Intelligent Investment

2023 U.S. Investor & Lender Intentions Surveys

REPORT

CBRE RESEARCH
FEBRUARY 2023

Executive Summary

Commercial real estate investors and lenders plan to significantly reduce their activity in 2023 due to rising interest rates, economic uncertainty and associated impacts on values. That's the conclusion of two recent surveys by CBRE, which reveal that real estate debt and equity markets are reacting to current economic conditions in a complementary manner. Although capital deployment decision-makers entered the year in a cautious mood, CBRE believes pessimism may have reached its nadir at the time the surveys were conducted in December 2022.

Despite expectations for less buying and selling activity, both investors and lenders say they will largely maintain their capital allocations to the commercial real estate sector this year, signaling that abundant capital will support increased investment activity as uncertainty abates later in the year.

The multifamily and industrial sectors were the most preferred by investors and lenders surveyed by CBRE. They also indicated a strong preference for dynamic secondary markets, particularly in the Sun Belt.

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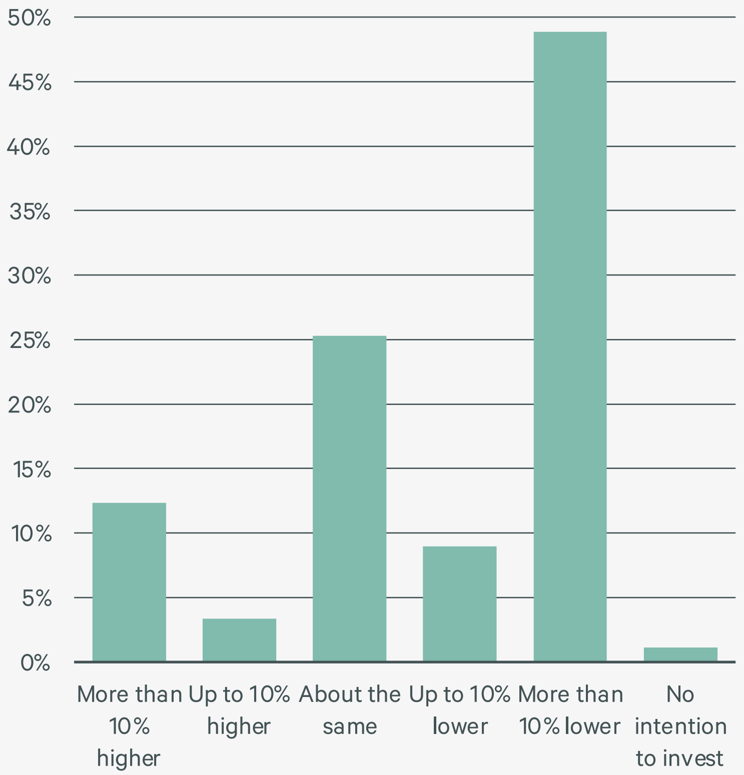
Buying & lending expectations

CBRE's 2023 U.S. Investor Intentions Survey reveals subdued sentiment among commercial real estate investors. Nearly 60% of respondents expect to purchase less real estate in 2023, while only 15% expect to purchase more. Almost half of respondents expect to decrease purchasing by more than 10%. Investors are also hesitant to sell assets as market pricing falls. Sixty percent say they will either sell less or not sell at all, while only 27% expect to sell the same amount as last year.

Sentiment among lenders has soured as well. CBRE's 2023 U.S. Lender Intentions Survey finds nearly 60% of respondents expect to decrease lending activity this year. However, just 10% plan to meaningfully reduce their allocation to real estate, while 67% said they will either maintain or increase capital availability for the sector.

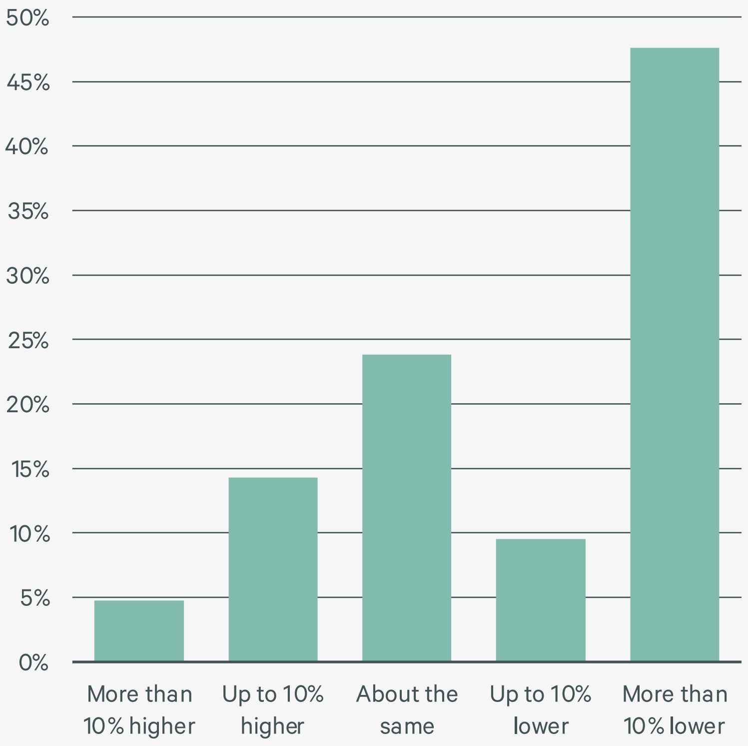
CBRE expects that the slowdown in investment and lending activity in the first half of the year will lower total investment volume in 2023 by approximately 15% from 2022. However, as Federal Reserve policy and economic conditions become more predictable around midyear, we expect investment and lending activity to recover.

FIGURE 1: Investors' purchasing activity expectations in 2023



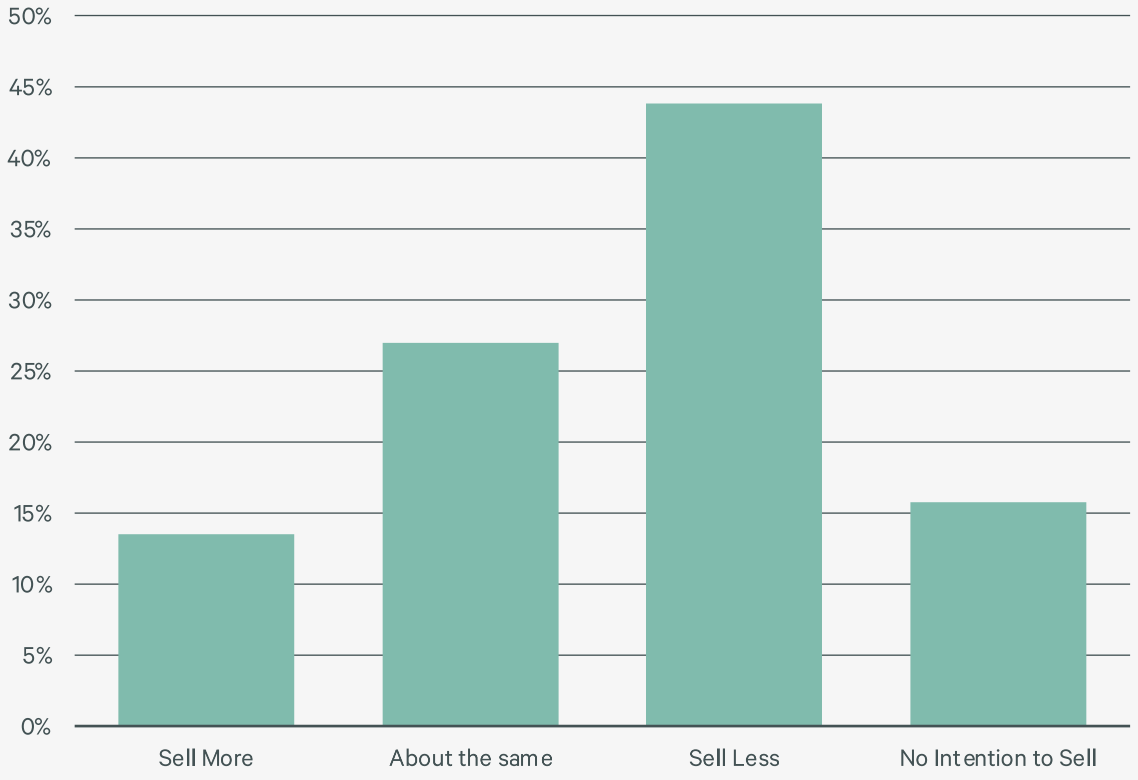
Source: U.S. Investor Intentions Survey, CBRE Research, December 2022.

FIGURE 2: Lenders' origination activity expectations in 2023



Source: U.S. Lender Intentions Survey, CBRE Research, December 2022.

FIGURE 3: Investors' selling activity expectations in 2023



Source: U.S. Investor Intentions Survey, CBRE Research, December 2022.

As Federal Reserve policy and economic conditions become more predictable around midyear, we expect investment and lending activity to recover.

02

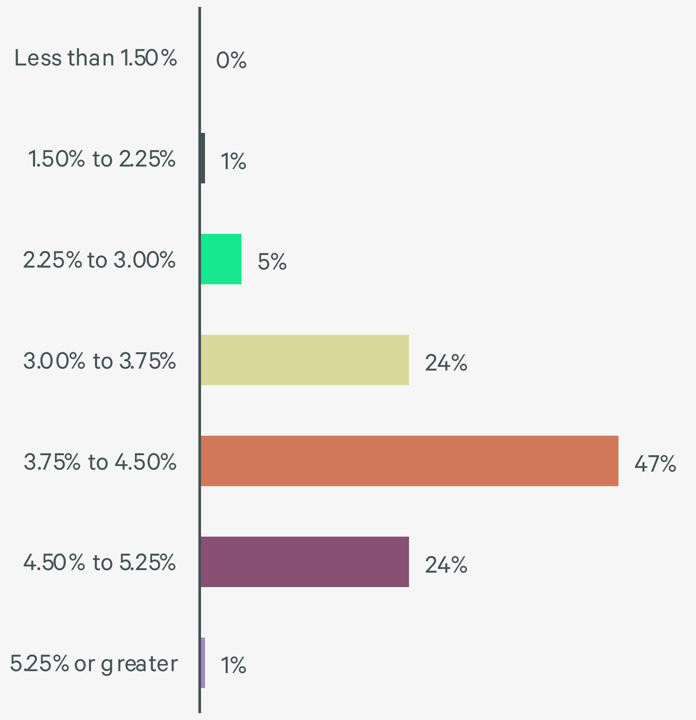
Inflation & interest rate expectations

The key considerations for buying and lending expectations this year are when inflation will peak and where interest rates will end up. About 50% of investors believe inflation will peak in Q1 or Q2, while 35% believe it has already peaked. Along with high inflation, most investors expect higher borrowing costs. More than 70% of surveyed investors believe the 10-year Treasury rate will exceed 3.75% at year-end 2023.

Lenders have a similar outlook on inflation, with 48% of those surveyed believing it will peak in Q1 or Q2 and 33% believing it has already peaked. Lenders also expect higher borrowing costs, but to a lesser degree than many investors. More than 50% of surveyed lenders believe the 10-year Treasury rate will exceed 3.75% by year-end, while 43% believe it will finish the year between 3.00% and 3.75%.

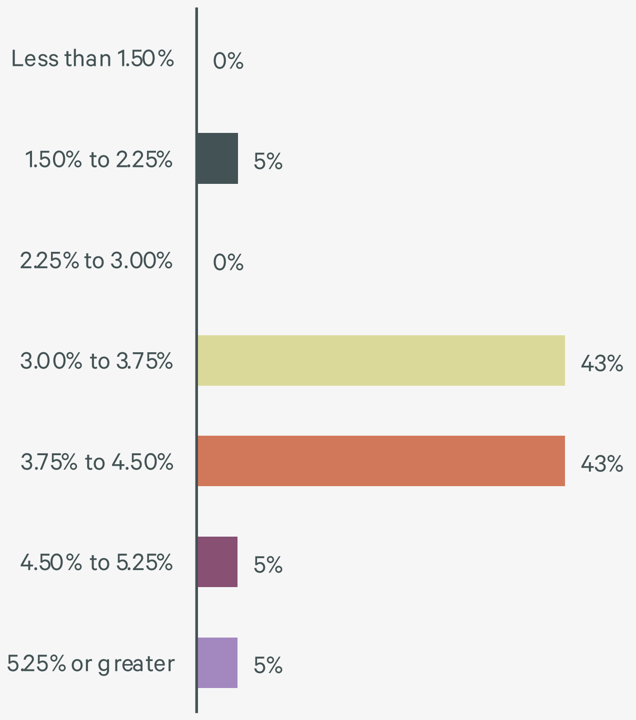
Both investors and lenders highlighted rising interest rates as a key challenge for commercial real estate activity in 2023. Uncertainty about the direction of interest rates will limit real estate investment activity, particularly in the first half of the year. Nevertheless, CBRE believes that inflation and borrowing costs will not be as high as many investors and lenders expect. We forecast that the 10-year Treasury rate and inflation (CPI) will end the year at 3.2% and 4.0%, respectively.

FIGURE 4: Investors' year-end 2023 10-year Treasury rate expectations



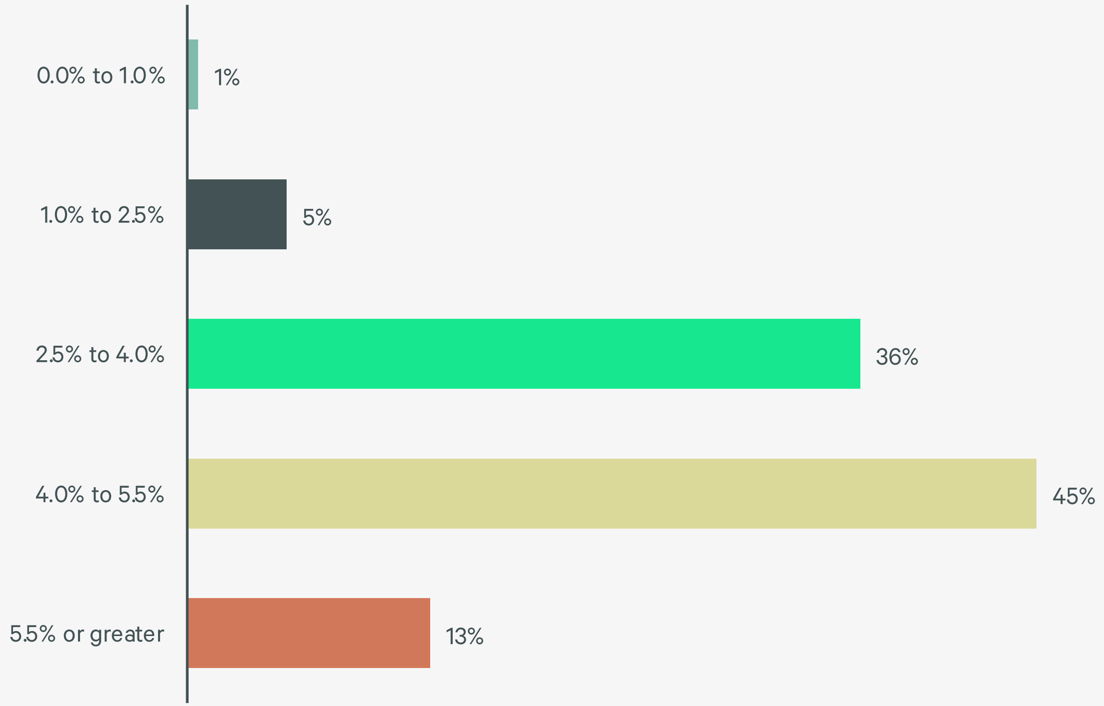
Source: U.S. Investor Intentions Survey, CBRE Research, December 2022.

FIGURE 5: Lenders' year-end 2023 10-year Treasury rate expectations



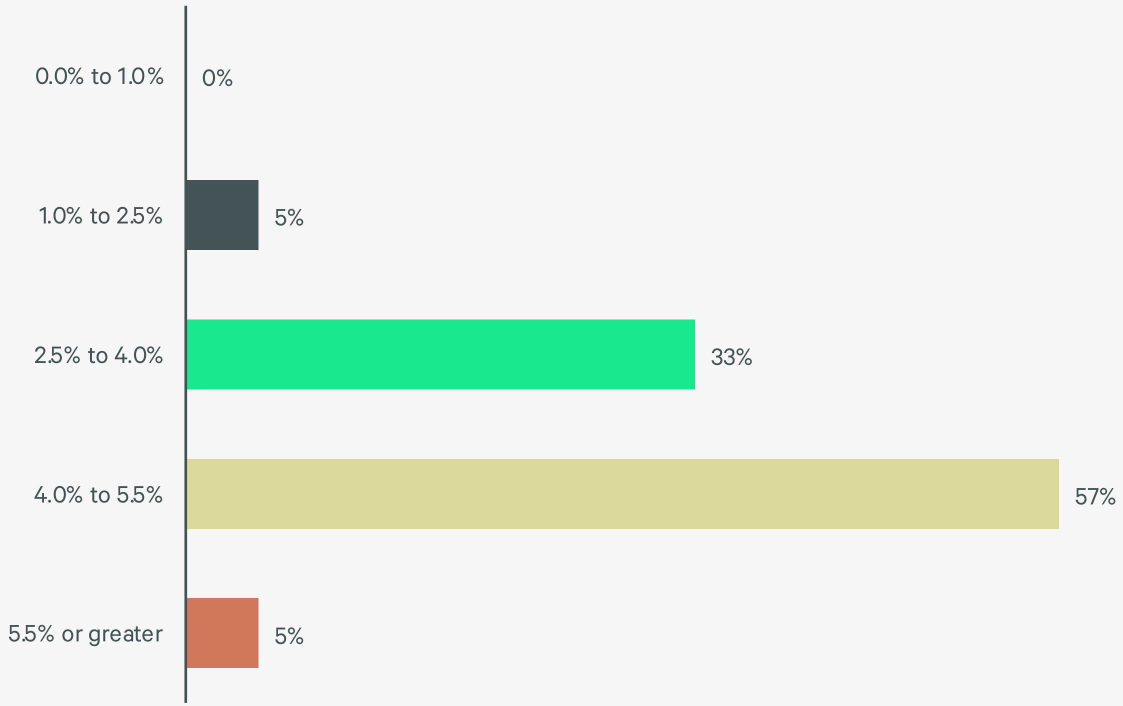
Source: U.S. Lender Intentions Survey, CBRE Research, December 2022.

FIGURE 6: Investors' year-end 2023 inflation rate expectations



Source: U.S. Investor Intentions Survey, CBRE Research, December 2022.

FIGURE 7: Lenders' year-end 2023 inflation rate expectations



Source: U.S. Lender Intentions Survey, CBRE Research, December 2022.

03

Preferred real estate sectors

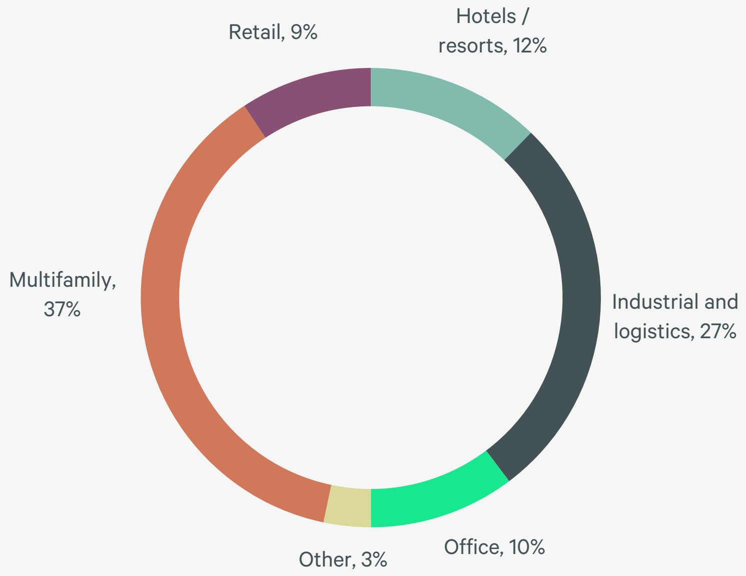
Multifamily remained the most sought-after property sector by investors and the second most by lenders. Apartments were the most popular multifamily subsector despite weakening fundamentals over recent quarters. Half of surveyed investors indicated they expect price discounts of between 10% and 30% for multifamily assets this year, while 34% said they expect discounts of less than 10%. Build-to-rent and affordable housing were selected as desirable alternatives in the sector.

Industrial & logistics was the most favored sector by lenders and the second most by investors. Modern logistics facilities in major markets were the preferred industrial subsector by investors. With continued strong industrial real estate fundamentals, the sector had the highest percentage of investors (14%) indicating that they would not expect price discounts. Investors named self-storage and data centers as their preferred alternatives in the sector.

Investors and lenders appeared pessimistic about the office sector. Only 10% of investors and no lenders selected office as a preferred property type. Less office usage since the COVID pandemic has caused higher vacancy rates and weakened the sector's real estate fundamentals. More than half of investor respondents are expecting price discounts of 30% or more for Class A value-add office assets, while 25% are expecting discounts of more than 30% for stabilized Class A assets. While this is a difficult period for the office market, high-end Class A office assets are still performing relatively well.

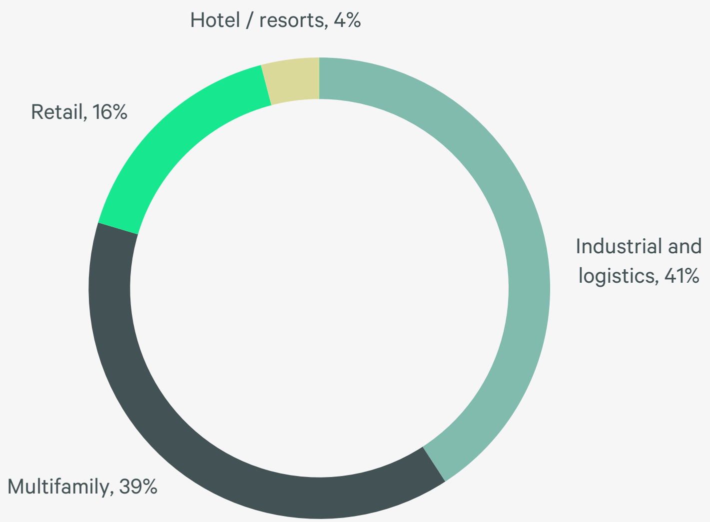
The retail sector was most preferred by only 9% of surveyed investors and 16% of lenders. Grocery-anchored centers remained the most preferred retail subsector, while 78% said they would expect price discounts for shopping malls.

FIGURE 8: Investors' property type preferences in 2023



Source: U.S. Investor Intentions Survey, CBRE Research, December 2022.

FIGURE 9: Lenders' property type preferences in 2023



Source: U.S. Lender Intentions Survey, CBRE Research, December 2022.

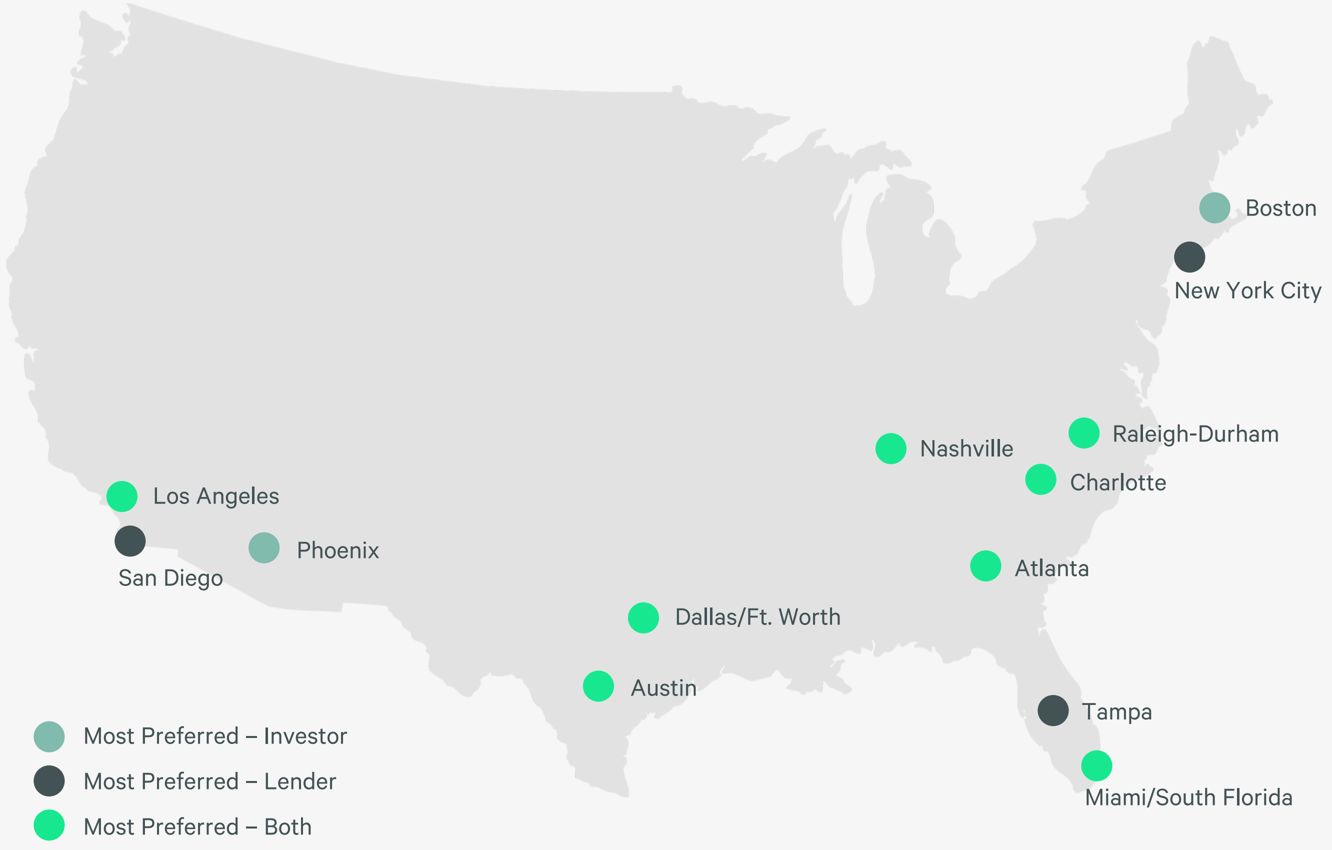
04

Preferred markets

Both investors and lenders indicated a strong preference for fast-growing secondary markets, particularly in the Sun Belt, including Austin, Atlanta, Miami, Nashville, Charlotte , San Diego and Raleigh. Many investors expect these markets to outperform in 2023. Other preferred markets include Los Angeles and Dallas/Ft. Worth.

FIGURE 10: Investors' and lenders' most-preferred markets in 2023

Investor	1	Dallas / Ft. Worth
	2	Austin
	3	Miami / South Florida
	4	Los Angeles
	5	Nashville
	6	Atlanta
	7	Charlotte
	8	Phoenix
	9	Boston
	10	Raleigh - Durham
Lender	1	Miami / South Florida
	2	Raleigh – Durham
	3	Atlanta
	4	Nashville
	T.5	Austin
		Charlotte
		Tampa
	T.8	Dallas / Ft. Worth
		Los Angeles
		New York City
		San Diego



Source: U.S. Investor & Lenders Intentions Surveys, CBRE Research, December 2022.

05

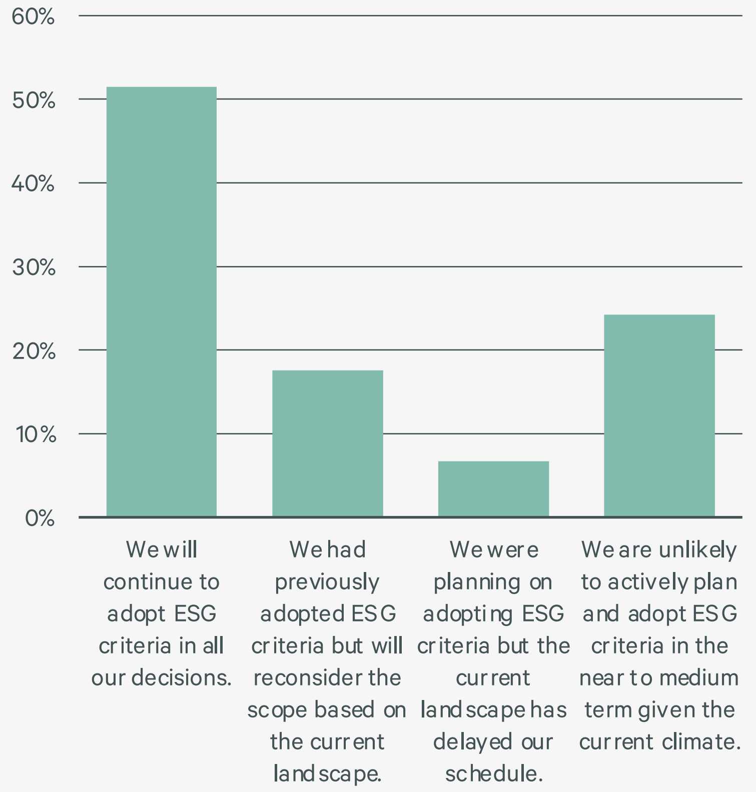
ESG considerations

CBRE's surveys gauged the extent to which current market conditions are affecting the widespread adoption and implementation of environmental, social and governance (ESG) initiatives by commercial real estate investors and lenders. While three-quarters of surveyed lenders have adopted ESG criteria, 44% of them indicated that the current economic environment is impacting ESG implementation.

On the investor side, ESG implementation varies by global region. In Europe, for example, only 4% of surveyed investors have not adopted ESG criteria vs. 24% of U.S investors. One-third of European investors are willing to pay a premium of up to 20% (half of those willing to pay more than 20%) for ESG-compliant assets vs. 90% of U.S. investors who indicated they would pay a premium of no more than 5% for such assets.

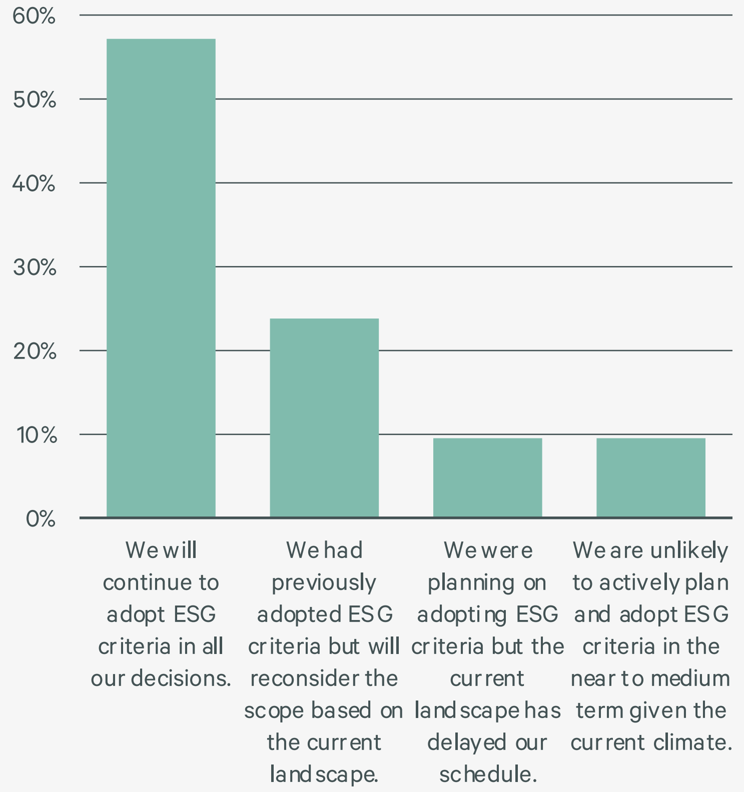
More than 80% of U.S. investors said the current geopolitical and macroeconomic climate will have no impact on ESG adoption. Just under half indicated that the current environment would impact the implementation of already adopted ESG criteria.

FIGURE 11: Investor ESG adoption levels in 2023



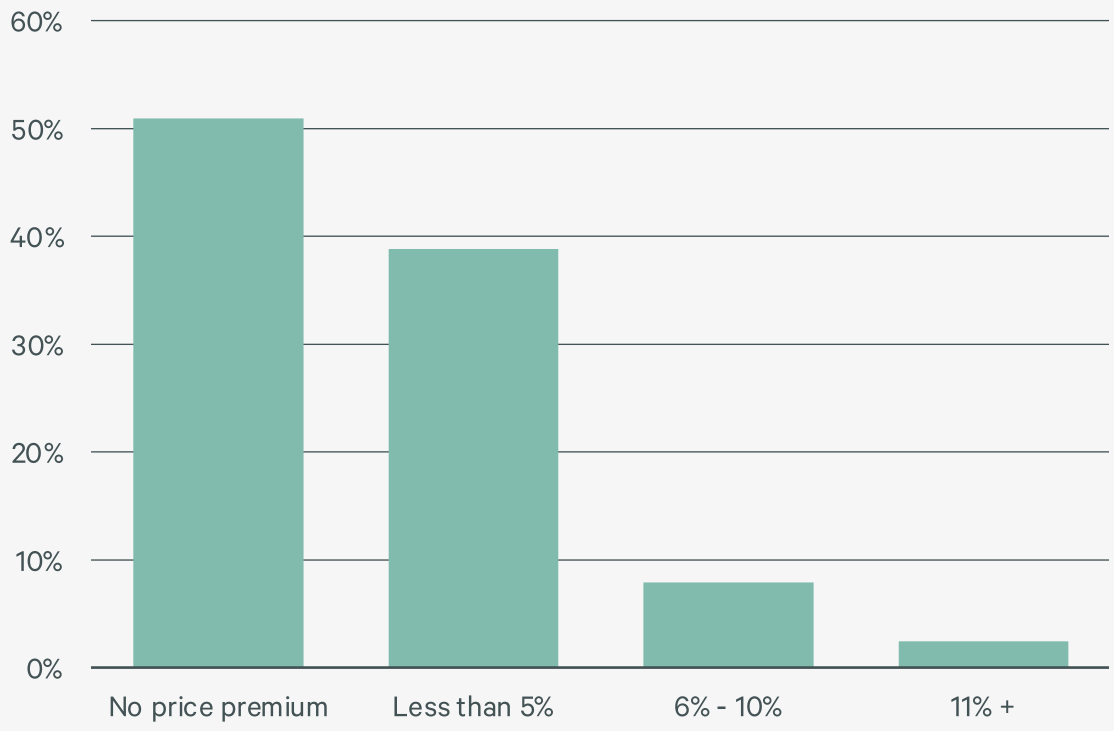
Source: U.S. Investor Intentions Survey, CBRE Research, December 2022.

FIGURE 12: Lender ESG adoption levels in 2023

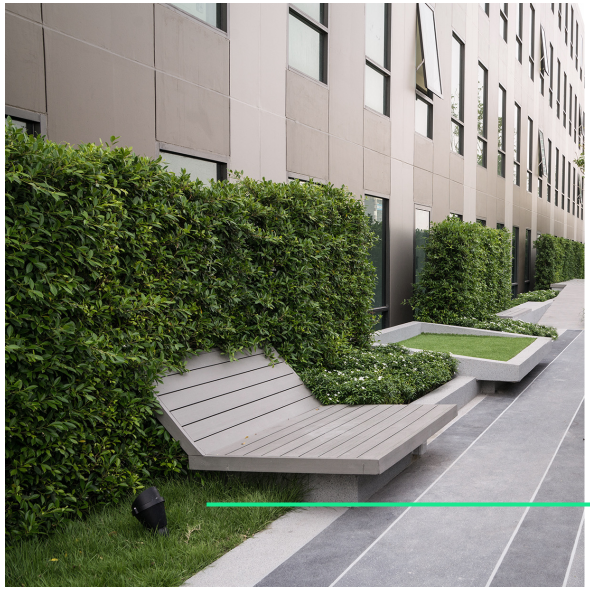


Source: U.S. Lender Intentions Survey, CBRE Research, December 2022.

FIGURE 13: Premium that investors are willing to pay for ESG-compliant assets



Source: U.S. Investor Intentions Survey, CBRE Research, December 2022.



While three-quarters of surveyed lenders have adopted ESG criteria, 44% of them indicated that the current economic environment was impacting ESG implementation.

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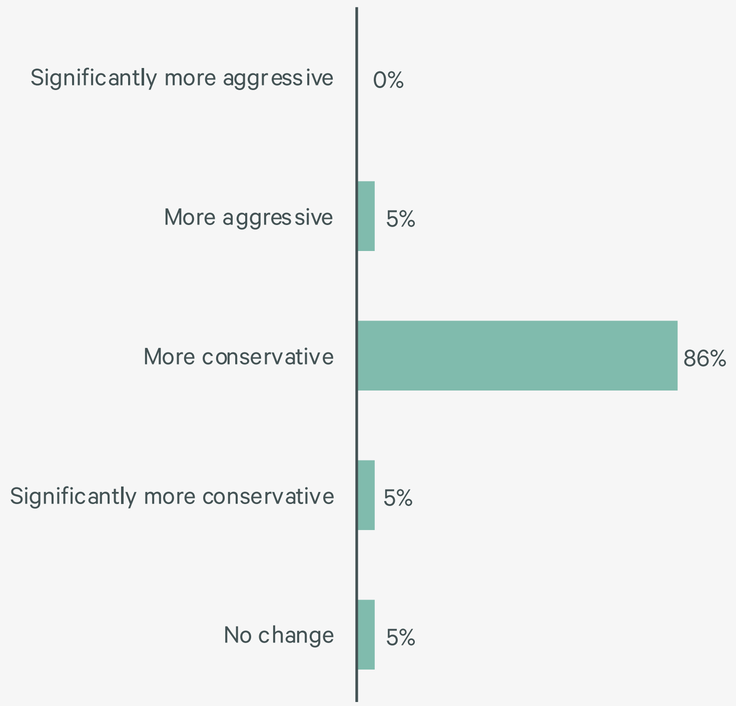
Lender insights

Anticipating many of the same challenging conditions as investors at the start of 2023, 91% of lenders plan to underwrite more conservatively (5% significantly more conservatively). Lenders appear split on whether spreads between loan interest rates and the 10-year Treasury yield will increase or decrease.

Our survey also indicates that 57% of lenders anticipate originating more floating-rate loans vs. 33% anticipating more fixed-rate loans. Nearly 60% prefer short-term loans of up to five years.

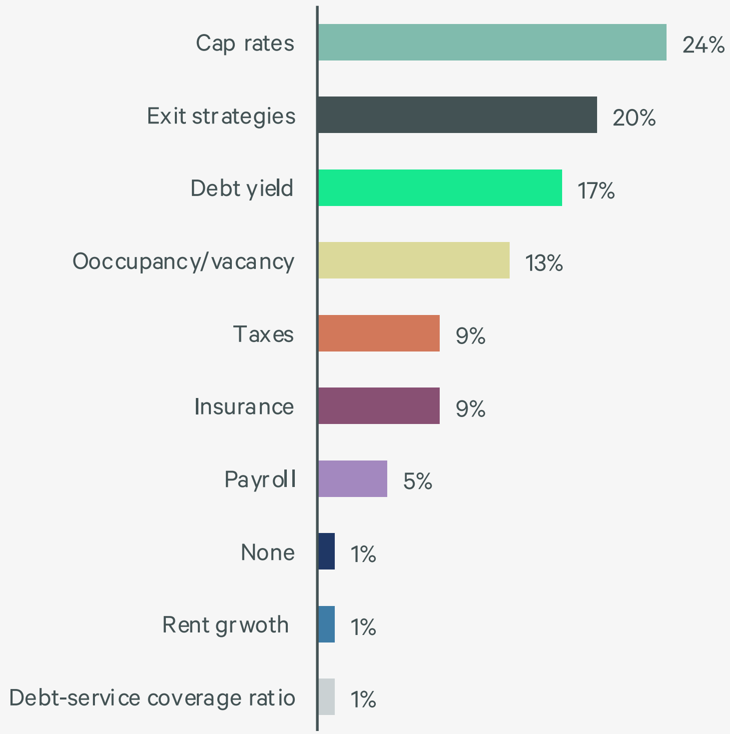
Lenders also expect challenges with loan maturities in their portfolios; however, 57% indicate these challenges will be immaterial, with almost one-quarter indicating no challenges. Just 19% of lenders expect material challenges.

FIGURE 14: Expected changes to lender underwriting assumptions in 2023



Source: U.S. Lender Intentions Survey, CBRE Research, December 2022.

FIGURE 15: Main areas for which lenders say pro forma underwriting assumptions will change in 2023



Source: U.S. Lender Intentions Survey, CBRE Research, December 2022.

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Looking ahead

CBRE's 2023 investor and lender intentions surveys indicate that capital markets will remain active this year. CBRE expects that economic uncertainty will continue to weigh on investment and lending activity in the first half of 2023 before a recovery takes hold in the second half. Three primary drivers will aid this recovery:

- As of February 2023, CBRE expects the federal funds rate to reach a range of at least 4.75% to 5% this year. However, recent evidence of economic resilience, despite rapid rate hikes, makes additional monetary tightening more likely, with the federal funds rate potentially reaching as high as 5.25% to 5.5%.
- Markets will be able to better assess the trajectory of the U.S. economy by midyear.
- Assuming the Fed ends its rate-hiking cycle by midyear, borrowing costs should stabilize and even decrease as long-term rates begin to reflect slower economic activity.

CBRE expects that investment and lending activity will pick up in the second half of the year, but that full-year 2023 volumes will be 15% below those of 2022.

FIGURE 16: CBRE Economic Forecast

	2023	2024	2025 - 2028
Fed Funds Rate (Q4)	4.75% to 5.0%	2.75% to 3.0%	2.0% to 2.25%
10-Year Treasury (Q4)	3.2%	2.9%	3.1%
GDP (Q4)	-0.6%	2.5%	2.7%
CPI (Q4)	4.0%	2.7%	2.3%

Source: CBRE Research, February 2023.

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