Momentum Strong Enough to Overcome CRE Uncertainty, Says PwC

After a strong Q1 this year, firm forecasts continued growth across all asset classes.

By Paul Bergeron

With non-traded REIT sponsors continuing to deploy the significant capital raised and long-term investors recapitalizing existing funds through continuation vehicles in high-demand sectors experiencing favorable supply, PwC believes the strong performance thus far in 2022 should continue the rest of the year.

Furthermore, it said, continued consolidation in the listed REIT industry – given the growing importance of scale, growth and capital considerations – will further buoy key sectors.

More opportunities should emerge "given current levels of replacement cost, financing maturities and equity market valuations. These trends are contingent on the absence of any significant deterioration in financing markets."

A flight to quality, focus on underwriting assumptions (given higher interest rates and inflation), enhanced attention to environmental, social and governance (ESG) considerations, and a focus on portfolio optimization will be the focus as investors deal with rising capital costs, macroeconomic uncertainty and inflationary pressures.

Industrial Sector Cools, Multifamily Thrives

PwC reported that asset-, portfolio- and entity-level transactions in the first quarter of 2022 exceeded the same period in 2021.

"While there has been some cooling in the red-hot industrial space, industrial and multifamily assets have continued to drive growth in transaction volumes," the firm reported.

In multifamily, a lack of affordable housing continues to be a problem. That sector's ability to reset rents to market on a monthly basis is an attractive quality.

Retail, Hospitality Volume More than Double

Meanwhile, cold storage, data centers, life sciences and content/media-related real estate "are emerging as cornerstones of real estate investment activity."

The apparent shift from goods to services is driving more attention to experiential assets (e.g., marinas, ski resorts, golf courses, etc.).

Retail has emerged as powerful given its "proven resiliency" and consumers' attraction to brick-and-mortar. Transaction volume for it rose 104% versus Q1 2021.

Hospitality transaction volume doubled as well, up 101%. Industrial sector transactions were up 76% and office increased by 62% in the same period.