



Real Estate Committee
"Commercial Real Estate Economic Outlook"
January 8, 2024 – 12:30-1:45 ET (11:30-12:45 CT)

CLE Materials and Speaker Biographies

Moderators:

Katharine Clark, Thompson Coburn (ABI Real Estate Committee Co-Chair)
David Levy, Keen-Summit Capital Partners and Summit Investment Management and
(ABI Real Estate Committee, Special Projects)

Panelist:

Brandon Svec, National Director of Analytics CoStar Group

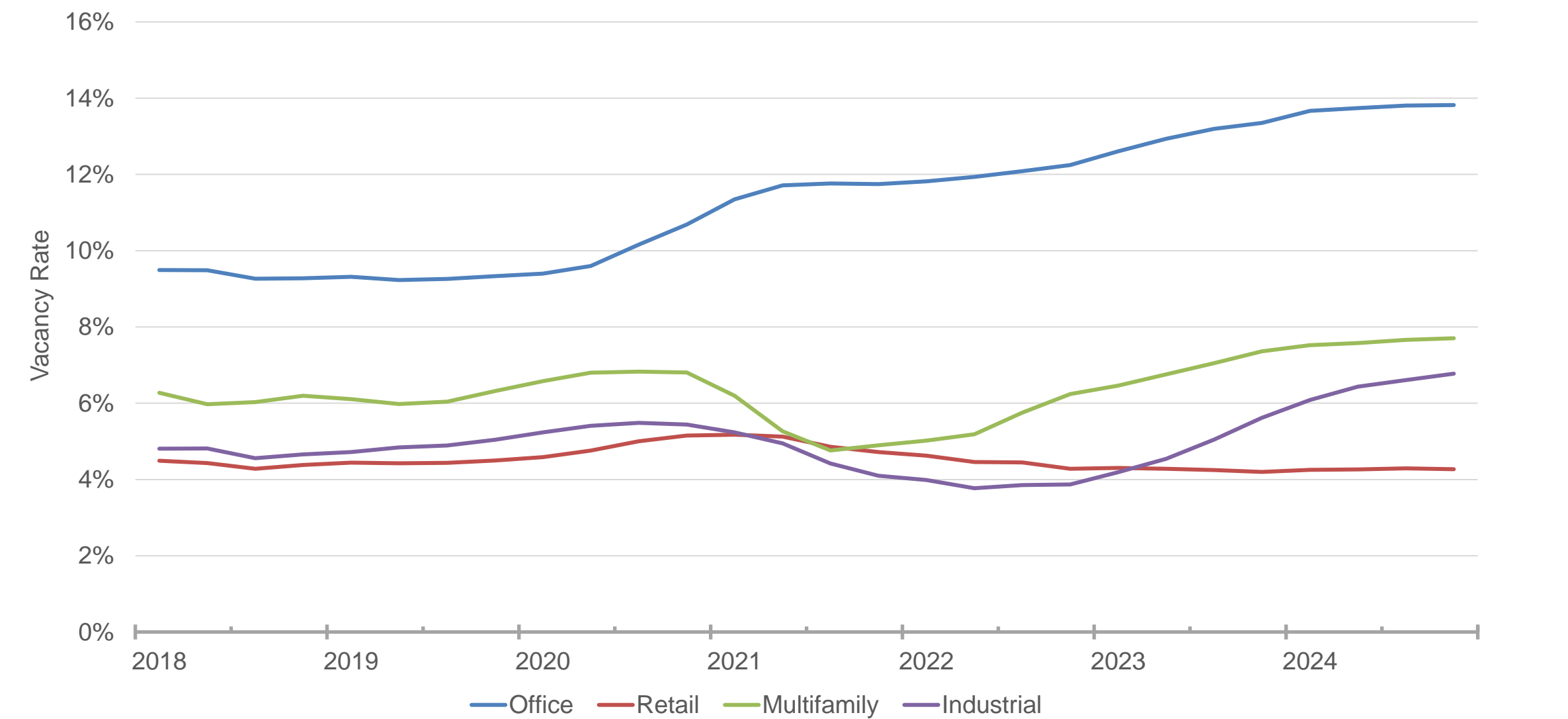
American Bankruptcy Institute

Commercial Real Estate Economic Outlook

January 2025



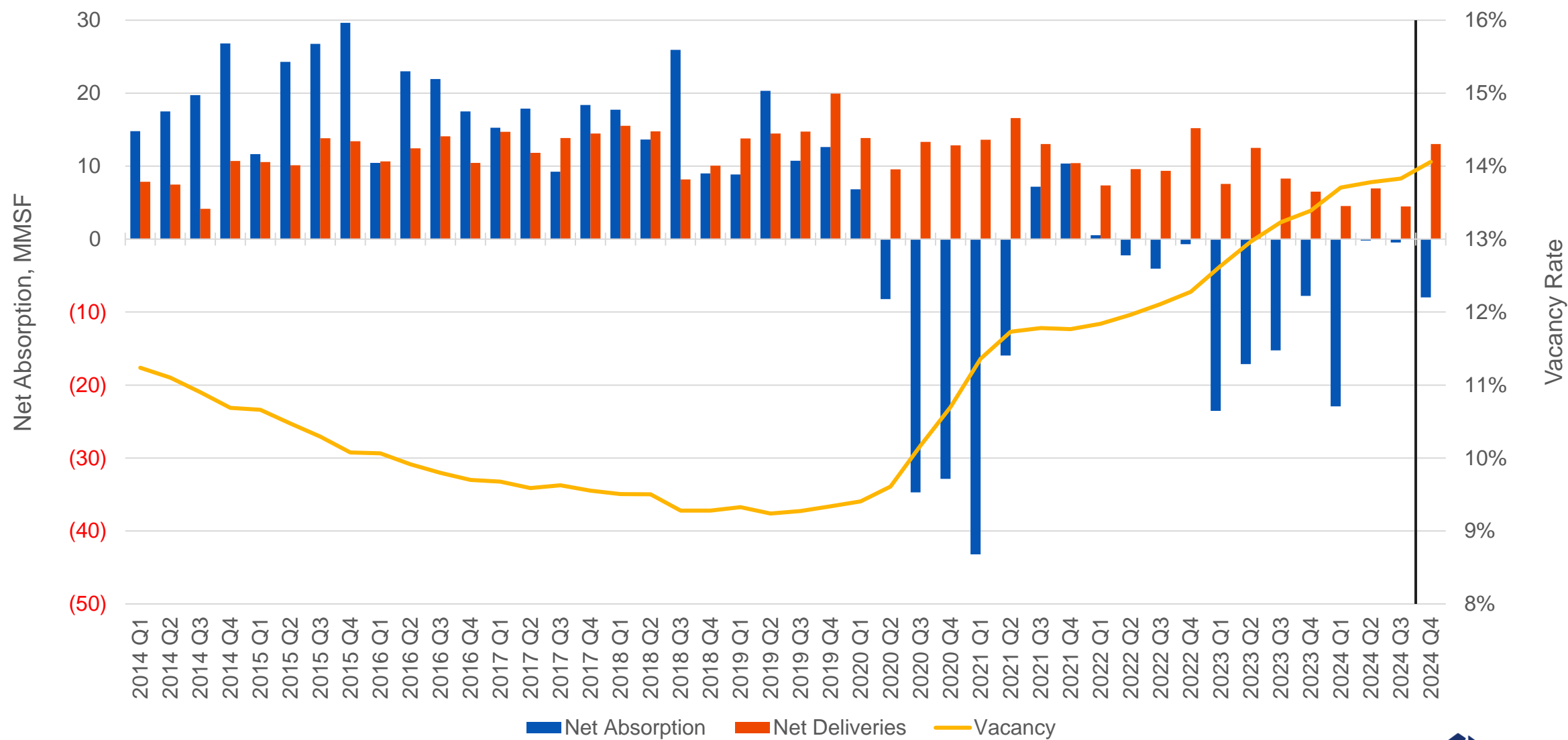
Fundamental balance differs across major property sectors





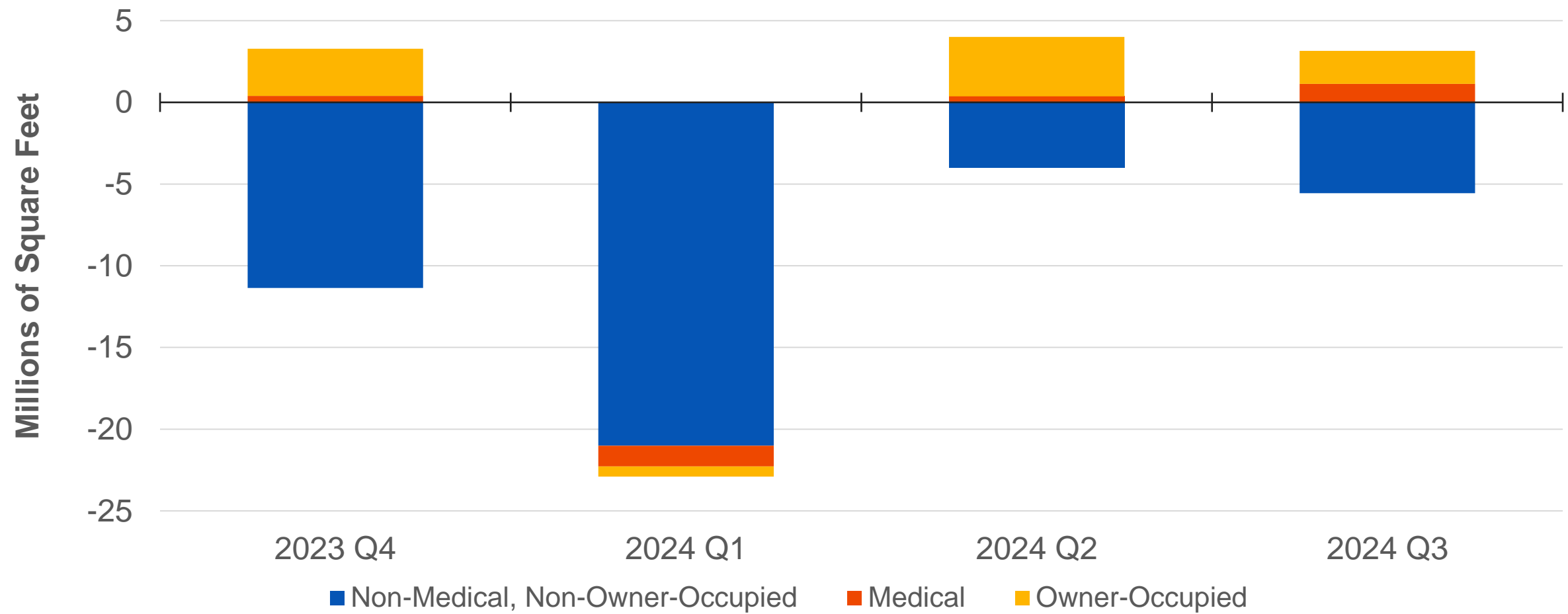
Office Sector Review

Demand losses have (finally) slowed in the office market



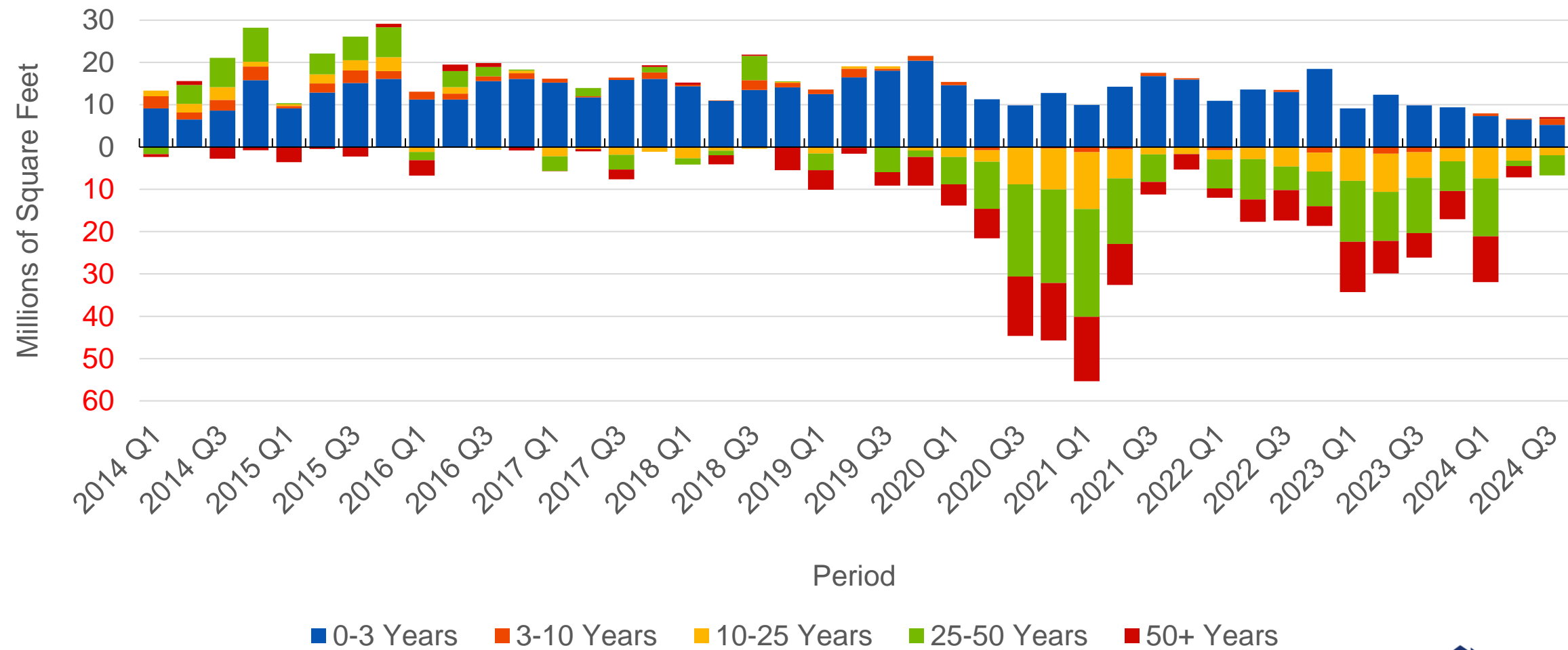
But demand remains negative in traditional office buildings

Net Absorption by Building Subtype



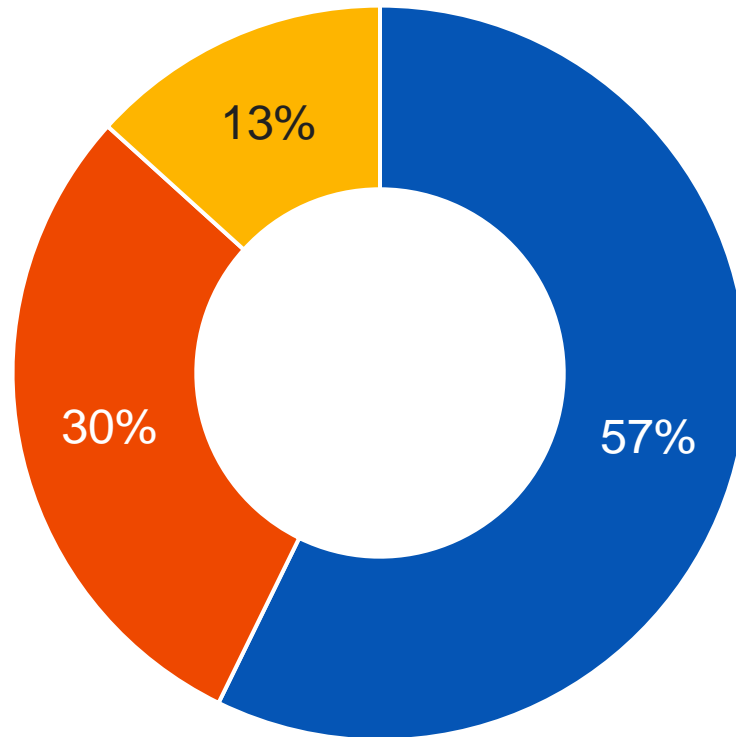
Buildings older than 10 years are still losing occupancy

Net Absorption by Building Age



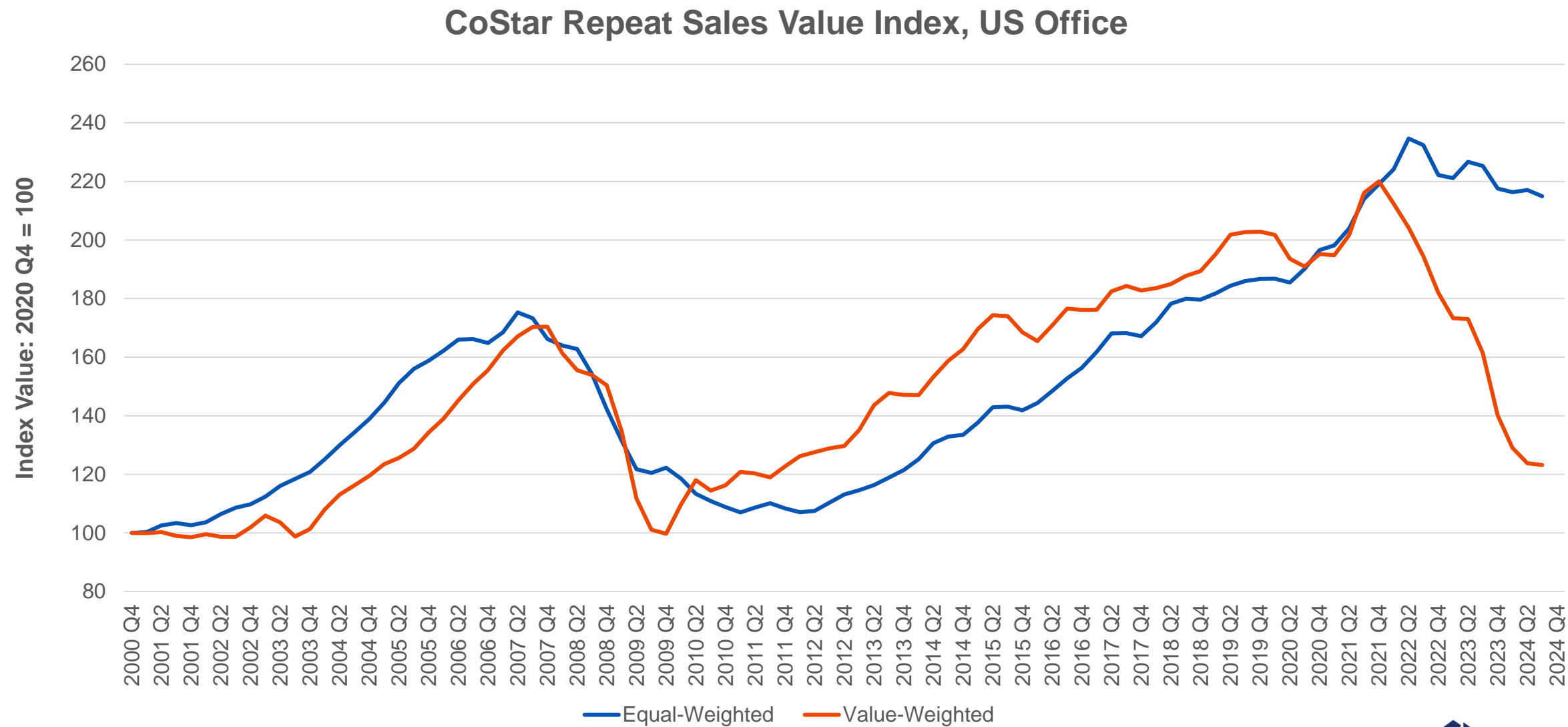
Pre-pandemic leases are still rolling over

Expiration Breakdown of Square Feet Leased as of April 2020



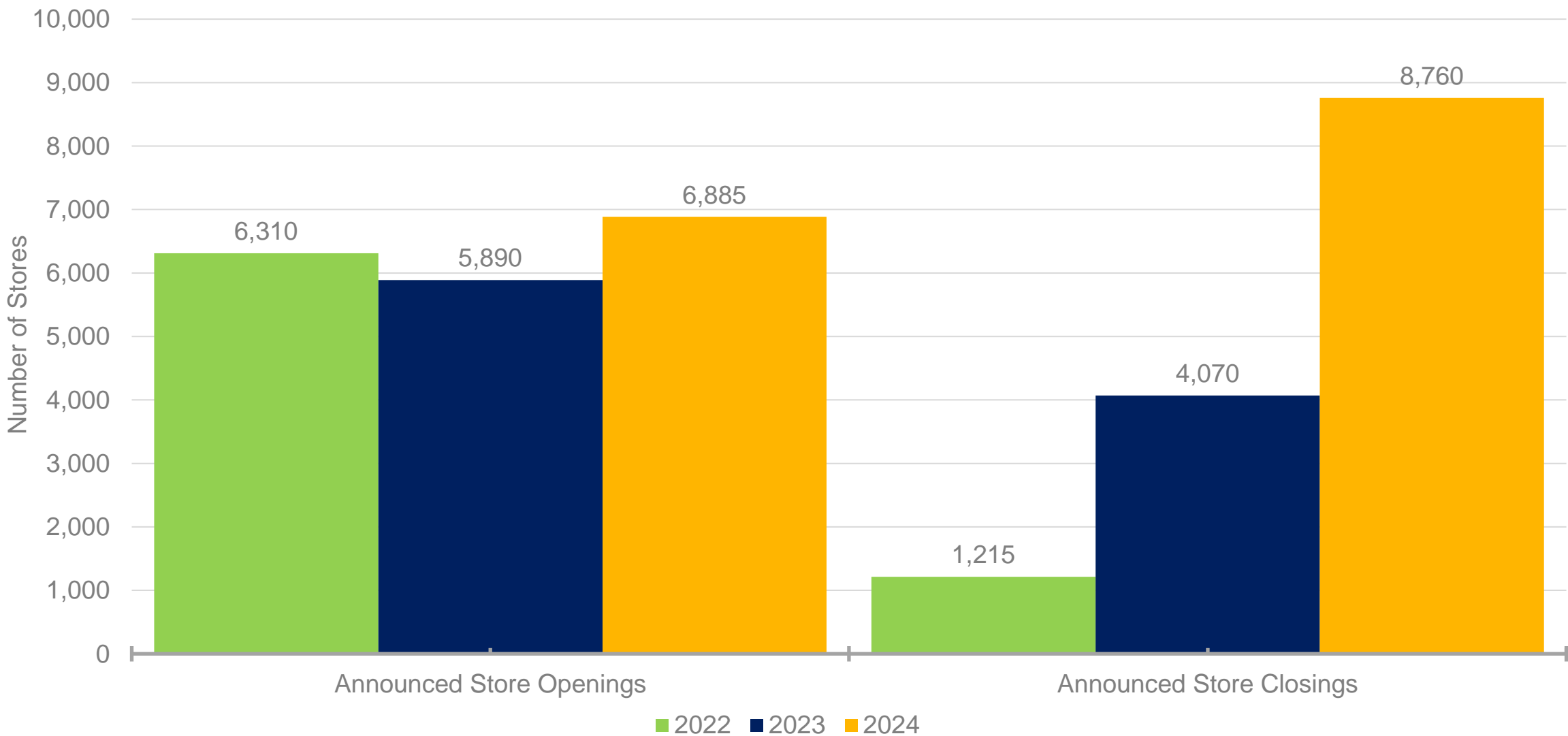
■ Expired as of 2024 Q3 ■ Expiring Before 2030 ■ Expiring 2030 or Later

Investment-grade office values are off 45%



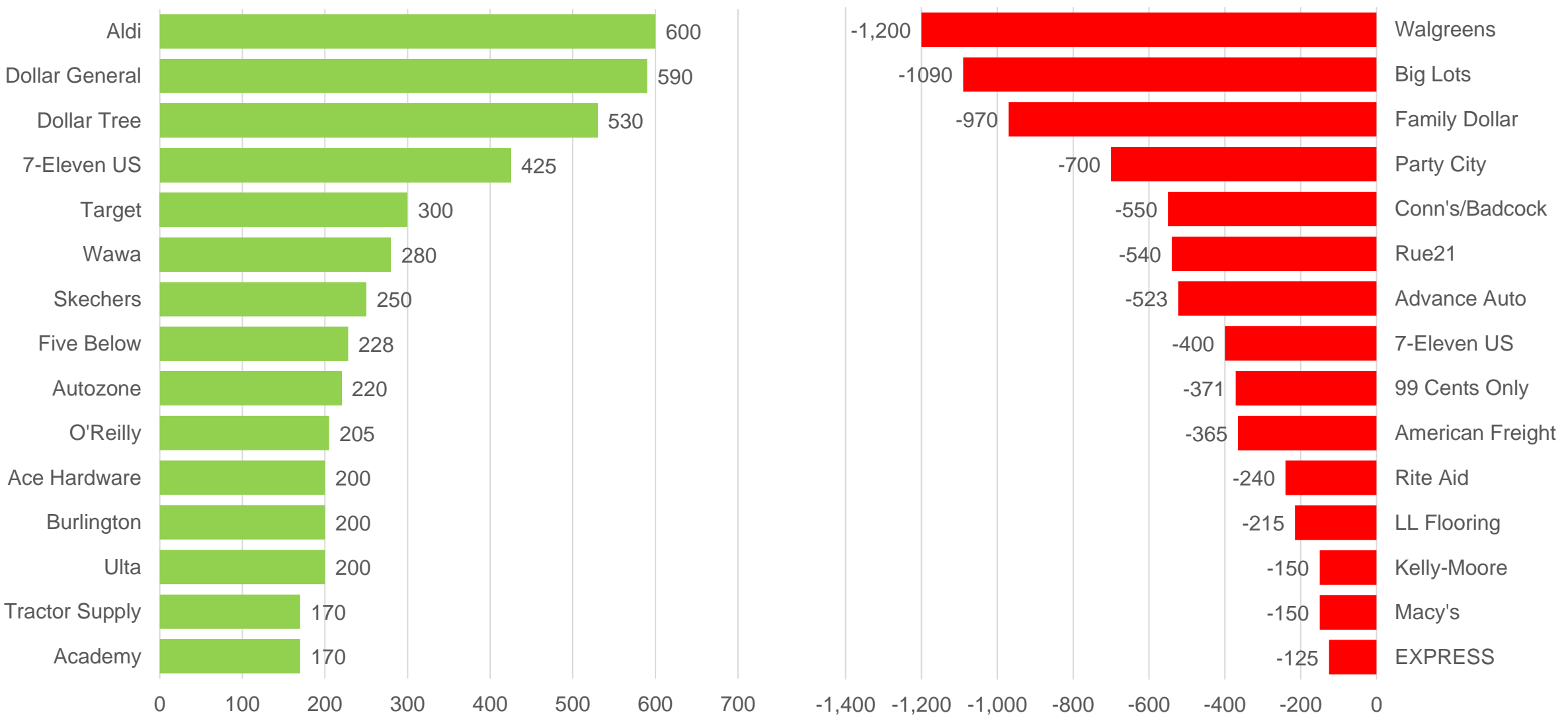
Retail Sector Review

Announced store closures hit highest level since 2020



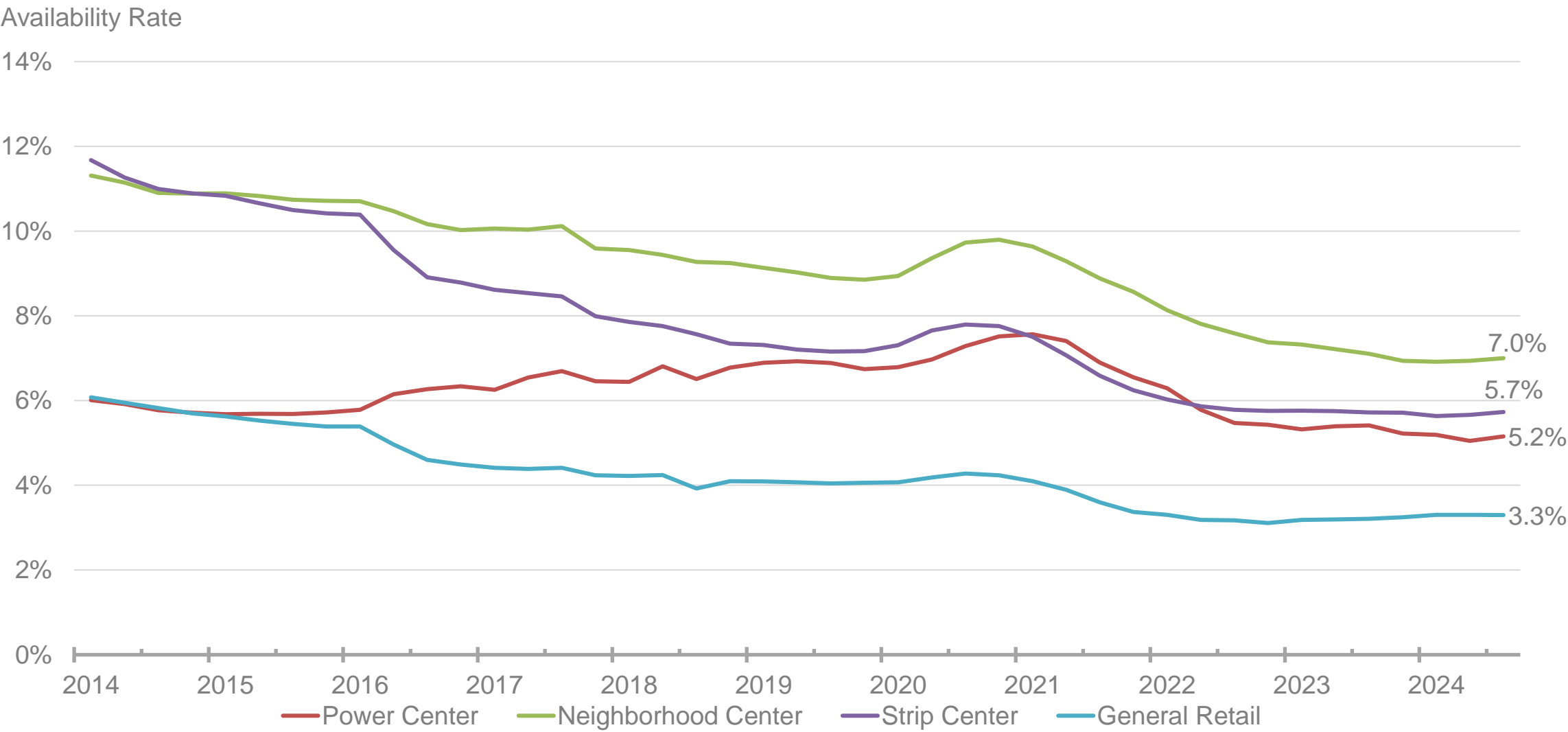
Source: Daily on Retail
Note: Based upon openings and closing plans announced during the period regardless of the store opening date

Driven primarily by Walgreens, FD and a wave of bankruptcies

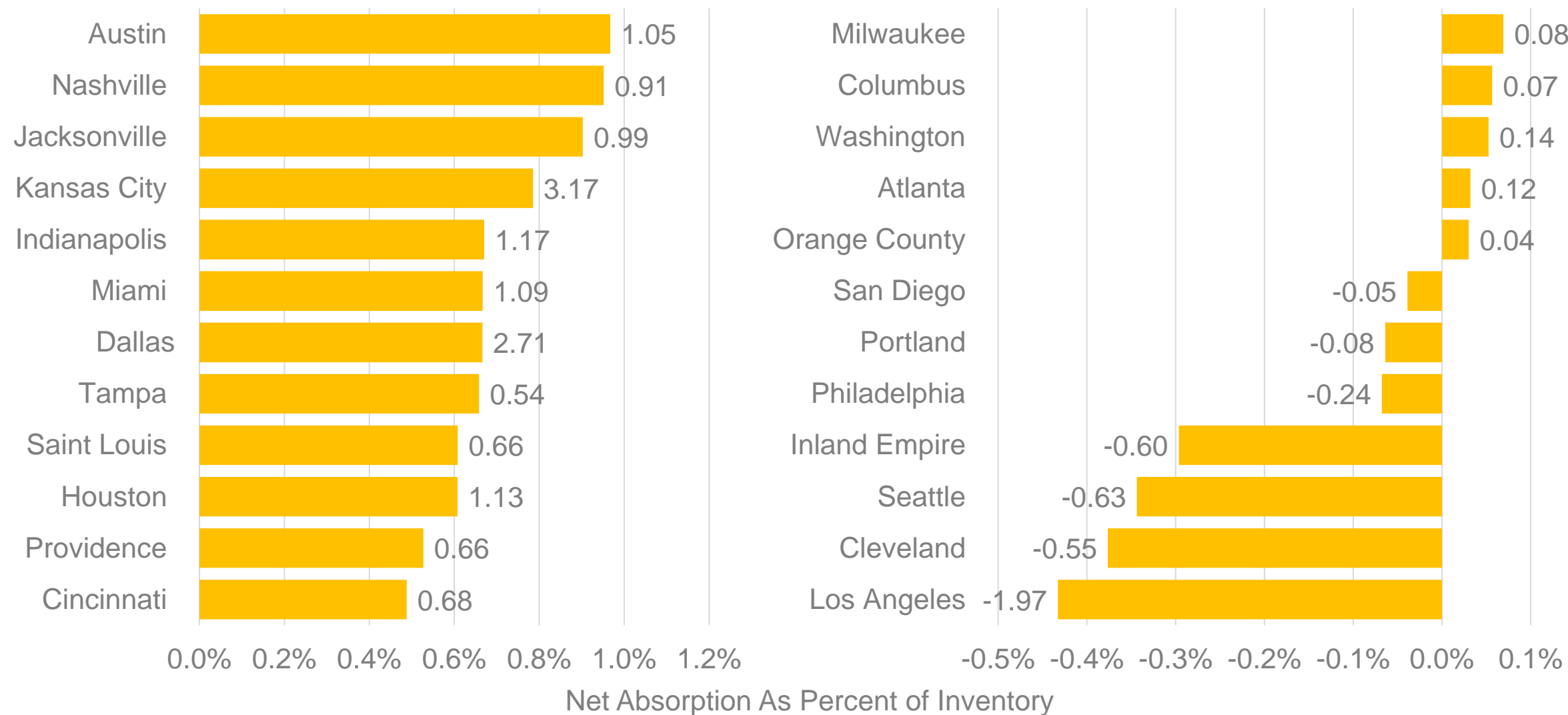


Source: Daily on Retail
Note: Based upon openings and closing plans announced during the period regardless of the store opening or closing date

But this is not the 2000s and the retail market is under, not over-supplied

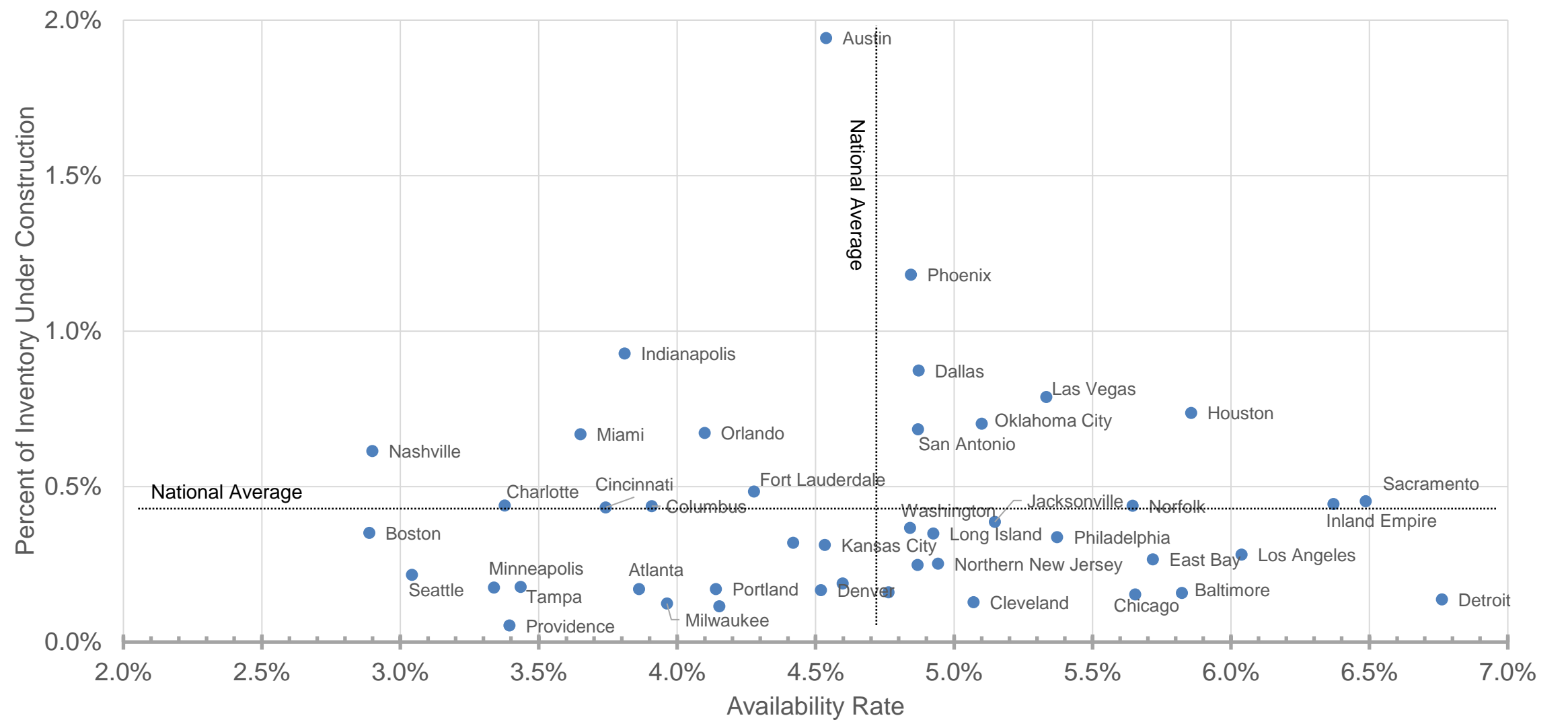


The rising tide of retail demand is no longer benefiting all markets

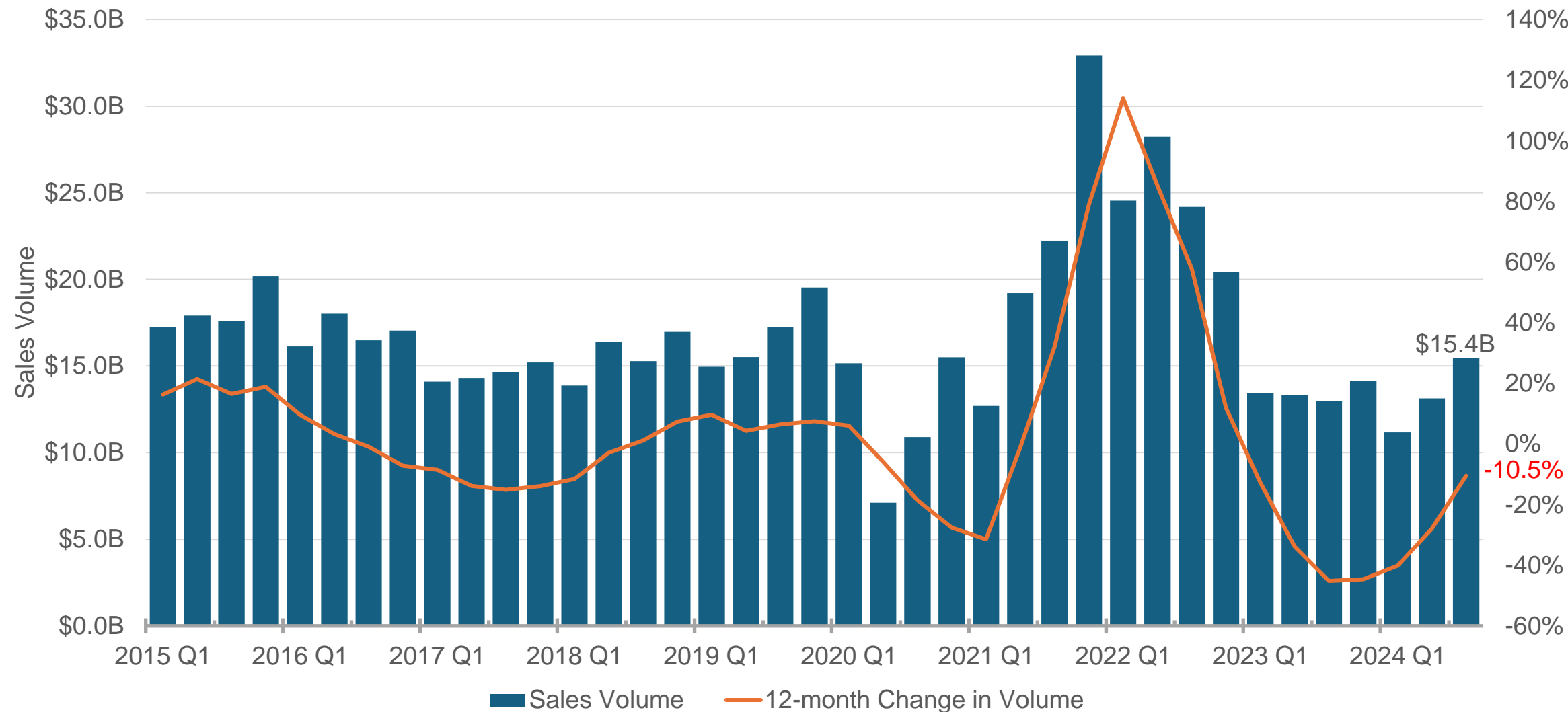


Source: CoStar
Note: Labels show trailing four-quarter absorption in millions of SF

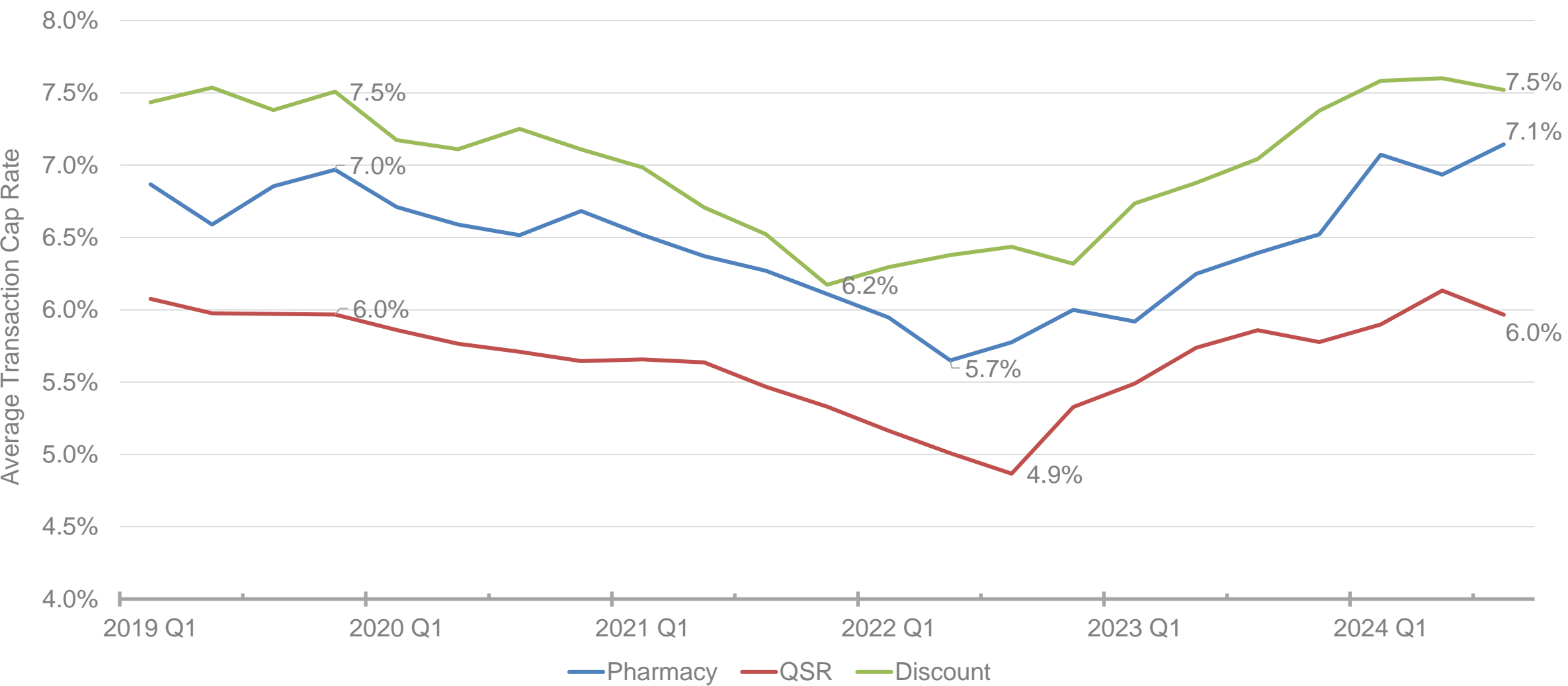
Retail supply generally meeting demand where it is



Retail sales volume leveling off as rate path becomes more clear



Retail net lease cap rates back to 2019 levels

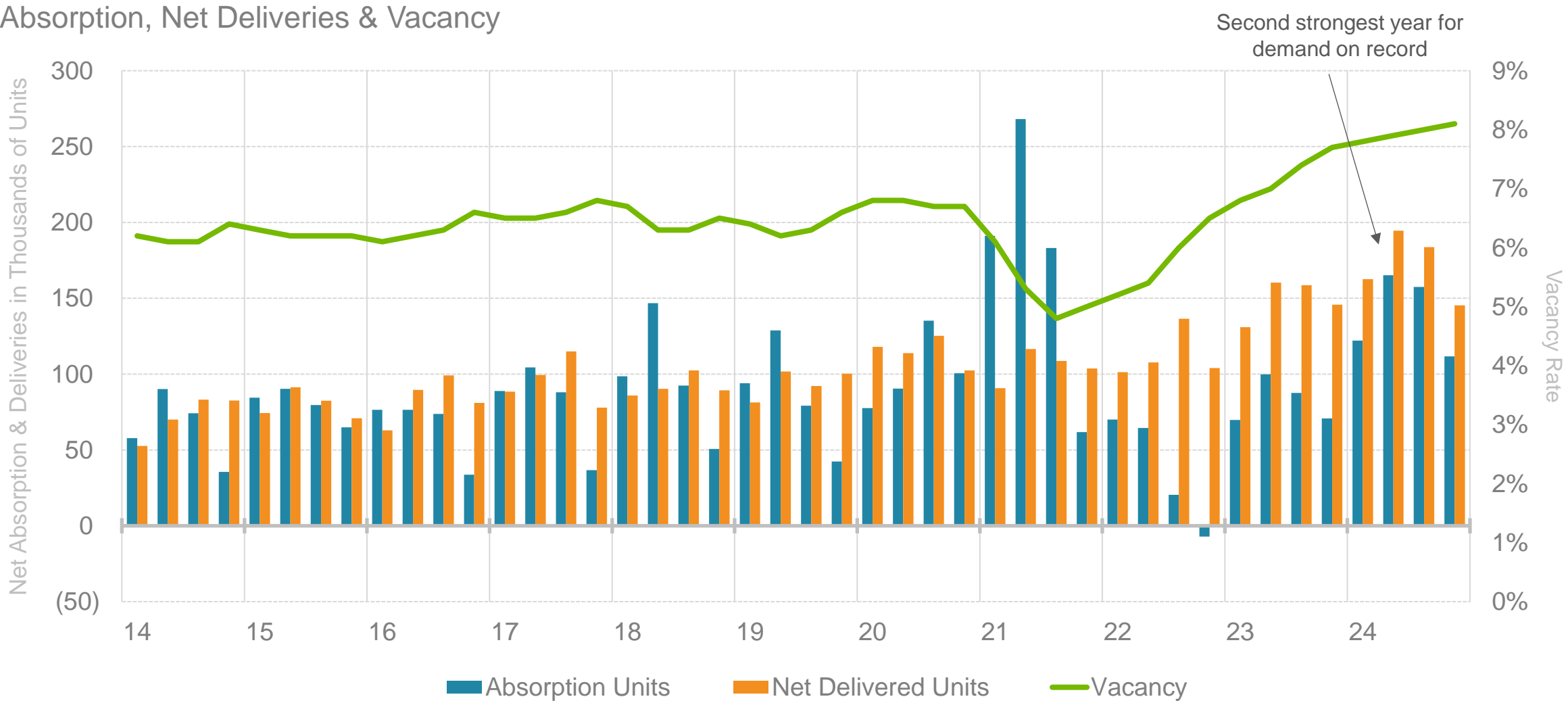




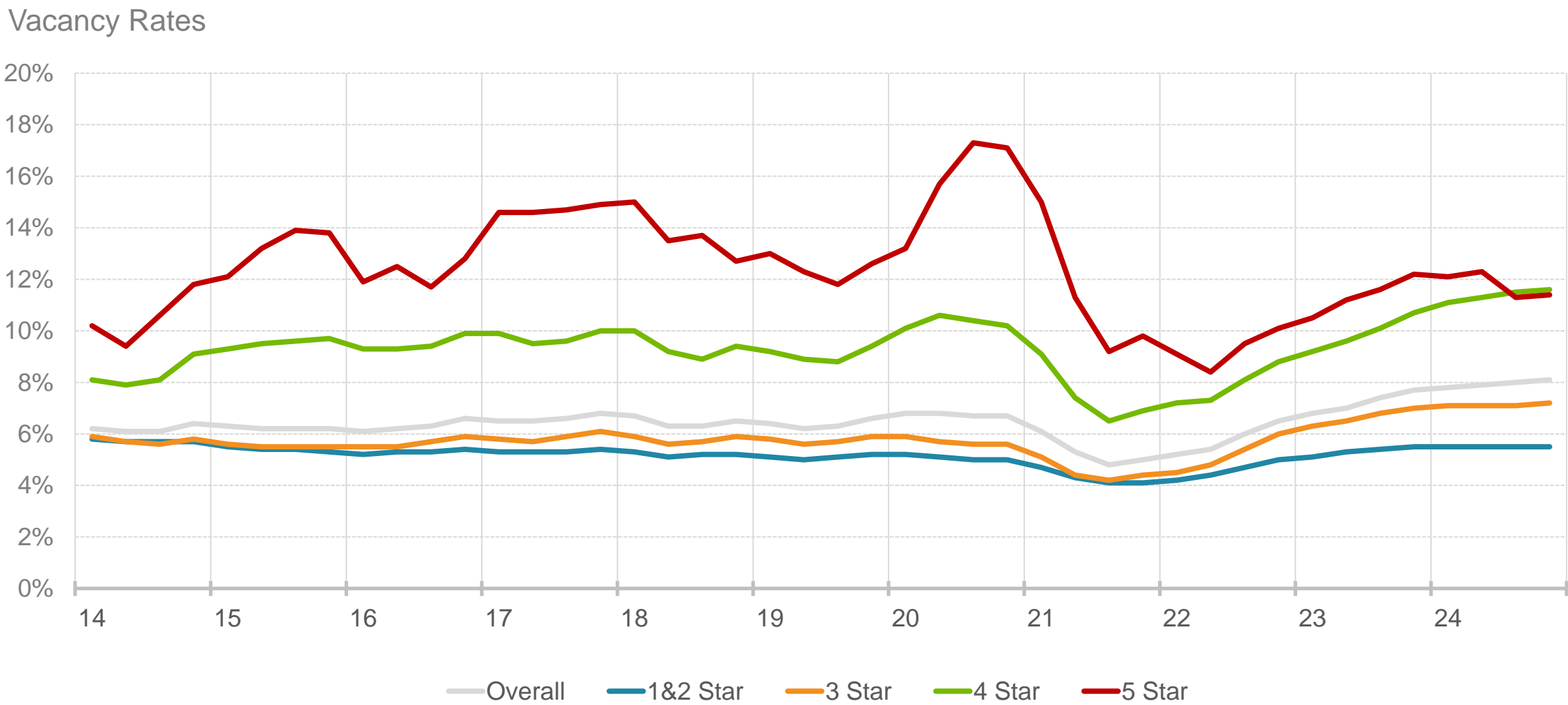
Multifamily Sector Review

Apartment Supply continues to outstrip demand

Absorption, Net Deliveries & Vacancy

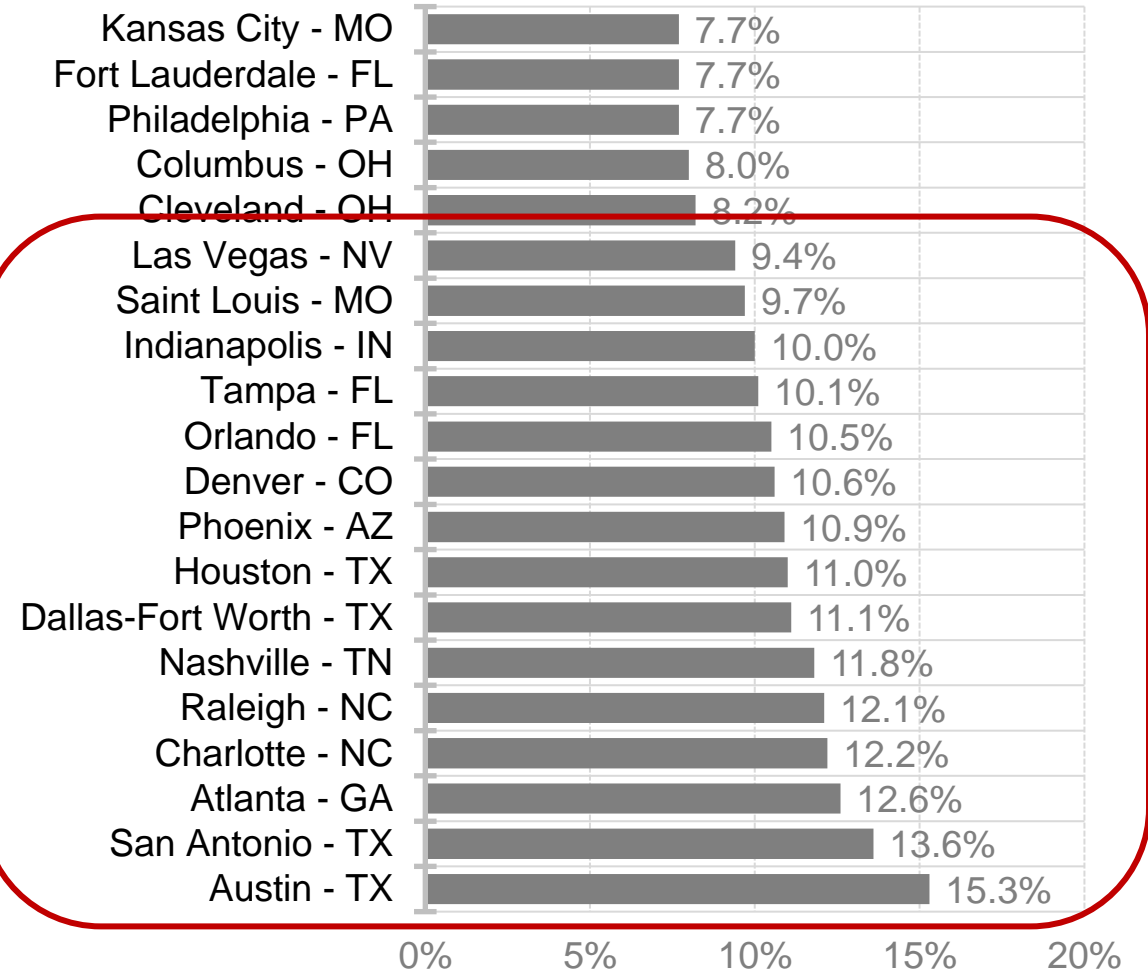
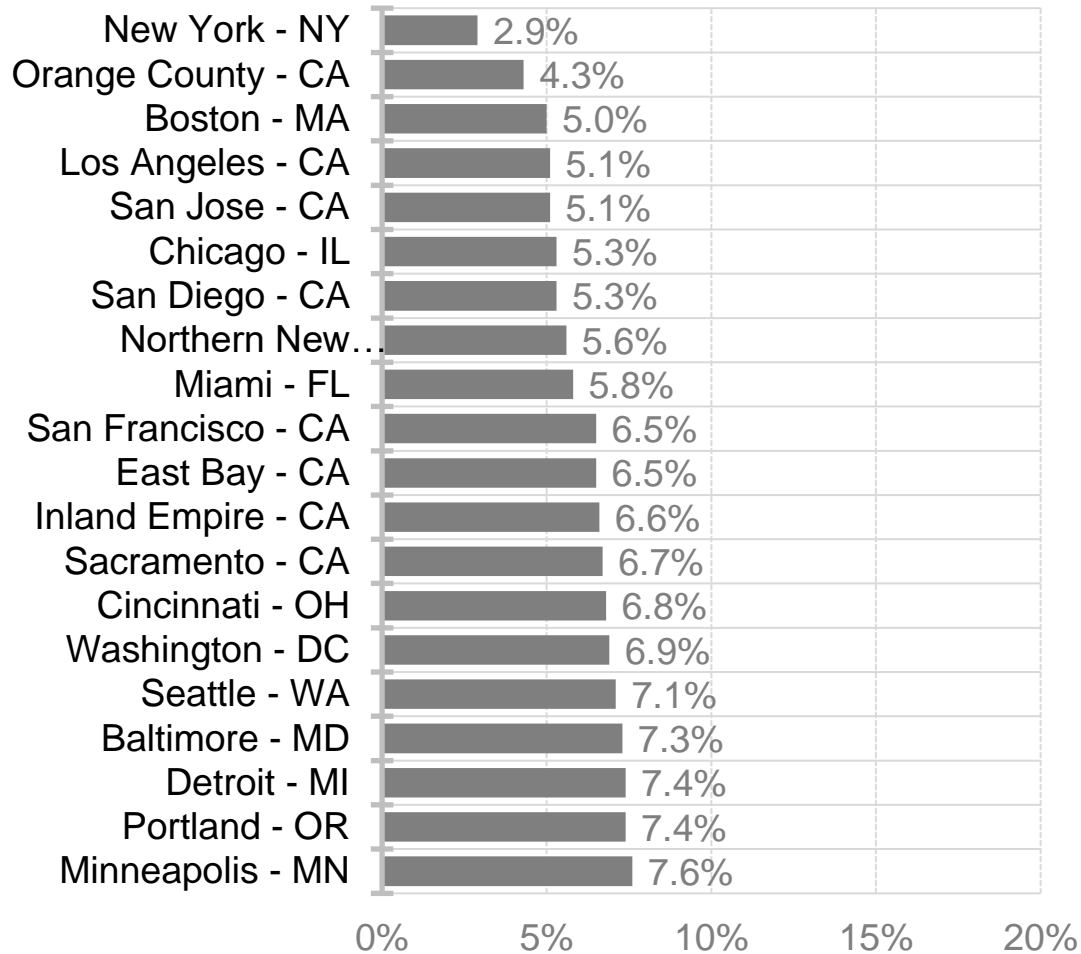


New supply pushes 4-Star vacancy higher; 5-Star vacancy cools



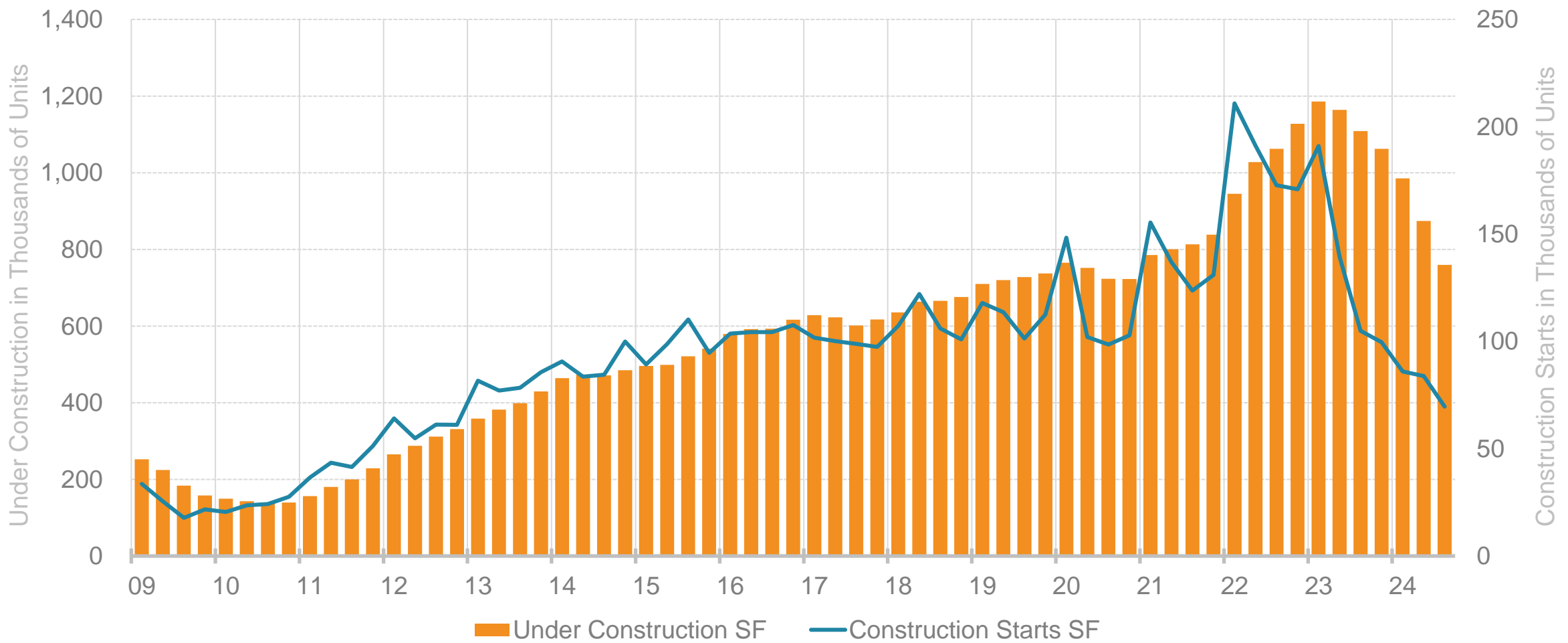
Vacancy rates spike in Sun Belt as new supply exceeds demand

Vacancy Rate



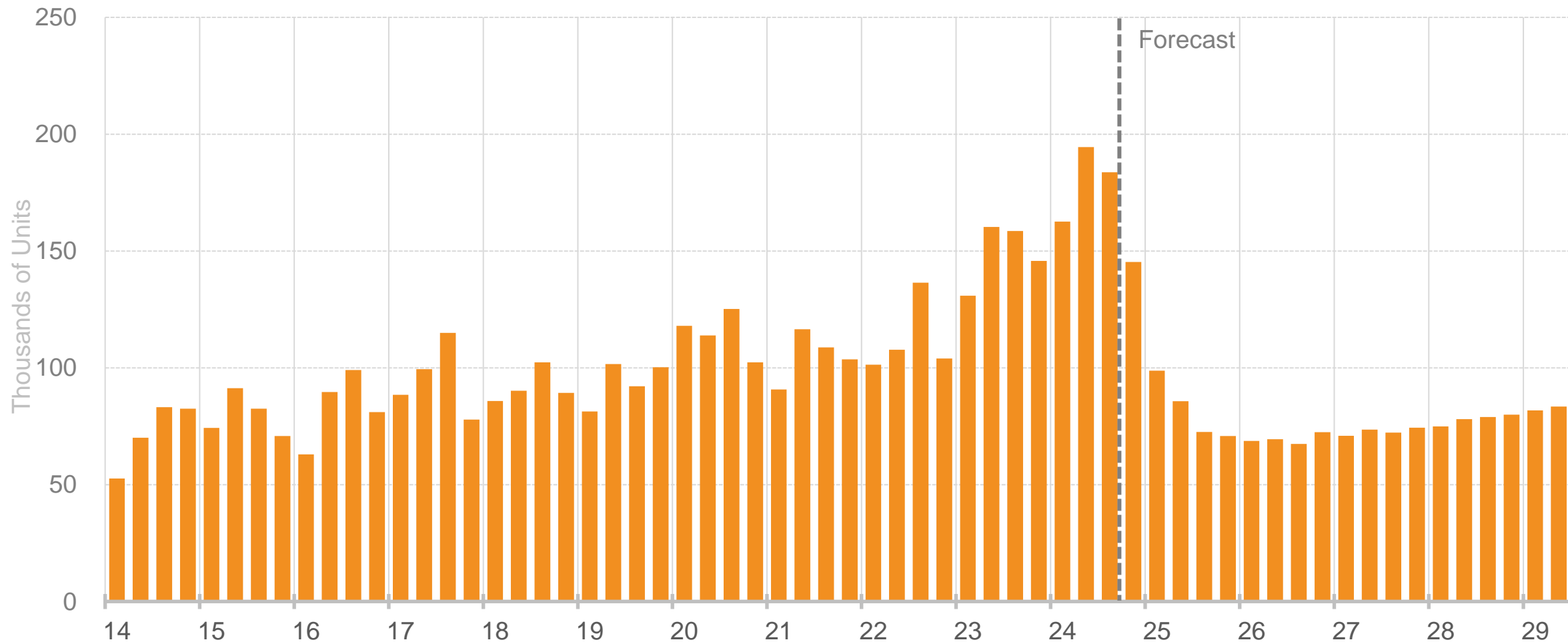
Multifamily construction starts have pulled back sharply

Under Construction Units & Construction Starts Units



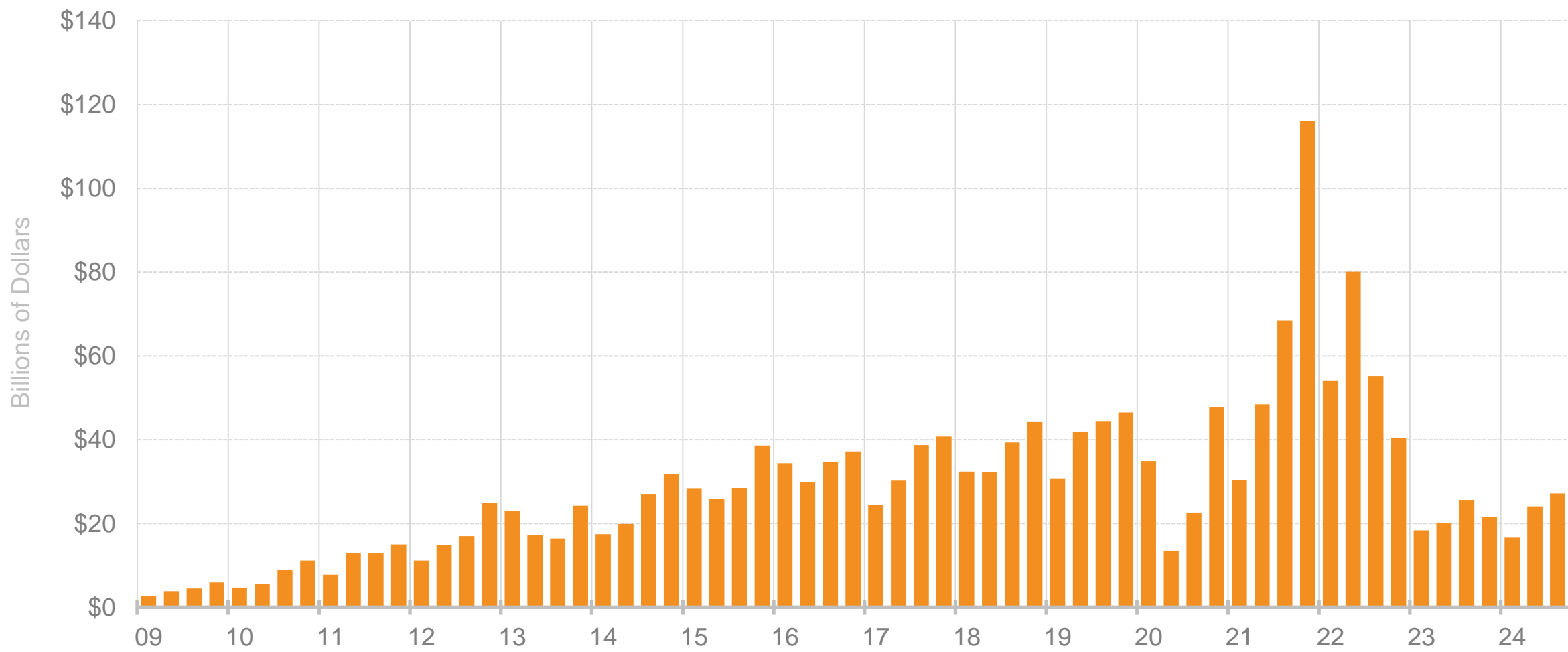
Which will bring relief on the supply-side in coming quarters

Net Delivered Units



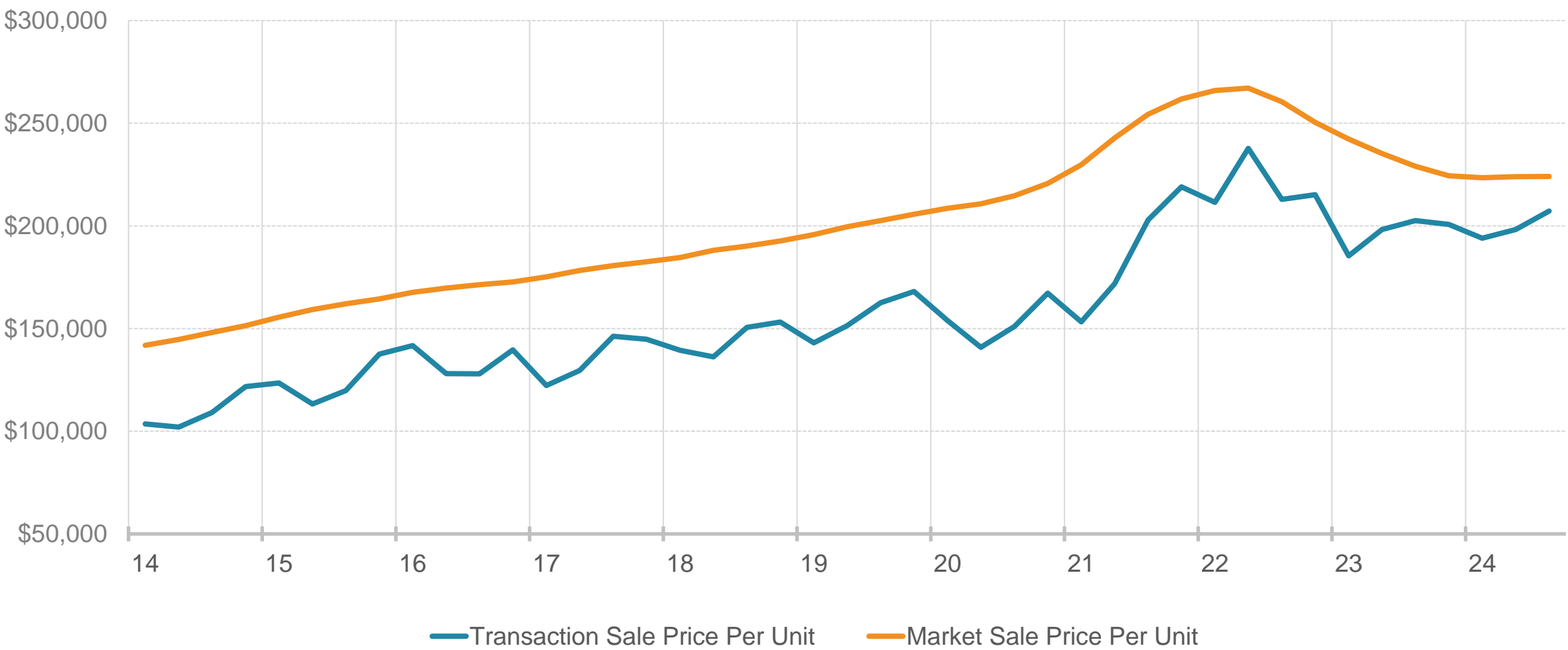
Volume is down but capital is still willing to transact

Total Sales Volume



Market pricing levels off as transaction prices tip higher

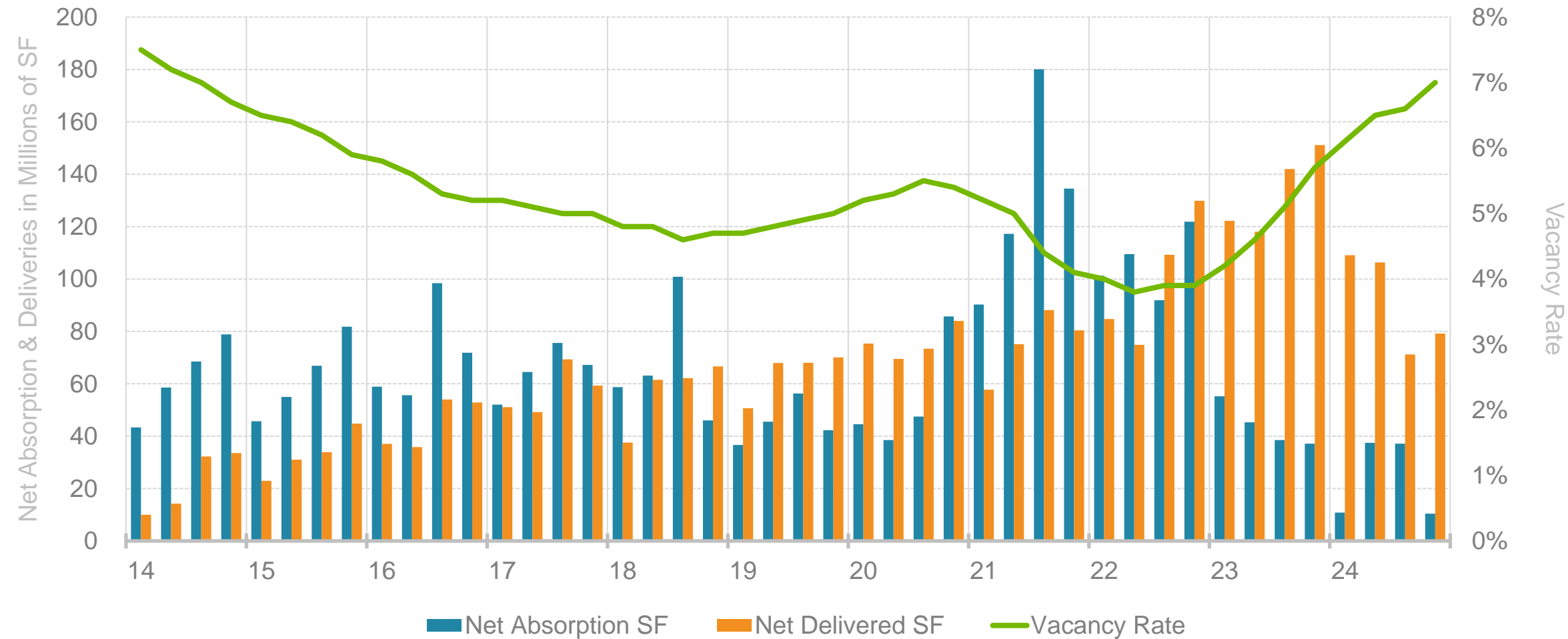
Transaction Price Per Unit & Market Price Per Unit



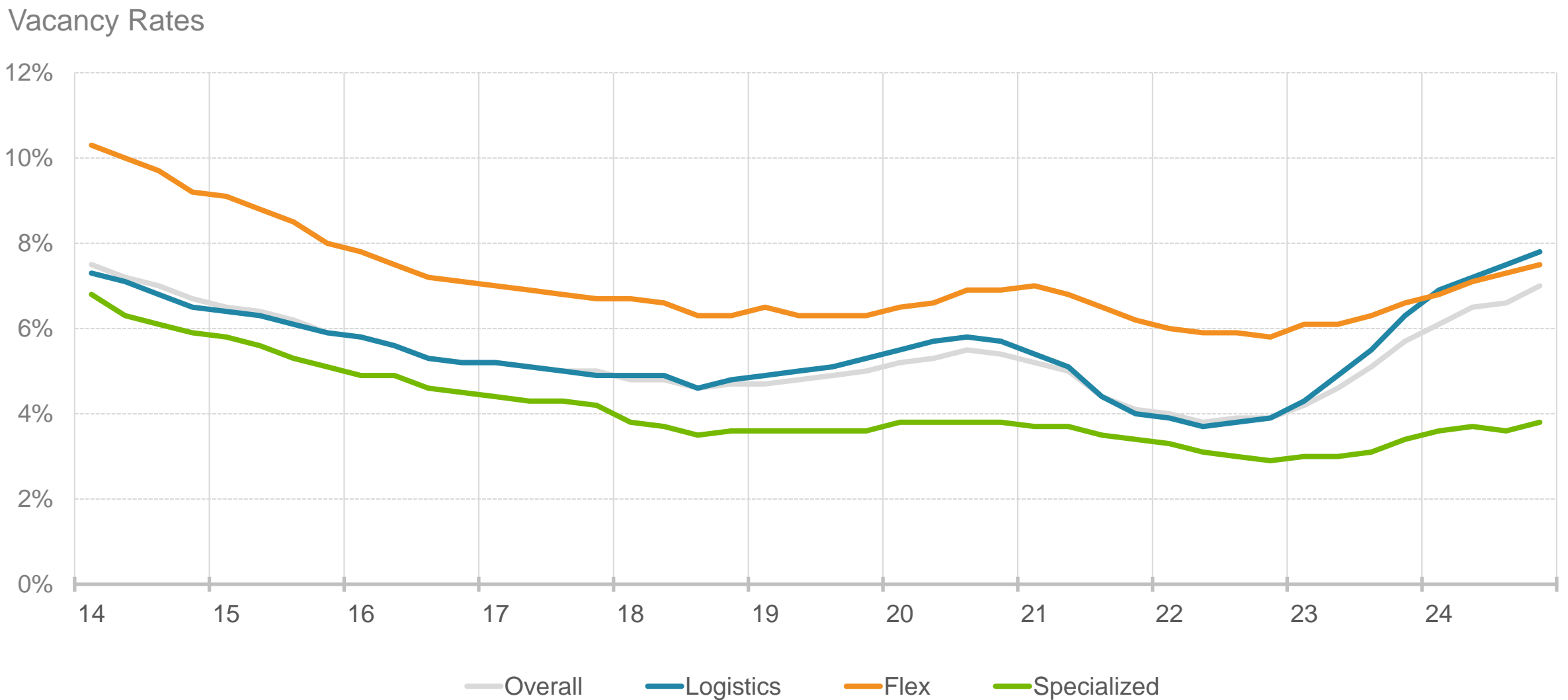
Industrial Sector Review

Industrial vacancy rate rose to the highest level in a decade

Net Absorption, Deliveries & Vacancy

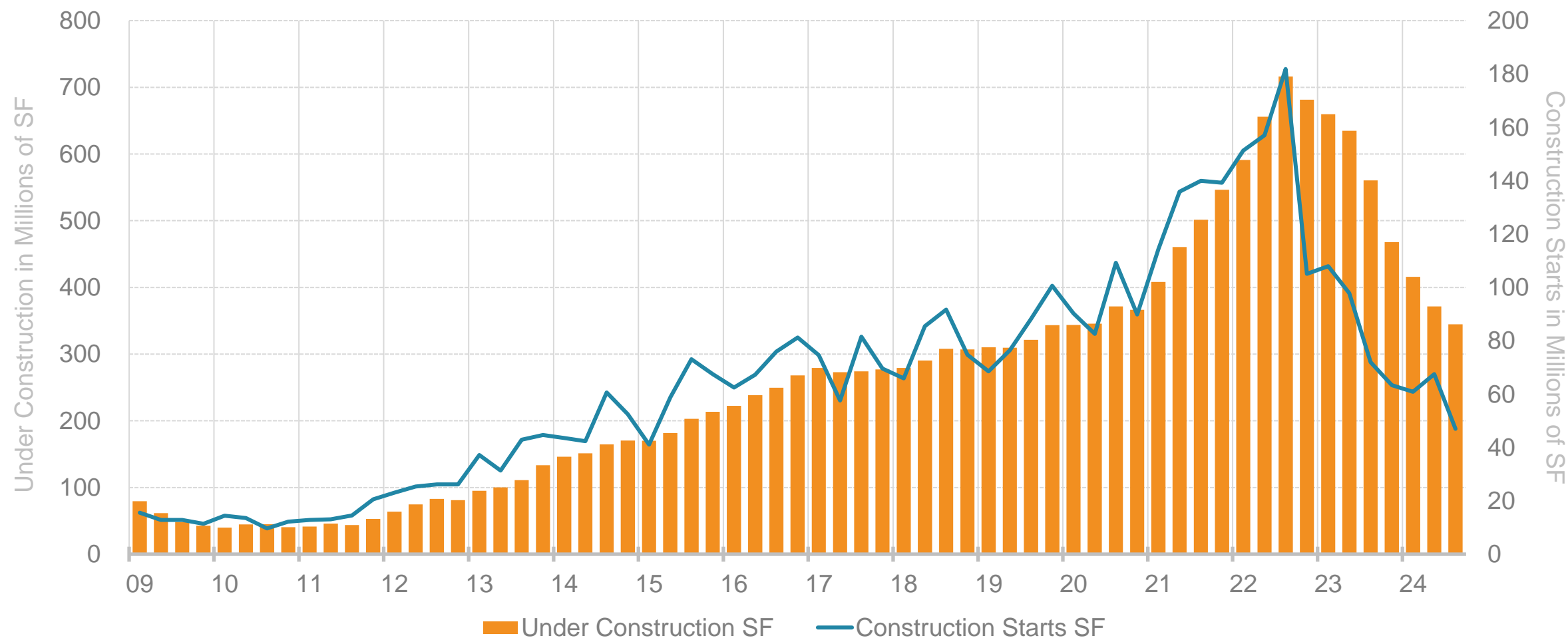


Recent spec construction has pushed logistics vacancy higher

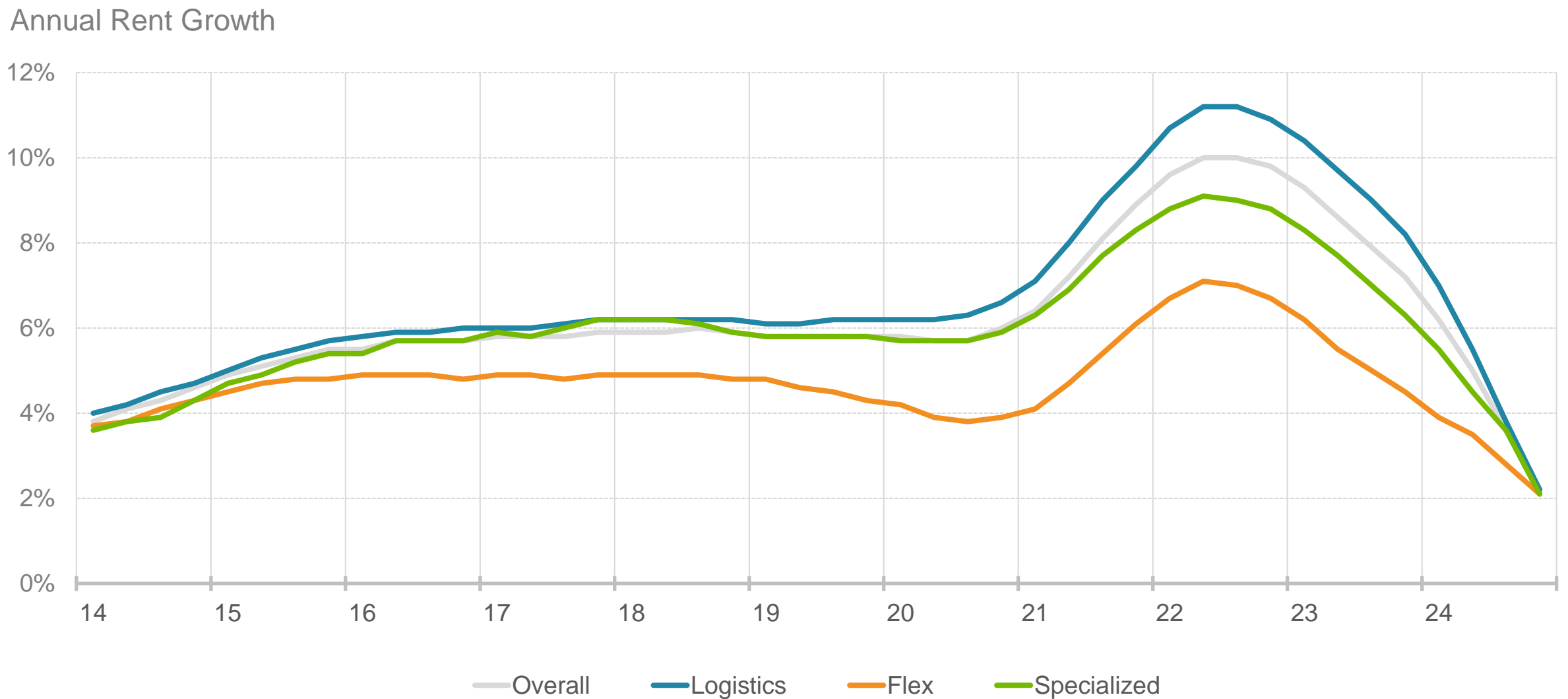


Industrial construction starts have plummeted

Under Construction SF & Construction Starts SF

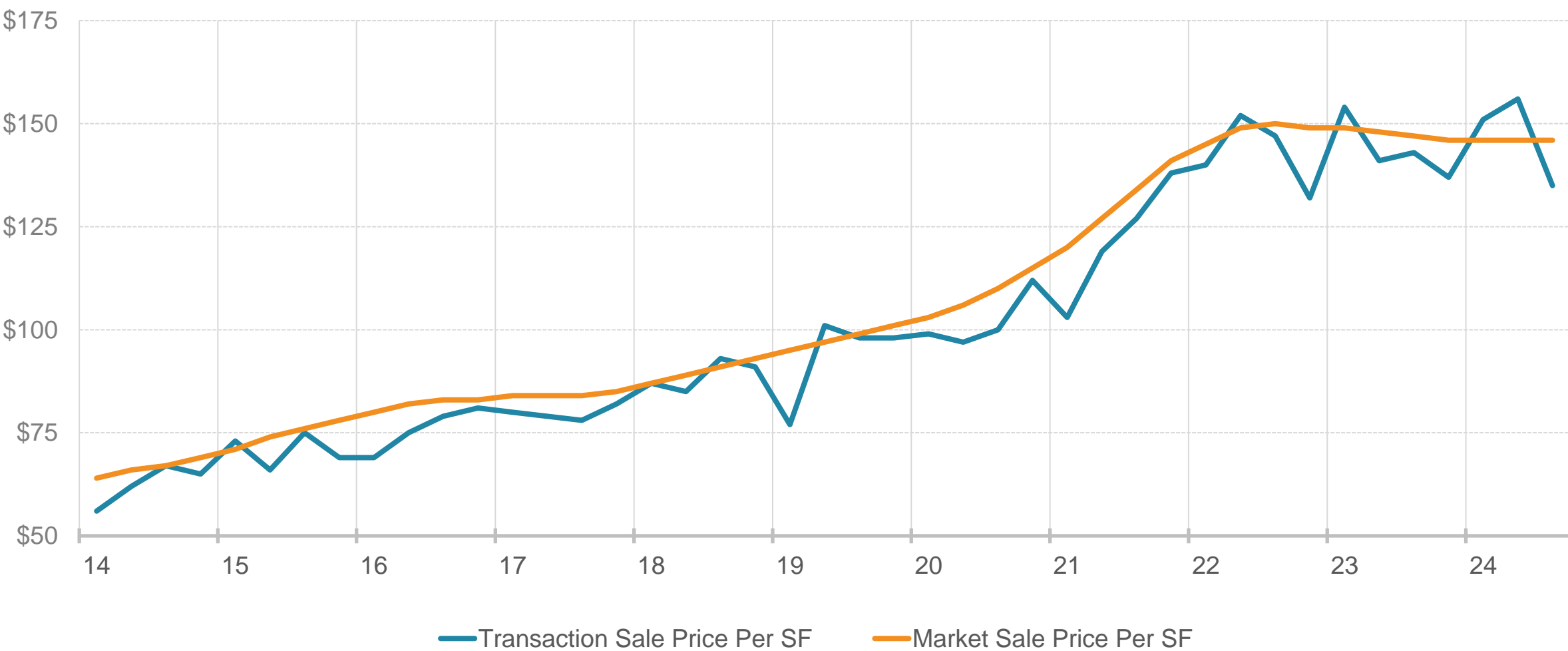


Industrial rent growth stalls as occupancy declined



While sales prices plateau amid higher interest rates

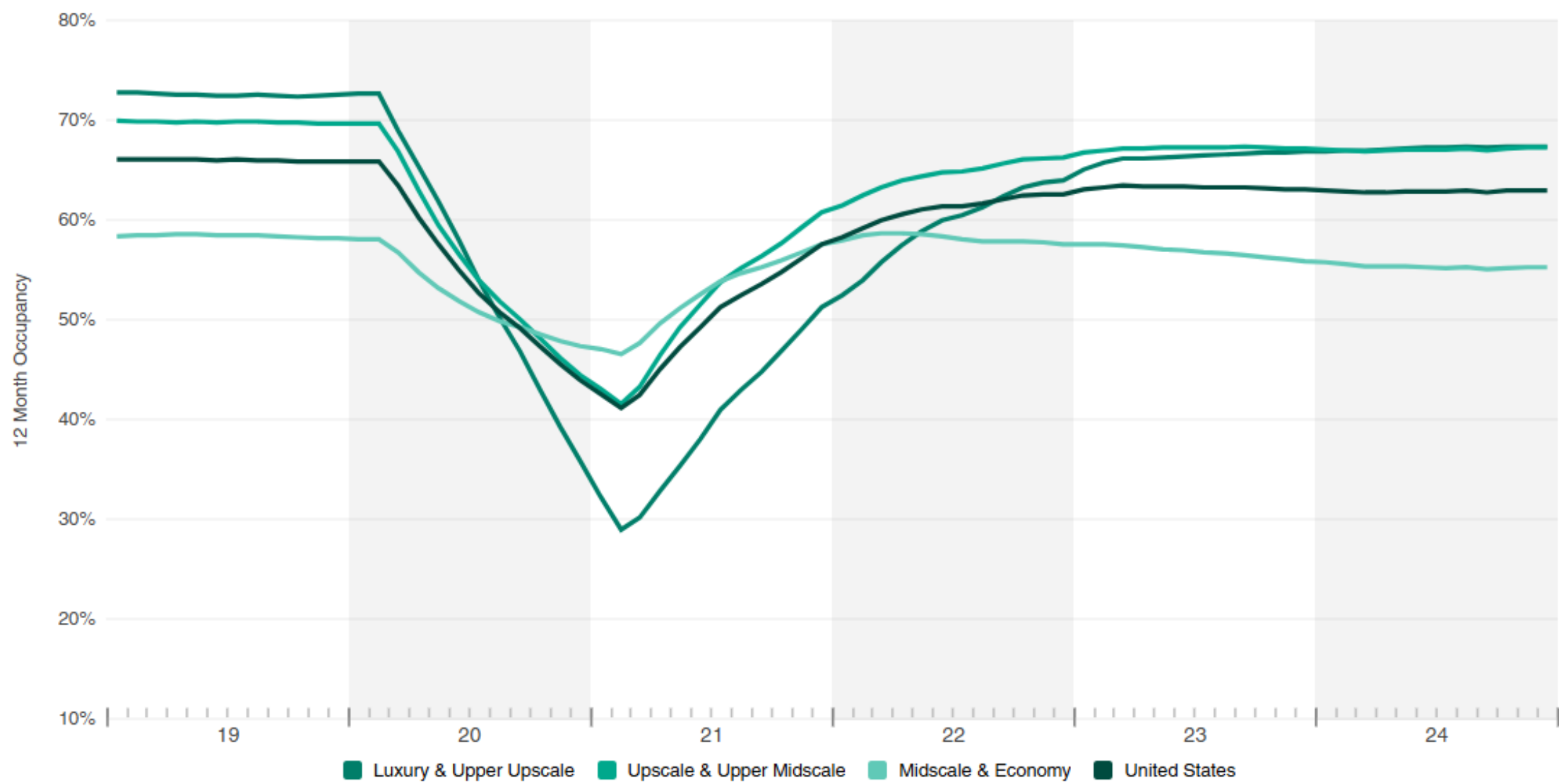
Transaction Price Per SF & Market Price Per SF



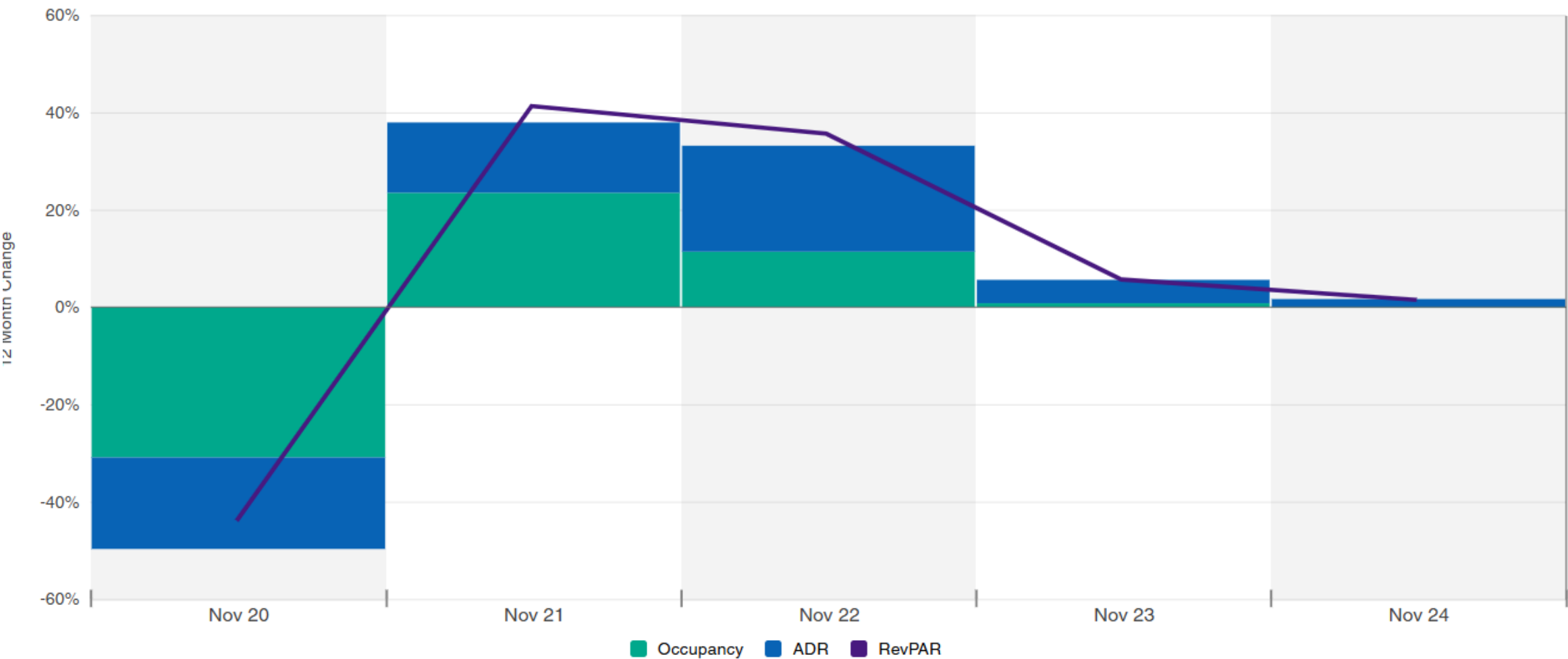


Hospitality Sector Review

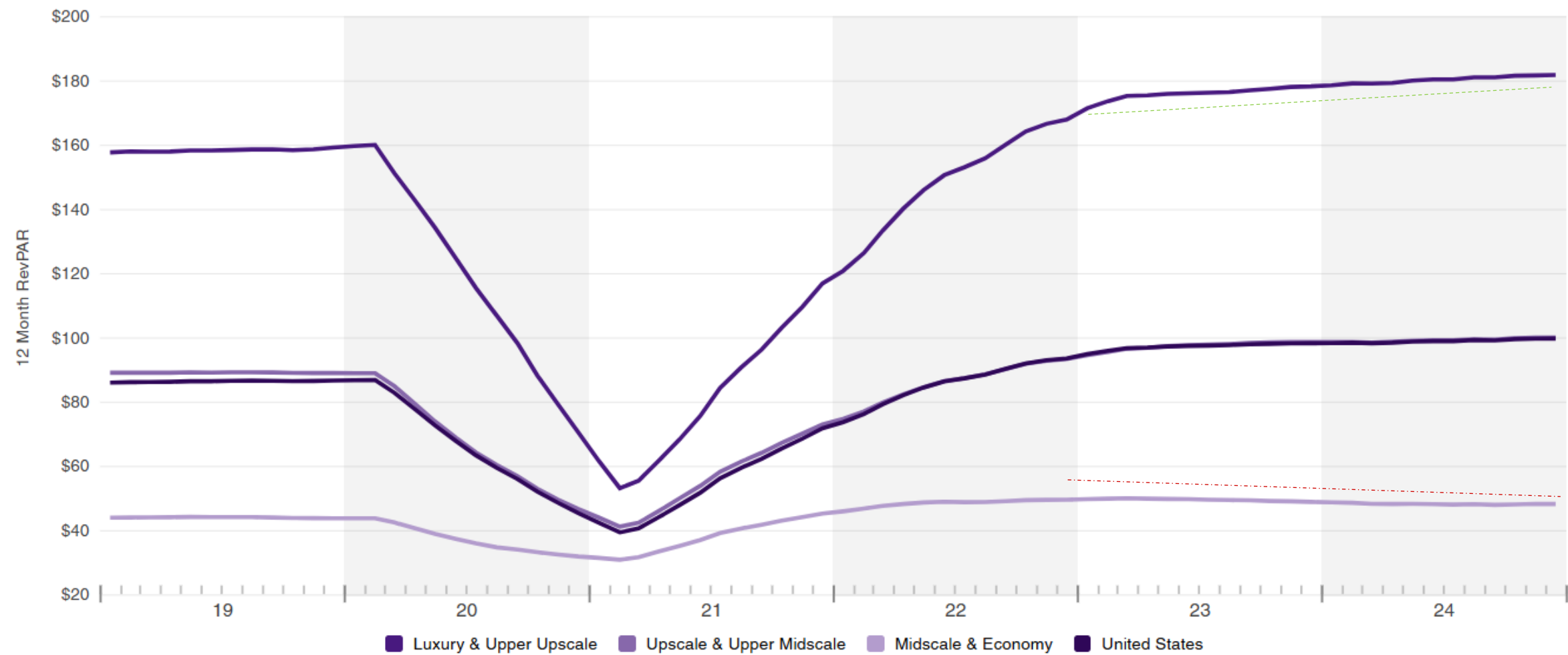
Hospitality occupancy leveling off at upper-end



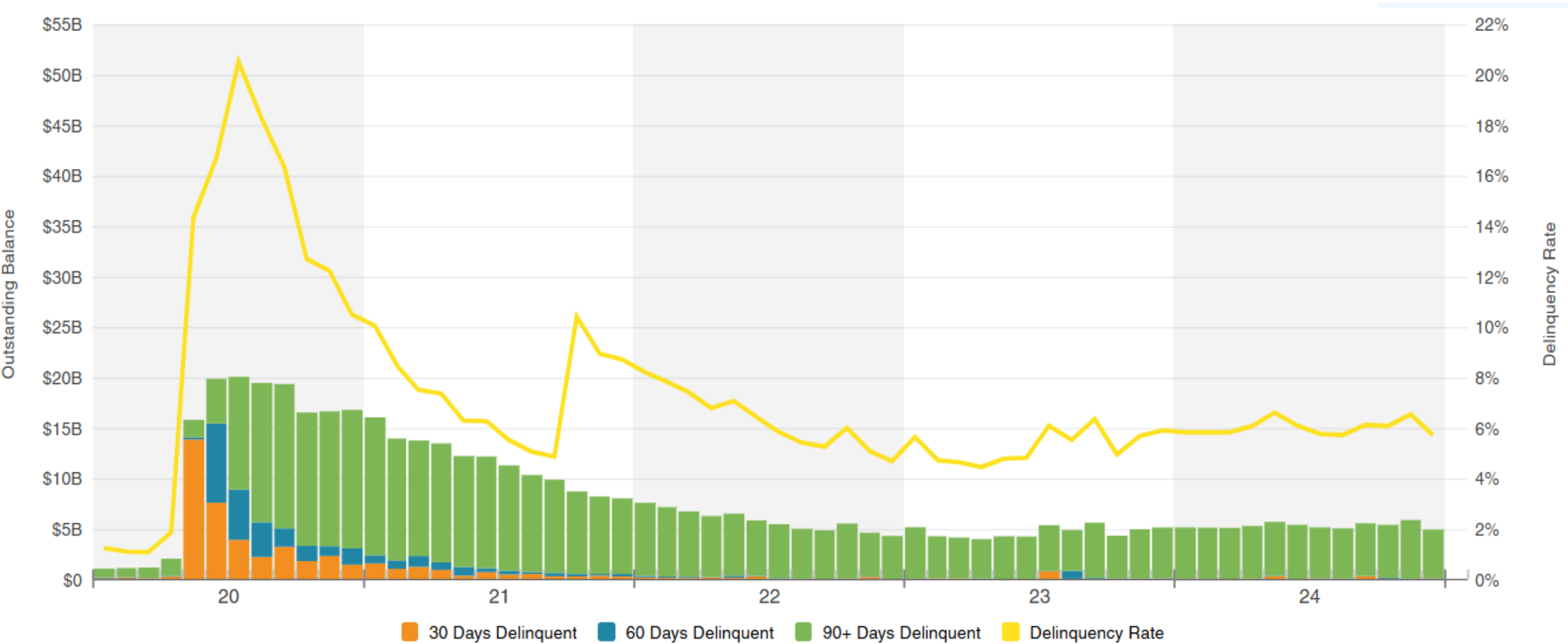
RevPAR growth has slowed considerably



RevPAR performance varies greatly by class



Delinquent hotel CMBS remains elevated but manageable

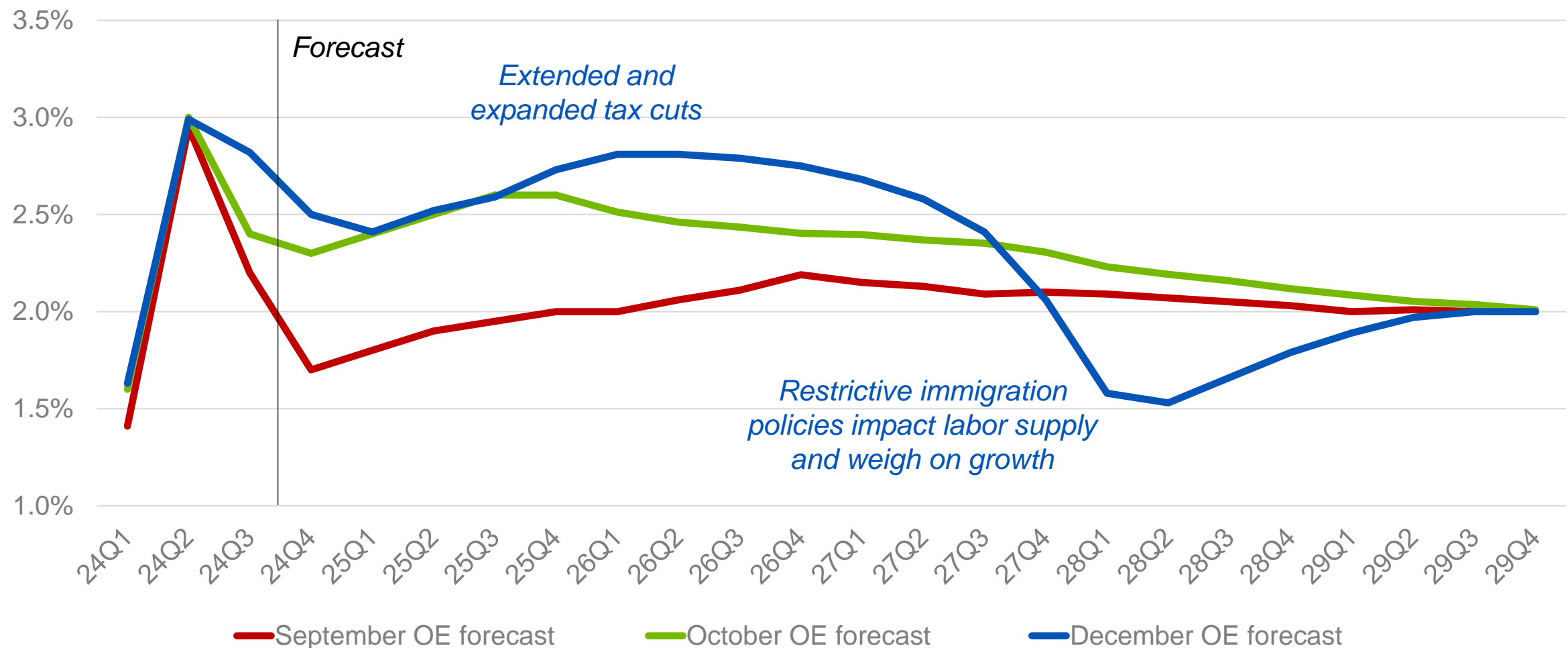




2025 Outlook

Fiscal policy boosts near-term growth – before labor supply fades

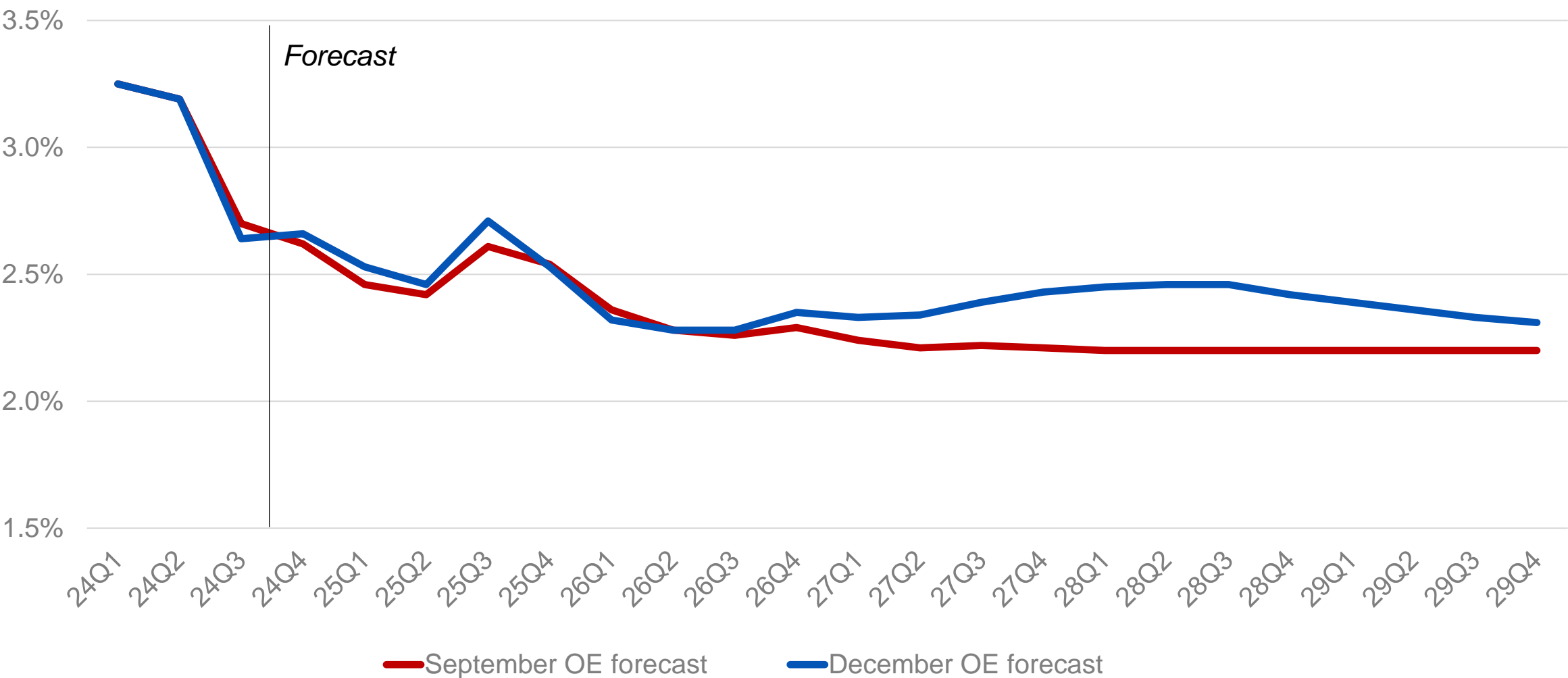
Gross Domestic Product Change from Previous Quarter



Sources: Bureau of Economic Analysis, Oxford Economics, December 10, 2024

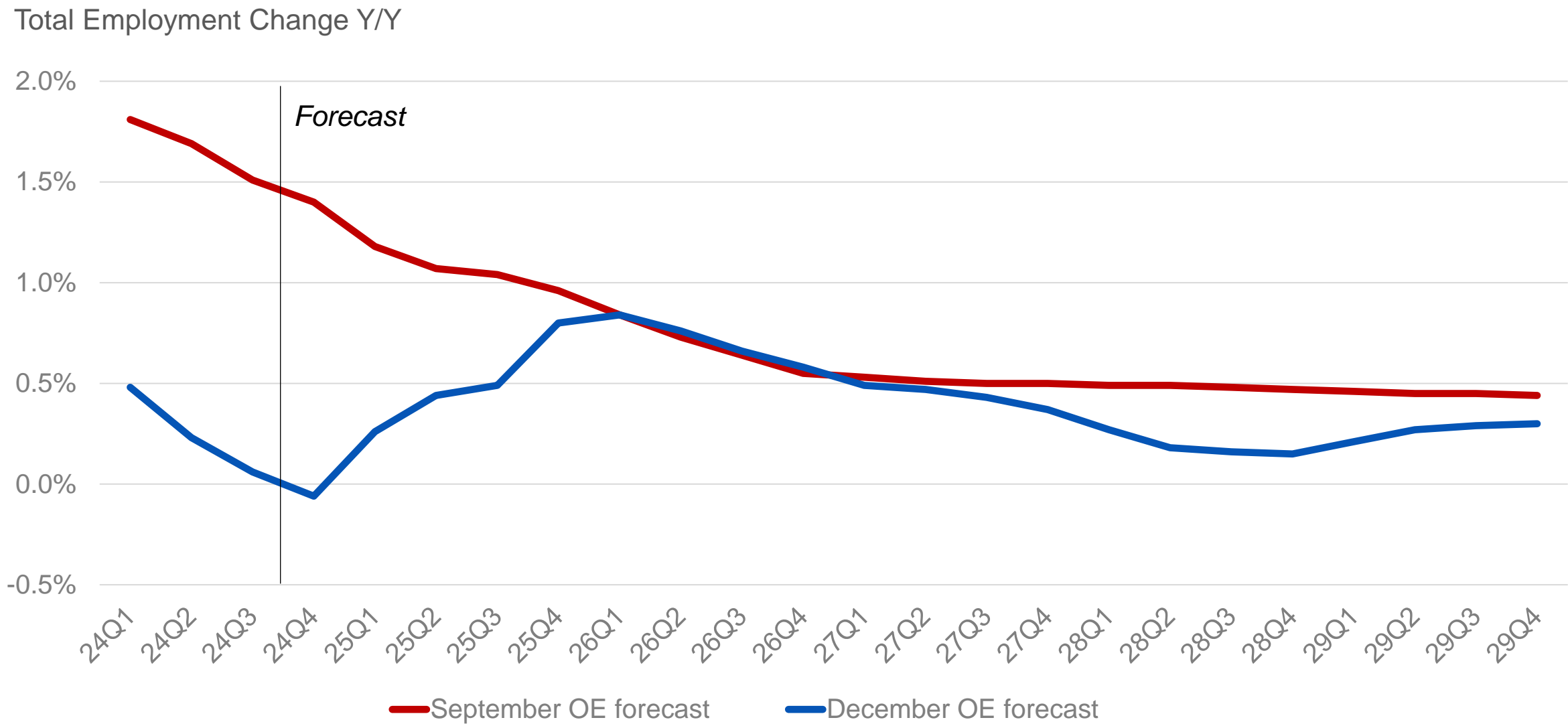
Little impact on inflation expected as Fed responds

Consumer Price Index Change Y/Y



Sources: Bureau of Economic Analysis, Oxford Economics

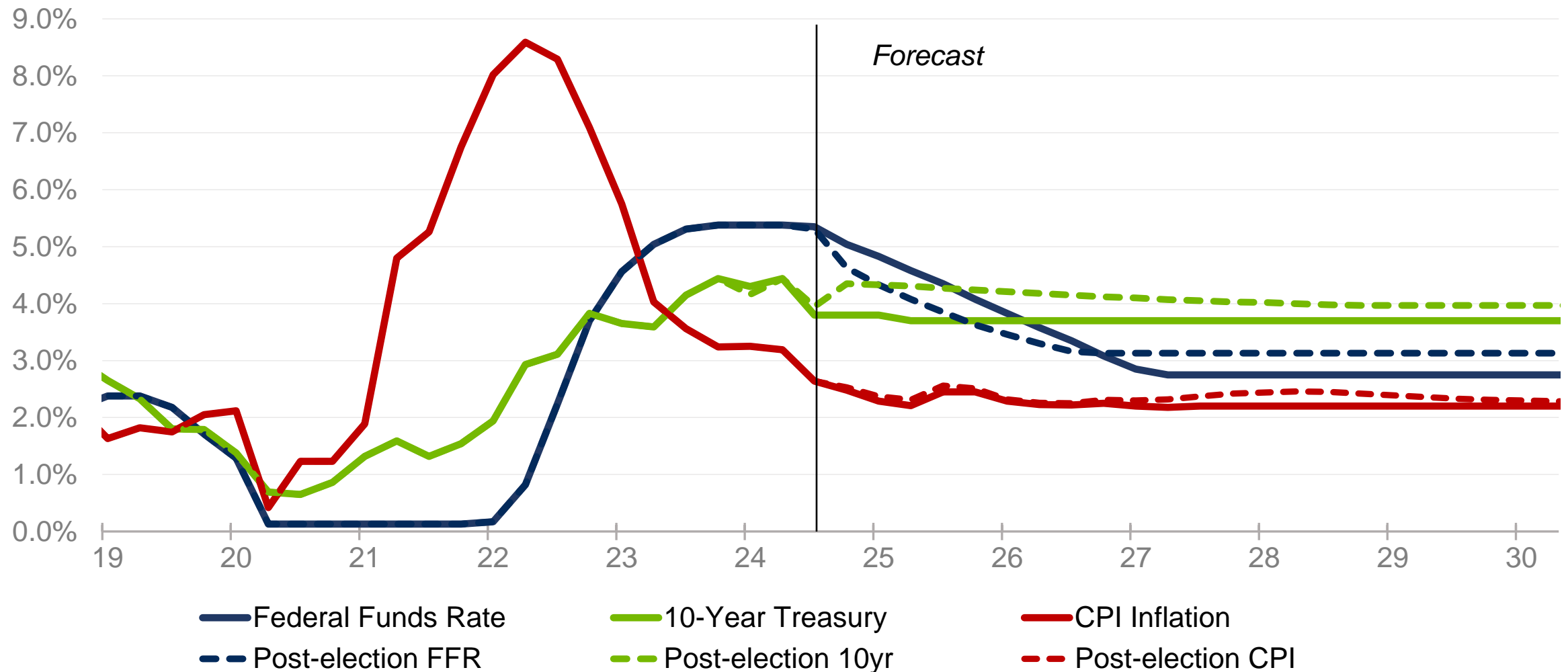
Employment growth accelerates through 25Q4 before easing



Sources: Bureau of Economic Analysis, Oxford Economics

Just a bit hotter everywhere

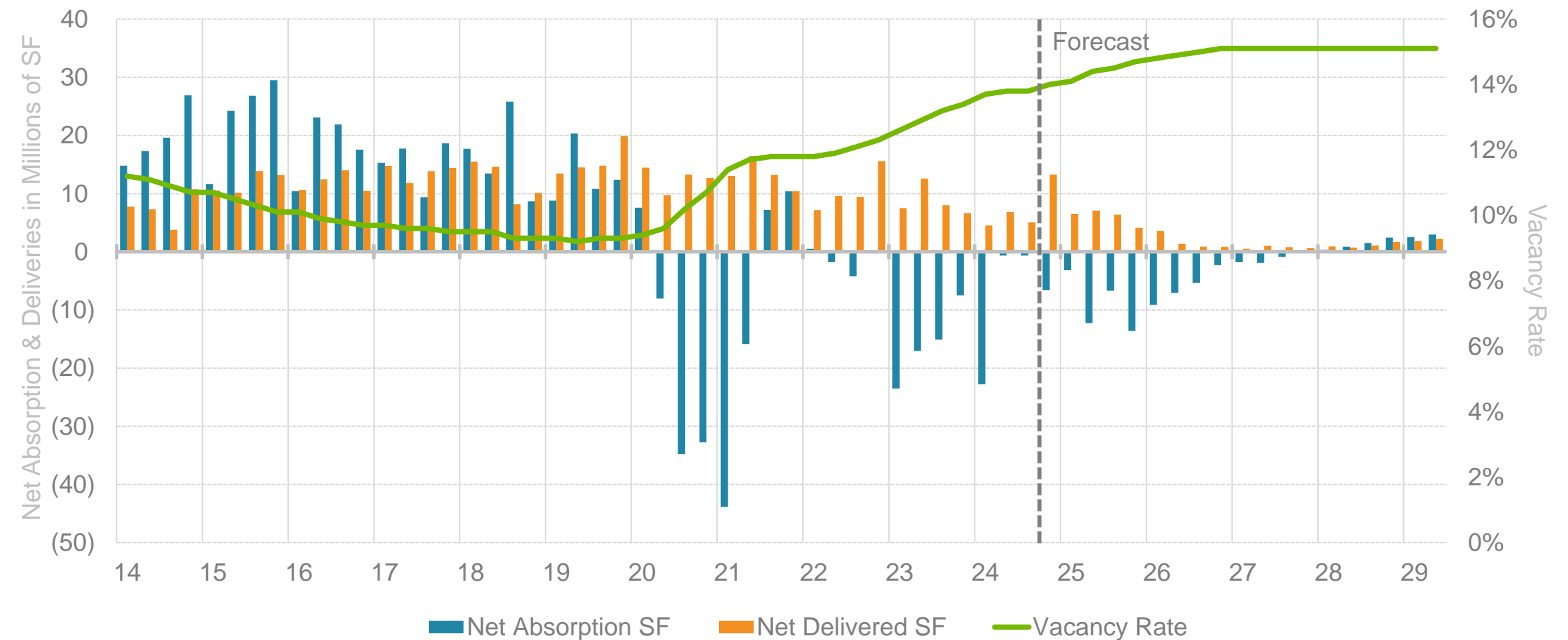
Rates and Yield



Sources: Oxford Economics, Department of the Treasury, Federal Reserve Bank, Bureau of Labor Statistics

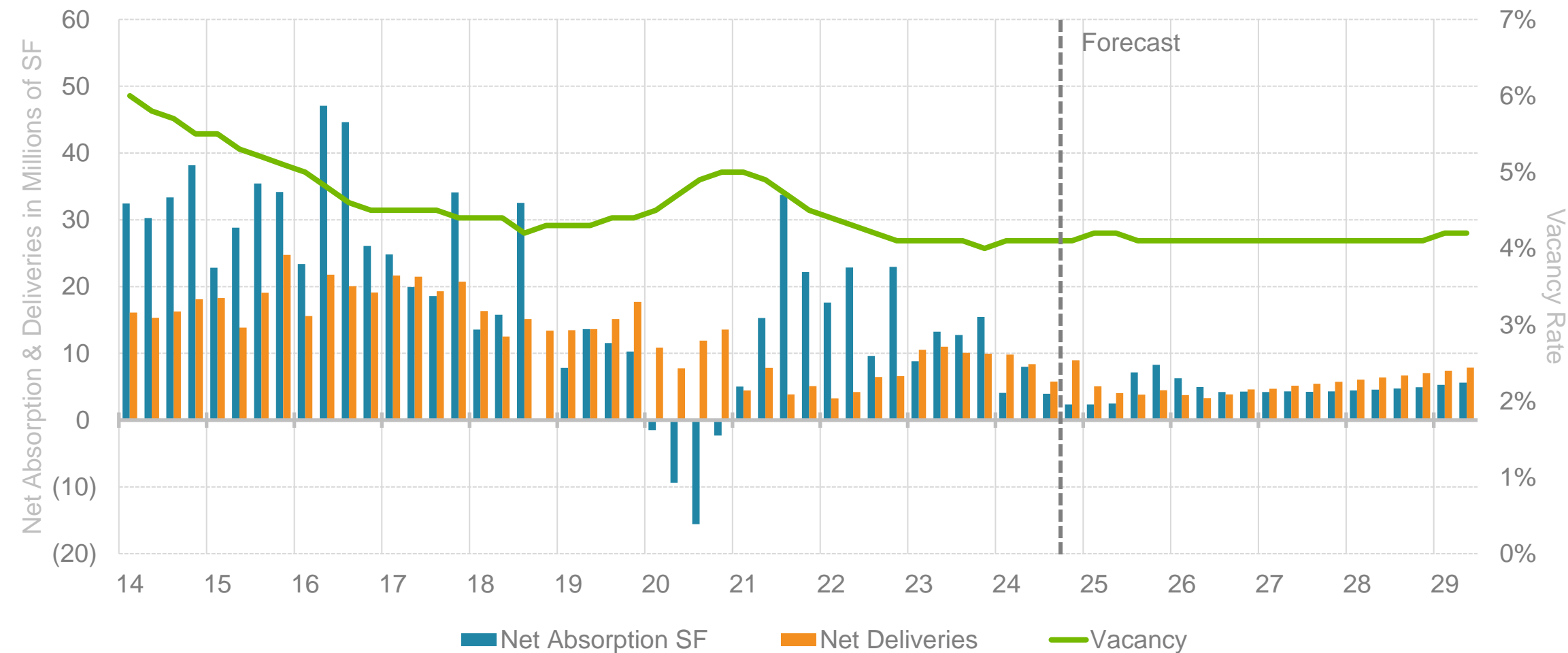
Office vacancy set to rise further before leveling off

Net Absorption, Net Deliveries & Vacancy



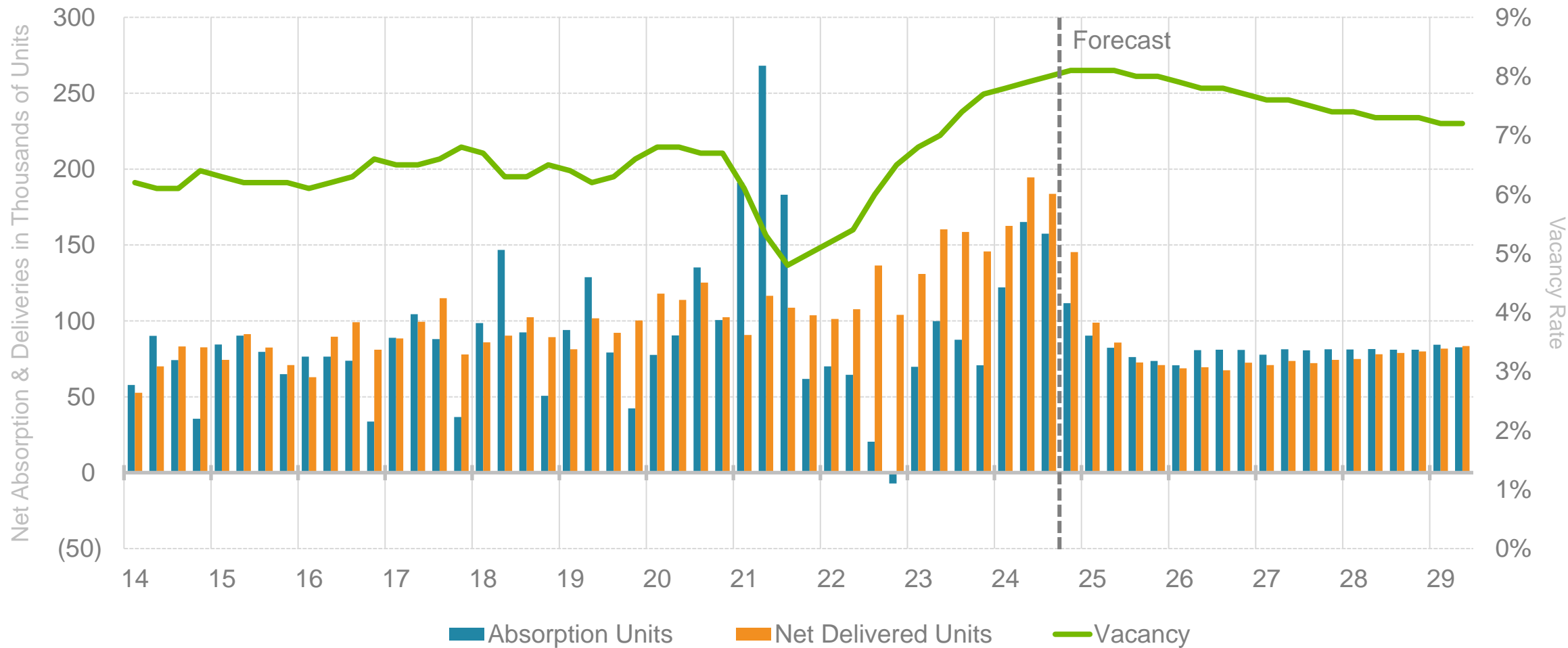
Retail vacancy holds at historic low for foreseeable future

Net Absorption, Deliveries & Vacancy



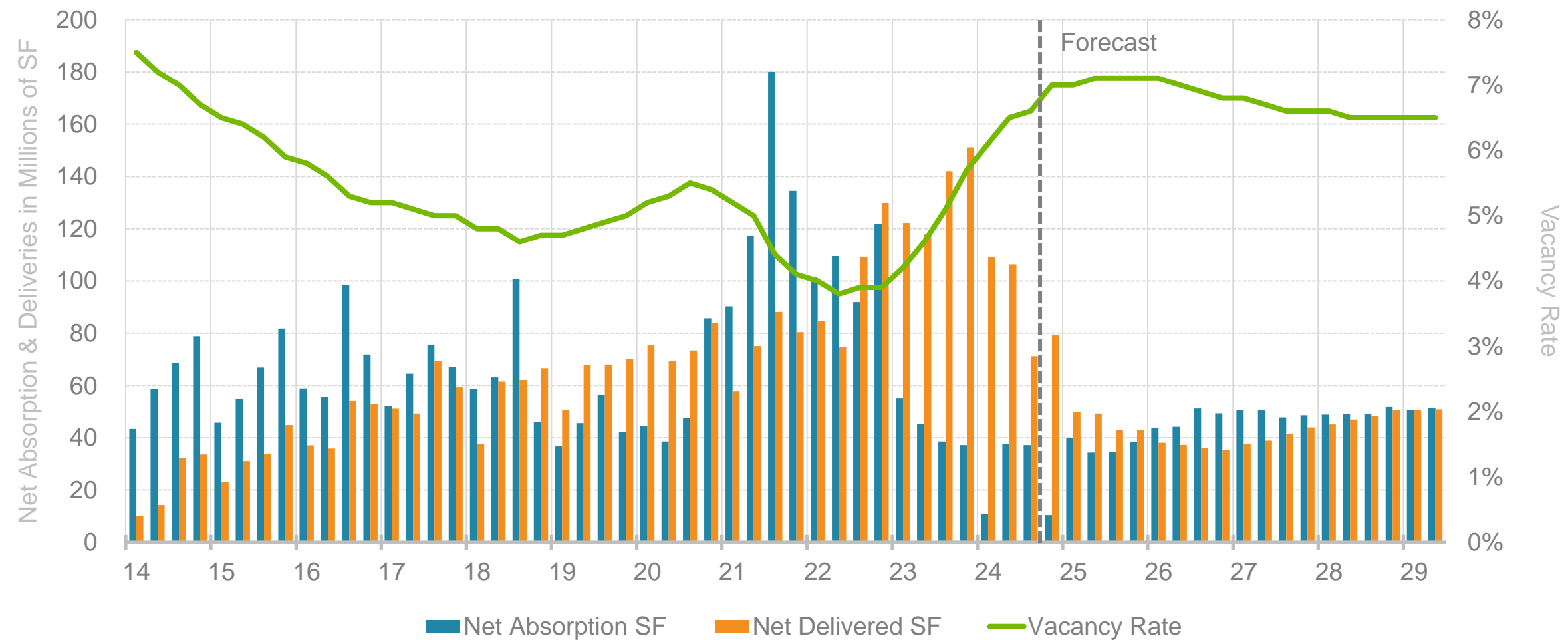
Apartment market evens out as new supply falls

Absorption, Net Deliveries & Vacancy



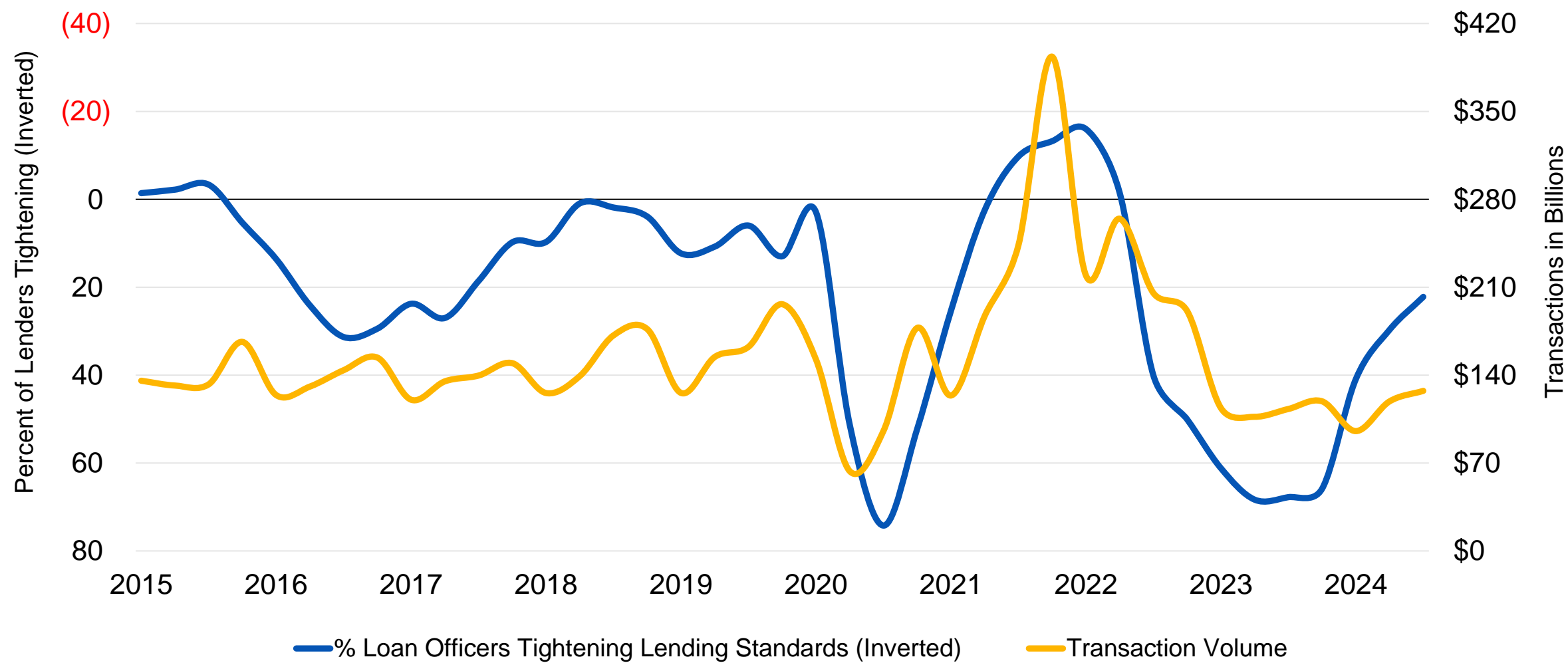
Industrial vacancy is set to peak before beginning to decline in 2026

Net Absorption, Deliveries & Vacancy



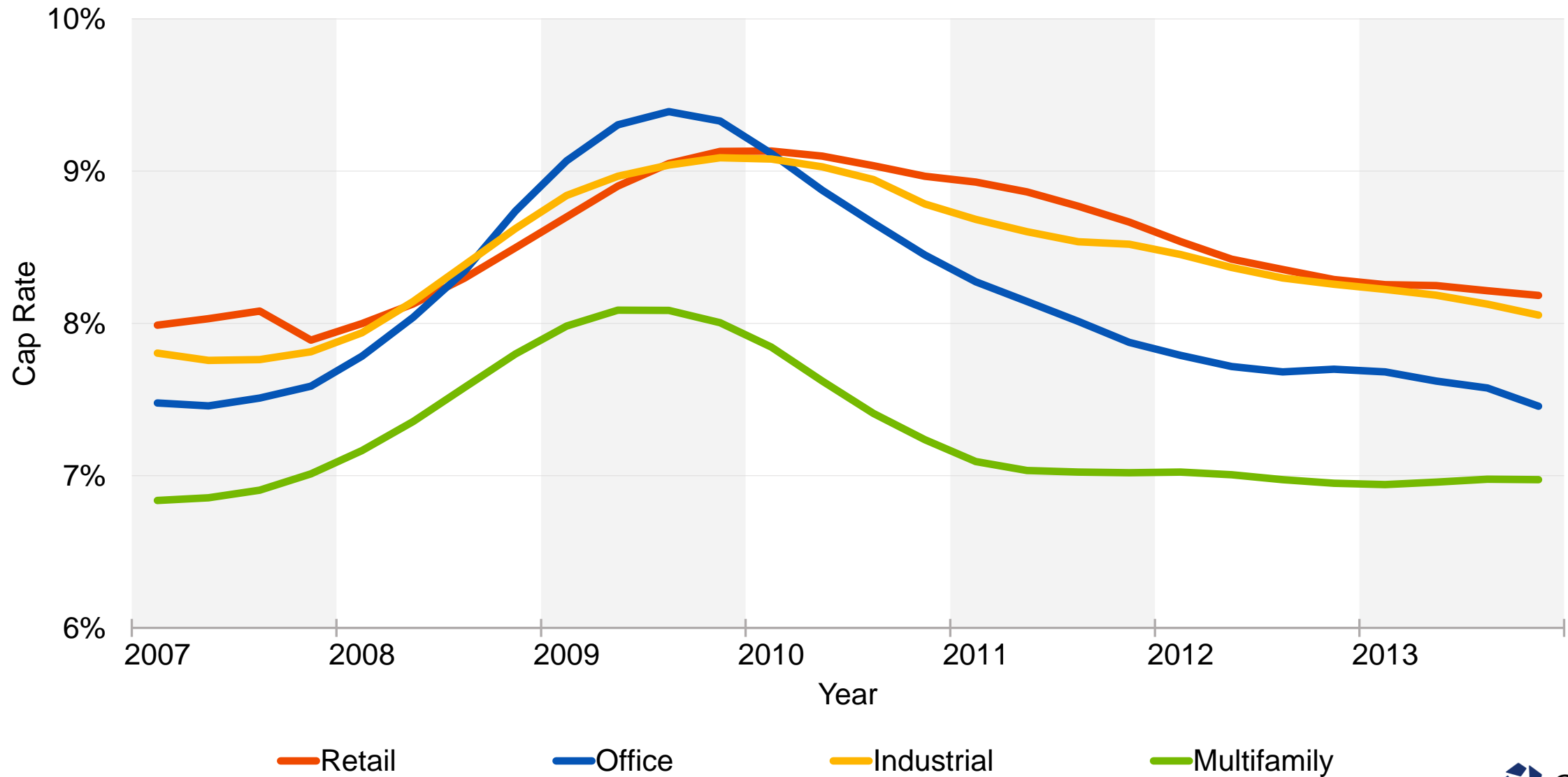
Easing lending standards facilitate future deal flow

Loan Standards And Transaction Volume

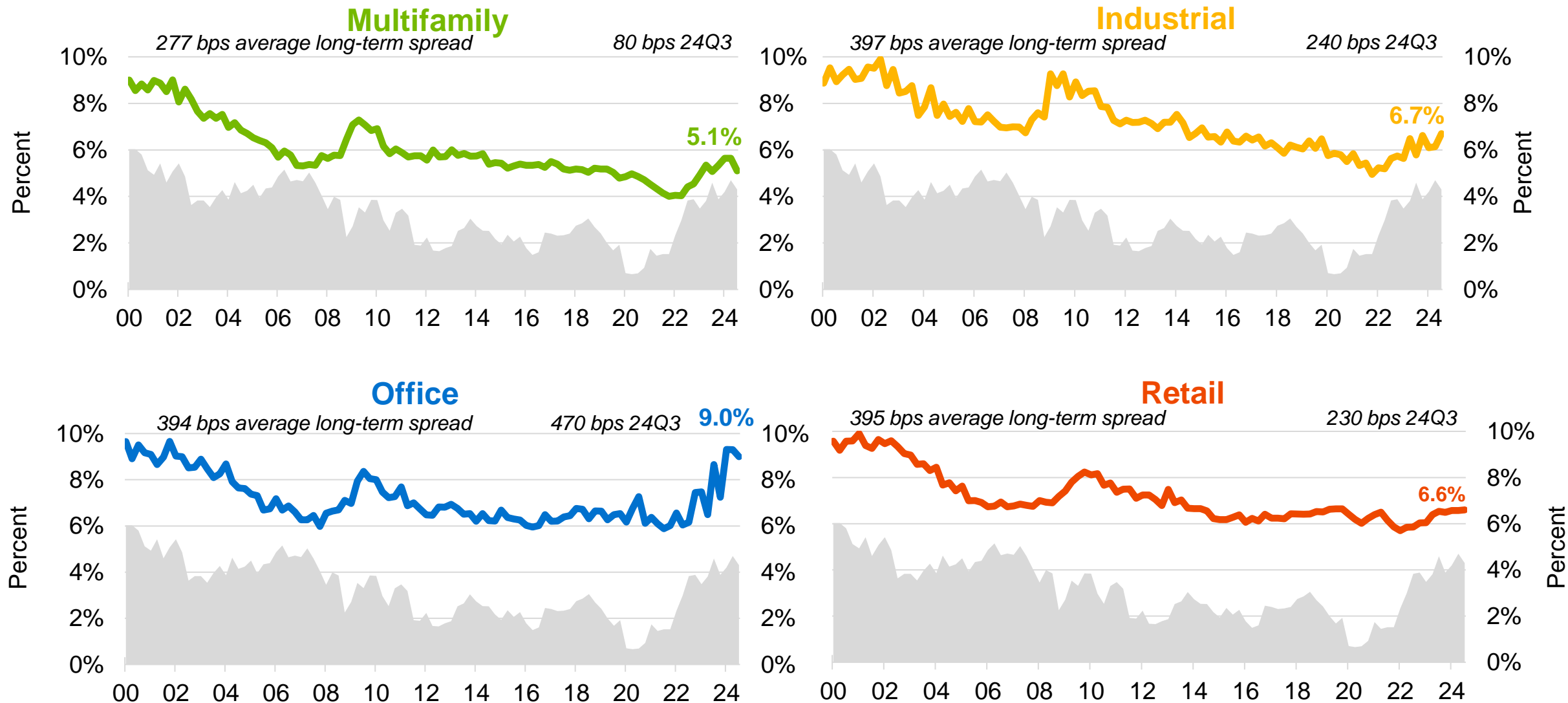


Source: Board of Governors of the Federal Reserve System (SLOOS); 2013 onward averages nonfarm, multifamily, and construction; November 2024 (With data through Q3 2024).

GFC cap rates peaked within a few quarters of each other



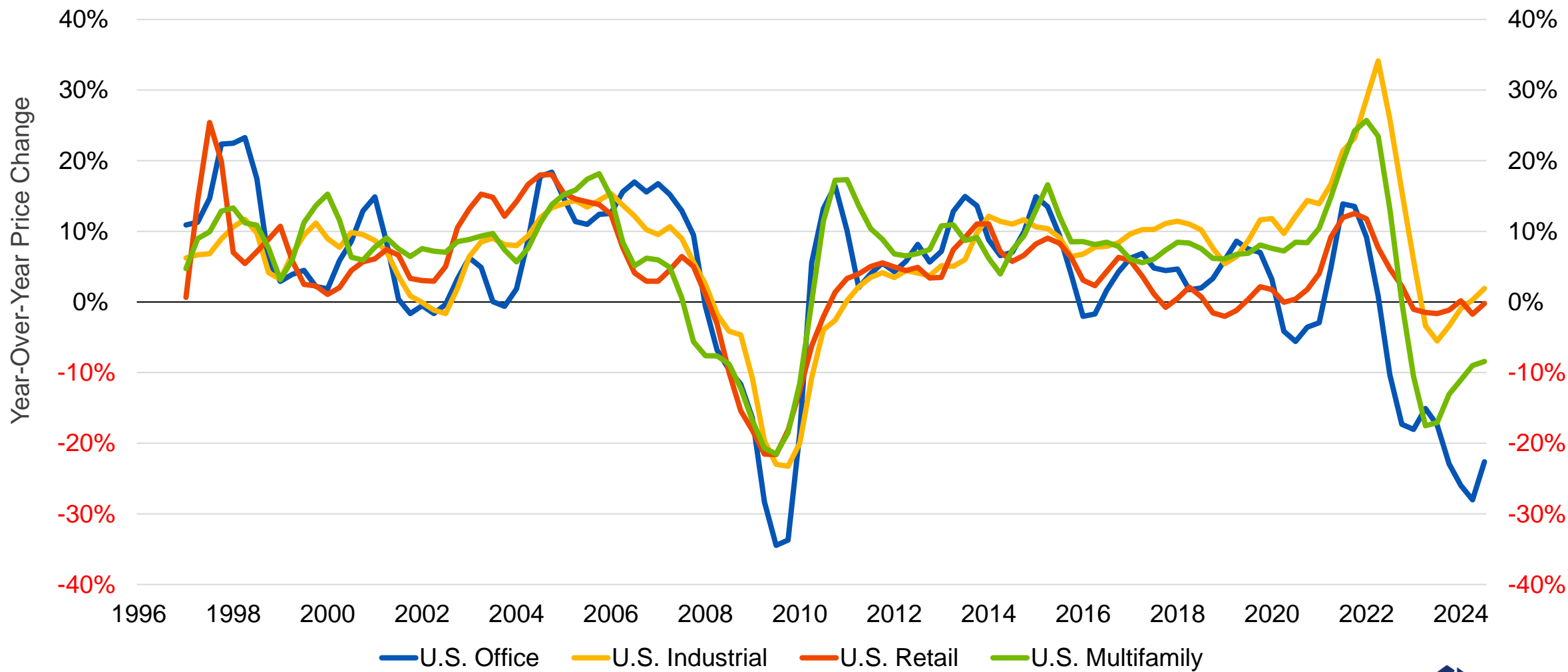
Cap rates are in the process of peaking



Source: CoStar; deals over \$10M; 4/5-star Multifamily over 50 units; industrial over 100,000 SF; 4/5-star office; retail deals over \$5M.

Recovering value losses are moving in synch

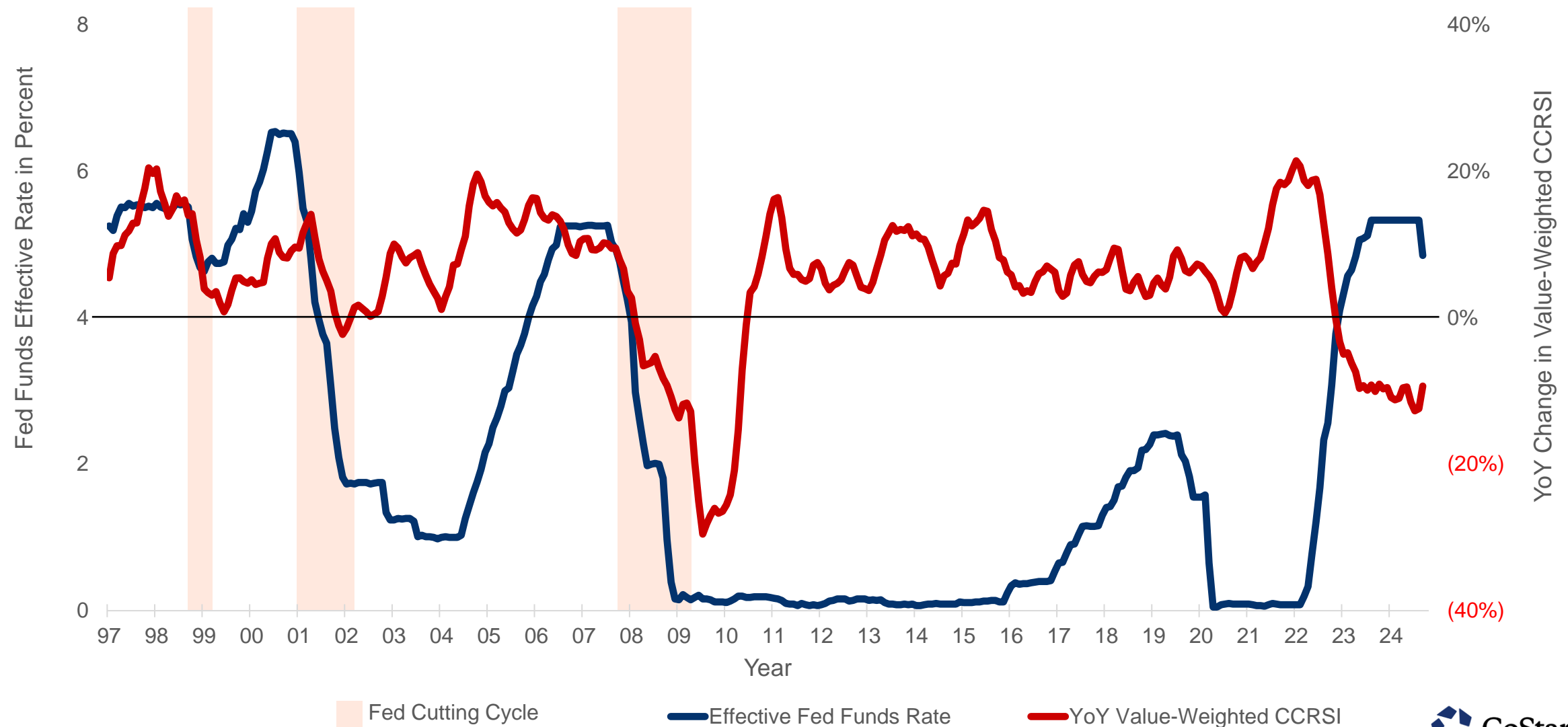
CoStar's Value-Weighted Repeat-Sale Indices



Source: CoStar

Value declines continued even after the Fed began cutting rates

Fed Funds Effective Rate and Value-Weighted CCRSI



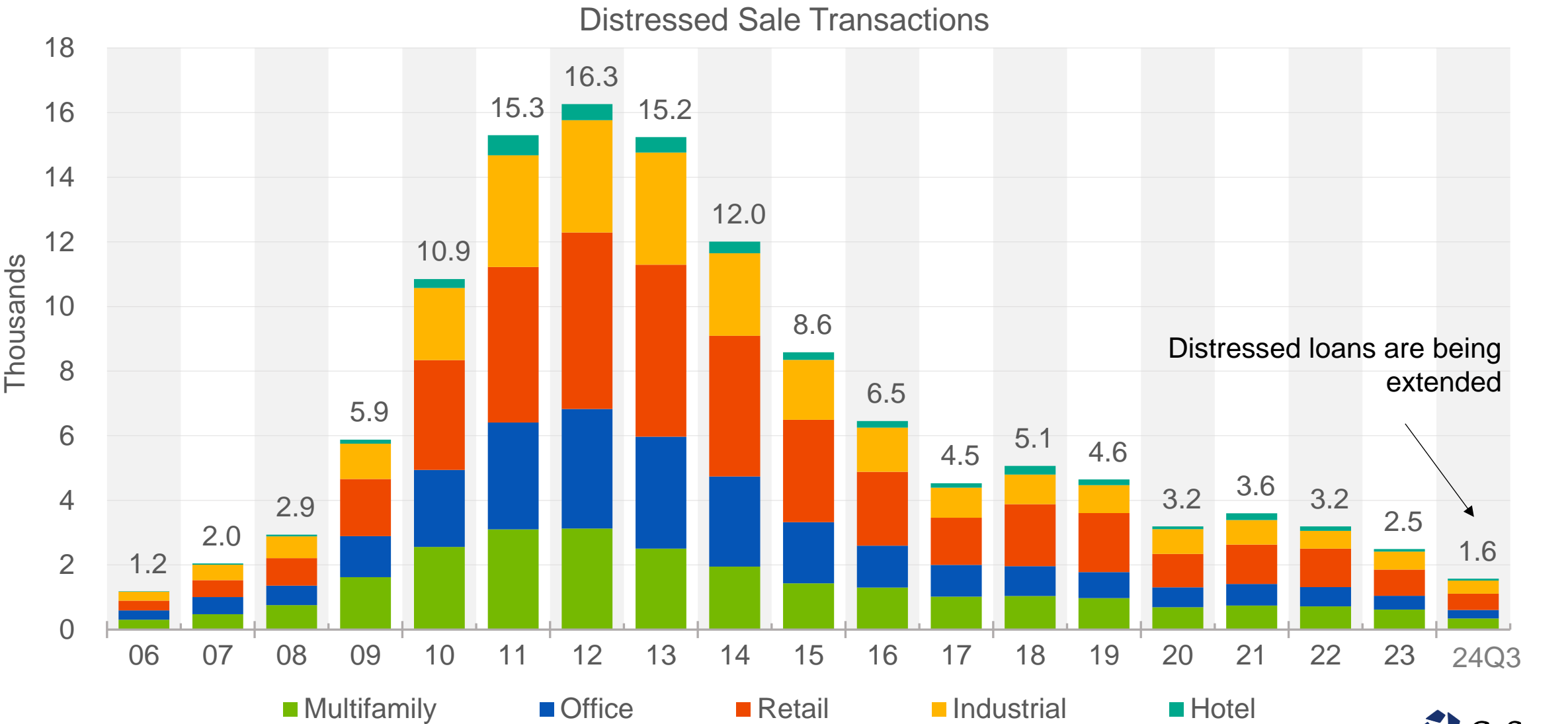
Source: Board of Governors of the Federal Reserve System



Despite inflation progress, rates signaling higher for longer



Historically low distressed trades



Return of institutional buyers will signify turning point

OFFICE

Private Investors
Users

MULTIFAMILY

Private Investors
Institutional

RETAIL

Private Investors
Institutional

INDUSTRIAL

Institutional
Private Equity
REITs

Questions that will impact CRE performance in the years ahead

1. How strong is the consumer and labor market and were 2024 cracks a sign of an inflection point?
2. Higher for longer? What happens to treasury rates and the spillover impact on the economy and housing market?
3. Demographics are and will continue to be destiny. How will migration flows impact the housing markets and economies of metros throughout the US?
4. Policy or posturing? How will changes in taxes, regulations, immigration laws and trade policy impact space demand and value in the years ahead?
5. How do changes in climate and policy impact where and how people live?
6. Artificial intelligence...efficiency maximizer or game changer?

Thank you for attending!

Brandon Svec

National Director, U.S. Retail Analytics

CoStar Group

bsvec@costar.com

January 2025





Brandon Svec
National Director of U.S. Retail Analytics



Brandon Svec is the National Director of U.S. Retail Analytics for CoStar Group, where he guides the firm's research and analysis on the U.S. retail real estate market. Prior to covering the national retail market, Brandon led CoStar's analytic coverage of the Chicago market. Brandon has extensive prior commercial real estate experience across multiple disciplines, including lending, portfolio management, private and public real estate fund analysis, research, and fund structuring. Brandon previously held Series 7, 24, and 66 securities licenses and received his MBA from DePaul University's Kellstadt Graduate School of Business, where he concentrated in real estate finance and investment.

bsvec@costar.com



Katharine

Katharine Battaia Clark
Partner

kclark@thompsoncoburn.com

Dallas

D - (972) 629-7114

MY SERVICES

Business Litigation

Construction

Energy

Financial Restructuring & Bankruptcy

Real Estate

EDUCATION

SMU Dedman School of Law, J.D., *cum laude*, 2004

Order of the Coif

SMU Law Review

Associate Managing Editor

Austin College, B.A., *magna cum laude*, 2001

ADMISSSIONS

Texas

U.S. District Court Eastern District Texas

U.S. District Court Northern District Texas

U.S. District Court Southern District Texas

U.S. District Court Western District Texas

overview

Katie Clark represents clients before bankruptcy courts, federal and state trial courts, arbitration panels and appellate courts nationwide. She routinely handles bankruptcy and insolvency litigation, including the representation of debtors, banks, court-appointed fiduciaries, and creditors in Chapter 11, 7, 15, and 13 bankruptcies.

Katie has broad commercial litigation experience related to troubled and insolvent businesses. Her experience includes representing companies, fiduciaries, lenders, secured and unsecured creditors, as well as constituencies from every segment of the capital structure in federal and state court reorganization, liquidation and litigation proceedings. She has helped clients navigate insolvency matters involving billions of dollars in liabilities.

In 2017, Katie was part of a team that received the Turnaround of the Year Award (Large Company) from the Turnaround Management Association for her work on the first successful bankruptcy reorganization of a life settlement company.

Katie has significant experience in bankruptcy and litigation matters involving the real estate and energy industries. She has also litigated actions related to fraud that leads to bankruptcy or other displacement of management or control, including fraudulent transfer litigation, and state and federal court receivers.

Katie enjoys the challenge of pursuing innovative solutions for her clients. Her diverse experience allows her to quickly absorb complex fact patterns and distill them so she and her clients can focus on the best strategy for the situation at hand.

experience

- Served as counsel to the court-appointed fiduciary for a life settlement company with more than \$1.4 billion in liabilities.
- Represented an oil and natural gas company and its affiliates, a public company upstream debtor, which obtained confirmation of a pre-negotiated Chapter 11 plan in four months.
- Represented operators and other property owners in the defense of their rights in recharacterization fights in Texas and Delaware bankruptcy courts.
- Represented a debtor, a Mexican glass manufacturer, in a cross-border (Chapter 15) restructuring of more than \$2 billion in liabilities.
- Represented a financial institution as a lead creditor in a case that resulted in a successful reorganization of a major development in the Austin, Texas area.
- Represented numerous tenant-in-common (TIC) clients in a matter in the U.S. Bankruptcy Court, District of Delaware, Wilmington Division.

- Represented court-appointed receivers in civil securities fraud actions.
- Represented a client in appeal of an award of fraud and damages for fraud resulting in a reversal of the award.
- Represented a life insurance company in claim for breach of contract and breach of alleged fiduciary duties.

affiliations

Professional

- International Women's Insolvency and Restructuring Confederation (IWIRC), DFW Network, Board Member, Past Chair
- State Bar of Texas Bankruptcy Law Section Council
- Bar Association of the Fifth Circuit
- American Bar Association

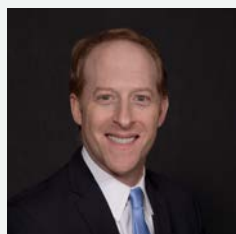
Community

- Attorneys Serving the Community
 - 2017-Present
- Junior Players
 - Board Member, 2017-Present
- International Student Foundation
 - Board Member, 2017-Present

recognitions

- Listed, 500 Leading U.S. Bankruptcy and Restructuring Lawyers (by Lawdragon Inc.), 2023
- Recipient, Michelle A. Mendez Award of Excellence, State Bar of Texas Bankruptcy Section, 2023
- Listed in the Best Lawyers in America (by BL Rankings), 2021-2025
- Listed, Best Lawyers in Dallas by D Magazine, 2023-2024

David Levy



David Levy

Managing Director

Direct (312) 754-9560
Cell (312) 909-1696
Email dlevy@Keen-Summit.com
Web www.Keen-Summit.com

David is head of the Summit Investment Management and Keen-Summit Capital Partners Chicago office. He responsible for all aspects of business development and execution in connection with the company's distressed debt acquisitions and opportunistic credit transactions, plus real estate brokerage and auction, investment banking, and lease modification and restructuring services. David has more than 13 year's experience in real estate advisory and transaction experience, with particular expertise in workout, bankruptcy, and other special situations.

EDUCATION, LICENSES, & CERTIFICATES

- MBA, Miami University
- BS, Business Administration/Marketing, Miami University
- Illinois Real Estate Managing Broker
- Illinois Auctioneer
- Illinois Notary
- Wisconsin Auctioneer
- Texas Auctioneer
- Certificate Commercial Investment Member (CCIM) Designee
- Certified Auctioneers Institute (CAI)
- Accredited Auctioneer of Real Estate (AARE)

REPRESENTATIVE CLIENTS

FINANCIAL & PRIVATE EQUITY

- Bank of America
- Chase Bank
- BB&T Bank
- Hanmi Bank
- National Credit Union Association

CLIENTS CATEGORIES

- Bankruptcy and Real Estate Attorneys
- Trustees
- Receivers
- Turnaround Consultants
- US Marshals Service

PROFESSIONAL AND INDUSTRY EXPERIENCE:

- David has more than 13 year's experience in real estate advisory and transaction experience, with particular expertise in workout, bankruptcy, and other special situations. David began his career in general management and marketing roles for various consumer product companies., and most recently as the Vice President of NRC Realty & Capital Advisors.
- David holds both the Certified Commercial Investment Member (CCIM) and Certified Auctioneers Institute (CAI) designations, making one of fewer than fifty professionals in the United States to hold both. He is a frequent speaker and moderator on real estate restructuring programs, a member of the Turnaround Management Association Chicago/Midwest Board of Directors, and has held various leadership roles on the American Bankruptcy Institute Real Estate Committee.