# INVESTOR SENTIMENT REPORT

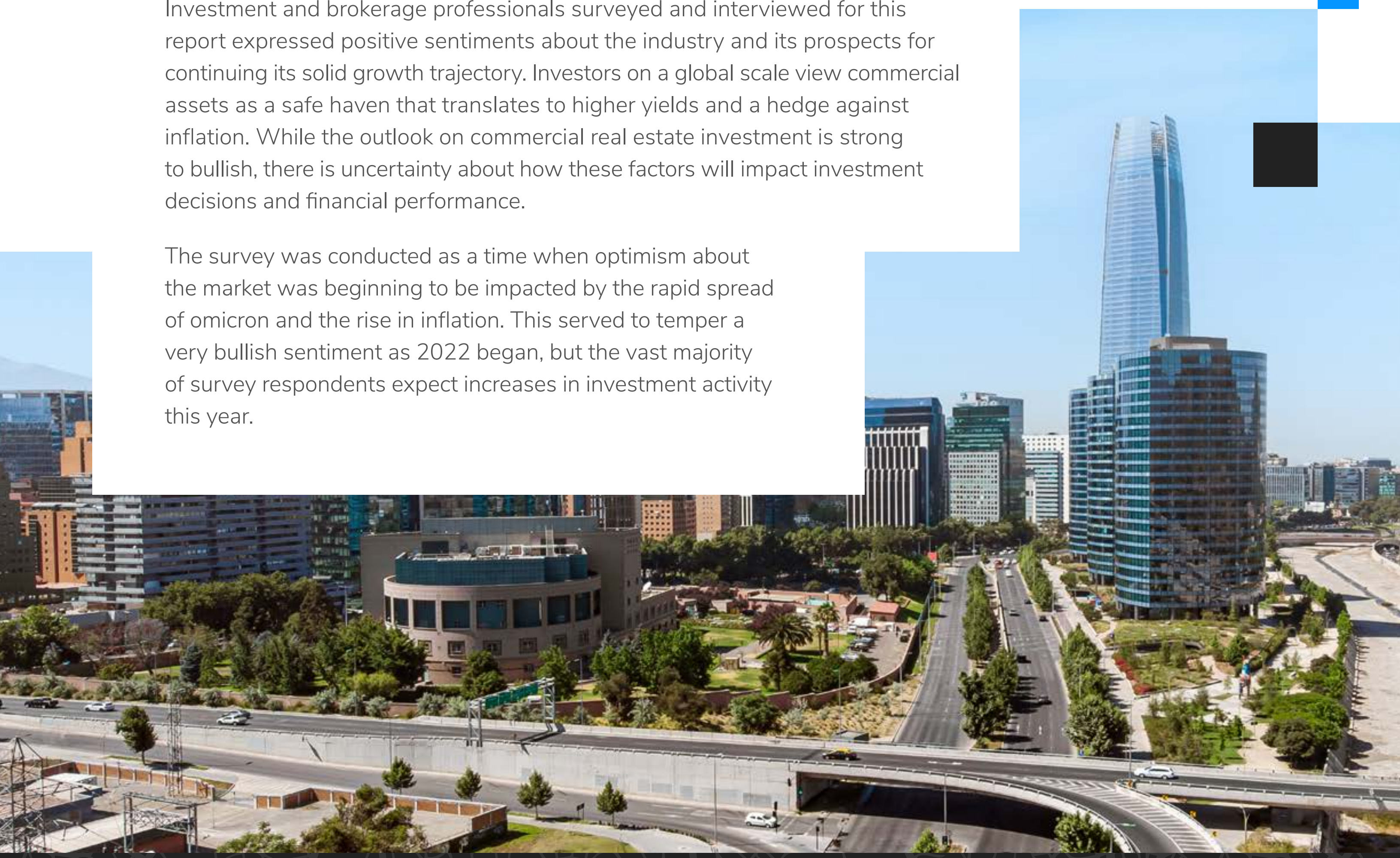
Q1 2022

> *Inflation is the biggest economic risk for private real estate investing and will impact or in some cases impair all other investment trends in 2022, which range from the course of interest rates and construction costs to multifamily valuation and appreciation movements."*
>
> **– David Scherer**, Co-CEO of Origin Investments

As the pandemic moves past the two-year mark, the U.S. economy has experienced a solid recovery, with strong GDP growth and unemployment moving back to pre-pandemic levels. Commercial real estate investors are navigating a complex landscape where demand and capital are plentiful but inflation is rising and the prospects of higher interest rates are creating tangible threats to the near-term outlook. These economic headwinds are arriving at a time of robust growth in some sectors (multifamily and industrial) and continued recovery in others (office, retail, and hospitality).

Investment and brokerage professionals surveyed and interviewed for this report expressed positive sentiments about the industry and its prospects for continuing its solid growth trajectory. Investors on a global scale view commercial assets as a safe haven that translates to higher yields and a hedge against inflation. While the outlook on commercial real estate investment is strong to bullish, there is uncertainty about how these factors will impact investment decisions and financial performance.

The survey was conducted as a time when optimism about the market was beginning to be impacted by the rapid spread of omicron and the rise in inflation. This served to temper a very bullish sentiment as 2022 began, but the vast majority of survey respondents expect increases in investment activity this year.



Research from Real Capital Analytics shows the U.S. commercial property market closing out 2021 with record activity, including more than $300 billion in sales across all property types during the fourth quarter alone. There also is significant capital allocated to commercial real estate and limited availability of assets in some sectors, which is escalating pricing and fueling demand for new construction.

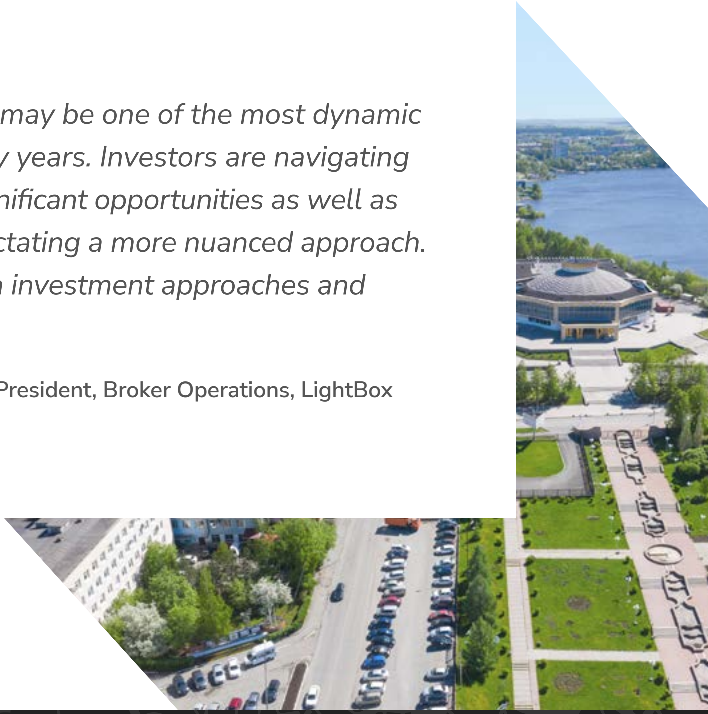
Investors are facing a landscape where strong consumer demand is dampened by significant issues such as supply chain backlogs, the impact of ongoing Covid-19 health protocols, and labor shortages. While rising inflation is not putting the brakes on investment activity, it is prompting some investors to reexamine projections and revise expectations for profitability.

## Key Findings of the 2022 RCM LightBox Investor Sentiment Report

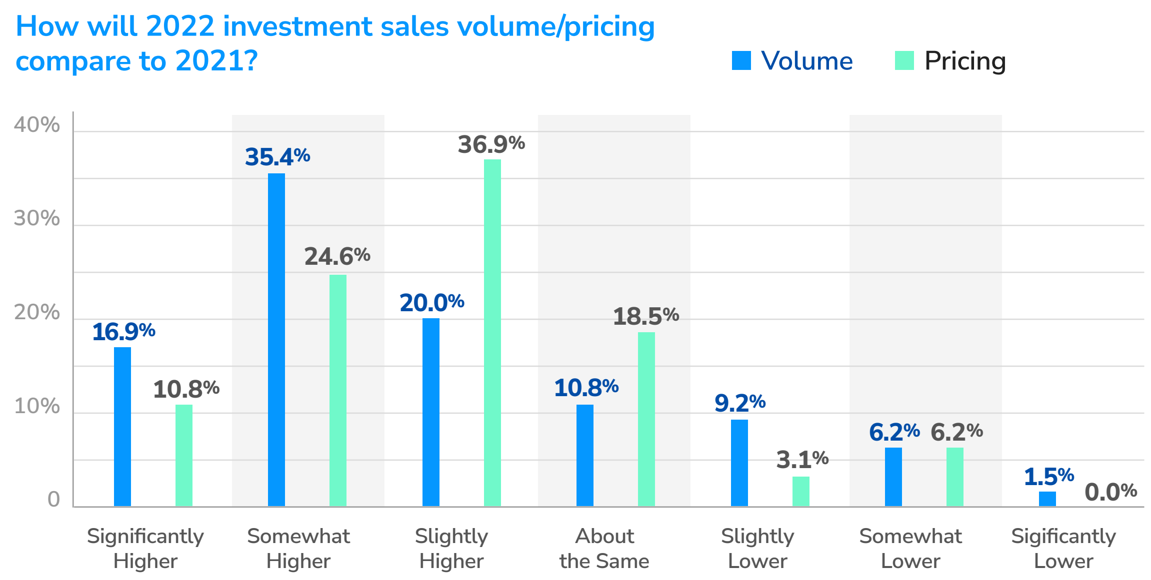
- Inflation, construction costs and rising interest rates are the biggest threats and are causing investors to revise profit expectations
- Multifamily and industrial assets ranked as top choices, with retail as the least favored
- The office sector continues to struggle with vacancy; suburban assets are preferred
- Population growth and household formation are top drivers of investment hot spots
- 72% of respondents expect commercial property investment to exceed 2021 levels

*"Today's capital markets climate may be one of the most dynamic and intricate we've seen in many years. Investors are navigating a complex environment with significant opportunities as well as economic headwinds that are dictating a more nuanced approach. We expect to see subtle shifts in investment approaches and strategies as a result."*

**– Tina Lichens**, Senior Vice President, Broker Operations, LightBox



# 2022 OUTLOOK: RISING INFLATION PUSHES AGAINST STRONG OUTLOOK




As investment and brokerage professionals look out over the next 12 to 18 months, they are balancing strong investor sentiment, growing capital allocations, and many positive market indicators against a complicated set of economic issues. The multifamily and industrial sectors have seen record activity over the past several years, as shifts in population trends and housing formation, along with the meteoric rise in online shopping have shaped leasing, construction and investment sales activity. The office, retail and hospitality sectors are improving but the recovery is uneven, with suburban office, experiential retail in lifestyle centers and "close-in" destination hospitality faring the best.

According to Real Capital Analytics, 2021 sales volume for multifamily ($326.8 billion), industrial ($167.9 billion) and suburban office ($96.2 billion) reached record levels. Retail and hotel assets lagged behind, although investors continue to focus on well-located assets supported by strong demographic and market fundamentals.

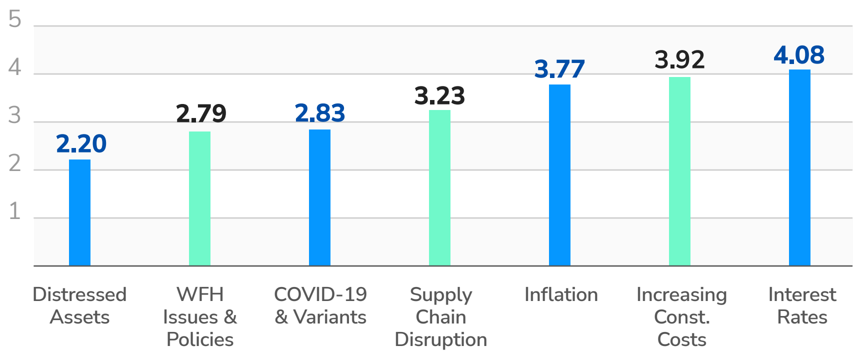
## GEO-POLITICAL TURMOIL

The recent invasion of Ukraine by Russia has added another layer of uncertainty that is likely to impact capital markets activity, but not in a uniform way, said Geoffrey Kasselman, SIOR, LEED AP, Partner and Senior Vice President, Workplace Strategy at CRG.

*"A lot depends on the length of the geo-political turbulence. Some players may adopt a wait-and-see policy or pull out of the market completely, which reduces demand-side competition and could lead to somewhat softer pricing. On the other hand, alternative institutional investments are likely to underperform as a result of such turbulence, which could end up boding well for an influx of new real estate capital seeking better returns."*

> *"One of the reasons 2021 investment activity was so strong is there was money coming in from outside sectors as investors focused on commercial real estate as a safe or relatively safe haven, as the economy moved into an inflationary period."*
>
> **— John Chang**, National Director of Research, Marcus and Millichap

### What impact will key issues have on CRE investment and ownership in 2022?




Ranked impact on a scale of 1 to 5 (low to high)

A surge in consumer demand was a welcome sight in mid-2021 and a clear sign that the market was beginning to return to business activity after the strict COVID-19 health protocols that kept office, retail and hospitality markets in limbo. One of the market's greatest challenges now, however, is that the strong demand and limited supply have fueled a more inflationary environment, characterized by pervasive shortages of products, materials and labor. Inflation has risen from 2.6% in March of 2021 to around 5.4% from June through September of 2021 to 7.5% at the end of January 2022.

When asked to rank the impact of various indicators, LightBox survey respondents noted interest rates as the top factor, followed by rising construction costs, inflation and supply chain disruption. Their views on industry-wide investment and sales volume showed strong optimism, however, with nearly 75% of respondents predicting that both levels would increase in 2022. Of that total, 52.3% predicted a somewhat or significant increase in volume while 35.4% expected a somewhat or significant increase in pricing. The survey was conducted in December 2021, ahead of Fed announcements that confirmed months of speculation on interest rate increases. The survey asked for perspectives across all asset classes.

With higher inflation and upcoming interest rate increases come concerns about the impact on investment pricing, construction costs, and myriad other factors that influence capital markets activity. These economic headwinds will likely affect the many juncture points where investors access capital. *"What inflation does in 2022, and the expectations for it beyond that, will have a tremendous impact on activity for the year,"* said Chang.

**2022 Predictions from Peter Linneman, Linneman Associates:**

- Dow **8 to 10%**
- 10-year Treasury **2.5% to 2.6%** by year-end
- Interest rates **.25 x3 (.75 bps )**
- GDP growth **4.5%** in 2022 and 2023


## MULTIFAMILY INVESTMENT IS STILL BOOMING

The multifamily sector is heading toward Q2 of 2022 with significant tailwinds given the continued shifts in housing formation and strong demand for rental properties, along with the shortfall in housing production. Following several years of robust **multifamily investment sales, activity in 2021 reached $326.8 billion**, just slightly lower than the volume for 2019 and 2020 combined ($337.2 billion), according to Real Capital Analytics. In fact, multifamily sales volume accounted for nearly half of the $300 billion sold across all asset classes in the fourth quarter of 2021.

During a recent Walker Webcast, Willy Walker, Chairman and CEO of Walker & Dunlop described the housing environment as a perfect world for homebuilders and multifamily property owners. Homebuilders are building to a higher price point and creating a greater delta between the pricing of single-family homes and apartment rents. This creates challenges for home buyers – and an ideal scenario for apartment owners to increase rents.

## INVESTORS ADJUSTING EXPECTATIONS

Investors are predicting a solid 2022 for multifamily investment, but one that might include lower profit margins than 2021. As higher interest rates put upward pressure on borrowing rates and cap rates, earnings will be impacted. *“This is not the end of what has been a very strong multifamily market,”* said David Scherer, Co-CEO of Origin Investments. *“Appreciation and multiples have been so strong for so long that a modest reduction has been inevitable.”*

Higher inflation, rising interest rates and supply chain disruption headwinds that threaten to slow other market sectors are prompting some investors to adjust expectations for multifamily. The prospect of inflation and the mark-to-market capabilities of the sector suggest rents will continue to rise as higher wages provide workers with additional spending power. Also, remote and hybrid office trends support the need for larger and better accommodations, which is moving multifamily activity from urban developments into suburban markets, particularly in the Southeast, Southwest and other high population growth regions.

*"Ground-up development can fetch 10% to 30% above replacement cost while value-add is trading at or just above replacement cost. As an investment option ground-up construction is here to stay, until rising land and construction costs reduce margins and cause a shift back to value-add strategies."*

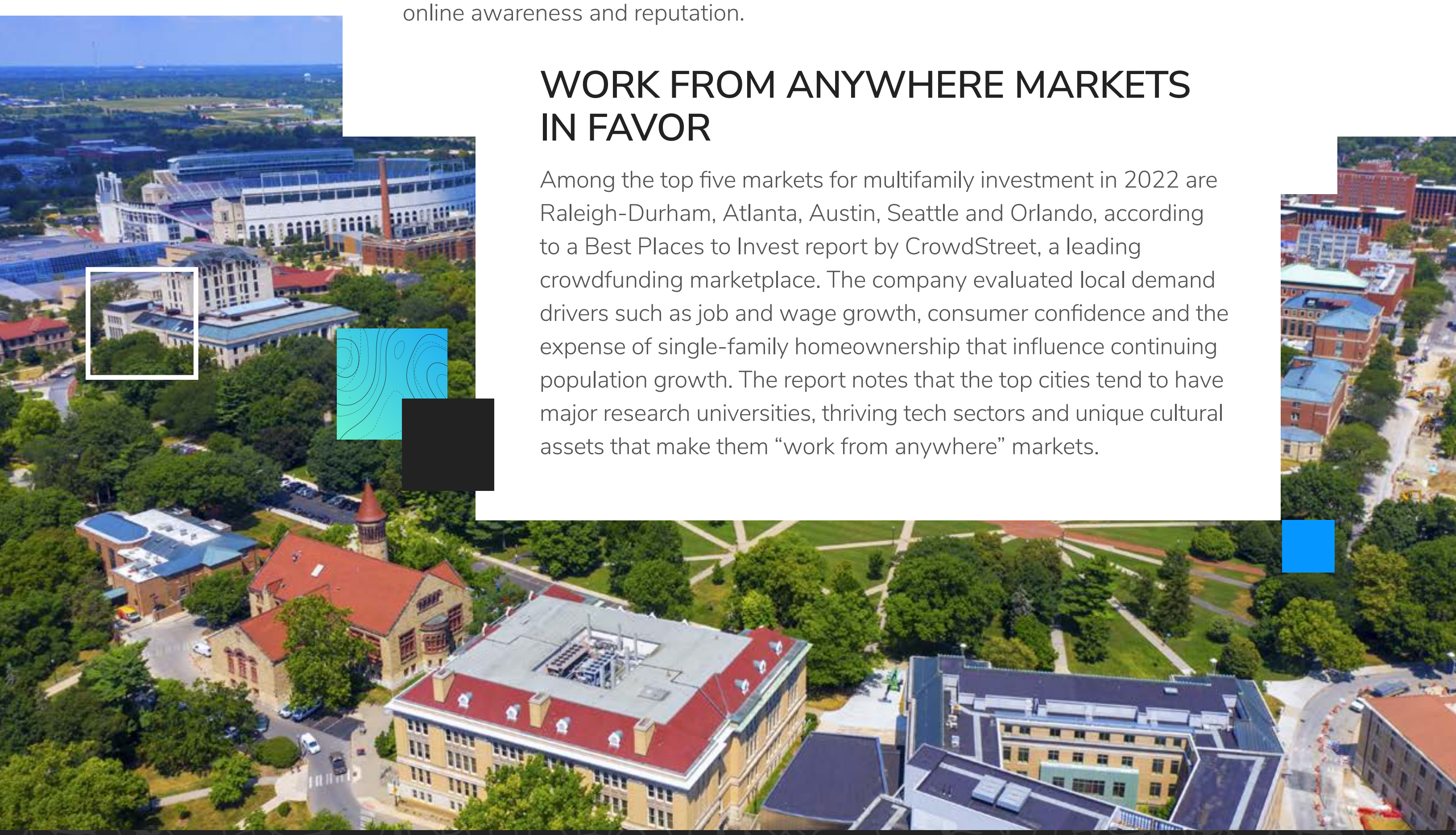
**– David Scherer**, Co-CEO of Origin Investments

## DEMAND FUELING MORE GROUND-UP CONSTRUCTION

Given the constrained supply and strong demand, ground-up construction is expected to increase in 2022. Fundamentals provide a favorable debt and equity climate which translates to significant capital in search of investments.

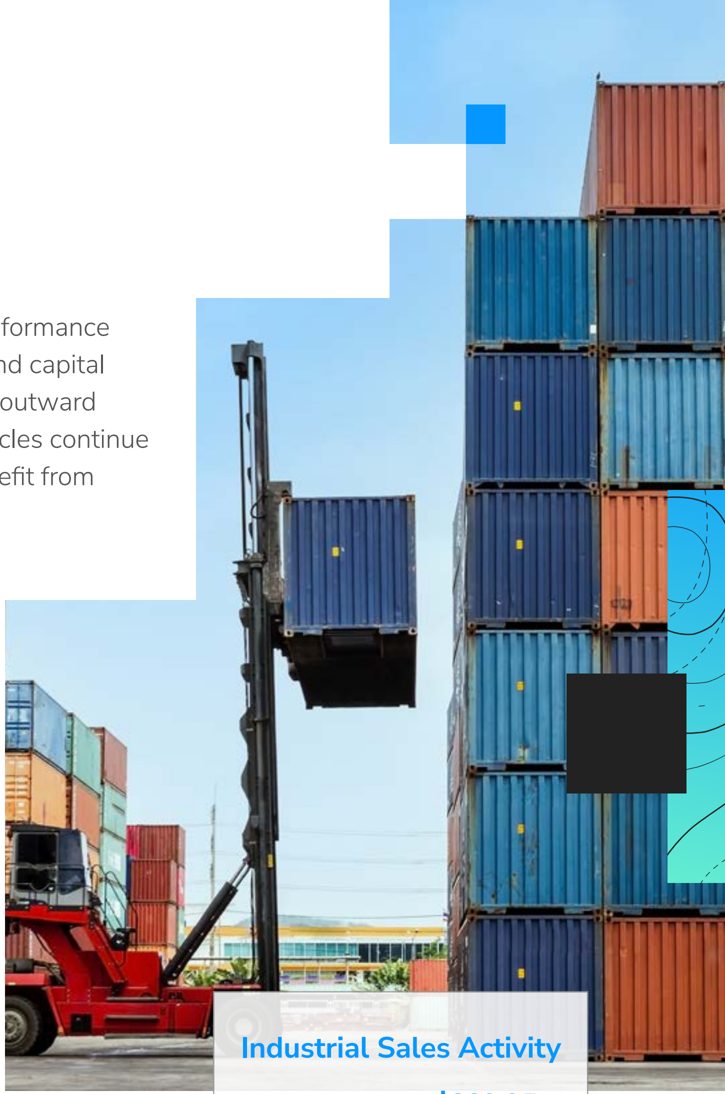
Many investors who have focused on value-add assets see continued opportunities and the need to adjust the approach. *"Historically you could focus on basic unit interior renovations to drive value, but today many properties have been through partial renovations having been traded multiple times over the last 10-15 years,"* said Chris Bartlett, Head of Capital Markets at Dallas-based The Milestone Group. *"Now, you really have to touch every aspect of the property to generate value."*

Today, elements of a value-add program likely include enhancing residents' experience, technology updates, comprehensive unit interior upgrades and driving online awareness and reputation.



## WORK FROM ANYWHERE MARKETS IN FAVOR

Among the top five markets for multifamily investment in 2022 are Raleigh-Durham, Atlanta, Austin, Seattle and Orlando, according to a Best Places to Invest report by CrowdStreet, a leading crowdfunding marketplace. The company evaluated local demand drivers such as job and wage growth, consumer confidence and the expense of single-family homeownership that influence continuing population growth. The report notes that the top cities tend to have major research universities, thriving tech sectors and unique cultural assets that make them "work from anywhere" markets.



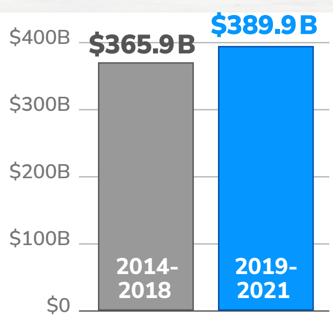
# INDUSTRIAL: SURGING DEMAND WITH NO END IN SIGHT

The transformative impact of e-commerce – and its strong performance during the pandemic – continue to drive leasing, investment and capital markets activity across the U.S. As population growth pushes outward from core markets into secondary markets, the industrial tentacles continue to expand, ensuring that consumers at every juncture can benefit from same day, second day and even one-hour deliveries.

This industrial expansion has created a frenzy among investors and developers as they look to secure strategic locations in the path of further expansion. Global investors have also moved into the sector in force, assembling large portfolios of warehouse, distribution and fulfillment properties across multiple markets to quickly scale up and gain a footing in this sector.

**Industrial sales reached $389.9 billion between 2019 and 2021**, an amount that exceeded the cumulative total for 2014 through 2018 by more than $24 billion, according to Real Capital Analytics. And, sales volume in 2021 exceeded $100 billion for the third consecutive year, reaching a record $167 billion.

Industrial Sales Activity




*Source: Real Capital Analytics*

> *"The industrial market experienced a stellar year in 2021 and is representative of the upward trajectory in the K-curve which illustrates that conditions and outcomes are good for some, but not necessarily for all. I expect 2022 will be more of the same. In fact, we'll likely see more of the same through 2023 and 2024."*
>
> – **Geoffrey Kasselman**, SIOR, LEED AP, Partner and Senior Vice President, Workplace Strategy at CRG

Experts in the sector relish industrial real estate's consistent front-of-the-line positioning for investment dollars from domestic and global sources. Much of that capital brings with it a level of sophistication and technological innovation that benefits everyone. Technology sophistication, including automation and detailed order tracking, is present for most of the biggest users—Walmart, Costco, Target and Amazon, among others. It is a natural evolution of any company with a supply chain and the need for faster deliveries with a greater level of certainty.

In spite of the tremendous performance of the industrial market through the pandemic and going back even further, there are certain caveats to the outlook. Inflation will impact a developer or investor's buying power, for example. Commodity material prices are increasing due to supply and demand issues. Slower delivery times are extending the cycles of planning, development and construction. Some materials face severe shortages, which will have an impact on deliveries.

*"We may see an interim decline in new construction deliveries in the second half of the year, due to a shortage of materials, or the delay in getting them to the job site,"* said Kasselman. *"Strong demand and less supply being delivered means that if you need to occupy space at the end of 2022 you may be slugging it out for the best available options. Demand for space is uninterrupted; delivery and occupancy are simply being delayed."*

Kasselman pointed to a notable shortage of readily developable "speed-to-market" land sites, specifically for industrial property, from coast to coast. The combination of land shortages in key markets across the U.S., coupled with changing dynamics in suburban office markets is creating unique opportunities for developers to acquire underutilized corporate campuses and reposition them for high end industrial use and last mile facilities.

With all of this growth and optimism, comes the reality that higher inflation is more than transitory.

"*It's real and we are all experiencing it. It's a matter of how long we can continue to pass costs through and how long can users pass through to their clients. I am not sure how long the pass throughs can happen. Plus, the cost of capital, and, thus, exit cap rates, are likely to rise with predicted interest rate hikes."*

**– Geoffrey Kasselman, SIOR, LEED AP, Partner and Senior Vice President, Workplace Strategy at CRG**

# OFFICE INVESTMENT: WORK-FROM-HOME AND SUBURBAN GROWTH TRENDS

The office sector may be the most challenging sector to accurately forecast. It historically has been the epicenter of company culture, innovation, mentoring and collaboration. Yet, for nearly two years, pandemic-related closures have fueled a strong work from home momentum that is continuing to dampen the outlook for leasing, construction and investment – despite signs of improving conditions.

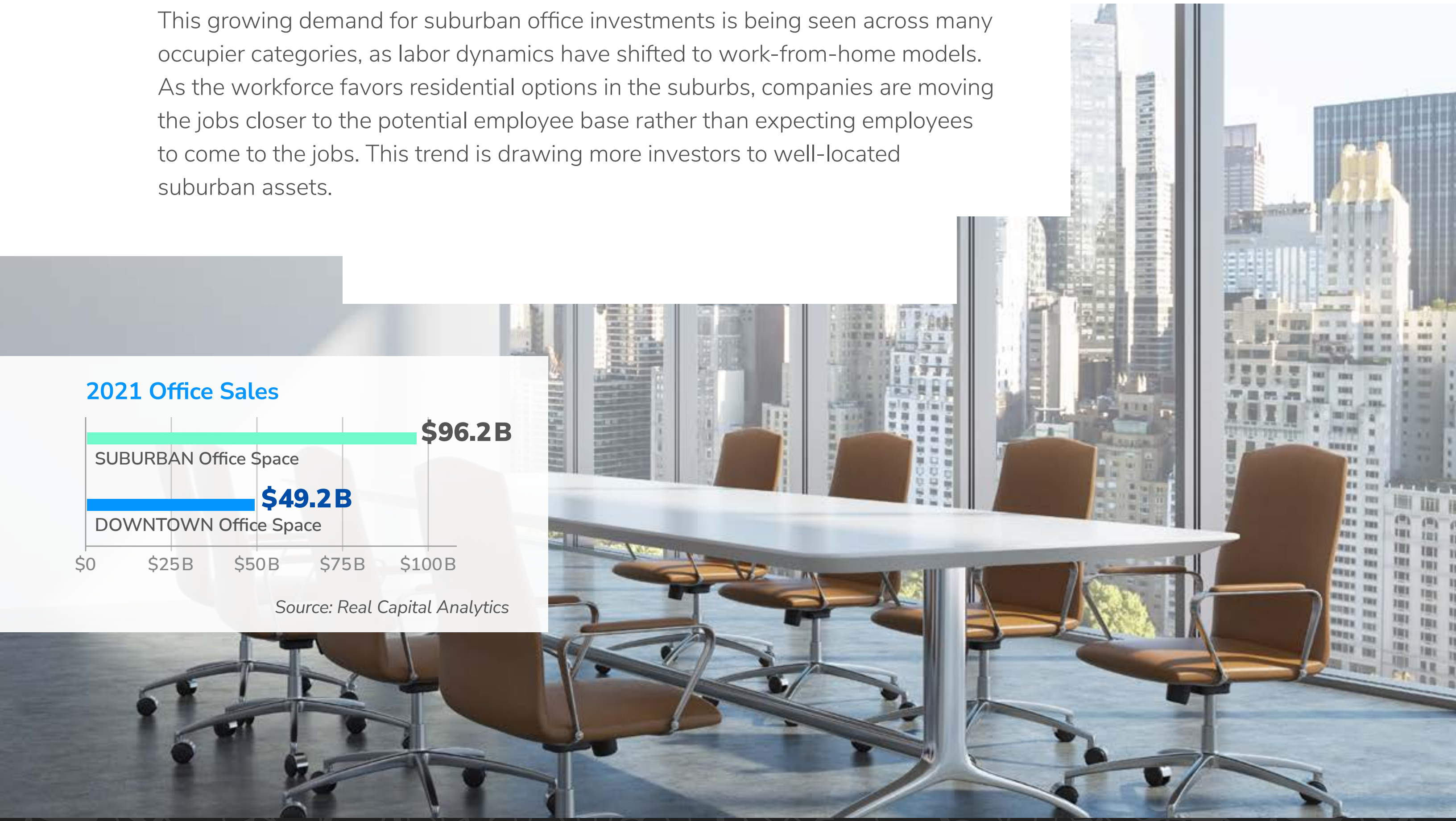
The challenges facing the office sector are underscored by the sector-level breakdown of Green Street's Commercial Property Price Index (CCPI). While the overall CPPI increased 24% over the last 12 months, ending December 2021, the office sector's increase was the lowest at 6%. Further, based on pre-COVID-19 numbers, the CPPI for office showed a 4% decline—the greatest decline of all sectors.

For many investors, the key question is what happens after COVID-19 when companies are reassessing and executing workplace solutions. Will building owners be successful in enticing workers to leave the smaller, cost-friendly population centers they flocked to during the pandemic and return to Manhattan, San Francisco or Chicago? Or will employers be hampered by a need to appease employees and offer options in newer growth markets?

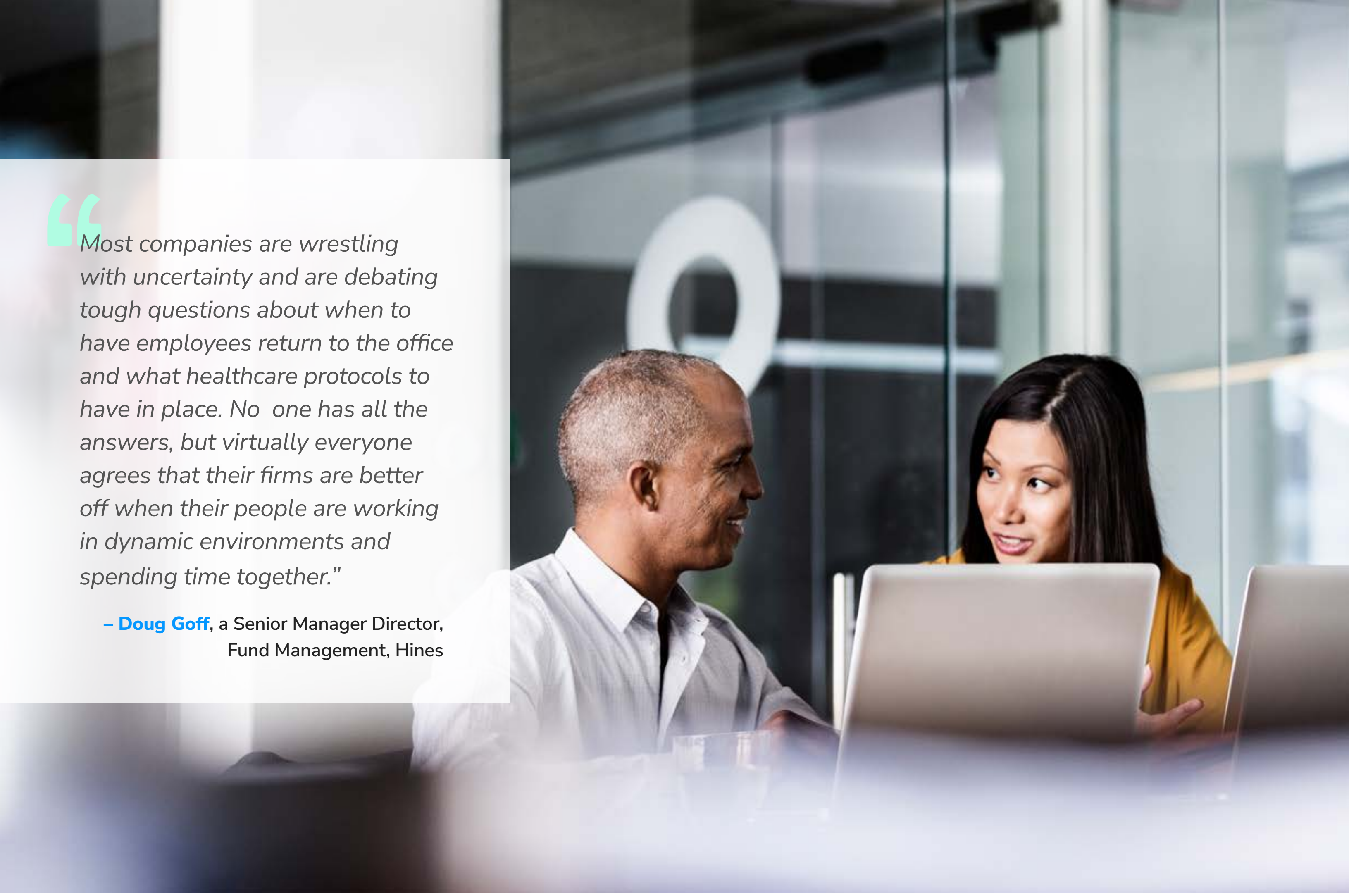
The bright spot for the office sector during the pandemic has been the growth in select suburban markets. This trend reflects the recent migration away from dense, city core properties and toward locations close to suburban-based employees. For the second year in a row, the sale of suburban office buildings far outpaced, by a margin of nearly two to one, downtown office sales. In 2021 suburban office sales totaled $96.2 billion versus $49.2 billion for downtown assets, according to research by Real Capital Analytics.

This growing demand for suburban office investments is being seen across many occupier categories, as labor dynamics have shifted to work-from-home models. As the workforce favors residential options in the suburbs, companies are moving the jobs closer to the potential employee base rather than expecting employees to come to the jobs. This trend is drawing more investors to well-located suburban assets.

**2021 Office Sales**




*Source: Real Capital Analytics*



*"Most companies are wrestling with uncertainty and are debating tough questions about when to have employees return to the office and what healthcare protocols to have in place. No one has all the answers, but virtually everyone agrees that their firms are better off when their people are working in dynamic environments and spending time together."*

**– Doug Goff**, a Senior Manager Director, Fund Management, Hines

## CORE ASSETS STILL A DRAW FOR OCCUPIERS

Many investors and developers who traditionally focused on core assets, however, are staying the course as they look long-term at how market, employment and economic dynamics are shaping office occupier strategies. *"We are believers in office, and we're focusing on well-located assets in gateway and supply-constrained markets,"* said Doug Goff, a Senior Manager Director, Fund Management, with Hines, a global real estate investment, development and management firm and one of the largest owners of office assets in the U.S. The firm is active outside of core markets as well, developing and investing in growth markets such as Atlanta, Austin, Dallas, Denver, Minneapolis, and Salt Lake City.

Despite the sector's challenges and uncertainties, Hines has a positive long-term (10-year) outlook for the sector – and one that is shaped by realistic assessments of the opportunities and challenges, said Goff. *"Most companies are wrestling with uncertainty and are debating tough questions about when to have employees return to the office and what healthcare protocols to have in place. No one has all the answers, but virtually everyone agrees that their firms are better off when their people are working in dynamic environments and spending time together."*

A Hines 2022 Outlook report notes the importance of analyzing detailed market data and hyper-local expertise when evaluating office locations. Rather than selecting a large metro based on historical performance, investors are trying to accurately pinpoint which submarkets in that city provide the best fit. Small differences in dynamics from one submarket to the next can have a significant long-term impact on investment value.

# RETAIL AND HOSPITALITY CONTINUE TO BATTLE BACK

Retail has been one of the most tarnished sectors of commercial real estate for more than a decade, but rumors of its demise have been grossly overexaggerated. In fact, retail is one of the sectors that has actually exceeded expectations from 18 months ago. While different markets face different realities, retail is generally seen as emerging stronger than expected. Necessity-based and grocery-anchored retail properties have performed very well, leading experts to acknowledge that "brick retail isn't dead."

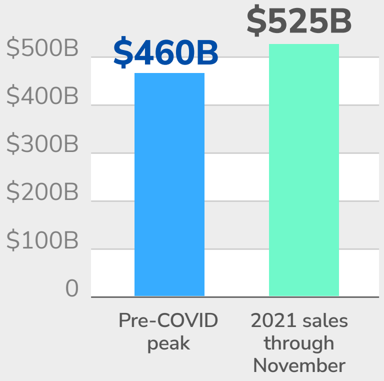
Through November 2021, **brick and mortar retail sales totaled $525 billion, a 14% increase from the pre-COVID peak of $460 billion**. Further, in the third quarter of 2021, e-commerce sales were a more typical 13% of sales rather than the 20% level achieved at the height of the pandemic, according to Linneman Associates research. Many market observers see those spending trends continuing.

At the same time, older centers and fringe retailers have been increasingly challenged. According to Peter Linneman, Founding Principal of Linneman Associates, LLC, the best thing that happened to good retail was that it pushed out bad retail. *"Most that went out of business were on watch lists and at death's door,"* he said.

He echoed what many in the sector believe, that retail required significant work, attention and risk. The end result, however, is an industry shaped by stronger retailers and centers that can endure the competitive forces at work.

One caveat expressed by participants in the LightBox survey is that different markets face different realities and operating climates. As such, Dallas is a very different marketplace than Chicago, just as markets throughout Florida are very different than New York or the Bay area. Retailers should pay attention to hyper-local market data on consumer buying trends, population growth and other factors as they craft their operational strategies.

**Brick and mortar retail sales increased 14% from pre-COVID peak**




*Source: Linneman Associates Research*

## LIMITED-SERVICE HOSPITALITY DRAWS ATTENTION

The hospitality industry battled back in 2021, trying to reverse the impact of changing travel patterns during the pandemic and investor interest in limited versus full-service hotels. Travel patterns reached their peak during the week between Christmas 2021 and New Years' 2022 when hotel demand was the highest ever recorded, according to a report from LWHA Hospitality Advisors

Limited-service hotels, especially those in drivable vacation destinations, have bounced back well. Occupancies have increased, Average Daily Room Rates are above 2019 levels, and REV PAR is equal to or greater than two years ago, which was a record year. Major hotels, like those located in major urban cores like New York, San Francisco and Chicago, as well as those relying very heavily on conferences and conventions, are significantly more challenged.

Investor acquisitions in the U.S. in 2021 totaled approximately $47 billion, the highest level since 2015 when $51 billion in sales occurred. Those results were driven by limited-service sales activity which reached its highest level ever, $23.8 billion, and surpassed the sales for full-service hotels, $23.1 billion. Investor sentiment continues, at least for now, to suggest that some of the greatest opportunities moving forward include limited-service hotels.

> "*I've been pleasantly surprised at hospitality's reboot from 2020 and the cliff it fell off of at the beginning of the pandemic. It's a very encouraging sign for the sector, with some exceptions, after all it went through."*
>
> **– Gary Bechtel, Chief Executive Officer, Red Oak Capital Holdings, a Grand Rapids, MI-based bridge lender**

Despite all the positives, the hospitality industry still faces questions and uncertainty—most notably issues related to business and convention travel. Major conferences and trade show are continuing to delay a return to annual events which are the core of profitability for hotels and convention centers across the country.

Experts suggest that labor concerns may provide further complications even when those bookings come back. *"The labor shortage is our greatest challenge. It's why restaurants close early, retailers don't have people on the floor and why businesses are forced to operate at a slower pace,"* said Chang.

> *Because some of the work we do is a precursor to future activity, We should see an increase in distressed property sales and auctions in 2022."*
>
> **– Michael McGeehan,** Executive Vice President of Real Estate Services, EBI Consulting

## DISTRESS: WAITING FOR THE SHOE TO DROP

The impact of distressed real estate during the pandemic has been something of an enigma. No one questions the presence of distress in the market, but it hasn't reached overwhelming levels, at least not yet.

There could be trouble lurking in the shadows, however. According to a December Snapshot Report by LightBox, experts contend that the inevitable has only been delayed. Although the predicted tsunami of distressed property activity has not yet materialized, in part because forbearance and foreclosure actions were deferred, Michael McGeehan, Executive Vice President of Real Estate Services with EBI Consulting, says those days are likely over.

*"Because some of the work we do is a precursor to future activity,"* he said. *"We should see an increase in distressed property sales and auctions in 2022."*

### Other LightBox findings include:

- Shadow Distress - assets, businesses and investors that have been propped up by relief efforts and/or relaxed regulations—will intensify the pain in 2022.
- Analysis of special servicer activity points to increasing potential distress moving forward, with nearly half to occur into 2023 and later.
- Today's focus is on office assets as companies plot the potential land mines of the post-pandemic work environment; some hotel and retail properties remain tenuous due to unaddressed fundamental issues.
- The marketing of loans/notes is heating up, especially for banks but less for special services whose protocols are more rigid.
- Distressed/opportunistic funds are flush with record levels of cash but short on ideal target opportunities.

# TOP MARKETS TO WATCH

While core markets, particularly those with land constrained environments, will always remain a constant destination for investment capital, there is a growing movement toward expanding secondary markets that offer a lower cost of living, more housing choices and – and important consideration during the pandemic – room to spread out. Some corporations have also started relocating to smaller metros, leaving costly, disaster-risky California for less expensive locations such as Texas and markets in the Southeast.

Changing tax laws around the country and the reverberation from pandemic closures pushed migration to destinations and markets in the Southeast and Southwest. By all accounts, those population shifts are having a sticky effect, with many residents deciding to stay, given the growing work-from-home momentum and strong employment market.

Among the top growth markets are multiple cities in Florida (Ft. Lauderdale, Miami, Orlando, Tampa and West Palm Beach) and Texas (Austin, Dallas, Houston, and San Antonio). Other cities to watch for investment growth are Atlanta, Charlotte, Las Vegas, Nashville, Phoenix, Raleigh-Durham and Salt Lake City. Investors are moving capital out of core markets such as New York, Los Angeles and Chicago as a means of diversifying and boosting yield. This capital mobility and portfolio migration is a reflection of investors' focus on adapting to where people see the future of real estate needs. In the process, it's creating very competitive environments and downward pressures on cap rates.

Fort Lauderdale, FL

Houston, TX

Charlotte, NC

Nashville, TN

Salt Lake City, UT

> *"Even if we get 10% growth in the CPPI in 2022, it's a really good year."*
>
> **– Cedrik Lachance**, Executive Vice President and Director of Research, Green Street

## 2021: A TOUGH ACT TO FOLLOW

Green Street's Commercial Property Price Index (CPPI) increased 24% in 2021 and represented a substantial turnaround from 2020 when the CPPI was negative 8%. It means that from a pricing perspective, 2021 is an incredibly tough act to follow.

Cedrik Lachance, Executive Vice President and Director of Research, Green Street, explained that the 2021 results included a COVID-19 rebound and the realized expectations of improvements in cash flows for specific sectors such as industrial and self-storage, which continued to perform at very high levels. *"The expectations for cash flow growth in industrial went from pretty good to great actual results,"* he added. *"For self-storage, it went from okay to spectacular."*

Green Street is bullish on real estate property performance in 2022, but is not predicting the extraordinary results seen in 2021, instead predicting low "double-digit growth" in 2022. That number is still a moving target for this year, however. *"Even if we get 10% growth in the CPPI in 2022, it's a really good year,"* said Lachance.

Those expectations fall in line with the results of the LightBox survey. More than 60% of respondents expect that pricing levels in 2022 will be somewhat (24.6%) or slightly (36.9%) higher. Lachance believes non-traditional sectors will pull performance metrics up. Those sectors include manufactured homes, single-family rentals, and healthcare facilities. He also called life sciences *"a very important sector."*

Healthcare and other sectors like retail and certain elements of the hospitality industry must navigate potential pitfalls—inflation, labor costs and labor cost inflation—to avoid lower cash flow expectations.

> *"There is no question that there are headwinds that may influence commercial real estate investments over the next 12 to 24 months. Today's investors possess a level of sophistication and creativity that will continue to drive investment gains and elevate new sectors and opportunities in 2022, 2023 and beyond."*
>
> – **Steve Shanahan**, General Manager, Broker Operations, LightBox

## CONCLUSION

Commercial real estate investors, developers and brokers are looking ahead with an overwhelming sense of optimism about market fundamentals, demand drivers and the outlook for investment activity across the various sectors. That positive sentiment is also tempered with a dose of reality. After a 10-year growth curve – and all the disruption and resiliency seen throughout the pandemic – strong consumer demand is pushing up the inflation rate and opening the door to interest rate hikes. Those hikes have been expected for awhile, however. Some experts predict a more moderate response to rising rates, compared to an atmosphere where rates were increased unexpectedly.

Those inflationary pressure are prompting many industry experts to closely examine their transaction and construction pipelines and assess their exposure to economic shifts. Some are predicting modest increases in financing costs and material pricing. Others note the potential to see construction starts and completions decline for a short period, as the economic waves move through the market.

Occupier and investor demand, however, is expected to continue at a healthy pace. Capital allocations will continue to shift into the commercial real estate sector, as investors look to buffer against inflation's impact on other investment vehicles.

For all of the challenges the economy faces—inflationary shifts, labor shortages and supply chain disruption—there is great and widespread optimism for what lies ahead for the economy and commercial real estate. As Willy Walker noted in one recent Walker Webcast, he is *"incredibly bullish about the economy for not just 2022, but for the next three to five years."*

For some, the outlook requires some additional perspective. Bechtel noted: *"I used to be most concerned about a black swan event, such as a terrorist event in a major market or a natural disaster, but until we went through it, a world-wide pandemic wasn't what we thought it would be."*

That perspective, in part, influences his belief that actions like the Fed increasing interest rates 25 basis points three times won't have as big an impact as people fear.

Reflecting on the way the industry traditionally has responded as markets and conditions evolve, Steve Shanahan, General Manager, Broker Operations, LightBox said, *"There is no question that there are headwinds that may influence commercial real estate investments over the next 12 to 24 months. Today's investors possess a level of sophistication and creativity that will continue to drive investment gains and elevate new sectors and opportunities in 2022, 2023 and beyond."*

# ACKNOWLEDGMENTS

LightBox would like to thank the following individuals for participating in interviews to provide further insights into the U.S. commercial real estate market:

**Chris Bartlett**, Head of Capital Markets, The Milestone Group

**Gary Bechtel**, Chief Executive Officer, Red Oak Capital Holdings

**John Chang**, National Director of Research, Marcus & Millichap

**Doug Goff**, Senior Manager Director, Fund Management, Hines

**Geoffrey Kasselman**, SIOR, LEED AP, Partner/Senior Vice President, Workplace Strategy, CRG

**Cedrik Lachance**, Executive Vice President, Director of Research, Green Street

**Mike McGeehan**, Executive Vice President, Real Estate Services, EBI Consulting

**David Scherer**, Co-CEO, Origin Investments

**The Walker Webcast**, featuring Willy Walker and Peter Linneman

- **Willy Walker**, Chairman and Chief Executive Officer, Walker & Dunlop
- **Peter Linneman**, Founding Principal, Linneman Associates

**CrowdStreet**

**Green Street Advisors**

**Real Capital Analytics**

## ABOUT LIGHTBOX

LightBox is the world's leading real estate information and technology platform. Through operational excellence and a passion for innovation, LightBox facilitates transparency, efficiency, insight, and prediction for real estate investment and location analytics. Our customers include commercial and government agencies requiring definitive real estate data and powerful workflow solutions, including brokers, developers, investors, lenders, insurers, technology providers, environmental consultants, and valuation professionals. LightBox is backed by Silver Lake and Battery Ventures. Learn more at **lightboxre.com**

## ABOUT RCM

Through RCM, LightBox offers a global marketplace for buying and selling CRE and increases the speed, exposure, and security of CRE sales through a streamlined online platform. Solutions include integrated property marketing, transaction management, and business intelligence tools to unify broker- level and firm-level data and workflows. The company has executed over 72,000 assignments with total consideration in excess of $2.4 trillion. Approximately 50% of all U.S. commercial assets sold, over $10 million, are brought to market using the company's online marketplace annually.

LIGHTBOX

LOCATE. ANALYZE. ACT.