H2 2024

U.S. Commercial Real Estate Investing Outlook

CROWDSTREET

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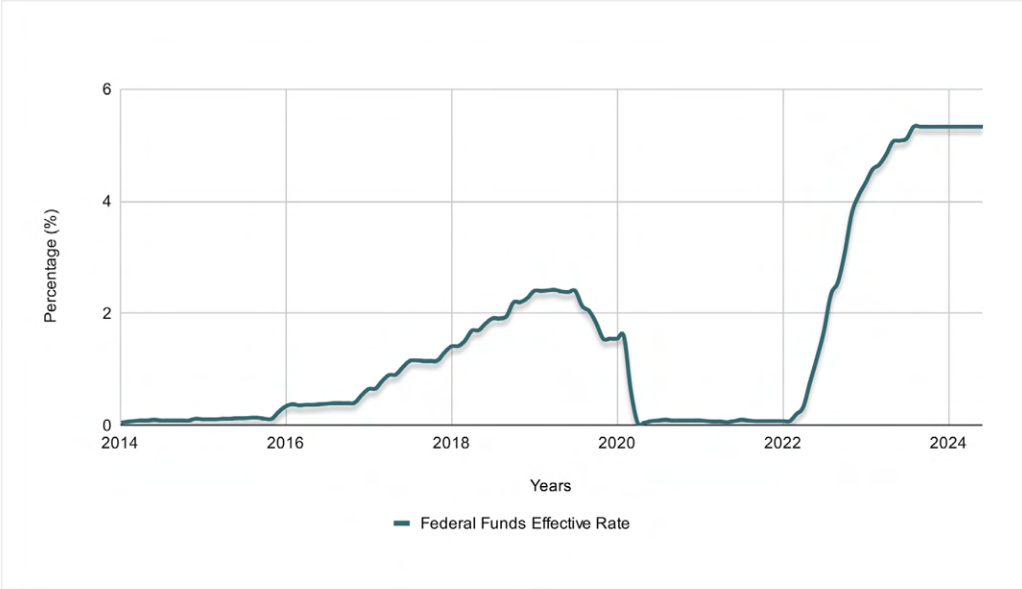
Section 01: Introduction

Navigating a Slow Market

Over two years have passed since the Federal Reserve initiated its first interest rate hike, and it has been more than a year since rates have remained unchanged, at their highest level in 23 years.[1] Now, the market is anticipating the advent of rate cuts, but the expectation is of fewer in number and slower in pace than widely believed at the start of the year.[2] Although the timing and impact of such rate cuts remain unpredictable, this shift toward expecting rate cuts and the end of rate hikes has partially helped alleviate a nearly two-year-long market downturn.

Figure 1:
U.S Federal Funds Effective Rate by Year

Source: FRED Economic Data, June 2024.



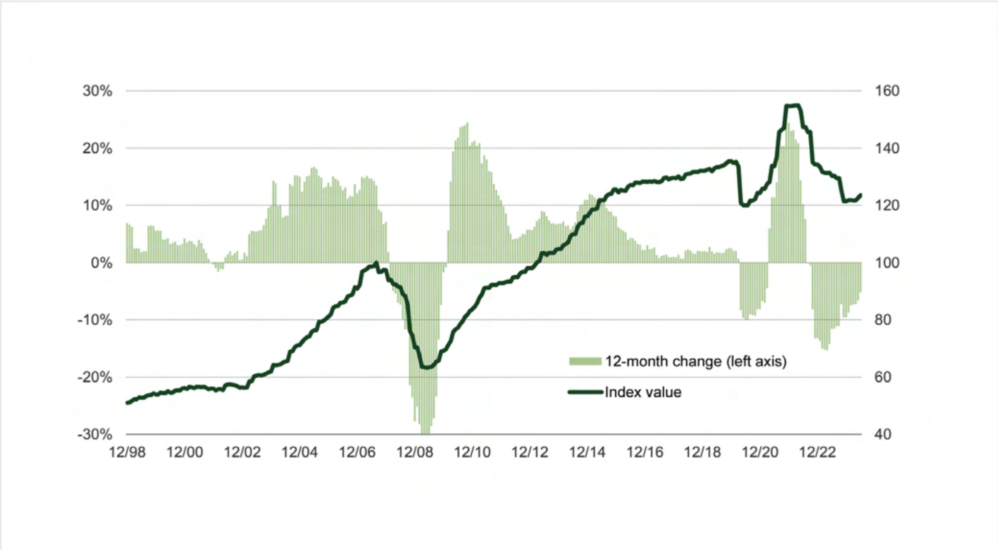
From our vantage point, the commercial real estate ("CRE") market continues normalizing and adjusting to its new reality. It's not as if interest rates are excessively high from a multi-decade perspective; they're just excessively high relative to twenty-four months ago[1] - adaptation to such a rapid rate of change typically takes time.

The word "scarcity" comes to mind when we consider today's deal flow - transaction volume is down 60% since the initial rate hike in March 2022 (between Q2 2022 and Q2 2024, according to MSCI Real Capital Analytics).[3] However, the relative trickle of deals we do see is becoming more interesting to us, which leads us to believe we are in the middle of a market trough. Despite a marginally improved outlook for interest rates, we expect transaction volume to remain subdued in the short term. Consequently, we anticipate that deal volume on the CrowdStreet Marketplace will also remain relatively low in H2 2024 compared to our historical volume.

> There is a scarcity of deals in the commercial real estate market. For those deals that launch on our CrowdStreet Marketplace, a discounted basis on acquisitions and reasonable financing for development deals will be a commonly targeted theme for us.

Figure 2:
"Prices Trending Upward," Green Street Commercial Property Price Index

Source: Commercial Property Price Index, Green Street, July 2024.

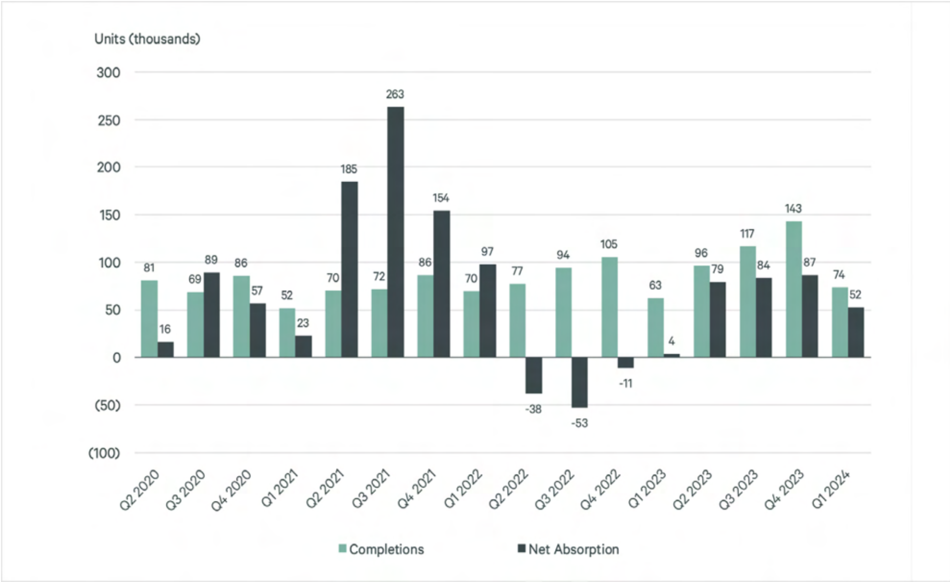


Overall, we are looking for opportunities to acquire properties adequately discounted from their peak values, preferably in locations where long-term market fundamentals remain intact, with an outlook that supports positive net absorption and strong population growth over the next five years, especially those with recovering urban centers. Some of these markets may be oversupplied in the short term. That may be acceptable, provided the pricing reflects the current environment. As for ground-up development, while not impossible, we observe it's harder to scout these projects today due to a combination of generally expensive debt, scarcity of lenders willing to lend, typically expanding cap rate environment, and tepid overall rent growth.[4]

To keep you updated, we will closely monitor interest rates, inflation, and other economic indicators as economic trends evolve. Our H2 2024 report incorporates our industry knowledge and thorough research to construct our outlook and opportunities across various CRE asset classes.

Figure 3:
RCA Transaction Volume Summary by CRE Asset Type

Source: Commercial Property Price Index, Green Street, July 2024.



1. Federal Funds Effective Rate, FRED, July 2024.
2. "What To Expect From The Fed On Interest Rates For The Rest Of 2024," Forbes, June 2024.
3. US Big Picture, MSCI Real Capital Analytics, May 2024.
4. Checking In With The Experts: CRE Deal-Making Slows As Debt Becomes More Scarce," November 2024.

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Section 02: Hospitality

Hospitality Outlook

Outlook Summary

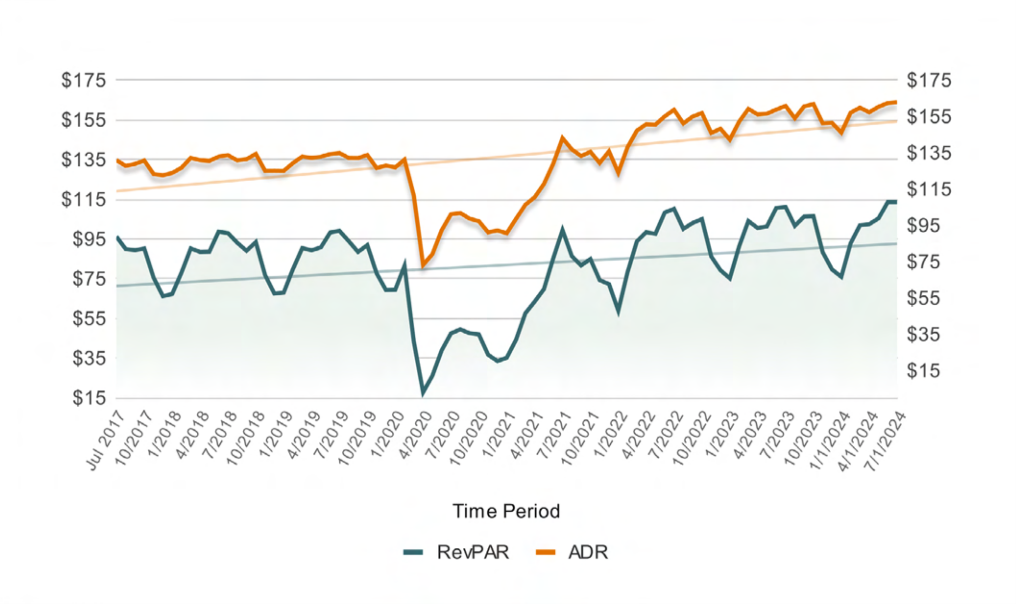
The U.S. hospitality sector's uneven recovery since the pandemic has seen business travel rebound, narrowing the performance gap with leisure hotels.[5] However, despite this positive trend, the sector's overall performance remains below pre-pandemic levels, with forecasts for 2024 adjusting expectations downwards.[6] Growth varies, with some regions experiencing revenue growth while others contract, influenced by economic factors such as inflation and savings rates.[5] Additionally, a notable decrease in hospitality transaction volume highlights the sector's ongoing challenges.[10] (See footnotes for sources).STR reported that leisure travel is now exceeding business travel and the latter is "up and down" and inconsistent across markets. Business travel is generally affected by convention and conference activity, which had dwindled to basically nothing during 2020 to 2021 and had resurfaced in 2022. However, with increased layoffs in 2023, companies may pull back further on conference and business travel which may dampen recovery.

Market Fundamentals

Smith Travel Research, or "STR," a leading source for hospitality data, shows that the U.S. hospitality sector recovered unevenly between 2020-2022, with leisure hotels generally outperforming business hotels.[5] According to STR, this trend began to level out in 2023 and is ongoing into 2024, as business travel is rebounding in major cities such as New York City, Las Vegas, Washington, D.C., Boston, and Houston due to recovering demand for hotels in both business-transient and group travel segments.[5] Meanwhile, STR shows that the previously surging leisure demand in coastal markets has stabilized, realigning the hospitality market to normalized demand patterns.

Figure 4:
Hospitality Revenue per Available Room & Average Daily Rate by Year

Source: Hospitality, United States, CoStar Data, July 2024.



However, national recovery in hotel performance is still playing catch-up to pre-pandemic norms. At their recent 46th Annual NYU International Hospitality Industry Investment Conference, STR reduced their hotel performance forecast from their previous January 2024 edition, stating a "lower-than-expected performance" for 2024 so far and a reduced expectation of growth for H2 2024 in terms of hotel occupancy, Average Daily Rates ("ADR") and Revenue Per Available Room ("RevPAR").[6] According to STR's forecast, although RevPAR is expected to increase by 2.0% in 2024, Real RevPAR, meaning when accounting for inflation, is expected to remain -6.2% below 2019 levels in 2024 and is still on the path to recovery (See Figure 5).[6]

Figure 5:
Hospitality Performance Metrics Recovery Forecast

Source: "STR, TE downgrade U.S. hotel forecast." June, 2024.

	2023 (actual)	2024 (forecast)	2025 (forecast)
Supply (YoY)	+0.3%	+0.8%	+1.0%
Occupancy	63.0%	62.8%	63.2%
ADR (YoY)	+4.3%	+2.1%	+2.0%
RevPAR (YoY)	+5.0%	+2.0%	+2.6%
Real RevPAR vs. 2019	-4.9%	-6.2%	-6.1%

According to CBRE's U.S. Hotels State of the Union June 2024 Edition, national averages don't tell the whole story.[7] The report states that "half of the (geographic) markets are experiencing RevPAR growth and half are contracting," with urban locations expected to outperform in their revenue growth driven by inbound international travel, group travel, and business transient sectors.[7]

With this variation in performance, the outlook also varies by the type of hotel. For example, with the overall high cost of living, STR and CoStar expect relative affordability to affect lower-to-middle-income household travelers and leisure travelers more than luxury and business-transient travelers, who are generally less sensitive to high inflation.[6] We're keeping in mind that the sector must absorb the effects of a decreasing savings rate and inflation on operations, both likely to affect hotel revenue in H2 2024.[8]

Transaction Activity

Per MSCI Real Capital Analytics, hospitality transactions fell 34% year-over-year, slightly better than the 39% decrease across the CRE market.[10] The decline is partly attributable to overall debt illiquidity in the market, with relatively higher spreads on loans due to the operationally intensive nature of this sector. However, one significant transaction in the last 12 months influences this number. MSCI Real Capital Analytics reported that nearly half the transaction volume came from Blackstone selling the Biltmore Resort & Spa for $705m to Henderson Park and Pyramid Global. Without this deal, hotel transaction volume would've dropped over 60% annually.[10,11] Hotels were the only CRE asset type for which cap rates fell slightly in May 2024, attributable to limited-service hotels, but the trend has remained mostly flat since roughly 2023.[10]

CrowdStreet's Strategy

Relative Value

The pandemic had a unique impact on the hospitality industry when occupancy hit 24.5% in April 2020.[12] Following this blow, we observed that the sector's pricing deviated from its trend, which we believe hindered the possibility of appreciation under normal circumstances. Combined with rising debt costs and market illiquidity, this pushed hotel deal prices further down.

Despite these challenges, we've seen prices relatively stabilize in 2024, mirroring last year's figures (which were relatively flat) but with prospects for further revenue growth, according to CoStar and STR.[13] This suggests that the hospitality sector now offers greater relative value than pre-pandemic levels, especially in markets with continued momentum behind recovery.

Acquisitions over Development

With operating expenses such as labor, utilities, and insurance generally on the rise[14], and due to hotels' operationally intensive business models, we are looking for a wide margin of safety for hospitality deals. This means we will consider projects with the potential for cash flow in the first few days of acquisition, especially those acquired below replacement costs, to help adequately cover the project's debt service.

Given the hospitality sector's unique challenges, increased construction costs, and restrictive capital markets, development within the sector remains challenging.[7] Until conditions for new hotel developments improve, we're mainly pivoting towards acquiring existing hotels. To avoid investments requiring significant repositioning or execution challenges, we intend to remain highly selective with any new construction projects or distressed hotels.

Recovering Markets

We will consider markets showing recovery in their performance indicators, recognizing that aiming only for those fully recovering to pre-pandemic levels is not essential. It's worth noting, however, that markets needing to fully recover may pose additional challenges in securing financing, as lenders generally remain hesitant, which, in our observation, could make even some top-performing markets face tougher financing challenges. A good test for hospitality recovery may be to observe the performance of newly developed hospitality projects because it typically takes time to build brand loyalty. When these projects start to perform optimally, it may increase lender confidence, making financing more accessible and help spur investment activity.

5. "New York City and Washington, D.C. among top performing U.S. markets in 2023," STR, Jan 2024.
6. "STR, TE downgrade U.S. hotel forecast," STR, June 2024.
7. "U.S. Hotels State of the Union July 2024 Edition," CBRE, July 2024.
8. "Personal Saving Rate," FRED, July 2024.
9." US Hotel Lending Likely To Get More Challenging Than Other Real Estate in Short Term," CoStar, November 2023.
10. Capital Trends, US Hotel, MSCI Real Capital Analytics, May 2024. Data as of 7/16/24.
11. "Blackstone sells Arizona Biltmore for $705M. Hotels Magazine," May 2024.
12. "U.S. hotel performance for April 2020," STR, 2020.
13. "Hotel Analysts Project Revenue Growth Despite Uncertainties," CoStar, March 2024.
14. "Quarterly Construction Cost Insights Report," Gordian, Q2 2024.

Section 03: Industrial

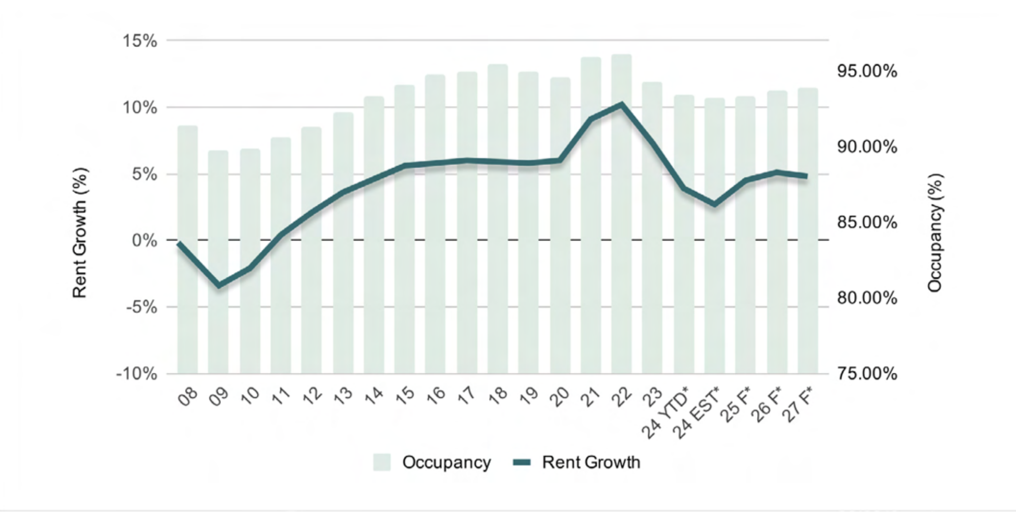
Industrial Outlook

Outlook Summary

The industrial sector, which was the only asset class to see price increases within the last 12 months, according to MSCI Real Capital Analytics, is expected to face a slowdown in rent growth in H2 2024 because of a supply and demand imbalance.[15,17] Before the sector expands again, it will need to burn through vacancies, particularly for big-box spaces. However, smaller industrial facilities still generally have tighter vacancies, according to CoStar.[18] After a temporary slowdown in H2 2024, CoStar expects rents to increase by roughly 4.6% in 2025 as the market adjusts to the excess vacancies for larger footprints, beginning a new cycle of overall growth for the sector.[17] We expect e-commerce growth and friend-shoring trends to drive demand for industrial space partly.

Figure 6:
Industrial Market Fundamentals by Year with Forecast

Source: Industrial, United States, CoStar Data, July 2024.



Market Fundamentals

After record-breaking rent growth of 10.2% in 2022 according to CoStar, the industrial sector has seen a continued slowdown through the first half of 2024, with expectations of further declines in rent growth in H2 2024 due to a supply-demand imbalance. This is compounded by the fact that, following record deliveries in 2021, the overall vacancy rate has increased from 4.1% in 2021 to 6.6%, as reported by CoStar.[17] According to CoStar, big-box tenants have a surplus of industrial space, overestimating their requirements after the pandemic's e-commerce surge.

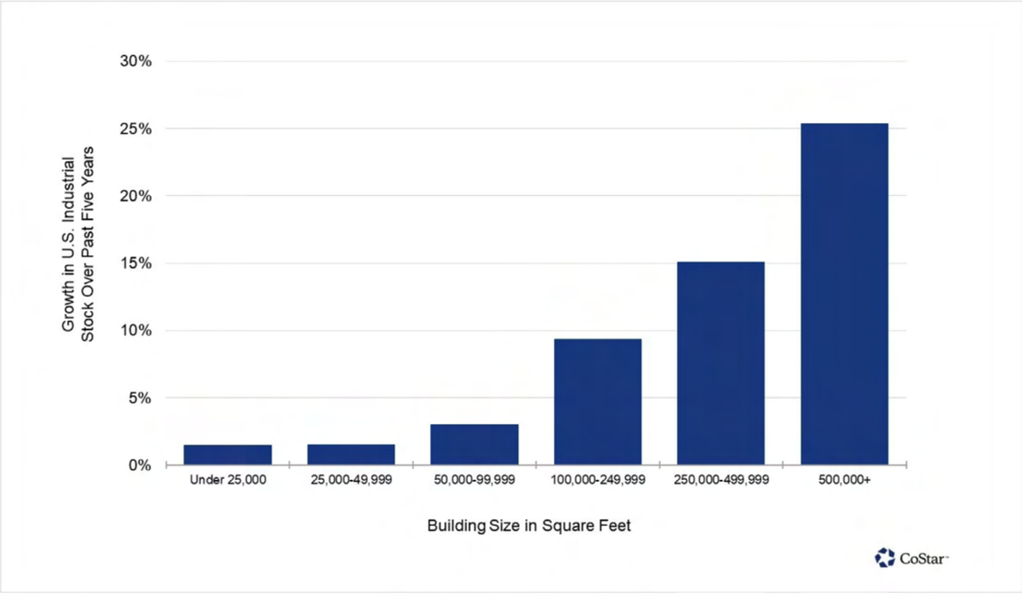
Despite this trend, smaller industrial units (less than 100,000 sq. ft.) remain scarce, with CoStar reporting vacancy rates roughly under 4% on average nationwide.[18] Availability rates for some of the tightest industrial critical port markets for properties under 50,000 sq. ft. include Jacksonville, FL (1.6%), Louisville, KY (3.5%), and Tampa, FL (3.1%).[18]

CoStar's data also shows that the construction of small industrial facilities is limited, constituting just 2% of recent developments. This is in stark contrast to the substantial growth of big-box properties, which expanded 8x faster over the past five years (See Figure 7).[18] Thus, we see this scarcity of smaller properties may increase rental rates due to a supply shortage.

Figure 7:

Industrial Development is Focused on Larger Properties, CoStar

Source: "Available Space for Smaller Industrial Properties Remains Near Record Low," February 2024. *"Past Five Years" include 2019 - 2023.



Based on CoStar, while the demand plays catch up to supply, rent growth is expected to drop from 3.9% (as of 7/16/24) to 2.8% by the end of 2024.[17] Still, we expect relief in the supply-demand imbalance, as fewer projects are expected to break ground in the next few months, generally attributable to a reduced appetite for construction loans, which are expensive due to high interest rates.[19] With fewer expected projects in the pipeline, we anticipate an end to the surge in industrial development post-pandemic, which may lead to a new cycle of tightening vacancies as the space is absorbed.

Although the e-commerce trend has slowed overall since the pandemic's peak, we expect it will continue to drive significant demand for industrial space. E-commerce-related warehouse space requires roughly three times the logistics space of traditional retail, according to JLL.[20] JLL estimates an additional $900 billion in e-commerce sales will require more than one billion square feet of industrial real estate by 2025.[20]

We also anticipate that the “friend-shoring” trend will continue in 2024, which involves moving industrial production to the shores of political allies and bringing more manufacturing to neighboring Mexico. Demand for distribution space in markets such as Texas may increase as more goods flow into the U.S. from Mexico.21

Transaction Activity

Industrial transaction activity decreased by 31% year over year, compared to 39% for the overall CRE market tracked by MSCI Real Capital Analytics.[15]

Despite a decline in sales, industrial was the only sector to see a price increase of 8.7% in the last 12 months, according to MSCI Real Capital Analytics.[15] Commercial Edge also analyzed that overall industrial prices seem to be increasing despite a slowdown in transaction volume. Prices more than doubled between 2019 and 2023 in three of their top 30 markets - Nashville, the Inland Empire, and Philadelphia, with others including New Jersey, Charlotte, Dallas/Fort Worth, and the Bay Area.[22] However, it's worth noting that Green Street reported a 10% decline in prices for the same period (as compared to a 5% decline for the overall CRE assets tracked by Green Street), highlighting differences in data tracking.[23]

A combination of things could potentially increase the likelihood of more transaction activity for the industrial sector:

1) An overall relief in rate cuts could open the door for more positive leverage* on construction yields; 2) burn through vacancies to realize more rent growth, especially for big-box spaces;

3) more certainty on tenant demand that may come after some alleviation in vacancies and interest rates, and 4) an overall alleviation in construction and land costs.

CrowdStreet's Strategy

Smaller Industrial Facilities

With oversupply in large distribution centers and tighter vacancies in smaller industrial facilities[18], we will consider opportunities in two specific subsets of industrial: 1) Middle-market industrial properties ranging between 50,000 to 200,000 sq. ft. and 2) Light Industrial spaces under 50,000 sq. ft.

Strategies for middle-market industrial spaces can vary, but some examples include low-basis conversions of distressed offices or retail spaces to industrial spaces by taking advantage of market dislocation. Another strategy can consist of a sale-leaseback from non-institutional owners who sell their property while continuing their business operations on-site; this approach can benefit the user by enabling them to focus on their core business instead of property management.

For light industrial spaces, a general strategy would be to acquire a small space from a small, family-owned or, typically referred to as, mom-and-pop business owner and revamp it to be more efficient and functional to address any functional obsolescence in these properties. Light industrial facilities usually cater to tenants with specialized, often last-mile needs, like construction companies or auto repair shops, providing a logistical benefit for their daily operations closer to the point of sale. There is also an opportunity to aggregate multiple such investments by building a larger portfolio for the potential of cap rate compression.

Generally, middle-market and light industrial investments are considered too small for large institutional investors and too large for single high-net-worth investors from a capitalization standpoint, which can make them unique opportunities.[25]

Build-to-suit Development

Because development is challenging today due to high overall construction costs, we are observing that many institutions are delaying or canceling projects. This situation is often exacerbated by skyrocketing land prices over the last three years, in many cases making sellers hesitant to offer land at reduced prices despite the need for more affordable development opportunities. However, there may be a silver lining as companies like Amazon start new developments, signaling a potential market rebound.[24]

While strict lending standards are plaguing the CRE landscape, we have observed that local and regional banks are sometimes more willing to lend on industrial assets, especially smaller industrial facilities requiring smaller loans due to lower risk potential (higher loan amounts usually carry more risk).

If we identify a development deal with reasonable construction financing, we may consider build-to-suit projects, which by definition offer certainty of tenancy before construction which may prove helpful in today's uncertain market.

15. Capital Trends, US Industrial, MSCI Real Capital Analytics, May 2024. Data as of 7/16/24.
16. “Industrial Property Deliveries Reach Record High in 2022,” Trepp, February 2023.
17. CoStar, Markets, Industrial, Data Export, July 2024. Data as of 7/16/24.
18. “Available Space for Smaller Industrial Properties Remains Near Record Low,” February 2024.
19. “The Money Has Stopped Flowing in Commercial Real Estate,” WSJ, October 2023.
20. “Industrial real estate demand on the rise in the U.S.,” JLL, 2024.
21. “Industrial Production Shifts to Mexico Drawn by Labor and Location Advantage,” Savills, December 2022.
22. “Industrial Pipeline Slows as Deliveries Continue to Outpace Construction Starts,” Commercial Edge, July 2024.
23. Commercial Property Price Index, Green Street, June 2024. Data as of 7/16/24.
24. “Amazon Gets Back To Doing What It Does Best, Signing Million-Square-Foot Leases,” CoStar, May 2024.
25. “Middle Market CRE Investment Is Ripe With Opportunity,” Globe Street, January 2022.

Section 04: Multifamily

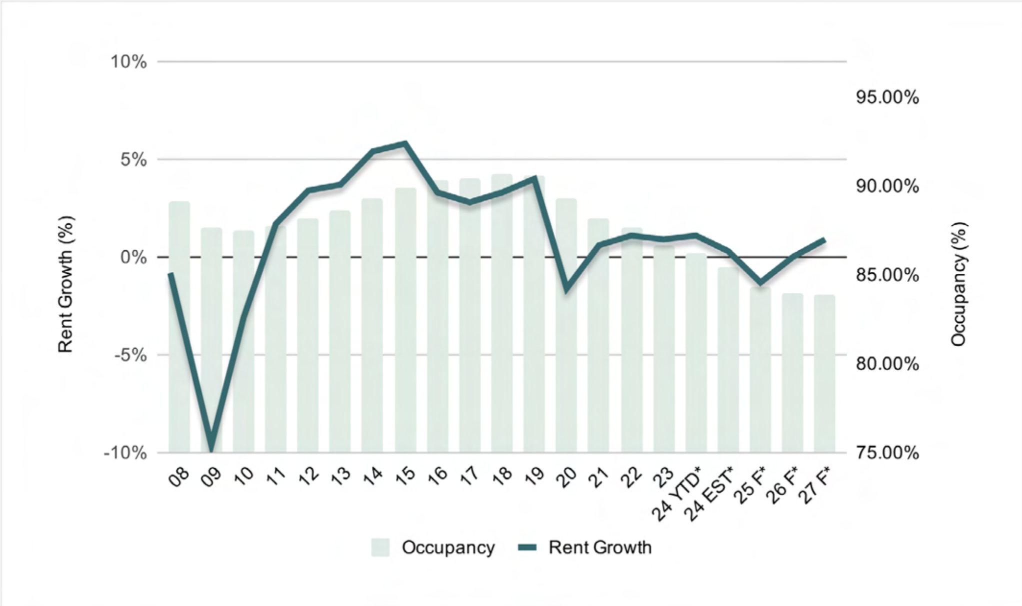
Multifamily Outlook

Outlook Summary

The multifamily sector faces tepid rent growth due to national oversupply and rising operational costs, often outpacing rent growth, though prospects may improve as demand starts to align with supply. Sustained quarters of positive net absorption and a slowdown in new projects could help balance demand and supply quicker, potentially boosting rent growth. Construction starts are predicted to fall by 45% in 2024 due to higher interest rates and costs, potentially leading to undersupply by 2026 as demand catches up. Slight improvements in cap rates suggest some relief, yet overall investment activity remains dampened. The financial appeal of renting tends to increase as home buying becomes less affordable, helping to create a sustained demand for multifamily housing.

Figure 8:
Multifamily Market Fundamentals by Year with Forecast

Source: Multifamily, United States, CoStar Data, July 2024.

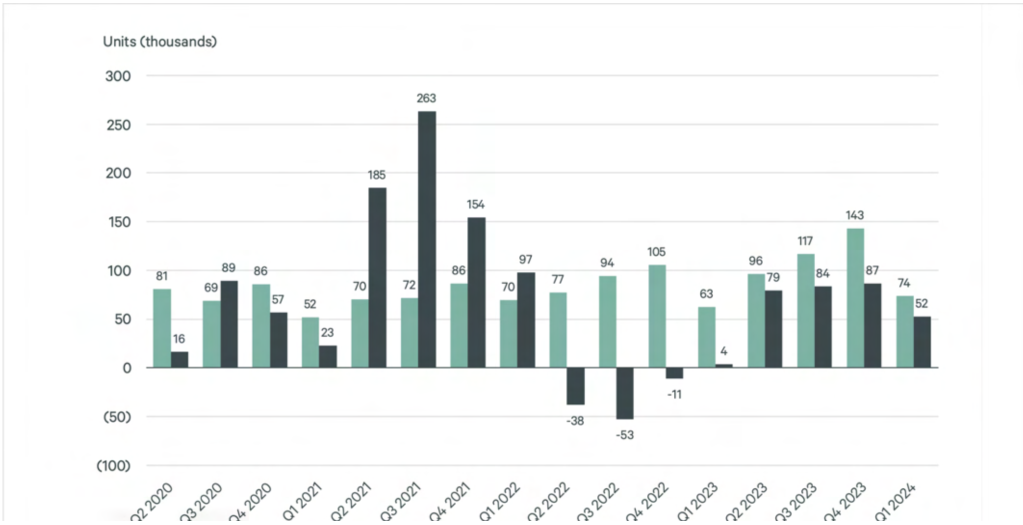


Market Fundamentals

According to CoStar, the multifamily sector is experiencing tepid rent growth primarily due to a near-term oversupply.[26] As corroborated by Trepp, we notice instances where expenses—such as labor costs, property taxes, and insurance—often rise more rapidly than rent growth.[27] Although CoStar's annual rent growth forecast has slightly improved to 2.5% for H2 2024, following a slow growth of 1.0% in 2023[26], this modest uptick in annual rent growth is unlikely to instigate a V-shaped recovery in markets burdened by oversupply. Although many CoStar markets have shifted from negative to positive territory from a rent growth standpoint[26], with the notable exceptions of markets such as Austin, Tampa, and San Antonio, we still anticipate that overall rent growth for multifamily will remain subdued until supply adequately aligns with demand.

Figure 9:
"Strong Q1 Demand Closes Gap with Supply" (Source: CBRE)

Source: "Multifamily Fundamentals Begin to Stabilize," Figures, CBRE, April 2024.



The good news is that demand is already catching up to supply—CBRE data shows multifamily net absorption has remained consistently strong this year due to sustained rental demand.28 According to CBRE's Q1 2024 Quarterly Figures report, the year 2024 recorded one of the highest first-quarter net absorption totals in the last two decades, with 56 of 69 markets tracked by CBRE recording positive net absorption in the same quarter—an improvement after experiencing negative net annual absorption in 2023.[28]

Data from CBRE also indicates that the number of projects breaking ground has decreased since the rapid increase in interest rates and due to overall weakening market fundamentals, compounded by higher construction costs.[28] Therefore, we expect fewer project deliveries in the near term. Paired with sustained quarters of positive net absorption, this could help stabilize the market from a supply standpoint, potentially transitioning back to a state of undersupply as demand catches up with the limited inventory available.

Affordability challenges[29] in the broader housing market may enhance the financial appeal of renting by pricing out many potential home buyers. Housing demand is primarily non-discretionary, a fundamental human requirement; therefore, this can help keep demand fairly stable for the multifamily sector over the long run.

Transaction Activity

The year-over-year transaction volume for multifamily dropped significantly by 51%, reaching a level not seen since the depths of the pandemic — the decline in multifamily transaction activity was more than the 39% decline observed in the overall CRE transactions tracked by MSCI Real Capital Analytics.[30]

The significant slowdown in transaction activity is partly attributable to the Federal Reserve's tight lending policies, high interest rates, resulting inflated borrowing costs, rising operating expenses, and tepid rent growth.[1,27] Pair that with the fact that according to Green Street, there was significant multifamily value appreciation during 2021-2022[23], creating discrepancies in the expectations of buyers and sellers. Sellers are generally hesitant to lower prices from their peak acquisition values, and buyers are cautious of overpaying and facing potential negative leverage scenarios.

For the market to rebound, we believe it needs to meet certain conditions: 1) A stabilization or decrease in interest rates, as hinted by 15 of 19 Fed officials post their June 12th meeting[31], helping to rejuvenate financing attractiveness and capital market accessibility. 2) Economic stability and a clarified inflation outlook helping restore investor confidence. 3) A resolution in the bid-ask price gap through market corrections is necessary, helping buyers and sellers reach consensus on valuations.

According to the National Apartment Association, cap rates increased to 5.7% nationally in Q1 2024, the highest average rate seen in eight years.[32] Thus, prices are beginning to adjust, and the bid-ask spread may be closing.

CrowdStreet's Strategy

Discount Plays on Acquisitions

We believe a crucial underwriting element of discounted transactions is their ability to flip from negative to positive leverage within the first year of acquisition, assuming the asset is appropriately repriced, stabilized with strong occupancy, and exists in a primary or secondary market with above-average rent growth. We are typically considering deals for the Marketplace with unlevered yields on multifamily assets of 5% or greater or a path for the asset to achieve a 6% or greater Yield-on-Cost ("YOC") within the first year of the hold period.

Forced Sales or Market Capitulation

To the extent owners throw in the towel and transact at prices substantially below their peak, we believe this scenario may offer some acquisition opportunities. According to Colliers and Mortgage Bankers Association, substantial debt is maturing this year amidst expensive debt markets.[33] We expect this will create an environment where operators who have been kicking the can down the road may no longer be able to do so, forcing them to sell.

Development Challenges and Newer Vintage Products

A report from Urban Land Institute reveals that development deals are especially tough to pencil today, generally due to a perfect storm of tepid rent growth, higher vacancy assumptions, expensive and restrictively available construction loans, and higher construction costs.[34] While we understand that locating a viable development deal in today's environment remains challenging, we will still review such opportunities because we believe developers who can successfully break ground in today's environment may be among the relatively few who deliver properties in the next few years. Projects delivered a few years from now may do so among a relative dearth of new supply, potentially attracting higher demand.

We also expect far greater demand for new products in the near term. Therefore, one of our strategies will be to seek newer vintage product acquisitions, meaning properties built in 2000 and after.

26. CoStar, Markets, Multifamily, Data Export, July 2024. Data as of 7/16/24
27. "Breaking Down Multifamily Property Operating Expenses Across the US," Trepp, August 2023.
28. "Multifamily Fundamentals Begin To Stabilize," CBRE, Q1 2024.
29. "Affordability Challenges Prompt a House Price Slowdown," First American Financial Corporation, 2024.
30. Capital Trends, US Apartment, MSCI Real Capital Analytics, May 2024. Data as of 7/16/24.
31. "Federal Reserve issues FOMC statement," Federal Reserve Board, June 12, 2024.
32. "Apartment Transaction Volume, Sales Dip in Q1 2024," National Apartment Association, May 2024.
33. "Quick Hits | Debt Maturities: Loan Extensions are Real," Colliers, April 2024.
34. "Construction Financing Outlook: Developers Scramble to Line Up Both Debt and Equity," Urban Land Institute, May 2024.

Section 05: Office

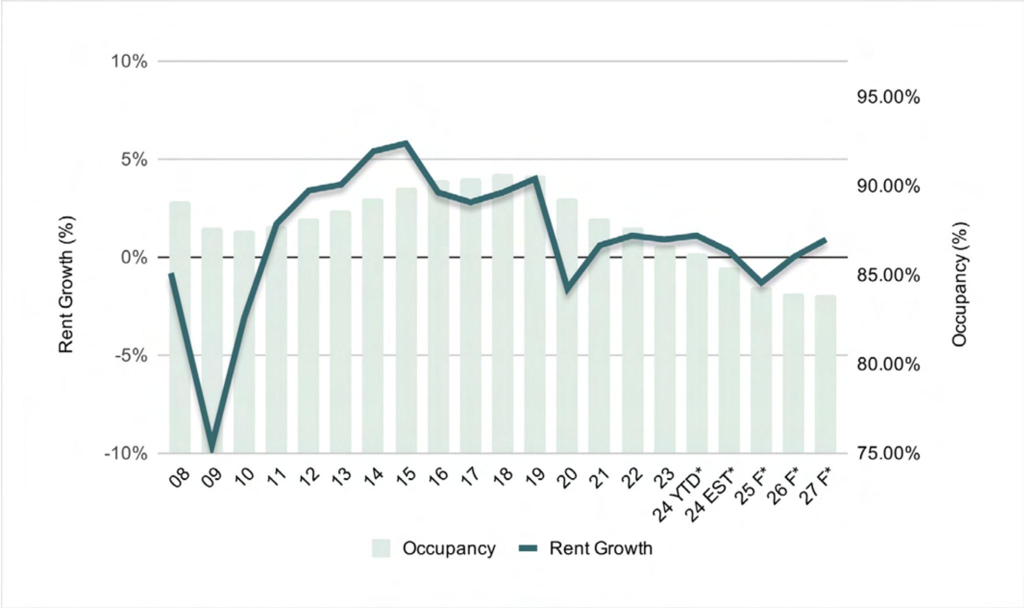
Office Outlook

Outlook Summary

The U.S. office market faces challenges with a high vacancy rate of 20% in 2024 (source: Moody's Analytics)[35], driven partly by an evolution to hybrid work. Premium office spaces in prime locations are expected to fare better, but broad uncertainty makes investment decisions challenging. Year-over-year office transaction activity has dropped by 37%, according to MSCI Real Capital Analytics[38], and significant price reductions are evident even in prime locations[37], indicating a major market repricing. Despite some relative clarity on pricing, uncertainties remain about future occupancy, loan expirations, financing challenges, and future demand.

Figure 10:
Office Market Fundamentals by Year with Forecast

Source: Office, United States, CoStar Data, July 2024.



Market Fundamentals

Based on recent Moody's Analytics report, the U.S. office market fundamentals are bleak, with vacancies reaching an all-time high of 20% in 2024 due to negative cumulative absorption.[35] According to CoStar, the market has seen a decrease in occupied space by almost 205 million square feet since April 2020, meaning that the pandemic-related remote work trend created a loss roughly four times greater than during the Great Recession and nearly triple the decline following the dot-com bubble.[36] The reduced office demand is also partly due to the general downsizing trend. For example, new leases in the past six quarters took 15-20% less space than what was typical from 2015-19.[36]

Even with the overall low demand for offices, we expect higher-quality assets (Class A and Class A+), especially in prime[37] office locations, to stand out in leasing activity and demand in contrast to lower-class offices (Class B or lower class).

Despite price discounts, viewing the current office market as broadly appealing for investment today would be simplistic. Factors like the uncertainty around future occupancy rates, upcoming loan expirations, and the difficulty in securing financing due to perceived risks—including the anticipated impact of expiring pre-pandemic leases without a clear view of future demand—will make investment decisions challenging in the near term.

Transaction Activity

As tracked by MSCI Real Capital Analytics, year-over-year office transaction activity experienced a significant 37% drop, compared to a 39% decrease in the broader CRE market.[38] Faced with demand uncertainties and strict lending standards, we expect the office market to remain subdued compared to pre-2019 activity.

Interestingly, we have observed that recent sales reveal significant discounts on their peak valuations and previous sale prices across the board. For example, a Class A office space in Lake Union, Seattle, 1000 and 1100 Dexter sold for $47.5 million in 2024, marking a 26% reduction from its sale price 20 years earlier.[39] Similarly, Market Square in Washington, D.C., saw its per-square-foot price halve from its 2011 value in a recent sale to Blackstone in 2024.[39] Such significant markdowns in prices, even in prime office locations, suggest that offices are going through major repricing.

CrowdStreet's Strategy

Heavily Discounted Basis

While these may be unicorn deals in today's environment, meaning they may be hard to find, we will consider Class A and Class A+ projects in premier office locations with high-credit tenants and long weighted-average lease terms ("WALTs"), typically more than 5 years. Higher WALTs can help ensure lease expirations are far enough into the future to help mitigate refinancing risk during the holding period. Should we encounter such opportunities, it is likely that the discount relative to their pre-pandemic pricing will not be significant.

For any other office projects, due to the inherent risk in the overall office sector today, we will consider projects with significantly discounted pricing - roughly above 25-30% of their peak pricing. Such projects may have the potential for a greater margin of error during the sector's current recessionary period. For assets underwater from a financial standpoint, entering at a heavily discounted basis could help manage any potential future tenant improvements needed to bring in and retain tenants.

Conversely, we are cautious about Class B and C offices that offer commoditized space, meaning fairly generic offices with limited amenities, particularly at this stage of the cycle.

Opportunities in Medical Offices

We anticipate opportunities in medical offices, considering the overall aging demographic that remains a tailwind for the industry.[40] Medical tenants (such as primary care physicians, optometrists, cosmetic surgeons, and more) generally require highly specialized spaces that require in-person visits, which together can make for a sticky tenancy with higher retention rates than traditional office tenants. In cases where medical offices can receive debt capital at what we consider reasonable leverage points due to their fundamentals, we may tune into this niche in H2 2024 and 2025.

35. "Office Vacancy Rate Nears 20% to Set Fresh Record," CRE Daily, April 2024.
36. CoStar, Markets, Office, Data Export, July 2024. Data as of 7/16/24
37. "Prime Office Buildings Benefit from New Working Patterns & Tenant Preferences," CBRE, June 2024.
38. Capital Trends, US Office, MSCI Real Capital Analytics, May 2024. Data as of 7/16/24.
39. Sales Data, CoStar, July 2024. Data as of 7/16/24.
40. "Aging U.S. Population Expected To Drive Demand For Medical Office Space," RPC Property Tax, February 2019.

Section 06: Retail

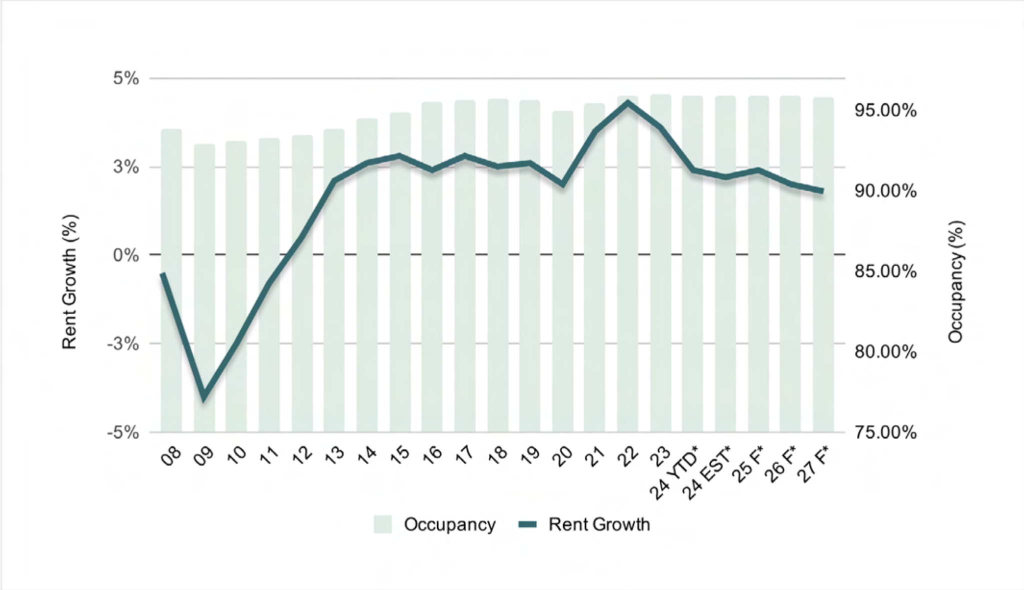
Retail Outlook

Outlook Summary

Over the last decade, retail market fundamentals have strengthened, with record-low availability rates and strong rent growth reported by CoStar.[41] However, rent growth is expected to moderate due to a slowdown in consumer spending and inflation.[41] Despite some stores closing[42], CoStar[41] and Nuveen[44] report that grocery-anchored and lifestyle retail remain resilient, with improved foot traffic anticipated, especially in the Sunbelt region. Despite a recent dip in leasing activity according to MSCI Real Capital Analytics, CoStar reports that competition for prime retail locations remains strong, underscoring sustained demand for well-located properties.[41]

Figure 11:
Retail Market Fundamentals by Year with Forecast

Source: Retail, United States, CoStar Group Data, July 2024.



Market Fundamentals

Within the last decade, retail market fundamentals have become increasingly strong with CoStar reporting their lowest national vacancy rate of 4.1% in 2024, with just over 0.4% of inventory currently being developed, which has consistently dropped from 0.8% in 2017.[41] While new supply is scarce, CoStar reports strong demand in food and beverage, grocery, discount and experiential retail demand.[41]

According to CoStar, rents increased by CoStar's highest historical rate recorded for retail, at 4.3% due to strong demand and limited space availability and by 2024, CoStar expects this growth to slow to 2.2% annually as consumer spending is forecasted to moderate, partly due to the lingering effects of high inflation.[41] However, CoStar states that the Sunbelt region should see rents stay above the average, driven by strong market fundamentals, typically including more substantial buying power, higher foot traffic, and limited expansion options.[41]

According to CoreSight Research, for the first time since 2013, more stores opened than closed in 2023, but store closures are rising again and there is an anticipated 24% increase in store closures for 2024 as compared to 2023.[42] While the ongoing trend of store closures is persisting primarily due to ongoing bankruptcies and tenants rightsizing their portfolios, some retailers are strategically consolidating by shuttering underperforming stores to navigate through the current economic uncertainties which may be adding to these closures.[42] Additional reasons that have led to store closures include poor management, such as for RiteAid and Rue21, or some discount stores, such as Family Dollar and 99CentsOnly, that cater to lower-income households where the consumer is feeling the pinch of inflation, affecting foot traffic.[42]

Overall, securing prime retail locations remains fiercely competitive due to record-low availability and high demand as per CoStar. CoStar also reports that there has been a slight decrease in leasing activity within the last four quarters, primarily due to a shortage of well-located properties rather than a decline in demand. Due to tight availability, many seek to expand but find limited suitable options in sought-after locations.[41]

Transaction Activity

Retail sales were down 29% yearly compared to 39% for the overall CRE assets tracked by MSCI Real Capital Analytics, with the sharpest lull in single-asset sales according to their May 2024 Capital Trends report. The decline varied by retail property type, with center sales decreasing by 27% yearly and single-asset sales down 32% yearly.[46]

Despite declining sales, Green Street and MSCI Real Capital Analytics data indicate that retail showed relatively low price volatility compared to other major CRE assets following the interest rate hikes in 2022.[41,23] This trend can be attributed to the sector's adaptation to the "retail apocalypse"[43] over a decade, during which numerous retailers faced bankruptcy or downsizing, prompting innovation and recovery. Consequently, much of retail has generally become "pressure-tested," with much of this resilience factored into its pricing.

CBRE reports that foot traffic in major retail districts has shown vital signs of recovery since the pandemic, and projections are that it will reach or even surpass pre-pandemic levels by the end of 2025.[47]

For retail transactions to improve, we believe foot traffic must continue to recover in addition to an overall reduction in interest rates, an alleviation in rising operating costs for tenants, a relief in labor shortages, a lowering of construction expenses, and the spillover effects of increased interest rates on business growth.

According to Nuveen, grocery-anchored neighborhood centers and lifestyle/open-air retail offer opportunities due to their durable demand drivers and limited new supply, which is expected to see continued transaction activity.[44] Opportunities

CrowdStreet's Strategy

Tenant base with strong financial health ratios

As consumer spending is moderating[48], we're focusing on the mix and financial health of retail tenants. While we have generally remained somewhat market agnostic for retail from a geographic standpoint, assuming the retail center is close to major trade areas, we continue to prefer the grocery-anchored neighborhood or community centers due to their sustained performance over the last few years as opposed to traditional shopping malls or second-tier big-box stores.

The non-discretionary nature of grocery shopping helps to keep the fire burning for this subtype. We will typically consider centers with credit-quality anchor grocers and prominent brands that may have the potential to boost the center's earnings with their historically higher foot traffic. However, we will cautiously approach centers catering mainly to lower-income demographics as this group may affect foot traffic due to financial pressures evident through rising credit card debt and the underperformance of discount stores such as Five Below.

Potential for Positive Leverage

in retail vary depending on the center type, location, and performance. However, math is one of the first things to consider, particularly in today's high interest rate environment. Depending on the retail property's type and vintage or age, higher overall cap rates may make some deals viable candidates with the potential to achieve positive leverage at acquisition. When considering investments in the retail sector, we will likely continue to prioritize this aspect as it is a differentiator for retail real estate in a high-interest rate environment. Also, the Triple Net (NNN) nature of rents may help limit the effect of spiking insurance, maintenance, and tax costs, as these are traditionally passed on to the tenant.

** Positive leverage occurs when the debt costs less to service than the cash flow received from the leveraged portion of the project (negative leverage is the opposite when the debt service exceeds the cash flow on the leveraged portion of the project). Another way to tell if leverage is positive is when a deal's operating cap rate is greater than its debt's interest rate.*

41. CoStar, Markets, Retail, Data Export, July 2024. Data as of 7/16/24
42. "Store closures are surging this year," CBS News, May 2024.
43. "Retail Apocalypse," Wikipedia, Accessed July 2024.
44. "U.S. Retail is shaping up to outperform in 2024," Nuveen, March 2024.
45. "Key Engines of US Consumer Spending Are Losing Steam All at Once," Bloomberg, June 2024.
46. Capital Trends, US Retail, MSCI Real Capital Analytics, May 2024. Data as of 7/16/24.
47. "Reports of Street Retail's Demise Are Greatly Exaggerated," CBRE, May 2024.
48. "Key Engines of US Consumer Spending Are Losing Steam All at Once," Bloomberg, June 2024.

H2 2024 U.S. Commercial Real Estate Investing Outlook

Section 07: Self-Storage

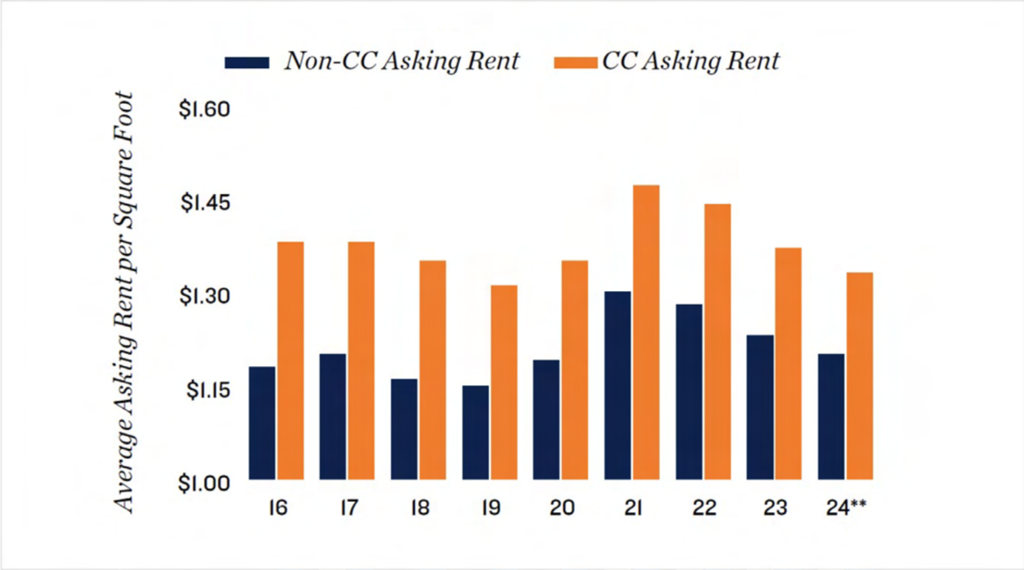
Self-Storage Outlook

Outlook Summary

Over the last decade, retail market fundamentals have strengthened, with record-low availability rates and strong rent growth reported by CoStar.[41] However, rent growth is expected to moderate due to a slowdown in consumer spending and inflation.[41] Despite some stores closing[42], CoStar[41] and Nuveen[44] report that grocery-anchored and lifestyle retail remain resilient, with improved foot traffic anticipated, especially in the Sunbelt region. Despite a recent dip in leasing activity according to MSCI Real Capital Analytics, CoStar reports that competition for prime retail locations remains strong, underscoring sustained demand for well-located properties.[41]

Figure 12:
Asking Rent Trends for Self-Storage

Source: National Report on 2024 Self-Storage Investment, Marcus & Millicap, February 2024. CC stands for "Climate-Controlled"; ** Forecast



Market Fundamentals

Self-storage demand initially surged mainly due to the pandemic's impact on migration and remote work however with normalization in population mobility in the last two years, demand has relatively softened as people are moving less than they did immediately after the depths of the pandemic in 2020.[49] Pair that with the fact that home sales have declined due to high mortgage rates, which has further reduced mobility. HireaHelper's migration report reveals that 2023 marked the year with the fewest moves within the last few decades.[50]

According to Yardi Matrix, as storage demand normalizes, the national average for asking rents dropped noticeably.[51] Urban areas like New York, Chicago, and Washington, D.C., along with cities with minimal new supply like Denver and Nashville, are experiencing positive rent growth despite year-over-year declines in asking rates.[51] We expect soft rent growth to persist until the housing market finds its footing, potentially following a decrease in mortgage rates.

Yardi Matrix reports that consistent with softening fundamentals, construction starts are also slowing down.[51] However, despite fewer projects starting at the end of 2023, the amount of construction underway stayed about the same and did not experience a decline in early 2024, likely because projects are taking longer to clear from the pipeline and complete.[52]

According to a recent broadcast by Nuveen53, it's essential to recognize that although self-storage fundamentals (rents and occupancy levels) have softened in the short term, they have softened from the above-average highs that the sector achieved immediately after the pandemic, meaning the sector's performance is by no means bleak, just moderated from its recent highs.

Transaction Activity

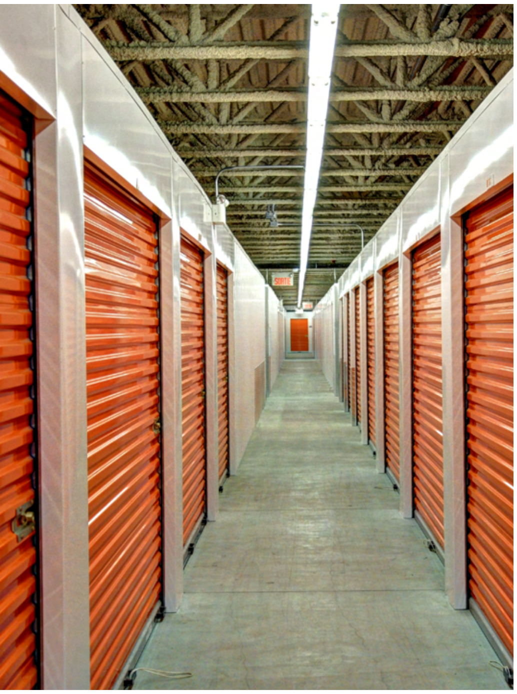
Cushman & Wakefield report a 57% drop in Q3 2023 self-storage transactions year-over-year, yet a higher volume compared to pre-pandemic levels, which speaks to the surge of self-storage transaction demand within the last decade and shows that although self-storage transaction activity is softening, it remains historically high.[54] According to Yardi Matrix, sellers have been hesitant to transact lately due to persistently high interest rates, which is keeping transaction activity muted.[51]

It's crucial to highlight the self-storage sector's resilience is rooted in the four D's: downsizing, divorce, death, and dislocation. However, currently, over-supplied markets might experience a temporary decline in enthusiasm from lenders and sponsors expecting difficult lease-ups, occupancy levels, and slow rent growth.

CrowdStreet's Strategy

Sensitive to Location & Competition

With oversupply concerns, especially in some Sunbelt markets, we believe location is one of the first factors to analyze. In areas experiencing positive in-migration and subsequent population growth, we will generally consider markets with self-storage inventory below roughly 6 square feet per capita within the 1, 3, and 5-mile radius of the targeted site, the standard national average for self-storage, according to Inside Self-Storage.[55] According to PODS, the moving service, some of these top markets in 2024 include Myrtle Beach, Houston, Charlotte, Raleigh, Phoenix, with many people moving to "sunny Southern States."[56]



With the expectation of soft rent growth in H2 2024 for self-storage, we will be more sensitive to what type of inventory already exists within proximity of the prospective project, also called the competitive set. It is essential to ask questions such as: Is the competition obsolete? What type of amenities exist in our competitive set? Is it a new construction? Are any technologies being used to enhance the customer experience? We are cautious when evaluating projects with significant competition in the surrounding areas. If the number of self-storage units exceeds demand, it can lead to declining rents and negatively impact the net operating income ("NOI").

Instead, we will focus on seeking deals in relatively untapped submarkets with limited competition, and on aging self-storage facilities that can be transformed into those equipped with advanced climate control, automation, and security features.

Existing Facilities Versus Development

Due to challenges in obtaining debt for development opportunities, we will consider deals for existing facilities with healthy lease-up assumptions, particularly if the acquisition yield supports the potential for positive leverage. However, finding such self-storage opportunities remains challenging, largely because of today's debt conditions. Also, in our observation, some operators sell their portfolio in bulk to REITs or institutional investors, making individual asset opportunities relatively limited compared to other asset classes.

One challenge with development projects in today's competitive lending landscape is that construction loans for projects with longer stabilization timelines often face tougher standards. For example, even though self-storage development generally requires less time and capital than other real estate asset classes, the lease-up period is typically longer - in our experience, that is usually at 36 months compared to around 18 months for industrial or multifamily projects.

Additionally, high interest rates increase overall debt service costs, compelling lenders to require substantial reserves until stabilization. Securing debt terms that help reduce financing risk through stabilization, typically four to five years, will be crucial to combat the longer lease-up period for self-storage development.

While tough in today's market, securing development deals may also make sense when acquiring land at below-market costs, especially considering that growth assumptions for self-storage have relatively cooled.

49. "Americans Went All-In on Self-Storage. That Demand Is Suddenly Cooling," The New York Times, April 2024.
50. "The 2023-2024 HireAHelper Moving Migration Report," HireAHelper, January 2024.
51. "National Self Storage Report," Yardi Matrix, July 2024.
52. "Yardi Matrix Continues to Forecast Self Storage Supply Increase for 2024/25," Yardi Matrix, May 2024.
53. "Storage likely to remain an outperformer," Nuveen, April 2024.
54. "U.S. Self-Storage," Cushman & Wakefield, August 2023.
55. "3 Market Metrics to Consider When Evaluating Self-Storage Acquisitions," Inside Self Storage, October 2021.
56. "Where Are People Moving to in 2024?" Pods, May 2024.

Section 08: Student Housing

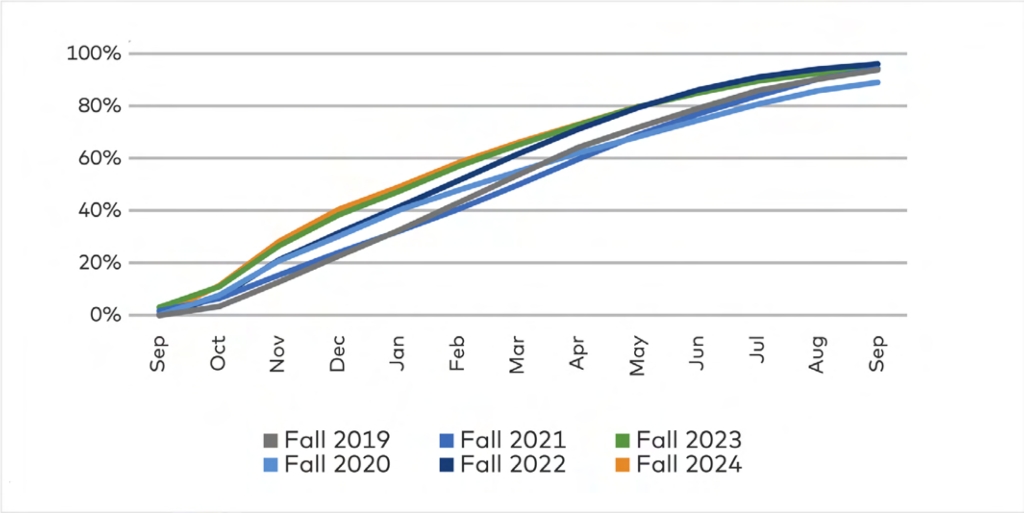
Student Housing Outlook

Outlook Summary

The student housing sector has rebounded since the pandemic, with strong occupancy rates and rent growth reported by Yardi Matrix.[59] Pre-leasing, although strong for Fall 2024, has slightly slowed yearly, partly due to FAFSA processing delays.[59] Despite generally high financing and development costs today, there has been consistent demand for on-campus housing, and nearly 10% rent growth is predicted for the 2024-2025 academic year.[61] Transaction activity has decreased partly due to high interest rates, but institutional interest in student housing continues, particularly in major markets with state-supported colleges.[62] Notable transactions, such as KKR's acquisition from Blackstone, highlight the sector's enduring appeal.[65]

Figure 13:
Student Housing Pre-Leasing by Year

Source: National Student Housing Report, Yardi Matrix, June 2024.



Market Fundamentals

As per Real Page, the student housing sector has rebounded significantly since major pandemic restrictions were lifted in 2022, reaching a high of 96.5% occupancy in Fall 2022, with a minor decrease to 95.0% in Fall 2023.[58] By June 2024 (roughly two months before the pre-lease season officially ends), approximately 84.5% of beds at the core 175 universities tracked by RealPage had been leased for Fall 2024, slightly down from 85.8% the previous year.[58] According to Yardi Matrix, delays in FAFSA processing may be slowing preleasing, especially at schools relying on incoming freshmen for summer occupancy.[59]

Yardi Matrix reports that although rent growth in the student housing sector moderated to 5.3% in May, down from 6.8% earlier in the leasing season, the average rent per bed climbed to a record $897 in June 2024, up 5.3% from the previous year. Yardi Matrix shows that rent growth for the sector remains relatively strong compared to historical trends, which stands out, especially in today's market, where many CRE asset classes are experiencing soft rent growth.[59] For example, according to Yardi Matrix, the student housing rent growth, at an average of 6% this leasing season, substantially exceeds the 0.6% multifamily average in 2024.[59]

Many colleges and universities struggle to meet the demand for on-campus housing, largely due to high financing and development costs.[60] According to Student Housing Business.com, despite a drop in new Student Housing development, demand remains strong, with predictions of nearly 10% rent growth for the 2024-2025 academic year.[61]

Although we expect supply concerns and demand for student housing to keep demand alive for future developments, developing student housing projects is generally challenging today. Walker & Dunlop forecasts a dip in new supply deliveries by 2025-2026.[62] Ensuring student housing projects are completed on time is crucial, as any delays can lead to financial setbacks if they are not delivered before the start of the planned semester, which adds to the complexities of development projects today.

Transaction Activity

Despite strong market fundamentals, the student housing sector is not insulated from today's high interest rates, slowing transaction activity. According to Walker & Dunlop, the sector's transactions peaked in 2022, especially after Blackstone's $13 billion acquisition of American Campus Communities.[63]

Figure 14:
Student Housing Annual Rent Growth

Source: National Student Housing Report, Yardi Matrix, June 2024

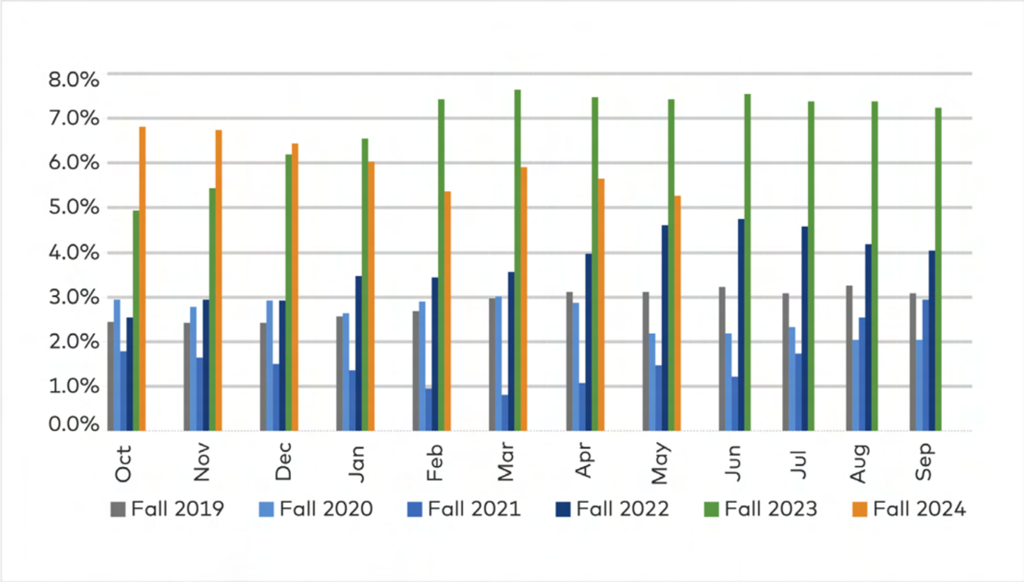
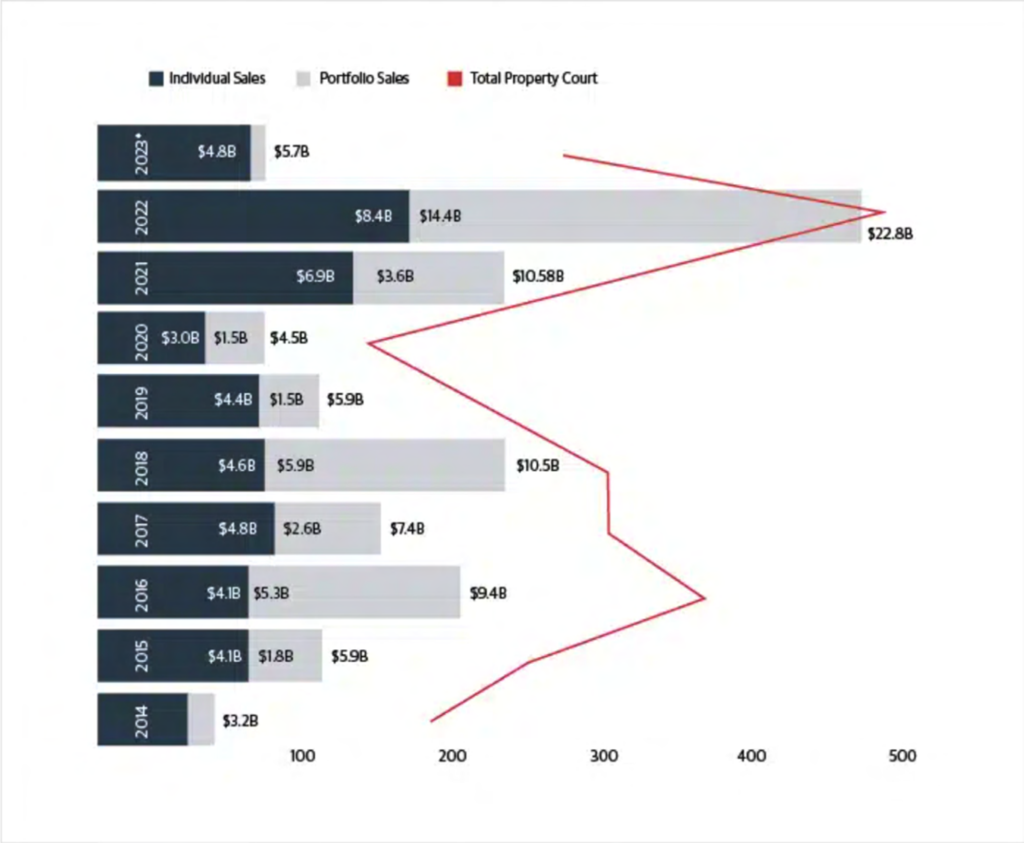


Figure 15:
Student Housing Sales Volume by Year

Source: Berkadia, MSCI Real Capital Analytics, as of February 2024.



However, since that high point, Walker & Dunlop reports that transaction volume has decreased annually by around 71% in 2023 (roughly half of 2022 volume, excluding BlackStone's acquisition).[62]

Considering today's market with generally strict lending criteria, one distinction of student housing in our observation is the predictability of rent rolls for an entire year due to pre-leasing, offering more insights for underwriting than, for example, multifamily, which can generally make it less risky for lenders.

According to Student Housing Business.com, although traditional banks have reduced financing options, there is institutional interest in student housing, primarily focused on major markets with powerful, state-supported colleges and universities experiencing soaring enrollment.[64] Significant investor activity, evidenced by the recent high-profile student housing portfolio acquisition of KKR from Blackstone for $1.64 billion, suggests recent interest in student housing.[65]

CrowdStreet's Strategy

Location and Proximity Matters

The opportunity in the student housing sector is dichotomous, and location will play a key role in choosing the suitable opportunity. We will consider deals located near highly competitive Tier 1 or Tier 2 flagship universities that are well-capitalized and backed by large endowments. We expect these campuses will leverage their competitive advantage to draw students, potentially propelling the neighboring student housing market in these areas, leaving the student housing near institutions and community colleges struggling with dwindling enrollment at a disadvantage. We will generally consider student housing deals in markets showing strong rent growth, particularly around large primary state schools and within growing populations within the Sun Belt states.

Although we expect strong market fundamentals to support transaction activity for student housing, we will consider projects based on local market dynamics, such as supply and demand, more so than broader industry trends. Markets with higher projected rent growth may be positioned to offset today's high interest rate expenses and their impact on NOI.

Development, although Challenging

Historically, our student housing deal flow has primarily concentrated on development projects rather than acquisitions. Consequently, we have seen fewer deals lately as developers and sponsors face challenges in construction pipelines due to high construction costs, labor, debt, and difficulties securing loans.

We will generally consider deals in areas experiencing a shortage of housing and student accommodation, focusing on markets where the projected supply of student housing aligns with current and projected demand, particularly in submarkets with strong enrollment. With an expected surge of new beds in 2024 according to Globe Street[57], we will seek development opportunities, especially in underserved markets, avoiding markets with inflated development pipelines.

A prospective student housing development deal would be for properties backed by established sponsorship, looking to capitalize on areas with significant enrollment rates and strong market fundamentals.

57. "Student Housing Occupancy Soars," GlobeSt.com, October 2023.
58. "September's Final Student Housing Occupancy Reading Clears 95%," Real Page, October 2023.
59. "Student Housing Market Report – July 2024," Yardi Matrix, July 2024.
60. "No Room At The Dorm: As College Begins, Some Students Are Scrambling For Housing," Forbes, August 2023.
61. "Strong Rent Growth, Stabilizing Interest Rates Could Mean More Transactions in 2024," Student Housing Business, February 2024.
62. "Student Housing Outlook 2024," Walker & Dunlop, 2024.
63 "KKR Reaches Billion-Dollar Deal for Blackstone Student-Housing Portfolio," CoStar, April 2024.
64. "Despite Market Challenges, Student Housing Financing Surges Ahead," Student Housing Business, May 2024.
65. "KKR to Acquire $1.64 Billion Student Housing Portfolio from BREIT," KKR, April 2024.

H2 2024 U.S. Commercial Real Estate Investing Outlook

Section 09: Closing Statement

The CRE market has reached an interesting entry point for new investment. Green Street data, excluding the office sector, shows the All Property Index has experienced slight increases in May and June after five months of stable readings. This comes after a period of decline from its peak on March 22 to December 23'. Additionally, the first half of 2024 saw the longest period of price stability in CRE, culminating in the first successive price rises noted since early 2022, marking the end of the previous real estate cycle.

With deal volume still low and our observation that some buyers remain hopeful of exerting leverage over a few time-pressed sellers, I'm observing the market gradually adapt to a new price equilibrium. In the short term, this may entail trudging forward without significant momentum in either direction from a pricing perspective. However, as the data points materialize, we continue to see them form a picture that suggests the foundation is forming for the beginning of a new real estate cycle.

Ian Formigle
Chief Investment Officer
at CrowdStreet

As we search for new deals to bring to the Marketplace during H2 2024, we will anchor on three general themes outlined below:

1 Reset Cost Bases

A defining theme for 2024, our review process will prioritize projects that offer significant discounts from their peak valuations and present compelling discounts to replacement costs. Where asset quality, market outlook, prudent financing, and pricing align, our strategy may be as straightforward as “buy low” and “avoid excessive leverage.”

2 Inflation

Inflation will likely continue to drive Fed behavior. To the extent it does, it will remain a focal point for us for the remainder of 2024. We’ll be watching for the monthly Personal Consumption Expenditures (PCE) report (reportedly the Fed’s favored inflation measure) and the Consumer Price Index (CPI) reports to continue trending downwards.

Particularly as it relates to CPI, I’m optimistic that future measures of its shelter component (which makes up roughly 36%) may contribute to disinflation in the months ahead. My optimism stems from the 6-12 month lag between the readings used in CPI versus what is occurring in the market. When rents are no longer rising at above 5% annualized (which is the case today for various markets according to Zillow’s rent index and CoStar), I believe this data will eventually catch up and make its way into the inflation indexes tracked by the Fed.[66]

3 Look to the 10-year Treasury

At the beginning of the year, I commented in my previous closing statement, “ .... if the 10-year treasury rate remains below 4% throughout the first half of 2024, I believe it may catalyze greater capital inflows which, in turn, may provide an additional stabilizing factor for pricing and potentially help fuel the CRE recovery.”[67]

I continue to stand by this statement. The 10-year treasury only briefly traded below 4.0% at the start of the year but then spiked to above 4.7% by April 2024.[68]Therefore, it never reached the sustained trading range I would look for to spur capital flows into real estate. With the 10-year rate back at roughly 4.2% (as of 07/15/24*), I’m still looking for signs of stability at or below 4.0% to help catalyze capital inflows.

Figure 16:
10-Year Treasury Rates

Source: Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Federal Reserve Bank of St. Louis, July 2024.

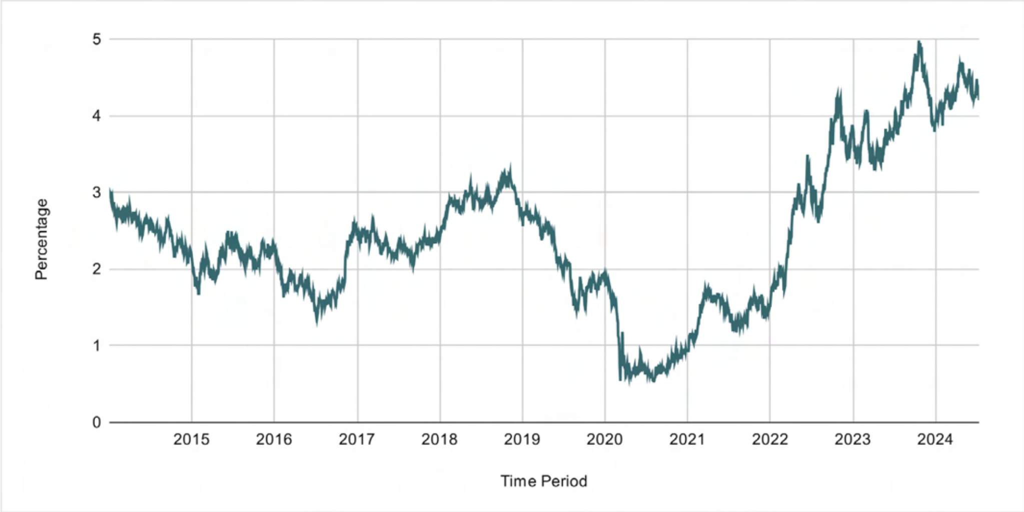
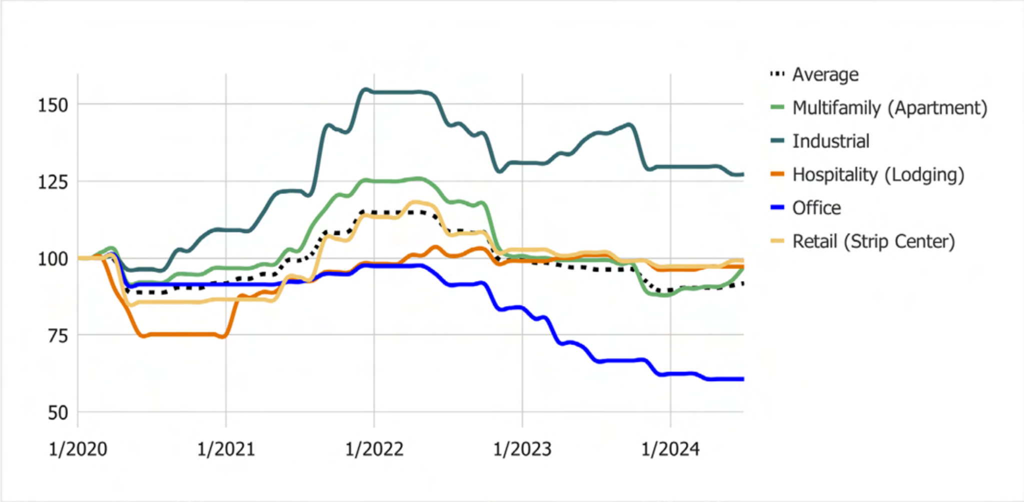


Figure 17:
Cumulative Change in Commercial Property Price Index: From January 2020 through June 2024 (Green Street)

Source: Commercial Property Price Index, Green Street, June 2024.



Our outlook remains contingent on the US avoiding a recession or experiencing an exogenous shock. However, absent a meaningful spike in unemployment, we will continue to lean into the market and source deal flow that fits the current dynamic of high interest rates and a slow market. While the volume of deals may remain strikingly low in the immediate term compared to historical norms, we're hopeful to see an increase in volume as we approach and, hopefully, move through a round of interest rate cuts.

Ian Formigle
Chief Investment Officer
CrowdStreet

66. Multifamily, United States, CoStar Group Data, July 2024. Data as of 7/16/24.
67. “2024 U.S. Commercial Real Estate Investing Outlook,” CrowdStreet, February 2024.
68. “US10Y: U.S. 10 Year Treasury,” CNBC.

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