

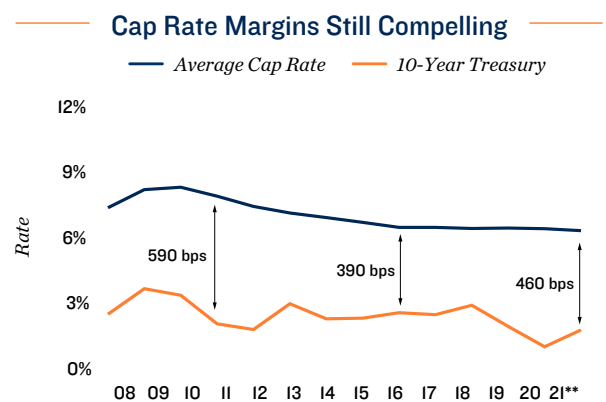
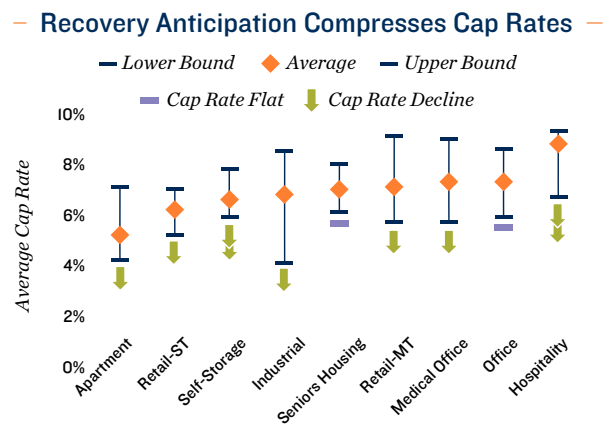
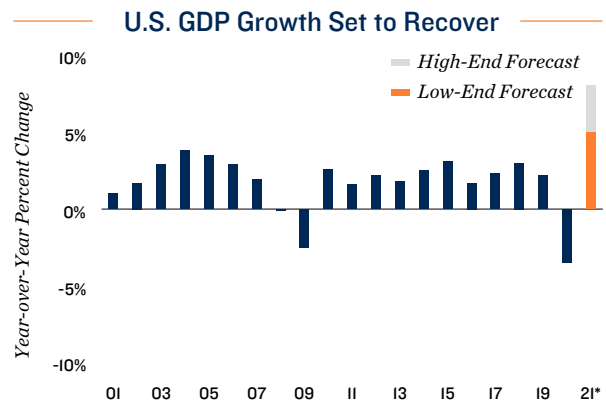
Cap Rates Compress as Investors Become Increasingly Active Performance Durability and Post-COVID Recovery Prospects Favored

Health and economic outlooks improving. Multiple factors point to an economy that is firmly in recovery as vaccinations continue. A number of stimulus checks and new support programs such as federal unemployment insurance have helped to lessen the financial burdens of those most impaired by the health crisis. For those who were able to keep working, stimulus measures and fewer consumption options have bolstered personal savings. The total value in savings deposits and money market funds has increased an estimated \$4.3 trillion since February 2020. These pent-up savings are giving way to heightened retail spending as more venues reopen. Core retail sales have grown 13 percent from the February 2020 pre-pandemic benchmark. Reviving air travel suggests that both business and leisure travelers are also back on the move.

Varying performance restrains overall marketable inventory. Strengthening economic tailwinds should boost commercial real estate fundamentals this year, inciting recovery speculation among investors and spurring buyer activity. At the same time, the recovery has thus far been uneven, with some cities, states and property types jumping ahead of others, generating a broad range of valuation variance. Many owners remain in a holding pattern, awaiting additional clarity before they sell, which is restraining the flow of marketable inventory. This demand-supply imbalance has exacerbated the expectation gap between buyers and sellers in many markets, slowing deal flow for underperforming assets.

Competitive bidding spurs cap rate compression. Buyers have most aggressively focused on assets that weathered the pandemic best, including many industrial, multifamily and self-storage properties. Investors have also targeted property types expected to make a quick post-crisis recovery, such as hotels as well as certain types of retail and seniors housing. While some discounting has occurred in unique situations, valuations of most asset types have largely held steady or surpassed pre-health crisis levels as strong buyer interest has aligned with limited for-sale inventory. This dynamic has also led to cap rate compression among sought after assets.

Commercial property yields offer compelling margins. A limited number of marketed assets is supporting price appreciation and cap rate compression in regions with a positive growth outlook. Despite these contracting yields, the margin remains wide relative to alternative low-risk investment vehicles. Interest rates are still historically low, with the 10-year Treasury rate trailing the average commercial property cap rate by over 400 basis points. As the economy reopens, investment demand profiles are strengthening, and that anticipated momentum will carry over into markets and property types that have faced more recent hurdles.



* Forecast range; ** Through May 12

Leading cap rate indicators based on M&M deals under contract or newly listed. Average cap rate comprises multifamily, retail, office, and industrial transactions.

Sources: CoStar Group, Inc.; MNet; NICMap; Real Capital Analytics;

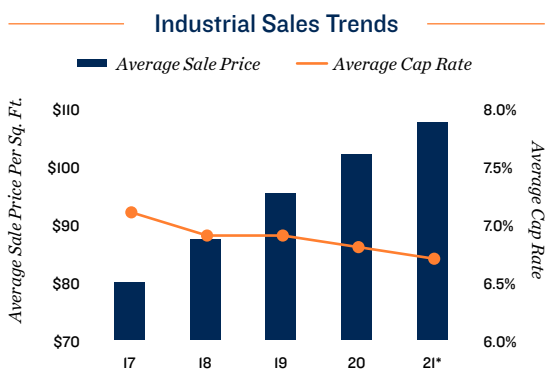
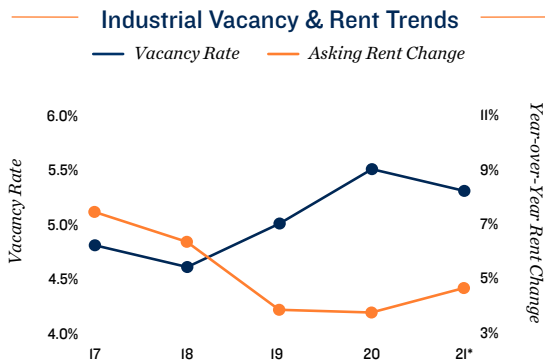
Office of Financial Research; Federal Reserve

INDUSTRIAL

E-Commerce Adoption, Safety Stocks and Reviving Shipping Landscape Encourage Industrial Investment

Coronavirus upheaval underscores need for industrial space. Temporary store closures encouraged more people, especially older individuals, to adopt e-commerce. The combination of greater retail spending with a higher likelihood to shop online is accentuating the need for logistics space. At the same time, many organizations have expanded safety stocks amid a continued lag with international shipping volumes. Property fundamentals reflect these added needs. Despite a near record number of deliveries over the 12-month period ended in March, national vacancy only rose 10 basis points to 5.3 percent. The average asking rent grew 4.6 percent in that span.

Industrial investors anticipate robust outlook. The alignment of steady e-commerce growth, increased warehousing of safety stock and the prospects of reviving imports and exports have amplified industrial investor optimism. Although cap rates range dramatically depending on the market, property vintage and numerous other factors, they have been favored with downward pressure predating the pandemic. Over the past year, this trend has gained momentum, lifting prices generally above pre-pandemic levels and reducing yields. Infill locations remain a top target for private capital while institutional investors have favored larger assets with quality leases in place in port and intermodal hub metros.



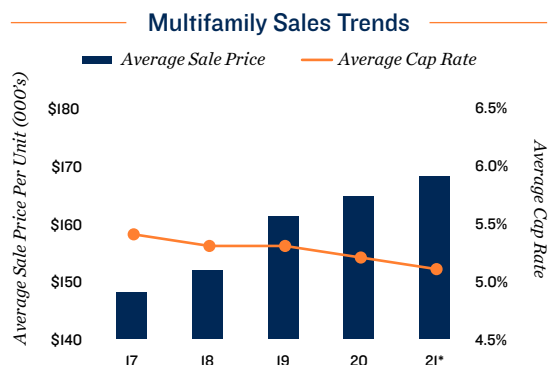
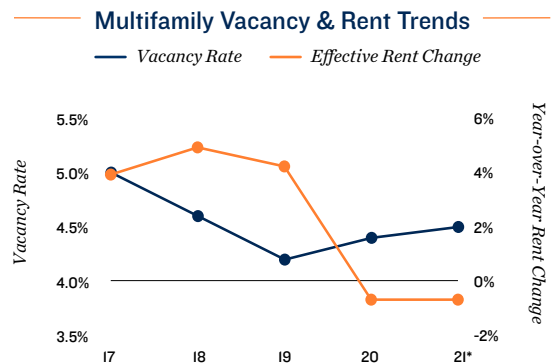
* Through first quarter
Sources: CoStar Group, Inc.; Real Capital Analytics

MULTIFAMILY

Recovery Expectations Improve Investor Optimism for the Urban Core as Suburbs Respond to Demographic Shifts

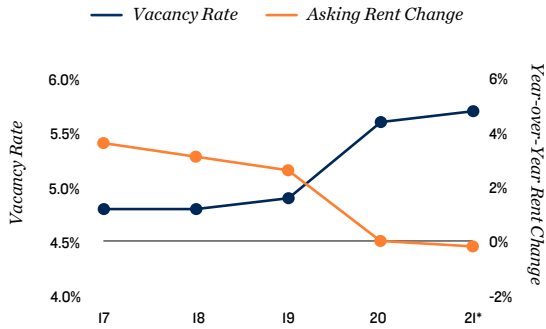
Multifamily performance varies based on market. Apartments in large primary metros have been more impaired by the health crisis than properties in smaller cities. Vacancy across all primary markets increased 80 basis points over the past four quarters, while the average effective rent declined 3.4 percent. Secondary and tertiary markets have fared better, with a 10-basis-point vacancy decline and rent growth of 2.2 percent over the same span. Migration trends driven both by the pandemic as well as the aging of the millennial generation are affecting performance. More than half of millennials are 30 years of age or older, common family formation years, spurring demand for larger, more affordable living spaces outside the urban core.

Apartment pricing surpasses pre-pandemic levels. In numerous markets, well-performing properties have achieved pricing above early 2020 levels. Though some submarkets in some metros continue to contend with weakened fundamentals that are suppressing values, optimistic investors in many cases are underwriting a strong recovery in 2021. Non-premier housing will likely enjoy the most robust renter demand, but Class A properties will also see a leasing recovery as workplaces reopen. Lifted investor optimism is spurring acquisition demand, but current trends have also persuaded some prospective sellers to hold onto assets longer. Strong buyer interest has aligned with hesitant seller activity to bolster price appreciation and apply downward pressure to cap rates, with a current national average in the low-5 percent range.

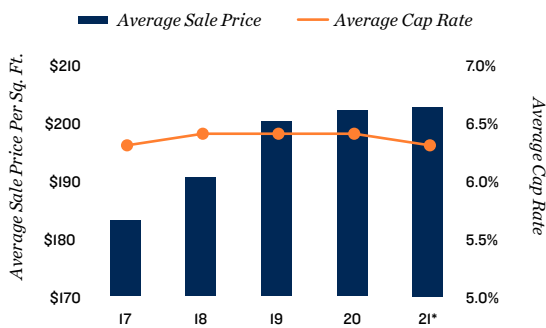


* Through first quarter
Sources: RealPage, Inc.; CoStar Group, Inc.; Real Capital Analytics

Retail Vacancy & Rent Trends



Retail Sales Trends



* Through first quarter
Sources: CoStar Group, Inc.; Real Capital Analytics

RETAIL

Investor Demand Undiminished for Properties With Resilient Tenants in Growing Residential Locations

Buyer demand for certain single-tenant assets aids cap rate compression. Retail property performance has varied widely during the pandemic. Single-tenant buildings have generally exceeded multi-tenant facilities in terms of occupancy, but rent growth has been modest. Investor demand remains high for single-tenant properties that sustained performance through the health crisis, including discount stores, drugstores and quick-service drive-thru restaurants. This is preserving pricing momentum and cap rate compression, although exact terms vary depending on the length of lease, property location, and numerous other factors.

Investor demand high for multi-tenant properties in key locations. The resiliency of multi-tenant fundamentals depends heavily on where the property is located as well as the tenant mix. Grocery-anchored shopping centers in growing submarkets are being pursued by investors, driving cap rates for these assets to the 6 percent to 8 percent range depending on tenant profile, payment history and location. Buyers remain cautious regarding spaces dependent on weekday foot traffic or close social interactions. For underperforming properties, a bid-ask imbalance is inhibiting sales. As such, the composition of sales for both multi- and single-tenant properties is changing to reflect the assets that are more readily changing hands. This shift is driving a contraction in the overall average retail cap rate into the low-to-mid 6 percent range.

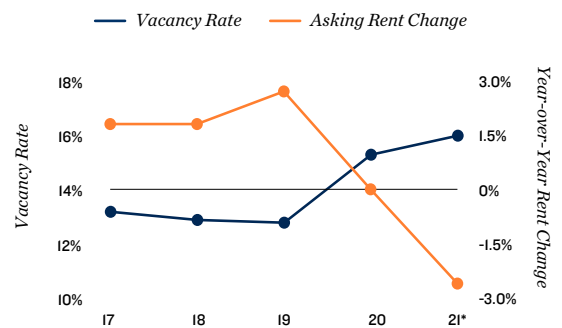
OFFICE

Investors Track Employees' Return to Urban and Suburban Offices as Clearer Medical Office Outlook Motivates Sales

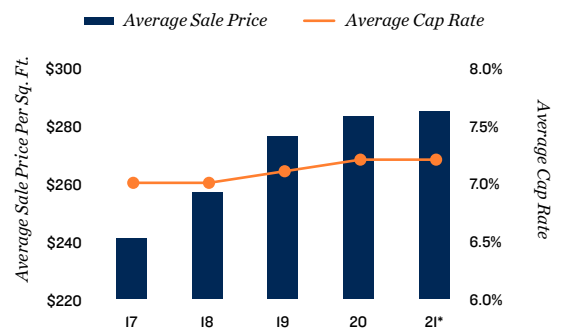
Urban, suburban dichotomy forms. Offices continue to face an unclear demand outlook even as health conditions improve and more companies take steps to curb remote work. Greater infection risks in densely populated areas have slowed the return to many offices in large urban cores, affecting space needs. Over the 12-month period ended in March, vacancy in suburban offices rose by only about two-thirds as much as in central business districts. Over the same span the average asking rent across the major CBDs fell by 6.1 percent, compared with a 0.2 percent gain in suburban settings. Overall foot traffic will improve in the months ahead, but the drive to lease sizable floor plans downtown may stay subdued until a new work model is solidified across sectors.

Uncertainty restrains office investor activity. Assets located in walkable first-tier suburban settings with a strong lease profile have attracted the most investor attention over the past four quarters. Pricing in growth markets can reach above pre-pandemic levels. Urban office towers still face several hurdles in bringing all workers back in however. Because of these impediments, cap rates across the sector have remained stable on average in the low-7 percent range. Medical offices, in contrast, have more clarity on long-term demand, sustaining investor interest. Cap rates for recent trades of these assets have nudged lower, to just below their historical average of 7 percent.

Office Vacancy & Rent Trends

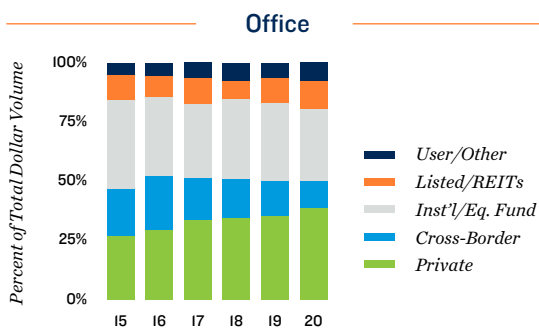
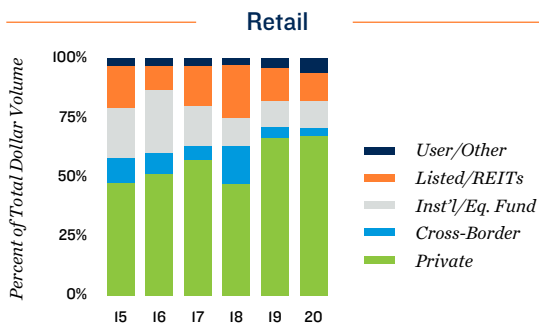
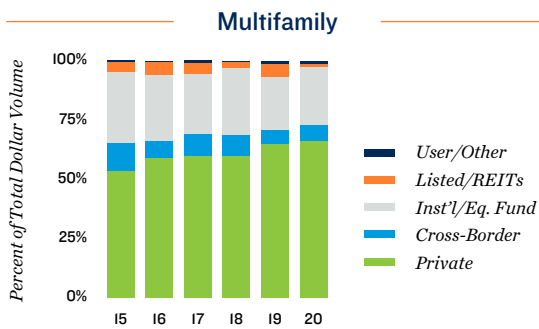
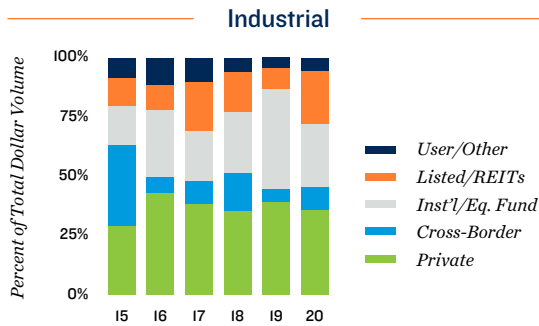


Office Sales Trends



* Through first quarter
Sources: CoStar Group, Inc.; Real Capital Analytics

BUYER COMPOSITION



Sales priced \$2.5 million and above
Source: Real Capital Analytics

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Private Buyers Emerge as Driving Force of Investment Sales During Peak Periods of Pandemic-Related Uncertainty

During elevated uncertainty, private investors continued forward. Private investors have been a driving force behind commercial property sales since the onset of the health crisis. Large institutional investors took a step back in 2020 as the health crisis clouded the near-term outlook and created barriers to completing sales, including travel. During the early stages of the pandemic, some private buyers took advantage of the limited institutional competition to acquire assets with favorable pricing, but as the market has moved back to normal, private investors have frequently pushed pricing aggressively. Overall, 55 percent of the dollars invested during the 12-month period ended in March of this year came from private buyers. That ratio is 300 basis points above where it was in 2019 before the health crisis. That behavior is represented across property types, including industrial and multifamily assets. The ratio of private investment into industrial assets roughly doubled between the first quarter of this year and the same period in 2020. For apartment buildings, the share of private investor capital has been slightly higher, representing 66 percent of 2020 dollar volume. The measure rose as high as 76 percent during the second quarter of 2020 when uncertainty was at its peak, and while trailing down in recent months, it remains above the historical average.

Health crisis underscores private investment demand for retail and office assets.

The uptick in private investor sales activity is apparent for retail and office properties. Approximately 67 percent of 2020 retail sales volume was from private buyers, led by an active third quarter where private capital represented roughly four out of every five investment dollars. During the first quarter of 2021, private buyers were most involved in acquisitions of retail properties with grocery tenants. Private investors generally make up a smaller pool of sales dollars in office properties, but their share of activity has been increasing in recent years nonetheless. During the second and third quarters of 2020, private investment represented over 40 percent of total dollar volume for office transactions. Moving into 2021, private buyers have been especially active with medical office properties, comprising 55 percent of investment dollars. Institutional grade investors, meanwhile, represented a preponderance of the transaction volume for offices in central business districts in the opening period of this year.

Multiyear trend fosters more diverse capital investment pool.

Moving forward, engagement among larger investor organizations may slightly temper private buyer dollar volume compared with pandemic-period peaks. Private capital often captures a larger share of the market during periods of upheaval, such as last decade's financial crisis or the current pandemic. The long-term trend, however continues to illustrate greater private investor engagement across all major property types. This includes assets in the typical private buyer price range of \$1 million to \$10 million, but also in transactions priced above that threshold. This dynamic benefits the larger investment landscape by fostering an overall more diverse buyer pool.

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Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Federal Reserve; MNet; NICMap; Office of Financial Research; Real Capital Analytics; RealPage, Inc.

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Price: \$500