MARKETBEAT

U.S. Capital Markets

Q2 2019

CUSHMAN & WAKEFIELD

Executive Summary

- Transaction activity accelerated in the second quarter of 2019, up 19% quarter-over-quarter (QoQ) and 6% year-over-year (YoY). Volume in the first half of 2019 was flat—just 1% below the level recorded in the first half of 2018. Single-asset sales over $250 million (M) increased the most, up 39% YoY in the first half of 2019.
- Apartment and office volume accelerated in the first half of 2019 compared to the same period a year ago, while industrial and retail volumes slowed. The industrial slowdown was due to fewer portfolio and M&A deals closing; the slowdown will soon reverse itself.
- Private capital continues to drive acquisition activity—up 7% in the first half of 2019. Public-vehicle investment increased significantly, supported by high stock market valuations. Cross-border investment was subdued, representing just 7.6% of transaction volume compared to a 12.3% three-year average.
- The 10-year Treasury yield continued to drift downwards, to a low of 1.75% in August 2019. The cost of debt has compressed significantly for both fixed (-107 basis points [bps]) and floating-rate (-37 bps) financing.
- The stage is set for continued strong liquidity in the second half of 2019 with elevated dry powder and supportive monetary conditions. Cap rates will remain broadly stable, aside from under-amenitized suburban office and lower quality retail.

Resurgent Second Quarter Leaves First Half Volume on Par with 2018 Levels

Transaction activity accelerated in the second quarter of 2019 to $122.6 billion (B), up 19% quarter-over-quarter (QoQ) and 6% YoY. Momentum was strong across transaction types, notably sales of single assets over $250M. Several M&A deals closed in the second quarter as well, including the Cousins Properties-TIER REIT merger and Tricon's acquisition of No.5 Core fund from Starlight.

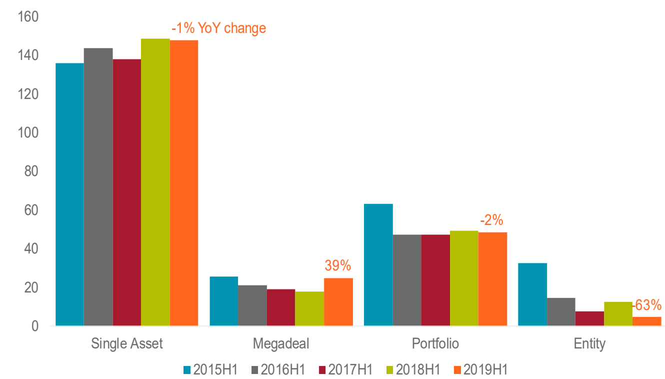
U.S. TRANSACTION ACTIVITY

	2Q19			1H19	
	Vol ($B)	QoQ	YoY	Vol ($B)	YoY
Single Asset	91.5	13%	12%	172.6	4%
Under 250M	77.0	9%	3%	147.6	-1%
Over 250M	14.5	38%	97%	25.0	39%
Portfolio	26.8	24%	5%	48.4	-2%
Entity	4.2	843%	-49%	4.7	-63%
Total	**122.6**	**19%**	**6%**	**225.8**	**-1%**

Source: Real Capital Analytics, Cushman & Wakefield Research
Deals over $5 million

INVESTMENT SALES VOLUME BY TRANSACTION TYPE

DOLLLARS IN BILLIONS (YOY % CHANGE)



Source: Real Capital Analytics, Cushman & Wakefield Research
Deals over $5 million

Single-asset sales continued to dominate transaction activity, and although core single-asset sales (i.e., those under $250M) moderated slightly compared to the record set in the first half of 2018, activity remained extremely robust. Large single-asset sale or megadeal volume rebounded to within a hair of the cycle record set in the first half of 2015. M&A/entity transaction activity was notably weak in the first half of 2019; however, with the recent announcements of Blackstone buying GLP's U.S. assets for $18.7B and Prologis acquiring Industrial Property Trust for $4B, the stage is set for a stronger second half.

Secondary and Tech-Oriented Markets Driving Activity

Transaction activity favored secondary markets in the first half of 2019 as volume increased 3% YoY on the back of strong second-quarter sales. Major and tertiary market volumes were each down 5% compared to 2018. This is consistent with the broader trend of secondary markets attracting an ever-greater share of overall activity—45% in the first half of this year compared to the 41% quarterly average since 2010—but represents a loss of momentum for the major and tertiary markets.

As always, individual markets vary. Among the major markets, the San Francisco (+31% YoY / +$4.3B) and

U.S. TRANSACTION ACTIVITY BY MARKET

	2Q19			1H19	
	Vol ($B)	QoQ	YoY	Vol ($B)	YoY
Major Metros	46.3	13%	1%	87.2	-5%
Secondary Markets	57.2	28%	12%	101.9	3%
Tertiary Markets	18.5	15%	-1%	34.7	-5%
Total	**122.6**	**19%**	**6%**	**225.8**	**-1%**

Source: Real Capital Analytics, Cushman & Wakefield Research
Deals over $5 million

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NUANCE IN INDIVIDUAL MARKETS

Top 25 Markets by 1H 2019 Volume

		Year-Over-Year Percent Change						
Metro Area	**1H19 Volume ($M)**	**Apartment**	**CBD Office**	**SUB Office**	**Industrial**	**Retail**	**Hotel**	**Total**
NYC Metro	27,122	-12%	-20%	2%	26%	-36%	74%	-11%
LA Metro	19,182	-5%	-26%	21%	27%	-62%	-30%	-4%
SF Metro	18,102	43%	181%	86%	-45%	-12%	-51%	31%
DC Metro	8,804	11%	-33%	-25%	-41%	-55%	-69%	-27%
Dallas	8,632	6%	396%	-26%	-39%	20%	-69%	-7%
Boston Metro	8,523	172%	75%	11%	-5%	124%	-53%	64%
Seattle	7,655	59%	244%	-4%	-24%	-41%	-70%	21%
Miami/So Fla	7,313	-19%	-18%	10%	-11%	2%	171%	11%
Atlanta	6,969	18%	114%	-3%	-22%	-29%	-59%	-2%
Phoenix	6,571	36%	-80%	-20%	-55%	-32%	-88%	-12%
Houston	5,886	-3%		4%	-22%	-49%	-2%	-7%
Chicago	5,507	-18%	-85%	-45%	-34%	-38%	-14%	-43%
Denver	4,792	18%	20%	-27%	-30%	-59%	-40%	-12%
Austin	4,597	57%		120%	-34%	-17%	-89%	46%
Philly Metro	4,572	72%	56%	-14%	-31%	146%	-37%	25%
San Diego	3,935	31%	145%	30%	25%	-56%	258%	12%
Charlotte	3,256	53%	12%	72%	-27%	107%	-55%	36%
Las Vegas	3,069	49%		-59%	-55%	45%	-65%	-15%
Tampa	2,903	63%		-15%	78%	-71%	47%	10%
Orlando	2,736	-11%	2%	84%	-50%	30%	-77%	-10%
Baltimore	2,554	260%	-94%	125%	-67%	-26%	-44%	38%
Minneapolis	2,541	-12%	-18%	5%	48%	31%	26%	5%
Portland	2,467	17%	-1%	170%	-36%	84%	-46%	35%
Detroit	2,358	69%	-57%	9%	87%	-9%	2844%	139%
Nashville	2,284	0%	57%	36%	-29%	-53%	45%	4%

Source: Real Capital Analytics, Cushman & Wakefield Research
Deals over $5 million

Boston (+64% YoY / +$3.3B) metro areas continued to see volumes rebound in the first half of 2019. San Francisco benefited from robust sales of both suburban and CBD office, while CBD office and apartment sales took off in Boston. These two markets are hotbeds for technology and life sciences, respectively. Transaction activity declined in Chicago (-43% / -$4.2B), Washington, DC (-27% / -$3.3B) and New York (-11% / -$3.5B). In each of these, the weakness was broad-based across product types, although CBD office was particularly soft in Chicago, office and hotel in Washington, DC and CBD office in New York.

Volumes increased in 16 of 34 secondary markets in the first half of 2019. Seattle, Miami and Atlanta continued to attract the most activity; however, the greatest increases in volume were in Austin (+46% YoY / +$1.5B; apartment and suburban office), Detroit (+139% / +$1.4B; hotel), Seattle (+21% / +$1.3B; apartment and CBD office) and Charlotte (+36% / +$0.9B; apartment).

Rising Activity for "Live" and "Work"

Transaction activity accelerated across most property types in the second quarter of 2019 compared to the first quarter. Apartment, office and senior housing sales increased on a year-over-year basis in the second quarter. This strength translated to rising volumes for these product types in the first half of the year; in contrast, retail, hotel and (atypically) industrial volumes declined compared to the same period a year ago.

Apartment volumes increased across property subtypes in the first half of 2019. For more details see our Multifamily MarketBeat.

Both CBD and suburban office sales increased in the first half of 2019 with the greatest growth in suburban product (+12% YoY). Major markets saw significant suburban office sales growth, notably in the San Francisco metro (+86% YoY / +$2.8B). Suburban office activity rose in 21 out of 34 secondary markets with the greatest increases in Austin, Portland and Salt Lake City. CBD office sales rose significantly in the secondary markets; however, much of this apparent strength was attributable to Seattle (+244% YoY / +$1.3B). Among the major markets, exploding activity in San Francisco (+181% / +$2.8B) and Boston (+75% / +$1.2B) was not quite enough to offset declining volumes in New York and Chicago.

At first glance, industrial transaction activity seems to have slowed across product types and market tiers. However, this is largely due to fewer industrial M&A deals

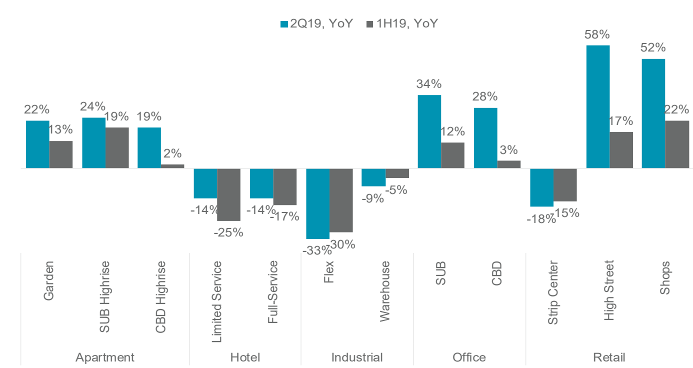
U.S. TRANSACTION ACTIVITY BY SECTOR

	2Q19			1H19	
	Vol ($B)	QoQ	YoY	Vol ($B)	YoY
Apartment	41.9	18%	22%	77.5	13%
Office	35.7	45%	32%	60.4	9%
CBD	13.8	39%	28%	23.8	3%
SUB	21.9	49%	34%	36.6	12%
Industrial	14.6	-6%	-14%	30.3	-11%
Retail	11.9	19%	-37%	22.0	-29%
Hotel	7.8	3%	-14%	15.4	-20%
Dev Site	3.9	-2%	-12%	7.9	-8%
Seniors Housing & Care	3.5	11%	52%	6.7	15%
Total	**122.6**	**19%**	**6%**	**225.8**	**-1%**

Source: Real Capital Analytics, Cushman & Wakefield Research
Deals over $5 million

closing in the first half of the year. With the recent announcement of significant platform acquisitions by Blackstone and Prologis, this slowdown will soon correct itself. Still, overall volume (ex-M&A) was down 3% YoY in the first half of 2019. Single-asset sales set a record, increasing 5% compared to the first half of 2018. Portfolio sales moderated (-16% YoY). Flex volumes (-31% YoY) continued to soften while warehouse demand remained robust (+7%). Major (+2% YoY) and tertiary (6%) volumes

CHANGE IN VOLUME BY PRODUCT TYPE



Source: Real Capital Analytics, Cushman & Wakefield Research
Deals over $5 million

advanced but failed to offset a decline in secondary markets (-15%). Sales increased significantly in the Los Angeles and New York metros, but decreased in 22 of 34 secondary markets, notably Dallas, Phoenix and Las Vegas.

Like industrial, retail too suffered from a significant drop-off in M&A activity during the first half of 2019 compared to 2018. Even excluding M&A, retail sales declined 4% YoY. Strip center (-13% YoY) and power center (-46%) volumes declined the most, but the declines were partially offset by rising sales of shops (+23%) and urban retail (+10%). Activity decreased across market tiers, although only marginally in the secondary markets (-1% YoY). Volumes rose in 20 of 34 secondary markets.

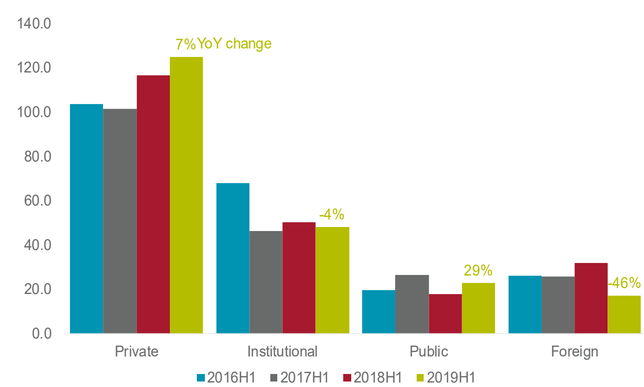
Private Capital in the Driver's Seat

Private capital continued to drive acquisition activity in the first half of 2019, accounting for 55% of investment. Private investors significantly stepped up purchases of apartment (+14% YoY / +$6.6B) and office (+22% / +$4.5B) while reducing purchases of industrial and retail. Private capital investment increased the most in the major metros. Chicago was the only major metro that experienced no increase in private acquisition activity.

Public-vehicle acquisitions rose sharply in the first half of 2019, especially in the second quarter (+70% YoY). Office acquisitions more than doubled compared to the first half of 2018 to $6.3B and purchases of apartment (+49% / +$1.1B) and industrial (+38% / +$1.4B) properties also advanced. Secondary market investment rose 51% YoY, notably in Austin, Charlotte, Detroit and San Diego. Public vehicles were particularly active in New York (+93% YoY / +$1.0B).

ACQUISTION VOLUME BY INVESTOR TYPE

DOLLLARS IN BILLIONS (YOY % CHANGE)



Source: Real Capital Analytics, Cushman & Wakefield Research
Deals over $5 million

Institutional acquisitions declined modestly in the first half of 2019 despite rising dry powder at closed-end funds, reaching $211.6B in July—up 10% since the beginning of the year according to Preqin. Industrial (+16% / +$1.0B) investment continued to rise, partially offsetting declining hotel (-43% / -$1.8B) and office (-8% / -$1.6B) acquisitions. San Francisco, Boston, Seattle, Nashville and Portland saw the greatest increases in acquisitions while Washington, DC, Chicago and Honolulu experienced declines.

Foreign acquisitions declined sharply (-46% YoY) in the first half of 2019 and accounted for just 7.6% of transactions compared to the 12.3% three-year average. Unibail-Rodamco completed its acquisition of Westfield in the first half of 2018 while no similarly sized cross-border deals have closed this year so far. Even excluding M&A, cross-border investment volume was down 25% in the first half of the year. Similarly, the foreign share of investment activity has been declining across product types apart from industrial. Over the last 12 months, Canada, Singapore, Germany, Switzerland and Israel were the most active acquirers. There have also been green shoots indicating increased engagement from the Middle East, specifically the UAE and Qatar.

Lower Treasuries Have Meant Higher Risk Premia but Not Lower Cap Rates

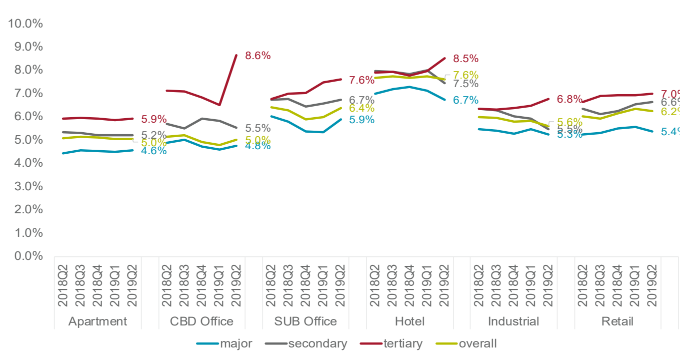
With Treasury yields at a low of 1.75% in August 2019 and the Federal Reserve cutting rates for the first time since 2008, the cost of senior 10-year fixed-rate debt has declined from 4.89% in the fourth quarter of 2018 to 4.11% in the second quarter of 2019 and 3.82% as of July 10 for a total decline of 107 basis points (bps). The recent decline in LIBOR has driven a 37-bps decline in the core floating rate debt cost to 4.04%, but this understates the attractiveness of floating rate financing given the changed outlook for short-term rates. The cost of mezzanine debt has declined even more significantly, both for high (-199 bps) and moderate (-112 bps) leverage assets.

The yield premia earned by equity investors have increased across the board as a result of lower Treasuries. Yield premia for retail (+95 bps) and office (+68 bps) assets are presently above their average (going back to the third quarter of 2007), while industrial (-24 bps) and multifamily (-13 bps) premia are modestly below. However, just as increasing Treasury rates did not translate to an increase in cap rates in 2017-2018, the recent declines have not led to a general reduction during the first half of 2019. Instead, factors specific to different product types and geographies have continued to drive changes in cap rates:

- Rolling 6-month volume-weighted apartment cap rates declined 7 bps in the first half of 2019 compared to the preceding six-month period.
- CBD office yields rose 9 bps in the first half of the year compared to the preceding six-month period. Major metro yields were flat overall while secondary market yields declined, largely due to fewer data observations in higher yielding markets. Suburban office yields, however, have been trending upward across market tiers and in most markets.
- Hotel yields declined modestly in the first half of 2019; however, yields in major (-55 bps) and secondary (-38 bps) markets compressed more dramatically. Historically, hotel pricing is more responsive to changes in macroeconomic conditions, including interest rates.
- Industrial yields declined 18 bps in the first half of the year compared to the preceding six-month period. Major metro yields held steady, leaving secondary markets (-52 bps) to drive the overall yield compression. Yields declined in 9 of the 12 secondary markets for which there are observations in both periods.
- Retail yields (+8 bps) were stable overall in the first half of 2019 compared to the preceding six-month period. Secondary market (+39 bps) yields increased, offsetting a decline in major markets (-12 bps). Although secondary market yields increased overall, transaction cap rates fell in 14 of 31 secondary markets for which there were observations in both periods.

ROLLING 6-MONTH VOLUME-WEIGHTED CAP RATES

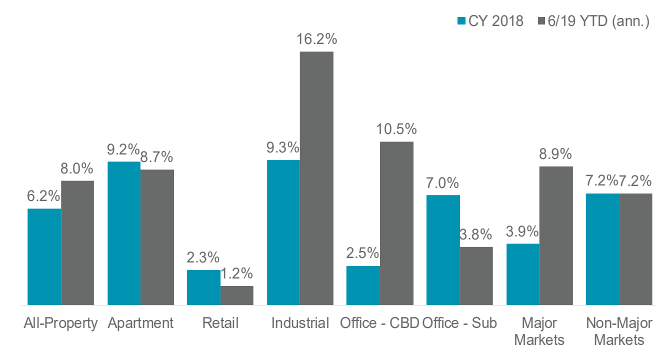
BY MARKET TIER ACROSS PROERTY TYPES



Source: Real Capital Analytics, Cushman & Wakefield Research
Deals over $5 million. Includes pricing from refinancing.

RCA COMMERCIAL PROPERTY PRICE INDEX RETURNS

2019 YTD VS. 2018 (% CHANGE)



Source: Real Capital Analytics, Moody's, Cushman & Wakefield Research

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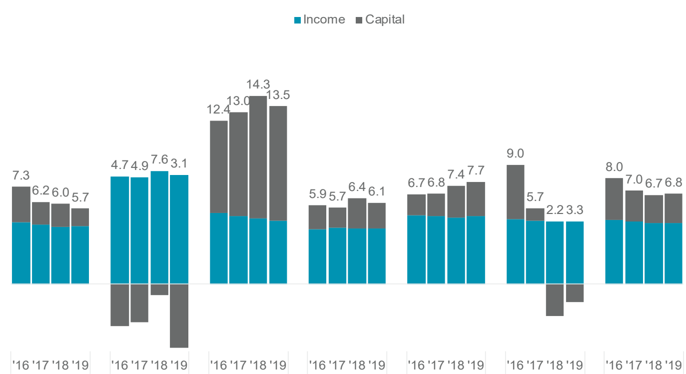
High Return Dispersion Across Product Types and Subtypes

According to the RCA Commercial Property Price Index (CPPI), overall prices have increased 8.0% in the first half of 2019 on an annualized basis compared to a 6.2% increase in calendar year (CY) 2018. The acceleration in price returns was driven by the major markets while non-major market returns remained stable. Industrial (+16.2% ann.) and CBD office (+10.5%) prices have increased the most in the first half of the year followed by apartment (8.7%). CBD office price gains accelerated significantly compared to CY 2018, while suburban office price gains decelerated.

The NCREIF National Property Index (NPI) recorded an annualized total return of 6.2% in the second quarter of 2019, bringing the half-year total return to 6.8% (annualized). This is in line with the 6.7% total return reported in CY 2018. Industrial (13.5% ann.) continued to outperform other product types by a wide margin in the first half of the year. Suburban office returns (7.7% ann.) accelerated and continued to outpace CBD office (6.1%) during the same timeframe. Apartment returns slowed overall to 5.7%. Retail returns remained subdued overall in the first half of 2019 despite a spike in regional and super-regional center returns in the first quarter. Community center, power center and single-tenant property returns slowed in the first half of the year compared to CY 2018.

NCREIF NPI TOTAL RETURNS

PERCENT (%)



Source: NCREIF, Cushman & Wakefield Research

Note: 2019 refers to the first half of 2019 annualized

Outlook

- Liquidity will accelerate as the year continues, supported by a more dovish Federal Reserve, record levels of capital supporting commercial real estate markets for both debt and equity, and rising investment under the Opportunity Zone tax incentive program. While we entered 2019 anticipating a moderation in transaction activity, the market seems increasingly likely to match 2018's performance.
- Private capital will continue to drive the market and public-vehicle investment will likely remain restrained with scope for further privatizations and consolidations. Foreign capital flows will rebound, supported by strong relative U.S. economic fundamentals and stabilizing hedging costs.
- Debt market liquidity will remain elevated with multiple lender groups active and greater competition between fixed and floating rate execution. Cap rates will remain broadly stable aside from under-amenitized suburban office and lower quality retail.
- Total returns are likely to moderate slightly with varying performance among product types and subtypes. Industrial, garden apartment and suburban office will extend their outperformance.
- New fundraising will moderate amid record dry powder and increasing difficulty in deploying capital.

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