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AEW RESEARCH & STRATEGY

U.S. Economic & Property Market Perspective

Q1 2024

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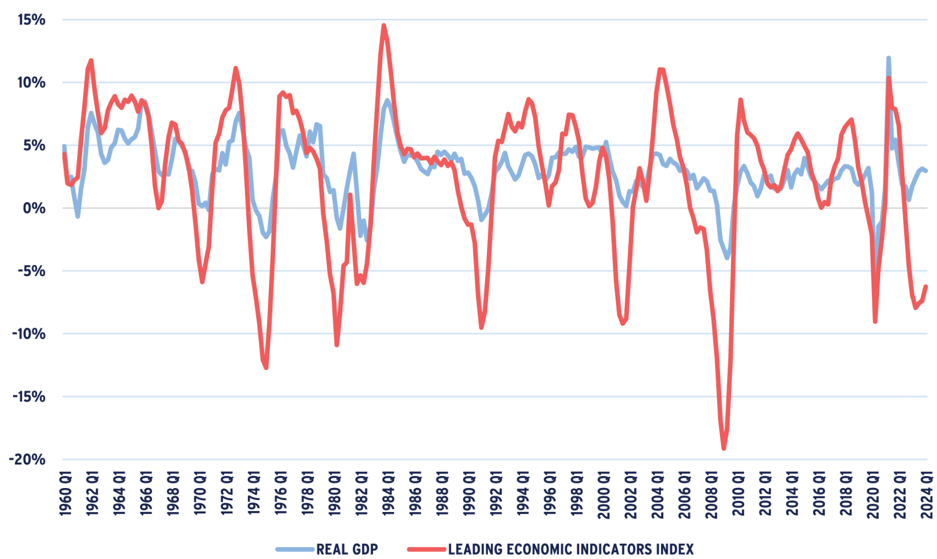
U.S. Economic and Property Market Outlook

U.S. economic growth slowed sharply over the first three months of 2024, decelerating from more than 4% annualized growth recorded during the second half of 2023 to only 1.6% for the first quarter. Previously reliable business cycle indicators such as the Index of Leading Economic Indicators (see Figure 1) continue to signify additional slowing ahead with heightened probability of actual economic contraction (i.e., recession) over the next 12-24 months.

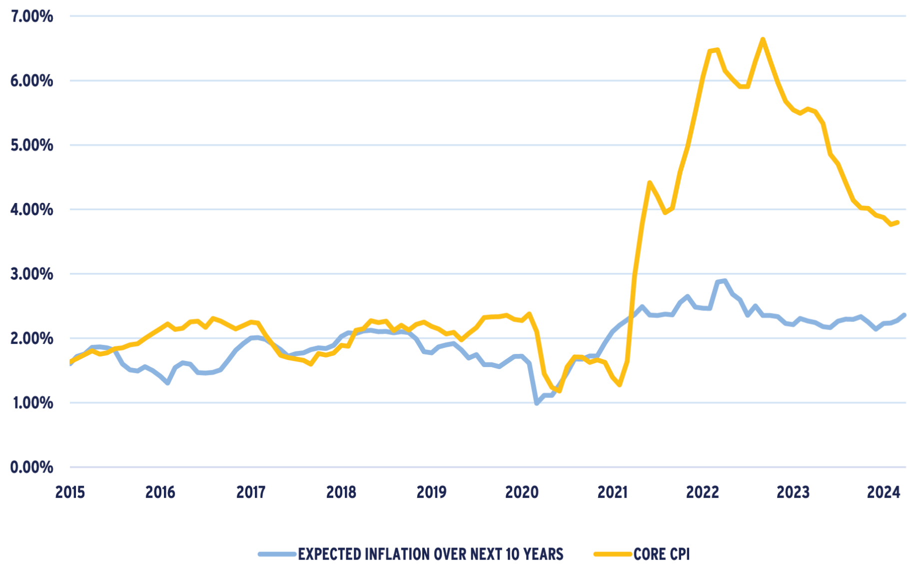
FIGURE 1: YEAR-OVER-YEAR GROWTH IN REAL GDP AND THE INDEX OF LEADING ECONOMIC INDICATORS



Source: Bureau of Economic Analysis (BEA) and the Conference Board

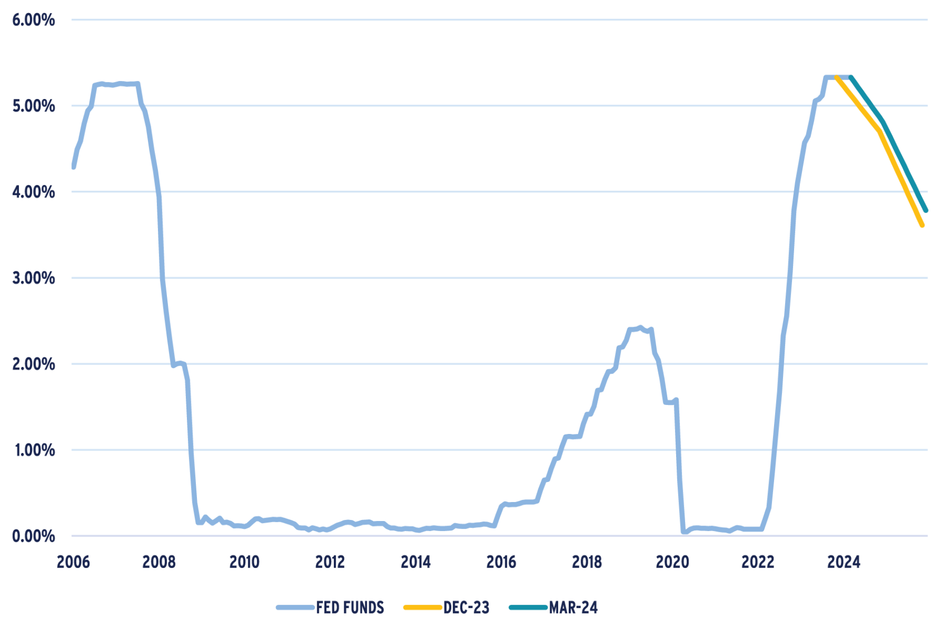
Against the backdrop of slower aggregate growth, consumer price inflation remains stubbornly above the Federal Reserve policy target (2%). More significantly, future inflation expectations likewise remain above the target level (see Figure 2). Reflecting this, policymakers continue to signal elevated overnight borrowing costs for the foreseeable future. At their March 2024 meeting, the Federal Open Market Committee (FOMC) affirmed the policy rate guidance provided at the December 2023 meeting. Federal Reserve Chairman, Jerome Powell, again affirmed this guidance following the most recent meeting of the FOMC on May 1st (see Figure 3). Given the reduced likelihood of significant interest rate cuts by the Federal Reserve, at least in the near-term, Treasury bond pricing has reverted with the ten-year Treasury yield rising from slightly less than 4% at the beginning of January to approximately 4.6% today.

FIGURE 2: EXPECTED INFLATION OVER THE NEXT TEN YEARS AND CORE INFLATION



As of March 31, 2024
Source: Bureau of Labor Statistics (BLS), U.S. Treasury Department

FIGURE 3: FEDERAL OPEN MARKET COMMITTEE (FOMC) POLICY RATE FORWARD GUIDANCE

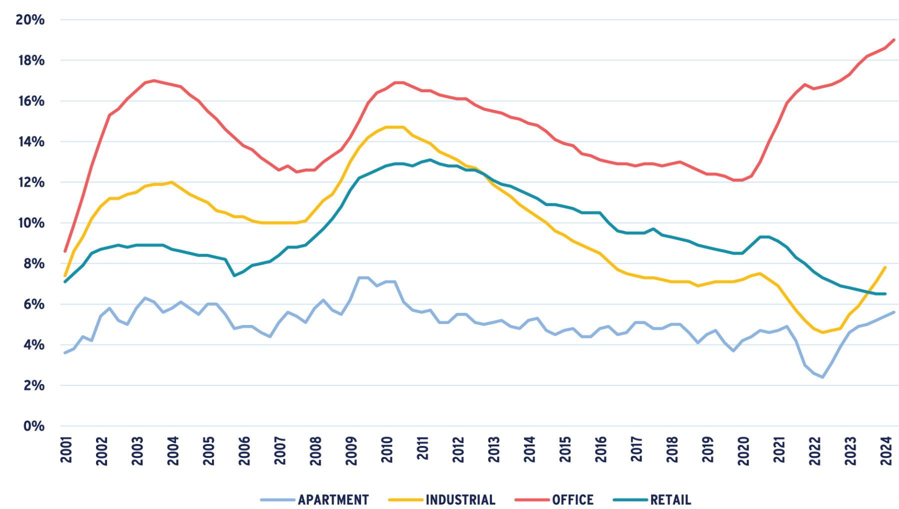


Source: Federal Reserve

U.S. Commercial Property

Despite the still-growing macro economy, U.S. commercial property market operating fundamentals broadly weakened during the first quarter of 2024. For example, while retail property availability rates largely held flat during the quarter, the U.S. average office vacancy rate rose to 19%, the highest level recorded since 1992 while the average apartment vacancy rate rose to 5.7%, the highest since 2010, and the average industrial availability rate rose to 7.8%, the highest value since 2016.

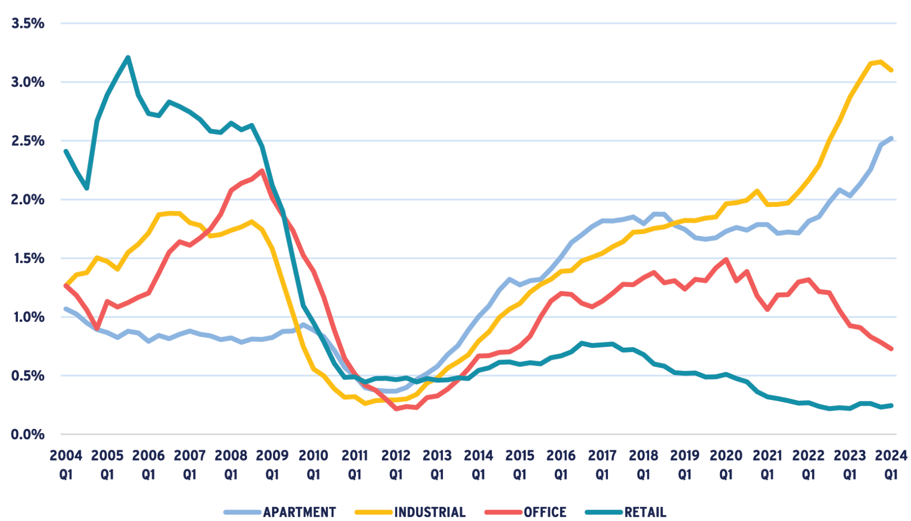
FIGURE 4: VACANCY/AVAILABILITY RATE BY PROPERTY SECTOR



As of March 31, 2024
Source: CBRE-EA

While rising office vacancy rates are largely the result of waning demand for office space, the recent upward movement in apartment vacancy and industrial availability rates stem from a surge in new construction over the past two years. Currently, both industrial and apartment property stock is growing at the fastest pace in more than two decades. Retail property stock has in aggregate grown at an annual rate of less than 1% per year since the end of the financial crisis in 2010 and well below 1% since the beginning of 2021.

FIGURE 5 : YEAR-OVER-YEAR GROWTH IN TOTAL STOCK BY PROPERTY SECTOR

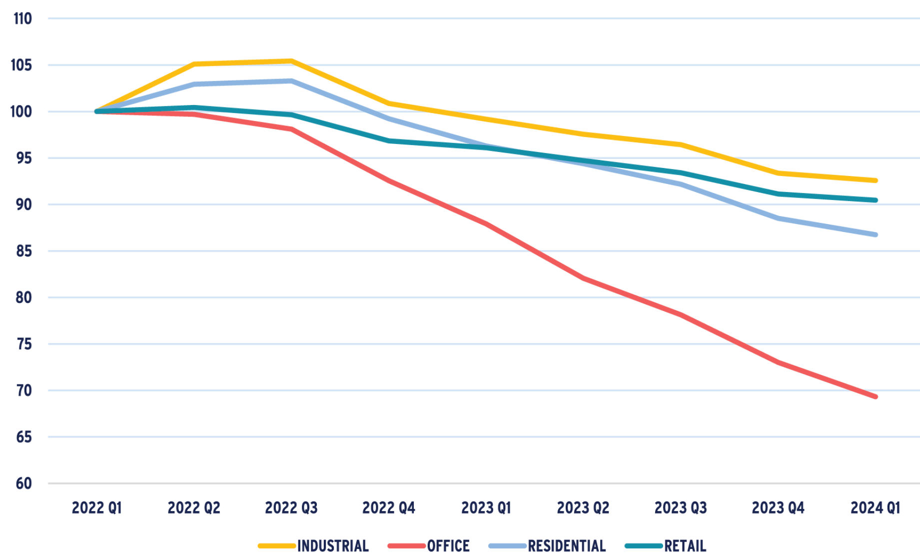


Source: CBRE-EA

U.S. commercial property values, as measured by the NCREIF Property Index (NPI), continued to adjust downward during the first quarter with the overall capital value index declining by 2.1%.[1] Changes in capital values have varied considerably by property sector since the Federal Reserve began tightening monetary policy in March 2022, with the aggregate office property index recording the largest decline in value at more than 30%.

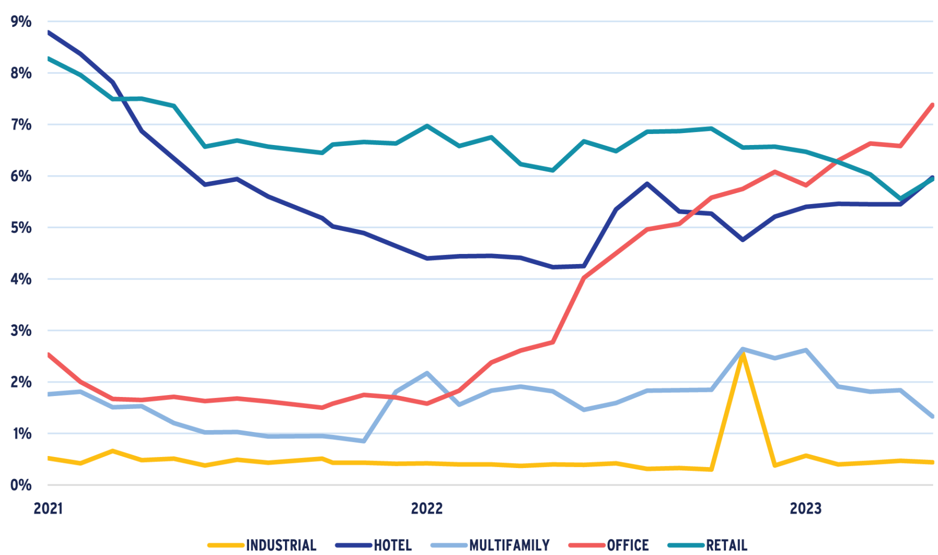
Not surprisingly, property loan performance has worsened in step with softer property market fundamentals and values with CMBS loan delinquency rates rising sharply for office property loans. So far, apartment and industrial CMBS property loans have not shown similar performance, but there is growing evidence of weakening apartment loan performance in the shorter-term CLO market.

FIGURE 6 : QUARTERLY CHANGE IN CAPITAL VALUE INDEX, INDEX = 100 IN 2022 Q1



Source: NCREIF

FIGURE 7 : CMBS DELINQUENCY RATE BY PROPERTY SECTOR

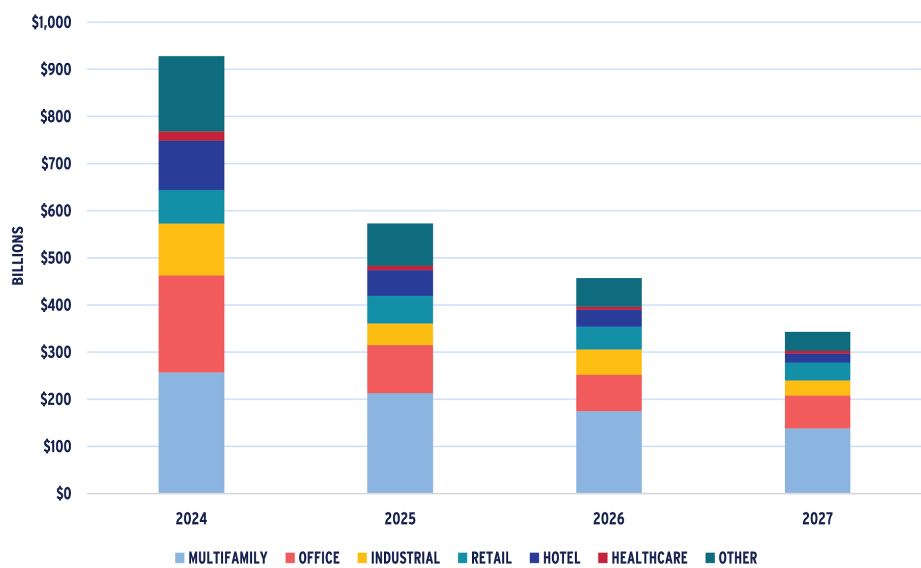


As of March 31, 2024
Source: Trepp

[1] *Expanded NCREIF Property Index (NPI).*

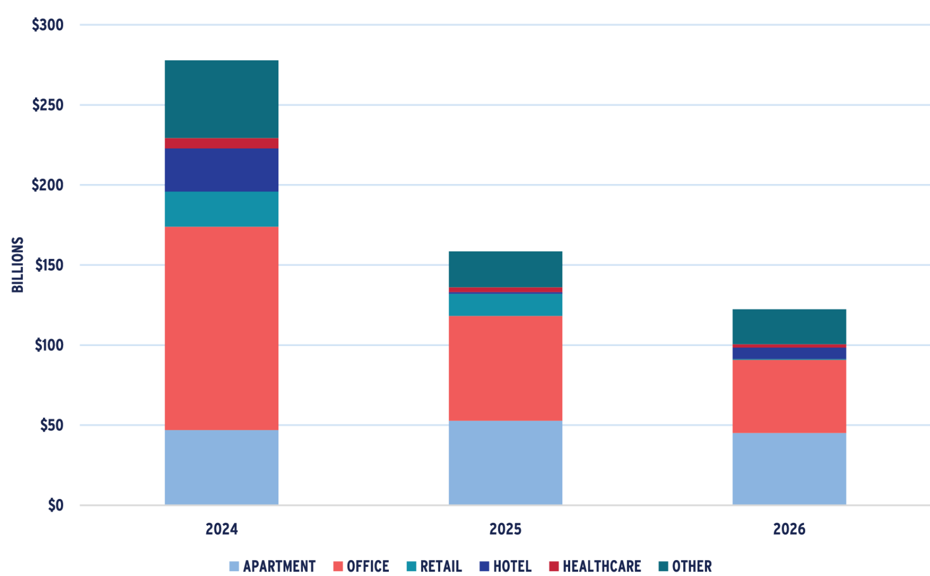
Recent data from the Mortgage Bankers Association identifies more than $900 billion of commercial property loan maturities occurring during 2024 (see Figure 8), a significant increase from their previous estimate of $650 billion at this time last year. The increase is largely the result of loan extensions granted to borrowers with 2023 loan maturities. While we expect some amount of the scheduled 2024 loan maturities to receive similar extensions, quantifying this in advance is difficult. If we apply known changes in property values and lender underwriting standards to the reported expected loan maturities volumes, we can quantify potential debt funding gaps, the difference between likely loan proceeds on new financings relative to the outstanding debt balance on existing maturing loans. In aggregate, we expect roughly $500 billion of "missing proceeds" over the next three years (see Figure 9).

FIGURE 8 : EXPECTED COMMERCIAL MORTGAGE LOAN MATURITY BY YEAR



As of March 31, 2024
Source: Mortgage Bankers Association (MBA)

FIGURE 9 :POTENTIAL DEBT FUNDING GAP



As of March 31, 2024
Source: AEW Research

Conclusion

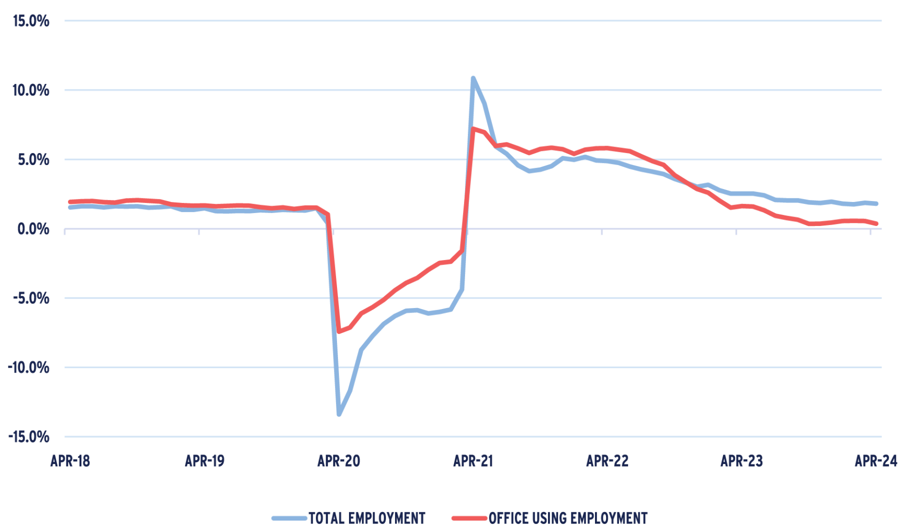
While the U.S. economy continues to expand, albeit at a slowing pace, persistent higher than desired inflation continues to hold back the Federal Reserve's anticipated easing of monetary policy and lowering of interest rates. The slowing economy, combined with a near-term increase in new property supply, is exerting increased pressure on property operating metrics. At the same time, higher than expected interest rates continue to put upward pressure on property yields (i.e., downward pressure on values). The current re-pricing cycle is expected to reach its cyclical nadir sometime during 2024 but visibility on the exact timing is likely contingent on additional clarity of Federal Reserve policy. Regardless, capital pressure from maturing property loans will continue to build and will likely expand beyond what has so far been largely concentrated in office property loans. Apartment loans, particularly those originated during the 2021-2022 period of extremely low interest rates, are already exhibiting signs of growing loan performance problems.

Office

We wish we had better news, but unfortunately, the office market's trajectory has not changed materially as the deterioration in fundamentals has persisted. The first quarter represented a tough start to the year with aggregate demand taking a step down from what looked like a moderation in negative absorption was taking shape in the second half of last year.

Work-from-home indicators and surveys suggest that hybrid work arrangements have mostly reset, although on the margin ridership and other mobility metrics have been trending up slightly in 2024. If sitting in traffic is any indication, it does feel like more people are leaving their homes for work on a more regular basis, at least Tuesday through Thursday. Companies are still in the process of adjusting their space needs to this "new normal." However, with a plateau in the amount of sublease space on the market, the governor on the pace of this adjustment, likely remains linked to contractual lease structures. Based on CoStar data, about 60% of pre-pandemic leases have rolled, suggesting there is still a way to go before the full effects are felt. A natural offset to this shifting space-per-worker need has been an expanding economy that generates more office jobs. On this front, a less beneficial trend is also taking shape. The pace of office job growth is moderating with overall job growth now outpacing office-using jobs. This is something to keep an eye on as the prospects for the broader economy evolve this year.

FIGURE 10: ANNUAL EMPLOYMENT GROWTH



Source: BLS as of April 2024

Leasing activity slowed between 15% and 20% (depending on the source) in the first quarter from a year-ago and prior-quarter levels and is running about half pre-pandemic levels, a pattern we expect will continue at least over the near-term. The number of tenants in the market is up over the quarter, a token positive sign for landlords, although many are looking at consolidations or downsizing, which explains the lower leasing volumes. According to CBRE, a higher share of leases are being renewed relative to pre-pandemic averages. For those looking to relocate, demand appears skewed toward quality space with the advantage clearly in the hands of tenants as robust TI packages and other concessions are used to win deals. Gross asking rents or face rates remain relatively flat and are not reflective of the true pressures in the market, except in a few markets where face rents have fallen while effective rents continue to shift lower.

In aggregate, office vacancies climbed 40 bps to 19.0% in the first quarter, continuing the pattern of rising rates according to CBRE-EA. Sublease space accounted for 250 bps of the vacancy totals with availability rates moving above 25% for the first time. Southeast Florida remains among the strongest markets in terms of rent growth and vacancy, while Nashville, Manhattan and Charlotte recorded lower vacancies in the first quarter. Boston, Chicago and Seattle saw vacancies rise by more than 100 basis points followed by Austin, which is dealing with a more robust supply pipeline and elevated subleases.

The capital markets continue to look unfavorably upon the office sector with investor sentiment still solidly in the pessimistic camp. Lenders and equity providers have maintained their much more defensive stance as they look to reduce overall exposure in the face of an already difficult capital markets environment as tenant needs for space wane. The sector faces some of the stiffest headwinds regarding future values as acceptance of the hybrid work model becomes more entrenched in employee/employer expectations. The low velocity of transactions, wide bid-ask spreads and lack of debt financing has muddied the water although there are more committed sellers placing assets on the market with support from their lenders. Office transaction volume leveled off in the first quarter at $15 billion, roughly in line with the fourth quarter and annual pacing.

Distress is becoming more apparent as banks and other lenders increase loan-loss reserves and the CMBS market is reporting a notable increase in the percentage of office loans in special servicing and delinquency. The 30-day office delinquency rate stood at 7.4% in April, a 110-bps increase over the past three months leading all other property types. Over 10% of outstanding CMBS office loans are in special servicing. Correspondingly, financing is scarce and prohibitively expensive with the most likely source of refinancing coming from your existing lender. That said, lender-facilitated sales are becoming more common solutions to monetizing the most troubled assets.

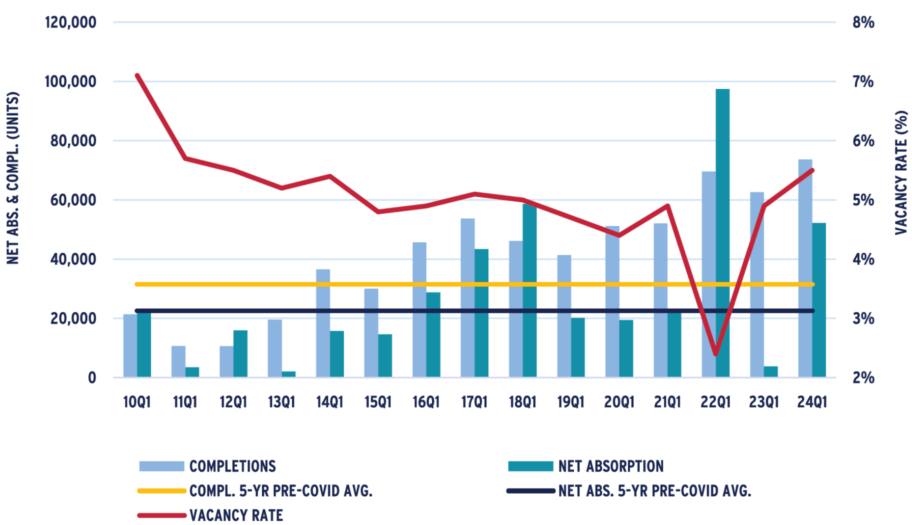
Overall, the office dynamics remain challenging with few signs suggesting a settling out in the capital markets or fundamentals. Owners, investors and lenders are facing increasingly difficult decisions about what to do as loans mature or major leases come due. Each case requires material new capital contributions from ownership to forge an appropriate path forward. With most lenders focused on reducing overall exposure to the office sector, and many owners with little to no equity remaining in the asset, it makes for some difficult discussions. From our vantage point, 2024 will be another difficult year for recognizing value loss across the sector, but it will take time to fully play out.

OFFICE	
VACANCY RATE	19%
12-MONTH HISTORICAL TREND	
VACANCY CHANGE	↑
RENT	↓
ABSORPTION	↓
COMPLETIONS	↓
CAP RATES	↑
TRANSACTION VOLUME	↓

Apartment

Despite relatively strong first-quarter demand, new supply continued to put downward pressure on the apartment market. Net absorption totaled roughly 52,200 units in the first quarter, more than double the ten-year pre-COVID first-quarter historical average (22,600 units) and nearly 60% greater than five-year pre-COVID first-quarter historical average. Unfortunately, at the same time, new supply totaled nearly 73,700 units, a record Q1 delivery tally and, like demand, more than double historical averages.

FIGURE 11: NEW SUPPLY OUTPACED RELATIVELY STRONG Q1 DEMAND
(First Quarter Historical Performance)



Source: CBRE-EA

With new supply outpacing demand, vacancies advanced to 5.5%, up ten and 60 basis points (bps) quarter-over-quarter and year-over-year, respectively. Vacancies have increased for eight consecutive quarters to date, the longest sustained period of quarterly gains. Further, vacancies are at their highest level since early 2012 and are 310 bps above their COVID lows.

As we have noted in the past, supply is heavily concentrated in the Sunbelt markets. In aggregate since 2021, 14 Sunbelt markets have reported a completion rate exceeding 10%, well above the 6.8% reported at the national level. On the demand side, only seven markets reported a net absorption rate in the double digits.

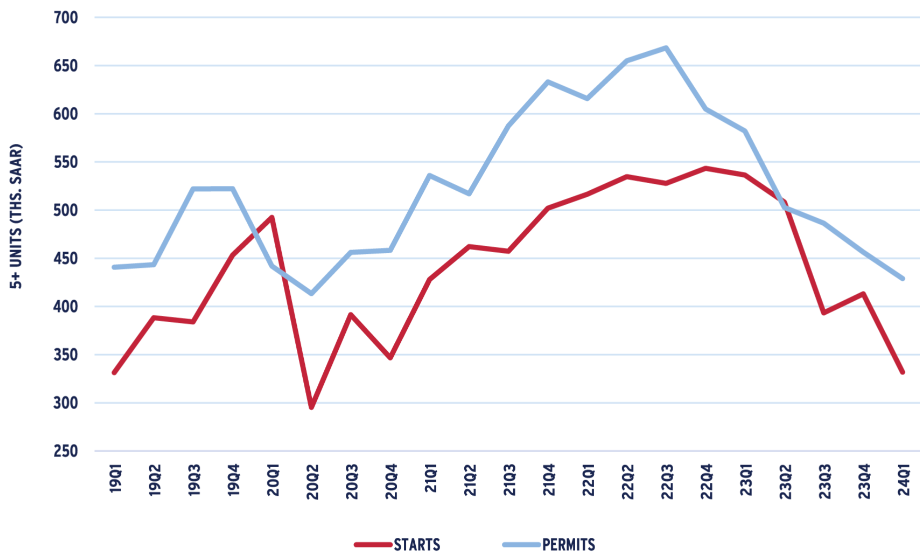
The greatest gap between supply and demand among major markets exists in Jacksonville, Phoenix, Atlanta, Fort Worth, Las Vegas, Riverside, Charlotte, Sacramento, Austin and Salt Lake City. All of these markets reported a completion rate that outpaced the net absorption rate by 300 bps or more, compared to the national average where the difference has been 120 bps since 2021. Notably, demand in Chicago, New York, San Jose and San Francisco has outpaced supply by 110, 130, 140 and 300 bps, respectively. Meanwhile, supply in Miami (0 bps), Boston (10), Washington, DC (20), Los Angeles (50), Seattle (60), Orange County (70) and West Palm Beach (70) outpaced demand by 100 bps or less.

Naturally, the markets where demand remains stronger than supply have reported the lowest absolute vacancy rates, but generally they have also reported the smallest gains in vacancies relative to both their pre-COVID levels and their COVID lows. Moreover, roughly half of the markets have vacancies that remain below both their ten-year and five-year pre-COVID historical averages. Chicago, New York, Orange County and West Palm Beach are particularly strong in that respect.

In the near-term, supply growth will remain robust with over 760,000 units currently under construction, 481,000 of which are due to be completed by year-end. After the next 12 months, supply should begin to normalize as both starts and permitting activity have been trending down for the past 12 months. Indeed, both multifamily starts and permitting for properties with five or more units are roughly 39% and 36% below their respective peaks from late 2022. Putting the change in perspective, starts are now roughly 10% below their five-year pre-COVID historical average while permits are 3% below average.

Longer-term, once supply begins to ebb, the Sunbelt markets should experience a healthy demographic-driven recovery. Strong net migration, household formation among young people, a lack of for-sale housing and diminished homeownership affordability should yield healthy demand for apartment units. Vacancies as a result should compress, allowing for rent growth to re-accelerate.

FIGURE 12: STARTS AND PERMITTING ACTIVITY POINT TO A DECELERATION IN APARTMENT DELIVERIES



Source: *U.S. Census Bureau*

RESIDENTIAL	
VACANCY RATE	5.5%
12-MONTH HISTORICAL TREND	
VACANCY CHANGE	↑
RENT	↔
ABSORPTION	↑
COMPLETIONS	↑
CAP RATES	↑
TRANSACTION VOLUME	↓

Industrial

Industrial market fundamentals continued to deteriorate in the first quarter of 2024. Per CBRE-EA, availability increased to 7.8%, up 70 basis points (bps) for the quarter and 230 bps on a year-over-year basis. Availability is now at its highest level since mid-2016 and is up 320 bps from a mid-2022 low of 4.6%. The first quarter increase was driven by weak demand and still-strong deliveries.

Nearly 27 million square feet (msf) was returned to the market on a net basis, the first quarter of negative net absorption since early 2010. The slowdown in demand has largely been driven by low home sales, with distribution center closures being reported by Home Depot, Daltile, Home Goods and Ashley Furniture. At the same time, over 101 msf of space was completed in the quarter. On a rolling four-quarter basis, less than 78 msf was absorbed, again marking the weakest demand since early 2010 and well below the five-year and ten-year pre-COVID averages of 287 msf and 224 msf, respectively. In contrast, fourth-quarter completions totaled nearly 490 msf, the sixth consecutive quarter where deliveries have topped 400 msf on a four-quarter basis. Putting supply in further context, deliveries dwarfed their historical averages of 220 msf and 144 msf on a five-year and ten-year pre-COVID basis.

The performance gathered from CoStar[2] data shows similar trends, with availability of 7.7% in the quarter up notably on a quarter-over-quarter and year-over-year basis, as well as up from pre-COVID and COVID-low levels. Moreover, availability is now slightly above the five-year pre-COVID average but remains below the ten-year pre-COVID average by a considerable margin (see table below). Net absorption from CoStar was also the weakest quarter reported since 2010, but was marginally positive at just under 25 msf, well below the 118 msf reportedly completed from CoStar.

FIGURE 13: COMPARATIVE INDUSTRIAL PERFORMANCE BY SIZE

	10K TO 49K	50K TO 99K	100K TO 199K	200K TO 399K	400K+	10K+
RECENT QUARTERLY AVAILABILITY RATES						
23Q1	3.9%	5.1%	7.4%	8.7%	9.1%	6.8%
23Q4	4.4%	5.9%	8.2%	9.1%	9.5%	7.4%
24Q1	4.7%	6.4%	8.5%	9.6%	9.6%	7.7%
HISTORICAL AVERAGES						
5-YR PRE-COVID	5.7%	7.1%	8.4%	8.9%	8.0%	7.4%
10-YR PRE-COVID	7.9%	9.4%	10.6%	11.0%	9.2%	9.4%
2024 Q1 PERFORMANCE RELATIVE TO HISTORICAL TRENDS (BPS CHANGE)						
QOQ	30	50	30	50	10	30
YOY	80	130	110	90	50	90
COVID LOW	120	180	240	220	240	180
PRE-COVID	-10	10	90	150	250	110
5-YR PRE-COVID AVG	-100	-70	10	70	170	30
10-YR PRE-COVID AVG	-320	-300	-210	-140	40	-170

As of March 31, 2024
Source: CoStar

Availability has increased across all size ranges; however, the greatest increase has been among larger size ranges. This is not surprising as this is where construction activity has been concentrated. The increase in supply on a four-quarter basis among projects greater than 400,000 square feet was 7.0% in the first quarter and has been above 6.0% for nine consecutive quarters, well above the pre-COVID historical averages of 4.2% and 2.8% on a five-year and ten-year basis, respectively. Likewise, completions in the 200,000 to 399,000 sf category have been strong at 5.0% in 2024 Q1, more than double the five-year and ten-year averages of 2.4% and 1.6%, respectively. In contrast, supply growth among smaller properties 10,000 to 49,000 and 50,000 to 99,000 sf has been minimal and consistent with historical trends.

On the demand side, all size categories are now exhibiting weakness with the absorption rates resting below their five-year pre-COVID averages by between 90 to 150 bps. Demand among smaller properties turned negative in mid-2023 and has

[2] *This analysis aggregates the CoStar data for the 75 markets reported by CBRE-EA.*

continued to soften; however, the change in demand has been most meaningful in the larger size categories. The four-quarter absorption rate among properties 10,000 to 49,000 sf (-0.4%) is down only 50 bps year-over-year, while 50,000 to 99,000 sf demand (-0.4%) is down 140 bps. In comparison, demand for projects over 100,000 sf has declined by 200 bps or more. The absorption rates for projects in the 100,000 sf to 199,000 sf, 200,000 sf to 399,000 sf and 400,000+ sf ranges stood at 0.5% (-200 bps), 1.5% (-260 bps) and 3.3% (-220 bps), respectively. The demand performance for mid-sized to larger projects (100,000 sf to 199,000 sf and 200,000 sf to 399,000 sf) are now closer to but still below their ten-year pre-COVID averages while demand for space 400,000+ sf is slightly (20 bps) above the ten-year average at 3.3%. The softness among larger projects is likely temporary, however, and tied to the housing market as mentioned above. We expect large facilities to remain in demand long-term, particularly as labor shortages and demographic trends push more industrial users to larger facilities that are better equipped to incorporate automation and new inventory management technologies. This is currently playing out in the cold storage sector and we expect this trend to continue there, and more broadly across the industrial sector.

Regionally, demand was negative in 43 markets, per CBRE-EA, including the gateway markets of Chicago, Riverside, Southern California, Seattle, Northern/Central New Jersey and Atlanta. The most notable increases in availability have been in Southeastern and Southwestern markets (Savannah, Charleston, Phoenix, Las Vegas, Greenville and Austin) where supply continues to outpace demand by a considerable margin. All of the aforementioned were among the markets with the strongest absorption rate in 2023 and, with the exception of Charleston, all were among the 32 markets reporting positive demand in the first quarter of 2024.

We anticipate the current softness in the Southeast and Southwest will be temporary. The long-term drivers for these markets are decidedly positive, resulting from the ongoing post-COVID deglobalization that is occurring. The Southeast and Southwest should continue to benefit from onshoring/near-shoring of manufacturing, which should spur new demand for industrial product near new production facilities that are currently under construction. On the margin, demand growth in global port locations may be slower while demand growth in regional distribution centers, with access to large population centers, will likely be stronger. Demand from consumer-necessity suppliers – including food and off-priced apparel (TJX, Ross and Burlington) – will remain strong and drive regional distribution center demand. While growth in port markets may be slower, the importance of these markets in the broader logistics context cannot be understated. Even with more domestic sourcing of production, greater uncertainty around the global supply chain will lead many warehouse users to hold higher levels of inventory relative to the just-in-time pre-pandemic levels. As such, the long-term outlook for the industrial market is decidedly positive across most markets/regions of the country.

INDUSTRIAL	
AVAILABILITY RATE	7.8%
12-MONTH HISTORICAL TREND	
AVAILABILITY CHANGE	↑
RENT	↑
ABSORPTION	↓
COMPLETIONS	↑
CAP RATES	↑
TRANSACTION VOLUME	↓

Retail

In the first quarter, the retail market continued to outperform relative to the office, industrial and apartment markets. Total retail availability remained flat on the quarter at 4.7%, but was down 20 basis points (bps) on a year-over-year basis. Availability/vacancy was steady in the sector on a quarter-over-quarter basis and declining on a year-over-year basis, the only property type to reflect this. The strength in retail has been driven by the more solid financial footing among retailers, a change from the 2018-2020 period when retail bankruptcies were pervasive and undercut demand. Since the beginning of 2021, nearly 236 million square feet (msf) of retail space has been absorbed, outpacing the previous 13-quarter tally by 57%. At the same time, construction activity remains at a record low with less than 30 msf completed in 2023 and less than 6 msf delivered in the first quarter of 2024. The 2023 deliveries were less than half the five-year pre-COVID average of 64 msf and nearly half the ten-year pre-COVID average of 58 msf.

Notably in the most recent quarter, the lifestyle and mall (L&M) segment of the market reported the greatest improvement in fundamentals. Availability declined to 5.6%, down 10 bps in the quarter and 40 bps year-over-year. Further, availability has now returned to its pre-pandemic level and is essentially in line with the quarterly historical average from 2005 to 2019. Per Green Street, operating fundamentals at Class A malls have improved considerably. Full-time inline tenant occupancy has picked-up and occupancy is approaching frictional vacancy levels. Moreover, full-time tenants are replacing low-rent temporary tenants. Further, projections are for retail openings to continue to outpace store closures, signaling better overall performance in the L&M fundamentals in the years ahead.

In addition to the positive momentum in the L&M category, neighborhood and community shopping center (NCSC) and power center (PC) fundamentals also trended in the right direction. NCSC availability stood at 6.5% in the first quarter, unchanged from the previous quarter, but down 30 bps from a year earlier. Overall, NCSC availability remains at a record low, and nearly 400 bps below the pre-COVID quarterly historical average from 2005 to 2019. PC availability declined 10 bps quarter-over-quarter and 20 bps year-over-year to 4.9%, the lowest level since early 2007. Brick and mortar demand within the NCSC and PC segments of the market remains healthy while new supply has been minimal. Spaces vacated following the bankruptcies of Bed Bath & Beyond and Party City have been quickly backfilled to tenants occupying the entirety of the vacated space rather than landlords subdividing the space to multiple tenants.

Regionally, demand has generally been strongest in Sunbelt markets with Austin, Dallas, Orlando, Phoenix, San Antonio, Miami, Jacksonville and Nashville all among the top 10 for total retail demand as a share of stock since 2021. The net absorption rate among the aforementioned markets ranged from 4.2% in Nashville to 5.7% in Austin, outpacing the U.S. average (2.9%) by a considerable margin. Supply increases among these markets have also topped the charts but remain relatively modest at roughly 1.7% to 3.6% in aggregate over the same period. With demand outpacing supply by a considerable margin in the Sunbelt, availability declined most significantly, generally between 200 and 400 bps over the period.

More mature markets like Manhattan, Northern California, Seattle, Los Angeles, Orange County, Boston and Washington, DC, were on the other end of the spectrum in terms of demand; however, this was more due to a lack of availability and the absence of new supply. The bulk of the more mature markets reported an increase aggregate in stock of 0.6% or less, half the U.S. average of 1.2% since the beginning of 2021. Overall, the more mature markets have generally reported availability at or below the U.S. average and declining availability over the 2021 to 2024 Q1 period. The lone exceptions to this are Northern California (San Jose, San Francisco and Oakland) and Manhattan, where availability is above average and has increased, the result of weak or declining demand. A later and lower level of workers returning to the office in Northern California, as well as a loss of population, an uptick in crime and increased homelessness, have resulted in low foot traffic and subsequent store closures in the region. This has particularly been the case in San Francisco, forcing availability from one of the lowest levels in the nation pre-pandemic to one of the highest. In Manhattan demand has been negative; however, leasing is reportedly increased, in step with rising foot traffic, continued use in mass transit usage and strong tourism.

The consumer, so far, has been resilient; March retail sales exceeded expectations, advancing 0.7% in the month, more than double consensus estimates. As we have said in the past, we continue to monitor consumer credit conditions. Delinquency and default rates moved higher in March. According to the Federal Reserve Bank of New York's report on Household Debt and Credit, 8.5% of all credit card debt was in early delinquency (30-90 days delinquent), while roughly 6.4% of debt was seriously delinquent (30-90 days delinquent), both of which are at their highest levels since mid-2011. While there are risks to the consumer outlook due to rising delinquencies, credit card debt balances per capita improved during the pandemic, thanks to the fiscal stimulus packages. While they are up from their pandemic lows, credit card debt balances remain well below levels during the Great Financial Crisis. Despite concern regarding consumer balance sheets, the current strength in the retail segment of the market should allow property market fundamentals to hold firm, particularly in the necessity and off-price retail-related NCSC and PC categories. After several years of being a tenants' market, pricing power has shifted back to landlords. With continued tight fundamentals expected, rent and NOI growth should be healthy, which should be capitalized into valuations, allowing the retail sector to best industrial, apartment and office returns in the near-term.

FIGURE 14: PREA CONSENSUS SURVEY
(Average of Respondents' Forecasts of the NCREIF Property Index (NPI) and Sub-Indices by Property Type)

	TOTAL RETURN (INCL. INCOME) 2024	TOTAL RETURN (INCL. INCOME) 2025	TOTAL RETURN (INCL. INCOME) 2026	TOTAL RETURN (INCL. INCOME) 2024 TO 2028 (PER YEAR)
National, All Property Types (NPI)	(1.60)%	5.60%	7.20%	5.50%
Office	(6.30)%	2.30%	5.10%	3.20%
Retail	2.90%	6.70%	7.80%	6.70%
Industrial	0.70%	7.30%	8.40%	6.80%
Apartment	(1.70)%	5.80%	7.70%	5.80%

As of March 31, 2024
Source: PREA

RETAIL	N&C SHOPPING CENTER	LIFESTYLE & MALL	POWER CENTER
AVAILABILITY RATE	6.5%	5.6%	4.9%
12-MONTH HISTORICAL TREND			
AVAILABILITY CHANGE	↓	↓	↓
RENT	↑	↑	↑
ABSORPTION	↔	↑	↔
COMPLETIONS	↔	↓	↔
CAP RATES	↑	↑	↑
TRANSACTION VOLUME	↓	↓	↓