1Q 2022

Capital Markets Report

Real Estate Trends and Analysis for All Property Types

NEWMARK

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Market Observations

What We Know

- ☑ Investment volume increased by 55.6% year-over-year in 1Q22 reaching $170.8 billion – this represents the largest first quarter volume on record, overtaking 1Q07. Investor demand has begun to normalize in the property types most impacted by the pandemic, namely retail, hospitality and office, while multifamily remains the most sought-after property type, recording $63.0 billion in 1Q22.
- ☑ Trailing 12-month global investment volume remains close to record highs, at $2.2 trillion as of 1Q22. Geopolitical turmoil in Europe and global economic volatility in response to rising inflation and pandemic-related fallout has benefited the United States, which is widely considered the world's safe-haven market, attracting 47.1% of global investor's allocation.
- ☑ The Consumer Price Index has continued to rise, increasing 8.5% year-over-year in March, with energy prices soaring 32% year-over-year. The rate of change has exceeded 4.0% for 12 consecutive months and the current figure marks the highest level reported since the Winter of 1981, when inflation was declining from an all-time record of 12.4%.
- ☑ The amount of dry powder accumulated by North America-focused closed-end real estate funds increased slightly to $250 billion in 1Q22, following an all-time record year for capital deployment and investment volume in 2021. Leveraged at a 65% LTV, the dry powder earmarked for equity investments equates to approximately $573 billion in spending power.
- ☑ Although the United States has recovered 99% of jobs lost due to the pandemic, the recovery remains highly fractured both in geography and types of jobs lost – certain markets such as Austin, Phoenix, Salt Lake City and Tampa have more jobs compared with pre-pandemic levels, while other markets like Chicago, Philadelphia, San Diego and New York City continue to have substantial deficits, though predominantly due to the loss of low-wage retail and hospitality jobs.

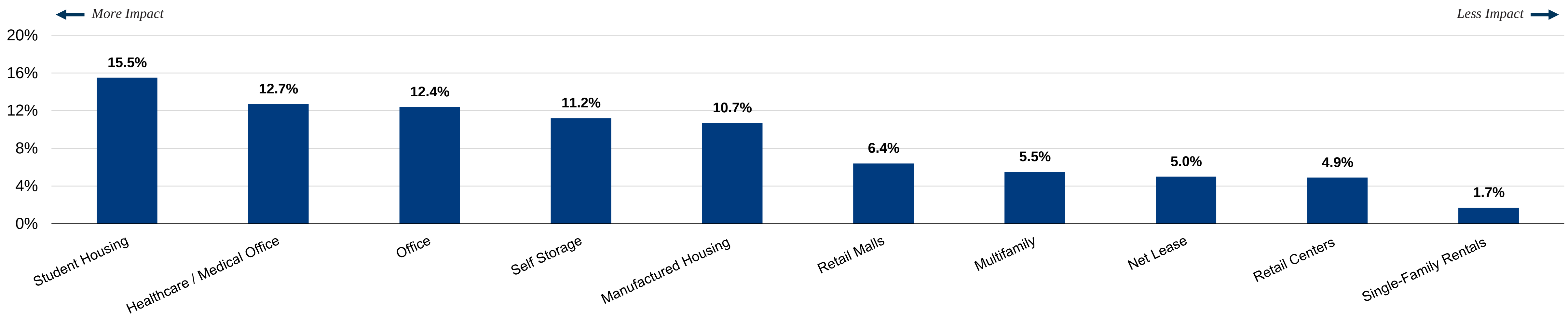
What We Expect

- ☐ Higher than expected inflation is expected to favor property types which have shorter lease terms remaining on average, such as multifamily and self storage. In other property types, such as industrial, deals with lower lease term remaining are expected to attract premium pricing, as buyers can "mark-to-market" rents faster, taking advantage of recent rental growth and inflation.
- ☐ To combat inflation, the FOMC is expected to continue to raise rates throughout 2022, which will consequently increase borrowing costs as the year progresses. Expectations have shifted, with at least one other half point raise expected in June, followed by quarter point raises in the remaining meetings in 2022. Three additional hikes are also expected in 2023.
- ☐ Higher risk-free rates are expected to put upward pressure on debt costs via higher commercial and multifamily mortgage rates, which will consequently impact levered IRRs and undermine levered returns achieved by real estate investors. If debt costs rise substantially, it is possible certain investors may experience "negative leverage", wherein mortgage costs exceed capitalization rates.
- ☐ Investors using limited or no leverage are expected to have a considerable advantage bidding on and winning deals during the remainder of 2022, particularly in negative leverage situations and when interest rate volatility impacts financing.
- ☐ The creation of net-zero carbon-focused real estate funds and reporting benchmarks is expected to continue to accelerate globally, leveraging existing certification systems such as LEED, BREEAM and Energy Star.

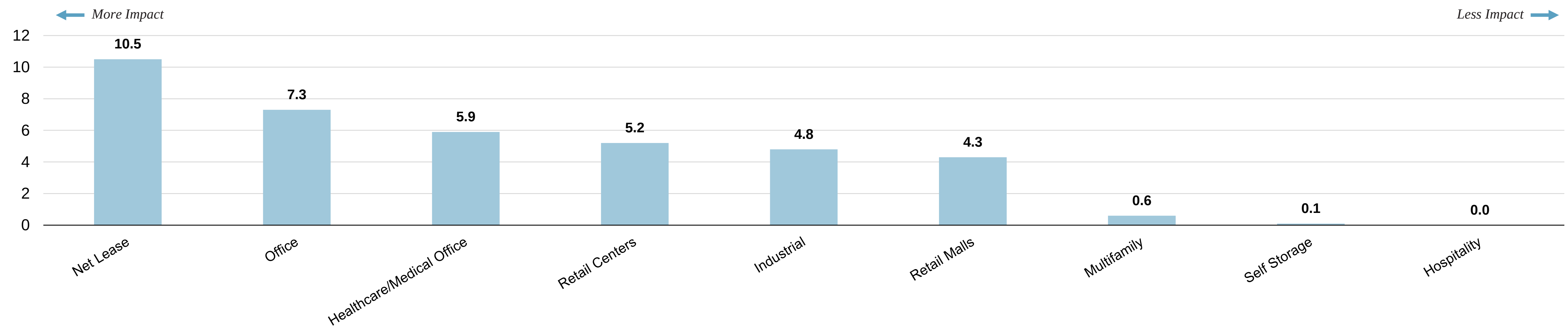
Rate Hikes and Higher Inflation Impact

The immediate impact of rate hikes on borrowing costs are being felt most directly by landlords with unhedged floating rate debt. While floating rate debt makes up a minority of overall real estate debt, the impact varies substantially by property type, with single-family rentals having the lowest percentage at 1.7% of the total, while student housing has the highest percentage at 15.5%. Similarly, inflation's impact on the ability of landlords to "mark-to-market" rents to fit current inflation levels varies, impacting property types with longer lease terms with fixed escalations not tied to CPI changes.

Rate Hike Impact: Percentage of Unhedged Floating Rate Debt by Property Type



Inflation Impact: Remaining Lease Term by Property Type, Measured in Years

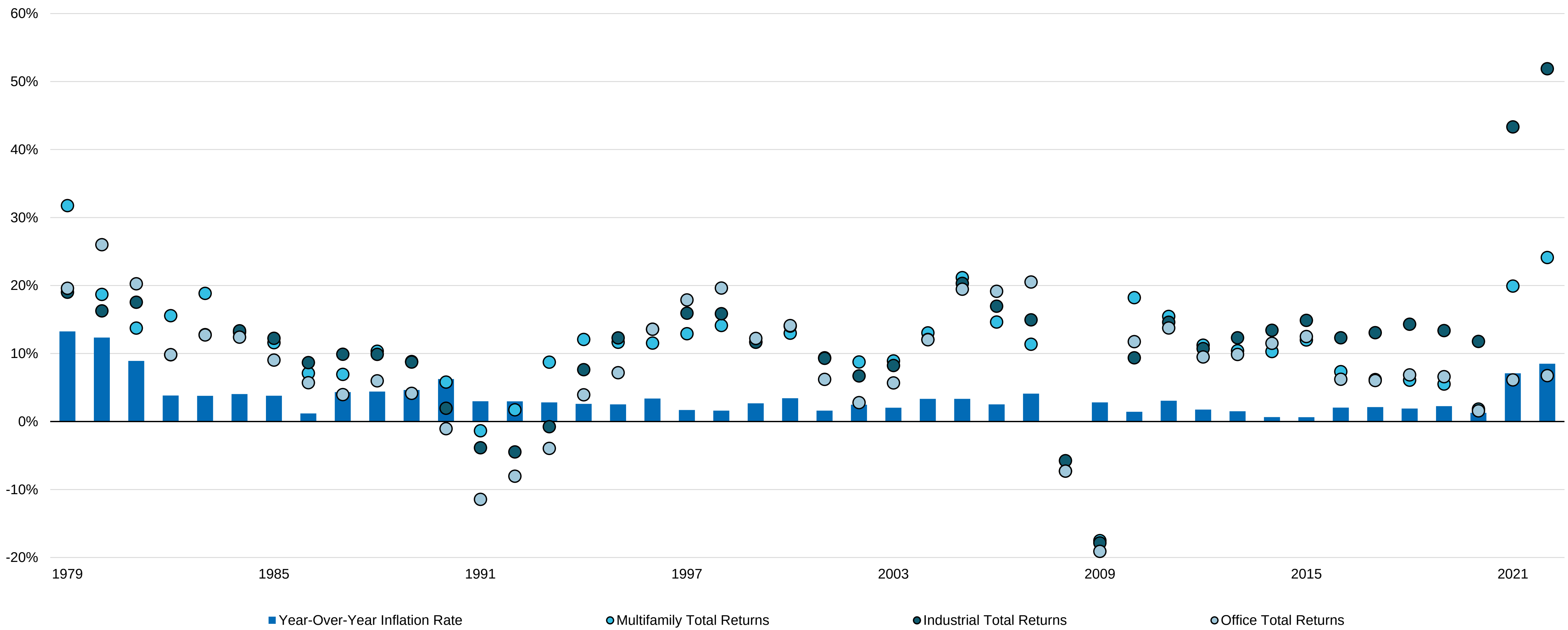


Source: Newmark Research, JP Morgan, Bank of America

Real Estate is Consistent Inflation Hedge Across Property Types

Commercial real estate has been a consistent hedge against inflation for the past 40 years across multifamily, industrial and office. However, the pandemic has created a sizable bifurcation in the protection offered, particularly for industrial and multifamily, whose 1Q22 annualized total returns offered a 4330 and 1550 basis point spread to inflation, respectively. Therefore, economic cycles and investor demand play a significant role in real estate's inflation protection, beyond inherent characteristics in lease-term length.

Total Returns by Property Type vs. Inflation Rate

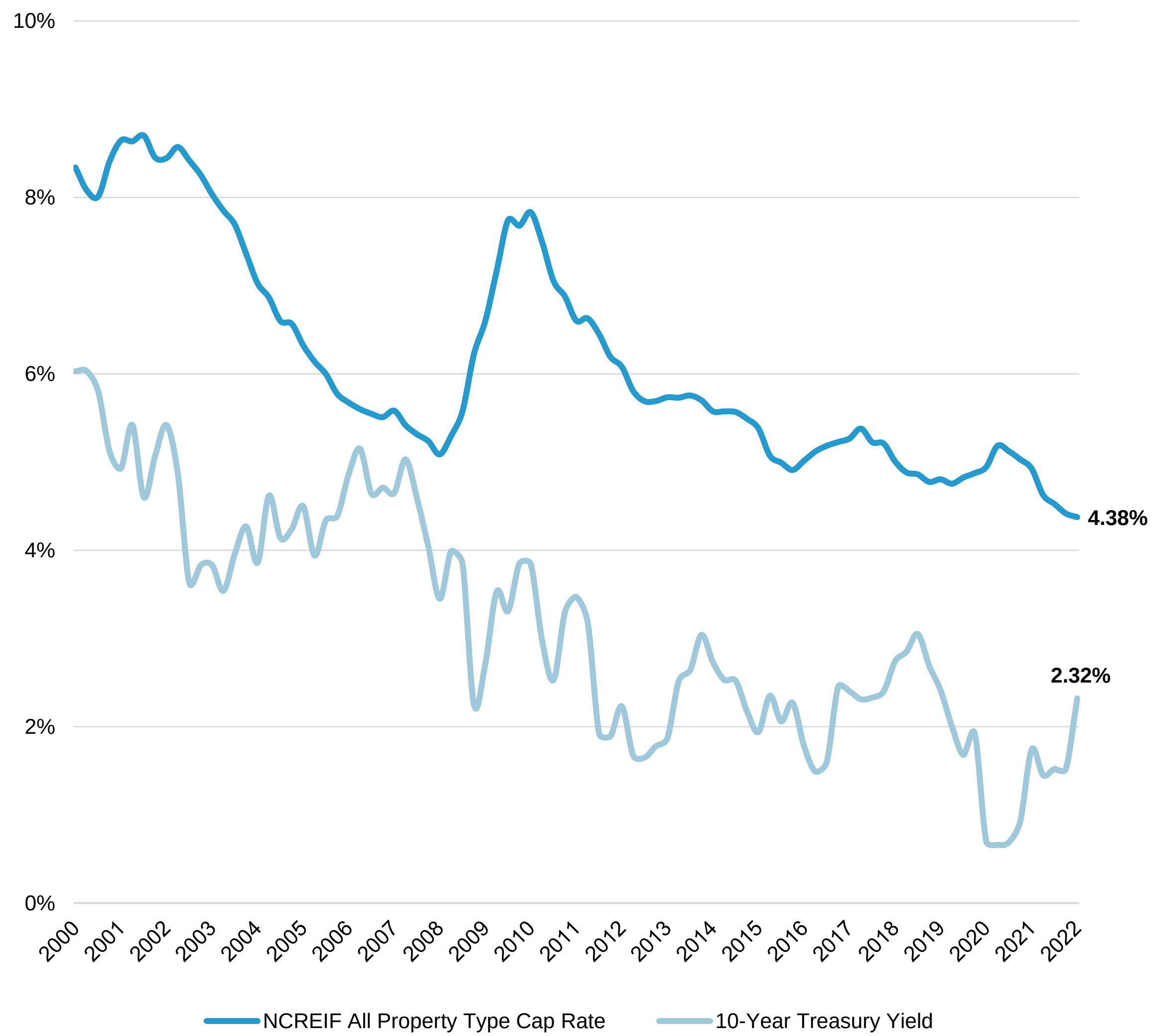


Source: Newmark Research, NCREIF, FRED

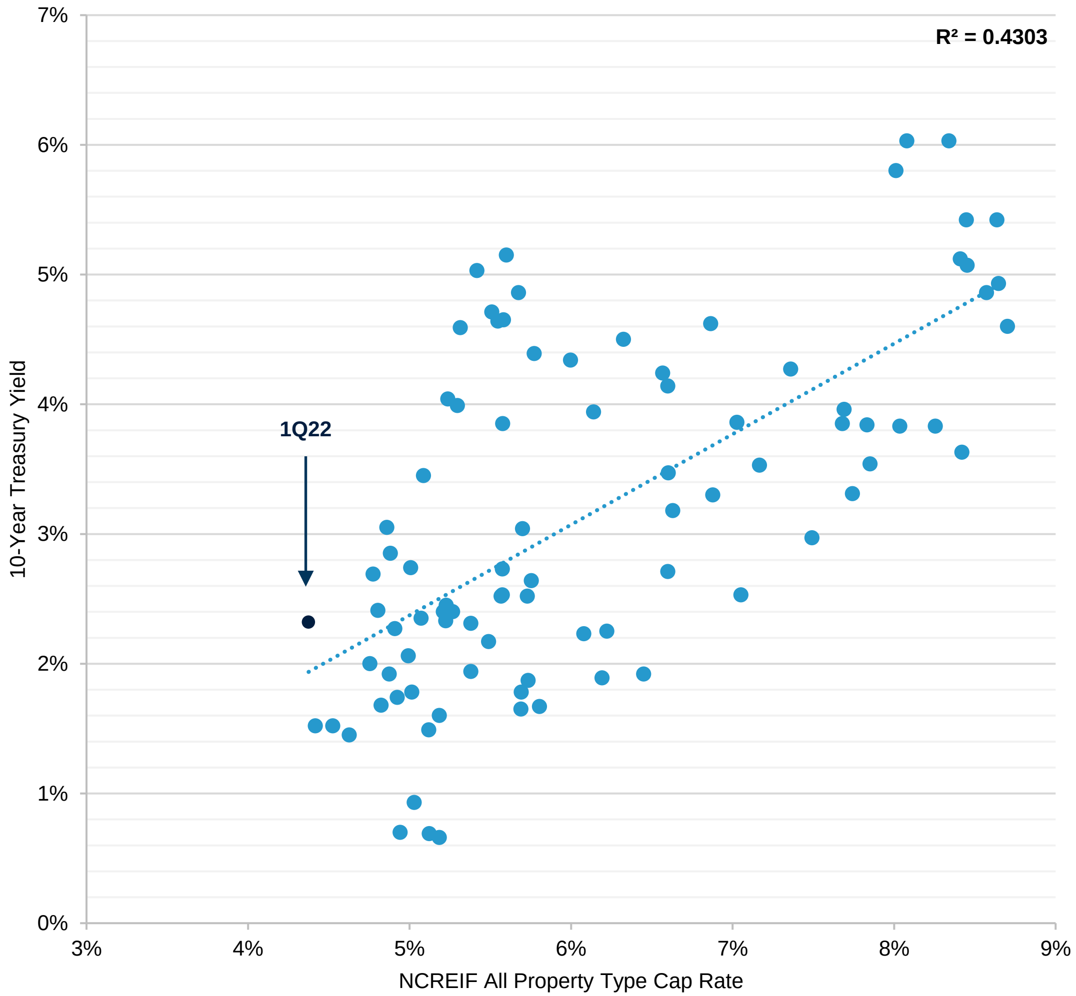
Interest Rates and Cap Rates Not Strongly Correlated

Since 2000, the correlation between treasury yields and cap rates is low, with an r-squared of just .43 (implying that they move in same direction just 43% of the time). Due to the underlying complexity and operational components of commercial real estate, higher costs of debt will not necessarily impact cap rates – various factors at the market and property level will have greater impacts on cap rates, such as property management, tenant demand, competitive supply, insurance, property taxes and required capital expenditures.

10-Year Treasury Yield & Overall Cap Rates



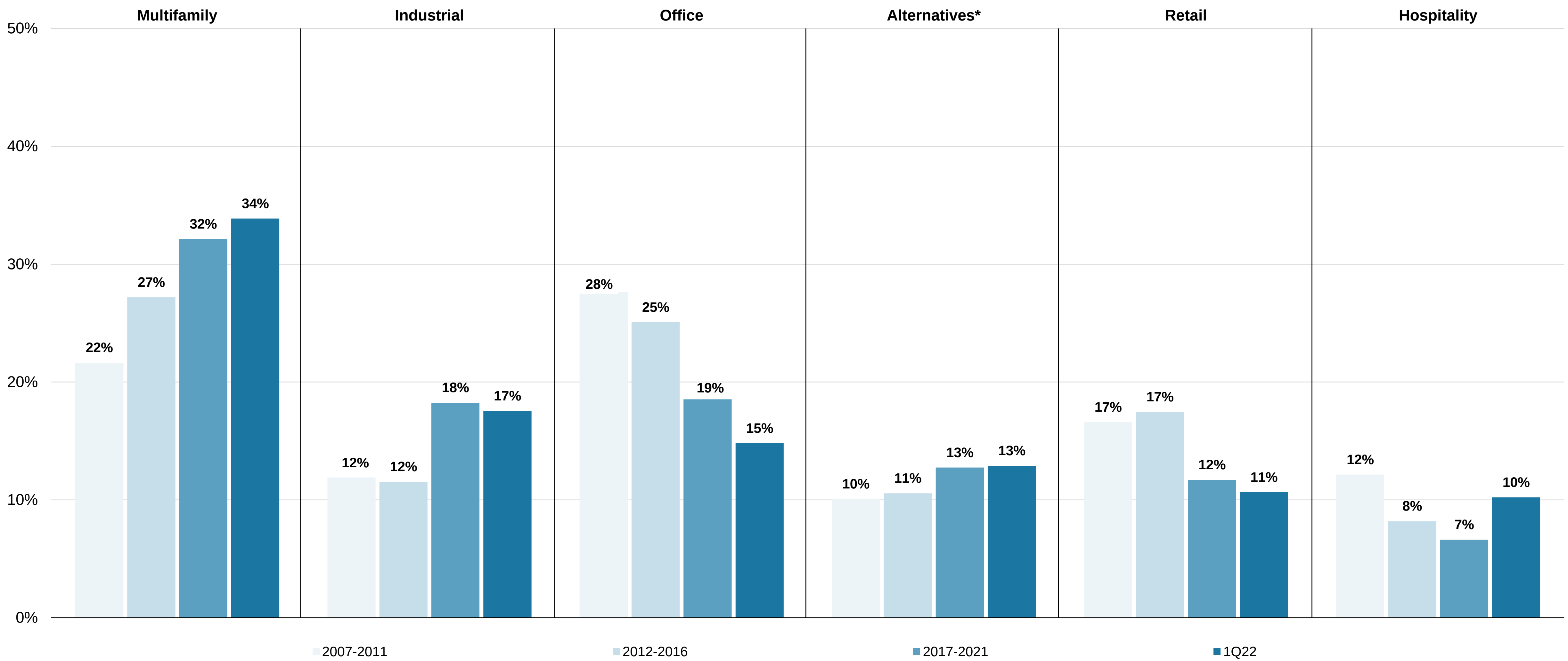
10-Year Treasury Yield & Overall Cap Rates (2000-2022)



Source: Newmark Research, NCREIF, FRED

Investor Allocation Over Time

Multifamily and industrial attracted over 50% of investor allocation in 1Q22, as both benefit from secular tailwinds as well as rental and pricing growth that has exceeded inflation. Alternative property types* such as laboratory/life science, student housing and self storage made up 13% of investors' total allocation, with 2021 recording the largest amount of alternative investment volume in history at $111 billion.



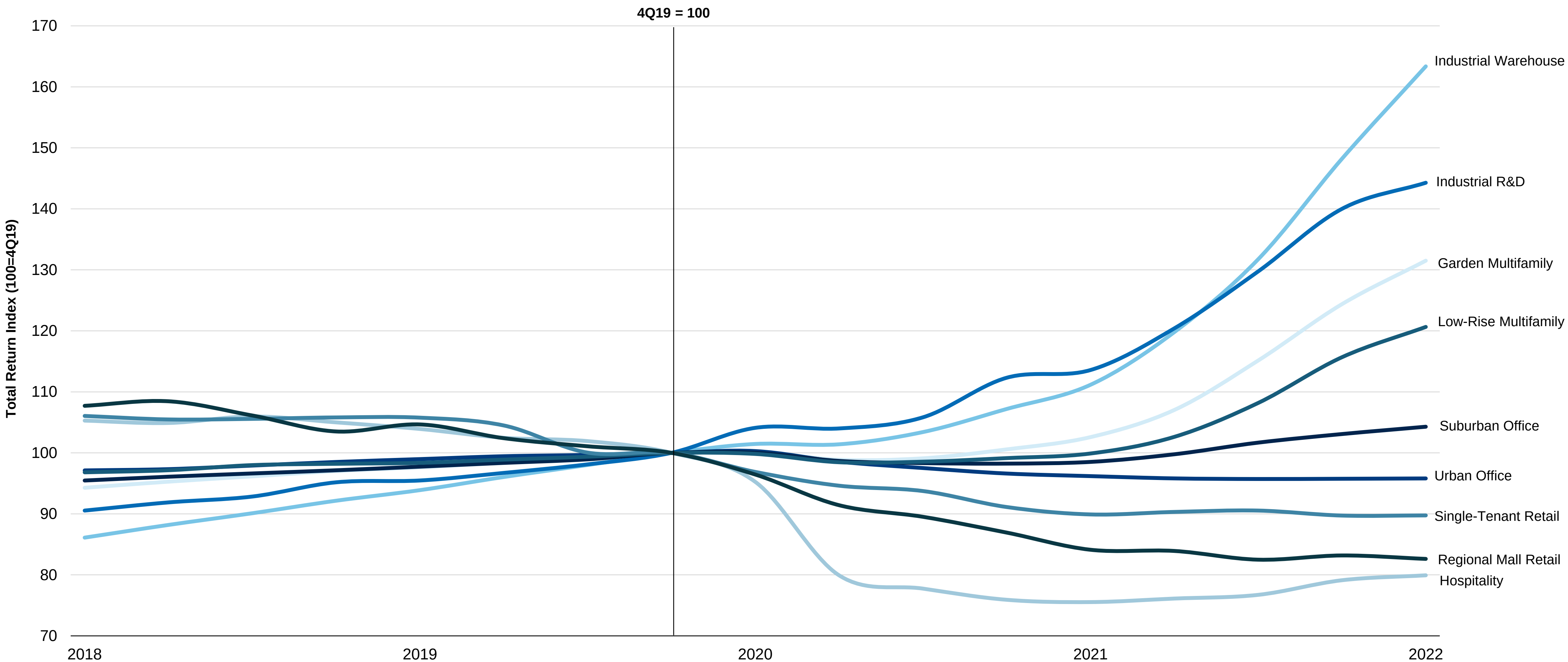
*Life science / R&D, medical office, data centers, age-restricted housing student housing, seniors housing, manufactured housing, self storage

Source: Newmark Research, Real Capital Analytics

Divergence of Property Subtypes in COVID-19 Era

NCREIF Appreciation Index (100=4Q19)

Industrial warehouse product continued to record the largest amount of appreciation of any property subtype since the pandemic, increasing 63.3% in 1Q22 compared with 4Q19, according to NCREIF's Appreciation Index. Other property subtypes that have appreciated since 4Q19 have been industrial R&D (44.2%), garden-style multifamily (31.5%), low-rise multifamily (20.7%) and suburban office product (4.3%).

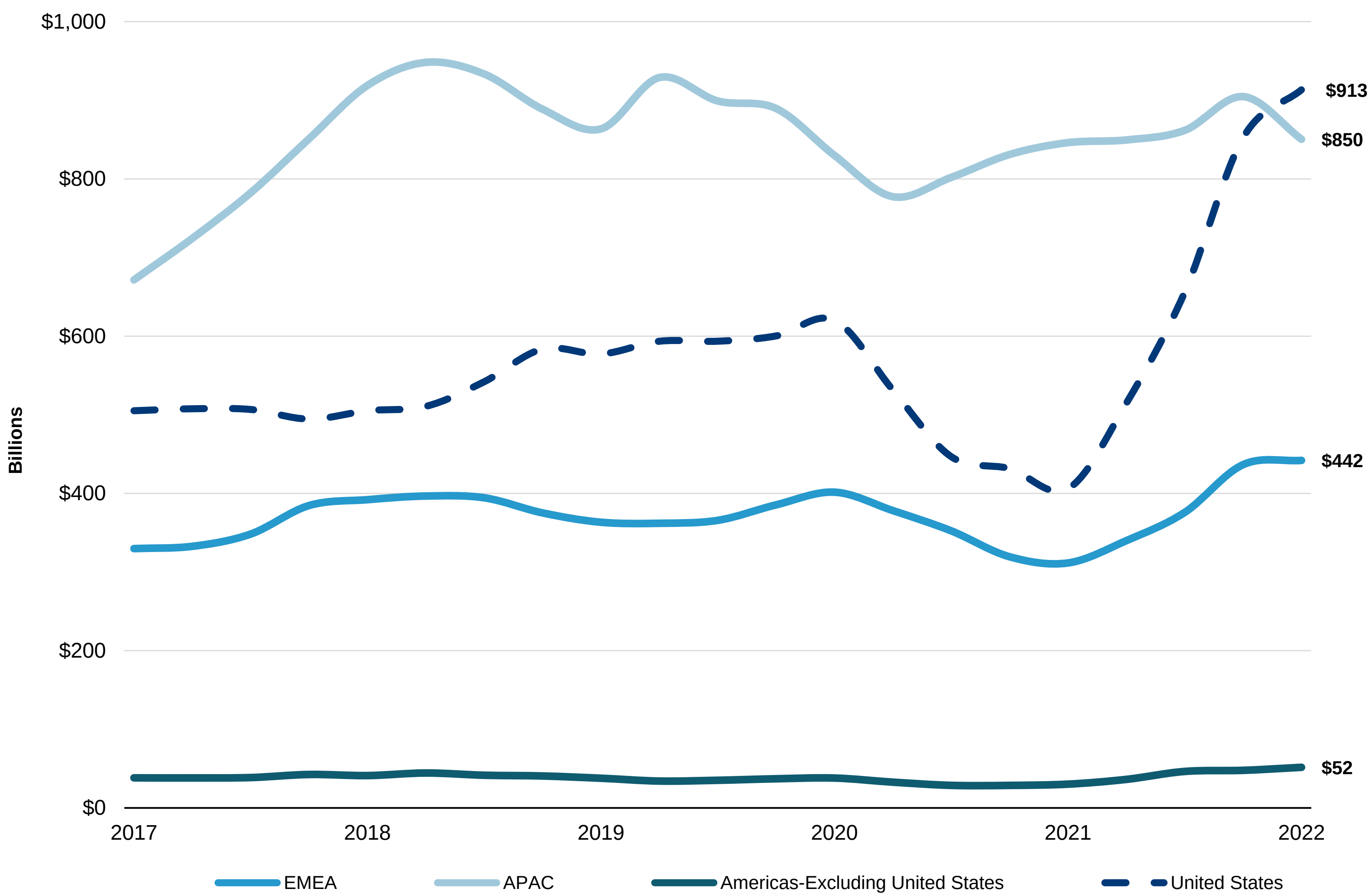


Source: Newmark Research, NCREIF

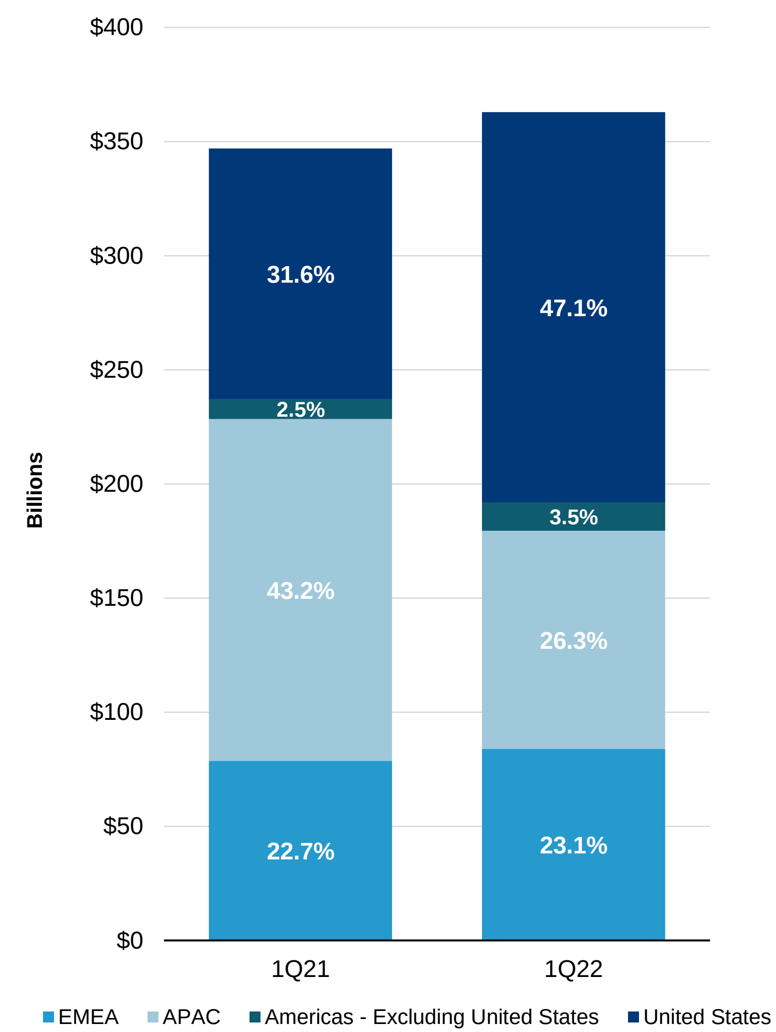
United States is the Preferred Destination for Global Capital

Trailing 12-month global investment volume increased by 41.6% year-over-year to $2.3 trillion in 1Q22. Investor allocation to the United States commercial real estate market has climbed to 47.1% of global share in 1Q22, outpacing Asia Pacific and EMEA. Economic and geopolitical uncertainty across the globe caused by supply chain-related shortages, armed conflict in Ukraine and renewed resurgence of COVID-19 has redirected capital to safe-haven markets like the United States.

Rolling-12 Month Global Investment Volume by Region



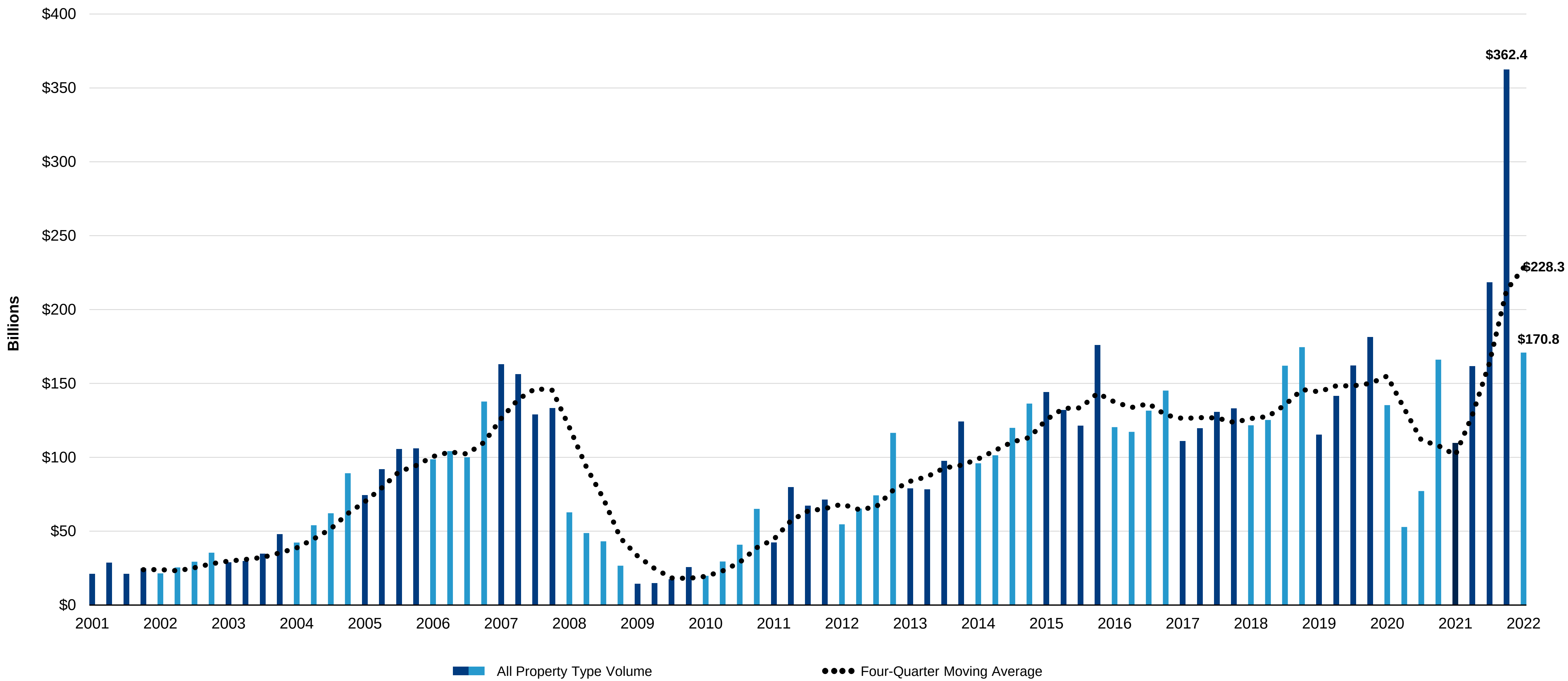
1Q22 vs. 1Q21



Source: Newmark Research, Real Capital Analytics

United States Quarterly Sales Volume

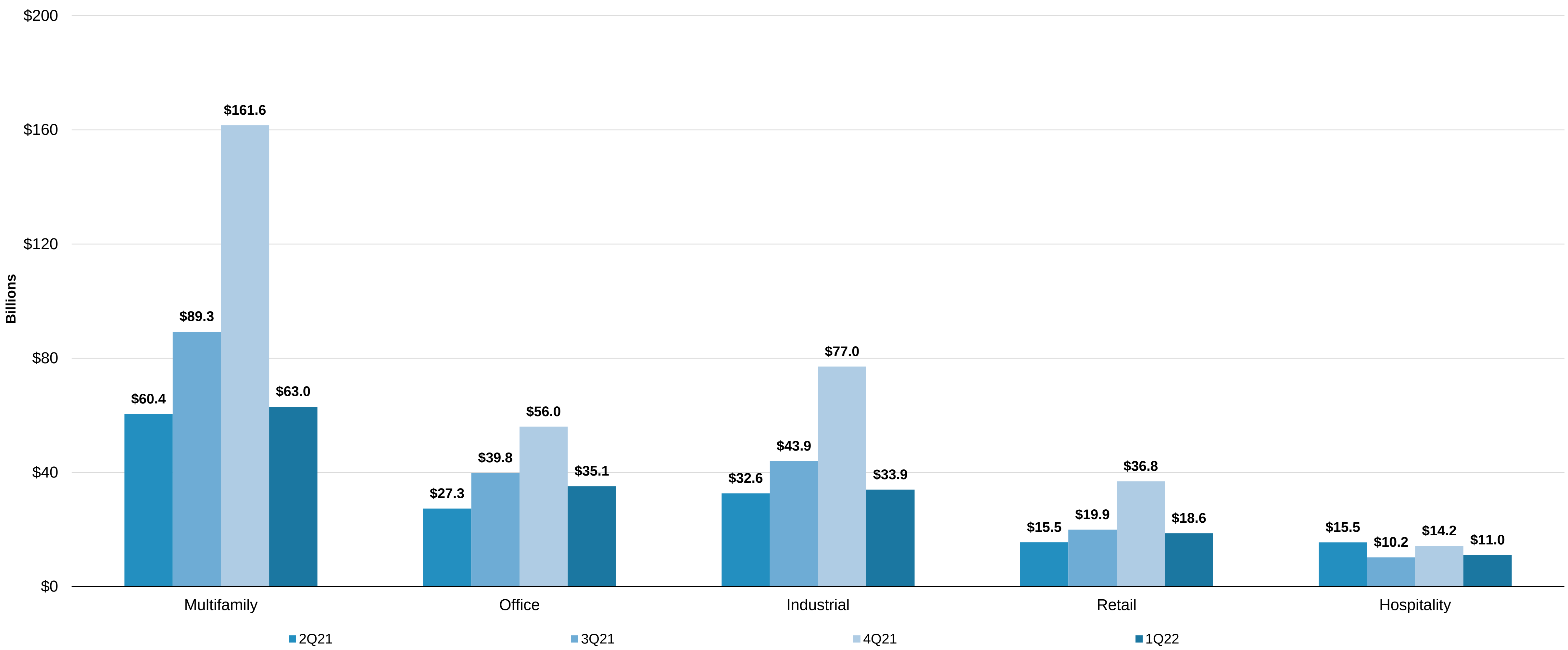
Quarterly investment volume increased by 55.6% year-over-year to $170.8 billion in 1Q22, representing the largest first quarter volume total in history. Although investment momentum has slowed in 2022 after a record-shattering 4Q21, the four-quarter moving average reinforces the check-mark shaped recovery that has occurred in commercial real estate. Many investors have opted to transact in the first half of 2022, in anticipation of high costs of debt, a more uncertain political environment following the Midterm elections and decelerating employment growth in the second half of the year.



Source: Newmark Research, Real Capital Analytics

Quarterly Sales Volume by Property Type

Multifamily remained the most sought-after property type in commercial real estate in the pandemic era, with volume increasing by 56.4% year-over-year to $63 billion in 1Q22 – while Sunbelt markets continue to experiences the highest levels of rental growth, gateway markets have also experienced sharp recoveries, particularly as the cost of single-family homes remain at all-time highs. Office, retail and hospitality volume have also normalized as investors have grown more confident about the recovery of travel and leisure spending and the return of white-collar workers to the office.

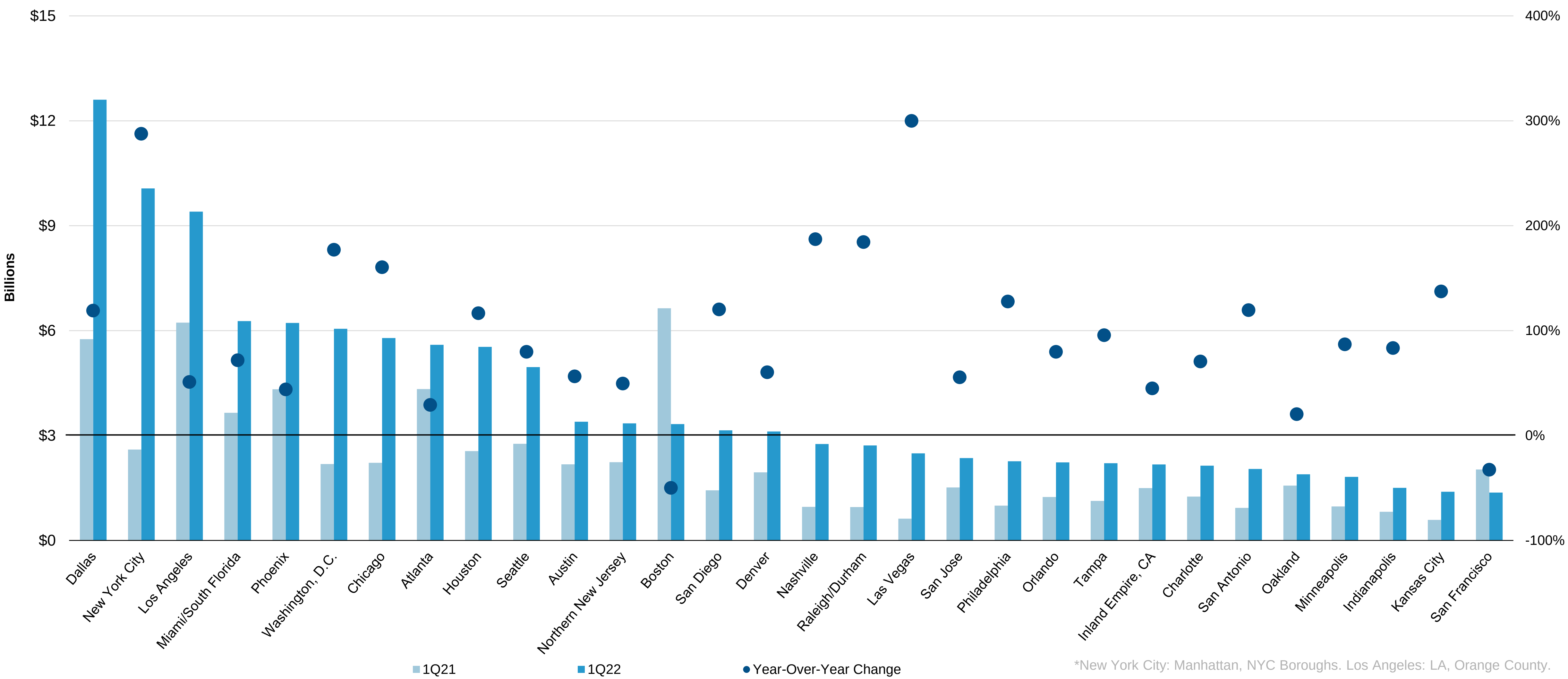


Source: Newmark Research, Real Capital Analytics

Top 30 US Markets by Investment Sales Volume

All Property Types

Dallas attracted the most investment volume of any market in the US in 1Q22, increasing 119% year-over-year to $12.6 billion. In addition to the fast-growing Sunbelt markets like Las Vegas, Nashville and Raleigh, the largest coastal gateway markets, namely New York City, Los Angeles and Washington, D.C. have all recorded substantial year-over-year investment volume growth, bolstered by improving investor appetite for trophy office product and a more positive retail spending and tourism outlook following the reduction in COVID-19 restrictions.



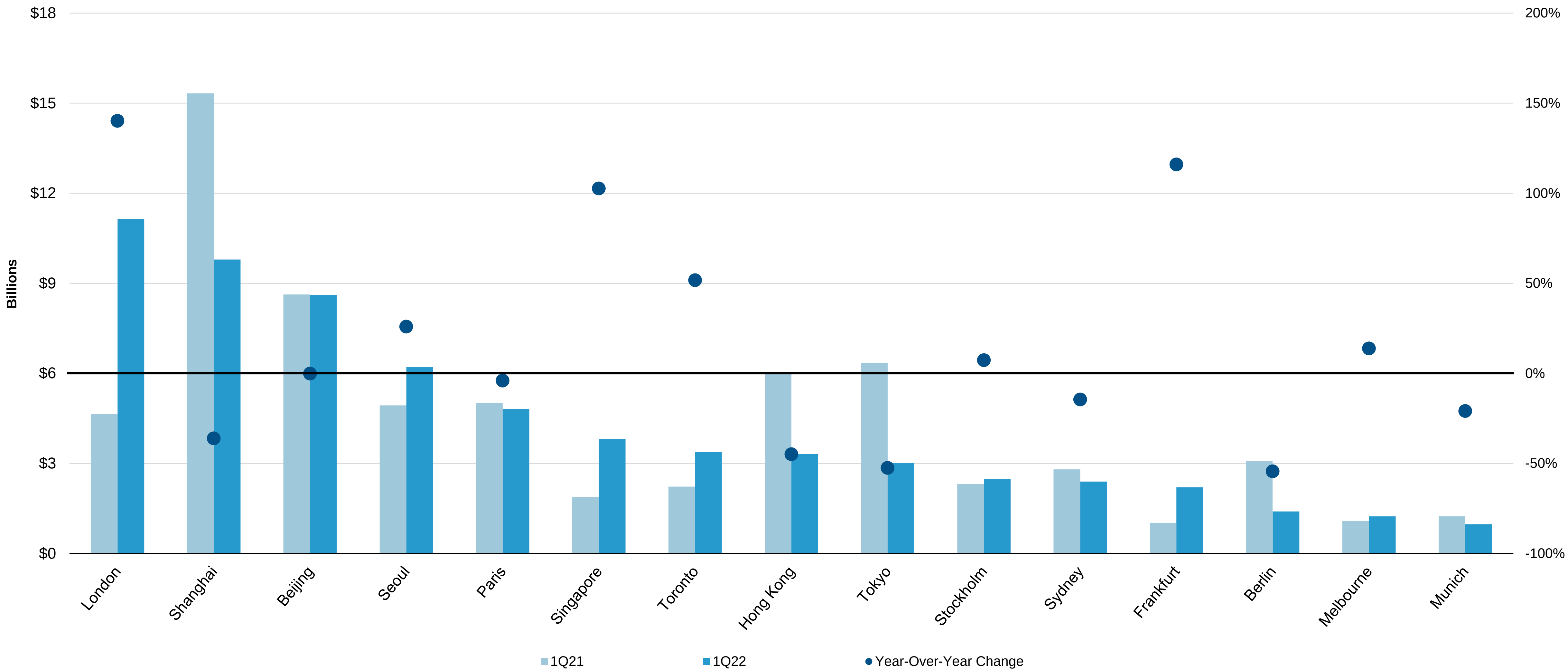
*New York City: Manhattan, NYC Boroughs. Los Angeles: LA, Orange County. Miami: Miami-South Florida: Broward, Palm Beach County. Washington, DC: DC, VA suburbs, MD suburbs.

Source: Newmark Research, Real Capital Analytics

Top 15 International Markets by Investment Sales Volume

All Property Types

London attracted the largest amount of capital of any international city in 1Q22, with volume increasing 140.2% year-over-year to $11.1 billion, aided by several $500+ million trophy office transactions. Several markets in China have recorded volume declines, such as Shanghai and Hong Kong, as concerns mount about a slowing economy, economic fallout from the residential property sector / Evergrande debt crisis and the increasing severity of COVID-19 lockdowns in large cities.

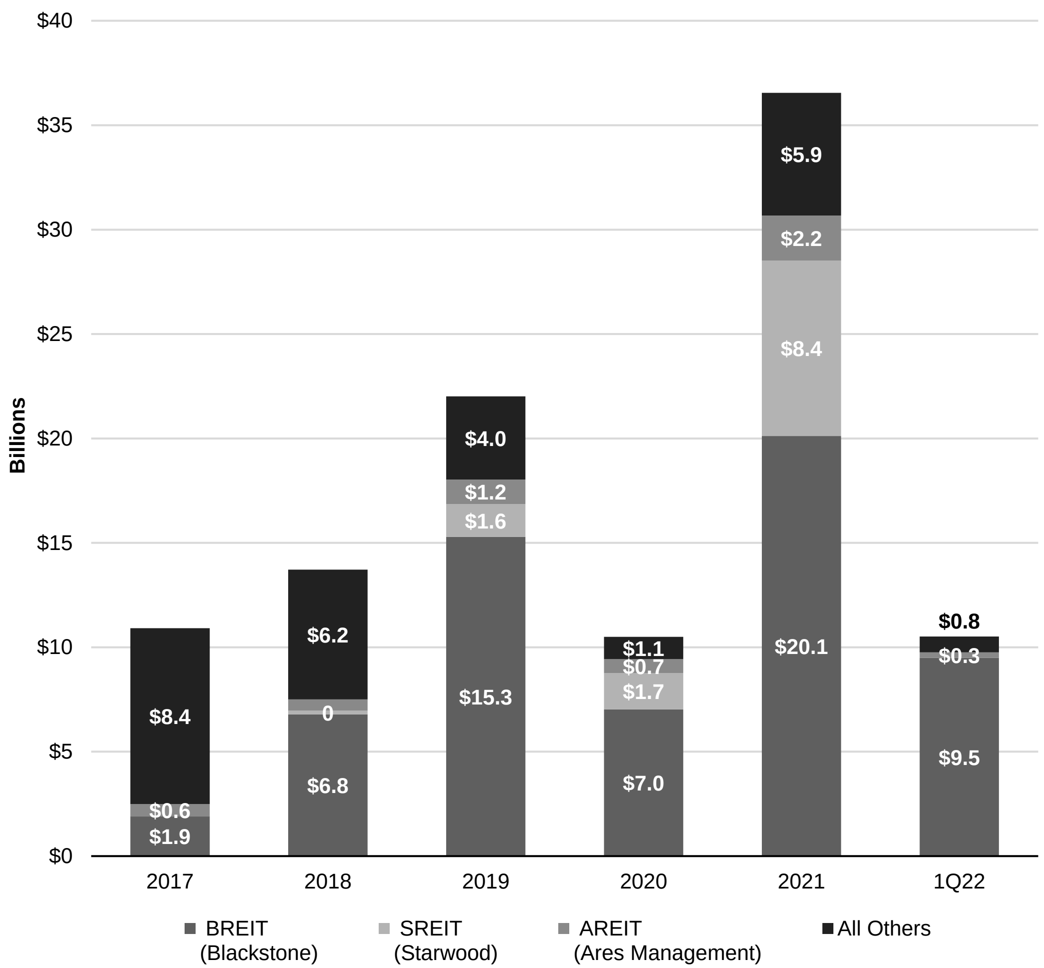


Source: Newmark Research, Real Capital Analytics

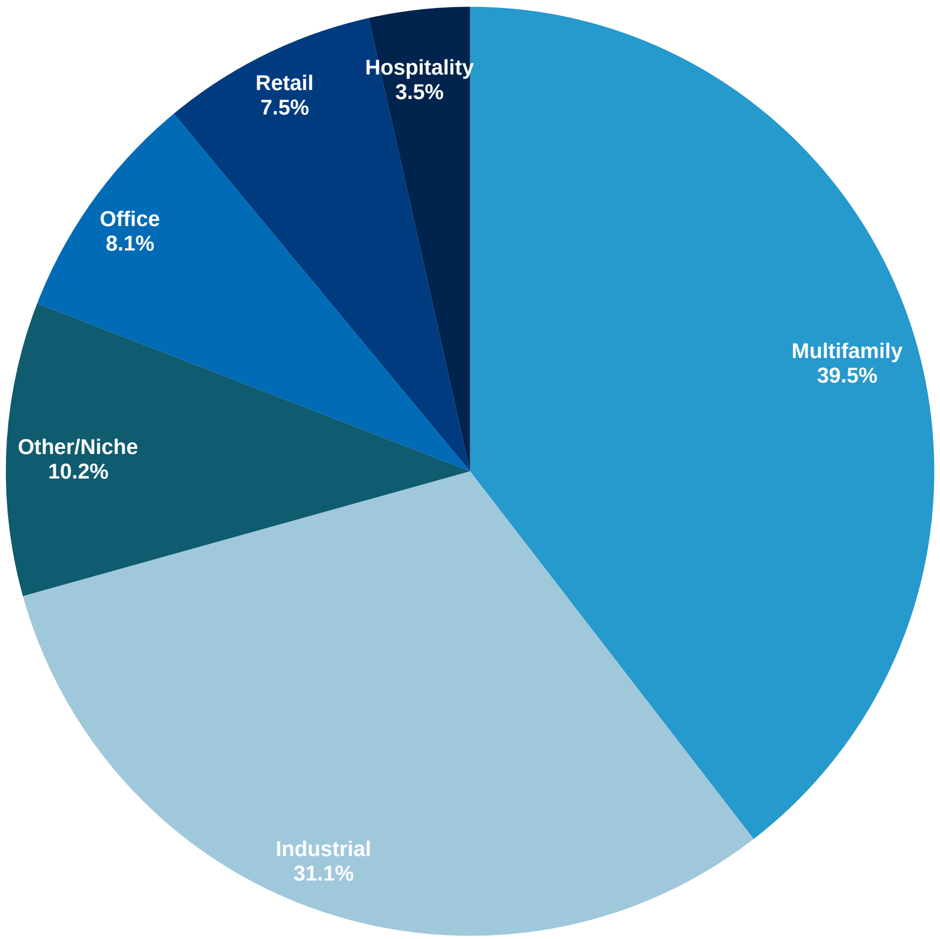
Non-Traded REIT Momentum

The record-breaking pace of non-traded REIT spending has continued into 2022, with investment volume surpassing $10 billion in 1Q22, driven almost entirely by Blackstone's BREIT, which was responsible for over 90% of the activity. Multifamily and industrial remain the largest targets as non-traded REITs prioritize income-oriented and defensive assets to provide consistent and reoccurring distributions.

Capital Deployed*



Five-Year Allocation of Deployed Capital by Property Type**



*Includes transactions that are under contract

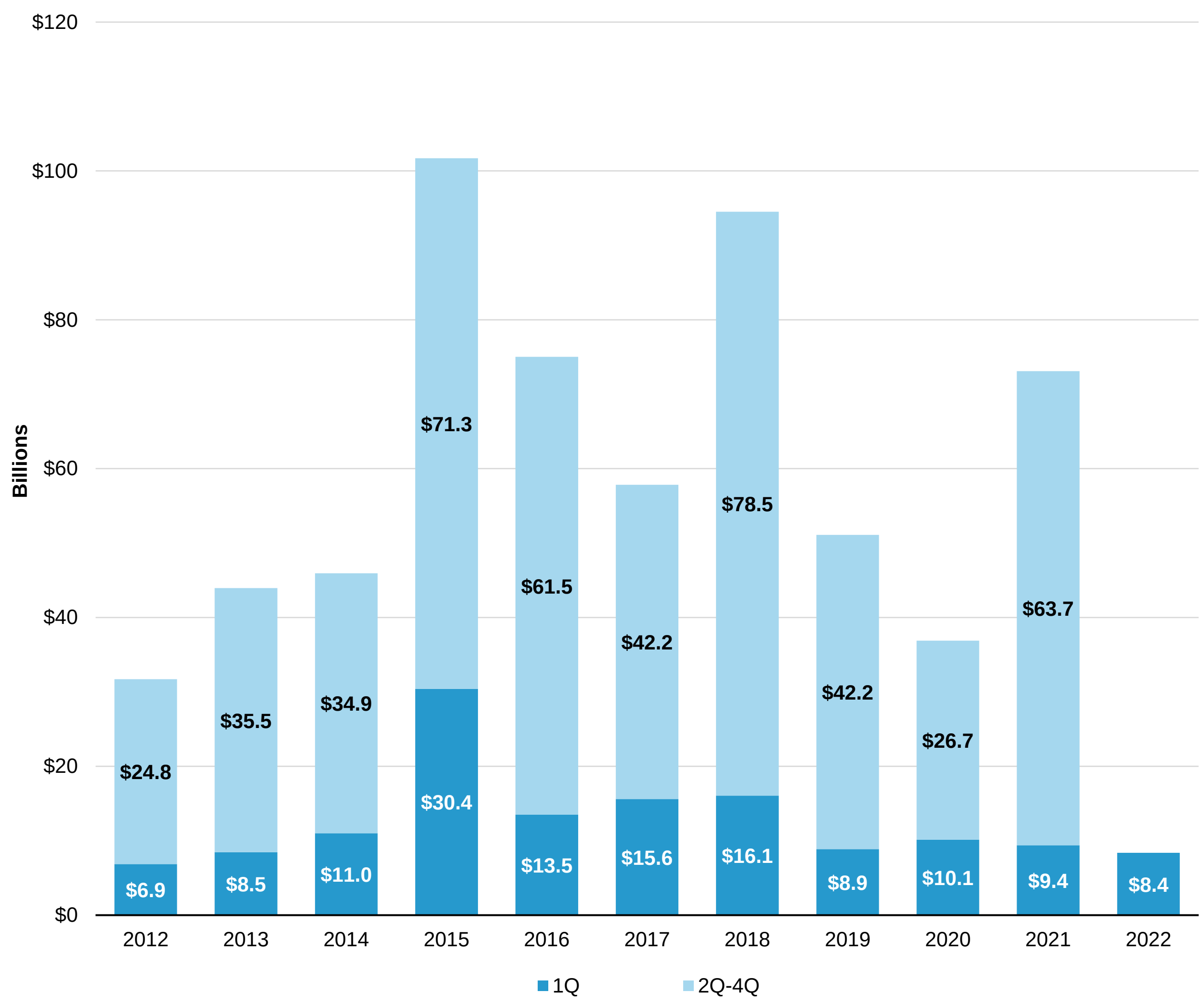
**Single family rentals not included in volume or allocation

Source: Newmark Research, Real Capital Analytics

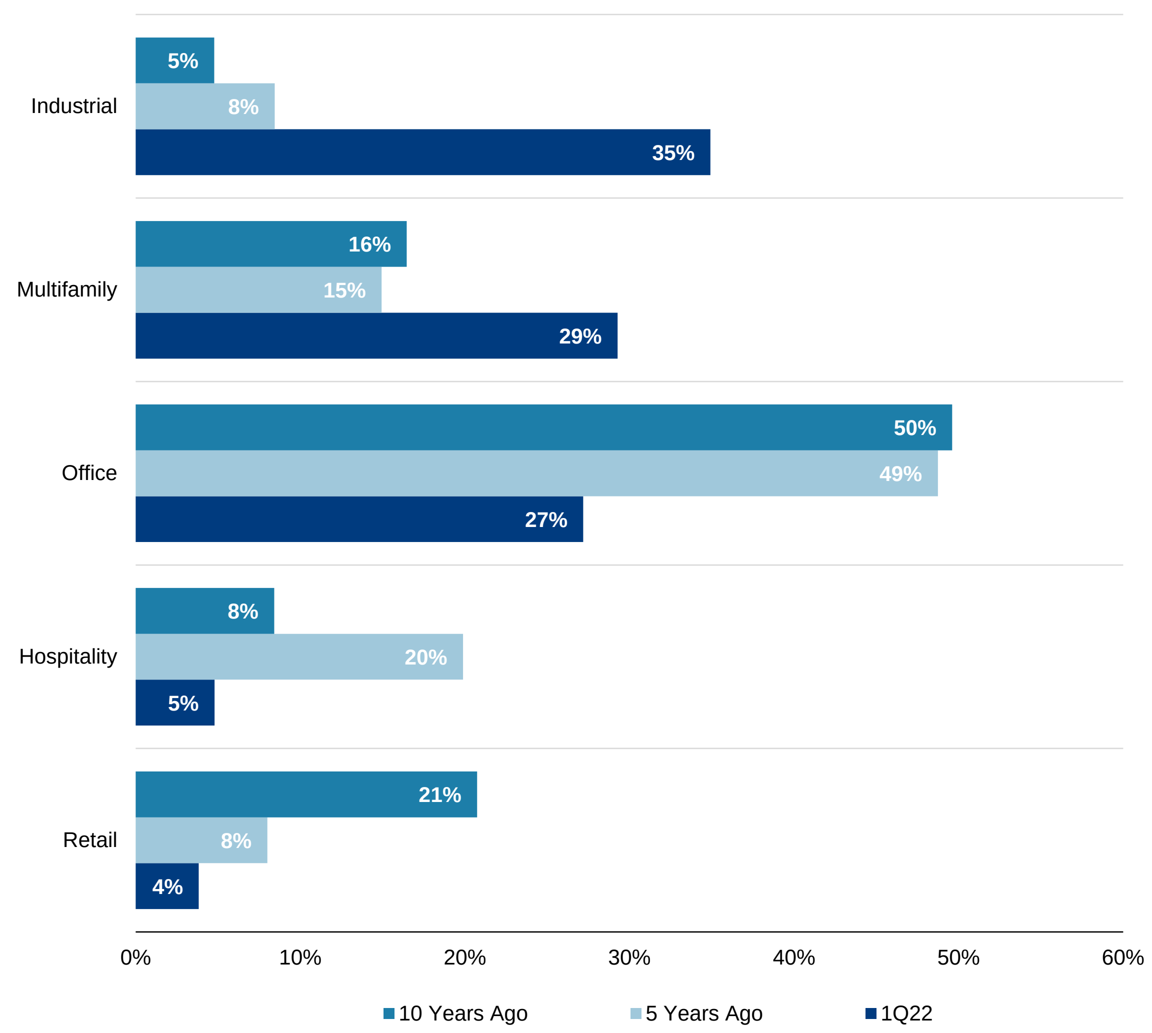
Composition of International Capital

Following one of the highest volume years for international capital in history in 2021, acquisitions by international groups fell 10.9% year-over-year to $8.4 billion in 1Q22. Mirroring the allocation changes by domestic groups, international capital has adjusted its allocation away from office and towards multifamily and industrial – in fact, industrial was the largest allocation for international groups in 1Q22, at an unprecedented 35% of total volume.

Investment Volume



Allocation of Capital

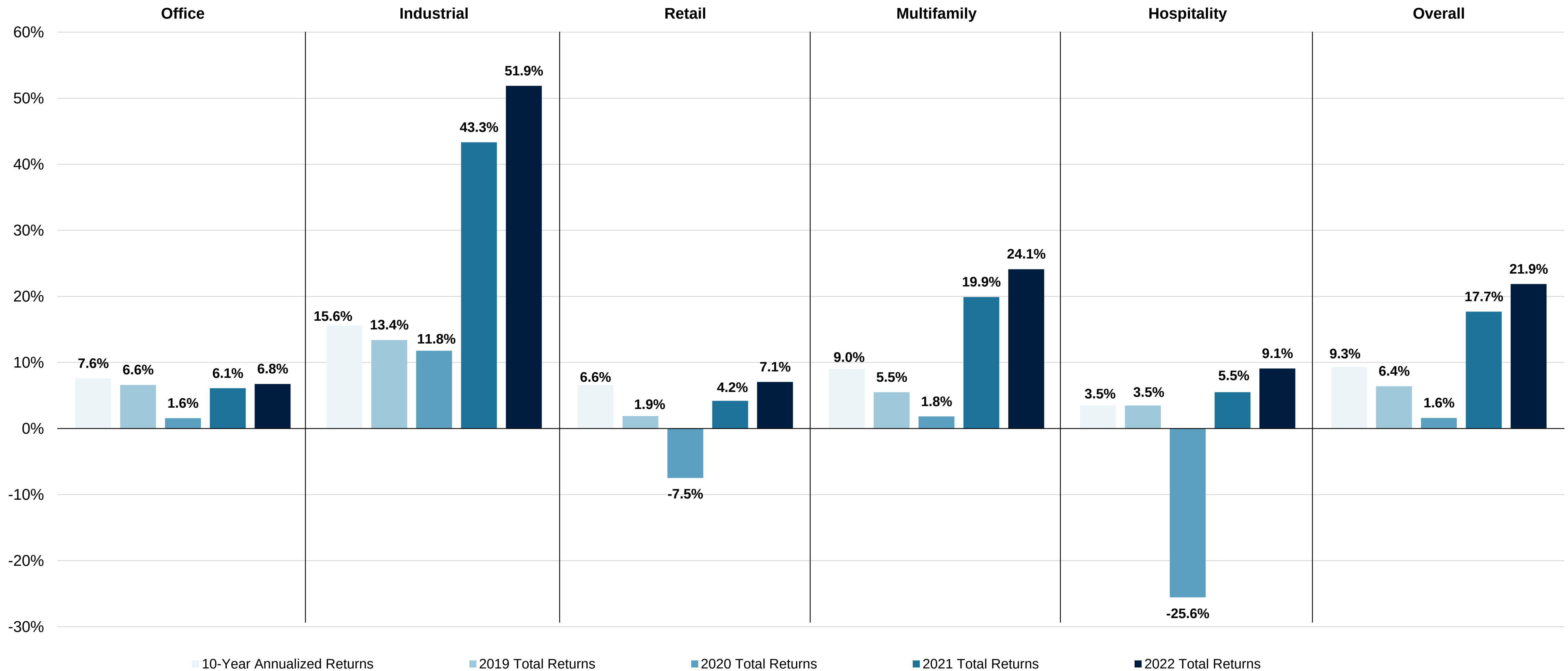


Source: Newmark Research, Real Capital Analytics

Total Returns by Property Type

Total Returns = Income + Appreciation

NCREIF annualized total returns for commercial real estate climbed to 21.9% in 1Q22, driven by record-breaking total returns in industrial and multifamily as well as an accelerating recovery in hospitality, retail and office. Though underlying fundamentals for industrial and multifamily assets have remained strong throughout the pandemic, investor price expectations and fierce competition for assets have played an even more sizable role in accelerating returns in 2021 and 2022.



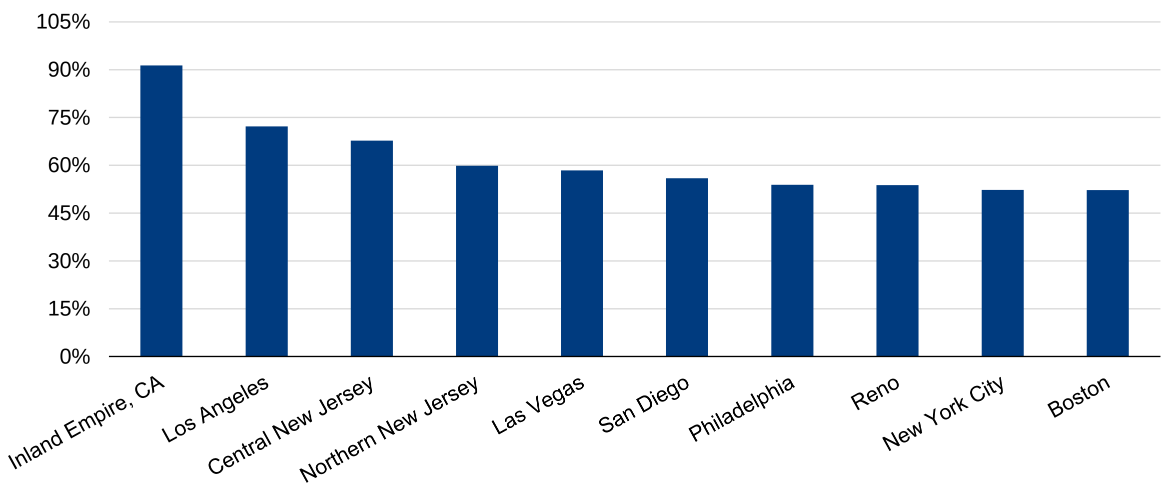
Source: Newmark Research, NCREIF

Top 10 Markets by Total Returns and Property Type

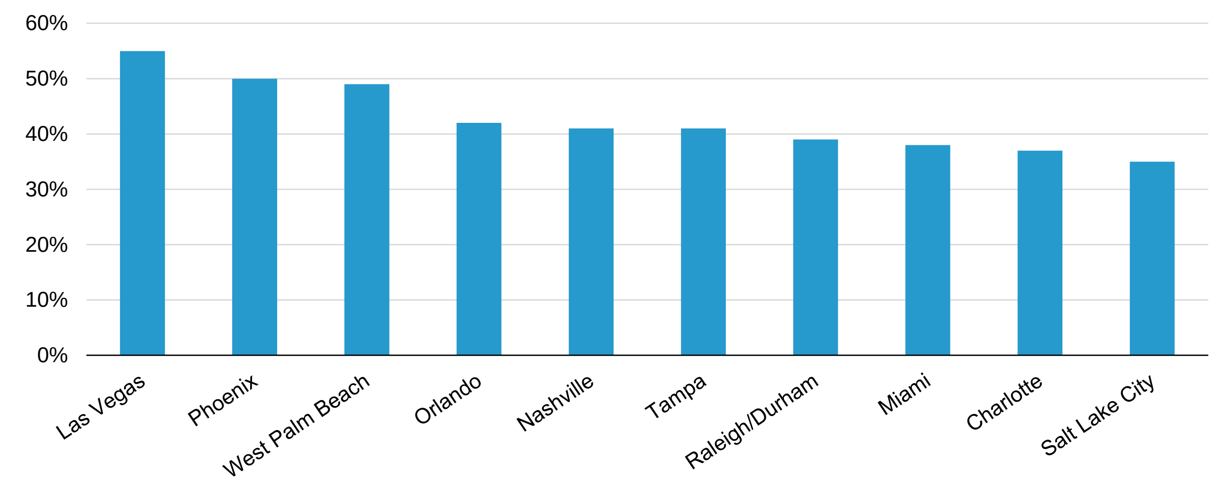
NCREIF Property Index Annualized Total Returns; 1Q22

The acceleration of industrial total returns has reached unprecedented levels with the Inland Empire, CA and New Jersey markets recording annualized returns above 50% in 1Q22, driven almost entirely by soaring appreciation and investor price expectations. Similarly, total returns in Sunbelt multifamily markets set records, with Las Vegas. Phoenix and West Palm Beach recording annualized returns over 40%.

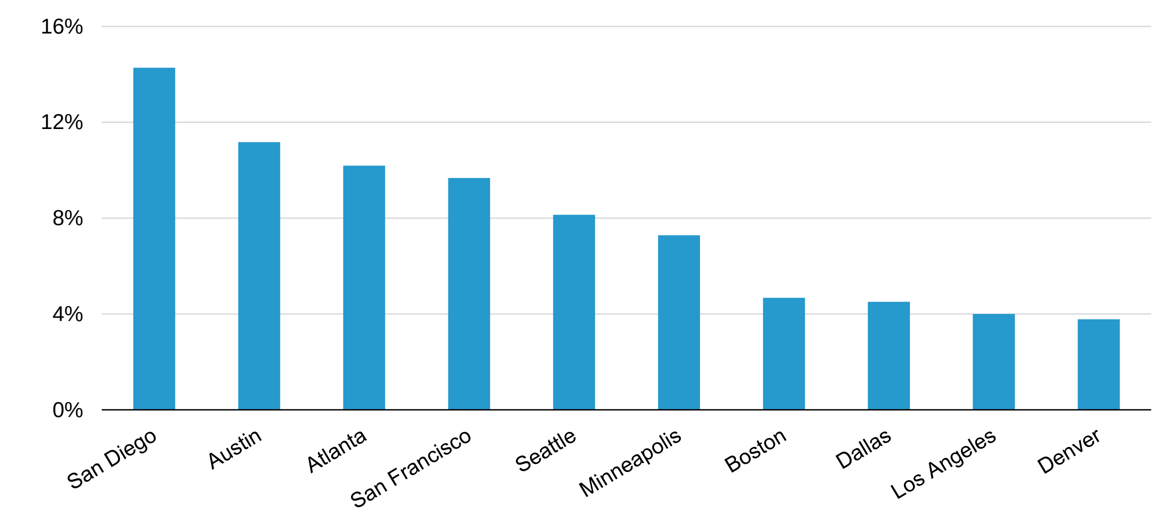
Industrial



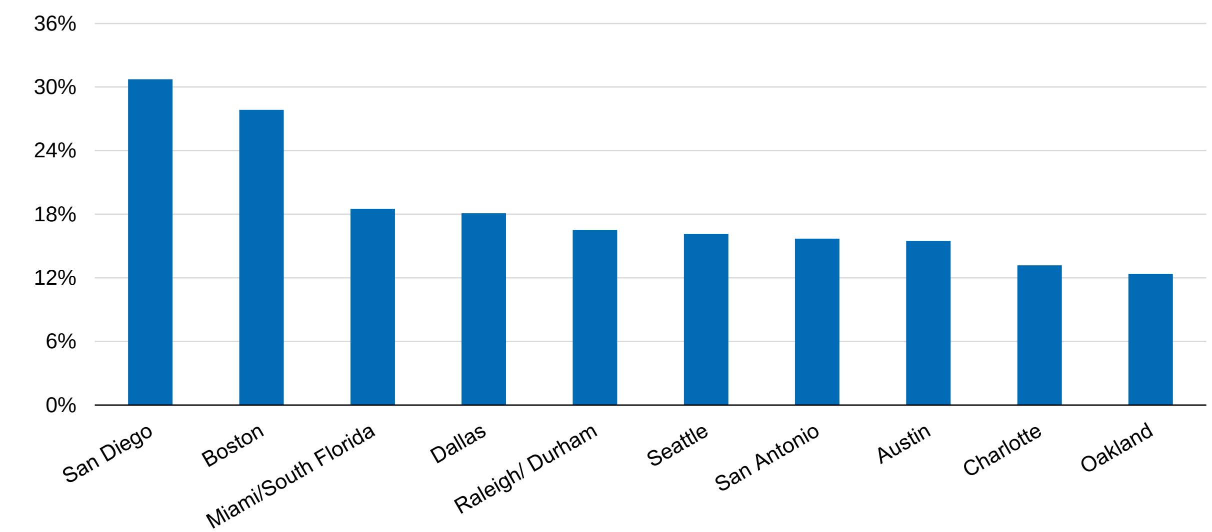
Multifamily



Urban Office



Suburban Office

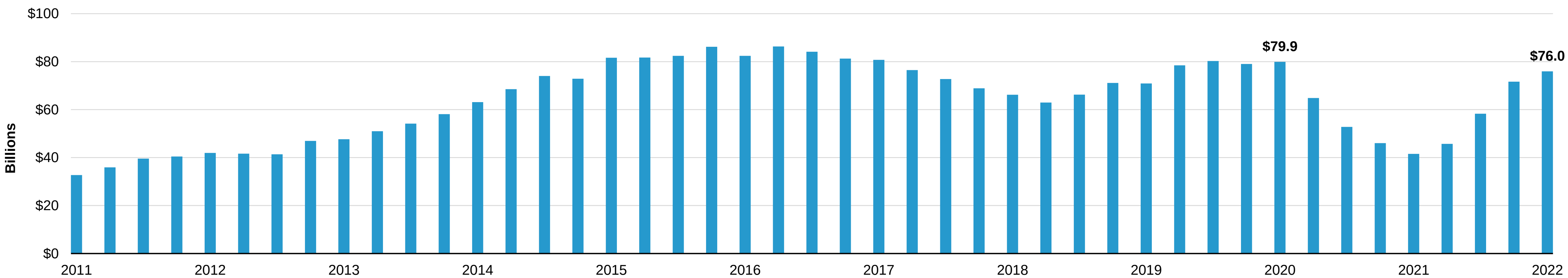


Source: Newmark Research, NCREIF

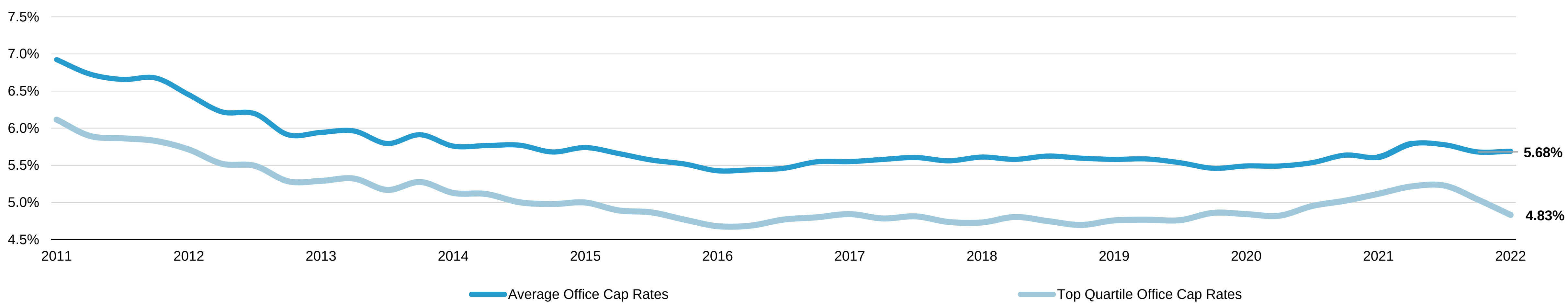
Gateway Office Market Conditions

Rolling 12-month gateway* office market investment volume accelerated to $76.0 billion in 1Q22, representing an 82.9% increase from the lowest point in the pandemic. While office vacancy rates remain elevated and uncertainty over the future of in-person work persists for many large tenants, the demand for higher quality, well-located assets has gained traction. This flight to quality is reinforced in the movement of cap rates, with top-quartile rates decreasing by 21 basis-points to 4.83% in 1Q22, while average cap rates remain higher than pre-pandemic levels.

Rolling 12-Month Office Sales Volume



Cap Rates



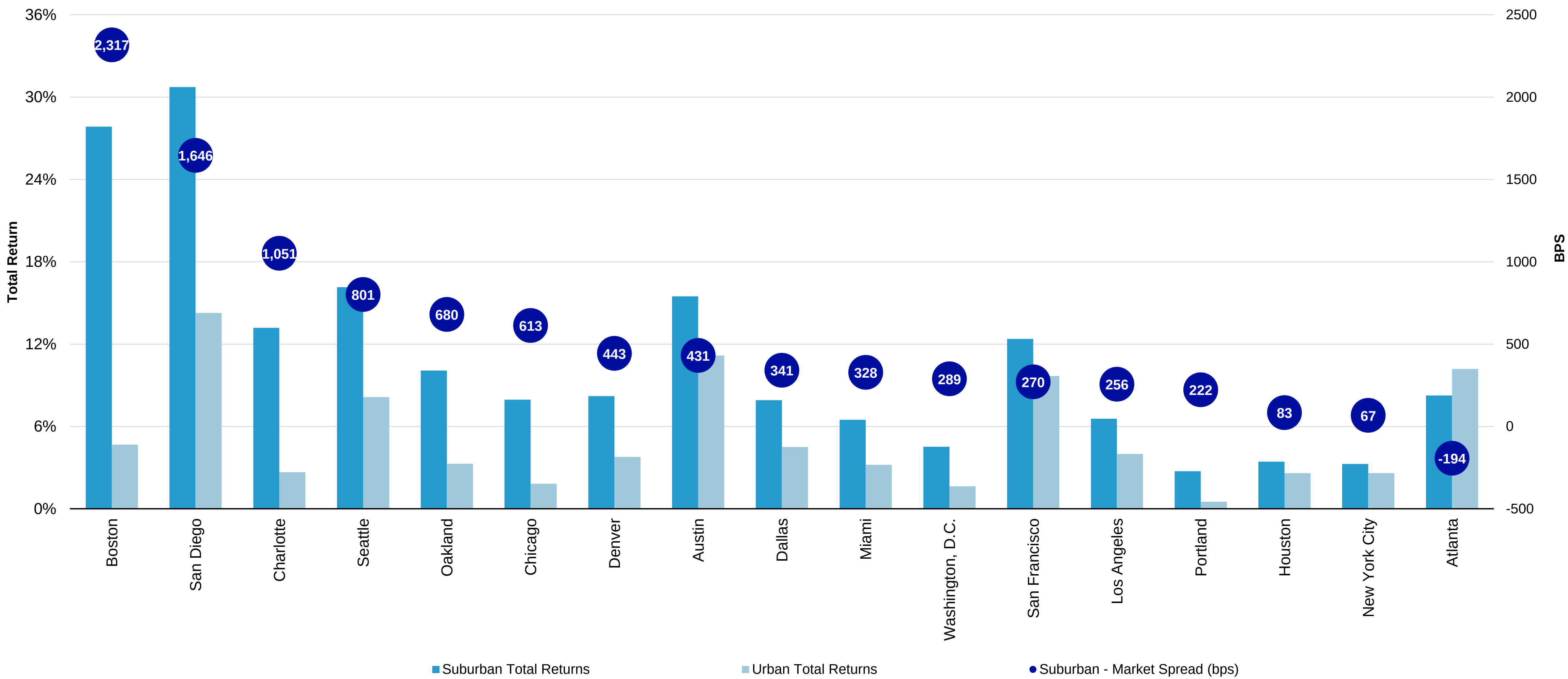
*Boston, Los Angeles, New York City, San Francisco, Seattle, Washington, D.C.

Source: Newmark Research, Real Capital Analytics

Suburban vs. Urban Office Total Returns by Market

Select Markets; Annualized Total Returns; 1Q22

Suburban office product continues to outperform urban product in the majority of metros, with life science cluster markets such as Boston and San Diego recording the largest spreads in total returns. In response to intense competition for life science assets in downtown Cambridge/Kendall Square, Boston life science investors and developers have increasingly targeted suburban markets such as Somerville, Watertown and Waltham.

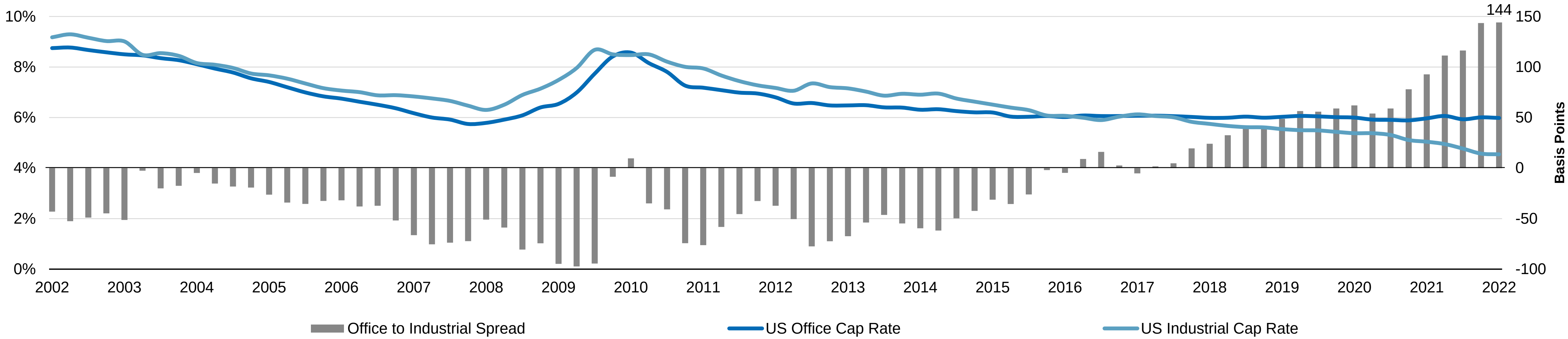


Source: Newmark Research, NCREIF

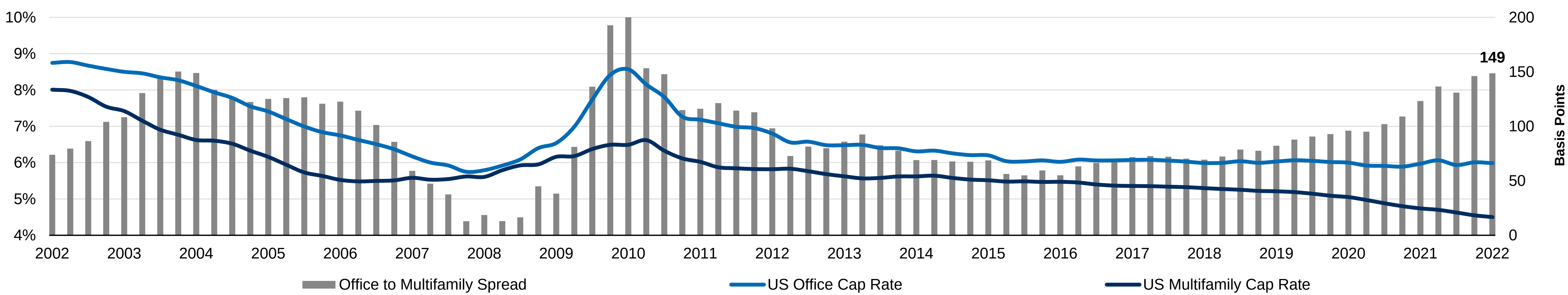
Office Cap Rate Spread to Multifamily and Industrial

Continued cap rate compression in both industrial and multifamily has widened the spread with office cap rates to 144 and 149 basis points in 1Q22, respectively, which has created opportunities for office acquisitions at historically attractive yields.

Office-Industrial Cap Rate Spread



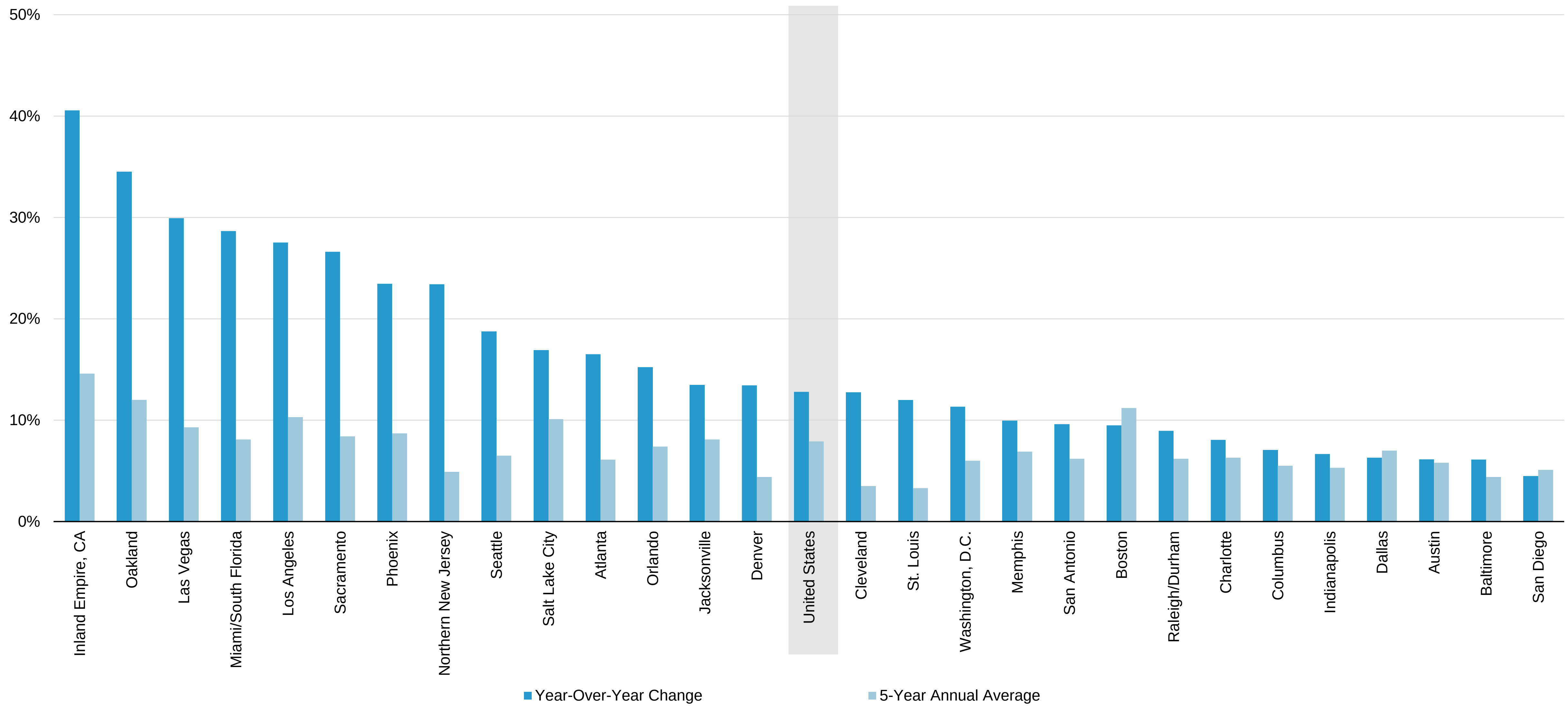
Office-Multifamily Cap Rate Spread



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

Industrial Rent Growth by Market

Mission-critical, seaport-serving markets such as Los Angeles, the Inland Empire, Miami and Northern New Jersey are facing a severe lack of available space, which is driving intense competition for limited opportunities. Tenants priced out of competition or unable to find space in those regions are flowing to supportive secondary markets.

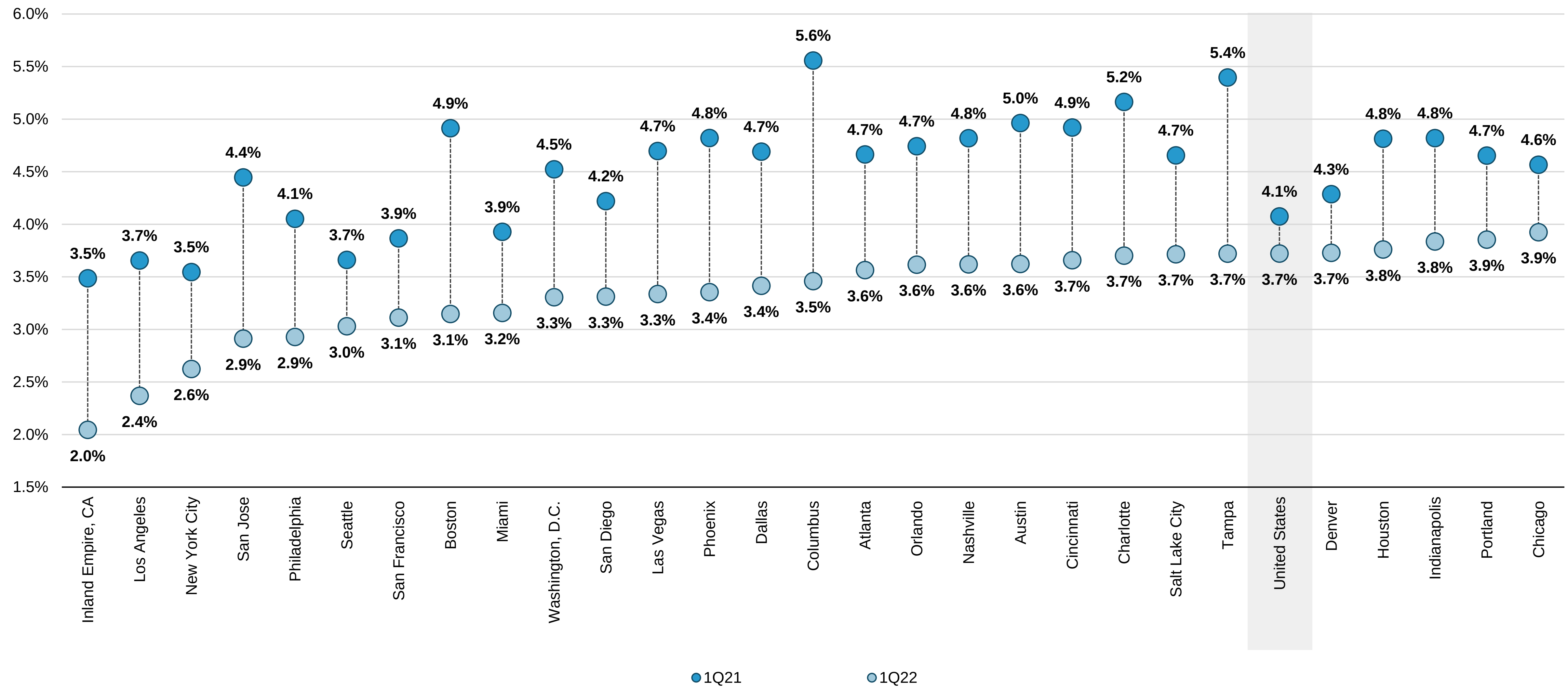


Source: Newmark Research

Industrial Warehouse Cap Rate Compression

Select Metropolitan Areas; Value-Weighted Cap Rates

National cap rates for institutional-quality industrial warehouse product have compressed by 36 basis points on average in 1Q22 compared with 1Q21, reaching just 3.72%. Demand for last-mile product in land-constrained coastal gateway markets such as New York City and Los Angeles has pushed cap rates below 3%, prompting conversions from obsolete retail and office product and the development of multi-story warehouses as well as encouraging investors to “land-bank” scarce development sites and plots for future industrial development.



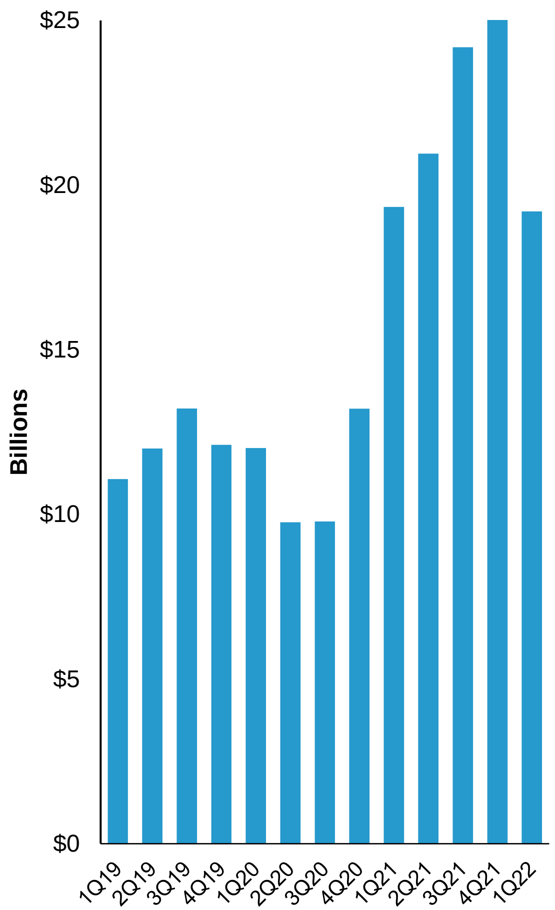
Source: Newmark Research, NCREIF

Alternative Property Types

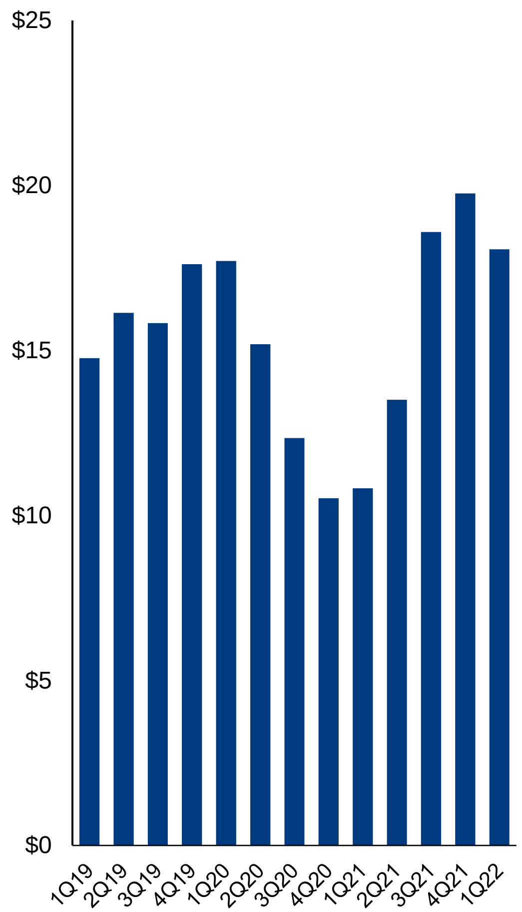
Rolling 12-Month Totals

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 $80.0 billion in the four quarters ending in 1Q22. Self storage has benefited from increased investor demand, with pandemic-related displacement, migration and life events driving NOI growth. Medical office also continues to attract high levels of investor demand, in part because there has not been a structural shift in tenant demand, unlike conventional office product.

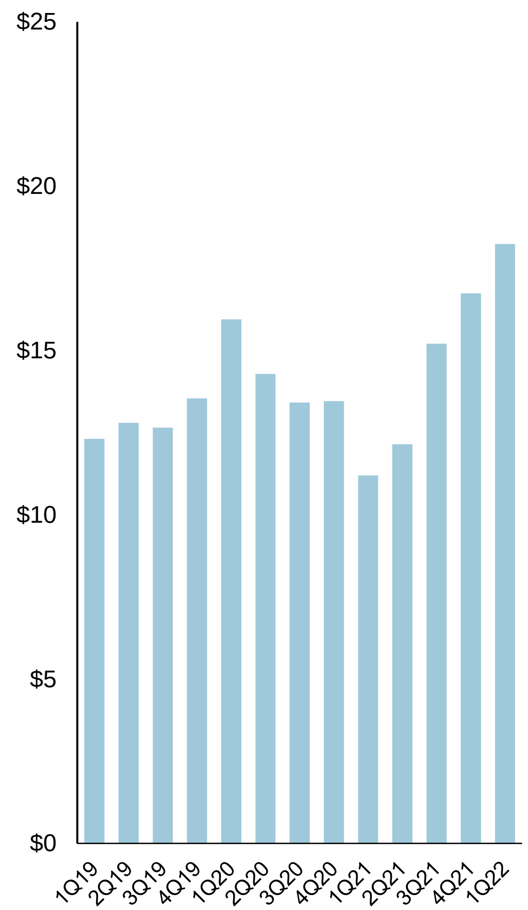
Life Science / R&D



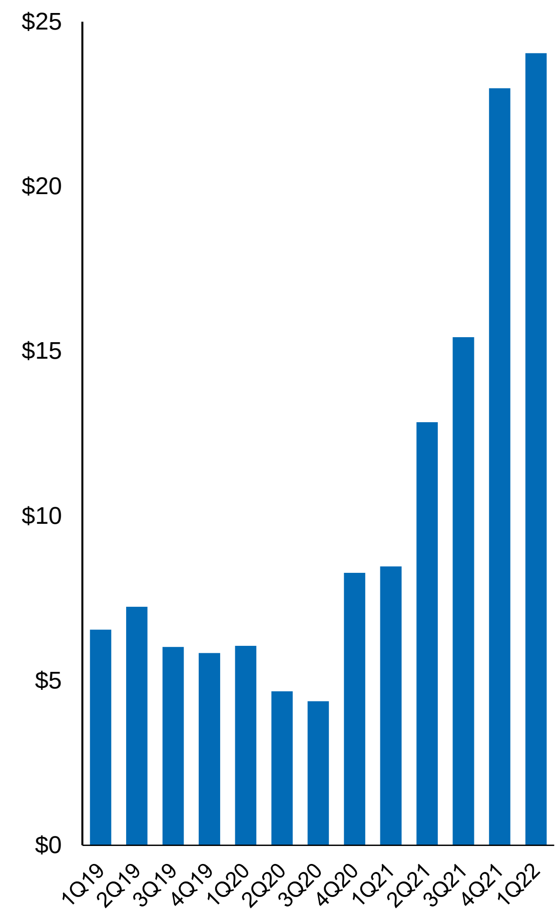
Seniors Housing



Medical Office



Self Storage



Source: Newmark Research, Real Capital Analytics

Top United States Transactions in 1Q22

All Property Types; Closed Transactions

Single Asset Trades

Property	Price
The Venetian Las Vegas Las Vegas, Nevada *Hospitality / Casino* Buyer: VICI Properties	**$4.0 B**
550 Washington Street New York, New York *Office* Buyer: Alphabet	**$2.0 B**
One Manhattan West (Minority Interest) New York, New York *Office* Buyer: Blackstone	**$1.4 B**
616 1st Avenue (American Copper) New York, New York *Multifamily* Buyer: Black Spruce Properties, Orbach Group	**$837 M**
613 Fairview Avenue NE (Lakefront Blocks) Seattle, Washington *Office* Buyer: DekaBank	**$819 M**

Portfolio Trades

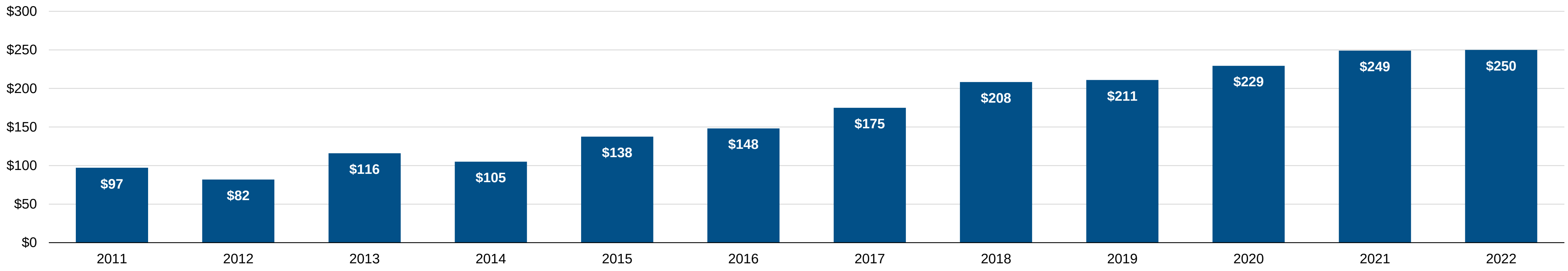
Property	Price
National Limited-Service Hotel 111 Properties *Hospitality* Buyer: Blackstone, Starwood	**$1.5 B**
National Shopping Center 81 Properties *Retail* Buyer: The Necessity Retail REIT	**$1.3 B**
National Warehouse 75 Properties *Industrial* Buyer: Equus Capital Partners	**$883 M**
Southwest Hotel 27 Properties *Hospitality* Buyer: Summit Hotel Properties, GIC	**$776 M**
Sunbelt Multifamily 3,473 Units *Multifamily* Buyer: GV&A RE Investments	**$703 M**

Source: Newmark Research, Real Capital Analytics

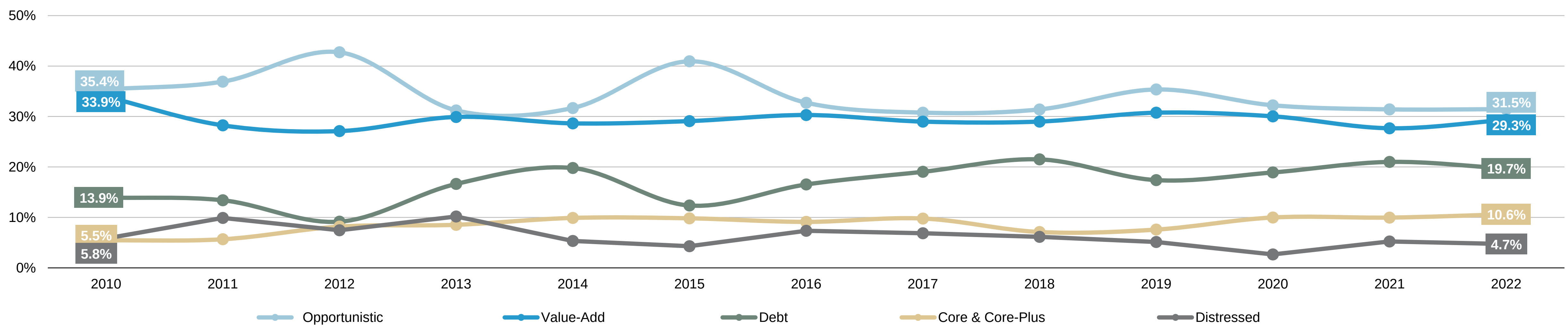
Dry Powder

Following an all-time record year for capital deployment, the dry powder accumulated by North-America focused real estate funds has remained relatively flat, at $250 billion in 1Q22 . Opportunistic and value-add strategies make up 60.8% of this dry powder, however this is in part due to many core and core-plus funds falling under the open-ended structure to accommodate longer holding periods.

Dry Powder – Closed-End Funds



Dry Powder by Strategy*



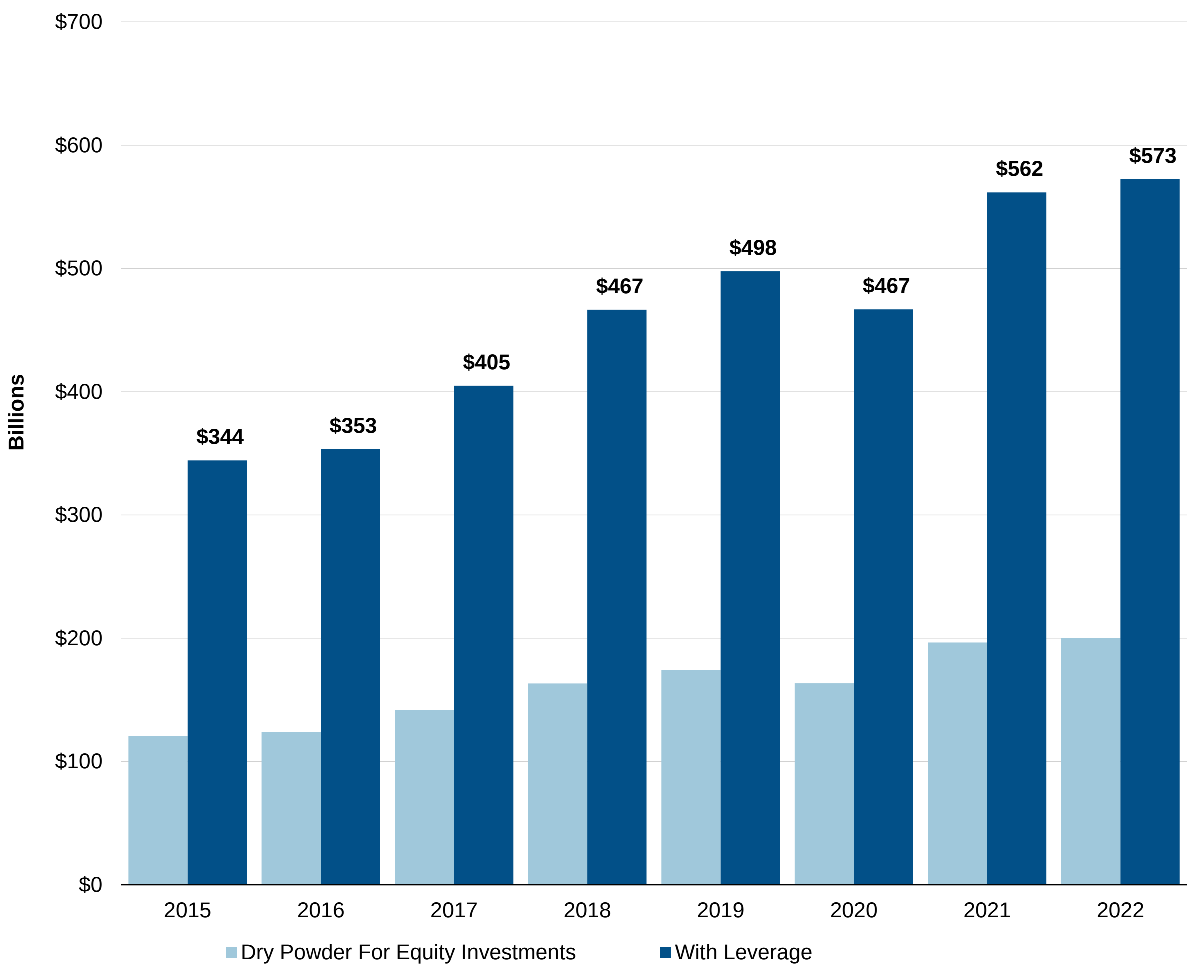
*Not shown: Fund of funds, co-investments, and secondaries strategies

Source: Newmark Research, Preqin

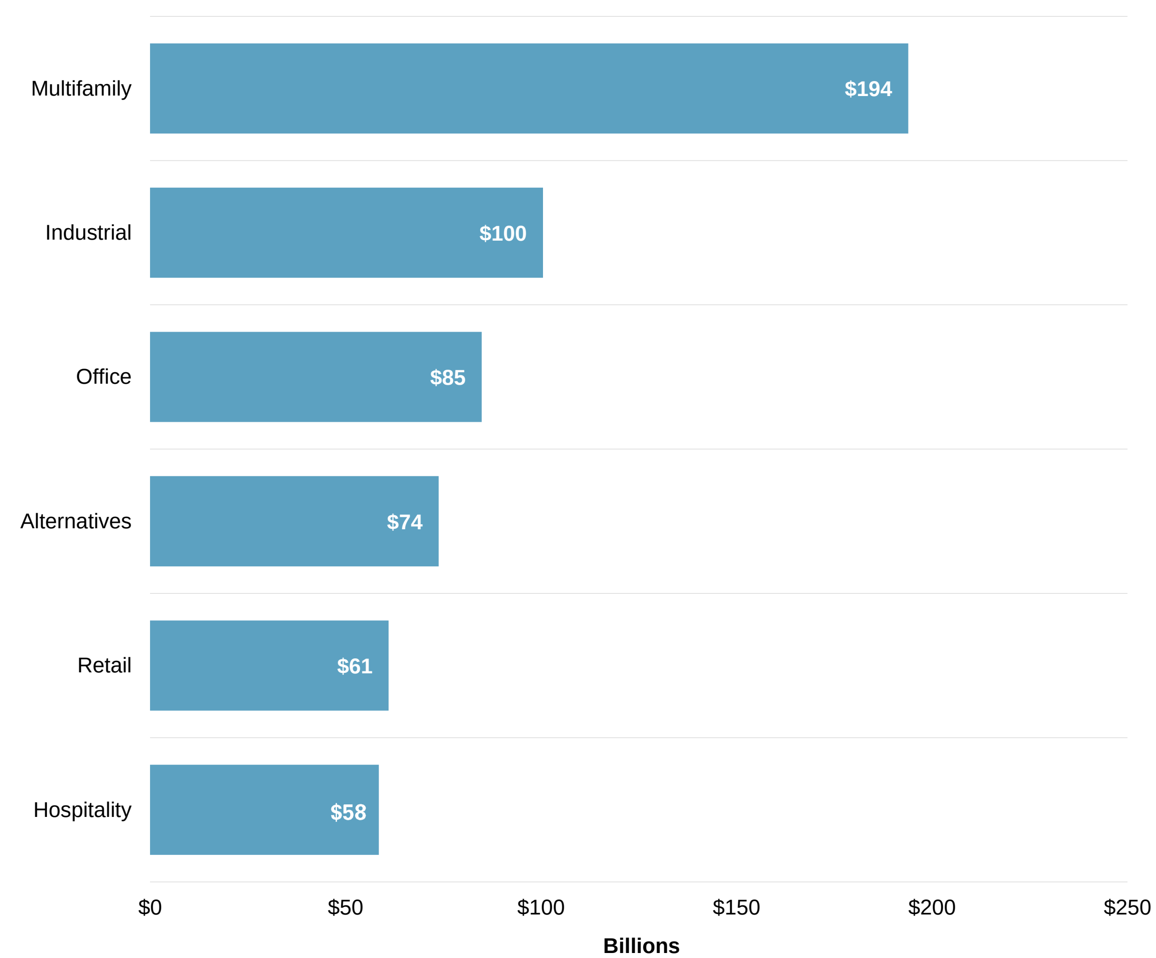
Dry Powder with Leverage

The $200 billion in dry powder raised for equity investments – not including dry powder raised for debt strategies – equates to a leveraged purchasing power of $573 billion, using a 65% loan-to-value ratio. If investors were to allocate this leveraged purchasing power according to their 2022 allocations, $194 billion would be invested in multifamily alone, followed by $100 billion allocated to industrial product.

Dry Powder at 65% Leverage



2022 Leveraged Dry Powder By Property Type

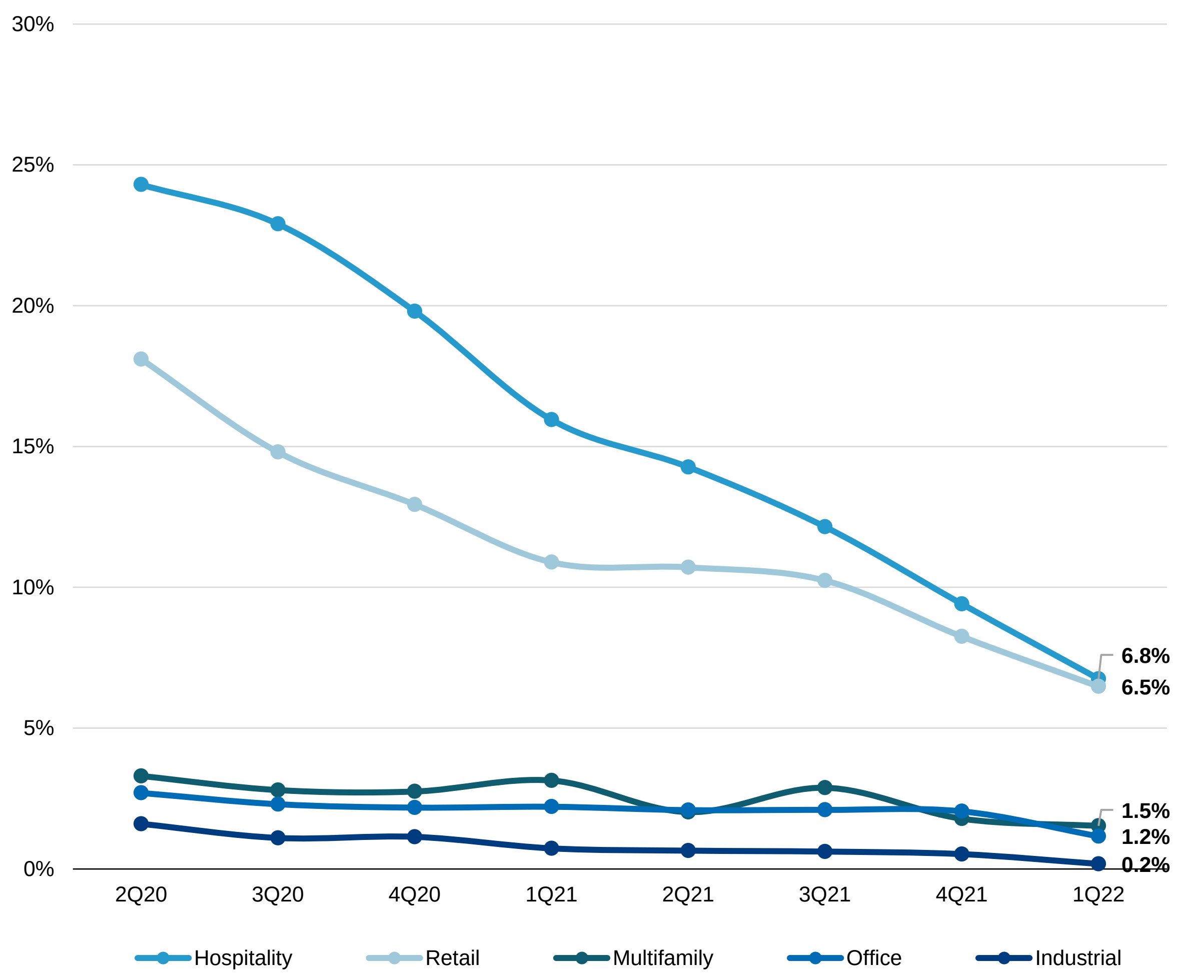


Source: Newmark Research, Real Capital Analytics, Preqin

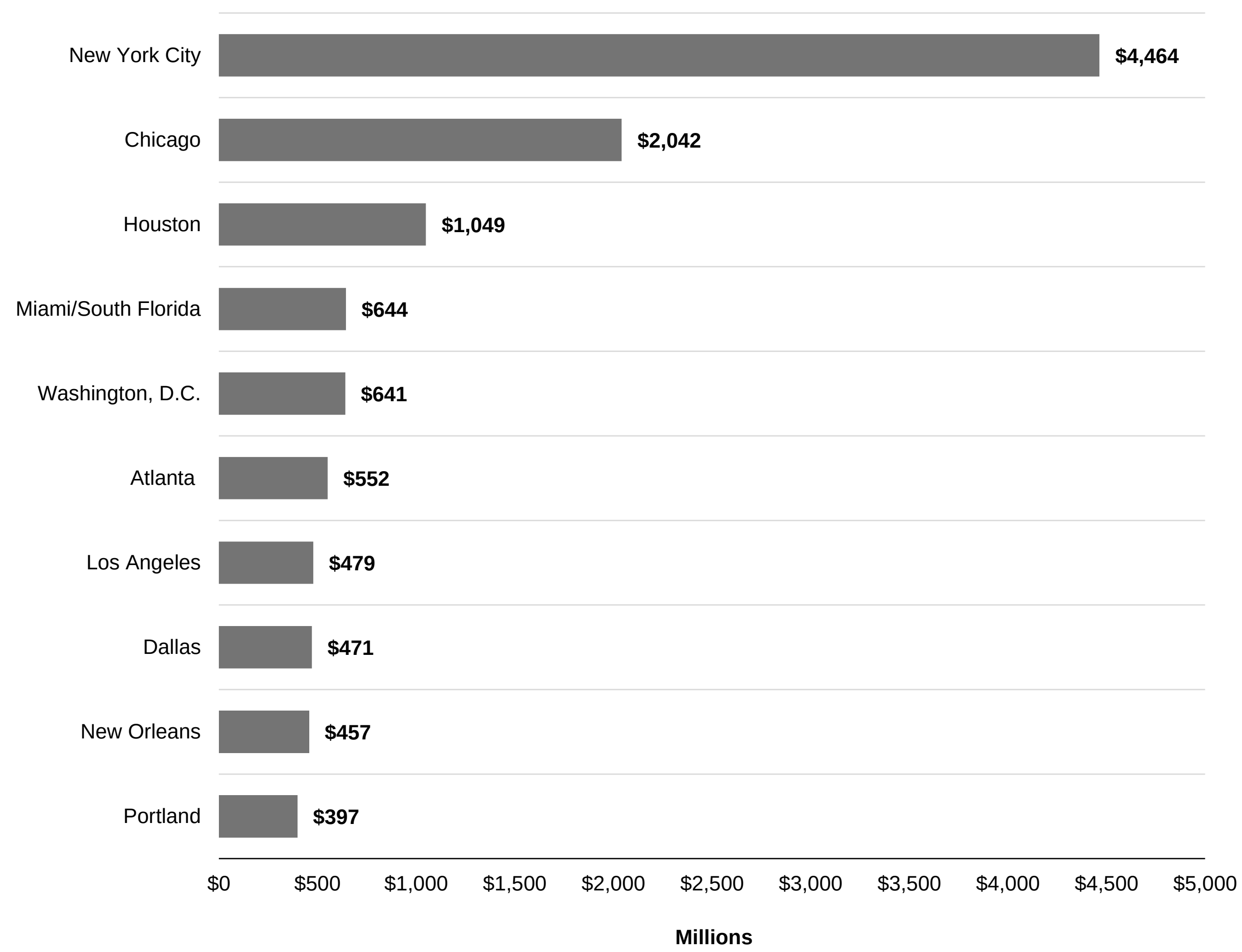
CMBS Delinquency Rates

Delinquency rates for hospitality and retail have continued to fall from their pandemic peaks, finishing 1Q22 at 6.8% and 6.5%, respectively – the lifting of COVID-19 restrictions combined with high levels of consumer savings and pent-up demand for leisure travel are contributing to positive investor confidence in both sectors. Workouts between borrowers and lenders have supported the improvement in delinquency, with the focus being on long-term asset value over short-term negative performance caused directly by the pandemic.

By Property Type



Delinquent Balance by MSA

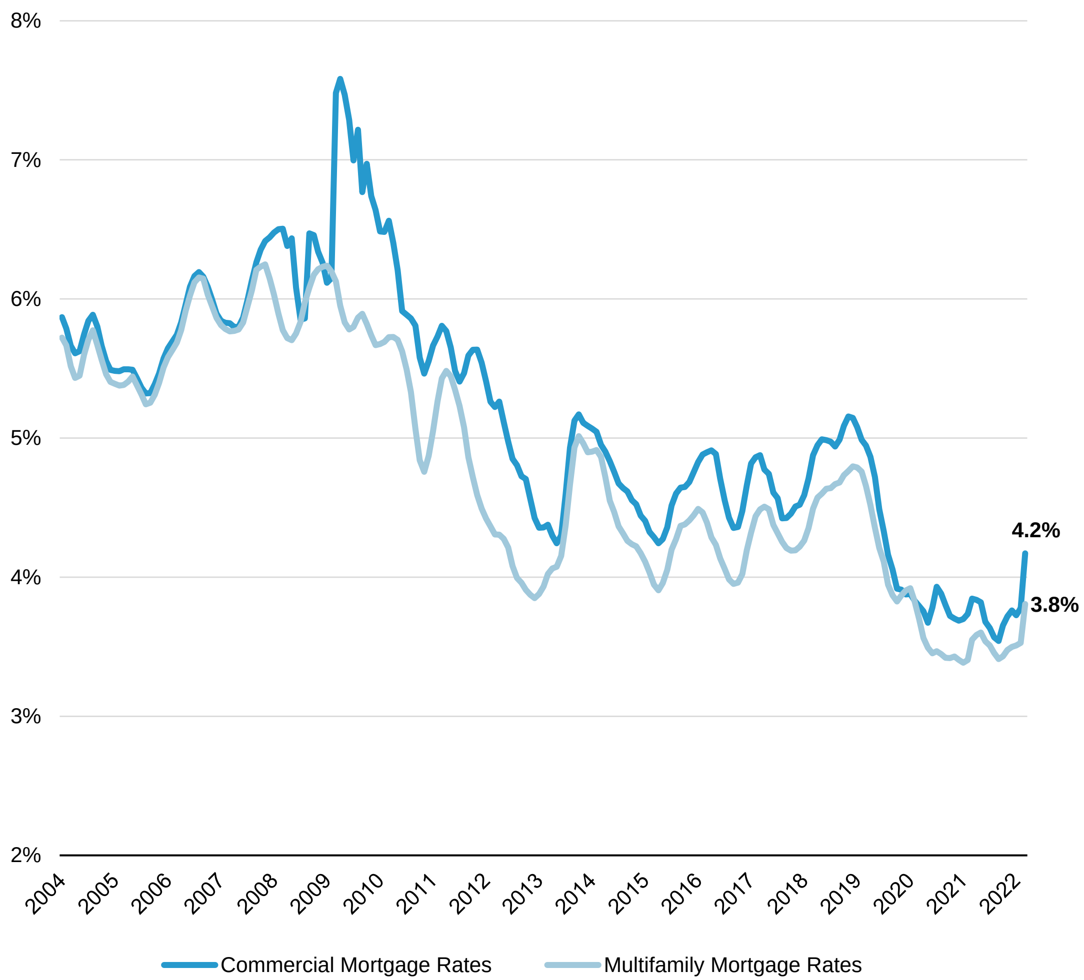


Source: Newmark Research, Trepp

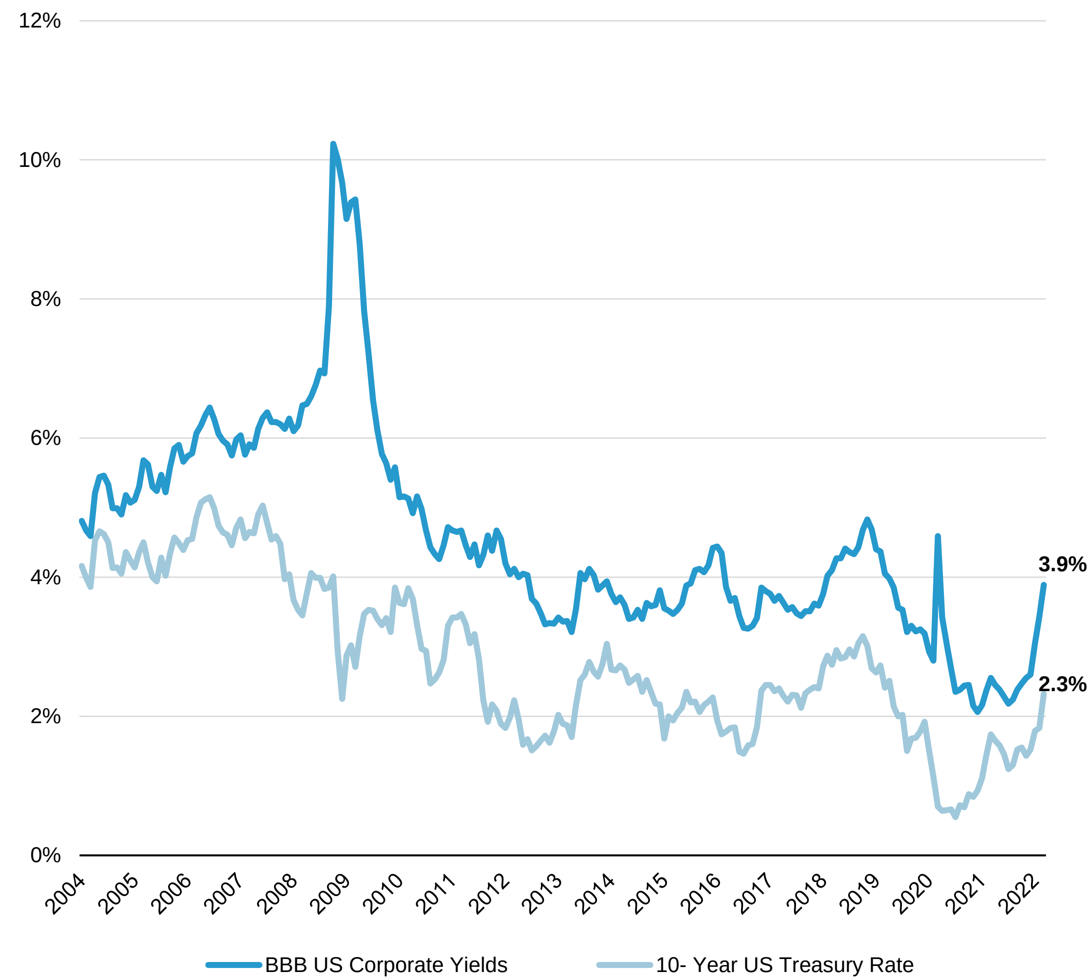
Rate Volatility More Disruptive than Nominal Rate Increases

While both multifamily and commercial mortgages rates increased in March, rising 26 and 33 basis points year-over-year respectively, they are still 100 basis points lower than peak 2019 levels and well below their respective long-term averages. Higher debt costs will have an impact on deals with high leverage, particularly those with record pricing and ambitious underwritten rental growth – however, volatility presents a greater challenge to lenders and has the potential to reduce liquidity and spark re-trading activity during investor due diligence.

Monthly Mortgage Rates



Monthly BBB US Corporate Bond Yields and 10-Year Treasury Rates

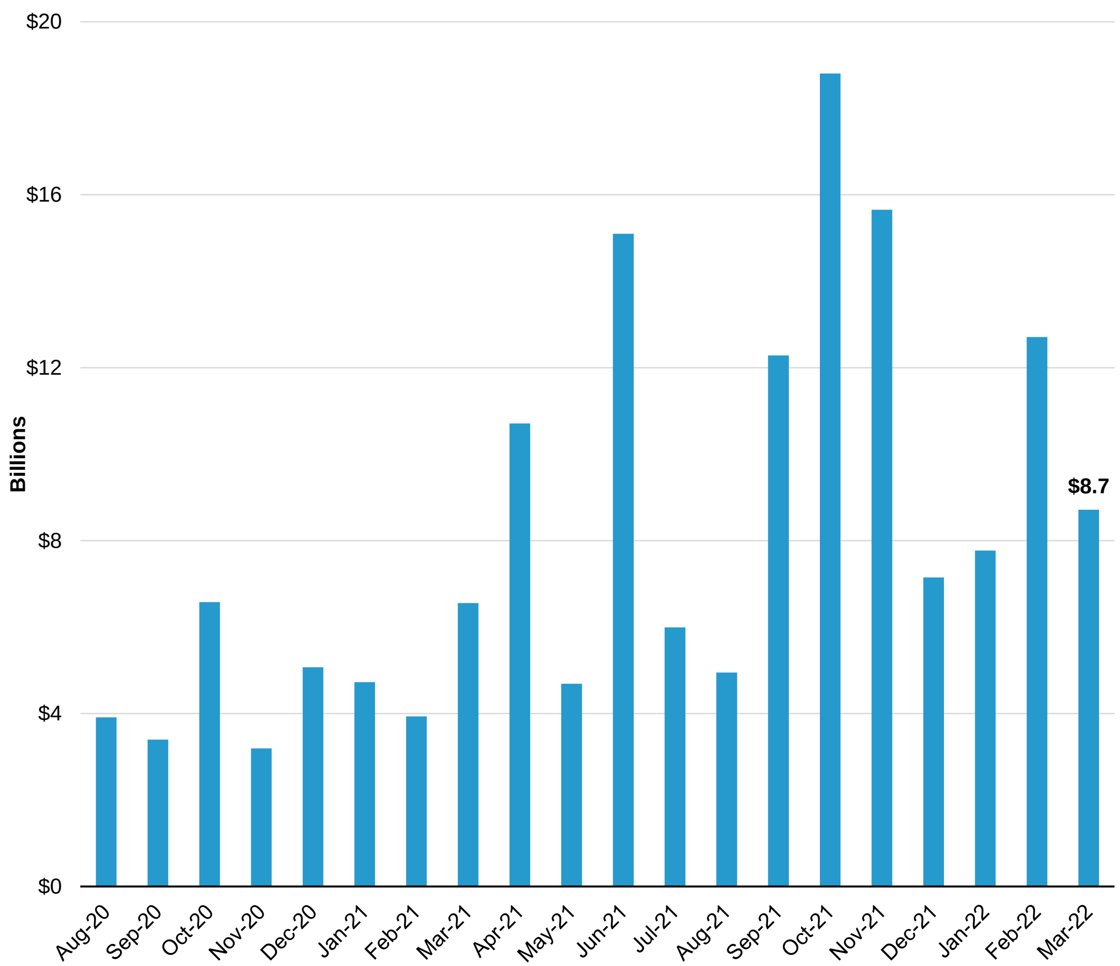


Source: Newmark Research, NCREIF, FRED

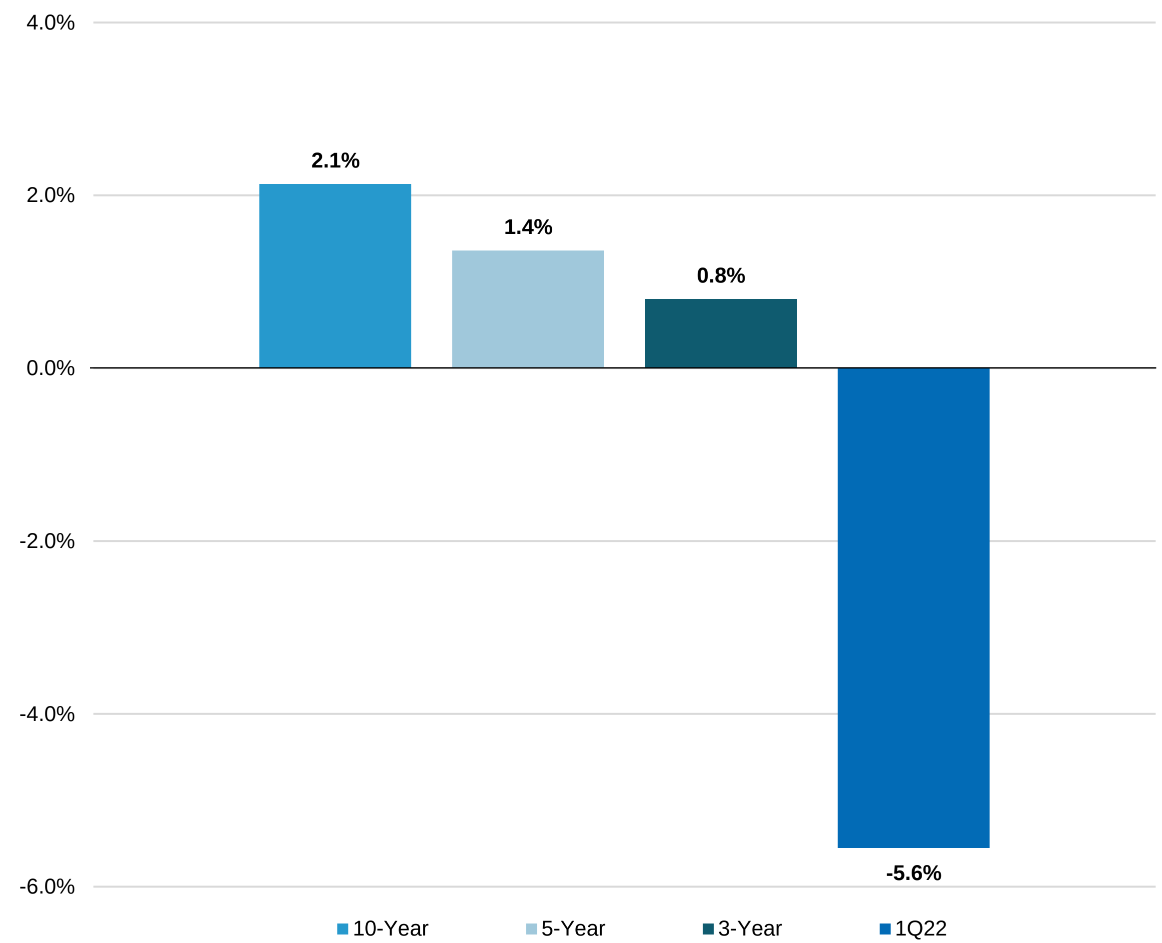
Volatility Has Impacted CMBS Total Returns, Not Issuance

While interest rate volatility has delayed several CMBS offerings, such as one tied to Deutsche Bank's New York HQ, overall issuance volume has remained buoyant in 2022, increasing 32.9% year-over-year in March. However, volatility has made it more difficult for lenders to price securitized product, which resulted in negative CMBS total returns in 1Q22.

Monthly CMBS Issuance



Historical CMBS Total Returns (iShares CMBS ETF)

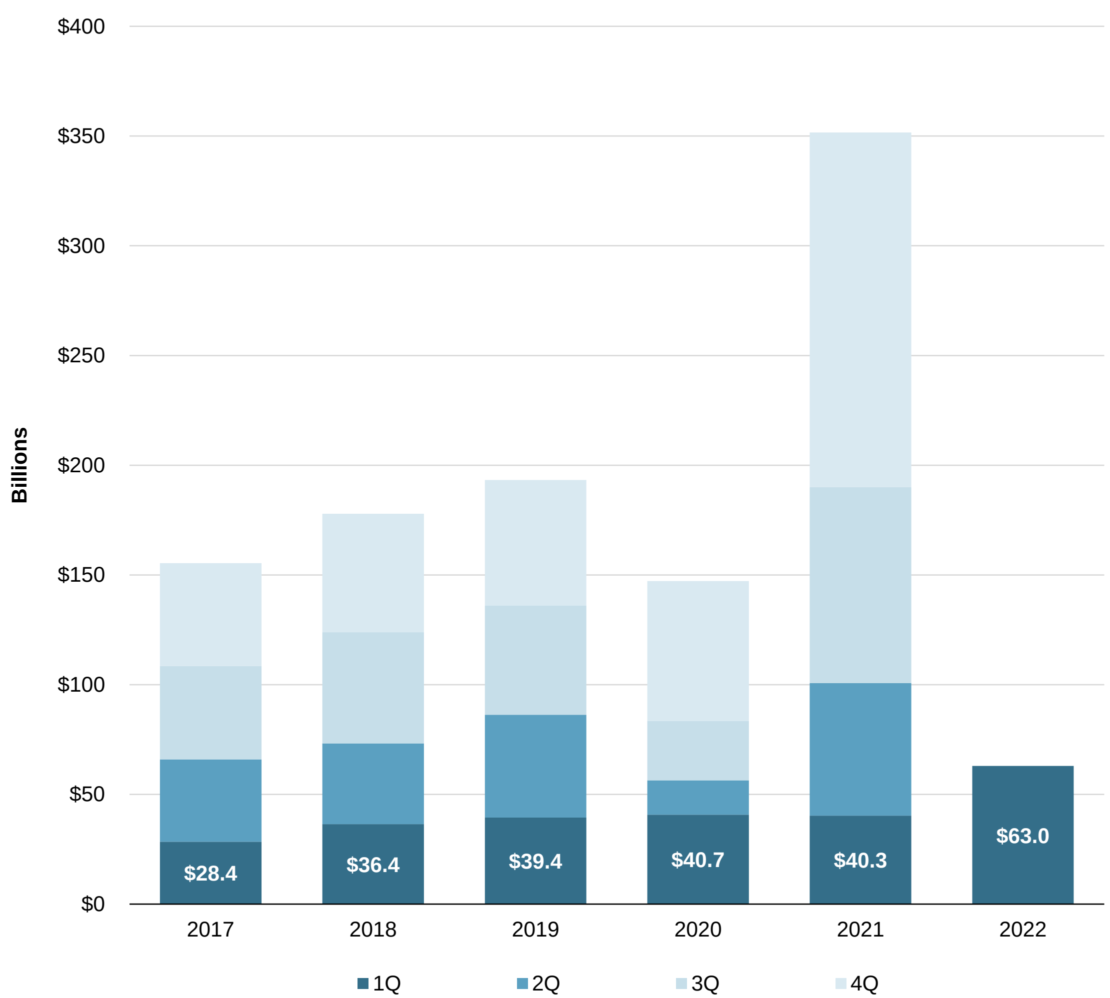


Source: Newmark Research, Greenstreet, iShares

Multifamily Dashboard

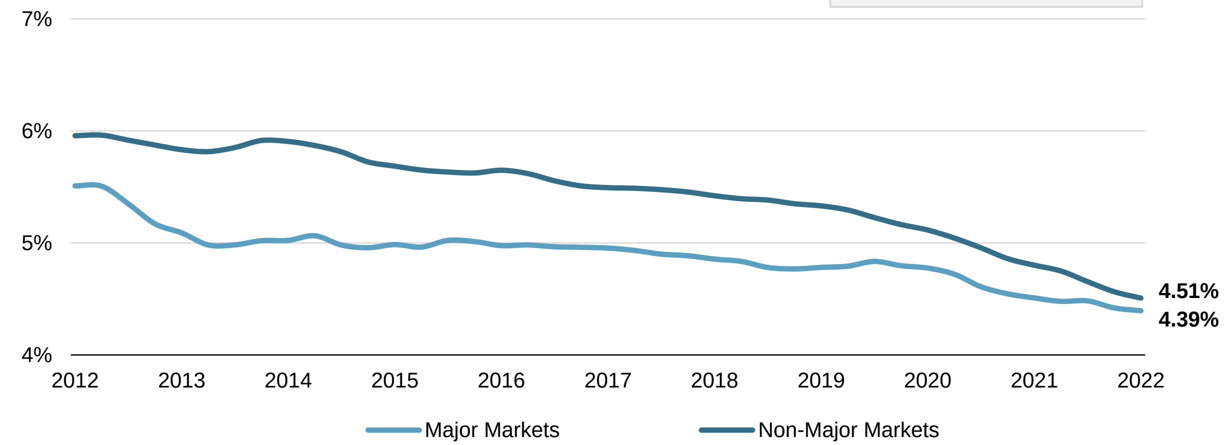
Following a record-breaking year in 2021, momentum has continued into 1Q22, with volume increasing 56.4% to $63.0 billion which is a record high first quarter volume. Pent-up investor demand, record fundraising activity and positive fundamentals growth driven by strong tenant demand and inflation have all contributed to the activity. Continued demand for product in fast-growing Sunbelt markets such as Austin, Charlotte and Raleigh has reduced the cap rate spread with major markets to 11 basis points.

National Sales Volume

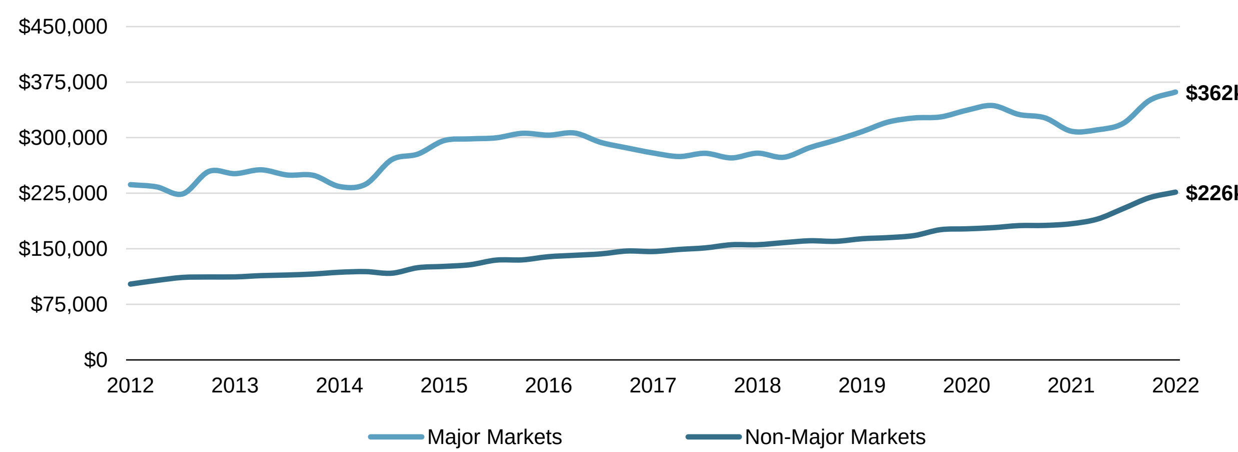


Cap Rates

Historical Spread: **55 BPS**
Current Spread: 11 **BPS**



Price Per Unit

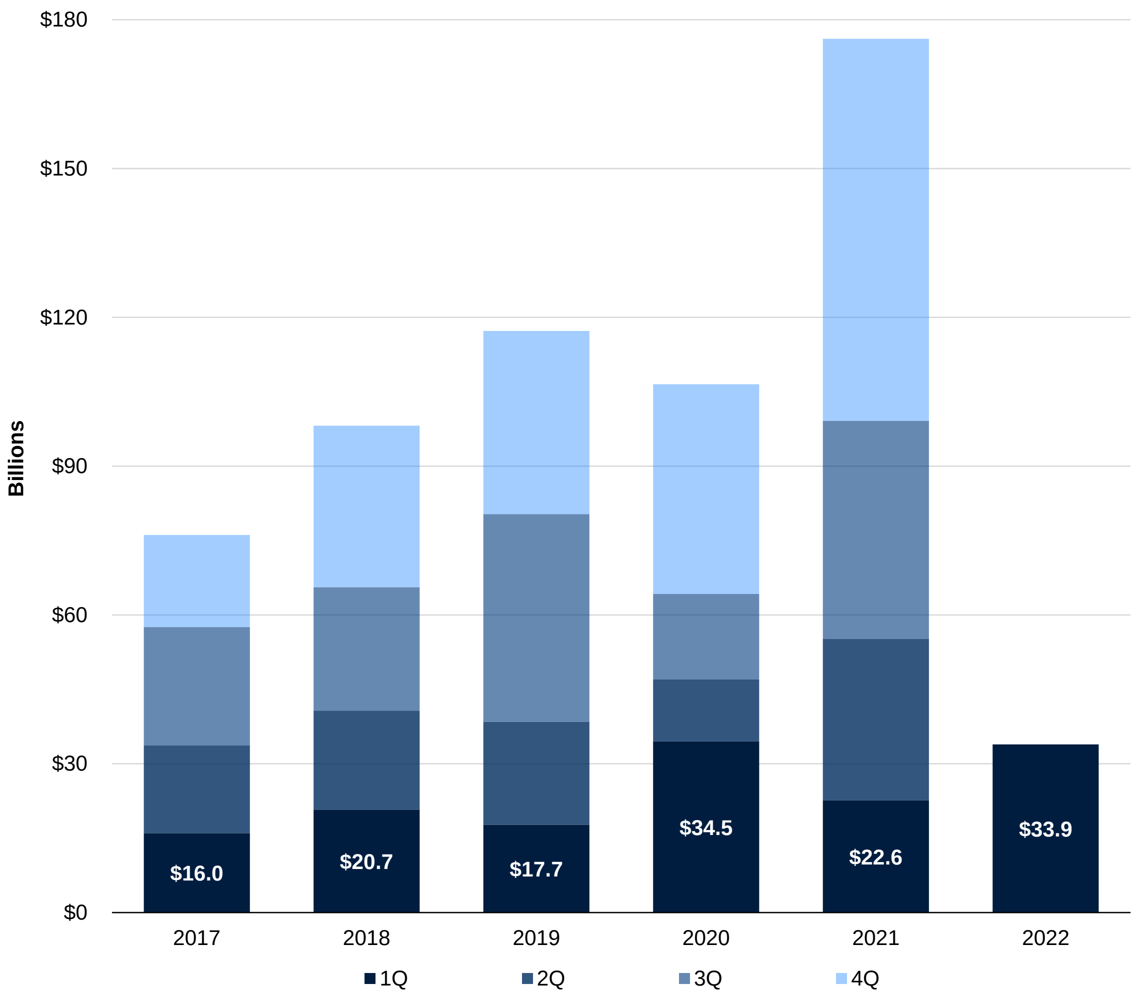


Source: Newmark Research, Real Capital Analytics

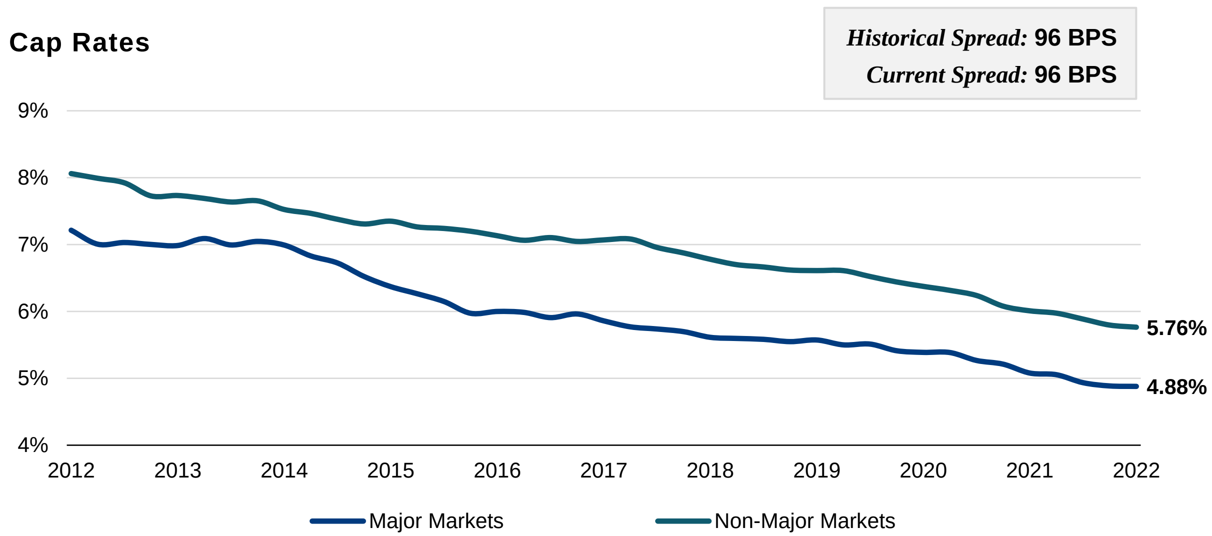
Industrial Dashboard

Industrial remains the top-performing property type in commercial real estate in terms of total returns and rental growth, which has propelled investment volume up 50% year-over-year to $33.9 billion in 1Q22. Bidding for well-located distribution and warehouse product has put upward pressure on pricing, with major market pricing reaching a record $333 per square foot. Given the high levels of rental growth in recent years and high inflation, a pricing premium is often achieved on industrial properties with lower lease terms remaining, so that investors can more quickly mark-to-market rents and boost returns.

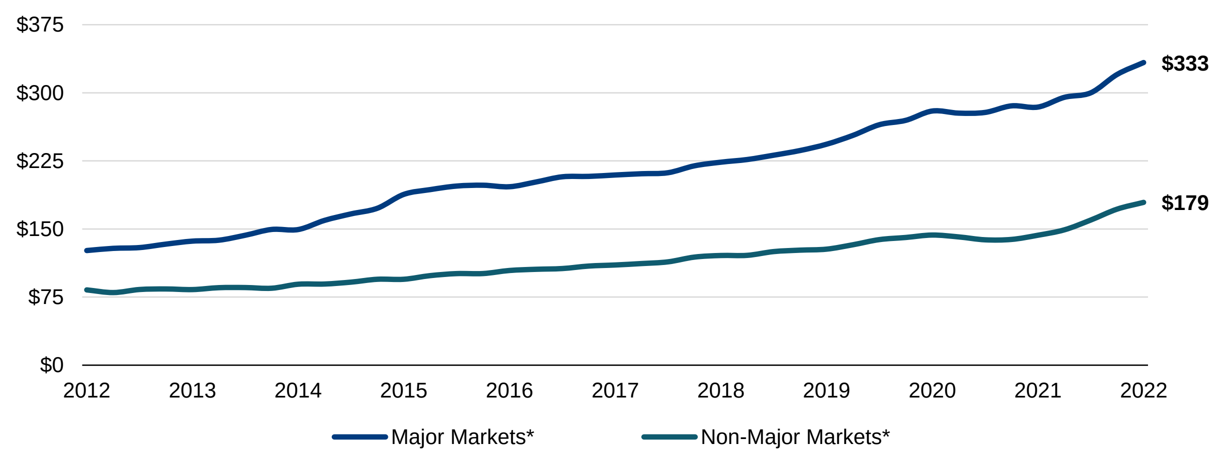
National Sales Volume



Cap Rates



Price Per Square Foot



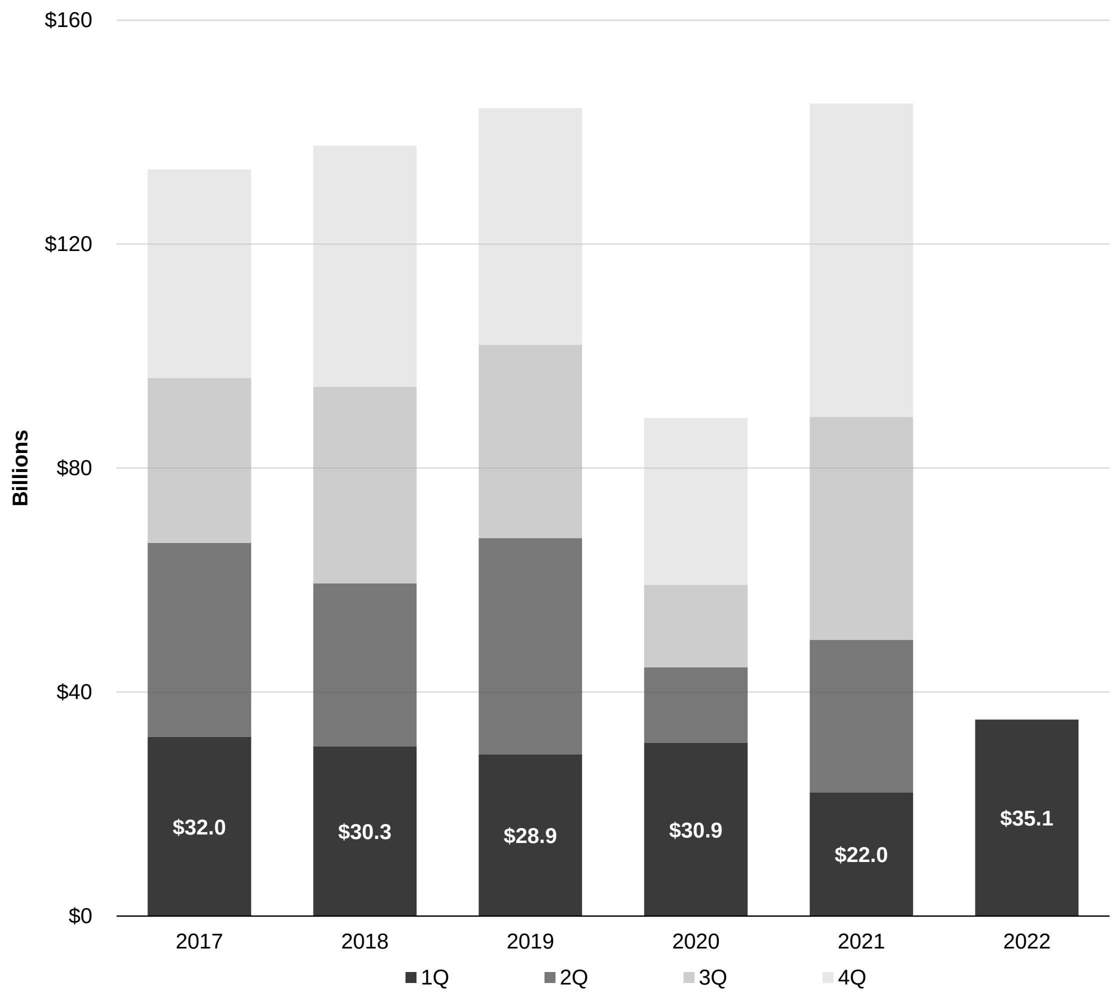
*Top Quartile Price Per Square Foot

Source: Newmark Research, Real Capital Analytics

Office Dashboard

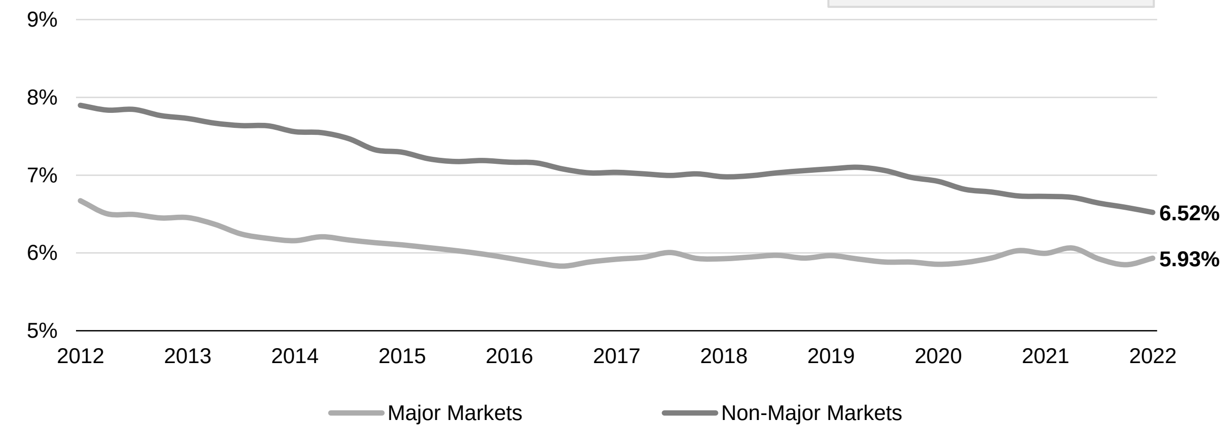
Office investment volume in 1Q22 increased 59.3% year-over-year to $35.1 billion, which is largest 1Q volume since 2015. While trophy office transactions have gained momentum in markets like New York City, investors continue to process news about the future of in-person work and office occupancy levels as uncertainty remains. Specialty product such as medical office, life science and data centers have attracted a greater share of investment volume in the pandemic landscape, as investors seek out secular growth characteristics and protection from potential disruption.

National Sales Volume

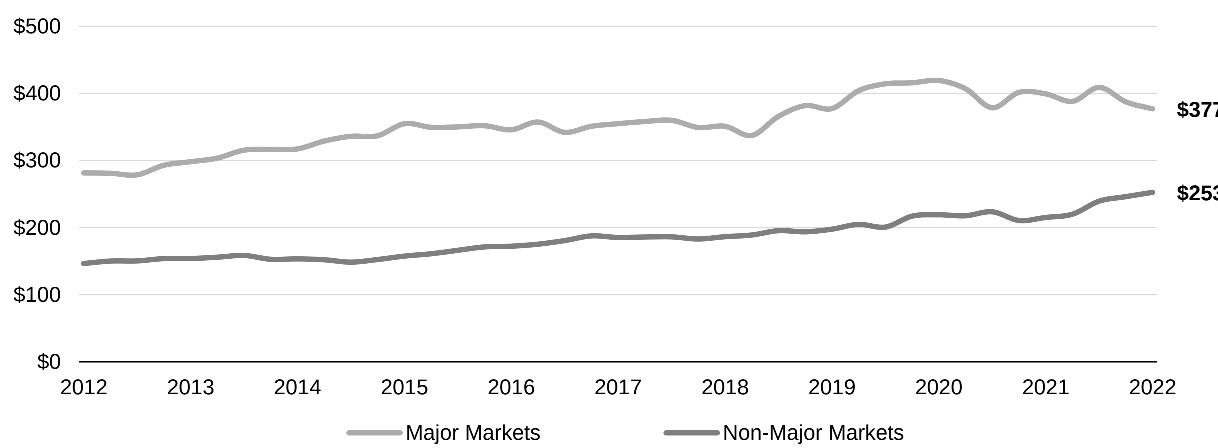


Cap Rates

Historical Spread: **111 BPS**
Current Spread: **59 BPS**



Price Per Square Foot

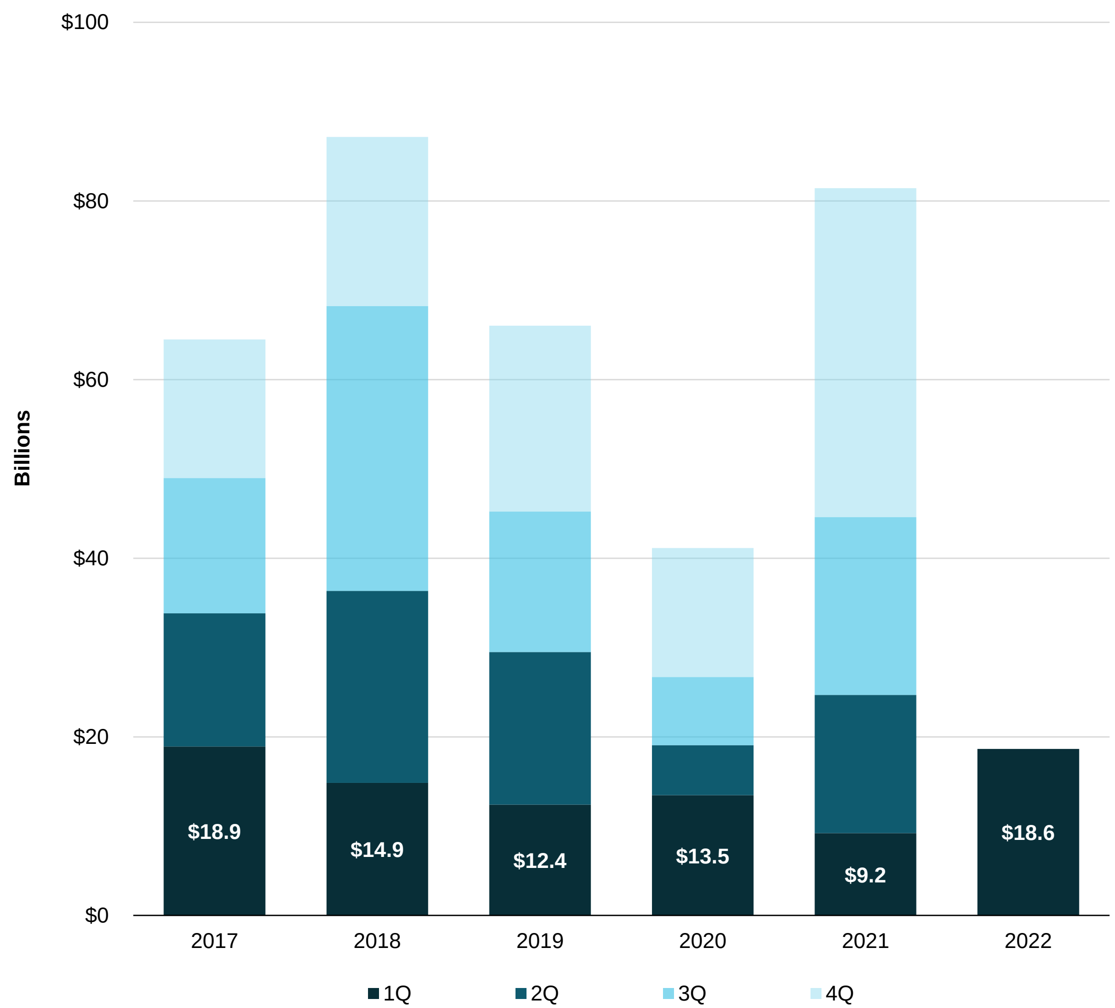


Source: Newmark Research, Real Capital Analytics

Retail Dashboard

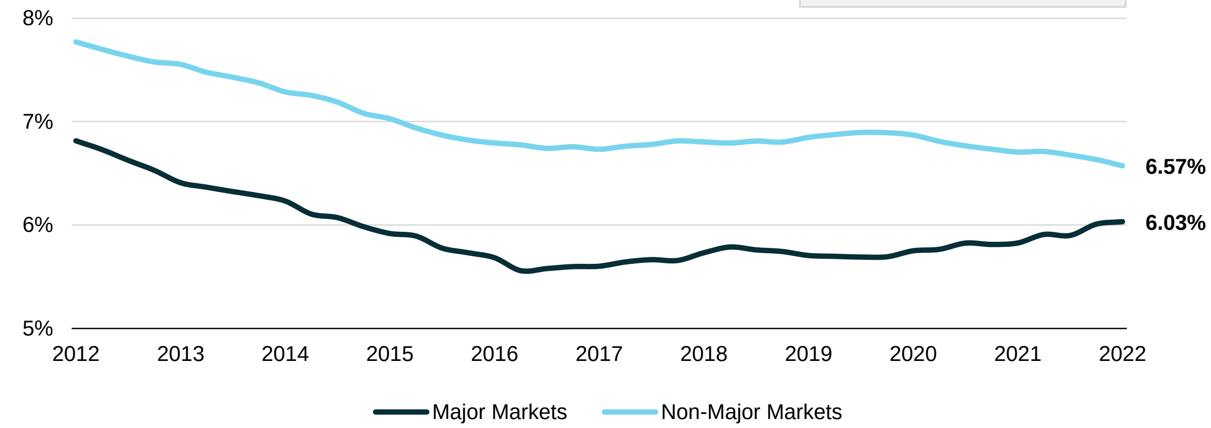
Retail investment activity recovered substantially in 1Q22, with volume increasing 102.3% year-over-year to $18.6 billion, which is the strongest first quarter in five years. In addition to early pandemic favorites such as grocery-anchored retail, other retail segments such as strip centers have attracted investor demand in 2022. Overall consumer willingness to shop in stores has increased as COVID-19 restrictions are lifted across the country and foot traffic is being aided by trends such as "buy-online-pick-up-in-store".

National Sales Volume

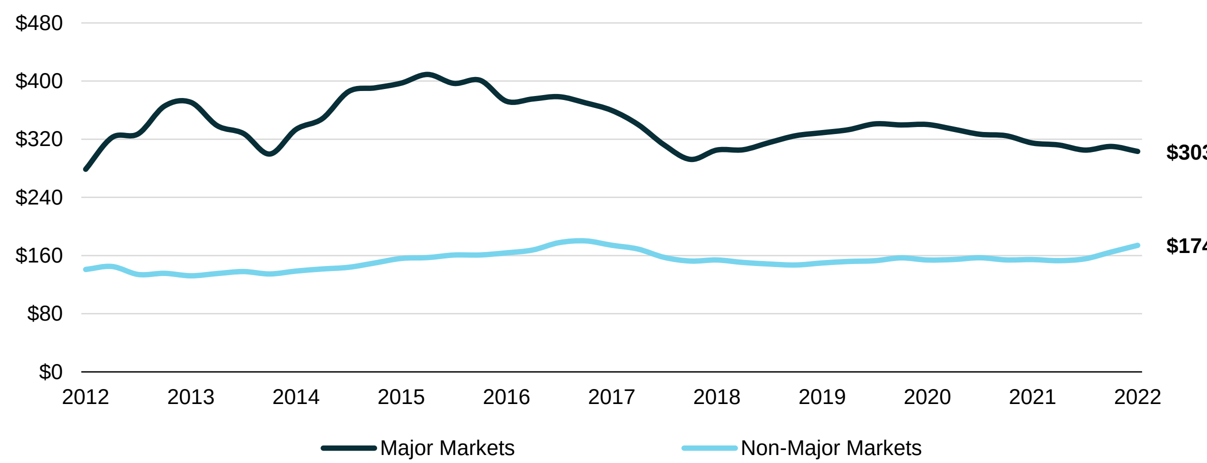


Cap Rates

Historical Spread: **105 BPS**
Current Spread: **54 BPS**



Price Per Square Foot

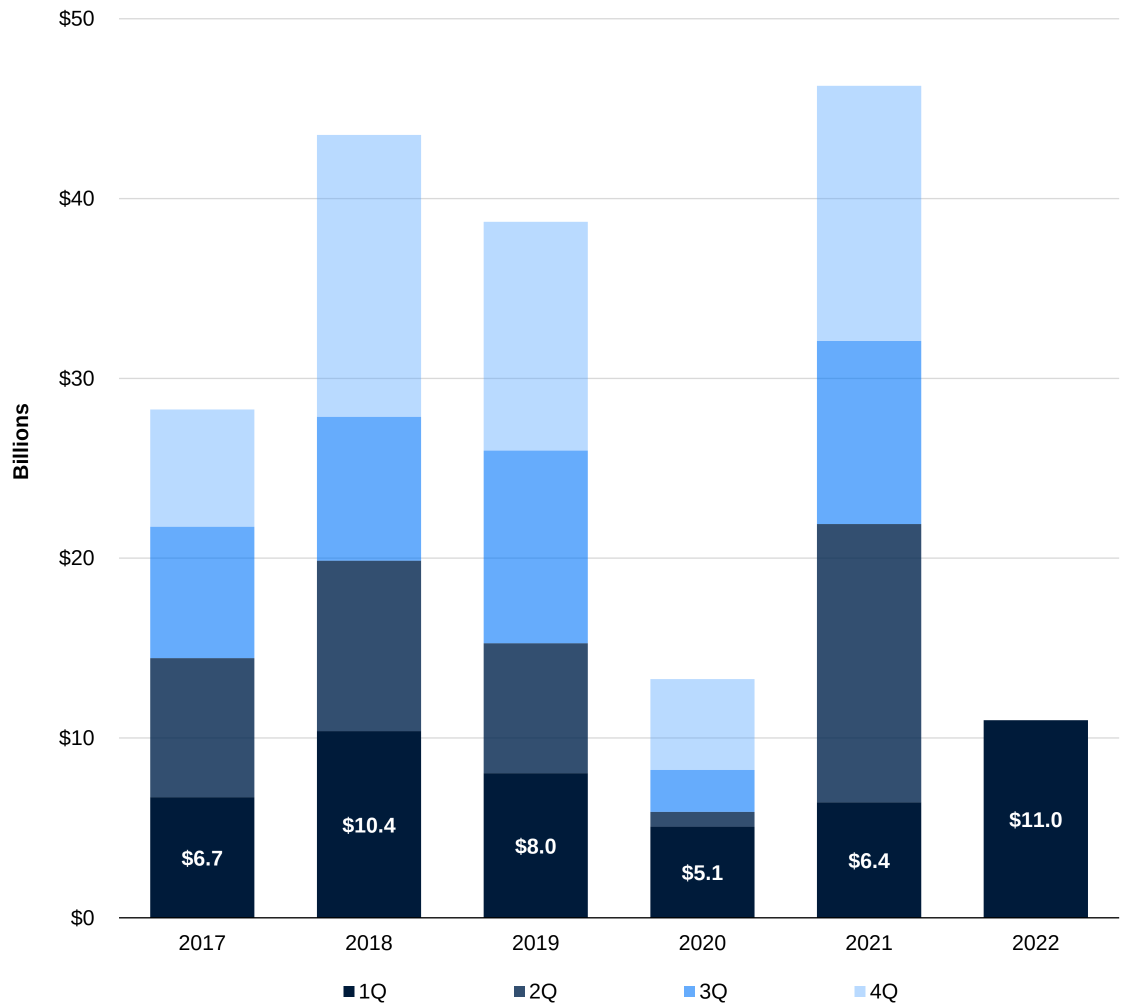


Source: Newmark Research, Real Capital Analytics

Hospitality Dashboard

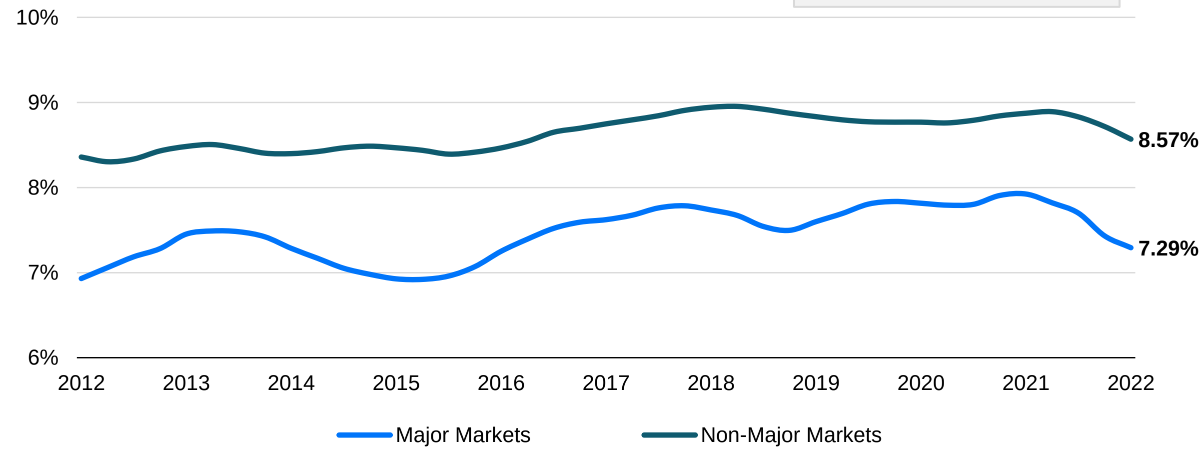
Hospitality investment volume has continued to recover, increasing by 71.0% year-over-year to $11.0 billion in 1Q22, driven by large-scale portfolio and entity-level activity by prominent institutional investors such as Blackstone, Cerberus and GIC Real Estate. Overall investor sentiment has improved markedly since the onset of the pandemic, buoyed by improving travel and leisure spending. The national average occupancy rate has climbed 17.9% year-over-year to 64.0%, while RevPAR has increased 62.1% year-over-year to $93.82.

National Sales Volume

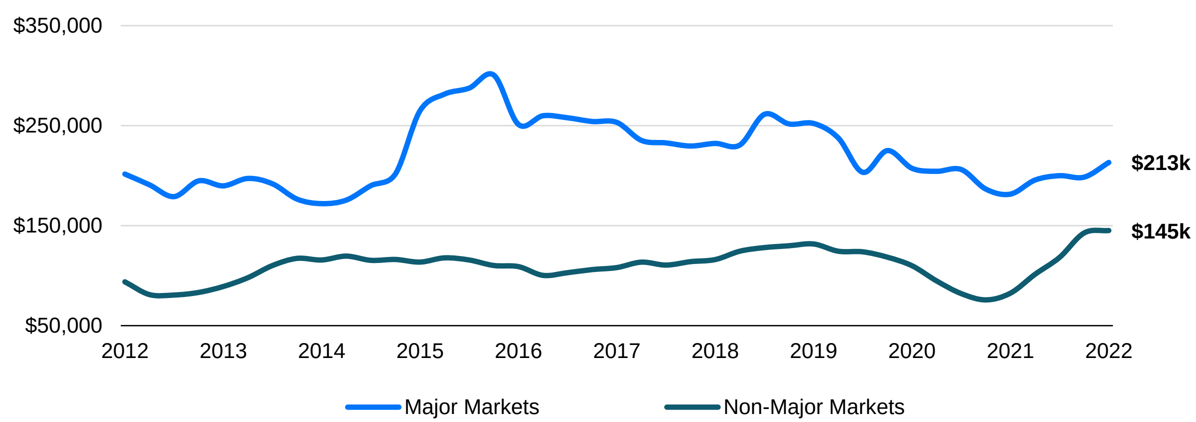


Cap Rates

Historical Spread: **118 BPS**
Current Spread: **128 BPS**



Price Per Key



Source: Newmark Research, Real Capital Analytics, Costar

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