

Capital Trends

US Office

Q1 2022

10.3% YOY price change

\$35.1b Transaction volume

59% YOY volume change

Sales volume in the office sector climbed relative to a year earlier in Q1'22 despite the interest rate spike in March. Deals in this market do not close instantly, with weeks needed for a transaction to finalize. The level of activity through the end of March thus reflects the rebound in the sector that was underway through the beginning of the year. Even as the 10yr UST was spiking in March, sales volume continued to grow. The fallout from leaping interest rates, if any, will likely be seen in coming months.

Office price growth did decelerate late into Q1'22, though some of this decline was already underway. The RCA CPPI for offices climbed 10.3% YOY for the quarter. Growth had peaked at a 12.9% YOY pace in Q3'21 and had been pulling back from that high since then even, before the interest rate spike.

Price growth turned a corner to acceleration late in 2020 as it became clear that vaccines were on the way and some of the fear keeping people away from offices would fade. Once that removal of fear had been priced in fully, it would be reasonable to see the price growth slow, independent of interest rate shocks.

Deal activity for the quarter was stronger for individual transactions than for the total market. Sales of individual assets reflect investor sentiment of the market as these market participants assess the health of one building, the tenants, local submarkets and so forth without the effects of a broader portfolio to paper over mistakes. Transaction volume involving such structures rose 79% from a year earlier in Q1'22.

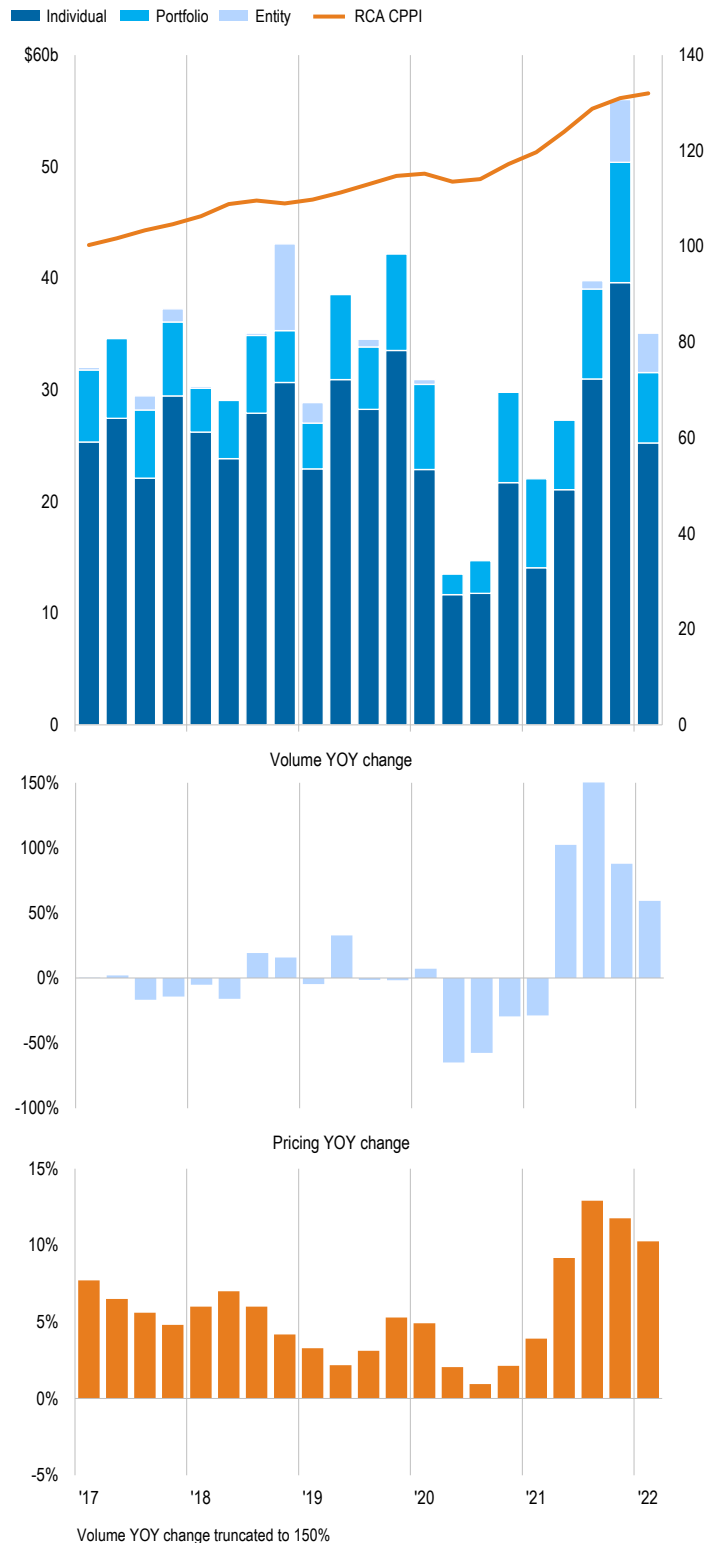
Entity-level sales did play a role for the quarter, with no such transactions in the same period last year. KKR in a joint venture with Global Infrastructure Partners took CyrusOne private. This transaction was focused on data centers, a segment of the market where investors continue to show interest.

Suburban office sales volume continued to outpace that of CBD assets for the quarter, with a 63% YOY pace of growth. For individual asset sales however, CBD office sales were up more, at a 315% YOY pace in Q1'22.

Transaction Volume Summary

	Mar '22		Q1 '22	
	Vol (\$b)	YOY	Vol (\$b)	YOY
Office Total	16.5	32%	35.1	59%
CBD	6.1	25%	11.6	53%
Sub	10.4	36%	23.5	63%
Portfolio	7.1	31%	9.8	24%
Single Asset	9.4	32%	25.2	79%

Quarterly Transaction Volume & Pricing



Recent Trends

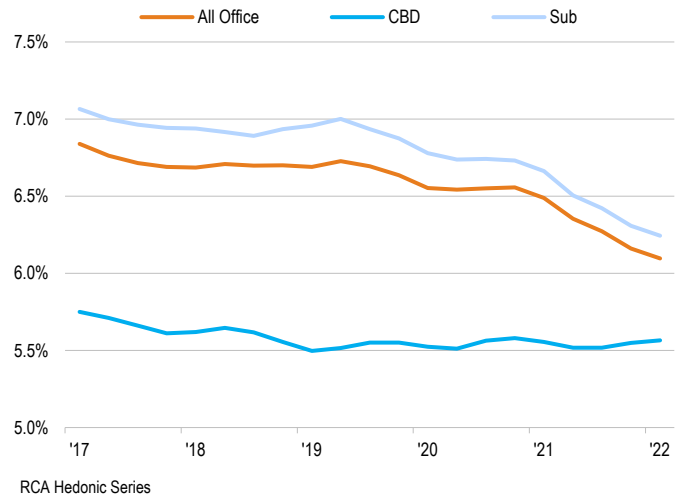
While price growth decelerated into Q1'22 for the office market in total, it was the suburban office market that pulled back the most. Relative to a year earlier suburban price growth was stronger than that in CBD locales, with the RCA CPPI for suburban offices up 9.3% YOY versus only 7.5% for CBD offices. Still, looking to last quarter, suburban prices were unchanged versus a 1.7% pace of growth for CBD offices. Annualized, these figures would be 0% and 6.8%, respectively.

While suburban price growth is decelerating, cap rates still hit a new low of 6.2% in Q1'22. This figure was down 40 bps from a year earlier and is the lowest level for suburban office cap rates since 2001. CBD office cap rates, by contrast, have not really moved since 2017. The 5.6% level for Q1'22 is the average seen since 2017, with only a few quarters where it was 10 bps higher or lower over that time frame.

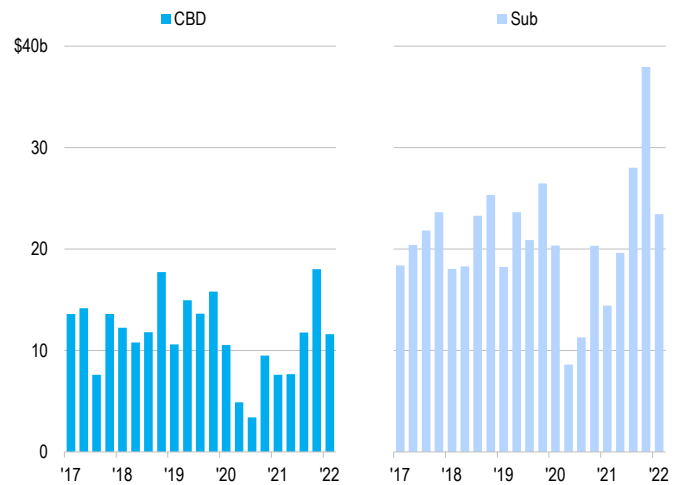
Deal volume was up at a similar pace in both suburban and CBD submarkets in Q1'22, by 63% and 53% YOY, respectively. The CBD office sales though were driven much more by individual asset sales. Such transactions were up 315% YOY and represented 90% of the CBD office market for the quarter. By contrast, the suburban office market was more weighted to portfolio and entity-level deals as a source of growth. Individual asset sales in the suburbs were up 28% YOY for the quarter.

Niche property sectors are a focus for many investors today given themes around economic demand that defy some of the challenges to tenant demand presented in the pandemic. Medical office is one such segment of the market, with both deal volume and price growth stronger in Q1'22 than the office market as a whole. The RCA CPPI for medical office properties rose 11.1% from a year earlier in Q1'22. The annualized growth relative to Q4'21 stood at 9.5%, suggesting that here too there is some deceleration.

Cap Rates



Quarterly Transaction Volume by Subtype



Q1'22 Deal Volume and Pricing Summary

	Quarterly Volume				RCA CPPI		Price Averages		
	\$b	YOY Chg	#Props	YOY Chg	1-qtr Chg	1-yr Chg	\$/sf	Cap Rate	YOY Chg (bps)
Office	35.1	59%	1,106	5%	0.8%	10.3%	293	6.1%	-40
Office CBD	11.6	53%	120	9%	1.7%	7.5%	392	5.6%	0
Office Sub	23.5	63%	986	4%	0.0%	9.3%	264	6.2%	-40
6 Major Metro	17.6	60%	335	18%	1.3%	6.8%	374		
Non-Major Metro	17.5	58%	771	0%	-0.5%	10.7%	244		
Single Tenant	7.2	13%	177	-14%	0.9%	9.8%	370	6.5%	10
Medical Office	3.5	84%	300	12%	2.3%	11.1%	345	5.9%	-30

RCA Hedonic Series cap rates

Top Brokers Q1 2022

By Region

Mid-Atlantic

JLL
Newmark
Eastdil Secured
Cushman & Wakefield
CBRE

Midwest

Eastdil Secured
Cushman & Wakefield
CBRE
JLL
Colliers International

Northeast

CBRE
Cushman & Wakefield
Newmark
Eastdil Secured
JLL

Southeast

CBRE
Cushman & Wakefield
JLL
Marcus & Millichap
Colliers International

Southwest

JLL
Cushman & Wakefield
CBRE
Eastdil Secured
Newmark

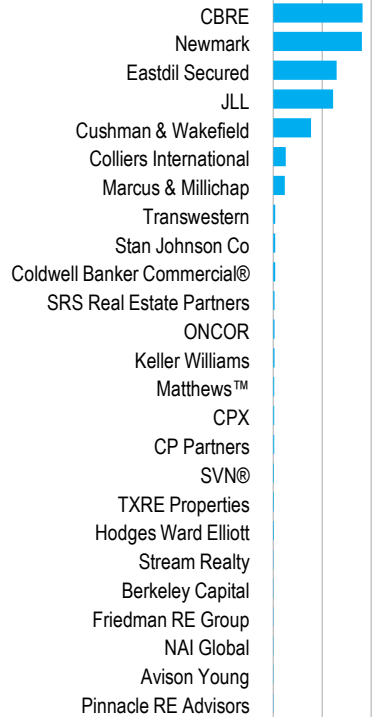
West

Newmark
Eastdil Secured
CBRE
JLL
Cushman & Wakefield

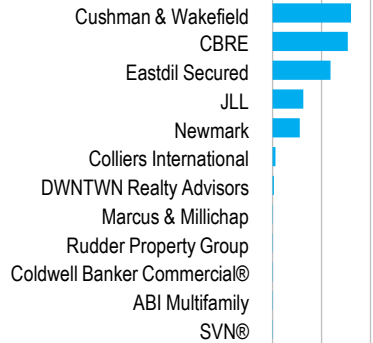
Ranked by investment volume

By Office Investment Volume

Suburban



CBD

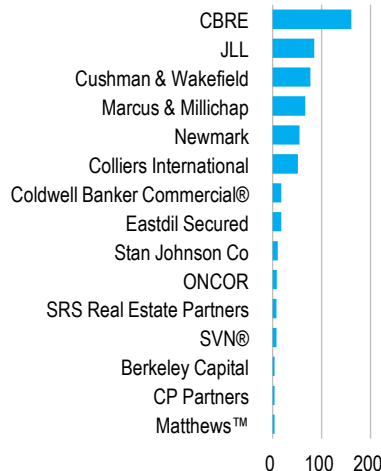


All Office

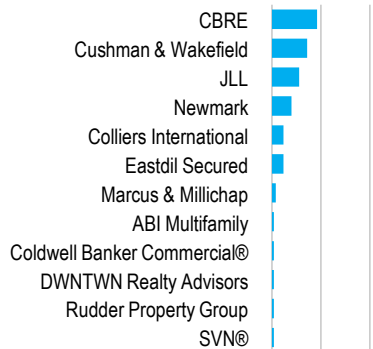


By Number of Office Properties

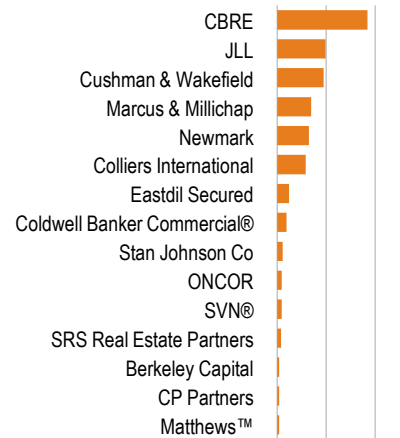
Suburban



CBD



All Office



Methodology: Full credit assigned to each broker when multiple brokers involved. For partial-interest, volume is based on the pro-rated share of the total property or portfolio value. Based on sell-side representation. 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 RCA website.

Top Deals Q1 2022

Property Sales

	Property	Location	Size	Type	Volume(\$m) ^A	\$/unit	Buyer	Seller
1	Google Hudson Sq (Condo)	New York, NY	631,721 sq ft	OFF	1,972.9	3,123	Alphabet Inc	OMERS JV CPP Investment Board
2	One Manhattan West	New York, NY	2,081,035 sq ft	OFF	1,396.5*	1,370	Blackstone	Brookfield AM JV QIA
3	Lakefront Blocks (Condo)	Seattle, WA	656,009 sq ft	OFF	819.0	1,248	DekaBank	Vulcan Inc
4	Trammell Crow Center	Dallas, TX	1,128,331 sq ft	OFF	615.0	545	Regent Properties	JP Morgan JV State Street
5	Palo Alto Research & Tech	Palo Alto, CA	292,000 sq ft	OFF	446.0	1,527	Alexandria	Morgan Stanley
6	Second & Seneca	Seattle, WA	509,252 sq ft	OFF	382.0	750	Northwood Investors	Rockwood Capital
7	Bank of America Plaza	Atlanta, GA	1,287,997 sq ft	OFF	380.0	295	CP Group JV HPS Investment Ptnrs	Shorenstein
8	Barclays Capital	Jersey City, NJ	409,272 sq ft	OFF	300.0	733	Vision Property (NJ) JV Hana Financial	Spear Street Capital JV PFA - Mere til Dig
9	1800 Larimer	Denver, CO	495,518 sq ft	OFF	291.0	587	Beacon Capital Partners	Invesco Real Estate
10	Sanofi Office Complex	Green Knoll, NJ	736,572 sq ft	OFF	260.7	354	AVG Partners	The Necessity Retail REIT
11	Commonwealth Tower	Arlington, VA	343,000 sq ft	OFF	245.0	714	DivcoWest	Tishman Speyer
12	Bayside Towers	Foster City, CA	277,761 sq ft	OFF	227.0	817	Blackstone	Tishman Speyer
13	Waterfront Corporate Center I	Hoboken, NJ	566,215 sq ft	OFF	210.0	371	SJP Properties JV David Werner RE	Veris Residential
14	3630 Peachtree Road (Condo)	Atlanta, GA	436,000 sq ft	OFF	201.4	462	Granite Properties	Heitman
15	Nine Metrotech Center	Brooklyn, NY	316,942 sq ft	OFF	185.5	585	Boyd Watterson	Brookfield AM
16	Mutual of America Building	New York, NY	656,436 sq ft	OFF	-*	-	Meag OBO Munich Re	Mutual of Omaha
17	Exelixis	Alameda, CA	220,000 sq ft	OFF	158.9	722	Stockbridge	SRMErnst JV Hillwood
18	Minuteman Park	Andover, MA	965,000 sq ft	OFF	151.0	156	Alexandria	Spear Street Capital
19	West Memorial Place	Houston, TX	716,678 sq ft	OFF	147.0	205	Fuller Realty	Skanska AB
20	Governor Pointe	San Diego, CA	214,721 sq ft	OFF	145.0	675	Tishman Speyer	Manulife Financial
21	Las Olas Square	Fort Lauderdale, FL	270,000 sq ft	OFF	144.5	535	Charoen Pokphand Grp JV Related Cos	Steelbridge Capital JV Square2 Capital
22	2235 Monroe Street	Reston, VA	323,716 sq ft	OFF	142.0	439	Mori Trust	Barings
23	2801 N US 75-Central Expy	Dallas, TX	250,000 sq ft	OFF	-	-	OliveMill Hldgs JV Hunt Realty Advs	SBR Real Estate Holdings
24	375-377 West Broadway	New York, NY	80,000 sq ft	OFF	130.0	1,625	Macquarie Group	JP Morgan OBO Pearlmark RE Partners
25	200 West Jackson	Chicago, IL	487,436 sq ft	OFF	130.0	267	Nightingale Properties	White Oak Re Ptnrs JV Angelo Gordon & Co.

Portfolio and Entity Sales

	Buyer	Seller	Location	# Props	Type	Volume(\$m) ^A
1	KKR JV Global Infrastructure Partners	CyrusOne	Worldwide	9	OFF	-
2	Extell	Silverstein Properties JV Seven Valleys LLC	New York, NY	3	OFF	931.0
3	Carlyle Group	iStar Inc	North America	9	OFF	-
4	Blackstone	Crescent JV Goldman Sachs	Boulder, CO	20	OFF	-
5	The LSMD Fund REIT LLC	Diversified Healthcare Trust	Multiple, USA	7	OFF	445.1*
6	Monarch Alt Cap JV Tourmaline Cap Ptnrs LLC	LBA Realty JV Clarion Partners	Phoenix, AZ	3	OFF	385.0
7	Transwestern	Karlin Real Estate JV Trammell Crow Co (CBRE)	Austin, TX	2	OFF	298.2
8	Remedy Medical Properties JV Kayne Anderson	MedProperties Holdings	Multiple, USA	23	OFF	262.5*
9	Healthcare Realty Trust	Vukota Capital Mgmt JV Harrison Street RE Cap	Multiple, CA	8	OFF	215.0
10	OMERS	Blackstone	San Diego, CA	4	OFF	150.2

^A 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

The number of buyers or sellers shown on a deal is truncated to two. For full deal and player information go to the RCA website.

Jim Costello

Chief Economist [Contact](#)

Alexis Maltin

Head of Americas Real Estate Research

Haley Crimmins

Real Estate Research Manager

Michael Savino

Associate, Real Estate Research

Cole Barker

Analyst, Real Estate Research

Methodology

Data based on properties and portfolios \$2.5m and greater unless otherwise stated. Data as of April 20, 2022 unless otherwise stated.

About Capital Trends

Capital Trends reports analyze and interpret trends in the global real estate market using RCA's comprehensive data. 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.

About Real Capital Analytics

Real Capital Analytics (RCA) is the authority on the deals, the players and the trends that drive the commercial real estate investment markets. Covering all markets globally, RCA delivers timely and reliable data with unique insight into market participants, pricing and capital flows. The most active investors, lenders and advisors depend on RCA's market intelligence to formulate strategy and to source, underwrite and execute deals. An industry pioneer since 2000, RCA has offices in New York, San Jose, London, Singapore and Sydney. RCA is owned by MSCI, a leading provider of critical decision support tools and services for the global investment community. For more information, visit: www.rcanalytics.com

About MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 50 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process. To learn more, please visit www.msci.com