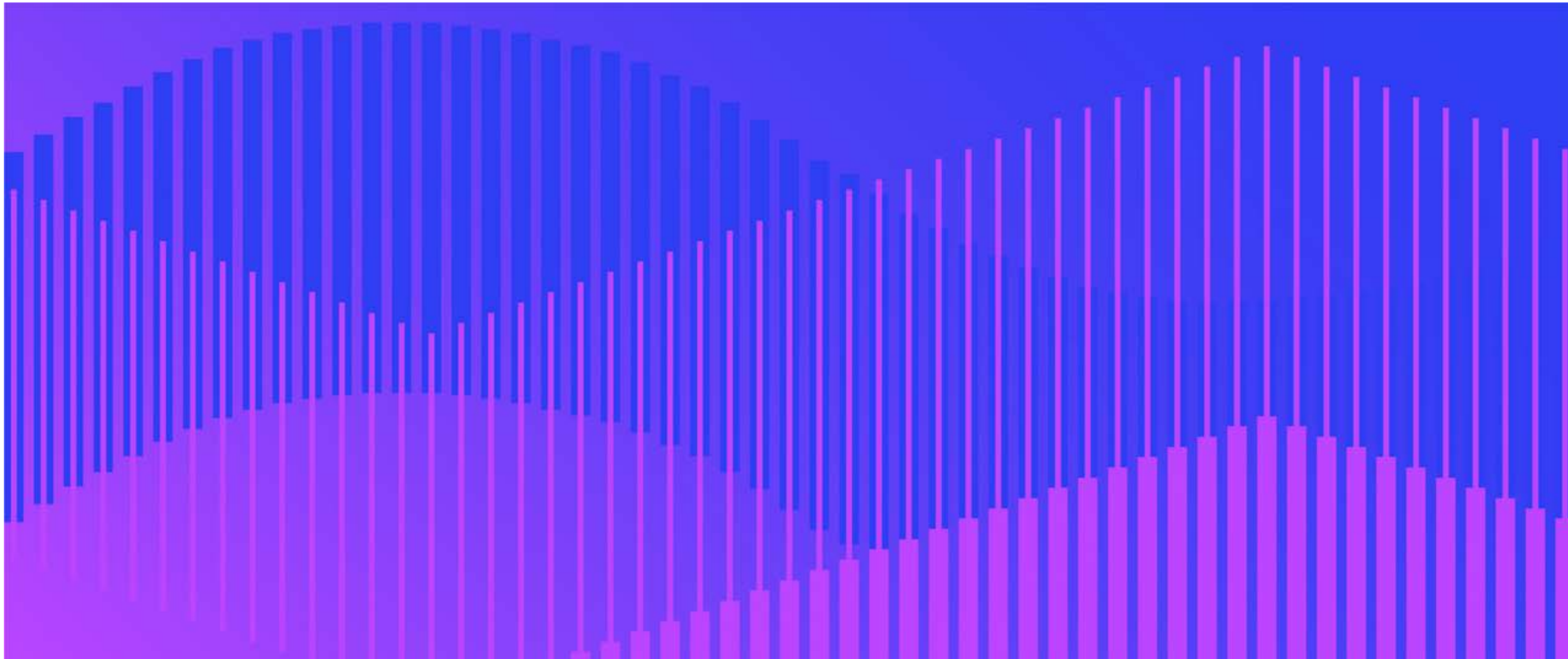
ValTrends
4Q 2021 Report

Strong Investor Appetite Driving Record Returns

Since 1931, the most trusted investment analysis in the commercial real estate industry.



SitusAMC

Contents

It was a banner year for commercial real estate across many metrics. Amid strong fundamentals for many property segments, ***strong investor appetite drove record returns.***

Investors' insatiable hunger for real estate is evidenced by record CRE transaction volume, which grew 88% in 2021, according to RCA. Volume topped $808 billion, the highest annual deal volume on record by more than $200 billion. Fourth quarter deal volume made up 40% of the annual total and was the largest quarterly amount in history.

Annual deal activity rose substantially for all property segments, but industrial and apartment transactions shattered records, reflecting the extremely favorable space market conditions in those segments. Industrial volume grew 56% year over year (YoY) to $166 billion, beating the previous record by almost $49 billion. Apartment deal volume was up almost 130% in 2021, with over $335 billion transacted. Apartment deal volume broke the record by a whopping $142 billion.

Despite a triple-digit annual increase, hotel volume only returned to pre-pandemic levels at almost $45 billion. Retail transactions increased almost 90% in 2021 to nearly $77 billion and surpassed pre-pandemic levels. Office deal volume was up 57% in 2021, with nearly $140 billion transacted. Despite the large annual increase, however, office volume is about $4 billion less than pre-pandemic levels.

It's no wonder that investor appetite for CRE is strong; returns to private real estate investors have been robust, and the increased allocation to the segment has prompted a virtuous cycle for returns. Fourth quarter NCREIF NPI overall CRE total returns increased 100 basis points (bps) quarter over quarter (QoQ) to 6.2%, the highest quarterly return in 42 years. Annual returns were 17.7%, the highest in over 15 years.

Industrial returns outperformed all property types for the sixth year in a row, with a fourth quarter return of 13.3%, its highest on record. Annualized fourth quarter returns were over 43%, more than 10 percentage points higher than the previous quarter's record. Apartment performance has also been remarkable over the past couple of quarters. At 6.8%, fourth quarter apartment returns beat the record set the previous quarter by 30 bps. Annual returns were almost 20%, the largest in over a decade.

Hotel total returns shot up 280 bps QoQ to 4.6%, the highest since 1997. Capital appreciation was up 230 bps QoQ to the highest level in 15 years. Hotel's annual returns, however, returned to pre-COVID-19 levels at 5.5%. Even retail picked up speed with a quarterly return of 2.2%, its highest since 2016. Annual returns were 4.2%, the highest since 2018. Given the continuing uncertainty in the office sector, returns lagged. At 1.7%, fourth quarter office returns decreased 20 bps QoQ, the only property type with a smaller increase than the previous quarter. Annual returns were 6.1%, returning to near pre-COVID-19 levels.

The investment environment, however, faces several headwinds. Investors are particularly cautious about the impending Fed tapering and rising interest rates, along with geopolitical concerns. Nonetheless, CRE is performing well, and there is increasing pressure to invest in the asset class. The pileup of capital affirms the bet that real estate's rally will continue while inflation rises, stocks wobble and bond returns lag. COVID-19 variants still loom large, but if they lessen in severity we may see continued growth in sectors outside of industrial and apartment. However, with capital inflows helping to drive returns, performance has become more vulnerable to capital market events and shifts in investor appetite and risk perceptions.

01

Capital Market ValTrends

Another solid quarter for CRE.

Economy & Financial Markets

GDP growth jumped to 7.0% in the fourth quarter following third quarter growth of 2.3% and second quarter growth of 6.7%.

The U.S. unemployment rate stood at 4.0% in January 2022, up slightly from 3.9% in December 2021 but significantly lower than 6.4% in January 2021.

All major inflation indexes were at 40-year highs. The consumer price index rose at an annual rate of 7.5% in January; core CPI was at 6.0% in January. The personal consumption expenditures price index rose at an annual rate of 5.8% in December 2021.

The S&P (down 5.3%) and the Nasdaq (down 8.9%) in

CRE & Investment Alternatives

	2021[6]	3-Year Trailing	5-Year Trailing	10-Year Trailing	15-Year Trailing
NPI[1]	17.7%	8.4%	7.8%	9.3%	7.2%
NFI-ODCE[1]	21.0%	8.2%	7.7%	9.4%	5.8%
NAREIT Index (All Equity REITs)[2]	41.3%	19.9%	12.5%	12.2%	7.5%
Consumer Price Index[3]	6.7%	3.3%	2.8%	2.1%	2.2%
Dow Jones Industrial Average[2]	20.9%	18.5%	15.5%	14.2%	10.1%
Nasdaq Composite[4]	21.4%	33.1%	23.8%	19.6%	13.3%
NYSE Composite[4]	18.2%	14.7%	9.2%	8.7%	4.3%
S&P 500[2]	28.7%	26.1%	18.5%	16.6%	10.7%
	4Q 2021	**4Q 2018**	**4Q 2016**	**4Q 2011**	**4Q 2006**
10-Year Treasury Bond[5]	1.5%	3.0%	2.1%	2.0%	4.6%

[1]NCREIF NPI is a property-level (unleveraged) total return index, gross of fees; NCREIF NFI-ODCE is a fund-level (leveraged equity) total return index, net of fees.
[2]Based on total return index, and includes the dividend yield.
[3]Based on the published data from the Bureau of Labor Statistics (seasonally adjusted).
[4]Based on price index, and does not include the dividend yield.
[5]Based on average quarterly T-bond rates.
[6]2021 averages are not compounded annually except for CPI and NAREIT.
Sources BLS, Federal Reserve Board, S&P, Dow Jones, NCREIF, NAREIT, compiled by RERC, 4Q 2021.

January posted their worst months since the onset of the pandemic, while the Dow Jones Industrial Average fell 3.3%. They continued to struggle in February.

The 10-year Treasury has been rising steadily since last summer, when it dropped to a 2021 trough of 1.2% on Aug. 4. The 10-year rate surpassed 2.0% on Feb. 10 for the first time since July 2019.

Spreads between RERC real estate yields and the 10-year Treasury and corporate bonds compressed QoQ, as real estate yields declined and bond rates increased.

The fourth quarter CRE yield over 10-year Treasury spread was about 50 bps larger than the long-term average. Moody's Baa spread was about 100 bps above the long-term average, and Moody's Aaa spread was about 70 bps larger than the long-term average.

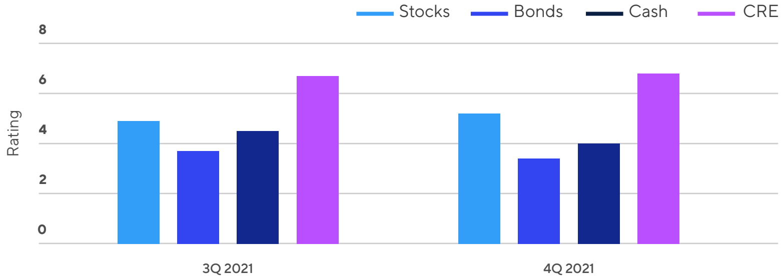
CRE & Investment Alternatives

According to RERC data, investor preference for the CRE asset class ticked up QoQ to the highest level in seven years. Compared to the traditional asset classes of stocks, bonds and cash, CRE has steadily increased in popularity since the onset of the pandemic, to the highest rate since 2014. With inflation upon us, investors are chasing CRE as a hedge. Investors tout the predictable fundamentals and relative safety of the asset class.

Institutional investors were more bullish on stocks in the fourth quarter, but preference for the asset class is down

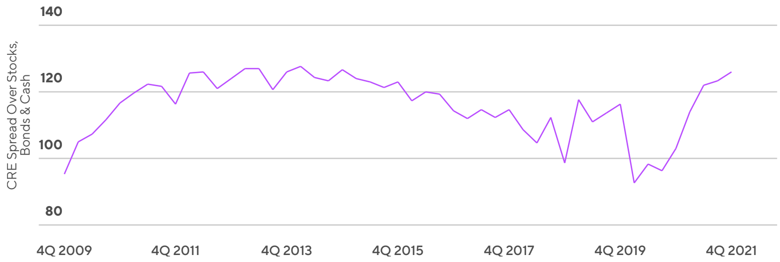
> "Inflation concerns favor selective real estate investments."
>
> - EAST REGION RESPONDENT

Ratings of Investment Alternatives



Ratings are based on a scale of 1 to 10, with 10 being excellent.
Source RERC, 4Q 2021.

CRE Attractiveness Index[1]



[1]The RERC Attractiveness Index shows CRE investors' changing preferences for CRE over the traditional asset classes. The baseline of 100 indicates that investors feel traditional assets and cash, on average, are as attractive as CRE. Source RERC, 4Q 2021.

considerably from the near-record ratings earlier in 2021. Investors prefer the liquidity of the stock market and state that businesses are poised to perform well as the pandemic subsides. The optimism for stocks is likely to fade as the stock market retreats amid rising interest rates.

Investors are least likely to endorse bonds as the best asset class. Preference for bonds declined QoQ; the current quarter's rating sits well below the long-term average. With interest rates expected to rise considerably in 2022, there will be downward pressure on bond prices. Treasurys and investment-grade bonds, which are at the safest end of the risk spectrum, are currently the least attractive assets.

Cash is king during times of uncertainty, but investor confidence in the economy led to a decline in investor preference for cash and cash equivalents in the fourth quarter. The rating is well below the long-term average and has been subdued throughout 2021.

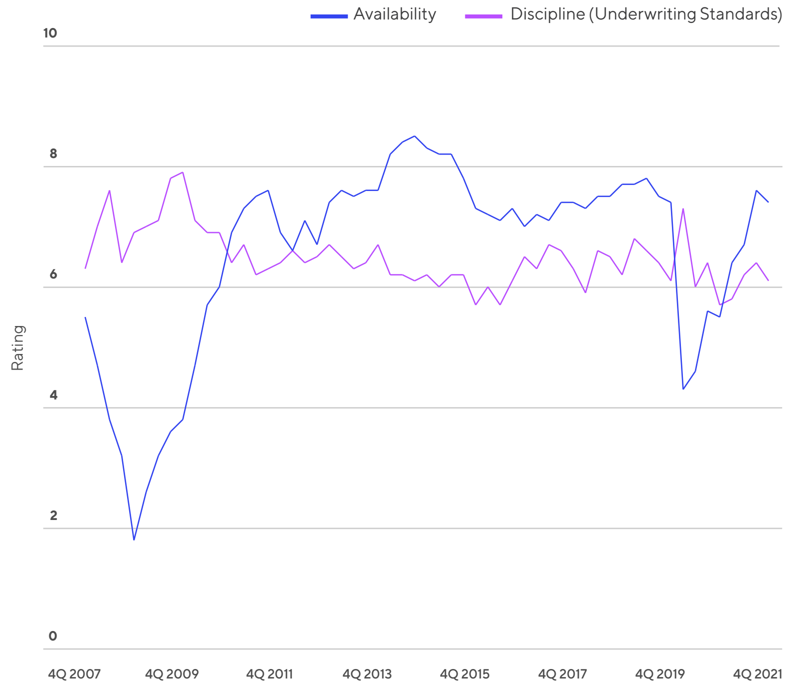
Availability & Discipline of Capital

Data from RERC suggest that capital availability and discipline both declined over the quarter, but they are at pre-pandemic levels. There is still a large amount of investment capital chasing yield. Investors are still looking to diversify from the stock market.

Debt and equity are chasing industrial and apartment, and retail is on the rebound. Office, however, is still murky. The pressure to find investments has loosened standards with more interest in non-major markets and non-prime tenants.

> "Plenty of capital on the sidelines for private equity real estate as a hedge against inflation."
>
> - INSTITUTIONAL RESPONDENT

Historical Availability & Discipline of Capital – Equity & Debt Combined

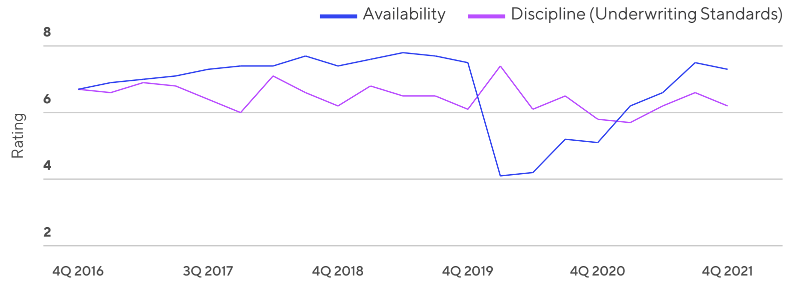


Ratings are based on scale of 1 to 10, with 10 being excellent.
Source RERC, 4Q 2021.

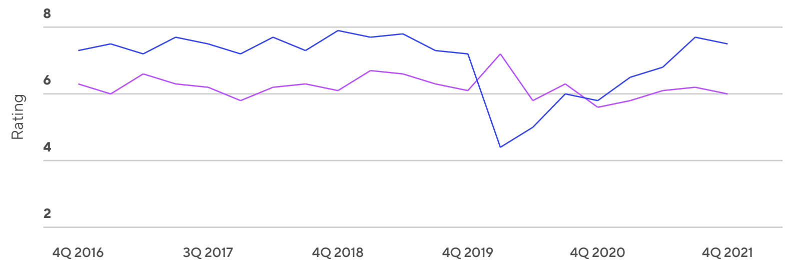
Though declining QoQ, equity availability remains above pre-pandemic levels. Underwriting standards eased in the fourth quarter but remain near pre-pandemic levels. Investors are still chasing COVID-19 discounts, though they are increasingly difficult to find on quality assets.

RERC data show a loosening of debt underwriting standards in the fourth quarter, though credit is still generally disciplined. Availability of capital also declined QoQ but remains near pre-pandemic levels. Commercial real estate is performing well, and there is increasing pressure to invest in the asset class. Lenders are aggressively seeking multifamily, but financing is readily available for most property types.

Historical Availability & Discipline of Capital – Debt



Historical Availability & Discipline of Capital – Equity



Ratings are based on a scale of 1 to 10, with 10 indicating that return far exceeds risk or value far exceeds price. Source RERC, 4Q 2021.

CRE Returns, Volume & Pricing

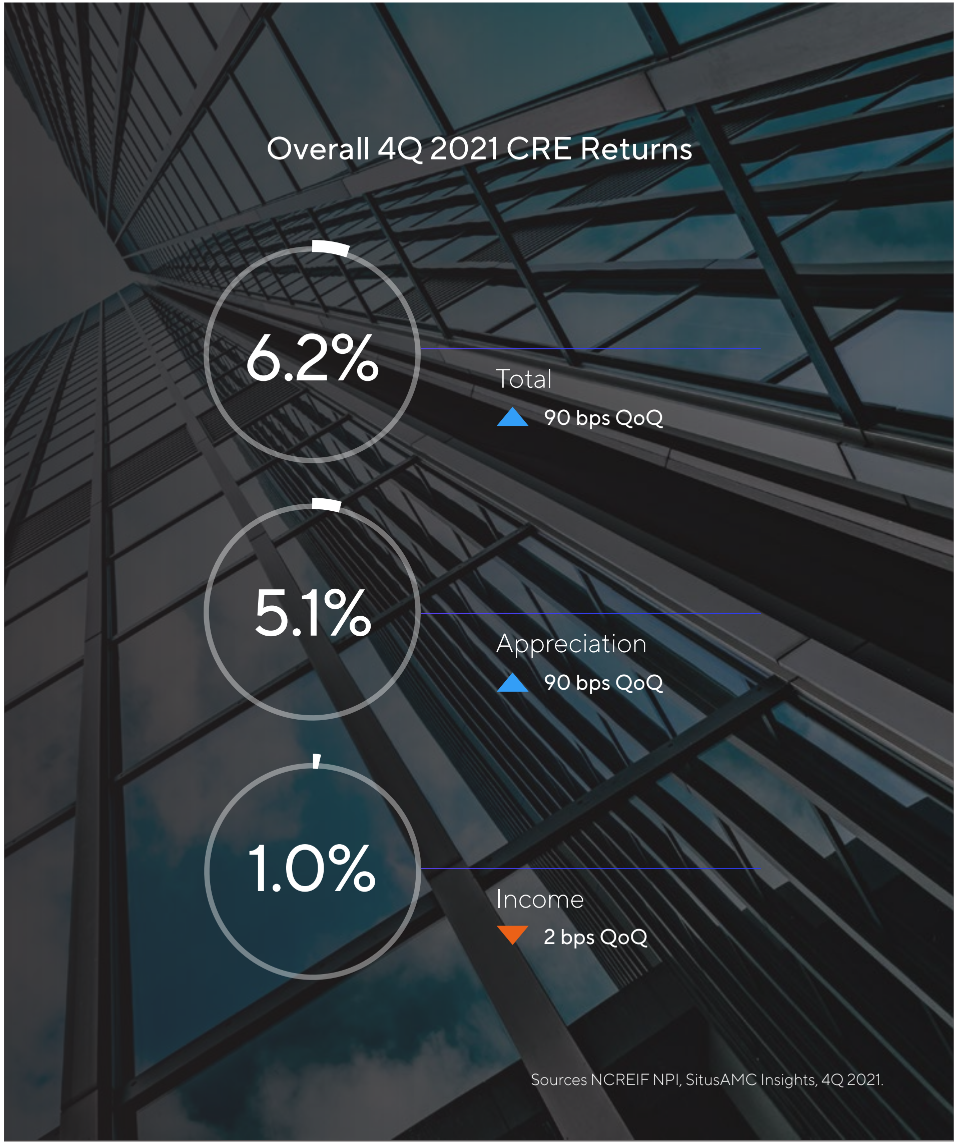
Returns

Fourth quarter NCREIF NPI overall CRE total returns increased 100 bps QoQ to 6.2%, the highest quarterly return in 42 years. Capital appreciation shattered records at 5.1%. Annual returns were 17.7%, the highest in over 15 years.

At 1.7%, fourth quarter office returns decreased 20 bps QoQ, the only property type with a smaller increase than the previous quarter. Annual returns were 6.1%, returning to near pre-COVID-19 levels. At 2.5%, suburban office returns declined QoQ, though they outperformed CBD by 150 bps. Quarterly CBD office returns have slowly but steadily increased since their pandemic lows to just over 1% in the fourth quarter.

Industrial outperformed all property types for the sixth year in a row, with a fourth quarter return of 13.3%, its highest on record. Annual returns were over 43%, more than 10 percentage points higher than the previous record. Warehouse was the top performing major subtype in the fourth quarter; total returns increased by about 250 bps QoQ to 13.4%.

The retail sector's quarterly return of 2.2% was the highest since 2016 – but even after three quarters of consecutive growth, the sector has not recovered from its pandemic losses. Annual returns were 4.2%, the highest since 2018. All retail subtypes had positive returns, with neighborhood retail and power centers



performing the best at about 2.5% each. There is some good news for malls; regional mall returns increased over 260 bps and super regional malls increased nearly 90 bps QoQ.

Apartment performance has been remarkable over the past couple of quarters. At 6.8%, fourth quarter apartment returns beat the record set last quarter by 30 bps. Annual returns were almost 20%, the largest in over a decade. Garden apartment returns continued to dominate the subtypes, with a quarterly return of just over 9%.

Hotel total returns shot up 280 bps QoQ to 4.6%, the highest since 1997. The sector has enjoyed three consecutive quarters of positive returns, but it has not been able to claw its way back from pandemic losses. Capital appreciation was up 230 bps QoQ to the highest level in 15 years. Annual returns were nearly 5.5%, the highest since mid-2019.

Volume

Overall CRE transaction volume, as measured by RCA, topped $808 billion in 2021, the highest annual deal volume on record by more than $200 billion. Fourth quarter deal volume made up 40% of the annual total and was the largest quarterly level in history.

Most notably, the hotel sector jumped nearly 240% in 2021 to over $44 billion. Volume was evenly split between full-service and limited-service hotels. Though an eye-popping annual change, total hotel deal volume has only returned to about pre-pandemic levels.

Apartment deal volume was up almost 130% in 2021, with over $335 billion transacted. This was the highest annual apartment transaction volume in history, beating the previous record by over $142 billion. Garden apartments made up the bulk of deals.

Industrial also broke an annual record for deal volume, with $166 billion transacted. Volume was driven overwhelmingly by warehouse properties.

Office deal volume was up 57% in 2021, with nearly $140 billion transacted. Despite the large annual increase, volume is about $4 billion less than pre-pandemic levels. Suburban office volume was more than double CBD office volume.

Retail transactions increased almost 90% in 2021 to nearly $77 billion and have surpassed pre-pandemic levels. Retail activity was led by centers, which increased 113% in 2021.

In 2021, non-major metro volume was more than double that of major metros. Dallas, Atlanta, Los Angeles, Phoenix and Houston were the most active markets.

Pricing

The RCA CPPI was up 22.9% YoY in December 2021, the largest annual price increase in history.

Industrial experienced the largest price growth among the property types in 2021. Prices increased by 29.2% YoY in December, the highest annual price growth in history. Apartment also performed well, with prices up 23.6% YoY in December 2021, also a record high.

Retail prices grew 21.5% YoY in December 2021, a record high. At 14.1% YoY in December 2021, office price growth was the largest in history.

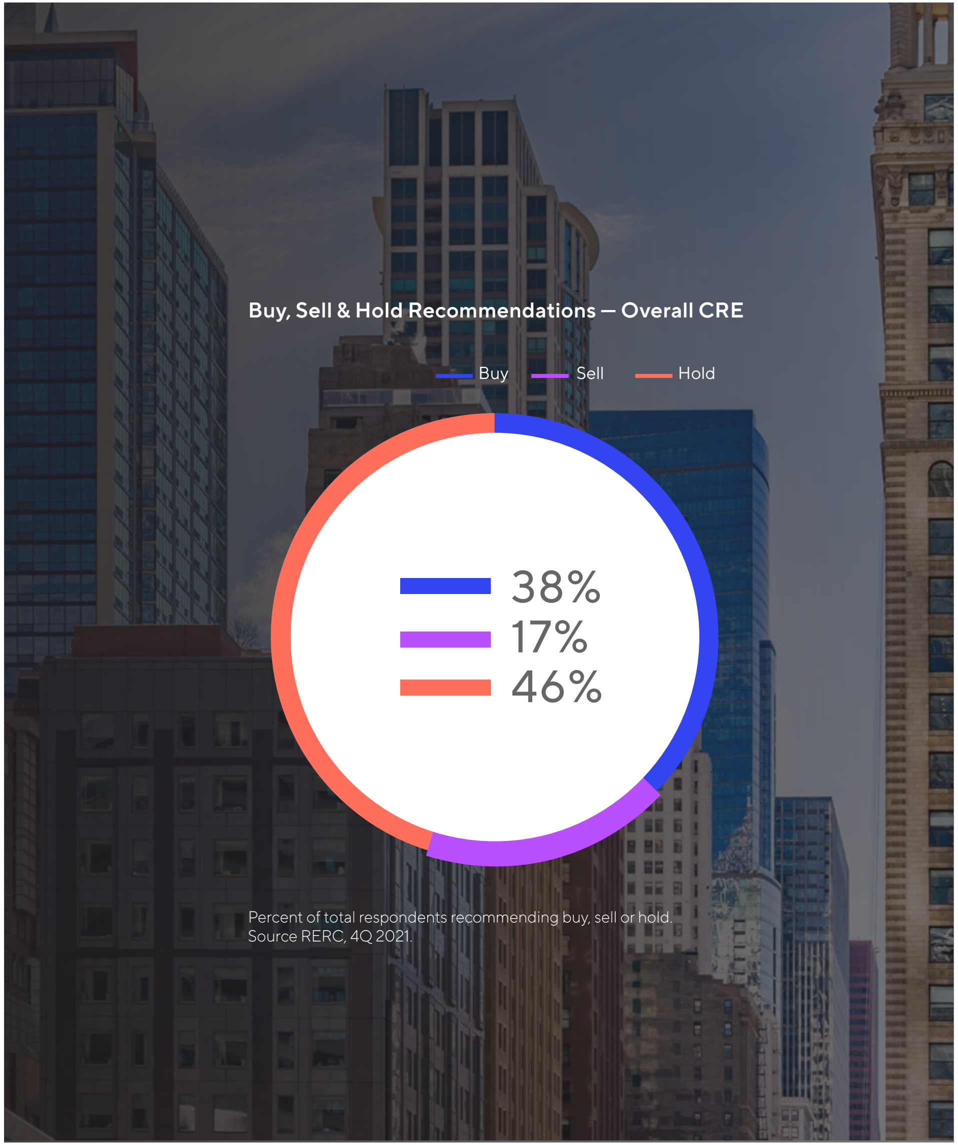
Non-major metro price growth outperformed major metro price growth in 2021, at 24.3% and 16.8%, respectively. Non-major market and major market price growth were the highest in history.

RERC Buy, Sell or Hold

Investors switched from a sell position in third quarter to a buy position in fourth quarter as solid fundamentals supported higher pricing. Investors recommended holding senior housing, self-storage, data centers, student housing, CBD and suburban office, malls, and power centers.

Investors were bullish on warehouse, industrial flex, neighborhood and community retail, apartment, hotel and medical office. Each of these property types earned a buy recommendation. The only property type to receive a sell recommendation was industrial R&D.

> "Many sectors of CRE are performing very well with projections that they continue to do so."
>
> -INSTITUTIONAL RESPONDENT



02

ValTrends by Property Type

Industrial and apartment segments remain strong.

RERC Perceived Return Relative to Risk

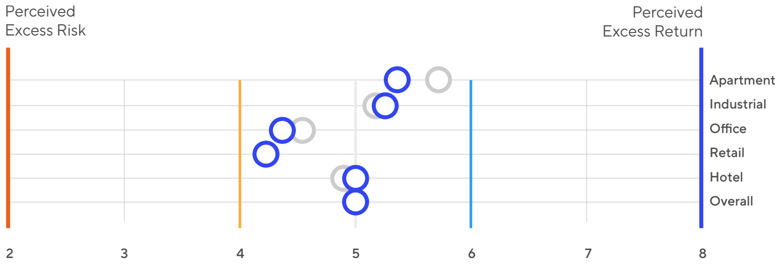
Investors reported a balance between risk and reward during most of 2021 for the overall CRE market. This follows nearly three years of higher perceived relative risk. Market forces, such as demographic shifts and economic strength, are setting the stage for future CRE growth even as risk increases from an expected rise in borrowing costs stemming from rising interest rates.

Despite a decline in perceived risk-adjusted returns for the apartment segment QoQ, the sector boasts the highest ratings among the property types, indicating greater reward relative to risk. Apartment outshined industrial during all of 2021.

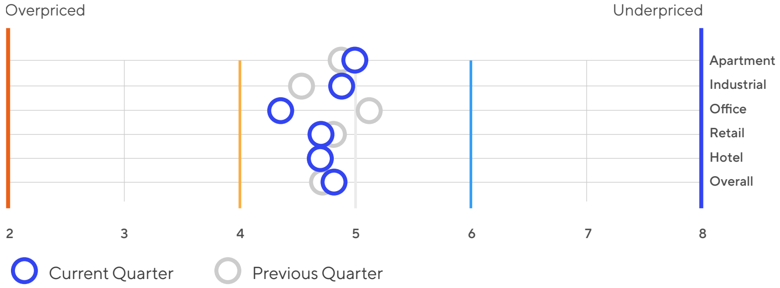
Industrial ranked second among the property types for higher returns relative to risk. The rating for hotel increased QoQ to equilibrium.

Office and retail are still seen as risky relative to potential returns despite ratings that are close to pre-pandemic levels. Investors note that assets requiring visitors, workers or shoppers are still at risk due to COVID-19.

RERC Perceived Return Relative to Risk



RERC Relative Value Sentiment



Ratings are based on a scale of 1 to 10, with 10 indicating that return far exceeds risk or value far exceeds price. Source RERC, 4Q 2021.

RERC Relative Value Sentiment

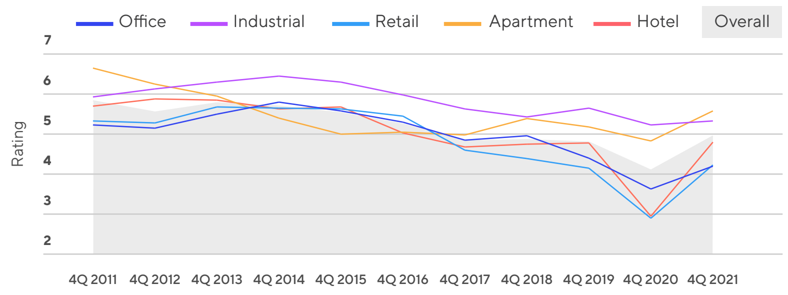
The overall CRE market is once again perceived as overpriced as it has been for the past five years. Despite record price increases over the past year, the CRE market has been seen as more fairly priced than it was prior to the pandemic, likely because of strengthening fundamentals.

Hotel continued to outperform all other sectors in its relative value sentiment. It was the only sector rated as underpriced. Investors note that weaker assets can be scooped up at a discount.

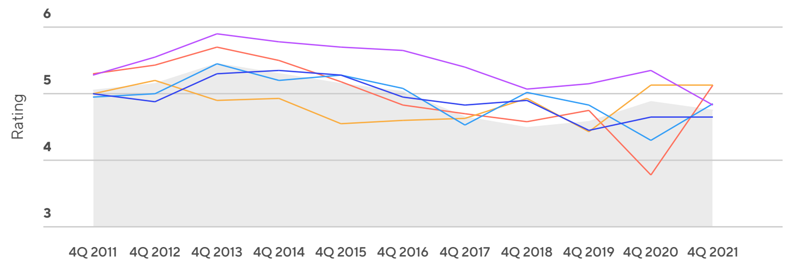
Perceptions of value relative to prices increased QoQ for industrial and apartment; they are now seen as fairly priced. This is somewhat surprising given the ultra-competitive pricing over the past year. However, the industrial and apartment segments are considered more overpriced than they were at the onset of COVID-19. Investors warn that demand for placing capital is driving up values for apartment and industrial, and the pace of growth may not be sustainable long term.

Office relative value sentiment deteriorated significantly QoQ; the sector is seen as the most overpriced among the property types. Investors recognize that future office demand still has too many unknowns due to COVID-19 and remote work trends. Retail continued to be seen as overpriced in the fourth quarter.

RERC Perceived Return Relative to Risk — Average Annual Ratings



RERC Relative Value Sentiment — Average Annual Ratings



Ratings are based on a scale of 1 to 10, with 10 indicating that return far exceeds risk or value far exceeds price. Data represent four quarter moving averages. Source RERC, 4Q 2021.

SitusAMC Office Insights

Office is showing signs of life, though it is far from a full recovery. The occupancy rate ticked up 10 bps in the fourth quarter but remains about 130 bps below pre-pandemic levels. Net absorption retreated from last quarter's near-record pace but was more than double the long-term average.

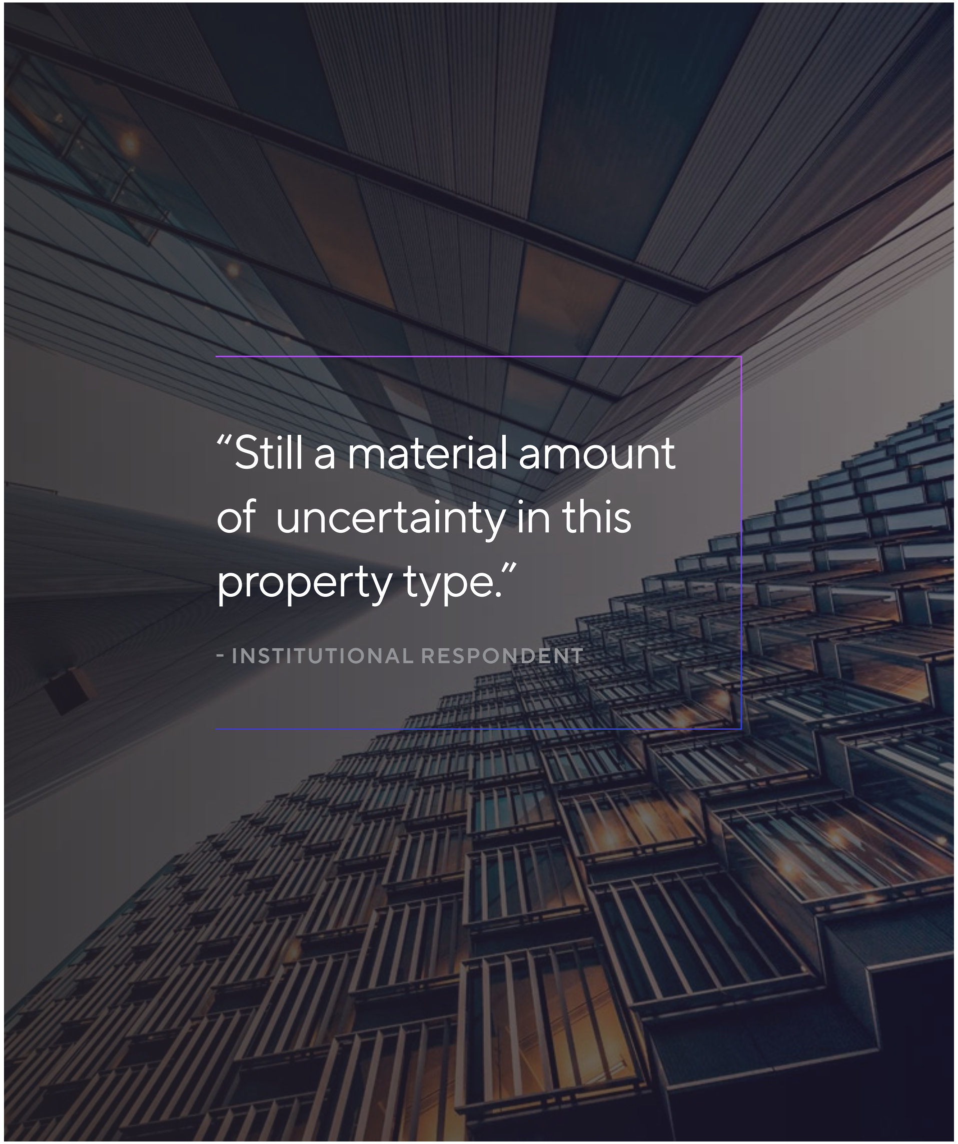
Supply is being kept in check; completions were at a nearly nine-year low. This was no surprise given the vacancy overhang and high uncertainty. Effective rents remained the same QoQ but are down 1.4% from pre-COVID-19 levels.

Challenges remain for the sector due to many uncertainties stemming from COVID-19 and return-to-work policies. Both new and existing tenants up for renewal are downsizing and signing shorter leases.

Office valuations are flat, but one subsector that will continue to provide solid returns is the flex office space. A fair number of offices are being converted into lab space for life science companies.

Tenants are flocking to quality. Leasing activity is picking up for best-in-class space.

COVID-19 has changed investor preferences. Tenants are shifting toward private, enclosed offices and large conference rooms.



SitusAMC Industrial Insights

The industrial sector continues to break space market records. Warehouse effective rents once again topped their previous high, increasing by 2.4% QoQ. Rents are more than 8.5% higher than pre-COVID-19 levels. The occupancy rate increased for the fifth consecutive quarter, jumping 120 bps QoQ to a record high. Net absorption was strong in the fourth quarter at nearly three times its long-term average. Supply remains constrained; warehouse completions remained muted throughout 2021, with fourth quarter levels the lowest since 2014.

The occupancy rate grew 90 bps QoQ for flex and R&D space, reaching the highest level in history. Effective rents are also at a record high, increasing 2.1% QoQ. Rents are 6.3% higher than pre-COVID-19 levels. Net absorption tapered off from last quarter's high but remains more than four times higher than the long-term average. Completions dipped from the previous quarter but remain slightly above the long-term average.

Industrial has been doing extremely well for a number of quarters, and the demand is still present in the market among investors and tenants. Market rents are expected to continue to grow as there is still room for tenants in terms of what they are willing to pay and relatively low operating costs overall.

The hoarding of storage space is forcing logistics experts to reimagine how and where goods are stored along the supply chain. Companies are building multistory warehouses, choosing locations farther from coastal areas and occupying vacant storefronts to store goods.

Institutional investors are beginning to target industrial outdoor storage (IOS) as an alternative to traditional industrial assets. IOS assets typically command higher rents per square foot than warehouse because of the value that tenants derive from the large storage yard.

Industrial Return	13.3%
Warehouse Occupancy	▲ 120 bps QoQ
Warehouse Effective Rent	▲ 240 bps QoQ

Source NCREIF, Reis, SitusAMC Insights, 4Q 2021.

SitusAMC Retail Insights

The retail sector continues to work through its pandemic-related space market woes. The occupancy rate ticked up 10 bps QoQ, returning near pre-pandemic levels, but is still more than 120 bps below the long-term average. Net absorption remained positive in the fourth quarter but is less than half its long-term average. Effective rents increased 10 bps QoQ but are still about 1% off pre-pandemic levels.

Supply constraints bode well for further rent increases. Retail completions were the second lowest in history in the fourth quarter, nearly half of the previous quarter's levels. Completions were well below long-term averages throughout 2021.

Source NCREIF, Reis, SitusAMC Insights, 4Q 2021.

Retail tenants still face a lot of business and credit risk. Malls and power centers are confronting occupancy issues.

Restaurant owners are expecting that it will be more than a year until business conditions return to normal, citing high costs for food and labor and a continued hesitancy among consumers to eat at restaurants. However, quick-service restaurants approached near pre-pandemic foot traffic in December 2021.

Multi-tenant retail typically has lease agreements that factor in sale figures and could raise rents as a result.

SitusAMC Apartment Insights

Apartment space market performance remained solid in the fourth quarter. Effective rent growth was the second highest in history, trailing only the third quarter's stellar rate. Effective rents are 9.8% higher than pre-pandemic levels.

Completions fell by more than half compared to last quarter, hitting their lowest level since 2012. The occupancy rate increased 10 bps QoQ to the highest level in two years. Occupancy is 70 bps higher than its long-term average. However, there are some signs of cooling in the sector. Net absorption, though positive, was at its lowest level since 2009.

While it's unlikely to keep its historic pace that defined the latter half of 2021, multifamily fundamentals and capital market activity should still continue to display strong growth in 2022.

Apartment is seeing very large write-ups in value, lots of rent increases and cap rate compression.

Demand remains strong for apartments due to the lack of affordable housing alternatives. Supply is relatively limited due to high new construction costs, especially for middle-income targeted units.

With the new imposition (or proposition) of rent control popping up in several jurisdictions, some investors are considering cutting back investment, particularly in California, New York and Minneapolis/St. Paul.

Apartment Return	6.8%
Apartment Occupancy	▲ 10 bps QoQ
Apartment Effective Rent	▲ 290 bps QoQ

Source NCREIF, Reis, SitusAMC Insights, 4Q 2021.

SitusAMC Hotel Insights

With a 1.9% QoQ increase, room rates are approaching pre-pandemic levels. A full room rate recovery is expected by mid-2023. However, declining occupancy led to a loss in RevPAR in the fourth quarter. Occupancy and RevPAR are not expected to return to pre-COVID-19 levels until the end of 2023.

Upper-tier hotels outperformed lower-tier hotels in the fourth quarter despite the subsector's lagging fundamentals. RevPAR declined 1.2% QoQ and occupancy rates declined 4.4%. RevPAR and occupancy rates are not expected to recover until early 2024. Room rates rose 6.9% QoQ, surpassing pre-pandemic levels.

Hotel Return 4.6%

Hotel Occupancy ▼ 900 bps QoQ

RevPAR ▼ 1330 bps QoQ

Source NCREIF, Reis, SitusAMC Insights, 4Q 2021.

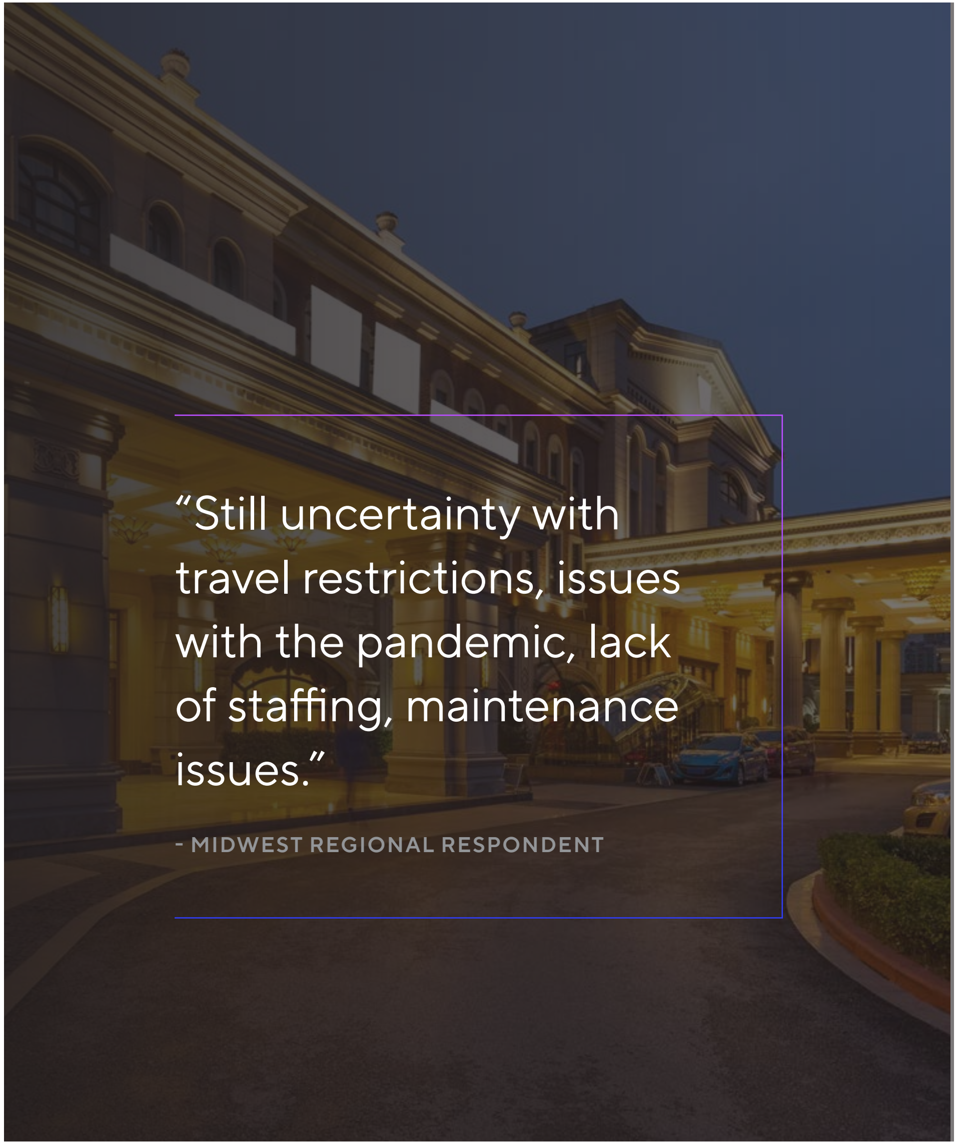
Room rates, occupancy rates and RevPAR for lower-tier hotels tanked in fourth quarter by 8.2%, 11.9% and 26.1%, respectively, likely due to a reduction in travel from surging omicron cases. Room rates are expected to recover to pre-pandemic levels in late 2022; RevPAR and occupancy are not expected to recover until late 2023.

Many companies are still discouraging business travel to the detriment of many hotels. On the leisure side, evidence is building of mounting pent-up demand emerging in coming quarters as COVID-19 infection rates decline rapidly and an increasing number of states and localities lift restrictions.

Selected properties are trading at low pricing even though long-term prospects are relatively strong.

Optimism about the recovery in hotel performance and the hedge against inflation that hotels provide are attracting capital to this asset class. Many investors are considering alternative options for hotels, such as converting into housing or labs at a cheaper price than building from the ground up.

The long-term-stay subsector is a boon for property owners, with profit margins as much as double the industry standard, as it needs fewer staff members than regular hotels.



ValTrends by SitusAMC

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