Seyfarth

2024 Real Estate Market Sentiment Survey

Seyfarth Shaw LLP

EXECUTIVE SUMMARY

With expectations pointing toward a more favorable interest rate environment in 2024 and substantial amounts of capital poised on the sidelines ready to invest, it comes as no surprise that the commercial real estate (CRE) industry holds an optimistic view for the year ahead. Nonetheless, CRE executives are navigating a delicate balance between hope and caution, mindful of impacts stemming from potential rate adjustments, persistent scarcity in debt financing, the looming specter of an economic slowdown, new workplace norms, and a lack of consensus in real estate valuations. Among many key topics covered in Seyfarth's 9th annual Real Estate Market Sentiment Survey, CRE executives weigh in on their top concerns, investment strategies, and key catalysts for change.

Seyfarth's 2024 Survey examines the industry's current view of the CRE market:

Promising Possibilities: After a challenging 2023, 83 percent of CRE executives surveyed have a buoyant outlook for the sector in 2024. This prevailing optimism is underpinned by various factors, including anticipated interest rate reductions by the Federal Reserve, indications of a deceleration in inflationary pressures, promising trends in GDP growth and employment figures, the prospect of investing in distressed assets, and the impending national election.

Reckoning with Rates: Despite the Federal Reserve's indication that there will be three rate cuts in 2024, CRE executives remain cautious regarding the extent of those cuts. Only 23 percent of respondents believe the Fed will decrease interest rates by more than 50 basis points. At the same time, 70 percent of respondents believe that interest rate cuts will need to exceed 50 basis points to activate investor engagement. The results indicate that CRE executives desire greater decreases than they are expecting.

AI Ambivalence: Respondents were split down the middle when it came to whether or not artificial intelligence would play a role in their investment activity and operations in 2024. Given generative AI's recent surge in popularity, despite 50 percent of respondents still being on the fence, it seems that a growing segment of the industry is embracing this ever-evolving technology and will continue to do so.

Money Matters: No factor matters more to executives considering the acquisition of real estate assets than pricing—and by a considerable margin. More than three-quarters of respondents say that pricing is a threshold condition to an active acquisition market. Stable pricing means sellers and buyers will have a base from which to negotiate a transaction; without it, buyers cannot buy and lenders cannot finance.

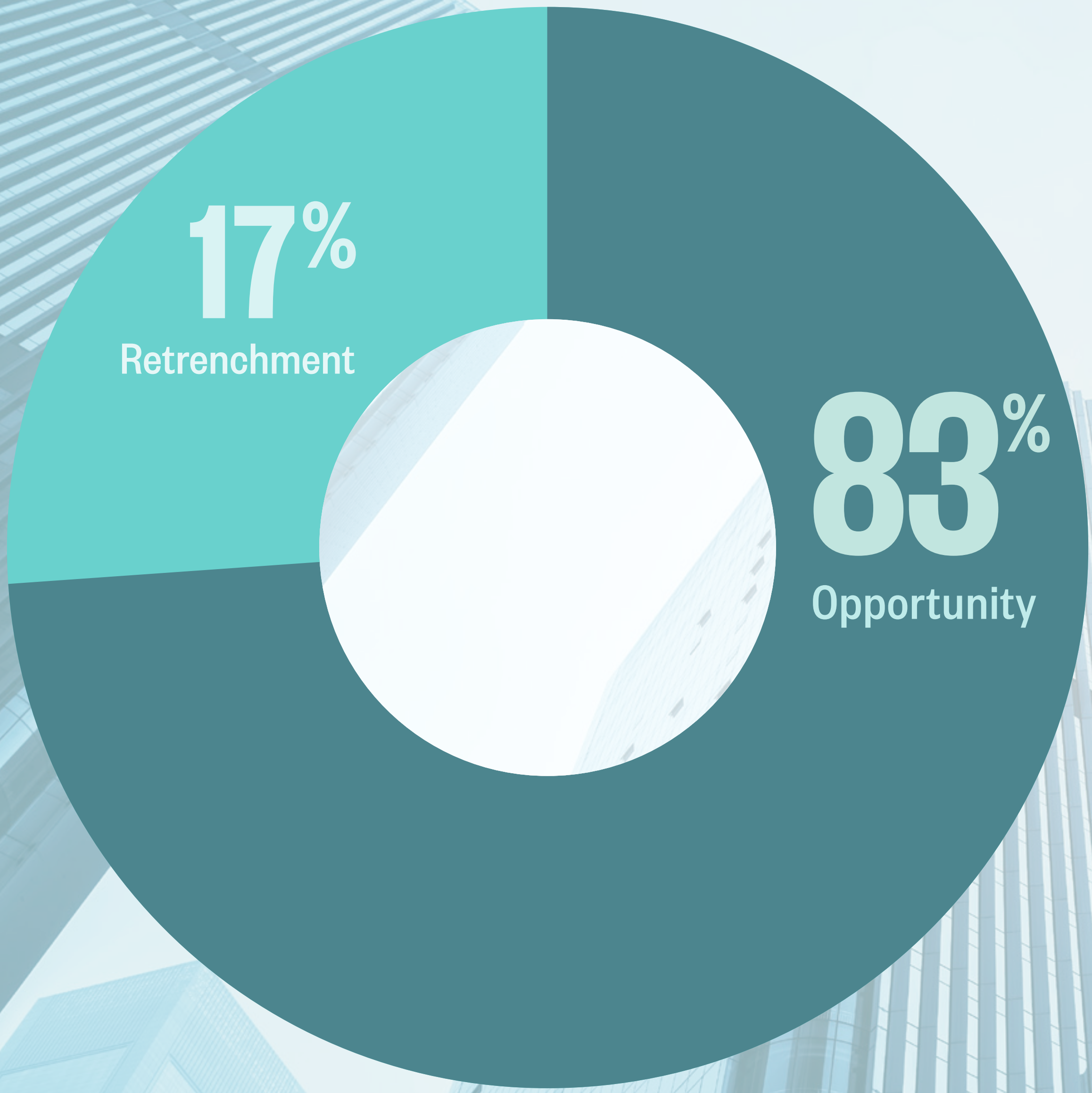
Dabbling in Distress: 74 percent of respondents plan to invest in distressed assets in 2024, with an allocation of between 11-25 percent being the most popular category, followed closely by an allocation of up to 10 percent. While 26 percent of respondents will not allocate any investment to distressed assets, a minority of 9 percent plan to invest more than half of their portfolios.

Reconciled to Remote Work: As hybrid and work-from-home schedules have become normalized, industry leaders are less concerned about a negative impact on their companies' performance. Well over half now say that the new workplace model has not adversely impacted either their company's profitability or employee loyalty, and there is a more evenly split view on the impact to company culture compared to responses in 2023. Although they are more accepting of the remote work concept, a majority of the respondents themselves expect to be in the office 4-5 days per week.

Tentative Trend: Despite headlines touting office to residential or mixed-use conversions as a panacea for stagnating central business districts, market participants remain hesitant, with 61 percent indicating that they are not likely to invest in conversion projects in 2024. Nevertheless, 10 percent of respondents are likely or very likely to invest in these projects, and the rest have some interest. Given growing investor interest, incentives provided by various levels of government, and the housing crisis, this is likely to be an area worthy of continued attention.

Cardinal Concerns: Apprehension over interest rates topped the list of concerns as expected, followed by scarcity of debt financing. Notably, it was surprising to not see greater uneasiness over inflation. Although there is a dramatic decrease in the number of respondents worried about a recession when compared to 2023, the fact that more than a third of CRE executives still believe that economic recession is a top three concern for the industry demonstrates that many do not believe we have safely executed a soft landing for the economy.

Q1: Do you foresee 2024 as a year of opportunity or retrenchment for your company?



The 83 percent expressing optimism for the year ahead significantly surpasses the 69 percent who, just a year ago, viewed 2023 as a year of opportunity rather than retrenchment. This resurgence in hopefulness brings the level of belief in a year of opportunity to where it stood in 2022. Optimism appears to be largely fueled by expectations of declining interest rates and the potential for price stability.

Q2: The Federal Reserve has announced it expects multiple interest rate cuts in 2024. How much do you anticipate the Fed will adjust rates in 2024?

Greater than 50 basis point net decrease	**23%**
26-50 basis point net decrease	**51%**
0-25 basis point net decrease	**20%**
Neutral/No Change	**4%**
An overall net increase	**2%**

The survey revealed that 51 percent believe the Fed will cut interest rates between 25 and 50 basis points over the course of the year.

Only one-quarter of respondents anticipate interest rate cuts exceeding 50 basis points.

Q3: As of the date this survey was finalized, the 30 year Treasury Bond Yield was 4.25% and 30 day Term SOFR was 5.34%. What interest rate levels do you think are needed for transactional volume in commercial real estate (CRE) to see positive momentum in 2024 (using 2023 as the baseline)?

Greater than 100 basis point net decrease	**21%**
51-100 basis point net decrease	**49%**
0-50 basis point net decrease	**19%**
Neutral/No Change	**11%**

According to 70 percent of respondents, it will take a drop in interest rates of more than 50 basis points to build positive momentum in CRE transactional volume.

Q4: Which of the following represent the greatest concerns for the CRE industry in 2024?

Top three greatest concerns in 2024

1. Interest rates
2. Scarcity of debt financing
3. Construction costs
4. Economic recession
5. Cost/availability of property insurance

Interest rates rank as a primary concern for nearly 70 percent of CRE executives. 45 percent of respondents selected scarity of debt financing among their top three concerns.

Construction costs (37 percent) and an economic recession (35 percent) were the only other concerns cited by at least a third of respondents.

30 percent of respondents indicated the cost and availability of property insurance as an emerging concern.

Q5: Of the following 2024 Presidential candidates, who is the best candidate for the CRE industry?

Joe Biden	26%
Ron DeSantis *No longer in the running	2%
Nikki Haley	23%
Robert F. Kennedy, Jr.	3%
Donald Trump	47%

Nearly half (47 percent) of those surveyed believe Donald Trump would be the best candidate for the CRE industry.

Q6: What impact will the 2024 Presidential election results have on the CRE market in 2025?

No impact	0%
Minimal impact	40%
Moderate impact	47%
Significant impact	13%

CRE executives do not anticipate that the 2024 Presidential election will exert a significant influence on the CRE market in 2025. A sizeable 47 percent of respondents foresee a moderate impact, while another 40 percent believe the outcome will have minimal effect on the market. A minority, comprising 13 percent of respondents, believe that the winner will have a notable impact on CRE.

Q7: Which of the following factors are most important as your company considers whether to acquire real estate assets in 2024?

Top three factors determining real estate acquisitions

1. Pricing of assets (**76%**)
2. Availability of debt financing (**58%**)
3. Interest rates (**55%**)

More than three-quarters (76 percent) of respondents highlighted pricing as a crucial factor influencing their decision to proceed with an acquisition. The availability of debt financing is another high priority for over half (58 percent) of those surveyed, slightly edging out interest rates (55 percent).

Q8: What percentage of your investment portfolio do you anticipate allocating to distressed assets in 2024?

0%	**26%**
1–10%	**24%**
11–25%	**29%**
26–50%	**11%**
More than 50%	**9%**

74 percent of respondents plan to allocate some portion of their investment portfolio to distressed assets this year, including 9 percent who plan to allocate more than half of their investments. Of those planning to invest in distressed assets, 39 percent anticipate allocating 11-25 percent of their portfolio, and 32 percent anticipate allocating up to 10 percent of their portfolio.

Q9: How likely is your company to invest in office to residential/mixed-use conversion projects in 2024?

Not likely	61%
Somewhat likely	29%
Likely	5%
Very likely	5%

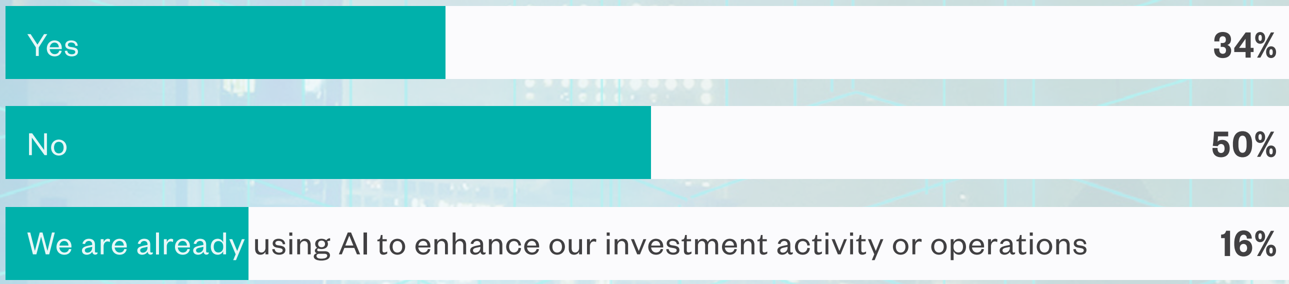
61 percent of CRE executives are not likely to invest in office to residential or mixed-use conversion projects in 2024, compared to only 5 percent who are very likely to make such an investment.

Q10: What will be your primary source of equity in 2024?

Institutional investors	29%
Private equity	41%
Foreign investors	5%
We do not employ third party equity	14%
Other	11%

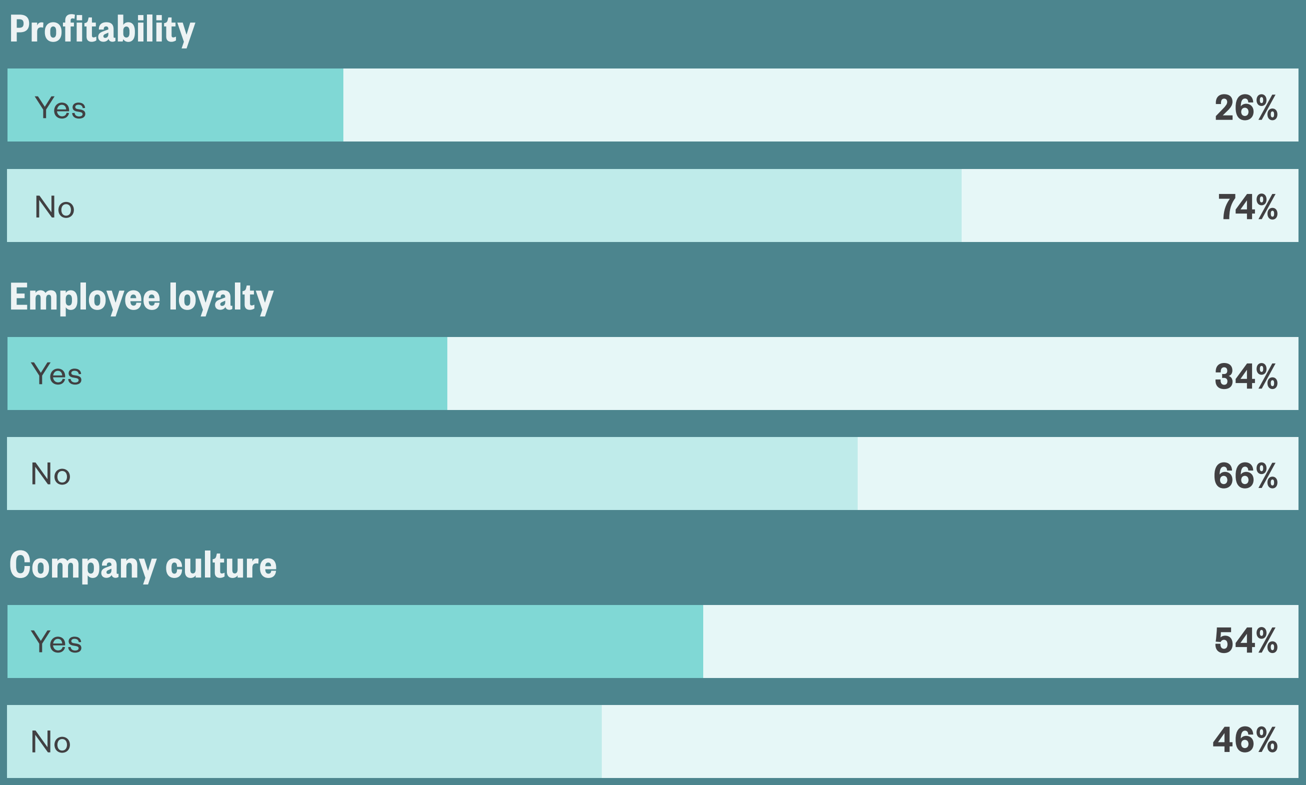
41 percent of respondents expect to tap into private equity for financing in 2024. 14 percent of CRE executives do not plan to seek third party equity in the coming year, down from 26 percent in 2023.

Q11: Will your organization implement AI to enhance your investment activity or operations in 2024?



50 percent of respondents are already using artificial intelligence or plan to by year's end.

Q12: Has the migration to work-from-home/hybrid models adversely impacted the following areas for your company?

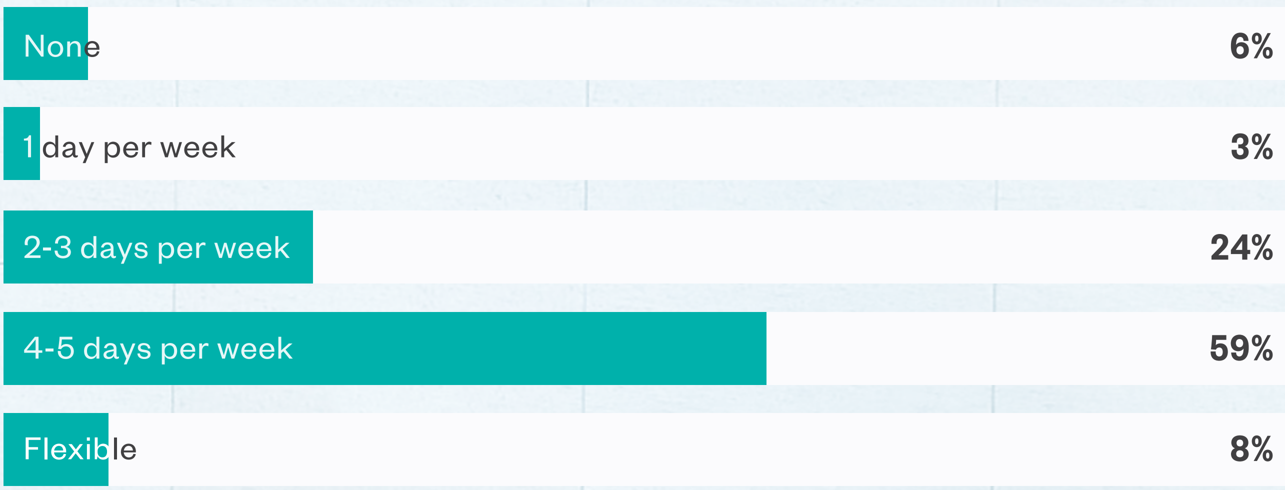


Three-quarters (74 percent) of respondents say their profitability has held strong despite the normalization of remote and hybrid work. This sentiment increased from last year when 67 percent of respondents felt similarly.

34 percent of CRE executives say employee loyalty has suffered, a sentiment that has held steady since tracking began in 2022.

54 percent of respondents state that company culture has eroded because of remote work, down significantly from a 68 percent high in 2022.

Q13: How often do you expect to be in your company's office space on a weekly basis?



59 percent of CRE executives anticipate being in the office 4-5 days per week, a slight uptick from 55 percent a year ago. Only 9 percent expect to be in one day per week or not at all.

Methodology

In January 2024, Seyfarth surveyed real estate executives—including owners, developers, investors, asset managers, brokers, lenders, and consultants—via email to gauge their top concerns for the coming year. 120 respondents took the survey.

Due to rounding, percentages used may not equal 100.

About Seyfarth

With more than 900 lawyers across 18 offices, Seyfarth Shaw LLP provides advisory, litigation, and transactional legal services to clients worldwide.

About Seyfarth's Real Estate Department

Seyfarth is home to a world-class real estate team that serves sophisticated clients across a number of industries. Recognized as one of the largest real estate practices in the US, we have built an integrated team that serves local, regional, and national clients on the acquisition, financing, development, leasing, restructuring, and disposition of noteworthy real estate assets and portfolios. This experience extends across comprehensive array of asset classes, including office, industrial, multifamily, retail, health care, and data center projects. We leverage our size and depth to partner with clients and to invest in material enhancements in how commercial real estate law is practiced.

Seyfarth