Overview

The U.S. investment sales market showed strength and resiliency in the first three months of the year. Sustained interest in both industrial and multifamily asset classes compressed cap rates, while office and retail remained stable. Aggregate pricing was up 7.8% year-over-year and investment volume reached $96.7 billion. While lower than Q1 2020 volume, data across multiple asset classes demonstrates we are on an accelerated road to recovery.

Investors faced higher prices for all asset types and lower cap rates due to positive sentiment and favorable financing terms. Industrial assets experienced the greatest pricing gains. Multiple March industrial sales achieved sub-4% cap rates in the Southwest, while portfolio sales were limited.

Multifamily continues to thrive and accounted for more than a third of sales volume in Q1. Favorable migration patterns drove apartment rents in Arizona, Florida and Texas, and investor interest in multifamily was greatest across the Southeast and Southwest.

Transactions in tech-centric markets in the West show stability in office sector pricing despite record breaking vacancies. Office sales were heavily skewed to single tenant assets and life science transactions accounted for the bulk of office sales volume. Owners anticipate a return to the workplace and have kept asking rates stable, providing concessions as a bridge to anticipated demand.

The retail sector is seeing more interest as restrictions ease across the nation. Rent collections are nearing pre-pandemic levels and absorption doubled quarter-over-quarter. Grocery-anchored shopping centers and essential-service-providing net leased retail assets remain in high demand.

Distress has been limited and financing terms remain favorable. Institutional investors chasing yield focused on specialized sub asset types. Lab and life science, cold storage and medical office thrived in all markets. Under-allocated pension funds and increased international capital flows are expected to further propel sales volumes throughout 2021.
Click on the below to view the specific asset classes

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- Industrial
- Retail
- Specialized Asset Classes
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Positive momentum continues for multifamily pricing and transaction volume. Compressed returns and outbound migration in urban cores are driving investors towards secondary and tertiary markets. New developments offer opportunities to investors willing to take on leasing and stabilization.

The Southeast and Southwest remained highly active due to the availability of product, strong demand drivers and rent growth. Favorable migration and demographic patterns continued in these regions over the past year, and Dallas, Phoenix and Atlanta led the country in total sales volume. New York and New Jersey rank among the highest states for outbound moves and, as a result, the Northeast experienced the largest decrease in regional sales volume. Core coastal markets such as San Francisco and Manhattan remain affected by early policies and pandemic lock downs. Owners offered favorable concession packages and Q1 showed early signs of renters returning to the city. The easing of restrictions in states such as California and New York should attract investment dollars back to markets affected by the pandemic.

Demand for multifamily product is leading investors to consider new developments still in lease-up. Positive sentiment is driving bidders to pay stabilized pricing for these opportunities.
Sales transactions remained limited, but pricing held firm in Q1. Record-breaking negative net absorption drove investors towards long-term, single-tenant assets. The sublease growth rate decelerated and sentiment surrounding a return to the workplace is positive. Signs of expansion, particularly from tech tenants, are promising.

Negative absorption and an increase in both vacancy and sublease rates has placed downward pressure on valuations. Owners believe current market conditions are temporary and are holding onto their assets, and long-term leased properties are trading at high valuations. As a result, a decrease in pricing has not been realized. Recent deals in tech-centric markets like San Francisco and Seattle demonstrate this trend. Tech companies are favoring face-to-face interaction, calling employees back to the office, and heavily investing in physical footprints. Boston and San Francisco are the top tech sales markets year-to-date, followed by Los Angeles, Seattle, and San Jose.

Life science investments have driven overall office volume in Q1, and Boston has emerged as the subsector hub leader. These assets trade at high prices, supporting the broader office market. The two largest office deals this year were life science transactions in Boston.

Manhattan, the largest office market in the country, experienced one of the weakest sales quarters on record. New York City, and other metros that rely on public transportation, may benefit from the new administration's proposed infrastructure spending, particularly on transit systems.

Absorption losses were evenly distributed between downtown and suburban markets, but central business districts reported higher vacancies. Market fundamentals and limited new lease comparables make long-term, single-tenant assets most desirable.

### Post-Pandemic Tech Expansions

<table>
<thead>
<tr>
<th>Company</th>
<th>Size (SF)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amazon</td>
<td>3.8M+</td>
</tr>
<tr>
<td>Apple</td>
<td>1.2M+</td>
</tr>
<tr>
<td>Facebook</td>
<td>1.2M+</td>
</tr>
<tr>
<td>Microsoft</td>
<td>1.1M+</td>
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<tr>
<td>Google</td>
<td>660,000+</td>
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Industrial

Demand remains strong among both existing and new investors in the industrial sector. Portfolio shares allocated to industrial assets are growing, and experienced investors are showing increased interest in the infrastructure, data center and cold storage subsectors. While the appetite for large portfolio sales remains, opportunities were limited, and year-over-year volume decreased as a result.

Industrial rental rates have grown and sales pricing followed suit. Cap rates continued to compress in Q1 and have reached sub-4% in select markets across the U.S. Investors are favoring key distribution networks in Atlanta, Chicago, Dallas, and Los Angeles/Inland Empire. These markets reach a wide share of the U.S. population in addition to their own large local population base, and have led year-to-date sales volumes.

Overall net absorption in Q1 hit a new record for the industrial sector. Key submarkets with supply and demand imbalances have left tenants few options for growth. Amazon and other e-commerce-related tenant demand will continue to make the market dynamic.

Surging e-commerce and shifting consumer habits make both bulk distribution centers and infill locations attractive to investors. The median industrial price per square foot has never been higher, and rising rents have led developers to break ground on the next wave of product. 73.2 million square feet of new product was delivered in Q1 and deliveries are projected to increase as the year progresses.

**Industrial sub-4% cap rate deals**

<table>
<thead>
<tr>
<th>Address</th>
<th>SF</th>
<th>$/SF</th>
<th>Cap Rate</th>
<th>Buyer</th>
<th>Seller</th>
</tr>
</thead>
<tbody>
<tr>
<td>5240 W Buckeye Rd</td>
<td>221,885</td>
<td>$126</td>
<td>3.7%</td>
<td>KKR</td>
<td>Lincoln Property Co</td>
</tr>
<tr>
<td>Phoenix, Arizona</td>
<td></td>
<td></td>
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<tr>
<td>20730 Prairie St</td>
<td>221,800</td>
<td>$334</td>
<td>3.7%</td>
<td>Intercontinental RE</td>
<td>PGIM Real Estate, Xebec Realty Partners</td>
</tr>
<tr>
<td>Los Angeles, California</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4021 W 108 St</td>
<td>273,590</td>
<td>$178</td>
<td>3.7%</td>
<td>Terreno Realty</td>
<td>Flagler Dev (Fortress)</td>
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<tr>
<td>Hialeah, Florida</td>
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</table>
Retail

Fundamentals show signs of recovery and pricing has held firm against pre-pandemic figures. Absorption doubled over Q4 2020 and rent collections are now just three percentage points below Q1 2020. Grocery-anchored shopping centers remain a popular choice for investors. Distress in the sector becomes less likely as vaccines are distributed and consumption increases.

Essential-service-providing retail and assets in regions with eased restrictions drove investor interest, but a lack of major transactions and portfolio offerings muted overall volume. Strong retailers have leveraged last year's market disruption to expand or upgrade their locations to better centers. Discount retailers, mass merchandisers, and home improvement stores have evolved to provide conveniences that support e-commerce and an omnichannel approach.

The government's economic stimulus and softening of restrictions has led to an increase in consumption. Activity is increasing across all retail outlets except movie theaters. Investors have been waiting for big discounts which have yet to surface outside of select distressed debt plays, and a significant increase in further distress opportunities may not arise.

The sector continues to prove resilient. Retail has evolved numerous times, and current redevelopment opportunities will allow investors to shape the next generation of the retail experience. Investors' top choices will be growth markets with affordable costs of living and high barriers to entry.

67.1% of retailers report a desire to open new stores or test new configurations to address changing consumer habits.

78.5% of retailers plan to add or extend in-store services to support an omnichannel approach.

Source: Colliers and GlobalData Retail

$7.8 Billion ↓
Quarterly Volume

0.2% ↔
Year-over-year Price Change

Paradise Valley Mall
Largest Q1 Deal | $100 Million | Phoenix, Arizona

Top Markets
Dallas, Texas | Phoenix, Arizona | Los Angeles, California

What to Watch
Consumer Spending | Potential Distress | Asset Repositioning

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Specialized asset classes

Emerging demographic and economic trends have transformed formerly niche subsectors into widely accepted institutional investment options. The lack of opportunities, particularly in industrial and multifamily, has further driven interest towards well-performing specialized asset classes. As a result, institutional capital flows to lab and life science, cold storage, and medical office have increased.

Record-high venture capital spending, COVID-19 research and strong IPO activity are driving price growth in the office and industrial lab sectors. Lab properties are heavily concentrated in markets such as Boston, San Francisco, and San Diego, but are increasingly gaining traction in Raleigh/Durham, New York City, and Seattle.

Cold storage is transforming as shifting consumer habits drive a new last-mile need. New demands and home delivery expectations mark the “last mile of food” as the next frontier, causing growth in institutional interest. While suppliers are still early in the optimization of moving product from bulk cold storage to consumers' homes, increased infrastructure has driven pricing on new modern cold storage buildings close to that of modern dry buildings, assuming similar credit and term.

The aging population has increased the need for medical services and medical office is a key beneficiary. Fundamentals remain healthy and rents continue to rise, protecting this niche product from the investment pause of the greater office asset class. Institutional investment in the medical office sector made up 35% of medical office sales in the early months of 2021, up from only 12% in 2019.

Typical multifamily subsectors like senior and student housing were negatively affected by the pandemic, but a new niche of multifamily is emerging in their place: single family home rentals. The pricing increase as a result of today’s low interest rate environment and the growing down payment required to purchase a single-family residence has left home ownership prohibitive to many millennials. Pandemic lockdowns and work-from-home requirements have further pushed the desire of single professionals and families for more space. Single family rentals, larger unit sizes and remote locations have become key commodities. To meet this demand, more groups have begun investing in and developing this specialized asset class.

The recent attention in specialized asset classes has caused both pricing and sales volumes to rise. Developers have taken notice and are planning for the next wave of construction by acquiring appropriately zoned land and development sites.
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