

U.S.

# CAP RATE SURVEY SPECIAL REPORT

## Q3 2020

A survey of CBRE investment and valuation professionals conducted  
between August 12, 2020 and August 26, 2020

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# EXECUTIVE SUMMARY

## STABILIZED CAP RATES

- The COVID-related decline in investment sales and disruption to net operating income for many properties have created challenges in assessing average capitalization rates. To best ensure accuracy, hotels were excluded from this survey and retail cap rates were collected only for grocery-anchored properties. To supplement the cap rate data, CBRE capital markets and valuation professionals were also surveyed on current investment market conditions.
- Although liquidity and investor sentiment remain strong in some segments of the market, investment volume is down significantly across all property types relative to levels prior to COVID-19. With the market still cautious, most of the cap rate compression recorded in this survey is not a reflection of rising asset values. Instead, assets are being underwritten with lower year-one income assumptions, resulting in lower cap rates (because cap rates are calculated as NOI/acquisition price).
- Cap rates for Class A properties as of August 2020 differed minimally from rates at the end of 2019. For all surveyed property types except retail, the largest share of markets reported flat cap rates. The rest reported increases or decreases of between approximately 25 and 50 basis points (bps).
- The suburban multifamily sector had the most markets (36%) reporting cap rate decreases, while both the CBD and suburban office sectors had the most markets (each roughly one-third) reporting cap rate increases.
- 76% of markets reported unchanged industrial cap rates. Industrial was the only sector with no markets reporting increases from H2 2019.
- A majority of survey respondents expect cap rates to remain unchanged through year-end 2020, as the cautious resumption of investment activity will continue to delay extensive price discovery.

## INVESTMENT MARKET CONDITIONS

- CBRE professionals report that a disconnect between buyer and seller expectations has emerged, with more than 60% of buyers looking for discounts from pre-pandemic prices versus 9% of sellers willing to offer them.
- One-third of survey respondents were underwriting with the same rental income assumptions as in Q1, with the remaining two-thirds adopting more conservative assumptions. Half of those with unchanged underwriting assumptions were industrial-focused respondents.
- CBRE professionals indicate that investors are placing greater importance on certain investment criteria than before the pandemic, particularly tenant credit quality (cited by 85% of respondents), length of remaining lease term (64%) and building occupancy (64%).
- Roughly two-thirds of survey respondents believe that investment activity will recover to pre-pandemic levels within one year.

# U.S. OFFICE | CAP RATES FOR STABILIZED PROPERTIES

MARKET	CLASS A CBD OFFICE RATES (%)			CLASS A SUBURBAN OFFICE RATES (%)			MARKET	CLASS A CBD OFFICE RATES (%)			CLASS A SUBURBAN OFFICE RATES (%)		
	H2 2019	SUMMER 2020	CHANGE	H2 2019	SUMMER 2020	CHANGE		H2 2019	SUMMER 2020	CHANGE	H2 2019	SUMMER 2020	CHANGE
Atlanta	5.50 – 6.50	6.00 – 7.00	▲	6.00 – 7.00	6.00 – 7.00	◄	NY: N. New Jersey	—	—	—	7.00 – 7.50	7.00 – 7.50	◄
Austin	5.50 – 6.00	5.75 – 6.25	▲	6.50 – 7.25	6.75 – 7.50	▲	Orlando	6.50 – 6.75	7.00 – 7.25	▲	7.00 – 7.50	7.50 – 8.00	▲
Baltimore	7.50 – 8.50	7.50 – 8.50	◄	7.50 – 8.50	7.50 – 8.50	◄	Philadelphia	6.25 – 6.75	6.25 – 6.75	◄	7.00 – 7.50	7.00 – 7.50	◄
Boston	4.25 – 5.25	4.50 – 5.00	◄	6.75 – 8.00	6.75 – 8.00	◄	Phoenix	5.75 – 6.75	5.75 – 6.75	◄	6.00 – 7.00	5.50 – 6.50	▼
Charlotte	6.00 – 7.00	6.25 – 7.25	▲	6.25 – 7.00	6.75 – 7.75	▲	Portland	5.00 – 6.00	5.00 – 6.25	◄	6.25 – 7.50	6.00 – 7.50	◄
Chicago	5.50 – 6.75	6.00 – 7.00	▲	7.25 – 8.25	7.50 – 8.50	▲	Raleigh-Durham	6.00 – 6.50	5.50 – 6.50	▼	6.25 – 6.50	5.50 – 6.50	▼
Dallas/Ft. Worth	6.00 – 7.25	5.25 – 6.25	▼	6.50 – 7.50	6.00 – 6.75	▼	S. CA: Los Angeles	4.50 – 5.50	4.75 – 6.00	▲	5.25 – 6.75	5.50 – 7.00	▲
Denver	5.25 – 5.75	5.75 – 6.25	▲	6.50 – 7.00	6.75 – 7.25	▲	S. CA: Orange County	4.50 – 5.50	4.75 – 6.00	▲	5.50 – 6.50	6.00 – 6.75	▲
Houston	6.25 – 6.75	6.00 – 6.50	▼	6.50 – 7.00	6.50 – 7.00	◄	S. FL: Miami	4.75 – 6.25	4.70 – 5.25	▼	5.50 – 6.25	5.75 – 7.75	▲
Minneapolis/St. Paul	5.75 – 6.75	5.75 – 7.00	◄	6.75 – 7.75	6.75 – 8.00	◄	Sacramento	6.00 – 7.00	6.00 – 7.25	◄	6.50 – 7.00	6.50 – 7.00	◄
Nashville	6.00 – 6.50	6.50 – 7.00	▲	6.25 – 7.00	6.75 – 7.25	▲	San Diego	5.75 – 6.25	5.75 – 6.25	◄	6.25 – 6.75	6.25 – 6.75	◄
N. CA: Oakland	4.50 – 5.50	4.50 – 5.00	▼	6.00 – 6.50	6.00 – 6.50	◄	Seattle	4.75 – 5.25	4.75 – 5.50	◄	5.75 – 6.25	5.75 – 6.50	◄
N. CA: San Francisco	4.50 – 5.00	4.25 – 5.00	◄	—	—	—	Tampa	6.50 – 7.00	6.50 – 7.00	◄	7.25 – 7.75	7.25 – 7.75	◄
N. CA: San Jose	6.00 – 7.00	5.50 – 6.50	▼	6.00 – 6.75	5.25 – 6.50	▼	Washington, D.C.	5.25 – 5.75	5.25 – 5.75	◄	6.50 – 7.25	6.50 – 7.25	◄
NY: New York City	4.50 – 4.75	4.25 – 4.50	▼	—	—	—							

▲ INCREASE ▼ DECREASE ◄ STABLE — N/A

Note: Survey conducted during August 2020. Change is from H2 2019. Changes less than 15 bps considered stable.

Source: CBRE Research, September 2020.

# U.S. MULTIFAMILY | CAP RATES FOR STABILIZED PROPERTIES

MARKET	CLASS A MULTIFAMILY INFILL RATES (%)			CLASS A MULTIFAMILY SUBURBAN RATES (%)			MARKET	CLASS A MULTIFAMILY INFILL RATES (%)			CLASS A MULTIFAMILY SUBURBAN RATES (%)		
	H2 2019	SUMMER 2020	CHANGE	H2 2019	SUMMER 2020	CHANGE		H2 2019	SUMMER 2020	CHANGE	H2 2019	SUMMER 2020	CHANGE
Atlanta	4.25 – 5.00	4.25 – 4.50	▼	4.75 – 5.50	4.50 – 5.00	▼	NY. New York City	4.50 – 5.50	5.00 – 5.75	▲	—	—	—
Austin	3.75 – 4.25	3.75 – 4.25	◄	4.00 – 4.75	4.00 – 4.50	◄	Orlando	4.50 – 4.75	4.75 – 5.25	▲	4.50 – 5.00	4.75 – 5.25	▲
Baltimore	4.50 – 5.00	4.25 – 4.75	▼	5.00 – 5.50	4.75 – 5.25	▼	Philadelphia	4.50 – 5.00	4.75 – 5.25	▲	5.00 – 5.50	4.50 – 5.00	▼
Boston	3.75 – 4.50	3.75 – 4.25	◄	4.50 – 5.00	4.25 – 4.75	▼	Phoenix	4.25 – 4.75	4.25 – 4.75	◄	4.25 – 4.75	4.25 – 4.75	◄
Charlotte	4.50 – 5.00	4.25 – 4.75	▼	5.00 – 5.50	4.75 – 5.50	◄	Portland	4.00 – 4.50	3.75 – 4.50	◄	4.50 – 4.75	4.50 – 5.00	◄
Chicago	4.50 – 4.75	4.25 – 4.50	▼	5.00 – 5.25	4.75 – 5.00	▼	Raleigh-Durham	4.25 – 5.00	4.25 – 4.75	◄	4.50 – 5.25	4.50 – 5.00	◄
Dallas/Ft. Worth	4.25 – 4.75	4.00 – 4.75	◄	4.75 – 5.25	4.00 – 5.00	▼	S. CA: Inland Empire	4.50 – 4.75	4.50 – 4.75	◄	4.50 – 4.75	4.50 – 4.75	◄
Denver	4.25 – 4.75	4.25 – 4.75	◄	4.50 – 5.00	4.25 – 4.50	▼	S. CA: Los Angeles	4.00 – 4.50	4.00 – 4.50	◄	4.25 – 5.00	4.25 – 5.00	◄
Houston	4.00 – 4.50	4.00 – 4.50	◄	4.50 – 5.00	4.50 – 5.00	◄	S. CA: Orange County	4.00 – 4.50	4.00 – 4.50	◄	4.00 – 4.75	4.00 – 4.75	◄
Minneapolis/St. Paul	4.50 – 4.75	4.50 – 4.75	◄	4.75 – 5.25	4.75 – 5.25	◄	S. FL: Miami	4.25 – 4.50	4.25 – 4.50	◄	4.50 – 4.75	4.50 – 4.75	◄
Nashville	4.50 – 5.00	4.00 – 4.50	▼	4.50 – 5.25	3.90 – 4.75	▼	San Diego	4.00 – 4.25	4.00 – 4.50	◄	4.00 – 4.25	4.00 – 4.25	◄
N. CA: Oakland	4.25 – 4.75	4.25 – 4.75	◄	4.50 – 5.00	4.50 – 5.00	◄	Seattle	4.00 – 4.25	4.25 – 4.75	▲	4.50 – 4.75	4.75 – 5.25	▲
N. CA: San Francisco	3.75 – 4.25	4.00 – 4.25	◄	4.00 – 4.50	4.25 – 4.50	◄	Tampa	4.50 – 5.00	3.75 – 4.50	▼	4.75 – 5.25	4.25 – 5.00	▼
N. CA: San Jose	4.00 – 4.25	4.15 – 4.40	▲	4.00 – 4.50	4.25 – 4.75	▲	Washington, D.C.	4.25 – 4.75	4.50 – 5.00	▲	4.75 – 5.25	4.50 – 5.00	▼

▲ INCREASE ▼ DECREASE ◄ STABLE — N/A

Note: Survey conducted during August 2020. Change is from H2 2019. Changes less than 15 bps considered stable.

Source: CBRE Research, September 2020.

# U.S. INDUSTRIAL & RETAIL | CAP RATES FOR STABILIZED PROPERTIES

MARKET	CLASS A INDUSTRIAL RATES (%)			CLASS A GROCERY-ANCHORED RETAIL CENTER RATES (%)			MARKET	CLASS A INDUSTRIAL RATES (%)			CLASS A GROCERY-ANCHORED RETAIL CENTER RATES (%)		
	H2 2019	SUMMER 2020	CHANGE	H2 2019	SUMMER 2020	CHANGE		H2 2019	SUMMER 2020	CHANGE	H2 2019	SUMMER 2020	CHANGE
Atlanta	4.50 – 5.00	4.25 – 4.75	▼	5.25 – 6.25	5.50 – 6.25	◄	Orlando	4.75 – 5.25	4.75 – 5.25	◄	5.50 – 6.50	5.50 – 6.50	◄
Austin	5.25 – 6.00	5.25 – 6.00	◄	5.00 – 5.75	5.25 – 6.00	▲	Philadelphia	4.50 – 5.00	4.50 – 5.00	◄	5.75 – 7.00	6.00 – 7.00	◄
Baltimore	4.50 – 4.65	4.50 – 4.75	◄	6.25 – 7.25	6.00 – 6.50	▼	Phoenix	4.75 – 5.25	4.50 – 5.00	▼	5.75 – 6.50	5.75 – 6.50	◄
Boston	4.75 – 5.25	4.50 – 5.00	▼	5.50 – 6.50	5.75 – 6.75	▲	Portland	4.50 – 5.00	4.50 – 4.75	◄	5.00 – 5.75	4.50 – 6.00	◄
Charlotte	4.90 – 5.25	4.75 – 5.25	◄	5.75 – 6.25	5.25 – 5.75	▼	Raleigh-Durham	5.50 – 6.00	4.75 – 5.25	▼	—	—	—
Chicago	4.50 – 5.00	4.40 – 4.75	▼	5.50 – 6.00	6.25 – 7.25	▲	S. CA: Inland Empire	3.75 – 4.25	3.75 – 4.25	◄	5.50 – 6.50	6.00 – 7.00	▲
Dallas/Ft. Worth	4.50 – 5.00	4.50 – 5.00	◄	5.00 – 6.25	5.00 – 5.50	▼	S. CA: Los Angeles	3.75 – 4.25	3.75 – 4.25	◄	4.50 – 5.25	5.00 – 6.00	▲
Denver	4.25 – 4.75	4.25 – 4.75	◄	5.25 – 6.25	5.00 – 7.00	▲	S. CA: Orange County	3.75 – 4.25	3.75 – 4.25	◄	4.50 – 5.25	4.75 – 5.50	▲
Houston	4.50 – 5.00	4.50 – 5.00	◄	5.00 – 6.75	5.25 – 6.00	▼	S. FL: Miami	4.25 – 4.75	4.25 – 4.75	◄	5.00 – 5.75	5.00 – 5.75	◄
Minneapolis/St. Paul	5.25 – 5.50	5.25 – 5.75	◄	5.50 – 6.25	6.25 – 7.25	▲	Sacramento	5.00 – 5.50	4.90 – 5.50	◄	7.00 – 7.50	8.00 – 8.50	▲
Nashville	5.00 – 5.50	4.90 – 5.25	▼	6.00 – 6.50	6.50 – 7.50	▲	San Diego	4.50 – 5.00	4.50 – 5.25	◄	4.50 – 5.25	4.75 – 5.75	▲
N. CA: Oakland	3.75 – 4.25	3.75 – 4.25	◄	5.00 – 6.00	4.75 – 5.50	▼	Seattle	3.75 – 4.25	3.75 – 4.25	◄	4.50 – 6.00	4.75 – 7.00	▲
N. CA: San Francisco	3.75 – 4.25	3.75 – 4.25	◄	4.50 – 5.25	4.75 – 5.50	▲	Tampa	5.25 – 5.75	5.00 – 5.50	▼	5.50 – 6.50	5.50 – 6.50	◄
N. CA: San Jose	3.75 – 4.25	3.75 – 4.25	◄	4.25 – 5.50	4.75 – 5.50	▲	Washington, D.C.	4.50 – 4.65	4.50 – 4.75	◄	5.25 – 6.00	5.50 – 6.00	◄
NY: N. New Jersey	3.75 – 4.00	3.75 – 4.00	◄	5.75 – 6.25	5.50 – 6.25	◄							

▲ INCREASE ▼ DECREASE ◄ STABLE — N/A

Note: Survey conducted during August 2020. Change is from H2 2019. Changes less than 15 bps considered stable. H2 2019 retail rates are for neighborhood/community retail, while Summer 2020 rates are limited to only grocery-anchored retail, so the change should not be interpreted as an exact comparison.

Source: CBRE Research, September 2020.

# CAP RATE OUTLOOK THROUGH YEAR-END 2020

MARKET	CBD OFFICE	SUBURBAN OFFICE	INDUSTRIAL	INFILL MULTIFAMILY	SUBURBAN MULTIFAMILY	GROCERY-ANCHORED RETAIL
Atlanta	▲	▲	◄	▼	◄	◄
Austin	◄	◄	▼	◄	◄	▲
Baltimore	◄	◄	◄	▼	▼	◄
Boston	▲	▲	▼	◄	◄	▲
Charlotte	▲	▲	◄	◄	◄	▲
Chicago	▲	▲	◄	◄	◄	◄
Dallas/Ft. Worth	◄	◄	◄	◄	◄	◄
Denver	▲	◄	◄	◄	▼	◄
Houston	▲	▲	◄	◄	◄	▲
Minneapolis/St. Paul	◄	◄	◄	◄	◄	◄
Nashville	◄	◄	◄	◄	◄	◄
N. CA: Oakland	▲	▲	◄	◄	◄	◄
N. CA: San Francisco	◄	—	◄	◄	◄	◄
N. CA: San Jose	◄	◄	◄	▲	▲	▲
NY: New York City	◄	—	—	◄	—	—

MARKET	CBD OFFICE	SUBURBAN OFFICE	INDUSTRIAL	INFILL MULTIFAMILY	SUBURBAN MULTIFAMILY	GROCERY-ANCHORED RETAIL
NY: N. New Jersey	◄	◄	◄	—	—	◄
Orlando	◄	◄	◄	◄	◄	◄
Philadelphia	◄	▲	◄	◄	◄	◄
Phoenix	▲	▲	◄	◄	▼	◄
Portland	◄	◄	◄	◄	◄	◄
Raleigh-Durham	▲	▲	◄	▼	▼	▲
S. CA: Inland Empire	—	—	◄	◄	◄	▲
S. CA: Los Angeles	▲	▲	◄	◄	◄	▲
S. CA: Orange County	▲	▲	◄	◄	◄	▲
S. FL: Miami	◄	◄	◄	◄	◄	◄
Sacramento	◄	◄	◄	—	—	▲
San Diego	◄	◄	◄	▲	▲	◄
Seattle	◄	◄	◄	◄	◄	◄
Tampa	▲	▲	◄	◄	◄	◄
Washington, D.C.	◄	◄	◄	▼	▼	◄

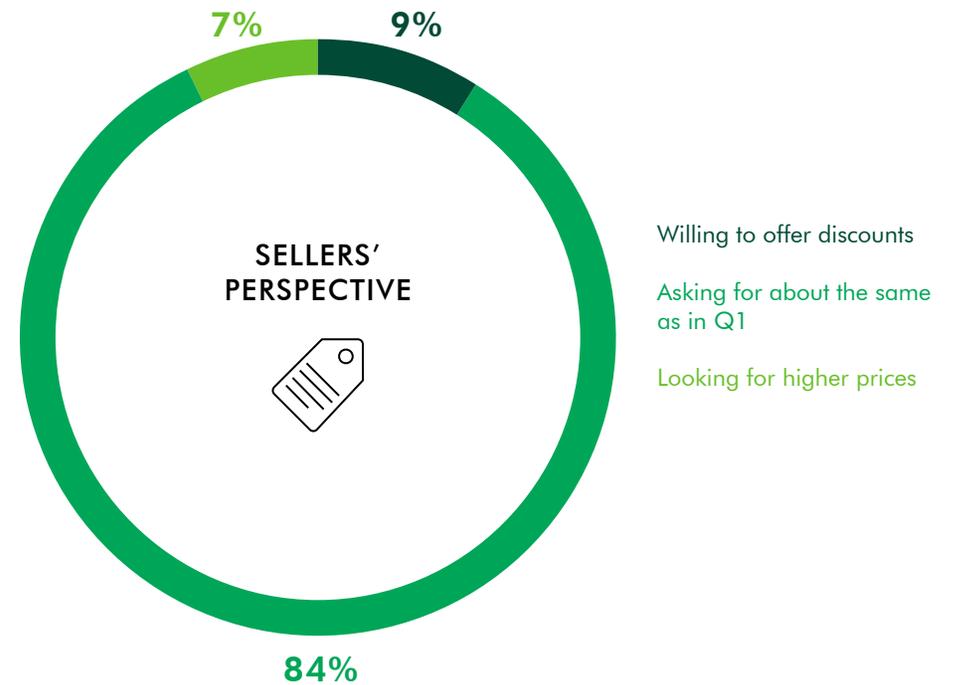
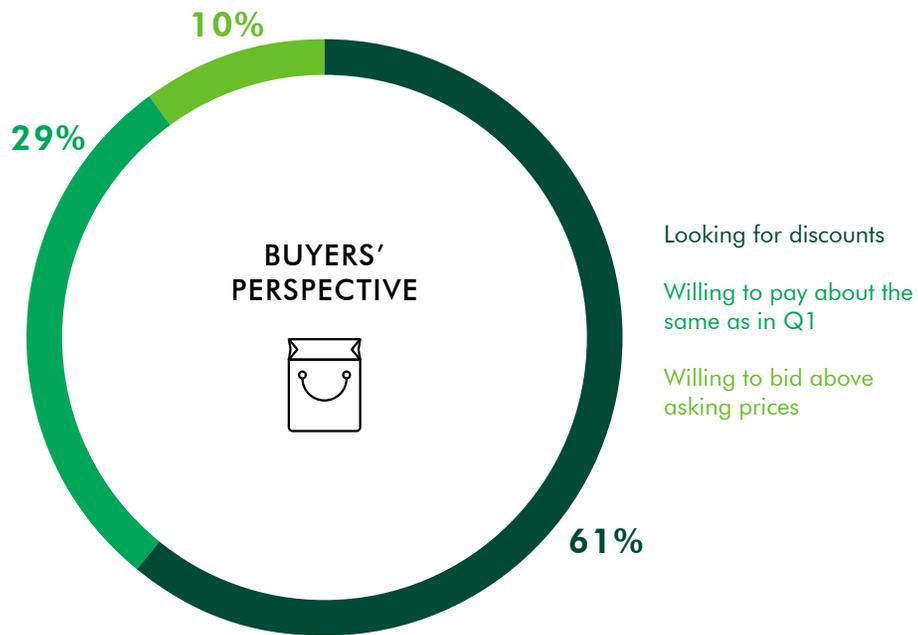
▲ INCREASE ▼ DECREASE ◄ STABLE — N/A

Note: Survey conducted during August 2020.  
Source: CBRE Research, September 2020.

# WIDE DISCONNECT ON PRICING IS WEIGHING ON ACTIVITY

- Among buyers looking for discounts, nearly three-quarters were for office or retail properties. For suburban office, 95% of investors were looking for discounts but no sellers were willing to offer them. CBD office and retail properties also had large gaps between buyer and seller expectations.
- Industrial and multifamily investors were the most likely to bid above asking prices. The share of industrial buyers willing to bid above asking price (21%) was higher than the share of sellers seeking higher prices (11%).

## HOW HAVE BUYER/SELLER ATTITUDES TOWARD ASSET PRICING CHANGED SINCE Q1 2020?



Note: Survey conducted during August 2020.  
Source: CBRE Research, September 2020.

# TWO-THIRDS OF INVESTORS HAVE LOWERED ONE OR MORE RENTAL GROWTH ASSUMPTIONS

- Approximately 30% of survey respondents were assuming higher vacancy due to tenant bankruptcies, with the retail sector accounting for 53% of these respondents.
- Respondents were much more concerned about tenant downsizings and longer lease-up times for office and retail properties than for multifamily and industrial.

## HOW HAVE RENTAL INCOME ASSUMPTIONS IN UNDERWRITING CHANGED RELATIVE TO Q1 2020?



Note: Survey conducted during August 2020. 32% of respondents indicated rental growth assumptions were "about the same."  
Source: CBRE Research, September 2020.

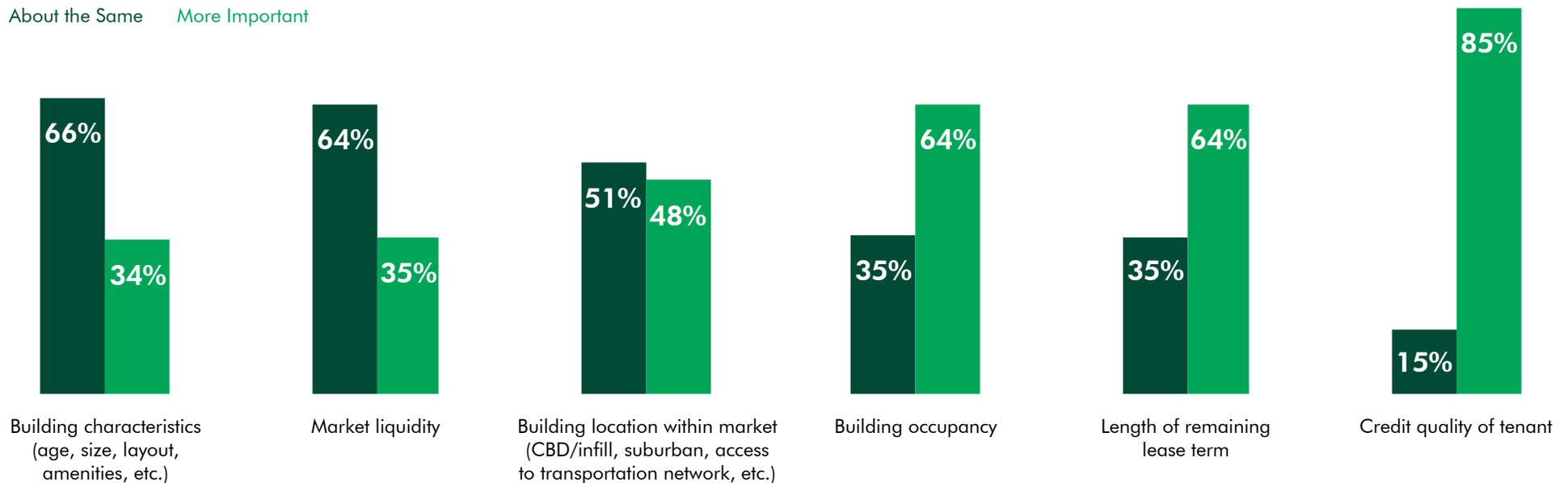
# TENANT CREDIT QUALITY MUCH MORE IMPORTANT

- Nearly all respondents indicated that credit quality has become more important for office, retail and industrial properties, but respondents were somewhat less concerned about this for multifamily, particularly suburban properties.

- A high share of respondents indicated that remaining length of lease term has become more important for all property types except multifamily. Approximately 80% of respondents placed more importance on building occupancy for office properties than in Q1, with a lower share (between 54% and 58%) of respondents doing so for other property sectors.

## HOW IMPORTANT ARE THESE FACTORS IN INVESTOR BUYING DECISIONS COMPARED WITH Q1 2020?

About the Same    More Important



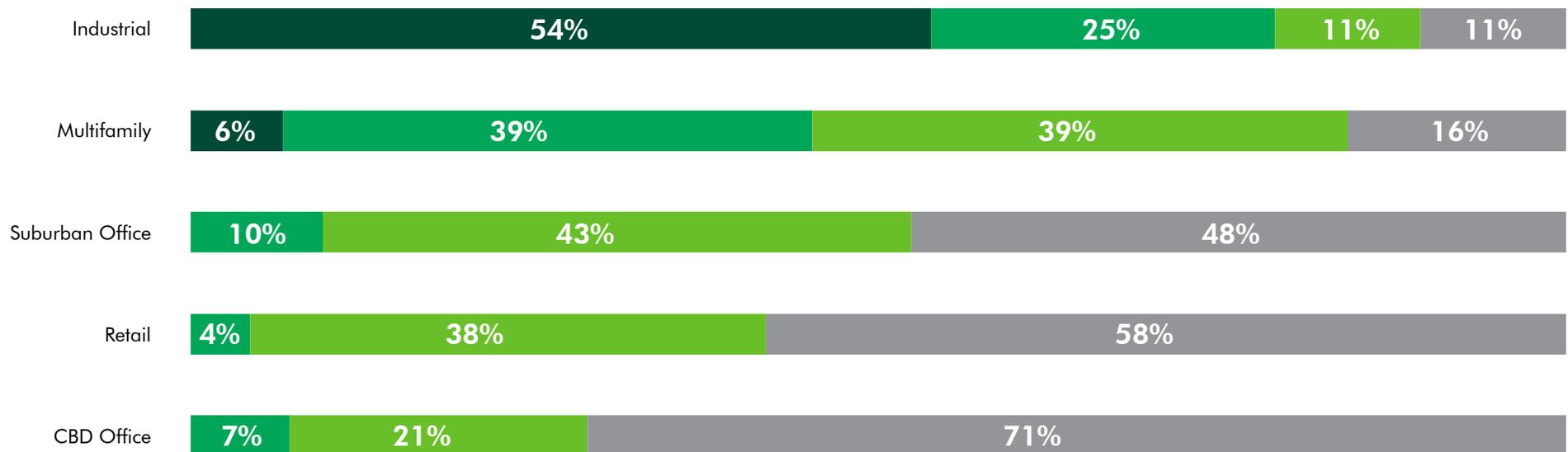
Note: Survey conducted during August 2020. For factors where shares do not total 100%, <1% of respondents indicated that it was less important than in Q1 2020.  
Source: CBRE Research, September 2020.

# FASTEST RECOVERY EXPECTED FOR INDUSTRIAL, MULTIFAMILY

- Industrial investors are most bullish on the recovery, with nearly 90% of respondents expecting investment to return to pre-COVID levels within 12 months.
- Fewer respondents expect a full recovery for multifamily over the next six months than for industrial, but 84% expect a return to pre-pandemic levels within a year.
- Respondents expect a slower recovery of office and retail investment volumes over the next 12 months. Uncertainty regarding when many employees will return to the workplace likely contributed to this expectation, particularly for CBD office.

## HOW LONG DO YOU THINK IT WILL BE BEFORE INVESTMENT ACTIVITY RETURNS TO PRE-PANDEMIC LEVELS?

1-3 Months   3-6 months   6-12 months   More than 12 months



Note: Survey conducted during August 2020.

Source: CBRE Research, September 2020.

## NOTES AND DEFINITIONS

- Markets represented by metropolitan areas. Data is subject to historical revision.
- Cap rate ranges are best estimates provided by CBRE professionals based on recent trades in their respective markets, as well as communication with investors. The ranges represent the cap rates at which a given asset is likely to trade in the current market. Cap rates within each subtype vary, occasionally falling outside the stated ranges, based on asset location, quality and property specific opportunities for NOI enhancement.
- Stabilized properties are assets leased at market rents with typical lease terms and have vacancy levels close to market averages.
- The cap rate is the ratio of the net operating income (NOI) to the acquisition price of the asset (NOI divided by acquisition price). The NOI calculation is based on net income less operating expenses.

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