COMMERCIAL REAL ESTATE TRENDS REPORT
An Integra Realty Resources Publication

VIEWPOINT
2025

ABOUT VIEWPOINT

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ABOUT IRR

For over 25 years, Integra Realty Resources, Inc. (IRR) has grown to become one of North America's largest independent CRE market research, valuation, and counseling firms. Our clients tell us that our nearly 600 professionals in 50+ offices deliver extraordinary insight, unbiased advice, and excellent service. In 2024, IRR valued more than $156 billion in real estate assets across more than 60 metro markets comprising more than 33,000 assignments.

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CEO'S LETTER

Welcome to the 32nd edition of *Viewpoint*, Integra's annual forecast of conditions shaping the U.S. commercial real estate market as we head into 2025.

"Survive until 2025!" they said. Well, it has arrived, and many have survived. Through a tumultuous 2023, with inflation the United States hadn't experienced since the 1980's, and up through September 2024 when the Federal Reserve made its first rate cut, the real estate players kept biting their nails and praying for the multiple rate cuts they had anticipated twelve months earlier. The September rate cut fell flat as the country grappled with a Presidential election battle. The 25-basis point cut in December came with a Fed warning that the target rate still considered inflation risks "somewhat elevated," cautioning not to expect aggressive rate cuts in 2025.

This is all to say, we're fortunate that the government cannot control the economy with the pull of a single lever. We tend to over emphasize the importance of lower rates because we consider the ability to leverage an important tool in driving higher equity returns. The next few years will mark a return to fundamentals, and assets with poor fundamentals that were masked by financial engineering will not fare as well in 2025. This will likely result in a continued stream of re-pricing on assets whose fundamentals were weakened by changes in the local and regional economic landscape, and by equity investors who will adjust their risk premiums accordingly.

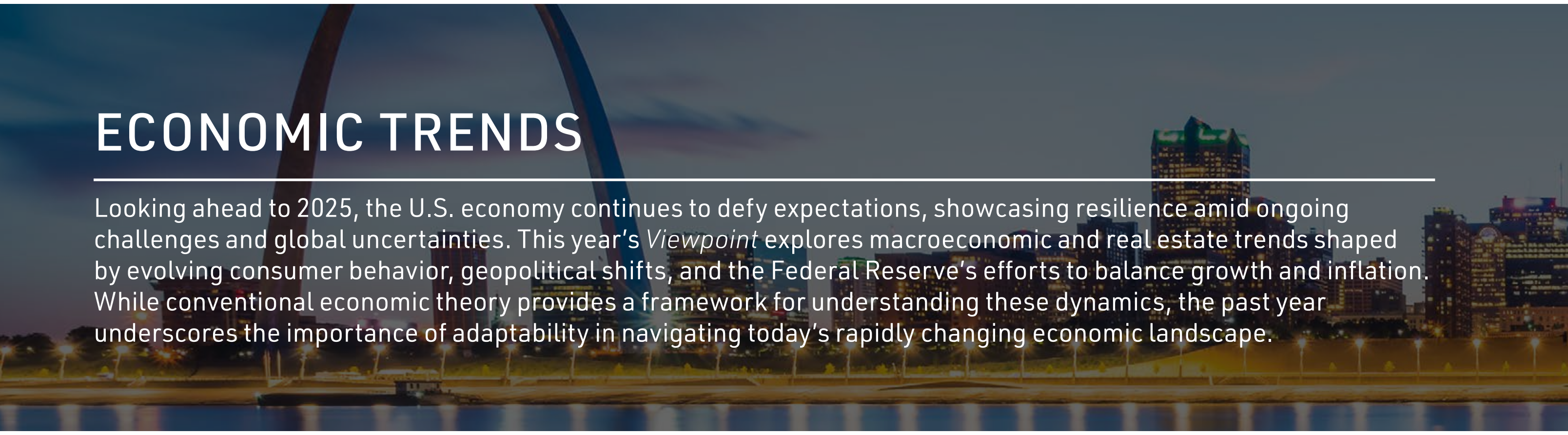
The country ended the year sharply divided along ideological lines as the presidential election forced a reckoning that divided the spirit of America. Blue states and red states are already positioning to do battle for the next four years to manage what will likely become a swing to deregulate. Threatened tariffs loom large over the economic landscape as the incoming administration has proven itself nearly isolationist with its trademark "America First" policies, and labor (particularly union labor) increasingly supports the position. Our North American neighbors seem both bewildered and a bit frightened, rightfully so after decades of trade cooperation in their favor. We would do well to remember that Donald Trump loves to negotiate, and the threat of tariffs is likely more powerful than their implementation. That said, the prospect of international trade wars is unsettling, and the impact on real estate will be lasting as the fundamental business of our tenants will be challenged by disrupted supply-chain economics and a less predictable economy.

What we should be most keenly praying for is not a return to expansionist economic policy, but a return to world peace. The prospect of continued instability in the Middle East, the rise of anti-Semitism here in the United States, the Russia-Ukraine conflict using North Korean mercenaries and Chinese technology are all conspiring to erode our peace dividend.

Jonathan Grey from Blackstone was discussing the purpose of companies. His thesis is that most people think companies are created to make money. He likened that to saying that cars exist to burn gasoline. He posits, "Cars don't exist to burn gas, they exist to take us to new destinations; gas is just the fuel to get us there. Companies also exist to get us to new places, and money is just the fuel to get us there." As we go about deal-making in 2025, let's get back to this type of long-term thinking.

Real estate is meant to serve people and create vibrant communities. The real estate that does this best is rewarded financially. Build, invest, renovate, and innovate with a focus on real estate that has a lasting, long-term, positive impact on your community. Despite trade, or real wars, the current state of U.S. leadership, inflation or economic policy, good real estate investments outperform over the long term by being the best places to live, work, and play. If you survived till '25, let's make the most of it by riding out whatever comes in the short-term in favor of long-term growth.

Anthony M. Graziano, MAI, CRE
CEO



ECONOMIC TRENDS

Looking ahead to 2025, the U.S. economy continues to defy expectations, showcasing resilience amid ongoing challenges and global uncertainties. This year's *Viewpoint* explores macroeconomic and real estate trends shaped by evolving consumer behavior, geopolitical shifts, and the Federal Reserve's efforts to balance growth and inflation. While conventional economic theory provides a framework for understanding these dynamics, the past year underscores the importance of adaptability in navigating today's rapidly changing economic landscape.

GROSS DOMESTIC PRODUCT

Resilient Consumers Keep the Economy Humming

Back in the second half of 2022, the consensus among economists was that the United States was on the precipice of a recession. Some economic models even showed a 100% probability that the United States would enter a recession in the next 12 months. However, as we all know, the U.S. economy has held up remarkably well and thus far, has avoided that dreaded outcome. So, why has the U.S. economy continued to defy the odds and become the envy of the world especially when other economies, such as those in the European Union and Great Britain, have experienced tepid growth?

The short answer is that more resilient-than-expected American consumers have continued to open their wallets. After all, consumer spending accounts for nearly 70% of U.S. economic output, far surpassing private investment (~19%) and government expenditures (~17%). Note that net exports (~ -5%) are typically a drag on economic growth since the United States relies more heavily on imports than exports. Even so, according to the third estimate released by the Bureau of Economic Analysis (BEA), real gross domestic product (GDP) increased at an annual rate of 3.1% in the third quarter of 2024. In particular, personal consumption expenditures (PCE) contributed 2.48 percentage points to real GDP. underscoring the outsized influence American consumers have on the economy.

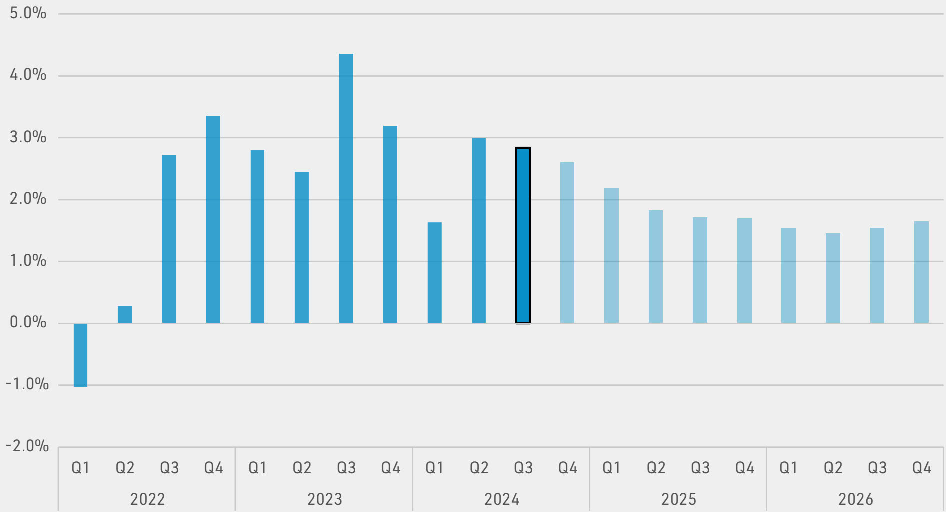
In real dollars, U.S. GDP was approximately $23.4 trillion at the end of the third quarter of 2024. China has the next-largest economy at CN¥112.12 trillion (~$16.0 trillion); however, the country is facing several challeng-es, including an overbuilt property sector, debt issues, and weak domestic demand. Given this, China's Politburo

recently called for "more proactive" fiscal policy and "moderately loose" monetary policy in the year ahead. While the change might seem subtle, this was the first time since the Global Financial Crisis (GFC) that Chinese leadership has used such wording, suggesting they're increasingly concerned about the economic slowdown. It also appears they're preparing to implement stronger measures to mitigate the effects of an escalation of the trade war with the United States.

There has been a barrage of geopolitical news in 2024's final month. We've seen political upheaval in South Korea following the imposition and subsequent removal of martial law, the collapse of France's government after its prime minister was ousted in a no-confidence vote and an ongoing budget crisis, and the fall of the Assad regime in Syria after 50 years of rule. Despite all this, the new administration that will take over the White House in January is inheriting a robust and stable economy, in my opinion.

Moody's Analytics, for example, believes the Federal Reserve will navigate a soft landing for the U.S. economy. Moody's baseline forecast for 2025 predicts a real GDP increase in the low-two-percent range. For 2026, the forecast is in the mid- to high-one percent range. The estimated slowdown in real GDP growth over the next two years will come on the heels of a projected 2.78% annual increase for all of 2024. While there is certainly no lack of geopolitical risks, as evidenced by the ongoing conflicts between Russia and Ukraine and Israel and Hamas, the U.S. economy continues to maintain its exceptionalism. In fact, it has more than doubled its size over the past 30 years as the dollar has retained its status as the world's reserve currency.

Figure 1: Annualized Change in U.S. Real GDP



EMPLOYMENT

A Tale of Two Job Reports

Back in October, Atlanta Federal Reserve President Raphael Bostic made an apt characterization of the labor market when he noted that the labor market was slowing but was not slow. Indeed, as we enter 2025, his comment still resonates, as evidenced by several labor market indicators. For example, in 2023, the monthly change in nonfarm payrolls averaged approximately 250,000 jobs. As of the November 2024 jobs report, this figure had declined to approximately 180,000. This means we created about 3.0 million jobs in 2023 and approximately 2.0 million, year-to-date, as of November 30, 2024.

There is one caveat to consider. Back in August, the Bureau of Labor Statistics (BLS) announced an 818,000 downward benchmark revision for the trailing twelve months ending March 31, 2024. Now, we know the final BLS benchmark revision will not be available until February 2025. So, if we assume those downward revisions were evenly distributed across months, the jobs-created figure for 2023 could be closer to 2.4 million than it is to 3.0 million. Similarly, instead of 2.0 million jobs created over the first eleven months of 2024, the figure would be closer to 1.7 million. Regardless, the U.S. is on pace to report its fourth consecutive year of net job gains. The last decline, in 2020, came when the global pandemic and ensuing lockdowns resulted in U.S. net job losses of about 9.3 million. Thus, over the last four years, the U.S. has added roughly 16 million new jobs while the current unemployment rate of 4.2% is near a historic low.

Although the headline employment figures are certainly impressive, when we look under the hood, we discover a more nuanced story. First, job growth over the past five years has been primarily concentrated in three different industries: health care, leisure and hospitality, and government. As illustrated in Figure 3, since 2020, these three industries have accounted for at least 40% of the total annual jobs gains. In 2023 and YTD 2024, the concentration ratio was nearly 80%.

Figure 2: U.S. Job Creation Trends

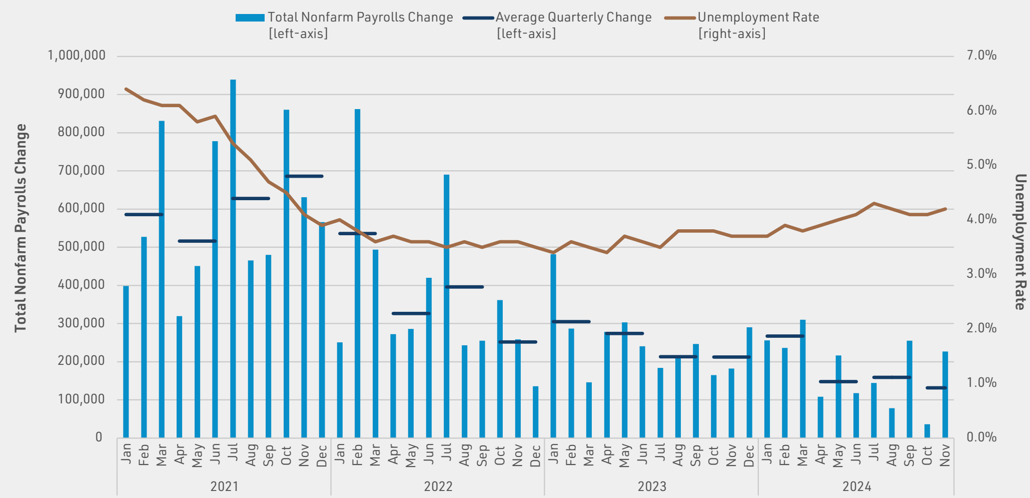
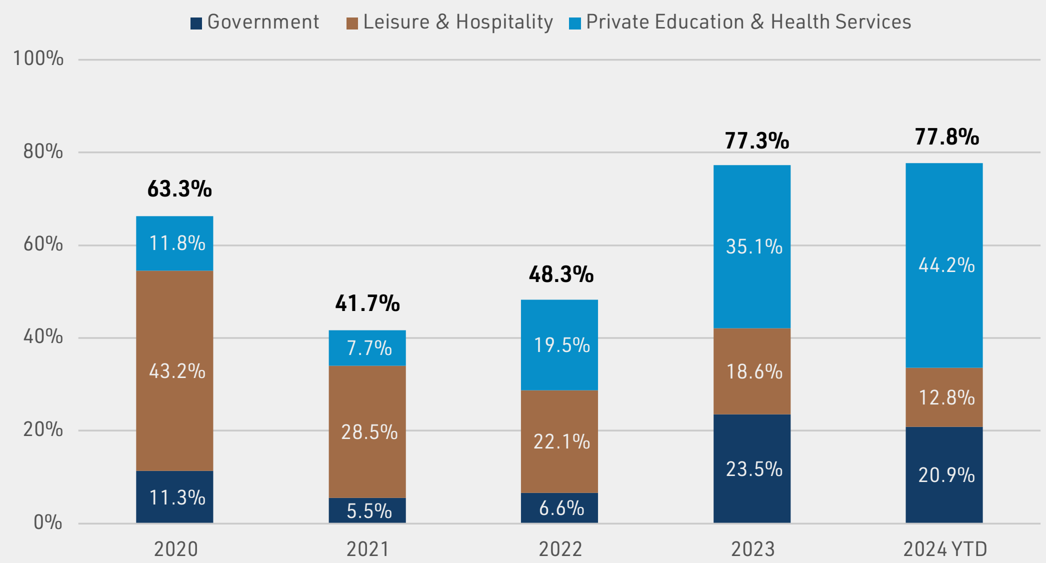


Figure 3: U.S. Job Creation by Industry



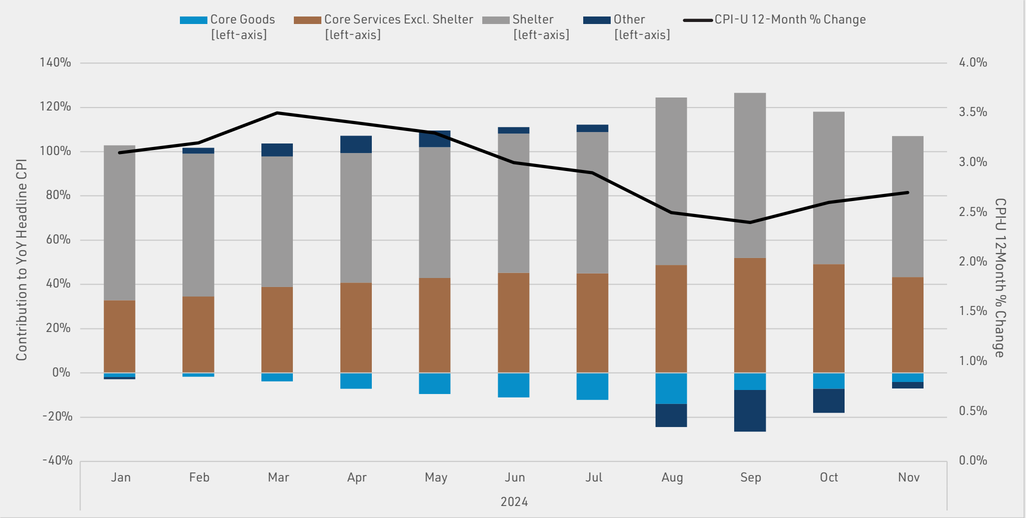
Second, while headline employment growth averaged about 180,000 jobs per month through November, there have been significant variations across months. In October, for instance, we saw the preliminary jobs estimate come in significantly below consensus at 12,000 (subsequently revised up to 36,000) due to the impacts from Hurricane Milton and Helene along with the Boeing strike at the time. Job growth did rebound in November (at +227,000), signaling October's report was more of an idiosyncratic issue. But with declining response rates across the BLS's surveys, pinpointing the true level of underlying job growth will remain a challenging endeavor.

INFLATION

Shelter Costs Stall Progress, Fiscal Policy Adds Uncertainty

The risks inherent in managing the Federal Reserve's dual mandate – price stability and maximum employment – are roughly in balance now that inflation has been considerably reined in over the past few years. While there are several ways to measure inflation, the Consumer Price Index (CPI), which peaked at 9.1% in June 2022, had fallen to 2.7% year-over-year (YoY), as of November 2024. Figure 4 illustrates the three overarching categories' contributions to the annual CPI change as decomposed by Federal Reserve Chair, Jerome Powell. The three categories are core goods, core services excluding shelter (i.e., supercore), and shelter inflation.

Figure 4: Contribution to YoY Change in Headline CPI



Core Services Excluding Shelter based on proxy line item, 'Services less rent of shelter.'

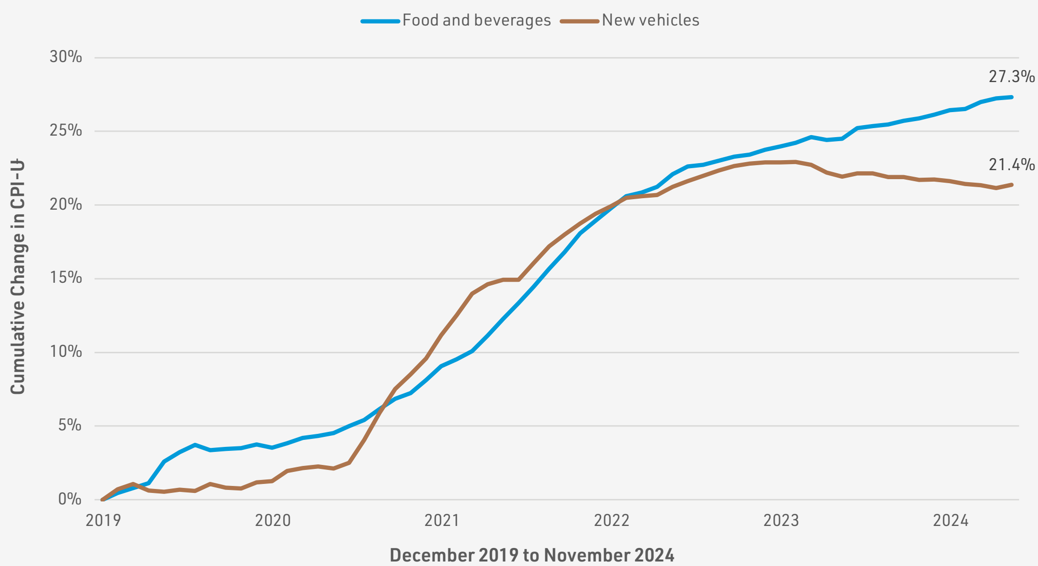
While core goods have been deflationary since the beginning of 2024 (hence the negative contribution), almost two-thirds of the annual increase in the November CPI was attributed to shelter inflation. With a weighting of nearly 37% in the index, shelter inflation remains elevated at 4.7% YoY. So, the Federal Reserve has yet to meet its inflation target of 2.0%. If all else remains the same, shelter inflation would have to fall to 2.8% for the annual change in headline CPI to drop to 2.0%.

To clarify, the Federal Reserve's 2.0% target is based on the Personal Consumption Expenditures (PCE) Price Index. The PCE Price Index is the primary measure of consumer spending on goods and services in the U.S. economy. Consequently, since it is the primary engine that drives future economic growth, it is also the Federal Reserve's preferred measure of inflation. Notably, the PCE Price Index tends to report lower inflation levels than the CPI (the relative weighting of housing, for example, is considerably lower in the PCE Price Index, at about 18%). As of October 2024, the headline PCE Price Index was at 2.3% YoY, yet 2.8% for the core reading.

Overall, it's fair to say that the Federal Reserve has been successful in bringing down inflation without a material weakening of the labor market. The Fed, of course, was notoriously late to raise interest rates to combat inflation; the economic debate at the time centered around whether or not inflation was transitory. By the time of the first rate hike of this cycle in March 2022, the CPI was already at 8.5% YoY! Since then, while there has been disinflationary progress, anecdotal evidence suggests that consumers are still basing the prices they should pay for goods and services to those they paid in 2019, before the economic fallout from the pandemic led to significant price increases.

Figure 5 plots the increase in two such examples, grocery prices (e.g., food and beverages) and new vehicles. Since year-end 2019, food and beverage prices have increased 27.3% and new vehicle prices are up 21.4%. For perspective, the CPI-U has cumulatively risen by 22.8% over this period. In other words, when consumers go to the grocery store or buy a new car, they still feel inflation's lingering sting. Despite a historically low unemployment rate, higher prices are likely one factor that led not only to the re-election of President Trump but also to a Republican-controlled Congress.

Figure 5: Disinflation, but Prices are Elevated Relative to December 2019



The good news is, since around the middle of 2023, wage growth has outpaced inflation. The bad news: thanks to the cumulative effects of inflation outpacing wage growth prior to that, consumers' purchasing power, on aggregate, is still slightly lower relative to the start of the pandemic. The inflation story may not be over and additional disinflationary progress will likely be impacted by the new administration's policies on everything from tariffs to immigration. How the Federal Reserve recalibrates monetary policy in response to such policies will only make an already difficult job even more challenging.

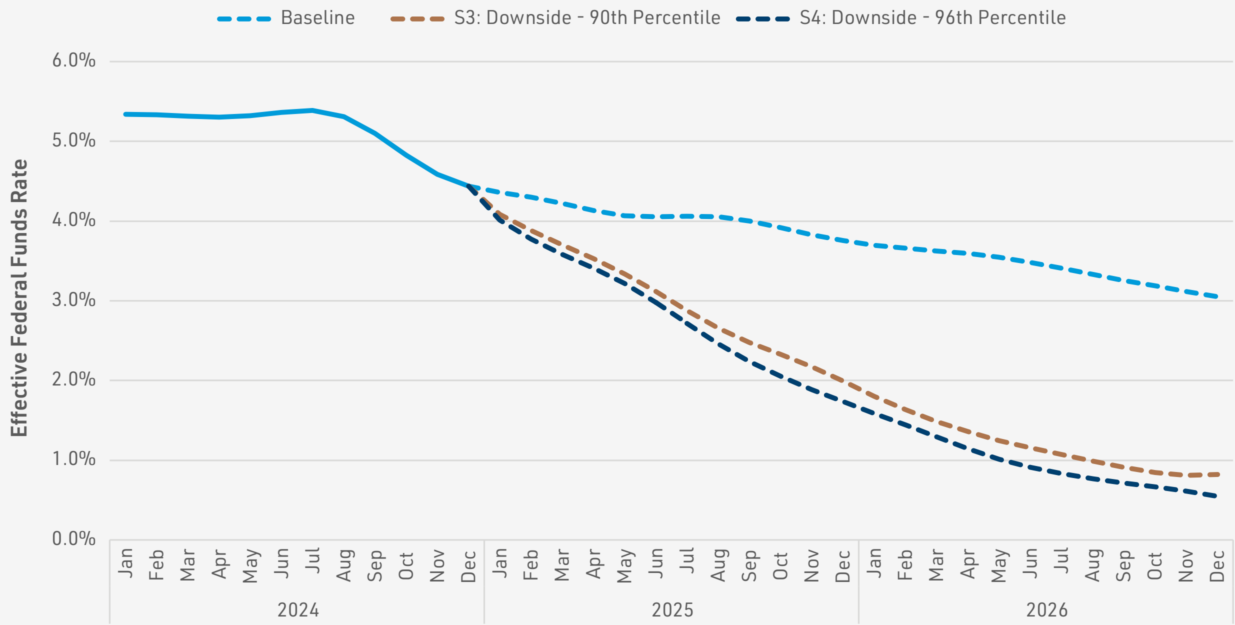
INTEREST RATES

Is 'Higher for Longer' the New Normal?

As previously mentioned, by the time the Federal Reserve started raising interest rates in March 2022, consumer inflation was already at 8.5% YoY. Ultimately, with inflation returning to target and a slowing but not slow labor market, the Federal Reserve decided in its September 2024 Federal Open Market Committee (FOMC) meeting to reduce the federal funds rate by 50 basis points from its 23-year high of 5.25%-5.50%. Since the Fed was late to raise rates to combat inflation when it started to accelerate in early 2021, perhaps it didn't want to be criticized for failing to lower interest rates fast enough as signs of a weakening labor market emerged.

Recall that in early August 2024, the July nonfarm report sent global marks into a tailspin when job growth fell short of expectations at 114,000 and the unemployment rate crept up to 4.3%, triggering the Sahm rule. While the BLS reported that another event, hurricane Beryl, had no discernible impact on its two surveys, the August 5th global market selloff was affected by the unwinding of the yen carry trade – the Bank of Japan (BOJ) raised its short-term policy rate on July 31st. However, markets were placated the following week by a benign initial jobless claims report. My point is, given this backdrop prior to the September FOMC meeting, it's understandable why the Fed opted for the larger 50 basis point (bps) cut as opposed to the more conventional 25-bps reduction.

Figure 6: Effective Federal Funds Rate Forecast



Moody's Analytics baseline forecast as of December 2024

Ultimately, the equity market as measured by the S&P 500 recouped those losses, notching 57-all-time highs in 2024 and 23.3% gain. In fact, this was the index's best two-year run since 1997-1998. As for interest rates, since the December reduction in the federal funds rate, the policy rate has been cumulatively reduced by 100 bps in 2024. It currently sits in the target range, between 4.25% to 4.50%. Despite 100 bps of easing, the conventional view is that the federal funds rate is still in restrictive territory and will need to decline further so that rates are no longer constraining economic growth. As shown in Figure 6, Moody's Analytics' baseline forecast expects we will reach the neutral (R-star) rate of interest – approximately 3.0% – by the end of 2026.

Furthermore, signs of normalization are afoot. For instance, after more than two years of being inverted, the 2-10 yield curve spread disinverted in September 2024. For what it's worth, disinversion preceded recessions in 1990, 2001, 2007, and 2020. Granted, the past several years have been unprecedented in many regards and traditional economic relationships have not necessarily held. Nevertheless, the 2-10 spread is only slightly positive and is well below its long-term average. A return to higher risk premia on the long end of the curve is likely indicative of more stable financial conditions.

In the commercial real estate market, transaction volume across the four core property types has turned slightly positive in the second quarter of 2024 (after seven consecutive quarters of declines). However, it will remain weak until macroeconomic clarity emerges around the future path of interest rates and until price discovery can occur in earnest. Still, as we enter 2025 with a more favorable macroeconomic backdrop, we know that rates are poised to move lower. Even with geopolitical risks rising, the notion of "higher for longer" is likely here to stay and the zero interest rate policy (ZIRP) of the past decade is in the rearview mirror.

HOUSING

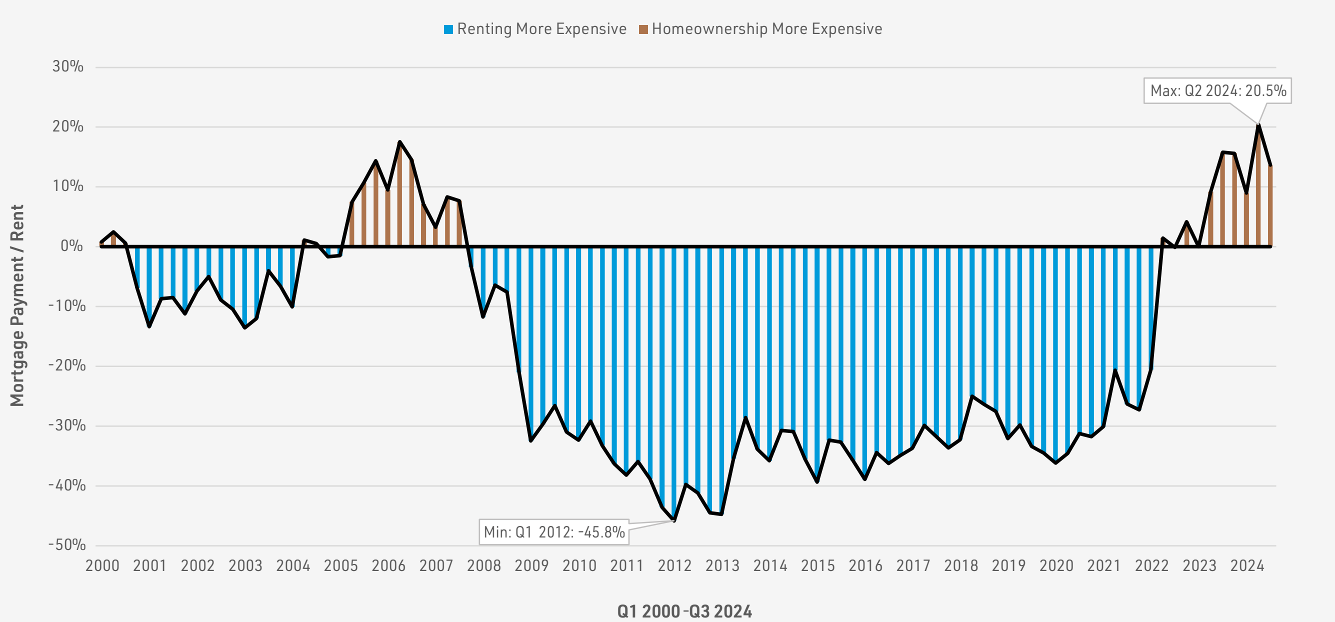
2024 Rate Cuts Won't Solve the Affordability Crisis

As stated previously, despite the Federal Reserve's pivot in monetary policy at the September FOMC meeting, the conventional wisdom is that interest rates are still in restrictive territory. For example, the 30-year fixed rate mortgage for the week ending January 2, 2025 was 6.91%, according to Freddie Mac's Primary Mortgage Market Survey. Higher financing costs have kept potential buyers sidelined and sellers disincentivized to move, since they can remain locked into their low mortgage rates. Moreover, affordability issues have been exacerbated by the fact that existing home prices have risen about 50% since year-end 2019, according to data from the National Association of Realtors. Granted, the 30-year fixed rate mortgage has declined since its peak of 7.79% in October 2023, but there is a dearth of housing stock in the United States due to years of underbuilding after the Global Financial Crisis.

Accordingly, the cost of a hypothetical mortgage payment was 20.5% higher in the second quarter of 2024 than the nationwide average cost of renting[1]. As depicted in Figure 7, this was an all-time high in the available data going back to at least 2000. The cost of homeownership relative to renting declined in the third quarter to 13.6%. In order for the cost of homeownership to be roughly at parity with the cost of renting, the 30-year fixed rate mortgage would need to decline to around 5.25%, if we hold rent growth and home price appreciation constant. Lower interest rates are certainly one avenue for mitigating housing affordability issues. But at the end of the day, the United States has a structural housing deficit of at least one million homes, and it needs to be addressed. Housing is fundamentally a local issue, yet it requires coordinated efforts at state, local, and federal levels to address challenges such as zoning laws, incentivizing development – particularly for low-income and workforce housing – and fostering public-private partnerships.

[1]Hypothetical mortgage payment assumes a 20% downpayment and is based on the average of the National Association of Realtors median existing-home sales price during the quarter and the average 30-year fixed rate mortgage during the quarter from Freddie Mac's Primary Mortgage Market Survey. Nationwide average multifamily rent per unit is sourced from Moody's.

Figure 7: Cost of Homeownership Versus Renting



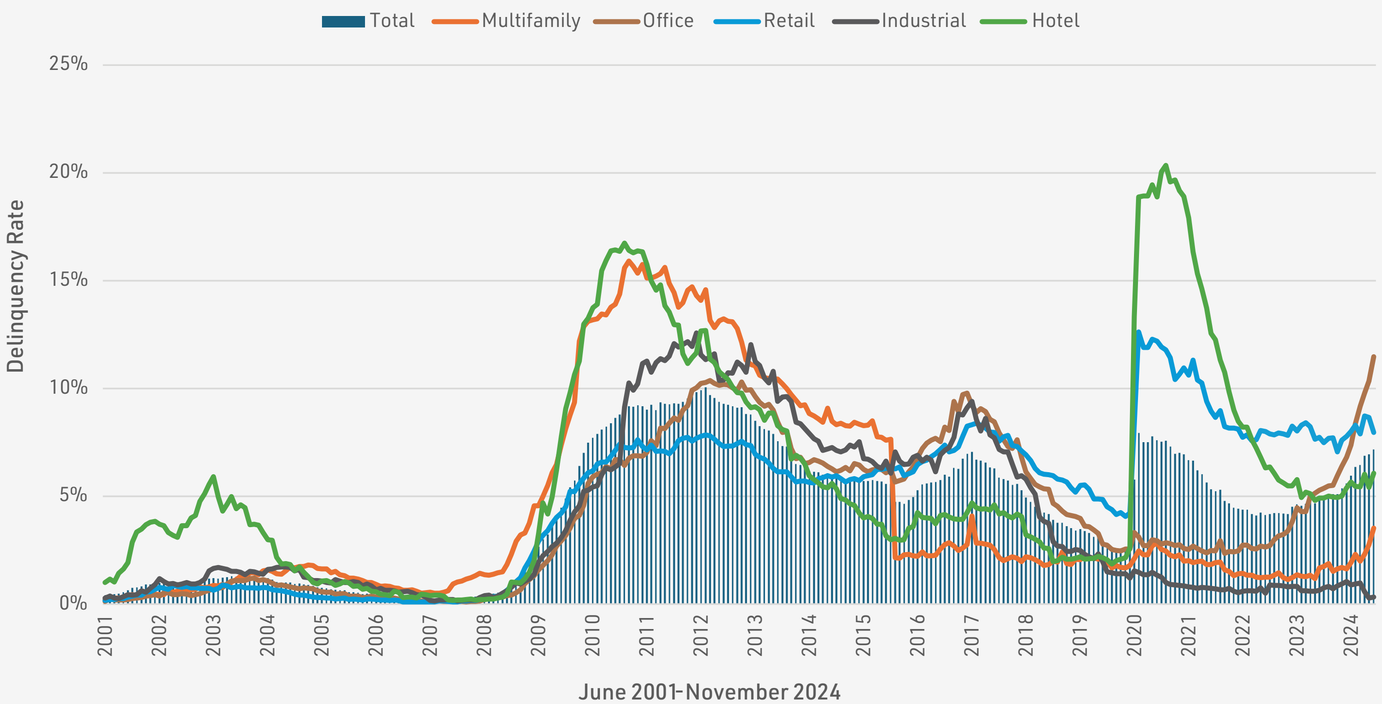
CAPITAL MARKETS

CMBS Office Delinquencies Reach Record High

Similar to the housing market, despite a full percentage point reduction in the federal funds rate in 2024, the commercial mortgage-backed securities (CMBS) market has faced its own set of challenges from "higher for longer" interest rates. Higher borrowing costs along with decreased property valuations have not only led to tighter lending conditions, but also increased refinancing risk, as borrowers face difficulties securing favorable terms for maturing loans. While themes such as "do more in '24" and "survive until '25" were echoed throughout industry conferences, with the Fed's December dot plot implying half as many rate cuts in 2025 than the previous release, borrowers that did manage an extension or loan modification into 2025, for example, are likely to see less relief than they had hoped for. While transaction volumes have improved, until there is more clarity around where the neutral rate of interest settles, buyers and sellers, will continue to be at odds.

Figure 8 which illustrates CMBS conduit loan delinquency rates by property type, paints a particularly bleak picture for the office sector. Over the first eleven months of 2024, the CMBS office delinquency rate increased by 611-bps to 11.47% in November, which was an all-time high going as far back in the available data to June 2001. For perspective, this even surpassed the dual peaks after the GFC of 10.38% in

Figure 8: CMBS Conduit Loan Delinquency Rate by Property Type



Data through November 2024. Conduit/Fusion CMBS only.

August 2012 and 9.80% in May 2017. The sector's relatively long lease terms which can be north of ten years especially for class A, central business district (CBD) offices, helps explain the slow bleed that we have observed historically. However, 2024 is set to report the fastest annual delinquency rate increase on record so just how much further the current level ascends remains to be seen.

Moreover, retail has been another challenged property type; however, its difficulties are largely due to malls. For instance, as of November 2024, the delinquency rate for enclosed regional malls was 20.08% yet if we were to exclude them from retail, the delinquency rate would drop to 4.06%. Hence, the retail delinquency rate of 7.97% shown in Figure 8 is biased upwards due to the ongoing struggles associated with malls. Ending on a more positive note, are the multifamily and industrial sectors. The industrial sector in particular has the lowest CMBS delinquency rate among the core four property types plus hotel at 0.34%, sitting well below its long-term average. In fact, only the industrial sector saw its delinquency rate decline through YTD November 30, 2024. While the multifamily sector saw its delinquency rate increase by 178-bps YTD to 3.54%, it still remains below its long-term average. In total, the overall CMBS conduit/fusion delinquency rate increased by 228-bps through November to 7.19%, which was the highest level since February 2021. While the aggregate change suggests credit risk has been on the rise, it's important to avoid generalizations, as performance varies significantly across property type.

> Higher borrowing costs along with decreased property valuations have not only led to tighter lending conditions, but also increased refinancing risk, as borrowers face difficulties securing favorable terms for maturing loans.

PROPERTY REPORTS

As we move into 2025, the commercial real estate market presents a dynamic and evolving landscape. Office faces challenges as hybrid work reshapes demand, multifamily stabilizes after years of volatility, retail redefines itself through experiential spaces, industrial evolves to meet shifting supply chains, and hospitality embraces new benchmarks driven by recovering travel demand. Each sector offers opportunities to innovate and grow—read on to explore the trends shaping these markets.

OFFICE

New Working Models Move Sector Toward Stability

Although a negative sentiment has persisted in the office sector for the past few years, supported by trends in our data, we expect to reach the peak vacancy rate in the relatively near future. While there is little indication of a return to pre-pandemic office utilization, stable employment and our permanent adaptation to new working models suggest that the peak may be near. Much has been written about the two extremes of fully remote work and return-to-office (RTO) mandates, but in reality many firms have settled on working systems somewhere in the middle. Businesses are balancing management's desire for in-person interaction with employees' preferences for greater flexibility and the ability to change firms. Five years of new working arrangements have moved the office sector into a new era.

While the vacancy rate set new records in 2024, the combination of low inventory growth, strong employment figures, expiring pre-pandemic and early pandemic leases, and increased RTO and hybrid working models are converging to slow the rise in the national vacancy rate, though the exact timing of the peak remains uncertain.

> Some firms are willing to make the tradeoff for smaller spaces in newer, higher quality class A offices to maximize in-person working days.

Trouble in the office sector has captured headlines and fueled discussions over the makeup of the sector's future. While vacancy rates have continued to climb, the slow-bleed aspect of the sector's struggles offer opportunities. Over the last five years, we've observed significant trouble in both the transaction and space sides of the market, though we are moving towards an equilibrium, as new working models take permanent foothold and older leases continue to rollover.

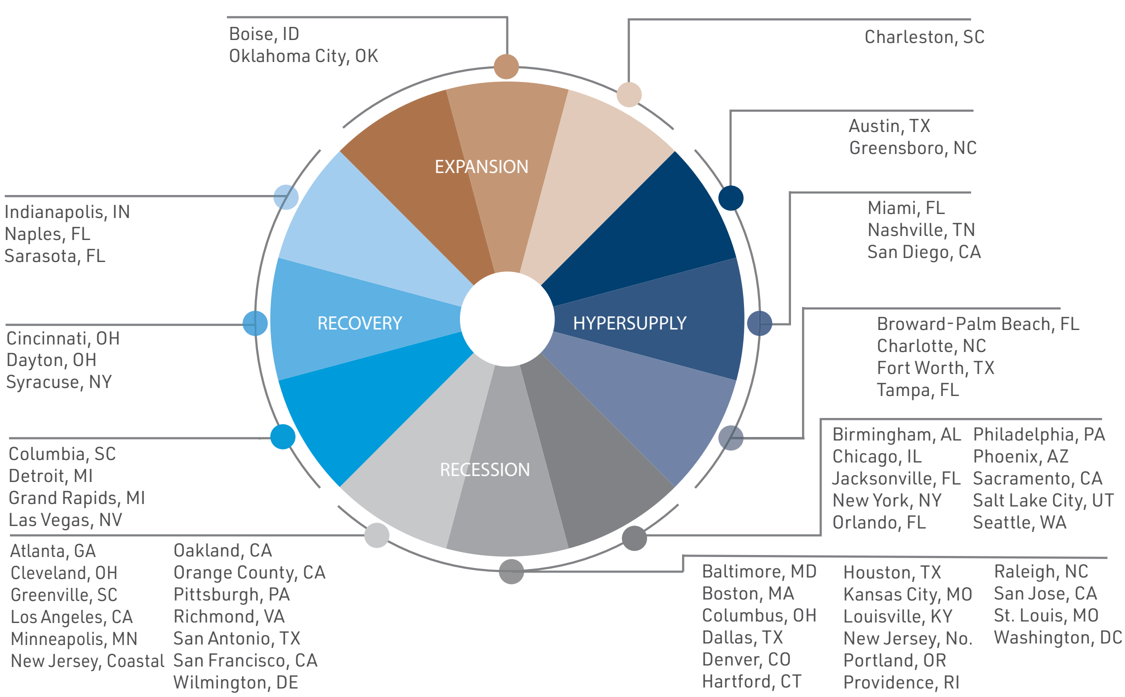
The national office vacancy rate broke Moody's historic records this year. Q4 2024 ended at a 20.4%, beating out record-setting percentages in 1986 and 1991. Relative to historic peaks, we only recently surpassed previous records for the past year, though pain in the office sector isn't anything new. What is new are the underlying drivers leading to pain in the sector. Previous historic peaks were associated with either inventory growth or, more commonly, economic downturns. Traditionally, employment has a strong correlation with performance in the sector, but the struggles since the pandemic are being driven by what appear to be permanent adaptations. The headlines have been dominated by a few select firms', such as Amazon's, return-to-office mandates, but wide-spread adoption of hybrid and remote working models persist. A combination of factors has led to this wide-spread embrace. While we're continuing to see a rise in the number of workers returning to the office five years after the pandemic, it's clear we also have a new normal in office utilization rates.

Despite the continued uptick in the Moody's national office vacancy rate, now at 20.4%, end-of-year class A and class B vacancy rates are between 20% and 21%, and there are variables suggesting we may be reaching the peak in the coming year. While office leases vary in length to a great degree, many lease lengths are in the three-to-five-year range. This has contributed greatly to the slow-bleed of the office sector, making it challenging to gauge where long-term office demand will settle. Many pre-pandemic leases were long, and were made longer early in the pandemic as offices tried to hold on to tenants. The combination of longer leases and pandemic-era concessions means the peak pain point may be approaching, but rather than a sharp turnaround in the vacancy rate we're likely to see a period of mostly flat adjustment in the coming years.

Over the past year or two, we've seen the signs of that period of adjustment, thanks to class trend data, which is the key to understanding what's occurring in the office space market. Class A properties, particularly those at the very top of class A, are having some of the greatest success driving rent growth. At the same time, however, the decrease in demand for in-person work and the greater emphasis on shared working spaces make having smaller, higher quality communal space a key attraction for office tenants. Despite stronger rent growth in class A over class B properties, a gap of 1.2% compared to 0.7%, the vacancy rate is actually growing at a greater rate in class A over class B—123 basis points for class A properties against 39 basis points for class B. This suggests some firms are willing to make the tradeoff for smaller spaces in newer, higher quality class A offices to maximize in-person working days.

Given significant challenges in both the financial and performance sides of the office market, we'd already expect construction to be relatively low compared to historic trends. Further compounding the issue, a tough interest rate environment that's led to construction slowdowns across commercial real estate sectors. We're anticipating inventory growth will be around 2.4% over the next two years with much of the growth coming from

OFFICE MARKET CYCLE



EXPANSION	HYPERSUPPLY	RECESSION	RECOVERY
Decreasing Vacancy Rates	Increasing Vacancy Rates	Increasing Vacancy Rates	Decreasing Vacancy Rates
Moderate/High New Construction	Moderate/High New Construction	Moderate/Low New Construction	Low New Construction
High Absorption	Low/Negative Absorption	Low Absorption	Moderate Absorption
Moderate/High Employment Growth	Moderate/Low Employment Growth	Low/Negative Employment Growth	Low/Moderate Employment Growth
Med/High Rental Rate Growth	Med/Low Rental Rate Growth	Low/Neg Rental Rate Growth	Neg/Low Rental Rate Growth

REGIONAL RATES COMPARISON – OFFICE

	CAP RATE	DISCOUNT RATE	MARKET RENT ($/SF)	VACANCY RATE	Q3'23 - Q3'24 CAP RATE △
SOUTH REGION					
CBD Class A	7.59%	8.96%	$28.93	20.32%	▼ 3 bps
Suburban Class A	7.78%	9.05%			▼ 7 bps
CBD Class B	8.35%	9.61%	$20.90	20.96%	▼ 5 bps
Suburban Class B	8.35%	9.62%			▼ 19 bps
EAST REGION					
CBD Class A	8.41%	9.45%	$40.42	18.00%	▲ 38 bps
Suburban Class A	8.75%	9.84%			▲ 27 bps
CBD Class B	9.05%	10.16%	$27.59	18.27%	▲ 40 bps
Suburban Class B	9.34%	10.48%			▲ 17 bps
CENTRAL REGION					
CBD Class A	9.06%	10.35%	$25.61	21.56%	▲ 27 bps
Suburban Class A	8.60%	9.79%			▲ 21 bps
CBD Class B	9.85%	10.96%	$18.74	22.69%	▲ 41 bps
Suburban Class B	9.29%	10.25%			▲ 21 bps
WEST REGION					
CBD Class A	7.38%	8.92%	$40.89	21.05%	▲ 34 bps
Suburban Class A	7.46%	8.95%			▲ 32 bps
CBD Class B	7.87%	9.35%	$29.04	20.34%	▲ 26 bps
Suburban Class B	7.95%	9.34%			▲ 23 bps
NATIONAL AVERAGES/SPREADS					
CBD Class A	8.01%	9.34%	$33.09	20.28%	▲ 20 bps
Suburban Class A	8.05%	9.32%			▲ 13 bps
CBD Class B	8.69%	9.94%	$23.54	20.65%	▲ 20 bps
Suburban Class B	8.63%	9.84%			▲ 4 bps

a few key markets. Between now and the end of 2026, perennial market leaders Austin and Dallas are expected to remain strong with double-digit growth potential of 13.6% and 10.5%, respectively. Raleigh-Durham's office inventory should continue to grow, much as other sectors in that market, all buoyed by a strong local economy with expected inventory growth of around 8.5% over the next two years.

According to survey data, the negative mood that has affected the office sector for the last few years will continues to linger. However, we should arrive at the peak vacancy rate in the next year or two. While there are little signs for hope of a return to pre-pandemic office utilization, stable employment and our permanent adaption to new working models suggest the peak may be near. A great deal has been written about remote work and RTO mandates, but it appears an equilibrium is increasingly moving towards the middle ground of hybrid as businesses balance the desire of management to shape in-person interaction with employee preferences for greater flexibility and the ability to switch firms. Low inventory growth, expiring pre-pandemic leases, and increased RTO and hybrid working models are converging and slowing the vacancy rise, although the exact timing of the peak remains elusive. Five years after the start of the pandemic, firms, employees, and office owners have a better sense of their preferences. Those are driving us to our new office equilibrium.

> Given significant challenges in both the financial and performance sides of the office market, we'd already expect construction to be relatively low compared to historic trends.

PROJECTED OFFICE INVENTORY UNDER CONSTRUCTION (UC) 2024–2026

Region	Market	2024 Inventory(SF)	2024-2026 % of Total UC	3-Year UC (SF)
South	Austin	60,846,000	13.62%	8,290,000
South	Dallas	190,037,000	10.53%	20,004,000
South	Raleigh-Durham	48,208,000	8.56%	4,126,000
West	Seattle	104,474,000	8.10%	8,459,000
West	San Jose	75,622,000	5.85%	4,425,000
Central	Omaha	20,940,000	5.45%	1,141,000
South	Palm Beach	23,585,000	5.26%	1,240,000
Central	Kansas City	44,426,000	5.05%	2,244,000
East	Baltimore	69,889,000	4.77%	3,332,000
West	Sacramento	45,550,000	3.43%	1,564,000
South	Nashville	39,076,000	3.36%	1,312,000
South	Fort Lauderdale	29,043,000	2.94%	853,000
Central	Cleveland	33,805,000	2.72%	918,000
West	San Diego	67,464,000	2.58%	1,738,000
Central	Columbus	34,545,000	2.47%	852,000
Central	Dayton	12,379,000	2.46%	305,000
Central	Cincinnati	35,870,000	2.38%	855,000
West	Phoenix	82,222,000	2.20%	1,808,000
West	Colorado Springs	14,790,000	2.10%	310,000
South	Charlotte	57,298,000	2.06%	1,181,000
West	Denver	99,520,000	2.04%	2,034,000
South	Atlanta	158,610,000	1.94%	3,084,000
West	Los Angeles	211,045,000	1.83%	3,852,000
Central	Detroit	75,843,000	1.79%	1,359,000
East	Boston	144,006,000	1.75%	2,516,000
Central	Indianapolis	34,111,000	1.66%	566,000
Central	St. Louis	47,898,000	1.63%	783,000
South	Miami	48,941,000	1.61%	786,000
East	Pittsburgh	56,023,000	1.59%	889,000
West	Las Vegas	27,130,000	1.45%	393,000
South	Suburban Virginia	147,060,000	1.40%	2,056,000
West	Salt Lake City	36,216,000	1.37%	497,000
East	Northern New Jersey	105,848,000	1.35%	1,427,000
West	San Francisco	105,117,000	1.32%	1,388,000
East	New York Metro	385,130,000	1.32%	5,066,000
Central	Chicago	266,374,000	1.29%	3,447,000
East	Suburban Maryland	70,706,000	1.21%	855,000
South	Greenville	9,448,000	1.20%	113,000
South	Tampa-St. Petersburg	43,165,000	1.16%	501,000
South	Fort Worth	26,923,000	1.16%	312,000
South	Houston	191,916,000	1.15%	2,211,000
South	San Antonio	32,663,000	1.03%	335,000
East	Philadelphia	115,753,000	0.87%	1,005,000
West	Tacoma	7,009,000	0.81%	57,000
West	Oakland-East Bay	55,342,000	0.76%	419,000
West	Orange County	86,389,000	0.72%	619,000
South	Birmingham	18,051,000	0.70%	126,000
East	District of Columbia	113,130,000	0.70%	788,000
South	Greensboro/Winston-Salem	18,284,000	0.60%	110,000
South	Norfolk/Hampton Roads	17,804,000	0.56%	100,000
Central	Minneapolis	83,693,000	0.51%	428,000
South	Oklahoma City	16,988,000	0.47%	80,000
South	Charleston	9,818,000	0.41%	40,000
West	Portland	44,359,000	0.38%	170,000
South	New Orleans	19,632,000	0.35%	69,000
East	Central New Jersey	67,330,000	0.30%	202,000
Central	Wichita	9,044,000	0.24%	22,000
Central	Milwaukee	31,306,000	0.23%	73,000
East	Rochester	15,276,000	0.20%	31,000
South	Knoxville	6,617,000	0.15%	10,000
South	Orlando	33,563,000	0.13%	42,000
Central	Louisville	22,907,000	0.09%	20,000
East	Syracuse	11,907,000	0.08%	10,000
West	San Bernardino/Riverside	19,752,000	0.05%	10,000
Central	Memphis	20,161,000	0.05%	10,000

Region	2024 Inventory (SF)	2024-2026 % of Total UC	3-Year UC (SF)
Central Region	773,302,000	1.68%	13,023,000
East Region	1,154,998,000	1.40%	16,121,000
South Region	1,247,576,000	3.77%	46,981,000
West Region	1,082,001,000	2.56%	27,743,000
US Total	4,257,877,000	2.44%	103,868,000

- South Region
- East Region
- West Region
- Central Region

MULTIFAMILY

A Year of Stability Lays the Foundation for a Strong Future

Multifamily continued to stabilize throughout 2024. Vacancy rates rose across classes and rent growth was small but positive. After four tumultuous years of uncertainty from the pandemic transitioned into an inflationary period, multifamily is positioned for a period of stability. Inventory growth is expected to slow, which will lead to a declining vacancy rate and a return to steady pre-pandemic rent growth in the year ahead. Demand remained steady as unemployment held at 4.1% despite some fear surrounding jobs reports this summer, while supply growth remained historically strong in 2024 following significant completions in 2023. Metros across the Sunbelt have seen the strongest performance in recent years, driven by population growth and strong local economies, although we're beginning to see some of that population growth move to the Midwest as Americans pursue more-affordable housing. This was once a perk of the Sunbelt region, which has seen prices rise. Inventory growth in the multifamily market dropped the national rent-to-income ratio (RTI) to 26.7% in Q3 2024, down from the Q4 2019 pre-pandemic average of 27.8%. This underscores the divergence between America's single-family and multifamily markets.

America's multifamily market has moved into an interesting phase. After negative rent growth in 2020, 2021 and 2022 were defined by high rent growth. Rent again fell into the negative in 2023. Our survey results initially suggest a relatively flat year; nationally, market rents increased by just .27% in class A units and a mere .12% in class B.

Compounding on minimal rent growth in the space, the national vacancy rate rose by 109 basis point and 44 basis points in class A and B respectively. Rising vacancy rates, flat rent growth, and minor cap rate increases combined to suggest the multifamily sector had a disappointing year, and in some ways this is true for investors. However, the multifamily sector's performance and position heading into the next two years requires a longer-term view.

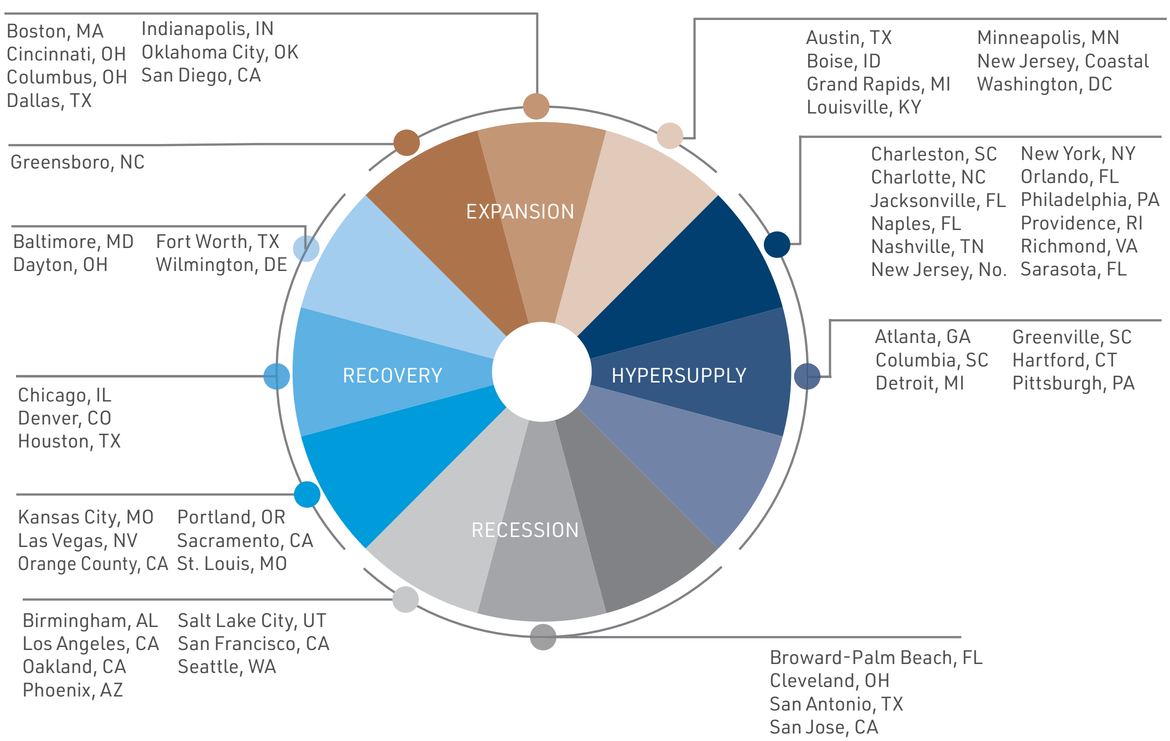
According to Moody's multifamily data, as of Q3 2024, the national inventory for multifamily markets has expanded over the past decade by a significant 25.2%. In particular, 2023 and 2024 saw elevated levels of completions that were at or near record rates. The multifamily market has been in a correction phase following a pre-pandemic, decades-long growth phase. This was propelled by a low interest rate environment, which was sparked in 2020 — the early days of the Federal Reserve's battle against economic uncertainty. Today, demand drivers are on steady footing and unemployment remains low, at 4.1% nationally, while income growth is strong. These factors combine to keep household formation healthy; the rising vacancy rate is a short-term cause of temporary over-expansion in some markets.

It's likely that the rising vacancy rate in 2024 reverses as we move into 2025. We expect lower rates of completion, given the lag time in construction over the past two years of increased completions, which started in a lower cost environment. This will give way to pressures from the period of higher for longer. With lower completions, assuming employment remains steady short of any economic shocks, recent completions are likely to be filled, leading to a decline in the vacancy rate and an expected rise in rents. 2024's low rent growth reflects 2023's poorer rent performance, though the same pressures affecting the vacancy rate are likely to impact rent growth in the years ahead.

Sunbelt stars have dominated inventory growth over the past few years, and a number of them are expected to continue to enjoy significant expansion over the next two years. Raleigh-Durham (+11.3%), Nashville (10.2%), and Charlotte (9.3%) have stood out as particularly expansive markets positioned to continue with near-double-digit inventory growth expected by the end of 2026. Some of the larger markets in the Sunbelt, namely Texas metros like Dallas (+4.3%) and Houston (+2.4%), are also positioned to continue expansion, though with larger existing inventories. Austin (+10.8%) illustrates a historically smaller-size market that has rapidly expanded against two larger metros, Dallas and Houston – cities with decent total inventory expansion but smaller relative growth rates. Metros similar to Austin, a previously medium sized city rapidly spreading and developing, feature some of the greatest potential for explosive growth.

Raleigh-Durham, Nashville, and Charlotte represent some of America's medium-sized population centers that are experiencing the beneficial effects of economic and population growth requiring additional development. Interestingly, our data has some prominent metros just outside of other larger metros. Both suburban Maryland (+9.5%) and Virginia (+6.2%) are positioned to experience growth at rates higher than Washington D.C. (+4.8%) over the next two years, as is northern New Jersey (11.5%) relative to the New York metro (8.2%). While the Sunbelt has received most of the multifamily attention, a number of prominent non-Sunbelt metros are continuing their

MULTIFAMILY MARKET CYCLE



EXPANSION	HYPERSUPPLY	RECESSION	RECOVERY
Decreasing Vacancy Rates	Increasing Vacancy Rates	Increasing Vacancy Rates	Decreasing Vacancy Rates
Moderate/High New Construction	Moderate/High New Construction	Moderate/Low New Construction	Low New Construction
High Absorption	Low/Negative Absorption	Low Absorption	Moderate Absorption
Moderate/High Employment Growth	Moderate/Low Employment Growth	Low/Negative Employment Growth	Low/Moderate Employment Growth
Med/High Rental Rate Growth	Med/Low Rental Rate Growth	Low/Neg Rental Rate Growth	Neg/Low Rental Rate Growth

REGIONAL RATES COMPARISON - MULTIFAMILY

	CAP RATE	DISCOUNT RATE	MARKET RENT ($/SF)	VACANCY RATE	Q3'23 - Q3'24 CAP RATE △
SOUTH REGION					
CBD Class A	5.49%	7.01%	$1,679.50	7.48%	▲ 13 bps
Suburban Class A	5.65%	7.08%			▲ 17 bps
CBD Class B	6.19%	7.81%	$1,118.21	6.08%	▲ 7 bps
Suburban Class B	6.32%	7.81%			▲ 15 bps
EAST REGION					
CBD Class A	5.98%	7.21%	$2,295.70	6.47%	▲ 19 bps
Suburban Class A	6.05%	7.30%			▲ 16 bps
CBD Class B	6.53%	7.75%	$1,574.80	3.98%	▲ 27 bps
Suburban Class B	6.75%	7.86%			▲ 31 bps
CENTRAL REGION					
CBD Class A	5.97%	7.67%	$1,569.18	6.84%	▼ 1 bps
Suburban Class A	5.88%	7.64%			▼ 12 bps
CBD Class B	6.73%	8.48%	$983.55	3.82%	▼ 9 bps
Suburban Class B	6.61%	8.44%			▼ 23 bps
WEST REGION					
CBD Class A	5.12%	6.83%	$2,546.00	6.19%	▲ 13 bps
Suburban Class A	5.25%	6.93%			▲ 16 bps
CBD Class B	5.50%	7.23%	$1,740.77	4.24%	▲ 17 bps
Suburban Class B	5.68%	7.39%			▲ 17 bps
NATIONAL AVERAGES/SPREADS					
CBD Class A	5.61%	7.15%	$1,959.03	6.90%	▲ 11 bps
Suburban Class A	5.68%	7.20%			▲ 10 bps
CBD Class B	6.22%	7.81%	$1,310.93	4.87%	▲ 10 bps
Suburban Class B	6.31%	7.85%			▲ 10 bps

significant inventory expansions. Minneapolis (+8.4%), Seattle (+7.3%), Columbus (+7.6%), and Denver (+5.8%) have made headlines in their regions with local efforts to incentivize further growth. Expect continued expansion in those cities over the next two years; this underscores that while regional trends point toward the South, housing challenges exist across the country, representing divergent housing needs and opportunities.

Finding investment opportunities in the years ahead will require steady economic fundamentals and local insight into the desire for growth. Local referenda and policy shifts at the city and state levels provided mixed results in the November 2024 election. California voters rejected proposition five, which would have made additional funding of projects at the local level easier to pass by reducing the threshold from two-thirds of the vote to 55% of the vote, They also rejected proposition 33, which would have given cities greater ability to control rent. Meanwhile, voters across North Carolina generally passed affordable housing related measures, most notably a $100 million bond in Charlotte. While national housing trends are important, we've seen over the last decade the importance of zoning reforms and public-private partnerships in driving housing development at the local level. To identify growth opportunities, it remains important to gauge public attitudes and the desire for expanded multifamily housing in a given area.

At first glance, rent growth of .27% for Class A properties and .12% for Class B properties, combined with limited vacancy growth in each, suggest a relatively flat year for the multifamily market. A better way to look at the relatively disappointing numbers resulting from the supply boom is that we're experiencing a period of adjustment to expanded supply with steady demand drivers. We're expecting rent growth to pick back up and the vacancy rate to decline in 2025 as supply expansion slows. Given construction time for multifamily projects, the period of higher for longer has greatly affected the supply pipeline. We're anticipating a return to pre-pandemic steadiness and rent growth returning to it's long run average of around 2% to 3% after five tumultuous years.

PROJECTED MULTIFAMILY INVENTORY UNDER CONSTRUCTION (UC) 2024–2026

Region	Market	2024 Inventory (SF)	2024-2026 % of Total UC	3-Year UC (SF)
East	Westchester	52,224	16.47%	8,603
East	Northern New Jersey	286,295	11.47%	32,824
South	Raleigh-Durham	172,765	11.34%	19,599
South	Austin	292,297	10.76%	31,445
South	Nashville	163,987	10.19%	16,710
East	Suburban Maryland	185,212	9.48%	17,567
South	Charlotte	197,956	9.30%	18,408
South	Greenville	57,007	8.64%	4,927
South	Orlando	211,989	8.48%	17,981
West	Colorado Springs	43,963	8.45%	3,715
Central	Minneapolis	226,121	8.41%	19,025
East	New York Metro	502,534	8.18%	41,127
Central	Columbus	173,197	7.58%	13,135
Central	Kansas City	160,203	7.51%	12,025
East	New Haven	21,276	7.50%	1,595
West	Seattle	295,074	7.30%	21,553
South	Charleston	58,014	7.05%	4,088
West	Las Vegas	167,833	6.91%	11,600
West	Salt Lake City	113,273	6.73%	7,626
Central	Indianapolis	139,742	6.59%	9,215
South	Palm Beach	82,964	6.37%	5,284
South	Suburban Virginia	220,160	6.20%	13,658
South	Fort Lauderdale	118,034	6.17%	7,282
East	Providence	19,087	6.09%	1,163
Central	Milwaukee	117,314	6.00%	7,036
West	San Bernardino/ Riverside	146,204	5.93%	8,670
West	Phoenix	363,989	5.80%	21,116
West	Denver	268,440	5.78%	15,507
Central	Cincinnati	123,716	5.66%	7,002
East	Philadelphia	258,647	5.59%	14,449
South	Miami	172,852	5.28%	9,127
South	Jacksonville	102,978	5.19%	5,347
West	Albuquerque	42,960	5.06%	2,174
East	Fairfield County	45,628	5.04%	2,301
East	Buffalo	25,448	5.04%	1,283
West	San Francisco	165,277	5.03%	8,308
South	Tampa-St. Petersburg	215,060	4.95%	10,647
East	Hartford	47,263	4.79%	2,264
East	District of Columbia	141,507	4.78%	6,766
Central	Omaha	58,609	4.75%	2,785
West	Portland	159,038	4.72%	7,504
South	San Antonio	215,137	4.61%	9,912
Central	Dayton	39,552	4.55%	1,800
Central	Louisville	61,357	4.44%	2,725
West	San Jose	149,459	4.43%	6,617
East	Central New Jersey	193,302	4.39%	8,484
South	Atlanta	480,402	4.32%	20,767
South	Dallas	631,188	4.30%	27,155
West	Los Angeles	871,143	4.13%	35,978
South	Richmond	93,285	4.02%	3,754
West	Oakland-East Bay	171,751	3.97%	6,811
Central	Wichita	30,873	3.95%	1,221
East	Boston	274,295	3.82%	10,479
South	Fort Worth	218,834	3.81%	8,342
West	Tucson	66,724	3.73%	2,492
West	San Diego	219,792	3.50%	7,693
Central	St. Louis	138,074	3.44%	4,748
South	Greensboro/ Winston-Salem	81,180	3.36%	2,728
West	Sacramento	117,302	3.35%	3,926
Central	Cleveland	124,521	3.21%	3,993
South	Birmingham	52,492	3.13%	1,641
East	Rochester	44,434	3.00%	1,335
Central	Lexington	24,493	2.90%	710
West	Ventura County	77,423	2.89%	2,236
Central	Chicago	528,753	2.88%	15,247
West	Orange County	241,113	2.80%	6,754
West	Tacoma	46,052	2.76%	1,272
East	Pittsburgh	99,877	2.71%	2,706
South	Columbia	39,521	2.66%	1,053
South	Houston	715,864	2.42%	17,300
East	Baltimore	178,503	2.18%	3,895
Central	Detroit	227,592	2.11%	4,803
East	Long Island	106,998	2.06%	2,208
South	Little Rock	36,527	1.96%	717
South	Knoxville	38,352	1.84%	704
South	Norfolk/Hampton Roads	110,681	1.74%	1,931
South	Tulsa	72,824	1.37%	996
South	Chattanooga	23,034	1.18%	271
South	New Orleans	63,924	1.03%	659
Central	Memphis	87,731	1.02%	893
South	Oklahoma City	95,793	0.77%	733
East	Syracuse	20,176	0.60%	121

Region	2024 Inventory (SF)	2024-2026 % of Total UC	3-Year UC (SF)
Central Region	2,261,848	4.70%	106,363
East Region	2,502,706	6.36%	159,170
South Region	5,035,101	5.23%	263,166
West Region	3,726,810	4.87%	181,552
US Total	13,526,465	5.25%	710,251

South Region
East Region
West Region
Central Region

RETAIL

An Evolving Segment Finds Opportunity in New Formats

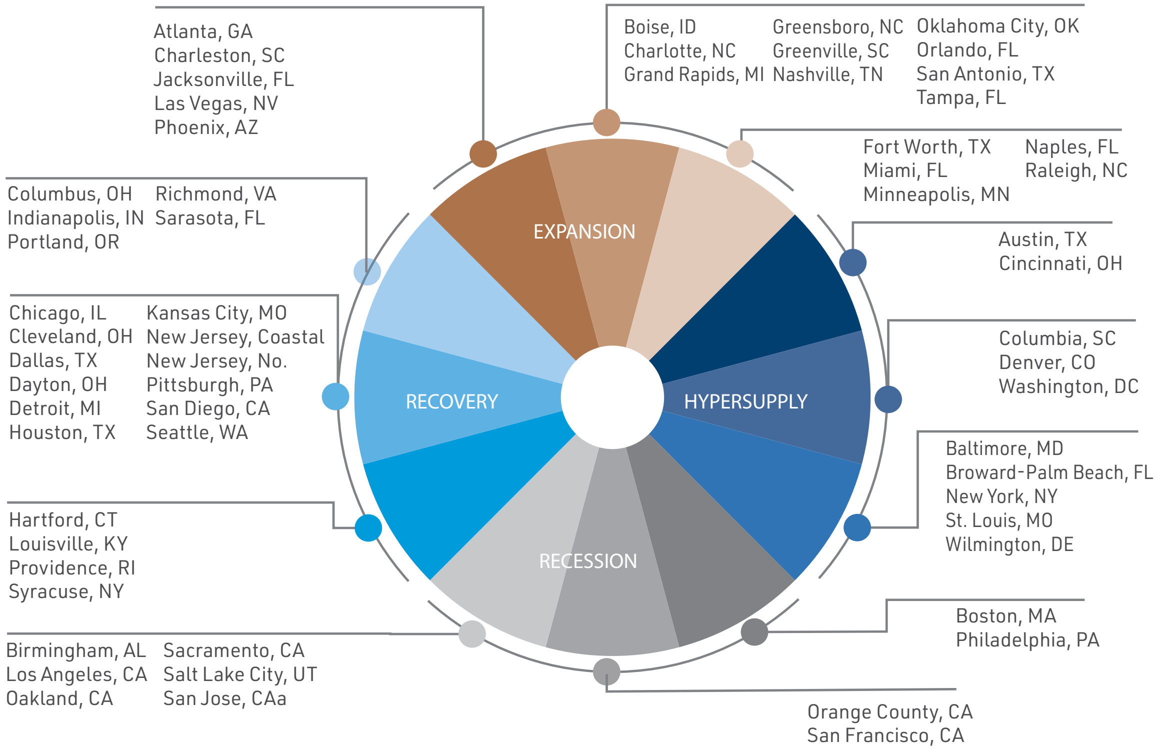
America's retail sector has transformed significantly in the last two decades. Traditional big box anchor retailers have given way to smaller, agile stores embracing omnichannel methods and high-quality in-person experiences that complement online shopping. Despite relatively flat vacancy rates, rent growth, and inventory growth, this stability is a positive sign for the sector. Retail has faced fears of a demise for decades, not unlike the fears the office sector currently faces, but efforts to embrace e-commerce have led to today's stability in the sector. Consumer spending remains strong, supporting stable employment and benefiting commercial retail overall. Although we won't see the same growth as the era of mall-anchoring big box chains anytime soon, 2024 trends show some retailers finding success by focusing on in-person experiences and easy-to-access mixed-use developments. National vacancy rates remain low, reflecting stable performance, while limited rent growth indicates a balanced market with growth opportunities for those who have local knowledge and maintain a focus on mixed-use projects.

America's retail sector has experienced significant shifts over the last two decades. Retail has morphed from a strong sector cornerstone with big box retailers into smaller and more agile stores that embrace omnichannel methods. These stores deliver high-quality in-person experiences that complement online shopping options.

In the data highlighted above, retail appears to have r elatively flat vacancy rates, rent growth, and inventory growth.

That relative flatness, however, is best viewed through the positive lens of stability rather than as a lack of opportunity. Over the decade or two prior to the pandemic and the subsequent turmoil, retail was frequently viewed as one of the more troubled commercial real estate segments. But, over the last several years, decades-long efforts to embrace e-commerce set successful retailers up to thrive.

RETAIL MARKET CYCLE



EXPANSION

Decreasing Vacancy Rates
Moderate/High New Construction
High Absorption
Moderate/High Employment Growth
Med/High Rental Rate Growth

HYPERSUPPLY

Increasing Vacancy Rates
Moderate/High New Construction
Low/Negative Absorption
Moderate/Low Employment Growth
Med/Low Rental Rate Growth

RECESSION

Increasing Vacancy Rates
Moderate/Low New Construction
Low Absorption
Low/Negative Employment Growth
Low/Neg Rental Rate Growth

RECOVERY

Decreasing Vacancy Rates
Low New Construction
Moderate Absorption
Low/Moderate Employment Growth
Neg/Low Rental Rate Growth

Consumer spending has remained strong, despite declining household savings, and retailers have largely been able to thrive and continue hiring, leading to a stable employment environment. Strong underlying employment and spending habits have also benefited the commercial retail sector. Given the shift to e-commerce, it's unlikely we'll see the level of growth in the retail sector that existed when big-box mall anchor stores thrived. The trends for 2024 suggested that there are still winners in the retail space. In particular, stores that leverage in-person experiences benefit from widespread development trends focusing on mixed-use developments that suit todays customers.

The national vacancy rate climbed by just one basis point in community shopping and a mere 12 basis points in neighborhood shopping, both reflecting stable and consistent performance. Limited rent growth, both under 1% over the last year, underscores the current level of stability in the retail space. While many other sectors continue to adjust to pandemic era changes, retail trend data from our surveys suggests the market is near equilibrium. Opportunity for growth exists, but success in requires keen local knowledge and specific development types, particularly focused on mixed-use developments.

Regional data in the retail sector suggests fairly well-rounded market status without significant variation. While the central region struggled the most – it had the highest vacancy rate growth and lowest rent growth – even its relative struggles are fairly minor and generally in line with national trends. Vacancy rate growth of 12 basis points in community and 40 basis points in neighborhood represent fairly small variations. Positive rent growth of .58% and .60% are only slightly below the other three regions.

REGIONAL RATES COMPARISON - RETAIL

	CAP RATE	DISCOUNT RATE	MARKET RENT ($/SF)	VACANCY RATE	Q3'23 - Q3'24 CAP RATE △
SOUTH REGION					
Community Retail	7.04%	8.40%	$19.03	10.30%	▼ 19 bps
Neighborhood Retail	6.92%	8.32%	$17.47	11.25%	▼ 14 bps
EAST REGION					
Community Retail	7.38%	8.50%	$23.22	11.03%	▲ 14 bps
Neighborhood Retail	7.48%	8.69%	$21.57	9.88%	▲ 16 bps
CENTRAL REGION					
Community Retail	7.94%	9.17%	$17.31	12.15%	▼ 5 bps
Neighborhood Retail	8.13%	9.23%	$15.64	13.02%	▼ 5 bps
WEST REGION					
Community Retail	6.57%	8.05%	$30.68	7.95%	▲ 3 bps
Neighborhood Retail	6.57%	8.07%	$26.88	8.60%	▼ 2 bps
NATIONAL AVERAGES/SPREADS					
Community Retail	7.18%	8.49%	$22.02	10.24%	▼ 6 bps
Neighborhood Retail	7.19%	8.51%	$19.91	10.77%	▼ 5 bps

On the flip side, the historically strong East retail region continues to perform well largely thanks to America's strong economy and spending habits within large population hubs. Likewise, the Southern region had a relatively successful year, reflecting benefits from growing population and strong economic growth across many prominent Sunbelt hubs. Both regions had the nation's strongest vacancy and rent growth on top of decent performances in the cap rate. However, it's also important to underscore that relative to other years in the retail space, or in other sectors across this year, regional variation in the retail space was fairly limited.

> While many other sectors continue to adjust to pandemic era changes, retail trend data suggests the market is near equilibrium.

While malls' struggles, particularly those of traditional anchor tenants, have captured much of the retail discussion, some positive developments, beyond mixed use spaces, have helped counteract those struggles. Recent economic challenges, such as rising inflation and supply chain issues, have boosted discount retailers' success. Discount stores, once favored by low- to middle-income earners, now attract higher income brackets due to competitive pricing and improved e-commerce features like online pickup and delivery. Retail foot traffic in 2024 is nearing pre-pandemic levels, offering greater opportunities for discount stores. As shoppers return to old habits, these retailers are improving their fortunes by improving in-store experiences, prioritizing customer engagement, and boosting operational efficiency.

In 2025, a number of sunbelt metros are expected to continue building to meet higher demand. They include Atlanta, Charleston, Jacksonville, Phoenix, and Los Vegas.

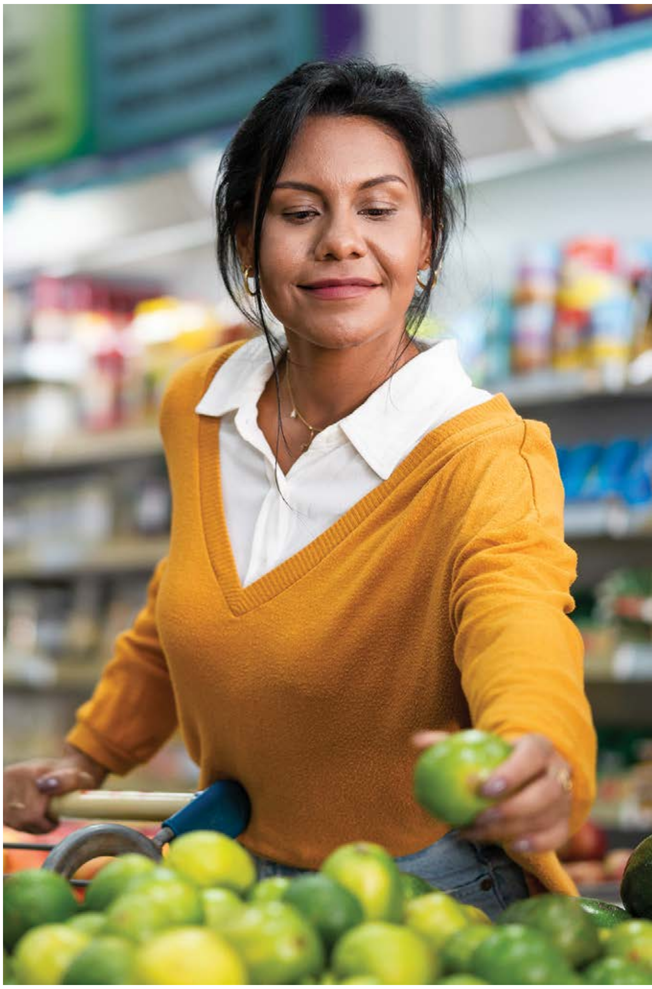
The future of retail appears to be in a stable period of opportunity. Local level insights based on economic performance, urbanization levels, and attitudes towards new mixed-use buildings will continue to create promise or problems. At the national level, the sector has successfully navigated significant shocks over the last few decades. Among them: falling consumer demand in the wake of 2008, the transition into greater reliance on e-commerce, and the topsy-turvy nature of the pandemic and subsequent period of inflation. 2024 represented a stable year in the retail sector. There was a continuing downside for anchor tenants and some malls. On the upside: trendy and targeted mixed use developments along with discount retailers. We expect these trends to continue in 2025, short of any economic shocks.

PROJECTED RETAIL INVENTORY UNDER CONSTRUCTION (UC) 2024–2025

Region	Market	2024 Inventory(SF)	2024-2025 % of Total UC	2-Year UC (SF)
South	Chattanooga	4,834,000	4.55%	220,000
West	Tacoma	8,204,000	3.82%	313,000
South	Dallas	63,486,000	3.05%	1,938,000
Central	Omaha	14,605,000	3.03%	442,000
West	Las Vegas	30,782,000	2.93%	903,000
West	Colorado Springs	11,444,000	2.80%	320,000
West	Seattle	28,701,000	2.25%	645,000
West	Sacramento	28,646,000	1.95%	560,000
South	Charleston	10,676,000	1.92%	205,000
South	Fort Worth	29,923,000	1.70%	510,000
South	Orlando	39,570,000	1.62%	643,000
Central	Kansas City	27,350,000	1.54%	420,000
South	Charlotte	28,414,000	1.41%	401,000
South	Austin	24,311,000	1.38%	335,000
South	Nashville	20,982,000	1.22%	256,000
Central	Columbus	28,435,000	1.21%	343,000
East	Northern New Jersey	23,643,000	1.03%	243,000
West	Los Angeles	69,799,000	1.01%	704,000
West	Salt Lake City	17,380,000	0.99%	172,000
South	San Antonio	32,810,000	0.82%	268,000
Central	Louisville	12,693,000	0.77%	98,000
East	Boston	38,398,000	0.76%	293,000
Central	Indianapolis	18,627,000	0.74%	137,000
East	Buffalo	13,917,000	0.73%	102,000
West	San Jose	21,673,000	0.73%	158,000
South	Houston	100,972,000	0.72%	731,000
East	Fairfield County	9,148,000	0.70%	64,000
South	Raleigh-Durham	31,150,000	0.67%	209,000
Central	Chicago	106,963,000	0.62%	668,000
South	Tampa-St. Petersburg	41,250,000	0.62%	255,000
East	Hartford	15,099,000	0.62%	93,000
South	Knoxville	8,447,000	0.57%	48,000
Central	Minneapolis	34,598,000	0.55%	192,000
East	Rochester	10,951,000	0.55%	60,000
South	Oklahoma City	16,426,000	0.51%	83,000
South	Columbia	10,136,000	0.50%	51,000
East	Long Island	24,243,000	0.49%	118,000
West	Portland	24,845,000	0.47%	117,000
East	Suburban Maryland	33,797,000	0.46%	155,000
West	Phoenix	72,704,000	0.41%	296,000
West	San Francisco	11,611,000	0.33%	38,000
Central	Milwaukee	15,938,000	0.30%	48,000
West	Denver	49,005,000	0.30%	145,000
East	Baltimore	38,279,000	0.28%	106,000
West	San Diego	42,269,000	0.28%	117,000
South	Atlanta	84,299,000	0.27%	231,000
West	San Bernardino/Riverside	52,872,000	0.27%	142,000
East	Central New Jersey	36,761,000	0.26%	97,000
Central	Cincinnati	22,840,000	0.26%	60,000
South	Palm Beach	27,739,000	0.25%	69,000
West	Tucson	12,603,000	0.25%	31,000
Central	Dayton	16,783,000	0.24%	40,000
Central	Memphis	20,115,000	0.23%	47,000
South	Suburban Virginia	40,812,000	0.23%	95,000
Central	St. Louis	29,789,000	0.21%	63,000
South	Miami	27,059,000	0.20%	53,000
Central	Lexington	8,977,000	0.19%	17,000
South	Greensboro/Winston-Salem	16,196,000	0.18%	29,000
West	Orange County	41,629,000	0.16%	66,000
East	Philadelphia	63,259,000	0.14%	90,000
South	New Orleans	7,164,000	0.14%	10,000
Central	Cleveland	25,273,000	0.13%	34,000
South	Jacksonville	26,754,000	0.13%	34,000
South	Fort Lauderdale	41,514,000	0.11%	45,000
South	Tulsa	12,463,000	0.10%	13,000
South	Richmond	15,370,000	0.07%	10,000
South	Norfolk/Hampton Roads	26,700,000	0.04%	10,000
West	Oakland-East Bay	29,432,000	0.03%	10,000
Central	Detroit	34,896,000	0.03%	10,000

Region	2024 Inventory (SF)	2024-2025 % of Total UC	2-Year UC (SF)
Central Region	417,882,000	0.63%	2,619,000
East Region	307,495,000	0.46%	1,421,000
South Region	789,457,000	0.86%	6,752,000
West Region	553,599,000	0.86%	4,737,000
US Total	2,068,433,000	0.75%	15,529,000

- South Region
- East Region
- West Region
- Central Region



INDUSTRIAL

Higher Vacancies and Moderating Rents Mark Year of Adjustment

The industrial sector experienced a rebalancing in 2024 after positive momentum in recent years. E-commerce has steadily increased, with a significant rise during the pandemic and a steady rise over the last year. Additionally, national security and bipartisan voter preferences have driven efforts to reshore and nearshore manufacturing after a decades-long decline. These factors contributed to a robust industrial sector in recent years as demand boomed, and that trend is expected to continue in the long run. However, in 2024, the market adjusted with higher vacancy rates and moderate rent growth compared to the previous four years. Vacancy rates finished the year at 7.1% and 6.4% in flex and industrial sectors nationally. Both figures were below pre-pandemic averages but indicate a period of adjustment following a surge in demand. Market rents increased by 2.5% and 2.8% for flex and industrial sectors, respectively, suggesting that there is still potential for growth in the industrial sector despite rising vacancy rates. Even with this short-term reversal, long-term indicators suggest a stable and healthy industrial sector as it moves towards a new equilibrium.

For the industrial sector, the past five years have been a positive period for both flex and warehouse. Efforts to reshore manufacturing at the national level have fused with the permanent rise in e-commerce, fueling development in a resurgent sector. Despite a decades-long decline in manufacturing, the tide had already begun to turn towards re-embracing American manufacturing. However, increased supply chain issues in the global economy combined with rising geopolitical concerns led to shifting distribution networks. Down-stream, the industrial sector within commercial real estate has benefited significantly from increased demand by consumers. This merged with efforts across presidential administrations to better support domestic manufacturing.

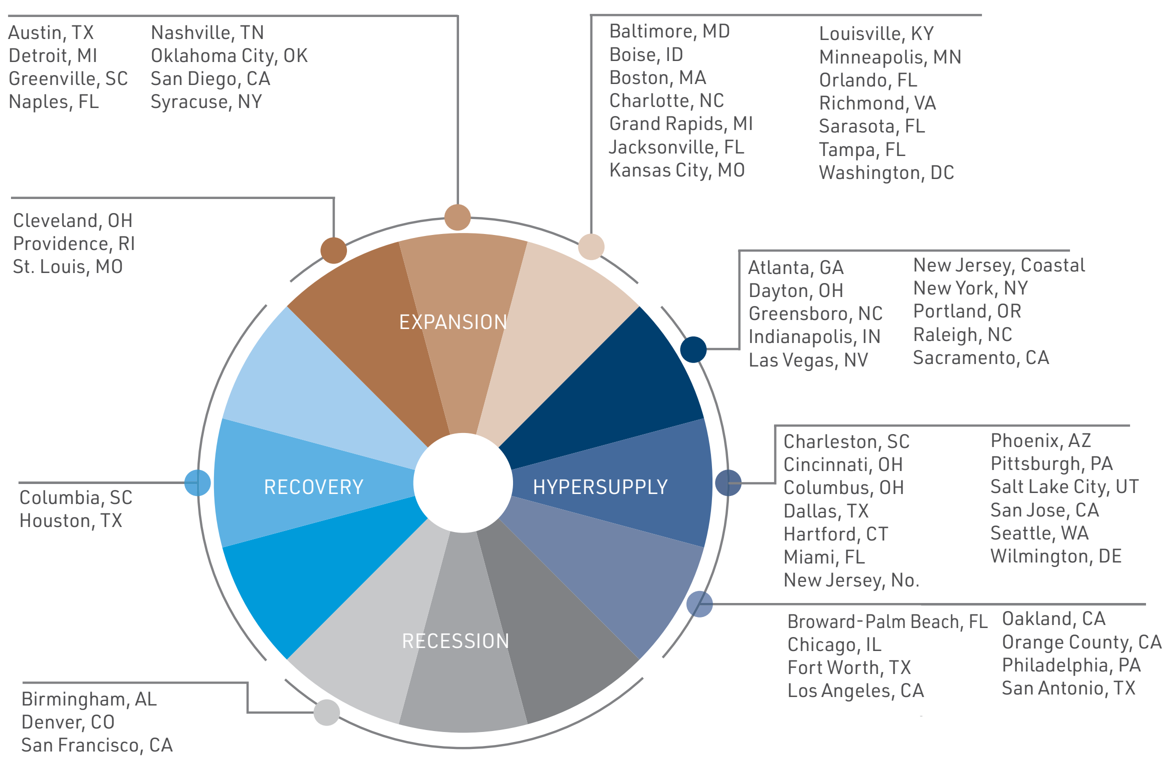
In 2024, industrial properties remained a generally reliable asset class within the commercial real estate landscape, albeit at a slower pace compared to their exceptional performance in the early 2020s. This moderation can be attributed partly to the sustained strength of e-commerce as a proportion of retail sales. It was complemented by the significant influence of manufacturing activities, particularly reshoring and nearshoring initiatives such as the CHIPS Act. Although these initiatives are part of an extended process rather than one that offers immediate benefits for the sector, they are progressing and positively impacting both employment and industrial properties.

While the vacancy rate has decreased significantly over the last five years, 2024 flex and industrial vacancy rates increased by 86 and 170 basis points, respectively. Vacancy rates finished at 7.1% and 6.4% in flex and industrial nationally. Both figures were well below pre-pandemic averages but signaled a period of adjustment as things settled from a period of surging demand. With market rents growing by 2.5% and 2.8% for flex and industrial, respectively, it's clear there's still room for growth in the industrial sector despite rising vacancy rates (as opposed to the flat and stable market in sectors like retail). With cap rates rising by one basis point in flex and declining one basis point in industrial, those looking for industrial space are likely re-evaluating needs while continuing to prioritize location and other aspects, such as age.

Although these metrics do not match the remarkable performance of the record-breaking quarters in 2021 and 2022, they still reflect positively on both the warehouse/distribution and flex/R&D sectors, particularly considering the significant changes in supply and demand dynamics. The sector's stability is closely linked to job growth, manufacturing activity, and other industry-specific indicators. However, it appears that broader macroeconomic challenges have finally impacted the previously resilient industrial sector, resulting in more subdued performance. Nonetheless, it's important to emphasize that the sector is continuously adapting as it adjusts to its new steady state. The long-term outlook for the industrial sector remains strong and positive.

E-commerce as a percentage of total retail sales is a significant metric for the industrial sector, especially since e-commerce requires more warehousing and distribution space than traditional retail due to inventory, packaging, and shipping needs. E-commerce sales increased by approximately 33% from Q1 2020 to Q2 2020 as consumers bought online due to the pandemic. Since Q3 2019, e-commerce sales have grown from 10.7% of retail sales

INDUSTRIAL MARKET CYCLE



EXPANSION	HYPERSUPPLY	RECESSION	RECOVERY
Decreasing Vacancy Rates	Increasing Vacancy Rates	Increasing Vacancy Rates	Decreasing Vacancy Rates
Moderate/High New Construction	Moderate/High New Construction	Moderate/Low New Construction	Low New Construction
High Absorption	Low/Negative Absorption	Low Absorption	Moderate Absorption
Moderate/High Employment Growth	Moderate/Low Employment Growth	Low/Negative Employment Growth	Low/Moderate Employment Growth
Med/High Rental Rate Growth	Med/Low Rental Rate Growth	Low/Neg Rental Rate Growth	Neg/Low Rental Rate Growth

REGIONAL RATES COMPARISON - INDUSTRIAL

	CAP RATE	DISCOUNT RATE	MARKET RENT ($/SF)	VACANCY RATE	Q3'23 - Q3'24 CAP RATE △
SOUTH REGION					
Flex Industrial	6.80%	8.08%	$10.99	7.42%	0 bps
Industrial	6.27%	7.47%	$6.70	6.88%	▲ 5 bps
EAST REGION					
Flex Industrial	7.14%	8.21%	$13.15	7.33%	▲ 5 bps
Industriall	6.89%	8.00%	$9.31	4.01%	▲ 5 bps
CENTRAL REGION					
Flex Industrial	7.96%	9.04%	$8.79	7.24%	▲ 12 bps
Industrial	7.06%	8.25%	$5.44	6.93%	▼ 6 bps
WEST REGION					
Flex Industrial	6.09%	7.52%	$15.83	6.53%	▼ 11 bps
Industrial	5.61%	7.14%	$9.76	6.94%	▼ 8 bps
NATIONAL AVERAGES/SPREADS					
Flex Industrial	6.93%	8.16%	$12.09	7.14%	▲ 1 bps
Industrial	6.40%	7.65%	$7.63	6.39%	▼ 1 bps

In 2024, industrial properties remained a generally reliable asset class withinthe commercial real estate landscape, albeit at a slower pace compared to their exceptional performance in the early 2020s.

to 16.2%. This figure is just below the historic peak of 16.4% in the second quarter of 2020, during the initial phase of the pandemic. The growth rate of this metric has stabilized, returning to its original path. Additionally, the trend of substituting brick-and-mortar stores with e-commerce is likely to continue over the next few years, potentially reaching 20% of total retail sales by the end of this decade, supporting demand for industrial properties.

At the metro level, we're seeing trends somewhat diverge between space performance for existing units and those with greater expansion opportunities for the warehouse sub-sector. Regionally, we're anticipating the smallest inventory growth, just 1.8% each, over the next year in the Central and East regions. This is well below anticipated completions in the South and West, at 5.7% and 5.9%, respectively. In part, this is due to existing supply. Many Midwest metros have large existing inventories, especially relative to their population sizes in rustbelt metros like Detroit and Cleveland. The largest percent growth opportunities are found in metros with small existing supplies; Norfolk, Savannah, and Boise are all experiencing development phases as they grow their smaller inventories. Mixing both existing supply and expected areas of growth are traditional heavy hitters like San Bernardino/Riverside, Los Angeles, Atlanta, Houston, Dallas, and Pheonix. To meet rising e-commerce demand, each of these metros carries at least 200 million square feet of existing warehouse supply with expectations of 4% growth or greater in 2025.

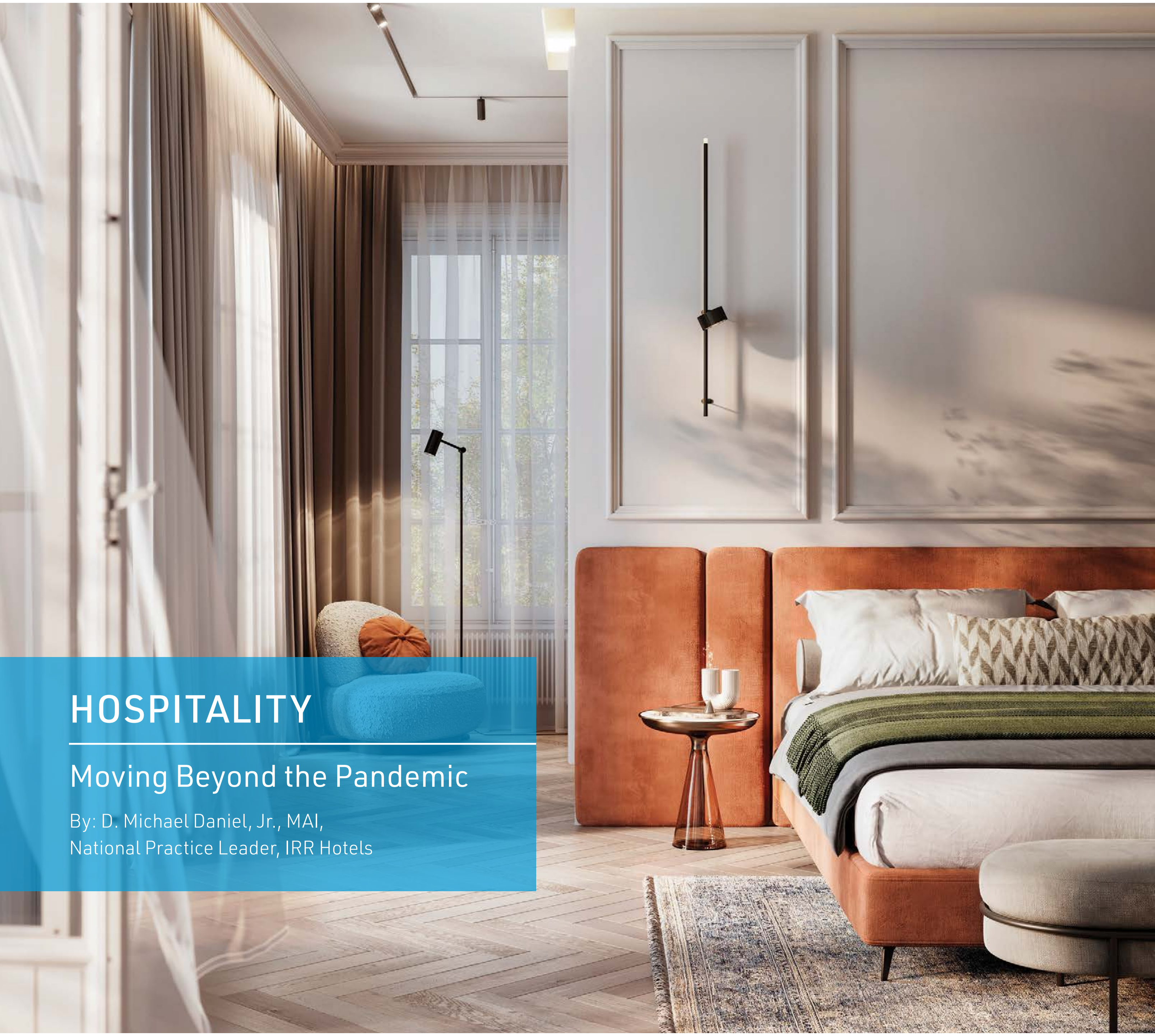
The industrial sector underwent a rebalancing phase throughout 2024. The rise of e-commerce has been a common story of the last two decades, with a sharp increase early in the pandemic transitioning into a lasting rise in the percentage of total retail sales. On top of e-commerce shifts, national security and political concerns over existing supply chains have led both major political parties to emphasize domestic manufacturing. Reshoring and nearshoring efforts are designed to bring back critical parts of the manufacturing and distribution processes. The twin demand drivers of e-commerce and reshoring led to a strong industrial sector over the last few years, and we're expecting those demand drivers to last. Given that, the market has been readjusting to lower vacancy rates and rising rents in the sector, leading, in turn, to rising vacancy rates and positive, though smaller, levels of rent growth relative to recent years. Long term drivers still point towards a healthy industrial sector, although the heat of the last few years may be fading as we transition to a new equilibrium in the years ahead.

PROJECTED WAREHOUSE INVENTORY UNDER CONSTRUCTION (UC) 2024-2025

Region	Market	2024 Inventory(SF)	2024-2025 % of Total UC	2-Year UC (SF)
South	Norfolk/Hampton Roads	35,897,000	25.26%	9,066,000
South	Savannah	49,828,000	24.13%	12,022,000
West	Boise	15,169,000	20.86%	3,164,000
West	Tacoma	48,788,000	17.48%	8,526,000
South	Austin	62,944,000	15.74%	9,910,000
West	Salt Lake City	66,976,000	11.07%	7,414,000
West	El Paso	43,269,000	11.03%	4,772,000
South	Charleston	38,263,000	10.29%	3,936,000
South	Houston	343,873,000	10.24%	35,209,000
West	San Bernardino/Riverside	520,368,000	9.75%	50,725,000
West	Phoenix	250,536,000	9.32%	23,361,000
Central	Des Moines	15,791,000	9.21%	1,454,000
West	Las Vegas	101,077,000	8.59%	8,679,000
East	Buffalo	39,377,000	8.37%	3,297,000
South	Charlotte	158,203,000	7.54%	11,921,000
East	Hartford	36,781,000	7.17%	2,638,000
East	Worcester	21,189,000	7.00%	1,483,000
South	Greenville	76,125,000	6.71%	5,106,000
South	Raleigh-Durham	40,738,000	6.64%	2,706,000
South	Atlanta	469,945,000	6.05%	28,427,000
West	Ventura County	15,378,000	5.29%	814,000
West	Reno	43,631,000	5.24%	2,288,000
South	Fort Myers	10,876,000	4.93%	536,000
South	Baton Rouge	5,956,000	4.79%	285,000
West	Vallejo-Fairfield	24,414,000	4.76%	1,161,000
West	Seattle	141,040,000	4.43%	6,250,000
South	Greensboro/Winston-Salem	78,890,000	4.41%	3,480,000
South	Lakeland	25,201,000	4.30%	1,083,000
South	Dallas	413,505,000	4.18%	17,304,000
South	New Orleans	25,296,000	4.15%	1,050,000
South	Orlando	95,486,000	4.07%	3,888,000
South	Palm Beach	27,341,000	3.95%	1,081,000
West	Los Angeles	481,639,000	3.94%	18,997,000
West	San Jose	36,596,000	3.81%	1,394,000
South	Fort Worth	211,391,000	3.77%	7,971,000
Central	Louisville	82,534,000	3.60%	2,969,000
South	Columbia	19,197,000	3.52%	675,000
Central	Milwaukee	46,073,000	3.52%	1,620,000
West	Orange County	111,806,000	3.50%	3,918,000
Central	Indianapolis	219,750,000	3.41%	7,499,000
East	Suburban Maryland	42,556,000	3.39%	1,442,000
South	San Antonio	64,346,000	3.24%	2,088,000
South	Jacksonville	93,454,000	3.18%	2,974,000
Central	Kansas City	145,095,000	3.08%	4,472,000
West	San Diego	82,522,000	3.06%	2,528,000
West	Stockton	62,873,000	3.00%	1,887,000
West	Santa Rosa	5,261,000	2.95%	155,000
West	Tucson	12,302,000	2.67%	328,000
West	Colorado Springs	10,610,000	2.64%	280,000
East	New York Metro	36,045,000	2.49%	899,000
South	Knoxville	15,533,000	2.48%	385,000
Central	Minneapolis	173,243,000	2.44%	4,226,000
East	Boston	145,054,000	2.22%	3,227,000
West	Denver	164,664,000	2.05%	3,378,000
Central	Columbus	138,747,000	2.01%	2,786,000
East	Allentown	108,849,000	1.98%	2,160,000
South	Tulsa	20,128,000	1.95%	393,000
South	Richmond	54,582,000	1.75%	956,000
West	Fresno	15,958,000	1.72%	274,000
Central	Memphis	139,512,000	1.66%	2,312,000
South	Miami	136,140,000	1.59%	2,161,000
East	Central New Jersey	222,463,000	1.56%	3,473,000
Central	Wichita	11,569,000	1.55%	179,000
South	Suburban Virginia	34,519,000	1.55%	534,000
East	Philadelphia	291,517,000	1.53%	4,449,000
South	Fort Lauderdale	65,278,000	1.45%	944,000
Central	Chicago	670,618,000	1.36%	9,111,000
Central	Cincinnati	157,680,000	1.31%	2,070,000
East	Fairfield County	19,076,000	1.31%	249,000
East	Northern New Jersey	198,637,000	1.28%	2,544,000
East	Long Island	80,422,000	1.25%	1,008,000
West	Sacramento	106,168,000	1.17%	1,237,000
Central	Dayton	27,790,000	1.03%	287,000
Central	Detroit	227,617,000	0.98%	2,232,000
West	Portland	83,199,000	0.96%	796,000
West	Oakland-East Bay	137,462,000	0.94%	1,298,000
South	Nashville	117,289,000	0.79%	921,000
Central	St. Louis	161,319,000	0.76%	1,221,000
Central	Grand Rapids	29,848,000	0.75%	223,000
Central	Cleveland	180,182,000	0.73%	1,308,000
East	Pittsburgh	66,315,000	0.56%	369,000
East	Baltimore	164,655,000	0.53%	867,000
Central	Omaha	20,235,000	0.49%	100,000
Central	Toledo	20,595,000	0.45%	93,000
South	Tampa-St. Petersburg	119,195,000	0.27%	320,000
South	Augusta	6,096,000	0.25%	15,000
East	Harrisburg	56,140,000	0.21%	119,000
East	Rochester	19,317,000	0.13%	26,000
South	Birmingham	32,111,000	0.11%	35,000
East	Wilmington	27,352,000	0.08%	23,000
West	San Francisco	31,944,000	0.07%	21,000

Region	2024 Inventory (SF)	2024-2025 % of Total UC	2-Year UC (SF)
Central Region	2,468,198,000	1.79%	44,162,000
East Region	1,575,745,000	1.79%	28,273,000
South Region	2,947,626,000	5.68%	167,382,000
West Region	2,613,650,000	5.88%	153,645,000
US Total	9,605,219,000	4.10%	393,462,000

South Region
East Region
West Region
Central Region



HOSPITALITY

Moving Beyond the Pandemic

By: D. Michael Daniel, Jr., MAI,
National Practice Leader, IRR Hotels

In the hotel segment, it's time to set new benchmarks.

Over the past year, many of the markets we serve have seen minimal pipeline development. The lack of new competition kept existing projects on an even keel. The past few years saw rebounds in both occupancy and ADR, which helped these markets reach a new level of stabilization in 2024. While general national average RevPAR stayed relatively level from 2023 and 2024, most markets stumbled slightly in occupancy. A continued modest increase in ADR helped carry RevPAR in 2024. We do note that this year-over-year growth is not anywhere near the spikes seen in 2022. In fact, while still in the growth column, the percentage difference has trended steadily downward. Much of this can be attributed to the continued above-average inflationary pressures which have affected the spending power of many potential guests.

> International travel is expected to be on the same positive trajectory. The National Travel and Tourism Organization forecasts a nearly 10% increase over 2024, to approximately 85 million international travelers

Looking ahead, the industry must embrace these new performance standards, focusing on strategic innovation and operational efficiency. Inflation and shifting consumer behaviors demand adaptive pricing and marketing strategies to navigate steady but modest growth, moving beyond outdated pre-pandemic benchmarks.

People are going places again.

Many hospitality market participants point to several promising indicators for the coming year. One is a noted increase in travel. Domestic travel has continued a moderate upward trend over the past three years, with 2024 breaking past 2019 levels. According to the Bureau of Transportation, 2024 operating flights were up approximately 5% over 2023. Expectations are for an even stronger increase in 2025, with some reports predicting domestic travel could be double what it was in the year just completed. Domestic spending is expected to reach approximately $1 trillion in 2025, with a primary focus on leisure and business. This represents a growth of about 2.5% over 2024. According to the U.S. Travel Association, leisure travel still represents approximately 73% of the total dollars spent. But it's important to note that business travel spending is showing a year-over-year growth more than double (4.5%) that seen in the leisure segment (1.8%).

International travel is expected to be on the same positive trajectory. The National Travel and Tourism Organization forecasts a nearly 10% increase over 2024, to approximately 85 million international travelers. This outpaces 2019, in which there were an estimated 79 million. This level of international travel in 2025 is expected to generate around $185 billion in spending, an increase of 2% over 2024. Key markets these travelers will visit include India, Canada, and several European countries. However, travel to some Asian countries may lag due to continued travel barriers.

While ADR spikes like those seen in 2021 and 2022 appear to be things of the past (some markets saw +15% to +20% spikes), ADR increases continue to pull year-over-year RevPAR growth.

Now, about interest rates.

As we all know, over the past several years, construction – whether complete new product or PIP renovations to existing hotels – has lagged notably. Since 2022, this has been largely due to rising interest rates and a lack of available capital. In an effort to curb inflation, the Federal Reserve Board (FED) has implemented rate increases at an unprecedented rate. Traditional lending rates have followed suit, steadily increasing from quarter to quarter.

However, September 2024 saw the FED cut its rate 50 basis points, the first reduction in two years. Two months later, the FED decreased its rate 25 basis points. Experts expect one more rate cut of 25 basis points in December, but note the FED is keeping a close eye on inflation rates and may choose to hold off until 2025. Most point to more downward rate movement in 2025, with some predicting a total reduction of 100 basis points by summer, when we could see FED rates around 3.50% to 3.75%. This hinges on the assumption that inflation levels stabilize near the 2% target and GDP growth continues.

We expect most investors are staying on the sidelines until these rates reach their expected bottom in the summer of 2025. Lower interest rates are expected to spur deals that have been on hold for quite some time. The increase in spending power will bring buyers and sellers closer to a long-delayed agreement on price versus value. The lower cost of capital will also help existing owners implement the much needed PIP they've been putting off. This will bring many tired properties back in the competitive lane.

In addition, previously extended balloon periods will finally be equitably refinanced. Lenders and owners will no longer kick the can down the road. This will help further stabilize the overall market.

Lending interest rates are expected to follow FED rates downward, which is a positive for the overall market. However, it will likely take an additional year or two for traditional lending to regain levels close to past peaks. Alternative lending should fill the gap until then, particularly as private equity firms and other investors deploy "dry powder" that has accumulated during periods of market uncertainty. Many previously active outside investors have held their cash on the sidelines for the past several years, waiting for the right opportunity to reenter the market. Estimates suggest there is more than $100 billion in global capital waiting for deployment across various sectors. Hospitality is a key target due to its rebound post-COVID-19.

Get ready for a year of transformation.

According to various sources, in 2025, the U.S. hotel market is expected to experience transformative growth. Driving the market momentum: the resurgence of business travel, coupled with increasing demand for group events, including in-person conferences and meetings which favor traditional hotels over short-term rentals. Additionally, international inbound travel is set to fully recover, further boosting hotel demand, particularly in gateway cities. A limited pipeline of new hotel construction will give an advantage to existing properties, reducing the risk of market oversupply and enabling better occupancy and revenue per available room (RevPAR). Investors are increasingly focused on value-add opportunities, such as renovating properties and expanding portfolios in leisure and experience-oriented destinations, where unique offerings can enhance profitability. Moreover, hotels are diversifying revenue streams by emphasizing experiences beyond room stays, including upscale dining, wellness programs, and tailored guest services. This aligns with the growing preference for experiential travel, which is becoming a major competitive differentiator.

While it's expected to be somewhat lower than past market peaks, there's likely to be a rise in new hotel construction in 2025. The top U.S. markets expected to see an increase are already the leaders. Dallas tops the list. Atlanta and Nashville are close behind, each with record-high numbers of projects planned.

Expect a hot new segment.

Last year, luxury was the hot segment for new development. In 2025, lifestyle select service appears to be the leading candidate. With successful examples such as Virgin, Moxy, W, and Canopy, among others, the segment combines some of the lifestyle components often limited to the luxury segment with budget-conscious elements.

The goal is to create a local flavor, energy, and vibe that go beyond standard hotel fundamentals. Operators are finding that younger travelers will pay more for such features and experiences rather than stay in traditional, limited-service hotels. Developers are recognizing the possibilities of increased achievable ADR for minimal increases in cost of development.

Traditional select-service brands are generally positioned to offer competitive rates below full-service properties.

However, lifestyle select-service brands often operate outside this fixed pricing hierarchy. These lifestyle brands are designed to appeal to guests seeking distinctive experiences and modern, upscale amenities, enabling them to command a higher ADR. Furthermore, many often include additional revenue streams that cater to the local community, not just guests. These include communal lobbies, roof-top bars, and lobby dining options that are attractive to outside users.

A new era starts now.

With moderate revenue growth predicted for 2025, lower cost of capital and increased spending power, the year is widely expected to be a pivotal one for U.S. hotels. It will be marked by a combination of recovering demand, evolving traveler preferences, strategic investment. And new benchmarks.

2025 INVESTOR RATES TABLE

INTEGRA REALTY RESOURCES CAPITALIZATION RATES DISCOUNT RATES AND REVERSION RATES

GOING IN CAPITALIZATION RATES (%)

Region	Market	Class A: CBD Office	Class A: Suburban Office	Class A: Industrial	Class A: Flex Industrial	Class A: Urban Multifamily	Class A: Suburban Multifamily	Class A: Regional Mall Retail	Class A: Community Retail Center	Class A: Neighborhood Retail	Class B: CBD Office	Class B: Suburban Office	Class B: Urban Multifamily	Class B: Suburban Multifamily
EAST REGION	BALTIMORE, MD	9.00	9.50	6.75	7.00	6.25	6.75	7.25	7.75	7.75	10.00	10.00	7.00	8.50
	BOSTON, MA	7.25	7.50	7.25	7.25	5.25	5.50	6.75	7.00	7.00	7.75	8.20	6.00	6.50
	HARTFORD, CT	8.75	9.00	7.50	7.75	6.25	6.00	9.00	7.50	7.75	9.25	9.50	6.75	6.50
	NEW JERSEY, COASTAL		8.00	6.25	6.75	6.00	6.00	7.75	7.25	7.25		8.50	6.25	6.25
	NEW JERSEY, NO.	7.00	7.50	5.50	6.50	5.50	6.00	7.75	7.00	6.50	7.50	8.00	5.75	6.25
	NEW YORK, NY	6.75		6.25	6.40	5.80		6.20	6.50	6.50	7.50		6.30	
	PHILADELPHIA, PA	8.25	8.50	5.75	6.25	5.50	5.25	8.00	7.25	7.00	8.50	9.00	6.50	6.25
	PITTSBURGH, PA	10.00	8.50	6.75	6.75	6.25	6.30	10.00	8.50	8.50	10.50	9.00	6.75	7.00
	PROVIDENCE, RI	8.75	9.00	7.50	7.75	6.25	6.00	9.00	7.50	7.75	9.25	9.50	6.75	6.50
	SYRACUSE, NY	9.00	9.00	8.90	8.50	6.50	6.25		8.00	9.00	10.00	10.00	7.00	6.75
	WASHINGTON, DC	8.25	8.75	7.00	7.30	5.50	5.50	7.25	6.75	7.25	8.75	9.50	6.00	6.00
	WILMINGTON, DE	9.50	11.00	7.25	7.50	6.75	7.00	7.00	7.50	7.50	10.50	11.50	7.25	7.75
SOUTH REGION	ATLANTA, GA	7.50	7.75	6.00	7.00	5.25	5.75	6.75	7.00	7.25	8.00	8.75	6.25	6.25
	AUSTIN, TX	7.00	7.25	7.00	7.00	5.50	6.00	6.00	6.00	6.00	7.50	7.50	6.00	6.50
	BIRMINGHAM, AL	7.50	7.50	6.00	7.25	5.50	5.50	8.75	7.75	7.00	8.00	8.00	6.50	6.50
	BROWARD-PALM BEACH, FL	7.00	7.25	6.50	6.85	5.35	5.75	6.00	6.25	6.25	7.25	7.75	5.60	6.40
	CHARLESTON, SC	7.00	7.50	7.00	7.25	5.00	5.00	8.50	7.75	8.00	7.50	8.50	5.25	5.25
	CHARLOTTE, NC	7.25	7.75	5.00	5.50	5.00	5.50	9.00	6.75	6.50	9.75	9.75	6.75	6.75
	COLUMBIA, SC	7.50	8.00	6.00	7.00	5.75	6.00	8.50	8.00	7.25	8.50	8.75	6.25	6.75
	DALLAS, TX	7.25	7.50	5.50	6.50	5.50	6.00	9.00	6.50	6.50	7.75	8.00	6.00	6.50
	FORT WORTH, TX	7.25	7.50	6.50	6.50	5.00	5.25	8.00	7.00	7.00	7.75	8.00	5.25	5.50
	GREENSBORO, NC	8.50	8.50	5.50	6.50	5.75	5.75	10.00	6.75	6.50	10.00	9.00	7.50	7.50
	GREENVILLE, SC	7.25	8.00	5.75	6.75	5.75	6.00	8.50	8.00	7.25	8.25	8.50	6.25	6.50
	HOUSTON, TX	7.70	7.70	6.40	7.00	5.80	5.80	8.50	7.70	7.30	8.90	8.80	7.10	7.10
	JACKSONVILLE, FL	9.25	8.75	5.75	6.75	5.75	5.75		7.00	6.50	9.75	9.25		6.25
	MIAMI, FL	6.50	6.70	6.10	6.40	5.30	5.50	5.75	6.25	6.40	7.10	7.30	5.75	6.15
	NAPLES, FL		6.50	6.00	6.00		5.25	6.50	6.50	6.75		6.50		5.75
	NASHVILLE, TN	7.50	8.75	6.00	5.75	6.50	6.75	9.75	7.00	7.00	9.00	9.00	6.75	7.00
	OKLAHOMA CITY, OK	7.50	7.75	7.75	8.00	5.50	6.25		7.50	7.75	8.00	8.25	6.25	6.75
	ORLANDO, FL	8.75	8.75	5.75	6.75	5.75	5.50		7.00	6.50	9.25	9.25		6.25
	RALEIGH, NC	8.00	8.50	6.00	6.00	5.25	5.50	8.00	7.50	7.50	9.00	10.00	6.00	6.25
	RICHMOND, VA	7.50	8.00	6.00	7.50	5.25	5.25	8.00	7.50	7.50	8.50	8.25	6.50	6.25
	SAN ANTONIO, TX	8.25	8.25	7.25	7.50	5.50	5.50	8.00	7.25	7.00	8.50	8.50	6.00	6.00
	SARASOTA, FL		7.50	7.50	7.50		5.00	6.25	6.25	6.50		7.50		5.25
	TAMPA, FL	7.50	7.25	7.00	7.25	5.25	5.50	6.50	6.75	7.00	7.00	7.00	5.75	6.00
CENTRAL REGION	CHICAGO, IL	8.00	9.75	5.25	8.75	5.50	5.75	8.00	7.25	8.00	9.00	10.75	5.75	6.00
	CINCINNATI, OH	9.75	9.75	7.50	8.75	6.25	6.25	9.50	8.25	8.00	10.50	10.50	7.00	7.00
	CLEVELAND, OH	8.50	8.50	7.25	7.75	6.25	6.25	9.00	8.50	8.75	9.75	9.50	7.00	7.00
	COLUMBUS, OH	8.75	8.75	7.00	8.00	4.75	4.75	8.25	8.25	8.00	9.25	9.25	5.25	5.25
	DAYTON, OH	10.25	8.75	7.75	8.25	6.50	7.00	10.00	8.50	8.50	10.50	9.00	7.50	8.00
	DETROIT, MI	9.00	8.75	8.00	7.50	6.00	5.75	8.75	8.25	8.25	9.25	9.00	6.50	6.00
	GRAND RAPIDS, MI	8.75	8.25	7.25	7.75	5.50	5.50	8.75	8.25	8.25	9.00	8.75	6.00	6.00
	INDIANAPOLIS, IN	8.25	8.00	7.00	8.50	5.75	6.00	7.50	7.25	7.25	8.75	8.50	6.00	6.25
	KANSAS CITY, MO	8.50	8.50	7.75	8.50	6.50	6.50	8.00	8.00	8.50	9.25	9.25	7.75	7.75
	LOUISVILLE, KY	10.00	8.25	6.70	7.30	6.60	5.25		7.75	8.00	11.00	9.25	8.30	6.60
	MINNEAPOLIS, MN	9.00	7.75	5.50	6.50	5.50	5.25	7.00	6.75	7.50	11.00	8.50	6.00	5.75
	ST. LOUIS, MO	10.00	8.25	7.75	8.00	6.50	6.25	8.25	8.25	8.50	11.00	9.25	7.75	7.75
WEST REGION	BOISE, ID	6.50	6.50	6.25	6.25	4.75	5.25	6.50	6.75	6.75	6.75	6.75	5.25	5.75
	DENVER, CO	7.50	7.50	6.50	7.00	5.50	5.50	7.50	7.50	6.50	8.00	8.00	5.50	5.50
	LAS VEGAS, NV	7.50	8.00	5.75	6.00	5.50	5.50	8.00	7.00	7.25	8.00	8.25	5.75	6.00
	LOS ANGELES, CA	7.75	8.00	4.50	5.00	4.50	5.25	6.75	6.00	6.25	8.25	8.00	4.75	5.50
	OAKLAND, CA	7.00	7.00	5.00	6.50	5.00	5.50	7.50	6.50	6.75	7.50	7.75	5.50	6.00
	ORANGE COUNTY, CA		7.00	4.50	5.00		4.25	7.25	6.00	5.50		7.25		4.50
	PHOENIX, AZ	9.00	9.00	5.50	6.00	5.25	5.25	8.00	6.50	6.50	10.00	10.00	5.75	5.75
	PORTLAND, OR	8.25	8.25	6.00	7.00	5.50	6.00		7.00	6.75	8.50	8.50	6.25	6.75
	SACRAMENTO, CA	7.50	8.00	6.25	6.50	6.00	6.25	7.50	6.75	7.00	8.25	8.75	6.25	6.75
	SALT LAKE CITY, UT	7.25	7.75	5.75	5.75	5.25	5.50	8.00	6.75	7.00	7.75	8.00	5.75	6.00
	SAN DIEGO, CA	6.50	6.50	5.50	5.50	4.50	4.50	7.50	6.50	6.50	6.75	6.75	4.75	4.75
	SAN FRANCISCO, CA	7.25	7.00	5.50	5.75	5.00	5.00	7.50	6.00	6.25	7.50	7.75	5.25	5.25
	SAN JOSE, CA	6.00	6.00	5.50	6.00	4.50	4.25	6.50	5.75	6.00	6.50	7.00	5.25	5.25
	SEATTLE, WA	8.00	8.00	6.00	7.00	5.25	5.50	6.75	7.00	7.00	8.50	8.50	5.50	5.75
	AVERAGES	8.01	8.05	6.40	6.93	5.61	5.68	7.83	7.18	7.19	8.69	8.63	6.22	6.31

DISCOUNT RATES (%)

Region	Market	Class A: CBD Office	Class A: Suburban Office	Class A: Industrial	Class A: Flex Industrial	Class A: Urban Multifamily	Class A: Suburban Multifamily	Class A: Regional Mall Retail	Class A: Community Retail Center	Class A: Neighborhood Retail	Class B: CBD Office	Class B: Suburban Office	Class B: Urban Multifamily	Class B: Suburban Multifamily
EAST REGION	BALTIMORE, MD	10.50	11.00	8.00	8.25	7.50	8.00	8.50	9.00	9.00	11.50	11.50	8.25	8.75
	BOSTON, MA	8.50	8.75	8.50	8.50	6.50	6.75	8.25	8.50	8.50	9.25	9.50	7.25	7.75
	HARTFORD, CT	9.25	9.50	8.00	8.25	7.00	6.75	9.75	8.25	8.50	9.75	10.00	7.50	7.25
	NEW JERSEY, COASTAL		9.00	7.50	7.75	7.50	7.50	8.75	8.25	8.50		9.75	7.75	7.75
	NEW JERSEY, NO.	8.00	8.50	6.75	7.50	6.50	7.25	8.75	8.00	7.50	8.50	9.00	7.00	7.50
	NEW YORK, NY	8.00		7.50	7.75	7.25		7.25	7.50	7.50	8.75		7.75	
	PHILADELPHIA, PA	9.25	10.00	7.25	7.75	7.25	7.00	9.25	8.50	9.00	9.50	10.50	8.00	7.75
	PITTSBURGH, PA	11.00	9.50	7.75	7.75	7.75	7.75	11.00	10.00	10.00	11.50	10.00	8.25	8.25
	PROVIDENCE, RI	9.25	9.50	8.00	8.25	7.00	6.75	9.75	8.25	8.50	9.75	10.00	7.50	7.25
	SYRACUSE, NY	10.00	10.00	10.00	9.50	7.50	7.25		9.00	10.00	11.00	11.00	8.00	7.75
	WASHINGTON, DC	9.50	10.00	8.25	8.50	6.75	6.75	8.50	8.00	8.50	10.25	11.00	7.25	7.25
	WILMINGTON, DE	10.75	12.50	8.50	8.75	8.00	8.50	8.25	8.75	8.75	12.00	13.00	8.50	9.25
SOUTH REGION	ATLANTA, GA	9.50	9.50	6.50	8.50	8.00	8.50	9.00	10.00	10.25	10.00	10.00	8.50	9.00
	AUSTIN, TX	8.50	8.75	8.50	8.50	7.00	7.00	8.50	8.50	8.00	9.00	9.25	7.50	7.50
	BIRMINGHAM, AL	8.50	8.50	7.25	8.50	7.00	7.00	10.00	9.00	8.25	9.00	9.00	8.00	8.00
	BROWARD-PALM BEACH, FL	8.50	8.75	7.50	8.00	6.75	7.00	7.50	7.75	7.75	8.75	9.50	7.00	7.75
	CHARLESTON, SC	8.00	8.50	8.00	8.25	6.75	6.75	10.00	9.25	9.50	8.50	9.50	7.00	7.00
	CHARLOTTE, NC	9.00	9.50	6.50	8.50	6.75	7.00	11.00	8.75	8.50	11.25	11.25	8.25	8.25
	COLUMBIA, SC	9.50	9.50	7.50	8.00	7.75	7.75	9.75	9.25	8.50	10.00	10.25	8.50	9.00
	DALLAS, TX	8.50	8.75	7.00	8.00	7.00	7.50	10.25	7.75	7.75	9.00	9.25	8.00	8.50
	FORT WORTH, TX	7.50	7.75	7.25	7.25	6.00	6.25	9.75	8.25	8.25	7.75	8.00	6.25	6.50
	GREENSBORO, NC	9.75	9.75	7.25	7.75	7.50	7.50	11.75	8.00	8.75	11.75	10.75	9.50	9.50
	GREENVILLE, SC	9.75	9.75	7.25	8.50	7.75	7.75	9.75	8.75	8.50	10.00	10.25	8.25	8.75
	HOUSTON, TX	9.20	9.20	7.70	8.30	7.30	7.30	9.70	9.00	8.60	10.30	10.40	8.90	8.90
	JACKSONVILLE, FL	10.50	10.00	6.75	7.75	6.75	6.75		8.00	7.50	11.00	10.50		7.25
	MIAMI, FL	8.25	8.50	7.50	7.75	6.75	6.75	7.00	7.75	7.75	8.75	9.00	7.00	7.25
	NAPLES, FL		7.50	7.00	7.00		6.25	7.50	7.50	7.75		7.50		6.00
	NASHVILLE, TN	8.50	9.50	6.25	6.00	6.75	7.00	10.75	8.00	8.00	9.75	10.00	7.00	7.25
	OKLAHOMA CITY, OK	9.00	9.25	9.25	9.50	7.00	7.75		9.00	9.25	9.50	9.75	7.75	8.25
	ORLANDO, FL	10.00	10.00	6.75	7.75	6.75	6.50		8.00	7.50	10.25	10.25		7.25
	RALEIGH, NC	9.50	10.00	7.50	7.50	7.25	7.75	9.00	8.75	8.75	11.00	12.00	8.25	8.75
	RICHMOND, VA	8.50	9.00	7.25	8.75	6.75	6.75	9.50	9.00	9.00	9.50	9.25	8.00	7.75
	SAN ANTONIO, TX	9.25	9.50	8.75	9.00	6.50	6.50	8.75	8.00	7.75	8.75	9.00	7.00	7.00
	SARASOTA, FL		8.50	8.50	8.50		6.00	7.25	7.25	7.50		8.50		6.25
	TAMPA, FL	8.50	8.25	8.00	8.25	7.25	7.50	7.50	7.75	8.00	8.00	8.00	7.75	8.00
CENTRAL REGION	CHICAGO, IL	11.00	11.00	6.25	9.00	6.25	6.75	9.00	8.75	8.75	10.00	10.00	6.75	7.25
	CINCINNATI, OH	11.75	11.75	9.50	10.50	8.00	8.00	11.50	10.25	10.00	12.50	12.50	8.75	8.75
	CLEVELAND, OH	9.50	9.75	8.25	8.75	8.00	8.00	10.00	9.50	9.75	10.00	10.00	10.50	10.00
	COLUMBUS, OH	9.50	9.50	8.00	9.00	7.75	7.75	9.75	9.75	9.50	10.25	10.25	8.25	8.25
	DAYTON, OH	12.25	10.25	8.25	9.00	8.50	8.25	11.50	10.25	10.00	12.50	10.50	9.50	9.50
	DETROIT, MI	9.50	9.25	9.00	8.75	8.00	7.50	9.50	9.25	9.25	9.75	9.50	9.00	8.50
	GRAND RAPIDS, MI	9.50	9.00	8.25	8.75	7.50	7.75	9.50	9.25	9.25	9.75	9.50	8.25	8.50
	INDIANAPOLIS, IN	9.75	9.50	8.00	9.50	7.00	7.00	8.50	8.25	8.25	10.25	10.00	7.25	7.25
	KANSAS CITY, MO	10.25	10.25	9.25	10.00	7.75	7.75	9.00	9.00	9.50	11.25	11.25	8.50	8.50
	LOUISVILLE, KY	10.25	9.25	8.00	8.25	8.30	8.15		9.00	9.00	11.25	9.25	8.80	8.80
	MINNEAPOLIS, MN	10.00	8.75	7.50	8.00	7.25	7.00	8.00	7.50	8.00	12.00	10.00	7.50	7.25
	ST. LOUIS, MO	11.00	9.25	8.75	9.00	7.75	7.75	9.25	9.25	9.50	12.00	10.25	8.75	8.75
WEST REGION	BOISE, ID	8.00	8.25	8.00	8.00	6.75	7.25	8.50	8.75	8.75	8.25	8.50	7.25	7.50
	DENVER, CO	9.50	9.50	8.00	8.00	9.00	9.00	9.00	9.00	8.50	9.50	9.50	9.00	9.00
	LAS VEGAS, NV	9.50	9.75	7.50	8.00	7.50	7.50	8.75	8.00	8.25	10.00	10.00	7.75	8.00
	LOS ANGELES, CA	9.75	9.50	6.25	6.75	6.00	6.75	8.25	7.50	7.75	10.25	9.50	6.25	7.50
	OAKLAND, CA	8.25	8.25	6.25	7.75	6.50	7.00	9.00	8.00	8.25	8.75	9.00	7.00	7.50
	ORANGE COUNTY, CA		8.50	6.25	6.50		5.75	8.75	7.50	7.00		8.25		6.00
	PHOENIX, AZ	10.00	10.00	6.00	6.50	6.25	6.25	9.00	7.50	7.50	11.00	11.00	6.75	6.75
	PORTLAND, OR	9.50	9.50	7.50	8.50	6.50	7.00		8.50	8.25	9.75	9.75	7.25	7.75
	SACRAMENTO, CA	9.00	9.50	7.75	8.00	7.50	7.75	9.00	8.25	8.50	9.75	10.25	7.75	8.25
	SALT LAKE CITY, UT	8.75	9.00	8.00	7.25	6.75	6.75	9.50	8.50	8.50	9.25	9.25	7.50	7.50
	SAN DIEGO, CA	8.50	8.50	7.50	7.50	6.50	6.50	9.50	8.50	8.50	8.75	8.75	6.75	6.75
	SAN FRANCISCO, CA	8.75	8.50	6.75	7.00	6.50	6.50	9.00	7.50	7.75	9.00	9.25	6.75	6.75
	SAN JOSE, CA	7.25	7.25	6.75	7.25	6.00	5.75	8.00	7.25	7.50	7.75	8.25	6.75	6.75
	SEATTLE, WA	9.25	9.25	7.50	8.25	7.00	7.25	7.75	8.00	8.00	9.50	9.50	7.25	7.50
	AVERAGES	9.34	9.32	7.65	8.16	7.15	7.20	9.12	8.47	8.51	9.94	9.84	7.81	7.85

REVERSION RATES (%)

Region	Market	Class A: CBD Office	Class A: Suburban Office	Class A: Industrial	Class A: Flex Industrial	Class A: Urban Multifamily	Class A: Suburban Multifamily	Class A: Regional Mall Retail	Class A: Community Retail Center	Class A: Neighborhood Retail	Class B: CBD Office	Class B: Suburban Office	Class B: Urban Multifamily	Class B: Suburban Multifamily
EAST REGION	BALTIMORE, MD	8.00	8.50	6.75	7.25	6.75	7.00	7.00	7.50	7.50	8.50	9.00	7.00	7.50
	BOSTON, MA	6.75	7.00	7.00	7.00	5.25	5.50	6.50	7.00	7.00	7.50	7.75	6.00	6.50
	HARTFORD, CT	9.00	9.25	7.75	8.00	6.50	6.25	9.25	7.75	8.00	9.25	9.50	7.00	6.75
	NEW JERSEY, COASTAL		8.50	6.75	7.00	6.75	6.75	8.25	7.75	8.15		9.00	7.00	7.00
	NEW JERSEY, NO.	7.50	8.00	6.50	7.50	6.75	7.25	8.00	7.25	7.00	8.00	8.50	7.00	7.50
	NEW YORK, NY	6.50		6.00	6.25	5.75		6.25	6.50	6.50	7.00		6.25	
	PHILADELPHIA, PA	9.00	9.25	6.50	7.00	6.00	5.75	8.50	7.75	8.50	9.50	10.00	7.25	7.00
	PITTSBURGH, PA	10.50	9.00	8.25	8.25	8.00	8.00	10.50	9.50	9.50	11.00	9.50	8.75	8.75
	PROVIDENCE, RI	9.00	9.25	7.75	8.00	6.50	6.25	9.25	7.75	8.00	9.25	9.50	7.00	6.75
	SYRACUSE, NY	10.25	10.25	10.00	9.75	7.00	6.75		8.50	9.50	11.25	11.25	7.50	7.25
	WASHINGTON, DC	8.25	8.50	6.50	6.75	5.50	5.75	6.75	6.75	6.75	8.75	9.25	6.00	6.00
	WILMINGTON, DE	8.50	9.00	7.00	7.00	6.75	7.00	6.75	7.25	7.25	9.00	9.50	7.00	7.75
SOUTH REGION	ATLANTA, GA	8.00	8.00	6.00	8.00	6.50	7.00	7.50	7.75	8.00	9.00	9.00	7.00	7.50
	AUSTIN, TX	7.50	7.75	7.50	7.50	6.00	6.50	6.50	7.00	6.50	8.75	9.75	6.50	7.00
	BIRMINGHAM, AL	8.00	8.00	6.50	7.75	5.75	5.75	9.00	8.00	7.25	8.50	8.50	6.75	6.75
	BROWARD-PALM BEACH, FL	7.00	7.25	6.50	6.50	5.25	5.50	6.25	6.50	6.50	7.50	8.00	6.00	6.00
	CHARLESTON, SC	7.50	8.00	7.50	7.75	5.50	5.50	9.00	8.25	8.50	8.00	9.00	5.75	5.75
	CHARLOTTE, NC	8.00	8.50	5.75	6.25	5.75	6.25	9.75	7.50	7.25	10.50	10.50	7.50	7.50
	COLUMBIA, SC	8.25	8.75	6.75	8.00	6.25	6.75	9.25	8.75	8.00	9.25	9.50	7.00	7.50
	DALLAS, TX	7.75	8.00	6.00	7.00	6.50	7.00	10.50	7.00	7.00	8.25	8.50	7.50	8.00
	FORT WORTH, TX	7.25	7.50	6.50	6.50	7.75	8.00	8.50	7.00	7.00	7.75	8.00	7.75	8.00
	GREENSBORO, NC	9.00	10.75	6.50	7.50	6.75	6.75	10.75	8.00	7.75	10.75		9.50	9.50
	GREENVILLE, SC	8.25	8.75	6.50	7.50	6.25	6.50	9.50	8.75	8.00	9.00	9.50	7.00	7.25
	HOUSTON, TX	8.10	8.20	6.90	7.50	6.20	6.20	9.00	8.10	7.80	9.20	9.30	7.50	7.50
	JACKSONVILLE, FL	9.75	9.25	6.25	7.25	6.25	6.25		7.50	7.00	10.25	9.75		6.75
	MIAMI, FL	6.70	7.00	6.50	6.75	5.50	5.50	6.00	6.25	6.25	7.25	8.00	5.75	6.00
	NAPLES, FL		7.00	6.50	6.50		5.75	7.00	7.00	7.25		7.00		6.25
	NASHVILLE, TN	8.00	8.25	6.50	6.25	7.00	7.25	10.25	7.50	7.50	9.00	9.25	7.25	7.50
	OKLAHOMA CITY, OK	8.00	8.25	8.25	8.50	6.00	6.75		8.00	8.25	8.50	8.75	6.75	7.25
	ORLANDO, FL	9.25	9.25	6.25	7.25	6.25	6.00		7.50	7.00	9.75	9.75		6.75
	RALEIGH, NC	8.50	9.00	6.75	6.75	5.75	6.00	8.50	8.00	8.00	9.50	10.50	6.25	6.50
	RICHMOND, VA	8.00	8.50	6.50	8.00	5.75	5.75	8.50	8.00	8.00	9.00	8.75	7.00	6.75
	SAN ANTONIO, TX	8.25	8.25	7.75	8.00	6.00	6.00	9.25	8.50	8.25	8.50	8.50	6.50	6.50
	SARASOTA, FL		8.00	8.00	8.00		5.50	6.75	6.75	7.00		8.00		5.75
	TAMPA, FL	9.50	9.25	7.25	7.50	5.75	6.00	7.00	7.25	7.50	7.00	7.00	6.25	6.50
CENTRAL REGION	CHICAGO, IL	8.00	9.75	5.75	9.00	6.00	6.25	8.25	7.50	8.25	9.00	10.75	6.25	6.75
	CINCINNATI, OH	10.00	9.75	8.00	8.50	6.75	6.75	10.00	8.75	8.50	10.25	10.25	7.25	7.25
	CLEVELAND, OH	9.00	8.75	8.25	8.75	7.50	7.50	10.75	9.75	10.00	10.00	9.75	9.00	8.50
	COLUMBUS, OH	9.00	9.00	7.50	8.50	5.25	5.25	8.75	8.75	8.50	9.75	9.75	5.75	5.75
	DAYTON, OH	12.25	9.50	8.50	9.25	7.50	8.00	11.00	9.50	9.50	12.50	9.75	8.50	9.00
	DETROIT, MI	9.25	9.00	9.00	9.25	6.50	6.25	11.00	9.50	9.50	9.00	9.25	7.00	6.50
	GRAND RAPIDS, MI	9.00	8.50	8.25	8.00	6.00	6.00	9.50	9.00	9.00	9.25	9.00	6.50	6.50
	INDIANAPOLIS, IN	8.75	8.50	7.50	8.50	6.25	6.50	8.00	7.75	7.75	9.25	9.00	6.50	7.00
	KANSAS CITY, MO	9.00	9.00	8.25	9.00	6.75	6.75	8.25	8.25	8.75	9.75	9.75	7.75	7.75
	LOUISVILLE, KY	9.50	8.50	7.25	7.75	7.20	5.95		8.50	8.50	10.50	9.50	8.70	7.20
	MINNEAPOLIS, MN	9.50	8.25	6.00	7.00	6.00	5.75	7.50	7.25	7.50	11.50	9.00	6.50	6.25
	ST. LOUIS, MO	10.25	8.75	8.00	8.25	6.75	6.50	8.50	8.50	8.75	11.50	9.50	7.75	8.00
WEST REGION	BOISE, ID	7.00	7.25	6.75	6.75	5.00	5.75	7.00	7.25	7.25	7.25	7.50	5.75	6.25
	DENVER, CO	8.00	8.00	7.00	7.50	6.00	6.00	8.50	8.50	7.50	8.50	8.50	6.00	6.00
	LAS VEGAS, NV	7.75	8.75	6.25	6.50	6.00	6.00	8.25	7.25	7.50	8.25	9.00	6.25	6.50
	LOS ANGELES, CA	8.00	8.25	5.00	5.50	5.00	5.75	7.25	6.50	6.75	8.50	8.25	5.25	6.50
	OAKLAND, CA	7.25	7.25	5.50	7.00	5.50	6.00	8.00	7.00	7.25	7.75	8.00	6.00	6.50
	ORANGE COUNTY, CA		7.25	5.00	5.50		4.75	7.75	6.50	6.00		7.50		5.50
	PHOENIX, AZ	10.50	10.50	6.50	7.00	5.75	5.75	8.50	7.50	7.50	11.50	11.50	6.25	6.25
	PORTLAND, OR	7.75	8.25	6.50	7.50	6.00	6.50		7.50	7.50	8.25	7.75	6.75	7.25
	SACRAMENTO, CA	7.75	8.25	6.75	7.00	6.50	6.75	8.00	7.25	7.50	8.50	9.00	6.75	7.25
	SALT LAKE CITY, UT	7.75	8.25	6.25	6.25	5.75	5.75	8.50	7.50	7.00	8.25	8.50	6.50	6.50
	SAN DIEGO, CA	7.00	7.00	6.00		5.00	5.00	8.00	7.00	7.00	7.25	7.25	5.25	5.25
	SAN FRANCISCO, CA	7.00	6.75	6.00	6.25	5.50	5.50	8.00	6.50	6.75	7.25	7.50	5.75	5.75
	SAN JOSE, CA	6.25	6.25	6.00	6.50	5.00	4.75	7.00	6.25	6.50	6.75	7.25	5.75	5.75
	SEATTLE, WA	7.25	7.25	6.50	7.50	5.75	6.00	7.50	7.50	7.50	7.75	7.75	6.00	6.25
	AVERAGES	8.36	8.41	6.89	7.45	6.16	6.24	8.35	7.69	7.69	8.99	8.95	6.80	6.89

NOTES:

1. CAPITALIZATION, DISCOUNT, AND REVERSION RATES DATA IS BASED ON IRR'S 4Q '24 VIEWPOINT SURVEY.

SOURCE: INTEGRA REALTY RESOURCES, INC.

SPECIALTY REPORTS

Specialty property groups offer unique opportunities for diversification and stable investment returns. This year, we spotlight three dynamic sectors: Healthcare & Senior Housing, Behavioral Health Facilities, and the ERS Mall Market. Shaped by evolving demographics, legislative shifts, and market trends, these sectors present both challenges to navigate and opportunities to seize. Join us as we explore the forces driving these markets and the potential they hold for key stakeholders across the industry.

HEALTHCARE & SENIOR HOUSING

Demand Is High, but So Are Costs

By: Vic Cremeens, MAI, Managing Director,
IRR's Healthcare & Senior Housing Practice Group

The demographic trends for the elderly population indicate demand for senior housing and nursing home facilities will continue to grow. While other factors, such as home health care and paid family caregiving, will have an impact on the need for congregate settings, the elderly population will continue to increase and will require additional supply. NIC MAP reports that beginning in 2022, growth of the 80+ population has exceeded inventory growth in senior housing. At the same time, absorption of senior housing has been increasing.

Unfortunately, high construction costs and higher interest rates reduce the financial feasibility of new development. Under these conditions, strong operating performance is required to justify new development. While developers have reportedly expressed interest in new construction, lenders have exercised caution and limited new construction activity. Some underperforming properties have also transitioned to behavioral health use, reducing supply.

Good news and challenges for operations.

Occupancy levels have improved markedly since the pandemic era. Properties still struggling with occupancy may not be generally competitive, or they may serve market areas where demographic variables are less favorable. Occupancy among REIT-owned properties has improved more than industry averages.

The pandemic created a difficult labor market that has taken time to normalize. Conditions have improved markedly but remain tight. This paradigm is likely to persist, continuing to pressure expense growth. Other operating costs remain high compared to pre-pandemic levels.

Seniors have benefited from strong housing gains and social security adjustments. These trends have permitted facilities to make rent increases and occupancy gains.

> Senior housing and healthcare REIT acquisitions and revenues have been strong in 2024 and are expected to continue to be in 2025.

Record-setting sales volume, smaller transactions.

The SeniorCare Investor reports 2022 had a record 559 transactions, but that was surpassed in 2024, which had recorded nearly 600 deals as of the end of October. The transactions this year have been smaller and more distressed than in previous years; many portfolios have been broken into smaller deals because of the lack of available financing.

Senior housing and healthcare REIT acquisitions and revenues have been strong in 2024 and are expected to continue to be in 2025. REITs own these assets through one of two structures: traditional (leased to tenants) and RIDEA (participation in the operations of the business). The RIDEA ownership model is gaining share among assets owned.

Bright lending picture with an eye on lower rates.

With low interest rates, HUD financing was strong following the pandemic, particularly for nursing homes. HUD loan commitments in 2024 exceed those of 2023. HUD's permanent debt funding option for healthcare properties, along with its consistent underwriting standards, make it an attractive source of capital for qualified deals. With the potential for lower interest rates and more properties regaining stabilized operations post-pandemic, HUD financing is likely to pick up in 2025. Fannie Mae and Freddie Mac were not aggressive throughout much of 2024, but that posture may change in 2025 in order for them to be competitive. Banks have not been particularly active either in the last couple of years.

Higher interest rates contributed to lower unit prices in 2024. Even so, the prices of nursing facilities have benefited from states leveraging federal matching monies to enhance Medicaid rates.

However, there is talk of banks becoming more active again.

With the Fed lowering interest rates in the fall of the year and the possibility of there being more reductions in 2025, industry participants are optimistic about an increase in sales activity in 2025. Lower borrowing costs, better operating performance, and limited new development likely bode well for 2025 transaction volume. Brokers reportedly believe there is greater likelihood of portfolio deals and sales of performing properties.

A range of factors impacting prices.

Sustained higher interest rates have contributed to lower unit prices in 2024. Even so, the prices of nursing facilities have benefited from states leveraging federal matching monies to enhance Medicaid rates. The supply of nursing facility beds is also more regulated in states with certificate of need laws. The switch to PDPM in FFY 2020 also financially benefited the nursing industry.

A new staffing rule from the Centers for Medicare and Medicaid Services, issued in 2024, seeks to phase in national minimum staffing requirements for nursing

Sales of senior housing properties in 2024 were disproportionately comprised of underperforming assets. Proportionately fewer Class A properties were sold.

homes. The Trump administration is widely expected to eliminate the new mandates early next year as part of a broader regulatory rollback. The Biden administration's FFY 2024 and FFY 2025 payment rates to Medicare Advantage (MA) are at reduced amounts. There is some expectation that MA plans might lower their payments to nursing homes in 2025 to absorb those rate cuts.

Prices for senior housing facilities have been influenced by more cautious capital markets and higher interest rates. As interest rates have declined, there is a consensus view that overall capitalization rates have also compressed – likely in the range of 50 to 75 basis points. Higher prices may encourage more sellers to offer properties for sale.

Sales of senior housing properties in 2024 were disproportionately comprised of underperforming assets. Proportionately fewer Class A properties were sold. Underperforming assets with loans maturing in 2025 will weigh on average unit prices. On the upside, there are likely to be additional loan originations as they get picked up by opportunistic buyers.

Here, challenges meet great opportunities.

Senior housing is in a rare situation where ramping demand is butting up against minimal new supply. NIC MAP indicates that the industry could return to stabilized occupancy (90%+) by 2026 – at 84.4% in 3rd quarter 2024. Operators have experienced higher operating costs but have benefited from better government reimbursement and an ability to pass on those higher costs to private payers. The interest rate and lending environment is likely to be favorable to sales activity in 2025. Meanwhile, constraints on new supply are likely to result in better operating margins. While there are always uncertainties in forecasting, the near-term trend for senior housing and nursing facilities is likely to be favorable to market participants.

BEHAVIORAL HEALTH FACILITIES

Parity Means Opportunity in the Year Ahead

By: Jacob Stephens, Analyst, IRR-St. Louis

Healthcare real estate markets have continued to offer opportunities to both owner-operators and investors across existing markets such as senior housing, hospitals, and urgent care. However, with increased health insurance coverage for mental health treatment (mental health parity), real estate supporting behavioral healthcare growth has emerged as a new and important healthcare property class. Behavioral healthcare encompasses a variety of diverse segments, including substance use disorder (SUD), in-patient and outpatient mental health services, crisis intervention, and residential treatment, among others. The broad service offerings of behavioral healthcare provide a unique exposure to the markets sought by investors, REITs, lenders, and operators alike.

Real estate for behavioral healthcare falls broadly into three categories:

De Novo properties are purchased or developed for new operations. These are often former assisted living, skilled nursing care, and similar properties – even hotels – being converted for use as behavioral health facilities. Operators often create De Novo facilities as an entry into a new market, with transactions generally representing real estate only.

In acquisitions, operators purchase both real estate and operating assets to incorporate a facility into an existing platform of services. The acquisition of an existing facility often includes some allocation to intangible assets above and beyond the real estate contribution. Acquisitions may

With nearly a quarter of the adult population in the United States reporting mental health or substance use challenges, demand is evident in the market for a wide array of services.

may benefit operators by providing a complementary service line, an established payer mix, or a more aggressive approach to geographic expansion. Considering that acquisitions generally include the purchase of real estate and intangible assets, the market is highly correlated to trends in mergers and acquisition activity. In addition, it is common for entities to be analyzed on earnings before interest taxes, depreciation, and amortization (EBITDA) as opposed to most properties, which are analyzed on net operating income (NOI). While NOI and EBITDA are essentially the same, EBITDA is the preferred metric of performance in business valuation, and NOI is preferred for real estate.

Joint ventures allow two or more participants to leverage core competencies in an existing or proposed operation. Joint ventures are often found in highly specialized segments of behavioral health.

With the elevated interest rates of the past several years, we've seen an increase in De Novo facilities and joint ventures as acquisitions and mergers have slowed. However, acquisition activity will broadly increase in 2025 as inflationary headwinds and interest rates stabilize.

Awareness and growth come with challenges.

While behavioral healthcare is not new, the sector has experienced remarkably greater relevance in recent

benefit operators by providing a complementary service line, an established payer mix, or a more aggressive approach to geographic expansion. Considering that acquisitions generally include the purchase of real estate and intangible assets, the market is highly correlated to trends in mergers and acquisition activity. In addition, it is common for entities to be analyzed on earnings before interest taxes, depreciation, and amortization (EBITDA) as opposed to most properties, which are analyzed on net operating income (NOI). While NOI and EBITDA are essentially the same, EBITDA is the preferred metric of performance in business valuation, and NOI is preferred for real estate.

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Awareness and growth come with challenges.

While behavioral healthcare is not new, the sector has experienced remarkably greater relevance in recent decades. Significant sector growth drivers include the trend of mental health diagnoses and mental health parity legislation impacting insurance coverage for behavioral health services.

Recent survey data reports an upward trend of behavioral health diagnoses spanning a variety of segments, primarily substance use disorder (SUD) and in-patient/out-patient mental health. Based on survey data from Mental Health America, 23% of adults experienced mental illness between 2021 and 2022. The Substance Abuse and Mental Health Services Administration (SAMHSA) reports 24.9% of people aged 12 or older used an illicit drug in 2023. With nearly a quarter of the adult population in the United States reporting mental health or substance use challenges, demand is evident in the market for a wide array of services. The National Center for Health Workforce Analysis reported nearly 26%± of the 29.3 million adults with mental illness in the past year perceived an unmet need for mental health services. Challenges in meeting the market demand include high barriers to entry (licensing, state regulations, high start-up costs) and ongoing challenges in workforce labor and employee retention.

> The healthcare industry is significantly impacted by reimbursable coverage, generally orienting services towards health insurance or government reimbursement.

It's a segment shaped by reimbursement and legislation.

The healthcare industry is significantly impacted by reimbursable coverage, generally orienting services towards health insurance or government reimbursement. The industry is influenced by regulation and legislative action, often administered at the state level. However, federal regulation impacts the way the industry accesses funding through insurance coverage and public program funding. Mental health services experienced a rapid increase in the 1970s and 1980s, but in the later part of the 1980s, many health insurers significantly changed how they paid healthcare providers for such care. The reduction from 28-day hospital stays for drug and alcohol to 10 days or less and the transfer of treatment to outpatient services had a catastrophic impact on psychiatric hospitals and residential treatment centers almost overnight. While legislation covering behavioral healthcare began to appear in the 1990s, several recent legislative actions have further supported the industry's growth. In 2010, the Affordable Care Act (ACA) significantly broadened the scope of health insurance coverage regarding mental health services. Following this legislation, behavioral healthcare became classified as an essential health benefit with many insurance providers, including coverage in base plans for mental health and substance use disorder. In 2020, the CARES Act further benefited the behavioral healthcare industry by increasing federal funding for mental health services, including $425 million for SAMHSA, and allowing Medicare reimbursement for telehealth services. When considered in aggregation, legislation surrounding behavioral healthcare and insurance coverage has significantly increased the opportunity for market participants by providing broader revenue sources.

Expect expansion, with headwinds.

While we observe strong unmet demand for behavioral healthcare services in some markets and an improving regulatory environment for healthcare companies, the industry still needs to be more cohesive with various local and regional service providers. The 2024 IBIS World Mental Health & Substance Abuse Centers report notes that no company currently holds more than 5% of the industry market share in the United States, citing high startup costs, increasing labor expenses, and challenges in customer acquisition. Overall, the highly fragmented nature of the industry creates opportunities for operators and investors in the behavioral healthcare space; however, it poses challenges in creating brand recognition beyond regional boundaries.

With economic conditions stabilizing into the end of 2024, behavioral healthcare market participants remain optimistic for the coming year. The Federal Reserve's recent action to lower interest rates is expected to ease challenges in real estate acquisition and allow for greater deal volume in 2025. Considering this, we expect strong growth in the behavioral healthcare markets as investors and operators alike resume operational and geographic expansion in the coming year.

ECONOMIC TRENDS

Written By: Nick Villa, Economist, Moody's

Figure 1: Annualized Change in U.S. Real GDP
Source: U.S. Bureau of Economic Analysis, Moody's Analytics via Data Buffet

Figure 2: U.S. Job Creation Trends
Source: U.S. Bureau of Labor Statistics

Figure 3: U.S. Job Creation by Industry
Source: U.S. Bureau of Labor Statistics

Figure 4: Contribution to YoY Change in Headline CPI
Source: U.S. Bureau of Labor Statistics

Figure 5: Disinflation, but Prices are Elevated Relative to December 2019
Source: U.S. Bureau of Labor Statistics

Figure 6: Effective Federal Funds Rate Forecast
Source: Moody's Analytics via Data Buffet

Figure 7: Cost of Homeownership Versus Renting
Source: National Association of Realtors, Freddie Mac's Primary Mortgage Market Survey, Moody's

Figure 8: CMBS Conduit Loan Delinquency Rate by Property Type
Source: Trepp LLC, Moody's Ratings

PROPERTY REPORTS

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OFFICE

Office Market Cycle
Source: Integra Realty Resources

Regional Rates Comparison
Source: Integra Realty Resources (Cap & Discount Rates), Moody's Analytics REIS (Asking Rents, Vacancy)

Projected Office Inventory Under Construction (UC) 2024-2026
Source: Moody's Analytics REIS

MULTIFAMILY

Multifamily Market Cycle
Source: Integra Realty Resources

Regional Rates Comparison
Source: Integra Realty Resources (Cap & Discount Rates), Moody's Analytics REIS (Asking Rents, Vacancy)

Projected Multifamily Inventory Under Construction (UC) 2024-2026
Source: Moody's Analytics REIS

RETAIL

Retail Market Cycle
Source: Integra Realty Resources

Regional Rates Comparison
Source: Integra Realty Resources (Cap & Discount Rates), Moody's Analytics REIS (Asking Rents, Vacancy)

Projected Retail Inventory Under Construction (UC) 2024-2025
Source: Moody's Analytics REIS

INDUSTRIAL

Industrial Market Cycle
Source: Integra Realty Resources

Regional Rates Comparison
Source: Integra Realty Resources (Cap & Discount Rates), Moody's Analytics REIS (Asking Rents, Vacancy)

Projected Warehouse Inventory Under Construction (UC) 2024-2025
Source: Moody's Analytics REIS

SPECIALTY REPORTS

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BEHAVIORAL HEALTH FACILITIES

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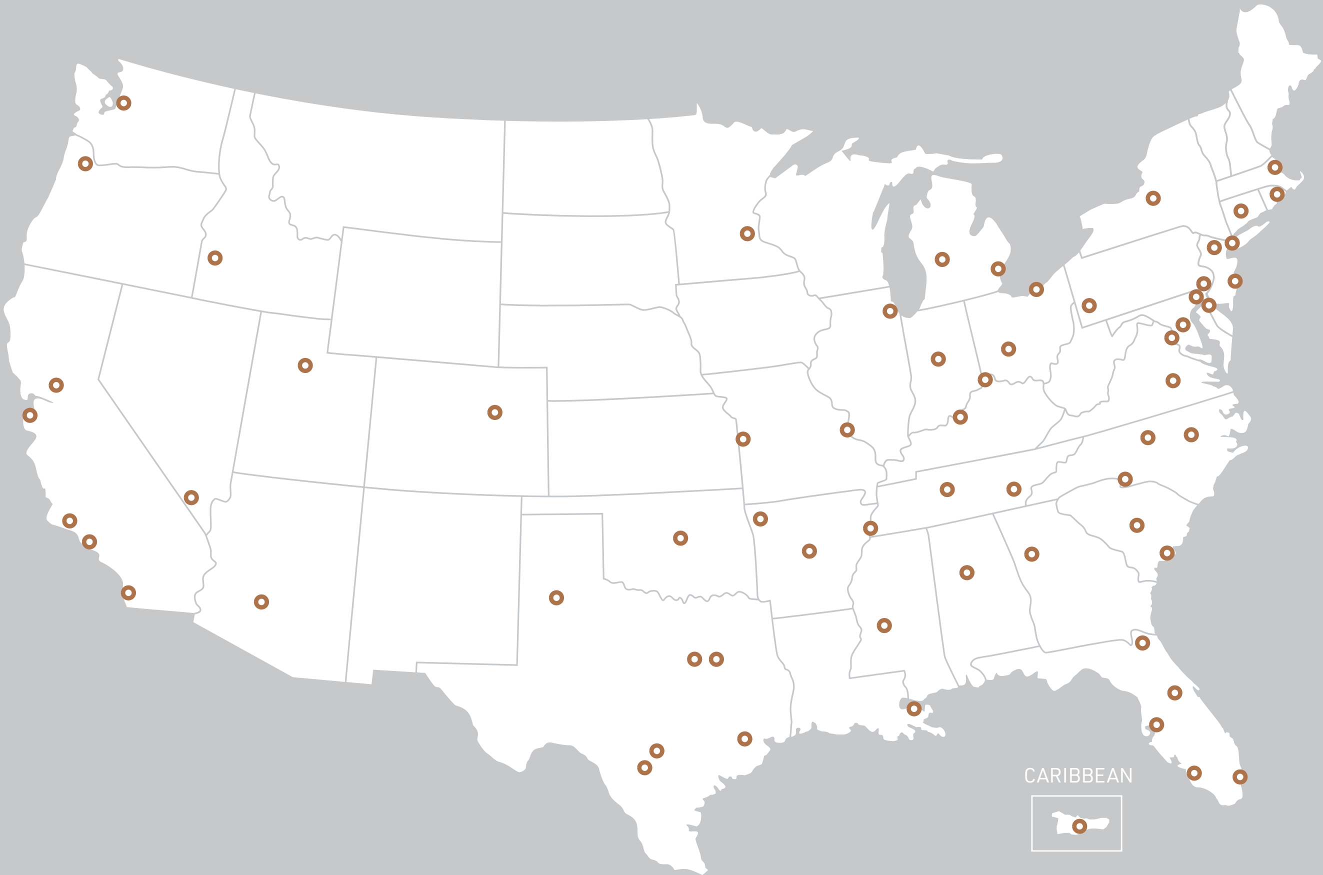
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