MSCI

July 2022

Capital Trends

US Office

8.2% YOY price change

$10.9b Transaction volume

-25% YOY volume change

Nobody really likes to go to the office in July or August. This preference is not a function of the pandemic or any changing behaviors around the use of office space. It is summertime and the living is easy with people on vacations and enjoying the benefits of warm weather. Even before the pandemic, sales data for July would tend to be understated in our August reporting and revise up once everyone returned to work in September and October.

The declines seen in July, though, would be difficult to overcome in a typical pattern of data revision. The headline figures look as good as they do only because of two major entity-level transactions that closed in July. Looking at the sale of individual assets, activity was down 56% from a year earlier. Again, that figure will likely revise upward as people return to work and catch up on filings. Even an extreme upward revision is not going to erase that sort of decline, so clearly the pace of office investment is decelerating.

The two entity-level deals closed in July involved public entities with exposure to office assets, but the purchases were not really a bet on the office market directly. Blackstone was involved in a deal to take PS Business Parks private. Most of the portfolio involved industrial buildings but suburban office assets were also part of the acquisition.

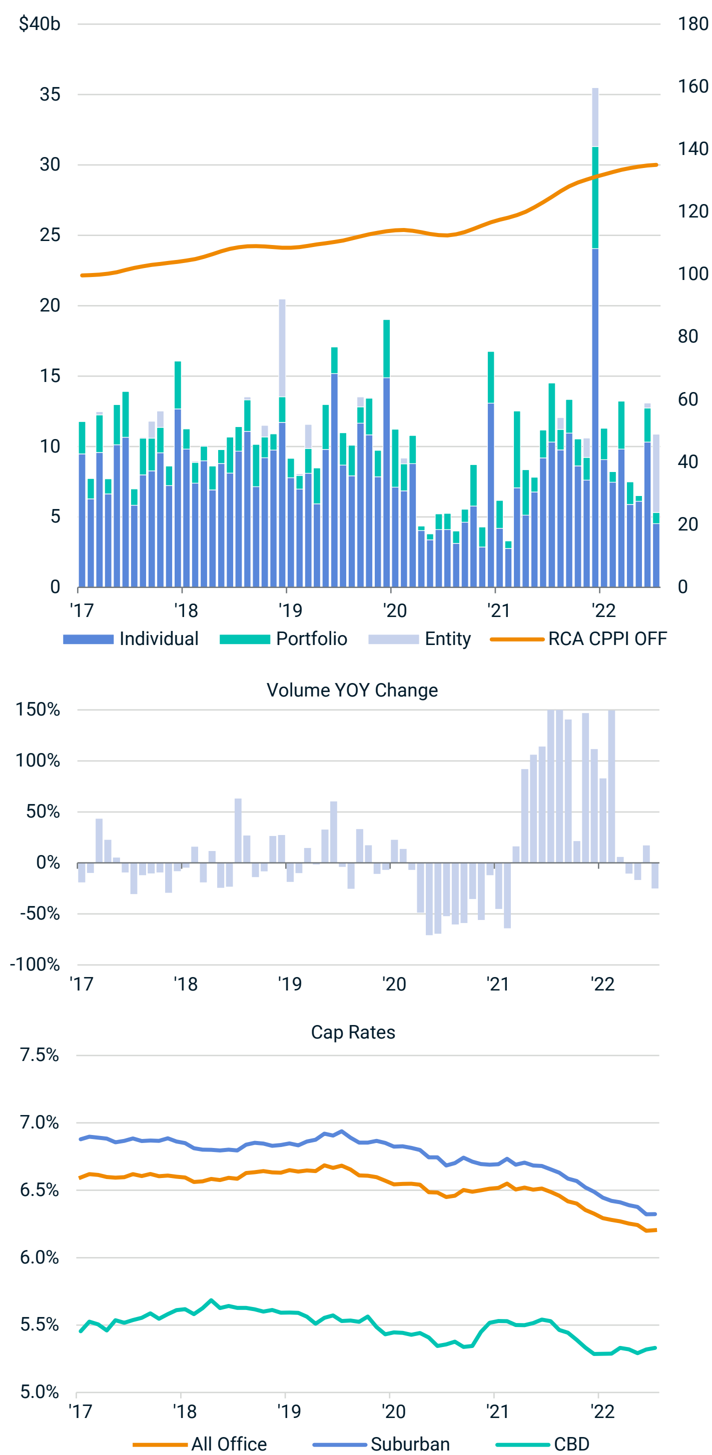
The other major entity-level deal involved the merger of Healthcare Realty Trust with Healthcare Trust of America. This deal included 16.9 million square feet of office space across 242 properties. These assets were all medical office properties. In both cases, the sale figures roll up to the office market, but the buyers were not motivated by a bet on the office market itself but niche characteristics.

Cap rates averaged 6.2% in July, down 30 bps from a year earlier. Cap rates for CBD offices stood at 5.3% while those for suburban assets stood at 6.3%.

Transaction Volume Summary

	July 2022		YTD 2022	
	Vol ($b)	YOY	Vol ($b)	YOY
Office Total	10.9	-25%	70.8	11%
CBD	1.5	-64%	20.8	6%
Sub	9.4	-9%	50.0	13%
Portfolio & Entity	6.4	52%	17.5	-5%
Single Asset	4.5	-56%	53.2	17%

Monthly Transaction Volume and Pricing



Trailing 12-mth cap rates; volume YOY change truncated at 150%

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Spotlight on Medical Office

Medical office investment has hit all-time highs for deal activity in recent quarters. Even after a record-breaking quarter at the end of last year, volume in just the first half of 2022 reached $7.7b, up 38% from the same period a year prior and 13% above the average seen for the first half of a year during 2017-19.

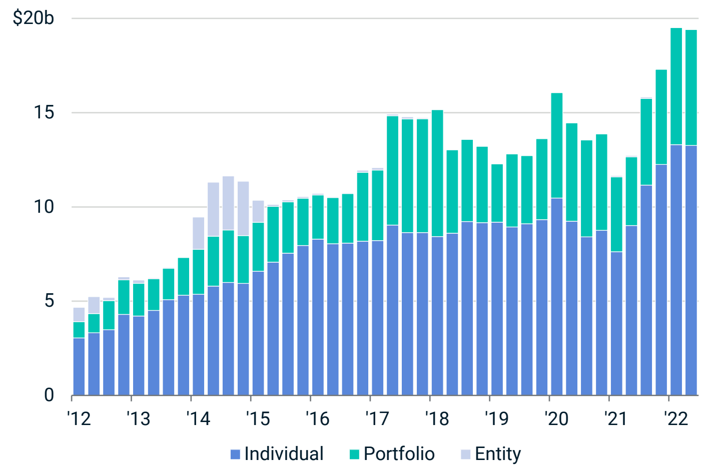
Elevated as these figures are, there is already significant activity in the books for the second half of the year. Not included in the total for the first six months of 2022 is the multibillion-dollar merger between Healthcare Realty Trust and Healthcare Trust of America that closed at the end of July.

Compared to traditional office assets, investors continue to pay a premium for medical office properties. The RCA Hedonic Series cap rate for medical office buildings fell 30 bps from a year earlier and reached a record low of 5.9% in Q2'22. The spread between this series and the broader suburban office series was widest back in Q4'20 but has since tightened almost 20 bps to stand at 25 bps.

Looking at the most active markets for acquisitions over the last four quarters, Los Angeles claimed the top spot. While portfolio sales bolstered deal activity in Los Angeles, the market would still secure the #1 spot tallying single asset sales alone. The same can't be said for the fourth largest market, Atlanta, which would fall to the #9 spot in a ranking of top markets for individual asset sales. Portfolio sales accounted for one-third of total deal volume in Atlanta in the year through June.

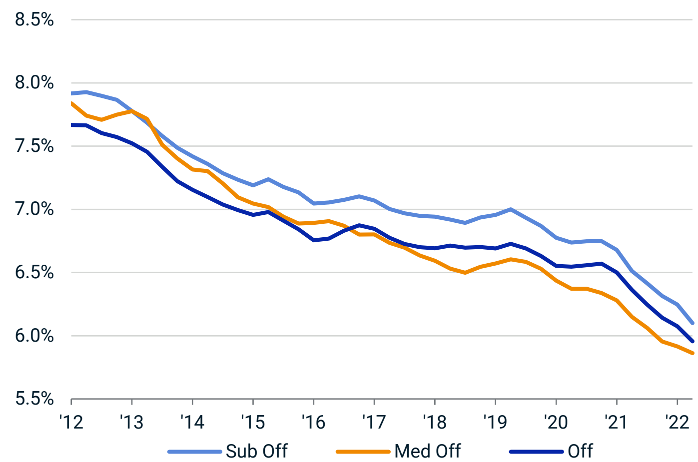
As for investors in medical offices, in the four quarters through June the number of unique buyers was 5% higher than the prior period. Of the top 10 most active buyers for the same time frame, four were institutional players.

Transaction Volume



Trailing 4-quarter data

Cap Rates



RCA Hedonic Series

Top Acquisition Markets

Rank	Market	Sales Volume ($m)
1	Los Angeles	1,371
2	Dallas	845
3	Phoenix	797
4	Atlanta	491
5	Chicago	490
6	Houston	482
7	San Francisco	474
8	Orange Co	467
9	Boston	399
10	San Antonio	378

Individual   Portfolio & Entity

Top Buyers

Rank	Investor	Investor Group
1	Harrison Street RE Cap	Institutional
2	Physicians Realty Trust	Listed/REITs
3	Montecito Medical	Private
4	Remedy Medical Properties	Private
5	Healthcare Realty Trust	Listed/REITs
6	TIAA	Institutional
7	Anchor Health Props	Private
8	Healthpeak Properties Inc	Listed/REITs
9	RMR Group	Institutional
10	Kayne Anderson	Institutional

Top markets and buyers charts: four quarters through Q2'22

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Methodology

Data based on properties and portfolios $2.5m and greater unless otherwise stated. Data as of August 23, 2022 unless otherwise stated.

About Capital Trends

Capital Trends reports analyze and interpret trends in the global real estate market. US Capital Trends is a monthly edition comprising an overview of the U.S. market and separate reports on the five main property types. Asia Pacific, Australia, Europe and Global Capital Trends are published quarterly.

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