



Commercial Real Estate Market Overview

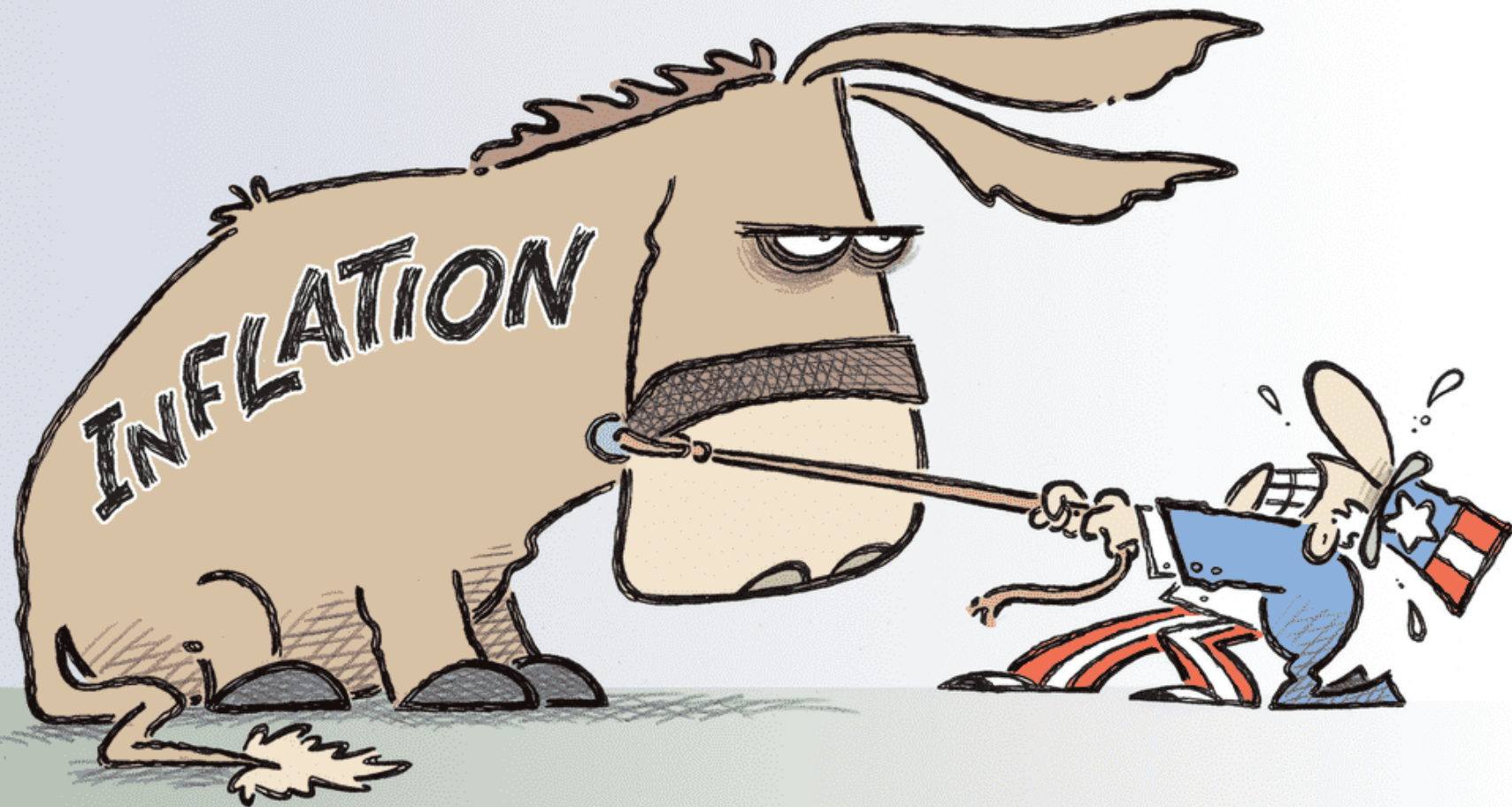
CCRA

May 16, 2024

Mike Wilkerson, Ph.D.



Macro Market Conditions



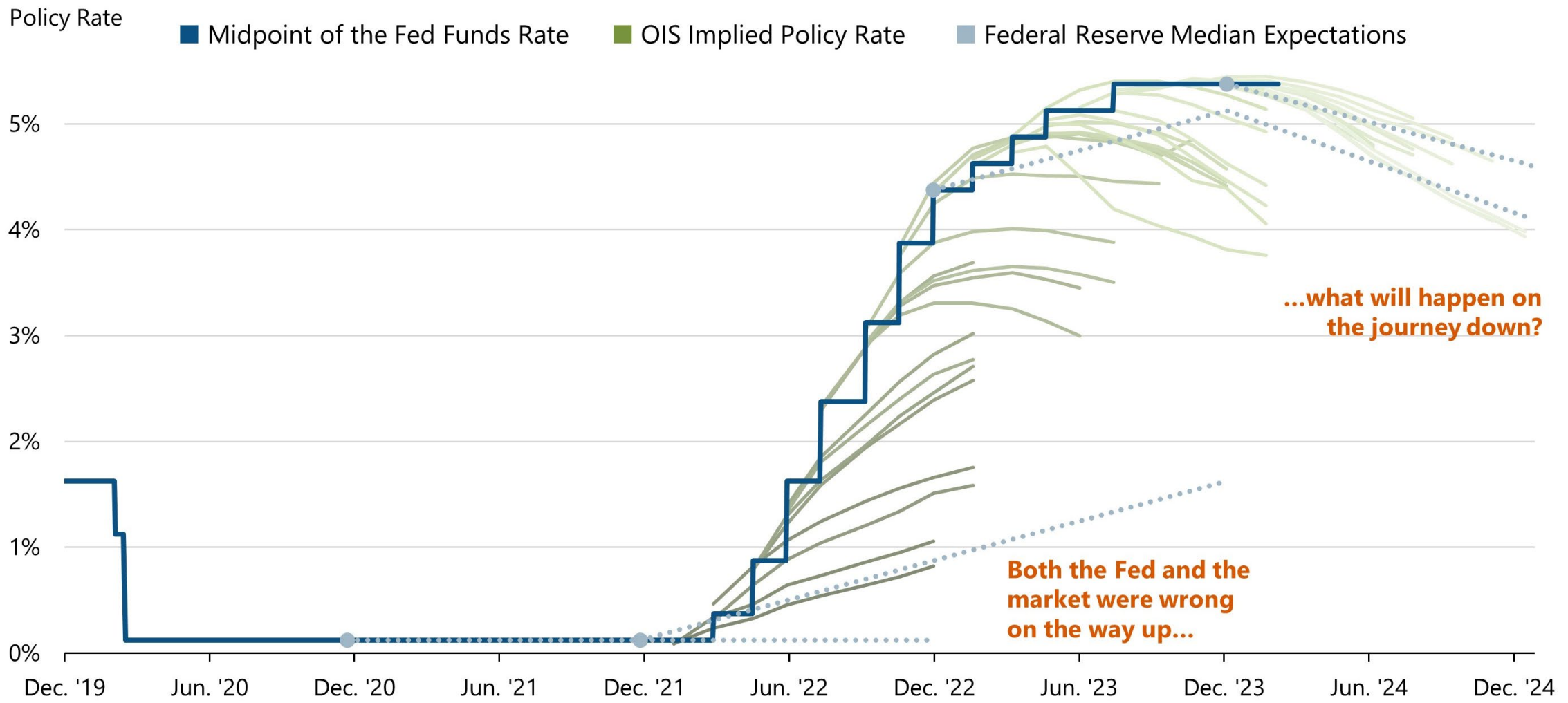
B. Rich — HEDGEYE

Interest rates increased more than expected, staying elevated longer

Blame Game

Federal Reserve Policy Rate Versus Market and Federal Reserve Expectations

For The Week Ending 02/16/2024



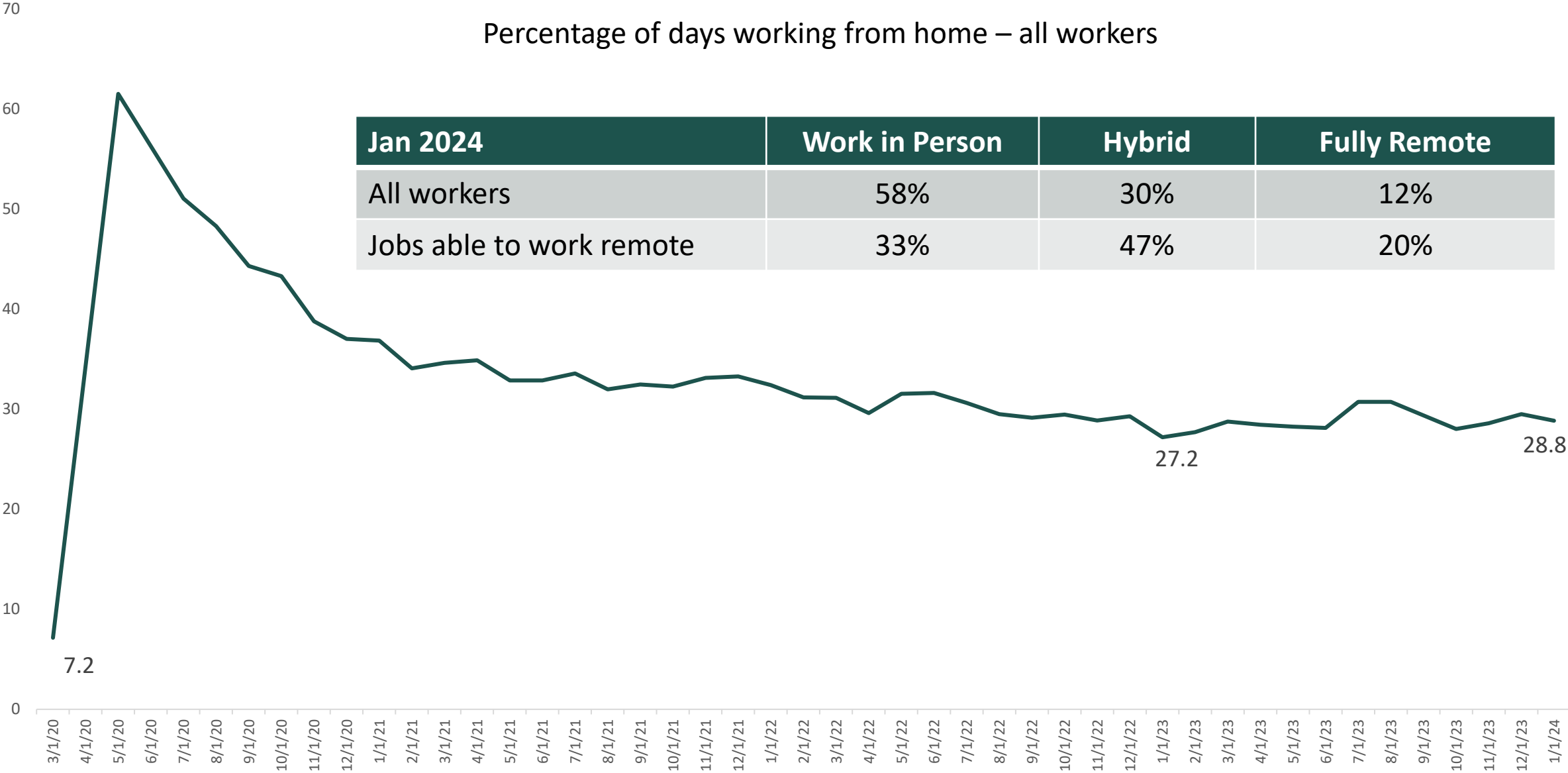
Source: Federal Reserve, Bloomberg, Payden Calculations

Office Market Conditions

Hybrid and remote work are now at a “new normal” level

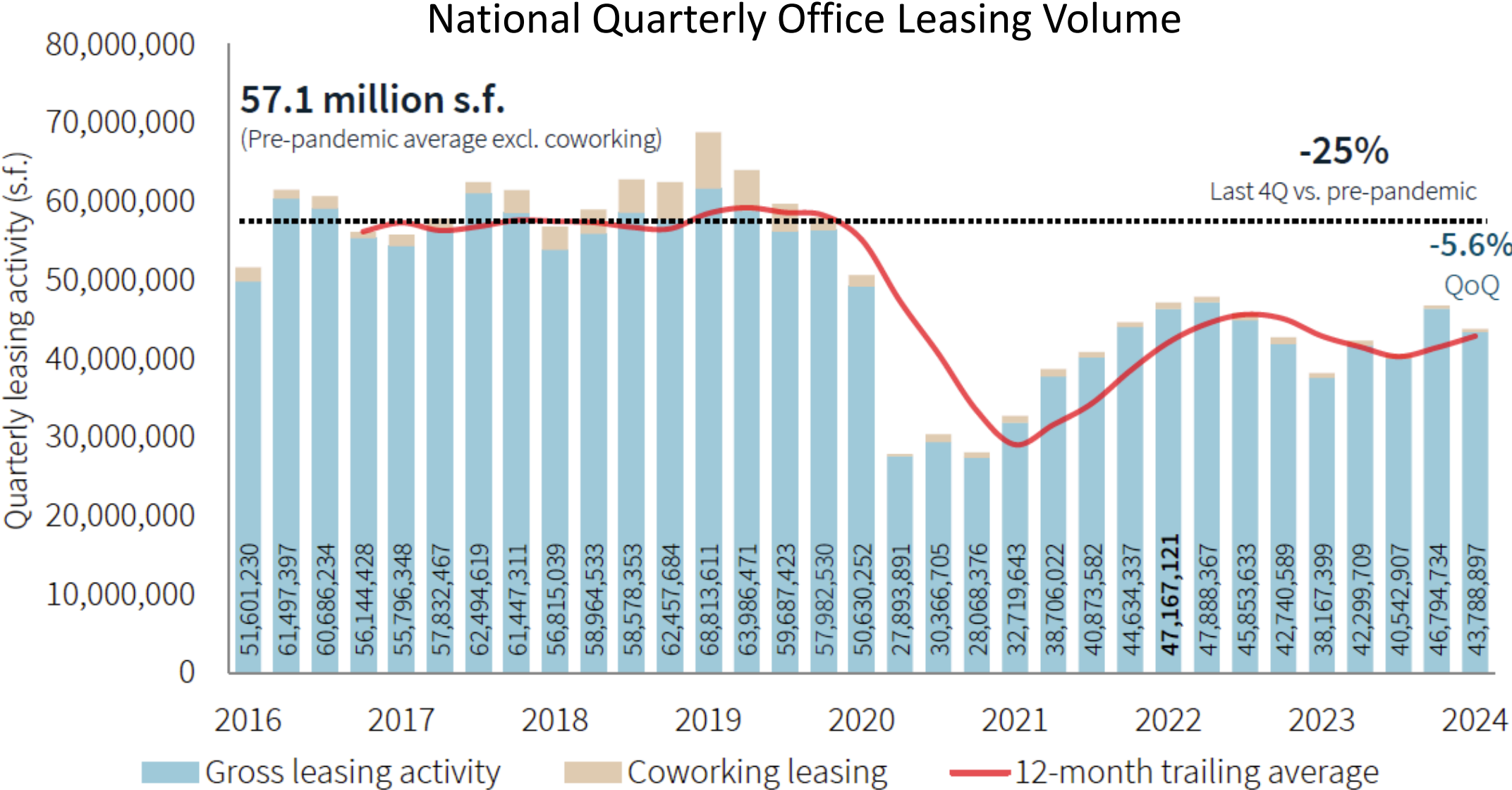
Percentage of days working from home – all workers

Jan 2024	Work in Person	Hybrid	Fully Remote
All workers	58%	30%	12%
Jobs able to work remote	33%	47%	20%



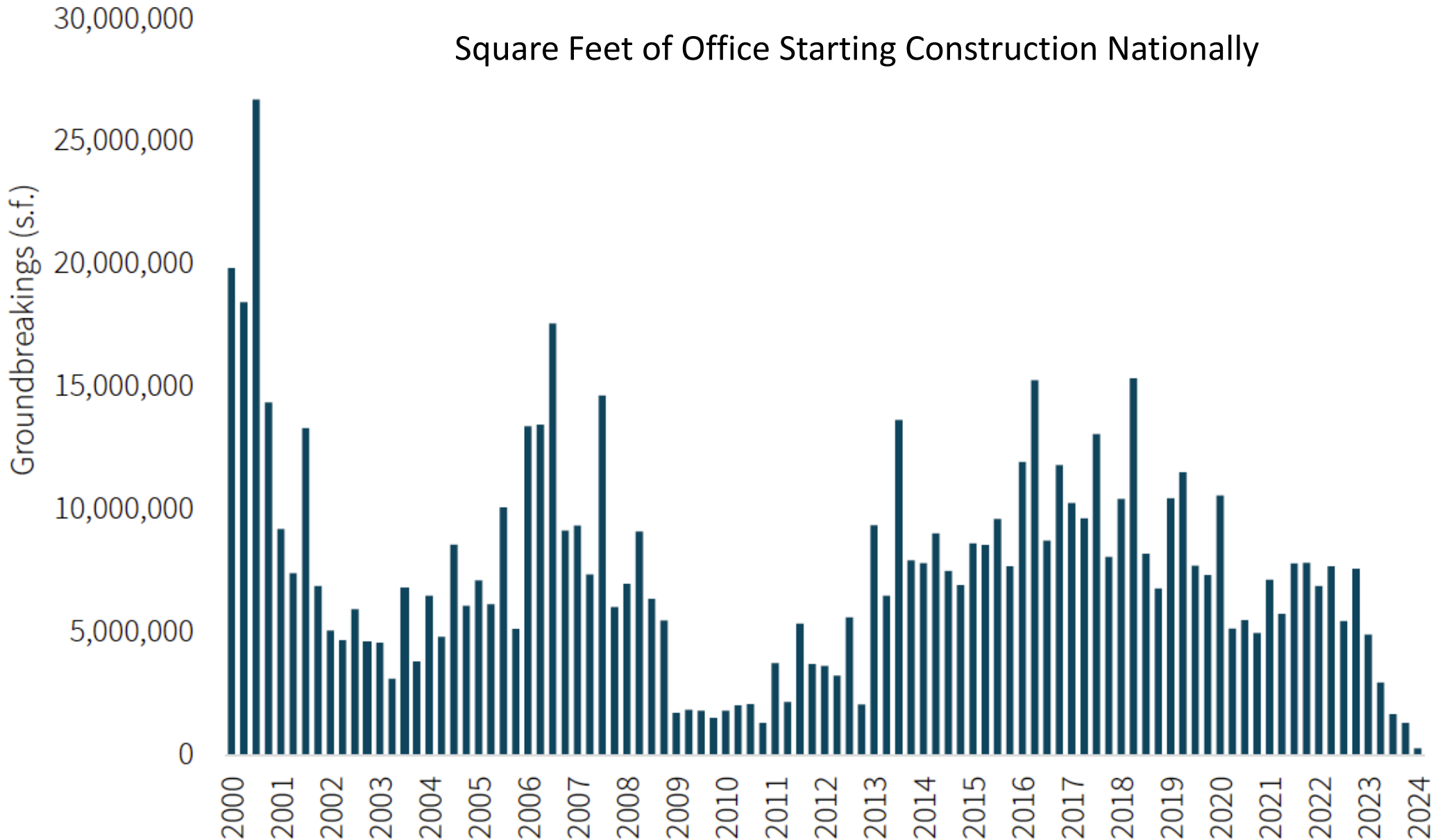
Source: SWAA, WFH Research

Office Leasing volume still down 25% from pre-pandemic levels



Source: JLL Research

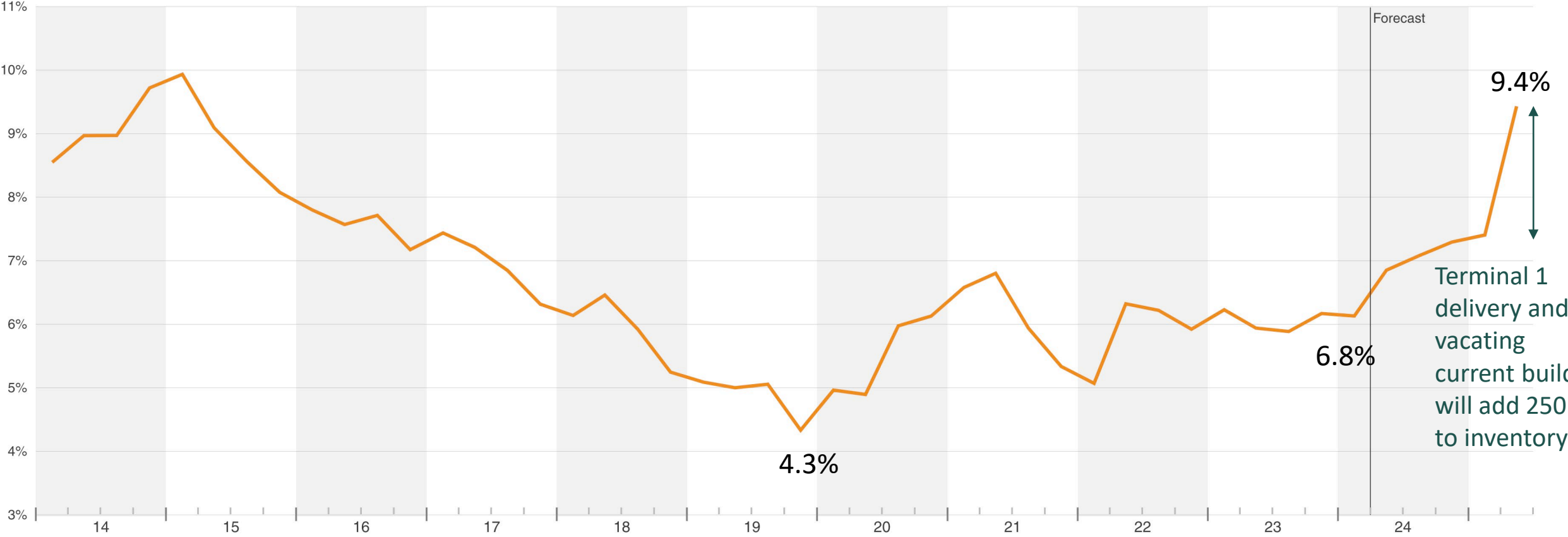
1Q 2024 had the fewest amount of Office construction starts in history



Source: JLL Research

Office vacancy rate in Vancouver increasing, will jump with ZI move

Office Vacancy Rate in Vancouver



Source: CoStar

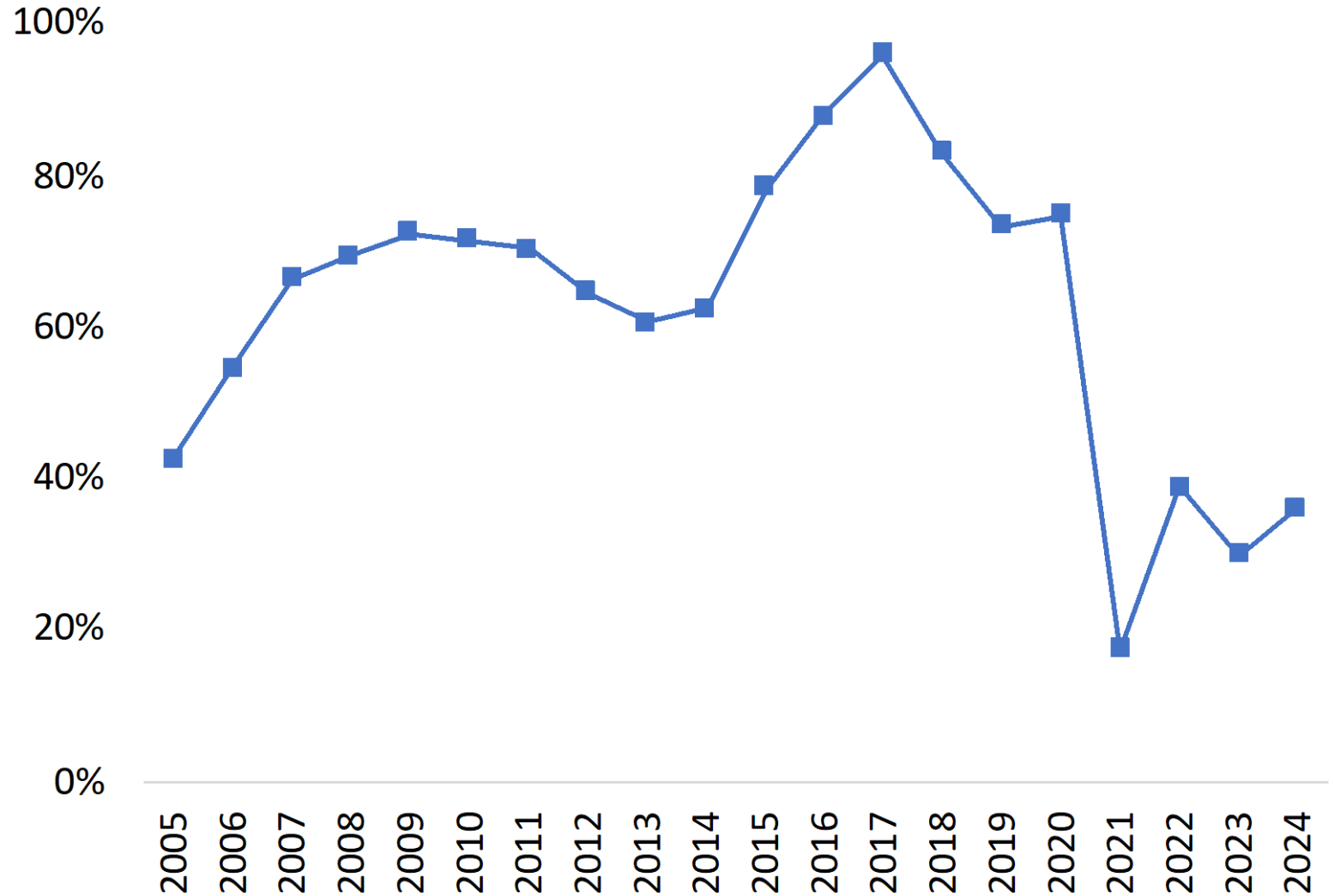
National perception of regional market continues to be a headwind

1 Nashville	41 Boise
2 Phoenix	42 Pittsburgh
3 Dallas/Fort Worth	43 Norfolk
4 Atlanta	44 Cape Coral/Fort Myers/Naples
5 Austin	45 Washington, DC–MD suburbs
6 San Diego	46 Jersey City
7 Boston	47 Sacramento
8 San Antonio	48 St. Louis
9 Raleigh/Durham	49 Greenville, SC
10 Seattle	50 Baltimore
11 Houston	51 Portland, OR
12 Denver	52 Westchester, NY/Fairfield, CT
13 Charlotte	53 Columbus
14 Miami	54 San Francisco
15 Northern New Jersey	55 Birmingham
16 Washington, DC–Northern VA	56 Memphis
17 Los Angeles	57 Charleston
18 Tampa/St. Petersburg	58 Tacoma
19 Orlando	59 Tallahassee
20 Las Vegas	60 Cleveland
21 Fort Lauderdale	61 Knoxville
22 Indianapolis	62 Milwaukee
23 Washington, DC–District	63 Louisville
24 Orange County	64 Omaha
25 Inland Empire	65 Oklahoma City
26 Minneapolis/St. Paul	66 Cincinnati
27 Philadelphia	67 New Orleans
28 Brooklyn	68 Chattanooga
29 Chicago	69 Des Moines
30 Salt Lake City	70 Providence, RI
31 Manhattan	71 Honolulu
32 Richmond	72 Deltona/Daytona
33 San Jose	73 Buffalo
34 Kansas City	74 Portland, ME
35 Palm Beach	75 Albuquerque
36 Jacksonville	76 Tucson
37 NYC Other	77 Spokane, WA/Coeur d'Alene, ID
38 Long Island	78 Gainesville
39 Detroit	79 Madison
40 Oakland/East Bay	80 Hartford



Least attractive ↑ Most attractive

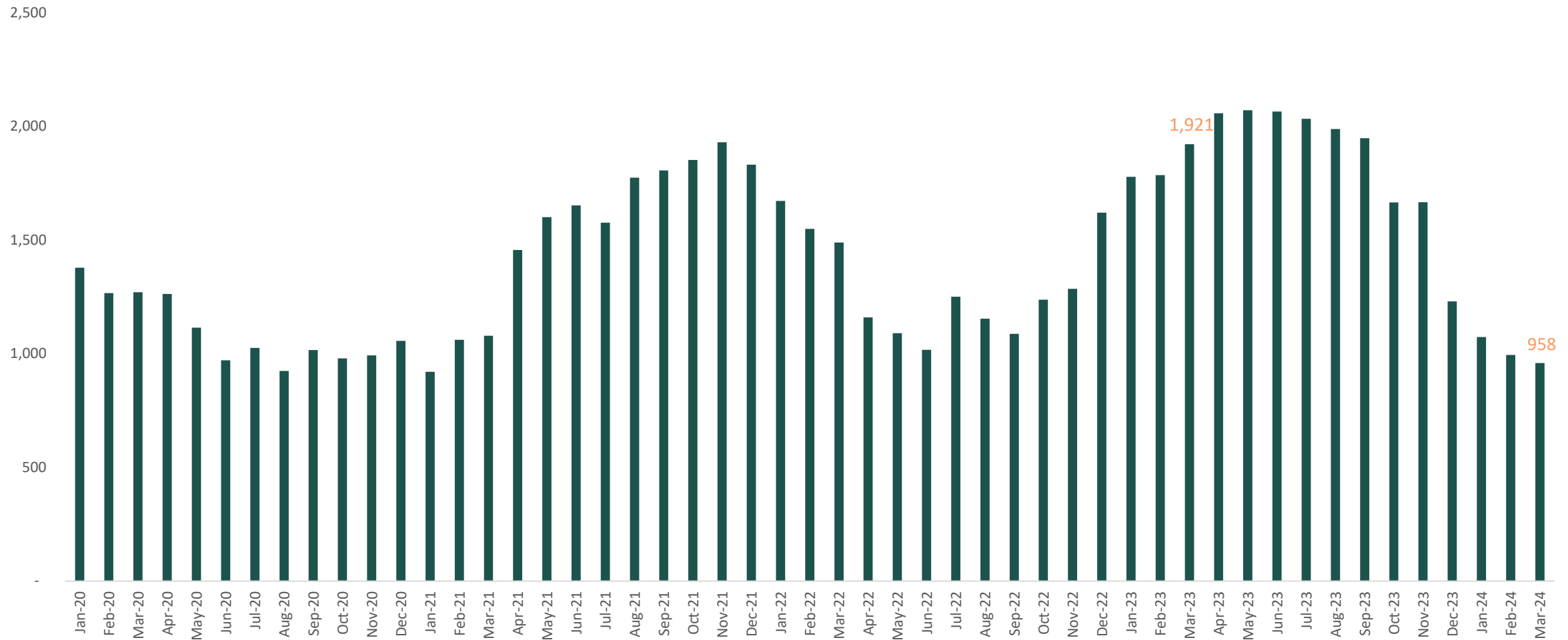
ULI Development Opportunity Ranking (2024)



Multifamily Market Conditions

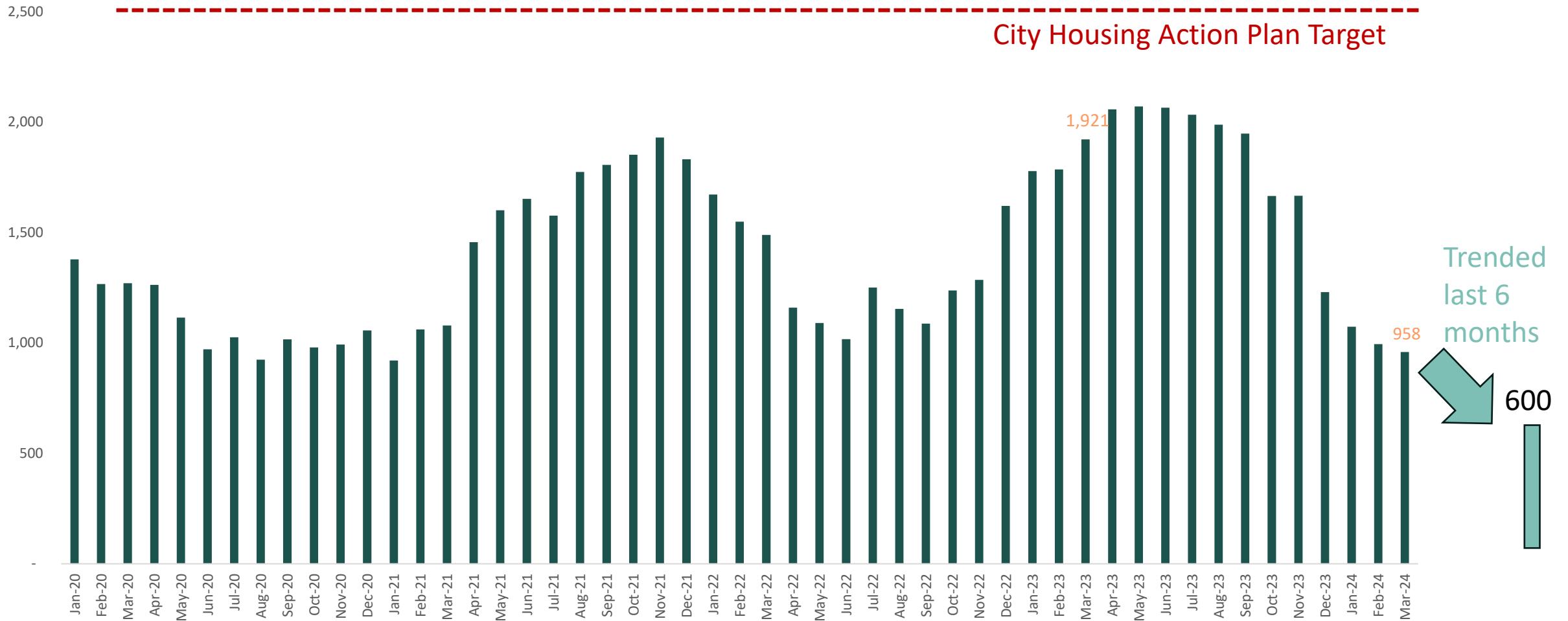
Multifamily permit volume down 50% from a year ago

12 months trailing Multifamily permit volume
City of Vancouver



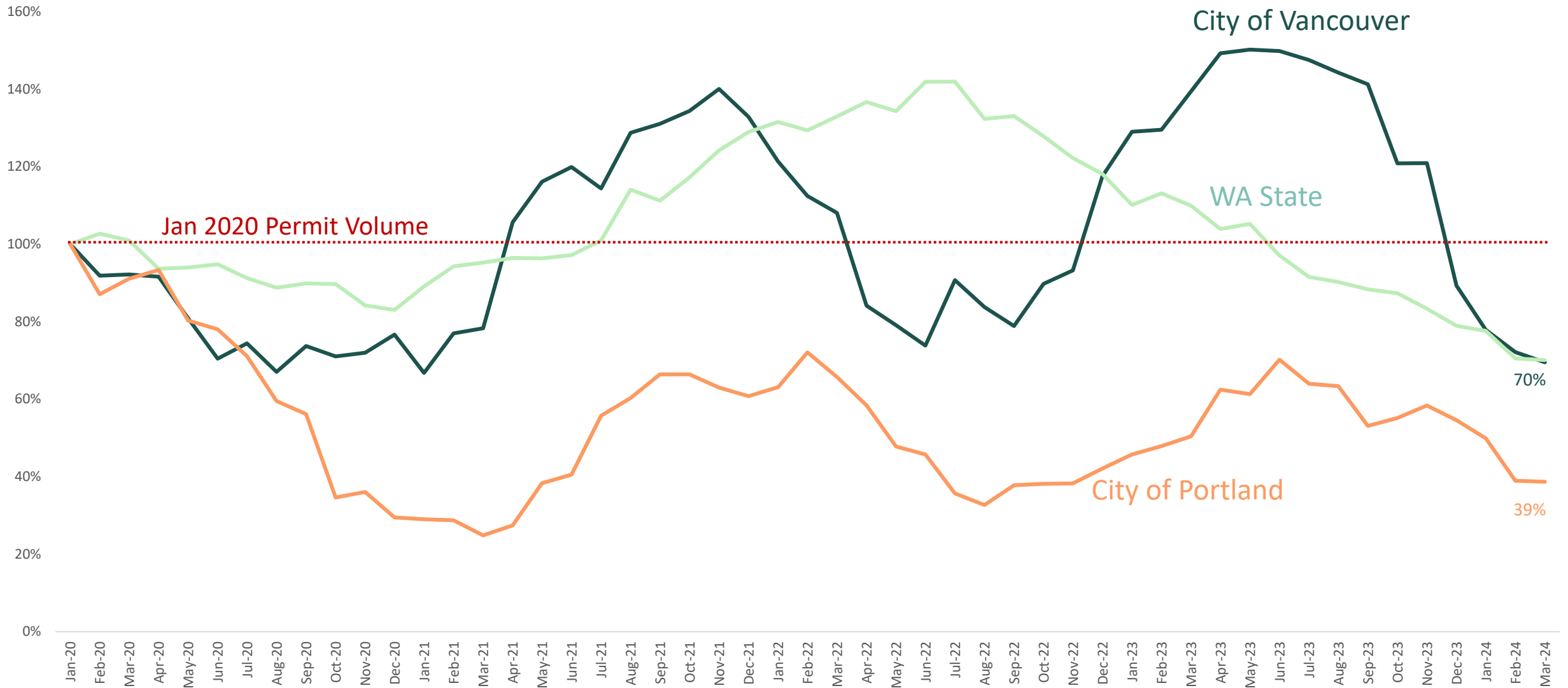
The permitting trend in the last 6 months indicates a continued decline

12 months trailing Multifamily permit volume
City of Vancouver



Multifamily permit decline in Vancouver mirrors WA state average

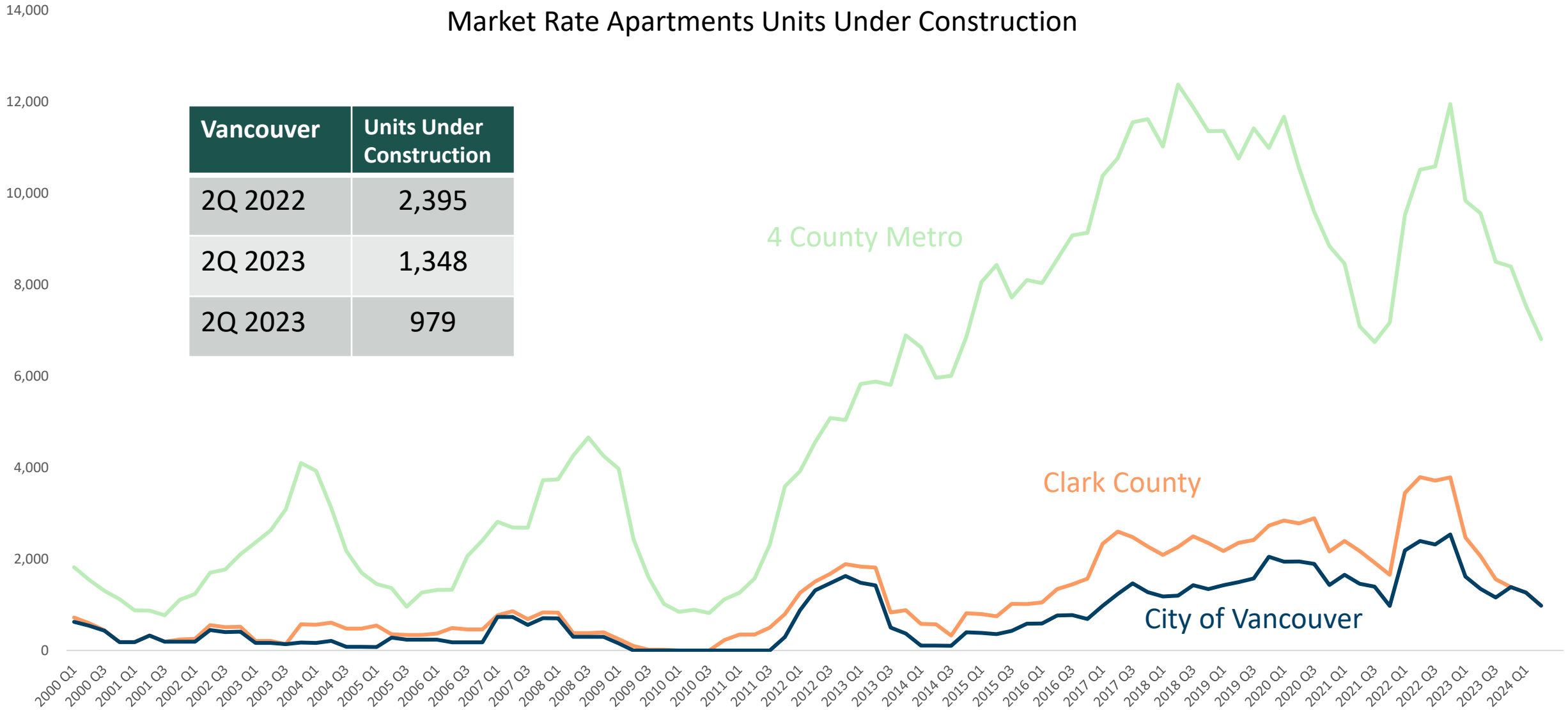
Annual multifamily permit volume compared to January 2020



Apartments under construction peaked in 2Q 2022

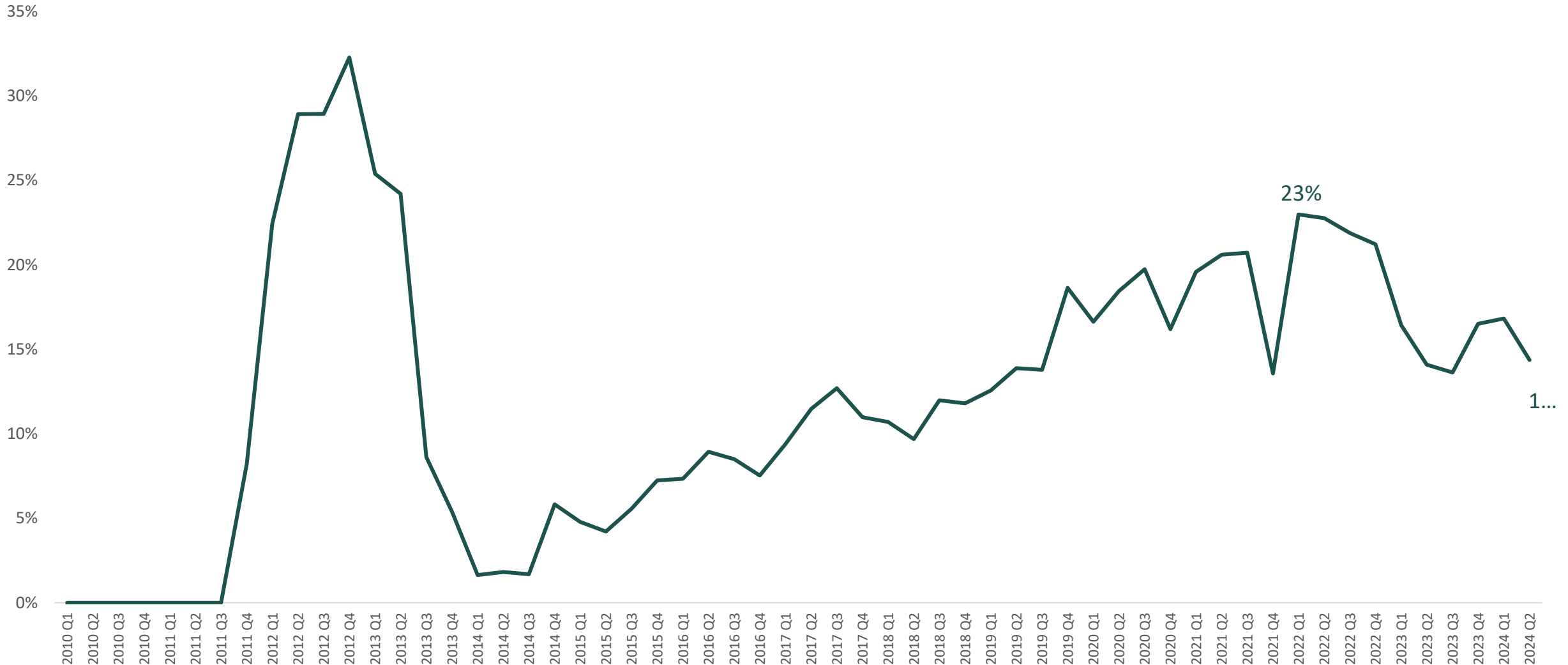
Market Rate Apartments Units Under Construction

Vancouver	Units Under Construction
2Q 2022	2,395
2Q 2023	1,348
2Q 2023	979



Vancouver's share of regional production is decreasing

City of Vancouver Share of 4 County Apartments Under Construction



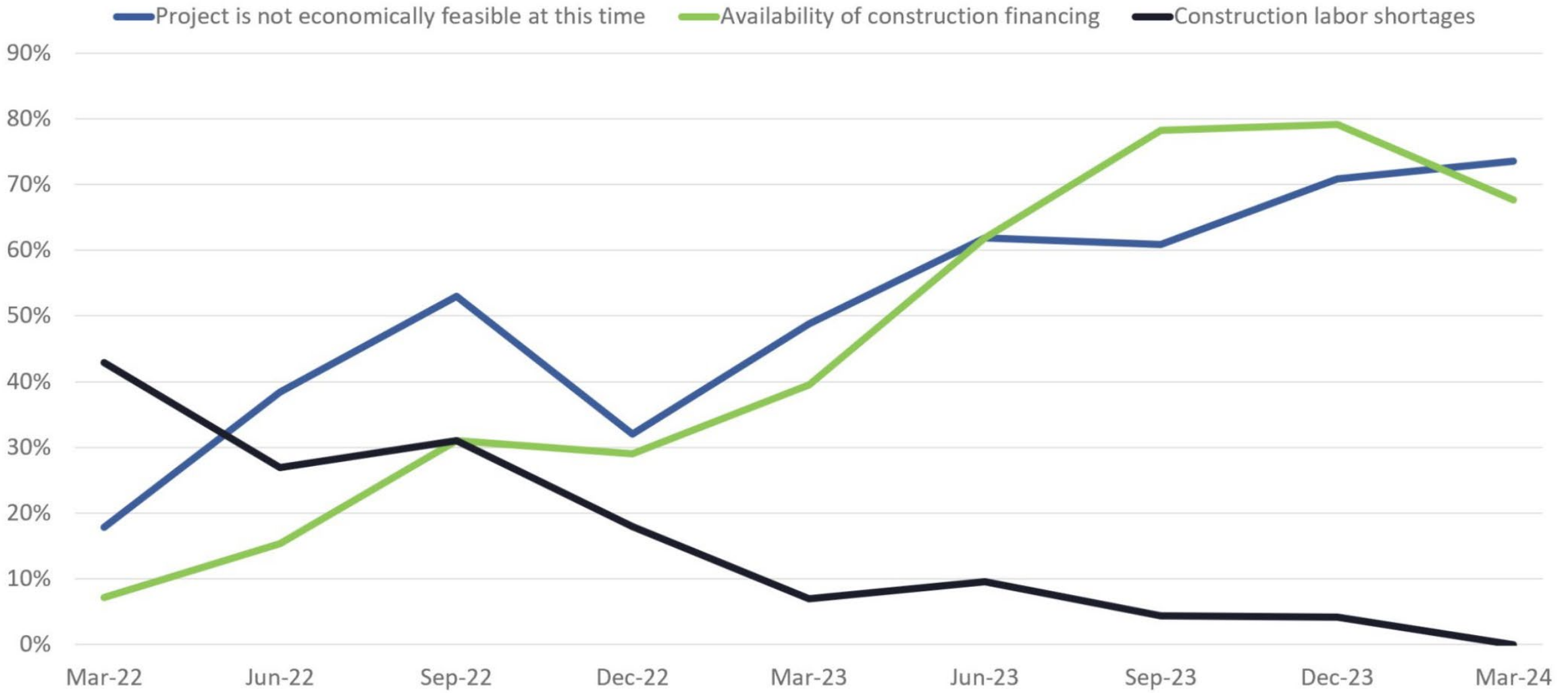
Apartment Feasibility Economics

Apartment Feasibility Challenges

1. Underwriting debt in current market conditions is challenged due to higher return requirements, rents stabilizing, and increased construction costs
2. The cost of acquiring stabilized performing apartments is well below the cost of new construction
3. For completed buildings that are achieving stabilized occupancy, there are challenges in obtaining permanent financing

Feasibility and Financing Driving Delays in Apartment Construction

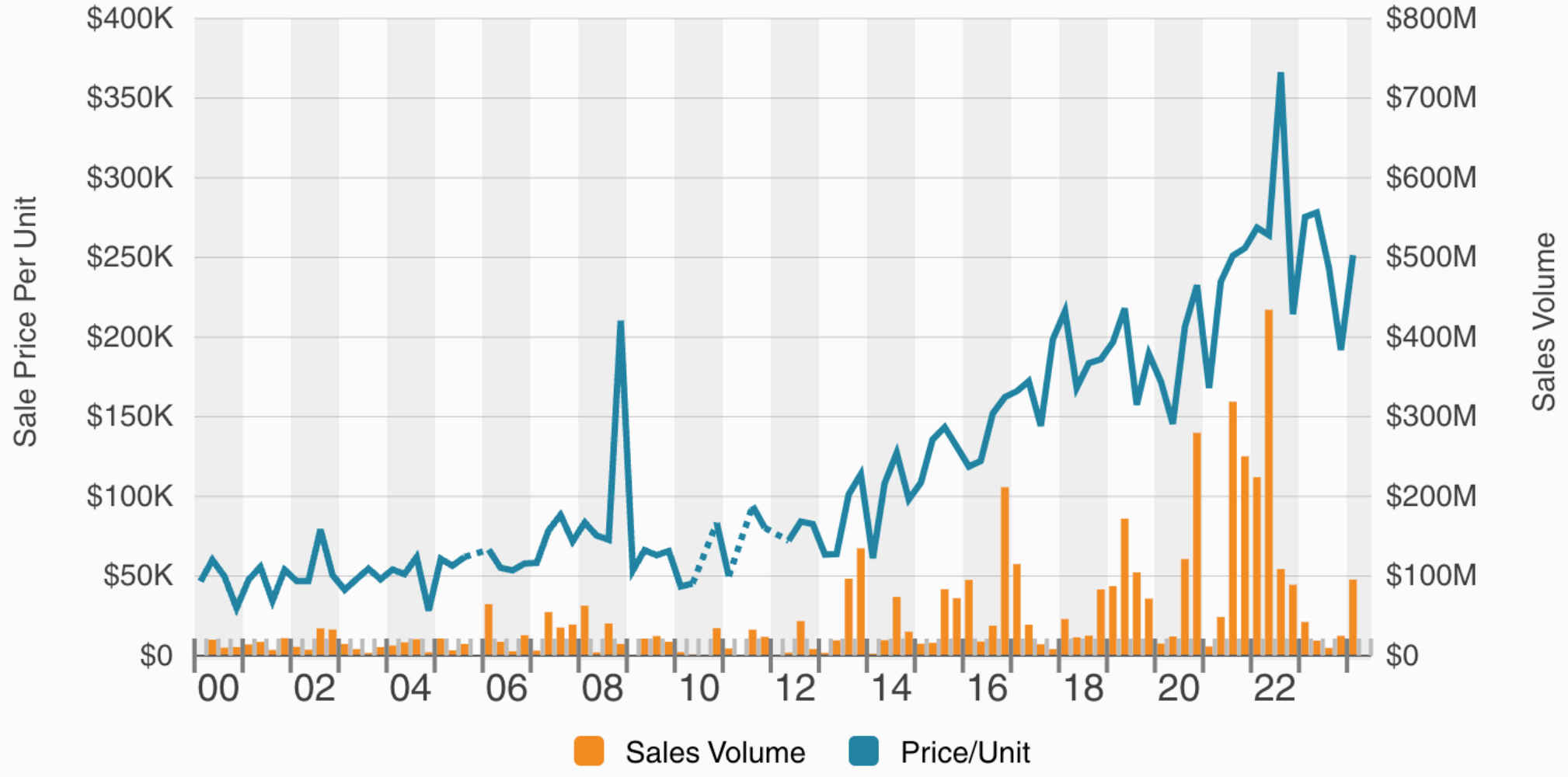
NMHC Survey: Reasons for Apartment Construction Delays (multiple answers allowed)



Source: NMHC Quarterly Apartment Construction Survey

Acquisition prices have decreased to below the cost of new construction

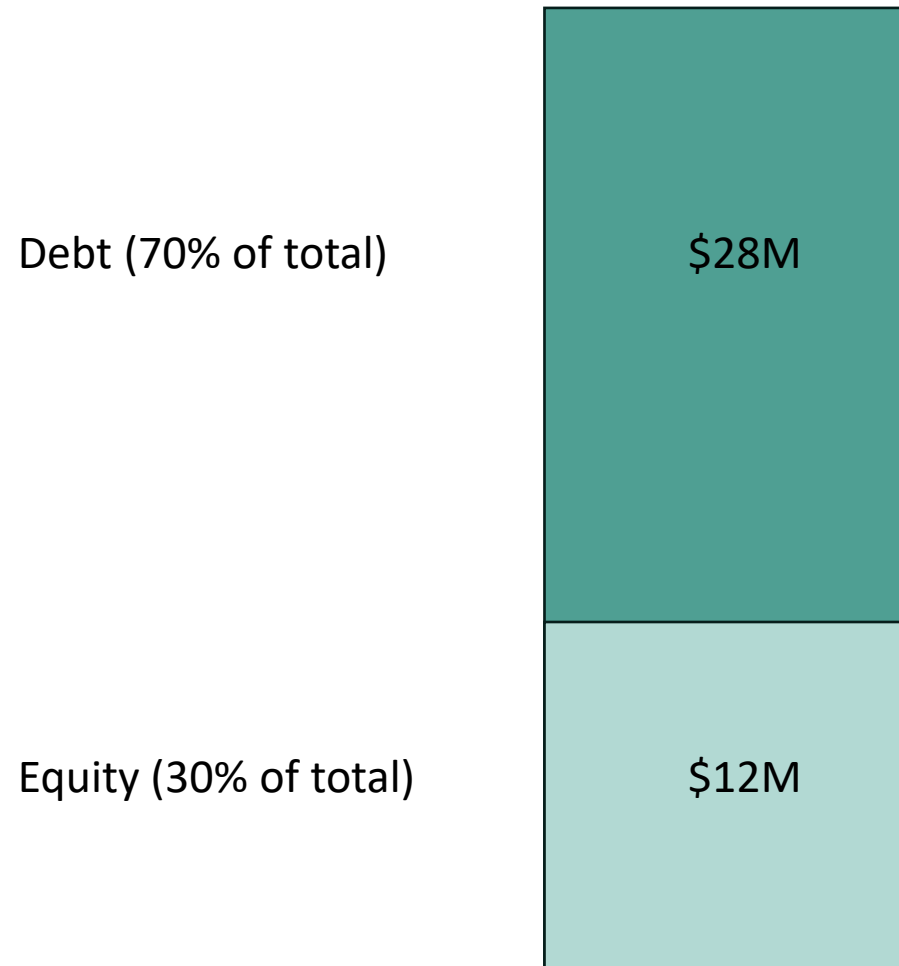
Clark County Apartment Sales Volume and Price per Unit



Average Sale price per apartment unit in Clark County dropped from \$300k+ in 2021 to \$250k in 2024

Typical Multifamily Development Capital Stack

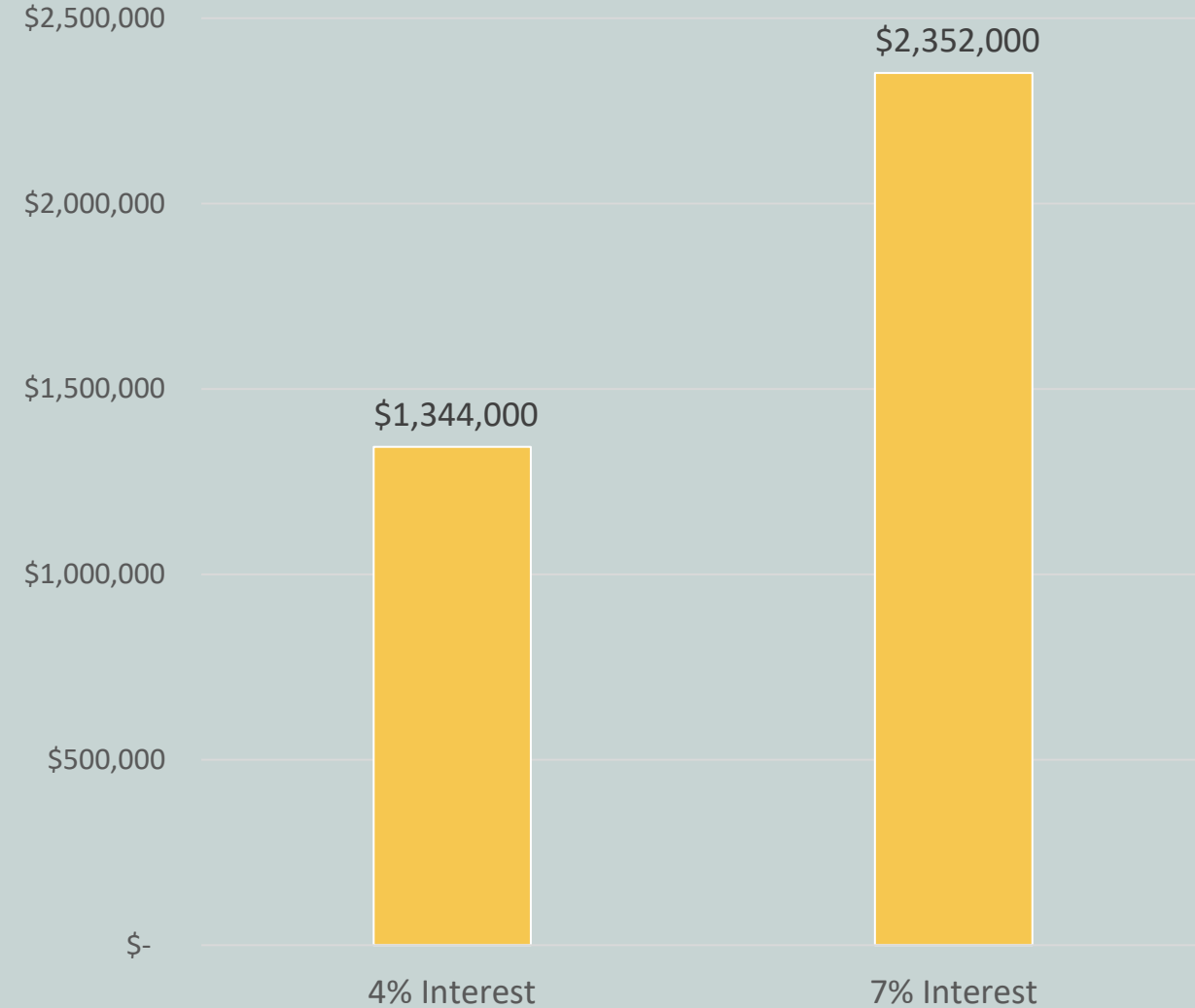
Total Project Cost = \$40 Million
Current Cost to Deliver a new Unit = \$400k (100 units)



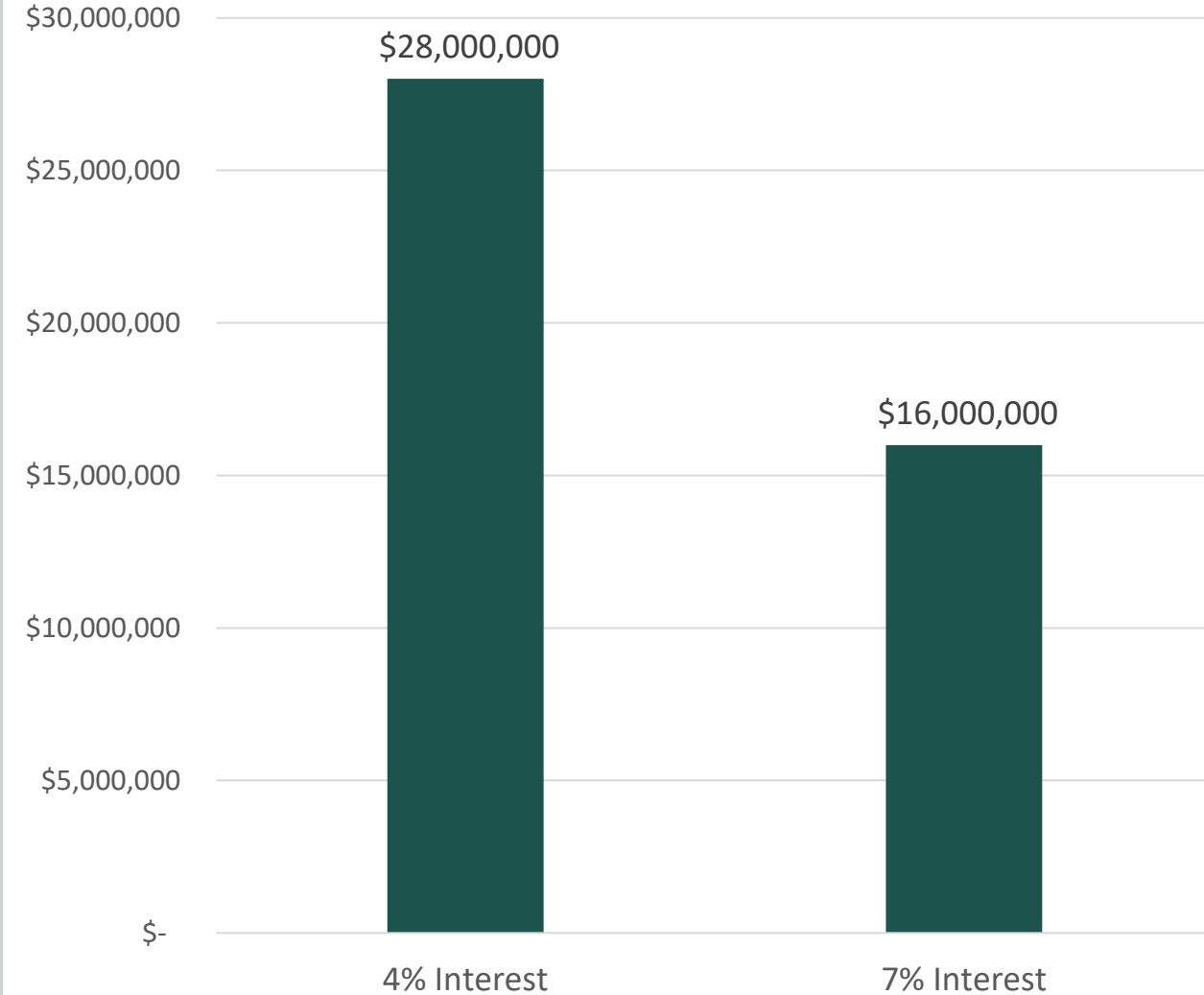
- **Developers seek to maximize leverage through debt to increase return on equity**
- **Reduction in debt will increase costs and required equity, and therefore lower return**

Impacts of Higher Interest Rates on Leverage

Required Annual Debt Service for \$28M Loan (1.2x Debt Service Coverage)

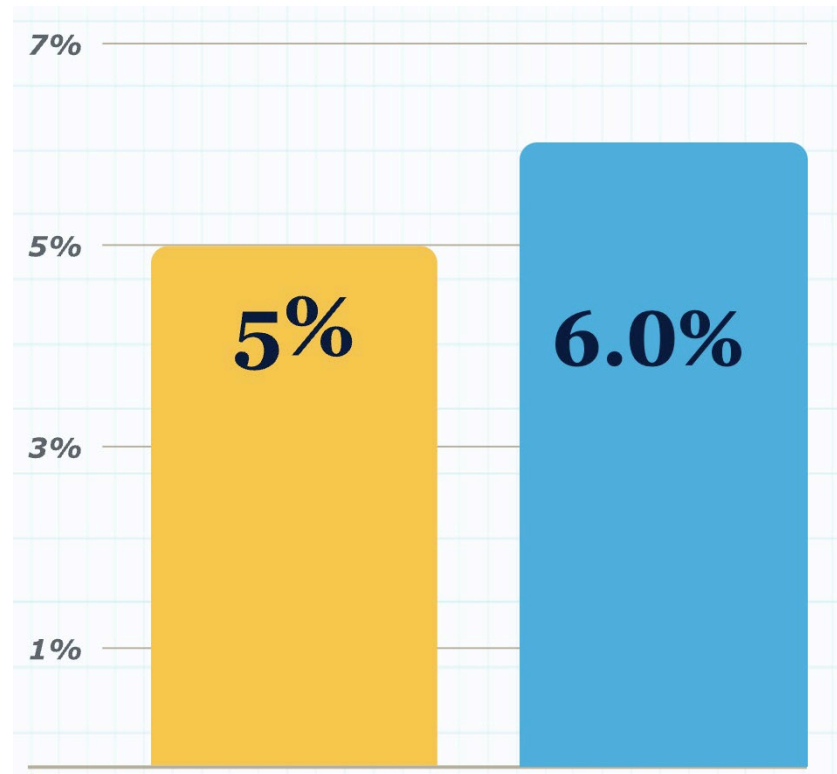


Loan Value Serviceable with a \$1.28M Annual Payment



Rent levels in the current market don't meet underwriting targets

Lender Required Rate of Return



Cap Rate

Return on Cost
Target Rate



Spread is to account for risk
and a rate of return

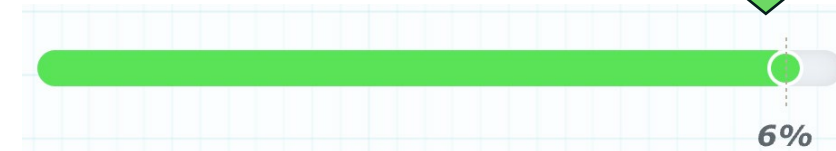
Current market rent = \$2,300

Return on Cost = 4.7%



Needed Rent = \$2,900

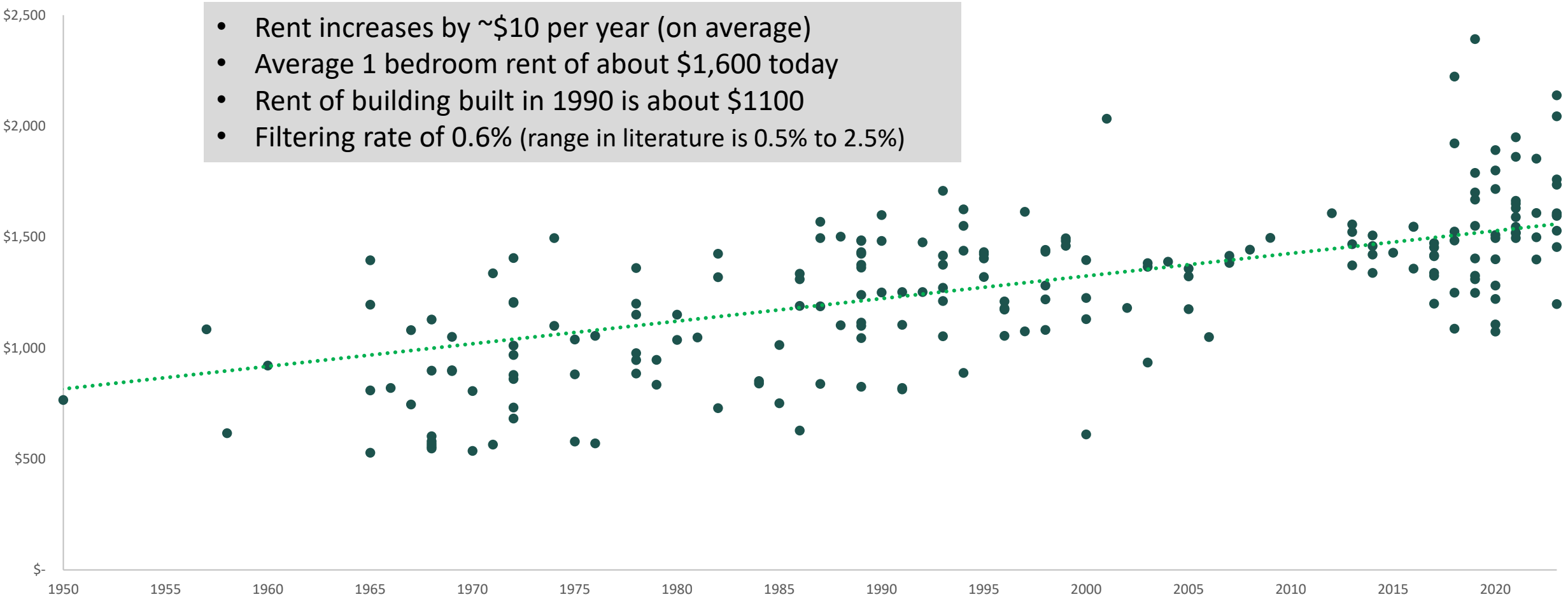
Return on Cost = 6%



Holding everything else constant, including
interest rate, rent would need to increase by 25%
to achieve feasibility

New construction, even at high rents, adds supply that benefits broad market rent

1 Bedroom Rent by Building in 2023, City of Vancouver



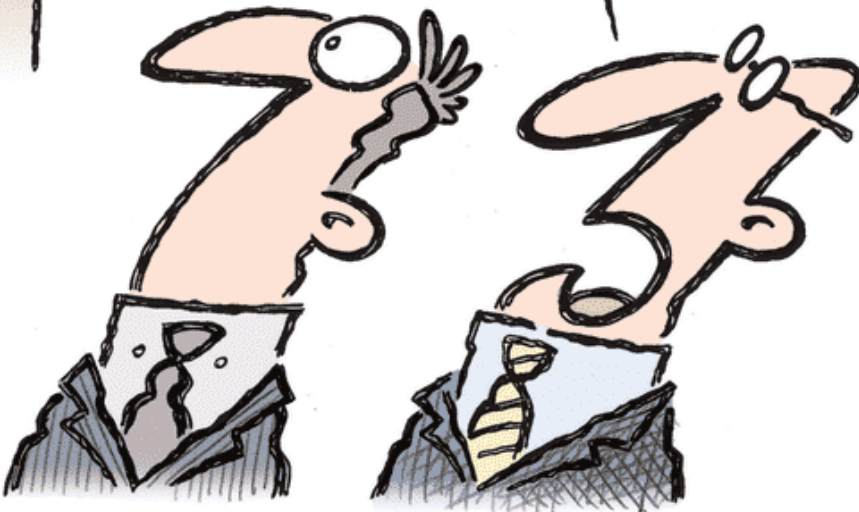
Takeaways

B. Kicht — HEDGEYE

THE
END
IS
NEAR



HE'S DEFINITELY
NOT TALKING
ABOUT
INFLATION.



Policy levers are limited

- Position city for change in market conditions
 - Don't make development more expensive, time consuming or unpredictable
 - Continue to prepare City sites for redevelopment – e.g., Heights, Ops Center
 - Align incentives and public investment with available sites – e.g., MFTE, infrastructure
 - Establish clear policies and priorities - Comp Plan, Green Building Policy, Downtown Redevelopment Study
- Continue to pursue time and cost savings for all projects
 - Development review
 - SDCs and Impact Fees
- Take advantage of market lull to build affordable housing
 - Leverage all City resources (e.g., direct investment, land, fees) in affordable housing
 - Prioritize shovel ready projects for permitting and investment



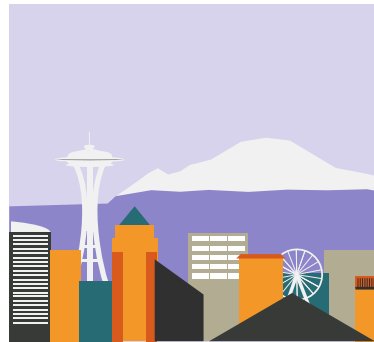
ECONorthwest



Los Angeles



Portland



Seattle



Boise