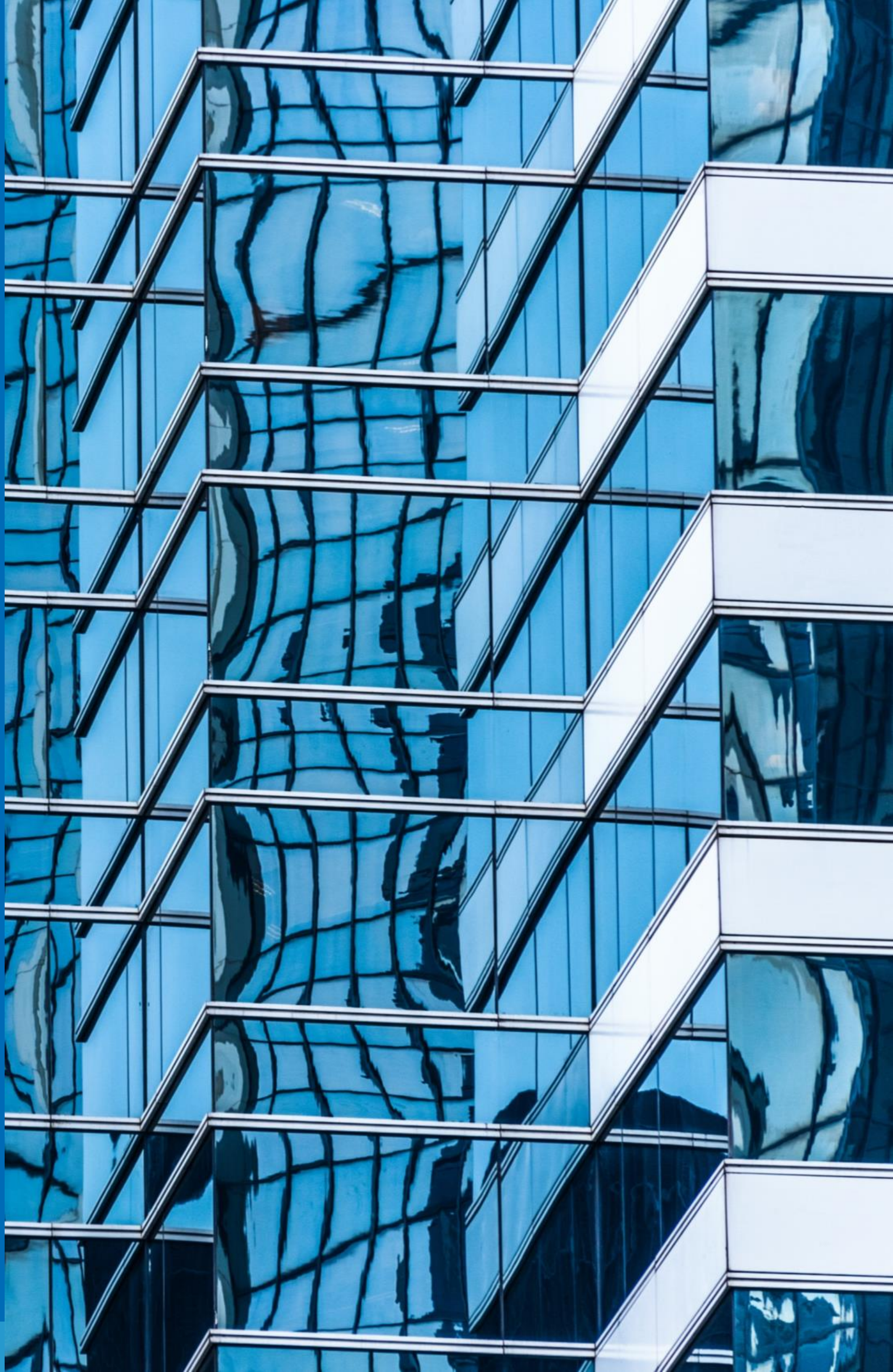
3Q21 United States Capital Markets Report

NEWMARK



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Market Observations

What We Know

- ☑ The recovery from the impacts of the pandemic is fully underway as investment volume in 3Q21 hit a record high, reaching $193.0 billion with activity increasing by over 100% year-over-year in all five major property types. Multifamily and industrial continue to receive the largest share of sales volume, at over 55% of the total year-to-date, and experience the highest total returns.
- ☑ Within industrial, the warehouse and life science/technology R&D subtypes have both appreciated by over 29% compared with their pre-pandemic peak – this is due to increases in both appraised value and price per square foot achieved in sales transactions across major and non-major markets. Similarly within multifamily, garden-style and low rise product have appreciated substantially since the start of the pandemic.
- ☑ According to NCREIF, annualized total returns for commercial real estate reached 12.1% in 3Q21, which is over 310 basis points above the 10-year average, and higher than 2019 returns. Industrial recorded the highest annualized return in 3Q21, at a staggering 32.4%.
- ☑ Global investment volume hit $1.2 trillion year-to-date and is on pace to surpass 2020 full-year volume. Investor allocation to the US CRE market reached 39% of the total, its highest point in over a decade, as the APAC and EMEA regions have been slower to recover from COVID-19.
- ☑ The amount of dry powder accumulated by North America-focused closed-end real estate funds continues to rise and is now at $236.9 billion. Leveraged at a 65% LTV, the dry powder earmarked for equity investments equates to approximately $533 billion in spending power.
- ☑ Market price discovery has improved across all property types, even for the heavily impacted hospitality and retail sectors, as fundamentals improve. National hotel occupancy in September 2021 reached 61.6%, a 27.5% increase year-over-year and only 3.8% down from February of 2020. Similarly, national retail rents grew 1.9% year-over-year in 3Q21, reflecting the improvement in brick-and-mortar retail sales in 2021.

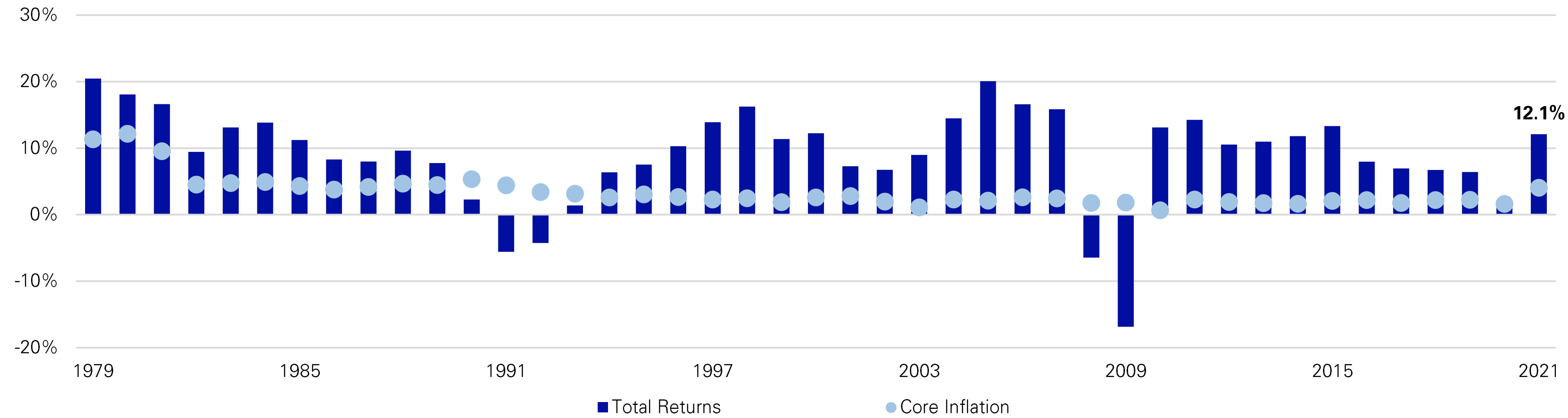
What We Expect

- ☐ Pent-up investor demand, low lending costs, record levels of fund dry powder and continued positive economic momentum are expected to support higher levels of investment volume in the remainder of 2021 and into 2022. However, the rise of Delta and other variants of COVID-19 are expected to be factored into investors' risk-return expectations, particularly for urban office, as many large companies remain flexible on return-to-work policies.
- ☐ Institutional investors expect allocations to data centers, life science, seniors housing and other alternative property types to continue to increase over time, driven by secular changes in the economy and evolving tenant expectations and preferences.
- ☐ 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.
- ☐ The sizable increase of the money supply to nearly $21 trillion as of August, the decrease in the trade-weighted value of the dollar and supply chain disruptions are expected to keep inflation higher in the short term – however, commercial real estate returns have managed to rise more quickly, offering investors substantial protection.

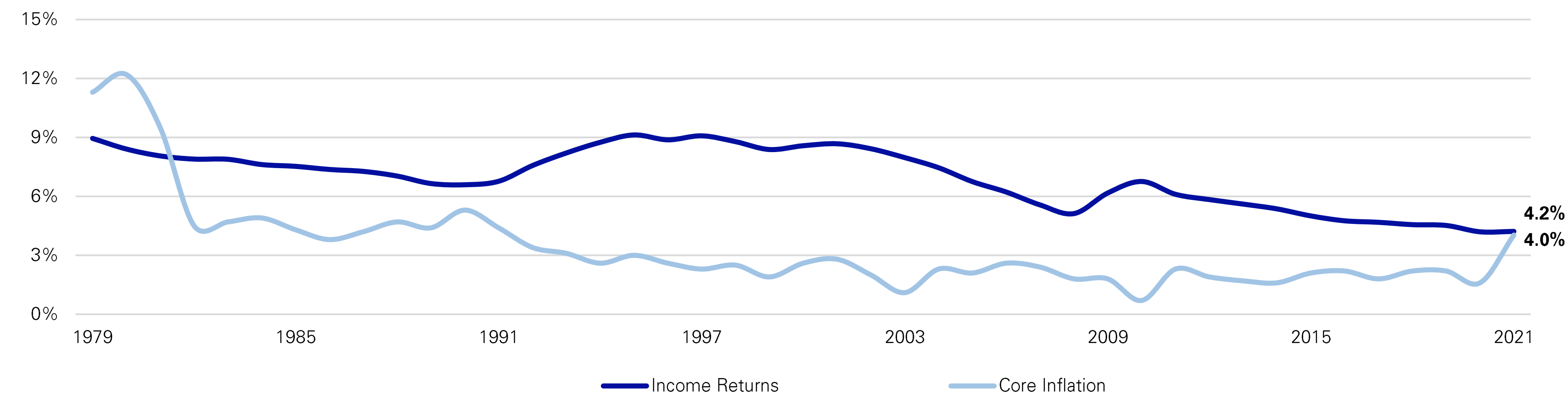
Real Estate Total Returns and Core Inflation

The year-over-year core inflation rate remains elevated at 4.0% in 3Q21. However, real estate total returns have increased substantially to 12.1%, driven by price appreciation across several property types, particularly industrial and multifamily. The relationship between core inflation and real estate total returns, which are inclusive of both 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.

Total Returns vs. Core Inflation Rate



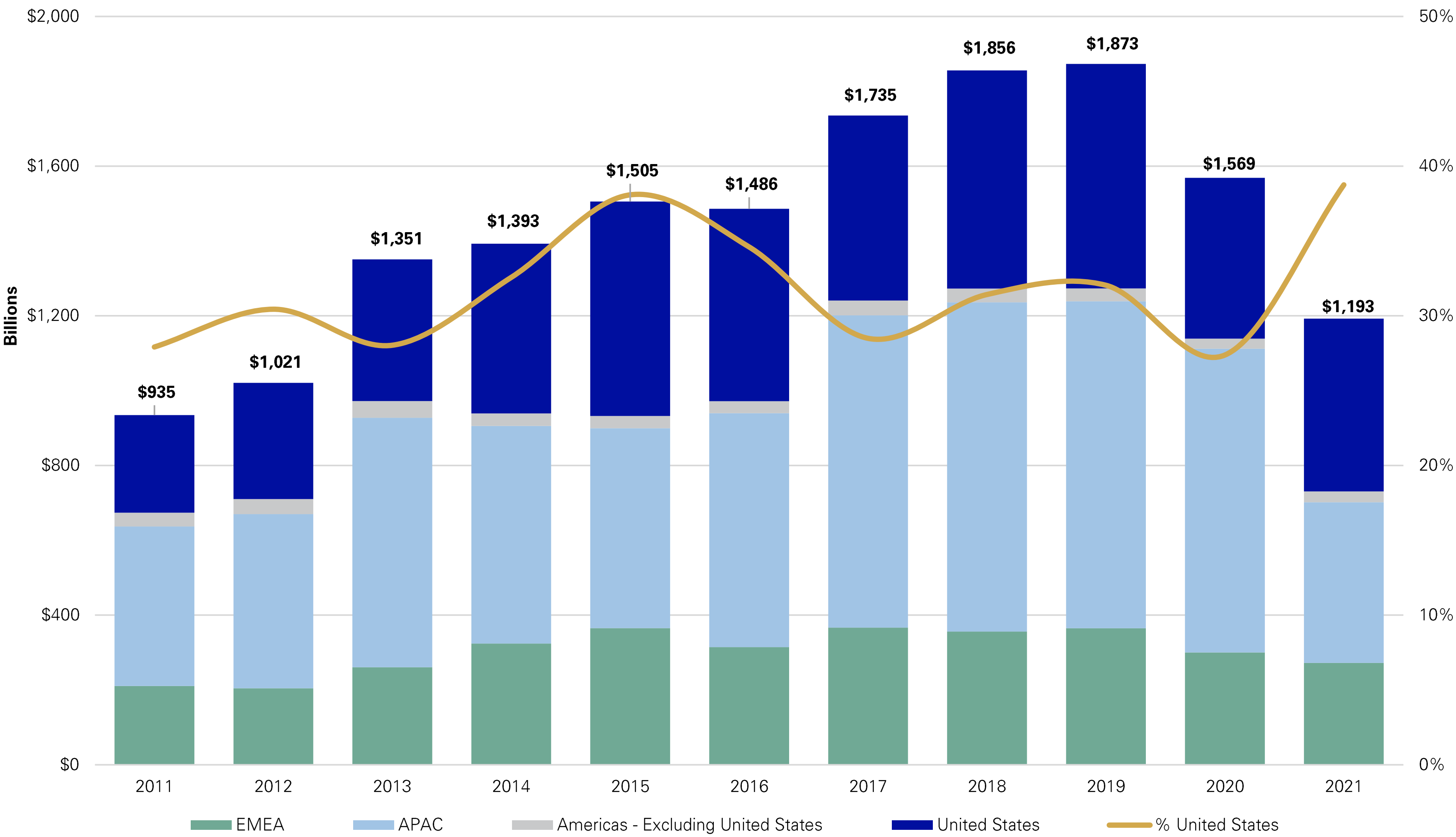
Income Returns vs. Core Inflation Rate



Source: Newmark Research, NCREIF, FRED

Global Investment Volume by Region

Global investment volume hit $1.2 trillion year-to-date and is on pace to surpass 2020 full-year volume. Investor allocation to the US CRE market has reached its highest point in over a decade at just under 40% of the total -- the US has remained a highly liquid market throughout the pandemic, with monetary and fiscal stimulus providing ample support for capital markets, both in terms of lowering borrowing costs and providing protections for landlords, investors and tenants.

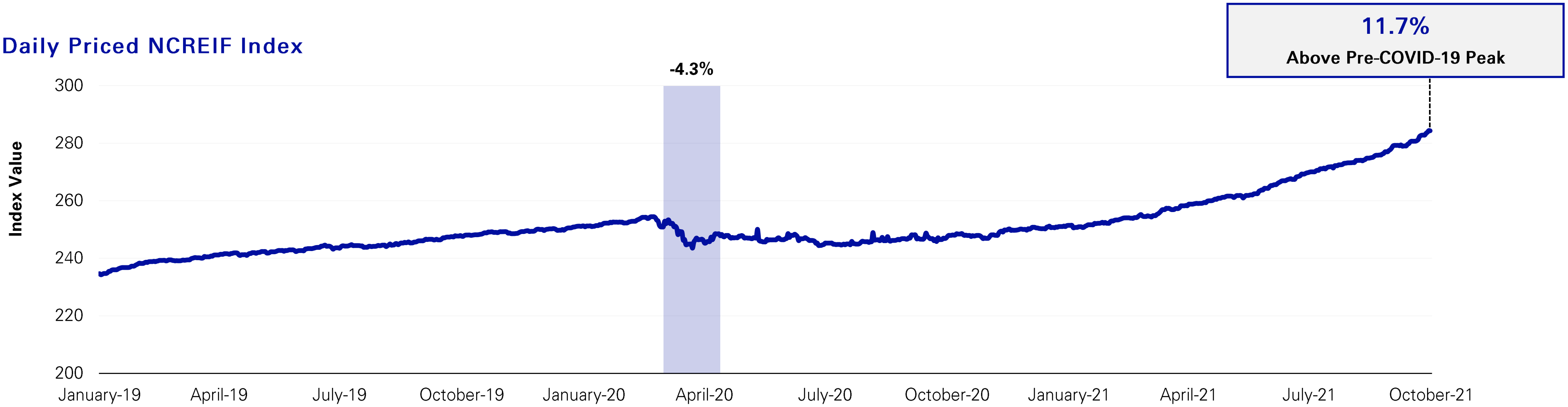


Source: Newmark Research, Real Capital Analytics

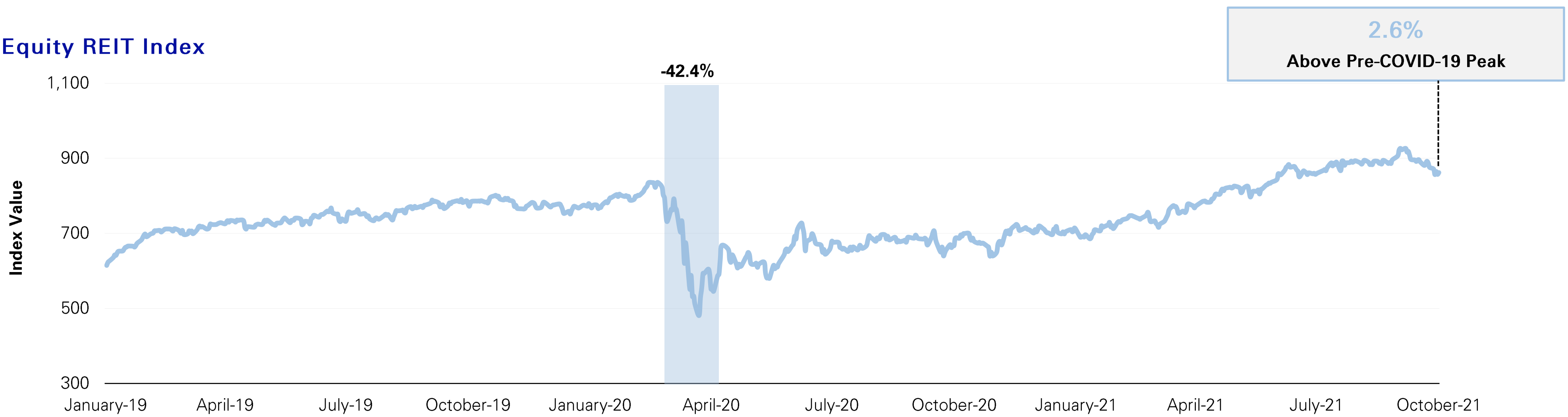
COVID-19 Impact: Recovery of NCREIF & REIT Indices

The daily NCREIF index*, which represents the daily returns of private real estate, has outpaced the public REIT market in the recovery from the pandemic, and at the end of September was 11.7% higher than its pre-COVID-19 peak in February 2020. The Equity REIT Index* has been slower to recover in part due to the prevalence of retail and hospitality REITs, which continue to be affected by negative investor sentiment, travel restrictions and setbacks due to the Delta variant.

Daily Priced NCREIF Index



Equity REIT Index



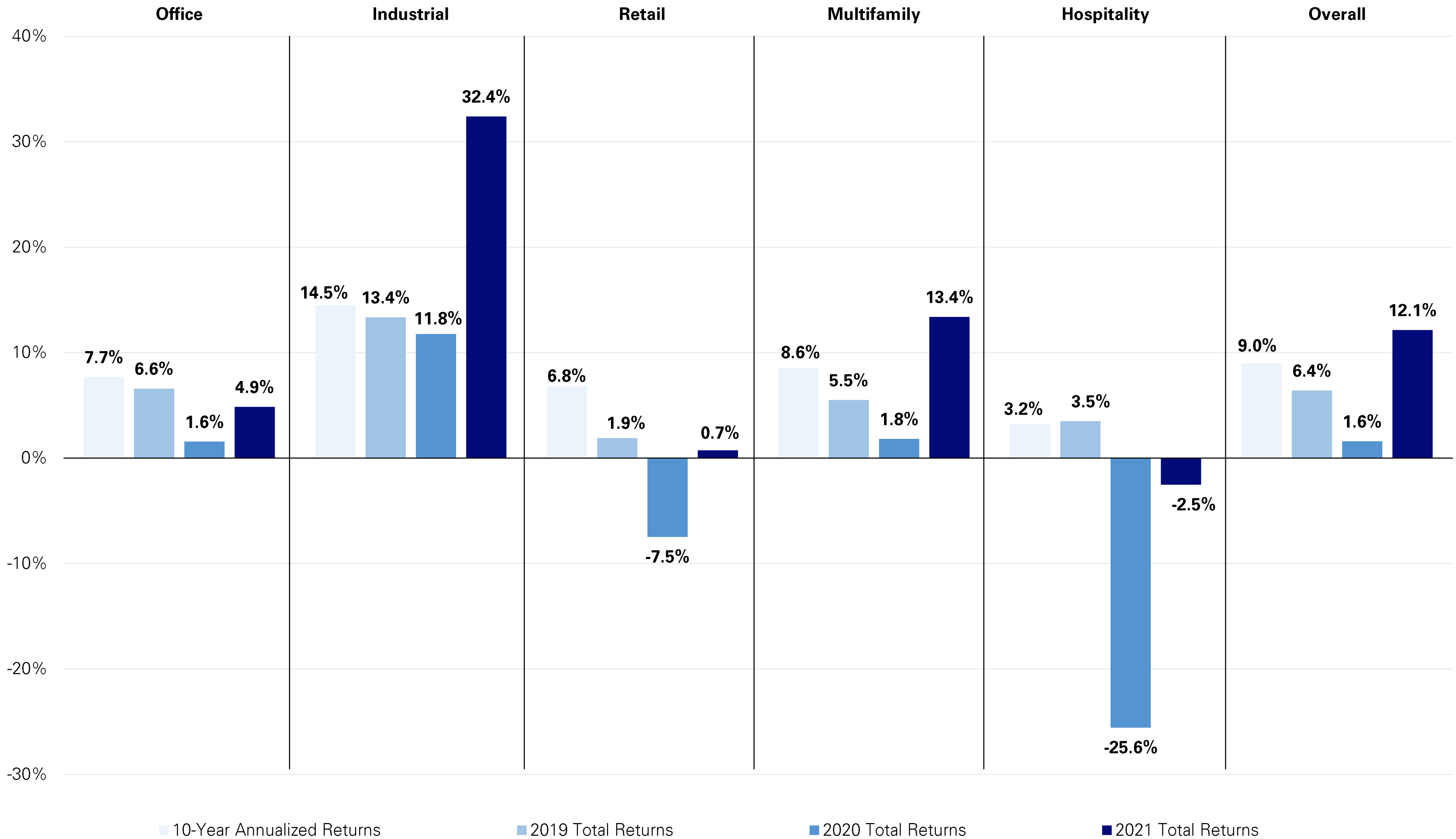
Source: Newmark Research, NCREIF, NAREIT

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

COVID-19 Impact: Total Returns by Property Type

Total Returns = Income + Appreciation

NCREIF annualized total returns have improved across all property types, hitting 12.1% overall in 3Q21. Industrial and multifamily continue to outperform the overall market, with total returns reaching 32.4% and 13.4%, respectively, while retail returns have turned positive for the first time since the pandemic began.

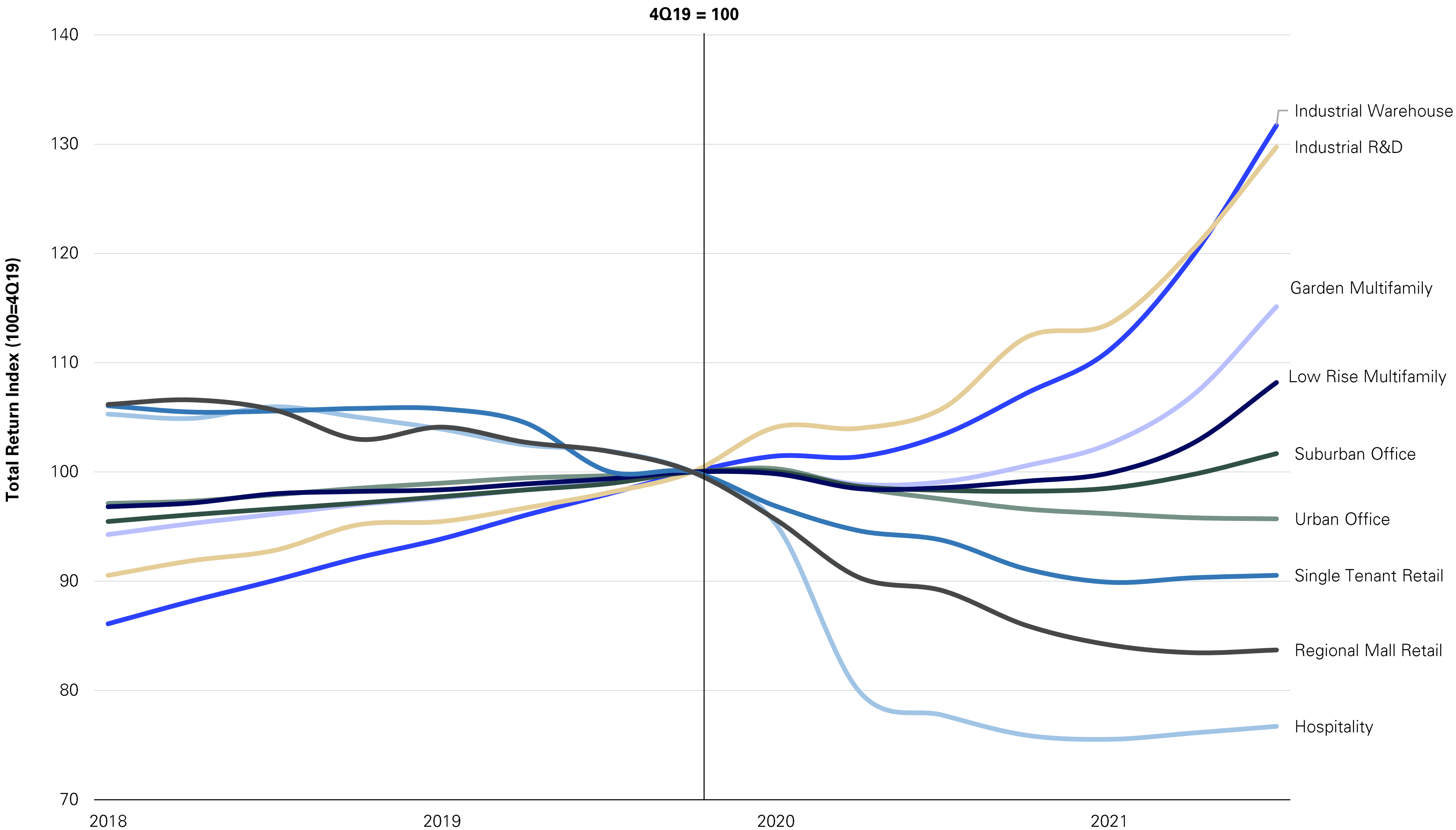


Source: Newmark Research, NCREIF

COVID-19 Impact: Divergence of Property Subtypes

NCREIF Appreciation Index (100=4Q19)

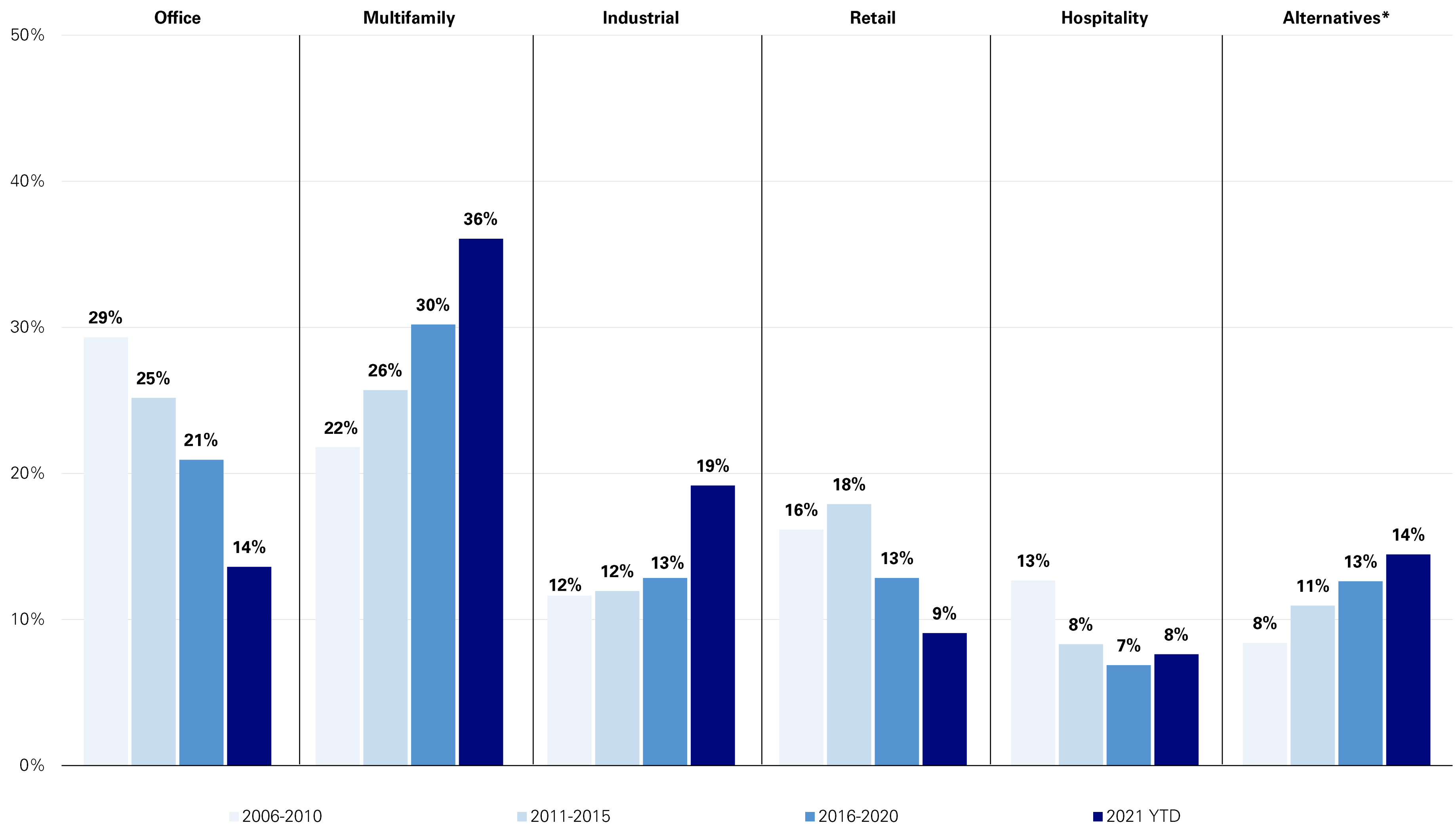
The appreciation of industrial warehouse and R&D product, as measured by NCREIF's Appreciation Index, has outpaced all other property subtypes, increasing by 31.7% and 29.7%, respectively, since 4Q19. Other property subtypes that have appreciated since 4Q19 have been garden-style multifamily (15.1%), low rise multifamily (8.2%) and suburban office product (1.7%).



Source: Newmark Research, NCREIF

Investor Allocation Over Time

Investors have allocated a combined 55.2% of their capital to multifamily and industrial product in 2021 year-to-date, with multifamily attracting the greatest share. Allocations to alternative property types such as life science, data centers, medical office and self storage have reached 14.5%, as investors continue to seek out secular growth opportunities and diversify their holdings.



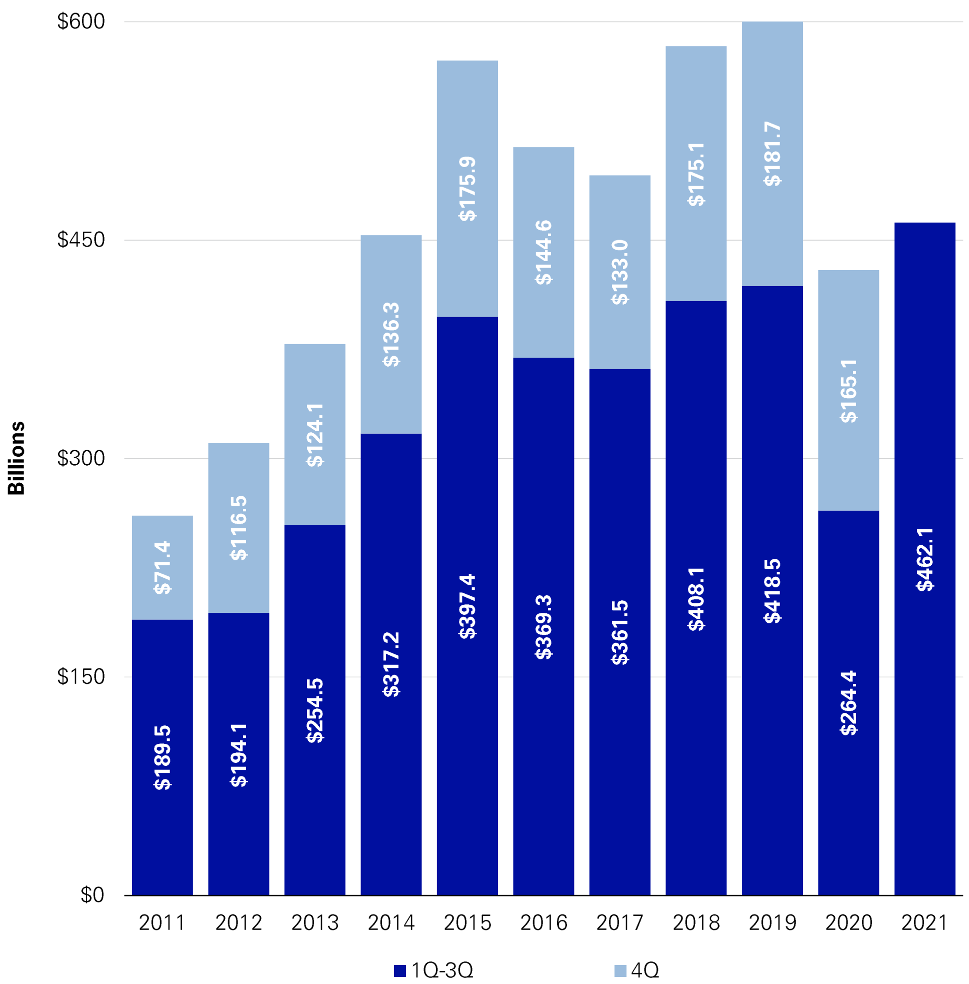
Source: Newmark Research, Real Capital Analytics

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

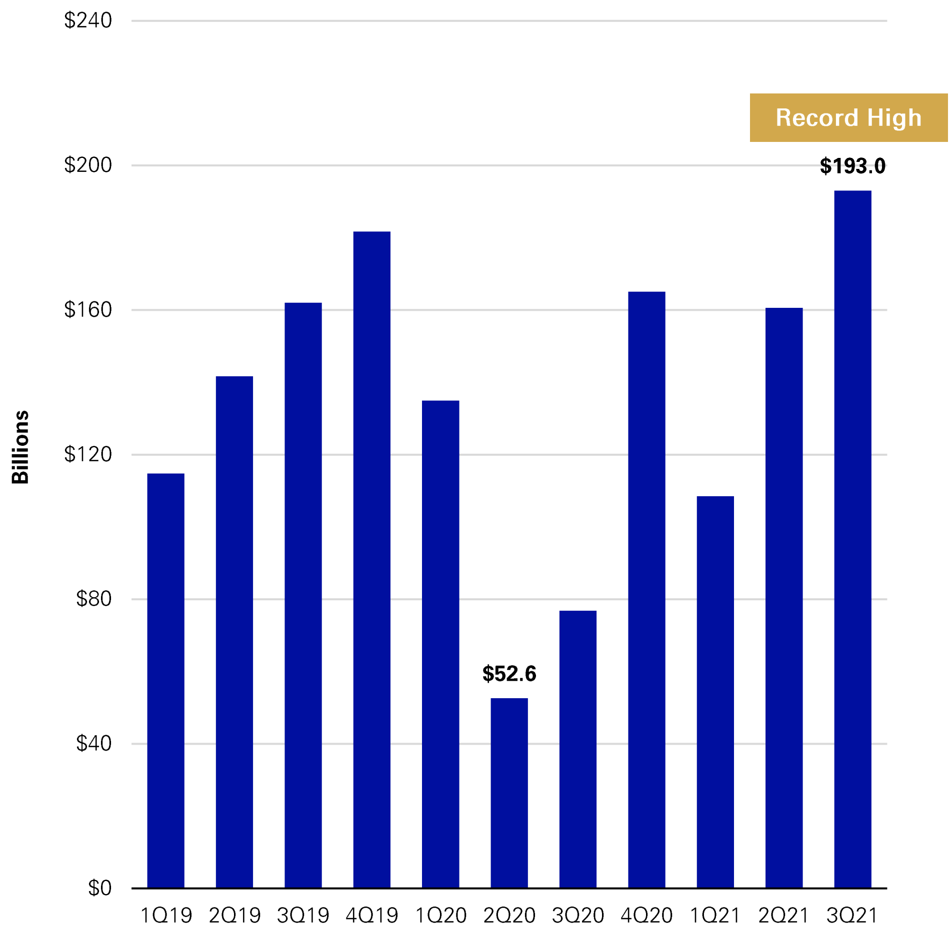
United States Total Sales Volume

Sales volume hit $462.1 billion year-to-date, increasing by 74.8% compared with the same period in 2020 and surpassing pre-COVID-19 levels. This high level of activity was bolstered by record multifamily volume and near-record industrial volume, as well as increased momentum across all other property types. Quarterly volume rose 151.3% year-over-year to $193.0 billion, a record quarterly total.

Annual Volume



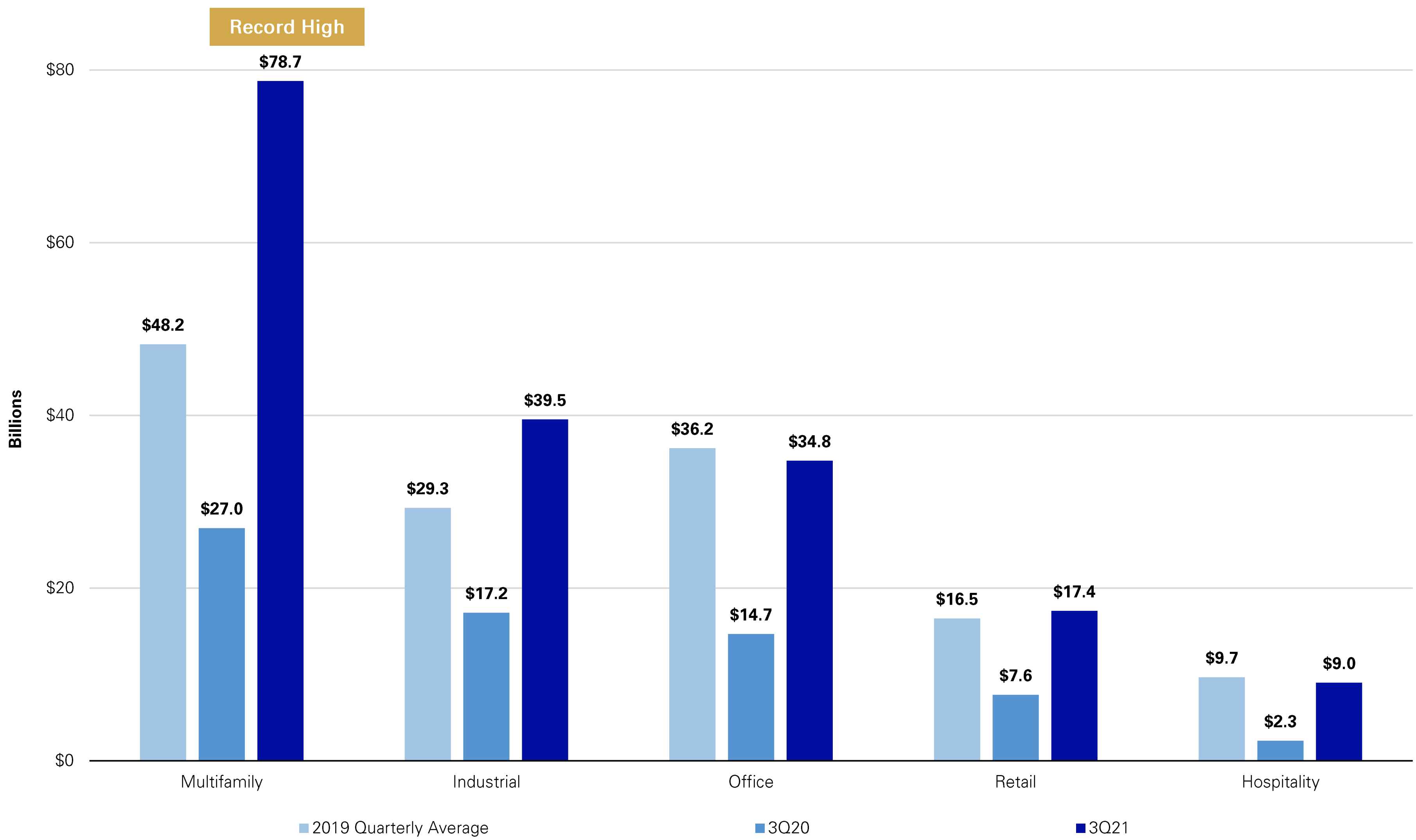
Quarterly Volume



Source: Newmark Research, Real Capital Analytics

Quarterly Sales Volume Comparison to Pre-Pandemic Levels

Multifamily quarterly volume reached a record $78.7 billion in 3Q21, representing a 192.1% increase year-over-year and attracting more investor demand than both industrial and office combined. The third quarter was also significant for retail, which attracted $17.4 billion, a 5% increase from 2019 average levels – volume was bolstered by the estimated $3.9 billion dollar merger between Kimco and Weingarten Realty.

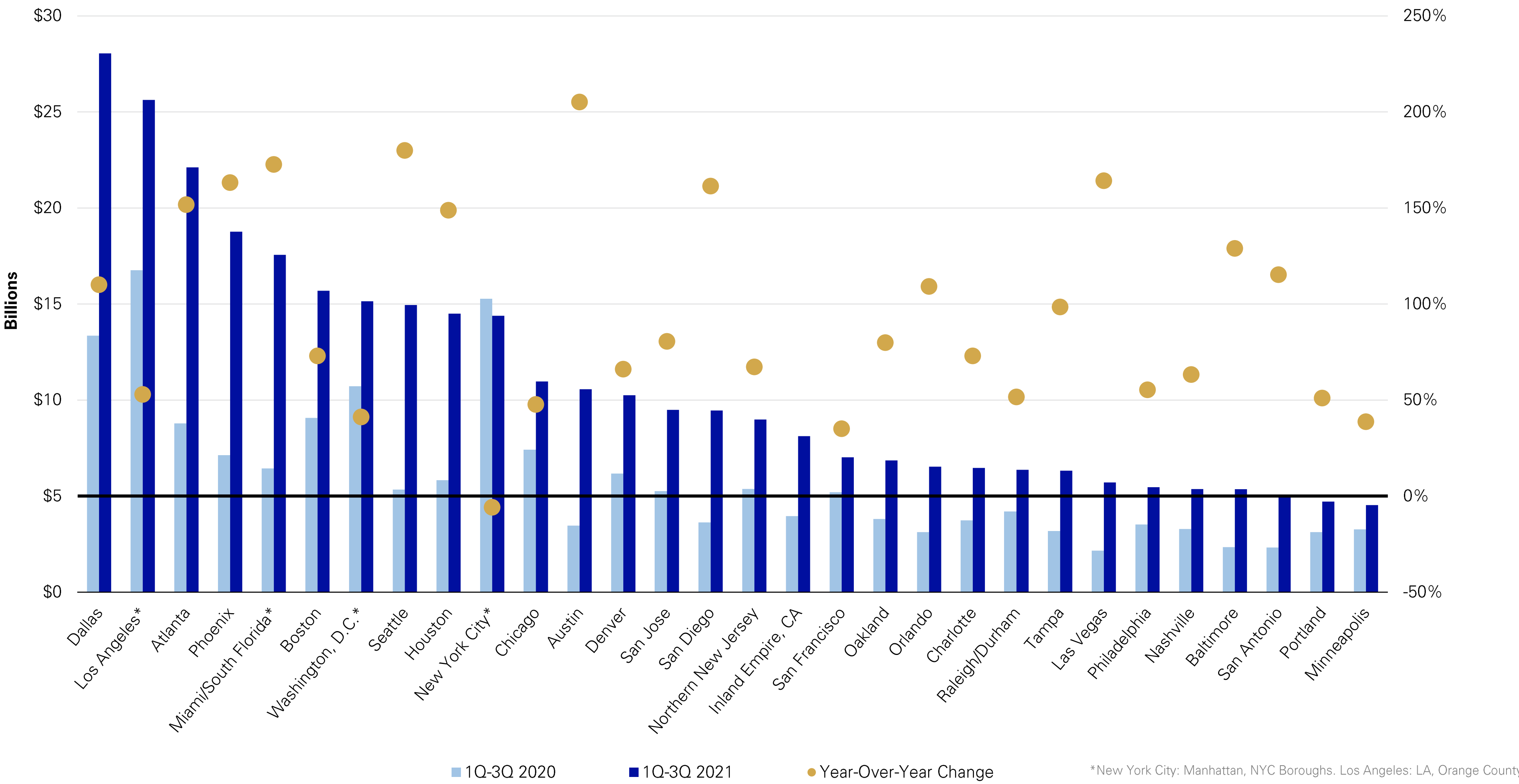


Source: Newmark Research, Real Capital Analytics

Top 30 US Markets by Investment Sales Volume

All Property Types; 1Q-3Q Volume

Dallas is on a record-setting pace, attracting $28.1 billion in investment volume year-to-date – the market has recovered over 80% of the jobs lost during the pandemic and remains a robust financial and professional services hub that continues to attract company headquarters. Many of the highest momentum markets in terms of year-over-year investment volume growth remain Sunbelt markets such as Austin (205%), Miami/South Florida (173%), and Phoenix (163%).



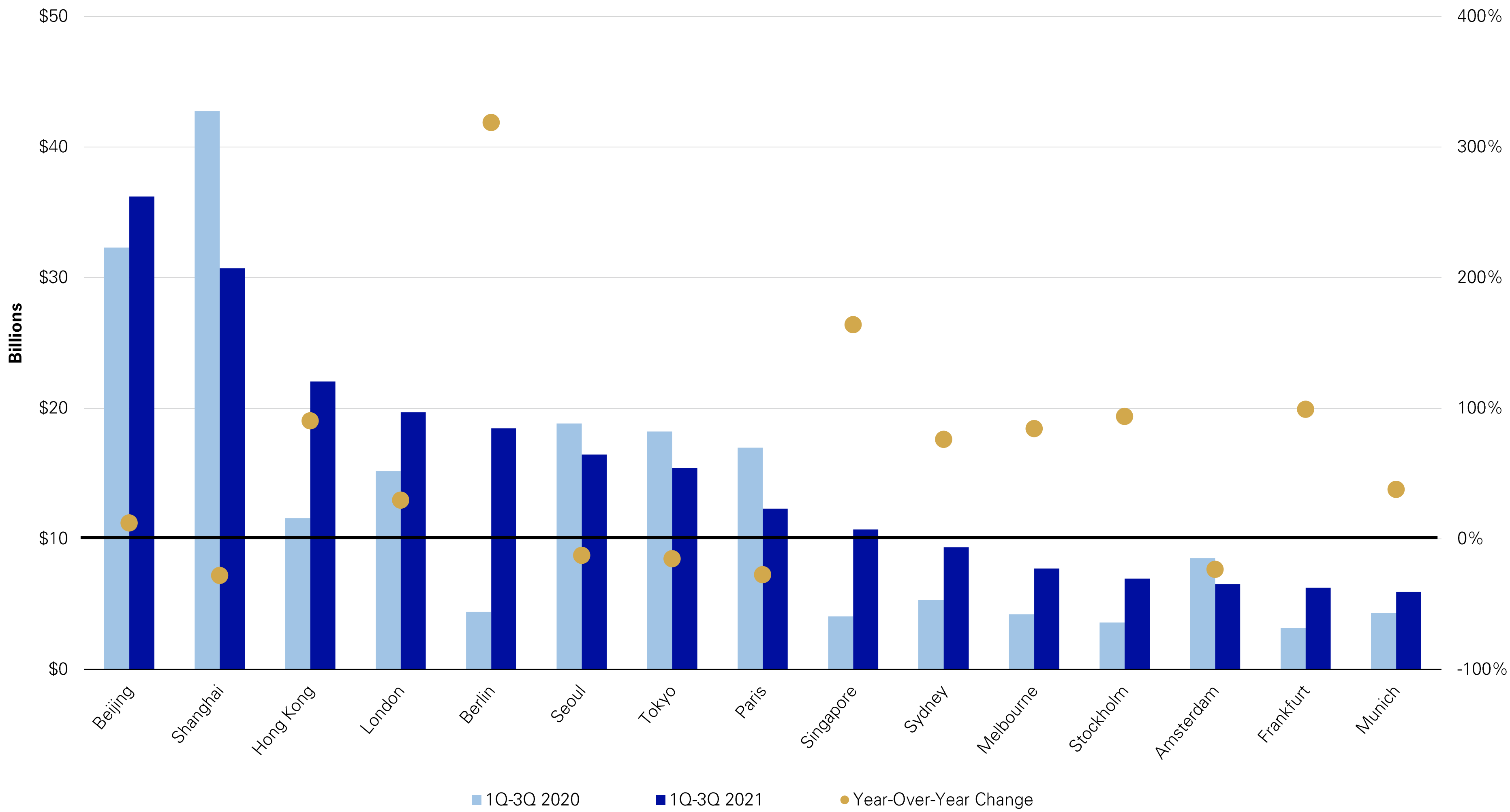
Source: Newmark Research, Real Capital Analytics

*New York City: Manhattan, NYC Boroughs. Los Angeles: LA, Orange County. Miami: Miami-Dade, Broward, Palm Beach County. Washington, DC: DC, VA suburbs, MD suburbs.

Top 15 International Markets by Investment Sales Volume

All Property Types; 1Q-3Q Volume; Excluding US Markets

The top three international markets by investment volume in 2021 are all within the Greater China Region, with Beijing representing the largest commercial real estate market in the world, recording $36.2 billion in investment volume year-to-date, a 12% increase from the same period in 2020. Despite leading the world in investment volume, Beijing and Shanghai continue to be dominated by domestic REOCs such as Sino-Ocean Land, China Poly Group, and Sunac China as barriers to entry for foreign capital remain high.



Source: Newmark Research, Real Capital Analytics

Top United States Transactions

3Q21; All Property Types; Closed Transactions

Single Asset Trades

Property	Price
Spring Creek Towers (Partial Interest) Brooklyn, New York Multifamily Buyer: Settlement Housing Fund	**$1.3 B**
One Memorial Drive Cambridge, Massachusetts Office Buyer: MetLife, Norges	**$825 M**
110-130 Holger Way (HQ @ First) San Jose, California Office Buyer: KKR	**$535 M**
2001 8th Avenue (The West 8th Building) Seattle, Washington Office Buyer: Kilroy Realty Corporation	**$490 M**
1001 4th Avenue (Safeco Plaza) Seattle, Washington Office Buyer: Boston Properties, GIC, CPP Investment Board	**$462 M**

Portfolio Trades

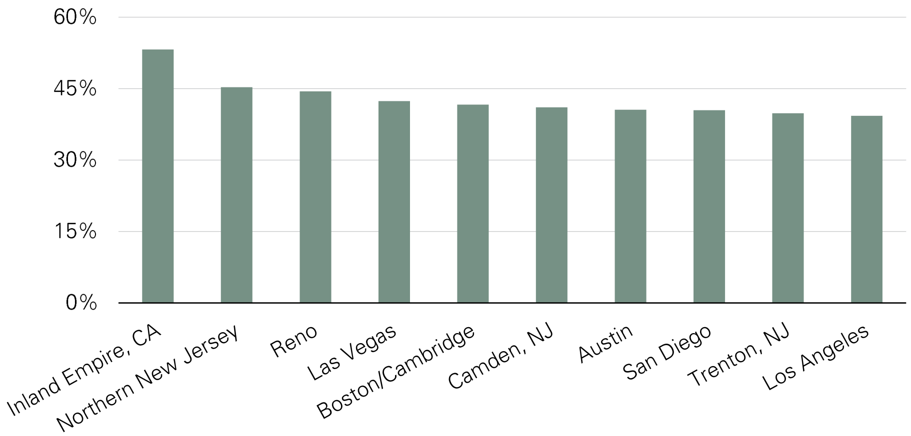
Property	Price
Las Vegas Casino 2 Properties Hospitality/Casino Buyer: Blackstone	**$3.9 B**
National Distribution 149 Properties Industrial Buyer: Oxford Properties Group	**$2.2 B**
National Seniors Housing 10,394 Units Seniors Housing Buyer: Welltower	**$1.6 B**
San Diego Multifamily 5,800 Units Multifamily Buyer: Blackstone	**$1.5 B**
National Industrial 117 Properties Industrial Buyer: Mapletree Investments	**$1.3 B**

Source: Newmark Research, Real Capital Analytics

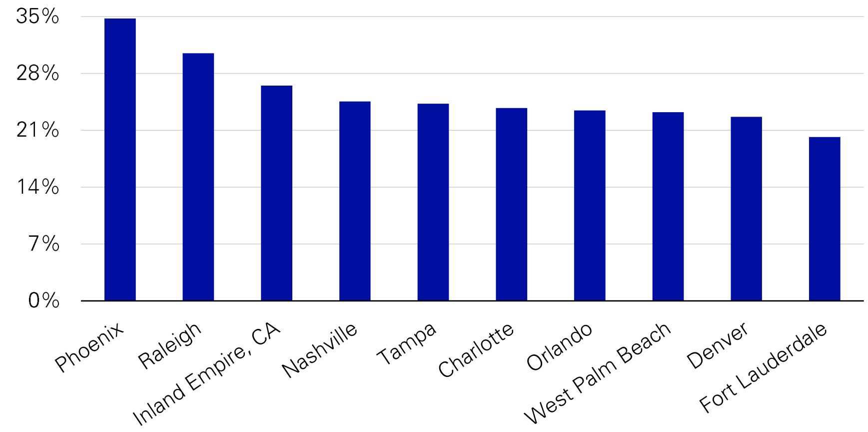
Top Ten Markets by Total Returns and Property Type

The acceleration of industrial total returns has reached unprecedented levels with markets such as the Inland Empire and Northern New Jersey recording annual returns above 45%, driven almost entirely by soaring appreciation, both through appraisals and sales. Office total returns have improved for both urban and suburban product, with life science-centric suburban markets such as San Diego and Boston/Cambridge recording 20%+ annual returns.

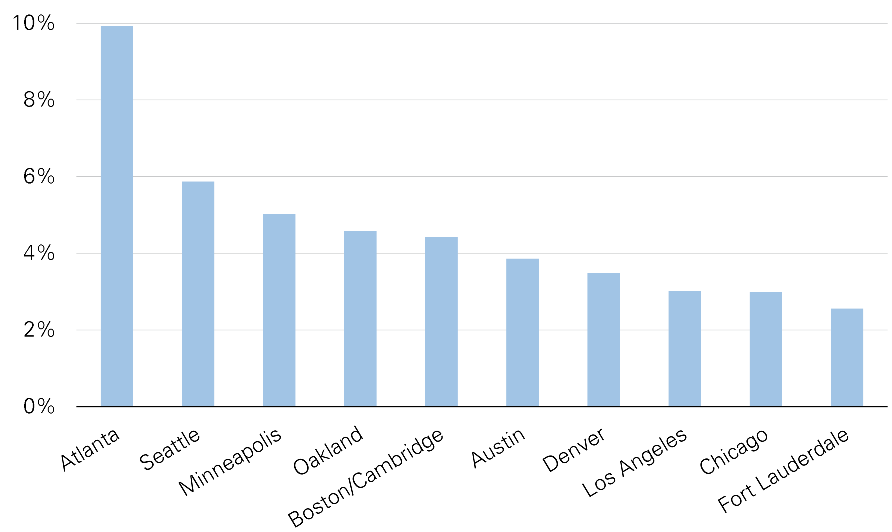
Industrial



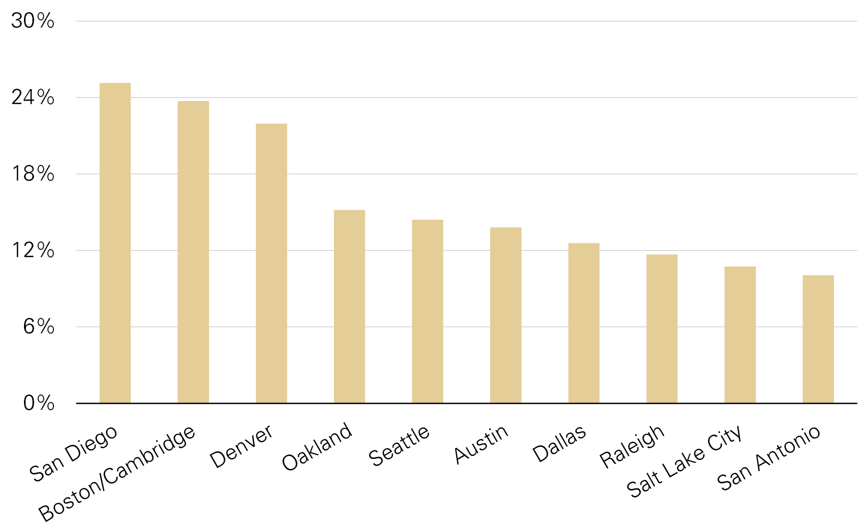
Multifamily



Urban Office



Suburban Office

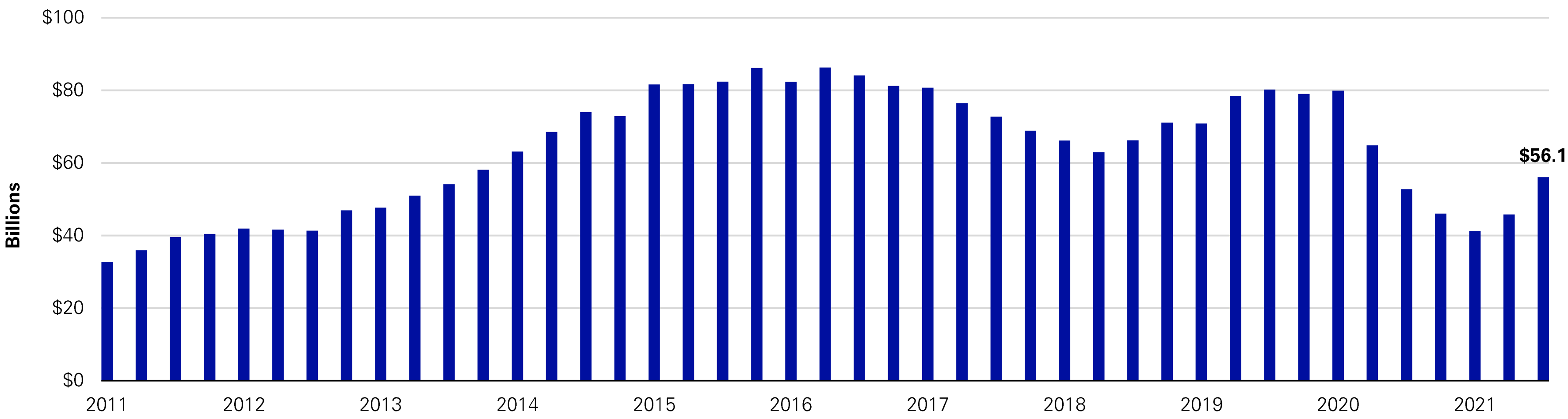


Source: Newmark Research, NCREIF

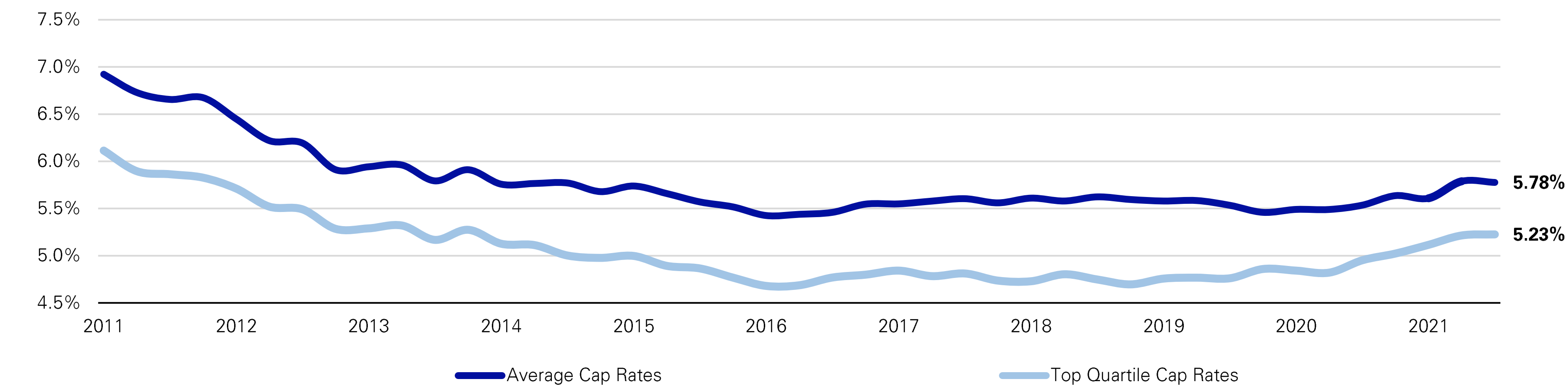
Gateway Office Market Conditions

The gateway office market* recovery has accelerated, with trailing 12-month (TTM) investment volume reaching $56.1 billion, an increase of 22.5% compared with the TTM ending on 2Q21. Cap rates for both average and top quality office product have stabilized, signaling that the pandemic's impact on pricing has plateaued. While the Delta variant remains a headwind, office occupancy has climbed across the largest markets such as New York City, where keycard data indicates an occupancy level of over 30% as of October.

Trailing 12-Month Sales Volume



Cap Rates



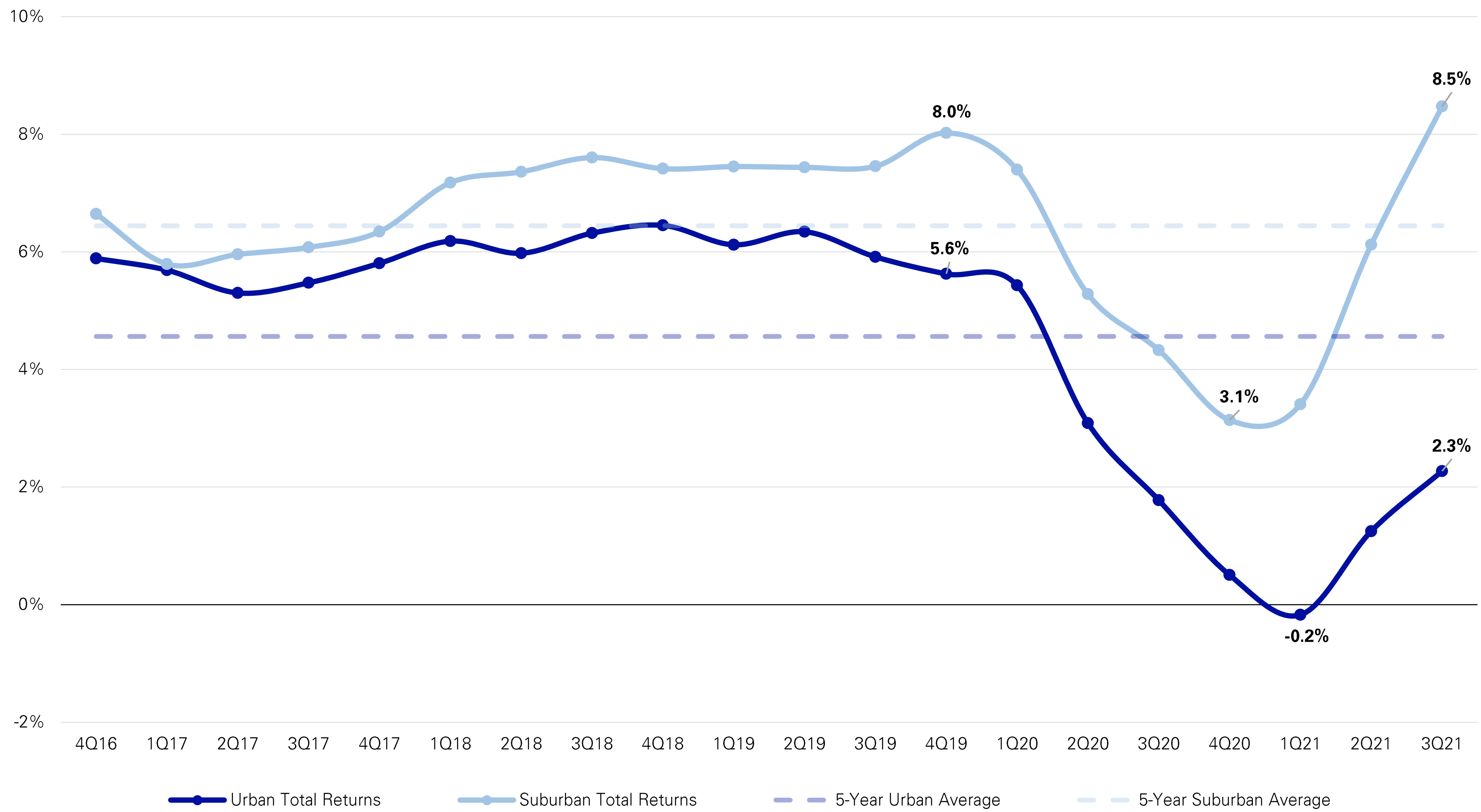
Source: Newmark Research, Real Capital Analytics, Kastle Systems

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

Suburban vs. Urban Office Total Returns

Rolling Annual Returns

While the pandemic has had a significant impact on both urban and suburban office total returns, suburban total returns have not only recovered faster and more sharply, averaging a 620 basis point premium to urban returns in 3Q21, but are now higher than 2019 peak levels. Despite urban returns lagging, urban markets have gained momentum in 2021, as improving tenant fundamentals and leasing activity have steadied valuations and attracted investors.

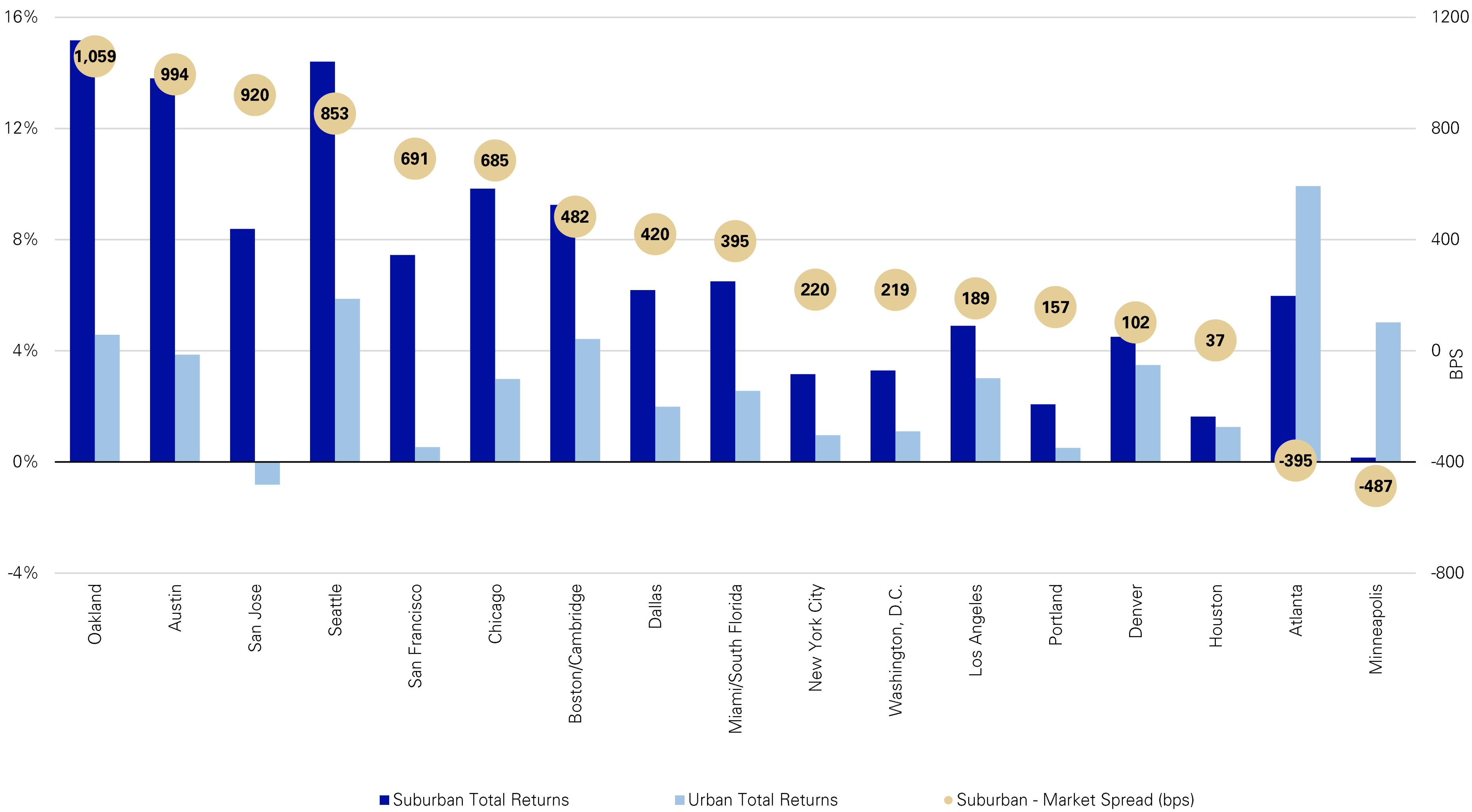


Source: Newmark Research, NCREIF

Suburban vs. Urban Office Total Returns by Market

Select Markets; One-Year Returns

Suburban office product continues to outperform urban product in the majority of markets – the highest spreads have occurred in the Southwest and West in markets such as Oakland, Austin, San Jose, Seattle and San Francisco, where single-tenant technology-leased properties in the suburbs continue to attract strong investor demand, while multi-tenant urban assets have suffered from higher-than-average vacancy and attrition of tenants.

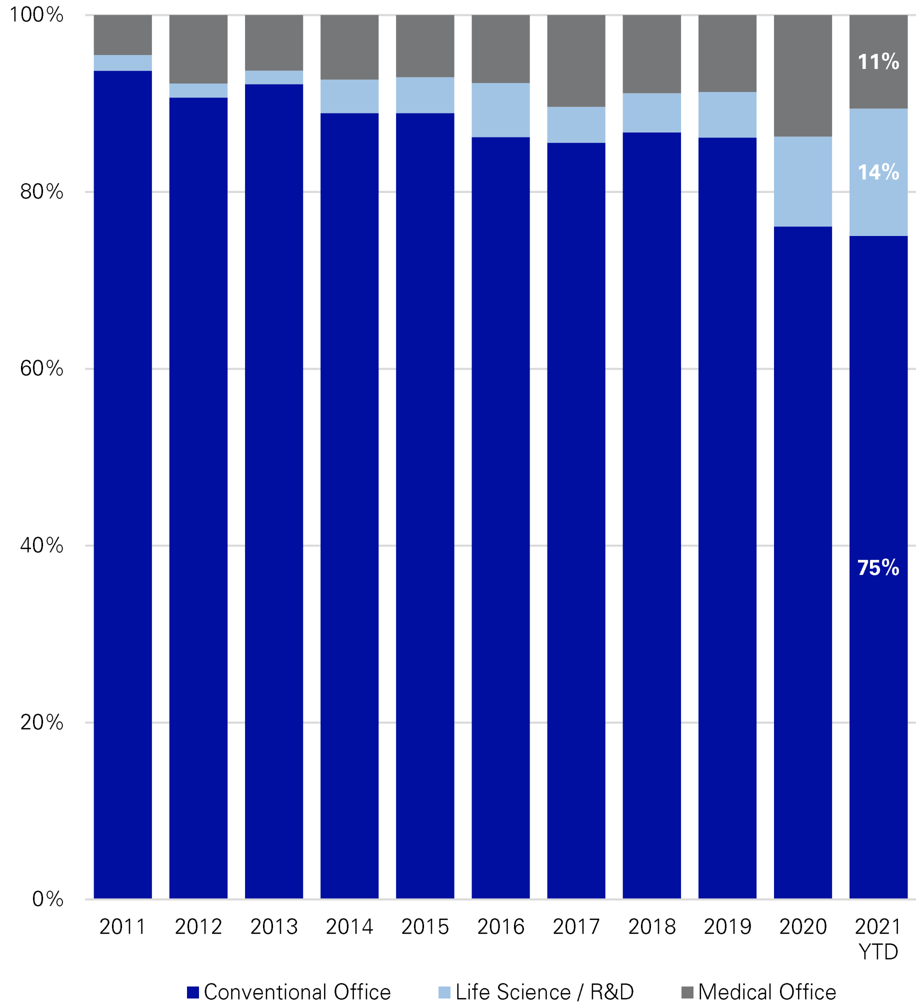


Source: Newmark Research, NCREIF

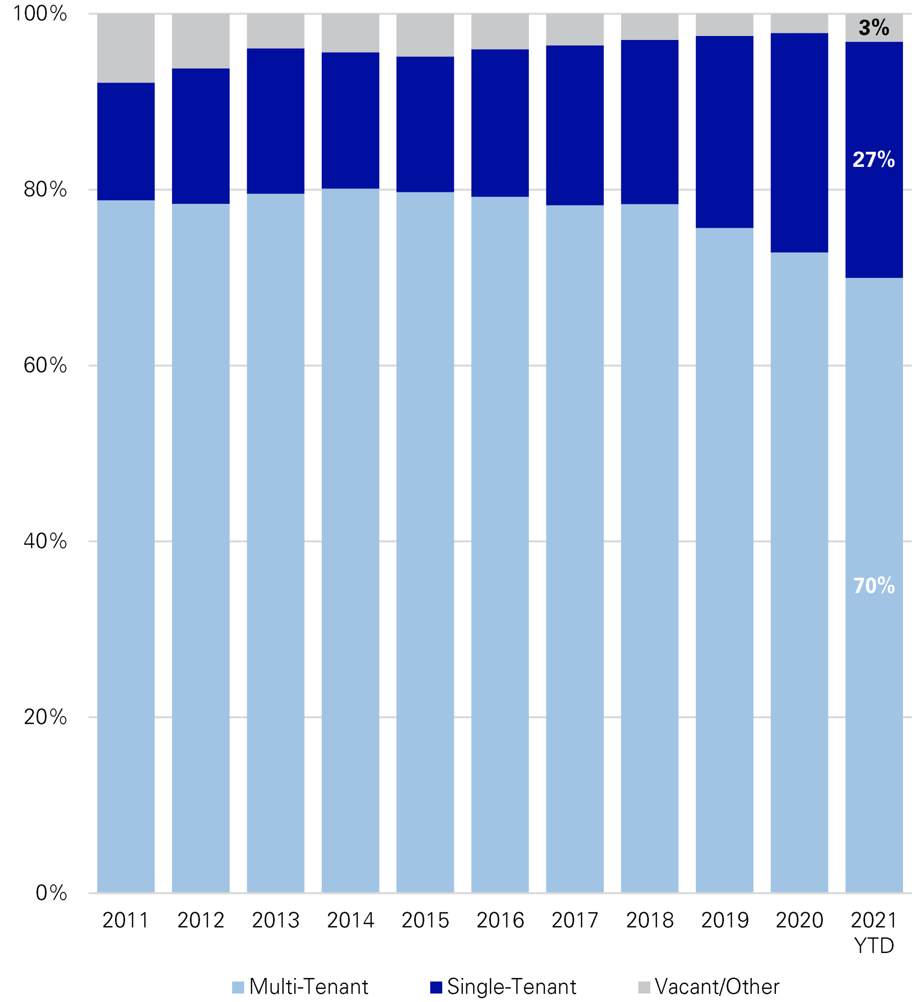
Changes in Office Investor Allocations

Pandemic market conditions have prompted investors to increase allocations to thematic growth sectors like medical office and life science/ laboratory product, which combined represent an estimated 25% of the office market in 2021 year-to-date. Investors have also increased their allocation to defensive single-tenant product leased to credit tenants, which typically offer more stable and predictable cash flow in comparison to multi-tenanted product.

Medical Office & Life Science



Multi-Tenant vs. Single-Tenant

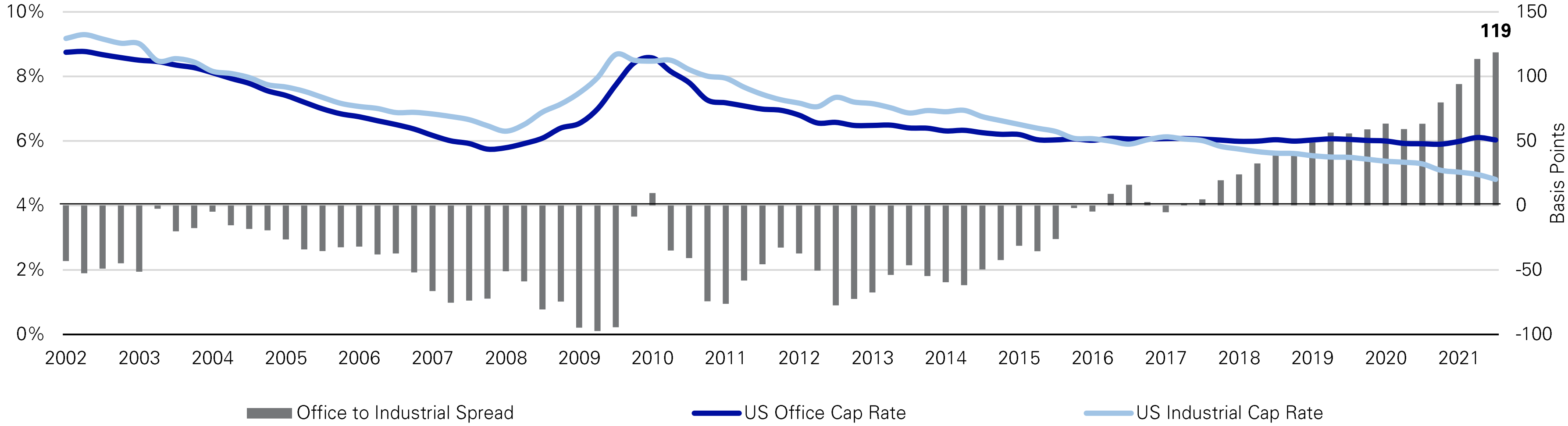


Source: Newmark Research, Real Capital Analytics

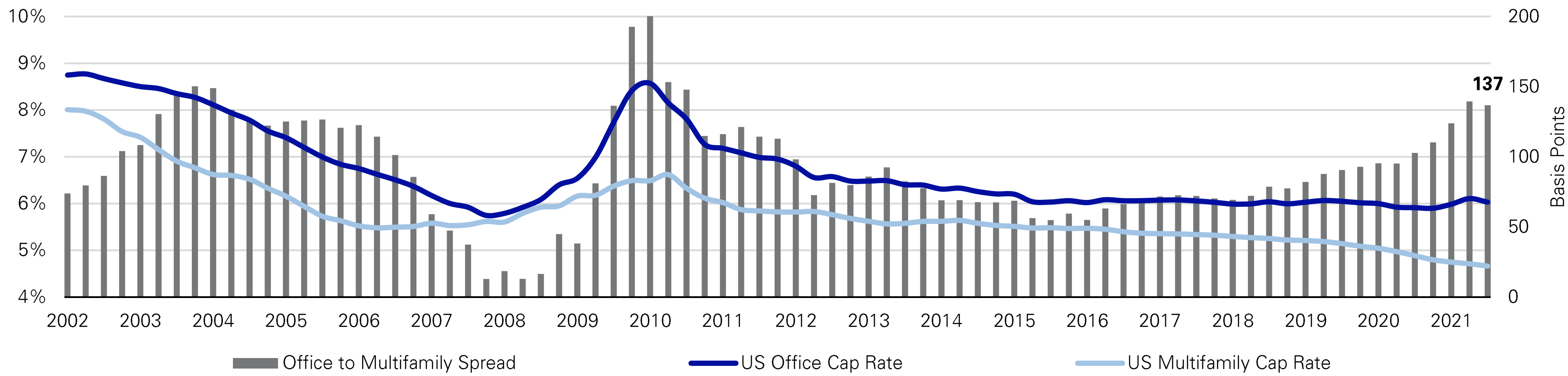
Office Cap Rate Spread to Multifamily and Industrial

Continued cap rate compression in both industrial and multifamily has widened the spread with office cap rates, creating opportunities for office acquisitions at historically attractive yields. The spread between multifamily and office cap rates has not been as high since 2010, when office values declined by over 30% nationwide. While the COVID-19 pandemic has negatively impacted office values, the impact has not been on the same scale, with values declining by just 3% nationally.

Office-Industrial Cap Rate Spread



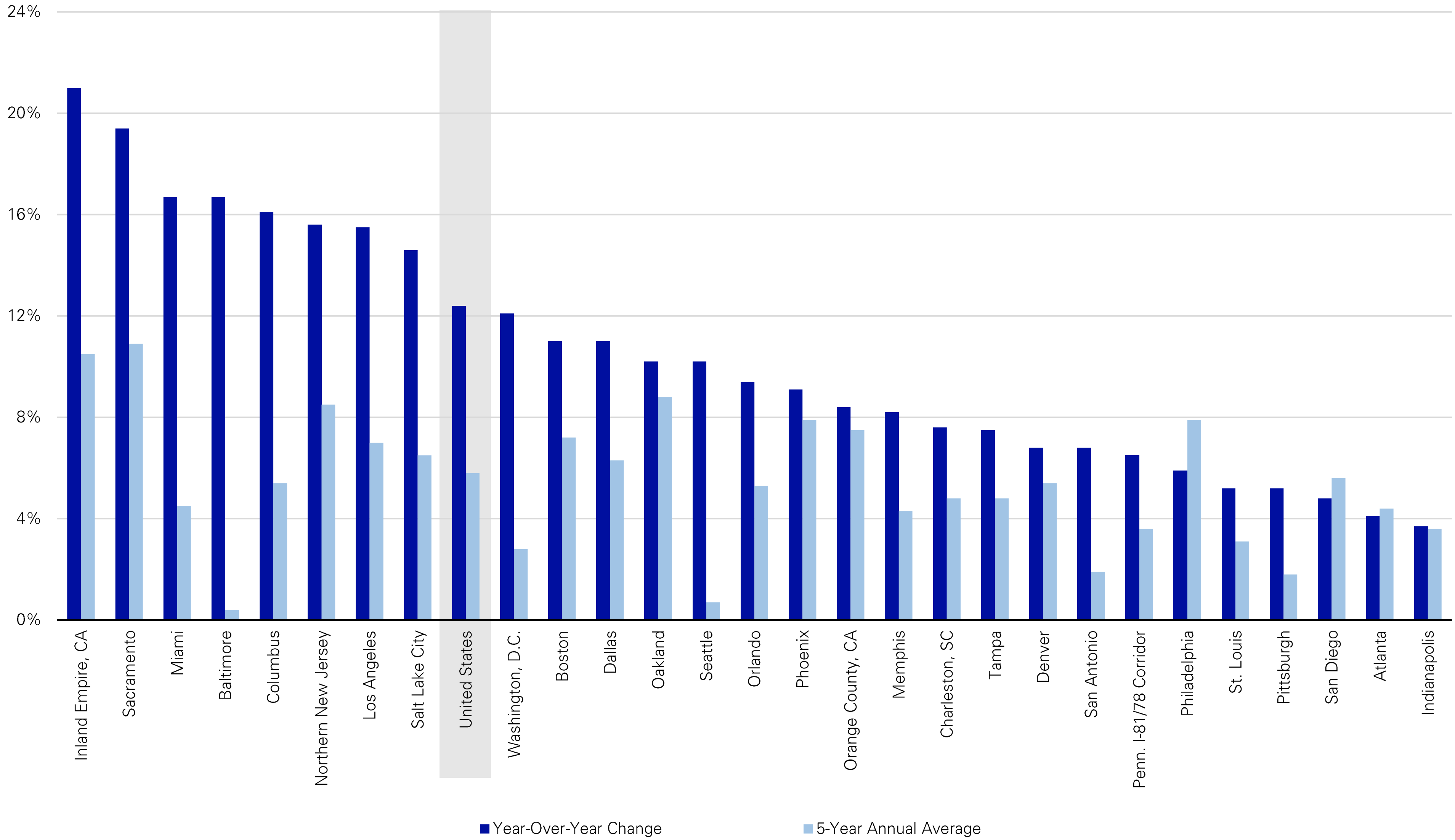
Office-Multifamily Cap Rate Spread



Source: Newmark Research, Real Capital Analytics ($25m+ Transactions)

Industrial Rent Growth by Market

Markets across the US have seen industrial rents surge in the past year, most above the five-year annual average, as demand for space outpaces deliveries. Year-over-year rent growth was highest in markets like Los Angeles and the adjacent Inland Empire (CA), Miami and Northern New Jersey, all of which have a sub-3.0% vacancy rate and where space to warehouse the vast increase in imports is at an absolute premium.

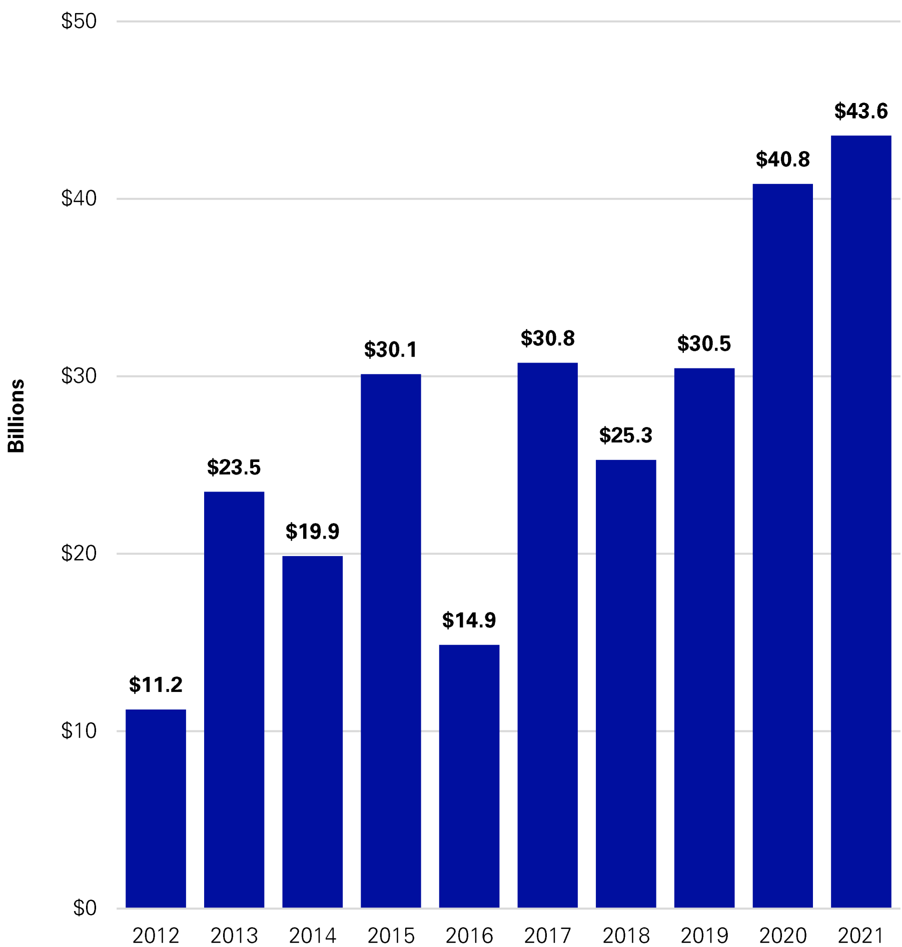


Source: Newmark Research

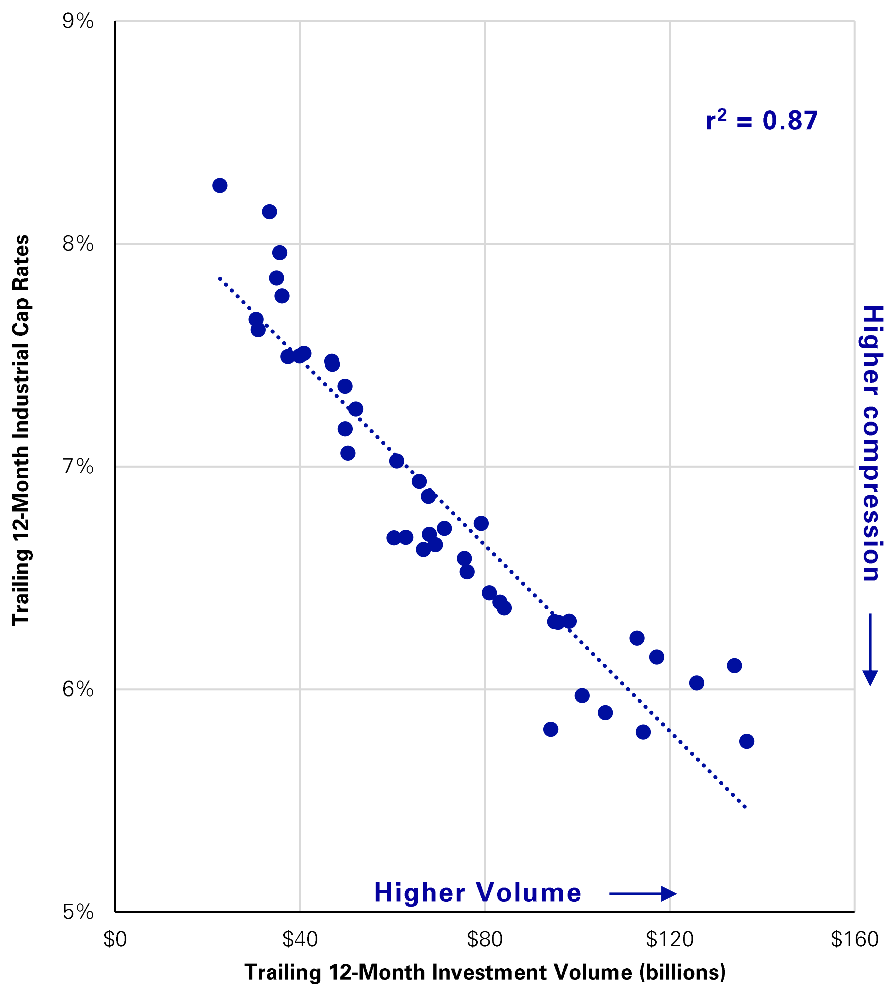
Industrial Fundraising and Investments Drive Compression

Fundraising activity by closed-end funds targeting industrial real estate has increased by 6.7% in 2021, bringing the total to $43.6 billion. With the amount of capital earmarked for industrial increasing, downward pressure on cap rates is expected to continue, with every billion dollar increase in investment sales corresponding to a two-basis point decline in cap rates.

Industrial Fundraising Activity*



Past 10-Year Industrial Cap Rates vs. Investment Sales



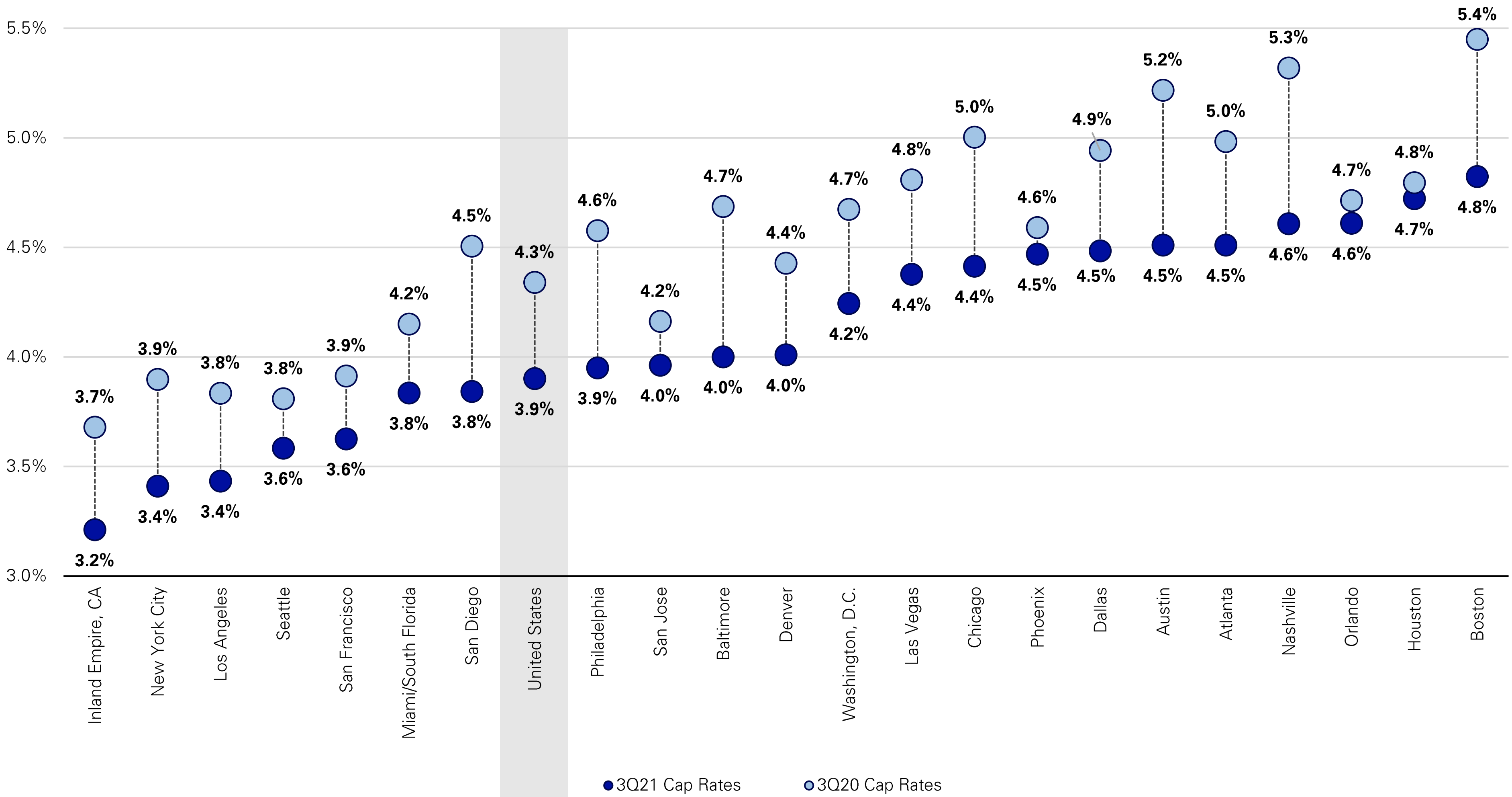
Source: Newmark Research, Real Capital Analytics, Preqin

*Aggregate Fundraising Targets for Closed-End Funds Targeting industrial

Industrial Warehouse Cap Rate Compression

Select Metropolitan Areas

Sustained demand for industrial warehouse product has led to an average 44 basis points of cap rate compression in the US in 3Q21 compared with 3Q20. In the coastal gateway markets such as New York City, Los Angeles, Seattle and San Francisco, warehouse cap rates for institutional-quality product 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.

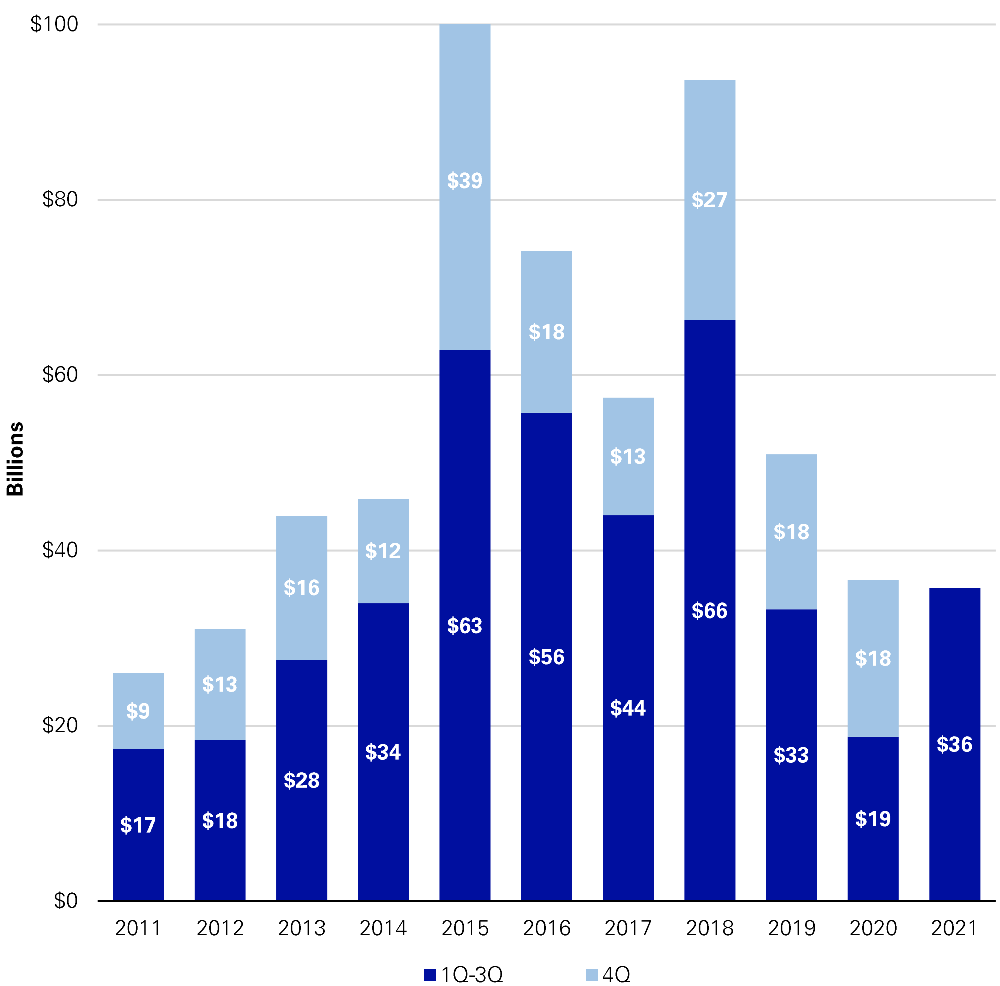


Source: Newmark Research, NCREIF

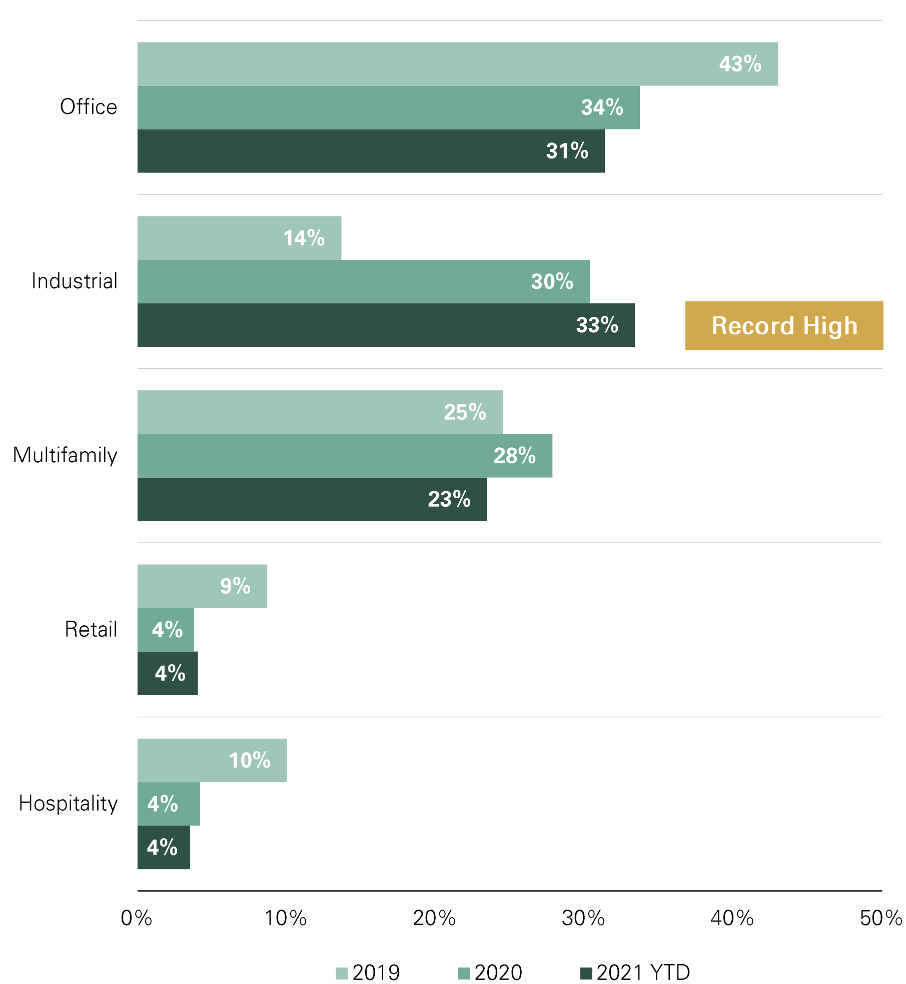
Composition of International Capital

Direct acquisitions by international groups reached $35.8 billion in 2021, a 90.5% increase year-over-year compared with the same period in 2020. While initially slower to invest in the US market in part due to travel restrictions and inability to tour assets, international groups have returned with investors from Singapore, Canada and the Middle East being the most active. For the first time on record, international capital has favored industrial over all other property types, acquiring $11.9 billion year-to-date, or 33% of the total activity.

Investment Volume



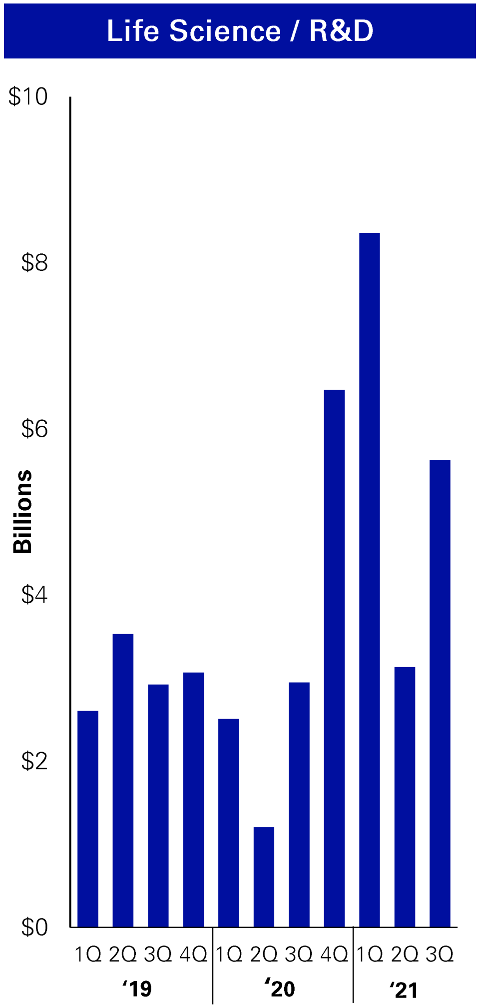
Allocation of Capital

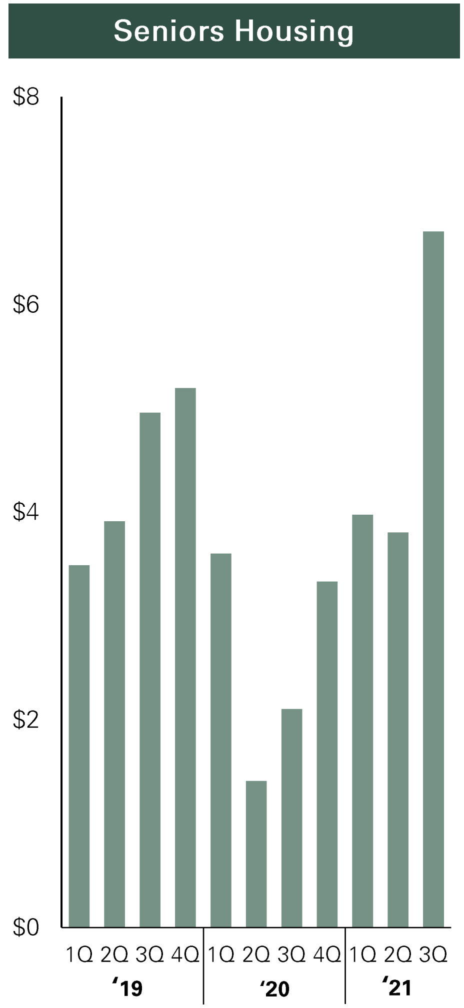


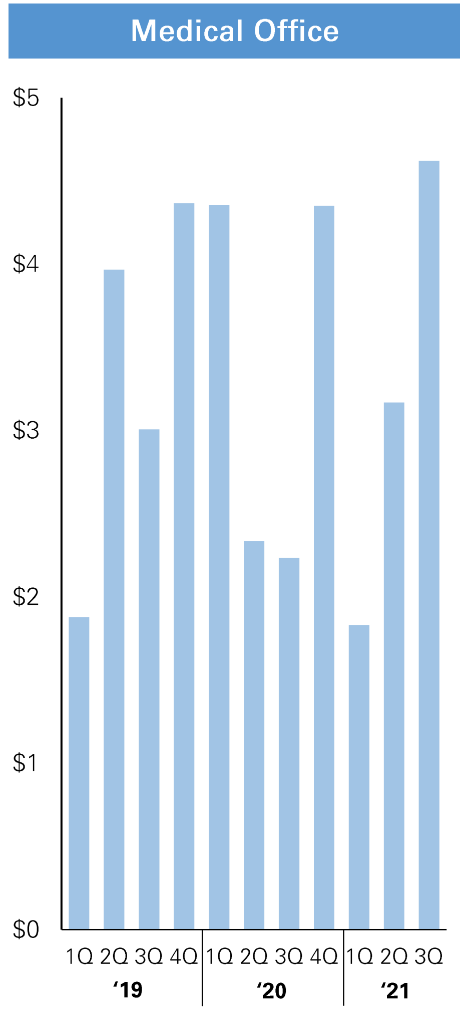
Source: Newmark Research, Real Capital Analytics

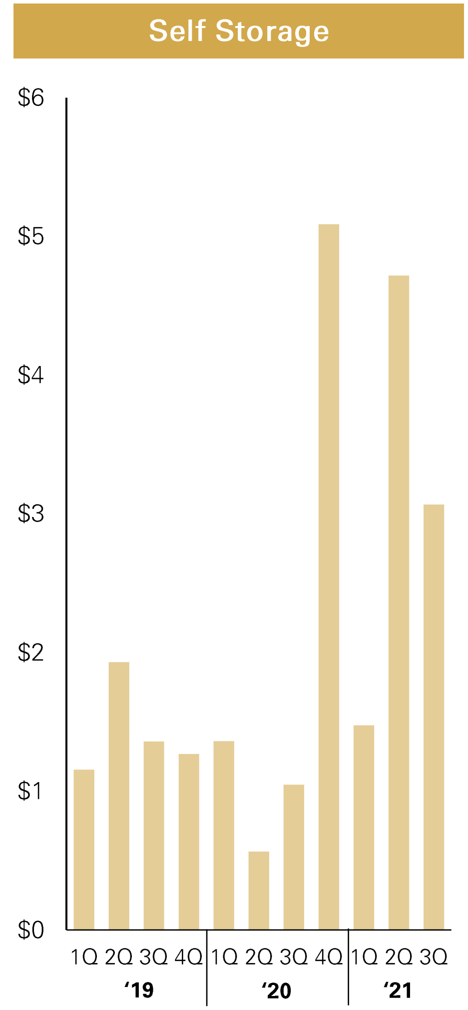
Alternative Property Types

The four largest alternative property type segments have attracted an unprecedented level of institutional investor demand in the pandemic investment landscape, with sales volume hitting a combined $50.4 billion in 2021 year-to-date. Life science/R&D alone recorded $17.4 billion in investment sales year-to-date, as investors seek out secular growth sectors of the economy and as fundraising activity and dry powder remain at record high levels.







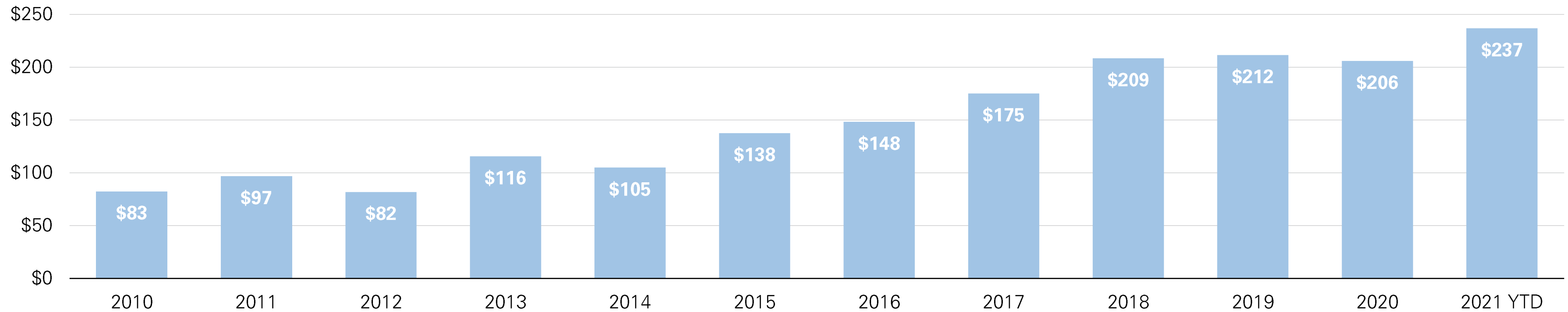


Source: Newmark Research, Real Capital Analytics

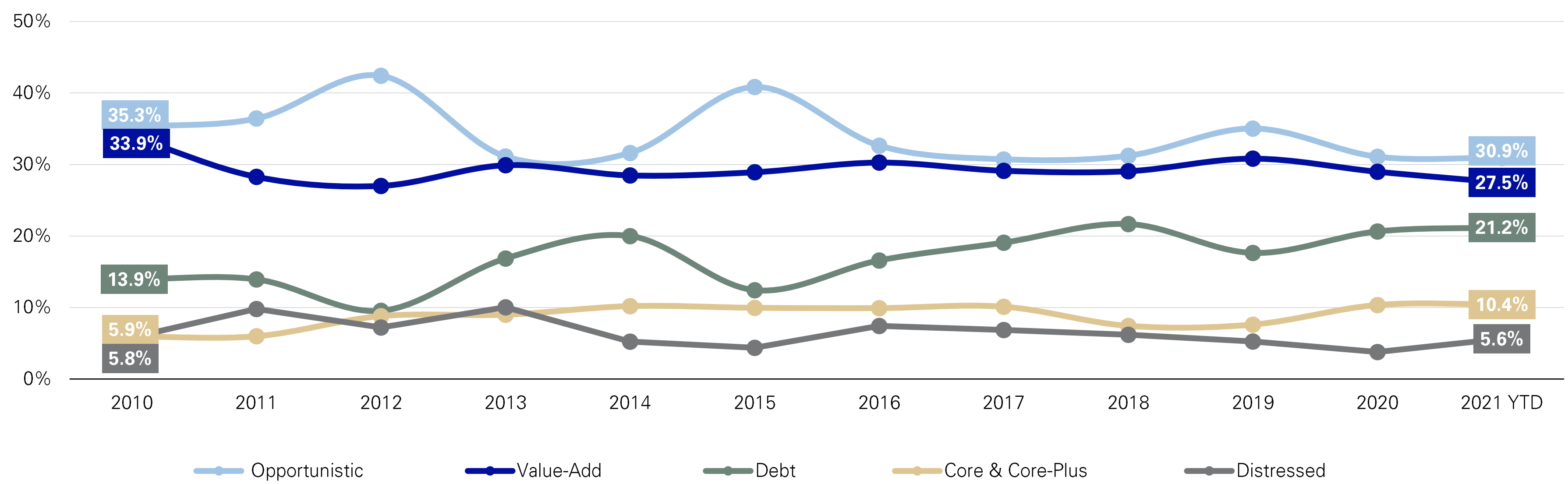
Dry Powder

North American-focused real estate funds have accumulated $237 billion of dry powder as of 3Q21, representing a 15% increase from 2020 and 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 10.4%, as some investors have flocked to defensive assets.

Dry Powder – Closed-End Funds



Dry Powder by Strategy*



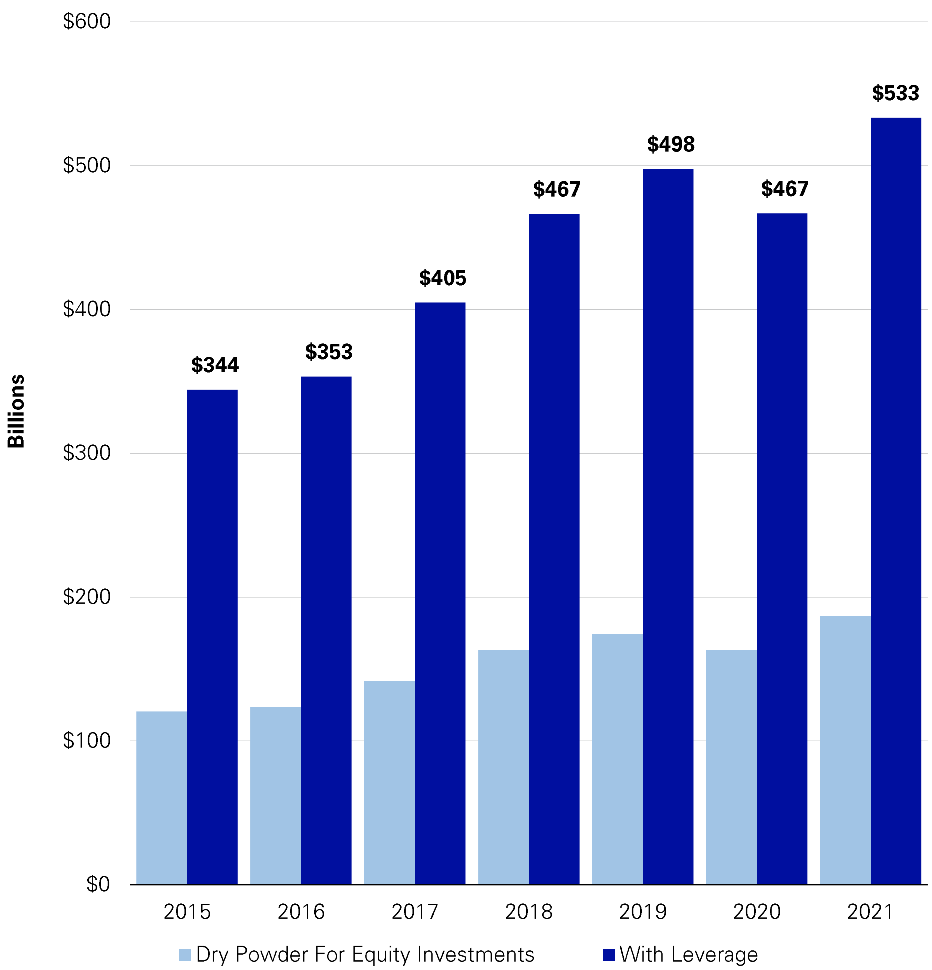
Source: Newmark Research, Preqin

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

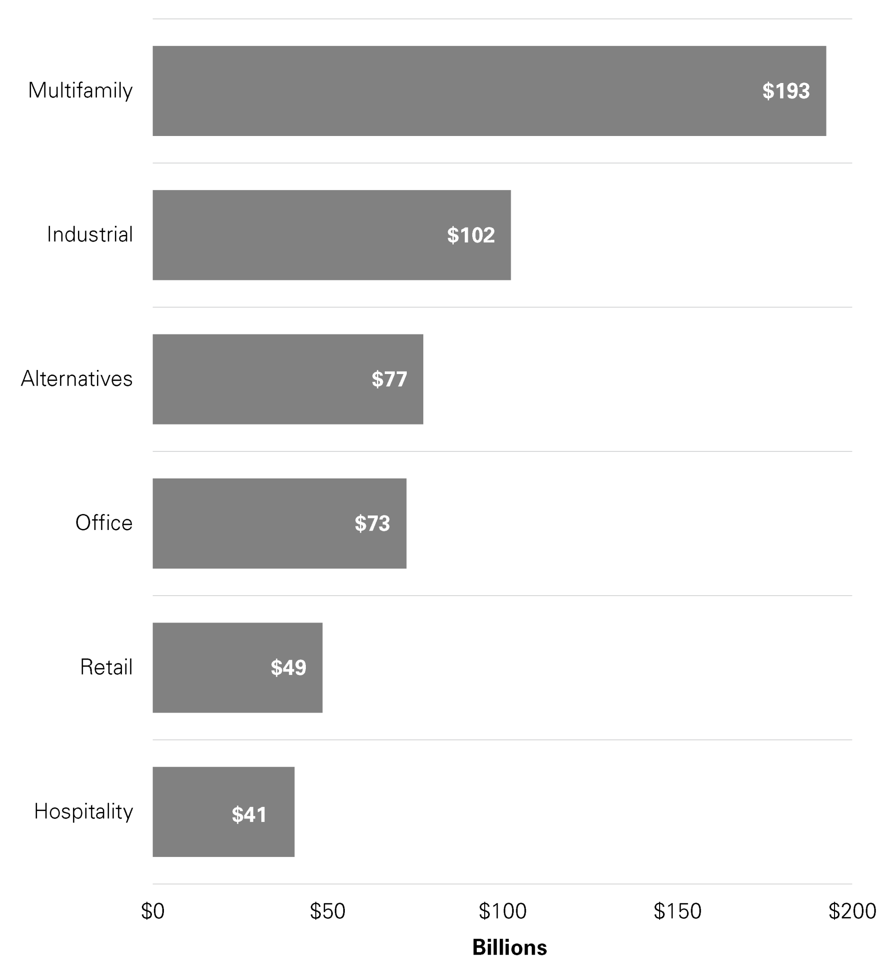
Dry Powder with Leverage

The $187 billion in dry powder raised for equity investments, not including dry powder raised for debt strategies, equates to a leveraged purchasing power of $533 billion, using a 65% loan-to-value ratio. If investors were to allocate this leveraged purchasing power according to their year-to-date 2021 allocations, nearly $300 billion would be invested in multifamily and industrial, with $77 billion invested in alternative property types.

Dry Powder at 65% Leverage



2021 Leveraged Dry Power By Property Type

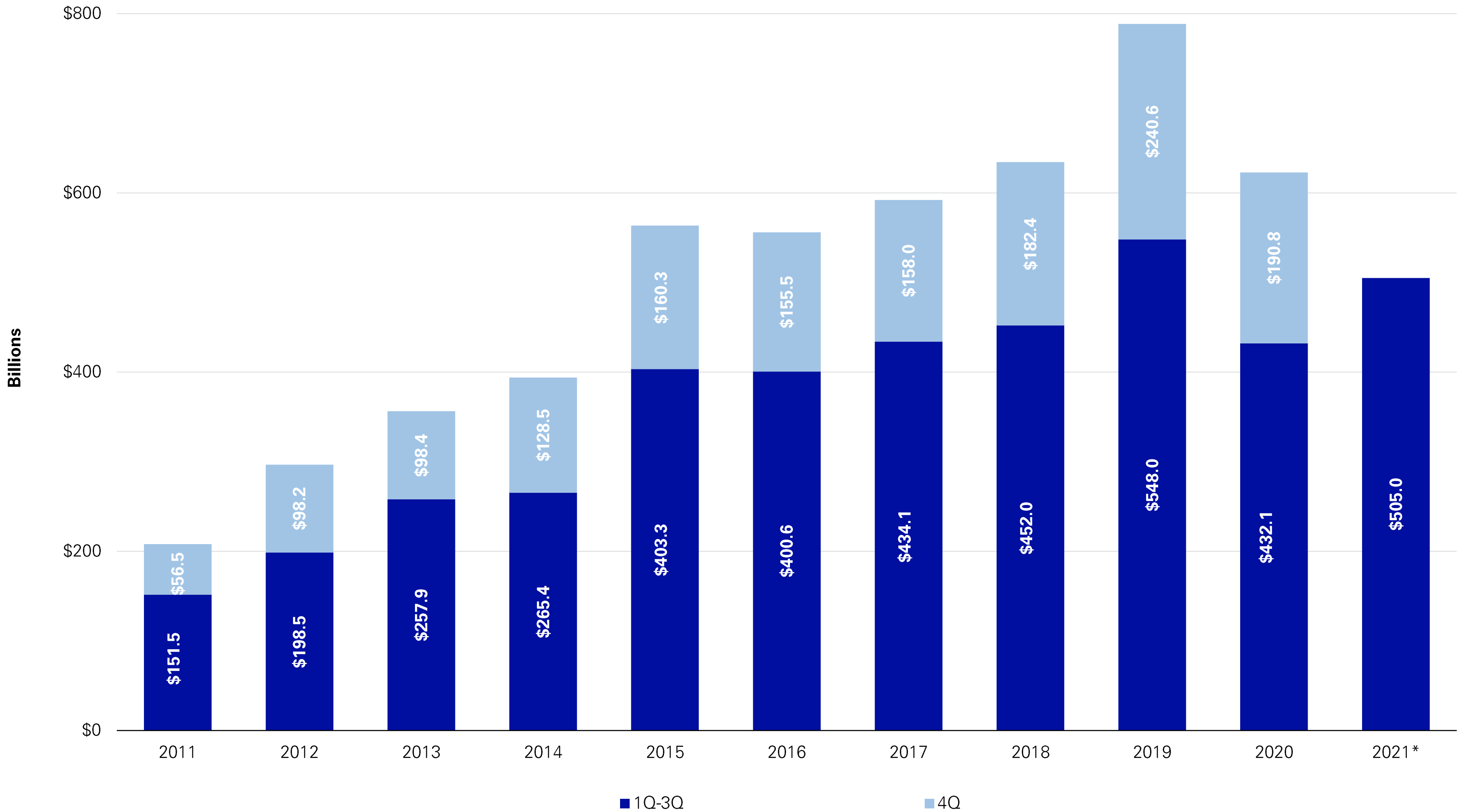


Source: Newmark Research, Real Capital Analytics, Preqin

United States Origination Volume

Acquisition, Construction and Refinancing

Preliminary financing activity has reached $505 billion in 2021 year-to-date, a 16.8% increase compared with the same period in 2020. Mirroring the investment sales market, financing activity has remained bifurcated, with lenders favoring multifamily, industrial and office over hospitality and retail. However, the continued improvement of investment volume across all property types is expected to boost acquisition financing activity for the remainder of 2021 and into 2022.

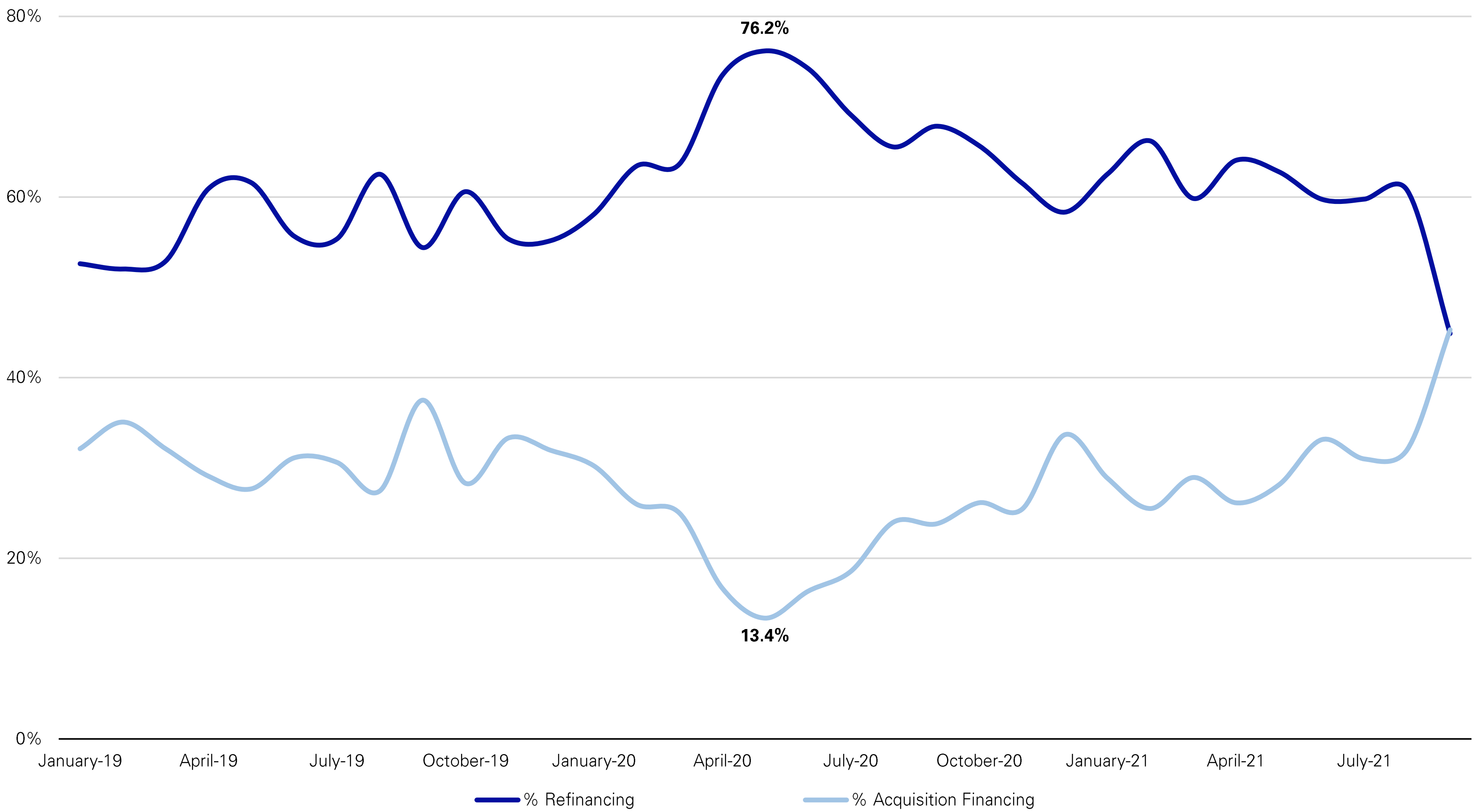


*Source: Newmark Research, Real Capital Analytics

*Preliminary

Pandemic Financing Activity Supports Liquidity

While most lenders paused briefly at the onset of the pandemic, they quickly resumed originations by April 2020, pivoting away from acquisition financing and instead offering refinancing, which allowed borrowers to take advantage of low interest rates and avoid selling into a down market. A recovery in the investment sales market in 3Q21 has resulted in a large upswing in acquisition financing once again, accounting for over 45% of total financing activity in September.



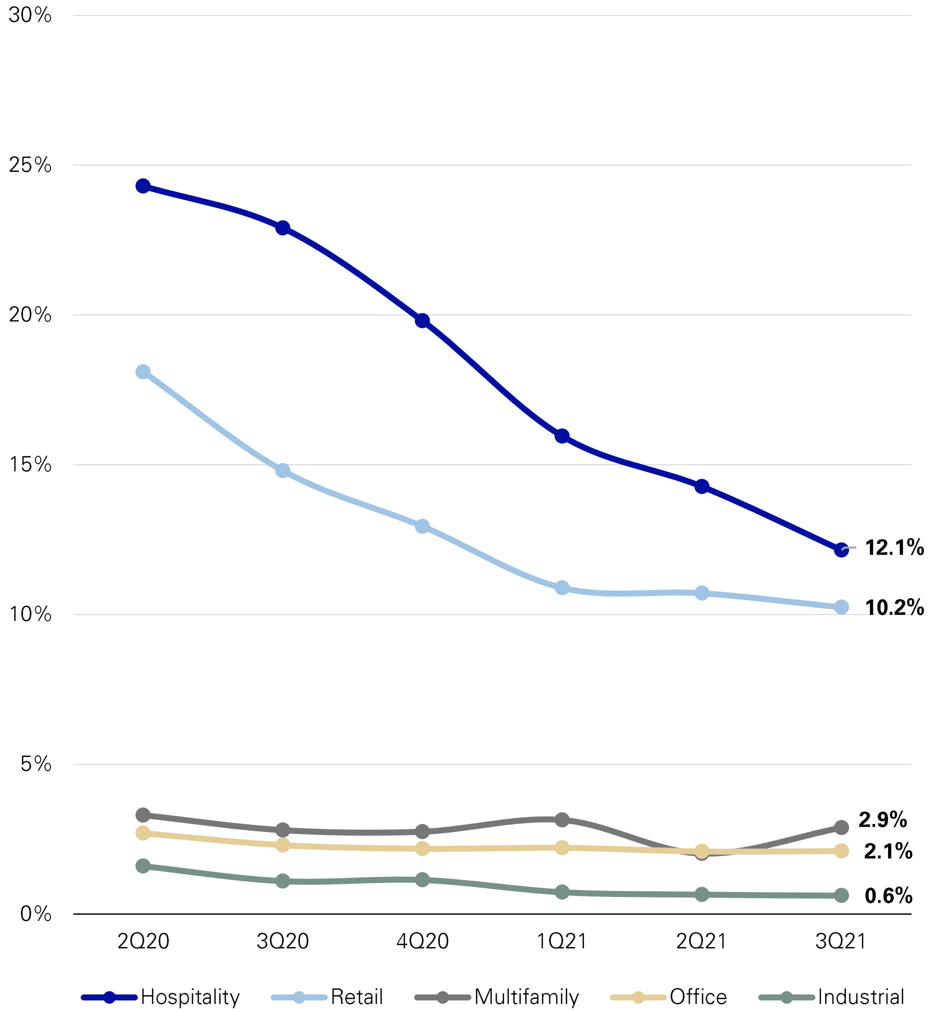
*Source: Newmark Research, Real Capital Analytics

*Construction financing not shown

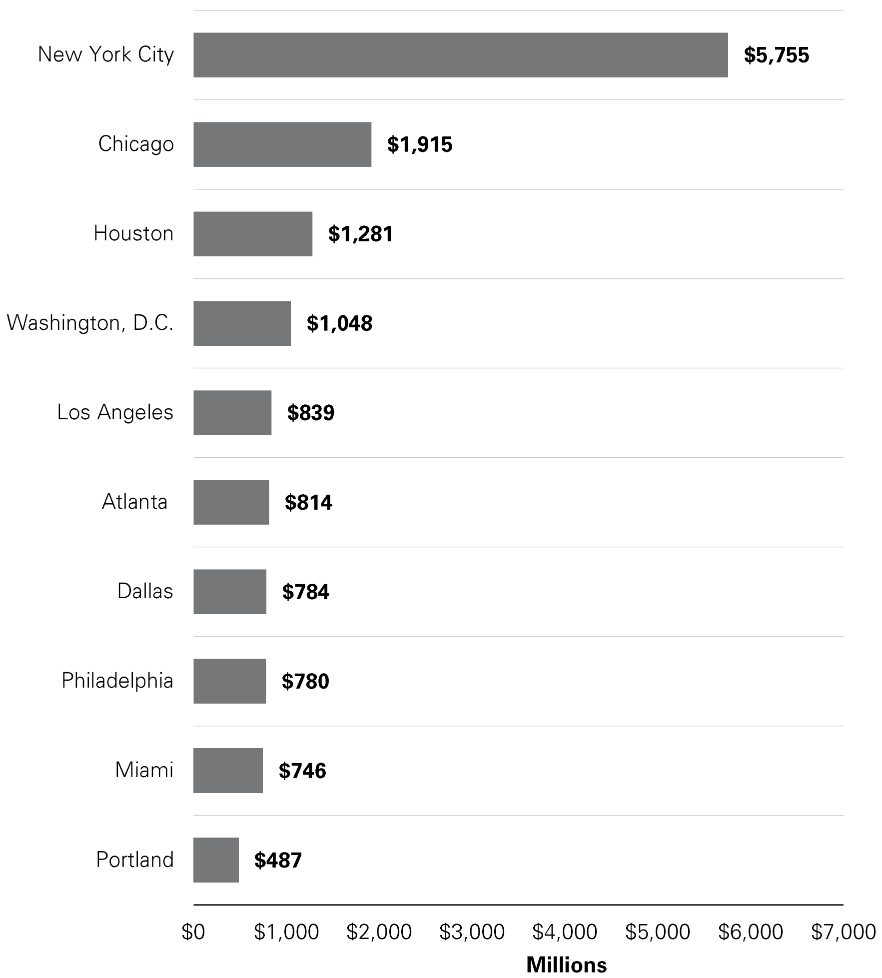
CMBS Delinquency Rates

While both hospitality and retail continue to have the largest CMBS delinquency rates, particularly in gateway markets such as New York City, Washington, D.C. and Los Angeles, they have improved by 50.0% and 43.4%, respectively, since 2Q20. Workouts between borrowers and lenders have led to an improvement in delinquency rates, with many borrowers focusing on long term asset value over short term negative performance caused directly by the pandemic.

By Property Type



Delinquent Balance by Metro, in Millions $

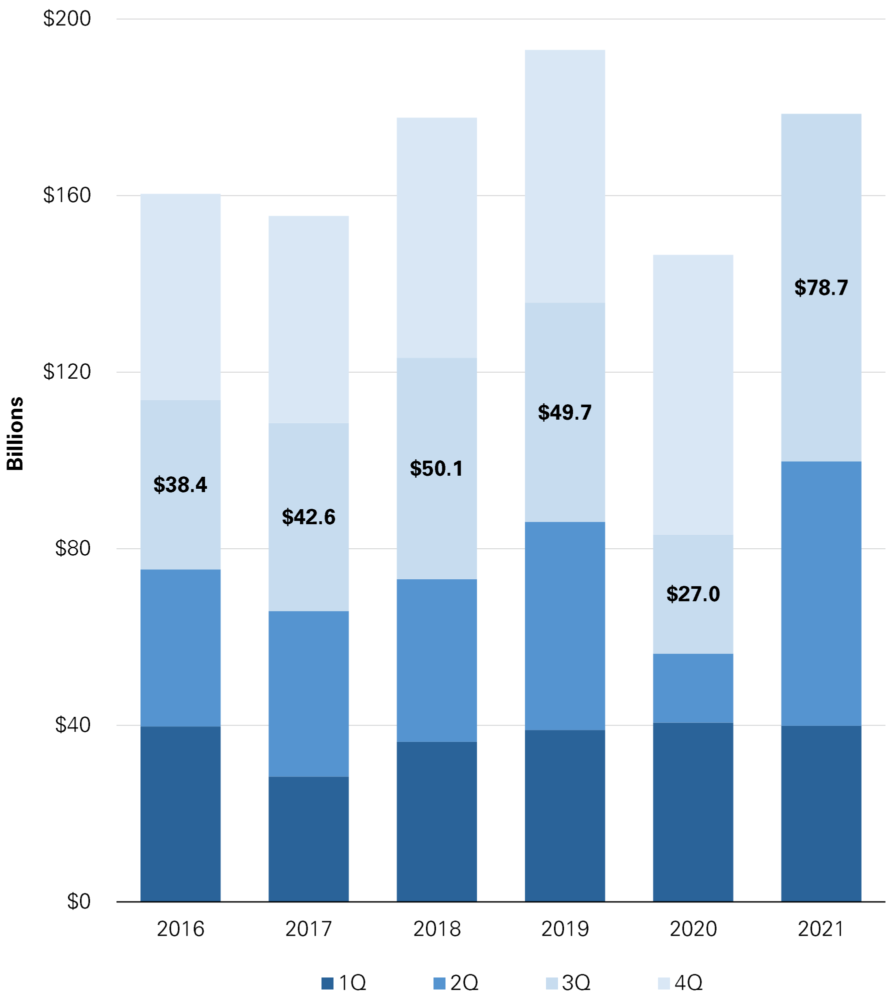


Source: Newmark Research, Trepp

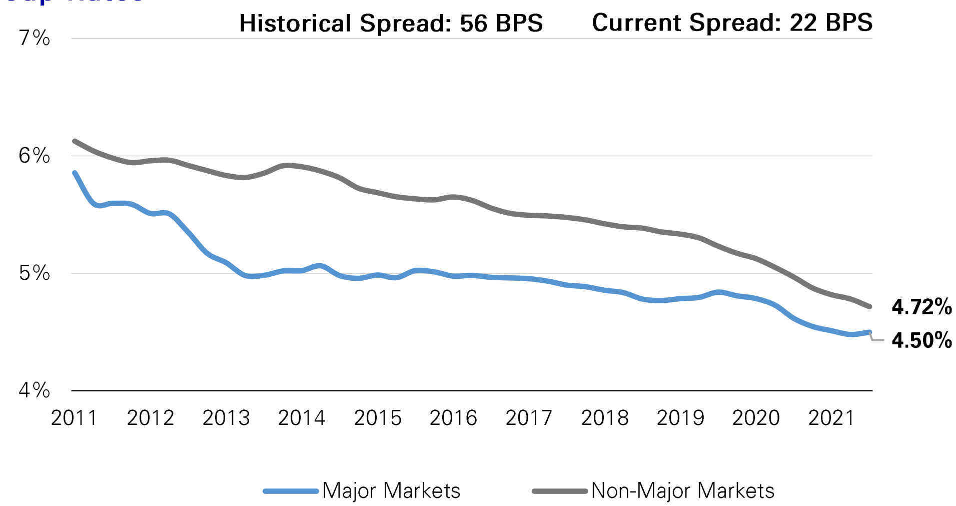
Multifamily Dashboard

Multifamily continues to attract the most investment volume of any property type, with 3Q21 hitting a record high $78.7 billion, representing a 192.1% increase year-over-year. This record setting pace will result in an all-time full year record volume for 2021, reinforcing that the pandemic has only strengthened investor demand. The highest levels of cap rate compression and price per unit growth have occurred in fast growing non-major markets, particularly in the Sunbelt.

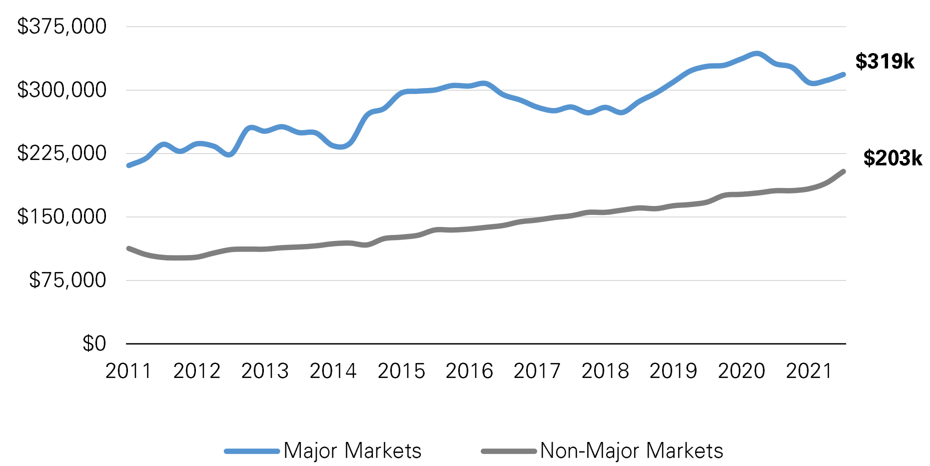
National Sales Volume



Cap Rates



Price Per Unit

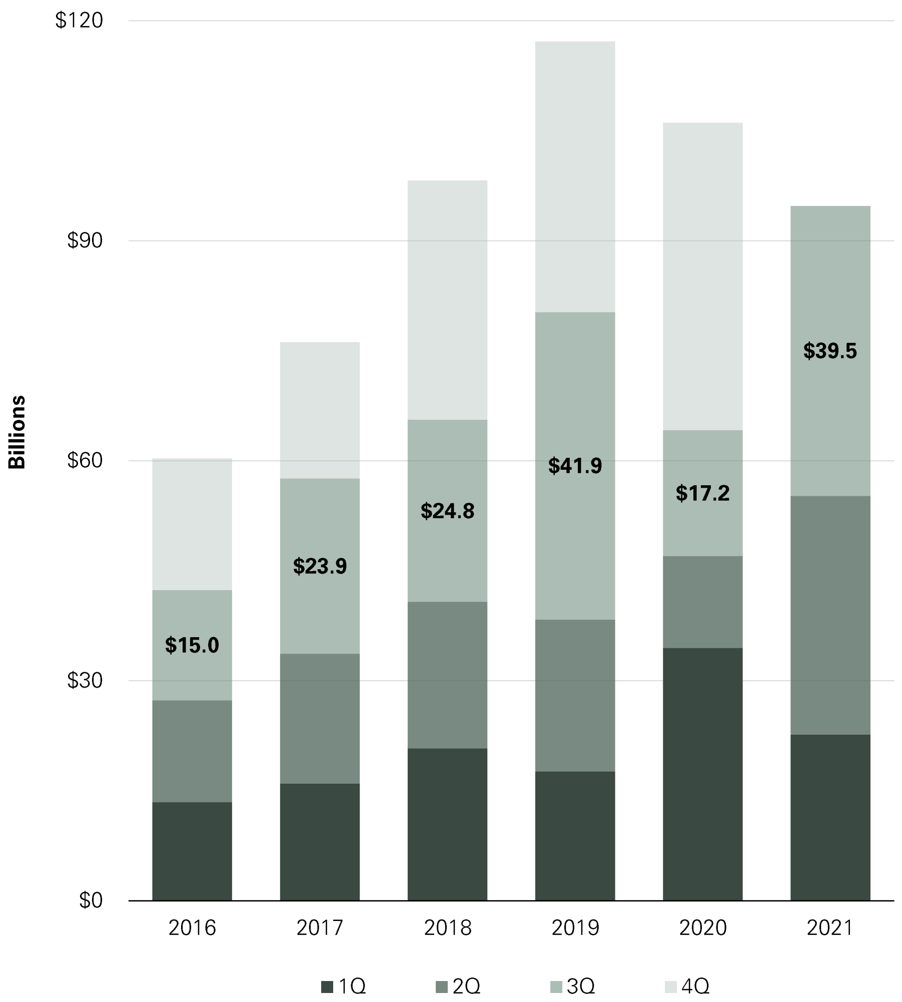


Source: Newmark Research, Real Capital Analytics

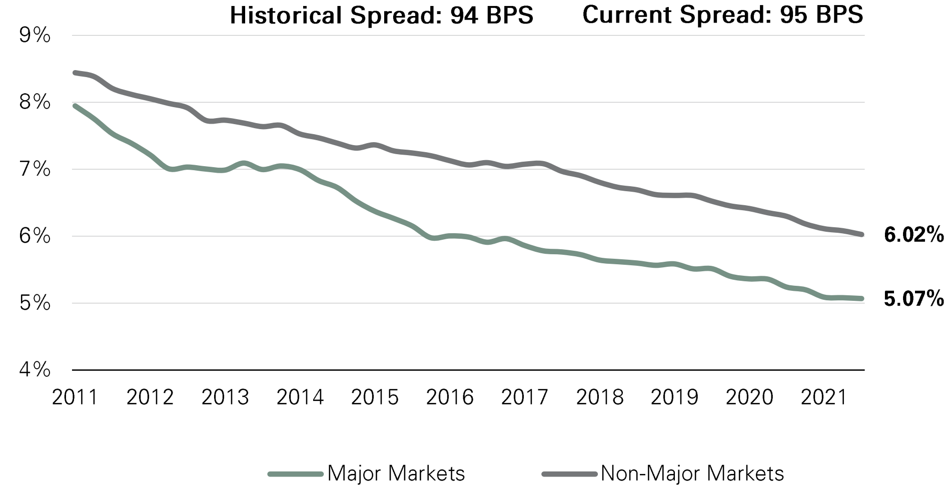
Industrial Dashboard

Industrial is on record-setting full year pace, with 3Q21 attracting $39.5 billion in sales volume, a 130.5% increase year-over-year. Strong investor demand and competitive bidding for well-located distribution and warehouse product has supported continued cap rate compression in both major and non-major markets, with rates declining by 14 and 28 basis points year-over-year, respectively.

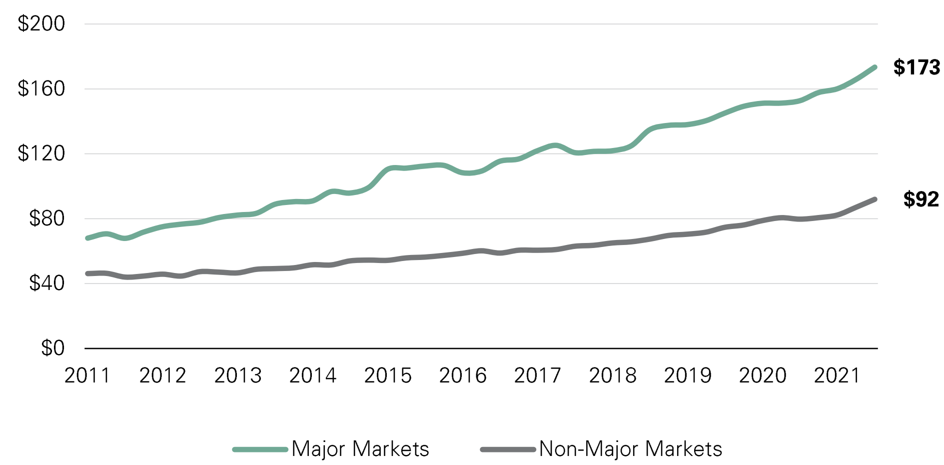
National Sales Volume



Cap Rates



Price Per Square Foot

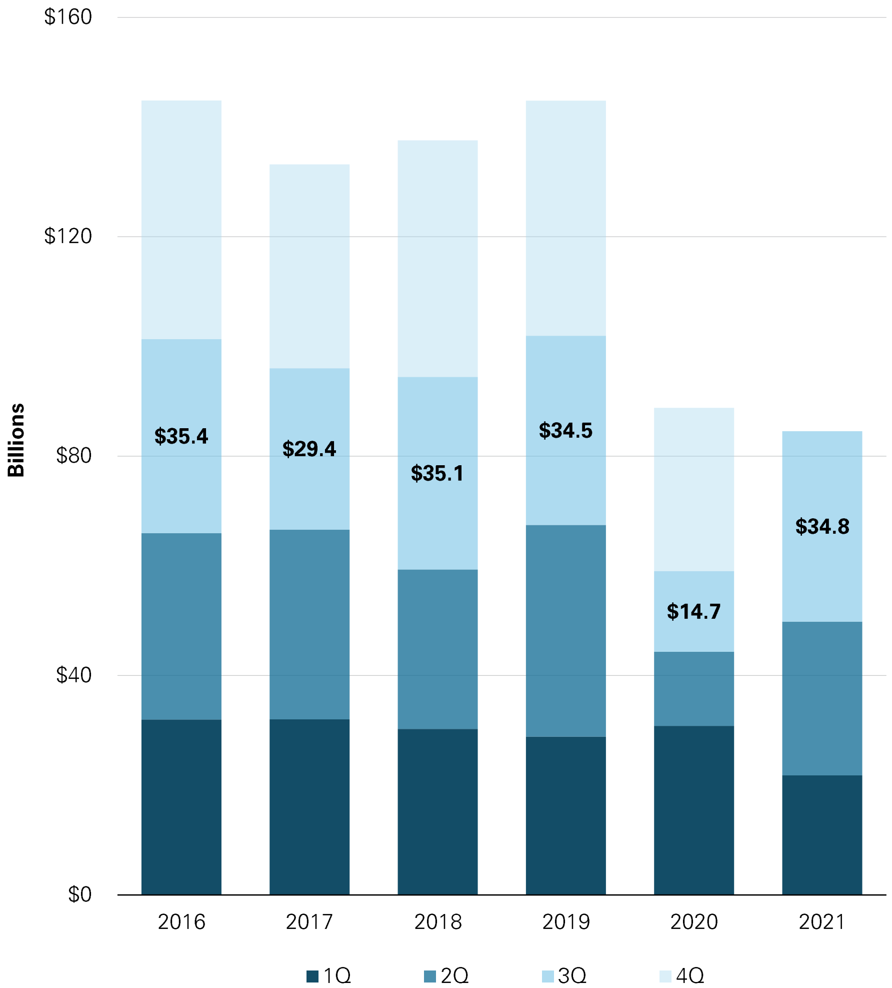


Source: Newmark Research, Real Capital Analytics

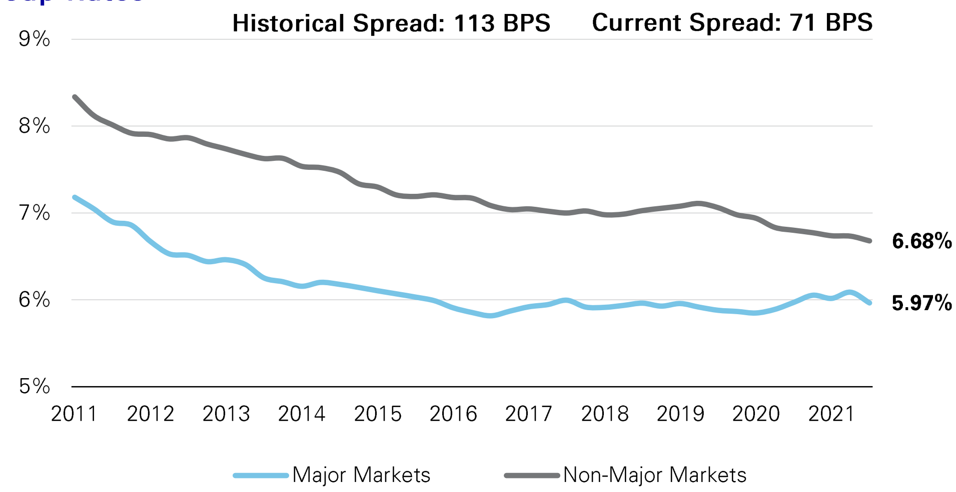
Office Dashboard

While office volume remains below pre-COVID-19 levels year-to-date, quarterly volume increased by 136.6% year-over-year to $34.8 billion, mirroring the positive momentum in building occupancy and leasing activity nationally. For the first time since the pandemic began, major market cap rates, which include cities such as New York City, Los Angeles and San Francisco, have recorded substantial compression, with average rates declining 12 basis points quarter-over-quarter.

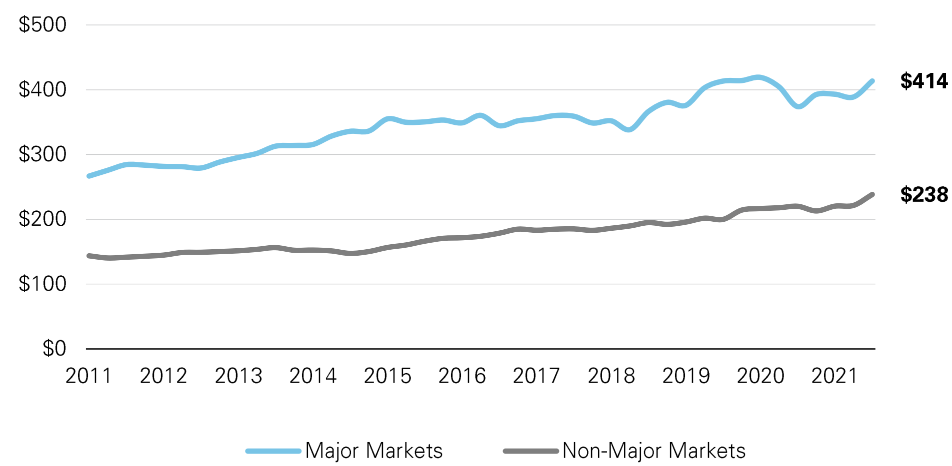
National Sales Volume



Cap Rates



Price Per Square Foot

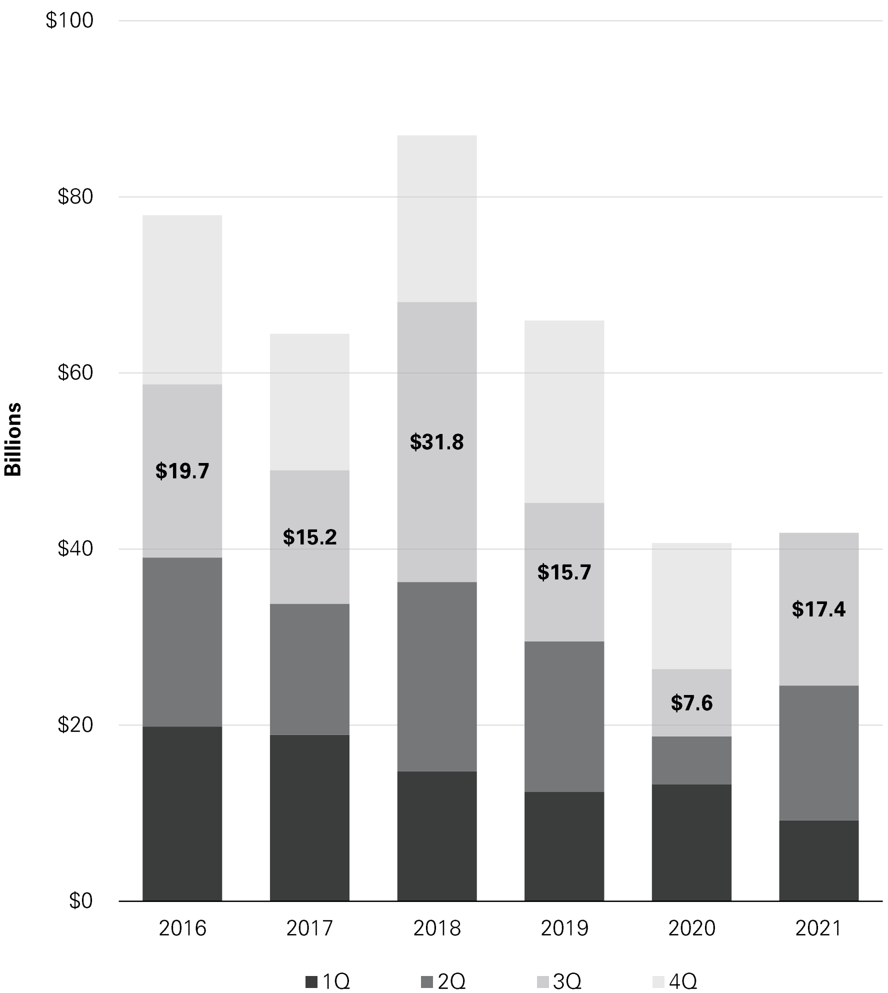


Source: Newmark Research, Real Capital Analytics

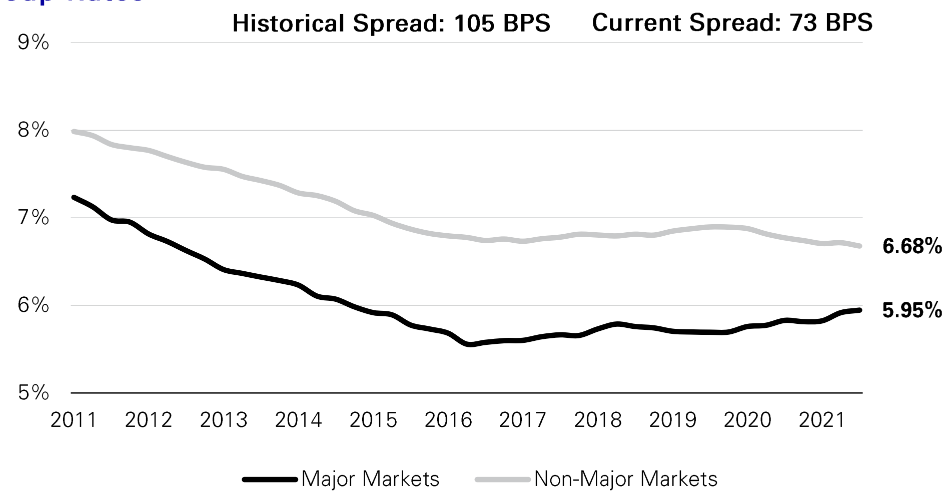
Retail Dashboard

Retail investment activity increased by 127.3% year-over-year to $17.4 billion in 3Q21, exceeding average pre-pandemic levels. Grocery-anchored retail remains one of the key segments driving momentum, accounting for nearly 25% of total retail investment volume in 2021. Major market urban pricing has been most severely impacted by COVID-19, with average cap rates increasing by nearly 20 basis points in 3Q21 compared with 1Q20.

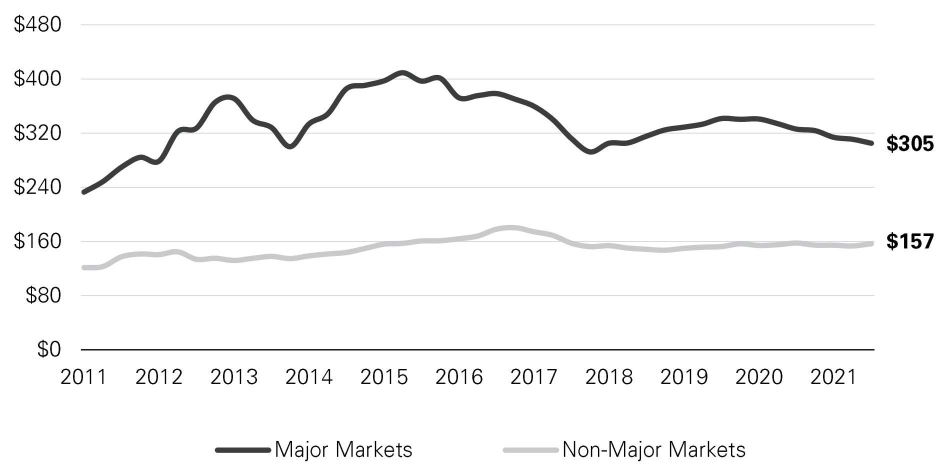
National Sales Volume



Cap Rates



Price Per Square Foot

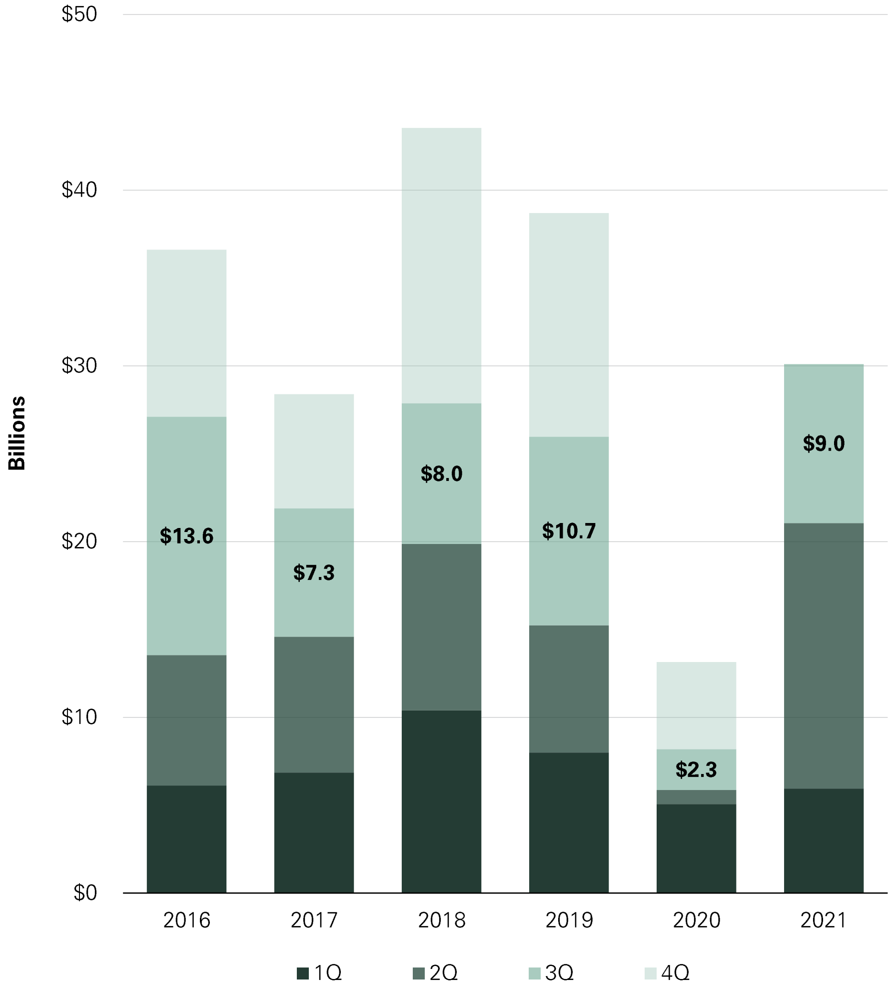


Source: Newmark Research, Real Capital Analytics

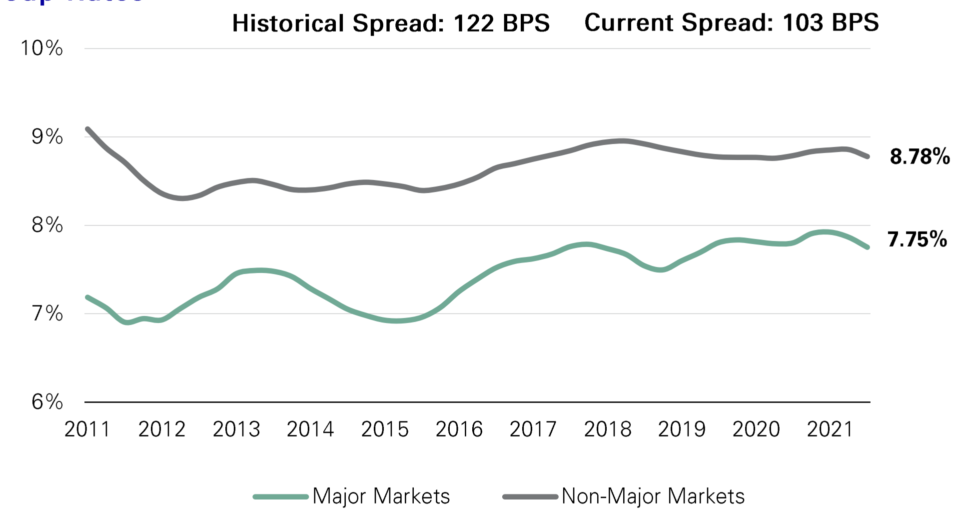
Hospitality Dashboard

Hospitality volume reached $9.0 billion in 3Q21, a 289.1% increase-year-over-year, as both major and non-major markets achieved cap rate compression and improved pricing. While hospitality fundamentals have not yet returned to pre-pandemic levels, national occupancy and revenue per available room (RevPar) have increased 27.5% and 70.1% year-over-year, respectively, and investors are attracted to the longer-term prospects of increasing leisure and business travel.

National Sales Volume



Cap Rates



Price Per Key

Source: Newmark Research, Real Capital Analytics, Costar

New York Headquarters
125 Park Avenue.
New York, NY 10017
t 212-372-2000

nmrk.com

Jonathan Mazur
Senior Managing Director
National Research
jonathan.mazur@nmrk.com

Daniel Littman
Associate Director
Capital Markets Research
daniel.littman@nmrk.com

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