Overview

Sales volume continues to accelerate across North America with impressive Q3 numbers. Record quarterly volume in the U.S. was led by multifamily and industrial, though office is making a comeback. In Q3, U.S. investors traded **US$179.4 billion**. Total volume in the U.S. is on pace to set a new all-time high in 2021. The Canadian markets are lagging comparatively but are in full recovery mode. Canadian volume increased **181%** over year-ago figures, with **CAD$10.1 billion** in assets traded. Cap rate compression continues, and pricing has increased nearly across the board.

Headline makers in Q3 include inflation, rising energy prices, supply chain disruption, a return to the office, the economic slowdown in China, interest rate volatility, and Canada’s election. These disruptions captured the attention of real estate investors, driving capital to hard assets. Impending tax law changes in the U.S., which will impact real estate owners, are expected to bring additional sellers to market in Q4, further propelling sales volume as the year closes out.

A record amount of capital is waiting to be deployed across North America, and investors are eager to tap into these funds. While aggregate uninvested capital declined globally, it has held steady in North America, per Preqin data. The overall percentage of money with a North American focus is at rates not seen in decades. Meanwhile, fundraising remains healthy, with investors like Starwood procuring record funds.

Pricing is on the upswing across asset classes in most of North America, with investors pouring more money than ever into multifamily assets. In the U.S. alone, multifamily volume was roughly in line with that of industrial and office combined. Year-end is historically the single-largest sales quarter in any given year. With the current improvement in fundamentals across property types, attractive yields, global capital allocations, potential tax law changes, and pent-up demand for assets after a year of disruption in 2020, Q4 is primed to be another record-setter.

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### Quarterly Pricing

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Direction</th>
<th>Forecast</th>
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<tbody>
<tr>
<td>Multifamily</td>
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**Investors are targeting North American Assets**

![Graph showing capital on sideline targeting North America.](chart)

*Source: Colliers, Preqin*
Contents

Click on the text below to view the specific asset classes

U.S.
- Multifamily
- Office
- Industrial
- Retail
- Hotel

Canada
- Multifamily
- Office
- Industrial
- Retail
- Hotel

Contacts
Capital Markets

U.S. Snapshot
Multifamily

Multifamily is the clear-cut volume leader in 2021. Strong fundamentals, soaring rent growth, and a capital pivot are driving prices to new heights. Investors are so enthusiastic about this space that competition is stiff, and deals are highly competitive in every market.

Double-digit rent growth is common in markets across the country. Combined with solid occupancies, property incomes are thriving, pushing some of the most substantial price growth (16.3%) of any asset class over the past year, per Real Capital Analytics.

Sales volume of $178.5 billion year-to-date puts multifamily on track to shatter previous records. While overall sales volume across property types set a new quarterly highwater mark, much of that is due to multifamily’s strength. This asset class accounts for more than 40% of all investment dollars this year, driving the overall direction of commercial real estate pricing and volume.

Growth corridors contain the most concentrated volume. Dallas, Atlanta, and Phoenix were the top markets through Q3, but buyers are flocking in record numbers to markets in the Southeast and Southwest. At the same time, dense urban areas in the Northeast and on the West Coast are becoming hotspots for activity.

Cap rate compression continues, with investors comfortable underwriting healthy rent growth and stable occupancies. Still, cap rates are only one piece of the investment puzzle, and some markets seem mispriced today compared to historical values. This suggests that opportunities still exist and that capital flows may pivot back to slower-growth markets in the quarters ahead.

**Sources:** Colliers, Real Capital Analytics
Office

Office sales volumes are back to typical levels. Q3 marked the strongest quarterly total since year-end 2019, in line with quarterly averages from 2015-2019. Capital is returning to core coastal markets, particularly Manhattan. The debt markets continue to buoy cash-on-cash returns.

Fundamentals are stabilizing, an optimistic sign for office investors. National office absorption turned positive in Q3, with more than half of all markets posting gains. Growth markets like Atlanta, South Florida, Austin, Nashville, Salt Lake City, Las Vegas, and Dallas led the charge. New York City and Boston also turned positive in Q3. While physical occupancies remain low in many markets, tenants are active, suggesting that stabilization will transition to recovery in the quarters ahead.

Conversions are gaining traction, though there are differences market-to-market. Life science is a thriving demand driver, as venture capital investment has never been higher in this space. These increased funds are creating opportunities to reposition assets in urban cores and the suburbs. The life science industry is heavily concentrated in a few markets but expanding across the country. Meanwhile, investors are purchasing commodity office product in the suburbs to demolish and convert into industrial space.

Investors are starting to cash in on Manhattan’s office market, driving its recovery. The nation’s top office market is still far from its historical average, but several important deals have been negotiated, a positive sign of what’s to come. Recent sales include the Daily News Building, the Pfizer Building, and the yet-to-close purchase of St. John’s Terminal by Google for $2.1 billion. That deal follows the trend of major tech companies acquiring physical assets. Sales and values remain strong for office assets that have stabilized tenancy. Properties with vacancy and rollover risk continue to see uncertain pricing, and by and large, sellers are unwilling to test the market.

Sources: Colliers, Real Capital Analytics
Industrial real estate is a hot investment target throughout the U.S. Seventeen of the top 25 markets for investment sales year-to-date are on a record-setting sales pace.

Industrial performance is off the charts. Absorption records are being shattered quarter after quarter, rents are rising, and new development is leasing quickly. It’s no wonder that cap rates are compressing to new lows, with several recent deals trading at sub-3% cap rates.

Labor shortages are prompting companies to rethink their distribution networks. Some groups are searching for additional distribution centers to accommodate drivers who want to make it home daily. This means opening centers 250 miles +/- apart.

Portfolio activity is picking up, driving investment sales volumes. Nine of the top 10 deals in the quarter were portfolio trades, the largest being Oxford Properties’ acquisition of KKR’s industrial portfolio. In addition, Black Creek acquired a 48-property portfolio from Prologis. Both deals had reported cap rates in the low 4% range. Torchlight Investors claimed the top spot for the largest single-asset purchase, a Target distribution center in New Jersey. The 1.1 million square foot, newly built asset traded at a reported 3% cap rate.

With global supply chains kicking into gear, the need for additional industrial capacity is clear. Investors have room to run in this product type, and investment volumes are forecast to reach new highs in Q4.

### Record YTD volume in numerous markets

<table>
<thead>
<tr>
<th>State</th>
<th>City/Cities</th>
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<td>Washington</td>
<td>Seattle</td>
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### What to Watch
Supply Chain Disruption | Cap Rate Compression | Labor Shortages

### KKR Portfolio Acquisition
$2.2 Billion | 149 Properties | 14.5 Million SF

### Top Markets
Los Angeles, California | Dallas, Texas | Atlanta, Georgia

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### Quarterly Volume
$39.5 Billion ↑

### Year-Over-Year Price Change
16.9% ↑
Retail investment is approaching a “normal” level. Between 2015-19, quarterly volume averaged $18.4 billion, and Q3 volume is now within range. Grocery-anchored centers remain highly sought after, but shopping centers are trading with more regularity, a promising sign for the future.

Retail fundamentals are on the mend, with another quarter of positive absorption, the strongest seen since year-end 2017. In addition, the days of record-setting store closures appear to be behind us, with retail once again supporting income streams and attracting investors. Planned closures in 2021 are on pace to be the lowest total in more than a decade.

Retail posted strong Year-Over-Year increases in sales volume, up 127%. However, its relative capture of investment dollars is below average, with about 10% of all commercial investment sales in Q3, compared to 16% historically. In addition to Slate Grocery REIT’s acquisition of a 25-property grocery-anchored portfolio, shopping centers/malls are trading more frequently. Both The Forum at Carlsbad and La Encantada in Tucson sold this quarter. The properties ranged in size from 246,000-265,000 square feet and included an Apple store as an anchor.

Retailers continue adapting to consumer preferences, including curbside pick-up, contactless shopping, and online ordering, while simultaneously testing new store formats. Operational efficiency will be paramount. Retailers will adopt more automation, and we anticipate an increasing share of physical store space to shift to online sales fulfillment. Intriguing retail investment opportunities are set to take shape in the coming years, so keep a watchful eye on this space.

Annual volume change by retail investments

Sources: Colliers, Real Capital Analytics
Hotel

Hotel investment was up 289% over the past year. Hotel has been the most stressed of all asset classes, but the market is rebounding. Investors are still on the hunt for discounts, perpetuating a bid/ask spread.

Hotel fundamentals rebounded quicker than any other property type. According to data from Smith Travel Research, occupancies improved by 14.3 percentage points Year-Over-Year in September. Along with a rebound in room rates (ADR), RevPAR (revenue per available room) surged nearly 80% nationwide, bringing investors back to the market. Occupancy rate gains were the most substantial in luxury and upper-upscale properties. RevPAR saw the strongest recovery in the hardest-hit markets, including Boston, New York, Oahu, and Nashville. Hotel is still no stranger to distress, with CMBS default rates remaining north of 11%, the highest of major asset types. However, these rates have been cut in half over the past year.

Midscale assets are dominating recent sales, thanks to Apple Hospitality selling a 20-property portfolio totaling 2,133 rooms. Investors are also branching out into other market segments. Hotels in major hubs like Washington, D.C., San Francisco, and New York, plus resorts and luxury properties, are beginning to trade more regularly. This suggests that liquidity is getting back to normal. Overall, hotel offers continued upside as business and leisure travel bounce back.

RevPAR growth is rebuilding

Top 4 Markets - RevPAR Growth % YOY

<table>
<thead>
<tr>
<th>#1 Boston</th>
<th>#2 New York</th>
<th>#3 Oahu</th>
<th>#4 Nashville</th>
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<tbody>
<tr>
<td>273.5%</td>
<td>269.9%</td>
<td>252.8%</td>
<td>220.7%</td>
</tr>
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</table>

RevPAR Growth % YOY

| 119.5%       | 78.4%       |
| Top 25 markets average | U.S. Average |

Sources: Colliers, STR

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Margaritaville Hollywood Beach Resort, Hollywood, Florida
$270 million | $732,000 / Room | 369 Rooms

Top Markets
Orlando, Florida | Seattle, Washington | Austin, Texas

What to Watch
Labor Market Recovery | Convention Activity | Business and Leisure Travel

Quarterly Volume
$9.0 Billion

Year-Over-Year Price Change
11.4%
Summary

Investment activity is roaring back to life in Canada. With an impressive CAD$10.1 billion in sales volume, Q3 delivered one of the strongest totals on record. However, unlike past CAD$10 billion-plus sales quarters, volume wasn’t driven by entity-level deals or massive portfolios.

Investors continue to bank on multifamily and industrial real estate. Each of these asset classes posted quarter-over-quarter gains in sales volume. Office investment is also trending upward, more than tripling Q2 numbers. Retail and hotel activity eased, but on the upside, hotel volume in Q3 topped the 2018-19 quarterly average.

Multifamily

Multifamily was the top investment target in Q3, racking up nearly CAD$3.5 billion in sales.

Capital allocations to the multifamily market are on pace to top 2020’s CAD$10.7 billion. Eleven deals surpassed CAD$100 million this quarter, the largest being the 642-unit Island Park Towers in Ottawa, Ontario. Acquired by Homestead for CAD$267 million, this deal marked the largest single-asset sale in 2021. Investment is flowing into Ontario, where nine of the top 10 deals occurred. The lone exception was Avenue Living’s CAD$145 million acquisition of a seven-property portfolio in Edmonton, Alberta, including 874 units. The reported cap rate on the transaction was 5.1%.

Sources: Colliers, Real Capital Analytics
Office

Third-quarter office sales accelerated on the back of one major transaction: The Bow in Calgary, Alberta.

The 2-million-square-foot asset sold for CAD$1.2 billion, or CAD$593 per square foot, to Oak Street Real Estate Capital, a U.S.-based investor. H&R REIT reportedly sold the property to reduce its exposure to the Calgary market. With energy prices on the rise, Calgary is now the scene of some intriguing acquisition opportunities. The Bow sale aside, Q3 deal volume was light. Still, it outperformed the previous quarter, with two transactions posting north of CAD$50 million. Deals like these prove that liquidity is slowly returning to the office market.

Industrial

Investors’ insatiable demand for industrial product continued in Q3.

Sales volume hit CAD$3.2 billion, the second-strongest quarterly total on record. PIRET and Ivanhoe Cambridge jointly acquired a 25-property portfolio totaling 2.2 million square feet in Ontario. The sale price was nearly CAD$700 million, marking the largest deal of the quarter. Another landmark deal in Q3 was a 235,000 square foot Amazon-anchored property in Brampton, Ontario. This asset traded at CAD$397 per square foot, reflecting the increasing valuation of Amazon facilities.

Sources: Colliers, Real Capital Analytics
Retail

Retail transactions remain heavily driven by grocery-anchored properties. However, unanchored centers are beginning to trade more frequently, a positive sign for overall market liquidity.

Nearly CAD$900 million traded in Q3. Year-to-date, investment volume totaling CAD$3.1 billion has already eclipsed last year’s figures and is on pace to match those from 2019. In the third quarter’s largest deal, Newman Blvd Development Limited Partnership acquired the 207,000 square foot Centre Carnaval in Montreal, Quebec. The Super C-anchored center traded for CAD$70 million. In Richmond Hill, Ontario, 11300 Yonge Street sold for CAD$37.1 million, or CAD$1,855 per square foot. Royal Bath and Kitchen and the Salvation Army anchor this 20,000 square foot property.

Hotel

Investor sentiment for the lodging asset class continues to improve.

Transaction volume through Q3 reached nearly CAD$1.1 billion, surpassing full-year volume in 2020 (CAD$862 million) and pacing close behind comparable levels of pre-COVID activity in 2019 (CAD$1.25 billion through Q3). While it wasn't a stand-out quarter for overall volume, Q3 saw nearly CAD$300 million in hotel transactions, including the first handful of major market trades since the onset of the pandemic and a significant majority of acquisitions for continued hotel use. Moving into Q4 2021 and early 2022, we anticipate liquidity in the hotel sector will continue to build as operating fundamentals and debt market conditions recover further.

Sources: Colliers, Real Capital Analytics
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