



## Turning to '22

December 30, 2021

### Looking Back, Looking Ahead: A U.S. Perspective

As we all know, 2021 has been a big comeback year in the real estate industry following the unprecedented COVID-driven challenges of 2020. There are still fundamental changes occurring – using a real estate metaphor, both at the foundation level or rising above the surface.

Let's take a closer look.

#### Looking Back (2021)

- **The Return of Real Estate:** The onset of the pandemic made for a shaky 2020 and analysts were predicting the worst, but the industry held up better than expected and 2021 had activity levels that were some of the highest since the financial crisis in 2008. Real estate powerhouses like Blackstone are posting their best quarters ever and are quoting real estate as the driver, and single borrower CMBS showed growth and activity at a level higher than the financial crisis.
- **Hospitality:** While the increase in activity has been fueled largely by industrial, life sciences and multifamily deals, hospitality deals are starting to make a comeback as well. Hotel loans are finding a way to get done, Lenders are finding a way to underwrite them and there is even some public to private activity again – Blackstone and Starwood acquired Extended Stay earlier this year, and Highgate and Cerberus announced a merger to purchase the CorePoint portfolio.
- **Industrial** – The most consistent of the asset classes through the height of COVID, industrial portfolios, outperformed expectations and drove profits for many large sponsors through the pandemic and most of 2021. Whether this continues in 2022 or there is a slowdown due to market saturation remains to be seen.

#### Looking Ahead (2022)

- **Hospitality:** As vaccination rates continue to rise and are now available for children, increased travel will fuel occupancy rates and should lead to increased activity in the hospitality sector. We are likely to see individual and leisure travel first, with group and corporate travel over time. Of course, this will depend upon whether the Omicron variant has a short- or long-term impact.
- **Office:** 2021 started to see some large office acquisition deals getting done, with 410 Tenth Avenue and One Vanderbilt topping the list, and there has been increased activity in the refinance market. In 2022, there will continue to be an uptick in office building activity, but it will also continue to look different and continues to be some of the most unpredictable. High-quality projects in key markets with large sponsors will get done, but balancing some companies' reluctance to commit to widespread office returns and a similar hesitance of landlords to commit to hybrid plans for offices may drive leasing and other decisions in the office market. The record rate of return to the office in the first week of October in top 10 office markets was promising news, and the increase in post-pandemic activities will be top of mind. Again, the short and longer term impact of the current Omicron variant will dictate the pace at which office transactions rebound.
- **Single-Family Rentals:** This will continue to be a hot space, as large private equity funds are acquiring companies like Home Partners of America and investments in Global Atlantic.
- **Workouts:** Some troubled assets will still be working out, particularly as eviction moratoriums and other pandemic-related protections are lifted.

While we continue to be bullish on the real estate markets and their ability to adapt and thrive in the most volatile of times, we remain cautious in our optimism given the current Omicron variant and all the uncertainty its effects may have on the markets and our industry. More importantly, we remain humbled and cognizant of the devastating human impact and loss that the pandemic has had and extend our best wishes that all of our clients and friends remain safe and in good health in the coming year.