

Capital Trends

US Big Picture

16.8% YOY price change
\$50.6b Transaction volume
-19% YOY volume change

Deal volume fell sharply in July but reading trends out of what gets reported during August is often challenging. Information flows slower at times based on calendar events such as public holidays that close government offices. And in summer, the return of many people from vacations in September and October typically generates upward revisions to sales volume, too. Still, the usual pace of summer revisions is not likely to erase the retreat captured in the double-digit declines for July.

The declines would have looked worse, in fact, but for two major entity-level transactions which closed in July. Blackstone engaged in a take-private transaction of PS Business Parks; primarily an industrial portfolio, it also had exposure to the office and apartment sectors. The other transaction was focused on the medical office sector, with the merger of Healthcare Realty and Healthcare Trust of America.

Sales involving other types of transactions were down more sharply, with individual asset sales 29% lower than a year ago and portfolio sales down 42%. The decline in individual asset sales highlights investor hesitancy in the face of rising mortgage rates and uncertainty over the chances of a recession.

The retail sector, however, bucked these trends. Overall volume climbed 39% from a year earlier and individual asset sales rose 11%. There was a fear factor limiting retail property sales for a time as the growth in e-commerce activity during the worst part of the pandemic changed perceptions of opportunities in the sector. Volume is growing as those fears abate.

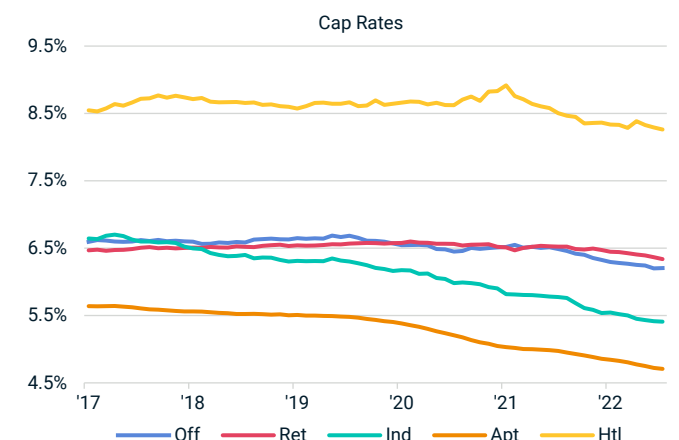
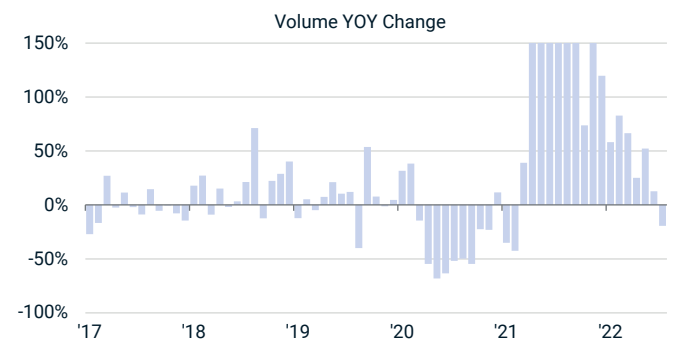
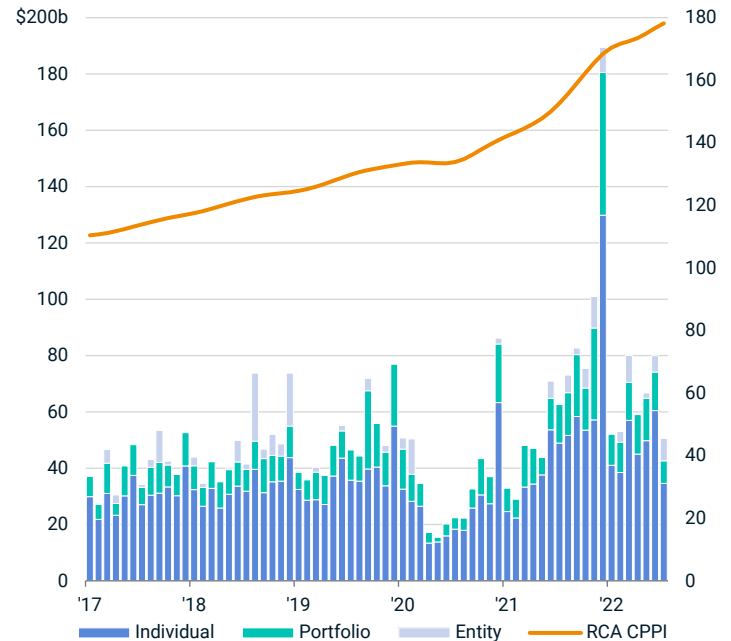
Cap rates were generally falling from a year earlier in July. Industrial cap rates fell the most, down 40 bps from July 2021 to an average 5.4%. CBD offices, hotels and retail fell the least from a year earlier, each down only 20 bps.

Transaction Volume Summary

	July 2022		YTD 2022		RCA CPPI	
	Vol (\$b)	YOY	Vol (\$b)	YOY	Cap Rate	YOY
Office	10.9	-25%	70.8	11%	6.2%	8.2%
Retail	6.3	39%	53.8	84%	6.3%	17.7%
Industrial	10.5	-8%	86.9	30%	5.4%	24.4%
Hotel	1.7	-48%	25.0	-1%	8.3%	10.1%
Apartment	18.1	-24%	179.2	44%	4.7%	20.9%
Snr Hsg & Care	0.6	-75%	6.7	-37%	6.0%	
Dev Site	2.5	-9%	19.0	35%		
Total	50.6	-19%	441.4	32%		16.8%*

*All-Property Index comprises office, industrial, retail and apartment

Monthly Transaction Volume and Pricing



Trailing 12-mth cap rates; volume YOY change truncated at 150%

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Spotlight on Medical Office

Medical office investment has hit all-time highs for deal activity in recent quarters. Even after a record-breaking quarter at the end of last year, volume in just the first half of 2022 reached \$7.7b, up 38% from the same period a year prior and 13% above the average seen for the first half of a year during 2017-19.

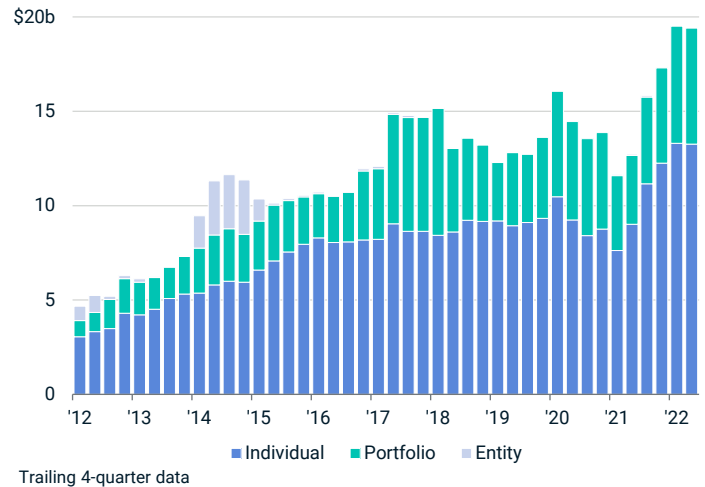
Elevated as these figures are, there is already significant activity in the books for the second half of the year. Not included in the total for the first six months of 2022 is the multibillion-dollar merger between Healthcare Realty Trust and Healthcare Trust of America that closed at the end of July.

Compared to traditional office assets, investors continue to pay a premium for medical office properties. The RCA Hedonic Series cap rate for medical office buildings fell 30 bps from a year earlier and reached a record low of 5.9% in Q2'22. The spread between this series and the broader suburban office series was widest back in Q4'20 but has since tightened almost 20 bps to stand at 25 bps.

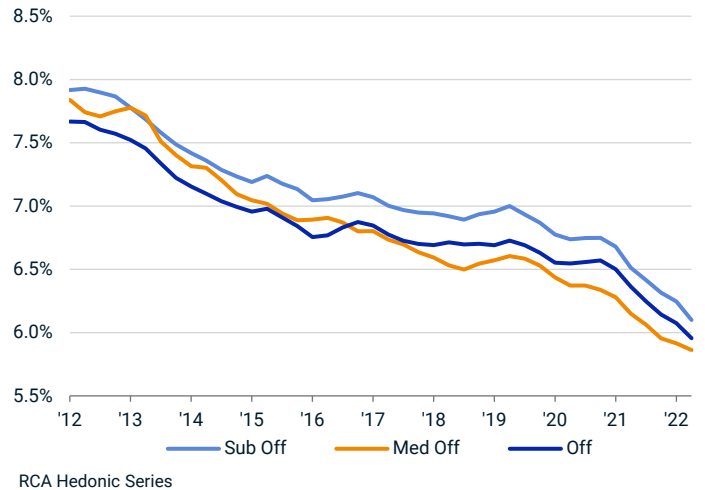
Looking at the most active markets for acquisitions over the last four quarters, Los Angeles claimed the top spot. While portfolio sales bolstered deal activity in Los Angeles, the market would still secure the #1 spot tallying single asset sales alone. The same can't be said for the fourth largest market, Atlanta, which would fall to the #9 spot in a ranking of top markets for individual asset sales. Portfolio sales accounted for one-third of total deal volume in Atlanta in the year through June.

As for investors in medical offices, in the four quarters through June the number of unique buyers was 5% higher than the prior period. Of the top 10 most active buyers for the same time frame, four were institutional players.

Transaction Volume



Cap Rates



Top Acquisition Markets

Rank	Market	Sales Volume (\$m)
1	Los Angeles	1,371
2	Dallas	845
3	Phoenix	797
4	Atlanta	491
5	Chicago	490
6	Houston	482
7	San Francisco	474
8	Orange Co	467
9	Boston	399
10	San Antonio	378

Legend: Individual (blue), Portfolio & Entity (grey)

Top Buyers

Rank	Investor	Investor Group
1	Harrison Street RE Cap	Institutional
2	Physicians Realty Trust	Listed/REITs
3	Montecito Medical	Private
4	Remedy Medical Properties	Private
5	Healthcare Realty Trust	Listed/REITs
6	TIAA	Institutional
7	Anchor Health Props	Private
8	Healthpeak Properties Inc	Listed/REITs
9	RMR Group	Institutional
10	Kayne Anderson	Institutional

Top markets and buyers charts: four quarters through Q2'22

Cross-Border Investment in the US

Cross-border investment volume in the U.S. averaged 8% of total acquisition activity over the four quarters through June 2022. For the first half of 2022 only, however, this share dipped to 5%. In 2021 there was a distinct pattern of cross-border activity, with a lower pace of activity in the first half of the year and higher in the second half. It is not clear that the same gas is in the tank for a stronger second period in 2022.

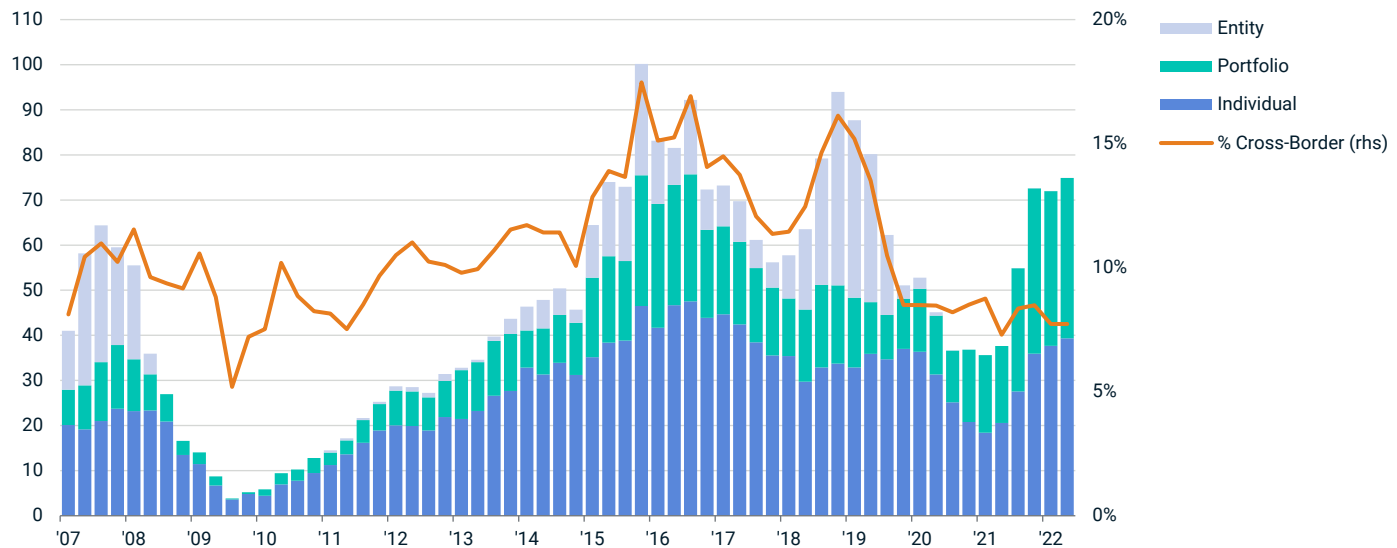
The larger share of cross-border activity late last year was driven by a boom in portfolio sales. For the first half of 2022, such deals have accounted for only 27% of cross-border activity. With uncertainty around future economic trends and an increase in interest rates

pushing up the cost of capital, it is doubtful whether such megadeals can come through at 2021's pace.

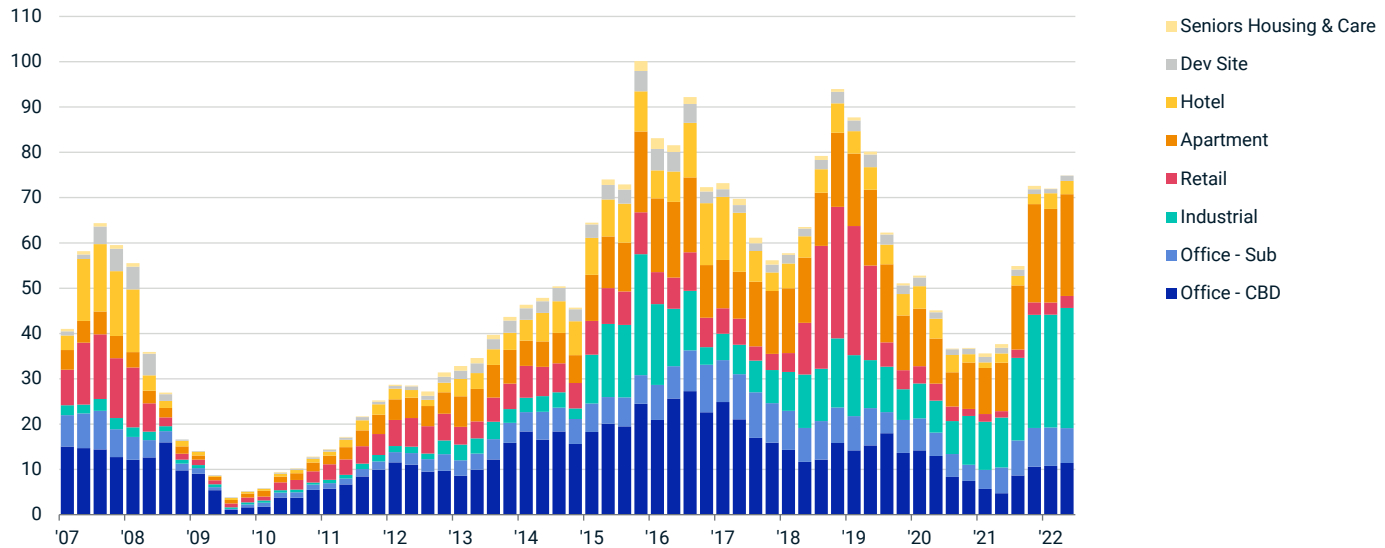
Cross-border investors continued to favor the industrial sector in the first half of 2022, with purchases in this sector surpassing dispositions by \$2.7b. In the apartment sector, these investors were net sellers to the tune of \$2.6b. Still, the level of apartment acquisitions in the first half of the year, at \$5.2b, was up 17% YOY.

The Q2 2022 US Cross-Border Investment Compendium data file is available for download from the [client website](#).

Cross-Border Acquisitions by Deal Type and Share of Total Market



Cross-Border Acquisitions by Property Type



\$ billion; trailing 4-quarter data; data at August 12, 2022

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Methodology

Data based on properties and portfolios \$2.5m and greater unless otherwise stated. Data as of August 23, 2022 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.

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