The Weekly Take

All Together Now: How investors are navigating today’s fluid capital markets

5.28.24

Spencer Levy
Uncertainty continues to muddle the outlook for commercial real estate. Industrial and multifamily face softening fundamentals but remain historically solid. Office is split between the very best properties and all the rest. And retail is growing in importance to larger investors. Across the real estate investment landscape, there are understandably complex issues and, as we've noted on many shows of late, there's still hesitancy to use the dry powder that lenders and investors are holding. So who's buying? Who's lending? Where is investment flowing? On this episode, we dip into a CBRE flash call to follow the money and hear insights to help you find clarity.

Emcee
Hello and welcome to the Capital Markets Flash Call.

Spencer Levy
This flash call was one of the periodic virtual gatherings that we hold at key flash points for the industry. And earlier this month the panel included CBRE leaders with deep sector expertise: Global Chief Economist Richard Barkham; U.S. Office Research leader Jessica Morin and James Millon, U.S. President, Debt and Structured Finance. We also welcomed Kelli Carhart, who leads Multifamily Capital Markets; Chris Decouflé, her counterpart in Retail Capital Markets; and Chris Riley, who leads U.S. Industrial and Logistics Capital Markets. Last but certainly not least, Kevin Aussef, CBRE Americas President of Investment Properties, formally kicked off the live call for the audience who dialed in.

Kevin Aussef
On behalf of CBRE’s leadership. I'd like to extend a warm welcome to all of you.

Spencer Levy
Coming up, top minds from across CBRE’s capital markets sectors provide an update on the state of activity right now and expectations for what's ahead. I'm Spencer Levy, and that's right now on The Weekly Take.

Spencer Levy
We're going to start with our economics discussion. And to do that, I'd like to be joined by our Global Chief Economist, Richard Barkham, and our Head of office Research, Jessica Morgan. Richard, Jessica, welcome. And, Richard, let's start with you. Big picture. There are a lot of major questions that people are asking today around the economy. Where are we today? Where are we going for the remainder of ‘24?

Richard Barkham

So, let's start with USA GDP growth and it looks pretty solid I think, for the rest of the year. There's no doubt that growth is slowing as the impact of interest rates feeds through. But consumer spending is strong and the manufacturing sector is coming back, and the global situation has improved in Q1. So, we do expect a slowdown to around maybe 2.2% GDP growth in 2024, but it looks reasonably robust. And that's feeding through into still solid real estate fundamentals outside the office sector, which is unusual given that we've had the sharp rise – sharpest rise in interest rates in 40 years. But, growth robust, real estate fundamentals – sound.

Spencer Levy
Great. Well, Jessica, Richard mentioned maybe the second most important question that people are asking today is about the office sector. He mentioned that it is the softness of the sector, which is not news, but tell us exactly what's going on.

Jessica Morin
Yeah. I mean, we still are seeing turbulence in the office market. We're feeling the pressures from both hybrid work and also mixed signals in the economy. And, so, because of that, occupiers still remain cautious in their approach to their real estate portfolio strategy. And, so, today we see higher rates of renewals than we did pre-pandemic and we continue to see rightsizing that has left the average lease size about 25% smaller than it was pre-pandemic. So, that combined has softened demand for office space. And so if you look at the last 17 quarters since the pandemic's start, we've had 12 quarters of negative net absorption. That, combined with a pretty steady pace of office deliveries, have lifted the vacancy rate to 19%, which is at a 30 year high. At the same time, that 19% is not indicative of the entire office market. We still see a stronger performance and the best properties located in vibrant mixed use areas versus commodity space that's really been hit the hardest since the pandemic. Unfortunately, going forward, we're going to see less supply side pressures in 2025 when the pace of deliveries dramatically drops.

Spencer Levy
Richard, you gave a fairly positive outlook for growth, GDP overall. But I think it's fair to say that our listeners would counter say, well, interest rates are still at highs that we haven't seen in decades. We're still seeing inflation while it's gotten better, still is not completely under control. So, let's put some numbers around what we're suggesting. Where are we in terms of inflation, interest rates the end of ‘24, at the end of ‘25.

Richard Barkham
So, I would caution as well that very mild print and inflation, it's very good news. But, it's only one month's data. And we're going to get some upside and downside shocks in inflation as we proceed through the year. We do expect inflation to trend down and probably in the year CPI inflation somewhere in the 2%. So, as the impact of pandemic era influences on the supply side of the economy eases up, as the impact of high house prices eases up on inflation, we do see that inflation coming down over the course of the year, but could be a bumpy ride down. And that will, I think, allow the fed to be able to cut interest rates twice. We still expect the first rate cut to come in July, but it might be September and the second rate cut in December, and then probably three rate cuts in 2025. So, that's the direction of travel.

Spencer Levy
Let's put some just a finer point. Put some numbers on that. Where do we see the long end of the curve and the short end of the curve at the end of ‘24 and then at the end of ‘25.

Richard Barkham
So, the long end of the curve – 4.1% – it's nudging down nicely, but I think the buoyancy of the economy is going to keep it elevated. The U.S. fiscal situation is going to keep it elevated. And then down to maybe 3.6%, 3.8% at the end of 2025. So, trending down slowly. And the Fed funds rate around 5%, 4.75% at the end of 2024 and then maybe 4.25% at the end of 2025. A lot of people ask me, well, why aren't interest rates coming down quicker than that? Well, that's a soft landing playing out if you want interest rates to come down, you know, careful what you wish for. That would be a recessionary situation. So, I think we've got a nice blend of slowing but still solid GDP growth, but gently easing inflation and interest rates over the course of the next two years.

Spencer Levy
Jessica, I had a very interesting conversation with one of our clients about a week ago, talking about the very much the tale of two worlds, how Asian office seems to be back to normal in terms of return to office and U.S. is quite a different story and it's impacting not just occupancy but investor appetite. Where are we from our perspective on RTO today? Where are we going?

Jessica Morin
So, when we look at our U.S. clients, our employers are saying that they want to see employees in the office three days a week. But, when you look at employee behavior, there has been a mismatch between employee behavior and employer expectation. However, that mismatch is less today than it was last year. And, so, what we are seeing in terms of physical occupancy, any kind of metrics, we're looking at the average through the week, we haven't seen that much movement. But where we have seen movement is in the peak day occupancy, which is typically around midweek. And, so, if we survey our U.S. clients, we're hearing that about 60% believe where we're at right now is the new normal. But another and very meaningful 32% still believe that there is potential for increase. And so that increase will happen through intentional changes and workplace policy culture and the physical workplace, making sure it's attractive and efficient for employees to really magnetize employees back to the office.

Spencer Levy
So, Richard, notwithstanding your relatively positive forecast on both the macro and then as it relates to interest rates, there are some significant risk factors out there, led by perhaps the state of regional banks led by geopolitics, led by perhaps U.S. politics. What's your point of view?

Richard Barkham
For me, the biggest risk is that the fed keeps rates too high for too long. I think that's not likely, it's still a base case risk. Interest rates would bear down heavily, I think, in the second half of the year, if the fed doesn't get around to cutting them. On the banks, we're obviously watching this extremely carefully. One of the interesting statistics is that the top 50 banks have provisioned around $110 billion over the last eight quarters, so the banking sector as a whole is getting more and more robust, I think, as every quarter goes by to real estate losses. Now, that still leaves the regional banks and the smaller banks, and they still are not provisioning enough and I expect to see quite a lot of consolidation in that sector and takeovers – maybe that would be a good thing anyway. But certainly no financial crisis. Some bad news, but maybe no financial crisis coming out. Reducing is a key risk factor, I would say, Spence.

Spencer Levy

Great. So, very quickly, Jessica, final thoughts off of sector ‘24, ‘25.

Jessica Morin
So, I think we're going to continue to see prime outperform what we're expecting because of the significant demand for better space and a flight to quality, combined with the fact that we're going to see a significant slowdown in new supply. We're expecting the prime vacancy rate to return to its pre-pandemic level by 2027, which is in the single digits. So, as we continue to see the flight to quality, we're going to see this overspill of demand into that next tier of office buildings. And I think that's really where the opportunity is for landlords of those buildings to invest in those properties, bring the amenities up to where tenants want to see it today, and that's where we're going to continue to see strength in the market is in that prime and that next tier space over the next few years.

Spencer Levy
Richard same question. Final thoughts. Take the big picture and apply it to our clients on the phone or real estate professionals. How should they look at ‘24, ‘25 from a commercial real estate perspective?

Richard Barkham
Well, I'm always struck by just how sound real estate fundamentals are, given that we've had the sharpest rise in interest rates in 40 years. Real estate is a very solid asset class outside of offices, and Jessica has told us how that's improving. I'd say we're moving into a good opportunity to buy over the next six to nine months at cyclically high IRRs.

Spencer Levy
Great. Well, thank you very much, Richard. Thank you very much, Jessica. Great job. And now I'd like to invite you to call our President of Debt and Structured Finance, James Million. James, welcome to the call.

James Millon
Hey, Spencer. Thanks for having me.

Spencer Levy
Thanks for coming out, James. And, James, if the biggest question isn't the economy or the return to office, I think the biggest question very well might be the availability and the cost of debt. So big picture. Where are we in the debt capital markets?

James Millon
Well, I think that it's been a reminder too that credit and availability of credit and the pricing of credit is really driving much of the investment activity that we see out there in the market. You have to take a step back, and I'll generalize for now, and then we'll get pretty granular, Spencer, as we go through this. You know, real estate, much like private equity, it's a levered asset class. Right. And, so, when you go through what we just went through over the last two years of a six standard deviation event rise and spike in interest rates, it's got a material impact on not only discount rates – weighted average cost of capital, prices of assets, free cash flow available for distribution. Right. It's got a ripple effect that really goes through our entire ecosystem. And that's been material. And it continues to persist because we're in this higher for longer environment right now. One thing we have to keep in mind as well, though, is that we're in a much better operating environment in 2024 than we were in 2023, for all the reasons that Richard hit on. This time in 2023, we were still dealing with runaway inflation at 6%. We knew the fed would have to continue to hike to combat that, and the probability of being in a recession was pretty high. In 2024, I think

with the latest CPI print and the jobs data before that, we have at least taken this risk of – within the Monte Carlo simulations that all of you smart economists run – that we're going to have another fed hike off the table and now we're an environment where we know that the fed is going to start cutting rates. The real question is when. And we still have a growing GDP. Right. And, so, that's a pretty good backdrop to actually be taking some risk out there. I think as it relates to how we look at the world through two dimensions and credit, right. It's the availability of capital and the cost of that capital. Right. The availability of capital is a function of all the participants in the marketplace at any given time, namely, that's our life companies, that's our banks that are securitized lenders, our debt funds, and it's our agencies. It's also, availability of credit determined by underwriting standards at that moment in time. And lenders really dictate that and that's just a function of risk. On the other side, the pricing, which is really the derivative of availability of credit, it's a function of a market, and it's also a function of the risk profile of a certain asset class. What's frustrating for many of us who are in this market right now, is that the uncontrollable aspect of the pricing of that debt is so tied to the macroeconomic environment, and that the indices, your SOFR, your fed funds rate, your five, your seven, your ten year treasury rate is now comprising 70% of the cost of debt. So, where credit spreads were generally the focus for all of us and were things that we can manipulate depending on the risk profile of a transaction – they're only accounting for 20% of the cost of financing. And, so, when the ten years moving or the five year moving five to eight basis points every single day, that's having a much more material impact on the equation than credit spreads are.

Spencer Levy
Well, I guess there is maybe a smaller green shoot than we would like in that credit spreads have come in and we've seen them come in on conduit debt, we've seen them come in for other types of lenders. So, why don't you tell us who's lending, who's not? Which asset classes are most popular?

James Millon
Yeah. Let's hit the first point because I think that's important, right. One, we started the year with this perception that there was going to be seven rate cuts. Right. And now we're down to I think our house view is two. Notwithstanding that, right, the Dow is now 40,000 points, past 40,000 points. The S&P is up 12%. There's been a huge bid for credit. We've seen credit spreads across all, what we call the public market. So, that's – as you mentioned – the CMBS conduit. Triple A's are in 50 to 60 basis points. CMBS SASB is in 50 basis points. The Freddie K ones are in 20 to 30 basis points, CLOs are in 100 basis points on triple A. So, it's a risk on mentality that is out there in the market for this moment in time. So, without question, that's on the public side, on the private side, which is where we transact with life companies and banks and debt funds alike – we're seeing a similar movement in just whole loan spreads that have definitely come in. In terms of who's lending and who's not. Let's start with who's not, right. The obvious is the commercial banks are going through some challenges right now to rightsize their balance sheet. We've got Basel through regulation that, you know, it's uncertain as to how and what kind of capital is going to have to be held against certain positions, but we know it's not going to be positive for them. And we do know that they're pivoting from what used to be bilateral lending relationships and syndicated bank facilities to allocating their capital towards warehouse and repo lines because they get better capital treatment. Still very important to the lending ecosystem, but they're just providing liquidity in a little bit of a different way. So, that provides opportunities for other capital sources like debt funds. And we look back at our origination activity in the first quarter of this year, 30% of which was with debt funds. And that is on a historical basis, extremely high. But it's a way to get floating rate capital or floating borrowing costs with optionality. And they're still able to price relatively tight

because to the point I made before but feel a market coming in. So, capital sources are going to step into where the banks are. And we saw this after the GFC when the banks were in a similar situation and everybody is talking about the shadow market and lenders popping up in the shadow market. So, capital we provided through the shadow – shadow market, the life company market, the debt funds, securitized shops, the agencies. And while I don't love – and nobody in this market loves 50% of our market, which the banks comprise of, having issued right now – the market does appear to be pretty resilient for the right opportunities out there.

Spencer Levy
So, James, let me challenge you just to touch on one of the words you used. You used the word risk-on. And I think that word might strike some of our listeners as maybe a little bit too optimistic. And again, we're talking big picture versus small picture. So, let's turn the tide now and talk about this from a borrower's perspective. From a borrower's perspective, many of our listeners on this call, bought assets at the peak of the market, 2019 to 2022, and now we're dealing with refinancing challenges or dealing with assets that have values that have fallen 20%, 30% or more. What are we telling those borrowers in those situations?

James Millon
Yeah. So, the risk-on comment that I made was really in the investor community right now. So, when we think about spreads coming in, those are investors that are looking at liquid markets and saying the risk return profile doesn't make any sense and this is a great time to buy, right. They're seeing all in generational yield that they haven't seen before. And I think that that case can be made for commercial real estate investing as well. And, so, what we're seeing now is actually pretty interesting. On a go forward basis, a lot of the institutional capital – and what we call institutional capital are those are groups that are generally transacting in the $100 million and plus threshold – they've become activated. They are now using this at a moment in time to recycle capital, to get in front of refinancings that are coming up and to get ahead of what they believe is going to be a rate cutting and a risk taking environment, and probably a generational opportunity for many. I would say in terms of borrowers that acquired assets and those vintages that you mentioned that are now bumping up against an extension option or hard maturity date, right – I think for the most part, we have to remember that commercial real estate is not a mark to market asset is being forced to mark the market because of maturity date right now. I think for the most part, lenders are working with their borrowers, right. Where the borrowers are showing commitment, where there might be a situation where they have to put some cash in to carry it for a little bit, maybe top up some reserves. They're willing to enter into extensions, even restructurings, even modifications. It's going to be better for both parties if we can just bridge our way to the other side. And that's not necessarily taking a view that we're going to need cap rate compression to get out of situations. It's just this moment in time where liquidity is impaired and everybody acknowledges it. Getting to the other side of that is going to be a much better outcome for everybody involved.

Spencer Levy
So, let's ask final thoughts now, James, before you give us your wrap up comments at the end. Timing, you mentioned that now's a very good time to be speaking to your lender, but you are talking about maybe bridging to a future period of time when interest rates might be lower. What are we talking to your clients about? About timing of action, whether it be refinancing recapitalizing or otherwise?

James Millon
Yeah, I mean, that's a tough one because everything is so case by case and that's how the market is analyzing the opportunities right now. I mean, first you should always be talking to your lender. There's an old saying that, in certain markets and certain asset classes that I'm sure will hit on. The only lender out there is your existing lender. Right. And, so, you need to be in that constant communication with them. It's a relationship business anyway, much like we are with many of our clients. And, so, you have to get in front of maturities. We know that you have to give yourself a little bit more time to plan for, because of the uncertainty around rates and the volatility that we've all been talking about now. But, I think for the most part, it's really case by case. And a lot of the negotiations and restructurings that are happening behind the scenes are very quiet. But, this happens once every ten years. And then again, we'll be on the other side of this and a much better story.

Spencer Levy
Thank you very much, James. And I'd like to now invite to the call three of our vertical leaders, led by Kelli Carhart, our Head of U.S. Multifamily. Chris Decoufle, Head of U.S. Retail. And Chris Riley, President of Industrial. So, Kelly, let's start with multifamily. And multifamily has been one of the shining stars of our business for a very long time. Fundamentals have been great, been a lot of building. But, certainly we have now seen some pullback. What's going on in the multifamily market?

Kelli Carhart
Yeah, there's certainly a lot of headwinds in multifamily right now. I mean we're in a period where we're in peak deliveries, over 450,000 units delivering this year. To put that in perspective, that's a level we haven't seen in almost 50 years. Most of these deliveries are in the Sun Belt. And the reason why? That's where demand is highest – 61% of deliveries nationally are in the Sunbelt and that's causing some slippage in occupancy. And we're seeing rent deceleration and even negative rent growth. Conversely, there's markets like the Midwest, in the Northeast, where we're seeing rent growth and that's really due to limited supply and starts. Markets like Chicago, Indianapolis, Washington DC and Boston, have really strong metrics. So, what does that mean nationally? Nationally, we're going to be below average in rent growth, probably flat, maybe up slightly and occupancy is going to slip a little bit. But, considering all the deliveries, rent demand has been fairly strong.

Spencer Levy
And Chris Decoufle, let's talk retail. And I say this with real pride because for a long time retail was not on these calls and it wasn't on these calls because the story wasn't so positive. But we welcome you both personally and as an asset type. Tell us what's going on in retail.

Chris Decouflé
Yeah, thanks for having me, Spencer. It is good to be on the big stage for sure. Retail is a fascinating product type in that when we think about retail, what are the two big drivers that are pushing investors, both institutional or otherwise, into the sector? It really comes down to two things. It comes down to number one fundamentals. Fundamentals being that we've not had any new material supply in the last 12 years. So, now we're in a place where rents have grown. We have no new supply. Landlords have more power than they've ever had in terms of leverage with debt. It's not just on rents but also lease terms. So, even if you could make a development pencil out, you actually can't find a site. So, the fundamentals, the nature of this, you know, some people are calling this permanent supply demand imbalance. That's very real. And if you own a significant amount of retail, you can see that on the asset level. The other thing is people look at it as an asset class and if you look at

our entire books – for example, our group has a book about $10 billion, primarily open air retail. And if you look at that entire book, the entire book that we're marketing is all positive leverage. It's either neutral or positive leverage. And that's really unique, because when you think about total return and you can look at your total return and say, a real large chunk of that is card cash flow, that really de-risk an investment. So, if I say I've got a 12 roundtrip core plus return in one asset class, but 80% of that return is reversion versus retail, or maybe it's 50%, 60%. It's a very, very different risk profile as you start to dig into it.

Spencer Levy
And Chris Riley, welcome our President of Industrial and welcome back for your asset class. And I would also say though, that even though industrial has done exceptionally well over the last decade, we have seen some softness recently, maybe a little bit of overbuilding, a little bit less absorption. But in your words, Chris, what's going on in the area?

Chris Riley
Sure, Spencer. And I want to say I'm used to industrial batting leadoff, so I'm really wondering why we're demoted to the third spot. Obviously, Decoufléis very happy with this. I want to talk about the capital markets for industrial, and let's start with something that isn't measurable and that's investor sentiment, which really improved throughout the first quarter and has stayed that way up until current. Investors are not trying to time the market anymore and they think that they're now buying into an improving market. Two, the buyer pool and bid sheets, which Decoufléand Kelli have also commented on, have really expanded, with most institutional investors seeking to deploy capital. The notable absence has been the open-end core funds that are in the Odyssey Index. They're not active yet, and then when they are, it's on a very small scale. Pricing really sharpened in the month of March and cap rates compressed by 20 to 50 basis points. Now, with the expansion of interest rates in April, we've seen yields level out. But, I expect that if we do see those rate cuts that Richard, reflected on, I do think the cap rates have the ability to sharpen even more. Despite the recent interest rate volatility, re-trading and or dropping of deals is not present in the market today, which was very present in the third and fourth quarter of last year. In fact, we've not seen any re-trades or dropping of deals so far. Sales volume is down year over year, but our pipeline of BOVs, new offerings and deals under agreement is up 2x to 3x. So, we're very encouraged about where we're heading towards the end of the year. There are a select group of institutional investors that are targeting large ticket offerings, $500 million and more in portfolio sizing. So, the ceiling for portfolio executions has increased and for the right curated portfolio, those can trade at par to the more tactical size deals. Lastly, negative leverage pricing still exists for value added deals with mark-to-market stories.

Spencer Levy
Kelli, let's go back to you now. Let's get a little bit more granular. A lot of the deals that I mentioned in our earlier discussion that were bought in that 2019 to '22 vintage, have seen significant value decreases, and many of our borrowers have to refi. How are they dealing with it, are we seeing a huge spike in refi and or recapitalization activity, sales activity, or both?

Kelli Carhart
Great question. What we've seen with a lot of those maturities is that the banks and debt funds are willing to work with the borrowers to buy them more time. I think most of the space is very fairly convicted that overall demographics and then those owning versus

renting premium that exists, up 40% today, is going to persist for a while, making renters more favorable. And, I think that if there's an opportunity to work with people, they will. If they're out of capital, then we're seeing these deals hit the market, but not in scale. And when they are in the market, anything with a stress or distressed moniker is getting a lot more activity, not the levels we saw. Actually, we're seeing maturities being kicked out to ‘26, ‘27.

Spencer Levy
Chris Decoufle, a lot of people, when I look at the retail business, think it's a national business because you can have a retail center in one market that has the identical tenancy in the other. But, really, at the end of the day, it's a local business. Tell us about how that dynamic is working today from an investor standpoint.

Chris Decouflé
It's a great, great point, Spencer. And I think that in previous incarnations when capital went to the sector, I don't think that was well known. I think it was sort of viewed as similar to other product types – and let me have the occupancy for the entire market, whether it's a market or a city or region, really, it's almost a corner to corner business, a neighborhood, a neighborhood, a business. And, so, using that lens to think about where are the opportunities – it's interesting. Number one, we have something in retail called a knowledge premium. Knowledge premium is something that we refer to as if you know how to choose real estate better than anyone else and run retail real estate better than who else you have a real advantage of in this market, because you can get outsized returns in markets, say, like the Midwest, that you can't get at sort of a gateway city. And, so, if you look at history retail, like many of the product classes – let's focus on the Gateway City, let's focus on the coast, this flyover area we're not as focused on. But now as we look at it, certainly we see great returns and great performance in the Sun Belt, but there are some real surprises. For example, the Midwest, cap rates in the Midwest are 50 to 100 bps higher than, say, the Sun Belt, the same performance levels, and you still have the same rarity of great sight. Certainly, I think what we're seeing is capital in all forms, whether it's private or institutional. They're backing off primary markets only, gateway markets only. They're getting secondary tertiary. It's funny, I just thought of a story. We're building a power center in Savannah, Georgia, and in the first round there were 22 offers. Okay. And a good chunk of those were all cash institutional offers. If we took offers on that same asset in 2019, we would have two to four offers and they would all go to the best at five. So, it's a very different market than it used to be. And by the way, this deal that we're talking about in Savannah, great fundamentals, everyone on the call would own it. But again, smaller market.

Spencer Levy
Chris Riley, even though you batted third on this section today we're going to give you the final word. And the final word is on industrial, you mentioned that, our investors are moving upmarket looking at larger deals. Tell us a little bit about who these investors are. Is there any foreign money and what asset types are looking most attractive?

Chris Riley
Sure. Let's start, Spencer, with those that are most active in the market today and that's the separate accounts. They have been and remain very active for core and core plus offerings. They see this as a buying market while the core funds are on the sidelines and their sweet spot is $50 to $100 million. Closed-end funds are also active, as they were mostly on the sidelines last year, and they're feeling the pressure to deploy that committed capital. They are targeting all risk profiles – value add, core plus core. So, they're a very

deep audience of buyers and they are national in scope and scale. There are several NTRs that are activating and are making offers for core and core plus. They're seeking durable income profile properties, and we expect this to gain momentum as private investors gain confidence in the real estate sector. Several insurance companies are filling the gap for the big core funds that are on the sidelines, and they're targeting core industrial for acquisition. They want solid long term – that lease properties that offer, again, durable income. The private family offices last year were one of the most active investors, and they're active for a different reason. They see this as a generational buying opportunity for below replacement cost value and irreplaceable locations. So, they're not pushed out of the market yet as cap rates tighten and I expect that to happen. But, they remain very active right now. And then you mentioned foreign capital. Foreign capital is very active for large scale offerings. And that basically starts at $500 million and runs well north of $1 billion. Now as you get north of $1 billion, they expect there to be a pricing discount in the marketplace. And I would tell you, around $500 million if you curate the right portfolio of properties, those properties will trade at a portfolio level at par to the sum of the parts if you did multiple tactical size execution. So, as you can see, there is a deep pool of investors for industrial.

Spencer Levy
Thank you Chris Riley. And I want to thank Kelli Carhart, Chris Decouflé, Chris Riley, great job.

Spencer Levy
Great job indeed to one and all who contributed to this update. Thanks to everyone on the CBRE Capital Markets team who contributed to the insights on this flash call and behind the scenes. And thanks to you for joining us. You can find more economic viewpoints at the landing page for CBRE Insights, including more from this flash call and the results of a related survey conducted by James Millon. You can also visit our show's homepage at CBRE.com/TheWeeklyTake. You can share the episode and more. And of course, we hope you subscribe, rate, and review us wherever you listen. We'll be back to our regular programming next week with a conversation that features the world's largest industrial REIT to talk about the state of a sector that's been reliably hot. Is that trend going to sustain? Also, a peek behind the forecasting curve. How the game is played. In a conversation with a thought leader who was recently recognized by the *Wall Street Journal* as the most accurate forecaster in the business. Thanks again for tuning in. I'm Spencer Levy. Be smart. Be safe. Be well.