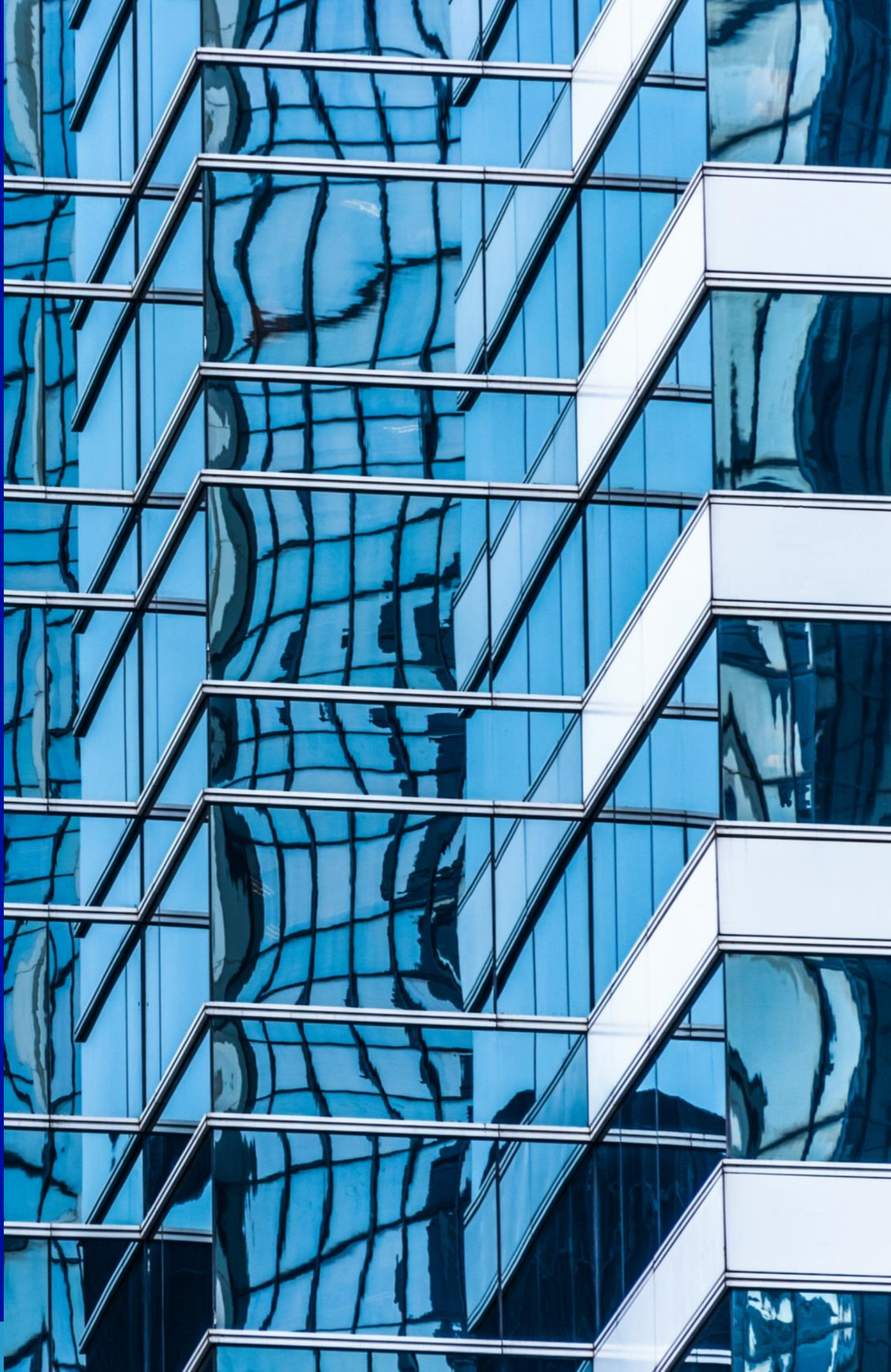
2Q21 United States Capital Markets Report



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Market Observations

What We Know

☑ Investment volume in 2Q21 increased 175.6% year-over-year to $144.7 billion, with activity improving markedly across all property types. Multifamily and industrial continue to receive the largest share of sales volume, at nearly 60% of total in the second quarter, and experience the largest total returns.

☑ Within the wider multifamily and industrial property types, garden-style multifamily located in secondary and tertiary sunbelt markets and last-mile warehouse product are among the top performing subtypes – both have continued to experience cap rate compression throughout the pandemic and trade at pricing that is above pre-COVID-19 peak levels.

☑ Market price discovery has improved across all property types, including urban office product in the coastal gateway markets that were most impacted by corporate work-from-home policies. Although markets such as New York City, San Francisco and Los Angeles have not fully recovered in terms of capital markets activity, all three have witnessed substantial improvement year-over-year.

☑ The daily-priced NCREIF total return index finished 2Q21 6.0% above its pre-pandemic peak level in 1Q20, reflecting the significantly improved capital markets environment for private real estate, as vaccination rates continued to climb and as the economic recovery from the pandemic accelerated in the second quarter.

☑ The amount of dry powder accumulated by North America-focused closed end real estate funds has risen to a record high $234 billion in 2Q21. Leveraged at a 65% LTV, this dry powder would equate to approximately $525 billion in equity fund spending power, which will continue to support higher levels deal activity in 2021 and 2022.

☑ Retail and hospitality continue to experience the highest CMBS delinquency rates, at 14.3% and 10.7%, respectively. However, these represent substantial improvements since peaking in 2Q20 and delinquency is highly concentrated in a handful of geographic areas.

What We Expect

☐ Pent-up investor demand, low lending costs, record high levels of dry powder and continued positive economic signals are expected to support higher levels of investment activity throughout the remainder of 2021. However, potential headwinds such as the rise of Delta and other variants of COVID-19 are expected to be factored into investors' risk and return expectations and could negatively impact investment volume once again.

☐ Institutional investors expect allocations to alternative property types to increase, particularly for secular growth product such as data centers, life science and seniors housing. Other alternatives such as manufactured housing will continue to be valued for their counter-cyclical characteristics and alternative risk-reward profiles.

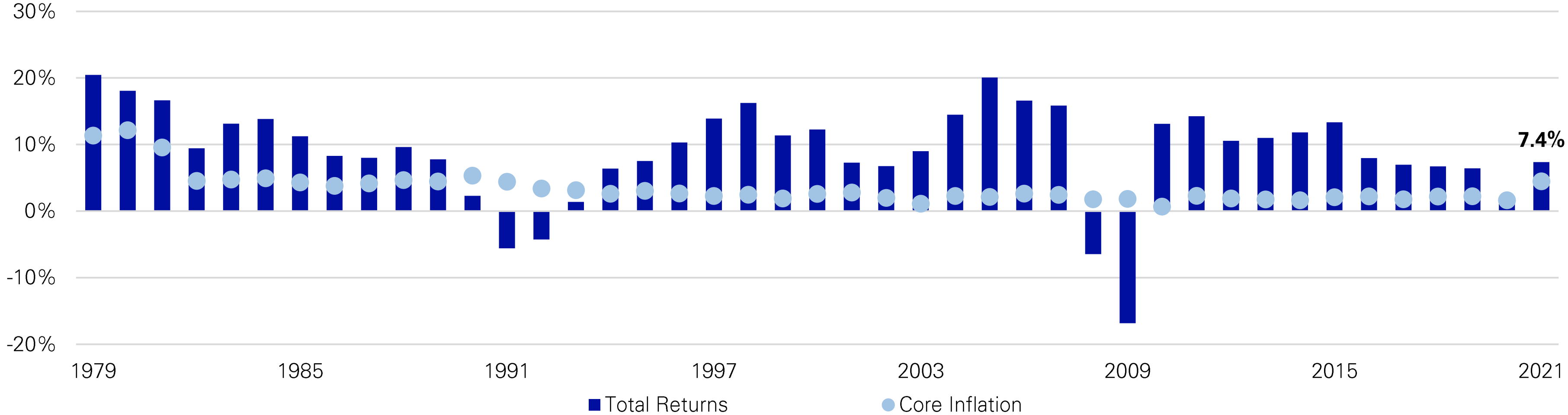
☐ Recapitalizations will remain a prominent strategy as landlords are incentivized to unlock value at attractive valuations with future upside and retain income streams from property management.

☐ While current distressed sales activity remains muted at just under $2 billion in 1H21, investors expect a greater amount of distressed sales activity in retail and hospitality property types for the remainder of 2021 and 2022 as pandemic-related forbearance expires and landlords of delinquent properties fail to secure workouts with lenders.

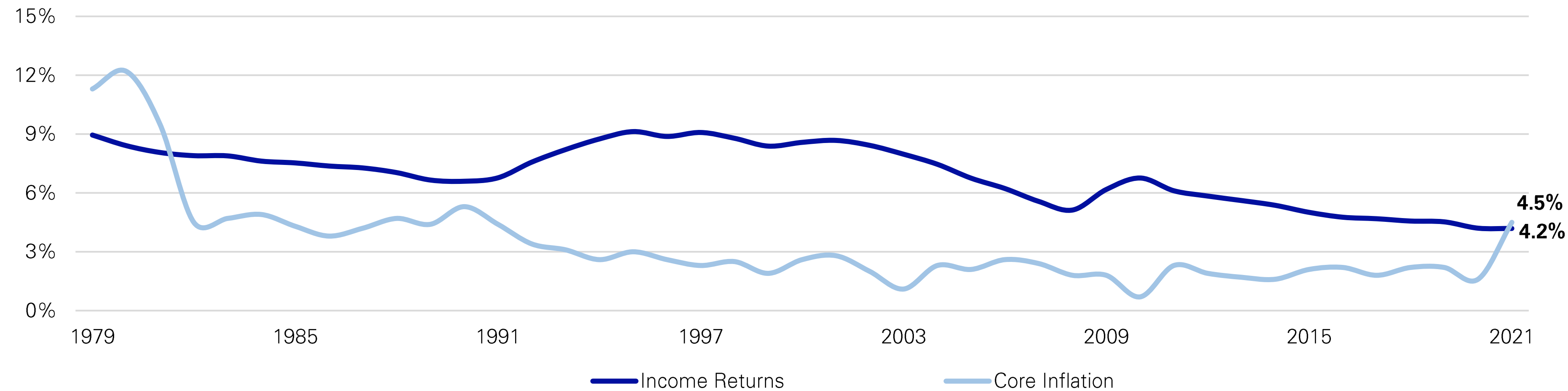
Real Estate Total Returns and Core Inflation

The relationship between core inflation and total real estate returns, which are inclusive of both value appreciation and income, is relatively uncorrelated over the long term. Therefore, increases in total returns are overwhelmingly driven by local market and property type conditions as opposed to being driven by the same forces that impact core consumer prices. Additionally, income returns (excluding asset valuations) from real estate investments have offset the impacts of inflation over the long term.

Total Returns vs. Inflation



Income Returns vs. Inflation

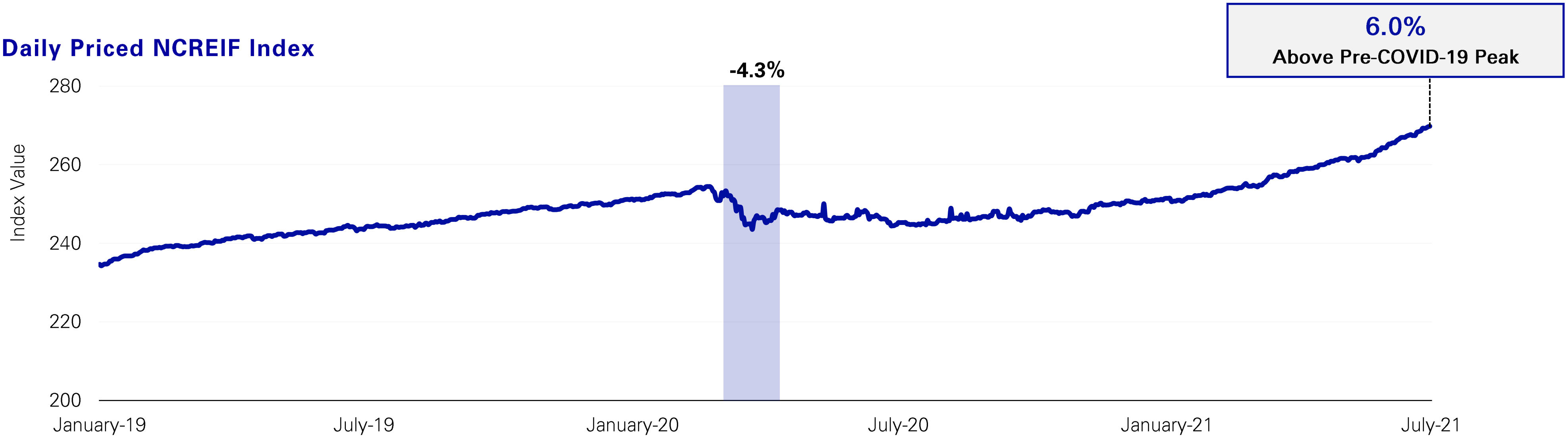


Source: Newmark Research, NCREIF

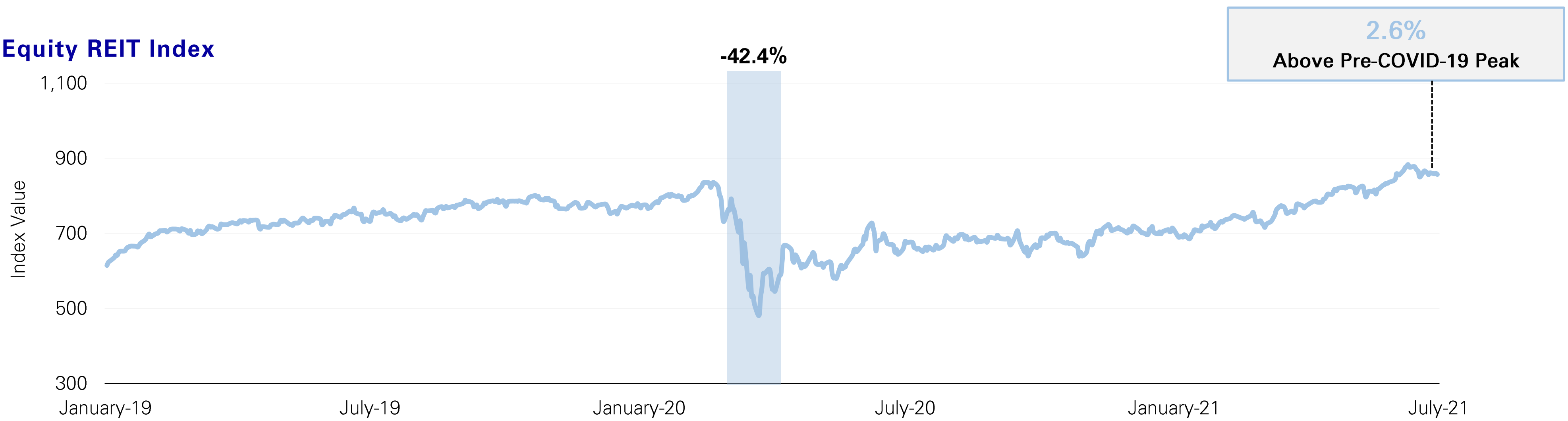
COVID-19 Impact: Recovery of NCREIF & REIT Indices

The daily NCREIF index* has experienced substantially less volatility than the Equity REIT index* during the pandemic and has increased 6.0% over its pre-COVID-19 peak, mirroring the positive investment momentum for private real estate. The Equity REIT Index has been slower to recover in part due to the prevalence of retail and hospitality REITs, but has also surpassed its pre-COVID-19 peak by 2.6%.

Daily Priced NCREIF Index



Equity REIT Index

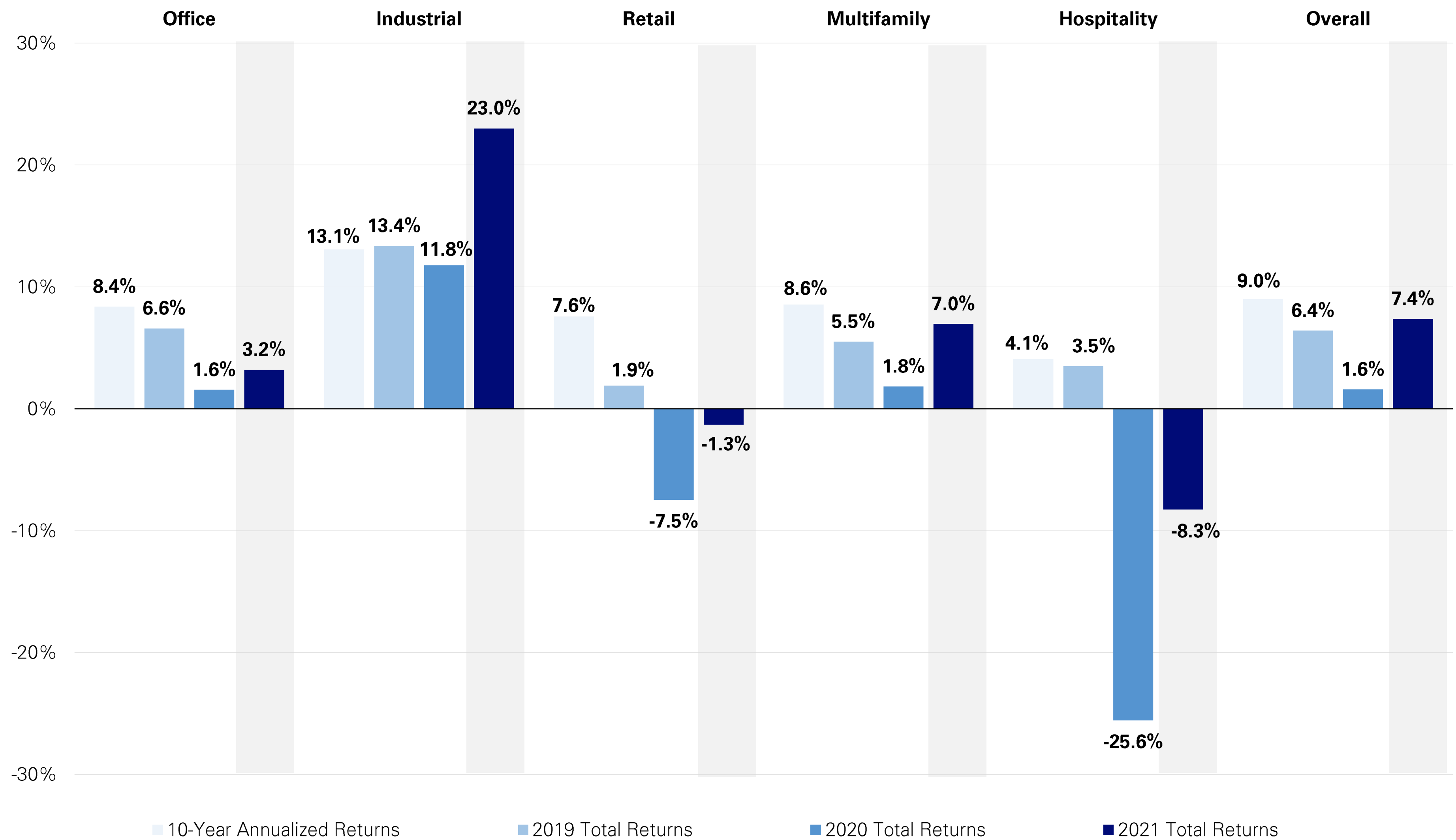


Source: Newmark Research, NCREIF, NAREIT

*Daily NCREIF Index: 100=2009, Equity REIT Index: 100=1972

COVID-19 Impact: Total Returns by Property Type

NCREIF annual total returns reached 7.4% in 2Q21, reflecting the positive momentum across all property types as the recovery from the pandemic accelerates. Industrial has recorded the highest one-year total returns of any property type in 2021 at 23.0%, followed by multifamily returns, which hit 7.0%.

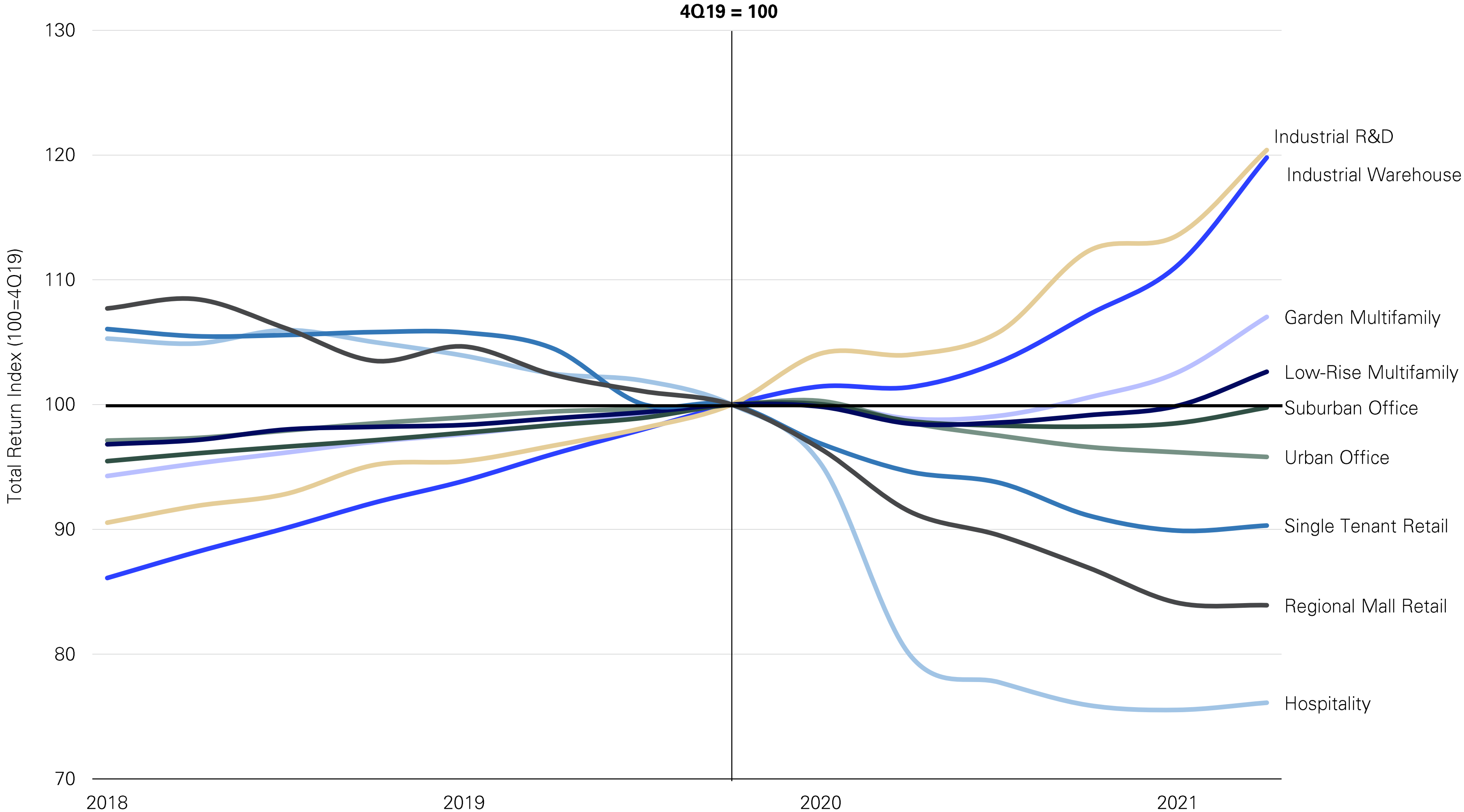


Source: Newmark Research, NCREIF

COVID-19 Impact: Divergence of Total Returns by Subtype

Trailing Four Quarters; Total Return Index (100=4Q19)

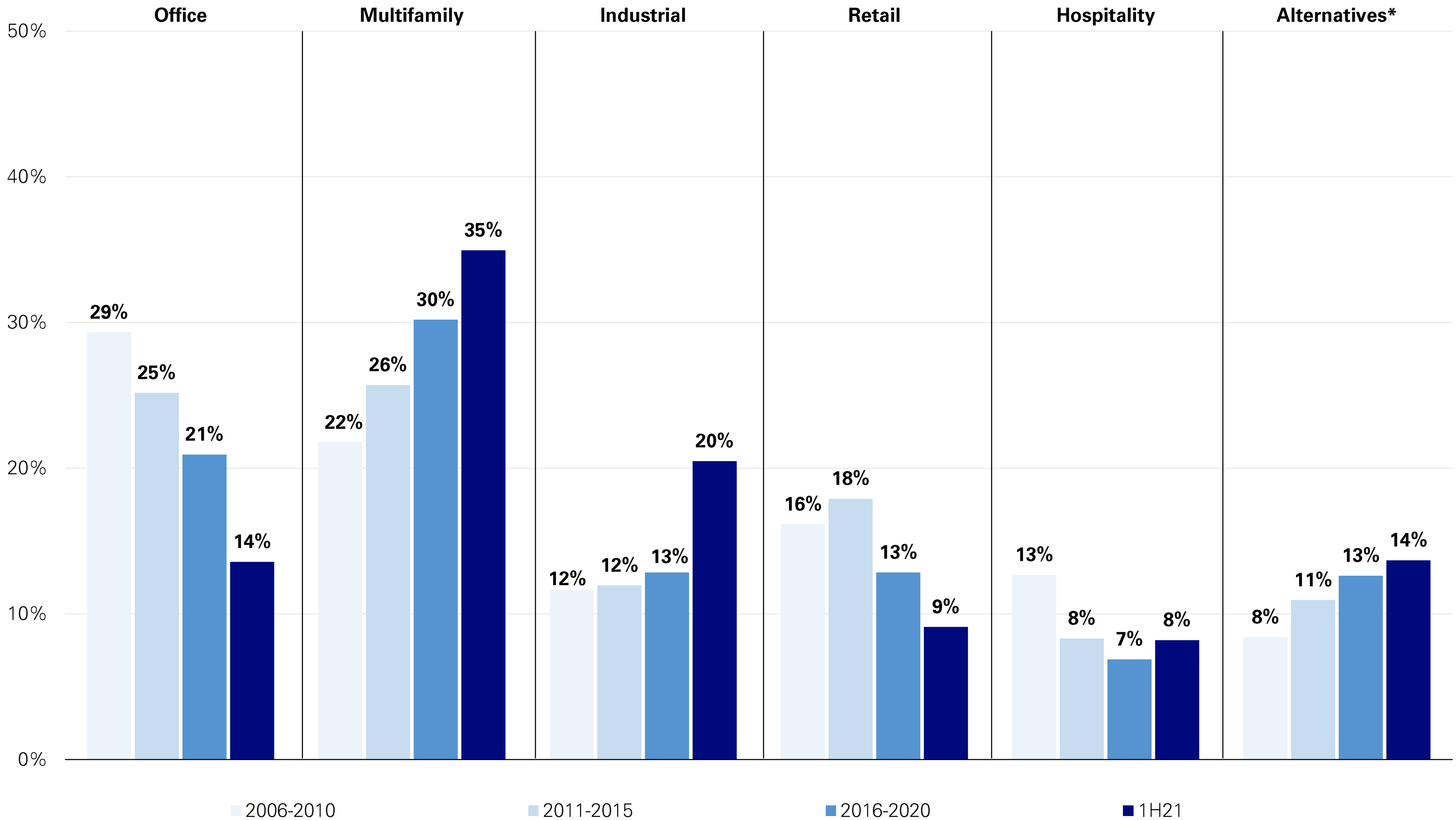
Four property subtypes have outperformed their pre-pandemic NCREIF index level with Industrial R&D --comprised of life science and technology tenanted wet and dry lab spaces--recording the highest index level at 120. Garden-style and low-rise multifamily have also outperformed in 2021, with multifamily continuing to attract the largest share of investors as would-be home buyers flock to renting as home prices climb and as suburban markets continue to benefit from the disruption experienced in large urban centers.



Source: Newmark Research, NCREIF

Investor Allocation Over Time

Multifamily and industrial product have continued to attract the highest allocations from investors in 1H21, reaching 35.0% and 20.5% respectively. Allocations to alternative property types such as life science, data centers, medical office, self storage, student housing and manufactured housing are at all-time highs in 2021 at 13.7% of the total, as investors continue to seek out secular growth opportunities and alternative risk profiles.



Source: Newmark Research, Real Capital Analytics

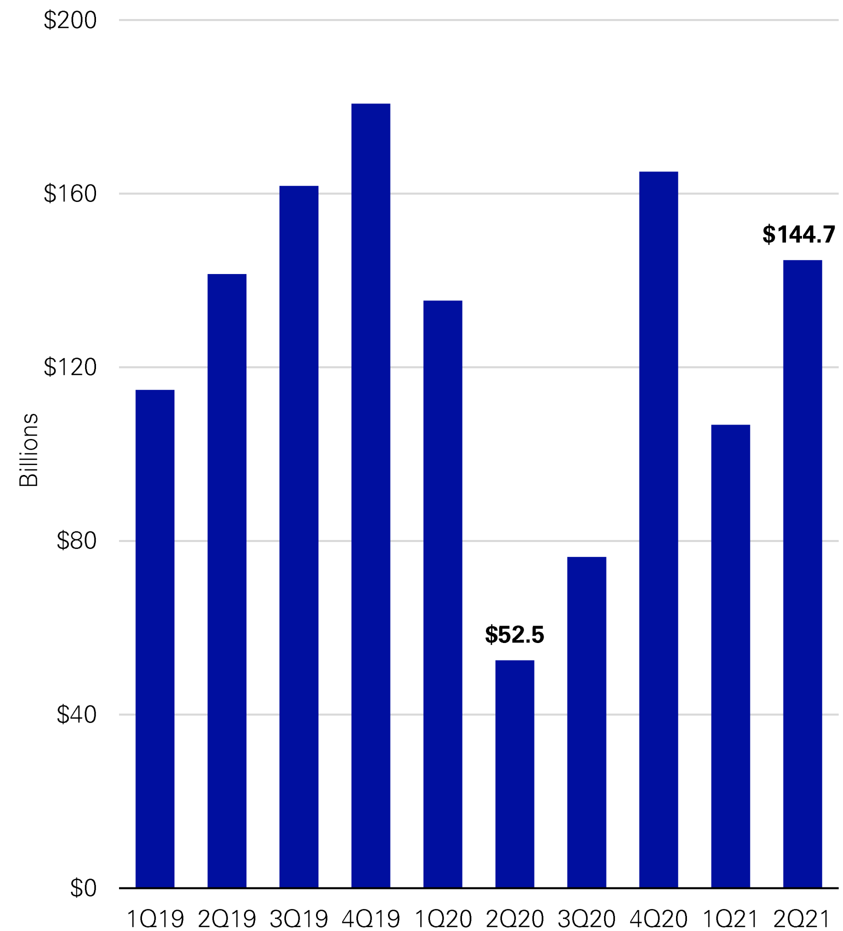
*Life science/R&D, medical office, data centers, age-restricted housing student housing, seniors housing, manufactured housing, self storage

United States Total Sales Volume

Investment volume in 1H21 increased by 33.8% compared with 1H20, reaching $251.5 billion, reflecting the stabilizing capital markets environment and improving investor sentiment. Quarterly volume recorded the largest year-over-year percentage increase on record, rising 175.6% to $144.7 billion, with volume recovering substantially across all property types.

Half-Year Volume

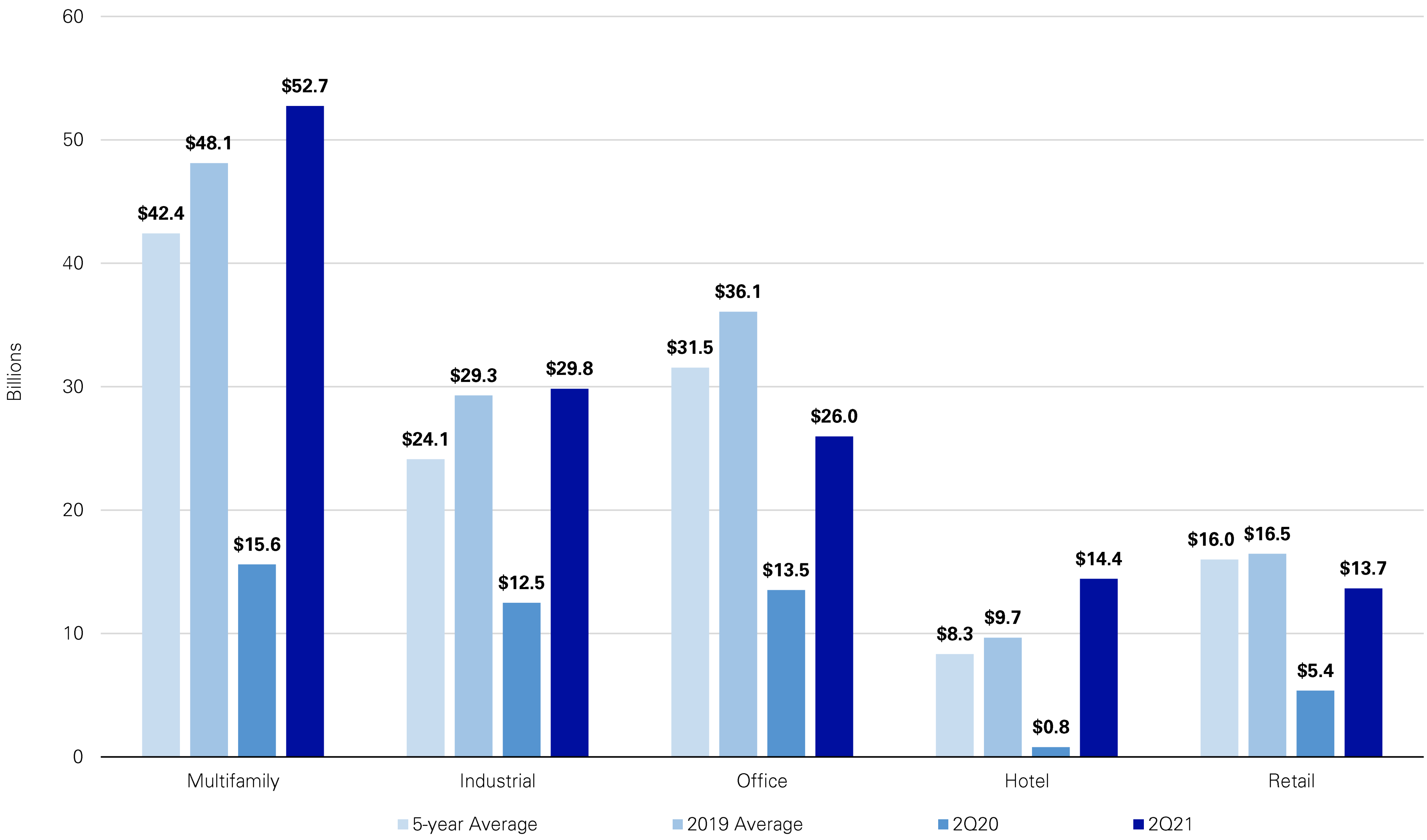
Quarterly Volume



Source: Newmark Research, Real Capital Analytics

Quarterly Sales Volume Comparison to Pre-Pandemic Levels

While both office and retail investment volumes have recovered substantially from their pandemic low-points, volume in 2Q21 is still 28.0% and 17.1% below 2019 average levels, respectively. For office, datapoints on back-to-office plans will continue to impact investor confidence and allocations to the property type – however, compared to industrial and multifamily, yields remain attractive and there are opportunities to transact before there is market consensus and price discovery.

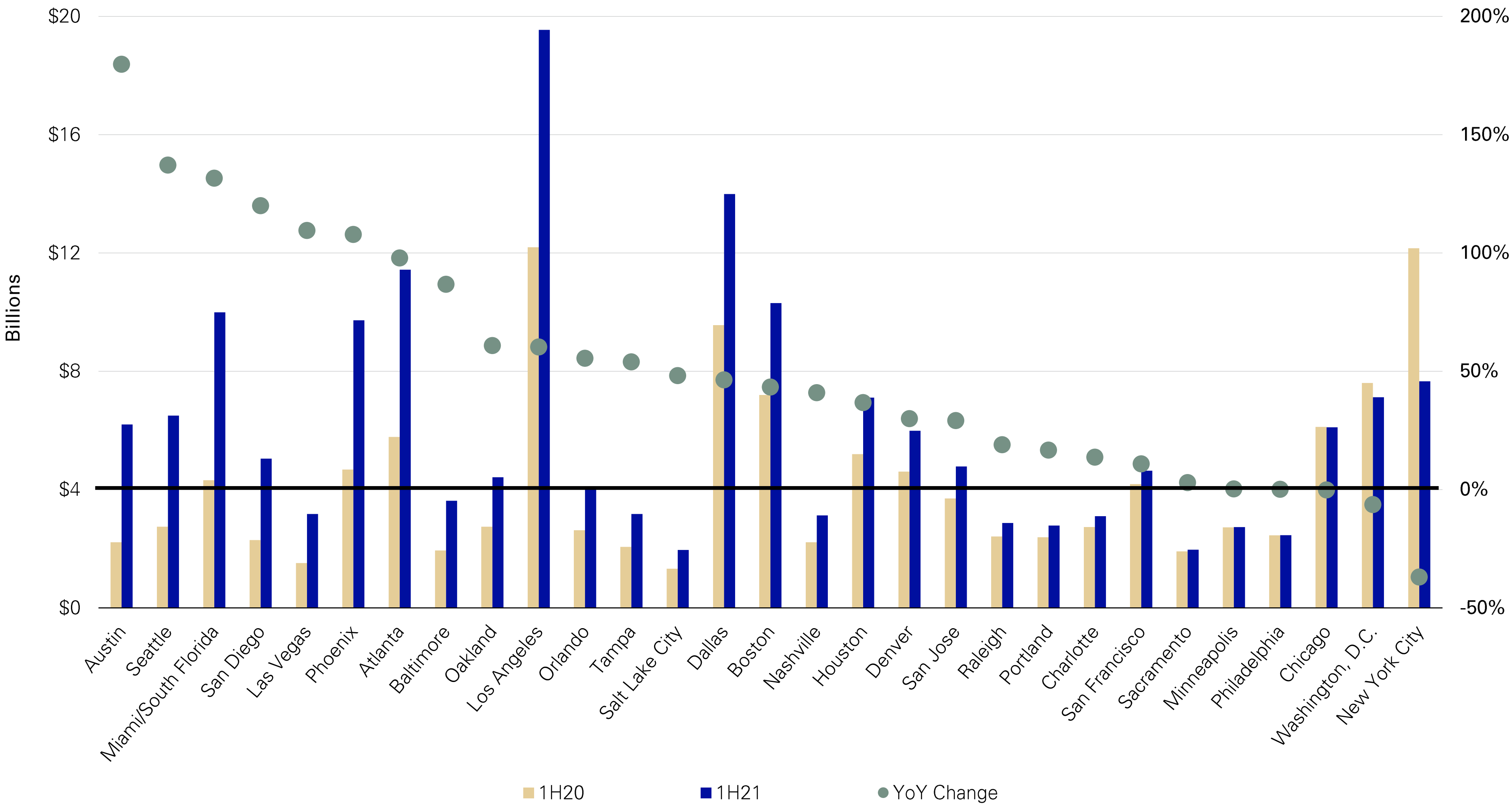


Source: Newmark Research, Real Capital Analytics

Total Sales Volume by Market

All Property Types

Austin, Seattle and Miami have recorded the largest year-over-year volume increases in the country. Austin has remained a popular sunbelt market for investors due its high levels of population and employment growth, and robust technology economy which includes firms like IBM, DropBox and Apple. Miami has attracted institutional investors such as Blackstone, in part due to various high-profile company relocations to the market during the pandemic.

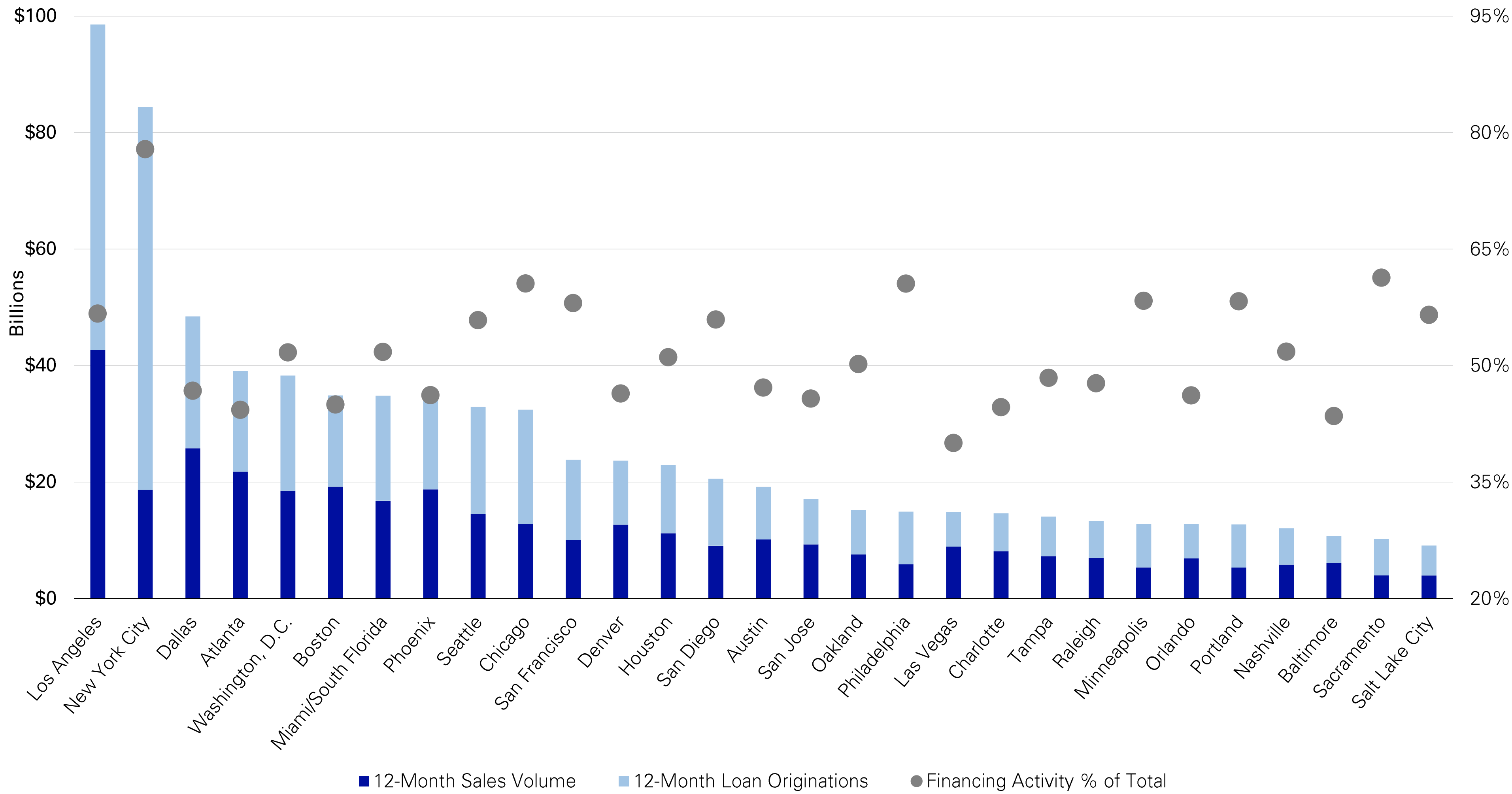


Source: Newmark Research, Real Capital Analytics

Total Capital Markets Activity by Market

Past 12 Months; Sales Volume & Loan Originations

While sales volume across all property types has been severely impacted by the pandemic in some urban gateway markets, financing activity has remained robust, emphasizing the overall liquidity and access to capital in those markets. New York City alone recorded nearly $85 billion in total capital markets activity, aided by increased office refinancing activity during the pandemic.



Source: Newmark Research, Real Capital Analytics

Top United States Transactions

2Q21; All Property Types

Single Asset Trades

Property	Price
Four Seasons Resort Orlando Orlando, Florida Hospitality Buyer: Host Hotels & Resorts	**$610 M**
200 West 6th Street (Indeed Tower) Austin, Texas Office Buyer: Kilroy Realty Corporation	**$580 M**
300 Pine Street Seattle, Washington Office Buyer: KKR, Urban Renaissance Group	**$580 M**
1000 West Fulton Street (1KFulton) Chicago, Illinois Office Buyer: Office Properties Income Trust	**$355 M**
5600 East Airport Drive Los Angeles, California Industrial Buyer: Costco	**$345 M**

Portfolio Trades

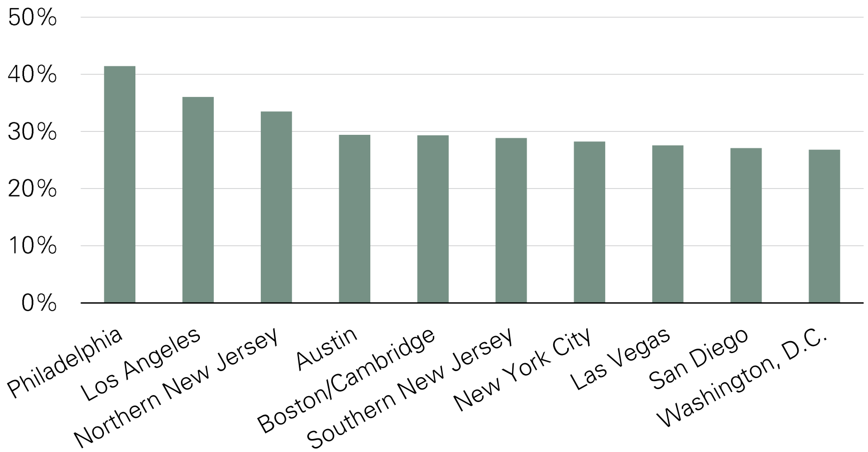
Property	Price
National NNN 213 Properties Retail/Office/Industrial Buyer: Ares Management	**$2.0 B**
Sunbelt Multifamily 5,291 Units Multifamily Buyer: Starwood Capital	**$1.2 B**
Southeast Industrial 88 Properties Industrial Buyer: AIG	**$1.0 B**
California Seniors Housing 1,212 Units Seniors Housing Buyer: Harrison Street	**$564 M**
San Diego Office 4 Properties Office Buyer: Regent Properties	**$420 M**

Source: Newmark Research, Real Capital Analytics

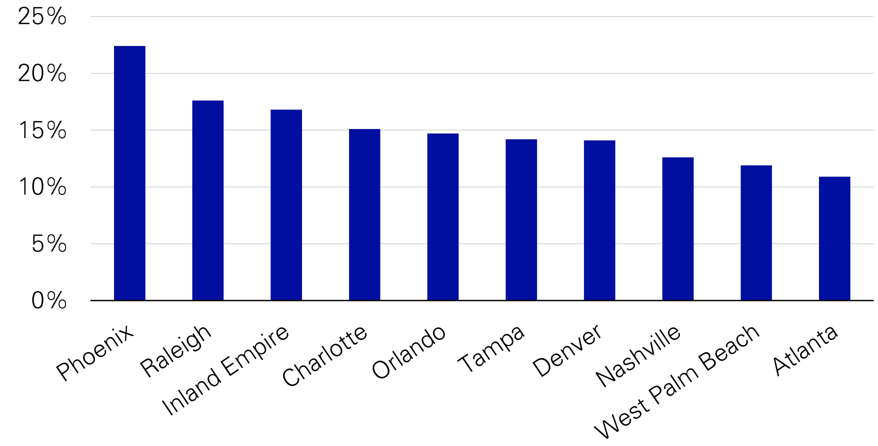
Top Ten Markets by Total Returns and Property Type

Industrial markets achieved the highest total returns in commercial real estate in 2Q21, with Philadelphia, Los Angeles and Northern New Jersey surpassing 30% annual returns. In multifamily, the top performing markets were largely fast-growing sunbelt markets with high levels of employment and population growth, such as Phoenix, Raleigh and Charlotte.

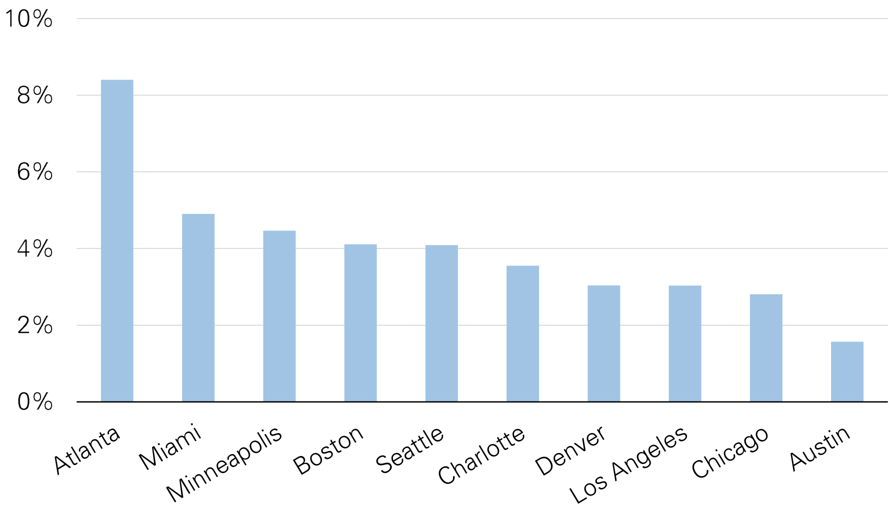
Industrial



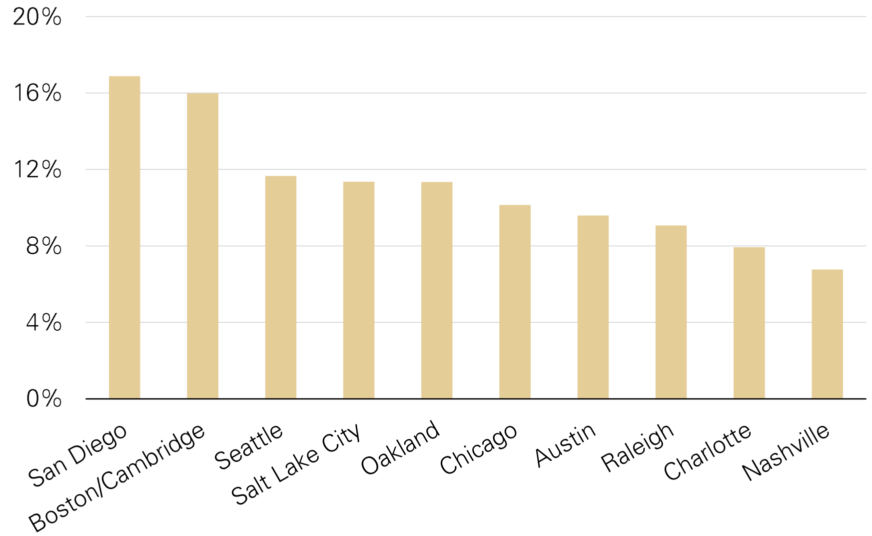
Multifamily



Urban Office



Suburban Office

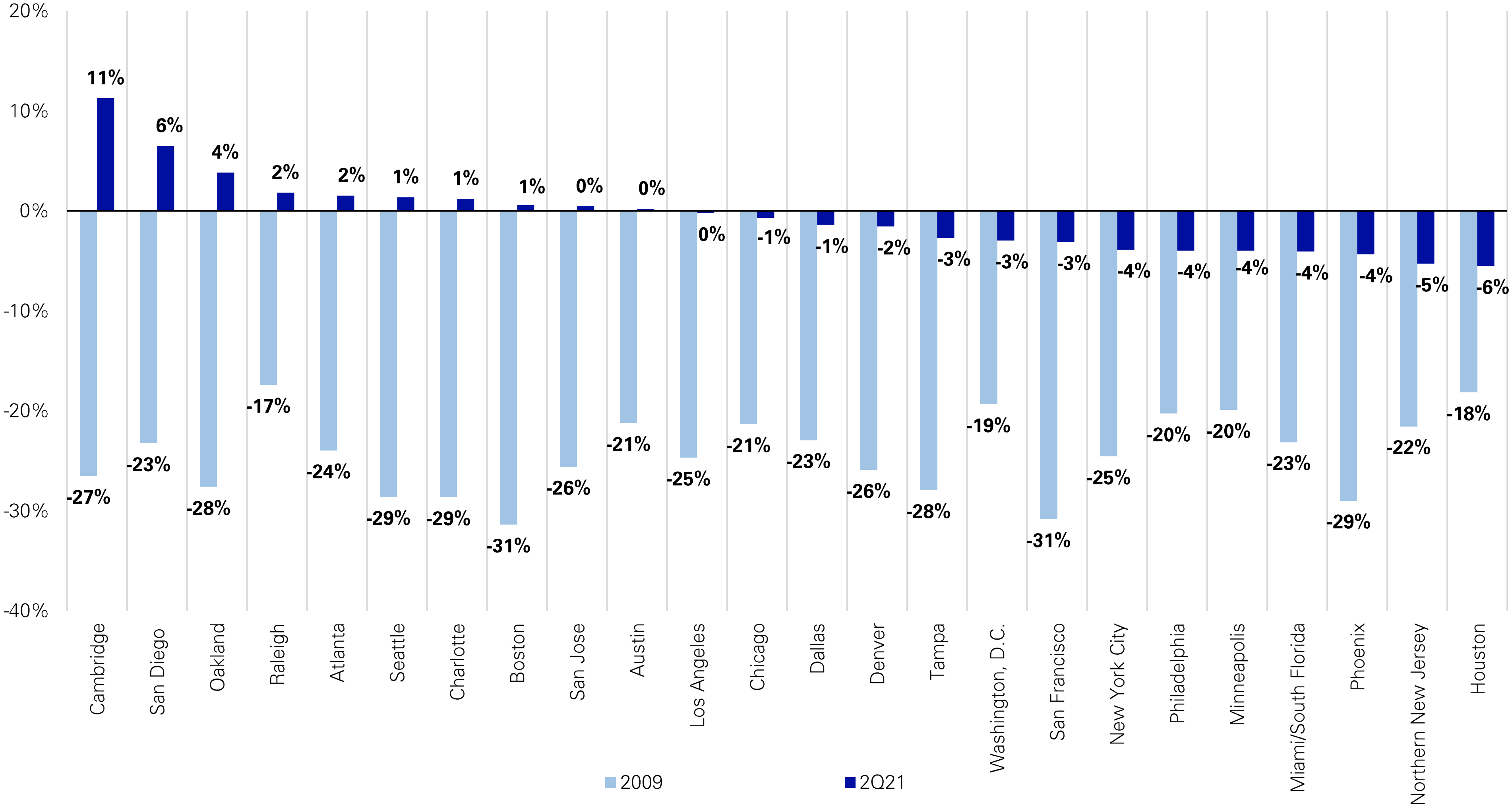


Source: Newmark Research, NCREIF

COVID-19 vs. GFC Impact on Office Valuations

Year-over-Year Change in NCREIF Appreciation Index

While COVID-19 has had a negative impact on office valuations in many markets, the impact has not come close to the level of asset value disruption caused by the global financial crisis, even for markets that have received the most bearish coverage, such as New York City and San Francisco. Office markets with a large supply of laboratory product such as Boston/Cambridge, San Diego and Raleigh have recorded positive appreciation in the last year.

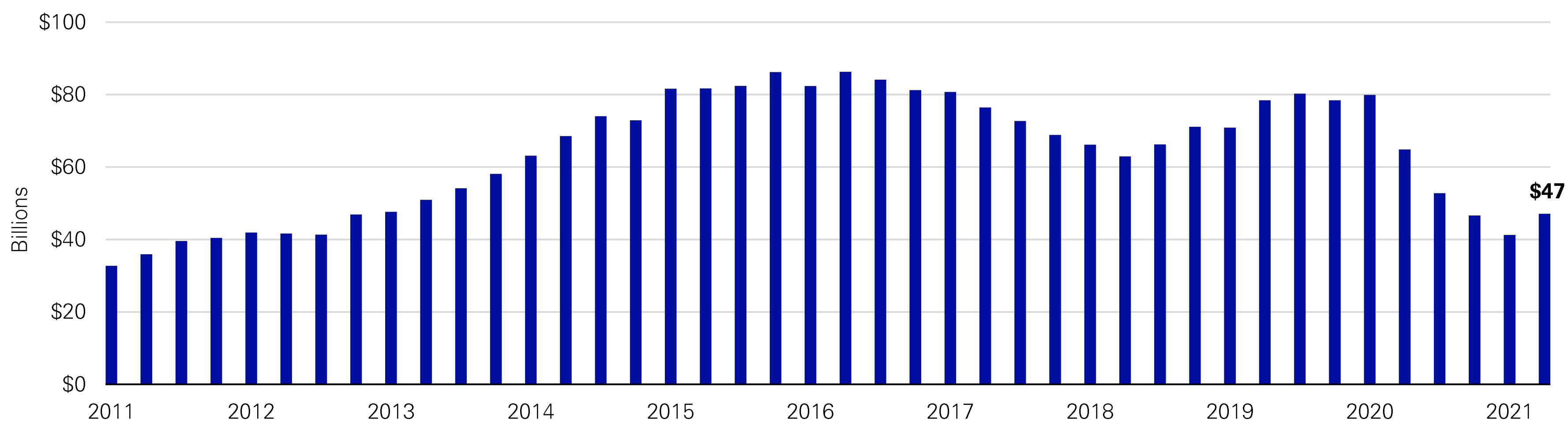


Source: Newmark Research, NCREIF

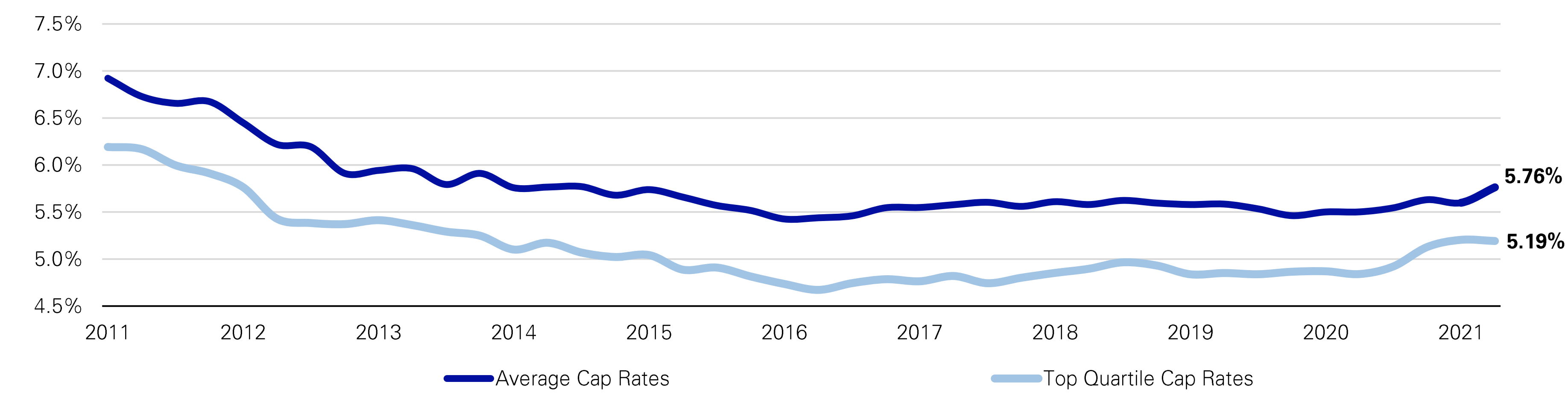
Gateway Office Market Conditions

As the recovery from the pandemic continues, the gateway office markets* have reached an inflection point – 12-month investment volume has turned in the positive direction, while cap rates for top quality office product have plateaued, signaling that the bottom of the market has been reached. While the Delta variant remains a potential headwind to recovery and back to work plans in the second half of 2021, the longer-term prospects for gateway markets remain positive.

Gateway Office Sales Volume



Gateway Office Cap Rates



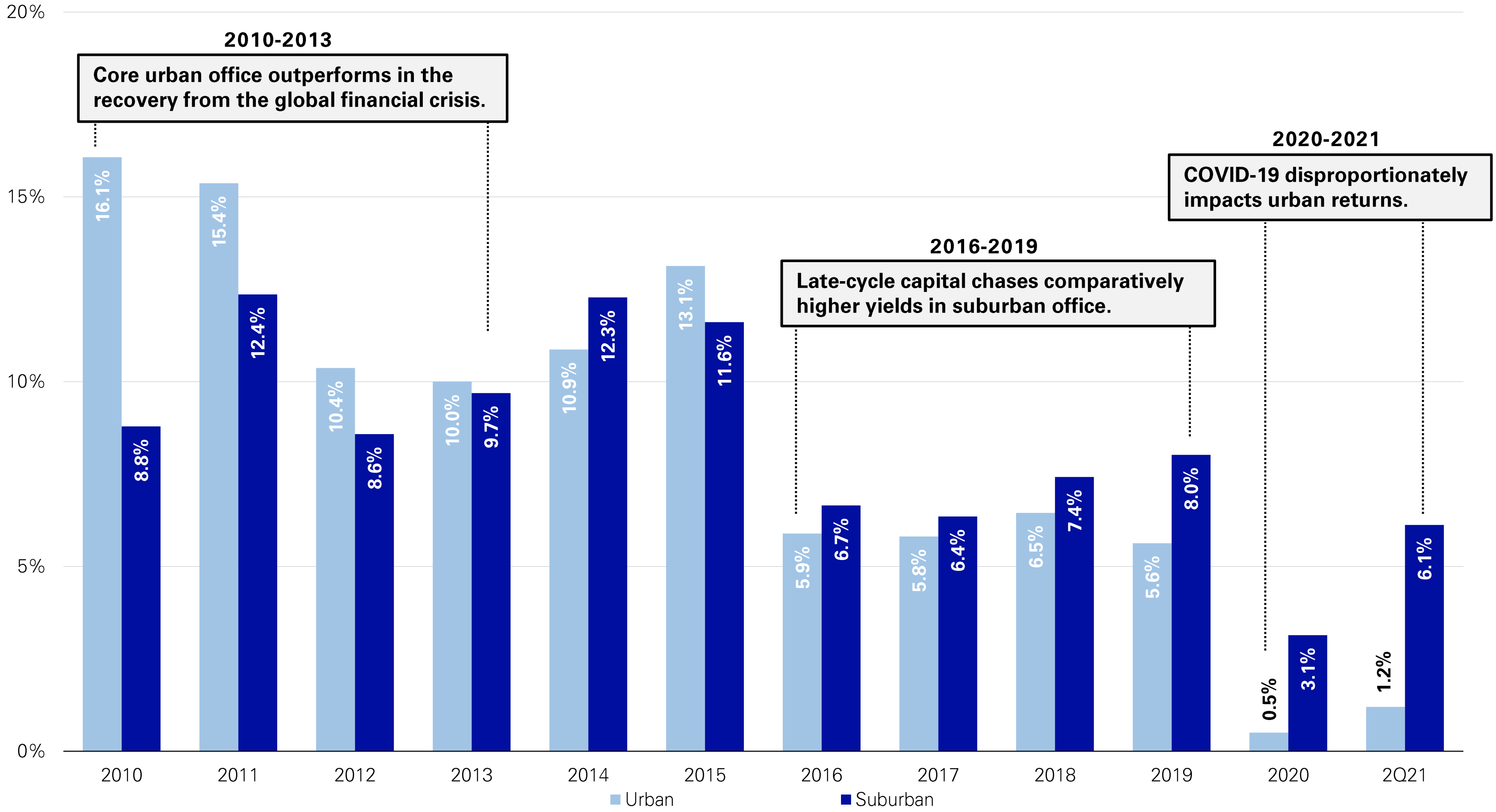
Source: Newmark Research, Real Capital Analytics

Boston, Washington, D.C., Los Angeles, New York City, San Francisco, Seattle

Suburban vs. Urban Office Total Returns

One-Year Returns

Demand for office product has shifted over time, with momentum in suburban real estate continuing a long-standing trend into 2021 as dense urban markets have experienced higher levels of COVID-19-related disruption.

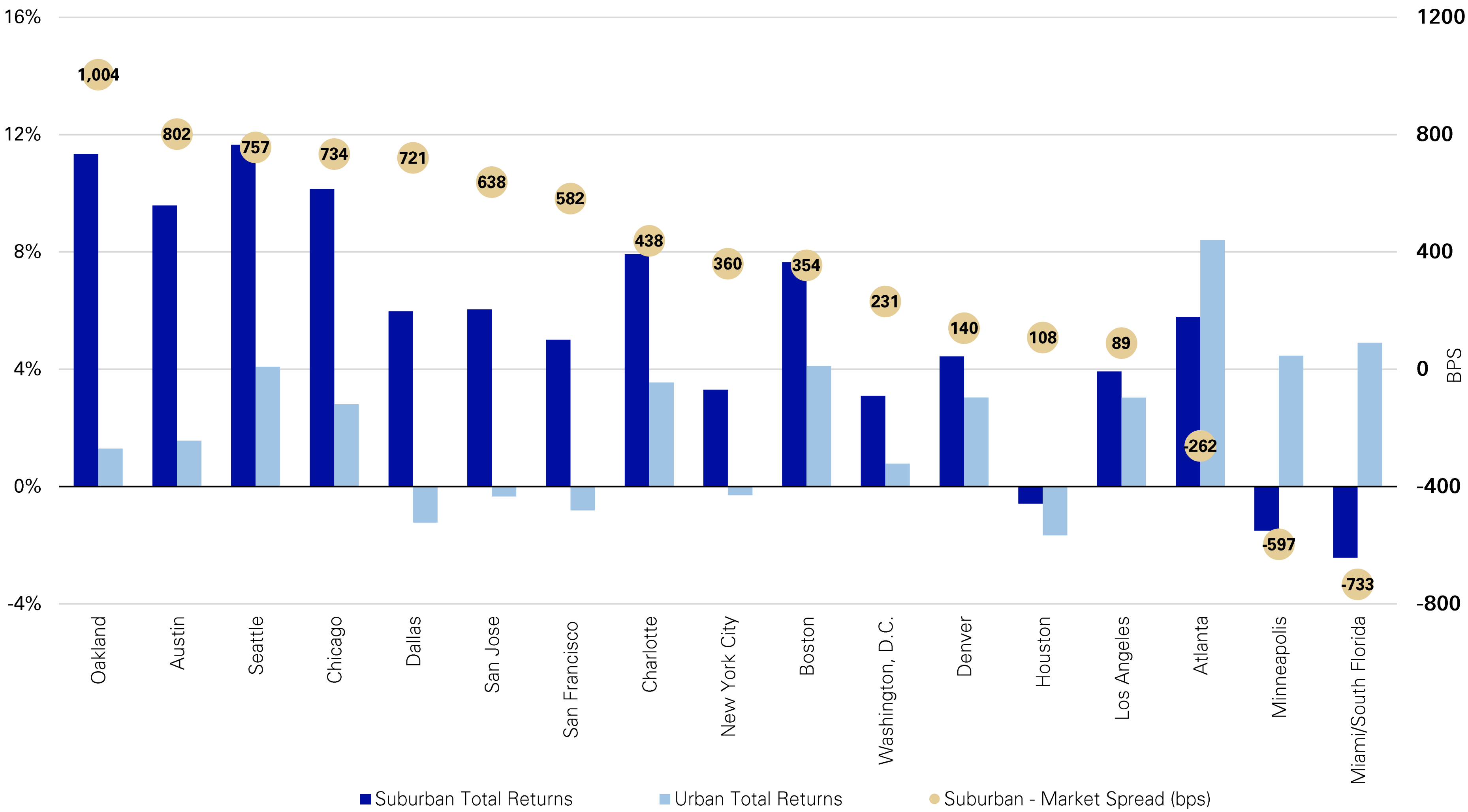


Source: Newmark Research, NCREIF

Suburban vs. Urban Office Total Returns by Market

Select Markets; One-Year Returns

Suburban product continued to outperform urban product in 2Q21, averaging a 429 basis point one-year total return premium. This outperformance is in part due to higher demand for office properties that employees can commute to by car, as many remain hesitant to take public transportation. Suburban office is also more often single-tenanted campus-style product, which investors have considered lower-risk compared with multi-tenanted urban product.

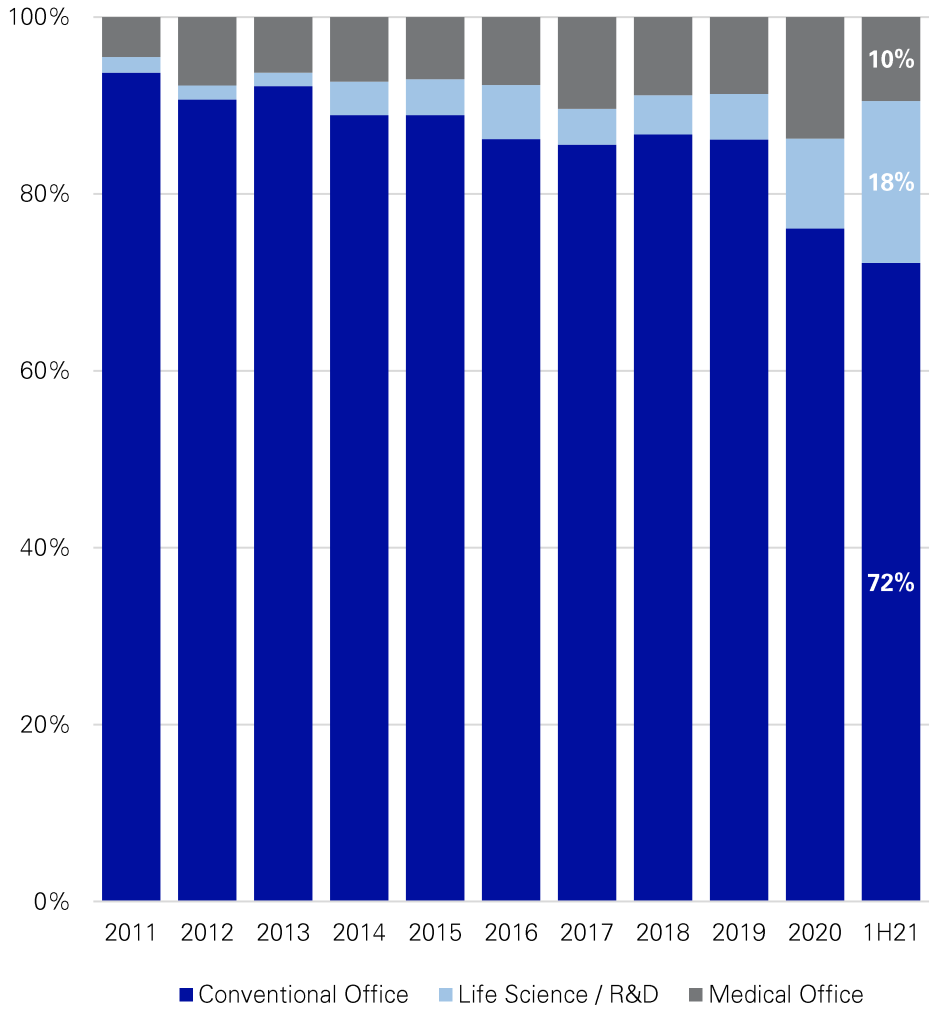


Source: Newmark Research, NCREIF

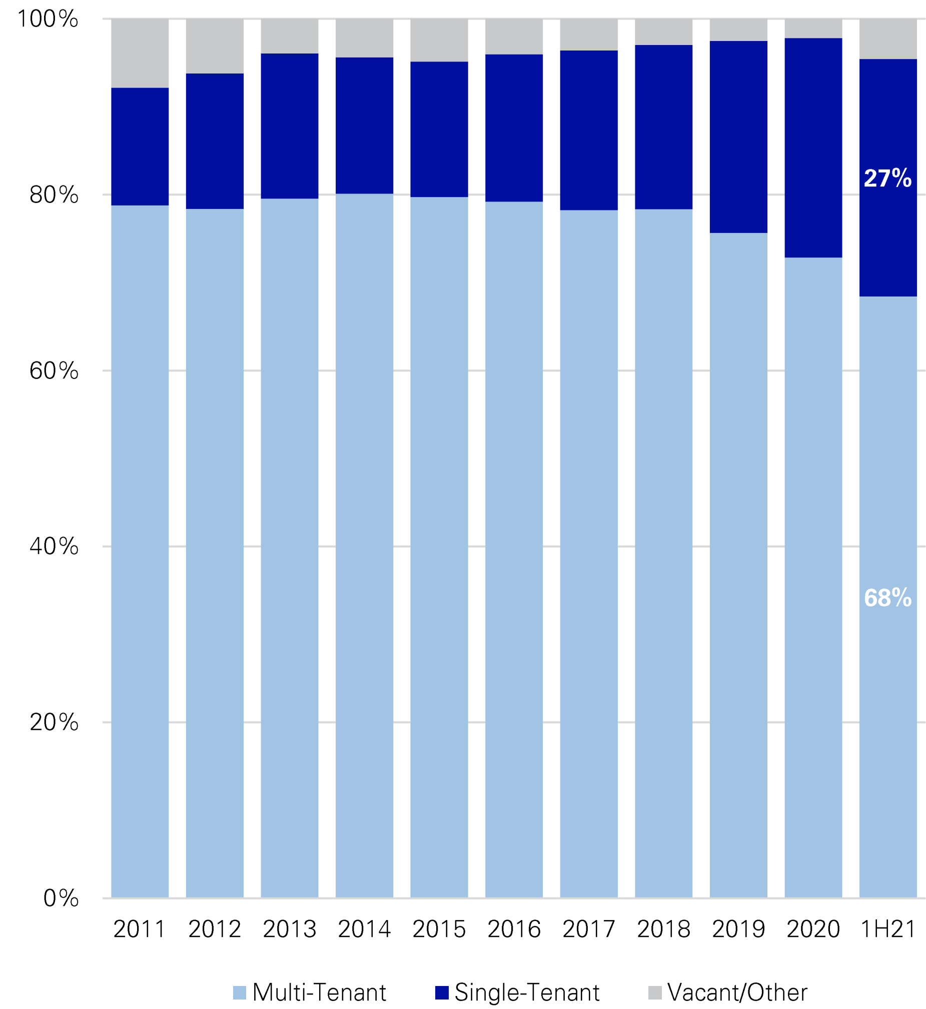
Changes in Office Investor Allocations

Many office investors have adapted to pandemic market conditions by increasing their allocations to thematic growth sectors like medical office and life science/laboratory product. They have also increasingly targeted more defensive single-tenant product, often occupied by credit tenants, which typically offers more stable and predictable cash flows and requires less operational support for leasing compared with multi-tenant properties.

Medical Office & Life Science



Multi-Tenant vs. Single-Tenant

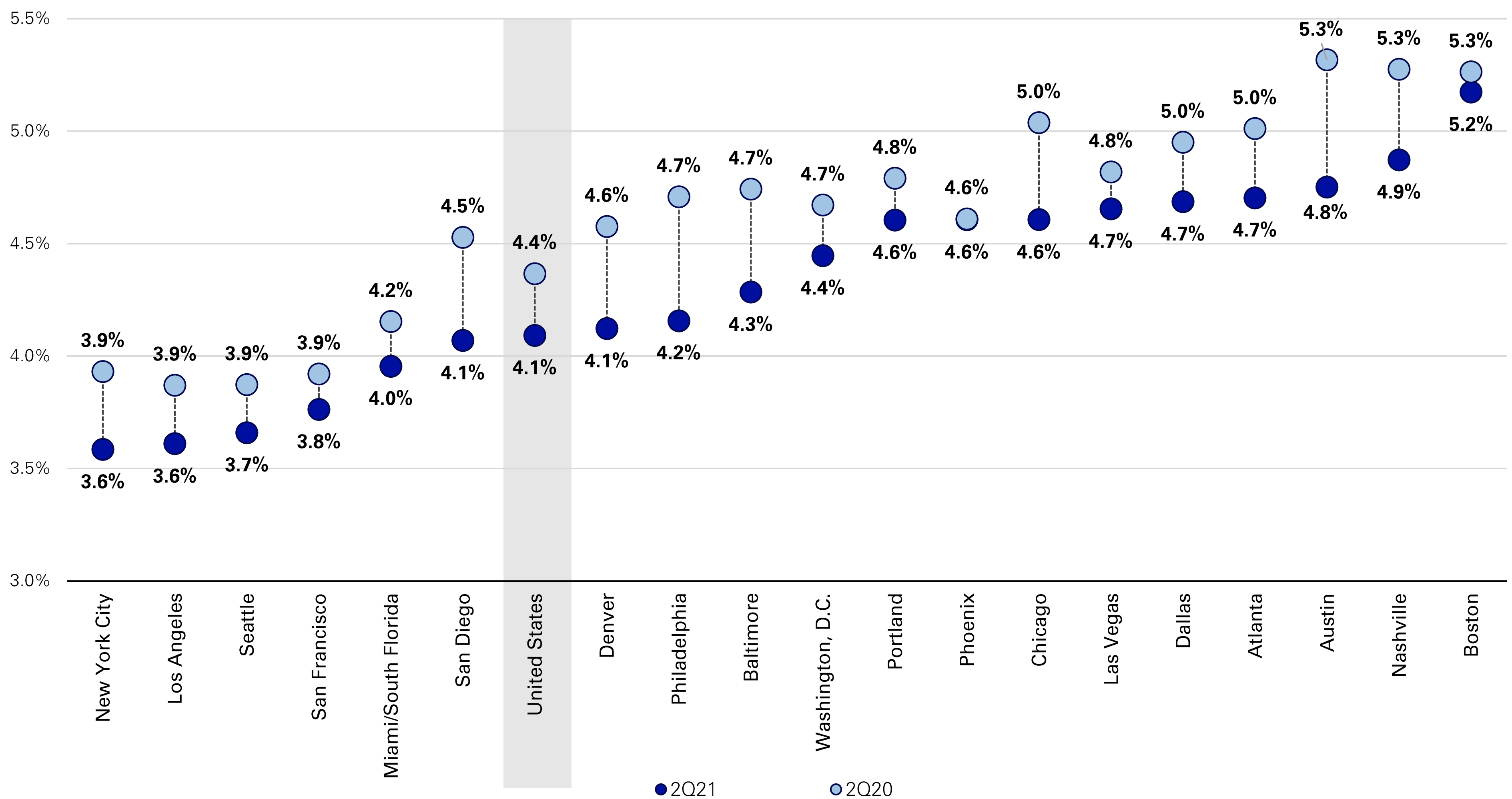


Source: Newmark Research, Real Capital Analytics

Industrial Warehouse Cap Rate Compression

Select Metropolitan Areas

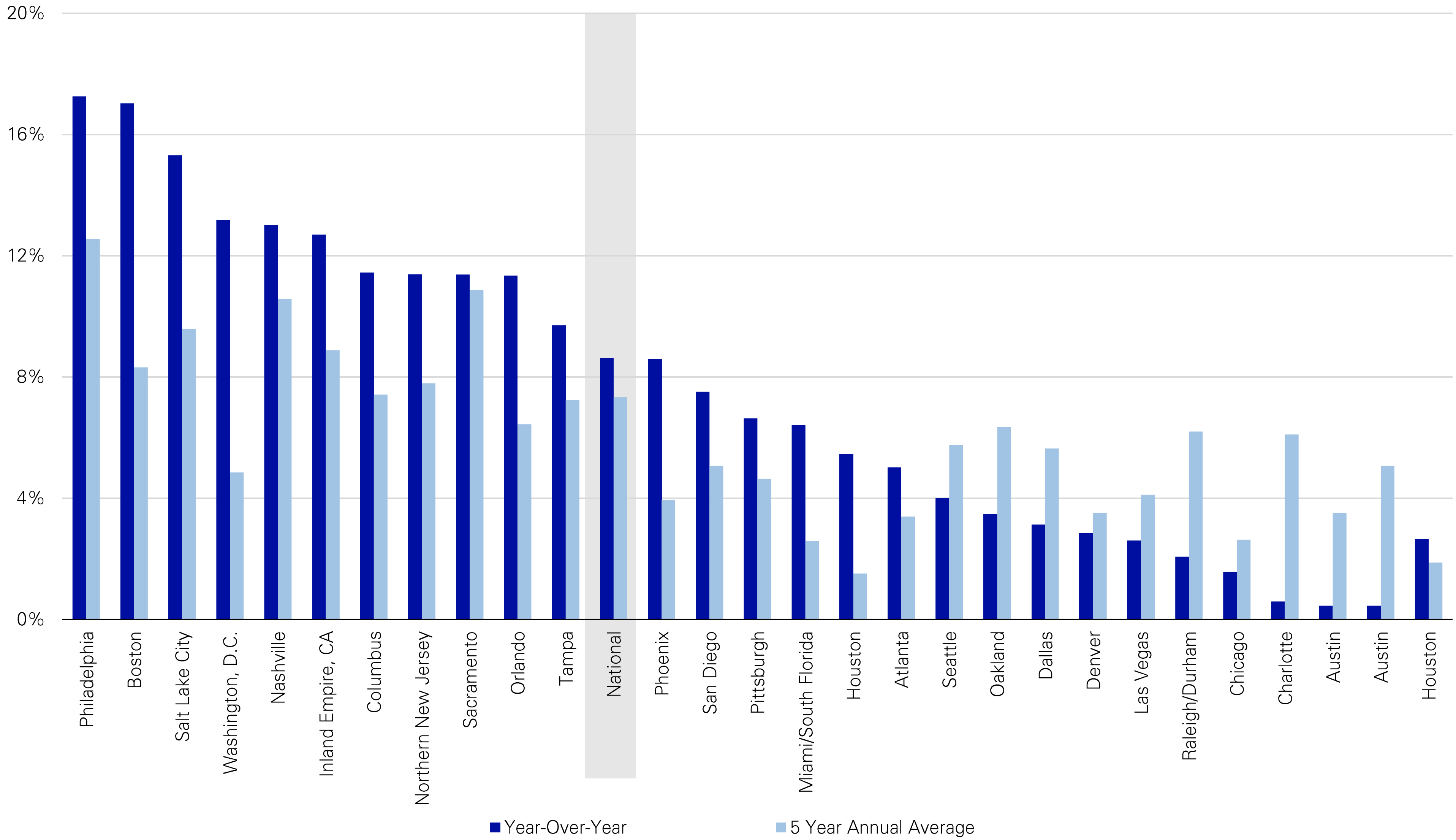
Immense demand for institutional-quality industrial warehouse product has led to an average 28 basis points of cap rate compression in the US, year-over-year. In the largest metropolitan areas such as New York City, Los Angeles, Seattle and San Francisco, warehouse cap rates for product owned by NCREIF funds have compressed to the mid-3% range as competition for infill and last mile product remains high, even prompting conversions from obsolete retail and office product.



Source: Newmark Research, NCREIF

Industrial Rent Growth by Market

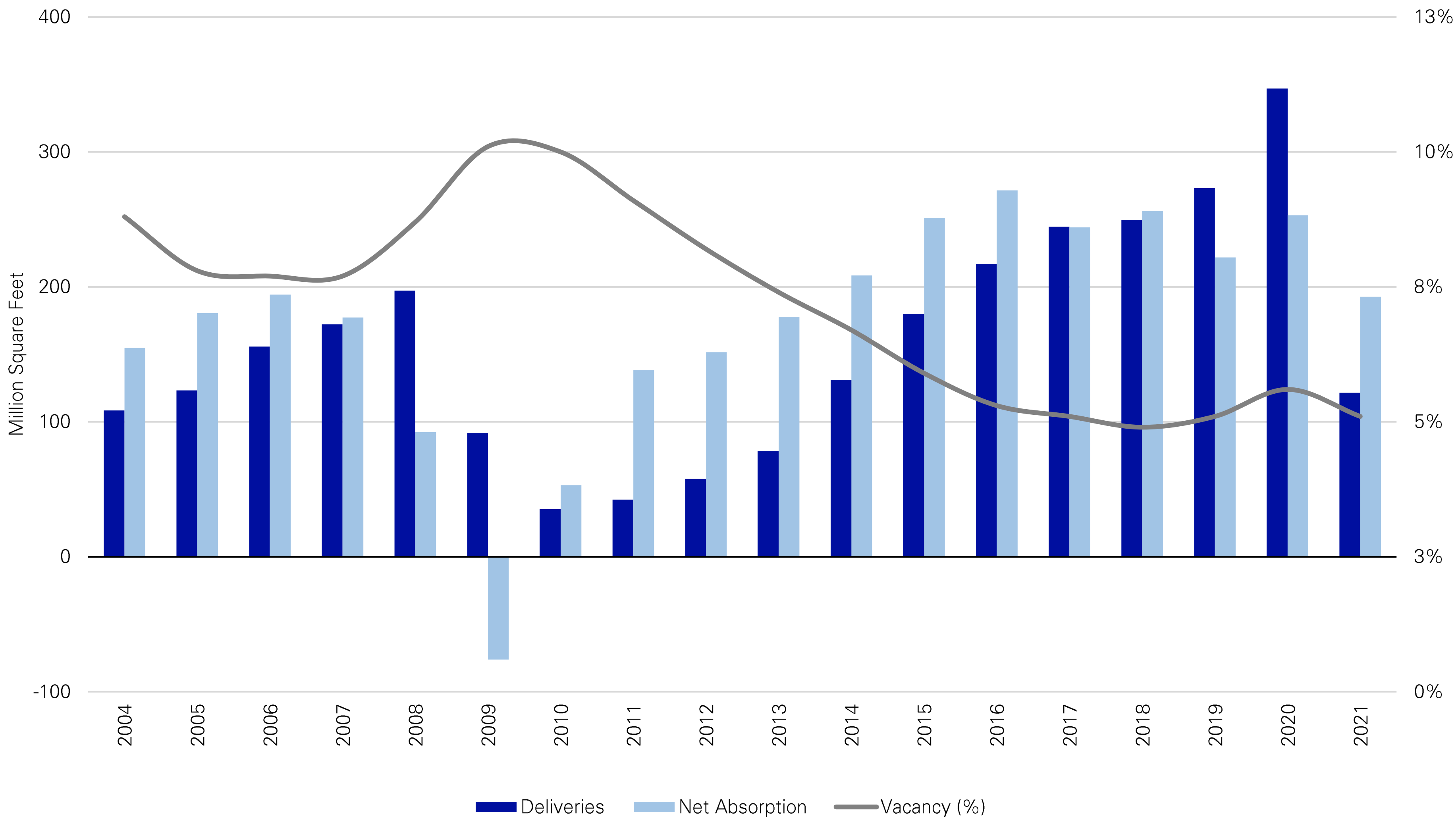
The pandemic has accelerated already robust industrial demand by forcing a wide array of companies, from pharmaceuticals to traditional brick and mortar retailers, to revaluate and redesign their supply chains. While markets such as Philadelphia have managed the largest five-year rental growth in the country (in part due to excess demand from New York/New Jersey), various markets have recorded pandemic-outperformance on a year-over-year basis, such as Boston (17.0%), Salt Lake City (15.3%), and Washington, D.C. (13.2%).



Source: Newmark Research

Industrial Deliveries vs. Net Absorption

Higher construction costs, inflation concerns and labor shortages have all contributed to a slower pace of industrial delivery activity in 2021 compared with 2020. On the other hand, net absorption is on a record-breaking pace, which is expected to put additional upward pressure on rents and on pricing for existing product in both major and non-major markets.

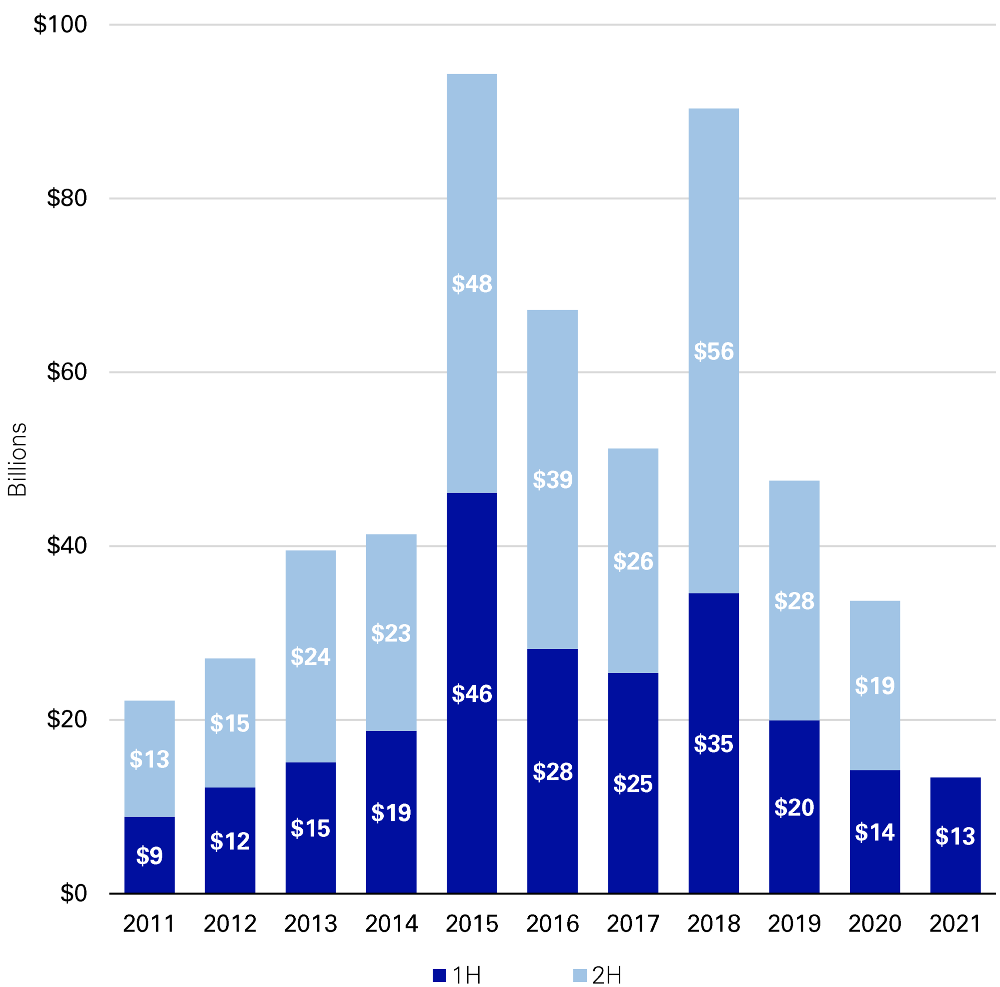


Source: Newmark Research

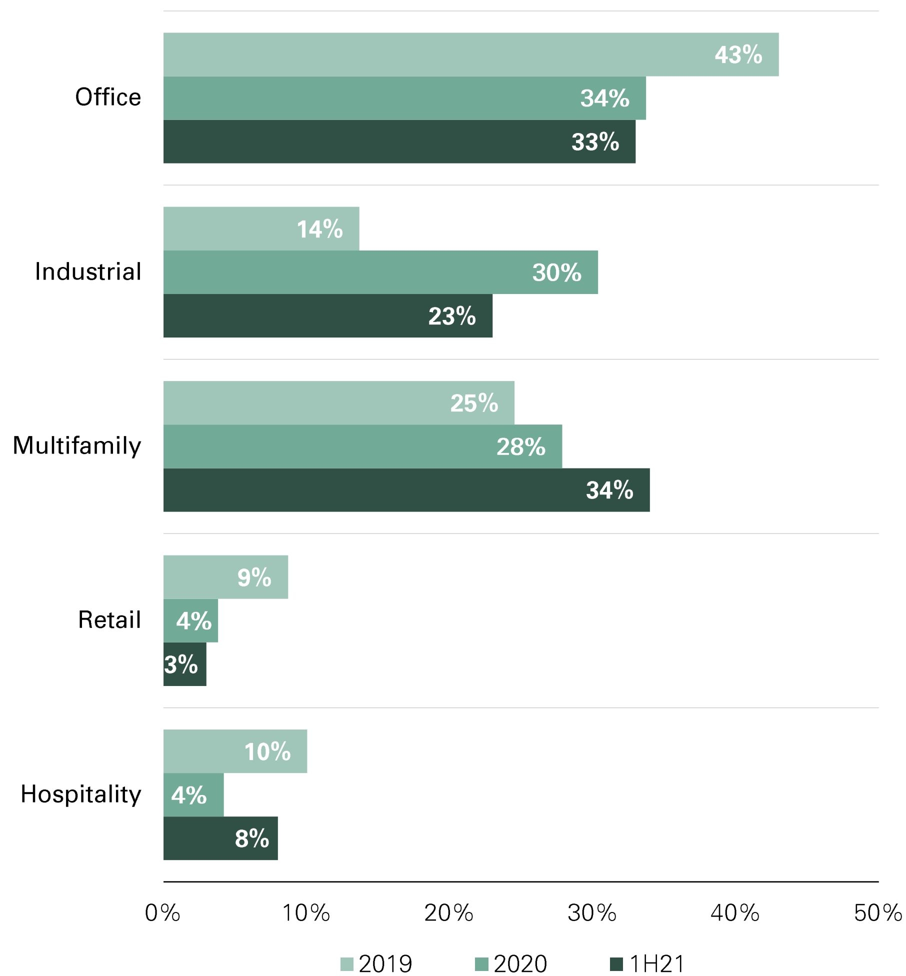
Composition of International Capital

Direct acquisitions by international groups in 1H21 declined by 6.0% year-over-year to $13.4 billion. In general, international activity has been slower to recover from the pandemic, compared with domestic peers, partly because international travel restrictions hinder in-person touring and due diligence. Of the international capital that was placed in 1H21, the majority was invested in multifamily, which represented 34% of total activity, surpassing the office sector.

Investment Volume



Allocation of Capital

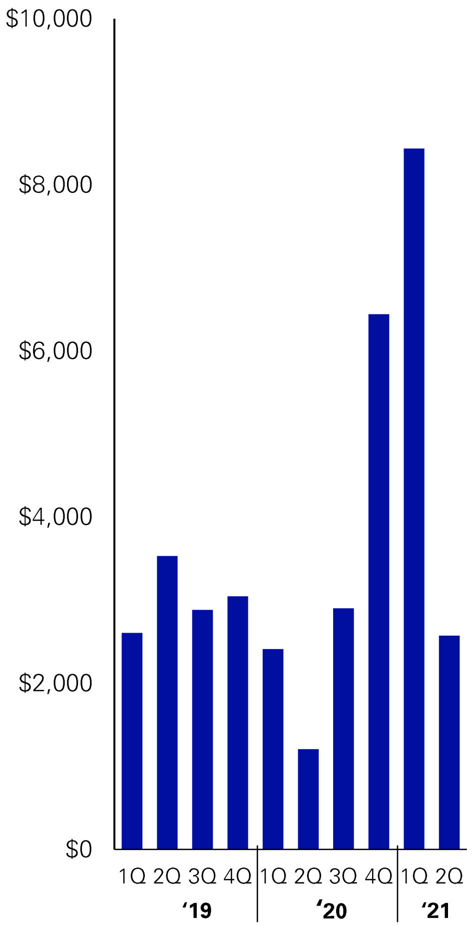


Source: Newmark Research, Real Capital Analytics

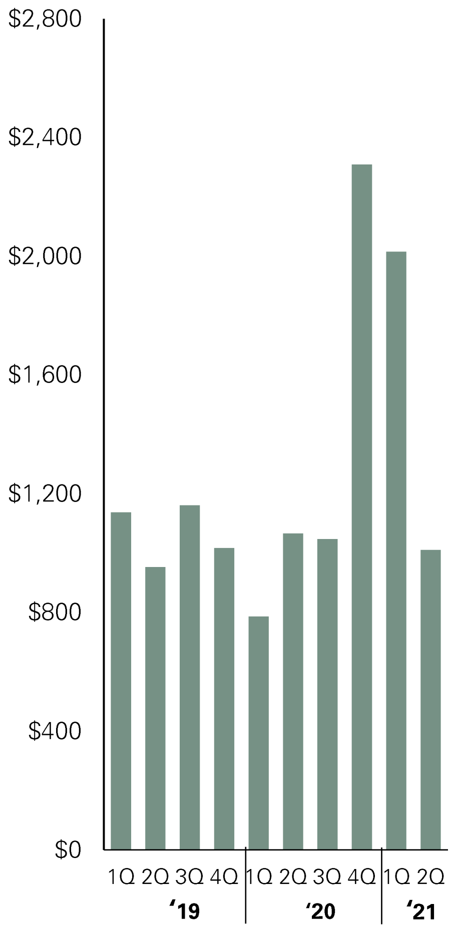
Alternative Property Types

During the pandemic institutional investors have increased their allocations to alternative assets with counter-cyclical and secular growth characteristics. Life science and R&D lab product investment volume hit $11.0 billion in 1H21 nationally, with the largest volume attributed to the main cluster markets of Boston/Cambridge, San Francisco and San Diego.

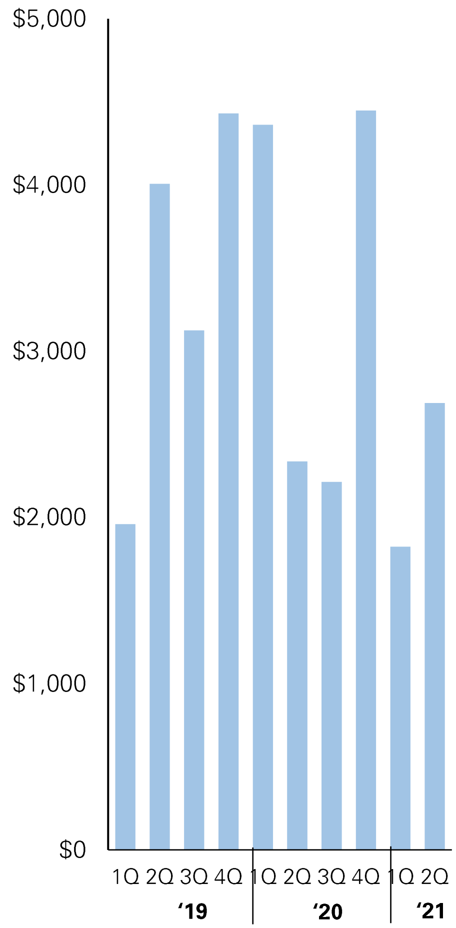
Life Science / R&D



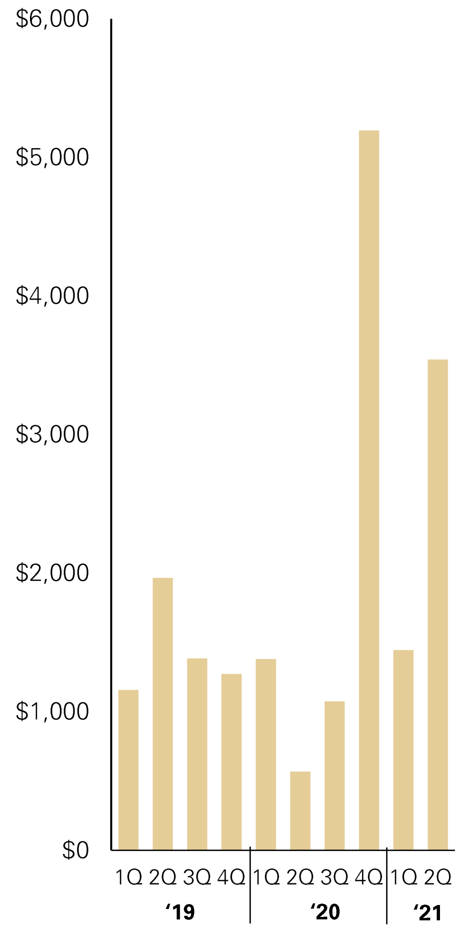
Manufactured Housing



Medical Office



Self Storage

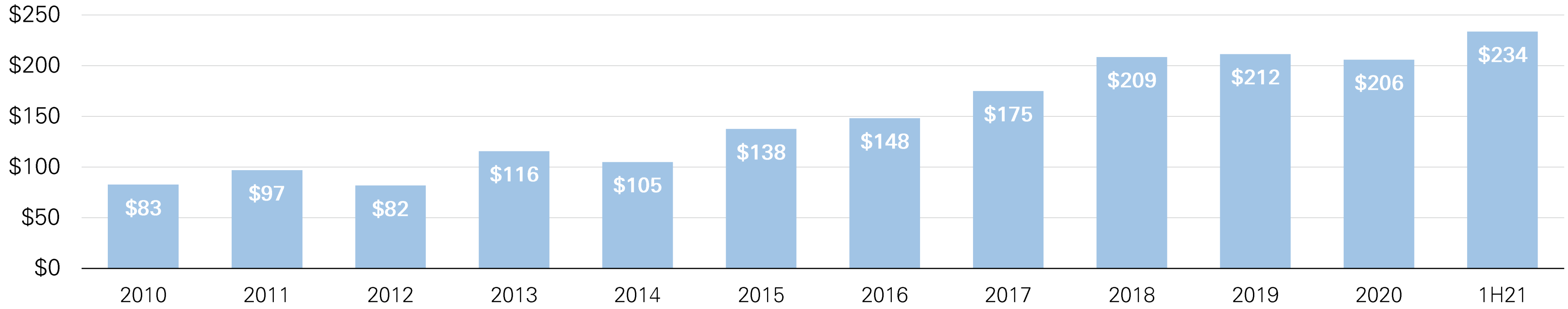


Source: Newmark Research, Real Capital Analytics

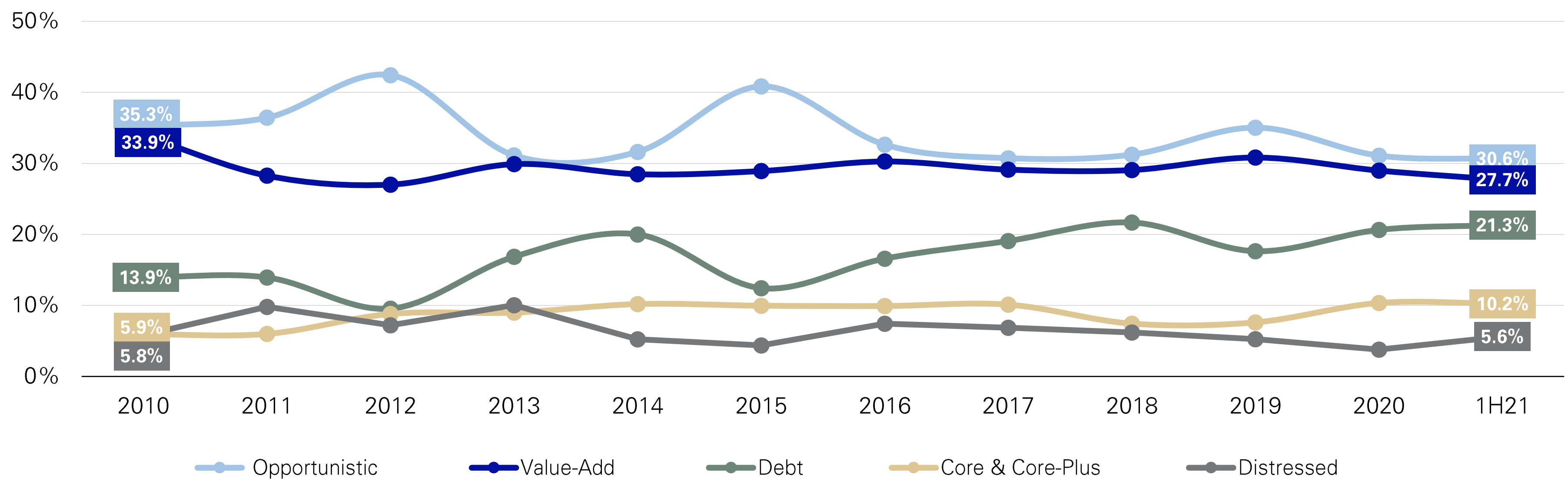
Dry Powder

North American-focused real estate funds have accumulated $234 billion of dry powder as of 1H21, marking a record high. While opportunistic and value-add strategies still make up the majority of this dry powder, both core and core-plus strategies remain elevated at a combined 10.2% as some investors flock to defensive assets.

Dry Powder – Closed End Funds



Dry Powder by Strategy*



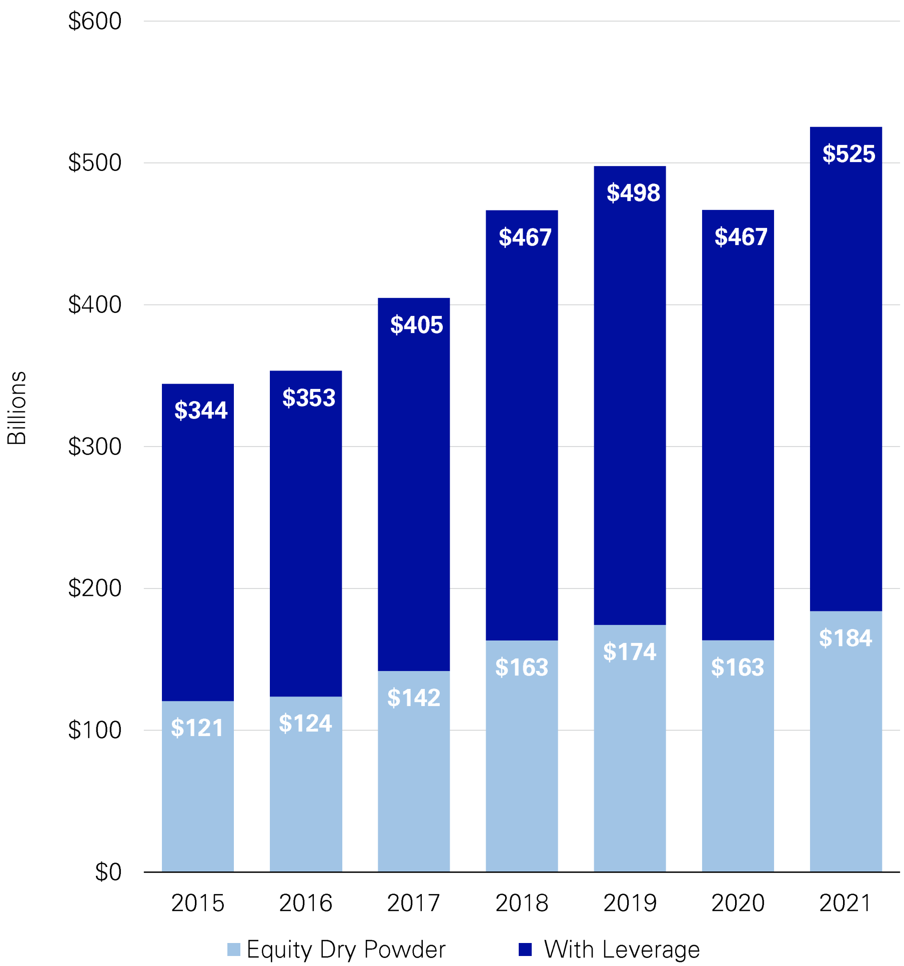
Source: Newmark Research, Preqin

*Not shown: fund of funds, co-investments, and secondaries dry powder

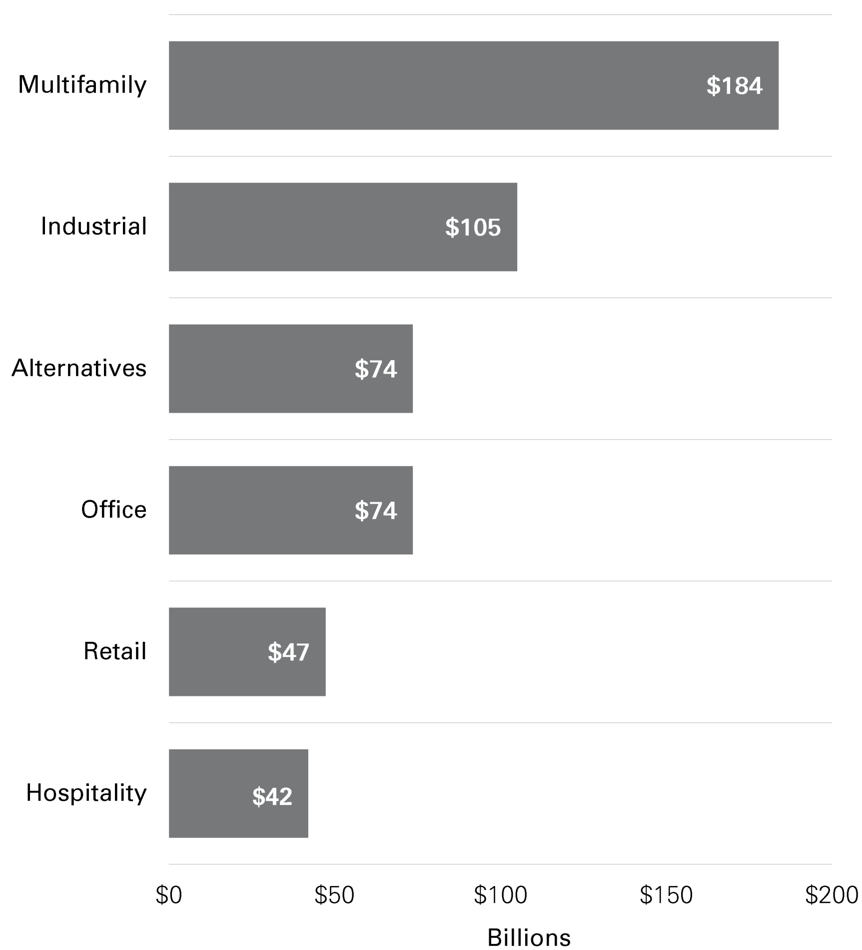
Dry Powder with Leverage

The $184 billion in equity dry powder equates to a leveraged purchasing power of $525 billion, using a 65% LTV ratio. If investors were to allocate this leveraged purchasing power according to their 1H21 allocations, nearly $300 billion would be invested in multifamily and industrial, with $74 billion invested in alternative property types and office.

Dry Powder at 65% Leverage



2021 Leveraged Dry Power By Property Type



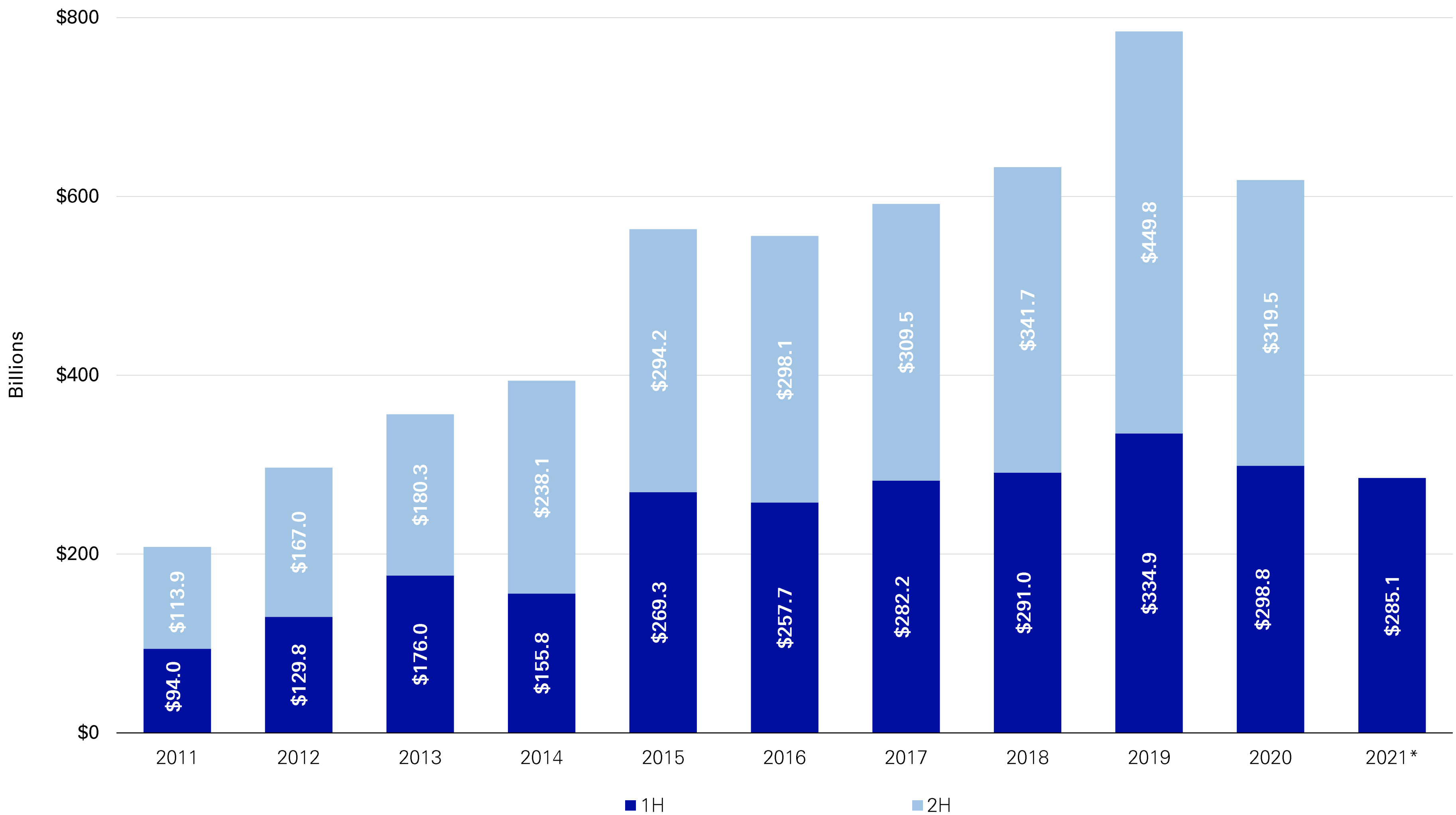
Source: Newmark Research, Real Capital Analytics, Preqin

*Total dry powder – debt dry powder

United States Total Financing Volume

Acquisition, Construction and Refinancing

Preliminary financing activity in 1H21 declined by an estimated 4.6% year-over-year to $285.1 billion. While some corners of the debt markets such as retail and hospitality lending have not fully recovered from the pandemic, continued low interest rates and borrowing costs have supported ample overall financing activity and have averted a GFC-era liquidity crisis.



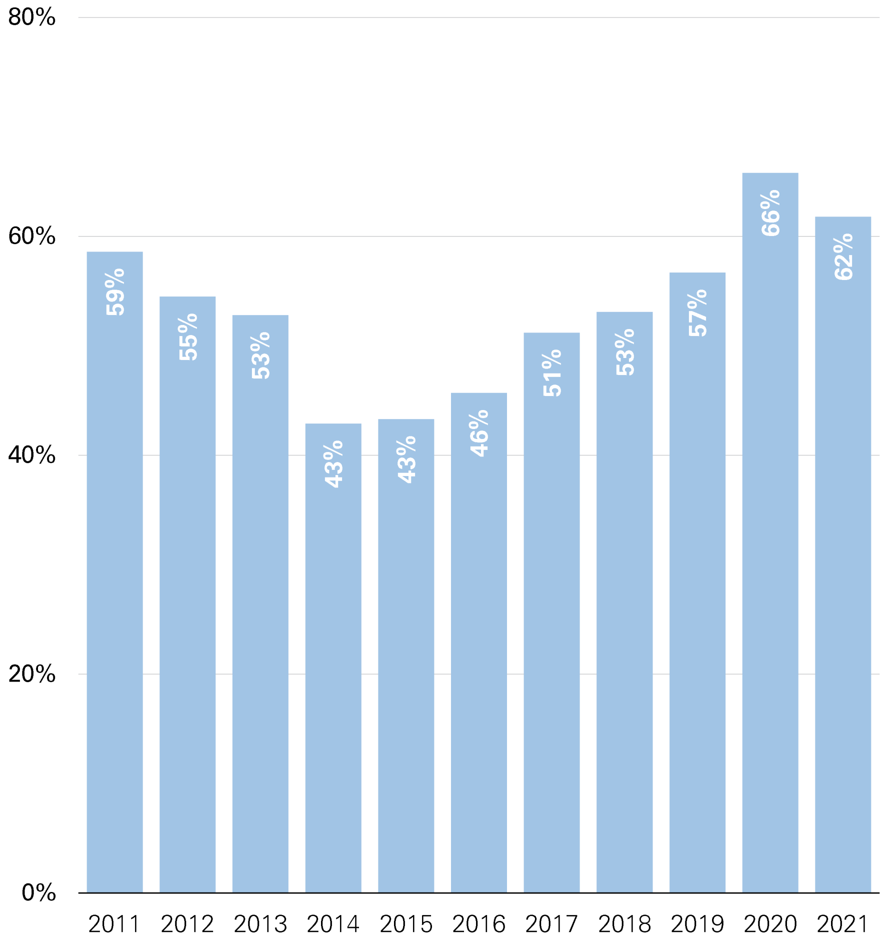
*Preliminary

Source: Newmark Research, Real Capital Analytics

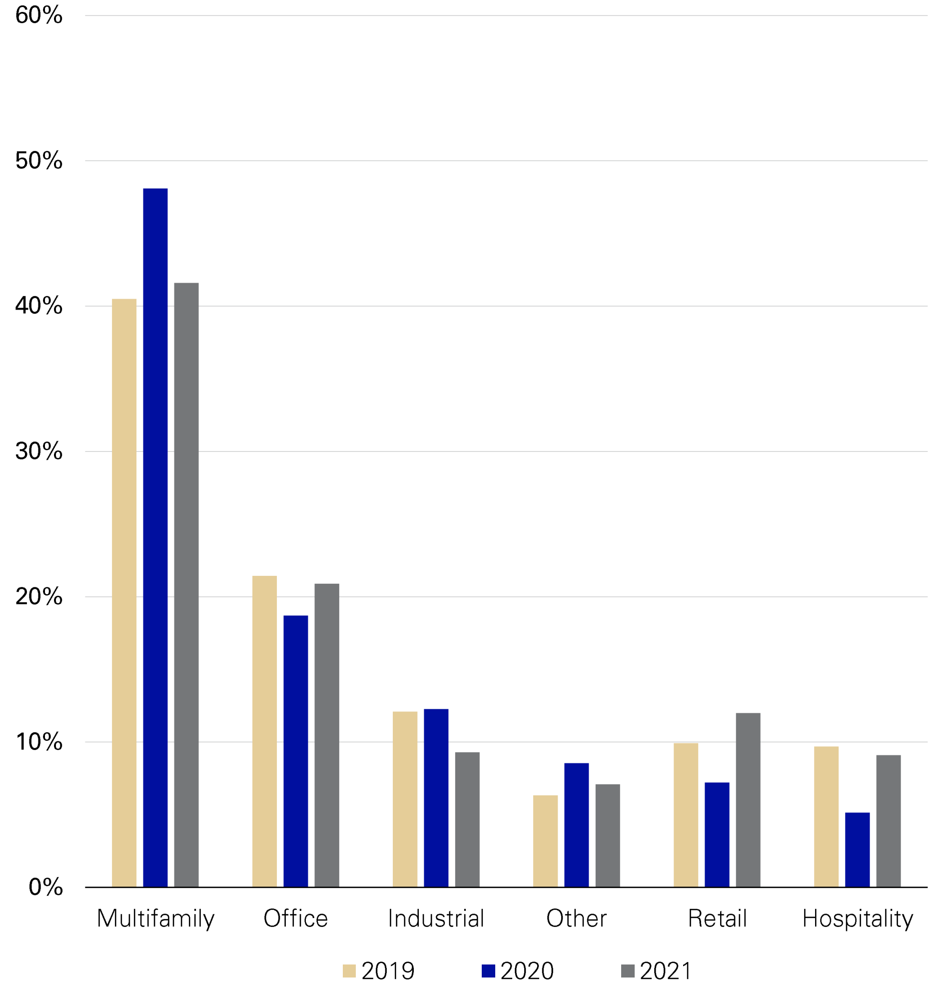
United States Financing Activity

Refinancing activity as a percentage of total financing activity peaked in 2020, but remains above pre-COVID-19 levels, at 61.8% in 1H21. Many landlords have taken advantage of historically low lending rates to refinance and recapitalize their properties instead of putting them on the market, particularly in property types where investor demand remains tepid.

Refinancing as Percentage of Total Financing Activity



Lending Allocation by Property Type

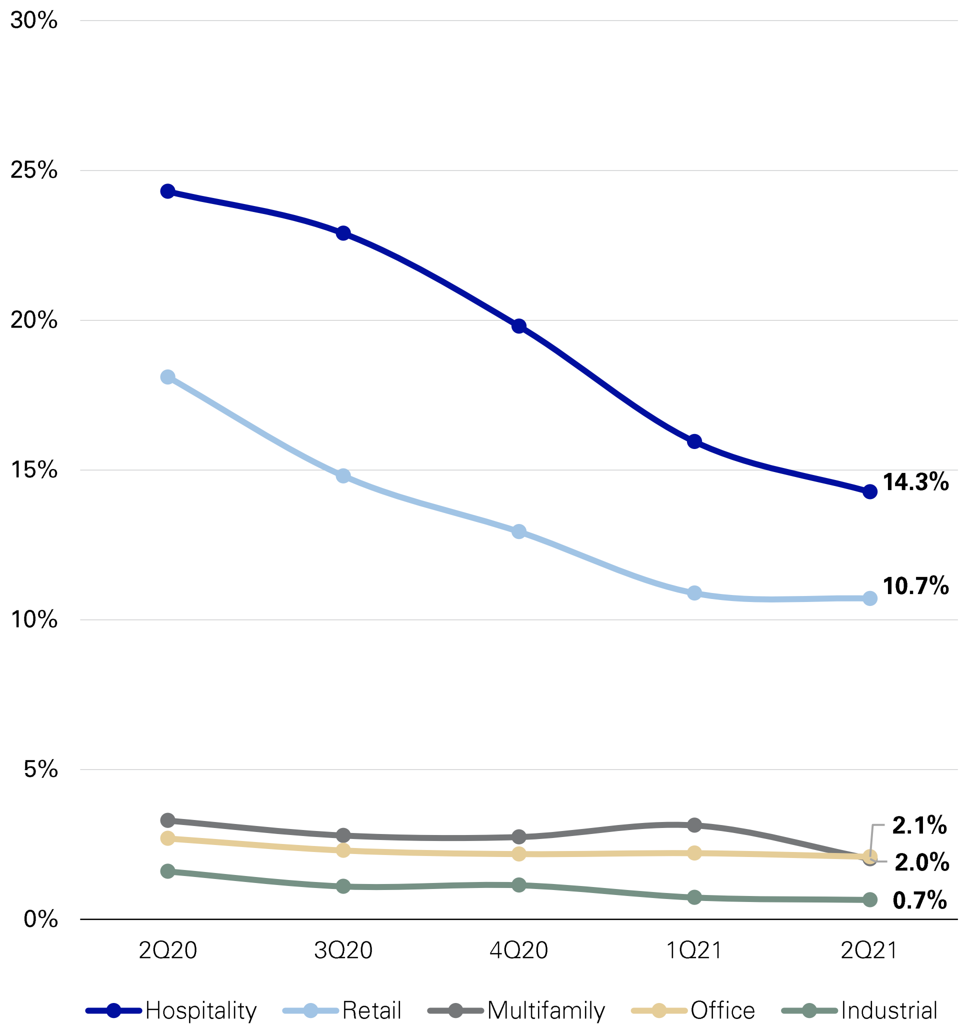


Source: Newmark Research, Real Capital Analytics

CMBS Delinquency Rates

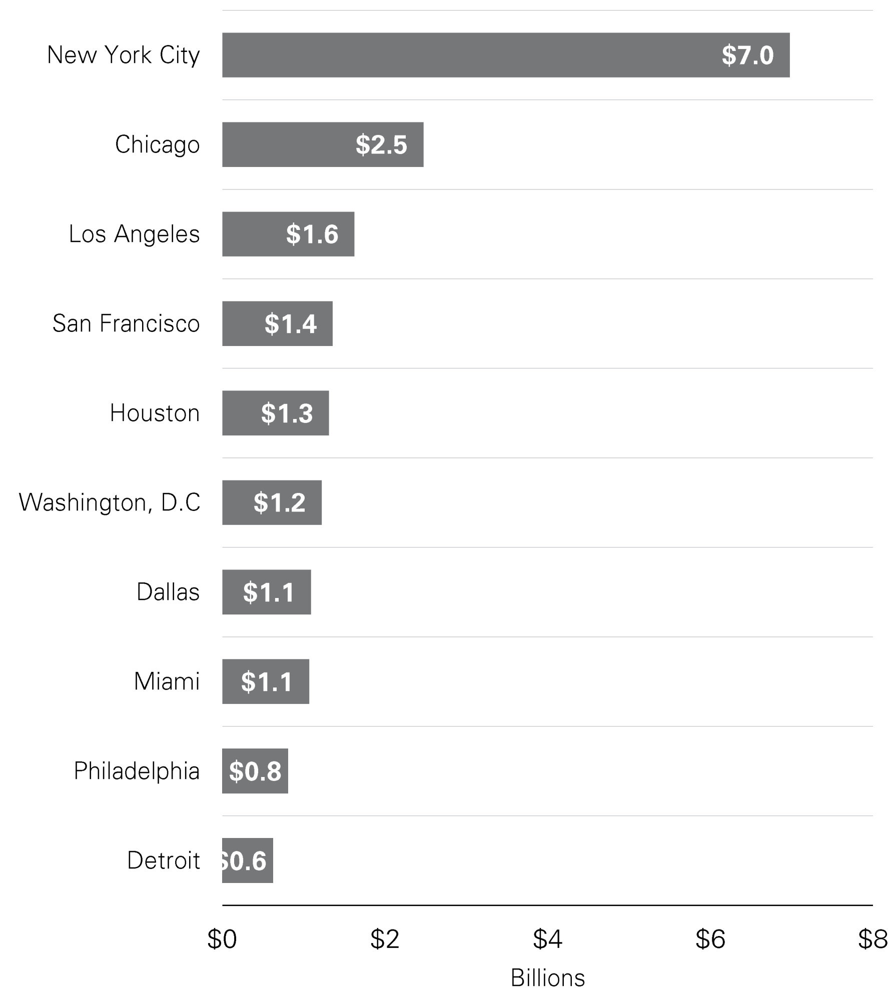
CMBS delinquency rates across all property types have steadily declined since peaking in June 2020. Hospitality and retail rates remain well above pre-COVID-19 levels but have improved markedly, reaching 14.3% and 10.7%, respectively, with the largest amounts of delinquency concentrated in markets such as New York City.

By Property Type



Source: Newmark Research, Trepp

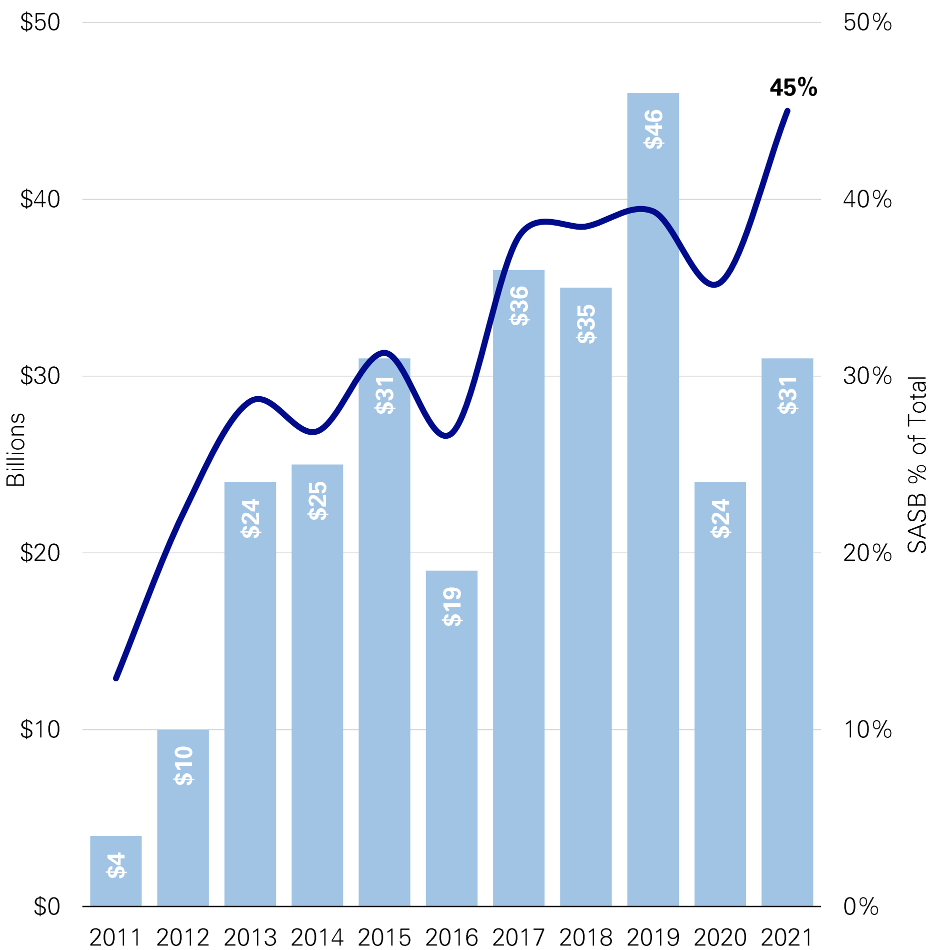
By Metro, Delinquent Balance in Billions $



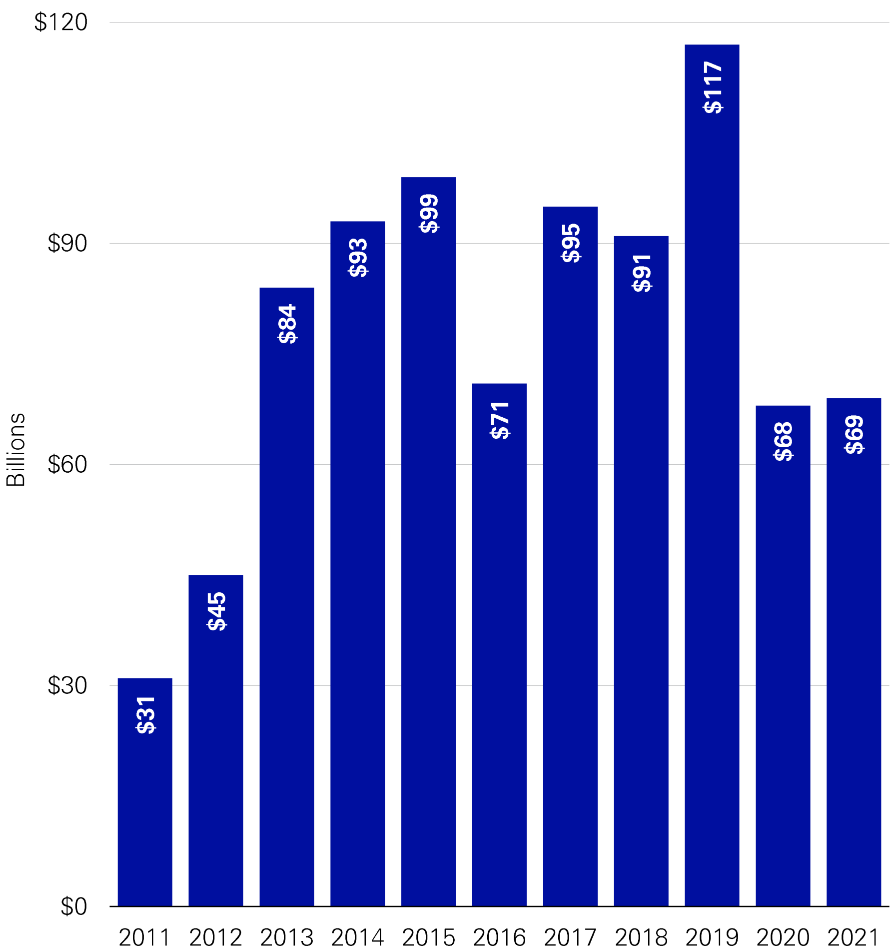
Single Asset Single Borrower Activity

Single Asset Single Borrower (SASB) activity is on pace to set a record, with nearly $29 billion of issuance in 1H21 representing 44.9% of the total private label issuance. SASB financing has become a more prominent strategy during the pandemic, due to the high-credit requirement for the underlying property (or portfolio properties) and because of the more straightforward underwriting and risk profile associated with a single borrower.

SASB Issuance



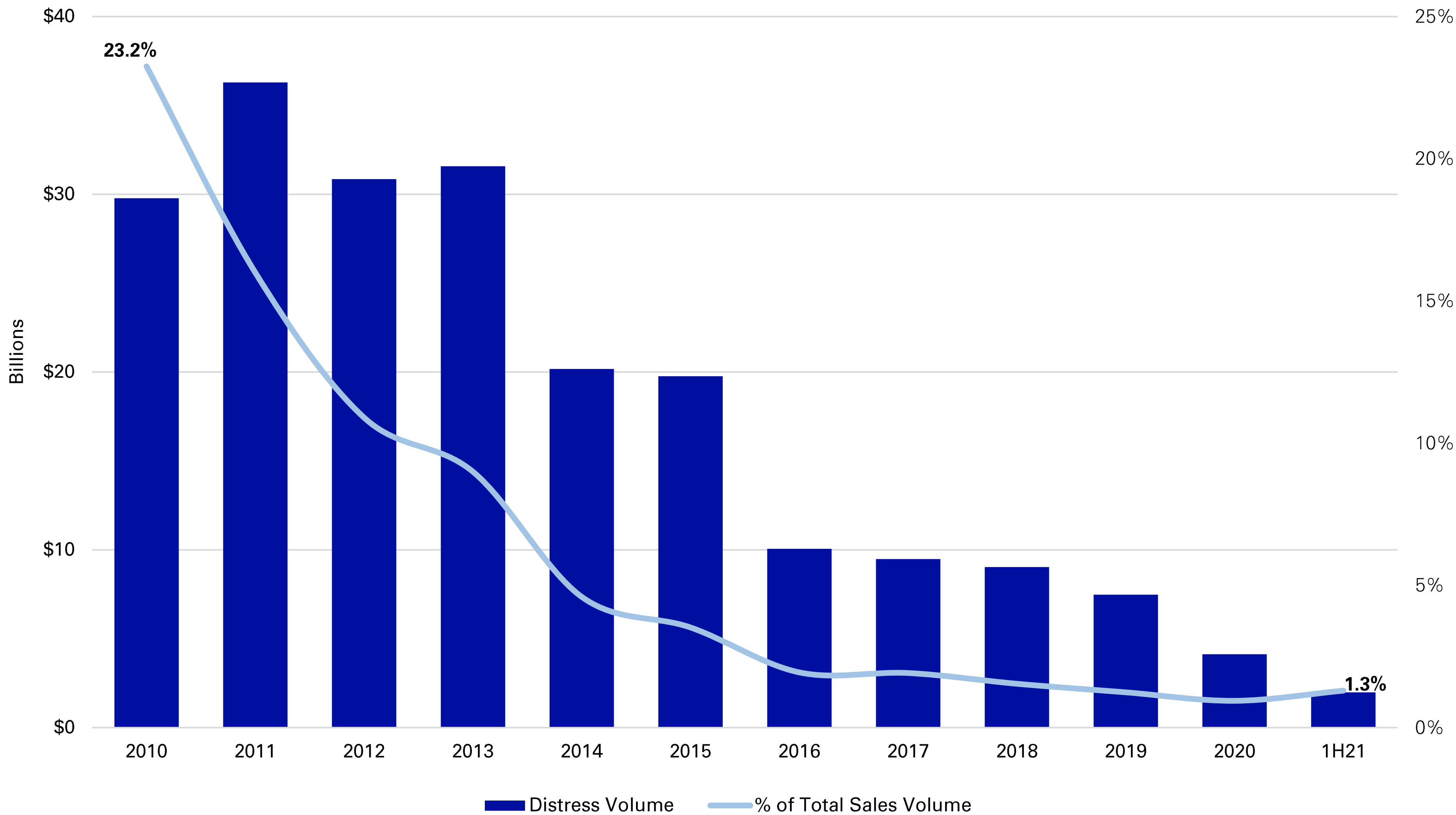
Private Label CMBS Issuance



Source: Newmark Research, Trepp

Distressed Sales Volume

Distressed sales volume remained under $2 billion in 1H21 as market disruption from COVID-19 has been far less than anticipated, in part due to debt forbearance and workouts arranged between lenders and borrowers. While distressed sales volume is expected to increase in retail and hospitality, other property types have remained relatively resilient, aided by recovering market liquidity and low interest rates.

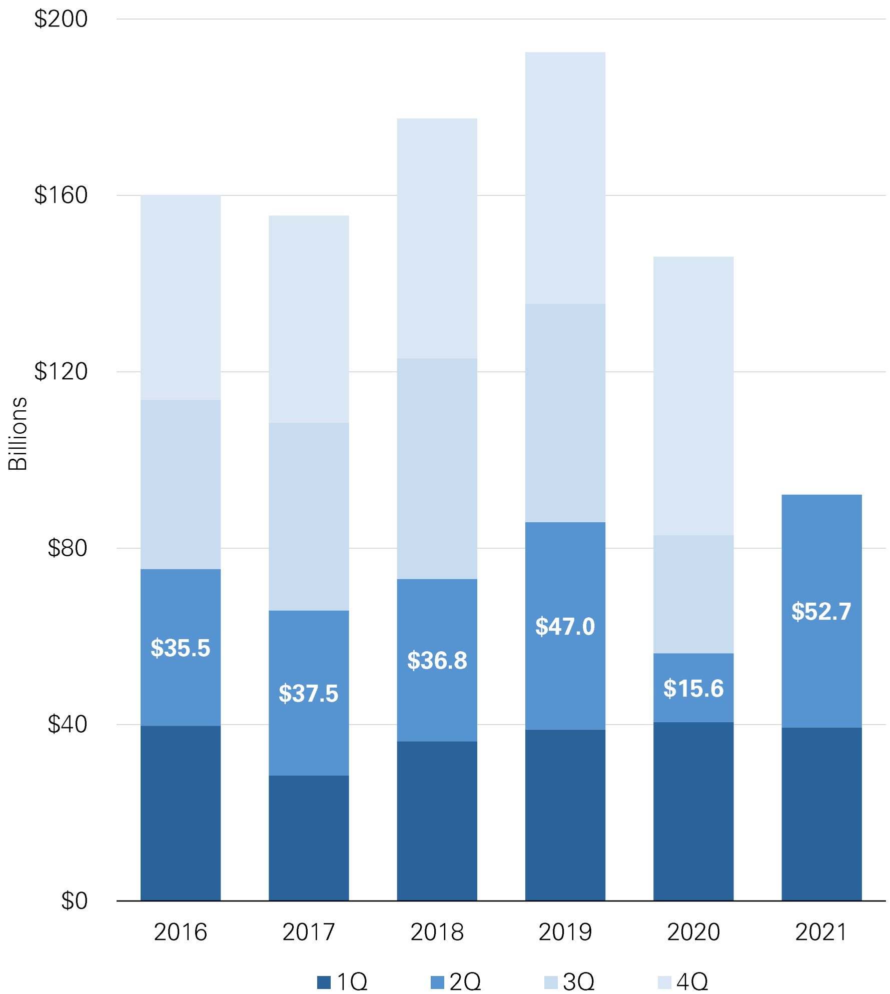


Source: Newmark Research, Real Capital Analytics

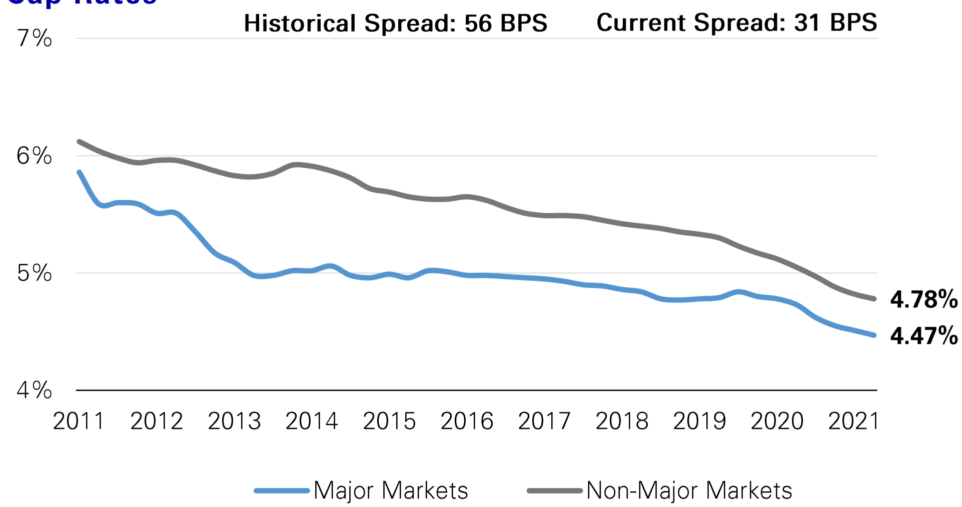
Multifamily Dashboard

Multifamily has remained among the most sought-after property types during the pandemic, with 2Q21 investment volume increasing by a record 238.1% year-over-year to $52.7 billion in 2Q21. Cap rates in both major and non-major markets declined throughout the pandemic and hit cycle lows in 2Q21. While urban product in the largest gateway markets did face greater disruption and declines in average price per unit, suburban product in already tight sunbelt markets continued to record pricing growth and strong investor demand.

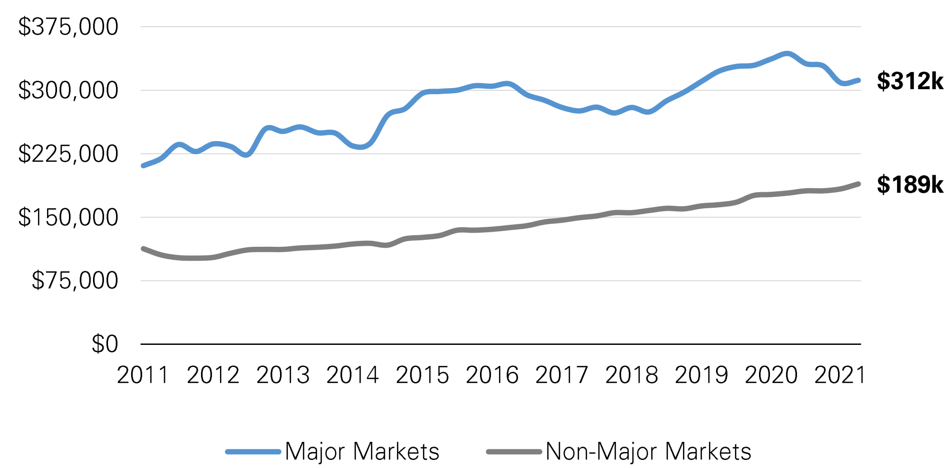
National Sales Volume



Cap Rates



Price Per Unit

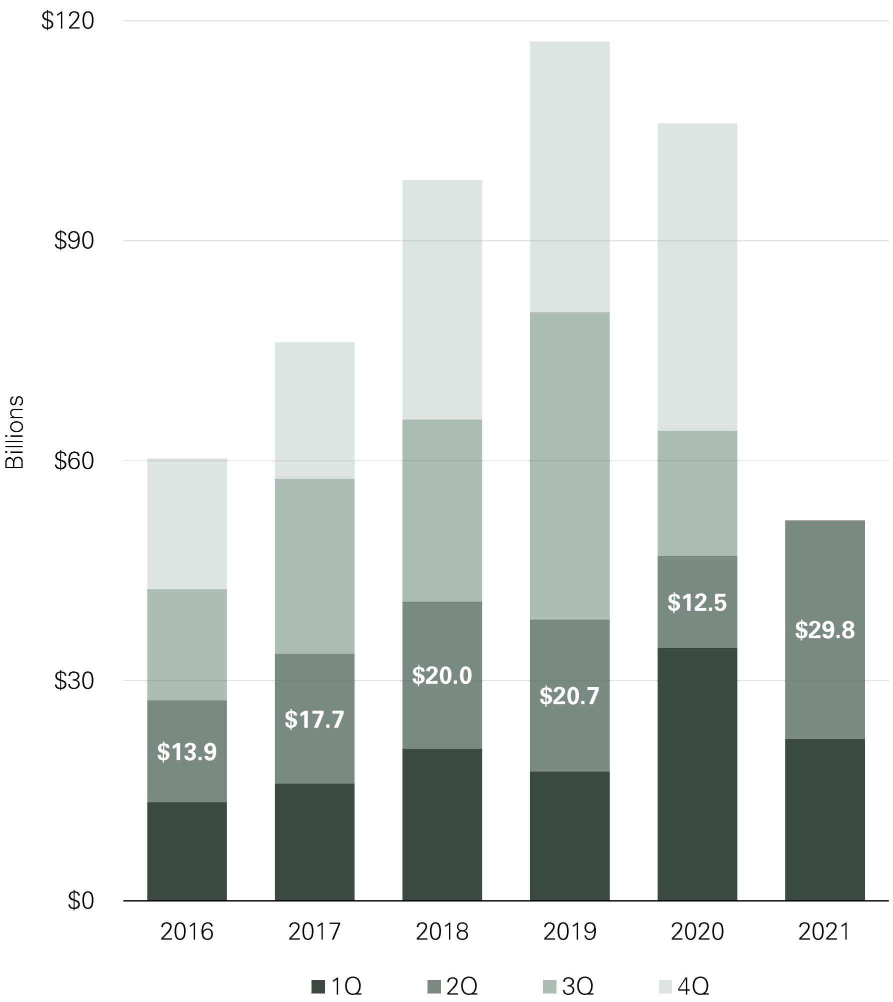


Source: Newmark Research, Real Capital Analytics

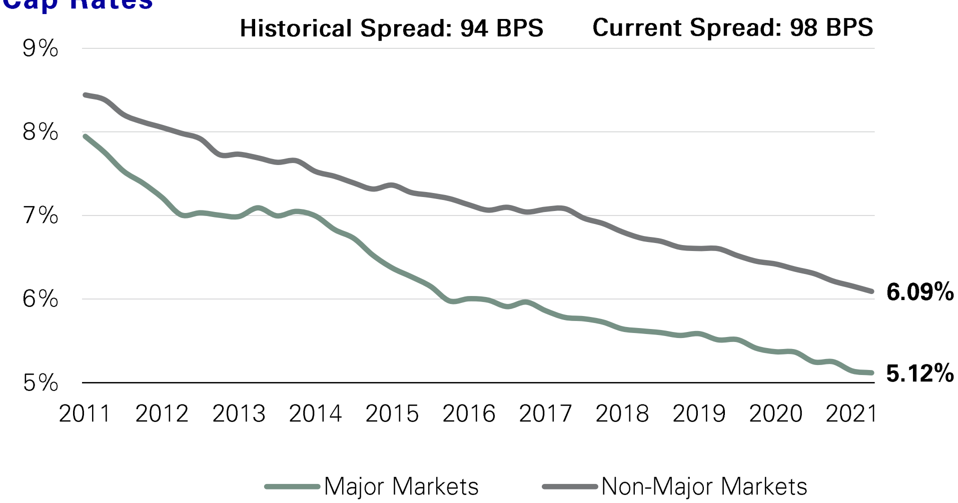
Industrial Dashboard

Industrial investment volume increased by 138.8% year-over-year to $29.8 billion in 2Q21, reinforcing the immense demand from institutional investors such as Blackstone, Exeter Property Group and KKR. Cap rates in both major and non-major markets continued to compress throughout the pandemic, declining by 24 and 27 basis points, respectively. Similarly, pricing has reached a record high, with the major market average hitting $167 per square foot.

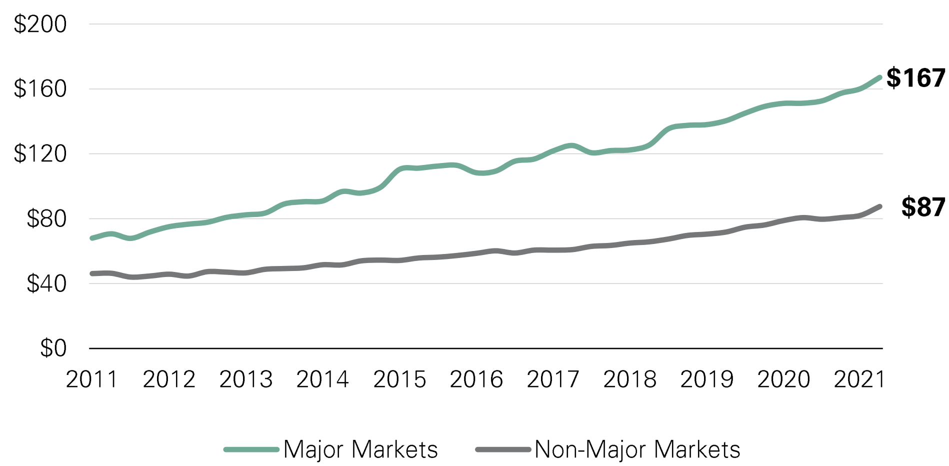
National Sales Volume



Cap Rates



Price Per Square Foot

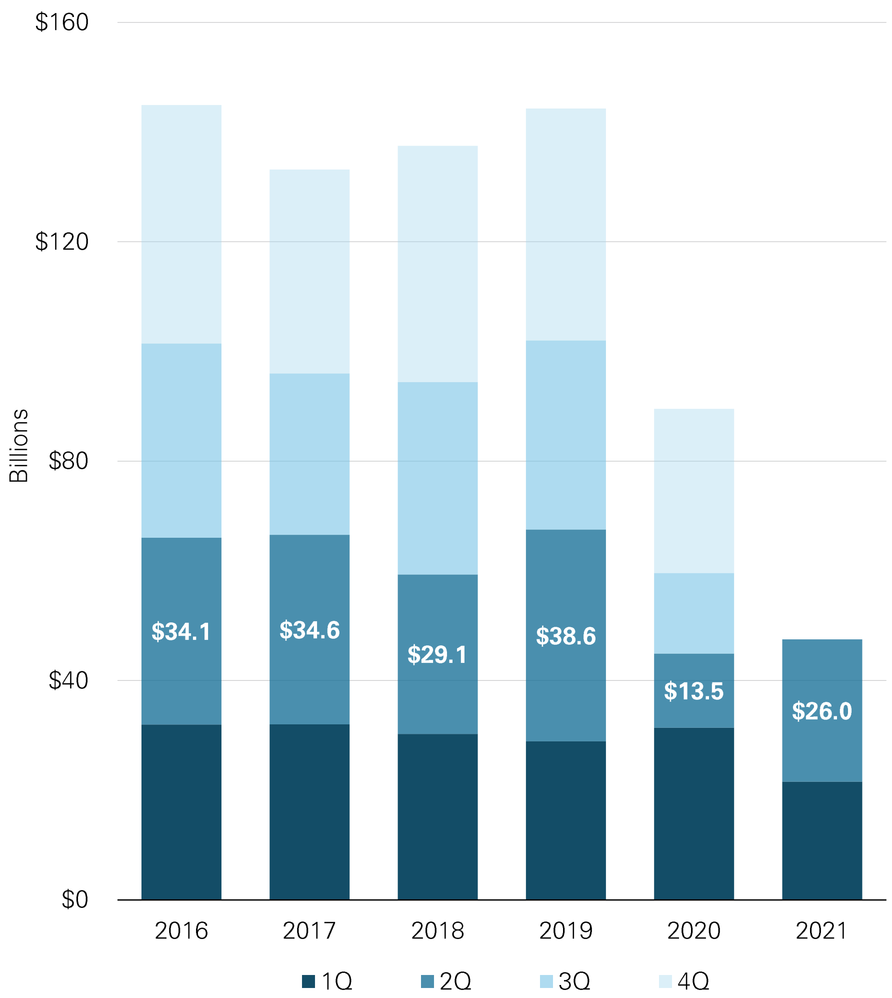


Source: Newmark Research, Real Capital Analytics

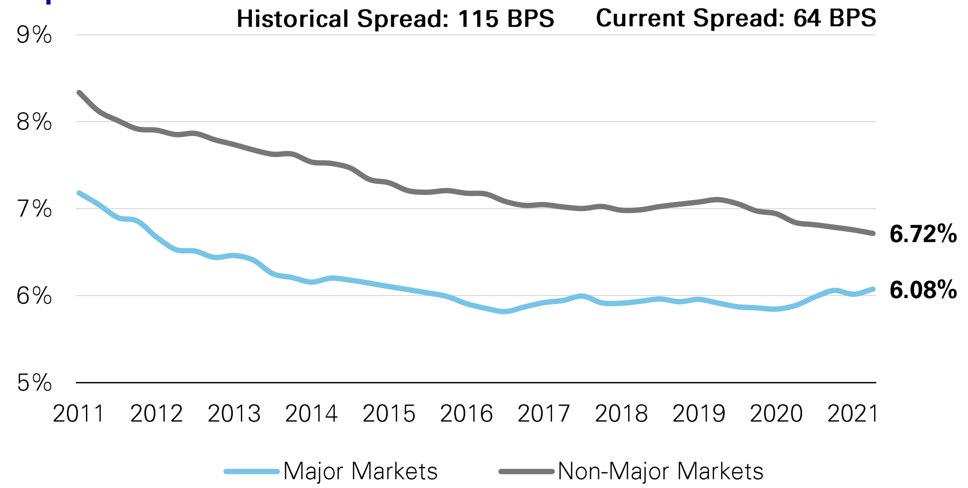
Office Dashboard

Office volume increased by 92.1% year-over-year to $26 billion as investor sentiment toward office continued to improve across major and non-major markets. While volume in 2Q21 has not recovered to pre-pandemic levels, demand has strengthened as major companies from large banks such as Morgan Stanley and JP Morgan, to technology giants such as Facebook, Amazon and LinkedIn have announced back-to-office plans for their employees.

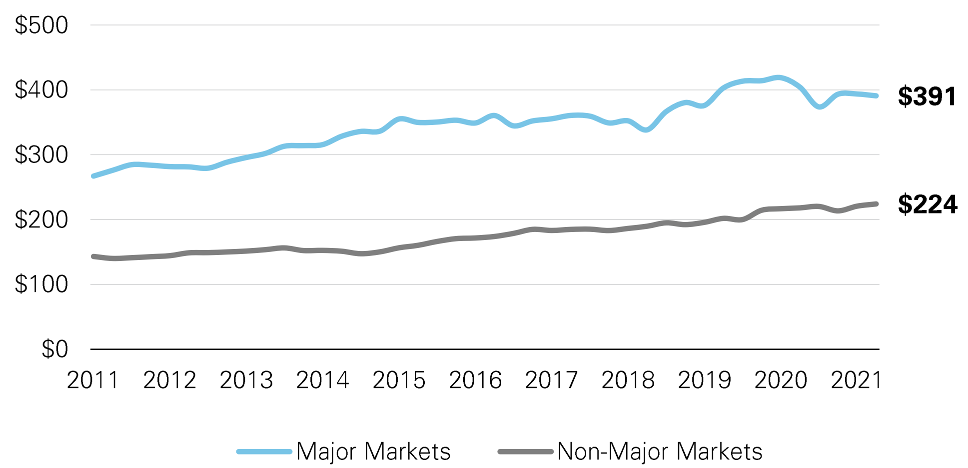
National Sales Volume



Cap Rates



Price Per Square Foot

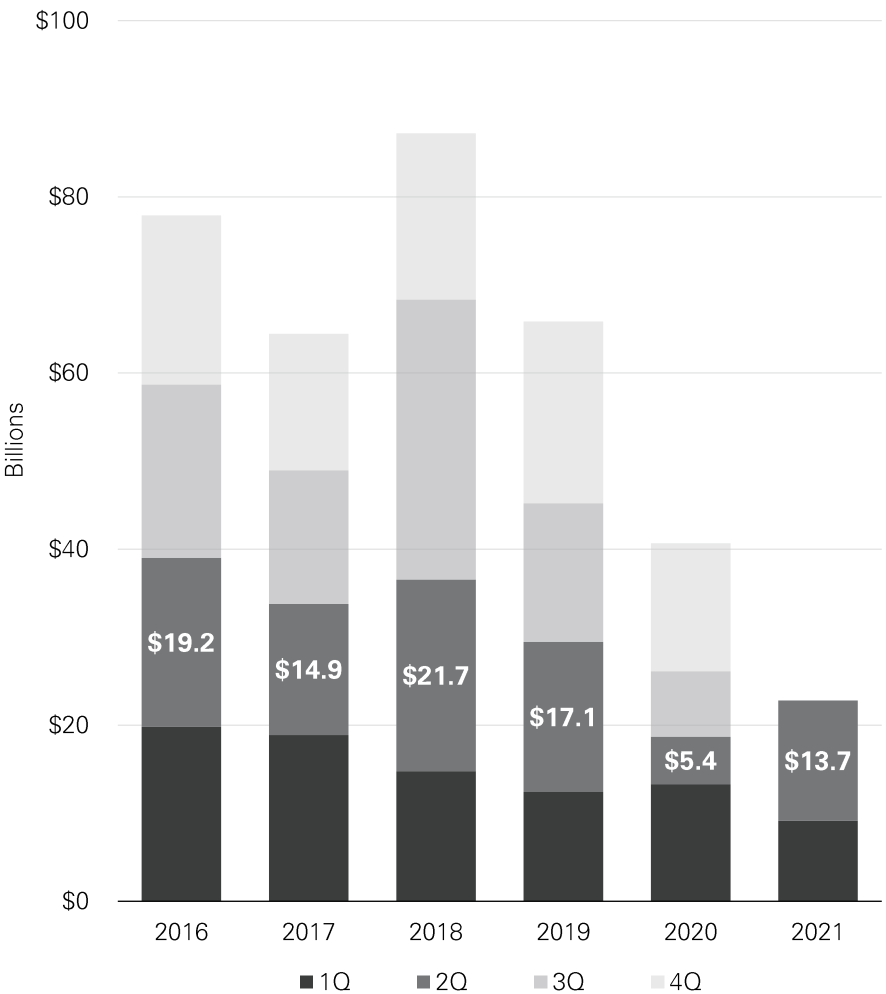


Source: Newmark Research, Real Capital Analytics

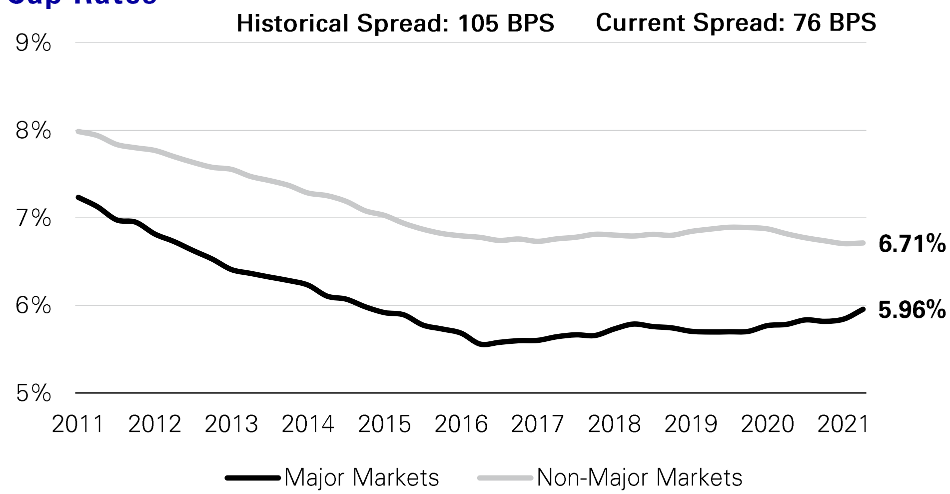
Retail Dashboard

Retail investment activity increased by 154.0% to $13.7 billion in 2Q21 but remains below pre-pandemic levels. Despite negative investor sentiment for certain subtypes such as regional malls and movie theaters, several retail subtypes such as grocery-anchored and single tenant/NNN continue to attract investors. Retail and food services sales in June reached $621.3 billion, representing an 18.0% increase year-over-year, with brick-and-mortar segments continuing to improve.

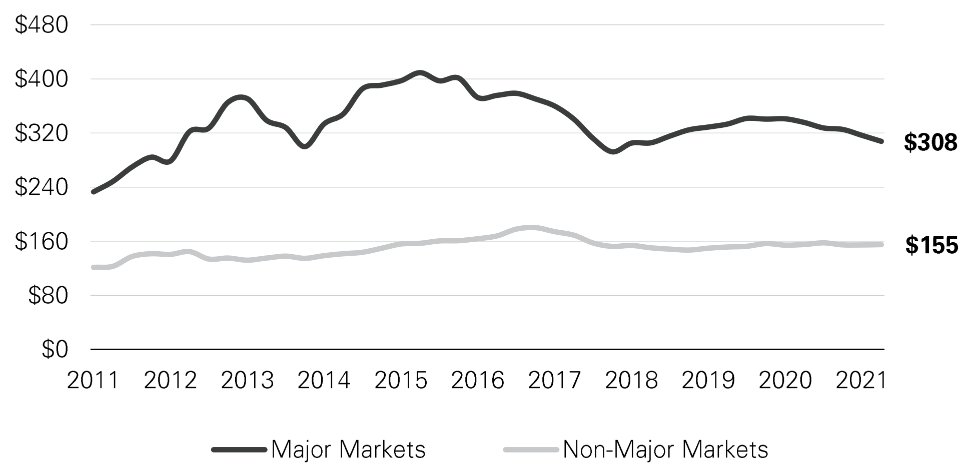
National Sales Volume



Cap Rates



Price Per Square Foot

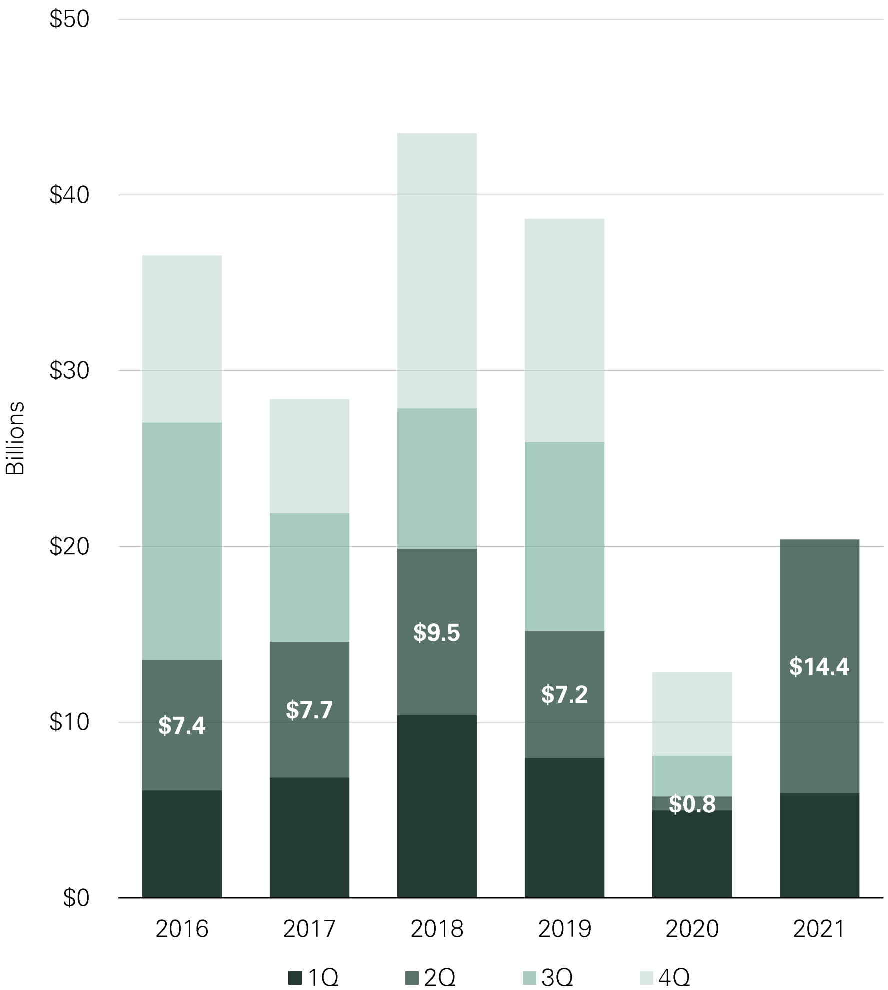


Source: Newmark Research, Real Capital Analytics

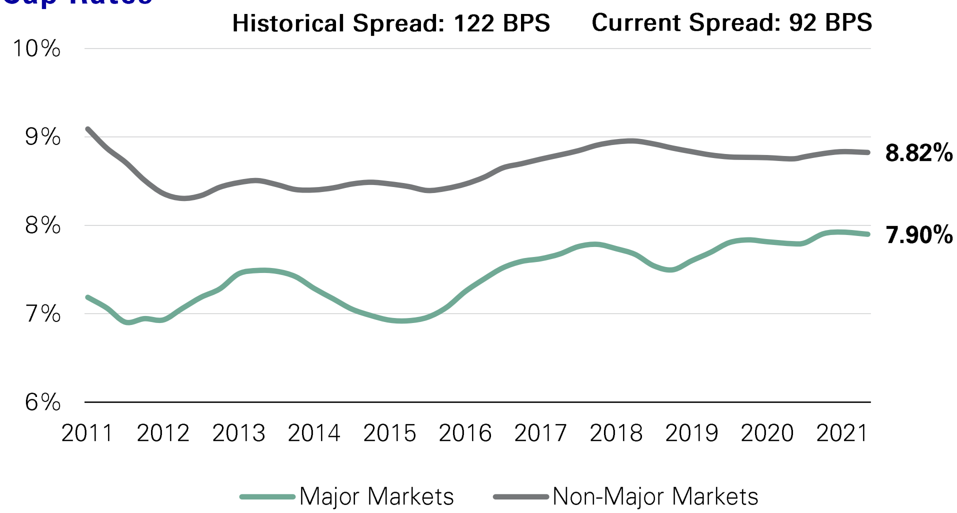
Hospitality Dashboard

While hospitality suffered the greatest amount of pandemic-related disruption, it has witnessed the sharpest recovery in terms of year-over-year investment volume growth at over 1500%, with volume hitting $14.4 billion in 2Q21 as investors expect the recovery in leisure travel and spending to continue. Contributing to this volume was the entity-level buyout of Extended Stay America by Starwood and Blackstone, as well as the Highgate Hotels and Cerebus acquisition of Colony REIT's last remaining hotel portfolios.

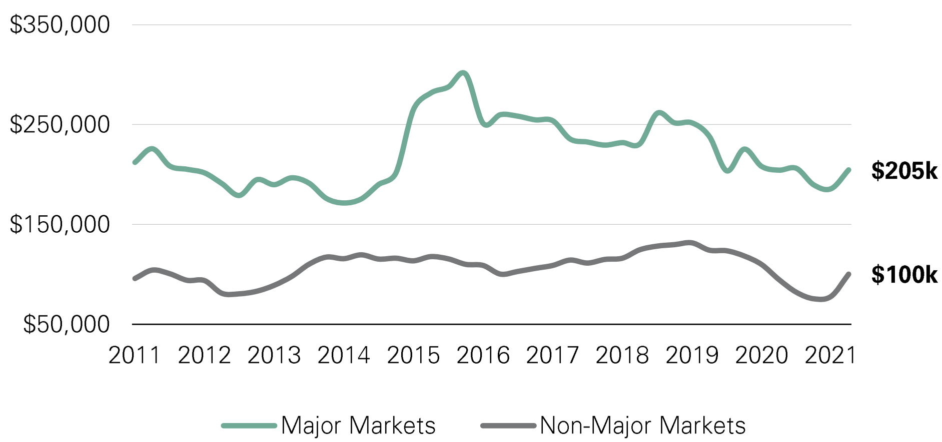
National Sales Volume



Cap Rates



Price Per Key



Source: Newmark Research, Real Capital Analytics

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