



**Real Estate Committee Webinar Panel**  
***“Commercial Real Estate Market Outlook”***

August 30, 2023

**CLE Materials and Speaker Biographies**

**Moderators:**

Erin West, Godfrey Kahn (Real Estate Committee Co-Chair)

David Levy, Summit Investment Management & Keen-Summit Capital Partners (Special Projects – Education)

**Panelist:**

Xander Snyder, Senior Commercial Real Estate Economist, First American Financial Corporation





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# CRE Market Outlook

August 2023

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The background of the slide features a dark blue gradient with faint, semi-transparent financial charts. At the top, there is a candlestick chart showing price movements. Below it, a line chart with multiple data series is visible. The word 'Dec' is partially visible on the left side of the chart area. The word '2020' is centered horizontally in the middle of the slide, behind the title box. The word 'Feb' is visible on the right side of the chart area. The title 'Macroeconomy' is centered within a white rectangular frame in the middle of the slide.

# Macroeconomy

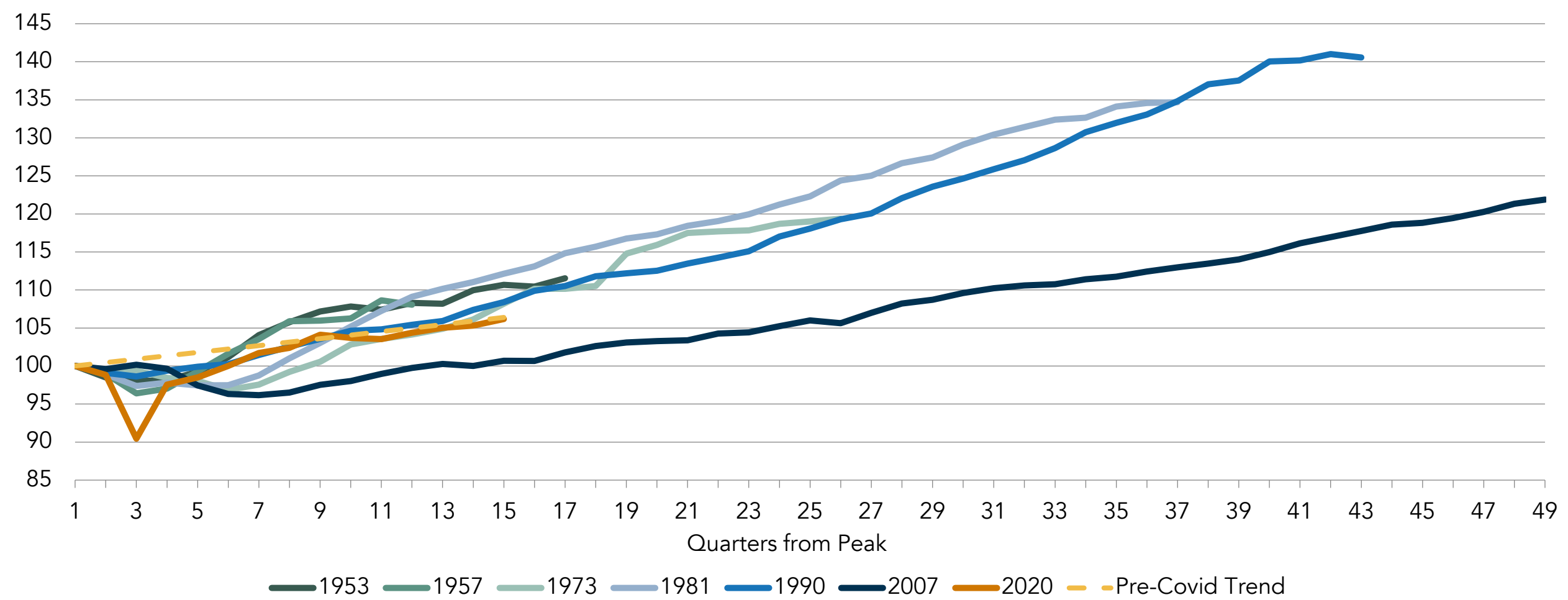


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# The Economy is Bending, But it's Not Broken

Real Quarterly GDP (SA, %, Pre-Recession Peak = 100)

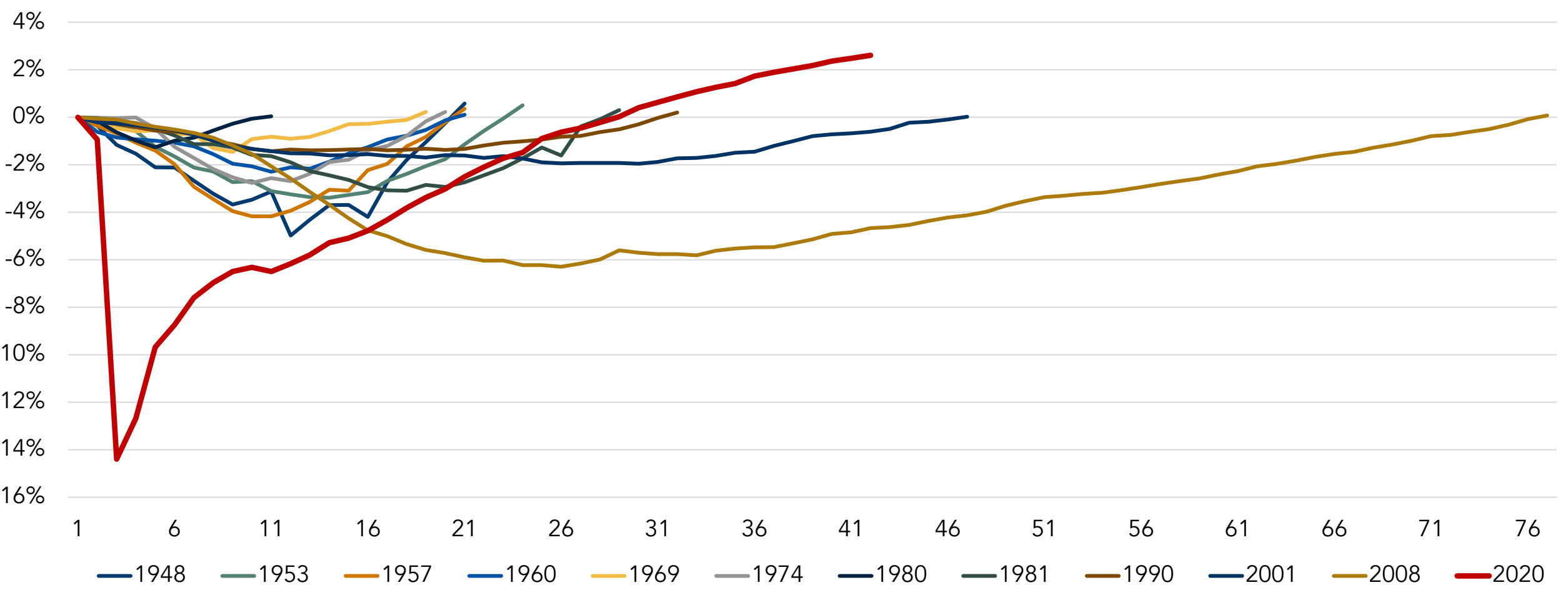


Source: BEA, FRED, Q2 2023




# Depth and Duration of Job Losses During Recessions

Percent Job Losses Relative to Peak Employment Month and Number of Months After Peak Employment



Source: BLS, First American Calculations, Jul. 2023

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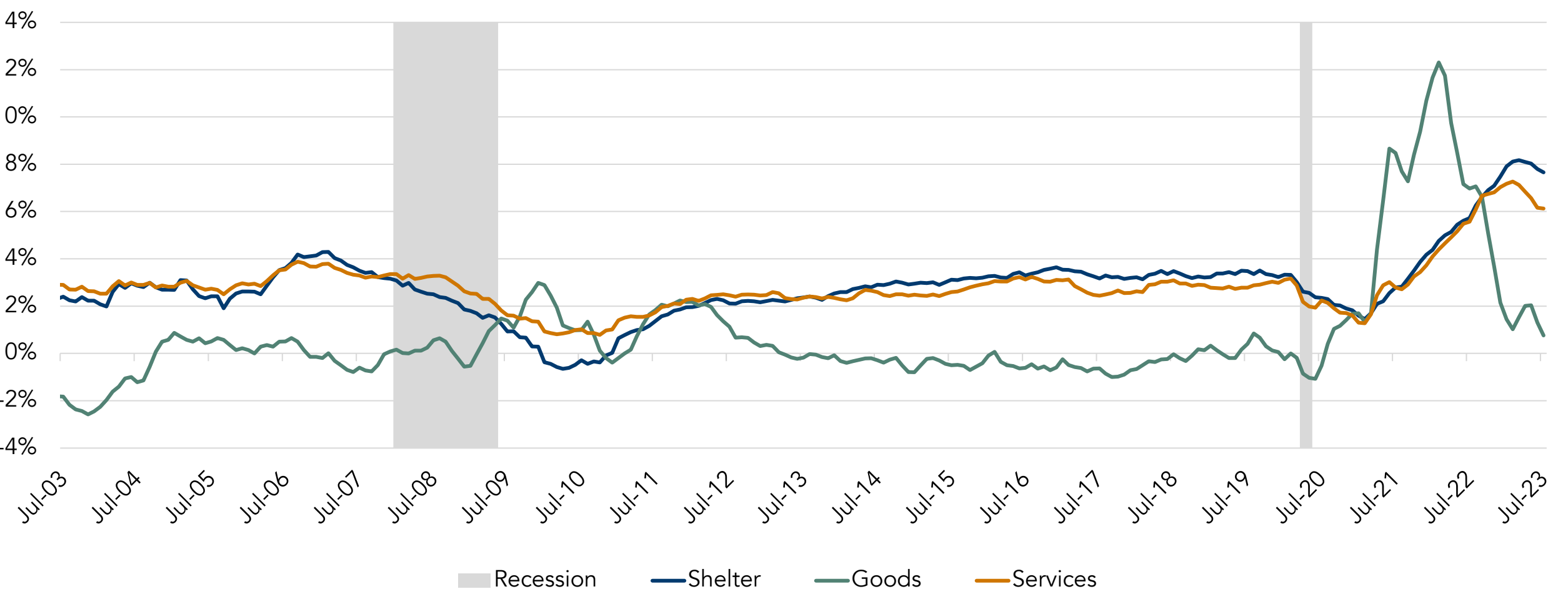
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# Headline Inflation is Over-Served

Services ex Energy Services, Goods ex Food & Energy Consumption, Shelter (% Change Year-over-Year)



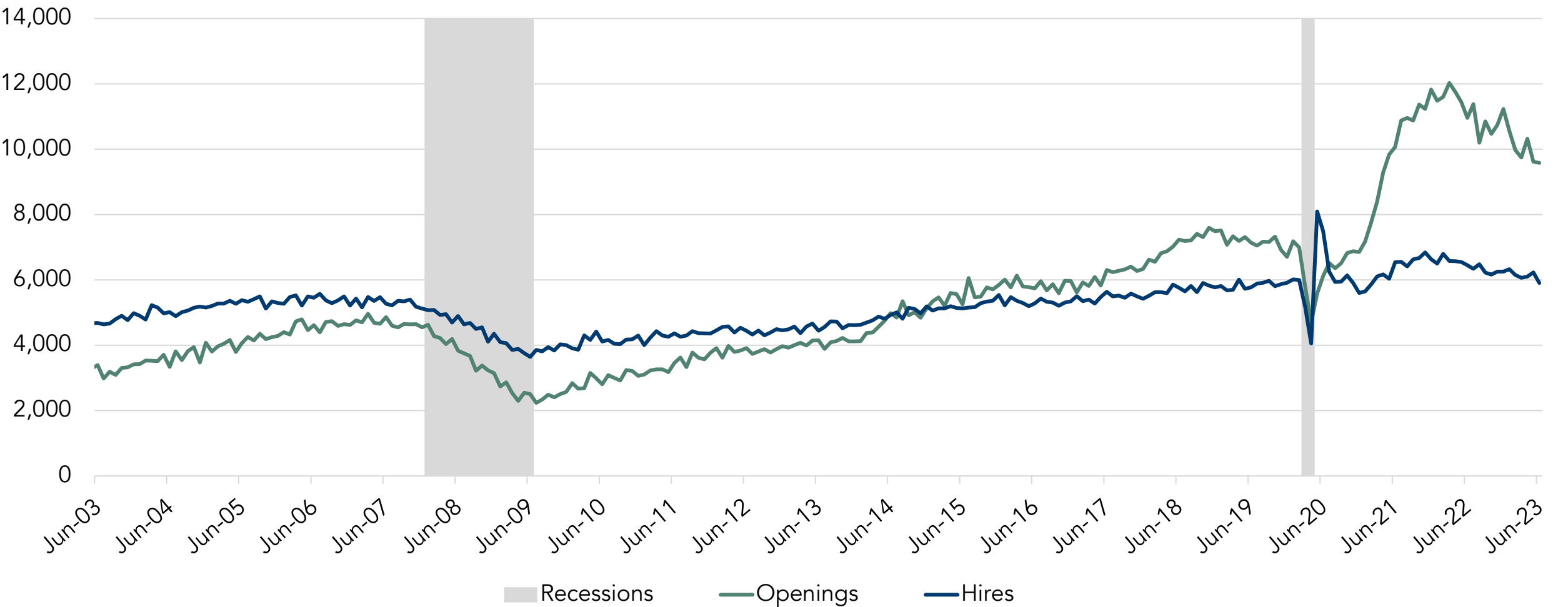
Source: Bureau of Labor Statistics, FRED, Jul. 2023

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# The Labor Market Mismatch Narrows

Job Openings and Hires: Total Nonfarm, Level in Thousands, Seasonally Adjusted

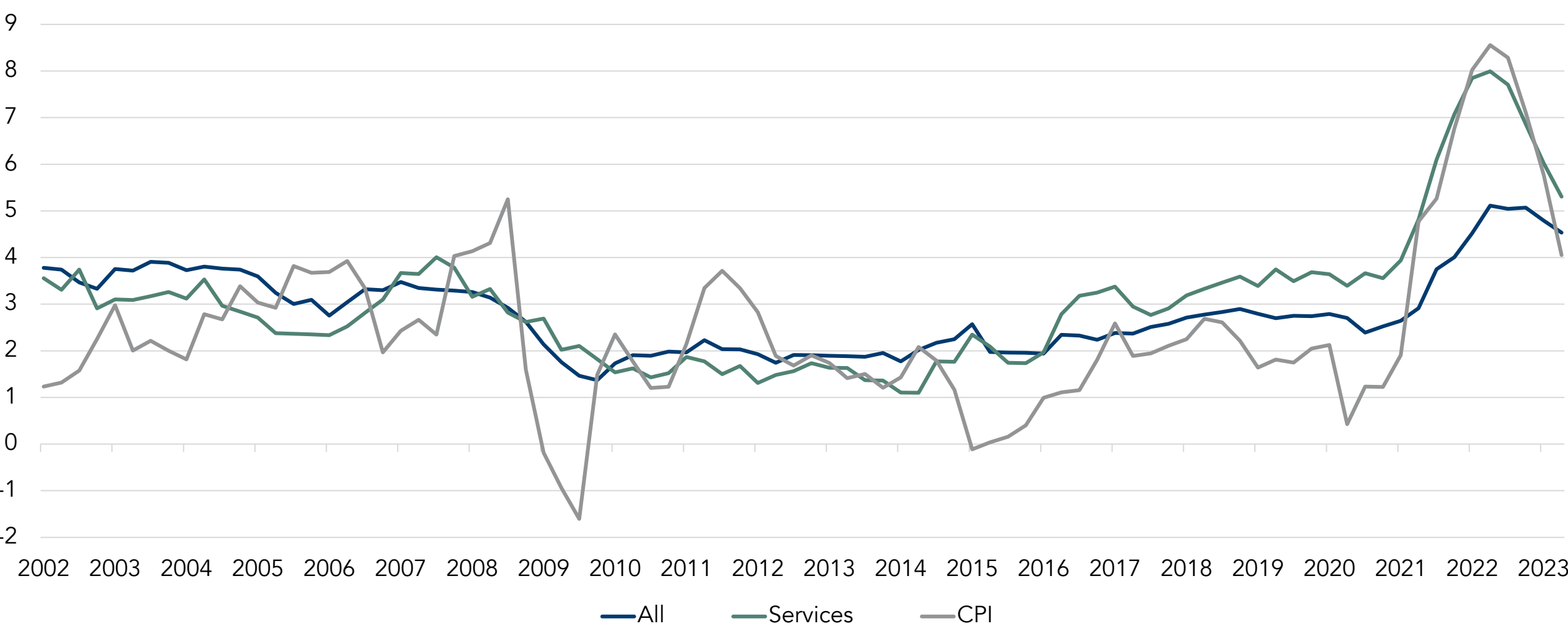


Source: U.S. Bureau of Labor Statistics, Job Openings and Labor Turnover Survey, Jun. 2023



# Wage Growth Remains High

Total Compensation for All Civilian Workers, Total Compensation for Service Occupations, Consumer Price Index (% Change Year-over-Year)



Source: Bureau of Labor Statistics, FRED, 2Q 2023



# Construction Prices Have Fallen for Six Months for Multifamily and Five Months for Nonresidential...

Annual Growth in Inputs to Construction Prices

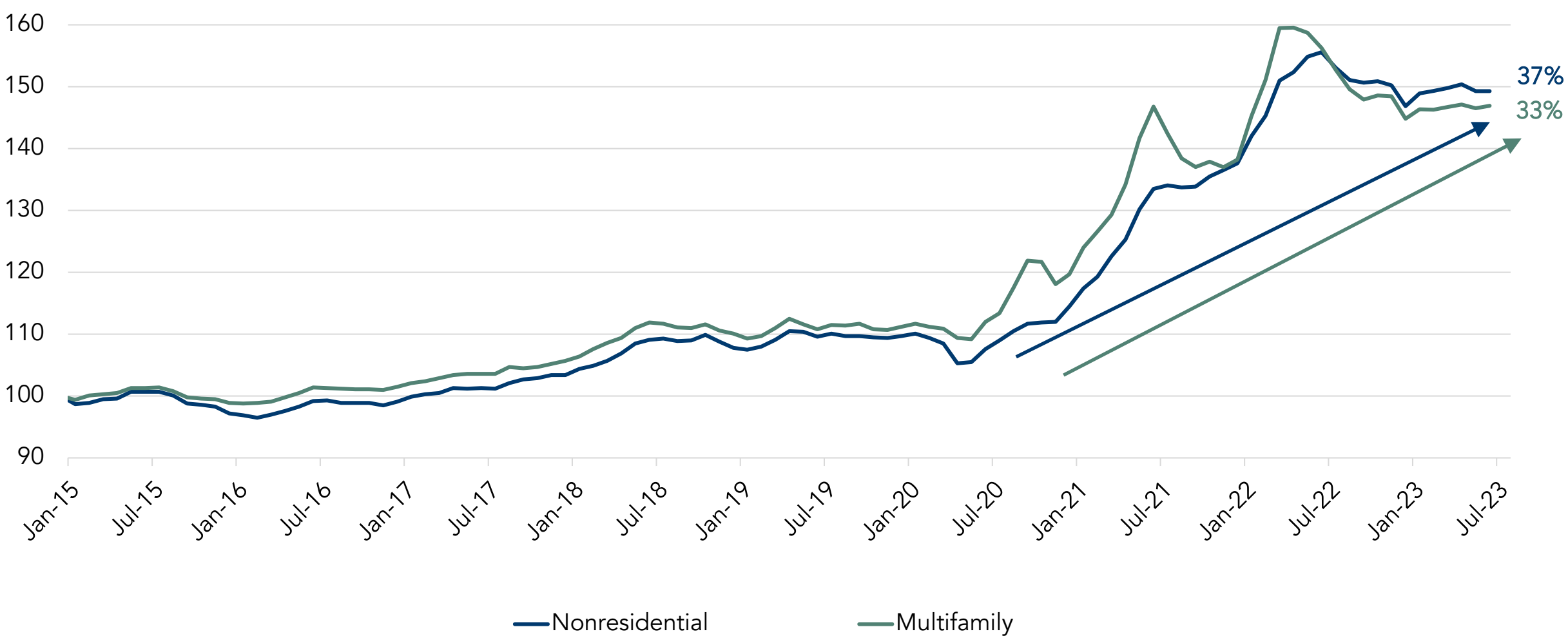


Source: U.S. Bureau of Labor Statistics, Jul. 2023



# Construction Costs are Over 30% More Costly Than Pre-Pandemic

Producer Price Index for Inputs to Construction



Source: Bureau of Labor Statistics, Jul. 2023



The background of the slide features a dark blue gradient with faint, semi-transparent financial charts. At the top, there is a candlestick chart with green and red bars. Below it, a line chart with a jagged, fluctuating path is visible. The text 'Dec' is partially visible on the left, and '2009' is visible in the center, suggesting a time-series context.

# CRE: Where Are We Today?

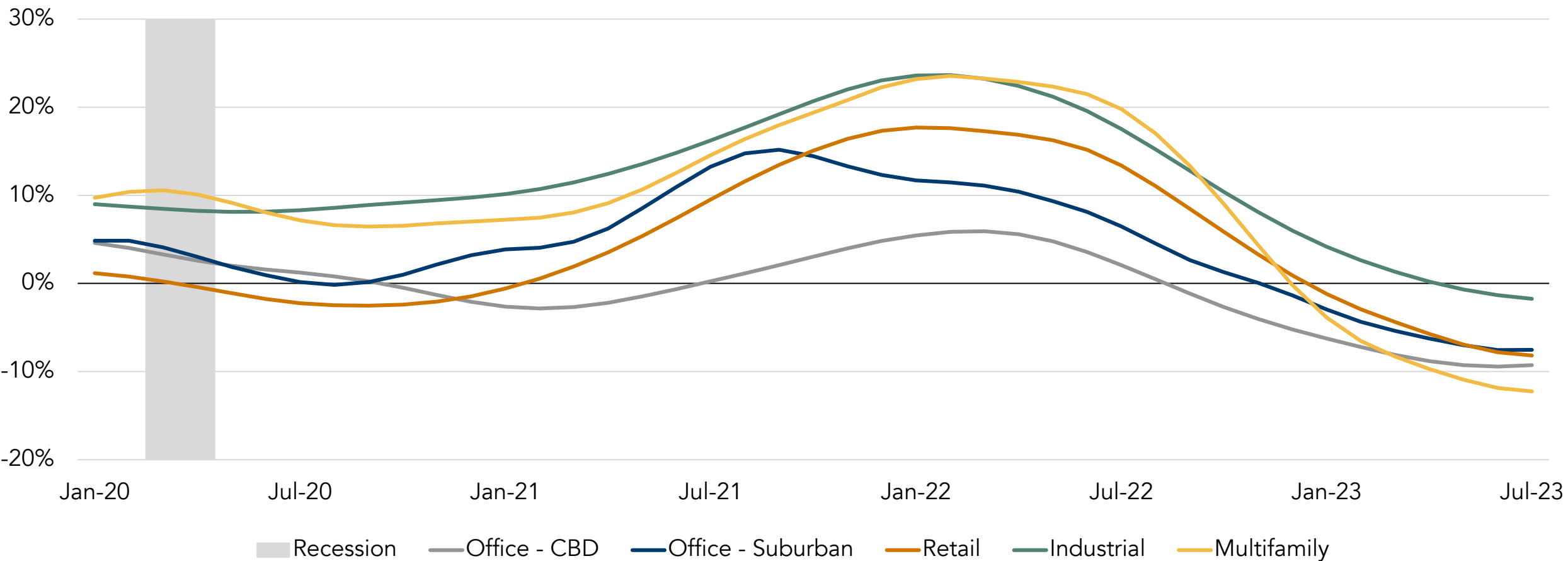


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# Annual Price Growth is Negative for All Asset Classes

Annual Price Growth

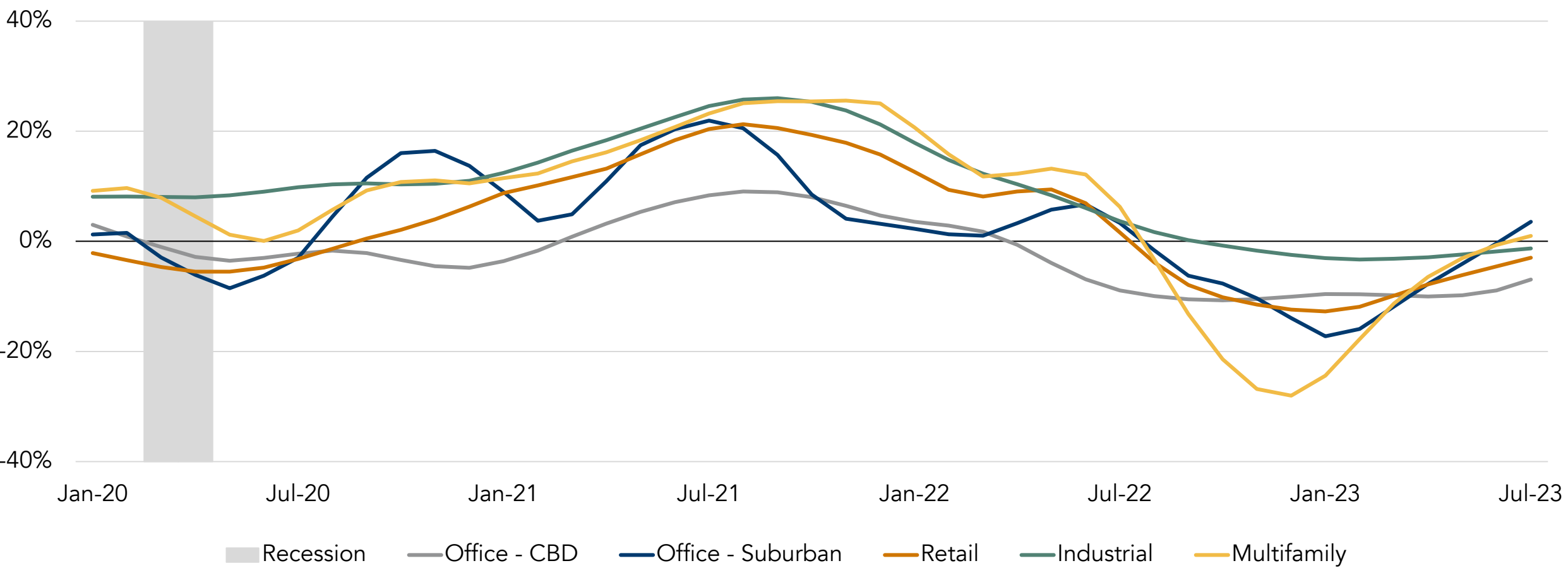


Source: MSCI Real Capital Analytics, Jul. 2023



# Prices Are Falling or Flat for All Asset Classes on a Month Over Month Basis

Month Over Month Price Growth, Annualized

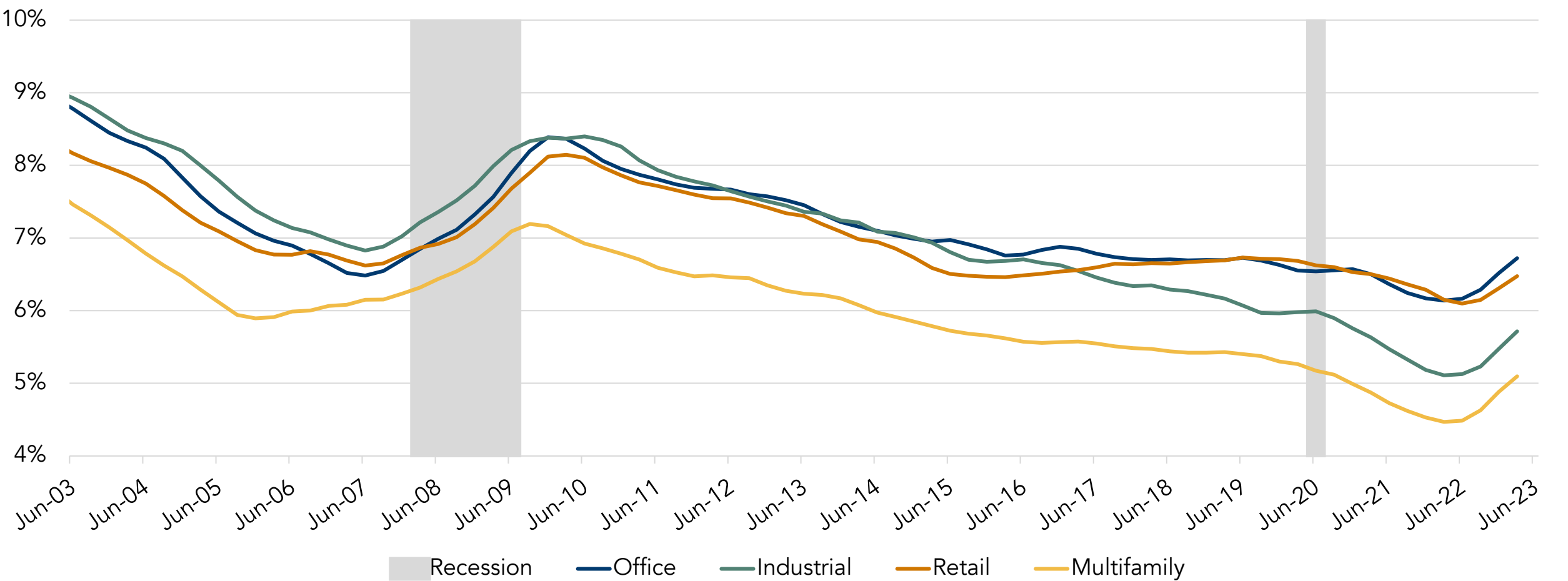


Source: MSCI Real Capital Analytics, Jul. 2023




# Cap Rates Increasing for All Asset Classes

Quarterly Cap Rates by Asset Class



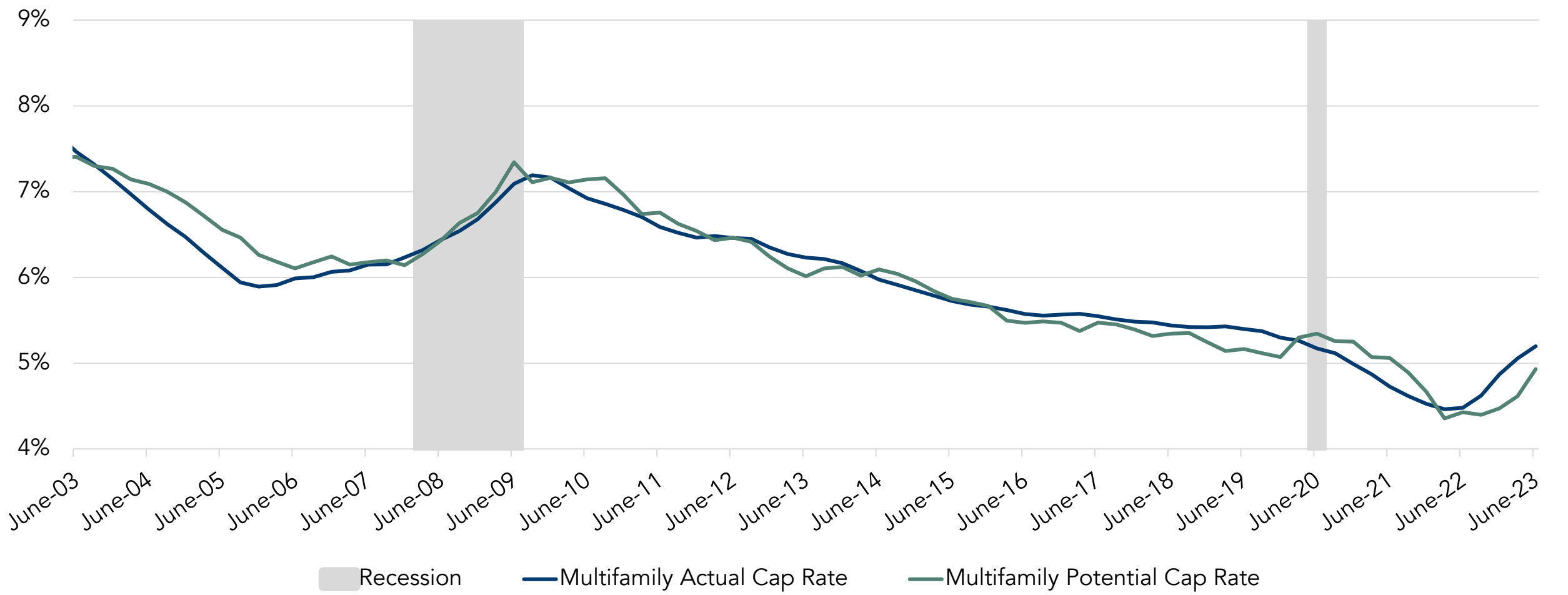
Source: MSCI Real Capital Analytics, Jun. 2023

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# Multifamily Potential Cap Rate Models Actual Cap Rates Based on Market Fundamentals

Actual and Potential Multifamily Cap Rates



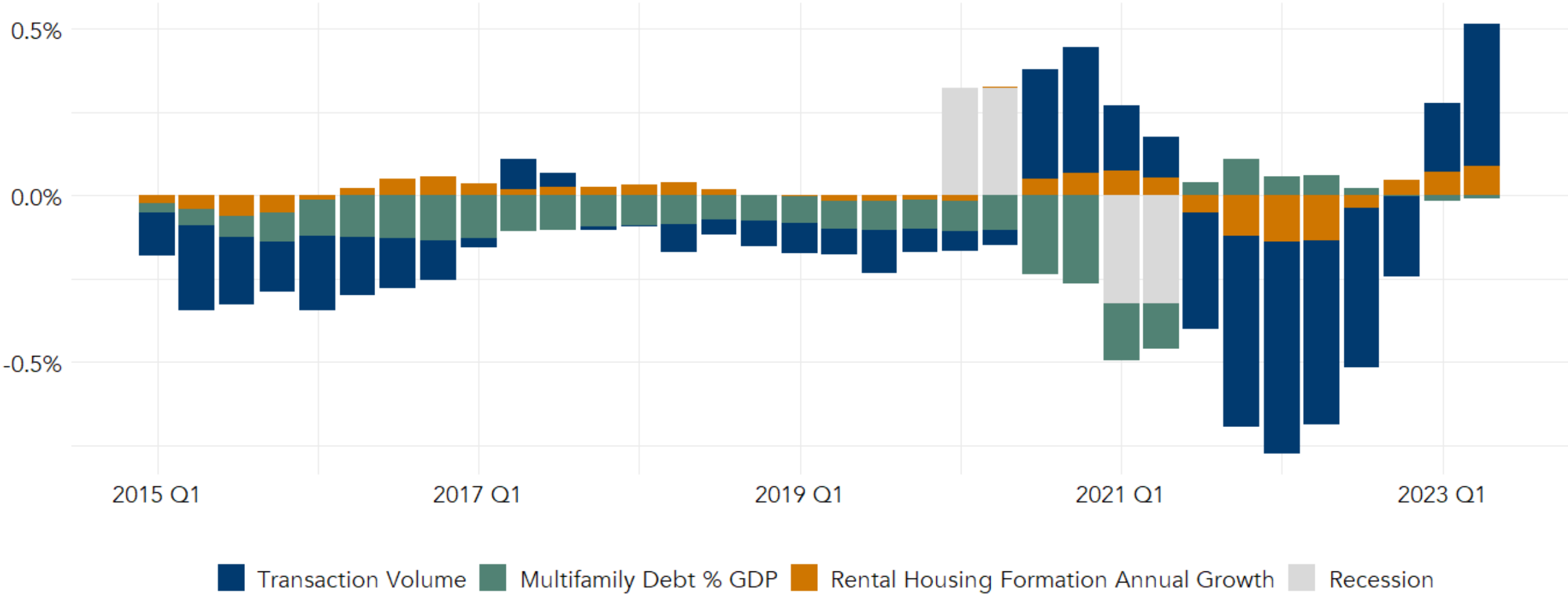
Source: Federal Reserve, Census Bureau, Bureau of Economic Analysis, MSCI Real Capital Analytics, First American Calculations, Jun. 2023

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# Declining Volume and Renter Household Formation Drive the Multifamily PCR Up

Contribution of each Multifamily PCR Term to Annual Change in Multifamily PCR

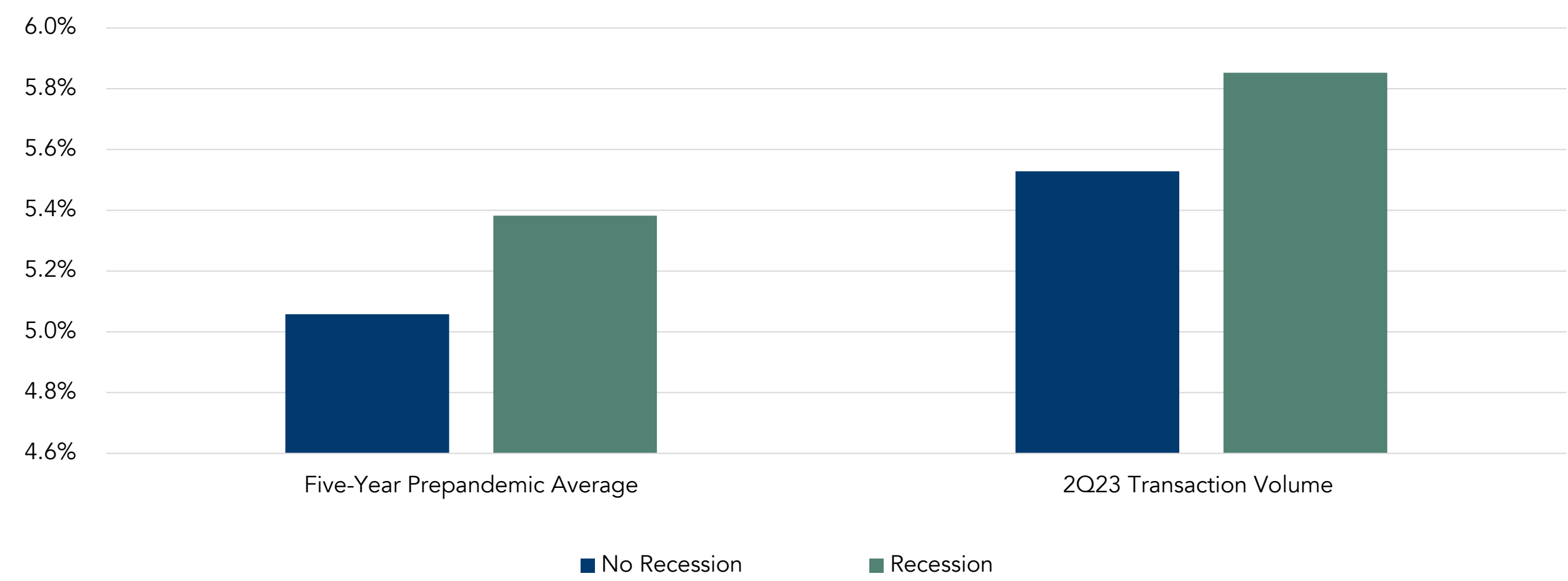


Source: Federal Reserve, Census Bureau, Bureau of Economic Analysis, MSCI Real Capital Analytics, First American Calculations, Q2 2023



# How Transaction Volume Impacts Multifamily PCR Levels

Multifamily PCR at Hypothetical Levels of Multifamily Transaction Volume, Holding All Else Equal



Source: Federal Reserve, Census Bureau, Bureau of Economic Analysis, MSCI Real Capital Analytics, First American Calculations, Jun. 2023





Supply

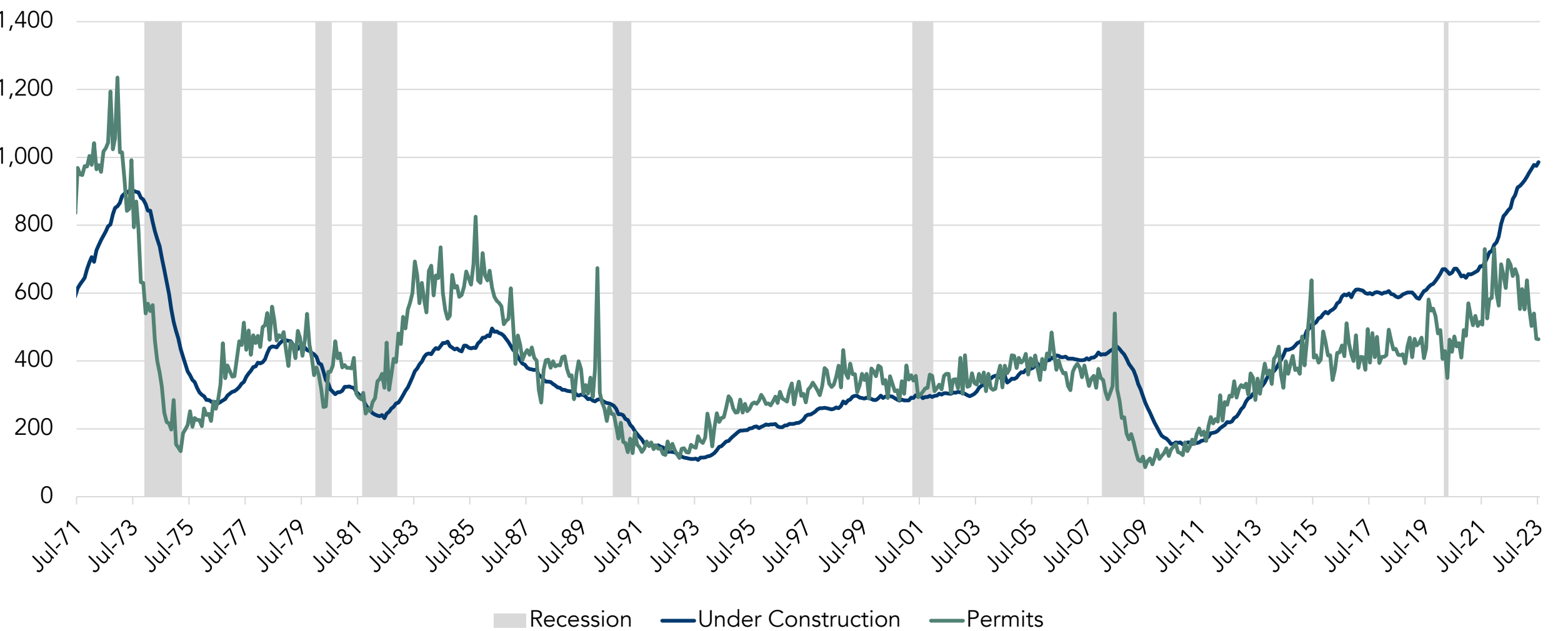


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# 986,000 Multifamily Apartment Units are Under Construction, a New Record, but Permits Are Falling

New Privately-Owned Housing Units Under Construction: Units in Buildings with 5 Units or More, SA Thousands of Units



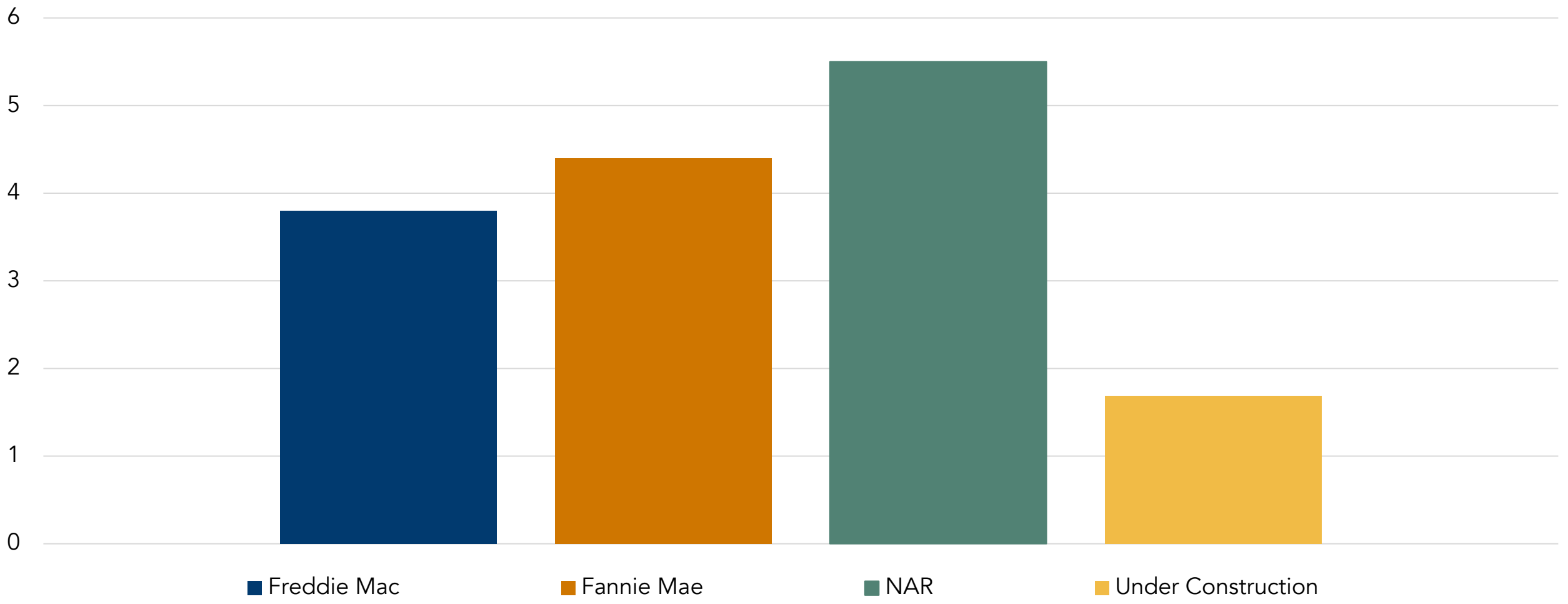
Source: Census Bureau, Jul. 2023

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# Housing Units Currently Under Construction Will Ease but not Eliminate the Housing Shortage

Current Housing Deficit Estimates by Firm, Under Construction Housing (Apartments plus Homes), Millions of Housing Units



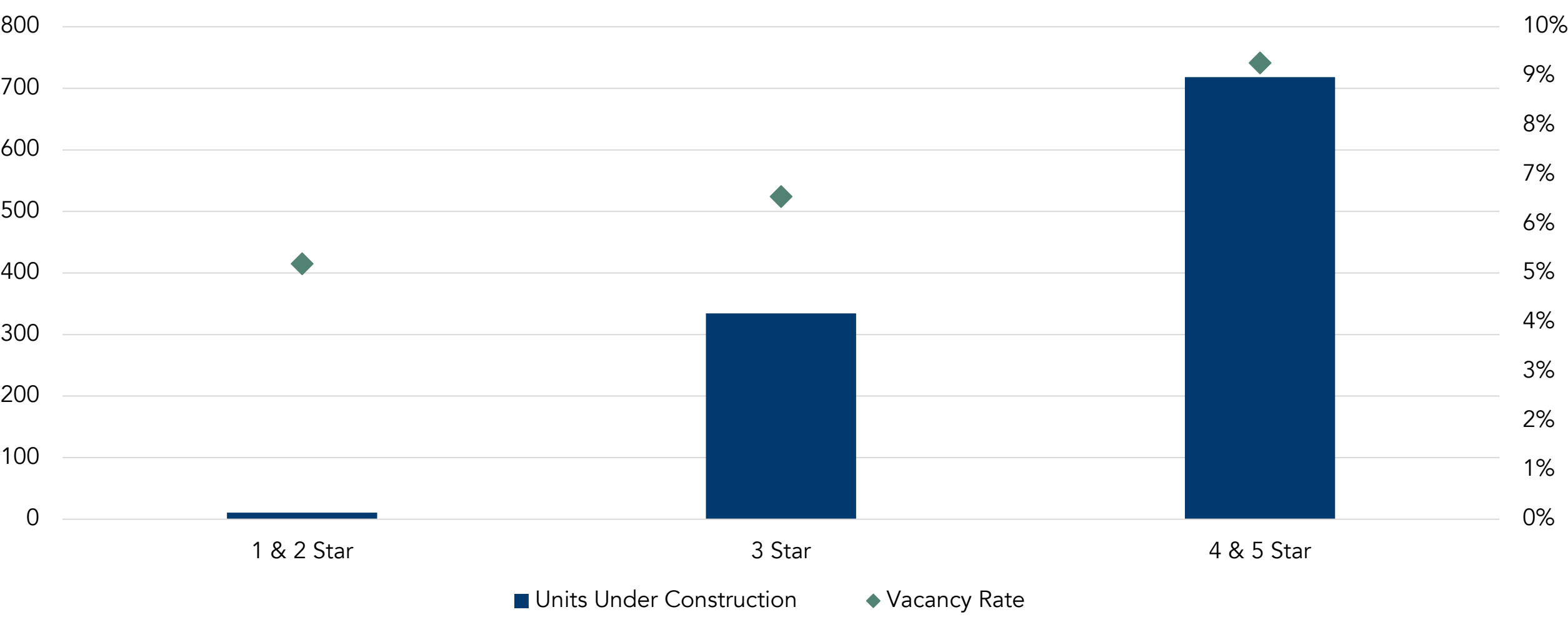
Source: Census, HUD, Freddie Mac, Fannie Mae, NAR Realtor, Jul. 2023

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# Nationally, Very Little Low-Cost Housing is Being Built

Thousands of Apartment Units Under Construction (Left Axis), Vacancy Rate (Right Axis)



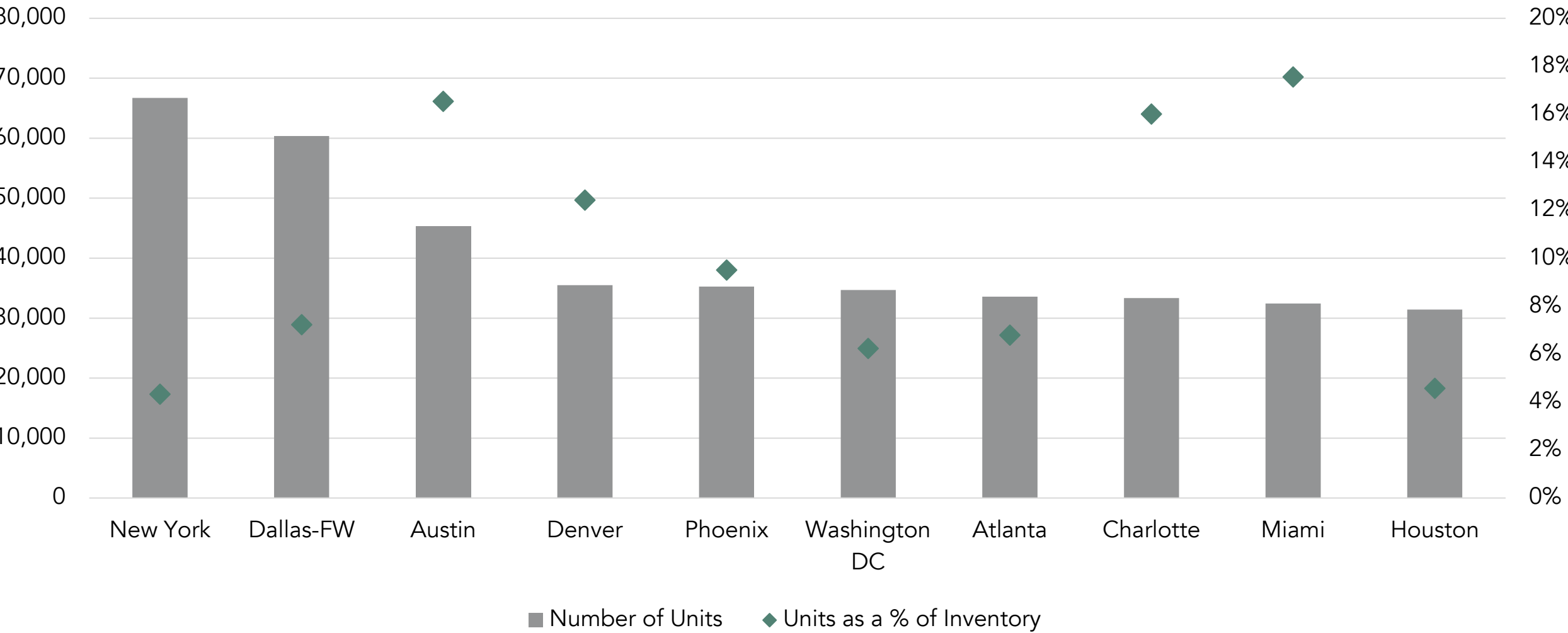
Source: CoStar, Jun. 2023

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# Cities With the Greatest Number of Apartment Units Under Construction

Apartment Units Under Construction (Left Axis), Units Under Construction as a Percent of Existing Inventory (Right Axis)



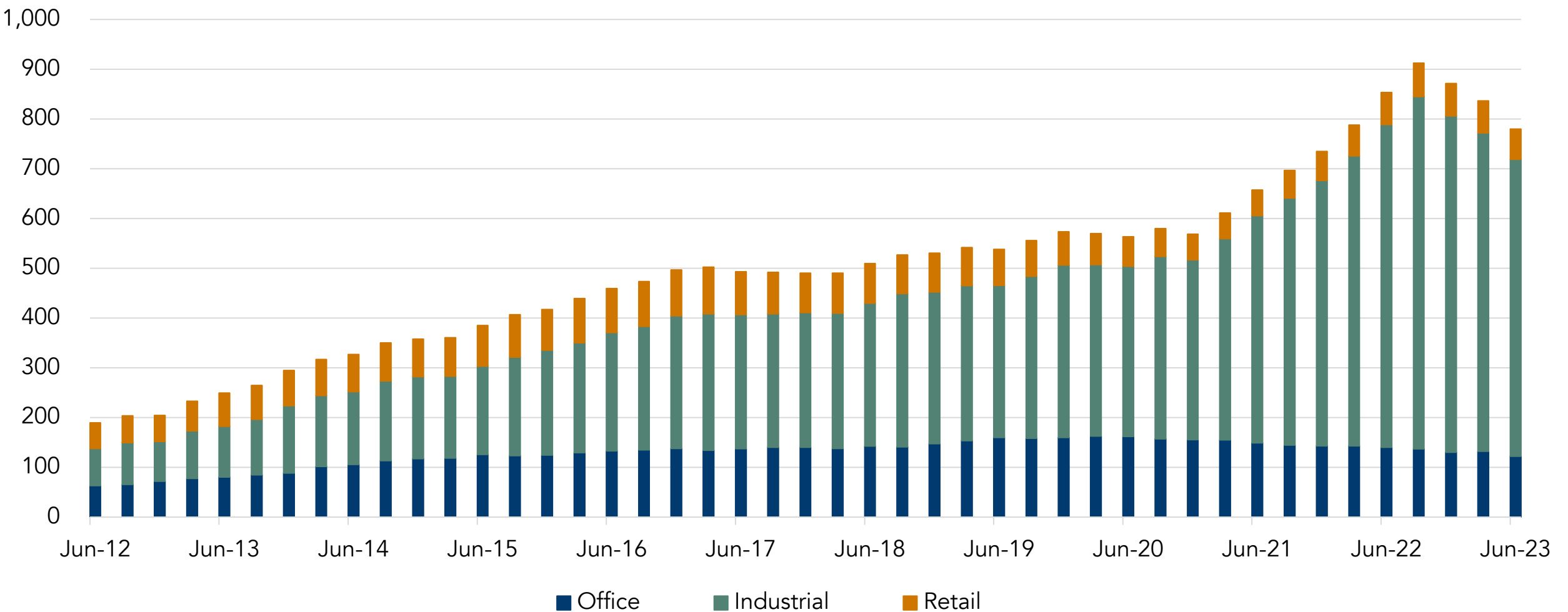
Source: CoStar, Jun. 2023

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# Industrial Construction Surged in 2022, But Peak Appears Behind Us

Millions of Square Feet Under Construction



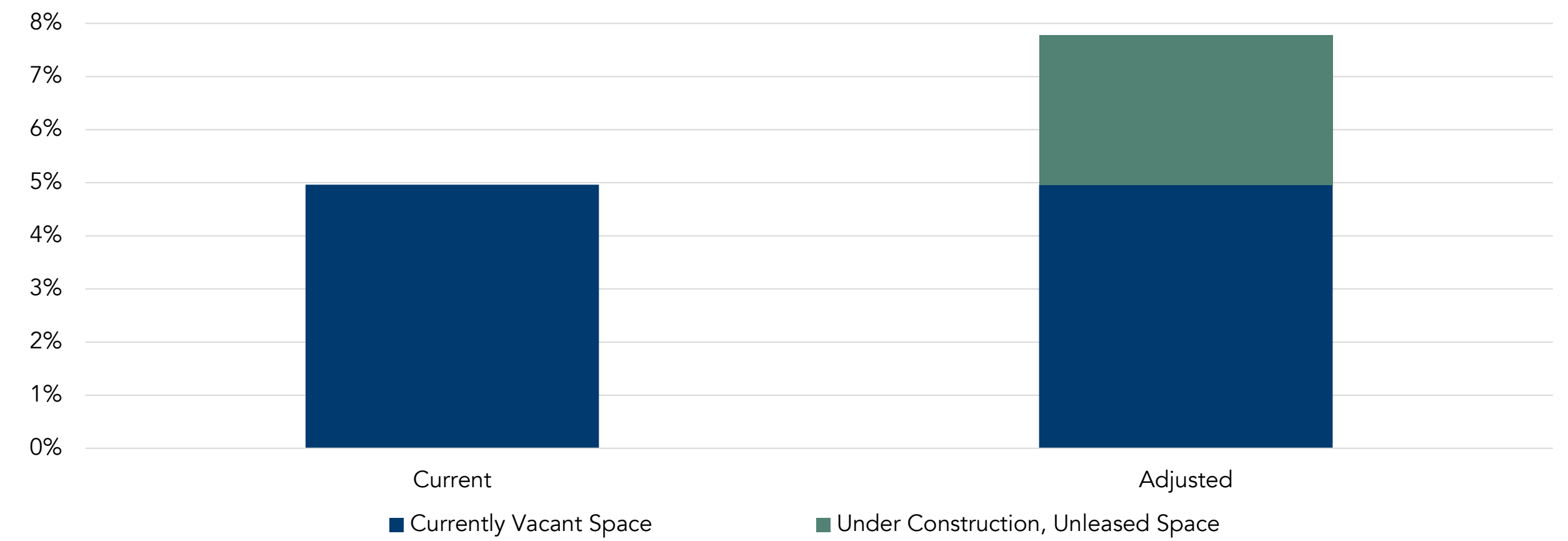
Source: CoStar, Jun. 2023

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# If All Under-Construction, Unleased Industrial Space Came to Market and Remained Unleased, the National Industrial Vacancy Rate Would Rise to About 7.8%

Industrial Vacancy Rate, Current and Adjusted for Under-Construction and Unleased Space



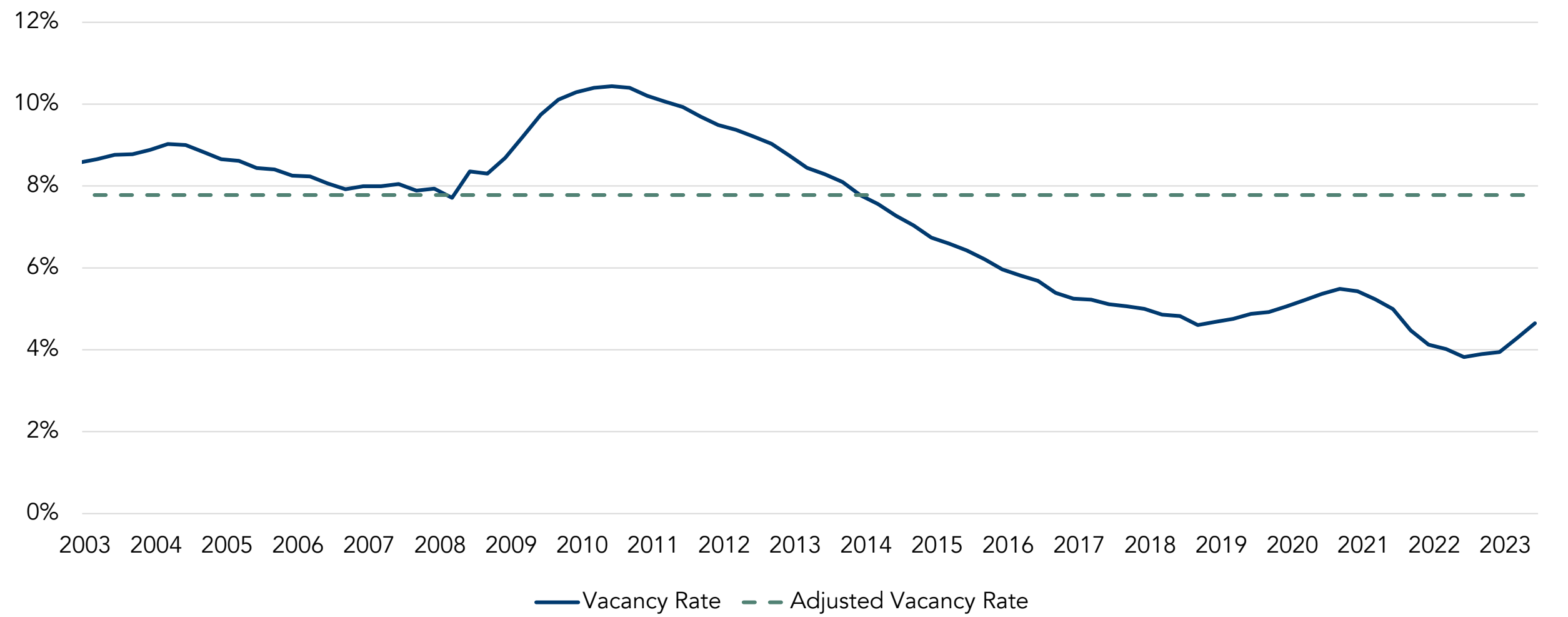
Source: CoStar, First American Calculations, Jul. 2023

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# A 7.8 Percent Vacancy Rate for Industrial Would be Roughly Equal to Vacancy Rates Seen in 2014

Industrial Vacancy Rate Over Time



Source: CoStar, First American Calculations, Jun. 2023

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# Top 15 Cities With the Most Industrial Square Footage Under Construction

Industrial Sqft Under Construction in Millions (Left Axis), Industrial Sqft Under Construction as a % of Existing Inventory (Right Axis)



CoStar, Jun. 2023



The background of the slide features a dark blue gradient with faint, semi-transparent financial charts. At the top, there is a candlestick chart showing price movements. Below it, a line chart with multiple data series is visible. The word 'Demand' is centered in a white, sans-serif font within a white rectangular frame.

# Demand

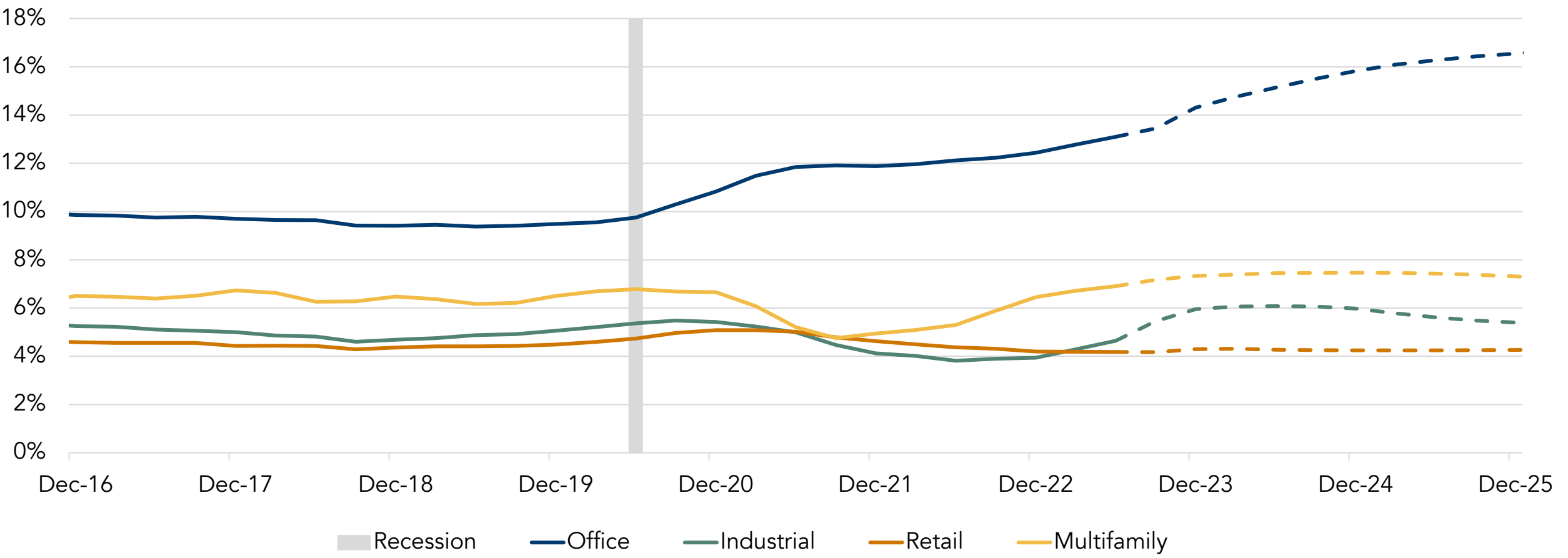


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# Vacancy Rates for Office and Multifamily Expected to Rise Over Next Two Years

Vacancy Rate by Asset Class, Actual (Solid Lines), Forecast (Dashed Lines)



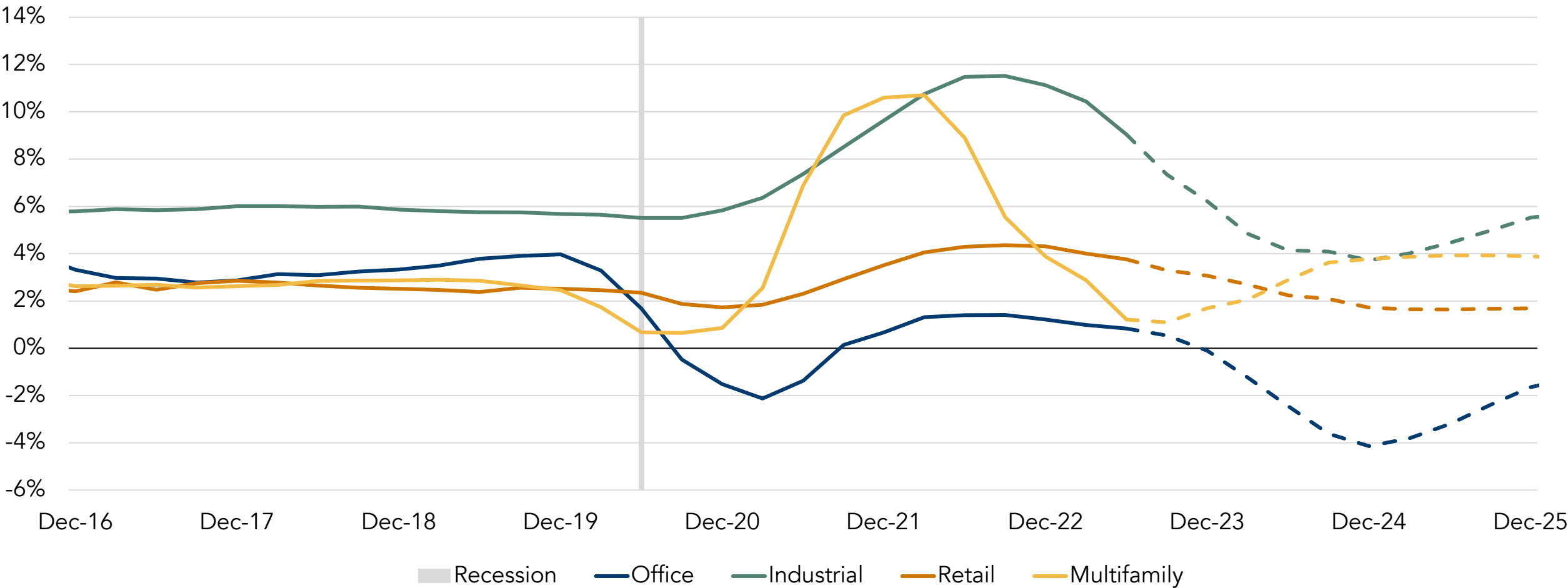
Source: CoStar, Oxford Economics, Jun. 2023

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# Rent Growth is Moderating Across All Asset Classes

Annual Rent Growth, Actual (Solid Line), Forecast (Dashed Line)



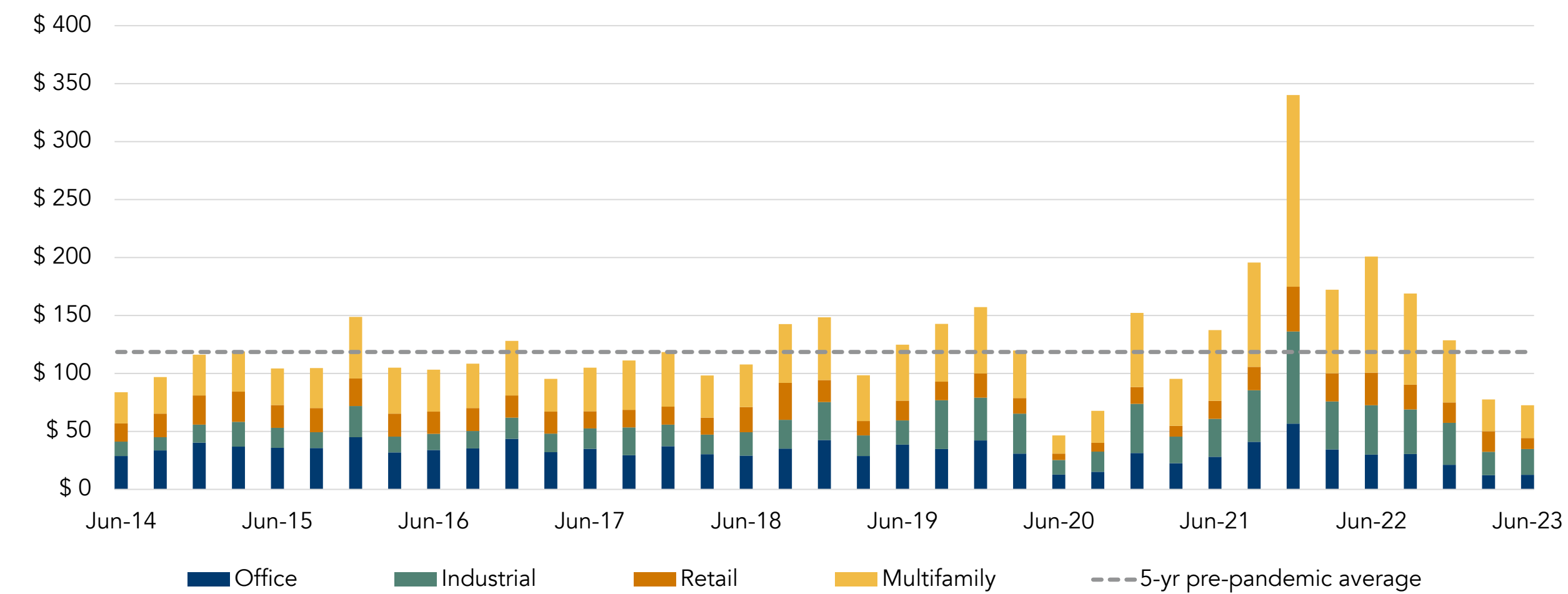
Source: CoStar, Oxford Economics, Jun. 2023

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# Deal Volume in 2Q23 Was Approximately 40% Below the Pre-Pandemic Average

Quarterly Transaction Volume by Asset Class (USD in Billions)



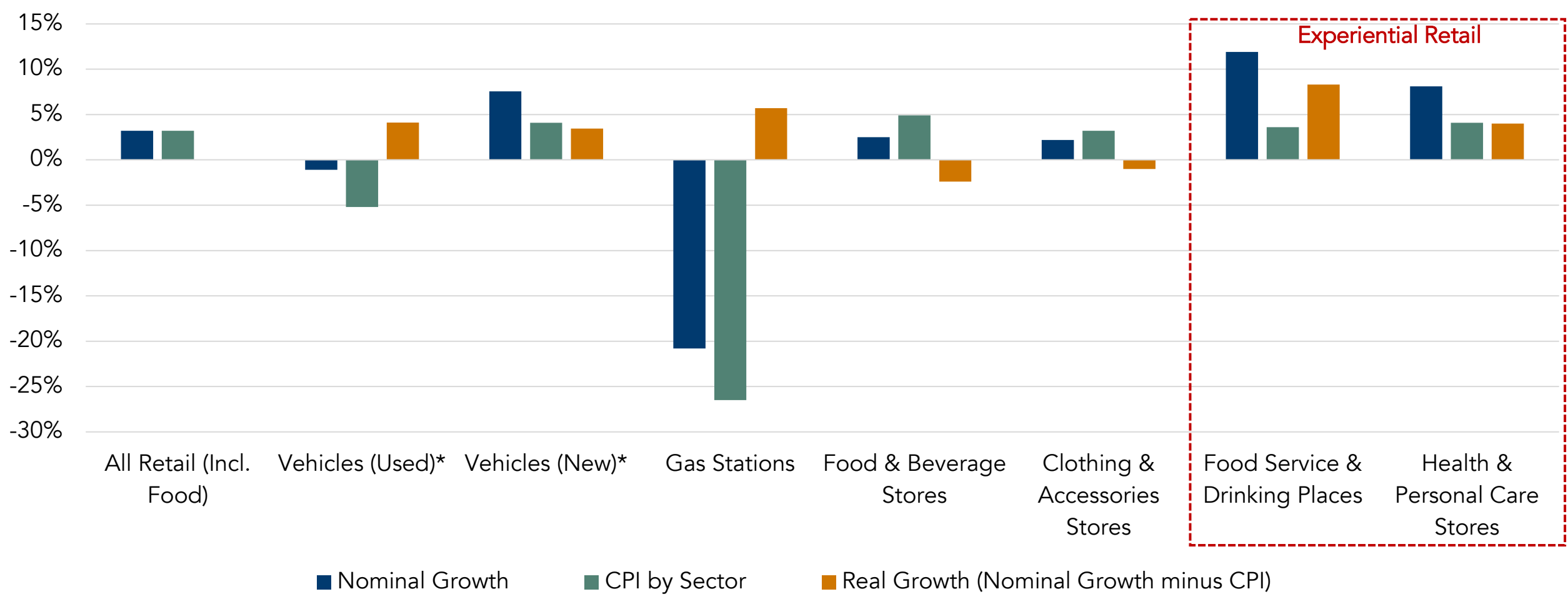
Source: MSCI Real Capital Analytics, Jun. 2023

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# Retail Sales Grew in Real Terms for Experiential Categories but Were Flat or Down for Most Others

Annual Growth in Retail Sales (Nominal and Real), CPI by Sector



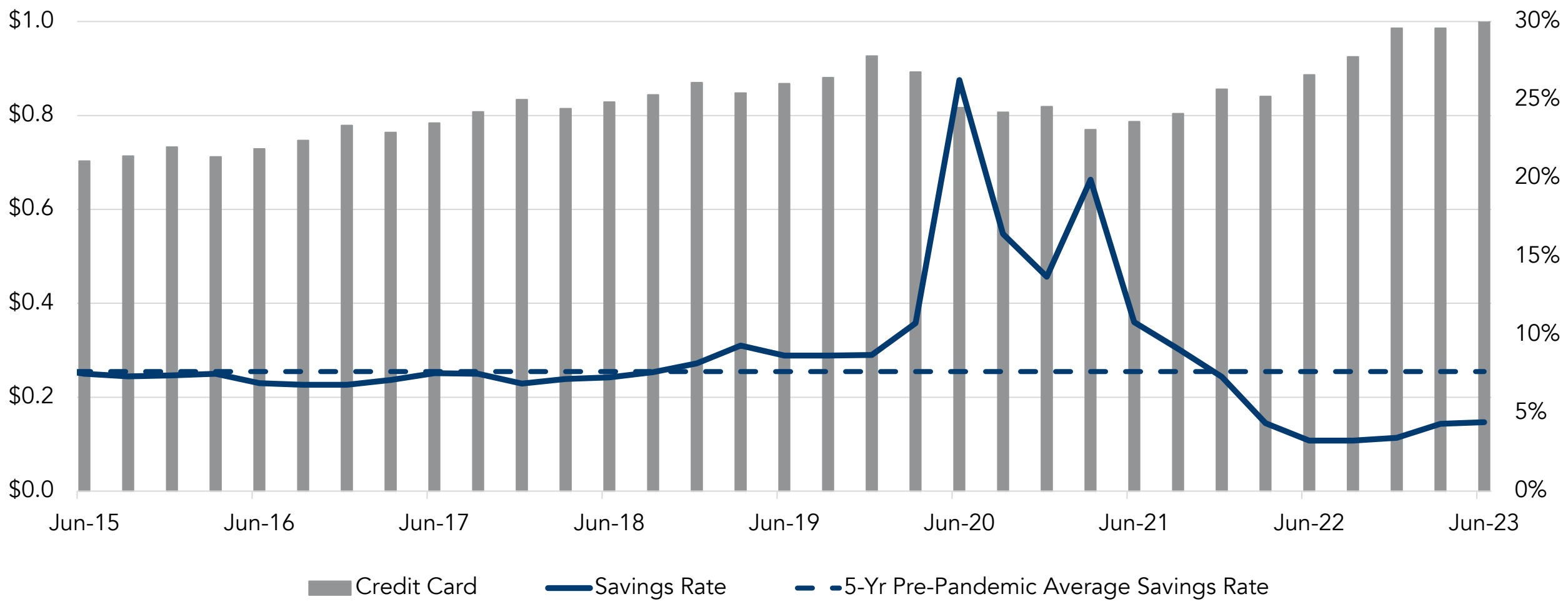
Source: U.S. BLS, U.S. Census, First American Calculations, Jul. 2023, except where starred (\*), which is as of Jun. 2023

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# Consumers Are Taking on More Credit Card Debt and Saving Less

Credit Card Debt (USD in Trillions, Left Axis), Personal Savings Rate (Right Axis)

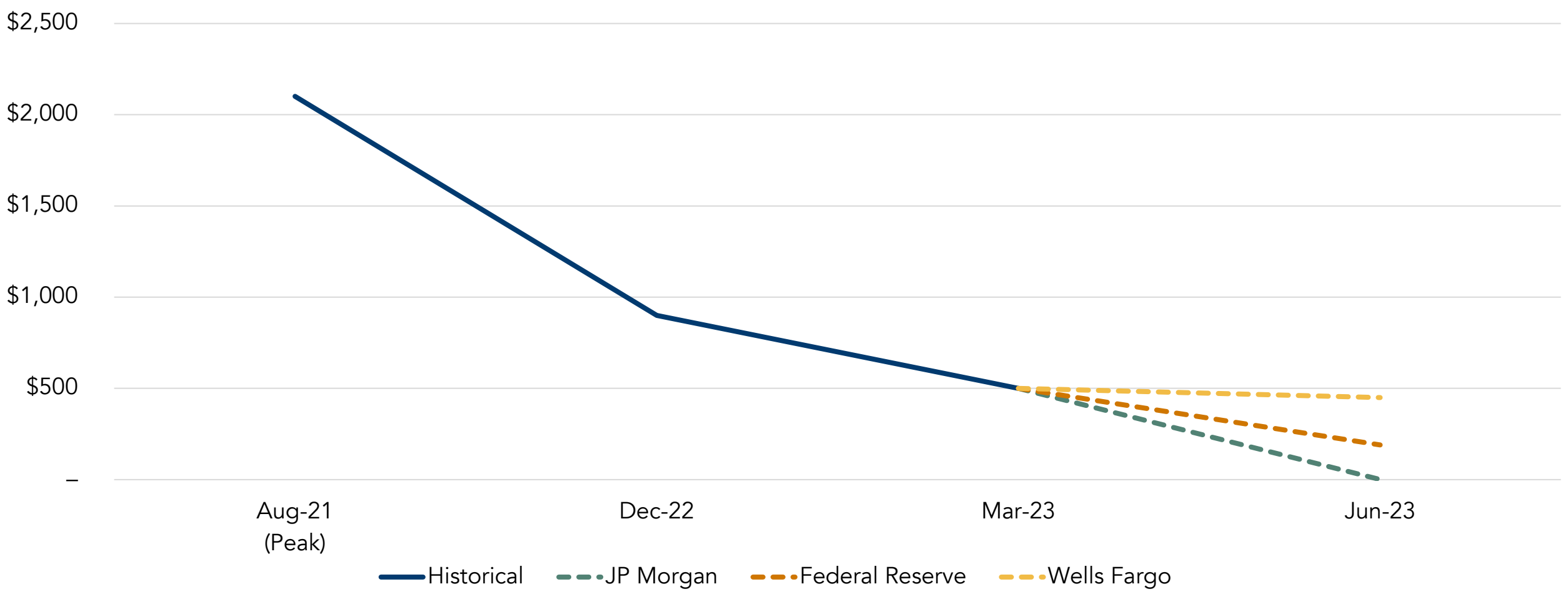


Source: U.S. Bureau of Economic Analysis, New York Consumer Credit Panel/Equifax, First American Calculations, Jun. 2023




# Excess Savings From Pandemic Almost Depleted or Entirely Gone, Depending on the Estimate

USD in Billions, Historical and Different Estimates of Excess Savings Currently Outstanding



Source: Federal Reserve, JP Morgan, Wells Fargo, Jun. 2023

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# Lending and Distress

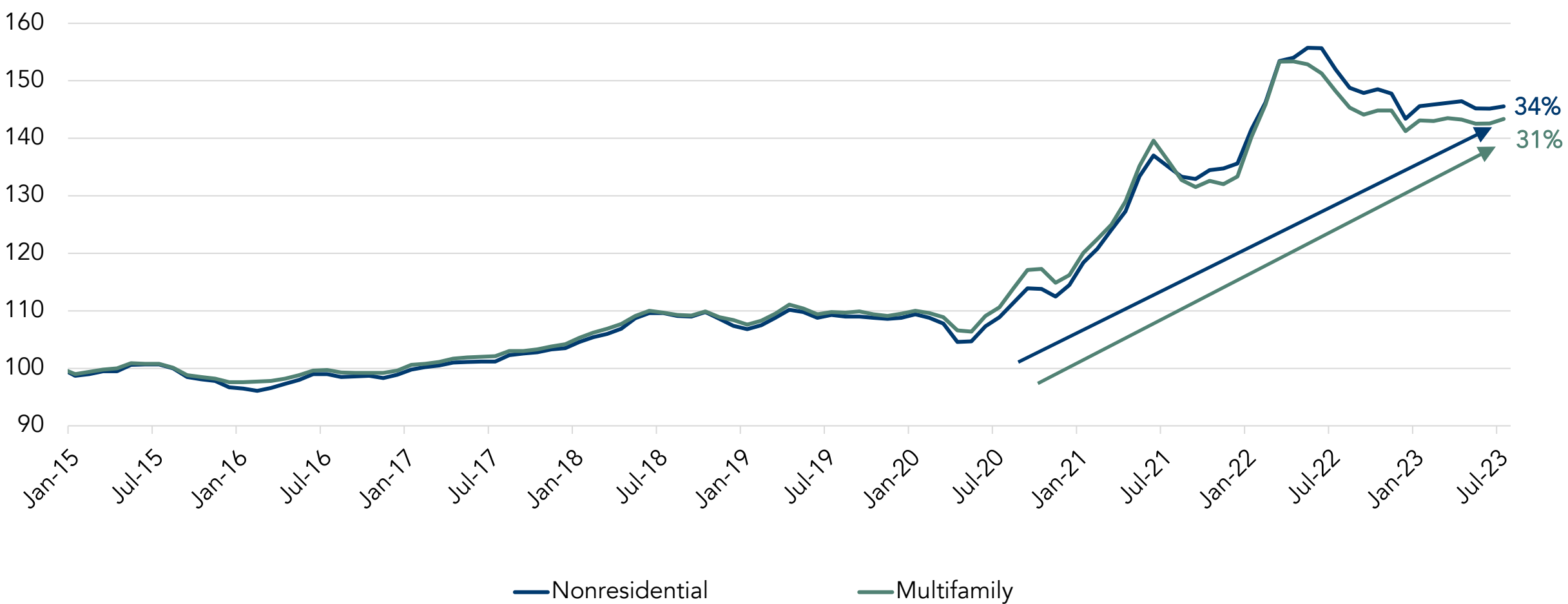


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# Repairs & Maintenance Expenses are Over 30% More Costly Than Pre-Pandemic

PPI Index for Repairs and Maintenance Expenses, by Asset Class



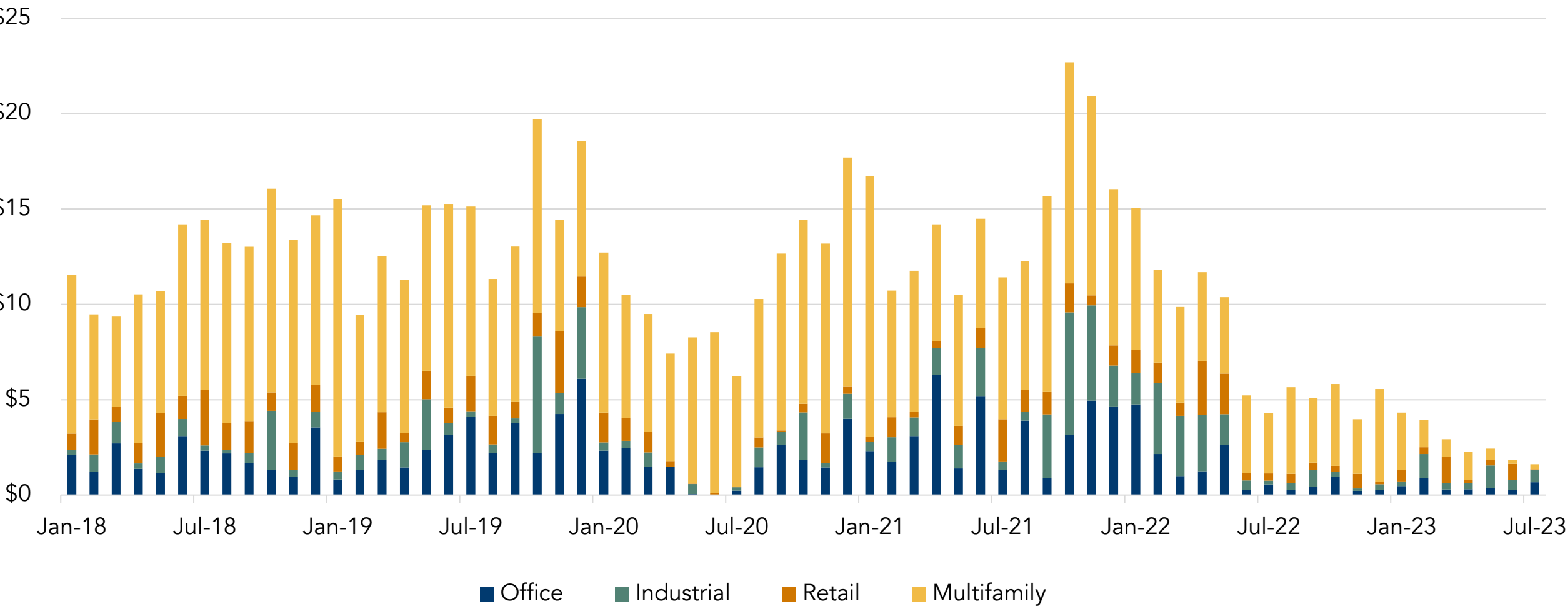
Source: BLS, Jul. 2023

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# CMBS Originations Have Dried up for All Asset Classes

Origination Volume, USD in Billions



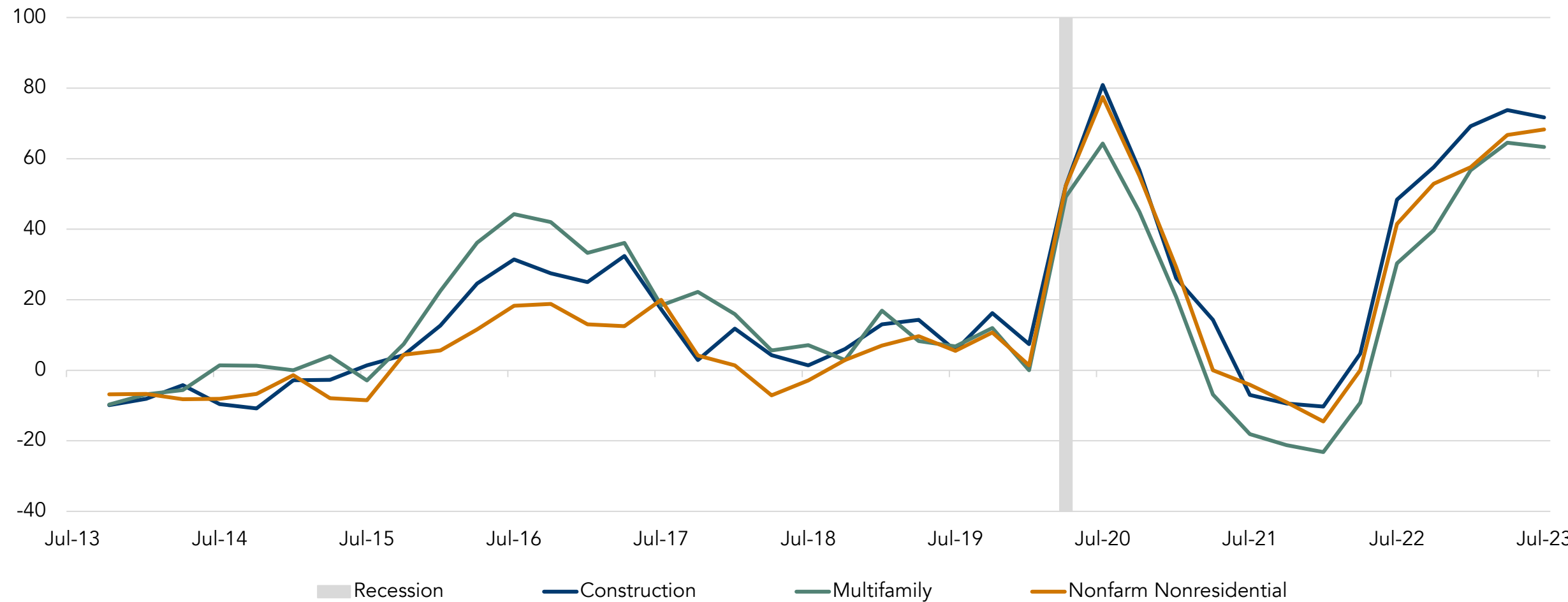
Source: CoStar, Jul. 2023

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# CRE and Construction Lending from Banks Remains Tight

Percentage of Banks Reporting Tighter Lending Standards for Real Estate Lending

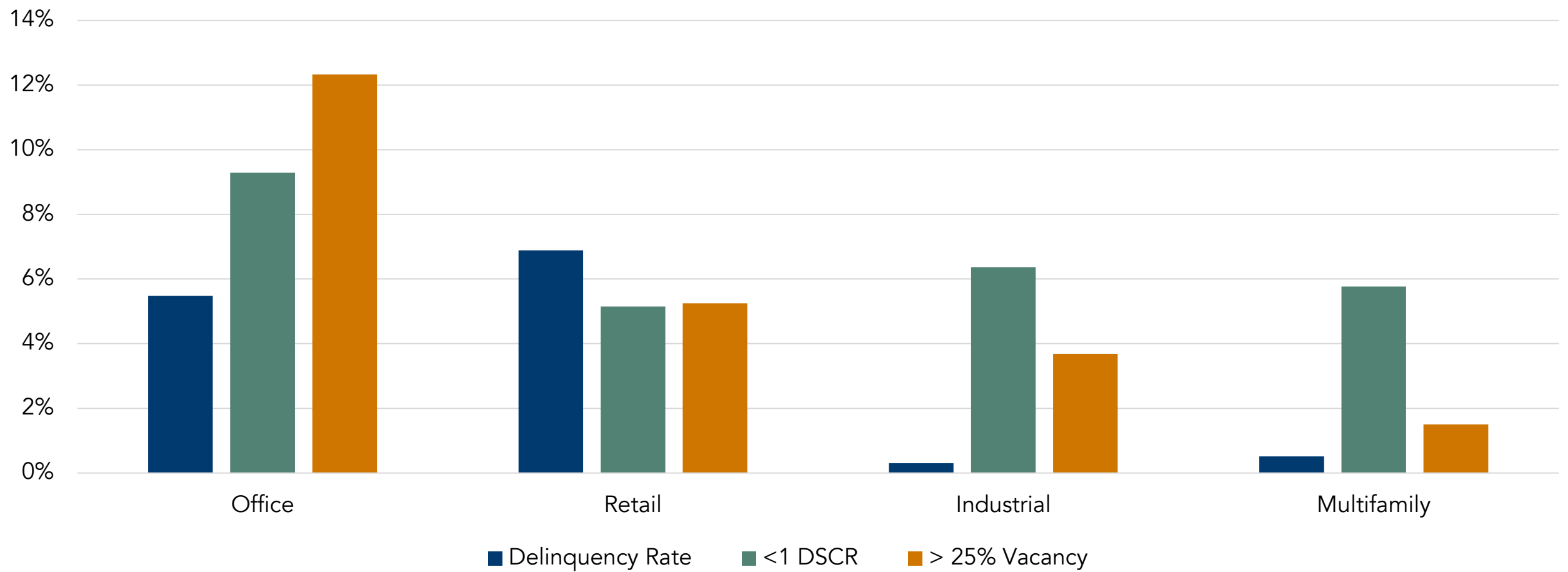


Source: Federal Reserve's Senior Loan Office Opinion Survey (SLOOS), Jul. 2023



# There is More CMBS Distress in Retail than Any Other Asset Class, but That Could Soon Change

CMBS Delinquency Rates, Proportion of CMBS loans with Debt Service Coverage Ratios Under 1, Proportion of Loans with Buildings Over 25 Percent Vacant

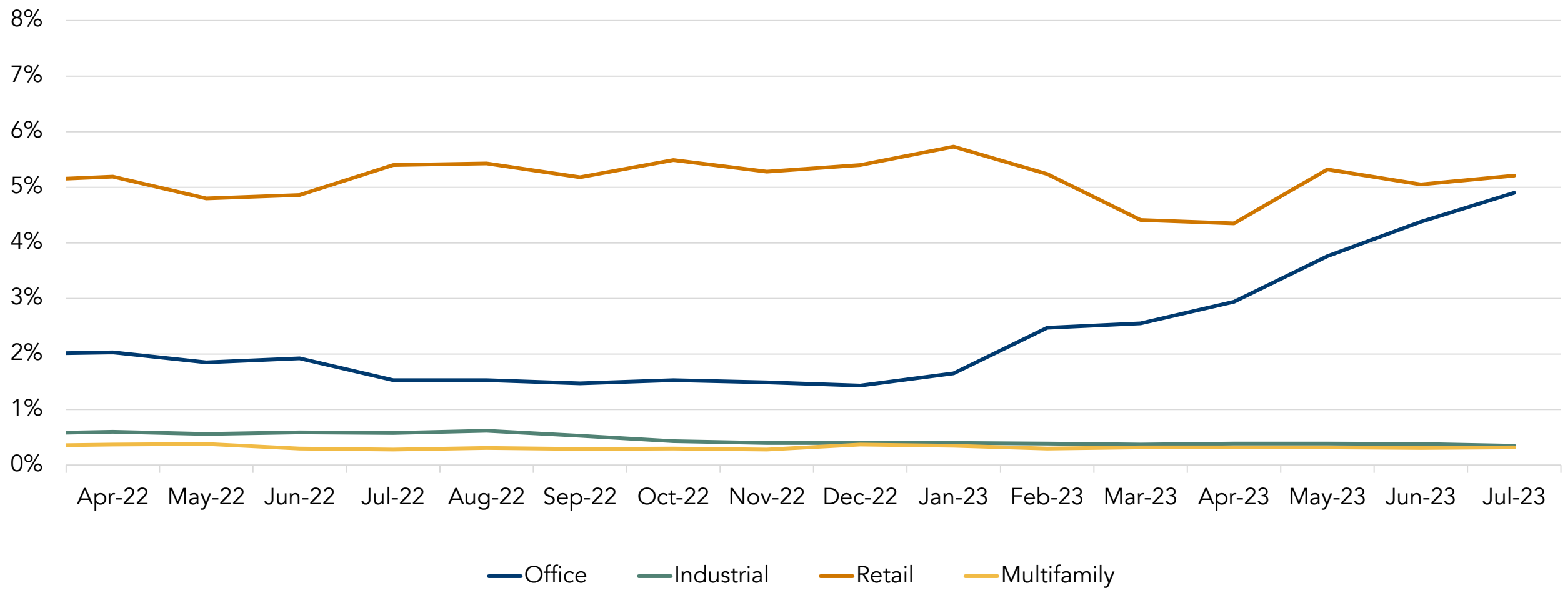


Source: Trepp, Aug. 2023



# Office Delinquency Rates Are Increasing

CMBS Delinquency Rate, by Asset Class



Source: CoStar, Jul. 2023



## BAROMETER THIS WEEK


47.2%

10 CITY AVERAGE  
OCCUPANCY



	Wed 8/9	Wed 8/16	% Change
New York metro	44.8%	42.8%	2.0% ▼
Dallas metro	52.4%	54.1%	1.7% ▲
Washington D.C. metro	41.8%	40.9%	0.9% ▼
Houston metro	59.4%	60.3%	0.8% ▲
Philadelphia metro	39.7%	38.9%	0.8% ▼
Chicago metro	51.2%	50.7%	0.5% ▼
San Jose metro	37.5%	38.0%	0.5% ▲
San Francisco metro	41.4%	41.9%	0.4% ▲
Austin metro	56.5%	56.3%	0.2% ▼
Los Angeles metro	47.9%	47.7%	0.2% ▼
<b>Average of 10</b>	<b>47.3%</b>	<b>47.2%</b>	<b>0.1% ▼</b>

Source: Kastle Back to Work Barometer, Aug. 16, 2023

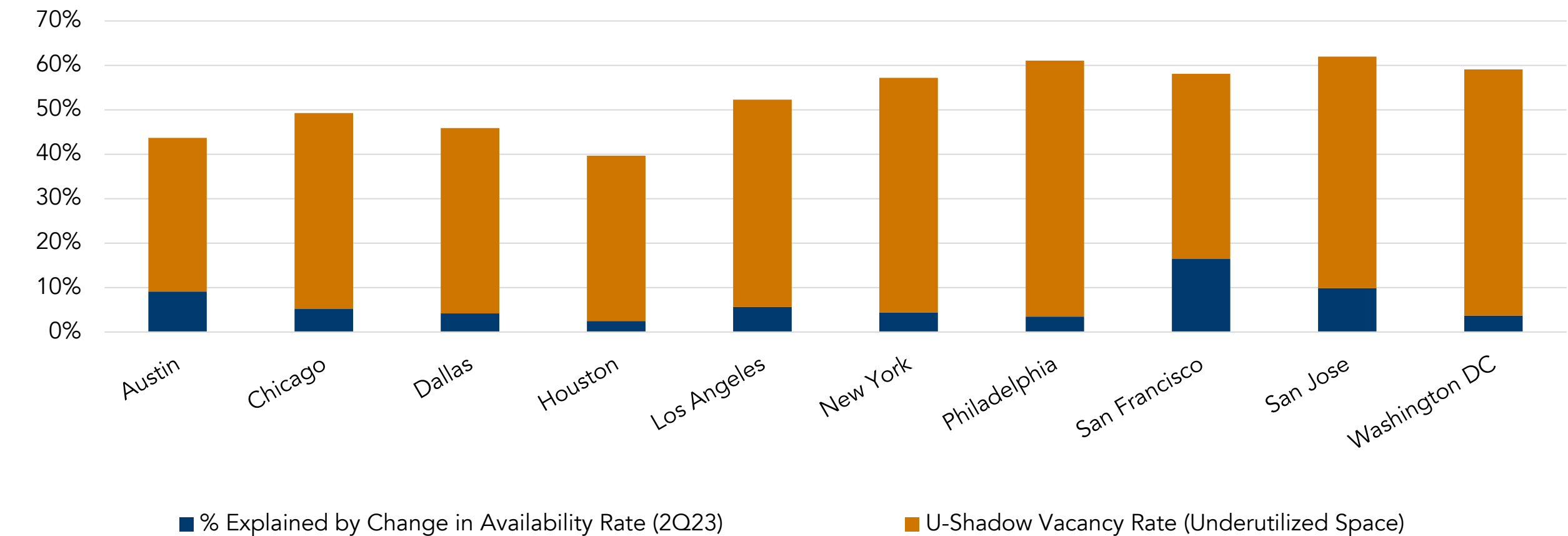
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# Office Shadow Vacancy is High Across the Top Ten Major Metro Areas

Change in Availability Rates, U-Shadow Vacancy Rates (Underutilized Space)

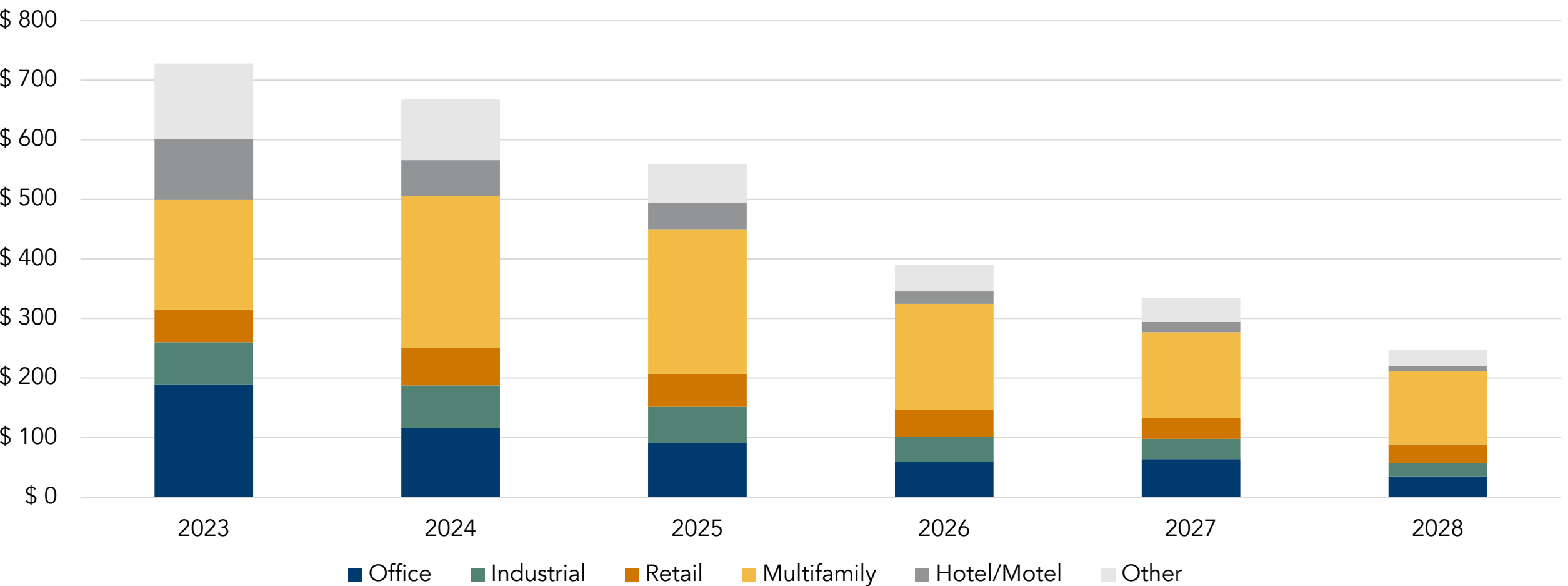


Source: Kastle Systems, CoStar, First American Calculations, Aug. 16, 2023



# Over \$300 Billion Dollars of Office Debt Matures in 2023 and 2024

Maturity Volumes, Bank and Non-Bank, USD in Billions

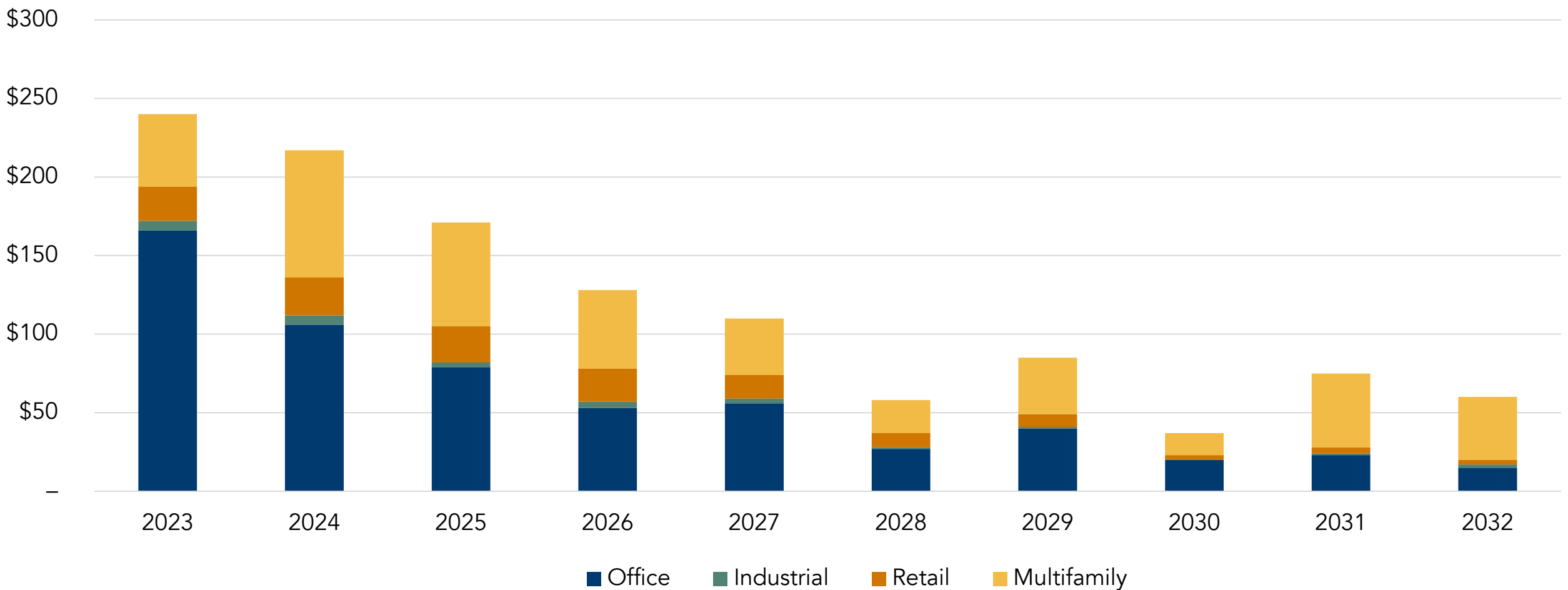


Source: Mortgage Bankers Association, Mar. 2023



# Meaningful Amounts of Distressed Debt set to Mature Between Now and 2025

Mortgage Maturities for Properties With LTV > 80%, by Asset Class

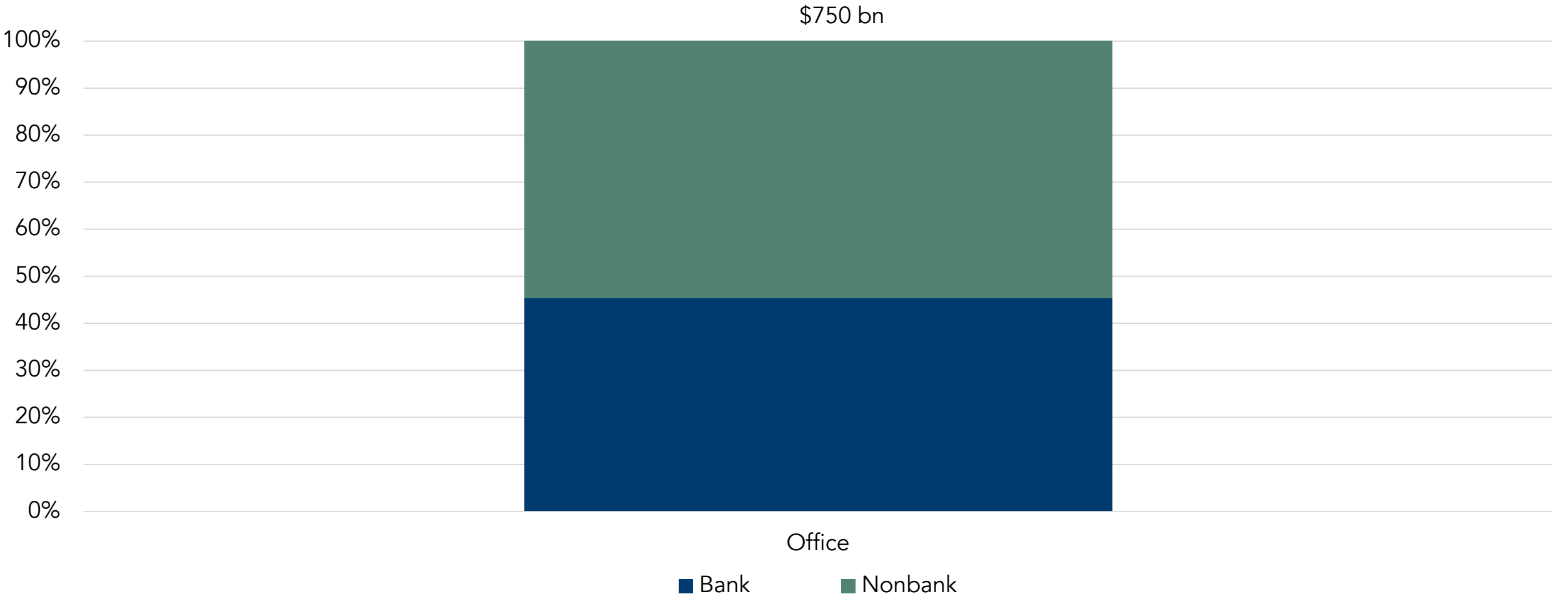


Source: Newmark Group Inc., Aug. 2023



# Nonbank Lenders Hold More Office Real Estate Debt than Banks

Share of CRE Mortgages Held by Bank and Non-Bank Lenders

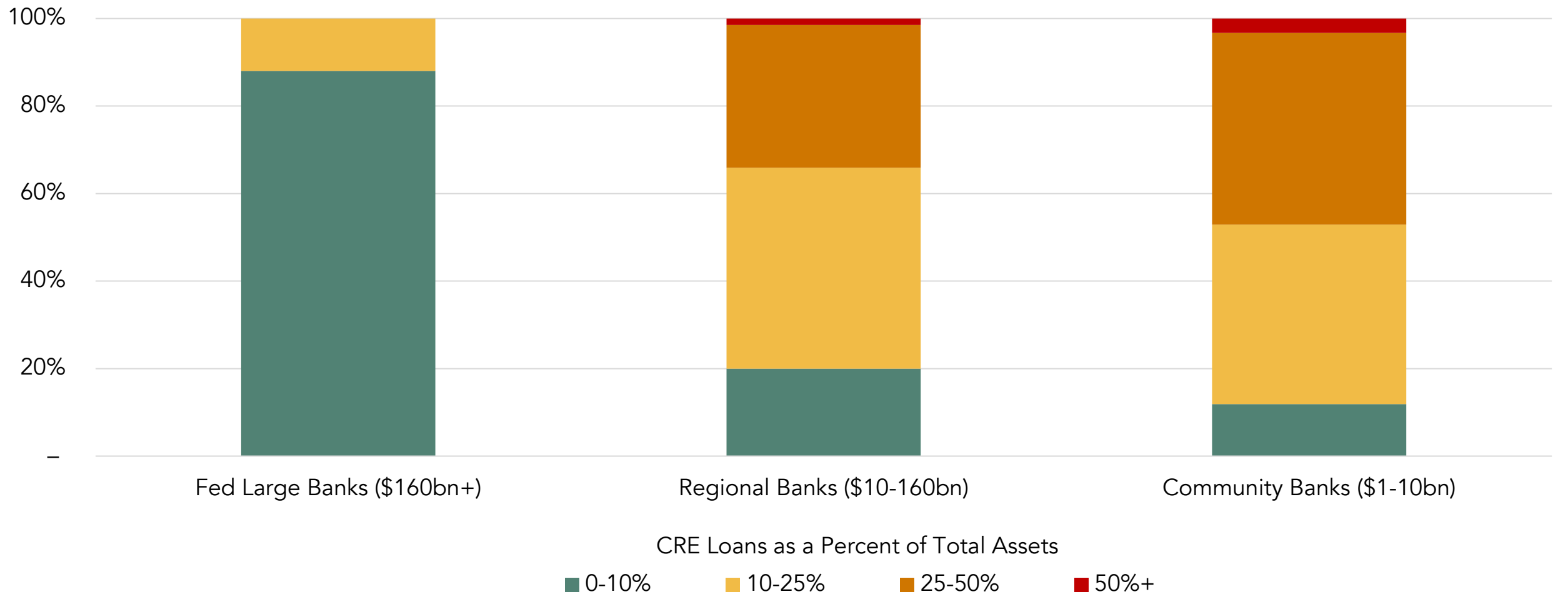


Source: Mortgage Bankers Association, Mar. 2023




# Smaller Banks Have Greater Concentrations of CRE Loans than Larger Banks

Proportion of Banks (Y-Axis) with Varying CRE Loan Concentrations (Color), by Bank Size (X-Axis)



Source: FDIC, Moody's Analytics, Mar. 2023

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# Concluding Thoughts



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# Big Picture Takeaways

1. Fundamentals differ meaningfully by asset class
2. Real challenges exist, but perspective is necessary
3. Deal activity is low, but early stages of price discovery underway



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### Practice Areas

Business Finance,  
Bankruptcy & Restructuring

Contract/Commercial

### Admissions

Minnesota

Wisconsin

### Education

Juris Doctor, University of  
Minnesota Law School,  
2009, *cum laude*

Bachelor of Science,  
University of Wisconsin-  
Madison, 2006



Erin has more than ten years' experience helping lenders, trade vendors, committees, debtors, buyers, and other creditors navigate all facets of insolvency, bankruptcy, and financial distress. This includes pre-bankruptcy advising and workouts, bankruptcy, and state court receivership proceedings. Recent experience includes:

- Negotiation of loan renewals, refinancing, and forbearance agreements;
- Litigation and resolution of cash collateral use, adequate protection, debtor-in-possession financing, critical vendor status, reclamation claims, executory contract and lease disputes, claims objections, automatic stay litigation, and dischargeability and avoidance actions;
- Representation of secured and unsecured creditors in commercial collections, foreclosures, and other complex commercial litigation matters including state and federal appeals;
- Asset sales and auctions through receivership or bankruptcy proceedings;
- Representation of Fee Examiners and Fee Committees in large Chapter 11 bankruptcies, through qualitative and quantitative analysis of fee applications and negotiation and litigation of disputes. Recent representative fee review engagements include: *In re Energy Future Holdings Corp., et al.*, *In re The Commonwealth of Puerto Rico, et al.*, and *In re Samson Resources Corp.*

Prior to joining Godfrey & Kahn, Erin practiced bankruptcy and commercial litigation at a Madison law firm for five years, where she frequently appeared as counsel for a Chapter 7 panel trustee. While a student at the University of Wisconsin – Madison, Erin was a member of the women's crew team. In her free time, she continues to enjoy competitive rowing.

### Court Admissions

United States District Court, Central District of Illinois  
United States District Court, Northern District of Illinois  
United States District Court, Southern District of Illinois  
United States District Court, Southern District of Indiana  
United States District Court, Northern District of Indiana  
United States District Court, District of Minnesota  
United States District Court, Eastern District of Wisconsin  
United States District Court, Western District of Wisconsin  
Third Circuit Court of Appeals  
Seventh Circuit Court of Appeals



## Professional Association Memberships

American Bankruptcy Institute  
International Women's Insolvency and Restructuring Confederation  
Western District of Wisconsin Bankruptcy Bar

## Activities

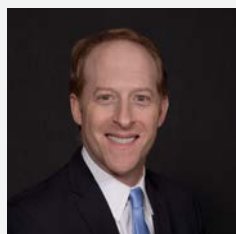
American Bankruptcy Institute – Special Projects Leader, Real Estate Committee  
Madison South Rotary Club – Board of Directors  
Western District of Wisconsin Bankruptcy Bar – Treasurer, Past Chair

## Honors

American Bankruptcy Institute *40 Under 40* (2022)  
Recognized by *Super Lawyers* as a *Wisconsin Rising Star* (2011 - present)  
Recognized by *Best Lawyers* "Ones to Watch" (Bankruptcy and Creditor Debtor Rights/Insolvency and Reorganization Law, 2021 - present)



# David Levy



## David Levy

Managing Director

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Web [www.Keen-Summit.com](http://www.Keen-Summit.com)

David is head of the Summit Investment Management and Keen-Summit Capital Partners Chicago office. He responsible for all aspects of business development and execution in connection with the company's distressed debt acquisitions and opportunistic credit transactions, plus real estate brokerage and auction, investment banking, and lease modification and restructuring services. David has more than 13 year's experience in real estate advisory and transaction experience, with particular expertise in workout, bankruptcy, and other special situations.

## EDUCATION, LICENSES, & CERTIFICATES

- MBA, Miami University
- BS, Business Administration/Marketing, Miami University
- Illinois Real Estate Managing Broker
- Illinois Auctioneer
- Illinois Notary
- Wisconsin Auctioneer
- Texas Auctioneer
- Certificate Commercial Investment Member (CCIM) Designee
- Certified Auctioneers Institute (CAI)
- Accredited Auctioneer of Real Estate (AARE)

## REPRESENTATIVE CLIENTS

### FINANCIAL & PRIVATE EQUITY

- Bank of America
- Chase Bank
- BB&T Bank
- Hanmi Bank
- National Credit Union Association

### CLIENTS CATEGORIES

- Bankruptcy and Real Estate Attorneys
- Trustees
- Receivers
- Turnaround Consultants
- US Marshals Service

## PROFESSIONAL AND INDUSTRY EXPERIENCE:

- David has more than 13 year's experience in real estate advisory and transaction experience, with particular expertise in workout, bankruptcy, and other special situations. David began his career in general management and marketing roles for various consumer product companies., and most recently as the Vice President of NRC Realty & Capital Advisors.
- David holds both the Certified Commercial Investment Member (CCIM) and Certified Auctioneers Institute (CAI) designations, making one of fewer than fifty professionals in the United States to hold both. He is a frequent speaker and moderator on real estate restructuring programs, a member of the Turnaround Management Association Chicago/Midwest Board of Directors, and has held various leadership roles on the American Bankruptcy Institute Real Estate Committee.