COMMERCIAL REAL ESTATE TRENDS REPORT

An Integra Realty Resources Publication

VIEWPOINT 2024

ABOUT VIEWPOINT

Integra Realty Resources (IRR) is one of the largest independent commercial real estate valuation and consulting firms in North America, with over 154 MAI-designated members of the Appraisal Institute among nearly 600 professionals based in our more than 50 offices throughout the United States and the Caribbean. Founded in 1999, the firm specializes in real estate appraisals, feasibility and market studies, expert testimony, and related property consulting services across all local and national markets. Our valuation and counseling services span all commercial property types and locations, from individual properties to large portfolio assignments. For more information, visit www.irr.com.

ABOUT IRR

For over 20 years, Integra Realty Resources, Inc. (IRR) has grown to become one of North America's largest independent CRE market research, valuation, and counseling firms. Our clients tell us that our nearly 600 professionals in 50+ offices deliver extraordinary insight, unbiased advice, and excellent service. In 2023, IRR valued more than $153 billion in real estate assets across more than 60 metro markets comprising more than 30,000 assignments.

Every IRR office is supervised by one of our nearly 160 MAI-designated professionals, industry leaders who have over 25 years, on average, of experience in their local markets. Having more MAI-designated experts than any other firm is just one testament to the high levels of training and experience which we put at our clients' disposal: as of January 2024, IRR's senior management team also includes: 12 FRICS; 8 MRICS; 17 CREs; 22 SRAs; 14 CCIMs; 4 ASAs.

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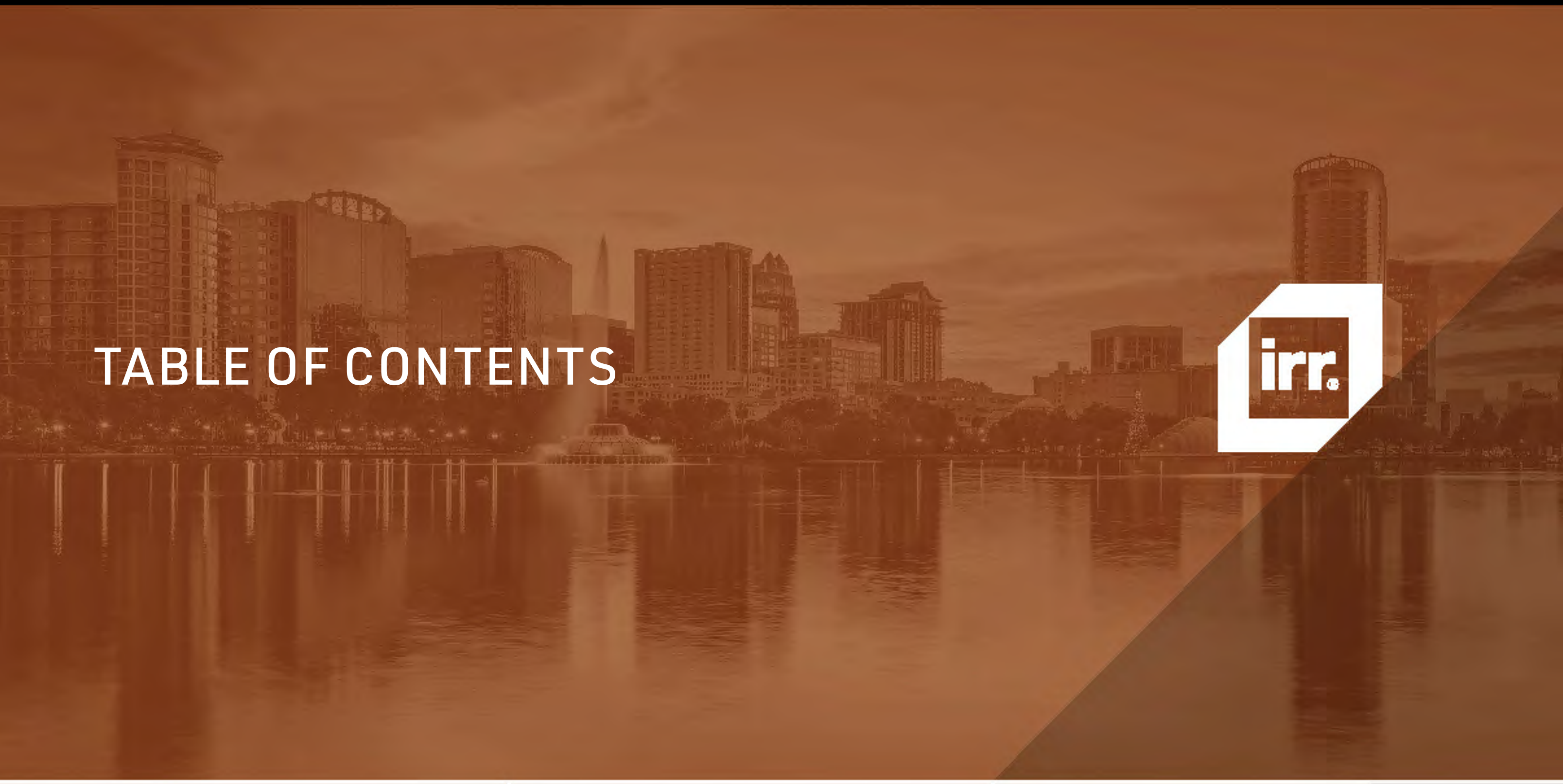
TABLE OF CONTENTS



CEO'S LETTER

Welcome to the 31st edition of Viewpoint, Integra's annual forecast of conditions affecting the U.S. commercial real estate market as we close out 2023.

As we look forward into 2024, it is difficult to fight pessimism in the real estate community amidst an entire year of downward value trends. The most-discussed topic outside of Artificial Intelligence (AI) and its potential impacts on business was the impact of rapidly rising interest rates on the value of real estate. While industrial real estate trends were mostly positive through Q1-2023, apartment's and industrial's meteoric rise slowed considerably by Q2-2023, and all real estate asset classes were falling by mid-year 2023 relative to 2021/2022 pricing.

Despite the oft-cited predictions from 2022 that interest rates would stabilize in 2023, and even decline by Q3 of 2023, the economic impact of 11 continuous interest rate hikes from 2022 through 2023 began to destabilize the trading market for real estate early in the year. As we close out the year, the current lack of lending capital is now affecting holding strategies. Of course, there are some who predict interest rates will decline in 2024, and that such changes will help asset values recover. This misses the fundamental point. Post-COVID values were driven up by cheap money, but they were also driven up because capital was being deployed to offset rising inflation expectations. This arbitrage only works if inflation can't be tamed and capital remains plentiful. The sharp rise in rates brought inflation expectation down, and crippled exit pricing since buyers no longer had access to cheap long-term capital. Values had to reset in light of these market forces.

If you spent any time at any real estate industry conferences in 2023, you heard about all the "dry powder on the sidelines" waiting to be opportunistically deployed. These same capital allocators with all this dry powder were giving back the keys to major investments throughout the US while raising new money for opportunistic fund deals. So where are all the opportunities? The market would say that opportunities were limited because of the bid/ask spread (i.e.: sellers were not realistic, and buyers' offers were discountedtoo heavily). I would suggest that buyers aren't seeking to buy at the new reset market value, they want distressed value opportunities because they perceive more risk.

The real opportunity in 2024 will be time. Investor-owners who have leveraged reasonably will be rewarded for their discipline. Owners with a reputational advantage for excellent management will be rewarded through cashflow. Those who overleveraged or who cannot deliver exceptional management will run out of time and will represent the "opportunities" the dry-powder crowd has been waiting to meet. Time will be the ally of well-capitalized investors in 2024. It will not be the ally of lenders who fail to act as they hope for a Fed rescue-flex of quickly decelerating interest rates. Even the announcement that the Fed wasn't going to raise rates in December sent economic indicators soaring. The Fed will proceed more slowly to lower rates than they did to raise them.

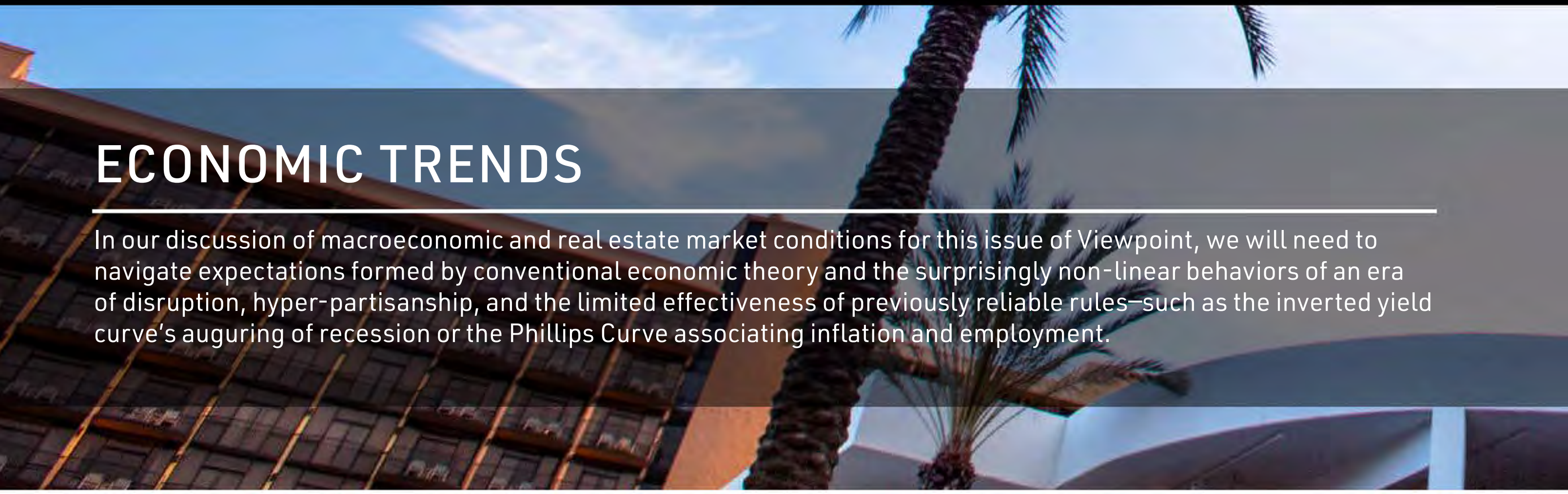
We expect 2024 to be a challenging year in the valuation field. Our perspective on value will remain grounded in the fundamentals of market economics. There will be many disagreements about value (and value opinions) in 2024. Many people think current values should be more distressed (and hence more deeply discounted for risk); others view value from a stabilized long-term perspective and therefore view any deeply discounted values as "not market value." Both perspectives have merit, and both perspectives are just a different view of the inherent risks in real estate ownership.

Equity will seek a risk-adjusted return. So, 4% investment capitalization rates on an illiquid, management intense apartment complex on a 7-year hold will be very difficult to justify against a 10-year risk-free treasury note at 3.89%, unless there is a compelling appreciation story (below market rent, major demand drivers, extremely low supply pipeline, etc.) The coming year will be a career-making lesson in the value of liquidity and the time-value of money.

Integra stands ready to provide market perspectives, market research, and well-developed value opinions clearly and credibly. We hope our Viewpoint 2024 edition assists our clients and friends as they develop their thesis around value.

We hope 2024 delivers you the best risk-adjusted return you've ever discovered.

Anthony M. Graziano, MAI, CRE
CEO & Chairman of the Board



ECONOMIC TRENDS

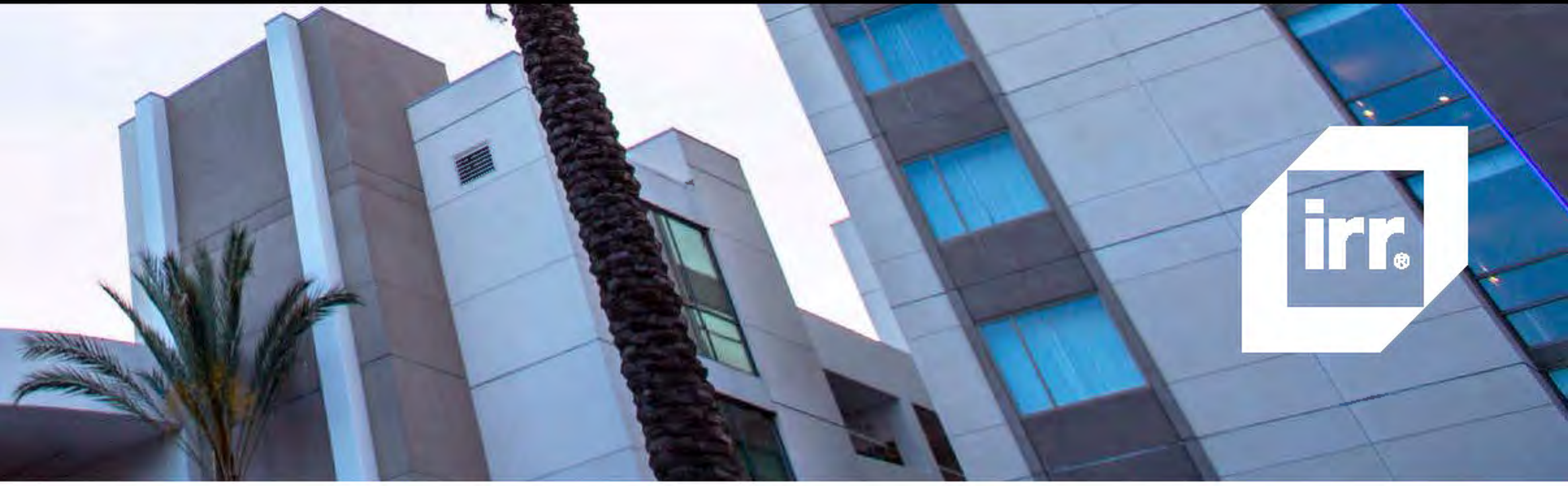
In our discussion of macroeconomic and real estate market conditions for this issue of Viewpoint, we will need to navigate expectations formed by conventional economic theory and the surprisingly non-linear behaviors of an era of disruption, hyper-partisanship, and the limited effectiveness of previously reliable rules—such as the inverted yield curve's auguring of recession or the Phillips Curve associating inflation and employment.

GROSS DOMESTIC PRODUCT

The Curious Case of the Receding Recession

Since inflation began surging in March 2021, many economists anticipated that only a recession could end the price increases besetting Americans. There was historical precedent. Recessions are frequently preceded by rising interest rates spurred by monetary tightening and rising energy prices reflecting supply dislocations. Those conditions certainly prevailed over the past couple of years, and both public sector and private sector economists largely believed that the past was prologue.

The alternative scenario, termed a 'soft landing' for the economy – economic moderation after a period of growth – is rarely achieved. Since World War II, America has weathered thirteen recessions but has enjoyed only three soft landings. Those were in 1965, 1984, and 1995. Thus, the odds seemed tilted toward recession, especially given the combination of COVID-19 disruptions and an unsettled geopolitical climate exacerbated since February 2022 by the Russian incursion into Ukraine. The Israel-Hamas war that began in October 2023 further unsettled the outlook. Moreover, the U.S. and Europe have been coping with large migrant surges due to refugee flows stemming both from political and climate-related pressures.

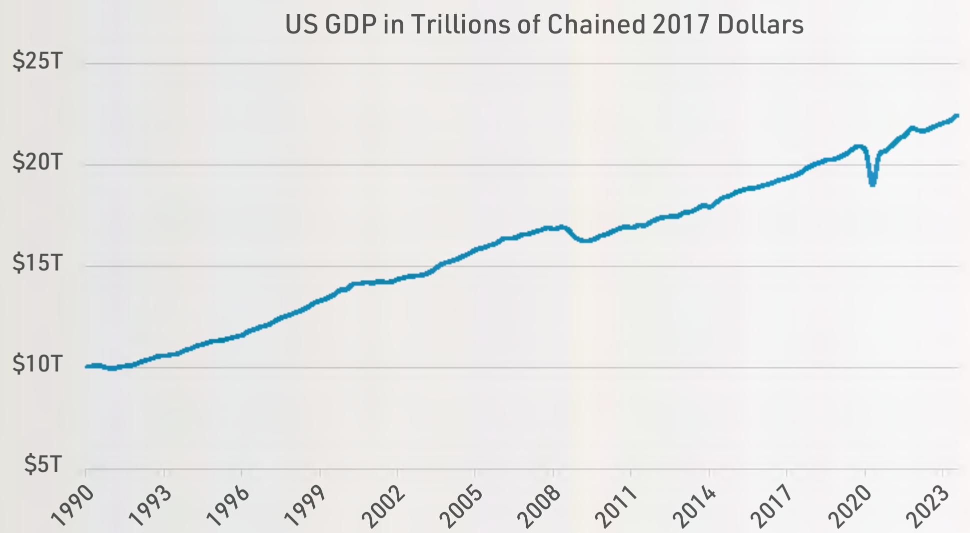


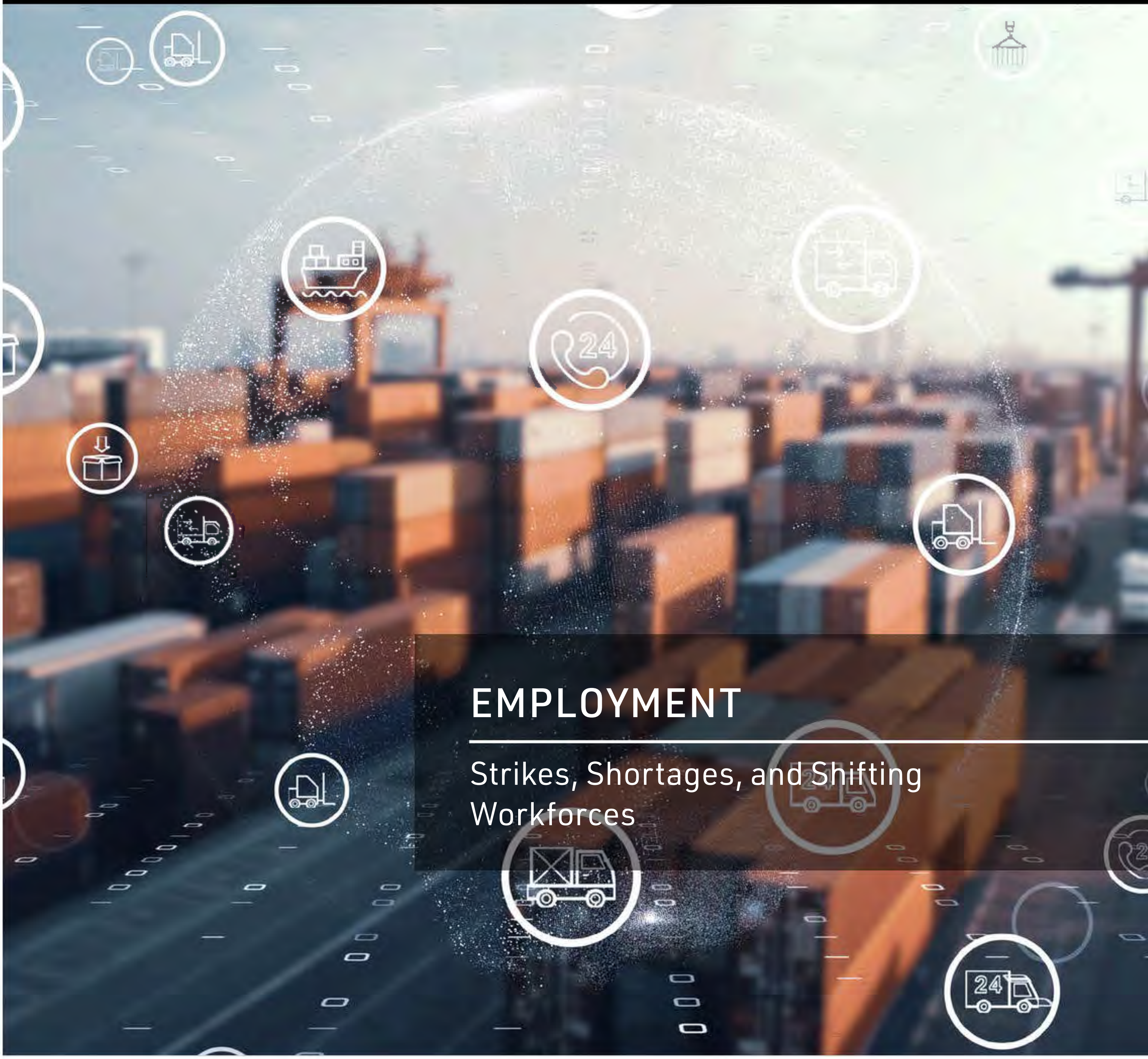
In real dollar terms, U.S. GDP stood at $22.5 trillion as of the Third Quarter 2023, having spiked 4.9% over the summer quarter. This was up $3.5 trillion from the COVID-19 trough, or a remarkable 18.1% rebound since the spring of 2020. Economic commentators relish stories of episodic change, of course, and the plunge of the pandemic disruption and the unexpectedly robust recovery since then have captured both professional and press attention. Yet, over the long haul, between 1990 and 2020 the annual growth rate of GDP registered 2.4%. Over the past three years, growth has been just slightly higher, at 2.8%. As the accompanying graph illustrates, the forward momentum of the U.S. economy has displayed long-term sustainable expansion, even with recessions taken into account, and has more than doubled in size over the past third of a century.

None of this means that those still forecasting a recession will be proven wrong – eventually. Claims that the business cycle is dead have repeatedly been dashed by the economy. But from the perspective of real estate investors, whose holdings have durations far in excess of the average length of recessions (10 months for all thirteen post-WWII downturns), the longer-run performance of the economy is what counts.

While there is no question that the real estate cycle and the business cycle are not entirely synchronous, real estate demand is solidly linked to overall economic vitality. There is no good reason to deny the stresses of disruption that economic change brings to real estate. But neither is their justification for proclaiming an 'apocalypse' in the property markets as they adjust to that disruption.

Size of U.S. Economy Has More Than Doubled Since 1980





EMPLOYMENT

Strikes, Shortages, and Shifting Workforces

Every month, local, state, and national jobs numbers give us a fresh, relevant look at how the economy is performing – by industry, occupation, and economic impact – in terms of costs and productivity. As 2023 winds down, by and large, the numbers are good. Total employment stands at about 157 million jobs. Unemployment is 3.9% and has been below 4% since January 2022. Not only is joblessness back to pre-pandemic levels, but it's at its lowest point since before the 9/11 attacks. For most of this year, job growth has advanced at a 3.2 to 3.4 million annual pace, an increase of more than 2% year-over-year.

Unemployment is 3.9% and has been below 4% since January 2022.

With the huge baby boomer cohort exiting the labor force, the economy has moved from persistent labor surplus to chronic labor shortage.

Productivity – output per worker – has been rising across most industry sectors, although real wages have largely remained stagnant. Compensation has increased, but inflation has eaten most of the gains. So, while the numbers look good, dissatisfaction is high among both blue-collar and white-collar workers. The long view will be shaped by demographics: With the huge baby boomer cohort exiting the labor force, the economy has moved from persistent labor surplus to chronic labor shortage. The pandemic, of course, was a crucial pivot point.

During the height of the COVID-19 outbreak, blue-collar workers had to perform highly stressful jobs in person. They were empowered psychologically by the recognition that they were essential. As the coronavirus restrictions ended, these workers wanted to be compensated for their elevated status and their efforts. As a result, 2023 brought significant strikes in auto manufacturing, leisure and hospitality services, and healthcare. As of September, 335,000 workers had walked off the job. For the most part, striking workers have gained what they sought.

So, if these dynamics continue, we could see similar labor actions in 2024.

On the white-collar side, the issues are somewhat different, but a pattern of emboldened labor is also evident. The Writers Guild and SAG-AFTRA strikes, as well as walkouts at universities and publishers, are re-shaping the future of work even in industries where 'work-from-home' is common. We're beginning to see that while technological change can be enabling, it also can be threatening. Disruptive change can spur innovation even as it foments chaos and unpredictable mutation in the workplace.

So more than at any time in the recent past, employment is not just about the numbers. It is, more importantly, about the nature of work. Real estate is feeling this in the debate about returning to the office. A mere cost-benefit analysis won't resolve that controversy. Human preferences, human behaviors, and alliances formed to reflect those, will likely be the keys to the jobs numbers in 2024 and thereafter.

INFLATION

A Complicated, Uneven Impact Persists

Inflation is a simple word that disguises a complicated and often confusing phenomenon. The confusion might be understandable if it were limited to media commentary or popular perception. It is less acceptable, however, when policy makers gloss over inflation's complexities, and take actions that are broadly based and have an uneven effect.

The Consumer Price Index (CPI) components offer a stark illustration of this. Goods consumption makes up 38% of the CPI, with services at 62%. For each, we can distinguish between basic needs and discretionary spending.

Conditions in the basic needs categories illustrate why many observers can feel inflation remains untamed even when the CPI has declined. By far the largest component of the CPI is "housing services," where rent-for-shelter accounts for more than 34% of all personal expenditures. Over the past year, that component is up 7.2%.

Healthcare, particularly urgent care, is up 4.7%. Outpatient hospital costs have risen even more steeply, at 6.1%. Prescription drugs increased by a more modest 2.2%, but over-the-counter drugs are up 8.4% and medical equipment and supplies have surged 7.6%. At two ends of

The Sunbelt, including Atlanta, Dallas, and San Diego, are running slightly higher than the US CPI.

the age spectrum, baby food and formula are up 9.2% and elderly home care is up 6.8%.

For most of the preceding categories, economists consider demand inelastic relative to price, meaning providers have the ability to raise prices without a consequent reduction in demand.

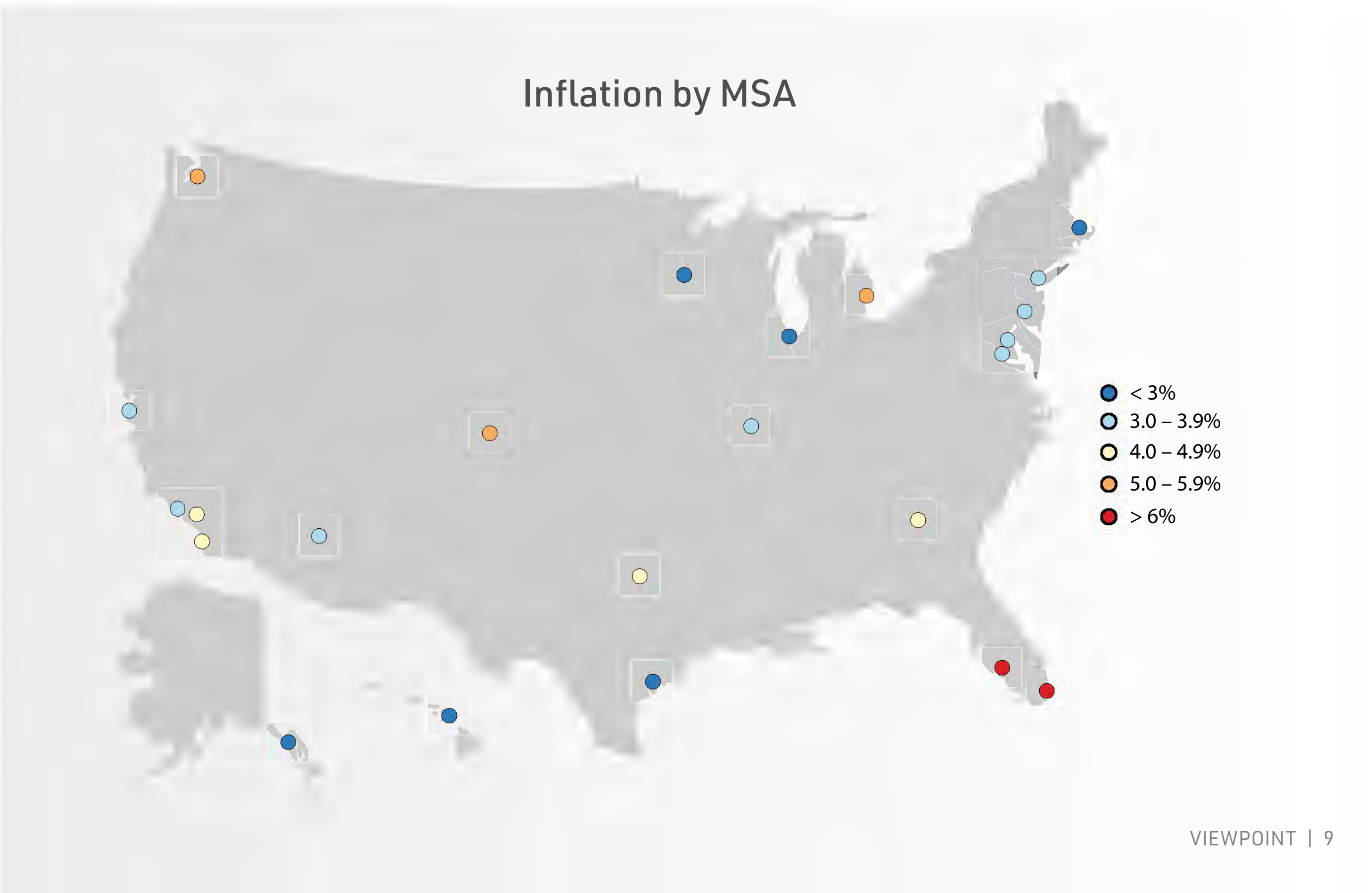
Other areas of relative inelasticity include dining out, where prices have jumped 6.0% for meals and 6.4% for alcoholic beverages consumed outside the home. Tobacco and smoking products, notoriously impervious to price changes, are up 5.6%. If you need car or truck repairs, that cost has accelerated 10.2%. To top it off, the price of admission to sporting events has risen an astonishing 18.9% year-over-year.

The upshot: Americans still feel inflation's impact in important parts of their budgets, even if the overall CPI has moderated. Of course, there are areas where price declines put downward pressure on the CPI, providing some relief at the checkout counter. Pork products are down 1.7%, chicken prices are lower by 2.1%, and milk is also down 2.1%. Citrus fruits and fresh vegetables have also seen prices easing, and the cost of butter is off by 4.0%.

While prices at the pump continue to be the easy story on energy costs, fuel oil prices are down 5.6% and energy overall (more than 7% of the CPI) is down about a half-percent in the past year. Big ticket items in the home have fallen in price, too. Furniture costs are down 5.4% and major household appliance prices have dropped 7.7%. But such budget items don't impact daily outlays for most households, and pain grabs more psychological attention than relief does. So it is understandable that the statistical improvements on the inflation front have not gained a lot of credence across the nation.

Perhaps also worthy of mention, as it seems counter-intuitive to the popular narrative: the Boston-Washington corridor, large Midwest cities including Chicago and Minneapolis, as well as the West Coast population centers of Los Angeles and San Francisco have had lower inflation over the past year than the national average. So have Houston and Phoenix. The Sunbelt, including Atlanta, Dallas, and San Diego, are running slightly higher than the US CPI.

Tech-centric Denver and Seattle, alongside Detroit, exceed a 5% inflation rate. And Florida is a hotbed of inflation, with Tampa at 6.7% and Miami at 7.8%. Those migrating to putatively lower-cost locations may be finding some rude surprises upon arrival.



INTEREST RATES

Managing the Impact of "Higher for Longer"

In recent decades, the Fed has expanded its arsenal of weapons beyond interest rate management to include tools such as quantitative easing or tightening. This is an encouraging trend. Nonetheless, at every six-week meeting of the Fed's Open Market Committee, interest rates still dominate the agenda. Will they rise, fall, or hold steady?

The problem is, interest rates are a blunt instrument applied to the entire range of the economy, but they have different impacts across industries and geography. When it comes to drawing conclusions from announced Fed policy for individual sectors things get tricky.

The prevailing view is interest rates will remain higher for longer.

Fed tightening has unquestionably reversed the COVID-era spike in the CPI, as shown in the accompanying graph. Now, the question is, can policy effectively guide the CPI back to the 2% target, a feat achieved numerous times in the past third-of-a-century? If it can, is it possible to achieve this with a soft landing, akin to 1995's outcome, or will it precipitate a recession, as is often the case?

Those outcomes are not entirely under the Fed's control. In a global economy, there are many actors only loosely linked to Fed policy. More important, there are a range of responses available to U.S. businesses and households. For example, some institutions, smartly, adjusted to interest rate changes by moving their debt durations to longer positions, taking advantage of the inverted yield curve. Others, such as Silicon Valley Bank and Signature Bank, took a more ill-advised approach, holding their ground as short rates rose from near zero, and found themselves succumbing to an asset-liability mismatch that led to runs on their banks.

For real estate, the key issue posed by higher-for-longer rates is how to craft a sustainable risk premium for both equity investors and lenders. If the Treasury rate remains elevated for the next several years, say to the post-1990 average of 2.75% for 3-month Treasuries and 4.5% for the 10-year T-note, and inflation settles in at about 2.5% (its 33-year mean), then risk premiums for cap rates, commercial mortgages, and equity yields should rise to reflect this. While this does not make inevitable the widely discussed "urban doom loop" — which foresees declines of one-third to one-half in the office sector, for instance — it does mean there will need to be a reckoning with the downward pressure on prices. This was discussed in Viewpoint 2023 under the rubric of asset-price inflation and remains a serious consideration for the coming year or more.

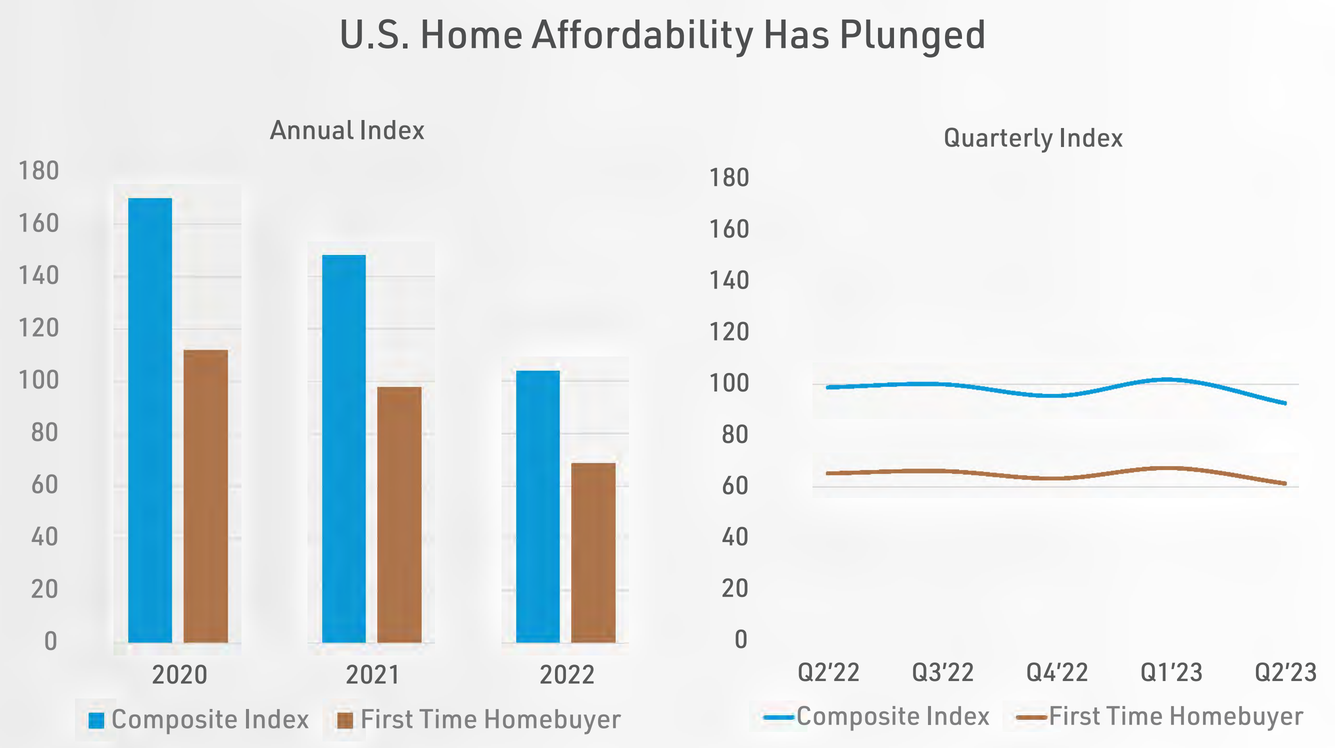
HOUSING

Not Enough Homes, Too-High Prices

There seems to be a constant albeit shifting pattern of stress in the housing market. Going into 2024, the preponderant stress factor looks like "affordability." That's a significant change since 2020.

The long-running story in housing economics is a simple one: under-production. The 2010s averaged just 994,000 new housing units annually. At first glance, the production of the 2020s looks much improved, at nearly 1.5 million units. That's about on par with the fifty-year average for 1960-2009. So, what's the problem? The housing units need to be placed in context with the population base. In 1960, our census counted 179.3 million U.S. residents; in 2020 the number was 331.4 million. So, in the 1960s we built 7.8 new homes per 1000 residents. In the 2020s, the comparable figure is 4.5 new housing units. Relative to population, housing output is down 42% over the decades.

The law of supply and demand dictates that under-production means higher prices. Homebuyers today can attest to that.



However, construction trends are far from the only factor affecting housing. The impact of the COVID-19 pandemic can't be ignored. A surge in demand that began in 2020 crescendoed to an ownership rate of 66%, the highest since 2011. This was part of an upward trend that began in 2016, from a trough of 63.6%. The Fed's decision to keep rates at historic lows fueled buyer interest. Today, the COVID-19 demand push persists even as mortgage rates have risen from 3.17% on average in 2020 to 6.57% as of mid-2023. This accounts for the 34% increase of the median home price, as tracked by NAR, from $300,200 in 2020 to $402,600 in mid-2023.

Rising prices and increased financing costs have caused affordability to plummet. In 2020, as the accompanying graph shows, the qualifying income needed for a conventional loan on a median-priced home was $49,689, yielding an affordability index of 169.9 (median family income divided by qualifying income). By mid-2023, the median family income increased 8% to $91,270, whereas the qualifying income for housing nearly doubled to $98,429.

Conditions for first time homebuyers have been even worse. In 2020, such households had a thin affordability margin but since then have been underwater, and sinking, with an affordability index of 61.4.

Constrained housing affordability is worrisome for the economy in general, as well as for the real estate sector in particular.

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CAPITAL MARKETS

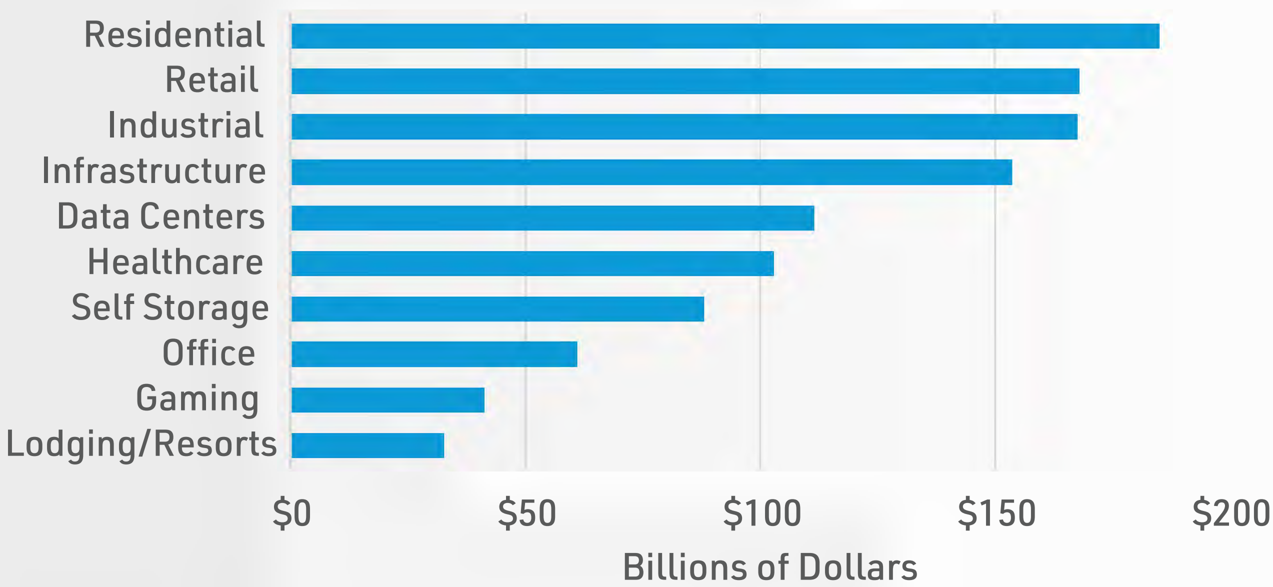
Expect Ongoing Challenges for REITS and CMBS

2023 was discouraging for Real Estate Investment Trusts (REITs) and for Commercial Mortgage-Backed Securities (CMBS). Through the first three quarters of the year, REITs dropped 5.6% in value as a stock sector. For the twelve months ending October 2023, CMBS data shows 136 loans disposed of with a loss, with an aggregate loan amount of $2.5 billion. The loss severity for those debt assets: more than 53%.

The FTSE Nareit Index covers 141 traded property trusts with a total market capitalization of $1.2 trillion (as of September 2023). It is a diverse collection of properties, as the accompanying chart shows. In a disappointing 2022, none of the REIT property sectors posted positive returns. In 2023, there were small improvements in several sectors. Industrial REITs rose 1.7% (YTD/Sept), Lodging was up 0.8%, Healthcare increased by 3.1%, Timberland grew 1.5%, and Data Centers were up 16.4%. Such gains, of course, are netted out in the sector's 5.6% overall decline.

REIT shares are trading at a significant 28% discount to Net Asset Value (NAV). With such large discounts to NAV, obviously REIT investment is relatively less efficient than direct investment, as a path to property ownership. Even given the tax advantages of REITs, there's a cloud over the sector. The outlook is brightened somewhat by the relatively high dividend yields provided by REITS, especially for those in the office (6.3%), retail (5.8%), and diversified (8.7%) categories. While the prospects for REIT acquisitions in 2024 are fairly dim, the likelihood of REIT consolidations is high, since stronger REITs can grow at favorable pricing via M&A activity.

REIT Assets Span the Gamut of Property Types



Structured debt instruments, meanwhile, are facing dual challenges: rising interest rates and reconfigured patterns of property use. As bonds, CMBS pricing moves inversely with changes in interest rates. This threat is intensified as upward trends in cap rates put downward pressure on the value of real estate. The persistent impact of work-from-home on offices and e-commerce on stores limits the near-term revenue potential of brick-and-mortar real estate.

As a result, the overall CMBS delinquency rate rose from 2.96% to 4.63% year-over-year, as of October 2023. Retail (6.55%) and office (5.75%) securities were on the high end of delinquencies, while Multifamily (2.64%) and Industrial (2.56%) structured loans had superior payments, although those sectors were also showing stress compared to a year ago. Looking ahead, Trepp analysts report that $2.7 trillion of commercial real estate loans will mature by 2026. Of this, $316 billion is packaged in CMBS. Banks ($1.4 trillion) have far greater exposure to this so-called 'wall of maturities.' But whatever form the debt takes, loans that were made during the era of ultra-low rates face sticker-shock when borrowers seek to recapitalize in a high-for-longer interest rate environment.

Through the first three quarters of the year, REITs dropped 5.6% in value as a stock sector.

PROPERTY REPORTS

As we step into 2024, the commercial real estate landscape is marked by distinct shifts across all five main property sectors. From the office market adjusting to evolving work patterns to the industrial sector's cautious growth, the retail sector's quest for equilibrium, multifamily's supply-demand imbalance, and hospitality's ongoing recovery, each sector presents a unique set of challenges and opportunities. Let's delve deeper into these key sectors.

OFFICE

The Case for Optimism

Equity investors and lenders are beginning to ask the crucial question: "Are we at or near the bottom of the cycle?"

Some might be asking it pessimistically, as a concession to the serious difficulties in the office sector. Others might be more positive, suggesting that it's time to grab a pricing opportunity of the 'buy low/sell high' variety. Prudent investment committees can hold both possibilities in mind, despite the apparent cognitive dissonance required to do so.

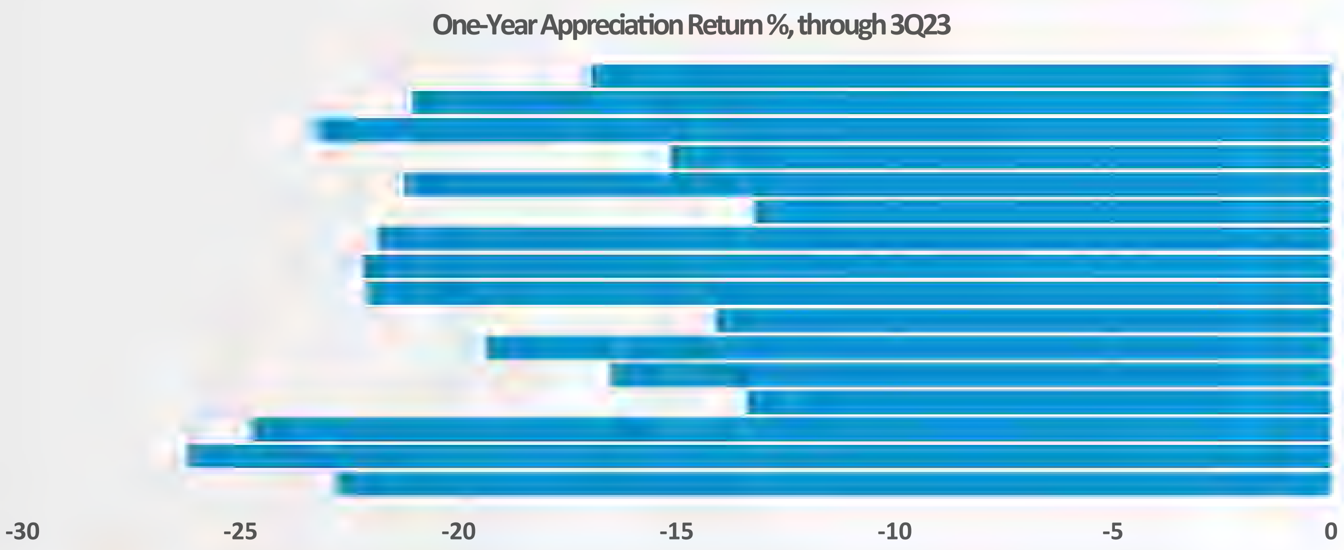
For the past year, the terms "urban doom loop" and "office apocalypse" have been widely discussed in the press and in academic papers. The prevailing theory is that the COVID-19 pandemic, with its extensive adoption of work-from-home (WFH) and the halting efforts of employers promoting return-to-office (RTO), is undermining the future of office markets. As a result, the theory holds, municipal tax revenues will drop, and cities will enter a downward spiral as they cut services, hurting their ability attract residents as well as workers. It's a dark vision, one that plays into the notion that cities – especially large cities – are avatars of dysfunction and degeneration.

You don't have to accept that vision to acknowledge that the office sector has taken a serious blow since 2020. The value losses depicted in the NCREIF data in the accompanying graph show that coast-to-coast, frostbelt to sunbelt, offices have experienced double-digit negative appreciation returns in the past year. For a startling number of markets (Austin, Boston, Chicago, Denver, Houston, Los Angeles, San Francisco, Seattle, and Washington DC), the decline has exceeded 20%. Our list of bear markets features many of the same metros, where transaction volume has dropped year-over-year between 68.6% and 90.3%.

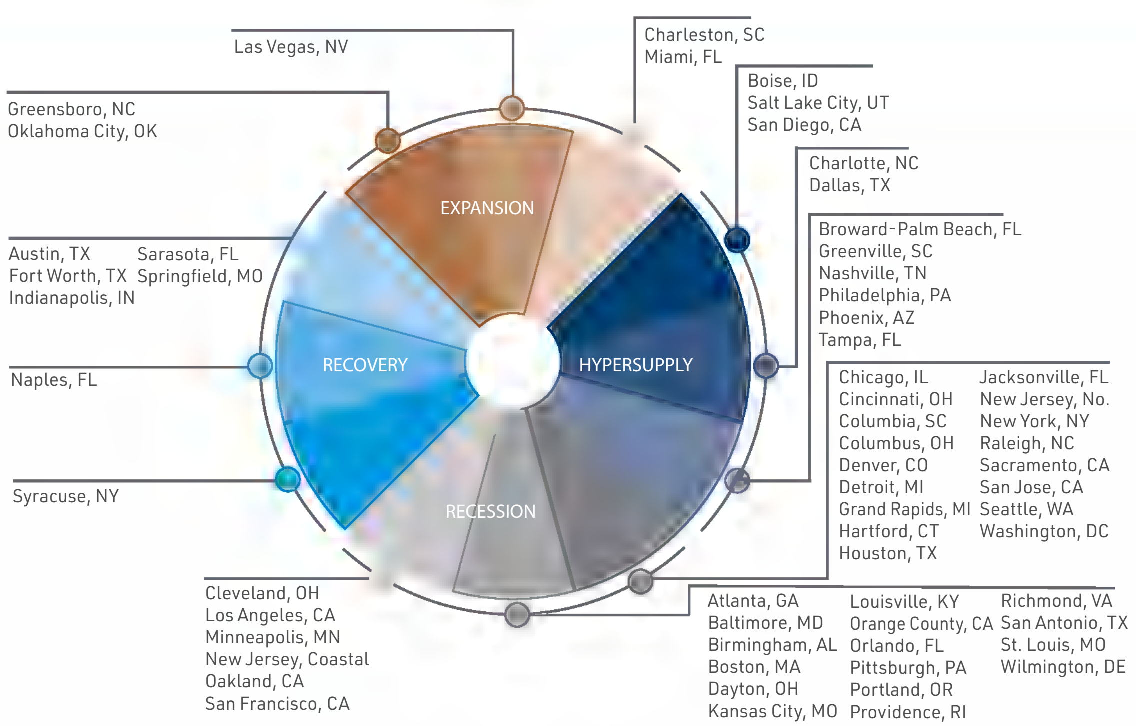
Integra's analysis indicates that nearly 63% of office markets are now in recession, 18% in hypersupply, and just one-in-five rated as in recovery or expansion. But the notion of markets bottoming out leaves open the possibility of improvement over the coming years. It is this potential for urban resilience that should spur selective optimism for investors.

Two factors may staunch the bleeding. The first is often discounted but shouldn't be. It's the likelihood that COVID-19's impact has fully manifested itself; therefore, WFH tenant erosion is diminishing. Those who can take advantage of remote work have probably already done so, and reports of Zoom-fatigue can't be ignored. There's also a powerful alliance of those who would benefit from RTO, including a long list of firms employing knowledge workers in finance, law, technology, and business service. Joining them are office building owners and their lenders. Municipal governments, likewise, have tremendous self-interest in promoting RTO, as do many blue-collar workers whose livelihoods depend upon a vibrant office ecology. That coalition has, frankly, not formed yet. But previous crises over the past half-century have shown that downtowns left for dead have rebounded when mutual interests assert themselves collaboratively. All it takes is leadership.

Negative Value Change Across Entire Urban Office Spectrum in 2023



OFFICE MARKET CYCLE



EXPANSION	HYPERSUPPLY	RECESSION	RECOVERY
Decreasing Vacancy Rates	Increasing Vacancy Rates	Increasing Vacancy Rates	Decreasing Vacancy Rates
Moderate/High New Construction	Moderate/High New Construction	Moderate/Low New Construction	Low New Construction
High Absorption	Low/Negative Absorption	Low Absorption	Moderate Absorption
Moderate/High Employment Growth	Moderate/Low Employment Growth	Low/Negative Employment Growth	Low/Moderate Employment Growth
Med/High Rental Rate Growth	Med/Low Rental Rate Growth	Low/Neg Rental Rate Growth	Neg/Low Rental Rate Growth

REGIONAL RATES COMPARISON – OFFICE

	CAP RATE	DISCOUNT RATE	MARKET RENT ($/SF)	VACANCY RATE	Q3'22 - Q3'23 CAP RATE ▲	Q3'22 - Q3'23 VACANCY RATE ▲
SOUTH REGION						
CBD Class A	7.61%	9.04%	$28.31	19.62%	▲ 76 bps	▲ 102 bps
Suburban Class A	7.85%	9.20%			▲ 71 bps	
CBD Class B	8.40%	9.75%	$20.54	20.83%	▲ 88 bps	▼ 3 bps
Suburban Class B	8.54%	9.81%			▲ 81 bps	
EAST REGION						
CBD Class A	8.02%	9.14%	$40.04	16.82%	▲ 90 bps	▲ 160 bps
Suburban Class A	8.48%	9.59%			▲ 90 bps	
CBD Class B	8.65%	9.73%	$27.60	17.85%	▲ 85 bps	▲ 16 bps
Suburban Class B	9.16%	10.20%			▲ 77 bps	
CENTRAL REGION						
CBD Class A	8.79%	10.00%	$25.40	19.97%	▲ 70 bps	▲ 77 bps
Suburban Class A	8.38%	9.46%			▲ 53 bps	
CBD Class B	9.44%	10.54%	$18.65	22.05%	▲ 56 bps	▼ 10 bps
Suburban Class B	9.08%	9.96%			▲ 45 bps	
WEST REGION						
CBD Class A	7.04%	8.69%	$40.72	19.09%	▲ 88 bps	▲ 209 bps
Suburban Class A	7.14%	8.73%			▲ 74 bps	
CBD Class B	7.60%	9.10%	$29.01	19.70%	▲ 92 bps	▼ 43 bps
Suburban Class B	7.71%	9.14%			▲ 78 bps	
NATIONAL AVERAGES/SPREADS						
CBD Class A	7.81%	9.18%	$32.69	19.05%	▲ 80 bps	▲ 132 bps
Suburban Class A	7.91%	9.22%			▲ 72 bps	
CBD Class B	8.48%	9.76%	$23.37	20.25%	▲ 81 bps	▼ 10 bps
Suburban Class B	8.58%	9.76%			▲ 73 bps	

The second key factor that could stem value decline – the financing pressures driving cap rates upward – is probably closer at hand. As of November 2023, we're 18 months into the Fed's restrictive monetary policy. While "higher for longer" is the official outlook, that doesn't mean rates will continue to accelerate as they have since March 2022. Cap rates for Class A office properties are nearing 8% on average, with 8.5% the norm for Class B assets. Discount rates are above 9% across the property sector. The evident risks for office buildings may already be priced into rates. If so, further downward pressure on value could ease.

Those looking for the green shoots of an office rebound may find some hopeful signs in this year's Regional Rates Comparison chart. Market rents appear to be rising across the country, and there are initial signs of stabilization or even improvement in vacancy rates. Some of the strengthening in the Class B sector could reflect adaptive re-use trends in office assets suitable for conversion to residential property. While not likely to have a significant impact on office over-capacity, this should have a positive effect on the margin of the office market, as well as adding much needed supply to the multifamily sector.

In sum, this is not a time to be a Pollyanna. But neither is it a moment for despair. Naïve extrapolation of the trends of 2020 – 2023 into the indefinite future is lazy thinking. The office market, like the economy as a whole, is a complex, adaptive system. Adaptation is our prime survival me chanism, and investors, lenders, analysts, and property users can recognize our need to evolve in a changing world. An expectation that doom lies ahead underestimates our capacity to meet the challenges we face.

Integra's analysis indicates that nearly 63% of office markets are now in recession, 18% in hypersupply, and just one-in-five rated as in recovery or expansion.

TOP MARKETS BY OFFICE TRANSACTION VOLUME BASED ON YOY PERCENTAGE CHANGE

Bulls (Top 10)

2023 Rank	Market	YOY Change	Total 4Q22-3Q23	Vol. Rank*
1	Honolulu	49.2%	$361 M	29
2	Tucson	47.6%	$183 M	43
3	Savannah	44.9%	$113 M	55
4	Sarasota Metro	26.7%	$218 M	40
5	Allentown	26.1%	$116 M	53
6	Columbia	17.0%	$158 M	45
7	Syracuse	13.9%	$90 M	60
8	Cleveland	13.4%	$355 M	30
9	Cincinnati	3.0%	$382 M	28
10	Winston-Salem	2.0%	$101 M	58

Bears (Bottom 10)

2023 Rank	Market	YOY Change	Total 4Q22-3Q23	Vol. Rank*
51	Boston Metro	-68.6%	$3,257 M	4
52	Sacramento	-68.9%	$244 M	39
53	Louisville	-69.5%	$90 M	60
54	San Antonio	-69.6%	$430 M	26
55	Charlotte	-73.9%	$577 M	19
56	Raleigh/Durham	-75.7%	$619 M	18
57	SF Metro	-75.9%	$3,108 M	5
58	San Diego	-81.2%	$841 M	16
59	Trenton, NJ	-81.8%	$128 M	51
60	Seattle	-90.3%	$536 M	22

* Volume Ranking is based on the overall transaction volume among 60 markets nationally

MULTIFAMILY

Where Do We Go From Here?

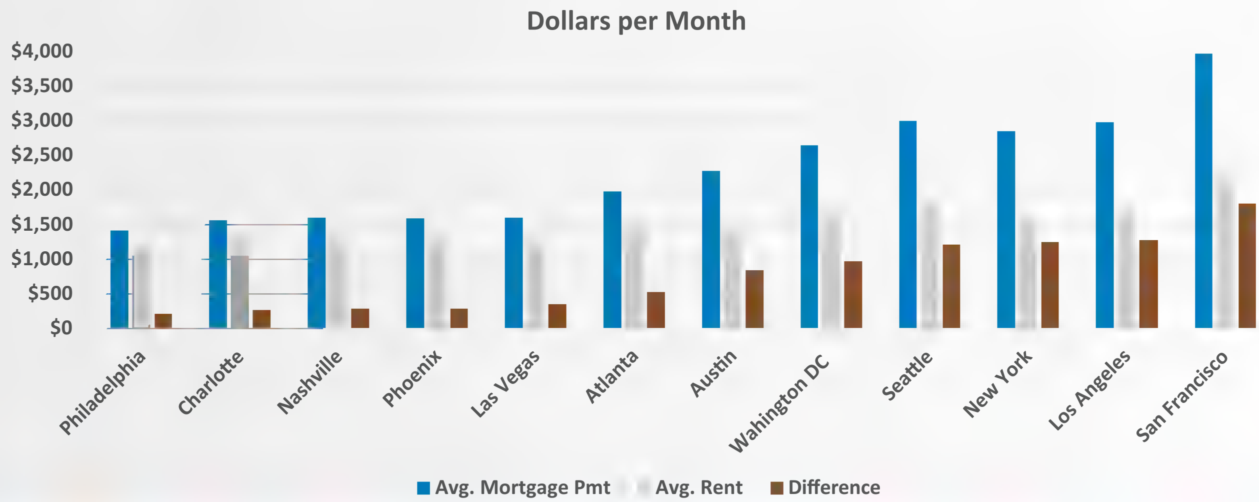
Multifamily has been a standout over the past several years, and it still is. Integra's Cycle Monitor rates only 13% of markets, eight of 62, as being in recession. But changes are likely. The majority of markets – 39, or 63% – are in hypersupply, largely as a result of hot capital rushing into a highly popular property type. An imbalance of supply and demand could mean greater drama going forward.

Multifamily housing starts are hitting decades-long highs, and analysts at Yardi Matrix are forecasting 1.5 million units delivered by 2025. As is typical of nationwide statistics, the totals disguise wide differences in local markets. Yardi sees apartment completions, related to total stock, as exceeding 3.5% in seven markets: Austin (4.6%), Nashville (4.3%), Charlotte (4.1%), Orlando (4.0%), Raleigh (3.9%), Phoenix (3.8%), and Tampa (3.7%). Such supply volumes outrun sustainable demand trends. This portends upward pressure on vacancy and downward pressure on rents. For most of these markets, the rent-to-income ratio, a key affordability metric, is already above 30%. This could even impact the Sunbelt metros that have long touted their cost advantage.

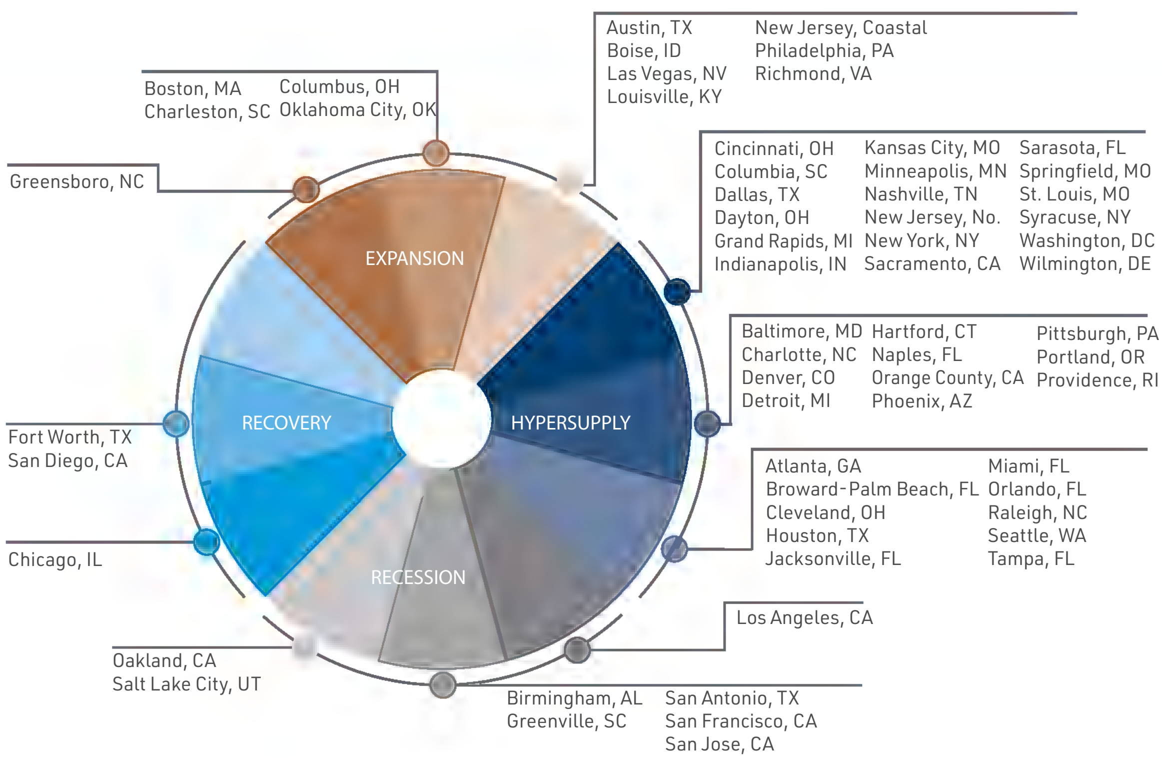
Exacerbating the pressure for multifamily operators, especially in the South and West, are double-digit increases in apartment complex operating expenses. Florida, Texas, and California are particularly affected. One critical reason: soaring insurance costs in areas where climate change and related risks are eroding the bottom line. After taking into account the increasing frequency of multi-billion-dollar natural disasters – tracked for more than half-a-century by Swiss Re – some property/casualty insurers have decided to exit certain states entirely. Investors have taken heed.Data from MSCI Real Assets shows 2023 transaction volumes contracting steeply from the COVID era recovery peaks (2021-2022). This is reflected in our regional rates comparison chart which shows reported cap rates rose between 41 and 83 basis points, depending upon region and property classification. The risk premium in multifamily cap rates – which average between 5.5% and 6.2% on a national basis – is now very thin compared to 10-year Treasuries, which are at about 4.5%. Investors seem to be saying they're not being sufficiently compensated for risk at current multifamily prices and income levels. Something has to give.

Housing tenure choice – own versus rent – comes into play as well. Here again we find massive differences among major U.S. markets. For some cities, the spread between monthly mortgage costs and average monthly apartment rent is just $300 or $400, according to a study released in May 2023 by the website SmartAsset.com. Those cities include Atlanta, Charlotte, Las Vegas, Nashville, Philadelphia, and Phoenix. These markets are unlikely to see homeowner demand being diverted to rentals for economic reasons, given the tax advantage of ownership and the potential for equity gains. On the other hand, the differential in Los Angeles, New York, Seattle, and San Francisco is well over $1,000 per month, enough to edge the own-vs.-rent choice decisively toward apartments.

Huge Differences in Rent vs. Mortgage Averages Across U.S. Markets



MULTIFAMILY MARKET CYCLE



EXPANSION	HYPERSUPPLY	RECESSION	RECOVERY
Decreasing Vacancy Rates	Increasing Vacancy Rates	Increasing Vacancy Rates	Decreasing Vacancy Rates
Moderate/High New Construction	Moderate/High New Construction	Moderate/Low New Construction	Low New Construction
High Absorption	Low/Negative Absorption	Low Absorption	Moderate Absorption
Moderate/High Employment Growth	Moderate/Low Employment Growth	Low/Negative Employment Growth	Low/Moderate Employment Growth
Med/High Rental Rate Growth	Med/Low Rental Rate Growth	Low/Neg Rental Rate Growth	Neg/Low Rental Rate Growth

The majority of markets – 39, or 63% – are in hypersupply, largely as a result of hot capital rushing into a highly popular property type.

REGIONAL RATES COMPARISON - MULTIFAMILY

	CAP RATE	DISCOUNT RATE	MARKET RENT ($/SF)	VACANCY RATE	Q3'22 - Q3'23 CAP RATE △	Q3'22 - Q3'23 VACANCY RATE △
SOUTH REGION						
CBD Class A	5.35%	6.95%	$1,677.42	5.89%	▲ 70 bps	▲ 59 bps
Suburban Class A	5.47%	7.05%			▲ 58 bps	
CBD Class B	6.12%	7.76%	$1,116.92	5.38%	▲ 66 bps	▲ 135 bps
Suburban Class B	6.16%	7.72%			▲ 56 bps	
EAST REGION						
CBD Class A	5.79%	7.06%	$2,266.10	5.97%	▲ 55 bps	▼ 62 bps
Suburban Class A	5.89%	7.14%			▲ 52 bps	
CBD Class B	6.25%	7.58%	$1,567.50	3.63%	▲ 41 bps	▲ 86 bps
Suburban Class B	6.43%	7.70%			▲ 52 bps	
CENTRAL REGION						
CBD Class A	5.97%	7.71%	$1,569.73	5.85%	▲ 68 bps	▲ 30 bps
Suburban Class A	5.99%	7.66%			▲ 75 bps	
CBD Class B	6.82%	8.43%	$981.36	3.64%	▲ 63 bps	▲ 30 bps
Suburban Class B	6.83%	8.37%			▲ 83 bps	
WEST REGION						
CBD Class A	4.98%	6.54%	$2,548.85	5.49%	▲ 55 bps	▲ 13 bps
Suburban Class A	5.09%	6.64%			▲ 48 bps	
CBD Class B	5.33%	6.88%	$1,743.77	3.96%	▲ 46 bps	▲ 87 bps
Suburban Class B	5.50%	7.07%			▲ 48 bps	
NATIONAL AVERAGES/SPREADS						
CBD Class A	5.49%	7.04%	$1,953.81	5.81%	▲ 63 bps	▲ 22 bps
Suburban Class A	5.57%	7.10%			▲ 59 bps	
CBD Class B	6.12%	7.66%	$1,309.40	4.43%	▲ 55 bps	▲ 96 bps
Suburban Class B	6.20%	7.71%			▲ 60 bps	

Affordability issues are giving an advantage to Class B multifamily properties. The gap between Class A and Class B rents nationally is a significant $650 per month. It grows to a staggering $800 in the West. The price gap's impact can be seen in vacancy rates, where Class B is outperforming Class A in all regions. Investors are responding with an exceptionally narrow gap in cap rates and discount rates between the two classes of multifamily assets.

There is a process of mutation occurring in the apartment sector, a process triggered by the COVID-19 disruption. As the tug of war between work-from-home and return-to-work continues, there is evidence that just the pressure to be in the office a few days a week can bring workers closer to their physical places of employment.

That pressure is reducing the demand for large houses and large apartments accommodating spacious home offices. While it is unlikely we'll return to what was normal pre-pandemic, the residential markets are seeing a pendulum swing whose maximum arc has already passed.

Many of the physical changes in housing that were made during the pandemic are likely to become permanent. Technology is not going to reverse itself. Neither is human nature. And the enhanced awareness of work/life balance prompted by COVID-19 seems to have led to the understanding that some separation between home life and work life benefits both. The ultimate outcome is still unclear, but once such changes have gotten underway, it's a difficult process to reverse.

TOP MARKETS BY MULTIFAMILY TRANSACTION VOLUME BASED ON YOY PERCENTAGE CHANGE

Bulls (Top 10)

2023 Rank	Market	YOY Change	Total 4Q22-3Q23	Vol. Rank*
1	New Haven	43.2%	$514 M	43
2	Milwaukee	6.4%	$633 M	36
3	Cincinnati	1.7%	$608 M	37
4	Des Moines	-11.1%	$338 M	55
5	Hartford	-11.1%	$591 M	39
6	Myrtle Beach	-14.4%	$416 M	50
7	Chicago	-22.3%	$5,142 M	6
8	Madison, WI	-23.4%	$318 M	58
9	Boston Metro	-35.6%	$4,031 M	11
10	Little Rock	-38.6%	$508 M	46

Bears (Bottom 10)

2023 Rank	Market	YOY Change	Total 4Q22-3Q23	Vol. Rank*
51	Houston	-77.8%	$4,063 M	10
52	Richmond	-78.0%	$562 M	41
53	Greensboro	-78.9%	$332 M	56
54	Oklahoma City	-79.0%	$395 M	51
55	Salt Lake City	-82.5%	$524 M	42
56	Baltimore	-84.2%	$597 M	38
57	Tucson	-84.5%	$384 M	52
58	Las Vegas	-85.8%	$841 M	34
59	Sacramento	-86.3%	$300 M	59
60	Detroit	-88.6%	$300 M	59

* Volume Ranking is based on the overall transaction volume among 60 markets nationally

RETAIL

In an Era of Sea Change, Retail Looks for Calmer Waters

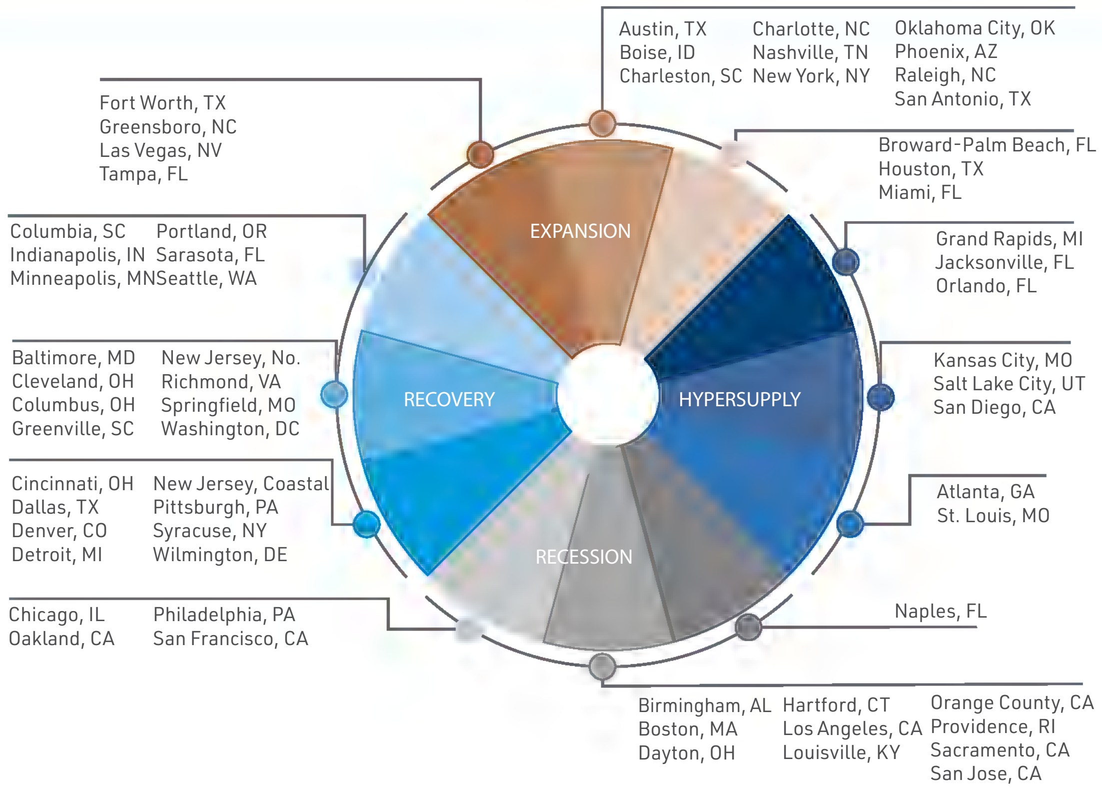
For nearly a decade, the snarky quip about retail real estate has been that the stores sector has not been oversupplied, it's been under-demolished. There's an element of truth to that. Shopping space per capita in the United States vastly exceeds the inventory in any other developed country. Obsolete malls are being converted in significant numbers to educational campuses, mixed-use neighborhoods, senior housing, and medical facilities. Unfortunately, those adaptive re-uses speak more to the potential of the underlying locations than to the value of the retail assets that once housed famous American brands.

Retail property may be ahead of the curve in adjusting to this decade's economic disruption, with the dubious advantage of having taken its hits earlier than other commercial property types. Whatever the case, Integra's professionals report a combination of resilience and challenge in markets across the country.

Not only is retail winnowing out the non-competitive malls and shopping centers with less remorse, but there is also a more intensive focus on tenancy in sectors with sales growth, including restaurants and bars, groceries, and health product stores. And, somewhat under the radar, the retail sector may also have withstood the worst of the e-commerce assault on market share.

One startling sign of this is in the distribution of markets by cycle phase for the coming year. Only 24% of the 62 markets we review are classified as in recession in the current cycle monitor, with just 13% in the risky hyper-supply category. Almost 36% (22 markets) are in the recovery phase, while another 27% (17 markets) are listed as in expansion. Surely these statistics run against the grain of the industry's conventional wisdom.

RETAIL MARKET CYCLE



EXPANSION	HYPERSUPPLY	RECESSION	RECOVERY
Decreasing Vacancy Rates	Increasing Vacancy Rates	Increasing Vacancy Rates	Decreasing Vacancy Rates
Moderate/High New Construction	Moderate/High New Construction	Moderate/Low New Construction	Low New Construction
High Absorption	Low/Negative Absorption	Low Absorption	Moderate Absorption
Moderate/High Employment Growth	Moderate/Low Employment Growth	Low/Negative Employment Growth	Low/Moderate Employment Growth
Med/High Rental Rate Growth	Med/Low Rental Rate Growth	Low/Neg Rental Rate Growth	Neg/Low Rental Rate Growth

E-Commerce Retail Capture Rate Stabilizing

E-Commerce as % of Total Retail Sales

REGIONAL RATES COMPARISON - RETAIL

	CAP RATE	DISCOUNT RATE	MARKET RENT ($/SF)	VACANCY RATE	Q3'22 - Q3'23 CAP RATE △	Q3'22 - Q3'23 VACANCY RATE △
SOUTH REGION						
Community Retail	7.22%	8.52%	$18.88	10.33%	▲ 30 bps	▼ 5 bps
Neighborhood Retail	7.05%	8.44%	$17.26	11.21%	▲ 27 bps	▼ 11 bps
EAST REGION						
Community Retail	7.23%	8.35%	$23.06	11.04%	▲ 16 bps	▲ 16 bps
Neighborhood Retail	7.31%	8.49%	$21.38	9.88%	▲ 6 bps	▲ 16 bps
CENTRAL REGION						
Community Retail	7.98%	8.83%	$17.21	12.02%	▲ 29 bps	▲ 8 bps
Neighborhood Retail	8.17%	8.96%	$15.55	12.62%	▲ 27 bps	▲ 7 bps
WEST REGION						
Community Retail	6.54%	7.84%	$30.49	7.93%	▲ 25 bps	▼ 6 bps
Neighborhood Retail	6.59%	7.86%	$26.73	8.44%	▲ 21 bps	▲ 6 bps
NATIONAL AVERAGES/SPREADS						
Community Retail	7.23%	8.40%	$21.86	10.22%	▲ 27 bps	0 bps
Neighborhood Retail	7.23%	8.43%	$19.74	10.64%	▲ 23 bps	0 bps

The retail sales data from the U.S. Census Bureau is illuminating. Retail and food service sales (excluding motor vehicles and gasoline) posted year-over-year gains of 4.9% through October 2023. Eating and drinking establishments had strong 11.5% growth, and health and personal care stores were up 8.2%, edging out the non-store retailers (e-commerce and mail order houses) which advanced 8.1%.

While much attention has been paid to the parcel delivery trucks clogging highways and city streets, the e-commerce growth curve appears to be flattening. Since spiking to a 16.5% share of sales in the second quarter of 2020, e-commerce has retreated to an average of 14.9%. Those who expected a kind of Moore's Law trend of exponential growth for online shopping have seen instead the Sigmoid Curve pattern of a maturing industry. It has reaped the low-hanging retail fruit and now faces the daunting task of taking on the brick-and-mortar sector, which controls 85% of American shopping.

One sign that retail may be stabilizing is the steadiness of the occupancy rate over the past four quarters, as indicated in the regional rates comparison chart. Community and neighborhood retail property show no change in vacancy rates year-over-year, with the South especially enjoying improved tenancy. All major regions, meanwhile, have seen an upswing in market rents. While retail still faces financial pressure – Trepp reports it has the highest delinquency rate (6.55%) for assets representing CMBS debt – lenders may see the market rent and vacancy trends as reasons to support work-out strategies rather than taking back the keys for some shopping centers.

There appears to be some cushion for values in retail. Since cap rates have risen about 25 basis points—they're now above 7.2% – over a period of sharply increasing Treasury rates investors likely have priced risk into this sector in advance of Fed tightening. Thus, the potential for cap-rate-triggered price declines seems relatively modest. There is some risk, however, in markets where cratering transaction volume signals a wide bid-ask spread and consequent investment liquidity shortage. So, despite considerable good news, retail is not yet in calm seas. Rather, we will continue to sort survivors from the assets that are going down with the ship. Demography will play a critical role. The affordability crisis in housing will have an impact. There is a push and pull to consider. For instance, we know that when housing eats at least 40% of household income, that constrains retail spending.

J.P. Morgan recently estimated when various cities might return to affordability balance (relative to incomes). Early in the queue (by 2026, assuming a 1% decline mortgage rates) would be Columbus, Austin, Charlotte, Minneapolis, San Diego, and Washington DC. Further out, 2028 or later, are Chicago, Dallas, Denver, Houston, Phoenix, Miami, and Seattle. For retailers, and for retail investors, these lists may seem counter intuitive. However, the watchwords for this sector, in the future as in the recent past, might be: expect the unexpected.

Retail property may be ahead of the curve in adjusting to this decade's economic disruption, with the dubious advantage of having taken its hits earlier than other commercial property types.

TOP MARKETS BY RETAIL TRANSACTION VOLUME BASED ON YOY PERCENTAGE CHANGE

Bulls (Top 10)

2023 Rank	Market	YOY Change	Total 4Q22-3Q23	Vol. Rank*
1	Salinas	432.3%	$165 M	54
2	Richmond	51.9%	$477 M	27
3	Huntsville, AL	42.6%	$154 M	58
4	Albany	32.2%	$156 M	57
5	Honolulu	29.6%	$162 M	55
6	NYC Metro	9.9%	$7,397 M	1
7	Polk Co	6.7%	$208 M	46
8	Oklahoma City	5.3%	$217 M	45
9	Birmingham (AL)	0.7%	$422 M	28
10	Modesto	-5.0%	$268 M	39

Bears (Bottom 10)

2023 Rank	Market	YOY Change	Total 4Q22-3Q23	Vol. Rank*
51	Miami/So Fla	-63.1%	$2,116 M	4
52	Charleston	-63.8%	$179 M	53
53	Fort Myers Metro	-66.8%	$262 M	40
54	Portland	-67.3%	$305 M	34
55	Sacramento	-67.5%	$585 M	22
56	Las Vegas	-67.6%	$573 M	23
57	Jacksonville	-70.1%	$182 M	51
58	SF Metro	-74.0%	$1,383 M	8
59	Raleigh/Durham	-75.1%	$286 M	37
60	Seattle	-78.1%	$590 M	21

* Volume Ranking is based on the overall transaction volume among 60 markets nationally

INDUSTRIAL

Striking a Balance

Industrial real estate seems to be in an enviable position, especially compared to other commercial property types. But today, that usually means less bad news. For instance, third quarter 2023 data from NCREIF shows that total returns year-over-year for industrials were a negative 5.3%. Granted, those are better than the double-digit negatives in the office sector but still not much of a reason to attract capital to the sector. As was the case elsewhere, industrials' downward tilt in appreciation more than offset positive income returns. To make matters worse, the valuation decline spread across all subsectors of industrial investments, including warehousing, flex, and R&D.

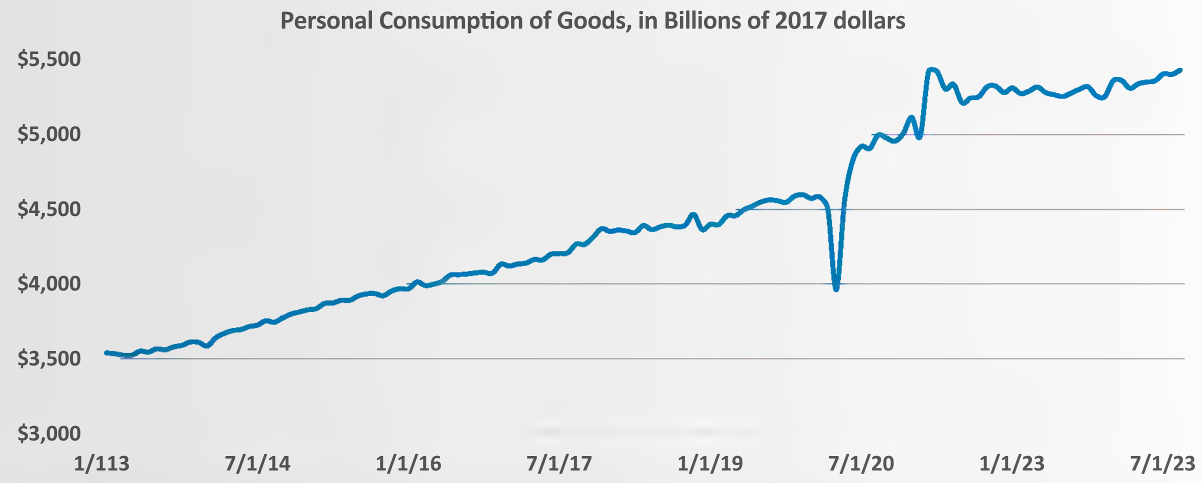
Now for some good news. In the CMBS world, industrial properties have the lowest level of delinquency and loss severity. Unfortunately, Trepp notes, there are $2.7 trillion in commercial mortgage loans maturing through 2027. Those loans are not only in CMBS but across the spectrum of lenders. Refinancing them will lead to a double whammy of increased interest rates and higher market capitalization rates. Industrial properties, like the other property types, will be coping with the resulting sticker shock through 2024 and beyond.

No wonder Integra's professionals are recording widespread increases in industrial cap rates and discount rates. The pressure is less than it is for offices and retail, but it's still significant. One measure of risk, vacancy rates, is on the rise in all regions, as seen in our regional rates comparison chart. Nevertheless, market rents are rising at a healthy pace.

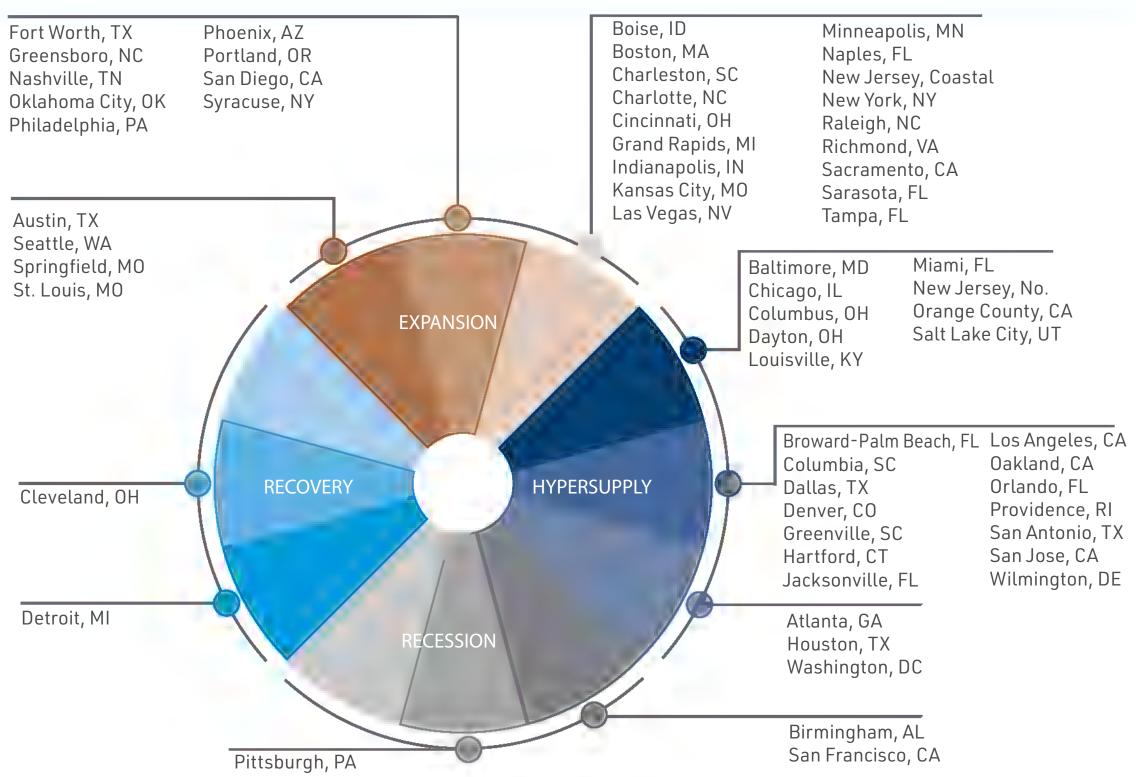
What's behind the conflicting signals? Well, to start, the U.S. economy is in growth mode and has been since the worst of the pandemic passed. As of September 2023, personal consumption expenditures on goods exceeded $5.4 trillion in inflation-adjusted dollars, up $127 billion over just twelve months. That's a lot of demand-pull growth in the volume of goods moving through the distribution system. Supply chain disruptions have largely eased in the past year or so, and import/export volumes are reinforcing the surging year-end demand for goods. User demand for industrial space, therefore, appears strong.

Why an increase in vacancy, then? The rush of investors into the industrial space – prior to 2023 – prompted developers to respond with a dramatic increase in new space. Our cycle monitor shows 42% of markets (26 out of 62) registering in the hyper supply phase of the cycle. Fifty percent were in the expansion phase. While just three markets are classified as in recession, the rotation going forward suggests this year's robust readings may mark a cyclical peak.

Consumer Spending on Goods Is Being Sustained at a Record Level



INDUSTRIAL MARKET CYCLE



EXPANSION	HYPERSUPPLY	RECESSION	RECOVERY
Decreasing Vacancy Rates	Increasing Vacancy Rates	Increasing Vacancy Rates	Decreasing Vacancy Rates
Moderate/High New Construction	Moderate/High New Construction	Moderate/Low New Construction	Low New Construction
High Absorption	Low/Negative Absorption	Low Absorption	Moderate Absorption
Moderate/High Employment Growth	Moderate/Low Employment Growth	Low/Negative Employment Growth	Low/Moderate Employment Growth
Med/High Rental Rate Growth	Med/Low Rental Rate Growth	Low/Neg Rental Rate Growth	Neg/Low Rental Rate Growth

REGIONAL RATES COMPARISON - INDUSTRIAL

	CAP RATE	DISCOUNT RATE	MARKET RENT ($/SF)	VACANCY RATE	Q3'22 - Q3'23 CAP RATE △	Q3'22 - Q3'23 VACANCY RATE △
SOUTH REGION						
Flex Industrial	6.80%	8.11%	$10.68	6.36%	▲ 29 bps	▲ 29 bps
Industrial	6.22%	7.51%	$6.50	4.75%	▲ 35 bps	▲ 35 bps
EAST REGION						
Flex Industrial	7.08%	8.25%	$12.70	5.83%	▲ 79 bps	▲ 79 bps
Industriall	6.83%	8.02%	$9.06	3.34%	▲ 79 bps	▲ 79 bps
CENTRAL REGION						
Flex Industrial	7.83%	8.81%	$8.59	7.13%	▲ 35 bps	▲ 35 bps
Industrial	7.12%	8.17%	$5.29	6.06%	▲ 44 bps	▲ 44 bps
WEST REGION						
Flex Industrial	6.20%	7.64%	$15.53	5.69%	▲ 46 bps	▲ 46 bps
Industrial	5.68%	7.14%	$9.53	4.46%	▲ 55 bps	▲ 55 bps
NATIONAL AVERAGES/SPREADS						
Flex Industrial	6.92%	8.17%	$11.79	6.27%	▲ 44 bps	▲ 44 bps
Industrial	6.40%	7.67%	$7.42	4.69%	▲ 51 bps	▲ 51 bps

That would account for the rising cap rates and the softening in vacancies. Cause and effect in the investment sales market may be reciprocal, with the rising cap rates also reflecting a diminishing appetite from buyers for industrial products. As of the third quarter, year-over-year industrial transaction volume was down 44%. On an annualized basis, this looks to be the weakest year since 2018 – even lower than at the peak of the pandemic. If direct investment is suggesting a cautious outlook, so are the secondary markets, since industrial REIT stocks have cratered in recent years along with other property types.

This capital constriction is confirmed in our "bulls and bears" rankings. Even in the top ten "bulls" list, three of the markets have seen transaction volumes drop by double-digit percentages. And the "bears" list shows deal volume decreases ranging from Portland's 66% to Memphis' 80%. So, despite a putative abundance of "dry powder" from private equity providers – in excess of $125 billion with an orientation to the industrial sector, according to Prequin –capital has been staying on the sidelines. Large deals (more than $100 million) are even scarcer in the transaction data. And while secondary and tertiary markets have been hard hit, even major industrial nodes like Los Angeles and the Inland Empire, Dallas and Houston, and northern hubs like Chicago and New Jersey have found deal flow at a trickle.

While the flattening of the e-commerce curve looks like good news for brick-and-mortar retail, it might mean that some of the air is coming out of a bubble in the industrial sector. That doesn't mean there will be a disruptive plunge. But the halcyon period of industrial properties expecting unbridled growth is at an end. If the balance of this decade averages GDP growth in the 2% range, warehouse and distribution facilities need to lower expectations.

> While just three markets are classified as in recession, the rotation going forward suggests this year's robust readings may mark a cyclical peak.

But let's end on a brighter theme. The government is infusing the economy with $550 billion in infrastructure spending, with several cities slated for major projects. These run from coast to coast (New York to Santa Clara) and south to north (Dallas to Detroit). Projects enhancing transportation, particularly by highway and rail, provide critical improvements benefiting America's sprawling distribution network. Public investment is filling in at a time industrial real estate is experiencing a private sector transaction lull.

TOP MARKETS BY INDUSTRIAL TRANSACTION VOLUME BASED ON YOY PERCENTAGE CHANGE

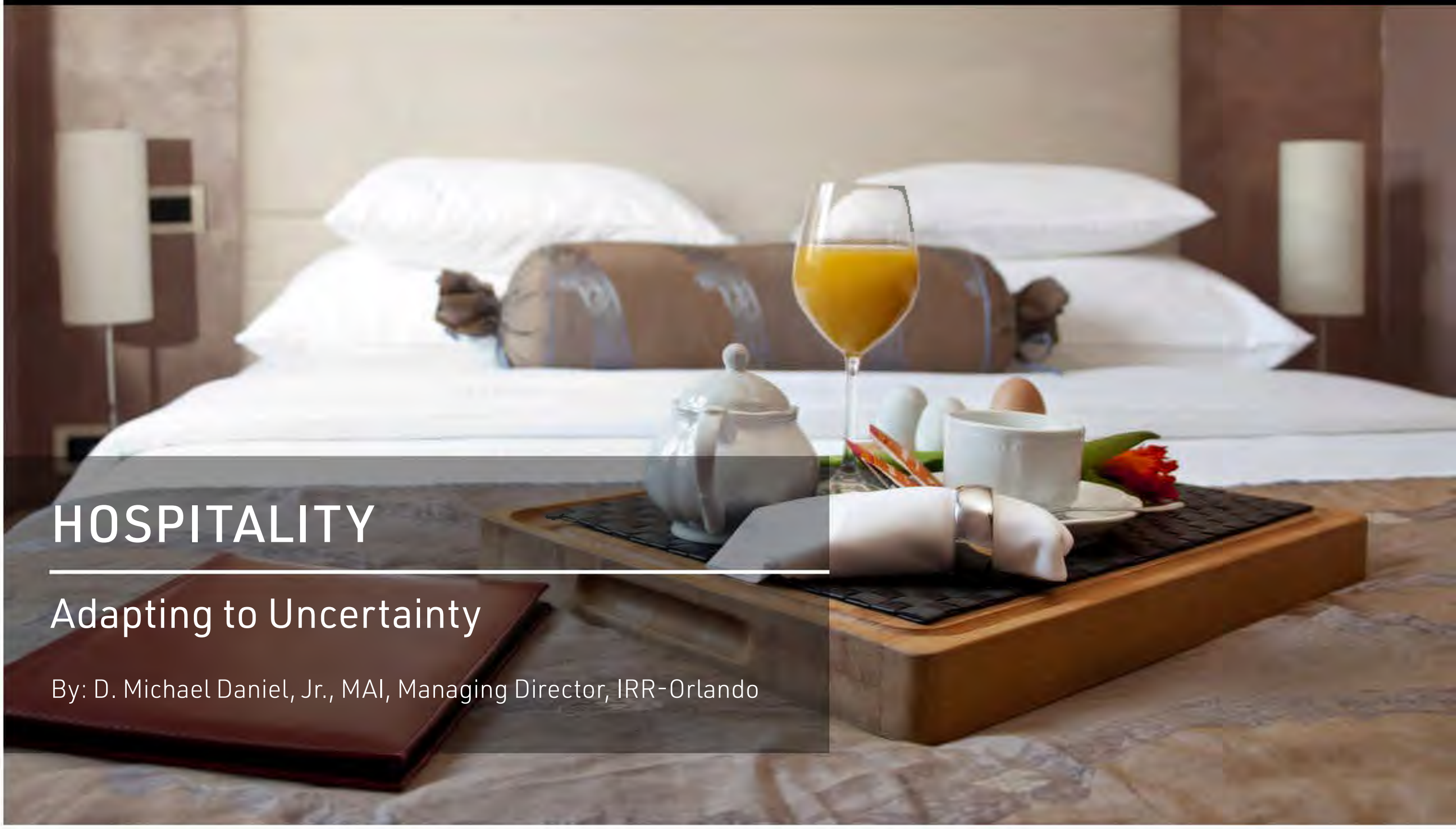
Bulls (Top 10)

2023 Rank	Market	YOY Change	Total 4Q22-3Q23	Vol. Rank*
1	Knoxville	287.8%	$287 M	49
2	Richmond	23.5%	$751 M	29
3	Hartford	21.2%	$457 M	42
4	Savannah	11.4%	$1,289 M	19
5	El Paso	4.7%	$265 M	50
6	Sarasota Metro	2.7%	$229 M	54
7	Modesto	1.7%	$583 M	36
8	Minneapolis	-14.3%	$1,899 M	13
9	Las Vegas	-26.6%	$1,491 M	17
10	Fort Myers Metro	-29.2%	$211 M	55

Bears (Bottom 10)

2023 Rank	Market	YOY Change	Total 4Q22-3Q23	Vol. Rank*
51	Portland	-65.6%	$546 M	37
52	Columbus	-66.8%	$849 M	25
53	Providence	-68.7%	$305 M	47
54	Kansas City	-70.0%	$375 M	45
55	Boise	-70.8%	$202 M	57
56	DC Metro	-71.6%	$1,621 M	15
57	Eastern PA	-72.3%	$258 M	52
58	Greensboro	-72.8%	$233 M	53
59	Denver	-72.9%	$692 M	31
60	Memphis	-80.2%	$520 M	39

* Volume Ranking is based on the overall transaction volume among 60 markets nationally



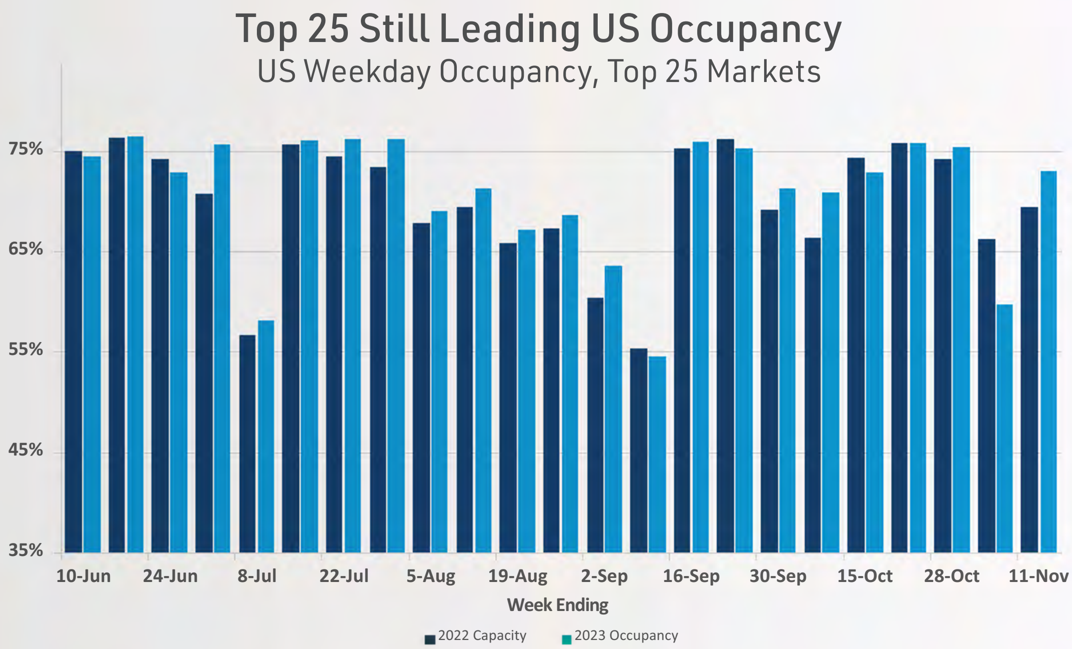
HOSPITALITY

Adapting to Uncertainty

By: D. Michael Daniel, Jr., MAI, Managing Director, IRR-Orlando

As the hospitality industry continues to recover from the pandemic's residual negative effects, U.S. hotels are facing unique challenges that differ from region to region. On a macro-basis, most markets have begun to see economic trends at, or near, the pre-pandemic peak levels of 2019. However, market participants are now grappling with a slowing economy due to a lowering level of discretionary spending. This, along with rising interest rates, rising labor costs, and a decrease in available capital, has left the industry participants unable to catch their breath.

Despite these challenges, the hotel industry is continuing to show signs of improvement, albeit at much more conservative levels than seen in the past year or two. As of the end of November 2023, U.S. average Revenue



per Available Room ("RevPAR") had increased approximately 6% over the same time last year. This is a direct result of ever-increasing Average Daily Rates ("ADR"). While ADR spikes like those seen in 2021 and 2022 appear to be things of the past (some markets saw +15% to +20% spikes), ADR increases continue to pull year-over-year RevPAR growth. As we reach the end of 2023, the top 25 markets have all achieved year-over-year ADR increases of over 10%.

This RevPAR growth in 2023 comes despite occupancy averages flattening out for most markets. Occupancy is generally in line with what was reported at this time last year (less than 1% change). Looking deeper into the flat occupancy trend, the most recent data points to increases in weekday travel offsetting a slight decrease in weekend nights sold. This points to business and group travel finally trending toward previous levels of demand. This has been one of the last segments of the hospitality market to come back from the 2020 global market disruptions fueled by the pandemic.

Even with RevPAR averages trending in a positive direction at year's end, the outlook for the hotel industry remains uncertain, with macroeconomic factors, such as lingering threats of a possible recession and ongoing inflation, potentially impacting the industry's ability to maintain break-even level occupancy and ADR. These unstable components of the nation's economy are likely to have an effect on the hospitality industry in 2024.

As previously noted, overall, the national hotel sector has continued to rebound from the devastating effects of the pandemic. Many markets have begun to show RevPAR trends at, or near, pre-COVID levels. For the past two years, leisure travel led the way in this uptick in business. This started mostly in drivable destination markets but expanded across the country, particularly as air travel opened up nationally and internationally. However, in 2023, this sector began to cool at roughly the same time as weekday group and business travel finally started to regain strength. This was one place where management decisions played a huge role. Moving into 2024, IRR expects leisure and business/group travel patterns to sustain 2023 trends. IRR expects additional modest increases in RevPAR in 2024, driven mostly by increases in ADR.

What will prevent more significant increases in RevPAR in the coming year? Primarily, a continued hit on the average consumer's (hotel guest's) buying power. This segment of commercial real estate is very dependent upon discretionary spending. The extent to which households and businesses are constrained financially by macroeconomic forces will significantly impact the industry's trajectory. Despite the undeniable impact of pent-up demand, travel is one of the first spending options sacrificed in a slowdown. We see this among average travel guests and large-scale businesses alike.

Based on recent data, the top 25 markets all saw improved performance in the 4th Quarter of 2023. Weekday movement has begun to lead the way, with over 10% gains from the prior year. For the shoulder nights (Monday and Thursday) RevPAR growth followed, increasing more than 5%. Unlike 2021 and 2022, weekends were not the brightest spots, but they did show growth, with RevPAR up a little less than 3%.

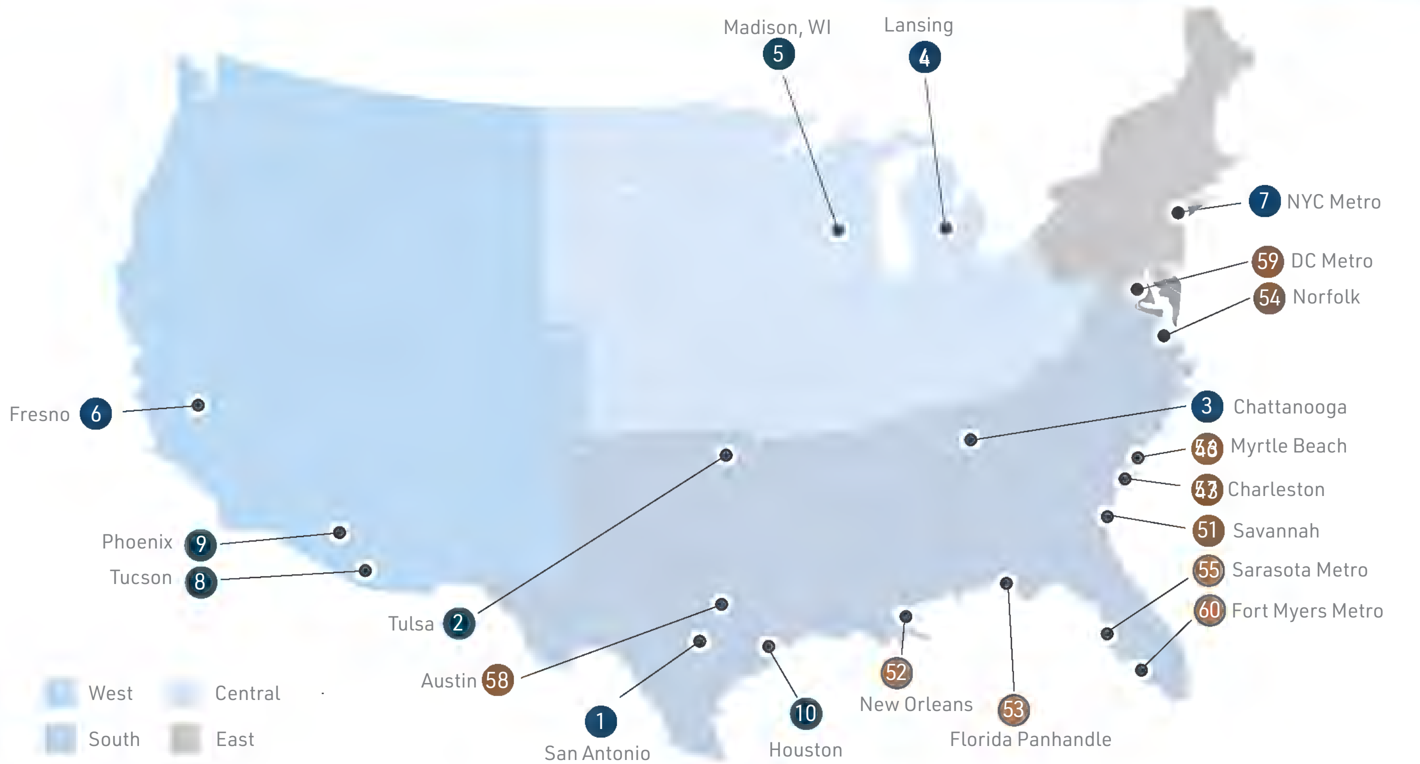
According to the latest tracked data, every top 25 market saw weekday RevPAR gains except Atlanta, New Orleans, and San Diego. The two markets posting the largest weekday RevPAR gains were Las Vegas, up 27.1%, and Dallas, up 24.7%. Overall, 13 of the top 25 markets reported double-digit weekday RevPAR growth.

> As of the end of November 2023, U.S. average Revenue per Available Room ("RevPAR") had increased approximately 6% over the same time last year.

By location, the markets that have seen the greatest RevPAR increase year-over-year in the U.S. are Houston, New York, Washington, Oahu Island, and Orlando. Note that some markets in the Top 25 showing negative growth at the end of 2023, such as Miami, experienced the strongest positive growth in 2021-2022.

While ADR spikes like those seen in 2021 and 2022 appear to be things of the past (some markets saw +15% to +20% spikes), ADR increases continue to pull year-over-year RevPAR growth.

TOP MARKETS BY HOSPITALITY TRANSACTION VOLUME BASED ON YOY PERCENTAGE CHANGE



Bulls (Top 10)

2023 Rank	Market	YOY Change	Total 4Q22-3Q23	Vol. Rank*
1	San Antonio	159.1%	$1,008 M	6
2	Tulsa	110.6%	$99 M	45
3	Chattanooga	91.8%	$94 M	47
4	Lansing	80.6%	$65 M	58
5	Madison, WI	64.6%	$130 M	36
6	Fresno	42.6%	$67 M	54
7	NYC Metro	40.4%	$3,587 M	1
8	Tucson	29.6%	$175 M	28
9	Phoenix	21.1%	$1,194 M	5
10	Houston	21.1%	$695 M	9

Bears (Bottom 10)

2023 Rank	Market	YOY Change	Total 4Q22-3Q23	Vol. Rank*
51	Savannah	-67.2%	$102 M	44
52	New Orleans	-67.4%	$99 M	45
53	Florida Panhandle	-68.8%	$160 M	31
54	Norfolk	-70.0%	$78 M	52
55	Sarasota Metro	-70.9%	$62 M	60
56	Myrtle Beach	-74.3%	$66 M	56
57	Charleston	-77.8%	$105 M	42
58	Austin	-77.9%	$311 M	20
59	DC Metro	-80.6%	$295 M	21
60	Fort Myers Metro	-83.6%	$164 M	30

* Volume Ranking is based on the overall transaction volume among 60 markets nationally

The top markets, of course, are a very selective sample and not fully representative of the industry. Across the country, the majority of markets exhibited a comparable trajectory to the top 25 markets, albeit at a more moderate pace. Notably, the Weekday Revenue per Available Room (RevPAR) saw an upswing of 6.7% on shoulder days, primarily at the result of an increase in ADR. However, looking past the Top 25 markets, weekend demand was down the most in the next 50 largest markets based on supply (i.e. the Top 26 - 75 in size). Those markets saw weekend demand decrease 3.4% year over year versus the remaining 92 markets.

The weekend demand drop across the country was primarily seen in the economy hotel segment. Nonetheless, weekend demand was down in all types of hotels in the remaining markets. Luxury and upper-upscale hotels have been least affected by changes in weekend demand. Business groups, conventions, and conferences helped boost performance in most markets, offsetting the slowing weekday business. According to a recent report by Orbitz Travel, "roughly 60% of hotel industry revenue growth in the latter half of 2023 is from weekdays, with the major markets leading the way."

As to new products entering the market, this risk has been mitigated significantly by rising interest rates and a lack of available capital. In an effort to curb inflation in 2022 and 2023, the Federal Reserve has implemented rate increases at an unprecedented rate. Traditional lending rates have followed suit, steadily increasing from quarter to quarter. While the federal funds rate remains low by historic standards, these continued rate changes have made it difficult for most developers to accurately pro-forma future deals, bringing most near-term projects to a halt.

Furthermore, the costs of building new hotels have shot up due to sharp increases in labor and materials. Add to this the jump in the cost of financing in a tighter interest rate environment, and it is likely that we will see little in the way of added room count in most markets through 2025.

The snapshot version of risk-reward in the hotel sector is suggested by cap rates. Excluding the luxury tier, characterized by an average 6.5% cap rate, rates across the broader sector denote notable income volatility, spanning the 8.5% to 10.0% range. Historically, this might initially appear appealing. However, even if The FED holds rates steady for much of 2024, the current elevated cost of capital has led to a contraction of the risk premium associated with hotel investments.

Thus far, this consequence has not manifested in declining property values. While the number of closed transactions has steadily dropped in 2023, overall prices have yet to show any notable change. However, moving into 2024, IRR expects astute investors to pursue safer investment havens, diverting their attention and capital away from the hotel sector. IRR expects a cautious approach among investors navigating the current landscape of the hotel real estate market. We also believe values will finally begin to fall in 2024.

Looking ahead to 2024, IRR expects to see a continued, but moderate, growth in RevPAR. This will likely be driven almost solely on ADR growth. However, we expect investment volatility will finally catch up with this steady (but softening) RevPAR increase. One further note of importance on the market: many investment-grade operators were given a grace period of 2 – 3 years on required PIP updates. Brands are now coming back to ownership groups, once again requiring the standard property updates. These required renovations are coming at a time of an increase in the cost of capital. This may cause an issue for lower-performing properties, prompting some owners to sell in an already soft market.

2024

INVESTOR RATES TABLE

INTEGRA REALTY RESOURCES CAPITALIZATION RATES DISCOUNT RATES AND REVERSION RATES

GOING IN CAPITALIZATION RATES (%)

Region	Market	Class A: CBD Office	Class A: Suburban Office	Class A: Industrial	Class A: Flex Industrial	Class A: Urban Multifamily	Class A: Suburban Multifamily	Class A: Regional Mall Retail	Class A: Community Retail Center	Class A: Neighborhood Retail	Class B: CBD Office	Class B: Suburban Office	Class B: Urban Multifamily	Class B: Suburban Multifamily
EAST REGION	BALTIMORE, MD	9.25	9.50	7.50	8.00	6.25	6.50	7.25	7.75	7.50	9.75	10.75	6.75	7.25
	BOSTON, MA	6.25	6.75	7.00	7.00	5.00	5.25	8.00	6.75	7.00	6.75	7.25	5.75	6.00
	HARTFORD, CT	8.75	9.00	7.50	7.75	6.25	6.00	9.00	7.50	7.75	9.25	9.50	7.00	6.75
	NEW JERSEY, COASTAL		7.50	5.75	6.25	5.50	5.50	7.50	7.25	7.25		8.25	5.75	5.75
	NEW JERSEY, NO.	6.50	7.00	5.00	6.00	5.25	5.75	7.50	7.00	6.25	7.00	7.50	5.50	6.00
	NEW YORK, NY	6.50		5.75	6.25	5.25			6.25	6.25	7.10		5.50	
	PHILADELPHIA, PA	7.75	8.00	6.25	6.75	6.00	5.75	7.75	7.25	7.50	8.00	8.50	6.25	6.00
	PITTSBURGH, PA	9.00	8.00	6.75	6.75	6.00	6.25	10.00	8.50	8.50	9.50	8.50	6.50	7.25
	PROVIDENCE, RI	8.50	9.00	7.25	7.50	6.25	6.25	9.00	7.50	7.75	9.00	9.50	6.75	6.75
	SYRACUSE, NY	8.75	8.75	9.25	8.75	6.00	5.75		8.00	9.00	9.75	9.75	6.50	6.25
	WASHINGTON, DC	8.25	8.75	7.00	7.00	5.50	5.50	6.25	6.50	6.50	9.00	9.75	6.00	6.00
	WILMINGTON, DE	8.75	11.00	7.00	7.00	6.25	6.25	6.25	6.50	6.50	10.00	11.50	6.75	6.75
SOUTH REGION	ATLANTA, GA	7.25	7.75	5.50	7.00	5.50	6.00	7.25	7.50	7.75	8.00	8.75	6.00	6.50
	AUSTIN, TX	6.50	6.75	6.00	6.50	4.50	4.50	6.50	7.00	6.50	7.00	8.00	5.00	5.00
	BIRMINGHAM, AL	8.00	8.00	6.25	7.25	5.75	5.75	8.50	8.25	7.25	8.50	8.50	6.75	6.75
	BROWARD-PALM BEACH, FL	7.75	8.00	6.50	6.75	5.50	5.50	6.25	6.25	6.25	8.00	8.25	6.00	6.00
	CHARLESTON, SC	7.00	7.50	7.00	7.25	4.75	5.00	8.50	7.75	8.00	7.50	8.00	6.00	6.00
	CHARLOTTE, NC	7.25	7.75	5.00	5.50	5.50	6.00	9.00	6.75	6.50	9.00	8.75	7.00	7.00
	COLUMBIA, SC	7.50	7.75	6.25	7.25	5.75	5.75	8.25	8.00	7.50	8.25	8.50	6.25	6.75
	DALLAS, TX	6.75	7.00	5.50	6.50	5.00	5.50	8.75	6.50	6.50	8.00	7.50	6.00	6.50
	FORT WORTH, TX	7.25	7.50	6.50	6.50	5.25	5.31	8.00	6.50	6.50	7.75	8.00	5.80	5.68
	GREENSBORO, NC	8.25	8.25	5.50	6.50	5.75	5.75	10.00	7.25	7.00	10.00	10.00	7.50	7.50
	GREENVILLE, SC	7.25	7.75	5.50	7.00	5.75	6.00	8.50	8.00	7.25	8.00	8.50	6.25	6.50
	HOUSTON, TX	7.40	7.50	6.30	6.80	5.60	5.60	8.70	7.60	7.30	8.30	8.40	6.80	6.80
	JACKSONVILLE, FL	9.25	9.25	5.50	6.50	5.50	5.50		8.00	7.50	9.75	9.75		6.00
	MIAMI, FL	7.00	7.50	6.00	6.25	5.25	5.25	6.25	6.25	6.25	7.50	7.75	5.75	5.75
	NAPLES, FL		7.25	6.75	6.75		4.75	6.50	6.50	6.75		7.75		5.50
	NASHVILLE, TN	7.50	7.50	6.50	6.50	6.00	6.25	10.00	7.75	7.75	8.75	8.75	6.00	6.50
	OKLAHOMA CITY, OK	7.50	7.75	7.50	7.75	5.00	5.75		7.25	7.50	8.00	8.25	5.75	6.25
	ORLANDO, FL	8.75	8.75	5.50	6.50	5.50	5.50		8.00	7.50	9.25	9.25		6.00
	RALEIGH, NC	8.00	8.50	6.00	6.00	5.00	5.25	8.25	8.00	8.00	9.00	10.00	5.75	6.00
	RICHMOND, VA	7.25	7.75	6.00	7.50	5.00	5.25	8.00	7.50	7.50	8.25	8.00	6.50	6.00
	SAN ANTONIO, TX	7.75	8.00	7.00	7.00	5.50	5.50	7.75	7.25	7.00	8.00	8.25	5.75	5.75
	SARASOTA, FL		7.75	7.75	7.75		5.00	6.75	6.75	7.00		8.00		5.25
	TAMPA, FL	8.75	9.00	6.75	7.00	5.00	5.25		5.50	5.20	9.50	9.50	5.50	5.75
CENTRAL REGION	CHICAGO, IL	7.00	8.75	5.25	8.75	5.50	5.75	7.25	7.50	8.00	8.00	9.75	5.75	6.00
	CINCINNATI, OH	9.75	9.25	7.50	8.00	6.00	6.00	9.50	8.75	8.50	10.25	9.75	6.75	6.75
	CLEVELAND, OH	8.50	8.50	7.25	7.75	6.25	6.00	8.75	8.50	8.70	9.25	9.50	7.75	7.25
	COLUMBUS, OH	8.50	8.50	6.75	7.75	5.00	5.50	8.50	8.00	7.75	9.00	9.25	5.60	6.20
	DAYTON, OH	10.00	8.50	7.50	8.25	6.25	7.00	10.00	8.50	8.50	10.25	8.75	7.50	8.00
	DETROIT, MI	9.00	8.75	8.00	7.75	6.00	5.75	8.75	8.25	8.25	9.00	9.00	6.50	6.25
	GRAND RAPIDS, MI	7.50	8.25	8.00	7.75	5.50	5.50	8.00	8.00	8.50	8.00	8.75	6.00	6.00
	INDIANAPOLIS, IN	8.00	7.75	6.50	8.00	5.50	5.75	6.75	7.00	7.25	8.50	8.25	6.00	6.25
	KANSAS CITY, MO	8.50	8.50	7.50	8.25	6.75	6.75	8.00	8.00	8.50	9.25	9.25	7.75	7.75
	LOUISVILLE, KY	9.75	8.00	6.75	7.25	6.40	5.10		7.75	8.00	10.75	9.00	8.00	6.40
	MINNEAPOLIS, MN	9.00	8.00	5.50	6.50	6.00	5.75	7.00	7.00	7.50	10.00	9.00	6.50	6.25
	SPRINGFIELD, MO		8.00	8.25			6.75		8.25	8.25		8.50		8.00
	ST. LOUIS, MO	10.00	8.25	7.75	8.00	6.50	6.25	8.25	8.25	8.50	11.00	9.25	7.75	7.75
WEST REGION	BOISE, ID	6.50	6.75	6.25	6.25	4.75	5.25	6.50	6.75	6.75	6.75	7.00	5.25	5.75
	DENVER, CO	7.50	7.50	6.00	7.00	5.00	5.00	7.50	7.50	6.50	8.50	8.50	5.00	5.00
	LAS VEGAS, NV	7.25	7.75	6.00	6.50	5.50	5.50	8.00	7.25	7.50	7.75	8.00	5.75	5.75
	LOS ANGELES, CA	7.00	7.25	4.50	5.00	4.50	5.25	6.75	6.00	6.25	7.50	7.25	4.75	5.50
	OAKLAND, CA	7.00	7.00	5.00	6.50	4.50	5.00	7.25	6.50	6.75	7.50	7.75	5.00	5.50
	ORANGE COUNTY, CA		7.00	4.50	5.00		4.00	7.00	5.75	5.25		7.25		4.25
	PHOENIX, AZ	7.50	7.50	6.00	6.50	5.50	5.50	7.50	6.50	7.00	8.00	8.00	5.25	5.25
	PORTLAND, OR	7.75	7.75	6.00	7.00	5.50	6.00		7.00	6.75	8.50	8.50	6.25	6.75
	SACRAMENTO, CA	7.50	8.00	6.75	7.00	6.25	6.50	7.25	6.75	7.00	8.25	8.75	6.50	7.00
	SALT LAKE CITY, UT	6.75	7.00	6.00	5.75	5.00	5.00	8.00	6.50	7.00	7.25	7.50	5.50	6.00
	SAN DIEGO, CA	6.25	6.25	5.50	5.50	4.25	4.25	7.00	6.25	6.25	6.50	6.50	4.75	4.75
	SAN FRANCISCO, CA	7.00	6.75	5.50	5.75	4.75	4.75	7.00	6.00	6.25	7.25	7.50	5.00	5.00
	SAN JOSE, CA	6.00	6.00	5.50	6.00	4.25	4.00	6.50	5.75	6.00	6.50	7.00	5.00	5.00
	SEATTLE, WA	7.50	7.50	6.00	7.00	5.00	5.25	6.75	7.00	7.00	8.50	8.50	5.25	5.50
	AVERAGES	7.81	7.91	6.40	6.92	5.49	5.57	7.81	7.23	7.23	8.48	8.58	6.12	6.20

DISCOUNT RATES (%)

Region	Market	Class A: CBD Office	Class A: Suburban Office	Class A: Industrial	Class A: Flex Industrial	Class A: Urban Multifamily	Class A: Suburban Multifamily	Class A: Regional Mall Retail	Class A: Community Retail Center	Class A: Neighborhood Retail	Class B: CBD Office	Class B: Suburban Office	Class B: Urban Multifamily	Class B: Suburban Multifamily
EAST REGION	BALTIMORE, MD	10.75	11.25	8.75	9.25	7.50	8.00	8.50	9.00	8.75	11.25	12.25	8.25	8.75
	BOSTON, MA	7.00	7.25	8.00	8.25	6.25	6.50	8.50	7.25	7.75	7.25	7.50	7.00	7.50
	HARTFORD, CT	9.75	10.00	8.50	8.75	7.25	7.00	9.75	8.25	8.50	10.25	10.50	8.00	7.75
	NEW JERSEY, COASTAL		8.75	7.00	7.50	7.00	7.00	8.50	8.25	8.40		9.50	7.50	7.50
	NEW JERSEY, NO.	7.50	8.00	7.00	7.50	6.25	6.75	8.50	8.00	7.25	8.00	8.50	6.50	7.00
	NEW YORK, NY	7.75		7.00	7.50	6.75			7.50	7.50	8.25		7.00	
	PHILADELPHIA, PA	9.00	9.00	7.25	7.75	7.50	7.25	9.00	8.50	9.00	9.25	9.75	8.00	7.75
	PITTSBURGH, PA	10.00	9.00	7.75	7.75	7.75	7.75	11.00	10.00	10.00	10.50	9.50	8.25	8.25
	PROVIDENCE, RI	9.50	10.00	8.25	8.50	7.25	7.25	9.25	8.25	8.50	10.00	10.50	7.75	7.75
	SYRACUSE, NY	9.75	9.75	10.25	9.75	7.00	6.75		9.50	10.50	10.75	10.75	7.50	7.25
	WASHINGTON, DC	9.50	10.00	8.25	8.25	6.75	6.75	7.50	7.75	7.75	10.25	11.00	7.25	7.25
	WILMINGTON, DE	10.00	12.50	8.25	8.25	7.50	7.50	7.50	8.00	8.00	11.25	12.50	8.00	8.00
SOUTH REGION	ATLANTA, GA	9.50	9.50	6.50	8.50	8.00	8.50	9.50	10.75	11.00	10.00	10.00	8.50	9.00
	AUSTIN, TX	8.00	8.50	7.50	8.00	6.25	6.25	8.50	8.50	8.00	9.00	9.25	6.75	6.75
	BIRMINGHAM, AL	9.00	9.00	7.50	8.50	7.25	7.25	9.75	9.50	8.50	9.50	9.50	8.25	8.25
	BROWARD-PALM BEACH, FL	8.50	9.00	8.00	8.25	6.75	6.75	7.75	8.00	8.00	9.00	9.50	7.25	7.25
	CHARLESTON, SC	8.00	8.50	8.00	8.25	6.75	7.00	10.00	9.25	9.50	8.50	9.00	7.50	7.50
	CHARLOTTE, NC	9.25	9.75	7.00	7.50	7.50	8.00	11.00	8.75	8.50	11.00	10.75	9.00	9.00
	COLUMBIA, SC	10.00	10.00	8.00	8.75	7.50	7.75	9.25	9.25	9.00	10.25	10.25	8.50	9.00
	DALLAS, TX	8.25	8.50	7.00	8.00	7.00	8.00	9.75	7.75	7.75	8.75	9.00	7.50	8.50
	FORT WORTH, TX	7.50	7.75	7.25	7.25	6.38	6.50	9.25	8.00	8.00	7.75	8.00	6.77	6.70
	GREENSBORO, NC	9.75	9.75	7.75	8.50	7.75	7.75	12.00	9.75	9.00	11.75	11.75	9.75	9.75
	GREENVILLE, SC	9.75	10.00	7.25	8.75	7.50	7.50	9.50	8.00	9.00	10.00	10.25	8.25	8.50
	HOUSTON, TX	8.90	9.00	7.80	8.30	7.00	7.00	10.10	8.80	8.80	9.70	9.80	8.10	8.10
	JACKSONVILLE, FL	10.25	10.25	6.50	7.50	6.75	6.75		9.00	8.50	10.75	10.75		7.25
	MIAMI, FL	9.00	9.00	7.50	7.75	6.75	6.75	7.75	7.75	7.75	9.00	9.50	7.25	7.25
	NAPLES, FL		8.25	7.75	7.75		5.75	7.50	7.50	7.75		8.75		6.00
	NASHVILLE, TN	8.50	8.50	7.00	7.00	6.50	6.75	10.50	8.50	8.50	9.50	9.50	6.50	7.00
	OKLAHOMA CITY, OK	9.00	9.25	9.00	9.25	6.50	7.25		8.75	9.00	9.50	9.75	7.25	7.75
	ORLANDO, FL	9.75	9.75	6.50	7.50	6.75	6.75		9.00	8.50	10.25	10.25		7.25
	RALEIGH, NC	9.50	10.00	7.50	7.50	7.00	7.50	9.50	9.25	9.25	11.00	12.00	8.00	8.50
	RICHMOND, VA	8.50	9.00	7.25	8.75	6.50	6.75	9.50	9.00	9.00	9.50	9.25	8.00	7.50
	SAN ANTONIO, TX	9.25	9.50	7.50	8.00	6.50	6.50	8.50	8.00	7.75	9.50	9.75	6.75	6.75
	SARASOTA, FL		8.75	8.75	8.75		6.00	7.75	7.75	8.00		9.00		6.25
	TAMPA, FL	9.75	10.00	8.00	8.25	7.00	7.25		5.10	5.10	10.50	10.00	7.50	7.75
CENTRAL REGION	CHICAGO, IL	10.00	10.00	6.25	9.00	6.25	6.75	8.25	8.50	8.75	10.00	10.00	6.75	7.25
	CINCINNATI, OH	10.50	10.25	8.50	9.00	7.00	7.00	10.50	9.75	9.50	11.25	10.75	7.75	7.75
	CLEVELAND, OH	9.50	9.50	8.25	8.75	8.25	8.00	9.25	9.00	9.25	10.00	10.00	9.25	9.00
	COLUMBUS, OH	9.50	9.50	7.75	8.75	8.00	8.50	9.50	9.00	8.75	10.00	10.25	8.60	9.20
	DAYTON, OH	11.75	10.25	8.25	8.75	8.25	7.75	11.75	9.50	9.50	11.75	10.50	9.00	8.50
	DETROIT, MI	9.50	9.25	9.00	8.75	8.00	7.75	9.50	9.25	9.25	9.50	9.50	8.50	8.25
	GRAND RAPIDS, MI	8.75	9.25	9.25	9.00	7.50	7.50	9.00	9.00	9.25	9.25	9.75	8.00	8.00
	INDIANAPOLIS, IN	9.50	9.25	7.50	9.00	8.00	8.00	7.75	8.00	8.25	10.00	9.75	8.00	8.00
	KANSAS CITY, MO	10.50	10.50	9.00	9.75	7.75	7.75	9.00	9.00	9.50	11.25	11.25	8.75	8.75
	LOUISVILLE, KY	10.00	9.00	8.00	8.25	8.25	8.10		9.00	9.00	11.00	9.00	10.00	9.40
	MINNEAPOLIS, MN	9.50	8.50	7.25	7.75	7.50	7.50	7.75	7.25	7.75	10.50	9.50	8.00	8.00
	SPRINGFIELD, MO		8.50	8.50			7.25		8.25	8.25		9.00		8.50
	ST. LOUIS, MO	11.00	9.25	8.75	9.00	7.75	7.75	9.25	9.25	9.50	12.00	10.25	8.50	8.25
WEST REGION	BOISE, ID	8.00	8.25	8.00	8.00	6.75	7.25	8.50	8.75	8.75	8.25	8.50	7.25	7.50
	DENVER, CO	10.00	10.00	7.00	8.00	7.00	7.00	8.50	8.50	7.50	10.00	10.00	7.00	7.00
	LAS VEGAS, NV	9.00	9.50	7.50	8.25	7.00	7.00	8.50	7.75	8.00	9.50	9.75	7.25	7.25
	LOS ANGELES, CA	9.00	8.75	6.25	6.75	6.00	6.75	8.25	7.50	7.75	9.50	8.75	6.25	7.50
	OAKLAND, CA	8.25	8.25	6.25	7.75	6.00	6.50	8.75	8.00	8.25	8.75	9.00	6.50	7.00
	ORANGE COUNTY, CA		8.50	6.25	6.50		5.50	8.50	7.25	6.75		8.25		5.75
	PHOENIX, AZ	9.00	9.00	7.00	7.50	6.50	6.50	8.50	7.50	8.00	9.50	9.50	6.25	6.25
	PORTLAND, OR	9.25	9.00	7.50	8.50	6.50	7.00		8.50	8.25	9.75	9.75	7.25	7.75
	SACRAMENTO, CA	9.00	9.50	8.25	8.50	7.75	8.00	8.75	8.25	8.50	9.75	10.25	8.00	8.50
	SALT LAKE CITY, UT	8.50	8.75	7.50	7.25	6.50	6.50	9.00	8.50	8.50	9.00	9.25	7.00	7.50
	SAN DIEGO, CA	8.25	8.25	7.50	7.50	6.25	6.25	9.00	6.50	6.50	8.50	8.50	6.75	6.75
	SAN FRANCISCO, CA	8.50	8.25	6.75	7.00	6.25	6.25	8.50	7.50	7.75	8.75	9.00	6.50	6.50
	SAN JOSE, CA	7.25	7.25	6.75	7.25	5.75	5.50	8.00	7.25	7.50	7.75	8.25	6.50	6.50
	SEATTLE, WA	9.00	9.00	7.50	8.25	6.75	7.00	7.75	8.00	8.00	9.25	9.25	7.00	7.25
	AVERAGES	9.18	9.22	7.67	8.17	7.04	7.10	9.01	8.40	8.43	9.76	9.76	7.66	7.71

REVERSION RATES (%)

Region	Market	Class A: CBD Office	Class A: Suburban Office	Class A: Industrial	Class A: Flex Industrial	Class A: Urban Multifamily	Class A: Suburban Multifamily	Class A: Regional Mall Retail	Class A: Community Retail Center	Class A: Neighborhood Retail	Class B: CBD Office	Class B: Suburban Office	Class B: Urban Multifamily	Class B: Suburban Multifamily
EAST REGION	BALTIMORE, MD	8.00	8.25	7.25	7.50	6.25	6.75	7.00	7.50	7.50	8.75	9.00	6.75	7.25
	BOSTON, MA	6.50	7.00	7.00	7.00	5.00	5.25	9.00	7.75	8.25	7.00	7.50	5.75	6.00
	HARTFORD, CT	9.00	9.25	7.75	8.00	6.50	6.25	9.25	7.75	8.00	9.50	9.75	7.25	7.00
	NEW JERSEY, COASTAL		8.00	6.25	6.75	6.25	6.50	8.00	7.75	8.15		8.75	6.75	6.75
	NEW JERSEY, NO.	7.00	7.50	6.00	7.00	6.50	7.00	7.75	7.25	6.50	7.50	8.00	6.75	7.25
	NEW YORK, NY	6.25		5.75	6.25	5.50			6.25	6.25	6.75		5.75	
	PHILADELPHIA, PA	8.75	9.00	7.00	7.50	6.50	6.25	8.25	7.75	8.75	9.00	9.50	7.50	7.25
	PITTSBURGH, PA	9.50	8.50	8.25	8.25	8.25	8.25	10.50	9.50	9.50	10.00	9.00	8.75	8.75
	PROVIDENCE, RI	9.00	9.50	7.50	7.75	6.50	6.50	9.25	7.75	8.00	9.50	10.00	7.00	7.00
	SYRACUSE, NY	10.00	10.00	10.25	9.75	6.50	6.25		8.50	10.00	11.00	11.00	7.00	6.75
	WASHINGTON, DC	7.50	8.25	6.50	6.50	5.50	5.75	6.25	6.75	6.75	8.25	8.75	5.75	6.00
	WILMINGTON, DE	8.50	9.00	7.00	7.00	6.25	6.25	6.50	7.50	7.50	9.00	9.75	6.75	6.75
SOUTH REGION	ATLANTA, GA	8.00	8.00	6.00	8.00	6.50	7.00	8.00	8.25	8.50	8.50	9.00	7.00	7.50
	AUSTIN, TX	7.00	8.25	6.50	7.00	5.00	5.00	7.00	7.50	7.00	7.50	8.50	5.50	5.50
	BIRMINGHAM, AL	8.50	8.50	6.75	7.75	6.00	6.00	8.75	8.50	7.50	8.75	8.75	7.00	7.00
	BROWARD-PALM BEACH, FL	8.50	9.00	6.75	7.00	5.75	5.75	6.50	7.00	7.00	9.00	9.50	6.25	6.25
	CHARLESTON, SC	7.50	8.00	7.50	7.75	5.25	5.50	9.00	8.25	8.50	8.00	8.50	6.50	6.50
	CHARLOTTE, NC	8.00	8.50	5.75	6.25	6.25	6.75	9.75	7.50	7.25	9.75	9.50	7.75	7.75
	COLUMBIA, SC	8.00	8.25	6.75	8.00	6.25	6.50	9.00	8.75	8.00	8.75	9.00	7.00	7.50
	DALLAS, TX	7.25	7.50	6.00	7.00	7.00	8.00	9.25	7.00	7.00	8.50	8.00	7.50	8.50
	FORT WORTH, TX	7.25	7.50	6.50	6.50	7.70	7.70	8.50	7.00	7.00	7.50	7.75	7.89	8.00
	GREENSBORO, NC	9.00	9.00	6.25	7.25	6.75	6.75	10.75	8.00	7.75	10.75	10.75	10.75	10.75
	GREENVILLE, SC	8.25	8.25	6.25	8.00	6.50	6.75	9.25	8.75	8.00	8.50	8.75	7.00	7.25
	HOUSTON, TX	8.00	8.10	7.00	7.40	6.10	6.10	9.30	8.00	7.80	8.90	8.90	7.00	7.00
	JACKSONVILLE, FL	9.50	9.50	6.00	7.00	6.00	6.00		8.25	7.75	10.25	10.25		6.50
	MIAMI, FL	7.00	7.50	6.50	6.75	5.75	5.75	6.25	6.50	6.50	7.75	8.75	6.25	6.25
	NAPLES, FL		7.75	7.25	7.25		5.25	7.00	7.00	7.25		8.25		5.50
	NASHVILLE, TN	8.00	8.00	7.50	7.50	7.00	7.25	10.00	8.00	8.00	9.25	9.25	7.00	7.50
	OKLAHOMA CITY, OK	8.00	8.25	8.00	8.25	5.50	6.25		7.75	8.00	8.50	8.75	6.25	6.75
	ORLANDO, FL	9.00	9.00	6.00	7.00	6.00	6.00		8.25	7.75	9.50	9.50		6.50
	RALEIGH, NC	8.50	9.00	6.75	6.75	5.50	5.75	9.00	8.50	8.50	9.50	10.50	6.25	6.50
	RICHMOND, VA	7.75	8.25	6.50	8.00	5.50	5.75	8.50	8.00	8.00	8.75	8.50	7.00	6.50
	SAN ANTONIO, TX	8.25	8.50	7.25	7.50	6.00	6.00	8.25	7.75	7.50	8.50	8.75	6.50	6.50
	SARASOTA, FL		8.00	8.25	8.25		5.50	7.25	7.25	7.50		8.25		5.75
	TAMPA, FL	9.25	9.50	7.25	7.50	5.50	5.75		5.50	5.20	10.00	10.00	6.00	6.25
CENTRAL REGION	CHICAGO, IL	7.25	9.00	5.75	8.75	6.00	6.50	7.25	7.50	8.00	8.25	10.00	6.25	6.75
	CINCINNATI, OH	10.00	9.75	8.00	8.50	6.50	6.50	10.00	9.50	9.25	10.25	10.25	7.25	7.25
	CLEVELAND, OH	9.00	8.75	8.25	8.75	7.50	7.25	9.75	9.50	9.75	9.50	9.50	8.50	8.00
	COLUMBUS, OH	8.75	9.00	7.25	8.25	5.50	6.00	8.75	8.25	8.00	9.50	9.75	6.10	6.70
	DAYTON, OH	12.00	9.50	9.00	9.50	8.25	7.50	10.25	10.00	10.00	12.50	9.75	9.50	9.75
	DETROIT, MI	9.00	9.50	9.25	9.00	6.50	6.25	9.25	9.00	9.00	9.00	9.00	7.20	6.75
	GRAND RAPIDS, MI	8.00	8.75	8.25	8.00	6.00	6.00	8.50	8.50	9.00	8.50	9.25	6.50	6.50
	INDIANAPOLIS, IN	8.50	8.25	7.00	8.00	7.00	7.00	7.25	7.50	7.75	9.00	8.75	7.00	7.00
	KANSAS CITY, MO	9.00	9.00	8.00	8.75	7.00	7.00	8.25	8.25	8.75	9.75	9.75	8.00	8.00
	LOUISVILLE, KY	9.50	8.50	7.25	7.75	7.50	5.75		8.50	8.50	10.50	9.50	8.50	7.00
	MINNEAPOLIS, MN	9.50	8.50	6.00	7.00	6.50	6.25	7.50	7.50	8.00	10.50	9.50	7.00	6.75
	SPRINGFIELD, MO		8.50	8.50			7.25		8.50	8.50		9.00		8.50
	ST. LOUIS, MO	10.25	8.75	8.00	8.25	6.75	6.50	8.50	8.50	8.75	11.50	9.50	7.75	8.00
WEST REGION	BOISE, ID	7.00	7.25	6.75	6.75	5.25	5.75	7.00	7.25	7.25	7.25	7.50	5.75	6.25
	DENVER, CO	9.00	9.00	6.50	7.50	5.50	5.50	10.00	10.00	8.50	9.00	9.00	5.50	5.50
	LAS VEGAS, NV	7.25	7.75	6.25	6.75	6.00	6.00	8.25	7.50	7.75	7.75	8.00	6.25	6.25
	LOS ANGELES, CA	7.50	7.75	5.00	5.50	5.00	5.75	7.25	6.50	6.75	8.00	7.75	5.25	6.50
	OAKLAND, CA	7.50	7.50	5.50	7.00	5.00	5.50	7.75	7.00	7.25	8.00	8.25	5.50	6.00
	ORANGE COUNTY, CA		7.25	5.00	5.50		5.25	7.50	6.25	5.75		7.75		5.25
	PHOENIX, AZ	7.75	7.75	6.50	7.00	5.25	5.25	7.50	7.50	7.50	8.50	8.50	5.75	5.75
	PORTLAND, OR	7.25	7.25	6.50	7.50	6.00	6.50		7.50	7.50	7.75	7.50	6.75	7.25
	SACRAMENTO, CA	8.00	8.50	7.25	7.50	6.75	7.00	7.75	7.25	7.50	8.75	9.25	7.00	7.50
	SALT LAKE CITY, UT	7.25	7.50	6.50	6.25	5.50	5.50	8.50	7.00	7.50	7.75	8.00	6.00	6.50
	SAN DIEGO, CA	6.75	6.75	6.00	6.00	4.75	4.75	7.50	6.75	6.75	7.00	7.00	5.25	5.25
	SAN FRANCISCO, CA	7.50	7.25	6.00	6.25	5.25	5.25	7.50	6.50	6.75	7.75	8.00	5.50	5.00
	SAN JOSE, CA	6.50	6.50	6.00	6.50	4.75	4.50	7.00	6.25	6.50	7.00	7.50	5.50	5.50
	SEATTLE, WA	7.00	7.00	6.50	7.50	5.50	5.75	7.50	7.50	7.50	7.50	7.50	5.75	6.00
	AVERAGES	8.20	8.31	6.91	7.42	6.12	6.20	8.29	7.76	7.78	8.83	8.91	6.78	6.86

NOTES:

1. CAPITALIZATION, DISCOUNT, AND REVERSION RATES DATA IS BASED ON IRR'S 4Q '23 VIEWPOINT SURVEY.

SOURCE: INTEGRA REALTY RESOURCES, INC.

SPECIALTY REPORTS

Specialty property groups offer unique investment opportunities for portfolio diversification and potential stable, predictable income streams. Let's take a closer look at Healthcare & Senior Housing, Affordable Housing, NNN Properties, and Golf Courses.

HEALTHCARE & SENIOR HOUSING

Navigating New Normals

By: Vic Cremeens, MAI, Managing Director, IRR's Healthcare & Senior Housing Practice Group

This important market is moving past the pandemic's challenges. Operations are recovering with improved occupancy and workforce stabilization, while higher interest rates are constraining construction, aiding further recovery. However, sales activity has decreased due to the higher rates. Of course, that could change as the rates decrease due to lower inflation.

Construction costs in commercial sectors, including senior housing, have risen significantly. According to Marshall Valuation Service, costs are 15% to 30% higher than in mid-2021. Senior housing construction has slowed since 2022, with starts below pre-pandemic levels due to increased construction and borrowing costs. This slowdown is expected to benefit future net absorption, helping existing facilities regain pre-pandemic occupancy levels.

Data from NIC MAP for the third quarter of 2023 shows senior housing occupancy rates have increased for nine consecutive quarters to 84.4%. This is a significant recovery from the pandemic low of 77.8% in the first quarter of 2021. Different segments, such as majority Independent Living and Assisted Living facilities, show varying occupancy rates. Senior housing occupancy is expected to reach or exceed pre-pandemic levels by 2024.

Inflation spiked in 2021 and 2022 due to pandemic-related factors, prompting the Federal Reserve to raise interest rates multiple times. This has propelled the Fed funds rate to its highest level in over 20 years. Inflation forecasts for 2024 are under 3%, potentially leading to reduced borrowing costs and making health-care and senior housing acquisitions more feasible.

> Senior housing occupancy rates have increased for nine consecutive quarters to 84.4%.

Medicaid reimbursement for skilled nursing Facilities (SNFs) has increased in most states in 2023. However, the phasing out of federal Medicaid funding enhancements by the end of the year may pressure states to maintain nursing facility rate increases.

The Centers for Medicare & Medicaid Services proposed minimum staffing standards for SNFs in September 2023, aiming to improve resident safety and care quality. However, a report suggests most facilities currently do not meet these proposed criteria, and the ongoing nurse shortage presents further challenges.

> The Centers for Medicare & Medicaid Services proposed minimum staffing standards for SNFs in September 2023, aiming to improve resident safety and care quality.

Senior housing property prices have been impacted by higher interest rates and less aggressive lending. Operating margins remain under pressure due to inflation, modest unemployment, and a nurse shortage. However, rate increases have helped offset higher operating costs. Senior housing values are likely to remain below pre-pandemic levels until margins stabilize and borrowing costs decrease.

The market is active but slower than in 2022, with owner-operators the most active buyers. SNF values declined in 2023, though they still offer higher yield opportunities compared to other senior housing segments.

In conclusion, senior housing capitalization rates have increased slightly in 2023, with SNF cap rates at historic lows. Higher operating costs have been balanced by increased private pay and Medicaid rates. Industry optimism varies across the various segments, with more positive outlooks for assisted living, active adult, and SNF investments.

AFFORDABLE HOUSING

Foundations for the Future

By: Ron DeVries, MAI, SRA, Senior Managing Director, IRR-Chicago

The report on affordable housing focuses on the key role of the Low-Income Housing Tax Credit (LIHTC) program and the current challenges in developing new affordable multifamily units. Established in 1986, the LIHTC program uses a mix of public funding and private management to finance the construction and rehabilitation of affordable housing. Each year, states are allocated tax credits from the IRS based on population, which developers then compete for. The credits are sold to investors at a discount, with proceeds forming a crucial part of the development's capital stack. In return, developers must maintain rent and income restrictions for at least 30 years. Since its inception, the LIHTC program has enabled the construction of nearly 3.5 million affordable housing units.

Development of new affordable housing faces hurdles like fluctuating equity pricing, debt market shifts, and increased construction costs.

Despite the growth in other multifamily markets, the affordable housing sector remains significantly undersupplied. The National Multifamily Housing Council predicts a need for 4.3 million new apartments by 2035. The sector has been impacted by economic trends since 2020, with significant rent growth in market-rate housing affecting affordable housing as well. The U.S. Department of Housing and Urban Development (HUD) sets fair market rents (FMRs) annually, which have seen substantial increases, consequently affecting rents and income limits in LIHTC housing.

Development of new affordable housing faces hurdles like fluctuating equity pricing, debt market shifts, and increased construction costs. After the 2016 presidential election, the demand for tax credits decreased, leading to a drop in pricing. The onset of Covid-19 further impacted this trend. The Federal Reserve's rate hikes have led to higher interest rates and constrained funding for commercial real estate loans.

In major markets such as Chicago, the development costs for new LIHTC projects have exceeded those of luxury developments, driven by inflation and rising soft costs. This highlights the increasing difficulty in expanding the supply of affordable housing. By 2030, a significant number of LIHTC-financed units will reach the end of their rent restriction period, potentially converting to market-rate housing and reducing the affordable unit supply. Various solutions have been proposed to reduce this risk. One idea is to boost funding so more units can be delivered near term. Another is to have states move to longer restriction periods. Whatever the case, it's necessary to expand economic incentives for properties nearing the end of their compliance period in order to reach HUD's goal of increased access to affordable housing.

The complexities in valuing affordable housing, particularly LIHTC properties, are many. The upcoming "Fundamentals of Appraising Affordable Housing" seminar by the Appraisal Institute, set for release in early 2024, is recommended for those seeking to understand these valuation challenges. This seminar aims to provide essential knowledge for appraising properties associated with the LIHTC program, reflecting the unique nature of its requirements and the economic variables impacting the affordable housing sector.

NNN PROPERTIES

Investment Grade Yield Spreads

By: Jacob Stephens, Commercial Analyst, IRR-St. Louis

As 2023 concludes, significant shifts in interest rates, a reaction to the Federal Reserve's monetary policy, have markedly influenced the market. Investors in real estate and securities are adapting to these changes, which are reshaping the capital stack. Accurately assessing capitalization rates, given these conditions, is vital for real property valuation. Our focus is on the relationship between corporate bond yields and net lease capitalization rates for properties secured by credit tenants.

Market participants derive capitalization rates via a variety of methods, often referencing bond market returns. Investment in secured real estate becomes favorable when it offers a margin that compensates for its illiquidity compared to corporate bonds. Thus, the corporate bond rate is pivotal in developing appropriate capitalization rates for comparable real estate.

The bonds issued by a credit tenant provide insights into their credit strength, forming a basis for deriving capitalization rates. When evaluating net lease capitalization rates, factors such as lease term, credit rating, and specific real estate factors, including illiquidity premiums, are crucial. In balanced market conditions, these components influence the spread between net lease capitalization rates and bond yields.

Key considerations include the lease term, which significantly impacts investment longevity. Investors typically seek longer-term investments, with newly leased properties at 10 - 20-year terms considered more attractive. This preference is reflected in adjustments for term length, taking into account tenant renewal options. Once the term is determined, investors assess the credit risk and financial strength of the tenant or guarantor.

US 10-Year Treasury Rate

Accurately assessing capitalization rates, given these conditions, is vital for real property valuation.

For a reliable comparison, it's essential to select companies with credit profiles similar to that of the property's tenant. Finally, broader adjustments encompassing real estate specific factors like appreciation, tax benefits, and illiquidity premiums are factored in. These elements, along with lease rate steps and market trends, are integral to analyzing capitalization rates and adjusting for yield effectively.

Our analysis included data from companies with "A" and "B" credit ratings, actively traded bonds, and a presence in the net lease real estate market. We employed multiple methods, including linear regression and paired sales analysis, to isolate and measure the impact of these variables—all supplemented with market survey data.

In lease term analysis, shorter terms bring more uncertainty for investors, while longer terms offer better yield protection. Our analysis reveals a term coefficient impacting capitalization rate adjustments, showing a

Term Adj Range	Term Adj Avg
0.05%-0.10%	0.07%

Term Adjustment Range of 0.05%-0.10% and an Average Term Adjustment of 0.07%. This range and average reflect the varying degrees of adjustment applied to capitalization rates based on lease term lengths.

Regarding credit rating and strength, we examined bond data based on Moody's scale, categorizing corporate debt into "A" and "B" ratings. The spread between these categories, adjusted for term length, offers valuable insights for comparing capitalization rates and corporate debt.

Finally, real estate specific factors, particularly illiquidity, play a significant role. Real estate's lower liquidity compared to bonds necessitates adjustments in yield calculations. Our observations showed varying discounts relating to real estate characteristics and illiquidity, influenced by location and market conditions.

In conclusion, understanding the bond market and alternative capital uses is crucial in analyzing net leased real estate. In 2024, the industry must adapt to the evolving impact of shifting interest rates on capitalization rates and market dynamics.

GOLF COURSES

Golf's Surprising Swing

By: Cary Lannin, Director, IRR-Chicago

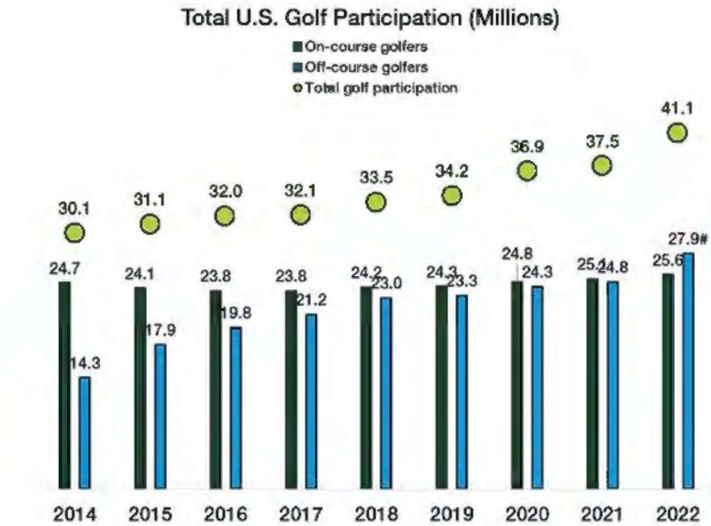
In the past three years, the golf industry has rebounded remarkably, a scenario that seemed inconceivable in late 2019. Despite a global pandemic and economic challenges, golf has thrived. According to the National Golf Foundation (NGF), on-course golf participation rose from 24.3 million in 2019 to 25.6 million in 2022. Off-course golfing; at Topgolf, indoor simulators, and other outlets; also saw a significant increase in participation, reaching 27.9 million from 23.3 million in 2019. These off-course venues, which blend golf and social activities, have complemented rather than cannibalized play at green-grass golf facilities.

An additional factor affecting rounds played at green-grass golf courses is a continuing decline in the number of golf courses. In 2023, about 105 courses closed compared to only around 10 new openings. This reduction led to a higher concentration of play on the remaining courses. With the decrease in the number of facilities, coupled with better weather conditions relative to 2022, golf rounds played in 2023 rebounded sharply, showing a 3.8% increase compared to 2022. This resilience enabled facilities to raise green fees and member dues in response to the increased demand.

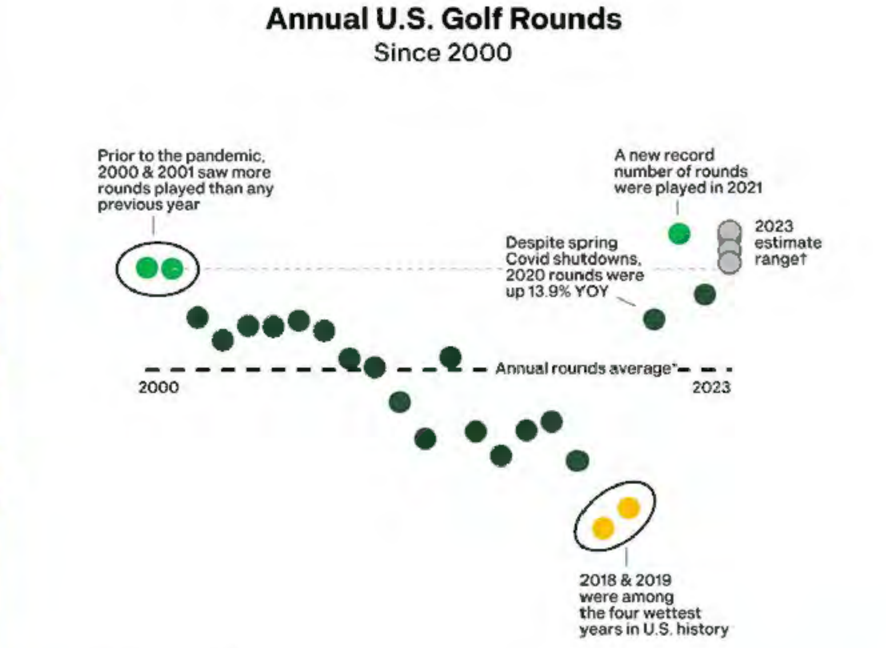
However, the broader economic landscape in 2023, especially in real estate, presents a different picture. The Federal Reserve's increase in the federal funds rate has made borrowing more expensive. This has affected real estate transactions and caused disruptions in the industry. Despite these economic headwinds, the golf industry has maintained its growth trajectory. In fact, it's attracting increased investor interest. The 2023 Golf Investment Report by the Leisure Investment Properties Group highlights the rising median sale price for golf properties for the third consecutive year. Yet, sales volume remains below pre-pandemic levels, mainly due to a limited inventory.

These off-course venues, which blend golf and social activities, have complemented rather than cannibalized play at green-grass golf facilities.

Jeff Woolson of CBRE's Golf & Resort Group reflects on the market's current sentiment, noting, "The runway is long. Buyers view golf's underlying fundamentals positively, and are confident in a continuation of the recent trends. The story told by increasing EBITDA post-2019 is spiking investor interest, limited primarily by the lack of available inventory. Prices will continue to increase, in step with increasing EBITDA; however, investing metrics have not changed materially, still generally falling within 7x to 10x EBITDA. Headwinds include increased difficulty in securing debt, but overall, golf's future is bright."



Source: National Golf Foundation
27.9M off-course golfers in 2022 includes meaningful overlap between on- and off-course engagement, as 12.4M Americans age 6+ did both. This means 15.5M engaged exclusively away from the course, at golf entertainment venues, in simulators and/or screen golf setups, and/or at standalone driving ranges.



Source: National Golf Foundation
October 2023
* Note: Annual rounds average is based on an average total from 2000 to 2022
† Estimate reflects +3% to -3% YOY rounds fluctuation for remaining months in 2023
This graphic can only be republished in its original form. Data herein cannot be visually repurposed without permission from NGF

For an in-depth look into these specialty property types, plus an exclusive look at the Caribbean hospitality market, visit www.IRR.com/research to download your free digital copy of these supplemental special reports.

ECONOMIC TRENDS

Written By: Hugh F. Kelly, PhD, CRE

Size of U.S. Economy Has More Than Doubled Since 1980
Source: US Bureau of Economic Analysis, as of October 27, 2023

Inflation by MSA
Source: US Bureau of Labor Statistics Data as of September 2023

Thirty-Three Years of Crisis Management at the Fed
Source: Bureau of Labor Statistics (CPI); Federal Reserve (Interest Rates); Hugh Kelly Real Estate Economics (Event Characterization)

U.S. Home Affordability Has Plunged
Source: National Association of Realtors Research

REIT Assets Span the Gamut of Property Types
Source: Nareit Research, data as of September 30, 2023; ten top sectors only

PROPERTY REPORTS

OFFICE

Negative Value Change Across Entire Urban Office Spectrum in 2023
Source: NCREIF Third Quarter 2023 Detailed Report

Office Market Cycle
Source: Integra Realty Resources

Regional Rates Comparison
Source: Integra Realty Resources (Cap & Discount Rates), Moody's Analytics REIS (Asking Rents, Vacancy)

Top Markets by Office Transaction Volume Based on YOY Percentage Change
Source: Real Capital Analytics

MULTIFAMILY

Huge Differences in Rent vs. Mortgage Averages Across U.S. Markets
Smart Asset, Buy vs. Rent: A Comparison of Housing Costs in U.S. Cities – 2023 Study

Multifamily Market Cycle
Source: Integra Realty Resources

Regional Rates Comparison
Source: Integra Realty Resources (Cap & Discount Rates), Moody's Analytics REIS (Asking Rents, Vacancy)

Top Markets by Multifamily Transaction Volume Based on YOY Percentage Change
Source: Real Capital Analytics

RETAIL

Retail Market Cycle
Source: Integra Realty Resources

E-Commerce Retail Capture Rate Stabilizing
Source: US Census Bureau Quarterly Retail Sales, data as of Third Quarter 2023

Regional Rates Comparison
Source: Integra Realty Resources (Cap & Discount Rates), Moody's Analytics REIS (Asking Rents, Vacancy)

Top Markets by Retail Transaction Volume Based on YOY Percentage Change
Source: Real Capital Analytics

INDUSTRIAL

Consumer Spending on Goods Is Being Sustained at a Record Level
Source: US Bureau of Economic Analysis, via St. Louis Fed FRED database

Industrial Market Cycle
Source: Integra Realty Resources

Regional Rates Comparison
Source: Integra Realty Resources (Cap & Discount Rates), Moody's Analytics REIS (Asking Rents, Vacancy)

Top Markets by Industrial Transaction Volume Based on YOY Percentage Change
Source: Real Capital Analytics

HOSPITALITY

Top 25 Still Leading US Occupancy Gains
Source: CoStar, November 2023

Top Markets by Hospitality Transaction Volume Based on YOY Percentage Change
Source: Real Capital Analytics

SPECIALTY REPORTS

HEALTHCARE & SENIOR HOUSING

Written by: Vic Cremeens, MAI, Managing Director, IRR's Healthcare & Senior Housing Practice Group

AFFORDABLE HOUSING

Written by: Ron DeVries, MAI, SRA, Senior Managing Director, IRR-Chicago

NNN PROPERTIES

Written by: Jacob Stephens, Commercial Analyst, IRR-St. Louis

US 10-Year Treasury Rate
Source: U.S. Department of the Treasury

GOLF COURSES

Written by: Cary Lannin, Director, IRR-Chicago

Total U.S. Golf Participation
Source: National Golf Foundation

Annual U.S. Golf Rounds
Source: National Golf Foundation

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