1Q25

State of the U.S. Capital Markets

NEWMARK

Market Observations

- **Economy**. U.S. GDP contracted 0.3% in the first quarter of 2025, reflecting early signs of economic softness. Still, this performance primarily serves as a baseline ahead of the Liberation Day tariff announcements, which are expected to reshape growth trajectories. Newmark research has put out a more comprehensive review of how to think about tariffs. In the near term, however, the outlook points to slower growth and higher prices. As of late April 2025, significant uncertainty remains around final Administration policy. That ambiguity continues to weigh on investment and hiring decisions, though the precise effects are difficult to quantify with policy still in flux. The unemployment rate rose to 4.2% in the first quarter, up 10 basis points from year-end 2024. Markets are currently pricing in four rate cuts by year-end. Meanwhile, 10-year Treasury yields remained volatile but largely held within the 4.0% to 4.5% range. GDP was dragged down in large part by a surge in imports as firms looked to front-run potential tariffs. Despite the headline contraction, investment was stronger than anticipated—likely driven by tariff-related incentives

- **Debt Markets.** Commercial real estate (CRE) debt origination maintained strong momentum in the first quarter of 2025, though volumes remain well below pre-pandemic norms. Origination activity rose 42% year-over-year compared to the first quarter of 2024. While the number of active lenders remains meaningfully lower, our estimate for the first quarter is likely to be revised upward. Originations increased across all major sectors, with office, senior housing and hotels leading the way. Bank lending was particularly notable—just 4% below first-quarter averages from 2017 to 2019. This acceleration in activity comes as the market prepares to absorb $2.0 trillion in debt maturities from 2025 to 2027. Notably, 37% of this maturing debt was originated when the federal funds rate was below 25 basis points, compared to 433 basis points today. A substantial portion of loans—especially recent vintages across most property sectors, including a large share of office debt—are either underwater or nearing that threshold. We estimate that $582 billion in debt maturing between 2025 and 2026 could be potentially troubled.

- **Equity Markets.** Investment sales increased 18% year-over-year in 2025Q1 YTD but down 18% compared with the 2017-to-2019 average. Office sales declined 16% vs. the first quarter of 2025, while multifamily was up 42%. Liquidity has been strongest for smaller transactions. Deals under $100M made up 67% of volume traded in the last four quarters. Institutional investment was up 66% YTD vs. 2024 with a 49% increase in Office acquisitions, though institutional remains net sellers of Office.

- **Supply of Capital.** Dry powder at closed-end funds currently sits at $328 billion, down 13% since December 2022. Dry powder at value-added, opportunistic and debt funds are now well-off their peak levels, with most of that targeting Residential and Industrial properties. Much of this dry powder was raised from prior vintages. ODCE fund flows improved somewhat, but showed net outflows for a 10th straight quarter. Redemption queues remain an issue for many funds, driven by persistent if narrowing gaps between NAV and market values.

- **Pricing and Returns.** Transaction markets now show clear increases in transaction cap rates, following the public markets. Nonetheless, both in the private and public markets, cap rates appear distinctly unattractive relative to the cost of debt capital, possibly excepting office REITs. This is not surprising in the private markets, where transaction volumes are muted and reflect selection bias and appraisal-based valuations lag market conditions. Extremely narrow cap rate spreads in the REIT markets are harder to justify and seem to require a rapid decline in debt costs, historically abnormal NOI growth or a combination of the two. Notwithstanding the structural deficiencies in NCREIF valuations during periods of rapid change like today, NCREIF NPI broadly improved in 1Q25 and posted its second straight quarter of positive returns. All sectors recorded positive total returns, including Office. 71% of markets recorded positive total returns in 1Q25 roughly the same as 1Q24.

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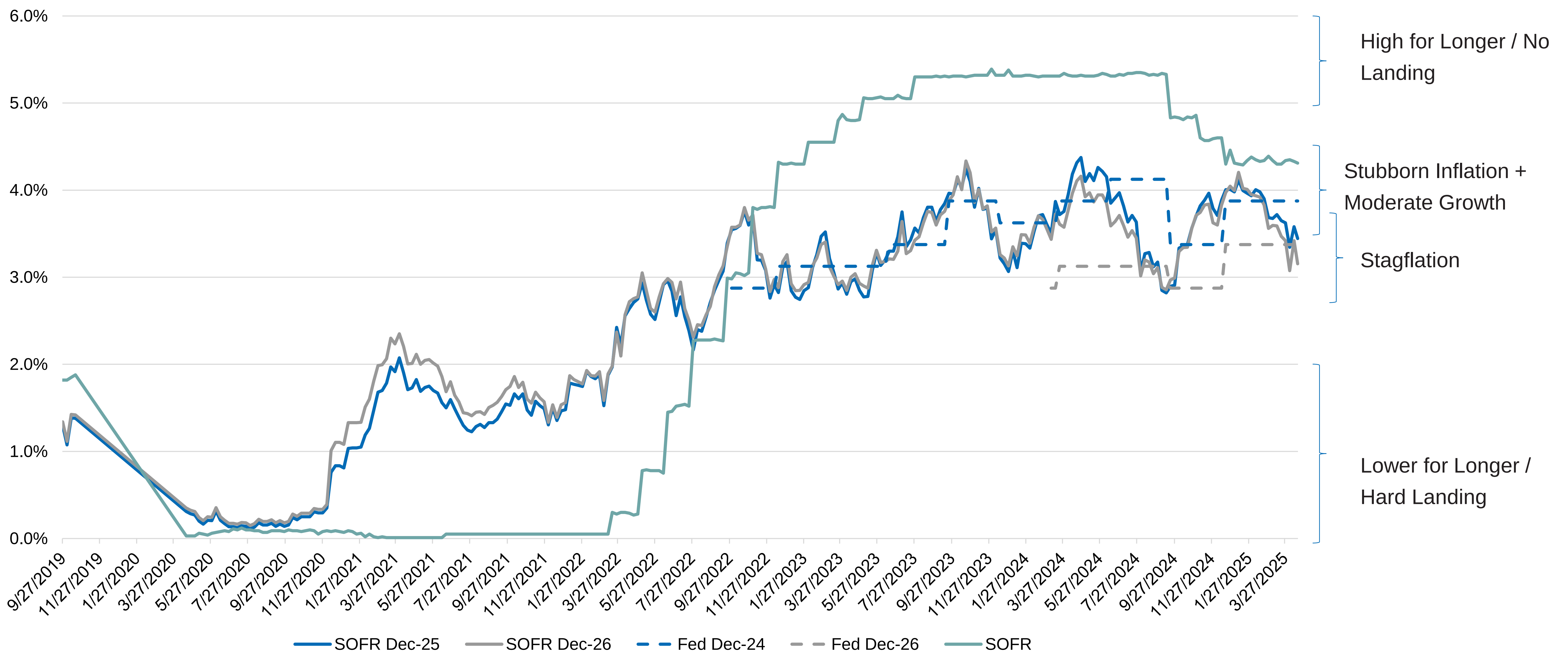
Debt Capital Markets

Market Expectations Are Volatile But Consensus Remains for Higher Rates

The terminal rate, which we proxy with the December 2026 3M SOFR futures contract, is driving much of the action in longer-dated Treasuries, though recently the term premium has been an equal or greater factor. Over the last several years, expectations have oscillated between 3.0% and 4.5% while the Fed's expectations have been more stable until the December SEP.

3M SOFR Futures vs. Fed Dot Plot Median



Source: Bloomberg, Federal Reserve, Newmark Research as of 4/17/2025

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Newmark Scenario Weighted Terminal 10-Year Treasury Yield at 4.0%

Markets are constantly weighing different narratives about the future. Each new data point shifts the credibility of each outcome vs. all others. In a low conviction market, like present, small amounts of data tend to produce quantum shifts in what the dominant narrative is. This manifests in nonlinear changes in market pricing. Markets are sorting through the avalanche of policy announcements and changes that will materially change the U.S. economic landscape, which is why there is little probability differentiation in our estimate between the top 3 scenarios.. **Newmark research's probabilities imply the 10Y is fairly valued in a trading range around 4.0%**

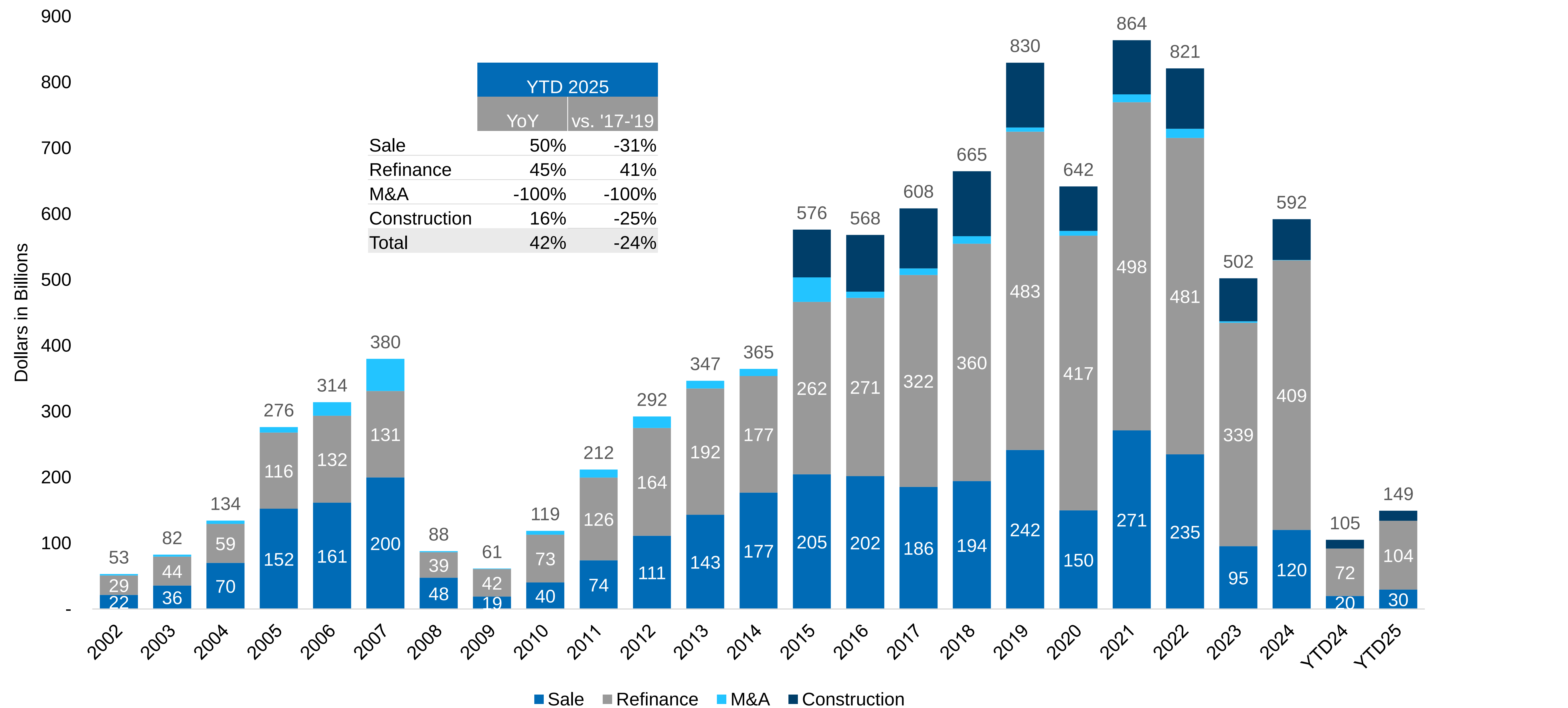
Narrative	Definition	Dominant Narrative Dates	Fed Funds in December 2025	Long-term Fed Funds	10Y Treasury	Credit Spreads (vs. History)	NMRK Research Probability (NTM)
Inflation Stubborn, Low Growth (Stagflation)	Economic growth below long term trend and inflation remains above Fed target	March 2025	3.75% to 4.50%	3.00% to 4.00%	3.75% to 4.75% → 4.00% to 5.00%	High	35% → 50%
Inflation Stubborn, Growth Moderate	Inflation remains significantly above Fed target even as growth moderates	April 2024	4.25% to 4.75%	3.50% to 4.50%	4.00% to 5.00% → 4.25% to 5.25%	Average To Moderately Tight	30% → 10%
Conventional Recession	Economy falls into recession and inflation drops to target or lower; Fed cuts aggressively	August 2024, Dec/Jan 2023	0.00%	2.50% to 3.00%	2.50% to 3.50% → 2.75% to 3.75%	High	20% → 40%
Soft Landing	Inflation returns to target, growth returns to long term average. Fed normalizes monetary policy	June 2023	3.50% to 4.00%	3.00% to 3.50%	3.50% to 4.20% → 3.75% to 4.45%	Return to Average	15% → 0%

Source: Newmark Research as 4/10/2025

Debt Origination Up 42% vs. 24Q1; Refinancings Well Above ’17-’19 Average

2025 started off solidly for loan origination. Refinancing volume improved over the 2017-2019 average while acquisition financing continues to lag. Both sales and refinancing activities increased particularly strongly in the first quarter, supported by a more favorable interest rate environment for commercial real estate lending. However, uncertainty brought on by the tariff announcements threatens the debt markets momentum..

Commercial Real Estate Debt Origination Volume



Source: RCA, Newmark Research as of 4/21/2025
Note: Loan origination volumes are adjusted for future expected revisions using Newmark’s proprietary models.

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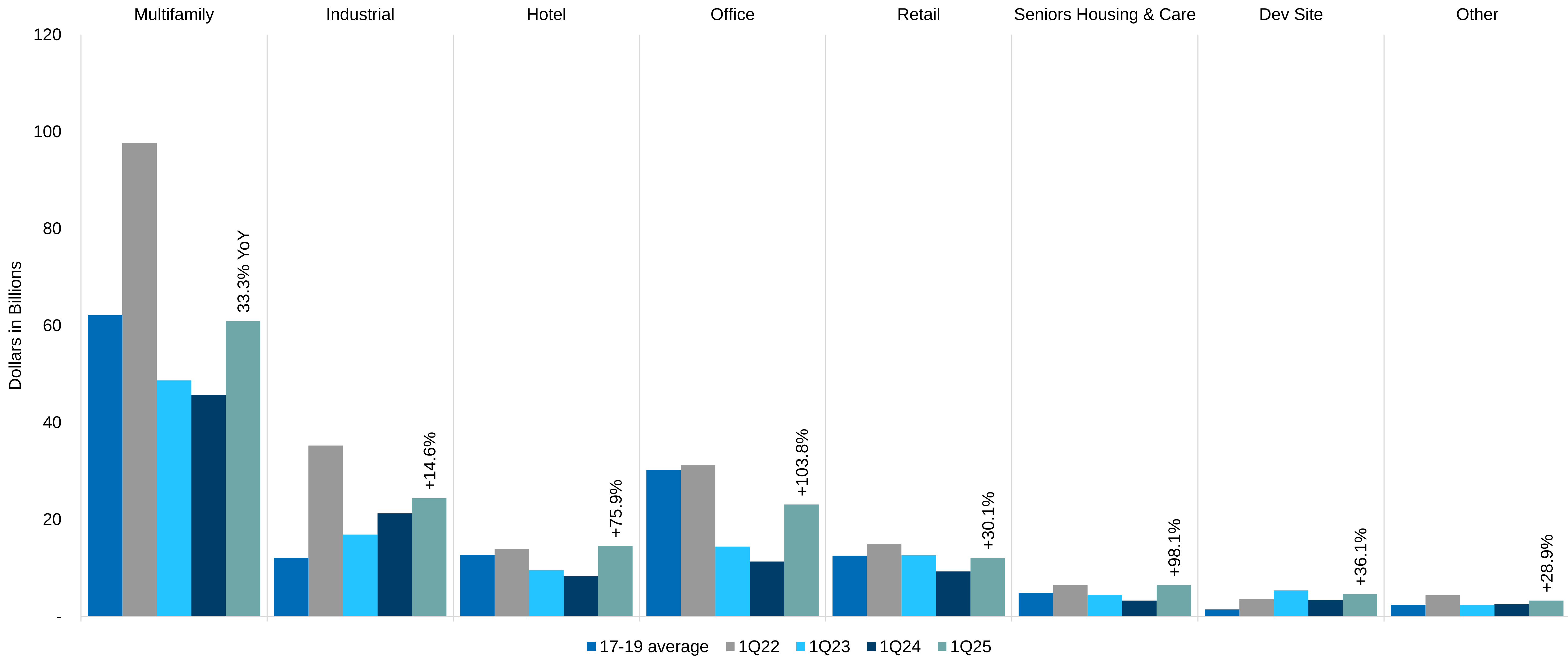
25Q1 Outperformed 24Q1 Across Property Types

However, Office (-24%), Retail (-4%), and Multifamily (-2%), lending remained below their respective 2017-to-2019 averages. In contrast, industrial originations were up 15% year-over-year and up 102% compared with the 2017-to-2019 first quarter average.

Commercial Real Estate Debt Origination Volume

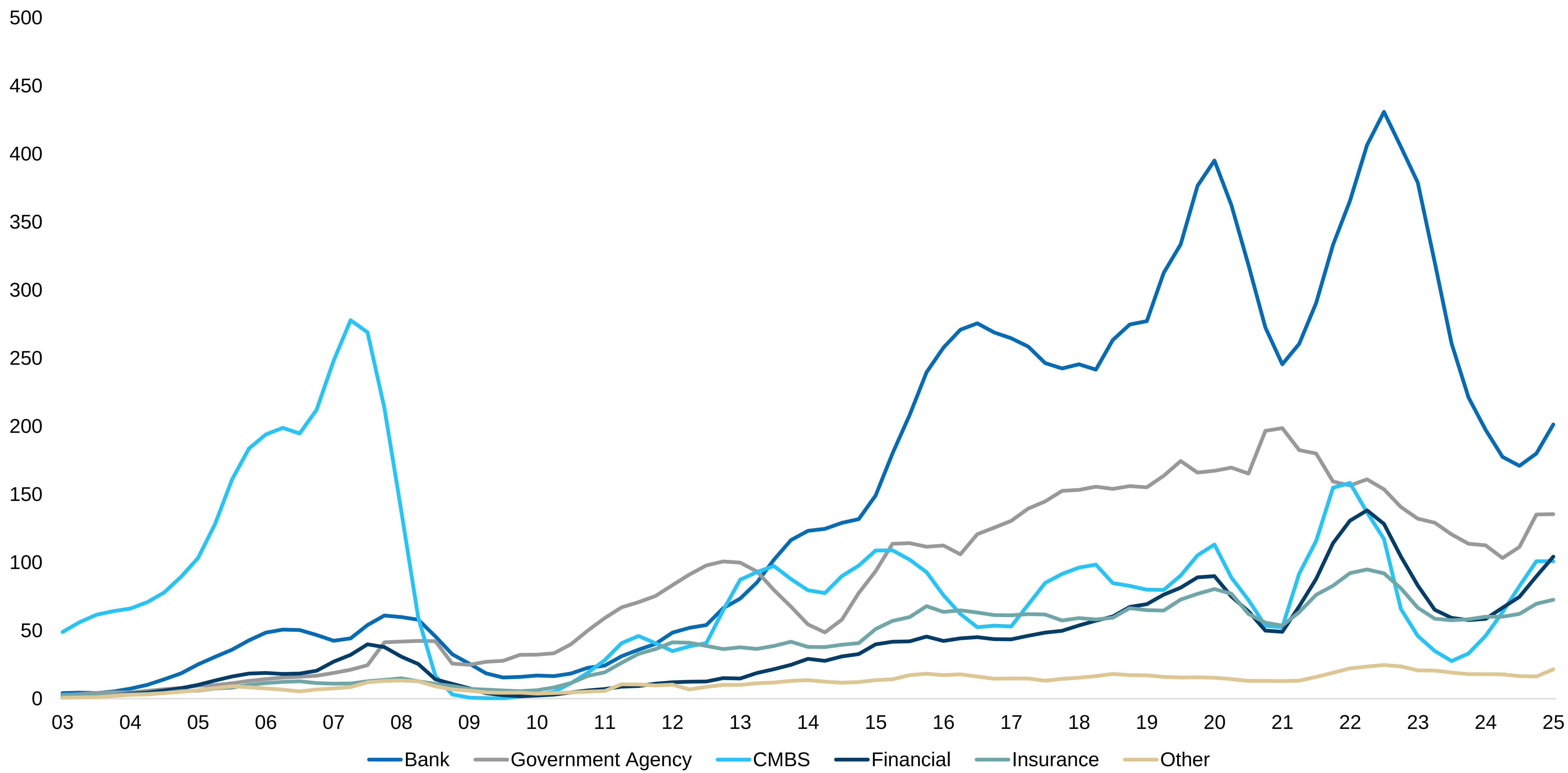


Source: RCA, Newmark Research as of 4/21/2025
Note: Loan origination volumes are adjusted for future expected revisions using Newmark's proprietary models.

Bank Lending Volume Nearly Matched Pre-Pandemic First Quarter Average

Banks originations started strong in 2025, up 56% compared to the first quarter of 2024. debt funds and insurance companies posted strong gains as well, while CMBS originations were relatively flat, securitizations have surged. SASB in particular has surged, with multiple office deals pricing in 2024 after zero office SASB issuances in 2023. Government agency lending continued its strong momentum for the fourth quarter.

Rolling 12-Month Total Commercial Real Estate Debt Origination Volume

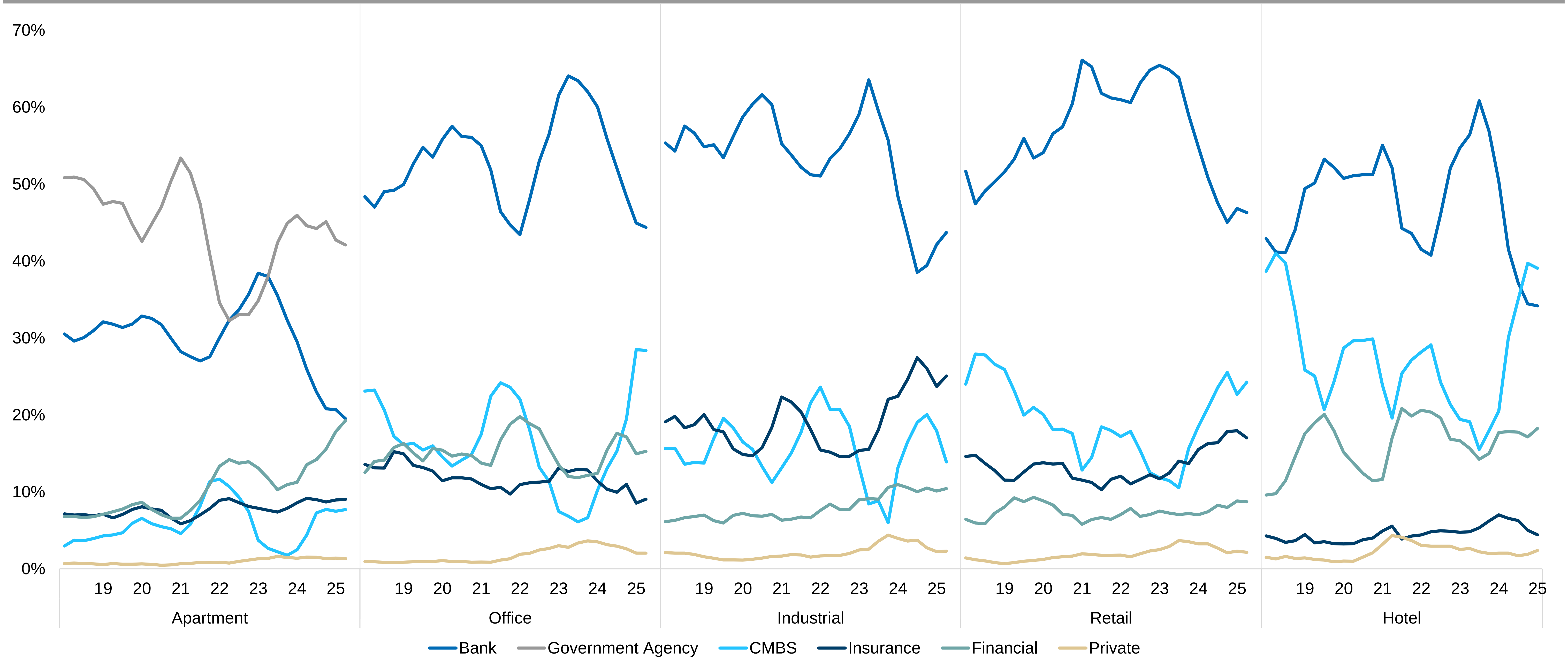


Source: RCA, Newmark Research as of 4/21/2025
Note: Loan origination volumes are adjusted for future expected revisions using Newmark's proprietary models.

CMBS Taking Market Share

Banks remain the dominant source of CRE financing, though their market share declined sharply across property types in 2024. In contrast, securitized lending and debt fund financing have been steadily gaining ground.

Composition of Commercial Mortgage Debt Originations



Source: RCA, Newmark Research as of 4/21/2025
Note: Loan origination volumes are adjusted for future expected revisions using Newmark’s proprietary models.

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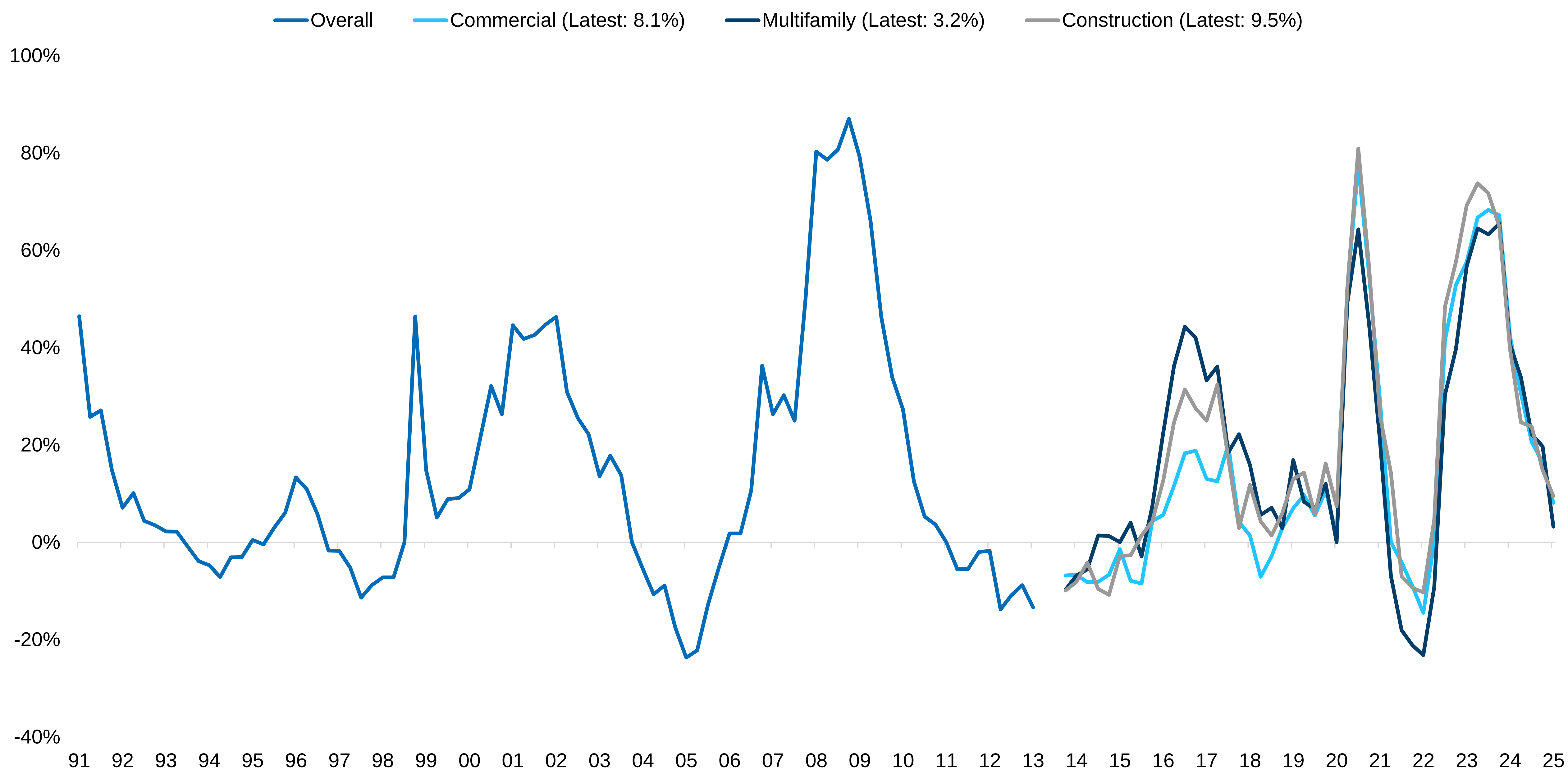
Banks Continue To Tighten Standards, But Pace Has Slowed

Banks continued tightening lending standards in 1Q25; however, the net share tightening came sharply down from a peak of ~65%. This is a salutary development, but it's the first step on what is still likely to be a long road to a healthy CRE finance environment. Encouraged by their regulators, banks took at best muted steps to resolve issues in their CRE books, pushing them down the road. Financial conditions, however, have tightened since liberation day. As a result, banks will have limited capacity to extend new credit.

Net Percentage of Banks Tightening Lending Standards



Source: Federal Reserve, Newmark Research as of 3/31/2025

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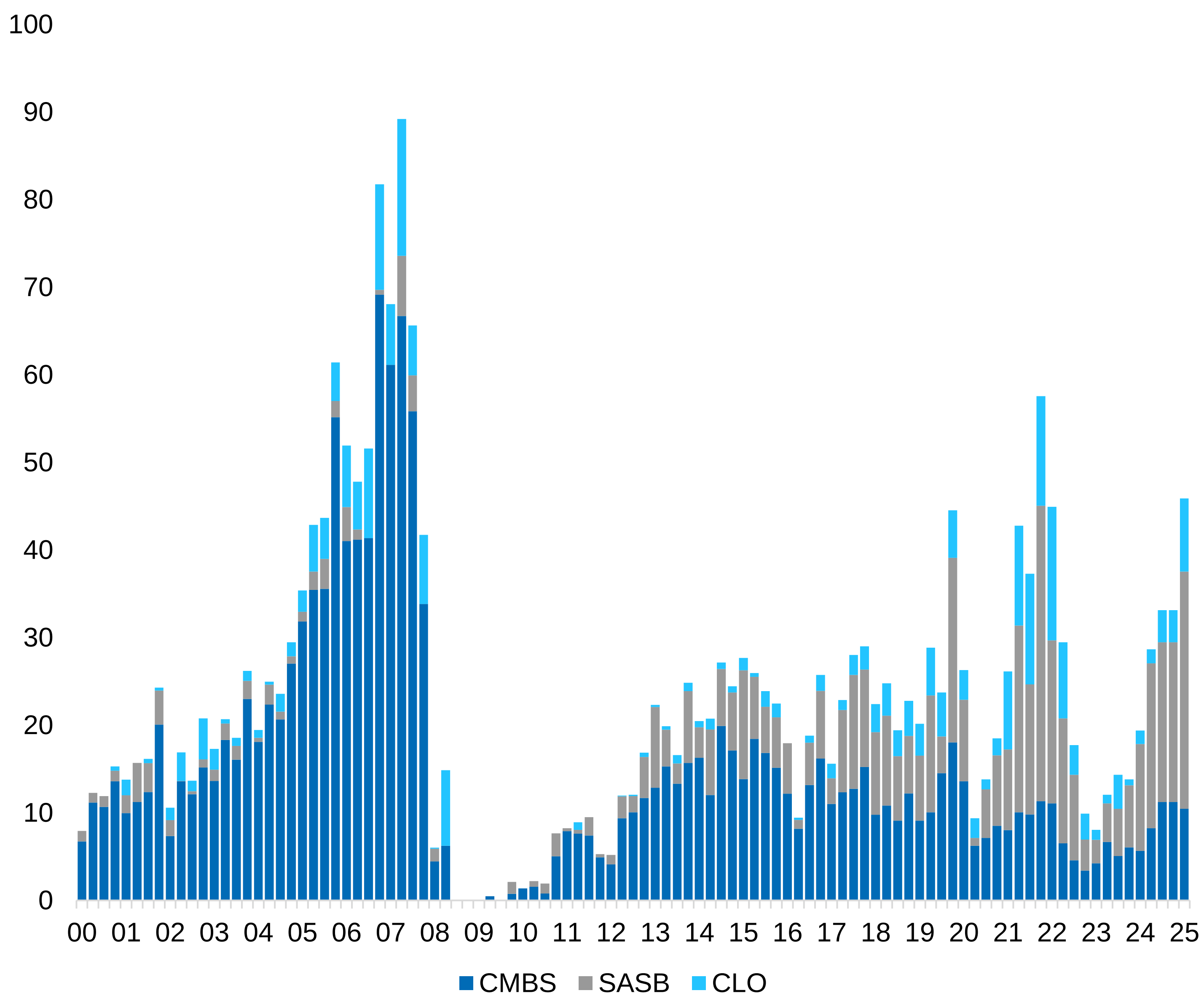
Banks are likely to spend the next several years reducing their CRE exposures. This means less overall credit availability but also opportunities for non-bank lenders.

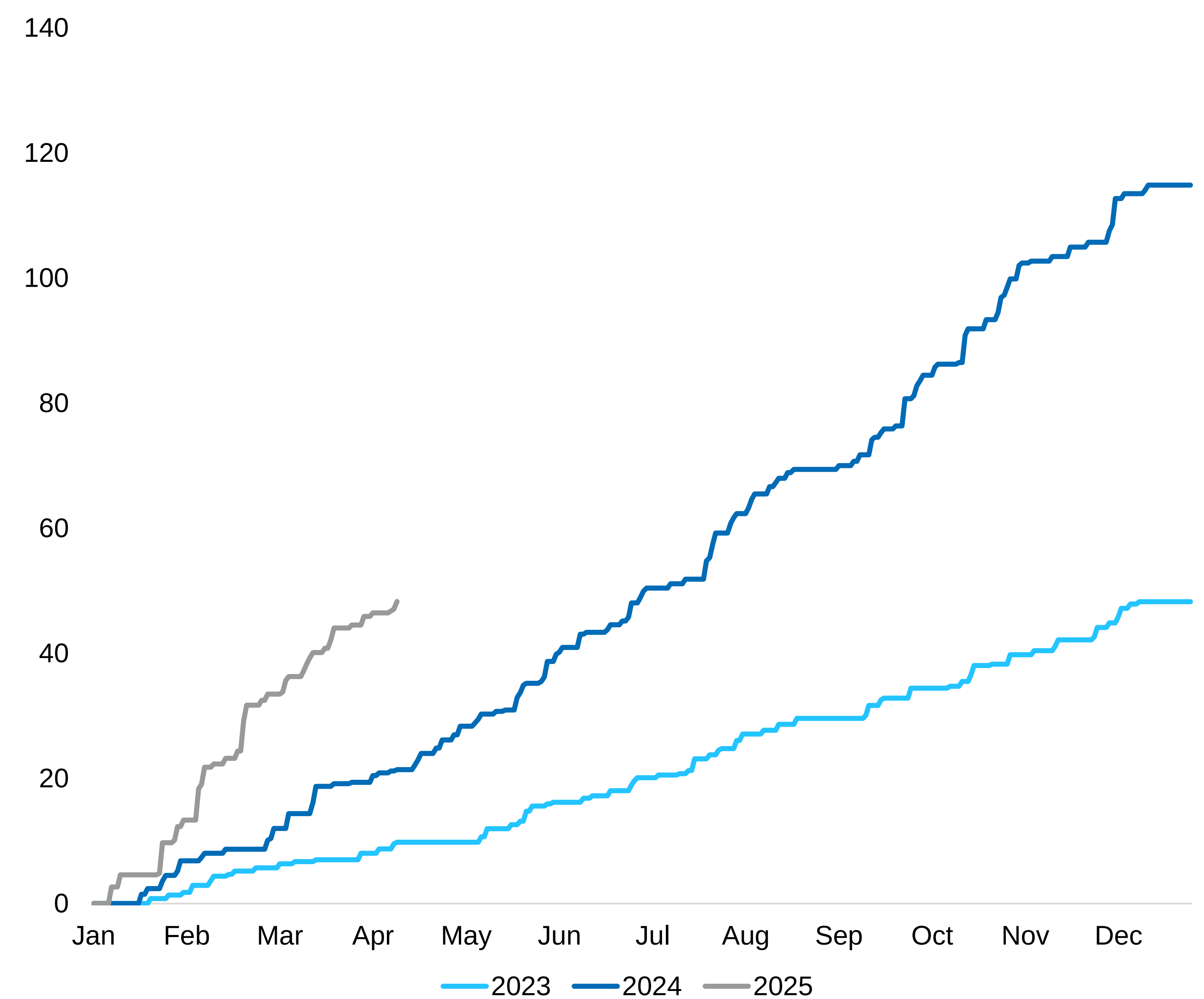
Securitized Markets Re-accelerating, Particularly SASB

Demand for CRE securitizations has increased in recent months due to higher spreads on offer as compared with corporate debt. SASB structures accounted for 60% of originations in the last 12 months and drove much of the increase. 2025 has started off strong for issuance, up 125% compared to the same period in 20

Quarterly CMBS Issuance



Cumulative CMBS Issuance By Year



Source: Green Street, Newmark Research as of 4/21/2025

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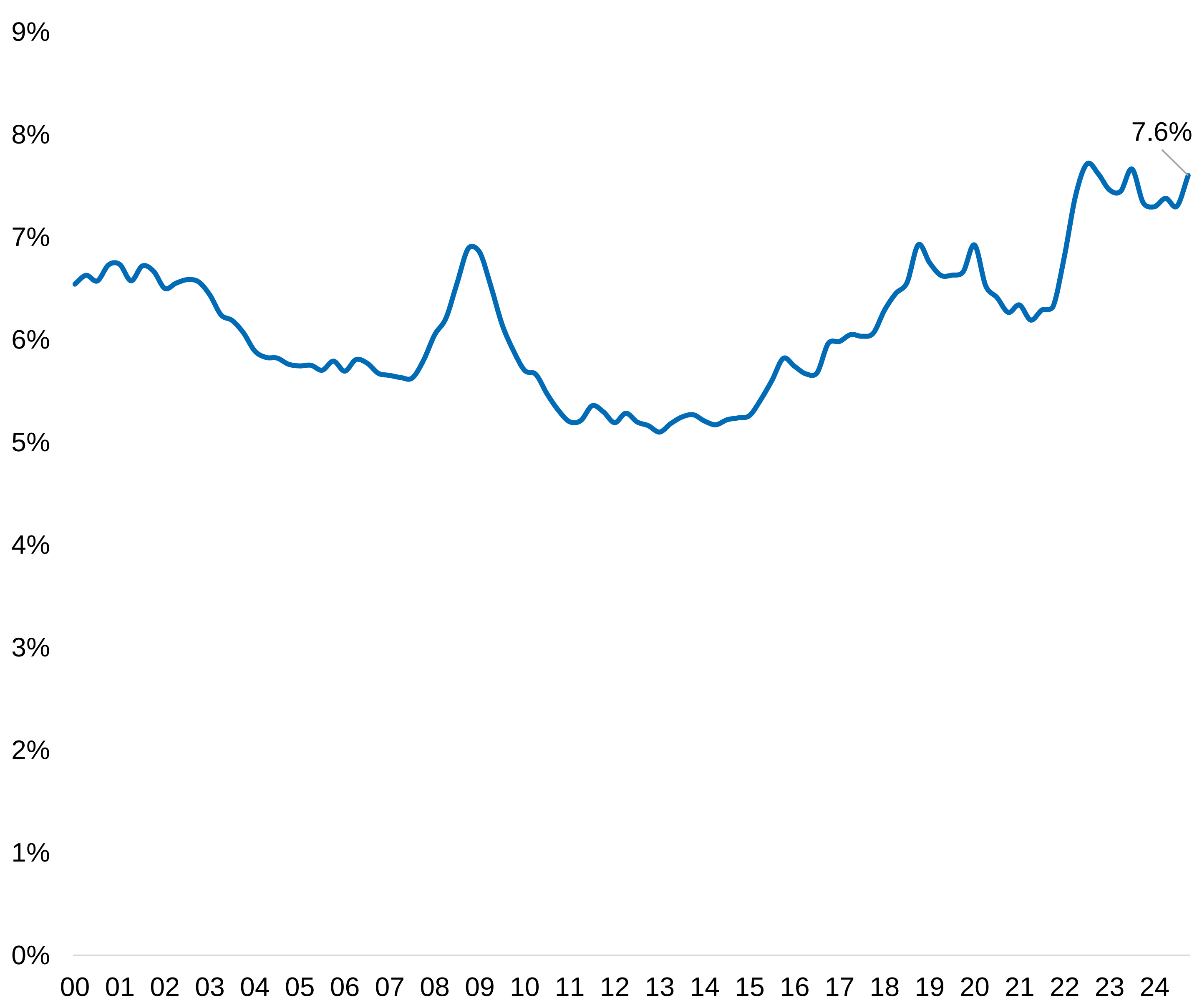
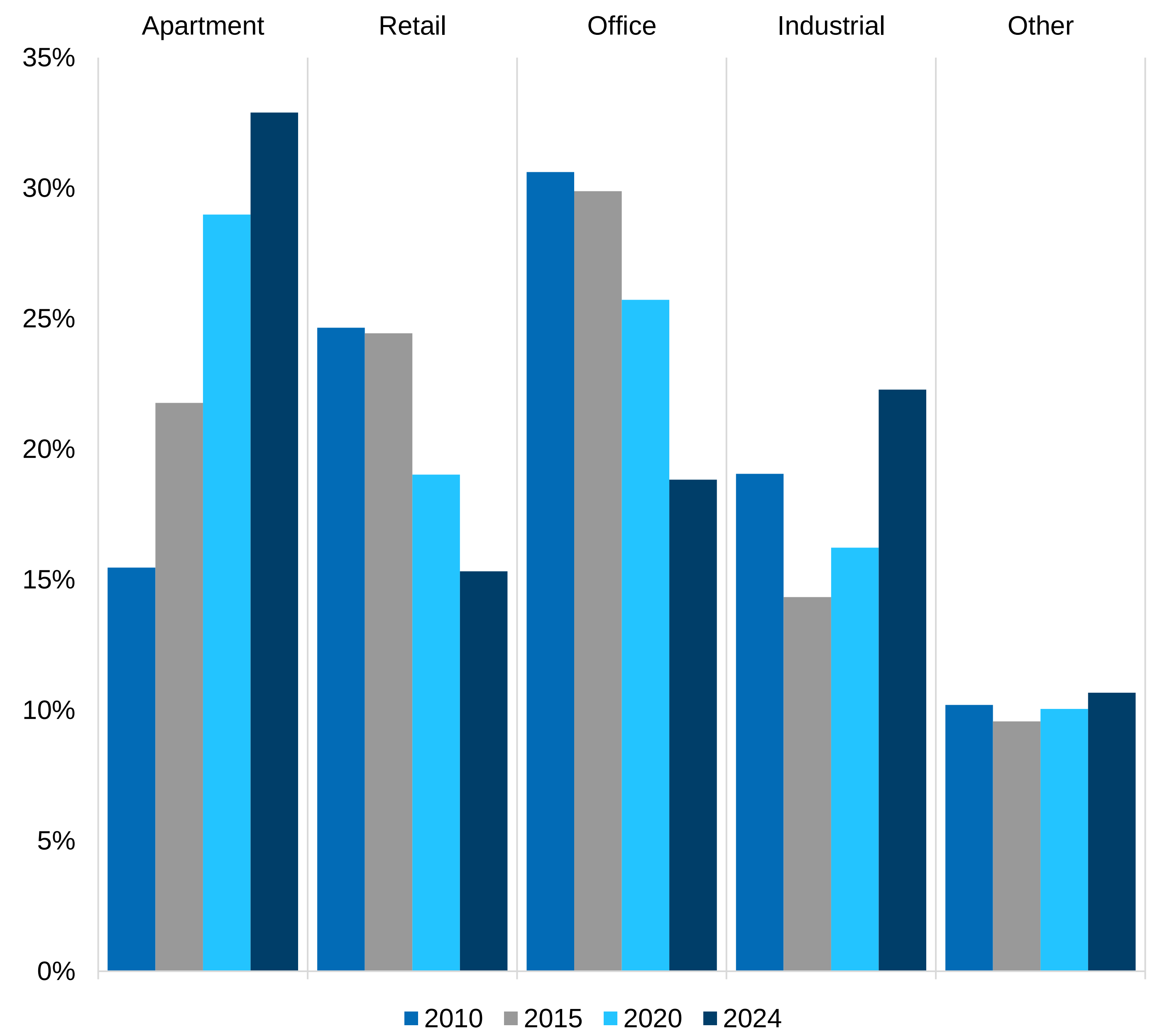
Insurance Companies Unlikely to Fill Gap in CRE Credit Availability

Life Insurance companies are near record levels of allocation to commercial real estate. However, the allocation increase has been driven primarily by lending into industrial and multifamily, and away from retail and office, where the lack of credit is likely to be felt more acutely. Notwithstanding the above, as of early 2025, life insurance companies are exhibiting pronounced appetite for CRE lending, likely reflecting the more attractive yields available compared to corporate credit markets.

CRE Debt Share Of Total Life Co. Assets



CRE Debt Allocation Of Life Co's



Source: ACLI; Federal Reserve; Newmark Research; As of 4/21/2025

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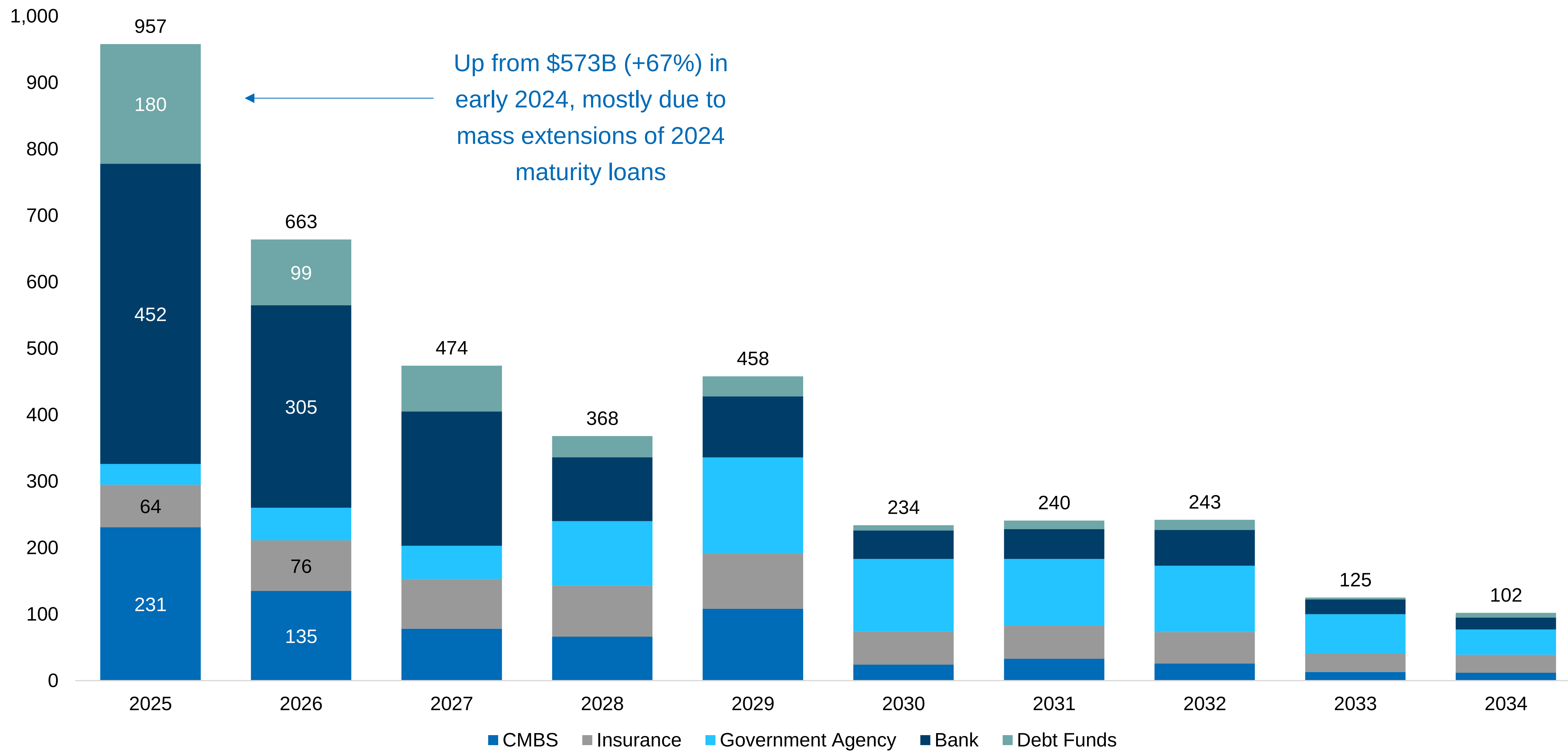
Market Face Record Maturities in 2025

Bank, CMBS/CRE CLO and debt fund maturities are particularly heavily front-loaded over the next 24 months.

Commercial Mortgage Maturities



Source: MBA, Newmark Research as of 2/10/2025

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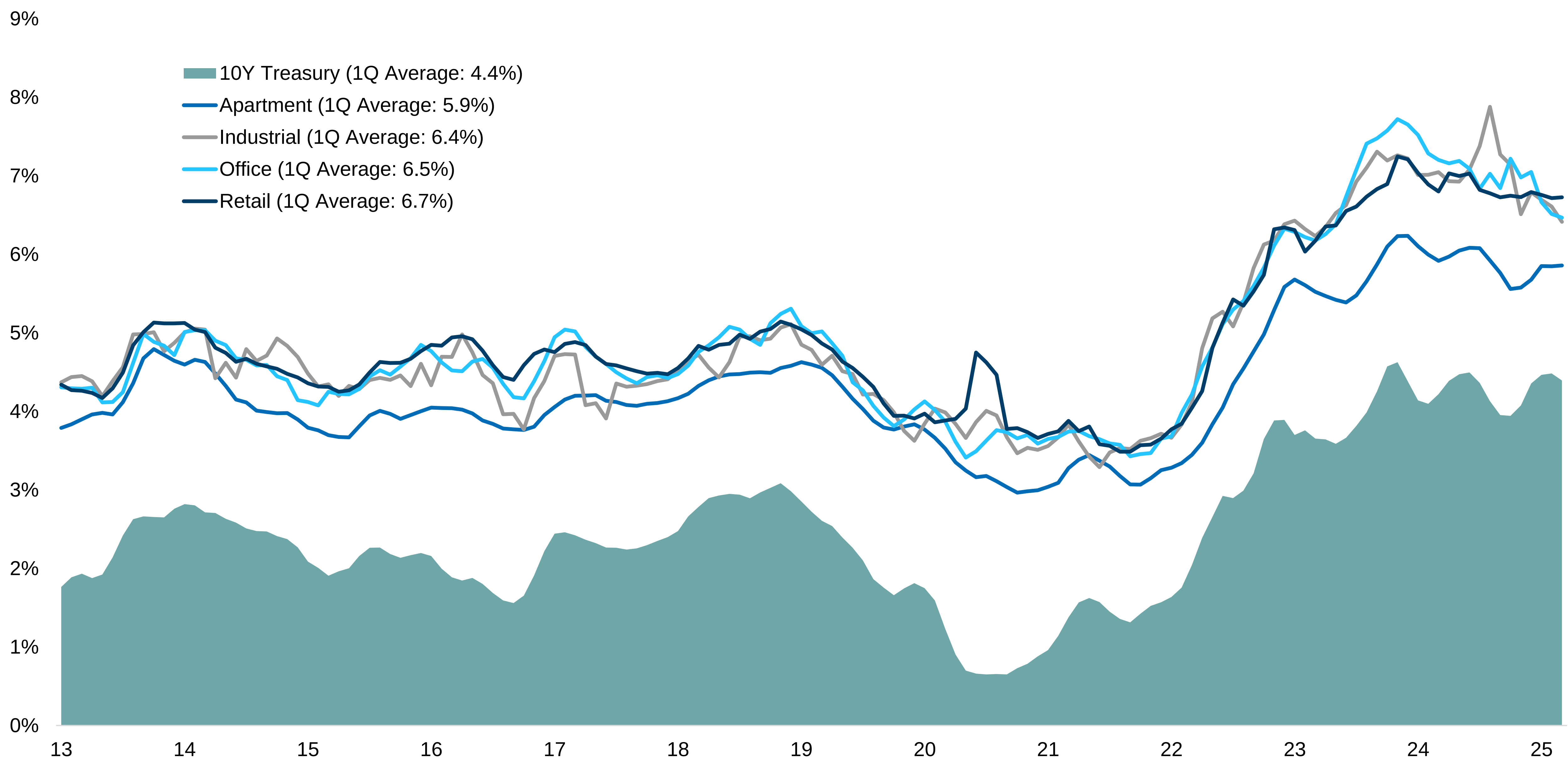
Fixed-Rate Debt Costs Dropped Slightly In 1Q25, Spreads Somewhat Narrower

Debt costs peaked in 4Q23, coinciding with the peak in 10Y treasury yields. While treasury benchmark rates have been volatile in the last year, fixed-rate CRE debt costs largely declined as spreads compressed. Financial market volatility in the wake of the tariff announcements has pushed up base rates slightly, though in April the 10 year treasury largely remained between 4% and 4.5%, consistent with 2024 trends.

Average Interest Rate on Fixed Rate CRE Originations

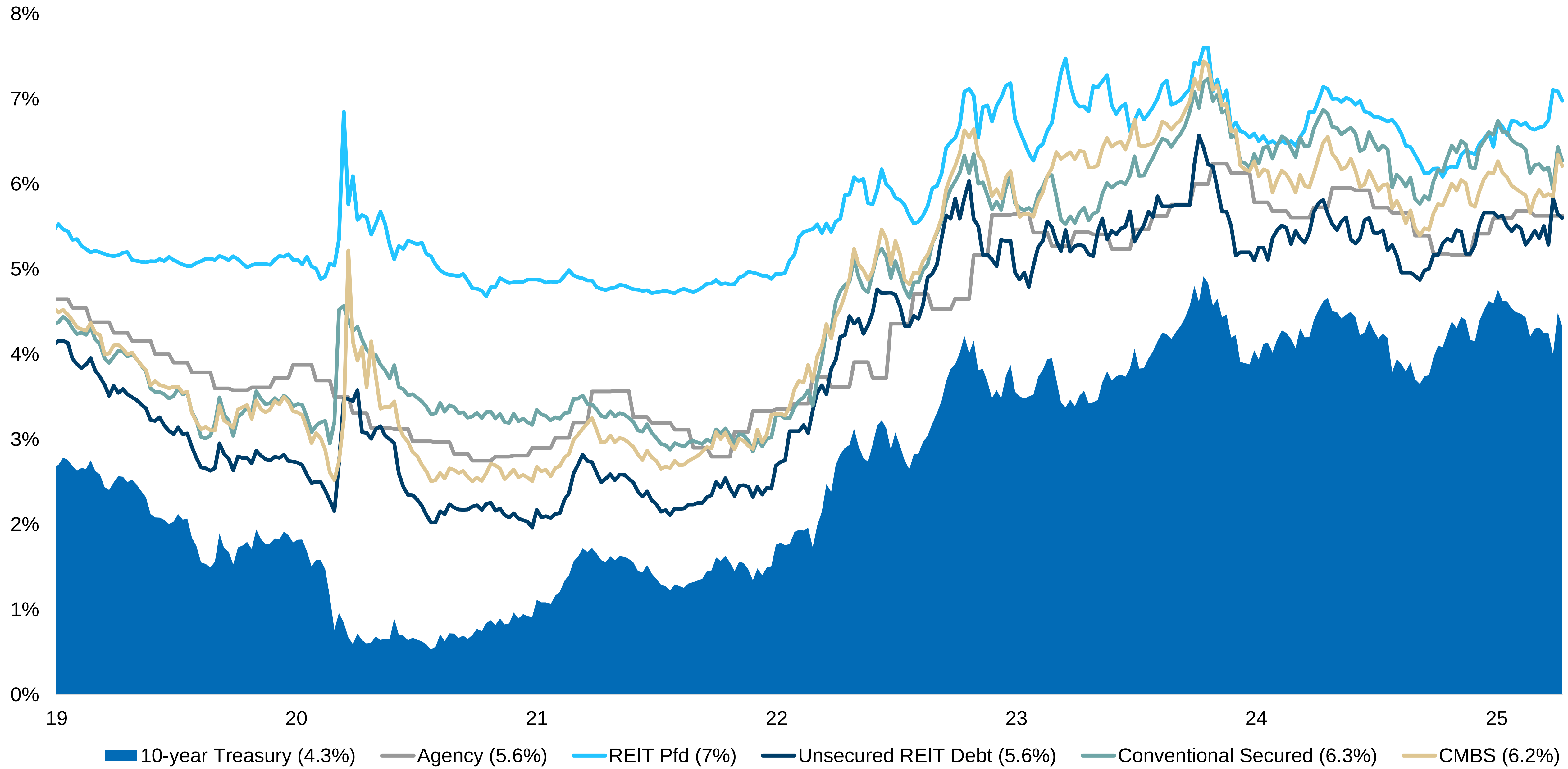


Source: Real Capital Analytics, Newmark Research as of 4/21/2025

Public Benchmarks Point to Rising Cost of Capital Alongside Treasuries

Public market benchmarks were faster to rise than private transaction-based measures. Both through direct lending and by purchasing publicly-traded instruments, fixed-income investors are now able to pick up additional yield by investing in CRE relative to corporate credit. This should attract some capital inflows from lenders with optionality, namely LifeCos. Public market measures continue to move in-line with Treasuries and corporate debt. Spreads are broadly in-line with post-2016 averages.

Public CRE Cost of Debt Benchmarks vs. Treasuries

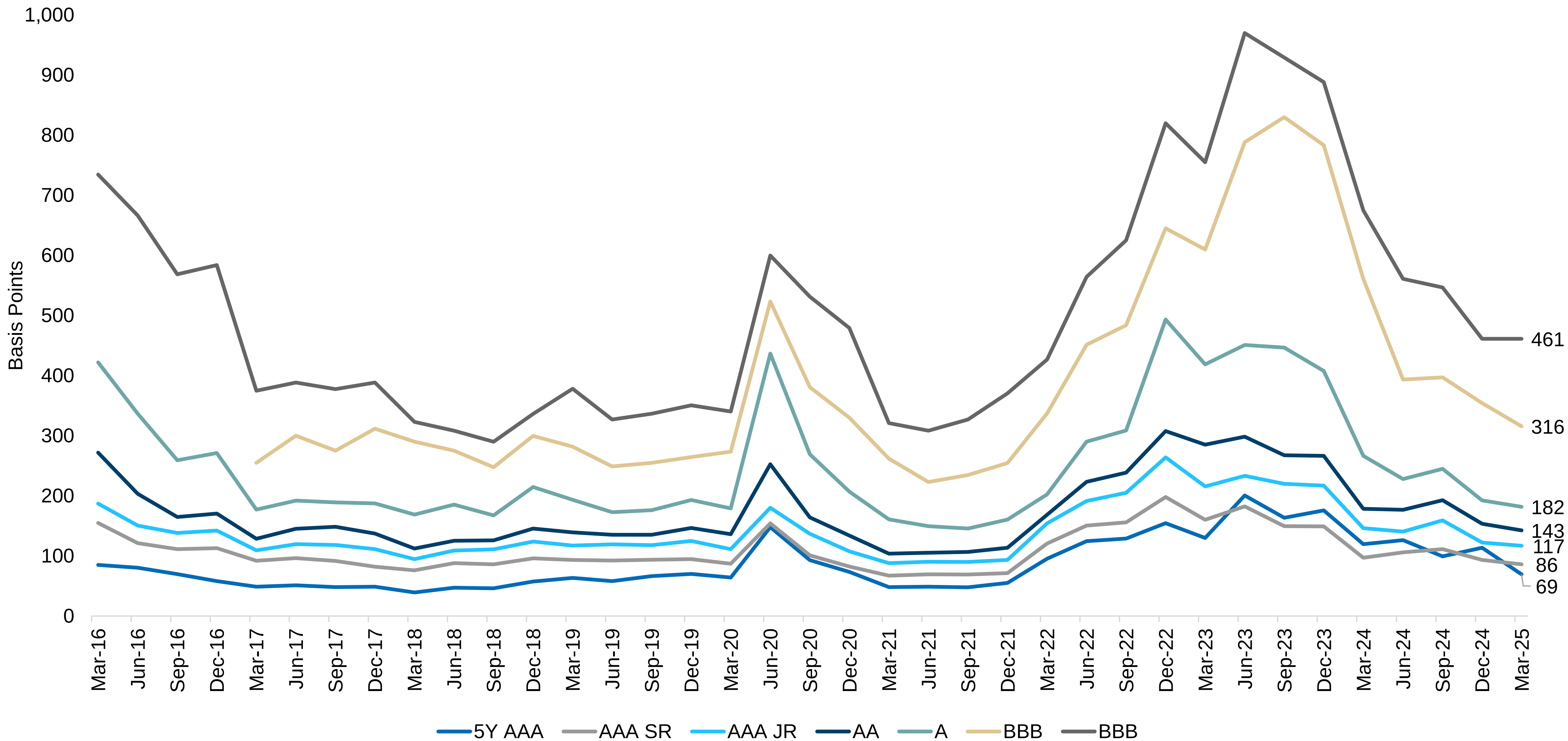


Sources: Newmark Research, Green Street as of 4/21/2025

Spreads Have Fallen Sharply, Including For Riskiest Tranches

In contrast to corporate bonds, new issue CMBS are offering wider spreads both compared with 2021 and with the pre-pandemic average across tranches. BBB/BBB- spreads have come in dramatically since mid-2023, though remain considerably wide of historical averages, suggesting that the market remains wary of distress. One factor that is helping new issues is greater faith in the accuracy of the underwriting on newer loans whereas CMBS in the secondary market were underwritten with excessively optimistic appraised values.

Average CMBS Conduit New Issuance Spreads to SOFR Swaps



Source: Trepp, Newmark Research as of 5/2/2025

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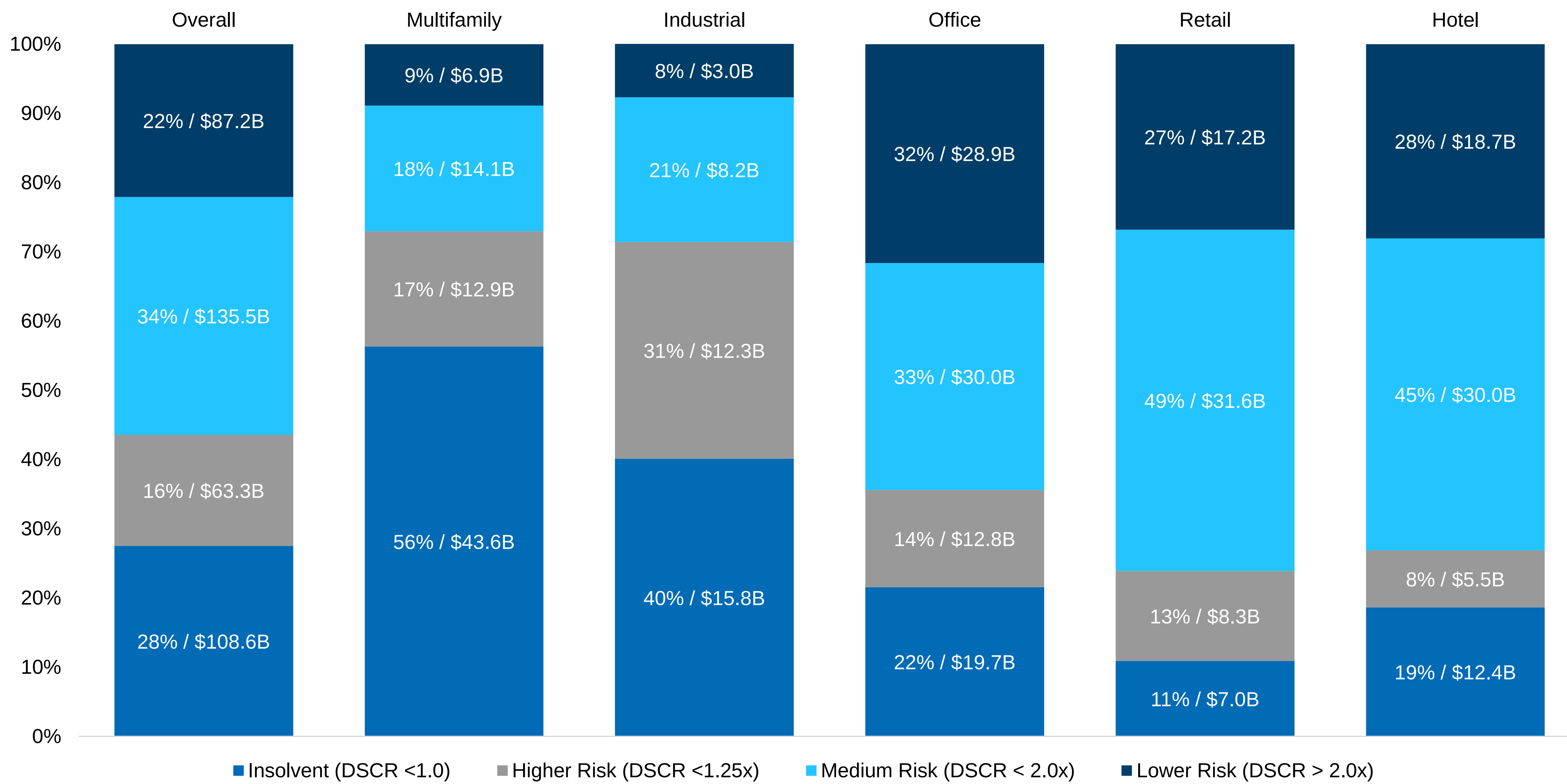
We estimate $582 billion in loans maturing between 2025 and 2027 are potentially troubled. Office, Multifamily, and floating rate loans are of particular concern.

Some Loans Will Be Able to Absorb Higher Interest Costs – Many Will Not

Even property types with strong operating fundamentals could face challenges covering new, higher interest costs. Floating rate loans on transitional product – a significant portion originated by debt funds and securitized in CRE CLO – are particularly fraught. This is largely responsible for the high portion of at-risk loans in the multifamily and industrial sectors. The securitized markets are not an isolated problem; banks engaged in a great deal of this newly risky lending. New bank regs give them a “pass” on underwater loans but not DSCRs.

DSCR Profile of Outstanding Securitized CRE Debt Maturing Before 2027



Source: Trepp, Newmark Research as of 4/21/2025

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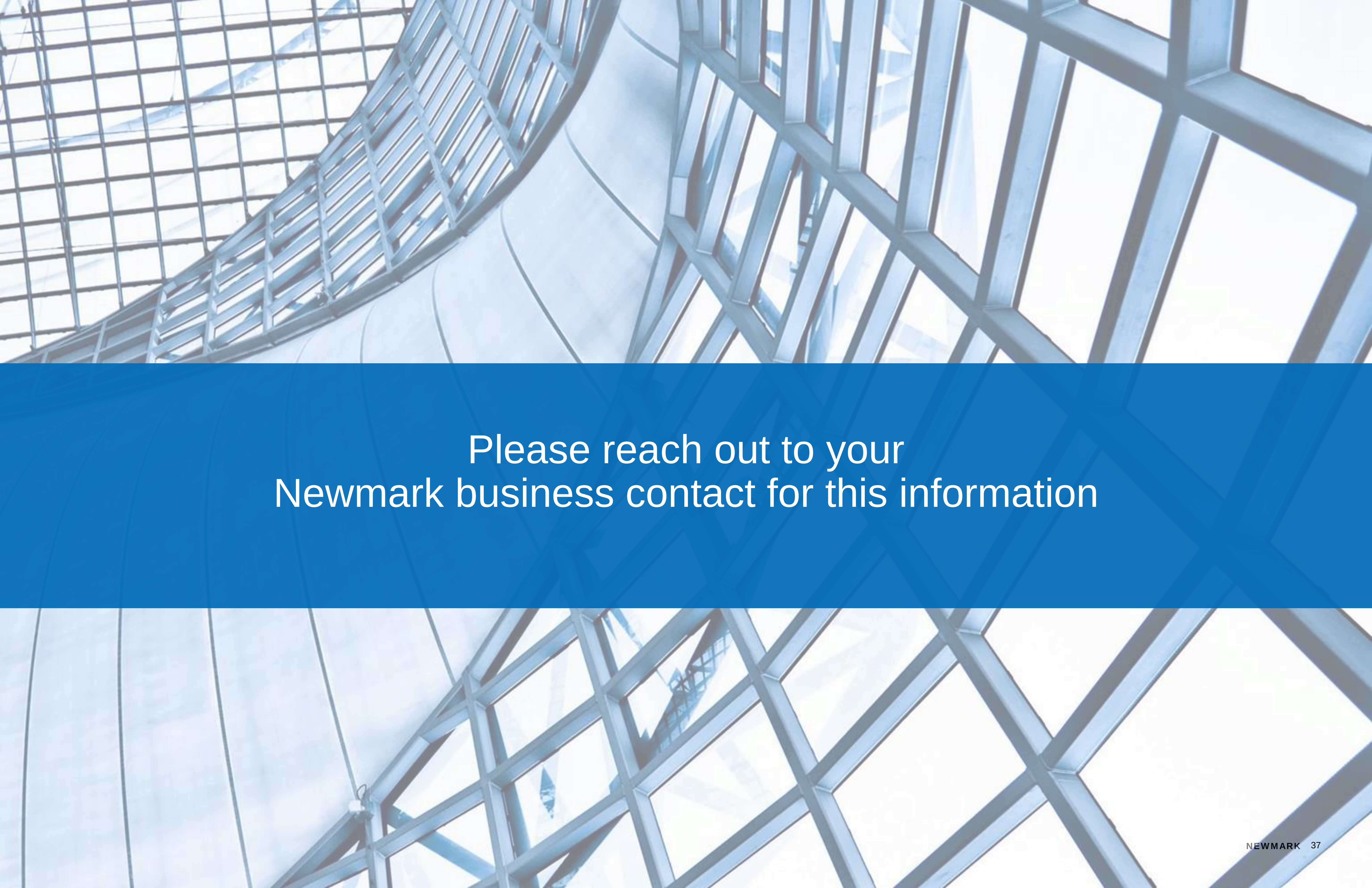

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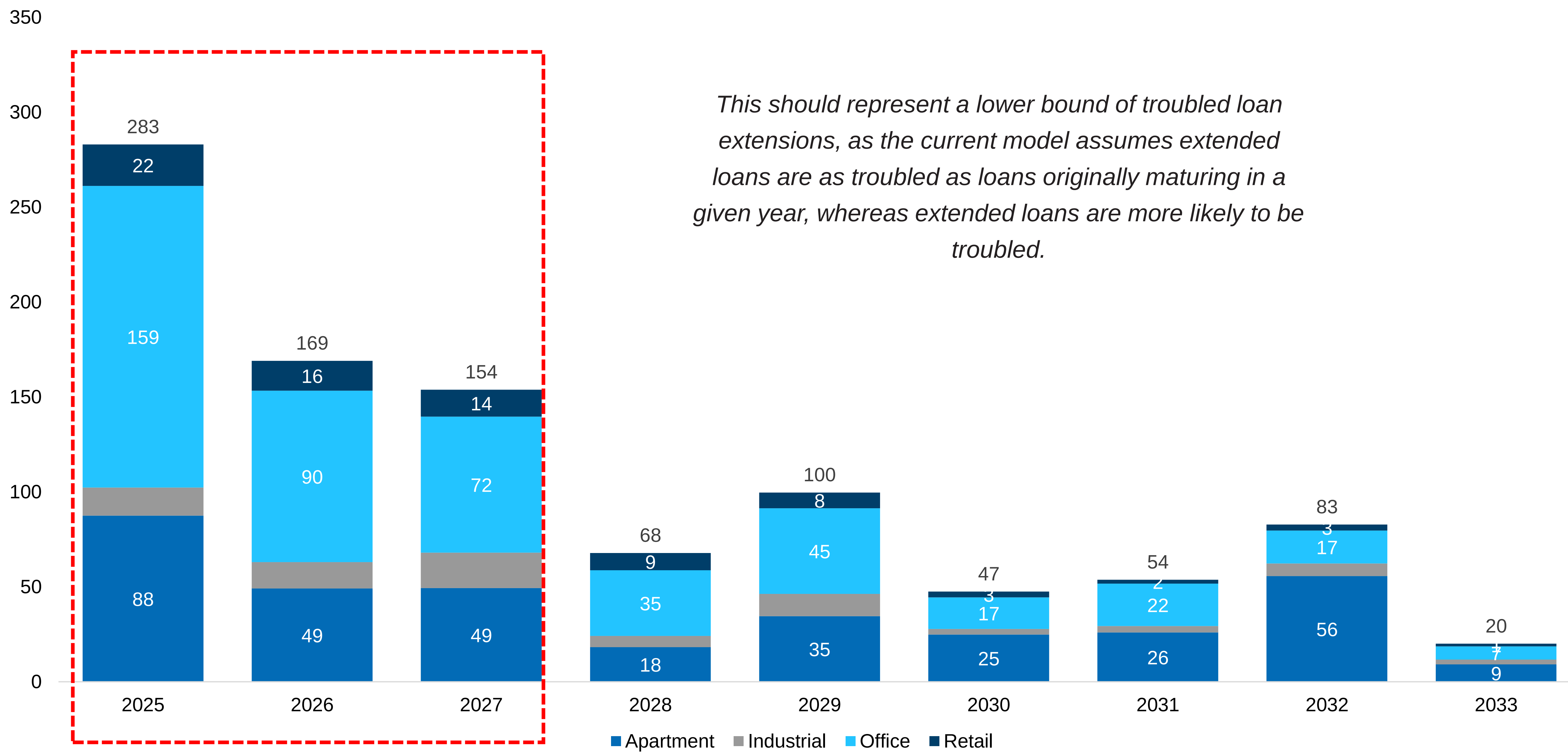
Nearly $1T of Outstanding CRE Debt is Potentially Troubled, $582B Maturing in '25-'27

Combining our analysis of mark-to-market LTVs with the structure of debt maturities, we estimate the volume of debt that currently is potentially troubled.* Office and multifamily loans constitute most potentially troubled loans, particularly in the 2025-to-2027period. The high office volume results from most loans being underwater. The distribution of LTV ratios for multifamily are more favorable overall, but the greater size of the multifamily market and the concentration of lending during the recent liquidity bubble drive high nominal exposure.

Potentially Troubled Loans by Maturity Year*



Source: Moody's, Green Street, RCA, Trepp, MBA, Newmark Research as of 4/21/2025
*Loans with an estimated senior debt LTV of 80% or greater are potentially troubled. The loans are marked-to-market using an average of cumulative changes in the Dow Jones REIT sector price indices, REIT sector enterprise value indices and Green Street sector CPPI.

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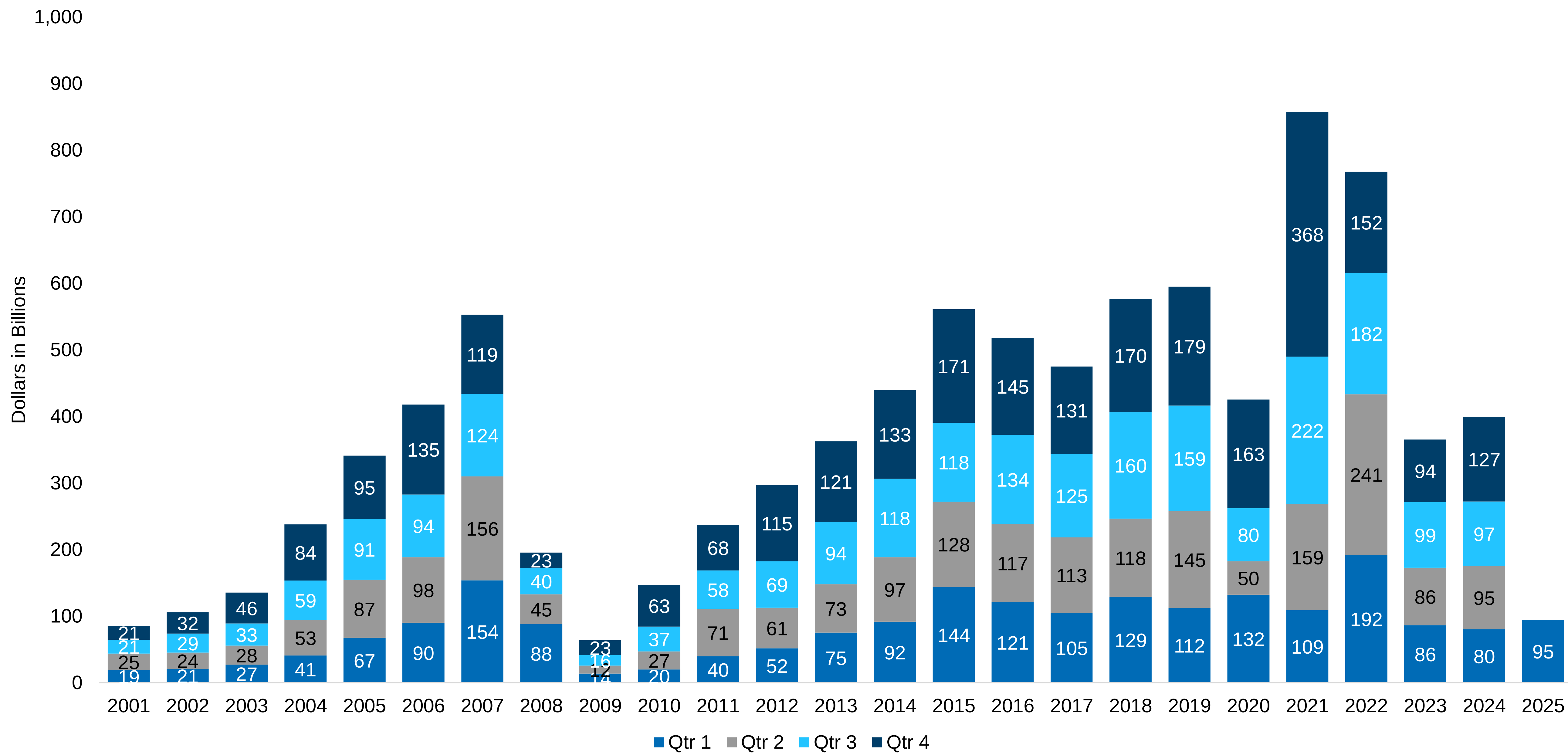
Equity Capital Markets

Sales Activity Remains Anemic, With A Possible Light At The End Of The Tunnel

Sales increased 18% compared to 1Q25, but remained down 18% compared with the 2017-to-2019 1st quarter average. While volume did show some momentum, the uncertainty introduced after tariff announcements could cause some issues. Lower interest rates have been shown to be conducive to transaction volume in the current environment, but its not clear how much interest rate relief the market will get from a tariff induced recession.

Investment Sales Volume

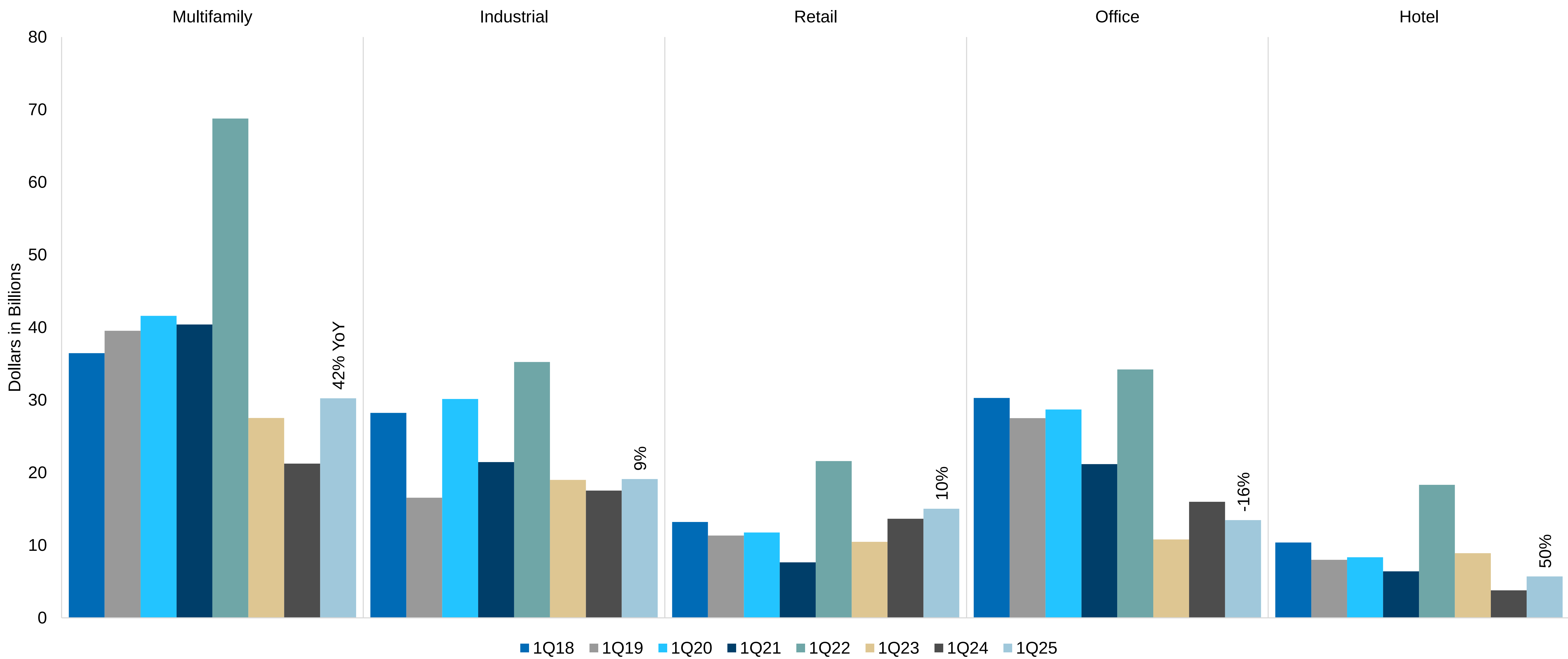


Source: RCA, Newmark Research as of 4/21/2025
*Volumes are adjusted for future expected revisions using Newmark's proprietary models

Investment Sales Showed Growth In Most Property Types

Both multifamily (+42%) and hotel (+50%) sales rose strongly year-over-year in 1Q25. Office sales, on the other hand, were down 16% compared to 1Q and 54% compared to 2017-2019 1st quarter averages. Transaction volumes for Industrial (-1%) and Apartment (-12%) were fairly close to their '17-'19 1st quarter averages, though only Retail (+9%) is above pre-pandemic norms.

Investment Sales Volume



Source: RCA, Newmark Research as of 4/21/2025
*Volumes are adjusted for future expected revisions using Newmark's proprietary models

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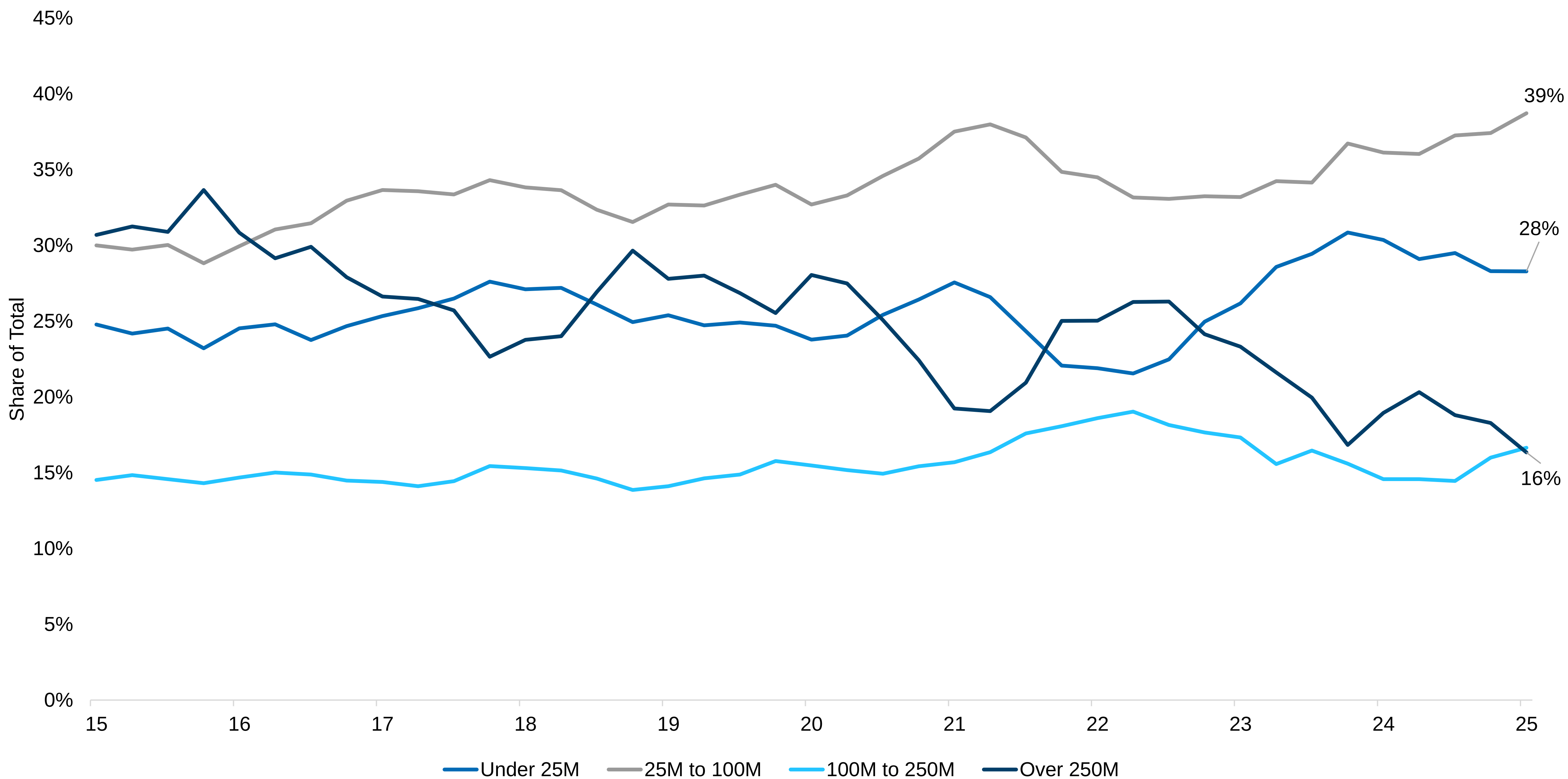
Liquidity Has Shifted Towards Smaller Deals

Deals under $100M accounted for 67% of investment sales volume in the last four quarters as compared with a long-term average of 59%. The sharpest increase has been in deals under $25M, though the share decreased 2 percentage points throughout 2024. Deals over $250M has declined sharply to just 16%, coming in below the $100M-to-250M range for the first time since 2009. These trends are interrelated with the decline in the institutional share of sales activity in favor of smaller, private capital buyers.

Rolling 4-Quarter Investment Sales Volume by Deal Size



Source: RCA, Newmark Research as of 4/21/2025

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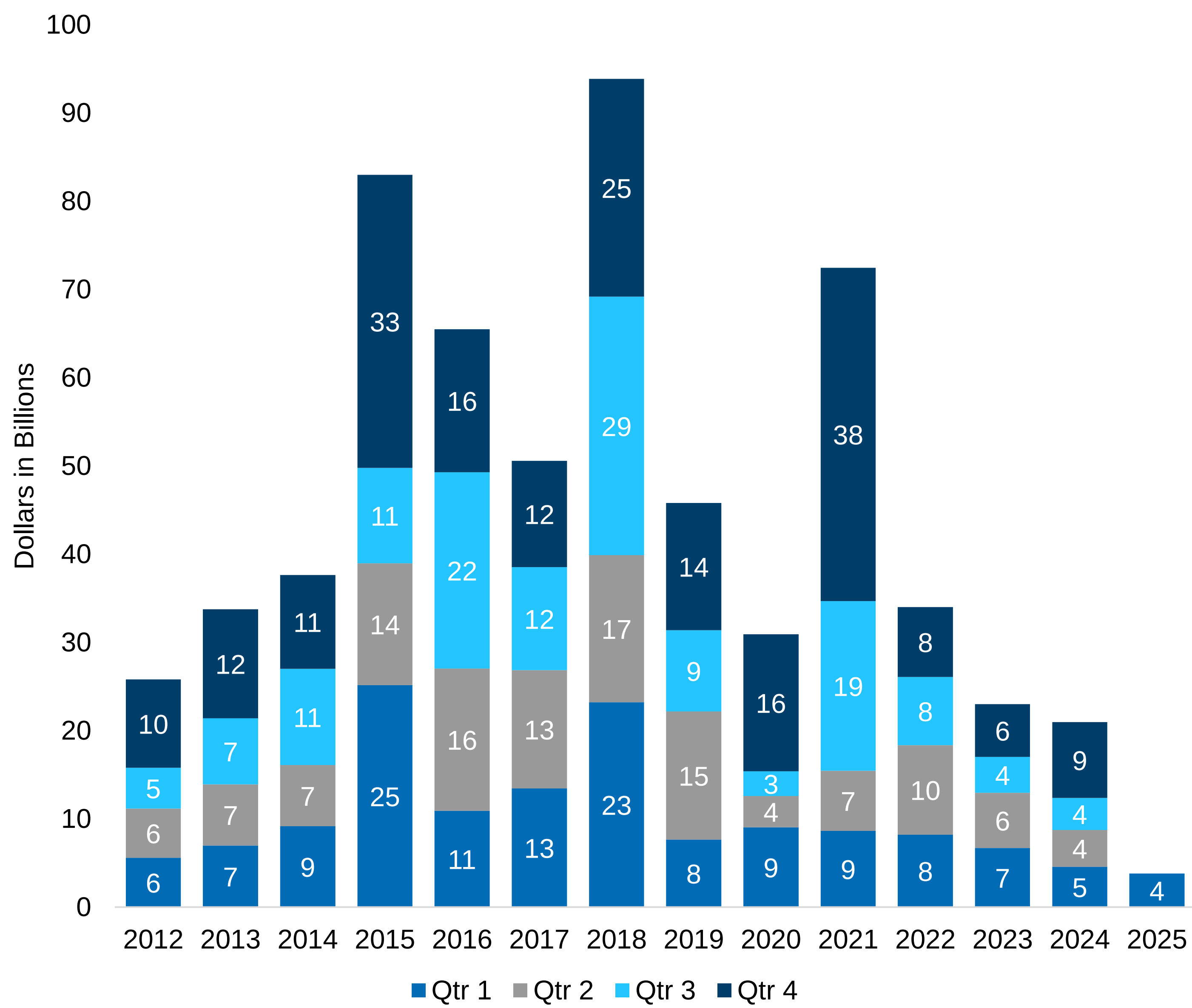
Owner occupiers have been taking advantage of market dislocation, while Industrials' multi-year streak of institutional inflow barely continued.

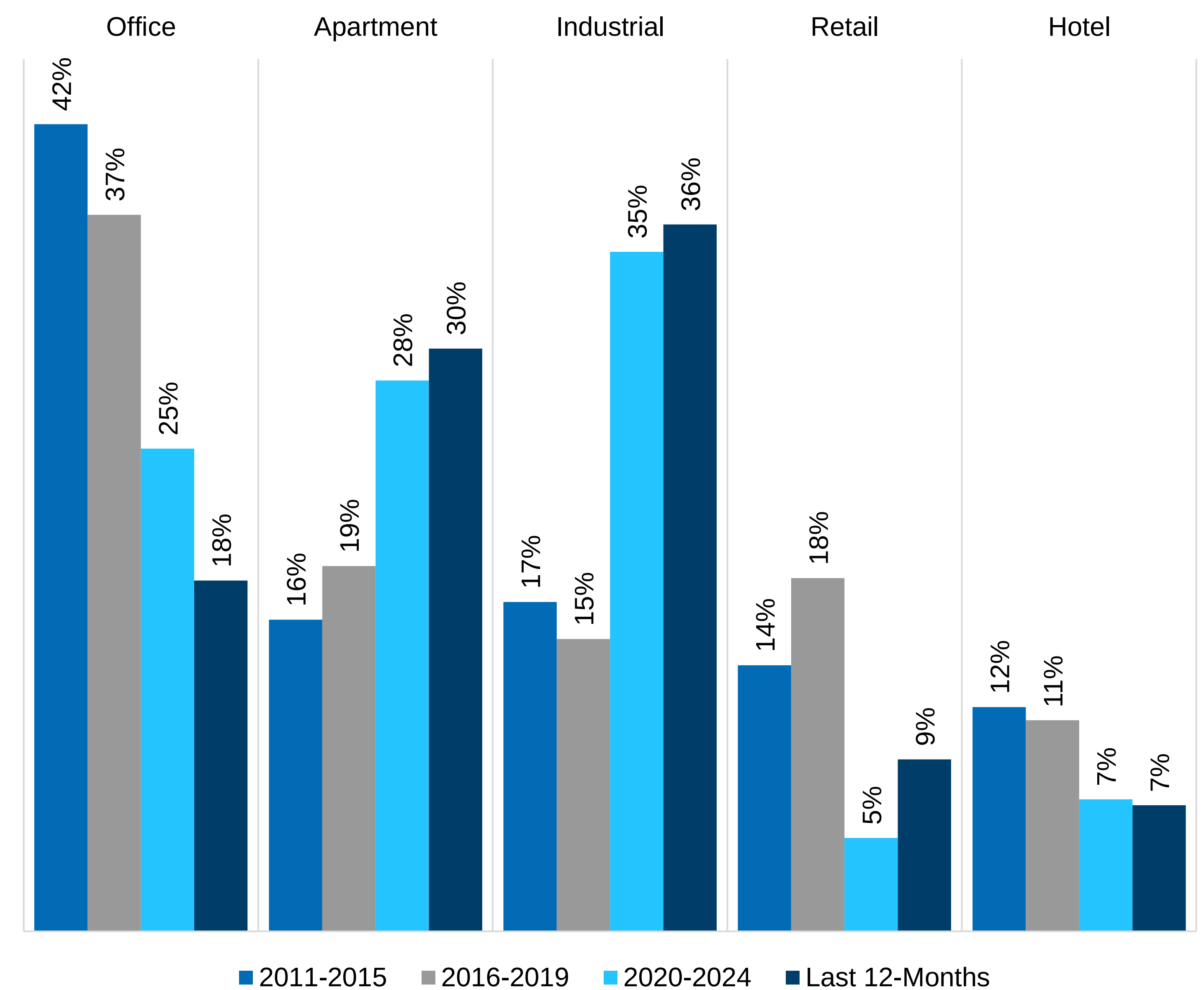
Foreign Investment Continuing To Shift To Apartment And Industrial

While Foreign Investment in Commercial Real Estate remains well below historic averages, and still declined year-over-year, the fourth quarter saw some uptick in activity. Foreign investors have keyed in on Multifamily and Industrial, though have begun to increase their allocations to Retail and Hotel as well. Continued momentum in foreign investment is likely to be complicated by a strengthening dollar, however.

Cross-Border Acquisitions Volume



Allocation of Cross-Border Acquisitions

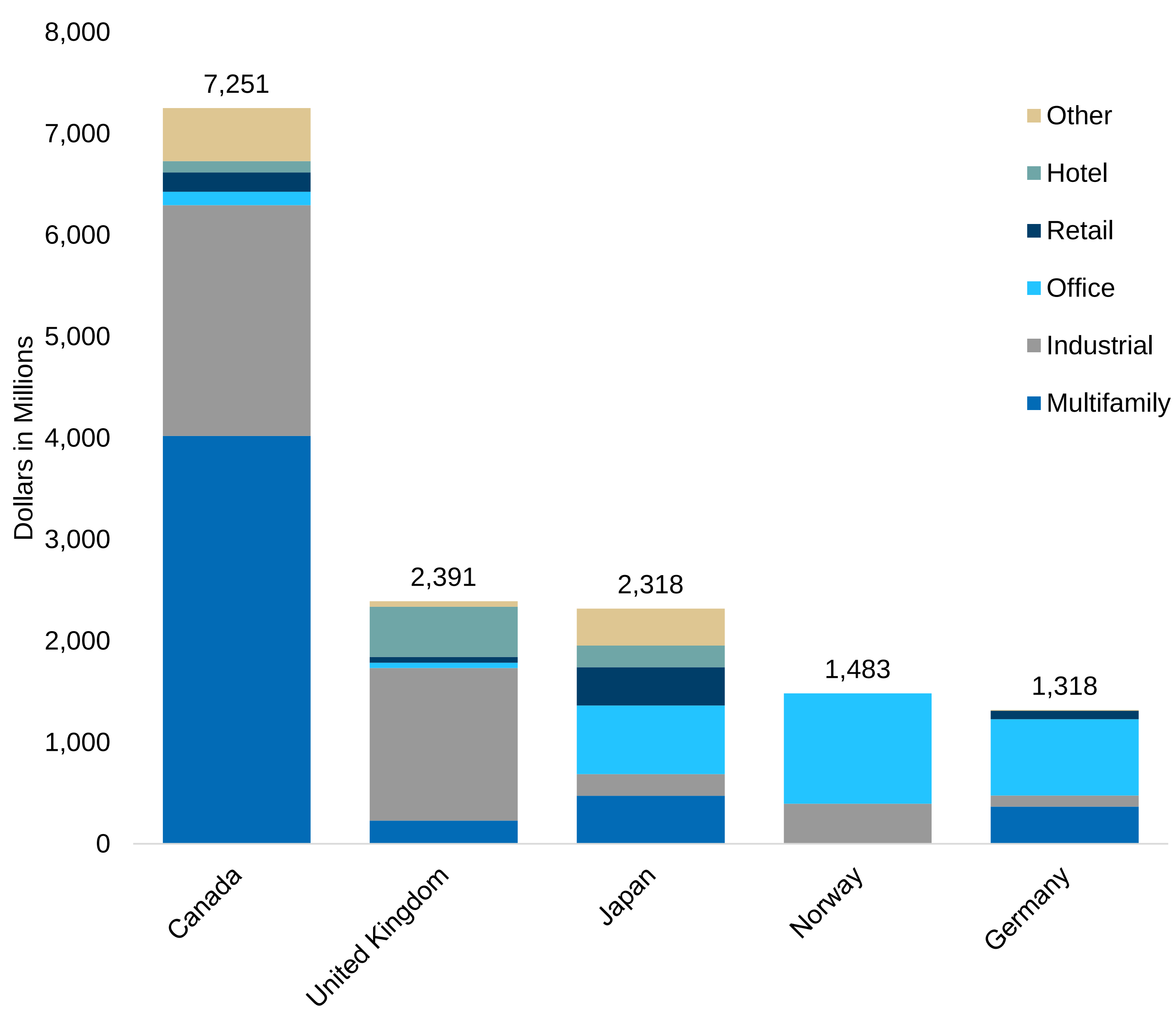


Source: Newmark Research, Real Capital Analytics as of 4/21/2025

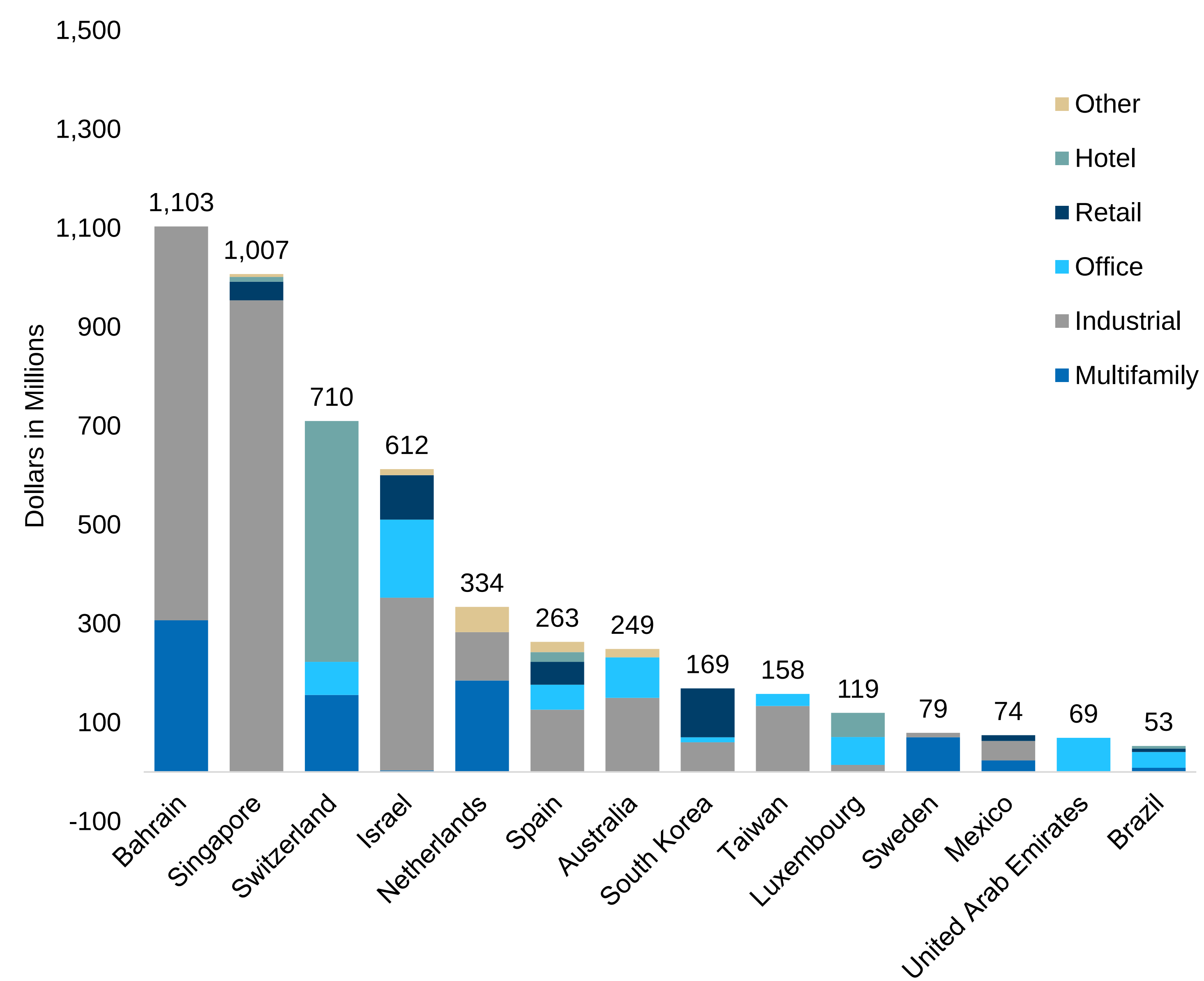
Major Inbound Investors Vary In Property Type Focus

Canada, per usual, led inbound investment in the last 12 months with a pronounced focus on industrial and multifamily investment. United Kingdom followed, concentrated on industrial. After the U.K. came Japan, Norway, and Germany. Norway stood apart in having relatively high office investment, with all of its investment coming from buying out its partner in a gateway office portfolio J.V.

Top Five Sources of Inbound Capital: Last 12 Months

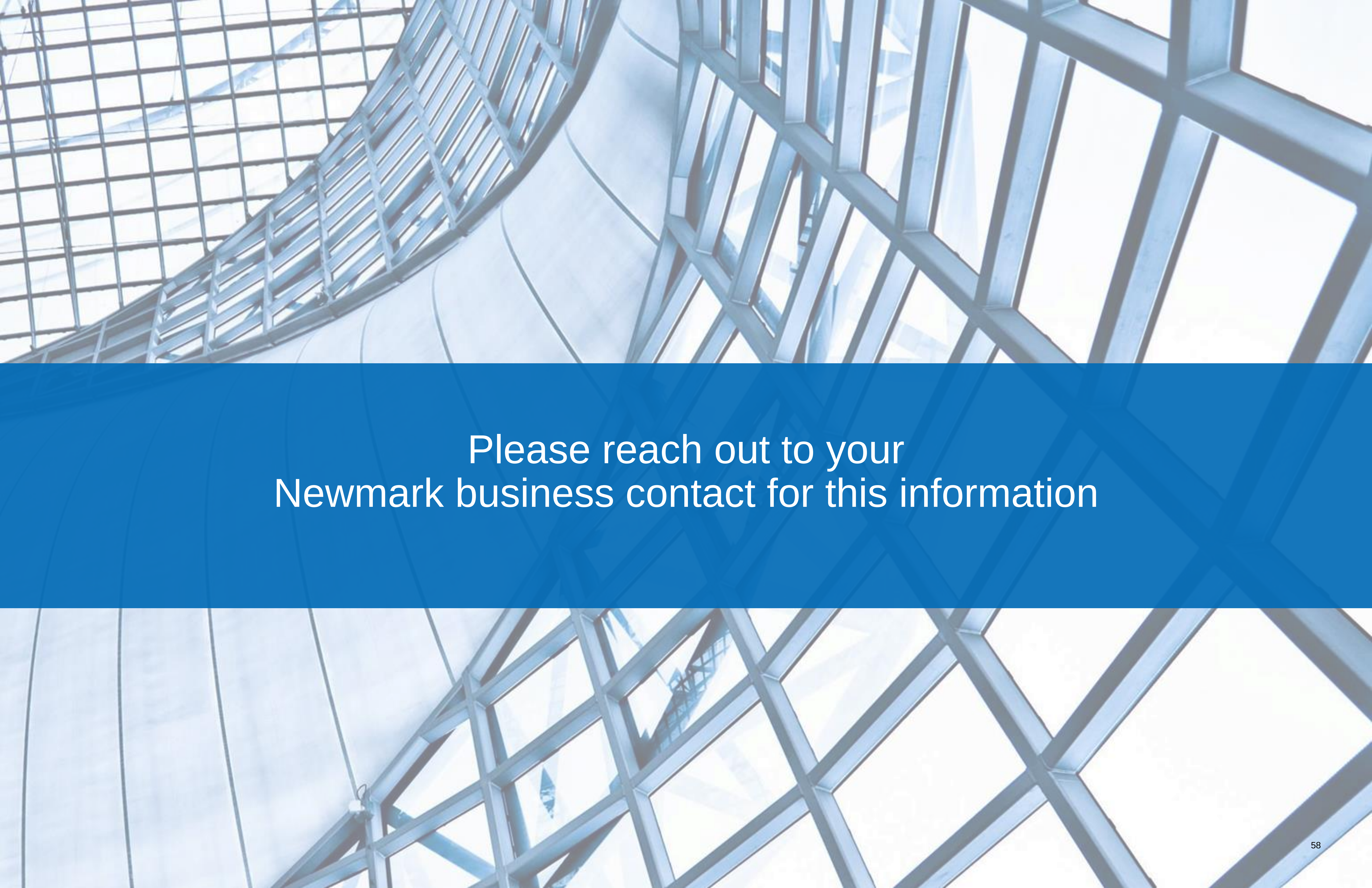


Remaining Sources of Inbound Capital: Last 12 Months



Source: RCA, Newmark Research as of 4/21/2025

Supply of Capital



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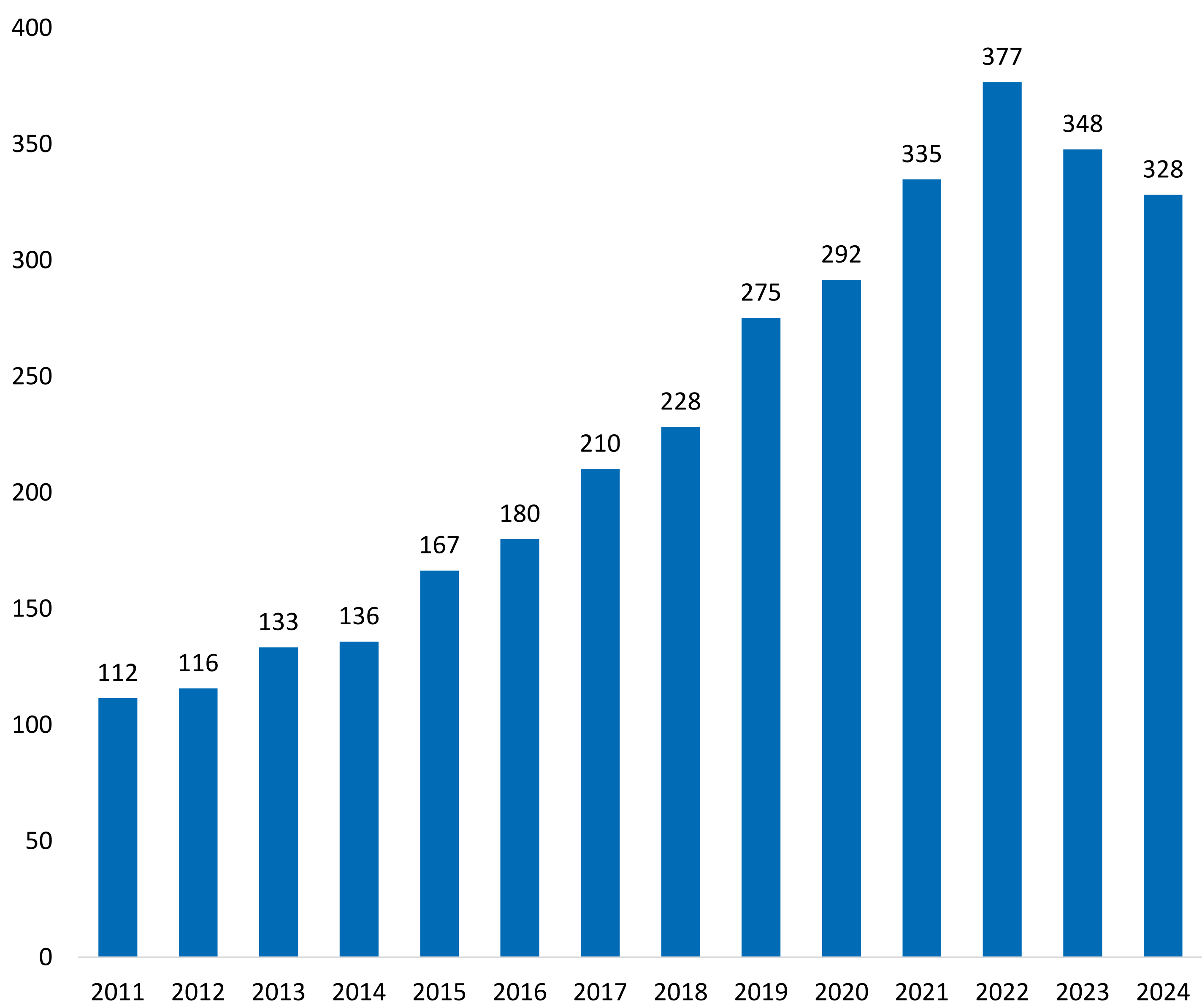
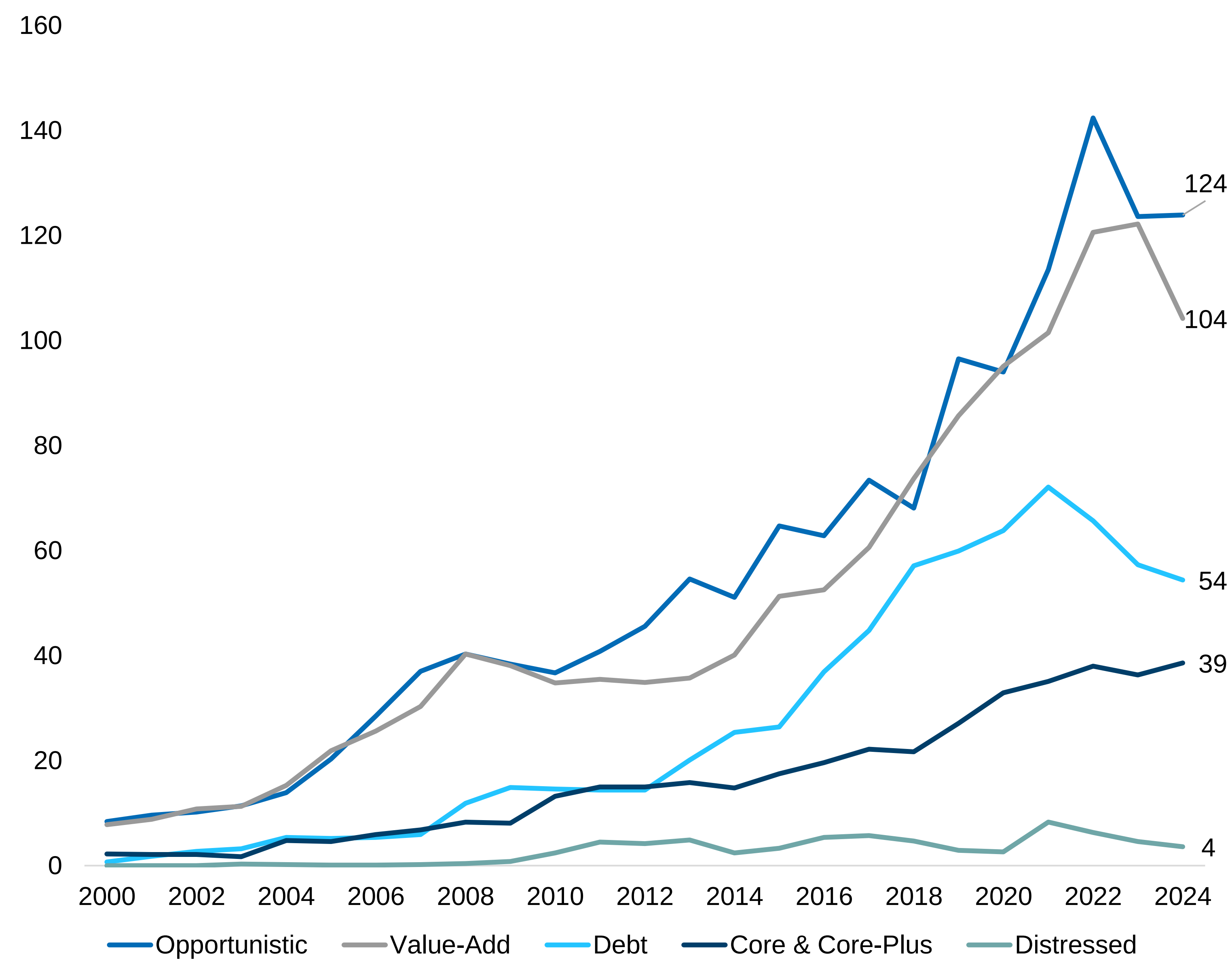
Private Equity Dry Powder Has Declined From 2022 Peak, But Still Elevated Overall

Dry powder at closed-end funds is 13% below its December 2022 peak, reflecting declines in dry powder at value-add, opportunistic funds and Debt Funds. Core and value add dry powder has remained relatively flat, while distressed and opportunistic has seen significant decreases, though unrealized values in those strategies increased 6% over the last two years.

Dry Powder – Closed-End Funds



Dry Powder by Strategy*



Source: Newmark Research, Preqin as of 4/29/2025

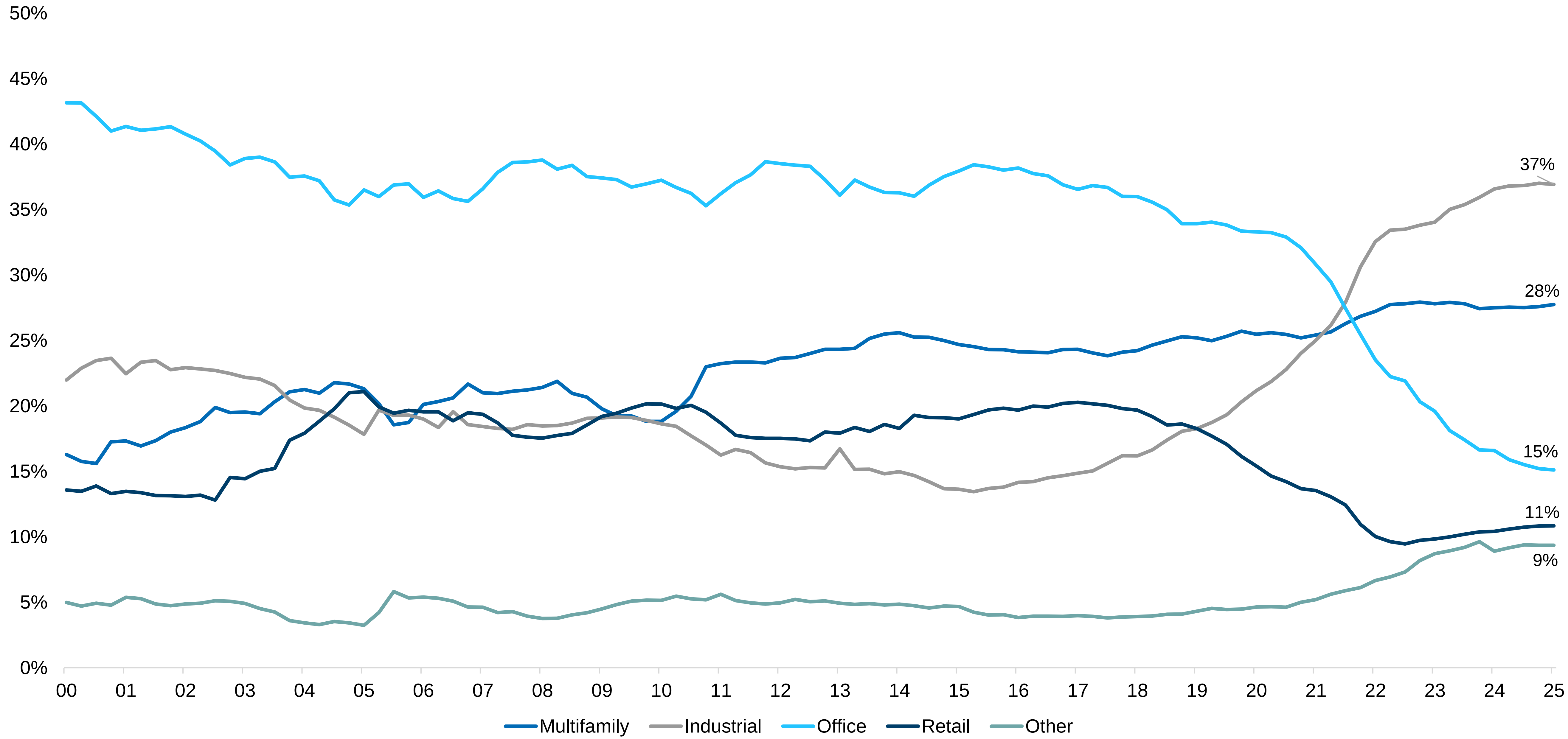
*Not shown: Fund of funds, co-investments, and secondaries strategies

Institutional returns are positive, but ODCE outflows have largely continued unabated.

ODCE Has Undergone An Industrial Revolution

In recent years, industrial has emerged as the dominant property type within the ODCE fund universe. This has occurred through a combination of reducing office holdings both by property count and by holding value in absolute terms and even more so relative to industrial. While industrial values have been written down since 3Q22 and the number of properties held by ODCE funds has only decreased by 6%, similar to the 4% decline in property count overall, greater write-downs in office have driven the industrial share still higher.

ODCE Value-Weighted Property Allocation



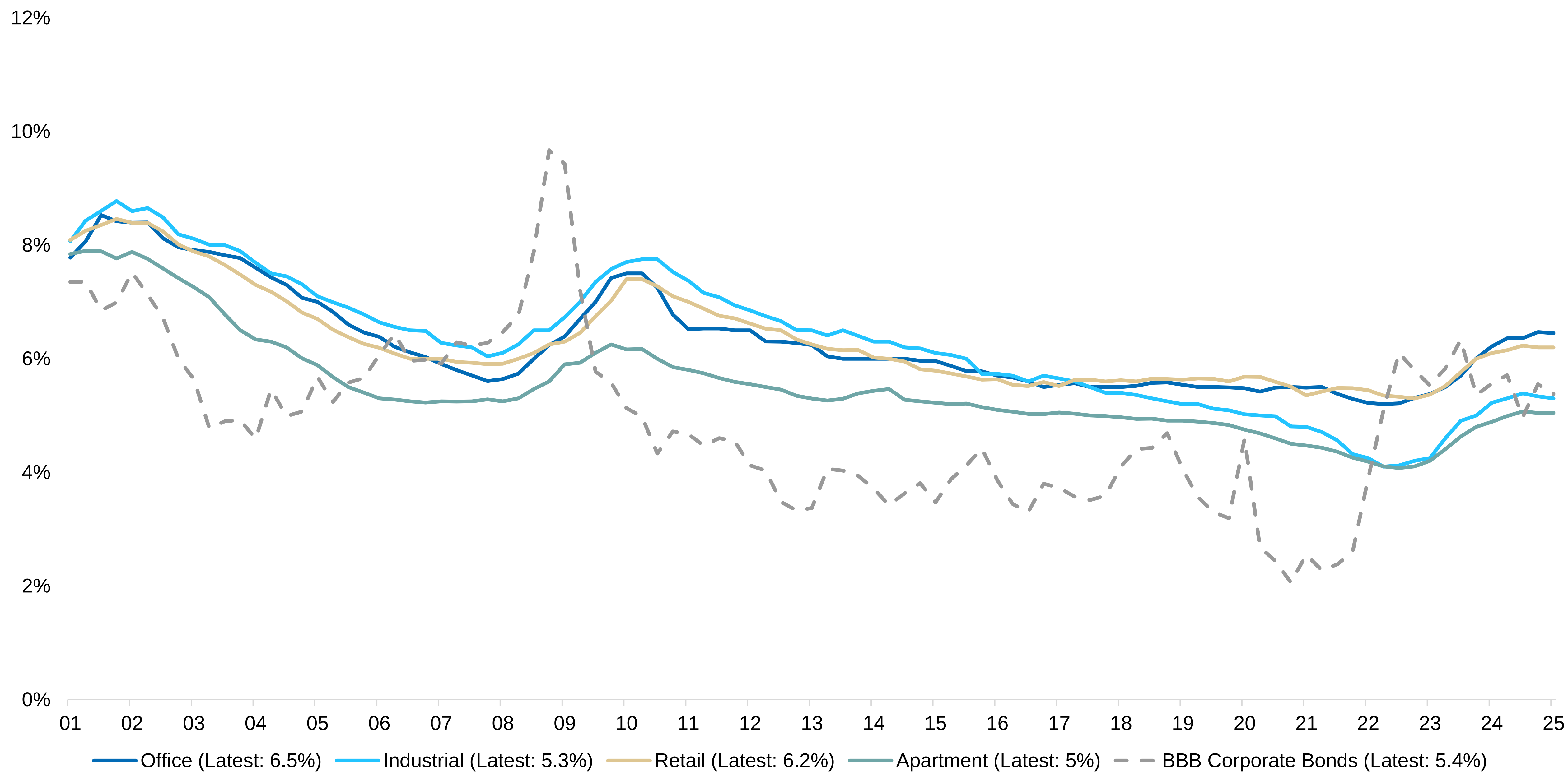
Source: NCREIF, Newmark Research as of 4/30/2025

Pricing and Returns

Transaction Cap Rates Stable In 25, Rate Pressure Eased Briefly Before Strengthening

Cap rates continue to face upward pressure from elevated debt costs and higher yields on alternatives to CRE investments; however, in 1Q25, transaction cap rates were effectively flat across the major property types. Treasury yields largely declined in the first quarter, falling from 4.8% at the start of January to 4.2% by the end of March, with post-Liberation day rates largely remaining between 4% and 4.5%. Spread normalization remains the primary downside risk and is likely to limit any cap rate compression in the event of further reductions in long-term interest rates.

Top Quartile Transaction Cap Rate*



Source: Real Capital Analytics, Federal Reserve Bank of St. Louis, Moody's as of 4/21/2025

*Quarterly

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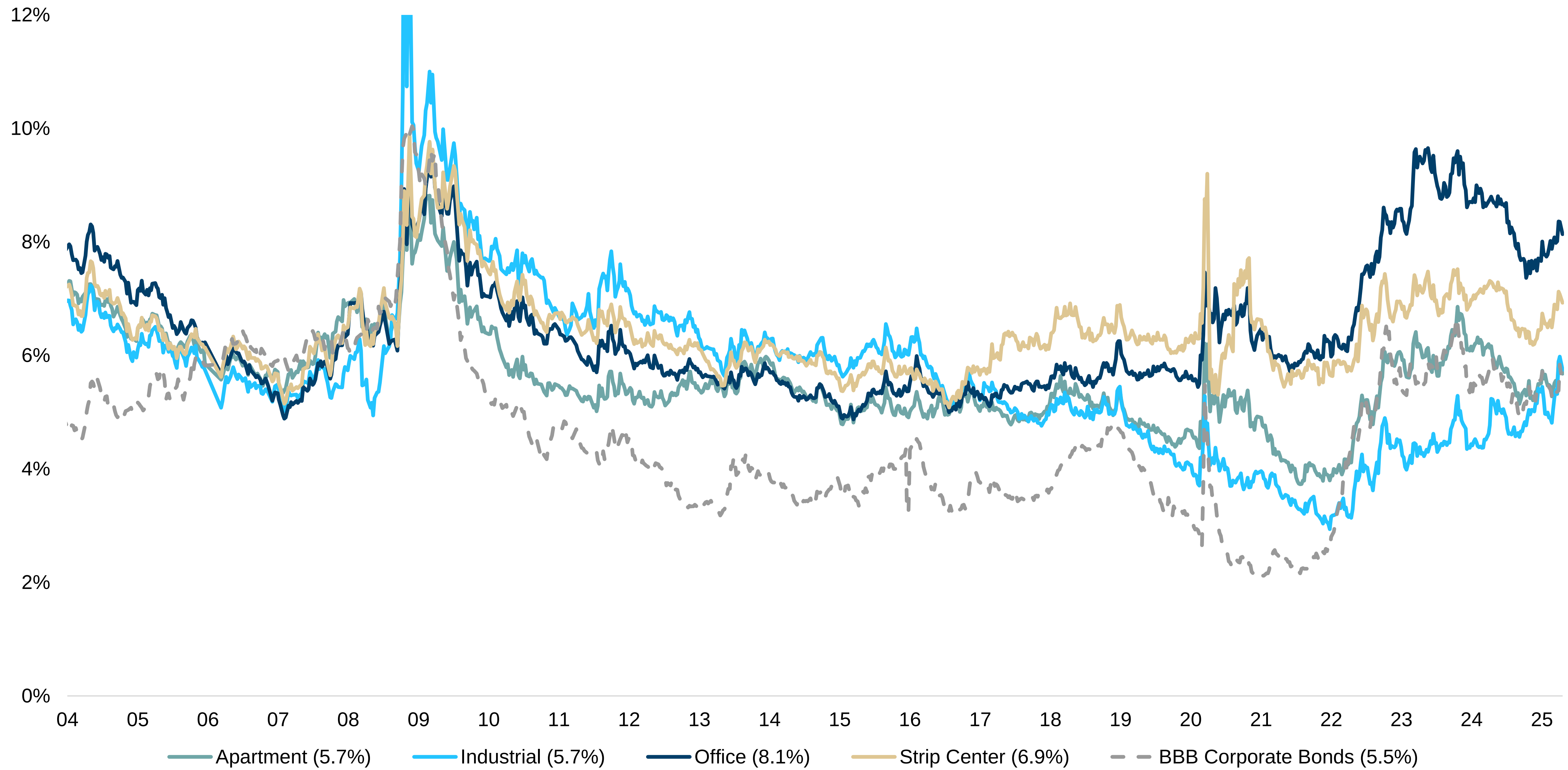
Public Markets Highly Sensitive To Rates; Continue To Underprice Risk

Office spread is 74th percentile relative to history*, apartment 18th, industrial 28th and strip center 36th. Investors need to ask themselves is, “Is this asset class really less risky than it has been except for X percent of the time?” That’s what accepting these spreads signifies. This is coherent if 1) long-term rates fall significantly further and faster than current market pricing suggest 2) credit spreads fall materially from already historically tight levels 3) NOI growth is materially higher than history and/or 4) investors accept lower returns per unit risk.

REIT Implied Nominal Cap Rate



Source: Green Street, FRED, Moody’s, Newmark Research as of 4/21/2025

*Using normal distribution

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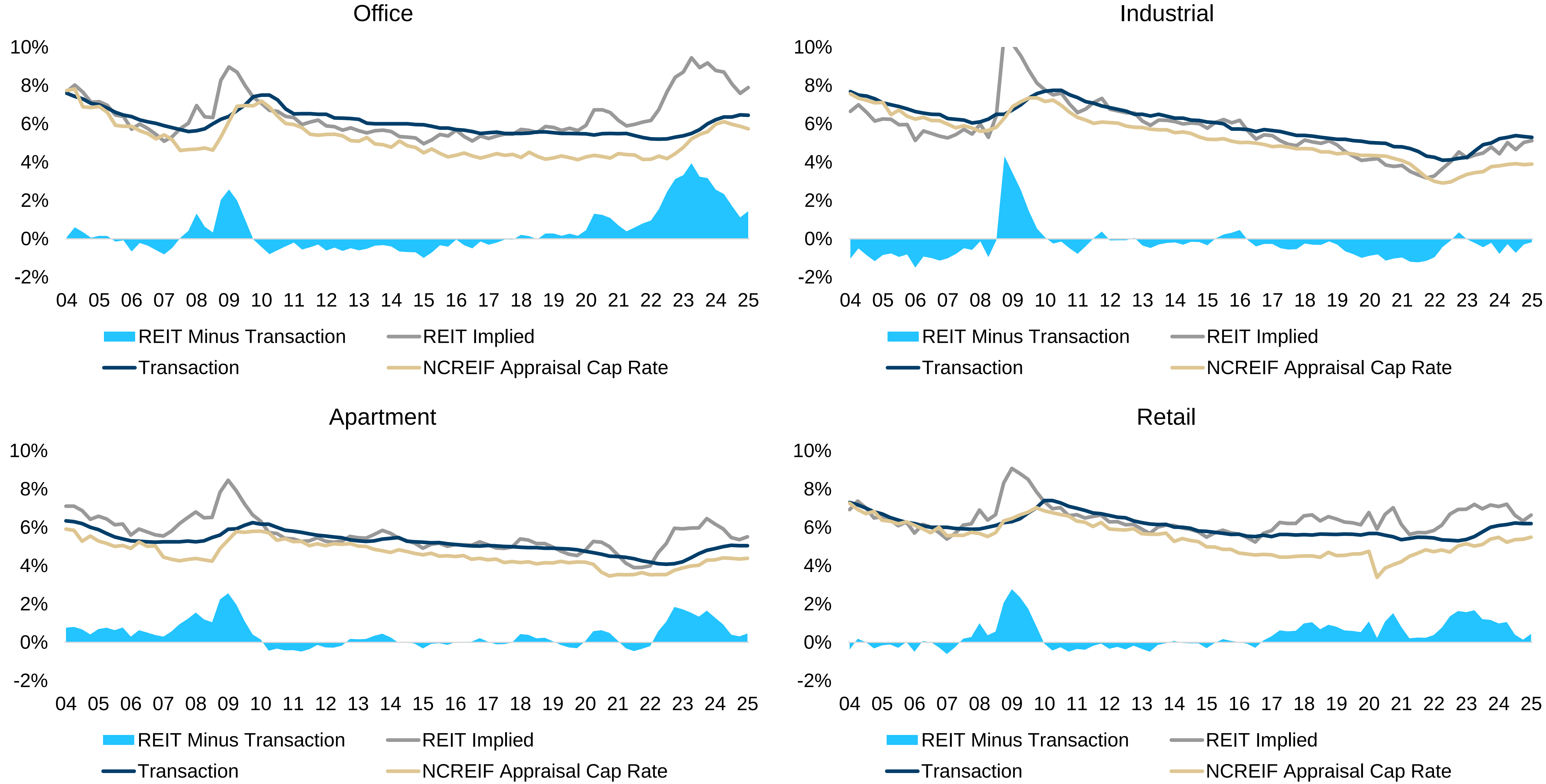
REIT Valuations Attractive Relative To Core Properties Trading In Private Market

Over the last 20 years, private and public market cap rates have largely tracked one another with only ephemeral periods of disconnect. Public markets are certainly more volatile, but they have also proved reliable forward indicators for subsequent movements in private market pricing. The disconnect between REIT and transaction pricing is historically large with REITs offering significant discounts, especially for office. Investors should look to take advantage (or take cover) as reconvergence occurs over the coming quarters.

Top Quartile Transaction Cap Rates vs. REIT Implied Cap Rates



Source: Green Street, RCA, Newmark Research as of 4/21/2025

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Cap rate spreads remain narrow, though are beginning to approach normal ranges. Public market and transaction cap rates continue to indicate additional cap rate movement.

REIT Returns High On Retail While Industrial And Office Lag

All REIT sectors aside from Healthcare took a step back in 1Q25. In the last 12 months, Health Care (+50%), Apartments (+18%), Retail (+17%) and Strip Centers (+16%) have outperformed the overall REIT index (+14%). On the other side, Commercial Mortgage (-1%), Industrial (-1%), and Office (-5%) REIT pricing in 2025 continues to lag behind the All REIT index average.

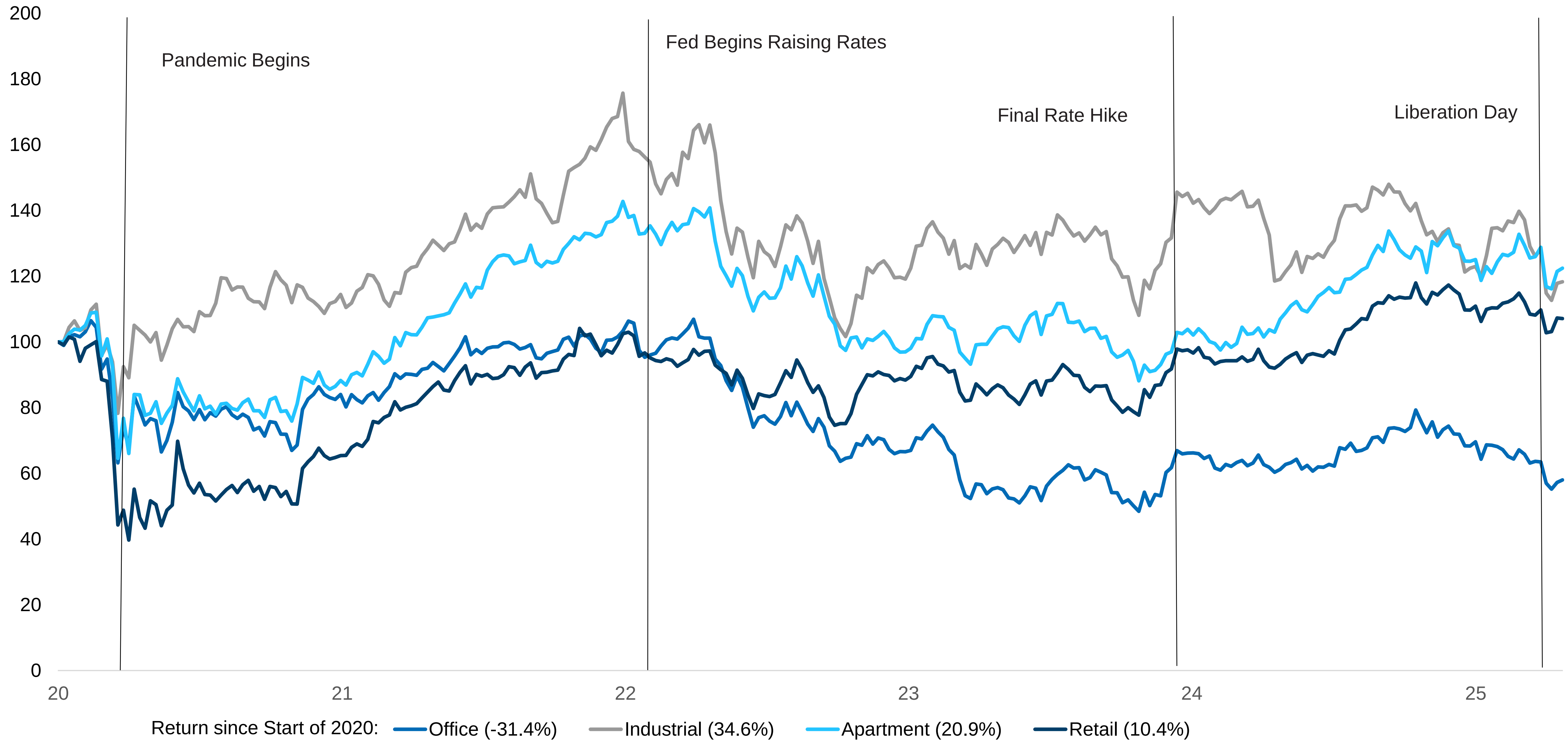
Dow Jones REIT Index Total Returns

Source: Dow Jones, Moody's, Newmark Research as of 4/28/2025

REIT Returns Have Moved In Lock Step With Rate Expectations

REIT Returns have been highly sensitive to changing rate expectations, as the markets predictions on the terminal rate have swung on the heels of Fed meetings and economic data. After the initial rate hike in early 2022, total returns for REITs fell precipitously, particularly in Office and Apartment. Since the final rate hike in July 2023, however, Retail (+17%) and Apartment (+15%) have regained some of what they lost, while Industrial (-12%) and Office (-7%) have continued to decline.

REIT Return Index : Base January, 2020

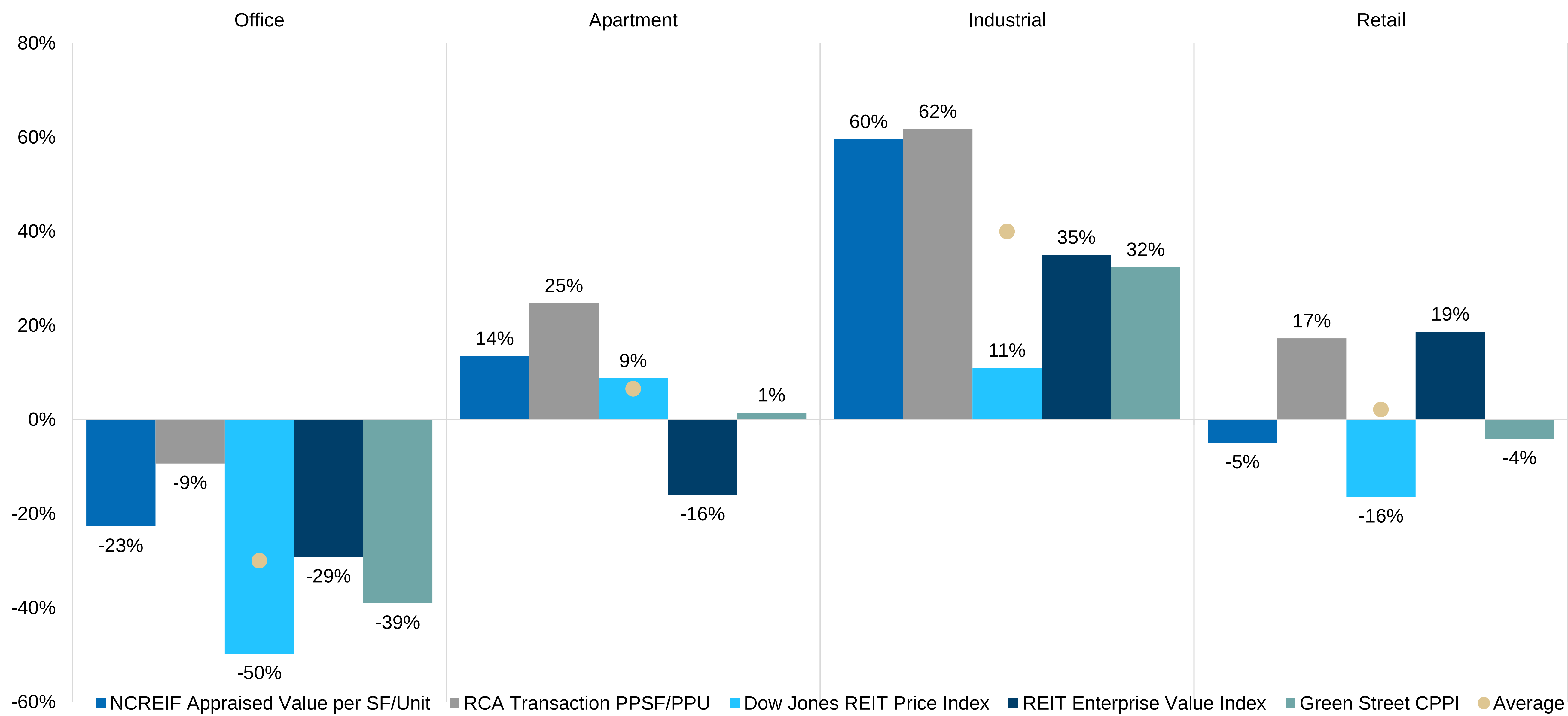


Source: Green Street, FRED, Moody's, Newmark Research as of 4/21/2025

What Has Happened To Values? Depends On The Benchmark

Industrial is the only sector for which a range of benchmarks show large and significant gains since 4Q19. Conversely, most benchmarks show office values down, but there is a large difference between appraisal / transaction-based measures, which show modest depreciation and measures informed by the public markets. The latter seem far more realistic. Multifamily markets show the same cleavage with the enterprise value a clear outlier. Retail measures, on the other hand, have little consistency.

Comparison of Value Benchmarks: Cumulative Index Change since 4Q19

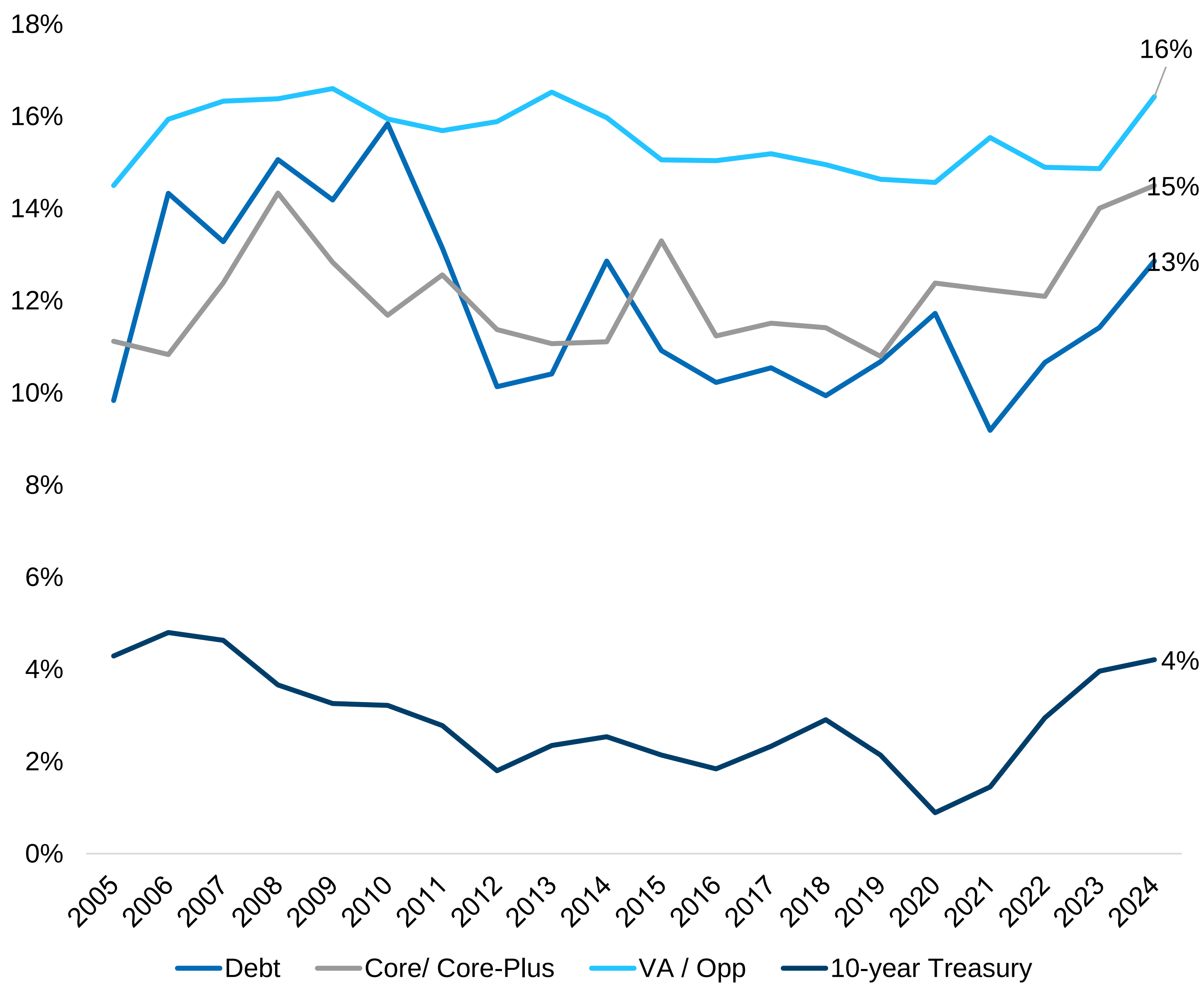


Source: NCREIF, RCA, Dow Jones, Green Street, Moody's Analytics, Newmark Research as of 4/21/2025

Private Equity Target Returns Surprisingly Insensitive To Changes In Rate Environment

Generally, investors should only be willing to invest in risky strategies to the extent that they expect higher returns compared to less risky investments. Accordingly, if the return to low-risk investments (e.g. Treasuries) rise, then required rates of return should rise for riskier strategies, such as real estate private equity. Since 2005, private-equity target IRRs have born little relation to changes in Treasury yields. In effect, this blunts the impact of rate volatility on valuations. This may have begun to change – at least for debt and core funds, which are now targeting returns within spitting distance of value-added and opportunity funds. This in turn could limit the latter's ability to raise capital.

Average Target Net IRR at Private Equity Real Estate Funds by Vintage Year



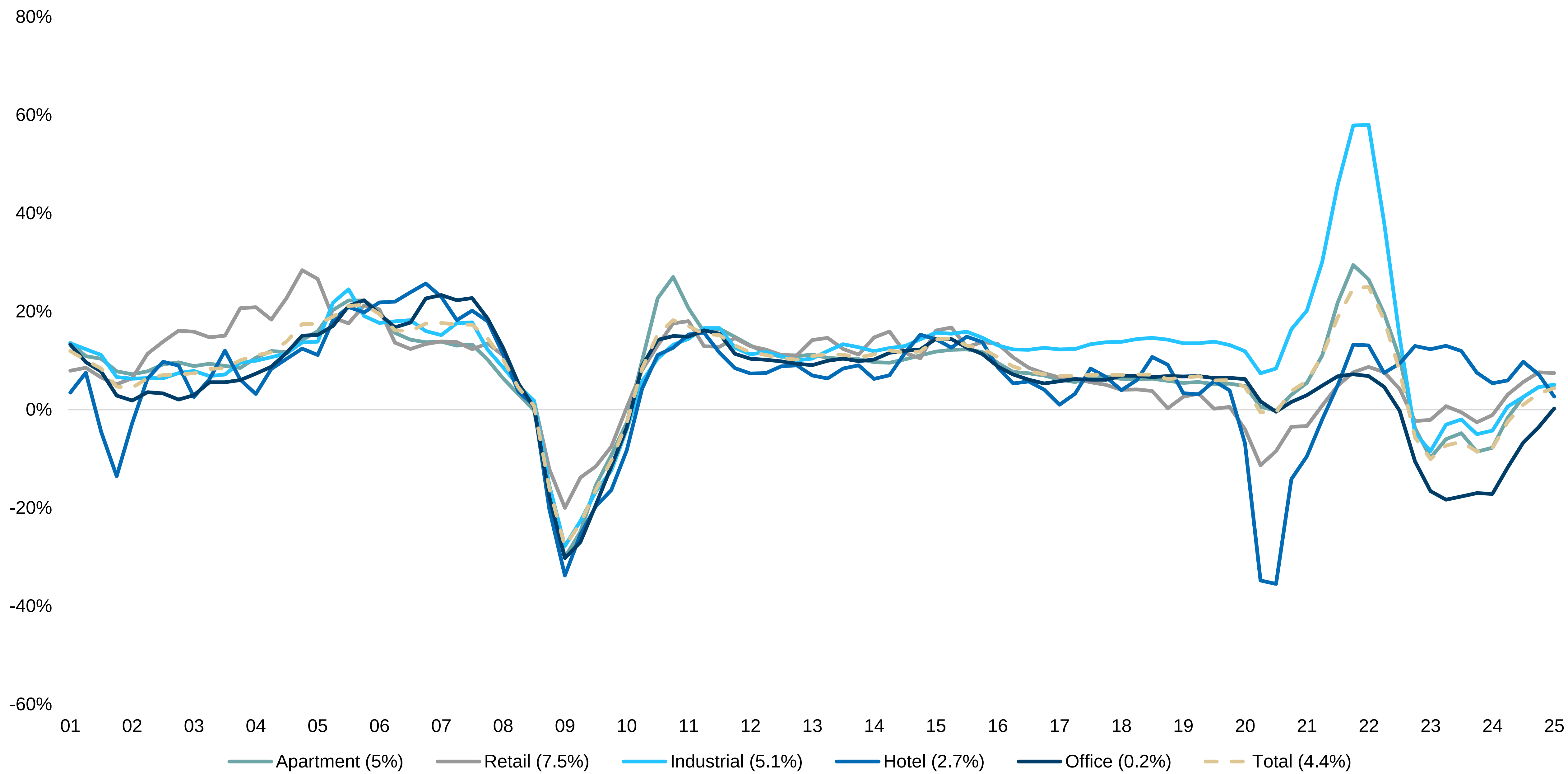
Average Target IRR less 10-Year Treasury Yield

Source: Preqin, Federal Reserve, Newmark Research as of 4/30/2025

Private Market Core Property Returns Continued To Accelerate In 1Q25

Property returns improved broadly in 1Q25 according to NCREIF, though the acceleration in returns leveled off somewhat. The 6-month average annualized Total Return (+4.4%) index turned positive for the third straight quarter, buoyed by an acceleration return in all major property types other than Hotel. Office returns (+0.2%) were positive for the first time since 2Q22, while Retail (+7.5%) returns beat the total return index for an 10th straight quarter.

NCREIF National Property Index 12-Month Average Quarterly Annualized Total Return

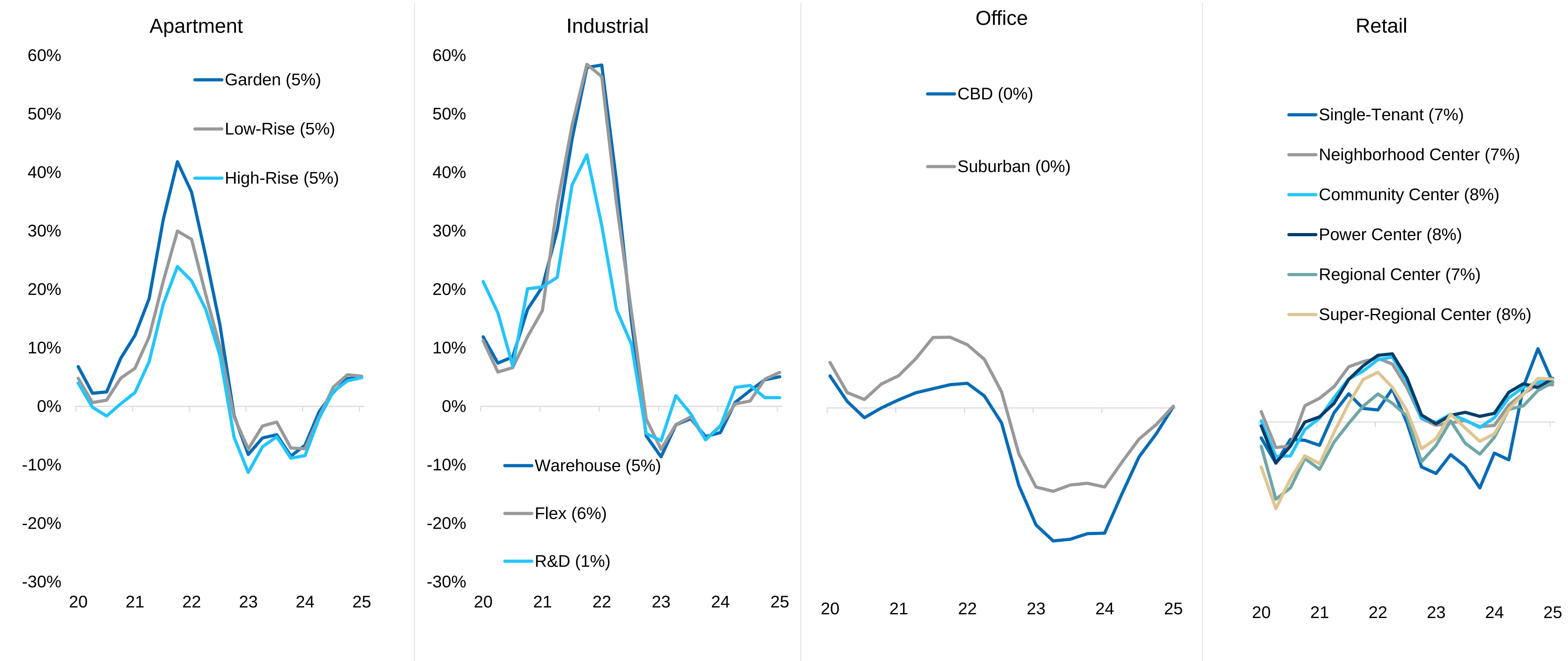


Source: NCREIF, Newmark Research as of 4/30/2025

Returns Broadly Improved Sequentially Across Property Subtypes In 1Q25

Multifamily returns continued to improve in 1Q25 with little difference in the subtypes. Warehouse, R&D, and Flex returns were positive a fourth straight quarter after 2 years of negative returns. CBD Office matched Suburban office, though both posted a positive return for the first time since 2Q22. All retail subtypes recorded positive total returns for the third straight quarter.

NCREIF National Property Index Rolling 12-Month Average Annualized Returns



Source: NCREIF, Newmark Research as of 4/30/2025

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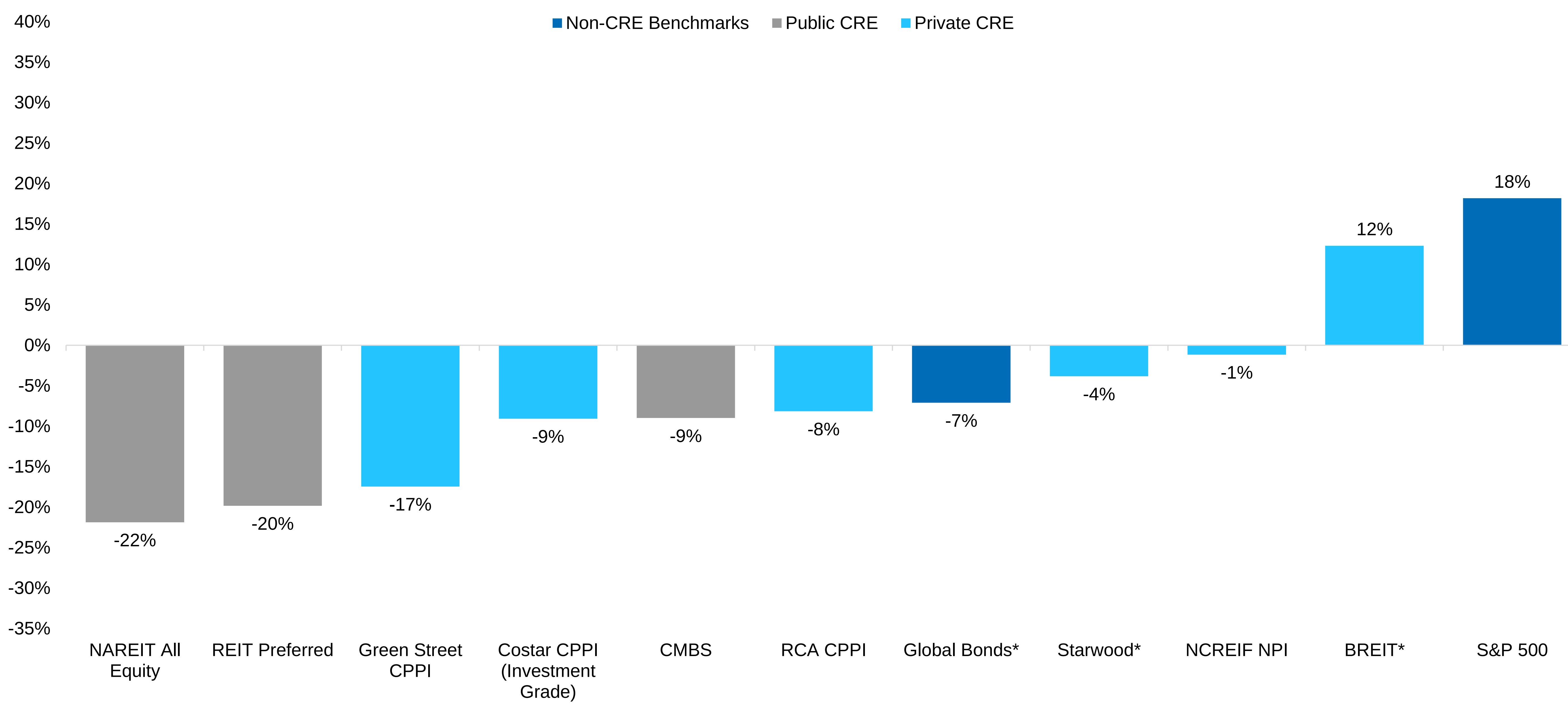
Private Markets Continue To Lag Public Markets In Adjusting Valuations

The non-traded REIT sector seems to be particularly disjointed from other benchmarks.

Cumulative Return Since December 2021



Source: Standard & Poor's, NAREIT, Bloomberg, iShares, RCA, Green Street, Costar as of 5/1/2025

*Total return; all else price return

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