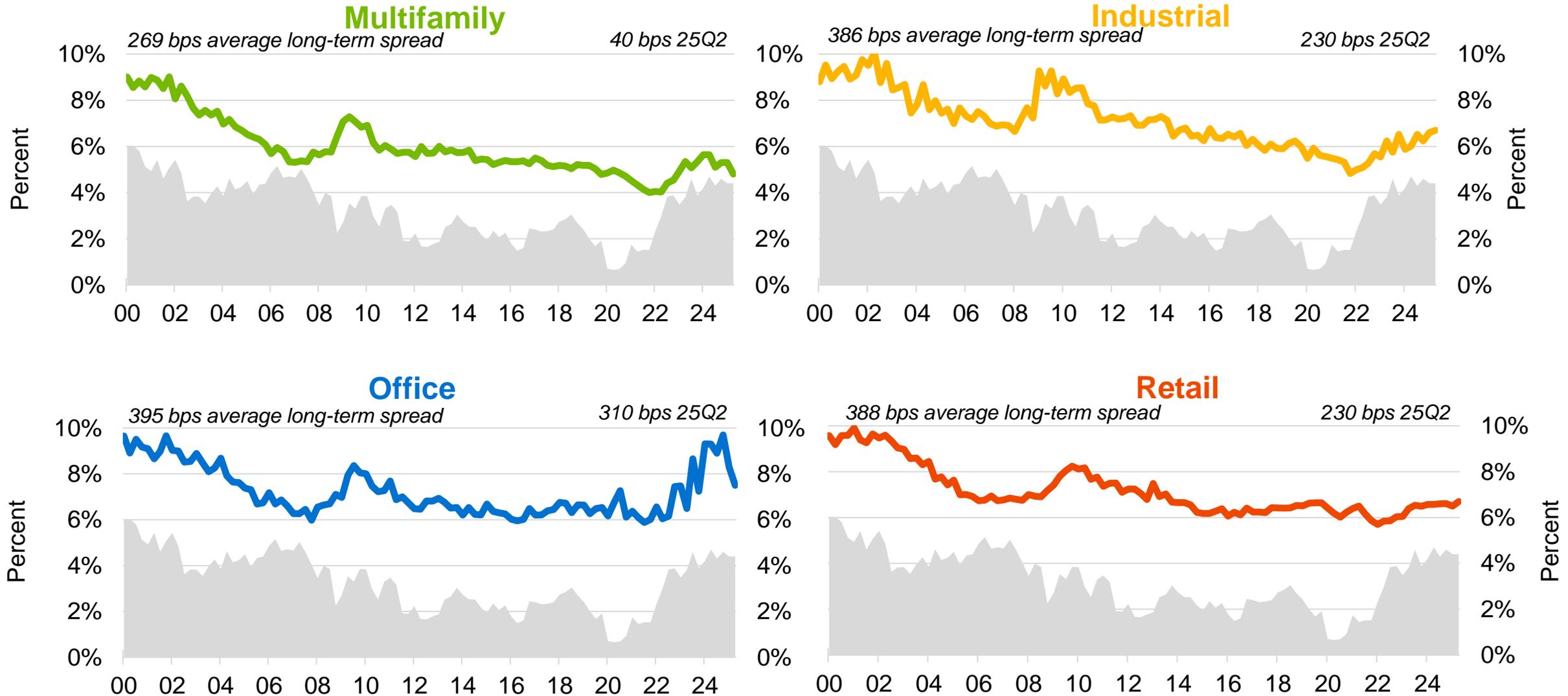
Source: Macrobond

Cap rates are in a topping process

Market Cap Rate Trends

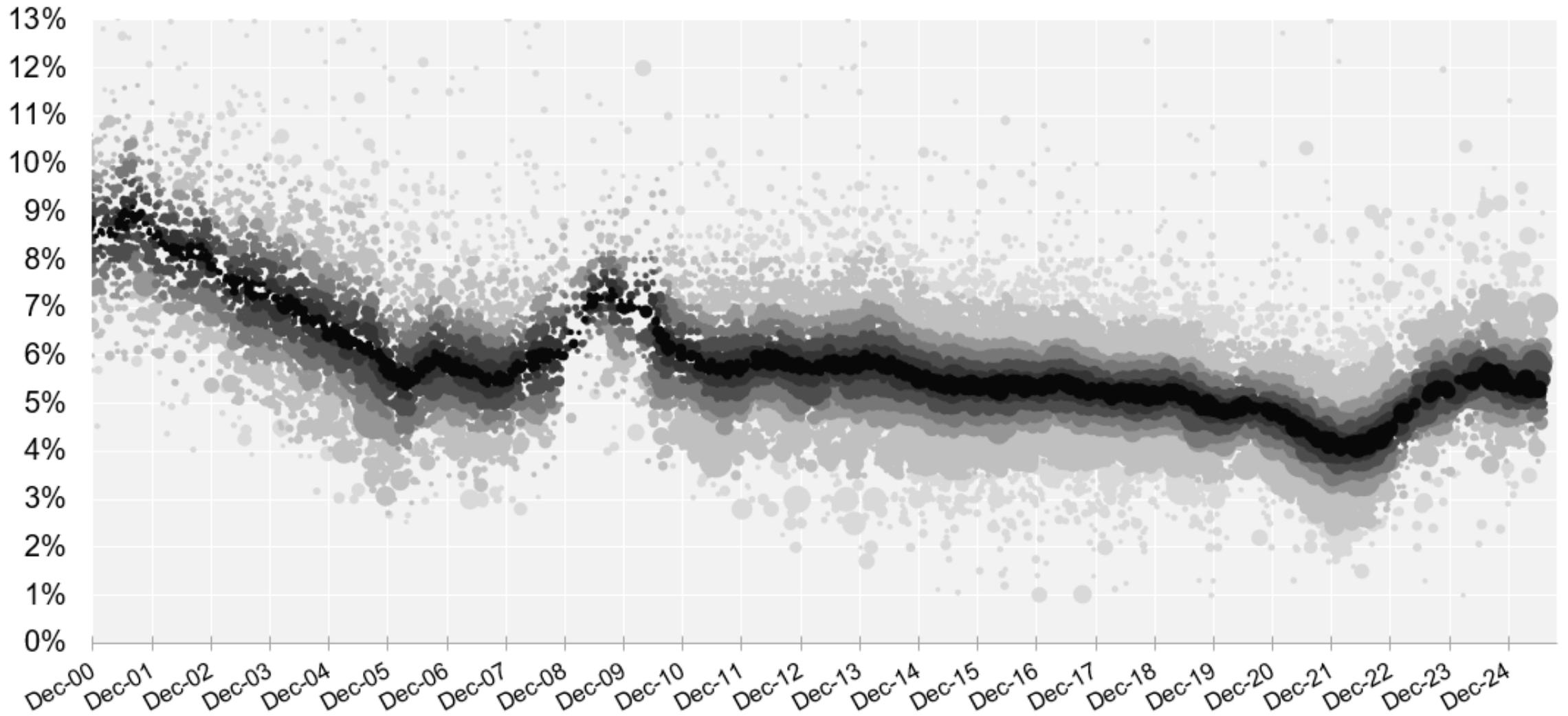


Cap rates are in the process of peaking



Note: Deals over \$10M; 4/5 Star Multifamily over 50 units; 3/4/5 Star industrial over 100,000 SF; 4/5 Star office; retail deals over \$5M.
Source: CoStar, May 2025

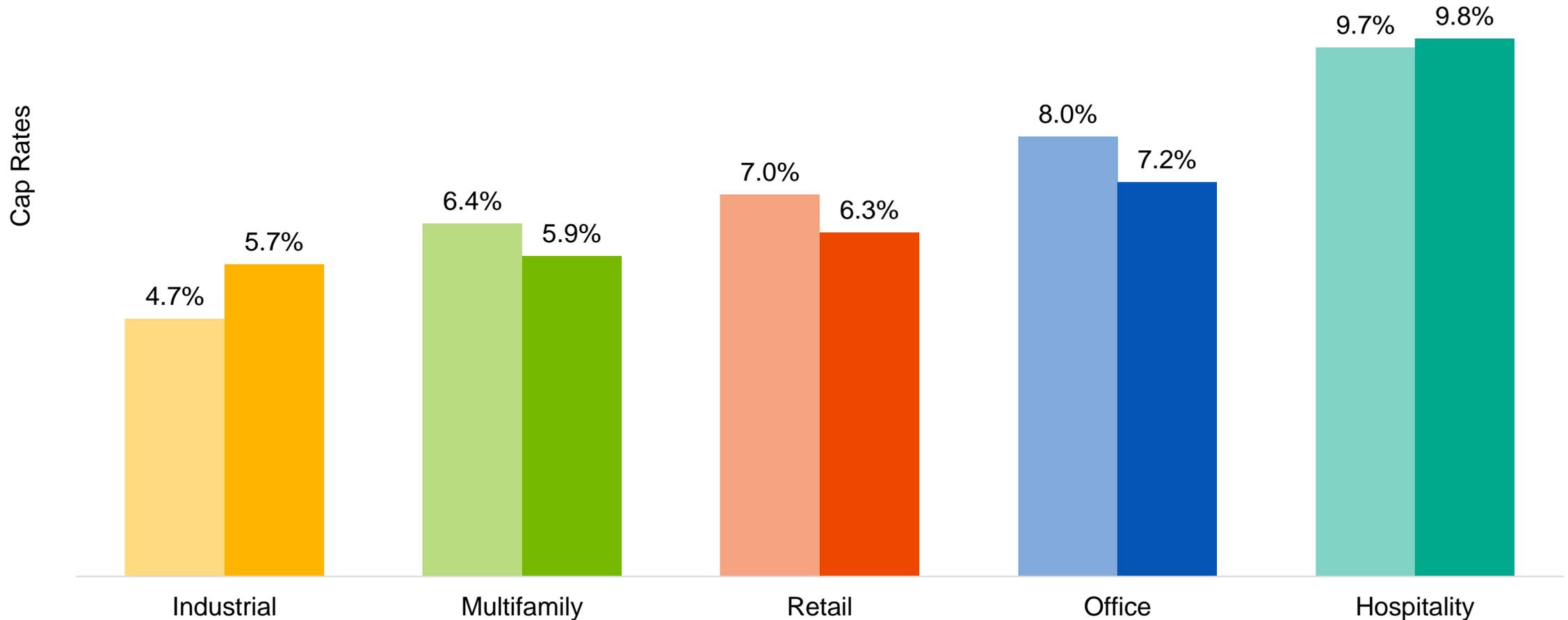
Multifamily Cap Rates



Source: CoStar, as of August 2025
Only includes sales of properties selling for \$10 million or more

Excluding industrial, implied cap rates have stopped increasing

Public Equity REIT Implied Yields



Source: Nareit T-Tracker as of 25Q2

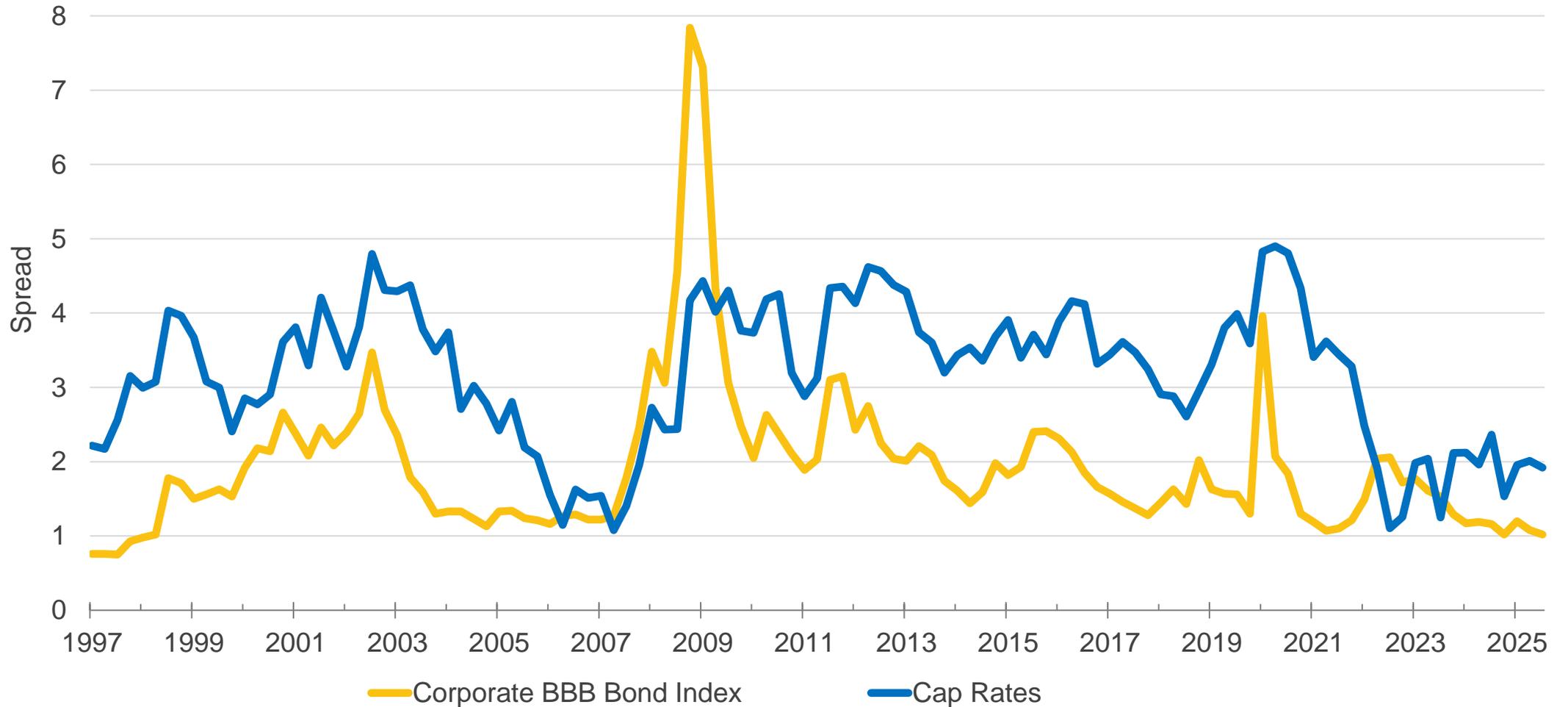
■ 23Q1 ■ 25Q2

Tighter spreads lead cap rates lower



Sentiment

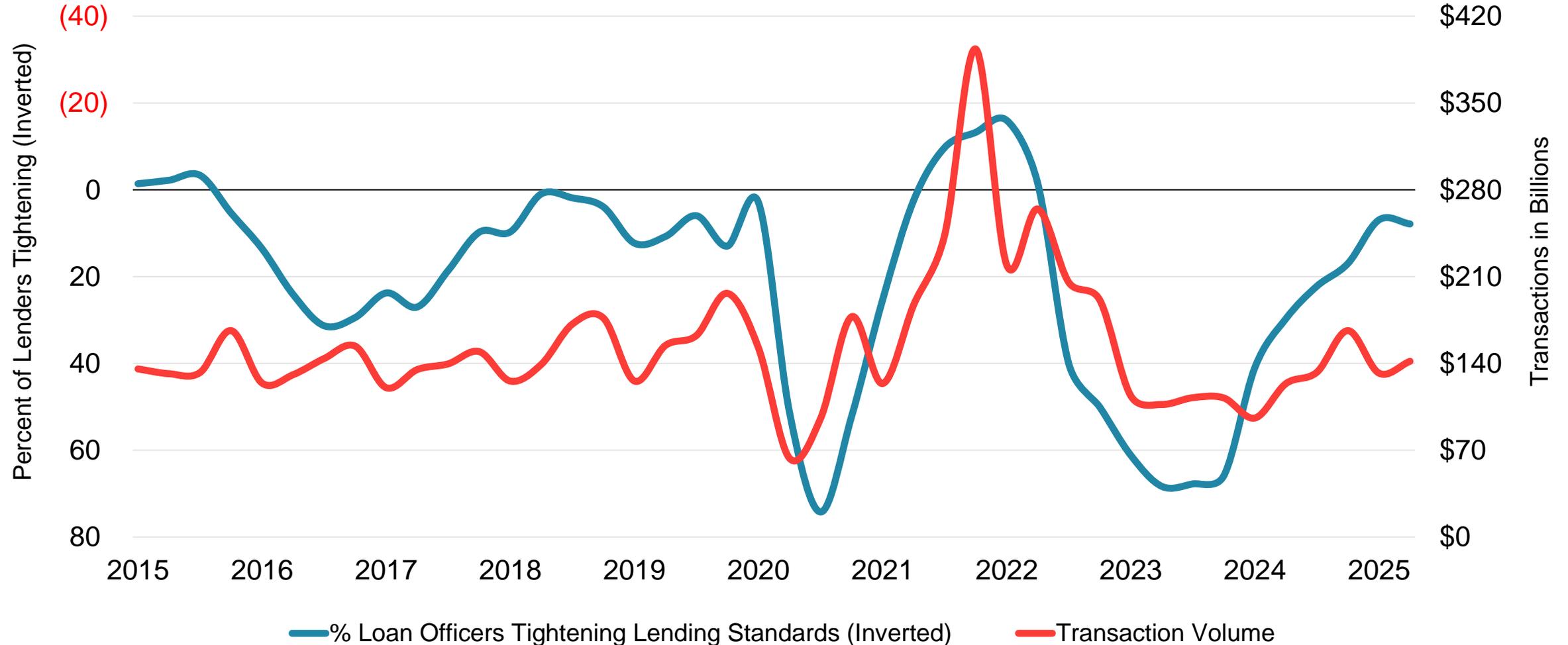
Spread Over 10-Year U.S. Treasury



Source: CoStar, August 2025; Board of Governors of the Federal Reserve System (US)

Lending is less tight, but negative net absorption remains

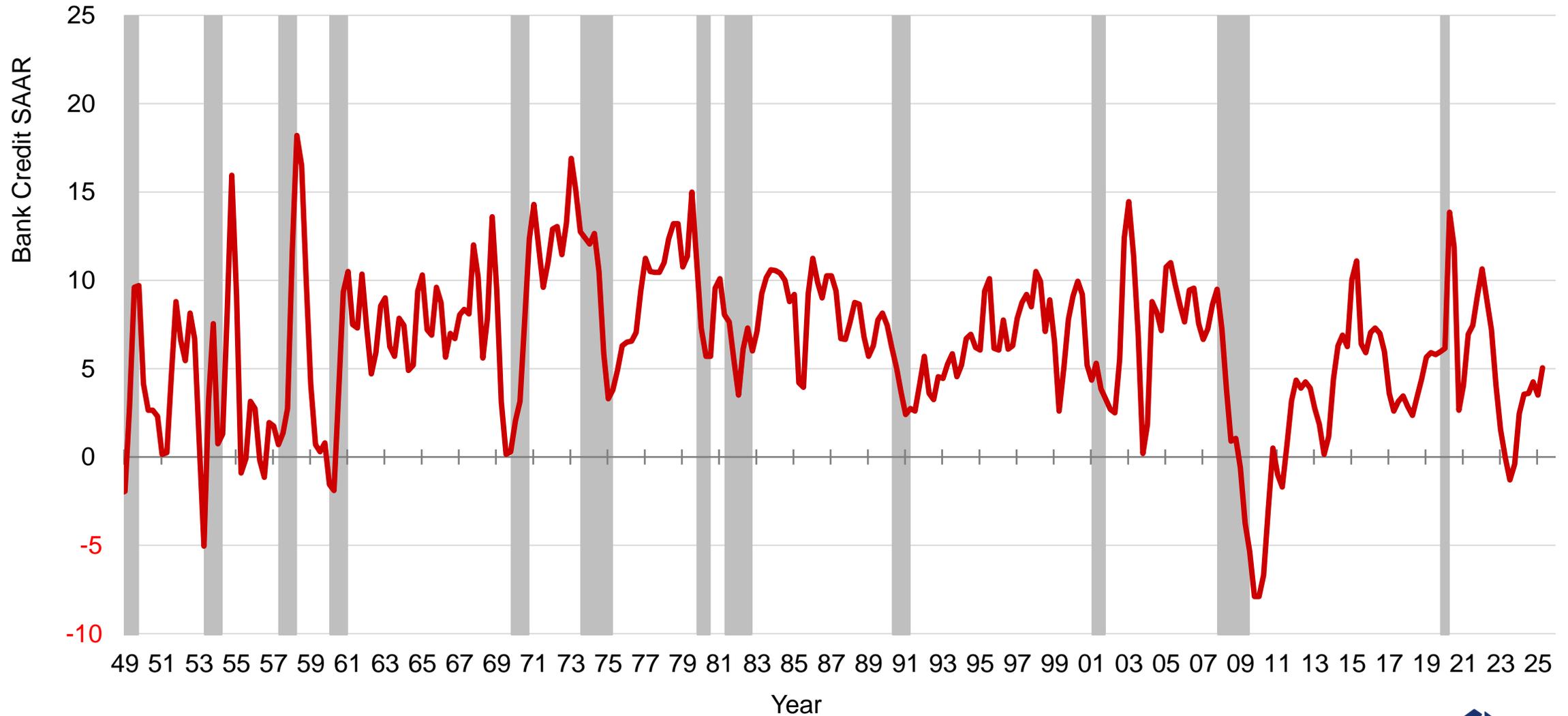
Loan Standards And Transaction Volume



Source: Board of Governors of the Federal Reserve System (SLOOS); 2013 onward averages nonfarm, multifamily, and construction; July 2025 (With data through Q2 2025; sale volume for transactions recording during and after the quarter).

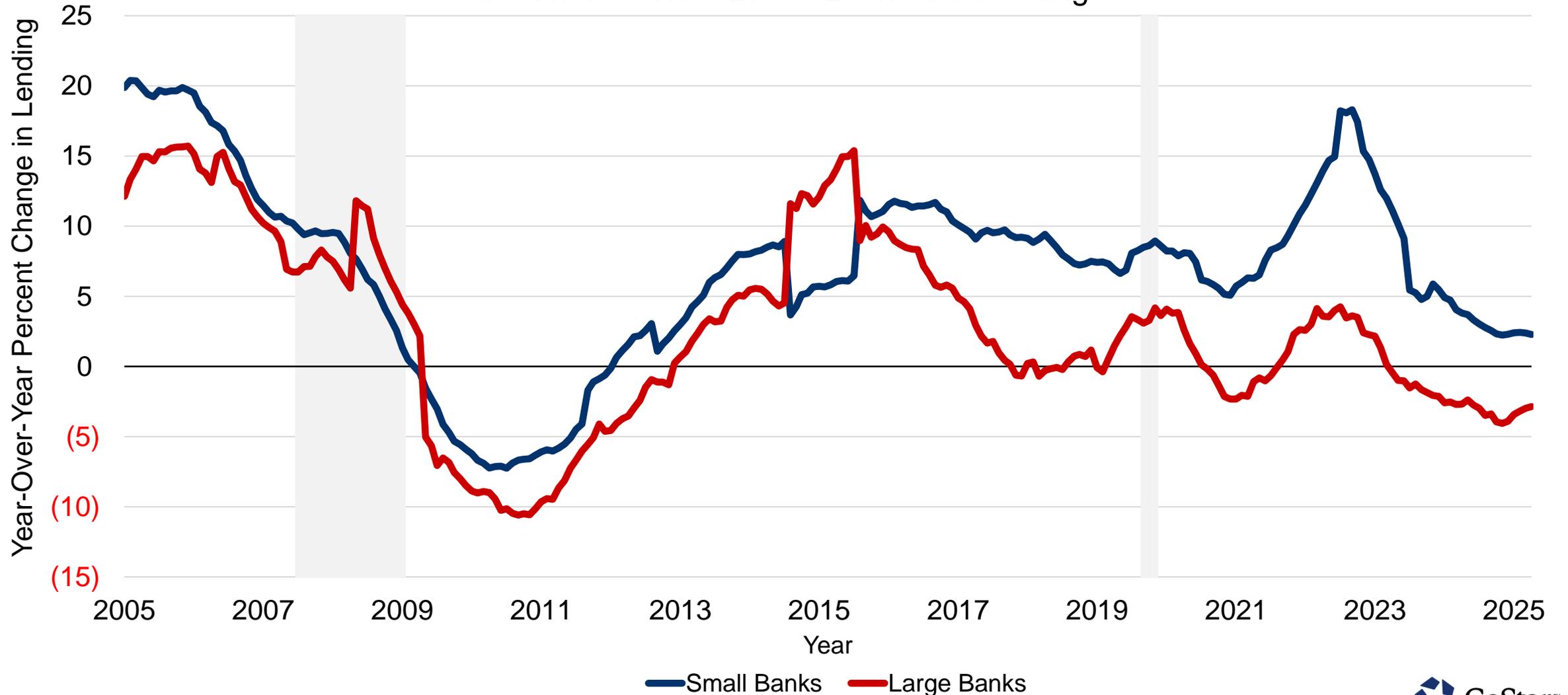
Bank credit growth turned positive in 2024

Bank Credit, All Commercial Banks



Declines in loan growth have stabilized

Commercial Real Estate Loans Outstanding

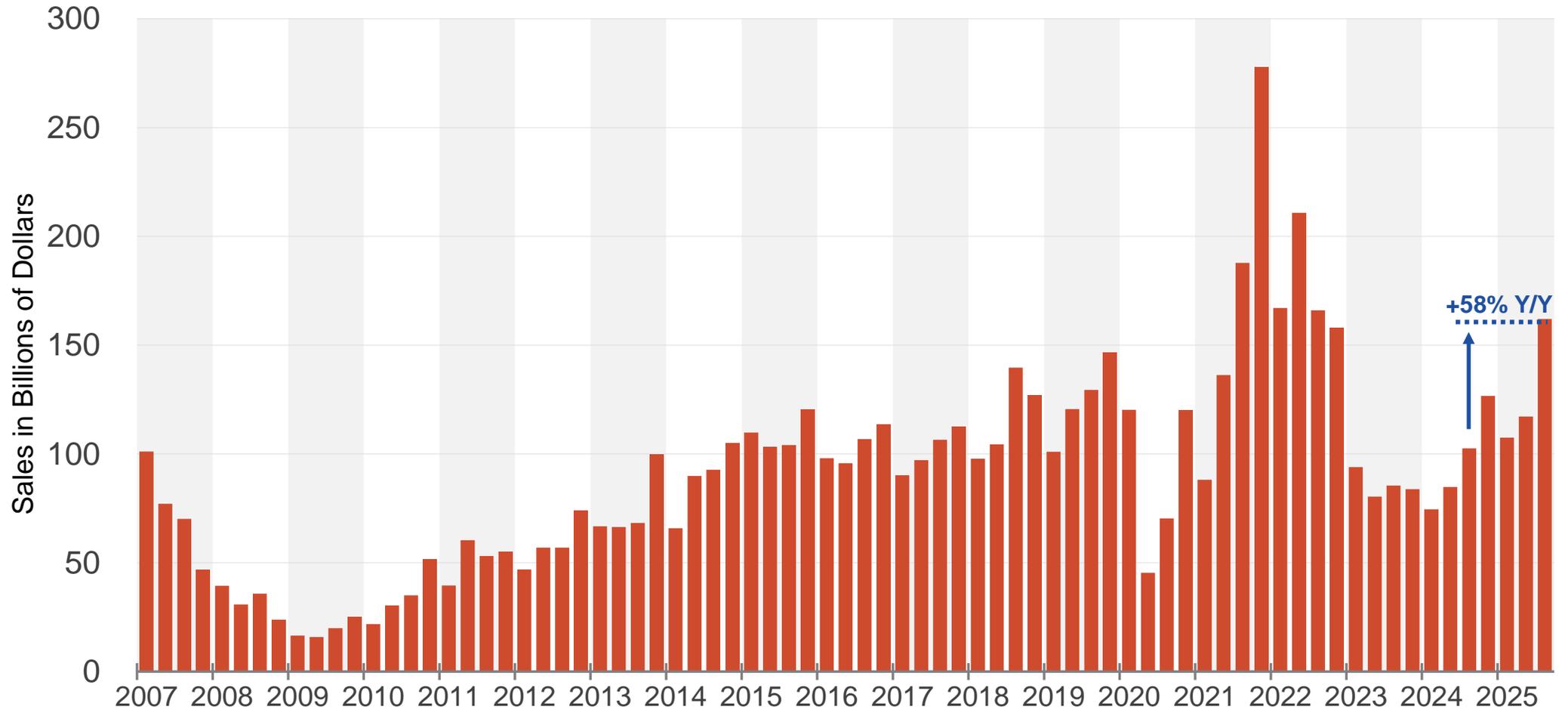


Source: CoStar, August 2025; Board of Governors of the Federal Reserve System (US), Real Estate Loans

Year-over-year sales volume rose 58% in Q3 2025



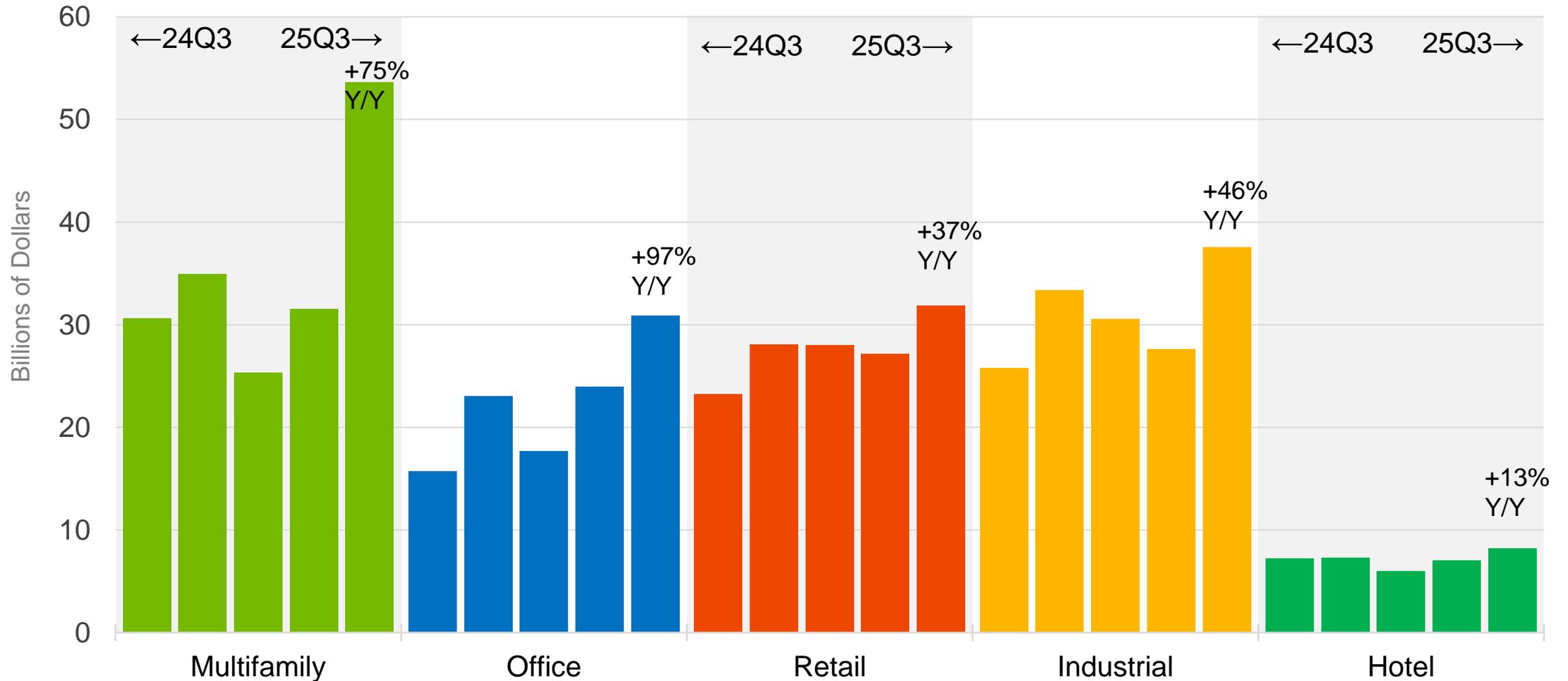
CRE Transaction Volume



Source: CoStar, September 2025; includes multifamily, office, retail, industrial and hotel transactions recorded during the quarter (7/1/25-9/30/25)

All property sectors see transaction volumes rise Y/Y

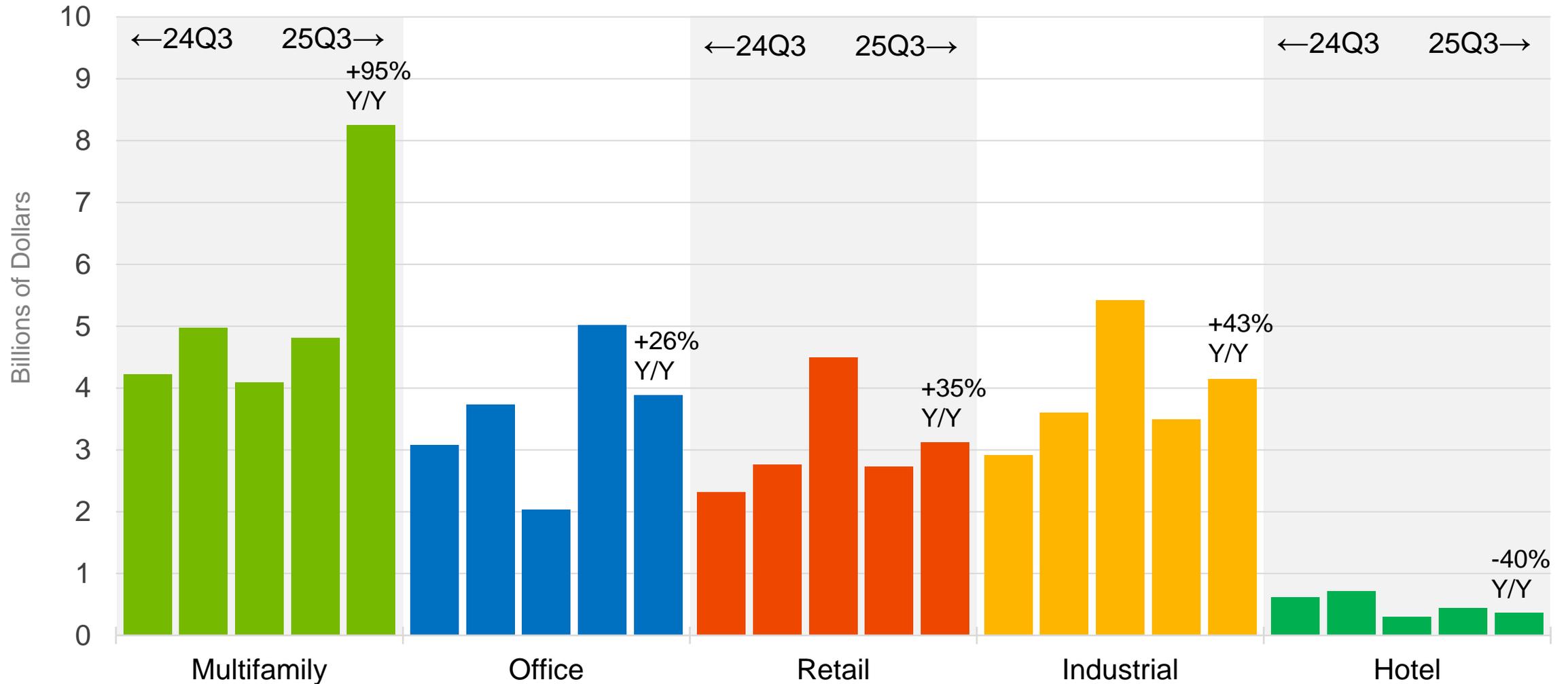
Quarterly Commercial Real Estate Sales Volume



Source: CoStar, September 2025; transaction data collected during the quarter; includes multifamily, office, retail, industrial and hotel

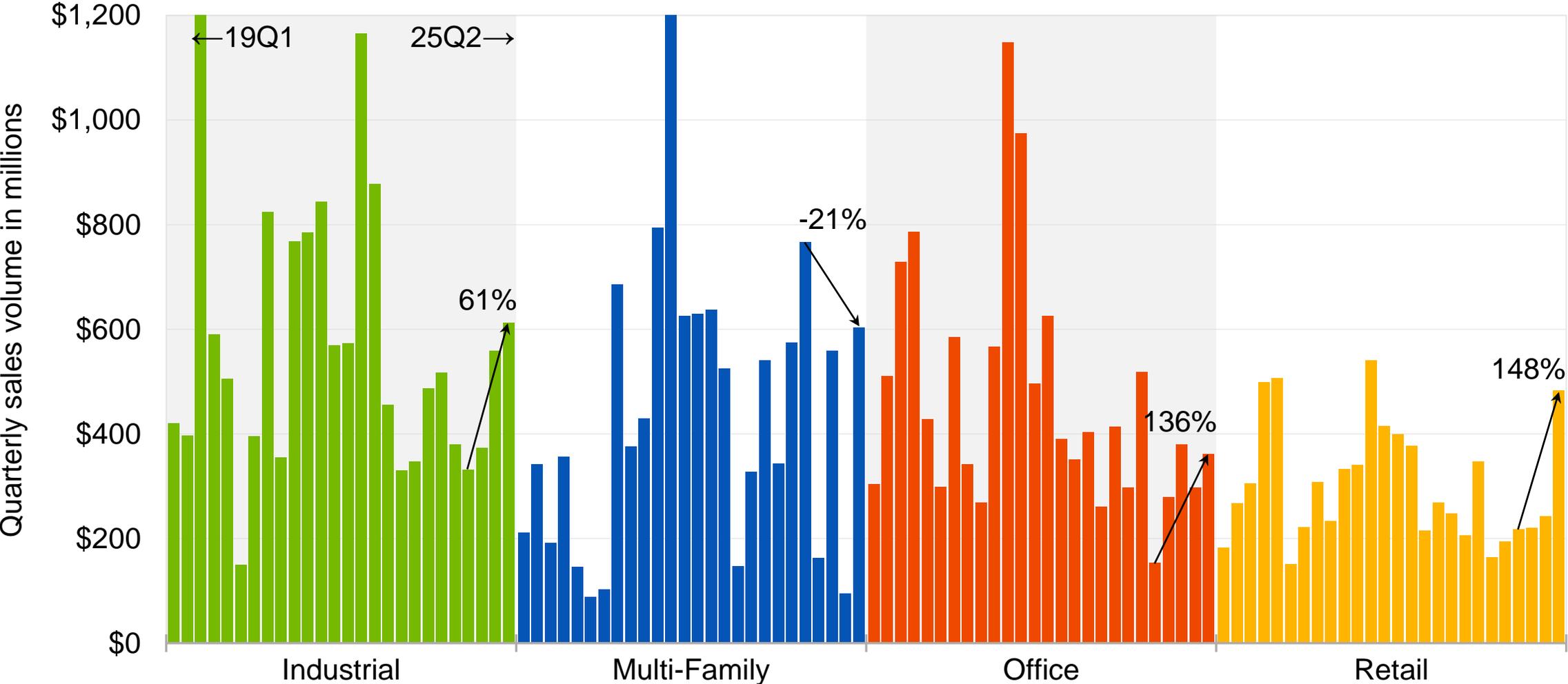
Golden State sectors see transaction volumes rise Y/Y

Quarterly Commercial Real Estate Sales Volume



Source: CoStar, September 2025; transaction data collected during the quarter; includes multifamily, office, retail, industrial and hotel East Bay, Inland Empire, Los Angeles, Orange County, Sacramento, San Diego, San Jose, Ventura

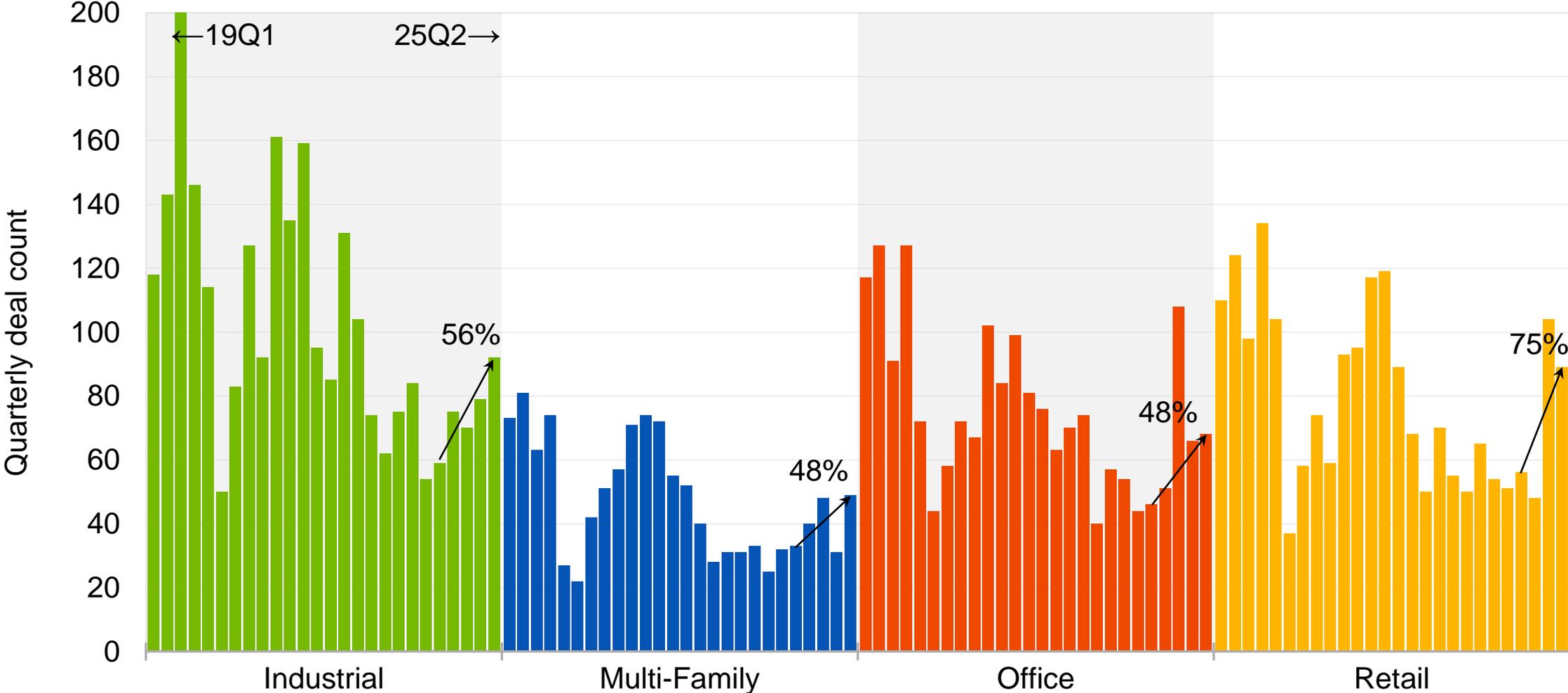
OC office and retail sales volume soars over 100% year over year



Source: CoStar, September 2025; transaction data collected during the quarter and post-quarter end



OC sales velocity rises across all property types led by retail



Source: CoStar, September 2025; transaction data collected during the quarter and post-quarter end



Rolling sales volume accelerating across property types

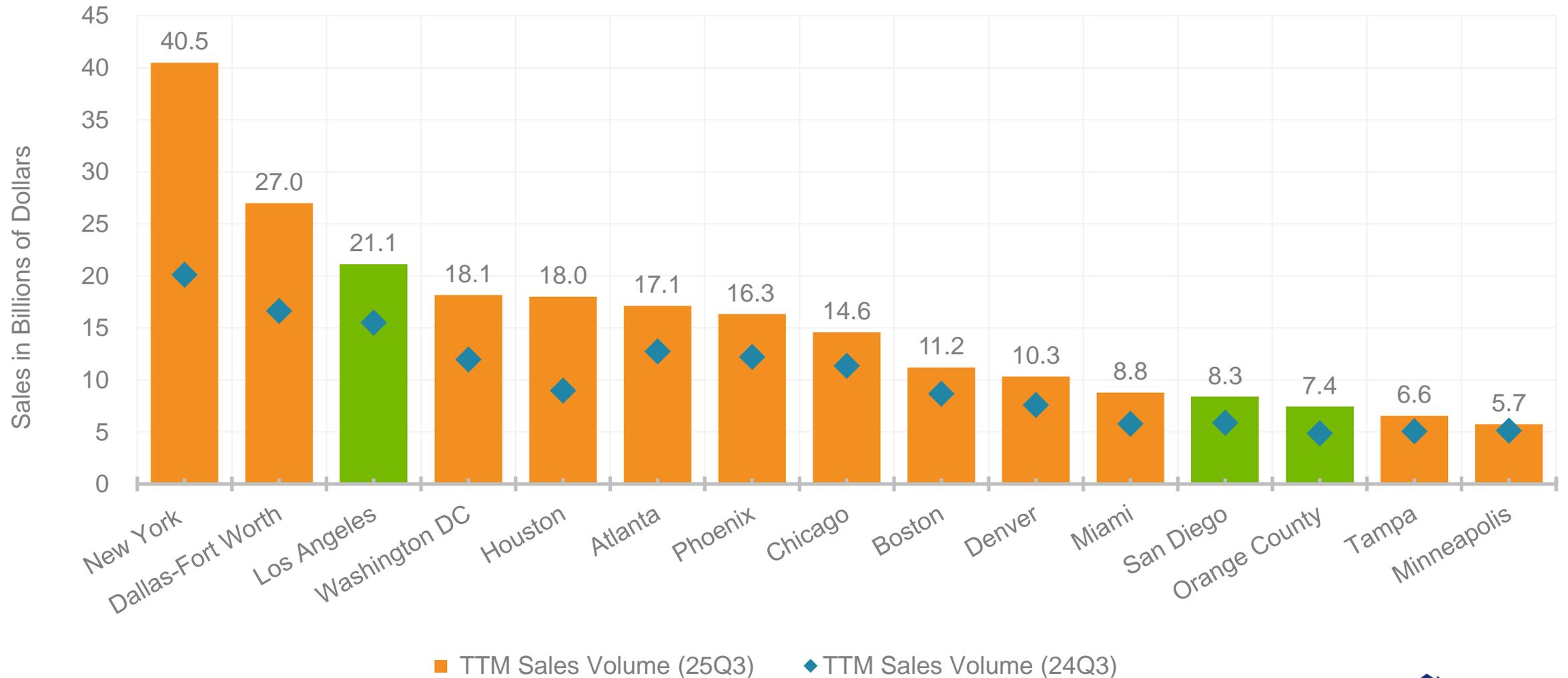
Trailing 12-Month Sales Volume



Source: CoStar, September 2025; transaction data collected during the quarter.

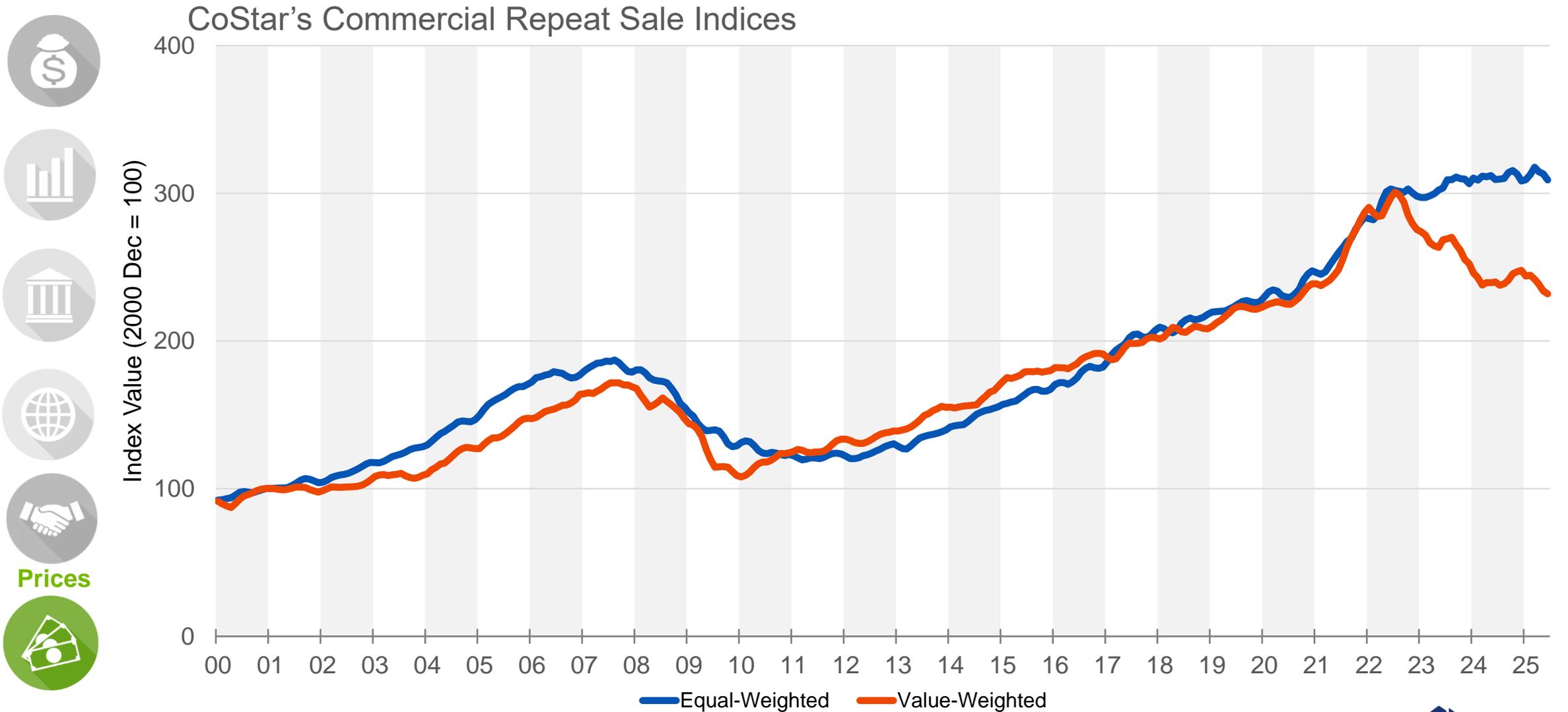
Deal flow is increasing in major markets

Commercial Real Estate Sales Volume



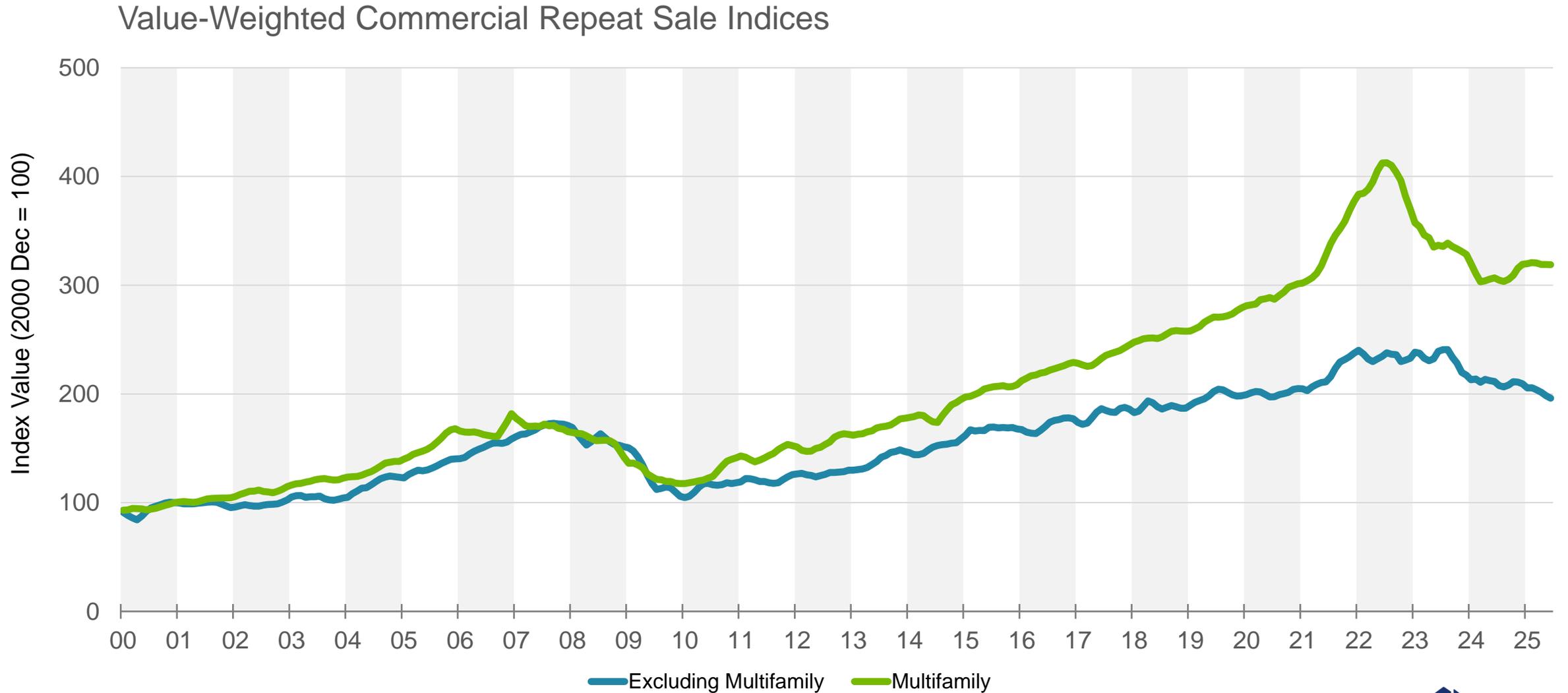
Source: CoStar, September 2025; transaction data collected during the quarter; includes multifamily, office, retail, industrial and hotel

Equal-weighted pricing marched right through the last two years



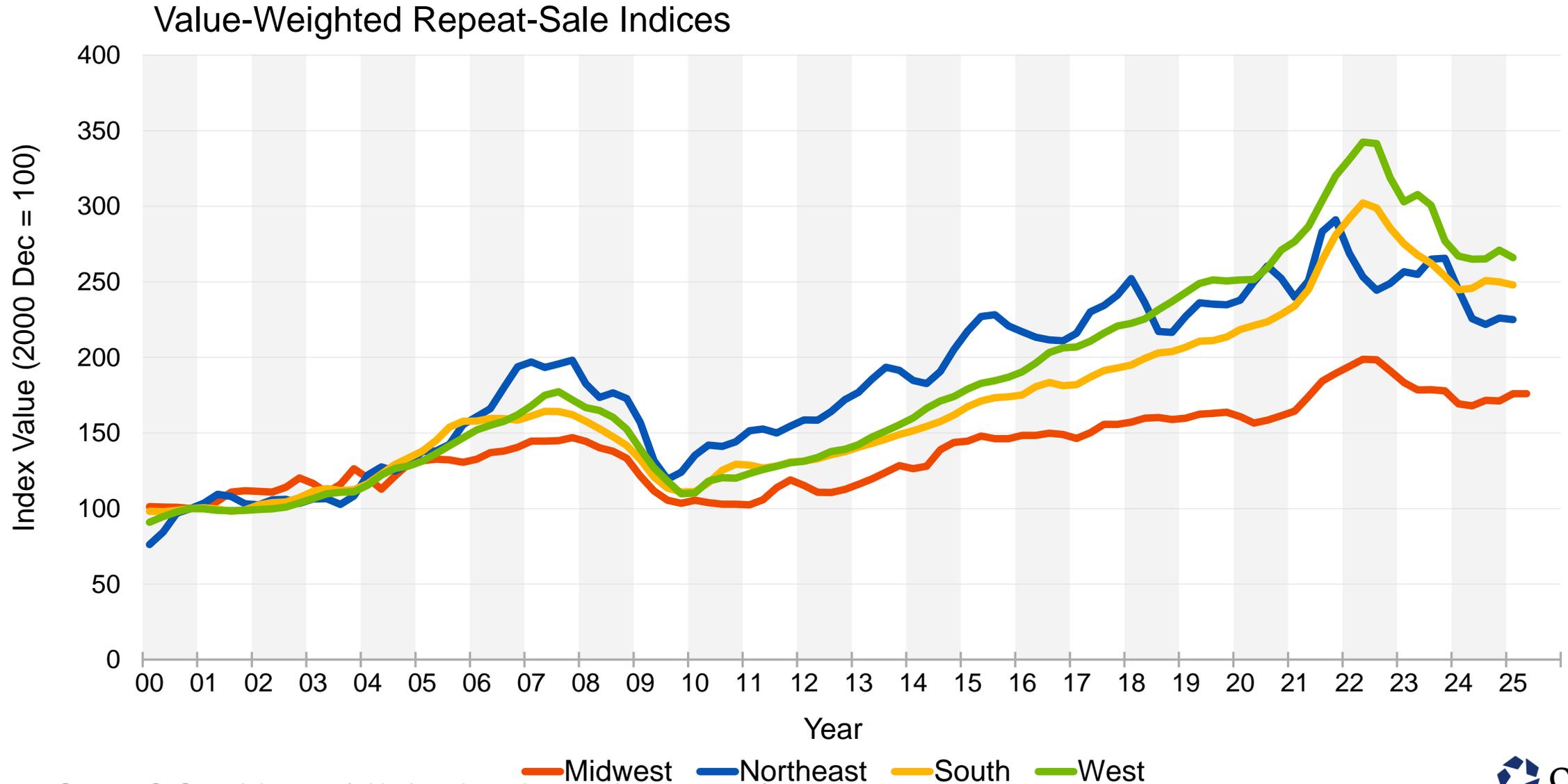
Source: CoStar, July 2025 (with data through second quarter 2025)

Value-weighted price gains concentrated in multifamily



Source: CoStar, July 2025 (with data through second quarter 2025)

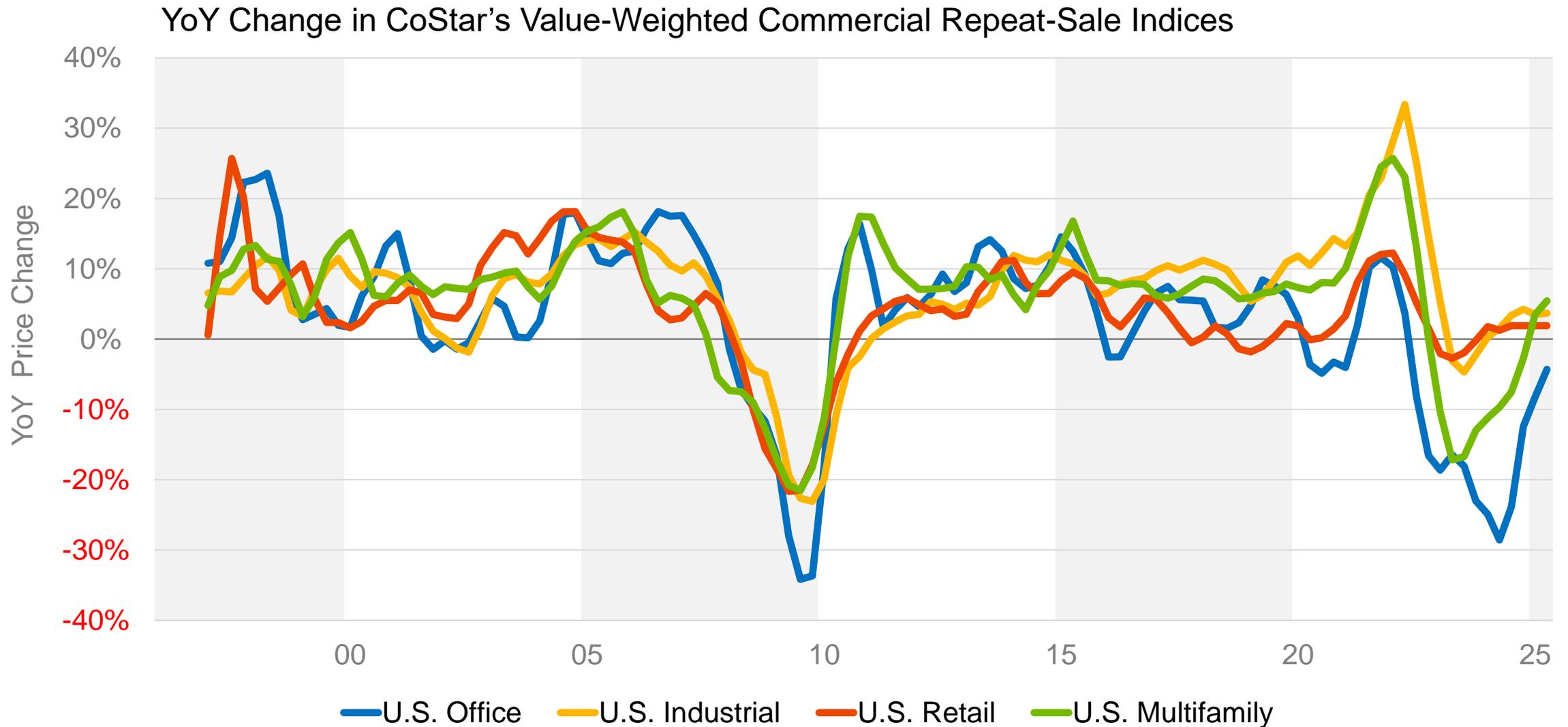
Value-weighted prices have stopped falling



Source: CoStar, July 2025 (with data through second quarter 2025)

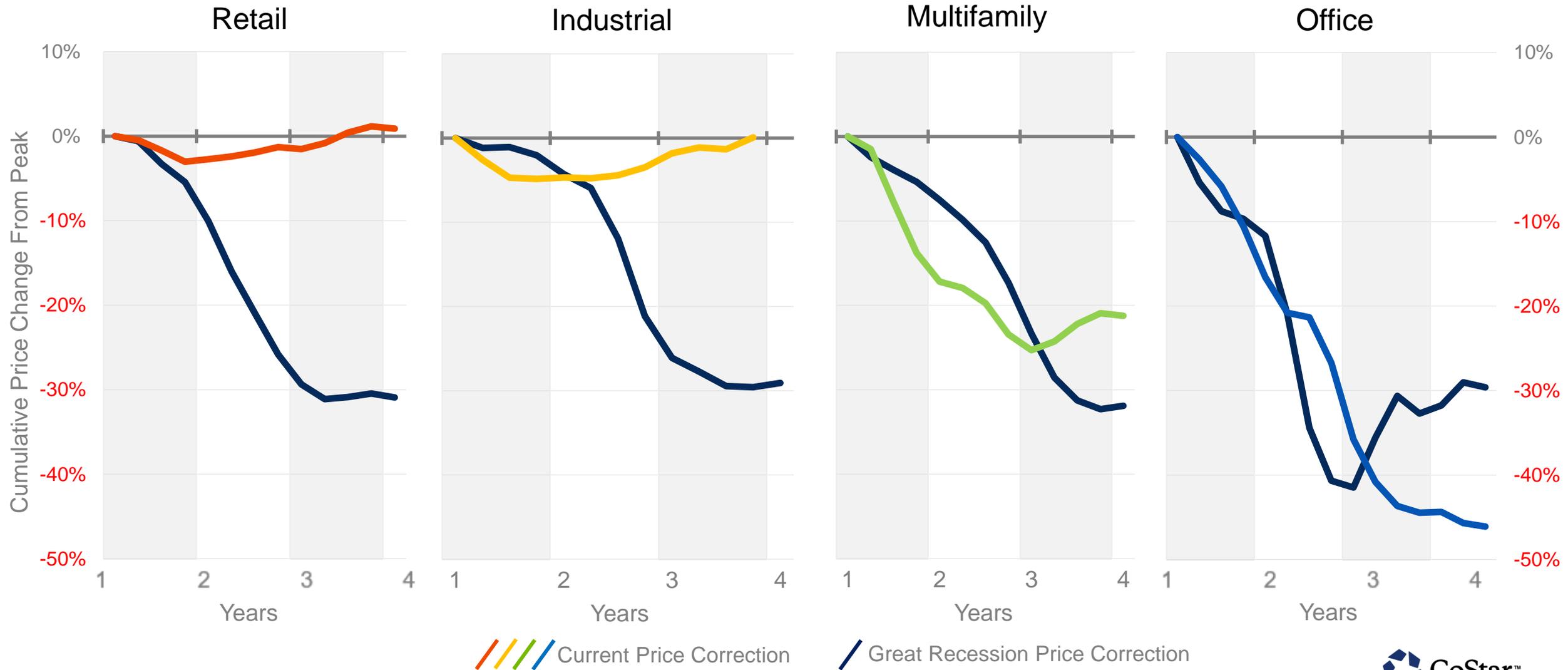


Value losses in office are decelerating



Source: CoStar, July 2025 (with data through second quarter 2025)

CRE value recovery is underway in most major property types



Source: CoStar, July 2025 (value-weighted repeat sale price indices with data through Q2 2025)



Forward-looking expectations

 **GDP Growth** **ACCELERATING**

 **Rent Growth** **ACCELERATING**

 **Interest Rates** **STABLE**

 **Sentiment** **STABLE**

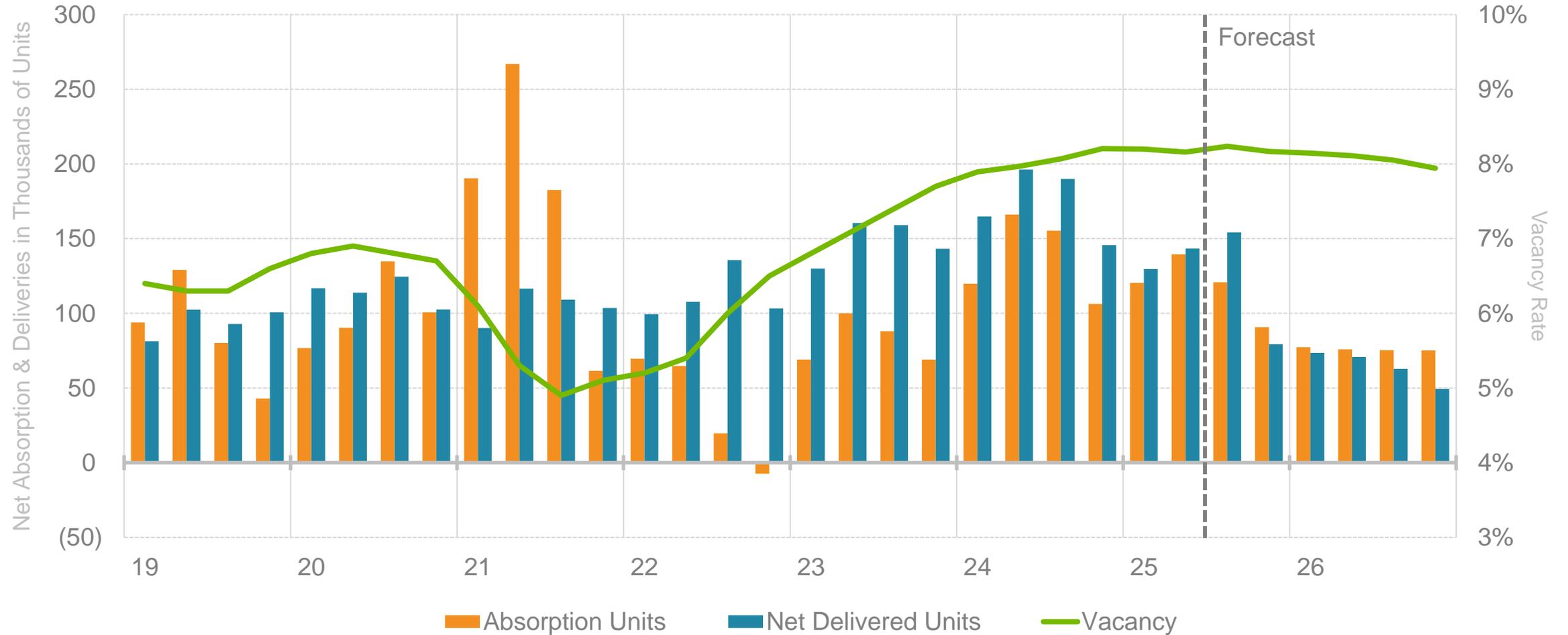
 **Sales Volume** **ACCELERATING**

 **Pricing** **STABLE**

APPENDIX

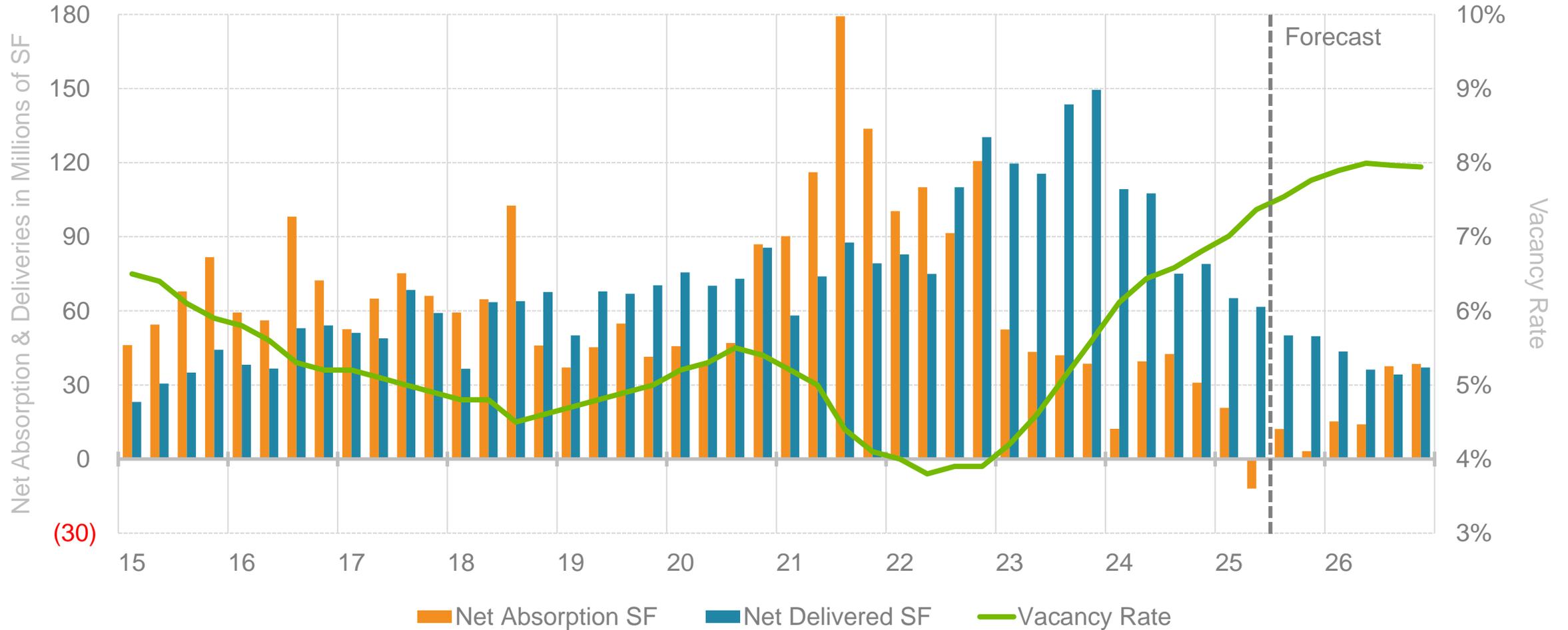
Net absorption is now keeping up with deliveries

Multifamily Absorption, Net Deliveries & Vacancy



Deliveries are expected to outrun absorption into 2026

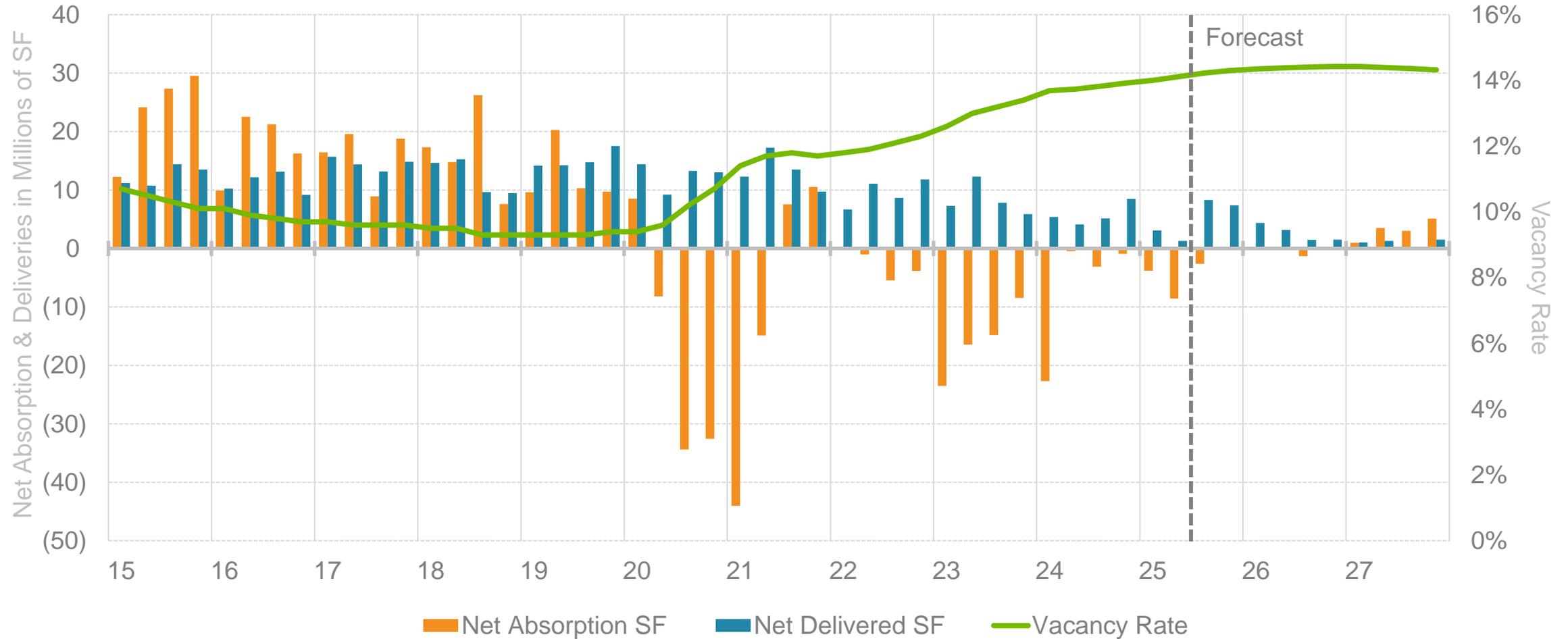
Industrial Net Absorption, Deliveries & Vacancy



(30)

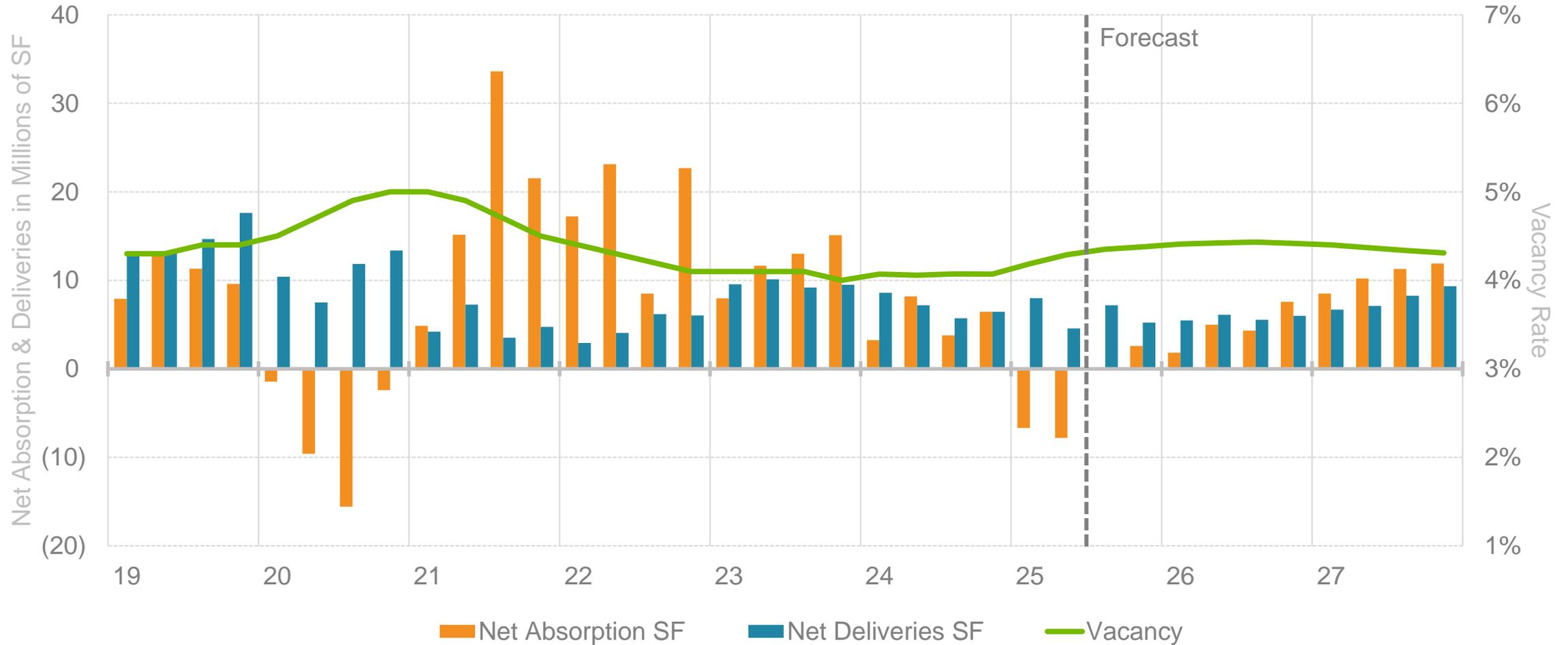
Deliveries outpaced absorption in 21 of the last 23 quarters

Office Net Absorption, Net Deliveries & Vacancy



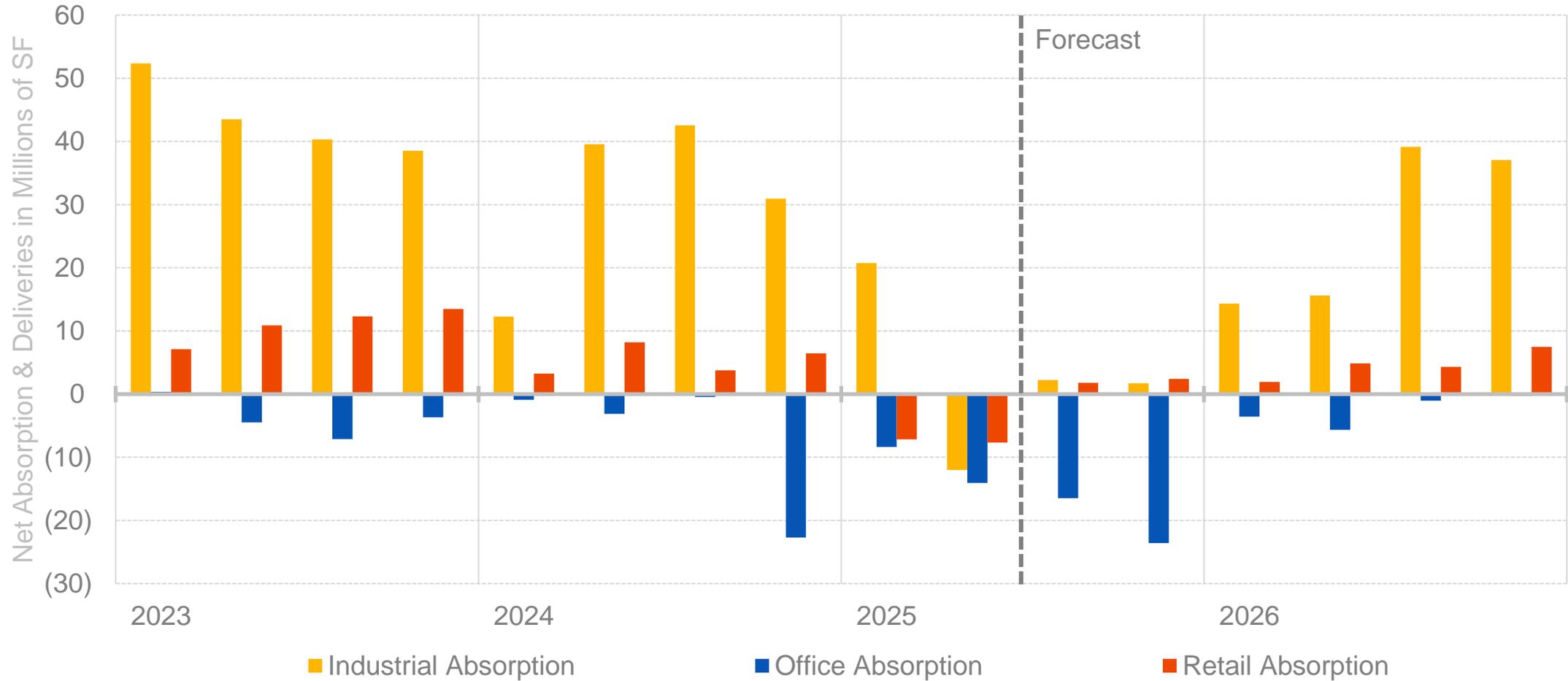
Excess demand drove vacancies to record lows

Retail Net Absorption, Deliveries & Vacancy



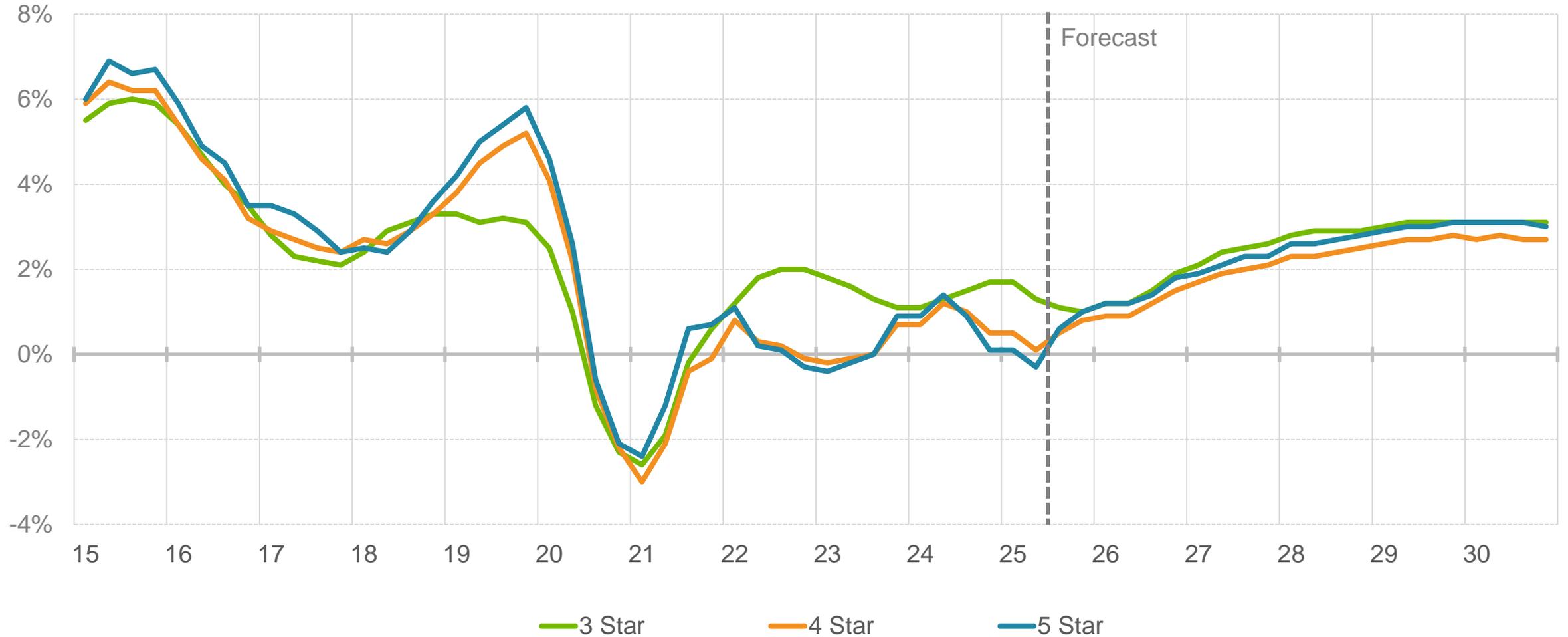
Negative absorption was the theme in 25Q2

Net Absorption Trends



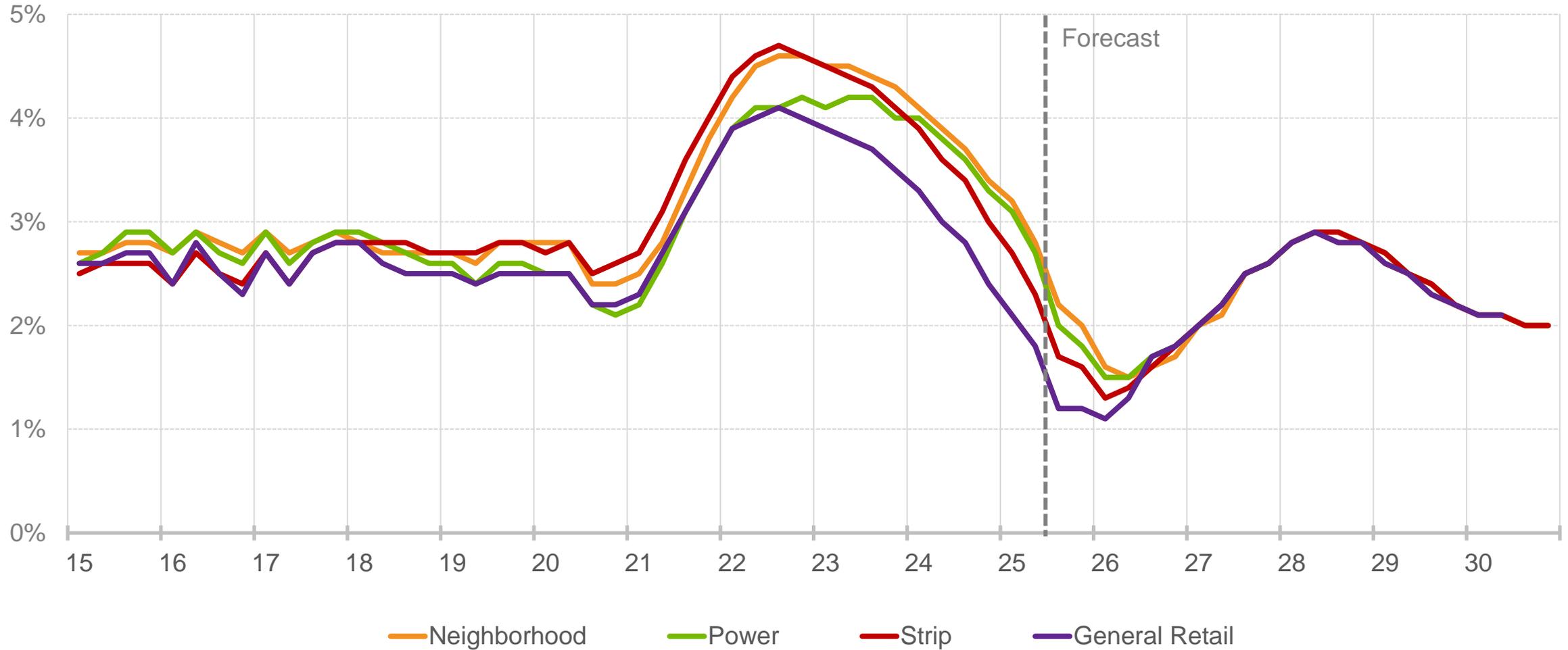
Muted pricing power until 2027+

Office Annual Rent Growth

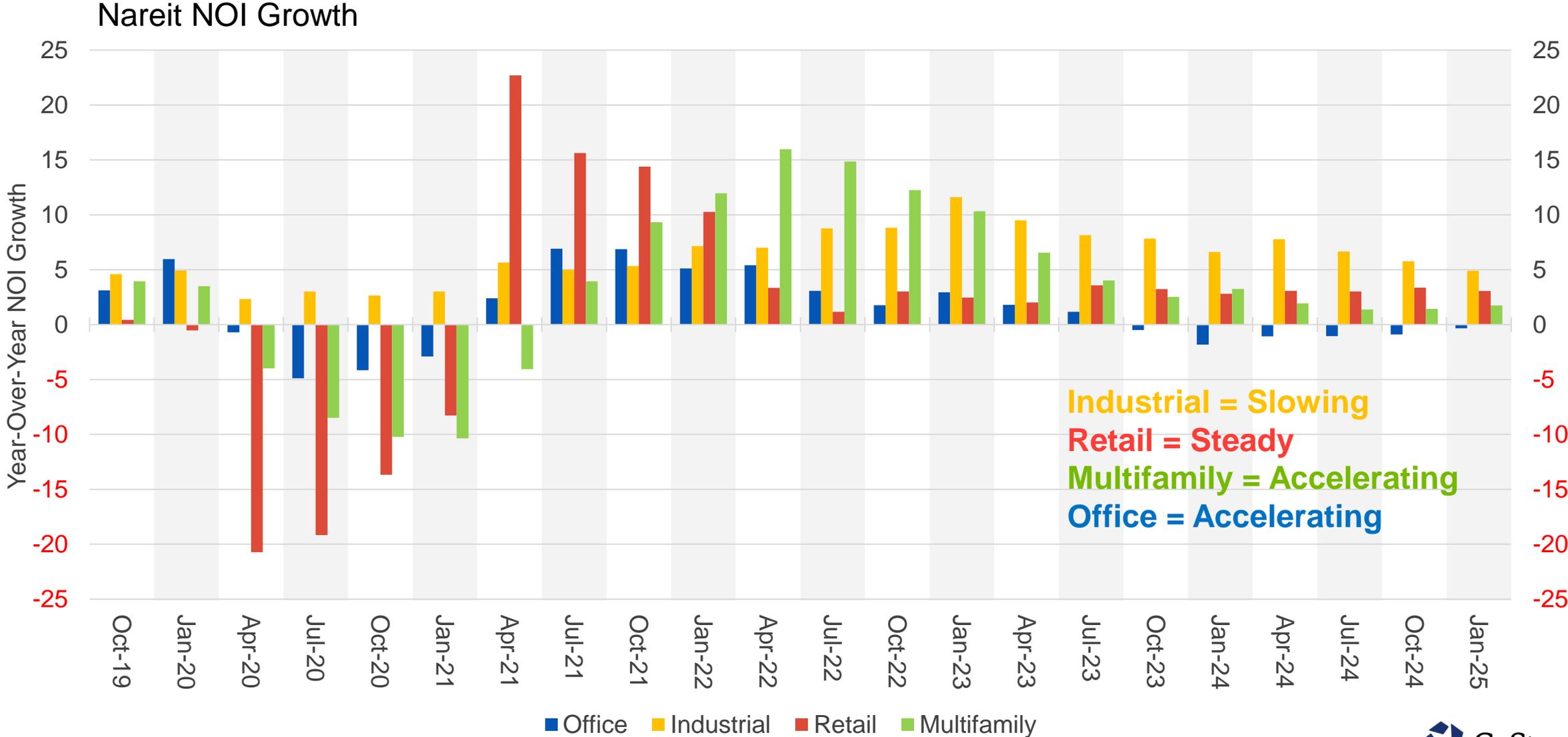


Rent growth moderates along with consumption

Retail Annual Rent Growth



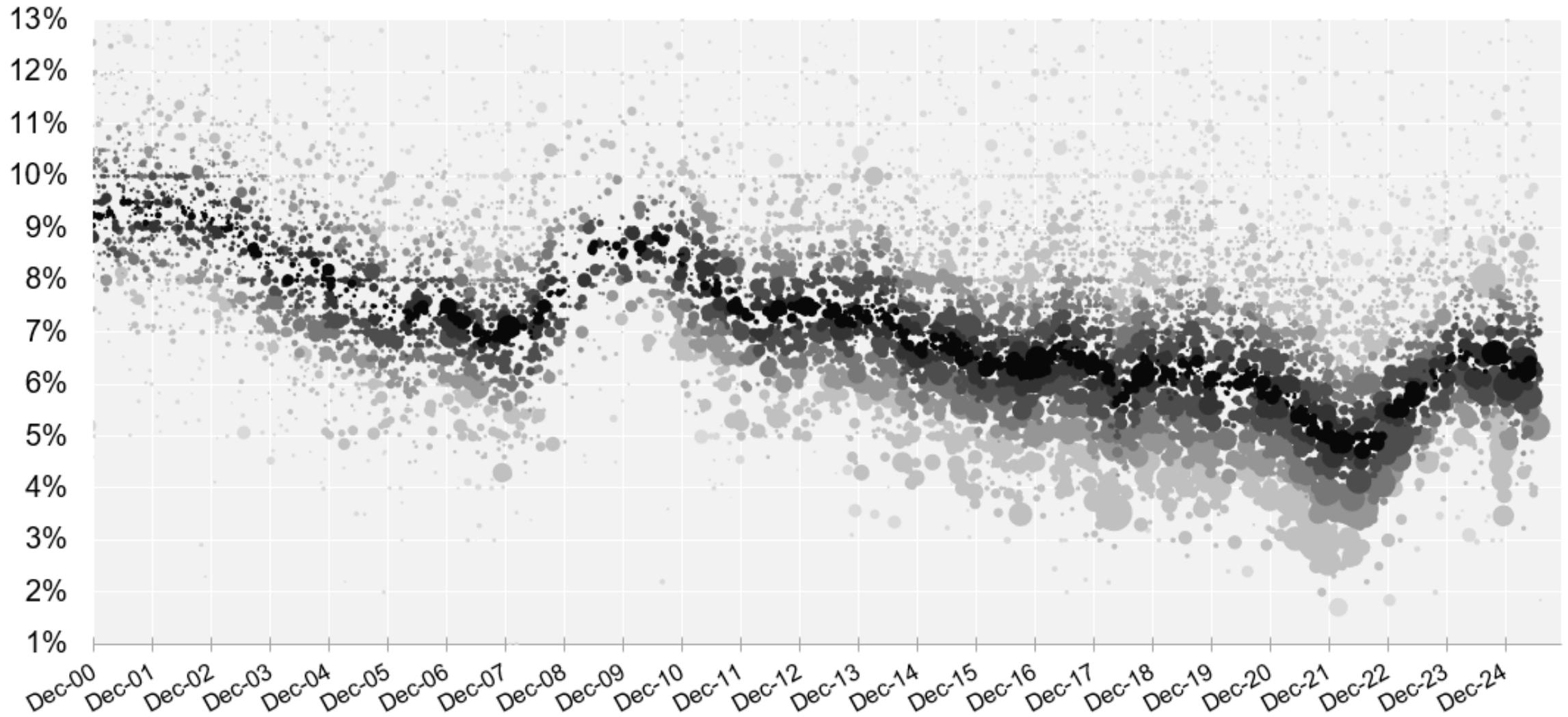
NOI growth performing differently by property type



Source: Nareit T-Tracker as of 25Q1

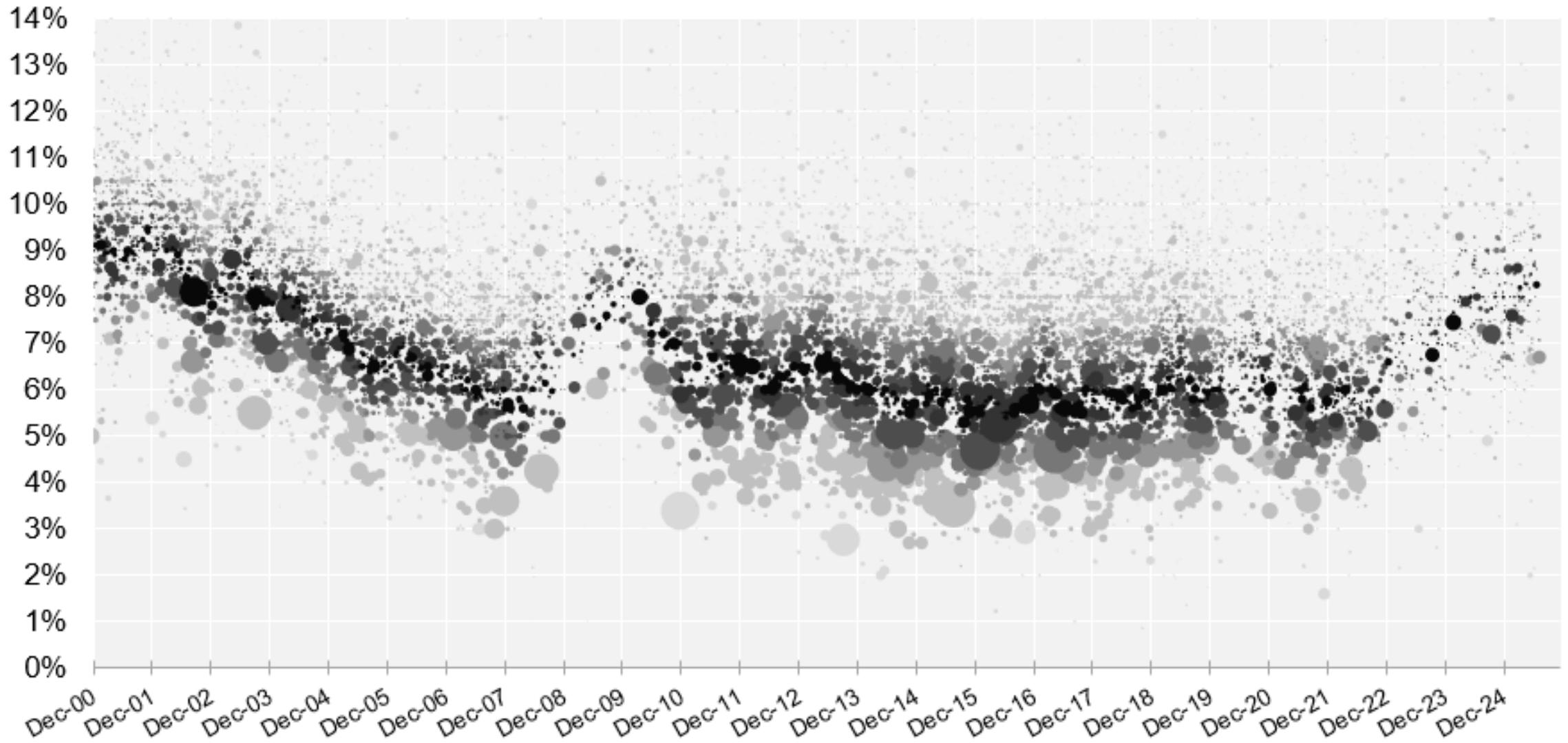


Industrial Cap Rates



Source: CoStar, as of August 2025
Only includes sales of properties larger than 20,000 SF

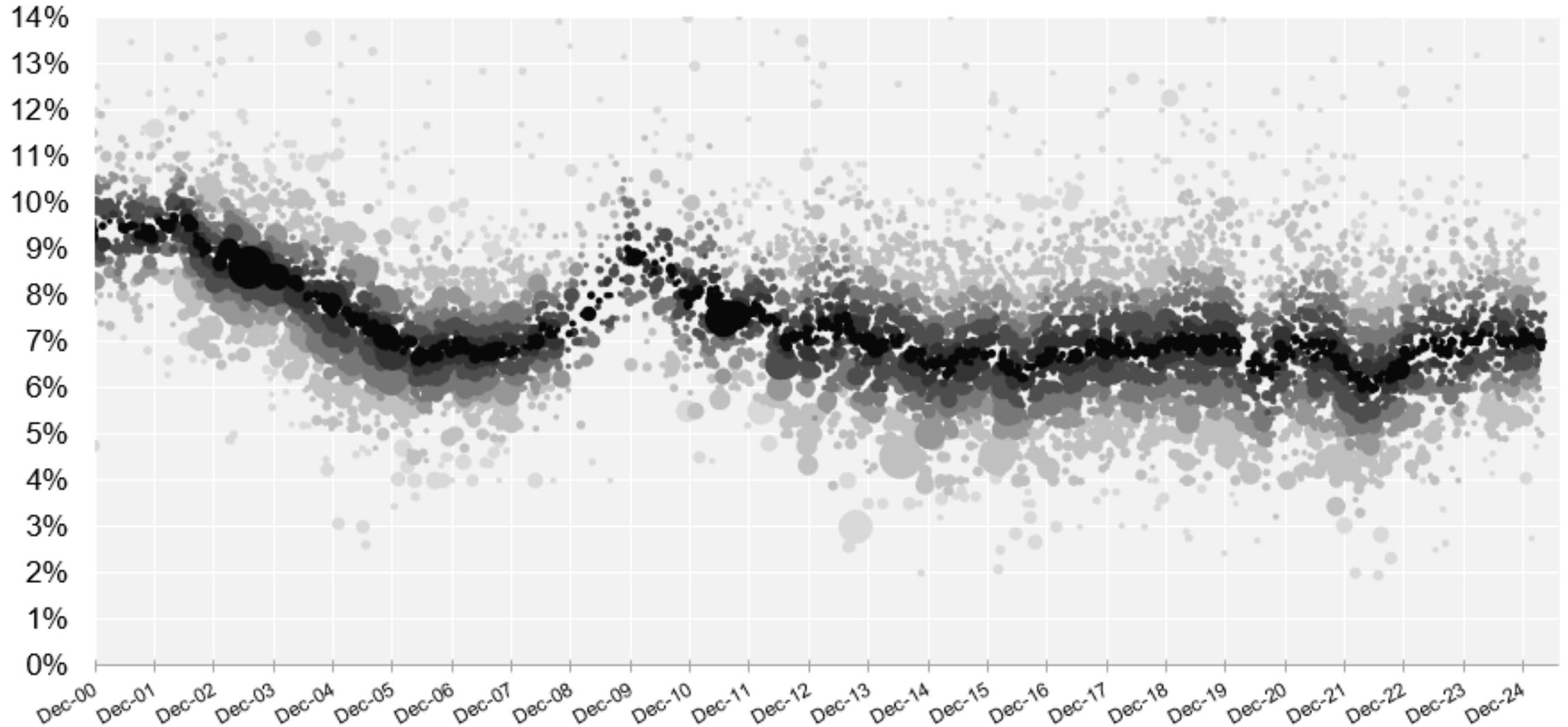
Office Cap Rates



Source: CoStar, as of May 2025

Only includes sales of properties larger than 20,000 SF

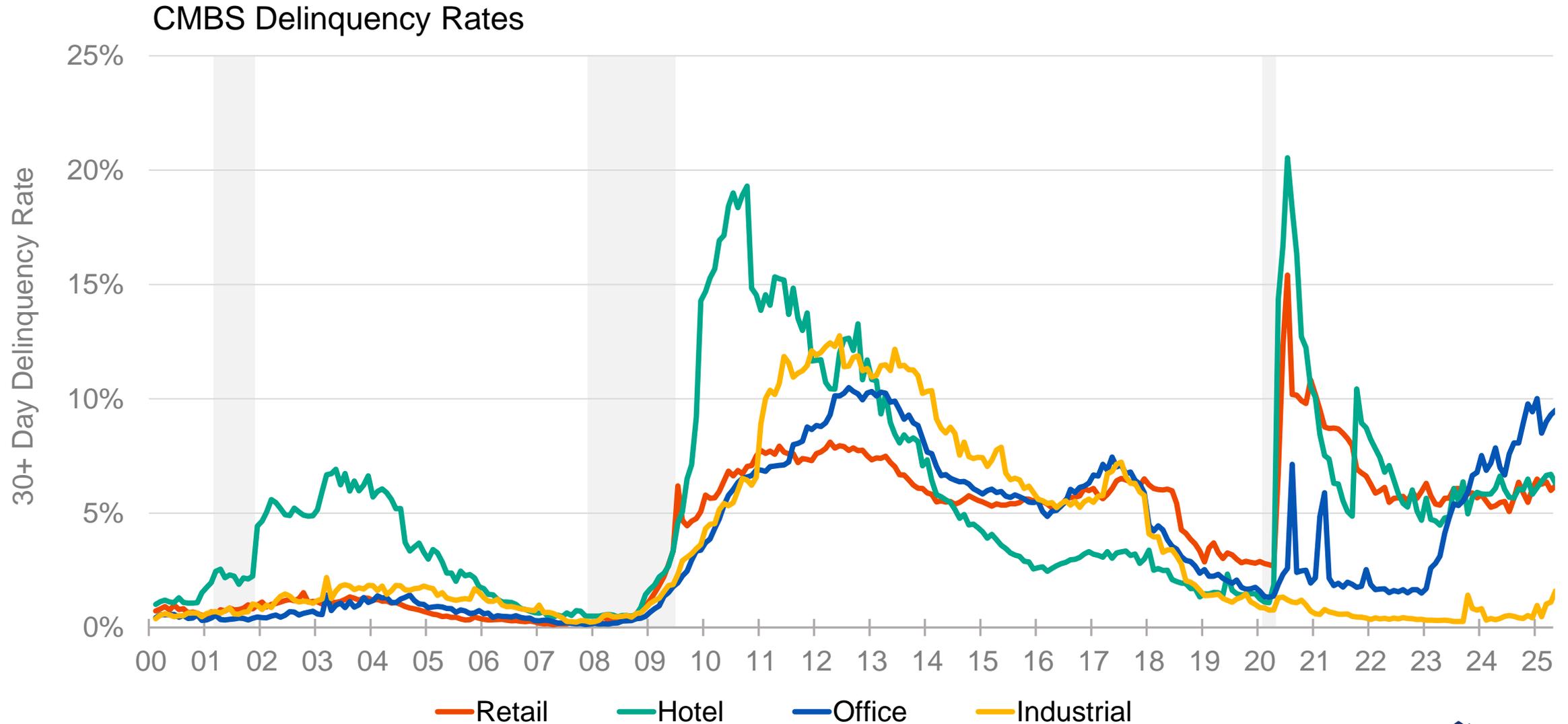
Retail Cap Rates



Source: CoStar, as of May 2025

Only includes sales of properties larger than 20,000 SF that closed for prices of \$5 million or more

Office delinquency rates hover near Great Recession highs



Source: CoStar Risk Analytics; NBER; 30-day delinquency rates, August 2025, with data through May 2025



CRE at the Crossroads

October 2025

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