Newmark Knight Frank

1Q20

UNITED STATES **CAPITAL MARKETS REPORT**

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MARKET OBSERVATIONS

WHAT WE KNOW

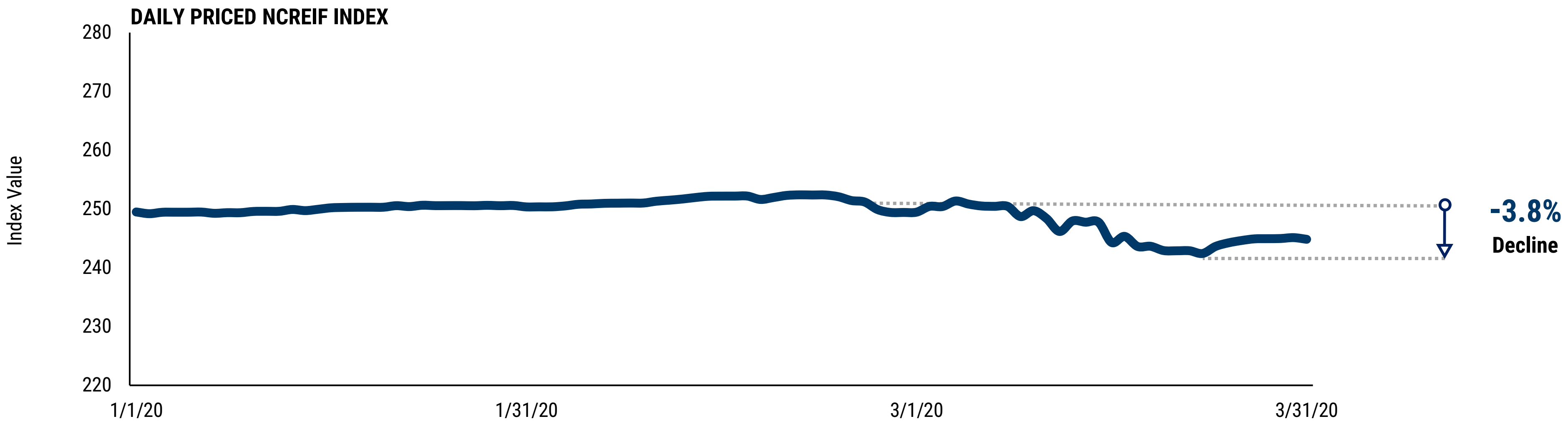
- ☑ The initial impact of the Covid-19 on investment volume across all property types was first captured in March, but the full effect will not be seen until April, May and June. On the investment sales side, March volume declined 39.6% while financing volume declined 42.5% month-over-month for all property types.
- ☑ Market pricing discovery remains limited, for all property types. Apart from landlords in distress, or those with pressing reasons to sell, most landlords are taking a "wait and see" approach for the duration of the initial phase of the crisis.
- ☑ Commercial real estate investors have gotten clues from the stock market, via REIT pricing, on which property types the market deems to be most vulnerable: these include hospitality, retail and healthcare real estate. However, within these macro property types, specific markets and subtypes will provide greater value protection than others.
- ☑ Similarly, the stock market has deemed data centers, self storage and industrial as the least vulnerable property types, with office and multifamily having above average protection. As with the lowest performing REITs, market and tenant exposure are the most important current data points.
- ☑ April rent collection data from from NAREIT was more positive than expected and resulted in the following percentages of rent collected: 99.2% for industrial, 93.5% for multifamily, 89.3% for office, 85.7% for healthcare, and finally 46.2% for shopping centers.
- ☑ There are very few indications of structural damage to the economy so far – the nature of loan forbearance for lenders such as Fannie & Freddie, as well as the structure of the CARES act incentivize temporary furloughs and rent forgiveness, providing a cushion-period for large swaths of the economy.

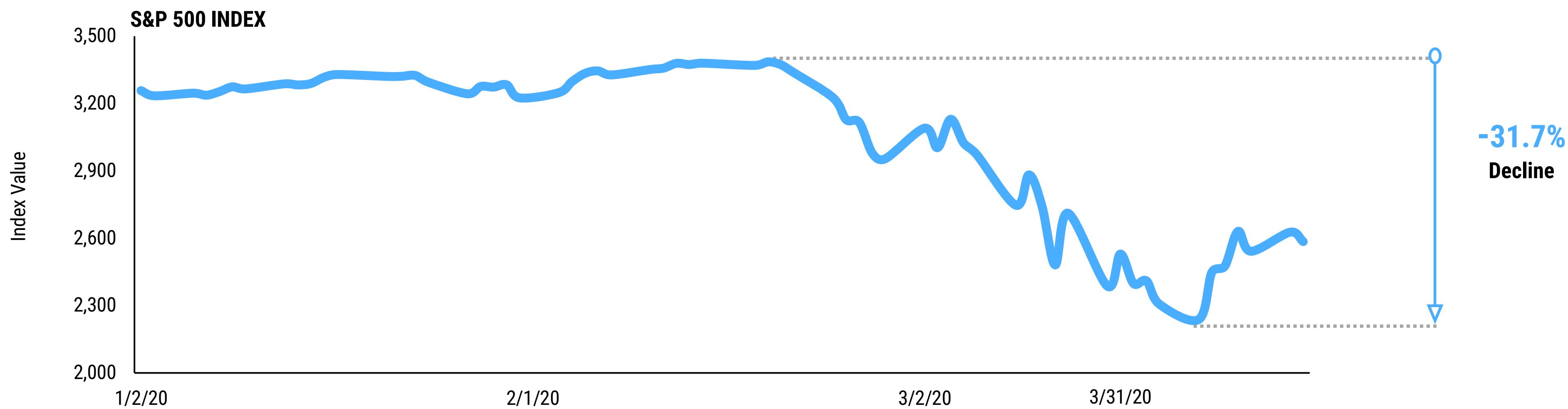
WHAT WE EXPECT

- ☐ As in past recessions caused by various internal and external factors, core product in both gateway and select secondary markets will retain its value more and recover to peak pricing faster than all other segments.
- ☐ Various large fund managers remain ready to take advantage of market opportunities in all property types and, in particular, are searching for opportunities where pricing has become severely dislocated from long-term value.
- ☐ While the CMBS market has come to a stand-still in the short-term, various lenders remain active, including local banks and private debt funds. While lending will be made on a loan-to-loan basis, leverage across all property types is expected to decline from the pre-Covid period.
- ☐ Property performance 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.

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

While the full impact of Covid-19 will not appear in the data until 2Q20, the daily priced NCREIF Index captured the initial impact, declining on February 24th, and hitting a trough on March 23rd. While closely mirroring the movement of the S&P 500, the decline was much less severe for NCREIF as commercial real estate is a lagging economic indicator, due to the nature of leases and rent collections.

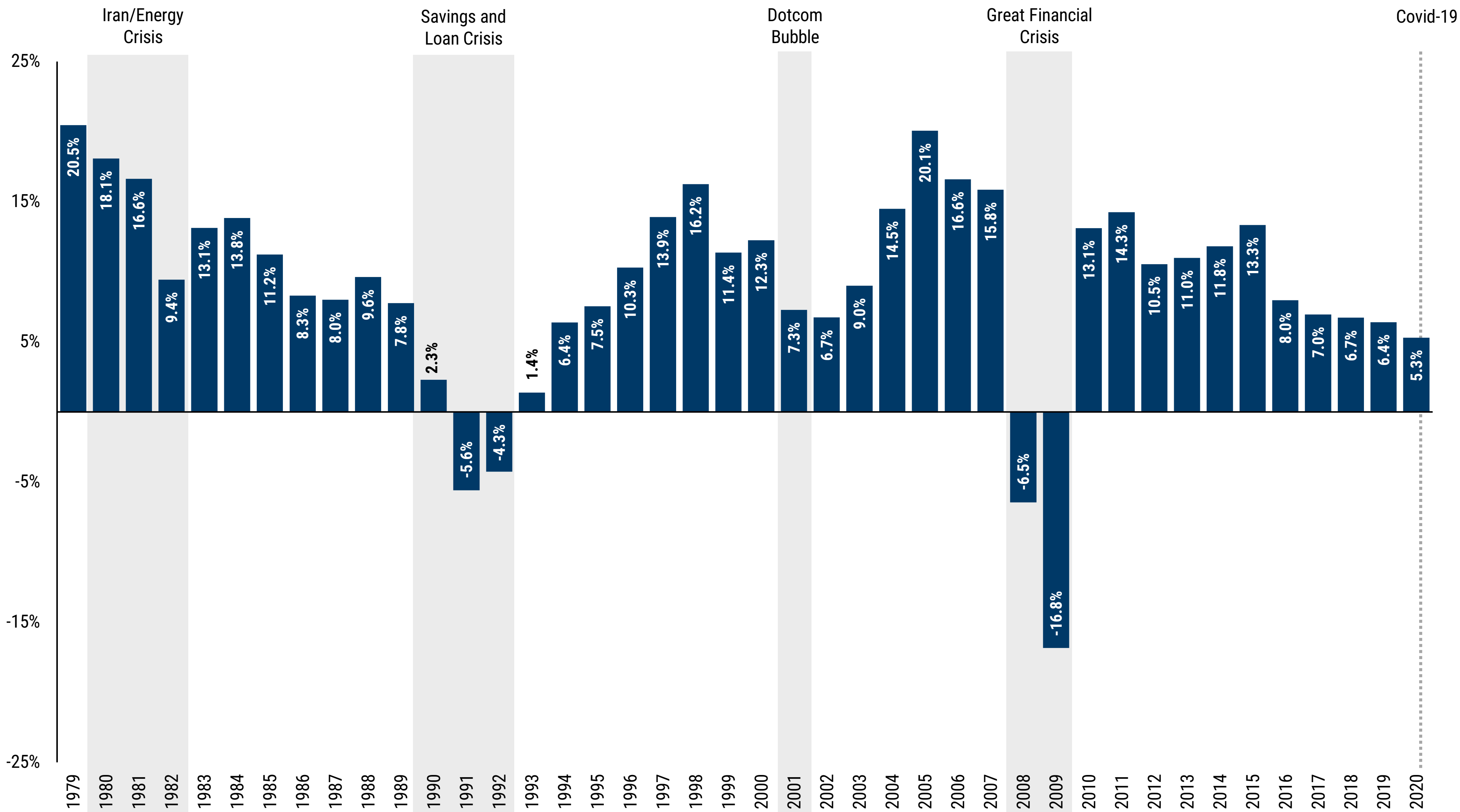




Source: NKF Research, NCREIF, FRED

REAL ESTATE RETURNS IN THE LONG TERM

Annualized total returns compressed to 5.3% in 1Q20 and are expected to decline further in 2Q20. While commercial real estate has been impacted by downturns, it ultimately has outperformed equities in the long term – over a 20-year period, annualized returns for NCREIF were 8.64% versus 4.78% over the same time period for the S&P 500.



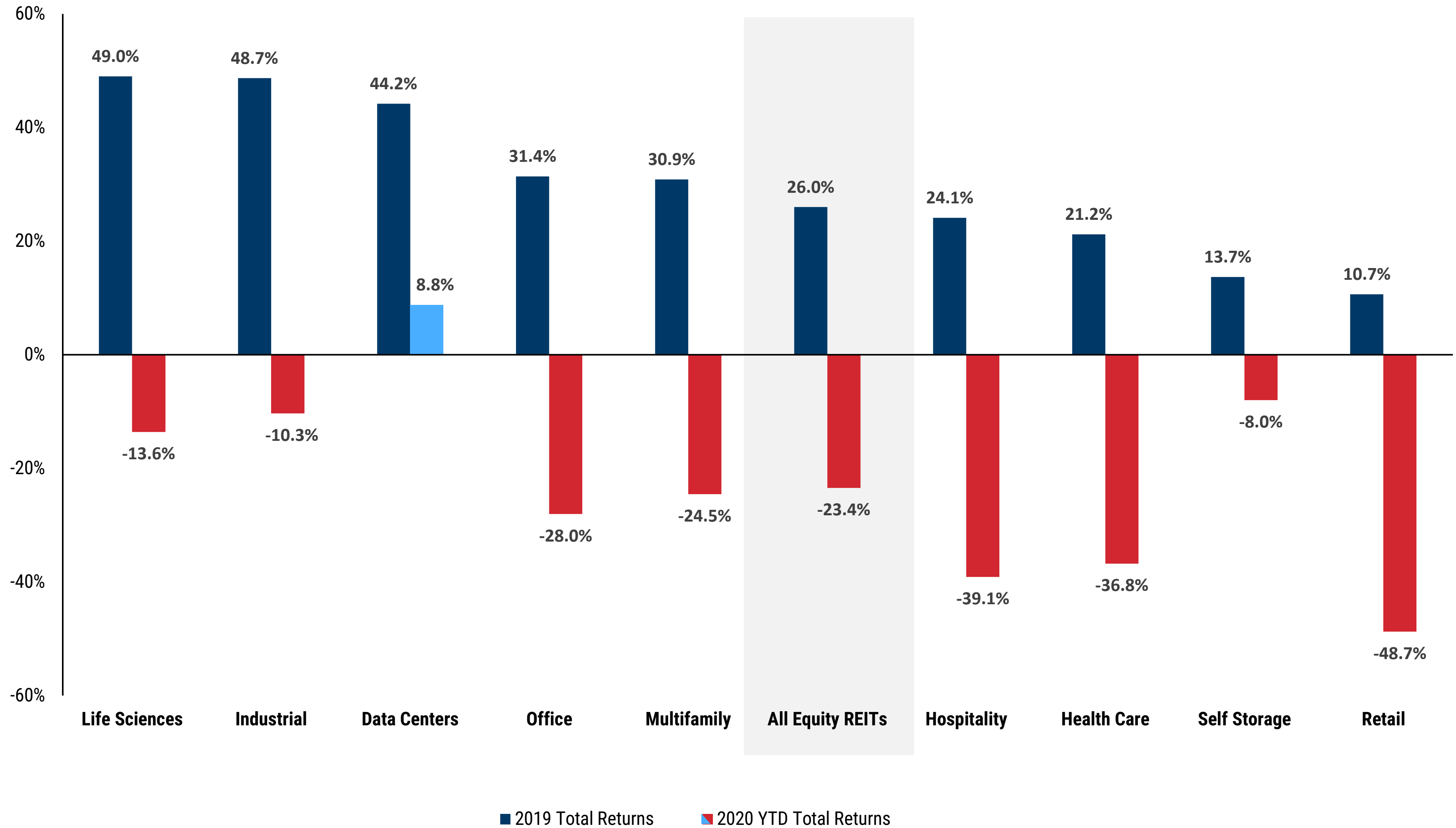
*Grey boxes indicate recession years

Source: NKF Research, NCREIF

REIT PERFORMANCE BY PROPERTY TYPE

TOTAL RETURNS; 2019-2020 YTD

Data centers were the only REIT category with positive total returns in both 2019 and 2020, and consequently are expected to be the least vulnerable property type to Covid-19. Life sciences and industrial, which were the best performing property types in 2019, are also expected to be among the most resilient product types, with both achieving net positive total returns of over 35% in 2019-2020.

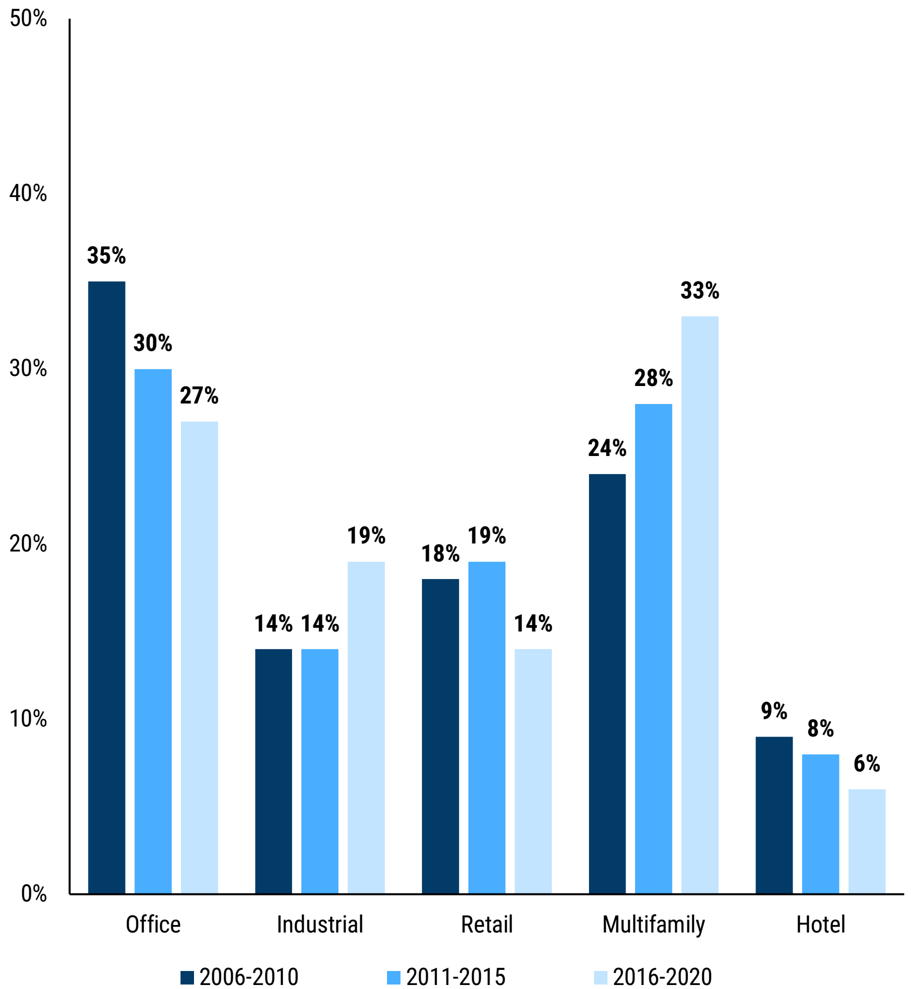


Source: NKF Research, NAREIT

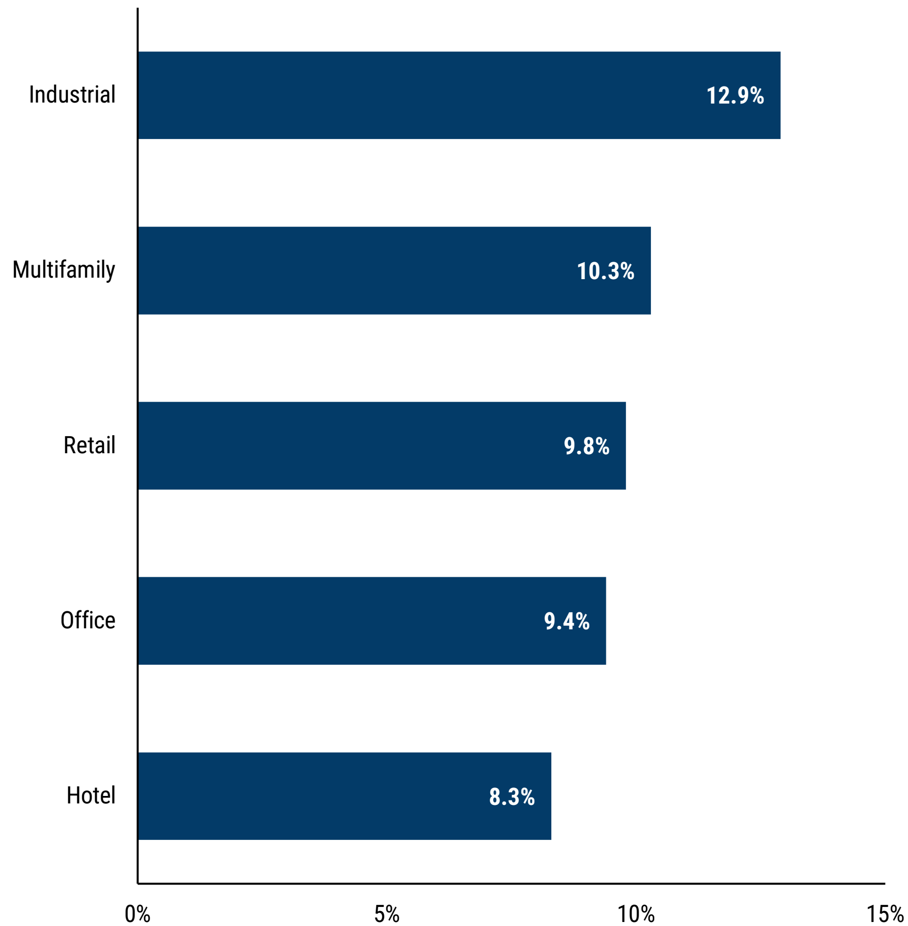
INVESTOR ALLOCATION OVER TIME

In the five-year period leading up to Covid, investors notably increased their allocations toward both multifamily and industrial assets, attracted by higher risk-adjusted returns and favorable macroeconomic tailwinds. This trend is expected to continue, with both types more resilient to both the economic damage and changes in tastes and preferences of consumers that may result from the current crisis.

ALLOCATION OF CAPITAL OVER TIME



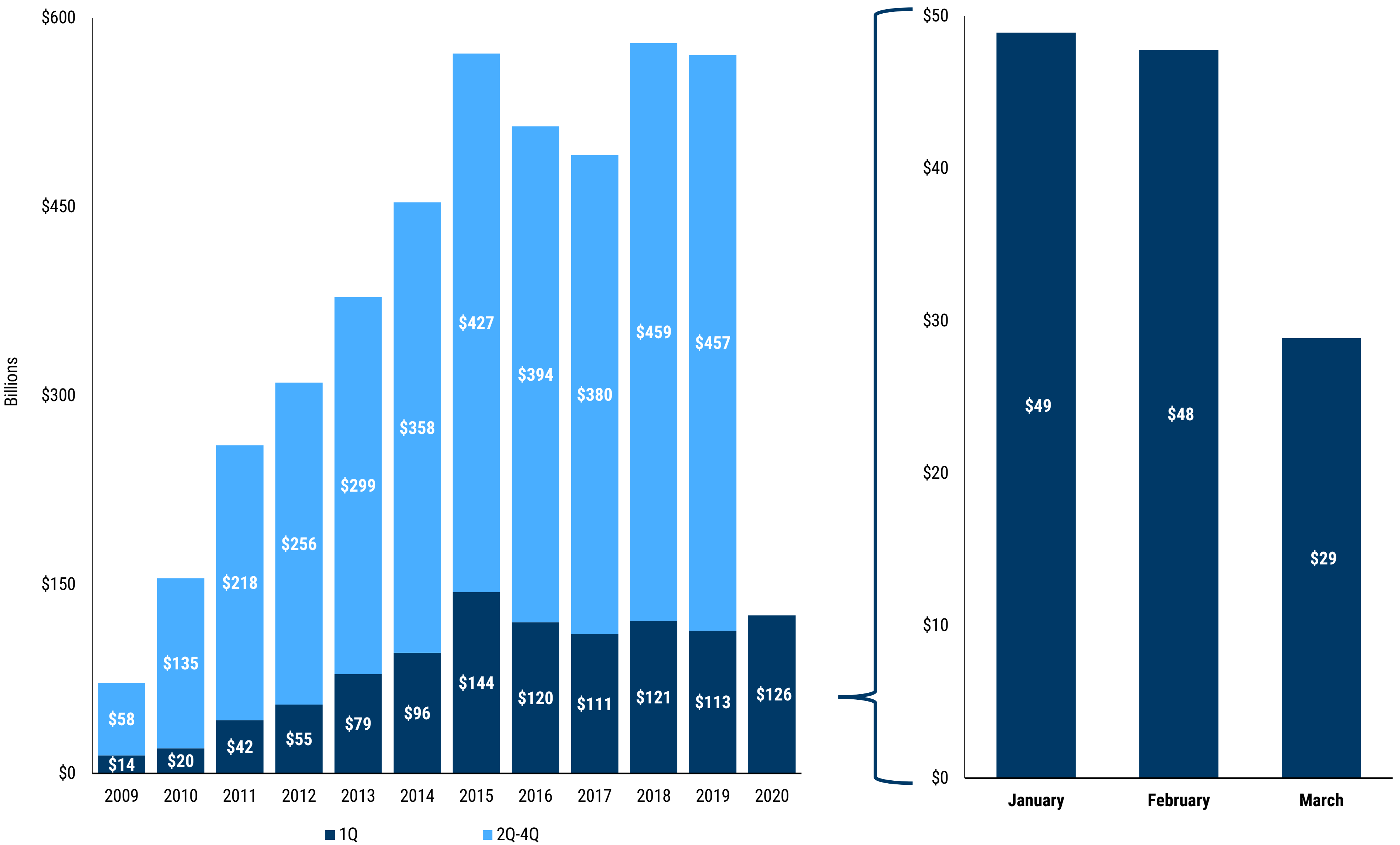
10-YEAR AVERAGE ANNUAL TOTAL RETURNS



Source: NKF Research, Real Capital Analytics, NCREIF

UNITED STATES TOTAL SALES VOLUME

The initial impact of Covid-19 on sales volume was severe, with volume declining 39.6% in the month of March, with an even deeper decline expected in April. Many investors are engaging in a "wait and see" approach, anticipating a clearer understanding of asset prices once the initial phase of the crisis passes.

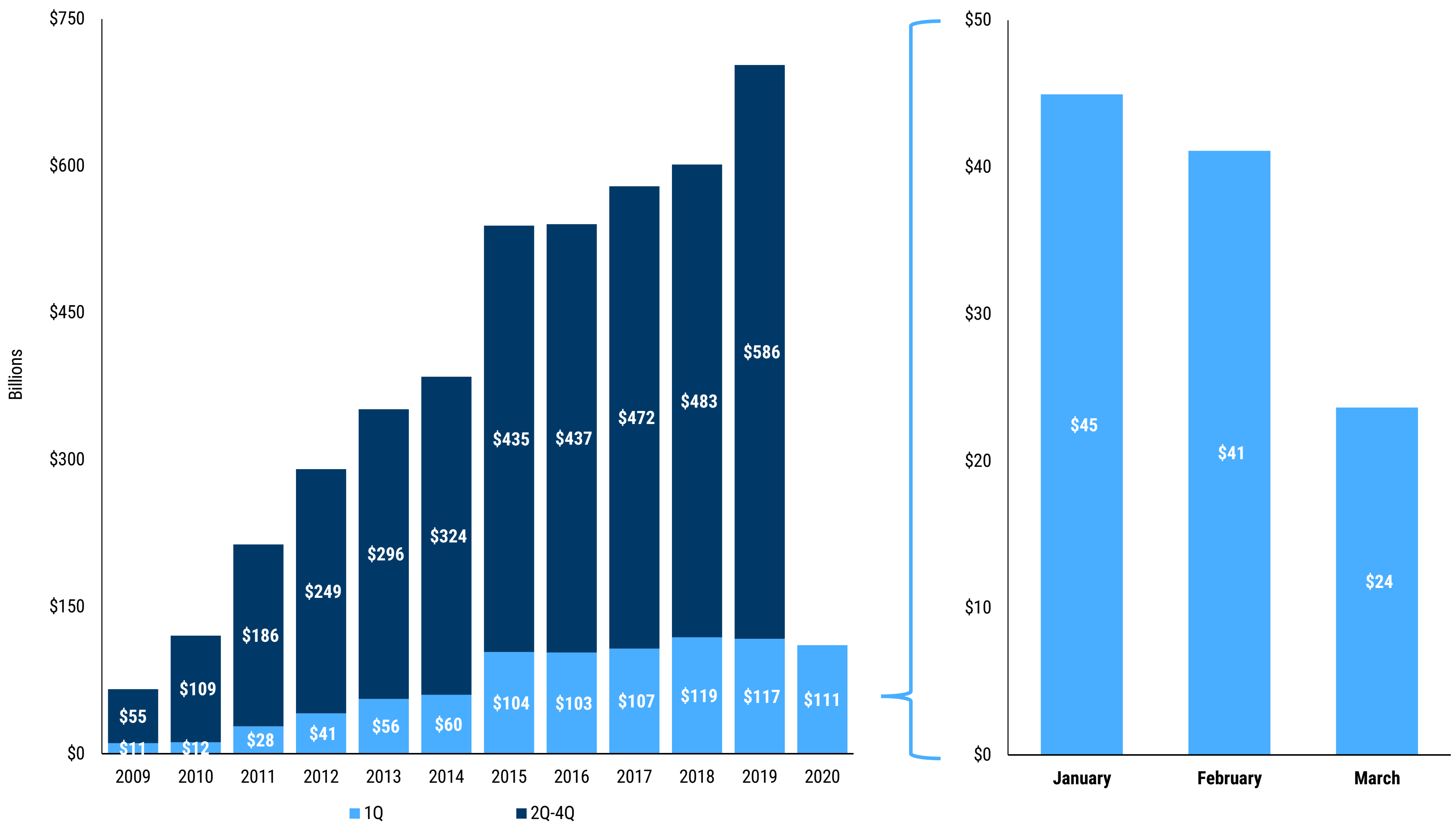


Source: NKF Research, Real Capital Analytics

UNITED STATES TOTAL FINANCING ACTIVITY

ACQUISITION, CONSTRUCTION, AND REFINANCING

Financing slowed to an estimated $24 billion in March, with a further decline expected in April. While cautious in the short term, some lenders continue to lend on top-quality industrial, office, and multifamily assets in established markets, albeit with lower leverage than in the pre-Covid period. Many would-be sellers are expected to pivot toward refinancing in order to hold assets for longer.

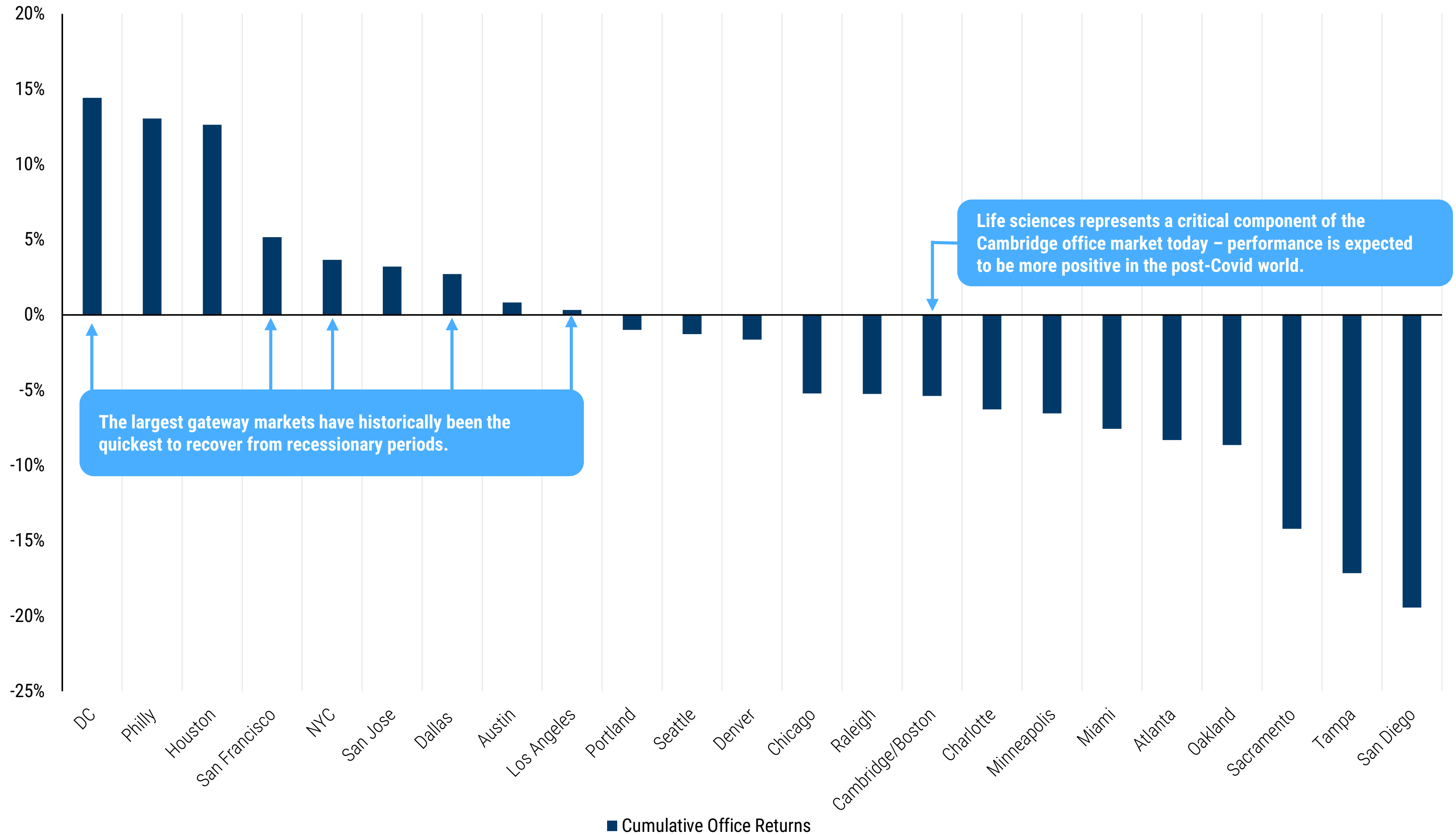


Source: NKF Research, Real Capital Analytics

GLOBAL FINANCIAL CRISIS: OFFICE TOTAL RETURNS

2008-2011 (DOWNTURN-IMMEDIATE RECOVERY)

While Covid-19's impact on CRE will be unique, the global financial crisis offers a perspective on various office markets and how they performed both during and immediately after severe economic distress. Office markets such as DC or Philly, while not the highest growth markets in a good economic climate, are supported by the federal government, medical and education services tenants, all of which are "essential" and will continue to operate throughout any crisis.

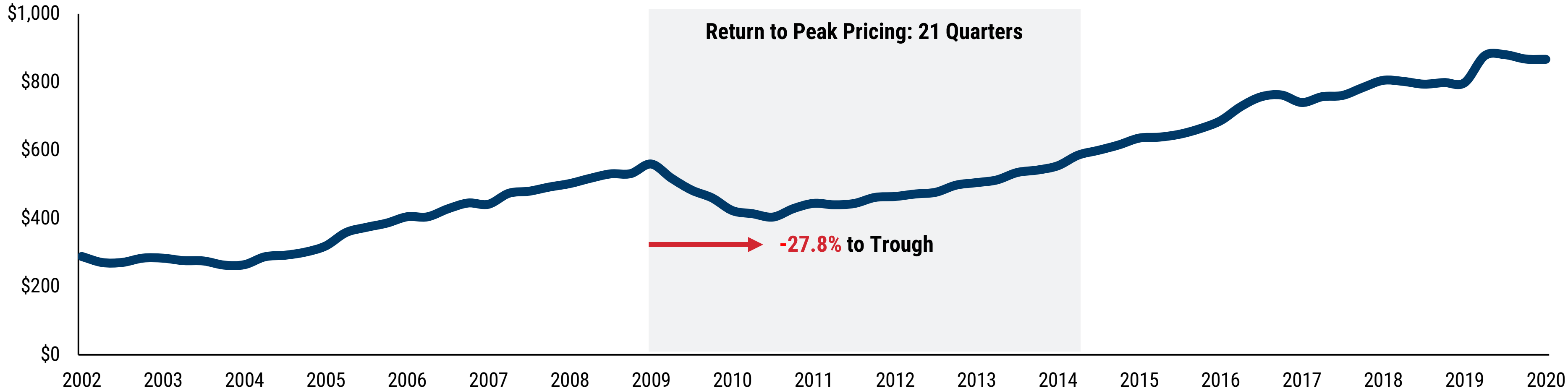


Source: NKF Research, NCREIF

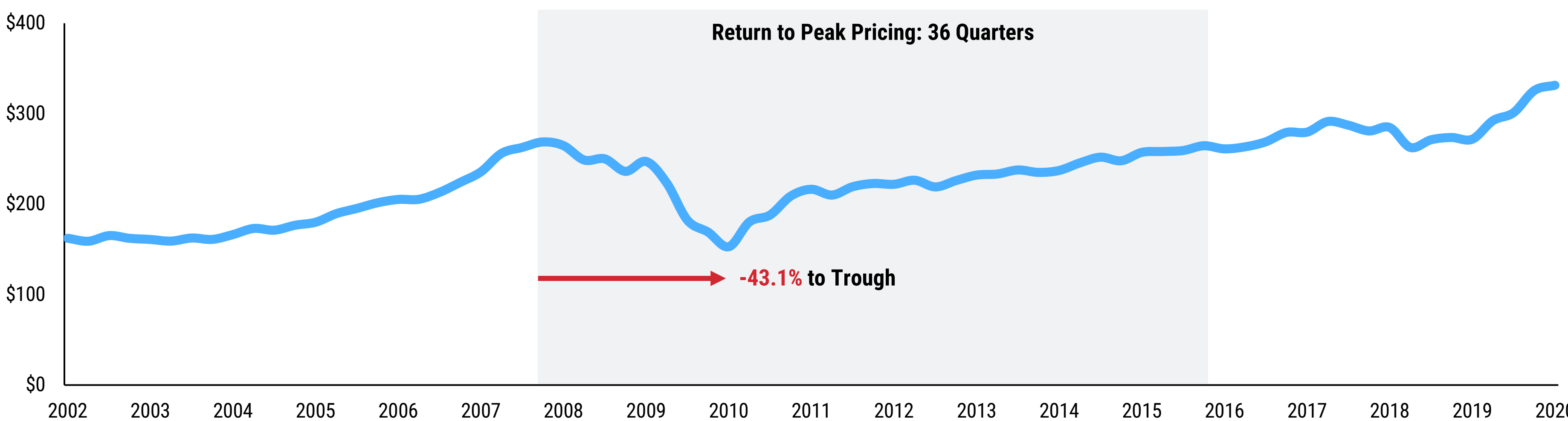
RESILIENCE OF CORE URBAN OFFICE

Core gateway office markets offer the most liquidity in all economic environments and provide substantial value protection in recessionary periods. In the global financial crisis, the core CBD office markets not only recovered to peak pricing in nearly half the time of all office market pricing, but gateway office pricing was far more insulated, declining by 27.8% versus 43.1% for all office on average.

CORE GATEWAY OFFICE* PRICING



ALL OFFICE AVERAGE PRICING



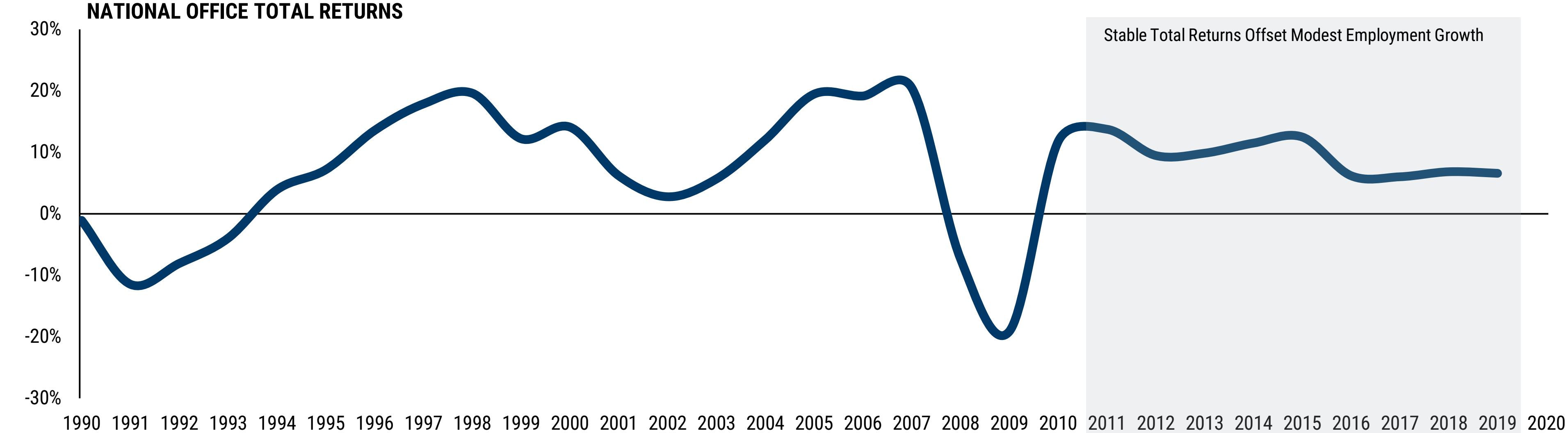
*CBD only: San Francisco, DC, Boston, Manhattan, Seattle, Los Angeles

Source: NKF Research, Real Capital Analytics

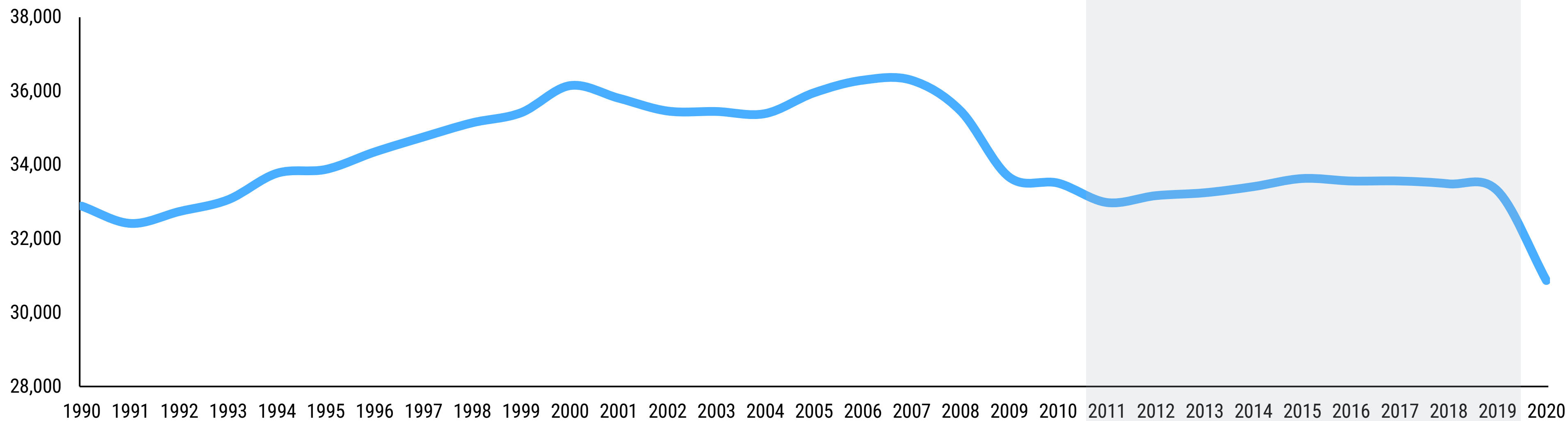
OFFICE-USING EMPLOYMENT VS. OFFICE TOTAL RETURNS

A decline in office-using employment following the great recession was the result of significant structural shifts in the economy. Mirroring this shift, office total returns recovered but did not hit their pre-GFC peak, achieved in 2007. However, office returns remained relatively stable and positive following 2010, averaging 9.5%, with particular strength from technology-centric markets.

NATIONAL OFFICE TOTAL RETURNS



NATIONAL OFFICE-USING EMPLOYMENT



Source: NKF Research, Real Capital Analytics, FRED

TOP TRANSACTIONS

1Q20; ALL PROPERTY TYPES; UNITED STATES

SINGLE ASSET TRADES

Top Transactions	
Property	**$ Price**
150 East 42nd Street (Minority Stake) New York, New York Office Buyer: Confidential	**$1.1 B**
Former Lord & Taylor Building New York, New York Office Buyer: Amazon	**$1.1 B**
Mandalay Bay Resort & Casino (Minority Stake) Las Vegas, Nevada Office Buyer: BREIT	**$1.0 B**
330 Madison Avenue New York, New York Office Buyer: Munich RE	**$900 M**
Southeast Federal Center Washington, D.C. Office Buyer: GSA - Public Building Service	**$760 M**

PORTFOLIO TRADES

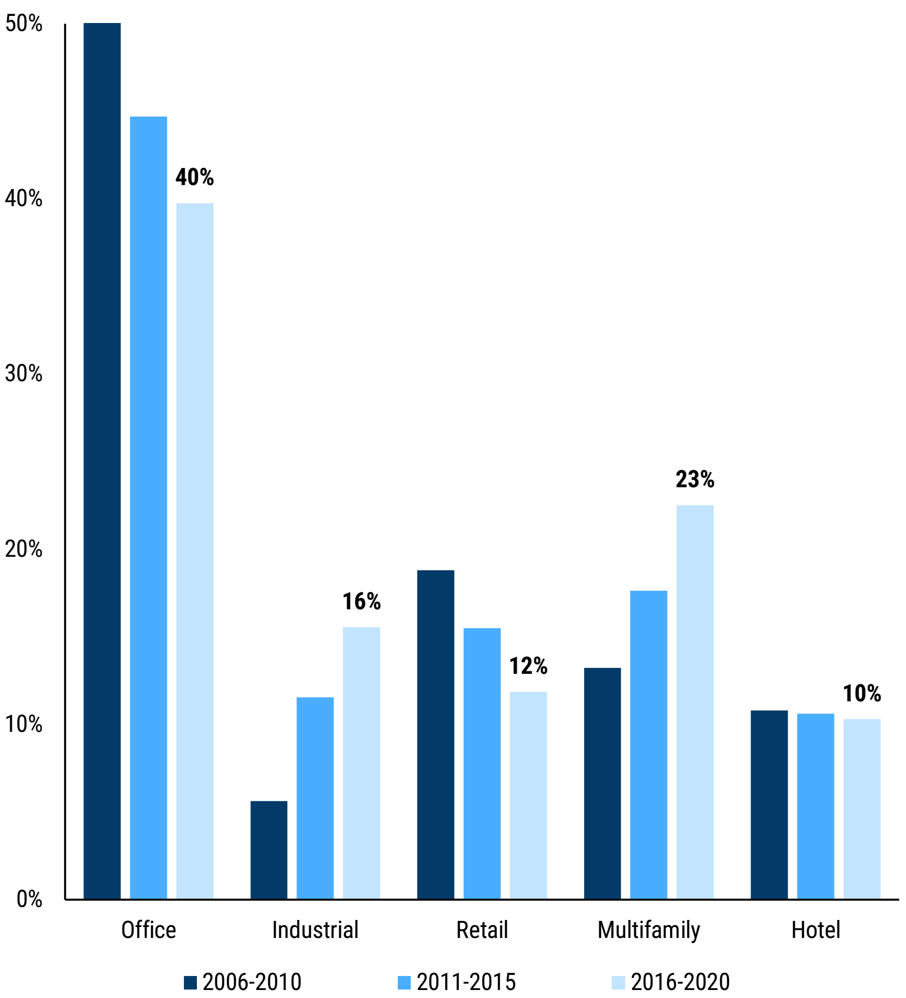
Top Transactions	
Property	**$ Price**
MGM Resorts Portfolio 2 Properties Hospitality Buyer: BREIT	**$2.1 B**
Aragon Portfolio 13,243 Units Multifamily Buyer: Harbor Group International	**$1.9 B**
Garden Apartment Portfolio 7,353 Units Multifamily Buyer: Blackstone	**$1.5 B**
National Industrial Portfolio 26 Properties Industrial Buyer: WPT Industrial REIT	**$730 M**
National Net Lease Portfolio (Majority Stake) 18 Properties Office/Industrial Buyer: Guggenheim Partners	**$675 M**

Source: NKF Research, Real Capital Analytics

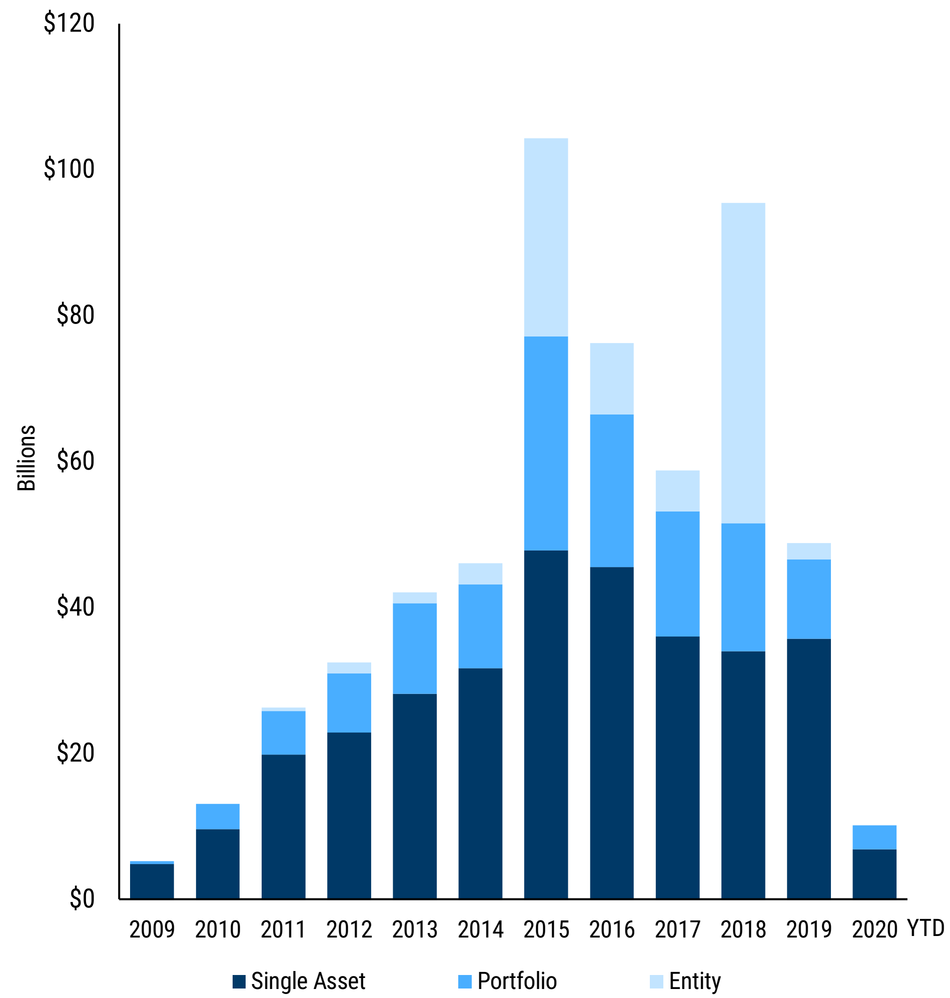
COMPOSITION OF INTERNATIONAL CAPITAL

Opportunistic international capital is tied to each individual country's experience with the Covid-19 virus, and the severity of economic shock locally. Mirroring changes in allocations of capital by domestic funds, direct investment by international groups pivoted toward multifamily and industrial properties in the past five years, a trend that is expected to continue in the post-Covid world.

ALLOCATION OF CAPITAL OVER TIME



SALES VOLUME BY TRANSACTION TYPE



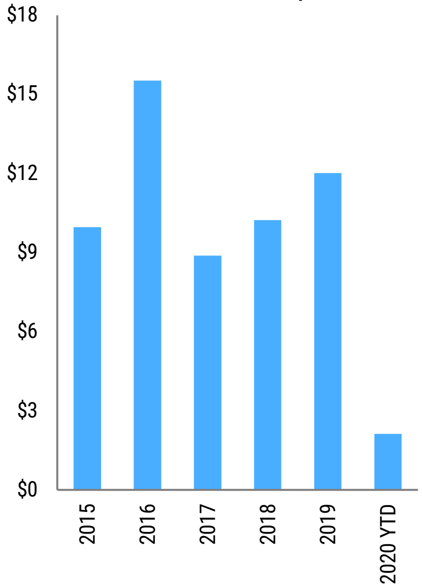
Source: NKF Research, Real Capital Analytics

SUBTYPES & SPECIALTY ASSETS TO WATCH

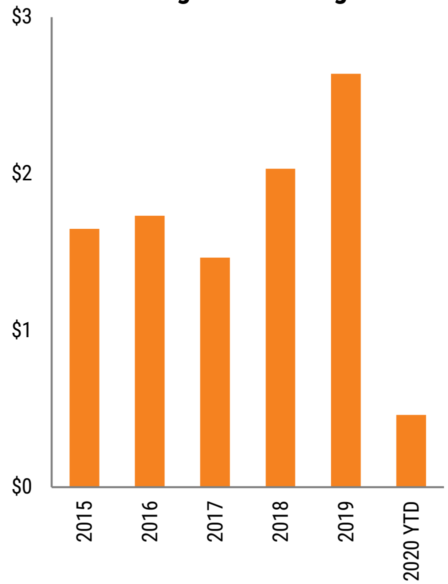
UNITED STATES; DOLLARS IN BILLIONS

Life sciences/R&D real estate was highly desired prior to Covid-19 with the largest institutional groups like Blackstone allocating large amounts of capital to the space. This trend will continue, particularly as pharmaceutical and bio-tech remain on the front lines. Grocery anchored retail, and refrigerated storage for grocery logistics, are critical components of the food supply chain.

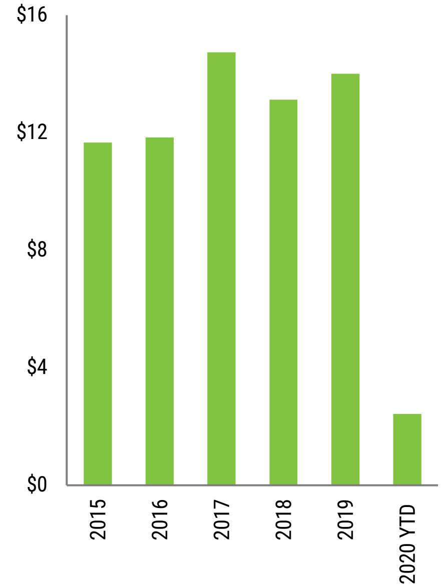
Life Sciences/R&D



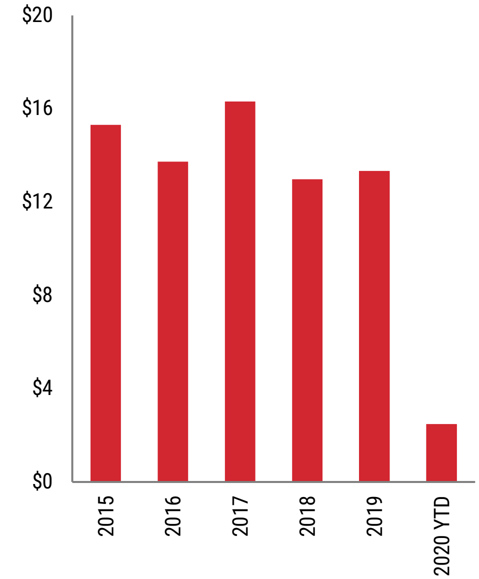
Refrigerated Storage



Medical Office



Grocery-Anchored Retail



Top Buyers 2019-2020

Group	Millions ($)	Group	Millions ($)	Group	Millions ($)	Group	Millions ($)
Bulfinch Cos	$1,146	Bay Grove Capital	$890	Welltower	$2,311	Cardinal Capital (JV)	$627
Harrison Street	$1,008	Exeter	$200	MB Real Estate	$889	Fortress (JV)	$627
Longfellow RE Partners	$917	Americold REIT	$138	Invesco	$727	First Washington Realty	$471

Top Owners

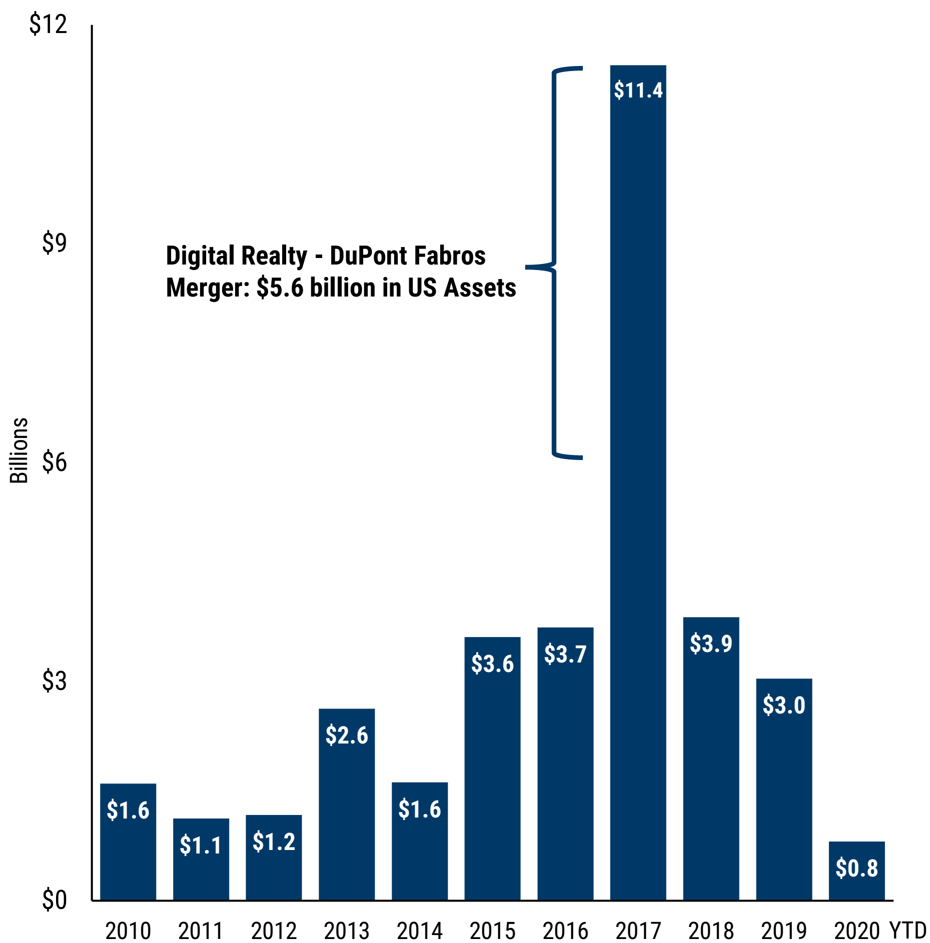
Group	Square Feet	Group	Square Feet	Group	Square Feet	Group	Square Feet
Alexandria	16,526,918	Yucaipa Cos	27,513,246	HTA (REIT)	20,078,112	Regency Centers	33,737,426
Blackstone	13,730,284	Bay Grove Capital	23,917,170	Welltower	17,996,804	Brixmor	30,891,835
Healthpeak Properties	9,031,972	Americold (non-REIT)	10,928,657	Physicians Realty Trust	16,287,540	Kimco	20,805,910

Source: NKF Research, Real Capital Analytics

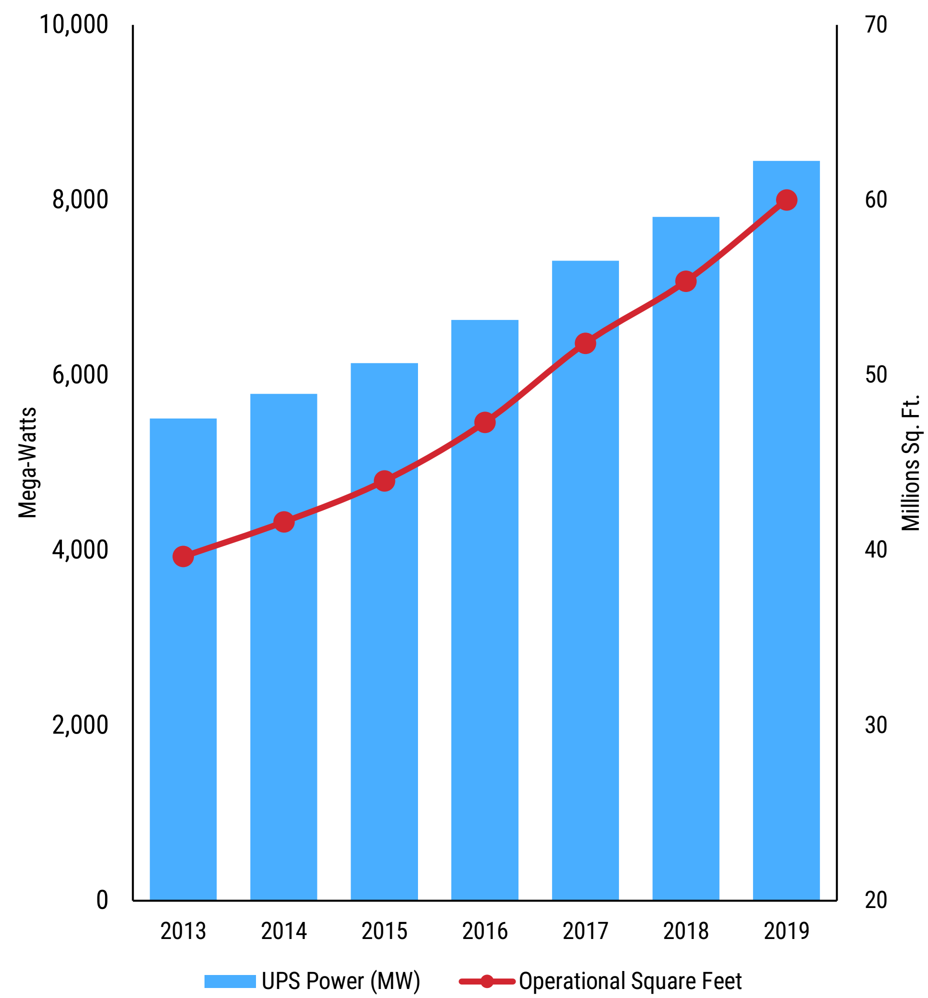
DATA CENTER DEMAND

The data center space has been predominately composed of REITs as well as major technology companies, who have become owner-users. However, the rise of tele-medicine, tele-education, and tele-business in the Covid-19 crisis is expected to attract institutional groups looking for secular growth opportunities. Power capacity has surged by 53.4% since 2013 to nearly 8500 Megawatts, yet increased cloud adoption and use of online services represent a continued demand driver for the industry.

DATA CENTER INVESTMENT SALES



NATIONAL DATA CENTER SUPPLY

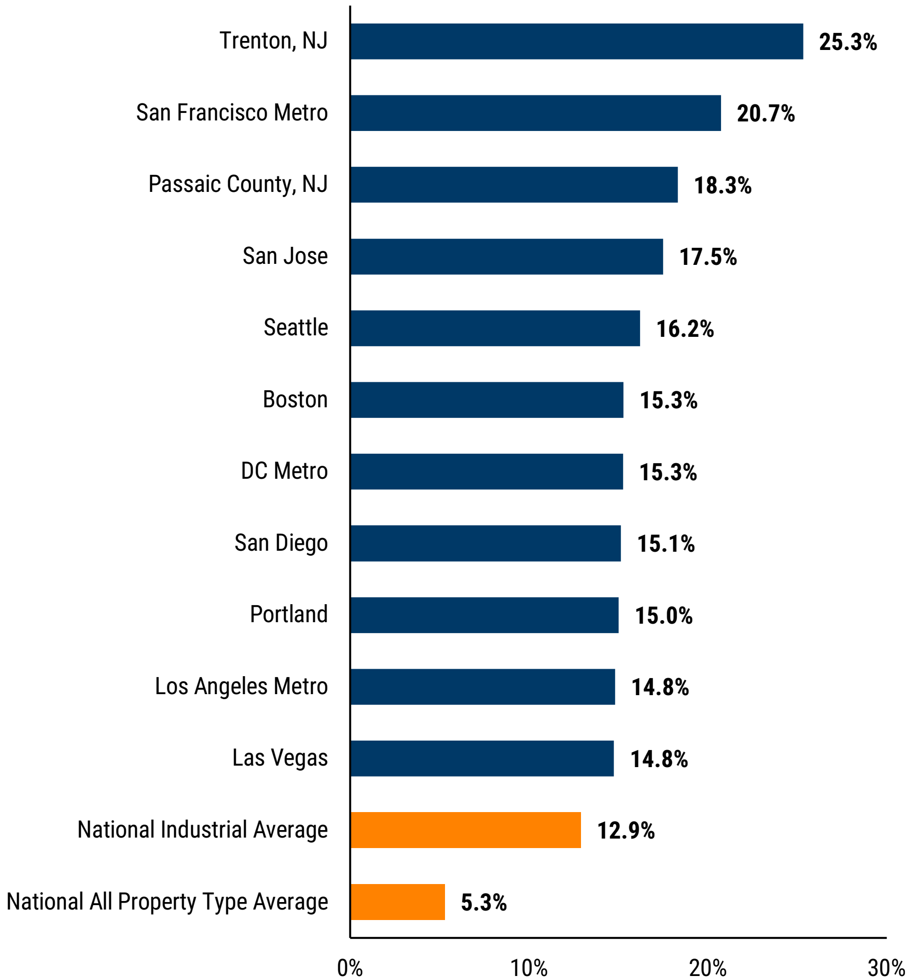


Source: NKF Research, Real Capital Analytics, 451 Research

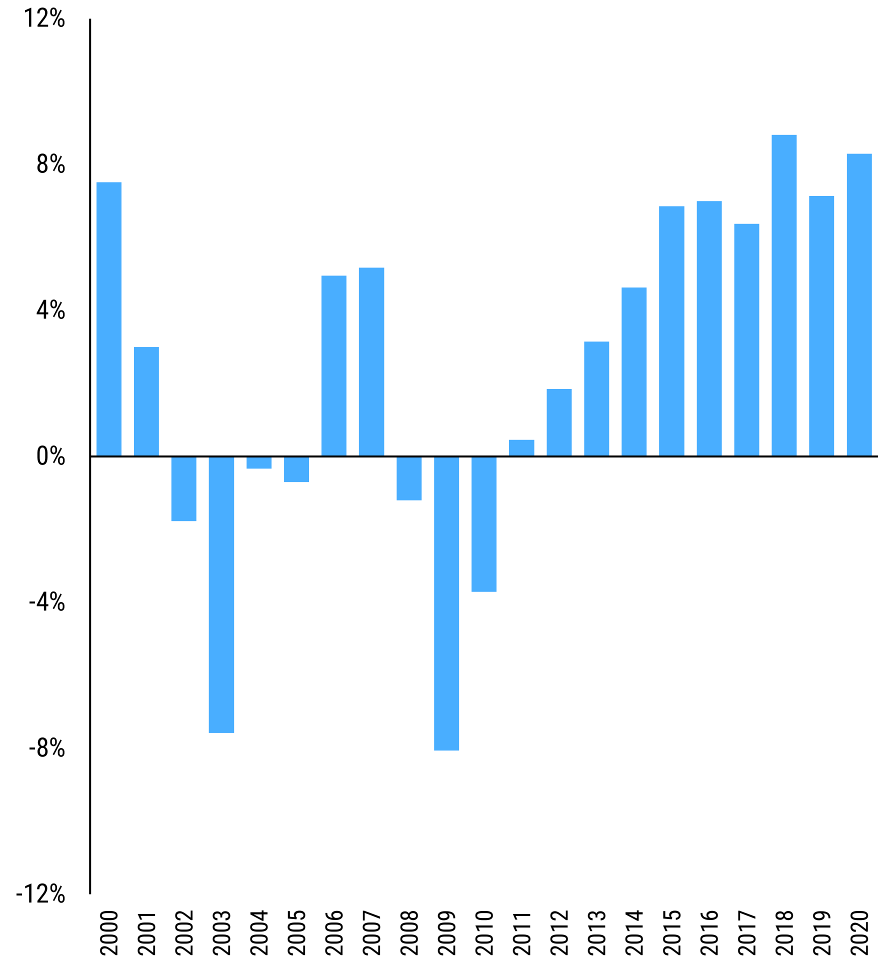
INDUSTRIAL WAREHOUSE

Logistics product, particularly in the metro areas of the gateway markets, recorded the highest total returns in real estate in 2020. Bolstered by demand from large e-commerce and logistics tenants for space in the "last mile" of the supply chain, the once-REIT dominated space has witnessed expanded interest from institutional groups both foreign and domestic. While future NOI and rental growth will not be completely immune to Covid-19, pricing is expected to remain resilient.

1Q20 ANNUALIZED TOTAL RETURNS, SELECT MARKETS



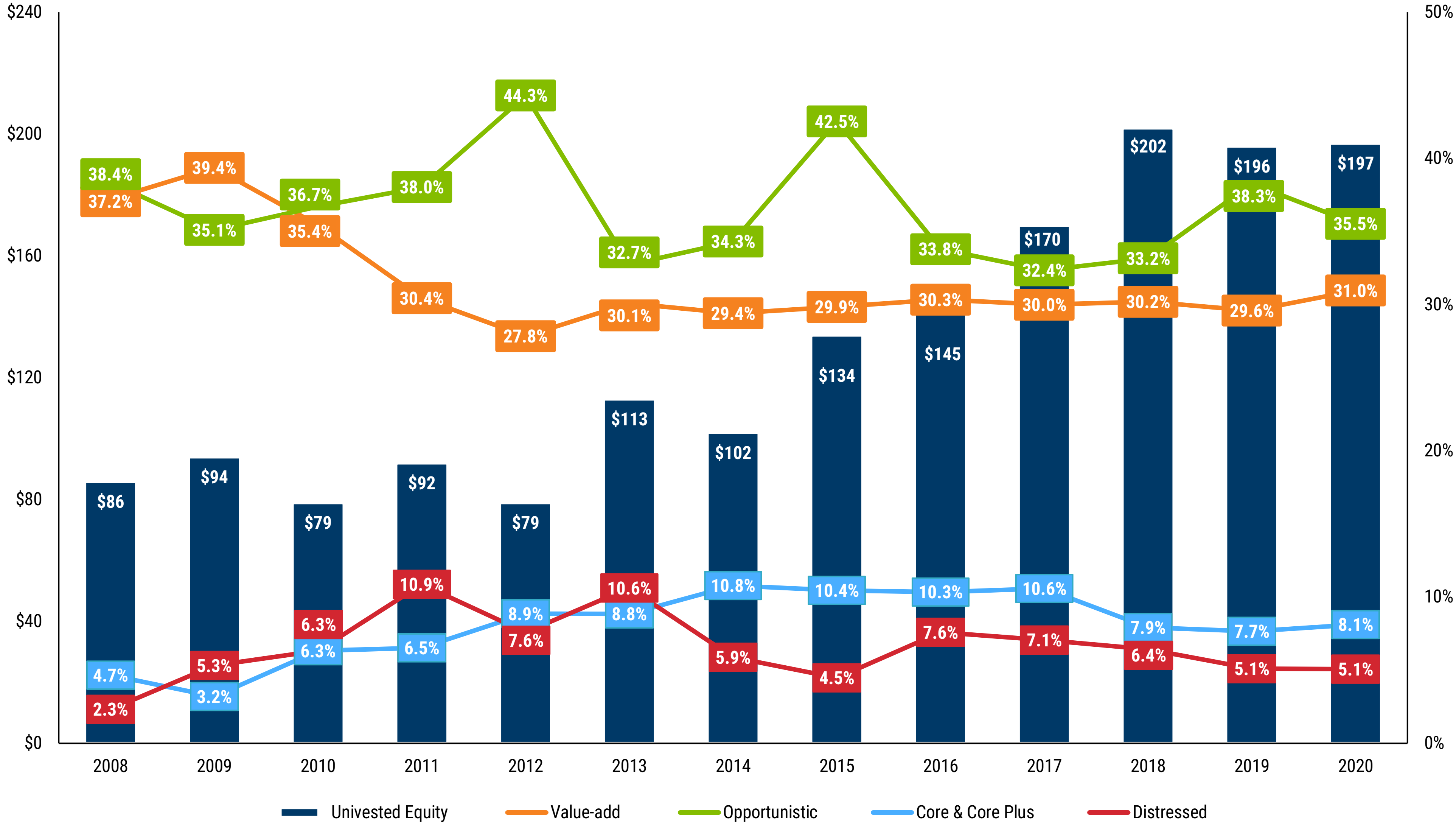
ANNUAL NOI GROWTH



Source: NKF Research, NCREIF

DRY POWDER

Uninvested capital accumulated by North American focused funds remains at pre-Covid-19 crisis levels, increasing slightly to $197 billion in the first quarter of 2020. Dry powder allocated to core and core plus strategies increased to 8.1% of the total, while dry powder for distressed funds has not increased so far.

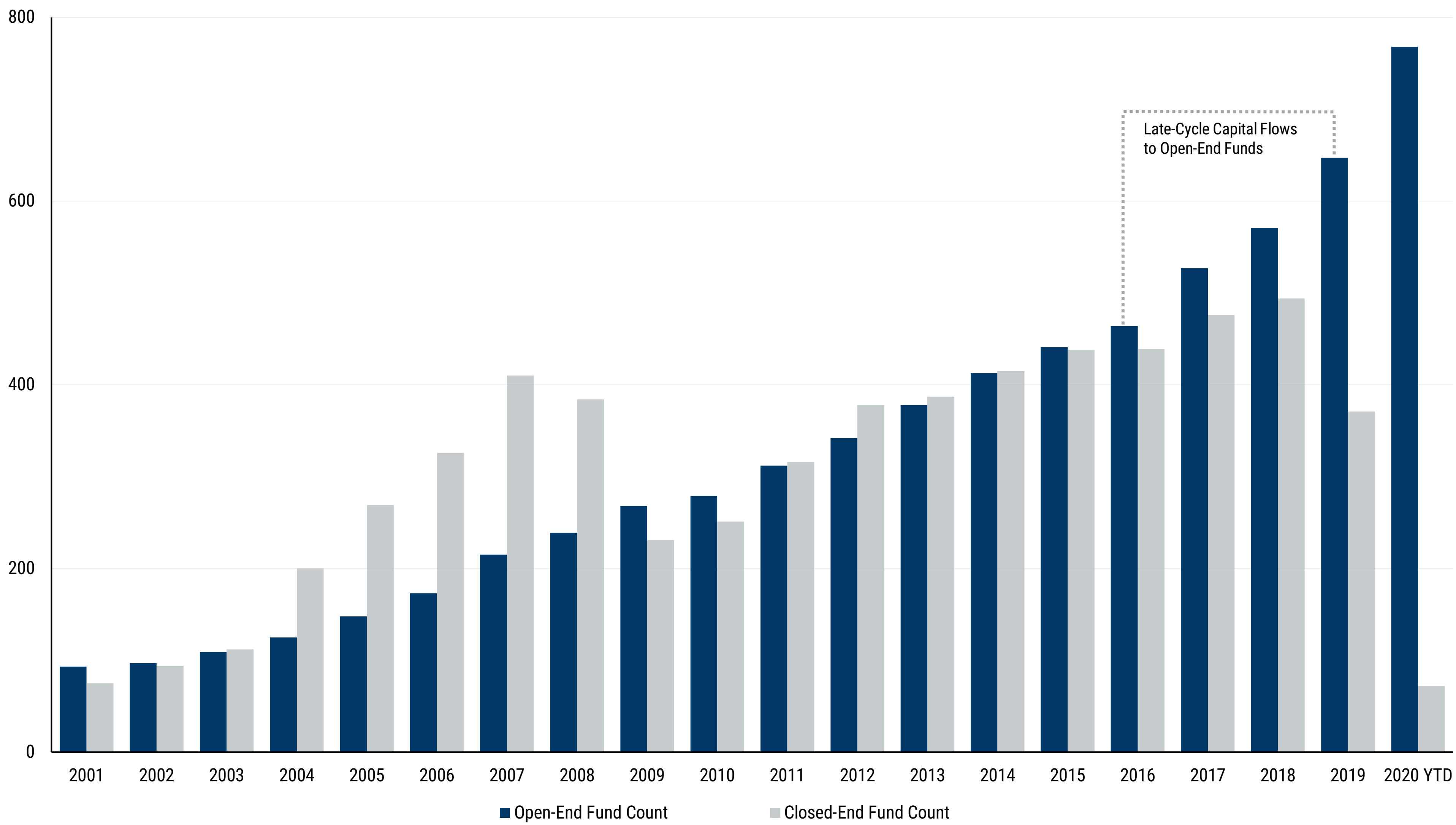


Note: Excluding Debt Funds

Source: NKF Research, Preqin

OPEN-END VS. CLOSED-END FUNDS

As the Covid crisis deepens, fund redemptions will become a more critical concern for existing open-end funds as opposed to closed-end funds which are less liquid and have lockout periods for investors that offer greater capital protection. The global financial crisis modified the expectations of investors, with many favoring "liquidity" that open-end funds theoretically provide.

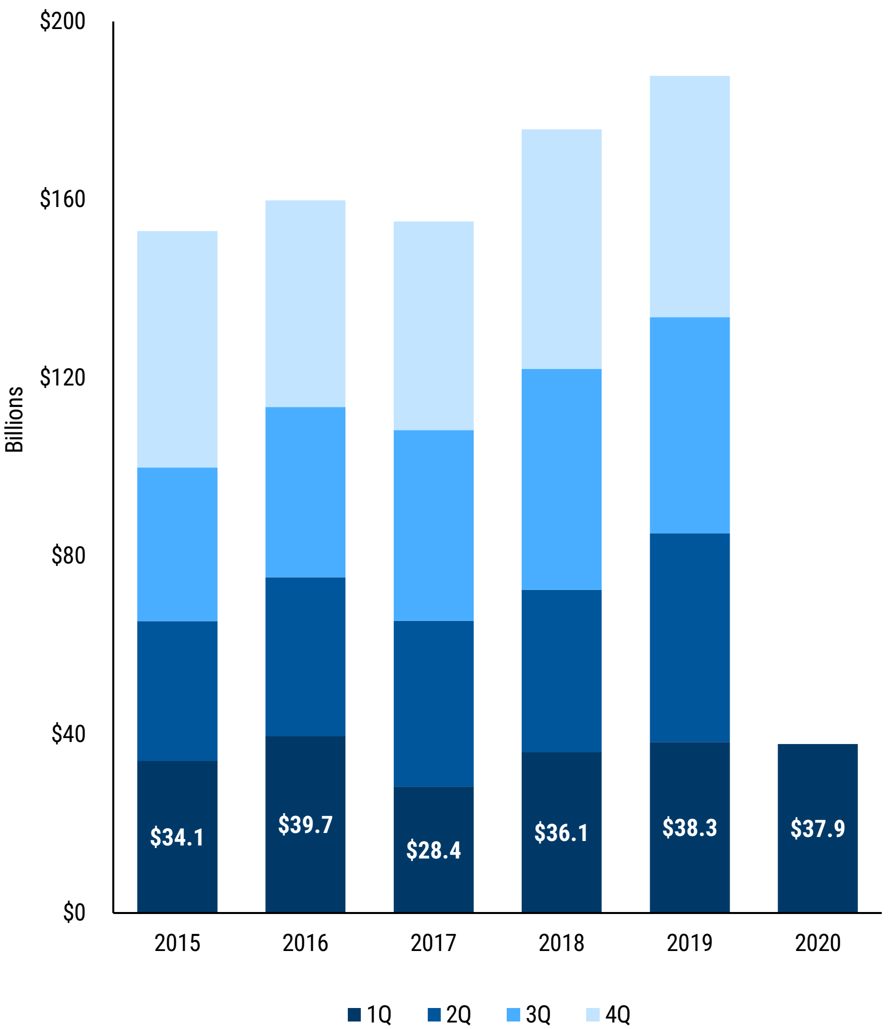


Source: NKF Research, Preqin

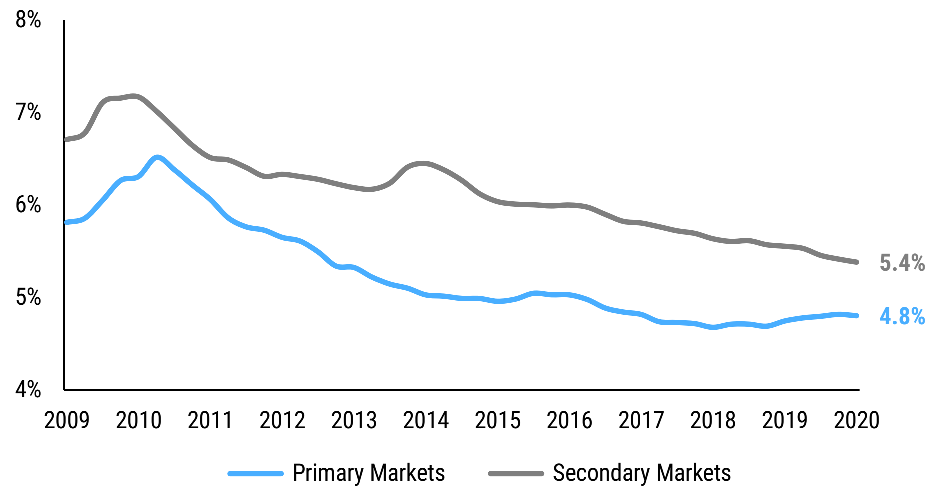
MULTIFAMILY DASHBOARD

Multifamily investment sales volume declined by 1.0% year-over-year, to $37.9 billion as Covid severely impacted March deal volume. As a whole, multifamily is expected to be one of the more defensive property types. Per NMHC, April rent collections through the first three weeks were higher than anticipated, signaling that the fundamentals have not yet been drastically impacted. The loan forbearance period granted to landlords by the GSEs should also help alleviate the shorter-term impact of the crisis.

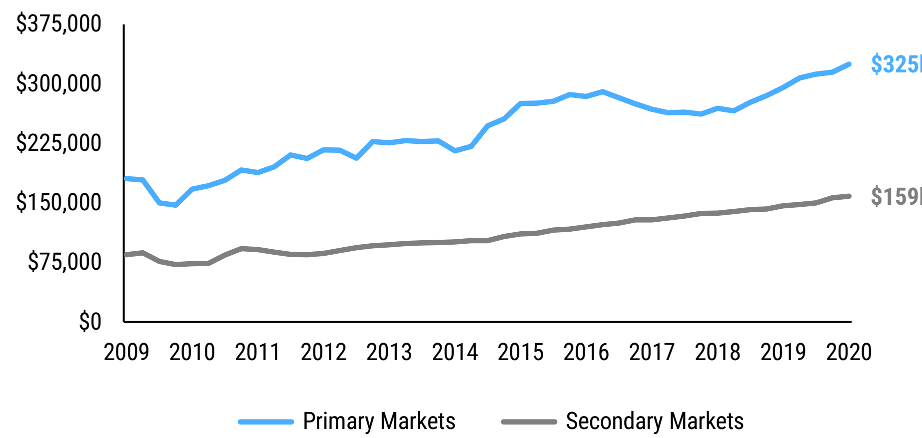
NATIONAL SALES VOLUME



CAP RATES



PRICE PER UNIT

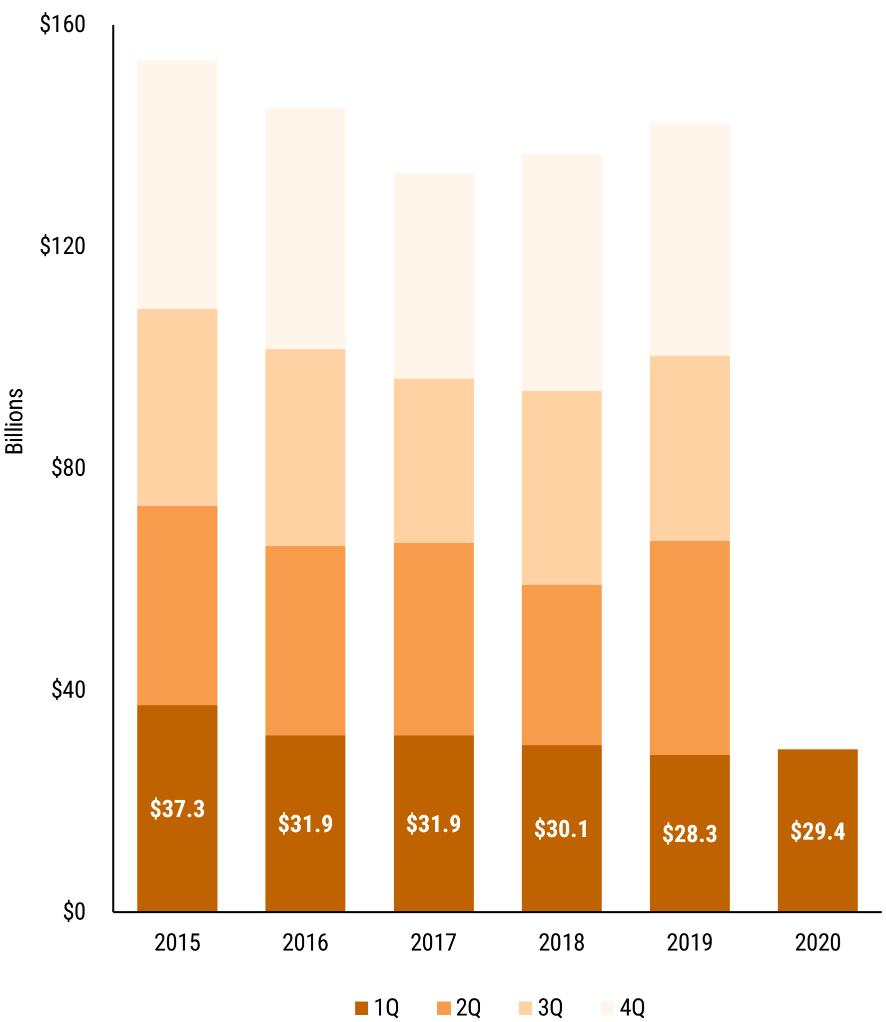


Source: NKF Research, Real Capital Analytics

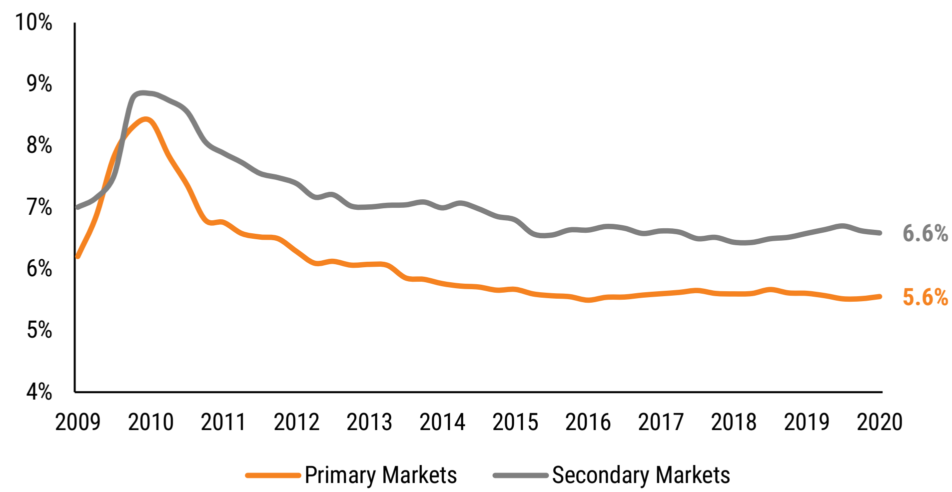
OFFICE DASHBOARD

Overall office investment volume increased 3.6% year-over-year, to $29.4 billion. Second quarter volume is expected to decrease substantially, however coastal gateway markets such as Seattle, which is home to the largest cloud services providers, is expected to be less vulnerable to the impact of Covid-19.

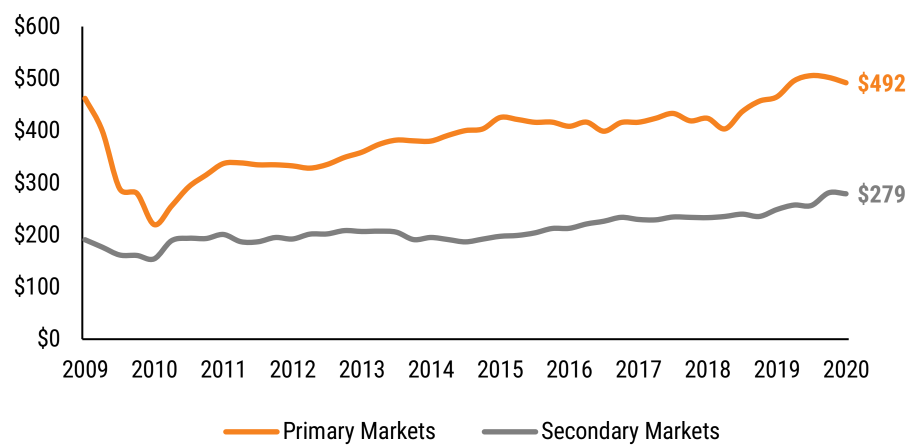
NATIONAL SALES VOLUME



CAP RATES



PRICE PER SQUARE FOOT

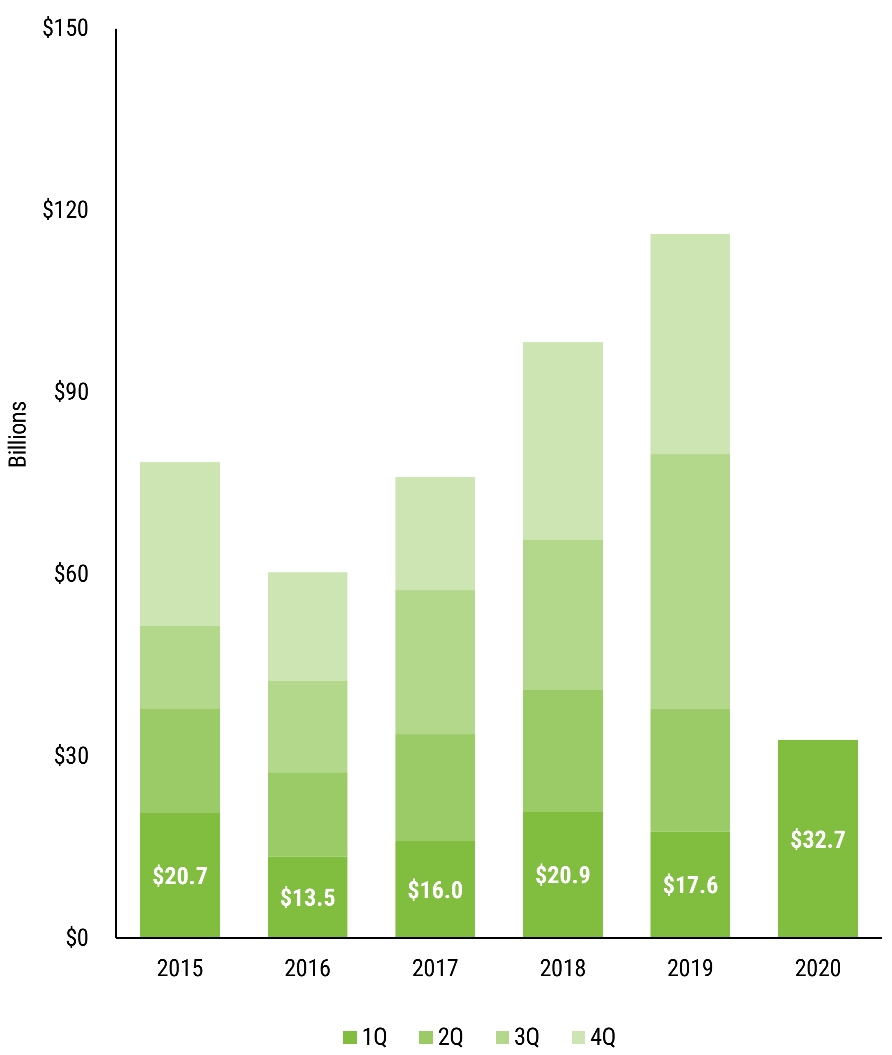


Source: NKF Research, Real Capital Analytics

INDUSTRIAL DASHBOARD

Industrial investment volume in 1Q20 was up a staggering 85.8% compared with 1Q19, reaching $32.7 billion, aided by the $13 billion dollar buyout of Liberty Property Trust by Prologis. While volume is expected to wane across all property types in 2Q20, industrial is uniquely positioned in the post-Covid world. Distribution warehouses represent the backbone of the e-commerce and logistics industries, with major tenants such as Amazon, Fedex, DHL and XPO occupying the most coveted product in real estate.

NATIONAL SALES VOLUME



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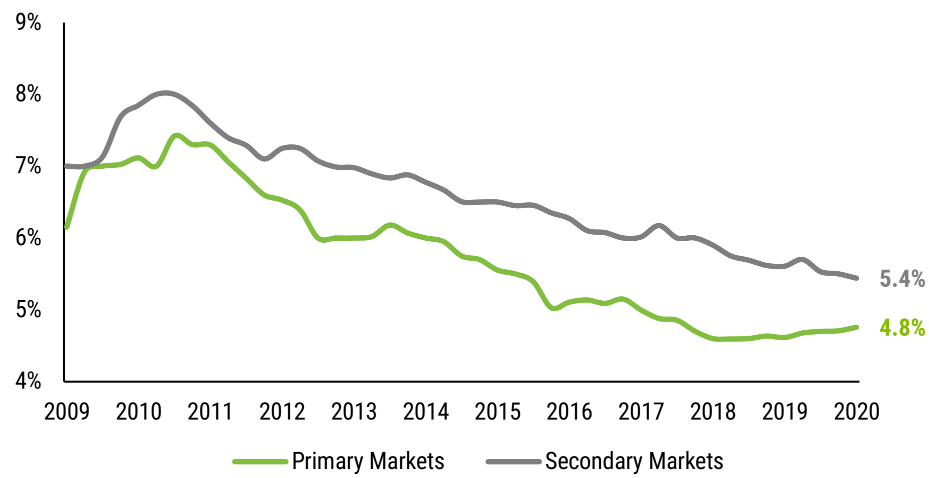

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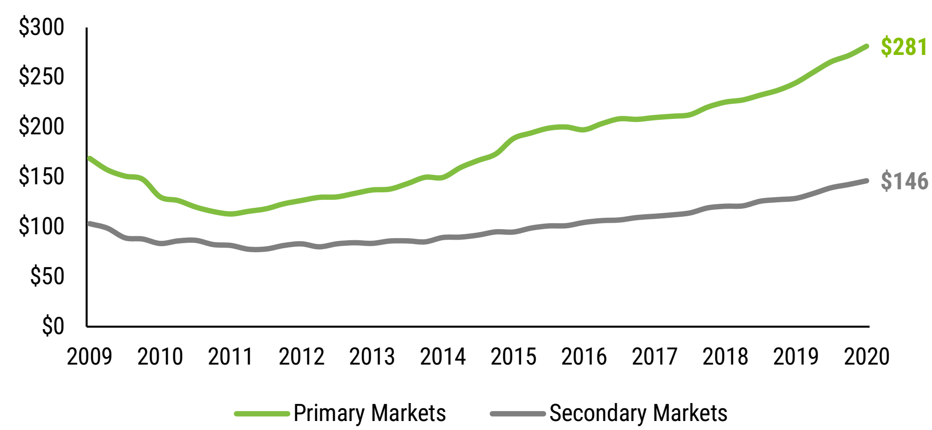
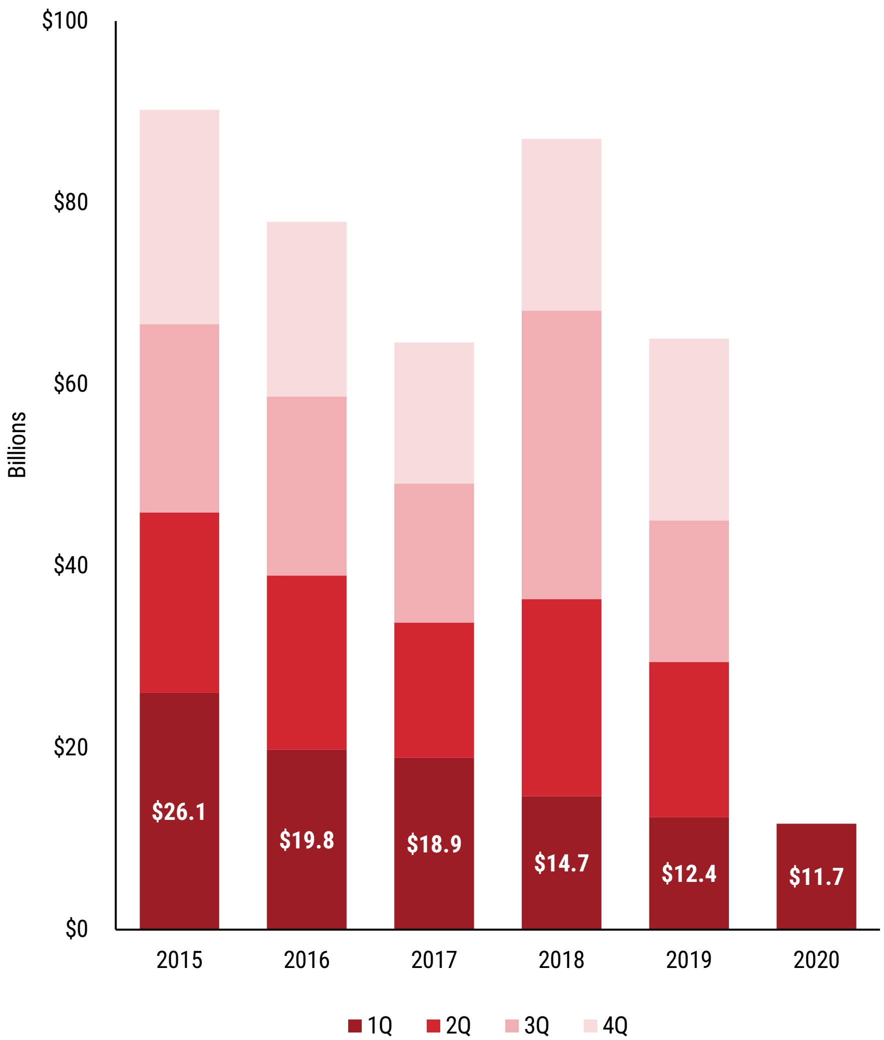


Source: NKF Research, Real Capital Analytics

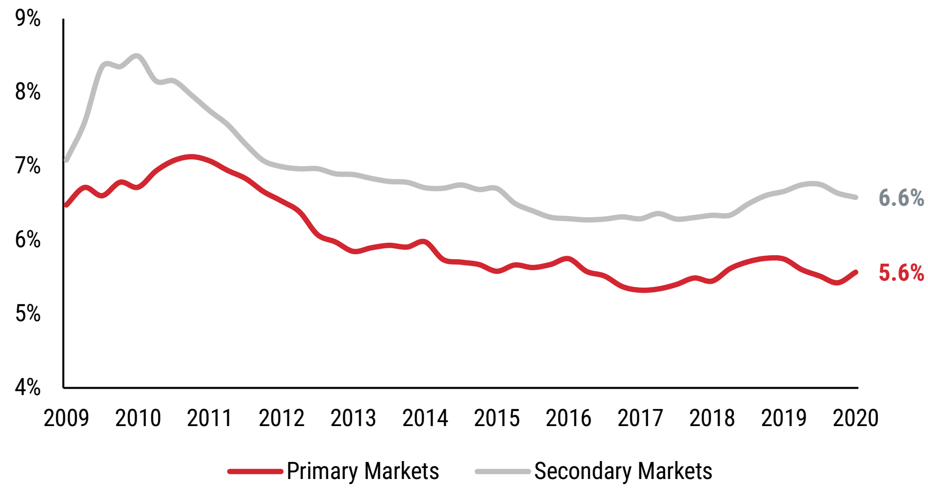
RETAIL DASHBOARD

Retail investment sales volume declined by 5.7% year-over-year to $11.7 billion in 1Q20. Bright spots do exist in retail going forward, such as grocery-anchored product and retail deemed “essential” during the Covid Crisis, however overall investor sentiment remains low, particularly for regional malls and urban retail whose tenants require high levels of foot traffic to remain profitable.

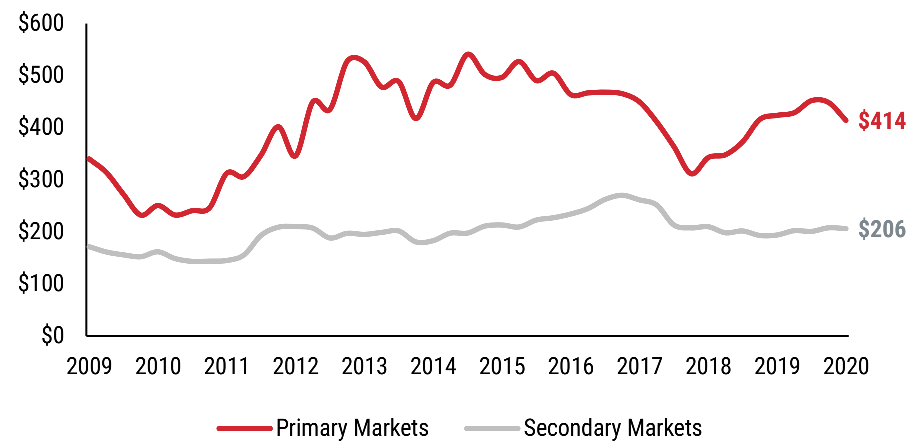
NATIONAL SALES VOLUME



CAP RATES



PRICE PER SQUARE FOOT

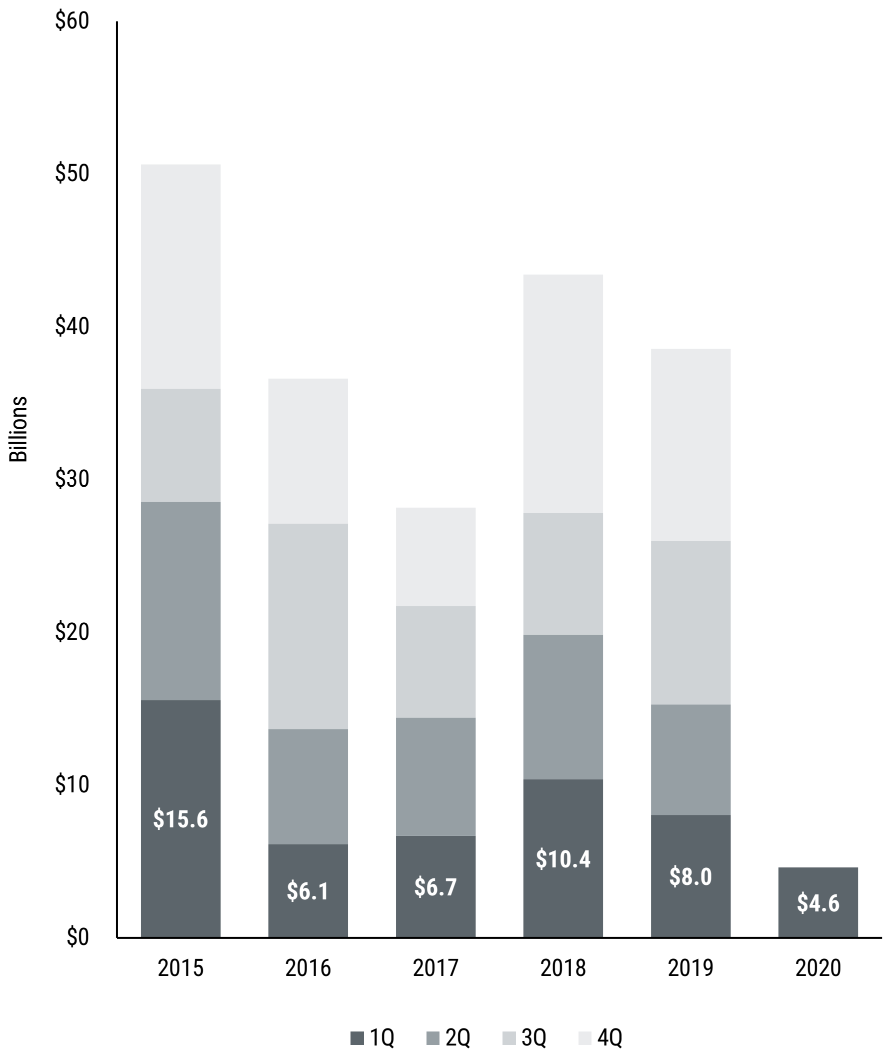


Source: NKF Research, Real Capital Analytics

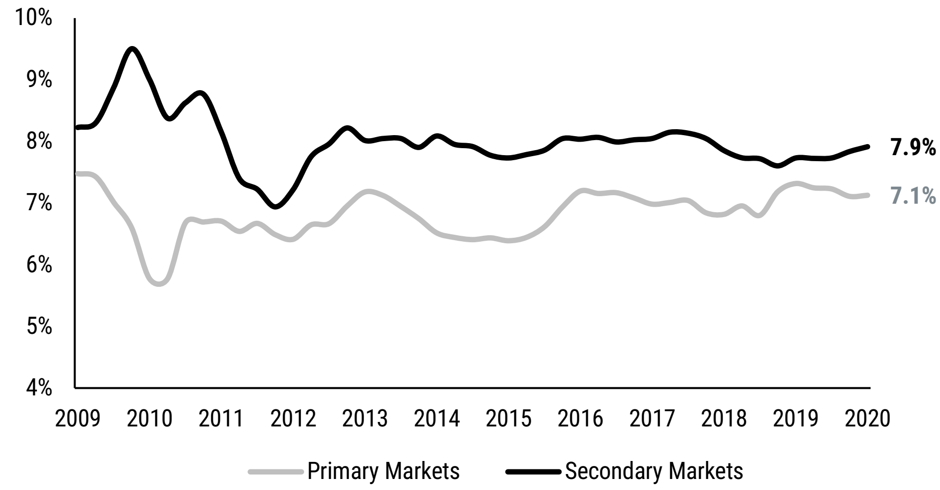
HOSPITALITY DASHBOARD

Hospitality volume was down over 40% year-over-year, declining to $4.6 billion in 1Q20. While January and February attracted average levels of investment, the immediate impact of Covid-19 severely impacted March volume, with less than $1 billion completed nationally. While hospitality will be hard hit by the current crisis, opportunistic investors and distressed vehicles are on the lookout for special situations, that offer steep discounts for assets that will perform positively once the economy reopens.

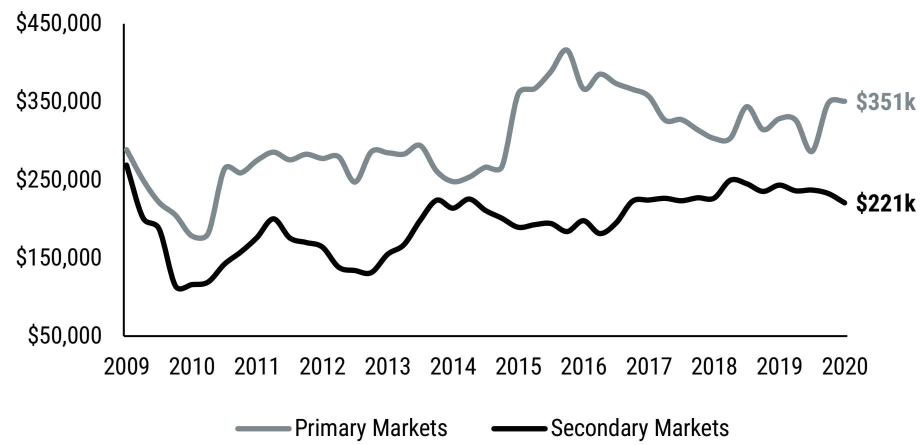
NATIONAL SALES VOLUME



CAP RATES



PRICE PER KEY



Source: NKF Research, Real Capital Analytics

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Uganda
Zambia
Zimbabwe

MIDDLE EAST
Saudi Arabia
United Arab Emirates

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.

Newmark Knight Frank Research Reports are also available at **www.ngkf.com/research**