KEY TAKEAWAYS

SALES VOLUME
National investment sales volume across all property types totaled $151.0 billion in the third quarter, down 6.1% year-over-year. While both multifamily and office recorded a pullback in investment volume year-over-year, underlying demand for both product types remains strong, particularly in high growth markets on the West Coast, and in the Sunbelt. Industrial is on track to have a record year for investment sales volume, as the largest portfolio trade in the product type’s history closed in the third quarter.

CAP RATES
Average cap rates remained flat at 5.58% in the third quarter, while the yield spread with the 10-year treasury rate widened, reaching 390 basis points. The 10-year has declined every quarter in the past year, however uncertainly exists over whether the Federal Reserve will lower or keep the federal funds rate at the same level in the future.

RENT GROWTH
National office rental growth reached 3.9% year-over-year, bolstered by a mix of strong performing primary and secondary markets such as San Francisco (8.9%), Seattle (6.8%), and Portland (6.6%). Industrial rental growth continues at a near record pace nationally, increasing 6.3% year-over-year to $7.40 PSF.

INVESTMENT DEMAND
Institutional investors’ allocation targets for real estate remain historically high and the amount of dry powder available for deployment is at record levels ($200 billion as of 3Q19). Strong liquidity, particularly in coastal gateway markets, continues to drive transaction volume as global institutions remain active across the strategy spectrum, from core to opportunistic.

INTERNATIONAL CAPITAL
International investment volume continues at a slow pace in 3Q19, with only $31.9 billion recorded year-to-date compared with $66.9 billion at the same point in 2018. However, the past three years have seen an unprecedented level of portfolio and entity-level activity (over $100 billion), particularly from Canadian, Singaporean, and Chinese groups, which has contributed to investment volume volatility.

DEBT MARKETS
Overall financing activity is poised to exceed 2018’s total of $597 billion, as debt remains historically inexpensive and as liquidity and transaction volume is at a cycle high. Debt fund dry powder has reached $40 billion in the third quarter while 2019 vintage debt funds’ aggregate fundraising targets are approaching $20 billion, a record level.
REAL ESTATE OUTPERFORMS IN THE LONG TERM

ANNUALIZED TOTAL RETURNS

When using the NCREIF property index as a proxy, total returns for commercial real estate typically fall short of equity returns in the short term, but perform better in the longer, 20-year term. However, the NAREIT Composite Equity REIT Index has consistently outperformed even the S&P 500 in many time periods, due to the growth of multifamily and industrial, and the higher yield associated with public REITs.
Total returns have remained relatively flat at 6.2% in 3Q19, for all property types. Historically, real estate has remained an integral part of portfolio diversity across the investor spectrum, and has been resilient to various downturns, such as the dotcom bubble and stagflation during the energy crisis of the early 1980s.
REIT INDICES BY PROPERTY TYPE

The REIT index spread between multifamily and all other property types has grown significantly wider in the current cycle, reflecting the stratification of the current commercial real estate market — multifamily and industrial REITs have had the highest 10-year total returns, backed by secular growth trends, unprecedented levels of institutionalization and record high investment volume.

10-YEAR TOTAL RETURNS (DIVIDENDS REINVESTED)

- **Office**: 117.4%
- **Multifamily**: 360.4%
- **Retail**: 205.1%
- **Industrial**: 401.4%
- **Hotel**: 146.1%

Source: NKF Research, Bloomberg
The number of public REITs has dwindled in the current cycle, with over 75 REITs undergoing privatization in buyout transactions, mergers with other REITS, or liquidations. Beyond Retail REITs, which have seen the greatest amount of consolidation, multifamily and healthcare REITs have both recorded $30 billion in activity since 2010 – however the deals have been prompted by the desire to scale quickly, particularly as competition for product has intensified.
Industrial subtypes continue to have the highest annualized total returns in 3Q19, reinforcing the record amount of capital flowing into the space. Garden style multifamily as well as suburban office product also have high total returns, particularly value-add product located in the Southeast and West.
Aggregate fund targets* for higher yielding value-add and opportunistic strategies have expanded in the current cycle as office, multifamily, and industrial product have all witnessed sizable cap rate compression. Conversely, core and core-plus strategies recorded a 48.2% increase in fund targets implying that some institutions remain cautious and more risk-averse, particularly as the real estate cycle ages.

*Not all fund targets will be met
Financing activity has expanded significantly in the current cycle, surpassing the investment sales market in 2018 by nearly $20 billion. The CRE debt market has benefitted from a confluence of factors, such as historically low interest rates, an increase in debt funds and debt fund dry powder, and high levels of investment sales activity.

Source: NKF Research, Real Capital Analytics
The current amount of uninvested capital raised by debt funds is estimated to be $40 billion, nearly three times the level reached in last cycle’s peak. Not only are investors increasingly attracted to the risk-adjusted returns of real estate debt, but large bank lending moderation in the current cycle (due to tighter capital controls and legislation put in place after the global financial crisis) has left space for private and institutional debt funds to grow.
Despite the decline in sales volume in the third quarter, down 6.1% compared with 3Q18, the full year volume is on pace to be one of the strongest of the current cycle. Modest declines in both office and multifamily volume (7.0% and 7.3%, respectively) were offset by a surge in industrial and hotel volume.

Source: NKF Research, Real Capital Analytics
Coastal gateway markets continue to attract large amounts of late-cycle capital boosted by demand for value-add product. Various micro markets within gateways have attracted a larger share of institutional capital, which has increasingly sought out product diversity and higher returns; markets such as Silicon Valley, Cambridge, and suburban Maryland/Northern Virginia, have had fundamental positive changes in their buyer pools and liquidity in the current cycle.

- Year-to-date multifamily volume in Phoenix has surpassed the full-year 2018 volume, representing one of the strongest and highest return multifamily markets in the country.
- Boston attracted $19.4 billion in investment sales in the past 12 months, bolstered by demand for CBD office, as well as life sciences product in nearby Cambridge.
- DC volume reached $24.8 billion in the past 12 months, as demand for both office and multifamily remains robust, particularly in nearby Virginia and Maryland suburban markets.

Source: NKF Research, Real Capital Analytics
# TOP TRANSACTIONS

3Q19; ALL PROPERTY TYPES

## SINGLE ASSET TRADES

<table>
<thead>
<tr>
<th>Property</th>
<th>$ Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>711 Fifth Avenue (Coca-Cola Building)</td>
<td>$955 M</td>
</tr>
<tr>
<td>New York, New York</td>
<td>Office</td>
</tr>
<tr>
<td>Buyer: SHVO, Bilgili Group, Deutsche Finance</td>
<td></td>
</tr>
<tr>
<td>711 Fifth Avenue (Coca-Cola Building)</td>
<td>$909 M</td>
</tr>
<tr>
<td>New York, New York</td>
<td>Office</td>
</tr>
<tr>
<td>Buyer: Nightingale, Wafra, Ashkenazy</td>
<td></td>
</tr>
<tr>
<td>1155 Battery Street (Levi's Plaza)</td>
<td>$820 M</td>
</tr>
<tr>
<td>San Francisco, California</td>
<td>Office</td>
</tr>
<tr>
<td>Buyer: Jamestown</td>
<td></td>
</tr>
<tr>
<td>1600 Rosecrans Avenue (MBS Media Campus)</td>
<td>$700 M</td>
</tr>
<tr>
<td>Manhattan Beach, California</td>
<td>Office</td>
</tr>
<tr>
<td>Buyer: Hackman Capital</td>
<td></td>
</tr>
<tr>
<td>75 State Street (Fleet Center)</td>
<td>$635 M</td>
</tr>
<tr>
<td>Boston, Massachusetts</td>
<td>Office</td>
</tr>
<tr>
<td>Buyer: DivcoWest, Rockpoint Group</td>
<td></td>
</tr>
</tbody>
</table>

## PORTFOLIO TRADES

<table>
<thead>
<tr>
<th>Property</th>
<th>$ Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blackstone Industrial Portfolio</td>
<td>$13.4 B</td>
</tr>
<tr>
<td>558 Properties</td>
<td>Industrial</td>
</tr>
<tr>
<td>Buyer: Blackstone</td>
<td></td>
</tr>
<tr>
<td>BREIT Industrial Portfolio</td>
<td>$5.3 B</td>
</tr>
<tr>
<td>316 Properties</td>
<td>Industrial</td>
</tr>
<tr>
<td>Buyer: BREIT</td>
<td></td>
</tr>
<tr>
<td>National Net Lease Portfolio</td>
<td>$1.3 B</td>
</tr>
<tr>
<td>541 Properties</td>
<td>Retail/Mixed</td>
</tr>
<tr>
<td>Buyer: Hospitality Properties Trust</td>
<td></td>
</tr>
<tr>
<td>CIM National Retail Portfolio</td>
<td>$1.3 B</td>
</tr>
<tr>
<td>454 Properties</td>
<td>Retail</td>
</tr>
<tr>
<td>Buyer: Realty Income</td>
<td></td>
</tr>
<tr>
<td>Sunbelt Multifamily Portfolio</td>
<td>$915 M</td>
</tr>
<tr>
<td>12 Properties</td>
<td>Multifamily</td>
</tr>
<tr>
<td>Buyer: PSP Investments</td>
<td></td>
</tr>
</tbody>
</table>

Source: NKF Research, Real Capital Analytics
Blackstone was the top buyer in the past 12 months, aided by their $18.7 billion acquisition of GLP’s US logistics and warehouse properties – the deal, which was split with Blackstone Real Estate Income Trust (BREIT), was the largest industrial deal in commercial real estate’s history. Blackstone’s volume did not include their pending $5.9 billion-dollar acquisition of Colony Industrial or their multibillion-dollar majority stake in Great Wolf Lodges.
While the coastal gateway markets remain the largest destinations for capital, various emerging office markets have recorded record amounts of investment sales volume year-over-year, such as Charlotte (54%), San Diego (27%), and Denver (23%).
Western and Sunbelt metros continue to record the highest levels of office rental growth, such as San Francisco (8.9%), Seattle (6.8%), and Phoenix (5.9%), which has been led by job growth, particularly in the technology and healthcare sectors.

Source: NKF Research

**Rental Growth**

- **National Average: 3.9%**

**Inventory Growth**

- **National Average: 0.5%**

Source: NKF Research
The Oakland/East Bay area has been one of the largest benefactors of San Francisco’s rise as the tech capital of the world, with office PSF growth leading the country at 127% over the past 5 years. Rents in San Francisco reached $86.23 in 3Q19, the highest average office rental rate in the country, which has pushed companies to look for space across the bay where rents were under $50.
Cap rates across the country most frequently fall in 6.5-6.9% range.
Entity-level and portfolio investment volume has been the main contributor to international volume volatility in recent years. Several multibillion-dollar mega-deals such as Unibail-Rodamco’s purchase of Westfield Malls and Brookfield’s acquisitions of both Forest City REIT and GGP have added a combined $40+ billion alone. In absence of mega-deals in 2019, volume pulled back to $31.8 billion year-to-date.

**Download Real Capital Analytics for more details.**
While Canadian groups continue to dominate international capital investment, spending over $25 billion in the past 12 months, German groups have become the second largest international investor group. Of the nearly $8.5 billion spent by Germans in the past 12 months, insurance giant Allianz has led with several trophy office acquisitions in the coastal gateway markets, followed by investment managers such as Jamestown and Commerz Real.

### INTERNATIONAL CAPITAL DISTRIBUTION

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>42.7%</td>
</tr>
<tr>
<td>Germany</td>
<td>14.1%</td>
</tr>
<tr>
<td>Middle East</td>
<td>12.0%</td>
</tr>
<tr>
<td>Singapore</td>
<td>4.8%</td>
</tr>
<tr>
<td>Japan</td>
<td>3.7%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>4.3%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>3.4%</td>
</tr>
<tr>
<td>Spain</td>
<td>3.2%</td>
</tr>
<tr>
<td>China</td>
<td>2.2%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2.2%</td>
</tr>
<tr>
<td>South Korea</td>
<td>2.9%</td>
</tr>
<tr>
<td>Other</td>
<td>4.5%</td>
</tr>
</tbody>
</table>

### TOP INVESTORS

#### OFFICE

- **Allianz** - $4,192
- **Brookfield** - $3,837
- **Ponte Gadea** - $1,357
- **Jamestown** - $1,043
- **Onni Group** - $805

#### MULTIFAMILY

- **Brookfield** - $5,967
- **Investcorp** - $1,495
- **Tricon** - $1,400
- **PSP Investments** - $915
- **Starlight Investments** - $484

#### INDUSTRIAL

- **OMERS** - $3,439
- **CDPQ** - $3,414
- **Mapletree** - $1,198
- **Mubadala Investment** - $655
- **Brookfield** - $353
- **Gaw Capital** - $201
- **Delek Group** - $368

#### HOSPITALITY

- **Mubadala Investment** - $655
- **ARA AM** - $650
- **Brookfield** - $353
- **Gaw Capital** - $201
- **LVMH* ** - $183

*Owner User

Source: NKF Research, Real Capital Analytics
Primary markets were the largest recipients of international capital over the past 12 months with New York City accounting for over 25% of the total volume. Core office product remains one of the top targets for international groups, along with suburban value-add multifamily portfolios, and industrial warehouse/distribution portfolios.
Investors beyond specialty REITs have turned to alternative property types that offer strong risk-adjusted returns and promising market growth prospects. Senior Housing in particular has illustrated this trend – in 2015 over 50% of acquisitions were by REITs compared with just 23.5% in 2019.

Source: NKF Research, Real Capital Analytics
Uninvested capital accumulated by North American focused closed-end funds remains at a near record level in 3Q19, at $200 billion – opportunistic and value-add strategies account for nearly 70% of this capital, as managers have raised more money to target higher yielding assets.

Note: Excluding Debt and Distressed Funds

Source: NKF Research, Preqin
Of the estimated $200 billion in dry powder for North American closed-end funds nearly 40%, or $72.9 billion, is concentrated in the top 5 firms on the equity-focused side. Comparatively the debt side is less concentrated, with the top 5 firms representing 33.6% of the total $40 billion in debt fund dry powder.

**EQUITY-FOCUSED FUNDS**

- **Blackstone**
- **Lone Star Funds**
- **Brookfield**
- **Goldman Sachs**
- **Angelo, Gordon**
- **Carlyle Group**
- **Rockpoint Group**
- **LaSalle**
- **TPG Real Estate**

**DEBT-FOCUSED FUNDS**

- **TCI Real Estate Partners**
- **PIMCO**
- **Fortress Investment Group**
- **Cerberus Capital Management**
- **Torchlight Investors**
- **Prime Finance Partners**
- **H/2 Capital Partners**
- **Sculptor Real Estate**
- **Mesa West Capital**
- **KSL Capital Partners**

Source: NKF Research, Preqin
Robust demand and rental growth have contributed to net operating income accelerating to 6.83% in third-quarter 2019, up 255 basis points versus the previous year. In addition to recent outperformance, multifamily net operating income growth since 2000 has averaged 4.97%, while all property types have lagged at 3.05%.

Source: NKF Research, NCREIF
Multifamily again received the highest nominal sales volume of any major property type in 3Q19, recording $46.0 billion and is on pace for another record year. Cap rates continue to edge downward in secondary markets, as demand for higher-yielding value-add product in the Sunbelt remains robust.
While overall office investment volume declined by 7.0% year-over-year, to $32.5 billion, volume in western markets such as Seattle and San Francisco remained at near-record highs. Primary markets continue to display high levels of price appreciation, hitting $521 PSF on average representing a 19.7% increase compared with 3Q18.
Industrial investment volume was up a staggering 62.8% year-over-year in 3Q19, reaching $40.6 billion, the largest quarterly volume in industrial's history. The closing of the $18.7 billion Blackstone and BREIT buyout of GLP complimented an already strong quarter for investment sales. Price per square foot continues to rise in primary markets, increasing 23.1% year-over-year, as competition for last mile product intensifies.
Retail investment sales volume declined by 54.5% in 3Q19 compared with 3Q18 – while this is a sizable decline, 3Q18 was an unusually strong quarter for retail investment sales, aided by Brookfield’s buyout of GGP. For landlords with significant exposure to retail, the emphasis has been on acquiring and maintaining a portfolio of high quality and well-located assets, while shedding or converting lower quality assets, which has led to compressing cap rates and PSF growth in primary markets.
HOSPITALITY DASHBOARD

Hospitality volume in 3Q19 was up by 23.6%, compared with 3Q18, aided by the closing of the $2.5 billion buyout of Chesapeake Lodging Trust by Park Hotels. Another large deal in the pipeline is Mirae’s pending $5.7 billion acquisition of Anbang’s US luxury hotel holdings, which will add a significant boost to the full year total.

NATIONAL SALES VOLUME

CAP RATES

PRICE PER KEY

Source: NKF Research, Real Capital Analytics
Newmark Knight Frank has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents.

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