MARKETBEAT

U.S. Capital Markets

Q4 2018

CUSHMAN & WAKEFIELD

Executive Summary

- Capital markets activity reaccelerated in 2018 as transaction volume increased 16% to $524B, the third highest volume ever recorded trailing only 2007 and 2015 (and that by a hair).
- Single asset, megadeal and portfolio sales all increased in 2018. The real outliers were entity/M&A transactions, which nearly doubled.
- Transaction activity increased across product types both in the fourth quarter and in 2018 as a whole compared to 2017. Hotel and retail saw the strongest increases in transaction activity, but industrial and multifamily remain the core drivers behind rising liquidity.
- Rising interest rates drove up debt costs as spreads remained fairly stable. Cap rates meanwhile seemed largely unaffected by rate movement. Apartment, industrial and CBD office yields were stable while suburban office yields compressed on the margin and class B/C retail yields expanded further.
- NCREIF total return decelerated to 6.7% in 2018. Industrial was the top performing product type followed by garden apartment, hotel and suburban office. Retail continues to underperform with mall returns decelerating sharply.
- The foundation is set for continued strong liquidity conditions in 2019 with stable cap rates returns.

Momentum Continued through the End of 2018

Following the significant acceleration in transaction activity in the third quarter of 2018, volume remained elevated in the fourth quarter at $149.4 billion (B) ending the year at $523.9B – up 15.5% on a year-over-year (YoY) basis and making 2018 volume the third highest on record, trailing only 2007 and 2015.

Fourth quarter single-asset sales increased 4.0% quarter-over-quarter (QoQ) and 1.8% YoY, and totaled $97.3B—the second-highest volume on record. For 2018 as a whole, single asset sales rose 6.9% YoY, tying the record set in 2015. The increase in megadeal volume was particularly strong, although it remained below 2015-2016 levels.[1] Portfolio sales were flat QoQ and down modestly YoY in the fourth quarter. M&A activity continued at historic levels: the Government Properties Income Trust–Select Income REIT merger, Blackstone-GPT acquisition and Brookfield-Forest Realty acquisitions all closed in the fourth quarter of 2018. Overall transaction activity was up 21% compared to the fourth quarter of 2017.

With ever-greater amounts of capital targeting commercial real estate (CRE) and with relative economic outperformance in the U.S., the stage is set for continued elevated liquidity conditions in U.S. CRE markets.

U.S. TRANSACTION ACTIVITY

	4Q18			2018	
	Vol ($B)	QoQ	YoY	Vol ($B)	YoY
Single Asset	97.3	4.0%	1.8%	355.3	6.9%
Under 250M	86.6	2.7%	-0.4%	317.5	6.1%
Over 250M	10.6	16.3%	23.2%	37.8	14.0%
Portfolio	25.2	0.0%	-5.1%	97.8	0.7%
Entity	26.9	-16.3%	1875.7%	70.8	197.4%
Total	**149.4**	**-1.0%**	**21.0%**	**523.9**	**15.5%**

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

Near-Record Liquidity across Most Product Types

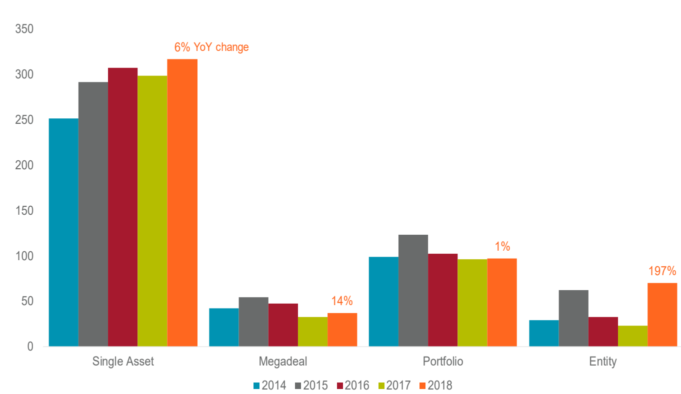
Transaction activity increased across product types, both in the fourth quarter of 2018 and in 2018 as a whole compared to 2017. The only exception was senior housing where 2018 volume declined 16%, largely due to a decline in M&A activity. The strongest increases were in hotel and retail where annual volumes rose 53% and 37% YoY, respectively, reversing several years of decline in both sectors. The hotel transaction volume increase was broad-based across single-asset, portfolio and M&A as well as both full- and limited-service property.

In contrast, rising retail volume was a mirage—all of the increase in that segment was due to several large mall M&A transactions while single-asset and portfolio sales volumes continued to decline. Mall volume increased astronomically while sales of power centers, strip centers, big box and shops declined. High street seems to have been the one area where transaction activity rose in a sustainable way.

Elevated demand for multifamily and industrial properties continues. Multifamily volume increased 11% YoY in 2018 to $161.9B, accounting for 31% of overall transaction volume compared to a long-term average of 25%. Garden product continued to make up the majority of assets traded, followed by suburban mid-/high-rise and then CBD mid-/high-rise. However, transaction volumes rose the most for CBD and suburban high-rise product –up 57% and 21% YoY, respectively. CBD high-rise volume totaled $24.7B, second only to the $28.6B recorded in 2015.

INVESTMENT SALES VOLUME BY TRANSACTION

DOLLLARS IN BILLIONS



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

[1]Defined as single asset sales over $250 million.

Industrial transaction volume increased 11% QoQ in the fourth quarter of 2018, and ended the year as a whole up 26% compared to 2017. Warehouse sales rose 44% in 2018 to a record $62.1B, more than offsetting a 13% decline in sales of flex buildings. Most of the increase in industrial transaction volume was attributable to near-record M&A activity which rose 280% YoY to $18.7B, second only to the $24.2B in 2015. The largest deals included the Government Property Income Trust-Select Income REIT merger, Blackstone-GPT acquisition, the Prologis-DCT acquisition and the Nesta-GLP buyout. Single-asset and portfolio deal volumes increased 3% and 5%, respectively.

Office sales accelerated in the fourth quarter of 2018, rising 19% QoQ and 13% YoY. As had been true throughout the year, CBD office sales grew faster than suburban sales, recovering from a sharp slowdown in 2017. Suburban office sales declined 2% in 2018 from the record level set in 2017. Office volume was supported by strong M&A activity, which more

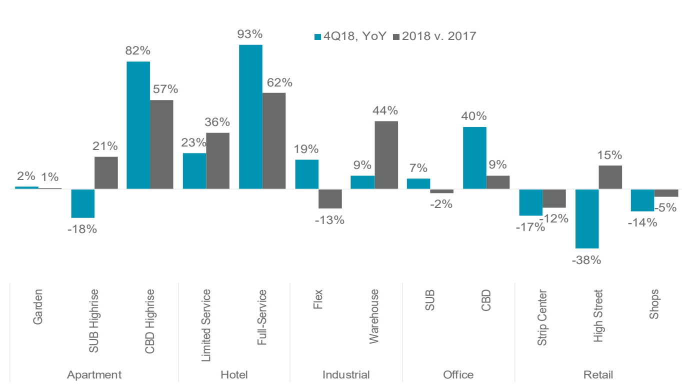
U.S. TRANSACTION ACTIVITY BY SECTOR

	4Q18			2018	
	Vol ($B)	QoQ	YoY	Vol ($B)	YoY
Apartment	48.1	5.3%	8.0%	161.9	11.3%
Office	39.7	18.6%	12.6%	128.2	1.9%
Suburban	22.8	6.6%	3.9%	76.2	-2.3%
CBD	16.9	40.0%	26.9%	52.0	8.8%
Industrial	24.0	10.6%	48.4%	79.5	25.9%
Retail	14.8	-49.7%	12.5%	74.6	37.1%
Hotel	13.7	71.6%	134.5%	40.8	53.4%
Dev Site	4.5	-9.9%	1.9%	17.7	13.2%
Senior Housing	3.1	-32.9%	13.5%	12.8	-16.4%
Total	**149.4**	**-1.0%**	**21.0%**	**523.9**	**15.5%**

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

than doubled YoY to $8.2B—the largest volume since 2007. Single-asset sales trends were more muted, increasing 2% YoY, while portfolio sales declined for both suburban and CBD office properties.

QUARTERLY AND 4-QTR CHANGE IN VOLUME



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

Most Liquidity in the Sunbelt States

Transaction volume increased across market tiers in 2018, with the strongest growth in the major and tertiary metro markets. Major metro volume experienced a particularly strong acceleration in the fourth quarter, rising 24% QoQ and 37% YoY.

For all of 2018, major metro volume growth was driven predominantly by CBD high-rise apartment sales (+$8.3B; +67% YoY), full-service hotels (+$5.3B; +78%), CBD office (+$5.1B; +14%) and malls (+$8.8B; +617%).

Secondary market volume increased 12% YoY as growing industrial (+$10.4B; +40% YoY), mall (+$8.8B; +1865%) and hotel (+$6.0B; +57%) volumes offset moderating office and strip center sales. Tertiary market volume rose 18% YoY on the back of rising suburban high-rise, warehouse and mall volumes.

U.S. TRANSACTION ACTIVITY BY MARKET

	4Q18			2018	
	Vol ($B)	QoQ	YoY	Vol ($B)	YoY
Major Metros	63.4	24.1%	37.1%	205.1	17.7%
Secondary Markets	64.7	-8.9%	10.3%	232.3	12.0%
Tertiary Markets	19.8	-26.1%	7.7%	82.3	18.1%
Total	**149.4**	**-1.0%**	**21.0%**	**523.9**	**15.5%**

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

Western markets continued to attract the greatest amount of transaction activity (27%) followed by the southeast (18%) and southwest (17%). Western markets increased transaction volume the most on a dollar basis, driven by San Francisco Metro (+4.1B; +14%), Seattle (+3.9B; +32%), Los Angeles Metro (+2.3B; +5%) and San Diego (+1.6B; +22%).

In percentage growth terms, however, the northeast experienced the most significant reacceleration in transaction volume, entirely attributable to the New York City Metro (+16.9B; +35%) as apartment, hotel, CBD office and retail volumes all rebounded. Southwestern volume increased 14% YoY due to a sharp increase in Phoenix (+4.5B; +40%). Southeastern volume growth was more muted (+9% YoY), with Raleigh/Durham standing out (+2.0B; +48%). Midwestern volume rose 17% YoY to an all-time high as activity accelerated in Chicago (+6.0B; +36%), Cincinnati (+1.1B; +64%) and Columbus (+1.2B; +56%). Mid-Atlantic volume also hit a new record with 9% YoY growth. Washington, DC Metro volume rose $1.5B or 7% YoY.

Private Capital Driving Activity

As has been the case for several years now, private capital drove the market in 2018 as acquisition volume rose 16% YoY. Apartment accounted for the majority of the dollar increase (+18.0B; +20% YoY), but the relative increase was larger for hotel (+5.0B; +37%) and niche asset types (+1.6B; +55%), including manufactured housing and self-storage.

Institutional acquisition volume ended its downward trend of the last several years, rising 9% compared to that in 2017

NUANCE IN INDIVIDUAL MARKETS

Top 25 Markets by 2018 Volume

		Year-Over-Year Percent Change						
Metro Area	**2018 Volume ($M)**	**Apartment**	**Hotel**	**Industrial**	**CBD Office**	**SUB Office**	**Retail**	**Total**
NYC Metro	64,070	46%	93%	-2%	39%	-17%	38%	35%
LA Metro	43,833	30%	-10%	5%	-35%	-27%	61%	6%
SF Metro	32,217	43%	77%	9%	-23%	18%	1%	14%
DC Metro	24,120	13%	108%	-56%	-8%	5%	52%	6%
Chicago	22,124	4%	155%	43%	92%	46%	27%	37%
Dallas	21,340	-12%	-26%	55%	1514%	-11%	62%	5%
Atlanta	15,928	-8%	-16%	27%	-59%	-7%	26%	-3%
Houston	15,563	57%	28%	65%	-92%	-38%	81%	14%
Seattle	15,306	-4%	39%	159%	22%	42%	62%	33%
Phoenix	14,944	35%	131%	113%	237%	3%	39%	42%
Boston Metro	14,927	-23%	116%	84%	-21%	25%	10%	3%
Miami/So Fla	14,184	-6%	96%	45%	-37%	15%	-18%	4%
Denver	11,996	-24%	441%	80%	1428%	19%	56%	14%
San Diego	8,884	-22%	285%	-3%	-88%	32%	137%	20%
Philly Metro	7,559	33%	32%	24%	-48%	28%	-44%	5%
Las Vegas	7,496	-16%	58%	-48%	269%	-17%	98%	9%
Orlando	6,922	-20%	142%	122%	-94%	-31%	-6%	-3%
Austin	6,628	1%	38%	72%	-93%	26%	-37%	-2%
Raleigh/Durham	6,174	62%	16%	-64%	647%	72%	62%	52%
Charlotte	5,994	46%	-69%	6%	44%	-33%	46%	2%
Tampa	5,954	14%	55%	8%	42%	-26%	38%	12%
Minneapolis	5,518	-3%	-20%	49%	89%	-25%	19%	13%
Portland	5,057	27%	1192%	54%	-42%	107%	33%	15%
San Antonio	4,963	15%	480%	-13%	-86%	36%	245%	36%
Baltimore	4,919	-32%	-40%	54%	-43%	19%	247%	4%

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

while remaining below levels earlier in the cycle. Institutional investors increased their industrial acquisitions significantly (+8.4B; +63% YoY) and also purchases of hospitality assets (+3.9B; +92%).

Public vehicle investments declined 9% YoY, notably in the areas of retail (-7.8B; -70%) and multifamily (-2.9B; -40%). On the other hand, industrial REITs continued to grow acquisitions (+3.6B; +82%).

Including M&A transactions, cross-border investment rose 58% YoY to $86.3B or 16% of total transaction volume, a near-record. The vast majority of this increase, however, was due to the Unibail-Westfield acquisition and the Brookfield-GGP buyout. Excluding M&A, cross-border transaction volume declined 6% YoY and accounted for 10% of investment sales—near the long-term average of 9%.[2] Including M&A, Canada was by far the largest source of foreign capital ($44B; +94% YoY) followed by France (9.2B; +1497% YoY) and Singapore (7.0B; -30% YoY). Chinese investment increased in 2018, but the increase was entirely due to the Nesta buy-out of GLP. Acquisitions by German and Swiss investors increased 40% and 130%, respectively, while Japanese and South Korean capital pulled back 25% and 50%, respectively.

Uneven Impact of Rising Rates on Debt and Equity Markets

Interest rates subjected investors to a roller coaster ride in 2018. The 10 year treasury ended the year at 2.69%—up only 29 basis points (bps) on the year despite three Federal Reserve rate hikes. The increase in LIBOR, however, was more pronounced: 3M USD LIBOR rose from 1.70% at the beginning of 2018 to 2.80% by year's end.

The rise in rates had an uneven impact on debt and equity investors in CRE. In the debt-market, rising base rates were transferred to borrowers. Generic 10-year fixed-rate financing rates increased 34 bps YoY. Floating-rate borrowers experienced more substantial increases in financing rates across the risk spectrum: core (+113 bps), value-add (+123 bps), mezzanine (+159 bps).

Cap rates, in contrast, experienced little impact from changes in interest rates. Multifamily yields were broadly stable in 2018 across tiers and product subtypes. Industrial yields increased modestly across tiers, but this was due to a shift in the product mix to include more Class B properties. Class A yields continued to compress, with the strongest compression in secondary and tertiary markets.

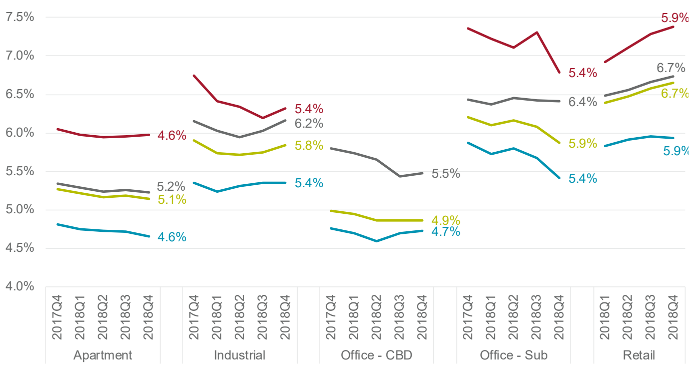
CBD office yields were range bound in the major markets and compressed further in secondary markets, notably on Class A product. Suburban office yields fell sharply in the major metros, although this appears to have been due to a shift in the asset mix towards Class A product which continues to trade at a large premium to B and C product. Secondary market suburban office yields were stable; this seems to have been the case for both Class A and Class B product. Retail cap rates continued to rise, but the increase was far more muted in the major metros. Across market tiers, cap rate

[2] Long term average based on 1Q 2000 to 4Q 2018 period.

increases were driven by the Class B and C segments of the market while Class A yields seem to have stabilized.

ROLLING 4-QTR VOLUME-WEIGHTED CAP RATES

BY MARKET TIER ACROSS PROERTY TYPES



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

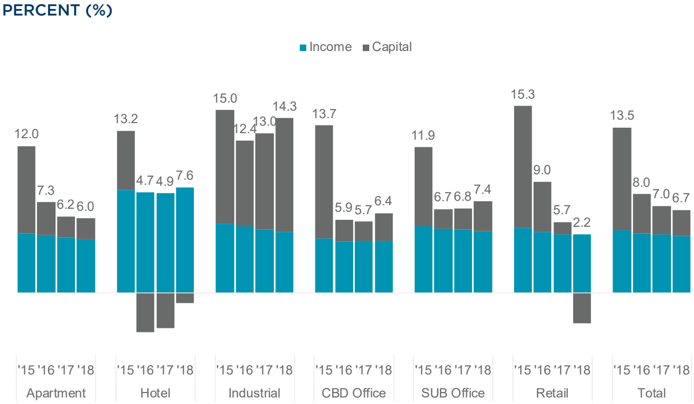
Prices & Returns

Real estate total returns continued to decelerate in 2018 to 6.7%, according to NCREIF data, with. Income contributed a 4.6% return while capital appreciation added an additional 2.1%. Industrial was again the top performer—and by a wide margin, as industrial returns accelerated for a third year consecutive year. Hotel returns, which were depressed in 2016 and 2017, rose sharply in 2018.

Both CBD and suburban office returns increased in 2018 with suburban office continuing to outperform CBD. Apartment returns moderated overall and garden product continued to outperform other apartment subtypes as well as all other major product types with the exception of industrial. Retail returns decelerated further across almost every product subtype. Regional and super regional centers experienced the sharpest decline in total return while more eCommerce resistant product subtypes were more durable, including neighborhood and community centers and single-tenant retail.

NCREIF NPI TOTAL RETURNS

PERCENT (%)



Source: NCREIF, Cushman & Wakefield Research

According to the RCA Commercial Property Price index, commercial real estate prices rose 7.1% (annualized) from January to November 2018, down from 8.3% price growth in calendar year 2017.

Apartment prices grew the most followed by suburban office. CBD office and industrial prices continued to rise, but at a slower pace. Retail prices increased as well, but much less than other product types. Price growth was greater in the non-major metros than in the major metros. The fastest price growth occurred in secondary Sunbelt metros, including Houston, Las Vegas, Dallas, Phoenix and Sacramento: price growth exceeded 10% YoY in each of these markets. Among major metros, San Francisco was the top performer as prices rose 12.9% YoY.

Outlook

- Liquidity will remain elevated going into 2019, supported by U.S. economic outperformance, a more dovish Federal Reserve and record levels of capital supporting commercial real estate markets for both debt and equity.
- Private capital will continue to drive the market, and public vehicle investment will likely remain restrained with scope for further privatizations and consolidations. U.S. fundamentals and yields will continue to attract foreign capital.
- Cap rates should remain broadly stable across product types going into 2019, particularly with interest rate pressure liable to be capped.
- Total returns are likely to moderate slightly, moving into 2019 with varying performance among product types and subtypes. Industrial, garden apartment and suburban office will extend their outperformance.
- Fundraising for close-end funds slowed in 2018 while still taking dry powder to new all-time highs. The difficulty that institutional investors face in deploying capital are liable to continue meaning that dry powder could increase furth New fundraising has moderated over the last several quarters and this is set to continue.

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