

2020

UNITED STATES **CAPITAL MARKETS REPORT**

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MARKET OBSERVATIONS

WHAT WE KNOW

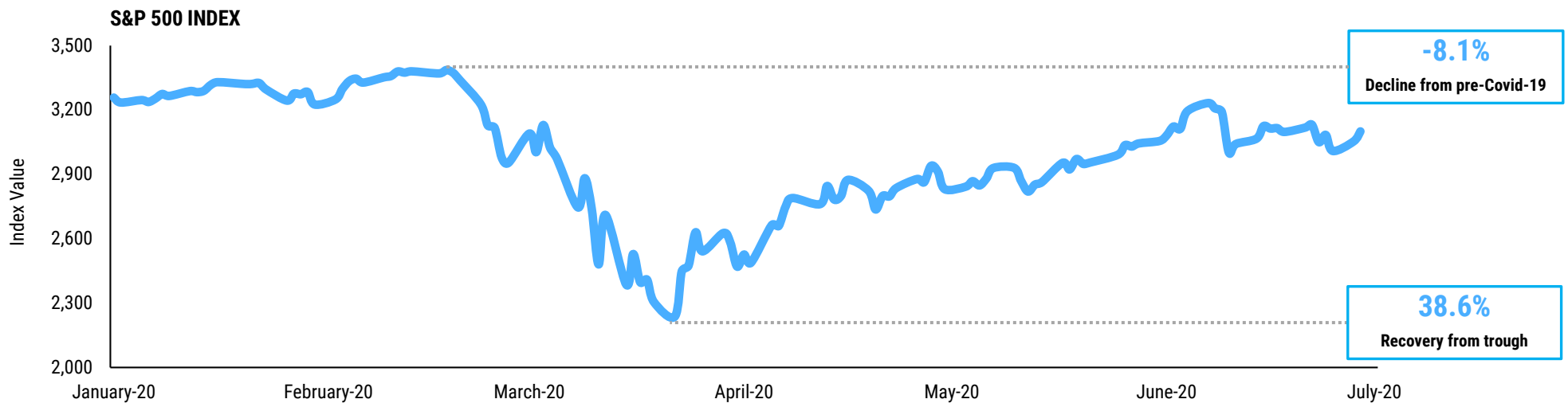
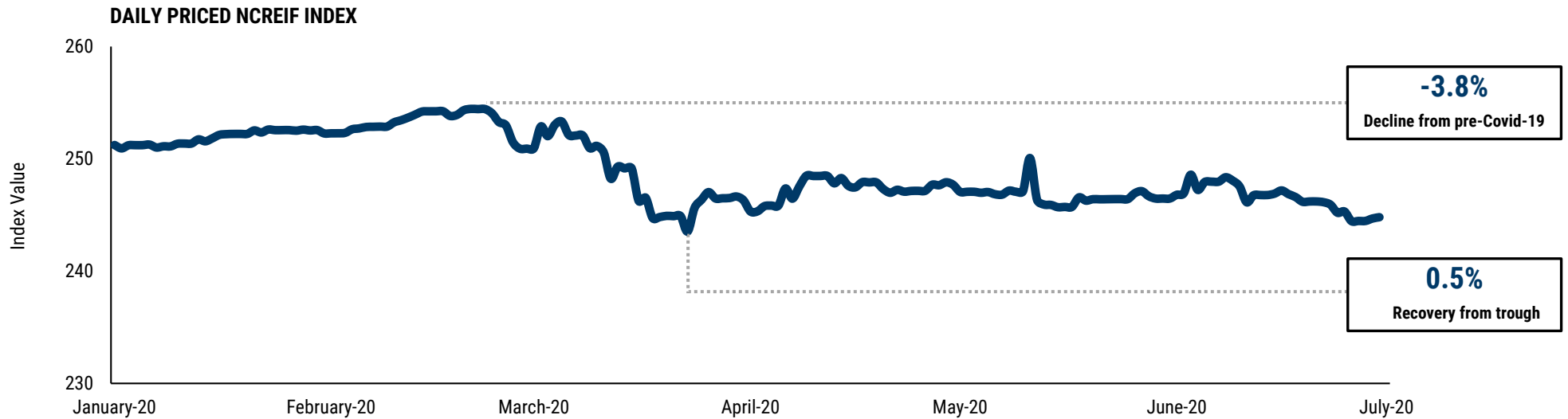
- The second quarter offered further datapoints showing Covid's unequal impact across property types – while total volume decreased by 68.2% year-over-year to \$44.7 billion, industrial and multifamily fared better in terms of investment volume, followed by office, retail and finally hospitality.
- Market pricing discovery remains limited due to low investment volume, but there is a clearer understanding of which property types will be more resilient in the short-term. With ample dry powder raised by institutional groups, many are actively looking to deploy capital in industrial logistics, garden style multifamily in Sunbelt markets, as well as select office product, leased by credit tenants and those in Covid resilient sectors like life sciences.
- REIT pricing has provided a nuanced view of which real estate sectors offer more resilience – data center, industrial and life science REITs all have recorded positive total returns year to date, while both multifamily and office REITs have recovered materially since their lows in March.
- According to NCREIF, rent collection improved across all property types in June and resulted in the following percentages of rent collected: 93.1% for multifamily, 91.8% for office, 91.1% for industrial, and finally 49.5% for retail.
- The federal government's continued support with both monetary and fiscal policy has provided the necessary backstop to avoid immediate economic damage and has helped equity markets return to pre-Covid levels in many sectors of the economy.
- National and regional banks continue to lend on office, multifamily and industrial product, albeit at reduced leverage. GSE lending has also continued, as Fannie Mae and Freddie Mac remain the government backstop to over half of the existing multifamily product nationally. CMBS delinquency has been largely contained within retail and hospitality, and new securitizations are currently underway.

WHAT WE EXPECT

- Core gateway office product with high WALT (weighted average lease term) is expected to retain its value better than other office assets, while investor allocations to industrial, multifamily and specialty property types are also expected to rise.
- Various investors remain ready to take advantage of market opportunities in all property types, whether it be distressed assets or loan sales in vulnerable property types, new developments with completion dates in 1-2 years, or secular growth opportunities such as data centers or life sciences.
- While investment volume might remain at lower levels throughout Covid-19, non-100% interest sale opportunities will remain a viable option for landlords and investors – recapitalizations, partial interest transactions and off-market deals are expected to increase in frequency.
- Performance for most property types initially will be tied to each individual metro's response to Covid-19 – but in the long term the same functions of value and income will apply, albeit with increased awareness of the risk potential for pandemic-related disruption.

COVID-19 INITIAL IMPACT: NCREIF VS. S&P 500

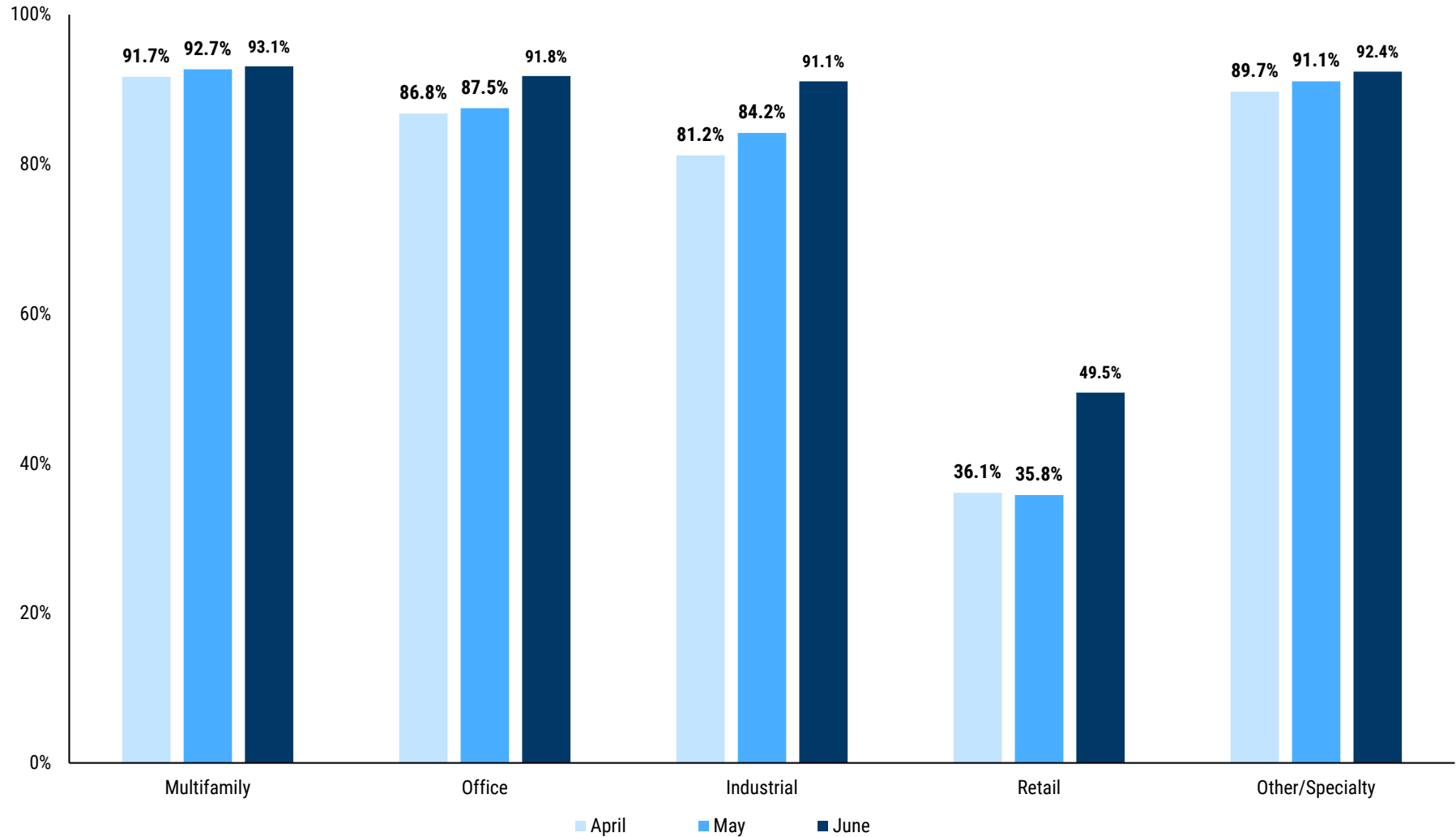
The NCREIF index has experienced significantly less volatility than the S&P 500, however it has not recovered as sharply from the March 23rd trough. Private market pricing consistently lags public market pricing because real estate assets are less liquid and take longer to transact or workout, even for the most immediately distressed assets.



Source: NKF Research, NCREIF, FRED

NATIONAL RENT COLLECTION BY PROPERTY TYPE

Rent collection across all property types improved in June. In multifamily, the federal government has been a crucial backstop, utilizing Fannie Mae and Freddie Mac forbearance to prevent mass defaults and evictions, limiting economic damage in the short term. While retail has been one of the most vulnerable property types to Covid-19, a large improvement in rent collection, to nearly 50% in June, suggests that activity is returning to the sector.

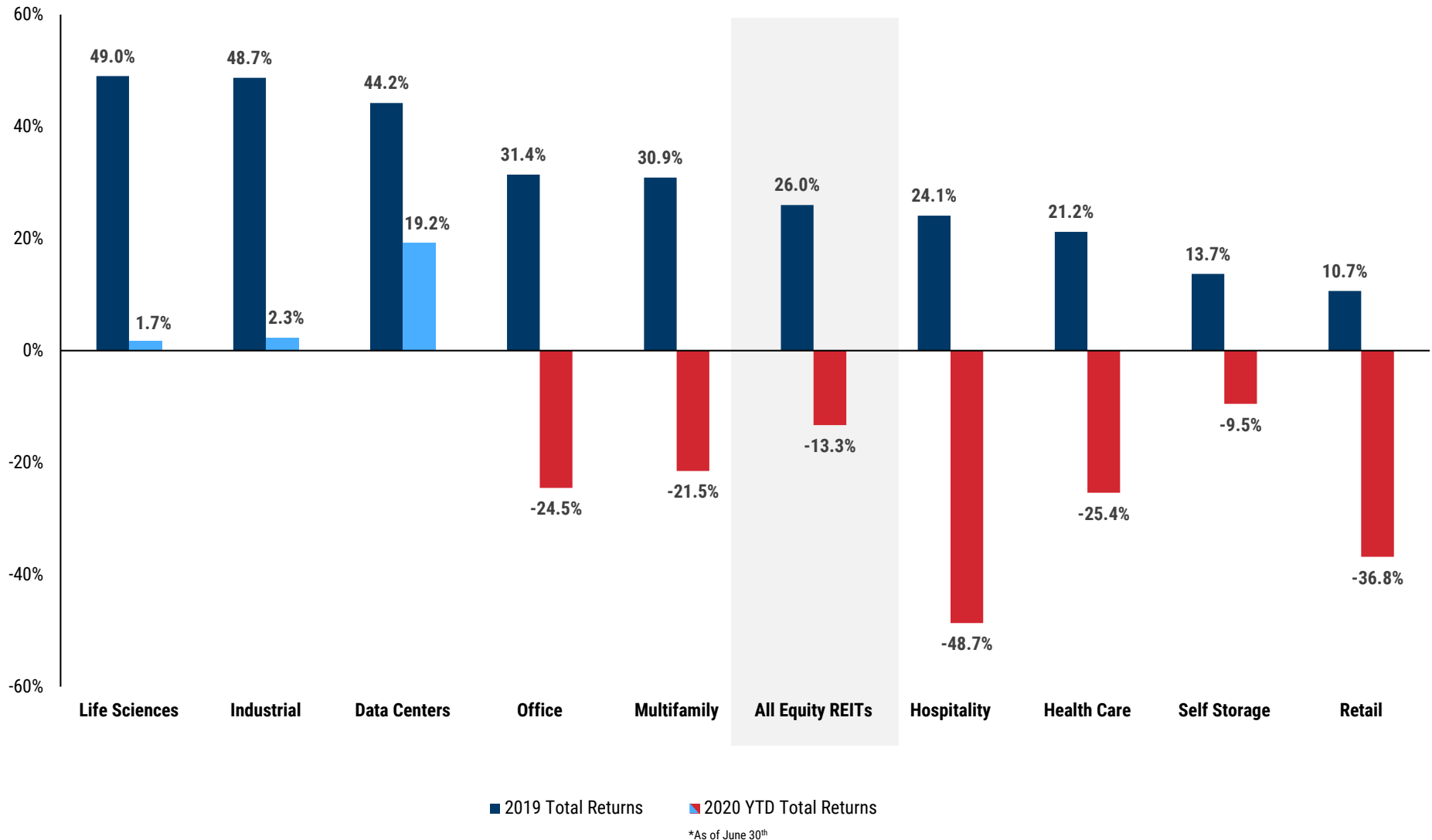


Source: NKF Research, NCREIF

REIT PERFORMANCE BY PROPERTY TYPE

TOTAL RETURNS; 2019-2020 YTD

Life sciences, industrial and datacenter REITs have recorded positive total returns in both 2019 and 2020, reaffirming that they have been the least vulnerable property types to the effects of Covid-19. While overall performance has been mixed, All Equity REIT total returns have improved since the first quarter by just over 10%, from -23.4% to -13.3%, as the outlook on office and multifamily has improved and rent collection remains strong.

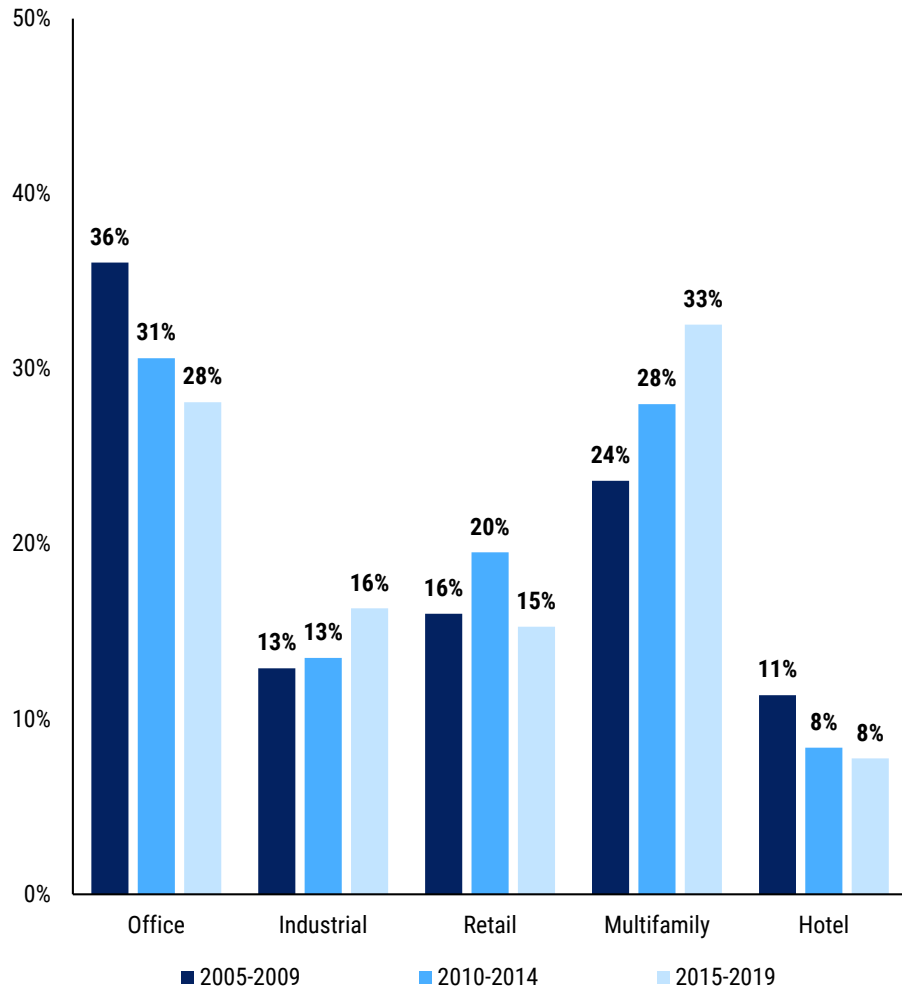


Source: NKF Research, NAREIT

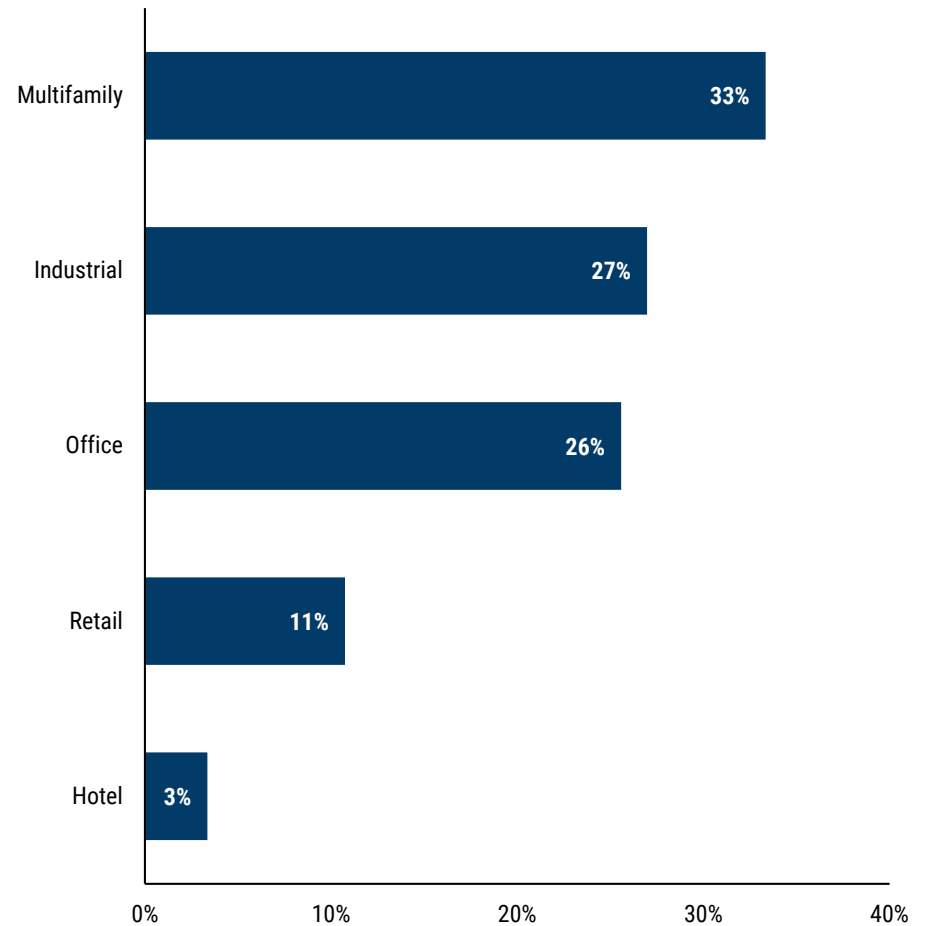
INVESTOR ALLOCATION

Investors notably increased their allocations toward both multifamily and industrial assets in 2015-2019, attracted by higher risk-adjusted returns and favorable macroeconomic tailwinds. This trend has been exacerbated by Covid-19, which has severely impacted the outlook for hospitality and certain segments of retail and office – more capital has been allocated to industrial than office in 2020, bolstered by e-commerce demand and last mile distribution product.

HISTORICAL ALLOCATION OF CAPITAL



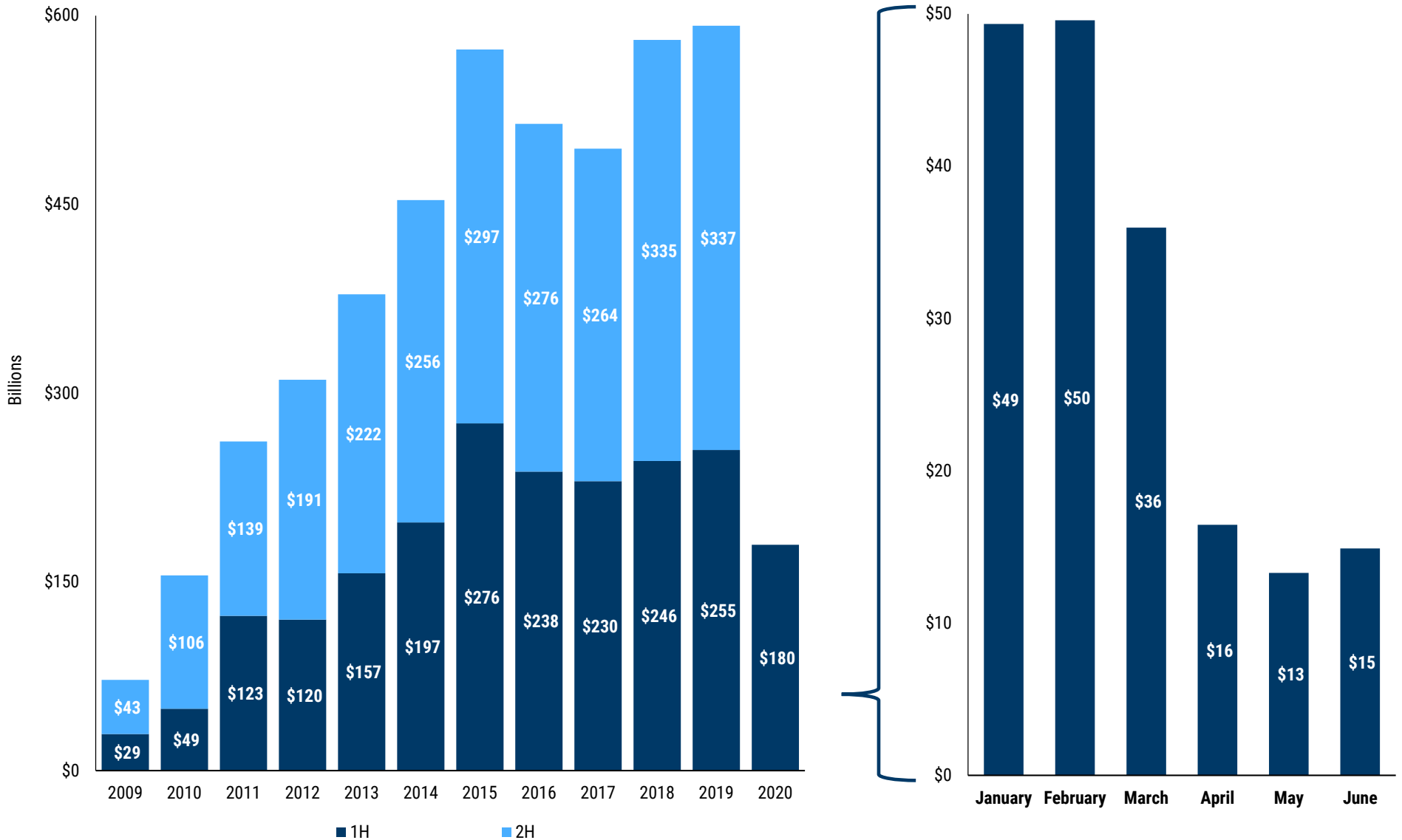
2020 YEAR-TO-DATE ALLOCATION OF CAPITAL



Source: NKF Research, Real Capital Analytics

UNITED STATES TOTAL SALES VOLUME

The impact of Covid-19 on sales volume was severe, with volume bottoming in May, down 72.1% year-over-year. Early in the crisis, many investors engaged in a “wait and see” approach and were faced with a limited availability of debt financing. However, since May, volume has increase 12.1% month-over-month as dry powder in commercial real estate remains high and price discovery has occurred in various property types and markets.

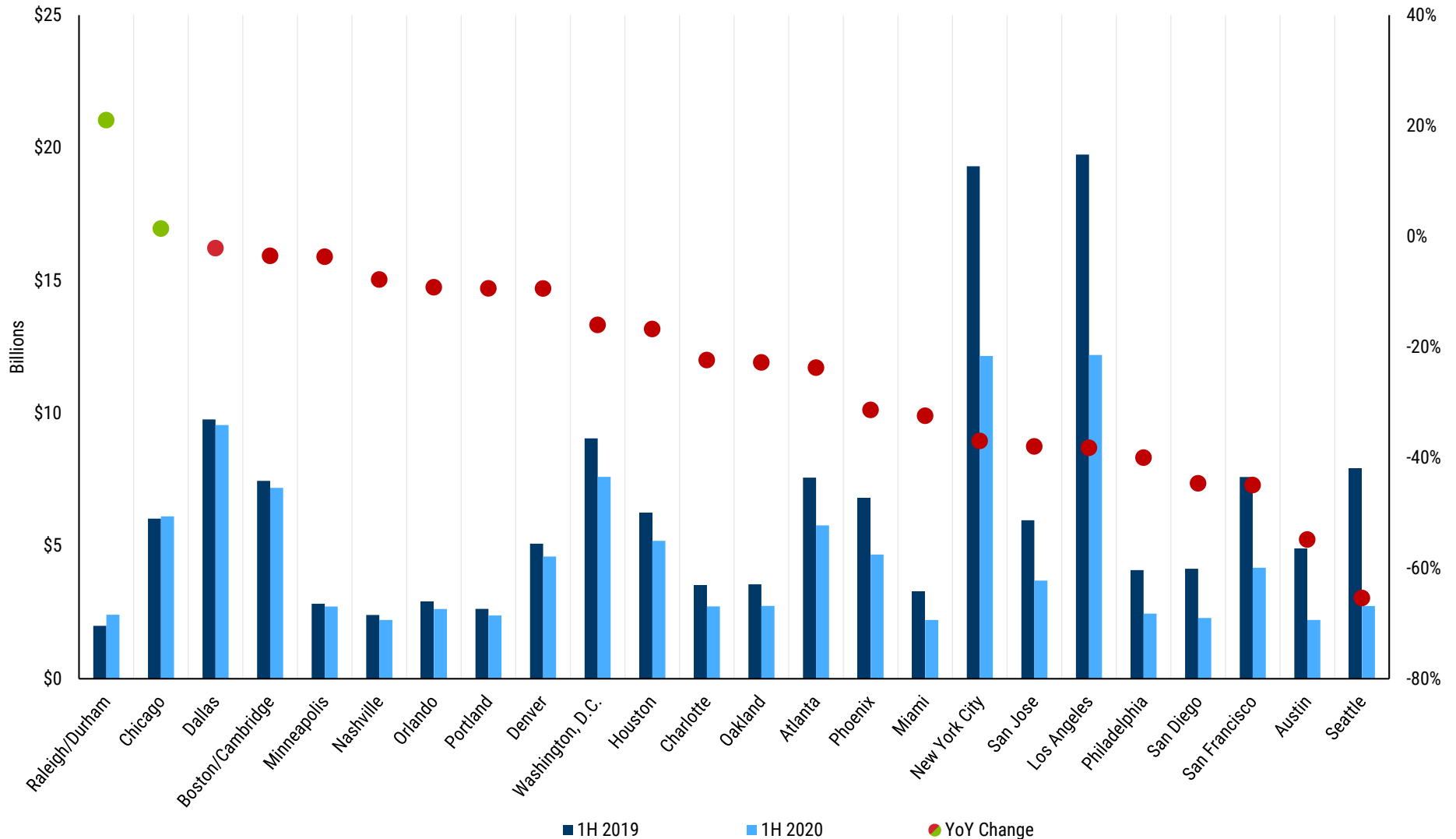


Source: NKF Research, Real Capital Analytics

TOTAL SALES VOLUME BY CITY

ALL PROPERTY TYPES

Covid-19 had a sizable impact on Investment volume across all cities in 2Q20, with the largest metros such as Los Angeles and New York City recording the largest gross declines. Nevertheless, other large gateway markets have remained relatively stable, such as Dallas which has benefited from corporate locations and favorable demographic tailwinds, as well as Boston/Cambridge which has a thriving life sciences sector.

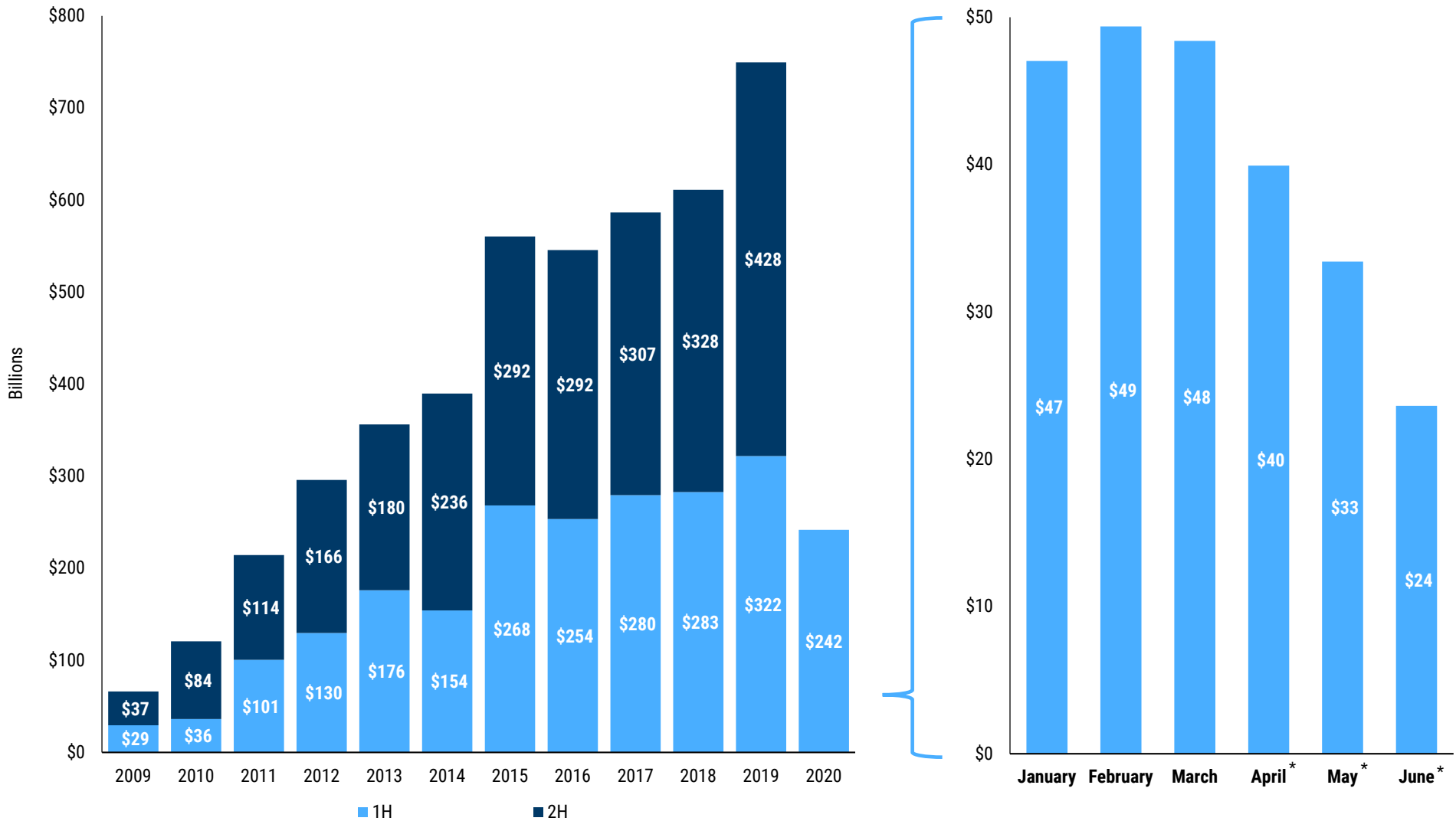


Source: NKF Research, Real Capital Analytics

UNITED STATES TOTAL FINANCING VOLUME

ACQUISITION, CONSTRUCTION AND REFINANCING

Financing slowed in the first half to just under \$242 billion, a 25% decline from the first half of 2019. The 10-year treasury rate fell by nearly 100 basis points throughout most of February, bottoming at 0.54% on March 9th, leading many lenders to halt new activity and wait for rates to stabilize. Since then, lenders remain cautious but continue to lend on select industrial, office and multifamily assets in established markets.

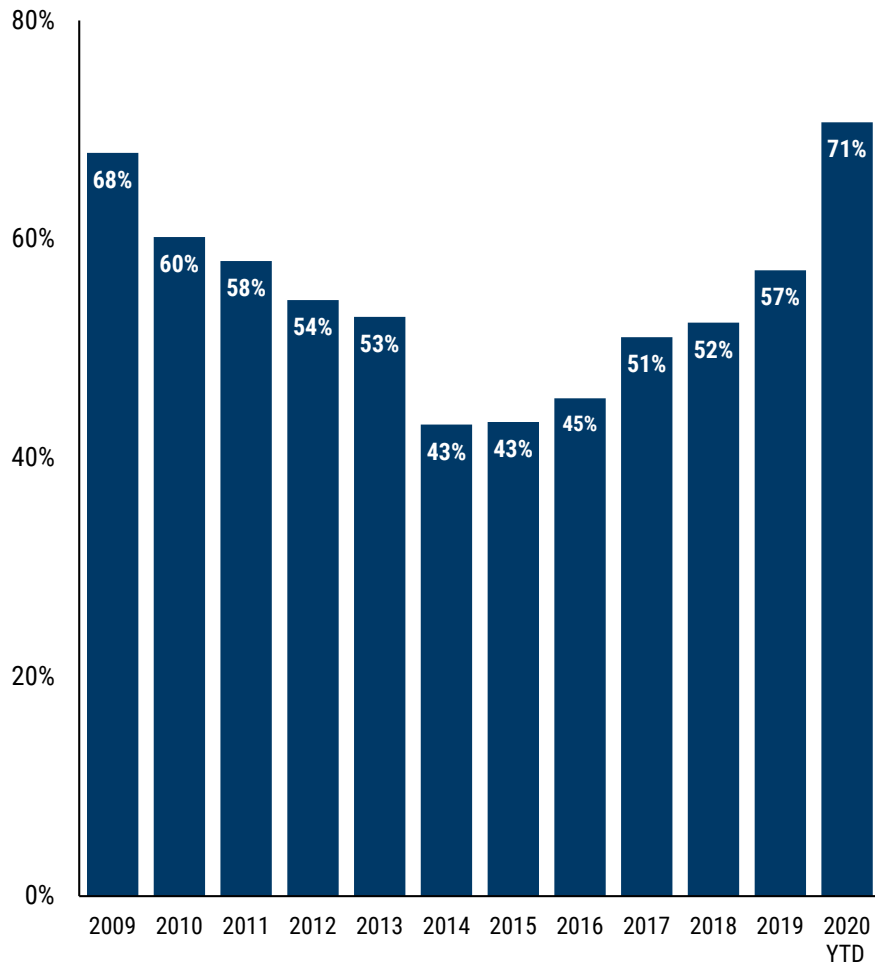


*Preliminary
Source: NKF Research, Real Capital Analytics

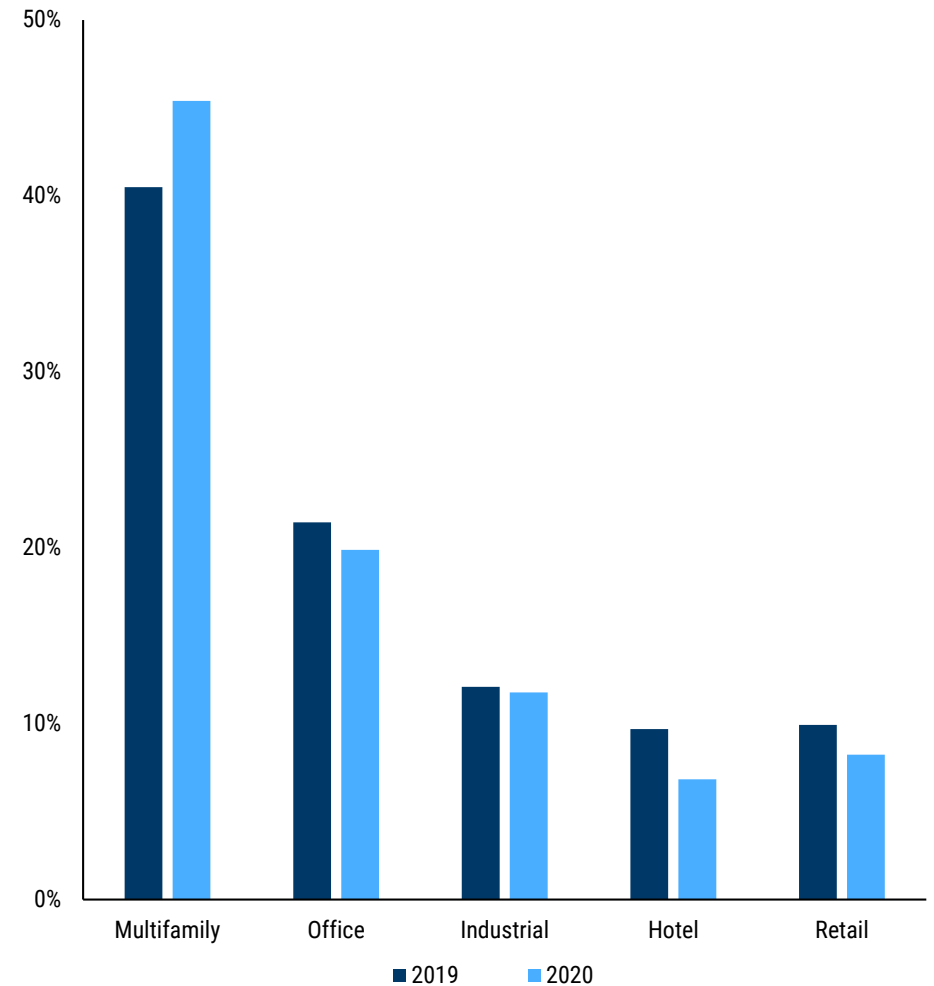
UNITED STATES FINANCING ACTIVITY

Refinancing activity has expanded to its highest level in over a decade, reaching 71% of 2020 volume, as many would-be sellers have refinanced their properties, taking advantage of historically low rates while waiting for better market conditions to emerge.

REFINANCING AS PERCENTAGE OF TOTAL ACTIVITY



LENDING ALLOCATION BY PROPERTY TYPE

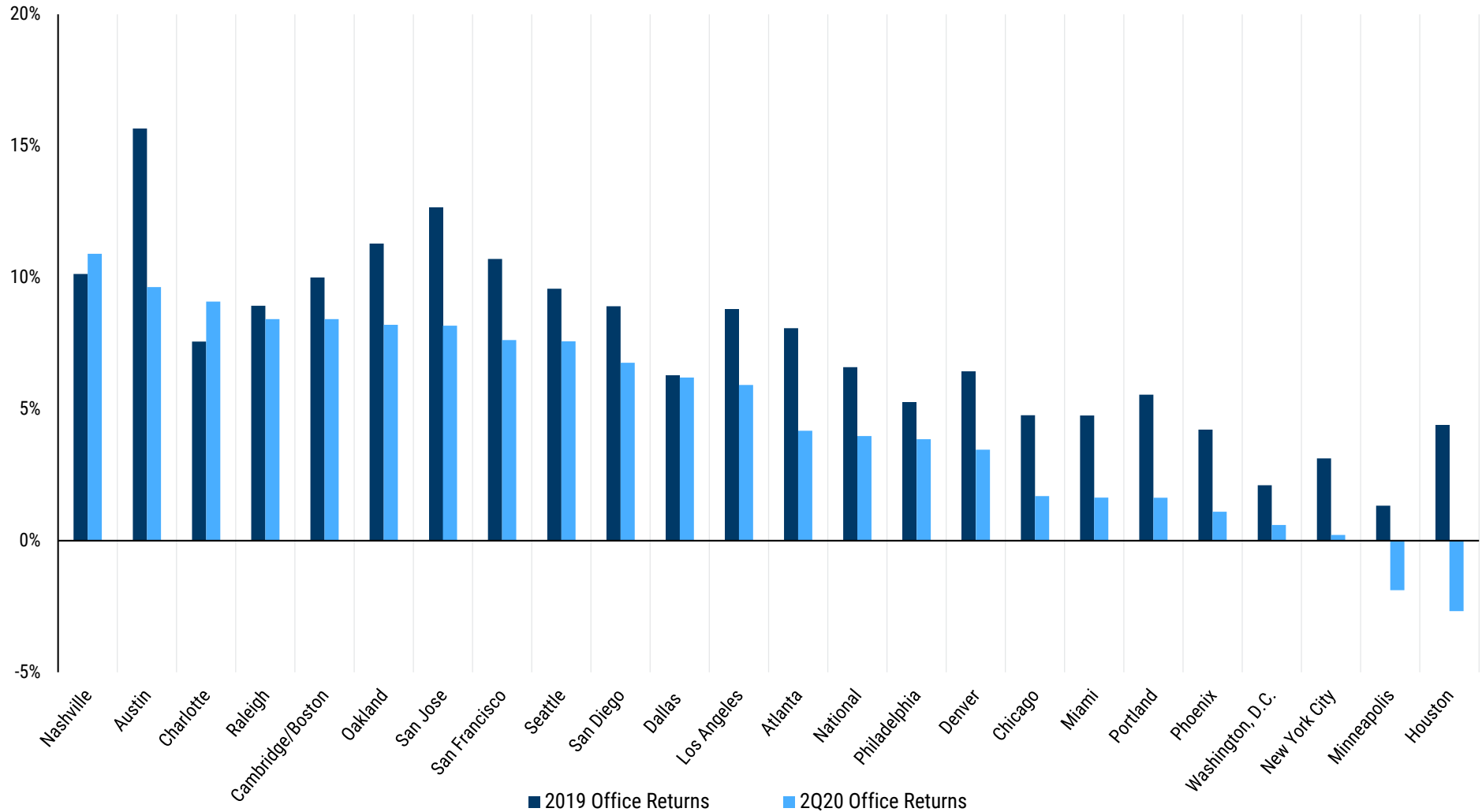


Source: NKF Research, Real Capital Analytics

OFFICE TOTAL RETURNS BY METRO AREA

2Q20 Annualized Total Returns; 2019 Total Returns

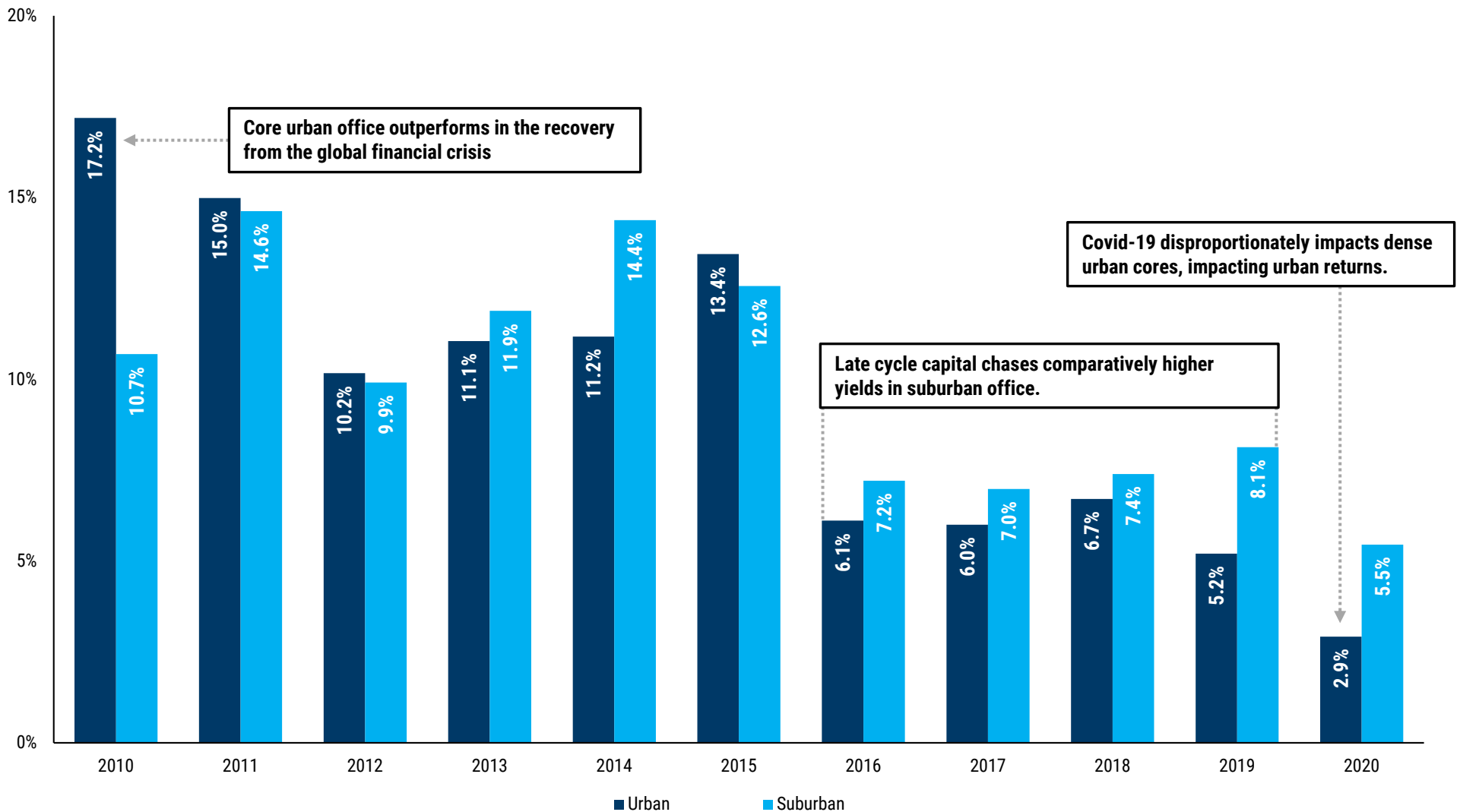
Higher growth and lower cost metros such as Charlotte, Nashville and Raleigh-Durham have achieved minimal or no downward movement in 2Q20. Similarly, high employment growth gateway markets such as Dallas and Seattle have been less impacted in the short-term compared with their gateway peers.



Source: NKF Research, NCREIF

SUBURBAN VS. URBAN OFFICE TOTAL RETURNS

Demand for office product has shifted over time, with momentum in suburban real estate continuing into 2Q20 as dense urban markets experience Covid-related disruption.



Source: NKF Research, NCREIF

TOP U.S. TRANSACTIONS

2Q20; ALL PROPERTY TYPES

SINGLE ASSET TRADES

Property	\$ Price
245 Summer Street Boston, Massachusetts Office Buyer: Fidelity Investments	\$728 M
One Madison Avenue (Partial Interest) New York, New York Office Buyer: Hines, NPS	\$492 M
1901 Market Street Philadelphia, Pennsylvania Office Buyer: Blue Cross	\$360 M
200 Smith Street / The Post Waltham, Massachusetts Office Buyer: Healthpeak Properties	\$320 M
Willard Towers Bethesda, Maryland Multifamily Buyer: Dweck Properties	\$277 M

PORTFOLIO TRADES

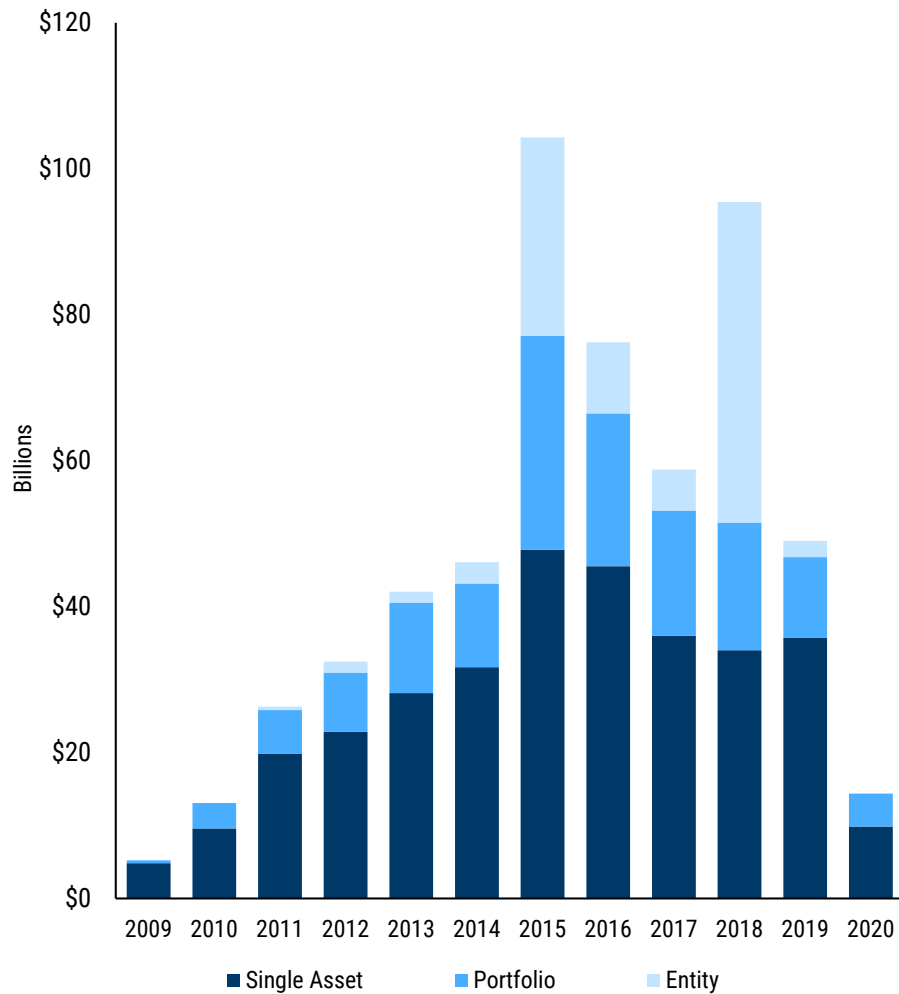
Property	\$ Price
Minnesota Industrial Warehouse Portfolio 55 Properties Industrial Buyer: Blackstone	\$645 M
National Multifamily Portfolio (Partial Interest) 3,487 Units Multifamily Buyer: PFA - Mere til Dig	\$515 M
National Medical Office Portfolio 13 Properties Medical Office Buyer: Kayne Anderson	\$318 M
Florida Seniors Housing Portfolio 1,881 Units Seniors Housing Buyer: Kayne Anderson	\$284 M
Arizona Manufactured Housing Portfolio 1,583 Units Manufactured Housing Buyer: Carlyle Group	\$230 M

Source: NKF Research, Real Capital Analytics

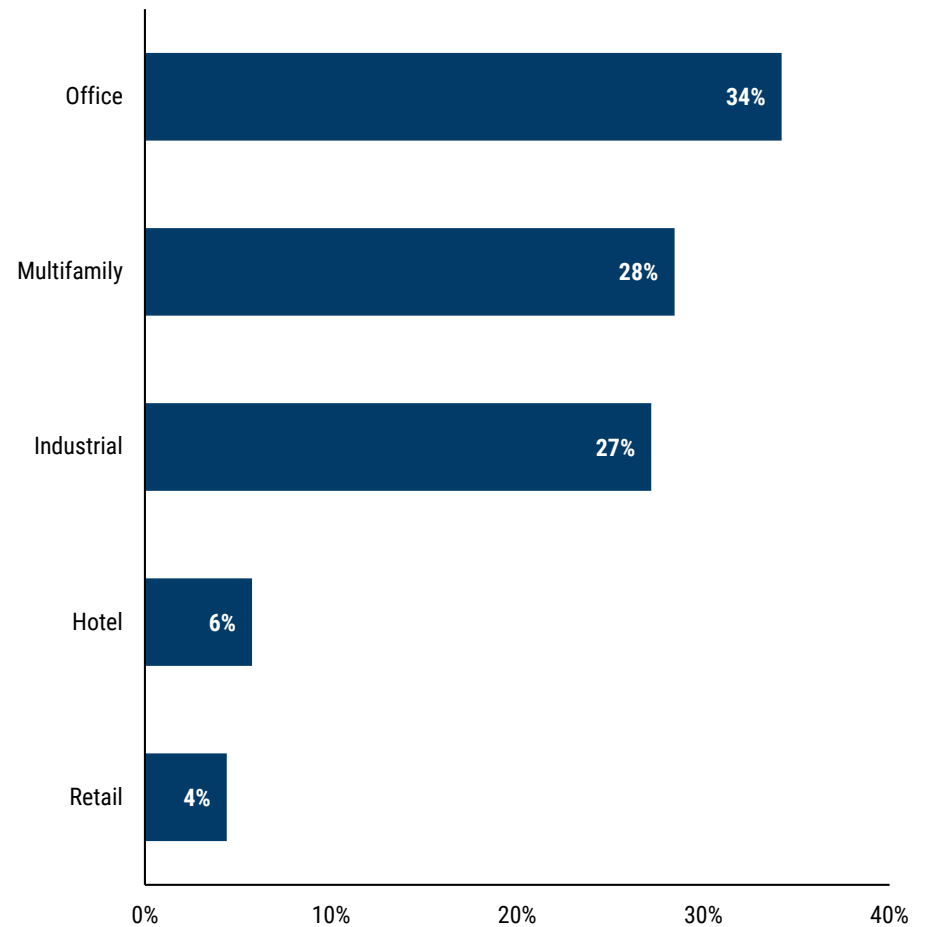
COMPOSITION OF INTERNATIONAL CAPITAL

Mirroring changes in allocations of capital by domestic funds, direct investment by international groups pivoted toward multifamily and industrial in 2020. However, core office product in coastal gateway markets still remains their largest allocation both in 2020 and historically.

INVESTMENT VOLUME BY DEAL TYPE



2020 YEAR-TO-DATE ALLOCATION OF CAPITAL

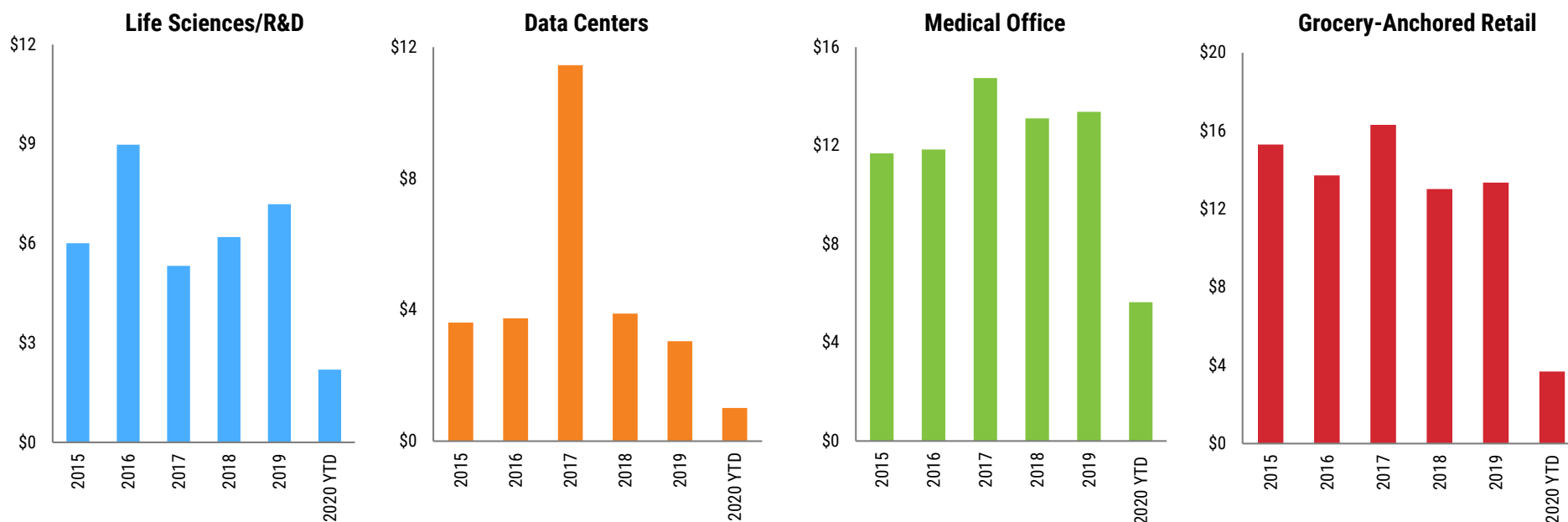


Source: NKF Research, Real Capital Analytics

SUBTYPES & SPECIALTY ASSETS TO WATCH

UNITED STATES; DOLLARS IN BILLIONS

The lack of available product combined with the anticipated future need for space in a post-Covid-19 economy has constrained investment volume in life sciences, data centers and grocery-anchored retail and has prompted landlords to shelve product and wait for superior market conditions in the future.



Top Buyers 2019-2020

Group	Millions (\$)	Group	Millions (\$)	Group	Millions (\$)	Group	Millions (\$)
Bulfinch / Harrison Street	\$1,146	Mapletree	\$1,358	Welltower	\$2,269	Fortress (JV)	\$655
Healthpeak Properties	\$1,050	Medina Capital	\$500	MB Real Estate	\$1,197	Cardinal Capital (JV)	\$627
Harrison Street	\$1,042	BREIT	\$288	Kayne Anderson	\$808	First Washington Realty	\$471

Top Owners

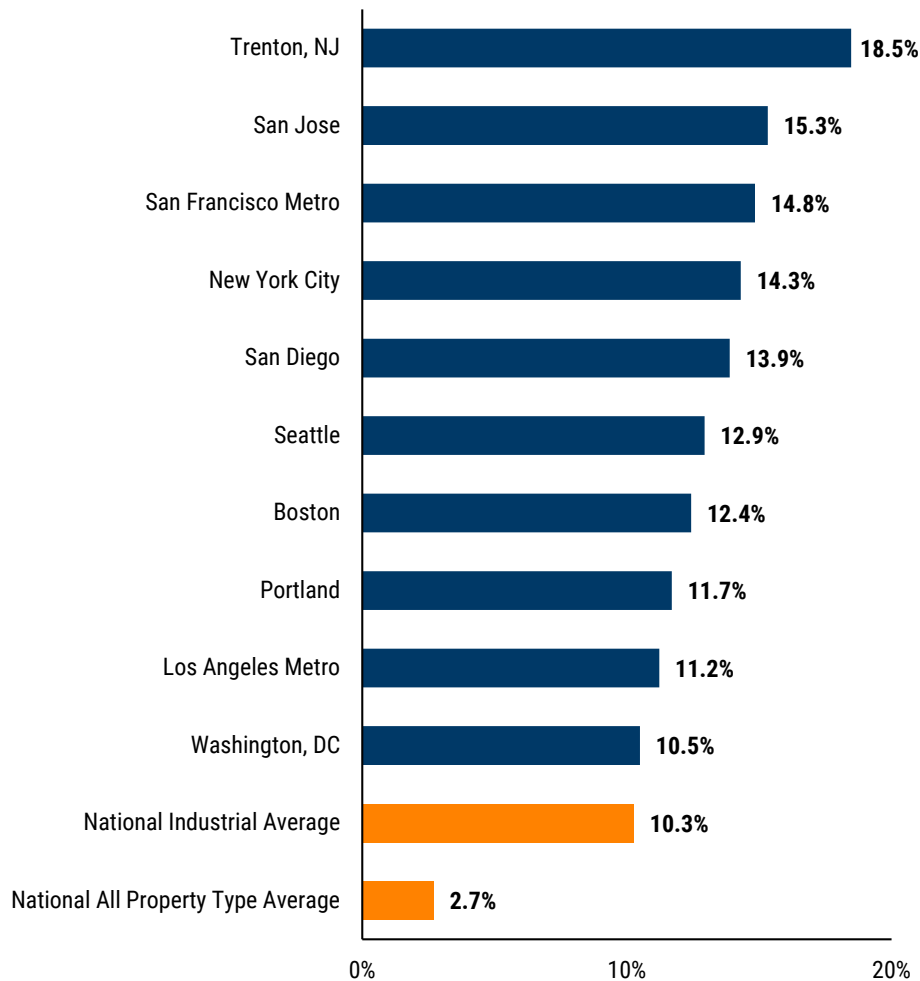
Group	Square Feet	Group	Square Feet	Group	Square Feet	Group	Square Feet
Alexandria	35,400,000	Digital Realty	35,700,000	HTA (REIT)	20,200,000	Regency Centers	33,700,000
BioMed Realty / Blackstone	13,700,000	Carter Validus	6,700,000	Welltower	16,200,000	Brixmor	30,800,000
Healthpeak Properties	9,000,000	GI Partners	6,600,000	Physicians Realty Trust	16,100,000	Kimco	20,800,000

Source: NKF Research, Real Capital Analytics

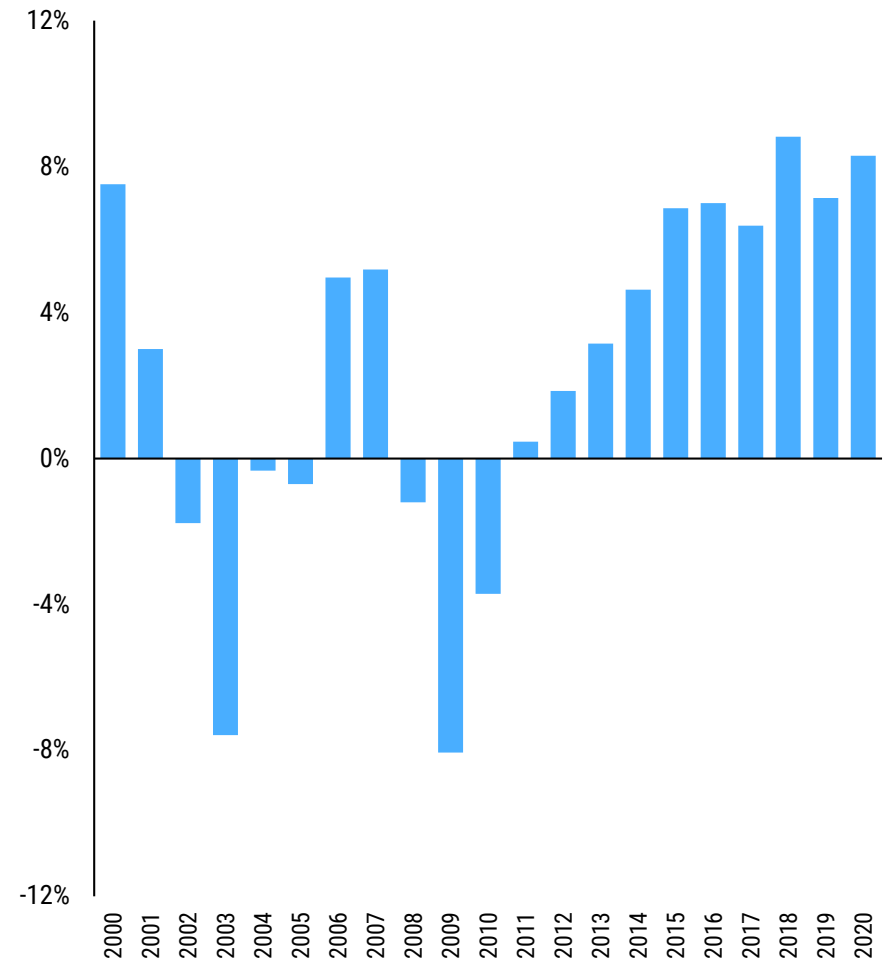
INDUSTRIAL WAREHOUSE PERFORMANCE

Demand for logistics product, particularly in the metro areas of the gateway markets, has expanded in the wake of Covid-19, as e-commerce operators such as Amazon have seen unprecedented levels of online ordering. While future NOI and rental growth will not be completely immune to Covid-19, total returns have remained significantly higher than all other property types.

2Q20 ANNUALIZED TOTAL RETURNS (SELECT MARKETS)



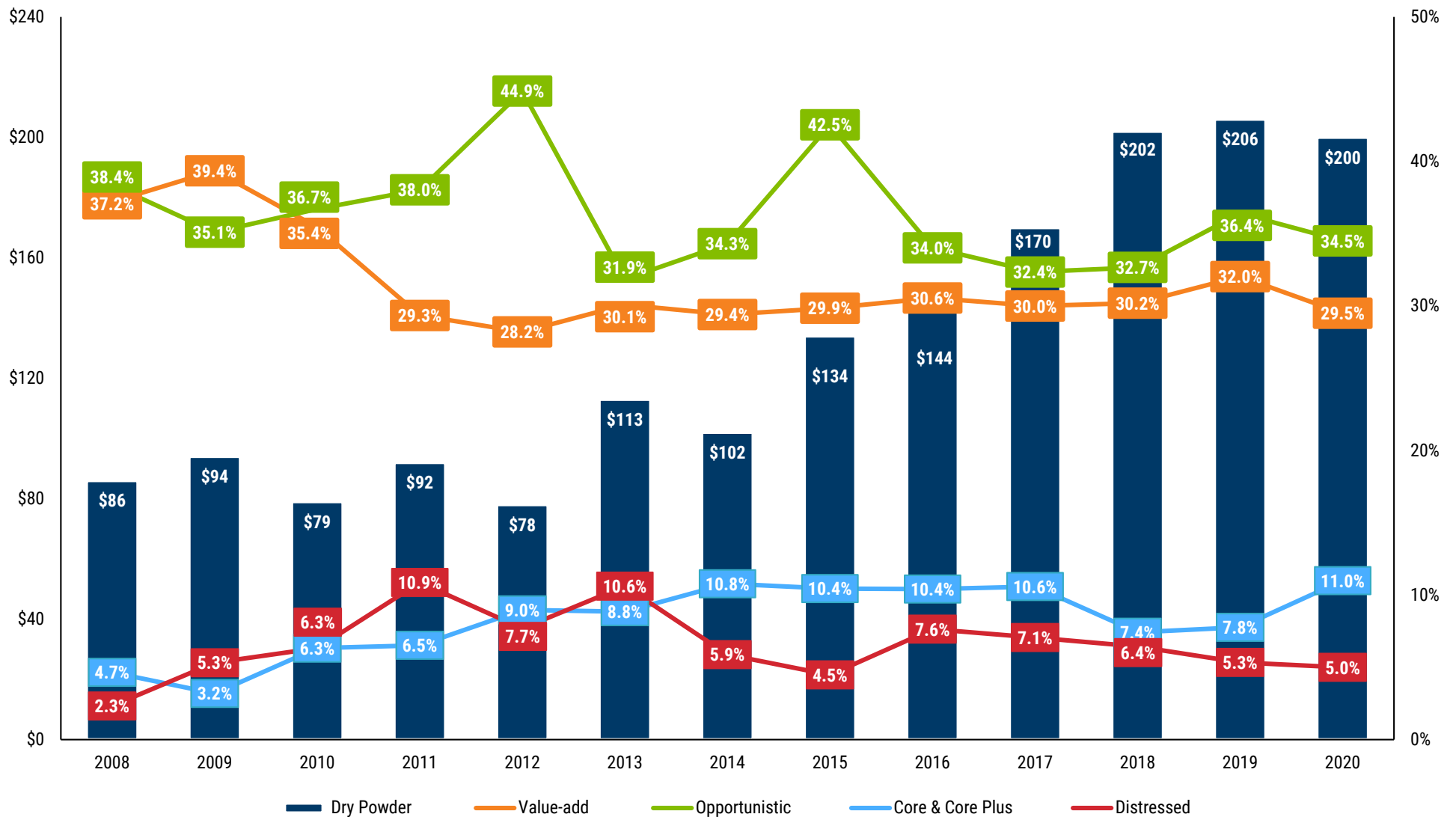
ANNUAL NOI GROWTH



Source: NKF Research, NCREIF

DRY POWDER FOR EQUITY-FOCUSED FUNDS

Uninvested capital accumulated by North American-focused funds remains near pre-Covid-19 crisis levels, at \$200 billion as of the second quarter of 2020. Dry powder allocated to core and core plus strategies increased to 11.0% of the total, as some investors pursue high-quality assets with stable cash flows.



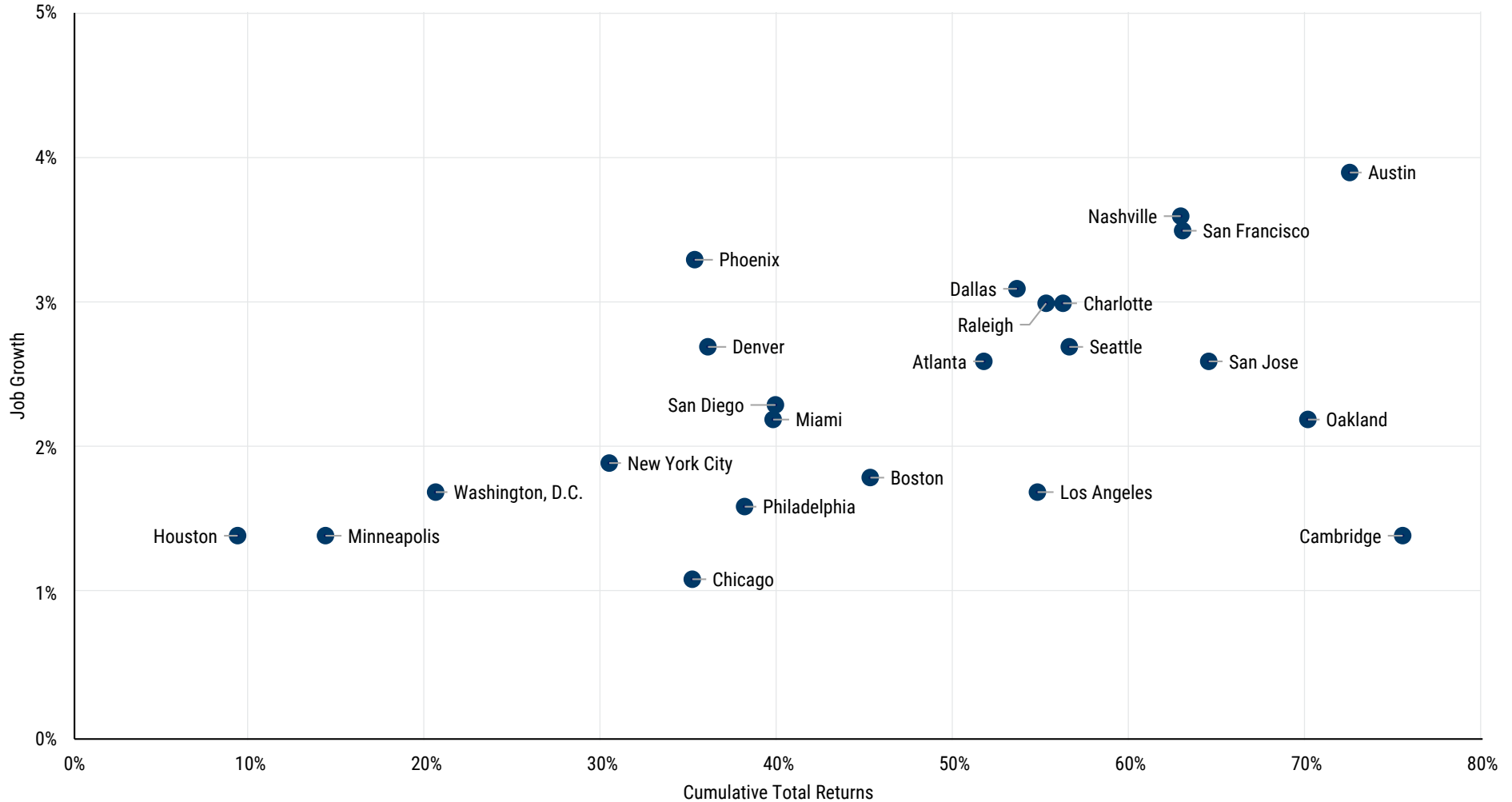
Note: Excluding Debt Funds

Source: NKF Research, Preqin

OFFICE TOTAL RETURNS VS. EMPLOYMENT GROWTH

CUMULATIVE 5-YEAR TOTAL RETURNS; 5-YEAR AVERAGE METRO JOB GROWTH (2015-2019)

Higher employment growth metros have generally attracted more institutional capital and recorded higher total returns. However, even lower employment growth metros have achieved high cumulative returns due to their unique characteristics – Cambridge features the largest life sciences cluster in the country, while Los Angeles caters to the high growth video-streaming and digital content sector.

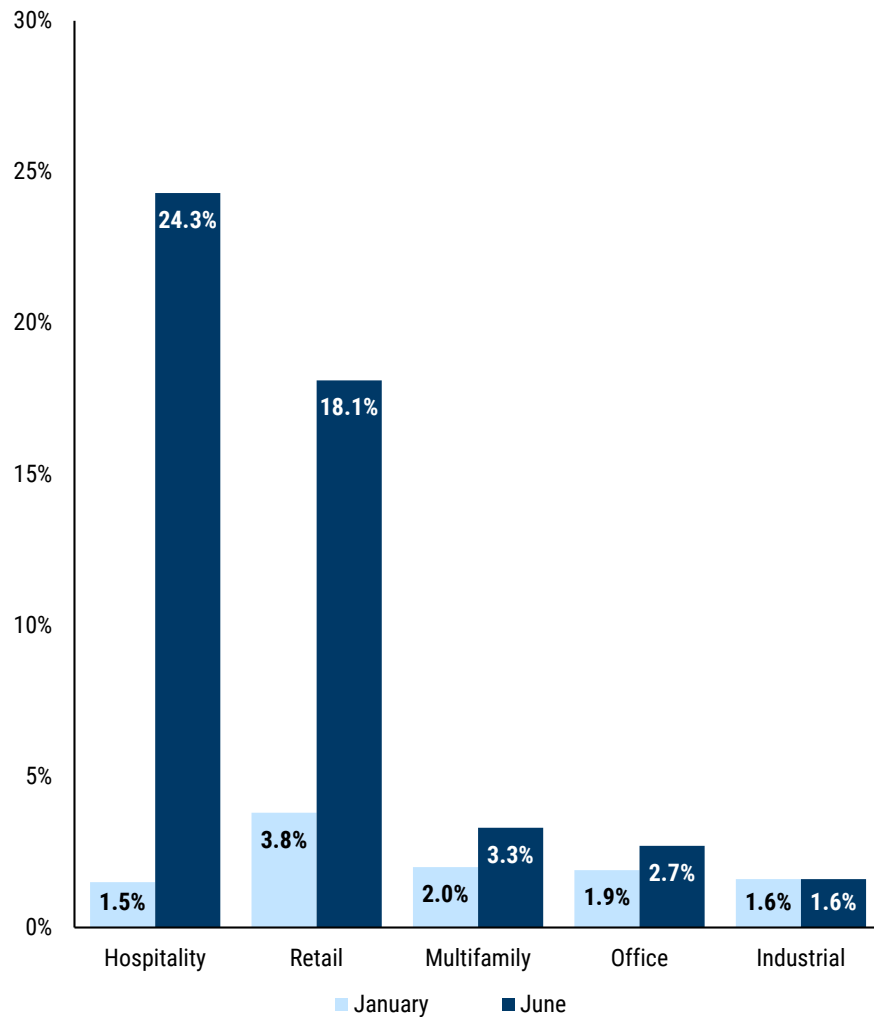


Source: NKF Research, Moody's, NCREIF

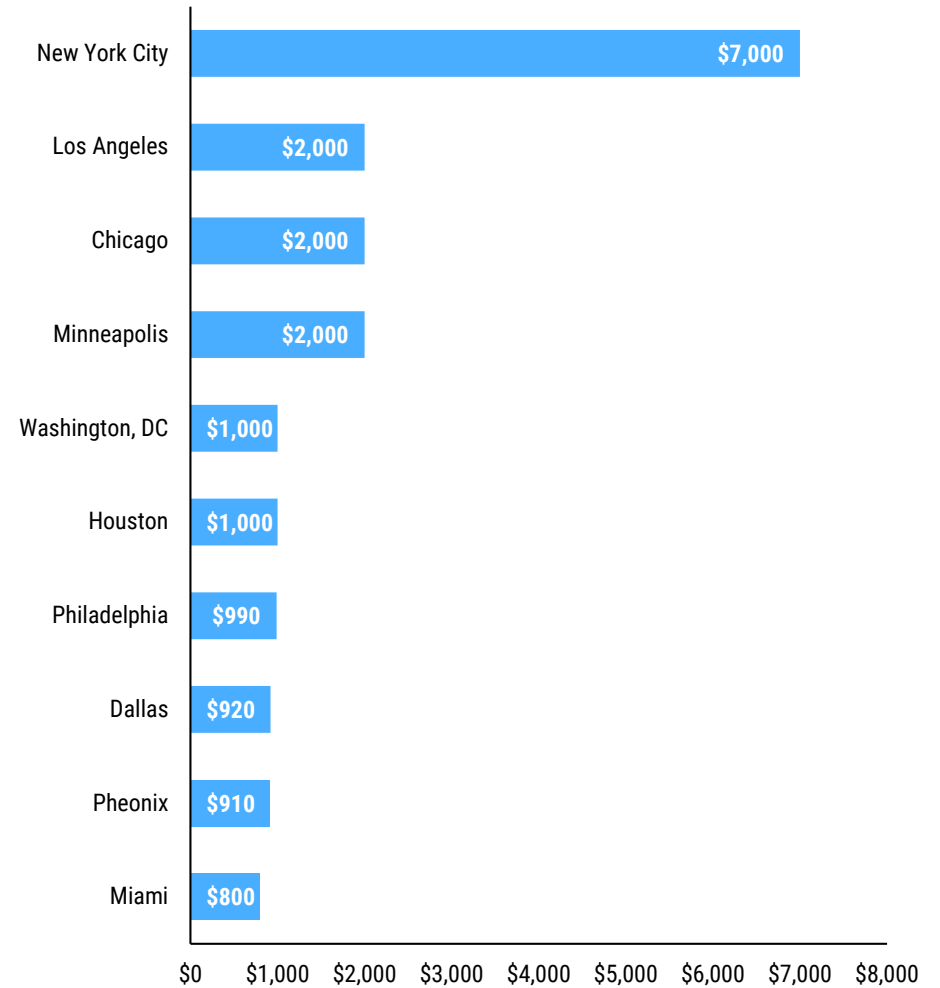
CMBS DELINQUENCY

CMBS delinquencies have risen substantially, to 24.3% and 18.1% in hotel and retail respectively, but have been largely contained within those two types – of those properties, the damage has been concentrated in the epicenter of the initial outbreak, New York City, which is uniquely vulnerable to decreases in tourism and public transportation use.

BY PROPERTY TYPE



BY METRO, IN MILLIONS \$

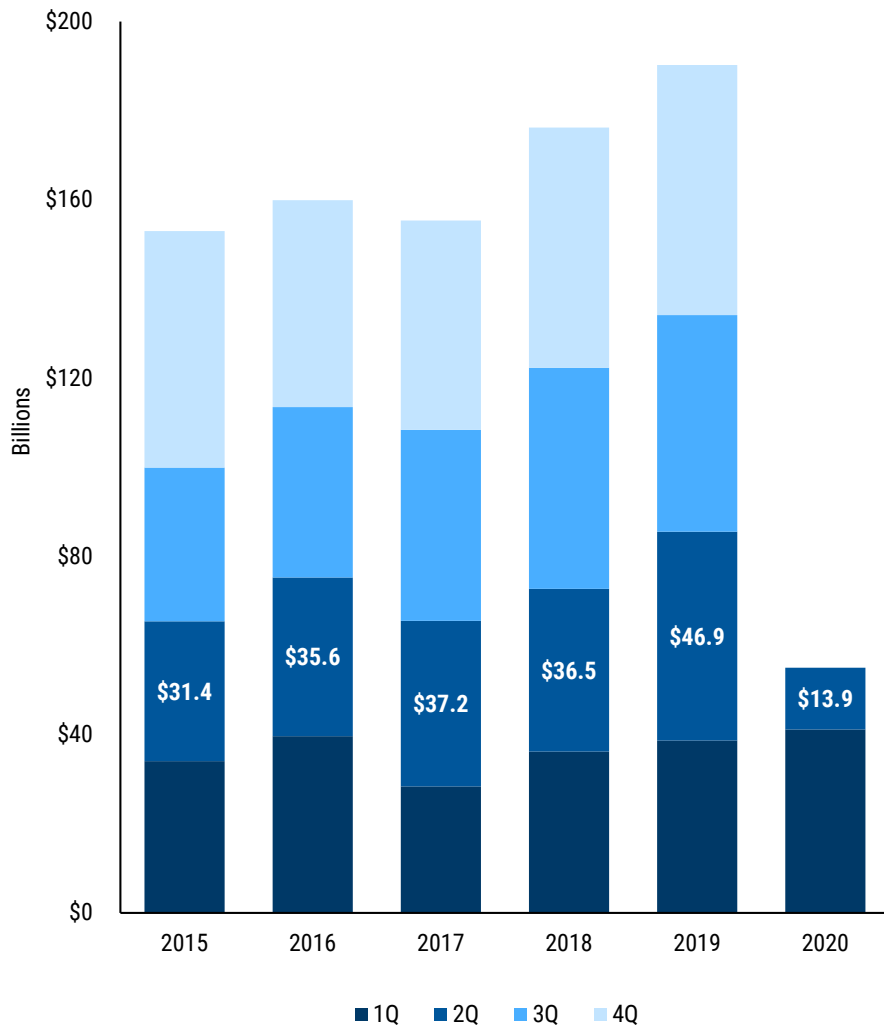


Source: NKF Research, Trepp

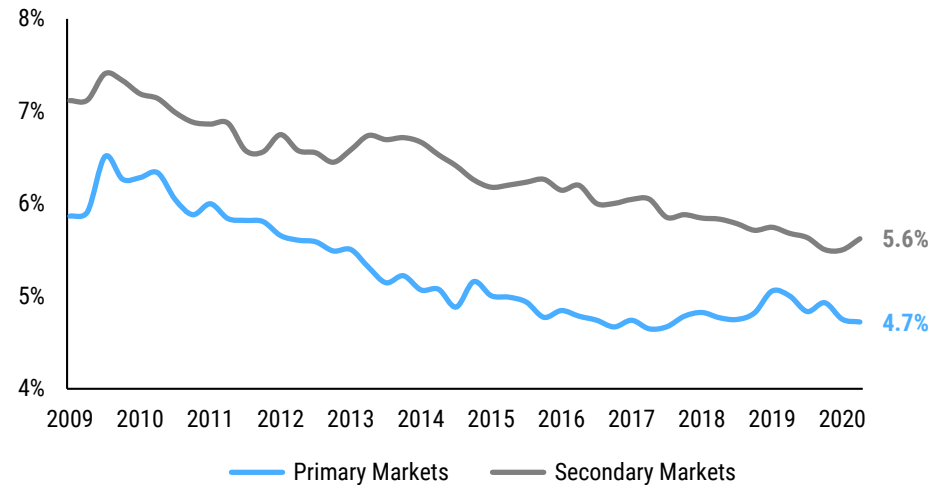
MULTIFAMILY DASHBOARD

While multifamily investment sales volume declined by 70.4% year-over-year, rent collection remains the highest of any property type, exceeding 95% (full month) in June, according to NMHC. Cap rates remained flat in primary markets while increasing by just over 10 basis points in secondary markets, however the limited amount of deal volume in 2Q20 has constrained price discovery.

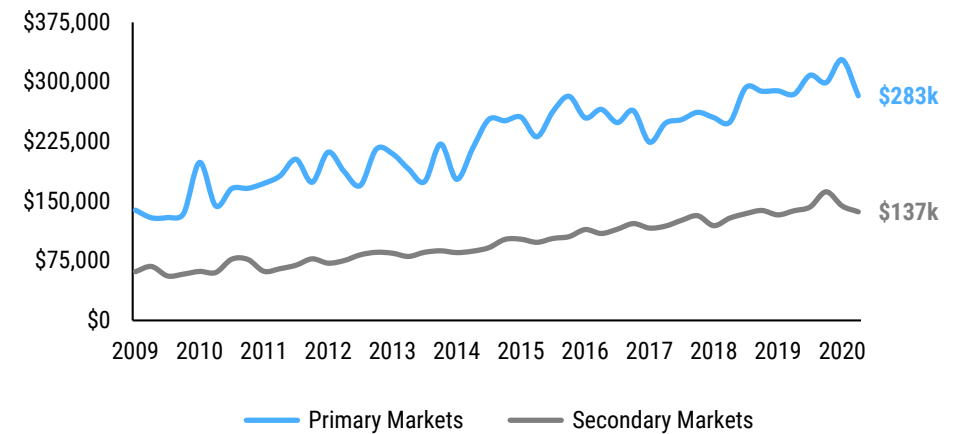
NATIONAL SALES VOLUME



CAP RATES



PRICE PER UNIT

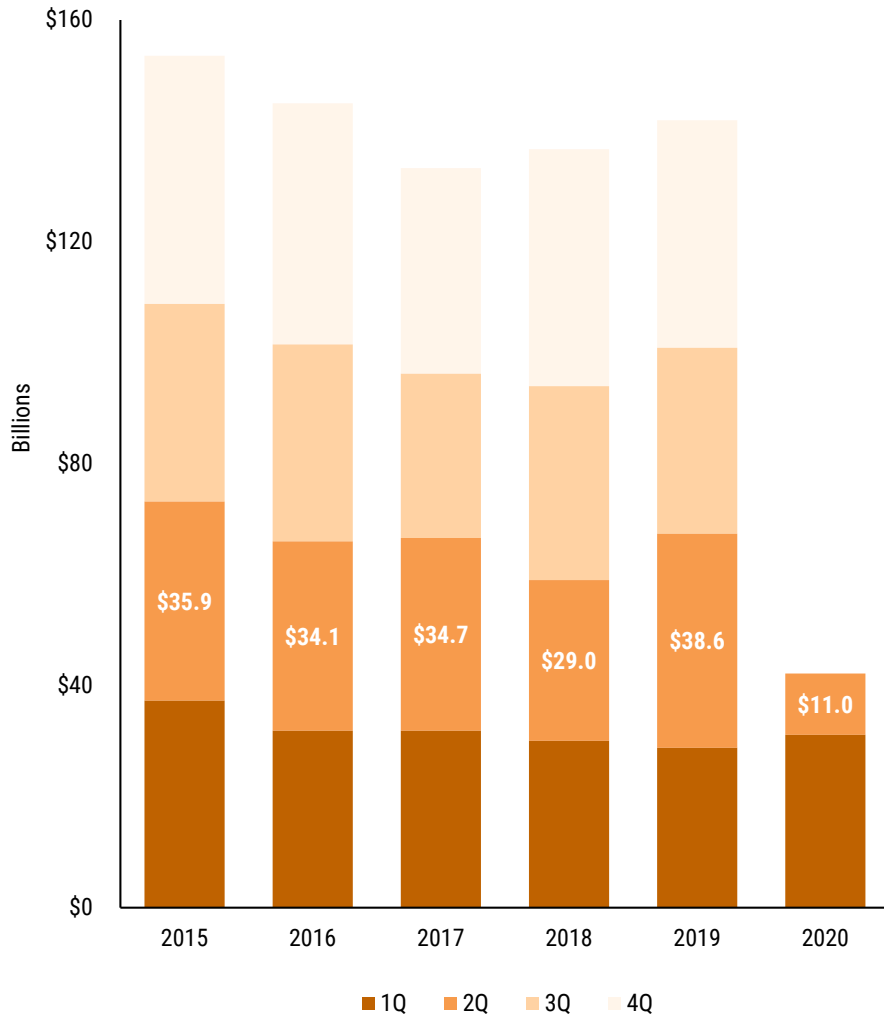


Source: NKF Research, Real Capital Analytics, NMHC

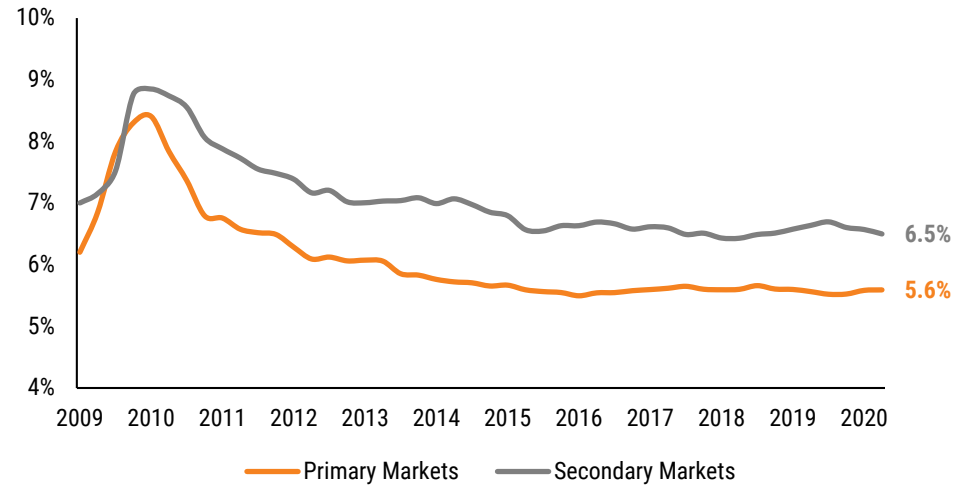
OFFICE DASHBOARD

Second quarter volume decreased by 71.4% year-over-year as Covid-19 resulted in a substantial decline in liquidity and debt availability. However, coastal gateway markets such as Seattle (which is home to the largest cloud providers) and other select markets such as Northern Virginia (location of Amazon's HQ2) are expected to be least vulnerable in the short term.

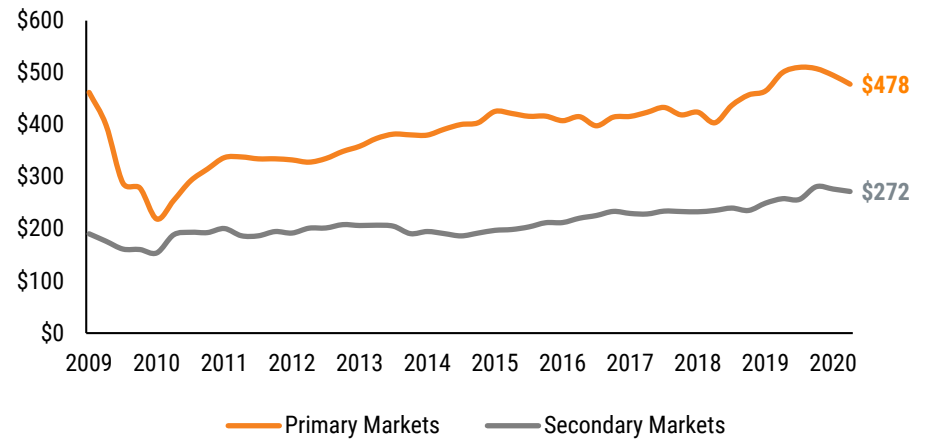
NATIONAL SALES VOLUME



CAP RATES



PRICE PER SQUARE FOOT

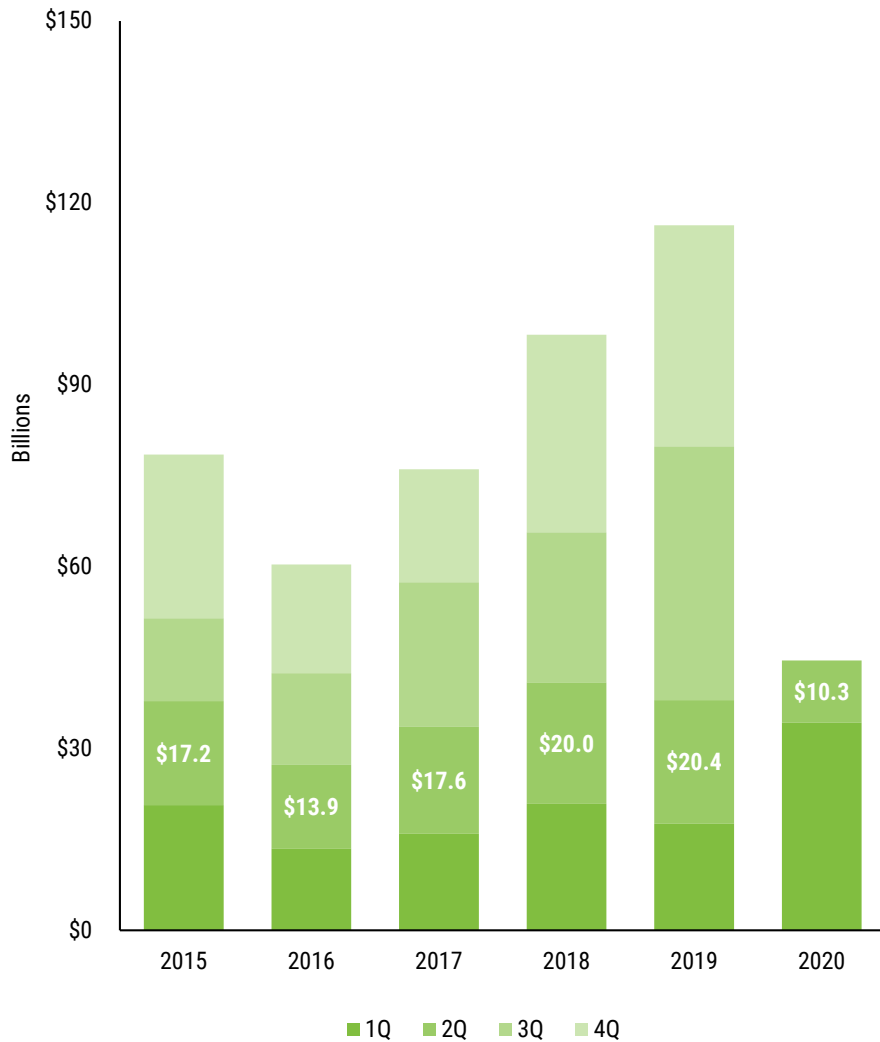


Source: NKF Research, Real Capital Analytics

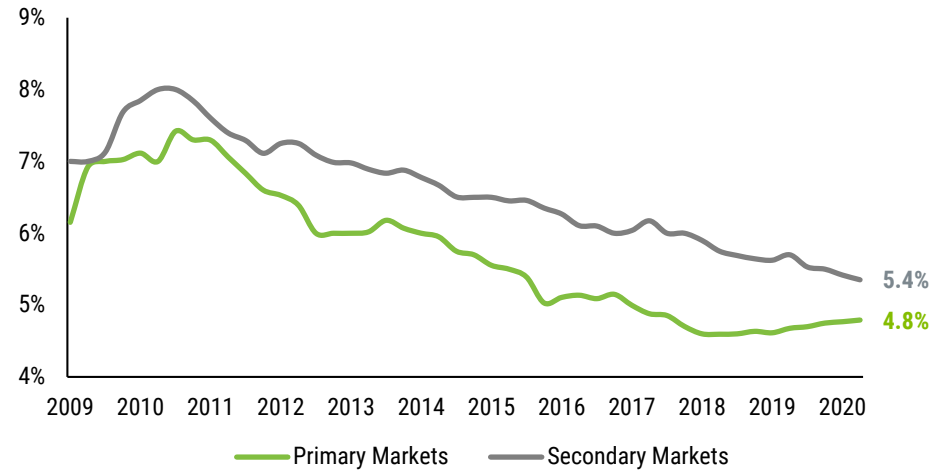
INDUSTRIAL DASHBOARD

While industrial was not immune to the slowdown in activity due to Covid-19, recording a 49.7% year-over-year decline in 2Q20, it is uniquely positioned in a post-Covid-19 environment. Distribution warehouses represent the backbone of the e-commerce and logistics industries and remain in high demand, as pricing for top quality, well-leased assets in both primary and secondary markets remains minimally impacted.

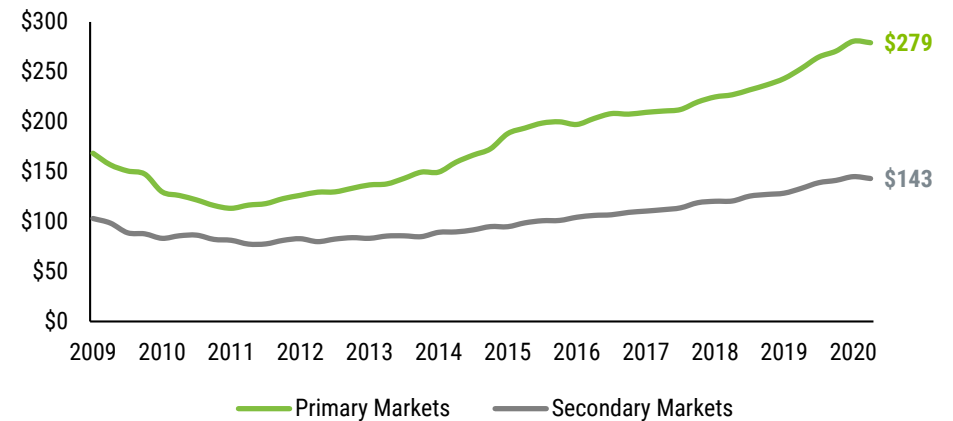
NATIONAL SALES VOLUME



CAP RATES



PRICE PER SQUARE FOOT

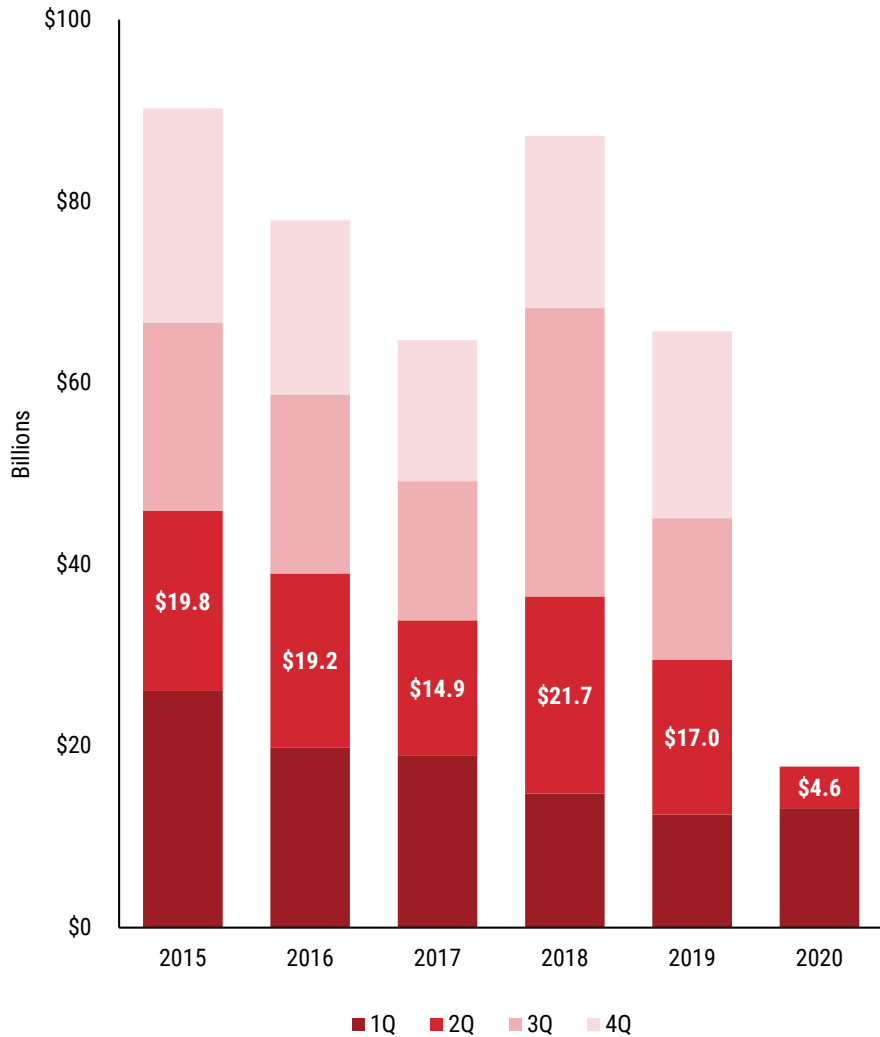


Source: NKF Research, Real Capital Analytics

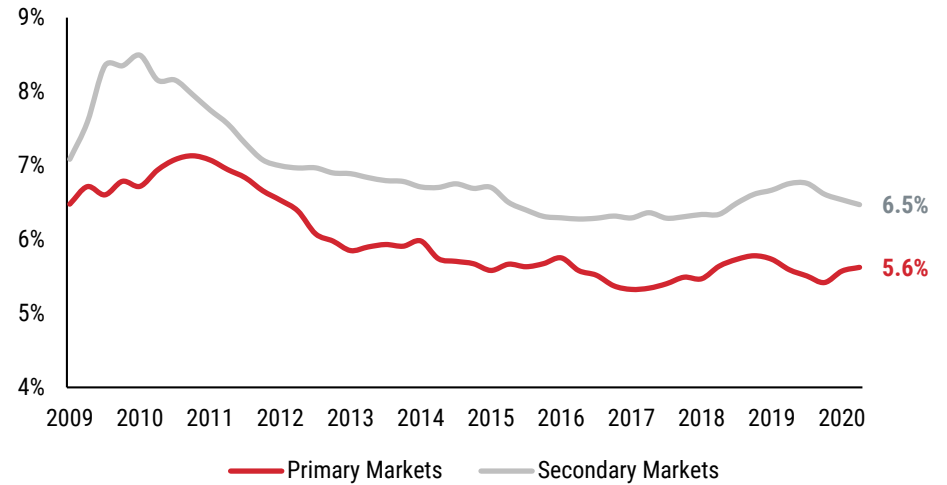
RETAIL DASHBOARD

Retail investment sales volume declined by 73.1% year-over-year, as rent collection trails other property types and various national retailers have filed for bankruptcy protection. Bright spots do exist in retail going forward, such as grocery-anchored product and NNN product offering credit tenancy and long-term leases. However, overall investor sentiment remains low, particularly for enclosed malls whose tenants require high levels of foot traffic to remain profitable.

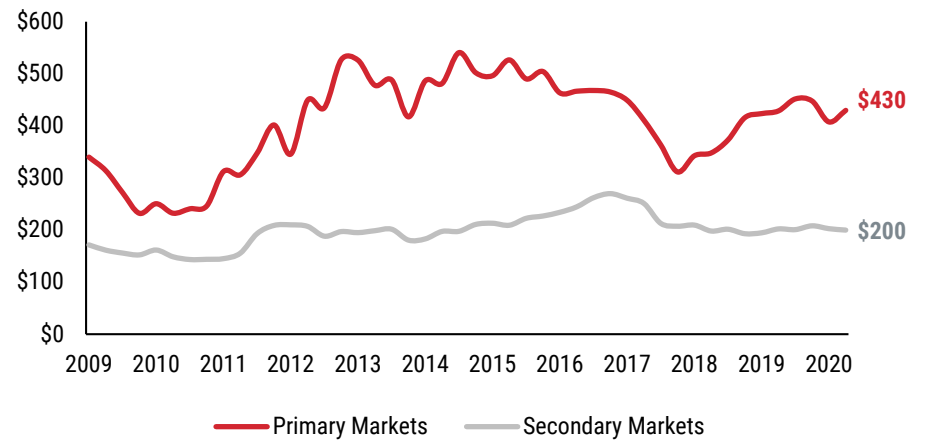
NATIONAL SALES VOLUME



CAP RATES



PRICE PER SQUARE FOOT

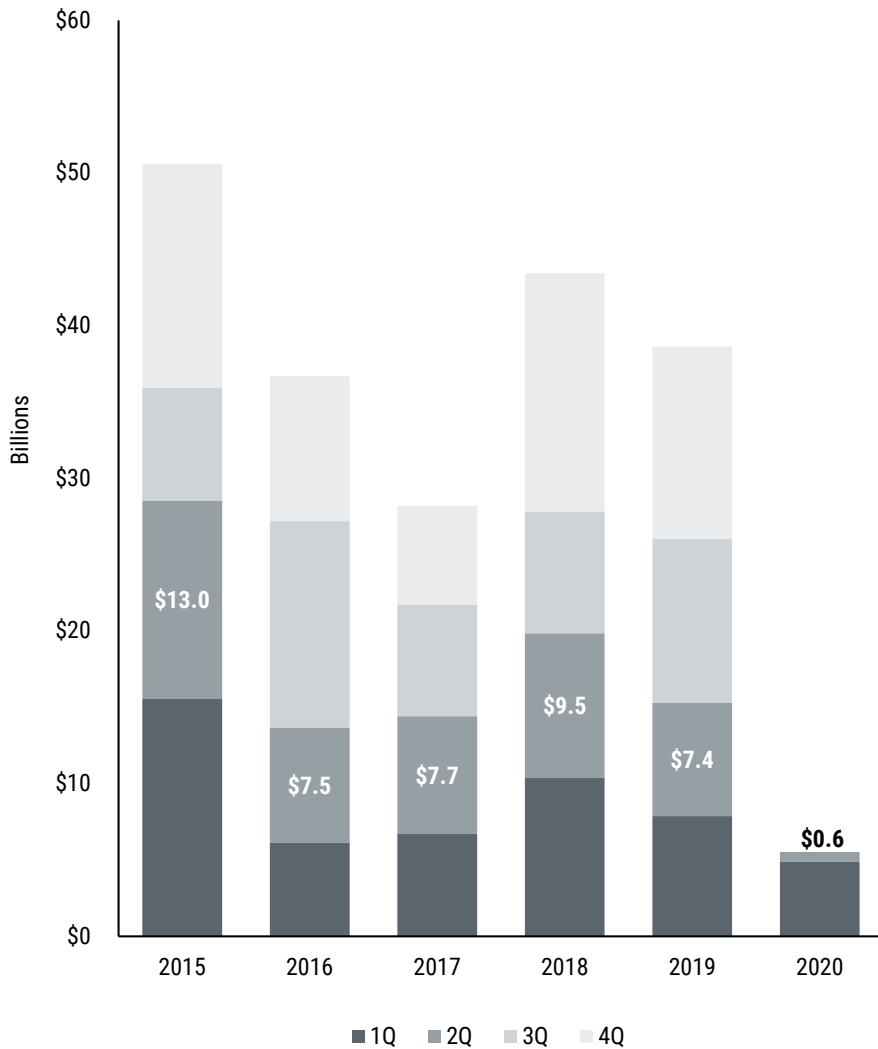


Source: NKF Research, Real Capital Analytics

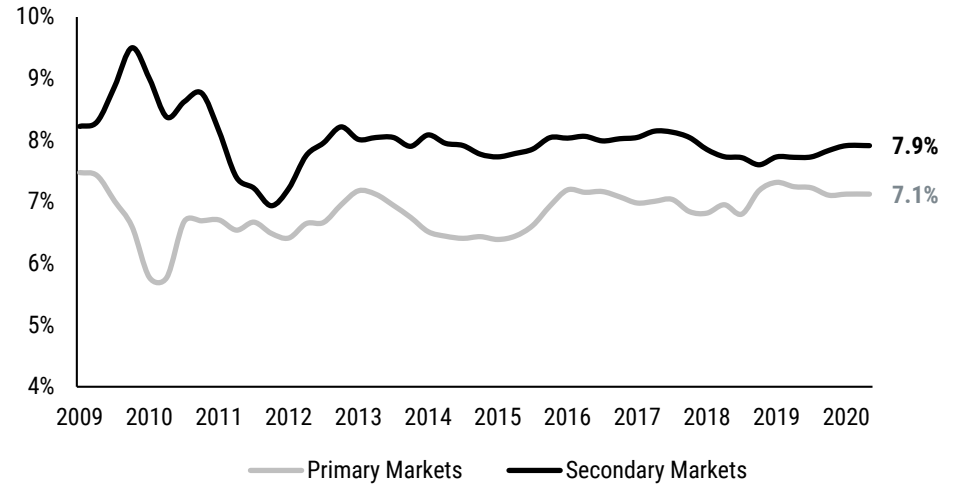
HOSPITALITY DASHBOARD

Hospitality has been the most severely impacted property type, with volume decreasing 91.3% year-over-year. Two of the largest pending deals of the year, the \$6 billion-dollar Anbang luxury hotel portfolio and \$800 million Curio Diplomat Beach Resort in Hollywood, Florida were terminated. Opportunistic investors and distressed vehicles are on the lookout for special situations and loan sales that offer steep discounts for assets that will perform positively once the economy reopens.

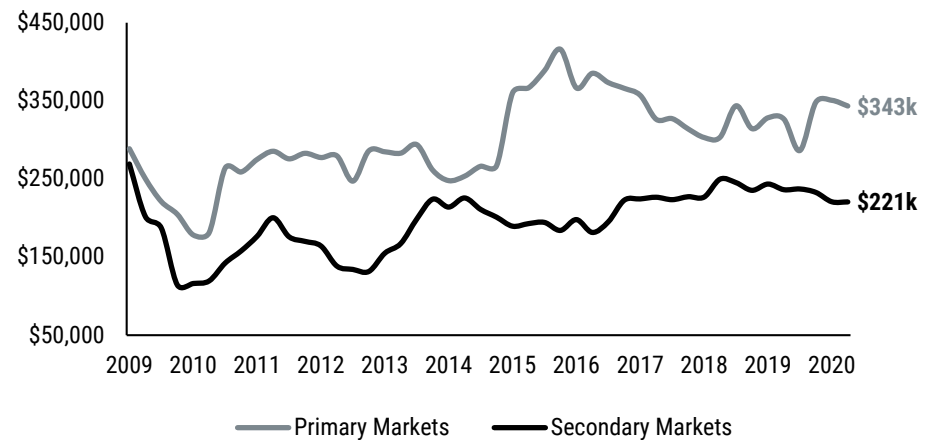
NATIONAL SALES VOLUME



CAP RATES



PRICE PER KEY



Source: NKF Research, Real Capital Analytics

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