



Quarterly U.S. Economic and CRE Forecast Update

Presented by
Econometric Advisors

June 13, 2023



Introduction

Agenda



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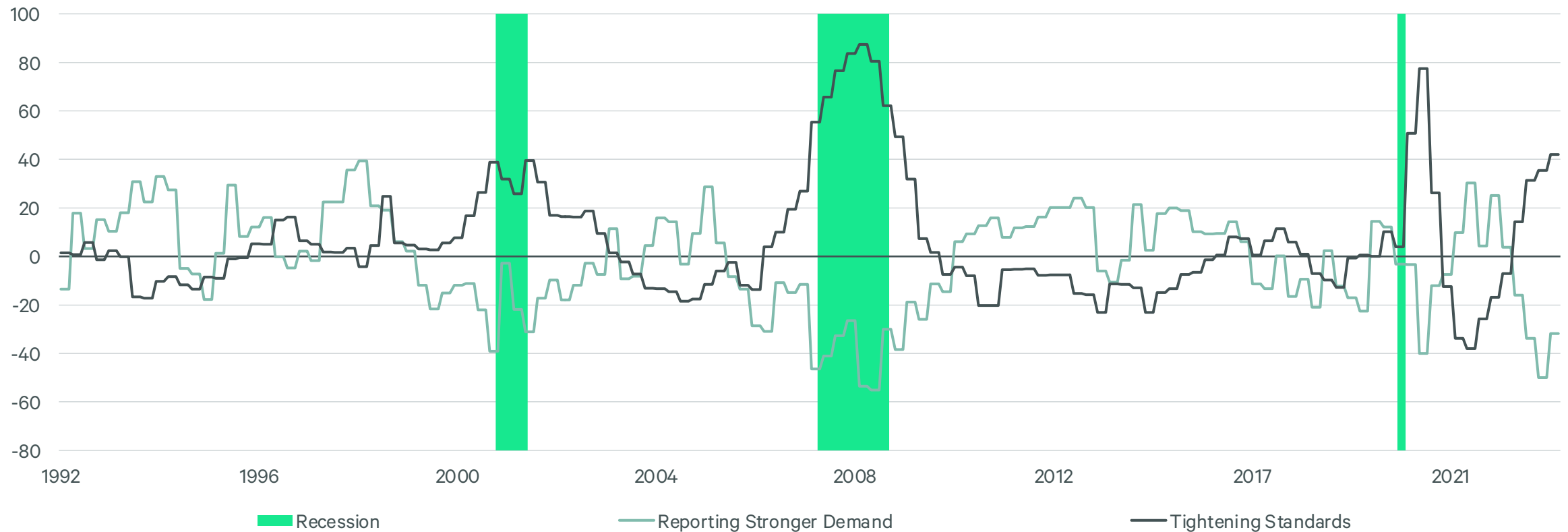
- 1 Introduction
- 2 Macro Outlook
- 3 Capital Markets
- 4 Hurdle Rates
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- 6 Q & A



Macro Outlook

Why we expect the economy to contract

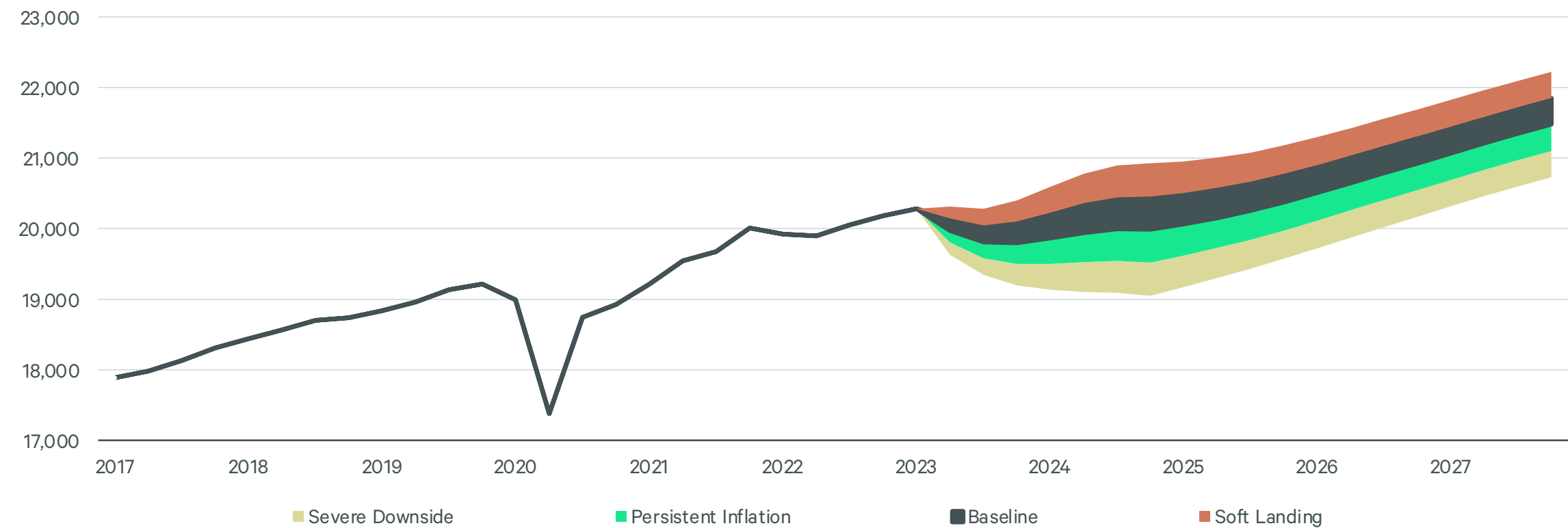
Senior Loan Officer Opinion Survey on Bank Lending Practices, Diffusion Index



The Federal Reserve

Scenarios are important at times like this

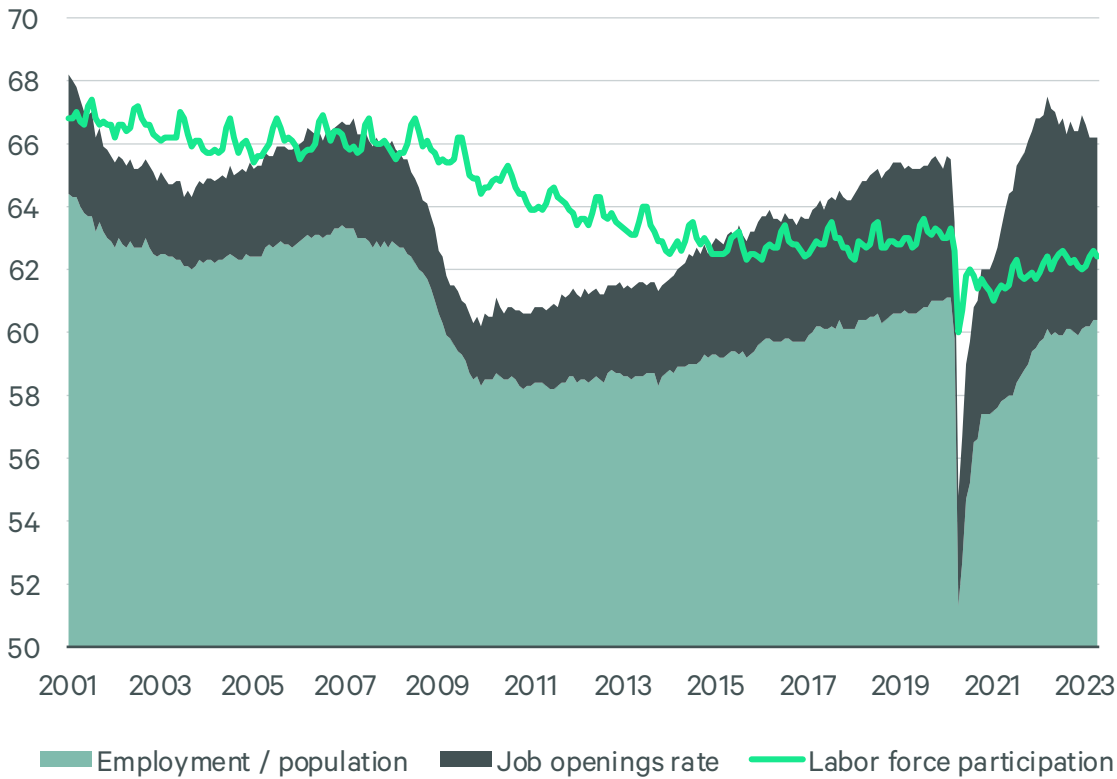
GDP and Scenario Ranges, USD (Billions)



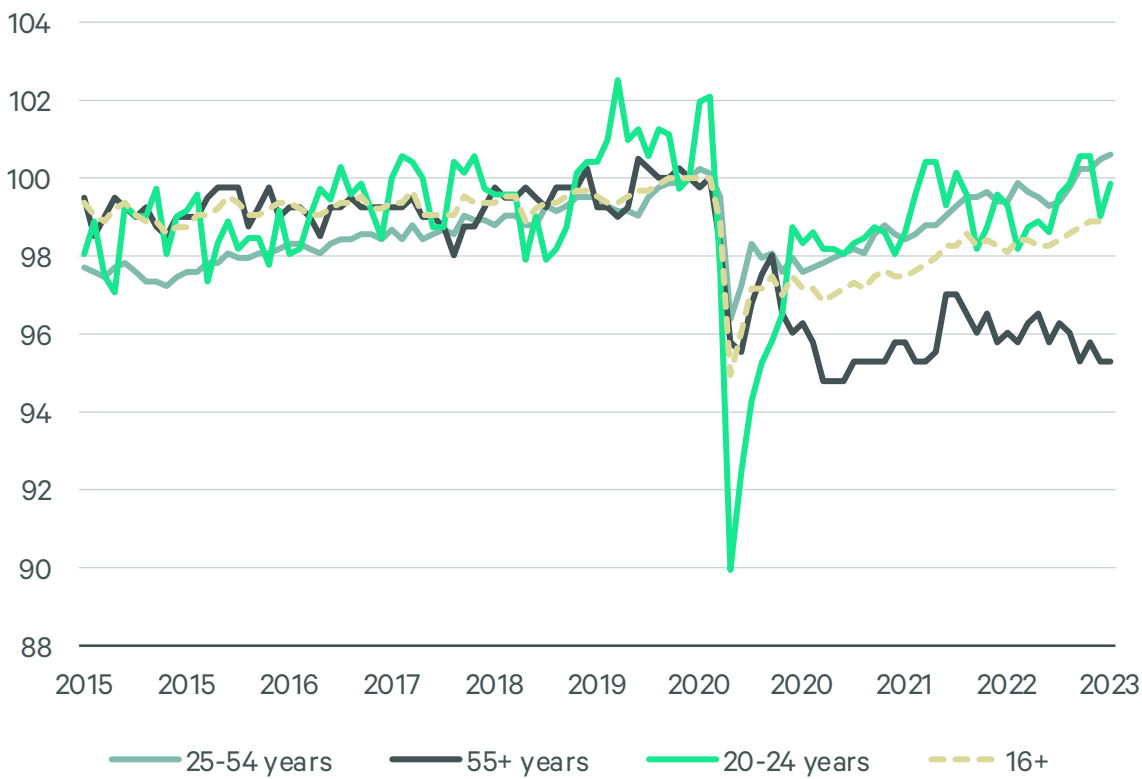
U.S. Bureau of Economic Analysis

Demand for labor still exceeds supply...

Demand for Labor Exceeds Supply (%)



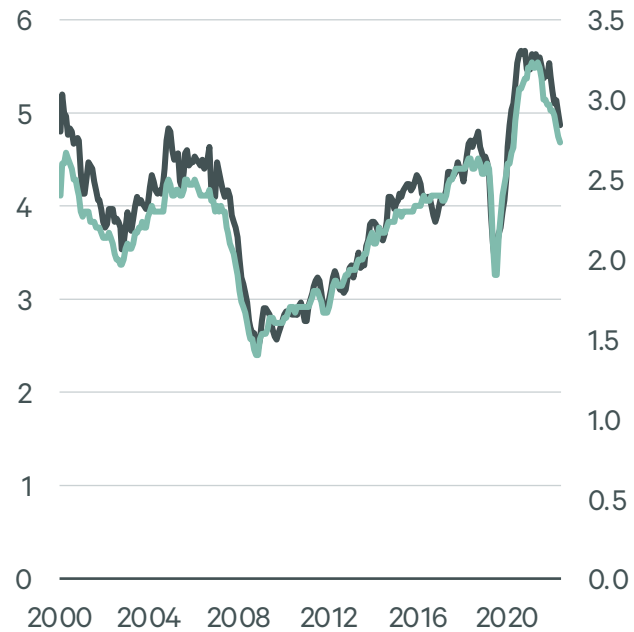
Labor Force Participation Rate by Age Cohort (%)



U.S. Bureau of Labor Statistics

...but the labor market is softening

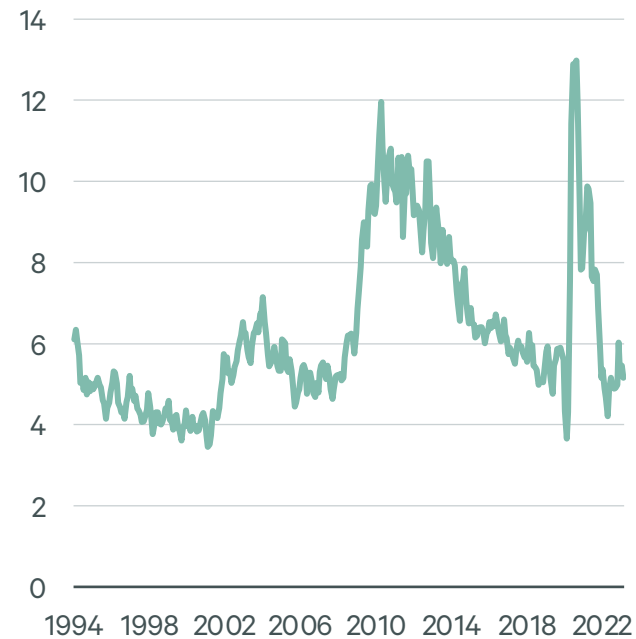
Quit Rate (%)



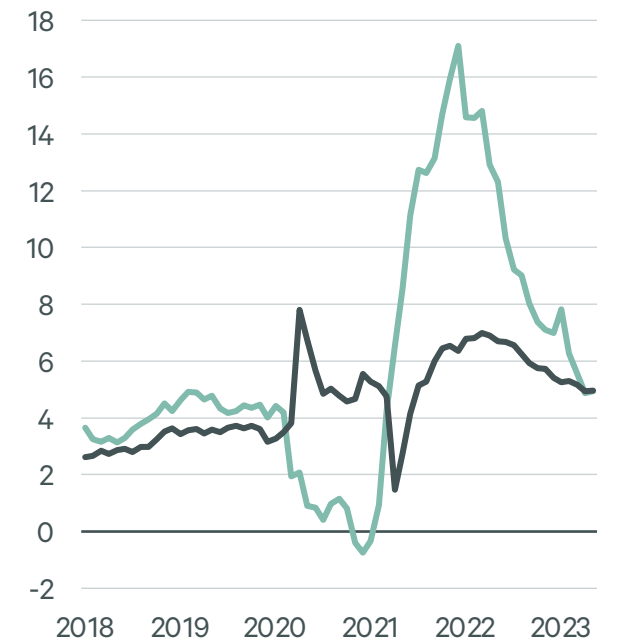
— Leisure & Hospitality, RHA — Total

U.S. Bureau of Labor Statistics

Unemployment Duration
(Median Weeks)



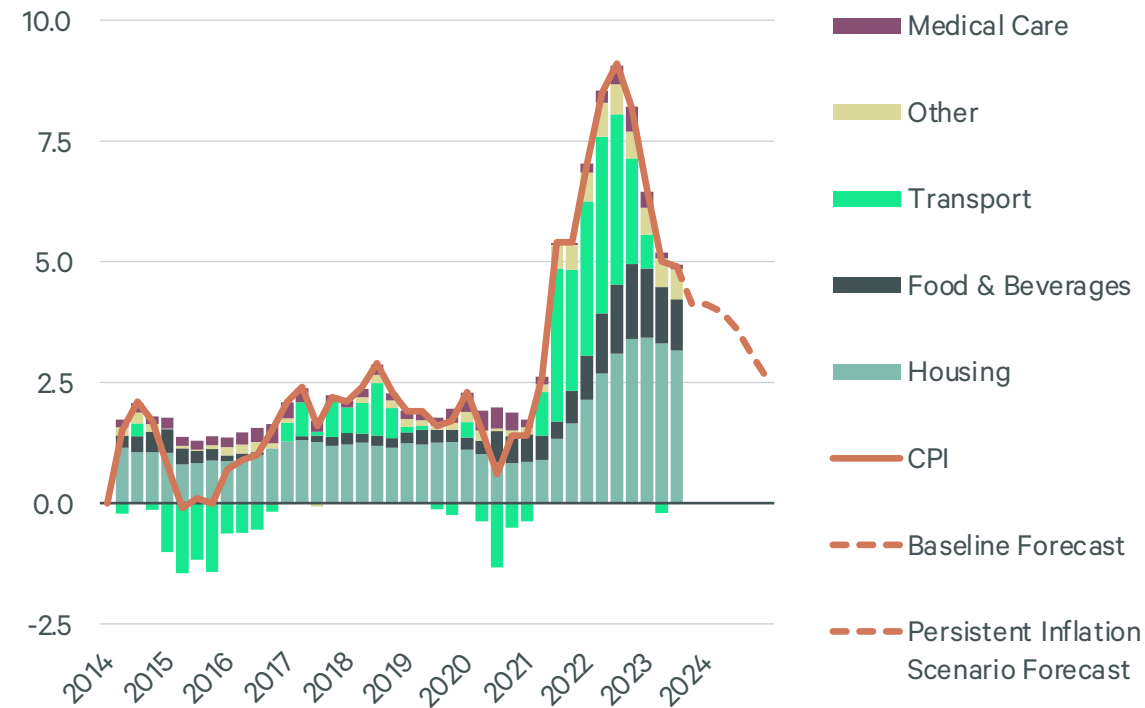
Average Hourly Earnings, Y-o-Y (%)



— Leisure & Hospitality — Total Private

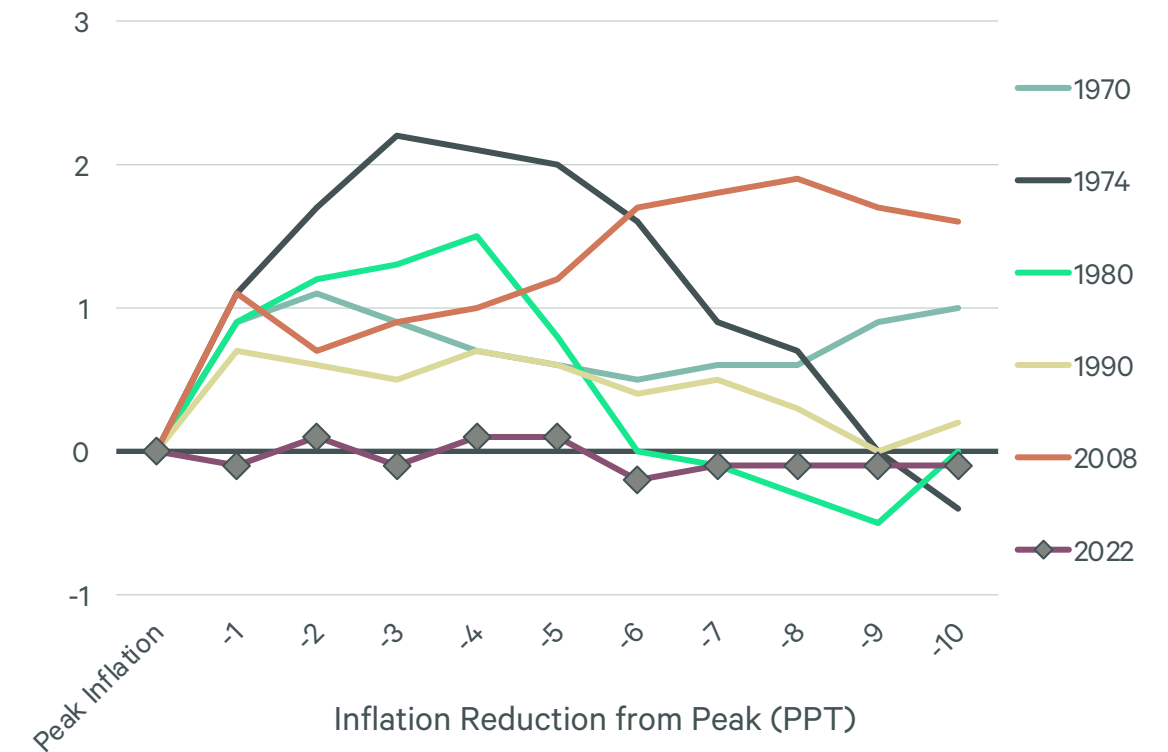
Will lower inflation require higher unemployment?

CPI, Y-o-Y change (%) and Contribution from Key Components



U.S. Bureau of Labor Statistics, CBRE Econometric Advisors

Unemployment Trend from Inflation Peak, 4-Quarter Change (Percentage Points)



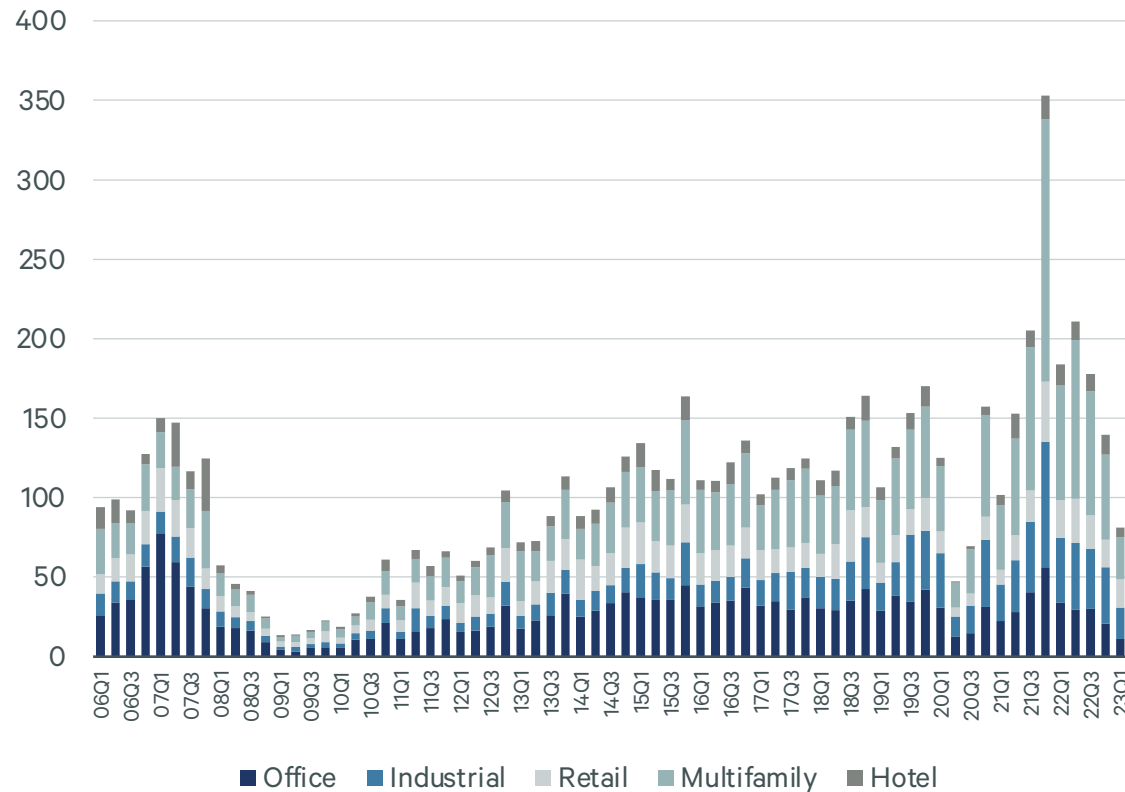
Federal Reserve, U.S. Bureau of Labor Statistics



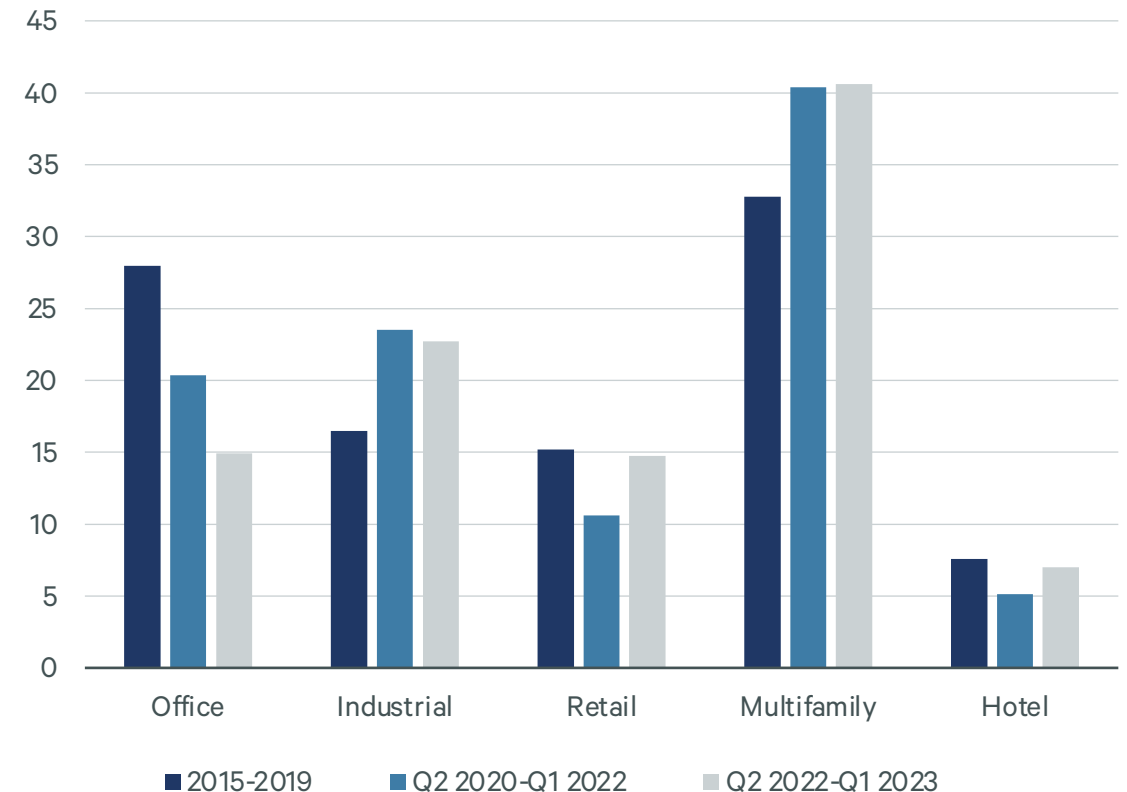
Capital
Markets

Transaction activity and office share continue to decline

Transaction Volume, billion \$

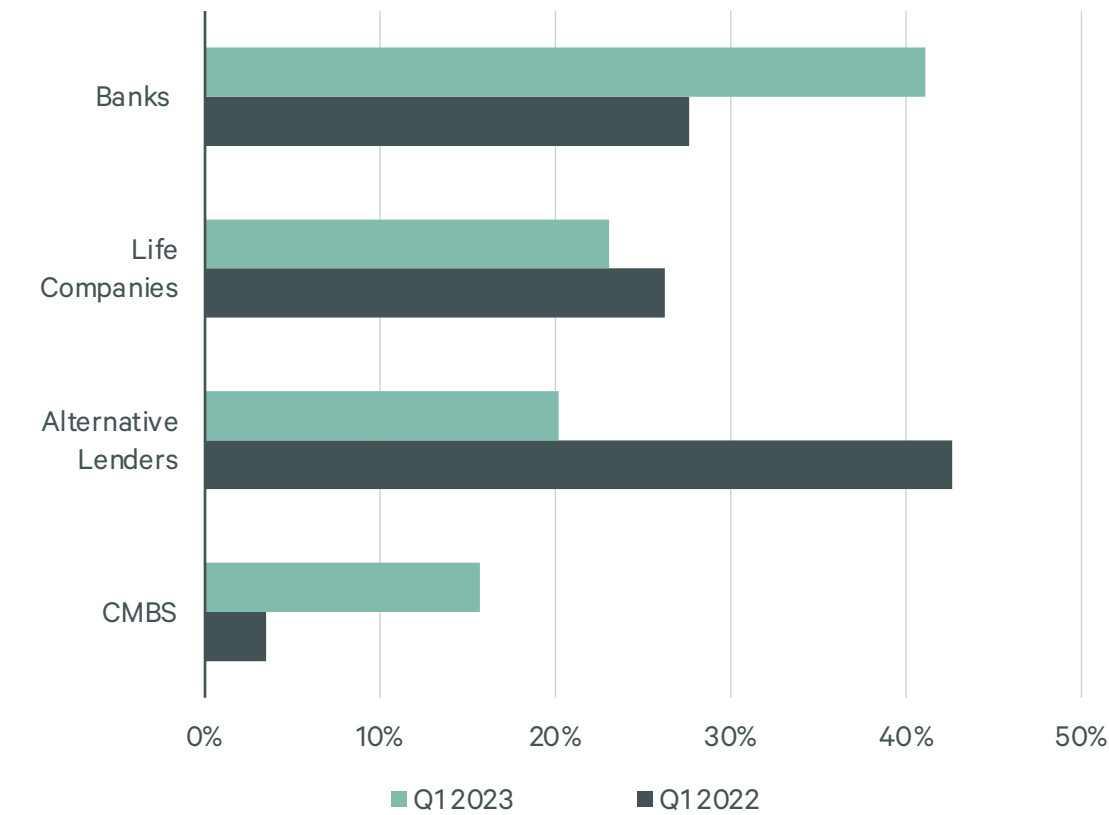


Transaction Share, %

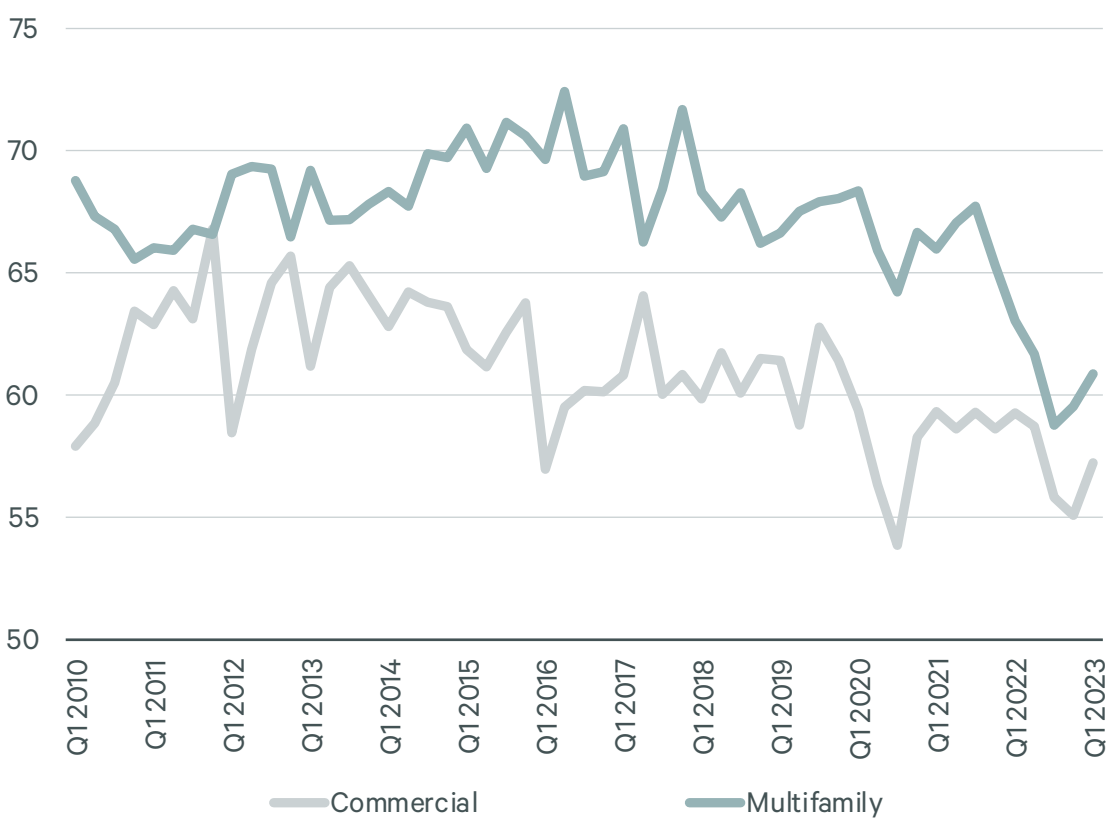


Commercial & Multifamily LTVs rose in Q1

Lender Share

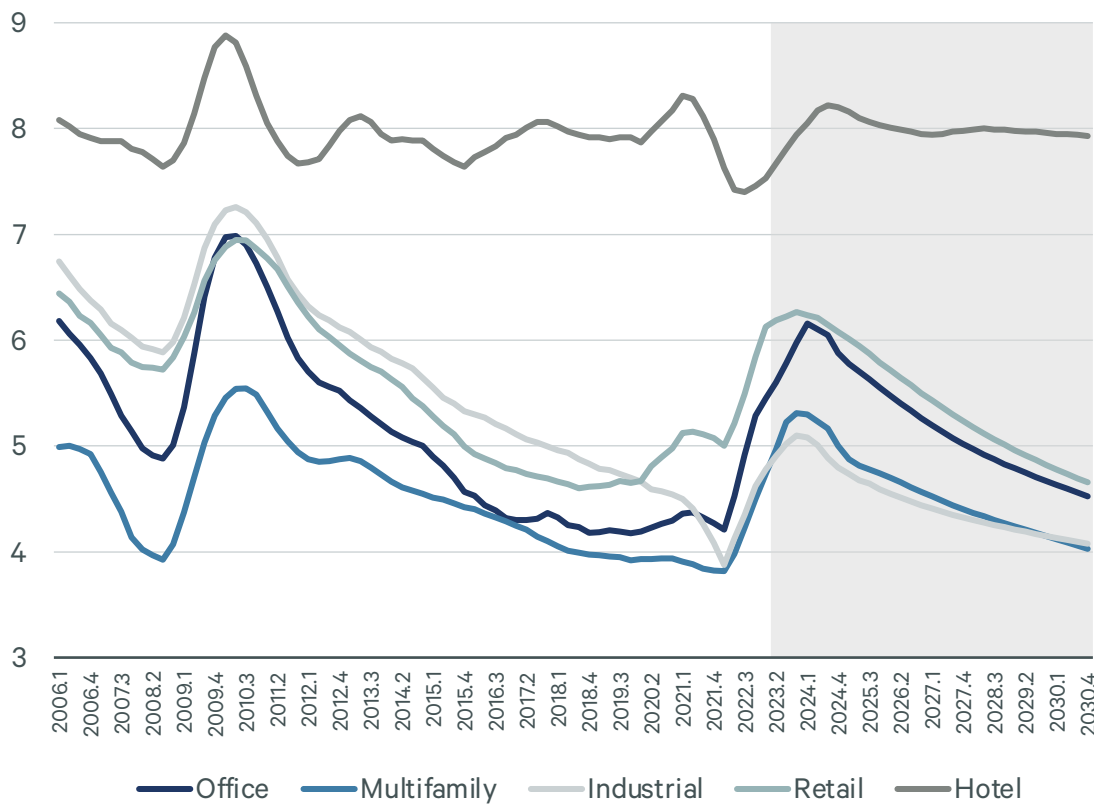


LTV, %



Higher debt cost puts upward pressure on cap rates

Cap Rates, %



Cap Rates Decompression From Q1 2022 to Q4 2023

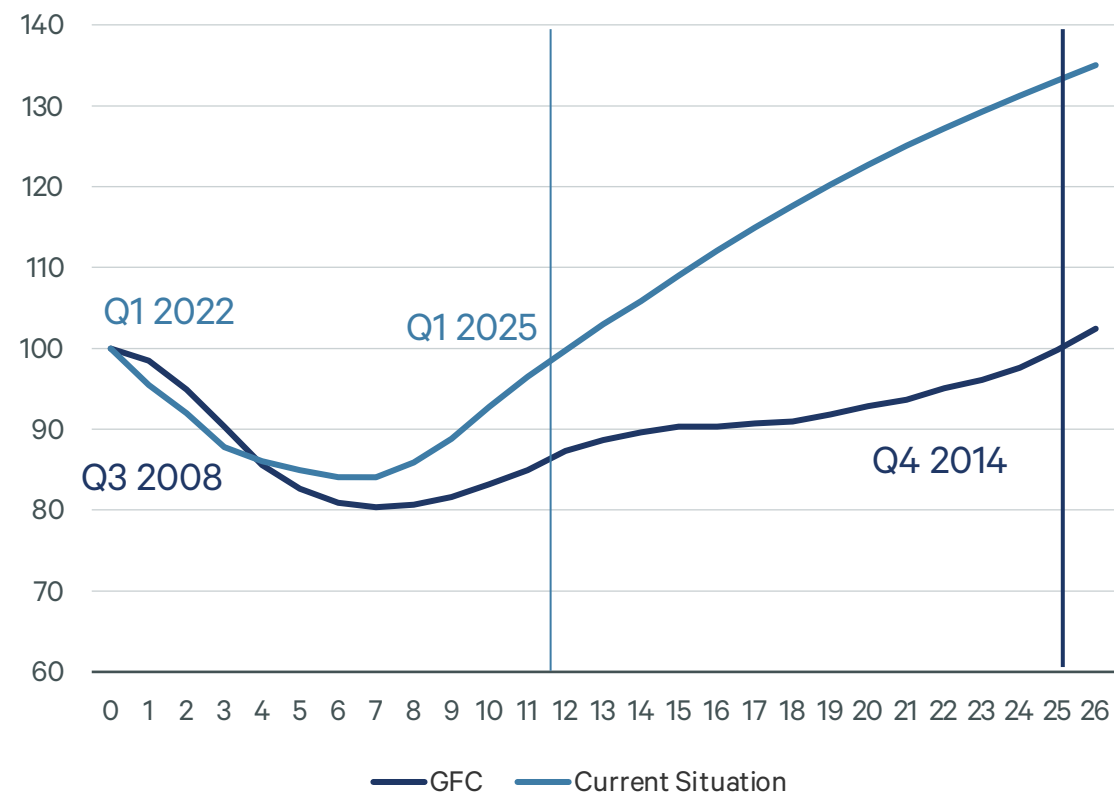
	Office*	Multifamily	Industrial	Retail	Hotel**
Baseline	200	150	120	130	80
Downside	250	190	170	170	140

*Q1 2022 to Q1 2024

**Q3 2022 to Q3 2024

It's a faster recovery than GFC except for office sector

Industrial Property Value Index



Number of quarters to recover to pre-recession level

	GFC	Current Situation
Industrial	25	12
Multifamily	27	18
Office	23	35
Retail	20	18
Hotel	22	11

Less variation in income returns across sectors and markets in the next 5 years

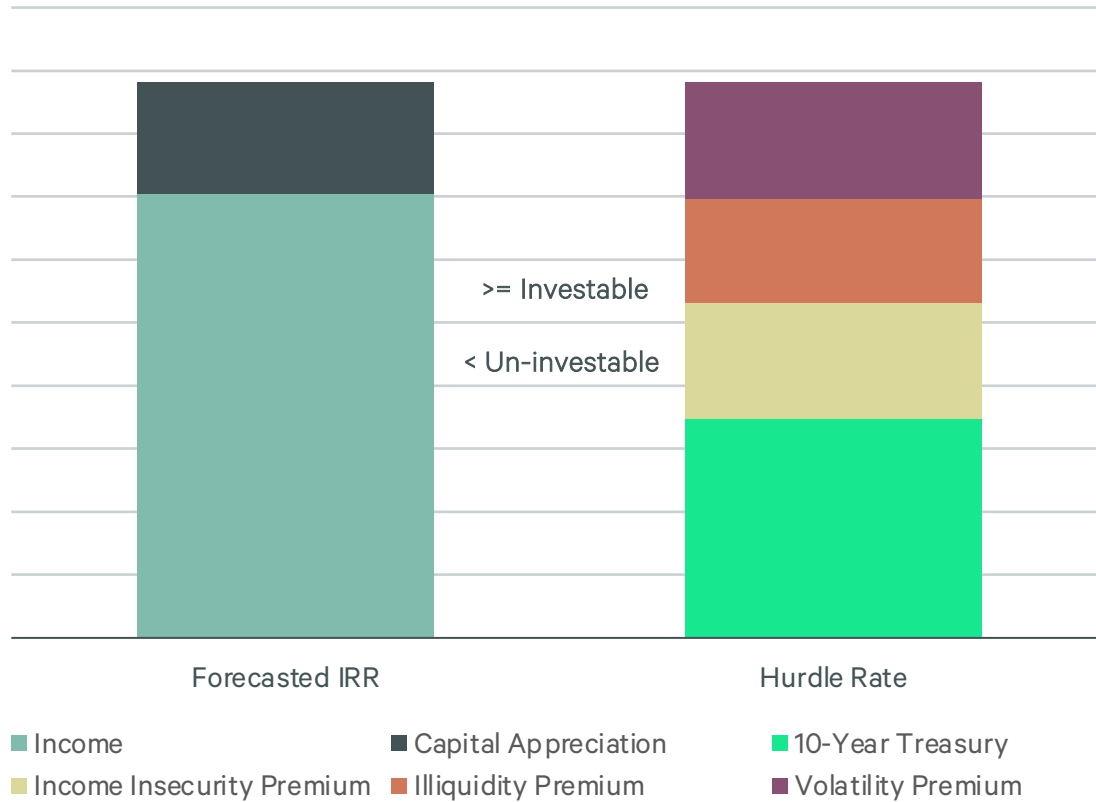




Hurdle Rates

Hurdle rates to analyze relative value in U.S. CRE

Hurdle Rate Model

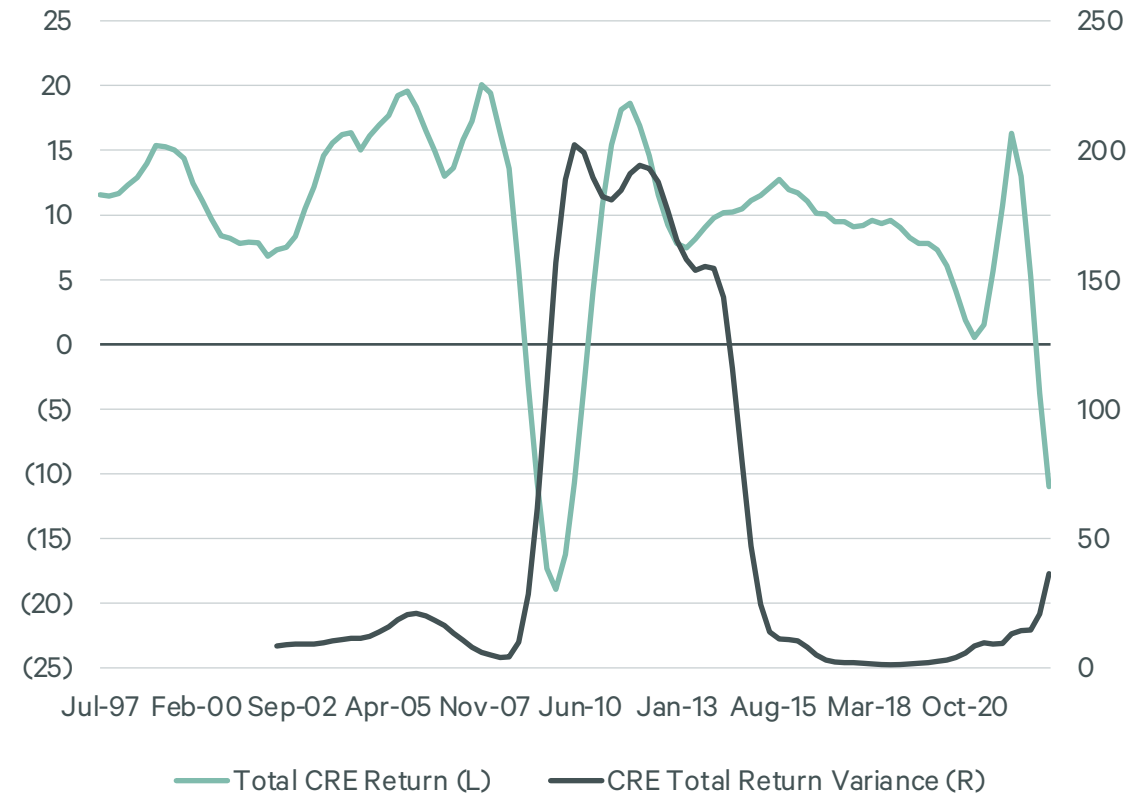


EA U.S. Hurdle rates framework:

- Covers: Industrial, Apartment, Offices & Retail;
- 269 market-sector combinations;
- Unleveraged core market level risk-return profiles;
- Top-down approach.

Drivers to construct a real estate risk premium

Total CRE Return and Rolling 5-Year Variance



10-Year Treasury and BBB Spread Over Time

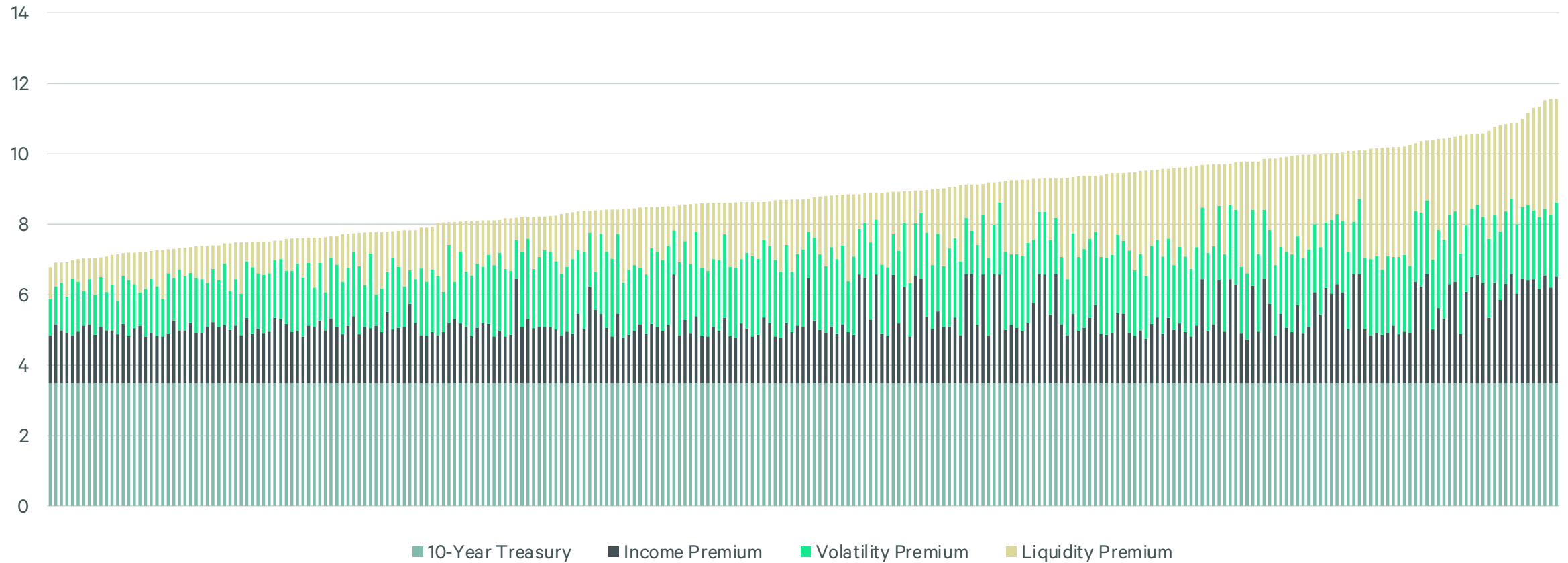


Hurdle rates confirm struggling office market

	Number of Markets	Income Premium	Volatility Premium	Illiquidity Premium	Real Estate Risk Premium	Hurdle Rate	Forecasted 5-Year Baseline IRR
Apartment	69	1.7%	1.9%	1.2%	4.8%	8.3%	11.0%
Industrial	68	1.5%	1.8%	1.6%	4.9%	8.4%	12.4%
Office	64	2.7%	1.8%	1.8%	6.4%	9.9%	7.5%
Retail	68	1.6%	1.8%	1.9%	5.2%	8.7%	10.9%

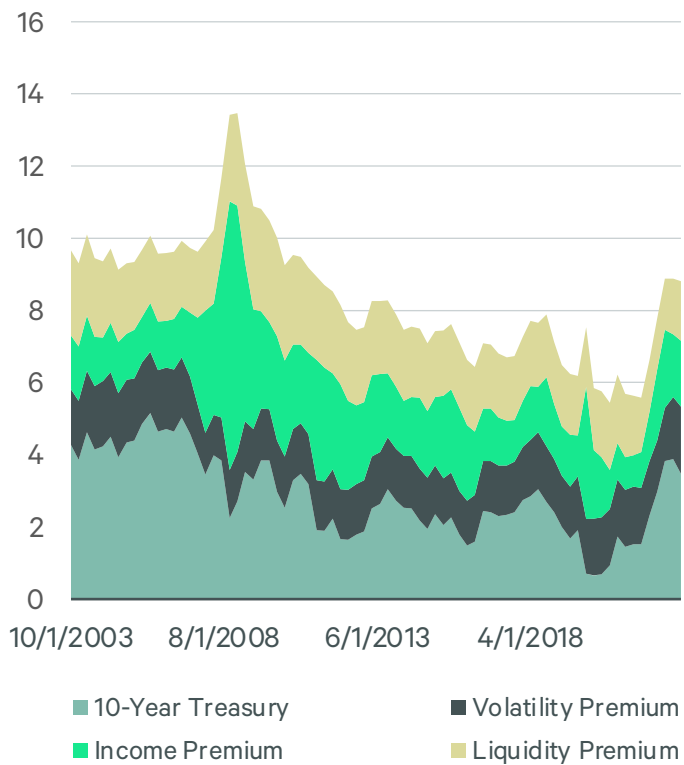
CBRE EA

2023 Q1 hurdle rates highlights variance in risk across U.S.



Hurdle rates at highest levels since GFC

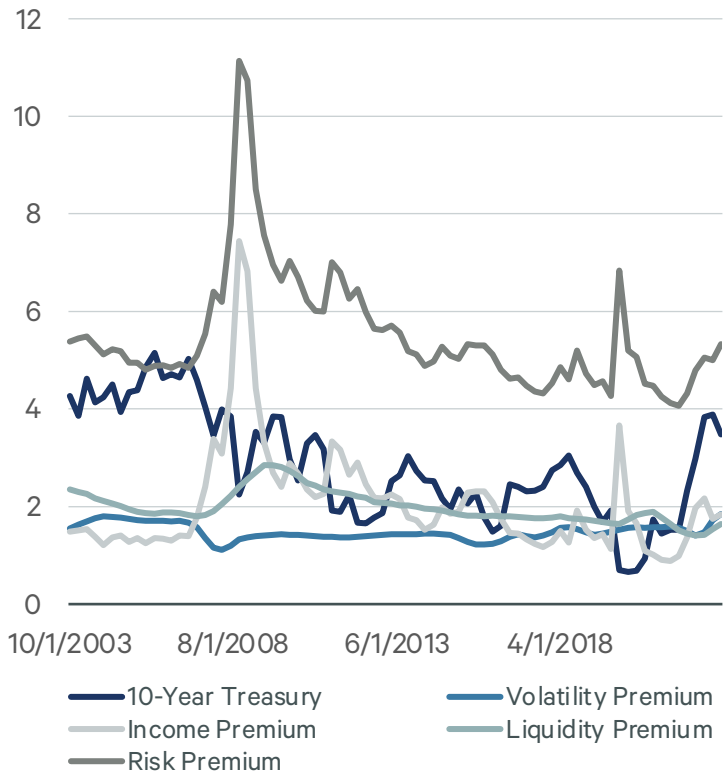
Average Hurdle Rate by Component



Average Hurdle Rate by Sector



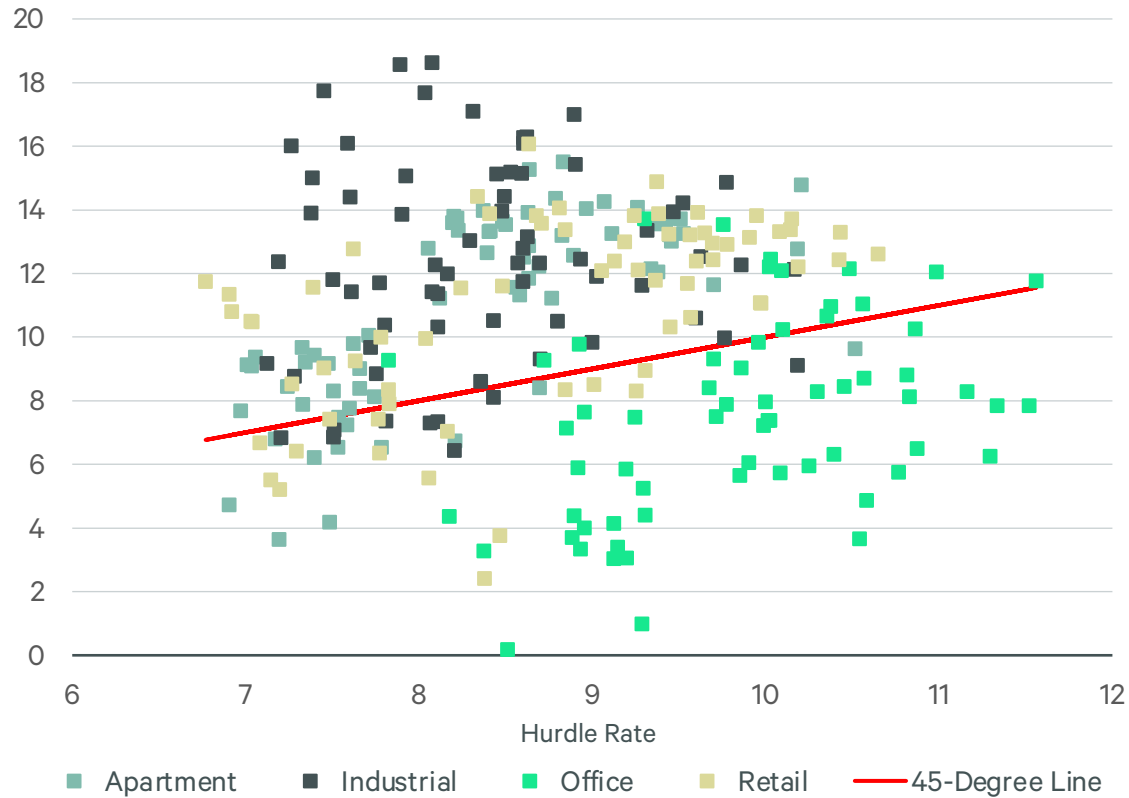
Average Hurdle Rate by Component



Macrobond, CBRE EA

Office markets relatively unattractive

Q1 2023 Hurdle Rate vs. 5-Year Forecasted Baseline IRR



Q1 2023 Hurdle Rate vs. 5-Year Forecasted Downside IRR





U.S. Sector Outlook Panel

U.S. Sector Outlook Panel

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Thank you

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Explore EA Insights 

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