SVN RESEARCH

State of the Market 2024

ALTERNATIVES

SINGLE-FAMILY RENTALS

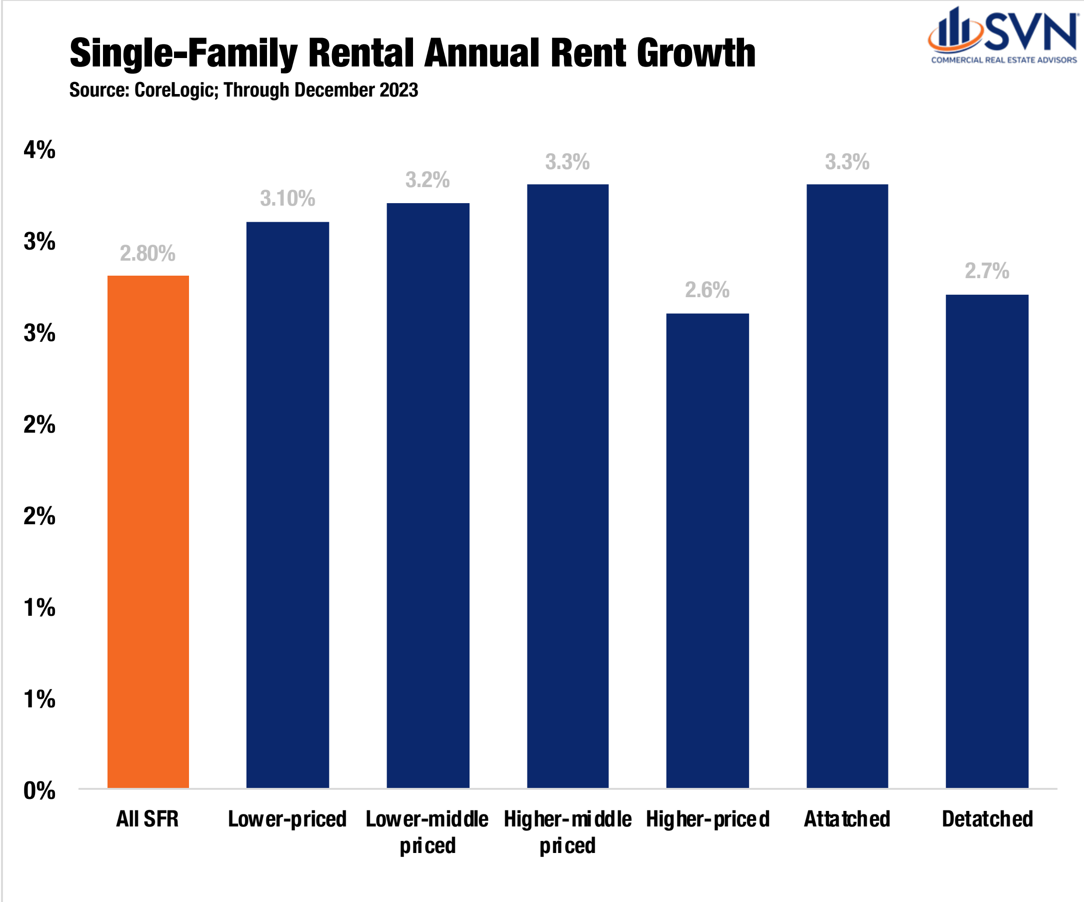
Rooted in market responses to the post-Great Financial Crisis oversupply of single-family housing, the Single-family rental (SFR) sector has come a long way from a niche asset class to an increasingly important segment of commercial real estate. Only now in 2024, it is an *undersupply* of housing propelling the sector's relevance.

Over the past few years, the context describing SFR's strength has evolved, but its track record of success remains unchanged. The pandemic disjointed housing preferences away from major metro job centers. As more housing demand fled to the suburbs, SFR was positioned as a competitive product for those looking for more residential space that could not afford homeownership. More recently, rising mortgage rates and a persistent undersupply of affordable and available housing have cemented SFR as an increasingly crucial piece of the residential mix.

Nonetheless, SFR hasn't escaped the broader trend of diminished rent growth for residential assets. **According to data from CoreLogic in December 2023, the latest month of data availability, SFR rents grew by an annualized 2.8%, roughly in line with pre-pandemic levels**.

For comparison, at its peak in April 2022, SFR grew by an annualized 14.0%. Still, assets of all price points and build types experienced growth to close 2023.

Notably, SFR rent growth's final tally in 2023 was a directional shift and recorded its highest monthly rate since the summer months. Upcoming readings will test whether the inflection in November is true or noise in the data, but if the emerging turn in the inflation and interest-rate environment develops, rent growth may be close to its floor.



HOTEL

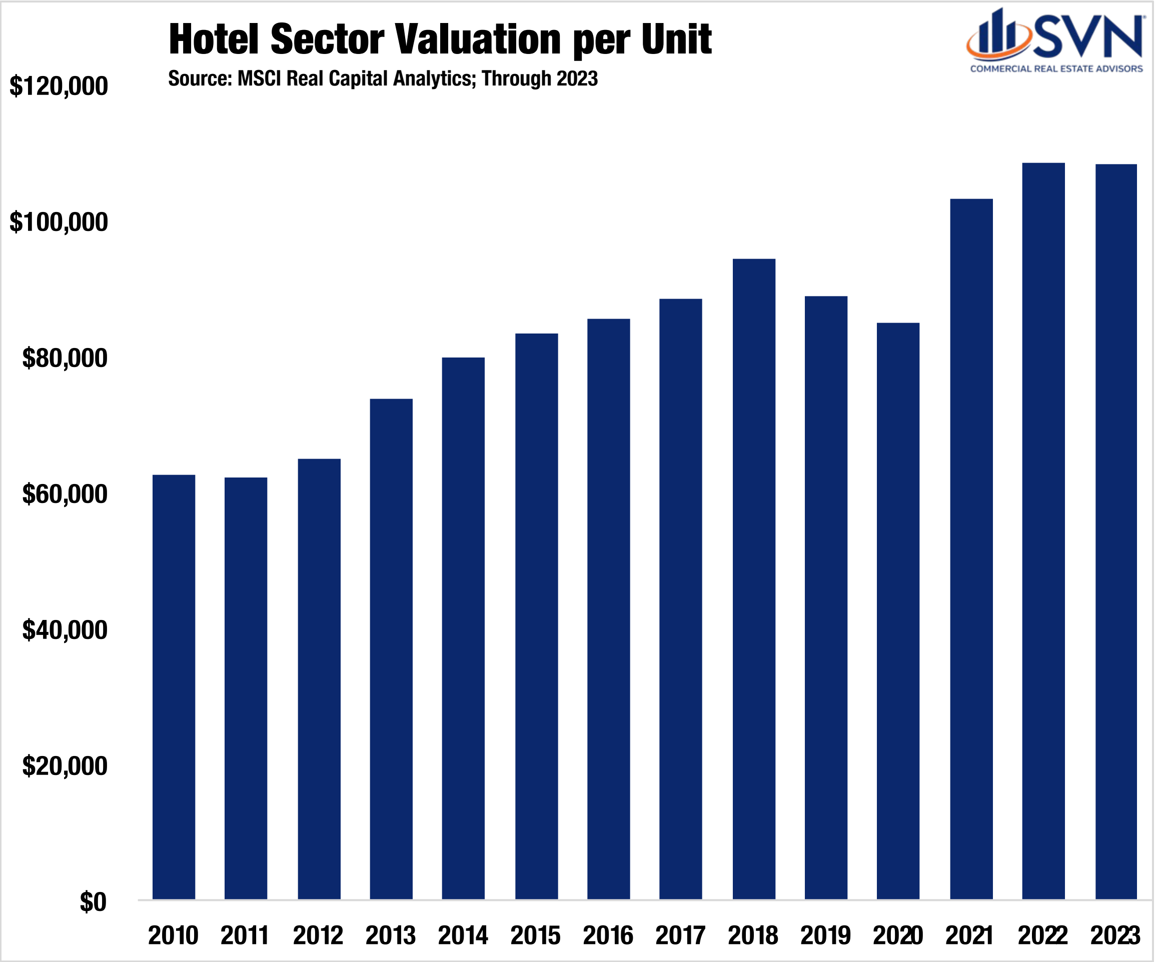
The hospitality industry rebounded impressively from the COVID-19 pandemic but continues to face challenges over shifts in consumer preferences. Elevated inflation and rising property insurance rates have dampened profitability in recent years while key segments of the demand mix, such as business travel, continue to lag pre-COVID levels. According to Hub International's 2024 Outlook Survey, 68% of hospitality executives cited increased expenditures as a "significant" threat to profitability.

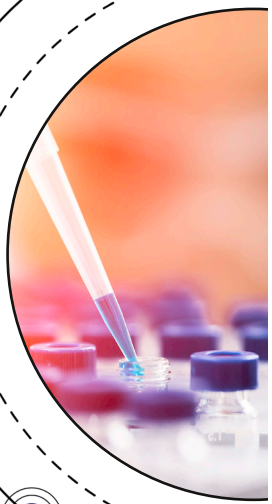
Still, many hospitality businesses are experiencing momentum carrying into 2024. **Leisure travel rose to its highest level since the Federal Reserve began tracking the data in 2015, with roughly 1-in-3 US households taking a vacation in the Summer of 2023**. The "revenge spending" surge kept hiring activity in the leisure and hospitality industry robust. Hub International estimates that 82% of hotel managers across the US are looking for additional staff.

In aggregate, the hospitality industry is facing issues similar to those of CRE as a whole: rising uncertainty, tightening borrowing conditions, and competition for labor. Per unit valuations were virtually unchanged on a nominal basis compared to 2022 — nonetheless, it ended consecutive years of valuation gains.

In the long view, hotels and hospitality companies are grappling with larger structural challenges, such as a new normal for business travel and competition from short-term rental platforms.

Still, the lodging sector's institutional capital and leverage over local tourist-centric economies will allow the sector to remain competitive and re-calibrate the value to consumers in the long run.





LIFE SCIENCES

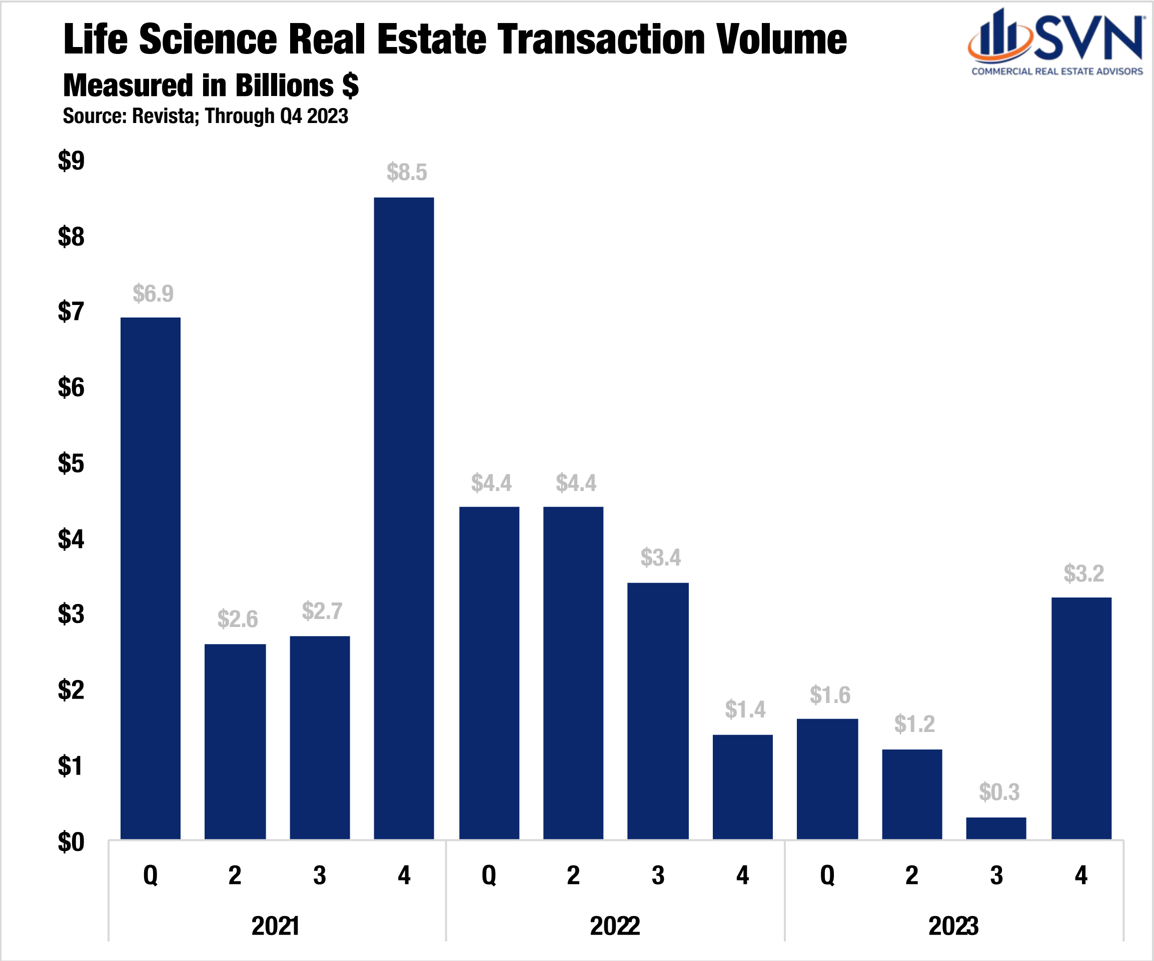
As the office market continues to grapple with a new normal in space demand, Life Sciences has arisen as a bright spot and potential lifeline. Over the past several years, unprecedented levels of venture capital funding into the biomedical space created a boom in Life Science space demand. However, recent supply and demand dynamics shifts introduced fresh headwinds for the sector. As detailed in ULI/PwC's Emerging Trends in Real Estate, trouble in the banking industry in 2023 catalyzed a drop in funding for the sector as investors moved with increased caution under rising uncertainty.

Nonetheless, transaction activity surged to close the year. **According to data from Revista, $3.2 billion of life science assets was traded in the fourth quarter of 2023, the highest volume since the third quarter of 2022**. More remarkably, transaction volume had cratered to record lows in the previous quarter, falling to just $0.3 billion.

Fundamentally, the Life Sciences sector continues to show strong demand despite a pullback in funding, allowing it to absorb the challenges of a nascent over-supply problem.

Still, investors should expect some impact on performance fundamentals in the short term. ULI/PwC projects that just 60% of the pipeline in the third quarter of 2023 was pre-leased, potentially adding to the issue of growing inventory in the coming months.

Whether the recent uptick in transaction volume is just a blip or the start of a trend will be key to the sector's success in 2024.



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