Piermont
Capital Markets Briefing

March 19, 2025

Market Momentum

Rising borrowing costs, changing market dynamics, and changing tenant preferences have caused uneven price paths across commercial real estate sectors since U.S. inflation peaked in mid-2022. This trend is probably going to continue throughout 2025 as the market navigates ongoing challenges, such as trade tensions and economic uncertainty.

With the RCA CPPI National All-Property Index rising by 0.3% in January, commercial real estate values began to rise annually. The index has seen three straight months of monthly gains, and January prices increased by 0.5% over December, indicating a 6.5% annualized growth rate. We anticipate Q1 to end with multifamily and industrial assets, two of highest demand amongst all, to see a change in CPPI as acquisition cap rates specifically for core and core-plus assets have been adjusting to the new interest rate environment.

Real asset fundraising was hindered last year by persistent macroeconomic challenges. Closed-end fundraising activity in real estate fell about 36% year over year, despite relative stability in certain asset sectors, particularly infrastructure. One wait variables, such as high interest rates, market turbulence, and a concomitant decline in transaction activity, are to blame for this downturn. Furthermore, we noticed that institutional limited partners' (LPs') preferences changed, causing them to reallocate real assets, which affected the dynamics of fundraising.

General partners' (GPs') ability to withdraw their assets from earlier funds was hampered by the muted real estate transaction environment, which resulted in restricted distributions to limited partners due to persistently wide bid-ask gaps and stringent lending requirements. With less dividends, LPs found it difficult or impossible to commit additional funds in an unpredictable market, made worse by persistent drops in real estate values.

After a delay brought on by an interest rate shock that jolted the market out of the low rate setting that had drawn so much capital in the previous ten years, the global real estate market thankfully resumed its long path to recovery in Q1. Many investors continue to wait for the cost of capital to come down, as the 10-year treasury has dropped since the start of the year, as optimism remains for

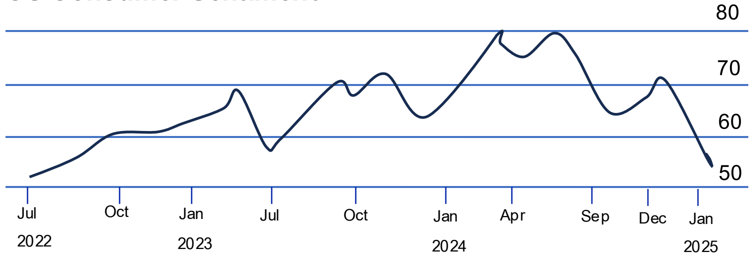
The MSCI Global Quarterly Property Index indicates that the revaluation seems to be at or near its high, and the amount of global investments increased in the fourth quarter and for the year. The RCA CPPI Global Cities Composite Index shows a somewhat different picture, with the annual rate of price drop improving little to 4.7% YOY in Q4 2024. Prices have decreased by 15% overall after reaching their highest point in June 2022.

The ability of well-capitalized institutional investors to supply liquidity to overleveraged, indebted borrowers proved advantageous in the wake of the Great Financial Crisis. Institutional buyers accounted for 17% of distressed investments during the past two years, which is half of what was observed during the Great Financial Crisis.

US Economic Growth *(as of March 18, 2025)*

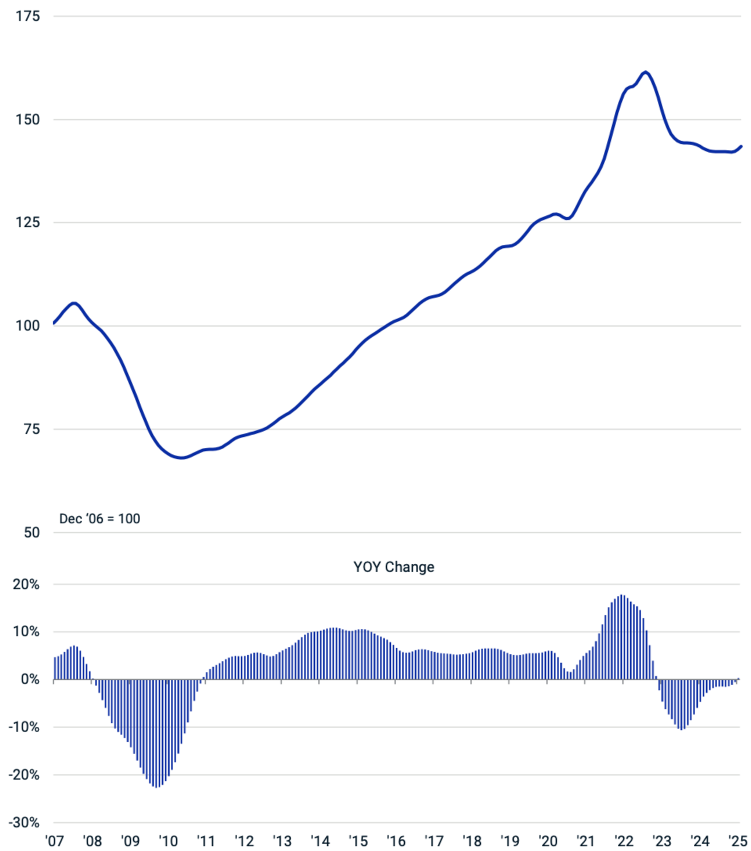
Indicator	Actual	Estimate
GDP	-1.5%	+2.2%
Personal Consumption	+2.5%	+2.0%
PCE price index, excl. food, energy.	+2.7%	+2.5%

US Consumer Sentiment



Capital Trends

National All-Property Index



Change in RCA CPPI January 2025

	1-mth	3-mth	1-yr	3-yr	5-yr	10-yr
Office	-0.5%	-1.6%	-5.1%	-14.2%	-14.2%	7.2%
Office - CBD	-0.6%	-1.3%	-10.0%	-48.4%	-48.4%	-33.6%
Office - Sub	0.1%	-0.7%	-1.5%	-5.1%	-5.1%	18.2%
Industrial	0.0%	-0.2%	3.4%	47.1%	47.1%	107.9%
Retail	1.5%	3.9%	5.0%	15.6%	15.6%	23.8%
Commercial	0.2%	0.4%	0.5%	13.6%	13.6%	37.3%
Apartment	0.7%	1.6%	-1.6%	14.2%	14.2%	78.5%
All Types	0.5%	1.0%	0.3%	13.3%	13.3%	50.9%
6 Major Metros All Types	-0.4%	-1.5%	-4.1%	-2.4%	-2.4%	29.1%
Non-Major Metros All Types	0.6%	1.5%	0.8%	19.5%	19.5%	59.9%

Forwards use yield curve at the end of each quarter; March 1, 2025 curve is as of Feb 28. MSCI curve name: USD Fed Funds OIS (SP). Total return from MSCI U.S. Quarterly Property Index. Source: MSCI; PREA Consensus Forecast Survey, Pension Real Estate Association, JP Morgan, Bloomberg, Federal Reserve, Piermont Analytics.