# M&A and Strategic Transactions Monitor

November 2022

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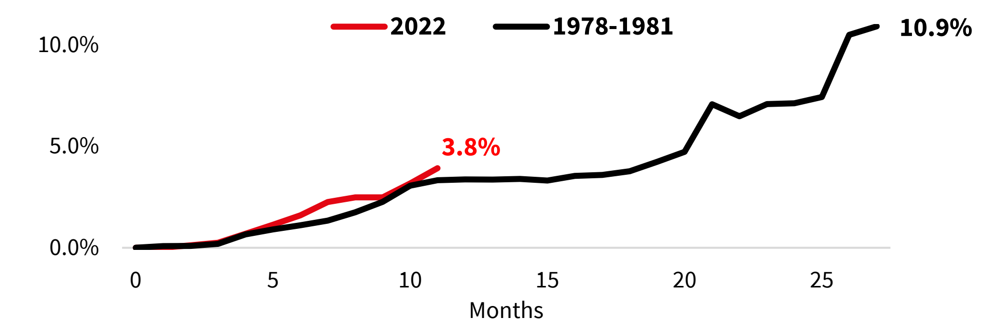
# REIT capital markets, M&A and strategic transactions

# **M&A** and strategic transactions

## 1. 2H 2022 REIT and market performance update

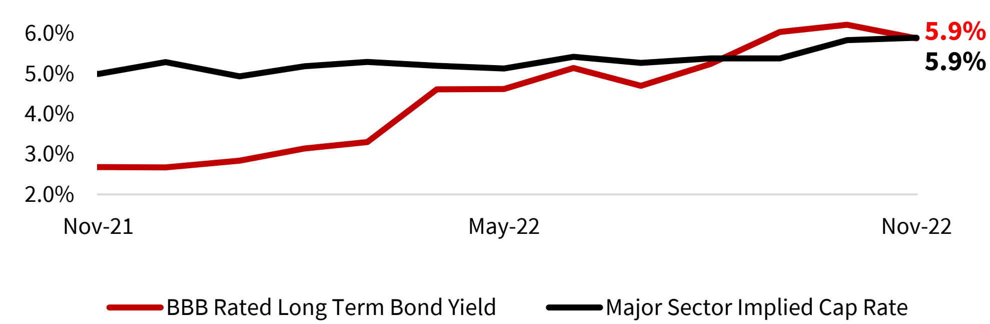
- The need to curb one of the **highest inflation rates experienced over the last 40 years** has led to a historically aggressive stance from the Federal Reserve
- The pace of Feds Fund Rate increases thus far are **more aggressive** compared to last time US economy faced the prospect of unsustainably high inflation in late 1970s. During that time, the Paul Volker-led Federal Reserve eventually raised the Fed Funds Rate by **1,100bps** at their peak

**Fed Funds Rate movement during record inflationary environment**



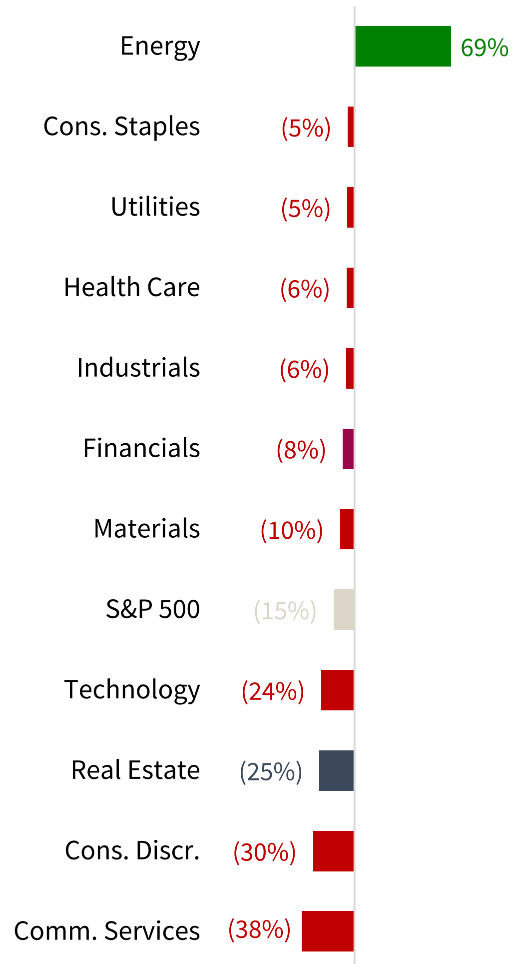

- The unprecedented rate hike and simultaneous shrinking balance sheet has caused investment grade ("IG") bonds to sell off to the point where IG bond yields are **higher than implied public REIT cap rates today**, a phenomenon not seen in recent history

**Investment grade bond yields and implied public REIT cap rates**

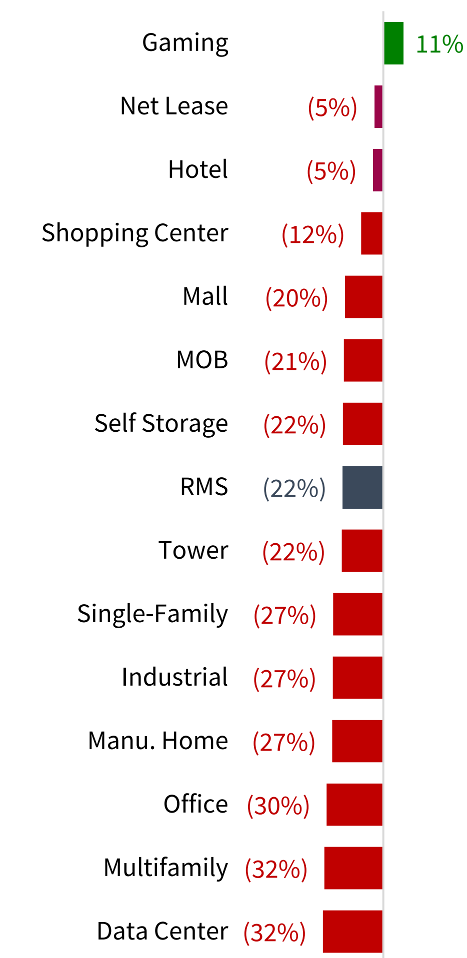



- **Every GICS sector is in the red** except for **energy** and almost entire REIT market is **down** for the year led by **data center, multifamily and office** sectors **down over 30%+** for the year

**GICS total return YTD**




**REIT sectors total return YTD**




Source: Green Street, SNL Financial, Federal Reserve
Note: Major sectors include industrial, self storage, data center, mall, shopping center, multifamily, single-family rental, manufactured home, office, hotel, net lease and tower

# **M&A** and strategic transactions

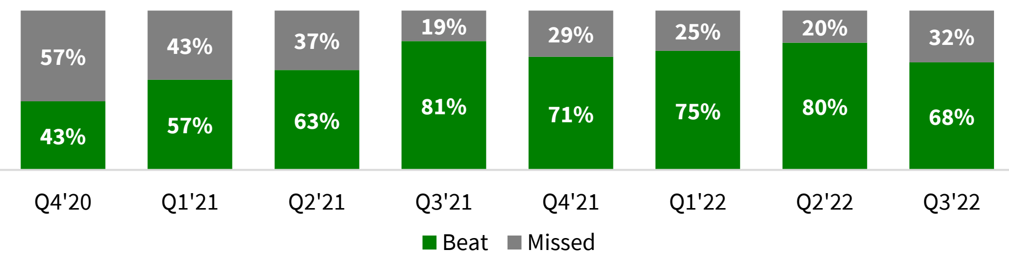
JLL

## 1. 2H 2022 REIT and market performance update (cont'd)

- **Fundamentals on the ground in 3Q 2022 continue to be strong**. Sell-off across REIT sectors is mostly related to a **historically challenging capital markets environment and uncertain economic outlook**

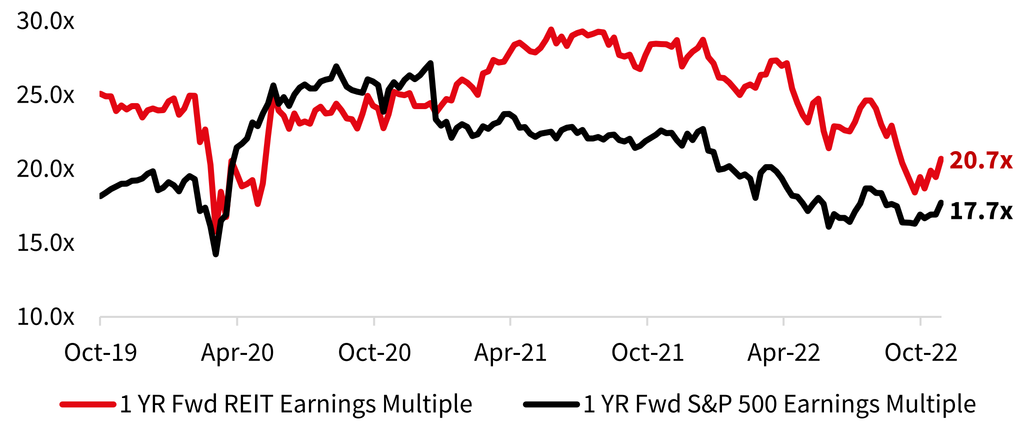
### Q3 2022 FFO results for REITs

***~70% of REITs reported in 3Q 2022 results that beat analysts' FFO estimates, continuing the growing trend since 1Q 2020***



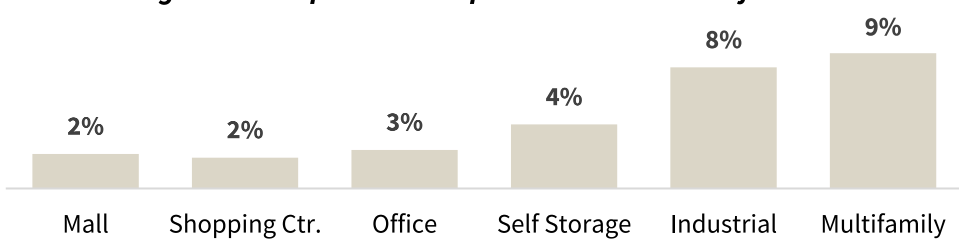

### Implied earnings multiple – REIT vs. S&P 500

***REIT AFFO multiple is inching towards S&P 500 earnings multiple given relative underperformance to date***



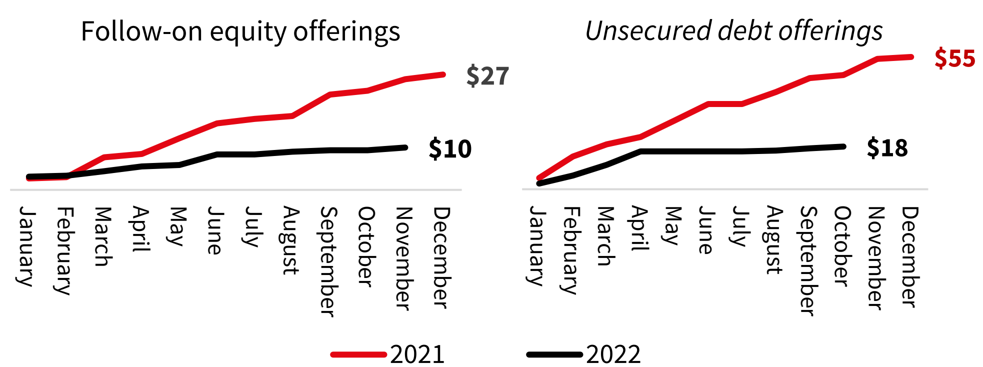

### REIT sectors' 2023 SS NOI growth

***2023 NOI growth is expected to be positive across all major CRE sectors***



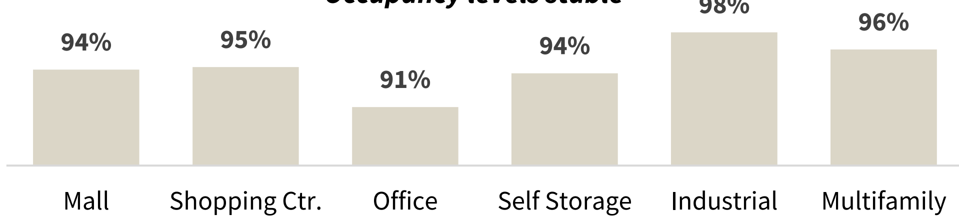

### REIT debt & equity offerings ($B)

***Negligible REIT capital raising activity since summer 2022***




### REIT sectors' 2023 same store occupancy

***Occupancy levels stable***




Source: Green Street, SNL Financial, Company Filings

# **M&A** and strategic transactions

## 2. M&A and strategic transactions activity slower than prior quarters

I. **Data Center:** **Stonepeak Partners** invested an additional **$570M in CoreSite,** a subsidiary of **American Tower (NYSE: AMT)** taking its investment to over **$3B and 36% interest** in the company

II. **Data Center:** **Partners Group** has acquired a majority stake **EdgeCore Digital Infrastructure** with an investment of up to **$1.2B**

III. **Diversified:** **Seritage Growth Properties (NYSE: SRG)** approved its announced plan for sale of all its assets and dissolution of the company

IV. **Ground Lease:** **iStar (NYSE: STAR)** to merge into **Safehold (NYSE: SAFE)** in a series of transactions

- **STAR** to spin-off its remaining non-ground lease assets and some **SAFE** shares into monetizing SpinCo
- **SAFE** and **STAR** to then merge, internalizing existing **STAR** management team
- **MSD Partners** to invest **$200M** in pro forma company for **9% stake** and **$20M** in **SAFE's** capital appreciation vehicle, **Caret**

V. **Industrial:** **Dream Industrial REIT (TSX: DIR.UN)** has partnered with **GIC** to acquire **Summit Industrial Income REIT (TSX: SMU.UN)** in an **all-cash** transaction valued at **C$5.9B**

- Offer price of **$23.50** per unit represents a **31% premium** to last close price
- **Dream** and **GIC** to have **10%** and **90% interests** in the JV, respectively

VI. **Multifamily:** **Kushner Real Estate Group** made an unsolicited offer to buy **Veris Residential (NYSE: VRE)** at a valuation of **$4.3B**

- **Kushner** offered **$16 per share**, a **29% premium** to 10/20/22's close, **$12.42 per share**
- **VRE** unanimously rejected the unsolicited bid from Kushner, determining neither an acquisition nor a conversion to an externally managed REIT is in the shareholders' best interest

VII. **Net Lease:** **GIC and Oak Street** to acquire **STORE Capital (NYSE: STOR)** in a **$14B**, **all-cash** transaction

- Offer price of $32.25 per share represents a **20% premium** to STOR closing price as of 9/14/22, and a **18% premium** to STOR 90-day VWAP
- **GIC** and **Oak Street** is expected to assume **STORE's** outstanding unsecured notes according to reports
- The merger agreement included a 30-day go-shop window which expired on 10/20/22

VIII. **Office:** **Hudson Pacific (NYSE: HPP)** acquired **Quixote Studios**, a production services and stage rental firm, in a **$360M** deal

IX. **Self Storage:** **Extra Space Storage (NYSE: EXR)** acquired **Storage Express in $590M** in cash and partnership unit transaction

## 3. Partnership deal activity largely focused on programmatic ventures

I. **Asset Manager:** **Simon Properties Group (NSYE: SPG)** acquired 50% interest in investment manager, **Jamestown**

# **M&A** and strategic transactions

## 3. Partnership deal activity largely focused on programmatic ventures (cont'd)

**II. Healthcare:** **StepStone** acquired a 49% common equity interest in **Anchor Health Properties**

- The company's initial equity commitment of **$200M** is intended to cover the OpCo acquisition, go-forward growth capital and LP capital
- JLL advised Anchor Health Properties on the transaction

**III. Healthcare:** **Cogir** and **Cadence** combine to form 60-community senior living operator

- The combination will create a new company with 60 communities totaling 8,000 units in 9 states and ~12 more projects in pipeline

**IV. Industrial:** **Arden Group** and **Wafra** announced a venture targeting **$1B** aggregation of industrial service facilities

**V. Industrial:** **Tishman Speyer Properties** and **Mitsui Fudosan America** launched a JV to develop and reposition logistics properties in urban US markets. The JV will receive **$500M** initial equity commitment

**VI. Multifamily:** **Aimco (NYSE: AIV)** announced a programmatic JV with **Alaska Permanent Fund Corporation** targeting up to **$1B** in multifamily deals

**VII. Multifamily:** **Berkshire Residential** acquired an interest in a 23-property portfolio from **Tricon Residential**

**VIII. Student Housing :** **Landmark Properties** announced a **$2B** build-to-core student housing JV with **Abu Dhabi Investment Authority**

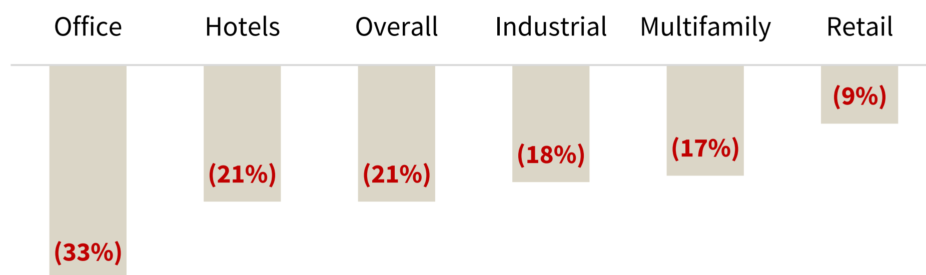
## 4. Large portfolio deals slowing amidst record high debt cost

*With yields across both equity and debt up over 300 basis points for the most part, deal making has become increasingly challenging*

**Current market yields**

| Product Type | Nov '22 | Jan '22 | Current vs. Jan '22 |
|---|---|---|---|
| 1yr Forward REIT AFFO Yield | 4.83% | 3.82% | **101 bps** |
| 1yr Forward S&P 500 Yield | 5.64% | 5.00% | **64 bps** |
| 10yr Treasury | 3.82% | 1.60% | **222 bps** |
| 2yr Treasury | 4.34% | 0.80% | **355 bps** |
| 30 Day SOFR | 3.22% | 0.06% | **316 bps** |
| 5yr SOFR Swap | 3.71% | 1.12% | **259 bps** |
| 10yr SOFR Swap | 3.52% | 1.54% | **198 bps** |
| 5yr BBB Corporate Bond | 5.52% | 2.00% | **352 bps** |
| 10yr BBB Corporate Bond | 5.88% | 2.84% | **304 bps** |
| Unsecured REIT Debt Yield | 5.59% | 2.69% | **290 bps** |

**CRE 3Q 2022 vs. 3Q 2021 % transaction volume decrease**




Source: SNL Financial, Green Street, Real Capital Analytics

# **M&A** and strategic transactions

## 4. Large portfolio deals slowing amidst record high debt cost (cont'd)

I. **Healthcare:** **Medical Properties Trust (NYSE: MPW)** sold a healthcare portfolio consisting of 9 general acute hospitals and 2 medical office buildings to **Prime Healthcare** for **$360M**

II. **Healthcare:** **Healthcare Realty Trust (NYSE: HR)** sold 27 properties worth **$807M to** 5 separate buyers

III. **Industrial:** **Ocean West, Tiger Alternative** and **Realty Income (NYSE: O) JV** sold a 7-property logistics portfolio to **Ponte Gadea** for **$905M**

IV. **Industrial:** **Faropoint** sold a logistics portfolio consisting of 109 buildings for **$481M** to an undisclosed buyer

V. **Industrial:** **Taurus Investment Holdings** acquired a 12-building industrial portfolio from **Summit Real Estate Group** for **$158M**

- JLL marketed the properties on behalf of Summit Real Estate Group

VI. **Industrial:** **Arden Logistics Parks,** a JV between **Arden Group** and **Arcapita,** acquired a 19-building, 764K SF industrial portfolio from **MoxieBridge** for an undisclosed amount

- JLL had advised Arden Group in forming the JV between Arden Logistics Parks and Arcapita
- JLL marketed the portfolio on behalf of MoxieBridge

VII. **Office:** **Griffin Realty Trust** sold a majority interest in a 41-property office portfolio valued at **$1.1B** to GIC and Workspace

VIII. **Shopping Center :** **Kimco Realty (NYSE: KIM)** acquired an 8-property portfolio of high-quality centers in Long Island, NY for **$376M**

IX. **Timber:** **Rayonier (NYSE: RYN)** acquired 172.4 acres of commercial timberlands in U.S. South for **$474M** from **Manulife Investment**

## 5. Traditional non-traded REITs seeking monetization strategies

I. **Diversified**: **Griffin Realty Trust ("GRT")** announced a strategic monetization process to spin off a new public company consisting of 23 industrial and 57 office properties

- Following the spin off, GRT sold a majority interest in their remaining 41-property 8M SF suburban office portfolio to **GIC** and **Workspace** for **$1.1B**

II. **Diversified:** **Hartman Short Term Income Properties** is pursuing strategic alternatives for the REIT, including an orderly liquidation

III. **Diversified:** **American Healthcare REIT** with **313** seniors housing properties encompassing **19SF** in US and UK filed for an **IPO**

IV. **Healthcare:** **NorthStar Healthcare REIT** to internalize management, expecting to generate **$7M** in synergies from the transition

## 6. Some large CMBS deals were executed in recent months despite increasing capital markets volatility

I. **Hotel:** **Brookfield** priced a **$1.9B** CMBS loan to partially finance the acquisition of **Watermark Lodging** announced in May 2022

II. **Industrial:** **Blackstone (NYSE: BX)** priced a **$2.7B** CMBS loan to partially finance the acquisition of **PS Business Parks** announced in April 2022

III. **Industrial**: **Industrial Logistics Properties Trus**t **(NASDAQ: ILPT)** announced **$1.2B** debt financing to repay its bridge loan used to finance its 2021 acquisition of **Monmouth Real Estate Investment Corp.**

IV. **Multifamily**: **ECI Group** recapitalized with **$625M** in CMBS financing

- JLL advised ECI group on the recap

# Select 2022 Transactions

*JLL M&A and Corporate Advisory Group*

JLL

## M&A and Strategic Advisory

| | |
| --- | --- |
| CEDAR REALTY TRUST | $1.2B sale of Cedar Realty Trust (NYSE: CDR) in multiple transactions |
| PAC Preferred Apartment Communities | Advised Blackstone on its $5.8B acquisition of Preferred Apartments (NYSE: PAC) |
| the Finger Companies | $1.8B sale of platform and assets to a sovereign wealth fund |
| New Residential Investment Corp. | $400M internalization of external manager to New Residential (NYSE: NRZ, $38B AUM) |
| ECI Group | $2.0B recap of multifamily operating platform to provide shareholder liquidity |
| miniStorage. | Sale of $360M portfolio and related platform to a REIT |
| GIC / Greystar | £3.0B acquisition of UK student housing platform, Student Roost; buy-side advisory |
| **Confidential** | Sale of remainder minority interest in $3.6B private mall / shopping center REIT |
| **Confidential** | $4.3B acquisition of US housing platform; buy-side advisory |

## Strategic Capital Raise

| | |
| --- | --- |
| Anchor Health Properties | $200M entity-level recap of operating company and go-forward capital |
| StorageUnits | $200M portfolio recap; $200M growth capital |
| **Confidential** | Capital raise related to monetization of $320M bi-coastal self storage portfolio |
| Cold Summit Development | $400M of development growth equity |
| ECI Group | $625M debt raise; $147M preferred equity investment |
| **Confidential** | $401M debt raise; $102M preferred equity investment for a multifamily REIT |

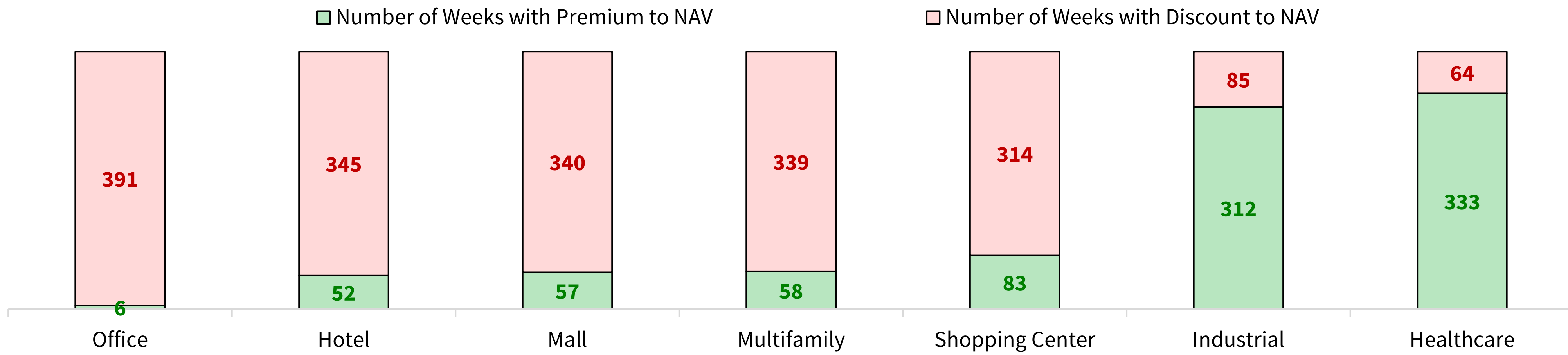
# Prominent themes in public capital markets

# Prominent themes in **public** capital markets

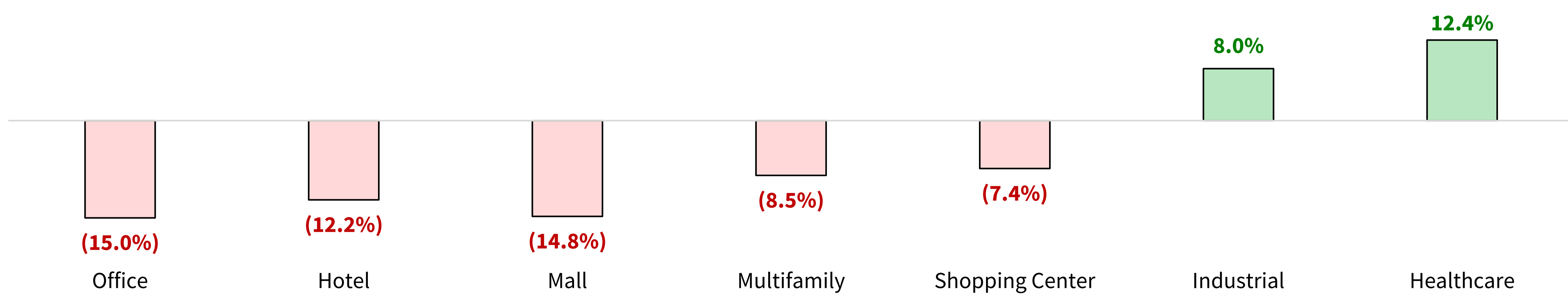
## 1. REIT premium / discount to NAV – "So wrong for so long"

- Though sustained difference in NAV of a REIT vs. its market price is supposed to signal the potential for arbitrage, the reality has been different
- Certain sectors have traded at **persistent discounts to NAV** (e.g., office) while others have traded at **consistent premium to NAV** (e.g., industrial) for multiple years

**Most traditional REIT sectors have traded at discounts to NAV over the past ~7 years**




**Average premium / discount) to NAV since 2015**




Source: Green Street

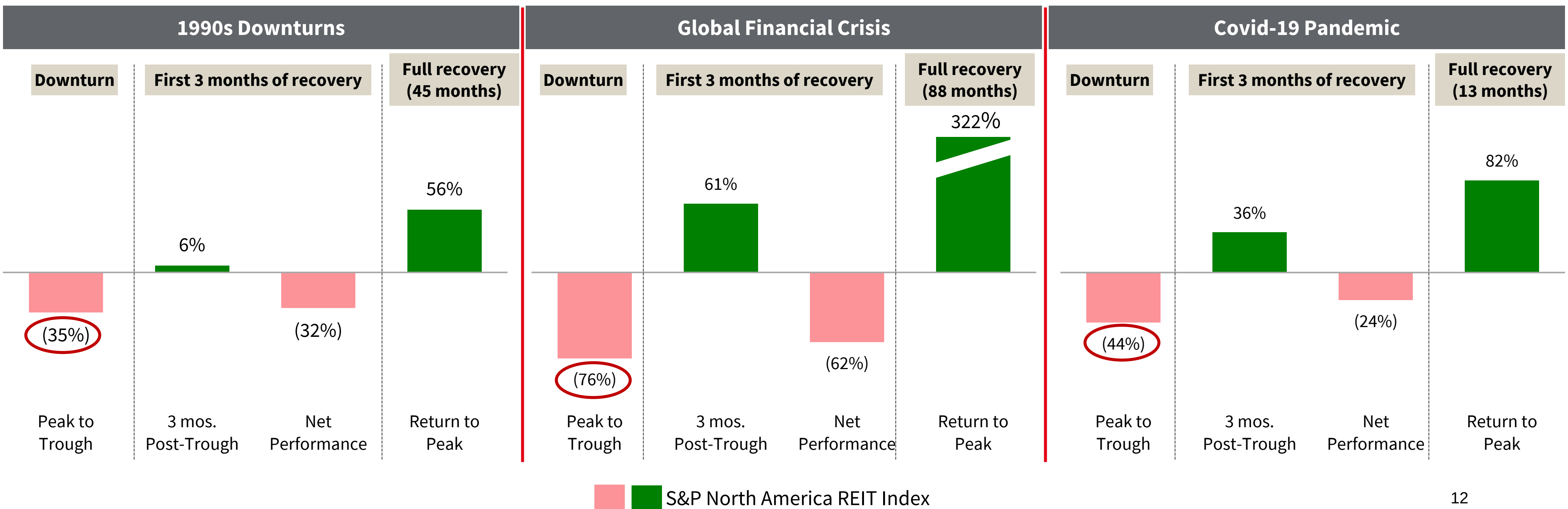
# Prominent themes in **public** capital markets

## 2. Timeline for recovery from significant REIT market downturns - a historical context

- Law of gravity is very evident in REIT downturns and subsequent recovery
- During downturns, markets fall over very short periods while recovery takes 2-4x longer on average
  - During the 1990s downturns, **REIT stocks fell -35%** and took **nearly 4 years to recover to its previous peak**
  - During the Global Financial Crisis, **REIT stocks fell -76%** and the sector took **over 7 years to recover to is previous peak**
  - During the **COVID-19 pandemic**, the downturn and recovery were much more rapid with REIT stocks **falling -44%** over 1 month and **recovering to prior peak levels within 13 months**
- **REITs are currently down over 20%** to date; the based on prior experience, **recovery will take longer than the time it will take to get to the bottom**

**Peak to tough timing**

| Downturn | Peak to Trough | Return to Peak | X in months to recover |
|---|---|---|---|
| 1990s Downturns | 26 months | 45 months | 1.9x |
| Global Financial Crisis | 25 months | 88 months | 3.5x |
| Covid-19 Pandemic | 1 month | 13 months | 14.0x |
| Current Downturn | 11 months so far | -- | -- |




Source: SNL Financial

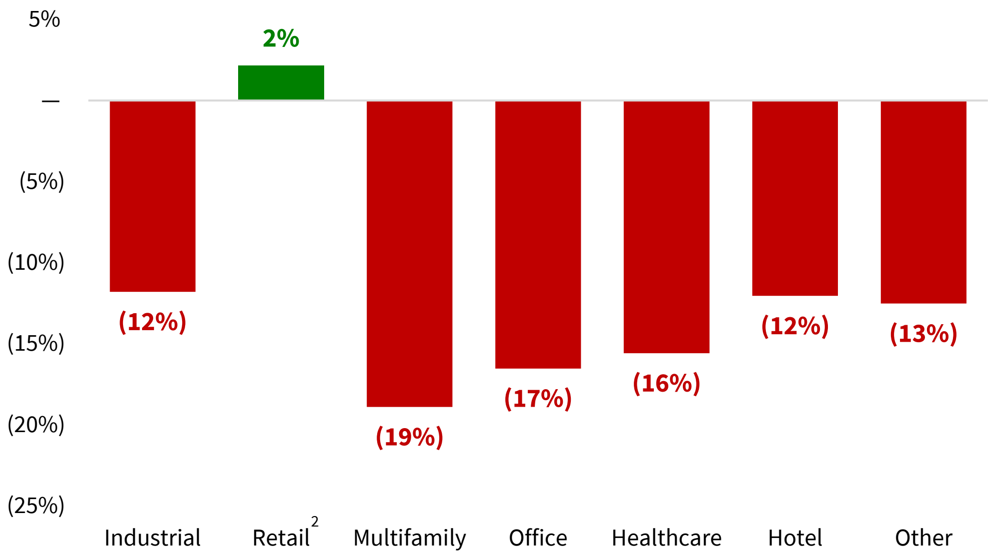
# Prominent themes in **public** capital markets

JLL

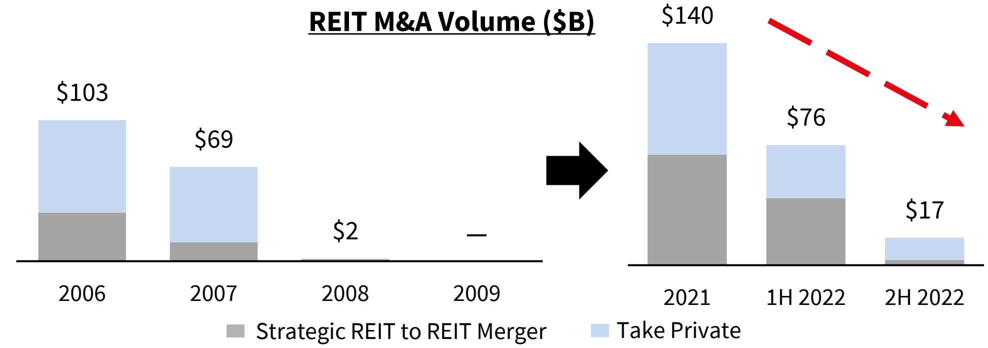
## 3. Take-private activity muted, but green shoots visible for potential activity in the future

- 2021 was a record year for REIT take-privates but deal volume has slowed since
- REITs are trading at substantial discounts to their 5-year average NAVs, a measure that points to the extent of potential "bargains" available
- However, **debt capital remains challenging with rates approaching 7%+ in some cases**
- Market participants are not in agreement whether the era of "cheap debt" is over or whether the current environment is a temporary phase
- Most agree, however, that for take-private activity to pick up, capital markets need to stabilize
- **Record dry powder** accumulated to date is going to a catalyst for renewal of take-private activity in a stable environment especially if **"bargains" vis à vis discount to long term average NAV persist**

### The public markets' perception of REITs has changed significantly[1]



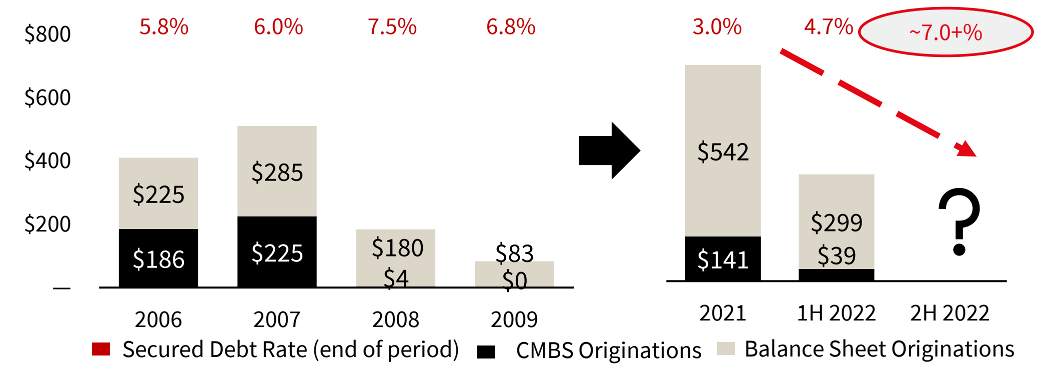

### After a record year, REIT M&A activity continues, but at a slower pace



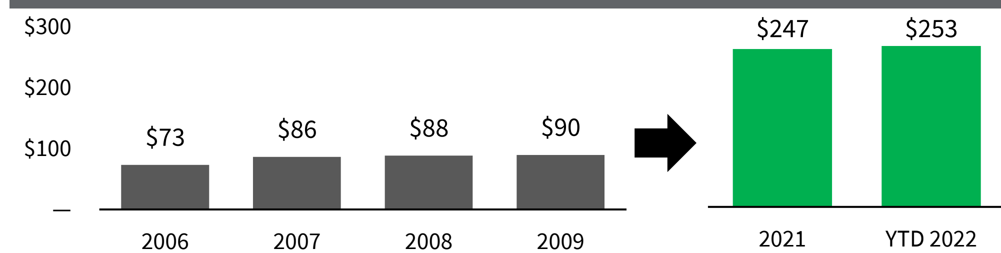

*Number of Take Private Deals*

| 2006 | 2007 | 2008 | 2009 | 2021 | 1H 2022 | 2H 2022 |
|---|---|---|---|---|---|---|
| 13 | 13 | 1 | 0 | 8 | 5 | 1 |

### While deal activity is ongoing, the debt markets pose a challenge for returns




### Significant amounts of dry powder to drive strategic transactions




Source: Green Street, SNL Financial, JLL Research, Preqin, MBA
Note: All dollar amounts in billions
(1) Difference between average of 2017 – Current P/(D) to NAV and Current P/D to NAV
(2) Inclusive of Mall and Shopping Center

# Prominent themes in **public** capital markets

## 4. Case for increased REIT strategic merger activity

### 1) Race to scale as sectors' larger REITs outgrow peers

- **Scale differences** among REITs diverging

| Sector | Largest REIT TEV as Multiple of Median REIT |
|---|---|
| **Industrial** | **15.5x** |
| **Multifamily** | **4.9x** |
| **Office** | **7.1x** |
| **Shopping Center** | **6.1x** |
| **Net Lease** | **13.0x** |
| **Healthcare** | **8.0x** |
| **Self Storage** | **5.2x** |

- **G&A efficiencies** and synergy potential material
- Larger REITs generally sustain G&A loads of **25-50 bps of GAV**, whereas mid- and small-cap peers have as much as **100-200 bps**
- Mergers present **immediate G&A cost synergies –** average of **60-80%** of target's run-rate corporate costs

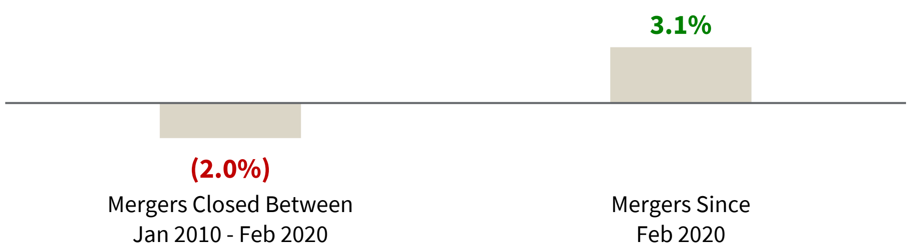
### 2) Dramatic intra-sector cost of capital gap may widen

- Across the board, **larger REITs have better cost of capital**, bolstering their ability to pay a "premium" for their mid-sized peers

| Sector | Largest REIT P/(D) to NAV Metric vs. Median REIT | Largest REIT P/FFO Metric vs. Median REIT |
|---|---|---|
| Industrial | **+14%** | **+6.0x** |
| Multifamily | **+7%** | **+1.8x** |
| Office | **+11%** | **+0.5x** |
| Shopping Center | **+14%** | **+2.9x** |
| Net Lease | **+11%** | **+2.8x** |
| Healthcare | **+13%** | **+6.7x** |
| Self Storage | **+6%** | **+3.4x** |

### 3) Recent mergers well-received by market, bucking old trend

**Average Shareholder Return vs. Peers, 6 mos. post merger**




- **Kimco/Weingarten** and **Independence Realty/Steadfast** both **outperformed peers by double digits** following close, both benefitting from acquiring a large cap sunbelt portfolio in one efficient execution

### 4) Relative value trades easier to evaluate in volatile market

- **Take private activity likely to be muted in near-term** given uncertainty between public and private market decisions – **shareholders likely disinclined to take a cash bid without significant price discovery/liquidity**
- **Relative value trades** (e.g., 100% stock trade at a premium to close) are **transparent for shareholders, and can preserve the "future upside" bet not available in a take-private while providing quantifiable benefits of synergies**
- Further, target companies' **portfolios, strategies, pipeline, IP and personnel can often fold meaningfully into newco**, particularly in **"mergers of equals"**

Source: Green Street, SNL Financial, Company filings
Note: TEV = Total Enterprise Value

# Prominent themes in **public** capital markets

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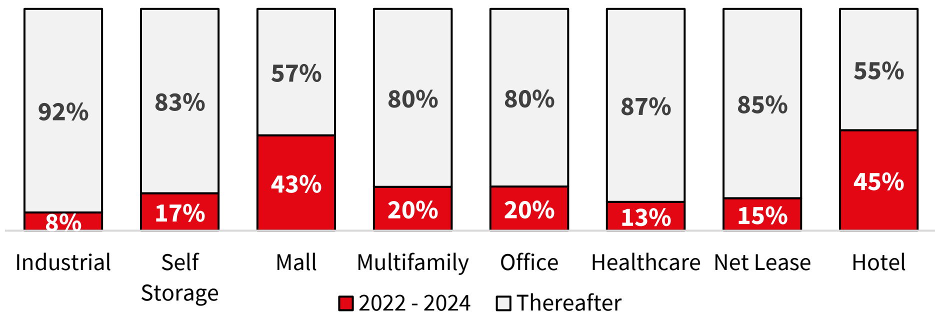
## 5. REIT unsecured debt maturities, a potential overhang?

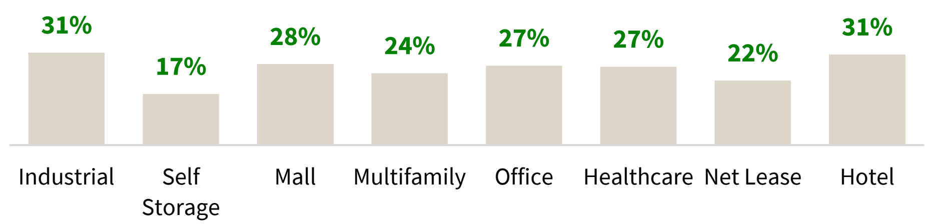
- Weighted average interest rate of outstanding REIT debt is **~3%**
- This stands in stark contrast to current yields on unsecured debt **approaching 6%**
- In addition, yields to maturity across the entire **REIT debt spectrum are at levels not seen since the GFC**

### REIT debt maturities by sector

- Approximately **70% of all outstanding debt** across all major traditional US REITs is **senior unsecured,** entailing refinancing of balloon payment at maturity

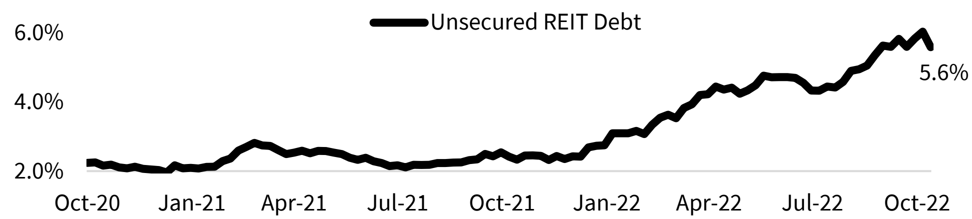



### REIT dry powder as percentage of outstanding debt[(2)]

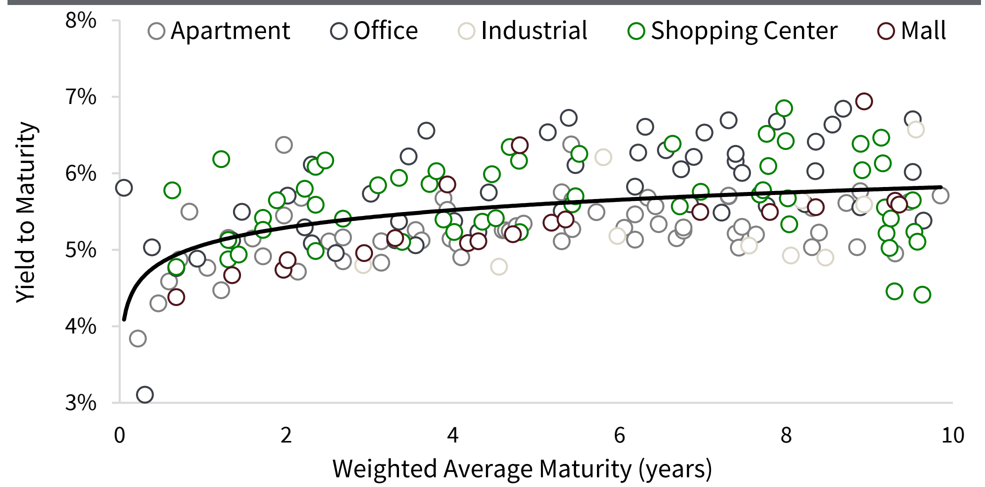



- Despite challenging debt markets, **REITs are relatively well placed given limited maturities over the next 2 years across most sub-sectors**
- In addition, REITs sport sufficient **dry powder to withstand choppy waters in the near term and interest coverage ratio over 6x**

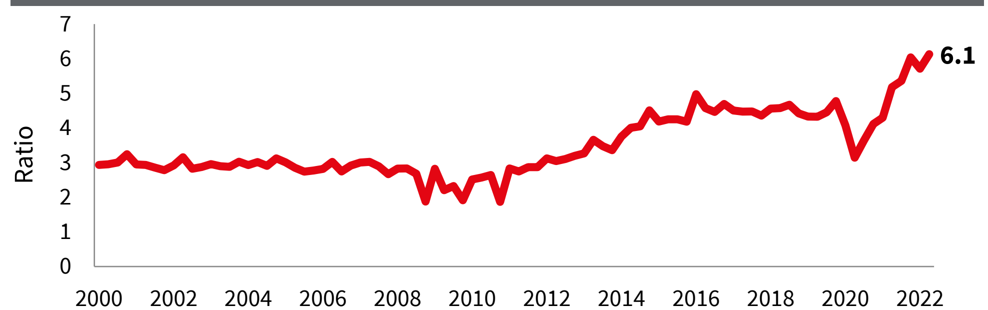
### REIT unsecured debt yield to maturity




### REIT unsecured yields based on debt maturity[(1)]




### Weighted average interest coverage ratio





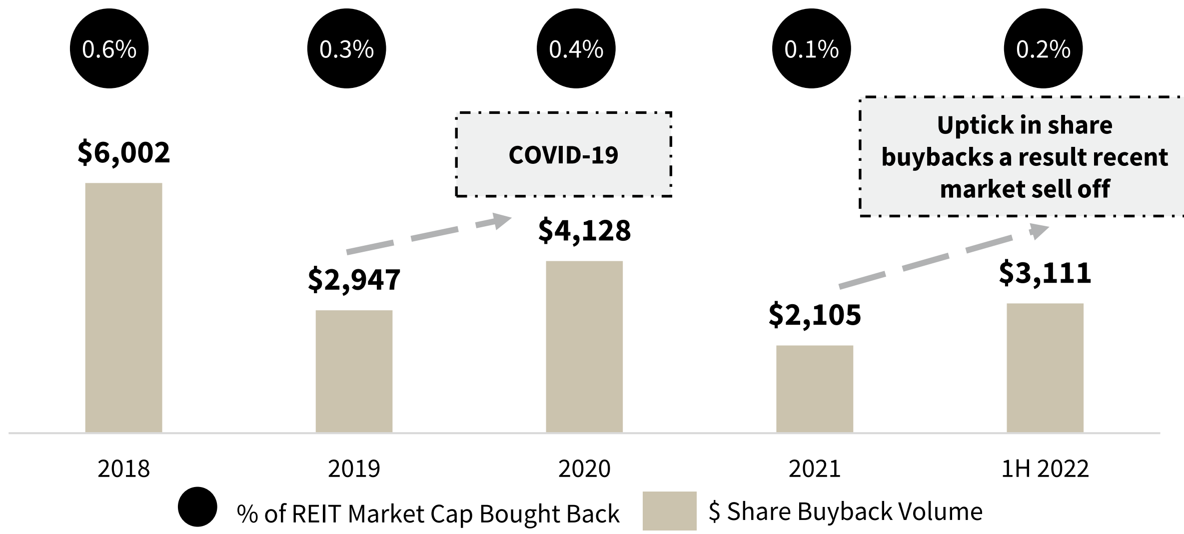

Source: Green Street, SNL Financial, Kensington, NAREIT, JLL Research
(1) Represents REITs covered by Green Street and corresponding outstanding debt maturities
(2) Dry powder defined as cash and cash available and capacity on revolving credit facility as of latest reporting period

# Prominent themes in **public** capital markets

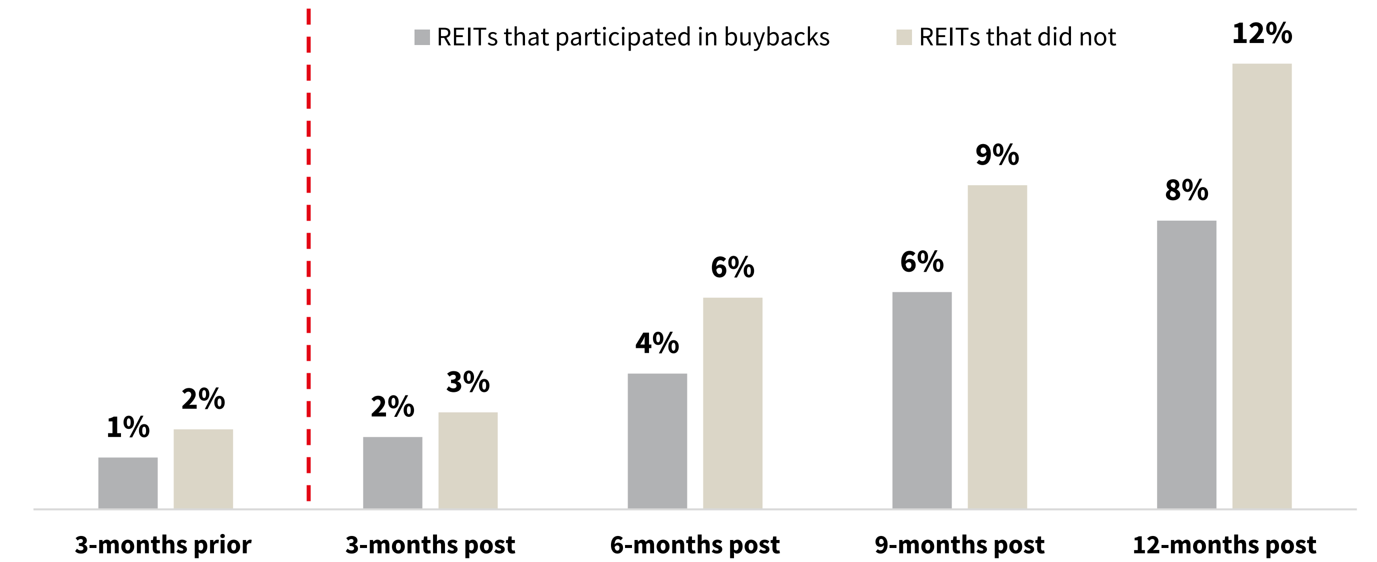
## 6. Are share buybacks a driver of outsized performance?

- 2022 YTD has led to increased share buyback activity given the **broader market sell-off which has impacted REITs as well**
- During such times, management teams prefer to buy their own shares as a signal to the market of the REIT's attractive valuation
- Since 2018, 135 REITs have bought back over $18B of their own stock
- REITs that have bought back their shares have generated positive shareholder returns in each period following the buyback activity
- **However, across every period analyzed, REITs that bought back shares, on average, underperformed those that did not**

**REITs have repurchased over $18B of stock since 2018 ($M)**




**Total shareholder returns of REITs that bought back shares vs. REITs that did not (2018 – 2Q 2022)**




**Key Stats: Buyback programs since 2018**

| Summary: | |
|---|---|
| # of REITs who have Bought Back Shares | **135** |
| $ Volume Purchased Since 2018 | **$18.3B** |
| Average Annual $ Volume | **$3.7B** |
| Average Annual % of Market Cap | **0.3%** |

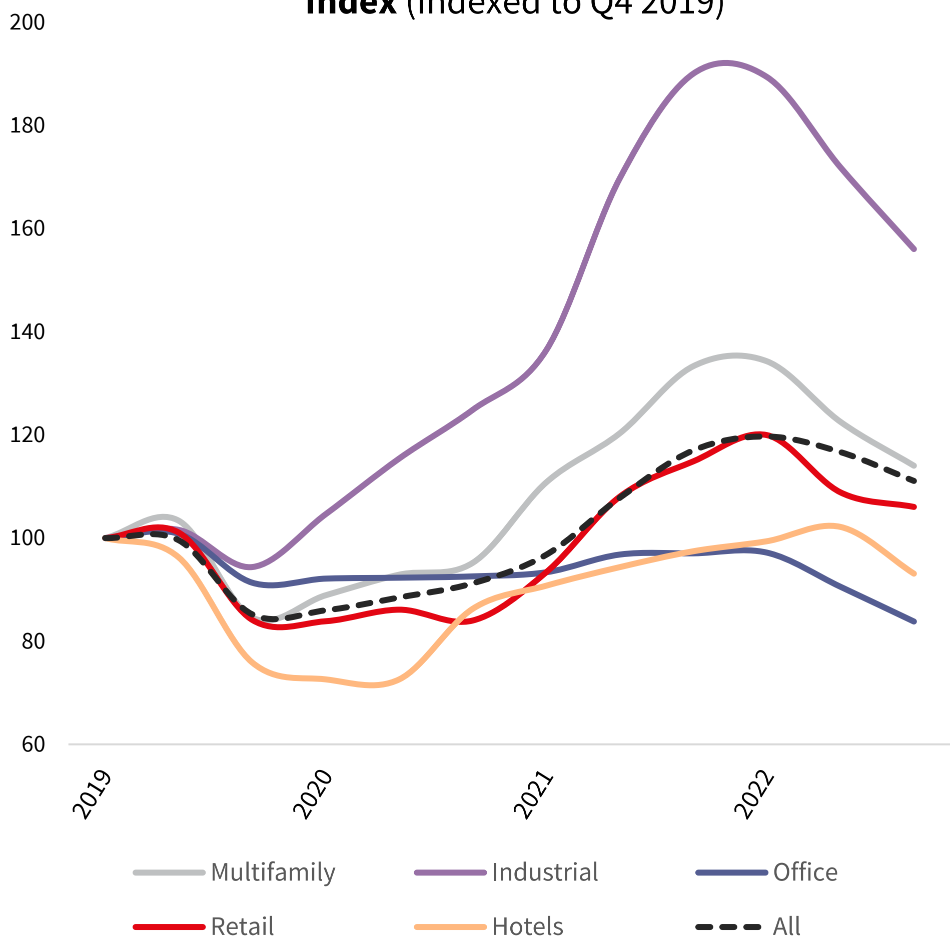
Source: SNL Financial

# Prominent themes in private capital markets

# Prominent themes in **private** capital markets

**1.** **Following confluence of factors that drove asset prices to unsustainable levels in 2021, widespread re-pricing of transactions largely brings going-in yields back to late 2019 levels**

**Private Market Commercial Property Price Index** (Indexed to Q4 2019)




| Core / Core-Plus going-in yields | | | |
|---|---|---|---|
| | *Q4 2019* | *Q1 2022* | *Current (Nov 2022)* |
| **Office** | 4.00%-5.50% | 4.25%-5.25% | 5.50%-7.00% |
| **Multifamily** | 3.75%-4.50% | 2.75%-3.25% | 4.00%-4.75% |
| **Industrial** | 4.30%-5.30% | 3.75%-3.25% | 4.25%-5.50% |
| **Retail** | 5.25%-6.25% | 4.50%-5.75% | 5.25%-6.50% |

| Value-Add going-in yields | | | |
|---|---|---|---|
| | *Q4 2019* | *Q1 2022* | *Current (Nov 2022)* |
| **Office** | > 6.00% | > 6.00% | > 6.00% |
| **Multifamily** | 4.00%-5.00% | 2.75%-3.25% | 4.25%-5.00% |
| **Industrial** | 5.30%-6.25% | 4.25%-4.75% | 5.00%-6.25% |
| **Retail** | 7.00%-7.75% | 5.25%-6.75% | 6.75%-9.00% |

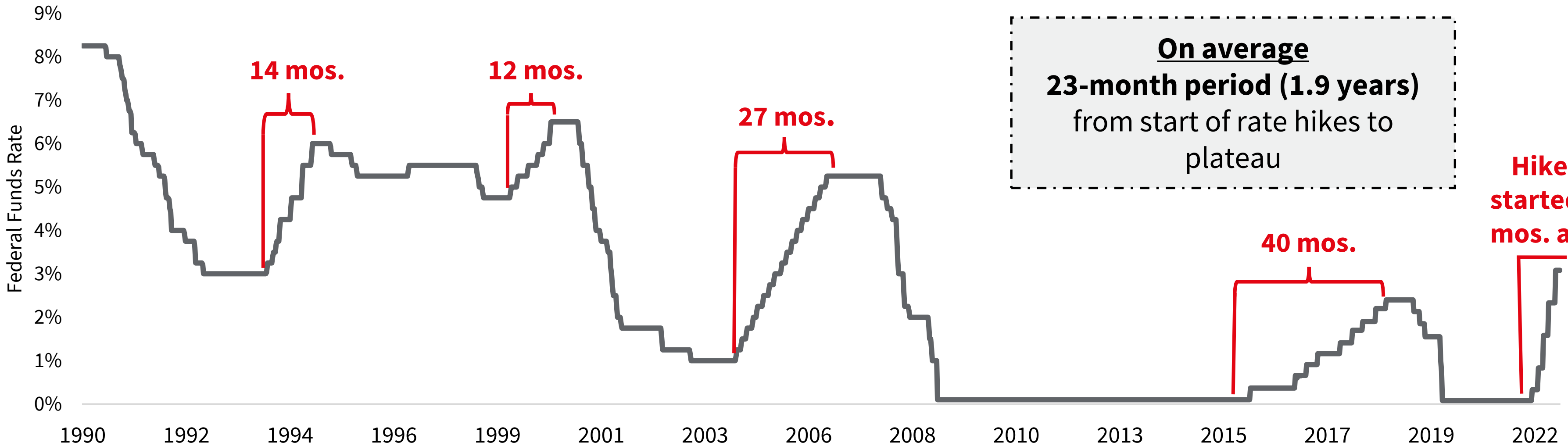
Source: JLL Research, Green Street

# Prominent themes in **private** capital markets

JLL

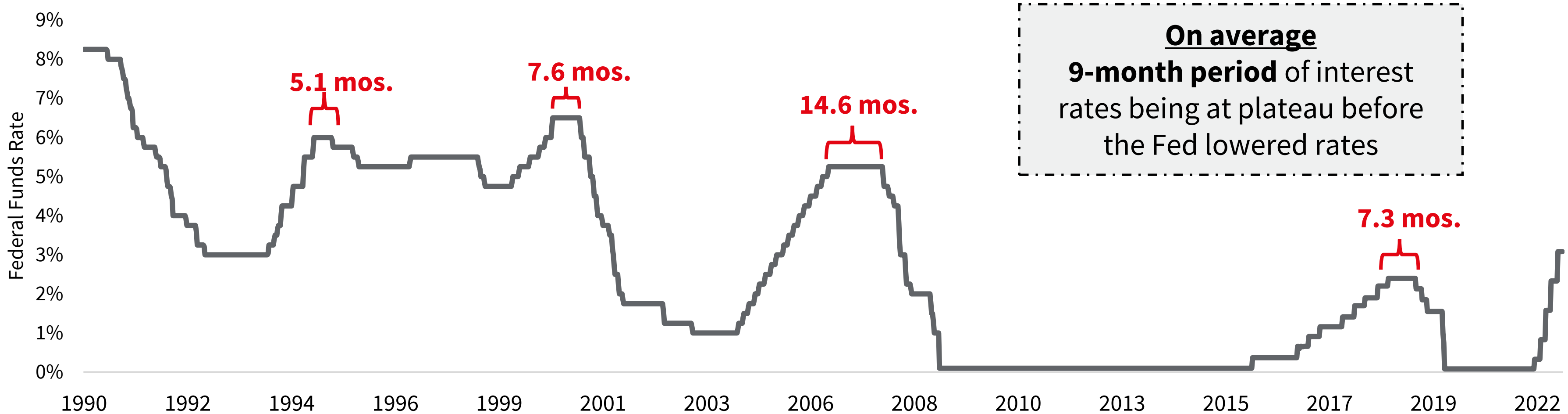
## 2. Fed rate hike cycles are typically followed by brief plateau and relatively rapid subsequent easing of rates

### Duration of rate hike cycles




**On average**
**23-month period (1.9 years)** from start of rate hikes to plateau

### Length of plateau in rates before subsequent easing




**On average**
**9-month period** of interest rates being at plateau before the Fed lowered rates

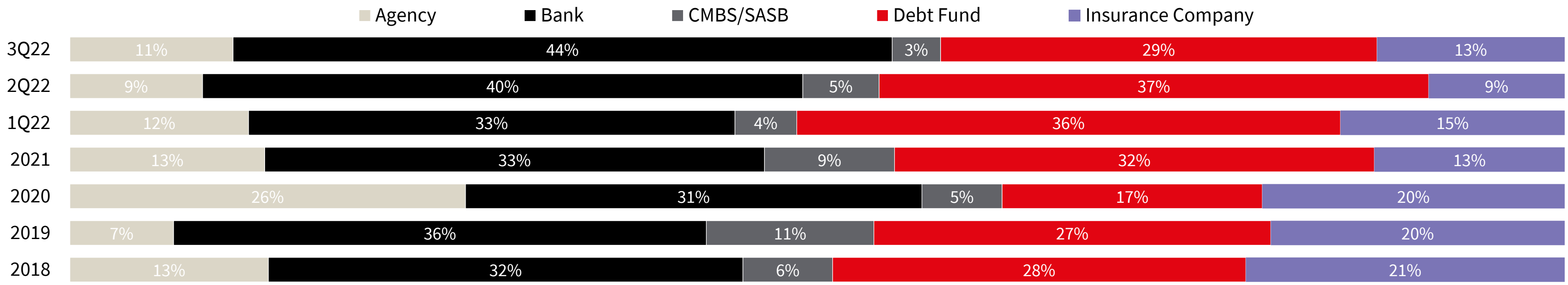
Source: JLL Research, Federal Reserve

# Prominent themes in **private** capital markets

**3.** 

## Debt markets continue to be available, but deal flow has slowed

**Composition of loan originations (based on JLL activity)**



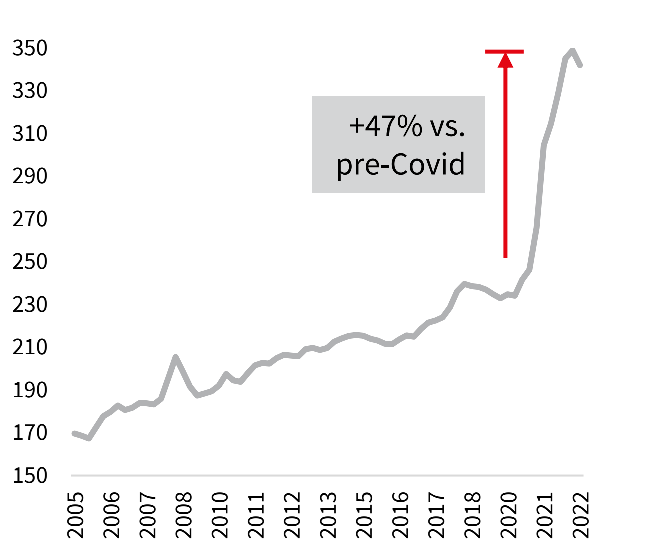

- **ORIGINATIONS –** Debt volume for the first half of 2022 totaled $338B, a **39% YoY increase** but the Mortgage Bankers Association forecasts that full-year 2022 volume will be **down 18%** from 2021 totals. After a record start to the year, it is expected that the rise in interest rates, ongoing uncertainty surrounding property market fundamentals and overall economic weakening **will suppress new loan originations** during the remainder of the year. With that said, the past several years have seen **more conservative loan underwriting; CRE fundamentals generally remain strong**, and loan **demand is expected to bounce back in 2023 and 2024**
- **ASSET TYPES –** Multifamily continues to dominate as the most in-favor with lenders, accounting for over **45% of JLL's 2022** debt originations activity in YTD Q3 2022. **Banks and debt funds also continue to be active, together accounting for over 70% of JLL's debt production activity**
- **BANKS –** Money center banks are working on their balance sheets and holding **considerable deployable money for existing clients**. The syndication market continues to be a challenge and while many outstanding loans are performing, payoffs are few, and banks continue to underwrite refinance risk. **The lack of payoffs in their books prohibits their ability to originate new loans at typical volumes**. Regional/community banks continue to take some market share. However, they are becoming more conservative and are less likely to enter the syndication markets like many have historically. Cross-border banks are moving in line with money center banks
- **DEBT FUNDS –** Many debt funds continue to lend, but pricing, refinancing risk and exposure all have contributed to **increased scrutiny compared** to earlier this year (pre- March 2022). The **lack of low-priced "A" notes, syndication and public market exits** has many groups holding performing loans without interest rates high enough for a profitable exit. Recently there have been many new liquidity sources hoping to arrange and enter the market. **Pricing has generally widened by 100-200 bps**
- **INSURANCE COMPANIES –** Many origination goals for 2022 will not be met and we will see most companies set similar goals for 2023. Insurance companies are continuing to monitor relative value (corporate bonds BBB to AAA). All groups are happy to see higher yields and are more aggressive on assets as coupons at **4%-6% are more commensurate with risk on high-quality CRE**. Capital and separate account money continues to be plentiful
- **AGENCY –** Agencies are focused on mission-driven assets. They **remain aggressive on pricing** but are **struggling to meet borrowers' loan request due to DSCR.**
- **PUBLIC MARKETS (CMBS/SASB) –** The CMBS/SASB market is active and fluid but **pricing at 5%-7% has generally created sticker shock for borrowers**. Five-year fixed-rate CMBS loans with coupons of around 5% and some flexible pre-payment in years four and five are appealing to borrowers

Source: JLL Research, Mortgage Bankers Association

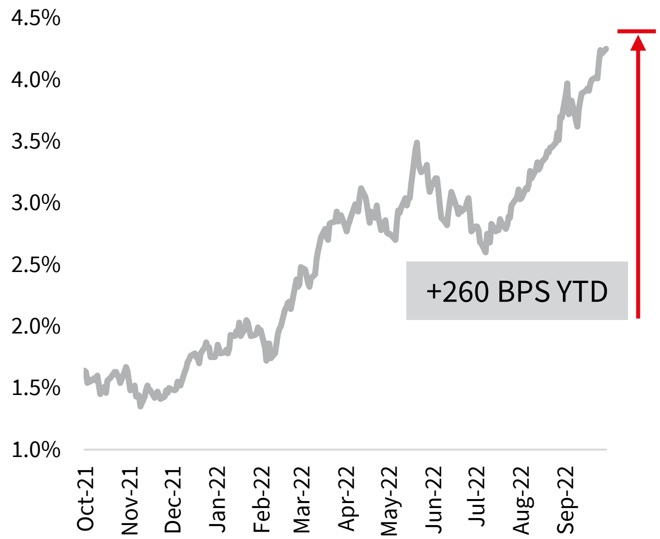
# Prominent themes in **private** capital markets

## 4. Elevated construction costs and rising cost of debt already curtailing new construction starts

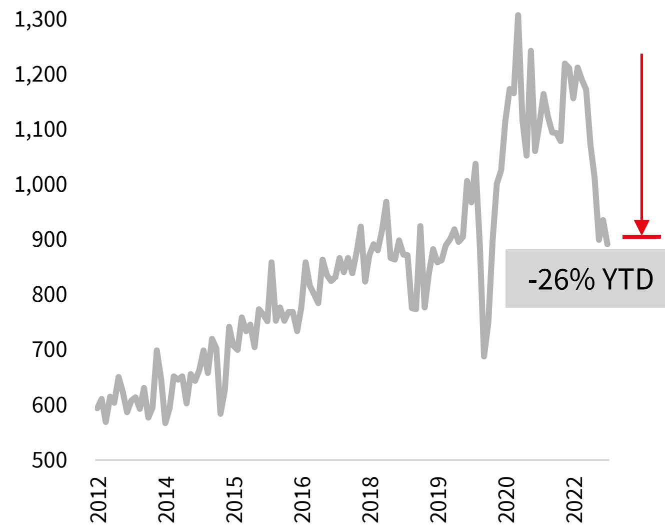
**Construction materials Producer Price Index**




**10-year treasury**




**U.S. Single-Family Housing Starts (000s)**




- The rising interest rate environment has had an almost immediate effect on single-family housing starts, which **declined 26% YTD October 2022**. Elevated construction costs, rising cost of borrowing and more limited debt for new construction are now leading to widespread slowdown of commercial real estate construction starts. The rate of slowdown varies by property sector, and the slowdown will likely be further felt in the months ahead:
  - **Office** construction starts in **Q3 2022 were 49% below** the trailing 4Q average as leasing demand continues to be below pre-pandemic levels
  - **Multifamily rental** construction starts totaled 141,300 units in Q3 2022, still **showing a 13% increase** on the trailing 4Q average owed to strong rental growth but starts are expected to slow notably in the months ahead
  - In the **industrial** sector, while construction pricing has come in a bit, the continued rise in debt costs is more than countering that; spec and built-to-suit transactions have gotten difficult with developments stalling where developers' return hurdles can no longer be met
  - **Retail** construction starts **slowed 30%** in the third quarter of 2022 vs. the trailing 4Q average
  - Amid higher debt spreads for **hotel** investment, hotel construction starts (by number of rooms) **slowed by 13%** in Q3 2022 vs. trailing 4Q average

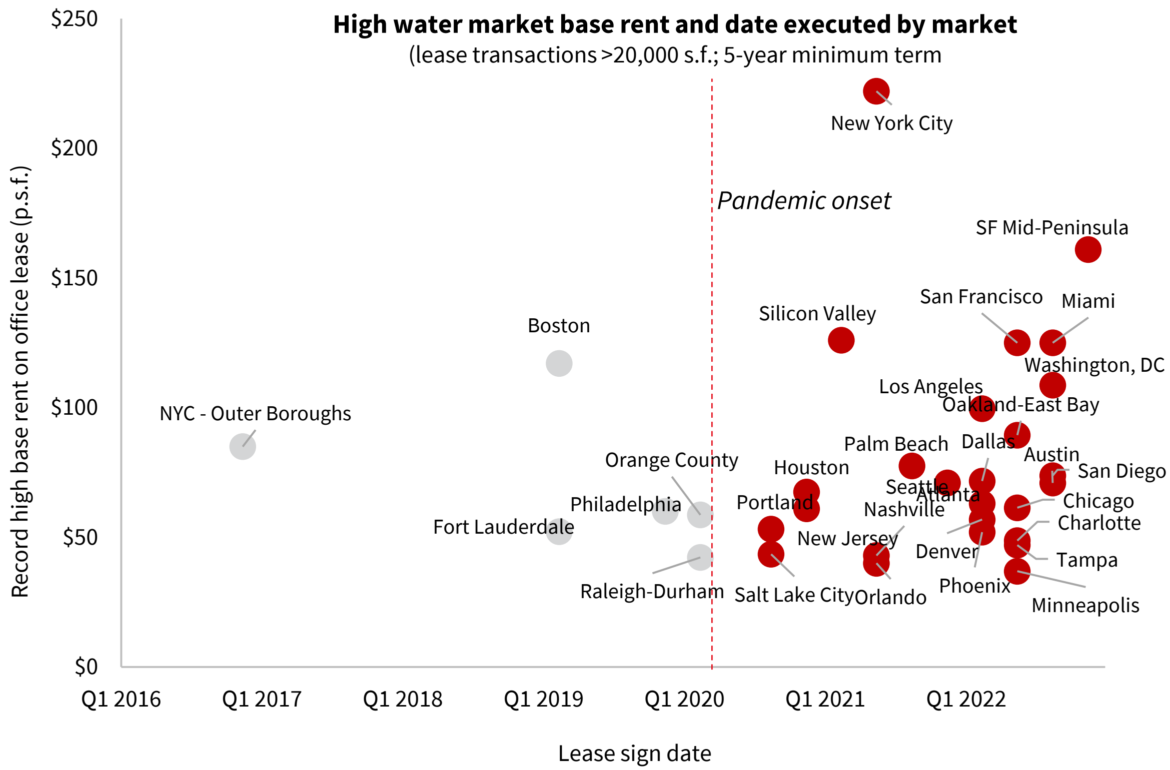
Source: JLL Research, Bureau of Labor Statistics, Federal Reserve, U.S. Census Bureau

# Prominent themes in **private** capital markets

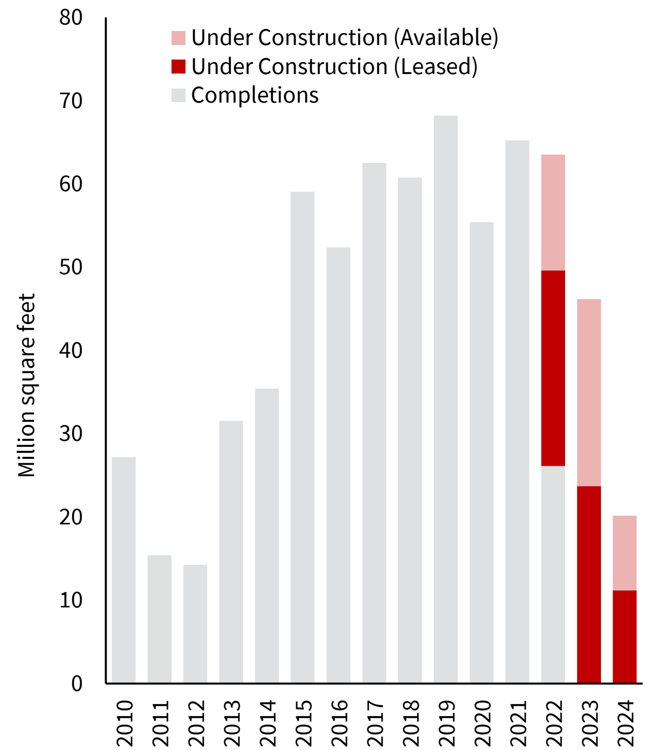
## 5. Office tenants paying record high rents for trophy office space; bifurcation between haves and have-nots in office market to continue to intensify

- Despite softness in overall office demand, appetite for high-quality space is propelling top-of-market rents in many geographies: nearly one-half of major markets have seen leases executed at record high base rent in 2022, and more than 80% have set new record-high rents since the pandemic began
- Outlier demand for best-of-best suites has driven true top-of-market rents even higher on select smaller-scale transactions: Manhattan has seen executed rents eclipse $300 p.s.f. for smaller transactions in prime product, high-floor deals in San Francisco have hit $200 p.s.f. and supply-constrained growth markets like South Florida have topped $100 p.s.f. with increased regularity
- The office pipeline is expected to shrink to post-GFC levels as economic headwinds, high construction costs, and limited debt availability weigh on new construction. With the intensifying flight to quality, some markets and submarkets will likely soon see an undersupply of top-quality space

**Record high rents in 80%+ of markets**




**Construction pipeline slowing dramatically**




Source: JLL Research

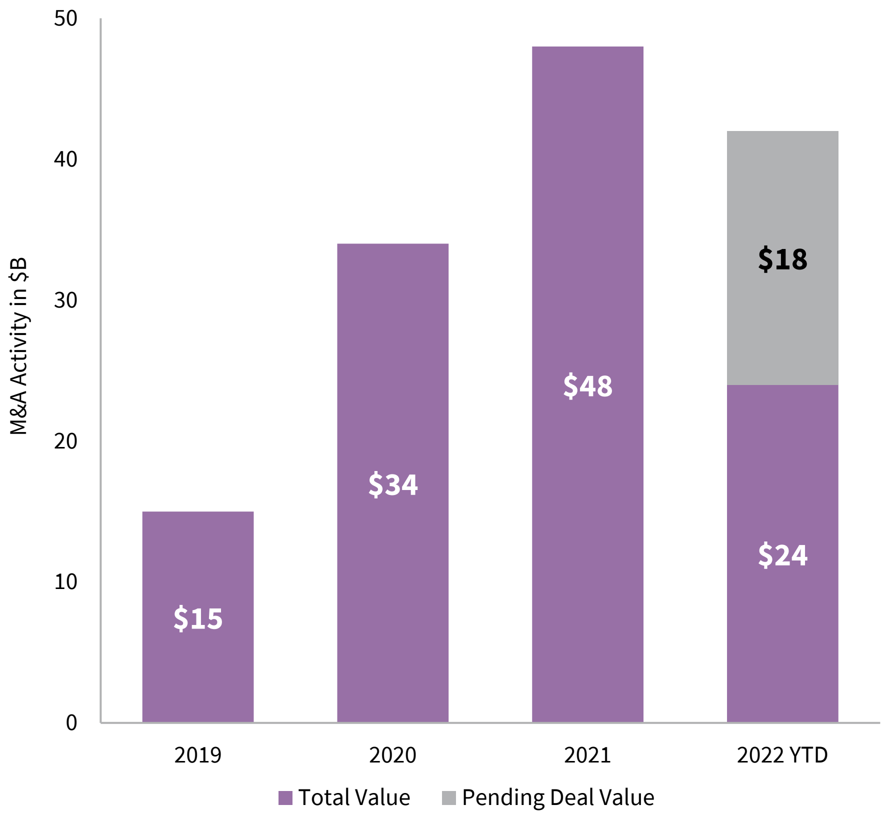
# **Property sector spotlight:**
Data centers

# **Property sector spotlight:** Data centers

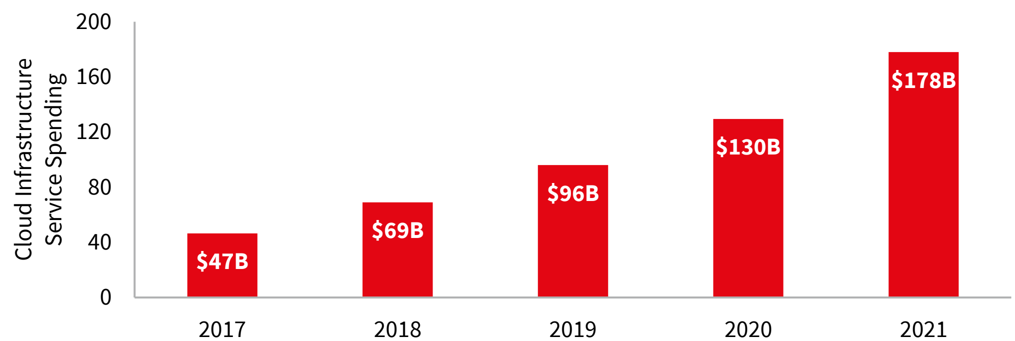
## Investment and development in data centers has surged due to increased need for digital infrastructure, driven by accelerating demand from hyperscale users and co-location providers

- Enterprises continue to shift from an owned data center strategy to either a hybrid cloud or public clouds model. Outsourcing data storage has become the norm to mitigate costs and ensure speed to market. Concurrently, data needs are increasing exponentially as mobile becomes more ubiquitous, 5G is deployed across markets, artificial intelligence use increases and 'big data' grows
- Large pre-leasing activity has been seen in multiple markets to secure future data center capacity due to limited available land, supply chain challenges and construction constraints. Speed to market is critical and leasing has accelerated as scarcity becomes a growing concern for companies with growing data needs
- In the 10 years through 2021, data center transaction volume grew at a compound annual rate of 15% as the data center industry underwent consolidation. M&A activity has led to several large investors playing dominant roles in the sector

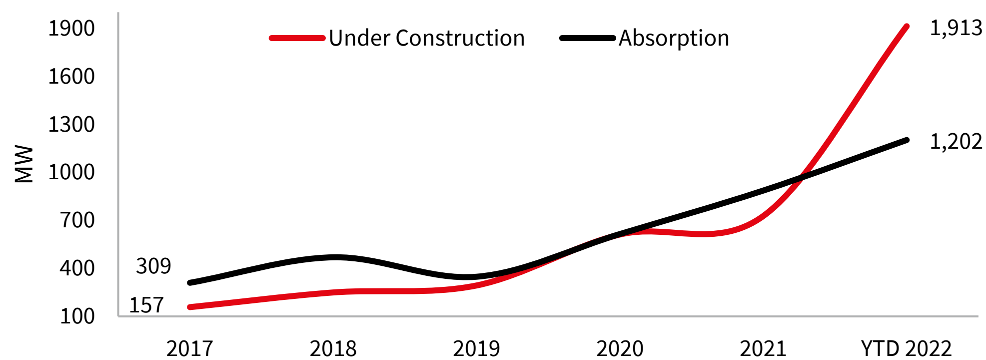
**Record breaking M&A activity since 2020**




**Cloud and hybrid model is becoming mainstream**




**Strong growth in construction and demand across major markets**




Source: JLL Research, Synergy Group

# The JLL Capital Markets platform

# **Dominant capital markets** presence across the globe

JLL

## Americas

#1 ranked
Total Debt Originations

#2 ranked
Investment Sales Advisory

$196B
In 2021 Capital Markets Volume

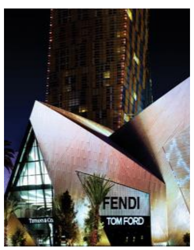

5 Bryant Park


PHT Portfolio


ARTIC Hotel Portfolio


Prudential Plaza


Hammes Portfolio



Shops at Crystals

## EMEA

#2 ranked
Investment Sales Advisory

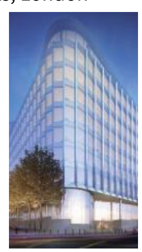
$85B
In 2021 Capital Markets Volume


Couer Defense, Paris


Chelsea Barracks, London


Blanchardstown, Dublin


Tower 185, Frankfurt


Plumtree, London

## Asia Pacific

#2 ranked
Investment Sales Advisory

$34B
In 2021 Capital Markets Volume


Quay Quarter Tower


Jinqiao Life Hub, Shanghai

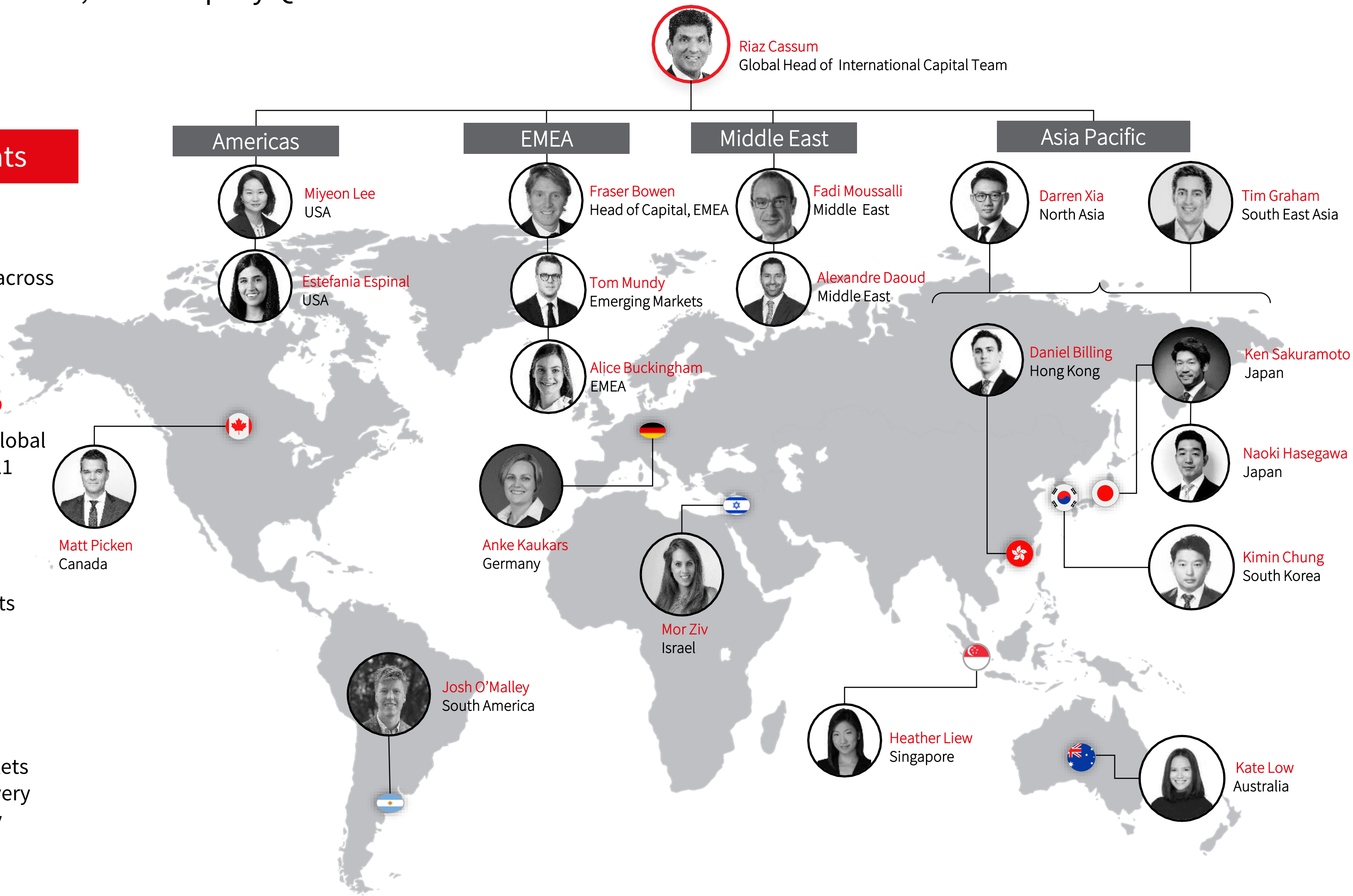

Asia Square Tower 2, Singapore

Source: RCA, MBA

# **JLL's Global** Capital Markets Overview

## Unmatched, Unified, and Uniquely Qualified Global Transactions Team

JLL




## Global stats

**173**
Corporate offices across 45 countries

**$315B**
Capital Markets global volume in 2021

**3,000**
Capital Markets employees

**$1.3B**
In Capital Markets transactions every working day

JLL Completes
**$1.3B**
In capital markets transactions globally every working day

**Americas**

| | |
|---|---|
| 1,638 | CM Professionals |
| 45 | Offices |
| 4 | Countries |

**EMEA**

| | |
|---|---|
| 956 | CM Professionals |
| 74 | Offices |
| 26 | Countries |

**Asia-Pacific**

| | |
|---|---|
| 509 | CM Professionals |
| 40 | Offices |
| 14 | Countries |

Source: JLL
*Transaction volumes data source 2021 - JLL Property Data (UK); Real Capital Analytics (USA). No land and developments; deals above $5 million only.

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In this presentation, we rely on and refer to information and statistics regarding economic conditions, trends, and our market in the sectors of that market in which we compete. In particular, we have obtained general industry information and statistics from certain third-party Source. We believe that these Source of information and estimates are reliable and accurate, but we have not independently verified them.

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JLL (NYSE: JLL) is a leading professional services firm that specializes in real estate and investment management. JLL shapes the future of real estate for a better world by using the most advanced technology to create rewarding opportunities, amazing spaces and sustainable real estate solutions for our clients, our people and our communities. JLL is a Fortune 500 company with annual revenue of $19.4 billion, operations in over 80 countries and a global workforce of more than 100,000 as of March 31, 2022. JLL is the brand name, and a registered trademark, of Jones Lang LaSalle Incorporated. For further information, visit jll.com.

## About JLL Research

JLL's research team delivers intelligence, analysis and insight through market-leading reports and services that illuminate today's commercial real estate dynamics and identify tomorrow's challenges and opportunities. Our more than 400 global research professionals track and analyze economic and property trends and forecast future conditions in over 60 countries, producing unrivalled local and global perspectives. Our research and expertise, fueled by real-time information and innovative thinking around the world, creates a competitive advantage for our clients and drives successful strategies and optimal real estate decisions.