Prices Are Improving in Many Property Types

Also property values are up for a good number of asset categories.

By Erik Sherman

A midyear review by a number of Green Street analysts shows improving prices in a majority of property types, as Michael Knott, managing director and head of U.S. REIT research opened with.

Yes, office, storage, and life science saw falls compared to March 2023. But prices were up for gaming, ground lease, healthcare, strip center, lodging, mall, data center, tower, industrial, and cold storage. In those sectors, there were stable cap rates and growing NOI. Private-market real estate was about 10% over estimated fair value, but listed REITs were fairly priced compared to bonds and inexpensive compared to the S&P 500 (though given the index's structure, remember that is a comparison to a mix heavily overweighted with technology stocks).

Vince Tibone, managing director of malls and industrial, wrote that risk-adjusted discounted cash flow (DCF) expected return, after multiple adjustments, were on average 7.3%, ranging from data center at 6.9% to 7.7% for mall.

Paulina Rojas-Schmidt, strip centers analyst, said the property type was stronger after the pandemic, having emerged "revitalized" with strong tenant demand and limited new supply cementing landlord bargaining power.
Private market DCF is 7.1%, according to office analyst Dylan Burzinski, ranging from 6.1% for office to 8.4% for ground lease.

Data centers are seeing demand outpacing supply around the globe and will likely see an addition boost as AI deployments need more processing power. The demand imbalance will result in new projects, with supply growing over time, writes David Guarino, senior analyst for data centers and towers.

Michael Stroyeck, senior associate for healthcare, noted that demographic growth of those 80 and older create good demand for senior housing through the second half of the 2020s. Operating fundamentals will also improve with Covid receding in the minds of many.
Alan Peterson, analysis for residential, said that permitting continues to be up in the Sun Belt and coastal markets, creating new highs. Coastal markets have low supply growth, ensuring revenue growth over the next 18 months. Single-family rentals will benefit from aging demographics and restrained renter abilities to purchase. A supply-demand imbalance will continue through the next 12 to 24 months and landlords have the negotiating edge.

Not all is good, though. Office analyst Dylan Burzinski said the sector "continues to be on shaky footage," which shouldn't be a surprise given uncertainty in the economy and how companies are navigating future use cases.

And changes to property prices since the March 2022 peak have been almost entirely down, with the biggest losers being ground lease off by 29%, office 27% down, apartments dropped by 21%, malls losing 18%, and net lease with a 16% decrease, noted Spenser Allaway, senior analyst for net lease and self-storage. On average, prices are down 15%. But with transaction volumes being down, prices have not always been truly representative of the market.