2022 Global Predictions Whitepaper

January 2022

CoStar Group™

2022 Global Predictions Whitepaper: Table of Contents

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Introduction

In the past year, more than nine billion doses of coronavirus vaccines have been administered, in at least 197 countries worldwide according to the BBC and Oxford University. While scientists, researchers, and physicians demonstrated noteworthy progress in responding to the considerable health challenges posed by COVID-19, the virus continued to impact every corner of the planet. In turn, the global economy and space markets demonstrated uneven signs of recovery. While select countries such as the United States were able to ultimately regain pre-pandemic economic activity, questions abound on the implications for some of the hardest-hit property sectors worldwide such as hospitality. Demand for warehouses boomed while office leasing and occupancy remained bumpy.

While 2022 seems to offer fresh promises on the long road towards a higher degree of “normalcy” given the availability of agile vaccines as well as emerging therapeutics, setbacks are inevitable in further loosening the pandemic’s grip on cross-border economic activity. Indeed, at the time of this whitepaper’s release, early details are emerging regarding the Omicron variant of COVID-19. Even as many nations have demonstrated increased confidence in opening borders to international travelers, recent events suggest political leaders are willing to act rapidly to reimpose restrictions in the face of actual health scares. Others, such as China continue to maintain tight border controls and domestic restrictions under its “zero-COVID” policies. Nevertheless, while there are downside risks to the following 2022 predictions, it’s reasonable to assume that many countries and municipalities with high levels of vaccination and controlled COVID-19 positivity rates should ultimately continue to demonstrate a renewed desire to cautiously ease constraints as the next year fully unfolds. Beneficiaries of a more relaxed health framework include large, dense cities along with demand for in-person retail experiences and the return of office workers. New challenges have emerged, however, such as inflation and supply chain bottlenecks which present additional risks to a more sanguine outlook for 2022 especially as central banks adjust monetary policies.

Given our global reach, we have assembled 28 key thought leaders across the globe from CoStar Group’s Advisory Services, Risk Analytics, Market Analytics, and STR to share 75 predictions for 2022. It is our expectation that this substantive whitepaper will enable readers to consider this comprehensive set of strategic commercial real estate predictions as a guide to opportunities and risks for the coming year.

U.S.

U.S.

Economy

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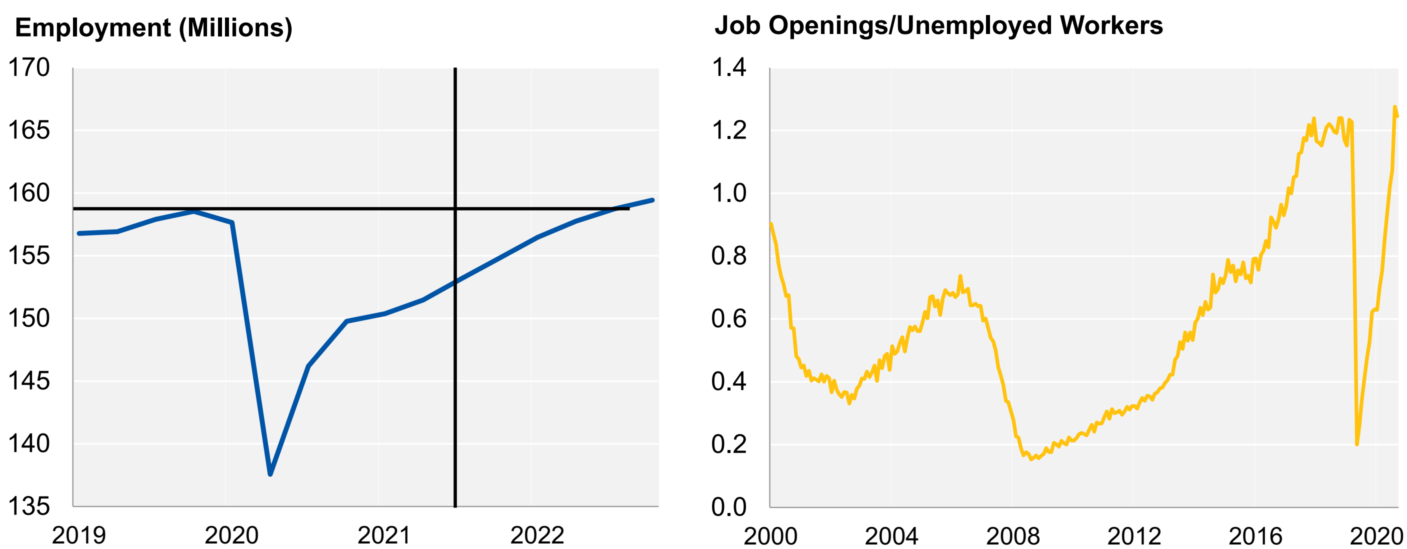
Prediction 1: Employment Will Recover to Pre-recession Levels Despite Labor Shortage

While the labor shortage will persist through 2022, we expect total employment to recover to pre-pandemic levels by the end of the year. The labor market still has a gap of 4.2 million jobs from its pre-recession peak, after gaining 5.8 million jobs through the first 10 months of 2021. The jobs will not come easily, however, as the job opening and resignation rates are at or near all-time highs, while the unemployment rate is getting close to "full employment levels."

Increasing wages, along with pressure from what will likely be an elevated inflation rate, will need to coax workers off the sidelines, especially for lower-income workers. Wages for the lowest quartile of earners have grown 5.1% in the past year, 1.5 percentage points above the national average, as industries like accommodation, entertainment, and warehousing struggle with job opening rates above 8%. COVID-19 is also still playing a role, as 7.5% of workers without a job cited coronavirus concerns or its lingering effects as a reason for not working. However, increasing numbers of households reported relying on debt and savings to meet household expenses, indicating that pressure is beginning to mount for some of the holdouts to begin returning to work and fill some of the 10 million current job openings.

Total Nonfarm Employment And Job Openings Per Unemployed Workers



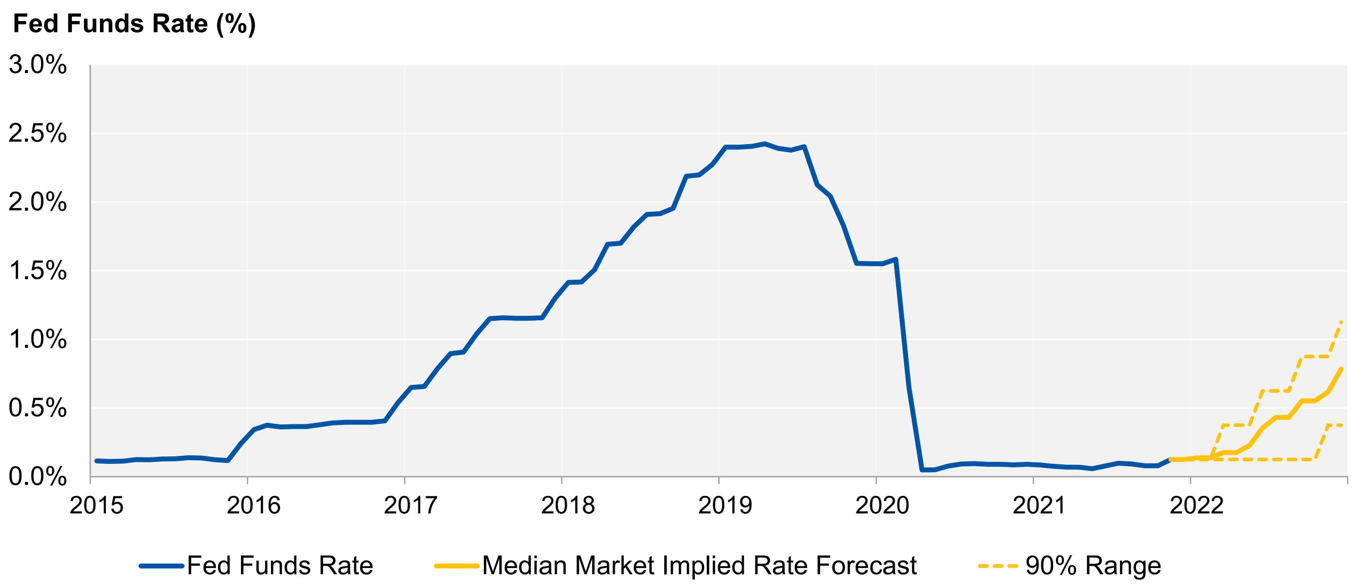
Sources: Bureau Of Labor Statistics; CoStar Advisory Services, Third Quarter 2021

Prediction 2. The Fed Will Lift Rates by the End of 2022

As the labor market recovers and inflation pressures last into 2022, we expect the Fed will raise rates from the zero lower bound in 2022. The Federal Reserve has already announced a tapering of its bond-buying program, which is expected to end in mid-2022. The chairman of the Fed, Jerome Powell, has said the Fed is waiting for the job market to return to “full employment,” something he said was very possible in 2022. Either way, the risk to the Fed Funds rate here is to the upside, as inflation pressures have broadened and supply chain bottlenecks are unlikely to be resolved soon.

The Fed is walking a tight rope as it moves away from an ultra-accommodative stance. Raising rates too quickly risks the labor market recovery, while too slowly will not do enough to tamp down the recent burst in inflation. The market is betting on multiple rate hikes, assigning an 83% chance of rates being above 50 basis points as of the middle of November. If inflation continues to accelerate, the timeline could be moved up further, as the Fed will need to show it is serious about keeping price growth in check or risk its credibility going forward.

Fed Funds Rate And Market Implied Rate Forecast

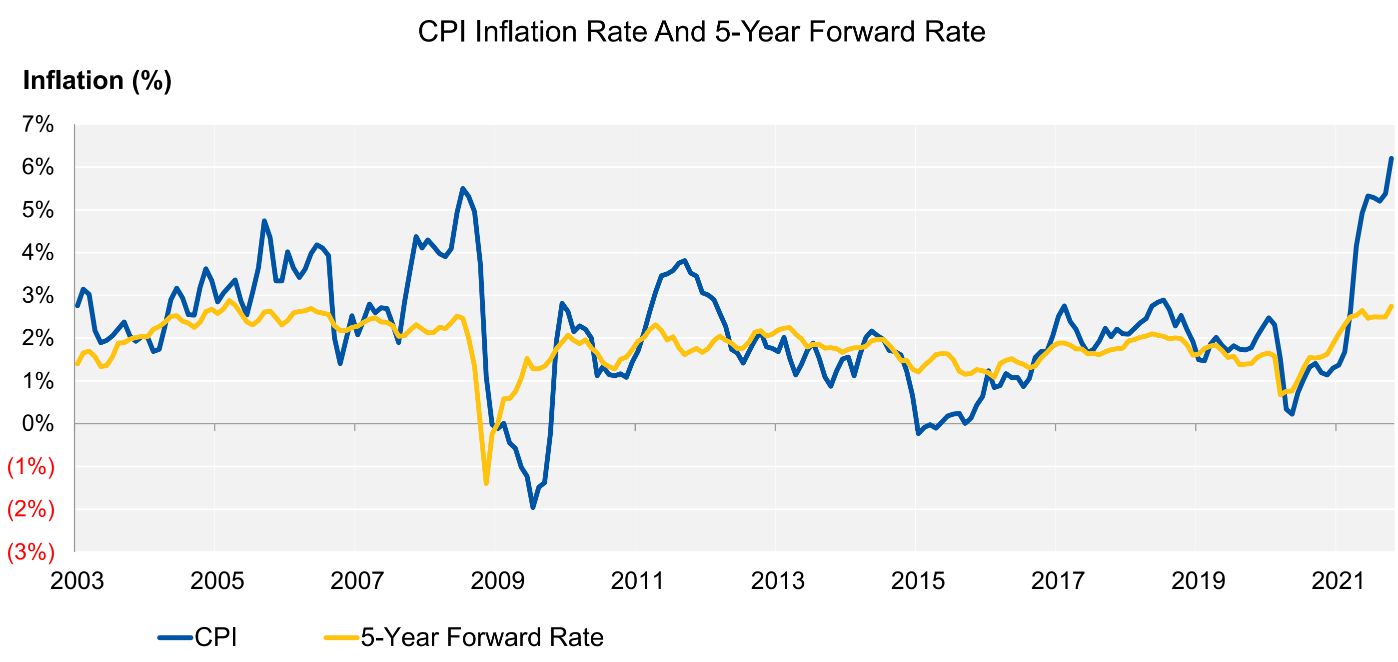


Sources: CME Group; Federal Reserve Board Of Governors; BEA; CoStar Advisory Services, Third Quarter 2021

Prediction 3: Inflation Will Be Lower in The Second Half Of 2022, Though Still Elevated

Inflation will be lower in the second half of 2022 than it was in 2021, but it will remain well above the Fed target of 2%. Inflation has surprised many, including the Fed, with its strong drive to multi-decade highs, as supply chain problems, mixed with surging demand, created a perfect storm of upward pressure on prices. Inflation initially hit a few pandemic-related goods, like transportation and energy, but the past few months of 2021 have seen particularly strong price growth and a broadening of the pressures to more consumer goods. Roughly 60% of component prices in PCE inflation grew by 5% or more in September 2021, up from 25% at the beginning of the year.

The Fed has remained dovish, despite the rapid acceleration, as it is looking for a fuller employment recovery. But it is being pushed towards action. That, along with the eventual resolution of some supply chain and labor shortage issues, should help take the bite off price pressures. None of these will happen overnight, so it is unlikely year-over-year inflation will return to its roughly 1.5%-2.5% average by the end of 2022. Barring an economic downturn, an unexpected shock, or a far more hawkish federal reserve, movements will be slower.



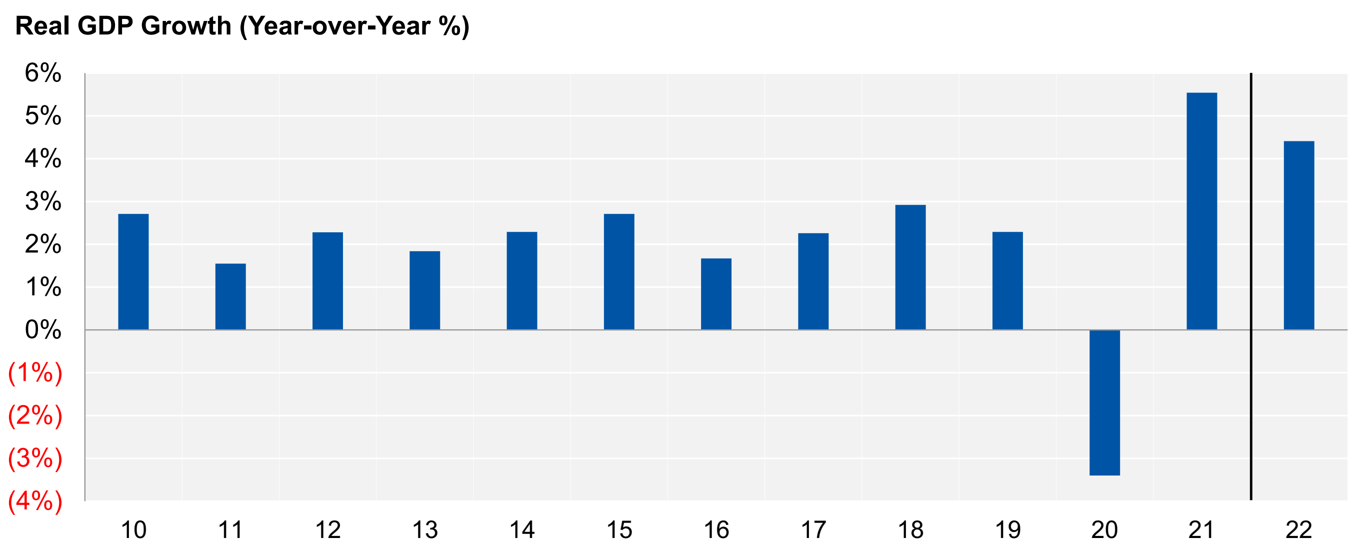
Sources: U.S. Treasury Department; Bureau Of Labor Statistics; U.S. Census Bureau; CoStar Advisory Services, Third Quarter 2021

Prediction 4: 2022 Will See the Second Fastest Growth in GDP Since 2010

The year 2022 will be the second-fastest growing year for GDP since 2010. While there remains some difficulty in the economic prospects of the U.S., particularly around the supply of workers and goods, the expectation is that GDP will still experience strong growth in 2022. Growth projections have receded somewhat from spring highs, as the delta variant surge dampened optimism and the relatively low 2% GDP growth reading of the third quarter did not help.

There is a mix of forces working in opposite directions for the U.S. economic recovery. Stimulus, that supported strong GDP growth in the first half of 2021, has mostly been spent, and despite the surge of goods consumption well above pre-pandemic levels, a regression to the trend is likely, weighing on growth in 2022. However, as the economy has opened in the wake of effective vaccines available to all, services spending has grown 5%, while goods spending growth has remained effectively flat since the beginning of the year. Services spending represents two-thirds of consumption, and recovery there should translate to a strong 2022 growth number above what was experienced in the 2010s, barring unforeseen problems in fighting the virus or other shocks.

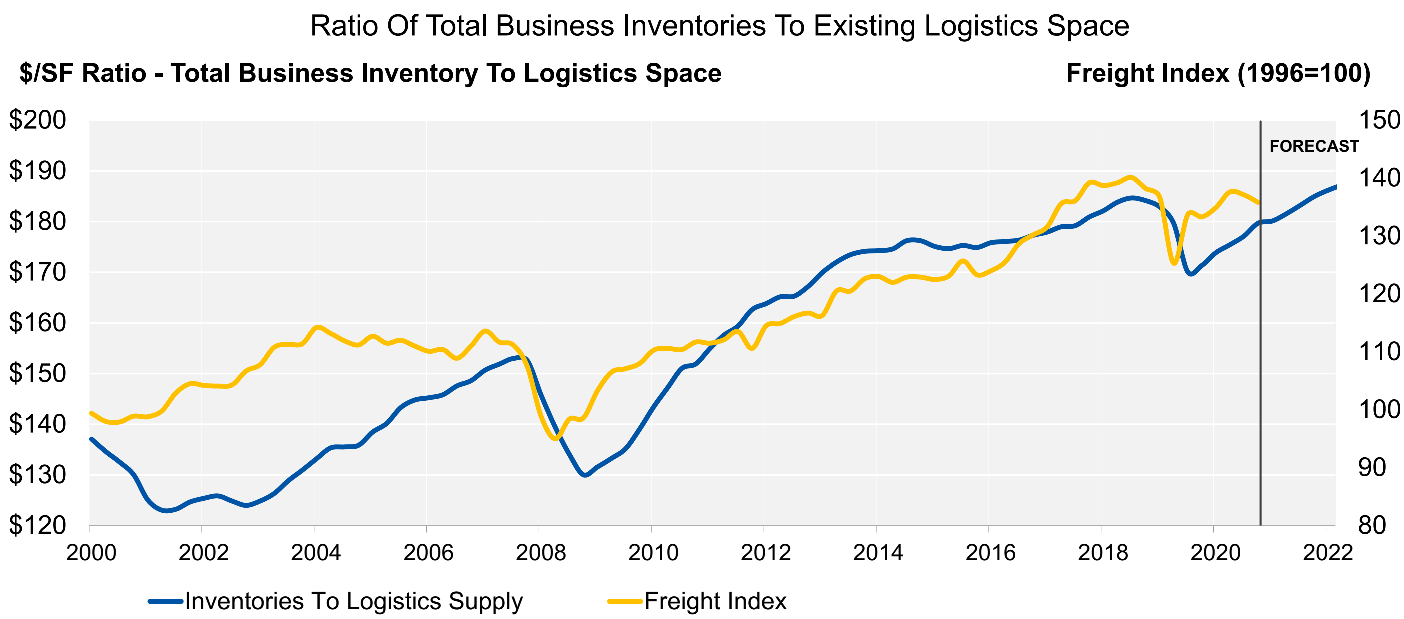
Year-Over-Year Real GDP Growth



Sources: Oxford Economics; CoStar Advisory Services, Third Quarter 2021

Prediction 5: Best Case Scenario: Inventory Growth Returns by End of 2022

Total business inventory levels relative to existing logistics supply will return to growth by the end of 2022. The drag on inventory growth has been apparent as bottlenecks in supply chains have made it difficult for restocking to keep pace with demand since the second half of 2020. We expect most supply chain bottlenecks to be resolved towards the second half of 2022, resulting in an improved ability for businesses to rebuild their stocks. The freight index, which measures the movement of goods in the U.S. economy, has already recovered to pre-pandemic levels and is expected to continue to rise once bottlenecks ease. This inventory growth tailwind is expected to continue to strengthen demand for warehouse space toward the end of the year, keeping vacancies tight.



Sources: FRED; Oxford Economics; BTS; CoStar Advisory Services, Third Quarter 2021

U.S.

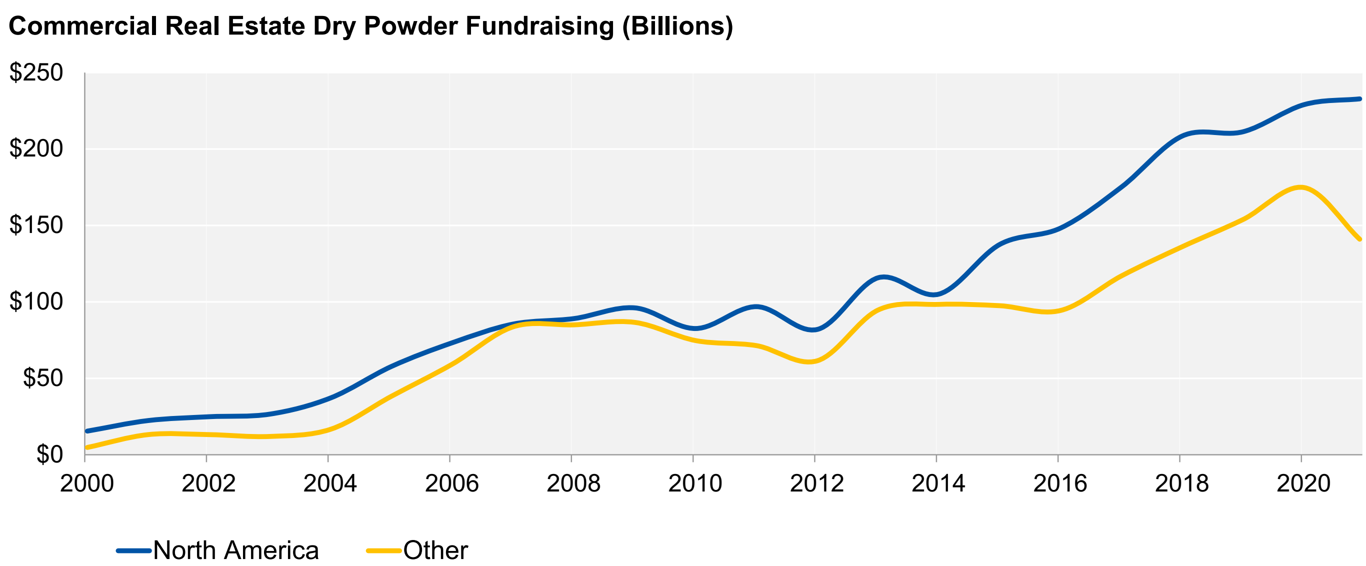
Capital Markets

CoStar Group™

Prediction 6: Dry Powder To Continue To Favor North American CRE Strategies

Dry powder flowing to commercial real estate (CRE) strategies, as tracked by Preqin, has continually risen over the past decade, though since the pandemic there has been a divergence in flows to North American CRE strategies compared to the rest of the world. Dry powder for North American CRE investment stands at over $200 billion and we expect that given the continued outperformance in the U.S. economic recovery relative to other nations in 2022, dry powder aimed at U.S. CRE strategies will continue to rise. The relatively healthy returns and inflation hedging capabilities of CRE are likely to continue to drive investors to the asset class, particularly to industrial and multifamily investment.

CRE Dry Powder By Region



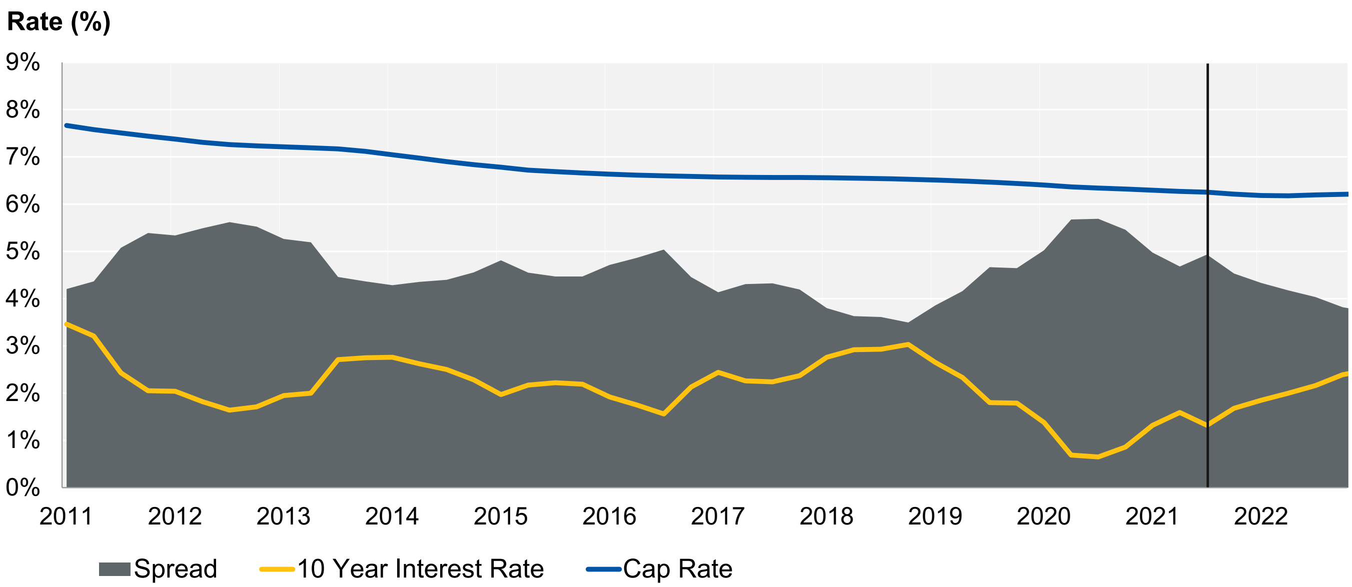
Sources: Preqin; CoStar Advisory Services, Third Quarter 2021

Prediction 7: Cap Rates Will Hold, But Spread to 10-Year Treasury Will Narrow

Cap rates will hold steady, but Fed rate hikes mixed with tapering asset purchases and higher inflation should push interest rates up, which will narrow the spread between the two. Currently, the spread between cap rates in the office, multifamily, and industrial sectors and the 10-year Treasury rate sit at 20-year averages, despite cap rates being quite low by historical standards.

A tightening of those spreads does make real estate somewhat less attractive, as investors get less return above the risk-free rate, but real estate has an advantage over other asset types in a higher-inflation environment. Rents can move with inflation to some degree, especially in assets with high demand and shorter lease terms, like multifamily and industrial, making them good inflation hedges. The data bears this out, especially for multifamily, where NOI growth typically tracks closely with inflation. That is not to say real estate will face no upward cap rate pressure, but shorter-term fluctuations have less effect on cap rates if expectations are for interest rates to remain relatively low for an extended period.

Blended Cap Rate, 10-Year Treasury Rates, And Spread

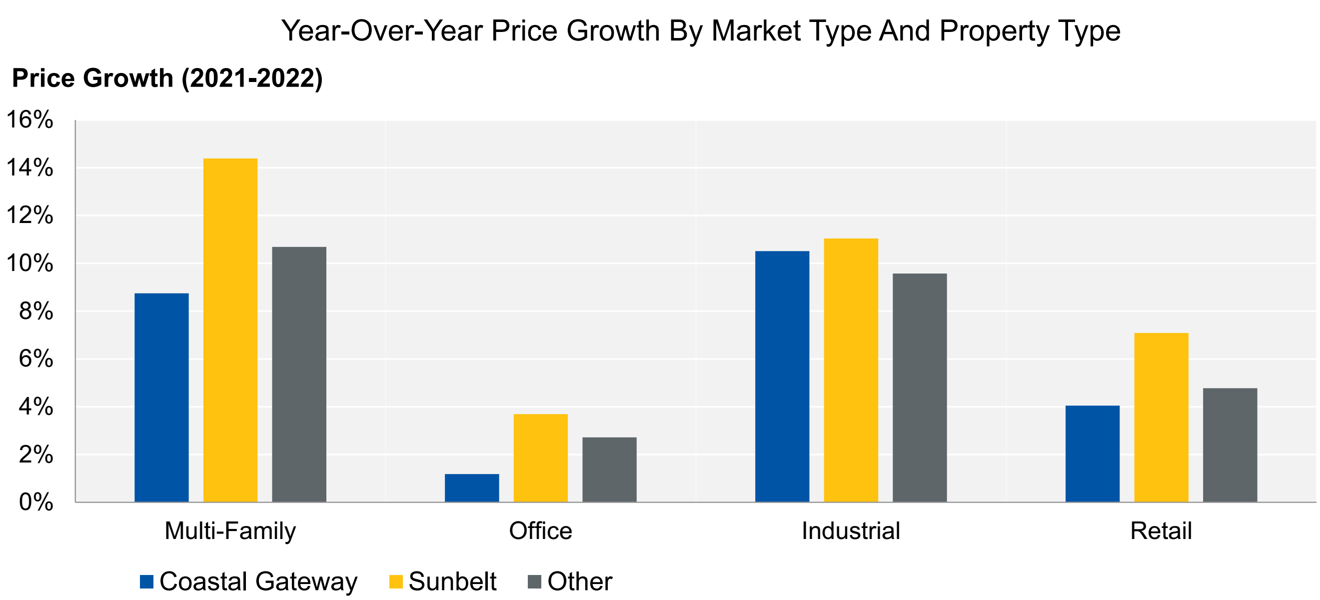


Sources: FRED; CoStar Advisory Services, Third Quarter 2021

Prediction 8: Gateway Office Price Growth Will Lag, As Multifamily and Industrial Prices Boom

While prices will grow across the board, Sun Belt markets, and the multifamily and industrial property types will continue to outperform. On the other hand, gateway markets and the office property type will still be in recovery mode as uncertainty to some degree persists. Coastal gateway markets like New York and San Francisco have continued to experience low deal volume for office, where work-from-home issues loom largest and pricing discovery has been difficult. While it is expected there will be some more clarity around the work-from-home question, higher vacancy rates will put downward pressure on prices.

On the multifamily side, Sun Belt markets like Tampa, Austin, and Phoenix have seen per unit pricing respond to surging demand, with prices in the Sun Belt 30% above pre-pandemic levels. Price growth should decelerate in 2022, but with the Sun Belt markets expecting the majority of prime-age labor force growth, the region is still expected to outperform. That demographic growth will also help industrial pricing, however, given the need for industrial space as e-commerce continues its march to dominance, strong pricing growth is expected irrespective of the market.

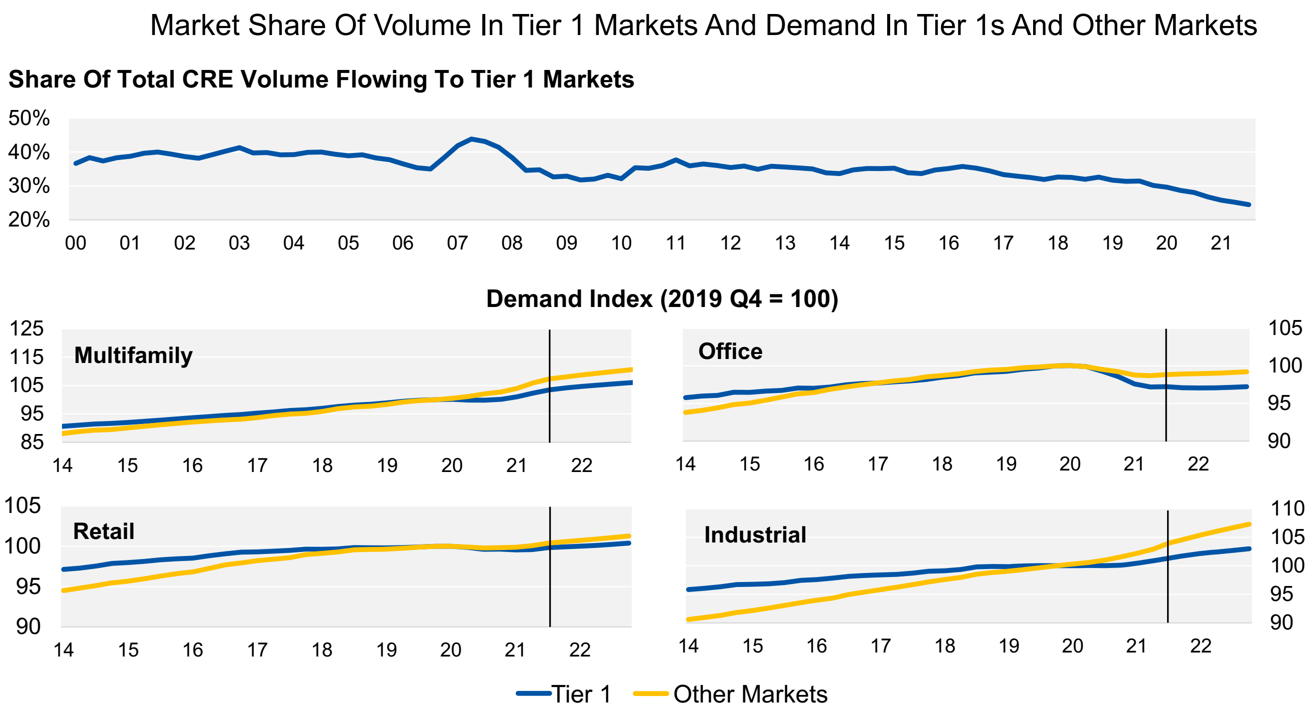


Sources: Oxford Economics; CoStar Advisory Services, Third Quarter 2021
Notes: Gateway markets include Boston, Chicago, Los Angeles, New York, San Francisco, Seattle and Washington, DC
Sunbelt markets include Atlanta, Austin, Charlotte, Dallas-FW, Houston, Jacksonville, Miami, Nashville, Orlando, Phoenix, Raleigh, South Florida and Tampa

Prediction 9: Tier 1 Market Volume Share Will Rise

Tier 1 market share is on a long-term decline, as the secondary markets grow and outperform, but the sharp downturn in the share that started in 2020 in the face of the pandemic should reverse course such that the share at the end of 2022 ends above the share at the end of 2021. Tier 1 markets experienced much sharper declines in demand growth across property types as the pandemic took hold. That lack of growth made investors fear for the future of those markets.

As the disruption from the pandemic faded somewhat, Tier 1 markets experienced a growth rebound. A return to a more normal growth pattern should mean a return to a more normal market share, hence a recovery in transaction volume share.



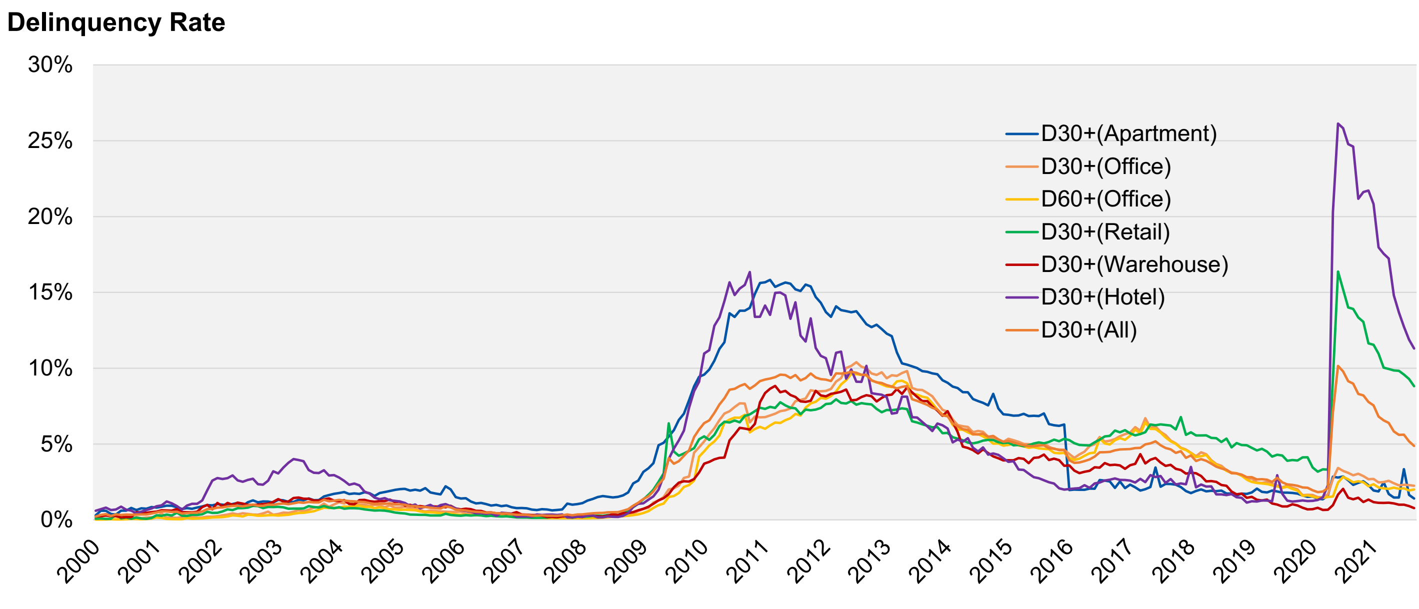
Source: CoStar Advisory Services, Third Quarter 2021

Prediction 10: CMBS Performance Looks Strong Going Into 2022

Going into 2022, commercial mortgage-backed securities appear to be set up for another year of strong issuance and performance of the underlying collateral. To fully understand the predictions for commercial mortgage-backed securities, it is critically important to comprehend the performance over the past 18 months. Going into 2021, the fallout from COVID-19 was still hard to predict. Specifically, for CMBS, would this cripple the ability of debtors to fulfill their obligations?

Those concerns were not unwarranted. The number of loans that fell into a loan status of D30 (30+ days delinquent) spiked, beyond levels seen in the Great Financial Crisis. However, as quickly as the D30+ levels rose, they seemed to fall. While there are still pockets of underperformance, there is a general trend back to expected performance.

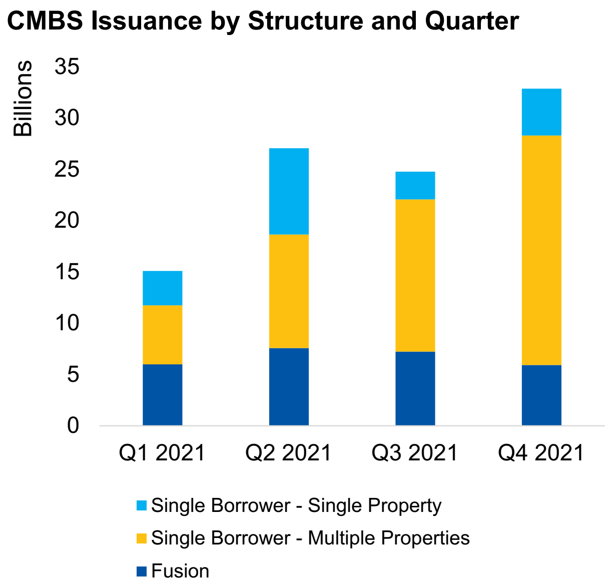
Delinquency Has Dropped Sharply Since the Peak of the Pandemic, Signaling Less Turbulence Ahead

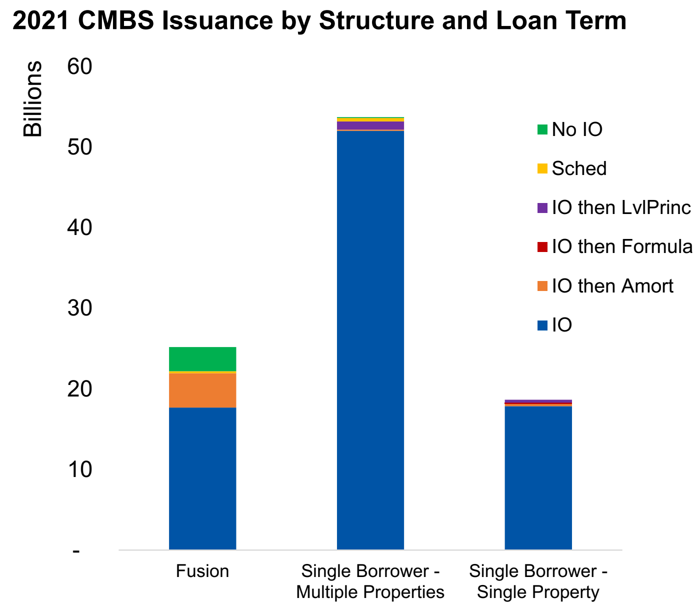


Sources: CoStar Risk Analytics; Intex, Third Quarter 2021

Issuance of new securitizations has continued to improve as 2021 progressed, a trend expected to continue in 2022, eventually getting back to pre-pandemic levels. Single borrowers continue to hold the lion's share, with fusion deals still prevalent, with 27 deals and almost $27 billion in new issuance. Interest-only loans are expected to continue to be the most prevalent loan structure for collateral. This also intrinsically provides some relief to borrowers now with less of a debt burden while the properties get back up to full capacity.

CMBS Issuance Has Rebounded From 2020 to Pre–Pandemic Levels

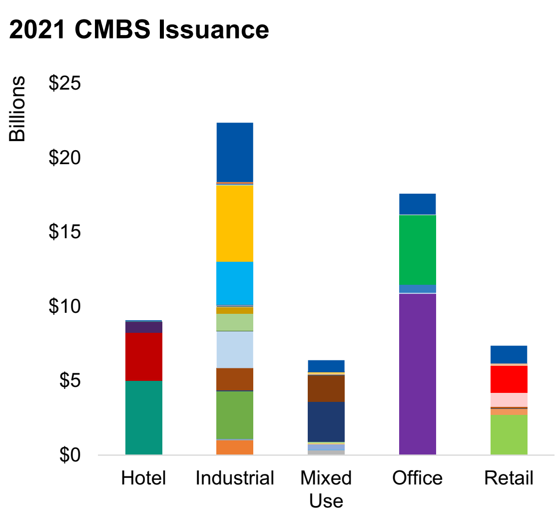


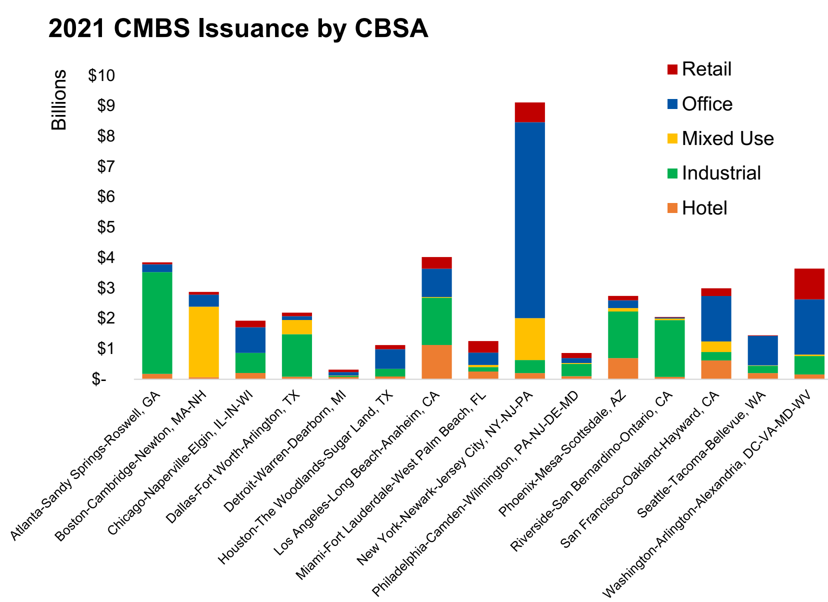


Sources: CoStar Risk Analytics; Intex, Third Quarter 2021

Good real estate will continue to find financing in 2022, with that trend solidifying itself during the pandemic and immediately afterward. Industrial continues to be an attractive asset class. What is most interesting is that CBD (Central Business District) office was heavily financed, a strong indication of the market's sentiment on the work-from-home situation many companies are navigating today. Also of note is the strong performance of full-service and extended-stay hotel subtypes. With business travel still lagging, we expect similar issuance trends for 2022.

Good Real Estate Continues To Find Financing, With Strong Markets and Demand for Space Continuing To Rise



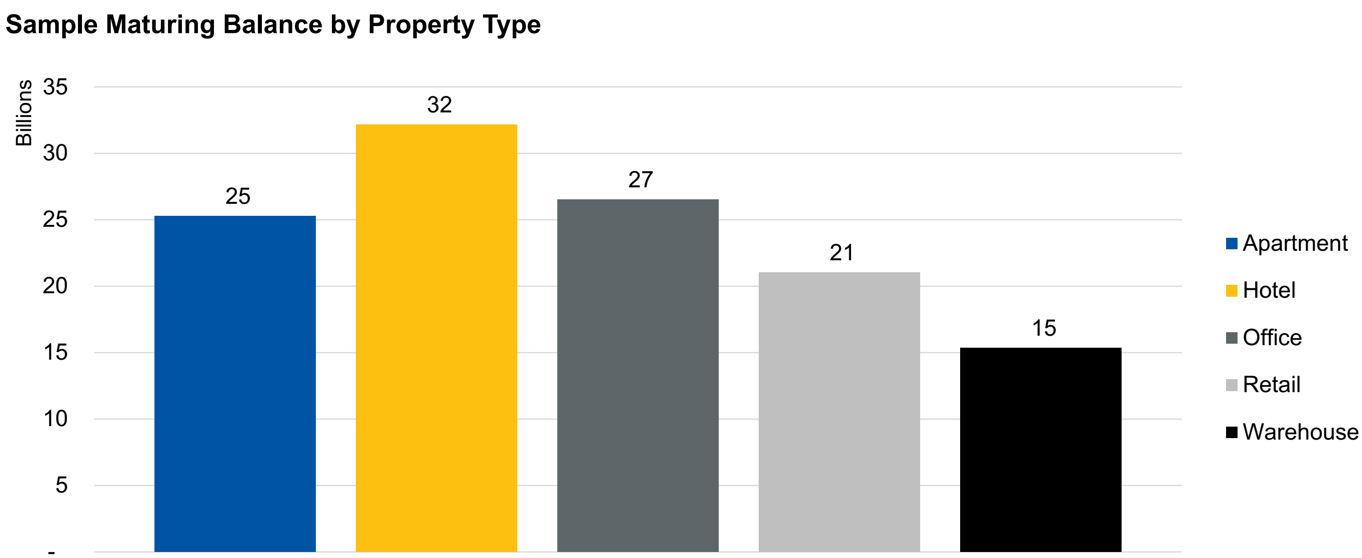


Sources: CoStar Risk Analytics; Intex, Third Quarter 2021

Prediction 11: The Majority of CMBS Loans With a Maturity in 2022 Will Exit Their Current Loan Under Normal Market Conditions

The majority of CMBS loans with a maturity in 2022 will exit their current loan under normal market conditions. CoStar sampled roughly 3,400 loans, across all property types, scheduled to mature in 2022. Assuming underwriting constraints of 65% LTV and a DSCR of 1.20x, approximately 94% of loans are expected to exit under normal market conditions. A total of 204 loans are expected to have a maturity gap. If we assume the maturing loans are allowed to qualify based on an I/O loan payment the number of loans with a maturity gap reduces slightly to 188. About 50% of loans with a maturity gap are secured by hotel assets.

Sample Maturing Balance by Property Type



Sources: CoStar Risk Analytics; Intex, Third Quarter 2021

For the majority of loans where a maturity gap is present, lenders will choose to extend the loan rather than force a default. This will allow troubled assets more time to recover to their pre pandemic performance.

Maturity Gap Summary

Property Type	Total Number of Loans	Balance At Maturity	Value At Maturity	Ave LTV	Number with With Maturity Gap	% of Total Maturing Loan Count	Balance of Loans With Maturity Gap	% of Total Maturing Loan Balance
Apartment	1,880	$25,292,430,262	$75,031,005,732	34%	55	2.9%	$4,855,394,339	19%
Office	401	$26,546,917,033	$60,429,837,786	44%	36	9.0%	$7,159,898,449	27%
Retail	644	$21,054,730,569	$59,221,265,334	36%	7	1.1%	$603,858,580	3%
Hotel	310	$32,165,121,292	$47,064,171,406	68%	104	33.5%	$24,998,064,526	78%
Warehouse	206	$15,369,667,537	$40,300,384,593	38%	2	1.0%	$113,833,171	1%
Total	**3,441**	**$120,428,866,693**	**$282,046,664,851**	**46%**	**204**	**5.9%**	**$37,731,049,065**	**31%**

Maturity Gap Summary IO

Property Type	Total Number of Loans	Balance At Maturity	Value At Maturity	Ave LTV	Number with With Maturity Gap	% of Total Maturing Loan Count	Balance of Loans With Maturity Gap	% of Total Maturing Loan Balance
Apartment	1,880	$25,292,430,262	$75,031,005,732	34%	44	2.3%	$1,927,327,239	8%
Office	401	$26,546,917,033	$60,429,837,786	44%	32	8.0%	$6,315,099,099	24%
Retail	644	$21,054,730,569	$59,221,265,334	36%	7	1.1%	$603,858,580	3%
Hotel	310	$32,165,121,292	$47,064,171,406	68%	104	33.5%	$24,998,064,526	78%
Warehouse	206	$15,369,667,537	$40,300,384,593	38%	1	0.5%	$4,026,771	0%
Total	**3,441**	**$120,428,866,693**	**$282,046,664,851**	**46%**	**188**	**5.5%**	**$33,848,376,215**	**28%**

Sources: CoStar Risk Analytics; Intex, Third Quarter 2021

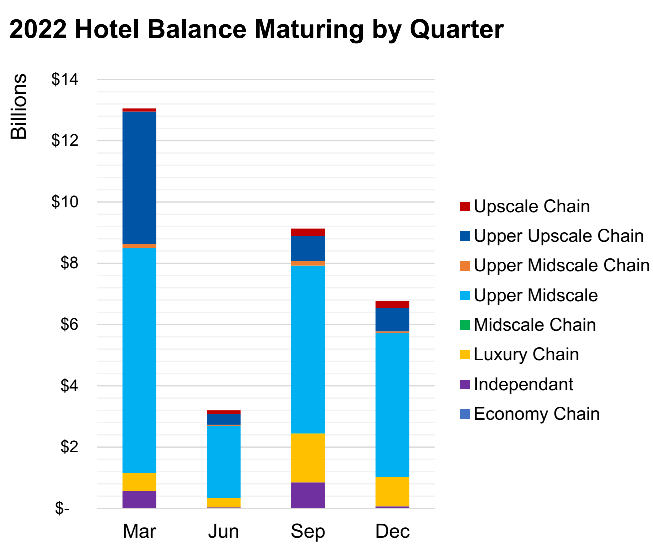
Prediction 12: Most Distressed CMBS Hotel Loans Maturing Within The Next Year Will Not Default

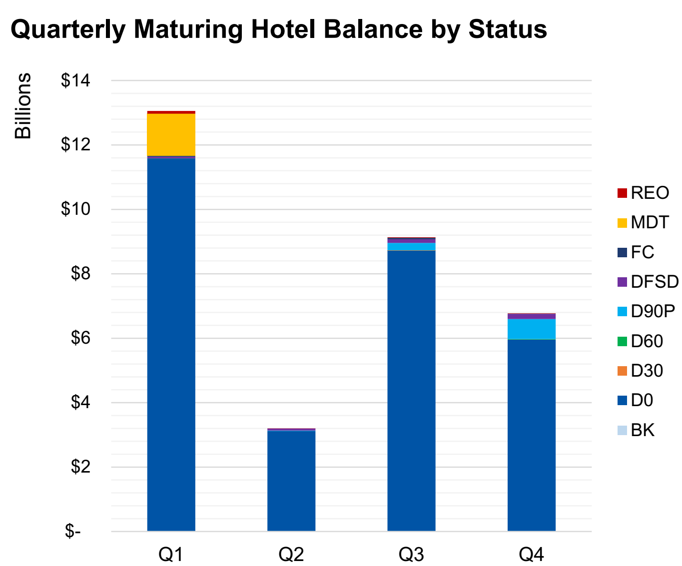
Most performing CMBS hotel loans maturing over the course of 2022 will not default. Although there has been quite a bit of turbulence within the hotel industry, we believe financial metrics will continue to creep back toward pre-pandemic levels.

Leisure travel has been strong in 2021. The international travel ban for the U.S. was lifted in early November. Hotels have been showing strength in weekday occupancies, as we are experiencing the first conference season since the pandemic, providing evidence that business travel is coming back.

Over 90% of the more than $32 billion of CMBS hotel loans maturing in 2022 are currently performing. Also, over 90% of the CMBS hotel loans maturing are considered Upper Midscale and up. As of the 2021 Q3, the weighted average LTV of these classes was just under 70%, and given the current momentum of the hotel industry, this exhibits strong refinancing opportunities.

CMBS Hotel Loan Maturities





Sources: CoStar Risk Analytics; Intex, Third Quarter 2021

U.S.
Office

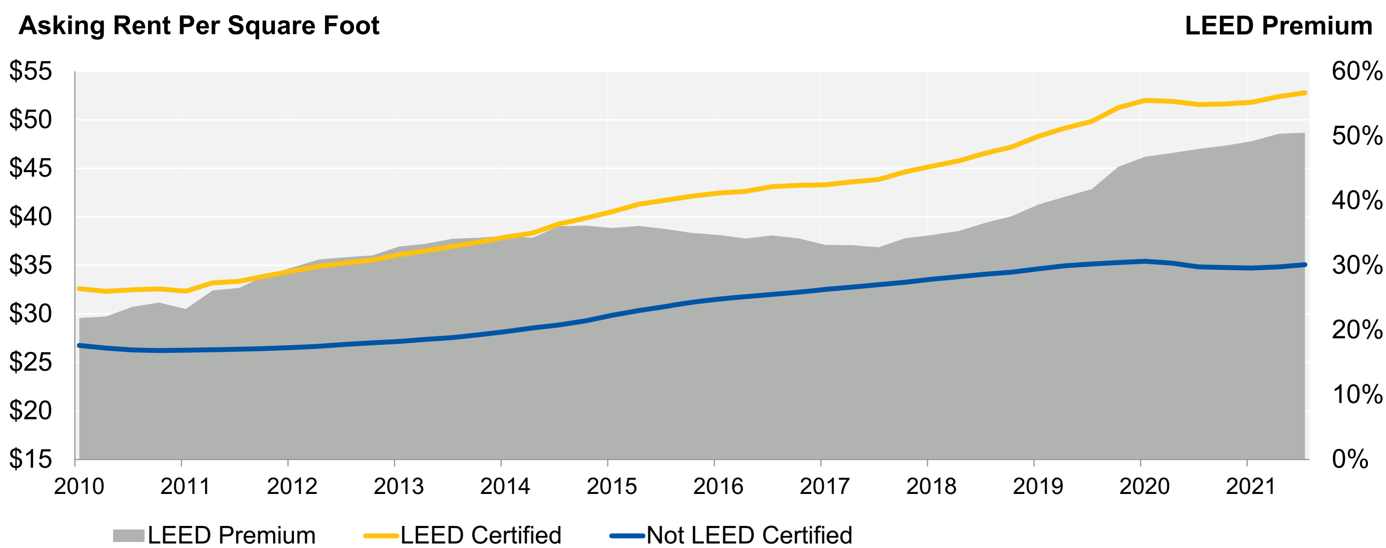
CoStar Group™

Prediction 13: Increased Focus on ESG Widens Rent Premium For LEED Certified Buildings

The increased focus on environmental, social, and corporate governance (ESG) is expected to accelerate the shift to a more sustainable and energy-efficient office environment. Green buildings have historically achieved a higher rent premium relative to their non-rated office peers and that premium has continued to grow through the pandemic.

While national office asking rents declined 1% in the three- to five-star segment since the pandemic began, rents in similar quality LEED-certified buildings increased by nearly 2%. We expect the rent premium for green building certification to continue to widen in 2022. Tenants are thinking longer-term about the role their real estate footprint plays in improving ESG metrics. Buildings that can address the health and environmental concerns of tenants but also provide efficiencies and cost savings to owners can strengthen their long-term competitiveness.

Rent Per SF In LEED Vs. Non-LEED Certified Office Properties



Source: CoStar Advisory Services, Third Quarter 2021

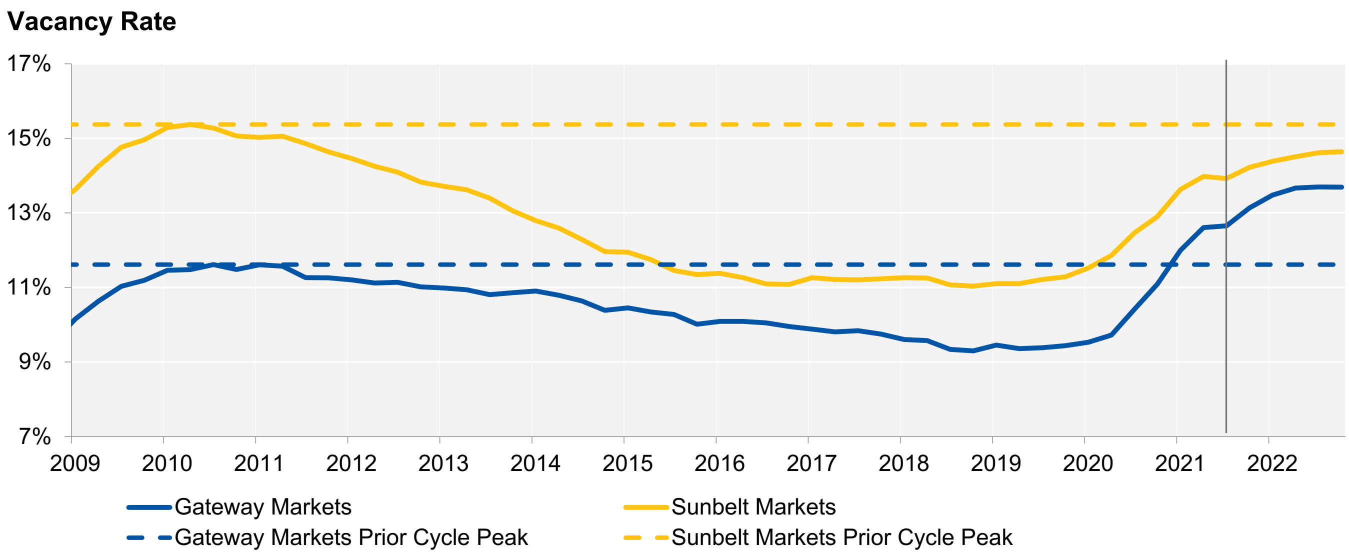
Note: Exclusive to 3-5 Star office properties in 54 of the largest U.S. markets

Prediction 14: Vacancy Rates Linger Above Prior Cycle Peaks in Gateway Markets

Gateway markets have suffered a greater erosion of occupancy since the pandemic, due to their higher share of remote compatible jobs, greater density, and reliance on public transit. This has caused more uncertainty around space needs, and a further retrenchment in demand in some of the gateway markets. Leasing activity nationally has been steadily improving, however, returning to more normal levels in recent months, suggesting office demand across the board will improve in 2022, but we expect that the recovery to be uneven.

Sun Belt markets have achieved a stronger return to normal leasing levels and have lower levels of in-process construction, at about 1.9% of inventory, which helps mitigate vacancy increases. The slower return of leasing activity and a higher share of construction underway, equating to 2.2% of inventory, should cause gateway market vacancies to remain elevated relative to their prior-cycle peak in 2022 before a stronger recovery ensues.

Office Vacancy Rates In Gateway Versus Sunbelt Metros



Source: CoStar Advisory Services, Third Quarter 2021

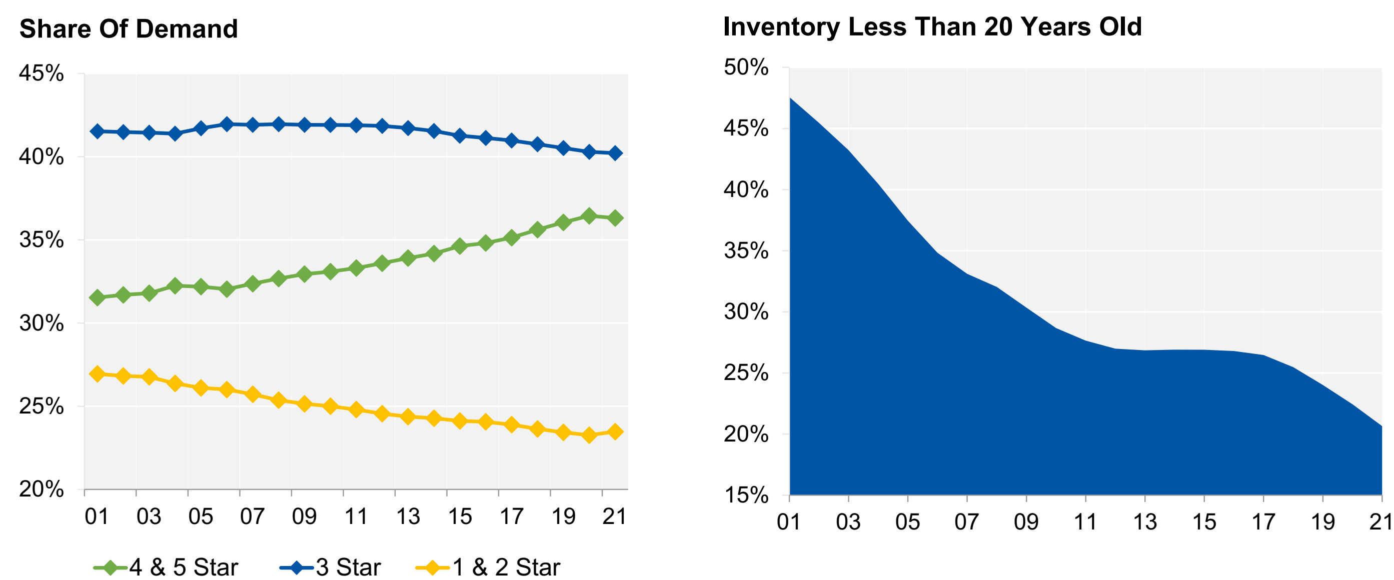
Notes: Gateway markets include Boston, Chicago, Los Angeles, New York, San Francisco, Seattle and Washington, DC
Sunbelt markets include Atlanta, Austin, Charlotte, Dallas-FW, Houston, Jacksonville, Miami, Nashville, Orlando, Phoenix, Raleigh, South Florida and Tampa

Prediction 15: High Quality Properties Will Outperform the Broader Market

The preference for high-quality space is nothing new. It was a hallmark of the last business cycle, as employers increasingly looked to their office space to attract and retain top talent. As a result, the highest-quality four- and five-star properties captured an increasing share of demand over the past two decades unabated. We expect this trend to continue in 2022.

Tenants that plan to reduce footprints are more likely to consolidate into their most strategic locations, which are typically the most centrally located, highest-quality buildings in the corporate portfolio. At the same time, the high-quality space typically found in newer buildings has been growing scarce. The share of the office inventory built within the past 20 years has declined from 48% in 2001 to just 20% currently. As flight-to-quality accelerates, newer, well-located, and high-quality buildings should outperform.

Demand And Supply Dynamics For High Quality Office Buildings



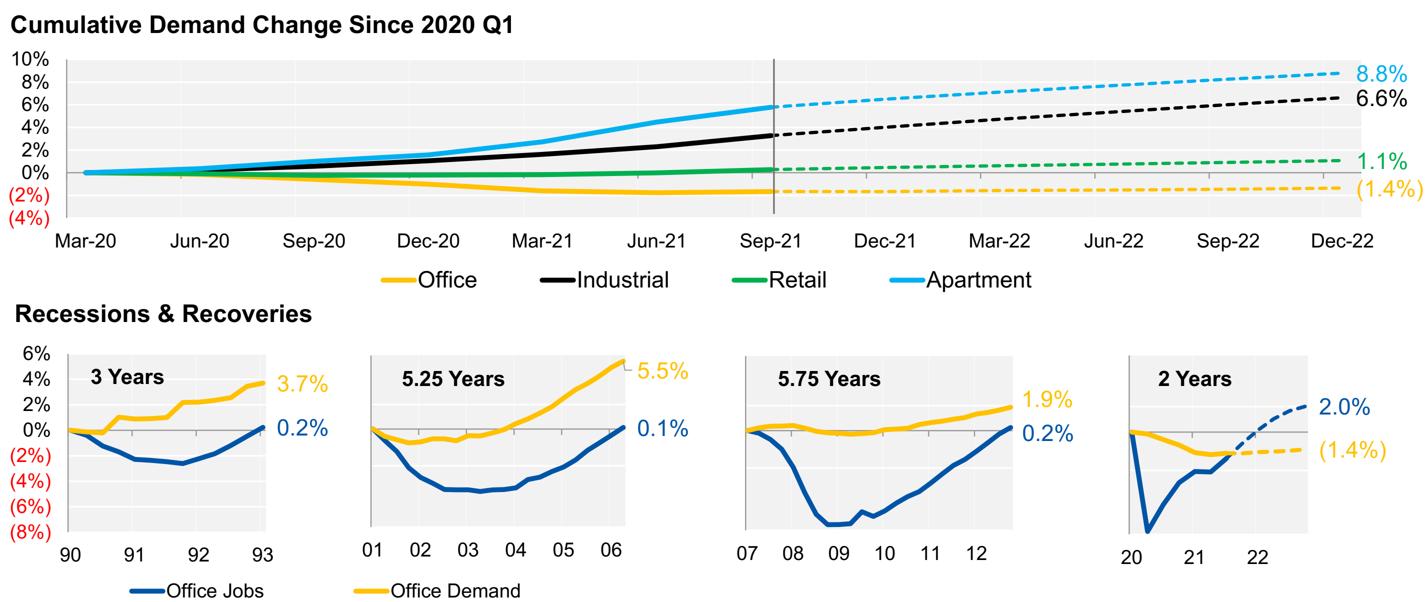
Source: CoStar Advisory Services, Third Quarter 2021
Note: Exclusive to 54 of the largest U.S. markets

Prediction 16: Office Faces the Weakest Recovery, But Will Surprise to the Upside

While we believe the office market faces the weakest recovery, demand will surprise to the upside in 2022. There is no denying the disruption the pandemic has caused to the office market, but there are also reasons for optimism in the sector with recent signs pointing to a market bottom. Leasing activity has steadily improved in 2021, returning to pre-pandemic levels in the summer. After five consecutive quarters of demand losses, net absorption turned positive in the third quarter. And sublease availability declined for the first time since 2019.

Additionally, the biggest reason for optimism is the swift labor market recovery. Office-using employment is expected to recover all the jobs lost during the recession by early 2022 and will be 2% higher than the previous peak by the end of 2022. This compares to a 6.4% deficit three years into the Great Financial Crisis recovery and a 4.9% deficit three years into the Tech Wreck recovery.

A Swift Jobs Recovery Suggests That Demand Should Not Be As Sluggish As Some Might Expect



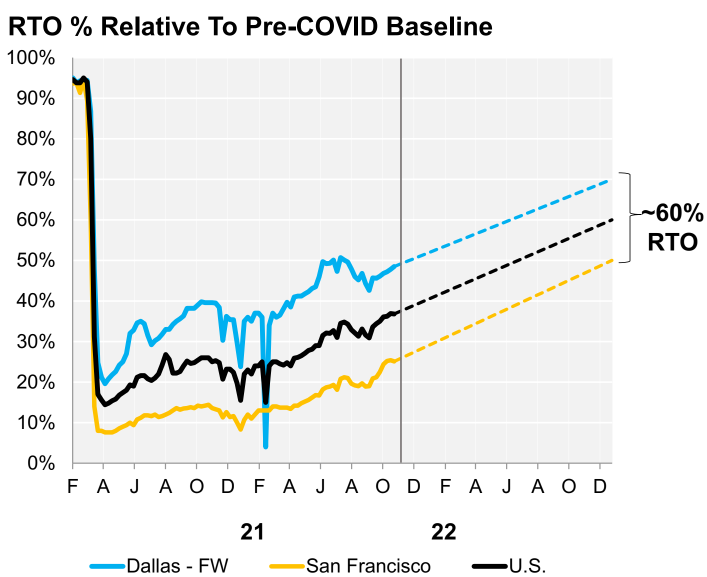
Sources: Oxford Economics; CoStar Advisory Services, Third Quarter 2021
Note: Exclusive to 54 of the largest U.S. markets

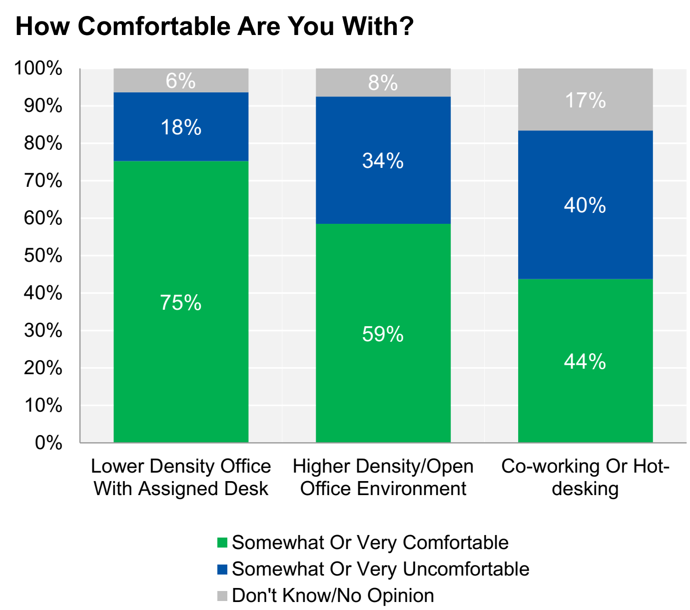
Prediction 17: The Return to The Office Finally Happens

The return to the office has been sluggish due to several factors, including the highly contagious delta variant and vaccination rates too low to achieve herd immunity. According to Kastle Systems, the rate of return to the office relative to the pre-pandemic baseline remains at just 36.8% as of November 2021. We estimate that this figure will reach 60% by the end of 2022, or equivalent to the average worker spending three days in the office per week. While that might be disappointing to landlords, weaker attendance will not translate one-to-one with demand losses.

It is unlikely that workers will embrace a drastic reduction in their office space as a tradeoff for flexibility. A Morning Consult poll found that most respondents strongly favored assigned seating in the office. Roughly 75% of respondents were somewhat or very comfortable with assigned offices, while only 44% were somewhat or very comfortable with hot desking. Personal workstations only make up between one-third to one-half of occupied office space in a typical lease. Workers also strongly prefer to be in the office, during the middle of the week, making hoteling strategies harder to execute. Many firms planning a hybrid schedule will have all employees in the office on the same days each week to maximize collaboration, team building, training, and other person-to-person activities. This is not conducive to space reduction, making it difficult for occupiers to greatly reduce their footprints if these conditions prove out.

Pre-COVID Baseline Does Not Return, But That Won't Necessarily Translate To Large Demand Losses





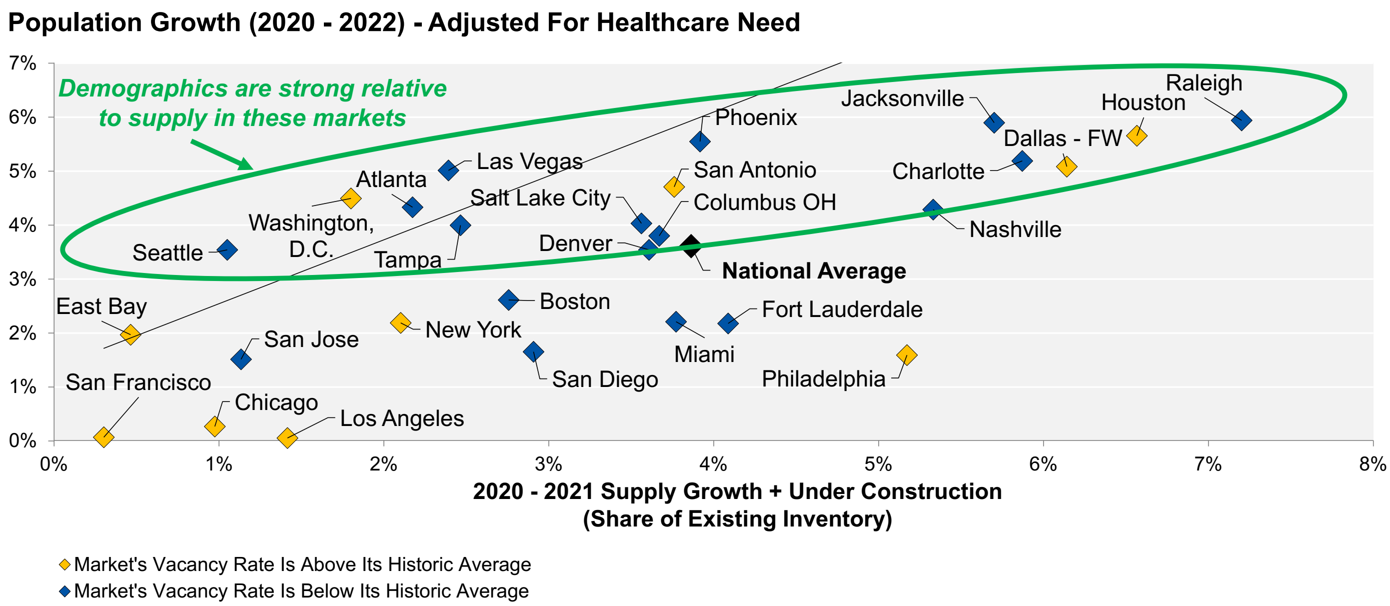
Sources: Kastle Systems; Morning Consult; CoStar Advisory Services, Third Quarter 2021

Prediction 18: Medical Office Markets with Low-Supply & Favorable Demographics Will Outperform

The medical office sector is well positioned to outperform because its demographic and employment drivers are strong, and construction activity remains low. At a market level, we generally believe there are opportunities across the country, but we are predicting outperformance for markets with low supply and favorable demographics.

Accounting for population growth, recent construction activity and vacancy rates, some of the best-positioned markets for outperformance in 2022 include Seattle, Atlanta, Las Vegas, Phoenix, and Jacksonville. While markets like San Francisco, Chicago, L.A., and Philadelphia may offer less upside in 2022.

Adjusted Population Growth Vs. Medical Office Supply Growth



Sources: Oxford Economics; NCHS; CMS.gov; CoStar Advisory Services, Third Quarter 2021
Note: Population growth is an Oxford Economics' projection adjusted for age-based office visits (NCHS) and healthcare spending (CMS.gov)

U.S.

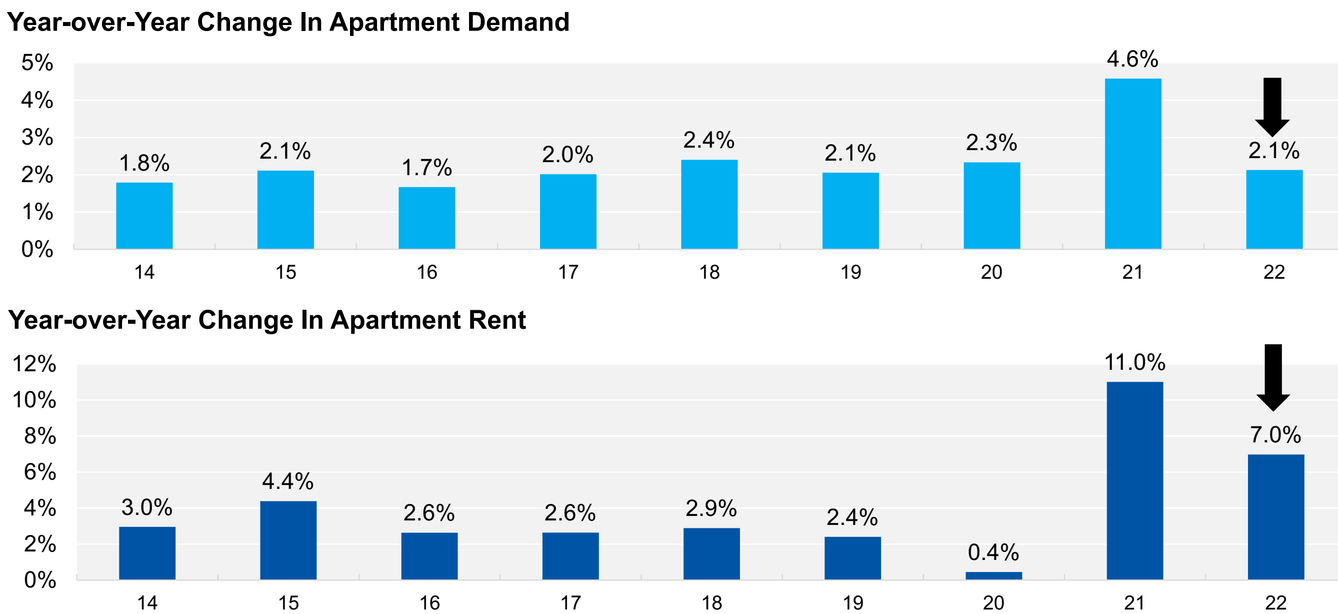
Multifamily

CoStar Group™

Prediction 19: Apartment Demand and Rent Will Reduce By At Least 50%

Apartment demand is unlikely to continue growing at the same pace as 2021, which will help cool off rents. The removal of federal stimulus and enhanced unemployment benefits, the retraction of the eviction moratorium, and a return to positive absorption in senior living facilities will all negatively impact apartment demand, though it is worth noting that protections for some tenants will likely remain in place in selected markets. Demographics for the renter segment remain reasonable for the foreseeable future, so this is not a suggestion that demand will fall apart completely in 2022. However, the level of growth achieved in 2021 is unlikely to be matched.

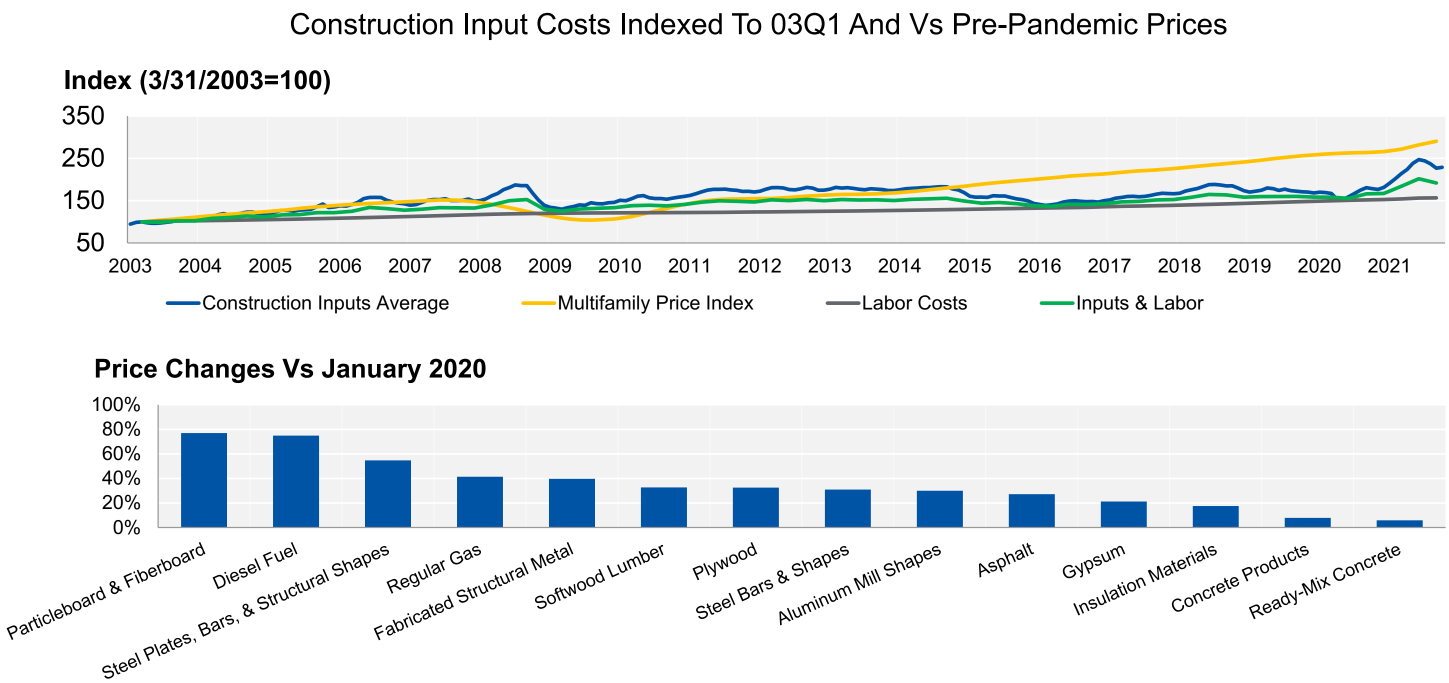
Year-over-Year Apartment Demand And Rent Change



Source: CoStar Advisory Services, Third Quarter 2021

Prediction 20: Construction Input Costs Will Continue Falling

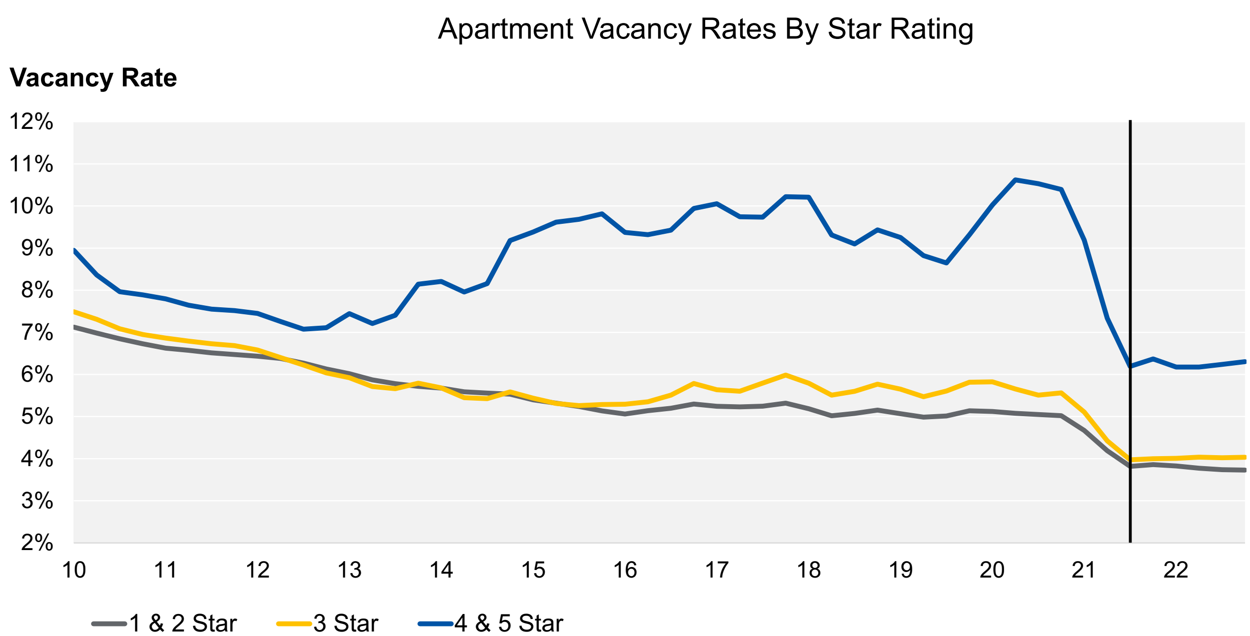
Supply chain issues are going to unwind slowly, but we expect that at the end of 2022, construction inputs will be lower than they were at the end of 2021. Softwood lumber leads the way in declines. Compared to January of 2020, softwood lumber prices are still up by over 30%, but compared to October of 2020, they are down by about 20%. Although demand for these materials should not taper too much, and supply chains will not completely clear, we expect the extreme crunch of 2021 to slack off in the 2022 and lessen input costs by a meaningful amount.



Sources: BLS; FRED; CoStar Advisory Services, Third Quarter 2021

Prediction 21: Workforce Housing Will Remain Tight

While much of the surge in raw demand in 2021 flowed to four- and five-star units, vacancies in one-, two- and three-star units tightened to new lows. Demand for these lower-quality units, and lower-rent units is expected to hold up such that vacancies rise by less than a quarter of a percentage point, if at all. Supply is limited in the lower-end segment of the market, so while populations might grow, the cheaper available units for them usually do not. This suggests that there is a reservoir of demand for workforce housing, some perhaps living a little above their means in four- and five-star units, some might still be with parents, and some in cramped roommate situations. If inventory were to become available, one of these reservoirs would likely plug the gap and keep workforce housing vacancies tight.

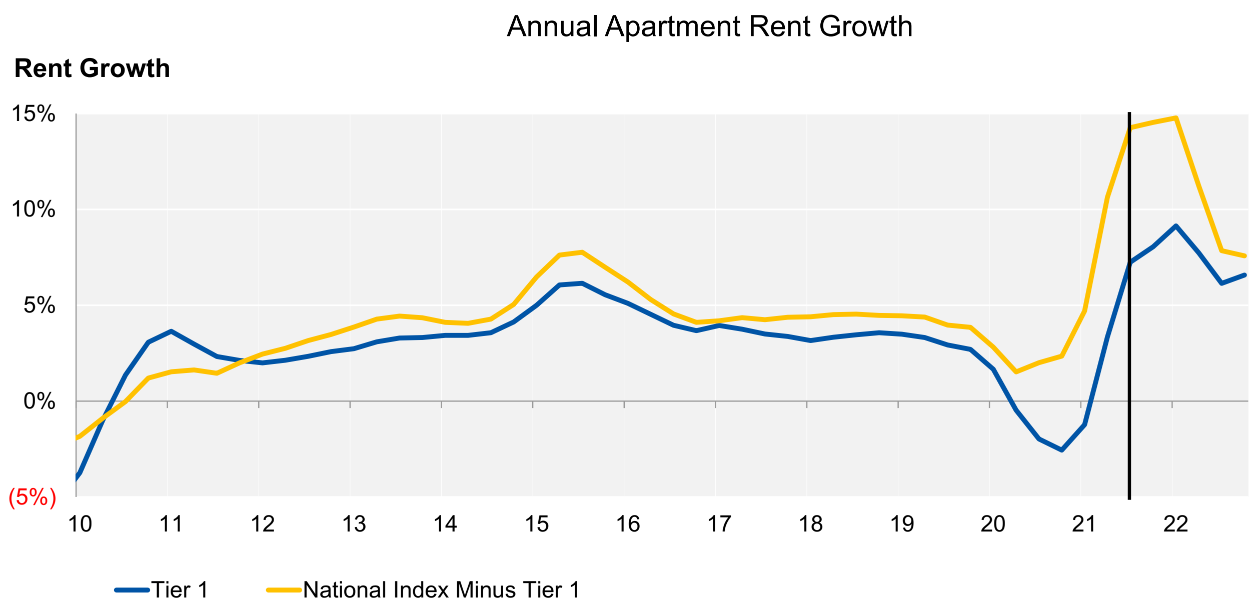


Source: CoStar Advisory Services, Third Quarter 2021

Prediction 22: Growth Markets Outperform Due to Stronger Demographics

Stronger demographics, favorable costs of living and doing business, and stronger employment growth in smaller markets will all weigh on the performance of Tier 1 markets moving forward. As of 2021 Q3, Tier 1 multifamily rent growth stood at 7.2%, while the rest of the National Index markets were at 14.2%. Tier 1 markets have underperformed regarding employment growth, due to smaller markets having more attractive costs for doing business, and in turn business expansion. This ultimately has impacted multifamily demand.

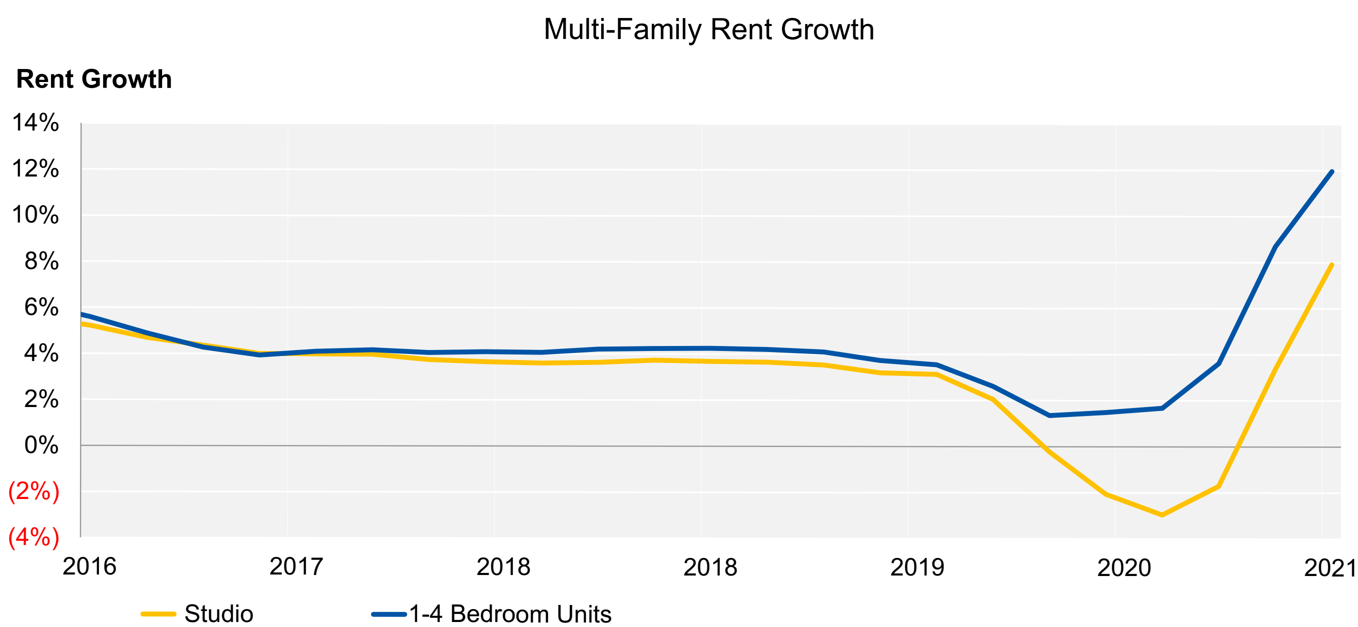
As a result, annual multifamily demand in Tier 1 markets has underperformed the rest of the National Index markets, with Tier 1 net absorption at 1.4% of inventory, while the rest of the National Index was at 2.6%. Going forward, Tier 1 rent growth is expected to underperform at 6.5%, compared to 7.5% nationally. This is largely due to the stronger demographics and employment growth in other markets across the country.



Source: CoStar Advisory Services, Third Quarter 2021
Limited To Largest 54 US Markets; Tier 1 Markets include Boston, Los Angeles, New York, San Francisco, Seattle, and Washington, D.C.

Prediction 23: Shift to Suburbs and WFH Continues Larger Unit Outperformance

The increase in work from home and shift to the suburbs has prompted renters to prefer units with more space. This has benefited larger units and is expected to continue to do so moving forward. Annual demand as a share of inventory for larger units (one to four beds) stands at 2.9% as of 2021 Q3, compared to 1.7% for studios. Although there has been an uptick in both multifamily demand and the number of workers returning to the office, 36% as of October according to Kastle Systems data, work from home has had a permanent effect on the desire of renters to accommodate their space needs. In turn, many renters will continue to sacrifice their short commutes for more space. Moving forward, as work from home remains elevated compared to pre-pandemic times and the shift to the suburbs continues, larger units are expected to continue outperforming studios.



Source: CoStar Advisory Services, Third Quarter 2021

U.S.
Industrial

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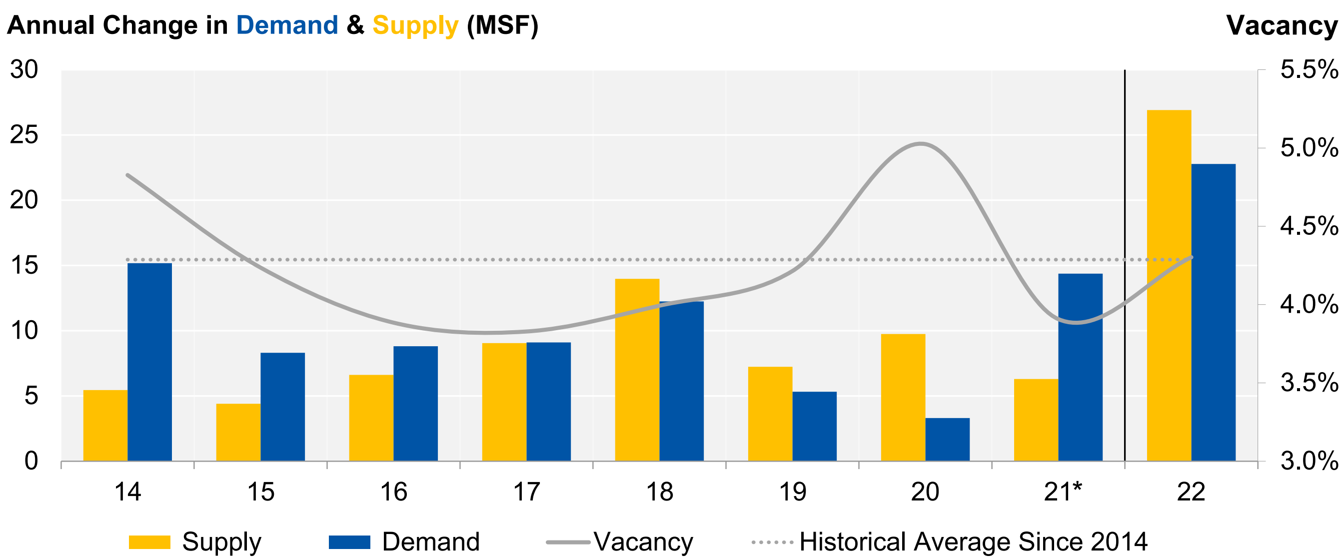
Prediction 24: Despite Supply, Port Warehouse Vacancies Remain Below Historical Average

Given the logistical barriers in the current supply chain, as well as the growth in retail trade and e-commerce, demand for logistics space close to ports is near 2014 levels of 15 million square feet. This has pushed vacancies for those properties below the historical average. At San Pedro Bay, container dwell times are averaging just under six days, with 32.8% of TEUs sitting for more than five days, according to the Pacific Merchant Shipping Association.

The congestion levels seen at the ports have prompted a queuing process 150 nautical miles from the port by maritime industry leaders. Logistical issues at the ports are expected to continue moving forward since container dwell times continue to be above average, and retailers continue looking for anything that will reduce lead times. In turn, this is increasing their desire to fill warehouses close to ports to limit logistical issues in the supply chain. Moving forward, this should result in logistics properties near ports experiencing continued outperformance of both fundamentals and investor appetite.

Annual Change In Port Warehouse Demand, Supply And Vacancy

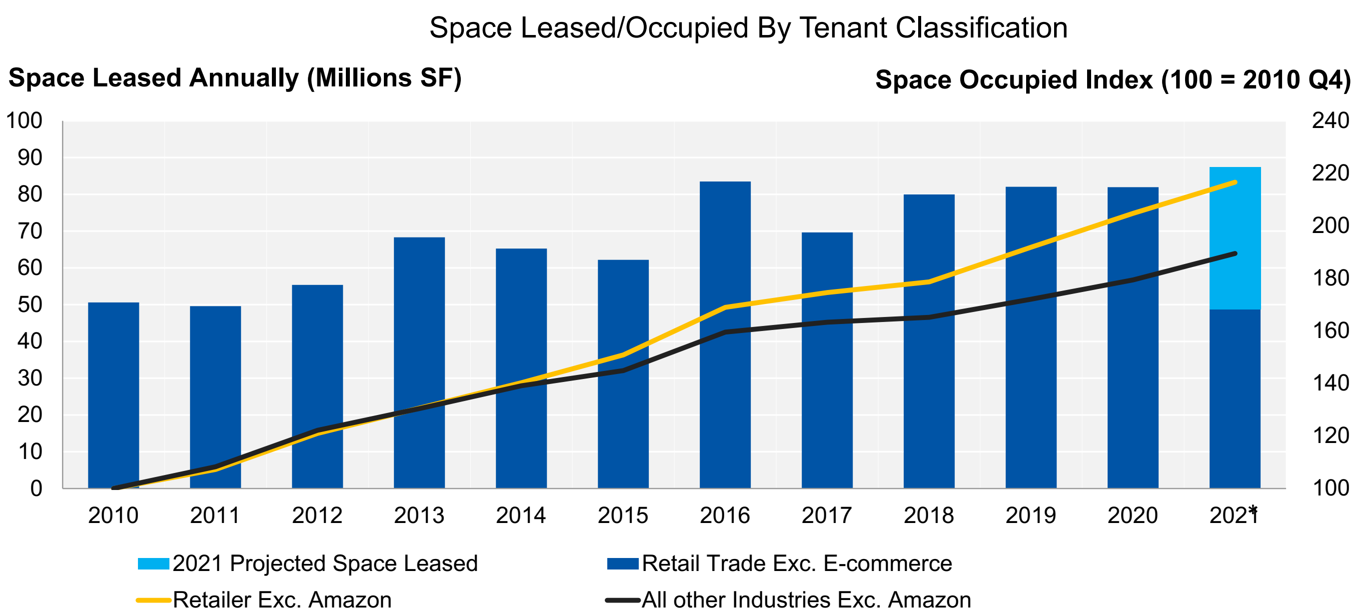


Source: CoStar Advisory Services, Third Quarter 2021

Prediction 25: Retailers and Distributors Increase Industrial Presence Thanks to E-commerce

With tailwinds from the COVID-19 pandemic, which include elevated e-commerce and in-store retail sales, the need for industrial space by retailers is as high as ever. Because of this, the amount of industrial space occupied by retailers increased by 117% since 2010, compared to 89% for all other industries. This has helped diversify the tenant mix, as retailers are outpacing all other industries regarding their total space occupied.

Projected leasing volume by retailers, excluding e-commerce, is expected to break previous records of roughly 87 million square feet. The trend has been holding since 2016, as retailers focused on expanding due to strong retail sales, as well as Amazon's promise of same-day delivery. Retailers have specifically accelerated their expansion of omnichannel strategies and are even considering spinning off their fast-growing e-commerce side of the business, as Target has discussed. Moving forward, this trend should continue as e-commerce sales and retail trade remain elevated compared to pre-pandemic levels.



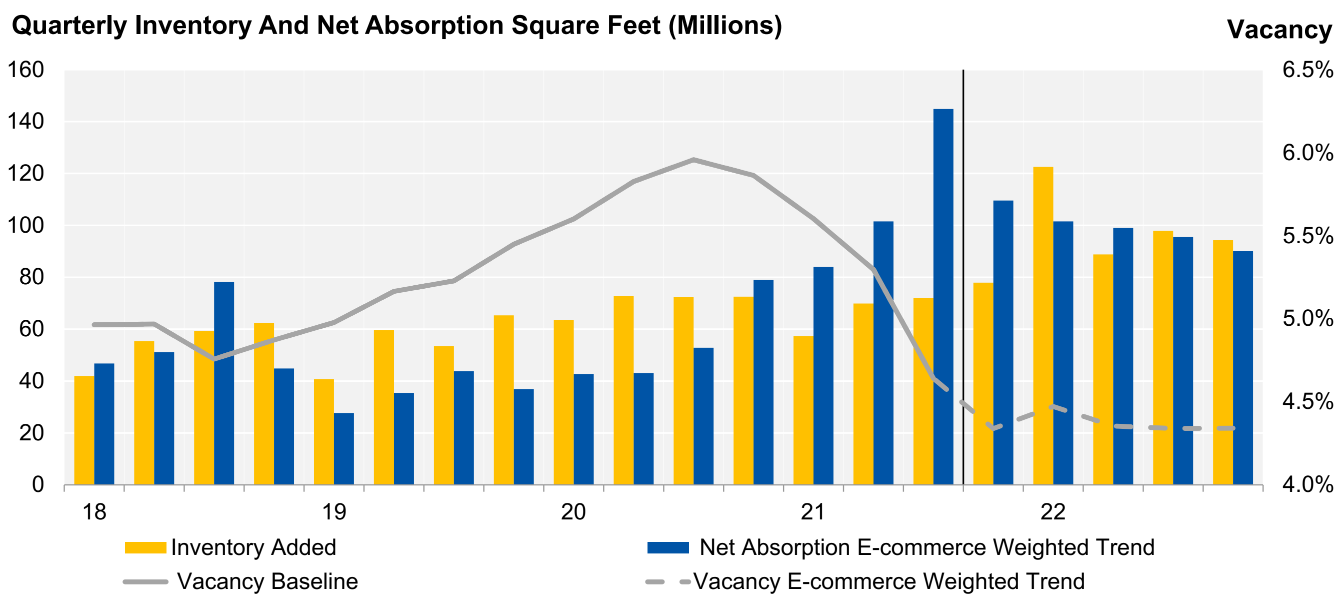
Source: CoStar Advisory Services, Third Quarter 2021

*YTD; Leased Space Uses Actual Lease Observations; Space Occupied Uses Absorption Figure; Projection Based Off 3 Year Average Leasing Volume Added After October

Prediction 26: E-commerce Demand To Meet Elevated Supply Through 2022 and Mid-Decade

Given the recent acceleration in e-commerce demand, we expect most of the supply wave of industrial product delivering in 2022 to be absorbed at a relatively fast pace, or within two years after delivery. With nonstore retail sales expected to reach around 25% of total retail sales by the middle of the next decade, demand for warehouse space will continue to grow for pure-play e-commerce players as well as omnichannel retailers. This acceleration of e-commerce demand, coupled with the return of more typical tenants, is likely to temper vacancy expansion and will keep a lid on availabilities through the end of 2022 despite the elevated supply wave.

Industrial Quarterly Inventory And Net Absorption And E-commerce Weighted Trend

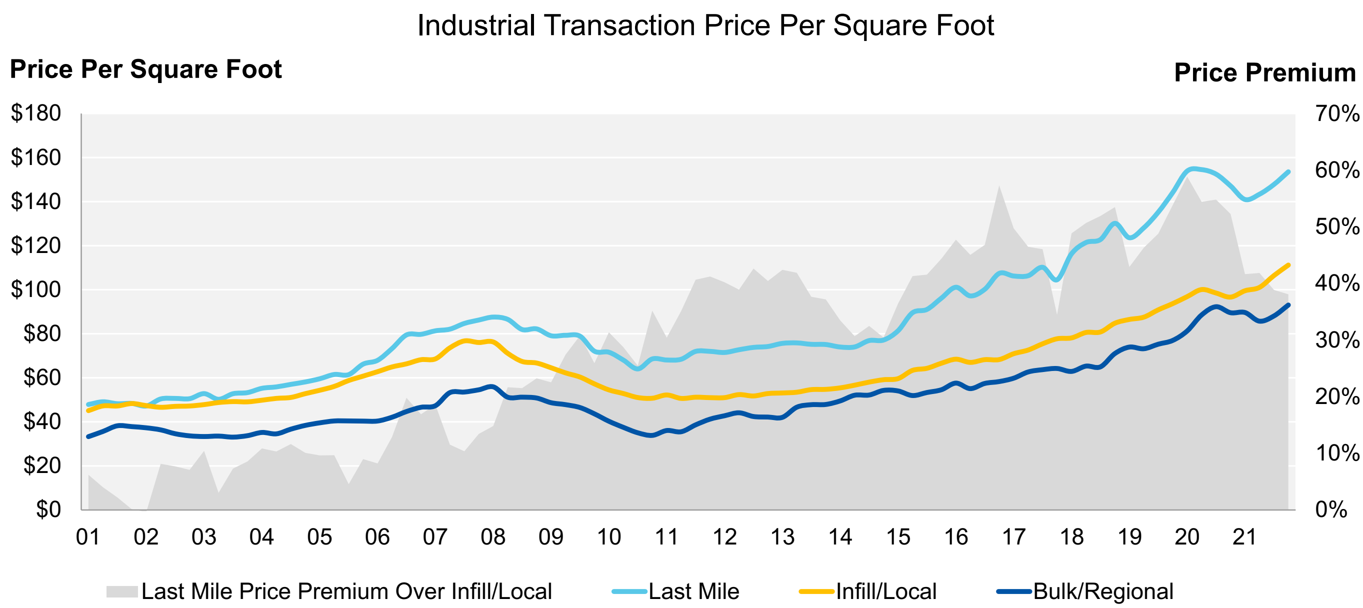


Sources: U.S. Census; CoStar Advisory Services, Third Quarter 2021

Note: E-commerce weighted trend assumes non-store retail sales reach over 25% of total retail sales by mid-decade.

Prediction 27: Last-Mile Pricing Premium Reinflates in 2022

The industrial market continues to experience strong rent gains and pricing appreciation. There was a slight repricing of product over the last year, but values have generally returned to pre-pandemic highs and have continued to climb. We expect pre-pandemic pricing trends to take hold once again in 2022, with the best-located last-mile space continuing to appreciate faster relative to other segments of the market. Infill/local product, which is between 10,000 and 150,000 square feet, will also continue to appreciate, but at a slower rate relative to the best-positioned last-mile assets. Bulk/regional properties greater than 150,000 square feet, will continue to appreciate, albeit at the slowest rate given the higher supply risk in this segment of the market.



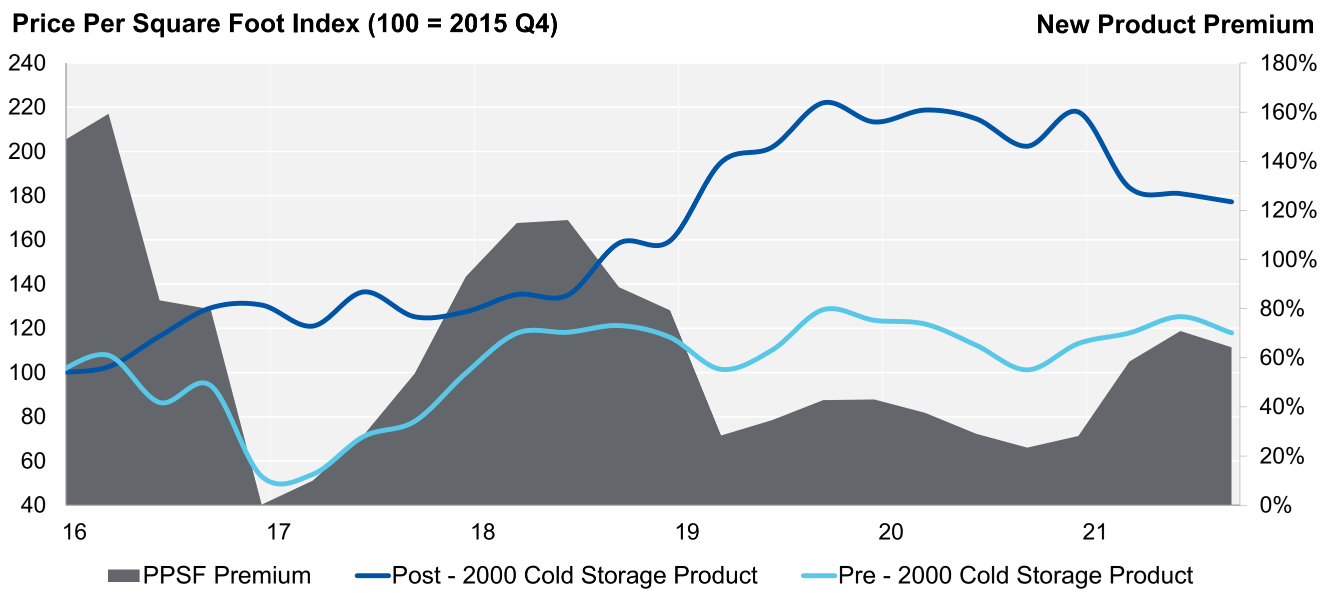
Source: CoStar Advisory Services, Third Quarter 2021
Note: Last-mile limited to properties with last mile LQS of 90+.

Prediction 28: New Cold Storage Product Attractive For Tenants, And Therefore Owners

Demand for new cold storage product is expected to remain strong from both tenants and investors in 2022. Strong tailwinds, such as higher levels of frozen food exports, strong restaurant and grocery food consumption, and e-commerce growth, will continue to benefit this underserved segment of the industrial market. Newer assets will continue to outperform in terms of pricing as outdated buildings continue to lose their attractiveness to modern cold storage tenants.

Cold storage facilities will remain in high demand specifically near major ports and airports, but also close to growing population centers with increasing grocer footprints. This segment of the market is likely to continue to perform well relative to the broader, supply-heavy industrial market due to its constraints on development.

Cold Storage Price Per Square Foot Index By Year Built

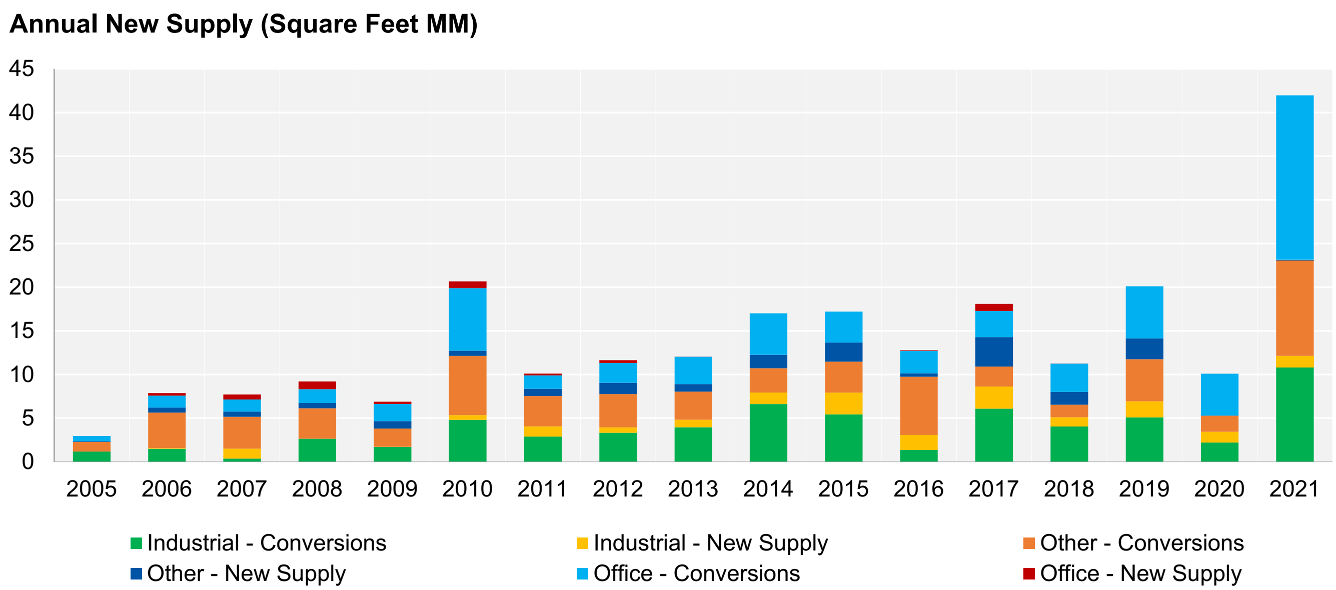


Source: CoStar Advisory Services, Third Quarter 2021
Note: Price Per Square Foot Data Uses 4 Quarter Rolling Average

Prediction 29: Elevated Data Center Demand Continues To Push Conversions in 2022

Demand for data centers is likely to remain strong given the increased adoption of hybrid work-from-home strategies. In 2021, there was a pick-up in conversions, specifically office space to data center space. This trend is likely to continue in 2022 as the hybrid model continues to evolve. Given the current headwinds facing traditional office space, it is likely that a large portion of incoming data center supply in 2022 will also come from converted office space. In contrast, the tailwinds enjoyed by existing industrial space should limit industrial conversions to data centers, though these are likely to remain elevated as well.

Data Center – Inventory Additions By Type



Source: CoStar Advisory Services, Third Quarter 2021

U.S.

Retail

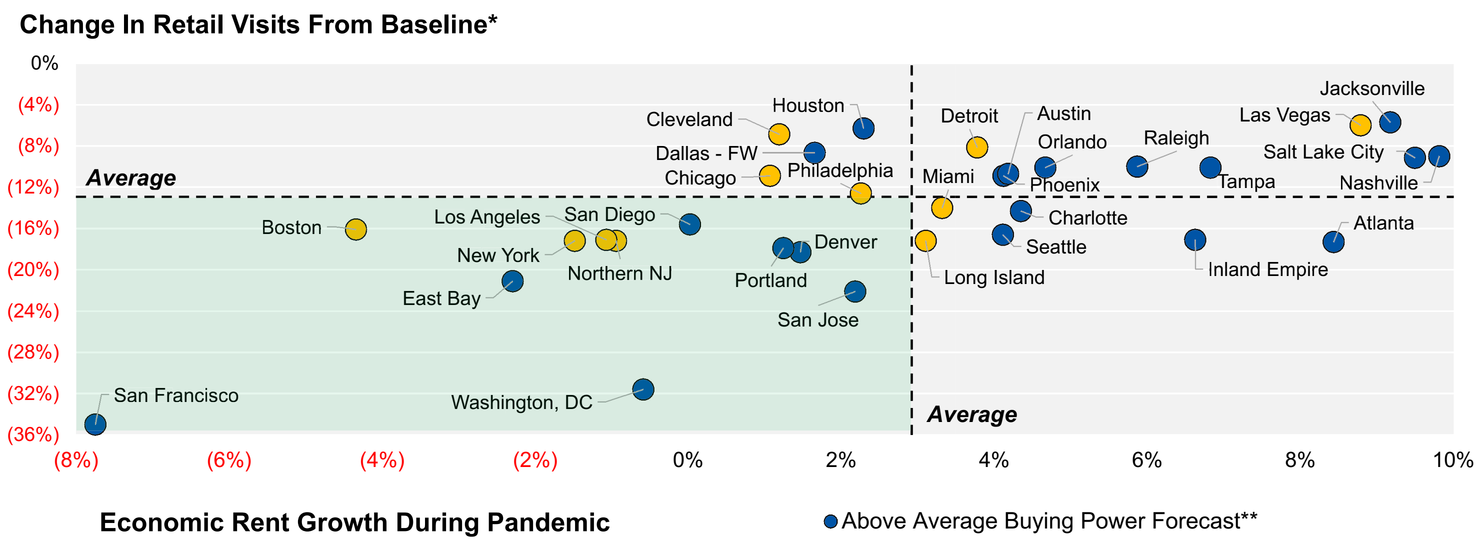
CoStar Group™

Prediction 30: Hard-Hit Retail Markets Will Experience Notable Recovery in 2022

In 2022, we expect a notable recovery for markets that were hit hard by the pandemic. In this case, the hard-hit markets are those with below-average retail foot traffic and below-average economic rent growth since the start of the pandemic. The reason why these markets struggled more is, in large part, because they were more impacted by remote working and the slowdown in tourism. So, with both return to office and travel expected to pick up in 2022, markets like San Francisco, Boston, Washington D.C., New York, and other hard-hit markets should make up some ground on markets that have already experienced recoveries.

It is important to acknowledge that risk remains elevated in these markets, so investors should account for that when underwriting deals. And lastly, it is important to emphasize demographics. The markets shown with a blue dot should be considered better positioned from a demographic standpoint as they have more favorable household and income growth expectations.

Change In Retail Foot Traffic & Economic Rent Growth By Major Market



Above Average Buying Power Forecast**
Below Average Buying Power Forecast**

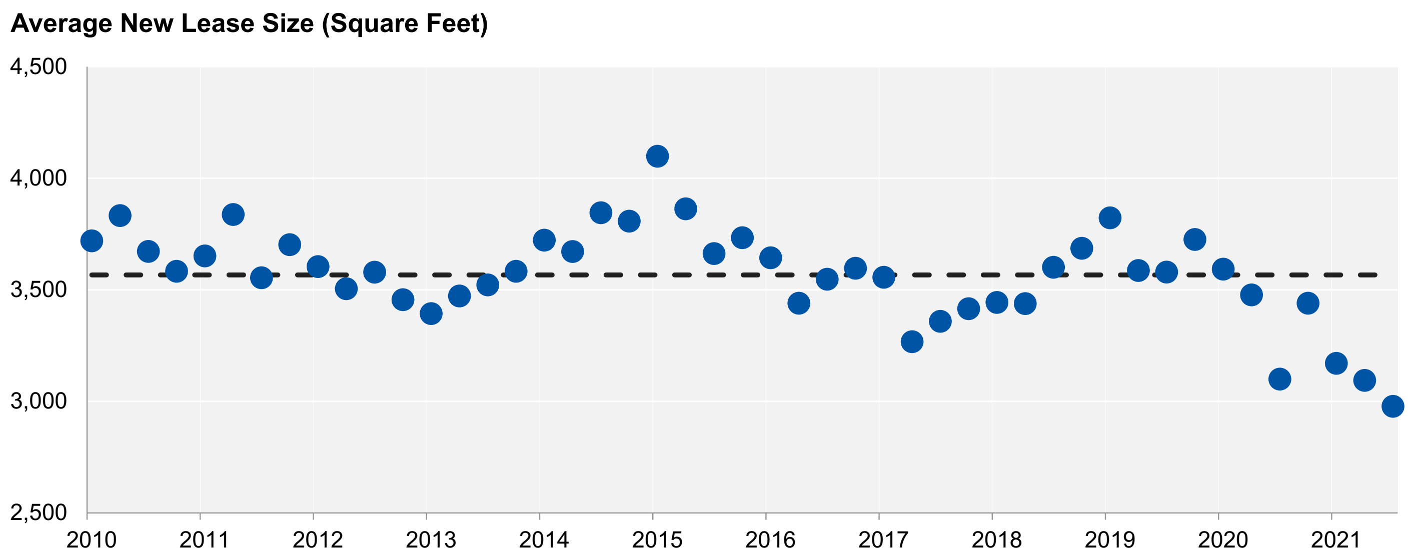
Sources: U.S. Census Bureau; Oxford Economics; Google; CoStar Advisory Services, Third Quarter 2021
*Since the baseline (Jan. 3 - Feb. 6, 2020). Some markets are estimated based on nearby market data
**Median household income multiplied by total households (2019 - 2022)

Prediction 31: Average Retail Lease Size Remains Low In 2022

The average retail lease size will remain low next in 2022. The average lease size has dropped from around 3,500 square feet to 3,000 square feet, over the past two years. Retail leasing activity fell off at the start of the pandemic but has been back to normal levels for most of 2021, and as it has recovered, there has been more demand for smaller spaces, while large blocks, often leased by anchor tenants, has generally fallen out of favor.

We are also seeing this play out in the strategies some retailers are now employing. For example, Target and Burlington Stores are now pursuing much smaller store sizes than they historically have. And while companies like Walmart, Costco, and others are still leasing some large blocks of space, in general, big-box retailers are growing slowly or contracting, and a lot of growth is now coming from retailers with smaller footprint stores.

Average Retail Lease Size



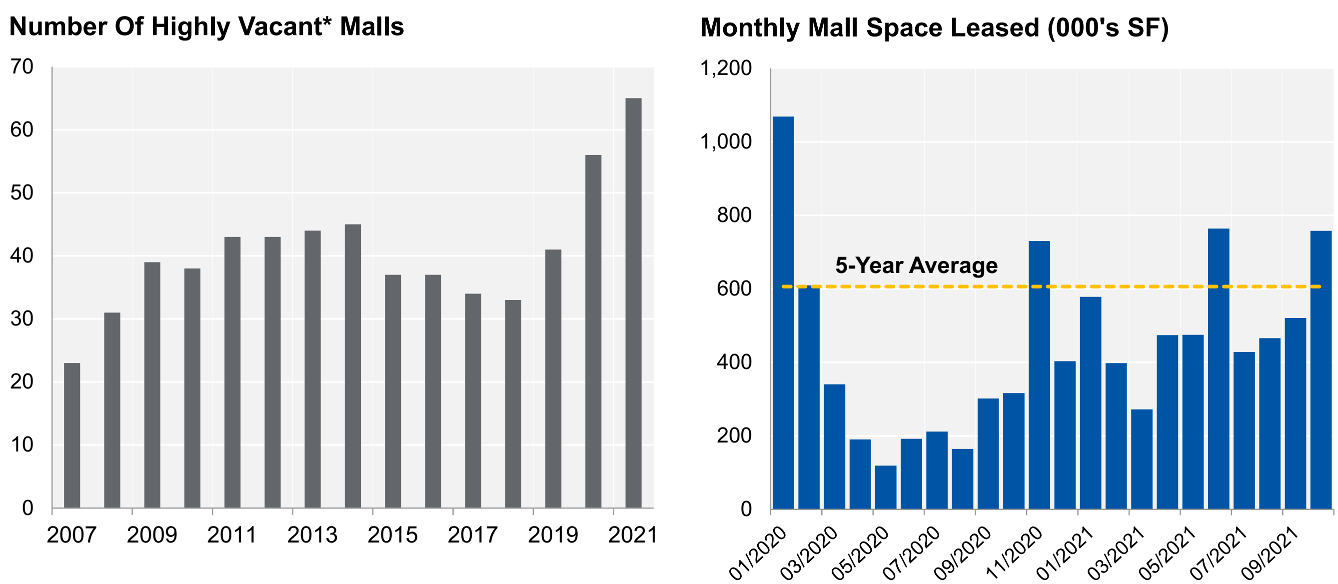
Source: CoStar Advisory Services, October 2021

Prediction 32: The Number of Highly Vacant Malls Will Decrease Next Year

Several of the retail market's greatest challenges, including perhaps most prominently the rapid growth of e-commerce, have disproportionately impacted the mall sector. As a result, the number of highly vacant malls has climbed substantially over the last few years. Now, however, we expect the number of highly vacant malls to come down in 2022.

The first explanation is that fundamentals in the market are improving. Mall leasing activity is climbing back, with 2021 Q3 leasing volume totaling 78% of historical average volume, up from 37% in 2020 Q3. Second, many struggling malls across the country are currently being redeveloped into mixed-use sites or completely new uses, resulting in several highly vacant malls being taken off the market altogether. For the malls that successfully traverse the challenges brought on by e-commerce and the pandemic, renewed leasing activity and reduced competition due to redevelopment indicate that a brighter future may lie ahead in the years to come.

The Number Of Highly Vacant Malls & Monthly Mall Leasing

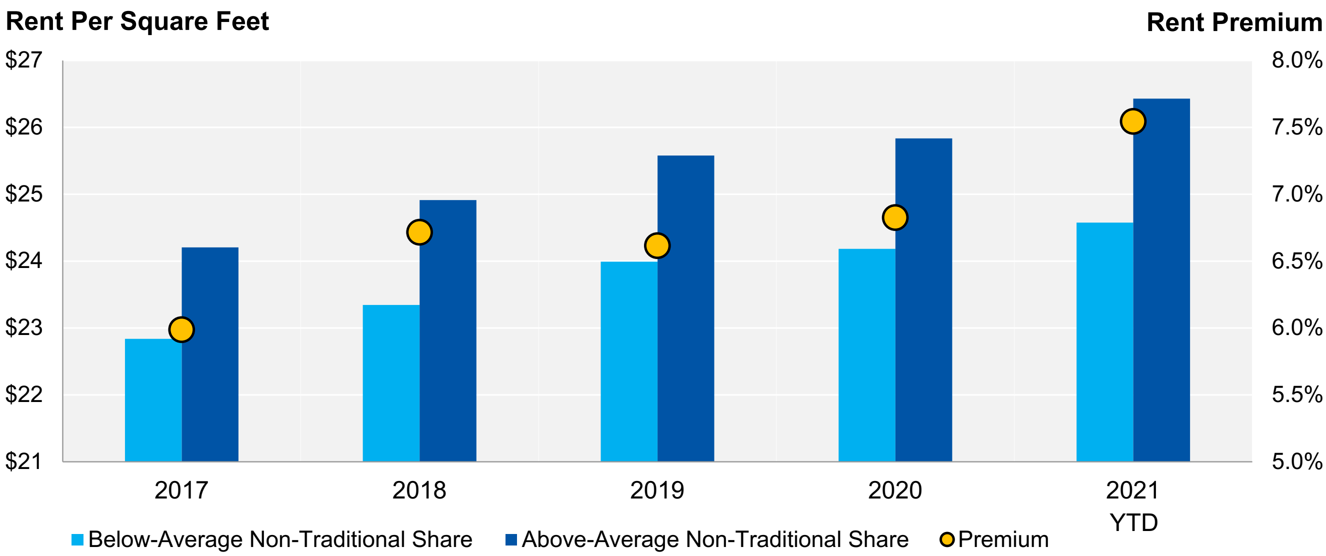


Source: CoStar Advisory Services, November 2021
Note: Leases are limited to those entered during the month
*Malls with a vacancy rate of more than 40%

Prediction 33: Centers With More Non-Traditional Tenants Seeing Increasing Rent Premiums

The rent premium for centers with an outsized share of non-traditional tenants will grow again in 2022. Given the rapid rise of e-commerce, experiential tenants like gyms and restaurants, and necessity-based tenants like grocers and discount stores, have all benefitted from being inherently e-commerce resistant. As traditional tenants, like department stores, were forced to shutter stores in several of their locations, non-traditional tenants drove leasing activity for the retail sector. Owners that leased an outsize amount of space to non-traditional tenants generally benefitted from more stable foot traffic and sales and, as a result, were able to push rents higher at their centers. And, despite the pain that many experiential retailers have endured throughout the pandemic, we expect this premium to increase again in 2022. Given the staying power of the e-commerce threat, owners who can attract tenants that are less susceptible to e-commerce competition, or have created strong omnichannel platforms, should continue to outperform in the year ahead.

Rent Per Square Foot And Rent Premium By Share Of Non-Traditional Tenants



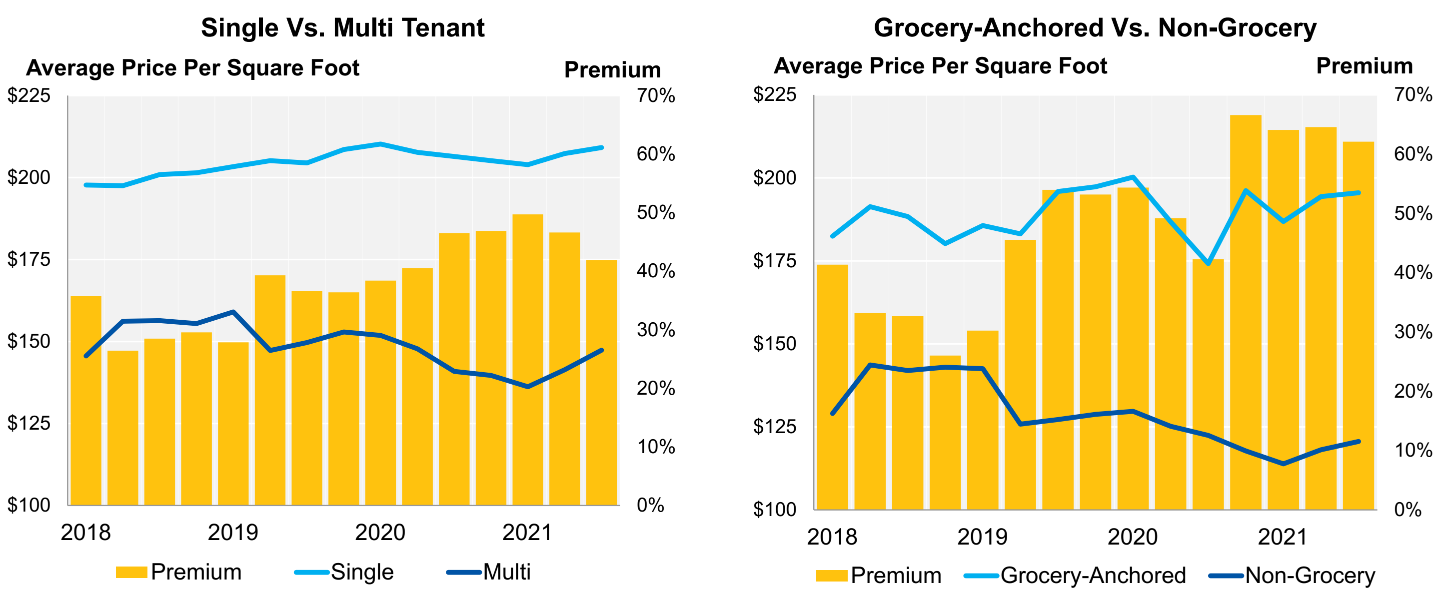
Source: CoStar Advisory Services, Third Quarter 2021
Note: Exclusive to 54 of the largest U.S. markets; 50K-500K SF centers that are at least 85% occupied;
Limited to neighborhood centers, community centers, and lifestyle centers with a location quality score of 50 or above

Prediction 34: "Safe" Retail Retains a Healthy Pricing Premium In 2022

With the added stress on retail created by the pandemic, investors sought relatively safe assets within the sector and were willing to pay a premium for them. This greatly benefited single-tenant retail's sales volume and pricing. Multi-tenant retail has been recovering as the retail market continues to show signs of recovery, but the pricing premium for single-tenant retail remains above pre-pandemic levels and we expect this retail asset class to continue to outperform.

Another relatively safe asset class for investors has been grocery, which has been a solid performer since the start of the previous cycle and was one of the retail segments that experienced growth in both sales and employment last year. This translated to more resilient pricing last year for grocery-anchored retail and a faster recovery. With retail investors likely still focused on stability, we expect grocery-anchored retail to continue to experience strong pricing premiums throughout 2022.

Retail Pricing, Single Tenant and Grocery-Anchored



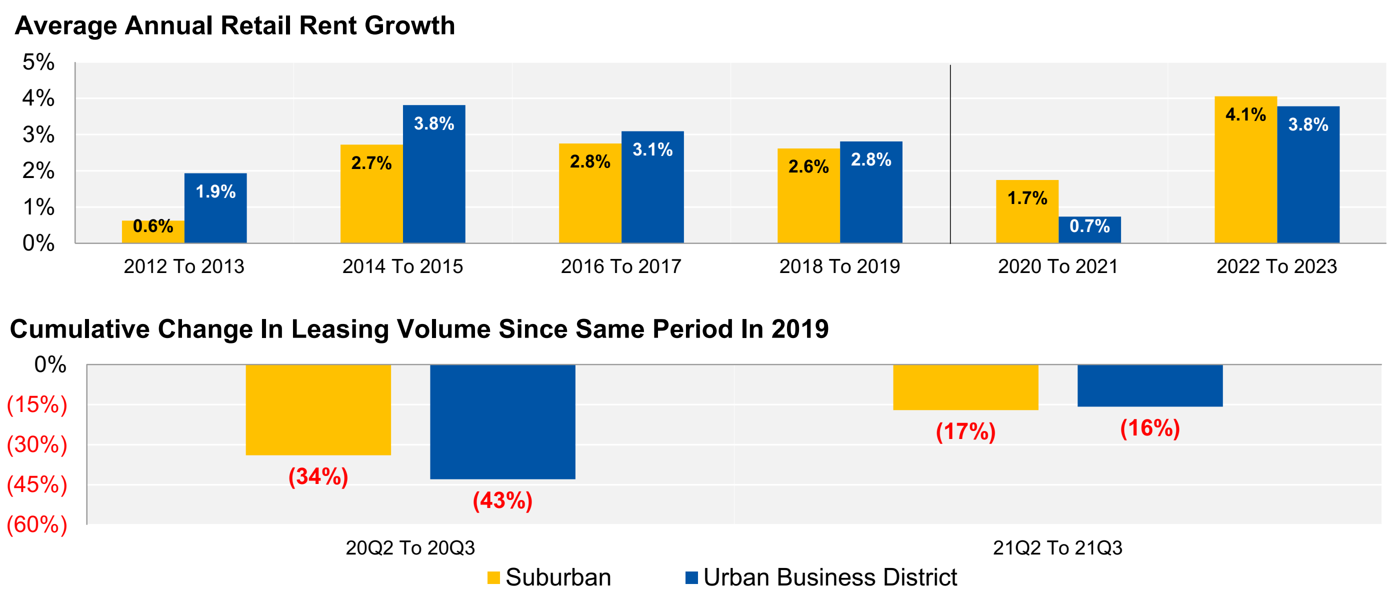
Source: CoStar Advisory Services, Third Quarter 2021
Note: Single-tenant analysis covers all retail; grocer analysis includes strip centers, community centers, neighborhood centers, power centers, and malls

Prediction 35: Suburban Retail Continues To Outperform, But Urban Starts Catching Up

From 2012 until the end of 2019, rent growth for urban business district retail consistently outpaced suburban retail. However, urban retail was significantly more impacted by the pandemic, and that trend reversed last year. Although CoStar forecasts stronger retail rent growth in suburban areas than in urban business districts, throughout 2022 and 2023, urban retail rents are expected to start catching up.

Along with improving rent growth, another promising sign for urban retail is its recent bounce-back in leasing. Looking at the quarterly change in leasing, compared to pre-pandemic levels, 2020 Q3 experienced a more substantial drop for urban retail compared to suburban. These numbers have improved, with leasing for urban business districts now closer to 2019 levels. Strong leasing drives strong rent growth, and with this stronger leasing for urban areas, we can expect rents to start improving as well. Retail in urban business districts has historically outperformed other retail, and with these signs of recovery, urban business districts remain a viable long-term play.

Retail Rent Growth & Leasing Activity By District Type



Source: CoStar Advisory Services, November 2021
Note: Exclusive to 54 of the largest U.S. markets

Canada

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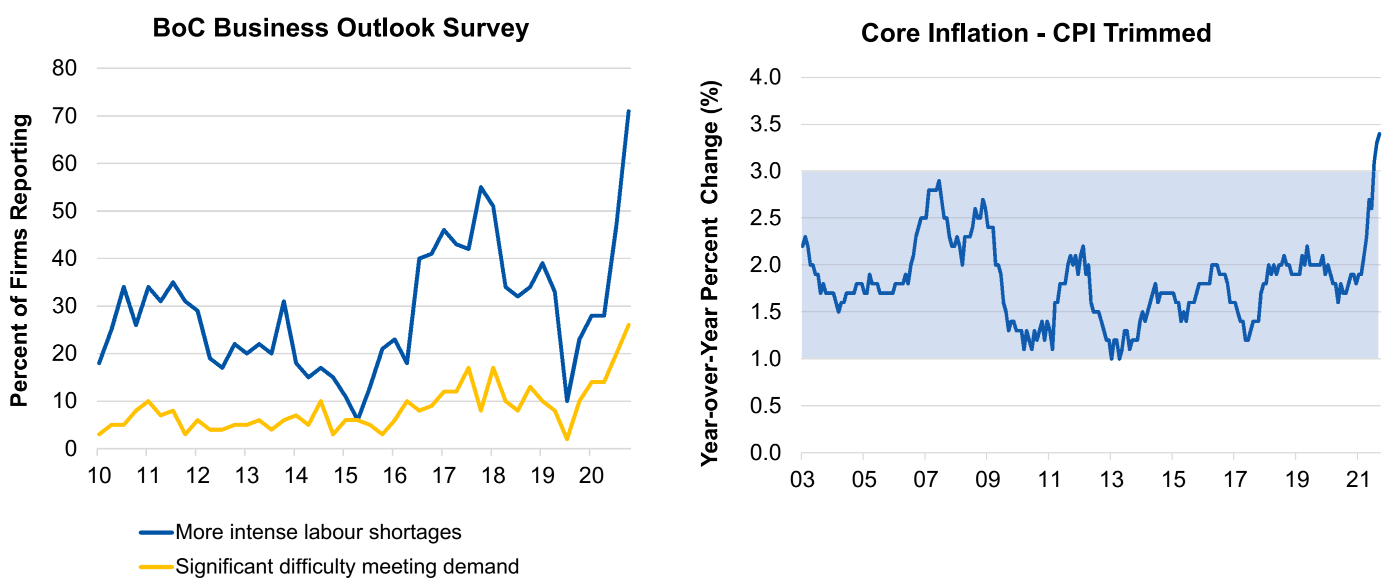
Prediction 36: Inflation Will Run Hotter Than Markets Expect

Like everywhere else, Canada has been seeing inflation rise to levels not seen in decades. The root cause is the biggest topic of debate in economics these days. The consensus narrative is that it's being fueled by temporary factors and base effects coming out of the pandemic. As such, many believe, including the Bank of Canada, that the upturn will prove to be transitory. However, we believe that inflation could continue to run hot in 2022. Persistent global supply chain disruptions and recovering demand are at the heart of this prediction. That's because these forces are resulting in fundamental shortages of goods throughout the economy while constraints are even happening in Canadian labor markets, which is likely to contribute to higher prices on the services side too. All told, we expect core inflation (which strips away the volatile price impacts of food and energy) will continue to run above the Bank of Canada's target range of 1-3% in 2022.

Supply Shortages and Other Capacity Constraints Will Keep Inflation
Above the Bank of Canada's 1–3% Target Range

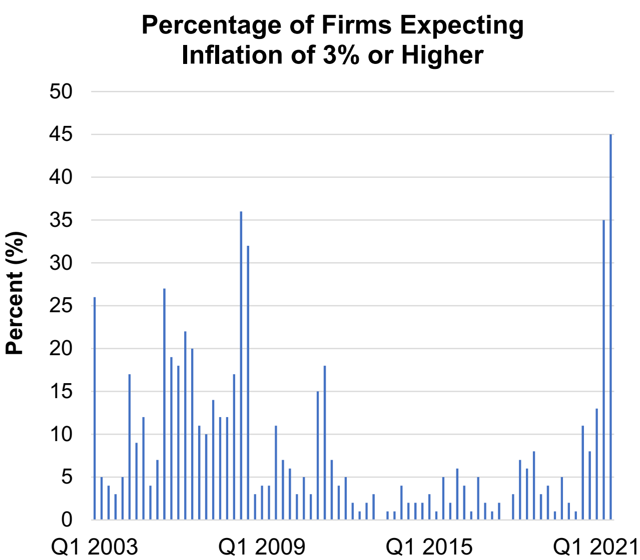


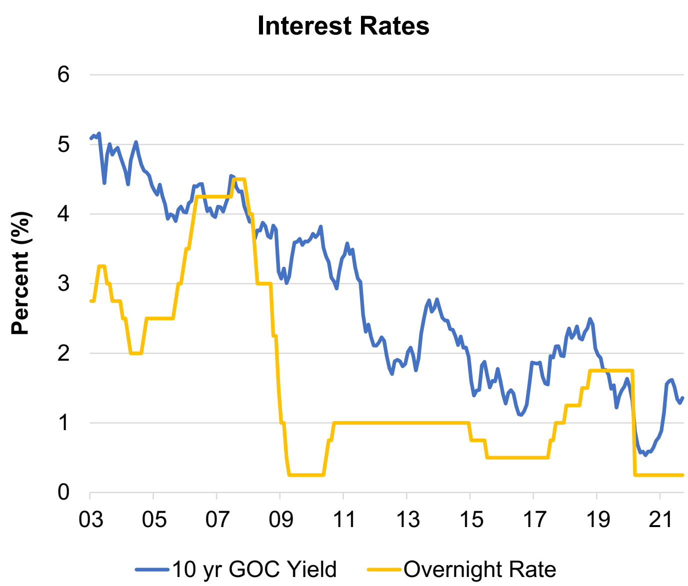
Sources: Bank of Canada; Statistics Canada; CoStar Group, September 2021

Prediction 37: Bank of Canada Pushes Up Timing of Rate Hikes

The Bank of Canada has always had a reputation for being an inflation fighter because it only has one mandate: to keep inflation within a target range of 1-3%. However, a growing percentage of Canadian firms, almost half of them, now believe that inflation will be higher than 3%. Meanwhile, fixed income markets are increasingly growing concerned about inflation, and yields on long bonds have crept higher as a result. With policy interest rates sitting near 0%, the result has been a significant steepening of the yield curve in recent months. Steeper yield curves typically precede rate hikes because it's usually an indication that the economy is running hot. Or said differently, that the central bank is running behind the curve when it comes to raising rates and fighting inflation. Markets had anticipated the first hikes to come in late 2022, but the timing may need to be sooner than later, and quite possibly as early as spring.

Rising Inflationary Expectations and Steepening Yield Curve Will Force the Bank of Canada To Raise Policy Rates by Mid-Year





Sources: The Bank of Canada; CoStar Group, Third Quarter 2021

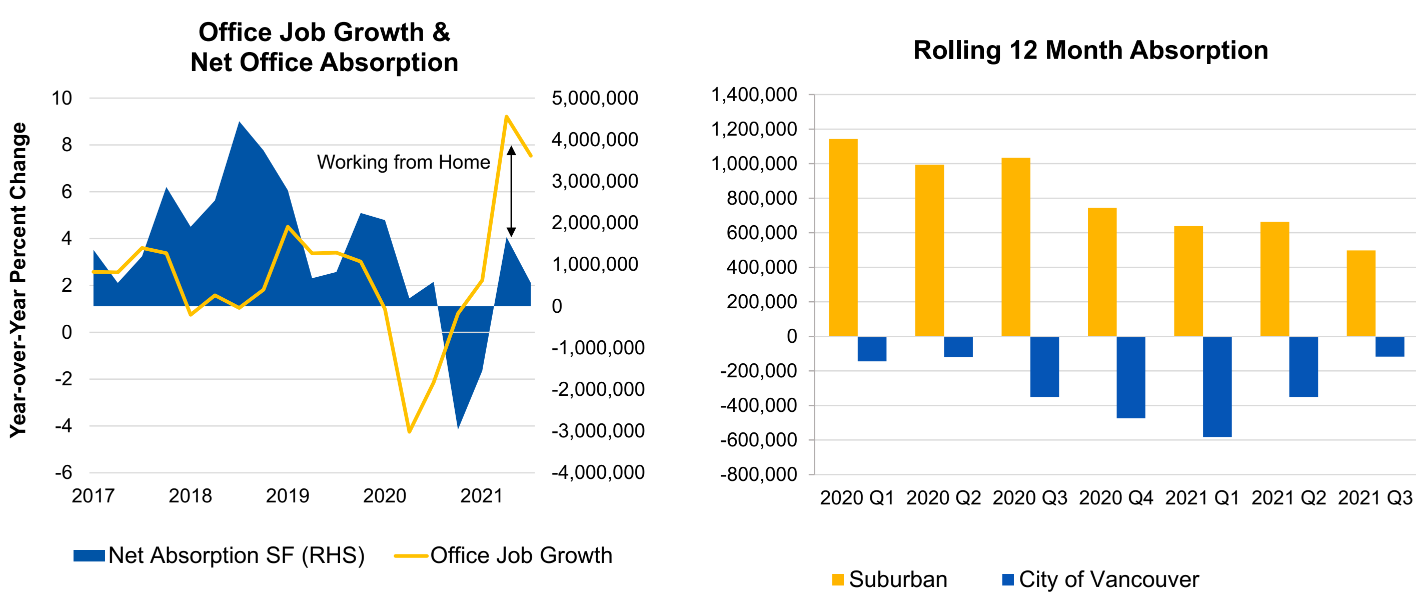
Prediction 38: Downtown Office Vacancy Rises to Highest Level in Two Decades

The major downtown office markets in Canada were some of the tightest in North America heading into the pandemic. Downtown vacancy rates in Vancouver and Toronto bottomed out in the low 2% range in 2020 Q1. Both cities have done well to keep a lid on skyrocketing vacancies over the past 18 months, but both also had significant amounts of space that had just started construction or was well on its way to being delivered by the end of 2021 and heading into 2022. Currently, 9.9 million square feet is under construction in downtown Toronto, and 4.2 million square feet in downtown Vancouver, the equivalent of nearly 10% to 12% of the existing inventories.

Office job growth numbers, which are typically seen as a good leading indicator of net office absorption, have continued to run strong since late summer 2020. However, net absorption has lagged significantly, culminating in the widest job-growth-to-absorption delta in the past five years. Most of these new hires, along with existing employees are still working from home and there are growing indications that many firms will be adopting a permanent, flexible-work arrangement for their staff.

The downtown markets are seeing a higher concentration of this transition to flexible-work locations and combined with the influx of space under construction in these markets, there is growing concern that downtown vacancy rates will climb over 10% in Vancouver and potentially 15% in Toronto. Vacancy rates this high have not been seen in either market since the mid-1990s.

Downtown Office Demand Has Been Weak (Due to WFH) While There Is Considerable New Supply in the Pipeline



Sources: Oxford Economics; CoStar Group, Third Quarter 2021

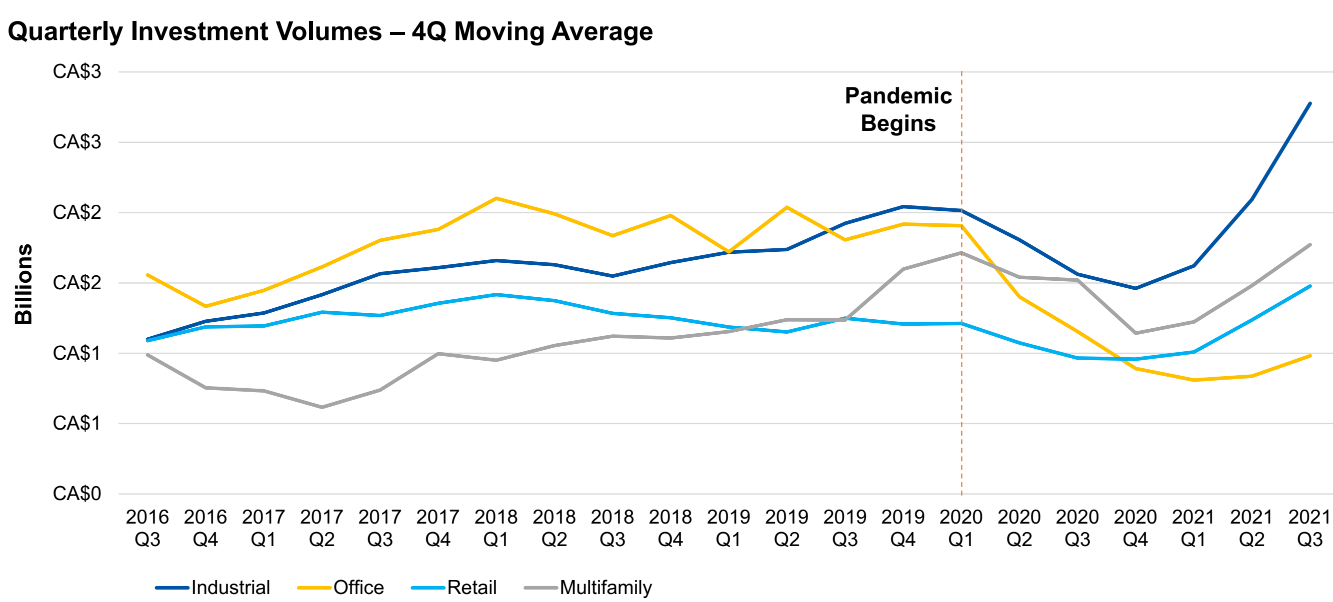
Prediction 39: Downtown Office Deals to Recover & Pricing Will Remain Firm

Despite the rising vacancy rates predicted for the year ahead and beyond, we fully expect office building sales in major markets across Canada to stage a solid recovery in 2022. To date, only a handful of downtown office buildings have traded across the country since the pandemic began, with few if any showing material signs of distressed pricing.

While institutional investors had the means to wait out the pandemic, well-capitalized local private investors stepped up to secure buildings that came to market, and we fully expect more local private investors kicking tires and taking advantage of what looks to be a closing window in terms of less competition for downtown office assets. As the pandemic plays out, and a new normal is accepted by tenants, resulting in the eventual return to the office, more investors, particularly pension funds and REITs eager to reduce their office holdings, will come back into the picture. Quality assets that offer a suite of amenities to tenants will certainly get the attention of the pent-up demand that has accumulated over the past many months.

Even the challenges present in the Calgary market have not stopped investors from acquiring office assets and given the high-quality buildings, and the strong market fundamentals in Vancouver, Toronto, and Montreal, there is a growing expectation that there will be an increasing number of investors turning their attention back to the office market despite the expectation that vacancies will trend upward at an increasing rate in the coming few years. A mountain of capital on the sidelines and limited product of good quality assets should ensure solid pricing as that recovery takes place.

Office Investment Has Been Depressed Since the Start of the Pandemic, With No Downtown Portfolio Trades Occurring



Source: CoStar Group, Third Quarter 2021

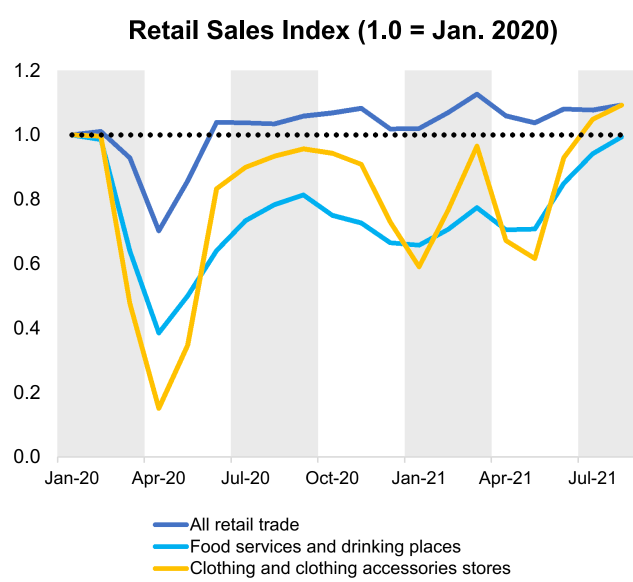
Prediction 40: Physical Discretionary Retail WIll See a Short-Lived Boom

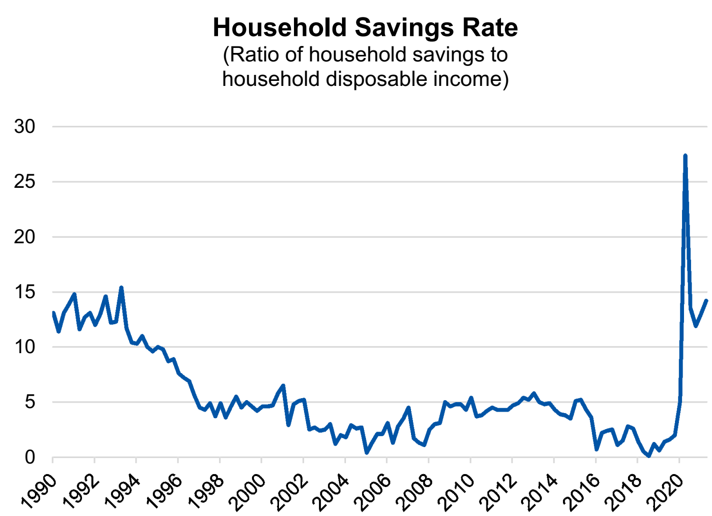
When COVID-19 struck in early 2020, retail spending in discretionary categories collapsed as public health guidelines kept Canadians at home. In these early days, grocery stores and essential retail were the clear winners, while discretionary retail got clobbered. As the latest COVID-19 wave starts to subside, Canadian discretionary retail sales are recovering, and now sit at pre-pandemic levels. Over the past 20 months, each time a COVID-19 wave has subsided there has been a pickup in discretionary retail sales, and we believe that as this latest wave fades into history, Canadians will get out and spend.

In addition, forced to sit at home and engage in Zoom calls, Canadians' savings spiked, and now many consumers are sitting on stockpiles of cash. With this, we believe that Canadians will want to get out and spend their accumulated excess savings on discretionary items, like clothing and restaurants, over the coming months. For these reasons, we believe that discretionary retail is likely to witness a short-lived boom. This should be especially good news for mall operators, who have struggled with increasing vacancies and deteriorating fundamentals during the pandemic.

At the same time, high street retail is also likely to improve, as Canadians return to local shops, restaurants, bars, and cafes. British Columbia and Quebec, which proportionately spend more money on full-service dining and drinking establishments, may be the provinces most likely to benefit from this discretionary retail boom as Canadians coast-to-coast display their joie-de-vivre.

Pent-Up Demand and Stockpiles of Cash Will Help To Drive Consumers Back to Stores in Droves





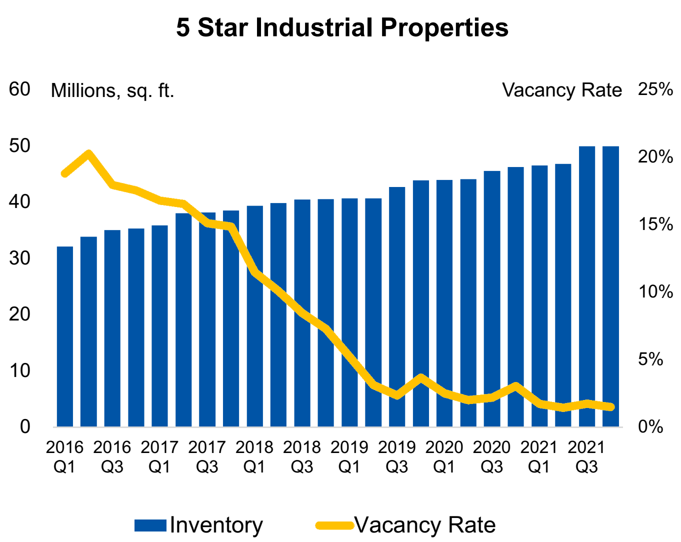
Sources: Statistics Canada; CoStar Group, August 2021

Prediction 41: Prime Industrial Cap Rates Will Slip Below 4%

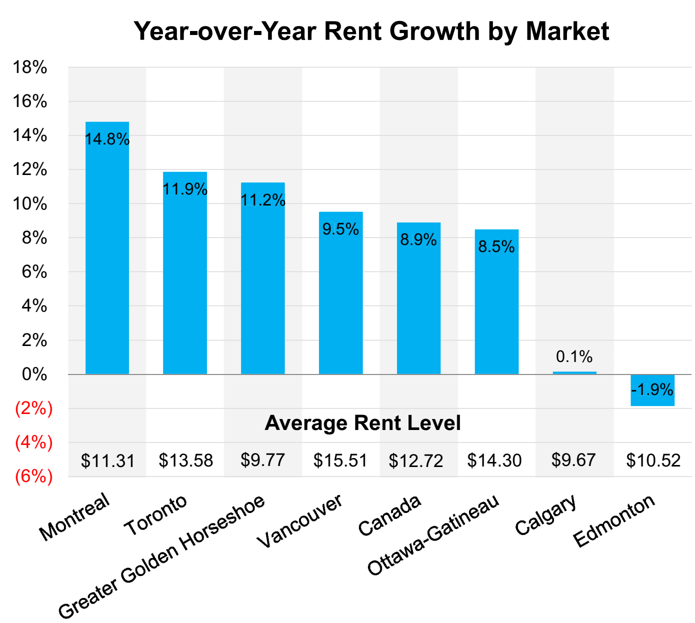
The need for ever-shortening supply chains has spurred voracious demand for modern distribution space in key cities, especially the greater Toronto area, Canada's largest industrial market. However, developers are having a hard time keeping up. Zoning issues, lack of shovel-ready sites, and NIMBY-ism have all made it tough for supply to meet demand. For example, the inventory of best-in-class logistics product has increased by only 14.6 million square feet since 2016, far slower than cumulative net absorption over the same period. Vacancy rates have correspondingly plummeted and now sit below 2% in Toronto, Vancouver, and Montreal. More supply is needed in these markets, but it will be slow to arrive relative to demand, which means fundamentals will remain tight and a landlord's market will persist over the near term. This supply-demand mismatch is spurring double-digit rental growth across many markets. Industrial rents in Montreal, for example, have grown at nearly 15% this past year due to tight market conditions. This is closing the rental rate gap with Toronto and increasingly attracting investors into the market. Even the most expensive markets, Vancouver, and Ottawa, are seeing rents grow by over 8% per year.

The only area not yet seeing this kind of growth is Alberta, though CoStar forecasts solid rental appreciation in 2022 in both Calgary and Edmonton, as retailers and logistics tenants continue to drive demand. Calgary, and increasingly Edmonton, are both seen as the distribution capitals of western Canada. Enduring strong fundamentals will continue attracting significant capital into Canadian industrial real estate. We predict that the continued disparity between the availability of the investable product and investor demand is likely to compress cap rates for prime industrial assets below recent average levels of about 4.5%. Investors will be banking on significant rental growth to drive their return expectations. While there have already been a few sub-4% cap rate deals in 2021, we expect there to be far more instances of these in 2022.

Limited Supply of Premium Industrial Space and Rapidly Rising Lease Rates Will Keep Industrial Investment Conditions Frothy



Source: CoStar Group, October 2021



Europe

CoStar Group

Europe

United Kingdom

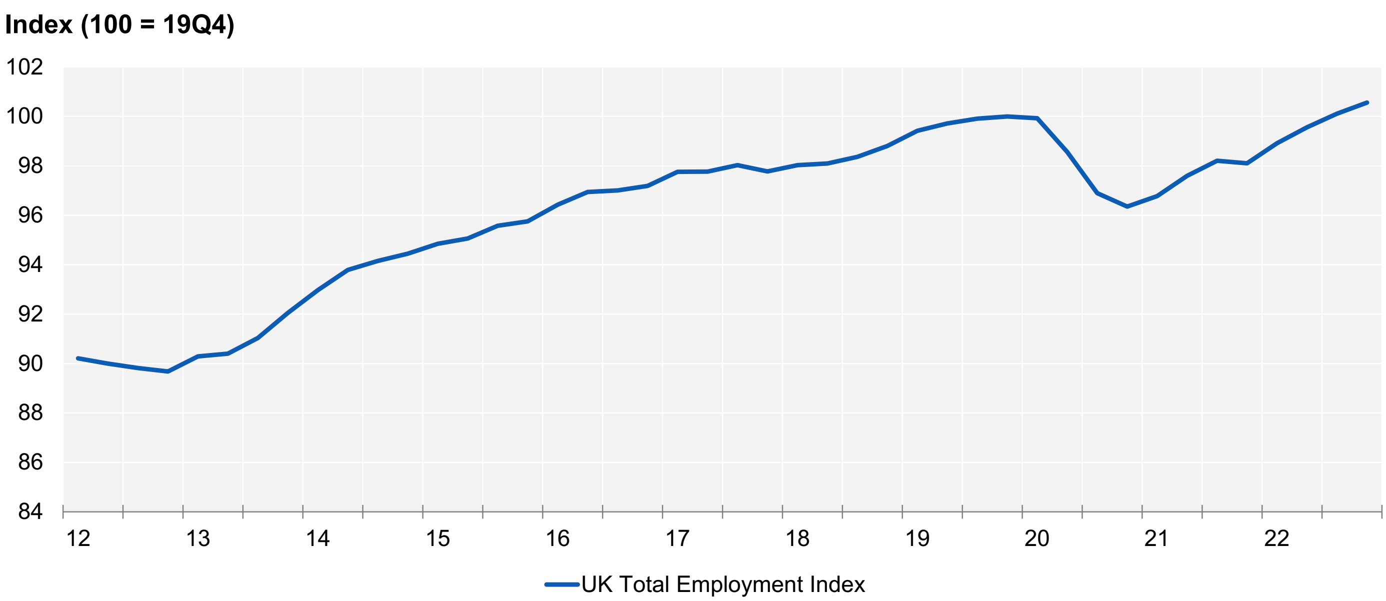
CoStar Group™

Prediction 42: UK Employment Level Surpasses Pre-Pandemic Peak

The success of the furlough scheme and the V-shaped recovery in GDP has helped to protect jobs, add new ones, and keep the unemployment rate close to its pre-pandemic low even as the furlough scheme came to an end in September.

More than half of the 1.3 million job losses recorded in 2020 will have been recovered by the end of 2021, with job growth accelerating in 2022 and total employment passing its pre-pandemic peak of 35.7 million in the second or third quarter. Job gains will be driven by the consumer-facing services that have been most affected by the pandemic, with office-using jobs having already surpassed their pre-pandemic level during 2021.

UK Total Employment Index



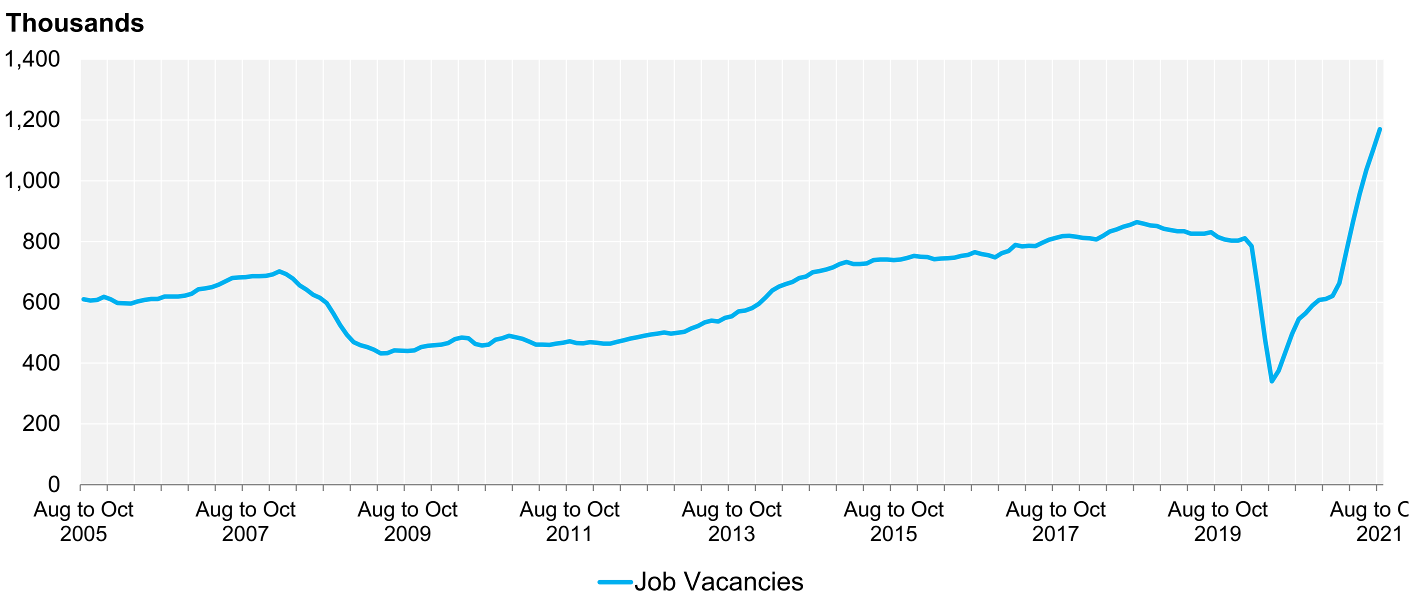
Sources: Oxford Economics; CoStar Group, Third Quarter 2021

Prediction 43: Record Job Vacancies to Put Upward Pressure on Wages in Some Sectors

Record job vacancies will put upward pressure on wages in some sectors. ONS figures released in November showed that there were a record 1.17 million job vacancies across the UK in the August to October period, a nearly fourfold increase from the mid-2020 trough and 44% above the pre-pandemic level. Employers across a wide range of sectors are complaining they are struggling to hire enough staff to keep up with demand.

This is putting upward pressure on wages as businesses strive to attract and retain staff. This is likely to continue in 2022 across many sectors of the economy, particularly where job shortages are most acute like health and social work, food and accommodation, and software development. An upward movement in wages will be given extra impetus by the rising cost of living that is squeezing real incomes. However, a 1970s-style wage price spiral is not likely, as labor shortages are restricted to relatively small sectors of the economy and union representation is far weaker.

Number of UK Job Vacancies, Seasonally Adjusted (Thousands)



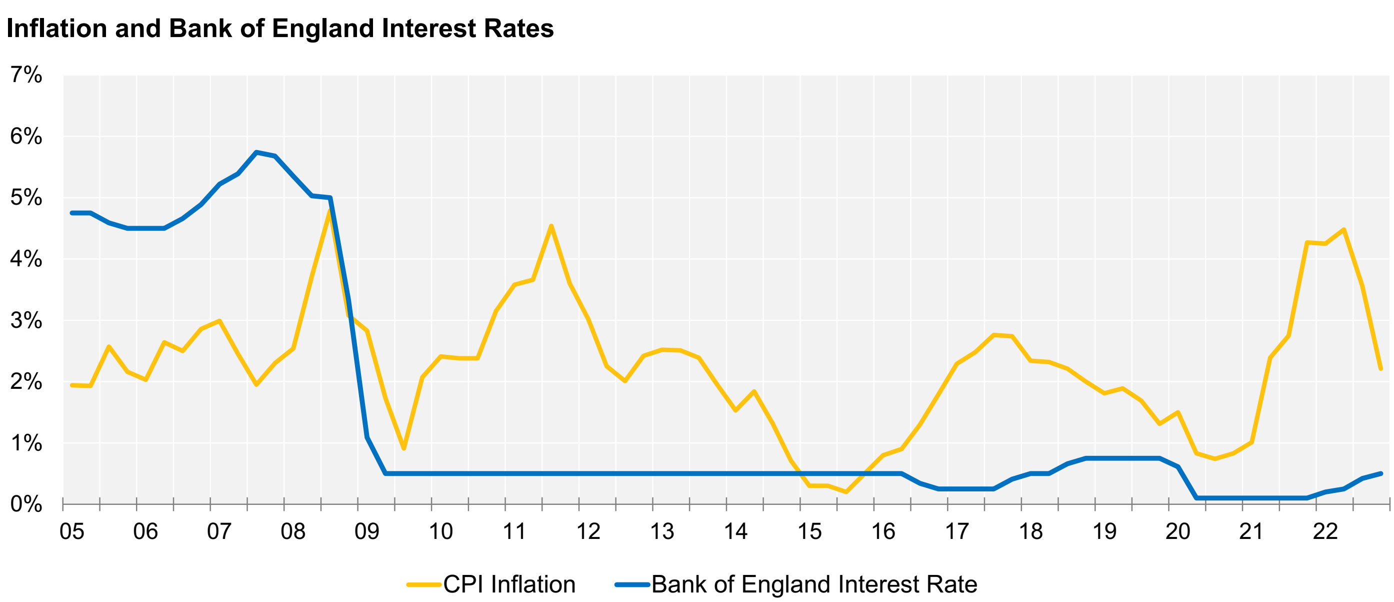
Sources: Office for National Statistics; CoStar Group, November 2021

Prediction 44: Inflationary Pressures Lead to First Interest Rate Rise Since 2018

CPI inflation rose at its fastest pace in nearly 10 years in October as higher energy and fuel prices combined with supply-chain pressures linked to the re-opening of the economy. It is more than double the Bank's target of 2% and will edge up further until April, when another energy price cap rise and a VAT increase on hospitality causes another jump to about 5%.

The Bank of England is under increasing pressure to raise rates in response, especially as the end of the furlough scheme did not cause a spike in unemployment. But the Bank is likely to act gradually on the basis that current inflation is transitory, raising rates from their historic low of 0.1% in the next couple of months before another modest rise in summer 2022. The Bank could then pause there as supply-chain pressures ease and negative base effects come into play, pulling inflation down again. The MPC has made it clear that the pace of tightening will be much less aggressive than markets had anticipated. Gilt yields should rise gently in tandem with an increasing base rate, although the premium currently enjoyed by commercial real estate over the risk-free rate should remain wide in historic terms.

CPI Inflation & Bank of England Base Rate



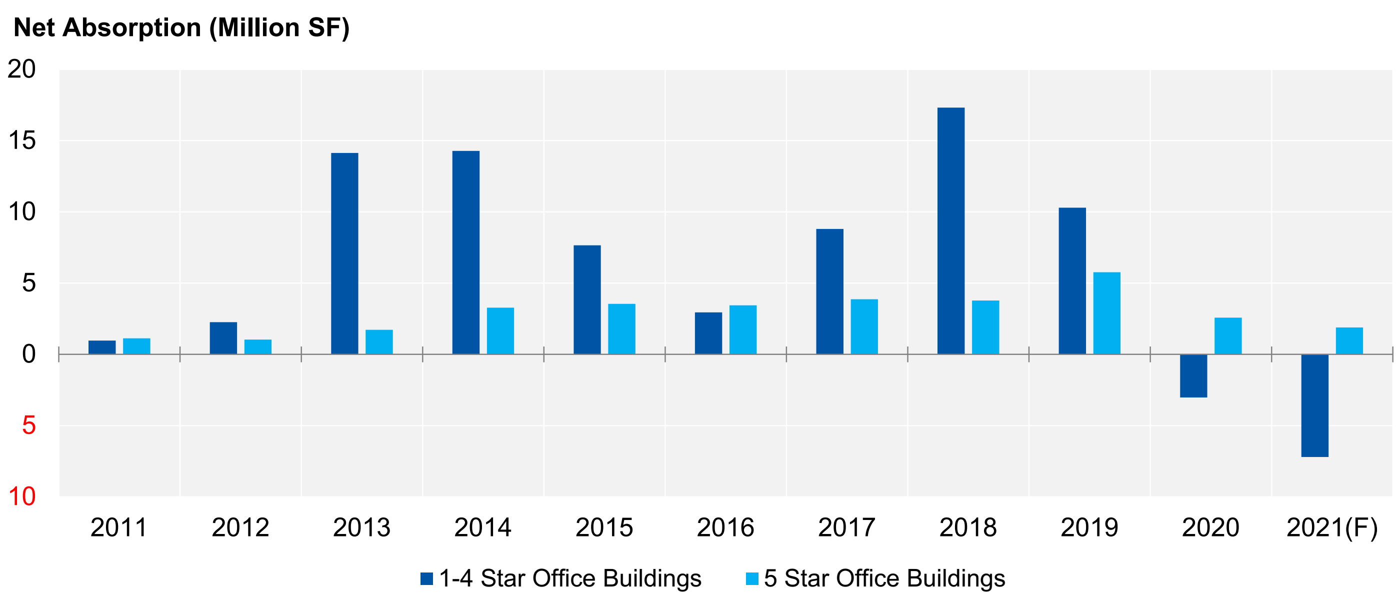
Sources: Oxford Economics; CoStar Group, Third Quarter 2021

Prediction 45: High-Quality, Sustainable Office Buildings Continue to Outperform

While the future for office demand in a post-pandemic world remains uncertain, firms are likely to continue to pivot to high-quality offices, even if taking less space overall amid a more-permanent rise in home working. Recent trends in the CoStar data add weight to this call. Net absorption in five-star buildings has been positive throughout the pandemic, with all the demand losses coming in buildings rated four-star or below. Firms are seeking such space to attract staff and welcome clients but also to meet ESG commitments, which have soared up the agenda during the pandemic and especially since the COP26 conference in Glasgow. This will be given extra impetus by regulation that will make millions of square feet of offices that cannot be occupied in the coming years.

Strong demand for the very best space has pushed prime rents to record levels in many cities during the pandemic even as average rents across the country have fallen. This gap between prime and average rents is likely to widen further in 2022 to reflect these polarized demand dynamics. The yield premium between the best and the rest in UK offices is likely to widen too.

Net Absorption, 5 Star Office Buildings vs. 1-4 Star Office Buildings



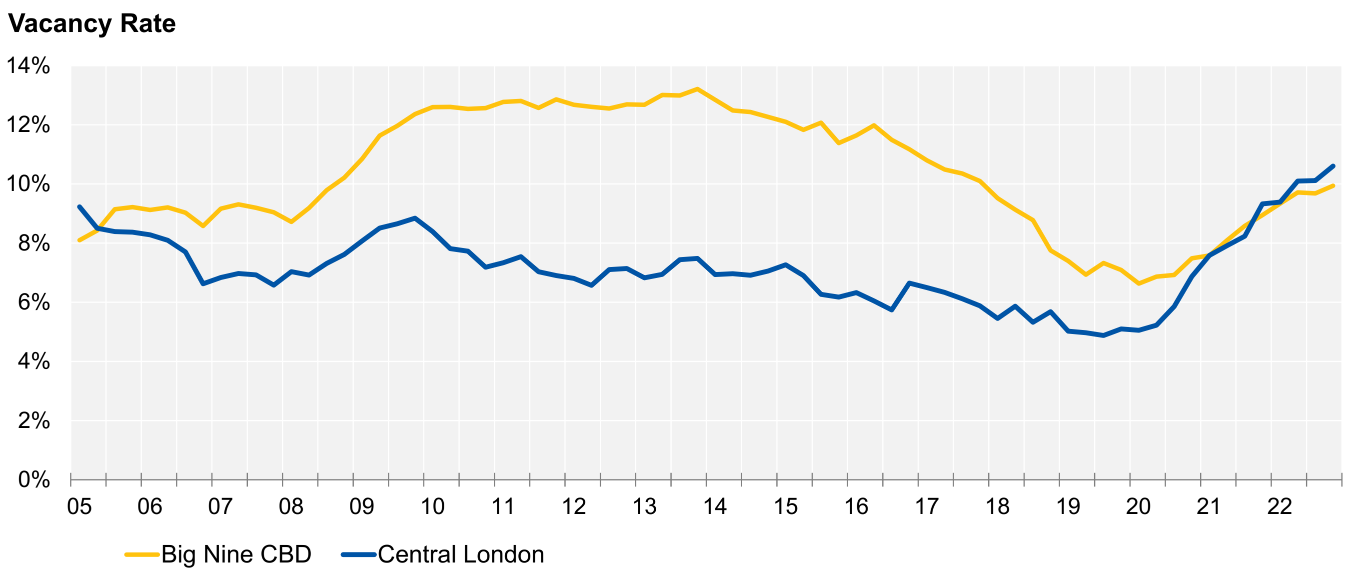
Source: CoStar Group, Third Quarter 2021

Prediction 46: London Vacancy Rate Rises Above Regional "Big Nine" for First Time Since 2005

London's vacancy rate will rise above that in the regional Big Nine for the first time since 2005. Central London's office vacancy rate has trended well below that in the big regional CBDs over the past decade, with the spread between them peaking at more than 600 basis points in 2013 as the regions took longer to recover from the financial crisis.

But the vacancy spread has narrowed to nearly zero during the pandemic, thanks to a combination of London experiencing greater demand losses and a wave of new deliveries. 2022 is likely to be the tipping point. Although demand is likely to recover, 2022 is set to be central London's biggest year for new supply since 2003. This should help push its vacancy rate above that in the regional Big Nine for the first time in 17 years.

Office Vacancy Rate, Central London vs. Regional Big Nine CBDs



Source: CoStar Group, Third Quarter 2021

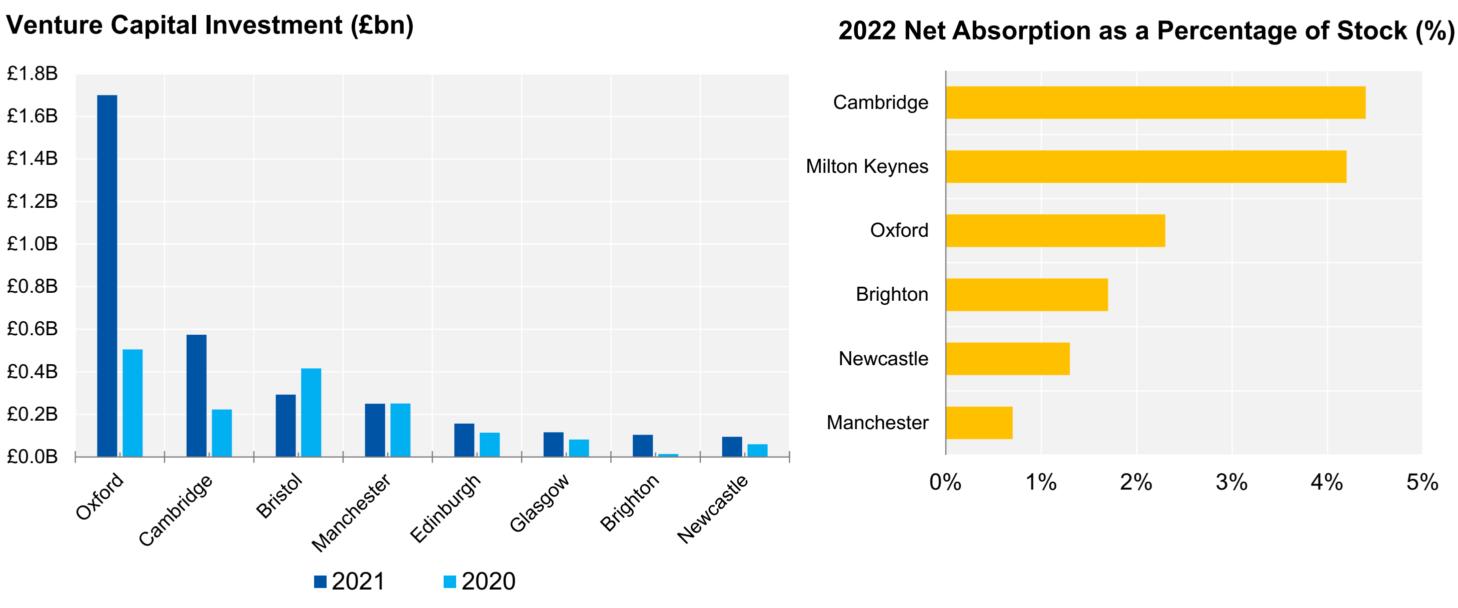
Note: Big Nine is Birmingham, Bristol, Cardiff, Edinburgh, Glasgow, Leeds, Liverpool, Manchester & Newcastle upon Tyne

Prediction 47: High Levels of VC Investment to Fuel Office Demand Across Oxford-Cambridge Arc

High levels of venture capital investment will contribute to another year of outperformance across the Oxford-Cambridge Arc. Towns and cities with strong university links and a high proportion of expanding technology and life science firms have outperformed during the pandemic. This can be seen in office demand but also by looking at the venture capital investment that helps to power such demand. So, it can be useful to look at one as a precursor to the other.

Additionally, in this respect, the likes of Oxford, Cambridge, and Bristol, as well as less high-profile markets like Brighton and Newcastle, are well placed to outperform. Venture capital investment has soared in the so-called Brain Belt of Oxford, Cambridge, and Milton Keynes in 2021, and these markets sit at the top of our table for expected net absorption in 2022, with knock-on implications for rent growth. It's worth adding that London continues to attract by far the most investment.

Venture Capital Investment Outside of London & Office Net Absorption Forecast for 2022 as Percentage of Stock (Top Six)



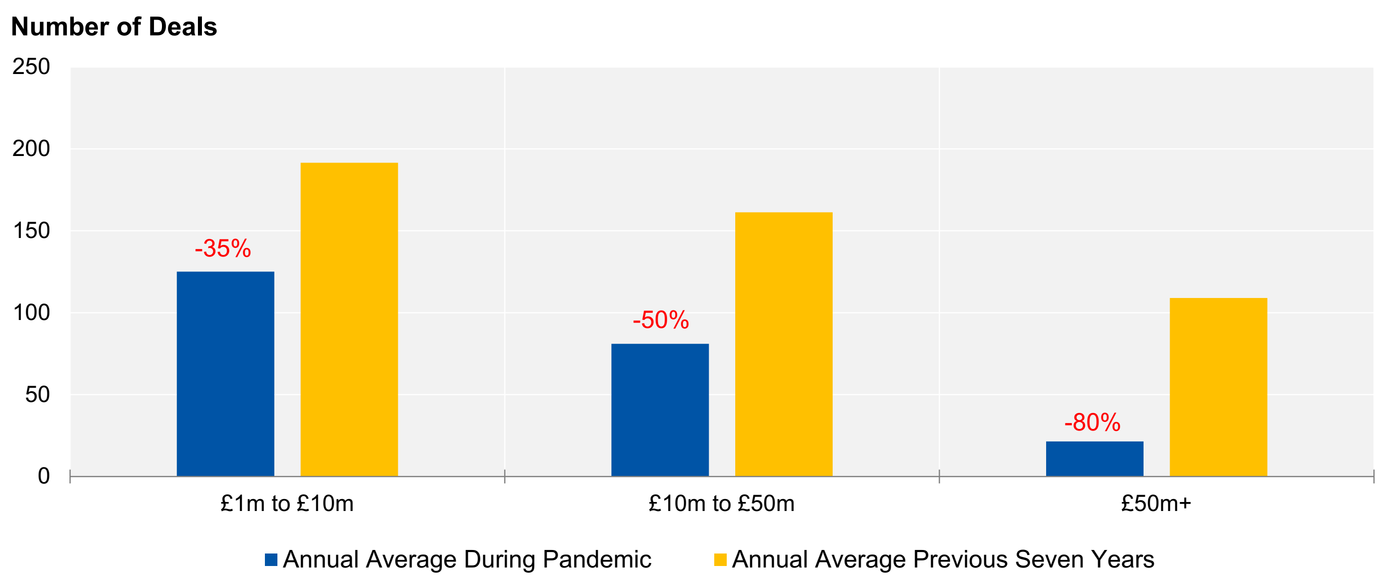
Sources: Tech Nation; CoStar Group, Third Quarter 2021

Prediction 48: Large Office Sales in London to Bounce Back, But Investors Continue to Shun Risk

Appetite for large deals will return in 2022 following a big slump during the pandemic when travel restrictions and the difficulty in arranging site visits restricted activity. The number of office sales over £50 million dropped by 80% compared with a far lighter drop in medium and small transactions, which tend to be driven more by domestic buyers. But with travel restrictions easing, this larger segment is returning to life as Asian investors return in greater numbers and European investors continue to buy.

That is set to continue in 2022 as more of the circa £50 billion of global capital seeking a home in London is deployed. London was the highest-ranked city in Europe for property investment in a recent survey by the Urban Land Institute and PwC, with London yields continuing to look attractive compared to yields in cities like Paris and Munich and compared to government bonds. But with vacancies set to rise to a 15-year high, investors will likely continue to focus on prime, well-let, sustainable properties, which should hold their value better than older, riskier assets.

Number of Office Sales by Price Band, Annual Average Before & After Pandemic



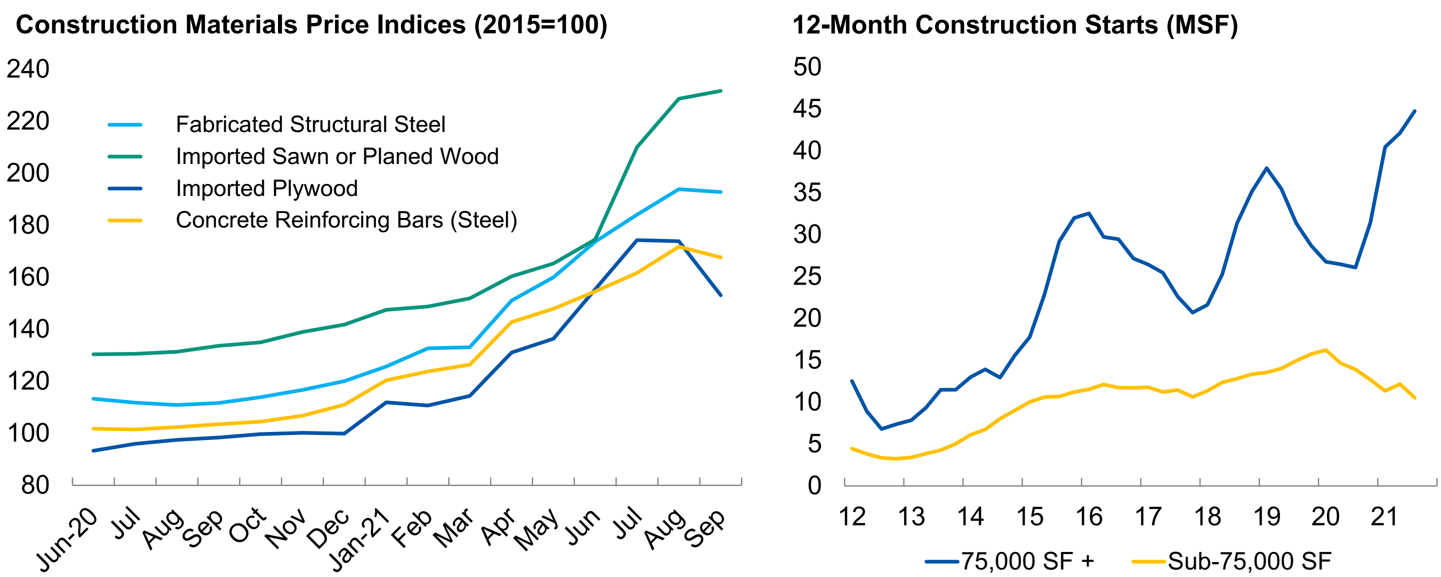
Source: CoStar Group, Third Quarter 2021

Prediction 49: Construction Cost Inflation to Hit Smaller Industrial Projects

The Department for Business Energy and Industrial Strategy's October statistics showed the materials price index for 'All Work' increasing by 24% year over year, with some steel and timber products up as much 70%–80% in 12 months. Bigger developers are perhaps more insulated from rising material costs due to better contracts and more established supply chains than their smaller counterparts.

And indeed, CoStar's data shows that while bigger industrial projects continue to break ground, a record 45 million square feet of larger schemes commenced in the 12 months to September, activity is slowing at the smaller end. With construction industry bodies expecting materials prices to rise further in 2022 amid strong global demand, labor and logistics challenges, and the knock-on effects of Brexit and the pandemic, smaller industrial developers and projects stand to be disproportionately affected.

Construction Materials Price Indices and Construction Starts by Size Band



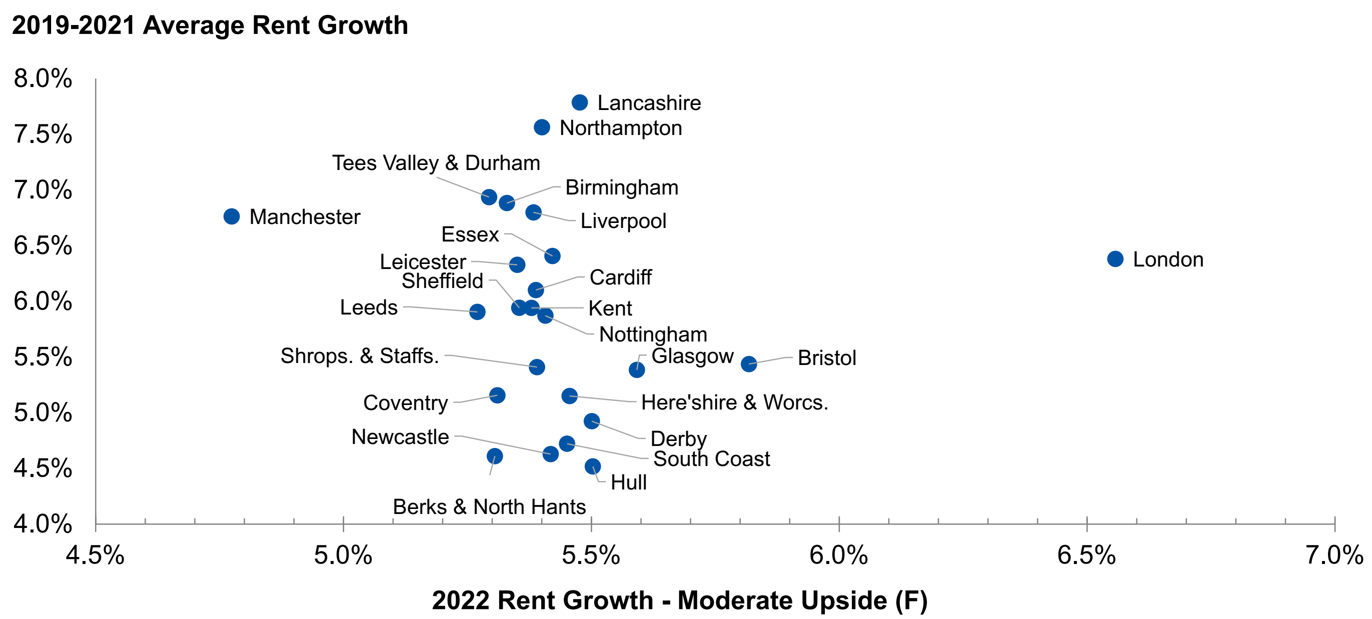
Source: CoStar Group, Third Quarter 2021

Prediction 50: Strong Appetite for Urban Logistics to Drive London Rent Outperformance

Rental growth across the United Kingdom re-accelerated in 2021 due to exceptionally strong e-commerce-fueled occupier demand, tight vacancy rates, rising land values, and the shortage of construction materials. Some of these drivers are magnified in London, which has the lowest amount of warehouse space per capita at 23 square feet per person, versus 47 square feet per person across the UK, as well as some of the highest disposable incomes in the country at £97,000 per household, 50% above the national average.

Even before the pandemic and the accelerated shift to online shopping, fierce competition for London's limited supply of urban logistics warehouses from both occupiers and investors put upward pressure on rents and prices. However, with online retail sales' share of all total retail sales now markedly higher than it was before the global health crisis, and a myriad of demand drivers like couriers, dark kitchens, and data centers seeking bases near densely populated areas, London's undersupplied industrial market is positioned for outperformance.

Rent Growth in Selected UK Industrial Markets, 2017–19 Average and 2022 Forecast (Moderate Upside Scenario)

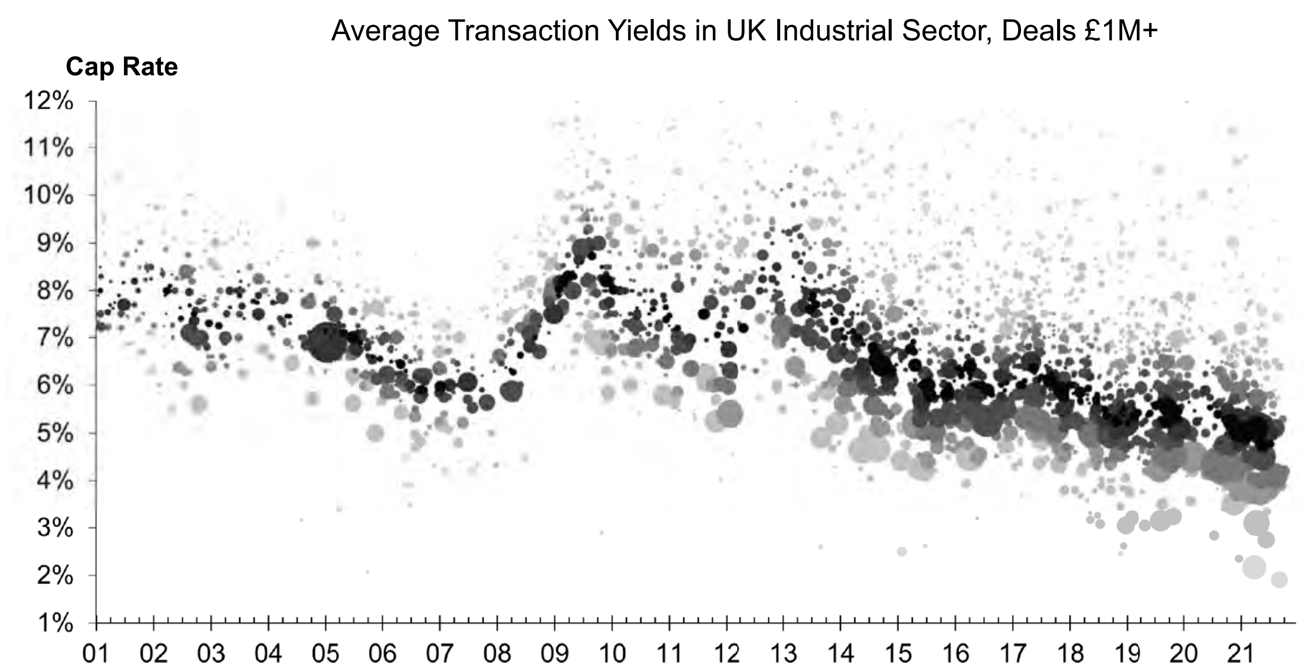


Source: CoStar Group, November 2021

Prediction 51: Industrial Investors to Pivot to Value-Add in Search of Higher Returns

With investor demand for industrial property at an all-time high and the pricing of prime warehouse assets sharper than ever, some investors have begun to look up the risk curve in search of higher returns. Yields on prime logistics assets offering long-dated income have fallen as low as 3% in the UK's regional markets and closer to 2% in parts of London. However, the average yield on transactions moved out by around 30 basis points throughout 2021 as some buyers sought out riskier assets, often with some vacancy or location risk.

Investors are likely to embrace risk even more in the year ahead, given the industrial sector's fundamentals of strong demand, limited supply, and robust rent growth. German fund manager Patrizia is one investor targeting value-add opportunities. Its TransEuropean Property VII fund recently raised over £600 million to redevelop dated and obsolete industrial properties in London.



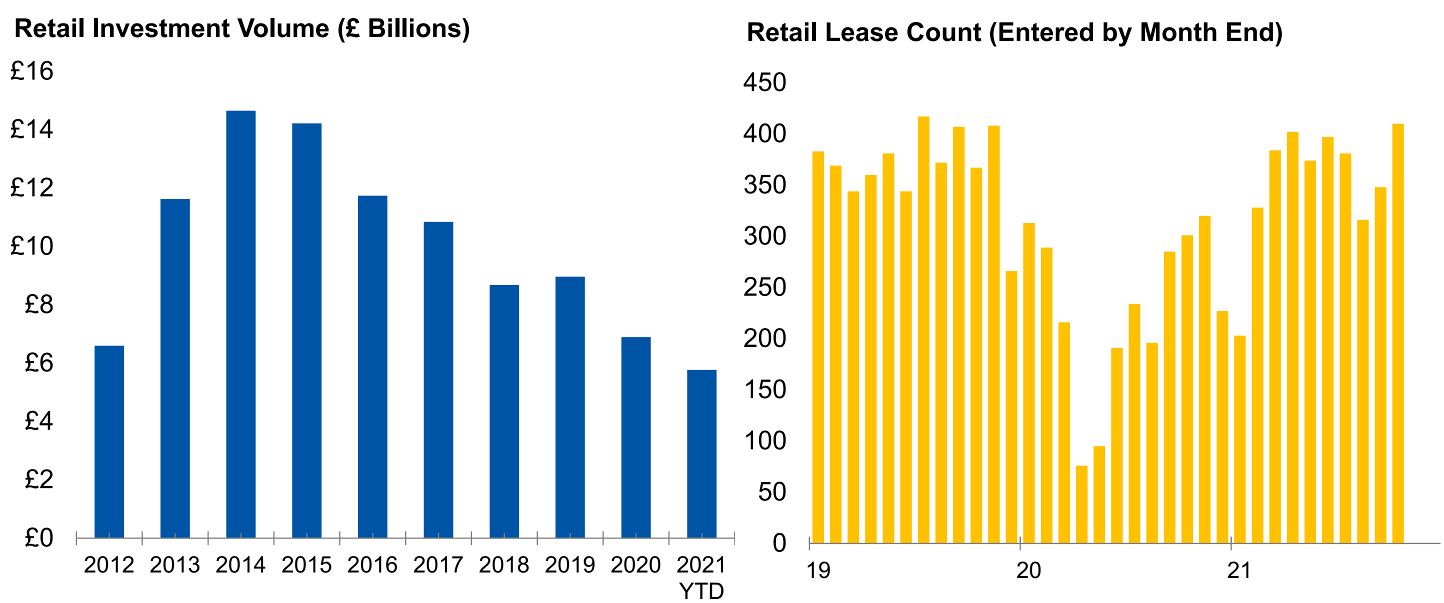
Source: CoStar Group, November 2021

Prediction 52: Retail Investment to Pick Up in 2022 as Leasing Activity Returns to Normal Levels

While there is undoubtedly caution around the retail sector, as reflected in decade-low investment volumes in 2021, the return of leasing momentum means some investors are taking the view that the occupational risks are perhaps milder than initially feared.

Subsectors like supermarkets and retail parks should remain popular in 2022 due to their defensive qualities, while falling shopping center values should bring more buyers to the table, including local authorities and investors eyeing repurposing opportunities. The availability of debt is also likely to improve in 2022. British Land's £210 million retail park investment as a "value play opportunity" and the launching of Savills Investment Management's 'contrarian' retail park strategy lend further weight to this prediction.

Retail Investment Volumes and Retail Lease Count



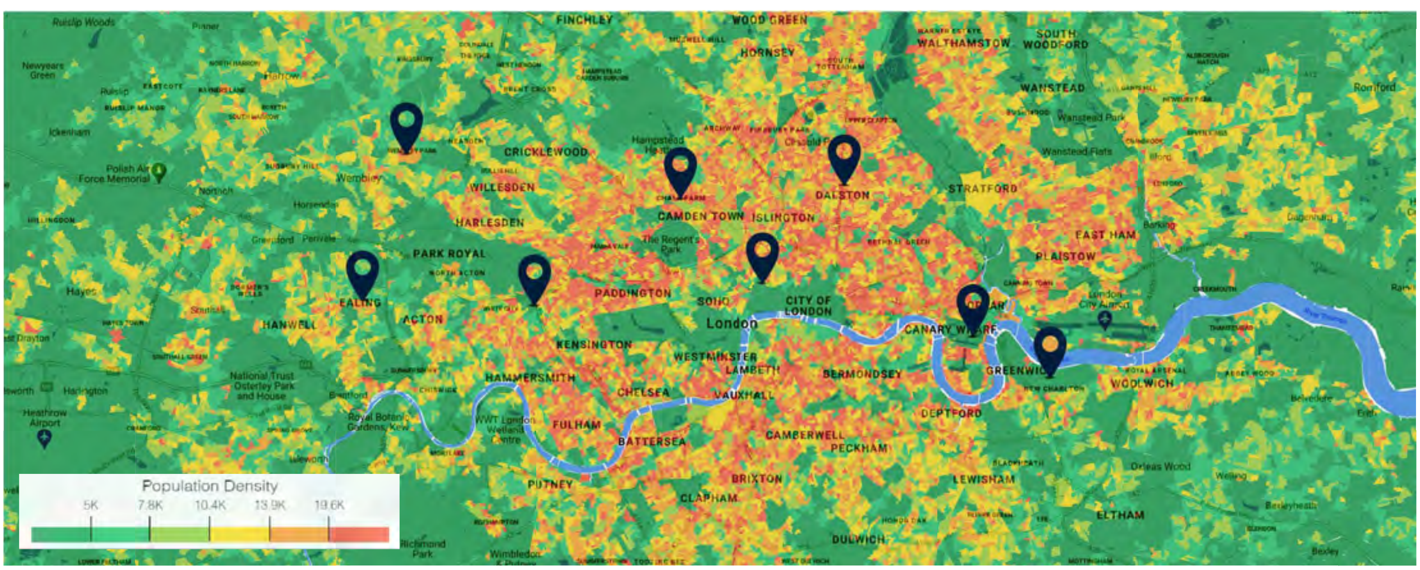
Source: CoStar Group, October 2021

Prediction 53: Retailers to Add More Checkout-Free Stores

Checkout-free stores represent an emerging source of demand at a time when much of the retail sector is retrenching, with Amazon at the forefront of this trend. As of October 2021, Amazon operated six of the UK's eight cashier-less stores, all of which are in London, and by November had opened two further locations under the Amazon Fresh banner. The stores are in a variety of locations including densely populated residential areas and office hubs.

Crucially, the tech giant has managed to reduce the cost of its Just Walk Out technology by more than 95% in recent years, paving the way for its widespread adoption by other retailers such as Sainsbury's. Other 'Big Four' supermarkets Tesco and Morrisons are known to be testing rival technologies. With multiple benefits to merchants like a faster shopping process, more efficient use of resources, and the elimination of shoplifting all contributing to greater profits, expect Amazon and more traditional bricks-and-mortar retailers to add many more checkout-free stores in 2022.

Checkout-Free Store Locations and Population Density Heat Map



Source: CoStar Group, October 2021

Europe

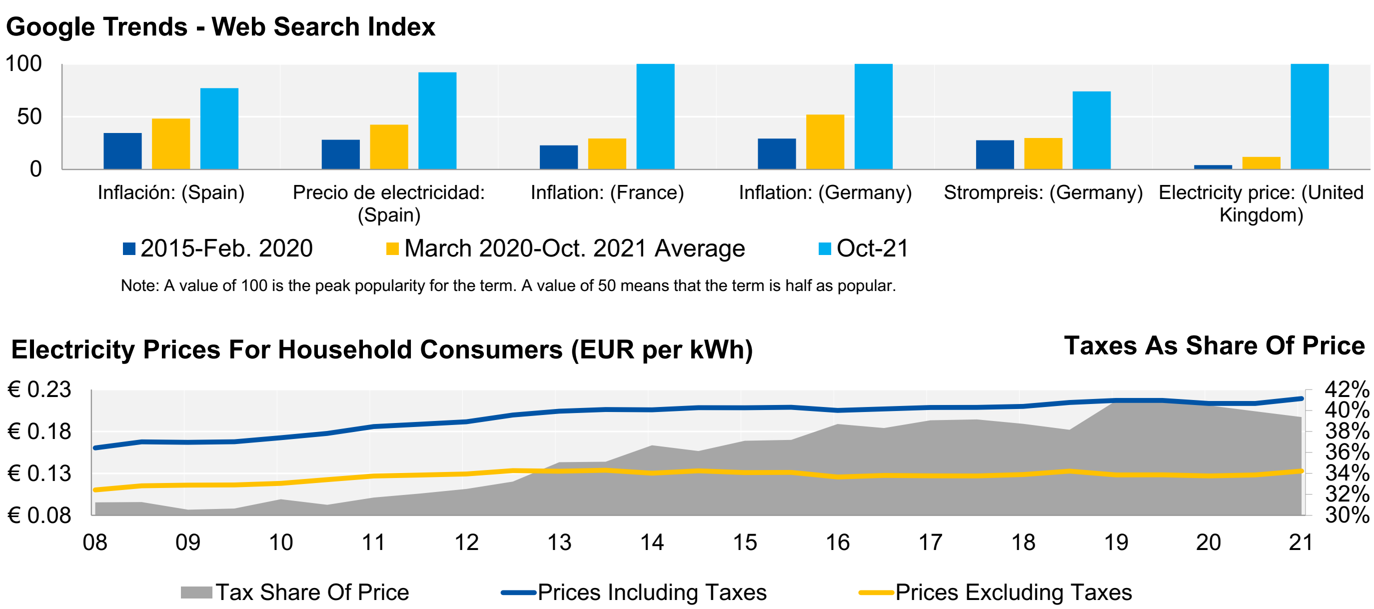
Continental Europe

CoStar Group™

Prediction 54: Inflation Pressures From Energy To Curb Consumption/GDP Growth

At a macro level, we expect elevated inflation, particularly in energy, to put a strain on household consumption across Europe. Energy prices from gas to electric have continued to rise across the continent, with households increasingly concerned as highlighted by google web search data showing a rise in searches around inflation and electricity prices in major European countries such as Spain, France, Germany, and the U.K. governments have responded by cutting taxes on energy and looking for new sources of supply. These solutions are minimal band-aids though, as this energy crisis is set to worsen through the winter season and well into 2022. Geopolitical tension around the approval of Nordstream 2 provides further support to this pessimistic forecast on energy prices, which could result in downward adjustments to 2022 GDP growth forecasts across Europe.

Google Trends Electricity And Inflation Web Search Trends And Electricity Prices (Europe)



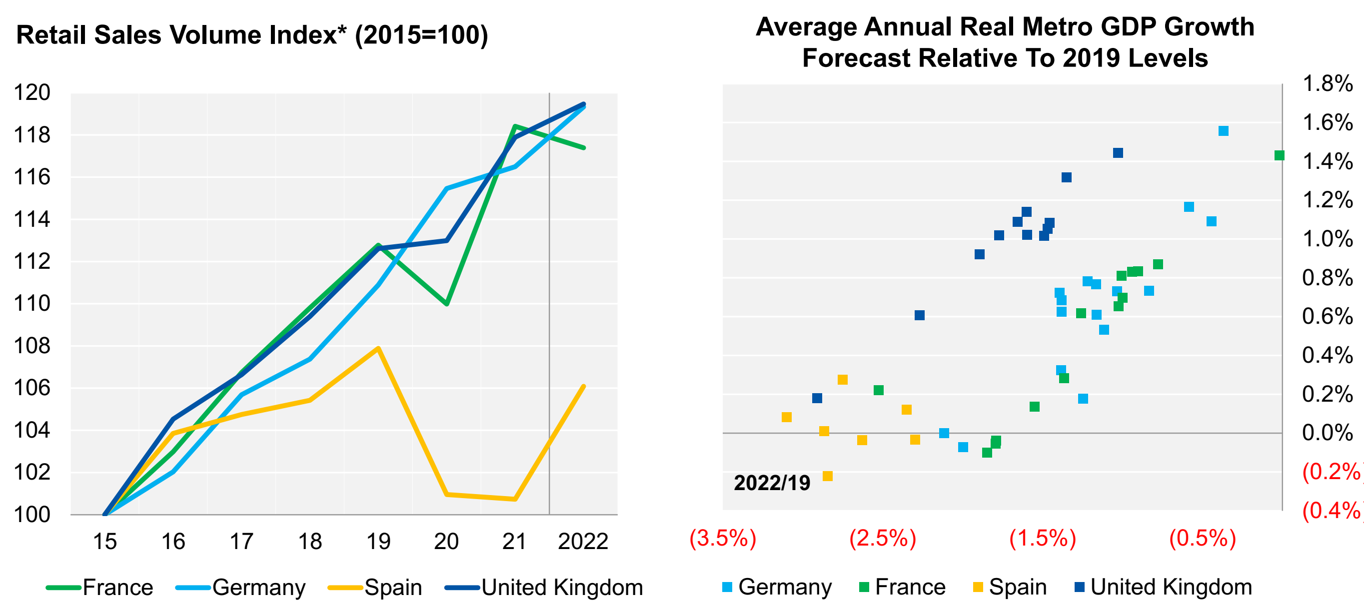
Sources: Google; Eurostat; CoStar Advisory Services, October 2021

Prediction 55: Spain Will Remain the Main Laggard In Consumption/GDP Recovery

Spain is expected to remain as one of the main laggards in GDP recovery across major European economies. As predicted in last year's webinar, the hit to Spain’s oversized tourism sector has been the main drag on its recovery coming out of the pandemic, but a much slower revival in household spending is now an increasingly concerning factor. The recent surge in inflation may be one factor keeping a lid on consumption, and based on our prior prediction, this drag will likely remain in place well into 2022.

Across major Spanish markets, we are also expecting a somewhat even and lackluster recovery in 2022. Other countries like France, the UK, and Germany are expected to experience a greater variety in GDP recovery across markets, this internal heterogeneity will likely pull the recoveries of these countries ahead of that of Spain once again in 2022.

Retail Sales Volume Index And Average Annual GDP Growth Forecasts

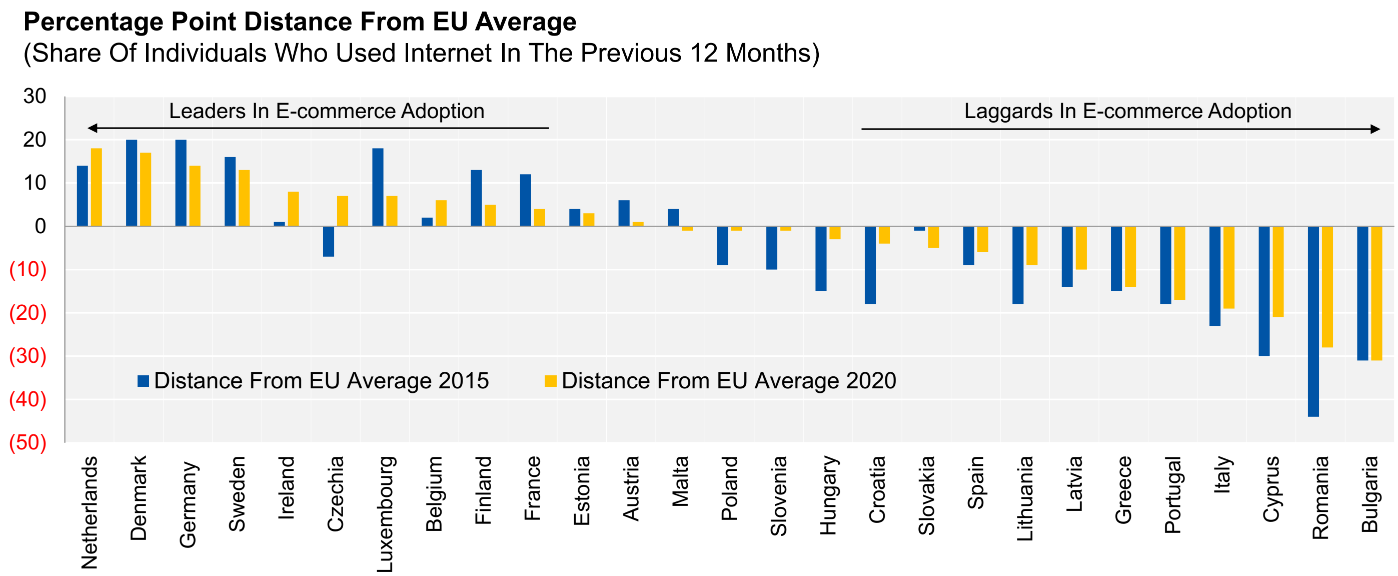


Sources: Haver Analytics; Oxford Economics; CoStar Advisory Services, October 2021
Total retail sales, real, PPP$

Prediction 56: Spain: Multifamily And Logistics Remain Outperformers In 2022

Given accelerated e-commerce demand, with penetration jumping from 5.4% in 2019 to 9.9% of retail sales in 2020, logistics activity is expected to retain its momentum into 2022. Despite Spain still lagging behind mature markets in terms of e-commerce adoption, we view this as pointing to continued growth opportunities in the sector. Logistics demand is expected to remain concentrated around Madrid, Barcelona, and secondary cities like Valencia and Zaragoza.

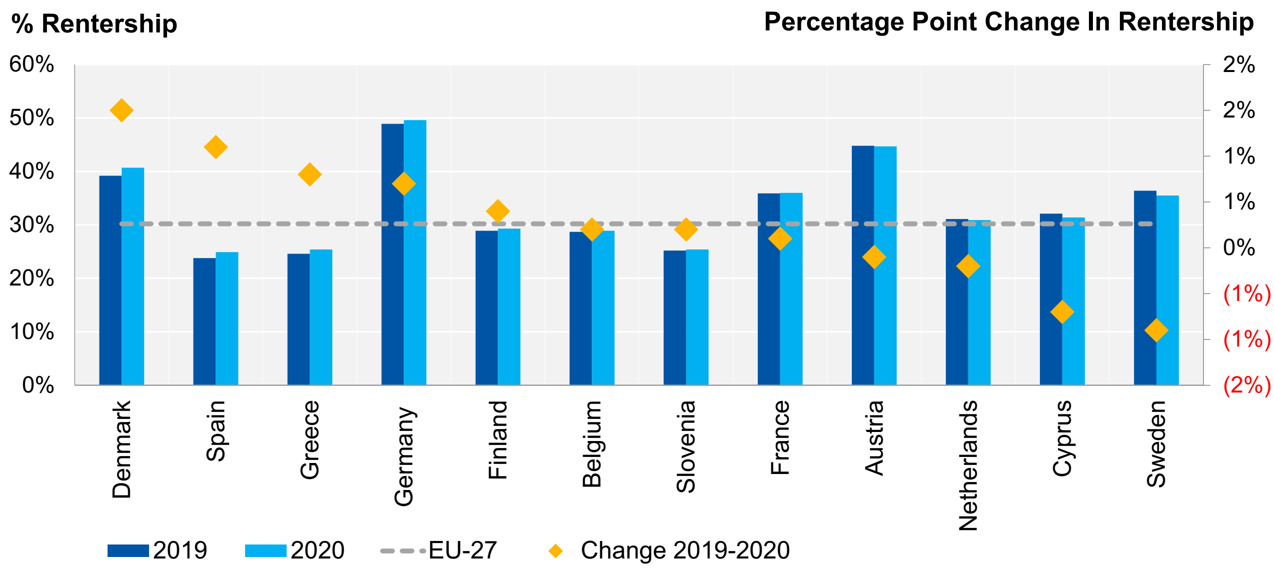
E-commerce Tailwind Continues To Benefit Logistics CRE in Spain



Sources: Eurostat; CoStar Advisory Services, 2020

Regarding multifamily, this segment of the market continues to attract strong investor interest in 2021, which we expect to continue well into 2022. Tenant demand has increased steadily over the past years, but the renter rate is still below the European average and far from countries like Germany. Growth tailwinds from rising tenant demand, coupled with deficit supply, is attracting institutional investors. We expect more investment in apartment projects~~,~~ especially in main urban areas like Madrid as well as in other secondary cities like Valencia or Málaga in 2022.

Post-Pandemic Trends Indicate Higher Propensity To Rent In Spain



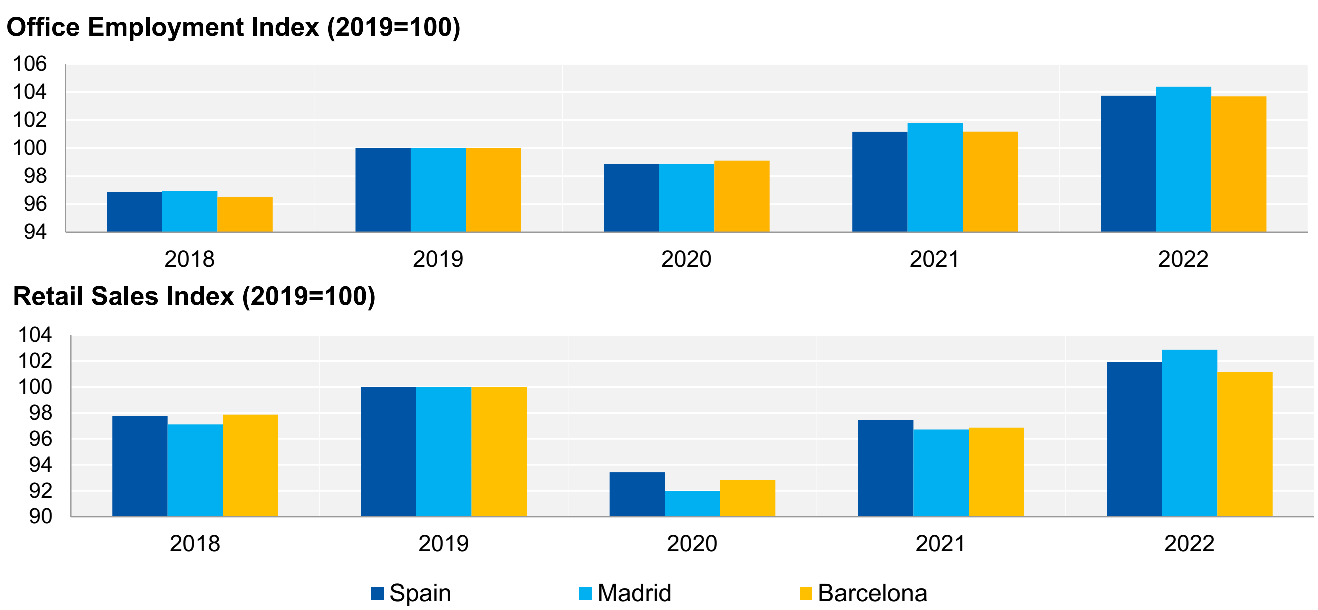
Sources: Eurostat; CoStar Advisory Services, 2020

Prediction 57: Spain Retail And Offices Sectors Performance Improves For Specific Subtypes

The office and retail sectors are facing greater challenges, although the situation is improving. Office employment in Spain is expected to rebound with over 2% growth in 2022, with Madrid outperforming the national average, though employment growth may not translate directly into office take-up as more businesses adopt a hybrid work model. Despite this drag on demand, we've seen take up increase in 2021 and we expect an improvement in demand in 2022, especially for best-in-class office space in the CBD and City Centers of Madrid and consolidated areas like 22@, the innovation district in Barcelona.

As economic activity continues to bounce back, retail sales are expected to grow at a rate of over 4% in 2022, boosting retail market activity. Brands are resuming their expansion plans and demand for space is set to reactivate. Expectations are positive for retail parks, a format that has proven to be resilient during the pandemic, as well as supermarkets and retail Highstreet in Madrid and Barcelona.

Office Employment And Retail Sales Recover, Madrid Outperforms

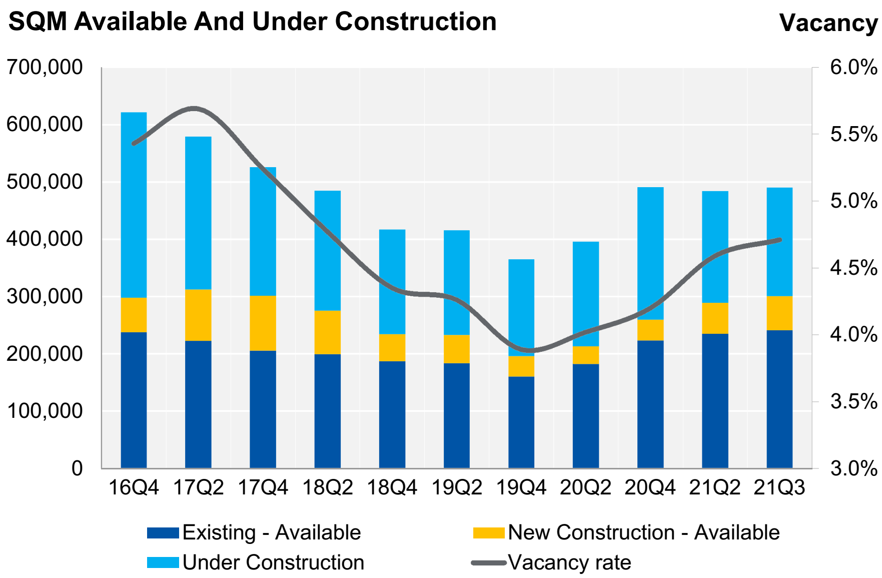


Sources: Oxford Economics; CoStar Advisory Services, Third Quarter 2021

Prediction 58: Downtown West Prime Office Vacancy Stabilizes, Rental Incentives Rise

The Paris office market continues to regain its footing, after softer than expected leasing trends since 2020. The Central West Paris market remains the most resilient and is set to maintain a vacancy of below 5%, despite available supply rising to over 300,000 square meters in 2021 Q3. Available supply under construction has begun to decline, which points to the continued attractiveness of new, best-in-class office space in the area.

Paris Center Ouest Office Vacancy, Space Available And Under Construction In Square Meters (SQM)

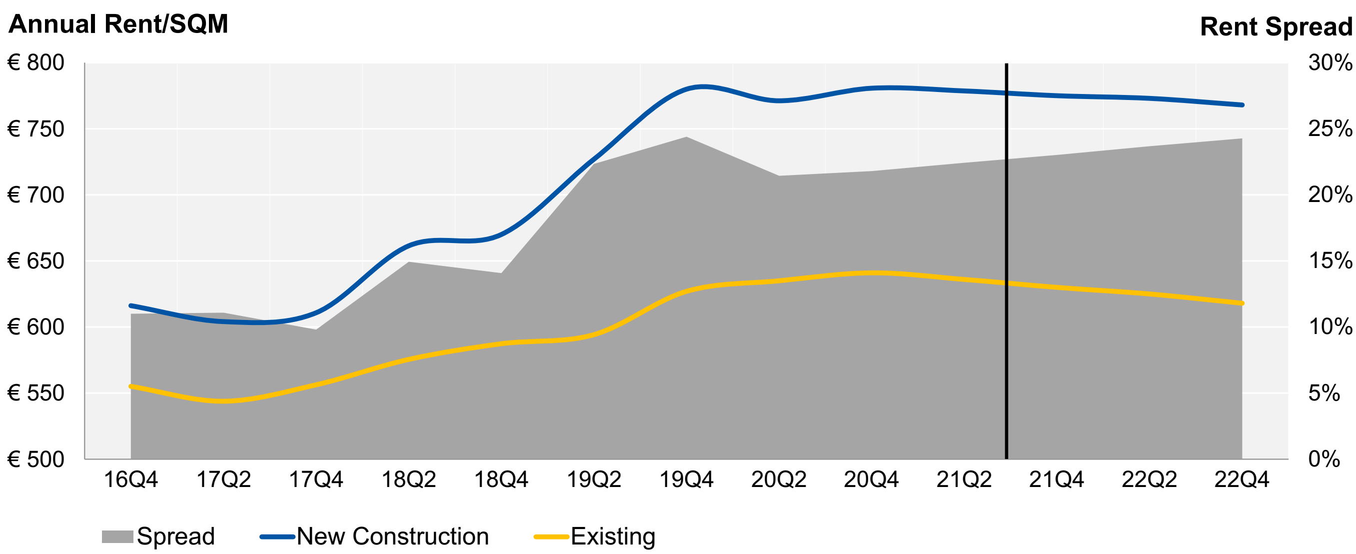


Sources: Immostat; GRECAM, CoStar, Third Quarter 2021

Note: Analysis limited to 1, 2, 8, 9, 16 & 17th arrondissement including QCA

Despite the limited availability of space, rent growth for new construction has stalled since 2019. Values are capped at around €780/square meters/year (excluding VAT and charges) and €900/square meters/year for "prime" assets located in the heart of the Paris CBD. A downward adjustment is expected for 2022, particularly for buildings in the outskirts of the CBD. It should be noted that while headline rents have remained stable, concessions have increased significantly from 10% before the pandemic to 15%.

Paris Center Ouest Office Annual Rent Per Square Meter And Rent Spread



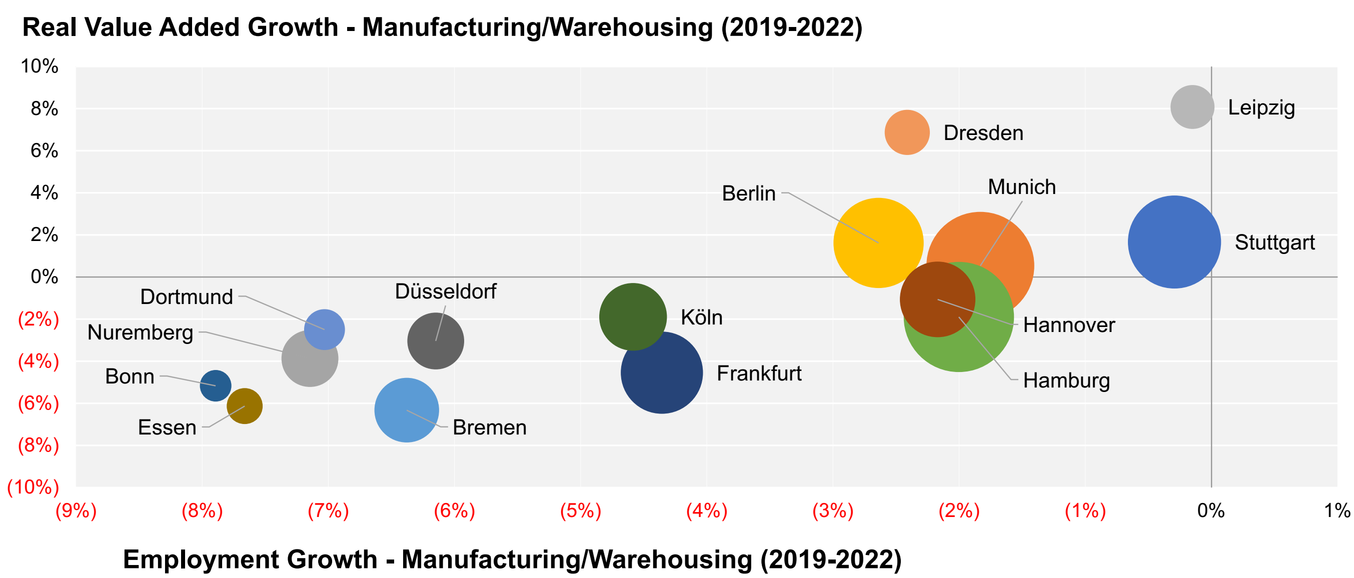
Sources: GRECAM; CoStar, Third Quarter 2021
Note: Analysis limited to 1, 2, 8, 9, 16 & 17th arrondissement including QCA

Prediction 59: Eastern Germany Industrial Demand Drivers Will Continue To Outperform

Eastern German industrial drivers will continue to outperform and mostly recover from a real value-added perspective, while other, mostly western major markets struggle. Much of the growth in employment for these markets comes from the transportation and storage sector, but the difference in performance comes from manufacturing. For Eastern markets, employment in manufacturing is expected to grow by 0.7%, three times the national average, and real value added in manufacturing is expected to grow 30 basis points faster. Oxford Economics expects German industrial output to grow by 5% in 2022, as it attempts to catch up to high demand. That being said, shortages of semi-conductors and more stringent emission standards will weigh on the German manufacturing sector.

Consumer demand, however, is expected to remain strong and should help bolster the need for industrial space, especially in the East, where outsized concentrations in prime-age workers, a talented labor pool, and continued importance on the global supply chain should help the region outperform the West.

Employment Growth Vs. Real Value-Added Growth



Sources: Oxford Economics; CoStar Advisory Services, Third Quarter 2021

Notes: Size of bubble indicates GDP level for the manufacturing and warehouse industries

Global Hospitality

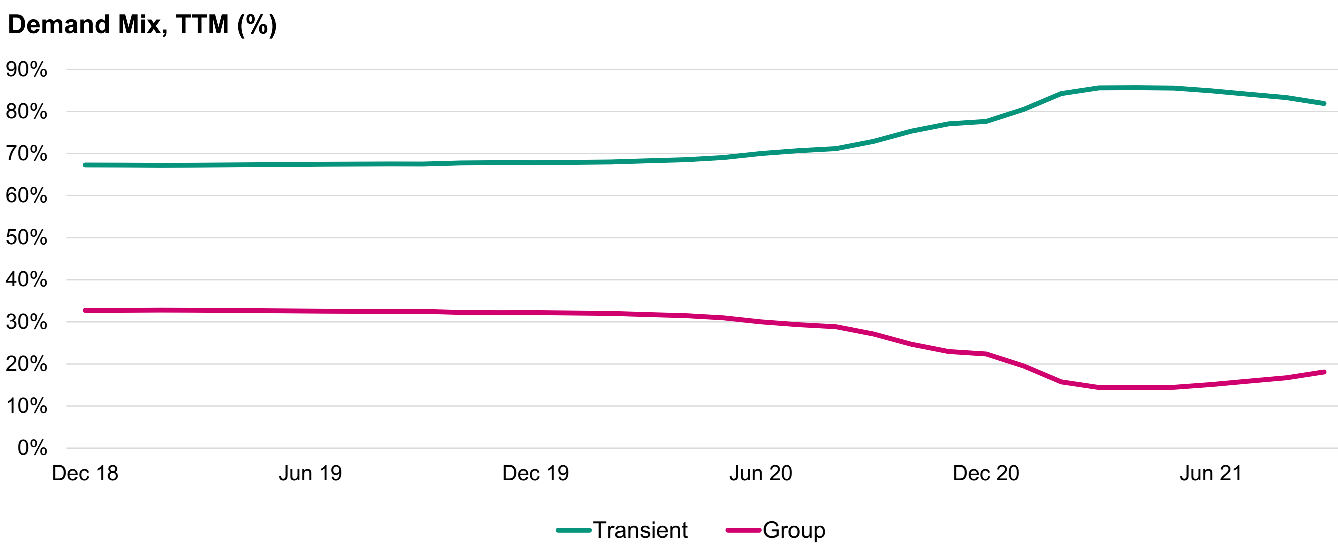
CoStar Group™

Prediction 60: Transient Demand Will Soften to 2019 Levels

Though the North American hospitality industry will take some time to fully recover, the recovery already underway is being fueled almost completely by transient demand, more specifically, leisure transient demand. In spring 2020, transient and group demand plummeted to a fraction of their 2019 levels, but even by the summer of 2020, we began to note a pulse within the leisure sector, while group and corporate demand flatlined. In the spring of 2021, would-be travelers were getting vaccinated, had money saved from the past year, and were desperate to hit the road. As such, leisure travel exploded through the summer of 2021, fully displacing nearly all other types of travel. This resulted in record-setting demand levels in a multitude of destinations, namely those in sun-filled and beach-proximate markets.

But the hospitality industry cannot thrive on leisure demand alone, and operators are looking forward to 2022 and a return of group demand. While group rates are often lower-priced than transient rates, group travelers account for a greater ancillary spend and are less seasonal in nature than leisure travelers. In 2022, we believe hotels in group-dependent markets will actively displace some leisure demand to balance their segmentation to a level most conducive to maximum profitability. This, combined with what is expected to be a cooler year for leisure travel compared to the frenzied levels in 2021, will result in 2022 transient demand softening to its pre-pandemic levels.

U.S. Transient and Group Demand Share

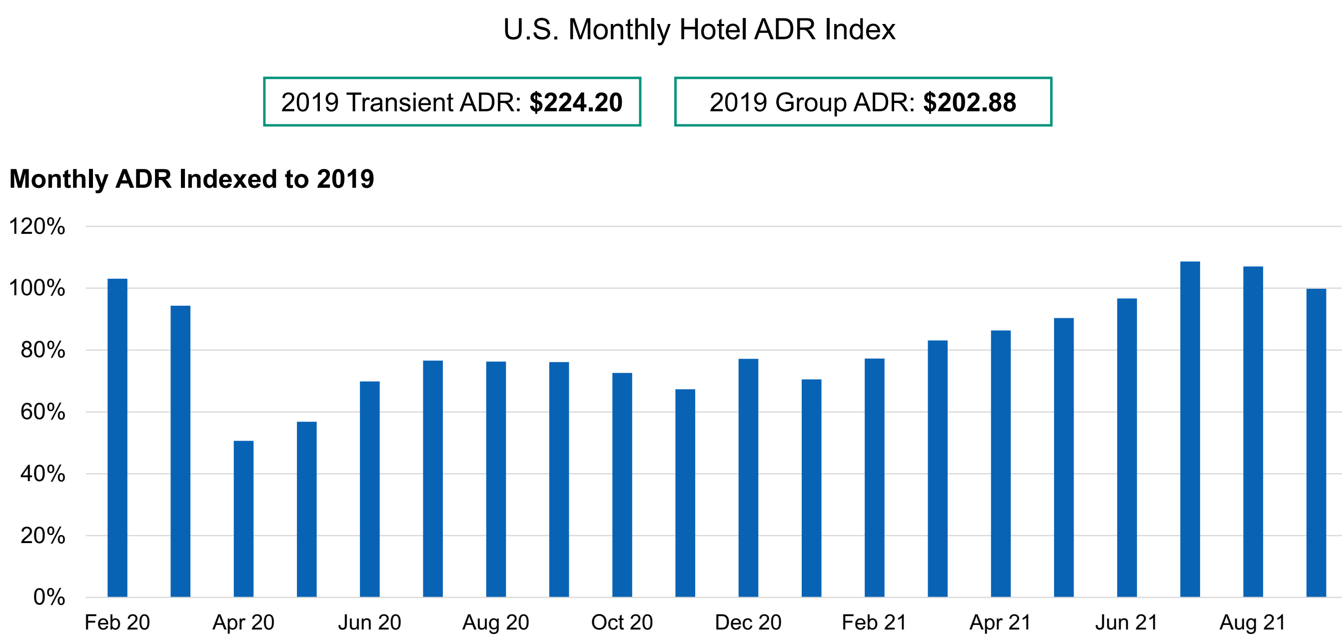


Sources: STR; CoStar Group, Third Quarter 2021

Prediction 61: Convention Hotels Will Experience Rate Declines as Group Demand Rebounds

Convention hotels were decimated in 2020 as group travel fell to less than 10% of its 2019 levels. Curiously, though convention hotels' occupancy remains low, their average rates remain strong, and in some cases are even surpassing their pre-pandemic levels. The reason behind this is simple math: in most markets group rates lag behind transient rates, in some cases substantially so. Currently, whatever demand convention hotels can seize upon leans heavily transient, so with an almost complete lack of group demand these hotels are realizing higher average rates than normal. Note this isn't a preferred strategy for these operators; they are planning for and expecting a return of group demand to more substantive levels in 2022.

As the segmentation mix for these convention hotels eases back into more group-heavy proportions, that simple math will work against their favor, at least in terms of average rates. The lower-rated group demand will assume a greater proportion of their overall mix, thus lowering the higher average rates achieved in 2021. Operators of these properties should budget accordingly, reflecting an average-rate decline that could exceed ten percent. While rates will likely decline as more groups return to convention hotels in 2022, the net benefit remains obvious: higher occupancy, higher revenue per available room (RevPAR), greater ancillary spend, and greatly increased profitability levels.



Sources: STR; CoStar Group, Third Quarter 2021

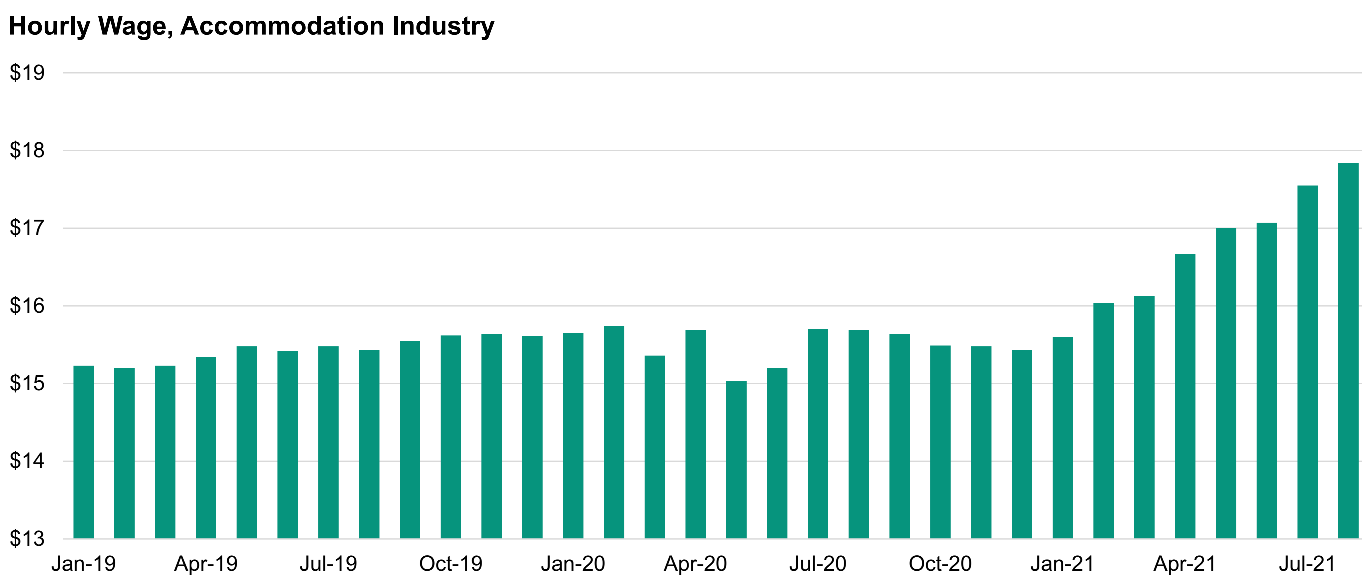
Prediction 62: Average Wages for Hotel Workers Will Reach an All-time High

When demand across the U.S. hotel industry plummeted nearly 70% in April 2020, hotels were faced with an employment crisis, resulting in the temporary elimination of almost half of all accommodations jobs. At the peak of the pandemic, roughly 15% of hotel rooms across the country were temporarily closed, and hotels that were able to keep their doors open were operating at historically low occupancy levels. As the end of 2021 nears, there are still over 300,000 accommodations jobs missing, relative to 2019 employment levels.

Labor force participation also took a huge hit during the pandemic and remains significantly below pre-pandemic levels. Women and workers without a high school diploma are exiting the labor force at higher rates than other groups. There are many reasons keeping hospitality workers on the sidelines or pushing them to seek jobs outside the hospitality industry, including increased health concerns, caregiving responsibilities, pessimism over the industry's recovery, and low wages. Wages for hospitality workers are, on average, $10 per hour less than other comparable industries.

Hoteliers are raising wages to attract employees, as well as offering other incentives and bonuses to remain competitive. In 2021, hospitality wages increased 14%, nearing $18 per hour. Unemployment is expected to continue to fall further by the end of 2022, however, attracting workers to the hospitality industry will continue to be a challenge. Hoteliers will be forced to continue to increase wages throughout 2022 and wages will climb to an all-time high. With continued wage growth as hotels compete to fill open positions, hotel profit margins will be squeezed, resulting in a slower return to overall profitability.

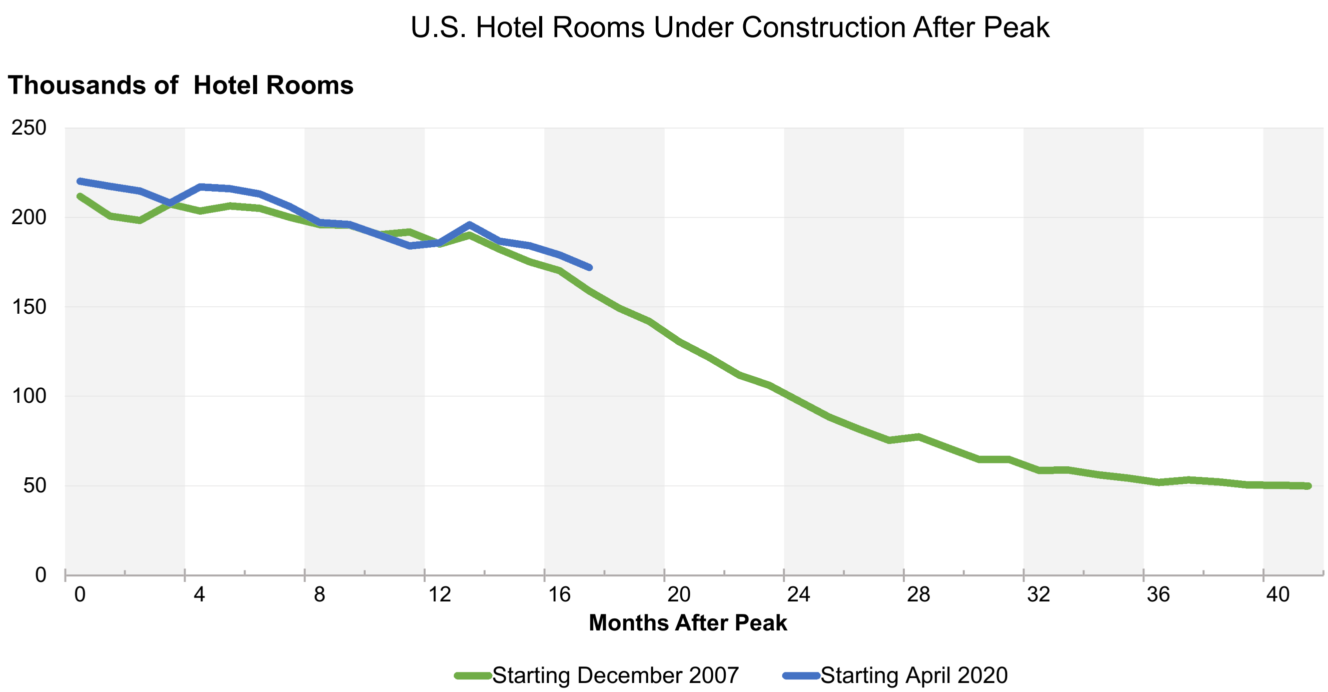
U.S. Median Hourly Wage For Accommodation Jobs



Sources: STR; CoStar Group; bls.gov, Third Quarter 2021

Prediction 63: Hotel Rooms in Construction Will Decline Sharply

For 2022 we expect the hotel construction pipeline to contract. If the last downturn after 2008 is any guide, the number of rooms will decline as projects that are currently being built open but very few new projects break ground. There are multiple reasons for the decline. Lenders may be hesitant to provide construction capital to an industry that has still not fully recovered. Developers may be eager to get started but have a hard time finding construction crews, and the ongoing supply chain disruption may mean that it is hard to get raw materials such as aluminum or simply light fixtures. This slowdown implies that brands that need franchise opportunities to grow units will need to rely more on conversions than on flagging new hotels. In addition, investors who evaluate the build vs. buy decision in the hotel space will likely have to choose to buy existing hotels, driving up property prices.



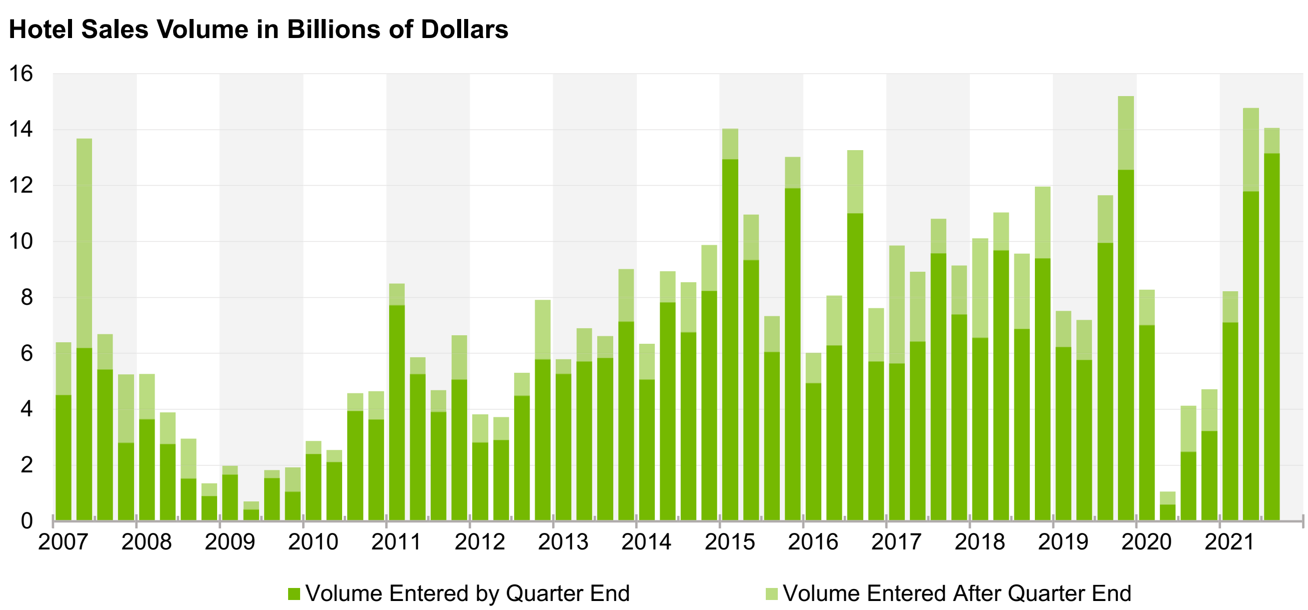
Sources: STR; CoStar Group, Third Quarter 2021

Prediction 64: Quarterly Hotel Sales Volume Expected To Shatter Records

Due to the above prediction, hotel sales volume will continue to break records. If the second and third quarters of 2021 are any indication it shows that debt and equity are ample and buyer interest in hotel assets is high. Especially on the very high end, for luxury and Upper Upscale properties, prices per key that mirror pre-pandemic levels have been achieved. Examples include the Montage Healdsburg and the Four Seasons at Disney World, both of which topped one million dollars per room. Especially noteworthy was the trade of the Vantana Big Sur, which sold for $2.5 million per key.

For 2022 we expect that funds with large amounts of debt and equity on hand continue to deploy capital especially for portfolio sales or individual high-end transactions.

U.S. Hotel Sales Volume Over Time

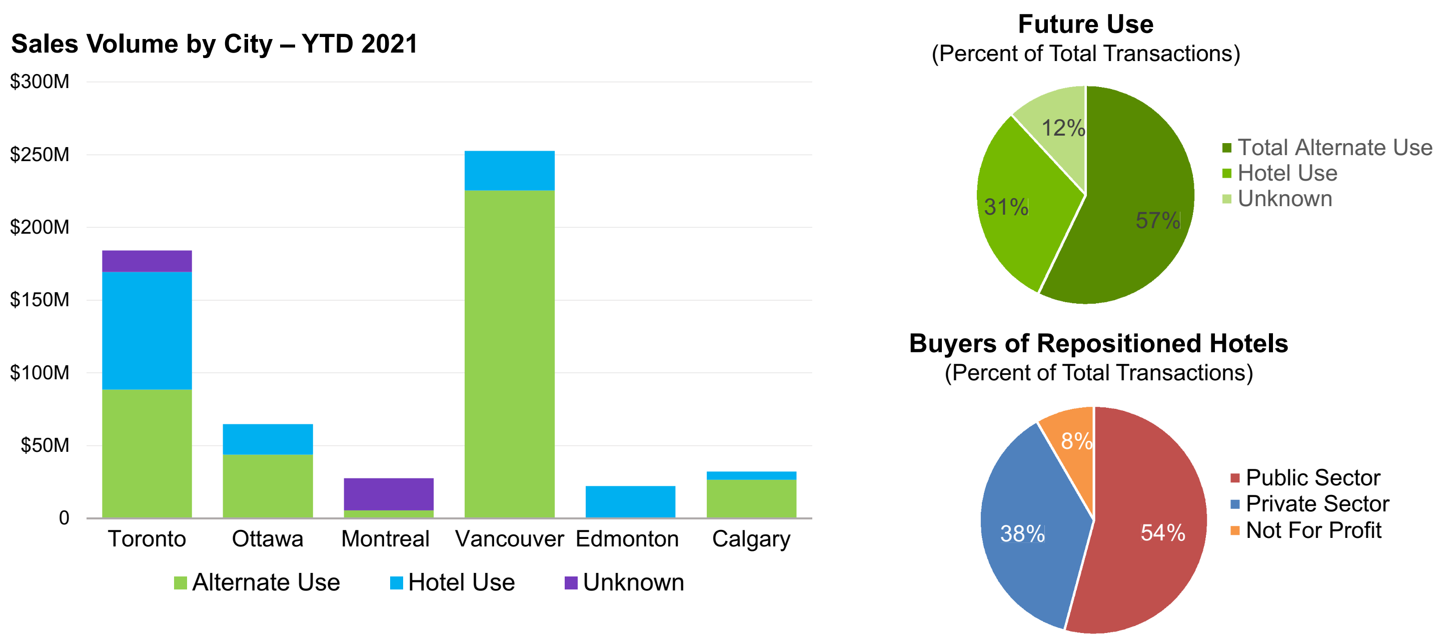


Sources: STR; CoStar Group, Third Quarter 2021

Prediction 65: Alternate Use Transactions Will Account for a Third of All Sales Volume

In 2021, alternate use trades accounted for almost 60% of the total driven by the public sector's Rapid Housing Initiative that focused on converting hotels into affordable housing. With the recovery well underway and rising investor confidence, traditional sales volume will account for a higher proportion in 2022. Alternate use activity will be driven by the private sector and conversions to residential will play a dominant role. There are 424 housing units per 1,000 people in Canada, one of the lowest ratios among the G7 nations, and the imbalance between supply and demand has meant sharp rises in pricing. So, hotel owners will be examining the highest and best case uses for their non-core hotel assets.

Canada Hotel Sales Volume in Major Cities

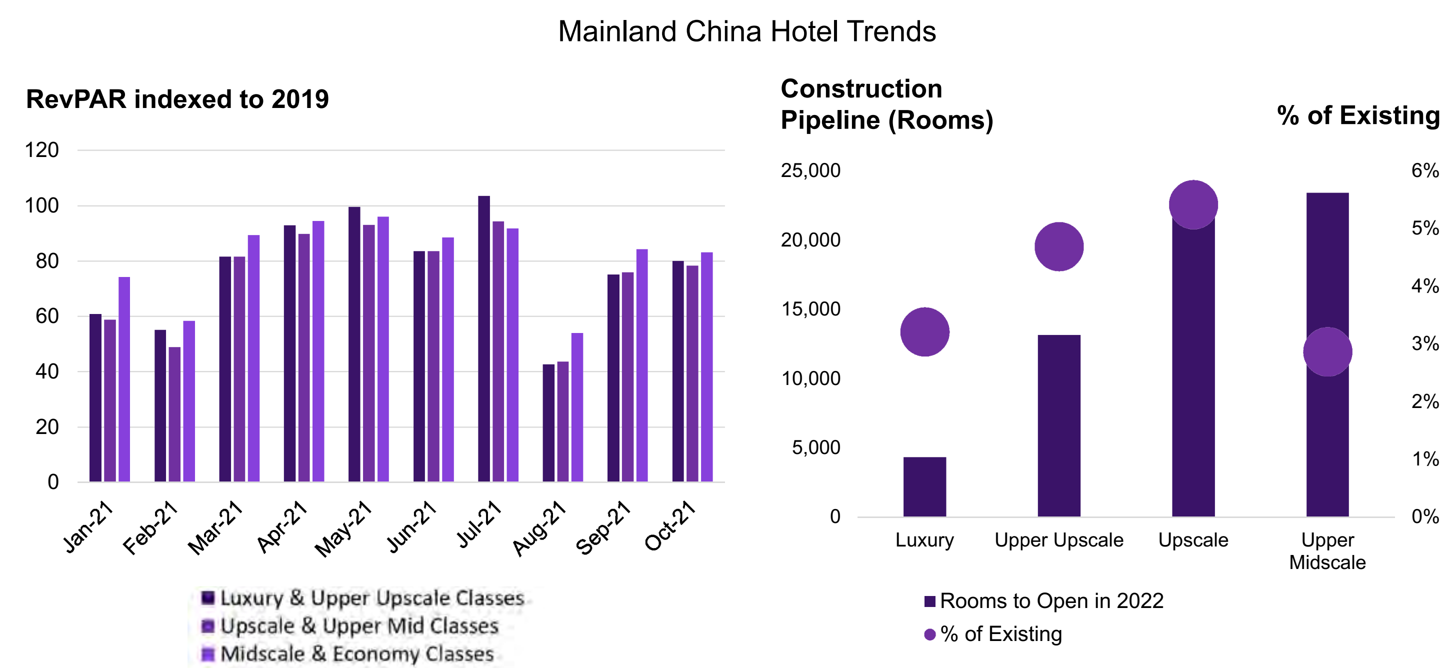


Sources: CoStar Group; STR, November 2021

Prediction 66: Domestic Leisure to Drive High-end Hotels, Pipeline Stronger in Upscale and Below

High-end hotels are likely to benefit even more in 2022 as consumers continue to upgrade their consumption, meaning that they spend more than they used to. This was clearly seen in 2021 during holiday periods for example May, July, and October – where Luxury and Upper Upscale hotels exceeded that of other hotel classes.

The continued zero-tolerance policy against the virus in China creates fast up-and-down demand shifts, and mass travel to and from overseas does not seem feasible if a 14-day quarantine policy is not softened. Therefore, Mainland China will still rely on powerful domestic travel in 2022 and extend to more lifestyle and modern travel patterns rather than traditional sightseeing. Travel facilities development, tourist attractions' quality improvement, and social media's magic boost over the past few years have created an immersive experiential tourism for Chinese travelers. When looking at the pipeline by region, tier 2 and 3 markets will be very active, and more competitive in Upscale and Upper Midscale levels, which is where both international and domestic brands are putting more focus.

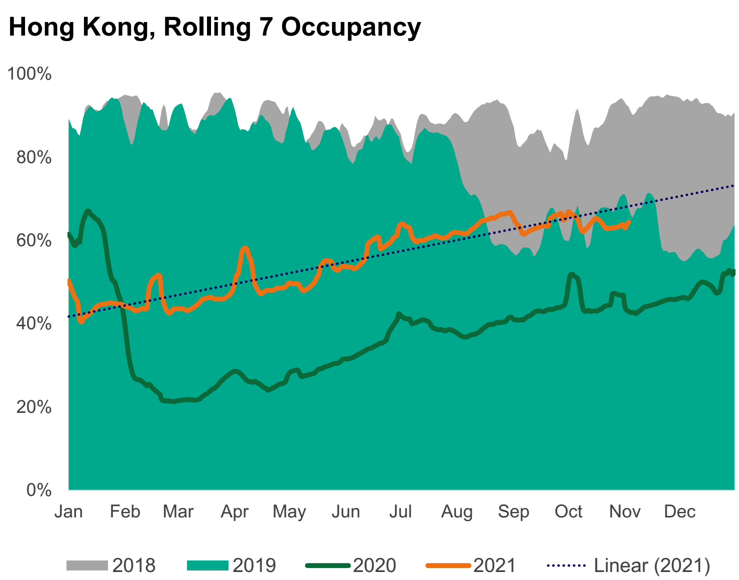


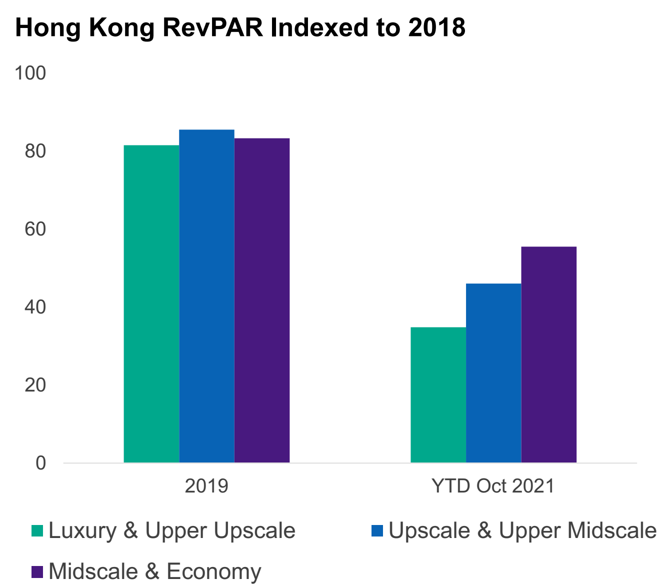
Sources: STR; CoStar Group, October 2021

Prediction 67: Hong Kong RevPAR Will Not Return to Pre-Pandemic Level Even If Border Reopens

Though travel bubbles struggled to be implemented in Hong Kong, staycations have driven demand. The occupancy level has been ramping up in recent months, finally being stable at 60%. However, room rate is very challenging due to the demand mix, mainly for quarantine and staycations, which is mostly at lower-class hotels. Further, the lack of demand from the conference segment has hampered revenues. 2022 could be another transitional year, as pre-pandemic RevPAR remains hard to reach for four key reasons. First, there is a high reliance on Mainland Chinese business for both leisure and corporate travel (78.3% in 2019). Second, there has been no sign to show Mainland China will soften the zero-COVID and quarantine-free policy until the end of 2022 Q1. Third, there was a large portion of retail shopping-focused travel before COVID-19, which will change because Hainan is set to be the largest duty-free market and approved to be successful since 2020. Lastly, MICE facilities have been significantly improved in the hub cities such as its neighbor city Shenzhen and many other tier 2 cities.

Hong Kong Hotel Trends





Sources: STR; CoStar Group, October 2021

Prediction 68: Reverting Quarantine Hotels to Normal Trading Can Delay Market Performance

Around the world, hotels have been used for an extended period for Quarantine purposes during the pandemic. With this use as a large portion of total market room stock, several factors can delay recovery. First, bringing back a big bulk of supply quickly means the volatile recovery demand is spread thinner before traditional source markets return. Second, new supply, opening after pandemic delays, will hit the market, with one big example being Vietnam. Third, reverting hotels is not always an easy operational task and it varies by owner and available cash flow. And finally, perhaps the most challenging obstacle, finding and increasing staff levels back for normal operations is already an issue globally and if you are late in the game you are at the back of the queue.

Apart from a slowdown in profitability recovery overall, this will create a less cohesive performance spread, with more leaders and laggards compared to pre-pandemic, and will also hit hotel classes differently dependent on usage and expected demand ahead. Singapore is a prime example because it has well over 25% of inventory used for Quarantine. Also, one-third of people living in Singapore are so-called 'non-residents' and this high reliance on imported labor can create bottlenecks if open borders/work permits flows are not restored robustly.

Quarantine hotels can delay market recovery when switching back to normal use - and slow down 2022 expectations

High number of hotels in market used for quarantine will slow down recovery. Key factors include:

1. Quick return of supply against volatile demand
2. Adding new supply, often delayed by pandemic
3. Operational and Financial reverting of hotels
4. Finding and attracting staff to capacity

Example: Singapore

- Very high usage of hotels for quarantine
- High dependency on imported labour

Market impact:

- Slowdown overall market profitability
- Less cohesive market growth

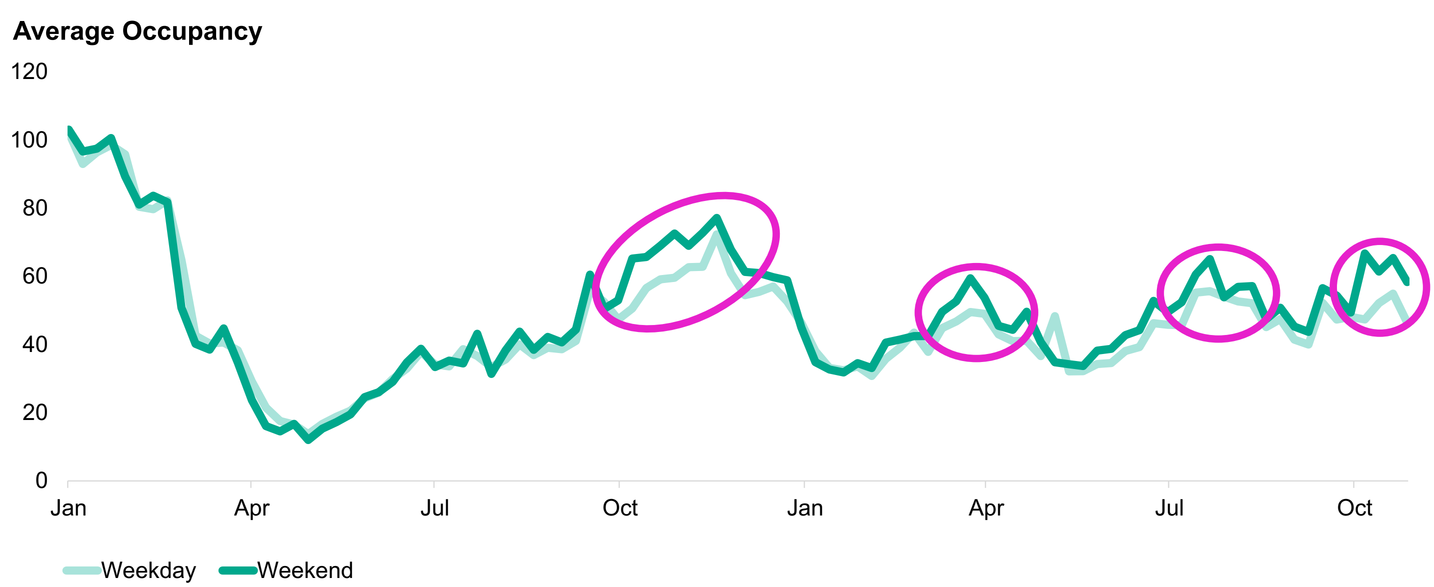
Sources: STR, Ministry of Manpower, 2021

Prediction 69: Japan's Hotel Sector Recovery Will Gather Momentum With Domestic Strength

Japan, with the third-largest economy in the world according to the International Monetary Fund has largely been insulated to global travel during the pandemic. Domestic travel, although never legally restricted, has remained subdued for the past two years. In 2019, Japan experienced phenomenal growth in international visitor arrivals, according to the Japan Tourism Authority, with 31.8 million arrivals. This marks a rise of 269% from 2010, whilst outbound travel had grown 17.6% in the same period. As international borders slowly begin to open, we anticipate the rebound will remain domestic in 2022.

Shown here, is the weekday vs weekend split of the last 18 months represented as an index of the same period in 2019. With regular COVID-19 waves across the past 18 months, it is difficult to get a full gauge of the desire to travel for leisure and business. There has yet to be pent-up travel demand as evidenced by similar weekday and weekend patterns. For limited periods, there was a likely path ahead. These were key holiday periods but were, until now, not sustainable. This time we anticipate the growth to be sustainable with high vaccination rates, new economic stimulus, and individual and business confidence building. The government in 2020 instituted a "Go to Travel" campaign which for a limited time was a successful stimulatory effort. The government has indicated that a similar plan will be enacted to stimulate domestic demand that will skew regionally. Meanwhile, the business segment has largely been devoid of personal interactions for two years but a rapid rise in activity is anticipated. We do not expect that 2019 levels will be surpassed for the influence of new supply and limited international demand. But we confidently expect a broad domestic recovery supporting a return to profit for Japanese operators in 2022.

Japan Rolling 7 Occupancy, Weekday (Sunday-Thursday) & Weekend (Friday-Saturday) Indexed to 2019



Sources: STR; CoStar Group, Third Quarter 2021

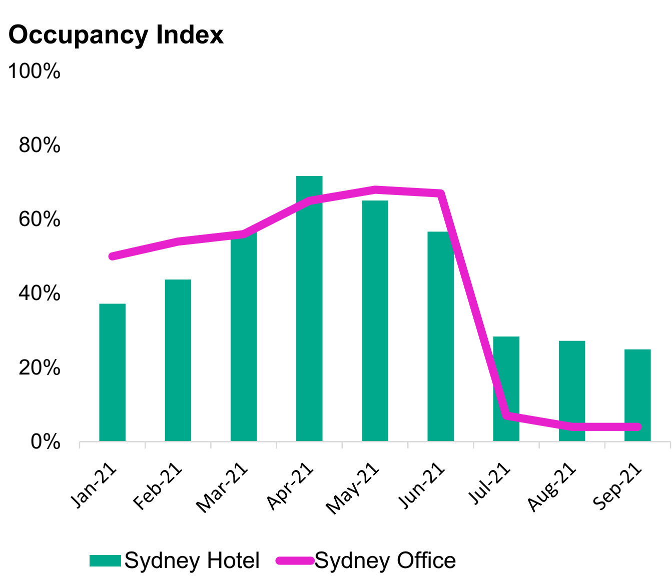
Prediction 70: Australia – Hotel Occupancy Hinged on a Return to the Office

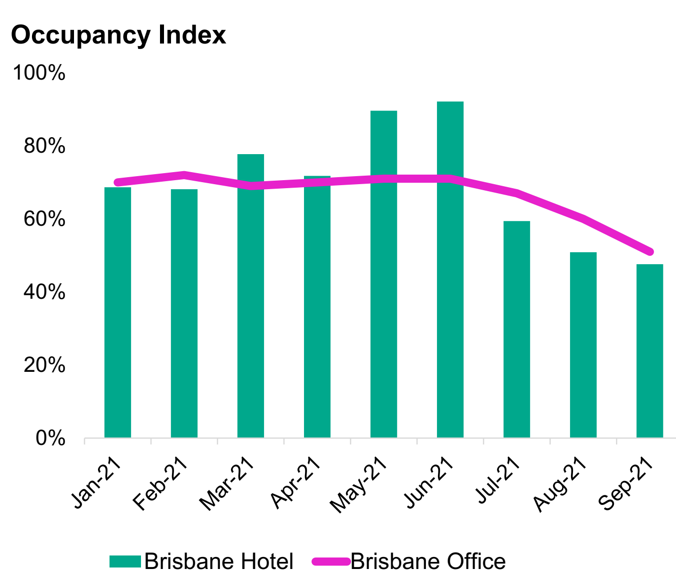
With COVID-19 largely contained within the community, Australia began a broad hotel recovery in early 2021. Travel extended beyond leisure, with corporate travel and corporate meetings also taking place. An aggregate of the Australian capitals had the rolling four-week occupancy index for weekdays peak at 73 to 2019 levels in April 2021. Equally, it was visible that office utilization as measured through the Property Council of Australia had Sydney and Brisbane offices at 70% of 2019 levels.

However, with the onset of the Delta outbreak in July and the subsequent government restrictions enforced, working from home became the new norm. Office utilization plummeted, and equally, hotel occupancy with the tight restrictions on mobility. Not only did it impact the host cities directly, but there was a spillover impact. Collectively, all capital city markets had occupancy fall and plateau as jurisdictions enforced restrictions on the movement of people across internal borders. Brisbane was one of those cities which at times had their own restrictions but largely were open. Hotel occupancy plateaued and cautious stabilized office utilization.

As Australia begins to re-open entering the final months of the year, we anticipate a similar but delayed rebound will occur. Office utilization will be a key precursor to improved hotel occupancy. Post the traditional December/January holiday season we expect office utilization in February to begin to fall in line with a pattern of 2021 Q2. This time, there should be more sustainability with high vaccination rates across the country. As office utilization rises, we believe this is one fundamental input to rising hotel occupancy as business travel accelerates, alongside a rising set of scheduled business meetings.

Sydney & Brisbane Office Utilization and Hotel Occupancy Index to 2019





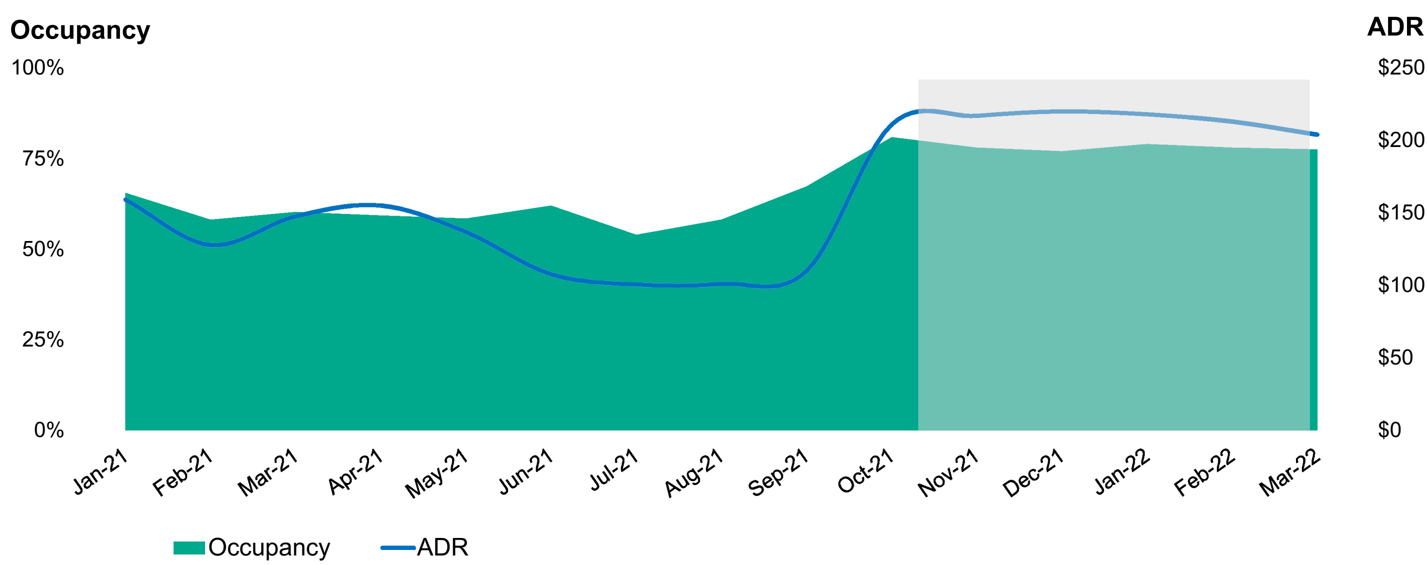
Sources: Office Utilisation- Property Council of Australia, STR, Third Quarter 2021

Prediction 71: Dubai Will Have a Spectacular Recovery in 2022

Dubai will make the quickest and strongest recovery worldwide and will perform at double-digit levels of pre-pandemic performance, in 2022 Q1. October 1, 2021 is a date that will forever remain in the memory of millions of UAE nationals and residents alike. The date EXPO 2020 finally started after being delayed by a year due to COVID-19. The date tourism, hospitality, and the hotel industry in Dubai rose to the challenge of hosting the first in-person, post-pandemic, mega event. The date hotel performance switched gears and pivoted for highs unseen for many, many years.

2.5 million EXPO visitors were recorded just during the first four weeks with the city buzzing with activity. The hotel occupancy of 81.6% was followed by sky-high room rates close to 270 USD on some days. Remarkable results especially considering the additional 13,125 rooms that opened since 2019, a 10.6% inventory increase. The city has blossomed into a global tourism hub with a mature and diverse offering, ready to welcome, and not only meet but exceed the expectations of tourists from around the world. With EXPO scheduled to last until the end of March 2022 a fantastic 2021 Q4 and 2022 Q1 are ahead. Double-digit year-on-year increases across all hotel performance KPIs are therefore predicted for 2022. EXPO will act as a springboard for Dubai to leave the pandemic behind, a shining example of post-pandemic recovery and a legacy to remember for many years to come.

Dubai, Occupancy & ADR, Jan to Oct 2021 and Prediction for Nov to Mar 2022, USD



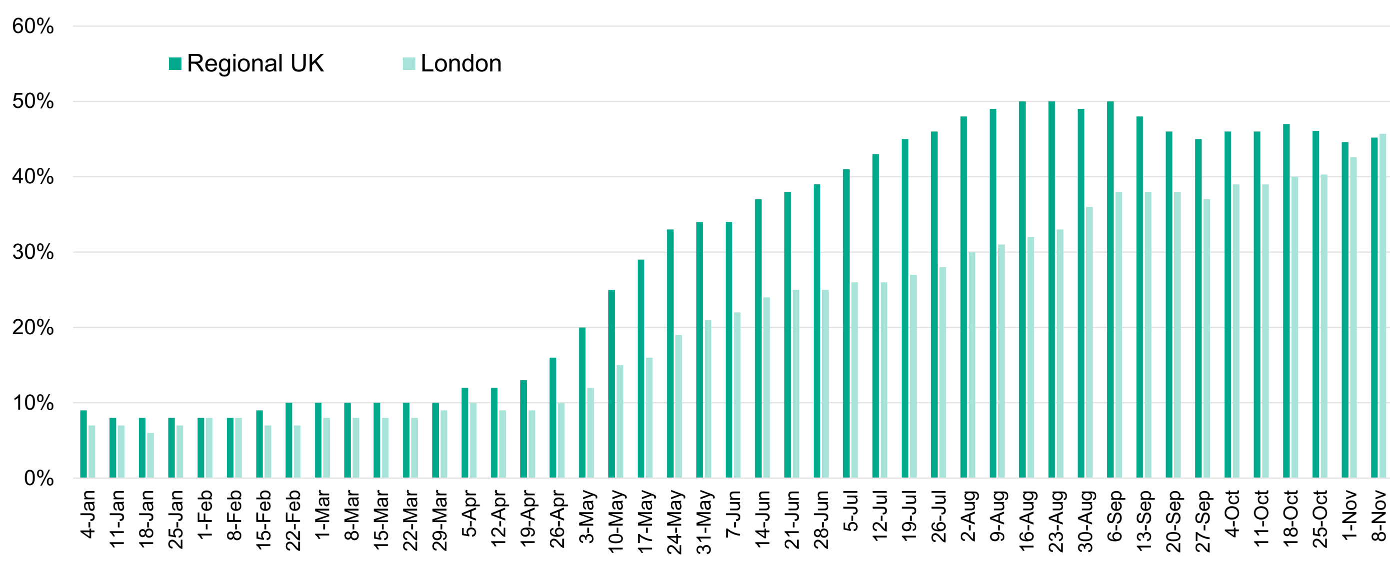
Sources: STR; CoStar Group, November 2021

Prediction 72: London Occupancy To Exceed Regional UK

Since the start of the pandemic, occupancy levels in major cities have struggled compared to regional destinations. This has been due to the lack of corporate, group, and international demand. As COVID-19 subsides, however, those demand drivers are starting to return to urban centers. As of Nov. 8, for the first time since the pandemic began, that business on the books was stronger in London than across the rest of the UK. This is a trend that we expect to continue, and our prediction is that occupancy in London will be higher than in regional UK, which we classify as the country as a whole, excluding the capital.

This will be driven by those returning demand drivers. As companies return to the office and corporate travelers start to hit the road again, London will be the main beneficiary, particularly for those visitors from overseas. Leisure travel will also continue to recover, again with the capital being the major attraction. We always predicted that group business would be last to return and that is still the case, but conferences are beginning again, which will benefit London with its plethora of meeting facilities. Although we believe actual occupancy will be higher in London, when indexed to 2019, it will still be at a lower level than regional UK. This is because London, pre-pandemic, traditionally has an eight-percentage point occupancy premium when compared to the regions.

Next 28 Days, Occupancy on the Books (Total Room Inventory), January – November 2021



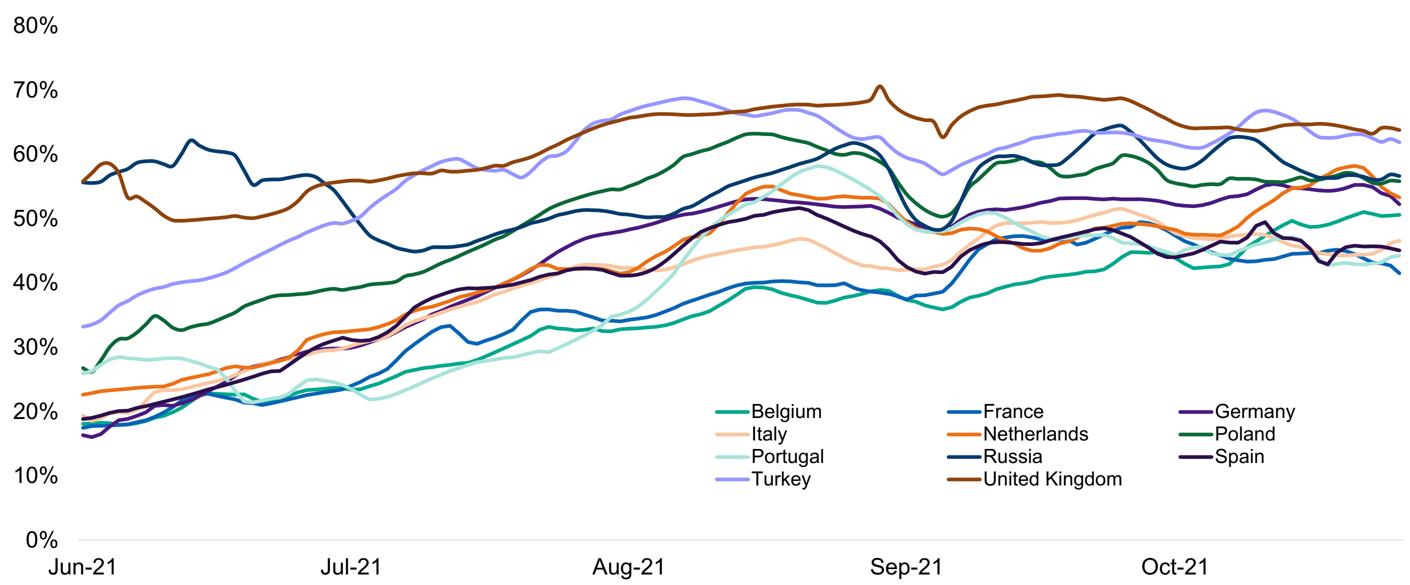
Sources: STR; CoStar Group, November 2021

Prediction 73: The UK To Lead Europe's Recovery

European hotels have been badly impacted by the pandemic. Occupancies have been amongst the lowest in the world. There will still be a significant variance in performance levels as we stand today. One thing has been consistent of late and that has been that the UK has been one of the two strongest performing countries on the continent. Our prediction is for that to continue, and that the UK will have the highest occupancy of any major European country in 2022.

Whilst no government has been faultless during the pandemic, the UK government's roadmap out of lockdown proved to be highly beneficial from a hotelier's perspective as they knew exactly when the domestic demand tap would be turned back on. A strong domestic demand base will continue to be key going into 2022, and the UK does benefit from this more than many of our European neighbors. In addition, as mentioned during the previous prediction, we do expect an improvement in corporate, group, and international demand. This will benefit many markets across the country, but most notably London. The UK has also introduced some of the more relaxed restrictions across Europe which, if they continue, will also benefit hotels. Finally, the largest event in Europe in 2022 will be in Birmingham when the Commonwealth Games are hosted in July and August. Of course, everything relies on the virus being kept at bay, but if it is, then the UK should be in for a strong 2022.

Rolling 7-Day Occupancy (Total Room Inventory), June 1st – October 26th, 2021

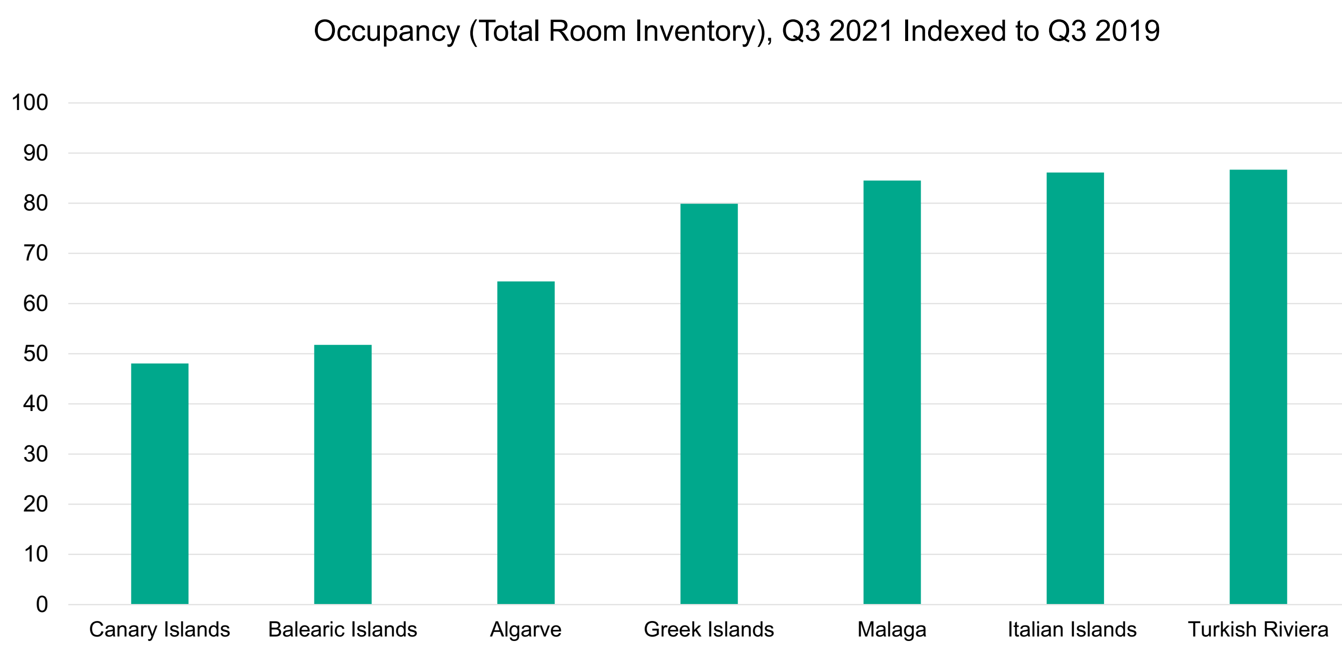


Sources: STR; CoStar Group, October 2021

Prediction 74: Euro Med to Have Their Best Year on Record

Looking back at summer 2021, and despite the challenges that still faced the industry, COVID-19 cases, bureaucracy, testing, and a limited flight schedule, European hotels had a reasonably successful summer season. We expect that to continue, and predict that for the European Mediterranean, 2022 will be the best performing year on record, outperforming 2019. Across the Greek Islands, Malaga, the Italian Islands, and the Turkish Riviera, occupancy in summer 2021 was already at 80% of the level of 2019, and this is despite the aforementioned challenges.

Some other destinations, most notably those that cannot be readily reached by road or by boat were still behind 2019, but we strongly believe that improvements will be seen across the board. These resorts are very reliant on European business, and with the strong rollout of the vaccine, along with the easing of travel restrictions and increased air capacity, confidence in travel will improve, and for many, summer 2022 will be their first overseas holiday for three years, so demand should be high. This will, of course, be a relief to those hoteliers who have had two summers of struggle and will signal another move towards a return to normality.



Sources: STR; CoStar Group, November 2021

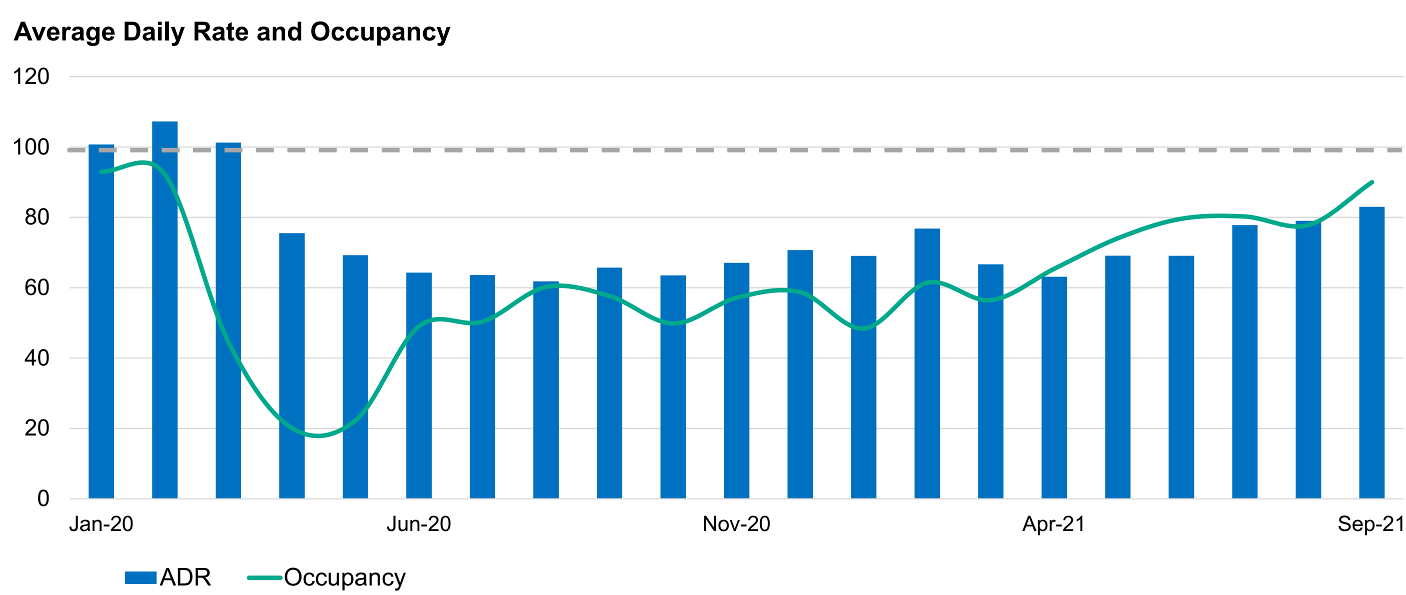
Prediction 75: Chile Will Be Looking Outside Santiago to Get Back to Pre-Pandemic Levels

Chile stands out in Latin America as having a more business-friendly and stable economy. Tourism has been on the rise since 2010 and for seven consecutive years has been named the best adventure travel destination in South America. To top that, Chile has successfully rolled out its vaccination program with 90% of the target population fully immunized.

Although borders reopened in October, Chile is one of the few countries asking travelers to homologate their vaccines before traveling, in addition to getting a PCR test before and upon arrival. These restrictions are discouraging travelers and creating a false expectation that the Andean country is open for international travelers. What this means for the hospitality industry is that will need to continue to rely on domestic demand to recover. Since the start of the pandemic, occupancy levels have been low, but Chilean provinces have outperformed their capital, Santiago, reaching its highest occupancy in July with 62%. In September Chile's occupancy was at 90% of 2019 levels and ADR at 83% of the same period in 2019. However, these results are being pushed by the different provinces outside Santiago. Year to date, not only has occupancy in the provinces grown 50% compared to last year, but rates are down only -6% compared to -23% in Santiago.

If Restrictions remained and with elections coming up, we expect Santiago to remain below 2019 levels for all of 2022 while international tourism resumes. On the other hand, Provinces will compete not only for domestic leisure demand but also from business and events, meaning that Chileans will be rediscovering their own land once again.

Chile Hotel Monthly Occupancy and ADR Indexed to 2019



Sources: STR; CoStar Group, Third Quarter 2021