2Q 2022

Capital Markets Report

Real Estate Trends and Analysis for All Property Types

NEWMARK

Market Observations

What We Know

- ☑ The commercial real estate investment landscape remains bifurcated, with multifamily and industrial attracting 57% of investor allocation in 1H22, as both benefit from secular tailwinds as well as high levels of rental rate and pricing growth.
- ☑ Quarterly investment volume increased by 17.5% year-over-year to $190.3 billion in 2Q22, representing the third largest quarter volume total in history. Multifamily remained the most sought-after property type in commercial real estate in the pandemic era, with volume increasing by 42.4% year-over-year to $86.3 billion in 2Q22
- ☑ Dallas attracted the most investment volume of any market in the US in 2Q22 with $11.0 billion, with 56.3% directed to multifamily. In addition to the fast-growing Sunbelt markets Charlotte, Nashville and Tampa, the largest coastal gateway markets, notably New York City, have all recorded substantial year-over-year investment volume growth.
- ☑ Following an all-time record year for capital deployment, dry powder accumulated by North America-focused real estate funds rose to $253.5 billion in 2Q22. Opportunistic and value-add strategies make up 62.0% 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.
- ☑ The record-breaking pace of non-traded REIT spending has continued into 2022, with investment volume reaching $23.2 billion in 1H22, driven by Blackstone's BREIT, which was responsible for over 70% 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.

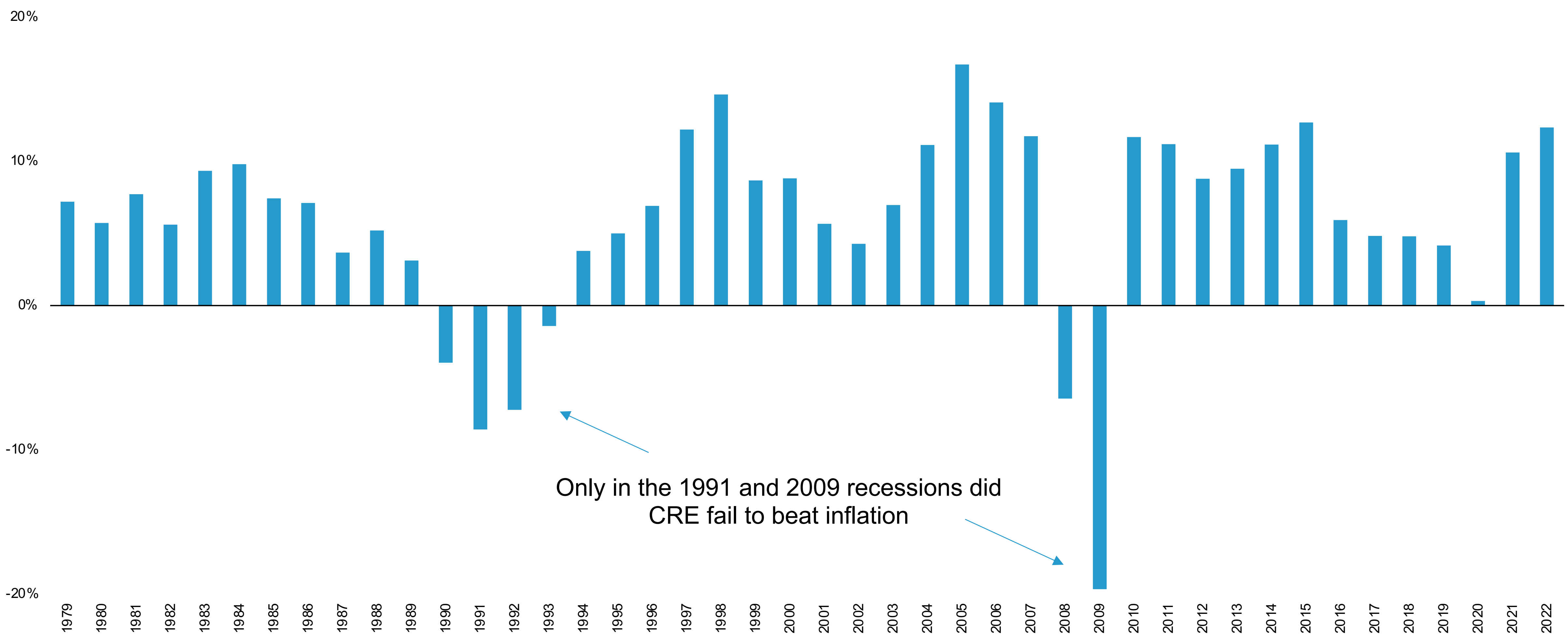
What We Expect

- ☐ The combination of persistent high inflation and slowing growth present a nuanced challenge to property markets. Industrial and multifamily fundamentals are likely to prove resilient given record low vacancies and strong secular drivers. In this context, shorter lease terms are a boon. Office is more challenged as a weakening economy threatens to delay the office recovery. Retail meanwhile is perhaps most surprisingly resilient owing to a shallow supply pipeline.
- ☐ To combat inflation, the FOMC is expected to continue to raise rates throughout 2022 with the short-term rate peaking around 3.5% early in 2023. The market is currently pricing a quick Fed pivot to cutting rates thereafter with ~80bbps in rate cuts priced. Market expectations remain highly volatile, contributing to large swings in the 10 year treasury bond as well as other financial benchmarks.
- ☐ Rising rates have already forced an adjustment in CRE debt costs – both floating and fixed rate. While the 10 year treasury yield has fallen recently on rising recession expectations, CRE lending rates have been far less responsive as the same recession fears lead lenders to demand more risk compensation. The end result is that debt costs over the next 12-24 months are likely to remain significantly higher than they were until recently. This in turn has already placed upward pressure on cap rates, particularly in "negative leverage" sectors like multifamily and industrial.
- ☐ 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. Similarly, properties with accretive, assumable debt will attract preferential valuations and liquidity.
- ☐ While deal volumes have been extremely strong in the first half of the year, we expect activity to slow as a result of the change in the economic outlook and macro financial conditions. In past periods of financial pressure and recession, activity has dropped sharply. We expect the slowdown to be more measured as there has been greater willingness on the part of sellers to adjust pricing expectations compared to past market inflections. Above average price appreciation over the last several years mean that even with recent reductions in value, investors – especially in multifamily and industrial – have high levels of unrealized gains thus facilitating dispositions even in the face of, the current market uncertainty.

Real Estate Consistently Outpaced Inflation

Commercial real estate has been a consistent hedge against inflation for the past 40 years across each of the multifamily, industrial and office sectors. However, the pandemic has created a sizable bifurcation in the protection offered, particularly for industrial and multifamily, whose 2Q22 annualized total returns offered a 3,857 and 1,530 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.

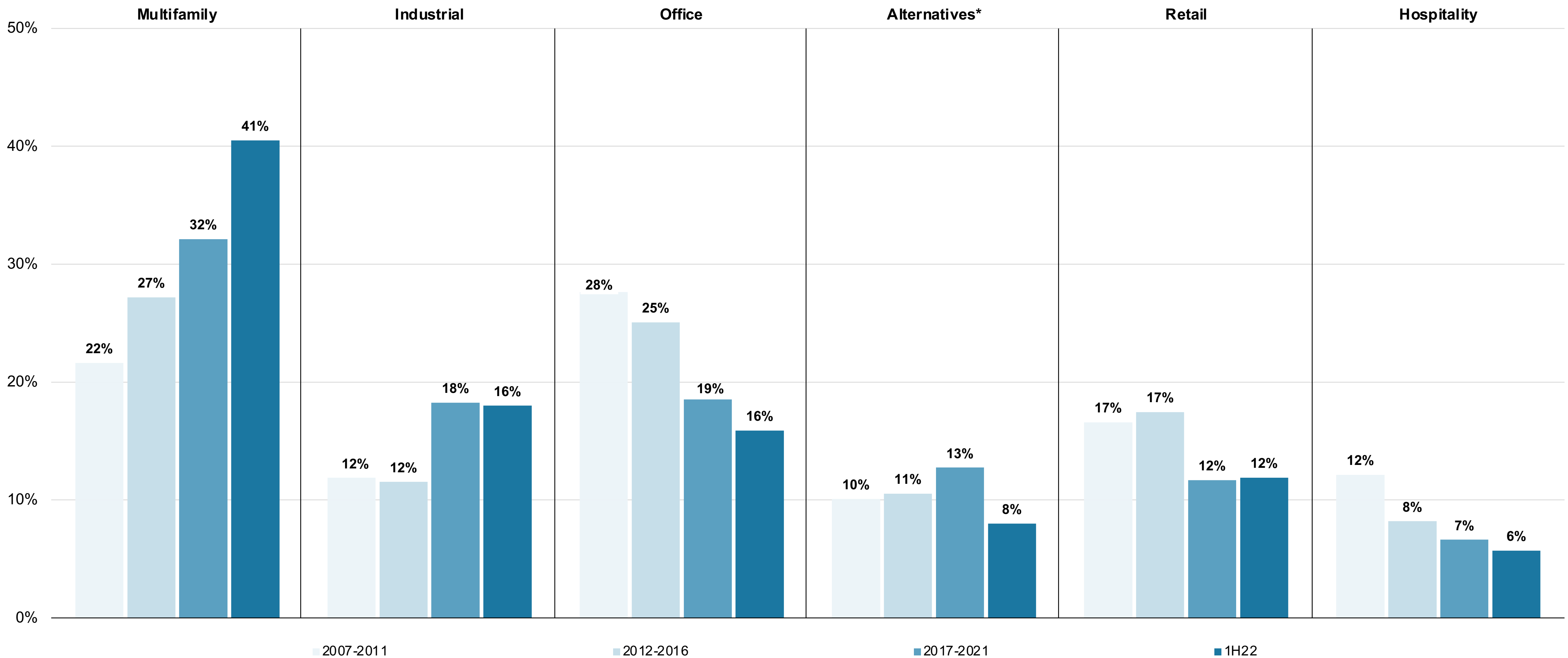
Real Returns Over Inflation (All Property Types)



Source: Newmark Research, NCREIF (Annualized), FRED

Investor Allocation Over Time

The commercial real estate investment landscape remains bifurcated, with multifamily and industrial attracting 57% of investor allocation in 1H22, as both benefit from secular tailwinds as well as high levels of rental and pricing growth.

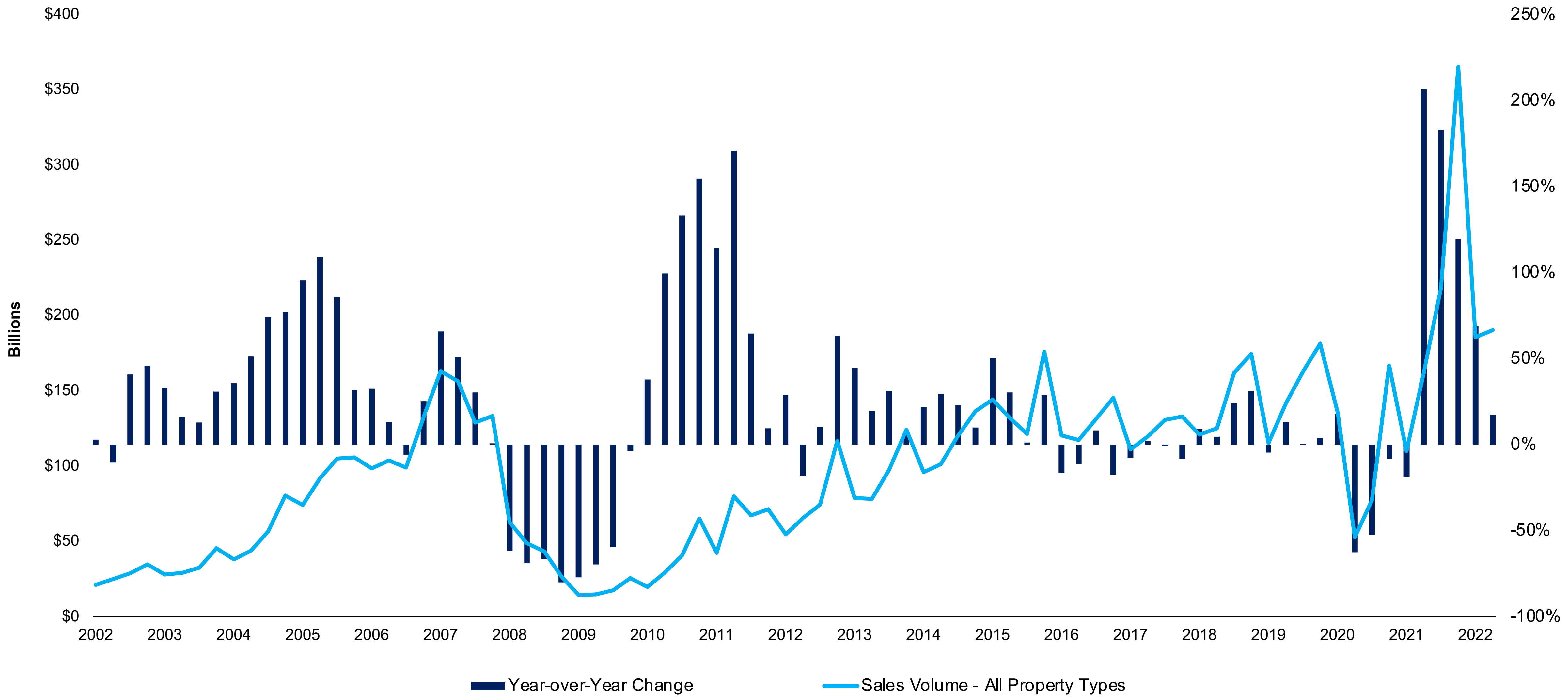


*Life science / R&D, medical office, data centers, age-restricted housing student housing, seniors housing, manufactured housing, self storage

Source: Newmark Research, Real Capital Analytics

United States Quarterly Sales Volume

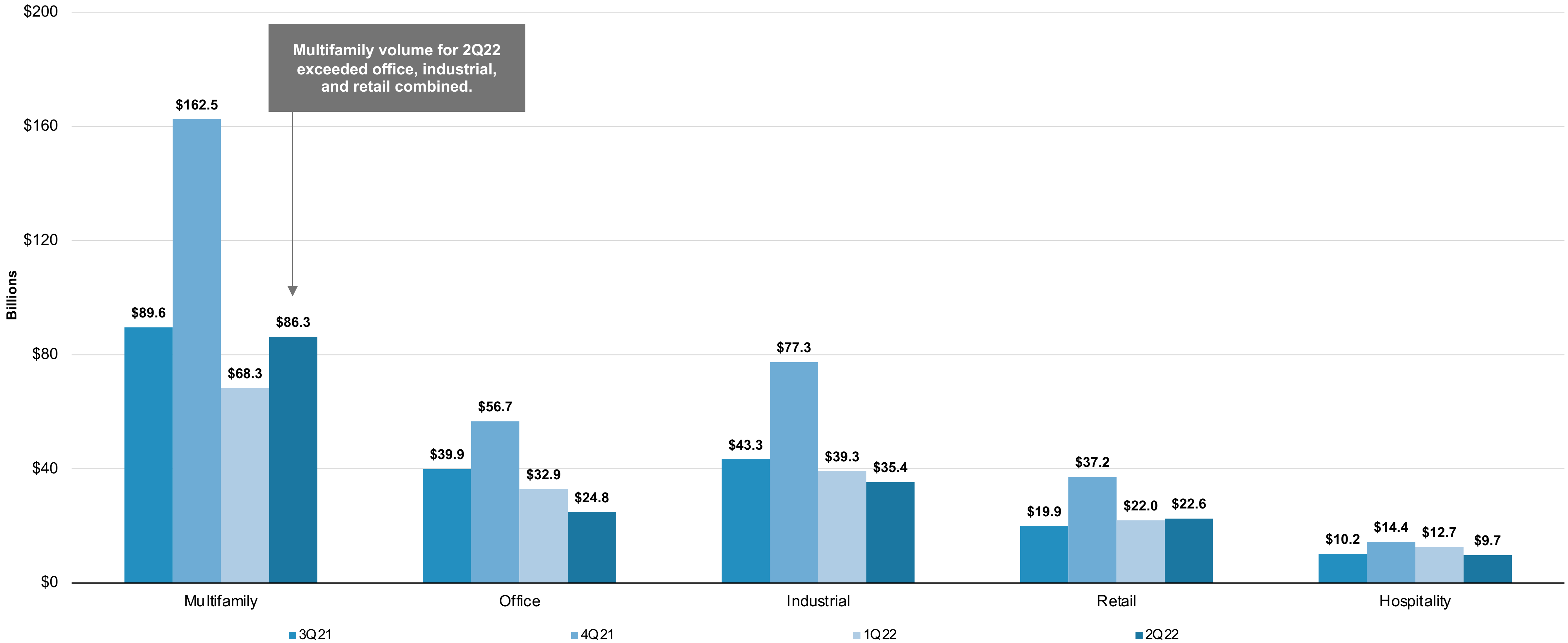
Quarterly investment volume increased by 17.5% year-over-year to $190.3 billion in 2Q22, representing the third largest quarter volume total in history. Many investors have opted to transact in the first half of 2022 in anticipation of high costs of debt, a more uncertain political environment following the mid-term 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 42.4% year-over-year to $86.3 billion in 2Q22 – while Sunbelt markets continue to experiences the highest levels of 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 as well as the return of more employees to the office.



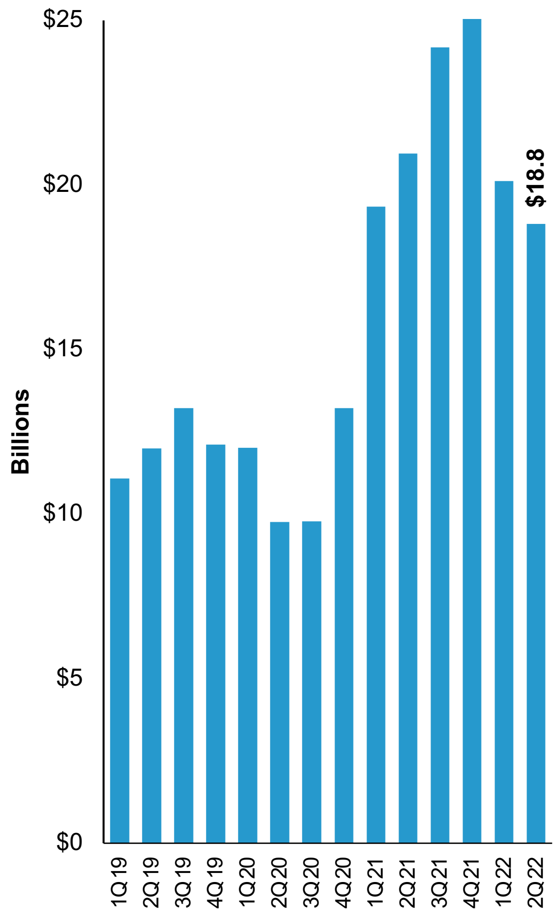
Source: Newmark Research, Real Capital Analytics

Alternative Property Type Volume

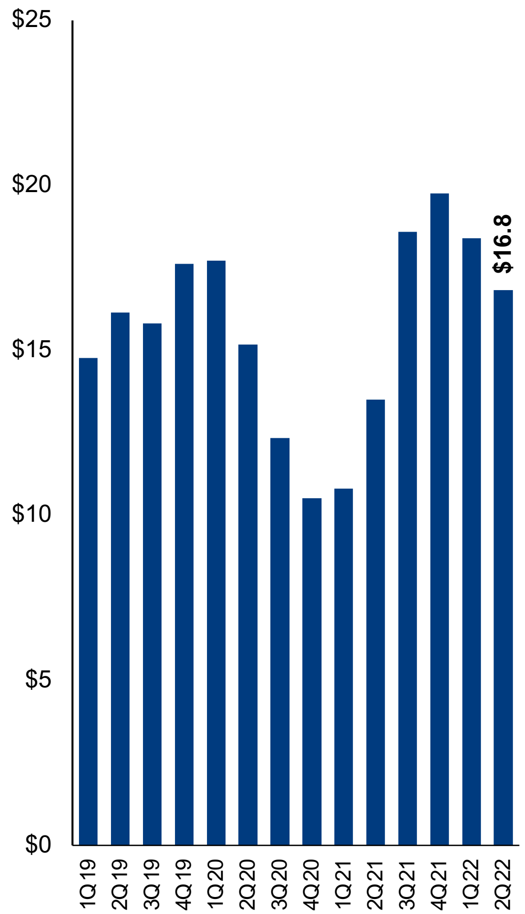
Rolling 12-Month Totals

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 $75.5 billion in the four quarters ending in 2Q22. Life science and medical office continue to benefit from outsized investor demand, particularly as certain segments of office product face disruption and obsolescence as tenants reassess their space requirements and work-from-home policies. Looking forward, we expect alternatives as a sector to continue to grow as a share of the overall investment market but at a more measured pace compared to the recent frenzy, befitting the maturation of these markets.

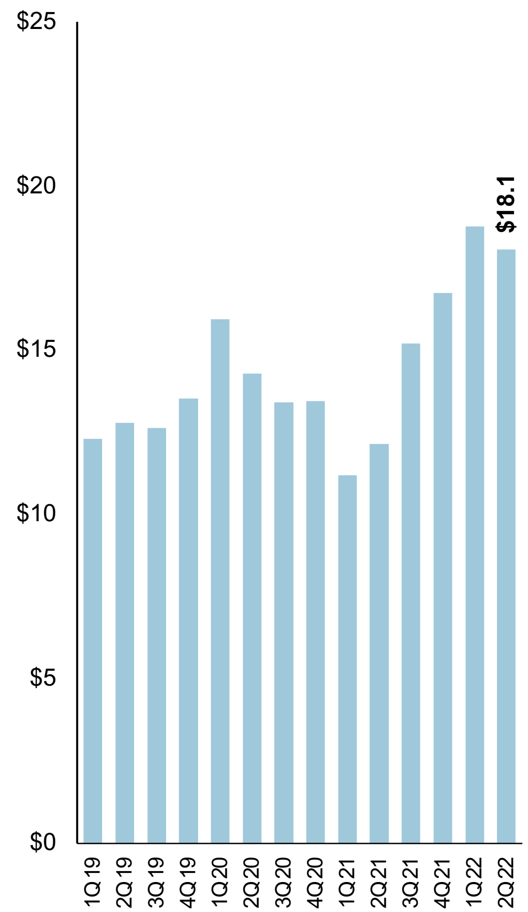
Life Science / R&D



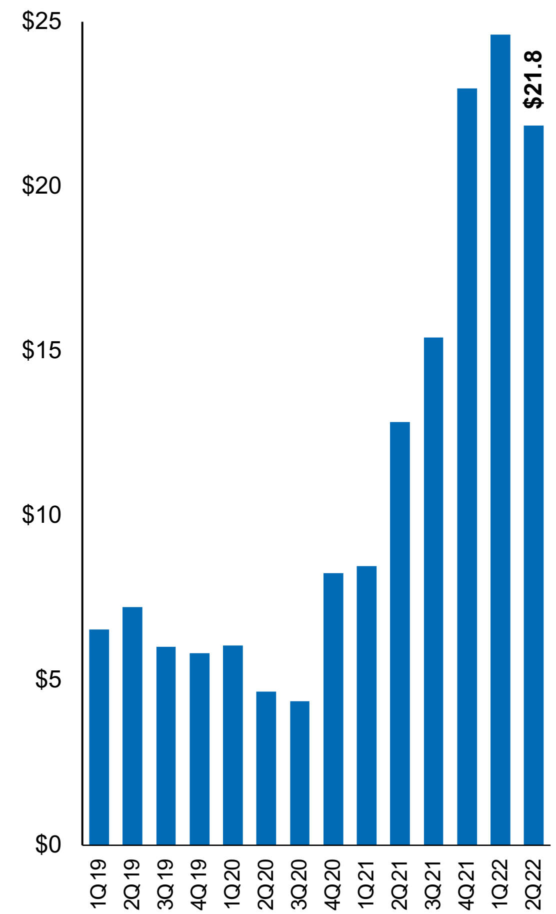
Seniors Housing



Medical Office



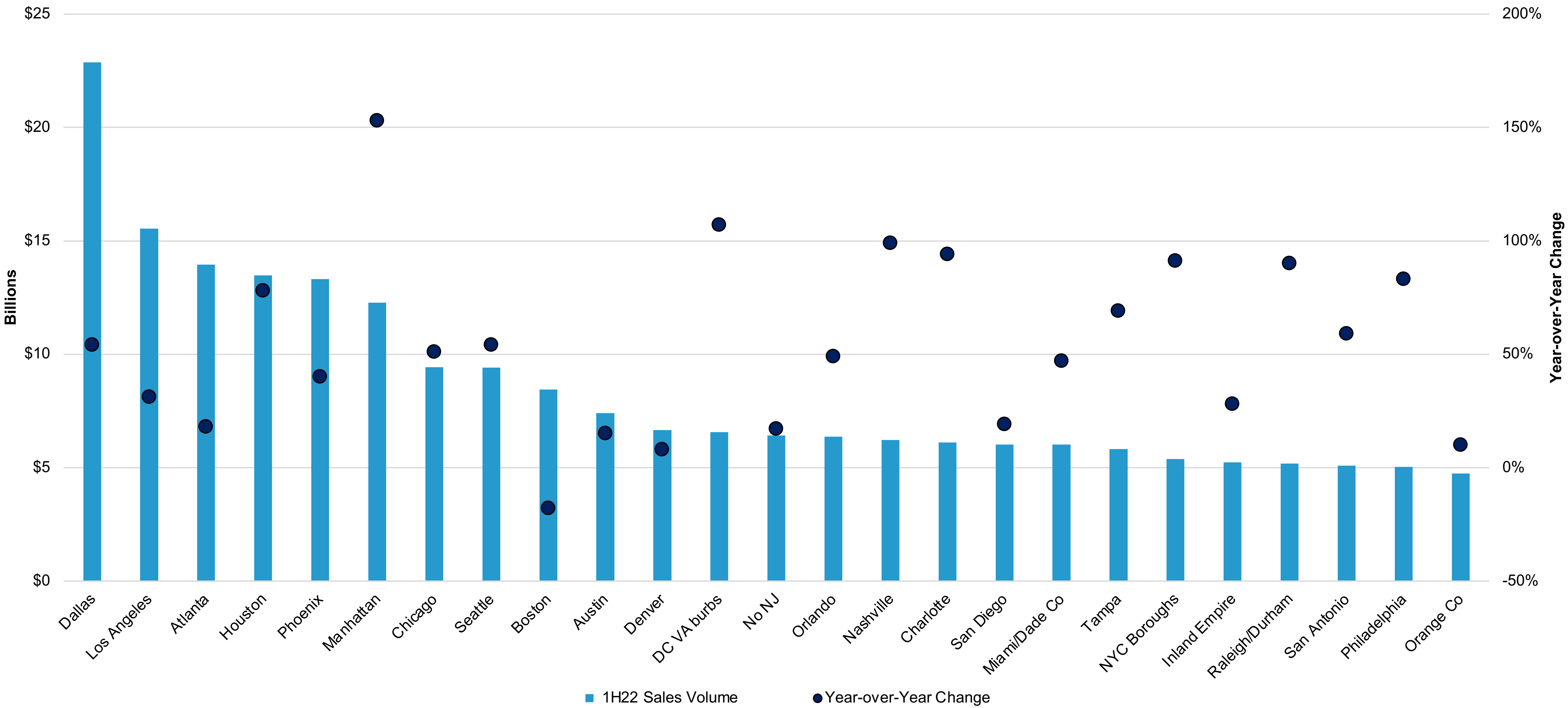
Self Storage



Source: Newmark Research, Real Capital Analytics

Top United States Markets by Investment Sales Volume

Dallas attracted the most investment volume of any market in the US in 2Q22 with $11.0 billion, and $22.9 billion for the first half of 2022. In addition to the fast-growing Sunbelt markets Charlotte, Nashville and Raleigh/Durham, the largest coastal gateway markets, notably New York City, have all recorded substantial year-over-year investment volume growth, bolstered by improving investor appetite.

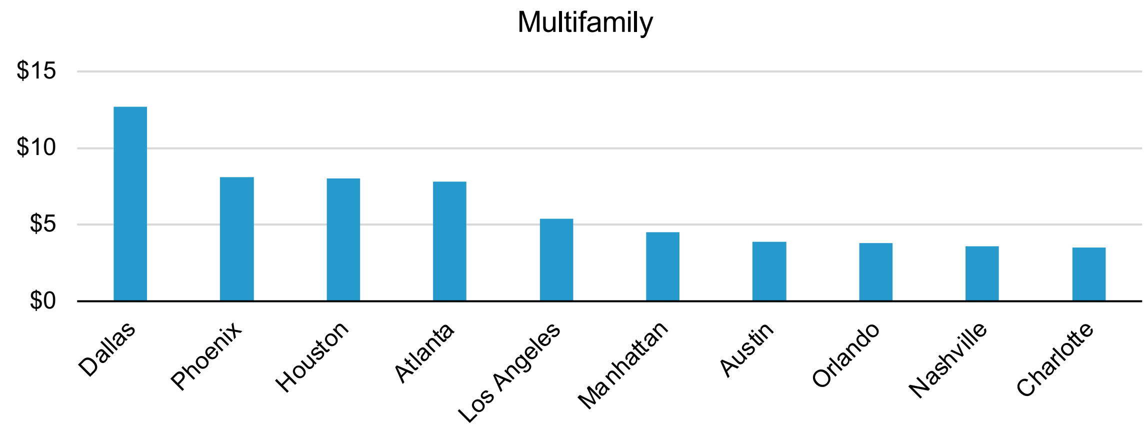


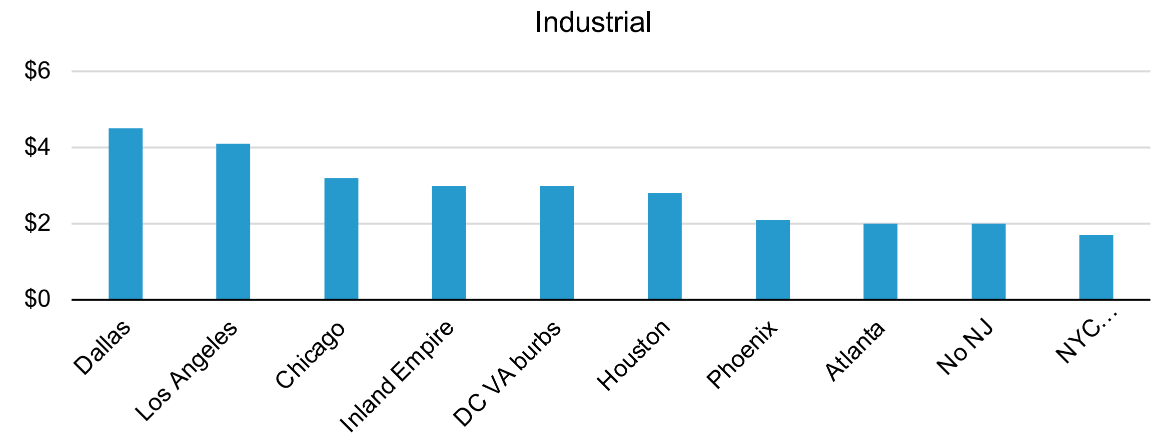
Source: Newmark Research, Real Capital Analytics

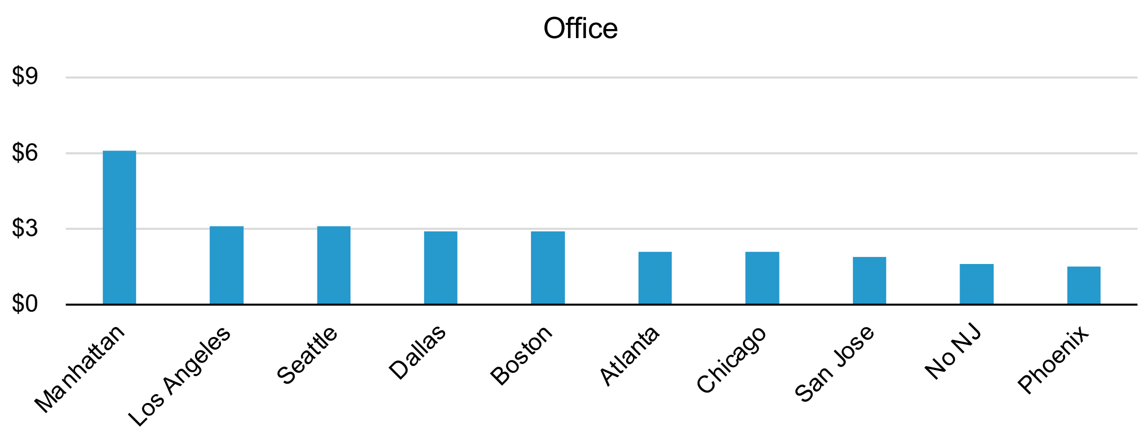
Top Investment Sales Markets by Property Type

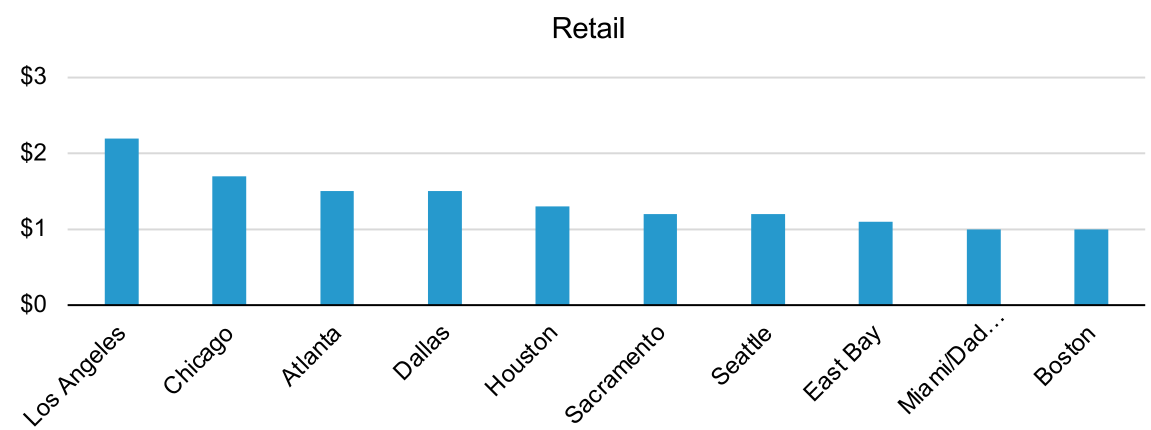
First Half; Dollars in Billions

Sunbelt markets drove multifamily sales in the first half of the year, accounting for 8 of the top 10 markets by volume – 9 if Los Angeles is included. The traditional major coastal and inland distribution hubs dominated the top 10 industrial markets, led by Dallas and Los Angeles. Manhattan retained its crown as the largest office market – though still down from pre-pandemic levels – followed by Los Angeles, Seattle, Dallas and Boston. Major non-gateway markets such as San Jose and Northern NJ rounded out the top 10 along with sunbelt's Atlanta and Phoenix. The leading retail markets were more eclectic including gateways like Los Angeles, Chicago and Boston but also Sacramento and Miami.









Source: RCA, Newmark Research

Top United States Transactions in 2Q22

All Property Types; Closed Transactions

Single Asset Trades

Property	Price
The Cosmopolitan Las Vegas Las Vegas, Nevada *Hospitality / Casino* Buyer: BREIT, Stonepeak, Cherng Family Trust	**$4.0 B**
8 Spruce Street (New York by Gehry) New York, New York *Multifamily* Buyer: BREIT	**$930 M**
920 5th Avenue (Madison Centre) Seattle, Washington *Office* Buyer: Boston Properties	**$730 M**
Seaport Center Boston, MA *Office* Buyer: GI Partners	**$708 M**
22262 Cloud Plaza (Partial Interest) Sterling, Virginia *Data Center* Buyer: GI Partners, CalPERS	**$532 M**

Portfolio Trades

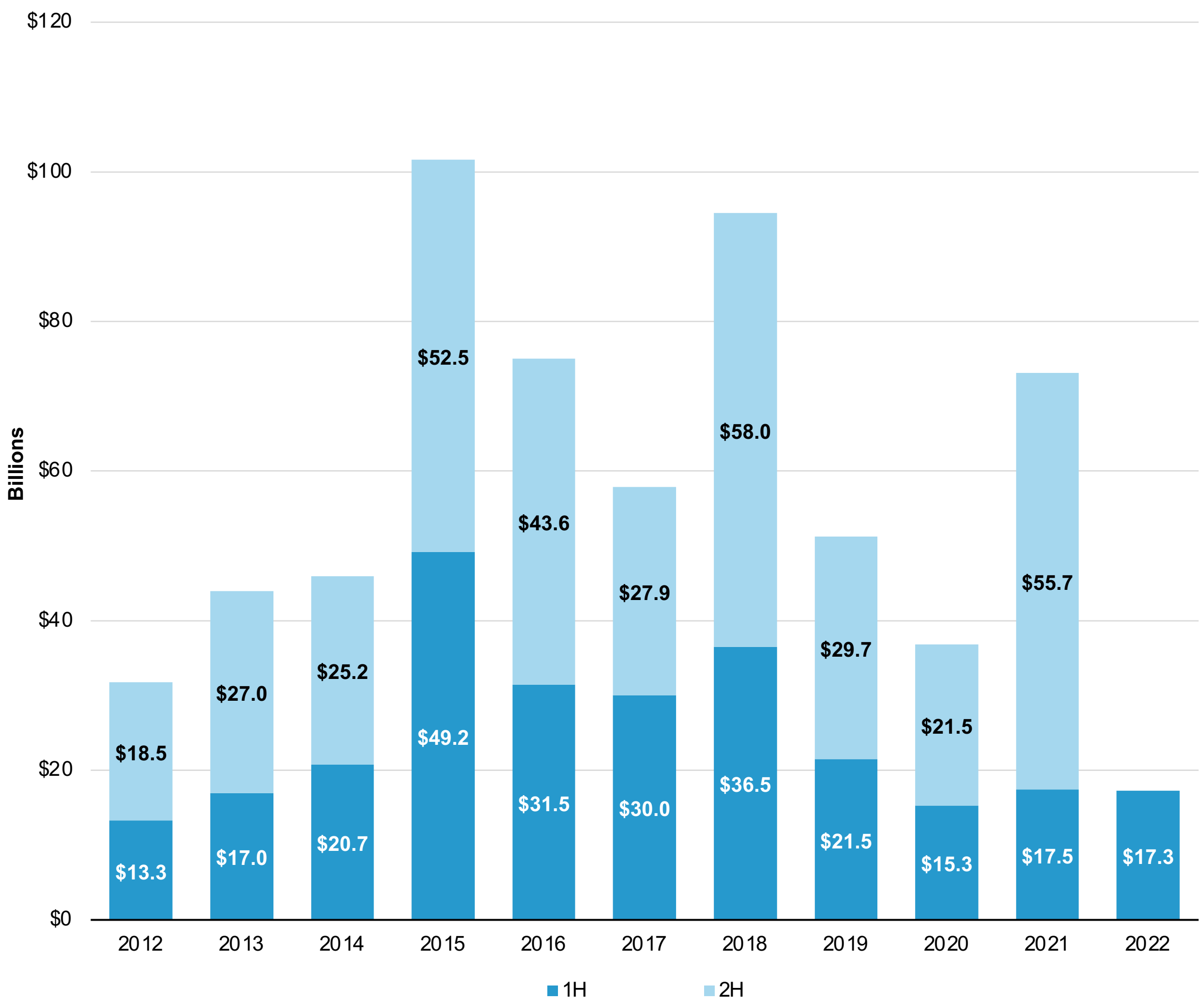
Property	Price
Sunbelt Multifamily Portfolio 8,300 Units *Multifamily* Buyer: SREIT	**$2.4 B**
Sunbelt Multifamily Portfolio (Partial Interest) 7,200 Properties *Multifamily* Buyer: Camden Property Trust	**$1.4 B**
Sunbelt Multifamily Portfolio 3,600 Units *Multifamily* Buyer: Clarion Partners, Blackfin Real Estate Investors	**$850 M**
Western Industrial Portfolio (Partial Interest) 14 Properties *Industrial* Buyer: Blackstone	**$523 M**
Salt Lake City & SoCal Amazon Portfolio 3 Properties *Industrial* Buyer: Mirae	**$521 M**

Source: Newmark Research, Real Capital Analytics

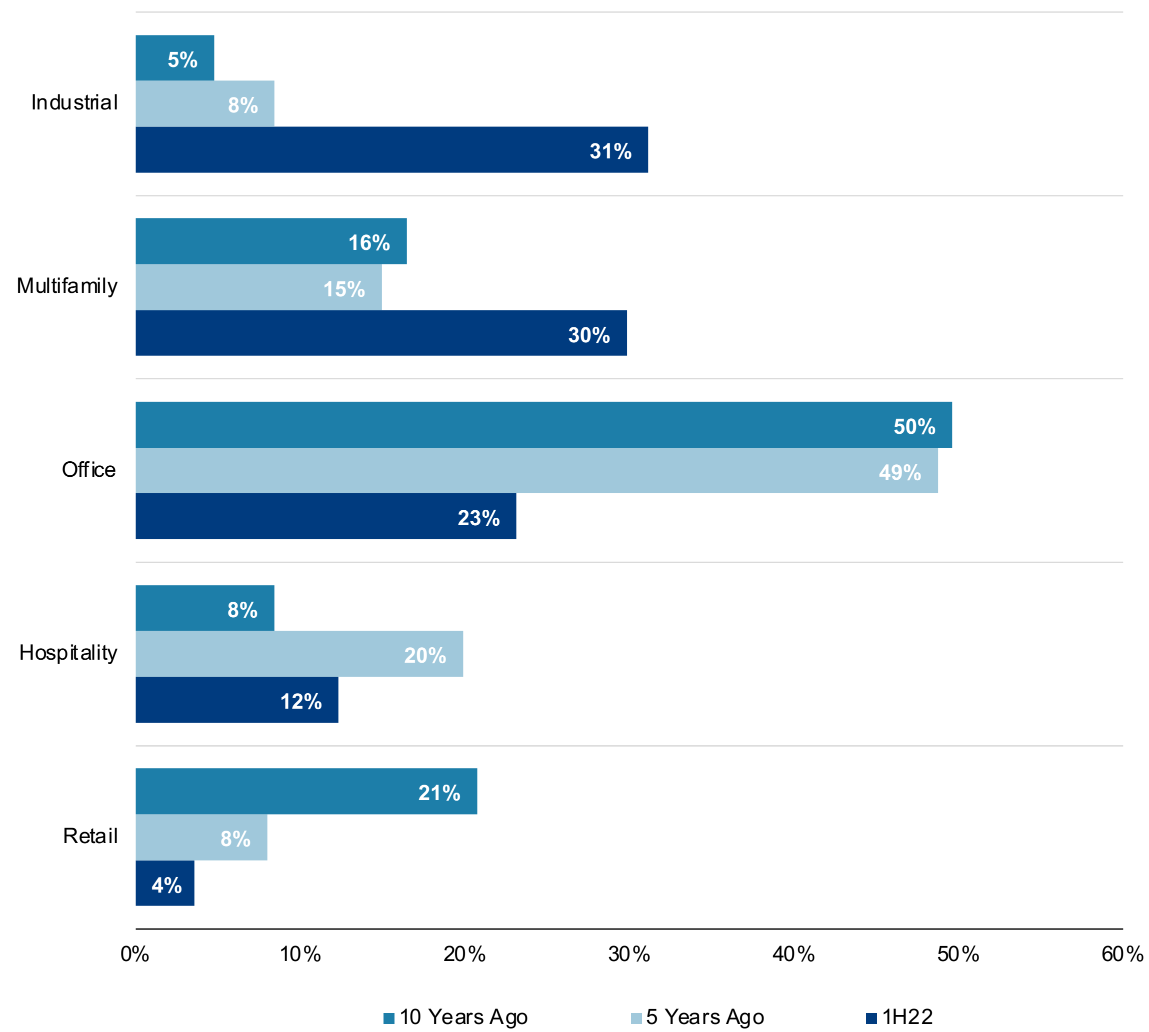
Composition of International Capital

Following one of the highest volume years for international capital, acquisitions by international groups decelerated 18.6% year-over-year to $14.2 billion in 1H22. Mirroring the allocation changes by domestic groups, international capital has adjusted its allocation away from office and towards industrial and multifamily, with those two property types representing a combined 61.0% of transaction volume in 1H22.

Investment Volume



Allocation of Capital

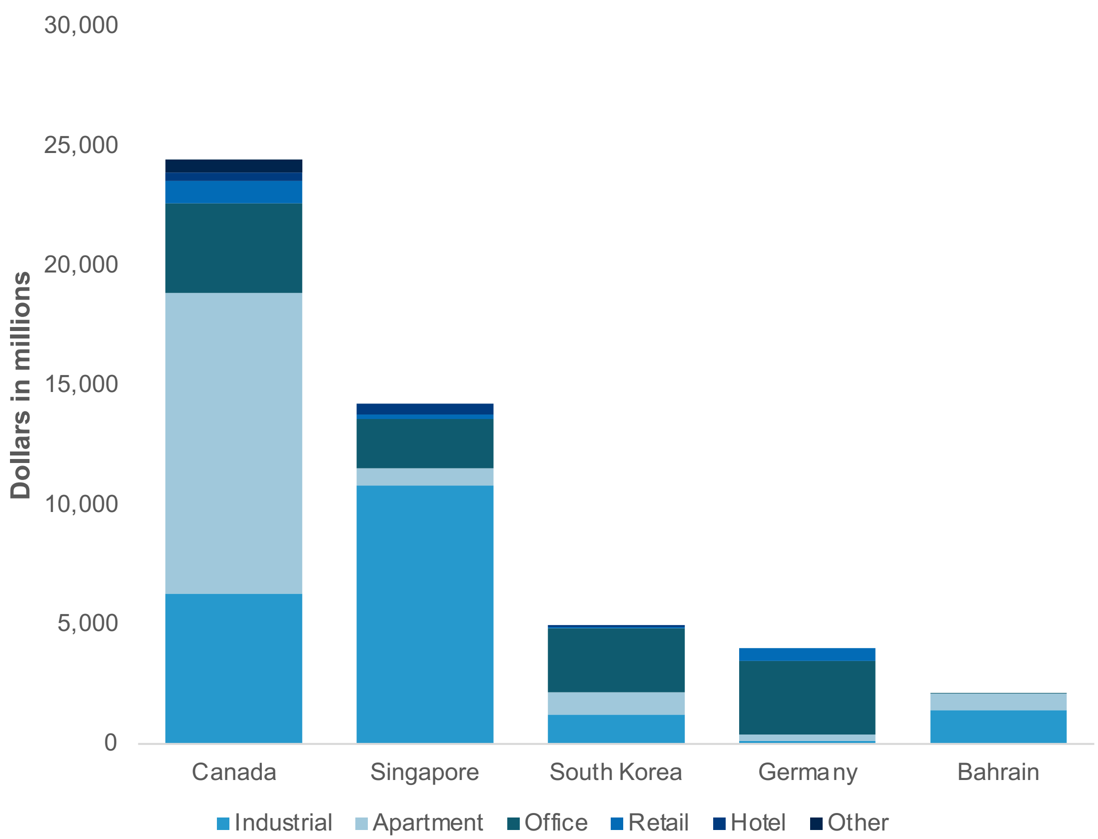


Source: Newmark Research, Real Capital Analytics

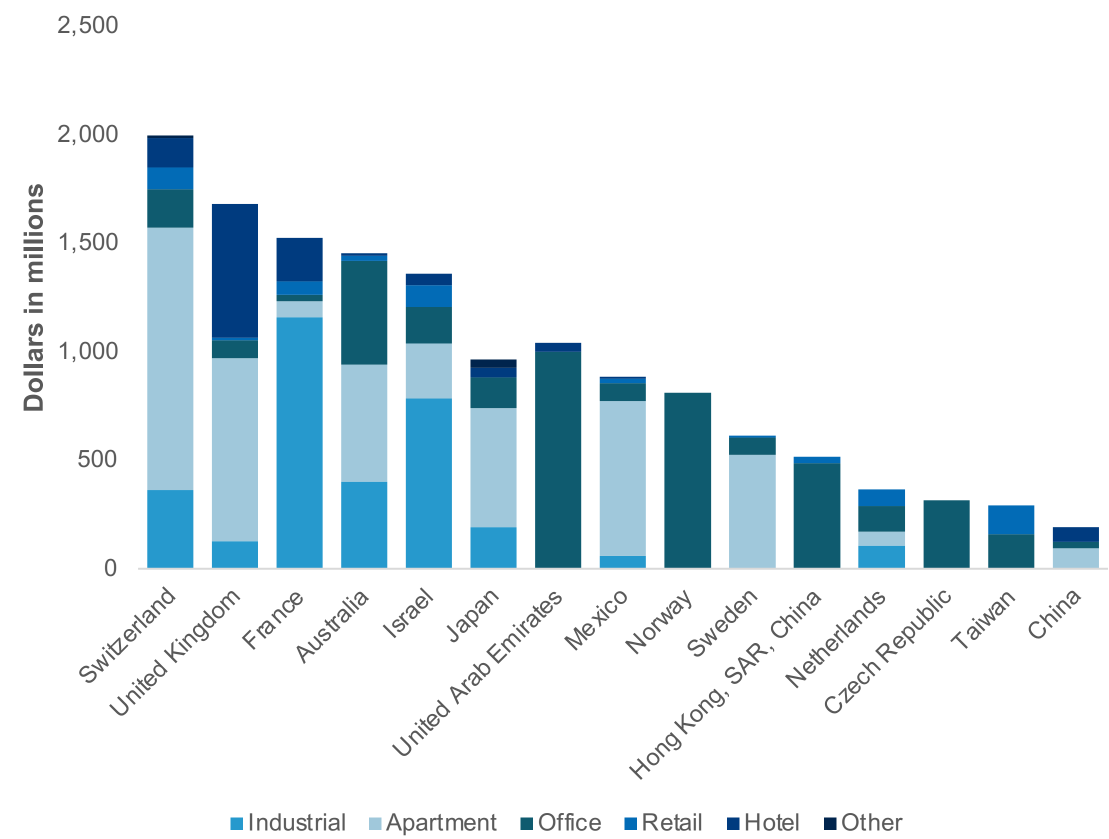
Sources of Inbound Capital

The top five countries accounted for 38% of all cross-border acquisitions in the twelve months to June 2022. Canada continues to be the top source of inbound capital at $24.4 billion – up 101% / $12.3B compared to the prior 12-month period. Singapore remained in the second spot, though with an even larger acceleration in activity – up 318% / $10.8B. South Korean and German acquisitions also increased significantly – up 47% / $1.6B and 121% / $2.2B, respectively. Canadian acquisitions have been heavily skewed towards apartment assets and industrial while Singaporean investors have been almost exclusively focused on industrial assets. South Korea and Germany, meanwhile, have retained their traditional emphasis on office properties. Outside the top five markets, Australia, UAE, France and Israel contributed most to the increase in acquisitions volume. The United Kingdom remained in the top 10, but was one of the few markets to reduce acquisitions. Looking forward, reduced global liquidity, a stronger dollar and rising USD hedging costs are likely to pressure cross-border investment, particularly from Europe and Japan. Increased oil and gas revenues are likely to counterbalance these forces in Norway and the Middle East while political instability in Latin America is likely to drive continued capital flows.

Top 5 Sources of Inbound Capital: 2021H2-2022H2



Next 15 Sources of Inbound Capital: 2021H1-2022H2

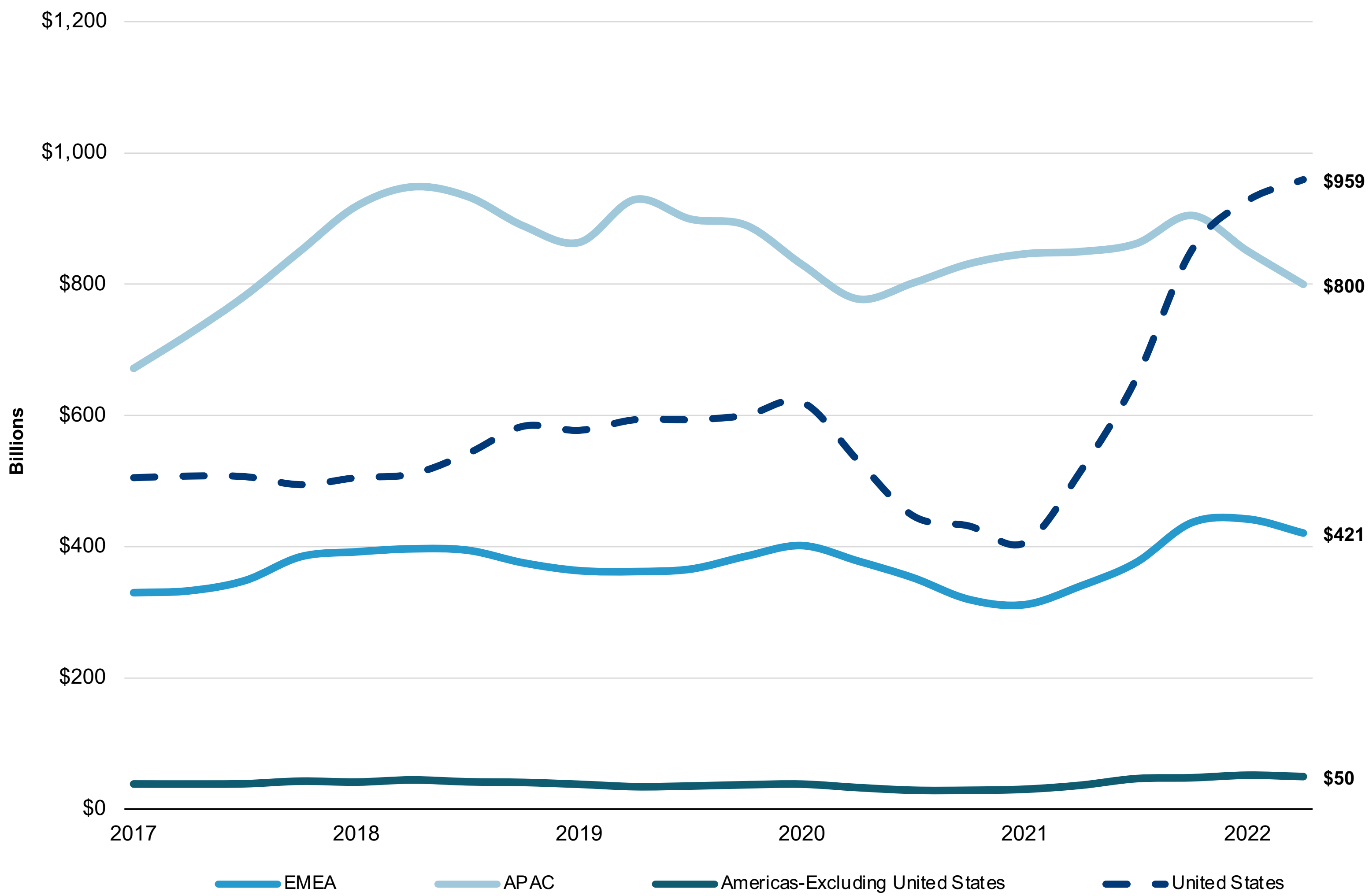


Source: RCA, Newmark Research

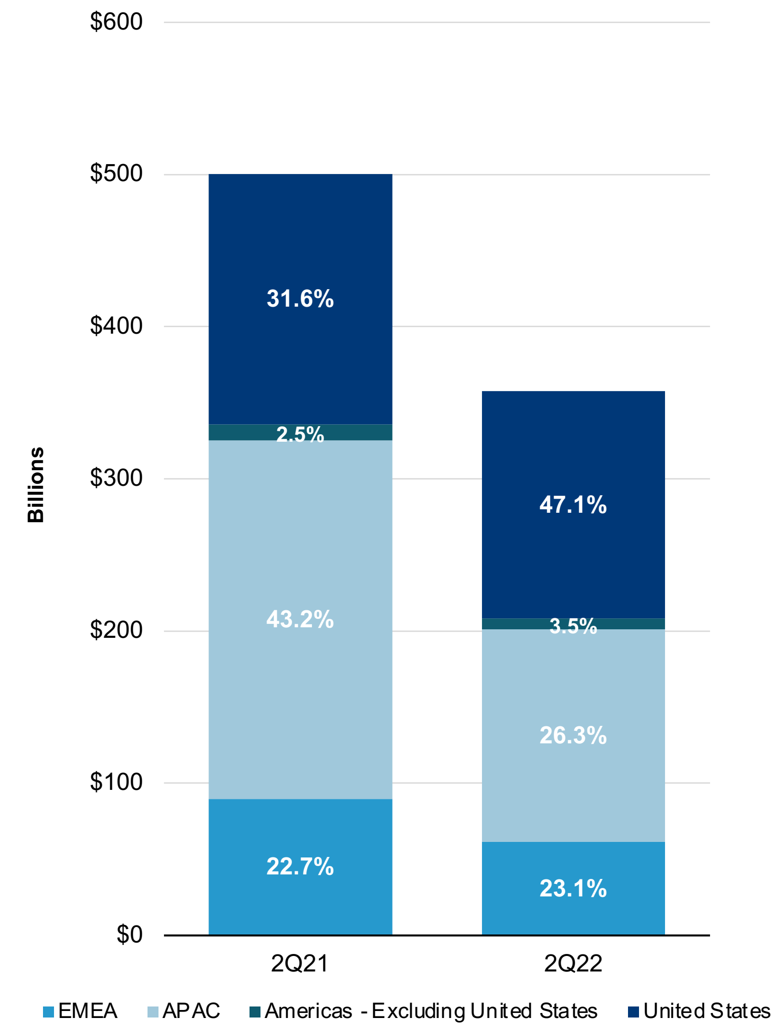
United States is the Most Liquid Market Globally

Trailing 12-month global investment volume began to decelerate in 2Q22 amid geopolitical and economic uncertainty, reaching $2.2 trillion – however, volume is still up 25.3% year-over-year. The United States commercial real estate market continues to attract the largest share of investment volume, climbing to 47.1% of global share in 2Q22, outpacing Asia Pacific and EMEA.

Rolling-12 Month Global Investment Volume by Region



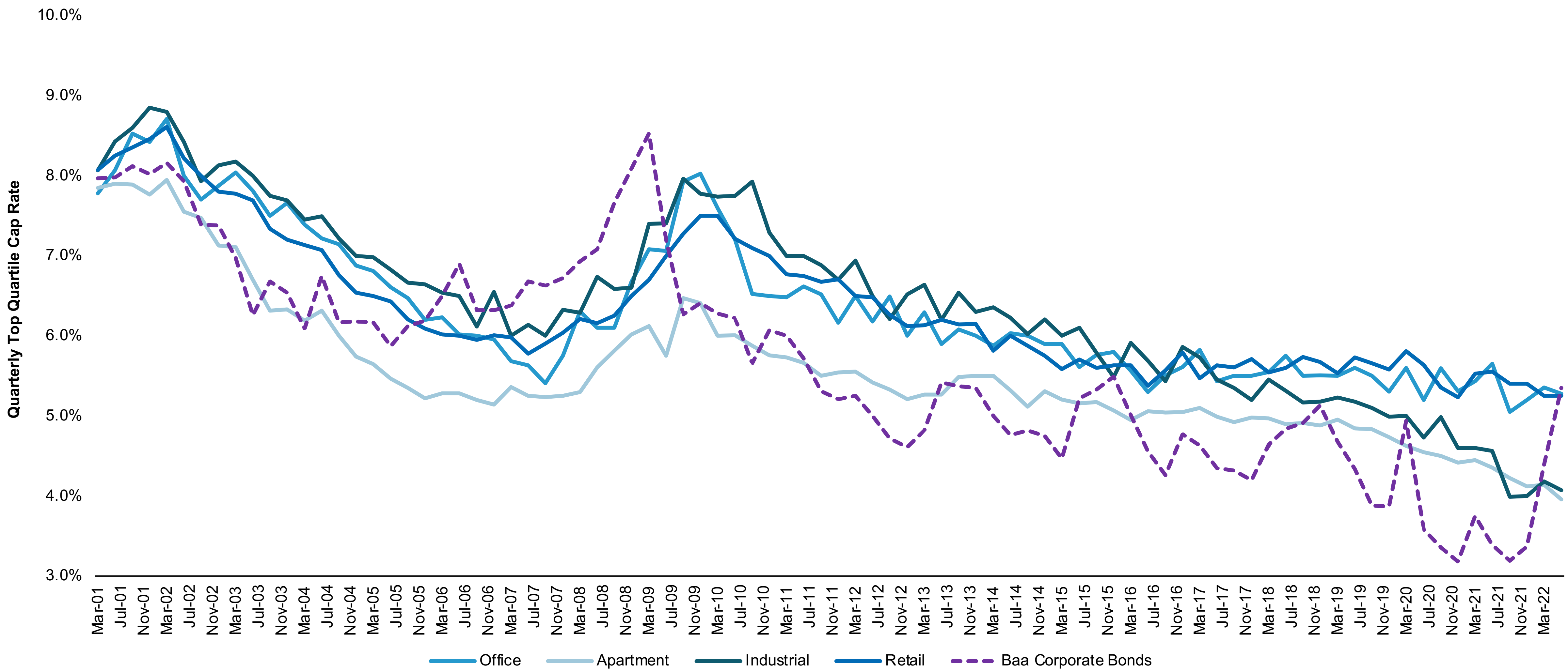
2Q22 vs. 2Q21



Source: Newmark Research, Real Capital Analytics

Rising Cost of Debt Placing Pressure on Cap Rates

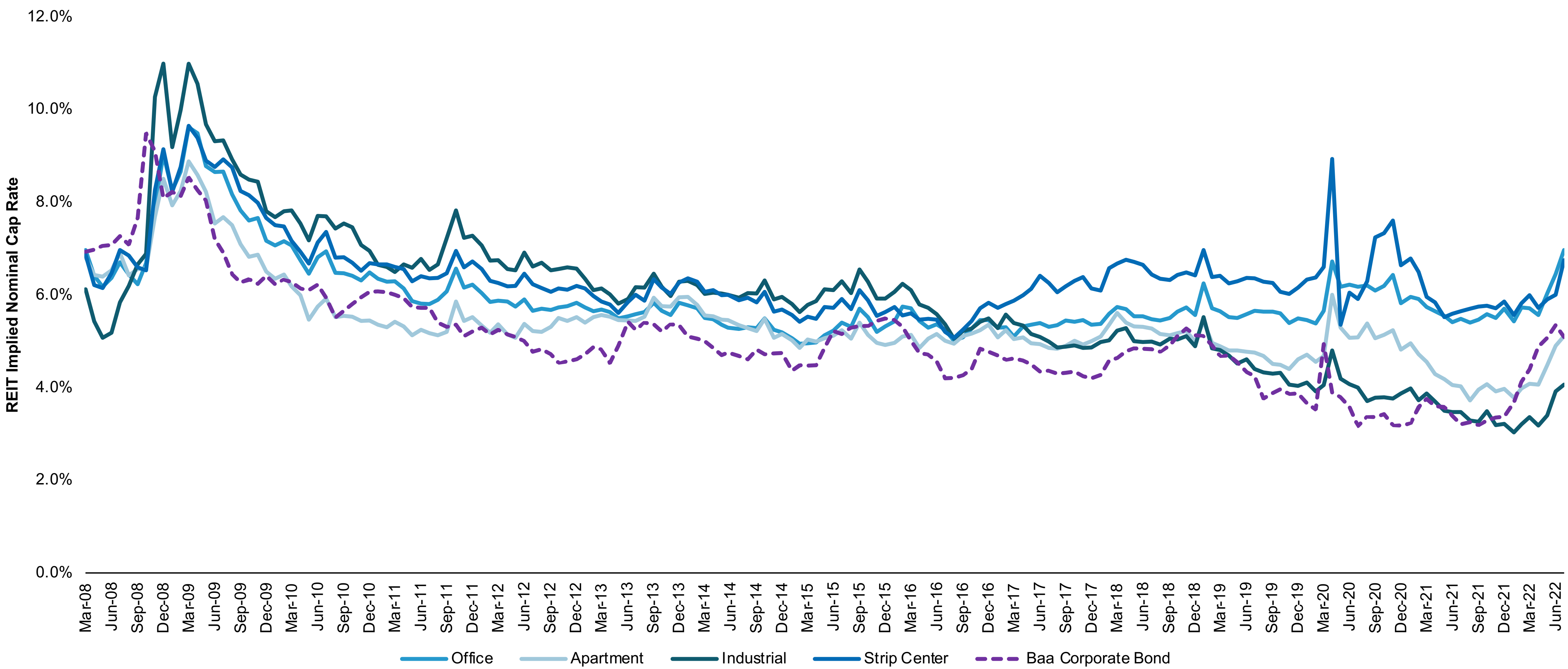
Transaction cap rates continued their recent trajectories in the second quarter – industrial and multifamily yields compressing while retail and office yields (at least for the best product) remaining stable. It is rare that we see such a large gap between the statistics vs. impressions on the ground across the industry. The cost of debt across instruments and property types has risen dramatically – here proxied by the Baa corporate bond rate. The resulting negative leverage is placing significant upward pressure on cap rates even if the transaction market has been slower to reflect the new dynamic. Should these higher debt costs be sustained – and all signs point to this being likely – then we expect to see more headline movement in yields in the coming quarters.



Source: Real Capital Analytics, Federal Reserve Bank of St. Louis, Moody's

Public Markets Presage Adjustment in Private Markets

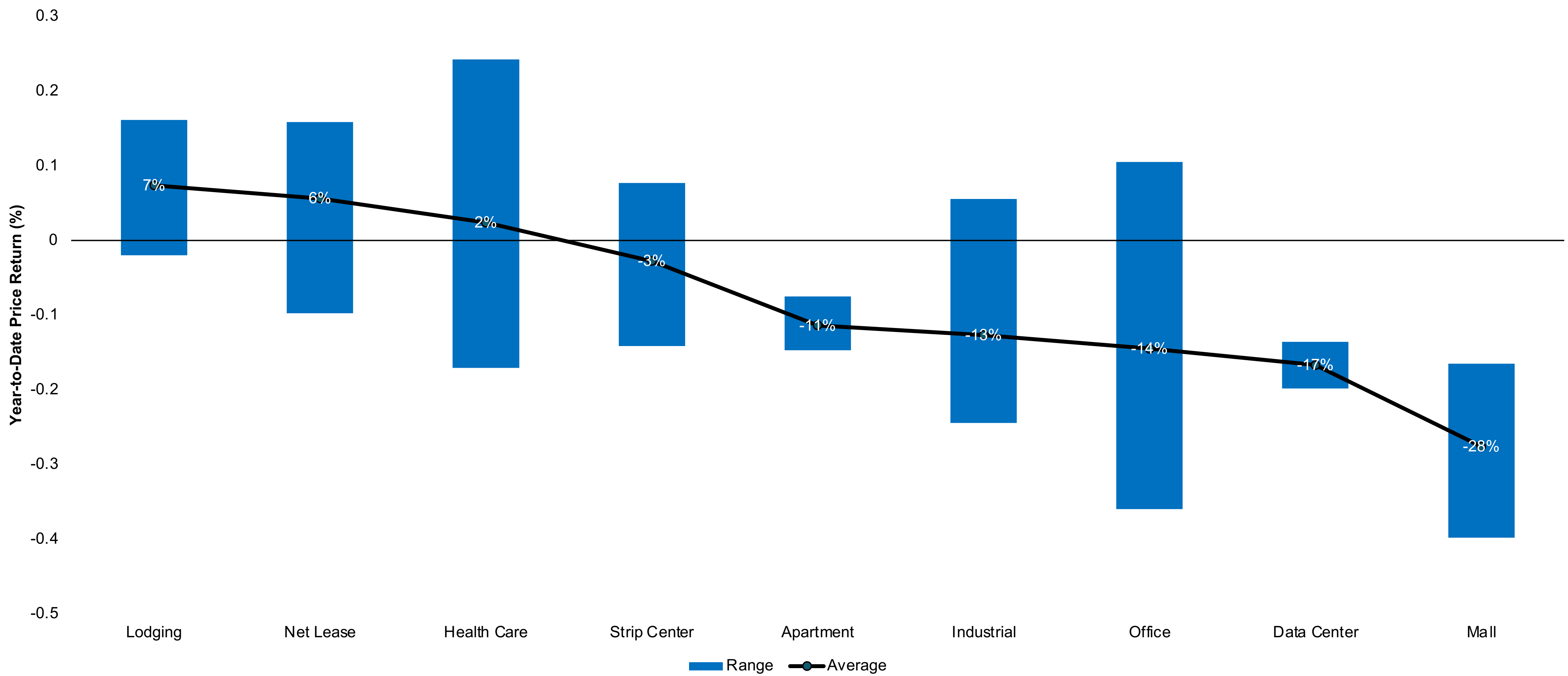
Public markets have moved more quickly to reflect changing valuations. The change in corporate bond yields led the movement, suggesting that value adjustments thus far have mostly been due to general financial conditions rather than any specific deterioration in property fundamentals. The same is true for the broader equity markets where earnings growth forecasts remain robust, seemingly at odds with rising recessionary sentiment. As such, even if debt costs remain range bound, changes in the economic and ultimately leasing market outlook could be a catalyst for further movement in cap rates and price performance.



Source: Green Street, FRED, Moody's, Newmark Research

REIT's Under Pressure Year-to-Date With Significant Variance Across Individual Players

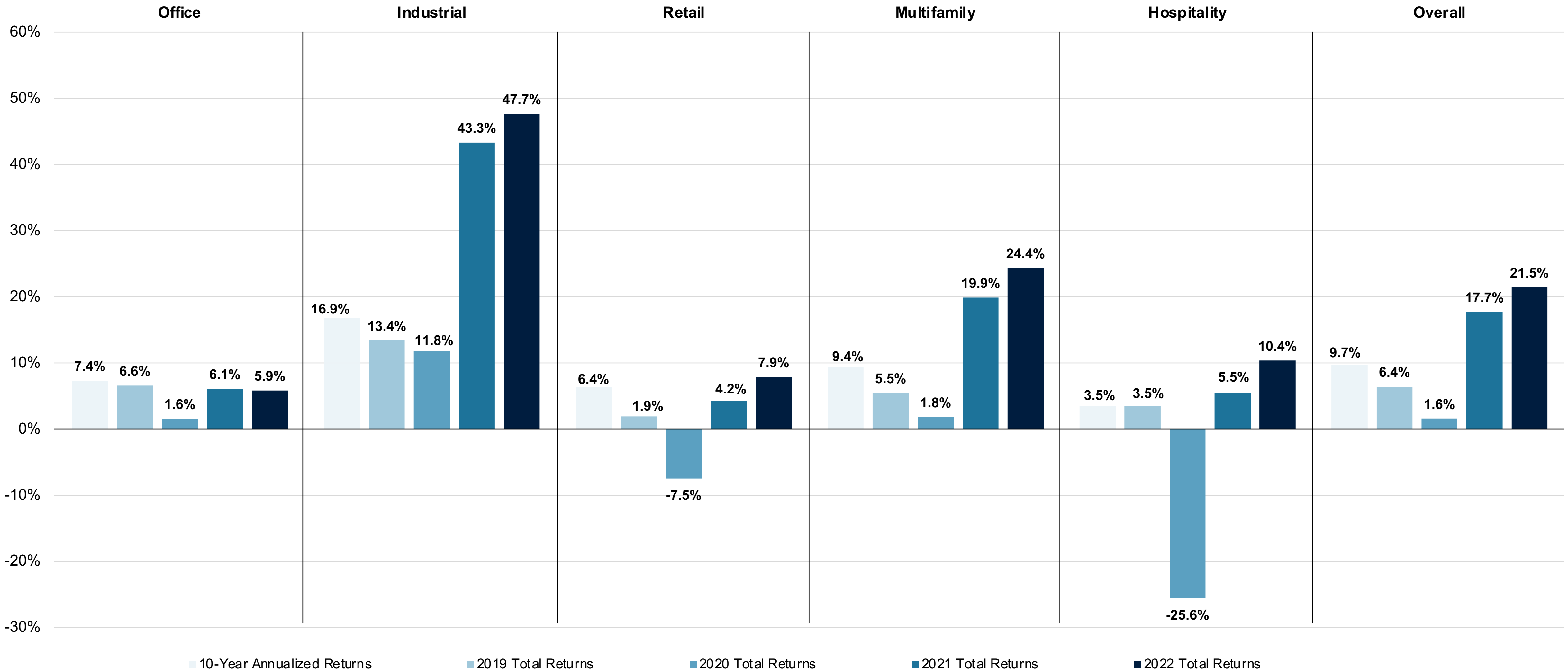
REIT returns have been broadly negative year-to-date, similar to broader equity markets. The S&P 500 has declined 12.1% compared to a 14.0% for the FTSE NAREIT All Equity index. Property sector performance and even more so individual REITs performance have been varied. The lodging, net lease, health care and strip center REITs have performed best on average though with a large spread between the top and bottom performers in each segment. In the middle, apartment, industrial and office REITs have been impacted in-line with the overall index. All apartment REIT prices have declined year-to-date as have most industrial and office REITs. Apartment and industrial REITs price declines are largely a result of their having the lowest cap rates and, as such, greater interest rate sensitivity. Office REITs while having higher cap rates have recently been under pressure due to recessionary concerns and the downstream implications for office recovery. Data center and mall REITs have been the worst performers YTD on average.



Source: Green Street, NAREIT, Newmark Research as of 8/5/2022

Total Returns by Property Type

NCREIF annualized total returns for commercial real estate climbed to 21.5% in 2Q22, driven by record-breaking total returns in industrial and multifamily as well as an accelerating recovery in hospitality and retail. 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.

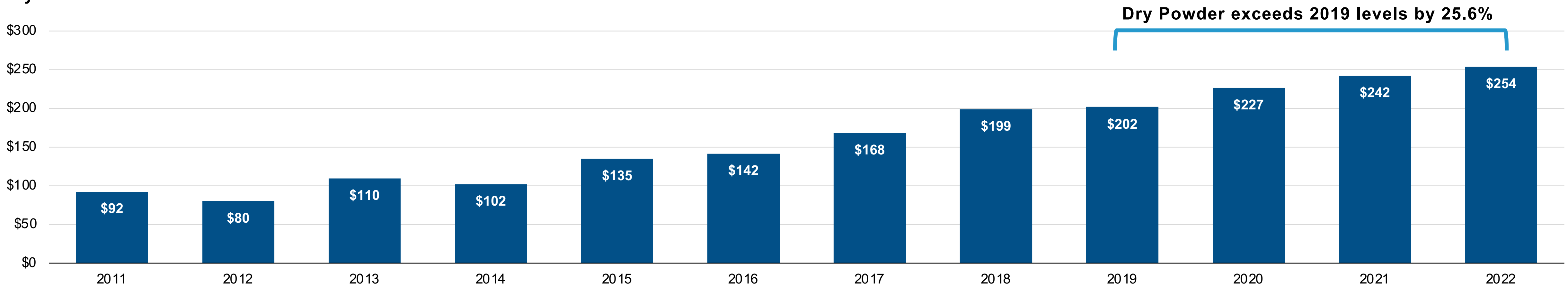


Source: Newmark Research, NCREIF

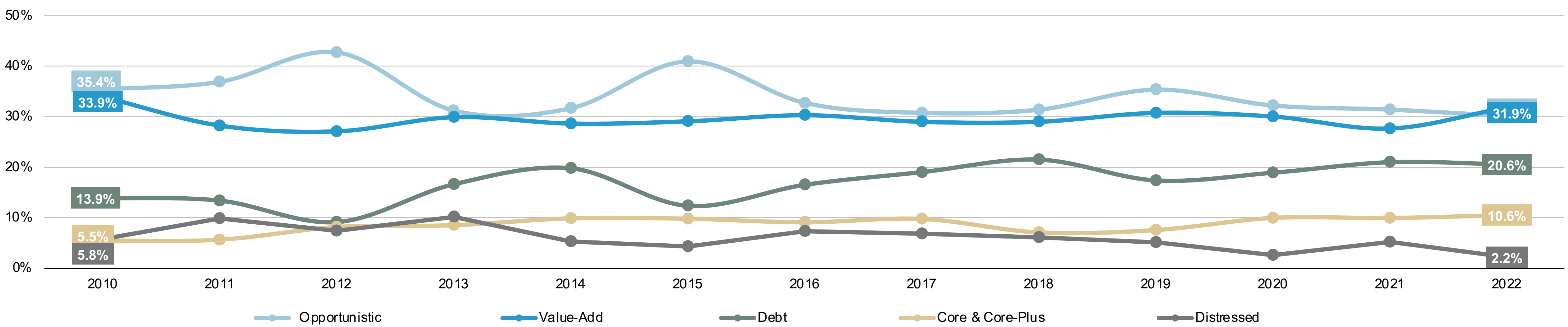
Dry Powder

Following an all-time record year for capital deployment, dry powder accumulated by North America-focused real estate funds rose to $253.5 billion in 2Q22. Opportunistic and value-add strategies make up 62.0% 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*



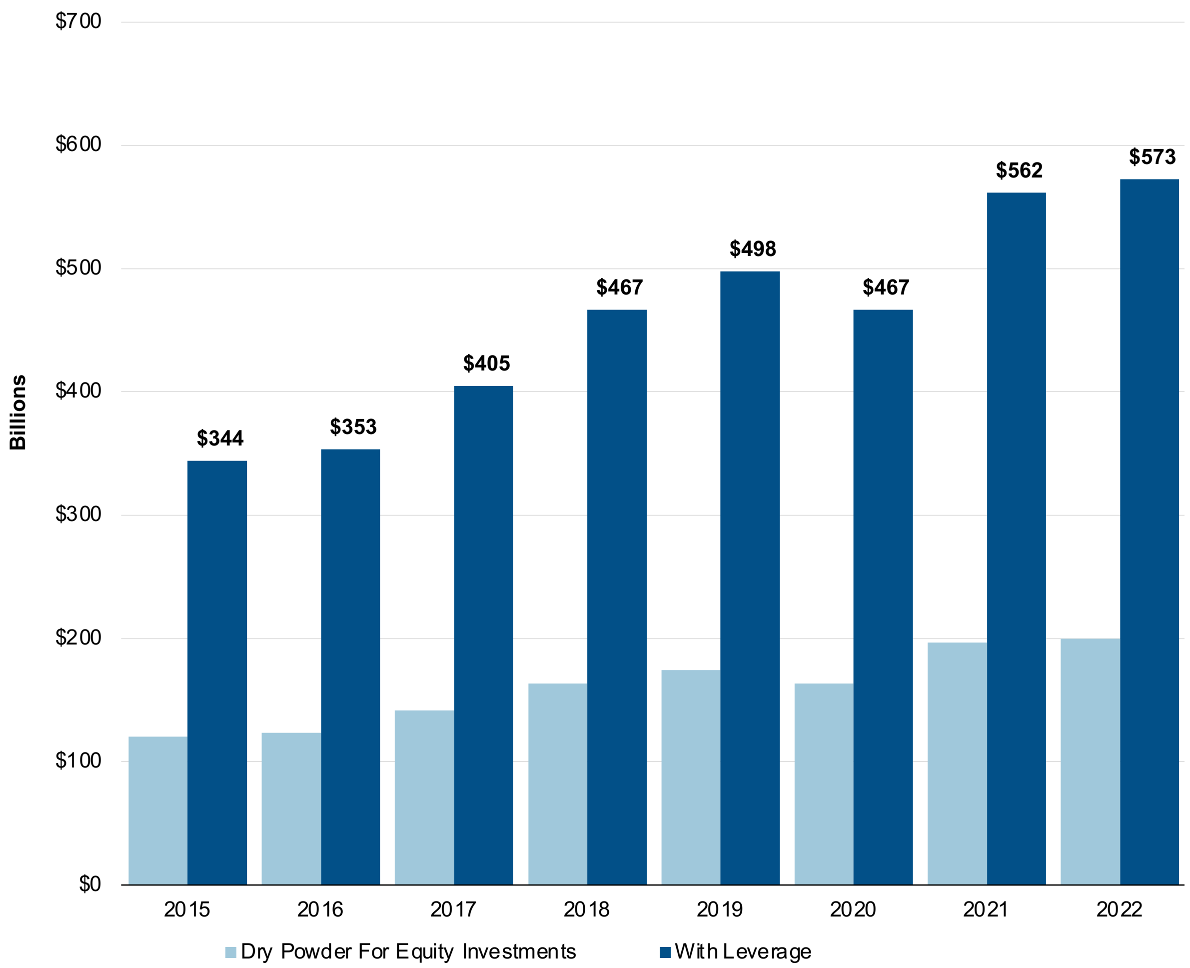
*Not shown: Fund of funds, co-investments, and secondaries strategies

Source: Newmark Research, Preqin (July 2022)

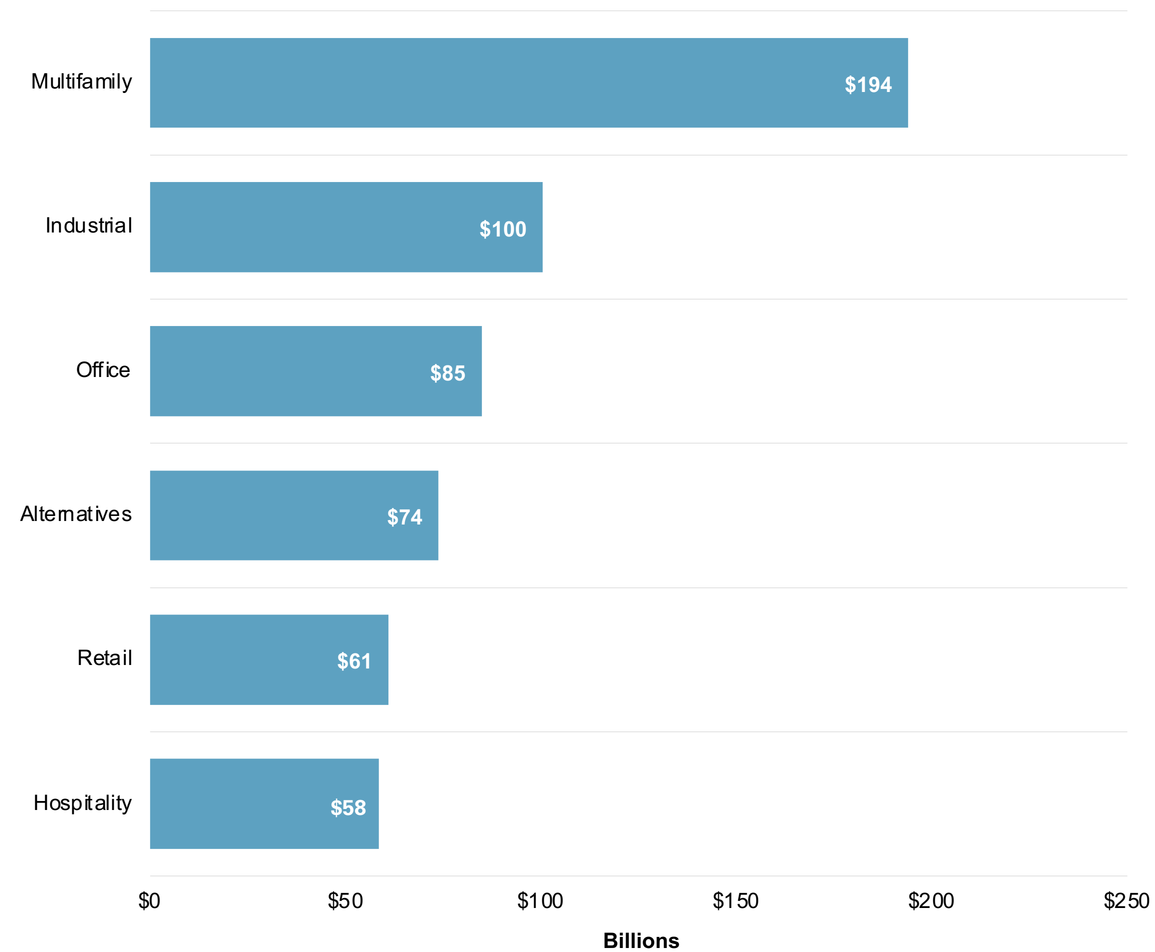
Dry Powder with Leverage

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



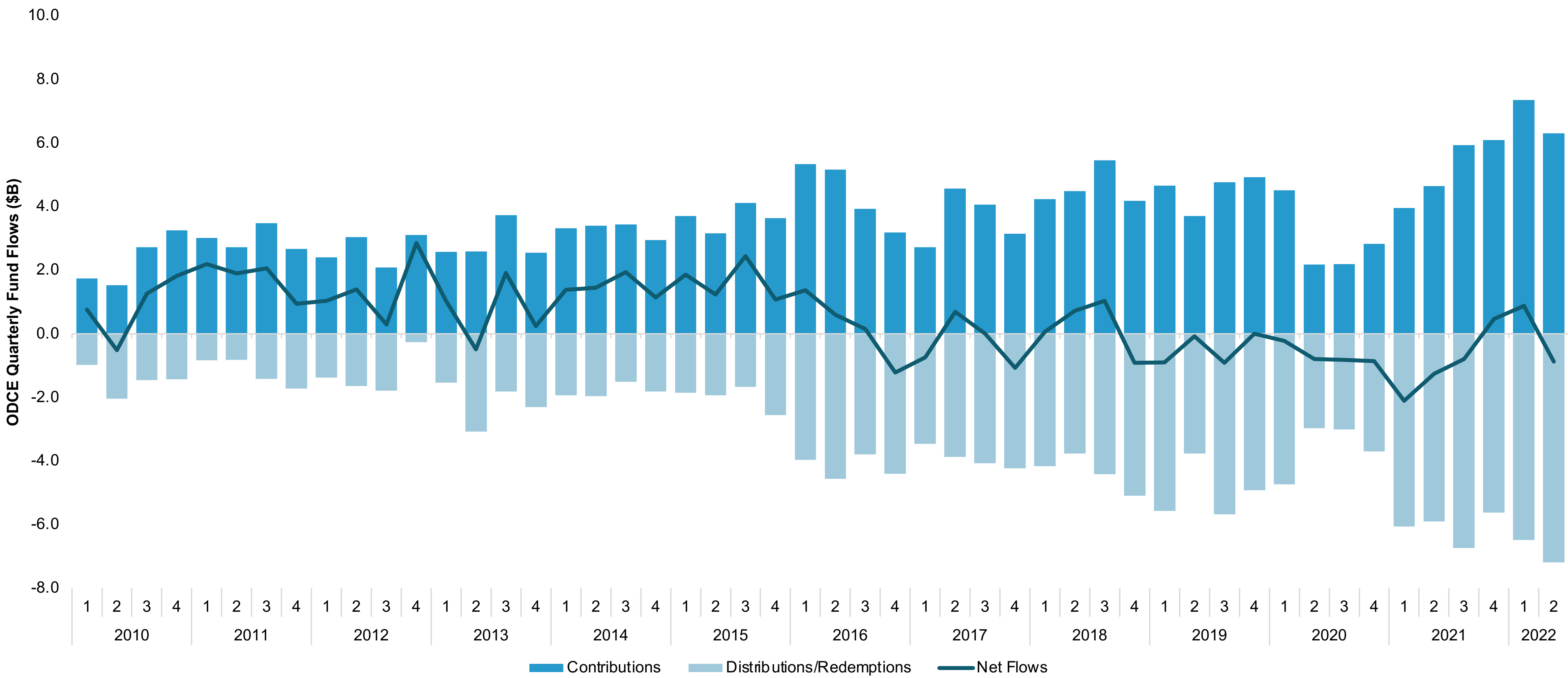
2022 Leveraged Dry Powder By Property Type



Source: Newmark Research, Real Capital Analytics, Preqin

ODCE Fund Flows Slowed in Q2

Contributions to ODCE funds pulled back from the record level set in 1Q22 even as distributions went on to new heights. The high level of cash outflows is mostly attributable to distributions, following several years of above average capital appreciation. However, there are anecdotal reports that the sell-off in other risk assets is not only impacting new flows into CRE but also in some cases resulting in larger redemption queues. This is something that will bear watching in the coming quarters. For now, a continued moderation in contributions is the most likely outcome.

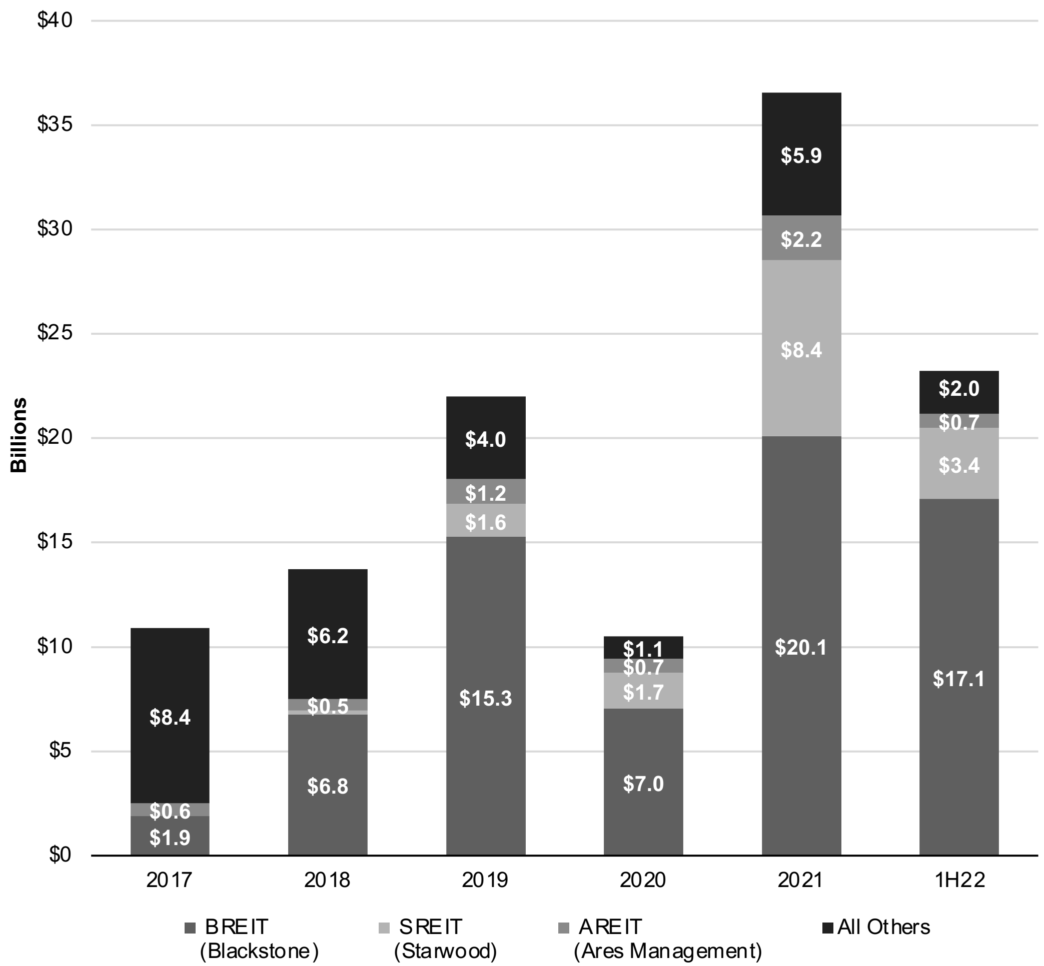


Source: Newmark Research, NCREIF

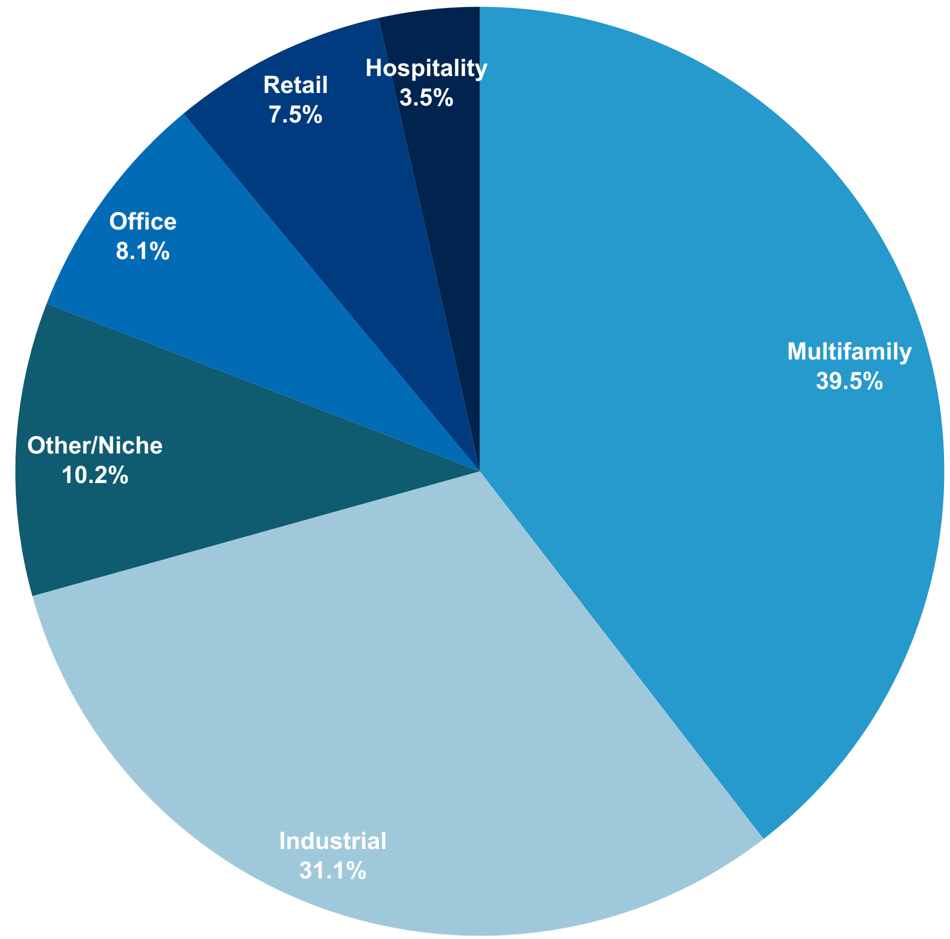
Non-Traded REIT Momentum

The record-breaking pace of non-traded REIT spending has continued into 2022, with investment volume reaching $23.2 billion in 1H22, driven by Blackstone's BREIT, which was responsible for over 70% 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

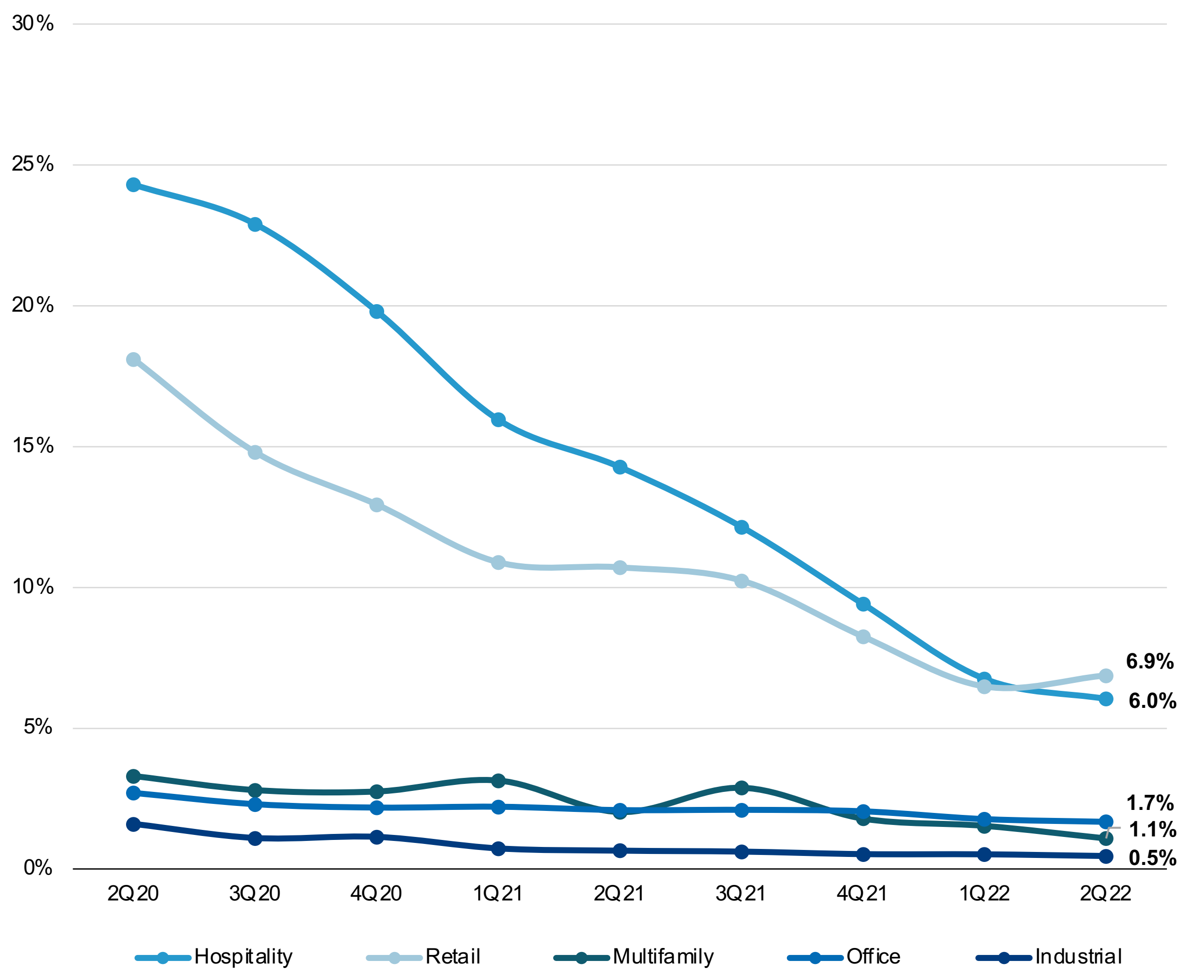
**Single family rentals not included in volume or allocation

Source: Newmark Research, Real Capital Analytics

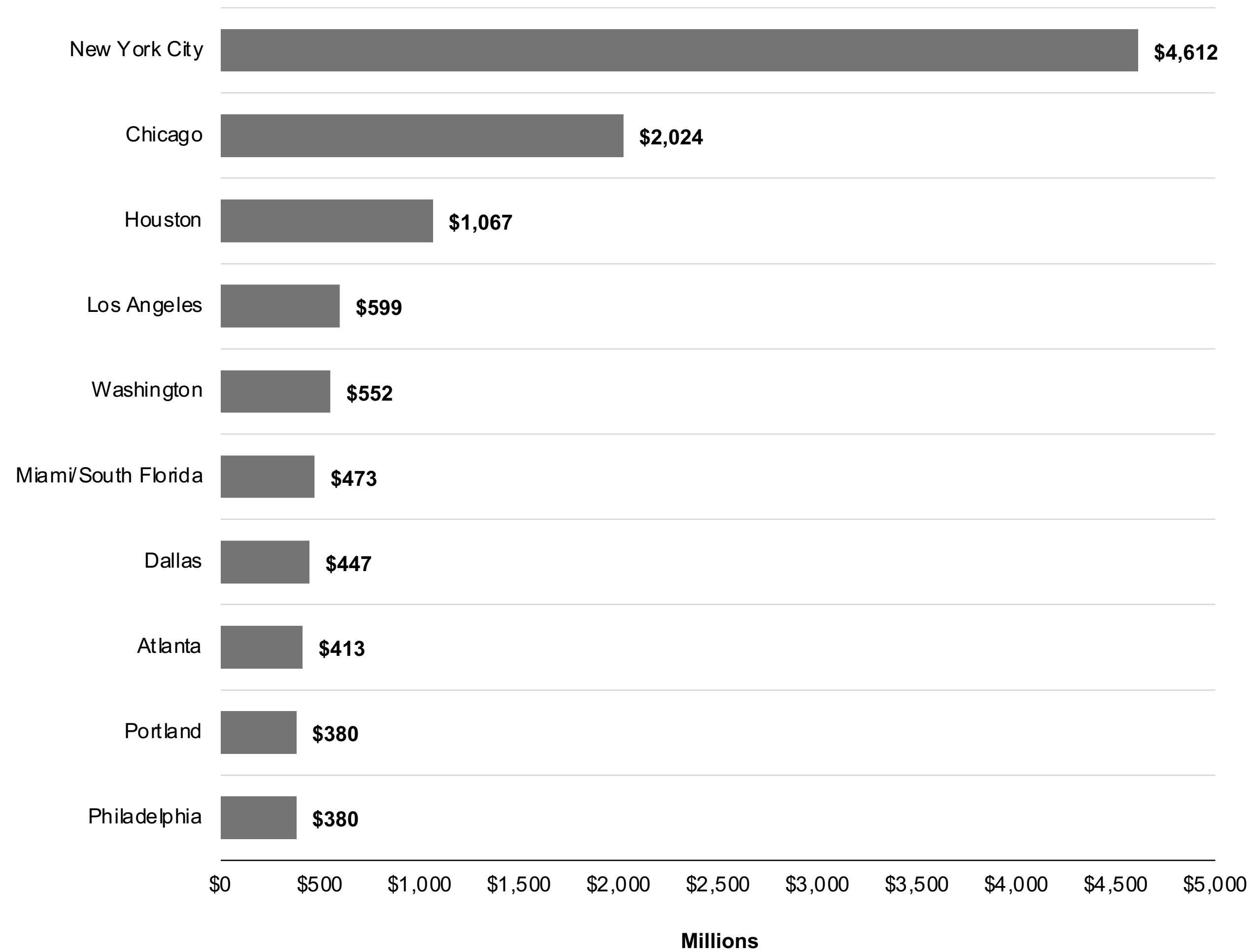
CMBS Delinquency Rates

Since the onset of the pandemic, delinquency rates for hospitality and retail have declined by 75.3% and 61.9%, 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



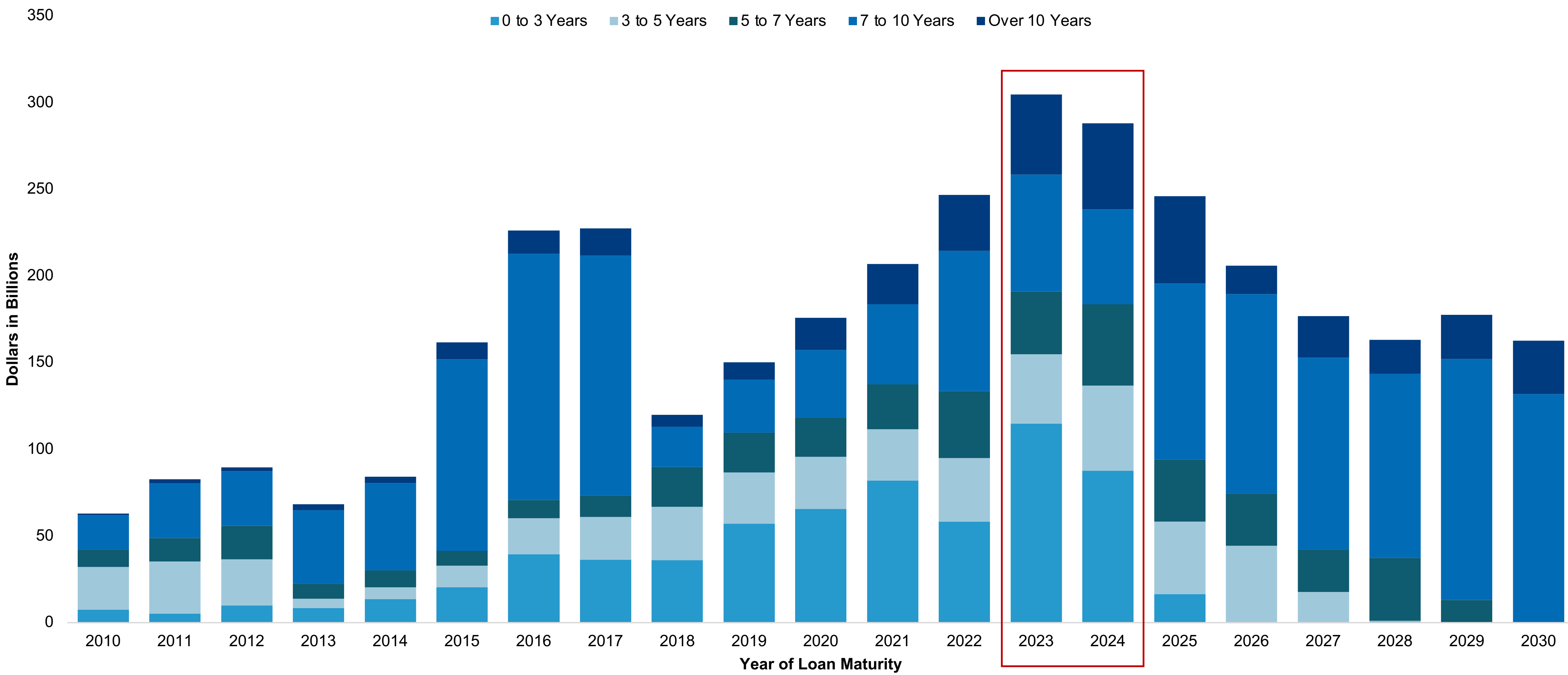
Delinquent Balance by MSA



Source: Newmark Research, Trepp

Record Quantities of Debt Maturing in 2023-2024

Nearly $600B of senior CRE debt is set to mature in 2023-2024 of which a third was originally issued in 2020 or later. Debt costs have increased dramatically since the beginning of the year – from 2.8-3.2% for core product to 4.8-5.5% today. The implication is that these recent loans will need to refinance at significantly higher debt costs. There will be some distressed situations arising from this negative roll, particularly should fundamentals slow and values take a hit concurrently. More commonly, however, we will see investors choosing to refinance to lower LTV's than they might have otherwise, especially as main multifamily and industrial asset values have increased substantially. Lastly, there will be situations where investors bring in minority equity partners.

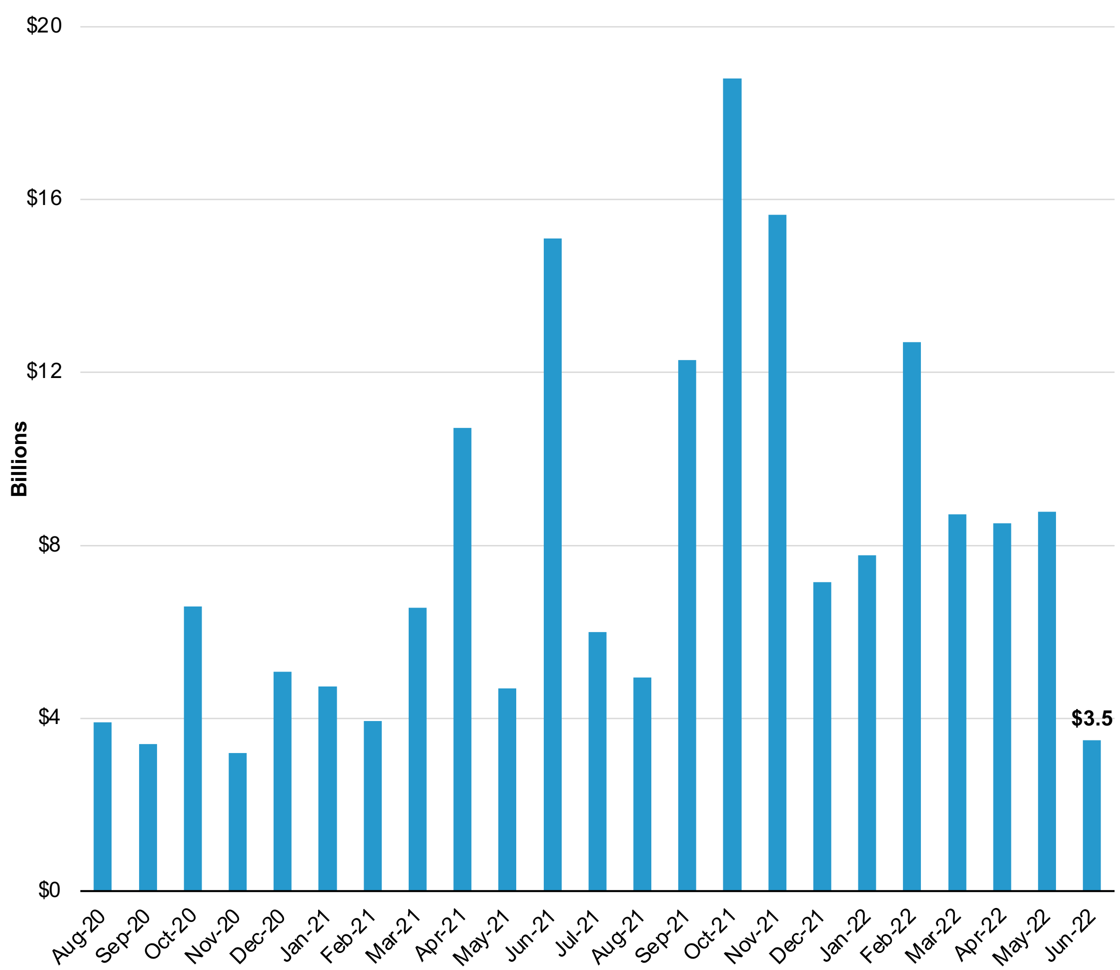


Source: RCA, Newmark Research

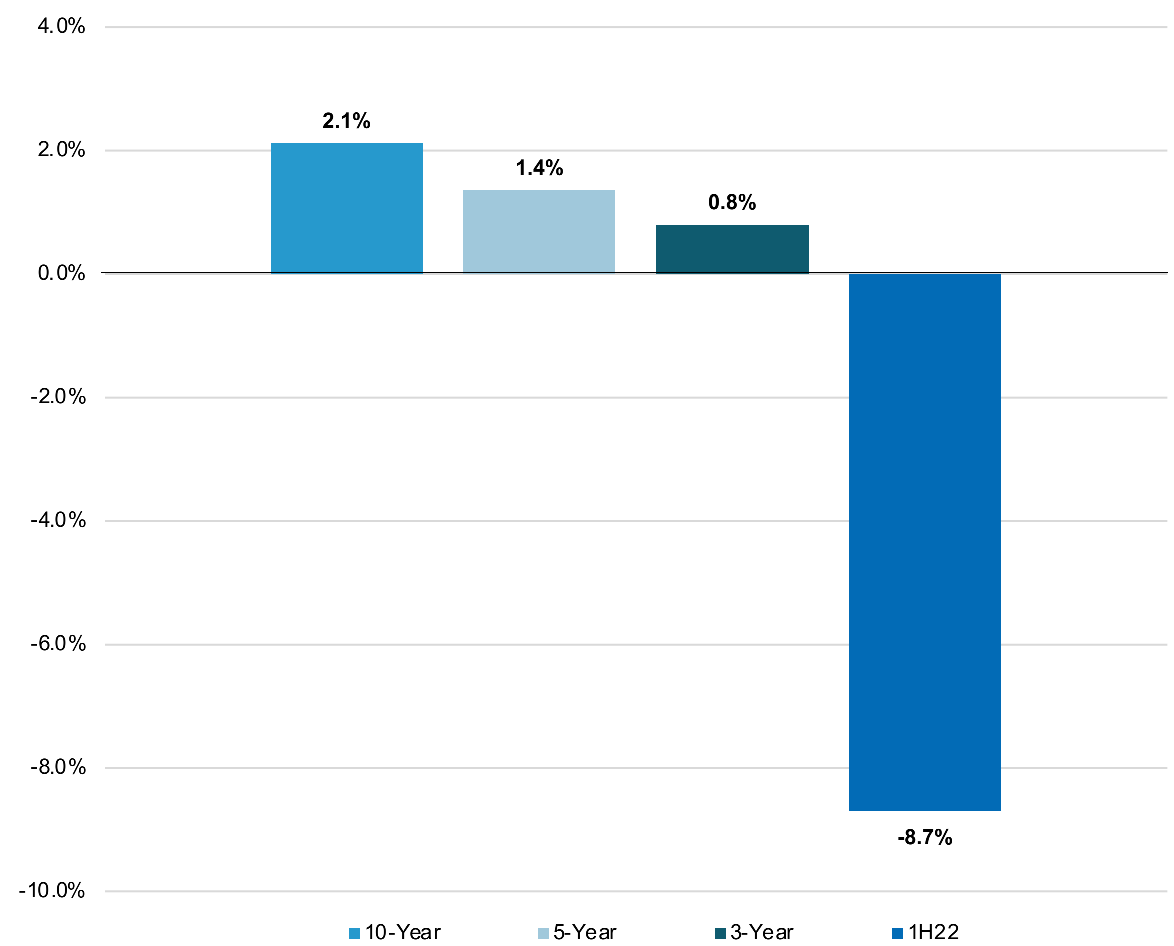
Volatility Has Impacted CMBS Total Returns, Issuance

While monthly CMBS issuance remained relatively strong in April and May, issuance plummeted over 60% in June to just $3.5 billion – interest rate volatility, combined with a slowdown in the investment sales market have constrained lending activity. Mirroring the movement in fixed income yields, CMBS total returns continued to move in a negative direction throughout 1H22, finishing at -8.7% year-to-date.

Monthly CMBS Issuance



Historical CMBS Total Returns (iShares CMBS ETF)



Source: Newmark Research, Greenstreet, iShares

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