AEGON
Asset Management

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Real Assets

US CRE MARKET INSIGHTS

CONTENTS

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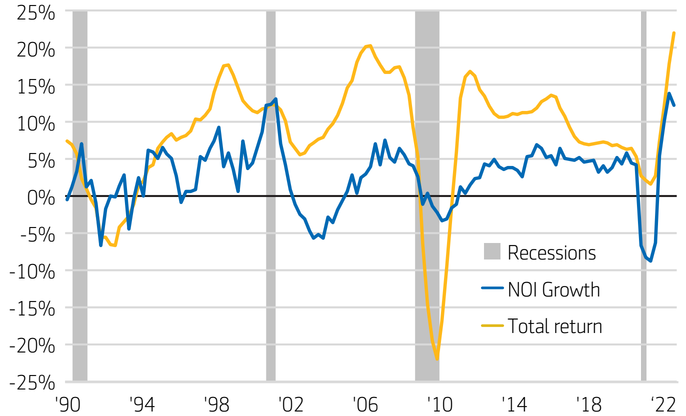
US commercial real estate (CRE) investment performance continued to soar in the first quarter of 2022 with wide disparities between property types. The National Council of Real Estate Fiduciaries (NCREIF) Property Index delivered an incredible total return of 21.9% for the four quarters ending in March 2022. Income return amounted to 4.2% and capital appreciation amounted to 17.2%, both for the four-quarter period. The industrial sector produced a total return of 51.9% in the same period, followed by the apartment sector producing a 24.1% total return. In comparison, retail and office produced a 7.1% and 6.8% total return, respectively.[1] Fundamentals for CRE are increasingly uncertain as economic data published for the first quarter show signs of a slowing economy, with advanced estimates of first quarter real GDP growth slipping to negative 1.4%.[2] Determined to get the continuing problem of inflation under control, the US Federal Reserve (Fed) increased interest rates by 25 bps in March, 50 bps in May, and expects to continue raising rates in 2022. The economic future continues to be clouded by Covid-19 and the war in Ukraine has added to disruption and uncertainty.

Cyclical, structural and geopolitical challenges in play for US CRE

First quarter US CRE investment performance reported by NCREIF's National Property Index (NPI) offers a continuation of the extraordinary total returns produced during 2021. Total return for the year ending March 2022 reached a whopping 21.9% besting the 17.7% reported for 2021. Industrial continued to lead with 51.9% total return followed by apartments with 24.1%. Retail clocked in far behind at 7.1% with office even weaker at 6.8%. NPI income return held steady at 4.2% for the period while appreciation registered 17.2%.[1] These results illustrate a continuation of forces underway in the later part of 2021 including recovery from the Covid recession helped along by the federal support policies enacted earlier in 2021. Additional performance drivers include sustained spending online with speedy delivery stimulating demand for industrial space and constraining demand for retail shop space, and ongoing disruption in office space occupancy and absorption reflecting work-from-home uncertainties. Even though these stunning results are welcomed, investors are eyeing the challenges ahead.

NCREIF Property Index, year-over-year change (1990 – 1Q 2022)



Source: NCREIF Property Index Detail Report as of March 31, 2022. Shaded areas indicate US recessions. Past performance is not indicative of future returns.

The most immediate challenge is the shift toward tightening in US monetary policy in response to the sharp rise in inflation. In its first post-Covid tightening move, the Fed imposed a 0.25% rate boost in March with a meatier 0.5% increase in May, and even more expected later in the year. Separately, the Bank of England has tightened three times since December while the European Central Bank is discussing the possibility of rate hikes for later this year. In this environment, the US yield curve has flattened, and the 10-year Treasury rate briefly surpassed 3% but backed down suggesting that financial markets have confidence in Fed policy.[3] Commercial mortgage lenders are absorbing some of the rate increase by squeezing spreads but borrowing costs are increasing albeit with ready availability. The increase will make it tougher for investors to hit performance targets if historically low borrowing costs had been assumed to continue indefinitely.

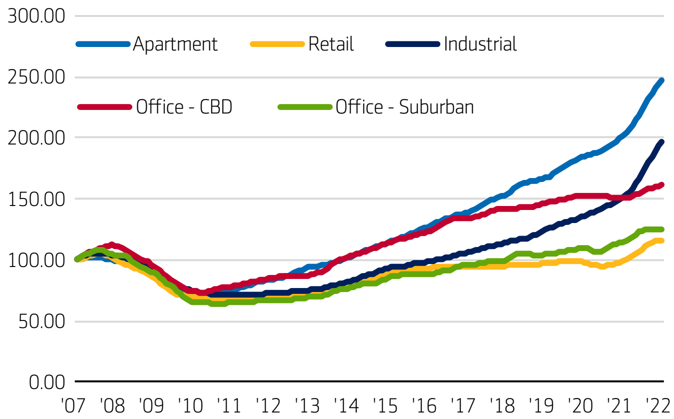
The larger challenge involves the possibility that monetary authorities will fail to engineer a "soft landing" and cause a recession by tightening too much. The potential for overshooting is not immaterial because of the complex forces driving inflation and the crudeness of interest rate tightening as a policy tool. Higher interest rates operate largely by constraining interest sensitive spending on big ticket items. Vehicle sales and homebuying are the most vulnerable and they are already responding. Spillovers from homebuying, including purchases of all types of home goods, will follow. Financial spillovers from marking fixed coupon instruments to market are also underway. These effects are headwinds pushing back on the demand side of the economy and the inflation embedded in it.

Interest rate tightening can constrain demand, but today's inflation has supply side drivers as well, including war and Covid. Energy and food inflation reflect in part the war in Ukraine. Higher interest rates will ease price pressures only by slowing aggregate demand for these items and everything else. At the same time, Covid disruption is lingering, especially in China where lockdowns are again underway. The resulting slowdown in exports from China is exacerbating supply chain glitches that were beginning to abate earlier this year. Higher interest rates may take some pressure off demand for imports as economic growth slows but tools to address war and Covid directly are not in the monetary policy toolbox.

The full impact of these challenges on property performance and investor decisions are slowly emerging. One early hint may be seen in the flattening in property prices noted in the March

CPPI calculated from transaction closing prices by Real Capital Analytics. That index was up 17.4% year-over-year in March but down 0.4% separately for the month of March, the first decline since June 2020. Price declines were confined to the retail and suburban office sectors while the red-hot industrial and apartment sectors continued to show increasing prices.[4] This disparity illustrates the ongoing influence of structural changes affecting property sectors.

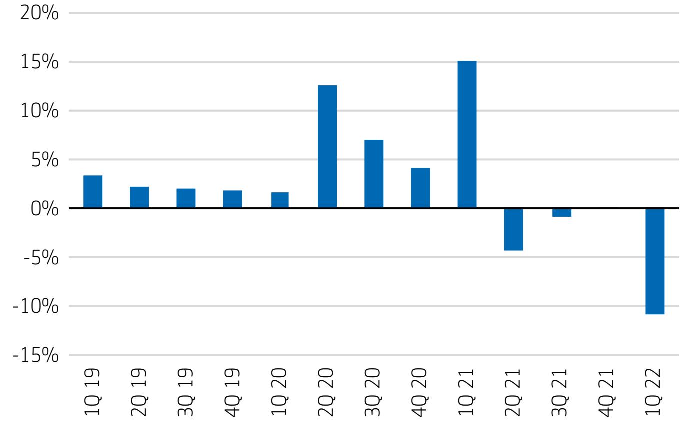
RCA US Commercial Property Price Indices



Source: RCA US CPPI Report as of March 31, 2022.

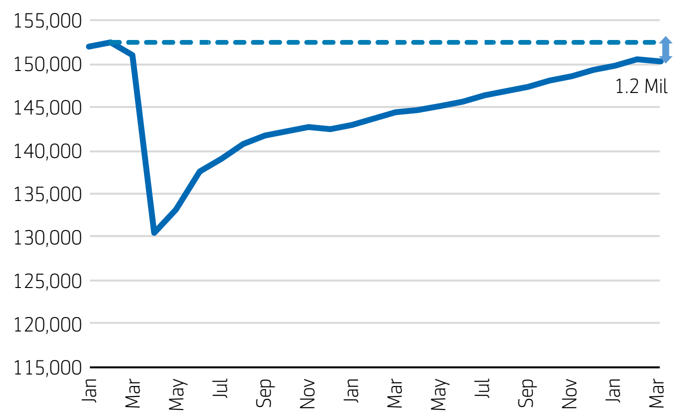
With advanced estimates of first quarter GDP growth slipping to a negative 1.4% after inflation, it is likely that the economy was already slowing before the actual interest rate tightening in March and before Russia attacked Ukraine on February 20, 2022. The first quarter decline was due largely to drawing down the inventories that were replenished during last year's fourth quarter. Exports and government spendings were also negative. On the brighter side, consumer spending growth was somewhat stronger than prior quarters even after accounting for inflation. Inventory restocking may provide some positive growth momentum going forward but muted by consumers' diminishing capacity for spending. Accumulated savings from federal Covid support programs is shrinking. Those programs are now finished with the last of the expanded child tax credits paid out in this year's April tax return refunds. Reflecting the end of these programs along with the bite of inflation, disposable personal income in the first quarter was almost 11% below its year ago level.[2] A further constraint on growth is the waning strength of the snap-back from the Covid recession as illustrated by the shrinkage in the employment shortfall to 1.2 million jobs in April from the pre-Covid total.[5]

Real disposable personal income year-over-year change (2019 – 1Q 2022)



Source: US Bureau of Economic Analysis as of April 29, 2022.

Non-farm employment



Source: US Bureau of Labor Statistics as of May 6, 2022.

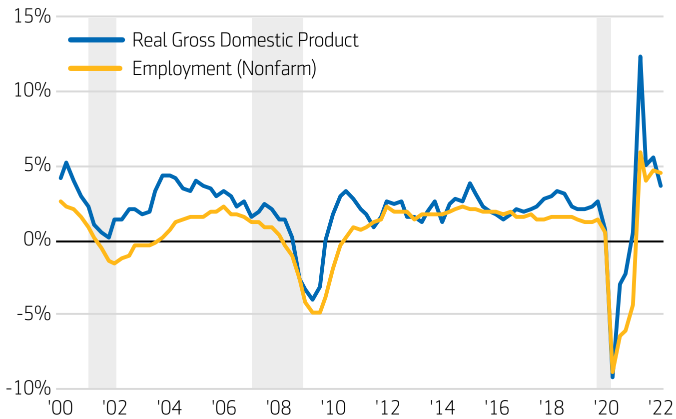
Looking forward, the Blue Chip Survey of 47 economic forecasters expects 2.6% real GDP growth this year reported in May. This is down from the 3.2% reported in April and 3.5% in March. Next year, forecasters are expecting a 2.1% growth rate which is in line with the long-term 2.2% trend growth achieved for the last two decades.[2,6] Projections for inflation and interest rates in 2022 have changed more sharply. Forecasters projected 7.1% consumer price index (CPI) inflation for 2022 in the May survey and a 2.7% average for the 10-year Treasury yield. In December, the consensus called for 4.4% CPI inflation and a 1.9% average 10-year Treasury yield. Forecasters are expressing confidence in a soft-landing with 2023 CPI inflation pegged at 3.2% with 2.1% trend-like growth.[6] These positive expectations are rooted in tight labor market conditions producing solid wage growth, positive consumer expectations, and ongoing strong investment in equipment, software, and R&D.

If they materialize, such conditions imply that the national business cycle will provide a benign environment for US CRE through this year and next. But structural challenges and opportunities will remain at play.

Economic outlook

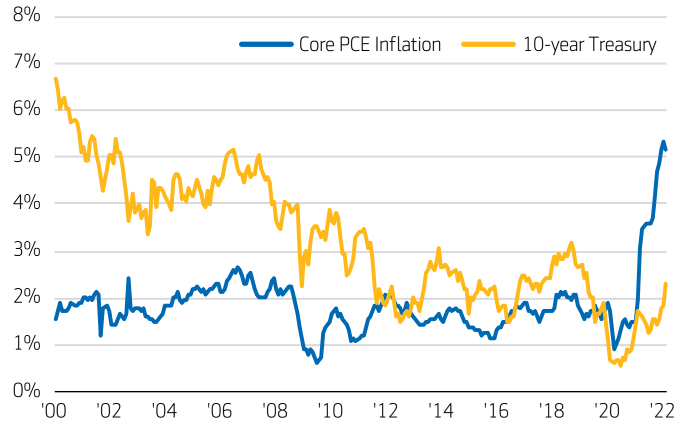
- Economists expect a slower pace of growth in 2022 and 2023 with real US GDP projections of 2.6% and 2.1%, respectively. This pace of growth in largely in line with the historical average of +/- 2%.[6]
- The job market is expected to remain tight for 2022. Constrained supply of workers is outweighing the impact of recent surges in Covid-19 infection rate. Job openings remain near record highs, and initial unemployment claims are trending below pre-Covid levels. The labor force participation rate improved slightly over the first quarter, but employment remained 1.2 million jobs below its pre-Covid peak.[5]
- Supply-chain bottlenecks have been and will likely continue to be the dominant force driving inflation for much of 2022. The CPI continued its rise in the first quarter of 2022, reaching a year-over-year increase of 8.6% in March and then decreasing slightly to a rate of 8.2% in April.[7] As a result, the Fed has tapered off its asset purchases and increased interest rates by 0.25% in March, 0.5% in May, and plans five additional rate hikes in 2022 along with asset sales.
- Altogether, expectations for slower economic growth create new concerns for property investors. However, the strong labor market, rising wages and continued strong consumer spending amid inflation are positive signs for CRE prospects. The abundant availability of commercial mortgage debt despite tightening monetary policy also bodes well for property investors.

Real GDP and employment growth (year-over-year %)



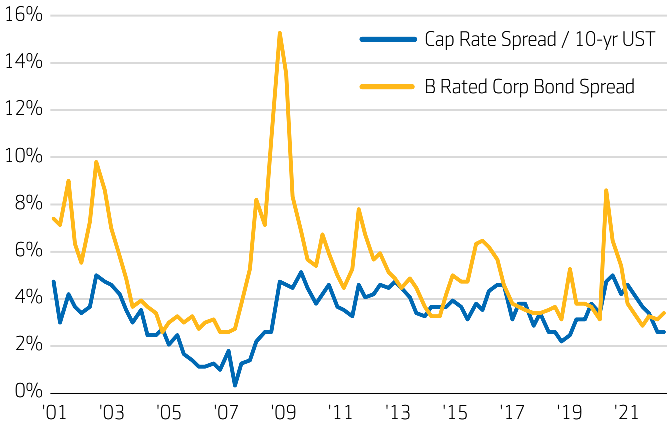
Sources: US Bureau of Labor Statistics, May 6, 2022. Bureau of Economic Analysis, April 28, 2022. Employment figures reflect private and government non-farm jobs. Shaded areas indicate US recessions.

Core personal consumption expenditure (PCE) inflation and 10-yr Treasury



Sources: US Bureau of Economic Analysis, as of April 29, 2022 and US Department of Treasury, as of March 31, 2022.

Corporate bond and cap rate spread*

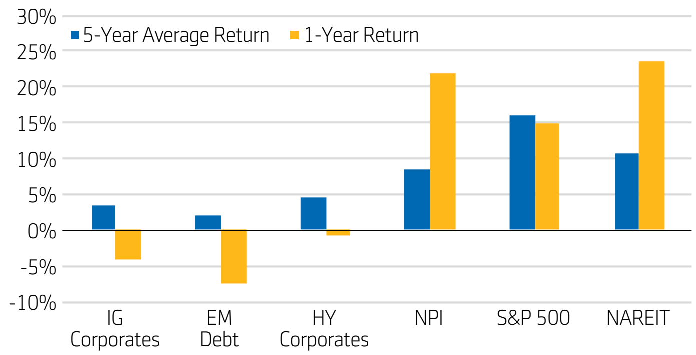


Sources: Aegon Asset Management. Bloomberg - US Corporate B Rated Bond OAS, as of March 31, 2022. NCREIF Transaction Cap Rates, as of March 31, 2022. Federal Reserve – 10-year UST, as of March 31, 2022. *Average cap rate less 10-year UST. Past performance is not indicative of future results.

Real estate equity

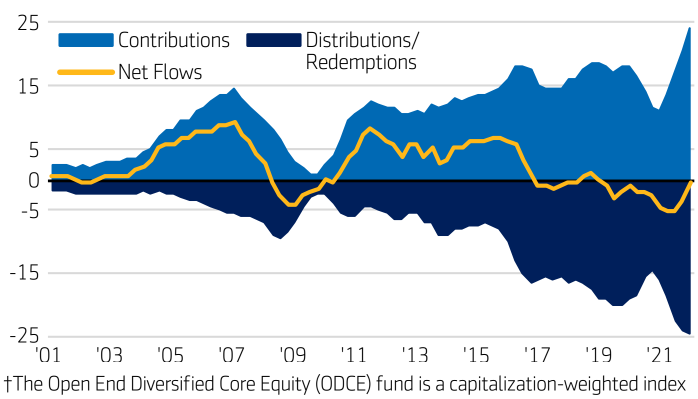
- The trailing one-year return for the NPI, a measure of unleveraged returns, was 21.9% in the first quarter of 2022 compared to 2.6% a year ago. Capital appreciation was reported as 17.2%, with income return at 4.2%.[1]
- Industrial property performance continued to outpace other sectors with a 51.9% total return for the year ending March 31, 2022. Very strong industrial returns were the drivers of overall NPI total return in many of the top outperforming metro areas. At the other end of the spectrum, office property returns totaled 6.8% for the past four quarters.[1]
- Within property sectors, subtypes continue to show broad dispersion in performance. The range is particularly wide in the retail and apartment sectors where there is an 8.7% difference in one-year total return between community retail centers and regional malls, and an 13.9% difference in one-year total return between garden and high-rise apartments.[1]
- The NCREIF Fund Index for Open-ended Diversified Core Equity (NFI-ODCE) returned 28.5% gross of fees and inclusive of leverage during the year ending in Q1 2022 with a 7.4% return in the first quarter separately. Over the last 10 years, the NFI-ODCE averaged a 10.2% annual return. ODCE's diversified core properties typically reflect lower risk CRE with relatively low leverage.[1]
- During the first quarter of 2021, NFI-ODCE investor's contributions exceeded distributions and redemptions by 11.9%. This was the second quarterly net inflow since the beginning of the pandemic. The level is also the highest ever recorded since the inception of the fund. Net investor cash flows for the year as a whole were still negative. Compared to the fourth quarter of 2019 pre-Covid level, contributions are now 49.5% higher.[1]

Return comparison



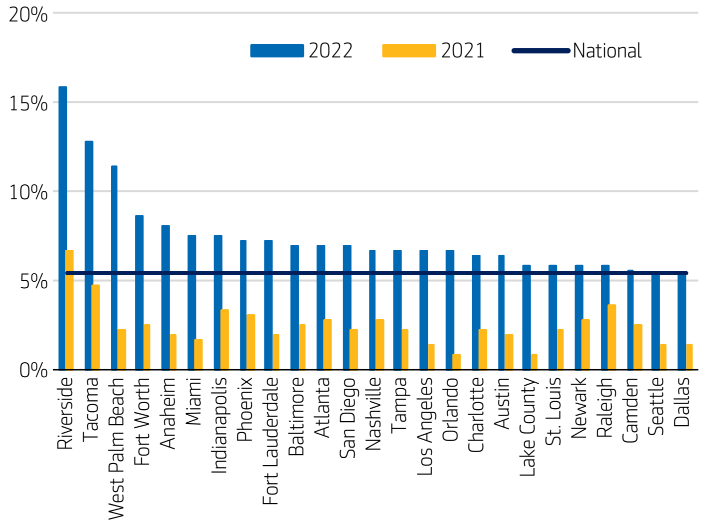
Sources: Corporate Bonds and EM Debt - Bloomberg, March 31, 2022. NAREIT, March 31, 2022. NCREIF, March 31, 2022. S&P Dow Jones Indices, March 31, 2022. **Past performance is not indicative of future results.**

NFI-ODCE investor cash flow trends (four quarter rolling total, $Bn)†



†The Open End Diversified Core Equity (ODCE) fund is a capitalization-weighted index based on each fund's Net Invested Capital, which is defined as Beginning Market Value Net Assets (BMV), adjusted for Weighted Cash Flows (WCF) during the period. Annual rates (Appreciation + Income). Source: NCREIF. As of March 31, 2022.

Top 25 metros by total return (1Q 2022)‡



Source: NPI – NCREIF as of March 31, 2022. ‡Limited to NCREIF markets with greater than 40 properties. **Past performance is not indicative of future results.**

Trailing four quarter return by sub property type (%)

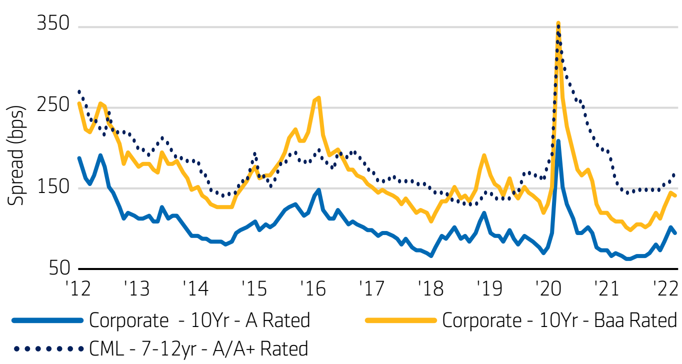
	1Q 22	1Q 21	Trend
NPI	21.9%	2.6%	19.3%
All Apartment	24.1%	2.6%	21.5%
Garden	33.4%	7.0%	26.4%
Highrise	19.5%	0.3%	19.2%
Lowrise	25.3%	3.9%	21.4%
All Office	6.8%	1.3%	5.5%
CBD	3.7%	-0.2%	3.9%
Suburban	10.9%	3.4%	7.4%
All Industrial	51.9%	14.1%	37.8%
R&D	32.7%	14.9%	17.9%
Flex	50.1%	11.1%	39.0%
Warehouse	52.1%	14.3%	37.8%
Other	52.3%	9.8%	42.5%
All Retail	7.1%	-6.0%	13.0%
Community	11.2%	-2.7%	13.9%
Neighborhood	10.6%	0.0%	10.6%
Power Center	9.5%	-1.8%	11.3%
Regional	2.6%	-10.0%	12.6%
Super Regional	5.9%	-8.7%	14.7%

Source: NCREIF Property Index Detail Report. As of March 31, 2022. Trend is the year-over-year change of sub property type trailing four quarter return. **Past performance is not indicative of future results.**

Capital markets

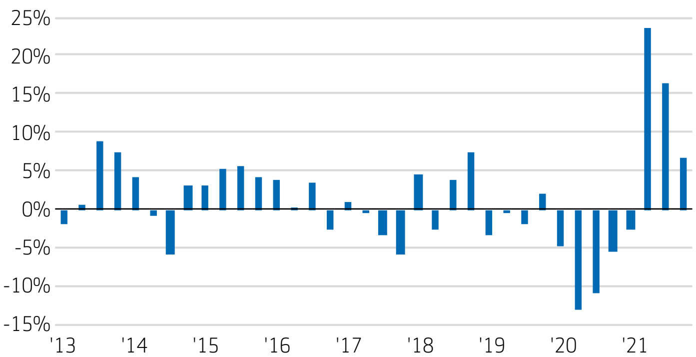
- Still-low interest rates supported a steady flow of property transactions and commercial mortgage originations at the beginning of 2022, but significantly less than the historic high levels seen in the fourth quarter of 2021. Transactions in the first quarter increased 56% compared to the same period a year ago but were down 53% from the fourth quarter of 2021.[4] Interactions with market participants suggest life companies continue to have a strong appetite for commercial mortgages in 2022.
- Office remained the most challenging sector through the first quarter of 2022 as employers continue to struggle with their return to office plans amid employee demands for flexibility. Leasing activities are likely to see further delays as tenants assess weakening business conditions and work-from-home challenges in the months ahead. The retail sector continued to recover. At the same time, the bulk of lenders' appetite remained focused on industrial, multifamily, and the grocery-anchored subset of retail. Such focus has resulted in a very competitive environment, though underwriting standards remain highly disciplined. However, lenders are increasingly using interest-only periods as a competitive feature when coverage ratios and leverage allow.
- The 10-year US Treasury yield rose steadily in the beginning of the year and surged following the Fed's March tightening and potential for additional rate hikes in 2022. The 10-year US Treasury yield rose from 1.5% at the end of 2021 to over 3% for a brief time in early May.[3] At the same time, spreads for commercial mortgages rose by 20 bps in the first quarter of 2022. Financial markets are digesting whether monetary tightening will ease inflation pressure, but daily market moves suggest ongoing solid confidence. Reflecting these developments, the majority of life company loan transactions are executing with a gross coupon of 4.0% to 4.5%, with higher quality pricing close to 4.0%.

Historical spreads (Corporate A, Baa & CML)
January 2012 – March 2022



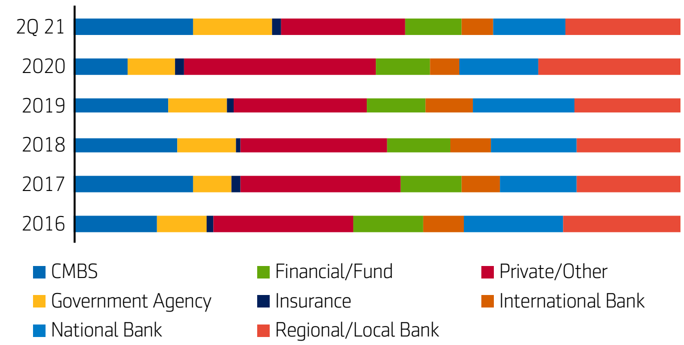
Sources: Corporate Bonds – Bloomberg Barclays. Aegon Real Assets US Commercial Mortgage Mark-to-Market Matrix - A/A+ Internal rating using Proprietary CML pricing matrix, developed and maintained by Aegon Real Assets US as of March 31, 2022. **Past performance is not indicative of future results.**

Commercial mortgage commitments
(Life companies — trailing four quarters, quarter-over-quarter change)



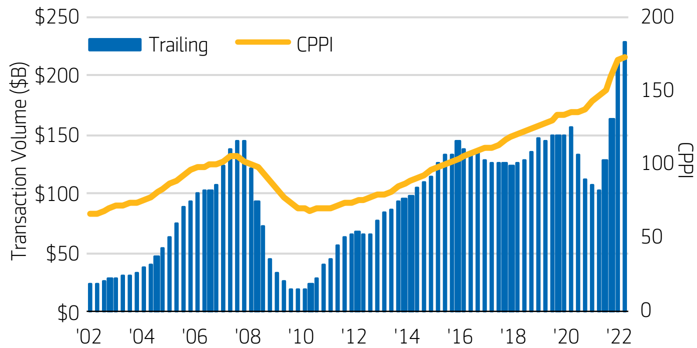
Source: American Council of Life Insurers (ACLI). March 31, 2022.

US lender composition



Sources: Real Capital Analytics – US Capital Trends Report, December 31, 2021.

CRE transaction volume and commercial property price index
Trailing four quarter — all property types



Sources: Aegon Real Assets US. Real Capital Analytics. As of March 31, 2022.

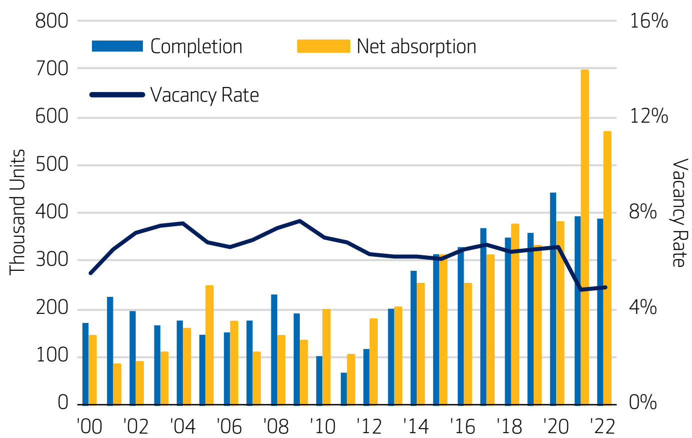
Transaction volume by property type			
	1Q 22	1Q 21	YoY changes
All Office	$35.1 B	$22 B	59.3%
CBD	$11.6 B	$7.6 B	53.0%
Suburban	$23.5 B	$14.4 B	62.6%
All Industrial	$33.9 B	$22.6 B	50.0%
Flex	$8.3 B	$4.5 B	86.2%
Warehouse	$25.6 B	$18.1 B	41.2%
All Apartment	$63 B	$40.3 B	56.4%
Garden	$41.4 B	$28.6 B	44.7%
Mid/Highrise	$21.6 B	$11.7 B	84.9%
All Retail	$18.6 B	$9.2 B	102.3%
Strip Center	$12.5 B	$4.3 B	191.1%
Mall & Other	$6.1 B	$4.9 B	24.8%

Source: Real Capital Analytics. As of March 31, 2022.

Apartments

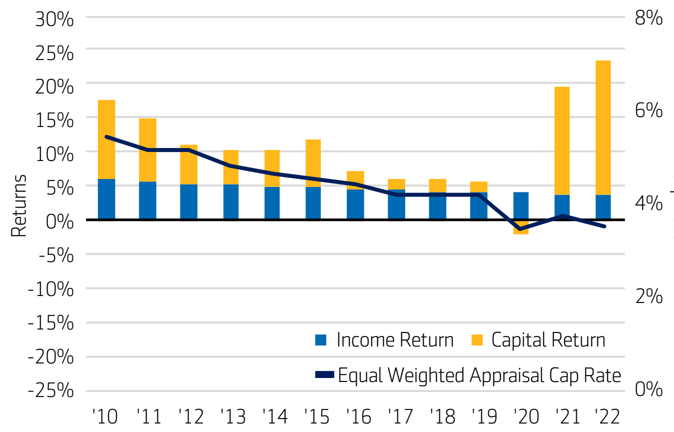
- National apartment vacancy ticked up slightly in the first quarter to a 4.9% rate from the historically low 4.8% in 2021. Apartment asking rent for the first quarter advanced 12.3% year-over-year.[8]
- Most of the top 50 most populous metros continued to see a decrease in vacancy rates. None of them saw a vacancy rate increase of more than 1%. Rent growth continued to be strong with all of the top 50 showing more than 2% year-over-year increases.[8]
- The NPI apartment sector produced a 24.1% unlevered total return for the most recent four quarters composed of 3.8% income return and 19.8% capital return. Garden-style apartments have been the best performing subtype over the last year with unlevered returns of 33.5% compared to 7.0% from a year ago.[1]
- Apartment equal-weighted appraisal cap rates during the first quarter of 2022 sat at 3.5%, slightly lower than the average 3.8% of 2021.[1]
- Apartment transaction volume in the first quarter was 56.4% above the level a year ago, but down 61.0% from the extremely high levels seen in the fourth quarter of 2021.[4]
- Demand for apartments has been supported by anemic single-family home construction over the last decade combined with maturation of the huge millennial generation; both contributed to soaring single-family price inflation in 2021. Rising mortgage rates on top of inflated home prices are restraining demand this year. Sustained economic growth corresponding to a soft-landing should support apartment returns through this year and next. As of March, year-over-year rent growth was positive across all the top 50 US metros, with an average of 13.3%. The Florida cities of Tampa, Orlando, Fort Lauderdale, and Palm Beach leading the pack with annual rent growth between 23.7% and 27.6%. New York, Minneapolis, Pittsburg, and Cleveland had the slowest rent growth, between 4.9% and 7.0%.[8]

Supply and demand fundamentals



Source: CoStar Reality Information Inc., annual data as of March 31, 2022. Current year returns reflect trailing 4-quarter average.

Apartment performance

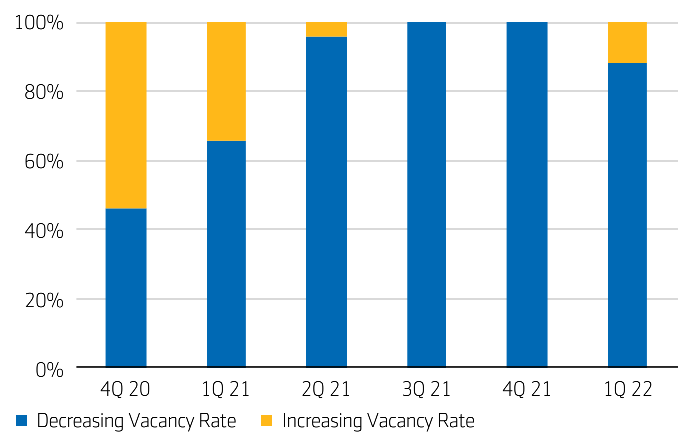


Source: NCREIF Property Index (unlevered) - Equal weighted appraisal cap rate as of year-end or most recent in current year, current year returns reflect trailing 4-quarter average, as of March 31, 2022. **Past performance is not indicative of future results.**

Apartment metropolitan statistical area (MSA) trends* (year-over-year rent growth)

Source: CoStar Realty Information Inc.; Aegon Real Assets US as of March 31, 2022.
*Based on a selection of 50 most populous markets.

Apartment MSA trends* (year-over-year vacancy rate change)

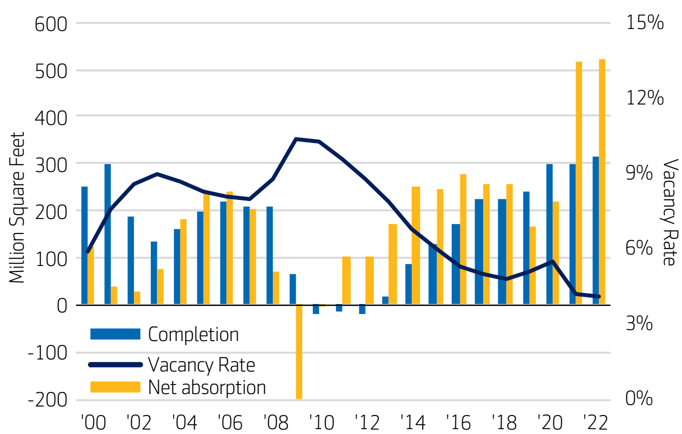


Source: CoStar Realty Information Inc.; Aegon Real Assets US as of March 31, 2022.
*Based on a selection of 50 most populous markets.

Industrial

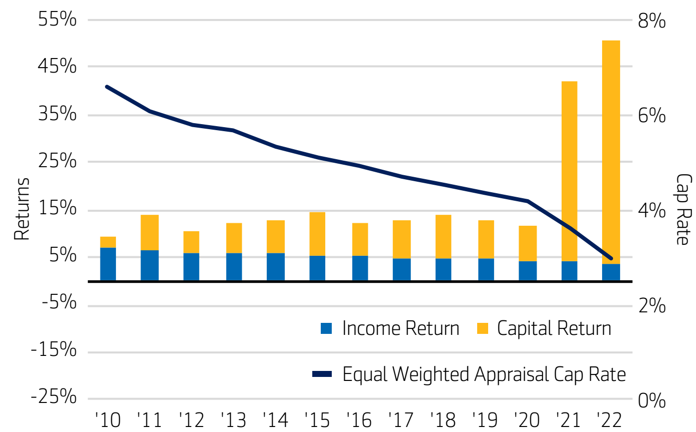
- The national industrial vacancy rate decreased to 4.1% in the first quarter from 4.2% at the end of 2021. Industrial asking rent for the first quarter advanced 11.1% year-over-year, faster than the 5.5% increase from a year prior.[8]
- Only 4 out of the top 50 most populous US metro areas saw industrial space vacancy rates increase but rent growth continues increase more than 2% in all of the top 50.[8]
- The NPI industrial sector produced an incredible 51.9% total return for the most recent four quarters, far exceeding the number two sector performance of 24.1% for apartment. Industrial property income return amounted to 3.9% while appreciation generated 46.7%.[1]
- Industrial cap rates associated with NPI appraisals averaged 3.0% on an equal-weighted basis, down from 3.6% in 2021.[1]
- Transaction volume for industrial properties was up 50.0% for the quarter compared to a year ago, but down 56.0% from the historically high volume seen in the fourth quarter of 2021.[4]
- For industrial, adjustment to the acceleration in online shopping and speedy delivery is combining with a drift away from holding "just in time" inventories to "just in case" as a lesson learned from Covid-related supply chain glitches. These structural forces have contributed to enormous warehouse demand, augmented by 2021's strong economic growth as the covid recession was resolved with strong fiscal and monetary policy supports. Demand demonstrated in leasing and property transaction prices appears to be insatiable but also reflective of "fear of losing out". First quarter NCREIF appreciation was weaker than the prior quarter suggesting easing momentum which will likely continue with weaker economic growth and resolving structural adjustments. As of March, year-over-year rent growth was positive across all the top 50 US metros, with an average of 11.0%. Miami, Fort Lauderdale, Northern New Jersey, and Las Vegas reported the highest industrial rent growth, between 16.2% and 19.1%. The slowest rent growth, between 5.5% and 6.5%, was in Houston, Saint Louis, San Jose and Cleveland.

Supply and demand fundamentals



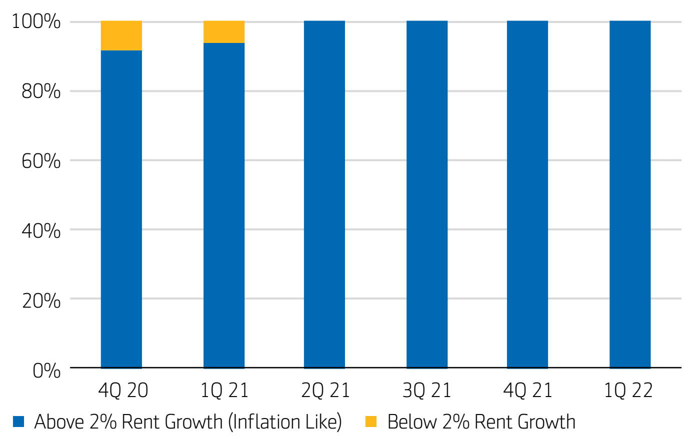
Source: CoStar Reality Information Inc., annual data as of March 31, 2022. Current year returns reflect trailing 4-quarter average.

Industrial performance



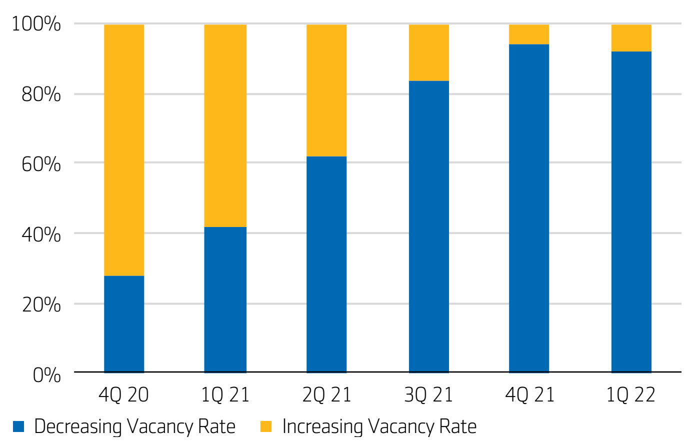
Source: NCREIF Property Index (unlevered) - Equal weighted appraisal cap rate as of year-end or most recent in current year, current year returns reflect trailing 4-quarter average, as of March 31, 2022. **Past performance is not indicative of future results.**

Industrial MSA trends* (year-over-year rent growth)



Sources: CoStar Realty Information Inc.; Aegon Real Assets US as of March 31, 2022.
*Based on a selection of 50 most populous markets.

Industrial MSA trends* (year-over-year vacancy rate change)

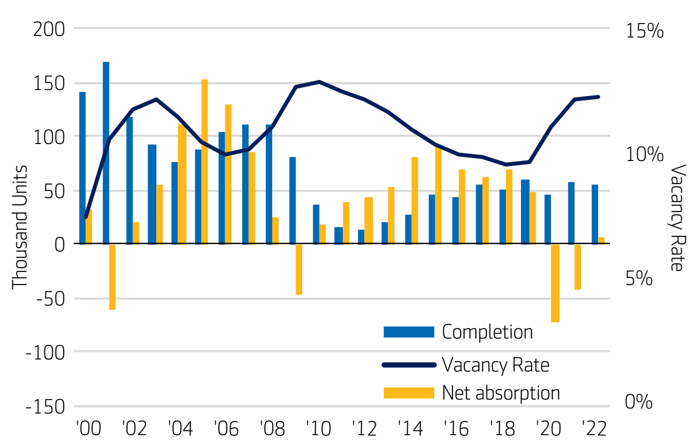


Sources: CoStar Realty Information Inc.; Aegon Real Assets US as of March 31, 2022.
*Based on a selection of 50 most populous markets.

Office

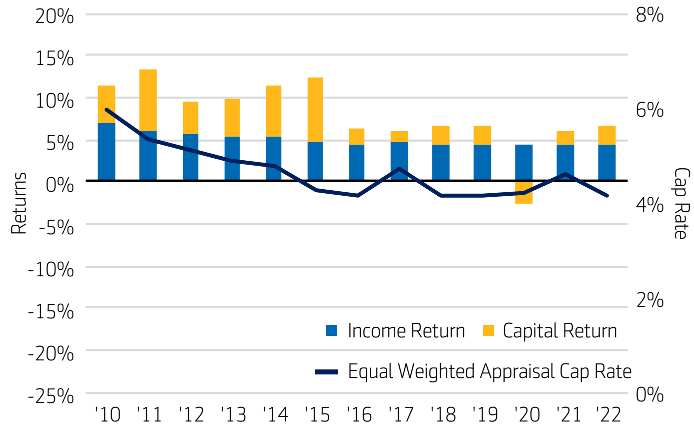
- Office vacancy rates increased in all but nine of the top 50 largest US metro areas, with only 17 of them producing rent growth above 2% in the first quarter of 2022. The national office vacancy rate remained at 12.2% in the first quarter, where it was at the end of 2021. Office asking rent for the first quarter advanced 0.9% year-over-year.[8]
- At the same time, the office sector had an unlevered total return of 6.8% for the past four quarters ending in March. This total return performance is the lowest of the four major property sectors. Income generated 4.4% return while capital appreciation generated 2.3%. Suburban properties returned 10.9% compared to central business district returns of 3.7%.[1]
- Office appraisal-based cap rates reported by NCREIF decreased to 4.1% on an equal-weighted basis, down 45 basis point from 2021's 4.6%.[1]
- Transaction volume for office properties in the first quarter totaled $35.1 billion, up 59.3% from the year prior, but down 37.3% from the fourth quarter's historic high. Compared to the same quarter in 2019, transaction volume has recovered and is up 22.0%, driven by suburban transactions with 28.51% increase while central business district (CBD) transactions were up 9.5%.[4]
- For office, structural forces are anything but benign. In mid-April, office occupancy hovered at 43% according to the Kastle Back to Work Barometer as employers slowly attempted return to the office.[9] Fear of Covid contagion is easing and almost all Covid restrictions and mandates are lifted despite a pickup in contagion in mid-May. At the same time, businesses are parroting support for hybrid work arrangements allowing office employees to spend part of the workweek working from home. A consensus appears to be forming around the expectation that such flexibility will appeal to most employees. While it will take some time to access whether such flexibility is sustainable and its impact on space needs, businesses are proactively offering space for sublease. Nationally, the availability rate was 15.6% in the first quarter while the vacancy rate was 12.2%. Leasing activity has picked up, however, and is in line with the long-term average according to CoStar. Yet, space demand is confronting a sizeable flow of new supply conceived pre-Covid which will keep a lid on rent growth. If Covid continues to fade, work-from-home will be the focus of office market uncertainty in the quarters ahead. Longer-term, the sector will need to address energy use, climate risk, and net zero carbon goals. As of March, average year-over-year rent growth in the Top 50 US metros was 1.7%, with Miami, Palm Beach, Providence, and Las Vegas exceeding 4.5%. Rent growth in New York, Washington DC, San Francisco, Richmond, Houston and Pittsburg was negative.[7]

Supply and demand fundamentals



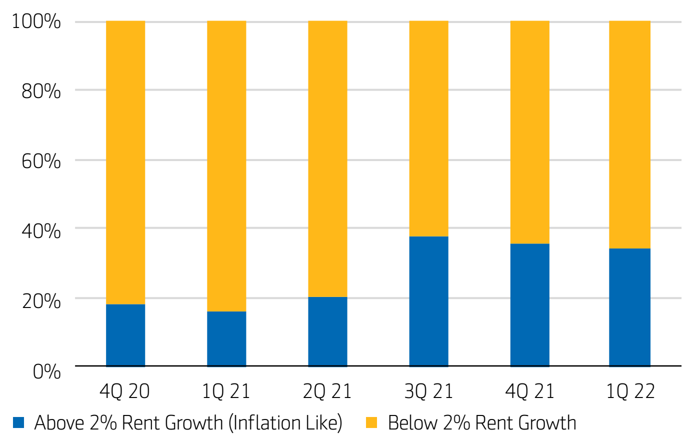
Source: CoStar Reality Information Inc., annual data as of March 31, 2022. Current year returns reflect trailing 4-quarter average.

Office performance



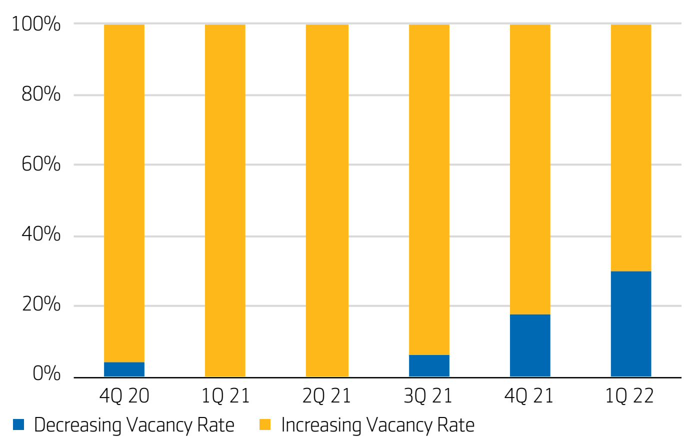
Source: NCREIF Property Index (unlevered) - Equal weighted appraisal cap rate as of year-end or most recent in current year, current year returns reflect trailing 4-quarter average, as of March 31, 2022. **Past performance is not indicative of future results.**

Office MSA trends* (year-over-year rent growth)



Sources: CoStar Realty Information Inc.; Aegon Real Assets US as of March 31, 2022.
*Based on a selection of 50 most populous markets.

Office MSA trends* (year-over-year vacancy rate change)

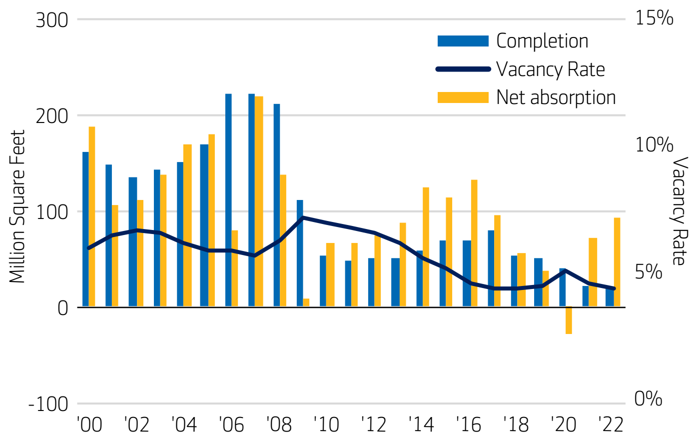


Sources: CoStar Realty Information Inc.; Aegon Real Assets US as of March 31, 2022.
*Based on a selection of 50 most populous markets.

Retail

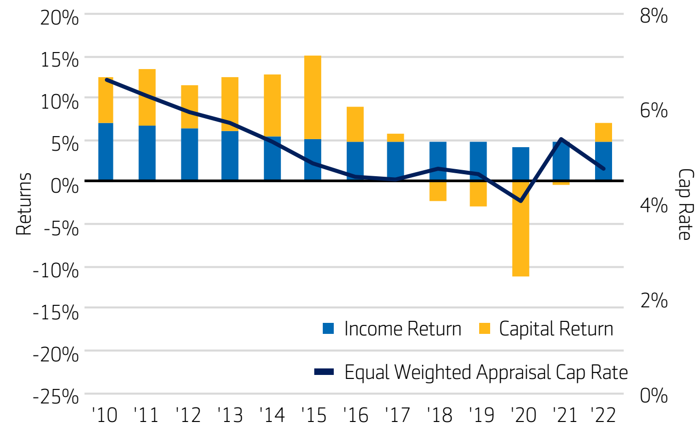
- The national retail vacancy rate decreased to 4.5% in the first quarter of 2022, down from 4.7% in 2021. Retail asking rent for the first quarter advanced 4.0% year-over-year. Moreover, 84% of the largest metro areas saw retail property rent growth outpacing 2% in the first quarter of 2022.[8]
- The retail sector delivered a 7.1% total return the past four quarters ending in March. Income generated 4.8% return while capital depreciated 2.1%. Within subsectors, community center properties performed best at 11.2% for the past four quarters, while regional mall properties performed the worst at 2.6%[1]
- Transaction volume for retail properties in the first quarter of 2022 was $18.6 billion, up 102.3% compared to last year, but down 49.4% from last quarter's historic high. Compared to the same quarter in 2019, transaction volume is up 50.3%.[4]
- The retail sector is looking much improved in NCREIF-NPI results for the first quarter as its total return moved ahead of the office sector. However, performance remains widely disparate across retail subsectors. Regional malls continue to underperform with many lower quality properties struggling with vacated department store boxes. Strip centers with grocery stores are doing better and have been for some time.[1] As Covid fears ease, demographics are once again the most important drivers of retail property performances combined as always with the quality of retailers. As of March, average year-over-year rent growth in the Top 50 US metros was 4.4%, with rent growth in Las Vegas, Fort Lauderdale, Jacksonville, and Nashville exceeding 8.7%, while rent growth San Francisco, Northern New Jersey, and Saint Louis was negative.[8]

Supply and demand fundamentals



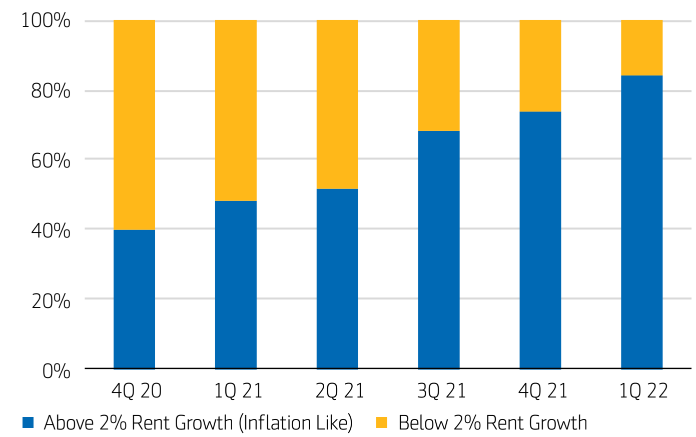
Source: CoStar Reality Information Inc., annual data as of March 31, 2022. Current year returns reflect trailing 4-quarter average.

Retail performance



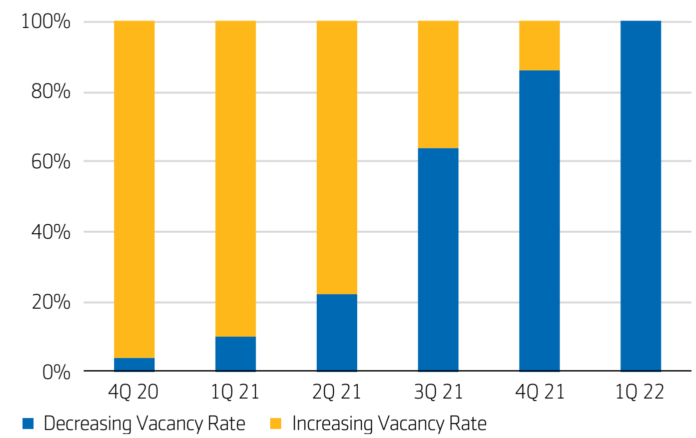
Source: NCREIF Property Index (unlevered) - Equal weighted appraisal cap rate as of year-end or most recent in current year, current year returns reflect trailing 4-quarter average, as of March 31, 2022. **Past performance is not indicative of future results.**

Retail MSA trends* (year-over-year rent growth)



Sources: CoStar Realty Information Inc.; Aegon Real Assets US as of March 31, 2022.
*Based on a selection of 50 most populous markets.

Retail MSA trends* (year-over-year vacancy rate change)



Sources: CoStar Realty Information Inc.; Aegon Real Assets US as of March 31, 2022.
*Based on a selection of 50 most populous markets.

Property sector outlook	Top 50 metros*						
	Under Construction as % of Inventory	1Q 22 Vacancy Rate**	1Q 21 Vacancy Rate**	Metros w/Rising Vacancy Rate	1Q 22 YoY Rent Growth**	1Q 21 YoY Rent Growth**	Aegon AM Sector Outlook
Apartment	4.73%	5.10%	6.33%	6	13.29%	2.70%	Positive
Industrial	3.28%	3.84%	5.15%	4	11.03%	5.40%	Neutral
Office	1.72%	10.89%	10.64%	35	1.72%	-0.31%	Cautious
Retail	0.48%	4.49%	5.17%	0	4.40%	1.76%	Cautious

*Top 50 by Metro Areas by Population; CoStar Realty Information Inc., Aegon Real Assets US; as of 1Q 2022.
**Equal Weighted Average

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Aegon Asset Management's Applied Research Group utilizes primary and secondary research to monitor commercial real estate property fundamentals, capital markets, and macroeconomic conditions. Our platform applies both qualitative and quantitative techniques in its contribution to an investment outlook..

[1]National Council of Real Estate Investment Fiduciaries. March 31, 2022
[2]US Bureau of Economic Analysis. Gross Domestic Product. April 28, 2022
[3]Board of Governors of the Federal Reserve System. May 16, 2022
[4]Real Capital Analytics. March 31, 2022
[5]US. Bureau of Labor Statistics. Employment Situation. May 6, 2022
[6]Wolters Kluwer. Blue Chip Economic Indicators. April 11, 2022
[7]US Bureau of Labor Statistics. Consumer Price Index. May 11, 2022
[8]CoStar Realty Information, Inc. March 31, 2022
[9]Kastle. Kastle Back to Work Barometer. May 11, 2022

Disclosures

Unless otherwise noted, the information in this document has been derived from sources believed to be accurate at the time of publication.

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