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KEY TAKEAWAYS

SALES VOLUME
National investment sales volume across all property types totaled $106.4 billion in the first quarter, decreasing by 11.5% year-over-year. Accounting for part of this decrease was the lack of entity-level deal activity, which added over $70 billion to the 2018 volume. However, fundamentals remain strong particularly in multifamily and industrial and select gateway markets such as San Francisco and Seattle continue to achieve sales volume growth.

CAP RATES
Cap rates remained flat in the first quarter of 2019 across most major property types and have been remarkably resilient to interest rate volatility, bolstered by strong investor demand for real estate and favorable late-cycle market fundamentals.

RENT GROWTH
Office rental growth across the US has continued into 2019, recording a 3.2% year-over-year increase, aided by strong performing primary markets such as Denver (9.8%) Boston (8.9%) and Seattle (7.7%). Industrial rental growth continues at a near record pace, with nine markets experiencing double digit year-over-year growth, including larger markets such as Phoenix and Sacramento.

INVESTMENT DEMAND
Record levels of fundraising and plentiful debt capital have provided investors with substantial war chests. However, increased competition in gateway markets has led to considerable cap rate compression for traditional core assets – this has led institutional investors to adapt by pursuing more value-add and opportunistic strategies, and by chasing yield in smaller secondary and even tertiary markets, or by acquiring specialty property types.

INTERNATIONAL CAPITAL
In the past 5 years international capital has pivoted away from core office properties toward higher yielding multifamily, industrial and hotel properties, often via portfolio or entity level acquisitions – whose volume reached a record level in 2018, accounting for nearly $60 billion, or 64.1% of the total international sales. International firms have also been major debt players in the past 12 months, with the top 10 firms originating nearly $20 billion nationally.

DEBT MARKETS
The number of debt funds and the supply of debt capital remains plentiful in 2019; while LTV’s are edging upward as competition rises among banks, CMBS and debt funds, lending standards remain significantly tighter than the previous cycle as lenders are more willing to compete on pricing than leverage.
When using the NCREIF property index as a proxy, total returns for commercial real estate fall short of equity returns in the short term. However, commercial real estate is one of the top performers on both the 15- and 20-year timeframes, outpacing the S&P 500.
Sales volume in the first quarter declined by 11.5% compared with 1Q18, as entity-level volume slowed to its lowest level in almost a decade. However, the slowdown comes after one of the strongest fourth quarters on record this cycle, and does not reflect a softening of demand drivers.
Coastal gateway markets continue to attract large amounts of late-cycle capital boosted by demand for value-add product. Western markets with strong fundamentals have managed some of the highest sales volume growth, such as Phoenix (36.1%), Seattle (35.6%), San Diego (29.4%), and Houston (12.4%).

The New York City metro area remains the largest recipient of capital in the United States recording $66.2 billion in the past 12 months ending in 1Q19.

Seattle has been one of the top performing markets in terms of investment sales volume growth, with volume increasing by nearly 70% in the last five years, to $17.5 billion.

San Diego is experiencing high levels of employment and population growth and consequently has attracted over $2.6 billion in multifamily volume in the past 12 months.
While capital continues to flow to primary markets, lower yields in those markets have forced investors to either lower their return benchmarks or chase yield in the form of higher yielding product, often in secondary markets. Consequently, the gap between primary and secondary market volume has grown, currently at $122.7 billion.

*Primary Markets: Boston, Chicago, DC, LA, NYC, SF
*Secondary Markets: All other metro areas

Source: NKF Research, Real Capital Analytics
Two concurrent trends have developed for international capital in the past 5 years – international groups are allocating more capital to multifamily, industrial and hotel properties (and consequently shifting away from office), and they have increasingly utilized platform/entity-level and portfolio deals to achieve scale and efficiency.

**Allocation of Capital Over Time**

**Sales Volume by Transaction Type**

Source: NKF Research, Real Capital Analytics
Acquisitions by Canadian groups have reached their historic high – over $43 billion has been spent in the past 12 months, with Brookfield accounting for nearly 70% of this volume, related to their entity-level purchases of GGP and Forest City. Singaporean based firms, many who are first-time buyers in the US, have also been significant investors in all major property types and have spent $6.2 billion in the past 12 months.
In the past 12 months, more international capital has flowed to secondary and tertiary markets than primary markets, a dramatic shift, as five years ago primary markets received nearly 70% of all international investment.
## TOP TRANSACTIONS

1Q19; ALL PROPERTY TYPES

### SINGLE ASSET TRADES

<table>
<thead>
<tr>
<th>Property</th>
<th>$ Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lord &amp; Taylor (424-434 5th Avenue)</td>
<td>$850 M</td>
</tr>
<tr>
<td>New York, New York&lt;br&gt;Retail (Office Conversion)&lt;br&gt;Buyer: The We Company JV Rhone Capital</td>
<td></td>
</tr>
<tr>
<td>CBS Television City (7800 Beverly Boulevard)</td>
<td>$750 M</td>
</tr>
<tr>
<td>Los Angeles, California&lt;br&gt;Office&lt;br&gt;Buyer: Hackman Capital</td>
<td></td>
</tr>
<tr>
<td>Troy Block (300 Boren Avenue North)</td>
<td>$740 M</td>
</tr>
<tr>
<td>Seattle, Washington&lt;br&gt;Office&lt;br&gt;Buyer: Ponte Gadea</td>
<td></td>
</tr>
<tr>
<td>2377 Collins Avenue</td>
<td>$610 M</td>
</tr>
<tr>
<td>Miami, Florida&lt;br&gt;Hotel&lt;br&gt;Buyer: Host Hotels &amp; Resorts</td>
<td></td>
</tr>
<tr>
<td>One Dag Hammarskjold Plaza</td>
<td>$570 M</td>
</tr>
<tr>
<td>New York, New York&lt;br&gt;Office&lt;br&gt;Buyer: Rockpoint Group</td>
<td></td>
</tr>
</tbody>
</table>

### PORTFOLIO TRADES

<table>
<thead>
<tr>
<th>Property</th>
<th>$ Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Warehouse/Industrial Portfolio</td>
<td>$1.3 B</td>
</tr>
<tr>
<td>38 Properties&lt;br&gt;Industrial&lt;br&gt;Buyer: Blackstone</td>
<td></td>
</tr>
<tr>
<td>National Industrial Portfolio</td>
<td>$1.2 B</td>
</tr>
<tr>
<td>54 Properties&lt;br&gt;Industrial&lt;br&gt;Buyer: Colony Capital</td>
<td></td>
</tr>
<tr>
<td>Mid-Atlantic Multifamily Portfolio</td>
<td>$1.1 B</td>
</tr>
<tr>
<td>20 Properties (6,030 units)&lt;br&gt;Multifamily&lt;br&gt;Buyer: Kushner Companies</td>
<td></td>
</tr>
<tr>
<td>Mid-Atlantic Multifamily Portfolio</td>
<td>$890 M</td>
</tr>
<tr>
<td>10 Properties (4,130 units)&lt;br&gt;Multifamily&lt;br&gt;Buyer: Morgan Properties</td>
<td></td>
</tr>
<tr>
<td>National Multifamily Portfolio</td>
<td>$850 M</td>
</tr>
<tr>
<td>10 Properties (2,994 units)&lt;br&gt;Multifamily&lt;br&gt;Buyer: Nuveen</td>
<td></td>
</tr>
</tbody>
</table>

Source: NKF Research, Real Capital Analytics
Brookfield and Blackstone together represented nearly 10 percent, or $52.1 billion, of the total United States volume in the past 12 months, a testament to the size and scope of their fundraising capabilities and ability to place capital, largely via portfolio and entity-level transactions.

Source: NKF Research, Real Capital Analytics

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Industrial sales volume increased by 19.7% year-over-year, with larger markets such as Northern New Jersey and Miami seeing near record levels of investment. Portfolio & entity-level deal volume continues to drive sales volume, accounting for $42.2 billion or just under 45% of total investment in the past 12 months.
Midwestern metros have recorded some of the highest levels of growth in the past 5 years, with Chicago, Columbus, and Cincinnati all experiencing investment sales volume growth of over 150% in that time.

**Volume Growth**

**$3.0+ Billion in Past 12-Months**
- Atlanta
- Chicago
- Dallas
- Los Angeles
- Miami
- Northern NJ
- San Francisco

**$1.5-2.9 Billion in Past 12-Months**
- Baltimore
- Boston
- Columbus
- Houston
- NYC
- Phoenix
- San Diego
- Seattle

**$1.0-1.4 Billion in Past 12-Months**
- Charlotte
- Cincinnati
- Indianapolis
- Memphis
- Minneapolis
- Orlando
- Philadelphia

Source: NKF Research, Real Capital Analytics
Over 270 million square feet of industrial space is under construction, driven by a robust manufacturing sector and demand from e-commerce players seeking “last mile” properties in close proximity to urban cores – the Texas markets of Dallas and Houston exemplify this trend, and have recorded some of the highest levels of construction.
Facing cap rate compression in traditional product types, particularly in large gateway markets, investors beyond traditional specialty REITs have turned to alternative property types that offer strong risk-adjusted returns and promising market growth prospects.
Commercial real estate yields currently offer a 319 basis point premium to the 10-year treasury note. In their most recent meeting in March the Fed indicated that there would be no further hikes in 2019, and therefore the benchmark rate would remain between 2.25% and 2.50%.
Uninvested capital accumulated by North American focused closed-end funds continued to rise into 2019, increasing by 14.6% since the end of 2018 – opportunistic and value-add strategies account for 67.0% of this capital, as managers have allocated more money to higher yielding assets.
Of the estimated $212 billion in dry powder for North American closed-end funds nearly 35%, or $73.8 billion, is concentrated in the top 5 firms on the equity-focused side. Comparatively the debt side is far less concentrated, with the top 5 firms representing just 29% of the total $44 billion in debt fund dry powder.
Total returns remained relatively flat at 6.8% in the first quarter of 2019 for all property types, with the West and Southeast regions maintaining the highest regional total returns, of 8.8% and 7.0% respectively for all property types.

*Annualized

Source: NKF Research, NCREIF
Four of the top five property subtypes by total return were industrial, reinforcing the near record amount of capital flowing into the space. Ecommerce-related flex and warehouse space as well as pharmaceutical/biotech-related dry/wet lab R&D space were top performers, along with Garden style multifamily, particularly value-add style product in fast growing metros in the West and Southeast.
Multifamily lending continues to be a growing portion of the total mortgage pool as an estimated 124.1 billion is expected to mature in 2019, up 10.1% from 2018. Overall, nearly $2.0 trillion is set to mature over the next five years will support robust levels of financing activity.
Overall office sales volume decreased by 14.2% year-over-year to $25.6 billion, as both suburban and CBD office volume slowed in the first quarter. Two major factors contributed to the decline, including nearly $10 billion in pending/in contract deals nationwide and a lack of on-market properties in large supply-constrained metros.
Multifamily was the only major property type in 1Q19 to see year-over-year sales volume growth, managing to increase 1.3% compared with the first quarter of 2018. Continued portfolio deal volume supported nearly 25% of sales volume in 2019, or $5.5 billion, led by acquisitions by Kushner Companies, Nuveen and Blackstone.
Following a record year, industrial sales volume declined by 15.4% to $17.7 billion year-over-year. However, fundamentals and total returns still remain the strongest of any major property type and the decline was largely attributed to a lack of entity-level deal volume. Price per square foot in contrast, rose by 14.1% in primary markets, while cap rates edged downward by 10 basis points.
Retail investment sales volume declined by 15.9% year-over-year to $11.9 billion in 2019. While personal consumption and consumer confidence remain close to cycle highs, uncertainty related to ecommerce has slowed investor demand. However, optimism persists, particularly for high street/urban retail properties in primary markets.
While hospitality volume shrank to just $6.7 billion in the first quarter, fundamentals remain strong – occupancy edged up in 2018 to 66.2% nationally, while RevPAR increased to $85.96. Hotel debt markets remain strong; there was $6.8 billion in refinancing activity in 1Q19, up 3.3% year-over-year and up 27.1% compared with 1Q17.
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