

Q2 2018 CHARTBOOK  
**STATE OF THE  
REAL ESTATE  
MARKET**

# ABOUT RCLCO

Since 1967, RCLCO has been the “first call” for real estate developers, investors, the public sector, and non-real estate companies and organizations seeking strategic and tactical advice regarding property investment, planning, and development. RCLCO leverages quantitative analytics and a strategic planning framework to provide end-to-end business planning and implementation solutions at an entity, portfolio, or project level.

With the insights and experience gained over 50 years and thousands of projects—touching over \$5B of real estate activity each year—RCLCO brings success to all product types across the United States and around the world.



# TABLE OF CONTENTS

Summary Point of View	4
Capital Markets	7
Market Overview	
Residential	21
Office	33
Retail	41
Industrial	50
Hotel	57

*Report prepared by Taylor Mammen, Managing Director;  
Taylor Kuntz, Senior Associate; and Adam Ostler, Associate*

Each quarter, RCLCO releases our Chartbook on the State of the U.S. Real Estate Market, detailing industry trends and key takeaways. These reports feature an overview of market performance and investment fundamentals for residential, office, retail, industrial, and hotels.

**If you are viewing this on your computer or tablet, click or tap on the bar to the right of every page to jump to the beginning of each section.**



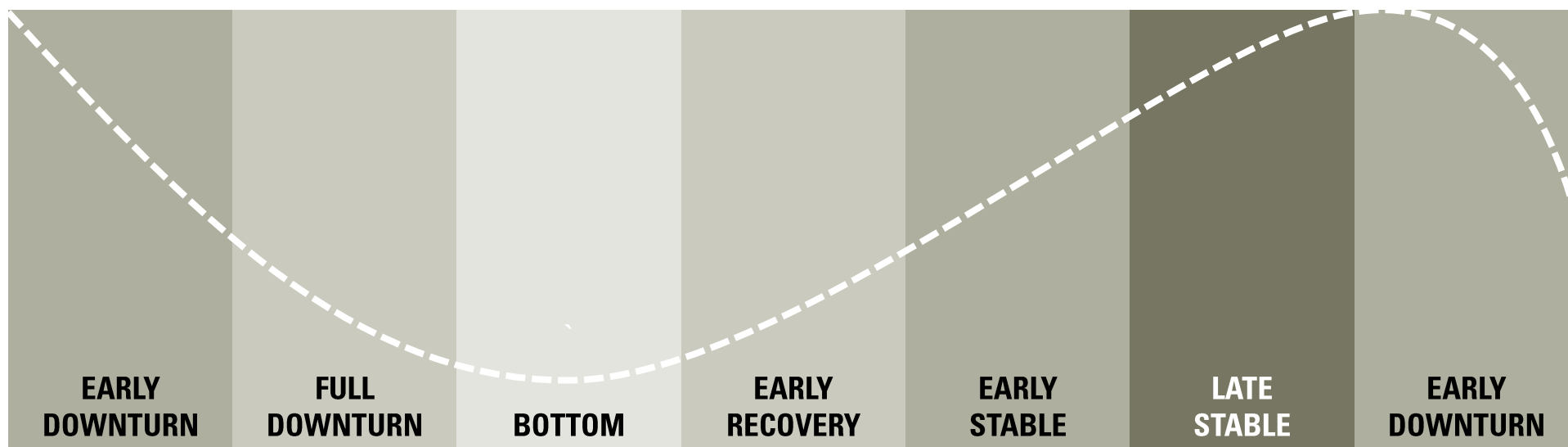
# POINT OF VIEW FOR REAL ESTATE

## Current and near-term outlook (as of August 2018)

Real estate has continued to benefit from strong growth of the U.S. economy. In general, this has led to “Goldilocks” conditions (neither too hot nor too cold) for the real estate asset class, with fundamentals either continuing to improve or holding steadily positive. We therefore continue to place real estate in the “late stable” stage of the market cycle, which we assume for underwriting and business planning purposes endures through the end of 2018 and into 2019.

These conditions, in which rents grow and occupancies increase, will likely continue until the broader economy slows. Though it has retained its upward slope even amid continued Fed Funds Rate increases, the relatively flat yield curve hints at some risk of recession within the near- to medium-term. Whenever it occurs, real estate will experience some pain, even if not to the same degree as during the last downturn: absorption may no longer keep up with deliveries of new multifamily and industrial buildings, and office and retail assets may struggle to maintain occupancy as they likely continue to struggle from changing demand characteristics.

The Fed has a number of reasons for raising rates; one of these is to stockpile “dry powder” for the next recession. Real estate investors might consider doing likewise: taking advantage of current favorable capital and property market conditions to build up their own stores of “dry powder” by reducing exposure to enhanced risks and lining up capital to take advantage of future opportunities.



# PROPERTY MARKETS OUTLOOK

Two general stories have emerged in real estate property markets in recent years. The first, which can be applied to multifamily, industrial, and hospitality real estate, is one of significant and sustained demand across all markets, leading to rent growth and (eventually) new construction. Demand continues to sustain new deliveries, but construction pipelines are sizable nearly everywhere, and could create distress when an economic slowdown occurs.

The second story, which can be applied to office and retail, features property types threatened to some degree with structural obsolescence thanks to changing demand characteristics. Performance of these property types varies significantly across markets, though generally positive fundamentals for both (office and retail) have resulted largely from very little construction (outside of rapidly growing tech and other “boom” markets). This would likewise reverse when employment and consumer spending slow down.

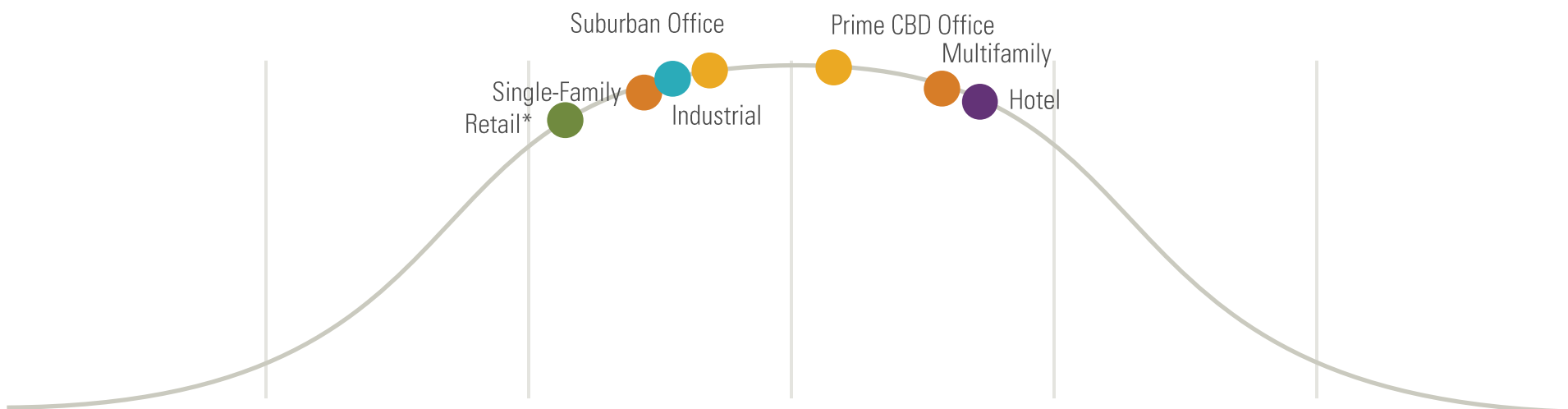
**MULTIFAMILY:** Still performing well across markets, though a high level of new inventory threatens occupancy and rent growth.

**OFFICE:** Significant variation in performance across markets, though generally sustained by limited construction.

**RETAIL:** Virtually no new supply + economic growth are driving performance.

**INDUSTRIAL:** Strong performance even given new supply, with exceptionally high rent growth in supply-constrained markets.

**HOTEL:** Occupancy, RevPAR, and ADR remain well above peak levels.



# CAPITAL MARKETS OUTLOOK

Real estate capital market conditions continue to favor “sellers” of both property and debt investments:

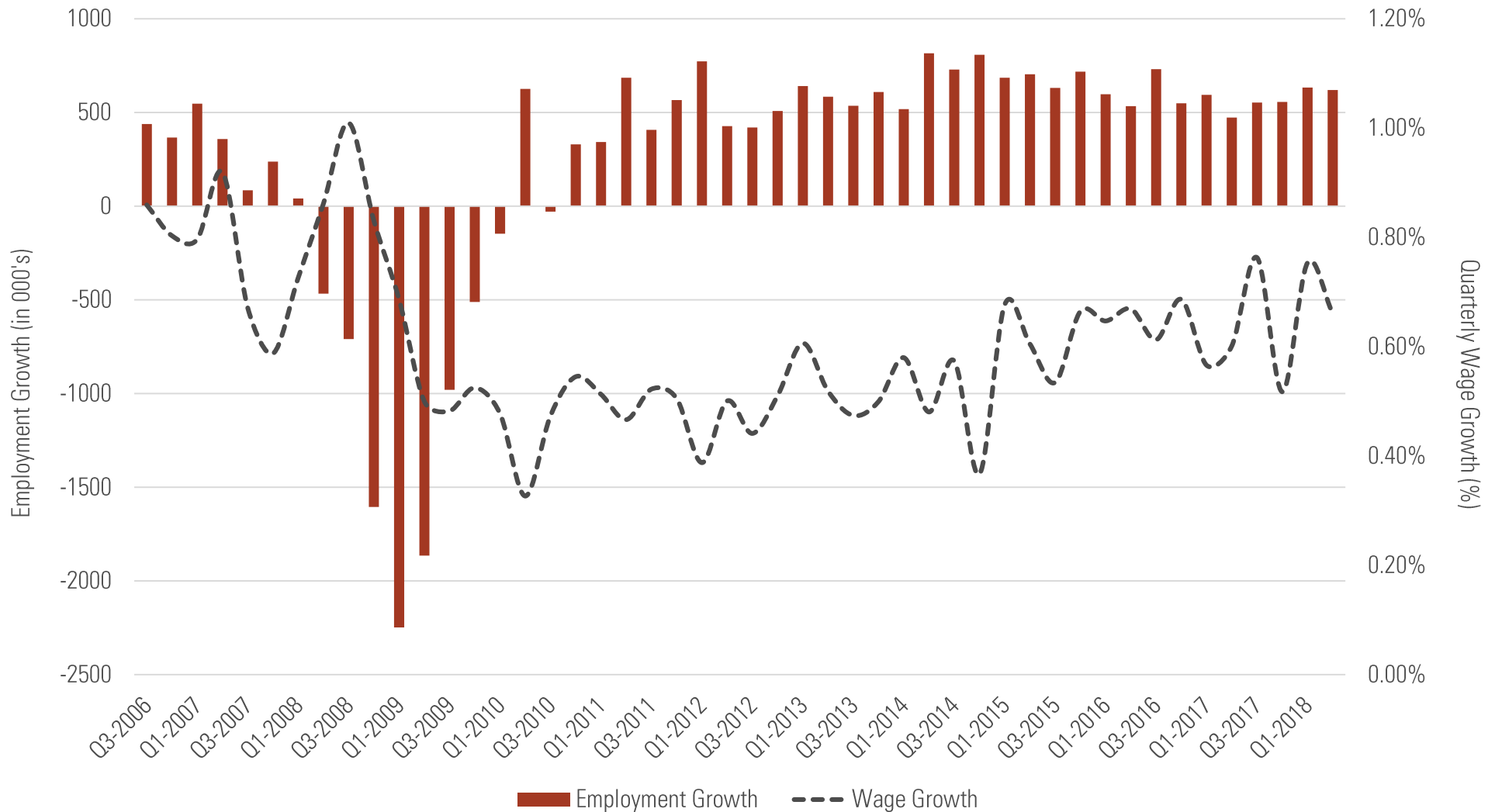
- ▶ **Equity** – Demand from equity investors for real estate continues to be high, evidenced by fundraising and transactions that are on par with the first half of 2017 and essentially flat cap rates despite narrowing spreads to Treasuries and interest rates. Record levels of “dry powder” suggest that these conditions may continue for the near- to medium-term.
- ▶ **Debt** – Lenders are eager to place capital in real estate investments. Real estate debt transaction volume remains strong, and lenders appear to be easing off of the recent trend of standards “tightening” as they take advantage of higher interest rates.



# EMPLOYMENT GROWTH REMAINS STRONG

Wage growth slowly improving in response

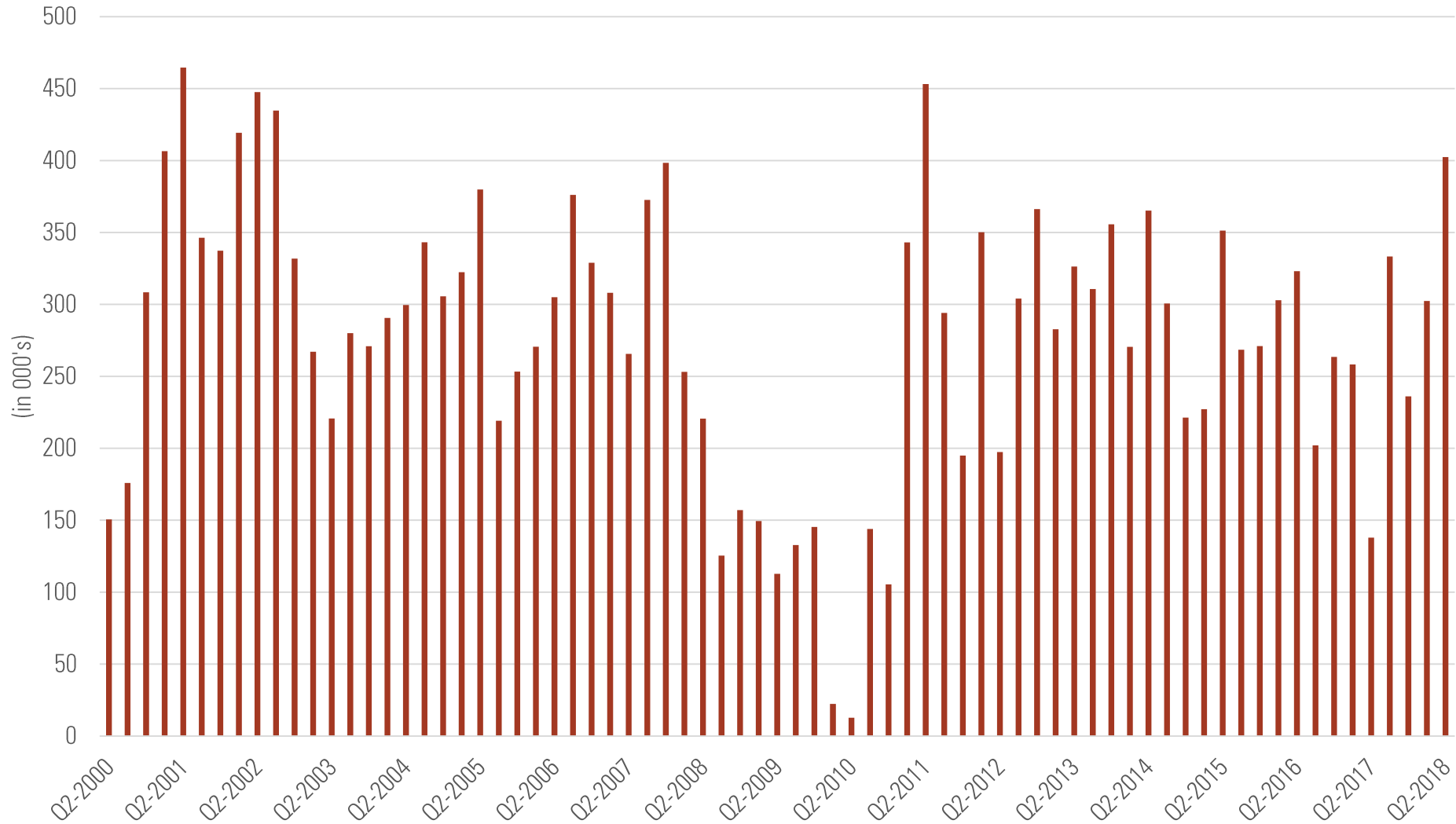
U.S. Employment Growth vs. Quarterly Wage Growth  
2006-Q2 2018



# STRONG HOUSEHOLD FORMATION IN 2018

Nearly 1.3M households formed during the past year

U.S. Household Formation  
2000-Q2 2018

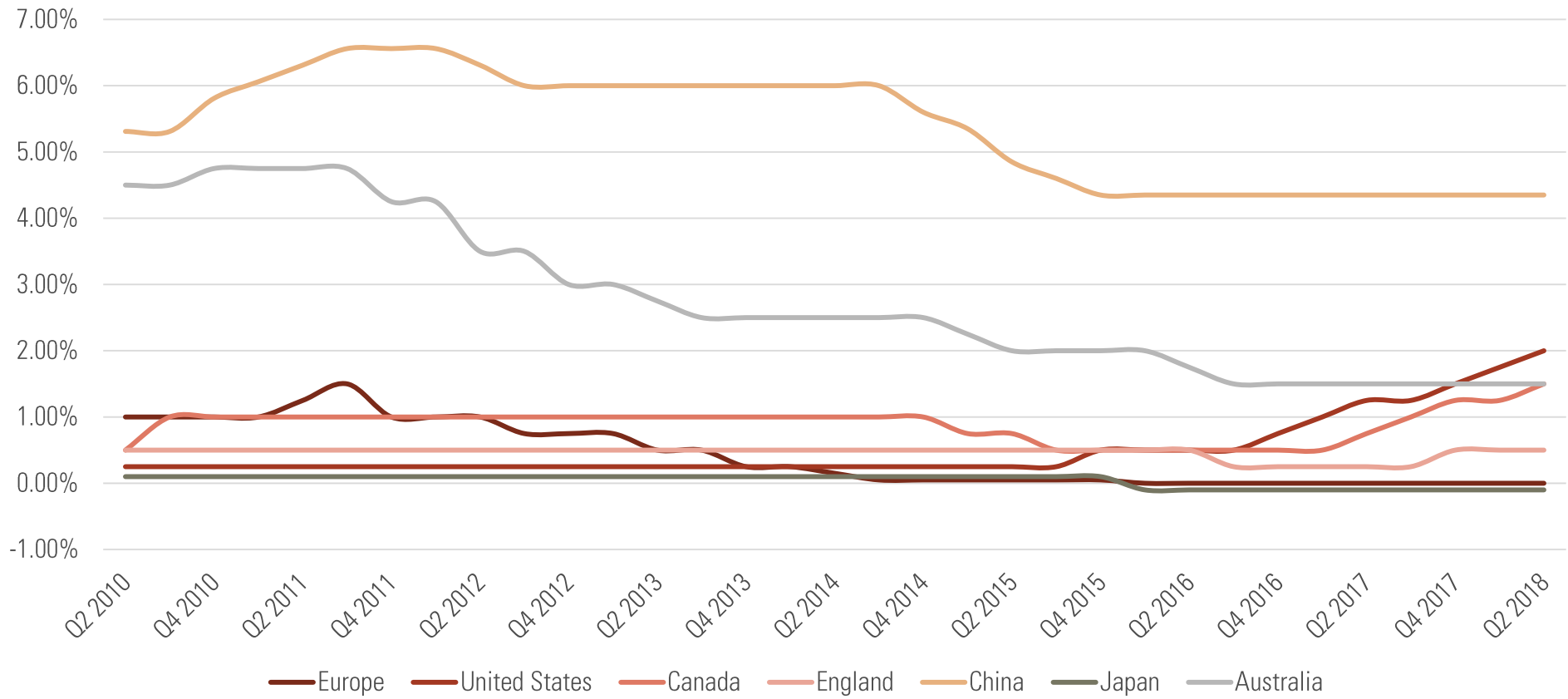




# 3RD STRAIGHT QUARTER OF FED RATE HIKES

Fed aiming to moderate inflation, build capacity to lower rates when necessary

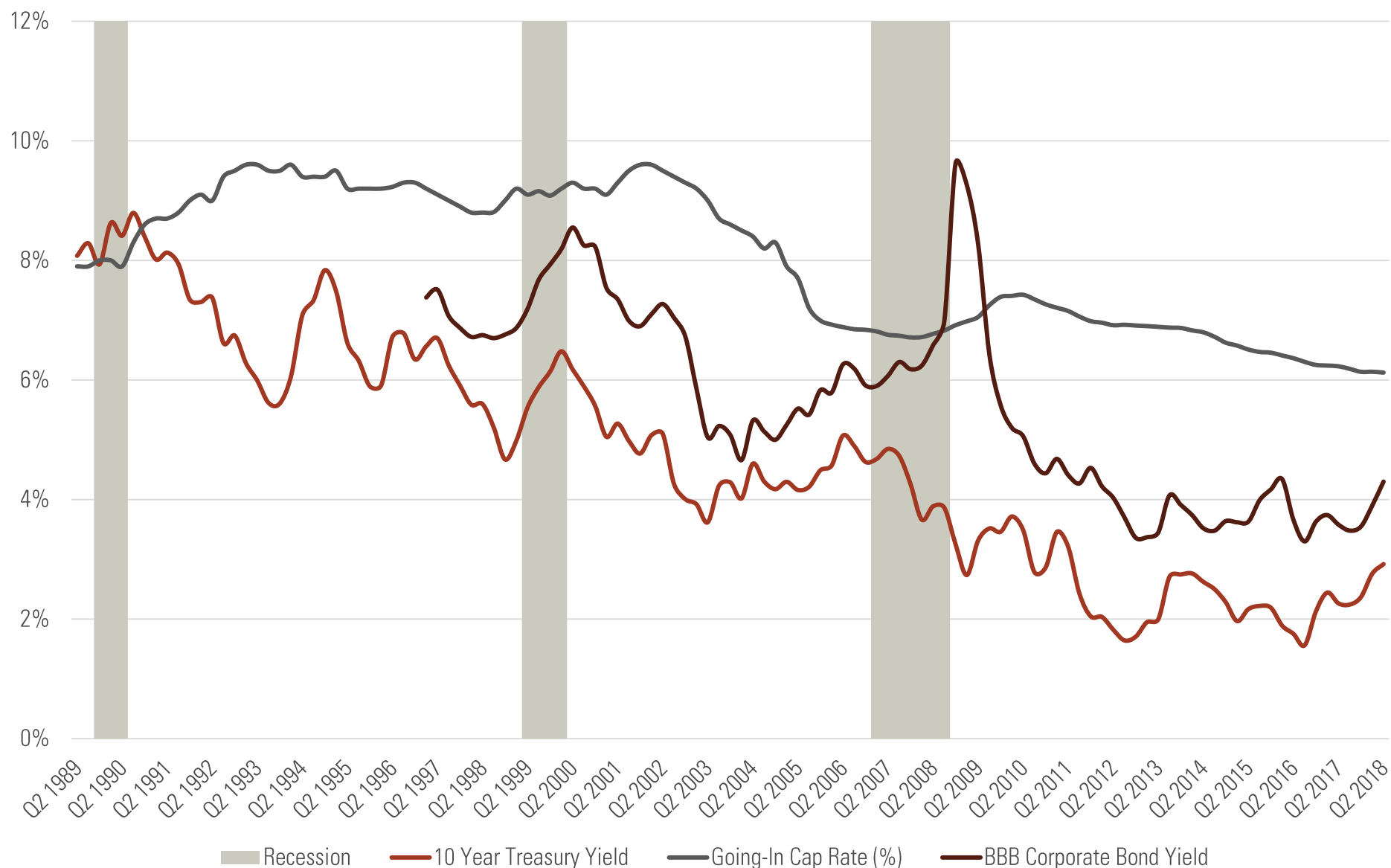
Central Bank Interest Rates



	EUROPE	UNITED STATES	CANADA	ENGLAND	CHINA	JAPAN	AUSTRALIA
Current Rate	0.00%	2.00%	1.50%	0.50%	4.35%	-0.10%	1.50%

# NARROWEST POST-RECESSION SPREADS

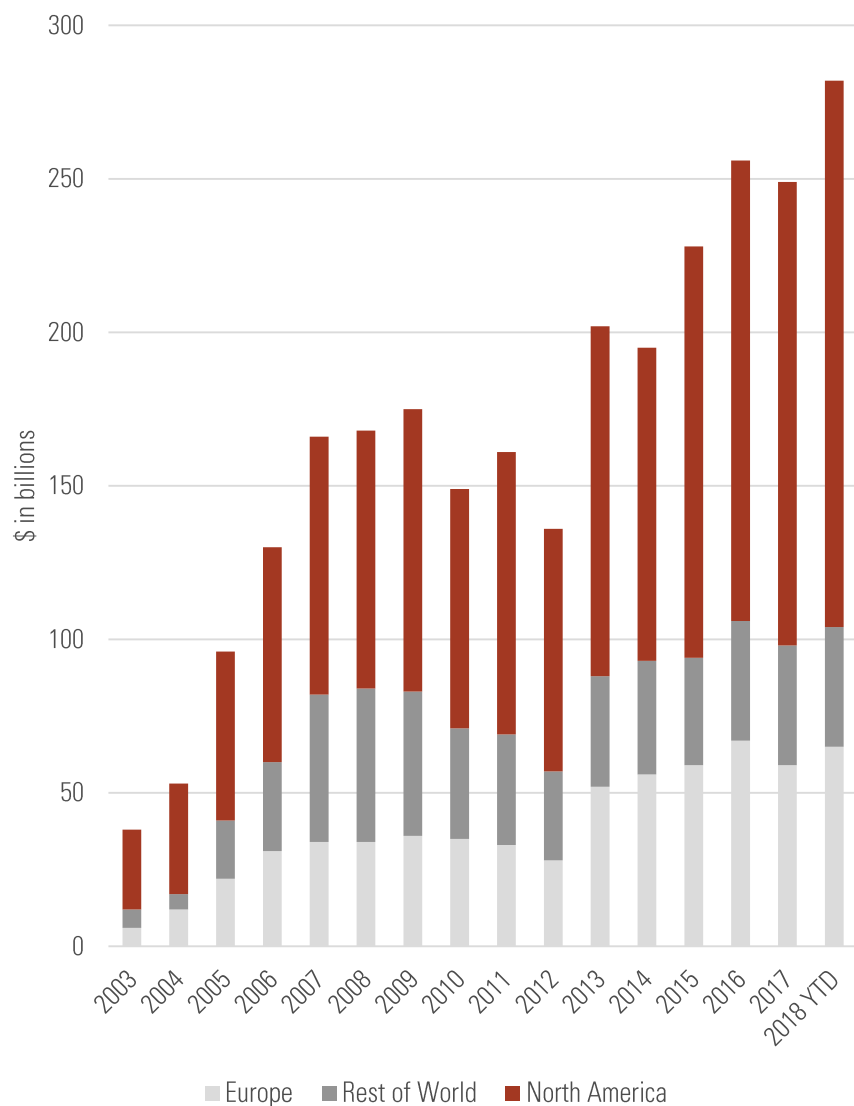
History suggests that spreads have room to narrow further late in the cycle



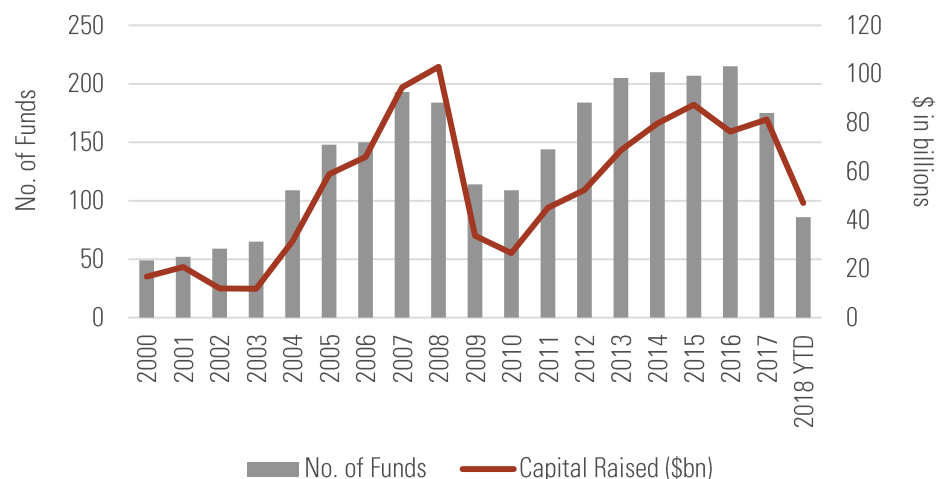
# DRY POWDER REMAINS AT RECORD LEVELS

2018 fundraising so far tracking 2017 in the U.S., but trailing internationally

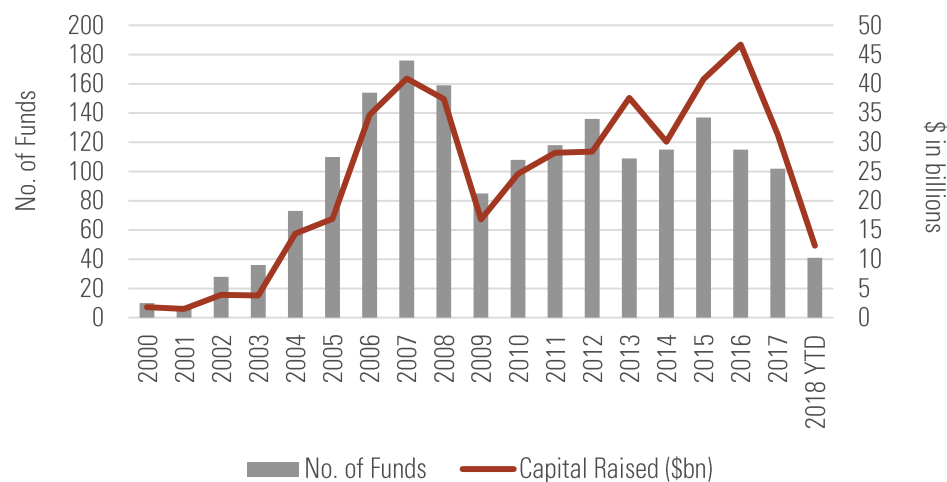
**Dry Powder by Region\***



**United States RE Fundraising**



**International (Non-U.S.) RE Fundraising**



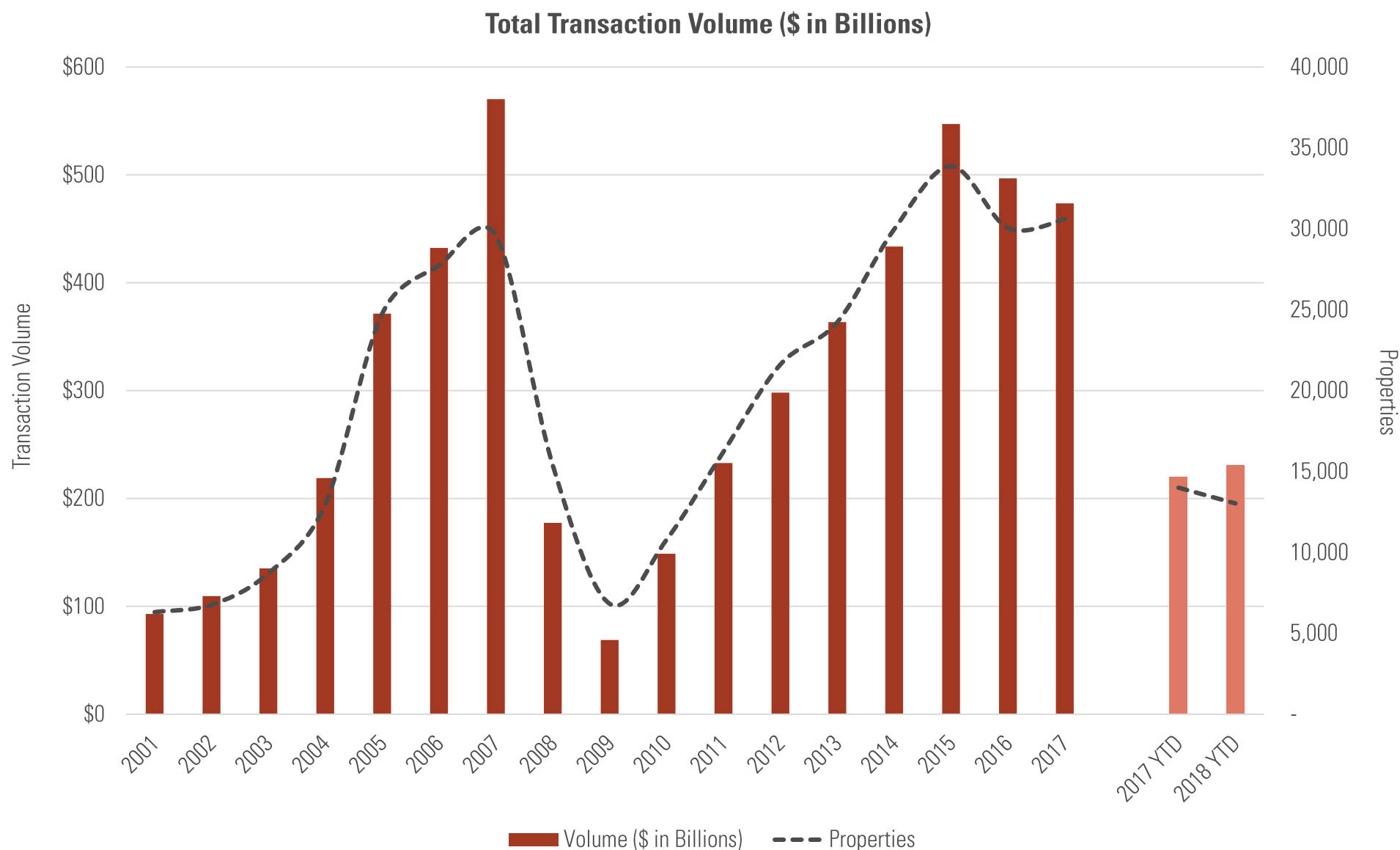
\*Private equity cash reserves held to fund future obligations

Source: Preqin; RCLCO

Quarterly Chartbook | Q2 2018 | 11

# TRANSACTION VOLUME REMAINS STRONG

YoY transaction volume increased by 5.1% in H2 2018



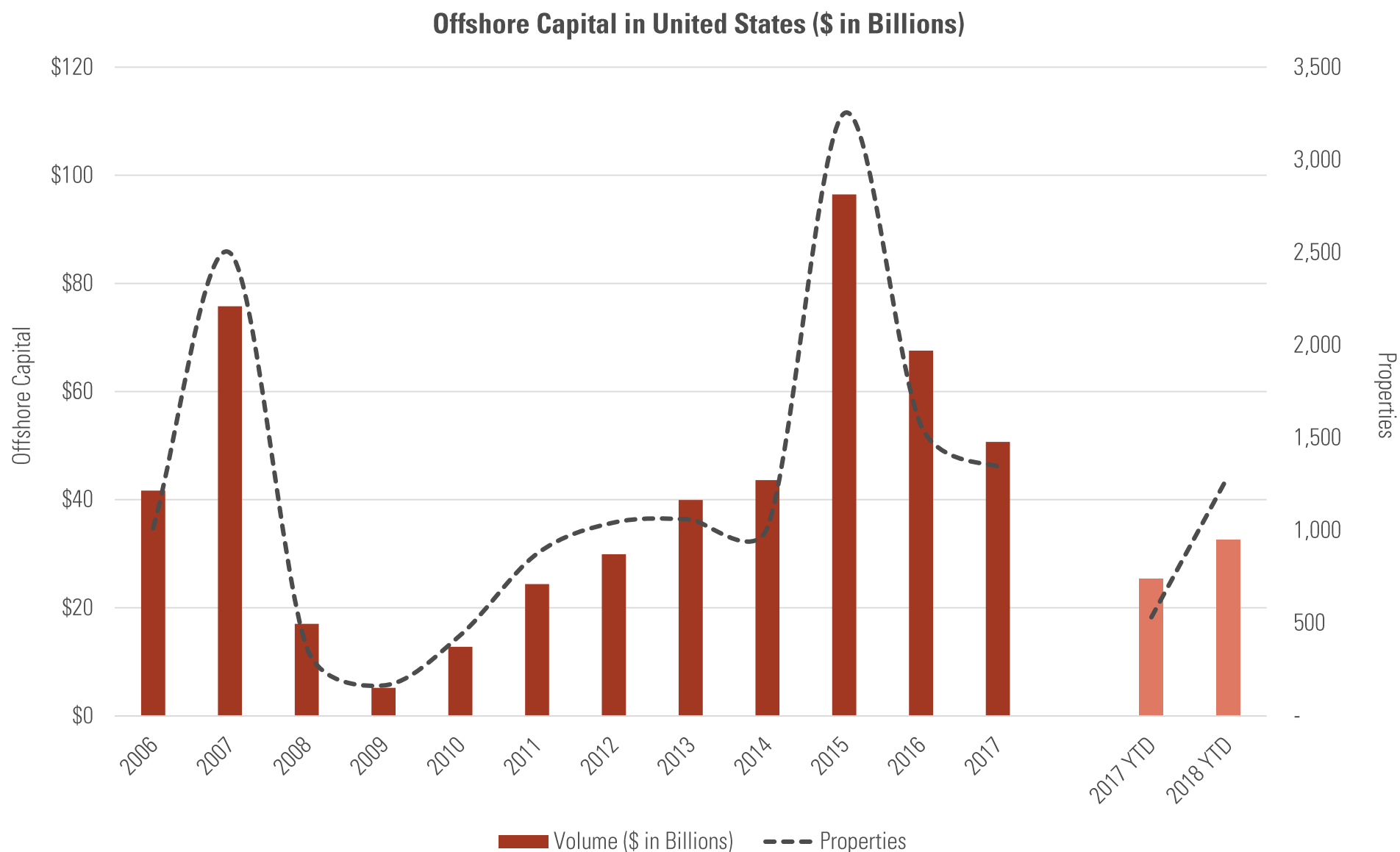
*Note: Only includes transactions valued at \$2.5 million or greater*

*Source: RCA*

Quarterly Chartbook | Q2 2018 | 12

# STILL PLENTY OF OFFSHORE CAPITAL

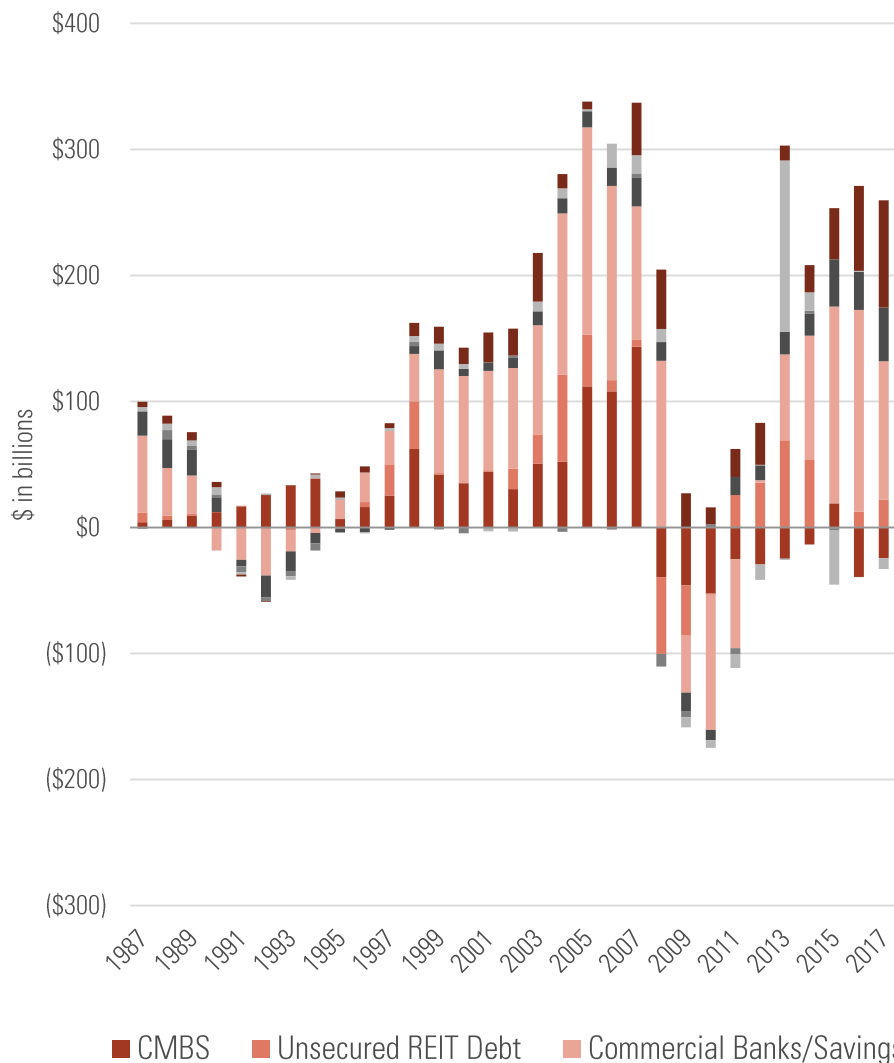
YoY offshore transaction volume increased by 28.3% in H2 2018



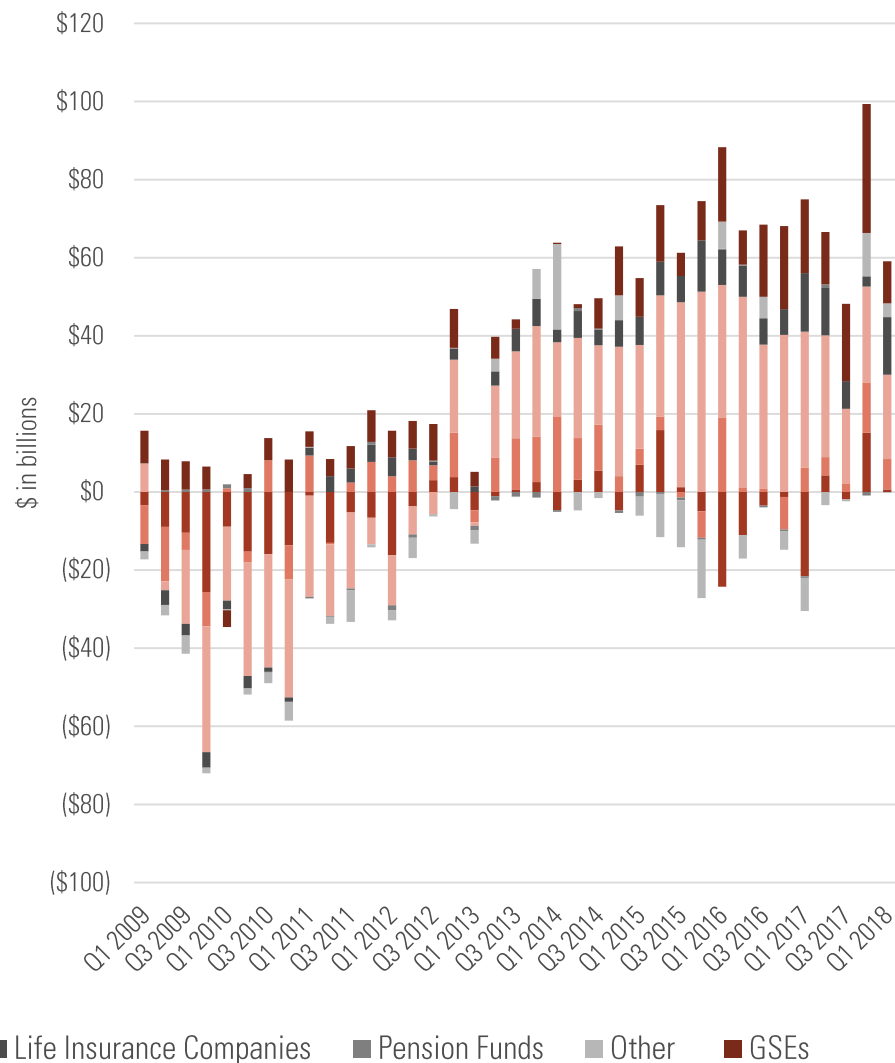
# REAL ESTATE DEBT IS AVAILABLE

Led by commercial banks, life insurance companies, and GSEs

**U.S. Commercial RE Debt Markets - Net Capital Flows - Annually 1985 - 2017**

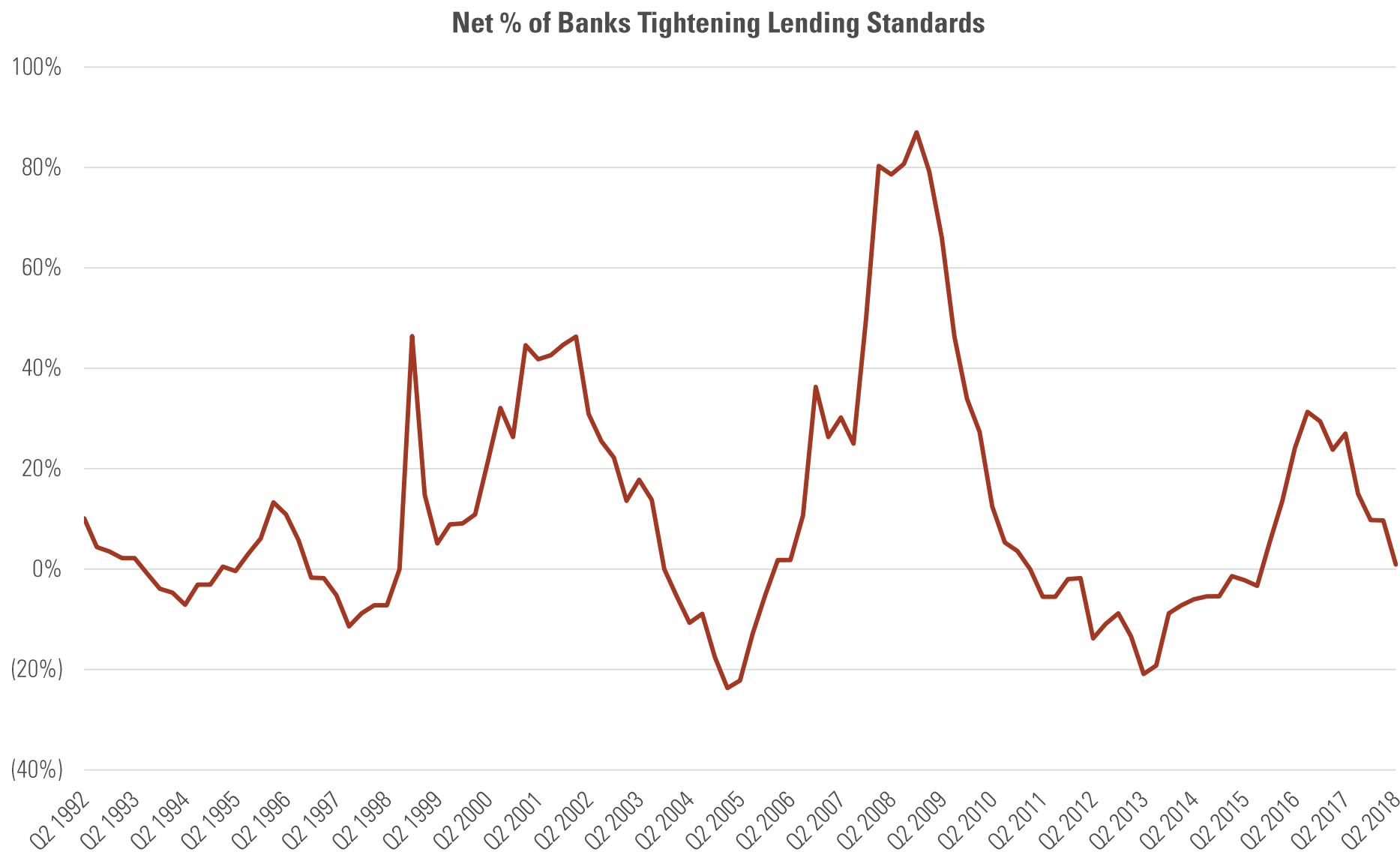


**U.S. Commercial RE Debt Markets - Net Capital Flows - Quarterly**



# BANKS REMAIN MODERATELY DISCIPLINED

The recent trend toward credit tightening has eased (for now)



Notes: As of Q4 2013, the U.S. Federal Reserve separated this data into three categories (construction/development, nonfarm nonresidential, and multifamily residential), depending on the type of structure for which the loan is intended.

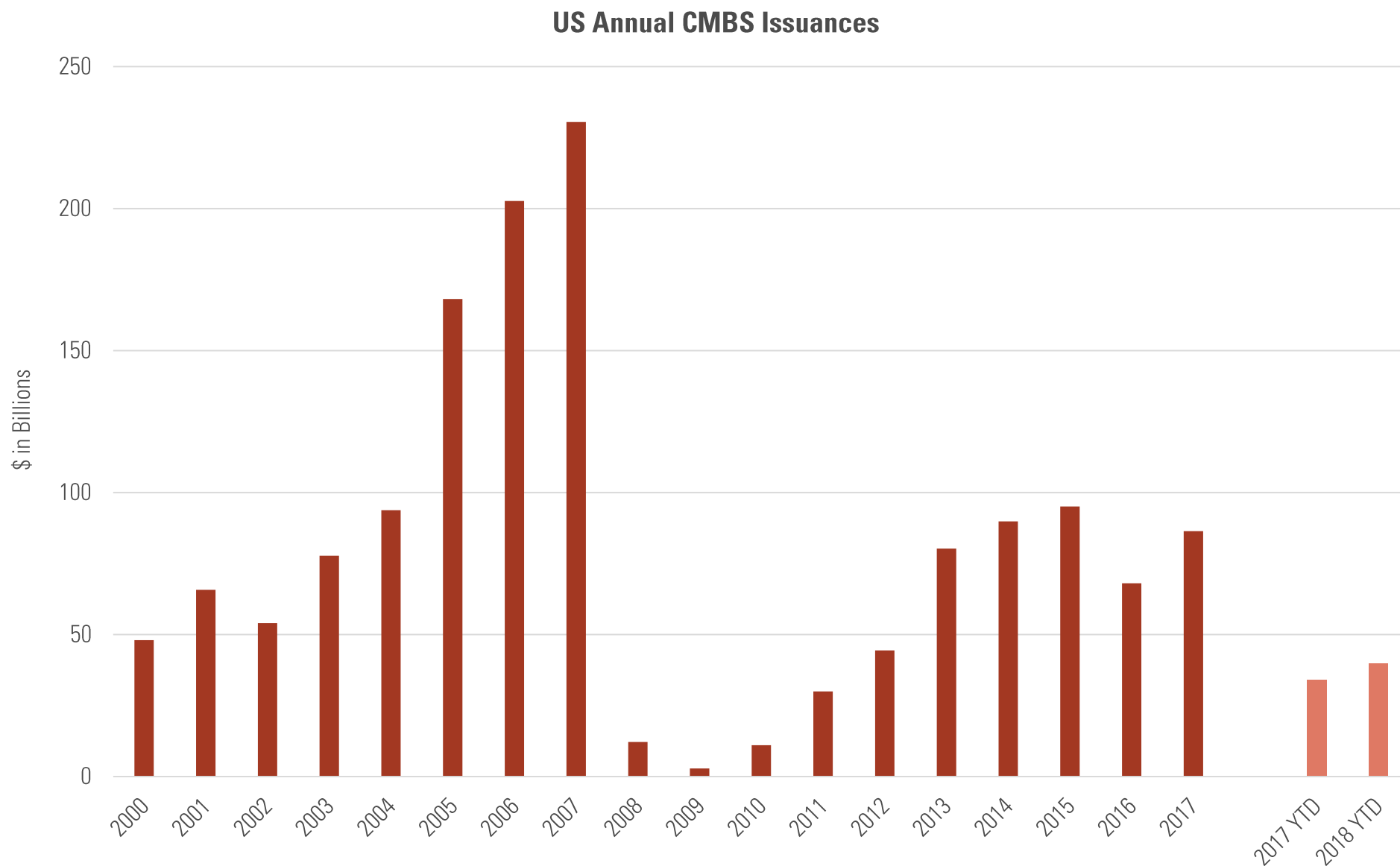
For these time periods, the data shown on the graph represents the average of these three categories.

Source: U.S. Federal Reserve; RCLCO

Quarterly Chartbook | Q2 2018 | 15

# INCREASE IN CMBS ISSUANCES IN H2 2018

YoY CMBS issuances grew by 16.9%

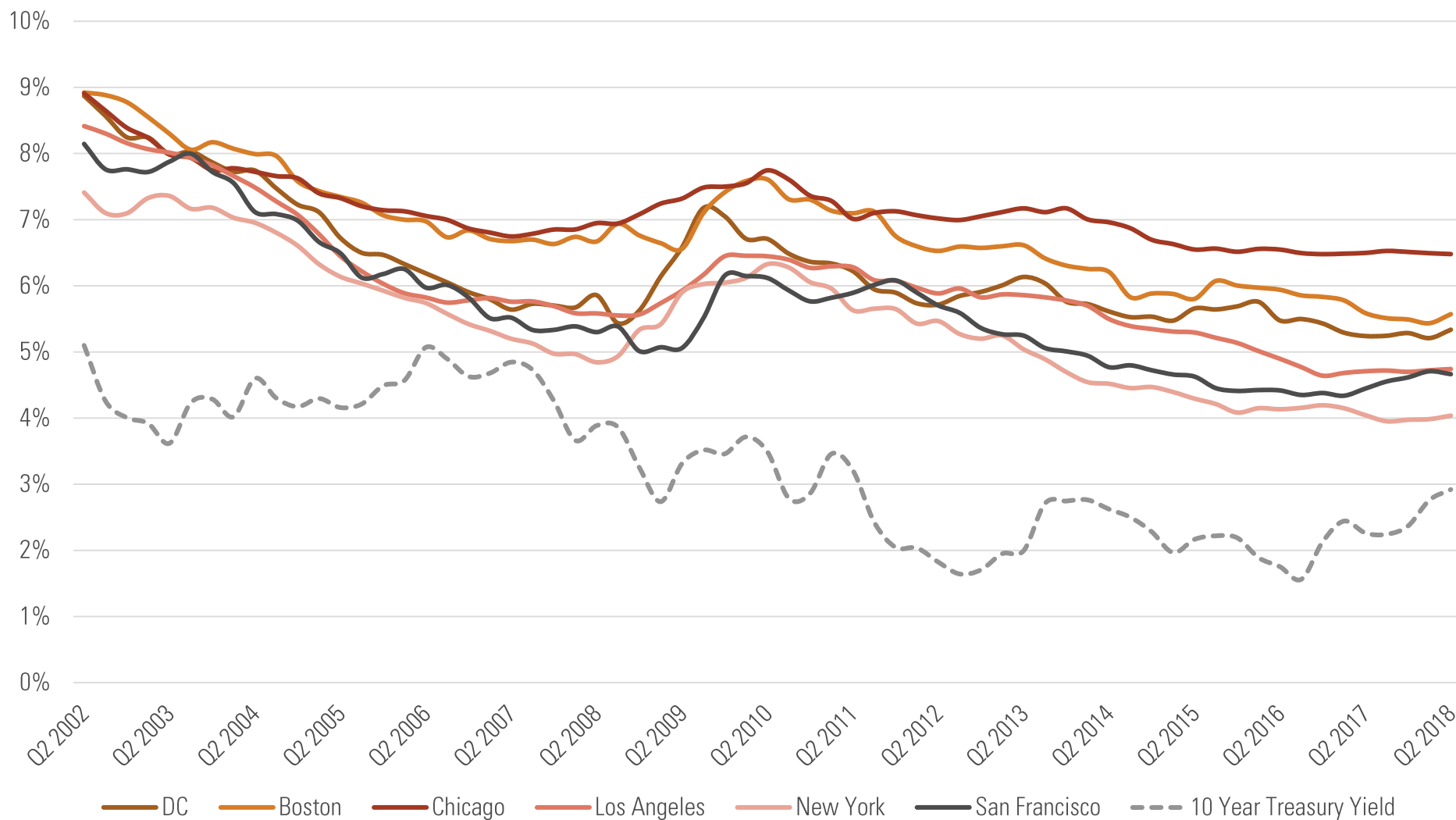




# CAP RATES BY MARKET

The spread across markets continues to be wider than average

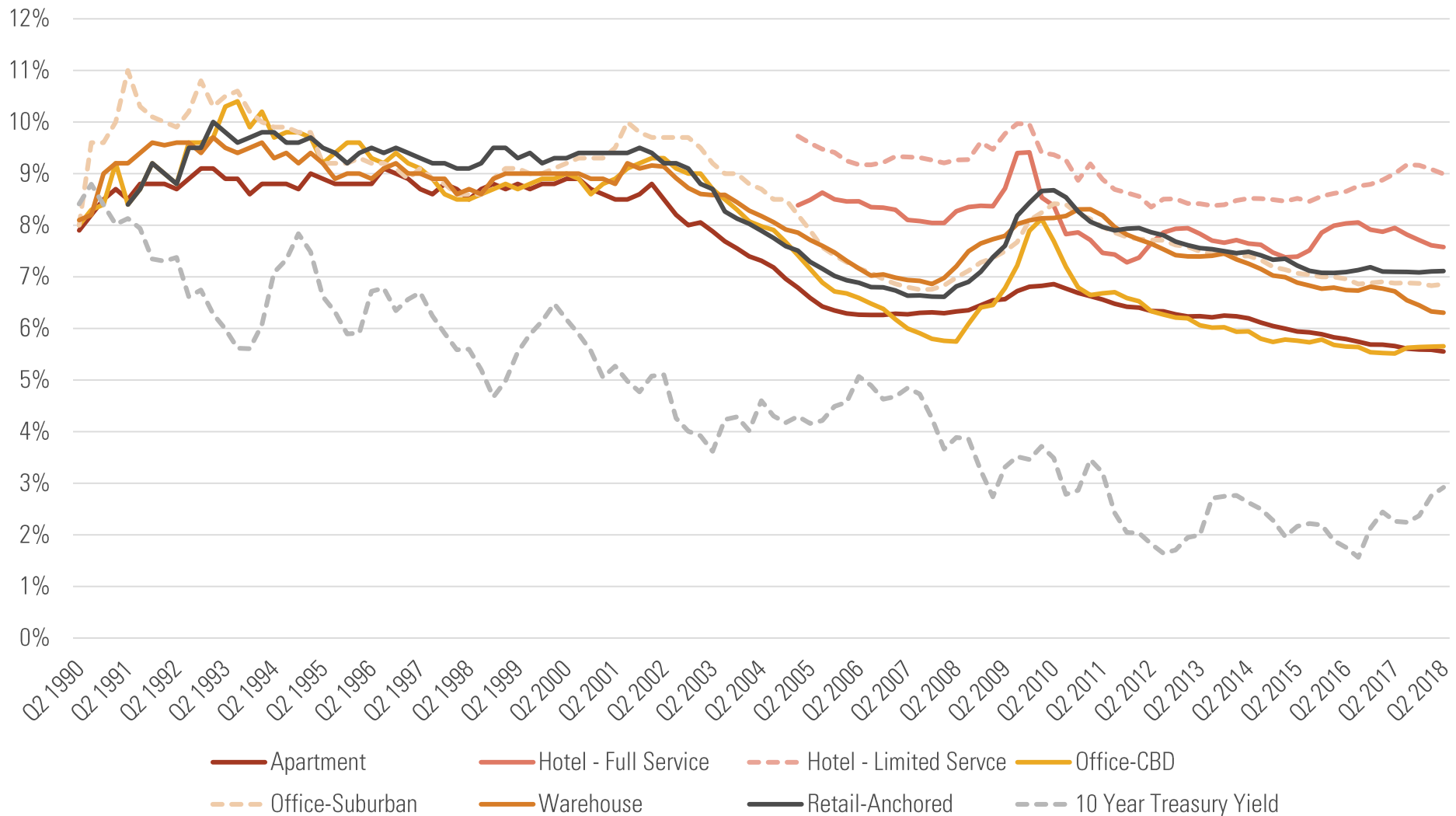
Cap Rates by Metro  
2002 - Q2 2018 (PwC/RCA)



# CAP RATES BY PROPERTY

The spread across property types is likewise historically wide, even as cap rates compress slightly

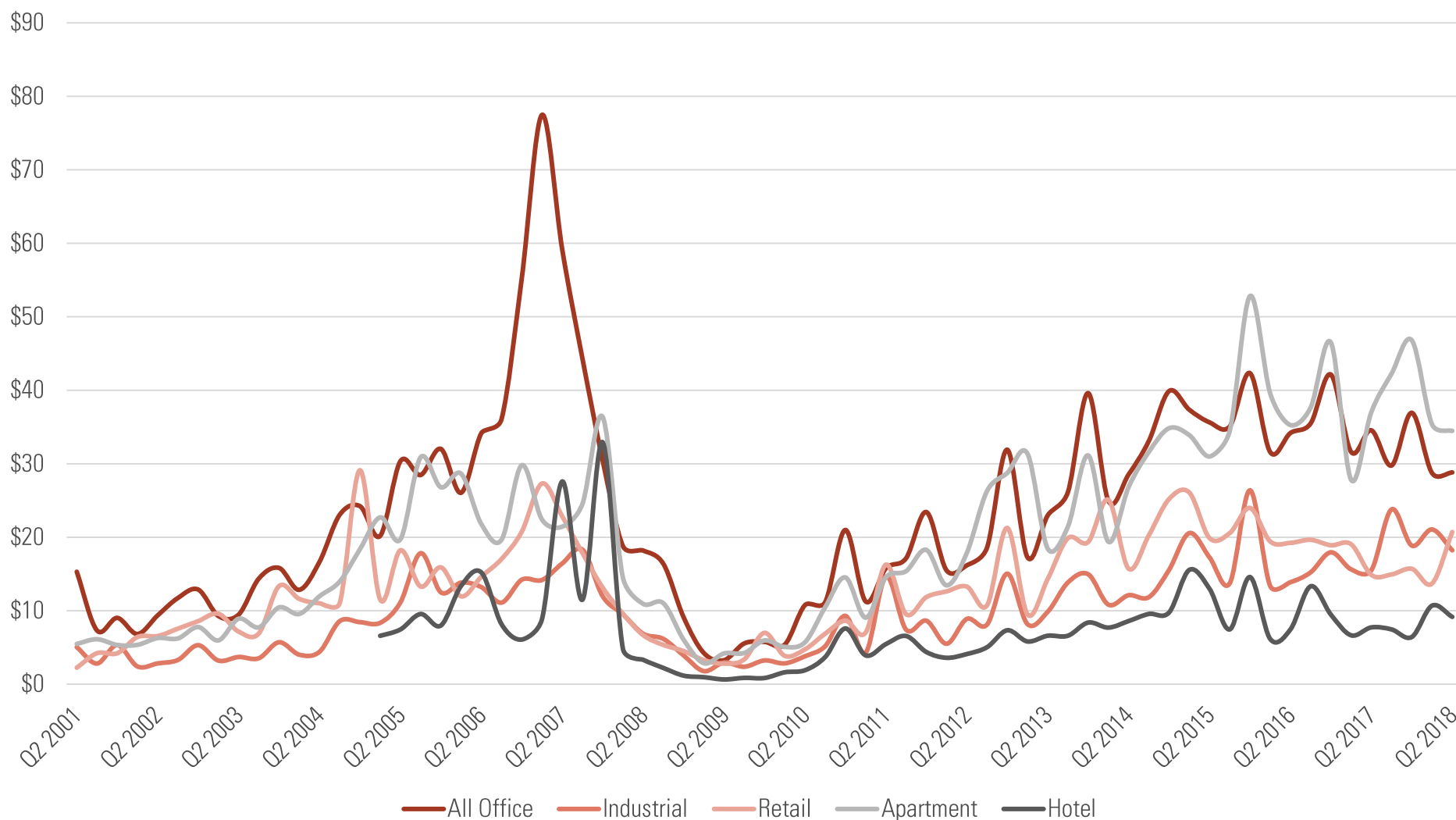
Cap Rates by Property Type  
1990 - Q2 2018



# OFFICE & APARTMENTS STILL DOMINATE

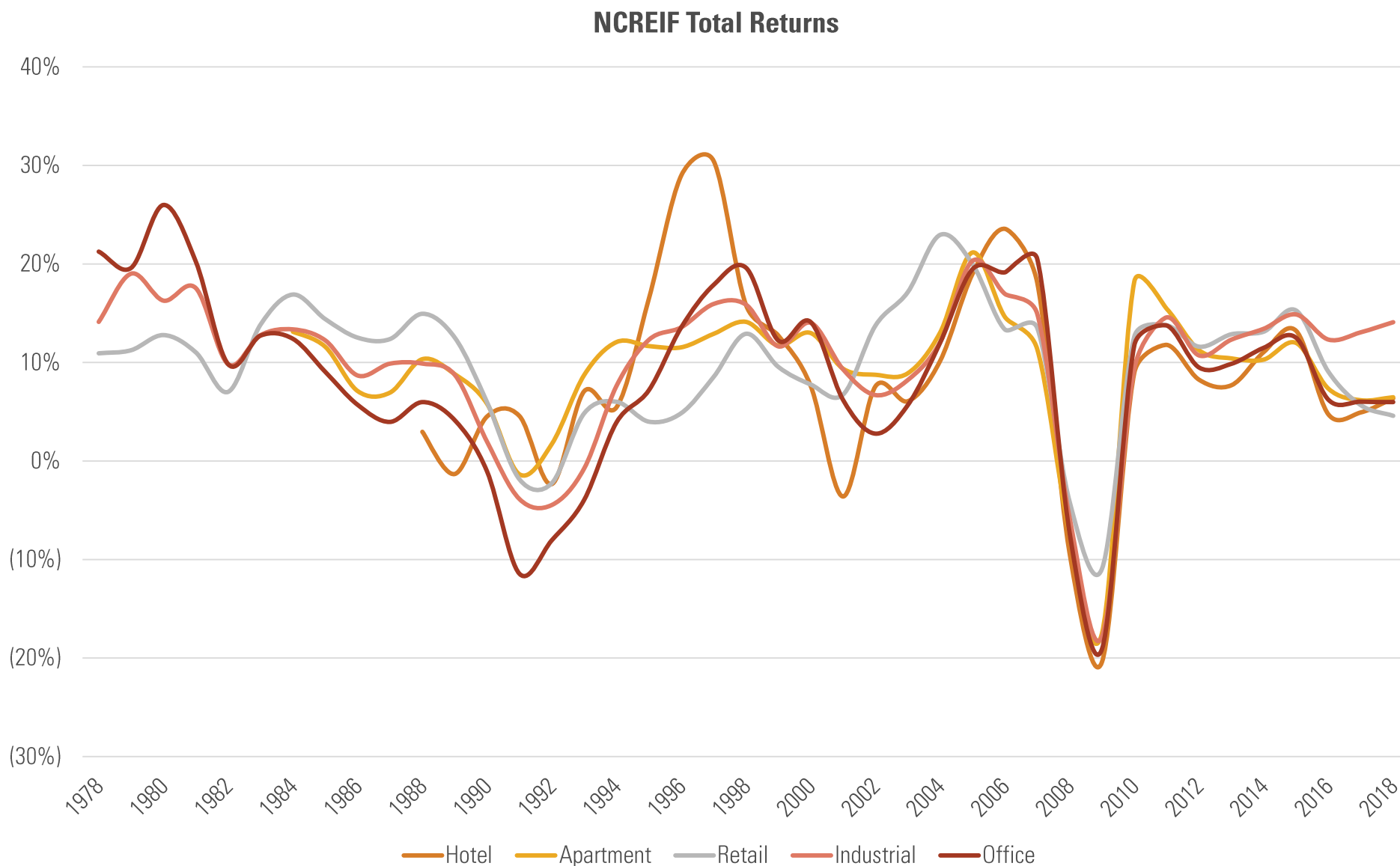
Increase in retail transaction volume due to Unibail Rodamco-Westfield merger

Transaction Volume by Property Type  
2001 - Q2 2018



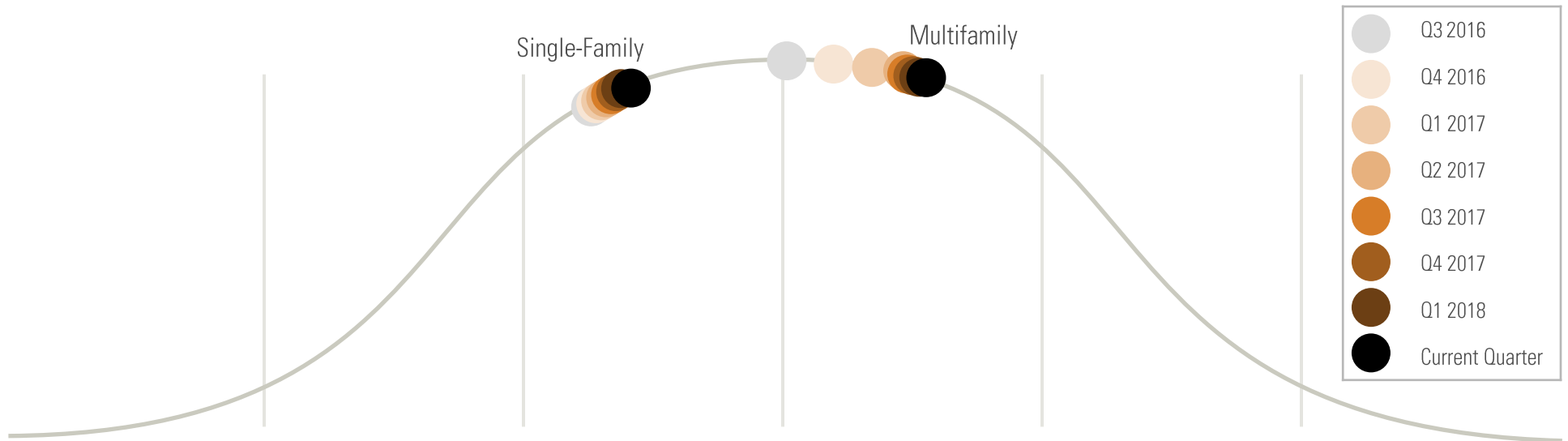
# NCREIF RETURNS CONTINUE TO MODERATE

Industrial is the outlier



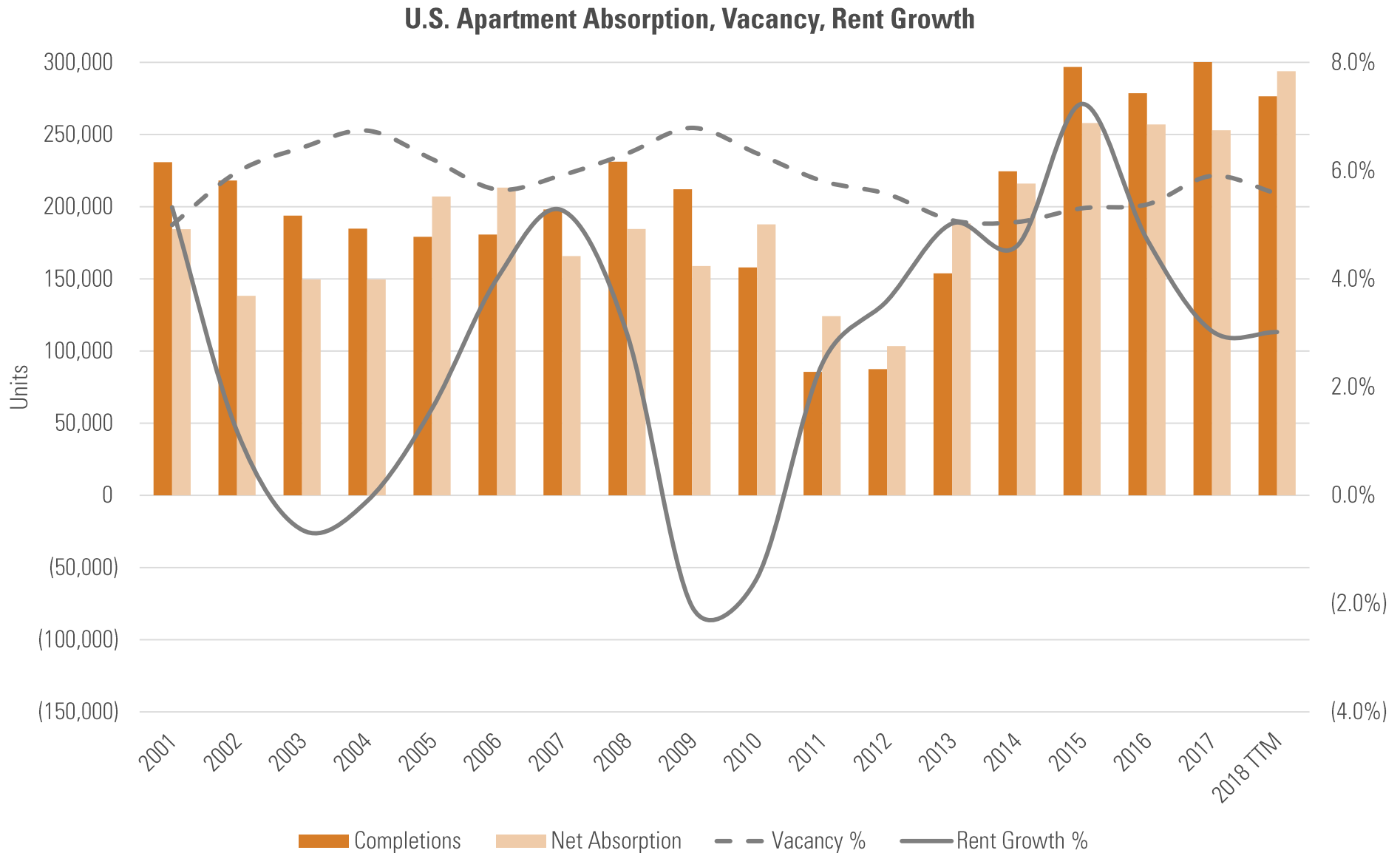
# RESIDENTIAL PROPERTY MARKET OVERVIEW

- ▶ Multifamily demand exceeds supply
- ▶ Nationwide, multifamily vacancy is slightly above average levels in Q2 2018, but decreased over the past quarter
- ▶ Multifamily rents exhibit strong and stable growth
- ▶ Investor demand for multifamily product remains strong: pricing grew by 11.6% Y-o-Y, and multifamily transactions comprised 29.6% of investment activity in Q2 2018
- ▶ Despite strong multifamily performance, pent-up demand for single-family product likely exists
- ▶ Both new and existing homes continue to sell at a steady, albeit slowing, pace



# DEMAND EXCEEDS SUPPLY FOR 1ST TIME SINCE 2013

Occupancy declined slightly YoY, while rent growth steadied



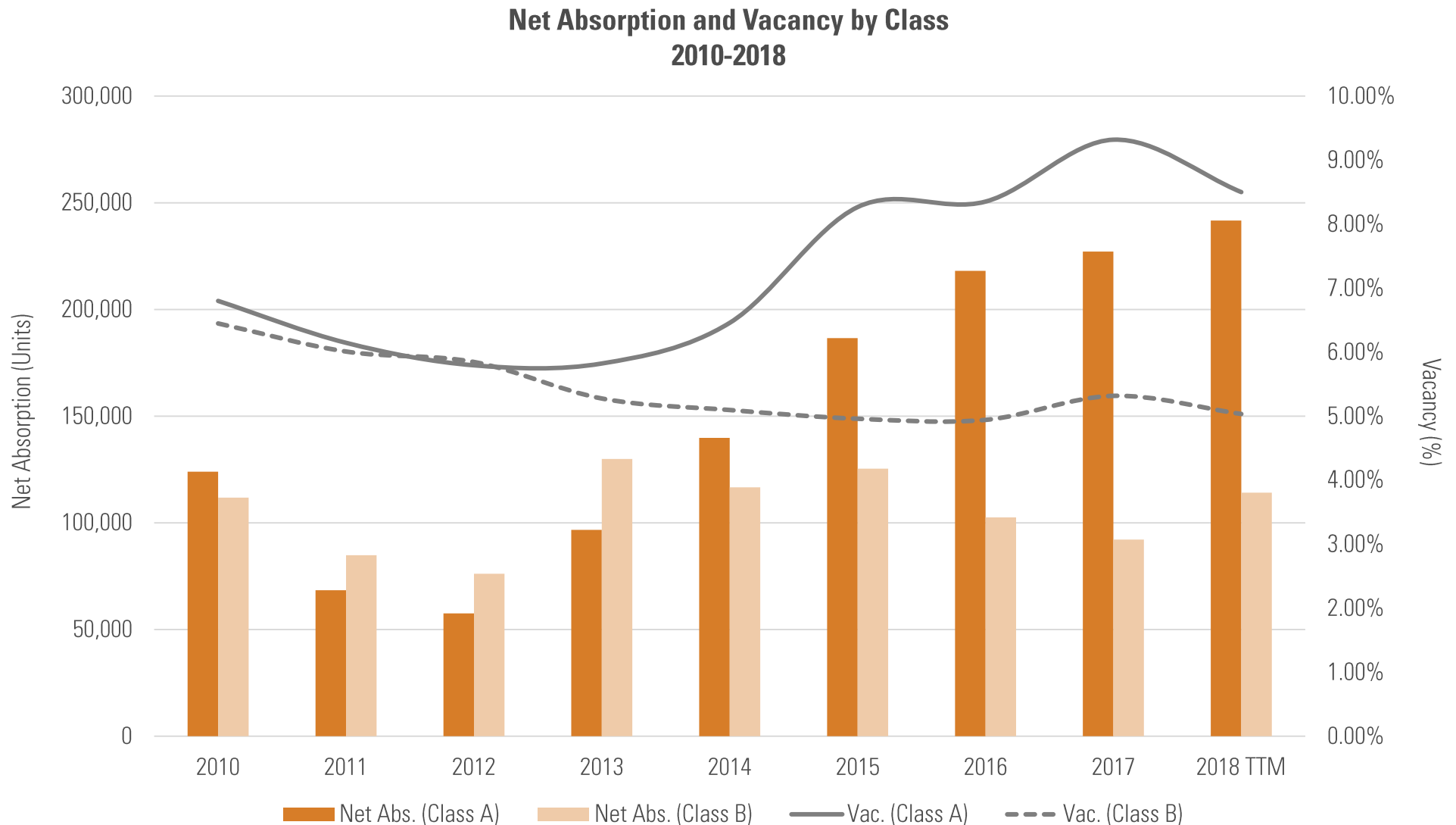
Notes: Apartment criteria filtered as follows: multifamily property (secondary type is apartment), 50+ units, and a 3-star or greater CoStar rating

Source: CoStar; RCLCO

Quarterly Chartbook | Q2 2018 | 22

# CLASS A MULTIFAMILY DEMAND INCREASING

Class B absorption has limited room to increase given low vacancies (and limited opportunities to deliver “new” Class B units)

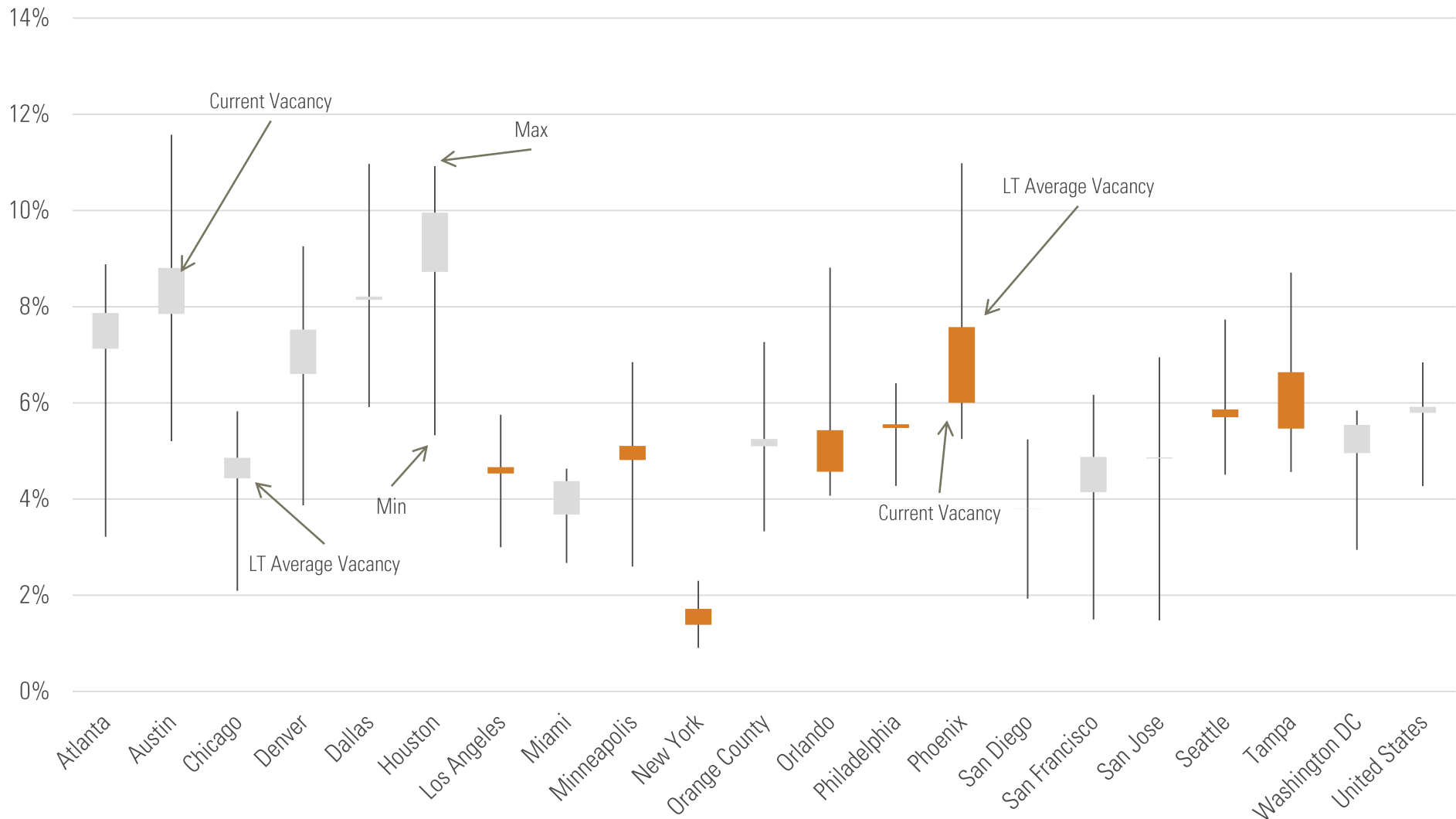


# CURRENT & LONG-TERM MULTIFAMILY VACANCY

Rolling 4Q U.S. vacancy remains slightly above long-term average

**Apartment Current and Long-term Vacancy**

Orange box - current vacancy < LT avg.  
Grey box - current vacancy > LT avg.

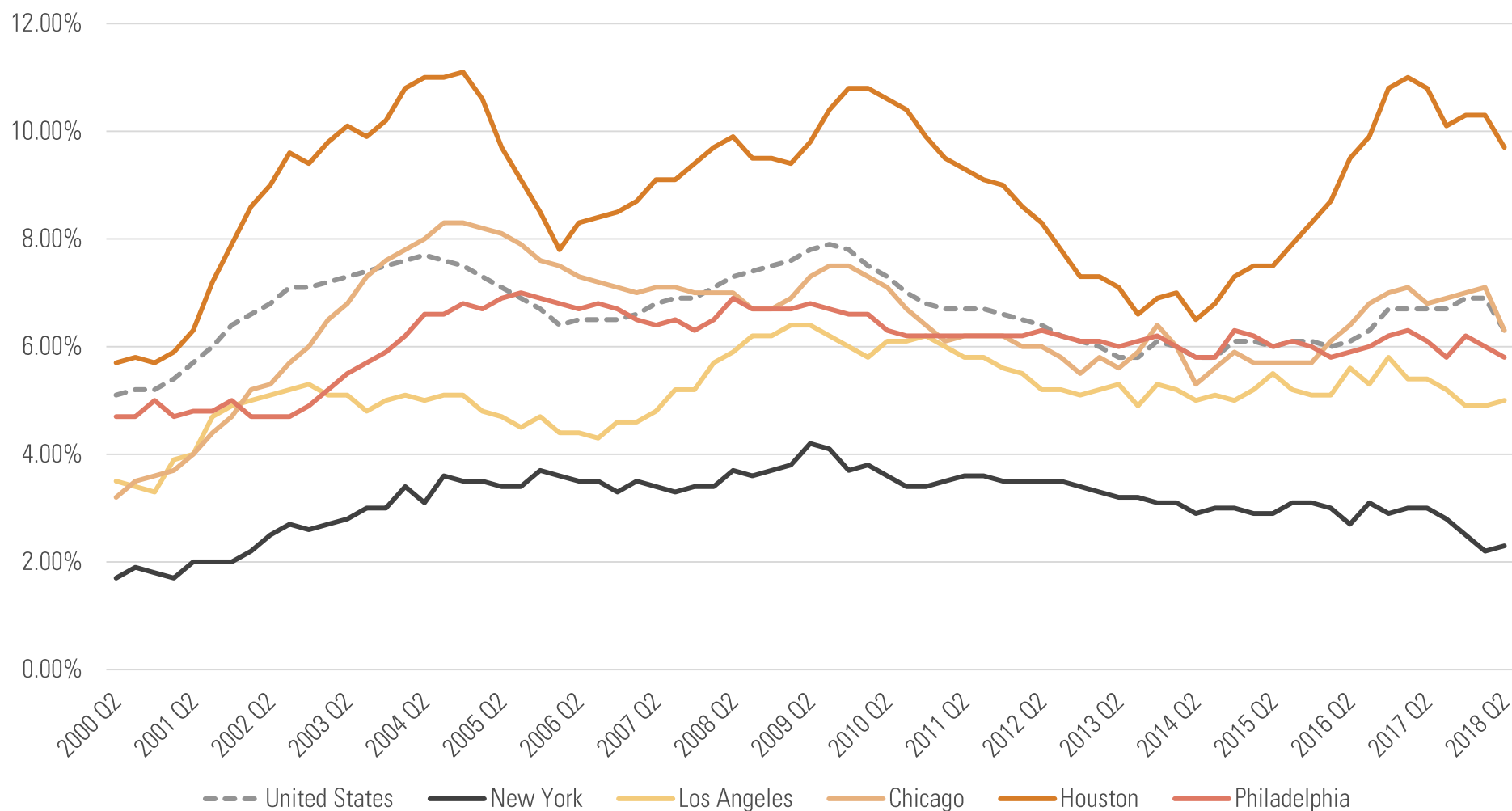




# VACANCIES IN THE FIVE LARGEST APARTMENT MARKETS

Chicago, Houston, Philadelphia, and the U.S. experienced notable vacancy declines in Q2 2018

**Vacancy in Five Largest Apartment Markets,  
2000-2018**



# U.S. APARTMENT MARKET RISK INDICATORS

Absorption & occupancy improved in Q2, but pipeline still elevated

	Net Absorption % of Stock Current* Quarter	Completions % of Stock Current* Quarter**	Under Constr % of Stock Current* Quarter***	Occupancy****	Q-o-Q Occupancy Change	Y-o-Y Occupancy Change	Q-o-Q Asking Rent Growth	Y-o-Y Asking Rent Growth
2012 Q2								
2012 Q3								
2012 Q4								
2013 Q1								
2013 Q2								
2013 Q3								
2013 Q4								
2014 Q1								
2014 Q2								
2014 Q3								
2014 Q4								
2015 Q1								
2015 Q2								
2015 Q3								
2015 Q4								
2016 Q1								
2016 Q2								
2016 Q3								
2016 Q4								
2017 Q1								
2017 Q2								
2017 Q3								
2017 Q4								
2018 Q1								
2018 Q2								

\*Current quarter defined as Q2 2018; \*\*Completions highlighted in Red if above 0.25% of Stock; \*\*\*Under Construction highlighted in Red if above 1% of Stock; \*\*\*\*Green if above historical average since 2000

Notes: Above data includes only market-rate rentable apartment space; Rent and occupancy are based on a rolling 4-quarter average; Rent growth numbers utilize asking rent data; Apartment criteria filtered as follows: multifamily property (secondary type is apartment), 50+ units, and a 3-star or greater CoStar rating

# U.S. APARTMENT MARKET RISK INDICATORS

Construction pipelines remain elevated in most markets

	Net Absorption % of Stock Current* Quarter	Completions % of Stock Current* Quarter**	Under Constr % of Stock Current* Quarter***	Occupancy****	Q-o-Q Occupancy Change	Y-o-Y Occupancy Change	Q-o-Q Asking Rent Growth	Y-o-Y Asking Rent Growth
Atlanta								
Austin								
Chicago								
Dallas								
Denver								
Houston								
Los Angeles								
Miami								
Minneapolis								
New York								
Orange County								
Orlando								
Philadelphia								
Phoenix								
San Diego								
San Francisco								
San Jose								
Seattle								
Tampa								
Washington DC								
<b>United States</b>								

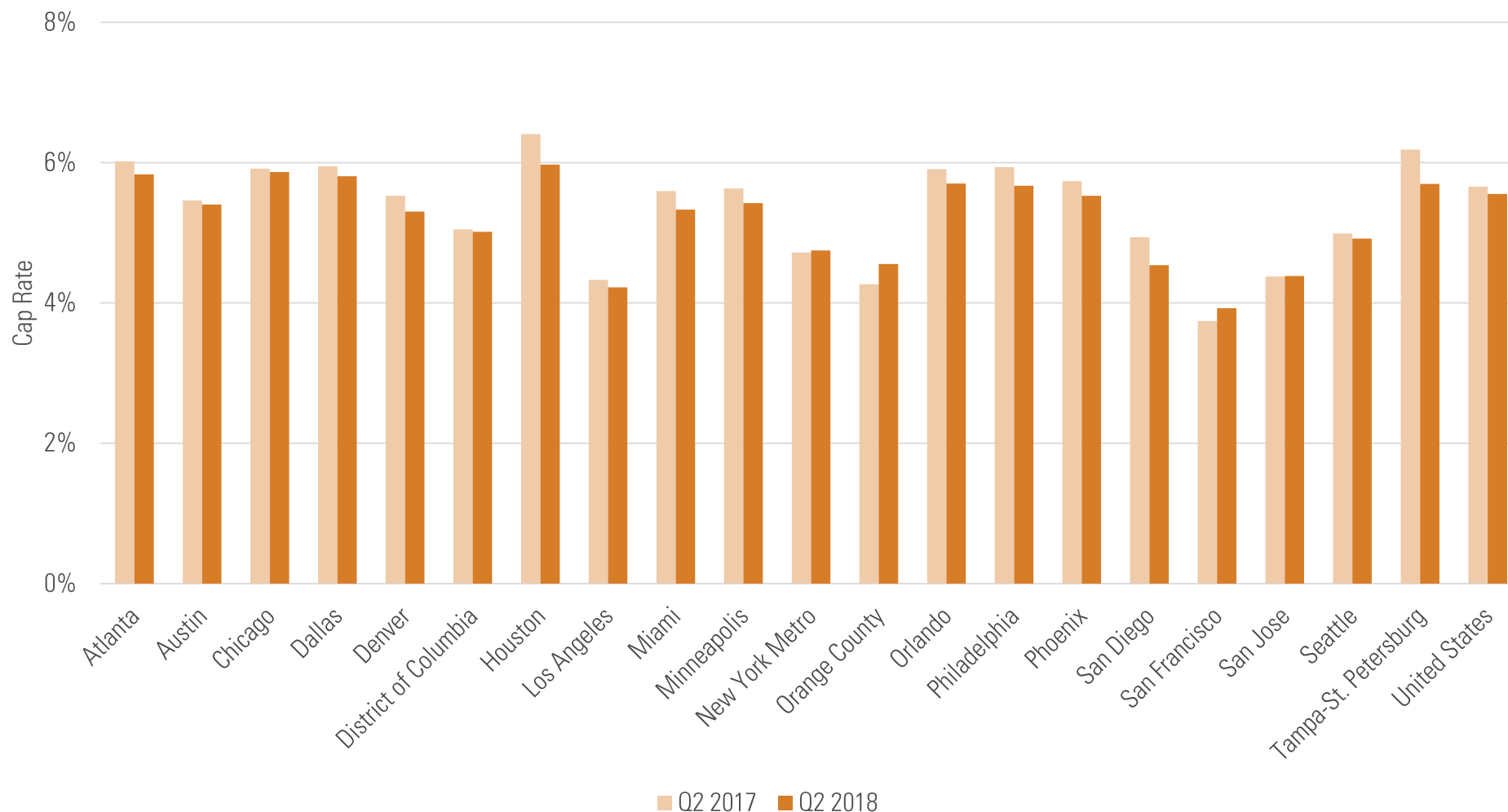
\*Current quarter defined as Q2 2018; \*\*Completions highlighted in Red if above 0.25% of Stock; \*\*\*Under Construction highlighted in Red if above 1% of Stock; \*\*\*\*Green if above historical average since 2000

Notes: Above data includes only market-rate rentable apartment space; Rent and occupancy are based on a rolling 4-quarter average. Rent growth numbers utilize asking rent data; Apartment criteria filtered as follows: multifamily property (secondary type is apartment), 50+ units, and a 3-star or greater CoStar rating

# APARTMENT CAP RATES CONTINUE TO COMPRESS IN MANY MARKETS

Houston, San Diego, and Tampa each exhibited more than 40 bps of cap rate compression

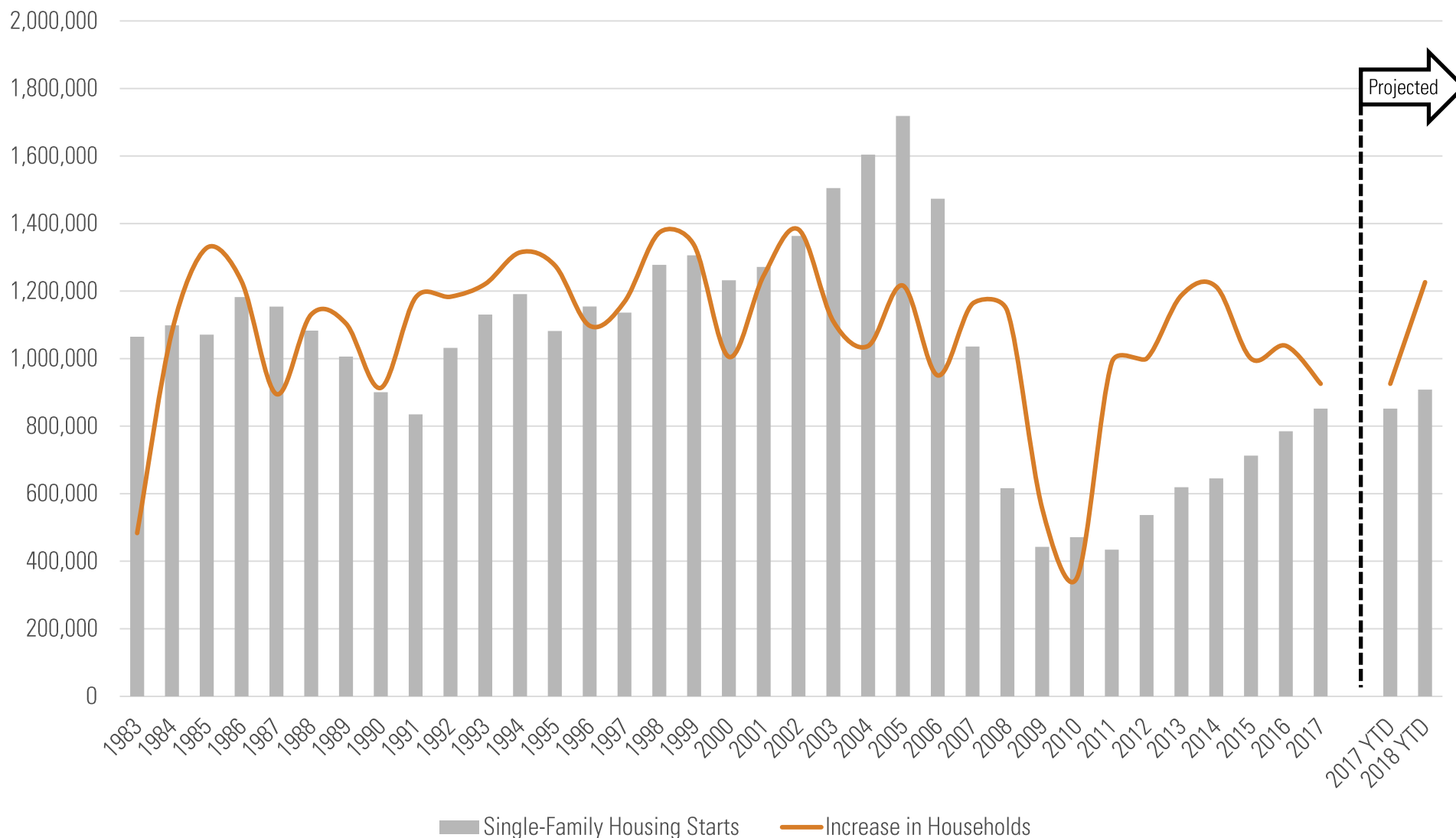
Average Class A Apartment Cap Rates



# NEW HOUSEHOLDS OUTPACE SINGLE-FAMILY STARTS

Household formation projected to increase

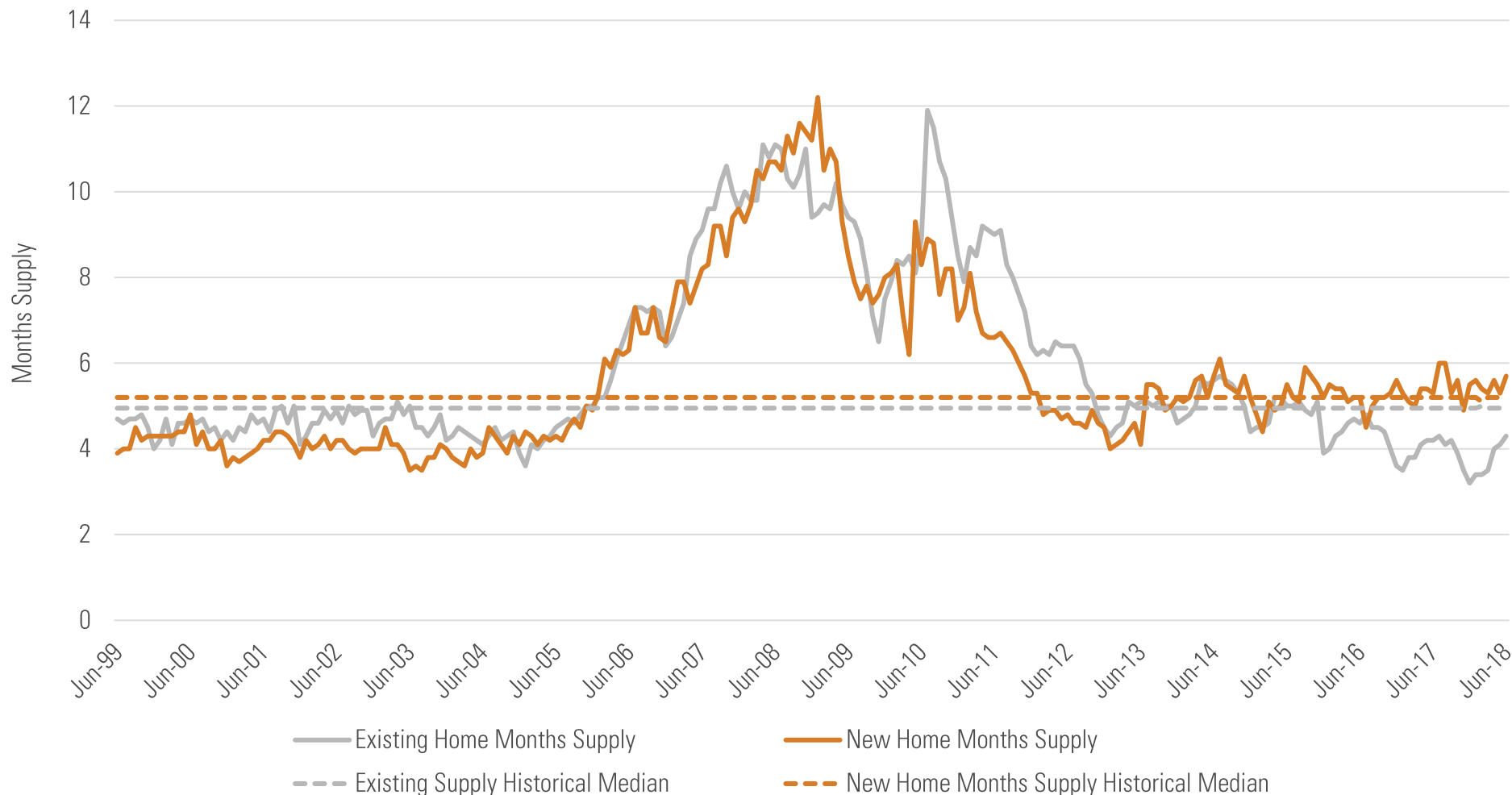
Single-Family Housing Starts and Household Growth



# HOME SUPPLY REMAINS TIGHT

New housing inventory slightly above long-term median; existing home months of supply increased in Q2 2018

**New and Existing Home Months Supply of Housing  
(1999 - June 2018)**



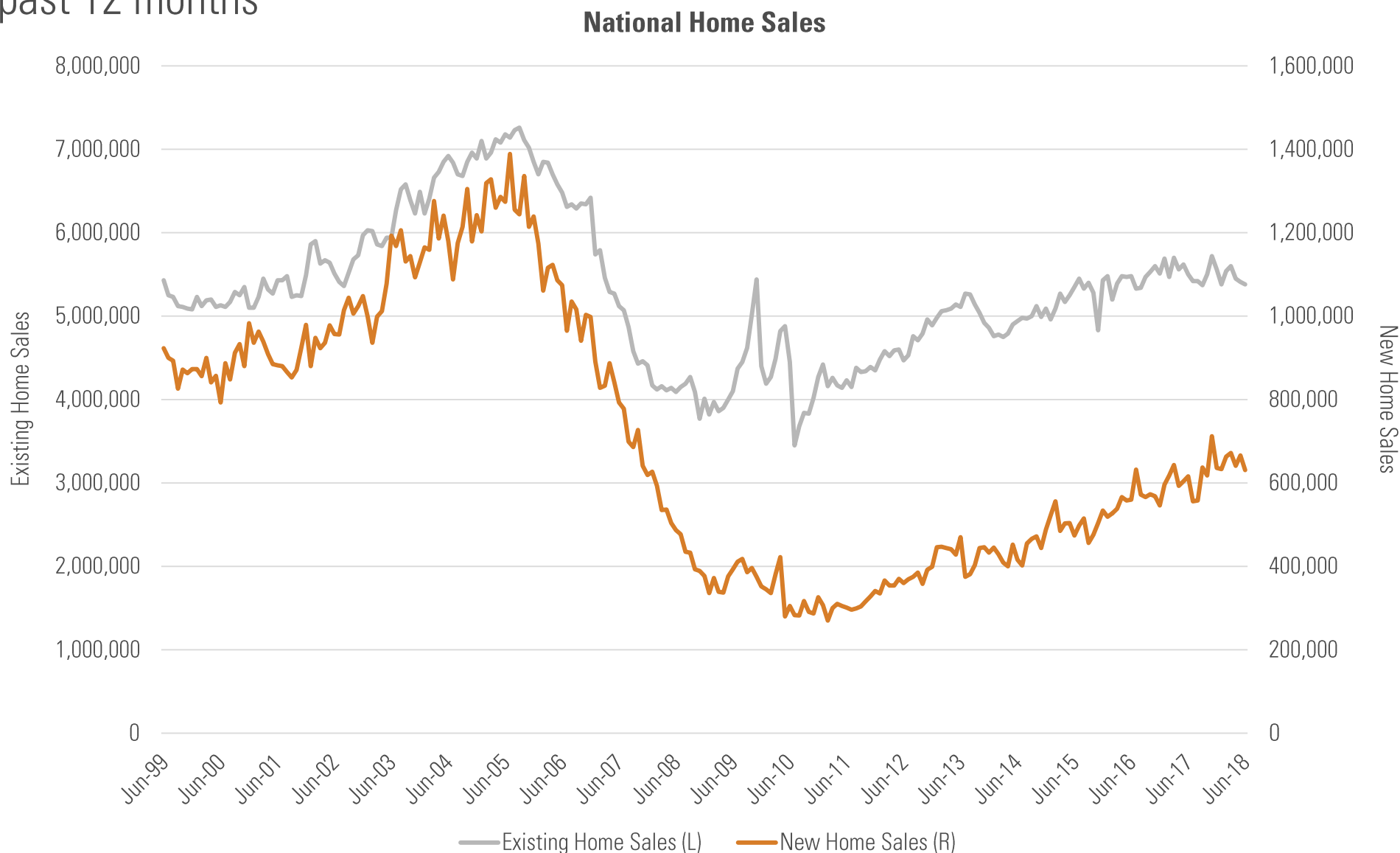
*Note: Home supply includes single-family detached, condo, and townhomes*

*Source: National Association of Realtors (NAR); RCLCO*

Quarterly Chartbook | Q2 2018 | 30

# HOME SALES VOLUMES HAVE FLATTENED

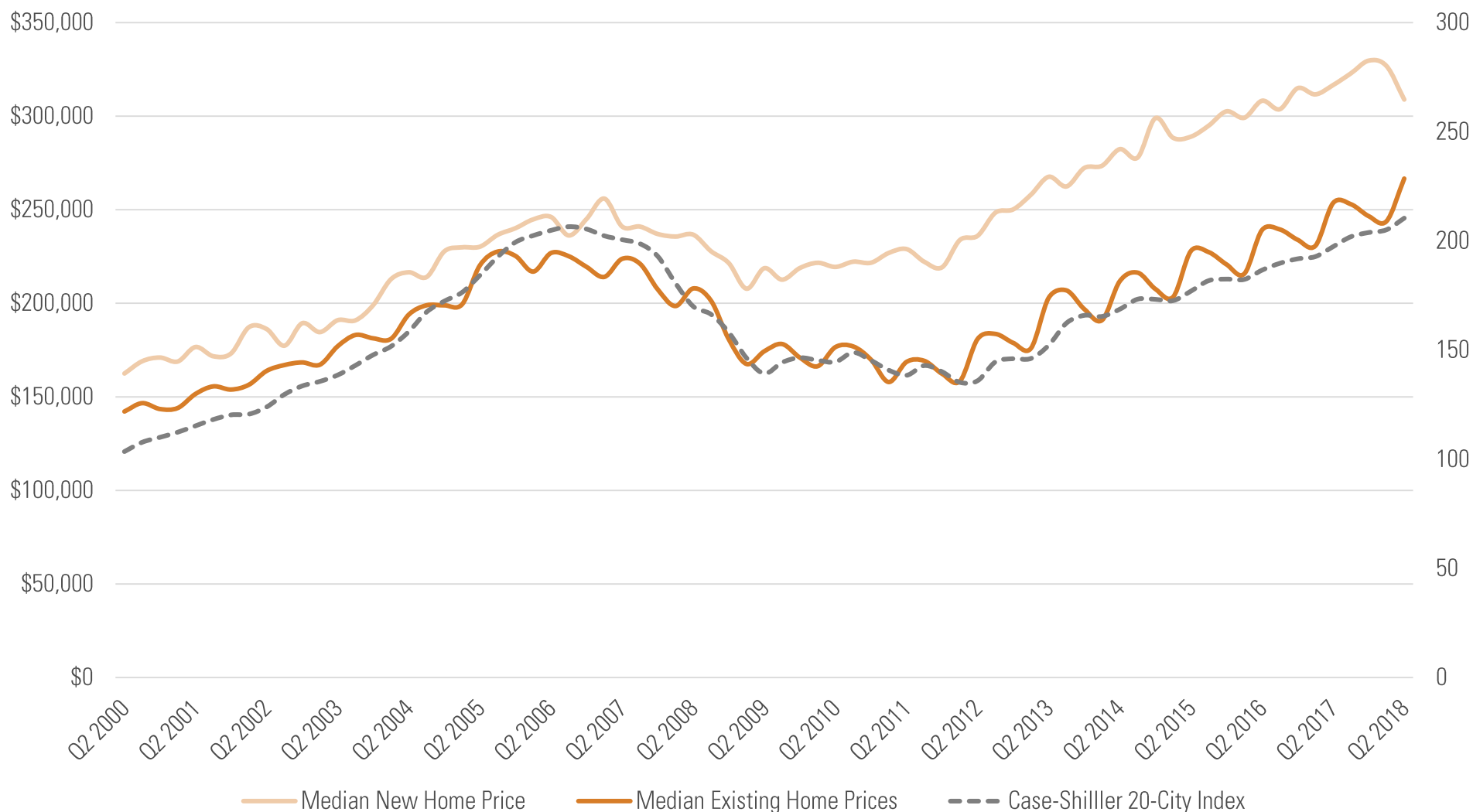
New and existing home sales declined by 0.6% and 5.3%, respectively, over the past 12 months



# CASE-SHILLER INDEX EXCEEDS PAST PEAK

New home prices decline amidst above-median supply

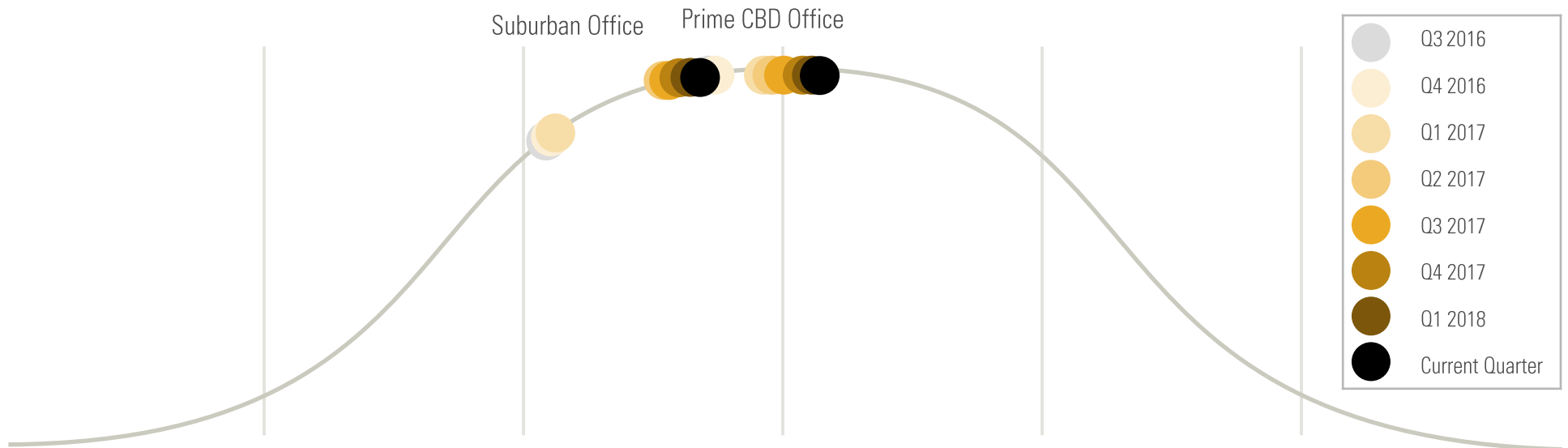
**Median Home Price and Case-Shiller 20-City Price Index  
(2000 – Q2 2018)**





# OFFICE MARKET OVERVIEW

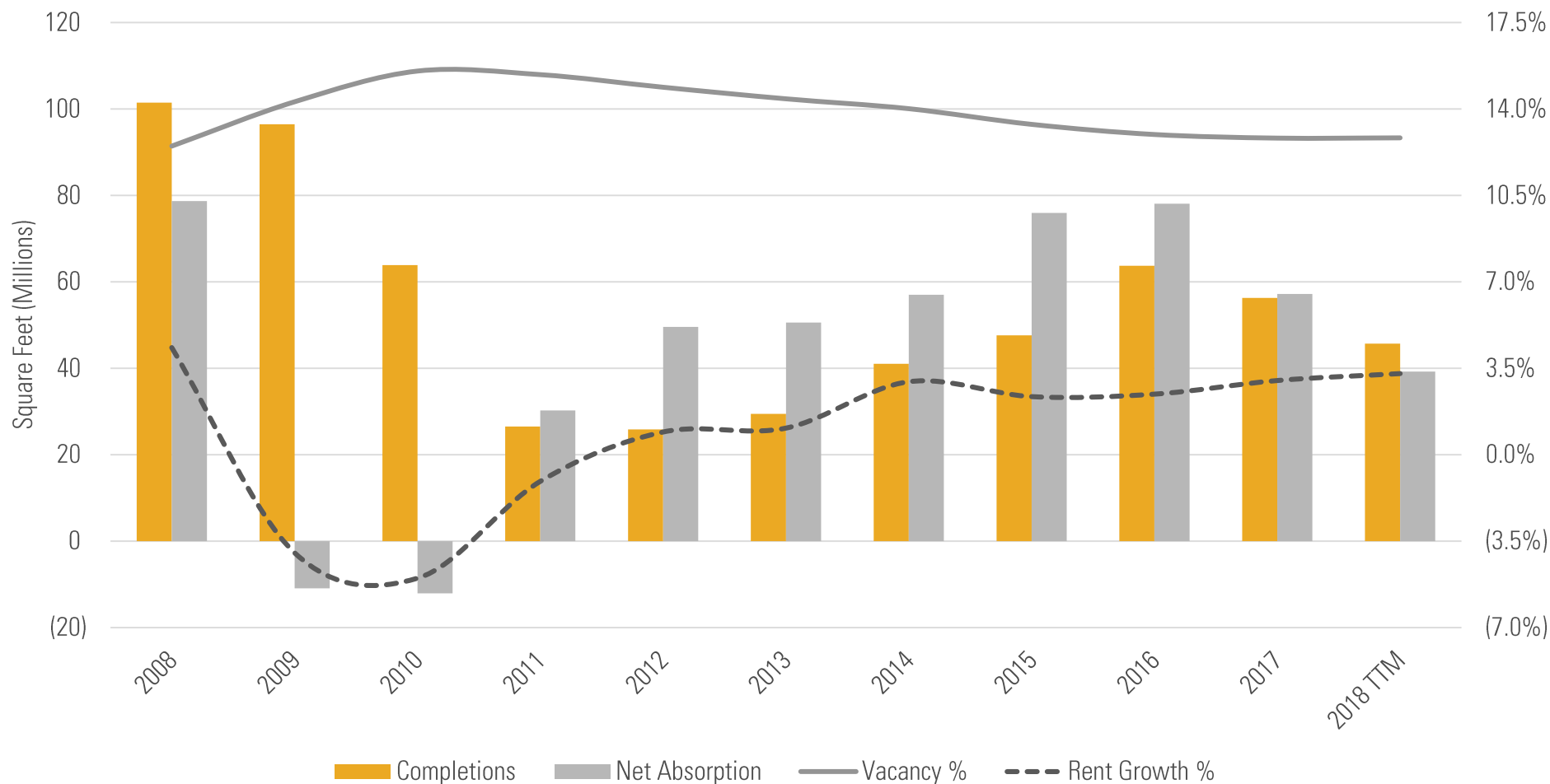
- ▶ National statistics paint a uniformly positive picture for office: vacancy remains stable, rental rate growth increased, and absorption exceeds new deliveries
- ▶ Local statistics vary widely based on both local economic growth and market conditions
- ▶ Tech job growth benefiting markets like Atlanta, Austin, Boston, and the Bay Area, while job and household migration benefit Charlotte, Phoenix
- ▶ Excess supply negatively impacting NYC, Seattle, and DC
- ▶ Class A absorption has been steadily positive, while Class B office has experienced no net absorption in 2018
- ▶ Construction activity remains moderately elevated nationwide
- ▶ Overall, office cap rates have increased nominally



# NEW SUPPLY EXCEEDS NET ABSORPTION FOR FIRST YEAR SINCE 2010

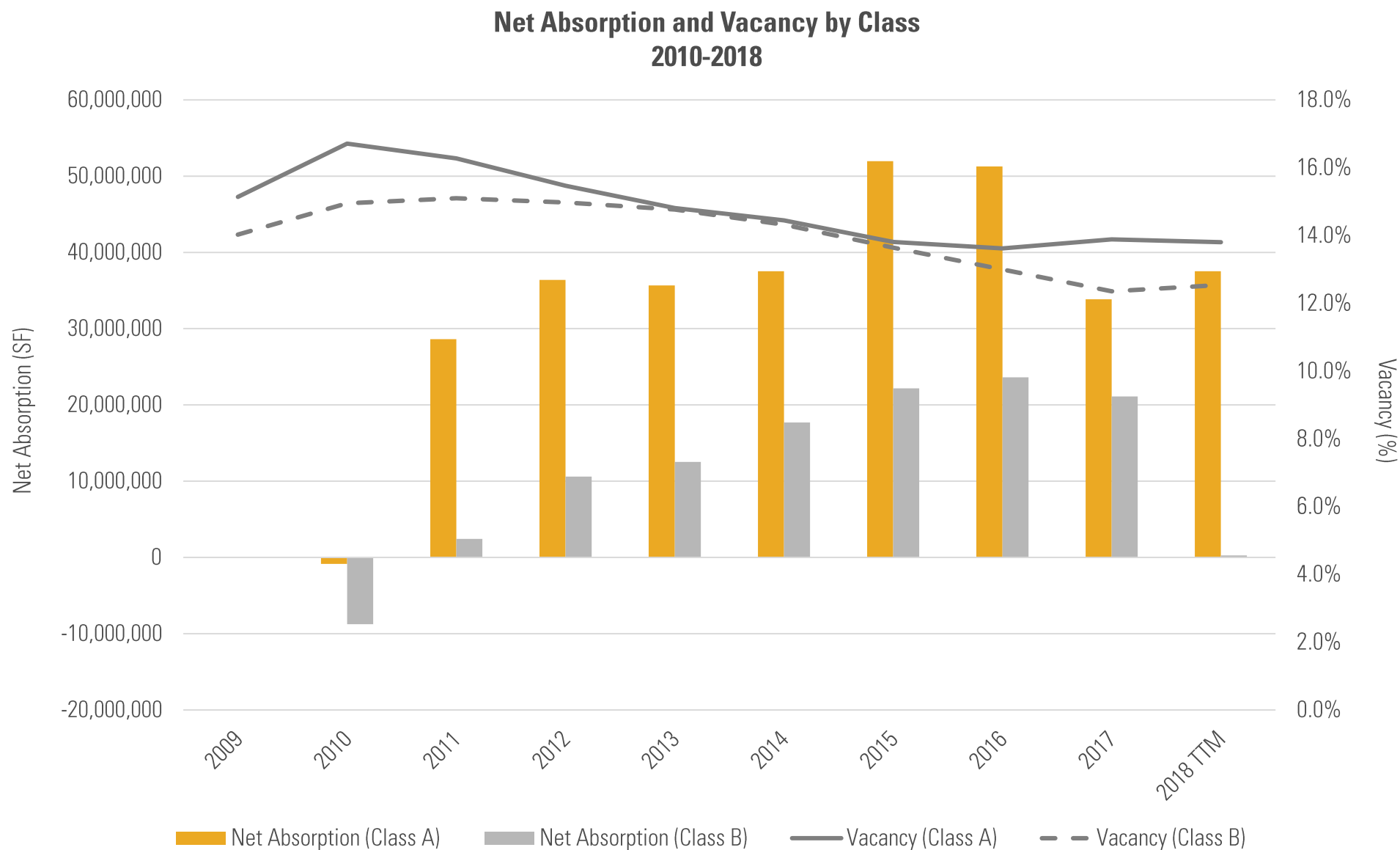
Rent growth increases slightly; vacancy remains steady

U.S. Office Absorption, Vacancy, Rent Growth



# NO NET CLASS B DEMAND

Class A vacancy remains steady as demand increases



*Note: Office criteria filtered as follows: office property, not owner occupied, 30,000+ SF, and a 3-star or greater CoStar rating*

*Source: CoStar; RCLCO*

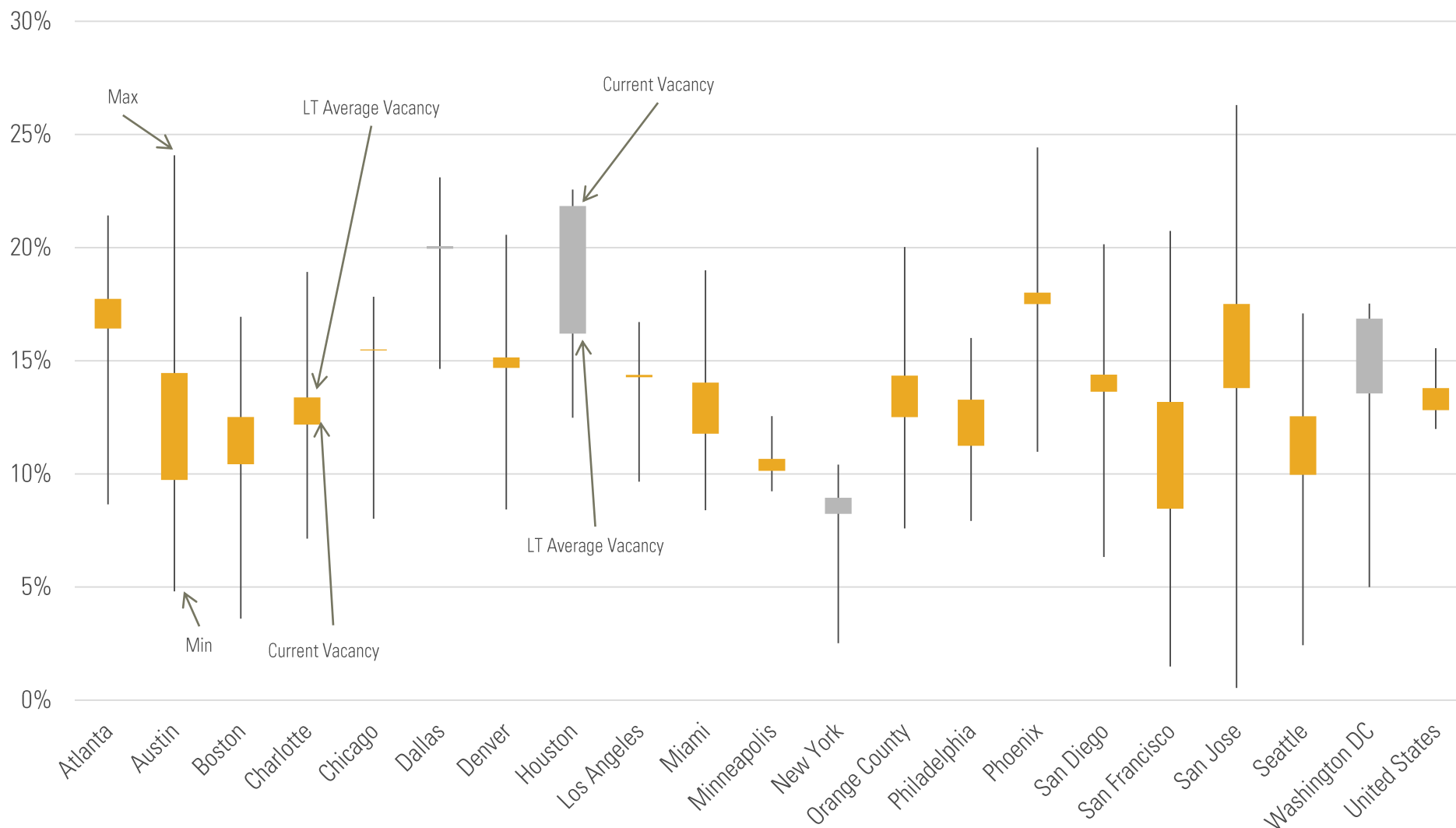
Quarterly Chartbook | Q2 2018 | 35

# LITTLE CHANGE IN VACANCY FROM 1Q18

Vacancy still well above average in Houston and Washington, DC

## Office Current and Long-term Vacancy

Yellow box - current vacancy < LT avg.  
Gray box - current vacancy > LT avg.



Notes: The markets in the above chart are not necessarily MSAs or central cities, but are CoStar-defined real estate markets; Office criteria filtered as follows: office property, not owner occupied, 30,000+ SF, and a 3-star or greater CoStar rating

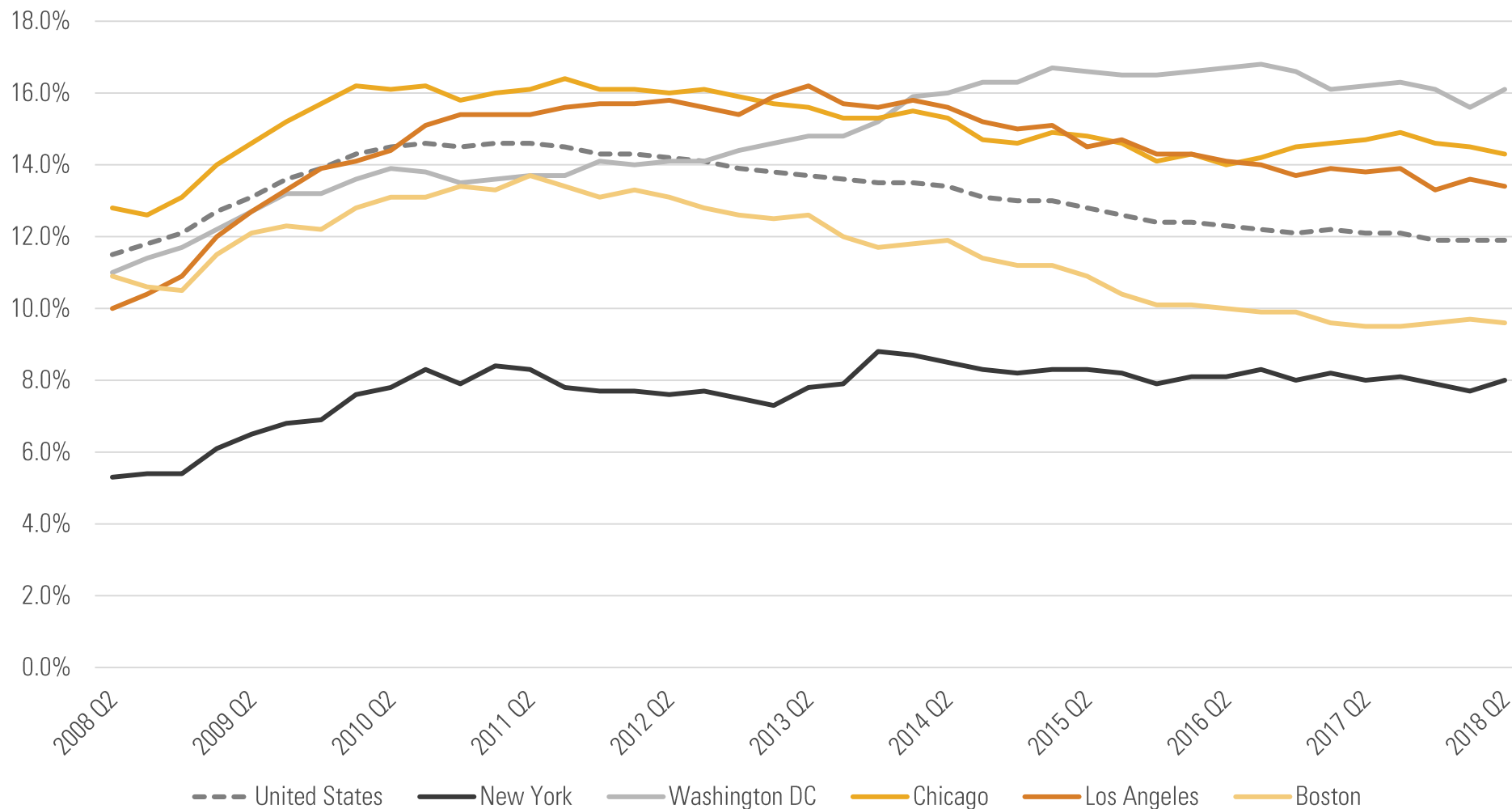
Source: CoStar; RCLCO

Quarterly Chartbook | Q2 2018 | 36

# U.S. OFFICE VACANCY REMAINS STABLE

Only Washington, DC, saw a meaningful increase in vacancy

Vacancy in Five Largest Office Markets,  
2008-2018



Notes: Office criteria filtered as follows: office property, not owner occupied, 30,000+ SF, and a 3-star or greater CoStar rating; The markets in the above chart are not necessarily MSAs or central cities, but are CoStar-defined real estate markets

Source: CoStar; RCLCO

Quarterly Chartbook | Q2 2018 | 37

# U.S. OFFICE MARKET RISK INDICATORS

National office market fundamentals remain relatively unchanged

	Net Absorption % of Stock Current* Quarter	Completions % of Stock Current* Quarter**	Under Constr % of Stock Current* Quarter***	Occupancy****	Q-o-Q Occupancy Change	Y-o-Y Occupancy Change	Q-o-Q Asking Rent Growth	Y-o-Y Asking Rent Growth
2012 Q2								
2012 Q3								
2012 Q4								
2013 Q1								
2013 Q2								
2013 Q3								
2013 Q4								
2014 Q1								
2014 Q2								
2014 Q3								
2014 Q4								
2015 Q1								
2015 Q2								
2015 Q3								
2015 Q4								
2016 Q1								
2016 Q2								
2016 Q3								
2016 Q4								
2017 Q1								
2017 Q2								
2017 Q3								
2017 Q4								
2018 Q1								
2018 Q2								

\*Current quarter defined as Q2 2018; \*\*Completions highlighted in Red if above 0.25% of Stock; \*\*\*Under Construction highlighted in Red if above 1% of Stock; \*\*\*\*Green if above market's historical average since 2008

Notes: Above data does not include Medical Office; Rent and occupancy are based on a rolling 4-quarter average. Rent growth numbers utilize asking rent data; The markets in the above chart are not necessarily MSAs or central cities, but are CoStar-defined real estate markets; Office criteria filtered as follows: office property, not owner occupied, 30,000+ SF, and a 3-star or greater CoStar rating

# U.S. OFFICE MARKET RISK INDICATORS

Wide variation in performance across markets given local conditions

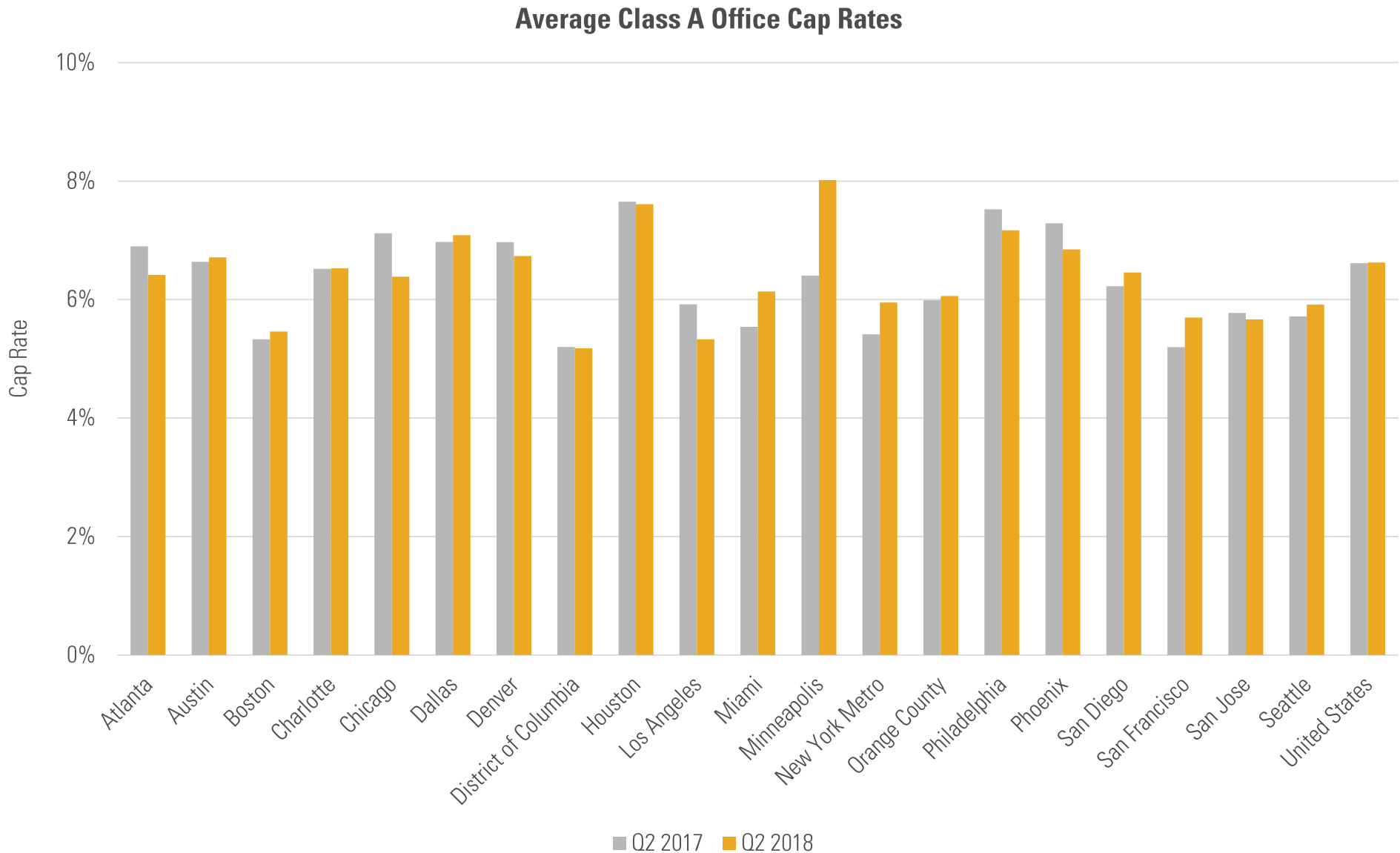
	Net Absorption % of Stock Current* Quarter	Completions % of Stock Current* Quarter**	Under Constr % of Stock Current* Quarter***	Occupancy****	Q-o-Q Occupancy Change	Y-o-Y Occupancy Change	Q-o-Q Gross Asking Rent Growth	Y-o-Y Gross Asking Rent Growth
Atlanta								
Austin								
Boston								
Charlotte								
Chicago								
Dallas								
Denver								
Houston								
Los Angeles								
Miami								
Minneapolis								
New York								
Orange County								
Philadelphia								
Phoenix								
San Diego								
San Francisco								
San Jose								
Seattle								
Washington DC								
<b>United States</b>								

\*Current quarter defined as Q2 2018; \*\*Completions highlighted in Red if above 0.25% of Stock; \*\*\*Under Construction highlighted in Red if above 1% of Stock; \*\*\*\*Green if above market's historical average since 2008

Notes: Above data does not include Medical Office; Rent and occupancy are based on a rolling 4-quarter average. Rent growth numbers utilize asking rent data; The markets in the above chart are not necessarily MSAs or central cities, but are CoStar-defined real estate markets; Office criteria filtered as follows: office property, not owner occupied, 30,000+ SF, and a 3-star or greater CoStar rating

# U.S. OFFICE CAP RATES LARGELY FLAT

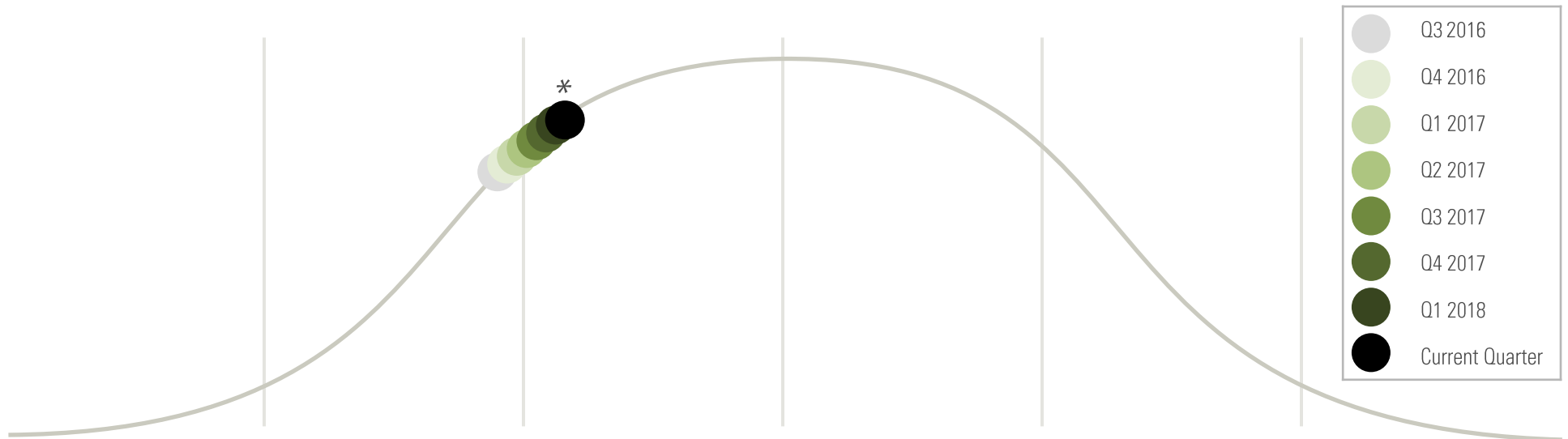
Minneapolis experienced 160 bps of cap rate expansion





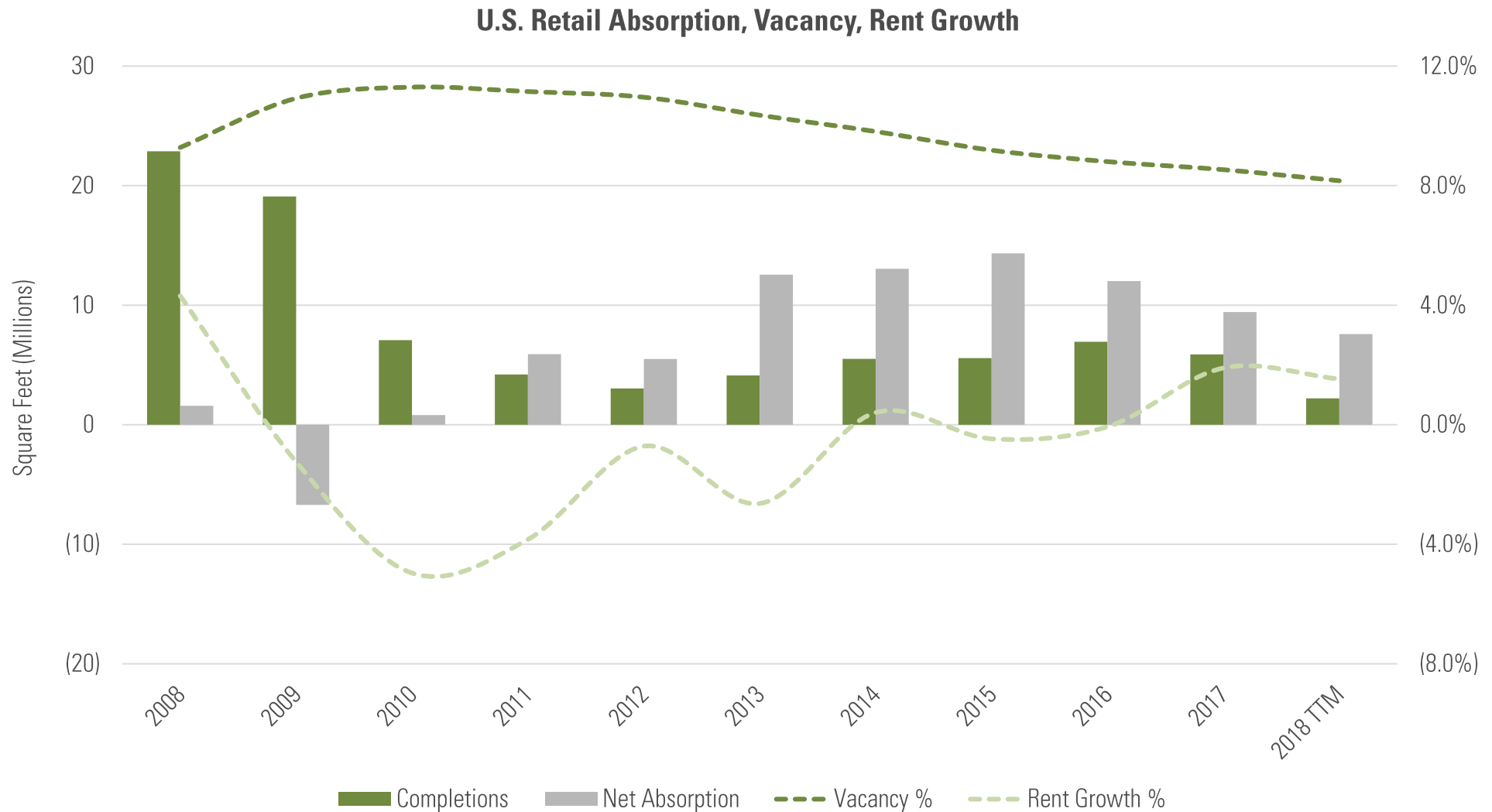
# RETAIL MARKET OVERVIEW\*

- ▶ This section focuses primarily on neighborhood/community center retail
- ▶ In general, lack of new supply is sustaining retail performance in the face of broader challenges (such as changing shopper preferences, e-commerce)
- ▶ Occupancies and rents are generally stable across markets; outperforming markets benefit from strong job/population growth and limited supply
- ▶ Overall retail transaction volume spiked due to the Unibail Rodamco-Westfield transaction
- ▶ Cap rates vary by type, but power centers experienced notable compression in Q2 (likely because only quality centers are transacting)



# NEW SUPPLY OF GROCERY-ANCHORED AT LOWEST LEVEL SINCE 2012

Declining vacancy attributable to limited new supply

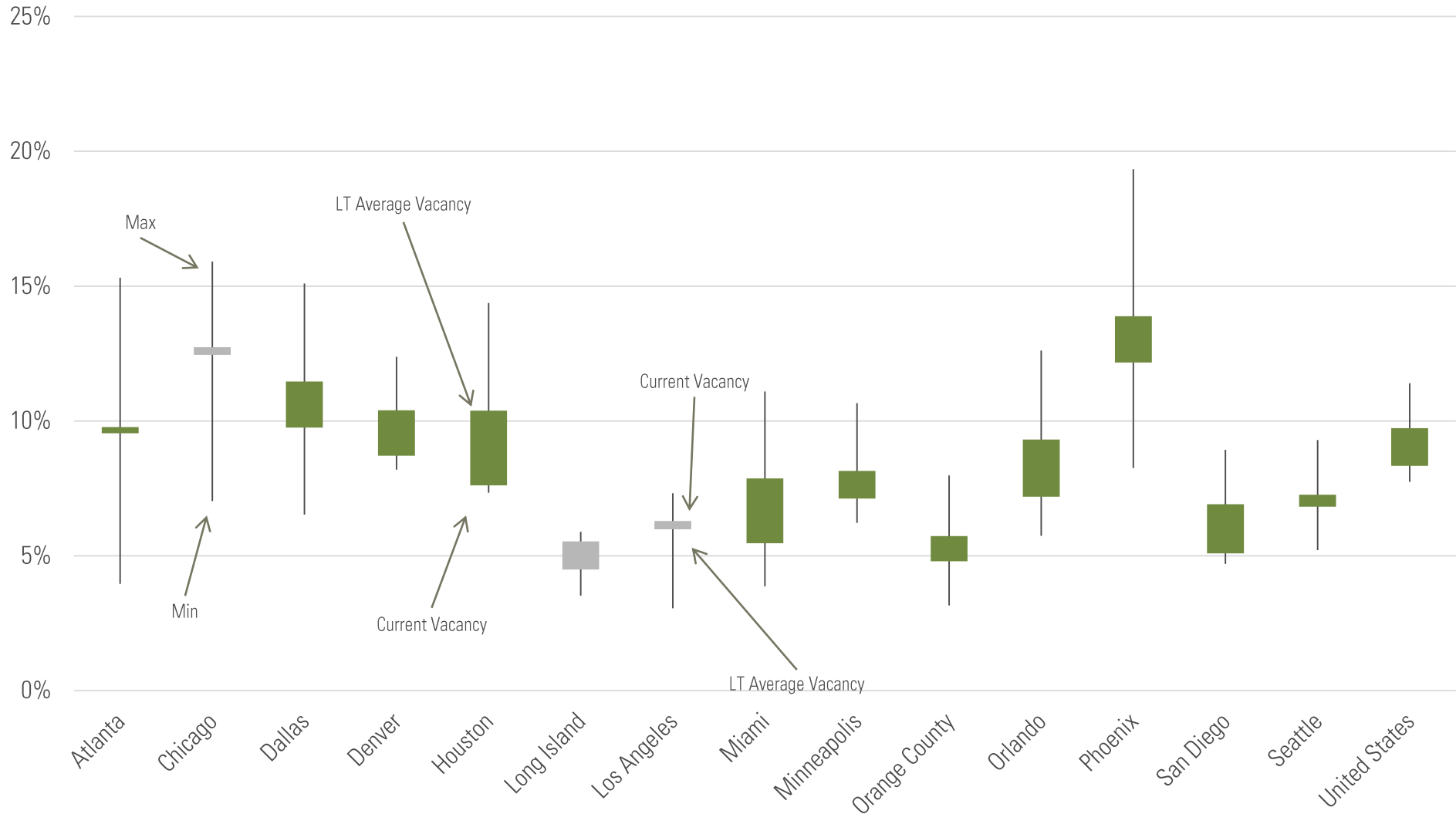


# U.S. RETAIL OCCUPANCY ABOVE AVERAGE

Retail occupancy relatively unchanged in most markets

## Neighborhood and Community Center and Long-term Vacancy

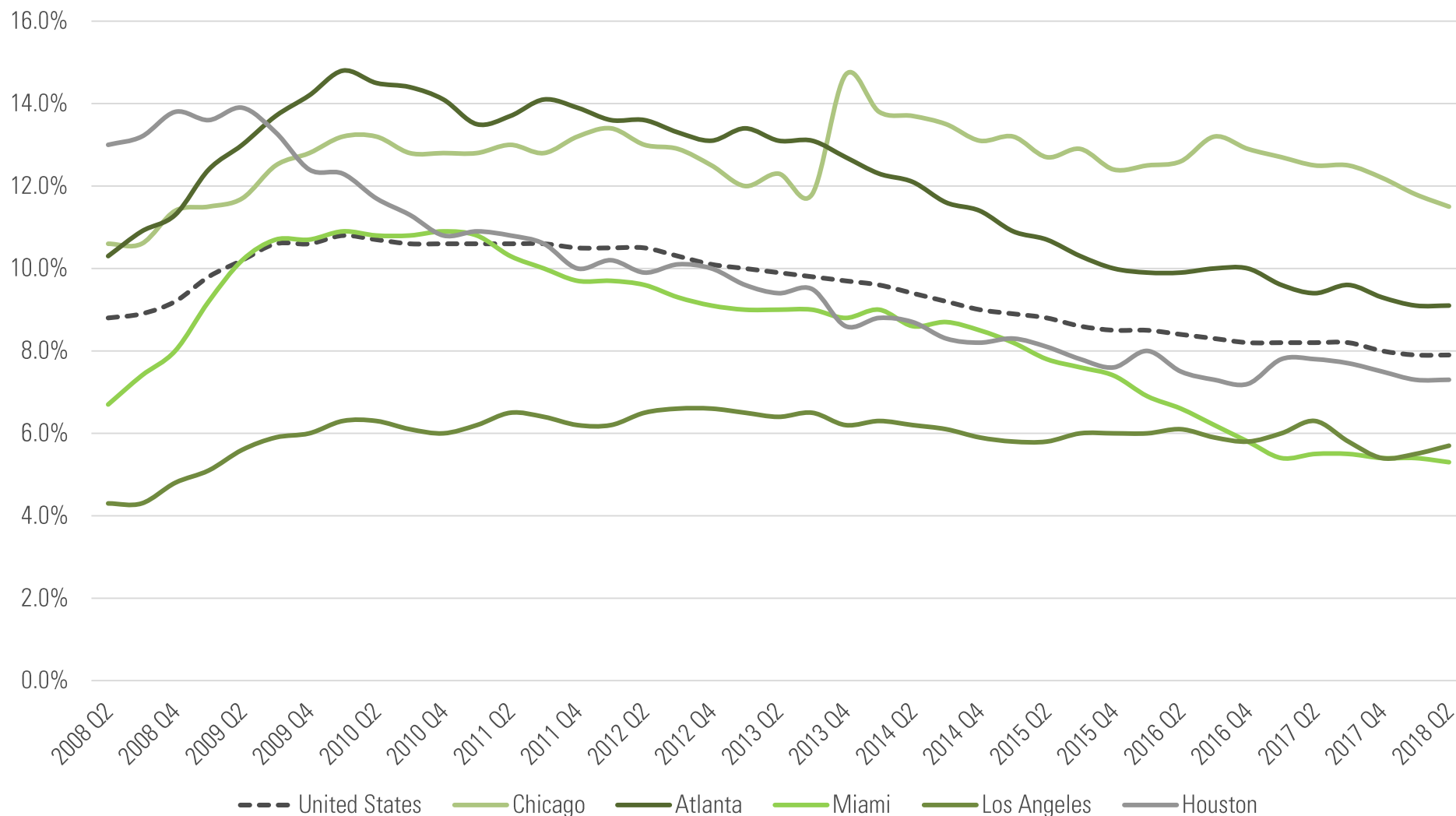
Green box - current vacancy < LT avg.  
Gray box - current vacancy > LT avg.



# VACANCY TRENDS BY MARKET

Occupancies are generally steady, though Chicago and Atlanta have seen consistent improvement

**Vacancy in Five Largest Retail Markets, 2008-2018**



# U.S. RETAIL MARKET RISK INDICATORS

Fundamentals slowly improve with continued low supply increases

	Net Absorption % of Stock Current* Quarter	Completions % of Stock Current* Quarter**	Under Constr % of Stock Current* Quarter***	Occupancy****	Q-o-Q Occupancy Change	Y-o-Y Occupancy Change	Q-o-Q Asking Rent Growth	Y-o-Y Asking Rent Growth
2012 Q2								
2012 Q3								
2012 Q4								
2013 Q1								
2013 Q2								
2013 Q3								
2013 Q4								
2014 Q1								
2014 Q2								
2014 Q3								
2014 Q4								
2015 Q1								
2015 Q2								
2015 Q3								
2015 Q4								
2016 Q1								
2016 Q2								
2016 Q3								
2016 Q4								
2017 Q1								
2017 Q2								
2017 Q3								
2017 Q4								
2018 Q1								
2018 Q2								

\*Current quarter defined as Q2 2018; \*\*Completions highlighted in Red if above 0.25% of Stock; \*\*\*Under Construction highlighted in Red if above 1% of Stock; \*\*\*\*Green if above city's historical average since 2008

Notes: Above data includes only Neighborhood/Community centers; does NOT include power centers, regional malls, or lifestyle retail centers; Rent and occupancy are based on a rolling 4-quarter average. Rent growth numbers utilize asking rent data; The markets in the above chart are not necessarily MSAs or central cities, but are CoStar-defined real estate markets; Retail criteria filtered as follows: retail property in a shopping center, not owner occupied, 30,000+ SF, multiple tenancy, and a 3-star or greater CoStar rating

# U.S. RETAIL MARKET RISK INDICATORS

Limited construction activity driving solid performance in most markets

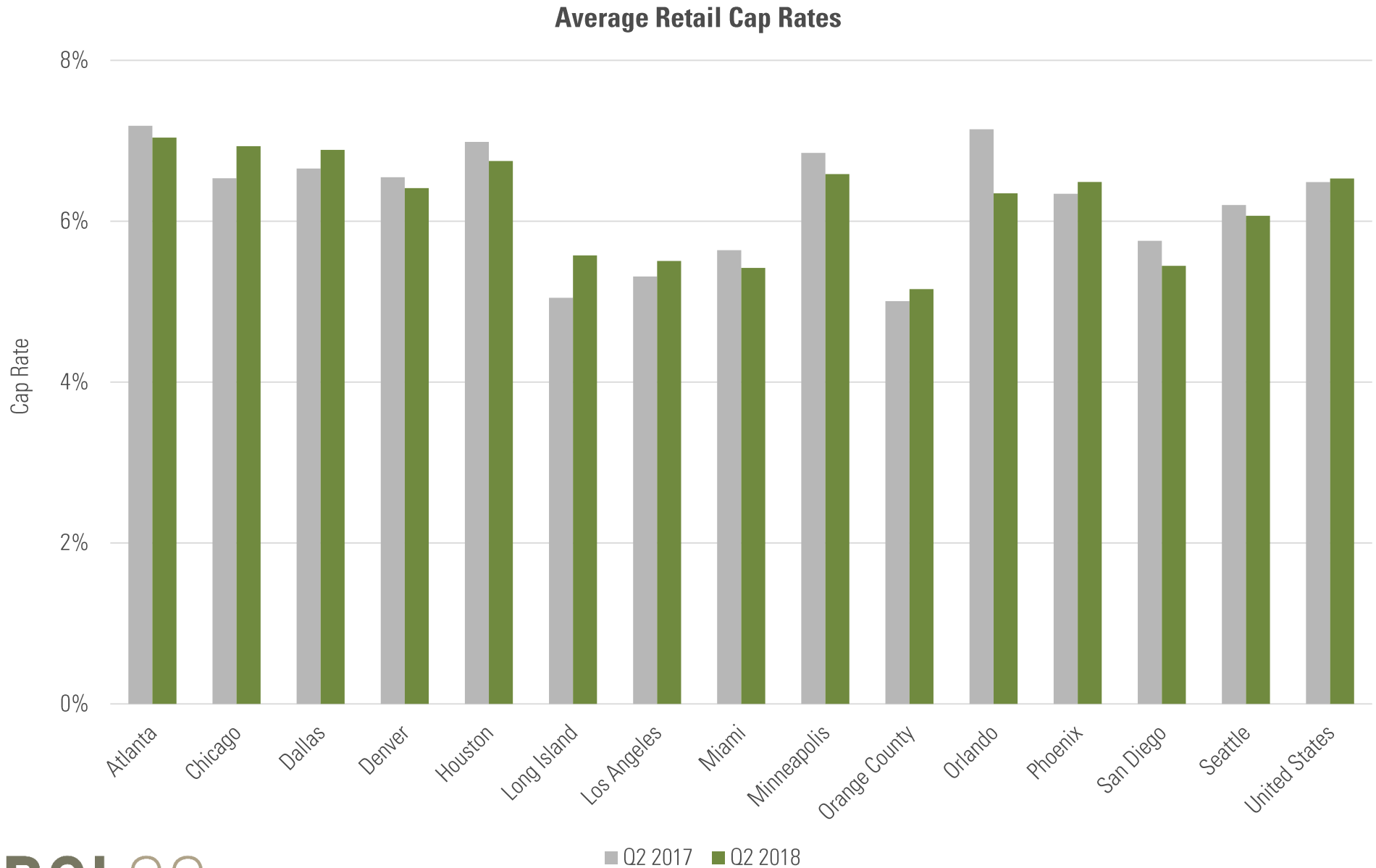
	Net Absorption % of Stock Current* Quarter	Completions % of Stock Current* Quarter**	Under Constr % of Stock Current* Quarter***	Occupancy****	Q-o-Q Occupancy Change	Y-o-Y Occupancy Change	Q-o-Q Asking NNN Rent Growth	Y-o-Y Asking NNN Rent Growth
Atlanta								
Chicago								
Dallas								
Denver								
Houston								
Long Island								
Los Angeles								
Miami								
Minneapolis								
Orange County								
Orlando								
Phoenix								
San Diego								
Seattle								
<b>United States</b>								

\*Current quarter defined as Q2 2018; \*\*Completions highlighted in Red if above 0.25% of Stock; \*\*\*Under Construction highlighted in Red if above 1% of Stock; \*\*\*\*Green if above city's historical average since 2008

Notes: Above data includes only Neighborhood/Community centers; does NOT include power centers, regional malls, or lifestyle retail centers; Rent and occupancy are based on a rolling 4-quarter average. Rent growth numbers utilize asking rent data; The markets in the above chart are not necessarily MSAs or central cities, but are CoStar-defined real estate markets; Retail criteria filtered as follows: retail property in a shopping center, not owner occupied, 30,000+ SF, multiple tenancy, and a 3-star or greater CoStar rating

# NATIONAL RETAIL CAP RATES UNCHANGED

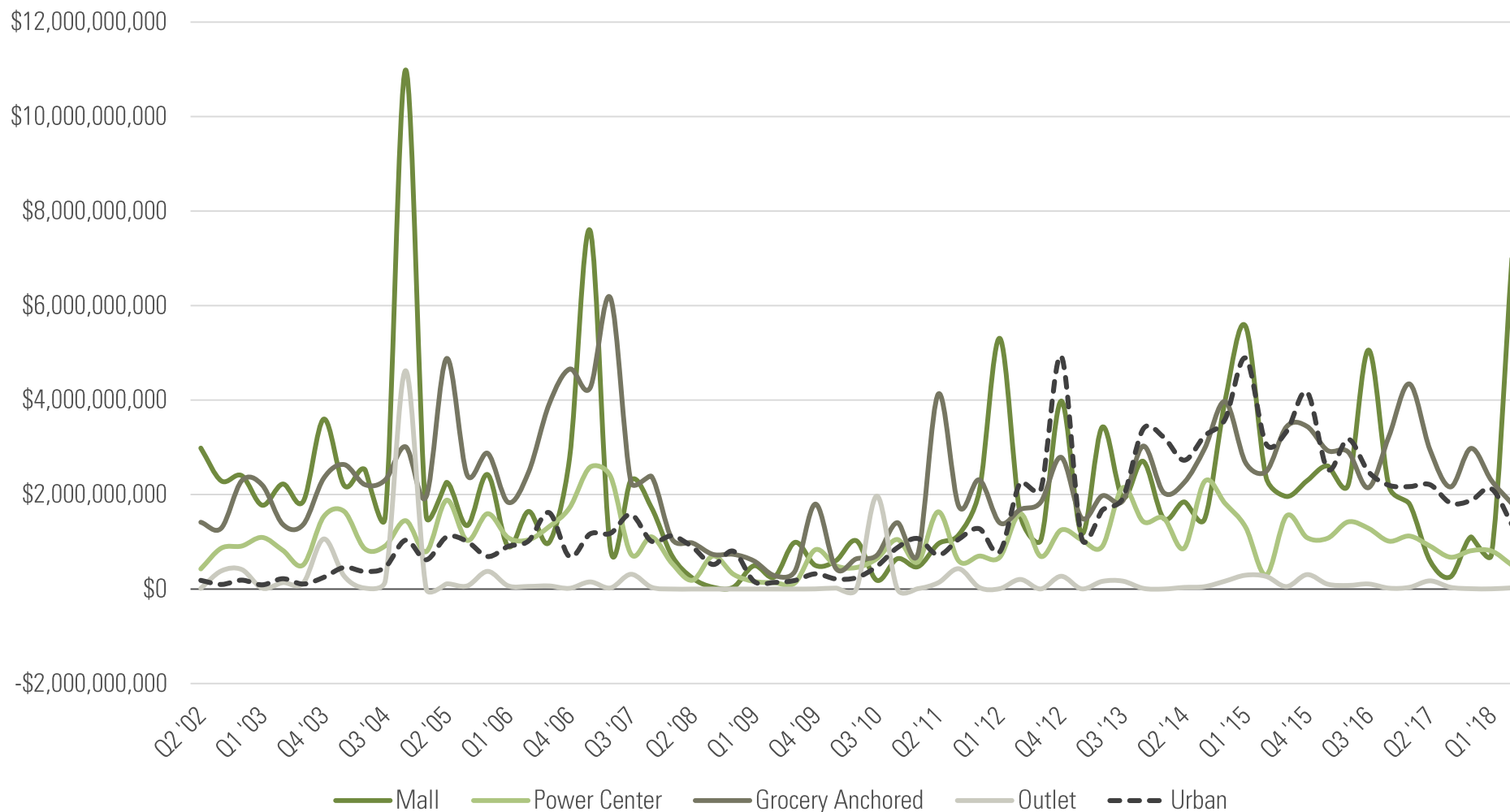
Orlando experienced 80 bps of compression



# RETAIL TRANSACTION VOLUME

Mall transactions increased sharply as Westfield shareholders approved the Unibail-Rodamco / Westfield merger

**Retail Transaction Volume by Sector**  
**2002-Q2 2018**

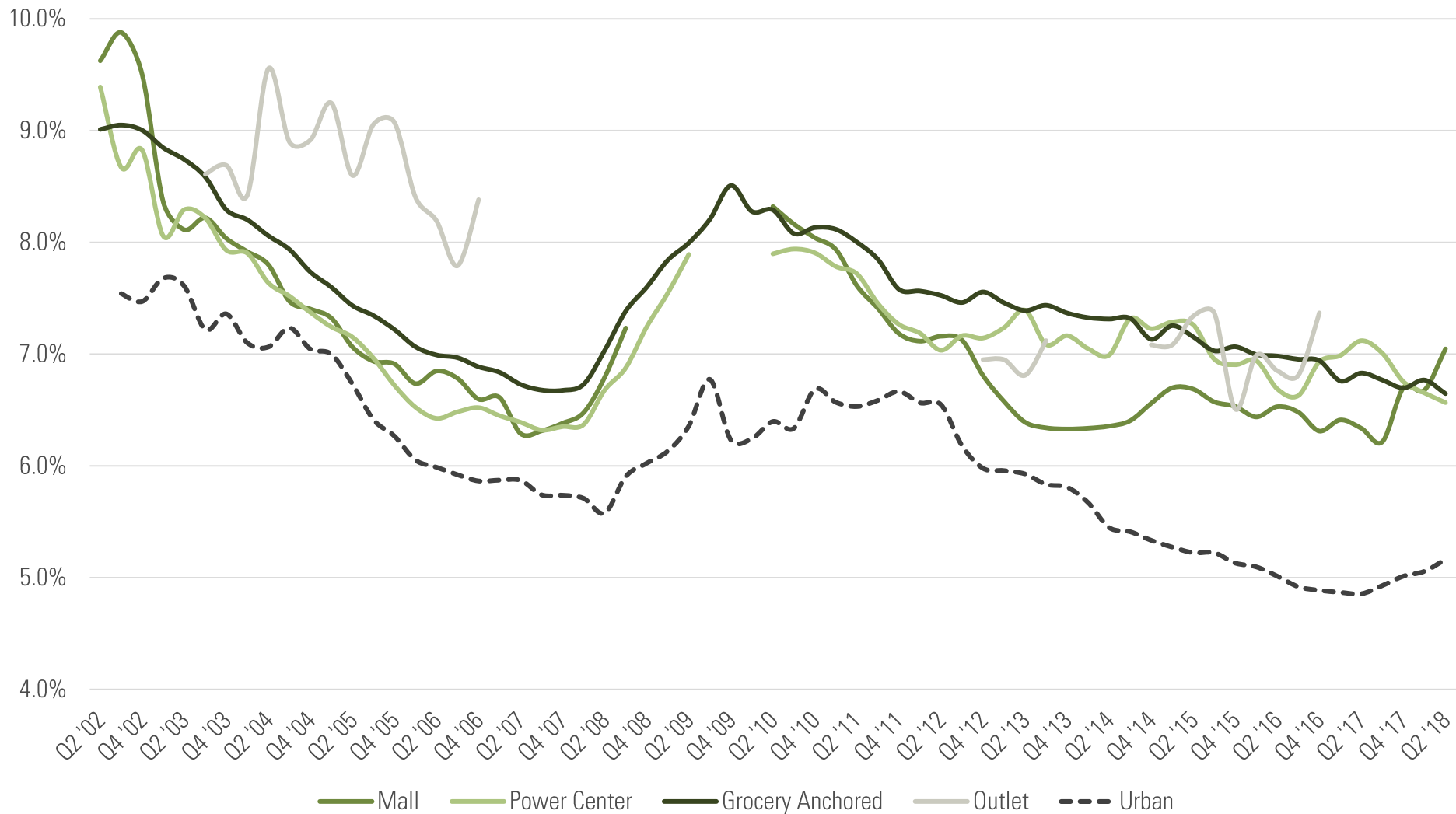




# CAP RATES PRIMARILY INCREASING

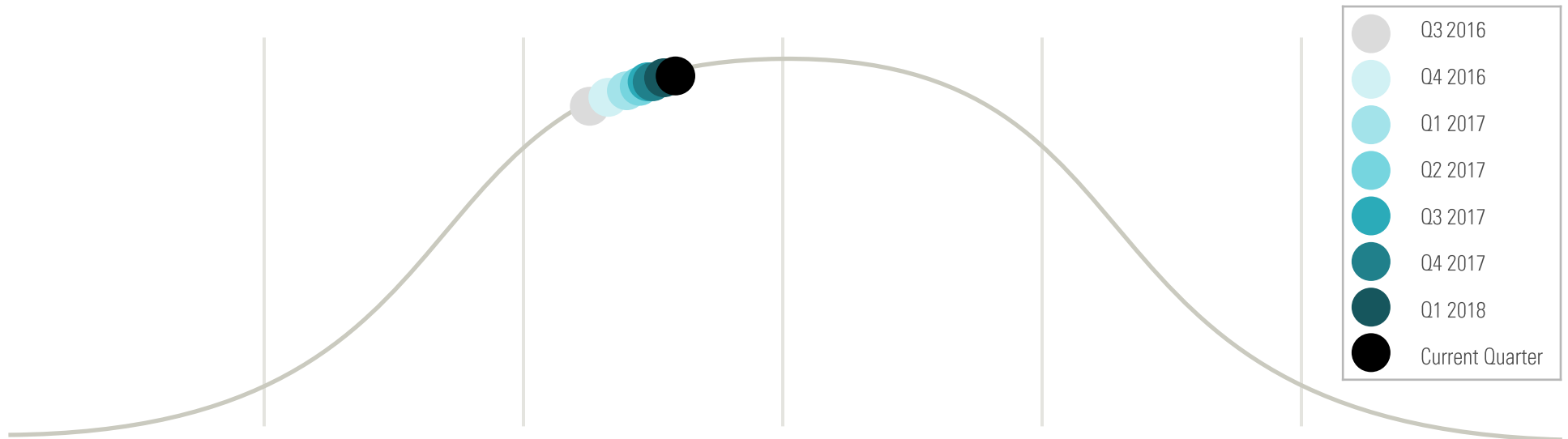
Power center cap rates have fallen; only very high quality properties sold transact

Retail Cap Rates by Sector  
2002-Q1 2018



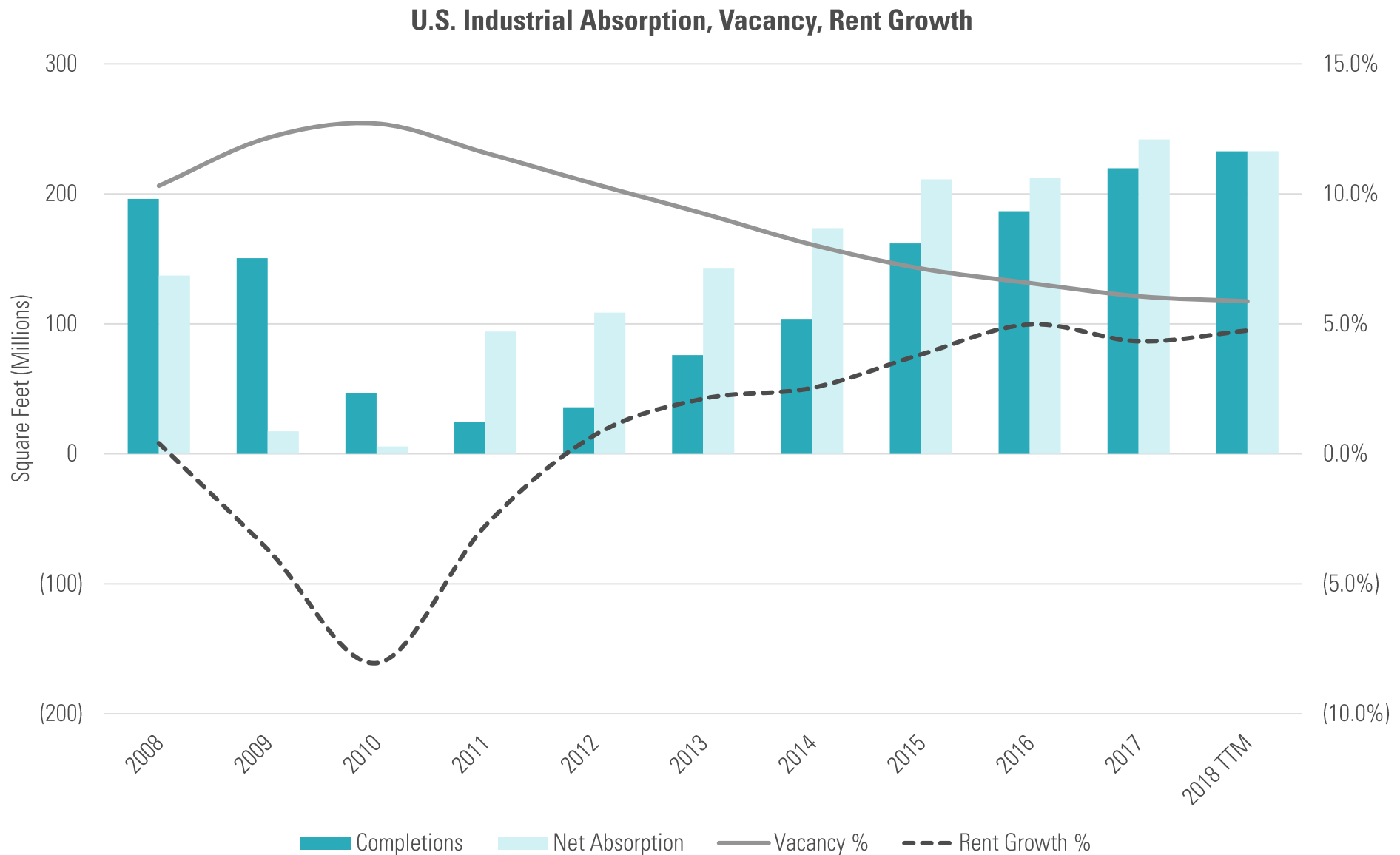
# INDUSTRIAL MARKET OVERVIEW

- ▶ Construction activity has caught up with demand
- ▶ Vacancy rates still remain below average in all major markets nationwide
- ▶ Industrial construction as a percentage of inventory has slowed, but remains only slightly below peak
- ▶ Rent growth in supply-constrained markets has been exceptional
- ▶ Industrial transaction volume has increased by 27.4% YoY
- ▶ Cap rates remain at all-time lows



# SUPPLY AND DEMAND IN EQUILIBRIUM

Occupancy and rent growth continue to increase



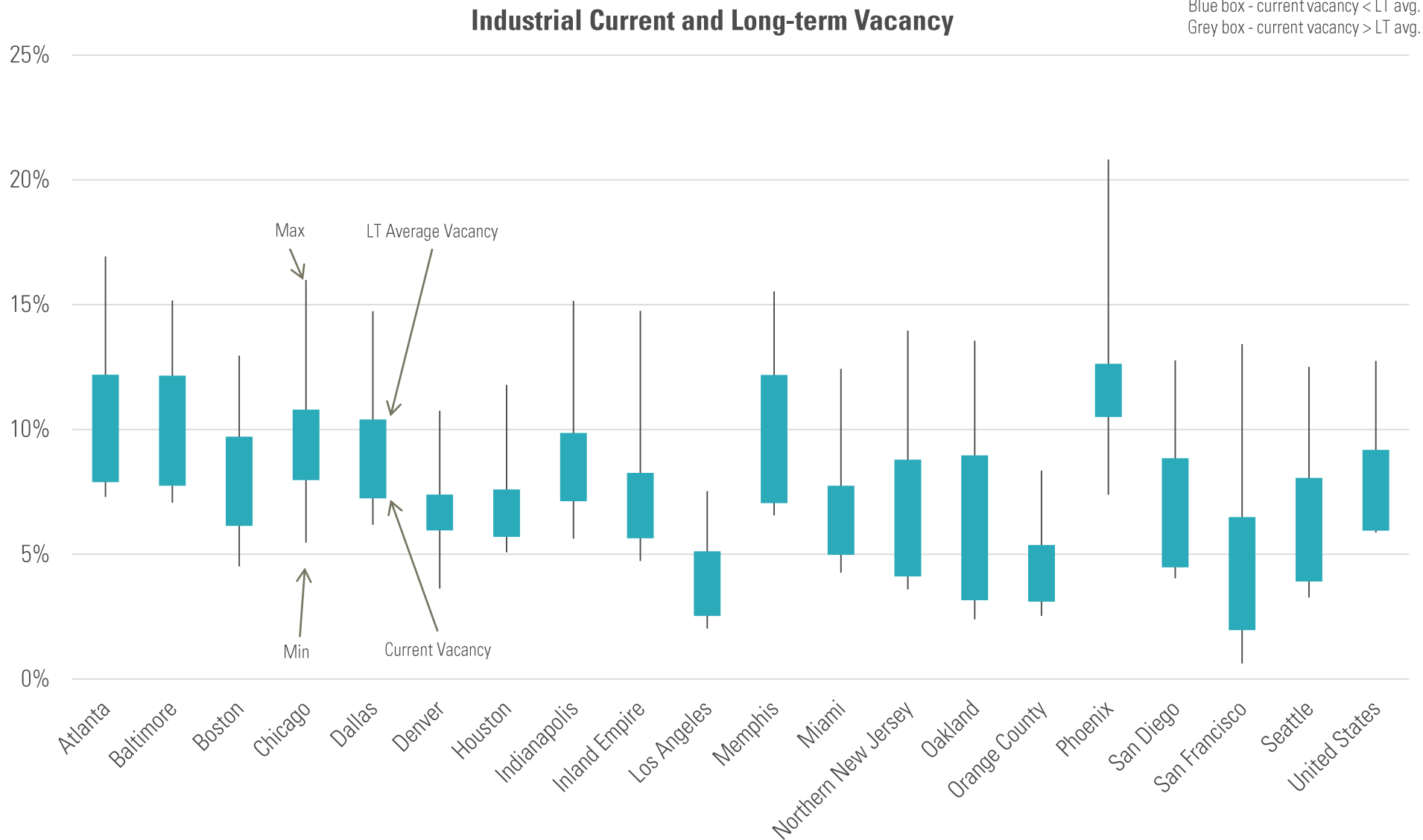
*Note: Industrial criteria filtered as follows: industrial property (secondary type is either distribution or warehouse), 30,000+ SF, and a 3-star or greater CoStar rating*

*Source: CoStar; RCLCO*

Quarterly Chartbook | Q2 2018 | 51

# U.S. VACANCY STILL AT ALL-TIME LOW

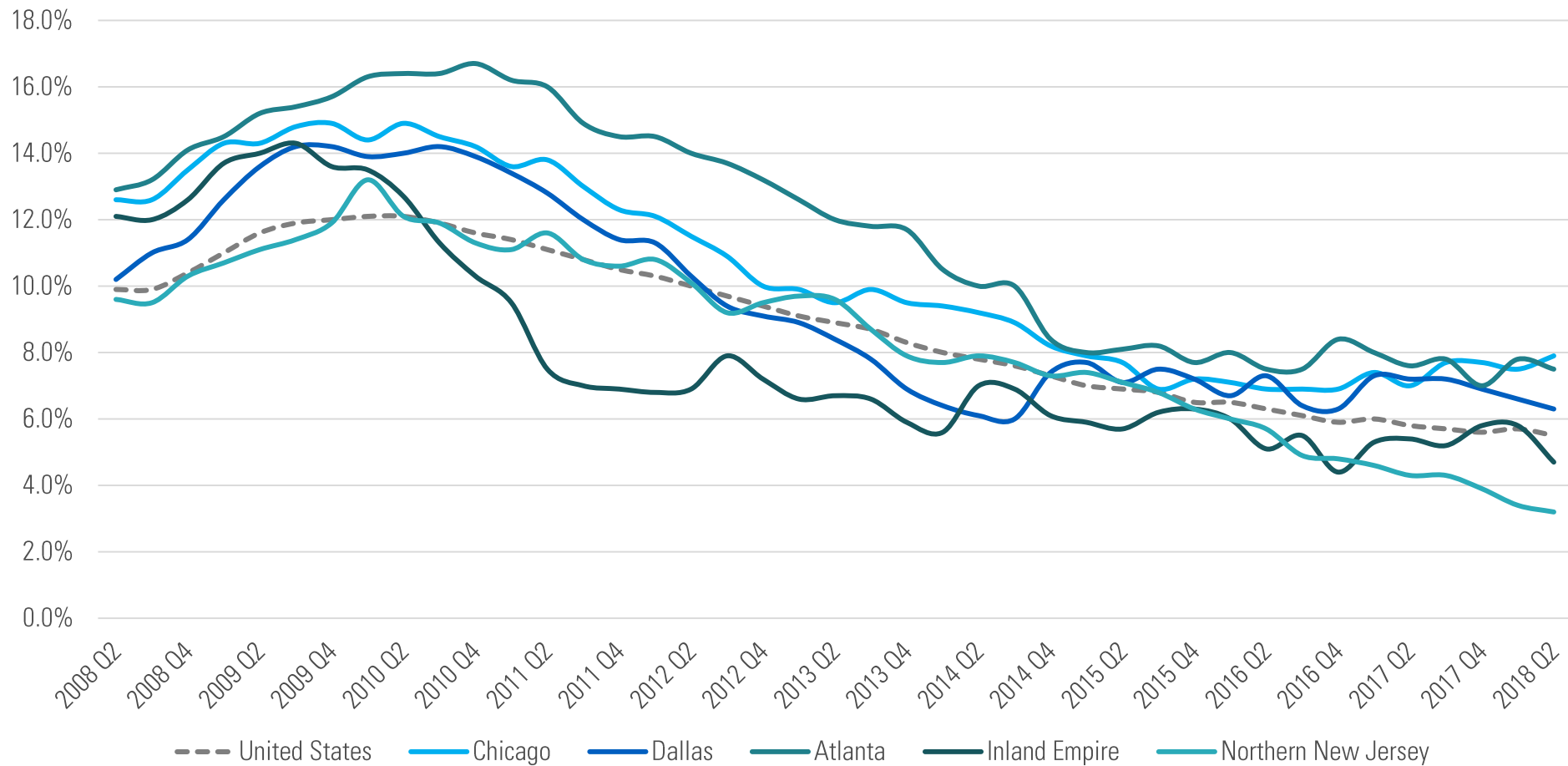
Industrial vacancy remains below average in all markets



# VACANCY REMAINS BELOW AVERAGE IN FIVE LARGEST MARKETS

Inland Empire occupancy declined by 90 bps in Q2 2018

**Vacancy in Five Largest Industrial Markets, 2008-2018**



# U.S. INDUSTRIAL MARKET RISK INDICATORS

Strong rent growth and occupancy continues while construction activity slows slightly

	Net Absorption % of Stock Current* Quarter	Completions % of Stock Current* Quarter**	Under Constr % of Stock Current* Quarter***	Occupancy****	Q-o-Q Occupancy Change	Y-o-Y Occupancy Change	Q-o-Q Asking Rent Growth	Y-o-Y Asking Rent Growth
2012 Q2								
2012 Q3								
2012 Q4								
2013 Q1								
2013 Q2								
2013 Q3								
2013 Q4								
2014 Q1								
2014 Q2								
2014 Q3								
2014 Q4								
2015 Q1								
2015 Q2								
2015 Q3								
2015 Q4								
2016 Q1								
2016 Q2								
2016 Q3								
2016 Q4								
2017 Q1								
2017 Q2								
2017 Q3								
2017 Q4								
2018 Q1								
2018 Q2								

\*Current quarter defined as Q2 2018; \*\*Completions highlighted in Red if above 0.25% of Stock; \*\*\*Under Construction highlighted in Red if above 1% of Stock; \*\*\*\*Green if above city's historical average since 2008

Notes: Above data includes only warehouses and distribution centers; does NOT include other industrial buildings; Rent and occupancy are based on a rolling 4-quarter average. Rent growth numbers utilize asking rent data; The markets in the above chart are not necessarily MSAs or central cities, but are CoStar-defined real estate markets; Industrial criteria filtered as follows: industrial property (secondary type is either distribution or warehouse), 30,000+ SF, and a 3-star or greater CoStar rating

# U.S. INDUSTRIAL MARKET RISK INDICATORS

West Coast markets experience strong Q2 2018 rent growth

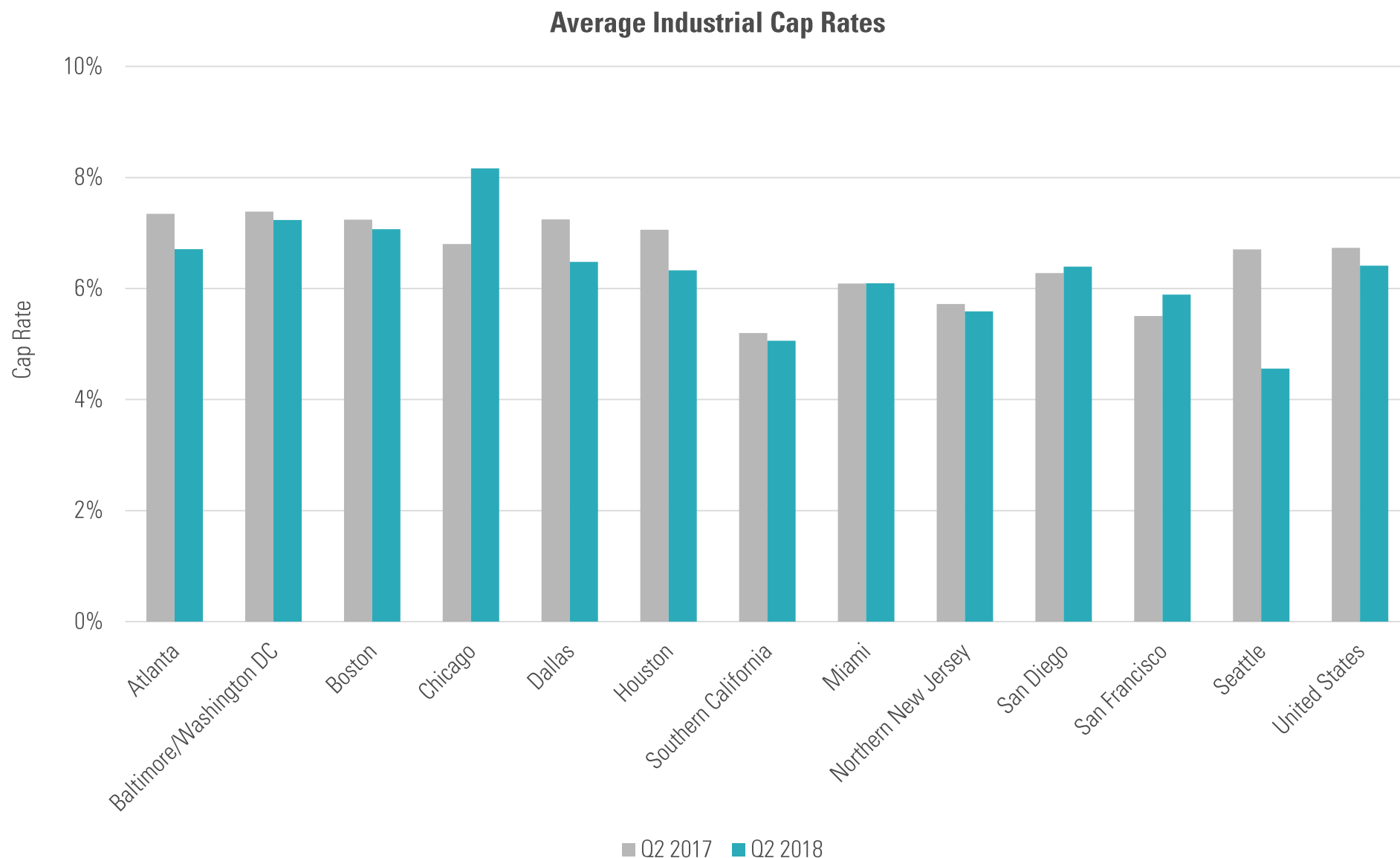
	Net Absorption % of Stock Current* Quarter	Completions % of Stock Current* Quarter**	Under Constr % of Stock Current* Quarter***	Occupancy****	Q-o-Q Occupancy Change	Y-o-Y Occupancy Change	Q-o-Q Asking NNN Rent Growth	Y-o-Y Asking NNN Rent Growth
Atlanta								
Baltimore								
Boston								
Chicago								
Dallas								
Denver								
Houston								
Indianapolis								
Inland Empire								
Los Angeles								
Memphis								
Miami								
Northern New Jersey								
Oakland								
Orange County								
Phoenix								
San Diego								
San Francisco								
Seattle								
United States								

\*Current quarter defined as Q2 2018; \*\*Completions highlighted in Red if above 0.25% of Stock; \*\*\*Under Construction highlighted in Red if above 1% of Stock; \*\*\*\*Green if above city's historical average since 2008

Notes: Above data includes only warehouses and distribution centers; does NOT include other industrial buildings; Rent and occupancy are based on a rolling 4-quarter average. Rent growth numbers utilize asking rent data; The markets in the above chart are not necessarily MSAs or central cities, but are CoStar-defined real estate markets; Industrial criteria filtered as follows: industrial property (secondary type is either distribution or warehouse), 30,000+ SF, and a 3-star or greater CoStar rating

# NATIONAL INDUSTRIAL CAP RATES COMPRESS

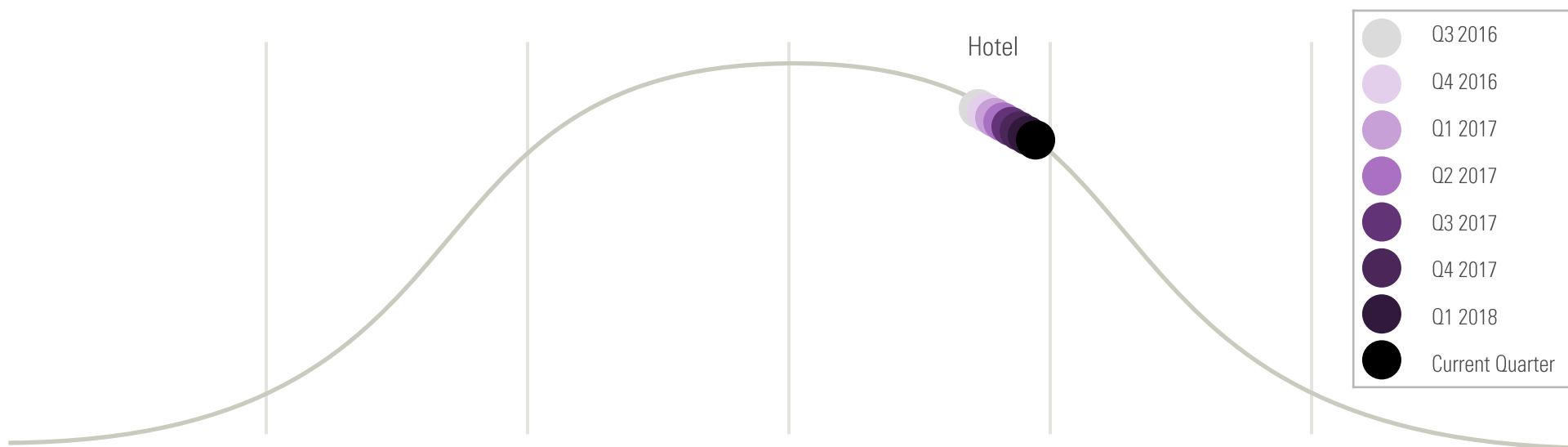
Only Chicago experienced a meaningful increase





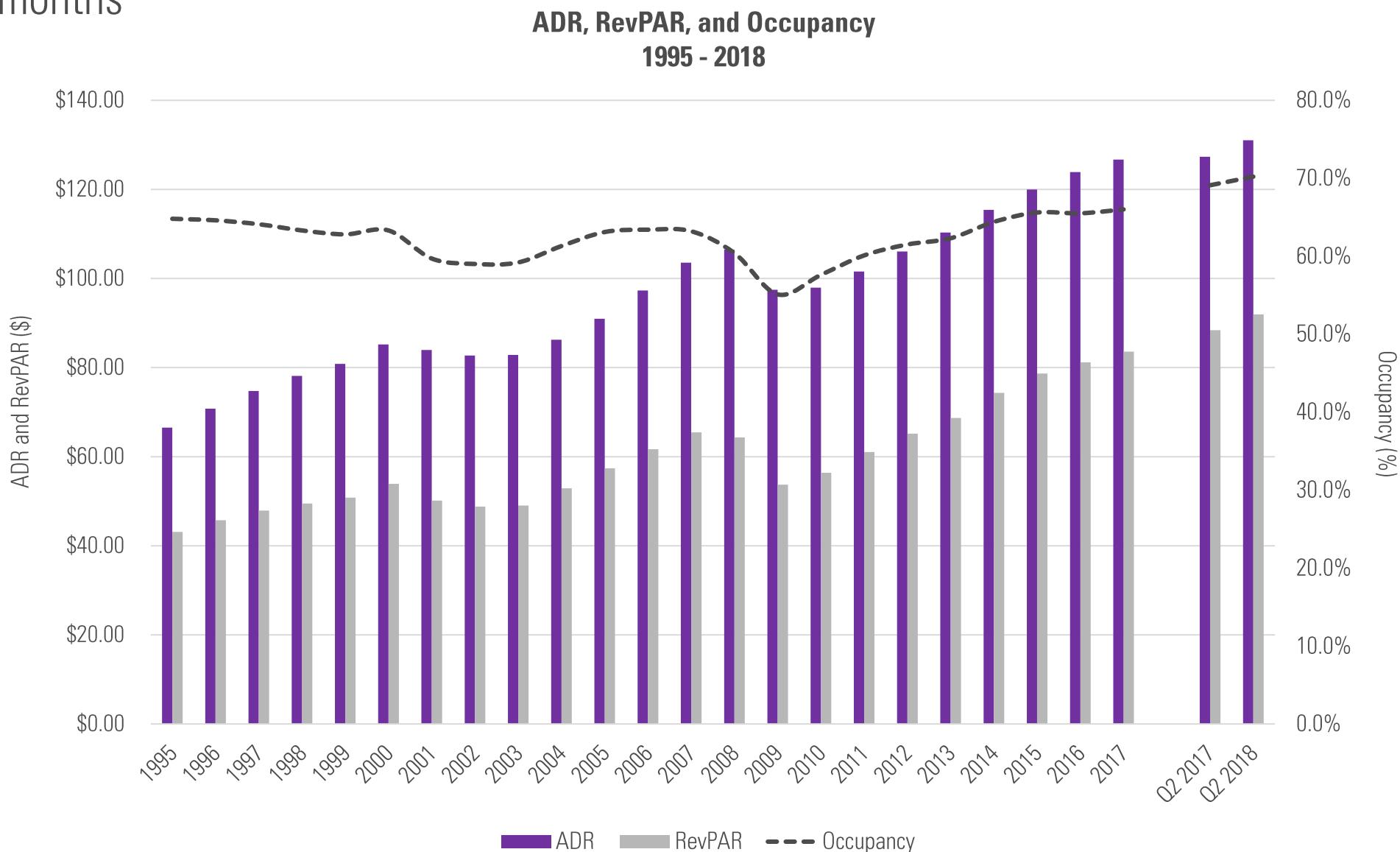
# HOTEL MARKET OVERVIEW

- ▶ Q2 2018 occupancy, RevPAR, and ADR exceeded those of Q2 2017, and remain above peak levels
- ▶ Hotel transaction volume declined by 9.3% YoY, driven by a 14.8% YoY decrease in full-service hotel transaction volume, despite a 2.1% increase in full-service transaction volume
- ▶ Hotel cap rates continue to vary by market; nationwide, full-service cap rates remain relatively unchanged, while limited service cap rates compressed sharply in Q2 2018



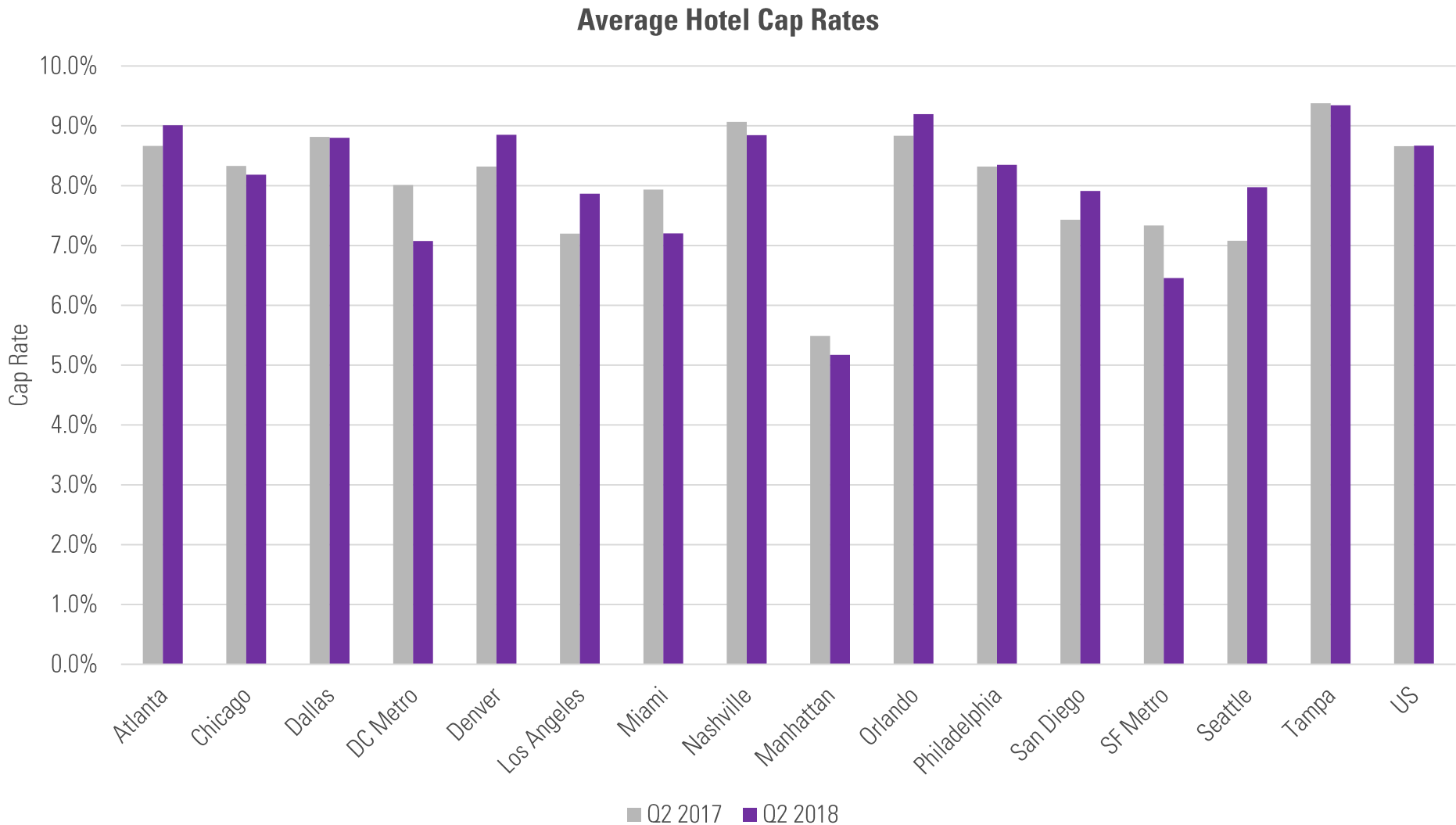
# HOTEL OCCUPANCY REMAINS STRONG

ADR and RevPAR have grown by 2.9% and 4.0%, respectively, over the past 12 months



# YOY HOTEL CAP RATES REMAIN UNCHANGED NATIONWIDE

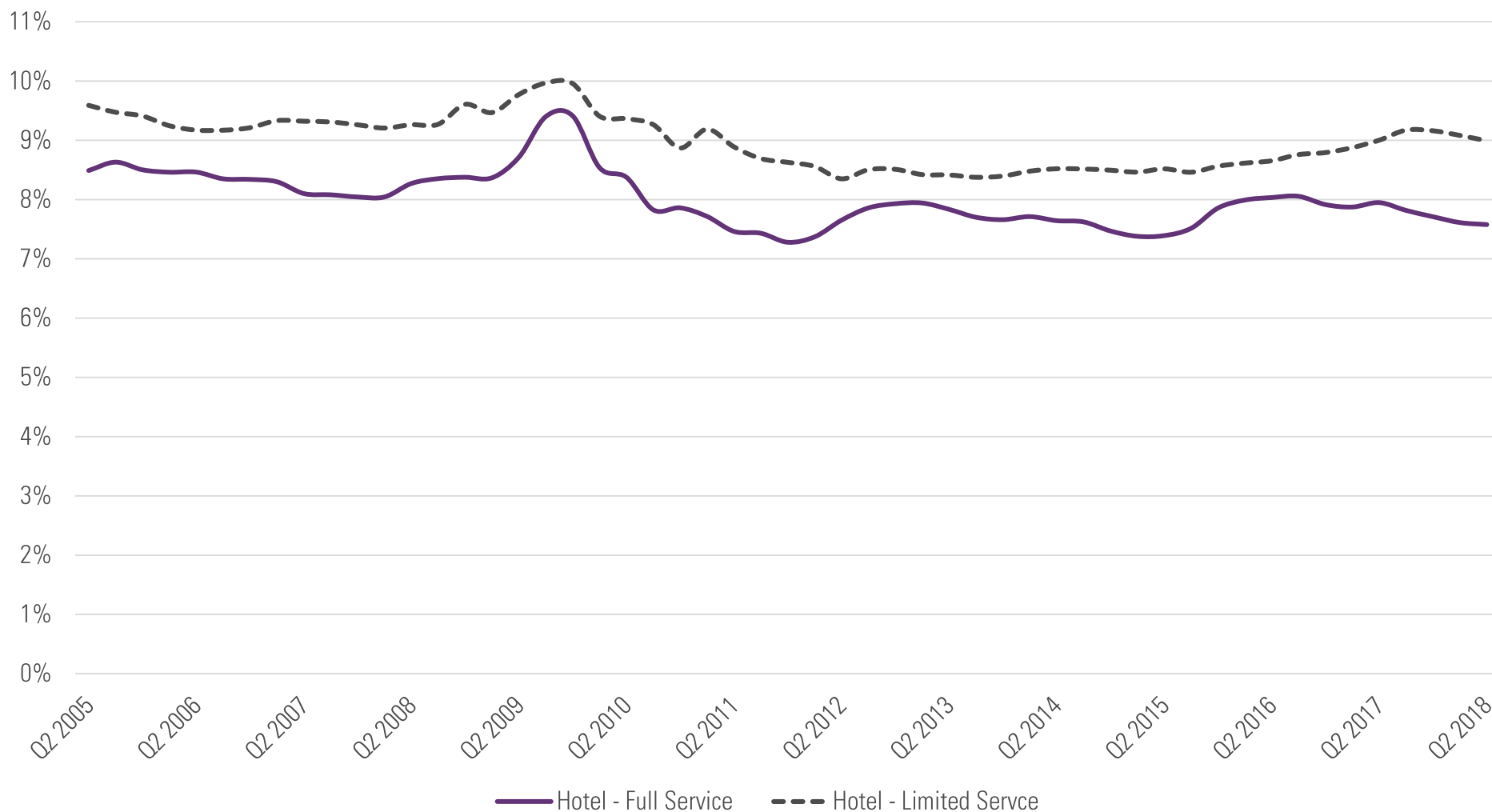
Seattle sees most expansion; DC and SF see most compression



# CAP RATES BY LEVEL OF SERVICE

Full-service cap rates have fallen for the fourth straight quarter, creating a wider than average spread to limited service

Cap Rates by Property Type  
1990 - Q2 2018



# CONTACT US TODAY



## Taylor Mammen

Managing Director

**P:** (310) 282-0437

**E:** [TMAMMEN@RCLCO.COM](mailto:TMAMMEN@RCLCO.COM)



## Joshua A. Boren

Director of Business Development

**P:** (310) 984-1757

**E:** [JBOREN@RCLCO.COM](mailto:JBOREN@RCLCO.COM)

**If you are viewing on your computer or tablet, click or tap on the bar to the right to jump back to the beginning of that section.**

