RESEARCH BRIEF

THE CRE ADVANTAGE

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Marcus & Millichap

Private Investors Better Positioned to Outperform Through Active Management

Active ownership can help drive value creation. CRE offers a unique ability to directly influence performance, particularly in a high-cost operating environment.

- Very few investment options allow investors to play an **active role** in shaping their assets' performance.
- Unlike stocks, bonds, or commodities, CRE enables **direct value creation** through hands-on management.
- Investors are increasingly focused on **operational strategies**, as deal underwriting has become more challenging in the current market where the average borrowing rate on a property exceeds **mid-5 percent**.
- Elevated inflation has made **expense management** a central component of investment performance.
- Since the end of 2022, construction labor costs have risen by **15.6 percent** while material costs have increased by **11.3 percent**, requiring more targeted capital improvements.
- Insurance expenses remain elevated, up **26.4 percent** since 2022 despite moderating from peak levels, further pressuring operating margins.
- In this environment, experienced investors are prioritizing **efficiency gains** to offset rising costs and protect returns.

Real estate performance across cycles. Outcomes vary across periods of expansion and contraction, requiring strategic adjustments to evolving demand patterns and capital availability.

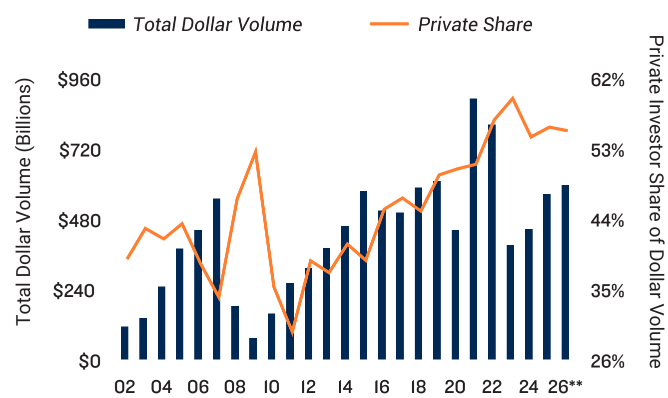
- At times, the market outperforms, with strong demand and capital inflows simultaneously driving **occupancy** and **rent growth** as well as **asset appreciation**.
- Between 2019 and 2022, apartment values rose **43.9 percent**, industrial assets by **55.3 percent**, and self-storage properties by **63 percent**, highlighting the strength of recent expansionary conditions.
- Conversely, there are periods where **demand softens**, and **capital availability declines**, making profitable operations more difficult to achieve.
- The current environment represents an intermediate phase, in which acquisition opportunities exist but require **disciplined execution** to realize full value.

Private investors hold the competitive edge. Hands-on, locally focused investors can create the most value by leveraging operational expertise and uncovering overlooked opportunities.

- In the current investment climate, investors who **actively manage assets** and **rigorously evaluate opportunities** are better positioned to outperform.
- Periods requiring operational discipline tend to favor experienced, hands-on operators.
- Private investors have dominated trade activity, accounting for **55 to 59 percent** of commercial transactions over **$2.5 million** since 2022.
- Limited availability of debt capital has contributed to this trend, with **lenders favoring smaller loan sizes**.
- Private investors are often more **responsive** to local market conditions and adopt a **value-creation** mindset in acquisitions.
- Their ability to identify overlooked assets and execute targeted improvements provides a **competitive advantage**.
- Flexibility and precision enable these investors to tailor strategies to the unique characteristics of individual properties.

28%	55% - 59%
Rise in Private Dollar Volume in Year ended March*	Private Investor Share of Dollar Volume Since 2022*

Private Investors Lead Dollar Volume*



* Transactions greater than $2.5 million **T-12 ended March | Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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