MARKETBEAT

U.S. Capital Markets

Q3 2019

CUSHMAN & WAKEFIELD

Executive Summary

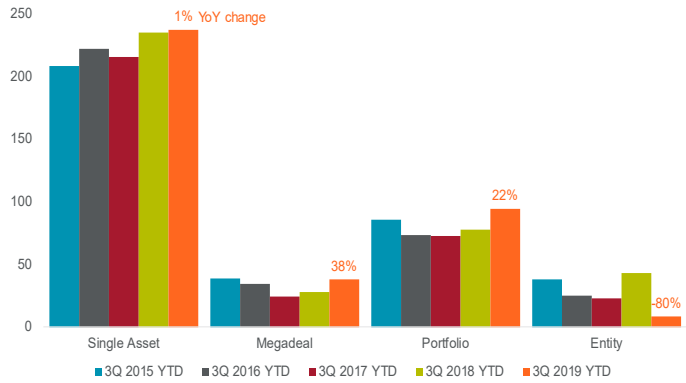
- Transaction activity accelerated in the third quarter of 2019, making it the second-strongest third quarter on record. Year-to-date (YTD) through the third quarter sales were flat compared to the same period in 2018.
- Industrial transactions drove third quarter activity. The $18.7 billion (B) Blackstone-GLP portfolio sale closed while third quarter office transaction activity—aside from that in CBDs—decelerated. YTD transaction volumes remained up, however, across most product types, with the notable exception of retail.
- Acquisition activity by private, institutional and public vehicle investors increased YTD. Private and institutional investors stepped up purchases of industrial properties while public vehicles increased acquisitions of every product type except for industrial.
- Inbound capital flows decreased YTD, both in dollar terms and as a share of overall transaction activity. The decline was broad-based across product types, destination metros and countries of capital origin.
- Multifamily and industrial cap rates were stable while office yields experienced some upward pressure in recent quarters.
- The NCREIF National Property Index produced a total return of 6.5% (annualized) from January through September of 2019, in line with its 2018 calendar year (CY) performance.

Second Strongest Third Quarter on Record

Transaction activity accelerated in the third quarter of 2019 to $141.9B—up 9% quarter-over-quarter (QoQ). Third-quarter volume was down 8% from a year ago, but 3Q 2019 was still the second strongest third quarter on record for transaction volume. Portfolio sales volume was among the highest recorded this cycle. The largest transaction was the closing of

INVESTMENT SALES VOLUME BY TRANSACTION TYPE

DOLLLARS IN BILLIONS (YOY % CHANGE)



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

Blackstone's previously announced acquisition of $18.7B in industrial assets from GLP.

From January through September (YTD) transaction activity was flat compared to 2018 overall but ranks as the third strongest on record for volume through a third quarter. Large single-asset (or "megadeal") volume was up 38% year-over-year (YoY) and portfolio sales increased 22%. Entity/M&A was lackluster, down 80% compared to the same period in 2018 and to each of the preceding three years as well.

YTD Secondary and Tertiary Volumes Remain Near Historic Highs

Year-to-date secondary and tertiary market volumes remained near historic highs while major market volume was still well above its recent 2017 low. However, transaction activity decelerated across market tiers in the third quarter of 2019 based on available data. Note that at the time of this writing, there is not enough clarity on the details of the Blackstone-GLP portfolio sale to allocate the volume to markets and to tiers. Excluding that transaction,

U.S. TRANSACTION ACTIVITY

	3Q19			YTD	
	Vol ($B)	QoQ	YoY	Vol ($B)	YoY
Single Asset	93.8	-6%	-2%	275.3	5%
Under 250M	82.0	-2%	-5%	237.2	1%
Over 250M	11.7	-25%	21%	38.1	38%
Portfolio	44.4	56%	56%	94.6	22%
Entity	3.7	65%	-88%	8.5	-80%
Total	**141.9**	**9%**	**-8%**	**378.4**	**-1%**

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

U.S. TRANSACTION ACTIVITY BY MARKET

	3Q19			YTD	
	Vol ($B)	QoQ	YoY	Vol ($B)	YoY
Major Metros	49.0	0%	-6%	139.8	-3%
Secondary Markets	55.5	-8%	-25%	163.4	-6%
Tertiary Markets	16.9	-18%	-40%	54.1	-16%
Total	**141.9**	**9%**	**-8%**	**378.4**	**-1%**

Major, secondary and tertiary market volumes do not sum to the quoted total due to transaction volume that has been recorded but not yet allocated to individual markets.

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

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NUANCE IN INDIVIDUAL MARKETS

Top 25 Markets by Q3 2019 YTD Volume

		Year-Over-Year Percent Change						
Metro Area	3Q19 YTD Volume ($M)	Apartment	CBD Office	SUB Office	Industrial	Retail	Hotel	Total
NYC Metro	39,075	-9%	-21%	8%	25%	-43%	14%	-14%
SF Metro	30,822	22%	168%	51%	-26%	12%	-12%	34%
LA Metro	30,484	-1%	-39%	-5%	22%	-53%	-16%	-8%
DC Metro	16,414	16%	13%	-8%	0%	-21%	-44%	-4%
Dallas	14,790	10%	36%	-22%	-42%	-47%	-19%	-14%
Boston Metro	13,919	102%	97%	4%	-1%	-18%	7%	52%
Seattle	13,523	35%	101%	5%	-28%	-39%	-39%	14%
Atlanta	12,010	12%	23%	-8%	-40%	-43%	27%	-8%
Miami/So Fla	11,610	-7%	-4%	-9%	30%	-35%	209%	7%
Phoenix	11,356	23%	-37%	-28%	-35%	-21%	-35%	-7%
Chicago	9,063	-31%	-68%	-52%	-35%	-55%	8%	-43%
Houston	9,044	-20%	-89%	-23%	-40%	-77%	53%	-31%
Denver	7,733	0%	20%	-17%	-30%	-56%	-32%	-15%
Austin	7,302	12%	2630%	58%	34%	10%	-42%	34%
San Diego	6,370	30%	-18%	1%	64%	-49%	258%	11%
Philly Metro	5,684	3%	93%	-3%	-18%	-24%	-37%	-2%
Tampa	4,935	51%	-80%	42%	92%	-52%	-17%	14%
Charlotte	4,691	30%	-7%	60%	-41%	-8%	-2%	10%
Las Vegas	4,659	42%	-80%	-54%	-11%	-43%	-68%	-22%
Raleigh/Durham	4,305	13%	-82%	-48%	360%	-8%	129%	-2%
Orlando	3,988	-3%	172%	-18%	-67%	-17%	-64%	-20%
Nashville	3,893	16%	28%	43%	-35%	-50%	167%	9%
Minneapolis	3,748	-2%	-14%	-32%	50%	-57%	34%	-10%
Portland	3,715	12%	-44%	35%	44%	-24%	-17%	1%
Baltimore	3,464	59%	-91%	7%	-48%	-65%	-27%	-14%

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

sales volume fell both QoQ and YoY across market tiers, especially in the secondary and tertiary markets, a reversal of the trend set in the first half of 2019.

Performance in individual markets varied. Among the major markets, the strongest activity continued to be in the San Francisco metro (+34% YTD YoY / +$7.8B) on the back of elevated office sales—and Boston (+52% / +$4.8B) as a result of rising multifamily and CBD office activity. Volumes moderated in the New York metro (-14% / -$7.8B) amid a slowdown in CBD office, retail and apartment sales. Chicago remained under pressure (-43% / -$6.9B) with sales down in every category but hotels.

In the third quarter of 2019, volumes fell in 25 out of 34 secondary markets. The figures are modestly better on a YTD basis (20 markets down). Dallas, Seattle, Atlanta and Miami were the most liquid markets both in the third quarter of 2019 and YTD. Volumes increased most significantly in Austin (+34% YTD YoY / +$1.8B; office), Seattle (+14% / +$1.7B; office, multifamily) and Miami (+7% / +$0.8B; industrial, hotel). Activity decelerated most in Houston (-31% / -$4.1B; retail, office), Denver (-15% / -$1.4B; retail, industrial) and Las Vegas (-22% / -$1.3B, hotel, retail).

Industrial Volumes Doubled QoQ

Industrial volumes more than doubled from those in the preceding quarter largely due to the Blackstone GLP transaction, making up for superficial weakness in the first half of the year. Excluding industrial, transaction activity decelerated across most property types in the third quarter of 2019 compared to the first quarter. Year-to-date, however, transaction volumes are up YoY for most product types, in particular CBD office and industrial.

Apartment volumes decreased across property subtypes in the third quarter of 2019; however, garden and suburban high-rise volumes remained up YTD. For more details see our Q3 2019 Multifamily MarketBeat.

Both CBD and suburban office sales declined QoQ in the third quarter of 2019, although on a YoY basis CBD office sales were up. January through September, both CBD and suburban office sales increased compared to the same period in 2018, although CBD office sales increased more significantly. Megadeal volume increased 21% YTD YoY, making 2019 the strongest year for such activity since 2016. CBD office sales YTD were particularly robust in the San Francisco metro, Boston, Seattle and Austin. Year-to-

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U.S. TRANSACTION ACTIVITY BY SECTOR

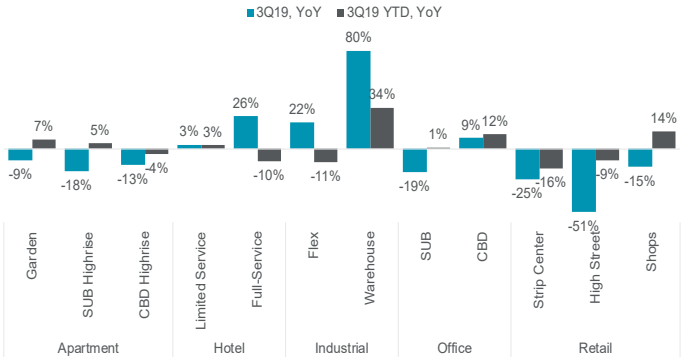
	3Q19			YTD	
	Vol ($B)	QoQ	YoY	Vol ($B)	YoY
Apartment	41.6	-5%	-12%	122.1	5%
Office	30.6	-16%	-9%	93.8	5%
CBD	13.2	-14%	9%	39.1	12%
SUB	17.4	-18%	-19%	54.7	1%
Industrial	37.9	129%	69%	69.8	24%
Retail	11.3	-14%	-62%	34.7	-43%
Hotel	9.7	16%	19%	25.7	-6%
Dev Site	3.0	-33%	-40%	11.6	-15%
Seniors Housing & Care	3.6	-3%	-25%	10.5	-2%
Total	**141.9**	**9%**	**-8%**	**378.4**	**-1%**

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

date suburban office sales have increased most in the San Francisco metro, Austin, Kansas City, Charlotte and Salt Lake City.

Both flex and warehouse volumes increased QoQ in the third quarter of 2019. Warehouse volume rose dramatically (+34%) from January through September (YTD) compared to the same period of 2018 due to the Blackstone-GLP transaction. However, single-asset sales also set a record—up 13% YTD YoY—suggesting that broad-based industrial liquidity has continued to rise. Excluding the Blackstone-GLP transaction, YTD industrial volumes rose the most in the Los Angles metro, New York metro, Raleigh/Durham, Miami and San Diego.

CHANGE IN VOLUME BY PRODUCT TYPE



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

Retail sales declined both QoQ and YoY in the third quarter of 2019. Year-to-date, retail sales volumes were down across all subtypes, except for single-tenant retail. The sharpest decline was in the mall sector (-96% YTD YoY) as activity returned to the low levels that prevailed aside from last year's large M&A deals (Brookfield-GGP and Unibail-Westfield). Strip center (-16% YTD YoY), power center (-38%) and high street (-9%) also saw volumes continue to decline. San Francisco was the only major market to record an increase in transaction activity YTD. Among secondary markets, volumes rose in just five out of thirty-four markets.

Industrial Driving Private and Institutional Investment

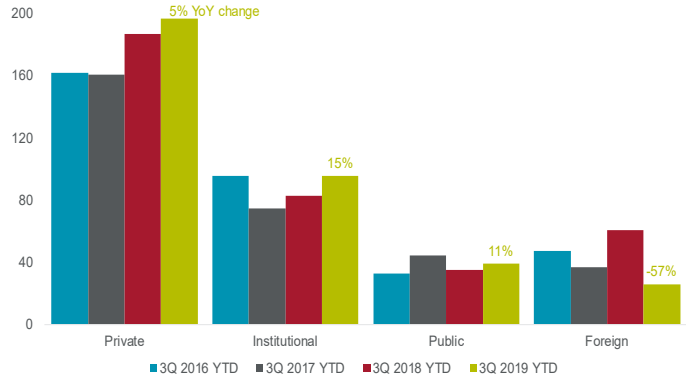
Year-to-date acquisition volumes increased across all capital groups, except for foreign investors. Private capital remains the largest capital source overall followed by institutional investors. Private capital acquisitions increased steadily (+5% YTD YoY) setting a record.

While acquisitions increased across most product types, industrial accounted for three quarters of the rise in volume. Institutional acquisitions rose for a third consecutive, coming in just shy of the record set in 2016. Industrial drove the increase due to the Blackstone-GLP transaction. Excluding industrial, YTD institutional acquisitions were down modestly. Strength extended beyond industrial into CBD office (+21% YTD YoY) and Senior Housing (+73%).

Acquisitions by public vehicles also rose from January through September, driven by large increases in

ACQUISTION VOLUME BY INVESTOR TYPE

DOLLLARS IN BILLIONS (YOY % CHANGE)



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

acquisitions of multifamily (+103% YTD YoY), CBD office (+256%), suburban office (+59%), hotel (+76%) and retail (+52%), particularly in the major metros (+28% across product types). In contrast to private and institutional investors, public vehicle purchases of industrial properties fell 44% following two years of elevated activity offsetting some of the increase in other product types.

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Foreign capital accounted for just 5.9% of acquisition activity in the third quarter of 2019 and only 6.9% YTD—both figures below the three-year average of 11.4%. Retail accounted for much of the volume decline as the previous-year period contained both the Brookfield-GGP and Unibail-Westfield mergers. However, the hotel (-52% YTD YoY), industrial (-55%) and suburban office (-48%) acquisitions also declined precipitously. Inbound capital volumes fell in 16 of the top 20 destination metro markets YTD. Acquisitions fell in 11 of the top 20 capital exporting countries notably Canada, France, Singapore and China. In contrast, investment activity increased among German, Israeli, Spanish and UAE investors.

Falling Rates, a Boon to Borrowers and Buyers

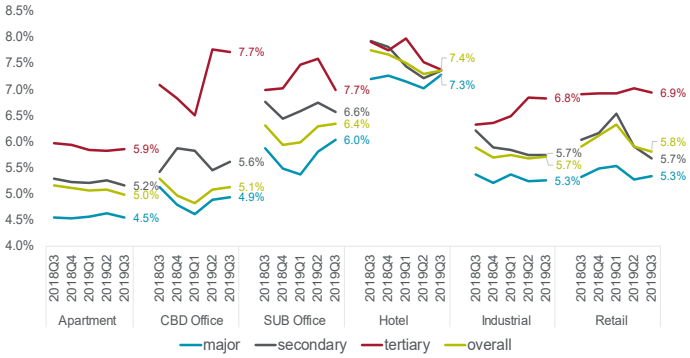
The Federal Reserve Open Market Committee has cut interest rates three times since July a total of 75 basis points (bps). LIBOR has declined from 2.40% in June to 1.99% in October. The 10-Year Treasury yield has declined from 2.07% to 1.71% in the same period. Declining rates have been passed on to borrowers in lower all-in financing costs. Ten-year fixed-rate financing was available at an interest rate of 3.7% in the third quarter of 2019 compared to 4.9% a year ago. Floating rate financing costs have also fallen, albeit to a lesser extent: five-year floating rate financing fell from 4.2% in the second quarter of 2019 to 4.0% in the third quarter for core properties, and from 5.5% to 5.2% for value-add.

There has been no observable, general impact on cap rates. Instead movement has continued to be driven by sector-specific factors:

- Multifamily cap rates have been stable across market tiers and classes.
- CBD office yields have increased 32 bps in the last six months compared to the preceding six-month period. The move was driven by major market (+33 bps) and Class A (+39 bps) product. Yields on secondary market (-20 bps) and class B (-11 bps) product declined.
- Suburban office yields have increased 36 bps in the last six months compared to the preceding six-month period, driven by major markets (+66 bps) and Class A (+59 bps) product.
- Industrial yields have been stable overall. However, tertiary market yields have been trending upwards—up 35 bps in the last six months compared to the preceding six-month period. Major and secondary market yields on the other hand have compressed 10-12 bps. Class A yields have compressed 31 bps in the same period.
- Retail yields have declined 52 bps in the last six months compared to the preceding six-month period, driven mostly by secondary markets (-86 bps) although major market yields also compressed (-20 bps). Movement was most pronounced for Class A product (-39 bps).

ROLLING 6-MONTH VOLUME-WEIGHTED CAP RATES

BY MARKET TIER ACROSS PROERTY TYPES



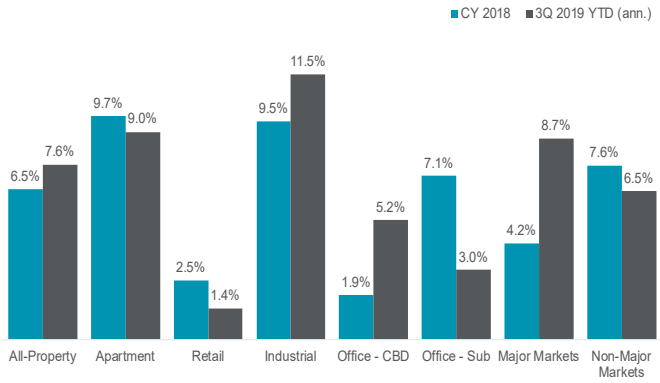
Source: Real Capital Analytics, Cushman & Wakefield Research
Deals over $5 million. Includes pricing from refinancing.

Commercial Real Estate Delivering Steady Performance

According to the RCA Commercial Property Price Index (CPPI), overall prices have increased 7.6% YTD on an annualized basis compared to a 6.5% increase in CY 2018. The acceleration in price returns was driven by the major markets (+8.7% YTD ann.), outpacing non-major markets (+6.5%). Industrial continued to outperform all other property types (+11.5%) followed by multifamily (9.0%). CBD office price gains (+5.2%) accelerated significantly compared to CY 2018, while

RCA COMMERCIAL PROPERTY PRICE INDEX RETURNS

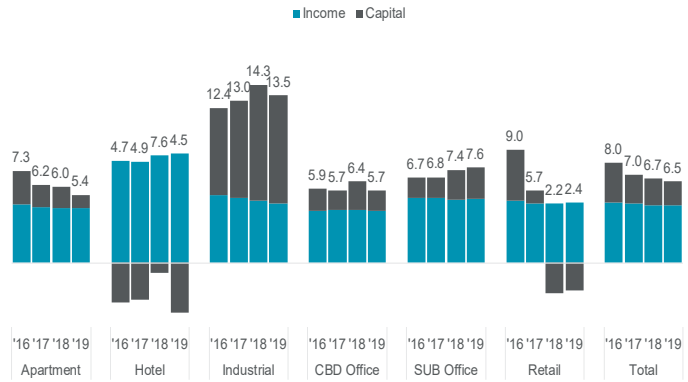
2019 YTD VS. 2018 (% CHANGE)



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

suburban office gains (+3.0%) contracted just as sharply.

NCREIF NPI TOTAL RETURNS
PERCENT (%)



Source: NCREIF, Cushman & Wakefield Research
Note: 2019 refers to the first three quarters 2019 annualized

The NCREIF National Property Index (NPI) recorded an annualized total return of 5.8% in the third quarter of 2019, bringing the YTD total return to 6.5% (annualized)—in line with the 6.7% achieved in CY 2018. Industrial (+13.5% YTD ann.) continued to outperform other product types YTD followed by suburban office (+7.6%). Apartment returns decelerated to 5.4% YTD compared to 6.0% in CY 2018. Retail returns (+2.4%) remain positive but lackluster. Neighborhood centers (+4.9%) delivered the strongest returns. Regional (-1.5% to +1.3%) and Super-regional (0.6% to 2.8%) center returns have experienced the greatest acceleration compared to CY 2018.

2019 Likely to Match 2018 Performance

- Liquidity is likely to accelerate in the fourth quarter of 2019, supported by 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. There is an upside risk that recent stronger public and institutional acquisition activity will persist. Foreign capital flows could reverse their recent decline, 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 are likely to 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. New fundraising will moderate amid record dry powder and increasing difficulty in deploying assets.

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