



**Houlihan Lokey**

# Real Estate Market Update

**FALL 2023**





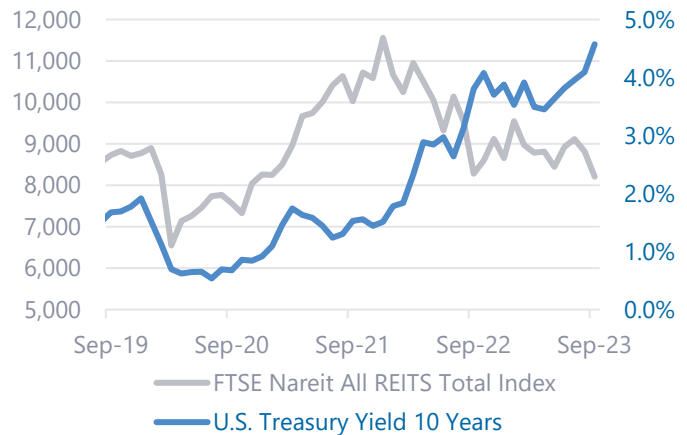
Houlihan Lokey's real estate advisory and banking professionals are pleased to share our take on trends impacting commercial real estate investors today.

## Shifting Gears

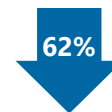
01

While the overall economy has generally outperformed expectations, the unemployment rate did tick up to 3.8% in August 2023 and household savings continue to deplete. These may be early warning signs of softening consumer demand. Inflation is tapering, but the persistent inverted yield curve is still a cause of concern for recession hawks and leading to a "wait and watch" approach for many commercial real estate investors. The restart of student loan payments for a majority of borrowers is expected to further impact consumer spending in the coming months.

The real estate sector continues to battle interest rate volatility, value uncertainty, and tighter credit conditions, causing many deals to remain on pause. The muted transaction volume serves to illustrate a strong selection bias, where high-quality assets in favored sectors and strong micro-markets are still transacting. However, many other assets are not so lucky. This is exacerbating the bifurcation between winners and losers.



**16%**  
Greenstreet's All-Property Index Is Down 16% From Its March '22 Peak\*



**62%**  
Investment Sales Declined 62% YoY in the H1 2023



**73%**  
Loan Origination by Debt Funds Collapsed 73% YoY in H1 2023

\*Further declines are expected in coming months.

## Opportunities in Dislocation

02

Despite turbulence, the real estate market is presenting significant opportunities for investors with dry powder. Driven by a lack of liquidity in the market, opportunities are manifesting in three key areas:

- High-Quality Core Assets to Fund Liquidity Needs**  
 Opportunities to buy high-quality, core assets that are being sold by owners in need of capital. Sellers could be funds with large redemption queues, or developers who need to fund developments in progress, or investors who need to recycle capital.
- Stable Assets With Stressed Capital Structures**  
 Opportunities to buy good, stable assets that must transact due to stressed capital structures. Motivated sellers could be special servicers selling loans, alternative lenders selling notes, or regional banks selling loan portfolios.
- Consolidation and Strategic Merger and Acquisitions**  
 With elevated debt costs and public companies unable to issue stock due to low trading values, acquiring portfolios at a premium compared to market value, but at a discount to NAV, is an attractive opportunity, highlighting the significance of strategic M&A for growth.

### Recent Notable Transactions

Target/Seller	Acquirer/Buyer	Size (\$B)	Description/Sector
1 Blackstone	Ryman Hospitality Properties	\$0.8	JW Marriott San Antonio
Signature Bank/FDIC	N/A	\$33	Loan Portfolio
2 Synovus Bank	Kayne Anderson	\$1.3	Medical Office Loan Portfolio
Capital One	Fortress Investment Group	\$2	Office Loan Portfolio
RPT Realty	Kimco Realty	\$2	Retail
3 Hersha Hospitality Trust	KSL Capital Partners	\$1.4	Lodging
Necessity Retail REIT	Global Net Lease	\$3.8	Merger/Retail



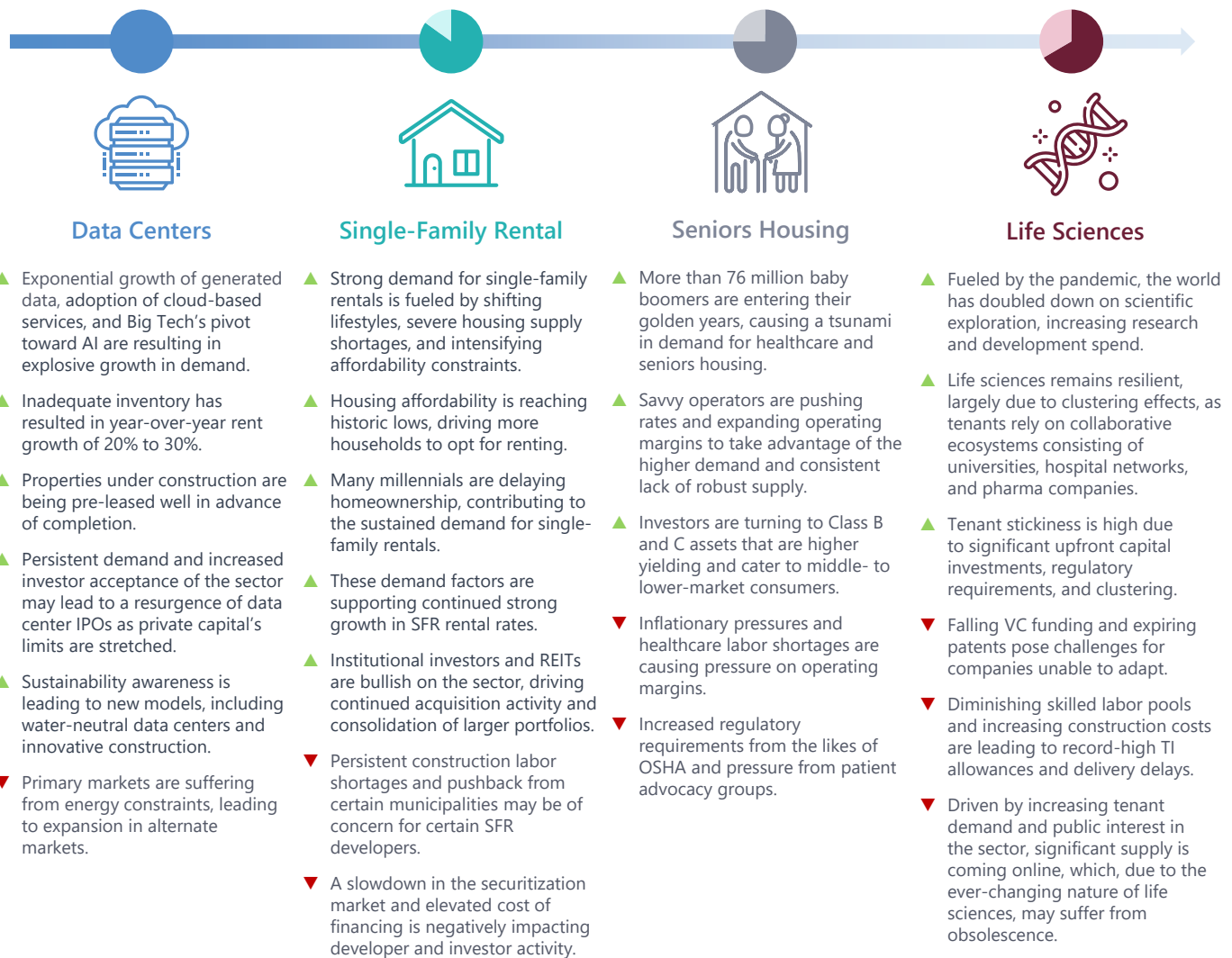


## Secular Trends Shaping the CRE Investment Landscape

03

As the world reopened after COVID-19 lockdowns, accelerated changes continue to transform the way we interact with the built environment. While the office sector undergoes a reset of “haves and have-nots,” many other sectors (as discussed below) continue to exhibit strong fundamentals. An increasingly digital economy, aging population, a renewed focus on biotech and medical advancements, and a persistent shortage of new housing support growth in certain previously niche sectors.

Investors seeking yield and more resilient asset classes, particularly when it has become harder to identify good opportunities in the traditional sectors, are considering buying opportunities in the following:



49x

Increase in Data Created, Consumed, and Stored, Between 2010 and 2022

3%

REITs and Other Institutional Owners Make Up Only ~3% of the Total Single-Family Rental Market in the U.S.

8.8x

Growth Rate of Population in 65+ Age Group by 2032 Compared to the General Population

20%

Expected Increase in Supply Over the Next Two Years



## The Way Forward

04



Cap rates will likely continue to **expand** for the remainder of 2023, although at a slower pace than before. With the Fed tempering activity, investors are more able to underwrite their higher costs of capital. However, significant bid-ask spreads still persist, and deal activity will depend on sellers' willingness to accept prices that make sense to buyers. Deal flow is picking up as the number of sellers that "**must sell**" continues to increase and current owners are motivated by liquidity and others' needs to transact.



The strong dollar and opportunity for outsized yield in selected global markets are leading to capital flowing in new directions. While the U.S. will continue to serve as a safe haven for capital, many U.S. investors are looking **overseas** to achieve higher yields, but only if they can adequately identify and navigate uncertainty related to supply chain and other global dynamics to their benefit.



The inability to service floating rate debt and the lack of available financing to recapitalize maturing loans have led to increasing **foreclosures and givebacks** throughout asset classes, particularly in office and hotel.



Heightened investor and regulatory focus on sustainability, coupled with a global focus on **decarbonization**, is increasingly being factored into strategies for expansion and growth. This may present an opportunity for certain companies and investors that appropriately roll out green/social bond programs and other sustainability-related initiatives.



**Regional banks** are expected to continue reducing their real estate exposure, via sell-offs or by simply tempering origination activity.

The FDIC's sale of Signature Bank's \$33 billion portfolio will be a bellwether for the market. With bids pending, how the portfolio is priced and ultimately transacts may indicate investor risk appetite and underwriting perspectives for different asset classes.

Future origination activity will be driven by the private credit sector and larger institutions, as evidenced by many private equity shops establishing real estate debt funds.



The integration of technology, including **PropTech** and data analytics, is shaping decision-making in the commercial real estate sector, which is improving not only operational efficiency but also the tenant experience. A few examples (in the affordable housing sector) of PropTech companies trying to solve current issues include the following:

- Acre—Renting with the financial upside of owning.
- Altgage—Google search for affordable mortgages.
- BotBuilt—Construction using robots and AI.





Houlihan Lokey has a successful track record of assisting its clients—comprising real estate investors, owners, and other stakeholders—with various valuation, transaction, and special situation needs.

## Houlihan Lokey's Real Estate Expertise

### Valuation and Advisory Services



We have deep **valuation expertise** in investment, financial reporting, and tax matters.



We advise **boards of directors and special committees** as they navigate a range of strategic situations and challenges.



We **value large portfolios** of real estate equity and debt positions and offer **bespoke valuation services** (e.g., positive assurance) to help clients mitigate valuation risk.



Leveraging our accounting and real estate expertise, we help clients with **transaction advisory services** related to real estate equity and debt investments.



Our bench of experts includes **dispute resolution counselors** to advise on valuation matters involving disputes, mediation, arbitration, and litigation.



We provide **fairness opinions, solvency opinions, and valuation opinions** to clients across a variety of property- and entity-level transactions.

### Investment Banking



We have a track record of structuring and executing **value-optimizing transactions** for our clients.



We run efficient, momentum-driven processes that drive results in **M&A and capital raising** for both healthy corporate finance and restructuring transactions.



We advise clients on **strategic alternatives** that enable them to accomplish next-level strategic goals—whether the aim is accelerated growth or divestiture—for PropCo and/or OpCo structures.



Our team of experienced investment bankers has **extensive and expansive reach** of traditional and nontraditional real estate debt and equity investors around the world.



We are well versed in crafting tailored solutions to achieve client objectives, with deep experience **across sectors, company types, and market cycles**.



We are uniquely positioned to help address special situations, ranging from **liquidity management to recapitalizations**.

## Please Reach Out to One of the Team Members Below for More Information



**Gary Gordon**  
Managing Director  
Real Estate, Lodging,  
and Leisure  
212.497.4258  
[GGordon@HL.com](mailto:GGordon@HL.com)



**Josh Schainker**  
Director  
Real Estate, Lodging,  
and Leisure  
212.497.4178  
[JSchainker@HL.com](mailto:JSchainker@HL.com)



**Tanya Wong**  
Senior Vice President  
Real Estate, Lodging,  
and Leisure  
212.331.8178  
[TWong@HL.com](mailto:TWong@HL.com)



**Jeffrey Andrews, MAI, MRICS**  
Director  
Head of Real Estate Valuation  
and Advisory  
310.788.5364  
[JAndrews@HL.com](mailto:JAndrews@HL.com)



**Nick Way, CPA**  
Director  
Real Estate Valuation  
and Advisory  
650.619.0430  
[NWay@HL.com](mailto:NWay@HL.com)



**Coley Knust, MAI**  
Director  
Real Estate Valuation  
and Advisory  
312.456.4735  
[CKnust@HL.com](mailto:CKnust@HL.com)

Contributing Authors: Kunal Kataria and Arnav Seelam



## Disclaimer

© 2023 Houlihan Lokey. All rights reserved. This material may not be reproduced in any format by any means or redistributed without the prior written consent of Houlihan Lokey.

Houlihan Lokey is a trade name for Houlihan Lokey, Inc., and its subsidiaries and affiliates, which include the following licensed (or, in the case of Singapore, exempt) entities: in (i) the United States: Houlihan Lokey Capital, Inc., and Houlihan Lokey Advisors, LLC, each an SEC-registered broker-dealer and member of FINRA ([www.finra.org](http://www.finra.org)) and SIPC ([www.sipc.org](http://www.sipc.org)) (investment banking services); (ii) Europe: Houlihan Lokey Advisory Limited, Houlihan Lokey EMEA, LLP, Houlihan Lokey (Corporate Finance) Limited, and Houlihan Lokey UK Limited, authorized and regulated by the U.K. Financial Conduct Authority; Houlihan Lokey (Europe) GmbH, authorized and regulated by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht); (iii) the United Arab Emirates, Dubai International Financial Centre (Dubai): Houlihan Lokey (MEA Financial Advisory) Limited, regulated by the Dubai Financial Services Authority for the provision of advising on financial products, arranging deals in investments, and arranging credit and advising on credit to professional clients only; (iv) Singapore: Houlihan Lokey (Singapore) Private Limited and Houlihan Lokey Advisers Singapore Private Limited, each an "exempt corporate finance adviser" able to provide exempt corporate finance advisory services to accredited investors only; (v) Hong Kong SAR: Houlihan Lokey (China) Limited, licensed in Hong Kong by the Securities and Futures Commission to conduct Type 1, 4, and 6 regulated activities to professional investors only; (vi) India: Houlihan Lokey Advisory (India) Private Limited, registered as an investment adviser with the Securities and Exchange Board of India (registration number INA000001217); and (vii) Australia: Houlihan Lokey (Australia) Pty Limited (ABN 74 601 825 227), a company incorporated in Australia and licensed by the [Australian Securities and Investments Commission](http://www.asic.gov.au) (AFSL number 474953) in respect of financial services provided to wholesale clients only. In the United Kingdom, European Economic Area (EEA), Dubai, Singapore, Hong Kong, India, and Australia, this communication is directed to intended recipients, including actual or potential professional clients (UK, EEA, and Dubai), accredited investors (Singapore), professional investors (Hong Kong), and wholesale clients (Australia), respectively. No entity affiliated with Houlihan Lokey, Inc., provides banking or securities brokerage services and is not subject to FINMA supervision in Switzerland or similar regulatory authorities in other jurisdictions. Other persons, such as retail clients, are NOT the intended recipients of our communications or services and should not act upon this communication.

Houlihan Lokey gathers its data from sources it considers reliable; however, it does not guarantee the accuracy or completeness of the information provided within this presentation. The material presented reflects information known to the authors at the time this presentation was written, and this information is subject to change. Any forward-looking information and statements contained herein are subject to various risks and uncertainties, many of which are difficult to predict, that could cause actual results and developments to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements. In addition, past performance should not be taken as an indication or guarantee of future performance, and information contained herein may be subject to variation as a result of currency fluctuations. Houlihan Lokey makes no representations or warranties, expressed or implied, regarding the accuracy of this material. The views expressed in this material accurately reflect the personal views of the authors regarding the subject securities and issuers and do not necessarily coincide with those of Houlihan Lokey. Officers, directors, and partners in the Houlihan Lokey group of companies may have positions in the securities of the companies discussed. This presentation does not constitute advice or a recommendation, offer, or solicitation with respect to the securities of any company discussed herein, is not intended to provide information upon which to base an investment decision, and should not be construed as such. Houlihan Lokey or its affiliates may from time to time provide financial or related services to these companies. Like all Houlihan Lokey employees, the authors of this presentation receive compensation that is affected by overall firm profitability.



**Houlihan Lokey**

CORPORATE FINANCE  
FINANCIAL RESTRUCTURING  
FINANCIAL AND VALUATION ADVISORY

HL.com