



# REFOCUS

## DLA Piper Global Real Estate Annual State of the Market Survey

MAY 2022

# Remarkable post-pandemic resurgence in commercial real estate is driving heightened optimism for the industry

With a few notable exceptions, the safety and travel restrictions put in place throughout the world at the start of the pandemic – now more than two years ago – have largely come to an end. And while life is seemingly returning to some semblance of normalcy, it's impossible to ignore the fact that certain habits we once considered routine – like going to the office five days a week – could be permanently changed.

Pandemic-induced isolation, social distancing and restrictions on travel and gathering were particularly hard on the commercial real estate (CRE) industry. During the early days of the pandemic, narratives swirled that some commercial real estate asset classes were “dead” and that the “retail apocalypse” was nigh – but it didn't turn out that way.<sup>1,2</sup> Even those who are believers in the long-term durability of CRE as a global asset class probably would not have predicted that, at the start of 2022, media headlines would include things like, “[2021 CRE Investments Hit Record \\$746B](#),” “[Global Commercial Property Sales Rocket to Record in 2021](#),” and “[Foreign Investment in U.S. Commercial Property Exceeds Pre-Pandemic Levels](#).”<sup>3,4,5</sup>

DLA Piper's 2022 *Global Real Estate Annual State of the Market Survey* shows not only a remarkable resurgence across the CRE sector, but also increased bullishness as leaders look to the future.

While general bullishness remains roughly consistent with our 2021 report at 73 percent, more respondents in 2022 have a higher level of confidence for the real estate industry's next 12 months. The increased optimism relative to 2020 – when just 21 percent expected a bull market – is significant.

Still, challenges remain, and concerns about the evolving impacts of factors such as inflation, rising interest rates and geopolitical conflict are top-of-mind for industry leaders. But, even in retail – the sector that is most directly influenced by consumer sentiment – pent-up demand and indicators like [retail sales](#), [foot traffic](#) and [store openings](#) are giving leaders reasons for optimism, showing that brick-and-mortar retail remains an important component of retailers' evolving omnichannel offerings.<sup>6,7,8</sup>

At the same time, the future of offices – and more importantly, [where people work](#) – is unresolved, with industry leaders predicting significant impacts brought about by reimagined office space, including the way real estate developers and investors think about retail and other commercial real estate near traditional business hubs.<sup>9</sup> Even amid this uncertainty, office leasing activity has picked up. For example, in New York – though not surpassing the breakneck pace seen in the latter half of 2021 – occupancy rose 25 percent in the first three months of 2022, according to Newmark data.<sup>10</sup> While leaders remain unsure whether office vacancies will ever drop to pre-pandemic rates, they do see an opportunity in repurposing some office spaces for hotel, multi-family residential and life science uses.

Driven in part by the fact that many workers are now untethered from their offices, we're also seeing a marked redistribution of the population. Cities like Austin and Raleigh-Durham have seen an influx of new residents as they leave traditional hubs for smaller cities. As residents pivot, so do developers, landlords and investors. This shift is driving a staggering jump in sentiment supporting investment opportunity in these traditionally secondary markets, with Austin jumping from 22 percent in 2019 to 60 percent today. These new starlet cities aren't as developed as New York, Los Angeles or Chicago, meaning developers can design real estate to meet the needs of today's hybrid and remote workers.

Fielded during February and March 2022, our survey shows that ongoing uncertainty is not hindering the broader optimism about the future for commercial real estate. Respondents' positivity was bolstered by the abundance of capital available to CRE, and this positive outlook remained an undertone throughout the trends anticipated to take shape in 2022.

## **An abundance of capital and attractive assets made the bulls more bullish.**

To fully comprehend the accelerated resurgence of CRE, it's important to understand how we got to this point. Prior to the pandemic, our 2019 report reflected a more moderate outlook and measured growth in light of the [10-year bull market](#) that remained in place.<sup>11</sup> Understandably, the unexpected onset of the pandemic just a few months later swung the pendulum in the opposite direction; only 21 percent of 2020 respondents anticipated a bull market for at least the following 12 months. That number jumped to 74 percent in 2021, when it appeared that the impacts of coronavirus were coming to an end – before the delta and omicron variants spurred resurgences later that year.

Now, in 2022, the overall percentage of those expecting a bullish market remained roughly consistent at 73 percent – but respondents reported feeling a higher level of confidence in a bull market over the next 12 months.

The abundance of capital in the market was a significant reason for this optimism, with 52 percent of respondents citing it as their primary source of confidence – up 17 percentage points from last year. Respondents reported seeing a significant volume of capital still looking to invest in CRE and expect that abundant capital supply will continue to drive the market.

Other sources of confidence include strong fundamentals for most asset classes (20 percent) and the US economic outlook (16 percent); industry leaders believe the underlying potential of retail – namely brick-and-mortar retail – positions the asset class for rebounding in 2022, as do continued implementation of transformative technologies and a return to city centers around the globe as travel and in-person work increase.

Industry leaders are bullish on other asset classes as well. Two-thirds (66 percent) of respondents ranked logistics, warehousing and cold storage as the most attractive investment opportunity in commercial real estate, as e-commerce sales continue to increase across the US. Multifamily was also ranked among the biggest CRE investment opportunities in the US – marking an eight percentage-point jump since last year – while hotels and lodging fell 15 percentage points year-over-year.

Given the ever-increasing pace of innovation and disruption, as well as the impact that geopolitical and external events can have on the CRE markets, organizations in the industry must remain agile and prioritize adaptation, with an eye toward staying ahead of the curve, distinguishing between cyclical and structural changes and taking advantage of emerging opportunities.

## **Interest rates, inflation, the GDP and geopolitical factors continue to influence the outlook in CRE – but opportunities from non-US investments and pent-up consumer demand carry expectations.**

In looking at economic factors impacting CRE, interestingly there was an even divide among industry leaders on the US GDP outlook. Forty-five percent believe US GDP will increase in the coming year, while an equal 45 percent think it will go down and the remaining respondents expect no change.

In assessing the significance of the fact that 45 percent of the respondents anticipate a decrease in US GDP this year, it's important to put this in historical perspective. From 1948 until 2021, US GDP growth averaged 3.14 percent per year. As the US economy recovered from the pandemic, we saw US GDP growth of 5.7 percent last year. The forecasts for a decrease in US GDP on a year-over-year basis are likely taking into account the unusually large GDP growth recently experienced in the US. For comparison, [Goldman Sachs expects GDP growth to slow to 3.2 percent this year](#), while the US Federal Reserve's April forecast projects that US GDP growth will average 2.8 percent this year – indicating that it could still grow, but is normalizing after significant multi-year increases.<sup>12</sup>

In tandem, [interest rate increases](#) (26 percent) and [inflation](#) (18 percent) were listed among the top concerns.<sup>13,14</sup> Nearly all – 99 percent – of respondents believe interest rates will increase over the next twelve months. When asked which factors will be impactful on CRE in the coming year, 76 percent of respondents said interest rates would be impactful, and 84 percent said the same about inflation. Other influences, such as the Russian invasion of Ukraine and the rise of e-commerce, also carried significant weight.

The importance and attractiveness of US commercial real estate as a global asset class is demonstrated by the fact that, despite the impact of the pandemic on commercial real estate, the US remains an attractive market for global real estate investors. Respondents believe non-US investments in the US will continue to be strong – up from 43 percent to 57 percent this year. During times of uncertainty – like the pandemic or the conflict in Ukraine – investors often flock to safe havens. As a result, markets like the US with a well-defined legal system, transparency and proven economic resiliency often become more desirable in times of crisis or geopolitical uncertainty.

The bottom line is that, although changes in interest rates, inflation and other external factors will continue to be closely monitored across the commercial real estate industry, our survey shows these factors have not broadly dampened the overall confidence of industry leaders in the US commercial real estate market.

## **As hybrid and remote work persists, the reimagination of office spaces has the potential to reshape traditional thinking around CRE.**

As more people start to travel and attend things like concerts and sporting events, they're also returning to their offices. Many companies are implementing a hybrid work model for the first time, leading to a widespread reimagination of office spaces.<sup>9</sup> Business leaders are asking questions such as, [how much space](#) do we really need, where do we need it, which types of spaces will best serve our employees and our company and what do we need to do to entice our employees to come back to the office?<sup>15</sup>

And because CRE as a whole is so interdependent, those types of considerations impact a broad number of asset classes beyond offices. For example, as we saw during the height of the pandemic, fewer people in offices and commuting to offices caused a significant decline in in-store retail sales and occupancy of residential buildings near traditional business hubs. Similar to the overwhelming anticipated impact of inflation and interest rates, 61 percent of respondents expect that reimagination of office spaces and other commercial spaces will impact the sector, and 79 percent expect office occupancy to evolve over the next 12 months in light of remote work.

All respondents agreed that the COVID-19 pandemic will continue to increase the need to repurpose spaces and add amenities in office buildings in 2022, and 54 percent agreed the pandemic will spur an increase in the percentage of office workers who spend less than 50 percent of their time working in office buildings.

Only two percent of respondents believe that the entire workforce in urban areas will be back in their offices regularly in the next 12 months, while most believe that number will be closer to half or three-quarters. One-fifth of respondents believe office building vacancy rates will never return to pre-pandemic levels, and more than two-thirds (68 percent) expect it will take two or more years. Many believe that a full recovery is more likely for office buildings in suburban areas (28 percent) than for urban office buildings (15 percent).

With this in mind, 28 percent see repurposing of space as an opportunity, whether those buildings are ultimately converted to hotels, residential spaces, life science or other uses. As the future of hybrid, remote and in-office work continues to evolve, CRE leaders must reconsider traditional conceptualizations of office buildings and understand that businesses may look for reduced space, shorter leases or shared co-working and other flexible spaces.

## **Amid a nationwide reshuffle, we're seeing the continued migration to smaller cities.**

As a result of the pandemic and a dramatic shift in where and how people work, many Americans re-evaluated their living situations. Without a need to be in the office every day, many felt untethered from their home base for perhaps the first time in their careers. For those who live in large cities, that may mean realizing an opportunity for cheaper rent, being closer to family or living in a city where they've always wanted to move. In fact, 2021 data from the Census Bureau indicated that major US cities saw the [slowest year of population growth in history](#), as many opted to head elsewhere.<sup>16</sup>

For some, this meant moving to smaller cities that have quickly grown into population centers in their own right, continuing a move that began prior to the pandemic. With these trends in mind, real estate investors are looking to rapidly grow their presence and investments in those geographies; nearly half (44 percent) of survey respondents noted that this shift from densely populated city centers would impact their investment decisions.

Austin, most notably, led the pack with 60 percent of respondents saying it is the most attractive city for investments over the next year. This marks a 38 percentage-point jump since 2019, indicating that emerging trends throughout the pandemic left Austin well-positioned to become a hotspot for not only new residents, but new commercial real estate as well. The substantial growth seen in Austin over the last three years is unlike any seen before – and it's particularly notable when looking through the lens of pandemic uncertainty.

Similar to Austin, other Sun Belt cities like Raleigh-Durham, Miami, Phoenix and Nashville all saw large increases in projected investments since 2019, while traditionally large hubs like New York, Los Angeles, Silicon Valley and San Francisco have fallen in their investor appeal – though the latter may be due to the high prices and relative lack of supply in those markets. In these new hubs, this means developers and landlords will build out new office

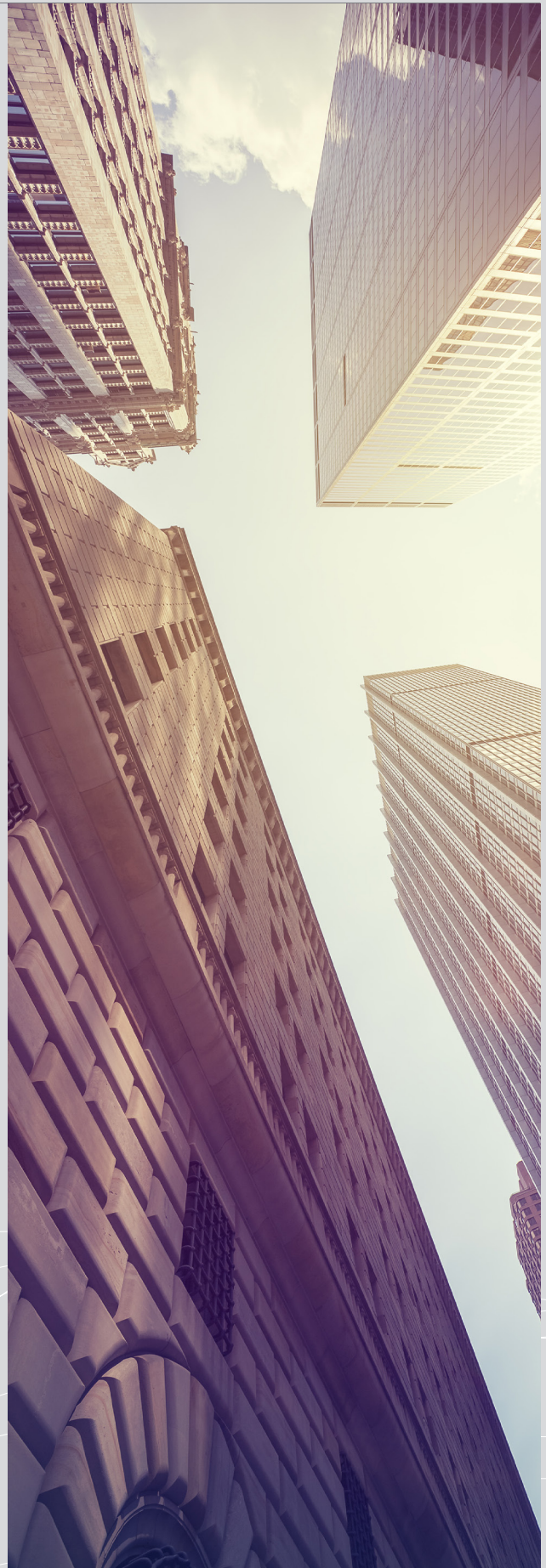
buildings, residential spaces, retail spaces and warehouses to serve the existing population and increase the desirability for prospective residents.

The traditional hubs seeing a drop in popularity will remain major players for businesses and entertainment; in the last few months alone, tech giants like Google and Facebook have made substantial commitments to office space in New York City.<sup>17,18</sup> However, demand will shift toward new, high-quality (and ESG-friendly) buildings, and competition will be fierce for the best assets in those markets.

These changes create new opportunities for the CRE industry. They disperse growth across the US, strengthening the broader economy and creating safeguards that lend themselves to a more resilient CRE landscape built to withstand future disruptions.

### **CRE's dramatic recovery is poised to continue and trend toward growth in 2022.**

Overall, the 2022 Survey underscores that the outlook for CRE remains positive and that industry leaders are increasingly bullish. The recovery from the pandemic has been nothing short of remarkable in its speed and strength, and it's clear the industry remains extraordinarily buoyant in response to ongoing uncertainties.

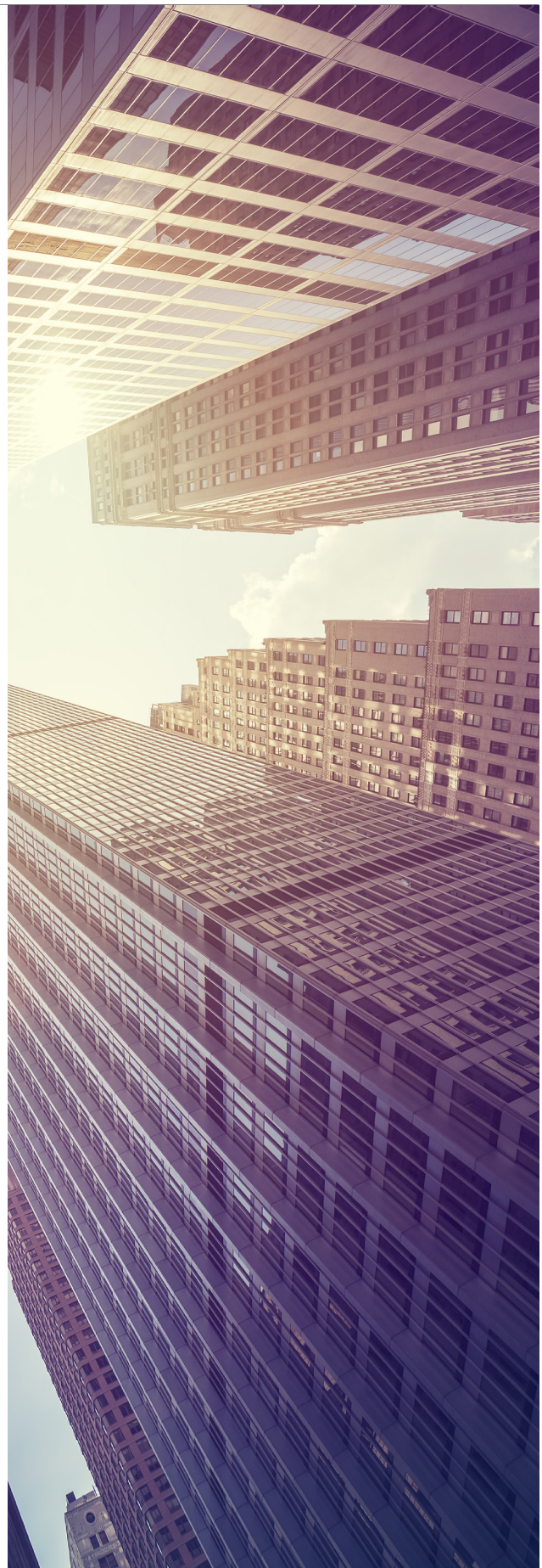


# Highlights of the State of the Market Survey

- In 2022, the overall percentage of those expecting a bullish market held steady at 73 percent, roughly consistent with 2021 expectations. However, this year, respondents reported feeling a higher level of confidence in a bull market over the next 12 months; 33 percent described their bullishness as an 8 or higher in 2022, compared to just 16 percent in 2021. The abundance of capital in the market was a significant reason for this optimism, with 52 percent of respondents citing it as their primary source of confidence – up 17 percentage points from last year. Interest rate increases (26 percent) and inflation (18 percent) were listed among the top reasons for a lack of confidence; other factors are also fostering a lack of confidence, with several respondents citing Russia's invasion of Ukraine. Nearly all – 99 percent – of respondents believe interest rates will increase over the next twelve months, compared to just 73 percent in 2021.
- Similarly, respondents ranked inflation (84 percent) and interest rate changes (76 percent) as the top two factors that are expected to impact the CRE market over the next 12 months. Other top factors include e-commerce (72 percent), redesign/ reimagining use of office and other commercial spaces (61 percent) and the migration of workers from densely populated city centers (44 percent).
- When asked specifically about the ongoing effects of the pandemic, a large majority (91 percent) of respondents expect escalating construction and/or development costs to continue impacting the market, followed by supply chain issues (89 percent), labor constraints (87 percent) and office occupancy in light of remote work/work from home (79 percent), indicating that the ramifications of the pandemic are expected to be felt throughout 2022 and beyond.
- Polled on the outlook for changes in the GDP over the next 12 months, there was an even divide among industry leaders. Forty-five percent believe US GDP will increase in the coming year, while an equal 45 percent think it will go down and the remaining 10 percent expect no change. In 2021, roughly half of respondents believed US GDP would return to pre-pandemic levels within 18 months.
- Two-thirds (66 percent) of respondents ranked logistics, warehousing and cold storage as the most attractive, risk-adjusted investment opportunity in commercial real estate. In 2021, when cold storage was polled as a separate category, it came in at 36 percent, while logistics and warehousing was selected by 61 percent of respondents. Multifamily (57 percent) was also ranked among the most popular CRE investment opportunities in the US for 2022 – marking an eight percentage-point jump since last year – as was life science and biotech (56 percent), while hotels and lodging fell 15 percentage points year-over-year.
- Cities along the Sun Belt continue to emerge as the top US cities targeted for investment over the next 12 months. Austin led the pack with 60 percent of respondents saying it is the most attractive city for investments over the next year – a 38 percentage-point jump since 2019. Other cities on the rise include Raleigh-Durham (42 percent), Nashville (39 percent), Phoenix (29 percent) and Miami (27 percent). In tandem, traditional hubs like Los Angeles (11 percent), New York (10 percent), Silicon Valley (7 percent) and San Francisco (5 percent) have seen investment appeal drop. Nearly half of respondents noted that the shift from densely populated city centers would have some degree of impact on their investment decisions. About two-thirds (62 percent) of respondents believe the COVID-19 pandemic will have significant impact on CRE in major urban areas.
- Private equity investors are anticipated to be the most active type of equity investors in the US over the next 12 months, with 48 percent of respondents ranking it first. This percentage is roughly consistent with prior years, as the percentage has fluctuated between 45 – 51 percent since 2019. Private equity was ranked within the top three by 92 percent of respondents. Domestic pension funds and endowments followed in ranking with 22 percent marking it as their top expectation, with non-US investors including sovereign funds (18 percent) rounding out the top three. Most respondents (57 percent) agree that non-US investments in the US will be strong over the next year, with expectations up 14 percentage points from our 2021 survey.
- Nearly two-thirds (64 percent) of respondents expect global political instability to be the biggest influencer of the global CRE market in 2022; this category reflects the largest increase over 2021 (54 percentage points). The global economic outlook is also expected to be a significant factor – though it is down slightly from last year – with 45 percent of respondents indicating it could influence the global CRE space in 2022.
- Fifty-four percent of respondents said that the pandemic will continue to increase the need for the repurposing of spaces and adding amenities in office buildings this year, as office needs change. A 54-percent majority of respondents agree that

the pandemic will impact office work long-term, with just 17 percent disagreeing. While the total percent in agreement is down slightly from 2021, when 58 percent expected the percentage of office workers who spend less than 50 percent of their time working in office buildings to increase, there was a notable jump in those who completely agree (28 percent in 2022 as compared to 18 percent in 2021).

- Only two percent of respondents said roughly 100 percent of workers in urban areas would be back in the office 12 months from now. At the same time, 9-in-10 respondents said roughly 50 or 75 percent of workers would be back in the office within a year. This is down only slightly from the 2021 survey when a combined 94 percent of respondents answered the same.
- More than two-thirds of our survey respondents noted that office vacancies will likely remain below pre-pandemic levels for at least two to three years (34 percent) or even more than 3 years (34 percent), and 20 percent expect office vacancies will never return to pre-pandemic levels.
- Respondents identified London as the most attractive non-US city for investment during the next 12 months for the fourth year in a row, coming in at 58 percent (up from 40 percent in 2021 and 32 percent in 2020). Berlin remained in the second spot with 23 percent, tied with Frankfurt. Other European markets ranked at the top include Paris (21 percent) and Munich (18 percent). Beijing, conversely, dropped to 4 percent in 2022 from 12 percent in 2021.



# Verbatims

## What are you most excited about in the next 12 months when it comes to the commercial real estate market?

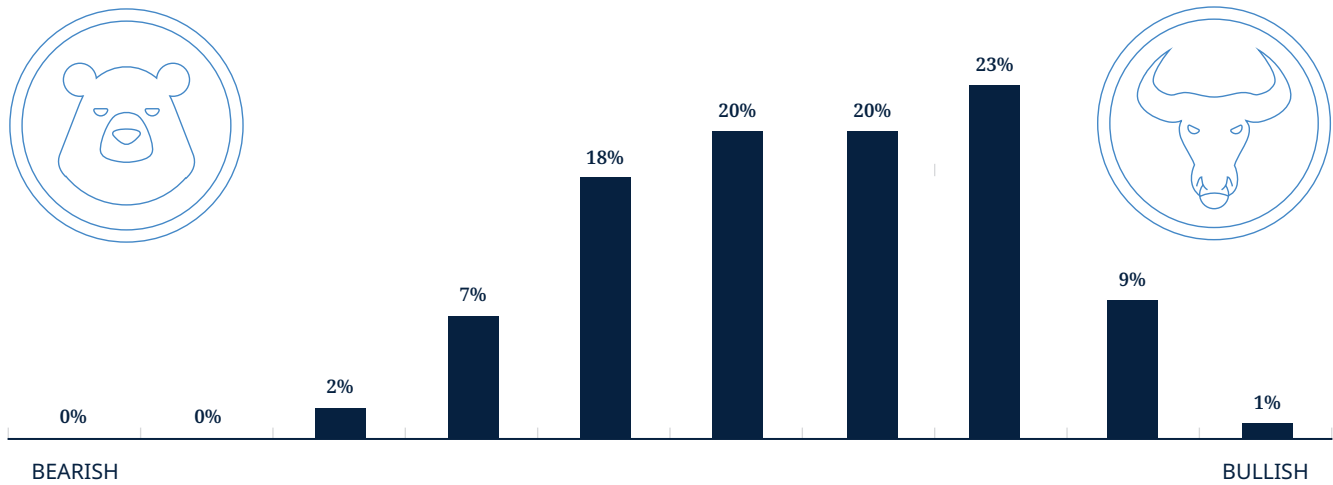
- Continued growth in multifamily and warehousing, significant growth in hospitality and some rebound in office and retail.
- Continuing recovery from pandemic, improved RTO (return-to-office) trend and re-energizing urban, central cores.
- Repurposing of regional malls.
- The continuing impact of transformative technologies on our industry.
- Volatility leading to opportunity.
- Getting back to “normal.”
- Variety as non-traditional real estate becomes more available.
- Creative uses of space.
- The abundance of capital will continue to drive the market.
- Revived tourism and entertainment demand.

## What are you most apprehensive about in the next 12 months when it comes to the commercial real estate market?

- Inflation and Covid impacts.
- Inflation's impact on the economy and how the government will react.
- Inflation and a lack of disposable income.
- Interest rates, inflation and pandemic resurgence.
- I'm apprehensive that office workers won't return in large numbers which will permanently damage downtown office markets and make cities less attractive places to live.
- Increased international tension and the impact that will have on cross-border investment.
- Inflation and geopolitical situation with Russia.
- Global economic instability given Russian invasion of Ukraine and cyberattacks.
- The lingering and unpredictable nature of the pandemic.
- Office demand declines will undermine building cash flow leading to debt default, lower valuations and reduced maintenance and renovation investment.



## 1. How would you describe your outlook for the US commercial real estate market over the next 12 months?



- In 2022, the overall percentage of those expecting a bullish market remained roughly consistent with 2021 expectations at 73 percent.
- However, this year, responses reflected a higher level of confidence in a bull market over the next 12 months; 33 percent described their bullishness as an 8 or higher in 2022, compared to just 16 percent in 2021.
- This is a stark contrast from 2020 at the onset of the pandemic, when only two percent ranked their bullishness at an 8 or higher, and a majority anticipated a bear market, with roughly 8-in-10 ranking their confidence as a 5 or lower.

## 2. What is the primary reason for your confidence?

Abundance of capital	52%
Strong fundamentals for most asset classes	20%
US economic outlook	16%
Continued rollout of COVID-19 vaccines, boosters and treatment	7%
Other	3%
Non-US investments in US real estate	1%
Favorable interest rates	1%

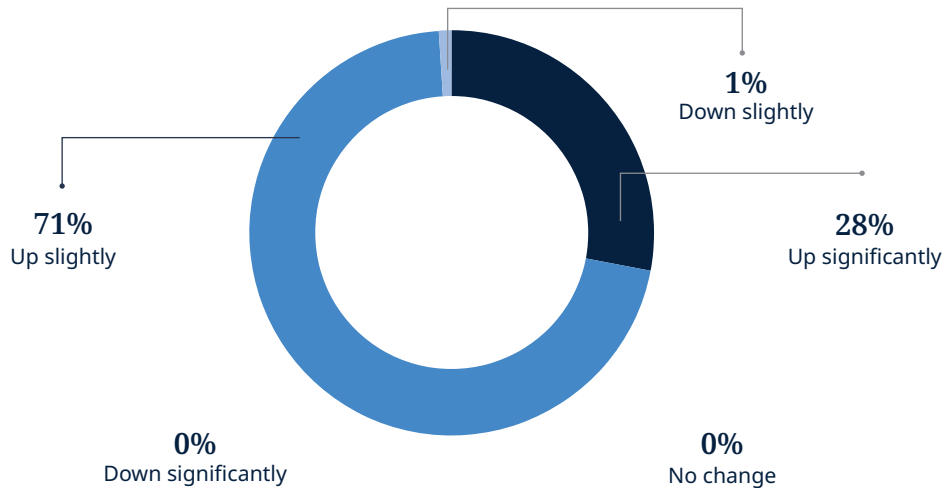
- Abundance of capital continues to be the top reason for an optimistic outlook on the US commercial real estate market. Over half of bullish respondents indicated an abundance of capital as the reason for their confidence, up 17 percentage points year-over-year and returning to 2020 levels.
- One-fifth of respondents (20 percent) indicated confidence from strong fundamentals for most asset classes. Many, for example, see underlying potential in the retail, life science and multifamily sectors that positions certain types of properties in those asset classes for recovery.
- The continued rollout of COVID-19 vaccines, boosters and treatment was previously a strong reason for confidence in 2021; however, as vaccines have reached Americans and testing has become readily available, this reason for optimism dropped down to seven percent this year, while confidence in the outlook of the US economy remained stable.

### 3. What is the primary reason for your lack of confidence?

Other	30%
Interest rate increase	26%
Inflation concerns	18%
Long-term effects of work from home	15%
Continuing impact of the pandemic	7%
Continuing social unrest	4%

- Interest rate increases and inflation are strong areas of concern in 2022, with over a quarter citing interest rate increases (26 percent), and almost one-fifth citing inflation (18 percent) as their primary reasons for lacking confidence in the US CRE market. This comes as no surprise given that, on an annual basis, 2021 saw the fastest price inflation since the early 1980s.<sup>19</sup> In March 2022, [prices surged 8.5 percent higher](#) compared to the same time last year, yet again setting a record for inflation.<sup>20</sup>
- However, fears surrounding the pandemic and its impact on the commercial real estate industry have started to decline. Concerns about the continuing impact have dropped by 28 percentage points, while concerns surrounding the long-term effect of working from home have dropped by nine percentage points. As restrictions [continue to lift](#) and [more businesses bring people back to in-person work](#), these fears may continue to wane throughout 2022.<sup>21,22</sup>
- “Other” was the most popular response (30 percent), with a majority of the open-ended responses attributing their lack of confidence to the ongoing Russian invasion of Ukraine.

### 4. Where do you think interest rates are headed during the next 12 months?

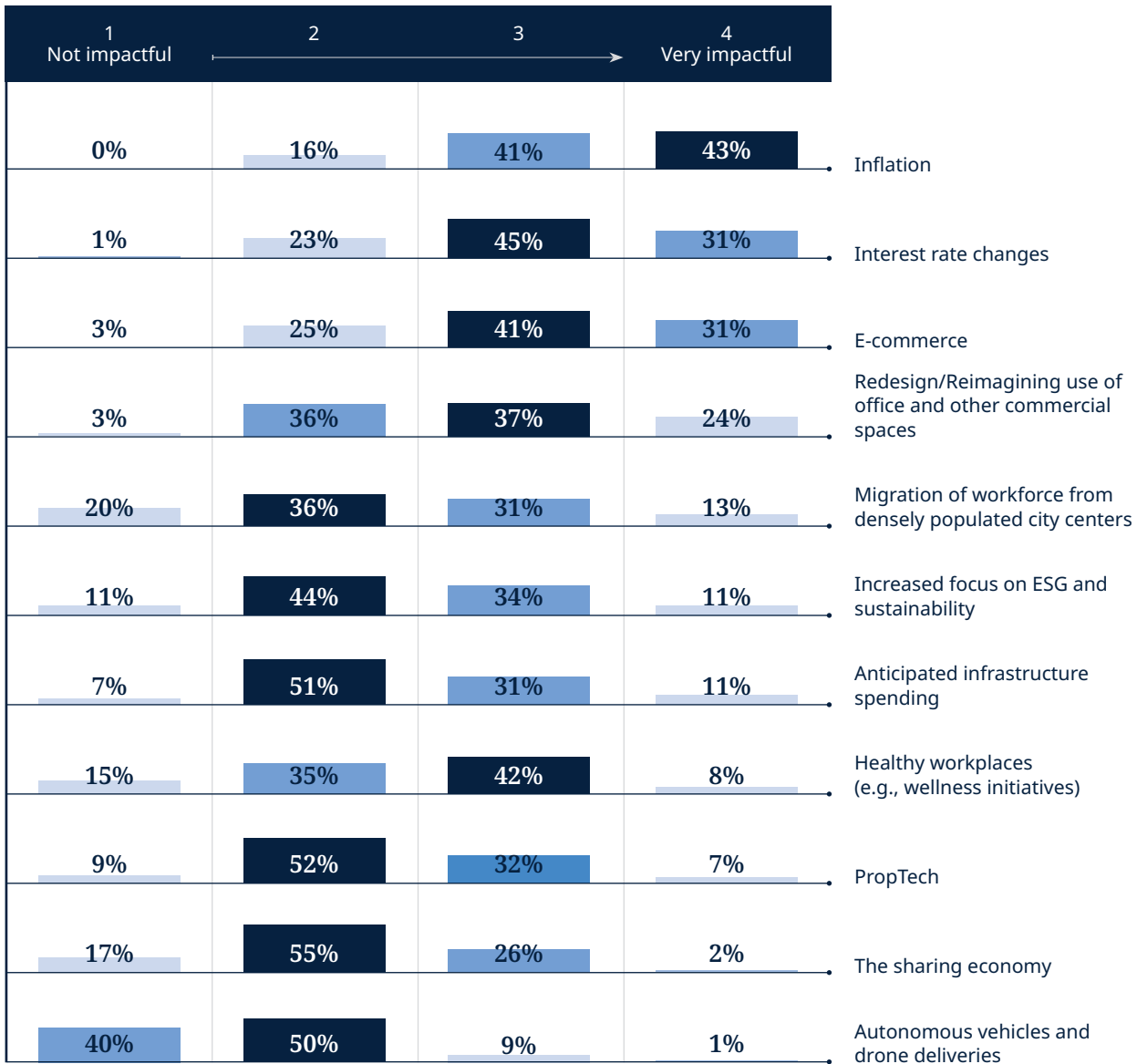


- There is an overwhelming expectation that interest rates are going up in the next 12 months. The majority of respondents believe that interest rates will go up slightly (71 percent), while nearly a third (28 percent) believe they will go up significantly – a 21 percentage-point increase year-over-year. These expectations are on par with the latest projections from the

Federal Reserve, which has said it [may raise rates as many as six more times in 2022](#).<sup>23</sup>

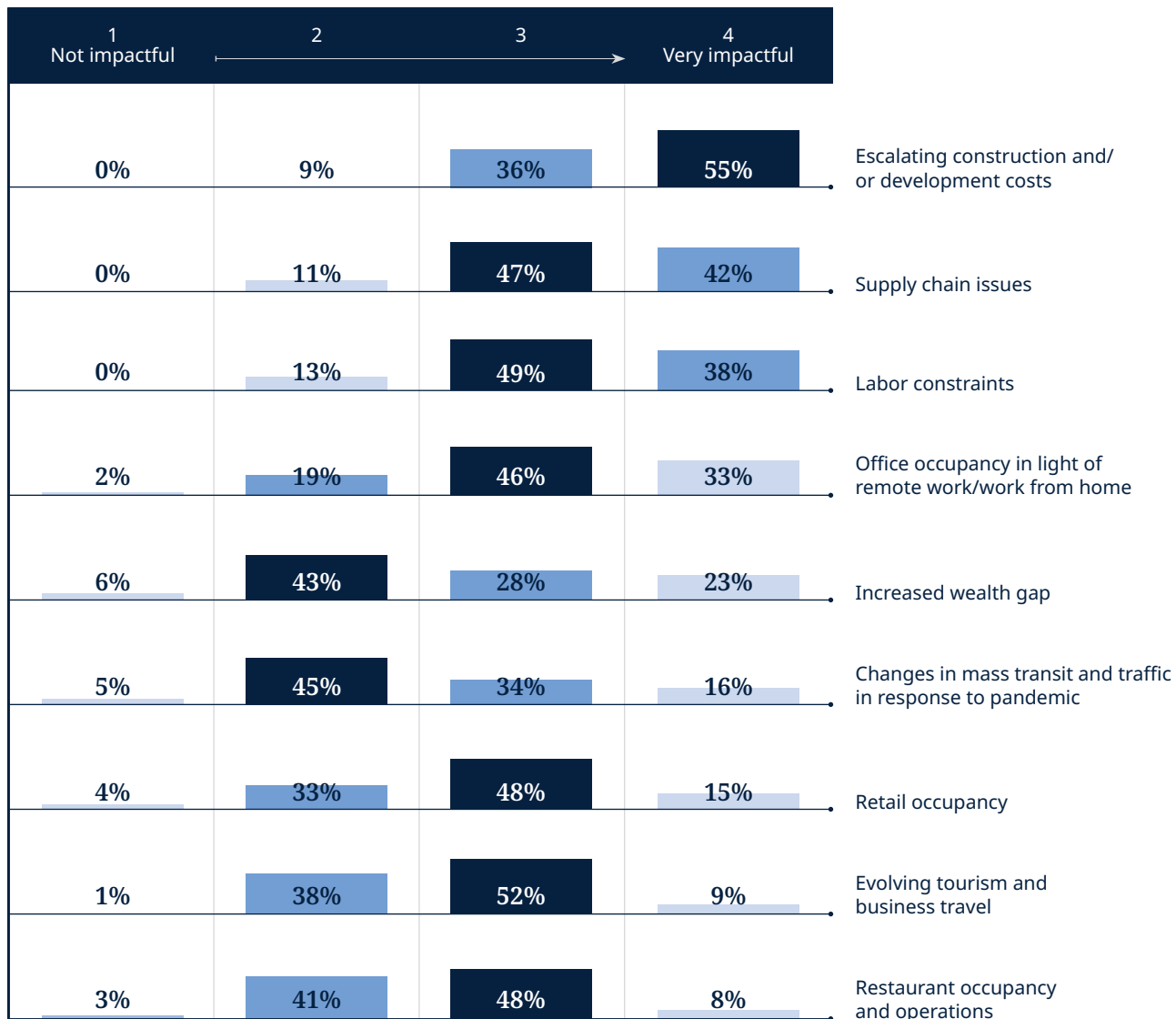
- Comparatively, in 2021, 24 percent of respondents thought interest rates would have no change in the next 12 months.

5. Please rank each of these topics on a scale of 1 to 4, where 1 means they will be “not impactful” and 4 means they will be “very impactful” on the commercial real estate market over the next 12 months.



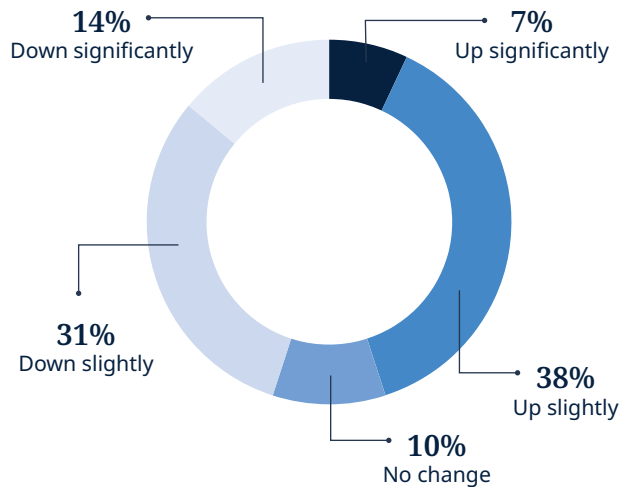
- There is strong belief that inflation (84 percent) and interest rate changes (76 percent) will impact the commercial real estate market over the next 12 months, in-line with their anticipated impact on the broader economy.<sup>24</sup>
- E-commerce continues to be viewed as impactful by the majority, with 72 percent noting its impact as this year’s global e-commerce sales are expected to top \$5 trillion for the first time ever.<sup>25</sup>
- Commercial workspaces continue to take on new forms, with industry leaders thinking about the impacts of reimagined office spaces.<sup>26</sup> Half of respondents (50 percent) believe healthy workplaces will be impactful in the next 12 months, and 61 percent noted the impact of reimagining the use of commercial spaces. Even as more organizations return to the workplace, it remains clear that offices are likely permanently changed.

**6. Thinking specifically about the ongoing impacts the pandemic has had and may continue to have on the commercial real estate market, please rank each of these topics on a scale of 1 to 4, where 1 means they will be “not impactful” and 4 means they will be “very impactful” on the commercial real estate market over the next 12 months.**



- Ninety-one percent of respondents said that escalating construction and development costs would be impactful; when combined with large majorities citing labor constraints and supply chain issues – 87 percent and 89 percent, respectively – that could create greater limits on new building development, which could have long-term impacts on economic expansion.
- Additionally, office occupancy in light of remote work/work from home is perceived as impactful by 79 percent of respondents, as the hybrid work model becomes more mainstream. According to a Gallup survey, only 23 percent of employees anticipate working fully on-site for 2022 and beyond.<sup>27</sup>
- Retail occupancy (63 percent) and restaurant occupancy and operations (56 percent) have improved but continue to be seen as impactful to the commercial real estate market. While many retail indicators – like foot traffic and sales at malls – have returned to pre-pandemic levels, the retail sector continues to feel the after-effects of the pandemic.<sup>28,29</sup>

**7. The US GDP expanded at an annual rate of 6.9% in the fourth quarter of 2021. In the next 12 months, do you anticipate the GDP will go ...**



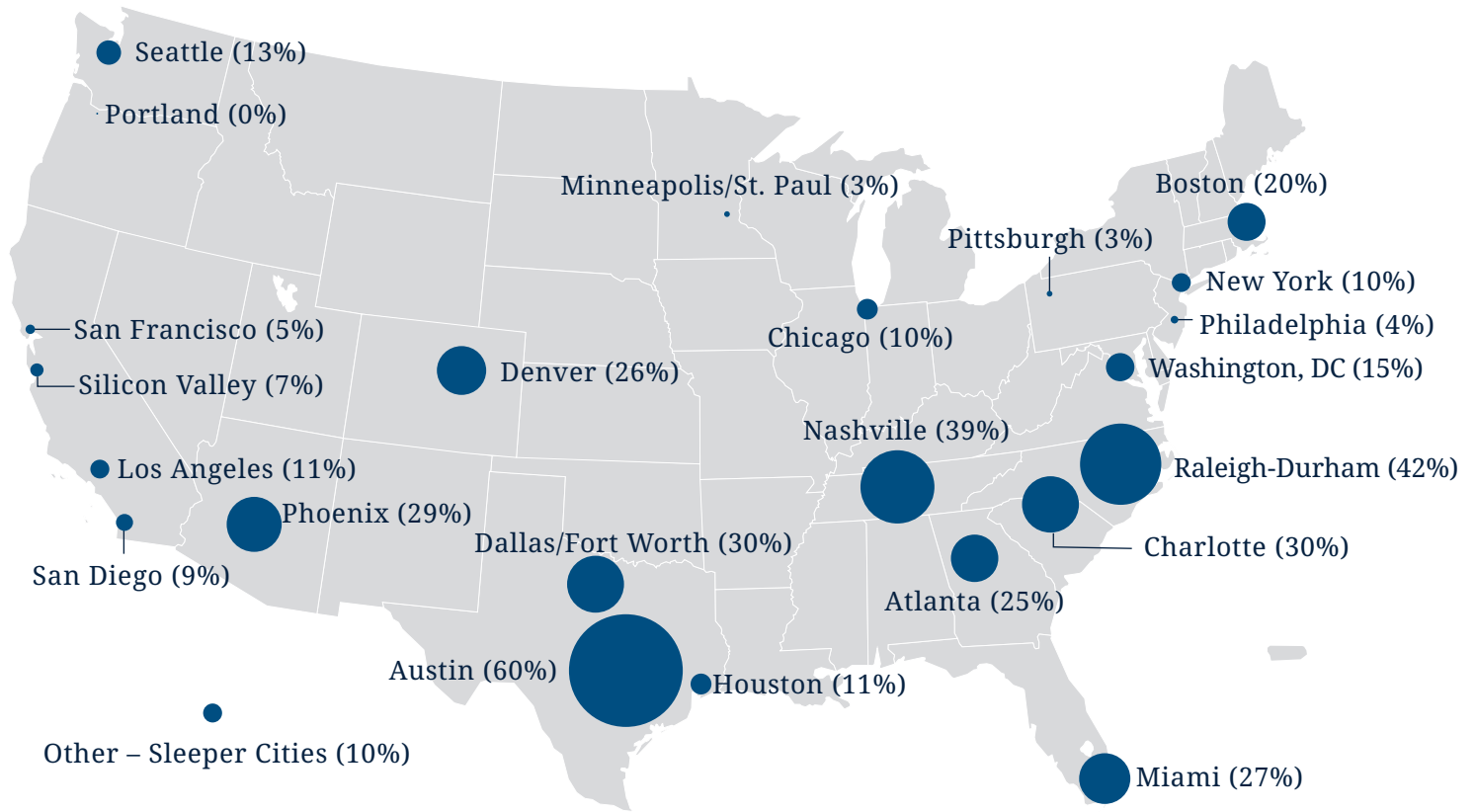
- In 2021, respondents were optimistic that US GDP levels would return to pre-COVID-19 levels in two years or less, as roughly half of last year’s respondents believed US GDP would return to pre-pandemic levels within 18 months. In the fourth quarter of 2021, the US GDP reached [\\$23.99 trillion](#), compared to a pre-pandemic level of [\\$21.73 trillion](#) in the final quarter of 2019.<sup>30,31</sup>
- However, in 2022, anticipations of changes in the GDP are a mixed bag. Forty-five percent of respondents believe the GDP will go up, while the same amount believe it will go down. One-in-ten (10 percent) believe there will be no change.
- This split follows significant GDP growth in 2021, as [from 1948 until 2021, the US GDP growth averaged 3.14 percent per year](#).<sup>32</sup> Since the start of the pandemic, that has accelerated; there was a [5.7 percent increase in 2021](#), showcasing that it may now be normalizing over time – despite [varying expectations](#); that is, forecasts of a GDP decrease may be taking into account the unusually large recent GDP growth.<sup>30,33</sup>
- Those who believe the GDP will go up refer to pent-up consumer demand and a return of consumer confidence following the vaccine rollout. On the flip side, other respondents believe the GDP will go down due to a slow return to pre-Covid behaviors, inflation and the conflict in Ukraine.

**8. Which of the following factors will have the greatest impact on the global commercial real estate market?**

Global political instability	64%
Global economic outlook	45%
US economic outlook	39%
US/EU relations with Russia	35%
Continuing impact of pandemic generally	29%
Impact of pandemic on use of space	24%
US relations with China	19%
Climate change/ESG initiatives	15%
Tourism and business travel	10%
Other	1%

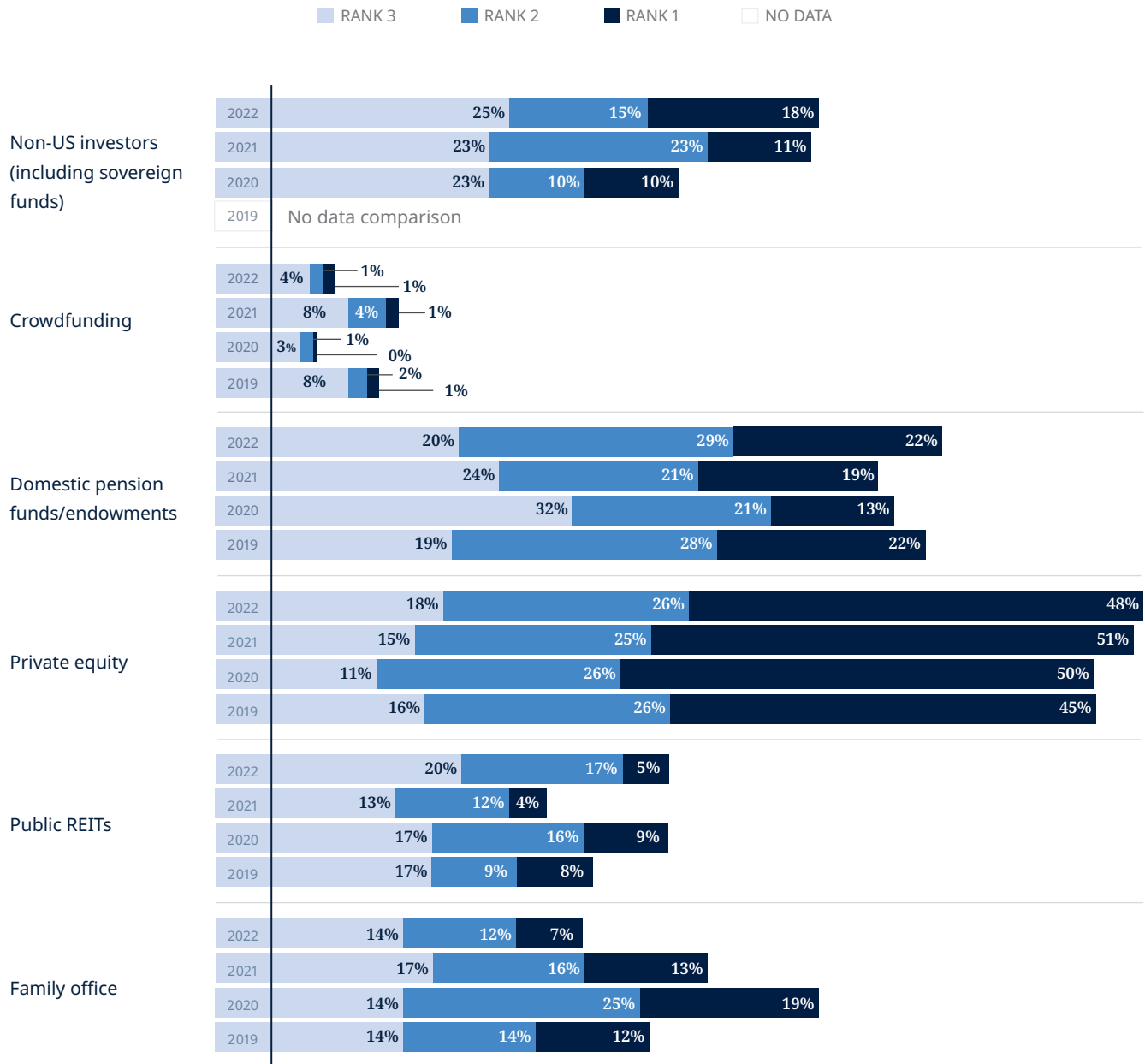
- Nearly two-thirds (64 percent) of respondents expect global political instability to be the biggest influencer of the global CRE market in 2022 – with the largest increase over 2021 (54 percentage points). As the Russian invasion of Ukraine continues, so too do its ramifications, leaving investors conscious of its impact in the coming months.
- The global economic outlook is also expected to be a significant player, with 45 percent of respondents indicating it could have the greatest influence on the global CRE space. This number is down slightly from 2021, signaling increased confidence in the global economy as post-pandemic recovery continues. Still, [interest rates](#) and [inflation](#) continue to impact global markets, making decision-makers mindful of their potential effects.<sup>34,35</sup>

## 9. Where are the top US cities for investment during the next 12 months?



- Increased flexibility, hybrid and remote work have accelerated a redistribution of the population. Smaller cities continue to see a spike in both population and opportunity for retail investment. Austin was the most attractive market for investors at 60 percent – up 38 percentage points from 2019, before the pandemic.
- Other top cities for investment include Raleigh-Durham (42 percent) and Nashville (39 percent). Decision-makers are likely to favor rapid development of new areas like these smaller, second-tier cities as the population shift continues.
- Data from the Census Bureau indicated that major US cities saw the [slowest year of population growth in history](#) in 2021, and that was reflected in our report's findings on investment.<sup>16</sup> Traditional hubs like New York (10 percent) and Los Angeles (11 percent) were less popular among investors. Those regions can expect a shift toward quality over quantity, as competition for the "best" real estate is limited by slower population growth.

### 10. What types of equity investors do you expect will be most active in the US during the next 12 months?



- The most respondents by far expect private equity investors to be most active in the US over the next 12 months, with 48 percent of respondents ranking them first. This number is roughly consistent with prior years, as the percentage has fluctuated between 45 – 51 percent since 2019.
- Private equity was ranked within the top three by 92 percent of respondents, demonstrating clear anticipation of a continued flow of investments from this group in 2022. A 2022 survey

from [CrowdStreet](#) found that 98 percent of respondents plan to make at least one private equity real estate investment over the next 12 months, as investors turn to commercial real estate to diversify their portfolios and balance risk.<sup>36</sup>

- Domestic pension funds and endowments followed in ranking for #1 with 22 percent, with non-US investors (including sovereign funds) rounding out the top three with 18 percent.

## 11. Which asset classes present the most attractive, risk-adjusted opportunity in the US for real estate investors during the next 12 months?

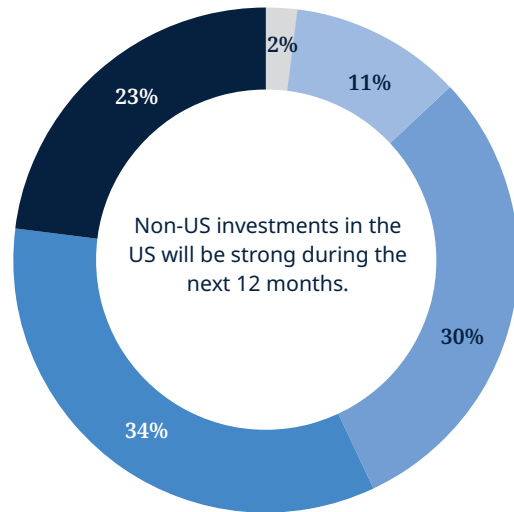
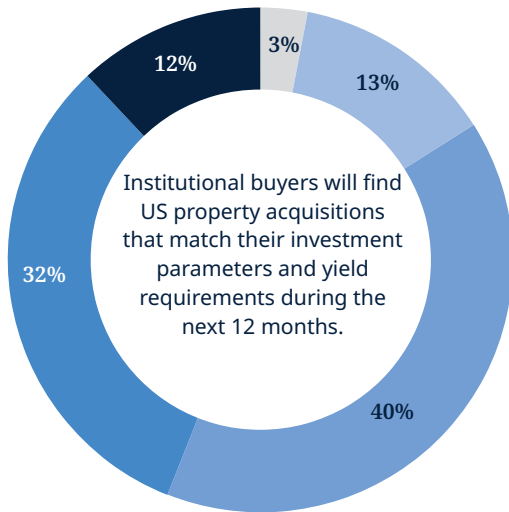
Logistics, Warehousing and Cold Storage	66%
Multifamily	57%
Life Science/Biotech	56%
Data Centers	45%
Industrial/Manufacturing (excluding logistics, warehousing and cold storage)	38%
Medical Offices	28%
Repurposing of Spaces	28%
Affordable/Workforce Housing	27%
Single-Family Rental Housing	25%
Grocery Anchored Shopping Centers	22%
Manufactured Housing/Mobile Homes	16%
Senior Housing	13%
Urban Mixed-use Development	11%
Student Housing	10%
Office Suburban	9%
Office Downtown	8%
Hotels/Lodging	7%
Luxury Condominiums	4%
Other	3%
Regional Malls	2%

- Logistics, warehousing and cold storage was the top response in 2022, with 66 percent of respondents identifying it as the most attractive opportunity for US investors over the next year. In 2021, cold storage was measured as a separate category from logistics/warehousing, with those two categories coming in at 36 percent and 61 percent, respectively.
- As consumer demand remains strong and supply chain challenges persist, logistics, warehousing and cold storage will continue to be a good opportunity for investors in the US.<sup>37</sup>
- Multifamily (57 percent) was also listed among the most attractive investment opportunities and saw the biggest jump, up eight percentage points from 2021 and 22 percentage points from 2020. This is likely driven in part by inflation and interest rate increases, which typically result in more renters and the migration of workers to new cities. Other types of housing on the list include affordable housing (27 percent), single-family rentals (25 percent), manufactured homes (16 percent) and senior housing (13 percent).
- Twenty-two percent of respondents identified grocery-anchored retail and shopping centers as an attractive investment, demonstrating a clear shift in retail investment away from regional malls to more local retail.
- Other top areas for investment identified in the survey include life science/biotech (56 percent), data centers (45 percent) and industrial – excluding logistics and warehousing (38 percent).



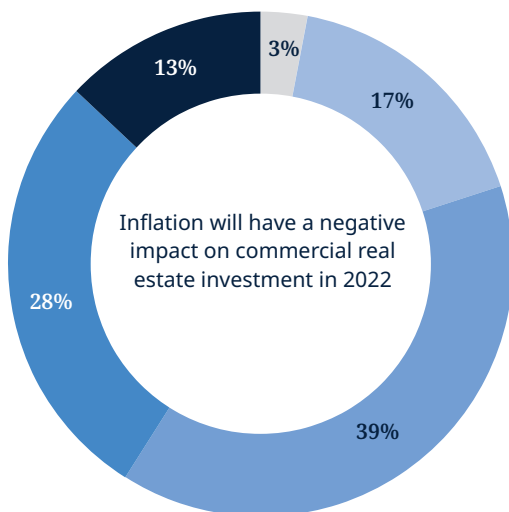
12. Listed below are statements that express a range of attitudes and opinions people may have about the commercial real estate market. Please rate each on a scale of 1 to 5, with 1 meaning that you completely disagree with this statement, and 5 meaning you completely agree with this statement.

■ COMPLETELY DISAGREE   ■ DISAGREE   ■ NEUTRAL   ■ AGREE   ■ COMPLETELY AGREE



- A notable number of respondents (40 percent) remained neutral, but most (44 percent) agreed that institutional buyers will match US property acquisitions to their investment parameters and yield requirements. This could be due to a number of factors, including access to capital and actual and anticipated interest rate increases.

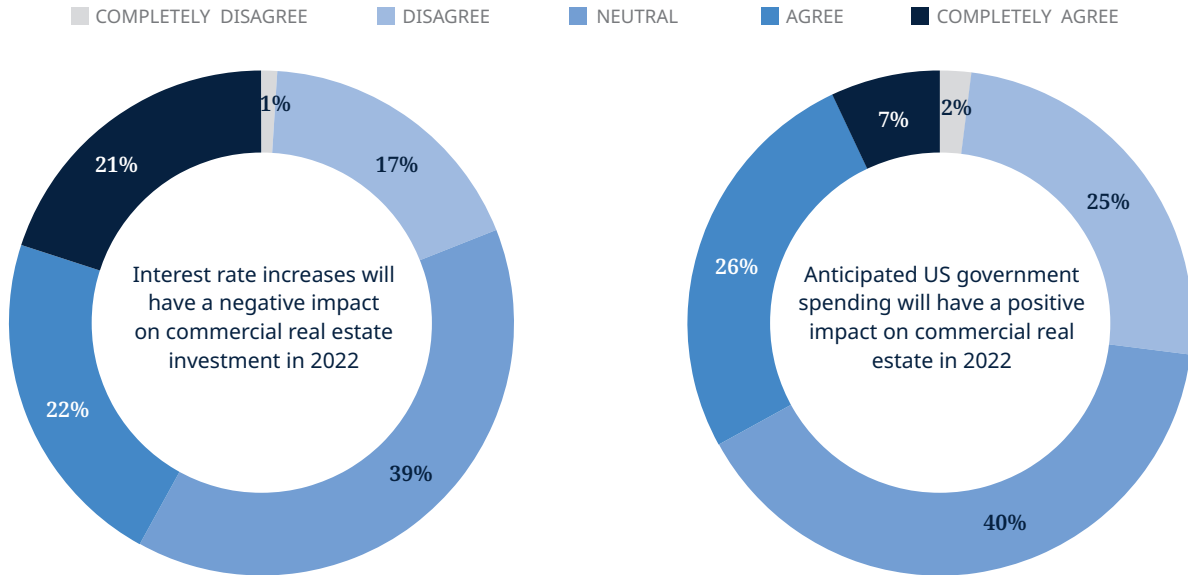
- Most respondents (57 percent) agreed that non-US investments in the US will be strong over the next year, as global economic and geopolitical uncertainty drive investors toward safe havens.
- Non-US investments are on the rise again following the pandemic, with expectations for 2022 up 14 percentage points from our 2021 survey.



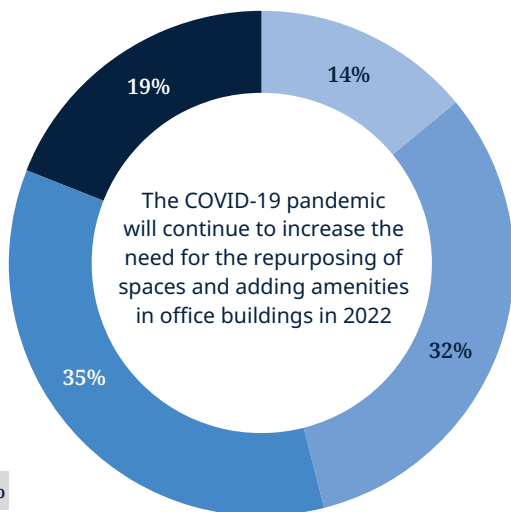
- A large portion of respondents (39 percent) remained neutral on the impact of inflation as well, though 41 percent still believe it will negatively influence investment in the commercial real estate industry.
- Inflation came in second among top concerns for respondents, trailing only interest rates. While it is clear industry leaders are monitoring the impact of inflation, many are less certain that it will significantly reduce investments in 2022. Inflation and interest rate increases can benefit the multifamily market, for example, as both factors drive more people to rent, and rates consequently increase.

Content continues on the next page

(continued) Listed below are statements that express a range of attitudes and opinions people may have about the commercial real estate market. Please rate each on a scale of 1 to 5, with 1 meaning that you “completely disagree” with this statement, and 5 meaning you “completely agree” with this statement.



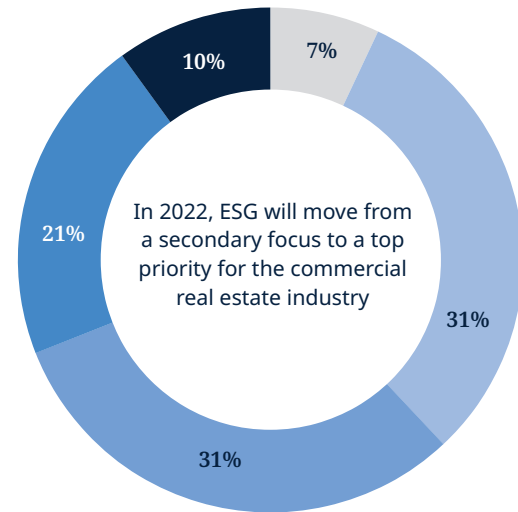
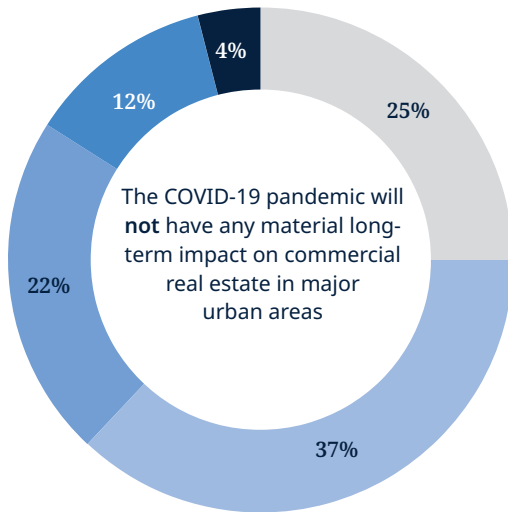
- A majority of respondents (43 percent) agreed that interest rate increases will negatively impact investment in our industry in the year ahead, with just 18 percent disagreeing. As we saw in our data, interest rate increases were listed as the top concern (26 percent) among respondents, and nearly all – 99 percent – believe interest rates will increase over the next twelve months.<sup>13</sup>
- Respondents were largely split on whether the expected impact of anticipated US government spending will be positive for the commercial real estate industry, with 33 percent agreeing, 27 percent disagreeing and 40 percent remaining neutral.
- While anticipated US government spending will remain a consideration for CRE industry leaders in their decision-making, the split among respondents indicates we may not see a clear impact on decisions one way or the other.



- Fifty-four percent of respondents said that the pandemic will continue to increase the need for the repurposing of spaces and adding amenities in office buildings this year, as office-goers change the way they use their space and office demand remains lower than pre-pandemic levels.<sup>38</sup>
- Some companies are seeking smaller or shared spaces for work, while others are moving locations, pursuing shorter-term leases or giving up offices entirely – the latter of which creates a need for total repurposing.

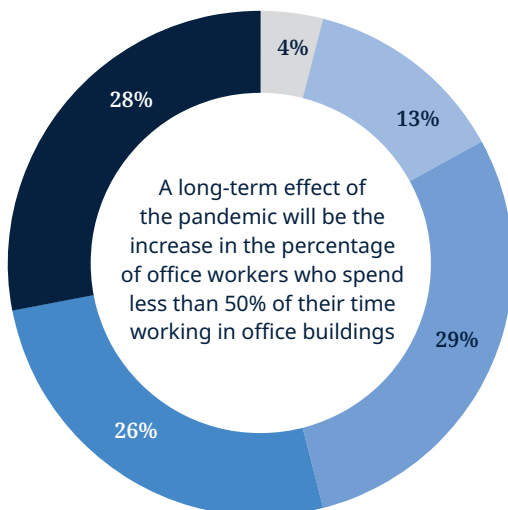
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■ COMPLETELY DISAGREE   ■ DISAGREE   ■ NEUTRAL   ■ AGREE   ■ COMPLETELY AGREE



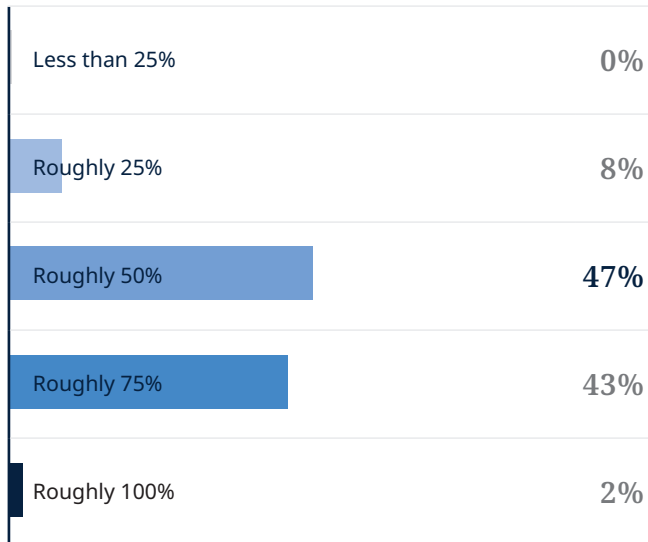
- Nearly two-thirds (62 percent) of respondents feel the COVID-19 pandemic **will** have some type of material impact on CRE in major urban areas, as we also saw in our results regarding investments in smaller cities like Austin and Raleigh-Durham. In addition to demographic shifts and population redistribution, major urban areas are also expected to see a continued repurposing of CRE spaces.

- Less than one-third (31 percent) of respondents expect ESG to become a top priority for the CRE industry in 2022, with 38 percent disagreeing entirely.
- As companies in all industries face increased pressure from stakeholders, considerations like ESG are likely to remain a factor in certain business decisions – although respondents expect it to remain secondary in the CRE industry in 2022.



- A 54-percent majority of respondents agreed that the pandemic will impact office work long-term, with just 17 percent disagreeing. While the total percent in agreement is down slightly from 2021, when 58 percent expected the percentage of office workers who spend less than 50 percent of their time working in office buildings to increase, there was a notable jump in those who completely agreed (28 percent in 2022 as compared to 18 percent in 2021).
- These shifts show that the remote and hybrid workplace is increasingly establishing its popularity and, ultimately, influencing the future of commercial office space.

**13. According to a Gallup poll, 83% of employees in white-collar jobs reported working from home either all or part of the time at the peak of the pandemic. This percentage has come down, but remains high. What percentage of workers in urban areas do you expect to be back in their offices consistently 12 months from now?**



- As consumers resume travel and return to social events, they're also returning to their offices — however, as the survey highlights, hybrid and remote work persists as a dominant part of today's work culture.
- Only two percent of respondents said roughly 100 percent of workers in urban areas would be back in the office 12 months from now. However, showcasing the dominance of the hybrid model, 90 percent of respondents said roughly 50 or 75 percent of workers would be back in the office consistently within a year. This is down only slightly from the 2021 survey when a combined 94 percent of respondents answered the same.
- In March, Microsoft released the latest [Work Trend Index](#) showcasing the continued challenges for business leaders to prove why a commute into the office is worthwhile for employees.<sup>39</sup> In fact, 51 percent of currently hybrid employees in the Index said they are considering going fully remote within the year. How companies redesign current and future workplaces will play a key role in encouraging employees to remain (at least part-time) in the office.

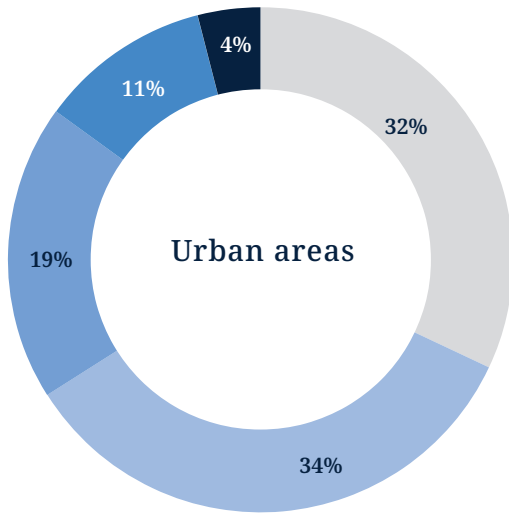
**14. When do you anticipate US office building vacancy returning to pre-pandemic levels?**



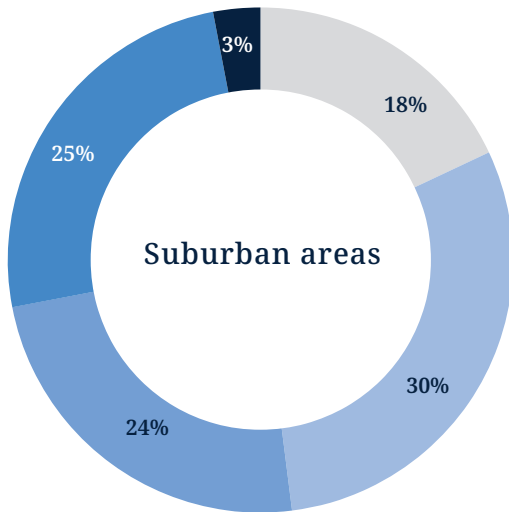
- Even as life seemingly returns to normal in many regions around the world, more than two-thirds of our survey respondents noted that office vacancies will likely remain below pre-pandemic levels for at least two to three years (34 percent) or even more than 3 years (34 percent).
- Surprisingly, 20 percent of our survey respondents believe that office vacancies will never return to pre-pandemic levels, shining a light on the importance of re-imagining office space into other real estate models.
- Urban markets like [downtown Houston](#) are experiencing a mix of investors reconfiguring former office towers into boutique luxury hotels, while other investors are re-doubling investments into existing office spaces to attract tenants in such a competitive market.<sup>40</sup>

**15. In the next 12 months, how likely is it that US office building vacancy will return to pre-pandemic levels in the following locations, with 1 meaning very unlikely, and 5 meaning very likely?**

VERY UNLIKELY
  UNLIKELY
  NEUTRAL
  LIKELY
  VERY LIKELY

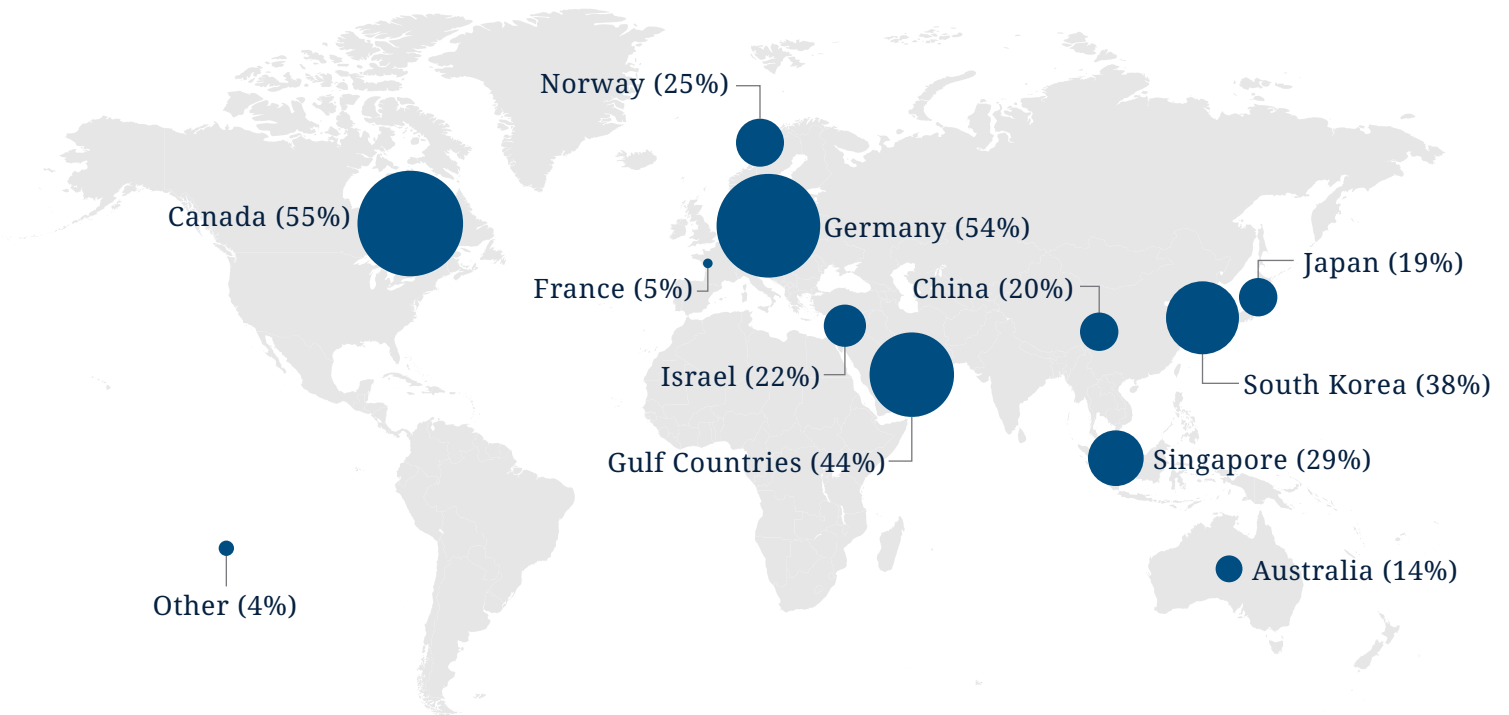


- Urban areas continue to face the most significant headwinds when it comes to US office building vacancy. Two-thirds of survey respondents said it is very unlikely or unlikely for urban office vacancy to return to pre-pandemic levels, while only four percent said it was very likely.
- While it's uncertain when urban areas will once again reach pre-pandemic levels, there are some positive signs. Office leasing is picking back up in the largest markets. For example, in New York – though not surpassing the breakneck pace seen in the latter half of 2021 – occupancy rose 25 percent in the first three months of 2022.



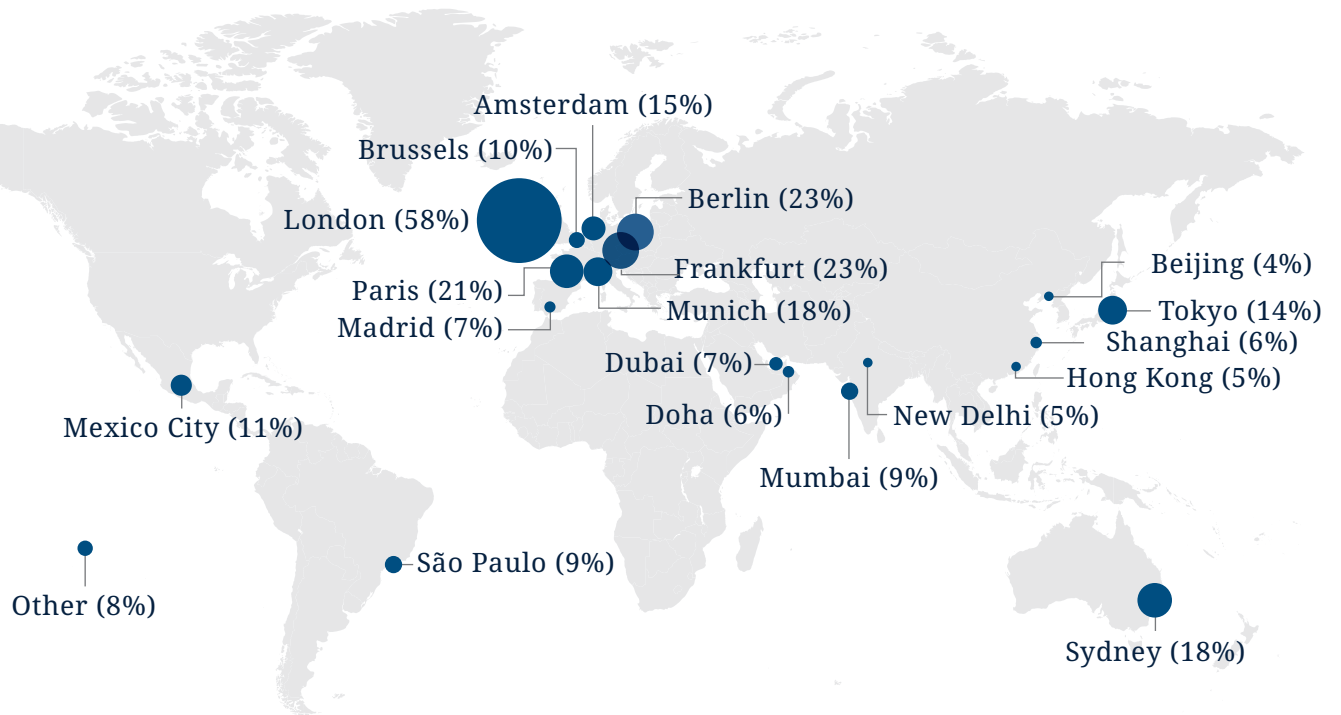
- In comparison, survey respondents continued to be more optimistic about office leasing in suburban areas. Over a quarter of respondents said it is very likely or likely that US suburban office building vacancy will return to pre-pandemic levels in the next 12 months.
- At the same time, almost 50 percent of respondents said these regions would be very unlikely or unlikely to meet these targets, highlighting the ongoing uncertainty surrounding office leasing.<sup>41</sup>

## 16. Investors from which of the following countries will be most active in the US commercial real estate market during the next 12 months?



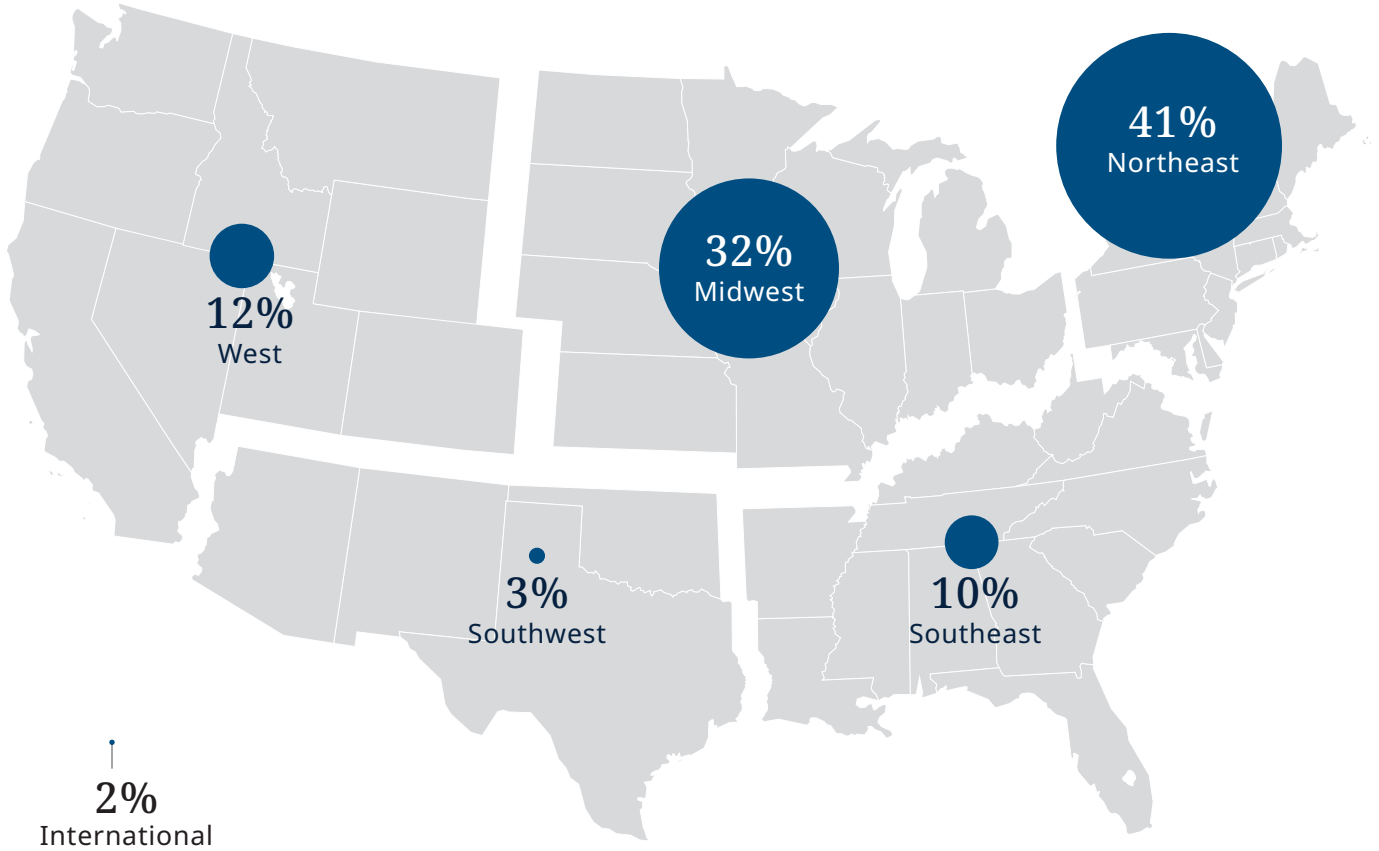
- Investors in Canada (55 percent) followed closely by those in Germany (54 percent) ranked as the countries that are expected to be most active in commercial real estate investments – both of which experienced year-over-year growth. The activeness of investors from Canada increased by nine percentage points, while German investors increased a whopping 26 percentage points.
- The Gulf Countries (44 percent) and South Korea (38 percent) also ranked high on potential activity.
- According to [NAR's 2022 Commercial Real Estate International Business Trends report](#), non-US investors purchased an estimated \$57.7 billion in US commercial real estate in 2021, up 49 percent from 2020, driven by a strong recovery across the industry that is set to continue into 2022.<sup>42</sup>

## 17. Which of the following international cities are most attractive for investment during the next 12 months?

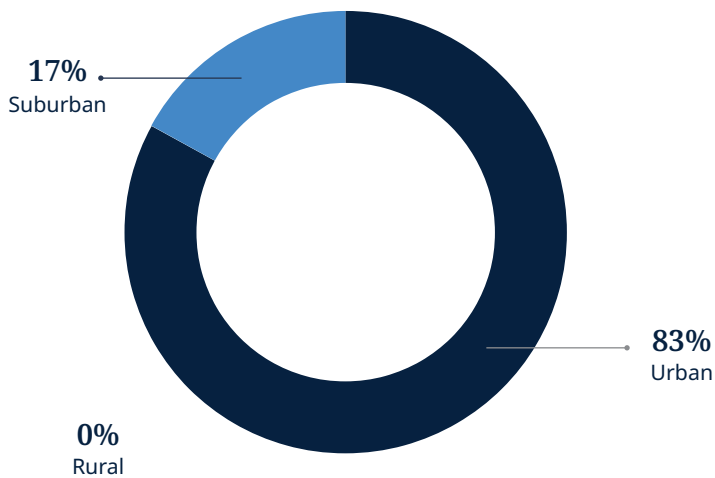


- For the fourth consecutive time, respondents identified London as the most attractive non-US city for investment during the next 12 months at 58 percent, an increase from 40 percent in 2021 and 32 percent in 2020. The continued interest in the London market demonstrates that Brexit concerns have not dampened the appetite for investment in the region, nor has the pandemic decreased the enthusiasm for investment in one of the world's leading financial centers.
- Berlin remained in the second spot with 23 percent, tied with Frankfurt. Other European markets ranked at the top include Paris (21 percent) and Munich (18 percent).
- This heightened focus on Western markets, likely driven by ongoing global political unrest, also impacted the attractiveness in markets like Beijing, which dropped to four percent in 2022 from 12 percent in 2021.

### 18. Where is your primary residence?

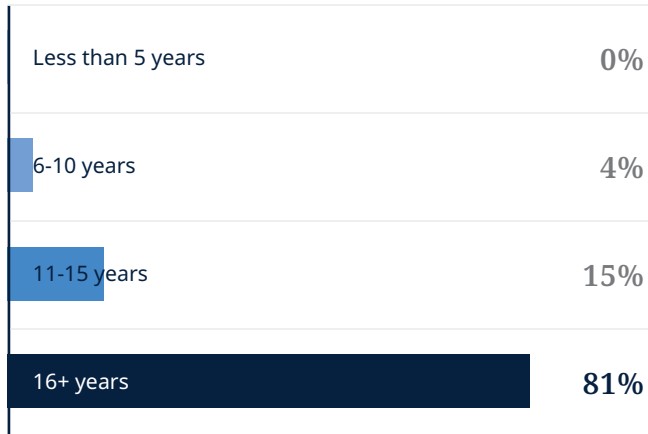


### 19. How would you describe the area where you work?

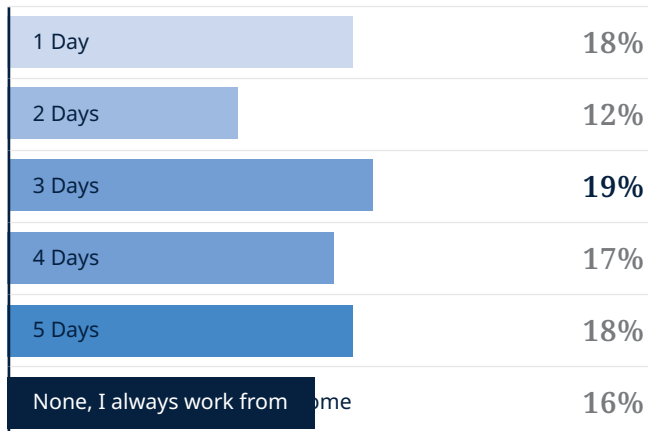




## 20. How long have you worked in commercial real estate?



## 21. In a typical week, how many days do you work from a physical office space outside of your home?



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# Methodology

Between February 23 – March 21, 2022, DLA Piper distributed a survey to experts within the commercial real estate industry via email lists. These experts include CEOs, COOs, CFOs, real estate developers, real estate debt providers, real estate investors, third-party brokerage, property and asset managers and other real estate professionals. The survey was completed by 102 respondents in total. Due to rounding and multi-select questions, percentages used in some of the questions may not equal 100 percent.

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# 2021 DLA Piper Real Estate Review

With approximately 175 real estate lawyers in the US and 500 globally, we have the opportunity to be involved in hundreds of real estate transactions involving most major markets and virtually all asset types. We are excited to share with you the below highlights from the past year, together with notable deal trends and insights we've observed in the commercial real estate market.



We handled over 3,000 real estate matters in the United States in 2021. The most active US markets for our clients last year were the San Francisco Bay and Greater Los Angeles Metro areas, the Austin and Dallas-Fort Worth areas, various metro areas in Florida, Boston, and New York City.

Our largest deal volume was in acquisitions and dispositions, but our development teams were also incredibly busy with new projects. Joint ventures, leasing, and real estate finance rounded out the top five areas in which we worked in 2021.

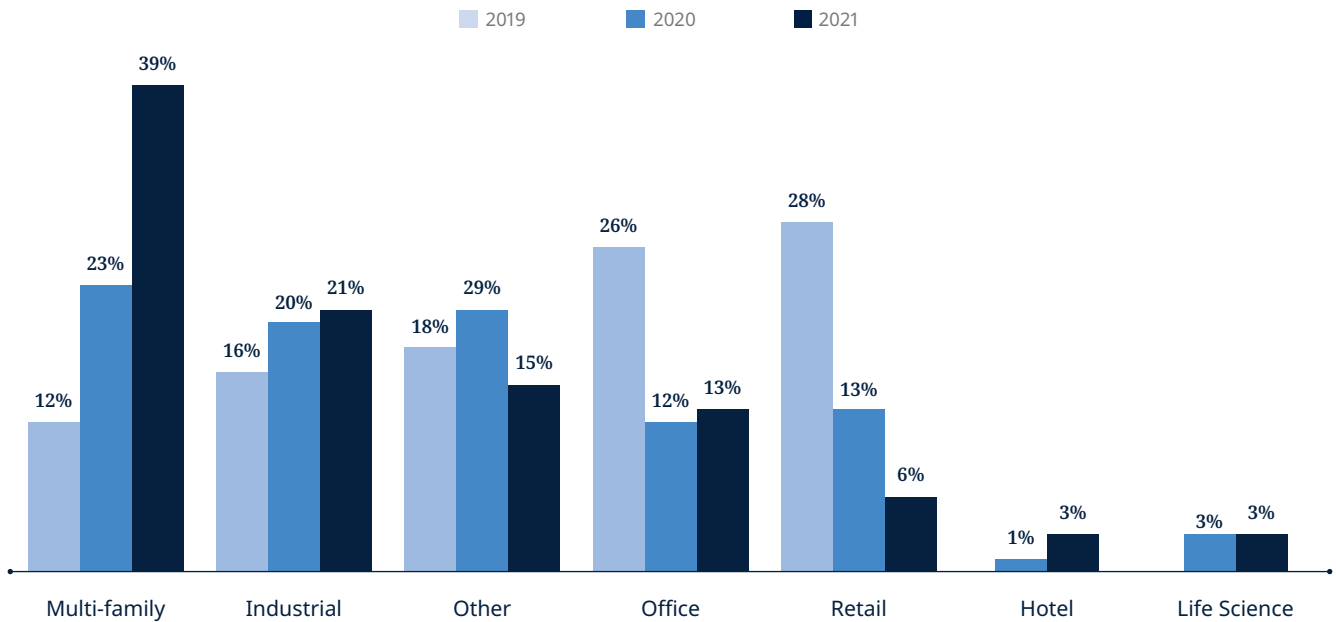
## Trends

Because of the size and scope of our real estate practice, we have a unique window on certain trends with respect to the negotiation of real estate related agreements. With the help of our knowledge management (KM) team, we've recently analyzed over 300 purchase and sale agreements that were executed from 2019-2021. These transactions ranged from approximately half a million dollars to over two billion dollars, included vacant land, single parcel sites, and portfolio transactions, and covered property across the US.

Our KM team reviewed these agreements for certain deal metrics that help us identify trends, provide insight into acquisitions and dispositions, and leverage our collective knowledge to negotiate for our clients more effectively and efficiently. Turn the page for a snapshot of the trends we're following.

## Asset Classes

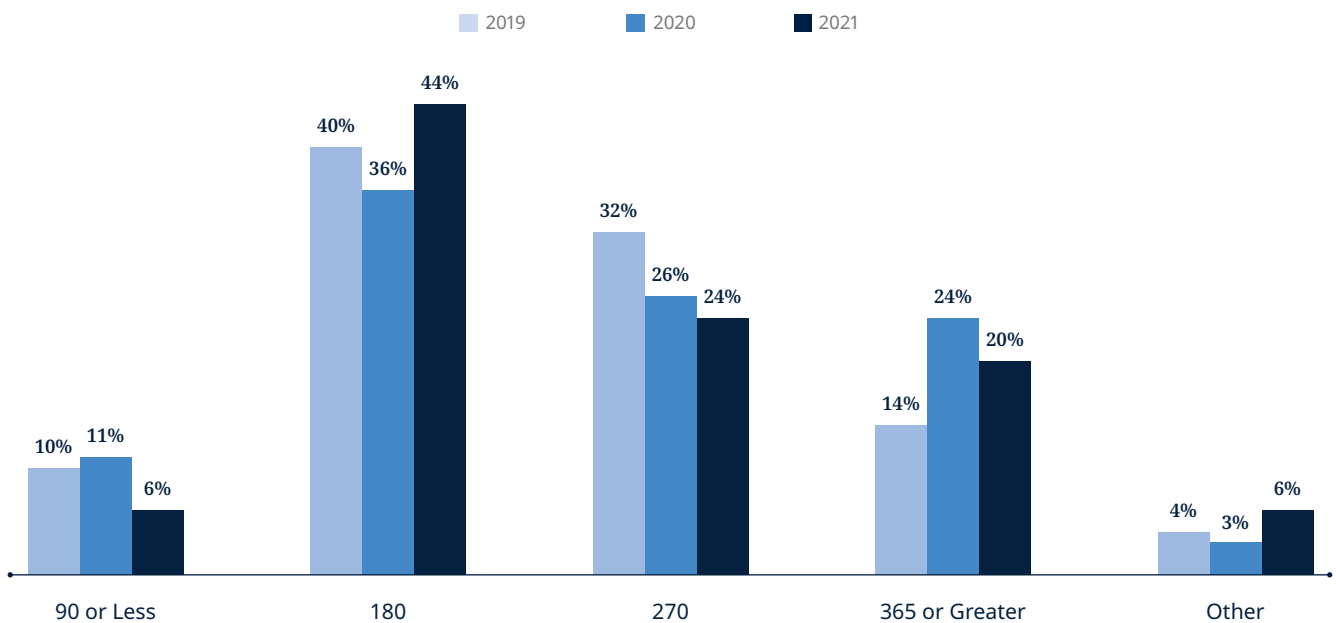
We've seen continued growth in transaction volume for the multi-family, industrial, and life sciences sectors. The office and retail sectors experienced significant dips in 2020, but office began to recover in 2021.



It should be noted, however, that we are also seeing an increase in office and retail acquisitions for the purpose of converting the asset to life science or industrial use.

## Survival Period

With respect to survival periods, six months remains the most common option for parties negotiating purchase and sale agreements.

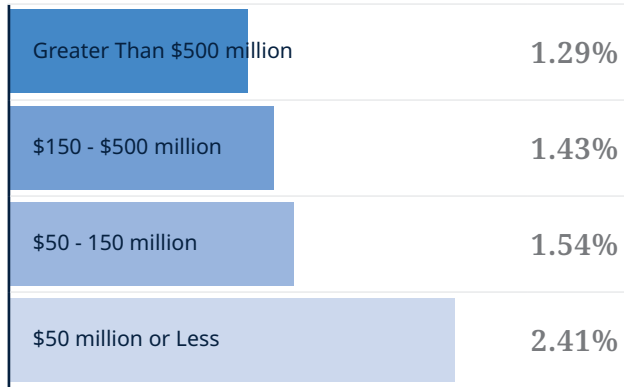


We did see an increase in longer survival periods in 2020, which may have been due in part to the reduced occupancy of many asset types and the limited availability of inspection personnel as a result of the pandemic.

## Liability Caps and Floors

Liability claim caps and floors for a seller's breach of its representations and warranties did not shift significantly over the 2019-2021 review period. In 2021 transactions, the average liability cap percentage decreased as the purchase price increased, with the converse occurring with respect to the average monetary amount of liability floors.

Avg Liability Cap % by Purchase Price Grouping (2021)

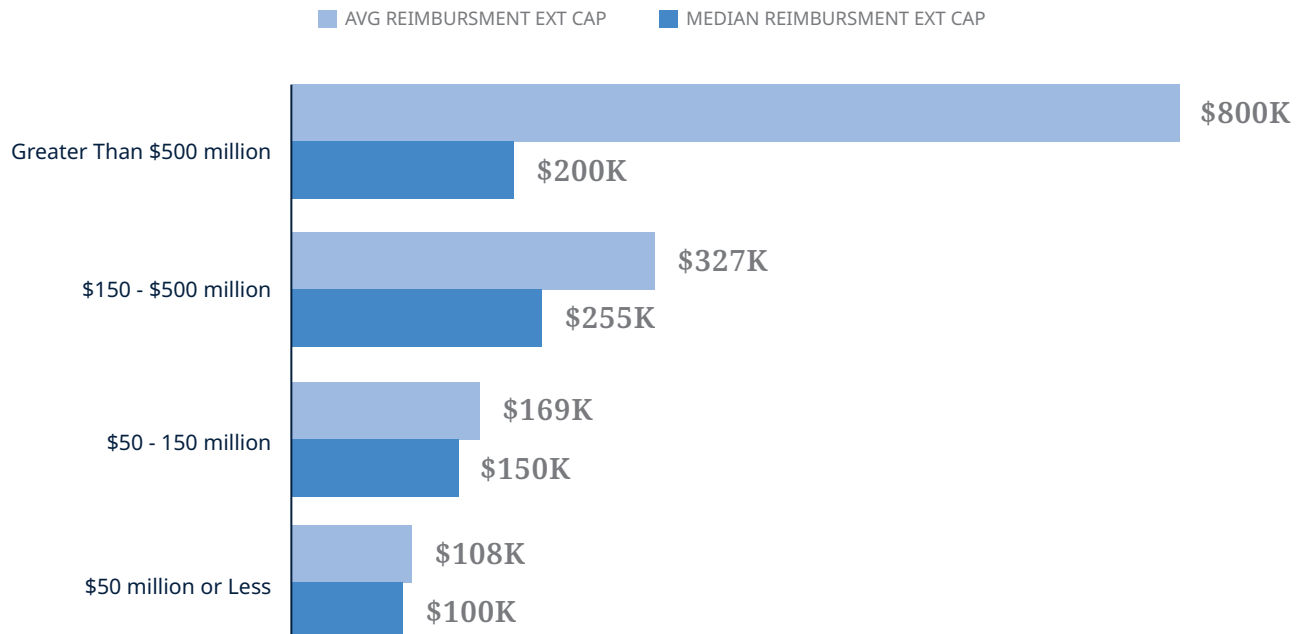


Avg Liability Floor (in \$) by Purchase Price Grouping (2021)



## Reimbursable Expenses after Seller Default

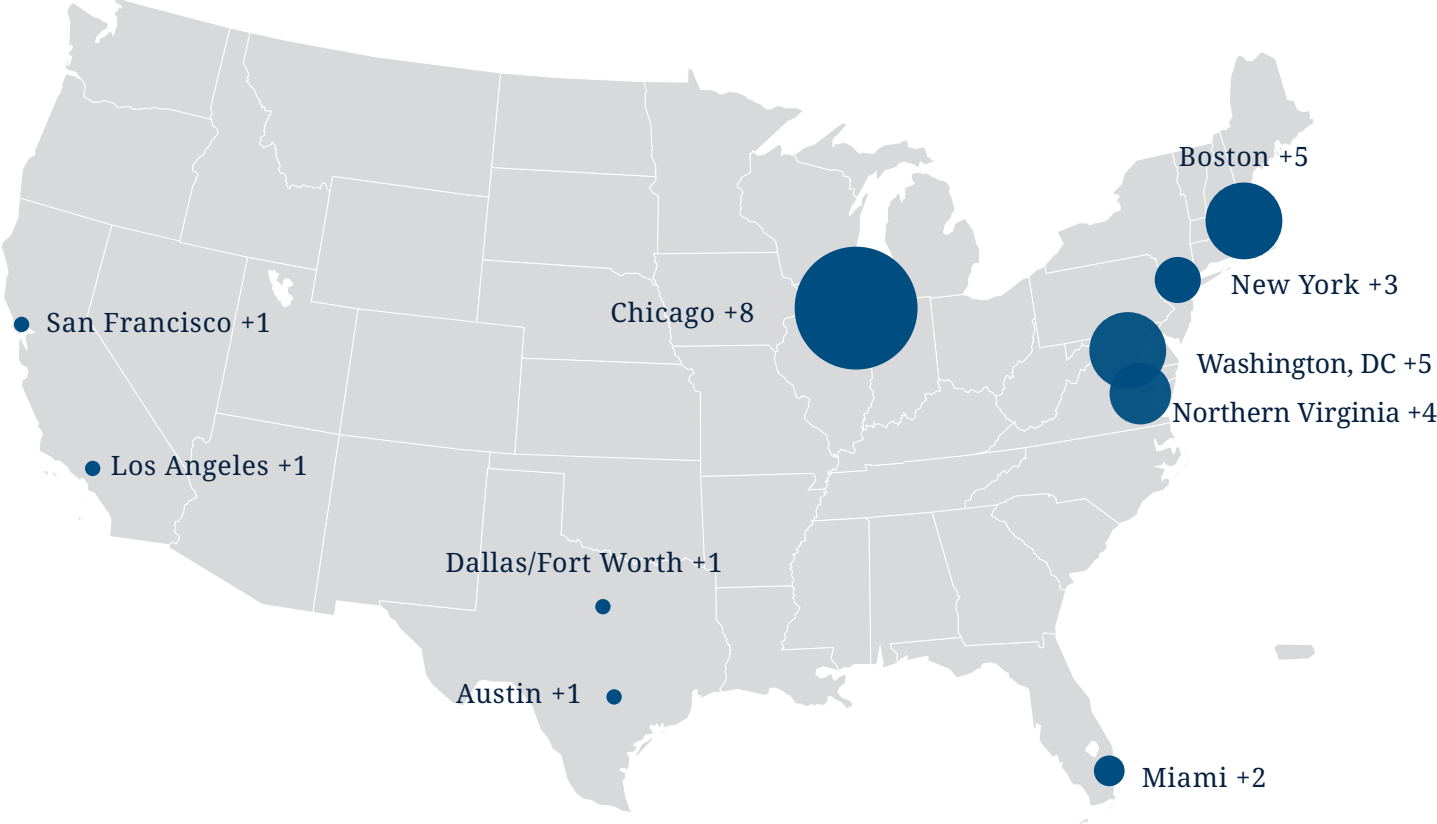
As with liability floors and caps, we did not see significant movement in the amount of third-party buyer expenses a defaulting seller is required to reimburse. For 2021, we saw the average and median amount of the reimbursable expenses cap increase as the purchase price increased.



We will continue to monitor and keep you updated on interesting trends in commercial real estate. If there is something specific you would like us to track, please contact one of your DLA Piper relationship partners.

### DLA Piper Real Estate New Hires in 2021

We're pleased to let you know that the following people have joined the DLA Piper real estate team:



# Real Estate at a glance

## Deal Highlights

- **Oxford Properties Group** in connection with the US\$2.1 billion sale to an affiliate of Google, of a new, state-of-the-art building in Manhattan at the site of the former St John's Terminal. Oxford transformed the former freight rail station into a 21st century, 1.3 million SF building in the heart of Hudson Square that will be part of a major new Google campus in New York City.
- **First Washington Realty, Inc.**, a national real estate investment and management firm, in the closing of its acquisition of Donahue Schriber Realty Group, Inc., a private REIT with a portfolio of over 50 shopping centers located throughout California, Oregon and Washington.
- **Harrison Street Real Estate** in connection with a US\$1.2 billion acquisition/joint venture with American Campus Communities of a portfolio of public-private-partnership (P3) student housing facilities located on the campus of Arizona State University.
- **Tishman Speyer** in connection with local and state permitting for the first phase of the "Enterprise Research Campus" development project adjacent to Harvard University in Boston's Allston neighborhood, valued at US\$1 billion.
- **ViacomCBS** in connection with the US\$760 million sale of the office building known as Black Rock (New York City) to Harbor Group International.
- **CyrusOne**, a premier global REIT specializing in design, construction, and operation of more than 50 high-performance data centers, in connection with the US\$670 million sale of four Houston data center assets to DataBank Holdings Ltd.
- **JDM Partners and El Dorado Holdings** in the US\$600 million sale to the Howard Hughes Corporation of Douglas Ranch, a "shovel-ready", fully entitled Master Plan Community (MPC) outside of Phoenix, AZ. Douglas Ranch is one of the country's leading MPCs with 100,000 homes and 300,000 inhabitants.
- **Davis Companies** in its acquisition of a controlling majority interest in 1 Rogers Street and 1 Charles Park in East Cambridge, MA, Boston's core life science market near the MIT Campus, for a property value in excess of \$450 million; permitting for a renovation of the building to include laboratory uses; construction financing for more than US\$490 million from a Blackstone affiliate; and a subsequent agreement executed 6 months after acquisition closing to sell the properties to Alexandria Real Estate for more than US\$750 million.
- **Hines** in obtaining zoning approvals to enable development of a 35-story, US\$450 million office building in Chicago's Loop at 401 S. Wacker Drive.
- **A programmatic joint venture between AEW Capital Management and Scout Capital Partners** in a revolving credit facility from Bank of America of up to US\$300 million to acquire warehouse and cold storage assets across the US.
- **Blackstone** in the US\$267 million portfolio acquisition of Hyatt Place Austin Downtown, Courtyard by Marriott Nashville Downtown, and the dual-branded Hilton Garden Inn/ Homewood Suites Atlanta Midtown, from Watermark Lodging Trust.
- **Oxford Properties** in a programmatic joint venture which plans on acquiring between US\$1 billion and US\$1.5 billion of logistics assets in 20 major US cities.

## Accolades

Law Firm of the Year in Real Estate for 17 Consecutive Years – *International Who's Who of Law Firms 2021*

Real Estate Practice Group of the Year – *Law360 2020*

Tier 1 in Real Estate for Five Consecutive Years – *The Legal 500 USA 2021*

Tier 1 in Land Use & Zoning for 11 Consecutive Years – *The Legal 500 USA 2021*

A Top 5 Real Estate Law Firm – *Commercial Property Executive & Multi-Housing News 2020*

Ranked Tier 1 Nationally for "Best Law Firms" in Real Estate Law and Land Use & Zoning Law – *U.S. News & World Report - Best Lawyers, 2022*

Ranked Band 3 Nationwide for Real Estate, Band 2 Nationwide for Leisure & Hospitality, and 38 Ranked Attorneys in 12 Categories/ States, *Chambers USA*

# About DLA Piper

With a portfolio of services to match every stage of the business lifecycle, we combine practice area knowledge with modern industry insights and an expansive global footprint in a way that no other firm can. Our global solutions are tailored and seamless – and ready to meet your toughest challenges.

## A trusted partner that puts clients first

We're guided by a simple belief – that we're only as successful as our clients are. That's why we fully invest in your success by working with you to deliver creative solutions, exceptional value, and peace of mind.

### Seamlessly executed global solutions

Our deep capabilities and broad global platform and mind-set produce exceptional results for our clients around the world. We make global easy.

### Trusted steward of growth and change

We help our clients manage their growth and change. Our flexible and forward-looking approach guides clients through both opportunities and risks.

### Modern, dynamic innovator

We foster collaboration and creativity and empower our people to act. Our constant pursuit of innovation has helped transform the delivery of legal services for our clients.

### Invested, collaborative partner

We are deeply integrated with our clients and essential partners in their success. Our people and our clients become one high-performing team delivering value and results.

### Passionate community and social leader

We lead on important social, environmental, and community issues. Our people serve and make a difference.

## Stats

90+

global offices

1,400+

lawyers in the US

4,500+

lawyers around the world

## Awards





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## REALWORLD

### The Global Guide to Real Estate Law

REALWORLD is an online guide to legal issues in real estate. The site is free to use and provides answers to legal questions that investors, developers and occupiers typically have when entering new real estate markets across the globe. Here you will find REALWORLD LAW, our guide to local knowledge about how the law works wherever you invest or operate. We also offer you REALWORLD NEWS, keeping you up-to-date with the real estate sector around the world.

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