MARKETBEAT
U.S. Capital Markets
Q1 2019

CUSHMAN & WAKEFIELD

Executive Summary

- Transaction activity decelerated in the first quarter of 2019, down 11% year-over-year (YoY). Single-asset, megadeal, portfolio and entity/M&A volumes all decreased for the first time since the fourth quarter of 2016. Volume was still up 14% on a 12-month basis—both overall and for all transaction types.
- Volumes decreased YoY for every major product type. Multifamily (0%) and industrial (-8%) declined the least, while hotel (-34%) and CBD office (-20%) declined the most. Volumes were still up for most product types on a 12-month basis.
- Transaction cap rate trends have remained largely stable. Apartment and office yields compressed modestly YoY. Industrial yields increased in major markets as lower quality product trades. Retail remains under pressure, particularly in secondary and tertiary markets.
- NCREIF total return accelerated to 7.4% annualized in the first quarter of 2019 compared to a 6.7% return in 2018. Industrial, garden apartment, suburban office and—surprisingly—retail were the top performing sectors.
- Macroeconomic uncertainty weighed on transaction activity in the first quarter of 2019. We expect liquidity to accelerate in the remainder of the year, supported by record levels of dry powder, stable monetary policy, a robust U.S. economy and rising investment under the Opportunity Zone tax incentive program.

Sleepy First Quarter, but Underlying Liquidity Trend Robust

Transaction activity slowed in the first quarter of 2019. Overall volume totaled $98.7 billion (B)—down both 11% year-over-year (YoY) and 39% quarter-over-quarter (QoQ). The second quarter of 2014 was the last quarter to record volumes under $100B. The slowdown was broad-based across transaction structures and deal sizes as single-asset sales, megadeals (over $250M), portfolio and entity/M&A transaction volumes declined from those posted a year ago.

U.S. TRANSACTION ACTIVITY

	1Q19			LTM	
	Vol ($B)	QoQ	YoY	Vol ($B)	YoY
Single Asset	77.2	-26%	-9%	358.0	3%
Under 250M	67.6	-27%	-9%	319.6	3%
Over 250M	9.6	-20%	-10%	38.4	12%
Portfolio	21.1	-23%	-10%	102.2	4%
Entity	0.4	-99%	-87%	69.5	211%
Total	**98.7**	**-39%**	**-11%**	**529.7**	**14%**

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

The fall-off in entity/M&A transactions was particularly abrupt (-87% YoY) following a period of near-record-setting activity in 2018.

It is important not to let a single quarter's performance overshadow underlying trends. Comparing the most recent four quarters with the preceding four, transaction volume was still up 14% with positive contributions from all transaction types and sizes. Megadeals and entity/M&A activity accelerated 12% and 211%, respectively.

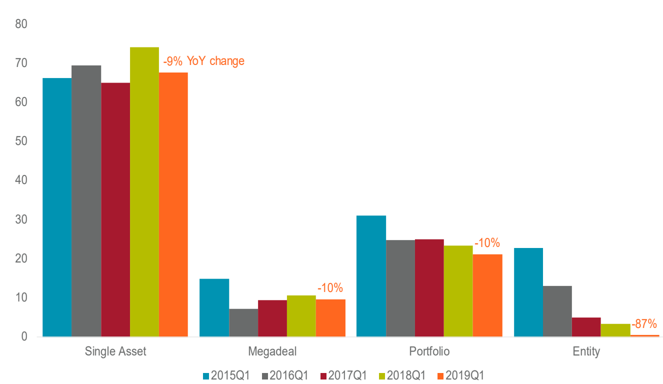
Deceleration across Product Types in First Quarter of 2019

The slowdown was broad-based across product types as well. Apartment (0%), industrial (-8%) and suburban office (-12%) decreased the least while hotel (-33% YoY), senior housing (-22%), CBD office (-20%) and retail (-17%) volumes posted the sharpest declines.

CBD office volume declined 20% in the first quarter of 2019 as rising secondary market CBD office transactions (+37% YoY / +$0.9B) failed to offset falling major market volume (-35% / -$3.4B). Megadeal volume declined by nearly a half (-44%) and was only partially offset by a rebound in portfolio sales following an unusually low volume recorded in the first quarter of 2017. CBD office volume was still up 6% in the last 12 months compared to the preceding 12-month period.

Retail sales across the board declined 17%. Specific areas of decline included tertiary markets (-29% / -$0.8B) and portfolio sales (-71%). In contrast, megadeal volume more than doubled to $1.1B. Mall (-60%) and power center (-56%) volumes declined significantly YoY. Retail sales, however, remained up—rising 49% in the last 12 months compared to the preceding 12-month period. While most of the increase in volume is attributable to mall M&A, 12-month volumes were up across product types with the exceptions of power centers and big box.

INVESTMENT SALES VOLUME BY TRANSACTION
DOLLLARS IN BILLIONS



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

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Suburban office volume decreased 12% in the first quarter of 2019 as activity in secondary (-24% YoY / -$1.9B) and tertiary markets (-25% / -$0.4B) volumes decelerated. Transactions in core single-assets (-18%) and portfolios (-38%) drove the decline, partially offset by a significant increase in megadeals (+184% / $2.2B). Suburban office sales were one of the only product types to be down on a 12-month basis as well (-3% vs. previous 12-month period). However, at $75.1B in sales recorded in the last 12 months, liquidity remains near historic highs.

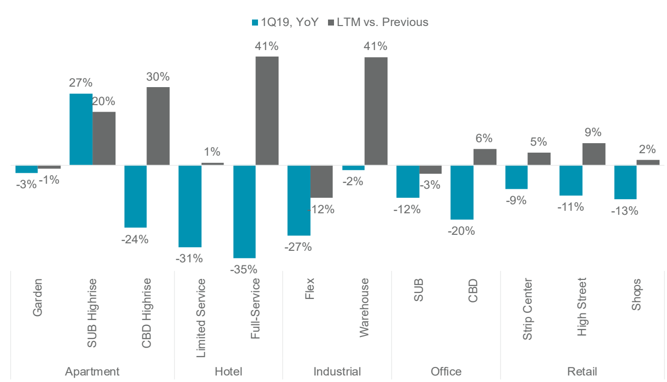
Industrial sales declined 8% over the first quarter of 2019. Declines were most pronounced in secondary markets (-26% / -$2.0B); however, this was mostly due to unusually high secondary market sales in the first quarter of 2018. Major, secondary and tertiary market sales were, in fact, higher than the in the first quarters of 2016 and 2017. Portfolio sales (+19%) rose in the first quarter of this year. The entire decrease in volume is attributable an 89% decline in entity/M&A activity, which tends to be volatile. Flex property volume (-12%) decreased more sharply than did warehouse volume (-2%). On a 12-month basis, volumes were still up 26% compared to the previous 12-month period, driven by a 41% increase in warehouse sales volume.

U.S. TRANSACTION ACTIVITY BY SECTOR

	1Q19			LTM	
	Vol ($B)	QoQ	YoY	Vol ($B)	YoY
Apartment	34.1	-32%	0%	165.6	7%
Office	23.9	-41%	-16%	125.0	0%
CBD	9.7	-44%	-20%	49.9	6%
SUB	14.1	-40%	-12%	75.1	-3%
Industrial	15.5	-47%	-8%	83.6	26%
Retail	9.7	-40%	-17%	74.0	49%
Hotel	6.7	-55%	-33%	38.6	27%
Dev Site	3.7	-28%	-6%	18.4	11%
Seniors Housing & Care	2.7	-19%	-22%	13.1	-9%
Total	**98.7**	**-39%**	**-11%**	**529.7**	**14%**

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

QUARTERLY AND 4-QTR CHANGE IN VOLUME



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

Apartment volume was flat overall in the first quarter of 2019. Major market apartment sales (-13% / -$1.5B) declined but were offset by rising volume in tertiary markets (+26% / +$1.4B). Portfolio sales increased 38% YoY to $8.2B—the largest first-quarter volume recorded since 2016. CBD high-rise (-24%) product sales declined but were nearly offset by rising suburban high-rise volume (+27%). For the trailing 12-month period, apartment sales remained up 7%, driven by rising suburban and CBD high-rise volume.

Falling Volume across Tiers and Regions—but Nuanced at Market Level

Transaction activity slowed across market tiers in the first quarter of 2019. The largest decline was in major metros (-15% YoY / -$6.8B). The New York City metro accounted for most of the drop in volume (-24% YoY / -$4.1B); however, the Washington, DC (-35% YoY/ -$2.5B) and Chicago (-37% / -$1.6B) metros experienced larger relative declines. In contrast, San Francisco (+19% YoY / +$1.2B) and Boston (+52% / +$1.1B) metro volumes rose YoY. On a 12-month basis, major metro volumes remained up 14% with all major metros posting gains in volume except for Washington, DC.

Among the secondary markets, the largest volumes were recorded in Seattle, Dallas, Phoenix and Miami. First quarter 2019 volume rose in 11 out of 34 markets. The markets adding the most volume YoY were Seattle (+$0.8B), San Diego (+$0.6B), Miami (+$0.5B) and Nashville ($0.6B). At the other end of the spectrum, Atlanta (-$1.1B), Denver (-$1.0B), Houston (-$0.8B) and Dallas/Raleigh (-$0.6B) subtracted the most from secondary market activity. On a 12-month basis, secondary market volumes remained up 11%, with 25 of 34 markets posting volume gains.

U.S. TRANSACTION ACTIVITY BY MARKET

	1Q19			LTM	
	Vol ($B)	QoQ	YoY	Vol ($B)	YoY
Major Metros	38.9	-43%	-15%	204.4	14%
Secondary Markets	42.4	-40%	-11%	236.2	11%
Tertiary Markets	16.1	-32%	-10%	86.9	21%
Total	**98.7**	**-39%**	**-11%**	**529.7**	**14%**

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

Foreign Capital Down but Not Out in the First Quarter

In keeping with trends of the last several years, private capital continued to both drive acquisition activity and to exhibit the greatest trend growth in acquisition volume. First quarter 2019 acquisitions by private investors were flat YoY but well-above levels recorded in the first quarters of 2016 and 2017. On a 12-month basis, private capital acquisitions were still up—by 11%— from the previous 12-month period.

Institutional acquisitions (-6% YoY) gave back their first quarter 2018 increase; however, institutional acquisition volume remained up—a 14% increase on a 12-month basis, although still well below levels seen earlier in the cycle.

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NUANCE IN INDIVIDUAL MARKETS

Top 25 Markets by 1Q 2019 Volume

		Year-Over-Year Percent Change						
Metro Area	**1Q19 Volume ($M)**	**Apartment**	**CBD Office**	**SUB Office**	**Industrial**	**Retail**	**Hotel**	**Total**
NYC Metro	12,867	-28%	-57%	-32%	27%	-6%	64%	-24%
LA Metro	8,332	-32%	-12%	9%	18%	-47%	-7%	-9%
SF Metro	7,153	-8%	211%	146%	-52%	84%	-80%	19%
DC Metro	4,609	-12%	-20%	-57%	-8%	-34%	-71%	-35%
Seattle	4,000	31%	614%	-46%	-68%	-31%	-64%	23%
Dallas	3,487	-26%	-74%	149%	-25%	24%	-70%	-15%
Phoenix	3,266	60%		-26%	-52%	16%	-68%	4%
Boston Metro	3,191	145%	820%	-66%	0%	158%	-55%	52%
Miami/So Fla	2,986	-19%	-36%	-21%	86%	6%	199%	18%
Chicago	2,747	22%	-82%	19%	-39%	-38%	-40%	-37%
Atlanta	2,727	-14%	-17%	-65%	-17%	1%	-87%	-29%
Houston	2,492	-23%		-44%	-11%	-22%	356%	-25%
Denver	2,186	-8%	-45%	-45%	-34%	-78%	234%	-31%
Philly Metro	1,678	11%	66%	-35%	-20%	-67%	-71%	-13%
San Diego	1,623	375%	-6%	-33%	-6%	0%	203%	59%
Austin	1,451	81%		-36%	-36%	11%	-84%	-6%
Nashville	1,360	-28%	167%	55%	-52%	13%	414%	36%
Minneapolis	1,343	-15%	-36%	81%	17%	18%	59%	3%
Las Vegas	1,193	48%		-49%	-81%	-15%	95%	-22%
Charlotte	1,178	43%	1059%	-47%	-41%	28%	263%	20%
Orlando	1,154	-7%		34%	-5%	12%	-61%	1%
Tampa	1,137	78%		-67%	-46%	-42%	123%	11%
Portland	1,024	-22%	-66%	82%	-82%	101%	-37%	-9%
Raleigh/Durham	848	-43%	214%	-67%	4%	291%	175%	-40%
San Antonio	729	-26%		-49%	-3%	81%	750%	-21%

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

Public-vehicle acquisitions declined—both in the first quarter (-20%) and on a 12-month basis (-4%).

Foreign capital acquisitions (-49%) declined significantly in the first quarter of 2019 but remained up—by 63%—on a 12-month basis, mostly attributable, however, to several large entity/M&A transactions in 2018. Foreign acquisitions accounted for just 6.6% of first quarter transaction volume, the lowest share since the third quarter of 2012. The four-quarter average, however, sits at 14.0%, besting both the three-year quarterly average (12.7%) and the post-2010 average (10.7%). The largest foreign acquirers in the first quarter of 2019 were investors from Canada, China, Japan, Israel and Singapore.

Yields Have Compressed Modestly

Since peaking at 3.24% in November 2018, long-term Treasury rates fell significantly, ending the first quarter of 2019 at 2.41%. Similarly, the short-term rate—3M USD LIBOR—peaked at 2.82% in December 2018 and currently stands at 2.60%.

This rate volatility appears to have had little if any impact on transaction cap rates. Since quarterly transaction cap rates can be volatile, we focus on trend cap rates which have remained stable over the last two years.

Compared to a year ago:

- Apartment yields have compressed 9 basis points (bps), driven by major (-9 bps) and secondary market yields (-12 bps).
- CBD office yields are down 17 bps with the greatest declines in the secondary (-20 bps) and tertiary markets (-25 bps). Suburban office overall yields have also declined 17 bps, although in this case it is major (-25 bps) and tertiary (-31 bps) markets that have compressed the most.
- Industrial yields have expanded 6 bps as an increase in major market yields (+17 bps) more than offset declining secondary (-6 bps) and tertiary market (-9 bps) yields. This was likely do to a shift in major market sales composition towards lower quality assets.
- Retail yields have risen 25 bps with cap rates rising more in secondary (+23 bps) and tertiary (+42 bps) markets than in major markets (+16 bps).

Capital Values and Returns

According to the RCA Commercial Property Price Index (CPPI), overall capital values have risen 5.8% YoY compared to a three-year average increase of 7.4%.

YoY price growth was greatest for industrial (+8.0% YoY) and apartment (+7.3%) and in the non-major markets (+6.0%). Suburban office prices grew faster than CBD office

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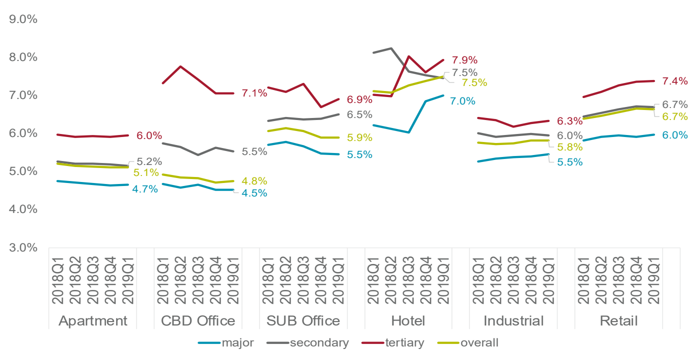
ROLLING 4-QTR VOLUME-WEIGHTED CAP RATES
BY MARKET TIER ACROSS PROERTY TYPES



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

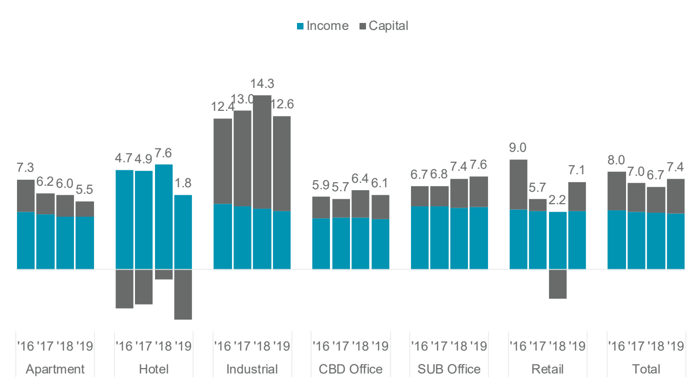
prices on both a YoY (+5.2% SUB vs. +4.2% CBD) and three-year basis (+6.5% CAGR vs. +6.0% CAGR).

The slowdown in retail price growth appears to have stabilized as the YoY growth (1.9%) was approximately equal to the three-year CAGR (2.0%). Considering cumulative performance since December 2006, apartment (+73%) and CBD office (+53%) price growth have significantly outpaced that of the overall market (+34%), particularly in the major markets. Despite a strong performance of the last several years, industrial prices were up only 31% during the same period. The gap between suburban and CBD office prices remains elevated, prices of the former having grown only 11% cumulatively.

The NCREIF National Property Index (NPI) generated an annualized total return of 7.4% in the first quarter of 2019. This compares favorably with the 5.6% annualized return in the fourth quarter of 2018 and with the 2018 total return of 6.7%.

Industrial product generated the highest total return (12.6% ann.), although returns from that segment moderated from the 14.3% pace in 2018. Office, apartment and hotel total returns were in-line with recent quarters with suburban office (+7.6% ann.) and garden apartment (+7.4% ann.) continuing to outpace other product subtypes. The real outlier in the first quarter of 2019 was retail; total return jumped to 7.1%, the highest quarterly return since the fourth quarter of 2016. The increase in total return was broad-based across product sub-types with regional (+9.4% ann.) and super-regional (+8.9% ann.) centers posting the greatest returns.

NCREIF NPI TOTAL RETURNS
PERCENT (%)



Source: NCREIF, Cushman & Wakefield Research

Outlook

- Liquidity will accelerate as the year continues, 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 as well as rising investment under the Opportunity Zone tax incentive program. We maintain our outlook for a 6% YoY decline in transaction volume in 2019.
- 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.
- Cap rates should remain broadly stable across product types, particularly given lower interest rates.
- 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.
- Fundraising for close-end funds rebounded strongly in the first quarter to the highest level since 3Q15. Dry powder at $222B is up 14% year-to-date with particularly large increases at opportunistic funds. This capital will continue to drive overall liquidity and support pricing.

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