MSCI

Q3 2023

Capital Trends

US Big Picture

-9.0% YOY price change

$89.2b Transaction volume

-53% YOY volume change

Deal volume has been falling at high double-digit rates for four quarters now. An optimist can look at recent sale trends and a moderation of some price declines, and suggest that the market is through the worst part of an adjustment to higher interest rates. A pessimist, though, can look at many of the same figures and argue that we are waiting for the next shoe to drop.

Volume fell more in the quarter for portfolio and entity-level deals than for individual asset sales. The pace of megadeals was down 67% YOY versus a 48% YOY decline for the deals where investors underwrite acquisitions with no safety net of portfolio effects to paper over any mistakes.

The retail sector was a little more dependent on megadeal activity for the quarter, however, with M&A-type deals handing retail the shallowest decline in sales across sectors. Sales in retail also surpassed the office sector for total volume in the quarter. Stripping away the entity sales, retail was not as heavily traded as offices and volume fell at a pace comparable to other sectors.

Still, individual asset sales for offices were barely ahead of that for retail: $9.2b versus $9.0b in the quarter. When pessimists are talking down the performance of commercial real estate investment, there is a tendency to point to problems with offices.

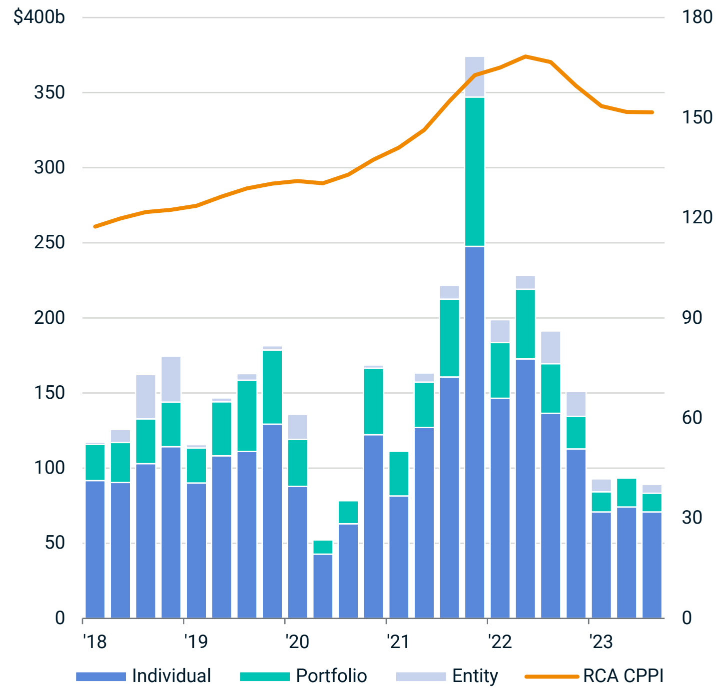
Prices for offices continued to slide, with the RCA CPPI for the sector down 8.8% from a year earlier. Relative to Q2 2023, office prices were down 4.0% on an annualized basis. For commercial property overall, however, prices were flat between the second and third quarters of 2023 owing to the relative health of the industrial sector.

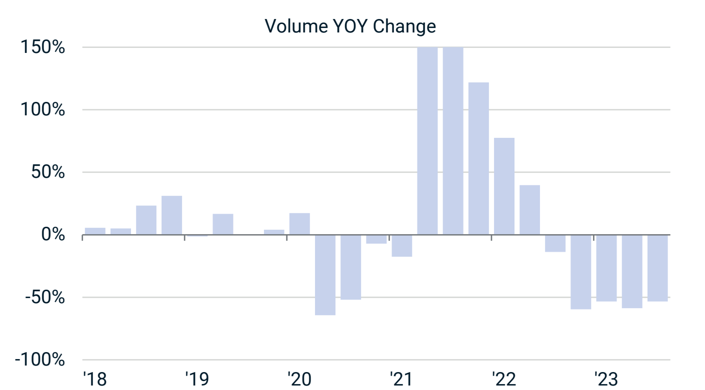
The latest US Distress Tracker report with Q3 2023 data across property types is also now available on the client website.

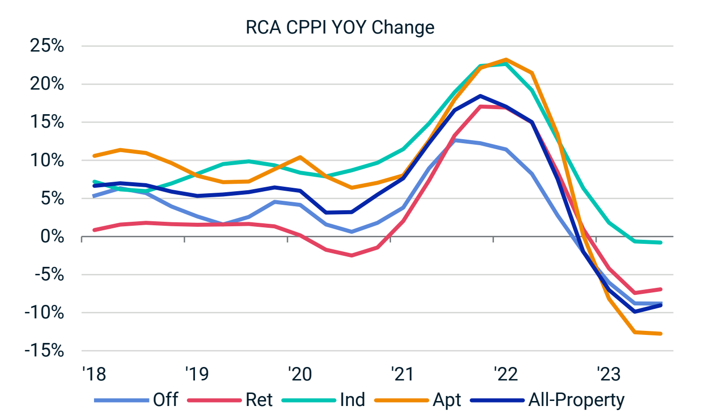
Transaction Volume Summary

	Q3 2023		YTD 2023	
	Vol ($b)	YOY	Vol ($b)	YOY
Office	10.6	-65%	36.6	-62%
Retail	14.9	-31%	43.9	-41%
Industrial	21.1	-45%	65.6	-47%
Hotel	5.9	-46%	18.6	-49%
Apartment	30.1	-62%	89.6	-64%
Seniors Housing & Care	2.0	-44%	7.1	-33%
Dev Site	4.6	-40%	14.9	-42%
Total	89.2	-53%	276.3	-55%
Portfolio & Entity	18.3	-67%	60.5	-63%
Single Asset	70.9	-48%	215.9	-53%

Quarterly Transaction Volume and Pricing







Volume YOY change truncated at 150%.

Recent Trends

With the exception of the industrial sector, deal volume stood at low levels relative to history for all sectors in the third quarter. Prices have been falling but the declines are not enough to make investors excited about jumping off the sidelines to purchase more assets. Volume was exceptionally high in the period from Q2 2021 through to Q3 2022 and investment may never return to those levels. Simply to return to an average level of deal volume, a price adjustment of some sort is needed.

Calculating the reservation prices that buyers and sellers need to make a deal close, we create a liquidity-adjusted version of the RCA CPPI. In the office sector, for instance, we calculate that there was an 11.2% difference in the perception of value between the average buyer and average seller in the U.S.

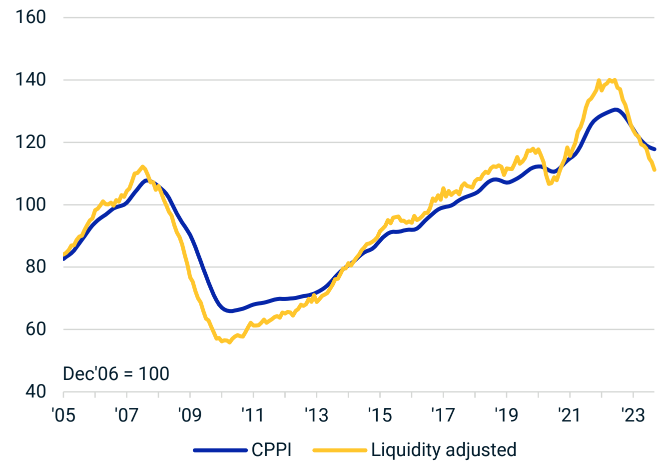
Taking that gap in expectations and assuming that buyers and sellers meet in the middle — granted, a tall assumption — we calculate that to clear at long-term average levels in the third quarter, office prices would have needed to fall 16.8% from a year earlier, not the observed 8.8% decline.

Cap rates have been increasing for all sectors, even the industrial sector where deal volume is high relative to history. Cap rates are not determined solely by interest rates, but when mortgage costs rise as they have even for cash-flowing assets like industrial properties, cap rates tend to rise.

The increases in the RCA Hedonic Series cap rates in the third quarter from a year earlier were in the range of 50 to 70 bps for the four major property sectors. These measures were flat versus the second quarter for apartment, retail and industrial, however.

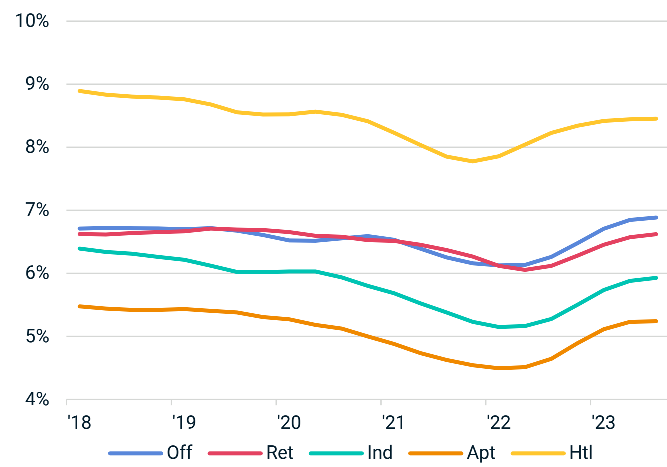
One challenge faced with cap rates is that there are not many distressed deals yet that would push cap rates up more. Distressed sales represented only 1.7% of all transaction activity in Q3 2023 versus a 15.2% share back in Q3 2009. The pessimists in the market are waiting for the distress activity to climb.

Office Observed and Liquidity-Adjusted Pricing



MSCI Price Expectations Gap for liquidity-adjusted analysis.

Cap Rates



RCA Hedonic Series

Q3 2023 Deal Volume and Pricing Summary

	Quarterly Volume				RCA CPPI		Hedonic Cap Rate	
	$b	YOY Chg	#Props	YOY Chg	1-qtr Chg	1-yr Chg	Cap Rate	YOY Chg (bps)
All Types	89.2	-53%	6,414	-42%	-0.1%	-9.0%		
6 Major Metro All Types	24.8	-52%	1,445	-43%	-0.6%	-7.2%		
Non-Major Metro All Types	64.4	-54%	4,969	-42%	-0.5%	-9.6%		
Office	10.6	-65%	948	-46%	-1.0%	-8.8%	6.9%	60
Industrial	21.1	-45%	1,535	-39%	0.4%	-0.8%	5.9%	70
Retail	14.9	-31%	1,776	-21%	-0.3%	-6.9%	6.6%	50
Apartment	30.1	-62%	1,204	-57%	-1.0%	-12.8%	5.2%	60
Hotel	5.9	-46%	365	-59%	-0.7%	-0.1%	8.5%	20
Seniors Housing & Care	2.0	-44%	190	-21%			6.7%	-30
Dev Site	4.6	-40%	396	-38%				

RCA CPPI All Types includes office, industrial, retail and apartment; cap rate changes are rounded.

Alternative Sectors

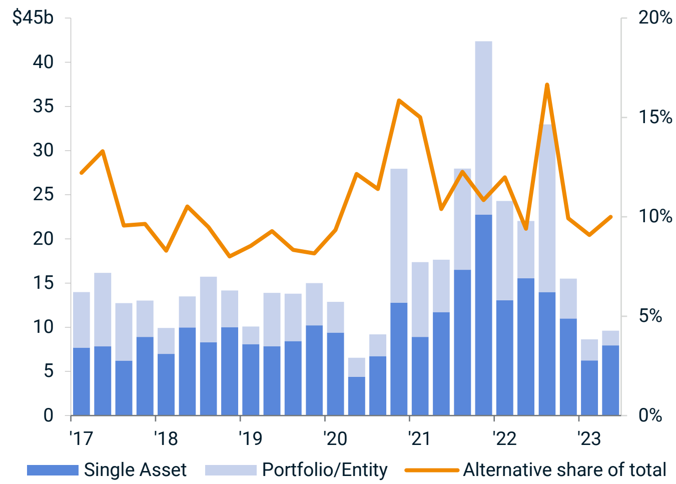
Mixed signals on the economic outlook are leading some investors to pursue investments in property sectors driven by demographic factors. This said, the surge of investment dollars flowing to the alternative property sectors in Q3 2023 was not a broad-based move towards these sectors. Rather, a large one-off entity-level transaction drove most of the surge.

The most accurate forecast an economist can make is that a year from now, most of us will be one year older. The progression of different generations through time produces different needs for real estate to cater to the needs of different age cohorts. Student housing, for instance, can be viewed as a need by the substantial cohort of 18- to 24-year-olds in the U.S. This need nudged investors to put $1.5b to work in new student housing deals in Q3 2023 — 1.4% of all commercial property investment for the quarter.

The self storage sector was the behemoth for alternative real estate sectors in the quarter, however, with sales totaling $11.3b, or 11% of all commercial real estate volume. As households move and, or, change the footprint of their housing choices, the need to store stuff grows. The surge in self storage investment, though, was not a story of numerous investors pursuing deals. Rather, an entity-level transaction where Public Storage purchased Simply Self Storage REIT drove most of the volume. Looking at just the sale of individual assets, self storage deal volume fell 74% from a year earlier in the quarter.

Individual sales for alternative property types in total were down 59% from a year earlier in Q3 2023. This pace is sharper than the 48% YOY decline for single asset sales across commercial real estate overall. This sharper decline for single asset sales in the alternative sectors highlights a liquidity challenge. At only $5.7b in sales for the quarter versus $70.9b of individual asset sales for commercial real estate overall, these alternative sectors are often dependent on megadeals to drive activity.

Quarterly Deal Volume

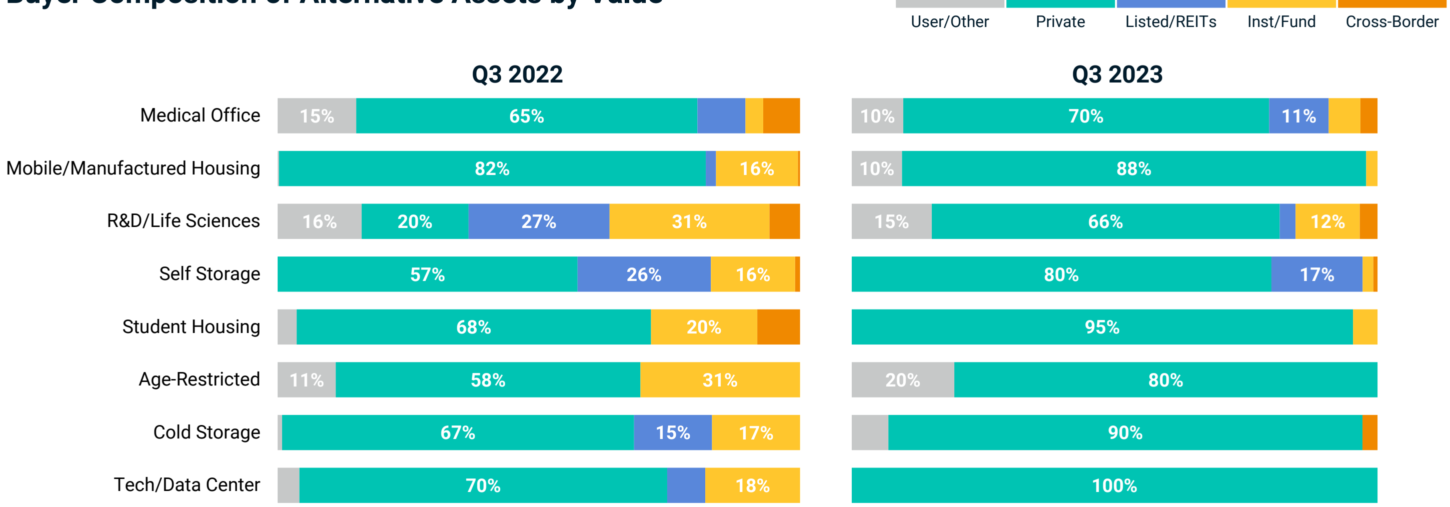


Deal Volume Summary

	Q3 2023 Volume ($b)			
	Single Asset	Portfolio & Entity	Total	YOY Change
Medical Office	1.7	0.2	2.0	-75%
Mobile/Manuf Hsg	0.9	0.1	1.0	-49%
R&D	1.3	0.2	1.5	-66%
Self Storage	0.7	10.6	11.3	137%
Student Housing	0.5	0.9	1.5	-87%
Age-Restricted	0.3	0.1	0.4	-74%
Cold Storage	0.2	0.1	0.3	-30%
Data Center	0.0	0.0	0.0	-95%

Self storage and mobile/manufactured housing are not included in the aggregate deal volume statistics in this report.

Buyer Composition of Alternative Assets by Value



Single asset deals only.

Top Markets

The broad-based pullback in commercial real estate investment was evident in the rankings of the most active U.S. markets, with not one market posting growth compared to the first three quarters of 2022. All markets on the list registered double-digit declines in deal volume and all but five slid more than 50% annually.

Even with volume down 64% YOY, Dallas was able to reclaim the number one spot among markets year to date, after Los Angeles took the top spot at midyear. Volume in Dallas for the first three quarters of the year was $13.2b, with apartment transactions making up more than 50% of that figure. Dallas claimed the number one position in 2022 and 2021, as well. Los Angeles was $390m shy of keeping the peak position, though. Had it been a ranking of single asset sales, Los Angeles would have surpassed Dallas by $930m.

Elsewhere in Texas, Houston edged up to number six in the ranking from number seven at midyear. San Antonio came in at the number 18 spot with a flurry of smaller deals in the third quarter. The $800m sale of a Marriott resort in June propelled the market at the midyear ranking, but the third quarter alone had nearly $1b in sales, even without a large single deal.

A number of markets were bolstered by portfolio and entity deals: in six markets, such sales made up 25% or more of total volume. Without these types of deals, Chicago would have slipped out of the top five ranking and the DC VA Suburbs would have dropped to the bottom of the top 25 list. By contrast, in markets like Manhattan and Miami/Dade County, single asset deals constituted more than 90% of sales volume.

Seattle posted the largest drop in ranking when compared to 2022, and volume for the year to date showed the largest decline of any market on the list, with a drop of 75%. A pullback in portfolio sales drove this retreat.

Most Active Markets Year to Date 2023

APT | OFF | IND | RET | HTL | SHC

2021	2022	YTD 2023	Market	Sales Volume ($m)	YOY Change
1	1	1	Dallas	13,166	-64%
3	2	2	Los Angeles	12,775	-50%
2	3	3	Atlanta	8,893	-61%
9	6	4	Manhattan	8,761	-53%
7	7	5	Chicago	8,450	-45%
5	4	6	Houston	7,592	-64%
4	5	7	Phoenix	7,249	-64%
6	9	8	Boston	6,951	-50%
13	11	9	No NJ	6,522	-32%
14	16	10	Inland Empire	5,640	-35%
10	10	11	Austin	4,957	-59%
21	22	12	NYC Boroughs	4,769	-45%
12	12	13	San Diego	4,314	-59%
18	19	14	DC VA burbs	4,074	-60%
20	23	15	Tampa	3,999	-51%
28	29	16	Broward	3,816	-37%
11	15	17	Denver	3,784	-61%
31	26	18	San Antonio	3,718	-53%
16	13	19	Miami/Dade Co	3,679	-64%
22	21	20	Orange Co	3,564	-58%
8	8	21	Seattle	3,510	-75%
15	14	22	Orlando	3,458	-67%
19	17	23	Charlotte	3,288	-65%
17	24	24	San Jose	3,284	-56%
26	27	25	East Bay	3,108	-61%

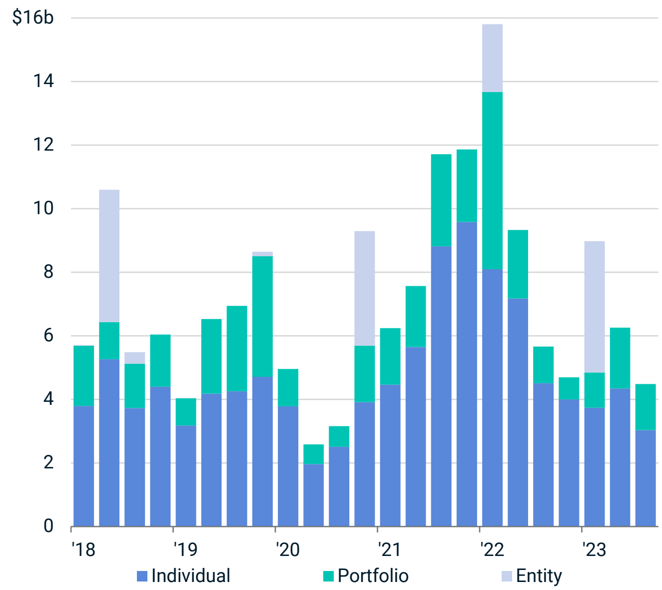
Join Jim Costello, Chief Economist at MSCI Real Assets, on Tuesday, Oct. 24 for an in-depth review of market trends. Register here for the US Capital Trends webinar.

Investment Trends in Canada

Commercial property investment in Canada totaled $4.5b in the third quarter of 2023, preliminary data shows, lagging 21% behind the level of a year prior. The shallowness of the annual pace of decline owes to the pullback in Canadian property sales that began in earnest in the third quarter of 2022, as the rising cost of borrowing and uncertainty about a potential recession quieted what had been a strong start to the year. Stacked against average third quarter sales volume between 2015 and 2019, investment in the third quarter of 2023 was 30% lower.

Still, investors are finding reasons to bet on Canada. Based on year-over-year growth, the office sector was the best performing asset class, with third quarter investment double that of the same period a year ago. The C$1.4b ($0.9b) purchase of an urban data center portfolio in downtown Toronto by Japanese telecom company KDDI closed during the quarter. The transaction highlights what may be a growing trend as companies such as Blackstone have declared their intent to establish a data center presence in Canadian markets.

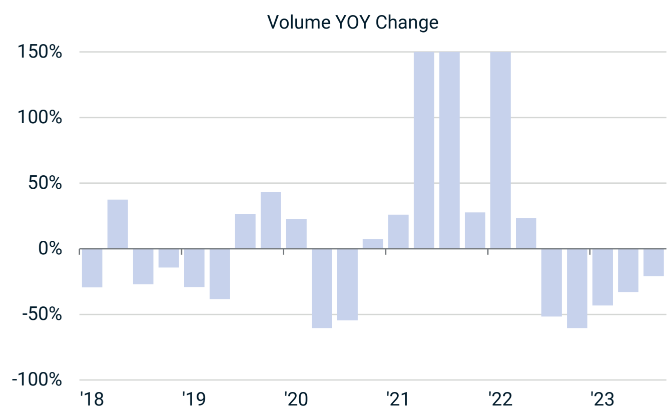
Quarterly Transaction Volume



Transaction Volume Summary

	Q3 2023		YTD 2023	
	Vol ($b)	YOY	Vol ($b)	YOY
Office	1.4	101%	2.8	-55%
Retail	0.7	-32%	2.2	-48%
Industrial	1.1	-28%	8.9	-8%
Hotel	0.1	-44%	0.5	43%
Apartment	0.7	-35%	3.2	-43%
Snr Hsg & Care	0.2	58%	0.5	-21%
Dev Site	0.2	-76%	1.6	-60%
Total	4.5	-21%	19.7	-36%

All charts in U.S. dollars, deals $10m and greater; preliminary data for Q3 2023.



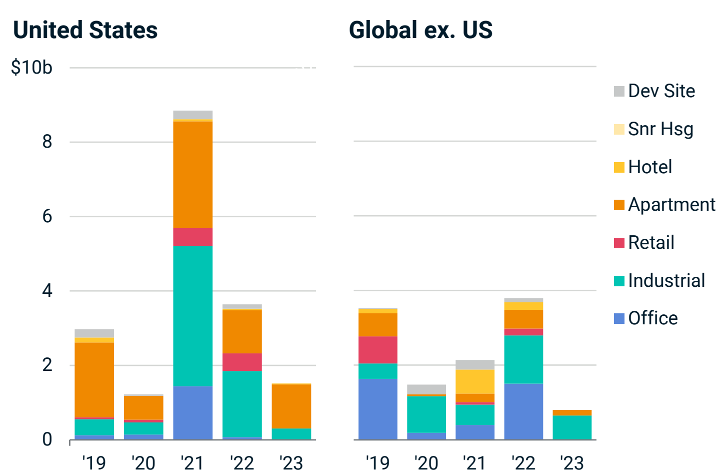
YOY change truncated at 150%.

Canadian Overseas Investment

Canadian investors were behind $5.0b in asset purchases across the globe in the third quarter. As economic uncertainty has risen worldwide, domestic asset purchases have remained in favor, with 54% of investment done at home. This is the highest share of domestic investment for any third quarter since 2010 amid the fallout from the Global Financial Crisis.

Canadian capital has headed to Japan, however, and the attraction appears to be mutual between the two countries. The data center portfolio acquired by Tokyo-headquartered KDDI pushed year-to-date investment in Canada by Japanese firms to its highest ever level. At the same time, current year-to-date investment by Canadian groups in Japan is less than $70m shy of its record level.

Cross-Border Acquisitions by Canadian Investors



Third quarters only.

Top Buyers and Sellers Year to Date 2023

Buyers by Region

Mid-Atlantic
Prologis
GIC
MCB Real Estate
Pacific Life
GID

Midwest
GIC
Blue Owl Capital
Global Net Lease
Goldman Sachs
Michaels Organization

Northeast
TIAA-CREF
Regency Centers
Mori Trust
Brookfield AM
QIA

Southeast
Global Net Lease
GIC
Blue Owl Capital
Trinity Investments
Credit Suisse

Southwest
Blue Owl Capital
GIC
Post Investment Group
Cadillac Fairview
Ryman Hospitality

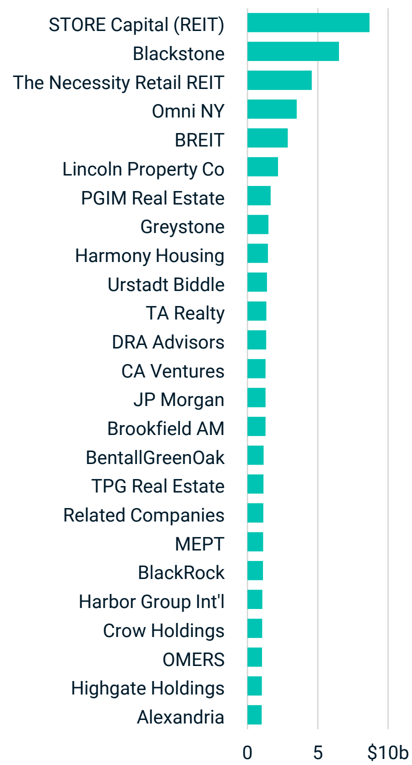
West
CBRE Investment Mgmt
Rexford Industrial REIT
Prologis
Westcore Properties
GPIF

Ranked by investment volume

By Investment Volume

Buyers

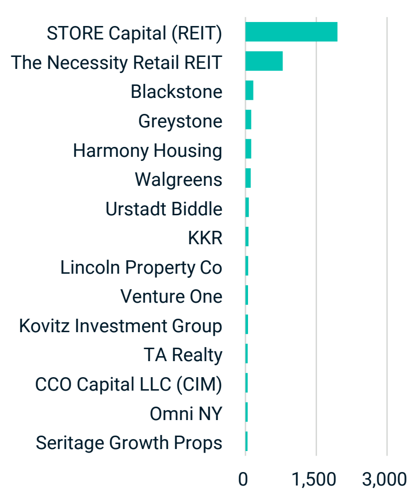
Sellers



By Number of Properties

Buyers

Sellers



Methodology: Rankings are based on the pro-rated share of the total property or portfolio value. In the case of joint ventures, full credit is assigned to each investor. For more information please visit the MSCI Real Capital Analytics website.

Top Brokers Year to Date 2023

By Region

Mid-Atlantic
CBRE
JLL
Eastdil Secured
Newmark
Cushman & Wakefield

Midwest
CBRE
JLL
Cushman & Wakefield
Colliers
Marcus & Millichap

Northeast
CBRE
JLL
Cushman & Wakefield
Newmark
Eastdil Secured

Southeast
CBRE
Cushman & Wakefield
Newmark
JLL
Marcus & Millichap

Southwest
CBRE
JLL
Newmark
Marcus & Millichap
Eastdil Secured

West
CBRE
Eastdil Secured
Cushman & Wakefield
Colliers
Newmark

By Property Type

Office
CBRE
Newmark
Cushman & Wakefield
JLL
Eastdil Secured

Industrial
CBRE
Eastdil Secured
Cushman & Wakefield
JLL
Colliers

Retail
CBRE
JLL
Marcus & Millichap
Newmark
Cushman & Wakefield

Apartment
CBRE
Newmark
Marcus & Millichap
Cushman & Wakefield
JLL

Hotel
CBRE
JLL
Eastdil Secured
Marcus & Millichap
Cushman & Wakefield

Dev Sites
CBRE
Colliers
Cushman & Wakefield
JLL
Newmark

Other

Over $25m
CBRE
Eastdil Secured
JLL
Cushman & Wakefield
Newmark

Under $25m
CBRE
Marcus & Millichap
Cushman & Wakefield
Colliers
JLL

Portfolio Sales
CBRE
Eastdil Secured
JLL
Cushman & Wakefield
Newmark

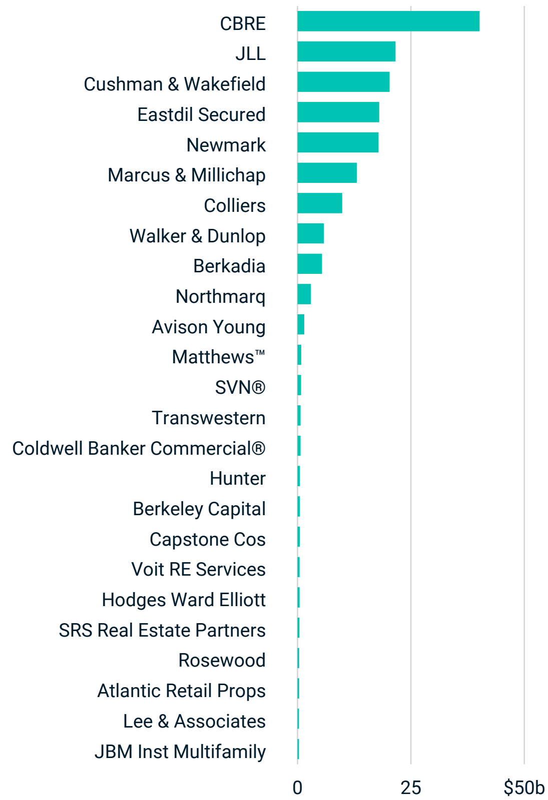
Single Asset Sales
CBRE
JLL
Cushman & Wakefield
Newmark
Marcus & Millichap

Buyer's Rep
Marcus & Millichap
JLL
CBRE
Cushman & Wakefield
Newmark

Cross-Border
JLL
CBRE
Eastdil Secured
Newmark
Cushman & Wakefield

All ranked by investment volume.

By Investment Volume



By Number of Properties

Methodology: Full credit assigned to each broker when multiple brokers involved. For partial interests, volume is based on the pro-rated share of the total property or portfolio value. Based on sell-side representation for sales of equity interests in office, apartment, industrial, retail, hotel, commercially developable land and other property types. The transaction volume of brokerage firms that have merged are left unconsolidated before the merger date and are attributed to the surviving or newly formed company after the merger date. For more information on rankings please visit the MSCI Real Capital Analytics website.

Top Deals Year to Date 2023

Property Sales

	Property	Location	Size	Type	Volume($m)Δ	$/unit	Buyer	Seller
1	Port of LA Dist Center	Los Angeles, CA	1,821,005 sq ft	IND	1,100.0	604	CBRE Invmt Mgmt JV GPIF	BlackRock
2	245 Park Avenue	New York, NY	1,723,993 sq ft	OFF	996.8 *	1,159	Mori Trust	SL Green
3	Curio Diplomat Resort & Spa	Hollywood, FL	998 units	HTL	835.0	836,673	Trinity Invmts JV Credit Suisse	Brookfield AM
4	JW Marriott Resort & Spa	San Antonio, TX	1,002 units	HTL	800.0	798,403	Ryman Hospitality	BREIT
5	Park Lane Hotel	New York, NY	631 units	HTL	622.9	987,160	QIA	Greenland Group JV Witkoff Group
6	Speedway Commerce Cntr	San Bernardino, CA	18,861,480 sq ft	DEV	543.7	29	Hillwood JV CBRE Invmt Mgmt	NASCAR
7	One Liberty Plaza (L/hold)	New York, NY	2,346,000 sq ft	OFF	502.3 *	437	Brookfield AM	Blackstone
8	Innovation Square (Bldg 2)	Boston, MA	268,916 sq ft	OFF	-	-	Undisclosed buyer	Mitsui Fudosan JV Related Cos
9	Church Park (L/hold)	Boston, MA	508 units	APT	439.0	864,173	Brookfield AM	Boston Residential
10	Solow Tower	New York, NY	322 units	APT	402.6	1,250,388	Black Spruce Management	Solow Realty
11	Bridgewater Commons	Bridgewater, NJ	411,896 sq ft	RET	-	-	Pacific Retail Capital Partners	NYSTRS JV JP Morgan
12	10545 Production Avenue	Fontana, CA	1,101,400 sq ft	IND	365.0	331	Rexford Industrial REIT	Tireco, Inc
13	I-10 Logistics Center	San Gorgonio Pass, CA	1,834,822 sq ft	IND	329.0	179	Brookfield AM	Shopoff Props Trust JV Artemis RE Ptnrs
14	Jujamcyn Theater	New York, NY	147,094 sq ft	RET	287.0 *	2,097	ATG JV Providence Equity Ptnrs	Jujamcyn Theaters
15	13-17 Laight Street	New York, NY	108,000 sq ft	OFF	273.5	2,532	Hyundai Motor	Vanbarton Group
16	Foundry Row	Owings Mills, MD	381,147 sq ft	RET	- *	-	MCB Real Estate	Greenberg Gibbons JV Vanguard Equities
17	Seagate Campus	Fremont, CA	574,775 sq ft	IND	260.0	452	Madison Capital JV Sixth Street	Seagate Technology LLC
18	Richmond Dist Center	Richmond, VA	1,907,355 sq ft	IND	-	-	LBA Realty	Prologis
19	Southgate Towers	Miami Beach, FL	495 units	APT	241.5	487,876	AIR	Gumenick Properties
20	960 Central Expressway	Santa Clara, CA	877,424 sq ft	OFF	240.5	274	Amazon	Corning
21	The Elm	Bethesda, MD	456 units	APT	235.1	515,604	AIR	JP Morgan JV Alony Hetz
22	One South Halsted	Chicago, IL	492 units	APT	231.5	470,528	Pontegadea	Ares Management JV F&F Realty Ltd
23	Seasons of Cherry Creek	Denver, CO	587 units	APT	225.0	383,305	Broe Cos	Allstate Ins Co JV RedPeak Props
24	RBC Gateway (Office)	Minneapolis, MN	531,000 sq ft	OFF	225.0	424	Spear Street Capital	United Properties (MN)
25	Acadia By SDK	Ashburn, VA	630 units	APT	223.5	354,762	SDK Properties	Starwood Capital

Portfolio and Entity Sales

	Buyer	Seller	Location	# Props	Type	Volume($m)Δ
1	GIC JV Blue Owl Capital	STORE Capital (REIT)	Multiple, USA	1,954	DEV, HTL, IND, OFF, RET, SHC	-
2	Global Net Lease	The Necessity Retail REIT	Multiple, USA	783	IND, OFF, RET	-
3	TIAA-CREF	Omni NY	Northeast	46	APT	3,500.0
4	Prologis	Blackstone	Multiple, USA	57	DEV, IND	3,100.0
5	Cadillac Fairview	Lincoln Property Co	Multiple, USA	50	APT	- *
6	Regency Centers	Urstadt Biddle	Northeast	70	OFF, RET	1,382.8
7	Michaels Organization JV Goldman Sachs	Greystone JV Harmony Housing	Multiple, USA	90	APT, SHC	1,194.2
8	QuadReal	CA Ventures	Multiple, USA	33	APT	- *
9	Westcore Properties	BentallGreenOak JV MEPT	Multipe, CA	7	IND	1,000.0
10	GIC JV Centerbridge Partners	INDUS Realty Trust Inc	Multiple, USA	37	IND	-

Δ When prices are not known, estimated prices are used in the ranking but are not shown. Volume is adjusted pro-rata for partial interests although $/unit reflects 100% valuation.
* Partial interest ** Forward sale Excludes development site sales.
The number of buyers or sellers shown on a deal is truncated to two. For full deal and player information go to the MSCI Real Capital Analytics website.

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Methodology

Data based on properties and portfolios $2.5m and greater unless otherwise stated. Data as of Oct. 17, 2023 unless otherwise stated.

About Capital Trends

Capital Trends reports analyze and interpret trends in the global real estate market. US Capital Trends is a monthly edition comprising an overview of the U.S. market and separate reports on the five main property types. Asia Pacific, Australia, Europe and Global Capital Trends are published quarterly. UK Capital Trends, launched in 2023, is published monthly.

About MSCI

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