

A stylized silhouette of the New York City skyline, including the Statue of Liberty, the Empire State Building, and the US Capitol, set against a background of a world map and a blue-to-orange gradient. The skyline is reflected in a dark blue area at the bottom.

1Q18 UNITED STATES **CAPITAL MARKETS REPORT**

Despite market volatility related to foreign policy decisions and interest rate uncertainty emanating from the Federal Reserve, 2018 promises to see global economic growth touch 4.0% annually, with the US hitting 3% annual growth. Correspondingly, real estate saw year-over-year growth, managing over \$110 billion in total sales volume.

Geographically, larger supply constrained metropolitan areas which make up a notable portion of core and trophy assets have stabilized over the past 12 months ending in Q1 2018, after investment sales dipped in early 2016. Not all asset classes have felt pressure evenly – industrial pricing for example has managed a 9.4% year-over-year increase in the primary markets, with last mile warehouses achieving similar gains. Industrial assets in major metros are benefiting from a shortage of usable land within reach of the metro population and simultaneous increased demand from ecommerce firms, who are pushing the limits of volume and speed with an emphasis on next-day, same-day and even two-hour delivery for a wide basket of goods.

Secondary markets (as well as suburban markets surrounding major metros) have seen continued steady demand – in order to achieve yield targets, funds have been eager to place capital in value-add and opportunistic properties that offer superior returns, without severely impacting the risk profile. Multihousing, which had the strongest sales volume performance of any asset class in 2018, exemplifies this trend. Secondary markets typically make up over half of the total multihousing sales volume, with investors focusing on cities in the West, Southwest and Southeast, which have benefited from strong population, job, and rental growth (thereby reducing the risk of taking on capital intensive investments).

Investors have also looked outside of the conventional asset classes, toward student housing, senior housing, self storage and medical office properties. Student and senior housing investments in particular are being purchased for their anti-cyclical characteristics, and for their ability to protect against inflation. Diversification of real estate asset investments then appears to be sustaining the cycle and making the financial system more balanced as a whole, decreasing the risks associated with a setback in any one asset class.

The pursuit of yield also has seen its limits – investors and lenders alike have overwhelmingly favored security of capital, over pure returns. Underwriting requirements have not loosened, and LTVs have not reverted back to the mean (in the mid 70s), even in the strongest of markets in asset classes such as multihousing. Many institutional investors who have traditionally been on the equity side, now see opportunities in debt – international groups in primary markets have increasingly looked to financing, to stay involved in commercial real estate, without taking on the risks of investing later into the cycle.

On the macroeconomic policy level, interest rate uncertainty has been on the minds of all investors and fund managers. Yet generic commercial real estate capitalization rates have held steady, staying within 5 basis points of last quarter. A look at the yield curve reveals that there hasn't been a significant change in 10 year treasury rate (40 basis points, or 17% increase) since last year, which is the basis for most lenders. Therefore costs of borrowing have been kept in check. The largest changes have been seen on the debt fundraising side, with REITS in particular raising the most debt capital ever in 2017, in anticipation for higher future rates. Bond issuance has continued into 2018, outpacing net selling activity on the equity side.

Stable growth in the post 2008 real estate cycle should keep high levels of capital in the financial system. Yet in recent years, increased availability capital and the consequent increase in the amount of funds has also contributed to a high level of dry powder. The perpetual lack of core trophy assets in primary markets, which have been targets for institutional investors, and near record high pricing across all core product, have slowed transaction velocity. Sellers in these markets also played a role, particularly those that bought at higher prices later in the cycle. In order to hold on to properties longer, many have refinanced and have extended their ownership period with the expectation that prices will rise again in the future.

4	Key Takeaways	19	Dry Powder & Close-End Funds
5	Yield Spread	20	Conduit Loan Activity
6	Treasury Yield Curve	21	Mortgage Debt Outstanding
7	REIT Activity	22	Mortgage Maturities
8	Historical Total Returns	23	Office Dashboard
9	Global Capital	24	Office Analysis
10	Chinese Investment Activity	25	Multihousing Dashboard
11	International Capital Distribution	26	Multihousing Analysis
12	International Capital Investment	27	Industrial Dashboard
13	Top Buyers, Sellers and Transactions	28	Industrial Analysis
14	Sales Volume - Primary Markets	29	Retail Dashboard
15	Sales Volume - Secondary Markets	30	Retail Analysis
16	East Coast vs. West Coast Sales Volume	31	Hospitality Dashboard
17	Multihousing Sales Volume	32	Hospitality Analysis
18	Growth in Specialty Assets		

SALES VOLUME

National investment sales volume finished the first quarter higher, increasing by 4.8% year-over-year, bolstered by strong multihousing performance nationally, and robust growth in key primary markets, such as New York City and DC.

CAP RATES

As the 10 year treasury yield broke through the largely symbolic 3% mark, primary market cap rates remained stable, staying within 5 basis points of last quarter, and at a healthy premium to both the 10-year treasury and mortgage rates.

RENT GROWTH

Multihousing properties were aided by continued above-average national rent growth, with Western markets such as Las Vegas, Sacramento, and San Diego showing marked strength.

SUPPLY & DEMAND

Multihousing supply growth has continued at a rapid pace, with more than 350,000 units to be delivered in 2018. Yet demand remains robust, and in many key markets such as Phoenix and Seattle, exceeds new supply.

INTERNATIONAL CAPITAL

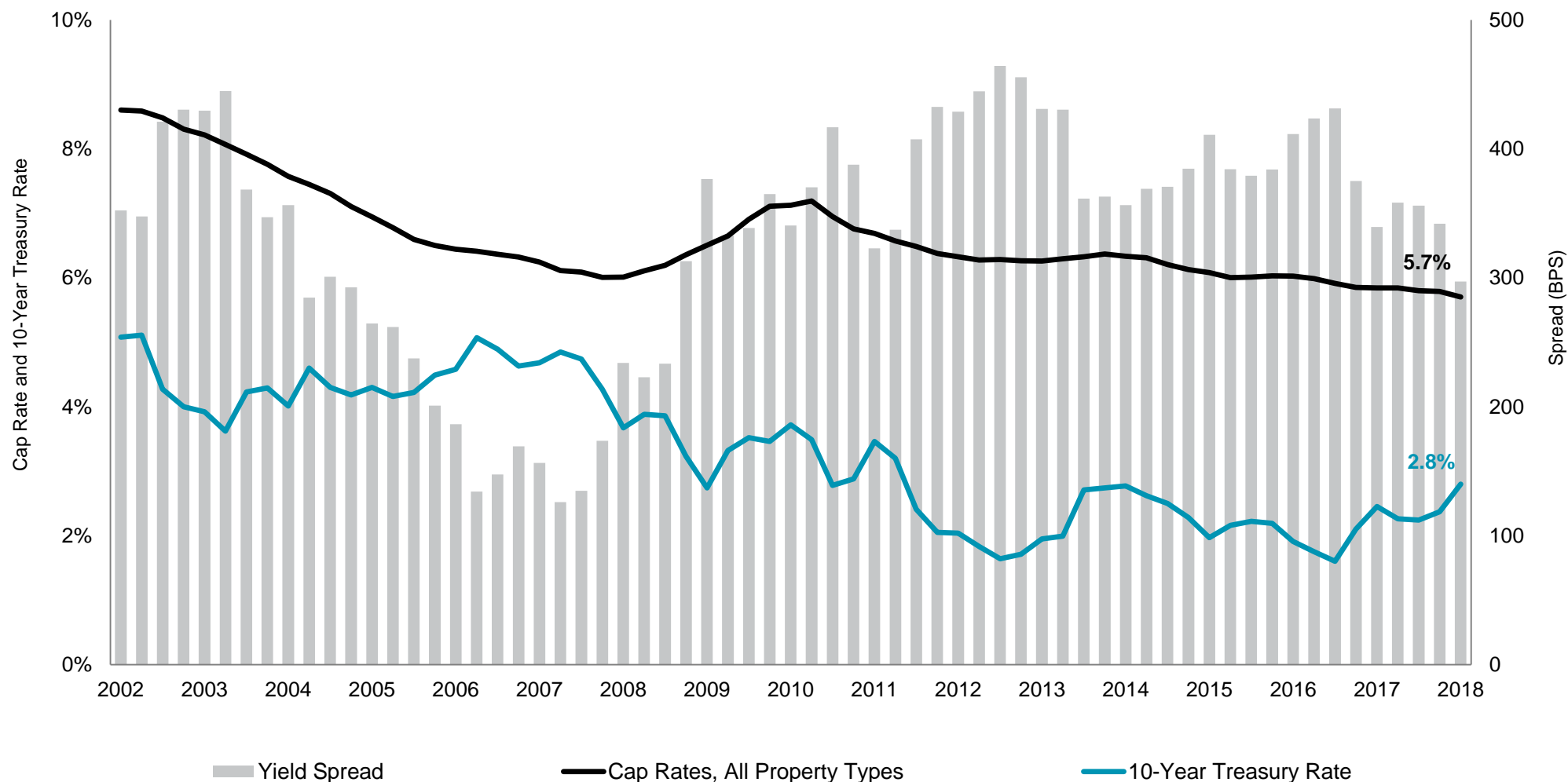
Despite the exit of many Chinese investors from the US market, international capital volume has proven resilient, managing a 7.8% year-over-year increase in the first quarter, helped by significant core trades in primary markets.

DEBT MARKETS

The lack of opportunities to purchase core assets in major metros have contributed to REITs' increased presence in the debt market – bond issuance in the current cycle is at an all time high, while REITS have been net sellers since 2015.

YIELD SPREAD

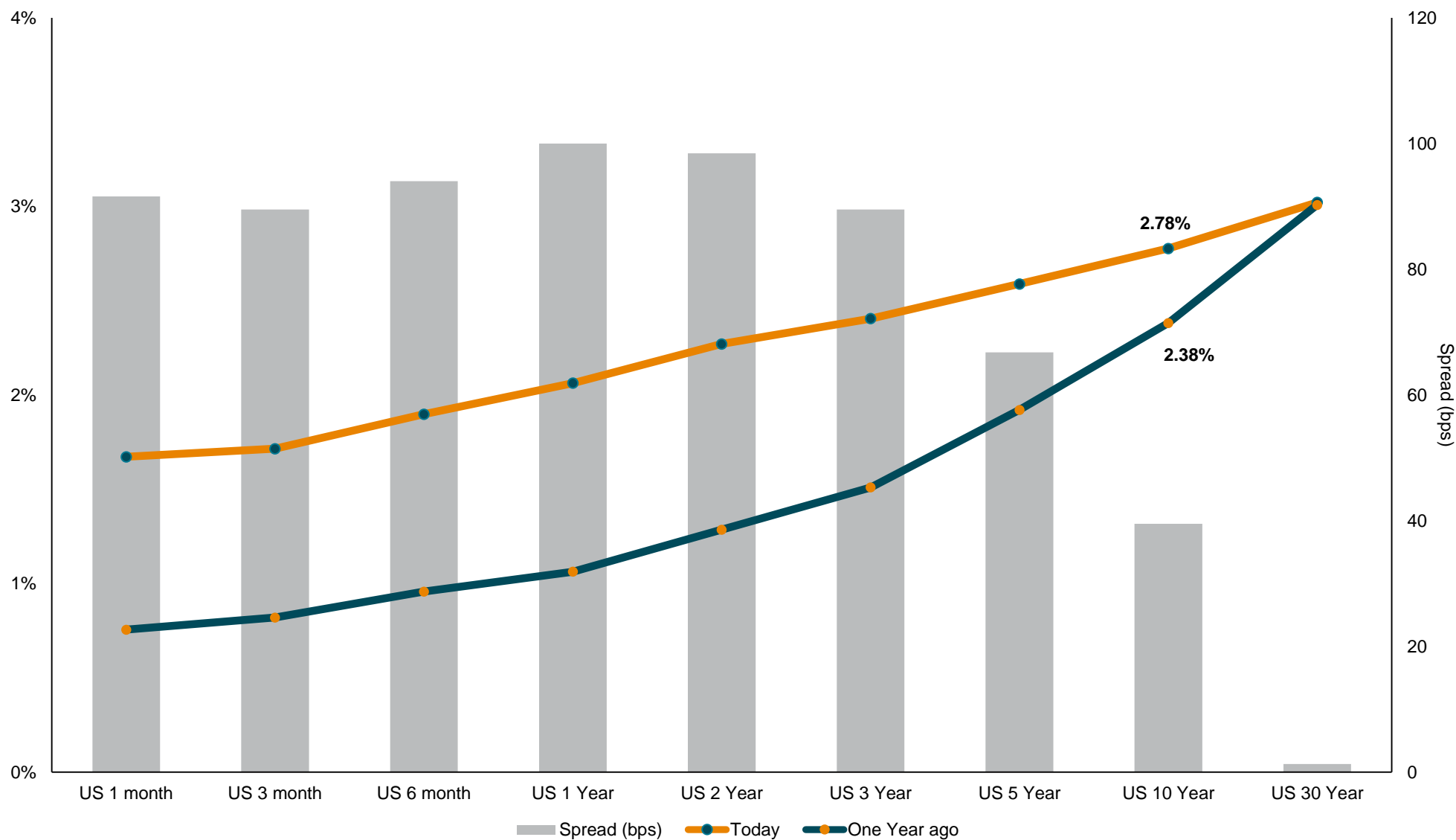
Cap rates compressed by 10 basis points quarter-over-quarter to 5.7% for institutional-grade assets, with commercial real estate yields offering a 297 basis point premium to the 10-year treasury note. In late April of 2018, the daily 10 year treasury rate rose above 3.0% for the first time since the fourth quarter of 2013.



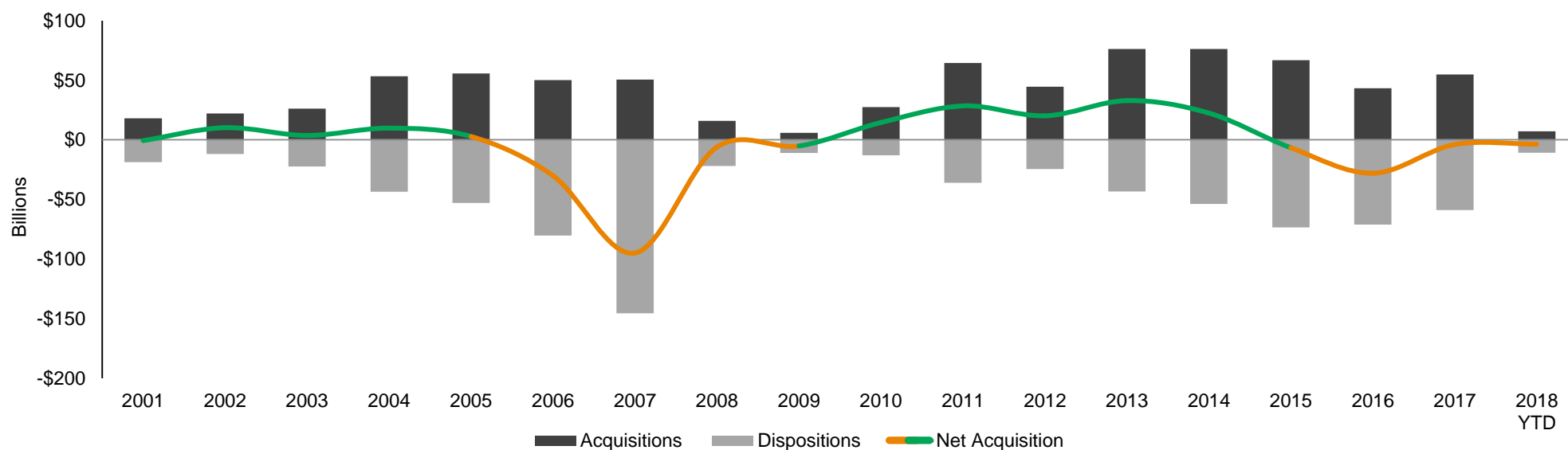
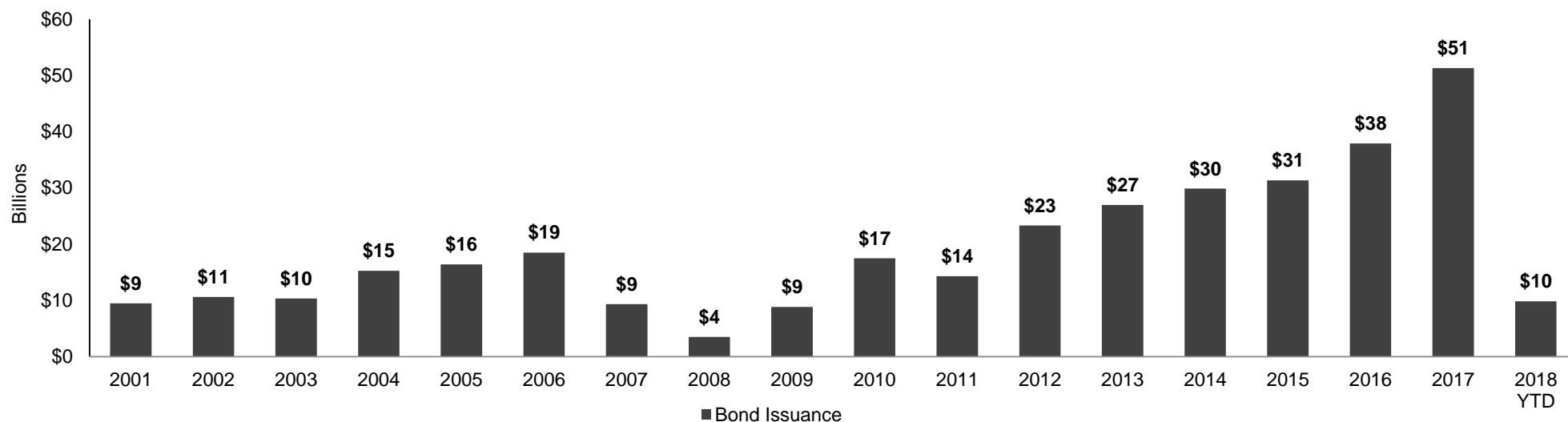
TREASURY YIELD CURVE

United States

Despite interest rate uncertainty, emanating from the Federal Reserve's commitment to raising interest rates gradually, yields of longer term treasuries have seen less movement. The benchmark 10 year rate in particular only saw a 17%, 40 basis point, increase compared with a 94% increase in the 1 year yield.



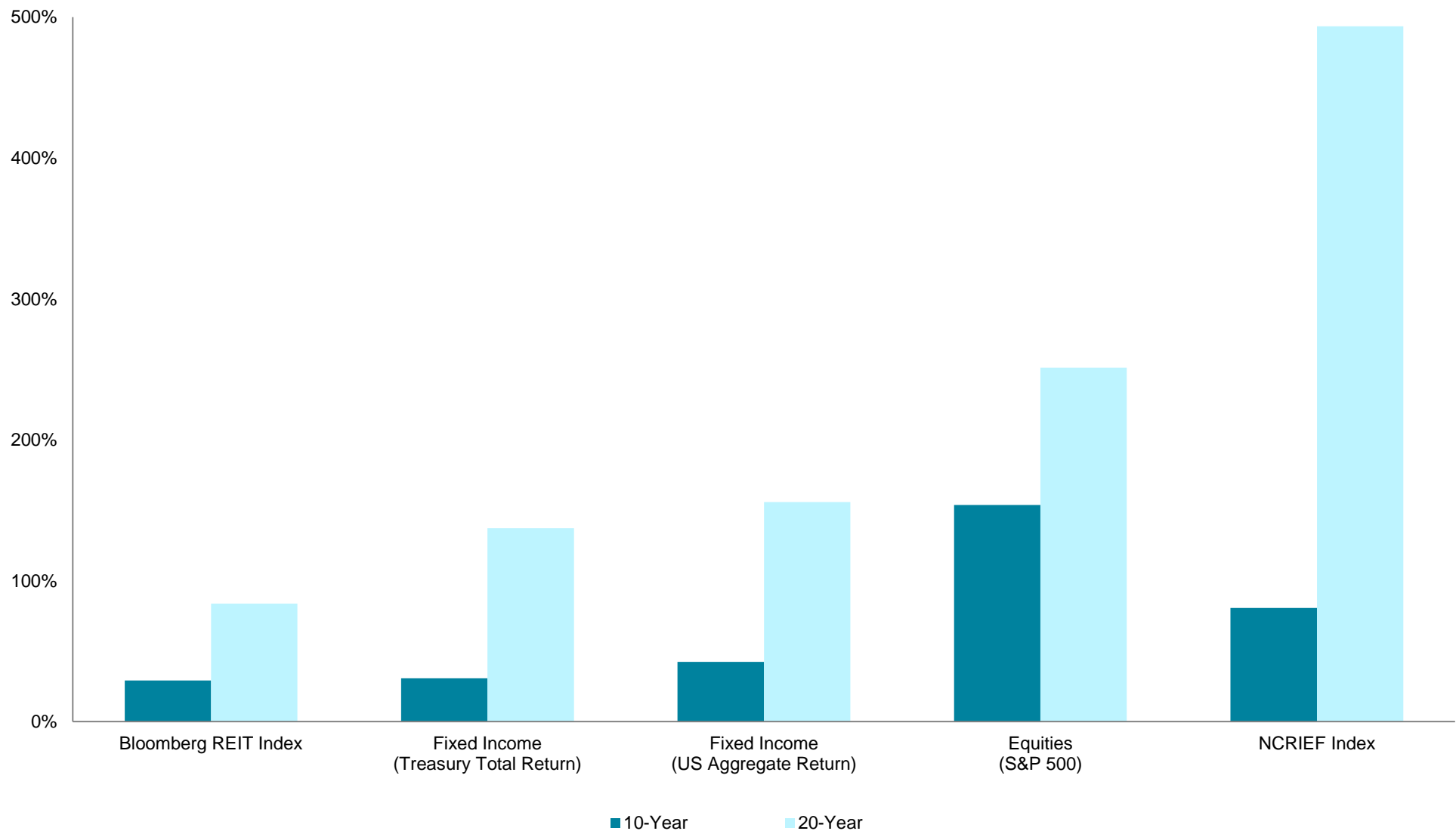
REITs have been net sellers on the equity side since 2015, raising just over \$42.3 billion in equity capital since then. However, they have been most active on the debt capital side, raising a record \$51.3 billion in 2017, taking advantage of lower interest rates in the face of near certain rate hikes from the Fed in the coming years.



HISTORICAL TOTAL RETURNS

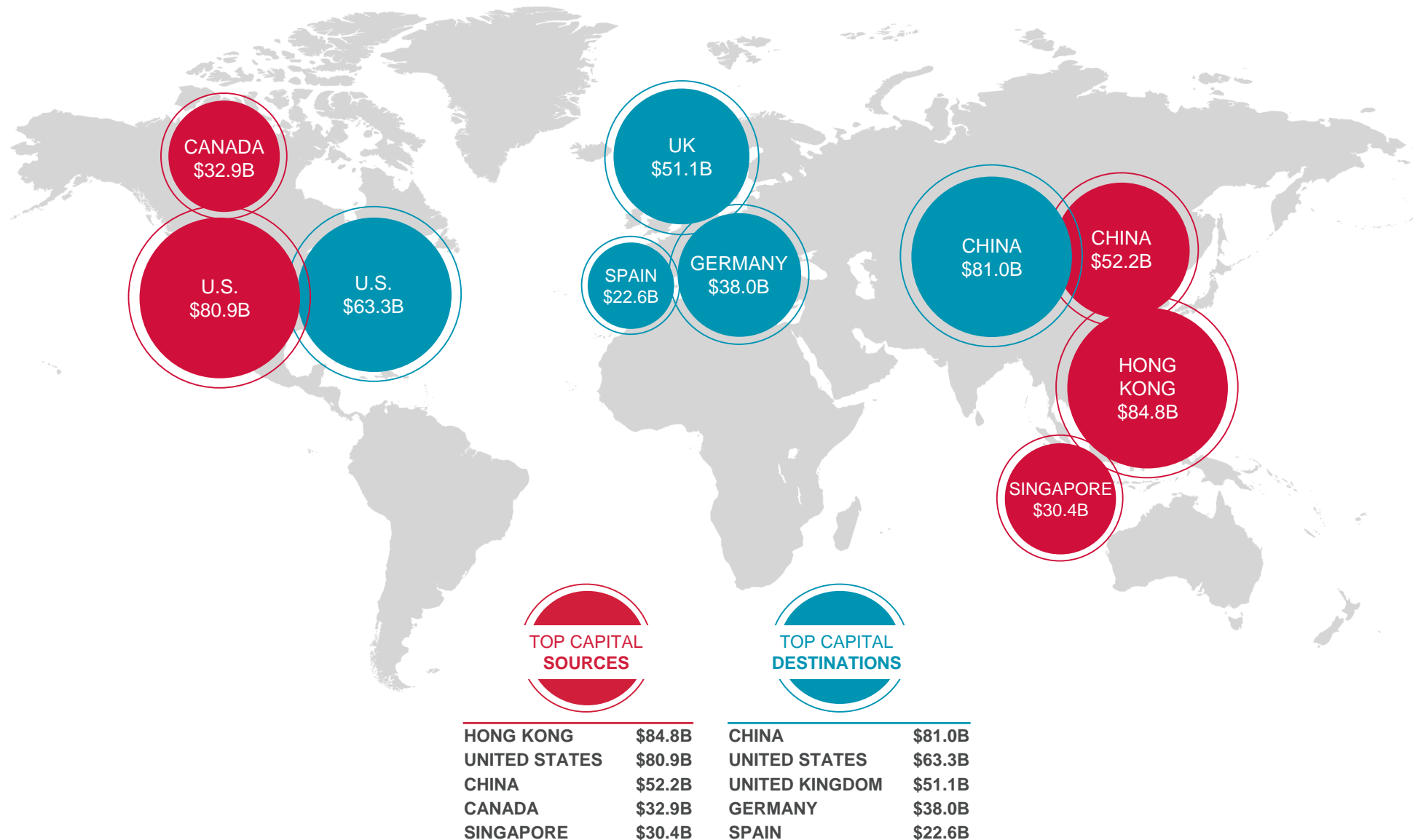
Cumulative

While equities have had the highest return of any asset class in the past 10 years, commercial real estate (accounting for both income and appreciation, and aggregated across all property types and locations) has recorded the largest long term total return at 494%.



GLOBAL CAPITAL

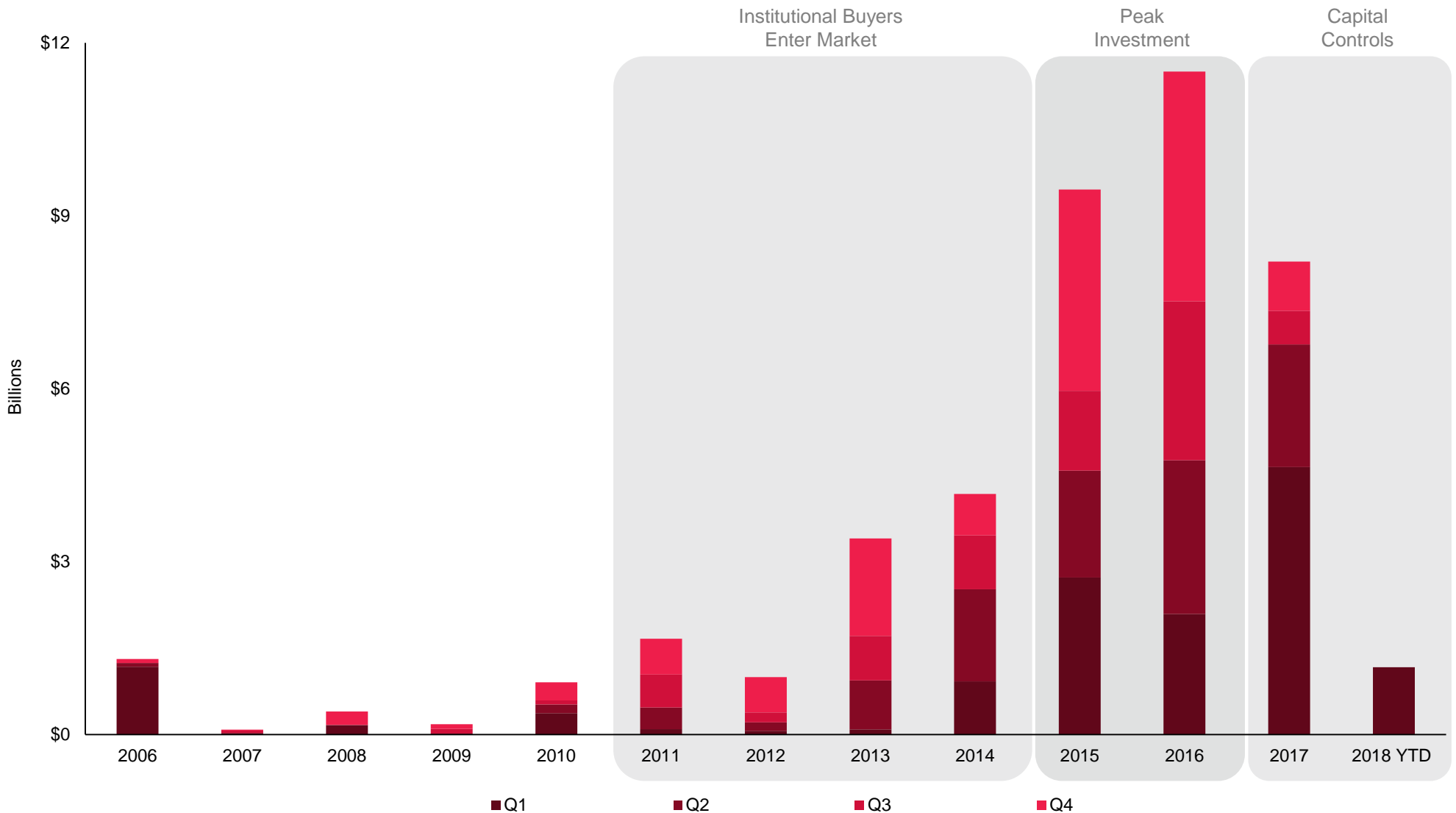
12-Month Totals; All Property Types



CHINESE INVESTMENT ACTIVITY

United States; All Property Types

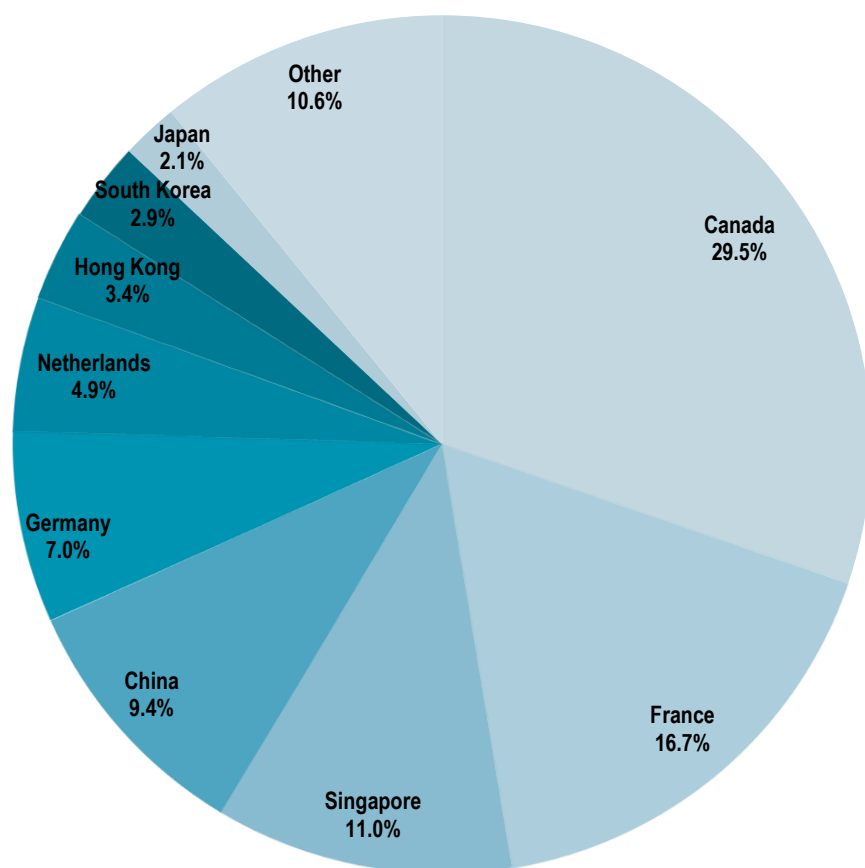
Chinese investment sales volume in 2018 was unsurprisingly the slowest since 2014, with just over \$1.2 billion in sales – of this volume, 81.0% came from Hong Kong based REOCs and HNWF funds with just 19.0% coming from the mainland. This trend will continue, absent any change in the capital controls imposed by the Chinese government.



INTERNATIONAL CAPITAL DISTRIBUTION

United States; 12-Month Totals; All Property Types

With Unibail-Rodamco's record 11 billion dollar purchase of Westfield, France became the second largest investor in the past 12 months, taking China's spot. Singapore also overtook China, bolstered by acquisitions of the multi-billion dollar Harrison Street Student Housing portfolio and the Monogram Residential Trust (entity-level).



INVESTED CAPITAL | \$500+ MILLION

\$1.0B+



CANADA

Brookfield
CPP Investment Board
Ivanhoe Cambridge*
Oxford Properties Group



SINGAPORE

GIC
Mapletree



GERMANY

Allianz



FRANCE

Unibail-Rodamco*

\$500M – \$999M



CANADA

Starlight Investments



NORWAY

Norges Bank (NBIM)



CHINA

Bank of China*
China Vanke*
Hillhouse Capital*
Hopu Investment*
Junson Capital
Gaw Capital



AUSTRALIA

QIC



JAPAN

Unizo Holdings Co Ltd



SOUTH KOREA

Korea Post



NETHERLANDS

APG Group*



GERMANY

Commerz Real
Union Investment

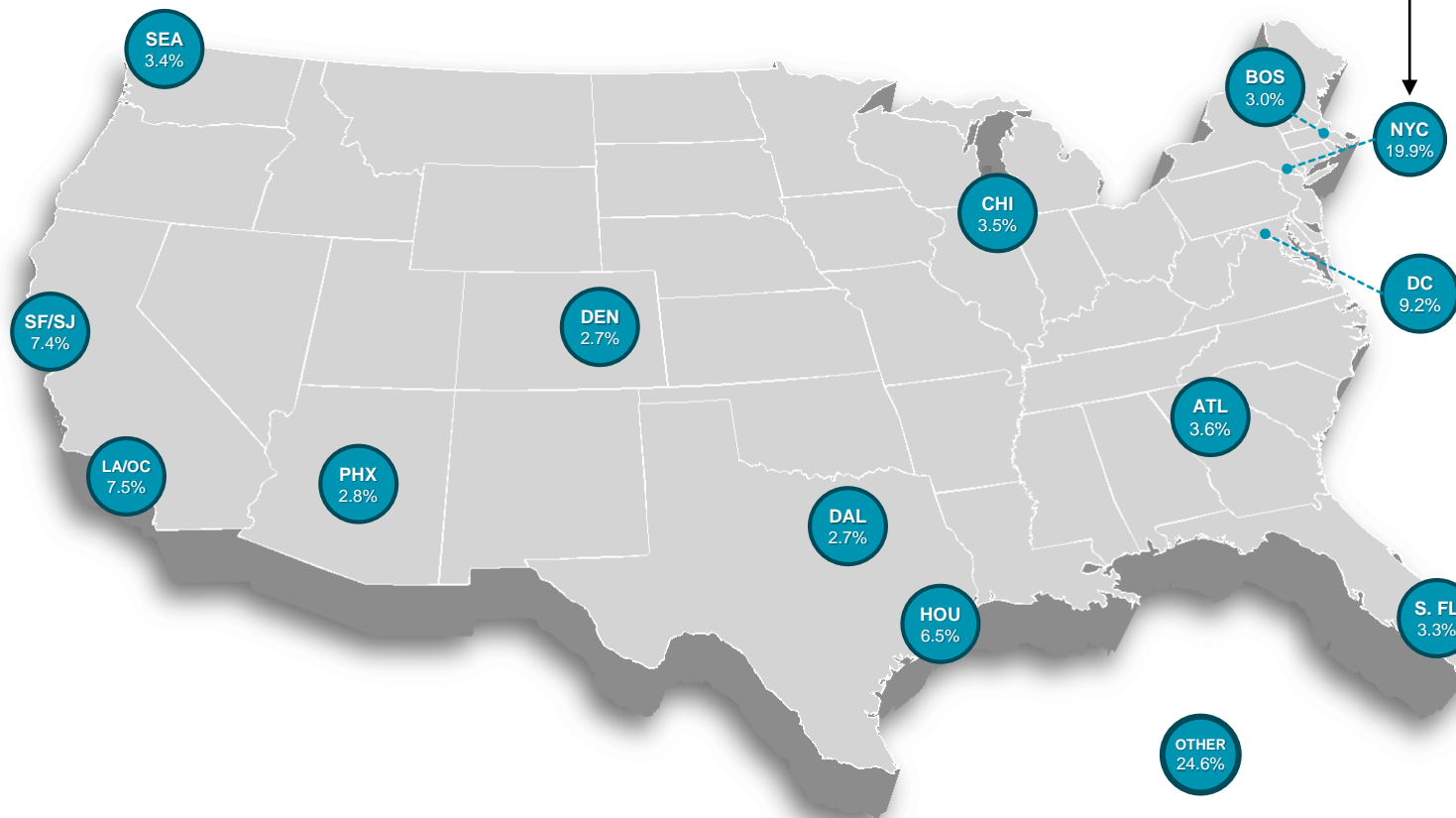
*Entity Level Deals Included

INTERNATIONAL CAPITAL DISTRIBUTION

United States; 12-Month Totals; All Property Types

While major markets have historically seen the bulk of international investment, secondary markets led by Houston, Phoenix and Atlanta are attracting a greater share of the investment than at any other time in the current cycle. In total, there has been more than \$54 billion in foreign capital invested in United States assets over the past 12 months.

New York City has historically seen the bulk of international investment, accounting for 19.9% of all United States-placed foreign capital in the past 12 months.



BY MARKET TIER

As a % of Cross-Border Capital

MAJOR MARKETS 50.3%

SECONDARY & TERTIARY 49.7%

BY REGION

As a % of Cross-Border Capital

MID-ATLANTIC 12.6%

MIDWEST 9.1%

NORTHEAST 24.1%

SOUTHEAST 14.9%

SOUTHWEST 17.1%

WEST 22.4%

■ International ■ Domestic

TOP BUYERS, SELLERS AND TRANSACTIONS

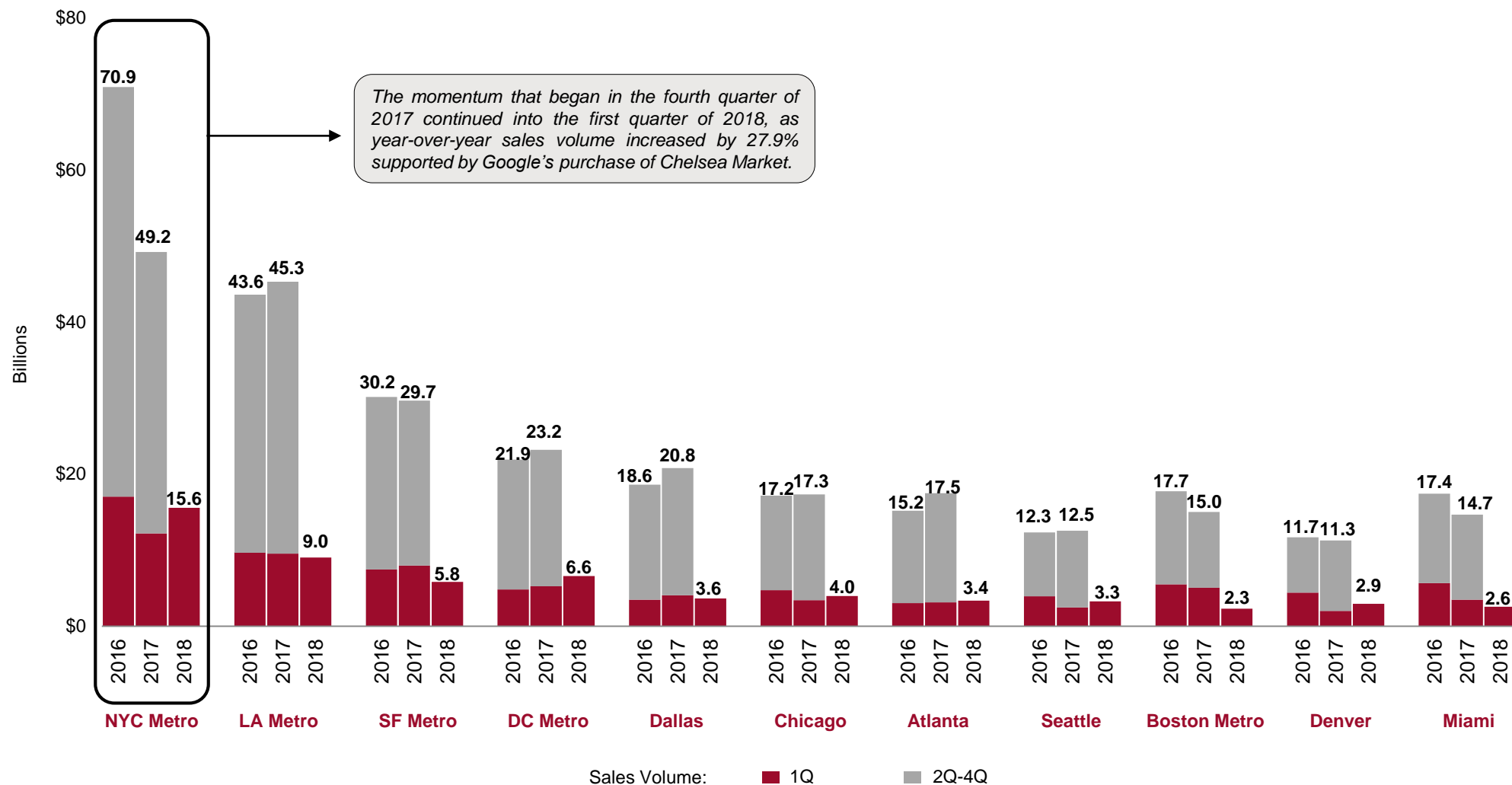
1Q18; All Property Types

ACQUISITIONS		DISPOSITIONS		TRADES	
Top Buyers		Top Sellers		Top Transactions	
Company	\$ Volume	Company	\$ Volume	Property	\$ Volume
Alphabet Inc.	\$2.4 B	GLP	\$4.1 B	Chelsea Market New York, New York Office	\$2.4 B
Blackstone	\$2.2 B	Jamestown	\$2.4 B	701 7th Avenue (Times Square Edition) New York, New York Hotel	\$1.5 B
Brookfield Asset Management	\$1.1 B	Cabot Properties	\$1.8 B	340 West Street New York, New York Office	\$700 M
Host Hotels & Resorts	\$1.0 B	Starwood Capital	\$1.1 B	600 West Chicago Avenue Chicago, Illinois Office	\$510 M
Junson Capital	\$768 M	Hyatt	\$1.0 B	1700 Broadway New York, New York Office	\$465 M

SALES VOLUME

Primary Markets; Yearly Totals; All Property Types

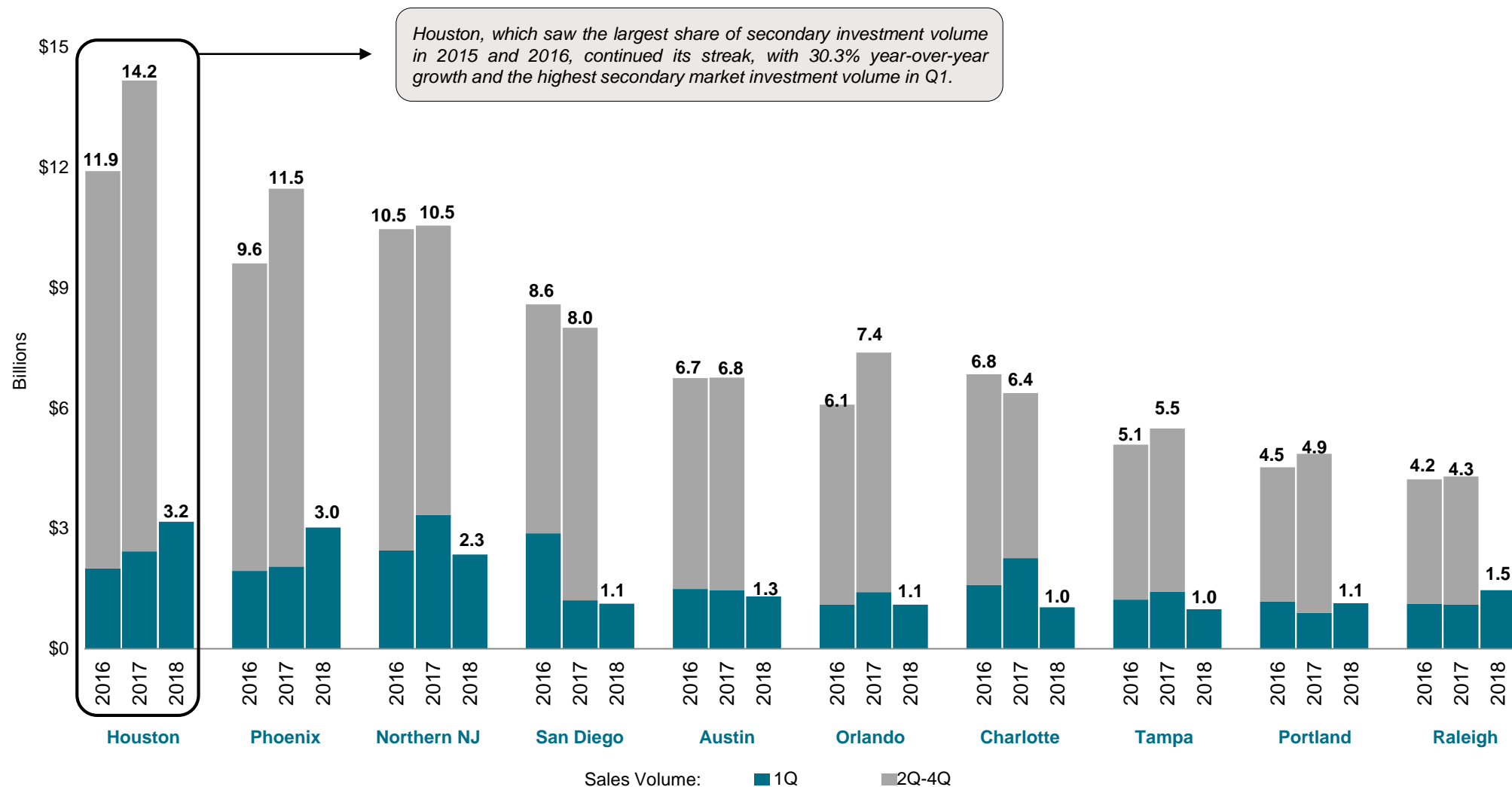
While investment sales volume across the primary markets was mixed in 2018, multihousing was the best performing asset class, with volume increasing 74.1% year-over-year.



SALES VOLUME

Secondary Markets; Yearly Totals; All Property Types

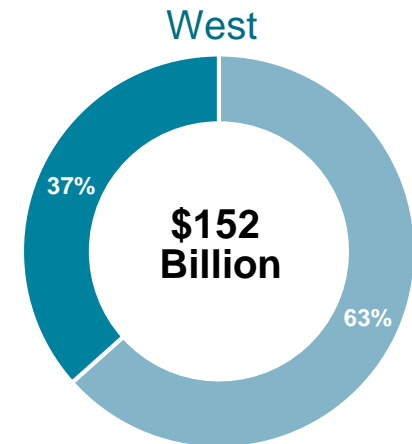
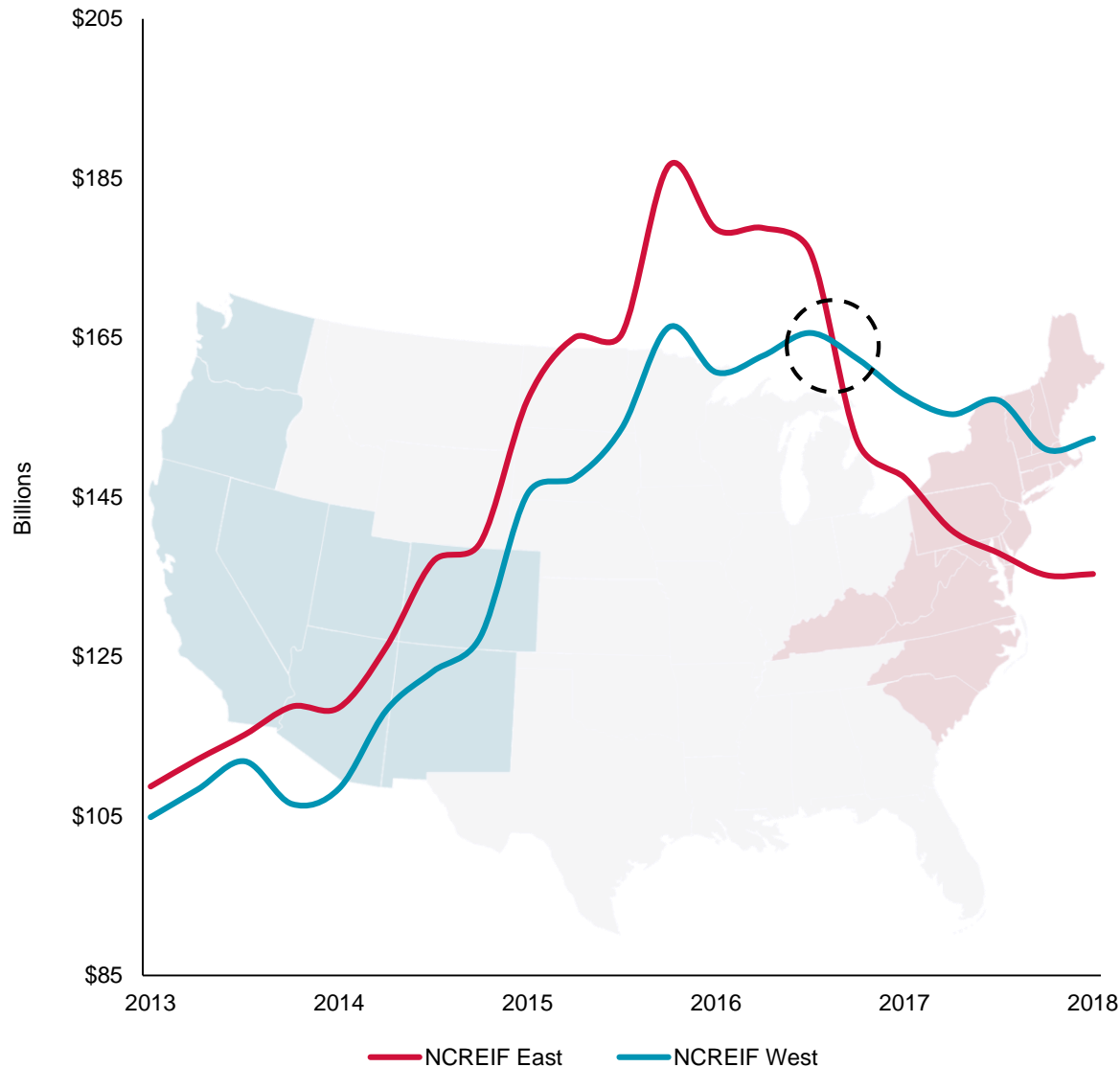
While overall secondary investment volume ticked downward 5.0%, the decline in activity was not evenly spread. Phoenix and Houston had a strong quarter, bolstered by over \$3 billion in combined multihousing sales.



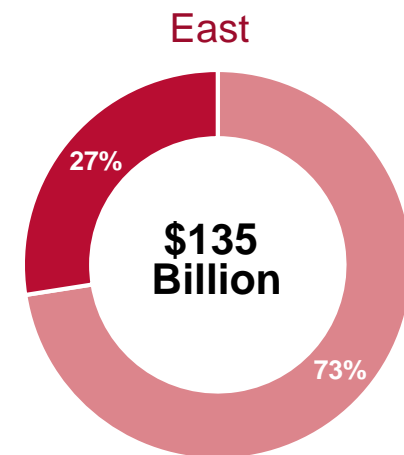
EAST COAST VS. WEST COAST SALES VOLUME

United States; 12-Month Totals; All Property Types

A staggering \$58.8 billion in West Coast sales transactions under \$25 million has helped push total sales volume past the East Coast, which only managed \$37.2 billion in similarly sized deals.



■ \$25 Million+ Volume ■ Less than \$25 Million Volume

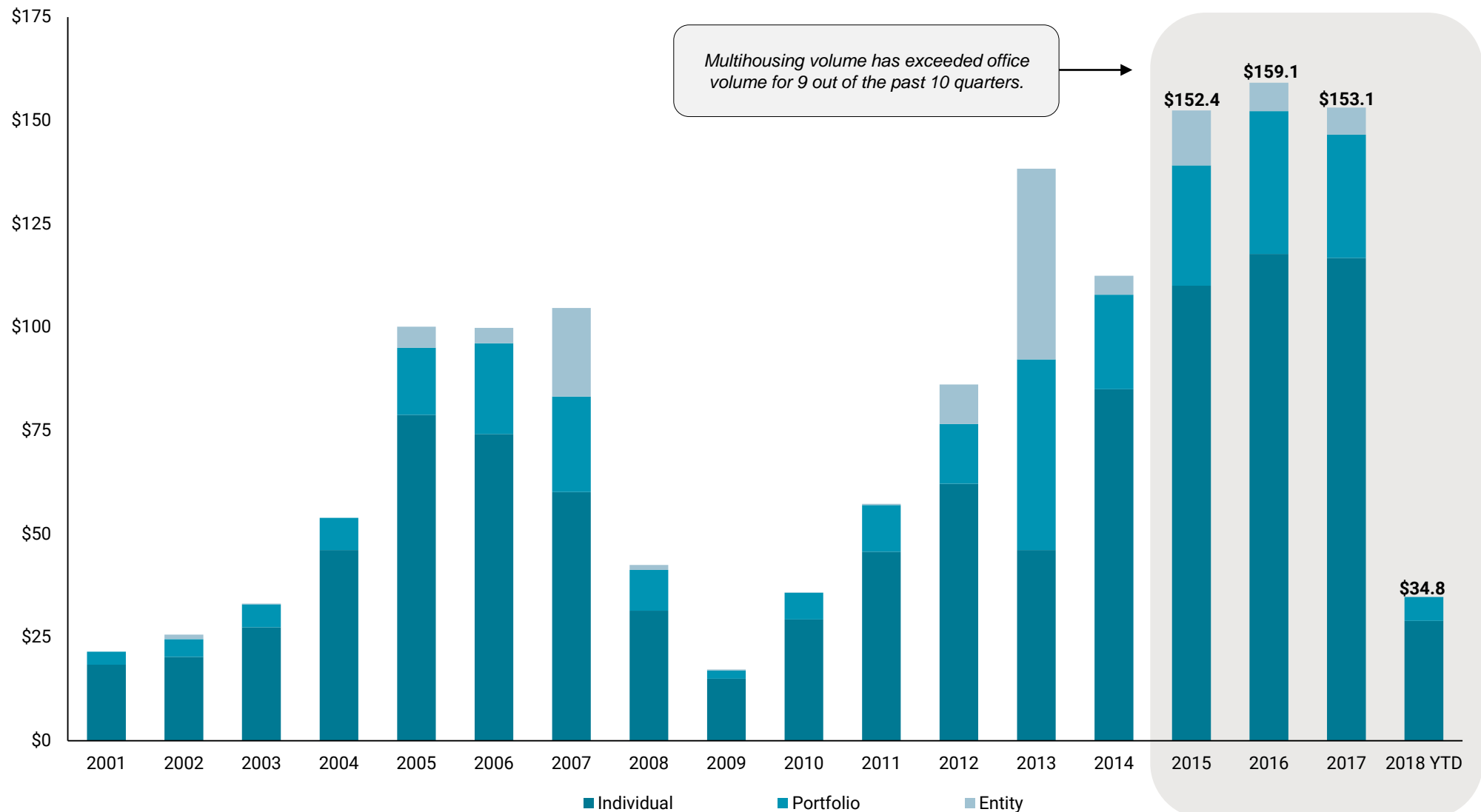


■ \$25 Million+ Volume ■ Less than \$25 Million Volume

MULTIHOUSING SALES VOLUME

United States (\$ in Billions)

Sales volume in the first quarter of 2018 increased 25.1%, year-over-year, with over 83% of the volume coming from individual transactions.

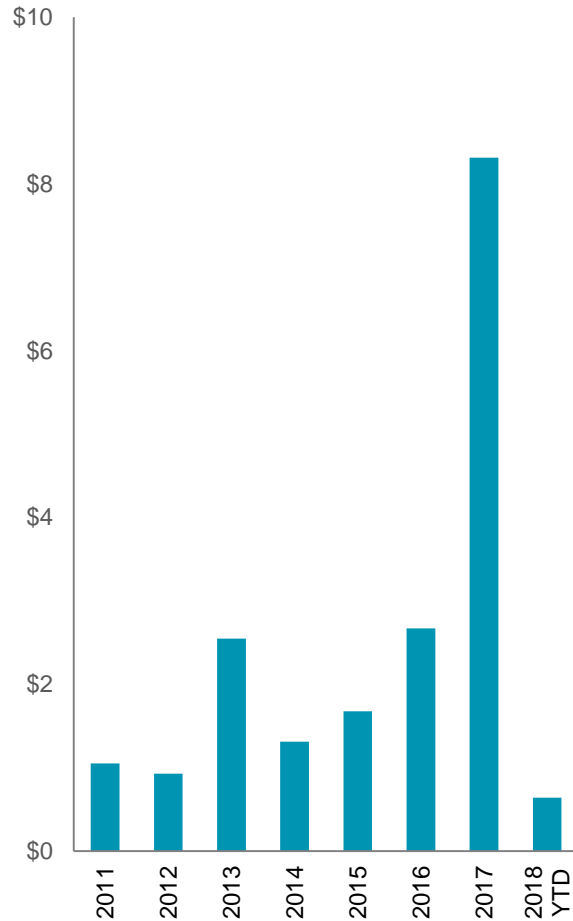


GROWTH IN SPECIALTY ASSETS

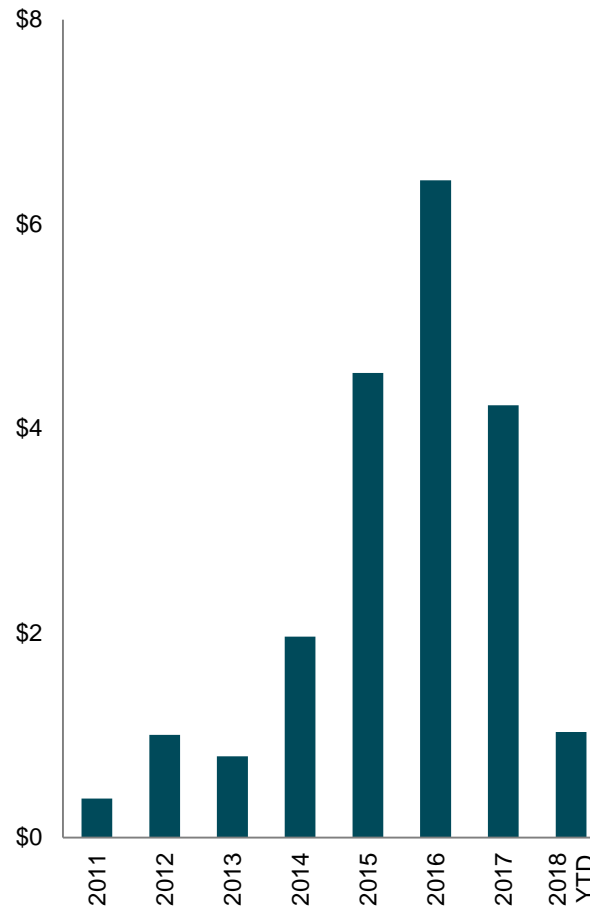
United States (\$ in Billions)

International and institutional investors are looking past traditional property types, in search of more portfolio diversity, greater macro growth prospects and varied risk profiles.

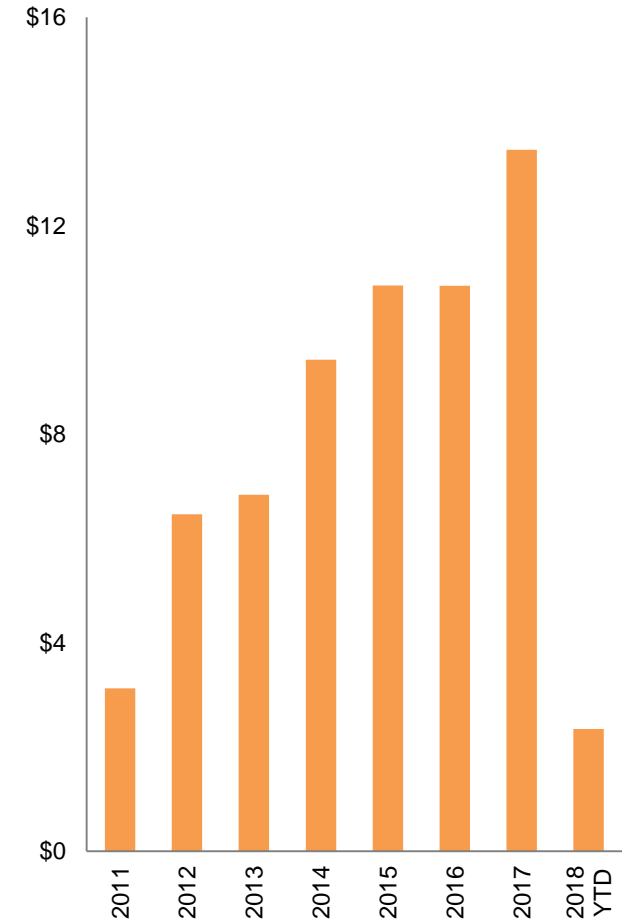
Data Center



Self Storage



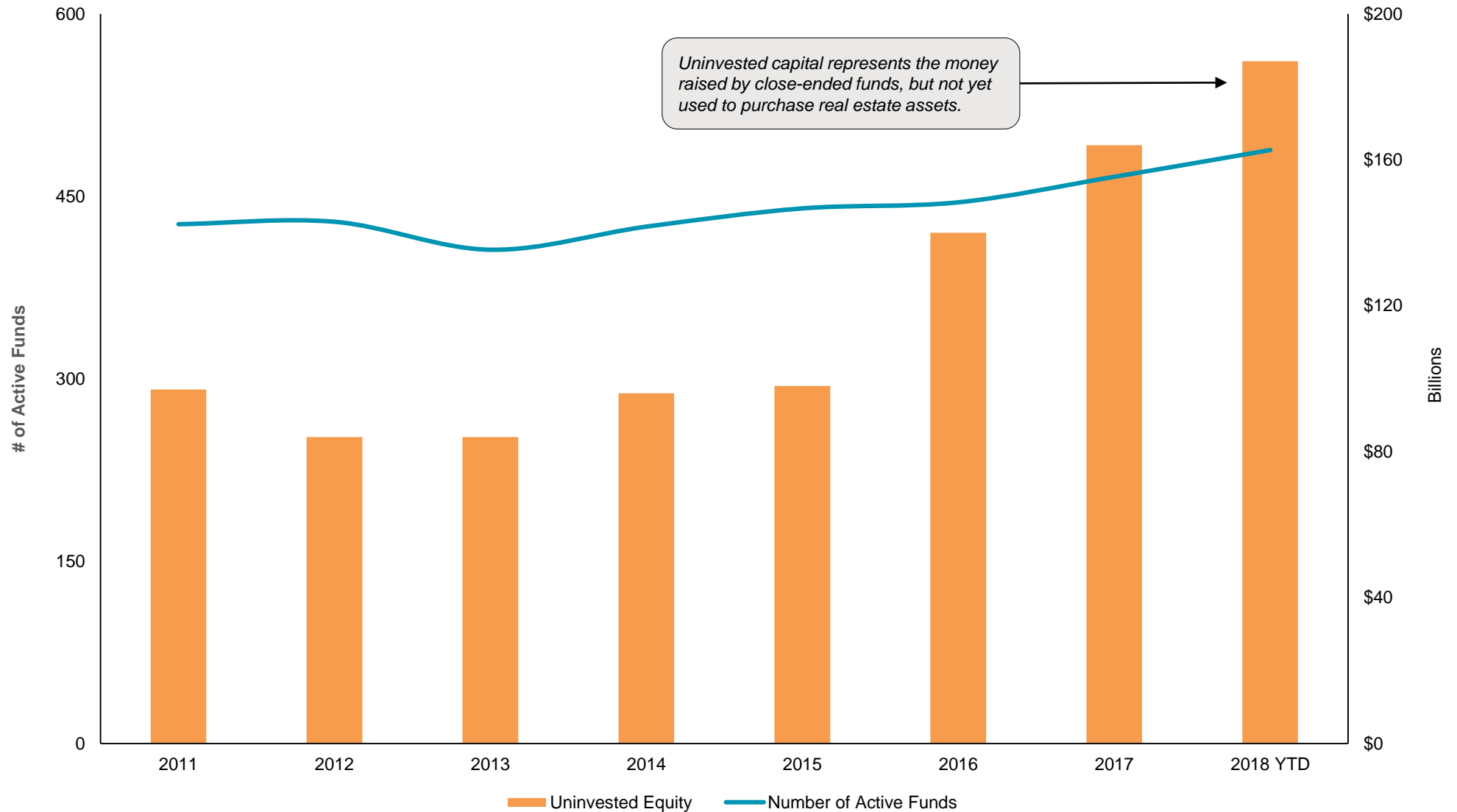
Medical Office



DRY POWDER & CLOSE-END FUNDS

Funds Targeting At Least 10% Yields

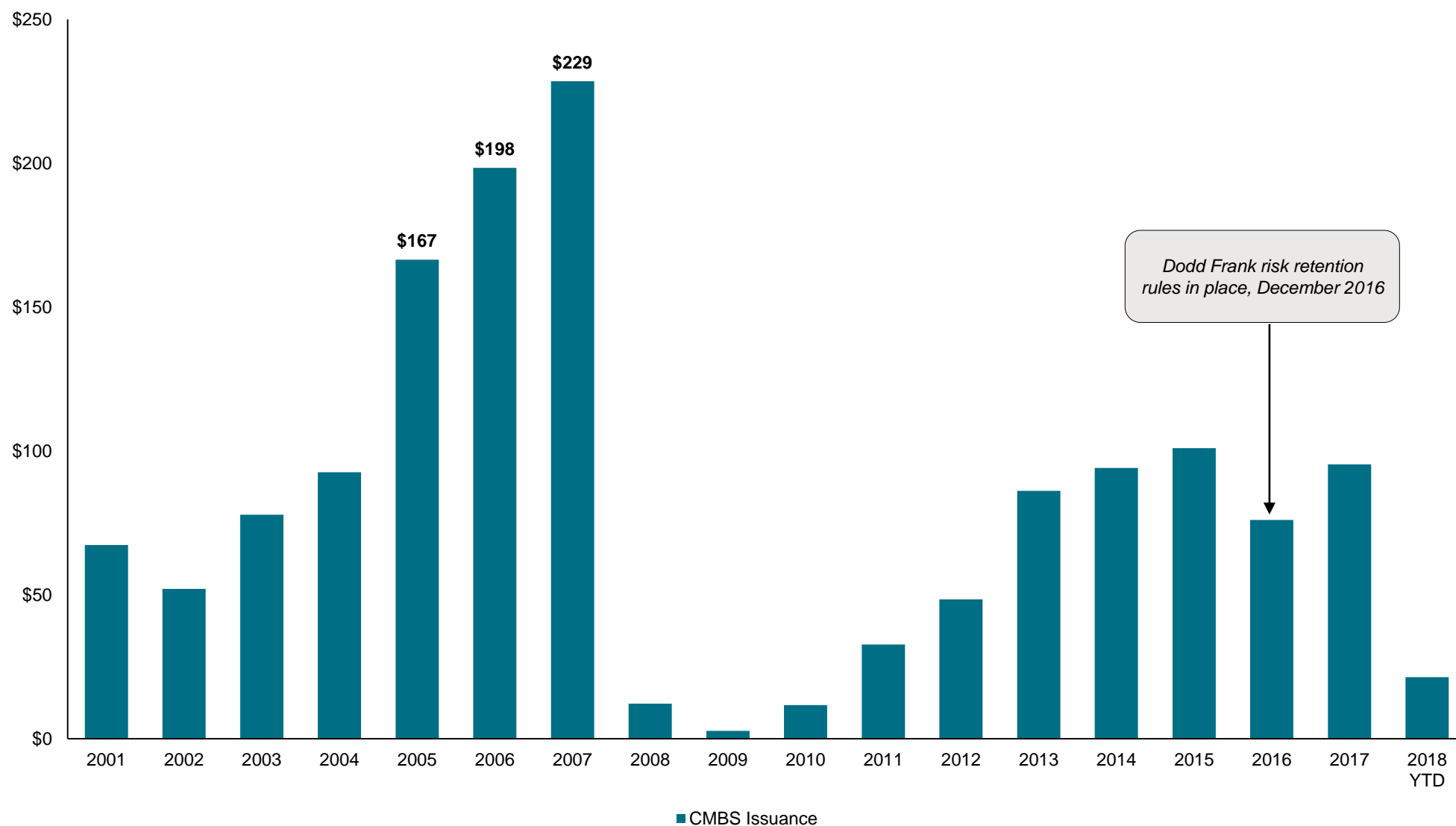
With fewer opportunities for core product in primary markets, real estate funds are finding it more difficult to place capital and achieve target yields.



CONDUIT LOAN ACTIVITY

United States

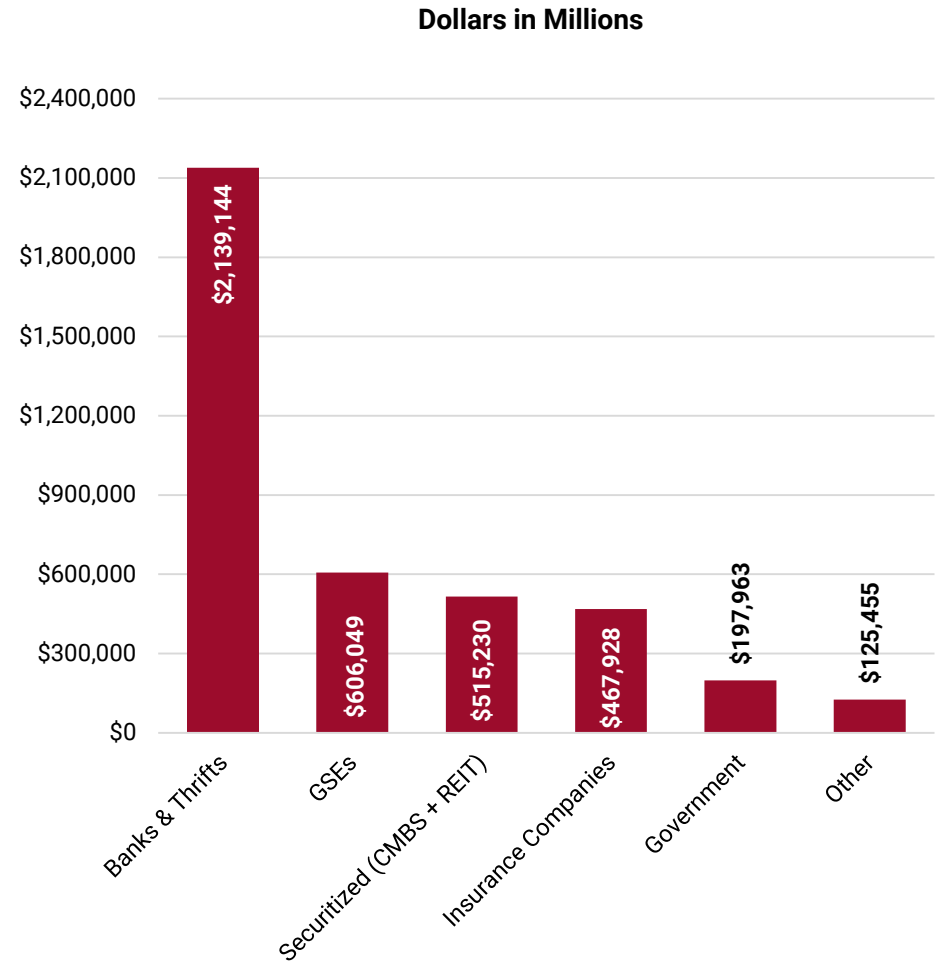
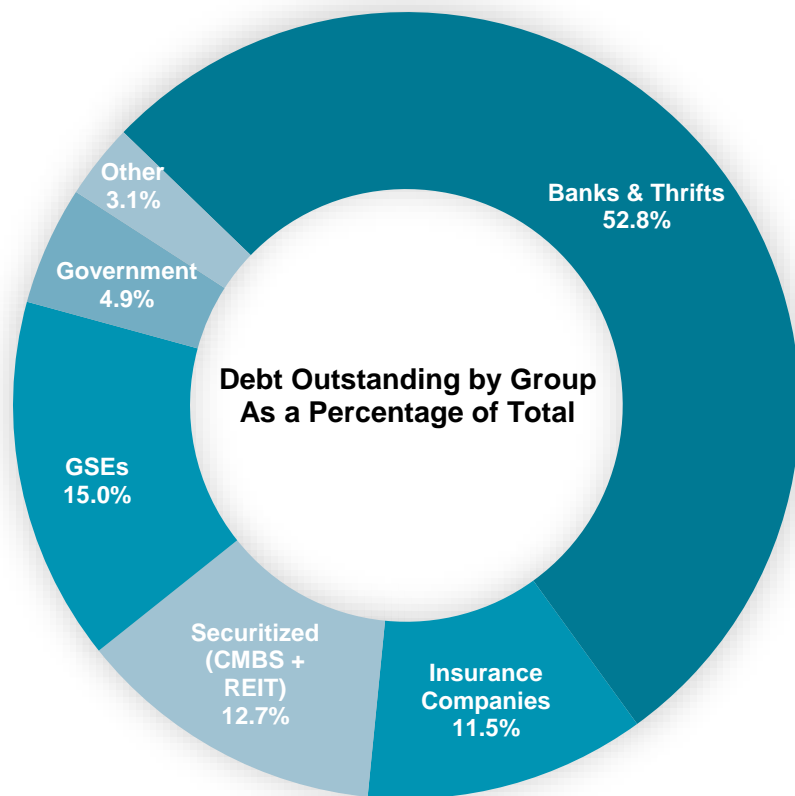
CMBS issuance remains strong for the current cycle, despite risk retention rules requiring issuers to either retain 5% of the debt structure or pass the requirement to another B-piece investor. However, recent activity has recorded considerably less volume than **2005-2007**, reaffirming that other types of debt financing have taken hold.



MORTGAGE DEBT OUTSTANDING

Commercial and Multihousing Debt; By Group

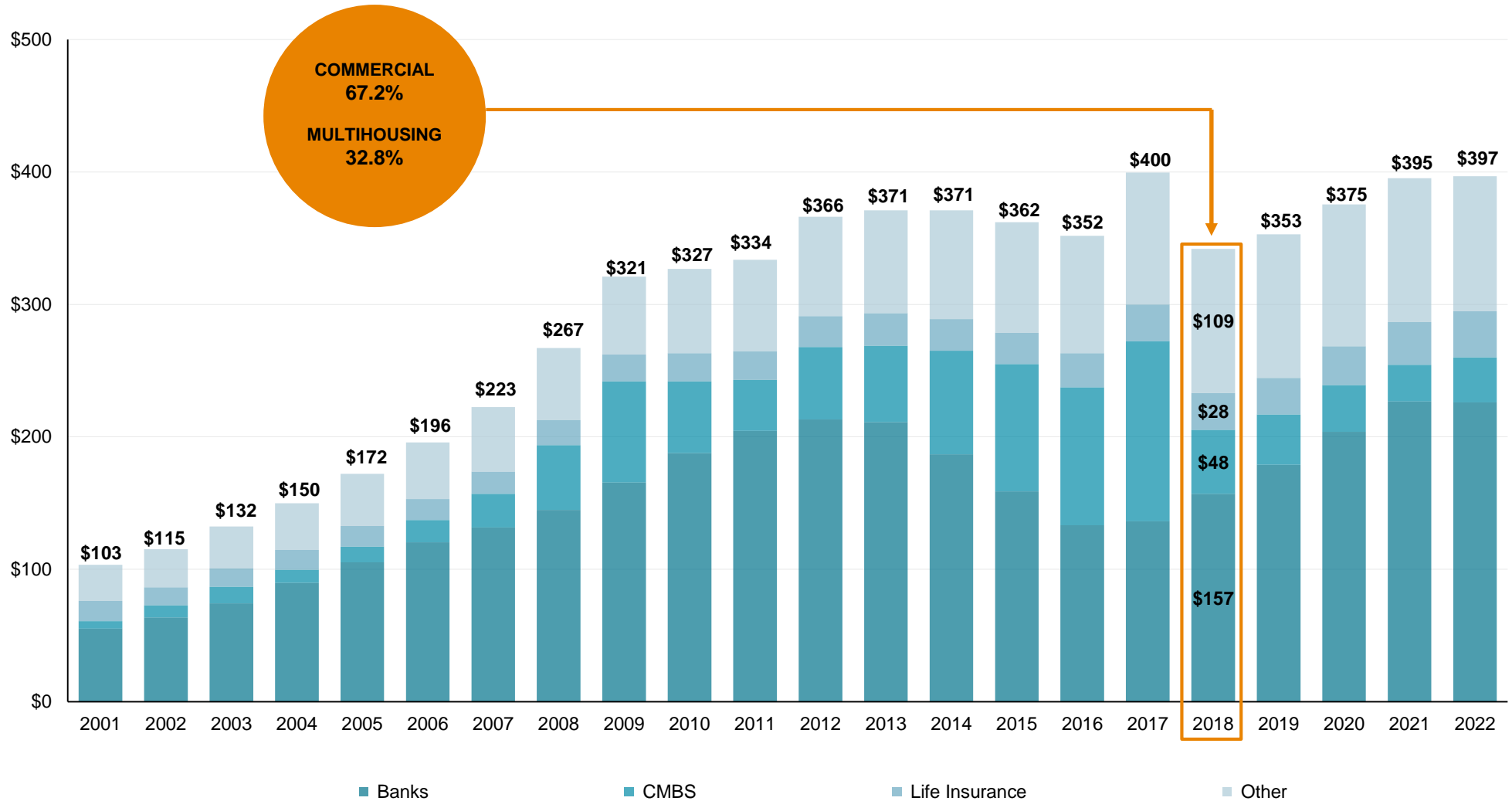
Commercial and multihousing debt outstanding rose \$45.4 billion, or 1.5%, to \$3.1 trillion. Agency and GSE debt outstanding grew to \$573.1 billion, a 3.6% quarterly increase.



MORTGAGE MATURITIES

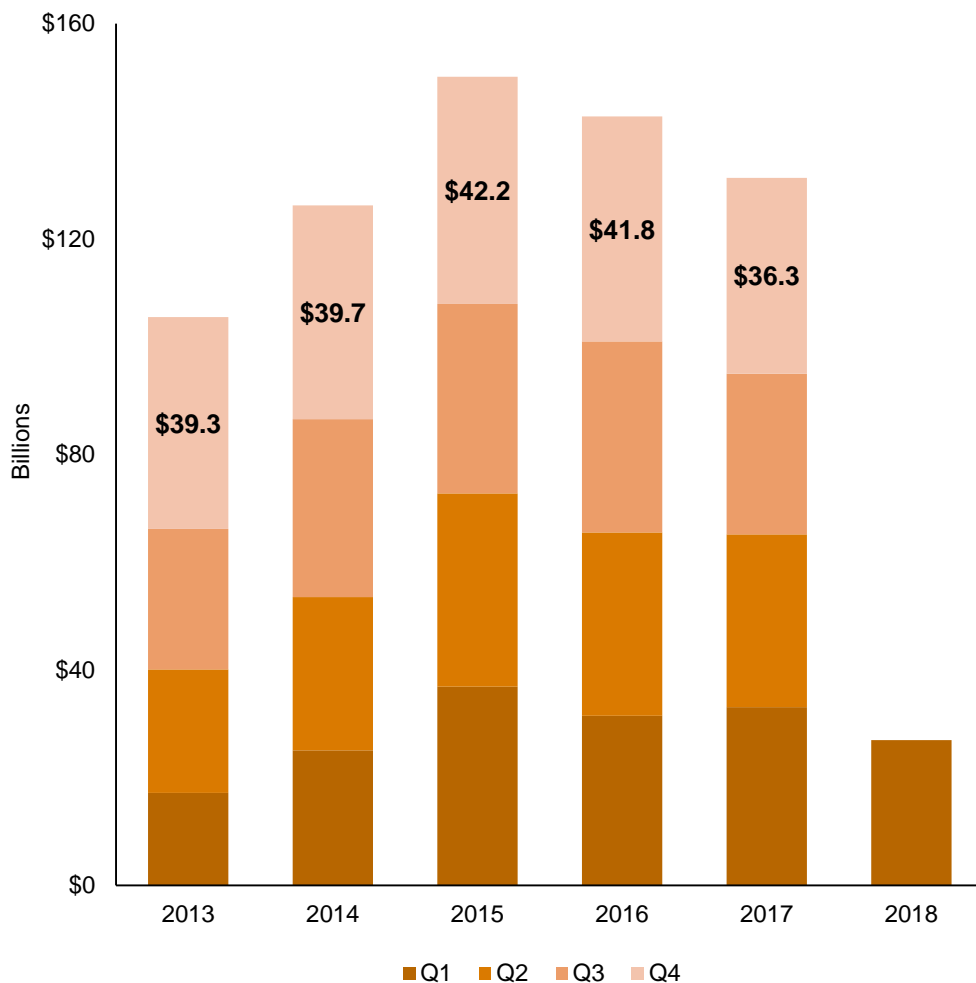
By Lender Group (\$ in Billions)

2017 represented the peak of mortgage maturities throughout the cycle with a noticeable drop-off in 2018. Of the \$341.9 billion in mortgages set to mature in the year ahead, banks hold 45.9% of the loans.

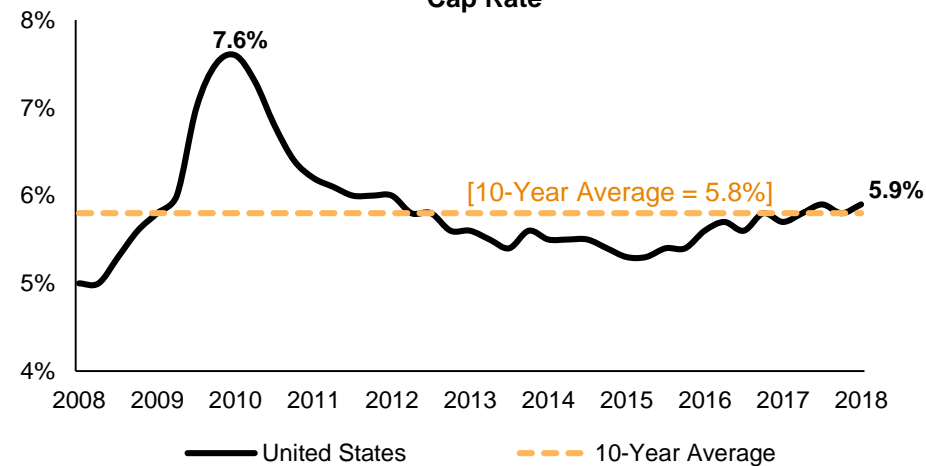


First quarter investment sales volume slowed by 20.0%, compared with 1Q17, reflecting the lack of core trophy assets for sale in the primary markets. Chicago was the exception, recording over \$1.3 billion in sales, up 46.1% from last quarter, supported by the purchase of Grubhub's HQ by local buyer Sterling Bay.

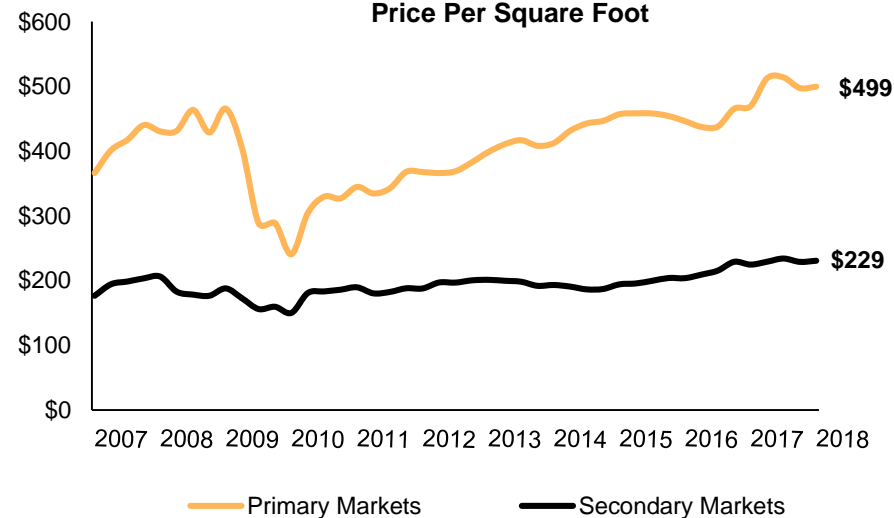
National Sales Volume



Cap Rate



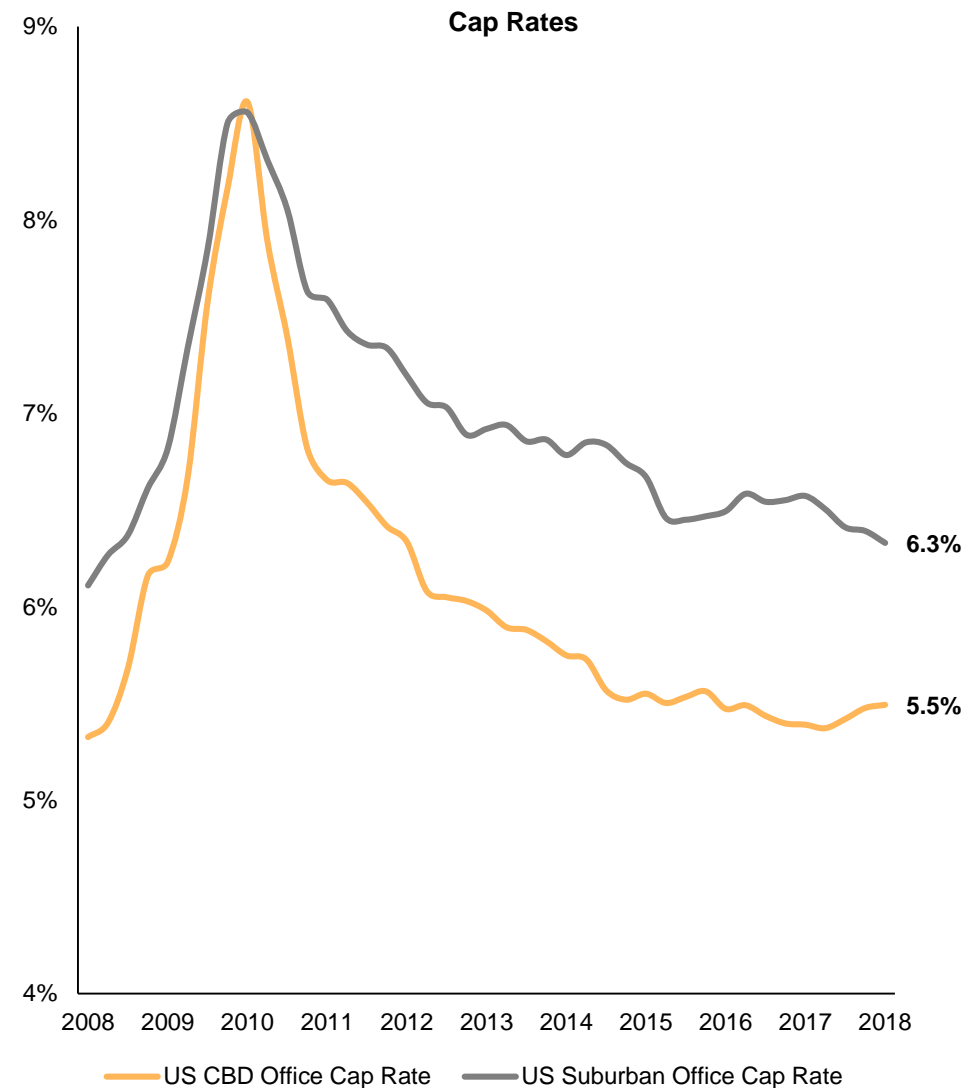
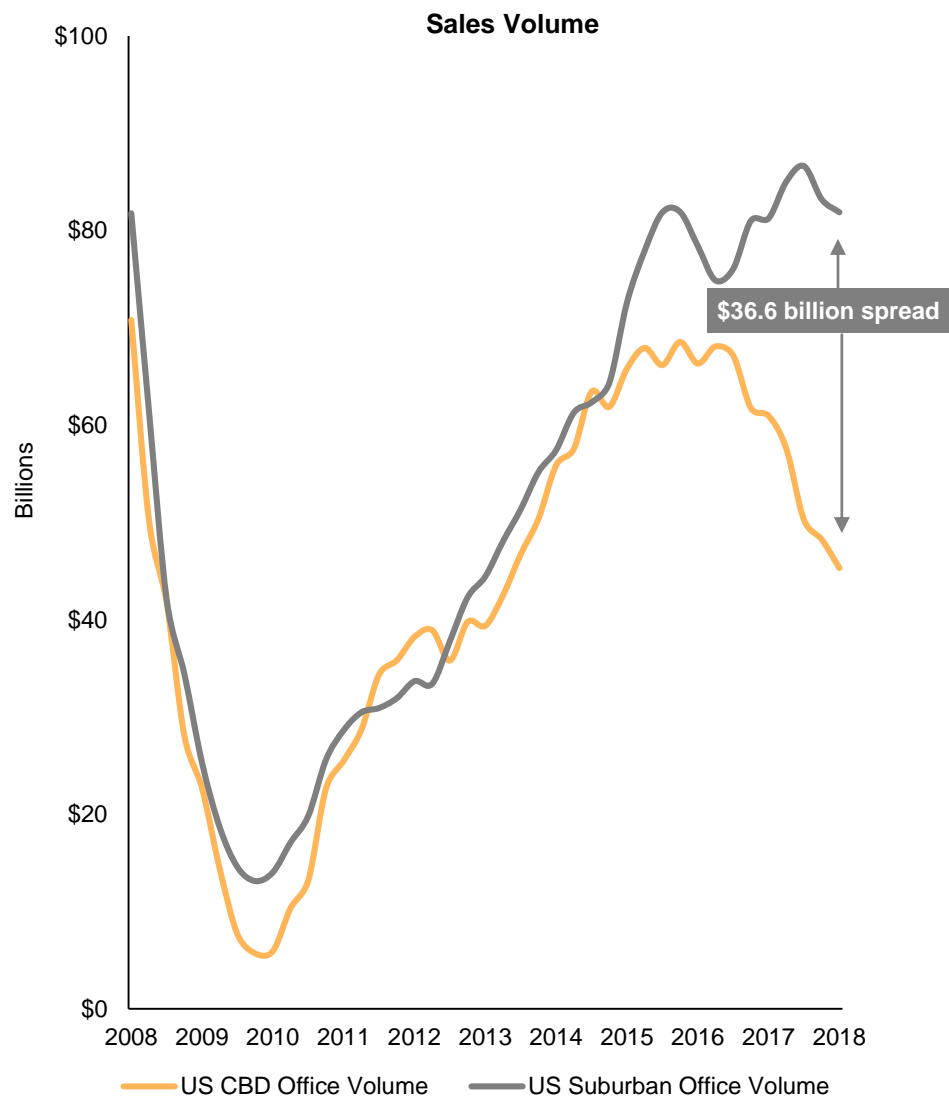
Price Per Square Foot



OFFICE ANALYSIS

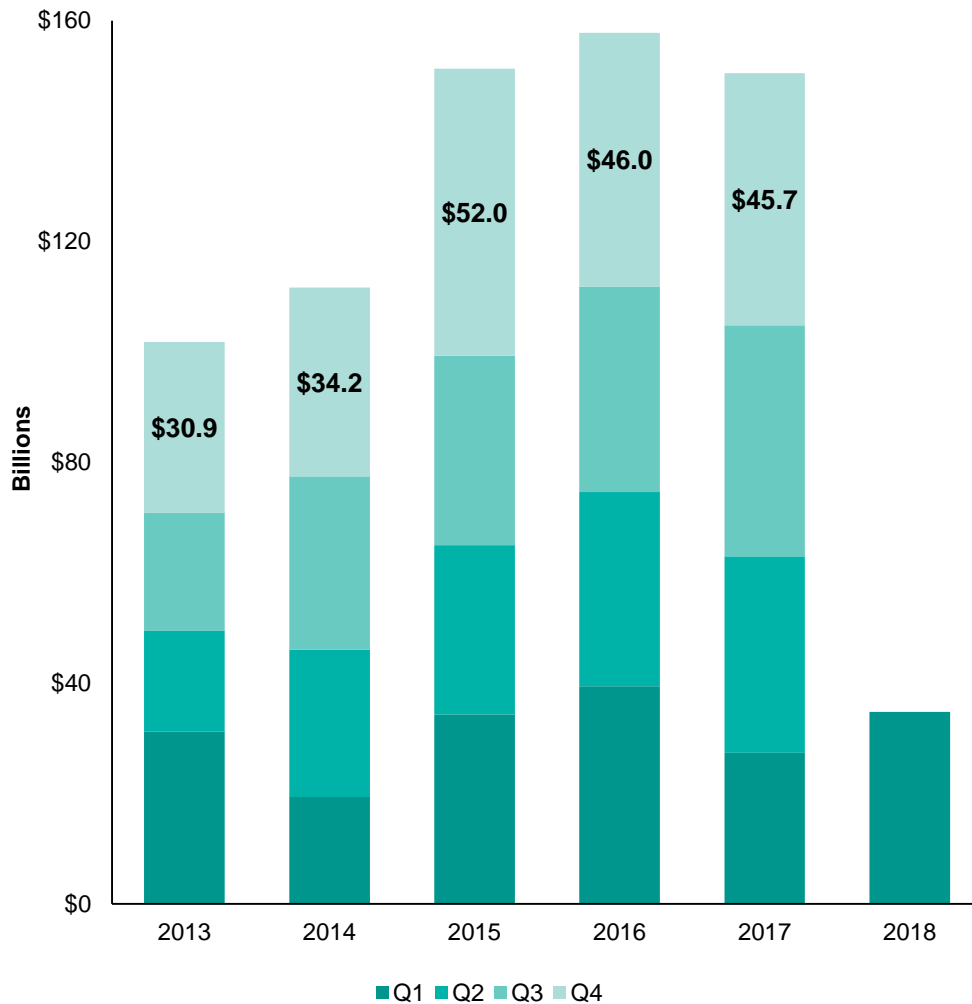
United States; 12 Month Totals

Investors continue to chase yield in the form of suburban office investment – the yearly total suburban investment volume remains close to this cycle's high, at \$81.9 billion, while suburban caps remain at a 84 basis point premium to CBD assets.

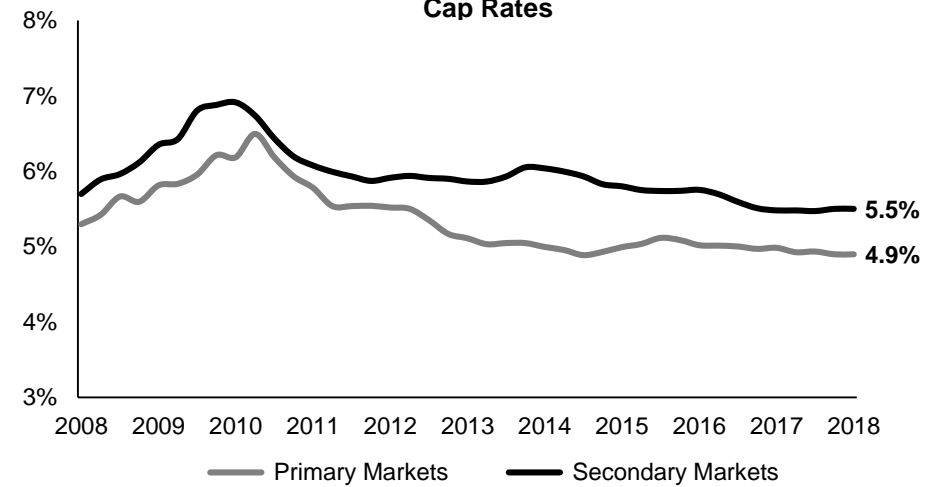


Southwestern cities, such as Houston, Dallas and Phoenix contributed over \$5 billion in sales volume in the first quarter, continuing the momentum that began after the first quarter of 2017, which was the slowest quarter since 2014.

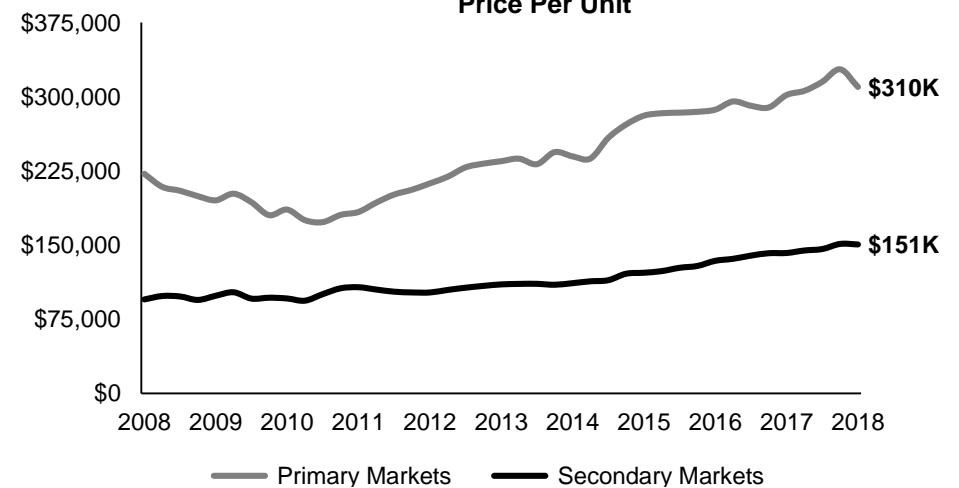
National Sales Volume



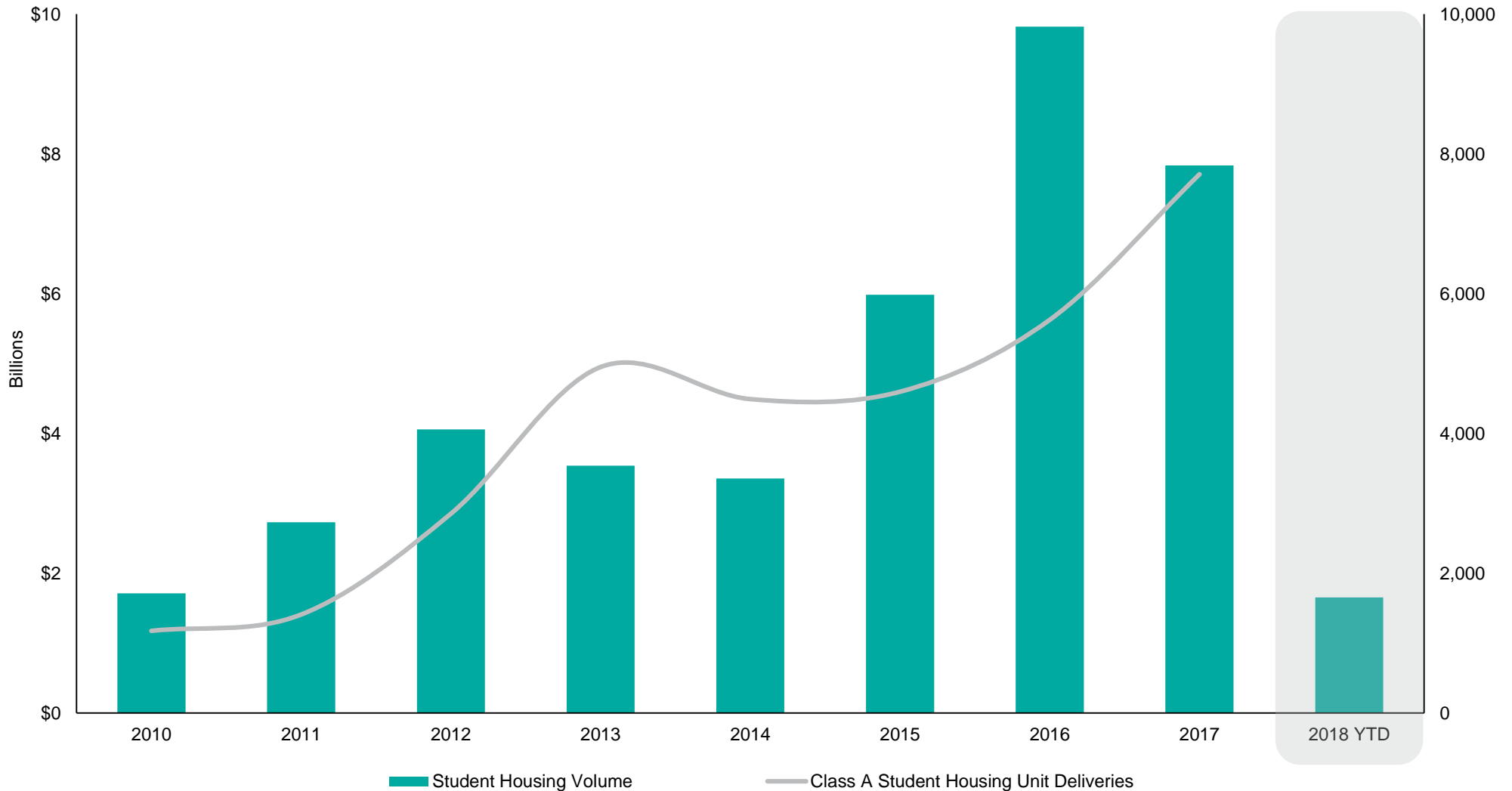
Cap Rates



Price Per Unit

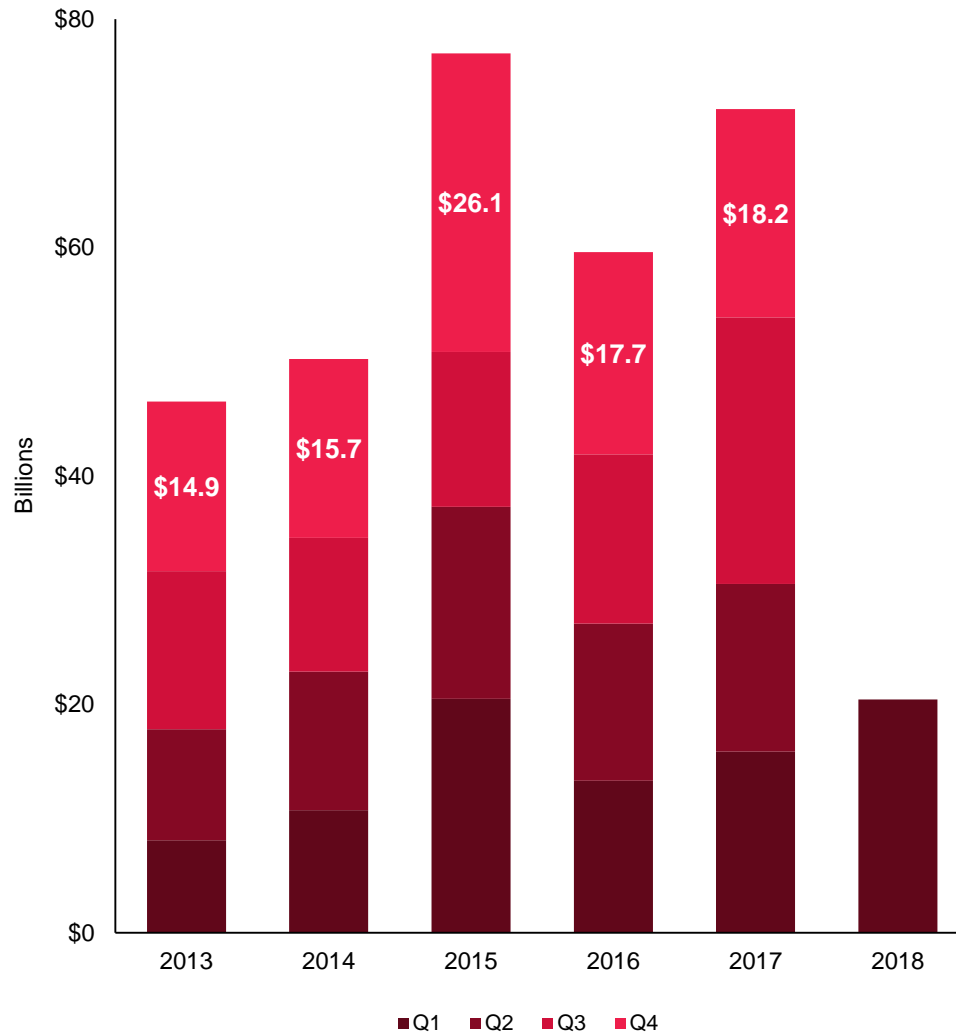


The delivery of institutional-quality, amenity rich, assets to the student housing market has coincided with strong investment sales numbers. Promising US college enrollment predictions coupled with the asset class's anti-cyclical characteristics have also helped push the asset class into the mainstream.

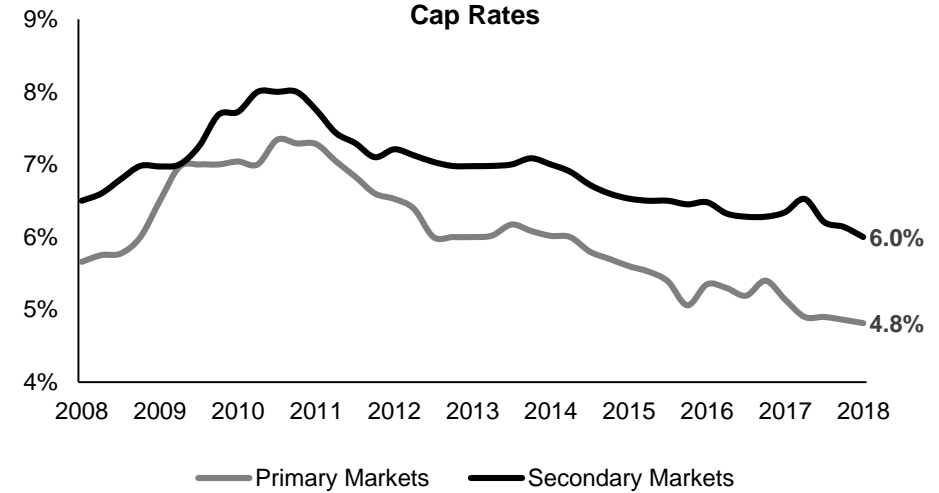


Industrial volume surpassed the first quarter of 2017 by an astonishing 28.7%, reaching \$20.4 billion. Along with strong sales volume growth, an increase in pricing continued into 2018, reaching an all-time high in the first quarter.

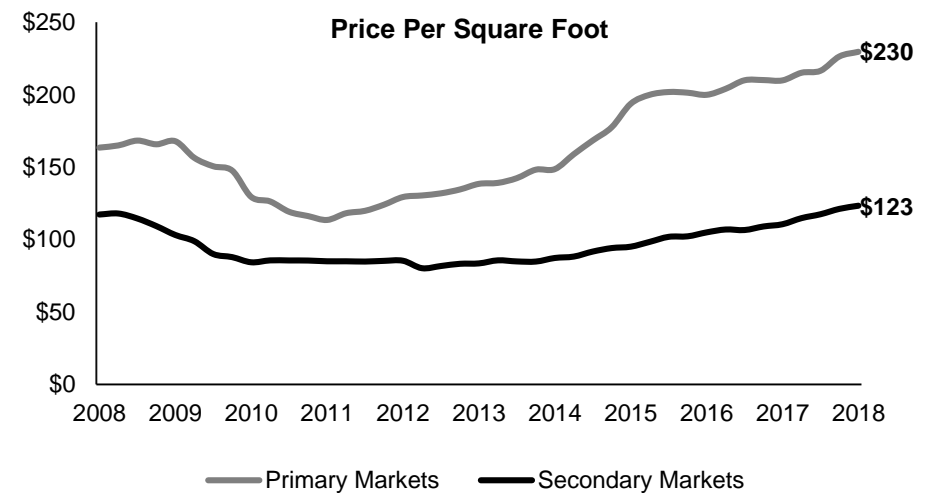
National Sales Volume



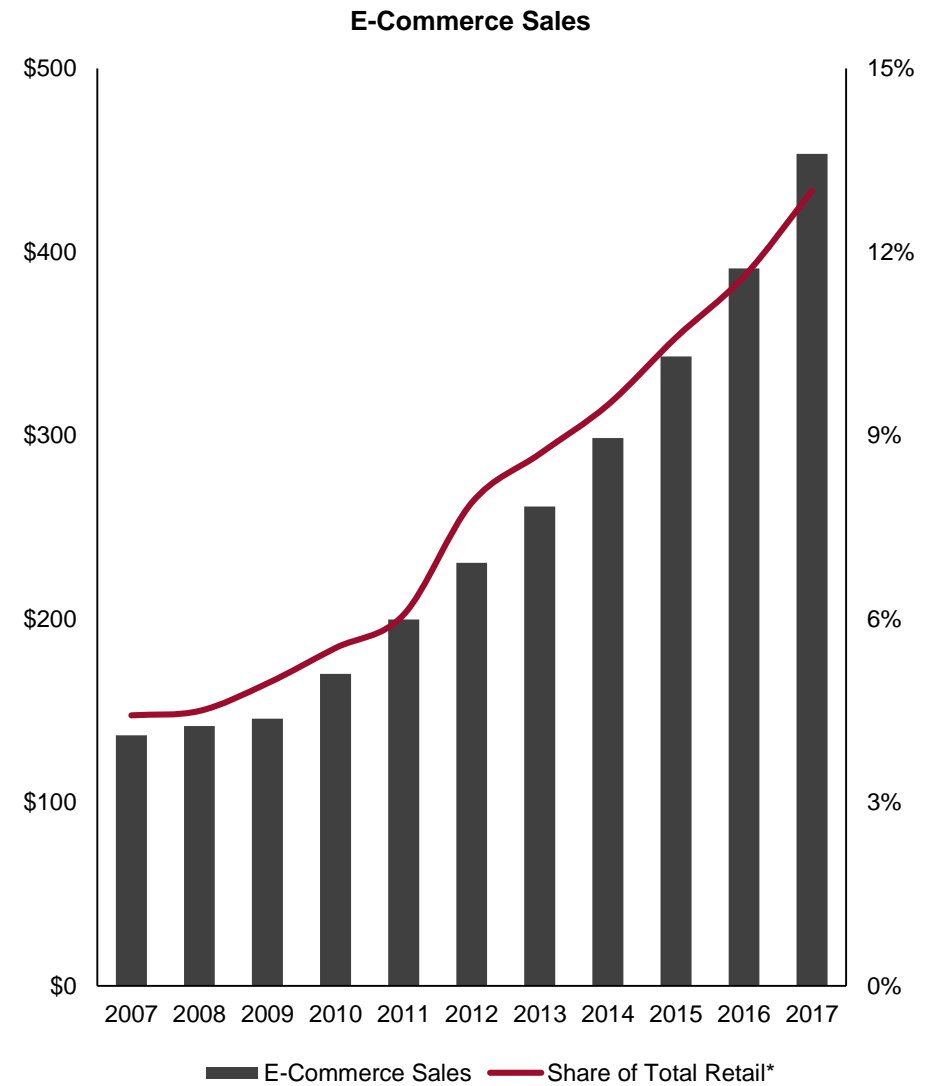
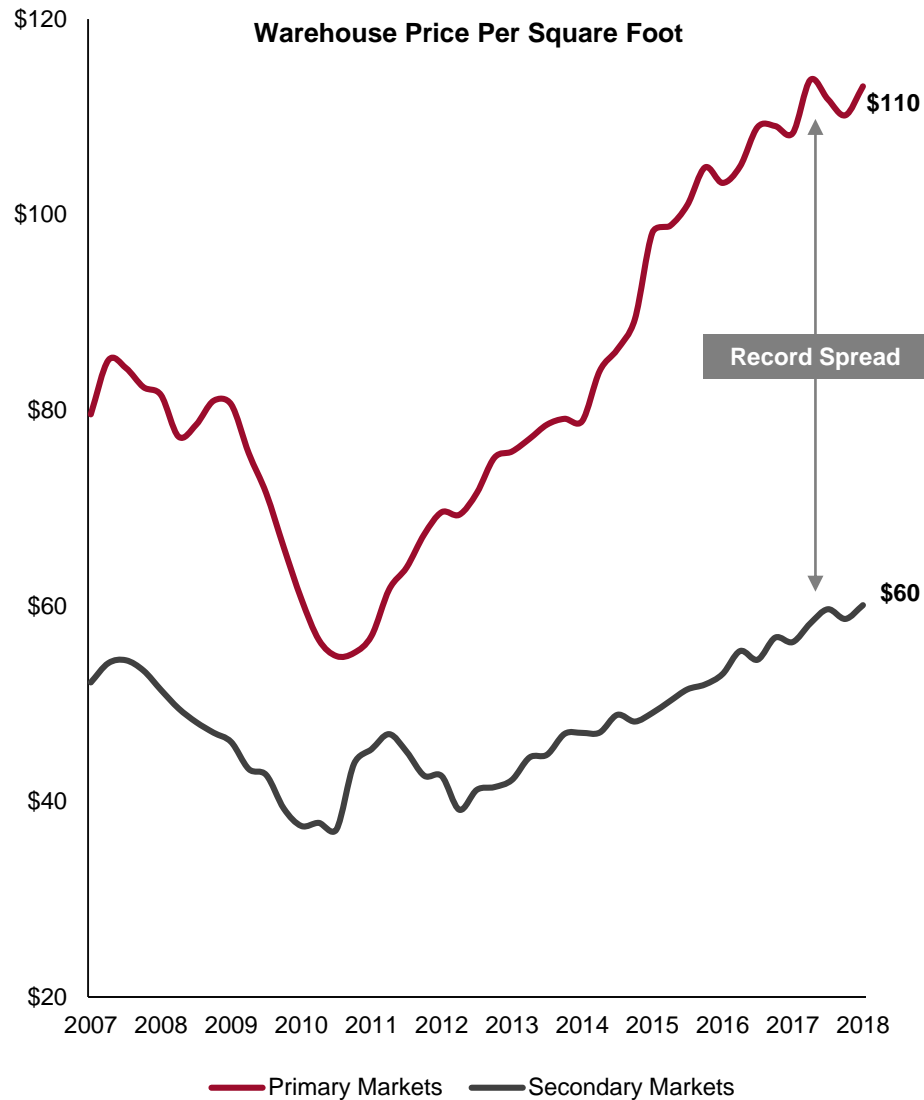
Cap Rates



Price Per Square Foot

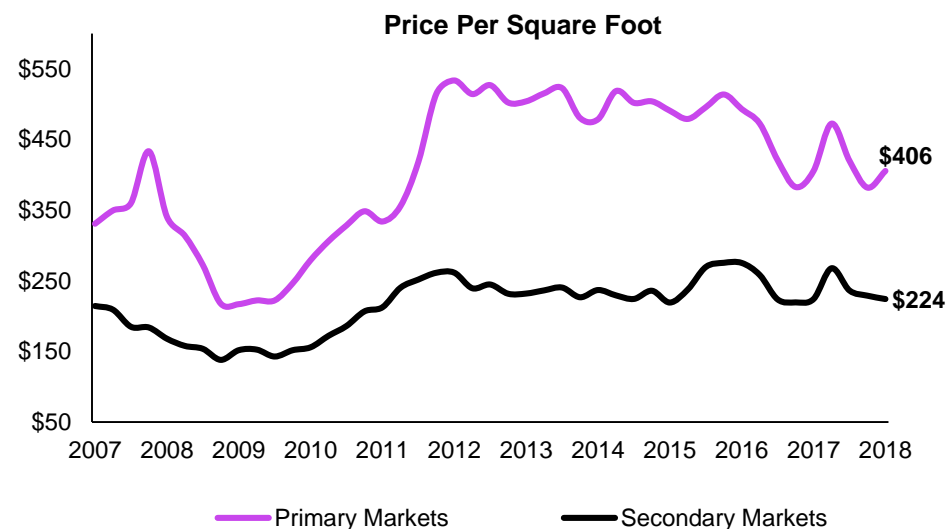
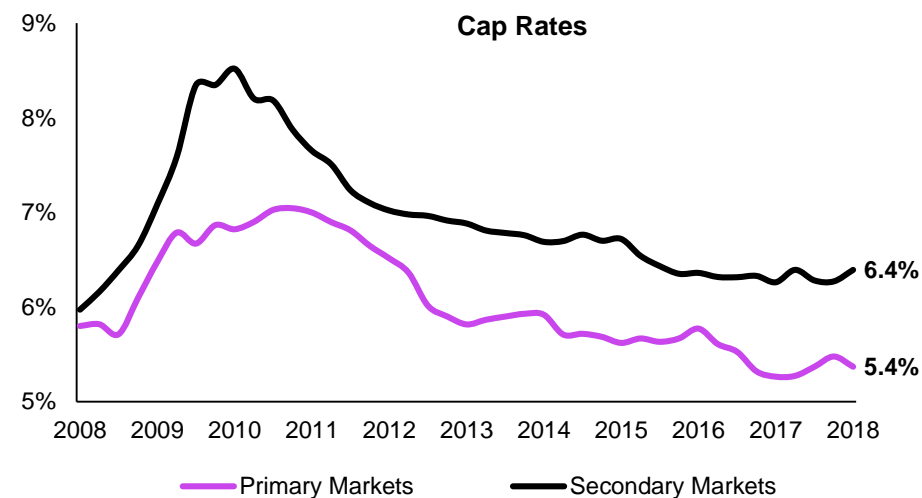
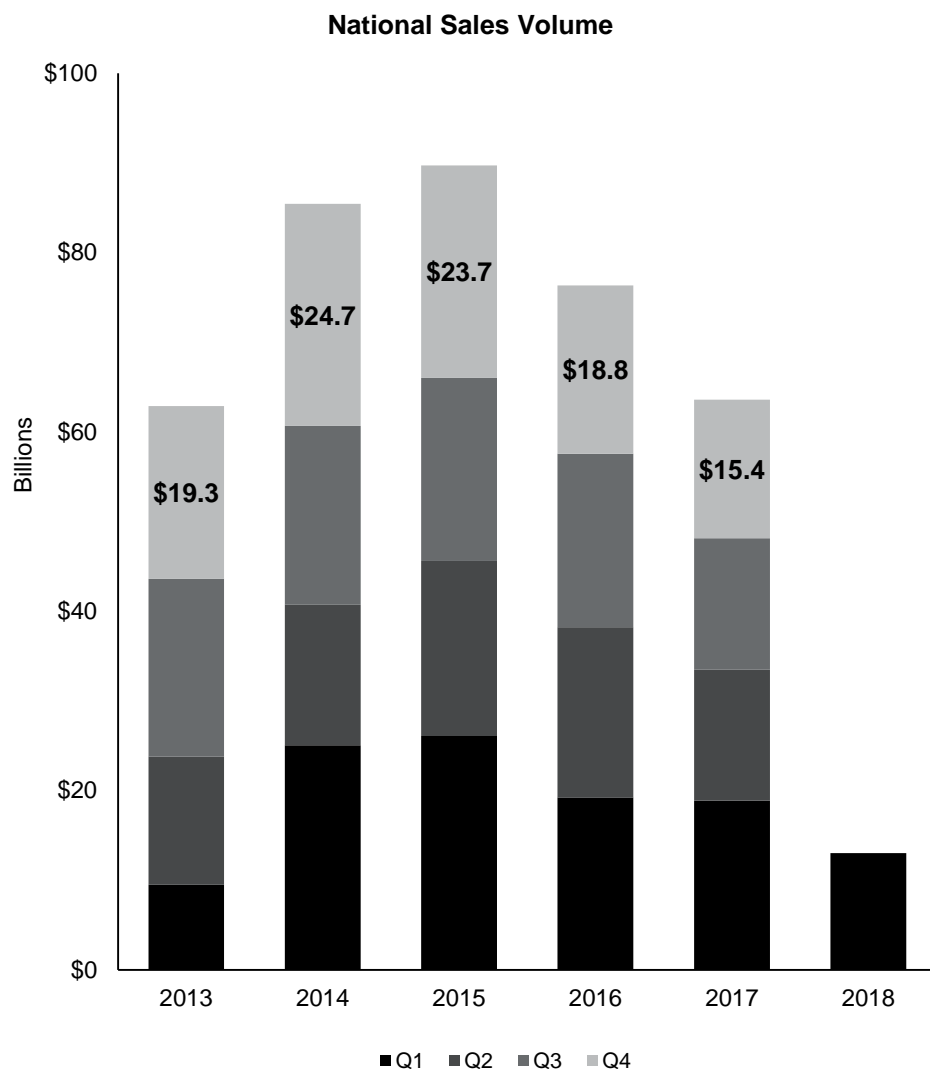


While national warehouse prices have benefited from the rise in e-commerce, and the related demand for warehouse space, the supply constrained primary markets have seen the greatest price appreciation (86.4% since 2010), mirroring the similarly astonishing rise in e-commerce sales volume, which has recorded a 168.0% gain since 2010.

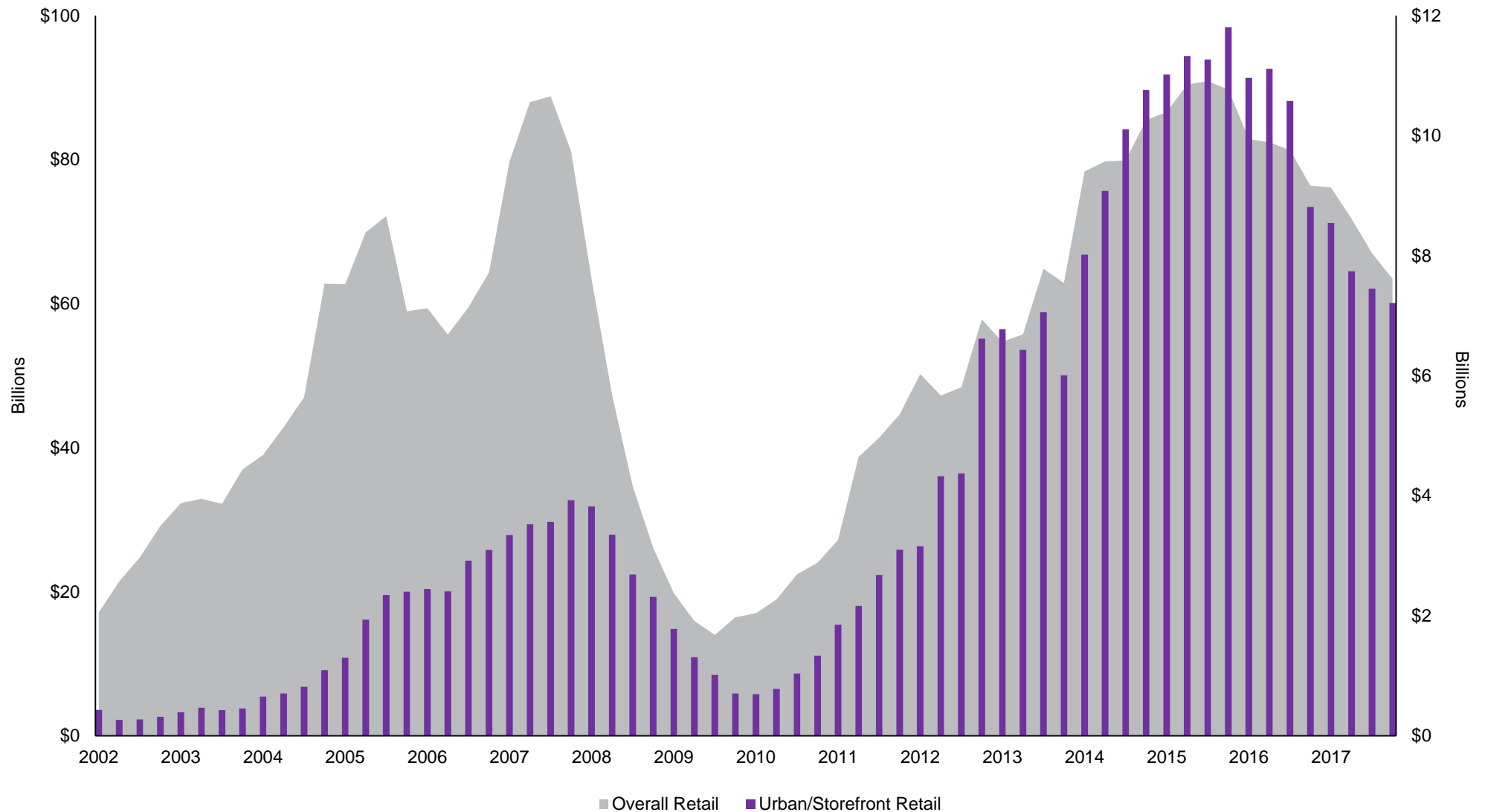


*Total retail sales exclude goods not typically purchased online, such as automobiles, restaurant sales, etc.

Pricing has moderated in primary markets as investors have become more cautious. Expect continued industry disruption from online sales/ecommerce as well as volatility among brick and mortar retailers.

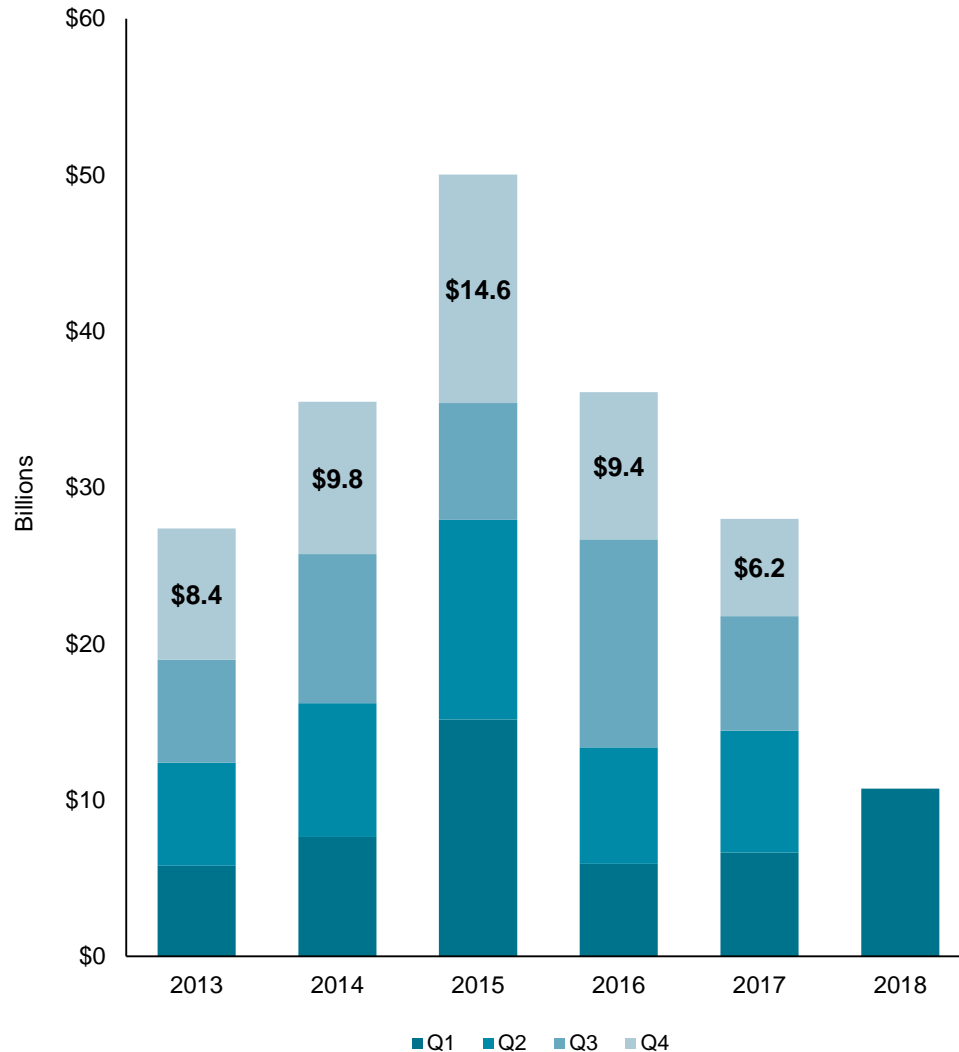


While the previous cycle was dominated by suburban retail, the current cycle has seen the rise of urban, downtown assets, with total investment volume increasing 279.3% compared with the last cycle.

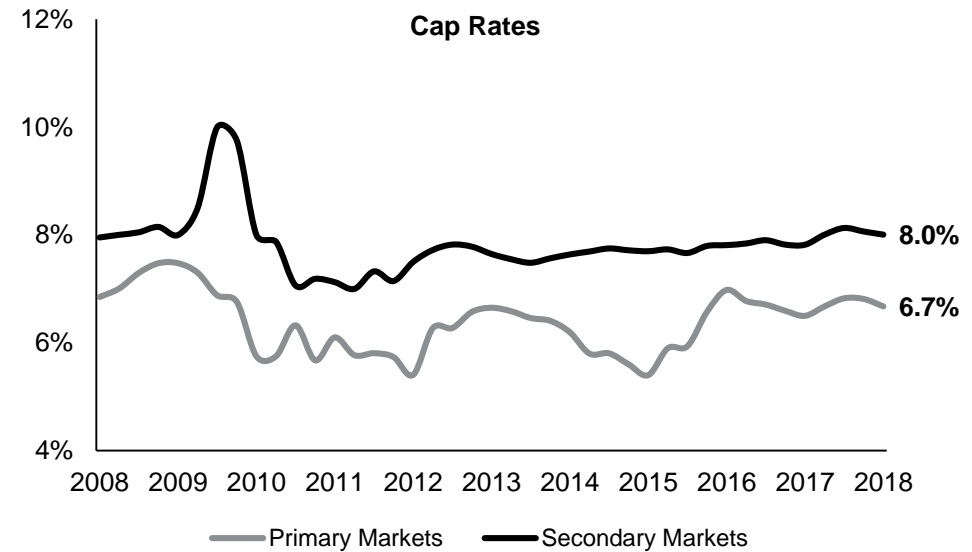


Investment in hospitality has firmly returned in the first quarter, which recorded a 61.0% year-over-year increase. Luxury, Midscale and Economy all saw positive investment sales growth, boosted by two large billion-plus trophy transactions in New York and Pennsylvania, and four \$500+ Million national portfolio transactions.

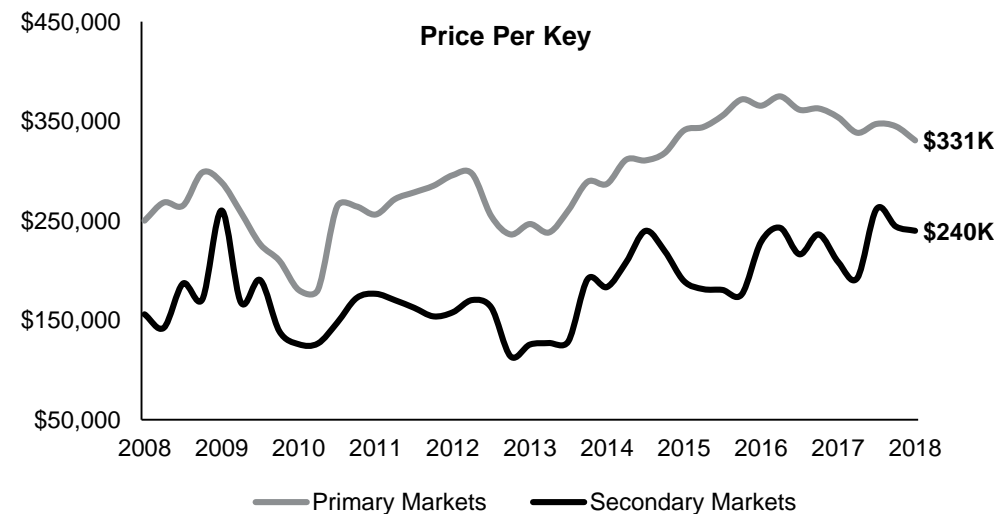
Sales Volume



Cap Rates

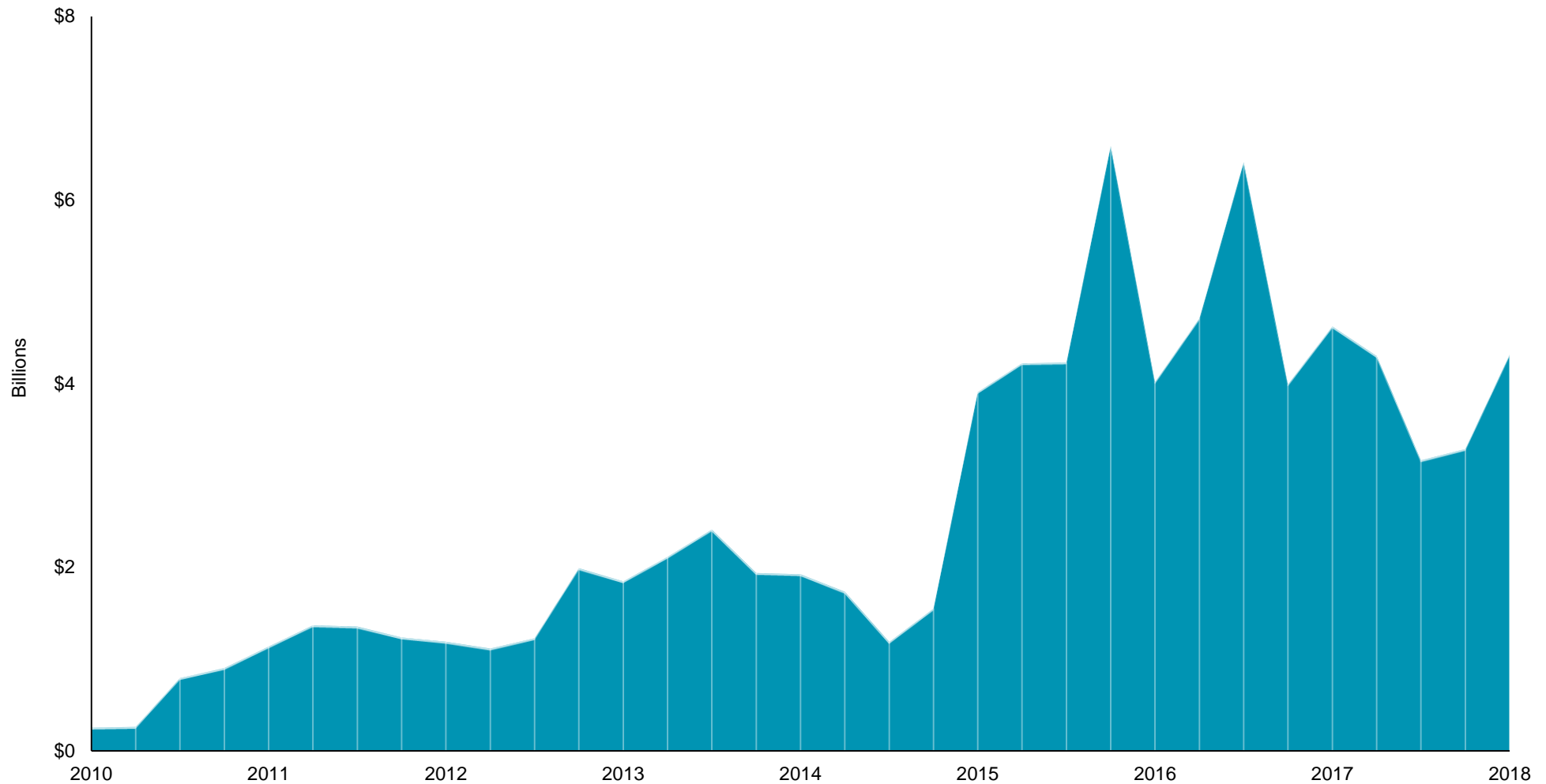


Price Per Key



As Airbnb threatens to take demand away from traditional hotels, investors are increasingly interested in hotels with competing levels of amenities and that feature suite style living – suite style hotel sales volume managed an 18.9% gain, to \$6.6 billion, since last quarter.

Suite Hotel 12 Month Volume



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