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# Navigating the shifting real estate landscape: opportunities in U.S. real estate debt

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**Franklin Templeton Institutional, LLC**

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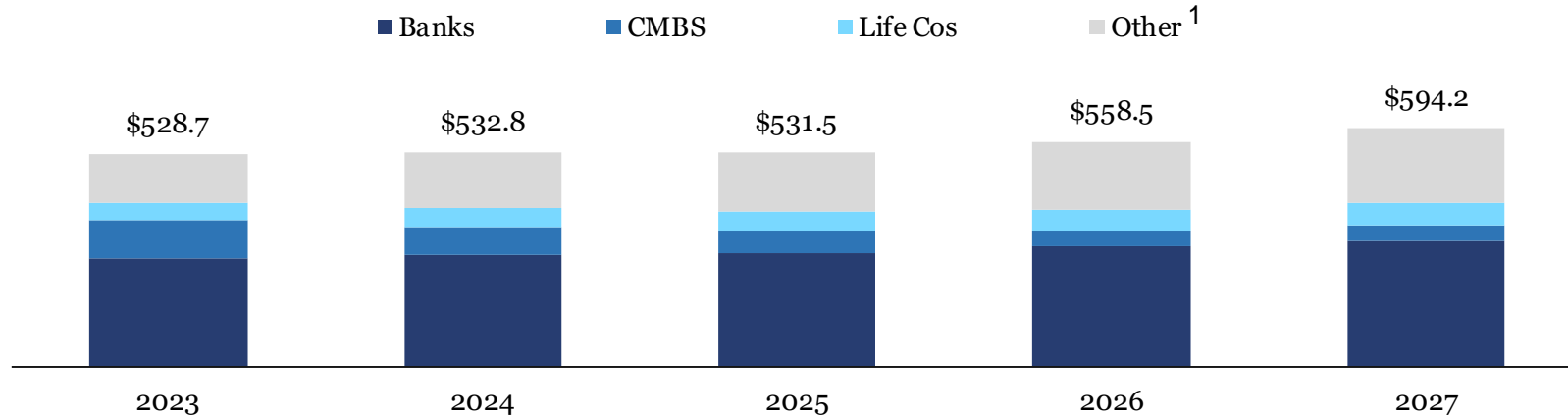
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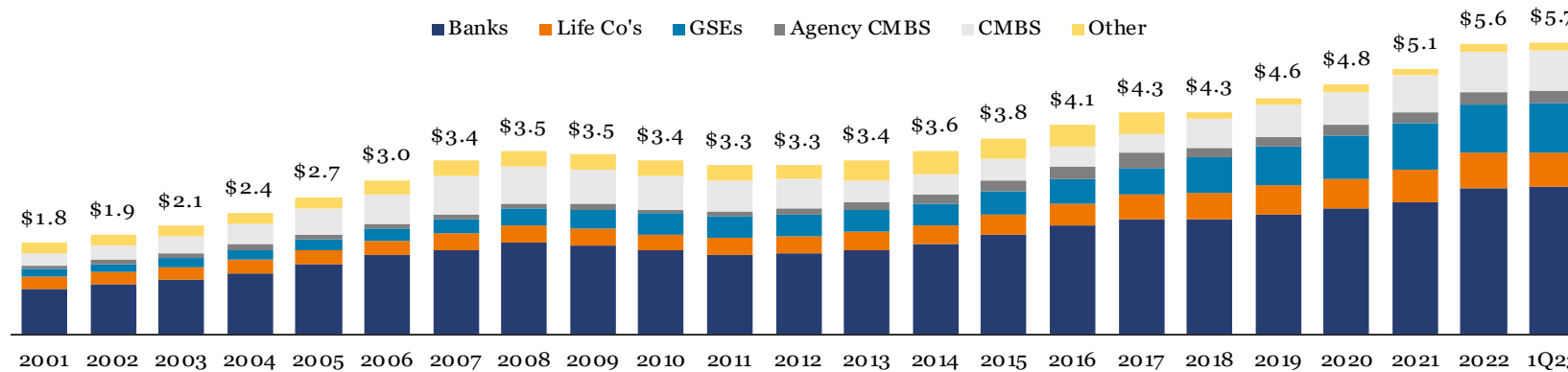
# Attractive Investment Environment

- \$1.6 trillion of real estate debt is maturing in the next 3 years and in need of refinancing
- Rising rate environment provides for additional distressed and unique opportunities in the market

## Total Commercial Real Estate Loan Maturities (\$ Billions)



## Total Commercial Real Estate Debt Outstanding (\$ Trillions)



Note: Views expressed are those of FRAA at the time of this Presentation and are subject to change. Such statements have not been independently verified. Past performance is not indicative of future results. Forecasts are inherently uncertain and subject to change. Actual results may vary. Source: Trepp, Q1 2023.

1. Other: Primarily comprised of multifamily lending by Fannie Mae and Freddie Mac. This could also include finance companies (private debt funds, REITs, CLOs, etc.), pension funds, government or other sources.

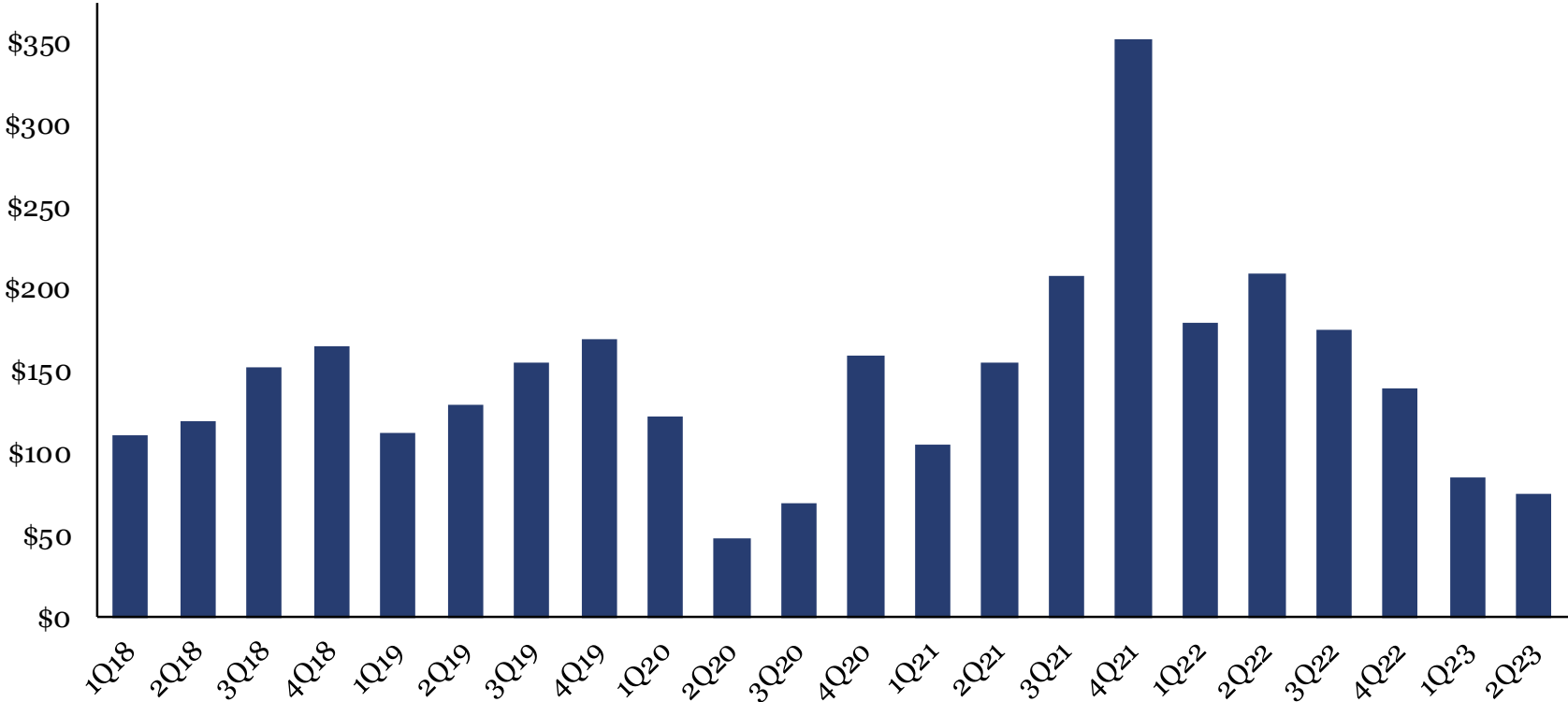
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# Market Overview & Opportunity:

## CRE Investment Volume

- U.S. commercial real estate investment volume has declined for the fourth quarter in a row and is approaching levels that we have not seen since the peak of COVID

U.S. Commercial Real Estate Investment Volume (\$ Billions)<sup>1</sup>



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1. Source: CBRE research, Q2 2023.

# Taking Advantage of Persistent Market Inefficiencies In Middle-Market Real Estate

- Our 'buy, fix, sell' investment strategy underpins the way we structure our business and invest on behalf of our clients.



## BUY

- Middle-market assets
- Seek motivated sellers
- Assess potential for value creation
- Buy assets off-market or through broken bidding processes



## FIX

- Targeted 3-5 year, asset-specific business plan
- Plan to invest in physical improvements and leasing
- Goal to improve quality and quantity of cash flows
- Resolve broken capital structures



## SELL

- Exit to core market
- Expectation of multiple potential buyers
- Realize and distribute profit

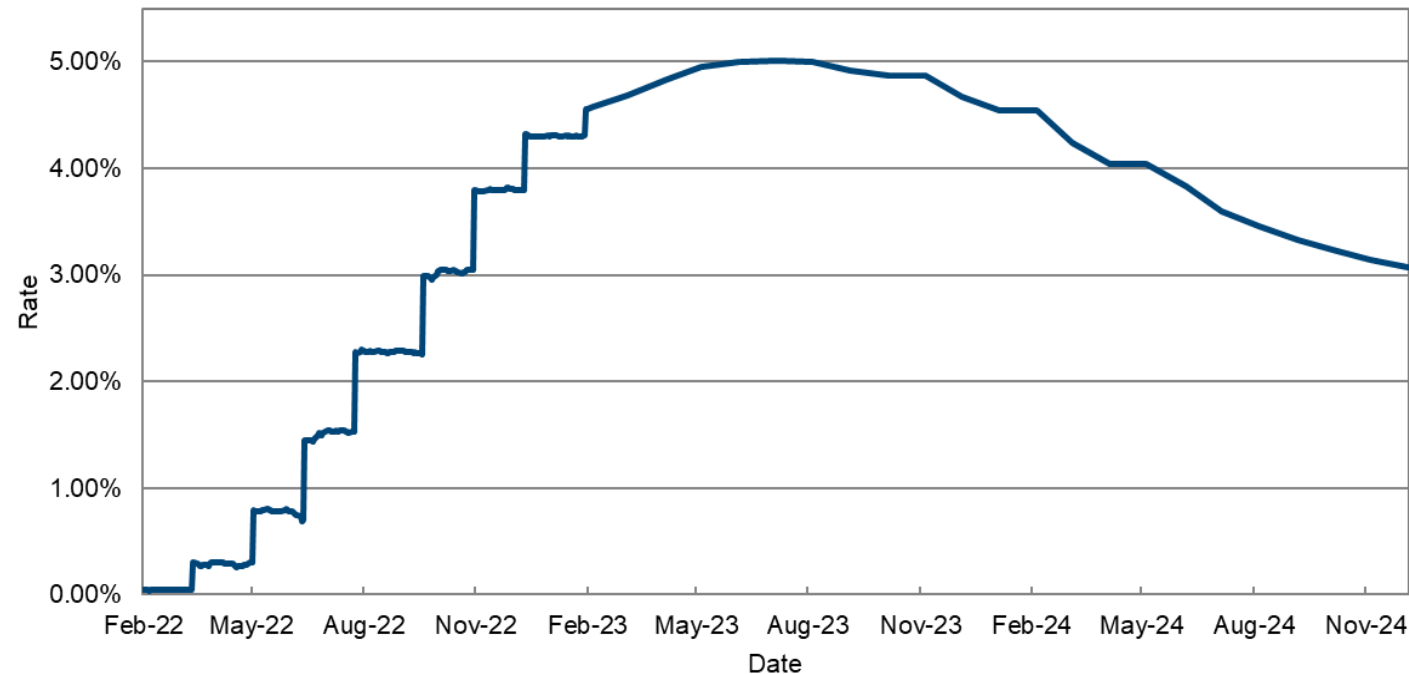
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# Rising Interest Rates Put Pressure on Weak Capital Structures

- 1-month SOFR has increased from 0.05% to >4.50% in the last 12 months and expected to stay above 3% through end of 2024<sup>1</sup>
- Higher interest rates put downward pressure on valuations (i.e., higher expected cap rates)
- Interest expenses have increased exponentially for borrowers with floating rate exposure
- Borrowers will be required to reserve additional equity with lenders to purchase expensive interest rate caps

## 1-month SOFR Forward Curve<sup>1,2</sup>



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1. Source: New York Fed (2/6/2023).

2. Source: Chatham Financial (2/6/2023).

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# Market Overview & Opportunity:

## Banking Market Distress

- 3 of the 5 largest bank failures in U.S. history have failed in 2023
- Of the \$5.7 trillion of commercial real estate debt outstanding, 50% is held at banks<sup>2</sup>
- 30% of all commercial real estate debt maturing at banks in the next three years are collateralized by office properties
- Banks and lending institutions are concerned with their legacy office exposure making access to new loans challenging for borrowers. As such, banks are not extending or originating new office loans

5 Largest U.S. Bank Failures <sup>1</sup>		
Bank	Year of Failure	Total Assets (\$Bn)
Washington Mutual Bank	2008	307.0
First Republic Bank	2023	229.1
Silicon Valley Bank	2023	209.0
Signature Bank	2023	110.4
IndyMac Bank	2008	32.0
<b>Total</b>		<b>887.5</b>

2023-2025 CRE Loan Maturities Held at Banks <sup>2</sup>		
Property Type	Amount (\$Bn)	% of Total
Office	248.8	30%
Multifamily	197.2	24%
Retail	144.3	18%
Other	88.7	11%
Industrial	70.3	9%
Lodging	72.6	9%
<b>Total</b>	<b>\$821.9</b>	

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1. Source: Federal Deposit Insurance Corporation, May 1, 2023.

2. Source: Trepp, Q1 2023.

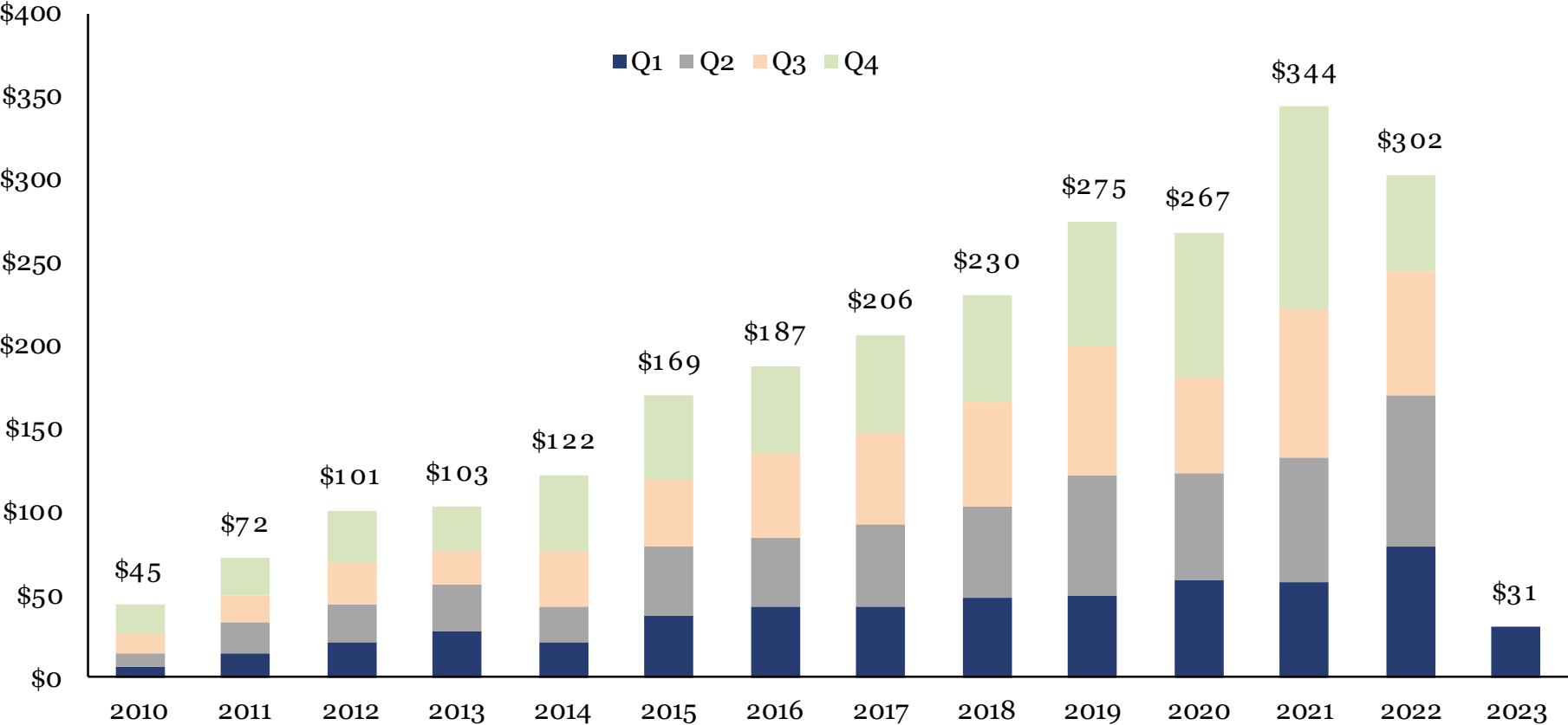
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# Market Overview & Opportunity:

## Multifamily Debt Originations

- Debt originators have significantly decelerated their activity with originations down 55% compared to Q1 2022

Multifamily Debt Originations (\$ Billions)<sup>1</sup>



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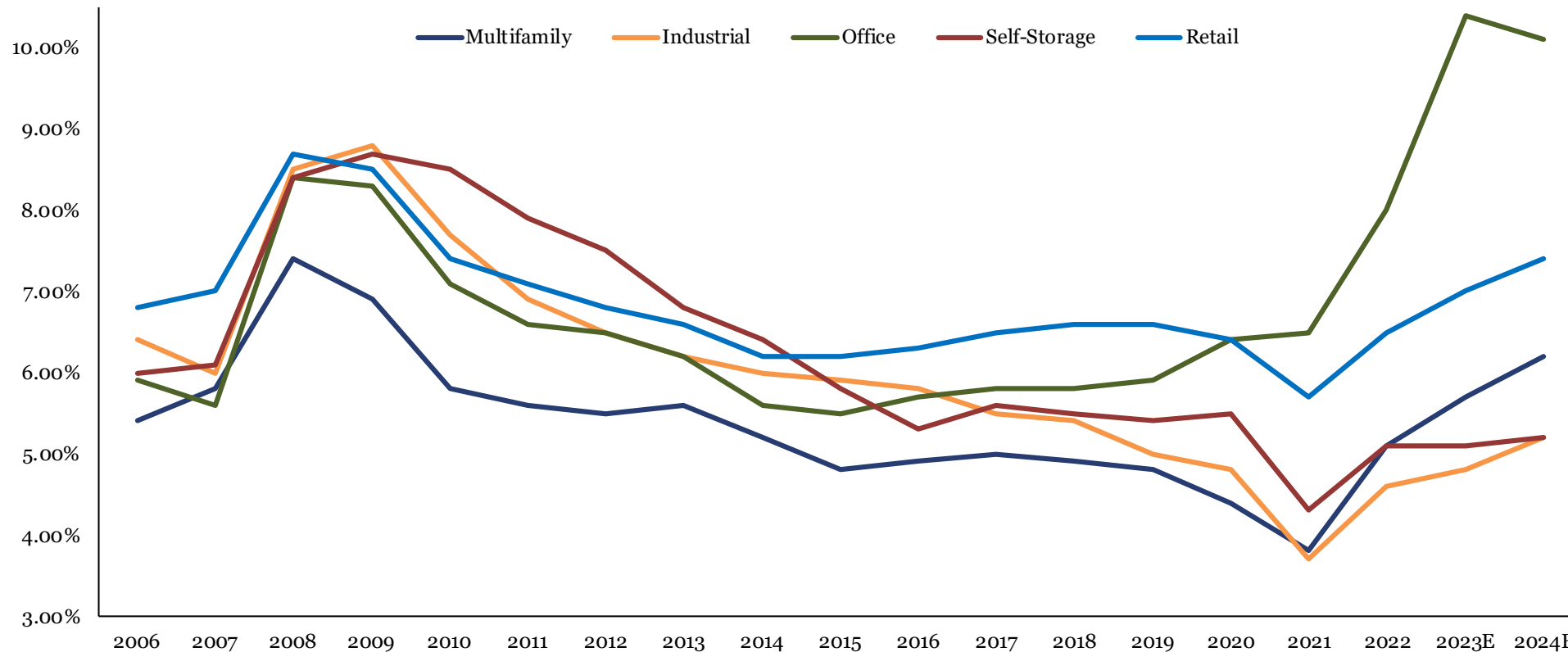
1. Source: Houlihan Lokey Real Estate, Lodging & Leisure Market Overview Report, Q1 2023.

# Market Overview & Opportunity:

## Cap Rates by Sector

- Cap rates are rising and are projected to reach levels at or above the Global Financial Crisis
- Office cap rates are estimated to be above 10% by end of 2023

### U.S. Top 50 Markets – Nominal Cap Rates by Sector (%)<sup>1</sup>



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1. Source: Green Street Research, August 2023. Forecasts are based on the Green Street Baseline Scenario.

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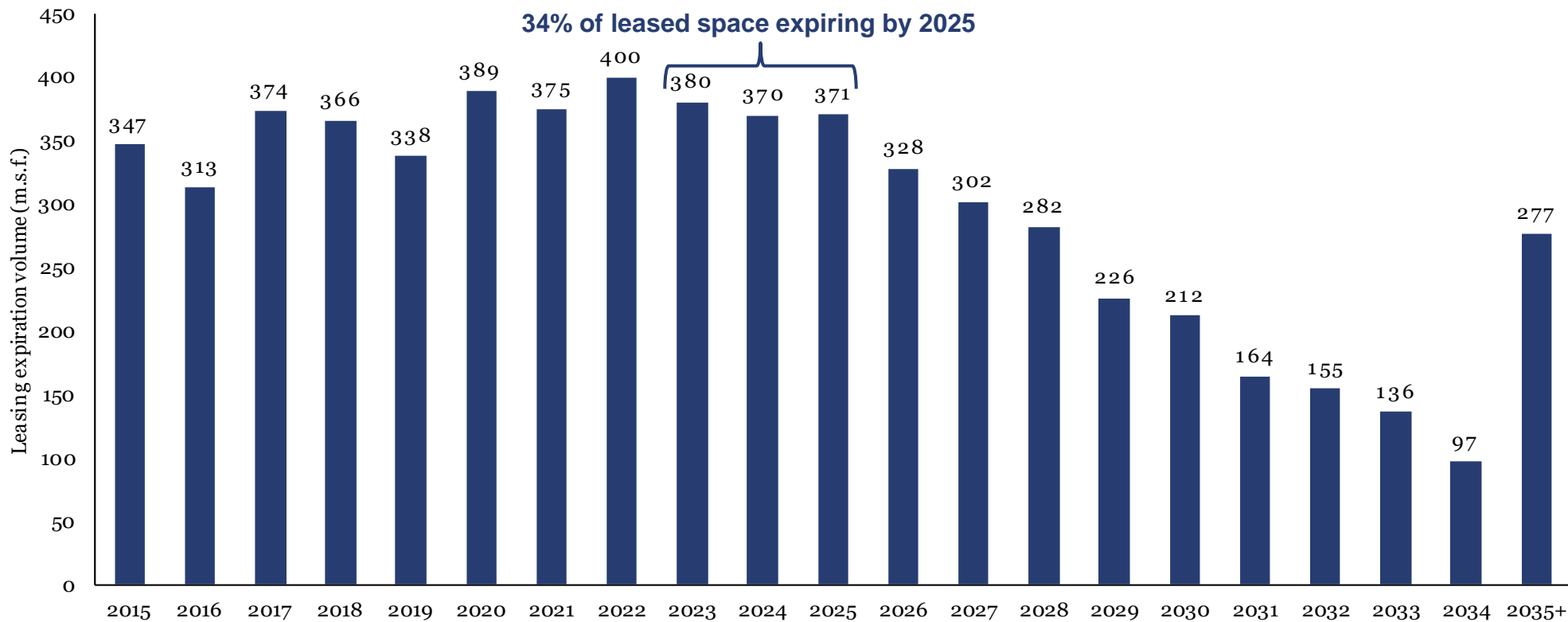


# Market Overview & Opportunity:

## Office Leases

- Approximately 1/3 of outstanding office leases are expiring in the next 3 years
- Tenants will continue to downsize their spaces when expirations come due leading to increased vacancies across the office sector

### U.S. Office Lease Expiration Volume by Year<sup>1</sup>



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1. Source: JLL, U.S. Office Outlook Report, Q2 2023.

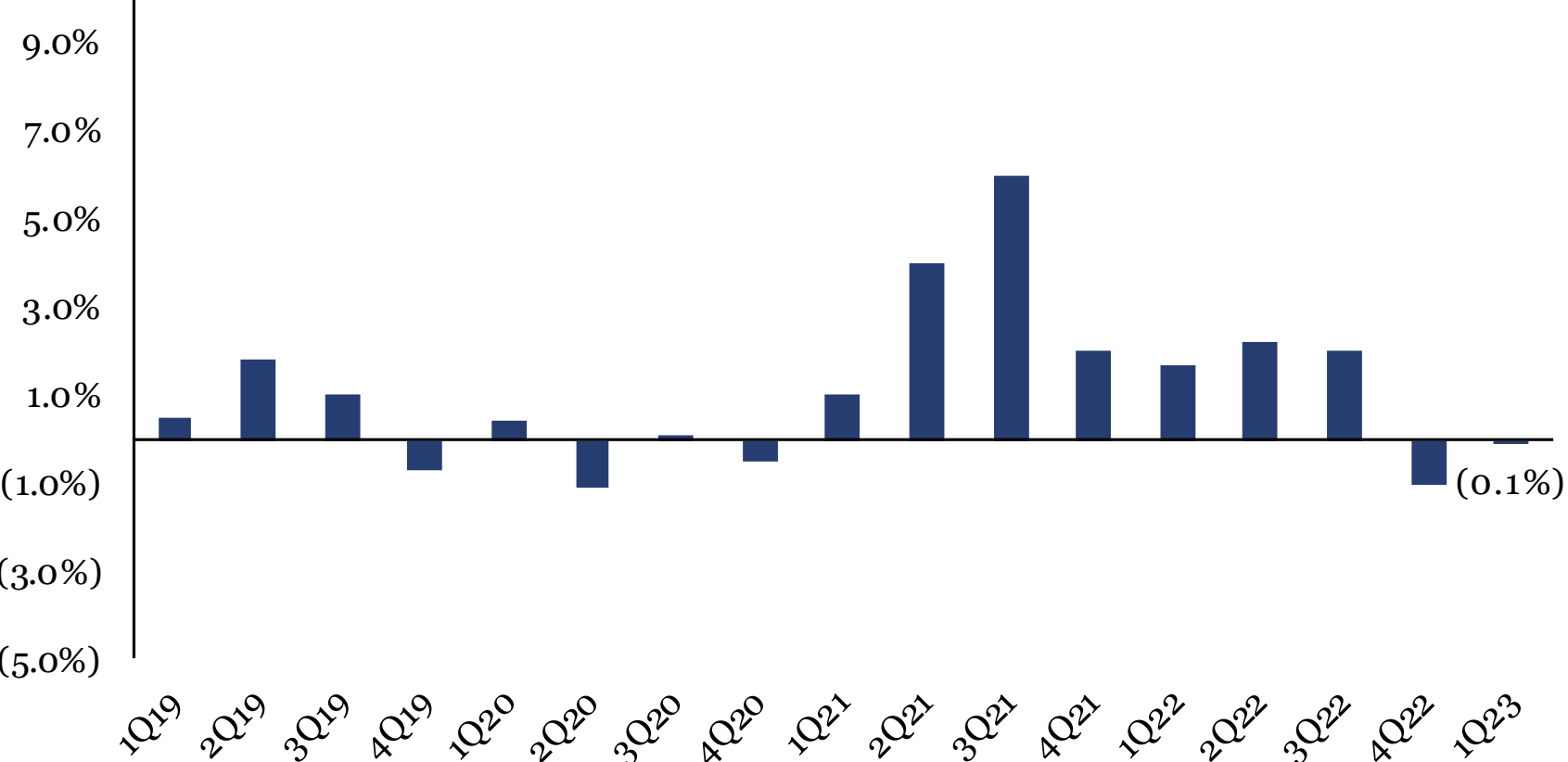
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# Market Overview & Opportunity:

## Multifamily Rent Growth

- Rents declined in both Q4 2022 and Q1 2023, which represents the first time rent has declined two quarters in a row since 2009

U.S. Multifamily Effective Rent Growth (%)<sup>1</sup>



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1. Source: Newmark Research, U.S. Multifamily Report, Q1 2023.

# Biographies



## **Marc Weidner**

Managing Director  
Head of Global Real Estate  
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Marc Weidner joined Franklin Templeton in early 2002 and is a Managing Director and Head of Global Real Estate. He is also a member of the Global Investment Committee of Franklin Real Asset Advisors where he serves as head of investments.

Prior to joining Franklin Templeton, Mr. Weidner worked in the investment banking group of DLJ/Credit Suisse in London and New York where he originated and structured real estate private equity funds in Europe and the United States. Prior to joining DLJ/Credit Suisse, he was with Security Capital Group in London where he worked on various transactions and business development initiatives.

Mr. Weidner holds an M.B.A. from Cornell University where he was a Fulbright scholar. He holds a master's degree in political science and international relations, magna cum laude, and a B.A. in business management, magna cum laude, from Louvain-la-Neuve, Belgium. Mr. Weidner is a member of PREA and INREV, and is a faculty member in the M.S. in Real Estate Development program at Columbia University.

# Thank you

## Q&A

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