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Q4 2023 Property Market Outlook

October 2023

Outlook – No Change from Prior Quarter

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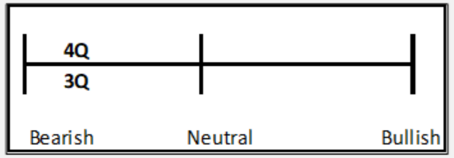
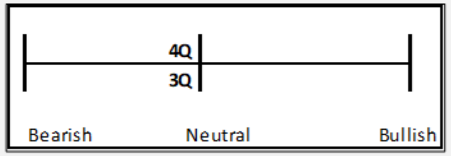
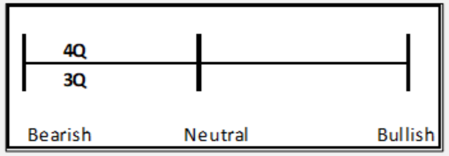
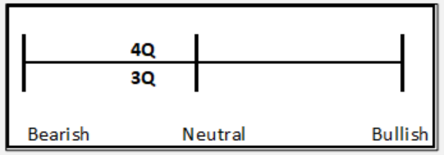
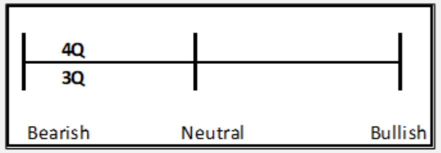
Factors	Comments	Historical Range
Valuations	Valuations have continued to decline Lack robust sales market makes valuations difficult	
Fundamentals	Except for office fundamental remain positivite Expected over supply in the apartment sector to slow leasing and NOI growth but not significantly	
Technical	Bid-ask spread still wide but starting to move as stressed owners sell good assets to raise capital Talk of banks selling RE loans increasing could accelerate price adjustments	
Macro Impact	Business activity outside of office leasing remains relatively strong	
	9-12 month view	

Commentary

- Next few years in Commercial Real Estate (CRE) there may potentially be great vintages to take advantage of
  - Anticipated distress in CRE equity and debt markets
  - Opportunities to acquire higher quality assets at better cost basis, lower leverage and higher returns
  - To differentiate our deployment strategy, focusing on rifle shot micro-sector, specialist areas
- Pipeline for distressed properties to date has not proven to be the wave that many participants expected
- MTM write-downs have been taken by investment managers for the last 4-6 quarters, but expectations are that more is to come, particularly as YE process generally requires third party auditor/valuers to appraise properties
- Fed potentially being on pause with rate hikes will add some stability, clarity so that transactions can be executed in greater volume, resulting in a positive feedback loop on what should assets be priced at today
- Nonetheless, there may still be wide spreads between buyers’ and sellers’ expectations; more clarity in the capital markets is required before that gap compresses
- Anecdotal evidence from our discussions with investment managers are that banks are willing to work only with their best borrowers, generally amending/extending loans on the best properties in order to give borrowers more runway

Public Market Returns

- Continued decline in public REIT markets
- Industrial has declined in US and Europe as growth has slowed albeit from record levels

FTSE ERPA/NAREIT Index Returns through 9/30/23 (USD)					
	QTD	YTD	1 Year	3 Year	5 Year
Region Total Return					
Global	-5.4%	-4.4%	2.8%	0.5%	-0.8%
Europe	1.6%	-4.0%	9.8%	-9.6%	-6.6%
North America	-7.2%	-2.4%	2.7%	5.8%	2.0%
Asia	-4.2%	-8.6%	-0.2%	-1.9%	-2.1%
US					
Industrial	-6.9%	1.7%	13.0%	6.5%	12.3%
Retail	-8.5%	-9.1%	7.0%	13.9%	-1.5%
Residential	-9.9%	-1.6%	-7.4%	5.9%	4.0%
Office	-0.2%	-14.3%	-14.7%	-6.9%	-7.1%
Lodgings/resorts	-3.8%	1.5%	6.9%	15.1%	-6.5%
Europe					
Industrial	-3.3%	-2.8%	6.6%	-8.2%	3.7%
Retail	-1.8%	1.7%	23.2%	14.7%	-15.4%
Residential	12.7%	1.3%	7.4%	-21.3%	-9.4%
Office	-1.4%	-3.9%	18.0%	-4.6%	-4.8%
Lodgings/resorts	-7.9%	-2.4%	2.2%	-1.9%	-8.9%
Asia					
Industrial	-6.1%	-12.6%	-5.9%	-10.7%	3.0%
Retail	-7.9%	-13.3%	0.3%	0.2%	-3.8%
Residential	-3.7%	-6.1%	-0.6%	-5.7%	1.8%
Office	-1.7%	-11.1%	-7.9%	-4.1%	-3.5%
Lodgings/resorts	1.5%	-5.6%	12.2%	5.3%	-3.9%

Source: Bloomberg

Private Market Returns

- Returns are declining globally except for Non – Core Europe
- US and Europe Core and Open End have had the largest negative returns most likely from the typically high office exposure of these vehicles
- Non-core has performed the best most likely from their ability to grow NOI which offsets value declines from rate increases which the Core funds do not have

GREIF Returns as of 2Q23												
	US				Europe				Asia Pacific			
	Total	Core	Non-Core	Open End	Total	Core	Non-Core	Open End	Total	Core	Non-Core	Open End
3 months	-2.70%	-2.88%	-2.24%	-2.70%	-0.47%	-0.54%	0.59%	-0.52%	-2.45%	-2.73%	-0.84%	-2.76%
6 months	-5.64%	-6.16%	-4.33%	-5.64%	-1.63%	-1.76%	0.31%	-1.67%	-2.15%	-2.61%	0.56%	-2.66%
1 year	-9.58%	-10.73%	-6.55%	-9.58%	-8.38%	-8.64%	-4.34%	-8.52%	-0.29%	-0.35%	0.06%	-0.36%
3 year	8.67%	7.04%	13.61%	8.67%	3.65%	3.63%	4.06%	3.82%	6.47%	6.46%	6.16%	6.41%
5 year	6.90%	5.56%	11.26%	6.90%	4.04%	4.13%	3.19%	4.55%	5.60%	5.35%	6.38%	5.30%

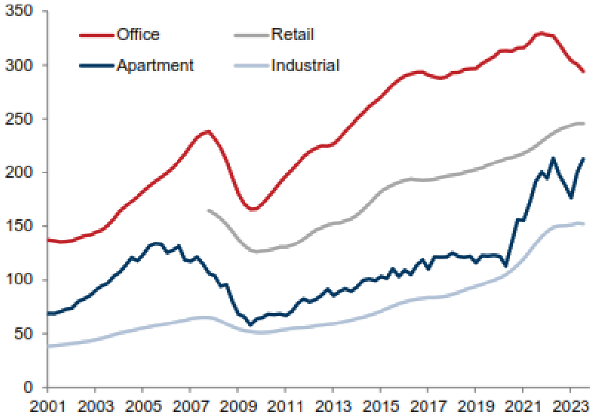
Source: INREV

Appendix

State of the CRE Market – Sep 2023

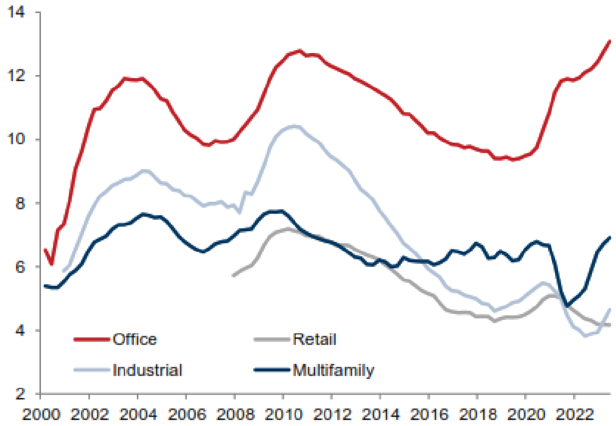
While some sectors of commercial real estate (CRE) have held up relatively well, prices have fallen for the office sector…

Median sales price per square foot by property type, $



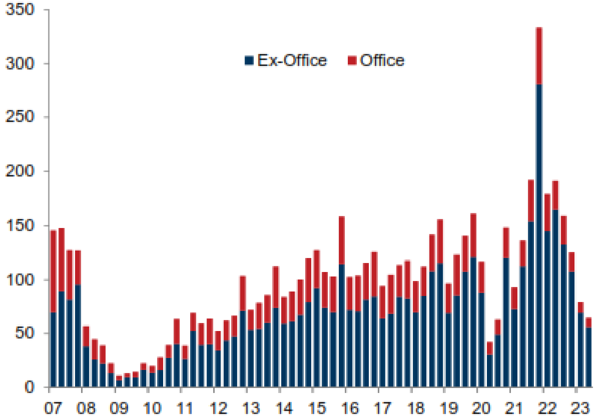
…and vacancy rates have increased more for the office sector, with office vacancies above 25-year highs

Vacancy rates by CRE sector, %



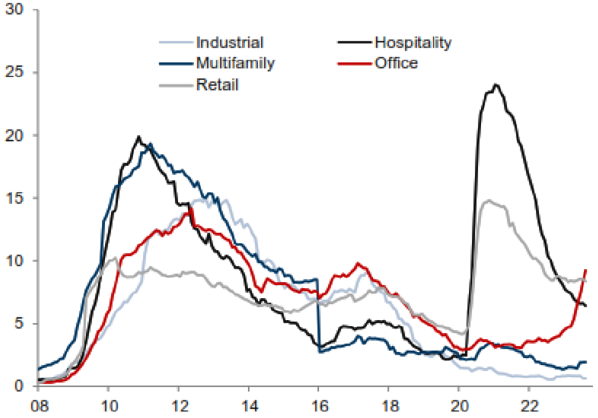
Overall CRE transaction volumes have contracted, with transaction volumes for office falling to multi-year lows…

Total CRE transaction volumes, $bn



…and delinquency rates have surged for office properties, while remaining contained for most other CRE property types

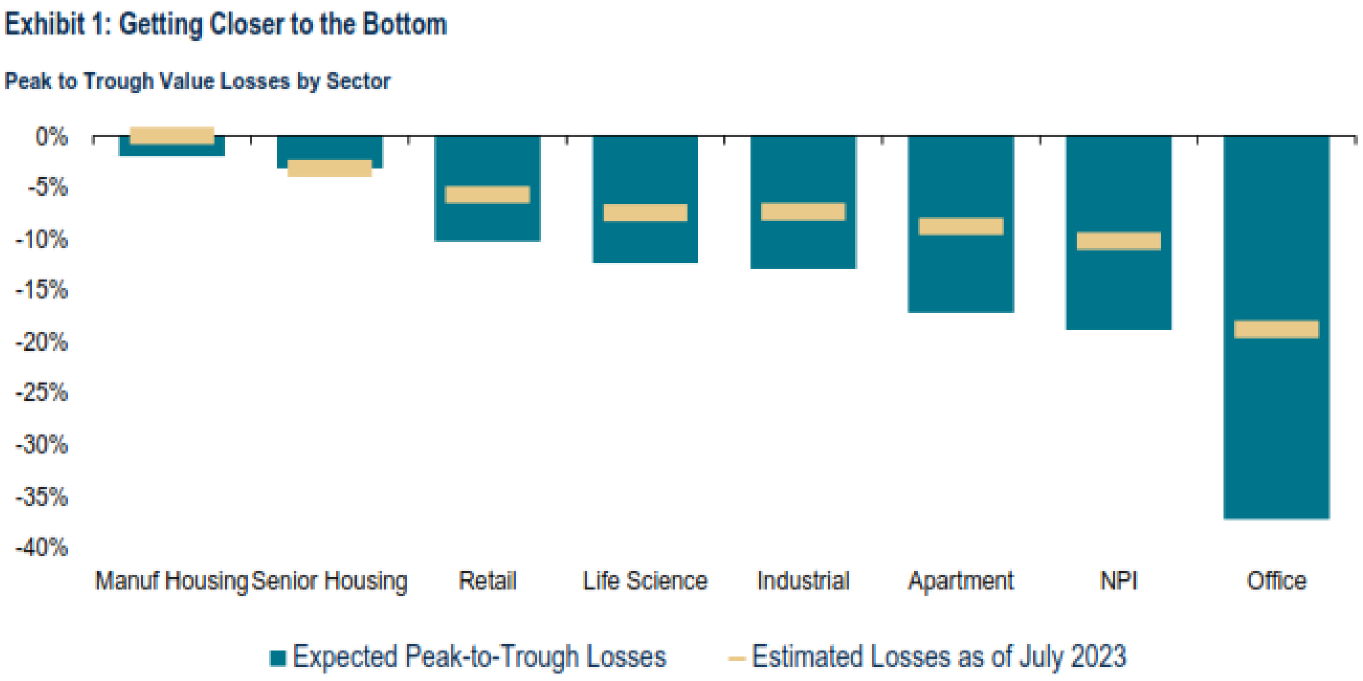
30+ day delinquency rates by property type, %



Source: Goldman Sachs Global Investment Research

Valuations

- Values in the NCREIF Property Index (for unlevered core properties) have fallen by 10% since their mid-2022 peak.
- PGIM estimates more pain to come with office expected to decline by another 18%, while industrial and apartments may decline by an additional 6% and 8% respectively, as cap rates adjust to higher interest rates. Other sectors have already been fully repriced.
- But the caveat is that continued uncertainty, higher borrowing costs and tighter lending standards have inhibited transaction volumes, thus inhibiting robust price discovery.
- Market participants are hopeful that transaction volumes will increase in 2H2023

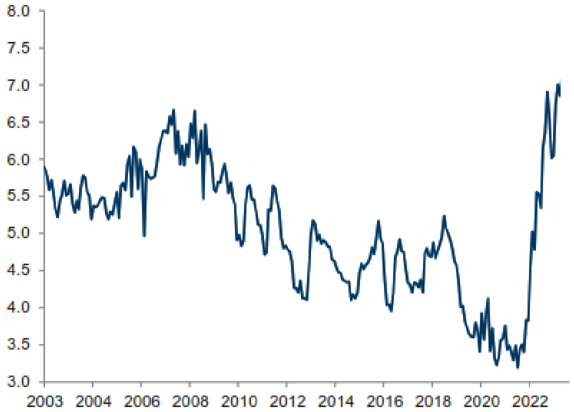


Source: PGIM Real Estate

CRE Financing Environment

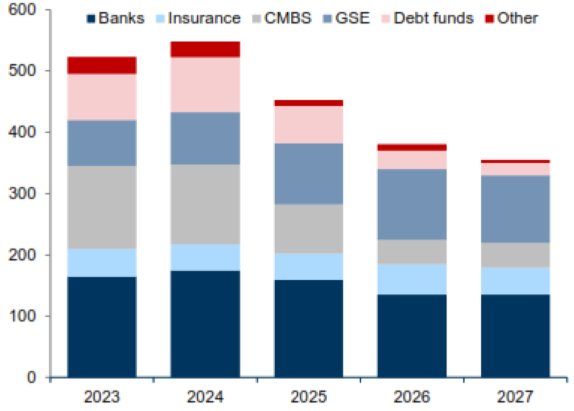
Financing costs within CRE have risen sharply amid the higher rate environment…

Average monthly weighted average coupon for CMBS loans by origination date, %



…and refinancing needs for CRE borrowers are set to remain high, with roughly $1.1tn in maturities coming due over this year and next

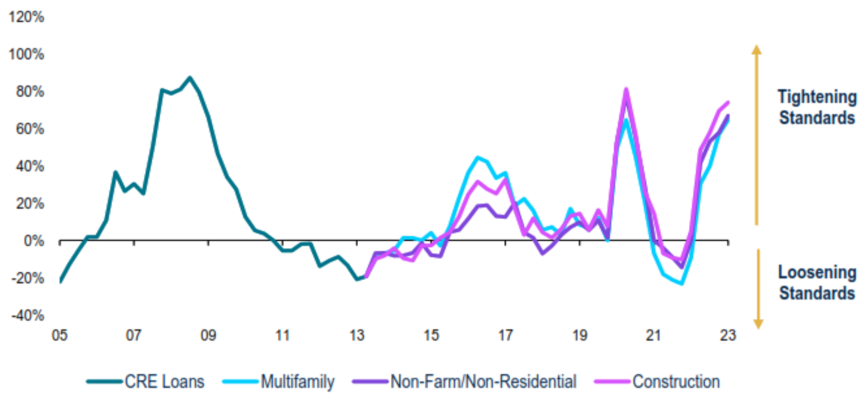
Annual maturity wall on CRE loans by lender group, $bn



- Banks expect to tighten lending standards through YE 2023 based on uncertain economic outlook and deterioration in quality of existing loans.

Exhibit 8: Senior Loan Officer Opinion Survey

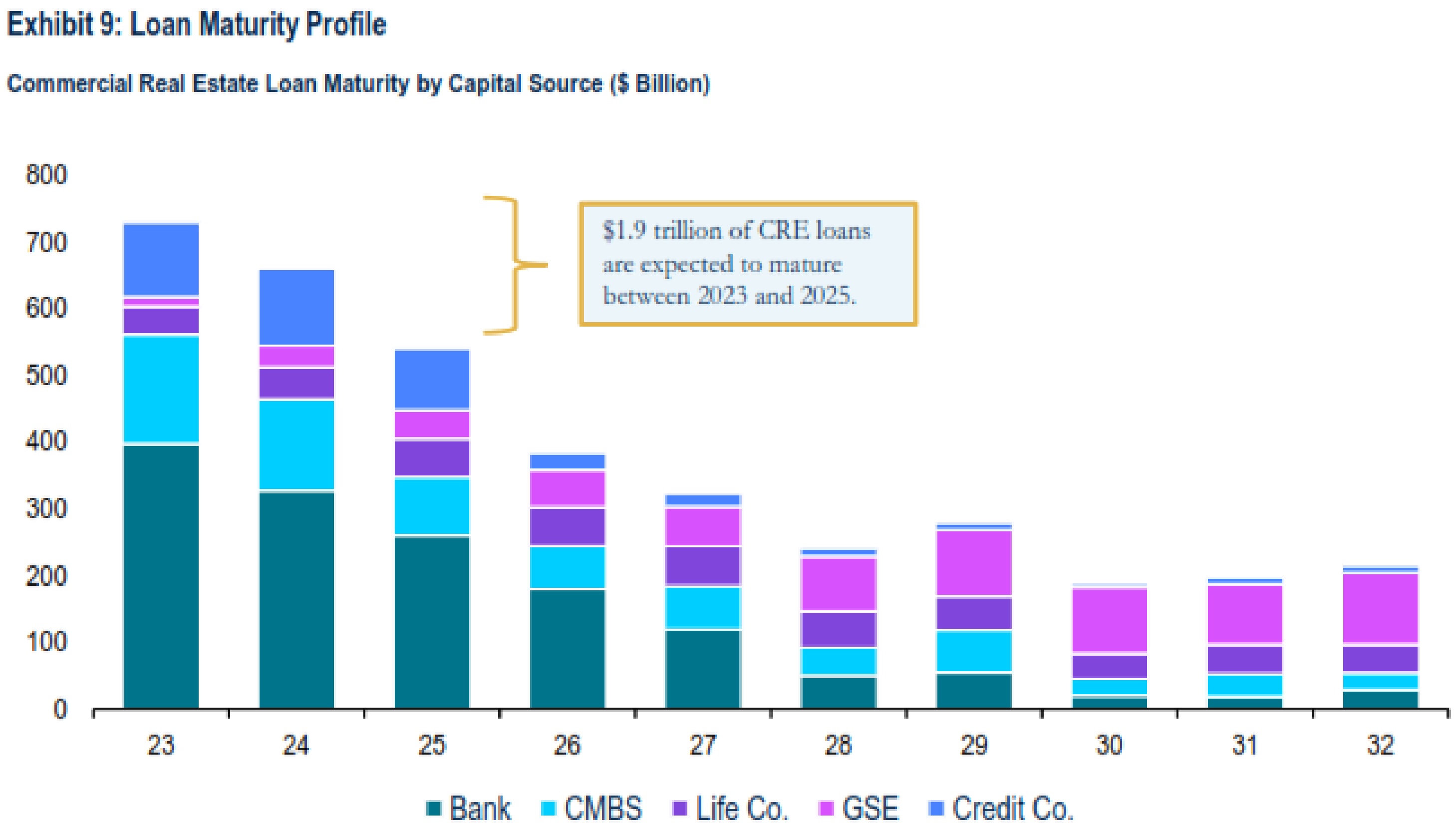
Bank Lending Standards on Commercial Real Estate Loans (Net %)



Source: Goldman Sachs Global Investment Research and PGIM Real Estate

CRE Debt Market – How Big is the Potential Problem?

- PGIM estimates $1.9tn of CRE loans are due to mature between 2023 and 2025, of which over half ($983bn) are bank loans.



Source: PGIM Real Estate

Signs of Distress in the CMBS Market

- Number of delinquent borrowers and those in special servicing have risen.
  - The Trepp CMBS Special servicing rate (which tracks % of delinquent CMBS debt transferred to special servicers) rose from 2.95% to 9.83% during the pandemic, recovered to 5.28% in 3Q22
  - Special servicing rate has risen again to 6.87% in Sep 2023
- CMBS pricing
  - Investors pricing in expectations of defaults/losses
  - BBB CMBS cash index widened by 700 bps since mid 2021, now above 900 bps
- Underwriting standards have tightened significantly
  - LTVs have fallen to 53%, the lowest level in over two decades, well below historical average of 65%

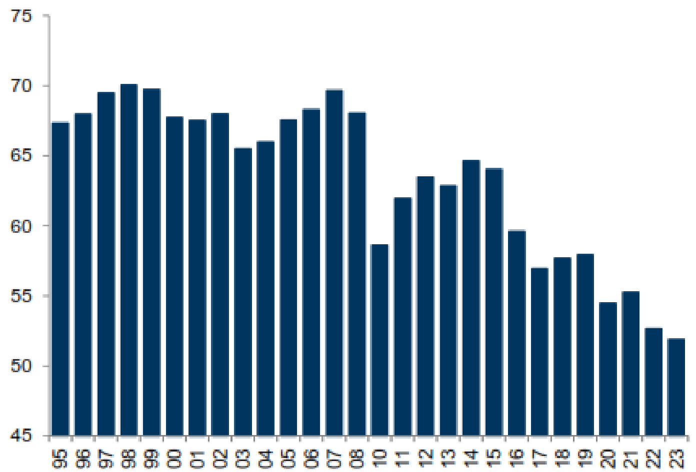
TABLE 1: SPECIAL SERVICING RATE BY PROPERTY TYPE CMBS FULL

PROPTYPE	SEP-23	AUG-23	JUL-23	3 MO.	6 MO.	1 YR.
Industrial	0.32%	0.33%	0.31%	0.39%	0.39%	0.30%
Lodging	7.24%	7.07%	7.06%	6.40%	6.31%	7.07%
Multifamily	3.14%	3.58%	3.26%	3.28%	3.04%	1.87%
Office	8.34%	7.72%	7.33%	7.24%	4.77%	3.43%
Mixed-Use	7.19%	6.93%	6.89%	5.96%	4.00%	3.66%
Retail	10.14%	10.07%	10.87%	11.06%	11.57%	10.97%
Overall	**6.87%**	**6.67%**	**6.62%**	**6.42%**	**5.55%**	**4.94%**

Source: Trepp

CMBS loan-to-value ratios are among the lowest on record

Origination LTV of CMBS conduit issuance (weighted average by balance), %



Source: Trepp, Goldman Sachs Global Investment Research

Bank Exposure to CRE Risk

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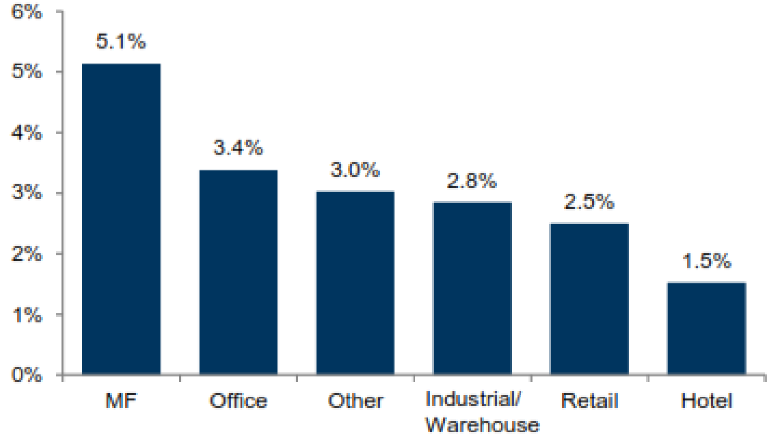
- Outstanding U.S. CRE Loans approx. $5.6tn
  - $2.8tn sit on bank balance sheets
  - 75% of the $2.8tn sit on small and mid-sized bank balance sheets (<100bn and <250bn in assets)

- CRE represents approx. 18% of banks' total loans
  - Multifamily, Office and Retail account for only 11% of banks' total loans
  - Small and regional bank office exposure skewed toward smaller suburban and medical office loans in secondary and tertiary markets
  - Large CBD office loans in major markets primarily owned by CMBS, investor groups and insurance companies

Banks' exposure to higher-risk CRE sectors is relatively limited

Exposure as a share of total bank loans by CRE sector, %



Small and mid-sized banks account for the bulk of CRE bank lending

Loan mix by bank size

Bank size	# of banks	CRE debt		Multifamily loans	
		Total ($bn)	Share of total CRE bank debt	Total ($bn)	Share of total MF bank loans
>$700bn assets	6	447	16%	146	26%
$250-700bn assets	9	250	9%	50	9%
$180-250bn assets	11	179	6%	32	6%
$100-180bn assets	9	152	5%	32	6%
<$100bn assets	840	1,789	64%	292	53%
Total	875	2,816	-	552	-

Source: Goldman Sachs Global Investment Research

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