



***California Bankers Association
Commercial Real Estate Briefing
Las Vegas Nevada
October 3, 2024***

***Mike Hendren
Nashville, Tennessee***

“In fact, buildings are essentially boxes that hold the economy....”

Craig Thomas

Torto Wheaton Research



So, where are we?



**“Oh boy, is this great!”
- Kent Dorfman**



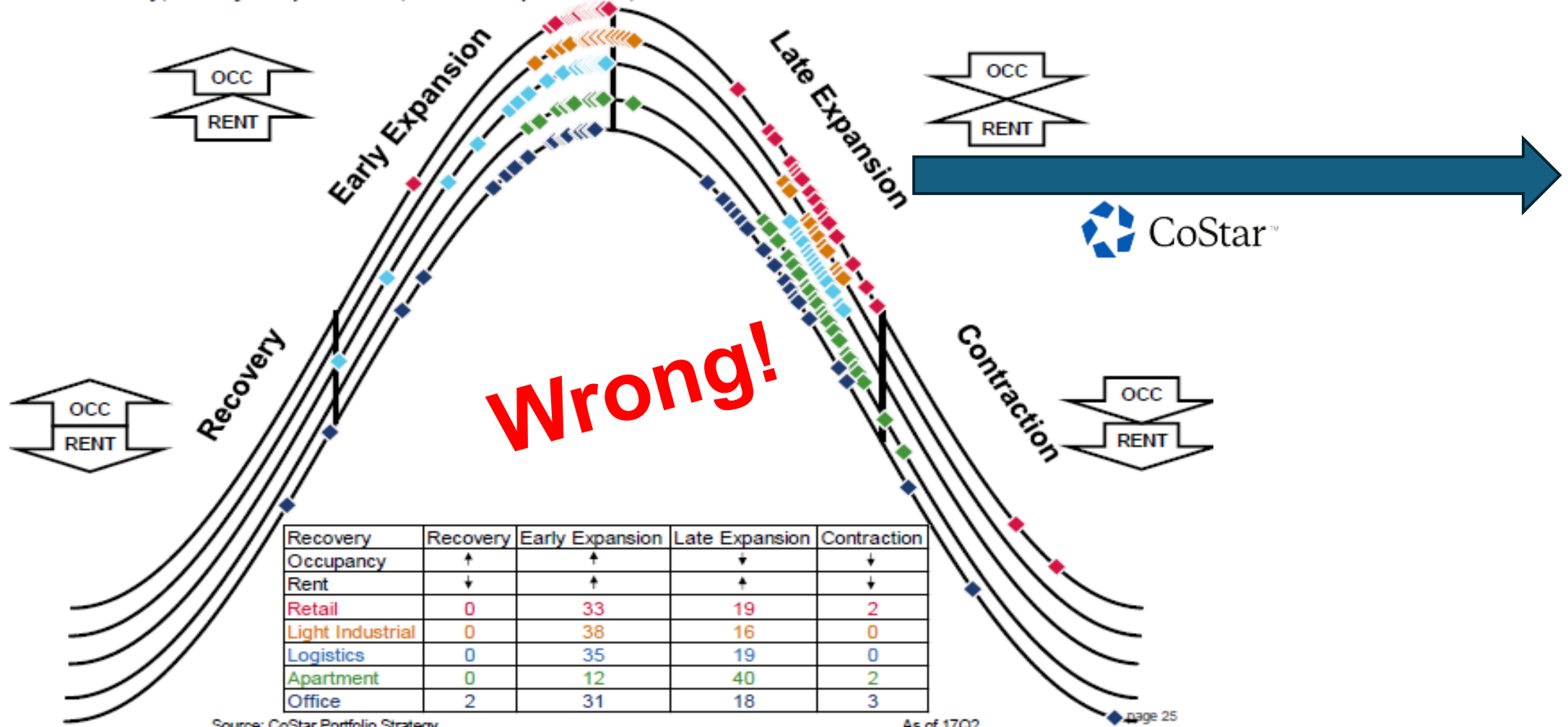
Oops!



The Market Cycle



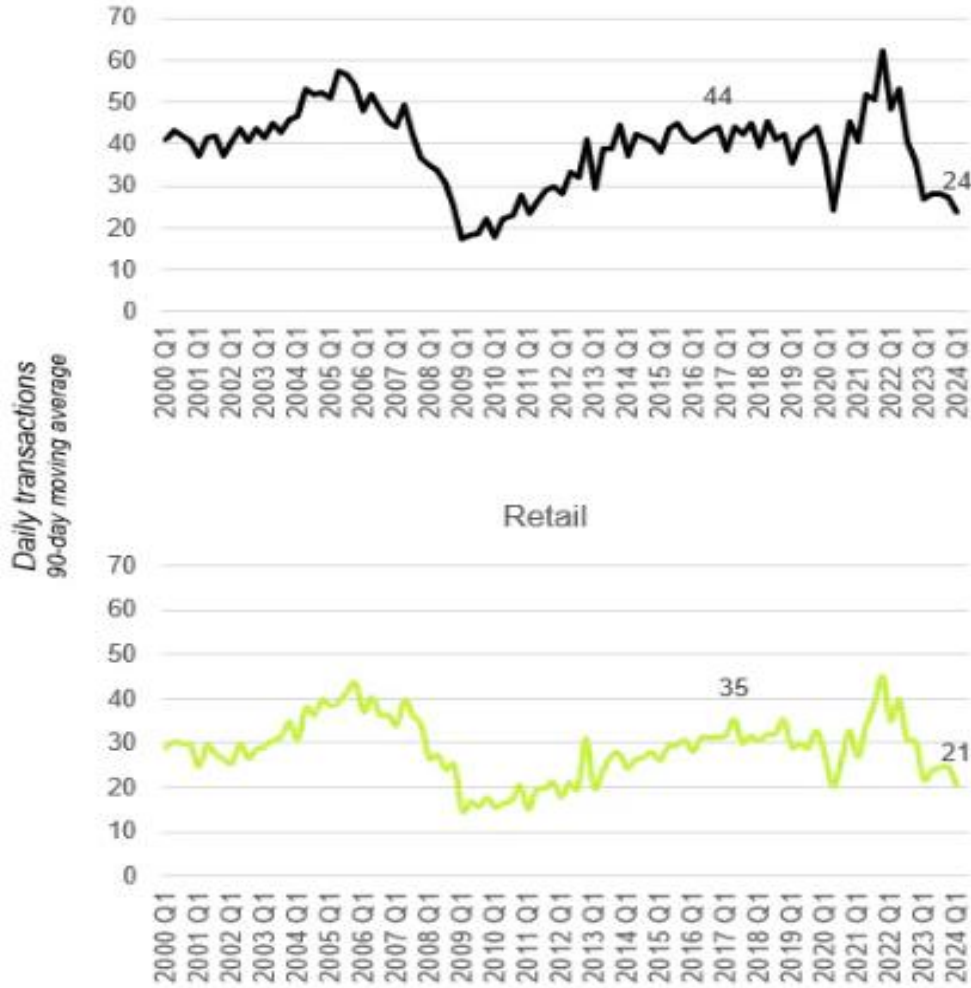
Recovery, Early Expansion, Late Expansion, Contraction



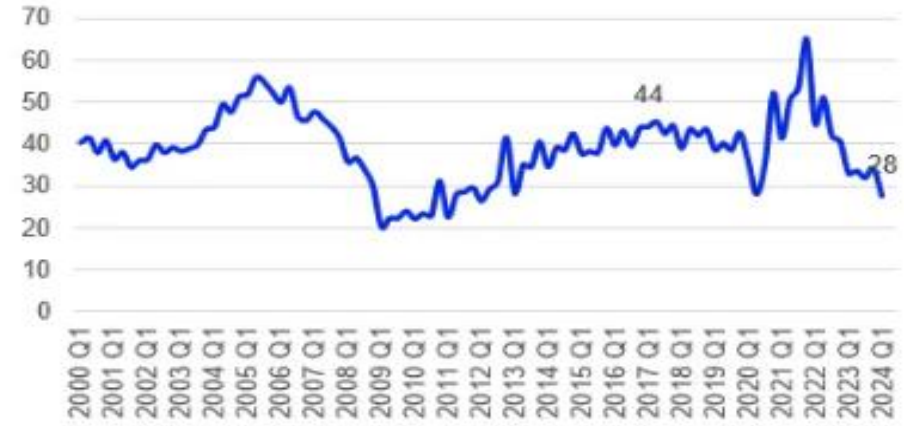
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Transaction Volume Trends

Industrial



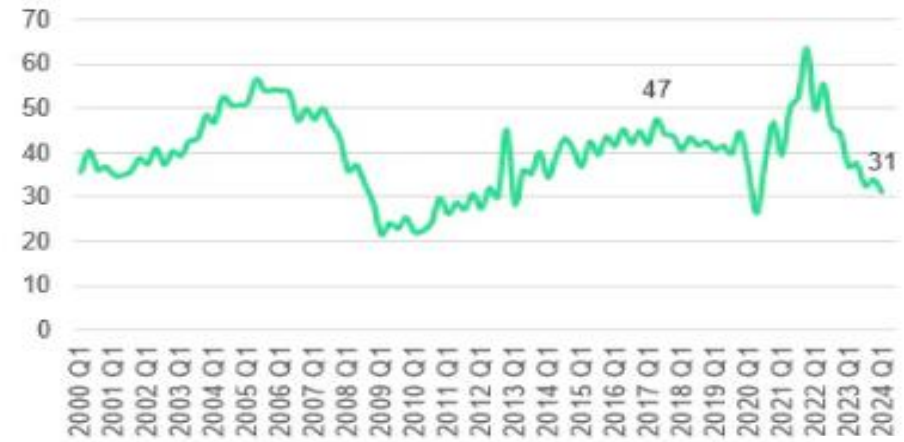
Multifamily



Retail



Office



Buyer/Seller Disconnect



Degrees of difference in buyers' and sellers' pricing views



Capital Markets Overview

United States Retail

Asset Value	12 Mo Sales Volume			Market Cap Rate	Mkt Sale Price/SF Chg (YOY)			
\$3.2T	\$50.5B			6.9%	2.5%			
12 MO SALES VOLUME	Total	Lowest	Highest	12 MO SALES PRICE	Average	Lowest	Highest	Market
Transactions	34,391	-	-	Cap Rate	6.7%	1.0%	25.0%	6.9%
Sales Volume	\$50.5B	\$313	\$550M	Sale Price/SF	\$215	\$0	\$25.8K	\$250
Properties Sold	32,162	-	-	Sale Price	\$2.2M	\$313	\$550M	-
Transacted SF	365.9M	72	1.3M	Sale vs Asking Price	-8.3%	-97.7%	1,300.0%	-
Average SF	10.6K	72	1.3M	% Leased at Sale	91.2%	0%	100%	-



Capital Markets Overview

United States Multi-Family

Asset Value		12 Mo Sales Volume			Market Cap Rate		Mkt Sale Price/Unit Chg (YOY)			
\$4.7T		\$83B			6.1%		-2.0%			
12 MO SALES VOLUME		Total	Lowest	Highest	12 MO SALES PRICE		Average	Lowest	Highest	Market
Transactions		12,002	-	-	Cap Rate		6.2%	1.0%	25.0%	6.1%
Sales Volume		\$83.1B	\$313	\$265M	Sale Price/Unit		\$120.8K	\$13	\$2.6M	\$225.9K
Properties Sold		11,689	-	-	Sale Price		\$9M	\$313	\$265M	-
Transacted Units		692.6K	0	14.7K	Sale vs Asking Price		-9.1%	-81.4%	124.8%	-
Average Units		57	0	14.7K	% Leased at Sale		94.8%	-8.1%	100%	-



Capital Markets Overview

United States Industrial

Asset Value		12 Mo Sales Volume		Market Cap Rate		Mkt Sale Price/SF Chg (YOY)			
\$2.9T		\$54.5B		7.4%		1.6%			
12 MO SALES VOLUME				12 MO SALES PRICE					
Total	Lowest	Highest	Average	Lowest	Highest	Market			
Transactions	16,756	-	-	Cap Rate	6.9%	0.1%	17.6%	7.4%	
Sales Volume	\$54.4B	\$333	\$248M	Sale Price/SF	\$144	\$0	\$12.2K	\$150	
Properties Sold	15,551	-	-	Sale Price	\$5M	\$333	\$248M	-	
Transacted SF	580.2M	11	1.8M	Sale vs Asking Price	-8.2%	-80.0%	2,406,150.0%	-	
Average SF	34.6K	11	1.8M	% Leased at Sale	85.9%	0%	100%	-	



Capital Markets Overview

United States Office

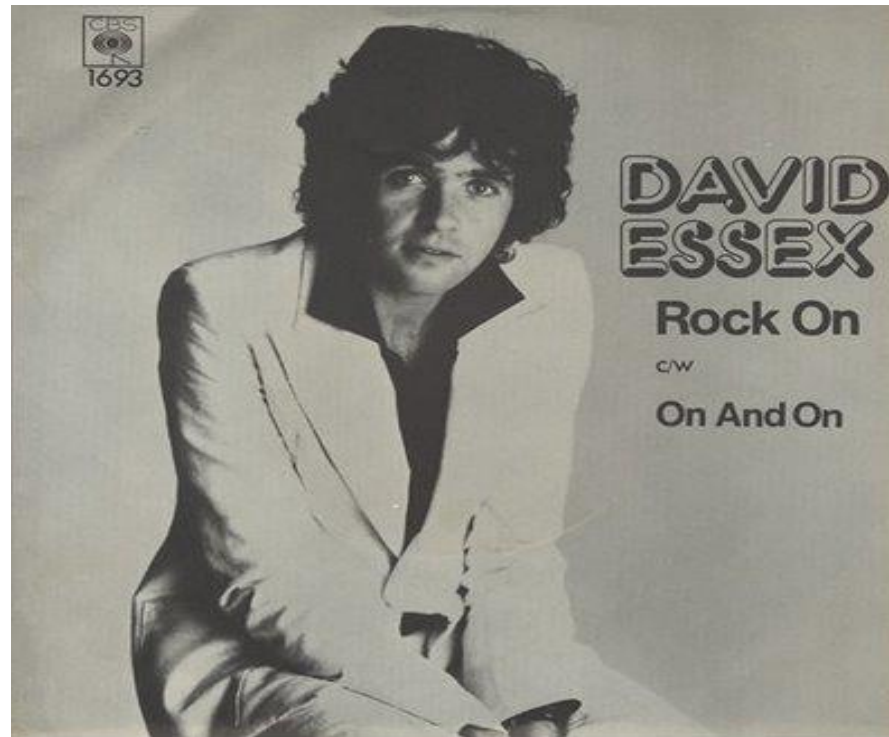
Asset Value	12 Mo Sales Volume	Market Cap Rate	Mkt Sale Price/SF Chg (YOY)
\$2.4T	\$33.5B	8.6%	-4.9%

12 MO SALES VOLUME	Total	Lowest	Highest
Transactions	13,541	-	-
Sales Volume	\$33.5B	\$313	\$675M
Properties Sold	11,970	-	-
Transacted SF	251.4M	11	1.7M
Average SF	18.6K	11	1.7M

12 MO SALES PRICE	Average	Lowest	Highest	Market
Cap Rate	7.4%	1.9%	25.0%	8.6%
Sale Price/SF	\$192	\$0	\$13.6K	\$273
Sale Price	\$3.6M	\$313	\$675M	-
Sale vs Asking Price	-9.2%	-70.9%	860.0%	-
% Leased at Sale	85.8%	0%	100%	-



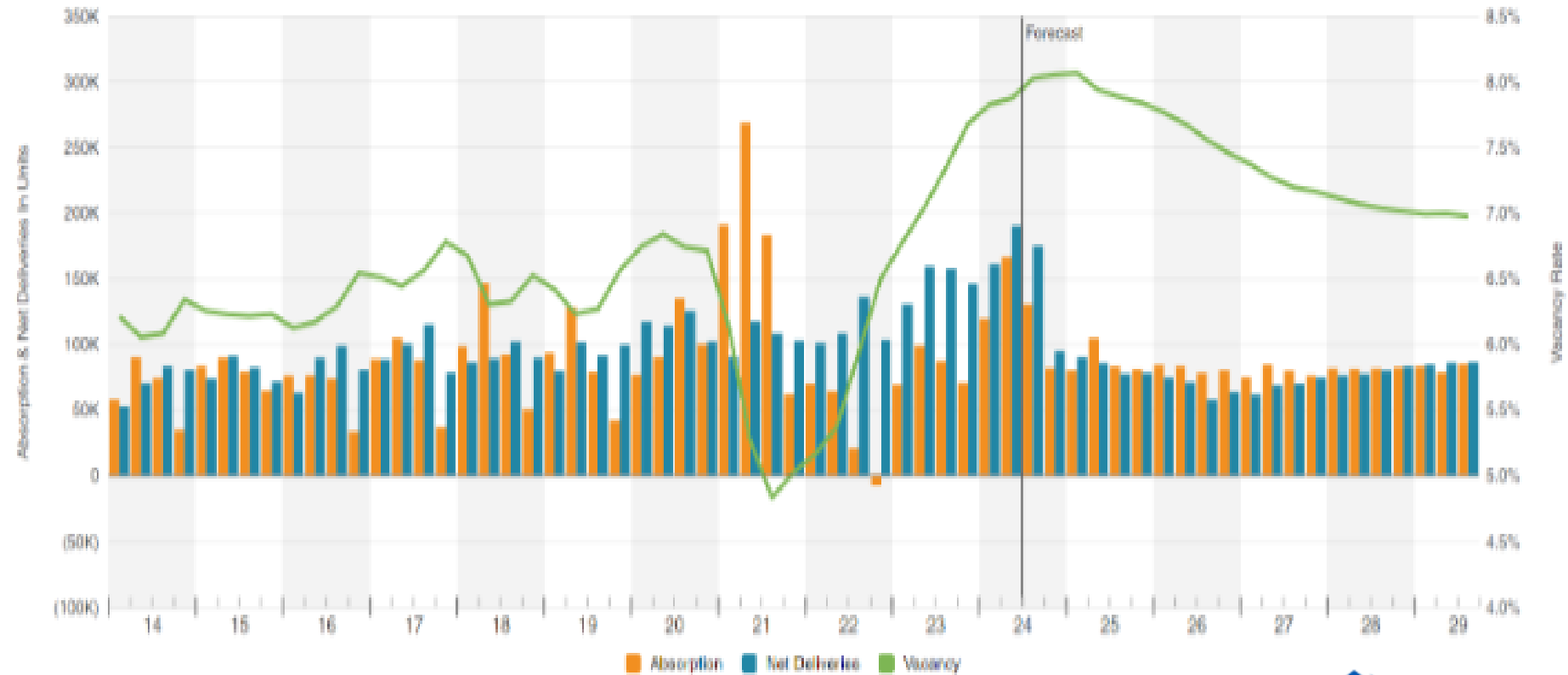
- “And where do we go from here?
Which is the way that’s clear?”



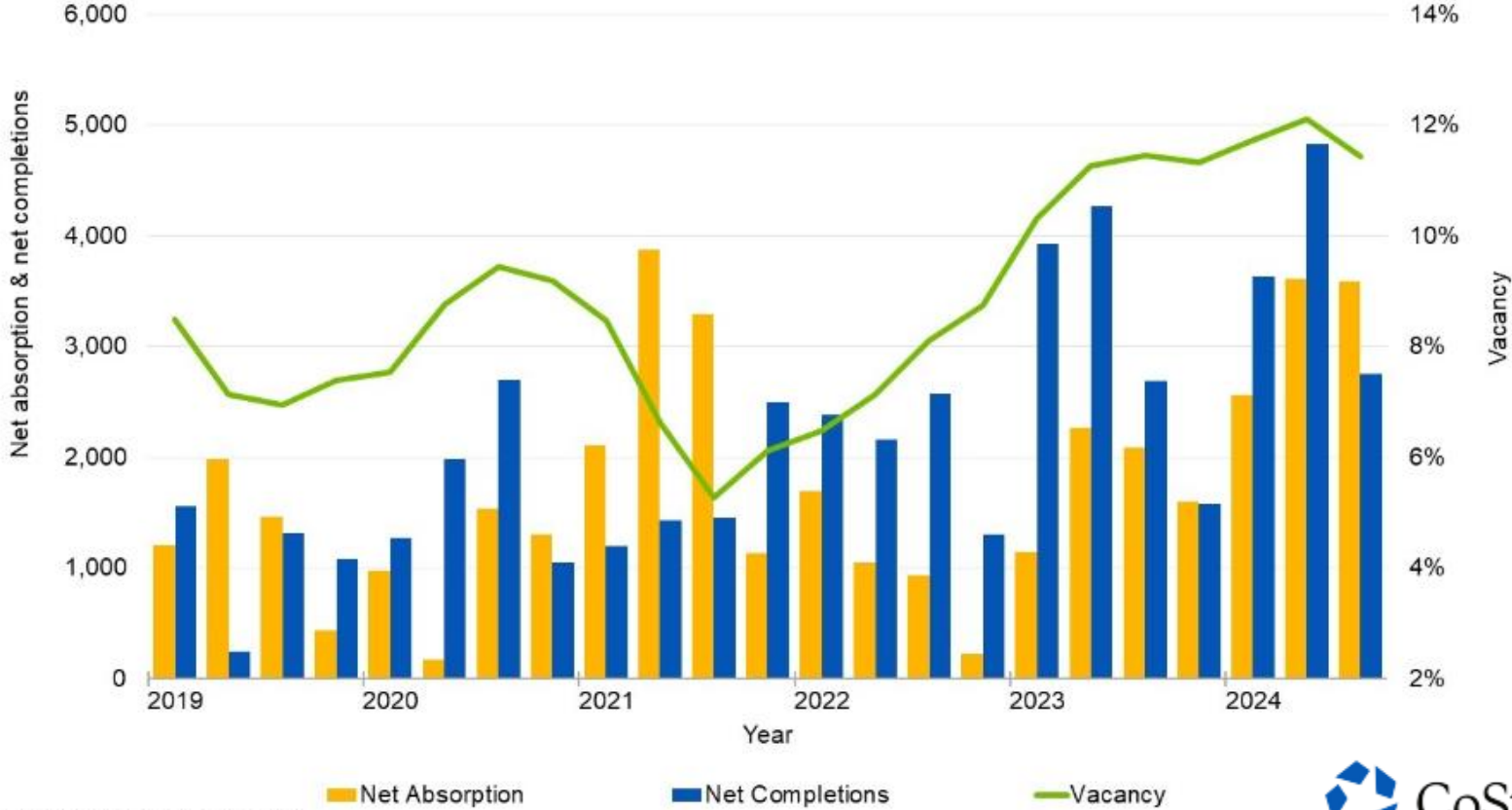


US Multifamily Market

ABSORPTION, NET DELIVERIES & VACANCY



Nashville: Trend or Aberration?

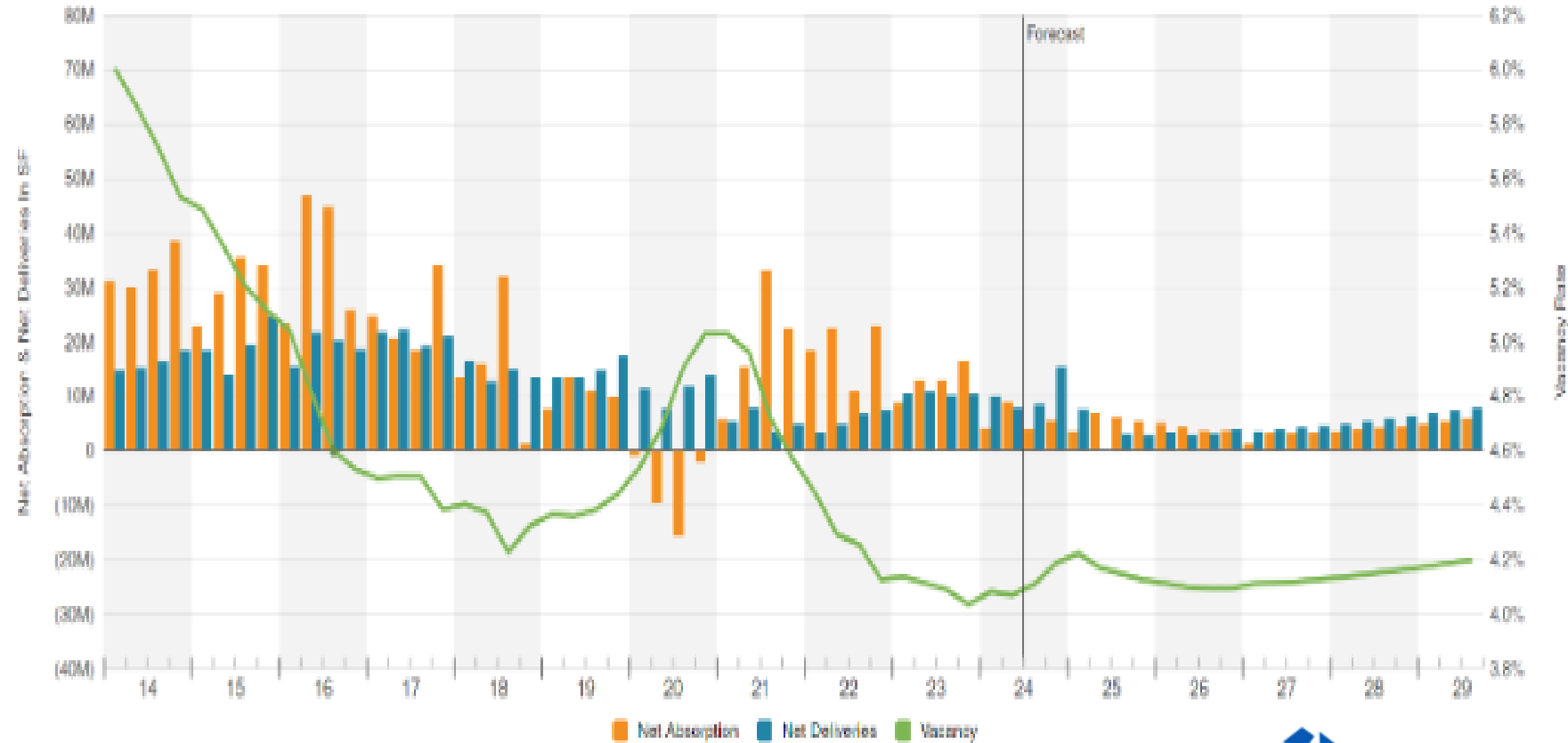


Source: CoStar, September 2024



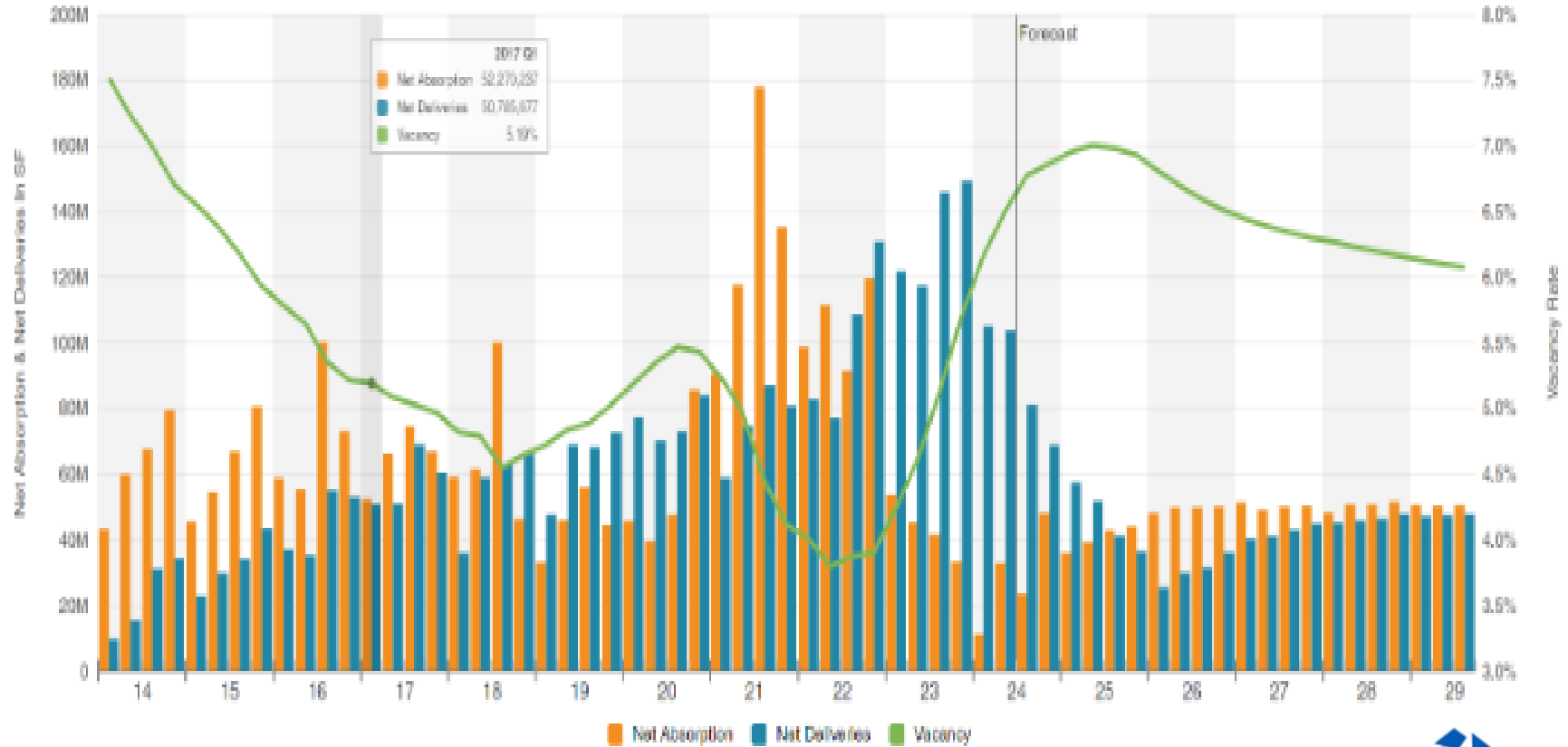
US Retail Market

NET ABSORPTION, NET DELIVERIES & VACANCY



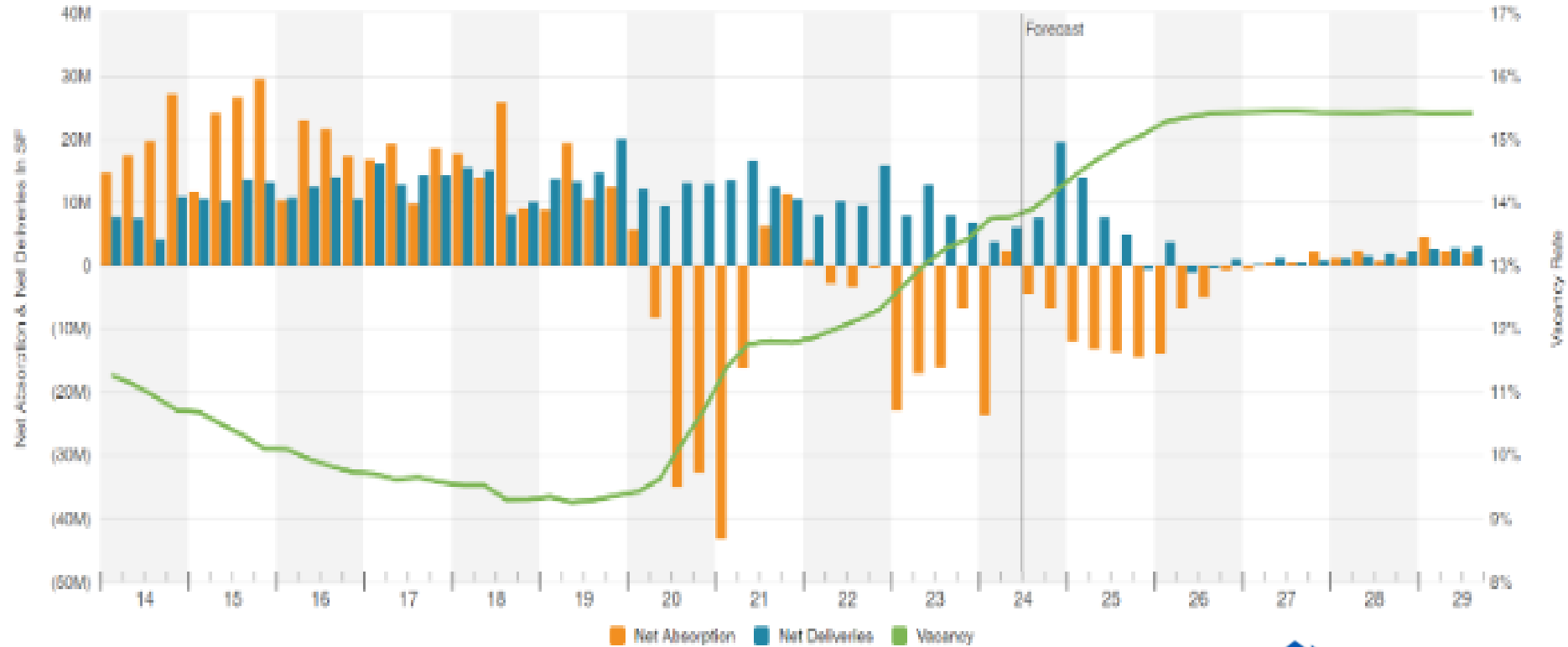
US Industrial Market

NET ABSORPTION, NET DELIVERIES & VACANCY

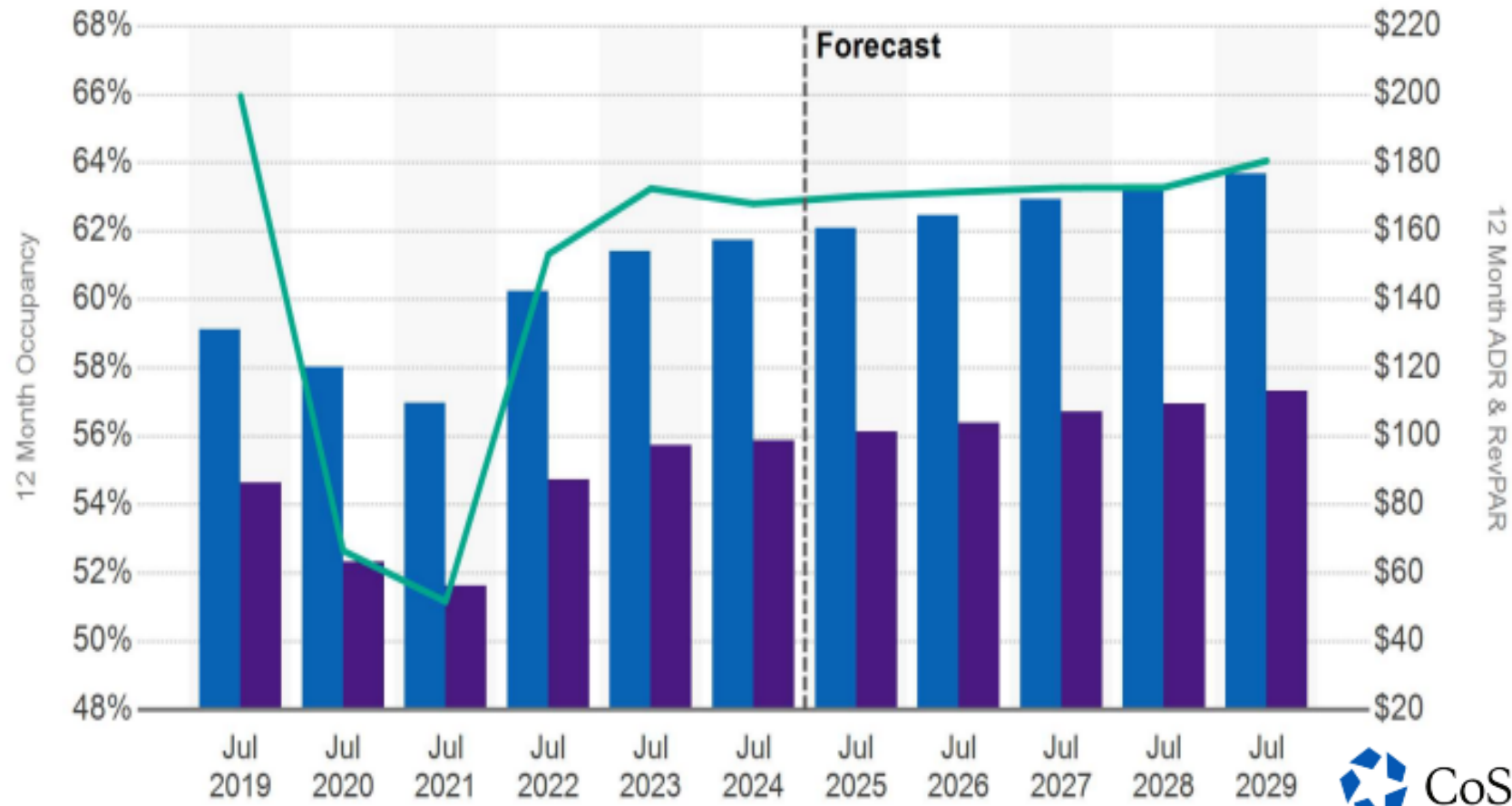


US Office Market

NET ABSORPTION, NET DELIVERIES & VACANCY



OCCUPANCY, ADR & REVPAR



Recent Conversation with Federal Regulators – April 24, 2024



- Too many banks remain in denial of the impact of important variables on the property's cash flow, placing too much reliance on the original appraisal.
- Many banks do a poor job of underwriting the guarantors, with weak global cash flow analysis.
- Examiners expect guarantors to be willing to contribute additional equity if necessary to right size a loan. Capacity alone is insufficient.
- The apartment market is reflecting significant weakness as new supply is out-pacing absorption in many markets - lease-up economics are underperforming due to rent concessions – typically one month's free rent on a twelve months lease. Additionally, rents are below pro forma expectations in many markets.
- Loans should be re-underwritten and marked to market where interest rates have increased, net operating income is below expectations and capitalization rates have declined. Loan grades should reflect current underwriting.

A Few Final Suggestions



- Maintain discipline.
- Look around – underwrite by observation.
- Underwrite for maturity – try to see the end from the beginning (impossible).
- Manage concentrations – in advance.
- Confirm sponsor liquidity for guarantor dependent loans – so-called “Community CRE”.
- Require sponsorship to demonstrate financial support – not merely capacity to do so.
- Do not ignore early warning signs – they will be there.
- Identify individual loan outliers and touch them more frequently.
- Stress-test 80% of the book.
- Document market knowledge.
- Utilize covenants (minimum annual project DSC) and diligently monitor.
- Hone client selection criteria.
- **Be more discriminating in terms of client selection, project quality, project location, supply constraints (barriers to entry), lease terms, tenant creditworthiness and shifting demographics.**

Starting Today:

Stress test every loan maturing in the next 15 months utilizing prevailing interest rates and capitalization rates. This is Job One. Share the results with borrowers asap.

On new opportunities, be more discriminating in terms of client selection, project quality, project location, supply constraints (barriers to entry), lease terms, tenant creditworthiness and shifting demographics.

