



First American

As One Cycle Ends The Next Begins

March 2025



First American Financial Corporation makes no express or implied warranty respecting the information presented and assumes no responsibility for errors or omissions. First American Financial Corporation is a parent holding company that does business through its operating subsidiaries. First American and the eagle logo are registered trademarks or trademarks of First American Financial Corporation and/or its affiliates.

The following presentation is for informational purposes only and is not and may not be construed as legal advice. First American Financial Corporation is not a law firm and does not offer legal services of any kind. No third party entity may rely upon anything contained herein when making legal and/or other determinations regarding title practices. You should consult with an attorney prior to embarking upon any specific course of action.



#FirstAmEcon

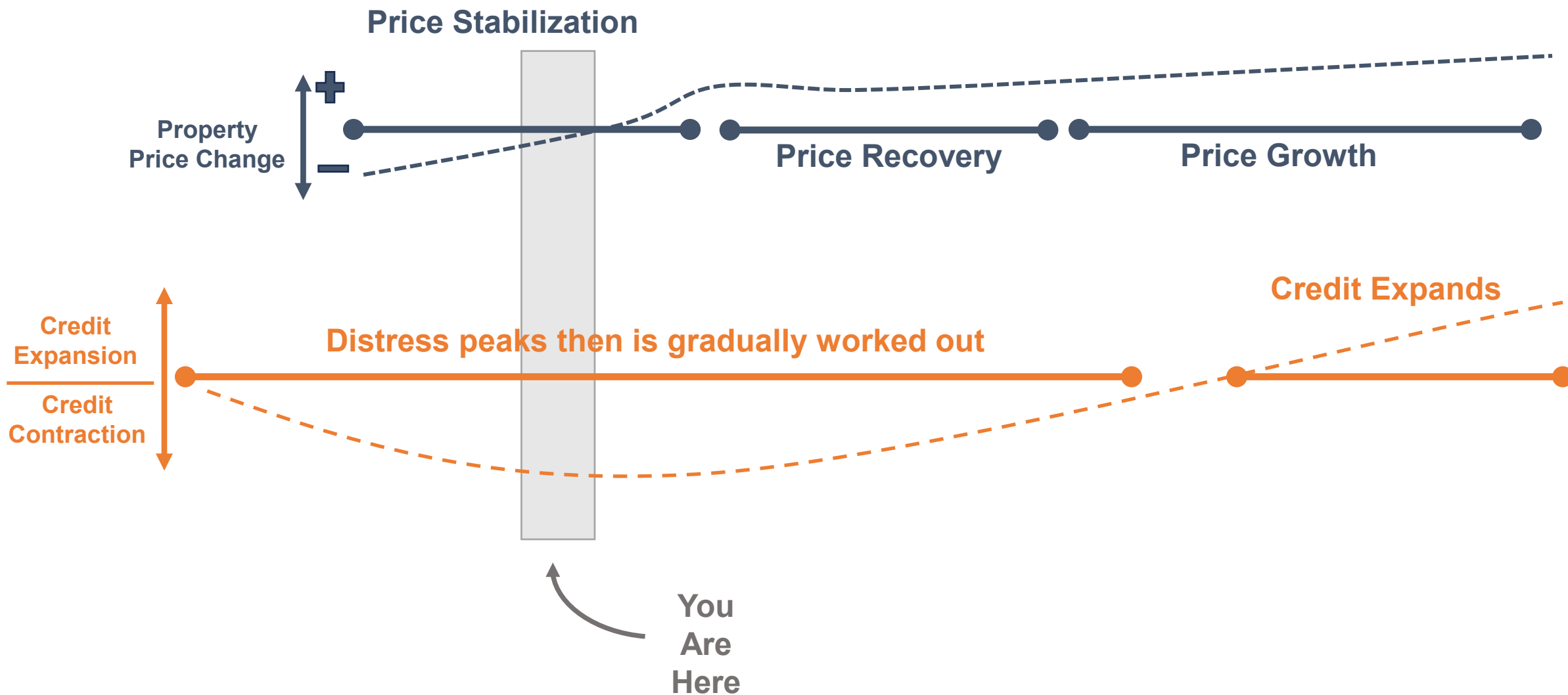


@XanderSnyderX

What We'll Cover

- The new cycle is here: what will it look like?
- Will it have distinct phases?
- How will it be different than the last cycle?
- How is each major asset class positioned going into the cycle?

In Beginning of New Cycle, Price Recovery Will Occur Before All Distress is Fully Worked Out





Getting Used to Higher Interest Rates



First American

Higher for Longer? Historically Speaking, Rates Aren't High

10-Year Treasury Yield, Averages for Inter-Recessionary Periods Highlighted



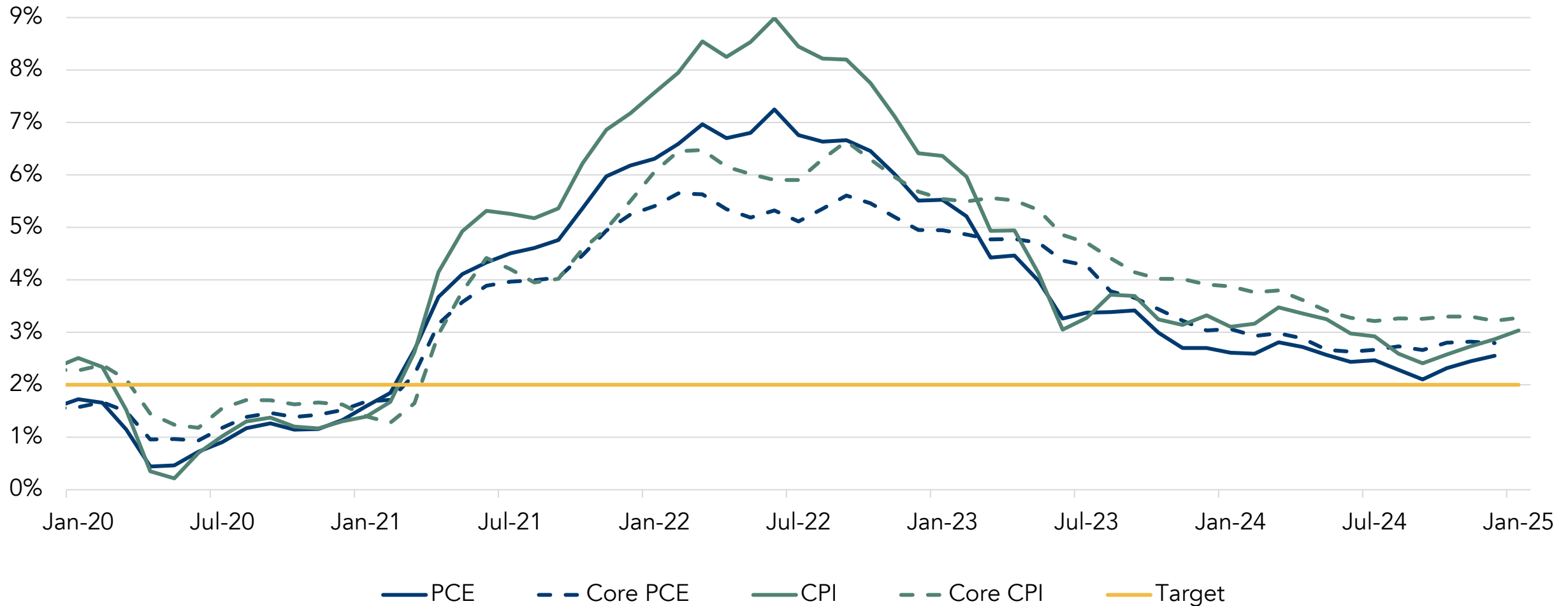
Source: Federal Reserve, Feb. 2025

@XanderSnyderX, #FirstAmEcon




Inflation Appears to be Settling Above Fed's 2 Percent Goal

Annual Change in Personal Consumption Expenditures (PCE), Core PCE, Consumer Price Index (CPI), and Core CPI



Source: BLS, BEA, Jan. 2025 (CPI), Dec. 2024 (PCE)

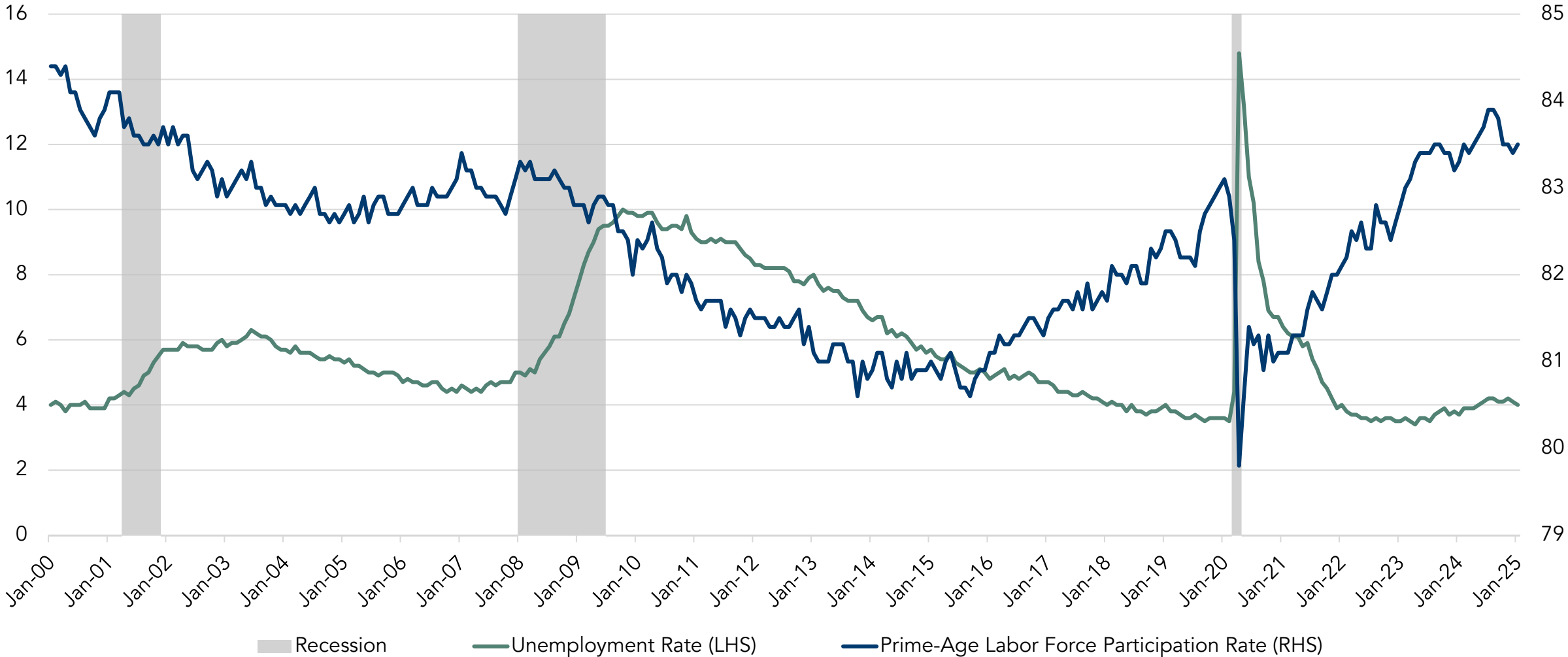
 @XanderSnyderX, #FirstAmEcon

©2024 First American Financial Corporation and/or its affiliates. All rights reserved. ▼ NYSE: FAF




Two Measures of Full Employment

Unemployment Rate and Prime-Age Labor Force Participation Rate (% , SA)

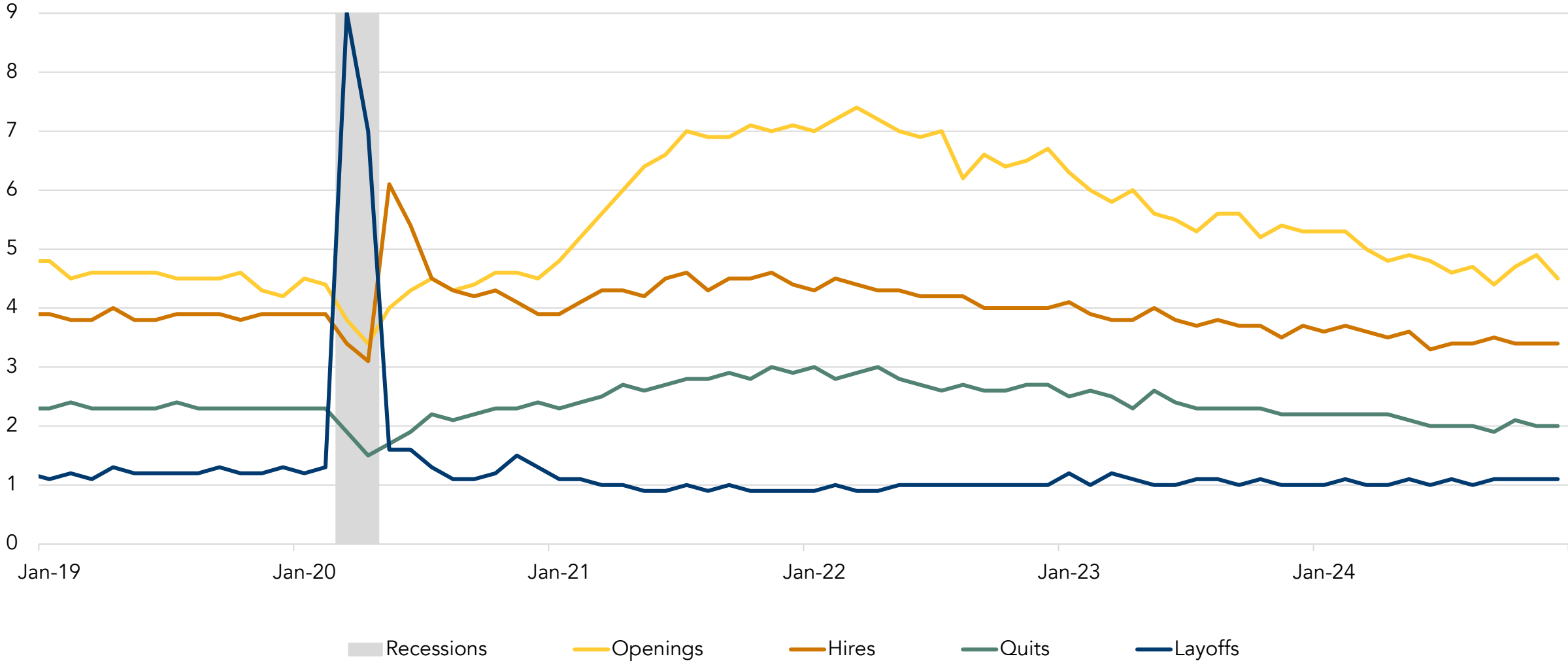


Source: U.S. Bureau of Labor Statistics, Jan. 2025


 @XanderSnyderX, #FirstAmEcon

The Great Resignation Turns Into The Great Stay

Job Openings, Hires, Quits and Layoffs: Total Nonfarm, Rate, Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, Job Openings and Labor Turnover Survey, Dec. 2024

 @XanderSnyderX, #FirstAmEcon



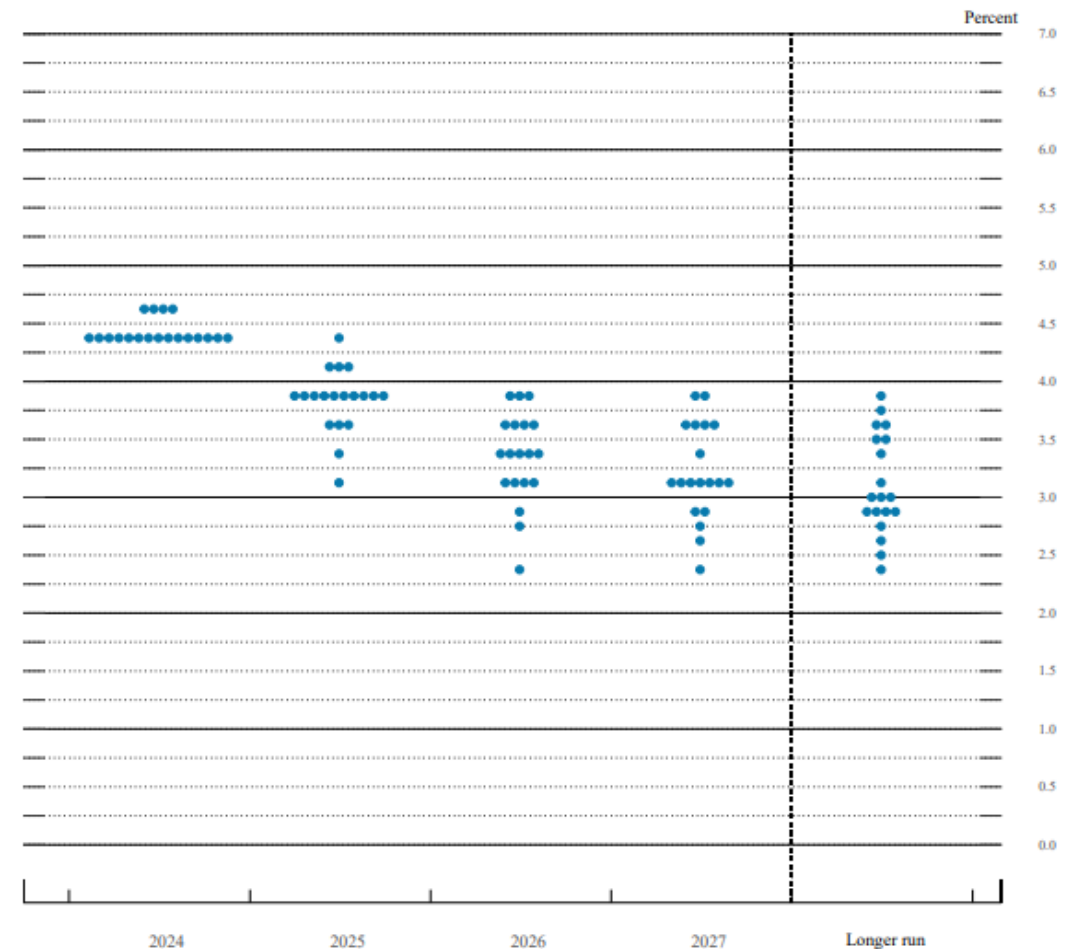
The FOMC Cuts Rate and Signals More to Come

Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents

Percent

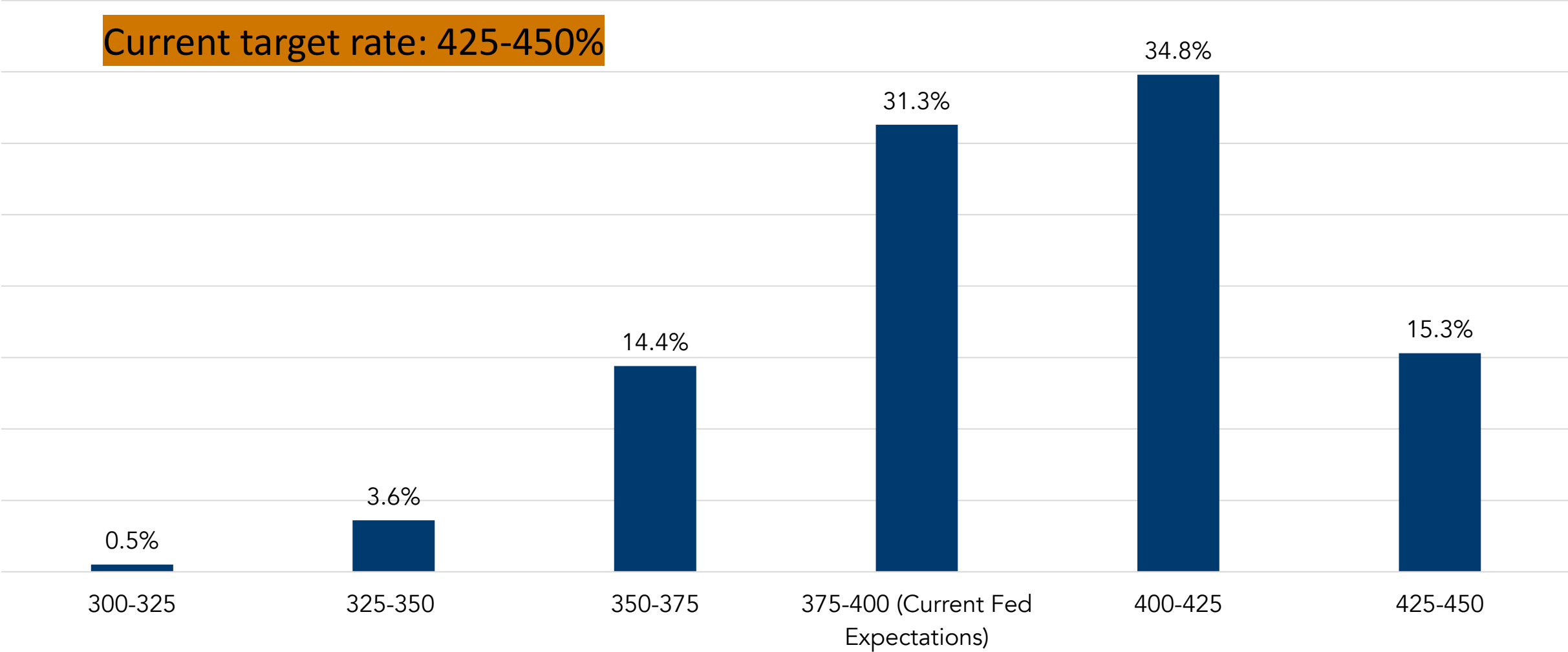
Variable	Median ¹				
	2024	2025	2026	2027	Longer run
Change in real GDP	2.5	2.1	2.0	1.9	1.8
September projection	2.0	2.0	2.0	2.0	1.8
Unemployment rate	4.2	4.3	4.3	4.3	4.2
September projection	4.4	4.4	4.3	4.2	4.2
PCE inflation	2.4	2.5	2.1	2.0	2.0
September projection	2.3	2.1	2.0	2.0	2.0
Core PCE inflation ⁴	2.8	2.5	2.2	2.0	
September projection	2.6	2.2	2.0	2.0	
Memo: Projected appropriate policy path					
Federal funds rate	4.4	3.9	3.4	3.1	3.0
September projection	4.4	3.4	2.9	2.9	2.9

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate




Market Expectations of Fed Rate Cuts

Share of Market Expectations (Y-Axis) of Number of Fed Fund Rate Cuts by Year End 2025 (X-axis)

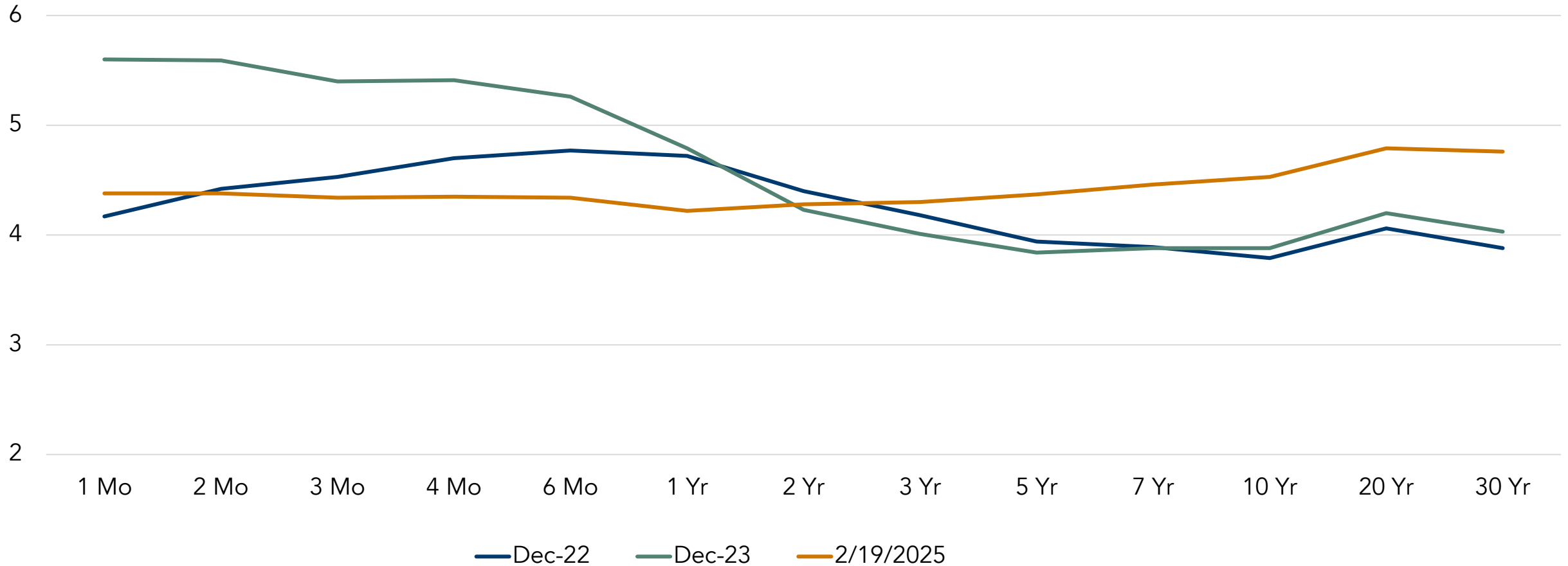


Source: CME Fedwatch, Federal Reserve, Fed. 2025


 @XanderSnyderX, #FirstAmEcon

The Treasury Yield Curve is Steepening, Presenting New Challenges for Many

Treasury Yields by Maturity

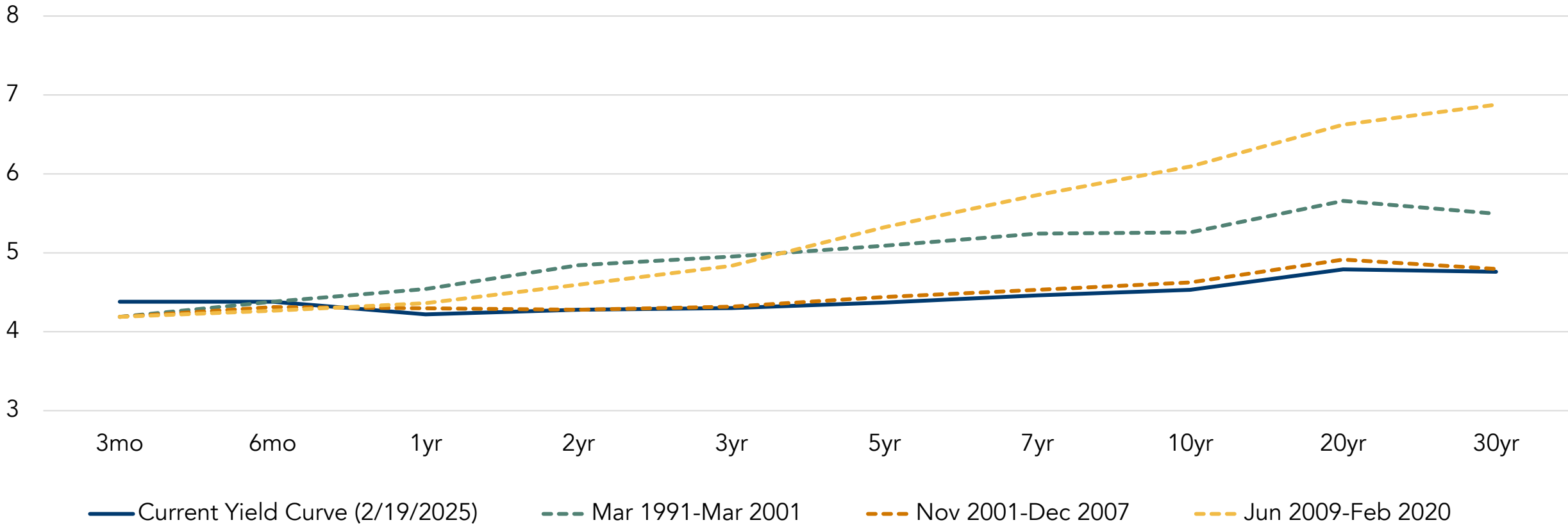


Source: U.S. Treasury, Feb. 2025

 @XanderSnyderX, #FirstAmEcon

What Might the Yield Curve Look Like If Long Term Rates Rise?

Current and Implied Yield Curves Based on Current 3 Month Treasury Rate and Prior Inter-Recession Average Yield Curve Shapes*



* Inter-Recessionary average shapes calculated as the average difference between Treasury yields with consecutive durations (i.e. 6 month - 3 month).
 Source: U.S. Treasury, First American Calculations, Feb. 2025



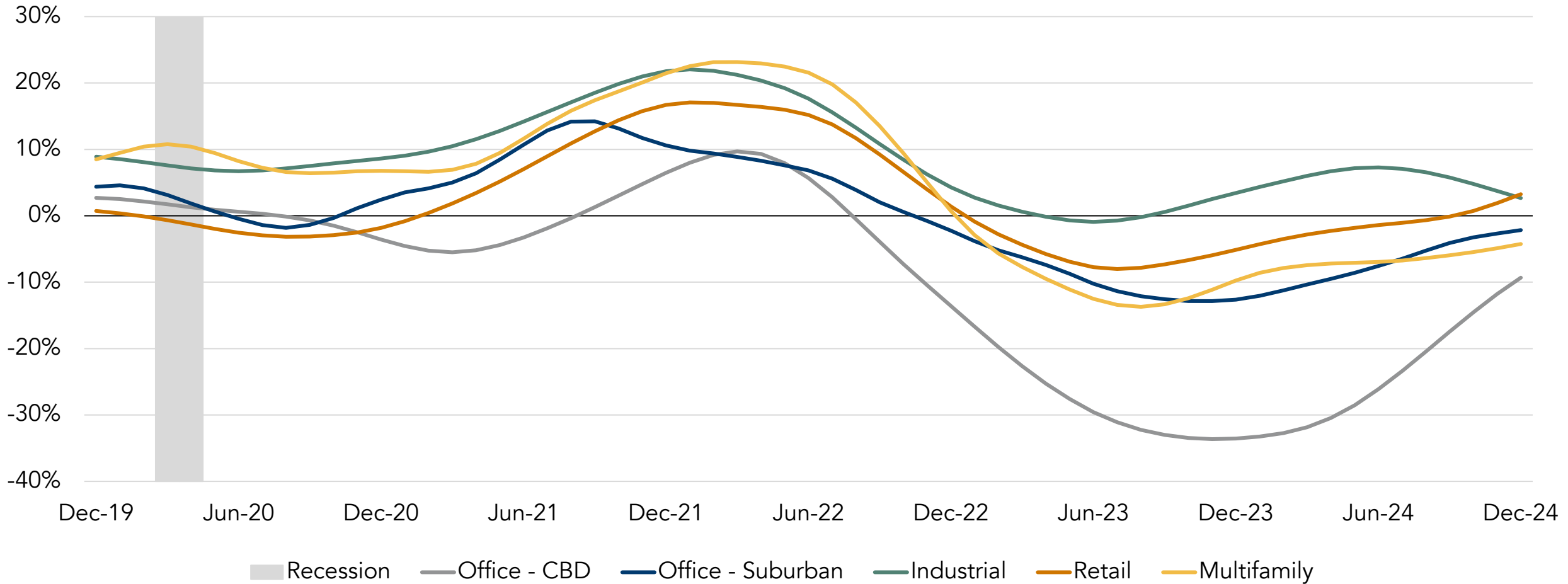
Recovery Not Just an
Interest Rate Story




First American

Price Stabilization is At Hand for Most Asset Classes

Year-Over-Year Price Appreciation by Asset Class

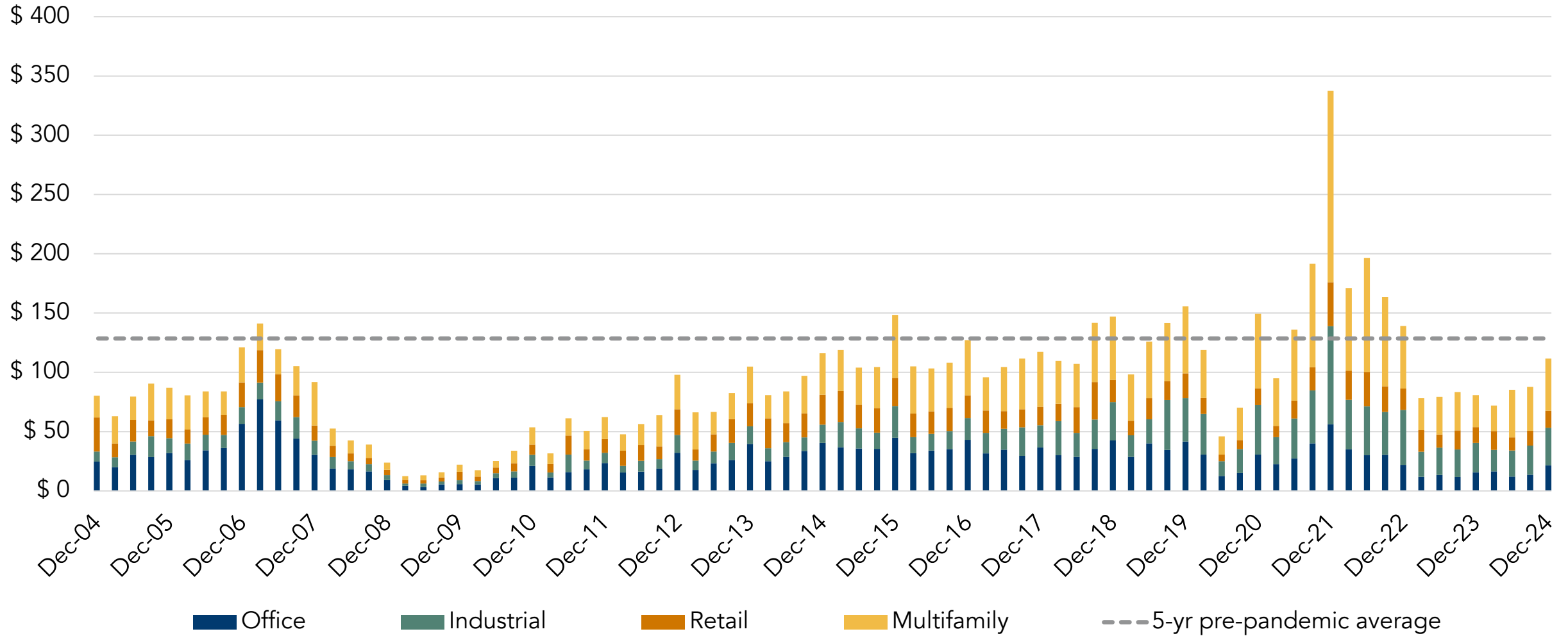


Source: MSCI Real Capital Analytics, Dec. 2024


 @XanderSnyderX, #FirstAmEcon

Sales Volume Rebounded in the Fourth Quarter of 2024, the First Time in Two Years

Quarterly Transaction Volume by Asset Class (USD in Billions)

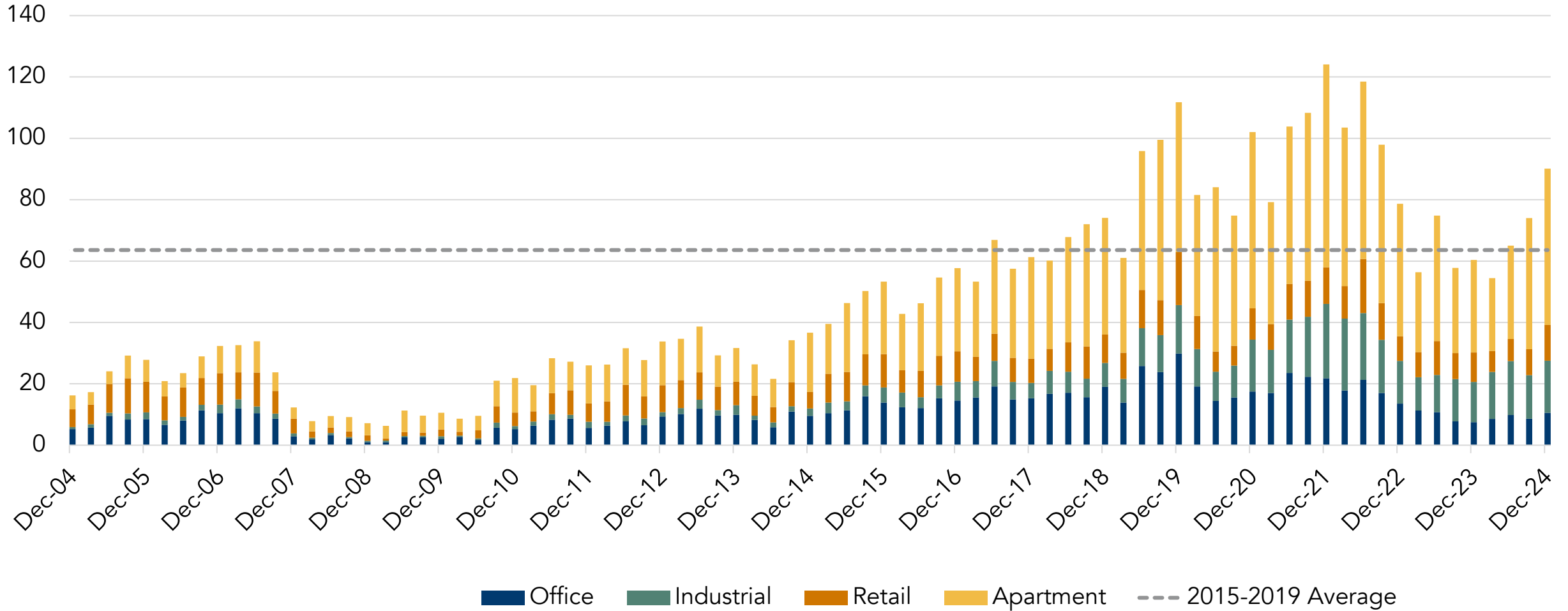


Source: MSCI Real Capital Analytics, Dec. 2024


 @XanderSnyderX, #FirstAmEcon

Refinance Volume is on the Rise

CRE Refinancing Volume by Asset Class (USD in Billions), Quarterly

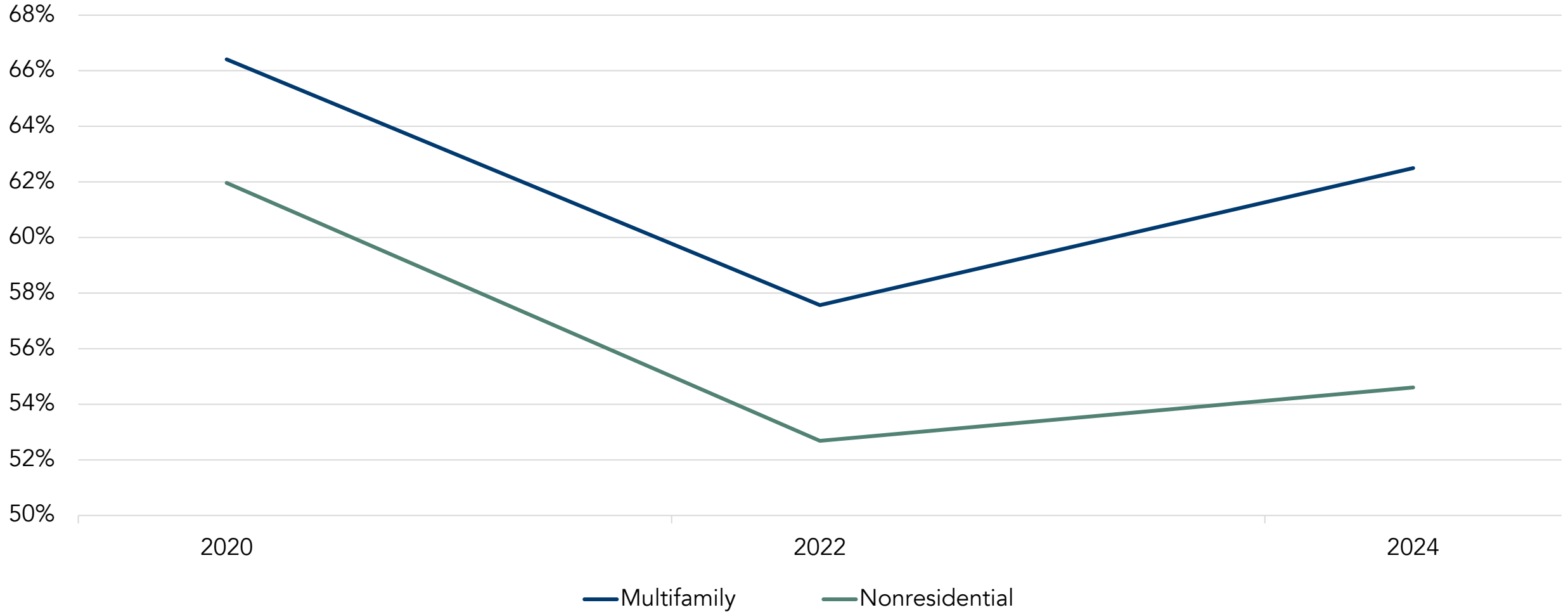


Source: MSCI Real Capital Analytics, First American Calculations, Dec. 2024


 @XanderSnyderX, #FirstAmEcon

LTV Ratios have Declined Compared to Pre-Pandemic

Loan-to-Value (LTV) Ratios, Multifamily and Nonresidential

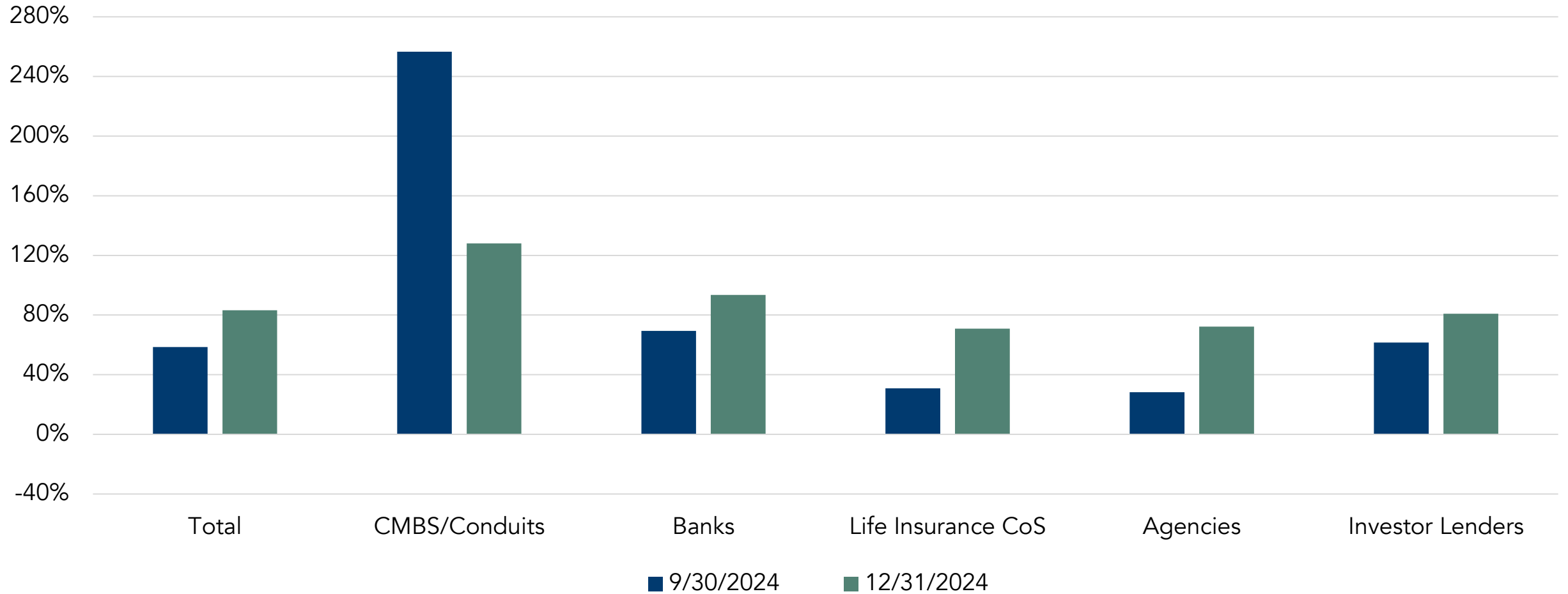


Source: MSCI Real Capital Analytics, Nov. 2024


 @XanderSnyderX, #FirstAmEcon

CRE Loan Originations Surge in the Third Quarter for All Lender Types

Annual Growth in Origination Activity, by Lender Type

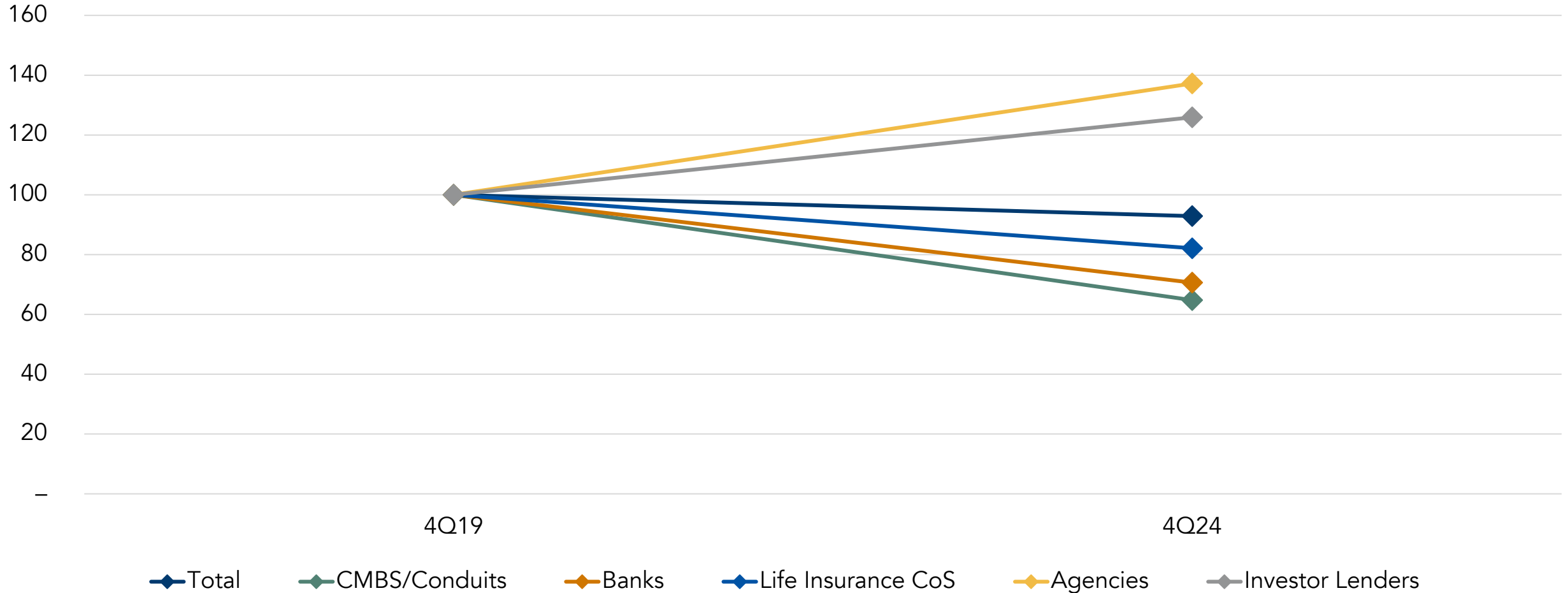


Source: Mortgage Bankers Association, Dec. 2024


 @XanderSnyderX, #FirstAmEcon

Agency and Investor Lending Have Rebounded Above Pre-Pandemic Levels, But Other Lender Types Haven't

Lending Activity Index (4Q2019 = 100), by Lender Type

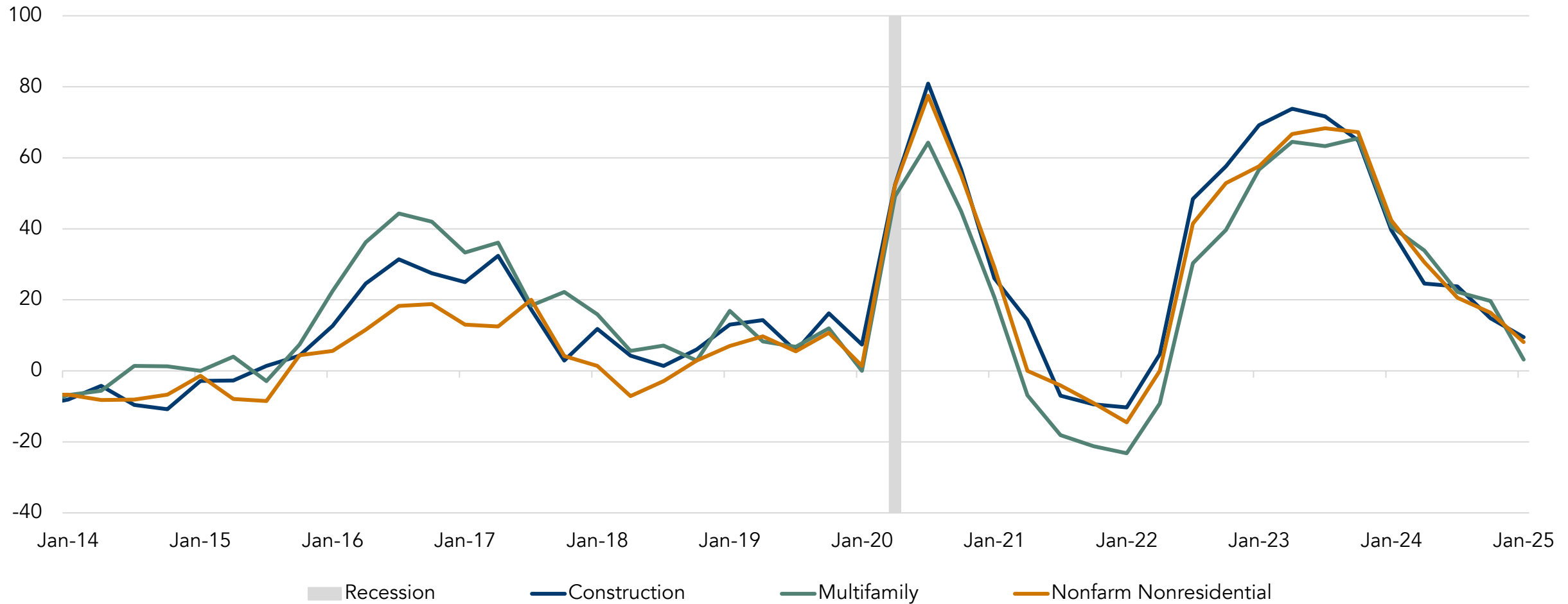


Source: Mortgage Bankers Association, First American Calculations, Dec. 2024


 @XanderSnyderX, #FirstAmEcon

CRE and Construction Lending from Banks Continues to Tighten, but at Decelerating Rate

Percentage of Banks Reporting Tighter Lending Standards for Real Estate Lending

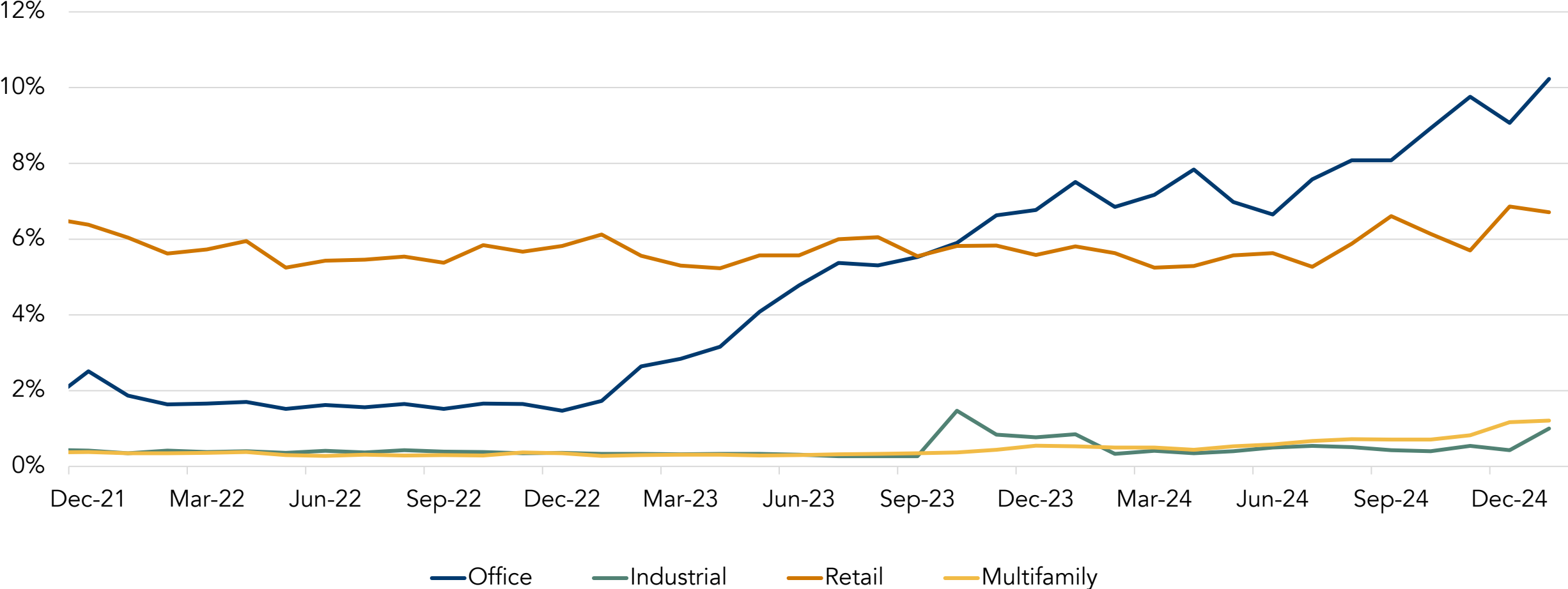


Source: Federal Reserve's Senior Loan Office Opinion Survey (SLOOS), Jan. 2025


 @XanderSnyderX, #FirstAmEcon

Office and Multifamily Delinquency Rates Continue to Increase

CMBS Delinquency Rate, by Asset Class

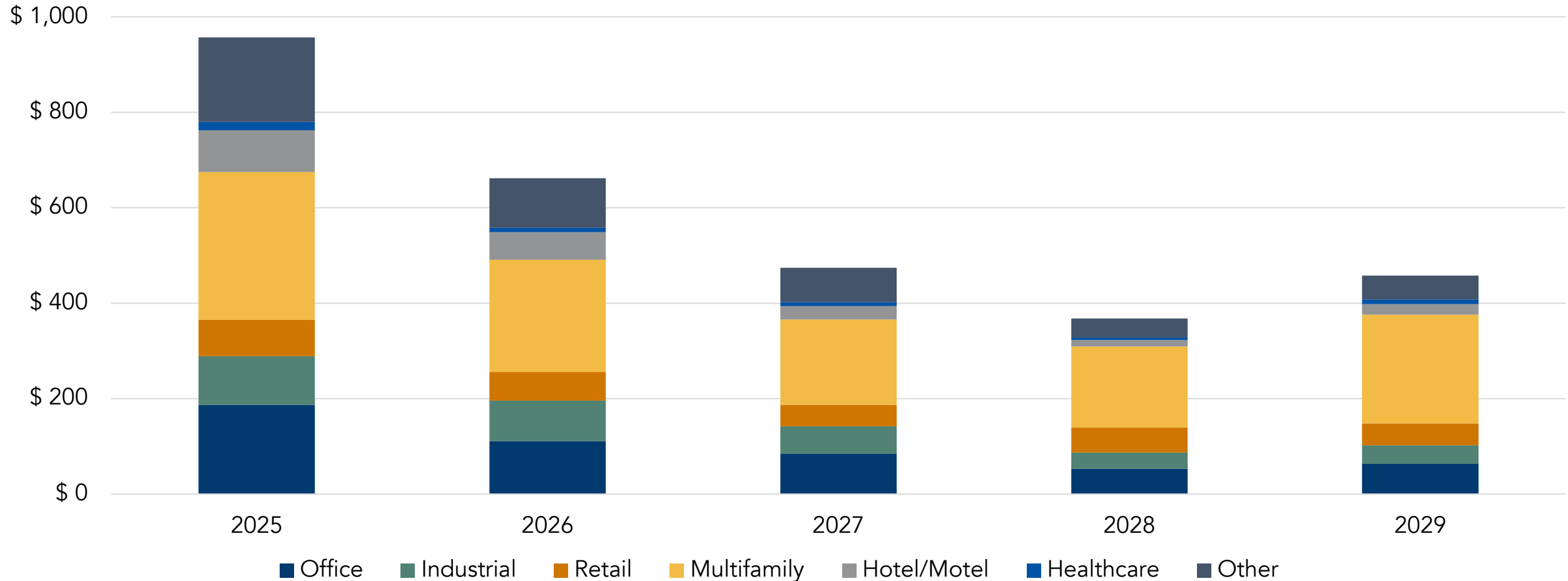


Source: CoStar, Dec. 2024


 @XanderSnyderX, #FirstAmEcon

\$960 Billion Dollars of Commercial Mortgages Mature in 2025, \$385 Billion of Which Was Extended from 2024

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



Source: Mortgage Bankers Association, Feb. 2025

 @XanderSnyderX, #FirstAmEcon

The background of the slide features a dark teal color with faint, semi-transparent financial charts. At the top, there is a candlestick chart showing price movements. Below it, a line chart with a grid is visible, showing a fluctuating trend. The text 'More Headwinds Than Last Cycle' is centered in a white box.

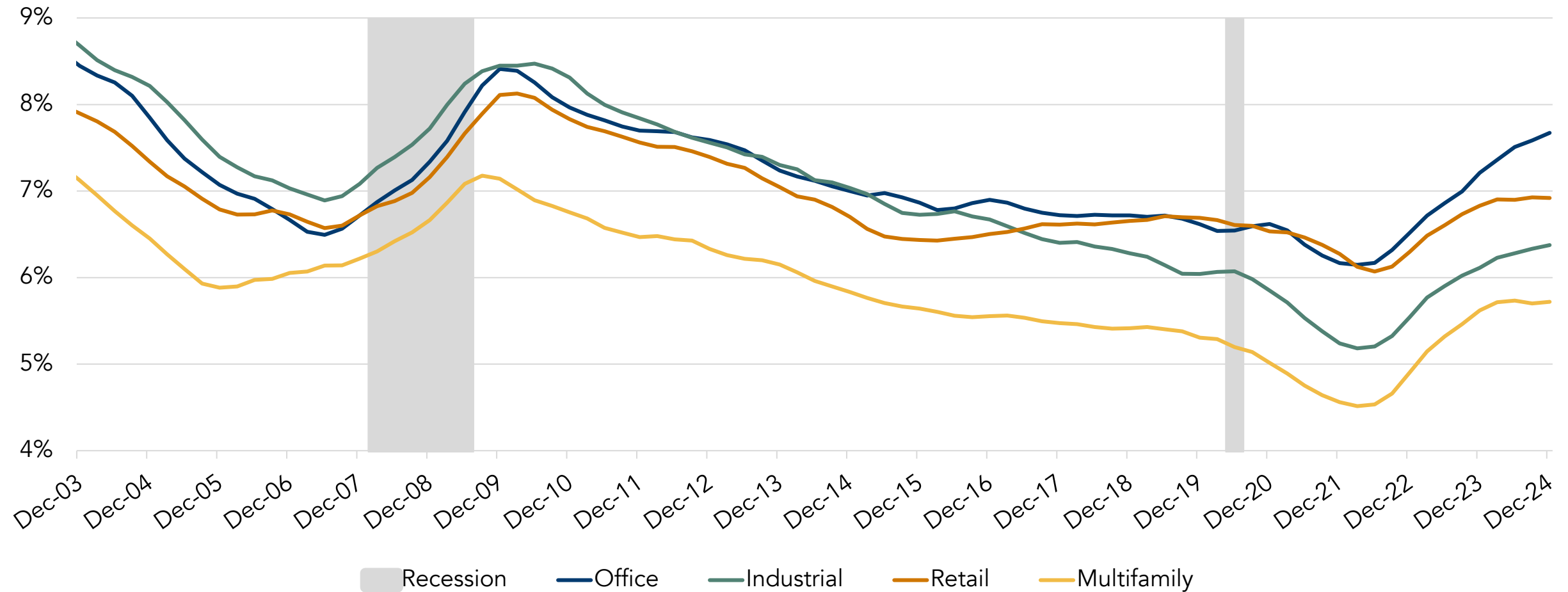
More Headwinds Than Last Cycle




First American

Cap Rates Stabilizing for Most Asset Classes, but They Could Move Sideways for Some Time

Quarterly Cap Rates by Asset Class

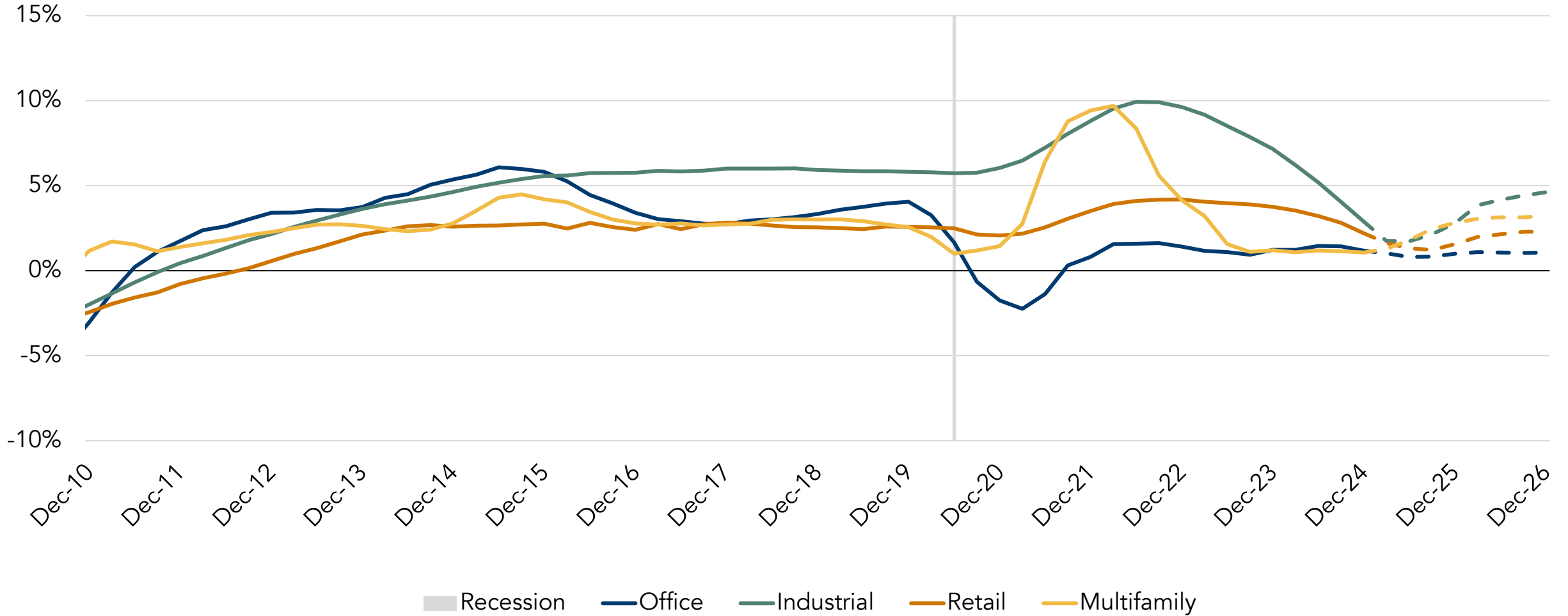


Source: MSCI Real Capital Analytics, Dec. 2024


 @XanderSnyderX, #FirstAmEcon

Moderate Rent Growth

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

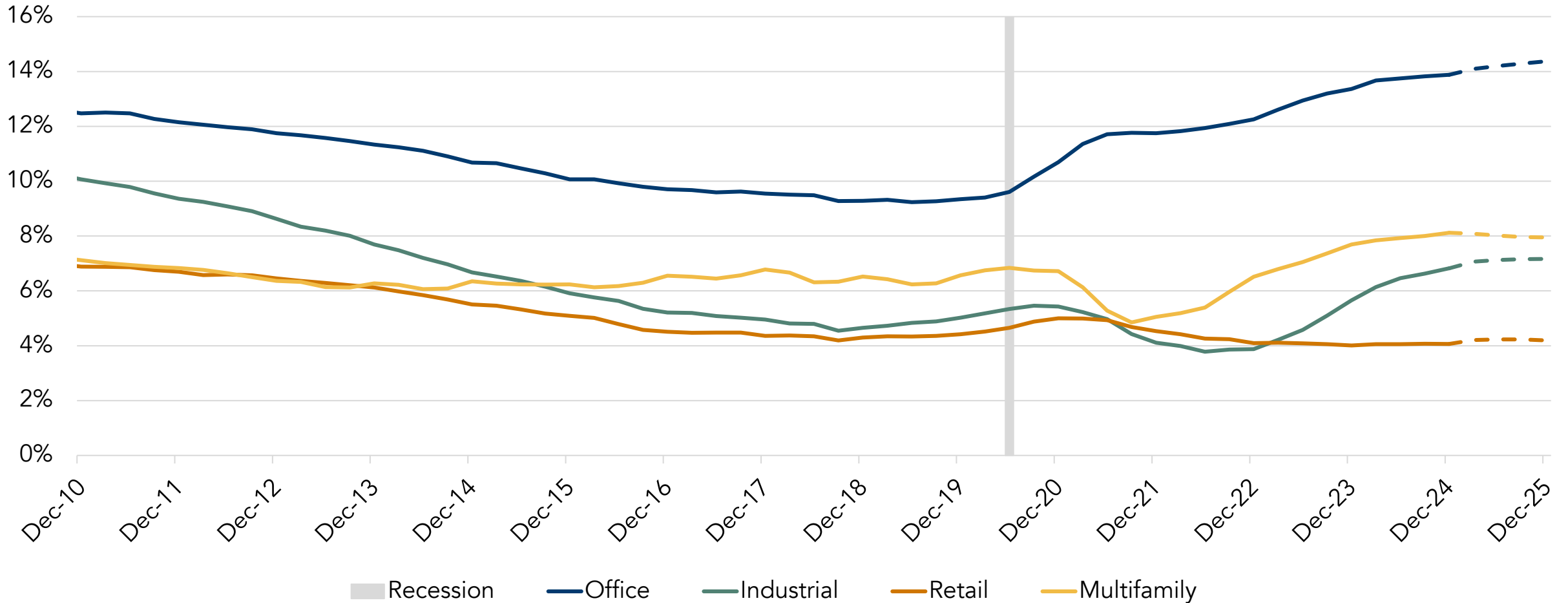


Source: CoStar, Oxford Economics, Dec. 2024


 @XanderSnyderX, #FirstAmEcon

Stable but Higher Vacancy Rates for Most

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

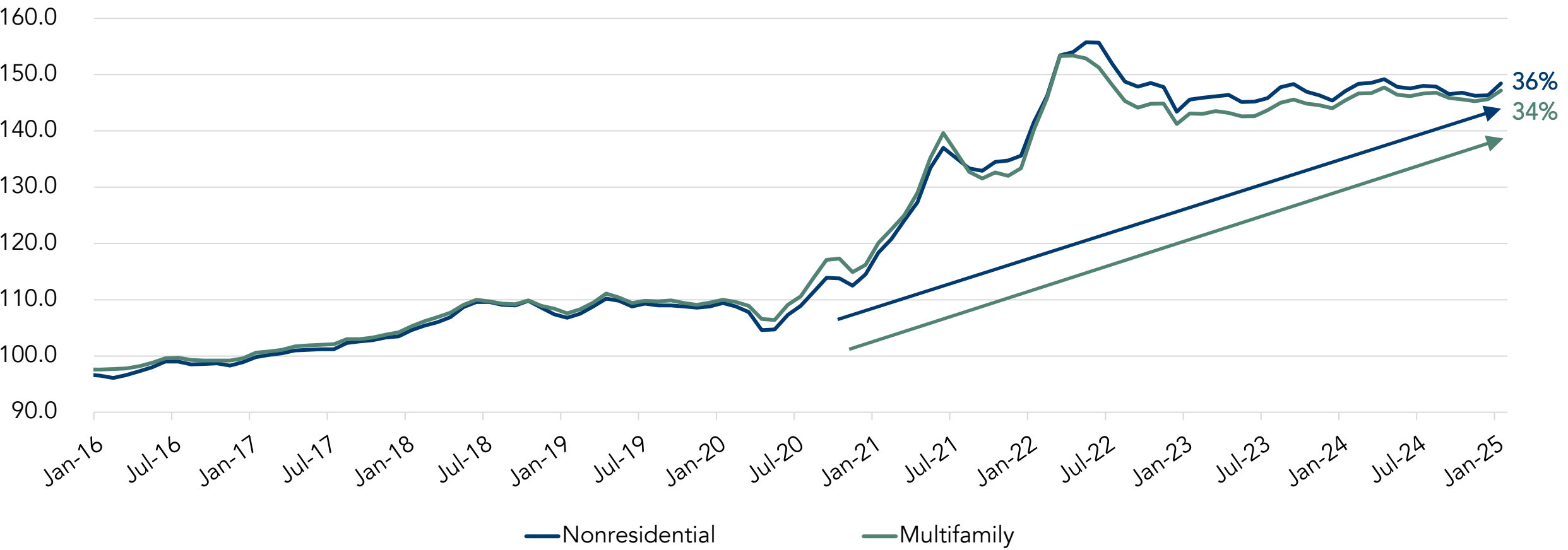


Source: CoStar, Oxford Economics, Dec. 2024


 @XanderSnyderX, #FirstAmEcon

Repairs & Maintenance Expenses Are 35% Costlier Than Pre-Pandemic

PPI Index for Repairs and Maintenance Expenses, by Asset Class



Source: Bureau of Labor Statistics, Jan. 2025

 @XanderSnyderX, #FirstAmEcon


Rising Insurance Premiums



Pacific Palisades Fire, 2025

Flooding in Marshall, NC, 2024



 @XanderSnyderX, #FirstAmEcon

The background of the slide features a dark teal color with faint, semi-transparent financial charts. At the top, there is a candlestick chart with several bars. Below it, a line chart with multiple peaks and valleys is visible. The text is centered within a white rectangular border.

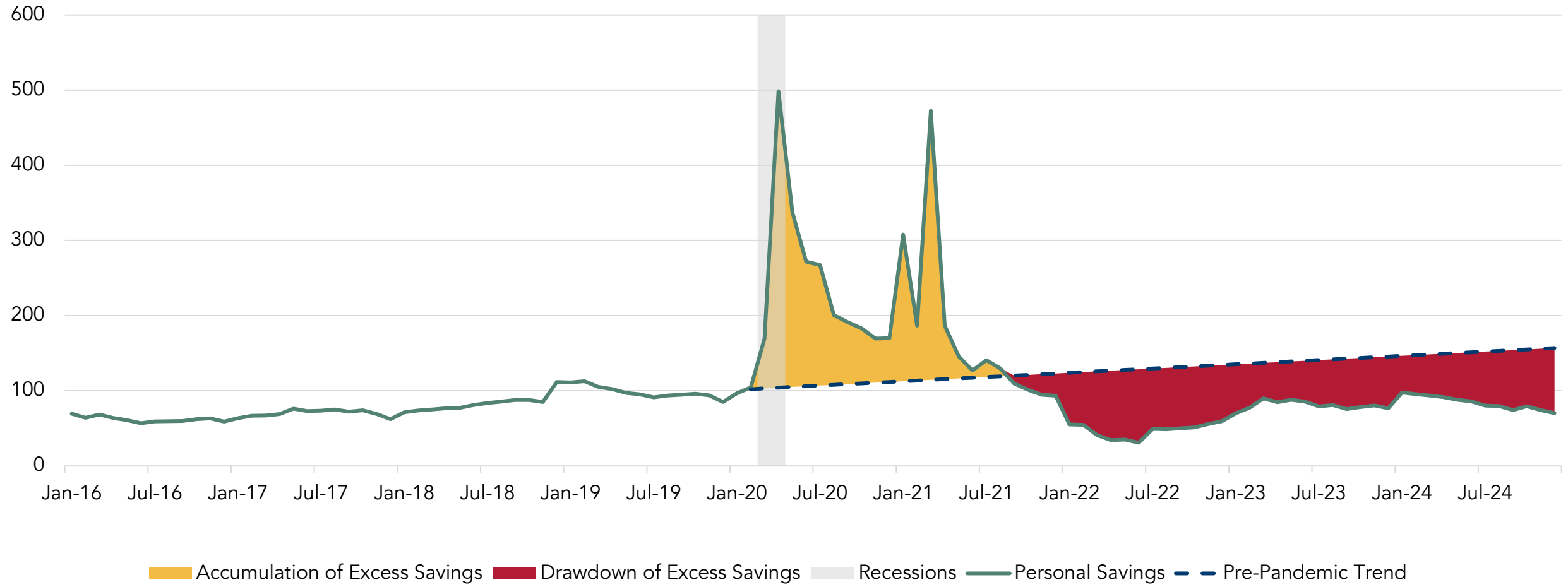
Consumers Are Spending, but There's Limited Retail Space to Lease




First American

Aggregate Excess Savings Have Been Depleted

Aggregate Personal Savings Versus Pre-Pandemic Trend (\$, Billions)



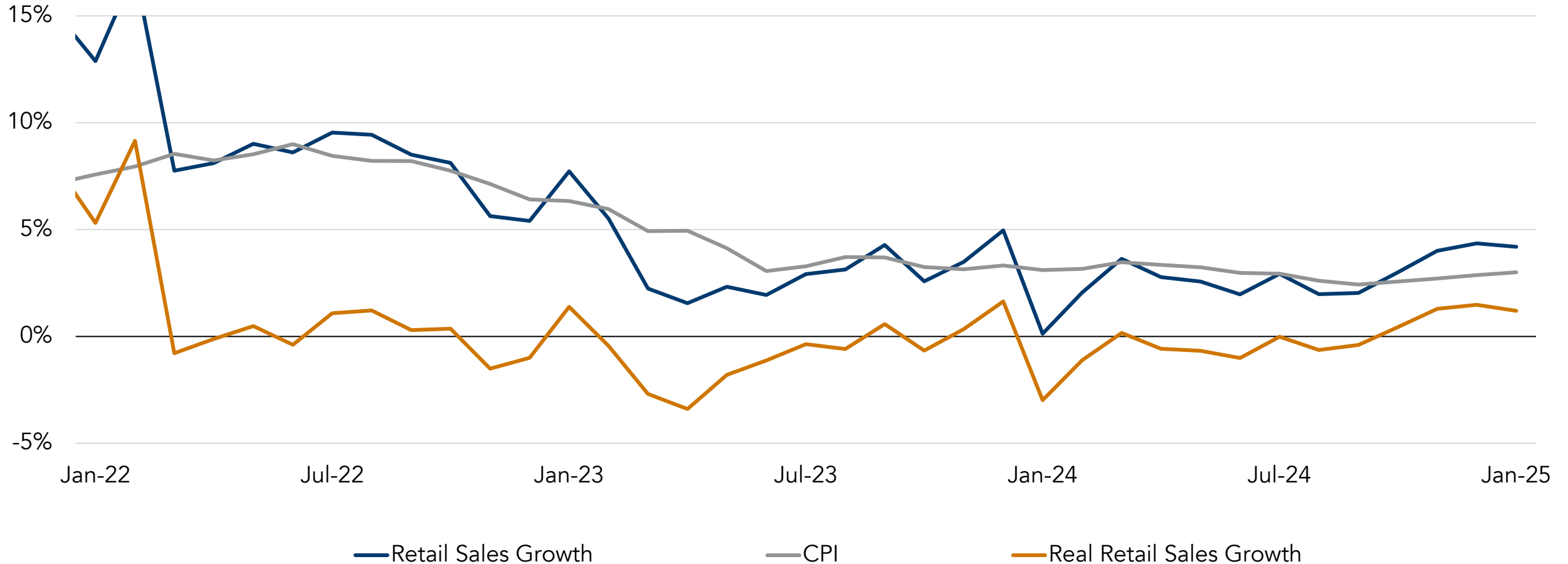
Source: U.S. Bureau of Economic Analysis, FRBSF, First American Calculations, Dec. 2024

 @XanderSnyderX, #FirstAmEcon




After Nine Months of Decline or Stagnant Growth, Real Retail Sales has Turned Positive

Annual Growth in Inflation-Adjusted and Unadjusted Retail Sales, Annual Change in Consumer Price Index (CPI)



Source: U.S. Bureau of Labor Statistics, U.S. Census, Jan. 2025

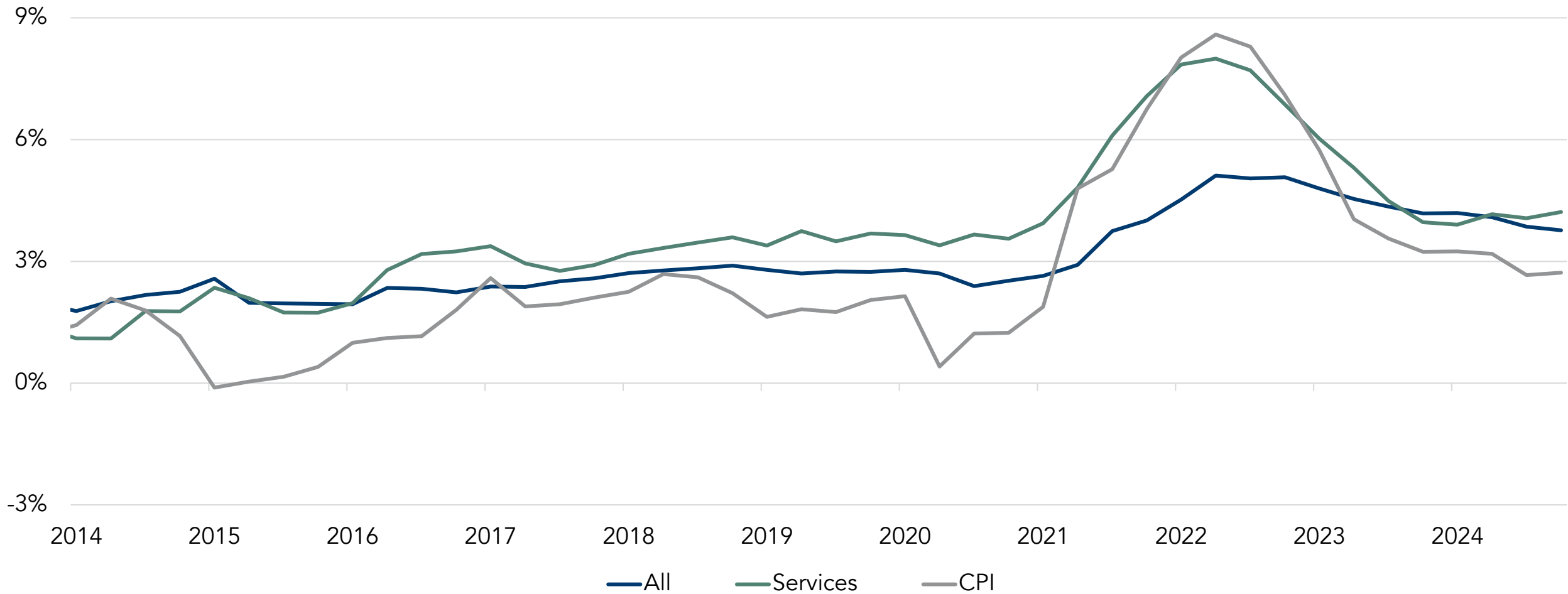
 @XanderSnyderX, #FirstAmEcon

©2024 First American Financial Corporation and/or its affiliates. All rights reserved. ▼ NYSE: FAF




Real Wages Are Increasing

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



Source: Bureau of Labor Statistics, 4Q 2024

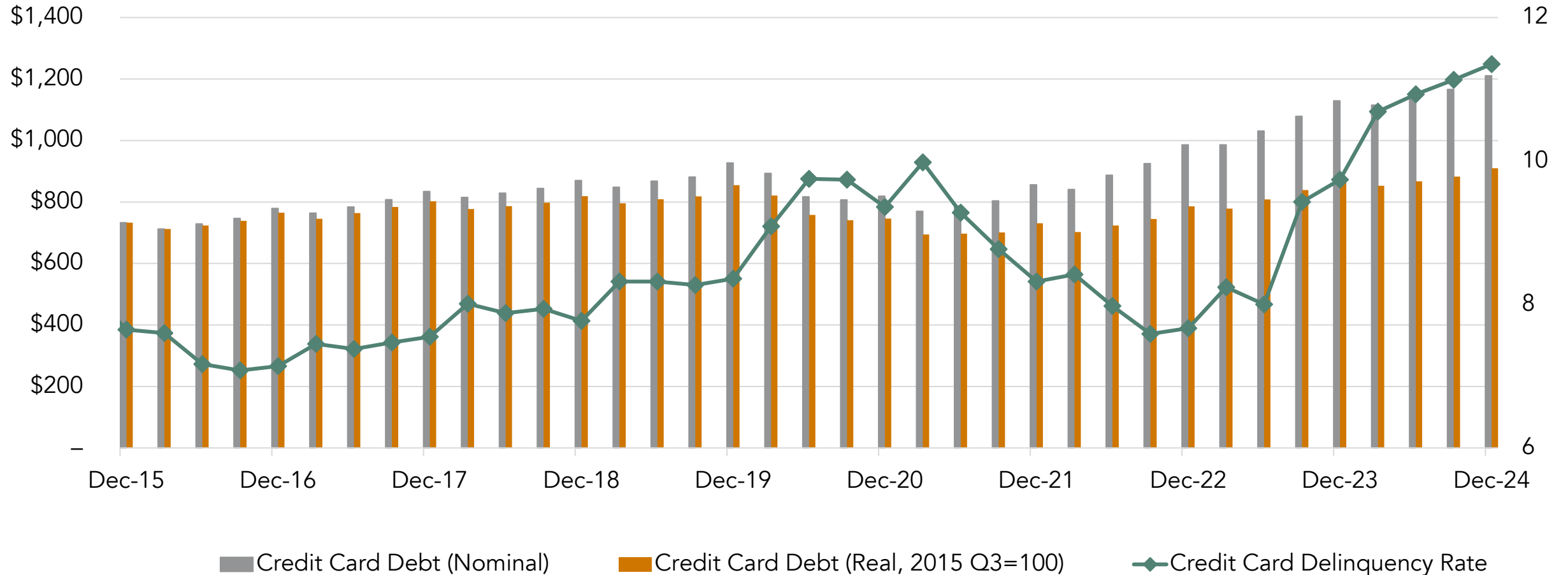
 @XanderSnyderX, #FirstAmEcon

©2024 First American Financial Corporation and/or its affiliates. All rights reserved. ▼ NYSE: FAF




Credit Card Debt is Rising, as Are Delinquency Rates

Credit Card Debt (USD in Billions, Left Axis), Credit Card Delinquency Rate (Right Axis, in Percent)

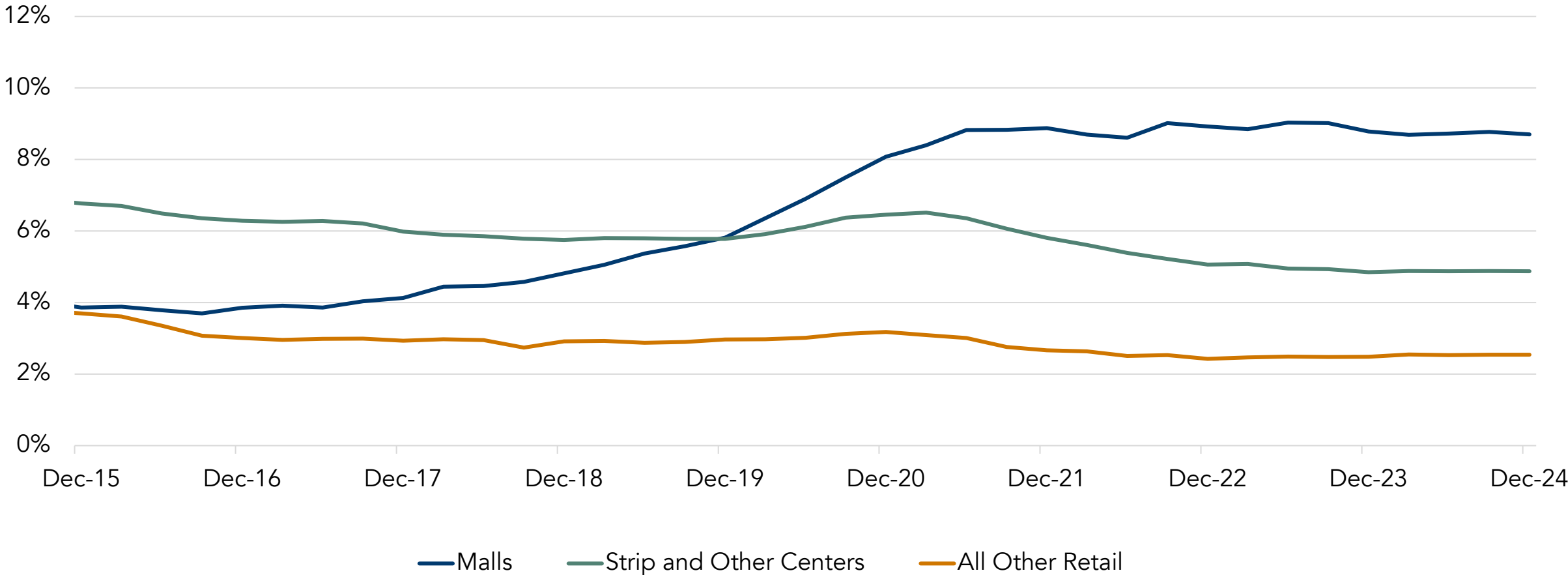


Source: New York Fed Consumer Credit Panel/Equifax, Bureau of Labor Statistics, First American Calculations, Dec. 2024


 @XanderSnyderX, #FirstAmEcon

Vacancy Rates for All Retail Property Types are Low, Except for Malls

Retail Vacancy Rate by Sub-Asset Class




Source: CoStar, First American Calculations, Dec. 2024

 @XanderSnyderX, #FirstAmEcon

Retail Takeaways

- Consumers are spending money on retail purchases
- This spending is being driven both by wage growth and higher credit card balances with growing delinquency rates
- Limited retail space available to lease will keep a floor on rents



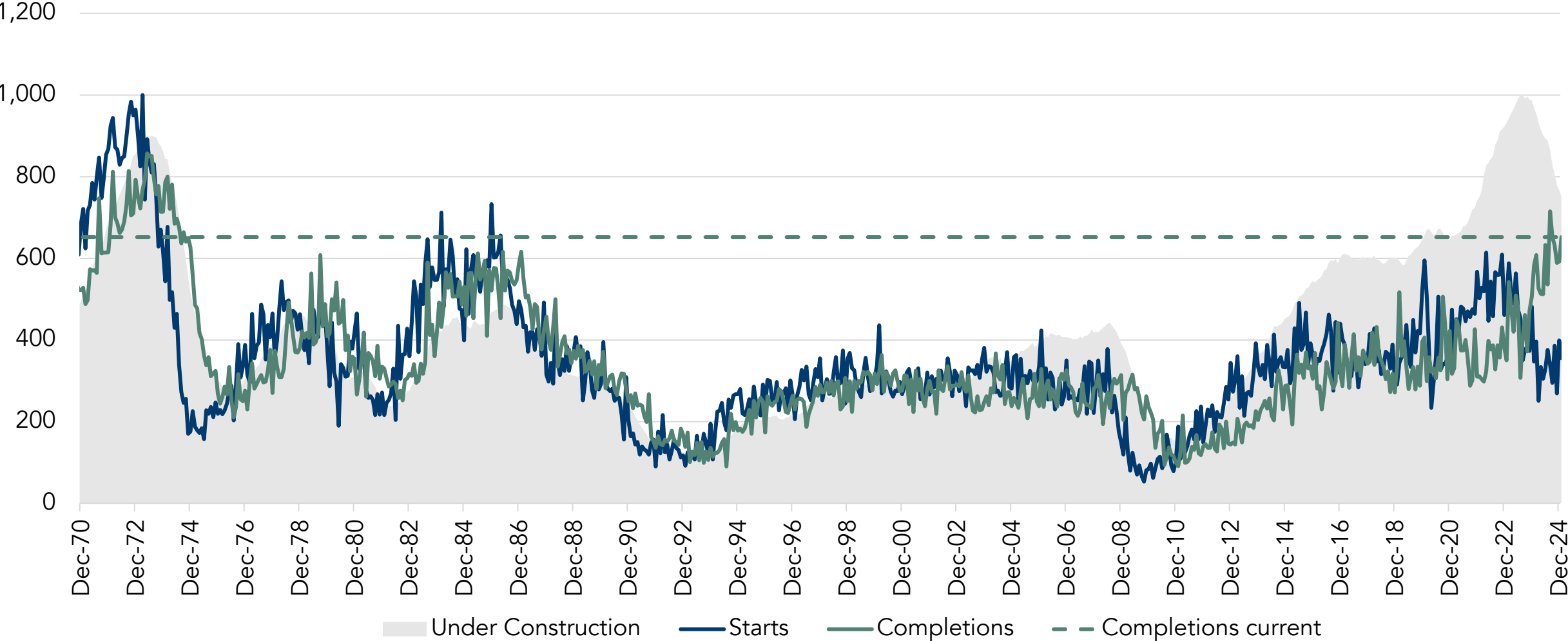
Multifamily and Industrial Supply
Waves Have a Time Limit




First American

The Supply Wave is Here, Falling Starts Mean It Will Be Short Lived

Thousands of Units in Buildings with 5 Units or More, Seasonally Adjusted



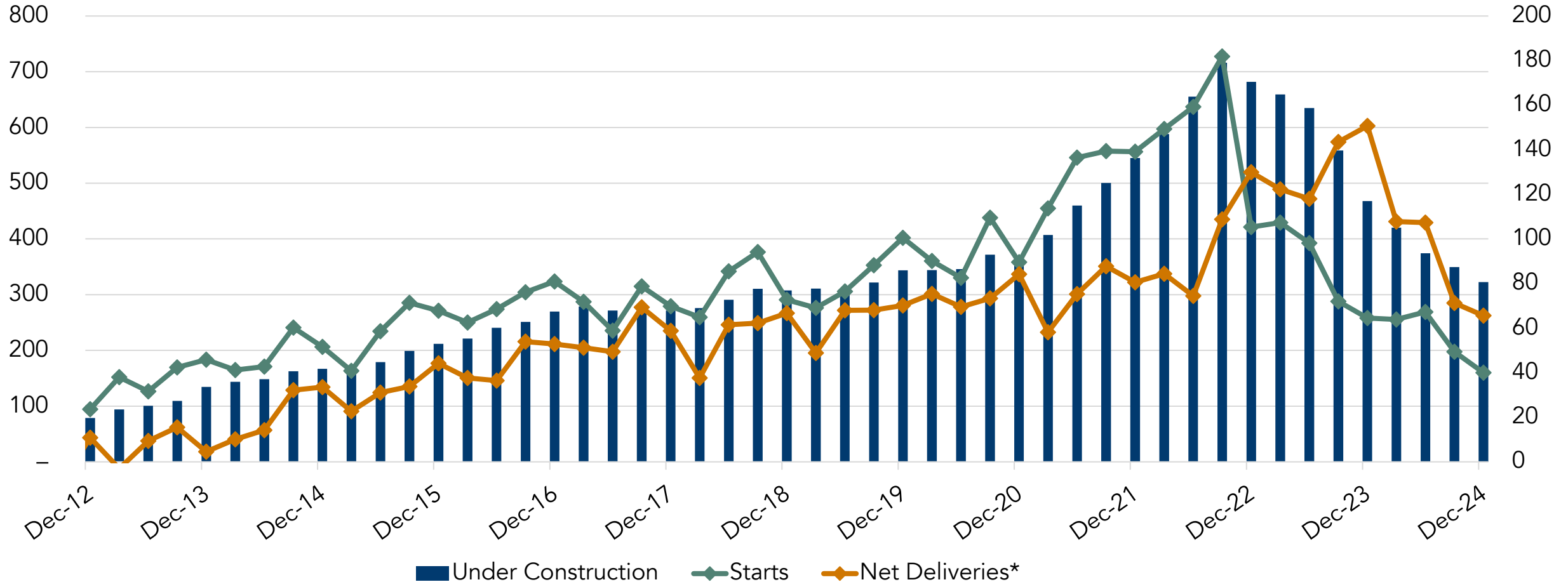
Source: Census Bureau, Jan. 2025

 @XanderSnyderX, #FirstAmEcon



Though a Lot of Industrial Space Has Been Delivered, Little New Construction is Starting

Millions of Square Feet of Industrial Under Construction (Left Axis), Deliveries and Starts (Right Axis)



* Net Deliveries = deliveries net of demolished square footage.

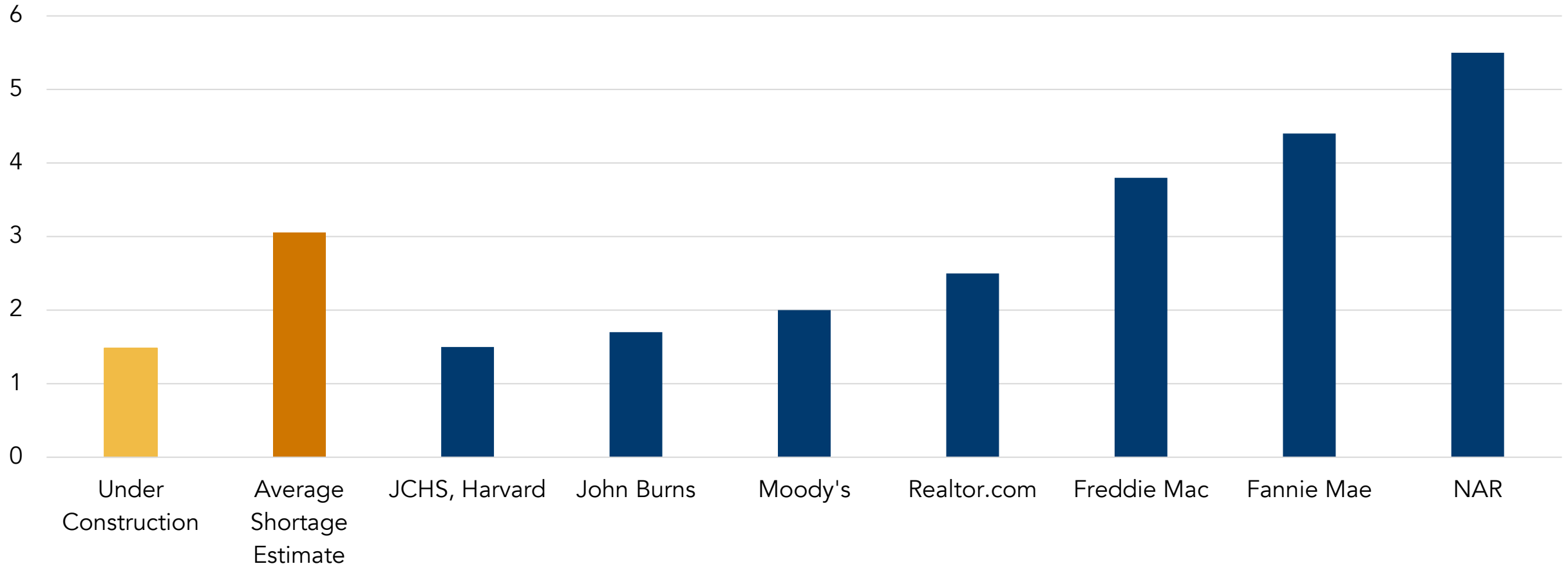
Source: CoStar, Dec. 2024

@XanderSnyderX, #FirstAmEcon




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

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

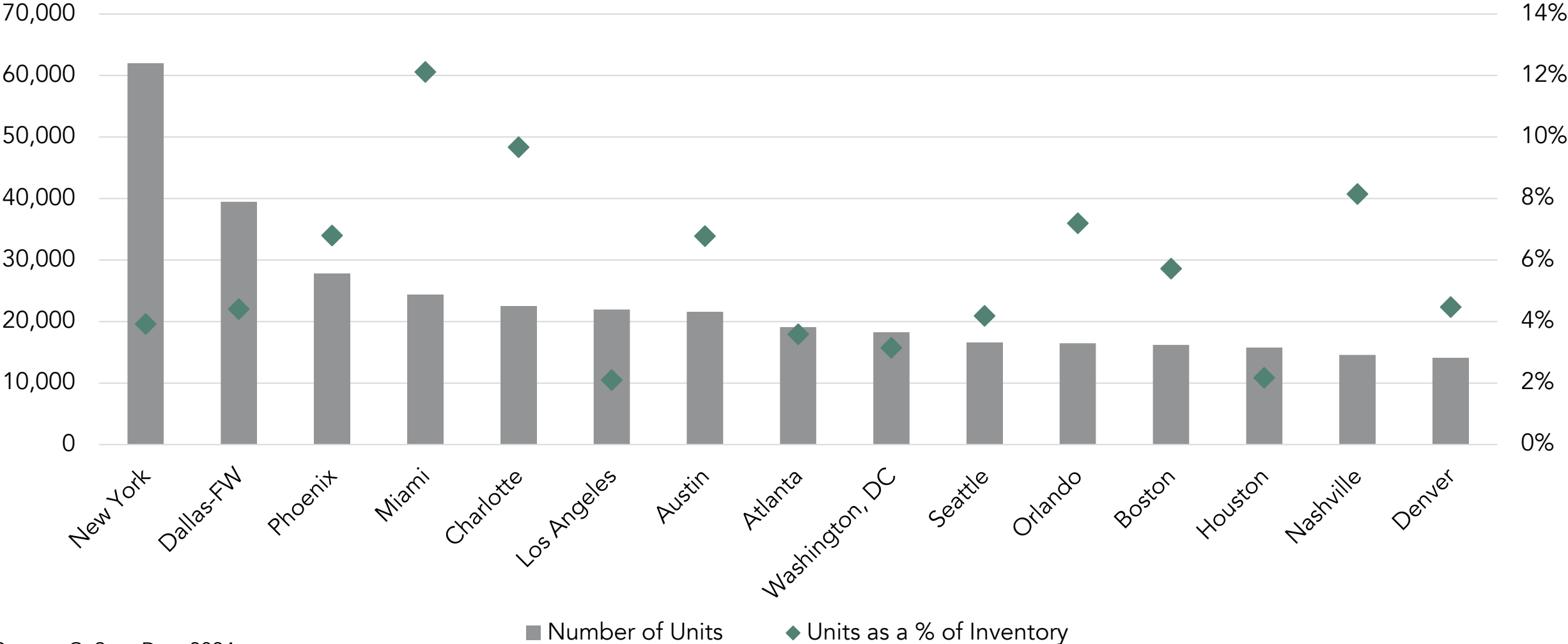


Source: U.S. Census Bureau, HUD, Freddie Mac, Fannie Mae, Harvard, NAR, John Burns, Moody's, Realtor.com


 @XanderSnyderX, #FirstAmEcon

New Supply of Apartments Varies Considerably by City

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

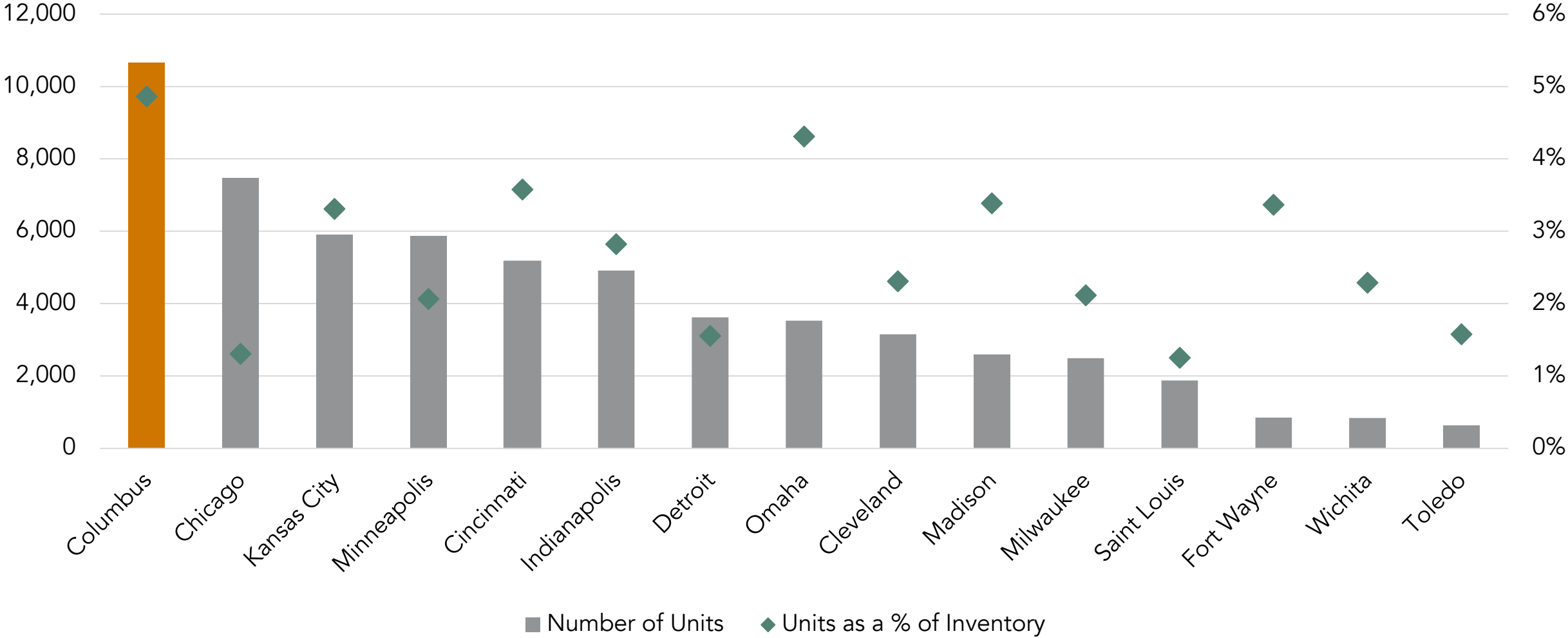


Source: CoStar, Dec. 2024

 @XanderSnyderX, #FirstAmEcon

Columbus Has a Lot of New Apartment Supply Relative to Other Midwestern Cities

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

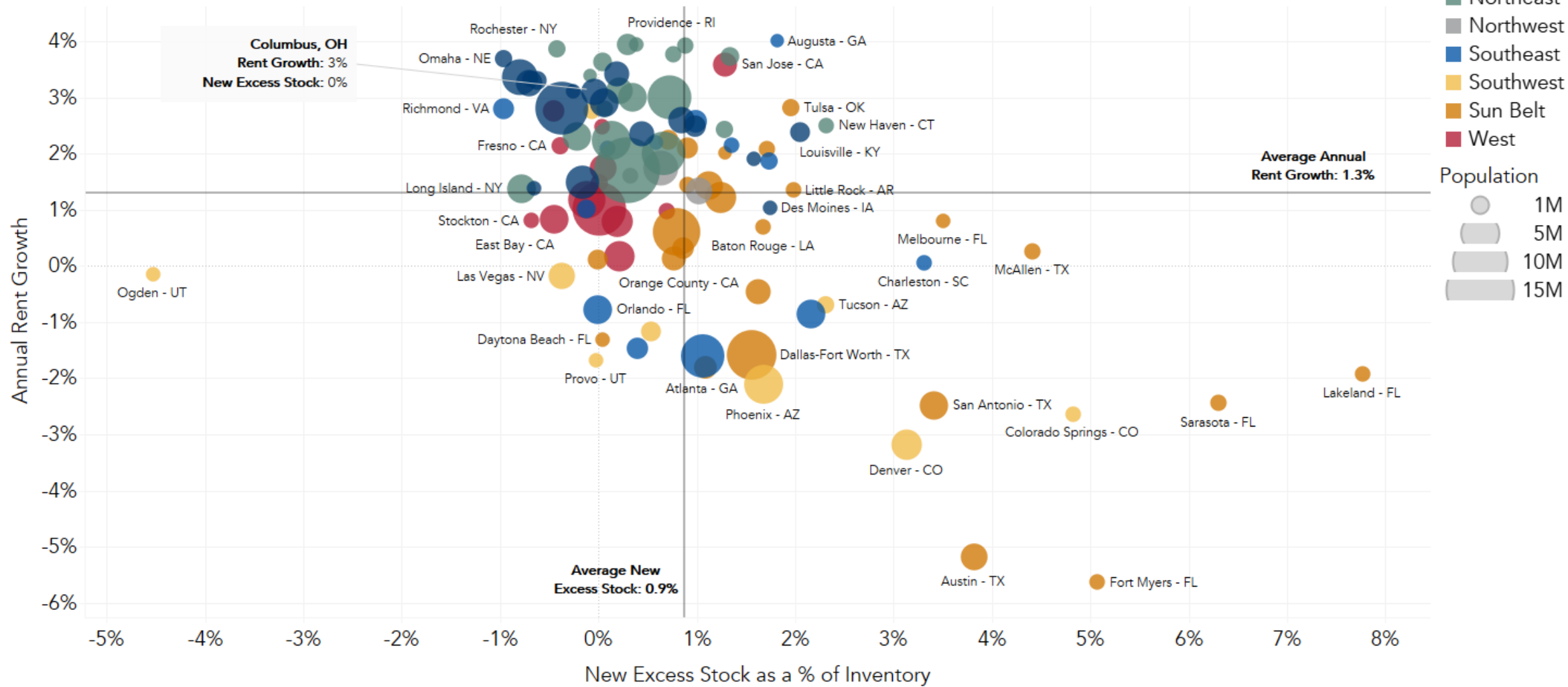


Source: CoStar, Dec. 2024

@XanderSnyderX, #FirstAmEcon

Apartment Rents Have Declined in Oversupplied Cities

Cross Hairs are Averages

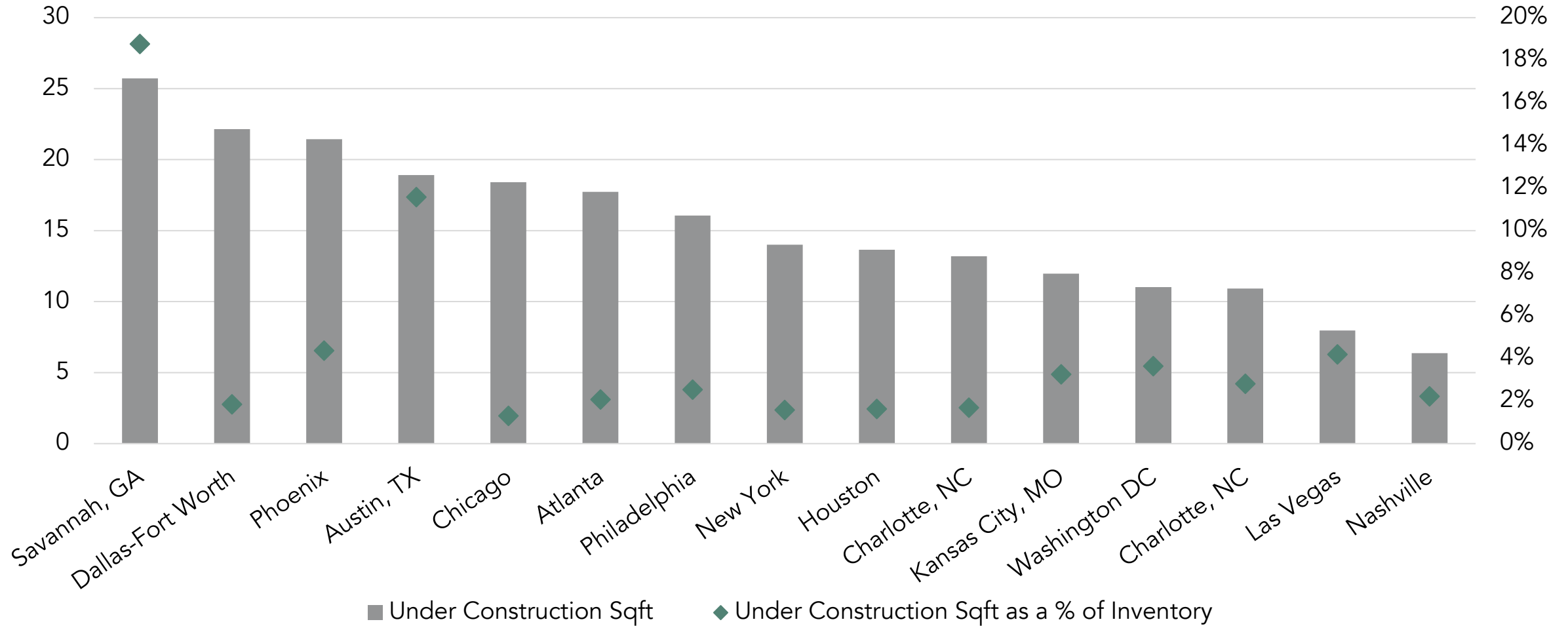


Source: CoStar, First American Calculations, Dec. 2024


@XanderSnyderX, #FirstAmEcon

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)

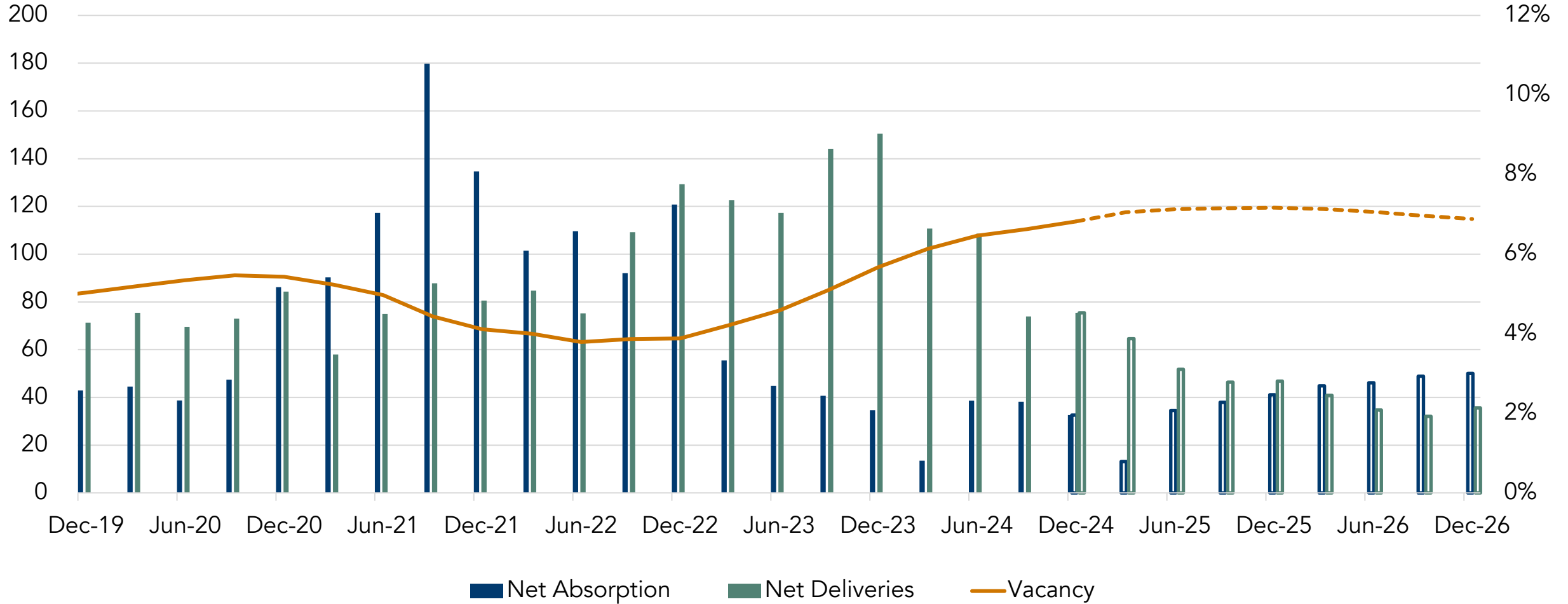


CoStar, Dec. 2024


 @XanderSnyderX, #FirstAmEcon

Despite New Supply, Demand Remains Strong and is Expected to Catch Up by Early 2026

Net Absorption and Net Deliveries (Millions of Square Feet, Left Axis), Vacancy Rate (Right Axis)

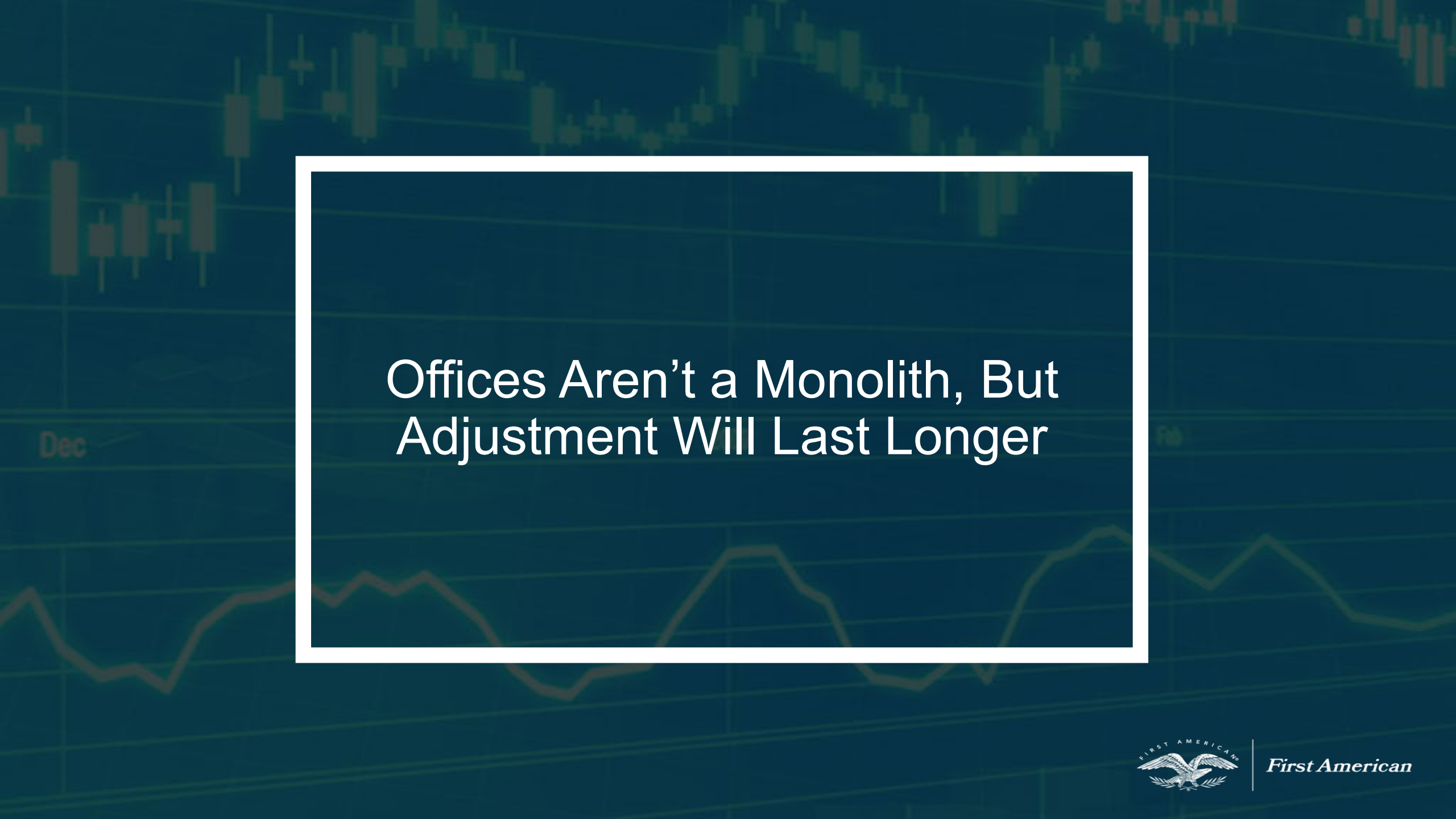


Source: CoStar, Oxford Economics, Dec. 2024

 @XanderSnyderX, #FirstAmEcon

Multifamily & Industrial Supply Wave Takeaways

- A substantial quantity of multifamily and industrial space is being delivered to market now, but that supply wave has a limited time frame
- Rents will be most impacted in high-supply markets
- In the long run, there's still a structural housing shortage that current construction won't completely resolve
- Industrial market has normalized compared to tight, pandemic-era conditions, in part due to more supply, but long-term demand drivers remain



Offices Aren't a Monolith, But
Adjustment Will Last Longer



First American

BAROMETER THIS WEEK

51.4%

10 CITY AVERAGE
OCCUPANCY



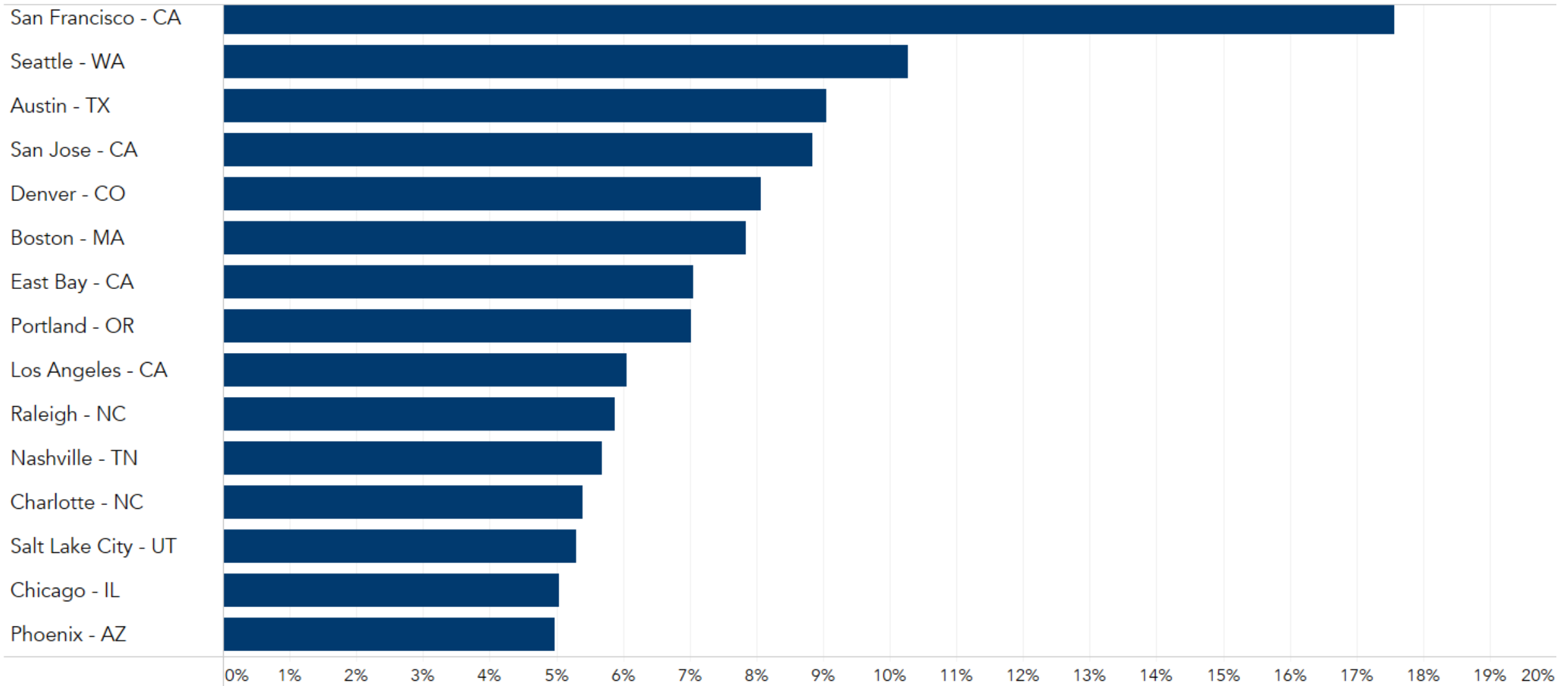
	Wed 2/5	Wed 2/12	% Change	
Washington D.C. metro	51.5%	39.2%	12.4%	▼
Philadelphia metro	44.2%	37.7%	6.5%	▼
Chicago metro	56.3%	50.4%	5.9%	▼
New York metro	55.3%	52.2%	3.1%	▼
Average of 10	54.1%	51.4%	2.7%	▼
San Jose metro	53.5%	54.9%	1.4%	▲
Houston metro	65.1%	64.1%	1.0%	▼
Austin metro	62.5%	61.6%	0.9%	▼
San Francisco metro	43.2%	43.9%	0.7%	▲
Dallas metro	61.4%	61.9%	0.5%	▲
Los Angeles metro	48.3%	48.2%	0.1%	▼

Source: Kastle Systems, Feb. 12, 2025


@XanderSnyderX, #FirstAmEcon

Cities With the Largest Post-Pandemic Increases in Office Availability Rates

Increase in Office Availability Rate from 4Q2019 to 4Q2024, Top 15 Cities

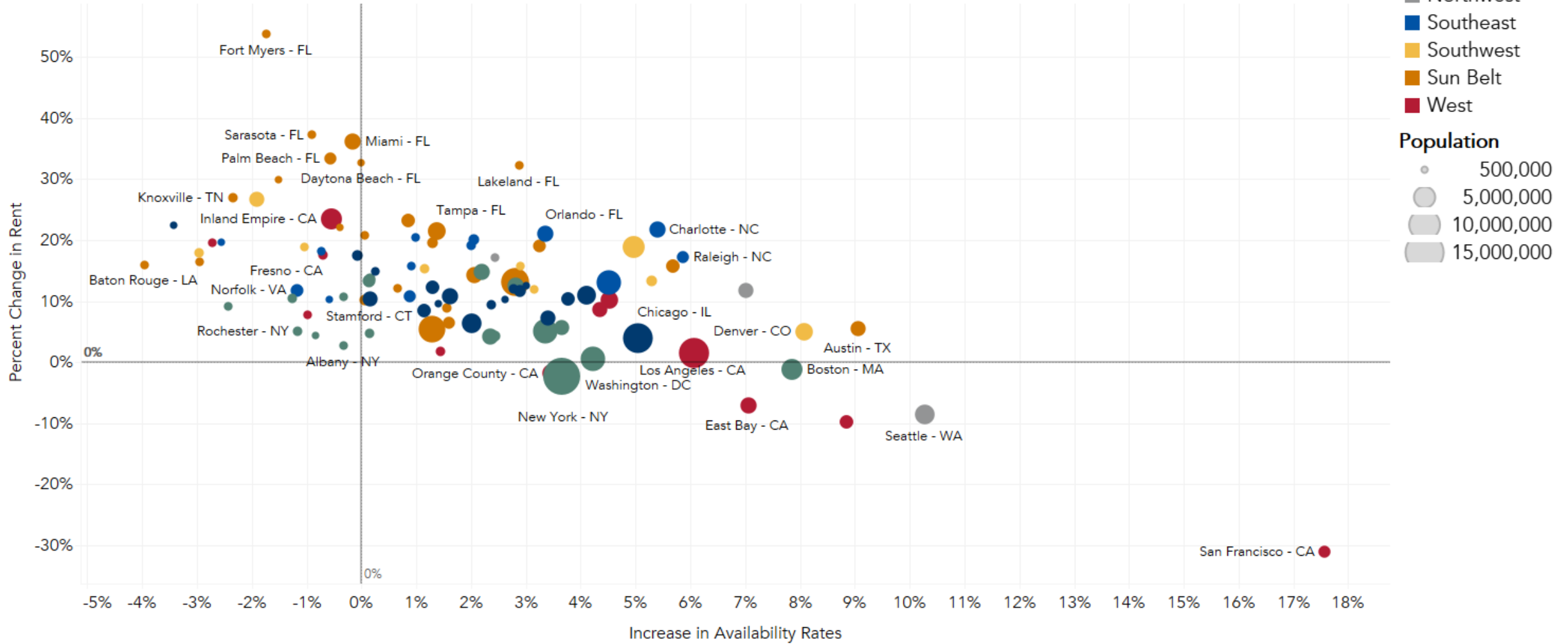


Source: CoStar, First American Calculations, Dec. 2024

 @XanderSnyderX, #FirstAmEcon

Availability Rates Have Increased in Most Cities but Rents Have Only Fallen in a Handful

Increase in Office Availability Rates from 4Q2019 to 4Q2024 (X-Axis), Percent Change in Office Rents from 4Q2019 to 4Q2024 (Y-Axis), Largest 100 Cities, Crosshairs at Zero

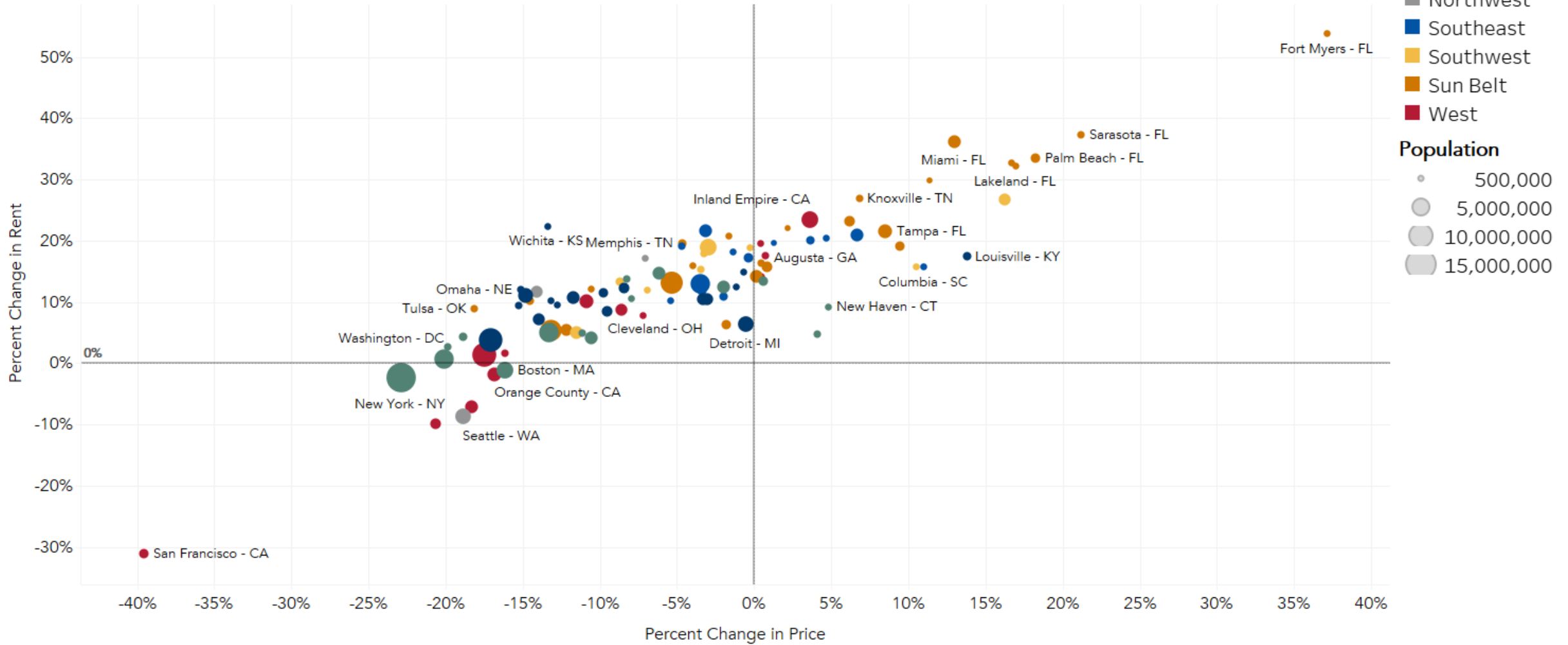


Source: CoStar, First American Calculations, Dec. 2024

@XanderSnyderX, #FirstAmEcon

More Cities Have Experienced Office Price Declines Than Office Rent Declines

Percent Change in Office Rents from 4Q2019 to 4Q2024 (X-Axis), Percent Change in Office Prices per Sqft from 4Q2019 to 4Q2024 (Y-Axis), Largest 100 Cities, Crosshairs at Zero



Source: CoStar, First American Calculations, Dec. 2024

@XanderSnyderX, #FirstAmEcon

Office Takeaways

- Though some office buildings are doing just fine, the total amount of office space demanded has fallen, likely permanently to some degree. This has increased availability rates across the country, compared to pre-pandemic
- Delinquency rates are now in double digits and there are significant near-term office debt maturities
- Office rents have been downward sticky to date, but competition from recent buyers means this is unlikely to persist



Concluding Thoughts



First American

Concluding Thoughts

- We appear to be at the beginning of the recovery in CRE.
- The recovery will not happen all at once, and there will be different phases as prices stabilize more rapidly while distress takes longer to work out.
- New industrial and multifamily supply will impact rents in some markets more than others, but this wave of new supply appears to be somewhat limited by falling starts.
- Real wages are growing, but consumers are still borrowing to spend.
- Limited retail space is available to lease
- Office's adjustment period will take longer than other asset classes



Econ Center

First American's Economic Resources

FirstAm.com/Economics

@XanderSnyderX

#FirstAmEcon

#REconomy Podcast



#REconomy Podcast



First American