



CBRE


Q2 2019
U.S. CAPITAL MARKETS
FIGURES

Q2 2019 U.S. CAPITAL MARKETS FIGURES – EXECUTIVE SUMMARY

INVESTMENT VOLUME HITS HIGHEST Q2 TOTAL SINCE 2015

 Total Investment Volume
\$121.5 billion¹

 Property Price Index
138

 NCREIF One-Year Return
6.5%

 Lender Momentum Index
224

Arrows indicate change in growth rate from the same quarter in the previous year.

- Commercial real estate investment volume¹ of \$121.5 billion in Q2 increased by 3.4% year-over-year and was the highest Q2 total since 2015. Individual asset sales volume increased by 9.3% to \$91.2 billion, the highest Q2 total since at least 2004 (the earliest data available) and more than offsetting the decrease in entity-level deals from very high levels in 2018.
- Among the major property types, office registered the largest annual increase in volume (30.5%), followed by multifamily (20.6%). Total industrial volume decreased, but individual industrial asset sales volume was up by 2.7% year-over-year. Individual asset sales of retail and hotels both decreased by a smaller amount than overall volumes.
- Among the top-20 markets for investment volume, the strongest year-over-year increases compared with the previous 12-month period occurred in tech markets (Boston, Austin, the San Francisco Bay Area, Seattle) and in fast-growing Sun Belt markets (Charlotte and Tampa). For the U.S. overall, trailing 12-month volume increased by 12% year-over-year.
- Cap rates were largely stable, changing by less than 10 bps in either direction across all property types in H1 2019. The 70-bp decrease in the 10-year Treasury yield so far this year resulted in wider spreads for all sectors.
- Mortgage production remained healthy in H1 2019, with increased volume year-over-year for CMBS, Fannie Mae and Freddie Mac.

¹Deal volume in this report is based on Real Capital Analytics transactional data and includes entity-level transactions but excludes development site transactions.

FIGURE 1

COMMERCIAL REAL ESTATE ACQUISITIONS VOLUME

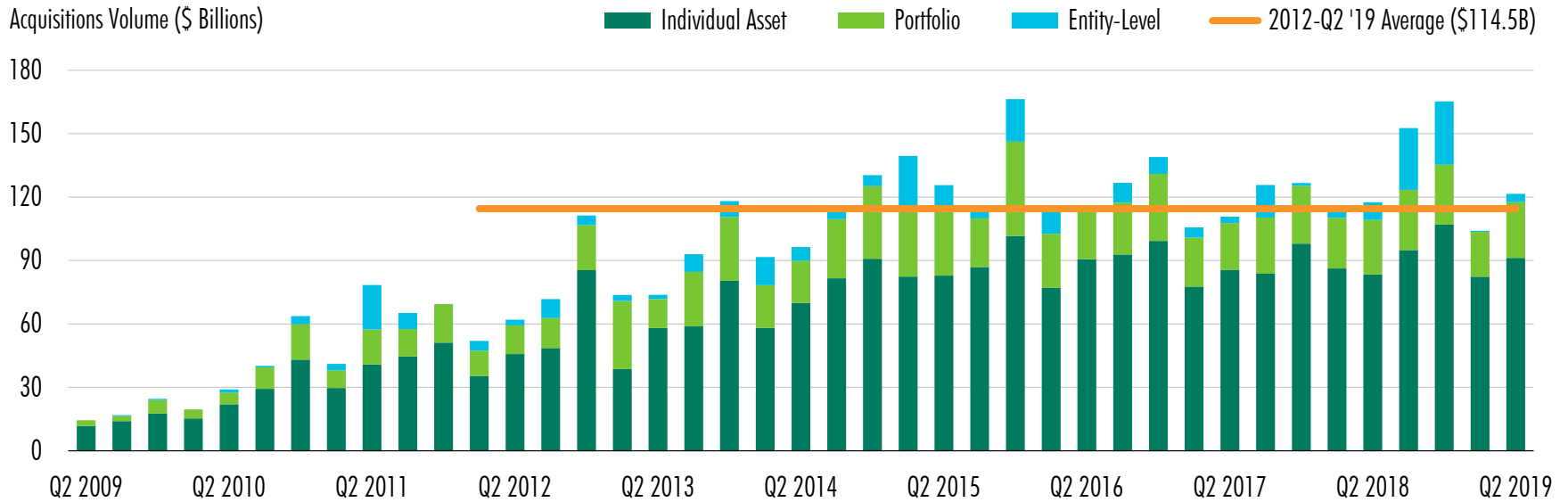
	Total (\$ billions)		Change (%)	Market Share (%)	Total (\$ billions)		Change (%)	Market Share (%)
	Q2 2019	Q2 2018			Year Ending Q2 '19	Year Ending Q2 '18		
All Types of Acquisitions								
Multifamily	43.6	36.2	20.6	35.9	182.4	163.1	11.8	33.6
Office	37.3	28.6	30.5	30.7	140.8	125.1	12.6	25.9
Industrial	16.7	19.5	-14.3	13.8	90.7	82.0	10.6	16.7
Retail	14.5	21.5	-32.6	11.9	76.8	66.6	15.4	14.1
Hotel	5.7	9.4	-39.3	4.7	36.8	33.1	11.0	6.8
Other	3.7	2.5	51.6	3.1	16.0	15.6	2.6	3.0
Total	121.5	117.6	3.4	100.0	543.5	485.4	12.0	100.0
Individual Asset Acquisitions Only								
Multifamily	33.1	28.7	15.5	36.3	134.8	126.7	6.4	35.9
Office	28.0	23.4	19.5	30.6	107.9	100.7	7.2	28.7
Industrial	12.7	12.4	2.7	13.9	52.0	48.7	6.8	13.9
Retail	11.4	11.8	-2.7	12.5	48.3	47.1	2.7	12.9
Hotel	4.6	5.9	-22.2	5.0	25.7	22.6	13.9	6.8
Other	1.4	1.4	2.0	1.6	6.8	5.7	19.2	1.8
Total	91.2	83.5	9.3	100.0	375.5	351.4	6.9	100.0
Portfolio Asset Acquisitions Only								
Total	26.4	25.7	2.6		104.4	103.6	0.8	
Entity-Level Asset Acquisitions Only								
Total	3.9	8.4	-53.2		63.6	30.4	109.1	

Note: Totals include single-asset, portfolio and entity-level transactions. "Other" includes seniors housing and excludes development sites.

Source: CBRE Research, Real Capital Analytics, Q2 2019. Some numbers may not total due to rounding.

FIGURE 2

HISTORICAL COMMERCIAL REAL ESTATE ACQUISITIONS VOLUME

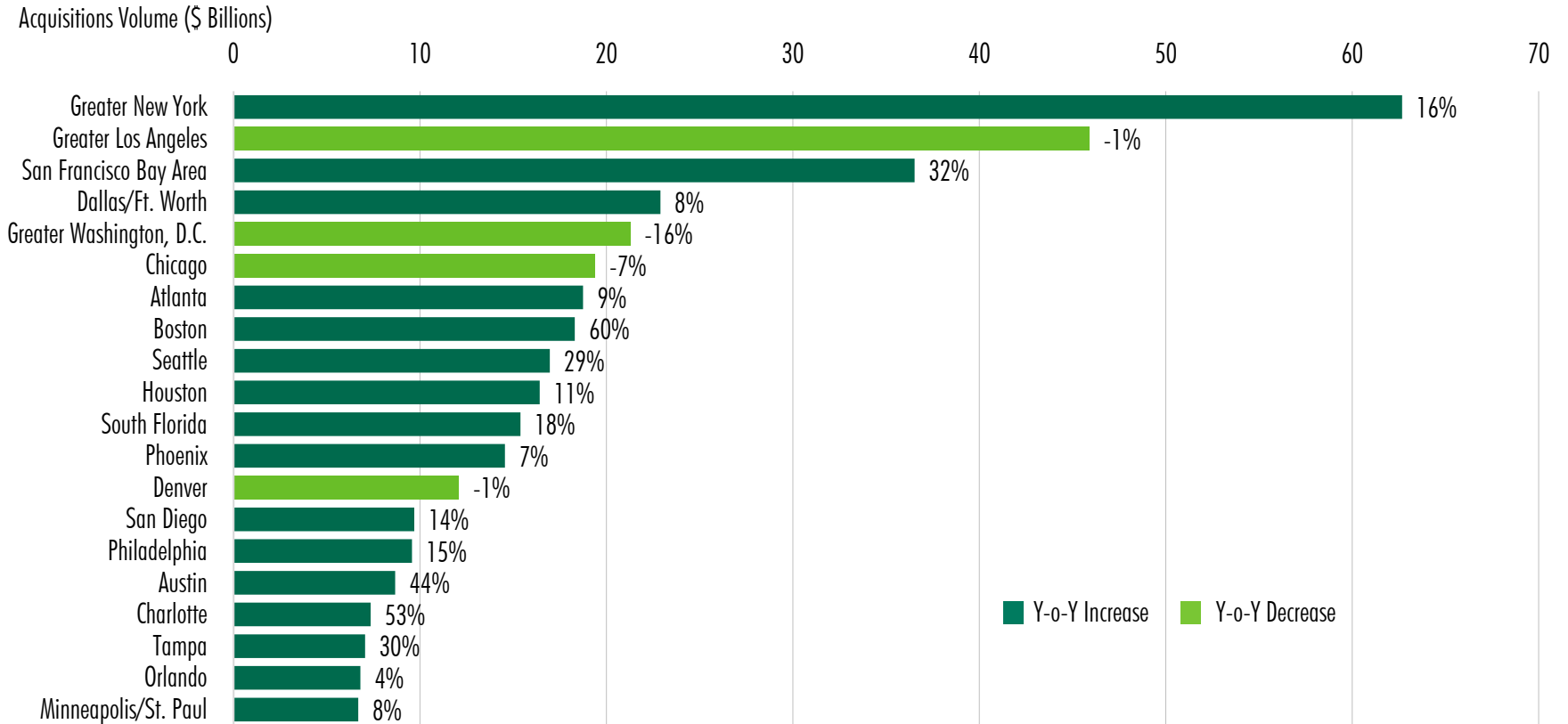


Note: Volume excludes development site transactions.
 Source: CBRE Research, Real Capital Analytics, Q2 2019.

- Following a slow start to the year, transaction volume rebounded strongly in Q2. Total volume increased by 16.8% quarter-over-quarter and 3.4% year-over-year to \$121.5 billion, the highest Q2 total since 2015.
- Reflecting strong investor demand for commercial properties, individual asset sales totaled \$91.2 billion—the highest Q2 total since at least 2004 (the earliest data available).
- Entity-level deals picked up in Q2 but remained well below levels in 2018 when they were a major driver of total transaction volume. Less than \$4 billion in entity-level deals closed in Q2, down 53.2% year-over-year and significantly below the nearly \$30 billion in entity-level deals closed in both Q3 and Q4 2018.

FIGURE 3

TOP-20 MARKETS FOR TOTAL INVESTMENT VOLUME – YEAR ENDING Q2 2019



Note: Volume excludes development site transactions. Source: CBRE Research, Real Capital Analytics, Q2 2019.

- Investment volumes increased in all but four of the 20 metros with the highest volumes. Boston had the largest increase at 60%. Decreases occurred for Washington, D.C. (-16%), Chicago (-7%), Greater Los Angeles (-1%) and Denver (-1%).
- Greater New York posted by far the largest transaction volume as well as a sizeable annual increase of 16%, reflecting strong investor demand in this bellwether market.

FIGURE 4

ACQUISITIONS VOLUME BY METRO & PROPERTY TYPE – YEAR ENDING Q2 2019

OVERALL INVESTMENT			OFFICE INVESTMENT			INDUSTRIAL INVESTMENT		
Metro	Volume (\$m)	Growth (Y-o-Y)	Metro	Volume (\$m)	Growth (Y-o-Y)	Metro	Volume (\$m)	Growth (Y-o-Y)
Boston	18,302	59.5%	Tertiary Plains States**	666	205.0%	Tertiary Plains States**	993	293.4%
Charlotte	7,348	53.4%	Salt Lake City	802	165.0%	Greenville	823	152.8%
Austin	8,666	44.4%	Austin	2,796	119.1%	Modesto	1,075	124.4%
Baltimore	6,124	36.4%	Jacksonville	628	93.5%	Cincinnati	1,342	119.1%
San Antonio	5,349	34.0%	Boston	8,586	82.1%	Tertiary South/Central Atlantic*	1,468	114.7%
Portland	6,330	33.0%	Charlotte	1,890	65.3%	Seattle	2,703	84.4%
San Francisco Bay Area	36,526	31.5%	San Francisco Bay Area	18,368	62.6%	Memphis	1,278	70.0%
Tampa	7,053	30.0%	Norfolk	661	56.6%	Boston	2,473	55.9%
Seattle	16,961	29.4%	Seattle	6,446	55.6%	Indianapolis	1,348	54.4%
Tertiary South/Central Atlantic*	6,322	29.1%	Baltimore	1,031	41.2%	Houston	2,303	51.2%

MULTIFAMILY INVESTMENT			RETAIL INVESTMENT			HOTEL INVESTMENT		
Metro	Volume (\$m)	Growth (Y-o-Y)	Metro	Volume (\$m)	Growth (Y-o-Y)	Metro	Volume (\$m)	Growth (Y-o-Y)
Austin	4,441	67.4%	Honolulu	1,706	596.9%	San Antonio	837	685.4%
Charlotte	3,469	66.9%	Las Vegas	1,900	155.1%	San Diego	1,234	348.7%
Baltimore	2,643	55.5%	Raleigh/Durham	857	139.5%	Tampa	954	185.1%
Tampa	3,624	47.5%	San Antonio	953	135.9%	Denver	1,007	140.8%
San Francisco Bay Area	7,959	42.9%	Baltimore	947	135.8%	South Florida	2,557	132.7%
Phoenix	7,719	35.0%	Charlotte	760	109.0%	Nashville	489	126.1%
Raleigh/Durham	2,958	32.3%	Boston Metro	1,619	107.2%	Orlando	1,056	119.2%
Philadelphia	3,757	31.5%	Tertiary Northeast Central***	734	97.9%	New Orleans	675	114.0%
Boston	4,026	29.7%	Minneapolis/St. Paul	1,039	81.7%	Greater New York	5,677	90.0%
Houston	7,652	28.7%	Portland	907	74.9%	Chicago	986	75.3%

Note: Tables ranked by highest percentage growth relative to prior trailing 4-quarter period among top 30 metros or regions by volume. * Includes all other metros in GA, NC, SC, TN and KY. ** Includes all other metros in IA, KS, MO, ND, NE and SD. *** Includes all other metros in MI and WI.

Source: CBRE Research, Real Capital Analytics, Q2 2019.

FIGURE 5

ACQUISITIONS VOLUME BY BUYER TYPE

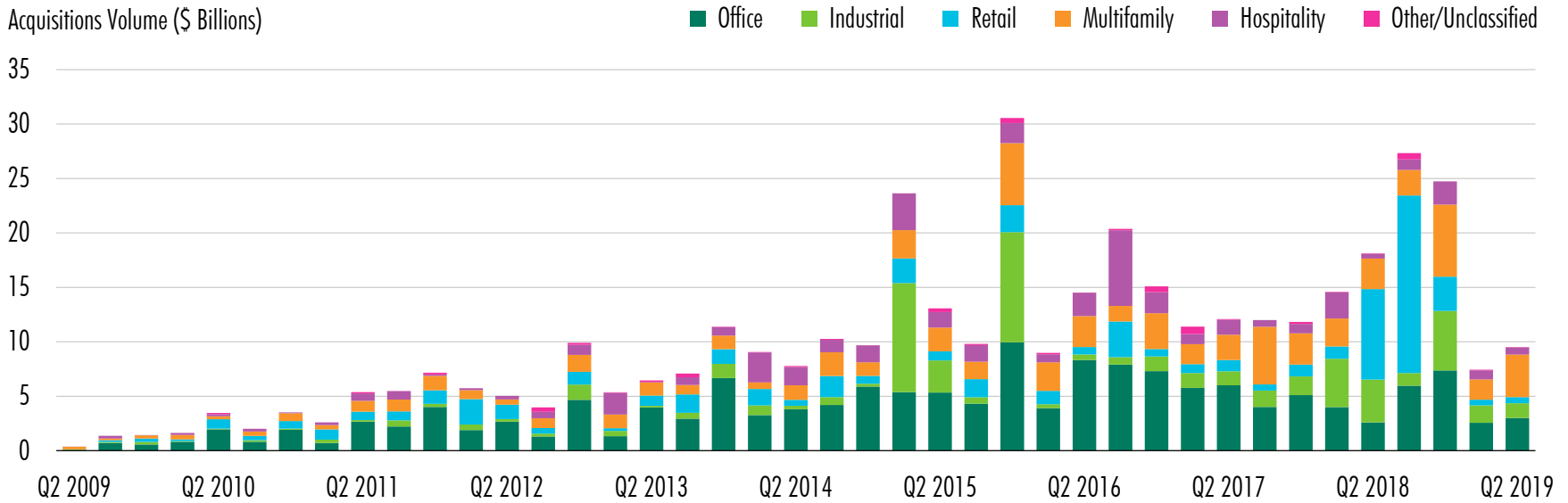
	Volume (\$ billions)			Market Share (%)		Net Buyer or Seller Q2 2019	Ratio of**	
	Q2 2019	Q2 2018	Change (%)	Q2 2019	Q2 2018		Acquisitions to Dispositions	Dispositions to Acquisitions
Private	66.5	64.0	7.8	54.7	51.5	Net Buyer	1.0	-
Institutional	25.0	30.7	-4.9	20.6	24.7	Net Seller	-	1.1
REITs/Public Companies	12.7	7.2	77.7	10.5	5.8	Net Buyer	1.3	-
Cross-Border	9.5	18.1	-47.5	7.8	14.6	Net Buyer	1.1	-
Other*	7.8	4.3	81.5	6.4	3.5	Net Seller	-	1.5
Total	121.5	124.3	3.4	100.0	100.0			

Source: CBRE Research, Real Capital Analytics, Q2 2019. *Other = user, unknown, other types of investors. **For example, for every \$1 disposition, REITs are acquiring \$1.3. Volume excludes development site transactions. Some numbers may not total due to rounding.

- Acquisitions by REITs/public companies increased significantly year-over-year. Entity-level acquisitions by this buyer type totaled \$2.2 billion in Q2 versus just \$28 million in Q2 2018. Individual asset and non-entity portfolio volume was also up by 45% from the 2018 average.
- Institutional investors were net sellers for the second consecutive quarter, with \$2.2 billion in net dispositions in H1 2019.

FIGURE 6

CROSS-BORDER INVESTMENT BY PROPERTY TYPE



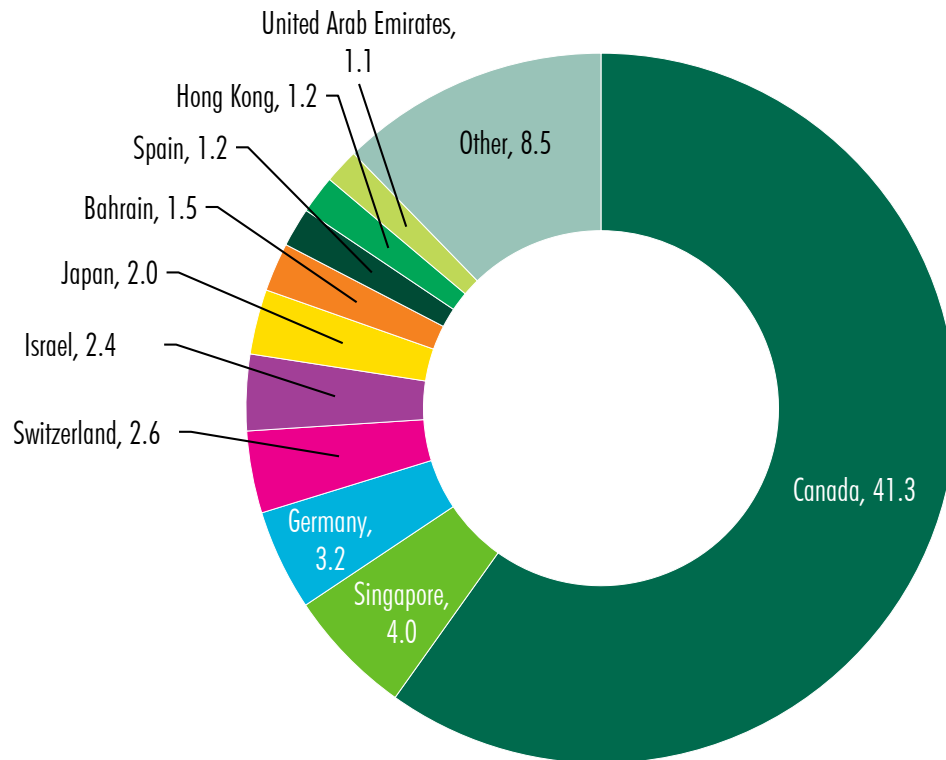
Source: CBRE Research, Real Capital Analytics, Q2 2019.

- Cross-border investment picked up from Q1 but remained significantly lower than in 2018. Foreign investment totaled \$17.0 billion in H1 2019, nearly half the H1 2018 total due to a large decrease in entity-level deals so far this year.
- Hotel (49%), multifamily (39%) and office (16%) registered strong annual increases in cross-border investment in Q2. Multifamily sales totaling \$3.9 billion in Q2 accounted for more than 40% of overall cross-border volume, the sector's second-highest quarterly share since 2009.

FIGURE 7

CROSS-BORDER INVESTMENT BY COUNTRY OF ORIGIN – YEAR ENDING Q2 2019

Acquisitions Volume (\$ Billions)



- Canada remained the largest source of foreign capital for U.S. real estate. Including entity-level deals, Canadian investment volume during the trailing four quarters ending in Q2 was more than 10x that of the next-largest country; excluding entity-level, the difference is a little less than 2.5x (\$9.7 billion for Canada vs. \$4.0 billion for Singapore).
- Excluding entity-level deals, which are highly volatile and can skew annual comparisons, inbound capital decreased year-over-year from the three largest origin countries (Canada, Singapore and Germany), as well as from Hong Kong, but increased significantly for all other top-10 countries. Investors from U.A.E. and Switzerland boosted acquisitions dramatically by 159% and 148%, respectively.

Source: CBRE Research, Real Capital Analytics, Q2 2019.

FIGURE 8

RCA COMMERCIAL PROPERTY PRICE INDEX

Sector	June 2019	June 2018	2007 Peak	June 19 vs. 07 Peak (%)	Change Y-o-Y (%)
All	138	129	105	30.4	6.5
Office	119	114	109	8.9	4.0
Industrial	139	123	108	29.3	13.3
Retail	101	100	104	-2.9	1.6
Multifamily	178	166	103	73.6	7.3
Hotel	114	111	111	2.9	2.4

Source: CBRE Research, Real Capital Analytics, Q2 2019. Based on repeat property sales. Sales are indexed from December 2006.

- The CPPI increased for all property types on both a quarterly (2.4%) and annual (6.5%) basis.
- Healthy fundamentals continued to attract investors to the industrial and multifamily sectors, which registered the strongest quarterly and annual price growth. The industrial price index increased by 3.9% quarter-over-quarter and 13.3% year-over-year. Multifamily pricing was up by 2.7% from Q1 and 7.3% from the year-earlier period.
- Pricing in Q2 exceeded the previous cyclical peak for all properties except retail, which was 2.9% below its previous high.

FIGURE 9

STABILIZED PROPERTY ACQUISITIONS PRICING - AVERAGE CAP RATES

Property Sector & Segment	H1 2019	H2 2018	Change (bps)	Spread Over 10-Year Treasury (bps)	
				H1 2019	H2 2018
Office - CBD	6.67	6.71	-4	467	402
Office - Suburban	7.91	7.92	-1	591	523
Industrial	6.27	6.31	-5	427	362
Retail - Neighborhood/Community*	7.48	7.48	0	548	479
Retail - Power	8.45	8.40	6	645	571
Retail - High Street	4.76	4.83	-7	276	214
Multifamily - Infill	5.20	5.25	-5	320	256
Multifamily - Suburban	5.49	5.55	-6	349	286
Hotel - CBD	8.01	7.98	3	601	529
Hotel - Suburban	8.55	8.50	5	655	581

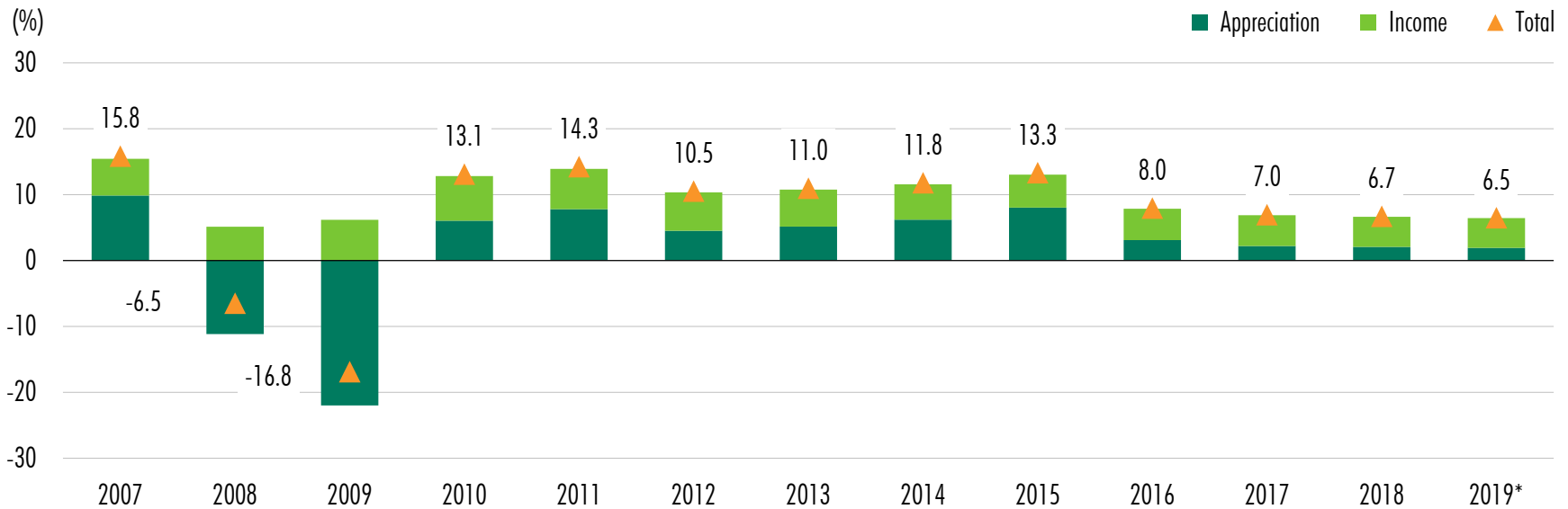
- Cap rates were stable across all property types in H1 2019, with movements of less than 10 bps in all sectors. Multifamily and industrial cap rates compressed further, reflecting strong demand for those property types.
- The 10-year Treasury yield decreased by nearly 70 bps in H1 2019, widening cap rate spreads for all property types. Spreads for CBD and suburban hotels, as well as retail power centers, exceeded 600 bps—the largest among the sectors.

Source: CBRE Research, U.S. Department of the Treasury, Q2 2019. Spreads based on 10-year at end of period.

*Grocery-anchored neighborhood and community centers.

FIGURE 10

NCREIF PROPERTY INDEX RETURNS



Source: CBRE Research, NCREIF, Q2 2019. *For year ending Q2 2019. All returns are reported on an unlevered basis.

- NCREIF total annual return growth slowed slightly in Q2, down by 32 bps from Q1 to 6.51%. The slowdown was primarily due to the appreciation component, as income return was essentially unchanged at 4.53%.
- Growth in annual returns decelerated for all property types except office, which registered a 12-bp increase from Q1 to 6.79%. Industrial returns remained the strongest by far at 13.86%. Unlike most of the other property types, for which returns have slowed over the past three years, industrial returns remained near cyclical highs.
- Hotel returns slowed to 6.08% in Q1 but have bounced back strongly from recent lows in the 3%-range in H1 2017.

FIGURE 11

MORTGAGE PRODUCTION

Lending Source		Total (\$ billions)		Change (%)
Current Quarter	Period	2019	2018	
CMBS	Q2	22.5	21.1	6.6
Fannie Mae	Q2	17.1	14.5	17.9
Freddie Mac	April/May	10.6	9.9	7.1
HUD	Q2	3.1	3.8	-18.9
Life Insurance Companies	Q1	15.8	18.0	-12.2
Year-to-Date	Through	2019	2018	
CMBS	Q2	39.1	40.5	-3.5
Fannie Mae	Q2	33.8	25.8	31.2
Freddie Mac	May	24.0	22.9	4.8
HUD	Q2	5.3	7.8	-32.1
Life Insurance Companies	Q1	15.8	18.0	-12.2

Note: Different time periods.

Source: CBRE Research, Commercial Mortgage Alert, Fannie Mae, Freddie Mac, HUD, Q2 2019; American Council for Life Insurers, Mortgage Bankers Association, Q1 2019. MBA bank volume estimates are only published annually. Totals may not sum due to rounding.

- After a weak Q1, CMBS issuance increased year-over-year in Q2. Cumulative volume year-to-date is approaching 2018 levels.
- GSE lending continued to strengthen from the already-robust levels of last year, particularly for Fannie Mae. HUD lending, however, decreased by 32% in H1 relative to the same period in 2018.
- Data on life company and bank mortgage production lags other lenders. As of Q1, life company lending was down 12.2% from an unusually strong Q1 2018 but was otherwise the highest Q1 total since the inception of ACLI data in 1965. Q1 bank lending was up by 6.0% year-over-year, according to the Mortgage Bankers Association Originations Index.

FIGURE 12

MORTGAGE DELINQUENCY RATES BY LENDER OR LENDER TYPE

Lender/Lender Type	Delinquency Definition*	Property Types	As of	Delinquency Rate (%)		
				Current	Prior Quarter	Prior Year
CMBS	30+	All	Q1 2019	2.61	2.77	3.93
Life Insurance Companies	60+	All	Q1 2019	0.04	0.05	0.02
Banks - Construction & Development	30+	All	Q1 2019	0.83	0.79	0.85
Banks - Non-Residential	30+	All	Q1 2019	0.84	0.82	0.93
Banks - Multifamily	30+	Multifamily	Q1 2019	0.23	0.26	0.26
Fannie Mae	60+	Multifamily	June 2019	0.05	0.07	0.10
Freddie Mac	60+	Multifamily	June 2019	0.03	0.03	0.01

Note: Different time periods.

Source: CBRE Research, Fannie Mae, Freddie Mac, Mortgage Bankers Association, Wells Fargo Securities, Intex Solutions, American Council of Life Insurers, Federal Deposit Insurance Corporation. Delinquency rates are based on % of delinquent loan balance to the total outstanding loan balance. *30+ means that loans which are 30+ days delinquent are included in the count.

- Delinquency rates either were relatively unchanged or decreased across all lender types and remained at less than 1% for all segments except CMBS.
- The CMBS delinquency rate decreased by 132 bps over the past year to 2.61%. This was the lowest rate since 2009 but still well above the previous cyclical low of less than 0.5%, suggesting room for further decreases.
- Delinquencies for bank loans on multifamily properties decreased to 0.23%, the lowest on record.



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