AEW RESEARCH

U.S. Economic & Property Market Perspective

Q3 2023

AEW

For more information, please contact:

MICHAEL ACTON, CFA®
Managing Director, Head of Research & Strategy, North America
michael.acton@aew.com
617.261.9577

ADRIENNE ORTYL
Director, AEW Research
adrienne.ortyl@aew.com
617.261.9159

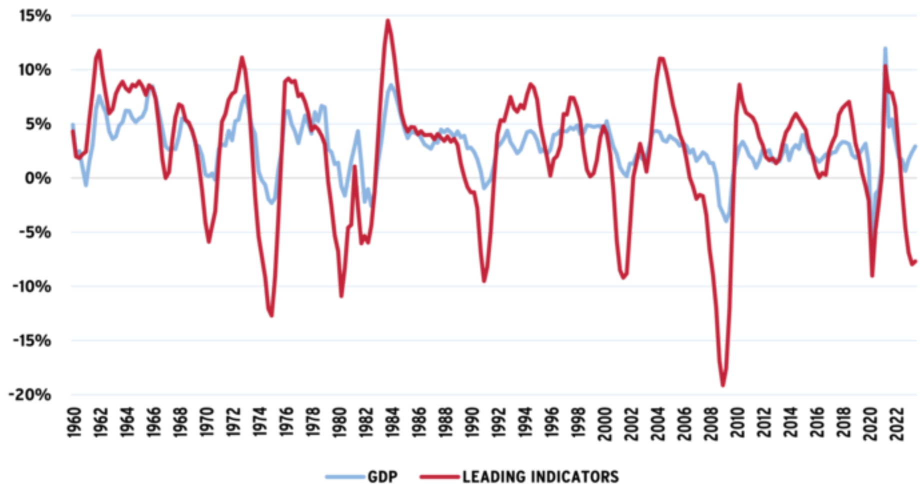
RICK BRACE, CFA®
Director, AEW Research
rick.brace@aew.com
617.261.9170

Prepared by AEW Research, November 2023

U.S. Economic and Property Market Outlook

Driven by strong growth in personal consumption and government spending, the U.S. economy surprised to the upside during the third quarter with real GDP growth accelerating to an annualized rate of 4.9% and a year-over-year gain of 3%. Sustained growth at this pace is unlikely and we continue to expect a significant slowing of the U.S. economy over the next several quarters with meaningful risk of outright recession during 2024.

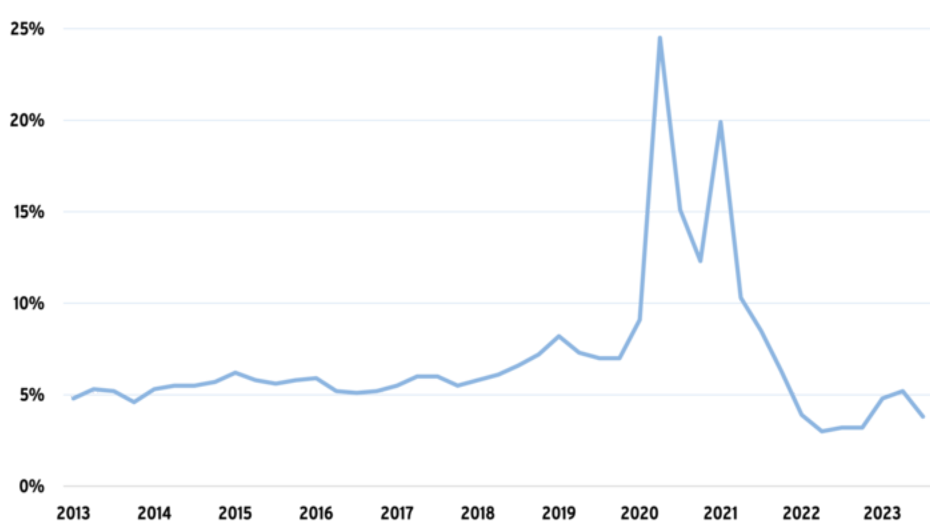
FIGURE 1: YEAR-OVER-YEAR GROWTH IN REAL GDP AND LEADING ECONOMIC INDICATOR INDEX



Source: Bureau of Economic Analysis (BEA), Conference Board, as of 2023 Q3.

With respect to personal consumption, the pandemic-era buildup of excess savings has been largely drained by post-pandemic spending. Overall, the national savings rate now stands at 3.8%, well below the pre-pandemic norm of slightly more than 5%. This is particularly true for lower-income households where groups such as Moody's estimate a negative savings rate among below-median income households since mid-2022. When combined with significantly higher borrowing costs and the resumption of student loan payments, the reduction in excess savings portends a period of slower, perhaps negative, near-term consumer spending growth.

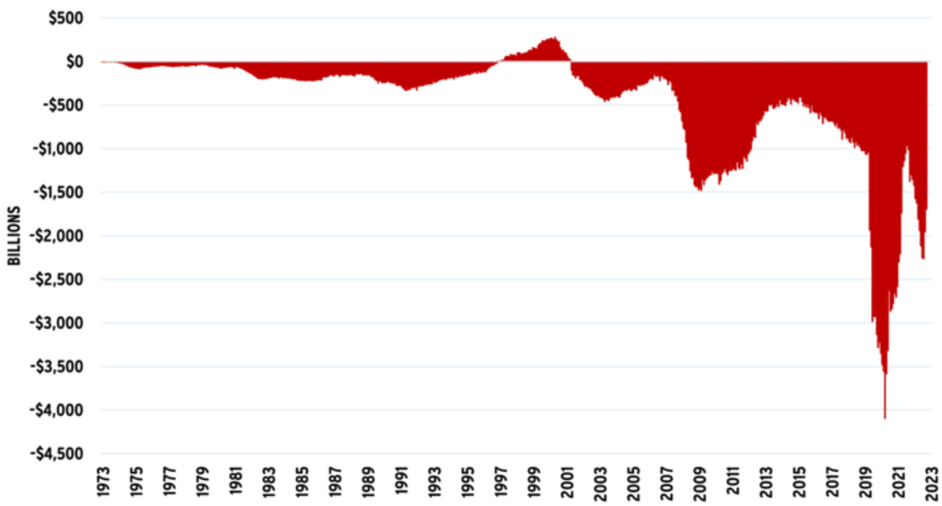
FIGURE 2: U.S. HOUSEHOLD SAVINGS RATE



Source: Bureau of Economic Analysis (BEA), as of 2023 Q3.

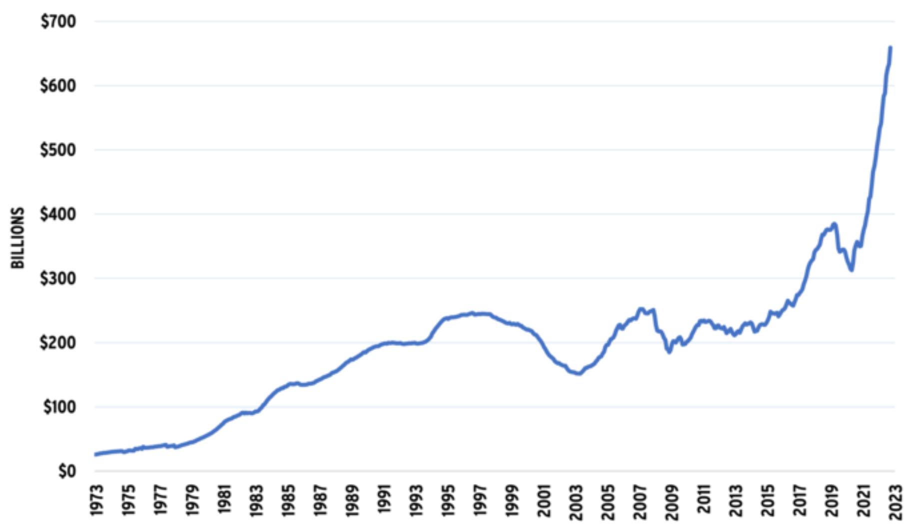
Similarly, slower growth in federal government spending is also a near certainty. Over the past 12 months, the federal deficit has grown quickly, rising from just under a trillion dollars on a trailing 12-month basis in mid-2022 to more than two trillion by mid-2023, a period of generally positive overall economic growth. More troubling, the debt service on federal outstanding debt is beginning to rise rapidly, so far largely from the extreme increase of total outstanding debt during the pandemic but now also reflecting higher borrowing costs as expiring debt is refinanced. As of September, the net interest expense of the federal government is approaching $700 billion per year and rising rapidly. Left unchanged, debt service interest expense is expected to reach or surpass other key budget items such as the defense department budget over the next few years. When combined with heightened partisanship from a divided congress, near-term growth in federal government spending seems likely to slow, perhaps significantly.

FIGURE 3: TRAILING 12-MONTH FEDERAL BUDGET DEFICIT



Source: Treasury Department, as of 2023 Q3.

FIGURE 4: TRAILING 12-MONTH FEDERAL GOVERNMENT NET INTEREST EXPENSE

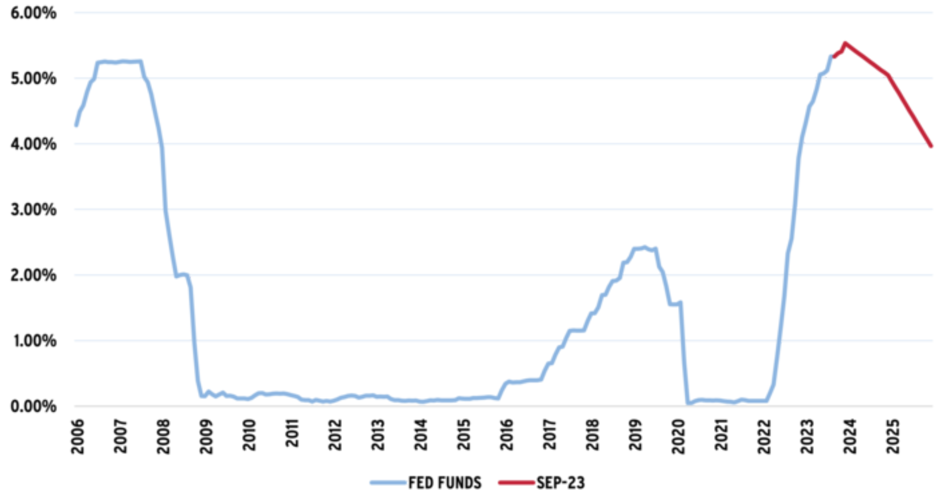


Source: Treasury Department, as of 2023 Q3.

Against this backdrop, the Federal Reserve appears near the end of raising interest rates but is likely to hold steady in its position of higher rates and tighter credit for some time. The Federal Open Market Committee (FOMC) affirmed this position at their September meeting, providing forward guidance for overnight lending rates that suggest only gradual easing of credit conditions through 2024 and 2025. Overall, the FOMC expects to lower the overnight lending rate from the current 5.25%-5.50% target range to approximately 4% by the end of 2025. In a normal upward sloping yield curve environment, this suggests 10-Year Treasury bond yields 50-100 basis points above the overnight rate, consistent with current yields in the

4.5%-5.0% range through 2024. The two areas of greatest uncertainty remain the degree and speed of any economic slowdown and the market's appetite for the significant refinancing needs of U.S. Treasury.

FIGURE 5: FOMC FORWARD GUIDANCE FOR OVERNIGHT LENDING RATE



Source: Federal Reserve (FOMC), as of 2023 Q3.

Absent a significant economic or financial system problem, overnight lending rates will not revert to the target neutral rate (the rate that is believed to be neither stimulating nor constraining to the economy) until observed inflation and, more importantly, expected inflation are again centered close to the two percent policy target. Currently, broad market surveys of bond market pricing suggest inflation expectations remain elevated closer to 2.5% with a steady upward trend since the worst of the COVID economic disruptions in 2020. Prior to 2020, these measures of expected inflation consistently centered near or below the two percent target.

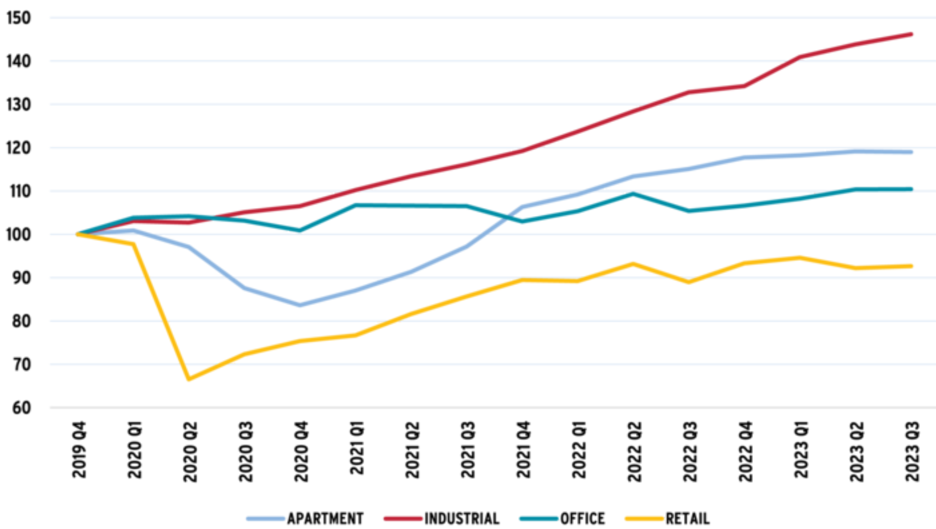
FIGURE 6: EXPECTED INFLATION OVER THE NEXT FIVE YEARS

Source: Treasury Department, Federal Reserve, as of 2023 Q3.

U.S. Commercial Property

Despite outsized third-quarter economic growth, commercial property market fundamentals in most parts of the country are broadly softening with vacancy/availability rates flat or rising, rent growth slowing and overall net operating income (NOI) growth slowing across the four primary property sectors. In some cases, the softening is being driven by excess new supply and in other cases by slowing property demand (or both). Industrial property NOI remains the primary outlier, increasing by a still strong 10% compared with the third quarter of 2022 but down from more than 15% growth in the prior year and varying widely by market.

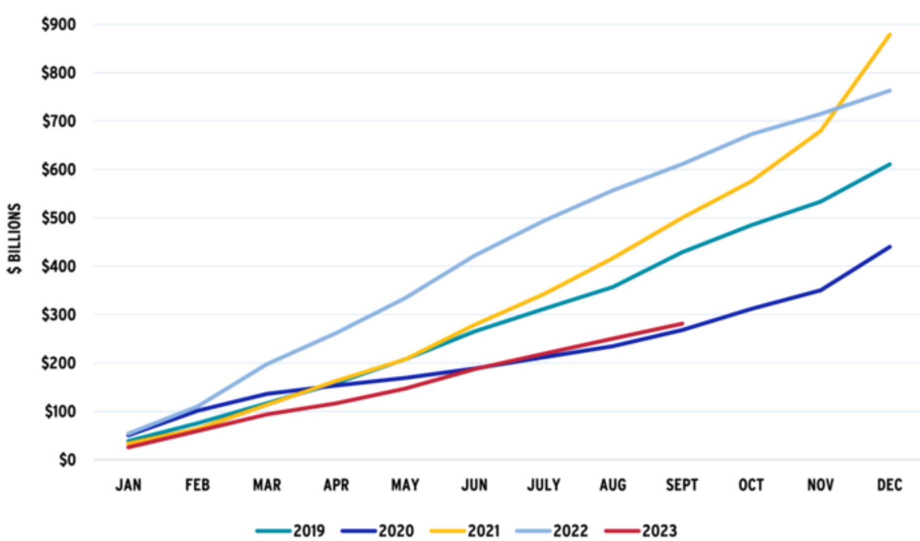
FIGURE 7: NET OPERATING INCOME (NOI), INDEX = 100 IN 2019 Q4



Source: NCREIF, as of 2023 Q3.

In addition to slowing fundamentals, the U.S. commercial property market also remains in a period of significant bid-ask spread, negative effective leverage and limited price visibility from transactions. On the latter point, the cumulative monthly transaction volume through September for 2023 remains far below the levels for 2021 and 2022 as well as pre-pandemic norms. More significantly, the total volume of property trades in 2023 is almost identical to the volume recorded in 2020 at the height of the COVID lockdown. In other words, the impact of higher interest rates and reduced credit availability on the normal functioning of the nation's property markets is equal to the negative impact of the pandemic itself.

FIGURE 8: CUMULATIVE MONTHLY CRE TRANSACTION VOLUME BY YEAR



Source: RCA/MSCI, as of 2023 Q3.

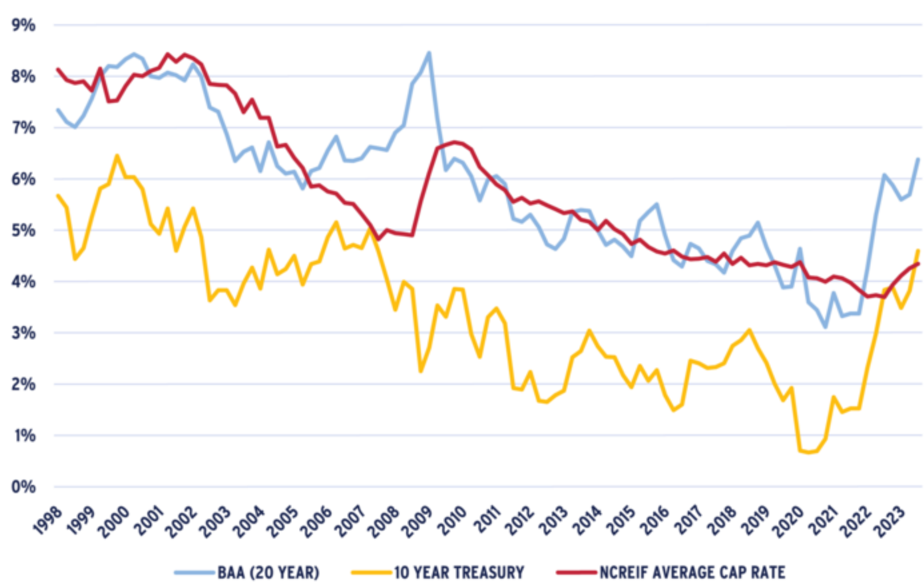
The greatest friction point in most property markets remains centered around loan maturity events as credit conditions remain broadly restrictive.

Conclusion

The U.S. economy has proven remarkably resilient in the face of rapidly rising interest rates. In large part, this reflects unprecedented fiscal and monetary policy stimulus in response to the pandemic. As this stimulus continues to fade, we expect U.S. economic growth to slow steadily going forward, possibly slowing enough to tip into recession. As such, we expect the Federal Reserve to begin to gradually ease credit conditions and lower policy interest rates during the second half of 2024 and through 2025. While heightened inflation triggered by this stimulus has receded, it remains stubbornly above policy target, suggesting short-term interest rates, though likely declining, will remain above the inflation rate for some time. Indeed, current FOMC forward guidance indicates the overnight borrowing rate falling to only 4% by the end of 2025.

As we have long noted, property markets are only as healthy as the tenants and economy that they serve. Slower economic growth will inevitably result in slower property absorption and rental rate growth and, consequently, slower overall growth in property income. While we do not expect the overall interest rate environment to significantly worsen from here, we do note that most direct private market commercial property pricing, as evidenced by institutional reporting norms such as NCREIF and MSCI, have not yet fully recalibrated to reflect borrowing costs and the yields on other competing asset classes. The degree of additional re-pricing will ultimately depend on where the yields on other asset classes settle. We do not profess to know where the convergence of yields will settle, but simple comparisons of historic relationships suggest that private market yields will need to rise further. As such, we expect continued downward pressure on most property values at least through the first half of 2024.

FIGURE 9: NCREIF PROPERTY INDEX OVERALL CAP RATE, BAA CORPORATE BOND YIELD AND 10-YEAR TREASURY YIELD



Source: NCREIF, Moody's Analytics, as of 2023 Q3.

Office

The overall tone for office has not changed over the past quarter. The sector has yet to find its footing in what will likely be an extended adjustment period for fundamentals and values.

Aggregate demand took another step down in the third quarter although not at the pace experienced through the first half of 2023. High frequency data such as key card swipes, public transportation usage and other metrics experienced only marginal increases heading into the Fall, suggesting that hybrid work arrangements have mostly reset and are unlikely to adjust further. This is consistent with remote-work surveys and statistical analysis conducted by the Census and Survey of Working Arrangements and Attitudes. The implication is that companies are in the process of adjusting their space needs to align with this “new normal.” A governor on the pace of this adjustment remains linked to contractual lease structures.

Leasing activity (both new and renewals) remained sluggish in the third quarter, running about 45% below pre-COVID levels and 25%-30% behind last year’s pace, a pattern we expect will continue at least over the near term. The number of tenants in the market rose slightly from last quarter, a token positive sign for landlords although many are looking at consolidations or downsizing, which is contributing to higher levels of sublease space. In aggregate, the average size of a new lease continued to drift lower in institutional assets to just under 5,000 square feet from over 6,000 sf a year ago. Anecdotally, demand remains skewed toward quality space with the advantage clearly in the hands of tenants as robust TI packages and other concessions are being used to win deals. Gross asking rents or face rents 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. Florida and Miami remain among the strongest markets in terms of rent growth and occupancy, while the San Francisco Bay Area, Greater Los Angeles, Seattle, Salt Lake City and Denver face more near-term challenges along with Austin, which is dealing with a robust supply pipeline and rising subleases.

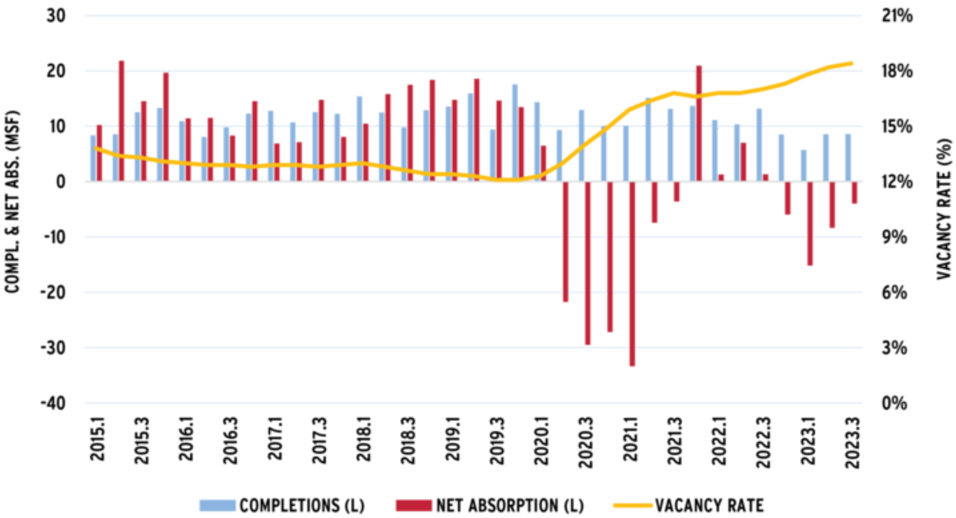
Office vacancies climbed 20 basis points (bps) to 18.4% in the third quarter from 18.2% last quarter, continuing the pattern of rising rates according to CBRE-EA. Sublease space accounted for 260 bps of the vacancy totals with availability rates sitting just shy of 25%. Atlanta, Dallas, Houston and San Francisco have crested 30% availability with Austin, Denver and Minneapolis getting close. Miami, Orlando and West Palm Beach are the only sizable markets with availability below 20%. Net absorption remained negative through the three quarters of 2023 but moderated to -4.0 million square feet (msf) in the third quarter bringing the year-to-date total to -27.5 msf after a hiatus in 2022. Completions were a contributing factor to higher vacancies, especially in downtown areas as new buildings delivered with availability. The remaining pipeline of projects under construction is low relative to historical standards at ~73 msf but will remain a factor in select markets like Austin, Boston, Dallas and Seattle. It is difficult to see more than just a select few projects breaking ground over the near term given the current environment.

Investor sentiment for office remains solidly in the pessimistic camp. Lenders and equity providers have taken a 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 and employer expectations. The impact on values is playing out much more quickly in the public markets and does not appear to be over, while the private equity market has been much slower to adjust. The low velocity of transactions, wide bid-ask spreads and lack of debt financing has muddied the water although we are starting to see more committed sellers place assets on the market. Current estimates of office value loss on the private side relative to previous peaks range as high as 40% with additional risk to the downside being noted. Through 2023 Q3, the NCREIF capital appreciation index reflected an aggregate decline of 23% from previous highs with the third quarter accounting for 500 bps of the decline.

Distress is becoming more apparent as banks and other lenders increase loan-loss reserves and the CMBS market is reporting a notable shift higher in the percentage of office loans in special servicing and delinquent. Correspondingly, financing is scarce and prohibitively expensive with the most likely source of refinancing coming from your existing lender. Seller financing has become the best avenue for existing owners to generate liquidity.

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 is setting up to be another difficult year for recognizing value loss across the sector, but it will take time to fully play out.

FIGURE 10: OFFICE MARKET FUNDAMENTALS



Source: CBRE-EA Sum of Markets

OFFICE	
VACANCY RATE	18.4%
12-MONTH HISTORICAL TREND	
VACANCY CHANGE	↑
RENT	↓
ABSORPTION	↓
COMPLETIONS	↓
CAP RATES	↑
TRANSACTION VOLUME	↓

Apartment

The upward trend in apartment vacancies continued into the third quarter of the year, edging up 10 basis points (bps) to 5.1% nationally. Vacancies have more than doubled from their post-COVID low of 2.4% in early 2022 and are now at the highest level since early 2017. In positive news, net absorption continues to improve. After recording three consecutive quarters of negative absorption from 2022 Q2 through 2022 Q4, demand was modestly positive in 2023 Q1 before increasing to nearly 79,000 units in 2023 Q2 and 82,000 units in 2023 Q3. The average quarterly net absorption over the previous two quarters now outpaces the 5- and 10-year historical pre-COVID averages.

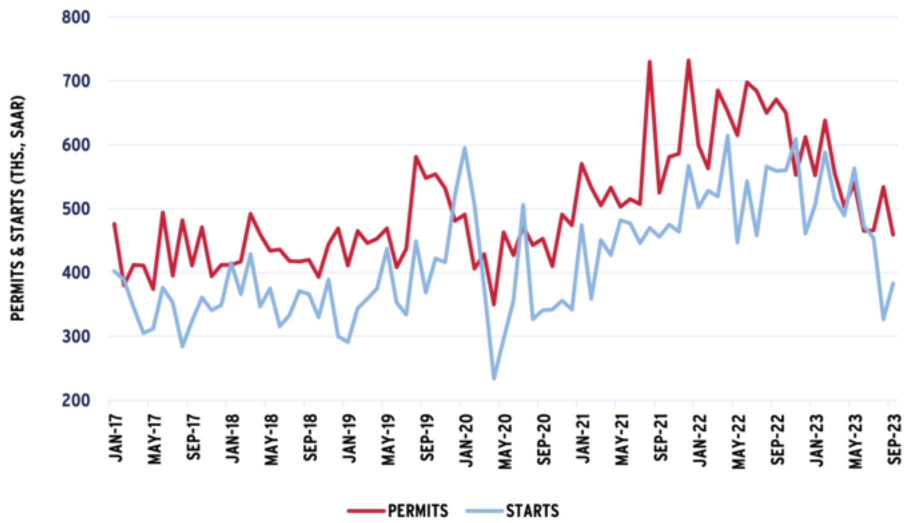
While demand is improving, new supply continues to weigh on the market. A record of nearly 115,000 units were completed in the quarter, more than 80% greater than the 5-year pre-COVID historical average and 2.5x the 10-year average. We fully expect supply to remain elevated in the near term as an additional 200,000 units are currently underway with anticipated delivery by year end; beyond 2023, an additional 600,000 units have broken ground. Overall, 2023 is expected to be the high-water mark for completions with 2024 remaining robust but just under the 2023 tally. In aggregate, the 2022 to 2024 delivery total is expected to surpass 1.2 million units, roughly equal to the 5-year pre-COVID sum.

As mentioned in previous reports, construction is overwhelmingly focused on the Sunbelt markets. Including projects delivered year to date and expected deliveries by year end, Colorado Springs, Salt Lake City and Austin are projected to have an increase in inventory of over 9%. Orlando, Nashville, Jacksonville, Charlotte and Raleigh follow with 2023 completions expected to tally between 5% and 9% of stock. The only major markets outside of the Sunbelt with elevated construction activity are Denver (4.4%), Minneapolis (4.4%), Columbus (3.9%), Seattle (3.8%) and Indianapolis (3.0%). In comparison, most major gateway markets (Boston, Chicago, Los Angeles, New York, San Francisco and Washington, DC) have less than 2.0% of stock expected to be completed in 2023.

Given the limited supply in the gateway markets, vacancies are significantly more stable relative to the Sunbelt markets. Nationally, vacancy is 270 bps above the post-COVID low; in contrast, New York, San Francisco, San Jose, Boston and Chicago have reported an increase in availability ranging from 120 bps to 180 bps. Further, Orange County, Washington, DC, Seattle, San Diego and Los Angeles have experienced an increase in vacancy below the national average. At the other end of the spectrum, San Antonio, Las Vegas, Phoenix, Jacksonville, Atlanta, Tampa, Salt Lake City and Fort Worth all experienced an increase in availability of between 400 and 500 bps; Austin, Riverside, Dallas, West Palm Beach, Orlando, Fort Lauderdale and Raleigh all experienced an increase in vacancy between 350 and 400 bps.

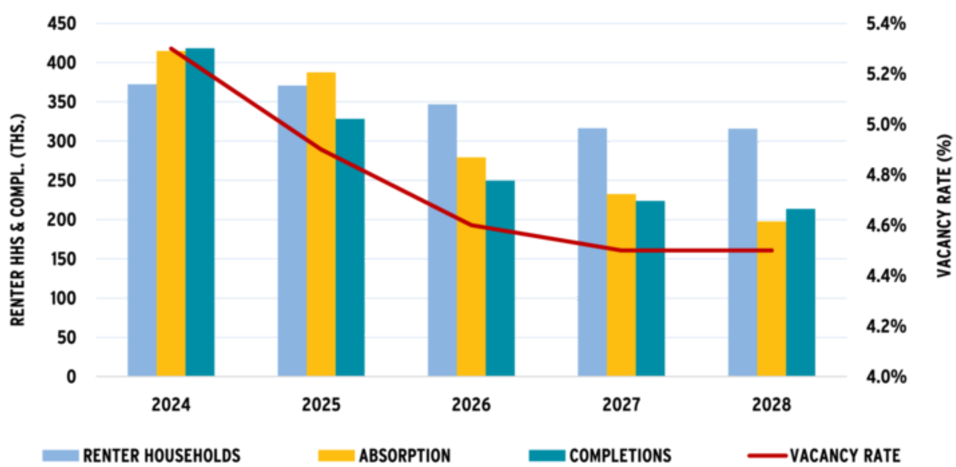
Going forward, vacancies in the Sunbelt are expected to rise further. The share of supply underway in many of the aforementioned markets ranges from 2 to 4 years, based on the 5-year pre-COVID historical average. In comparison, Washington, DC, Seattle, Boston, Orange County and Chicago have less than 1.5 years of supply underway. Longer term, in 2025 and beyond, supply is expected to moderate across the country as higher interest rates, moderating fundamentals and falling values mean development will no longer pencil out. Indeed, both multifamily permits and construction starts of 5+ units are 37% off peak and are more closely aligned with their 5-year pre-COVID historical averages. Further, the increase in the apartment stock is expected to fall short of demand based on projections from CBRE-EA, CoStar, RealPage and household formation expectations from Moody's analytics. Overall, vacancies are expected to decline in the coming years. Further, based on the projected growth in renter households, vacancies may decline more than the CBRE-EA expectations presented below. Overall, we expect the softness in rents currently being experienced in many markets will wane with the current concessionary environment burning off and allowing rents to grow past their prior peak once again.

FIGURE 11: MULTIFAMILY DEVELOPMENT SHOULD SLOW BASED ON PERMITTING AND STARTS



Source: U.S. Census Bureau

FIGURE 12: PROJECTED APARTMENT MARKET FUNDAMENTALS



Source: CBRE-EA, Moody's Analytics, as of 2023 Q3.

RESIDENTIAL	
VACANCY RATE	5.1%
12-MONTH HISTORICAL TREND	
VACANCY CHANGE	↑
RENT	↓
ABSORPTION	↑
COMPLETIONS	↑
CAP RATES	↑
TRANSACTION VOLUME	↓

Industrial

Industrial market conditions continued to soften in the third quarter with availability increasing 50 basis points (bps) to 6.4%. Availability is at its highest point since early 2021 and is up 190 bps from the mid-2022 nadir of 4.6%. Still, availability remains 130 bps below the five-year historical average leading up to the pandemic and is 400 bps below the long-term average from 2000 to 2019.

Roughly three-quarters of the 75 markets tracked by CBRE-EA reported an increase in availability in the quarter, ranging from 10 bps to nearly 300 bps. The increase in availability was greatest in smaller/secondary Sunbelt markets including Tucson, Savannah, Greenville, Memphis, El Paso, Las Vegas and Phoenix. Among major markets, Fort Worth, Atlanta and Seattle experienced an increase in availability of 100 bps or larger, while Riverside, Central and Northern New Jersey, Los Angeles and Chicago saw availability increase between 50 bps and 90 bps. On a year-over-year basis, Savannah experienced the largest gain with availability increasing four-fold, rising from only 2.0% a year ago to 8.2% today. Likewise, Riverside saw availability more than triple YOY, increasing from 2.3% to 7.3%.

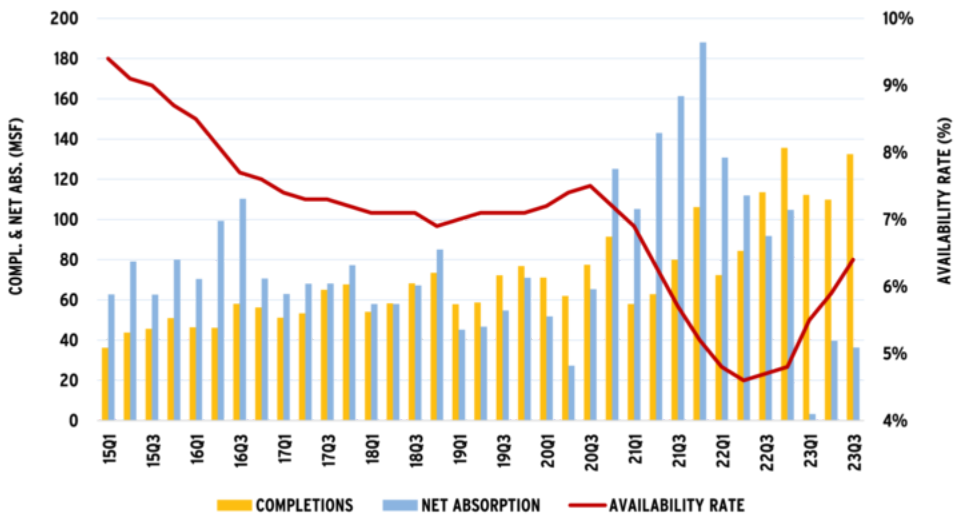
Overall, only a handful of markets, most being inconsequential, saw a decline in availability. Indeed, Detroit was the only market of significance and size that experienced an improvement in fundamentals. Availability in Detroit declined to 4.6% from 5.8% a year ago; this was the fourth consecutive quarter in which availability in the metro area was below 5%, a historically low level for the market. While availability has increased broadly over the previous four quarters, all markets, with the exception of San Francisco, Denver and Manhattan, still maintain availability well below the 10-year pre-COVID historical average. Further, an overwhelming majority of markets also currently have an availability rate below the 5-year pre-COVID average. Of note, however, are the powerhouse West Coast markets (Seattle, Riverside, Oakland, San Diego, Los Angeles and Orange County) where availability is currently at or above the 5-year pre-COVID average.

The continued upward trend in availability is the result of robust construction activity and softer demand. On the supply side, roughly 133 million square feet (msf) of space was completed in the quarter, the second-highest quarterly delivery of space, behind 136 msf in 2022 Q4. The third quarter also marked the fifth consecutive quarter with more than 100 msf completed; previously completions topped 100 msf only once (2021 Q4). An additional 280 msf is currently underway with an anticipated completion date before year end; even if some projects are delayed, 2023 will undoubtedly set a record for deliveries.

Meanwhile, demand has downshifted from the post-COVID boom with a modest 36.3 msf being absorbed nationally on a net basis in the quarter. This follows the absorption of nearly 40 msf in the second quarter and a scant 3.3 msf in the first quarter. Year to date, just under 80 msf of space has been absorbed, putting this year on pace for the weakest absorption tally since the 2011. Regionally, demand was negative in 23 markets, including Los Angeles, Columbus, San Diego, Atlanta, Northern New Jersey, Orange County and Allentown. Houston reported the largest quarterly absorption (7 msf), followed by Chicago, Savannah, Denver, Cleveland, Phoenix and Dallas. Year to date, nearly 20 msf has been returned to the market in Southern California. The impact of the labor strike at the Ports of Los Angeles and Long Beach was notable as trade flows shifted to the East Coast. With a new labor agreement with the International Longshore and Warehouse Union, this impact is waning, and cargo flows are coming back to the West Coast, particularly given the drought conditions in the Panama Canal and the resulting draft limitations. Greater labor stability at the ports should bode well for the Southern California industrial market going forward.

In addition to the labor strife, much of the slowdown in demand is a result of tenants pulling back on inventories due to the economic uncertainty and projected downshift in the growth for 2024. The consumer outlook is cloudy at best as the pressure of substantial credit card balances, higher interest rates, the resumption of student loan repayments and higher gas prices are expected to impact spending in the coming quarters. Additionally, the upward shift in interest rates is decreasing mobility and weakening home sales, another demand driver for industrial assets. Despite the recent slowdown or normalization in the industrial market, the long-term demand trends for the sector are decidedly positive. Nearshoring and onshoring of manufacturing should continue to drive demand, particularly in the Midwest and Sunbelt markets where semiconductor and EV battery manufacturing facilities are already under construction, which will spur additional demand from suppliers and distributors.

FIGURE 13: INDUSTRIAL MARKET FUNDAMENTALS CONTINUE TO SOFTEN



Source: CBRE-EA

FIGURE 14: CURRENT AVAILABILITY VS. HISTORICAL AVERAGE

Source: CBRE-EA

INDUSTRIAL	
AVAILABILITY RATE	6.4%
12-MONTH HISTORICAL TREND	
AVAILABILITY CHANGE	↑
RENT	↑
ABSORPTION	↓
COMPLETIONS	↑
CAP RATES	↑
TRANSACTION VOLUME	↓

Retail

While office, industrial and apartment fundamentals continue to slip, the retail sector is experiencing a reversal of fortunes from the previous few years. Availability rates in the sector continue to decline and dropped to a new record low of 4.8% in 2023 Q3, down 10 basis points (bps) quarter over quarter (QOQ) and 20 bps year over year (YOY). Availability is now 300 bps below the long-term historical average from 2005 through 2019 and is 180 bps below the COVID high. Performance across the retail sector has varied with the neighborhood and community shopping center (NCSC) segment of the market exhibiting the greatest strength, followed by the power center (PC) segment of the market. The lifestyle and mall (L&M) subsector has struggled to a greater extent relative to the two other subsectors; however, the subsector is stabilizing.

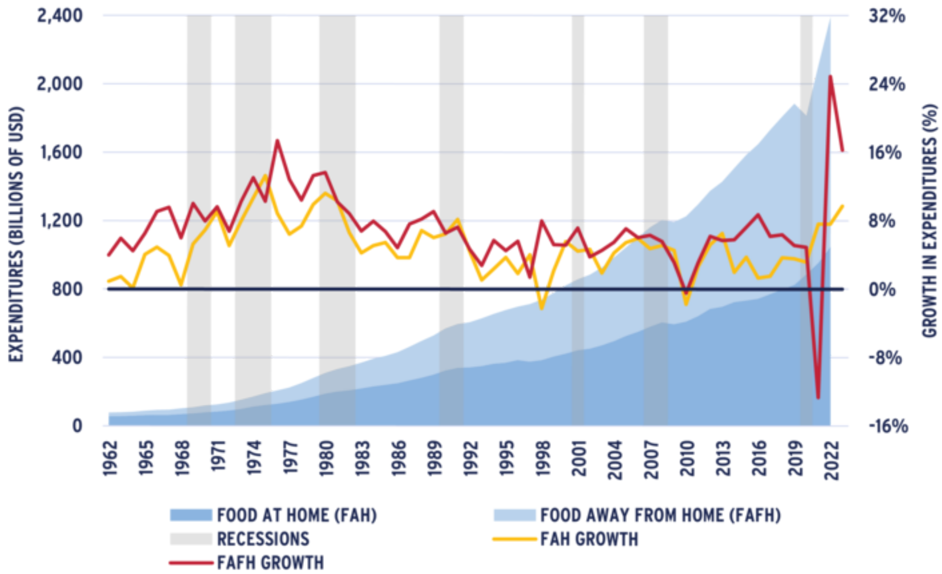
Within the NCSC segment of the market, which accounts for 38% of retail space tracked by CBRE-EA, availability declined an additional 10 bps to 6.6%. Like the broader retail market, the 2023 Q3 availability rate marked a new record low and stood nearly 400 bps below the historical average of 10.4%. Further, availability has now declined for 11 consecutive quarters and is down 270 bps from a COVID high of 9.3%. Meanwhile, the PC segment of the market recorded a third-quarter availability rate of 5.3%, flat QOQ and only 10 bps above the record low set in 2022 Q4 and 2023 Q1. Availability in the PC segment of the market has improved 210 bps from a cyclical high of 7.4% in early 2021 and is 120 bps below the long-term average. While the NCSC and PC subsectors have availability rates at or near record lows, availability in the L&M subsector, at 6.0% in the quarter, is roughly 120 bps above the historical average. That said, availability in the sector has stabilized, lingering in the 6.0% to 6.2% range since the beginning of 2022, down 90 bps from the COVID high for the sector.

Demand has moderated as of late; however, this is likely related to a lack of available space rather than a lack of willingness to expand and open new stores among retailers. Indeed, demand from discount stores, fast casual/quick service restaurants and grocers remains strong. Within the discount and off-priced segment of the market, Five Below, Dollar General (990 stores), Family Dollar/Dollar Tree (650 stores), TJX brands (150), Burlington (70-80 stores) and Ross (97 stores) all have made progress on their aggressive 2023-expansion plans. Meanwhile, Macy's plans to open more of its off-priced concept, Macy's Backstage, within its existing mall stores. The store-within-the-store will occupy between 11,0000 and 23,000 sf of the typical 150,000 to 200,000 sf anchor box. The company is using its off-priced concept to drive traffic to its mall locations by attracting customers who enjoy bargain hunting.

While Macy's attempts to drive traffic to mall locations that it deems winners, the company has closed hundreds of stores in weaker locations and is instead opening new smaller concept stores. Macy's plans to open 30 smaller stores in strip malls over the next two years. Macy's has been testing their smaller store concept for the previous four years, locating them next to big box stores, grocers and off-price retailers like T.J. Maxx and Marshalls to provide more convenience for consumers and to locate in places with greater foot traffic relative to the malls. Other retailers are also looking to expand by opening smaller format stores. Kohl's plans to open 100 new smaller format stores while Sephora will open 850 smaller shops within Kohl's locations. Target, DSW and Barnes and Noble, who have been opening smaller format stores for several years, are all continuing to add stores with smaller square footage and a more streamlined and targeted merchandise mix.

Within the food-related segment of the market, grocers and quick service restaurants remain in expansion mode. Walmart, Whole Foods, Costco, Aldi, Sprouts, Wegmans, H Mart, H-E-B, Publix and Trader Joe's all plan to add to store count. While Starbucks, Crumbl Cookies, Yum Brands, and Restaurant Brands International (owner of BK, Tim Hortons, Popeyes, and Firehouse Subs) have all signed for dozens of new locations across the country since the start of the year. Spending on food away from home rose to a record level in 2022 and has grown at an average annual rate of 6.3% over the past 10 years, outpacing the average annual increase in spending on food at home by 220 bps.

FIGURE 15: ROBUST GROWTH IN SPENDING ON FOOD AWAY FROM HOME IS FUELING QUICK SERVICE/FAST CASUAL RESTAURANT OPENINGS



Source: USDA

On the supply side, construction activity remains muted with the rolling four-quarter completion rate lingering in the narrow 0.3% to 0.4% range for the previous two years. Construction activity is roughly half the level leading up to the pandemic and the completion rate has remained below 1.0% since early 2010. Construction has been equally low across all subtypes in recent years. Going forward, the current pipeline of projects underway remains exceptionally low while pre-leasing ranges from 67.5 % among PC projects, 68.4% among NCSC projects and 72.4% within the L&M segment of the market. With still solid demand among retailers and limited supply, the market should remain tight, allowing landlords to push rents. Overall, the retail sector is poised to have the best fundamentals in the near- term among the four core property types; however, headwinds to consumer spending (higher interest rates, student debt repayment, high credit card debt, etc.) may weigh on the market. Still, a lack of construction should help temper the impact of more moderate consumer spending going forward.

RETAIL	N&C SHOPPING CENTER	LIFESTYLE & MALL	POWER CENTER
AVAILABILITY RATE	6.6%	6.0%	5.3%
12-MONTH HISTORICAL TREND			
AVAILABILITY CHANGE	↓	↔	↔
RENT	↑	↑	↑
ABSORPTION	↓	↑	↓
COMPLETIONS	↓	↓	↔
CAP RATES	↑	↑	↑
TRANSACTION VOLUME	↓	↓	↓