Quarterly U.S. Economic and CRE Forecast Update

Presented by
Econometric Advisors

Link to Webinar Recording

March 7, 2024

Agenda

Dennis Schoenmaker, Ph.D.

Matt Mowell

Stefan Weiss

Nicholas Rita

Rachael Rothman, CFA

Tyler Mangin, Ph.D.

Christina Tong

Daniel Diebel

1 Macro Outlook
2 Capital Markets
3 U.S. Sector Panel
4 Q&A

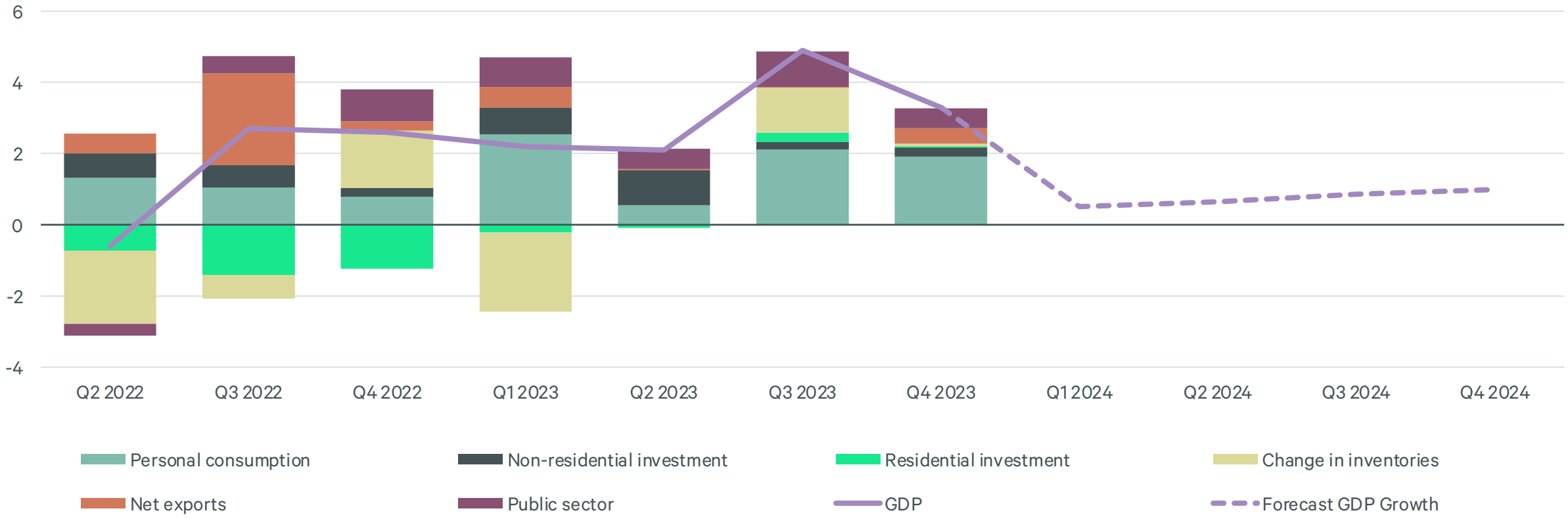
Confidential & Proprietary | © 2023 CBRE, Inc.

1

Macro Outlook

Heading toward a soft landing

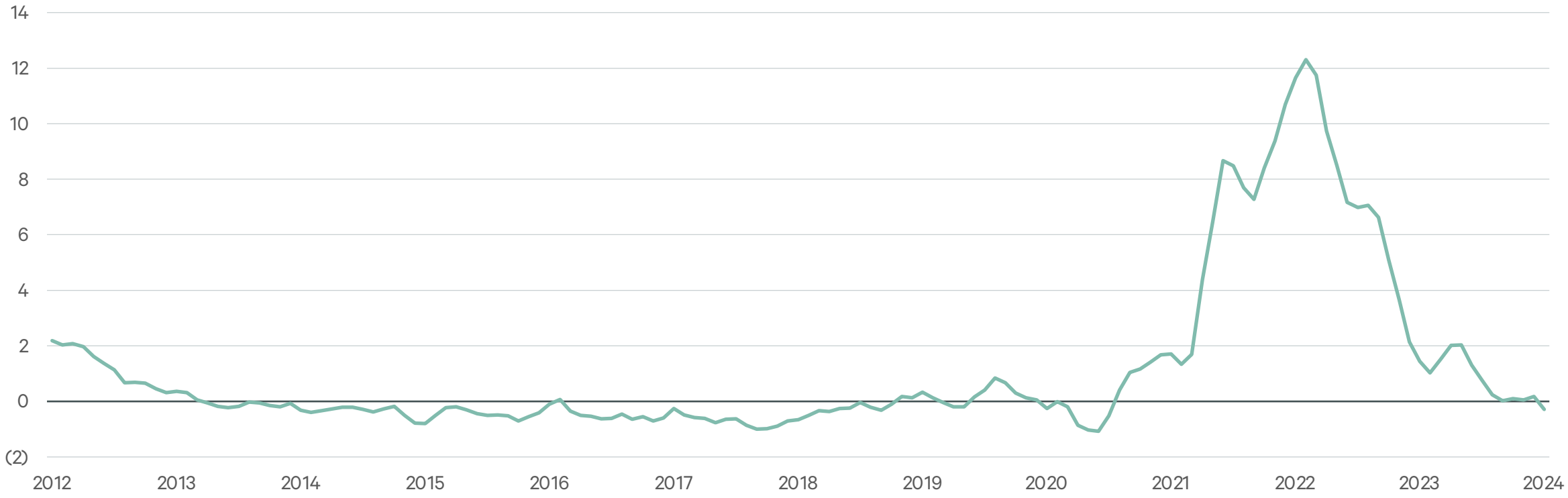
Annualized Quarterly GDP Growth (%)



Source: U.S. Bureau of Labor Statistics

Progress on inflation: Falling goods prices

Core PCE Goods Component, Y-o-Y (%)



Source: U.S. Bureau of Labor Statistics

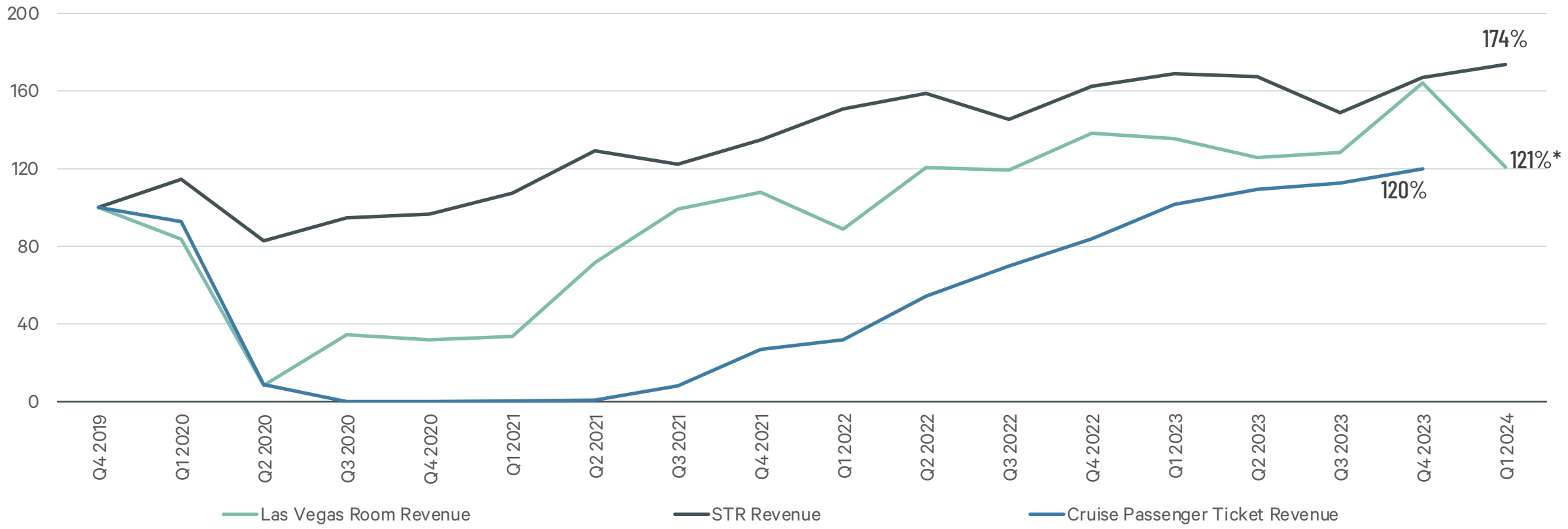
Progress on inflation: Energy prices are accommodative

Natural Gas Price, Henry Hub (USD)

Source: Energy Information Administration

Concerns: Consumers continue to splurge

Cruise Line, Las Vegas, and Short-Term Rental Revenue, Share of 2019 Revenue (%)



CBRE Hotels Research, Kalibri Labs, AirDNA, LVCVA, Carnival, Royal Caribbean and Norwegian,
*Vegas is impacted by timing of CES and Lunar New Year
**Passenger Ticket Revenue and Vegas Room Revenue

Concerns: Wage growth is firm

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

Source: U.S. Bureau of Labor Statistics

Concerns: Firms plan to increase prices

Share of Firms That Plan to Raise Prices and CPI (%)

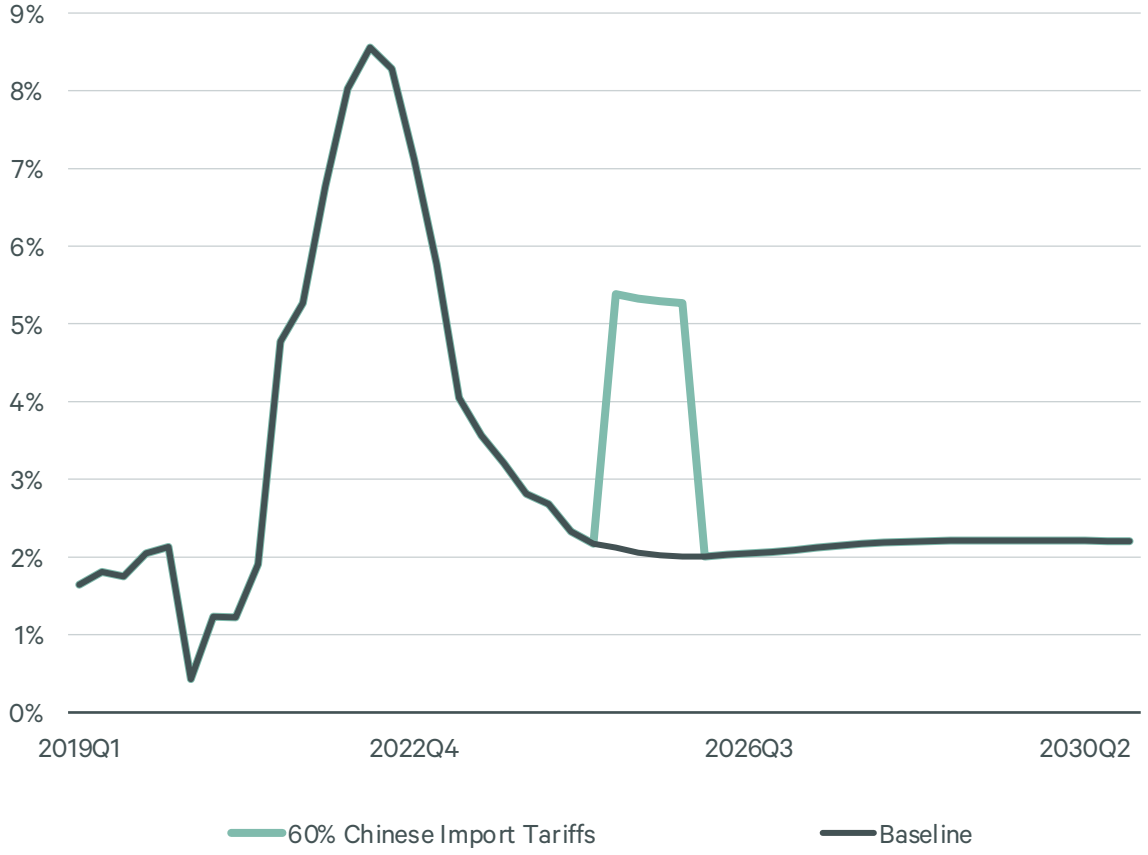
Source: NFIB, U.S. Bureau of Labor Statistics

Concerns: Conflicts and politics

Shanghai Export Containerized Freight Index

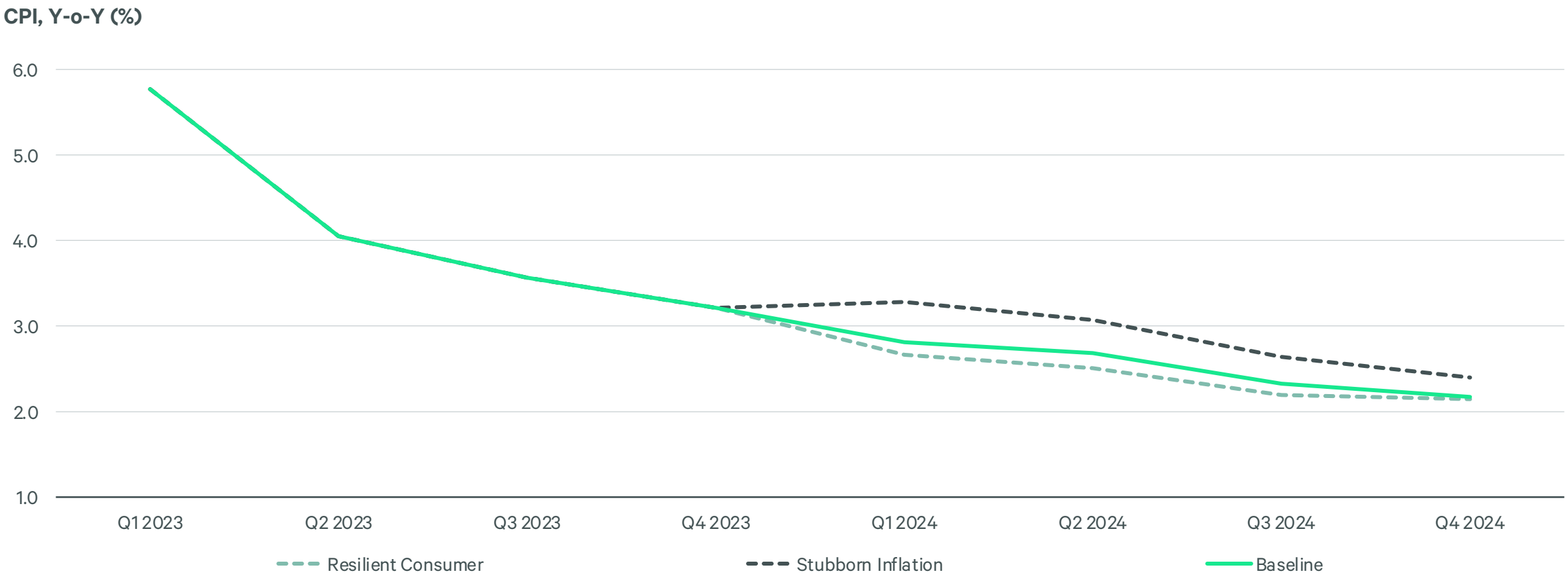
Source: Shanghai Shipping Exchange

Inflation Forecast With Proposed Chinese Tariffs*



Source: Peterson Institute for International Economics, CBRE Econometric Advisors

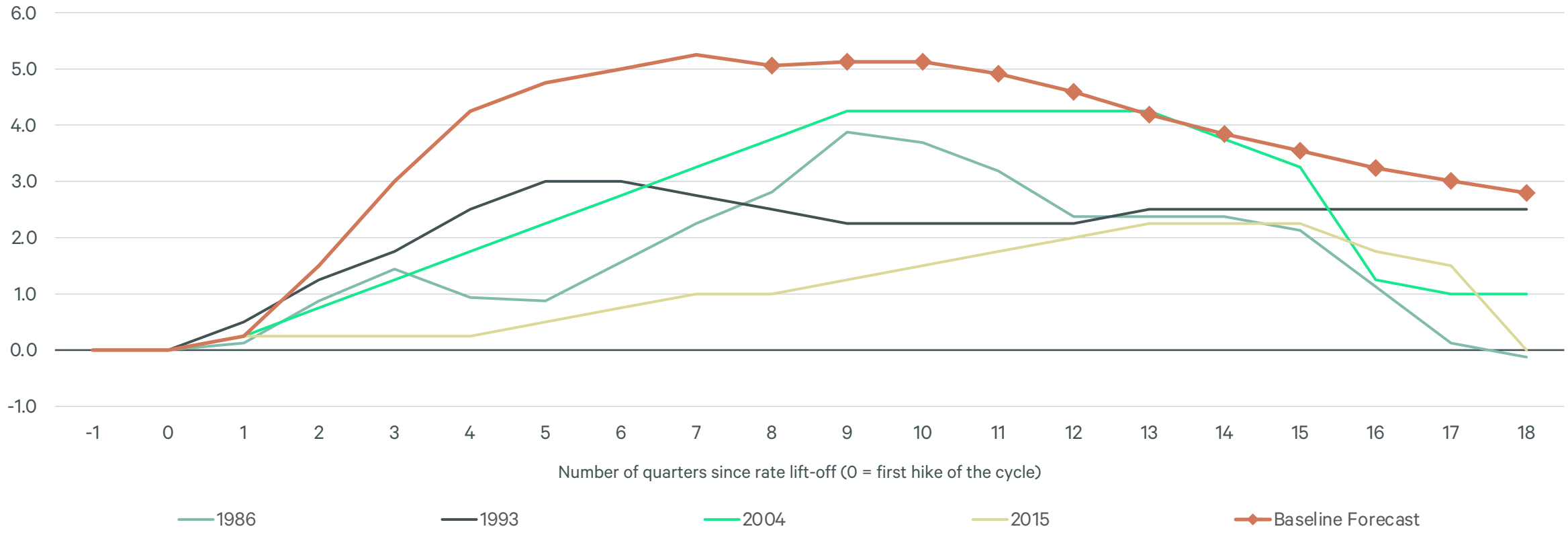
Upshot: Getting back to 2% inflation could be tough



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

Policy rates are likely to stay higher than past cycles

Change In Fed Funds Rate From Beginning of Each Tightening Cycle (Percentage Points)



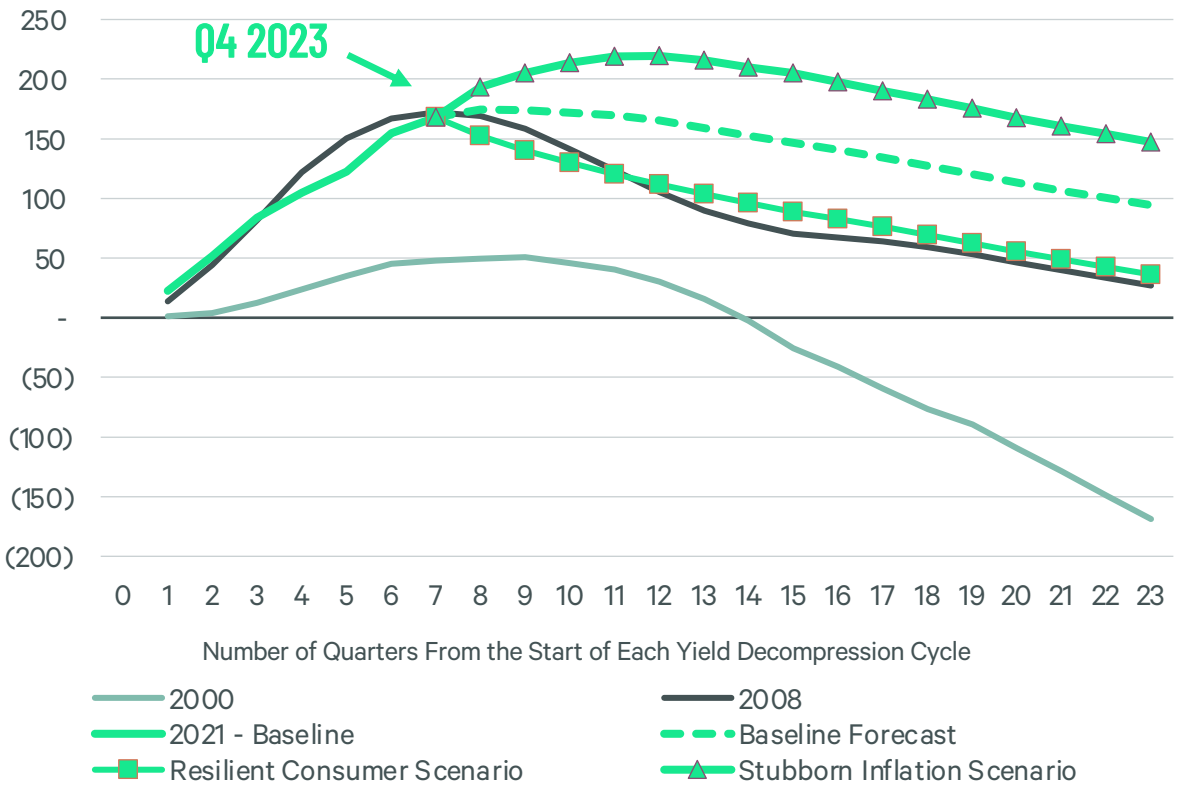
Source: The Federal Reserve, CBRE Econometric Advisors

2

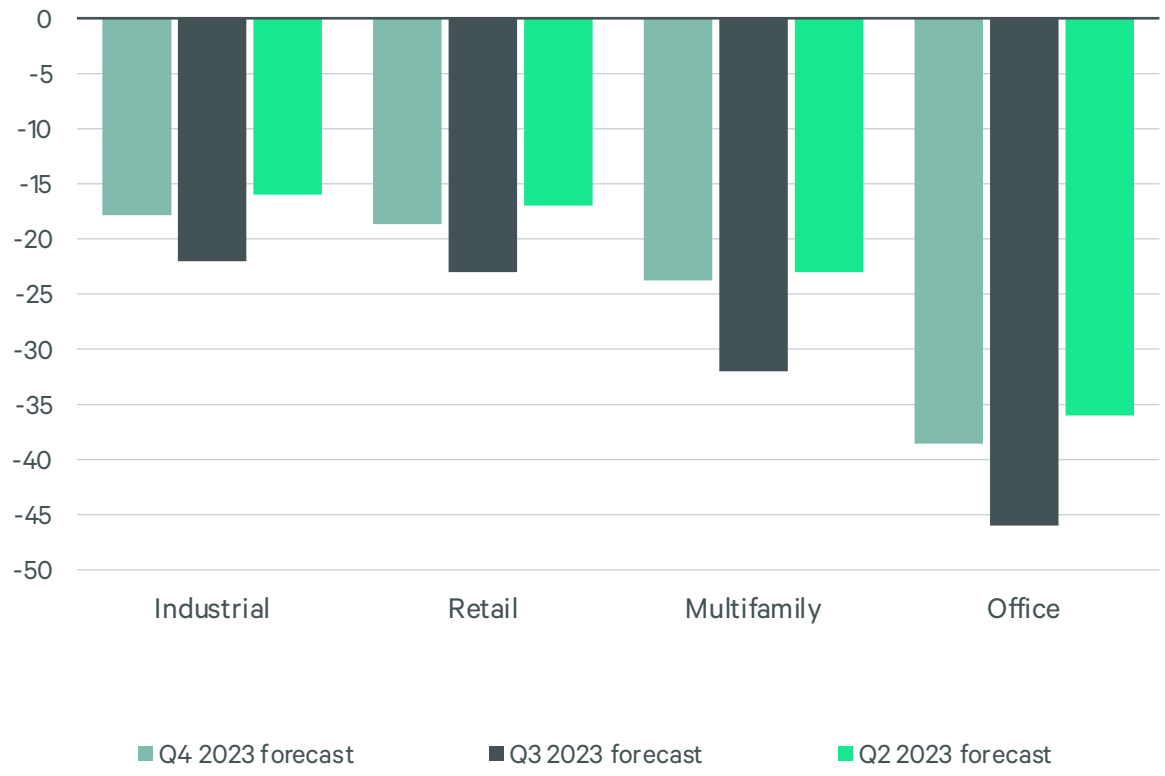
Capital Markets

We do not expect significant cap rate compression

Basis Point Change in Cap Rate from the Trough of Each Capital Market Cycle



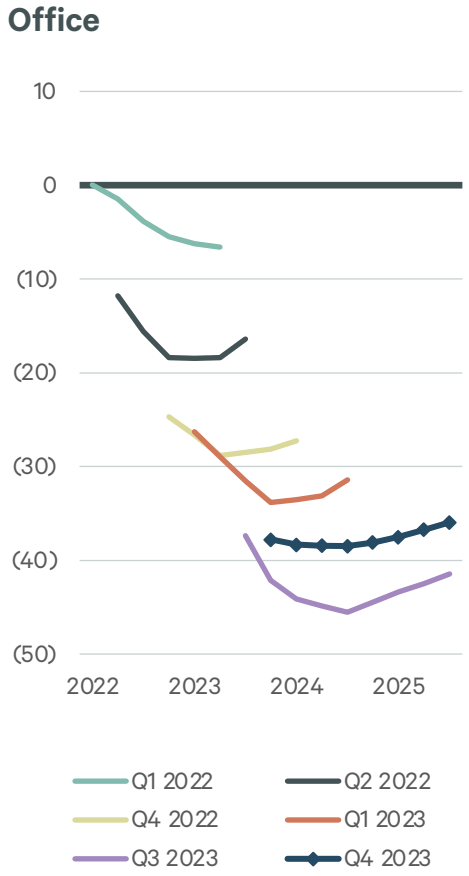
Peak-to-Trough Capital Value Changes (Office Q1 2022 to Q4 2024; Multifamily Q1 2022 to Q1 2024; Industrial Q1 2022 to Q4 2023; Retail Q1 2022 to Q3 2023)

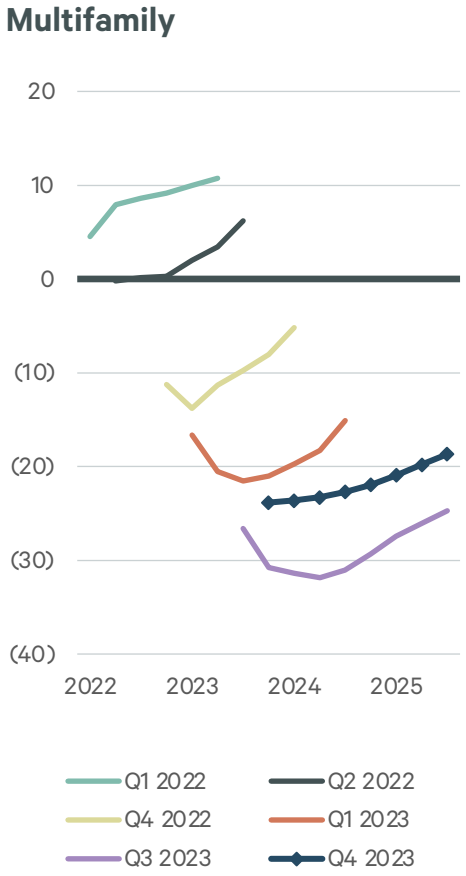


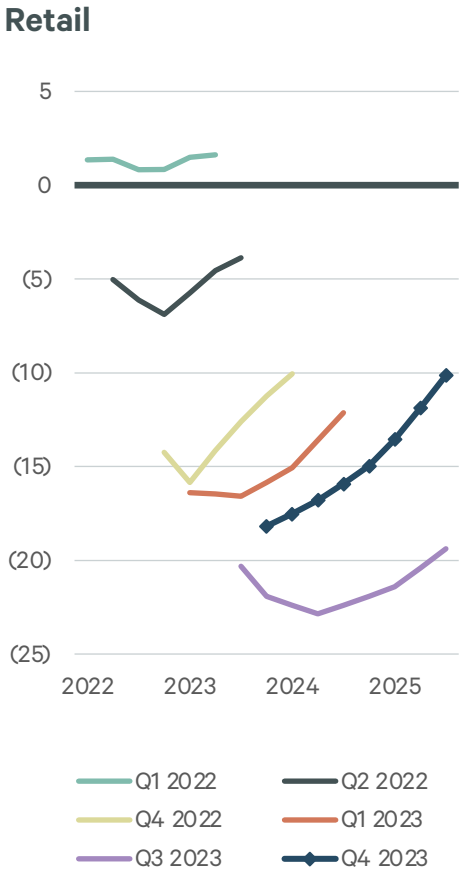
Source: CBRE Econometric Advisors

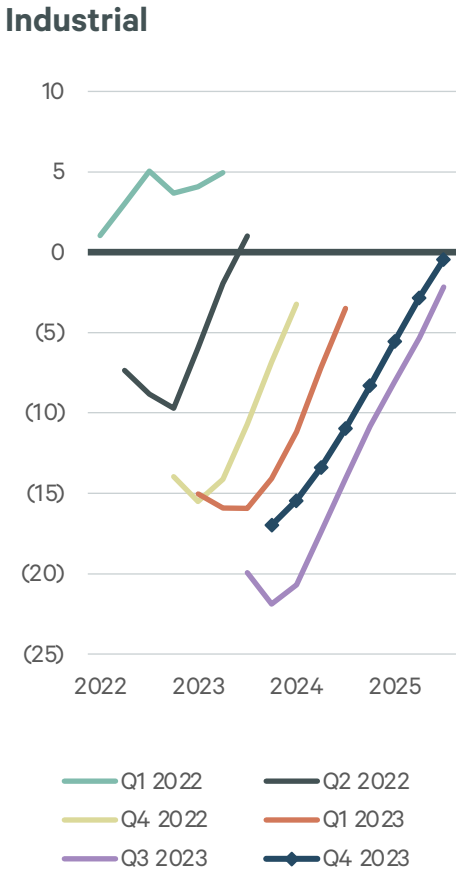
How our capital value forecast has evolved

Change In Value From Q1 2022 by Forecast Vintage (%)







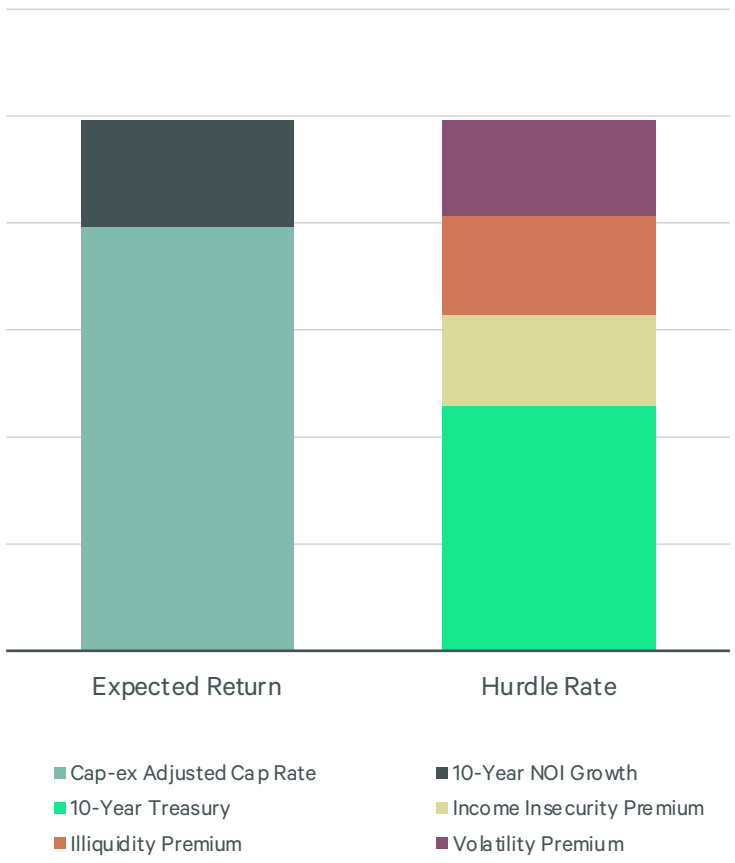


Source: CBRE Econometric Advisors

Confidential & Proprietary | © 2024 CBRE, Inc.

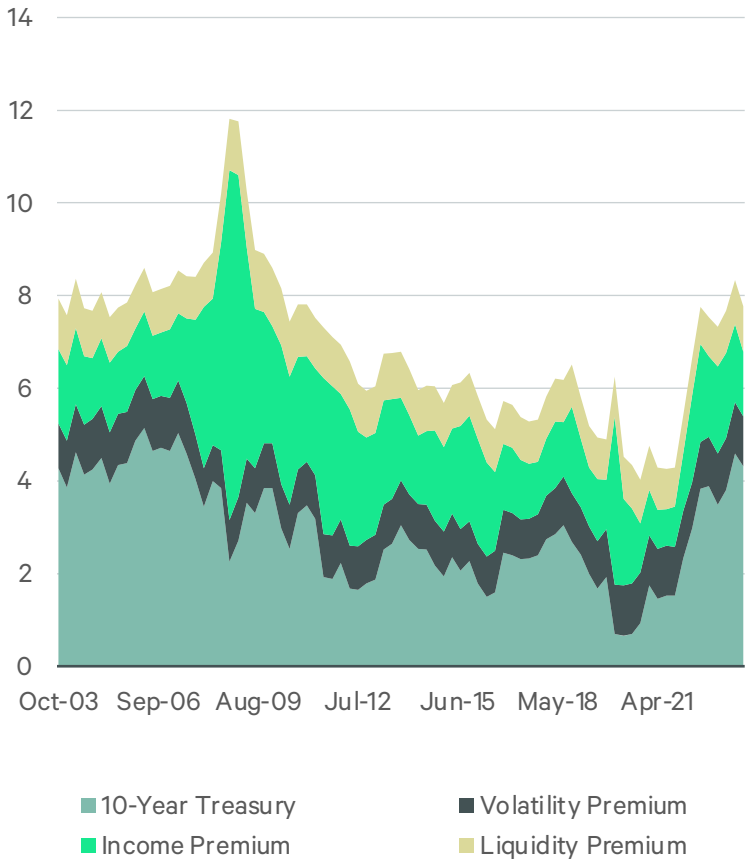
CBRE EA's 'Hurdle Rate' framework

Hurdle Rate Model



Source: CBRE Econometric Advisors

Average CRE Hurdle Rate by Component



Source: CBRE Econometric Advisors

How We Calculate the Risk Premium:

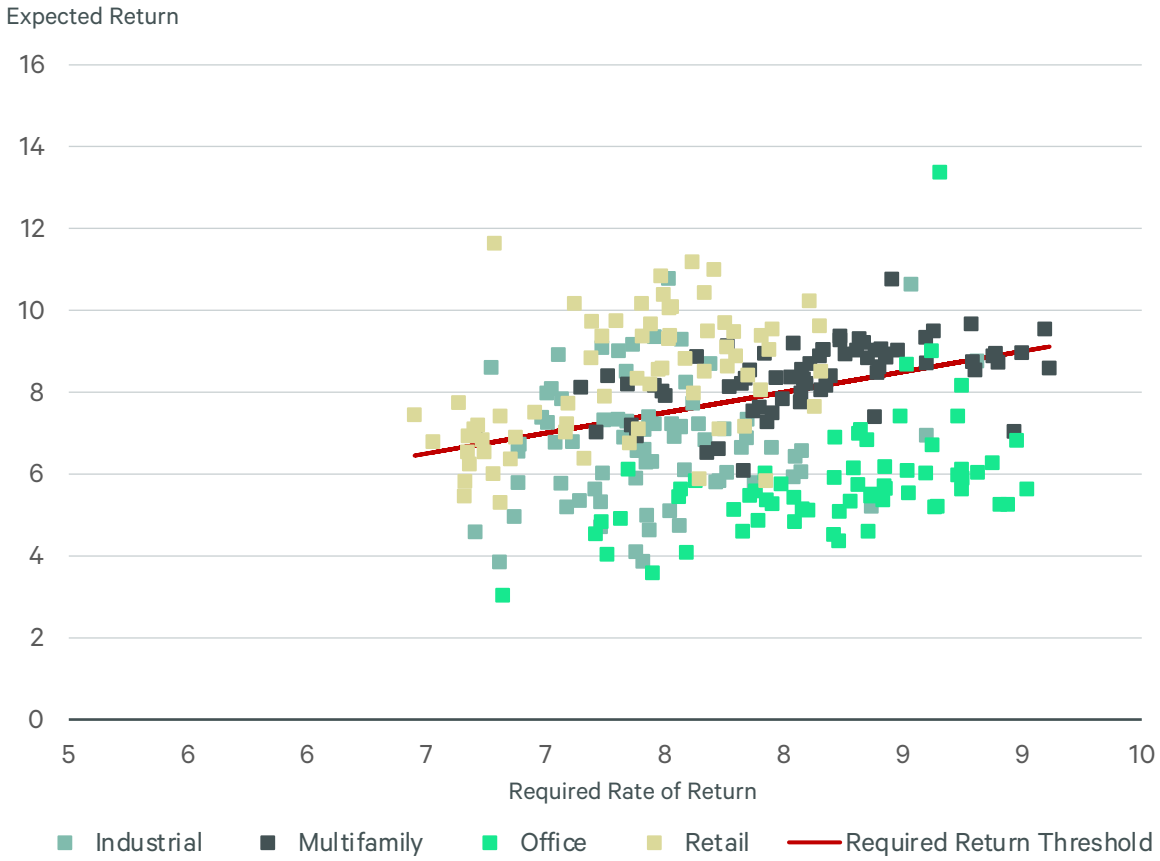
- **VOLATILITY PREMIUM**
  - Historic market investment performance compared to the broader CRE investable universe
- **LIQUIDITY PREMIUM**
  - Investment volume
- **INCOME PREMIUM**
  - BBB Spreads, and;
  - Current and historic vacancy rates

Source: CBRE Econometric Advisors

Confidential & Proprietary | © 2024 CBRE, Inc.

Putting our hurdle rate analysis into practice

10-Year Expected Return and Required Rate of Return, Baseline Scenario



Source: CBRE Econometric Advisors

10-Year Expected Return and Required Rate of Return, Downside Scenario

Source: CBRE Econometric Advisors

Confidential & Proprietary | © 2024 CBRE, Inc.

Cap rates through different lenses: What does it tell us?

Cap Rates (%) Based on Different Methods

Source: CBRE Econometric Advisors

3

U.S. Sector Panel

U.S. Sector Outlook Panel

Panelists

Nicholas Rita
Industrial Sr. Economist
nicholas.rita@cbre.com

Rachael Rothman, CFA
Head of Hotels Research
rachael.rothman@cbre.com

Tyler Mangin, Ph.D.
Multifamily Sr. Economist
tyler.mangin@cbre.com

Moderator

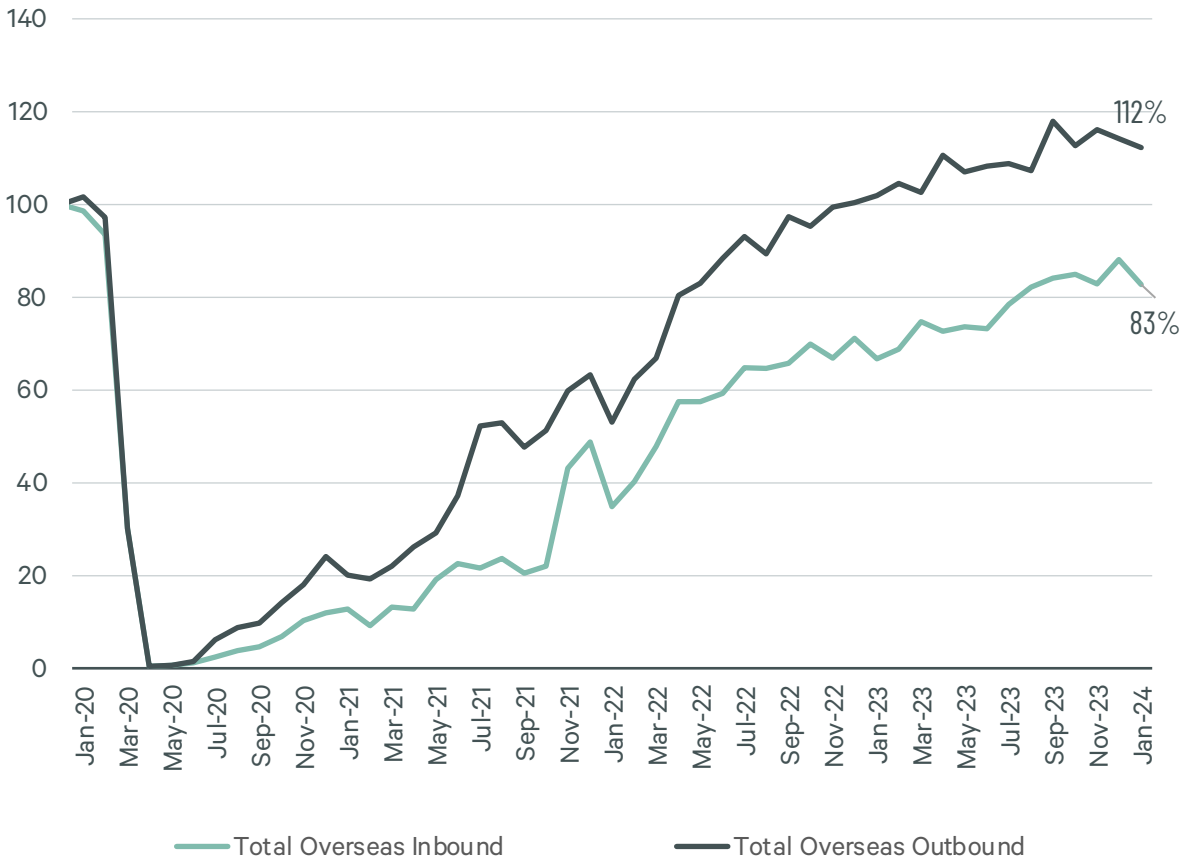
Stefan Weiss
Office Sr. Managing Economist
stefan.weiss@cbre.com

Christina Tong
Office Economist
christina.tong@cbre.com

Daniel Diebel
Retail Economist
daniel.diebel@cbre.com

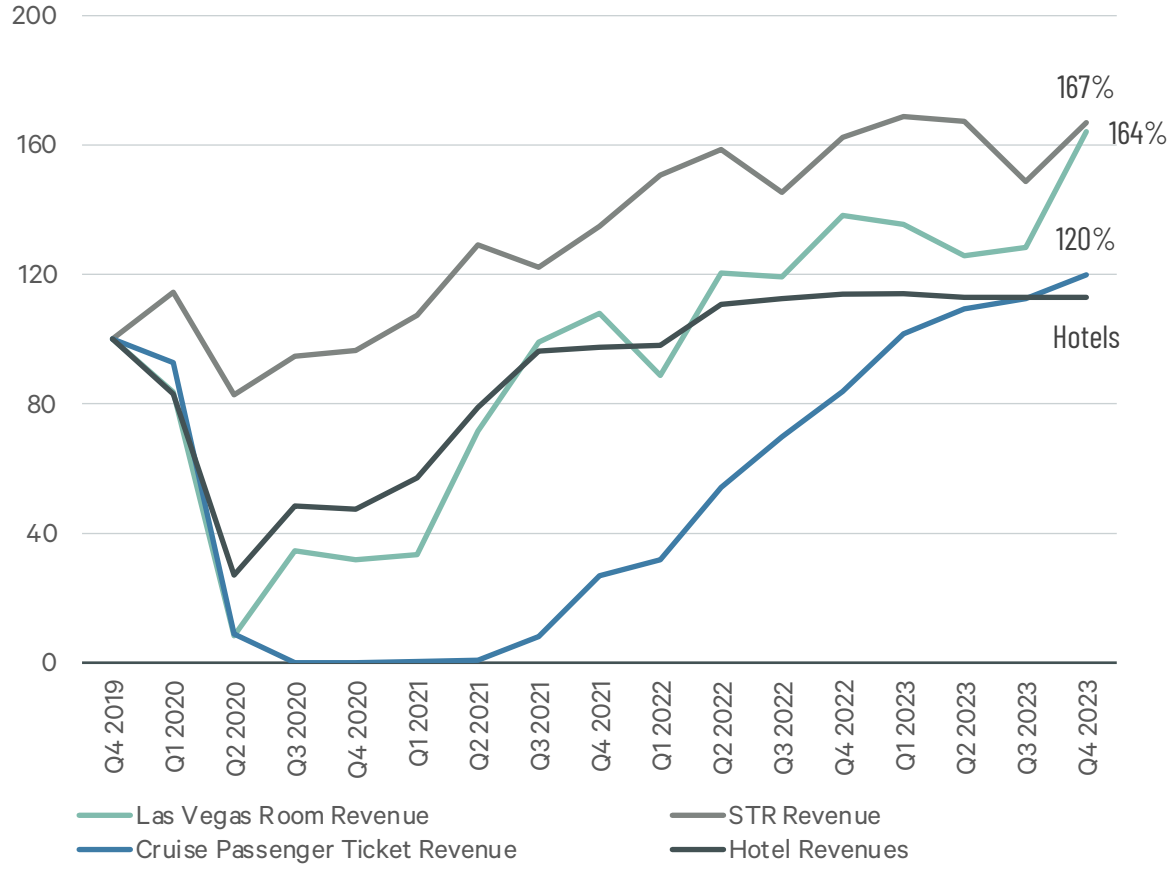
Inbound international travel and lodging alternatives create headwinds

Inbound vs. Outbound International Travel



Source: CBRE Hotels Research, NTTO, *excludes Mexico and Canada

Hotels, Cruise Line, Las Vegas & Short-Term Rental Revenue

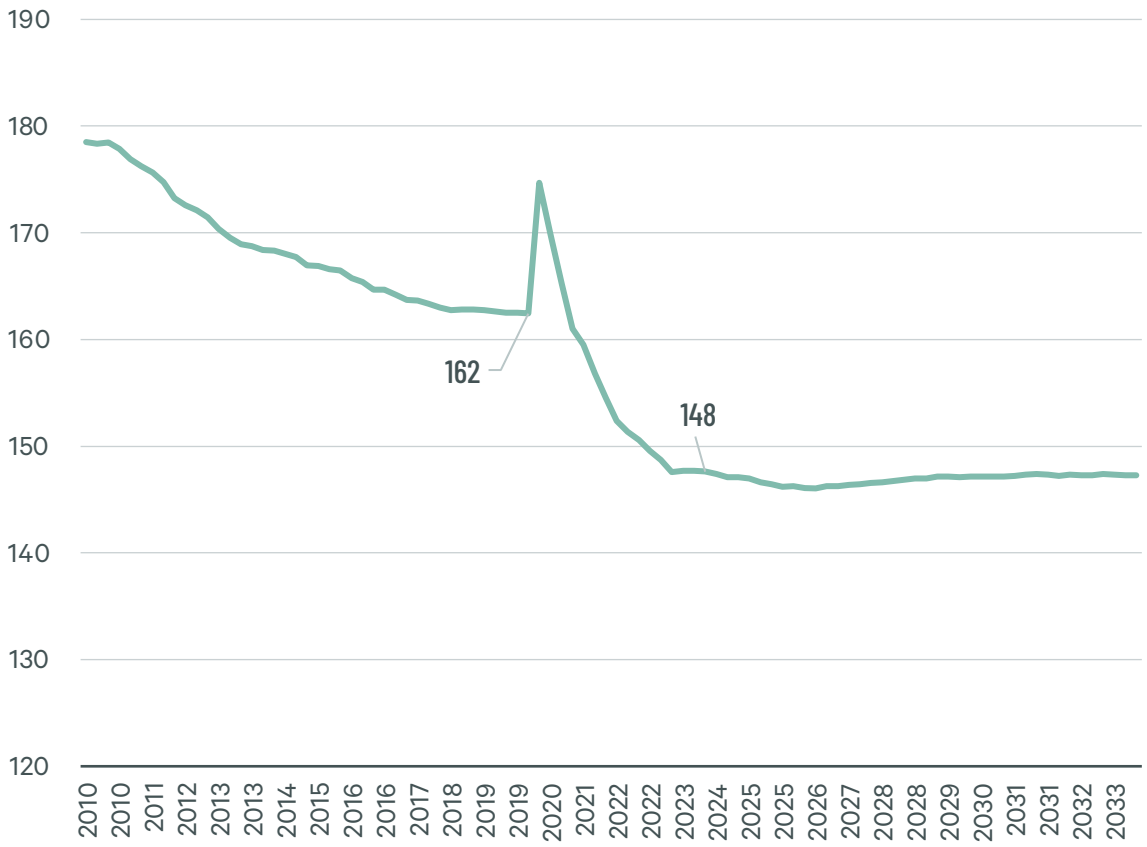


Source: CBRE Hotels Research, Kalibri Labs, AirDNA, LVCVA, Carnival, Royal Caribbean and Norwegian

Confidential & Proprietary | © 2024 CBRE, Inc.

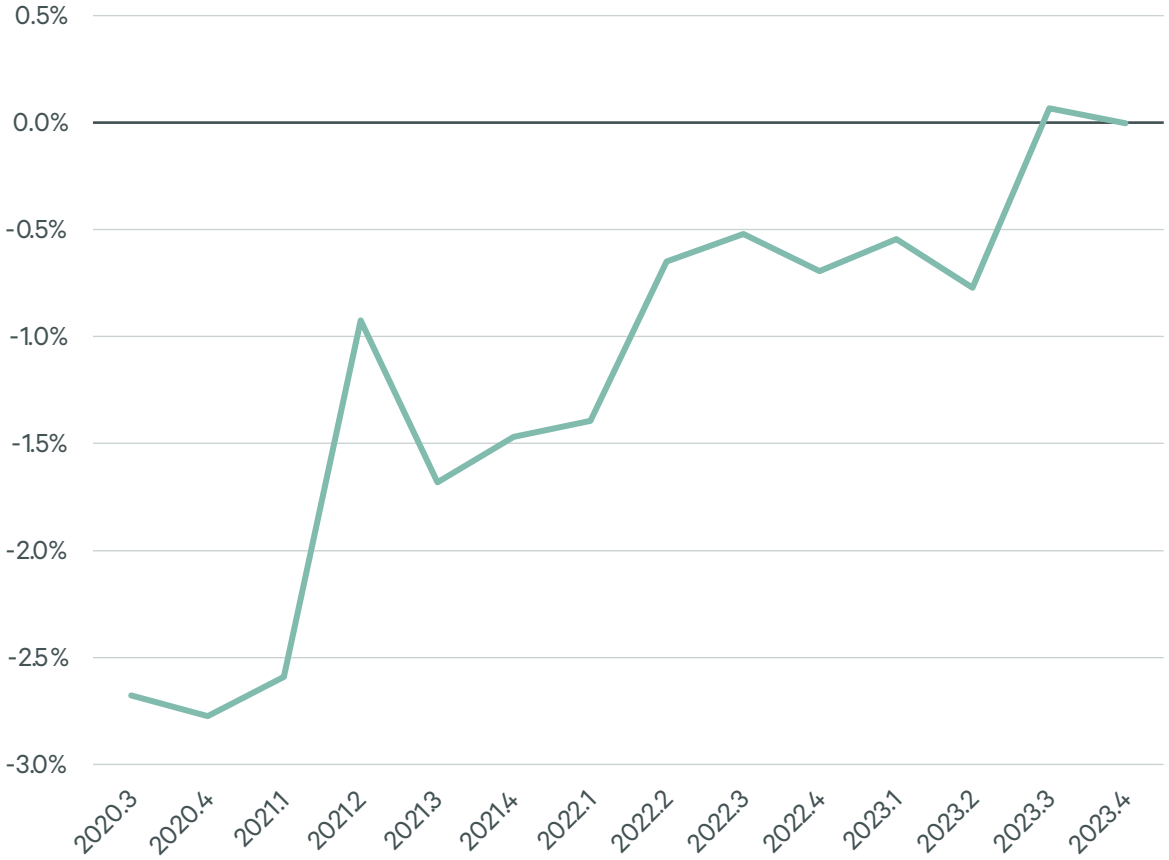
Office: Where are we in this cycle?

Occupied Space Per Employee



Source: CBRE Econometric Advisors, Q4 2023

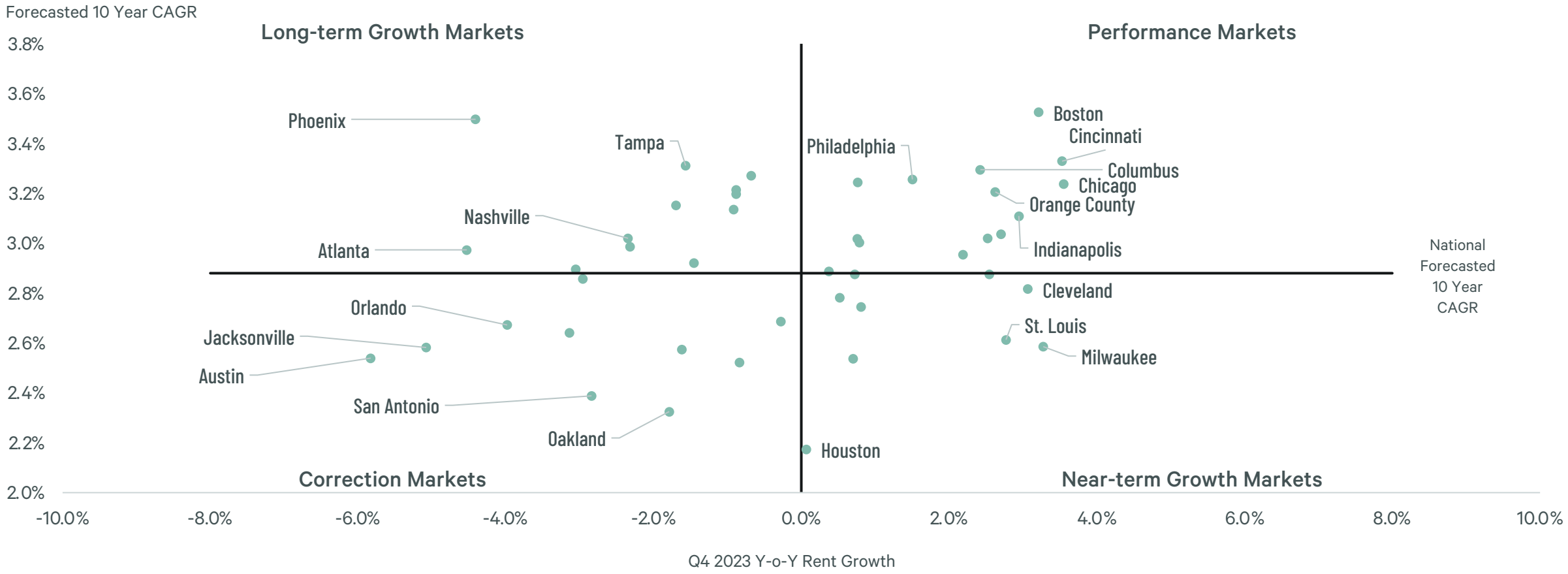
Q-o-Q Change of Occupied Space Per Employee



Source: CBRE Econometric Advisors, Q4 2023

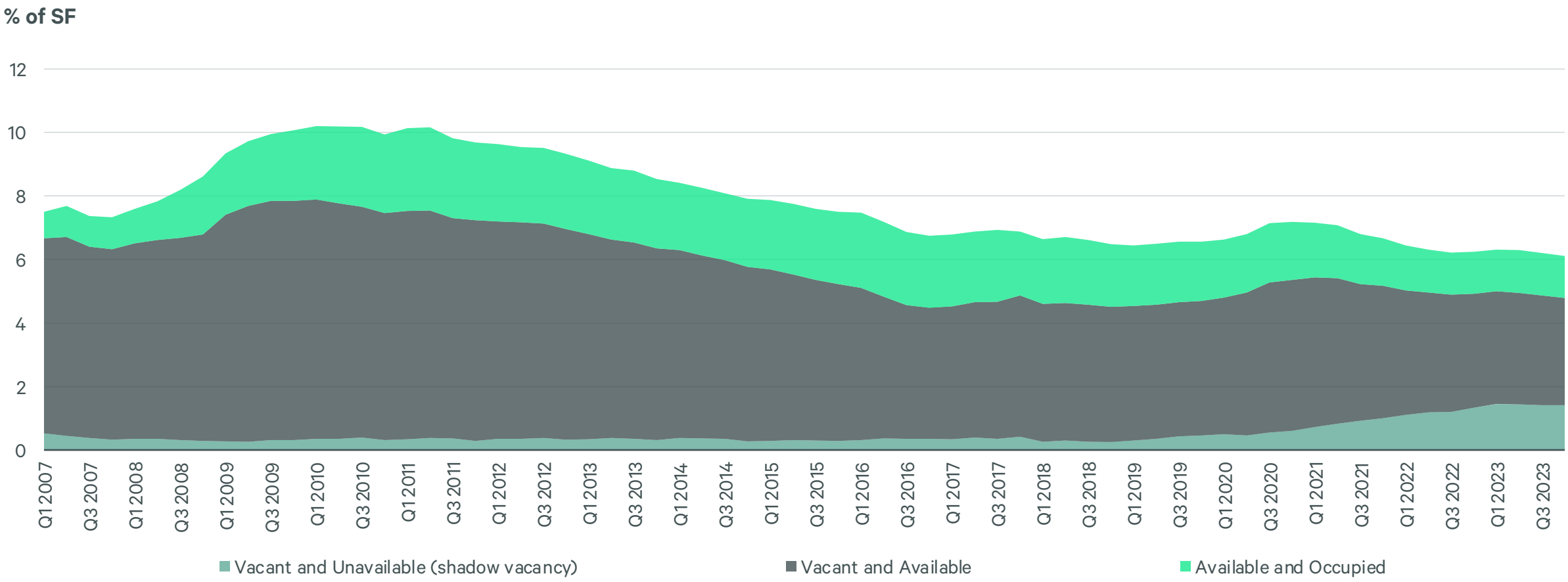
Confidential & Proprietary | © 2024 CBRE, Inc.

Recent Multifamily performance is not indicative of long run potential



Source: CBRE Econometric Advisors Q4 2023

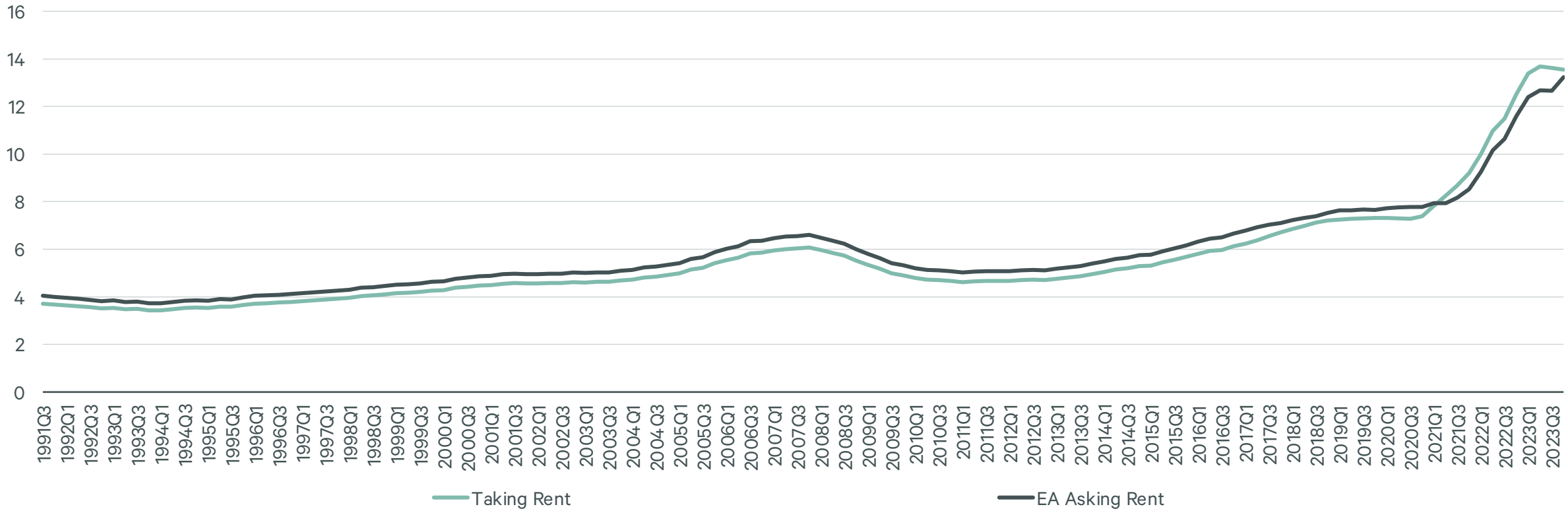
Retail: Shadow vacancy



Source: CBRE Econometric Advisors Q4 2023

Industrial Taking Rents now available

Riverside
Industrial Taking Rent, EA Asking Rent ($)



Source: CBRE Econometric Advisors Q4 2023

Thank you

CBRE

FOR MORE INFORMATION

Dennis Schoenmaker, Ph.D.

Principal Economist
dennis.schoenmaker@cbre.com

Matt Mowell

Sr. Managing Economist
matt.mowell@cbre.com

Stefan Weiss

Sr. Managing Economist
stefan.weiss@cbre.com

Nicholas Rita

Industrial Sr. Economist
nicholas.rita@cbre.com

Rachael Rothman, CFA

Head of Hotels Research
rachael.rothman@cbre.com

Tyler Mangin, Ph.D.

Multifamily Sr. Economist
tyler.mangin@cbre.com

Christina Tong

Office Economist
christina.tong@cbre.com

Daniel Diebel

Retail Economist
daniel.diebel@cbre.com

CBRE ©2024 All Rights Reserved. All information included in this proposal pertaining to CBRE—including but not limited to its operations, employees, technology and clients—are proprietary and confidential, and are supplied with the understanding that they will be held in confidence and not disclosed to third parties without the prior written consent of CBRE. This letter/proposal is intended solely as a preliminary expression of general intentions and is to be used for discussion purposes only. The parties intend that neither shall have any contractual obligations to the other with respect to the matters referred herein unless and until a definitive agreement has been fully executed and delivered by the parties. The parties agree that this letter/proposal is not intended to create any agreement or obligation by either party to negotiate a definitive lease/purchase and sale agreement and imposes no duty whatsoever on either party to continue negotiations, including without limitation any obligation to negotiate in good faith or in any way other than at arm's length. Prior to delivery of a definitive executed agreement, and without any liability to the other party, either party may (1) propose different terms from those summarized herein, (2) enter into negotiations with other parties and/or (3) unilaterally terminate all negotiations with the other party hereto. CBRE and the CBRE logo are service marks of CBRE, Inc. All other marks displayed on this document are the property of their respective owners, and the use of such logos does not imply any affiliation with or endorsement of CBRE.