Intelligent Investment

2022 U.S. Investor Intentions Survey

REPORT

CBRE RESEARCH
APRIL 2022

Executive Summary

CBRE's 2022 U.S. Investor Intentions Survey reveals strong investor sentiment despite concerns about inflation, interest rates and the COVID pandemic. The survey was conducted several weeks before Russia's invasion of Ukraine.

Although geopolitical uncertainty may weigh on investment volume in 2022, we expect the annual total will approach the record $746 billion in 2021, thanks to continued strength in real estate fundamentals and an abundance of capital targeting real estate.

Nearly two-thirds of survey respondents plan to increase their purchasing activity in 2022. More than 80% of respondents expect selling activity to remain steady or increase. Investors continue to seek yield via core-plus and value-add strategies and are targeting secondary markets, particularly in the Sun Belt. Investors also are placing increased importance on ESG criteria, with a particular focus on the environment. We expect this focus will intensify in 2022.

Key Findings:

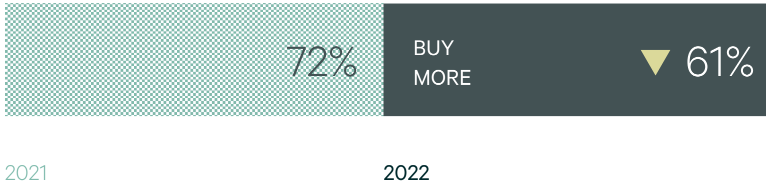
- Industrial and multifamily are the most preferred property types for U.S. investors.
- Core-plus and value-add are the most popular investment strategies in 2022 as investors search for yield amid a broader low-yield environment.
- Secondary markets, particularly in the Sun Belt, remain attractive for investors. Dallas, Austin, Phoenix, Miami and Denver were the top five most preferred markets in 2022.
- Pricing for industrial, multifamily and high-quality office assets is expected to rise this year. However, some discounting will remain for lower-quality office buildings, as well as select retail and hotel assets.
- Environmental, social and governance (ESG) criteria have been widely adopted by U.S. investors.

Contents

Purchasing and selling expectations point to another strong year

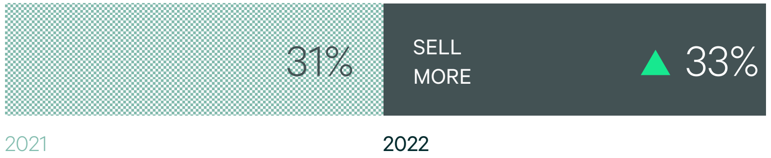
61% plan to buy more than last year

% of respondents



33% plan to sell more than last year

% of respondents

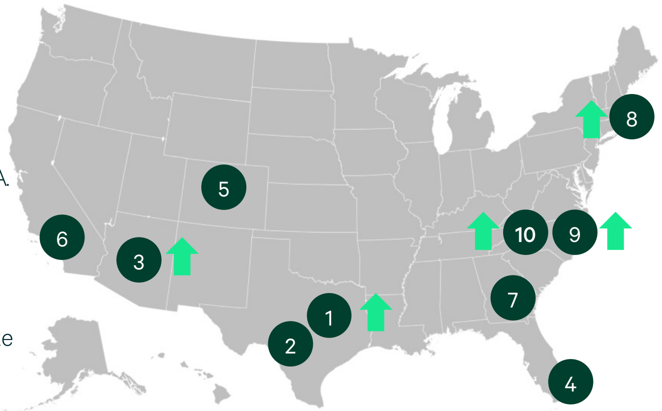


Note: Arrows indicate year-over-year change in percentage.

Top markets for investment

Top 10 Most Preferred Markets

1. **1.** Dallas
2. **2.** Austin
3. **3.** Phoenix
4. **4.** Miami
5. **5.** Denver
6. **6.** Greater L.A.
7. **7.** Atlanta
8. **8.** Boston
9. **9.** Raleigh
10. **10.** Charlotte



Legend

Higher ranking than in 2021

Investing in 2022

Core-plus and value-add highly sought after by investors

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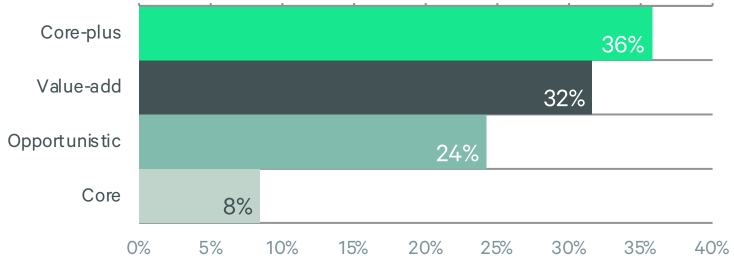

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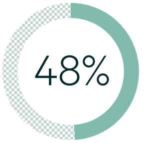


of investors believe demand for physical office space will either remain the same or increase in the next three years

3. **Percentage of respondents expecting discounts**

0%	2%	41%	42%	47%
Logistics	Residential	Class A Office	Hotel	High Street Retail

01

Activity Expectations & Preferred Markets

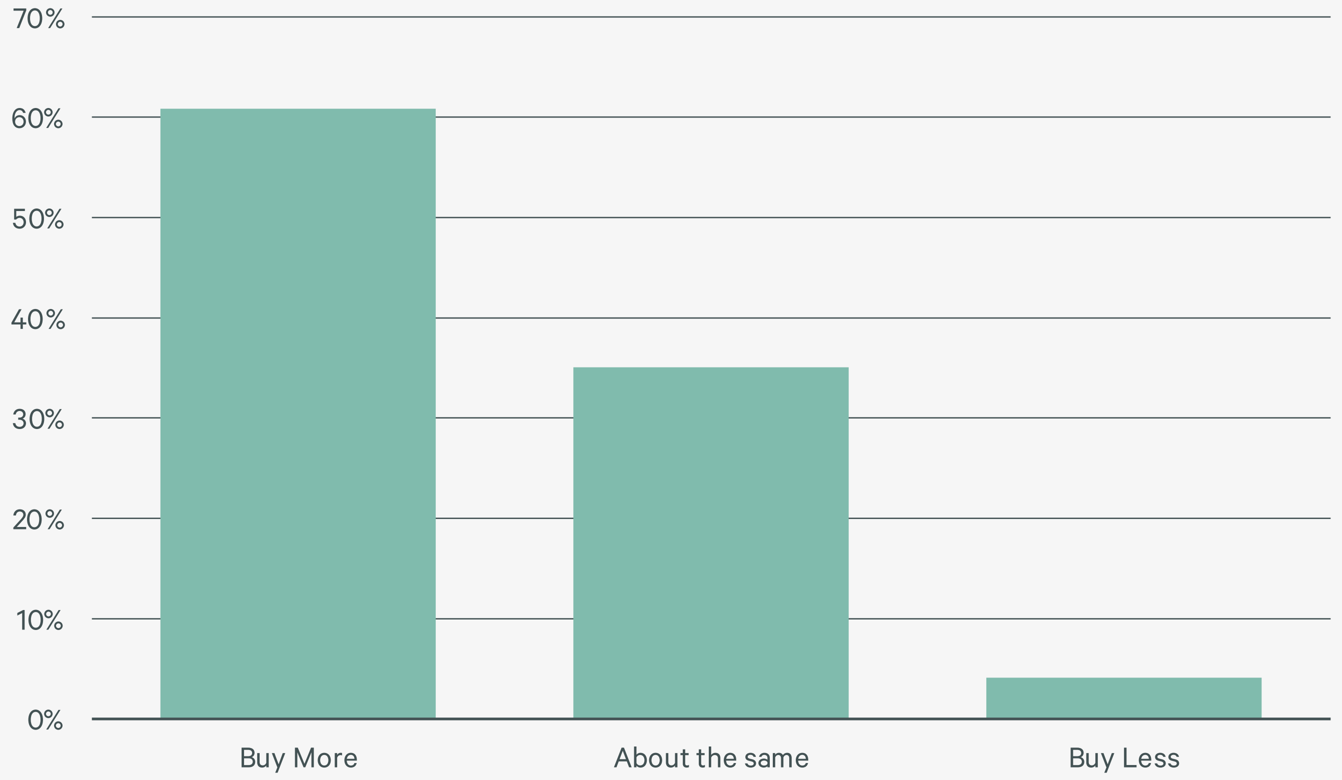
Survey indicates bullish investor sentiment at the start of 2022

Majority surveyed plan to increase real estate investments from last year

CBRE's U.S. Investor Intentions Survey reveals bullish investor sentiment at the start of 2022. More than 60% of respondents expect to buy more real estate than they did last year, while 35% expect to purchase the same amount. Although less than the 70% of investors in the Americas who indicated a desire to purchase more in 2021, purchasing sentiment this year remains significantly higher than the five-year pre-pandemic average of 41%. Given this, we expect 2022 investment volume to approach 2021's record level. We note that our survey was conducted before Russia's invasion of Ukraine. We expect that geopolitical uncertainty, higher interest rates, slower economic growth and persistent inflation likely will inhibit investment activity.

Survey respondents with more than $10 billion of assets under management (AUM) indicated they were more likely to increase purchasing activity this year, while those with smaller AUM said they were more likely to have the same amount of purchasing activity as last year.

Figure 1: Purchasing Activity Expectations



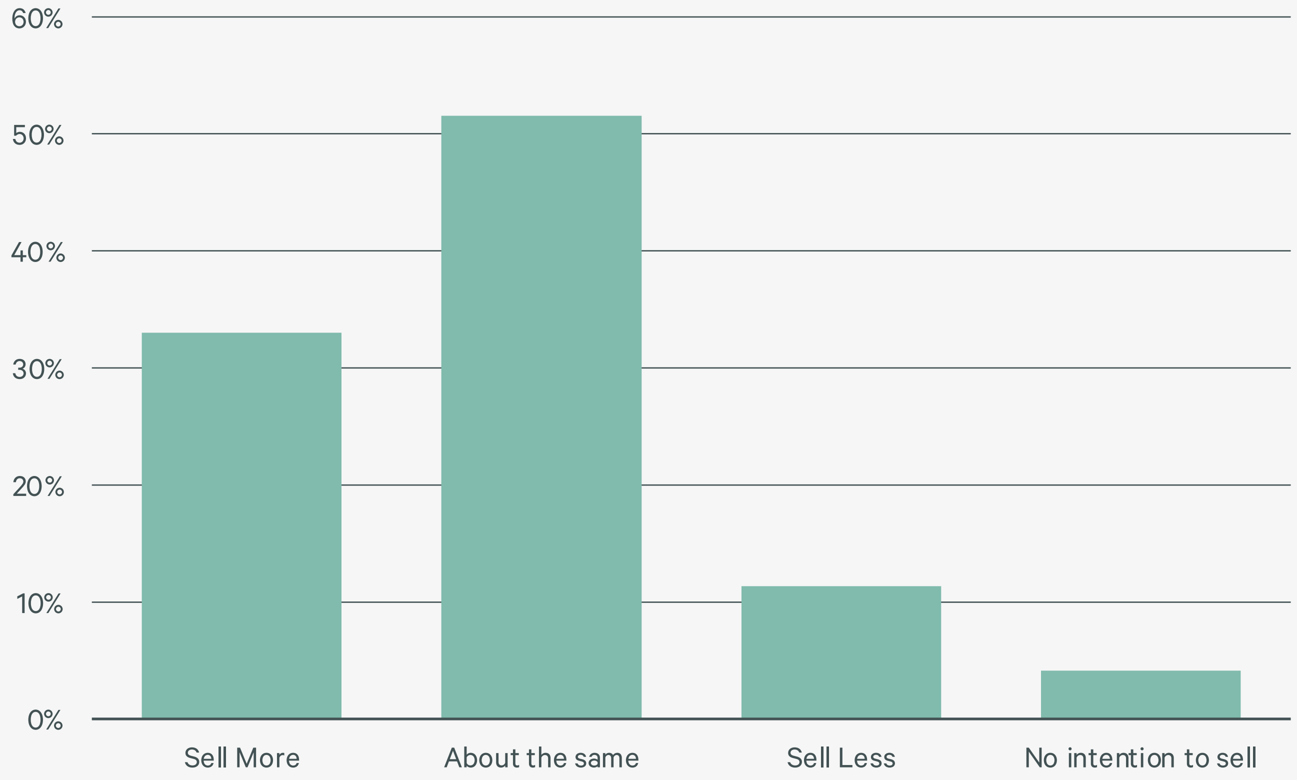
Source: CBRE Research

More investors plan to sell assets this year

While most respondents plan to increase their purchasing activity this year, about one-third expect to increase their selling activity. Investors with more than $50 billion of AUM are most likely to decrease their selling activity this year, while those with less than $50 billion are most likely to increase it.

Overall, there was a small uptick in respondents who plan to sell more than last year, as well as those who plan the same amount of selling activity. A fewer amount of respondents indicated no intention to sell. This will support current pricing levels, as many buyers with large amounts of capital for deployment compete over a limited supply of properties for sale. Although this will be particularly prevalent for multifamily and industrial & logistics assets, we expect strong pricing—though not as broad and more asset specific—for all other property types.

Figure 2: Selling Activity Expectations



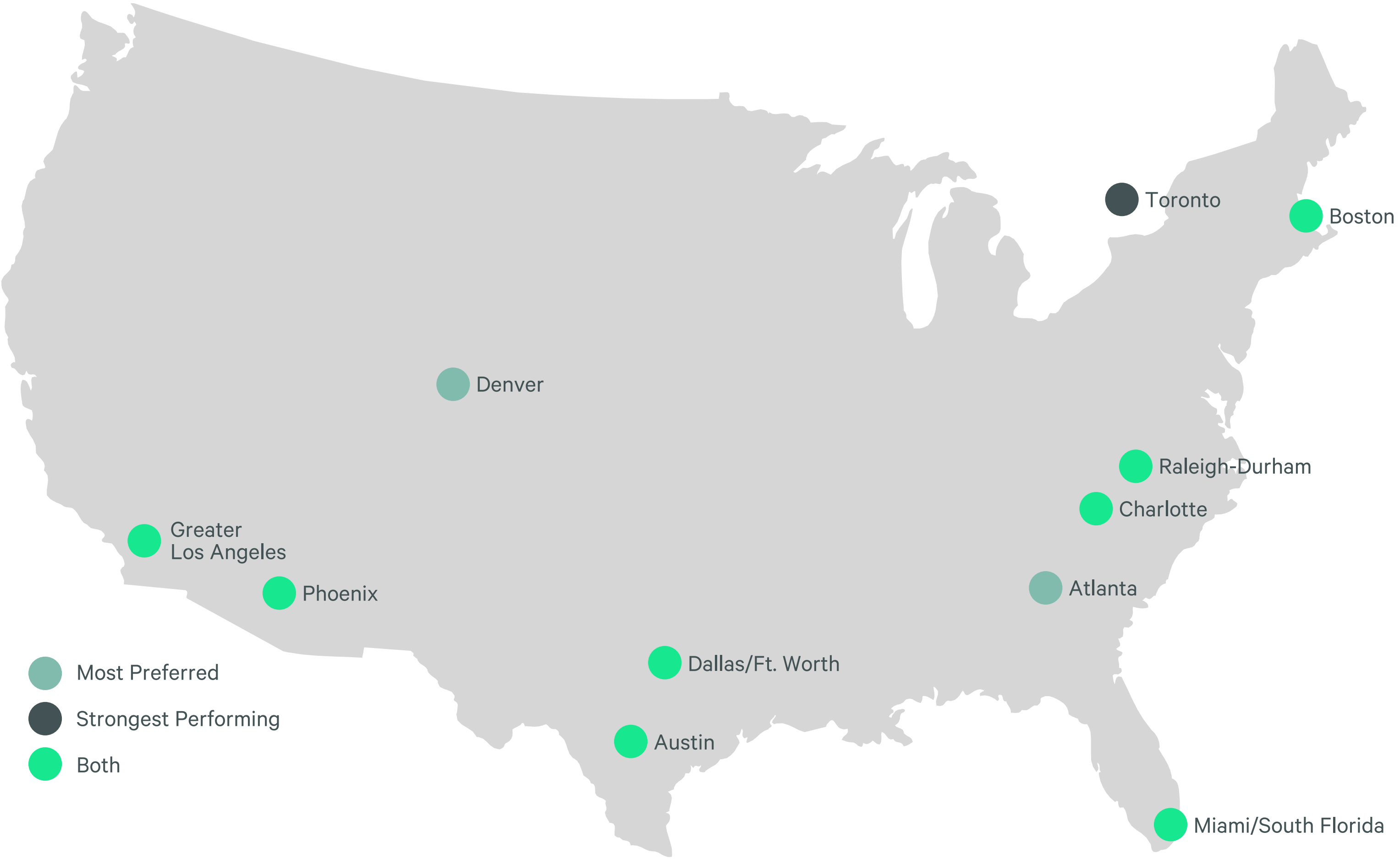
Source: CBRE Research

Sun Belt markets most preferred

Survey respondents indicated a clear preference for secondary markets in 2022, particularly in the Sun Belt region. This matches the preference for such markets in our 2021 survey. Dallas was the most preferred market after being No. 2 last year, trading places with Austin. Phoenix, Miami and Denver rounded out the top five most preferred markets.

Sun Belt markets continue to benefit from the rise in remote working, which is supporting the migration of talent to them. Two notable exceptions are Los Angeles and Boston, which ranked sixth and eighth most preferred, respectively. Los Angeles ranked the second strongest performing market and Boston ranked fourth. This positive sentiment bodes well for Los Angeles, which had the highest investment volume ($58 billion) of any U.S. market in 2021.

Figure 3: Most Preferred and Strongest Performing Markets



Source: CBRE Research

02

2022 Market Trends

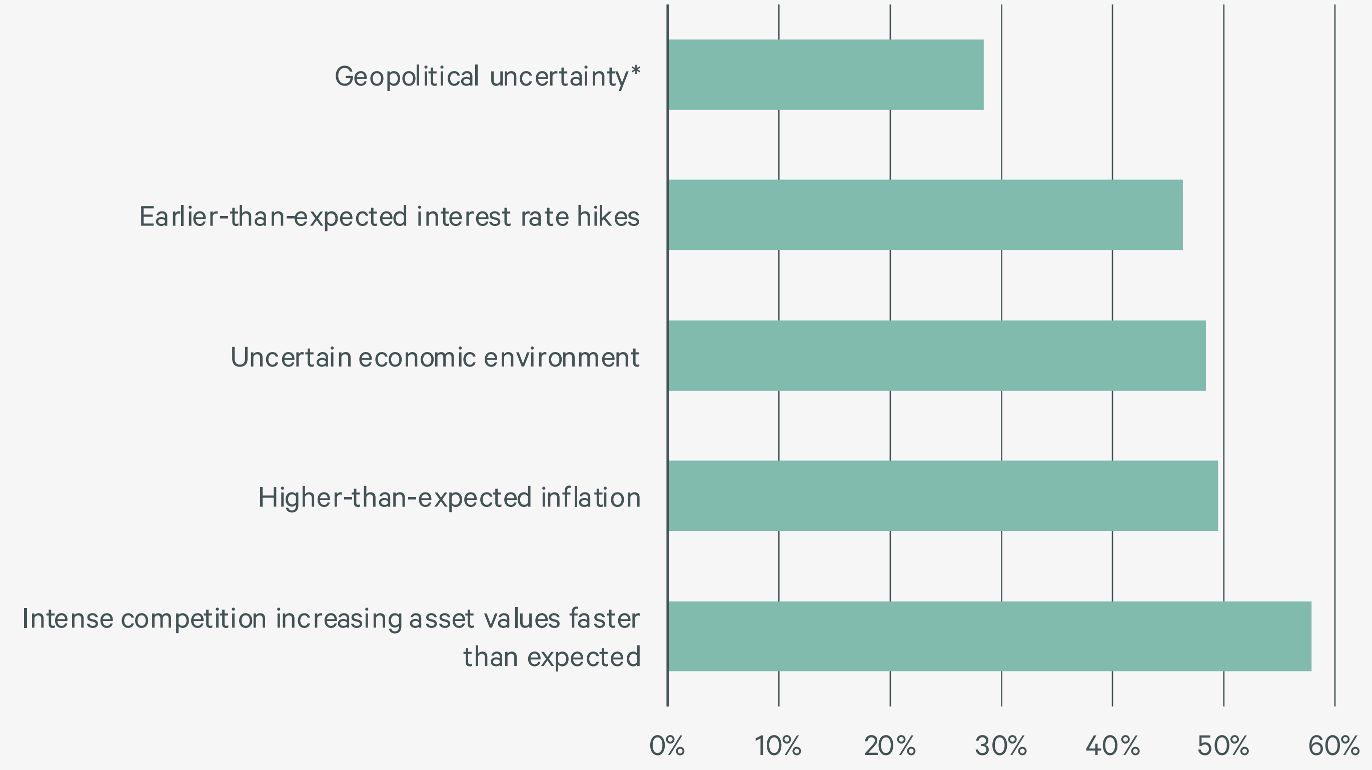
Generally positive sentiment but not without challenges

Increased pricing seen as biggest challenge for investors

Despite generally positive sentiment, there are challenges facing investors. Nearly 60% of survey respondents expect intense competition for available assets, making price increases the primary challenge. This was also the greatest concern in 2021. Rising inflation was seen as the second greatest challenge to dealmaking in 2022 by 49% of respondents, replacing pandemic-related concerns as the second greatest challenge in our 2021 survey. Another 48% indicated that an uncertain economic environment was top of mind. We expect that these concerns, along with geopolitical uncertainty, will remain as the year progresses.

Despite these challenges, we conclude that generally positive investor sentiment, combined with economic growth and an abundance of capital targeting U.S. commercial real estate, will result in strong investment volume this year.

Figure 4: Major Challenges to Real Estate Investment in 2022



Source: CBRE Research

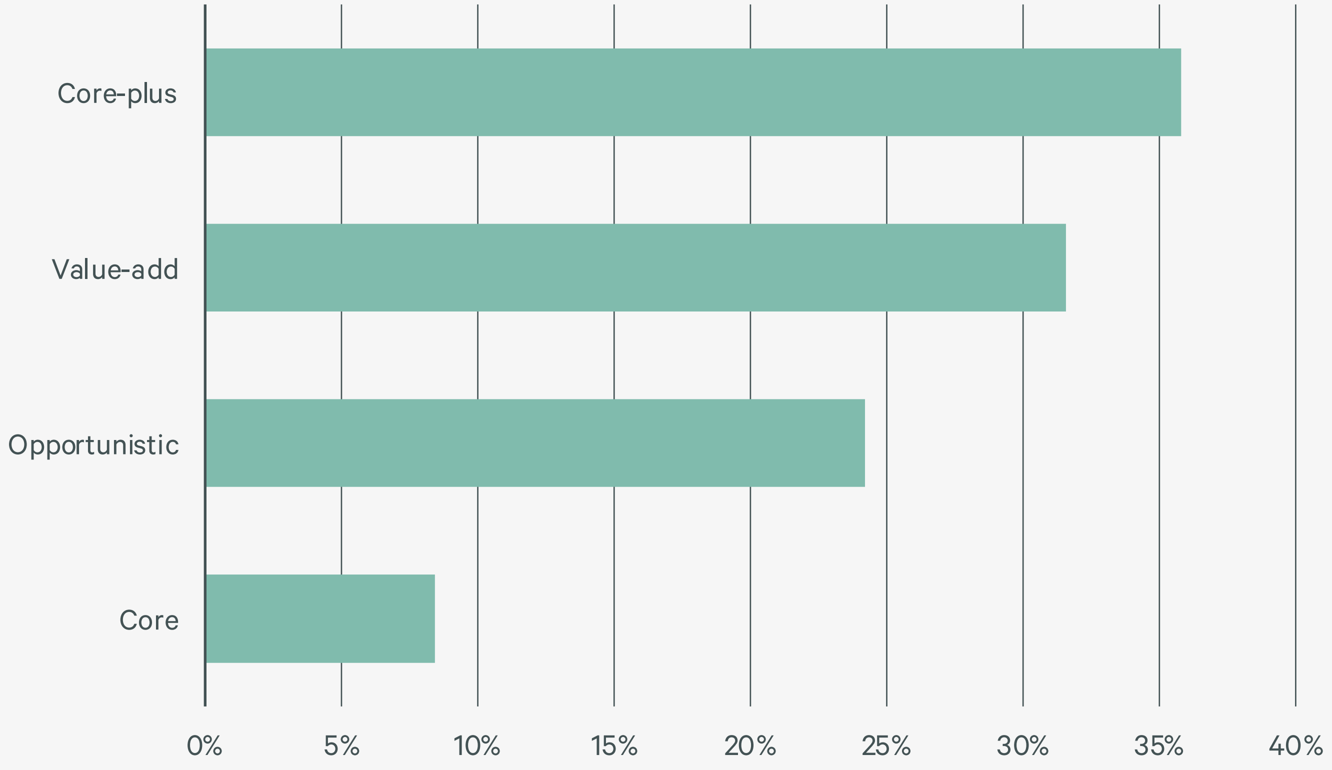
*Survey was conducted before Russia's invasion of Ukraine.

Core-plus most preferred investment strategy

Core-plus, value-add and opportunistic are the most preferred investment strategies in descending order this year, matching last year's survey. These strategies largely address what respondents say are the greatest obstacles to investing in commercial real estate. They also correspond well with market conditions, in which pricing remains elevated and investors are searching for yield.

Respondents with more than $25 billion of AUM largely prefer a core-plus strategy, indicating that larger investors flush with capital are well positioned for the current environment. Value-add and opportunistic strategies are favored by roughly one-quarter and one-third of respondents, respectively.

Figure 5: Preferred Investment Strategy

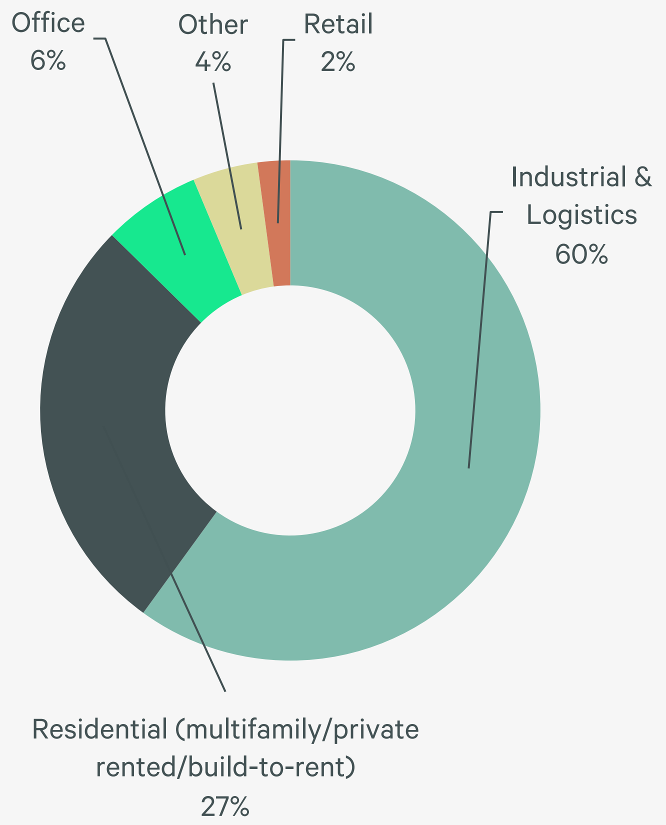


Source: CBRE Research

Industrial & logistics and multifamily most preferred property types

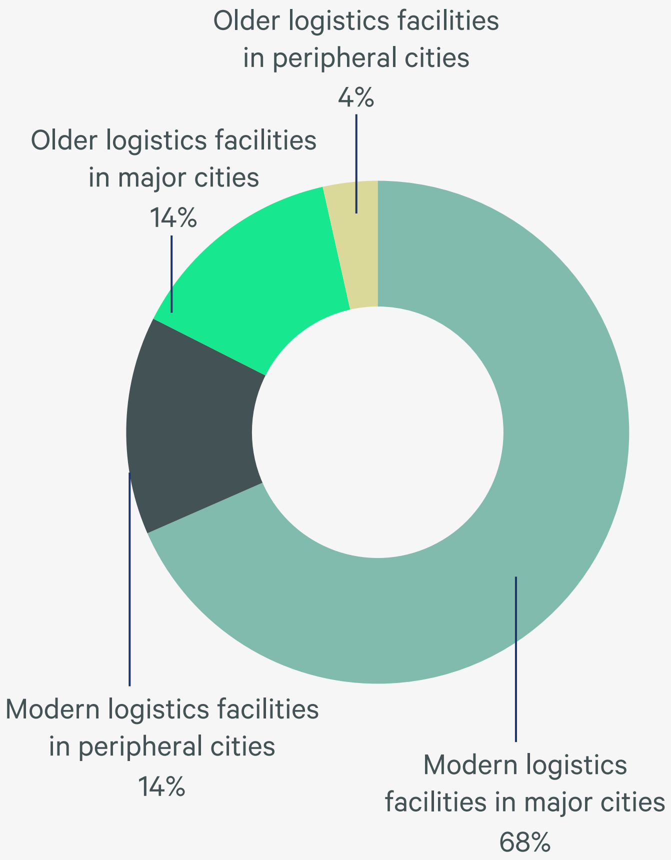
Industrial & logistics and multifamily assets are most preferred by investors. The two property types have maintained the top spots for North American investors over the past several years. This corresponds with the decline of industrial and multifamily cap rates noted in CBRE's H2 2021 Cap Rate Survey. These property types continue to benefit from rising demand, which underpin very strong fundamentals. Modern logistics facilities were the most preferred industrial subsector, particularly those in major cities. Insurance companies and pension funds were more likely to favor industrial properties. Private equity investors, real estate funds and REITs were also interested in industrial as well as multifamily.

Figure 6: Sector Preference



Source: CBRE Research

Figure 7: Preferred Industrial & Logistics Subsector



Source: CBRE Research

03

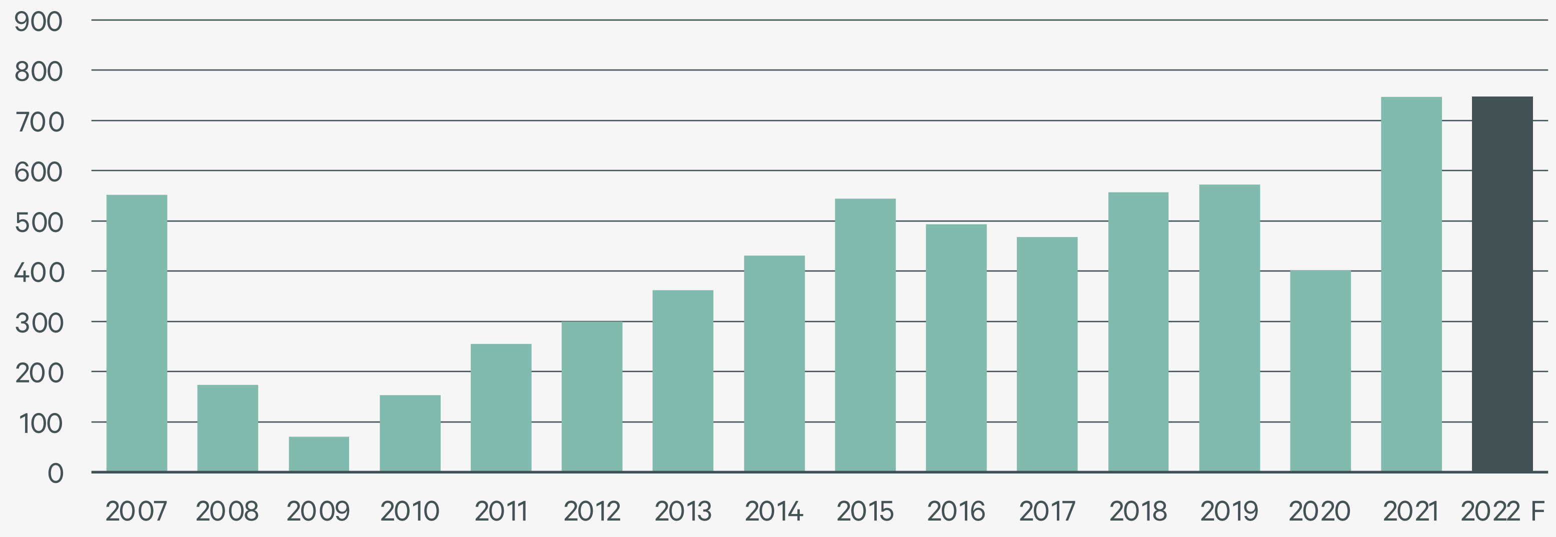
Investment Forecast & Other Key Findings

Great expectations with a watchful eye on geopolitical tensions

Uncertainty likely will inhibit investment activity

Total U.S. commercial real estate investment volume in 2022 is expected to approach last year's record $746 billion. Investment activity likely will be inhibited by geopolitical uncertainty, higher interest rates, slower economic growth and persistent inflation.

Figure 8: U.S. Commercial Real Estate Investment Volume ($ Billions)



Source: CBRE Research, Real Capital Analytics

Expectations for office & multifamily demand

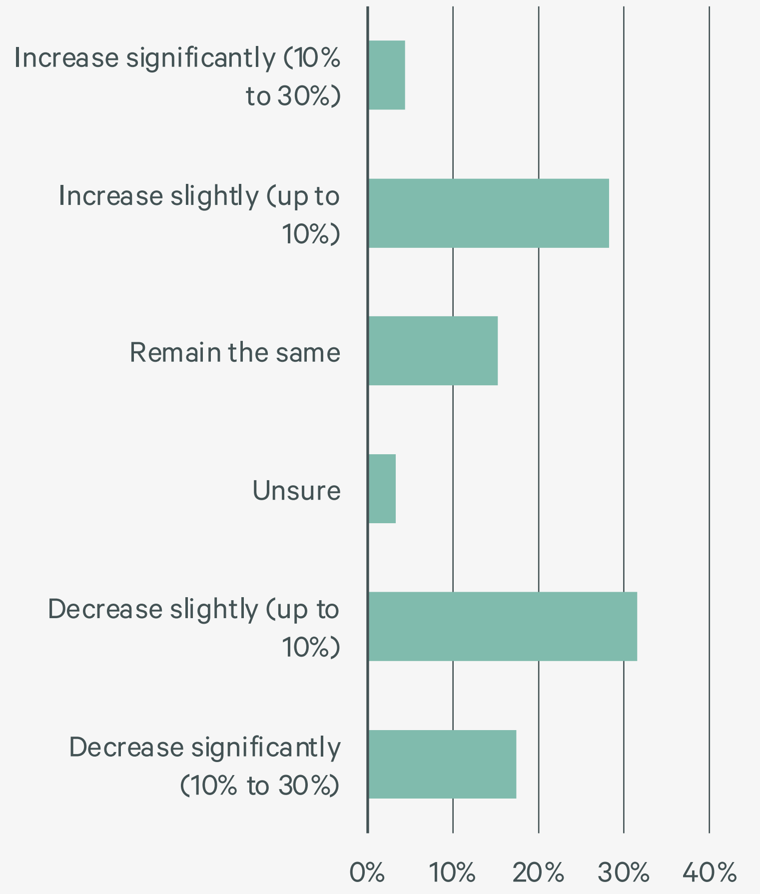
Given uncertainty about new work patterns that emerged during the pandemic, we asked investors their expectations for office and multifamily demand over the next three years.

Nearly half of survey respondents expect office demand will stabilize or increase, while just 17% expect a decline in demand of more than 10% and 33% expect a decline of less than 10%.

Optimism about the multifamily sector is much higher. Multifamily accounted for half of U.S. commercial real estate investment volume in 2021 and this trend is expected to continue in 2022. More than half of survey respondents expect a moderate increase in multifamily investment volume, while more than one-third expect a strong increase. Another 12% expect multifamily volume to remain the same. Investors with more than $25 billion of AUM were particularly optimistic, with many expecting a moderate to strong increase. Developers, pension funds and private equity investors generally expect a moderate increase in multifamily demand.

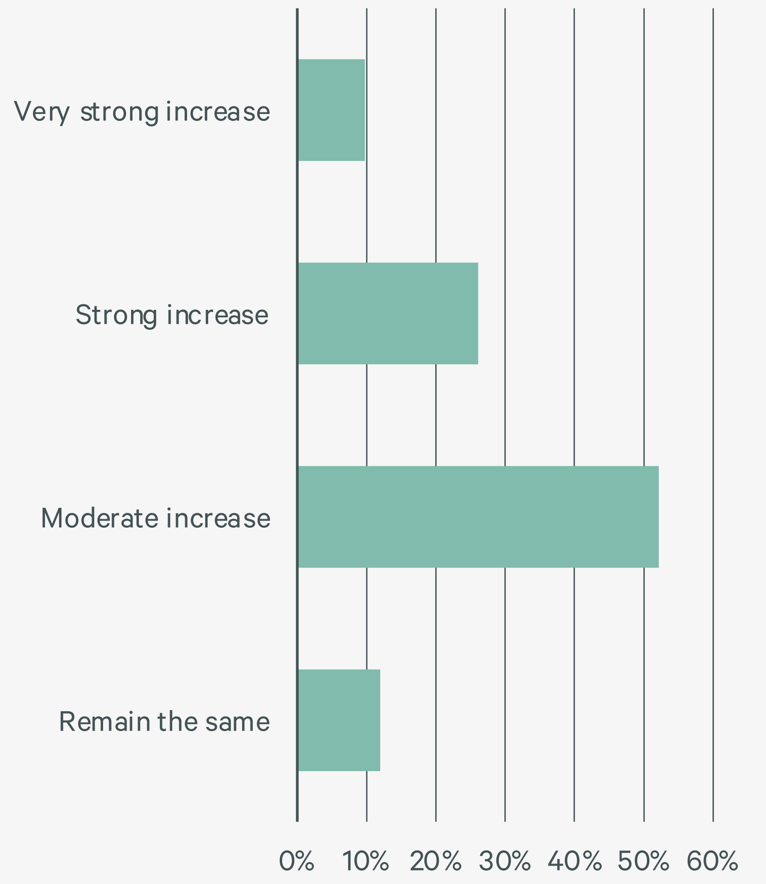
Nearly two-thirds of respondents expect demand for urban multifamily assets will increase over the next three years. This is a positive sign for office demand and urban retail centers as people return to cities.

Figure 9: Office Demand Expectations for Next Three Years



Source: CBRE Research

Figure 10: Multifamily Demand Expectations for Next Three Years



Source: CBRE Research

Health Care most preferred alternative sector

Alternative real estate assets are growing in popularity as investors search for yield. Health care was the most preferred alternative real estate sector, followed by real estate debt and self-storage, which were tied for second. Cold storage and data centers rounded out the top five.

Real estate debt, which had been the most preferred alternative sector of the past three surveys, was replaced this year by heath care. The self-storage and cold storage sectors also increased in popularity from last year. We expect investor interest in these sectors to remain strong as the cycle continues to mature and yields lessen for traditional real estate sectors.

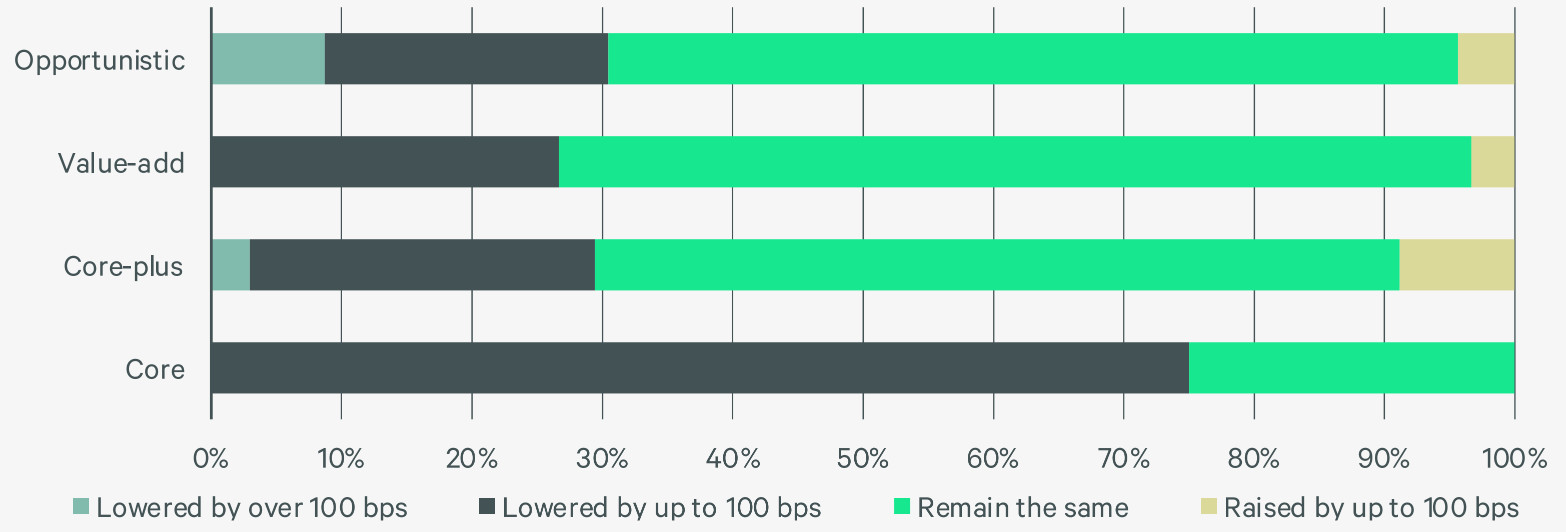
Figure 11: Alternative Investment Sector Preference

Source: CBRE Research

Lower return expectations

Survey respondents have lowered their return expectations in 2022. This indicates a maturing real estate cycle, most evident by 75% of respondents lowering their return targets for core assets by up to 1 percentage point. That's up from just one-third of respondents in the 2021 survey who indicated a similar decline in return expectations. However, it also reflects a flight to quality that's particularly apparent in the office sector. In the core-plus, value-add and opportunistic classes, respondents largely expect returns will be the same as last year. Very few expect returns will increase for these asset classes.

Figure 12: Expected Change in Target Returns by End of 2022



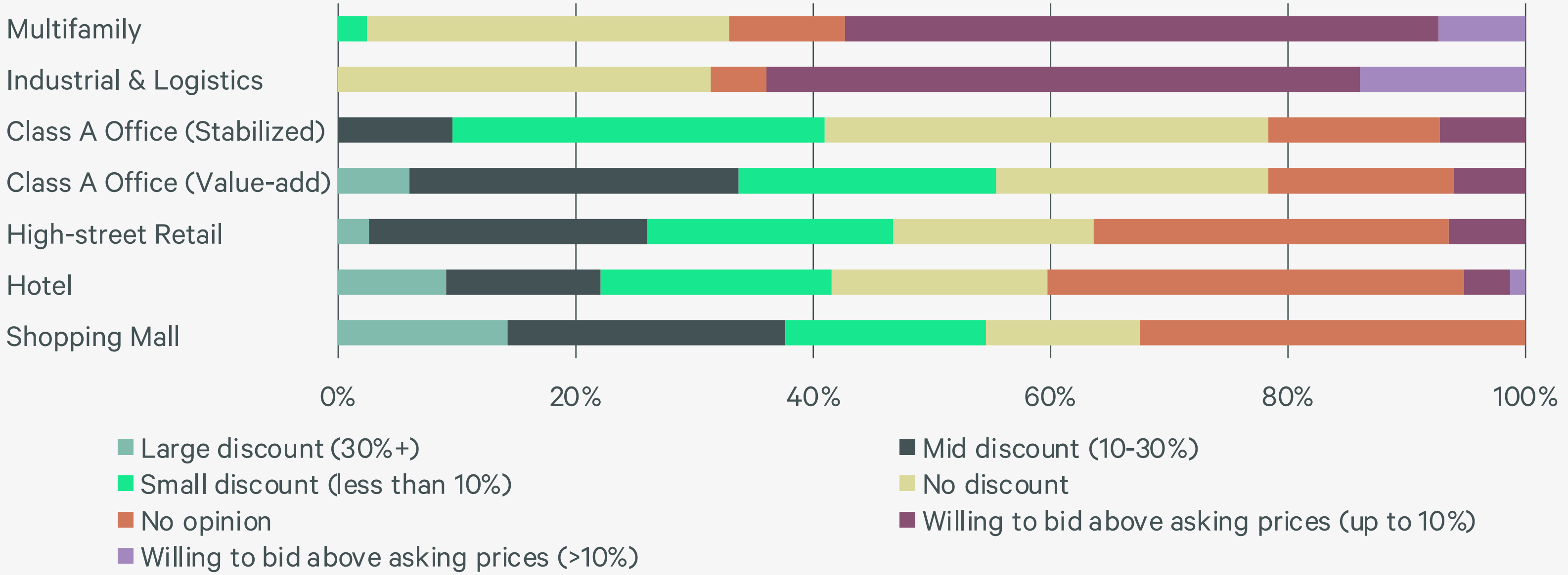
Source: CBRE Research, Real Capital Analytics

Pricing strongest for industrial and multifamily assets

As they were last year, multifamily and industrial assets were in high demand by investors, with approximately 60% of respondents willing to bid above asking prices for them. This has led to these sectors generally seeing the greatest declines in cap rates over the past two years. Investors are expected to purchase these asset types at low cap rates in the short term, with the expectation that rents will continue to increase. Though strength was notable across industrial & logistics and multifamily markets, pricing firmed from last year across sectors. For example, just under 60% of respondents expect pricing to remain stable or increase for Class A office assets in 2022 versus 80% of respondents who expected discounts for those assets last year.

Investors continue to expect discounts for retail assets. This is especially true for shopping malls, which have lagged in recovery compared with other retail property types. Still, even here pricing expectations have firmed. In 2021, virtually every respondent expected discounts for shopping malls; this year that number fell to approximately 50% of respondents. No respondents expressed willingness to bid above asking price for shopping malls. Despite an expected increase in travel with the easing of pandemic restrictions, many investors still expect price discounts for hotel assets with very few willing to bid above asking prices.

Figure 13: 2022 vs. 2021 Pricing Expectations



Source: CBRE Research

04

ESG Investing

ESG criteria increasingly top-of-mind for investors

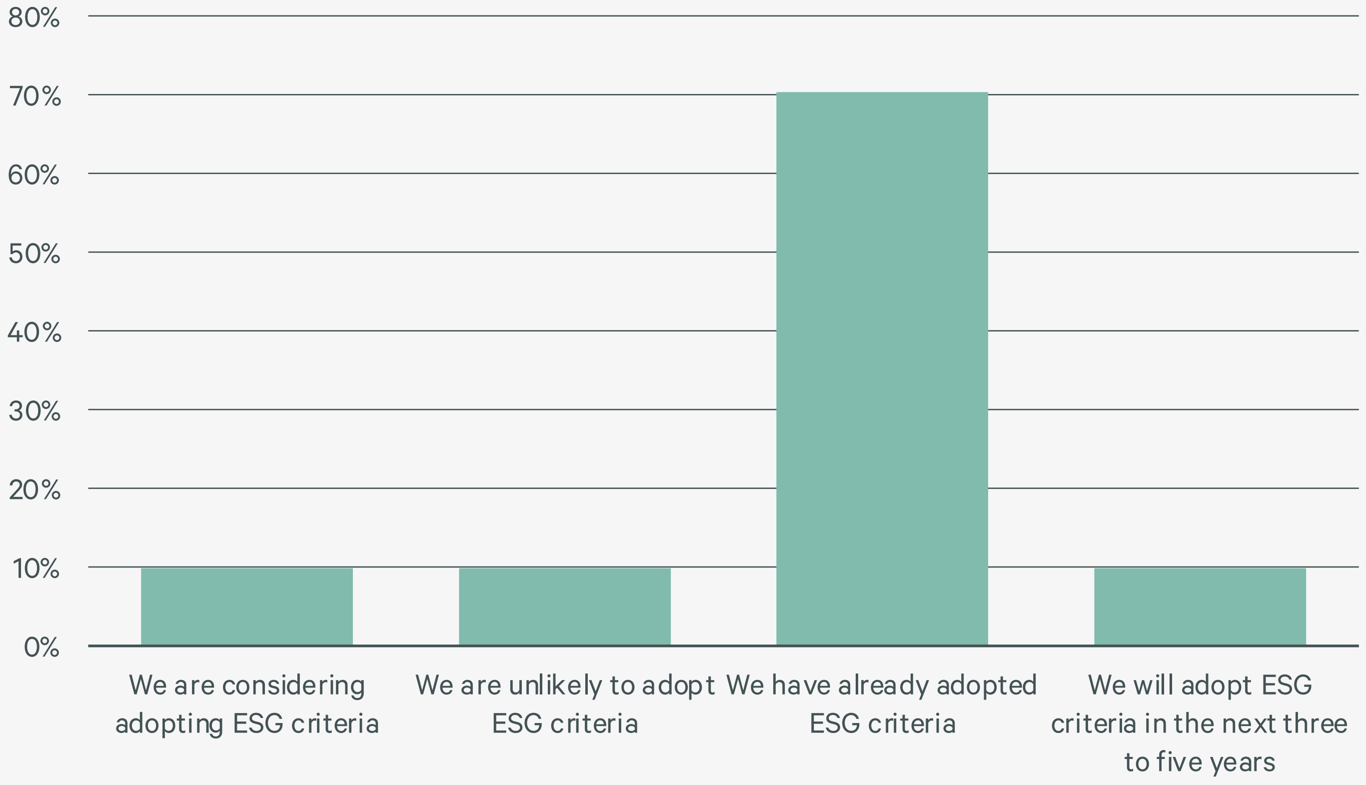
ESG criteria adoption on the rise

Investors are increasingly adopting ESG criteria for their real estate investment decisions. Approximately 70% of survey respondents said they have adopted ESG criteria, while another 10% expect to do so in the next three to five years. This is a significant jump from 2021 when 56% of North American investors indicated that they had already adopted ESG criteria.

Large institutional investors, such as insurance companies and pension funds, have the highest ESG adoption rates (more than 90%), followed by more than 80% of private equity investors and real estate funds that responded to the survey. Another 10% indicated they are considering ESG criteria.

No respondents with more than $10 billion of AUM indicated they were unlikely to adopt ESG criteria, pointing toward a structural change in the institutional investment landscape. This corresponds with reports from CBRE professionals about the growing importance of ESG criteria adoption.

Figure 14: ESG Adoption Levels

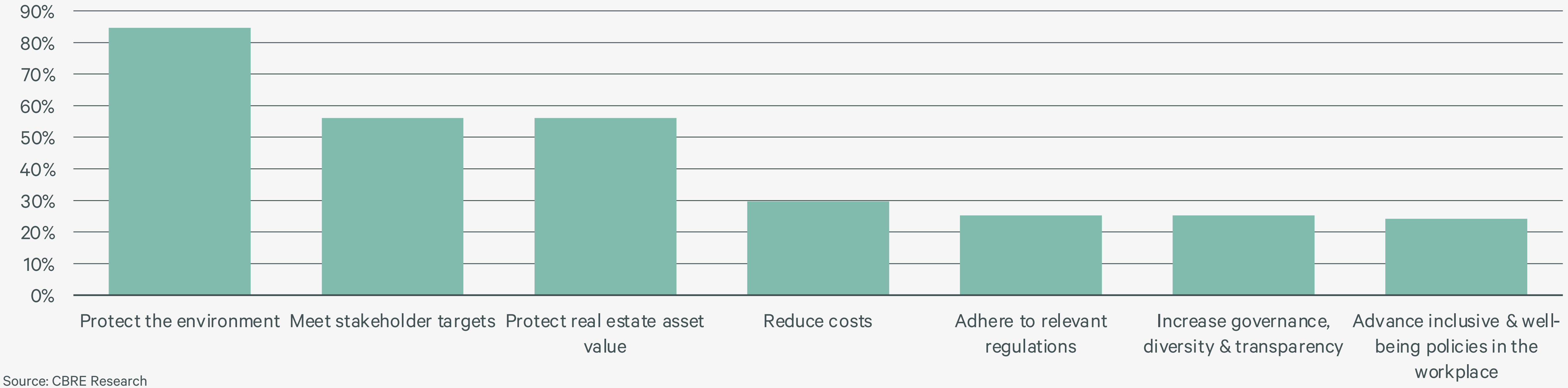


Source: CBRE Research

Protecting the environment most important ESG goal

Investors' primary ESG focus remains on the environment. Of those respondents who have adopted ESG criteria, 85% say that protecting the environment is the primary goal. More than half (56%) stated that the need to meet stakeholder targets is an important factor in ESG criteria adoption, with about the same number indicating protecting the value of real estate assets is an important factor.

Figure 15: Key Priorities of ESG Strategies



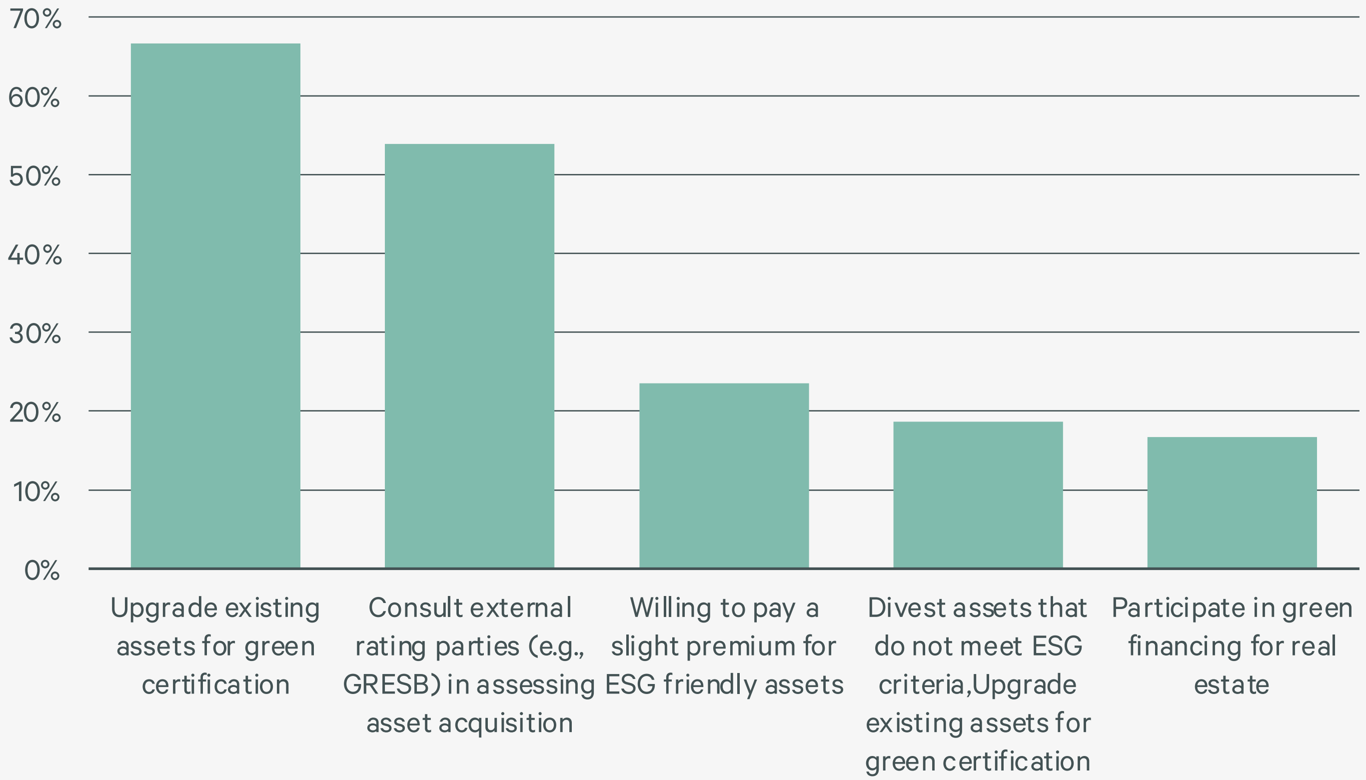
Source: CBRE Research

Asset upgrades most popular ESG strategy

Just over two-thirds of all survey respondents and 70% of those with more than $25 billion of AUM indicated that upgrading existing assets was key to meeting ESG criteria. More than 50% of respondents said they are using third-party providers to rate assets for ESG compliance. Nearly 25% said they are willing to pay a premium for such assets.

We expect that the focus on upgrading existing assets will increase as energy prices surge due to geopolitical tensions. While this will be especially urgent in Europe, where energy prices are increasing the most, it is anticipated "green" investment in commercial real estate will rise in importance worldwide.

Figure 16: Implementation of ESG Strategies



Source: CBRE Research

05

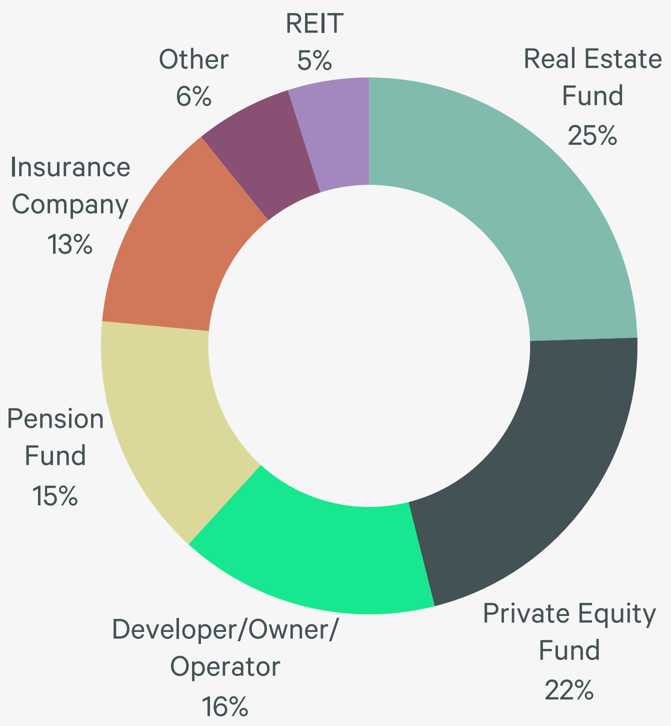
Respondent Profile

A by-the-numbers look at survey respondents

Who took part in our survey

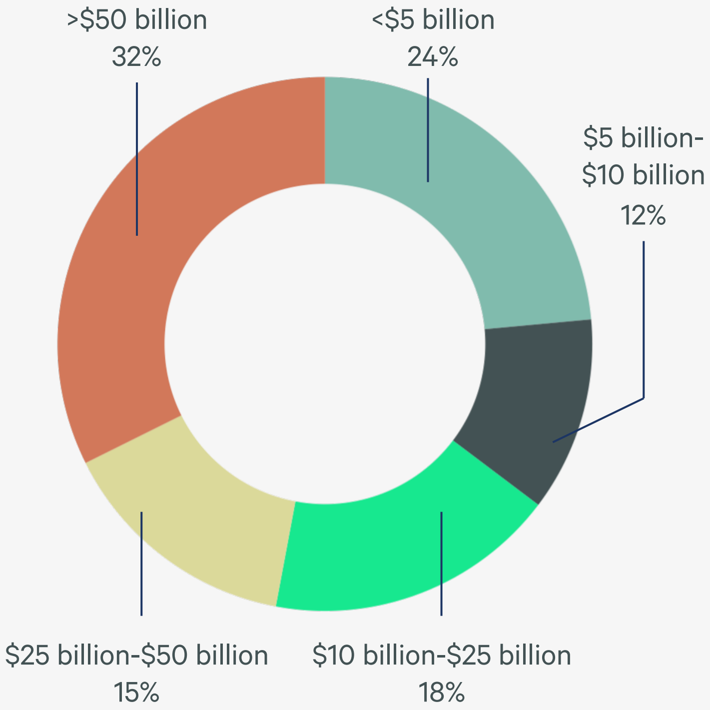
The 2022 U.S. Investor Intentions Survey had 102 respondents and was conducted between Dec. 21, 2021 and Feb. 8, 2022.

Figure 17: Percentage of Survey Respondent Investor Types



Source: CBRE Research

Figure 18: Percentage of Respondents by AUM



Source: CBRE Research

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