LIGHTBOX

CRE MARKET SNAPSHOT Q4 2024

FOCUS ON PHASE I ENVIRONMENTAL SITE ASSESSMENT TRENDS
(October 1-December 31, 2024)

LIGHTBOX PHASE I ESA ACTIVITY INDEX BREAKS THREE-QUARTER STREAK WITH YEAR-END SLOWDOWN

Annual Phase I ESA volume decreases for first time since 2021, poised for moderate 2025 growth

Editor's Note

This report, an installment of the LightBox CRE Market Snapshot Q4 2024 series, highlights trends in the environmental due diligence market, including the latest industry benchmarks on volume, the Lightbox25 Index, and geographic hot spots by region and metropolitan area. Other reports in the series include the Appraisal Market Snapshot, which covers trends in lender-driven appraisals and the Capital Markets and Investment Trends Snapshot that analyzes developments in capital markets and emerging opportunities for brokers and investors.

The final quarter of 2024 was punctuated by the end of a divisive election season and two more modest interest rate cuts. Although further declines in interest rates came as welcome news to the market, they also came with a different tenor from the Federal Reserve that the pace of future cuts could be slow, dependent on inflation and labor market data. After the series of cuts that began in September, the Fed opted to hold interest rates steady at its first meeting of the new year as the central bank embarks on a new phase of policy-setting. Uncertainty about President Trump's policies on issues like tariffs, immigration, and the federal deficit cloud the forecast. In one promising Q4 development, big banks are meaningfully invigorating commercial real estate (CRE) lending activity after a long period of cleaning up their balance sheets and selling off nonperforming loans.

KEY Q4 2024 DEVELOPMENTS

- The LightBox Phase I ESA Activity Index broke its three-quarter streak of increases, falling to 79.4 from Q3's 90.6, but still above 69.5 one year earlier.
- U.S. Phase I ESA volume decreased to 54,286, a 15% drop from strong Q3 volumes, ending the year 9% above Q4'23's low point.
- In Q4, the Fed lowered rates two more times after the September 50-basis point cut, totaling 100 bps cuts for the year.
- Atlanta, Las Vegas, and Dallas led the metros with the strongest growth in Phase I ESA volume in 2024 with volume that was 14%, 12%, and 11% above 2023, respectively.
- Despite the quarterly slowdown, due to a mix of seasonal and market factors, the sentiment of the Market Advisory Council remains largely positive and forecasts for moderate growth in 2025.

After a strong start to Q4, Phase I ESA activity moderated as the quarter progressed, both due to a typical Q3-to-Q4 seasonal slowdown as well as the growing policy and geopolitical uncertainty. By year-end, Phase I ESA activity declined by 15% below Q3 levels, but was still 9% above Q4 of 2023, according to output from the LightBox ScoreKeeper model.

In addition to market uncertainty, the second half of 2024 was also a period of technical adjustment. Environmental consultants are [navigating the complexities of addressing PFAS risk] within the scope of CERCLA-driven Phase I ESAs in response to the U.S. Environmental Protection Agency's designation of two types of PFAS as hazardous substances last April.

Despite the slower quarterly performance, industry leaders on the LightBox Environmental Due Diligence Market Advisory Council ("Market Advisory Council") are still cautiously optimistic about 2025 as large banking clients ramp up origination activity, encouraged by slightly lower rates and receding recessionary concerns, and investor clients shop around for new opportunities. Lenders' loan extensions of the past few years will fuel this year's refinancings and distressed deals will increase as owners face their day of reckoning. Against this backdrop, the outlook for Phase I ESA activity in 2025 is one of moderate growth, supported by the expectation of declining interest rates and increasing CRE transaction and lending activity.

WORD ON THE STREET

"The fourth quarter decline was most noticeable following the election, though it's unclear whether this was directly tied to election outcomes or simply a result of the typical slowdown leading into the holiday season. Despite the dip in volume, client discussions have generally remained positive, with many expressing continued interest in moving projects forward."

– Brian Wilson, Managing Principal, August Mack

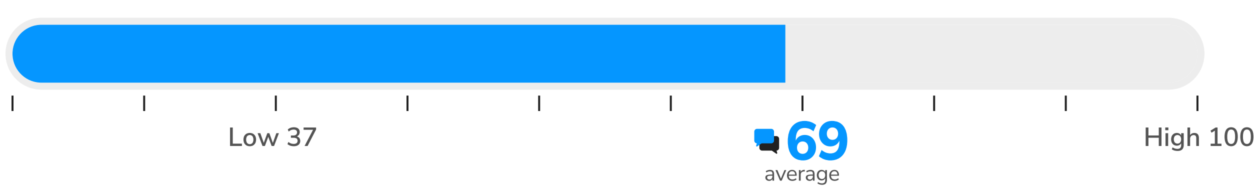
SLIGHTLY WEAKER PHASE I ESA MARKET CONDITIONS ON HEELS OF ELECTION

Average Score Fell from 73 in Q3 to 69 at Year-End

Responses from the Markey Advisory Council, a broad-based cross section of leaders from firms like AEI, Partner Engineering, Terracon, EBI, CBRE, and others in every region of the U.S., pointed to slightly weaker Phase I ESA market conditions in Q4. On a scale from 1 (worsening) to 100 (improving), the Phase I ESA market condition scored an average of 69, a slight decline from Q3's 73. Individual responses did not deviate significantly from the average, but outliers were a 37 at the low end and a high of 100 at the other. It will be interesting to see whether market conditions improve in Q1 2025 as more clarity emerges about federal policies, inflation, and the future path of interest rates.

State of Q4 Phase I ESA Market

(1=worsening to 100=improving)



SOURCE: Q4 survey responses from LightBox Market Advisory Council

LIGHTBOX PHASE I ESA INDEX LANDS AT 11.3 POINTS BELOW Q3, YET 9.8 POINTS HIGHER THAN ONE YEAR AGO

After three quarters of consecutive growth and the strongest Q3 in two years, the LightBox Phase I ESA Activity Index declined 11.3 points in Q4 to 79.3. The momentum that built up in the market after the Fed's first rate cut in mid-September waned amid election uncertainty and the typical slowdown around the holiday season. Year over year, the Index is nearly 10 points above where it was at year-end 2023 when property transactions were struggling amid still-high rates and a wide bid-ask gap between buyers and sellers. Over the past four years, the Q4-to-Q1 movement in the Index is typically moderate as the market transitions into the new year and then accelerates in the second quarter. With a mix of tailwinds in the form of growing momentum by investors and lenders and headwinds related to the uncertainty of interest rates, developing federal policies, and the threat of inflation, 2025 may well be anything by typical.

LightBox Phase I ESA Activity Index(base Q1 2021=100): Near-Term Forecast

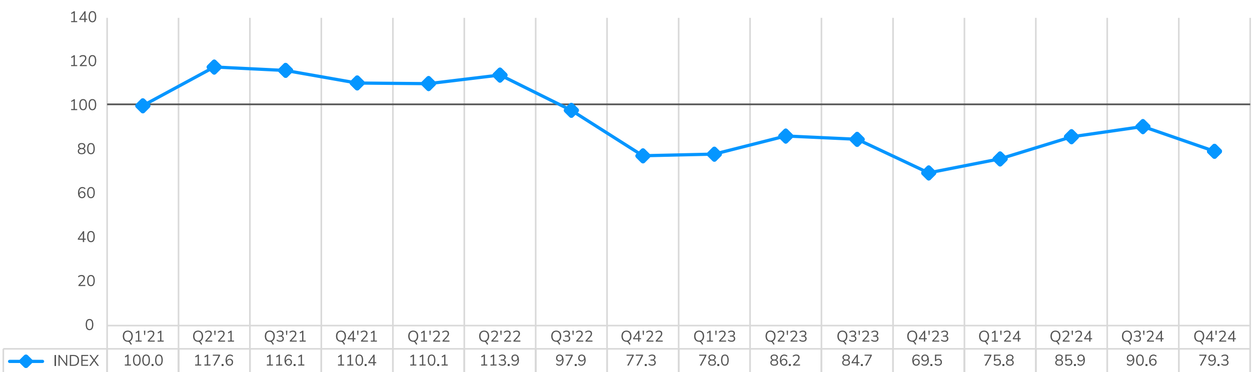


Figure 1

NOTE: The LightBox Phase I ESA Activity Index is derived from the output of the LightBox EDR ScoreKeeper model. Quarterly volumes are normalized to a Q1 2021 base of 100 and calculated based on an average volume per business day (adjusted as necessary for changes in client mix to highlight organic market trends). This index is one of three indices that feed into the LightBox CRE Index, an aggregate activity index that represents a composite measure of movements across activity in appraisals, environmental due diligence, and commercial property listings as a barometer of broad industry shifts in response to changes in market conditions

LightBox Q4 Phase I ESA Metrics Snapshot

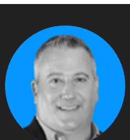
	Q4 2024	Q3 2024	Change (QOQ)	Q4 2023	Change (YOY)
LightBox Phase I ESA Index	79.3	90.6	-11.3 points	69.5	9.8 points
U.S. Phase I ESA Volume	54,286	64,046	-15%	49,916	9%
Volume in: LightBox25 Index	21,341	28,782	-26%	20,072	6%
Primary Metros	29,992	34,973	-14%	27,102	11%
Secondary Metros	5,969	6,604	-10%	5,888	1%

CRE TRANSACTIONS POISED FOR REBOUND AS INSTITUTIONAL CAPITAL RETURNS

In 2023 and early 2024, private investors accounted for much of the transaction activity, but in 2025, institutional capital is returning to the market seeking to capitalize on bargains early in the recovery period. The sense that pricing is approaching bottom in some sectors like office, and showing upward movement in others, is incentivizing investors to chase opportunistic investments early in this next market cycle. This willingness, as evidenced by the latest rounds of nine-digit deals tracked by LightBox since last summer, marks a meaningful turning point for CRE.

Investors are taking notice that after two years of price discovery and limited comps given the low volume of property transactions, value declines are finally beginning to moderate—even for some downtown office assets. Another factor luring investors back onto the playing field and driving an increase in Phase I ESA demand is the gradual loosening of the lending reins and the large volume of capital on the sidelines eagerly shopping for opportunities in the U.S. CRE market.

Investors are poised for more dealmaking as sellers show a greater willingness to list properties for sale at prices that the market will accept than they were at this time last year. In a development that could bode well for a Q1 uptick, the volume of new property listings initiated on LightBox's RCM platform in the last two weeks of 2024 doubled that of the last two weeks of 2023. This was particularly notable given that sellers are generally reluctant to list new properties for sale in the final weeks of the year, but 2024 bucked that trend.



WORD ON THE STREET

"We experienced more of a year-end push than we expected, particularly from some of our institutional clients."

– Brad Wolf, Executive Director of Environmental Services Principal, BL Companies

NUANCED CRE MARKET SHARPENS FOCUS ON RISK MANAGEMENT

The headlines on the latest trends in major asset classes often generalize about the “doom and gloom” in office or how e-commerce is killing retail, but CRE assets are heterogenous. Differences within asset classes, sub-asset classes, metros, and even within individual metros are important considerations as investors hunt for the next opportunity. Each property has a unique investment potential and risk profile based on myriad factors like property type, market, vintage, rent roll, occupancy, energy efficiency, climate risk, amenities, business plan, and so on.

These distinctions at the property level are more defined now than during any previous market cycle and decisions about investment and lending will need to be nuanced and rely on the details that separate one office building from another, and one shopping center from one across town. Factors like energy efficiency and climate risk considerations are becoming more common factors as lenders and investors weigh new opportunities. In the wake of the destructive hurricanes that hit the southeastern U.S. in September and October, followed by January’s devastating fires in Los Angeles, the importance of a building’s resilience is coming into focus.

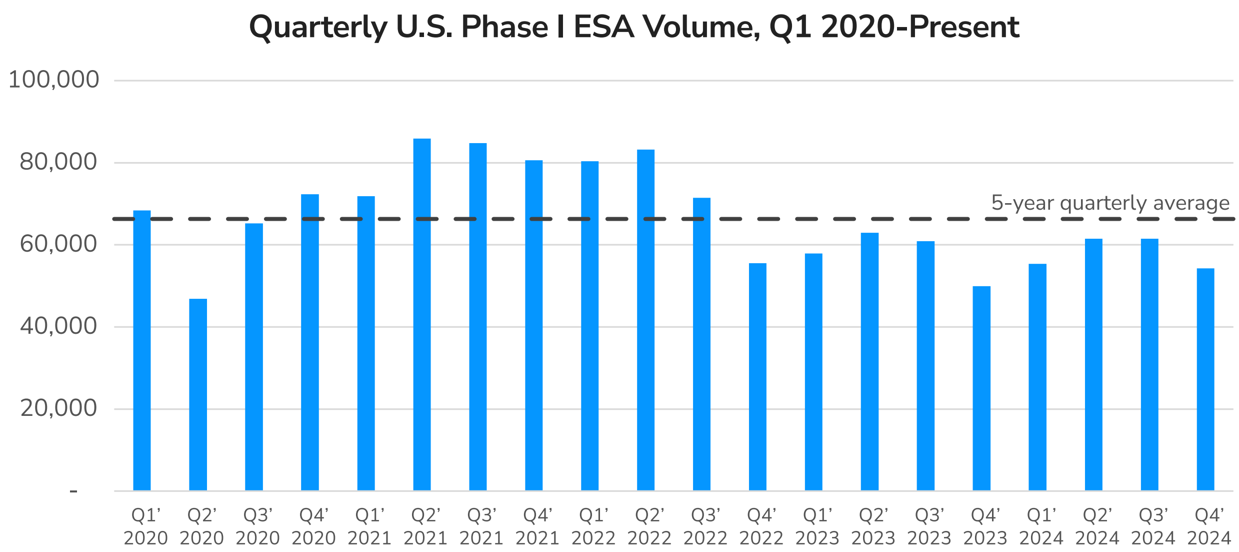
Environmental consultants are increasingly being asked by clients to assess a property’s vulnerability to extreme weather events as storms increase in frequency and severity. ASTM’s newly released Property Resilience Assessment standard provides consultants a tool to complement traditional Phase I ESAs and Property Condition Assessments and gives owners, developers, investors, insurers, and lenders a consistent means of determining how resilient a given property is and, potentially, what would be needed to better protect it from hazards.

Given the likelihood of higher-for-longer interest rates, rising operating costs for property owners (especially insurance), and stabilizing property prices, lenders and investors will need to rely on careful due diligence in asset selection and effective operation over the course of ownership to make prudent decisions. After years of rising prices, an investor can no longer bank on guaranteed price appreciation and the impact that environmental contamination could have on a property’s value takes on greater significance.

DESPITE SLOW Q4, U.S. PHASE I ESA VOLUME YOY INCREASES FOR FIRST TIME SINCE 2021

The fourth quarter Phase I ESA volume of 54,286 was 13% lower than the 67,278 quarterly average of the past five years, due largely to a double hit of traditional year-end slowness around the holiday season and growing market concerns as the Fed reverted to a neutral stance on further interest rate cuts. Compared to 2023's final quarter, however, Phase I ESA demand was up by 9% as lenders and investors were re-entering the market after three late year rate cuts.

In a small but significant step, 2024 was the first year that U.S. Phase I ESA volume increased since 2021—albeit by a modest 2%. If Phase I ESA demand continues to benefit from a growing wave of property investment opportunities, new originations and refinancings, strength in the mergers & acquisitions sector, and brownfields redevelopment projects, 2025 volume could be the second year of increase and at a slightly more dramatic pace of growth.

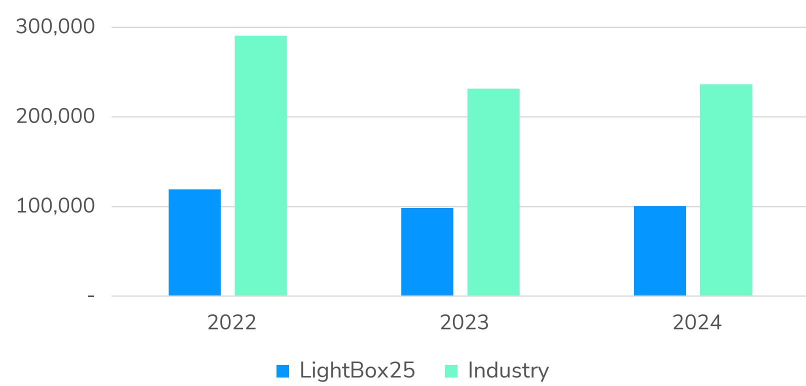


SOURCE: LightBox EDR ScoreKeeper model

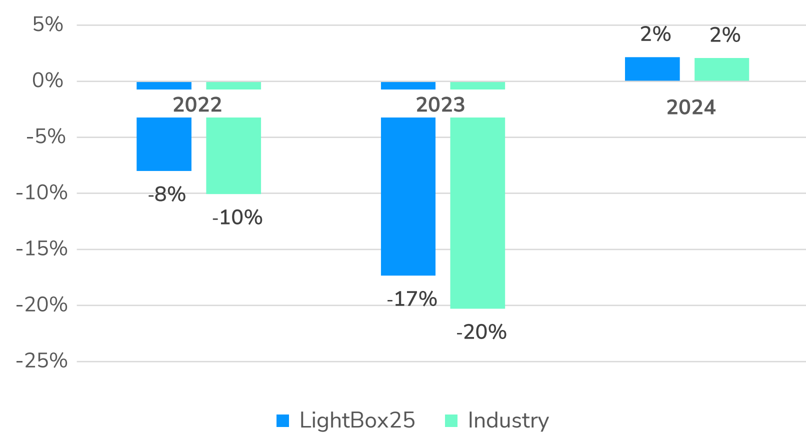
Q4 BRINGS LIGHTBOX25 INDEX AND INDUSTRY BENCHMARK BACK INTO GROWTH TERRITORY

For both the LightBox25 index and the broader industry, 2024 volume increased moderately over 2023 despite a slow final quarter. For the first time in three years, year-over-year benchmarks are in positive territory as the market begins to slowly recover from the downturn. The individual performance of any firm will depend on the mix of clients and their relative sensitivity to ebbs and flows in the CRE market, geographic areas of operation, and diversity of clients in public versus private markets. Those firms that serve clients in a market driven by government funding may be less vulnerable to shifts in CRE activity. If 2025 delivers stronger momentum in lending and investment, the 2% growth in the accompanying graph is expected to be in the low double digits.

Annual Phase I ESA Volume:
LightBox25 Index vs. Industry Benchmarks



Percentage Change vs. Prior Year



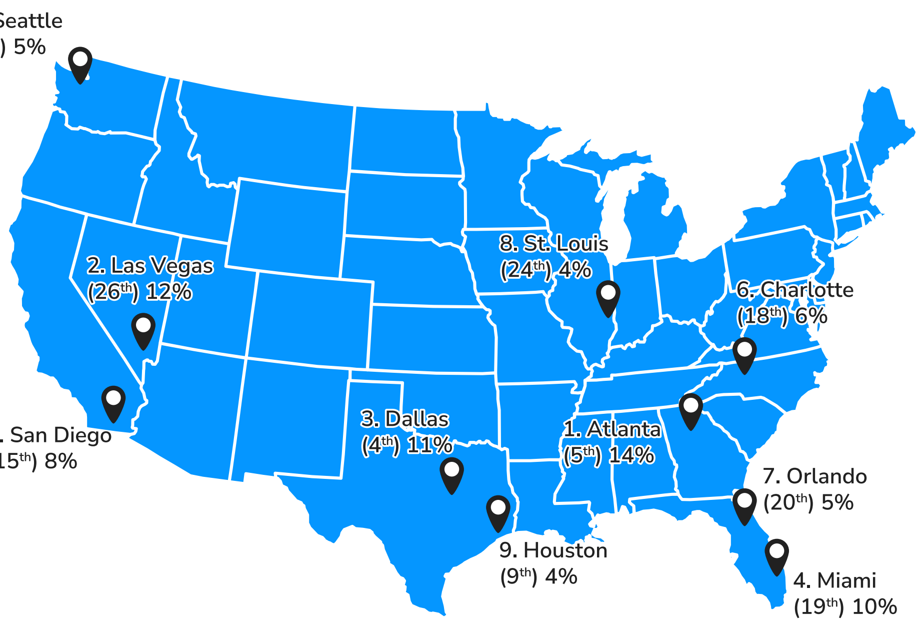
ATLANTA, LAS VEGAS, DALLAS LEAD PRIMARY METROS AS CRE ACTIVITY RAMPS UP

LightBox ScoreKeeper model tracks trends in the volume of Phase I ESAs across the U.S., and the results reflect the varied paces at which different metros are recovering from the market downturn.

Given that environmental due diligence is an early indicator of CRE transactions, geographic trends can signal where investment and lending activity is building steam. Although Phase I ESA growth in 2024 was a modest 2%, other metros experienced double-digit increases. The strongest growth last year could be found in Atlanta, Las Vegas, and Dallas, growing by 14%, 12% and 11%, respectively. Interestingly, top-ranked Atlanta and Dallas are among the five largest Phase I ESA markets in the U.S. The other eight are smaller, secondary metros as investors cast wider nets for the strongest opportunities.

The 10 metros shown in the map outperformed the industry growth benchmark, and collectively accounted for 13% of all Phase I ESAs conducted in the U.S. in 2024. Six of the top 10 strongest Phase I ESA markets last year were in the Sun Belt region of southern/southeastern U.S. Investors are showing a strong preference for large Sun Belt markets like Atlanta, Charlotte, and Dallas that are experiencing above-average population growth, healthy market dynamics, and strong property returns across asset classes.

Metro Watch: 10 Fastest-Growing Markets for Phase I ESAs (2024 vs. 2023)



NOTE: The 10 metros shown experienced the strongest year-over-year growth in Phase I ESA volume in 2024 vs. 2023. Each metro name is followed by a parenthetical showing its rank in terms of Phase I ESA market size, followed by its percentage growth in Phase I ESA volume last year.

SOURCE: LightBox EDR ScoreKeeper model

Q4's DEMAND DRIVERS LED BY CRE CLIENT RE-ENGAGEMENT, INFRASTRUCTURE PROJECTS

Market Advisory Council members report healthy demand from private equity clients and large institutional investors. Major buyers of commercial properties in large deals (more than $100 million) that closed in December included RHP Properties, INDUS Realty Trust, Cousins Properties, Bridge Investment Group, Ares Real Estate, Inland Real Estate Group, TA Realty, and Investcorp. As market conditions continue to recover, environmental consultants expect to see increased engagement from core clients who are showing more confidence in moving projects forward than they have in the past few years. Another recent development is the slow return of due diligence work related to construction projects that struggled to find funding but are starting to ramp back up.

WORD ON THE STREET

"We are anticipating significantly more transaction opportunities in general with greater private capital involvement and more business M&A. This should also increase Legal Service sector growth. We also expect commercial lender opportunities to grow as they compete for more deals in 2025. Environmental services for federal, transportation and infrastructure, power generation and transmission, industrial logistics, and digital infrastructure sectors were all up double digits in 2024, and we expect growth trends to continue."

– Dana Wagner, Vice President/National Director | Due Diligence Services, Terracon

LEADING DRIVERS FOR PHASE I ESA DEMAND, Q4

- Private equity investors joined by institutional investors
- Re-engagement by core clients, bank lenders
- Return of major construction projects
- Projects related to M&A activity
- State-driven investment in renewable energy
- Portfolio work
- Federal, transportation, and infrastructure
- Industrial logistics and digital infrastructure
- Growing demand for refinancing loan maturities as rates decline and maturities surface
- Lending from non-bank lenders (e.g., private equity, insurance, and credit unions)

MARKET ADVISORY COUNCIL PREDICTS FLAT TO MODERATE NEAR-TERM GROWTH, MORE BULLISH FOR 2025

The slower-than-expected Q4 volume, combined with the new wave of uncertainty related to inflationary concerns and the unknown path of interest rates, are tempering the near-term outlook. The Market Advisory Council is predicting stable to moderately increasing Phase I ESA demand in Q1 2025 compared to Q4. Environmental consultants will be supporting any CRE dealmaking activity as willing investors deploy capital and the loosening of debt-side purse strings continues as banks reinvigorate lending for the first time in years. In contrast with the previous quarterly survey when no council members were expecting a quarter-over-quarter decline, several council members are expecting that Q1 volume could fall below Q4 levels.

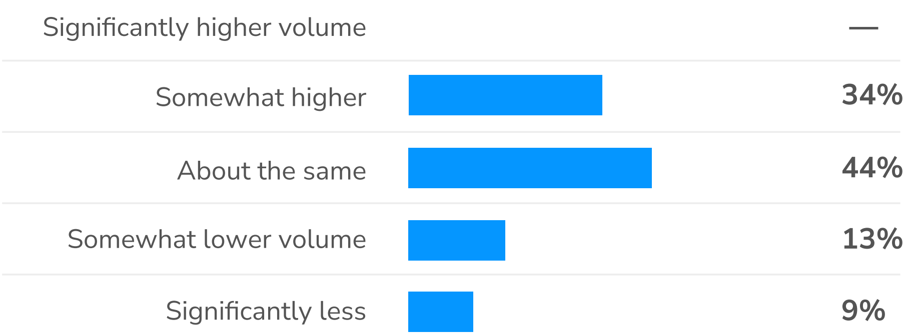
Over the longer term, Market Advisory Council members expect an average 11.3% growth in Phase I ESA volume for calendar year 2025 over 2024, with a low-end estimate of 5% and a high-end estimate of 25%. This forecast is consistent with the LightBox 2025 Predictions report, which calls for increases in CRE lending and investment this year of around 20%.

WORD ON THE STREET

"CRE transactions are becoming more attractive to investors as costs are coming down and sellers are showing signs of being more realistic about asking prices. It will be interesting to watch interest rate trends heading into 2025 and how that will impact the cautious optimism."

– Ben Bremer, President, LCS

Expectations for Phase I ESA Demand in Q1 2025



SOURCE: Q4 survey of LightBox Market Advisory Council members

Market Advisory Council's Top Predictions of the Year

> *Greater focus on renewables; in particular, solar. The new federal administration should not have much impact on it because many of the incentives are state-driven.*

> *I predict a noticeable rebound in the 2025 Phase I ESA market as economic conditions stabilize. However, a return to pre-2023 levels will likely require significant economic momentum, which I am not sure we will see in 2025.*

> *We would hope to see some rebound in the commercial sector but anticipate a continued focus on industrial projects over the coming year.*

> *Clients will spend more time vetting the insurance being carried by their environmental professionals.*

> *The year may start on the slower side, but I believe there will be steady deal flow for the majority of the year.*

> *We observed generative AI use at the margins of the business in 2024. I anticipate generative AI to become more mainstream in 2025 relative to archive and working files inquiry, data management and analysis and report and data summarization, among other use cases.*

> *I predict this year will see a very large volume of transactions following a normal Q1 winter slow down.*

> *Our new administration has overtly stated that they will aggressively pursue reducing government spending/waste and redundancies. There is a chance that this could include consolidation and/or elimination of some regulatory agencies (i.e., CFPB, OCC, Fed, FDIC, NCUA, etc.). It will be interesting to watch how this impacts the CRE due diligence industry.*

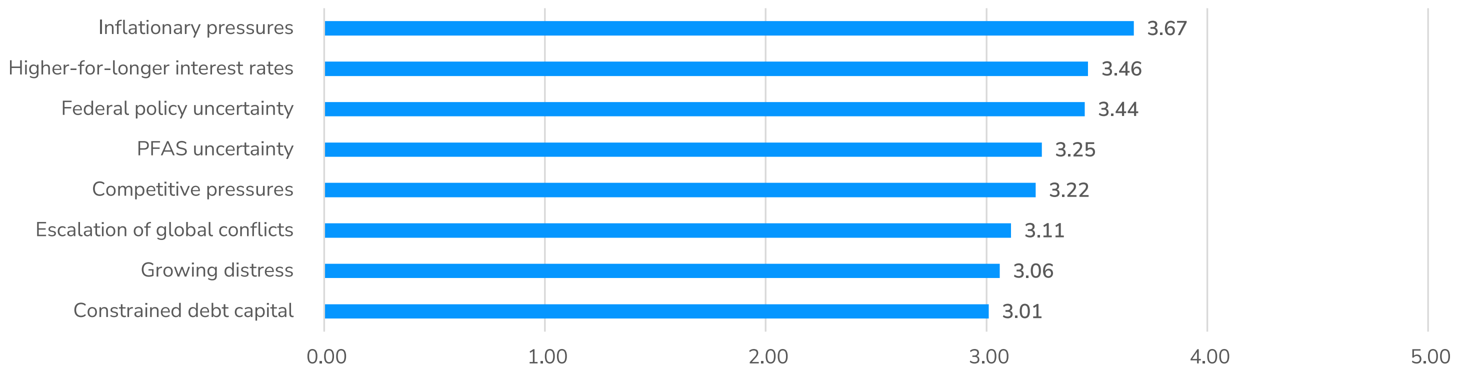
INFLATION AND INTEREST RATES LEAD MARKET HEADWINDS

The positive factors driving Phase I ESA demand in 2025 are balanced out by a mix of market risks and business challenges in 2025. Asked to rank the myriad risks facing the Phase I ESA market, inflationary pressures and higher-for-longer interest rates were at the top of the list followed by federal policy uncertainty. The challenges of assessing PFAS risk in the scope of CERCLA-driven Phase I ESAs given the lack of consistent practices and policies is also very top-of-mind and will take time to resolve.

Consultants are also increasingly challenged by ensuring they have adequate resources and staffing if the Phase I ESA market rebounds as quickly as it did post-COVID, and if it does, managers need to determine if the rebound is sustainable to avoid over hiring given the unpredictable market.

Top Risks Facing Phase I ESA Market

(weighted average score on scale from 1=not very concerned to 5=very concerned)



WORD ON THE STREET

"PFAS is a big concern because there is no standard of care yet. What will lenders' and buyers' attitudes be towards Recognized Environmental Conditions involving PFAS? There are bound to be growing pains as agency regulations, cleanup standards, laboratory methods, and field investigation scopes are established over time."

– Jennifer Ewing, Senior Project Manager Civil & Environmental Consultants, Inc.

LIGHTBOX PHASE I ESA INDEX REFLECTS SLOW START TO 2025

For Phase I ESA consultants who support CRE transactions and lending, 2025 opens a new chapter. The two main obstacles to recovery in the past two years—high interest rates and price uncertainty—are slowly improving. As more investment deals close, the willingness of other CRE investors and lenders to explore new opportunities will only increase.

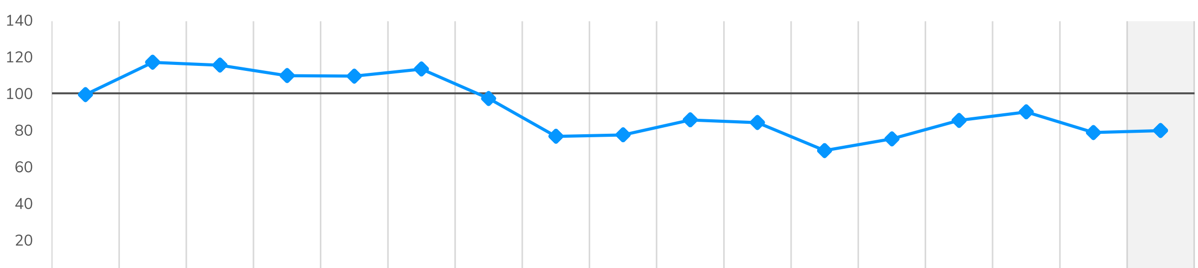
On the positive side of the ledger are factors like the strong economy, access to willing capital sources, price stabilization, and the narrowing bid-ask gap. These factors are setting the playing field up for a rebound in investment and lending this year. The forecast, however, is for a moderate pace of recovery given the significant risks and uncertainty. As this new growth cycle for CRE gets underway, the strongest point in favor of future CRE transactions growth is the sheer volume of capital raised to take advantage of opportunistic investments. Eventually this capital will be deployed, and as interest rates come down, the math behind deals will work out better than it has in the past few years.

Considering both the traditionally slow start to a new year, as well as the policy and market unknowns unique to 2025, the forecast for the LightBox Phase I ESA Index is for a moderate increase to 80.4 in Q1 compared to 79.3 in Q4.

The three interest rate cuts totaling 100 basis points unleashed market momentum that was largely absent for much of early 2024 and that tailwind will drive Phase I ESA demand as investors and lenders return to the market. While two or three rate cuts seem likely this year, the Fed's decisions will depend on future trends in inflation and the labor market. Inflation will be very top-of-mind given the potential for tariffs or tax cuts to trigger inflationary pressure. The Sun Belt metros dominating Phase I ESA demand in 2024 will continue to draw attention given the appeal to investors of metros with strong population growth, healthy economic bases, and intellectual capital.

In the next few months, the market will have more specifics on the direction of federal policies and where interest rates are generally heading. Barring an unexpected market upset, the expectation for 2025 is for a moderate growth path for investment and lending as the market sees more opportunities than in 2024. The speed with which those with access to debt or equity capital reinvigorate investment activity will play a significant role in how quickly dealmaking ramps up in coming quarters, but it seems unlikely that the market will bounce back as quickly as it did post-COVID. The more likely scenario is a slow, measured pace of recovery that moves Phase I ESA volume closer to 2019 levels than the record-high rebound of 2021.

LightBox Phase I ESA Activity Index (base Q1 2021=100)



	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22	Q4'22	Q1'23	Q2'23	Q3'23	Q4'23	Q1'24	Q2'24	Q3'24	Q4'24	Q1'25F
INDEX	100.0	117.6	116.1	110.4	110.1	113.9	97.9	77.3	78.0	86.2	84.7	69.5	75.8	85.9	90.6	79.3	80.4

ABOUT THE LIGHTBOX ENVIRONMENTAL DUE DILIGENCE MARKET ADVISORY COUNCIL

LightBox is grateful to the members of the inaugural Environmental Due Diligence Market Advisory Council. These leaders at environmental due diligence firms from across the U.S. volunteer to share their invaluable perspectives and insights on the state of the market at the close of each quarter. This outreach ensures that these quarterly snapshot reports are in line with trends in the field and reflect the input from a broad range of professionals offering a wide range of consulting services to different types of clients in every region of the U.S

LightBox 2024-2025 Environmental Due Diligence Market Advisory Council

Chuck Merritt
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Steven McNeil
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Kathryn Peacock
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Brad Wolf
Executive Director of Environmental Services
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Ben Bremer
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Dana J. Wagner
Vice President/National Director | Due Diligence Services, Terracon

Adam Bennett
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National Practice Leader Environmental Site Assessment, CBRE

Brian Wilson
Managing Principal
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Adam M. Meurer
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Jennifer Ewing
Senior Project Manager
Civil & Environmental Consultants, Inc.

About the LightBox Phase I ESA Market Snapshot Report

This analysis is part of the LightBox Quarterly CRE Market Snapshot Series, which provides insight into activities that support commercial property dealmaking. The data presented in the Focus on Phase I Environmental Site Assessment Trends are derived from LightBox EDR ScoreKeeper. LightBox clients rely on ScoreKeeper reports for strategic intelligence on Phase I ESA Activity, analyzed by region, state and metropolitan area.

For more information about this report or the data, email **Insights@LightBoxRE.com**

About LightBox

At LightBox, we are at the forefront of delivering advanced and precise solutions for commercial real estate intelligence. Our dedication to innovation propels real estate professionals forward by providing them with the essential tools required to navigate complex decisions, minimize risk, and boost productivity across the spectrum of real estate operations. LightBox is renowned for its commitment to promoting excellence and fostering connections in the industry, serving an extensive clientele of over 30,000 customers. Our diverse client base spans commercial and government sectors, including but not limited to brokers, developers, investors, lenders, insurers, technologists, environmental advisors, appraisers, and other businesses that depend on geospatial information. To discover more about how LightBox can illuminate the path to informed real estate solutions, visit us at: **www.LightBoxRE.com**

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