

# END OF YEAR REPORT CAPITAL MARKETS

## MARKET OVERVIEW

Throughout 2023, capital markets faced economic uncertainties, market volatility, and geopolitical instability. Property sales and mortgage origination volumes were both down more than 50% in the first three quarters of 2023 compared to 2022. However, a glimmer of hope emerged in the latter part of the year, characterized by stabilizing inflation and interest rates and a reversal in 10-year U.S. Treasury yields.

## HIGHLIGHTS

- The outstanding commercial/multifamily mortgage debt climbed by \$37.1 billion (0.8%) in Q3 2023 alone, reaching a total of \$4.63 trillion.
- Commercial markets did not enter Q4 with solid momentum. Year-over-year (YOY) transaction volume was down 51% as of December 2023.
- As of January 11th, 2024, CRE mortgage borrowing had declined 53%, owing to concerns about some properties' fundamentals, uncertainty about property valuations, and higher and more variable interest rates.
- Among investor types, the dollar volume of loans originated for banks fell by 73% YOY. Investor-driven lenders saw a 55% decrease, GSEs (Fannie Mae and Freddie Mac) saw a 27% decrease, commercial mortgage-backed securities (CMBS) saw a 5% decrease, and life insurance company loans saw a 4% decrease in dollar volume.
- Over the next few years, more than \$1.5 trillion in commercial mortgages will come due.

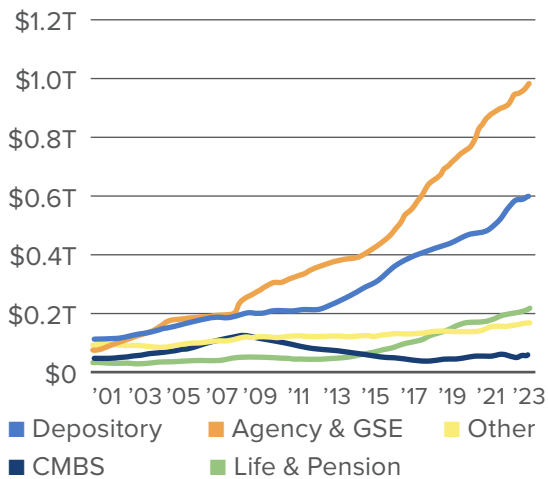
## MULTIFAMILY

In 2023, the apartment market maintained its status as the largest commercial real estate investment class despite a 61% decline in deal volume compared to 2022. Year-end volume amounted to \$119 billion.

Decreases in originations for all main property categories contributed to an overall reduction in commercial/multifamily lending volumes when compared to Q3 2022. Multifamily mortgage debt rose by \$26.8 billion (1.3%) to \$2.05 trillion since Q2 2023.

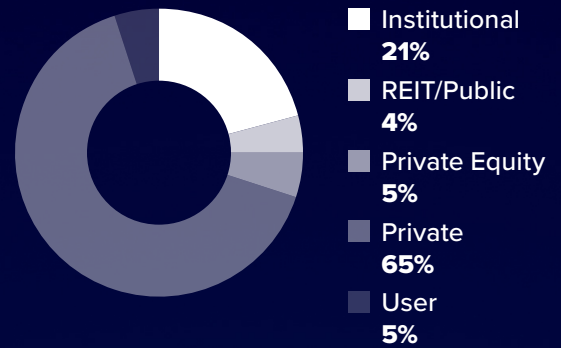
### VALUE OF NEW CONSTRUCTION PUT-IN-PLACE

Source: MBA



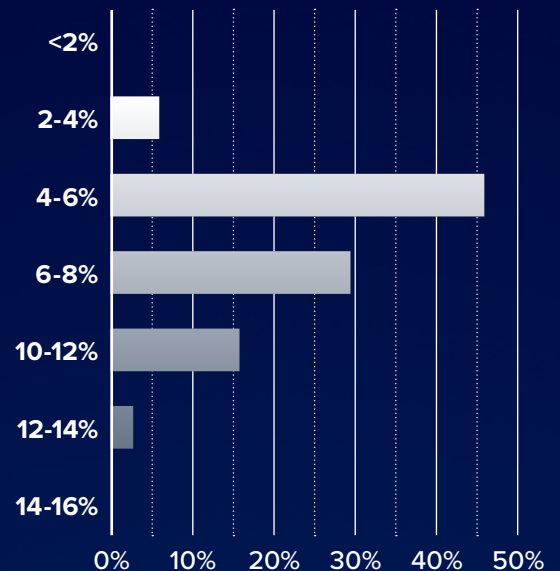
### SALES VOLUME BY BUYER TYPE

Source: CoStar Group | Past 12 Months



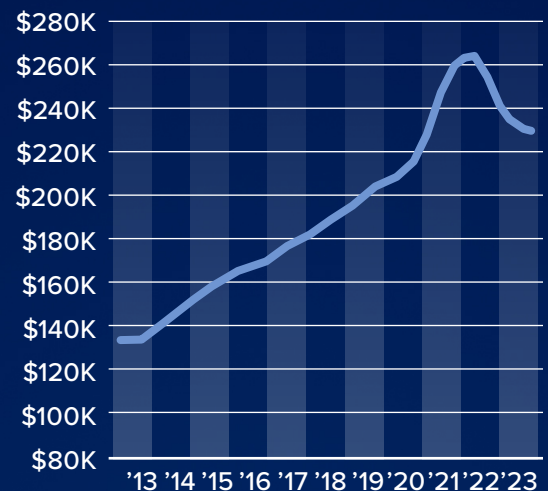
### MARKET CAP RATE DISTRIBUTION

Source: CoStar Group



### TRANSACTION SALE PRICE PER UNIT

Source: CoStar Group





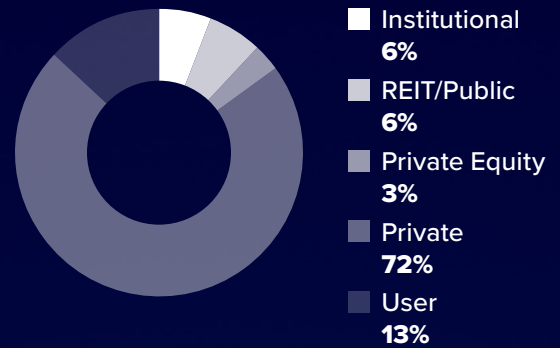
## RETAIL

The retail market faced its fair share of challenges in 2023, adjusting to new consumer preferences and several Fed rate hikes. In 2023, transaction volumes experienced a 38% decline, reaching \$57.3 billion. Notably, the sale of \$10.3 billion in Q3 marked a significant 69% decrease from the peak observed in Q4 2021. The market has much to contemplate, with the upcoming maturity of \$164 billion in retail loans scheduled between 2024 and 2026. About 50% of these loans are held by banks, and CMBS investors carry an additional 27%. Tight lending standards are evident across all types of lenders, and regional banks are scaling back from their previously rapid origination pace. 2024 will also challenge the spending capacity of U.S. consumers. Fortunately, the absence of new retail construction and historically low availability rates should limit how much vacancy rates might rise in the event of reduced demand.



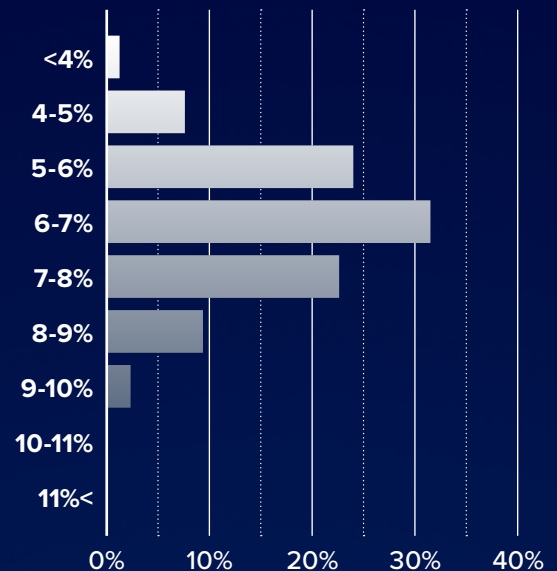
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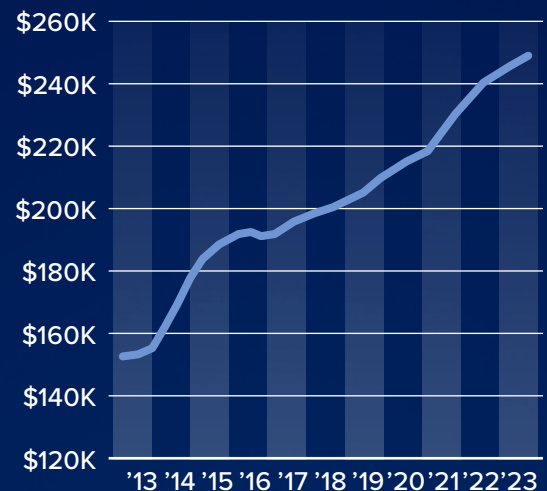
## MARKET CAP RATE DISTRIBUTION

Source: CoStar Group



## TRANSACTION SALE PRICE PER SF

Source: CoStar Group



## OFFICE

The office sector faces ongoing difficulties, marked by rising vacancies, increased tenant improvement costs, and a slowdown in rent growth, dampening investor enthusiasm. In 2023, transaction volume amounted to \$52 billion, not the worst on record for the office market, but it still was not a healthy time. With quarterly sales volume dropping below the lows seen during the pandemic, the sales volume in 2023 experienced a 56% decline YOY.

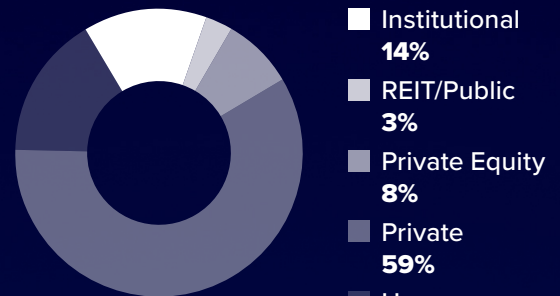
Looking ahead, potential challenges for 2024 arise from upcoming debt maturities. Approximately \$117 billion in office loans are set to mature in 2024, with nearly \$100 billion in 2025. The delinquency rates have increased by 5.6% since December 2022, reaching 7%. There is a possibility that these rates could revert to levels observed in the post-Global Financial Crisis (GFC) era in the next several quarters.

**Delinquency rates rose for a number of loan types during 2023, with office properties leading the way.**

Source: MBA

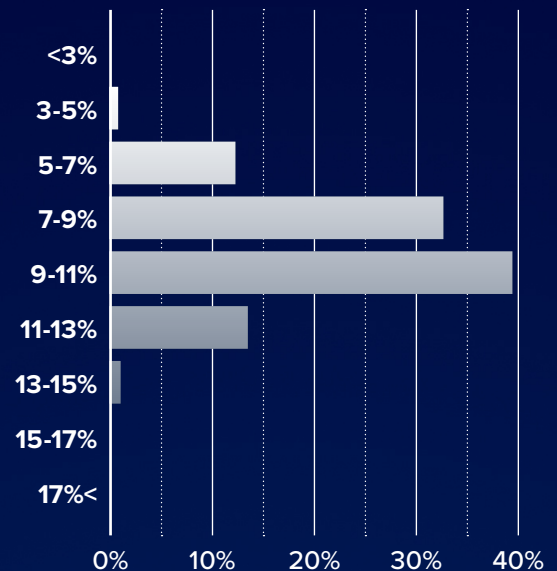
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Source: CoStar Group | Past 12 Months



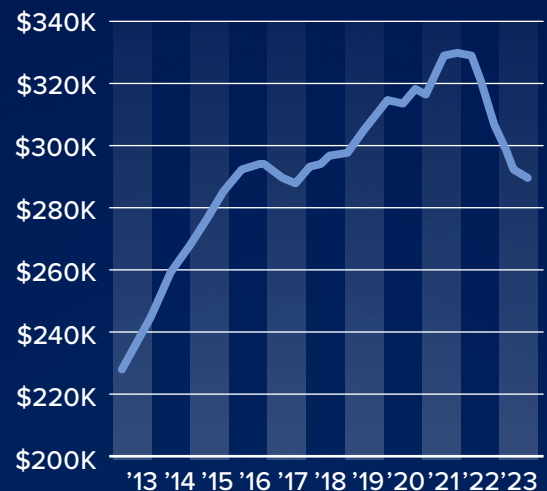
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## TRANSACTION SALE PRICE PER SF

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## INDUSTRIAL

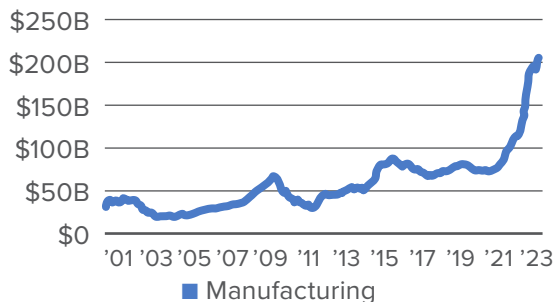
In 2023, industrial investment activity reached almost \$60 billion, 15% lower than the market's 10-year average. Following eight consecutive quarters (Q1 2022 - Q4 2023) of decreasing transaction volume, there is a potential for an increase in sales velocity in 2024, drawing parallels from the commercial real estate downturn of 2008 to 2009. In that period, the number of closings declined for seven consecutive quarters before experiencing a 74% rebound over the subsequent two years.

Furthermore, the upcoming maturity of \$24 billion in CMBS loans next year could spur sales activity, especially considering the anticipated differences in the interest rate environment compared to their rates at origination.

**The industrial sector has been buoyed in the last few years amid surging demand amid limited supply.**

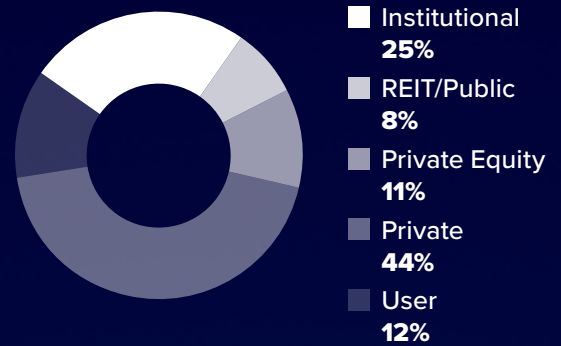
## VALUE OF NEW CONSTRUCTION PUT-IN-PLACE

Source: MBA



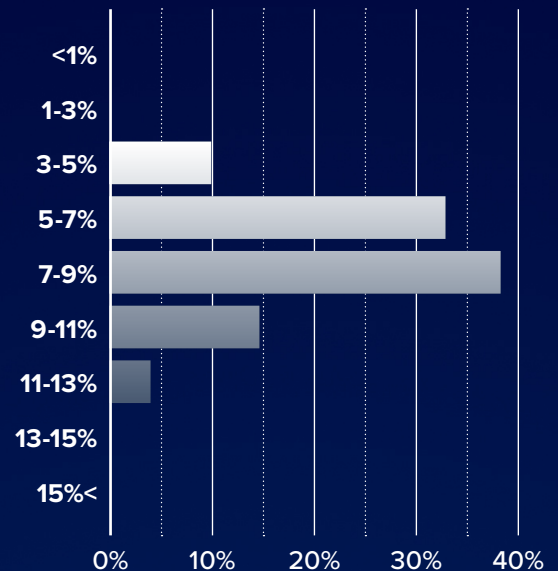
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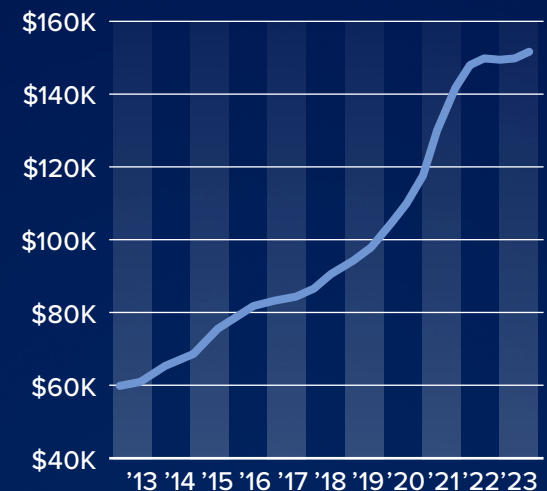
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## TRANSACTION SALE PRICE PER SF

Source: CoStar Group





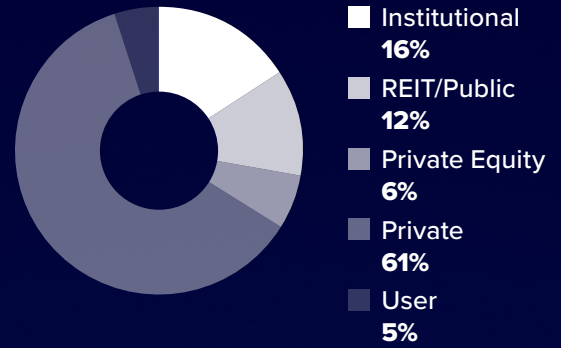
## HOSPITALITY

Elevated bid-ask spreads persist due to the challenges in deal underwriting caused by higher interest rates. Cap rate projections have been gradually rising. Historically, hotel cap rates were 100 to 150 basis points higher than office cap rates. The spread between office and hotel cap rates is expected to narrow to less than 100 basis points in the future. The transaction outlook remains subdued, with buyers hesitating due to the uncertainty in the interest rate environment. Instead of finalizing deals, funds may provide debt or preferred equity positions, allowing owners to adjust their capital structure without relinquishing complete ownership.



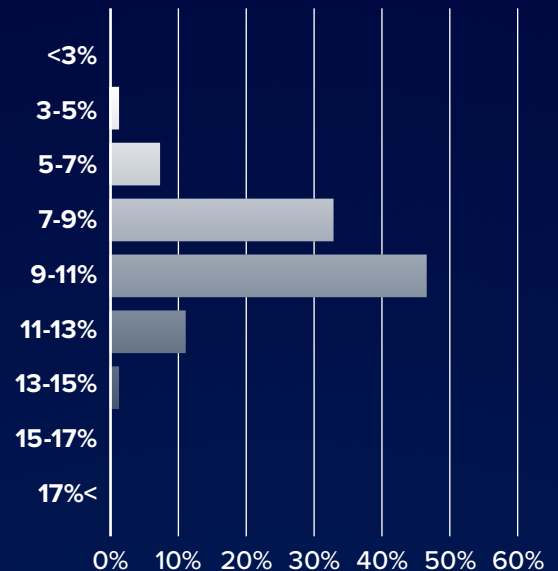
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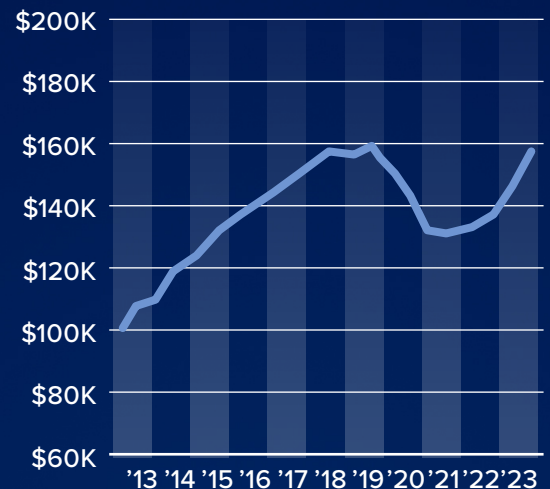
## MARKET CAP RATE DISTRIBUTION

Source: CoStar Group



## TRANSACTION SALE PRICE PER ROOM

Source: CoStar Group





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