



TRANSWESTERN

REAL ESTATE
SERVICES

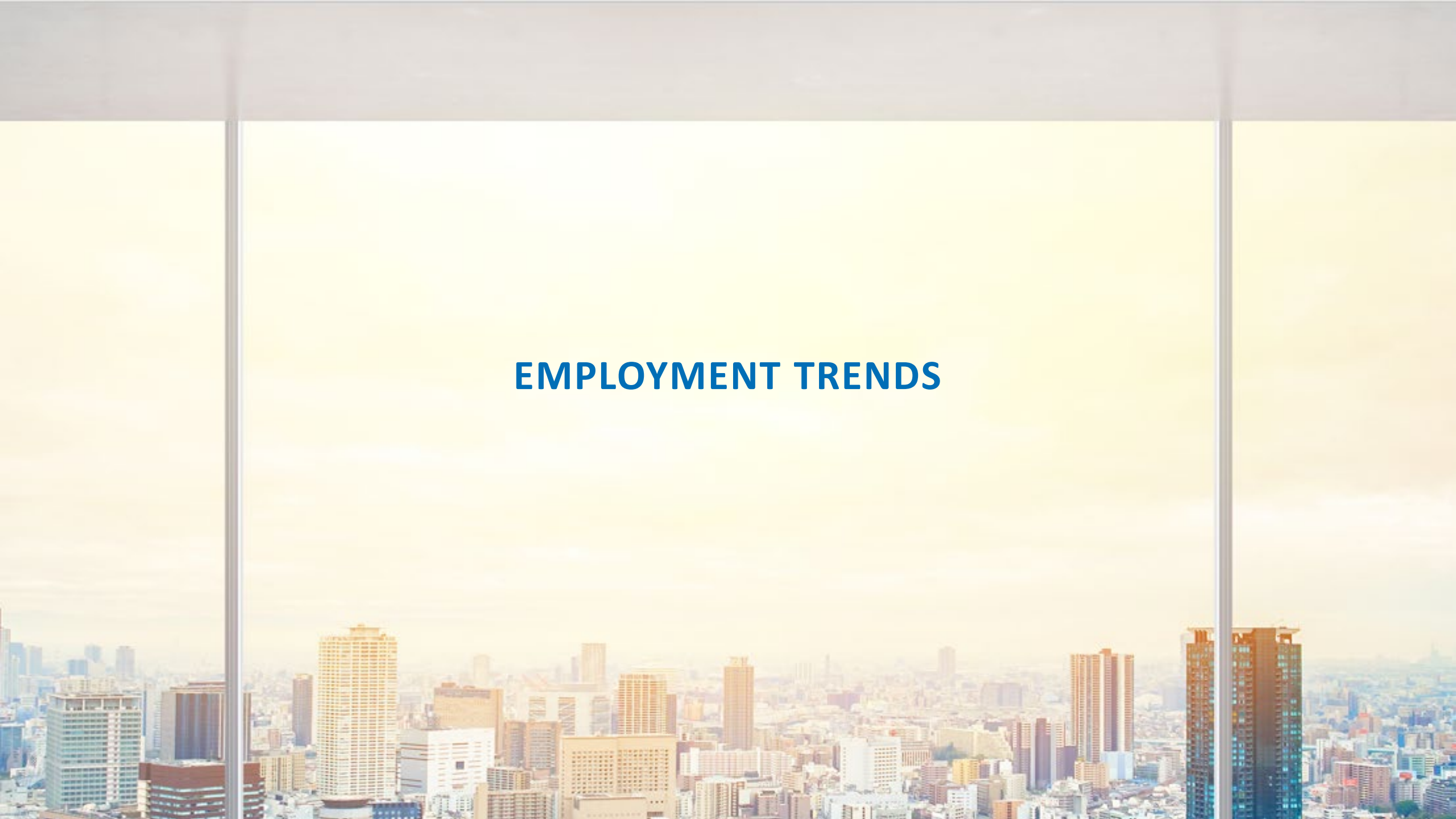
U.S. CRE AMID COVID-19

Jimmy Hinton

Senior Managing Director
Investment & Data Analytics

MAY 20, 2020

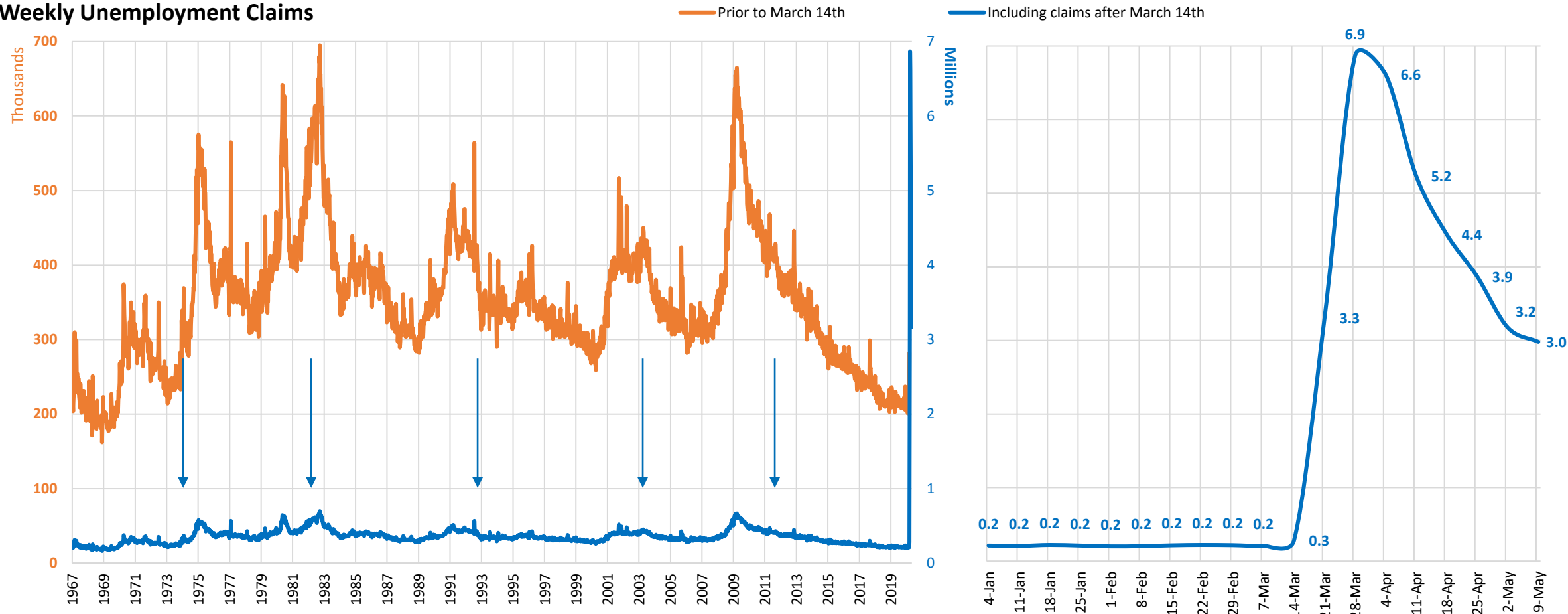
EMPLOYMENT TRENDS



“FLATTENING THE CURVE” IN UNEMPLOYMENT CLAIMS

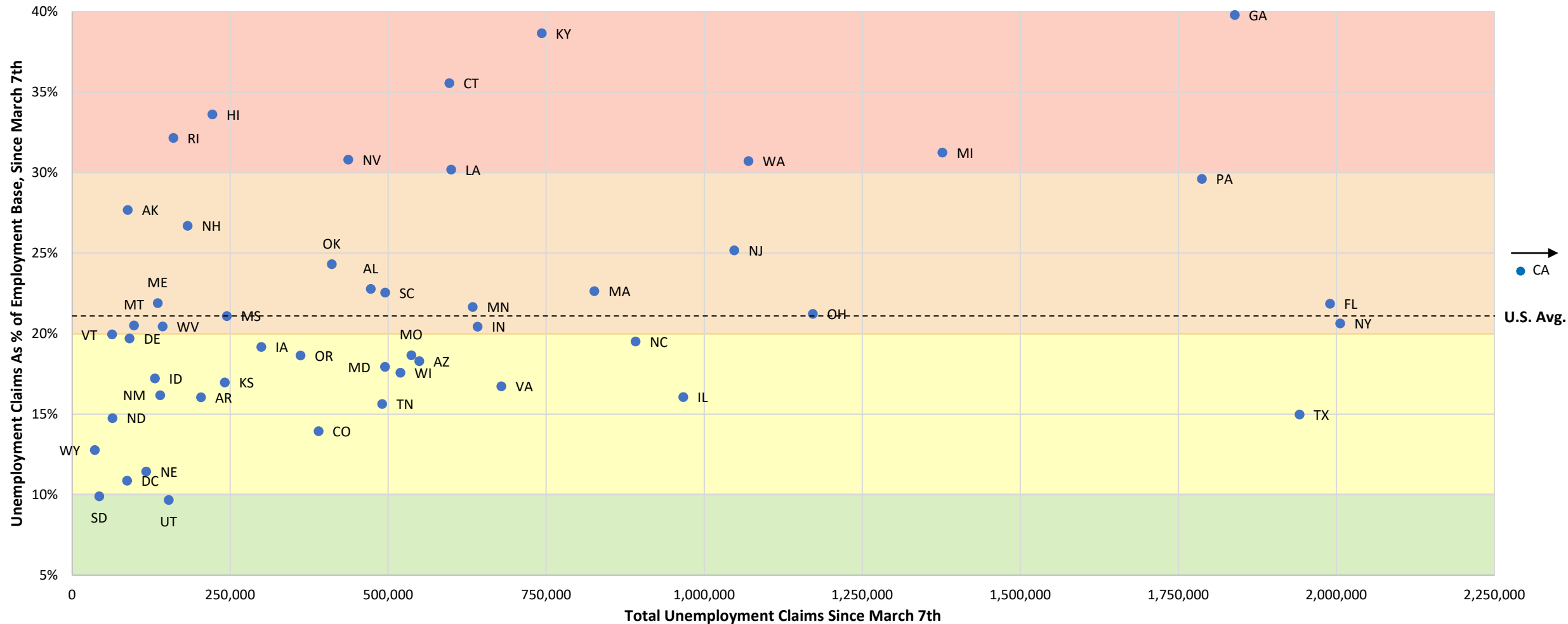
How Many Will Be Temporary Vs. Permanent?

Weekly Unemployment Claims



UNEVEN ECONOMIC RESPONSES COMPLICATE OUTLOOK

Timing/Depth of Shelter-In-Place Orders Determine Economic Impact



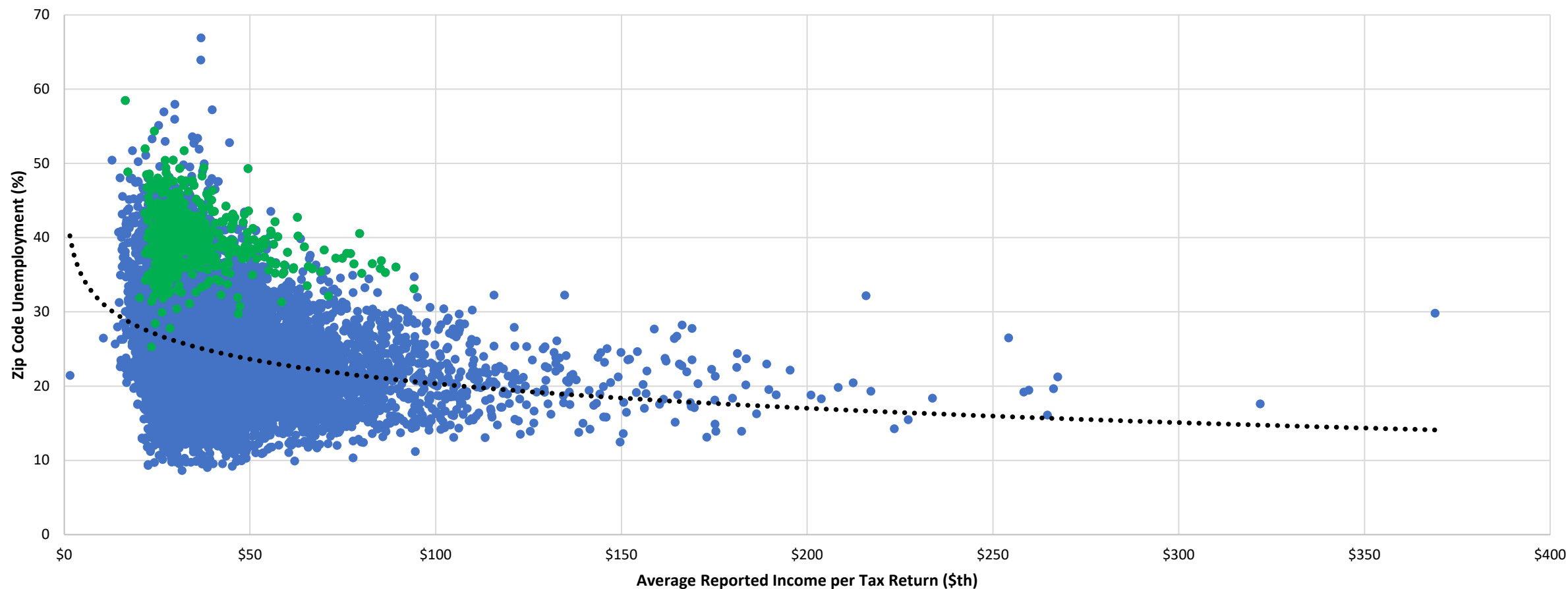
Note: California: 4.2 million claims

Source: Transwestern Investment & Data Analytics, Department of Labor, data as of May 9, 2020 (latest available)

INCOME PREDICTIVE OF UNEMPLOYMENT

Zip Codes With Income <\$50k 2x As Likely To Report Above-Average Unemployment

Higher Income Suggests Lower Unemployment



Note: Zip codes with minimum 1,000 residents and 1,000 tax returns

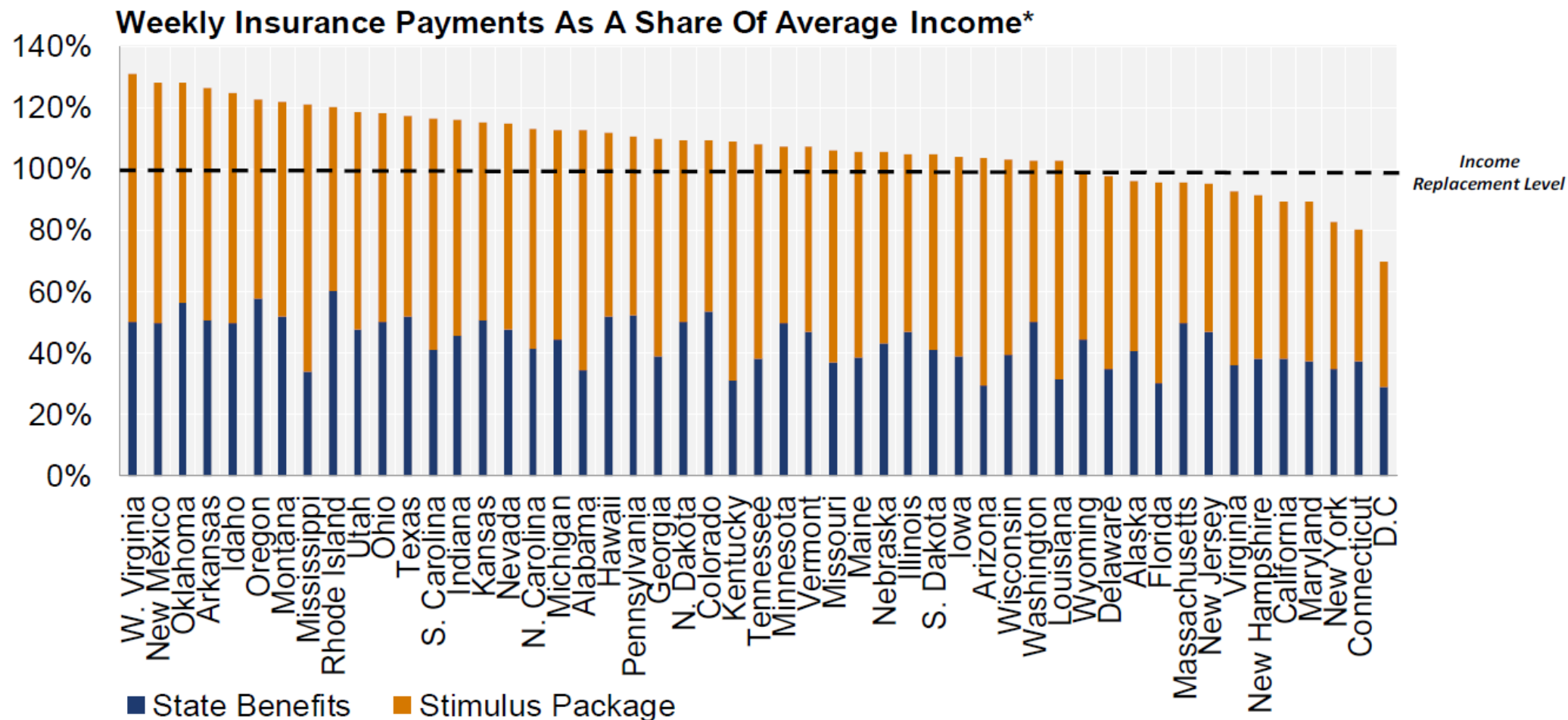
Source: Transwestern Investment & Data Analytics, Internal Revenue Service, Census Bureau, Bureau of Labor Statistics, AGS

ECONOMIC TRENDS



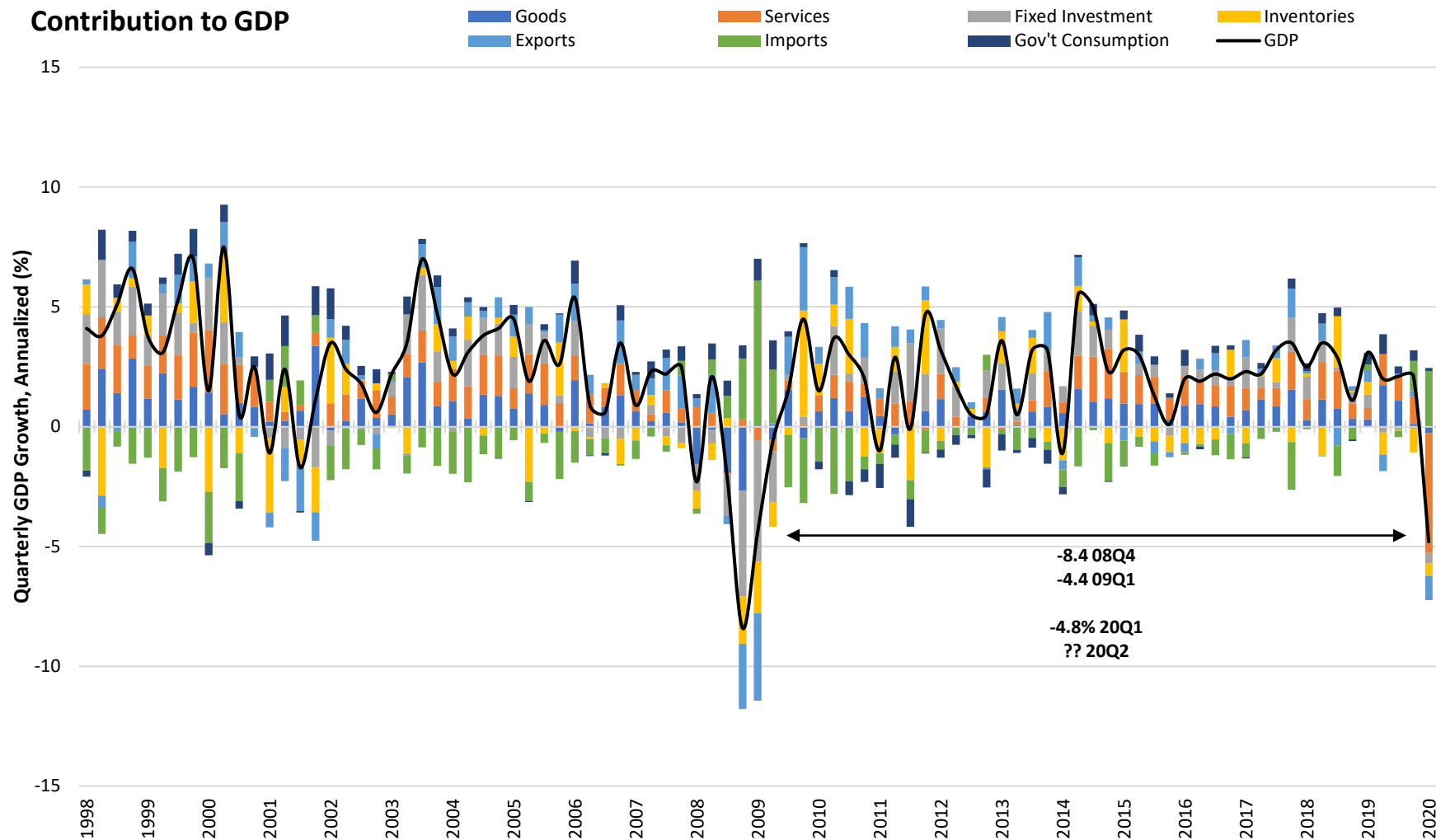
EMPLOYERS COMPETING WITH DEPARTMENT OF LABOR

"The Government Can Pay My Employees More Than I Can?"

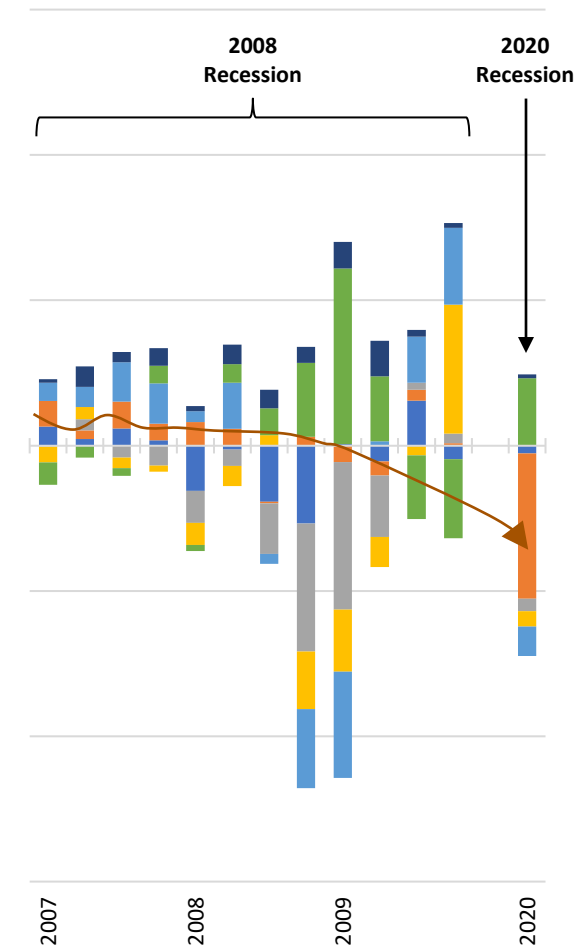


-4.8% GDP CONTRACTION WORST SINCE Q4 2008

Contraction In Personal Consumption Worst Ever, Could Prove Elastic



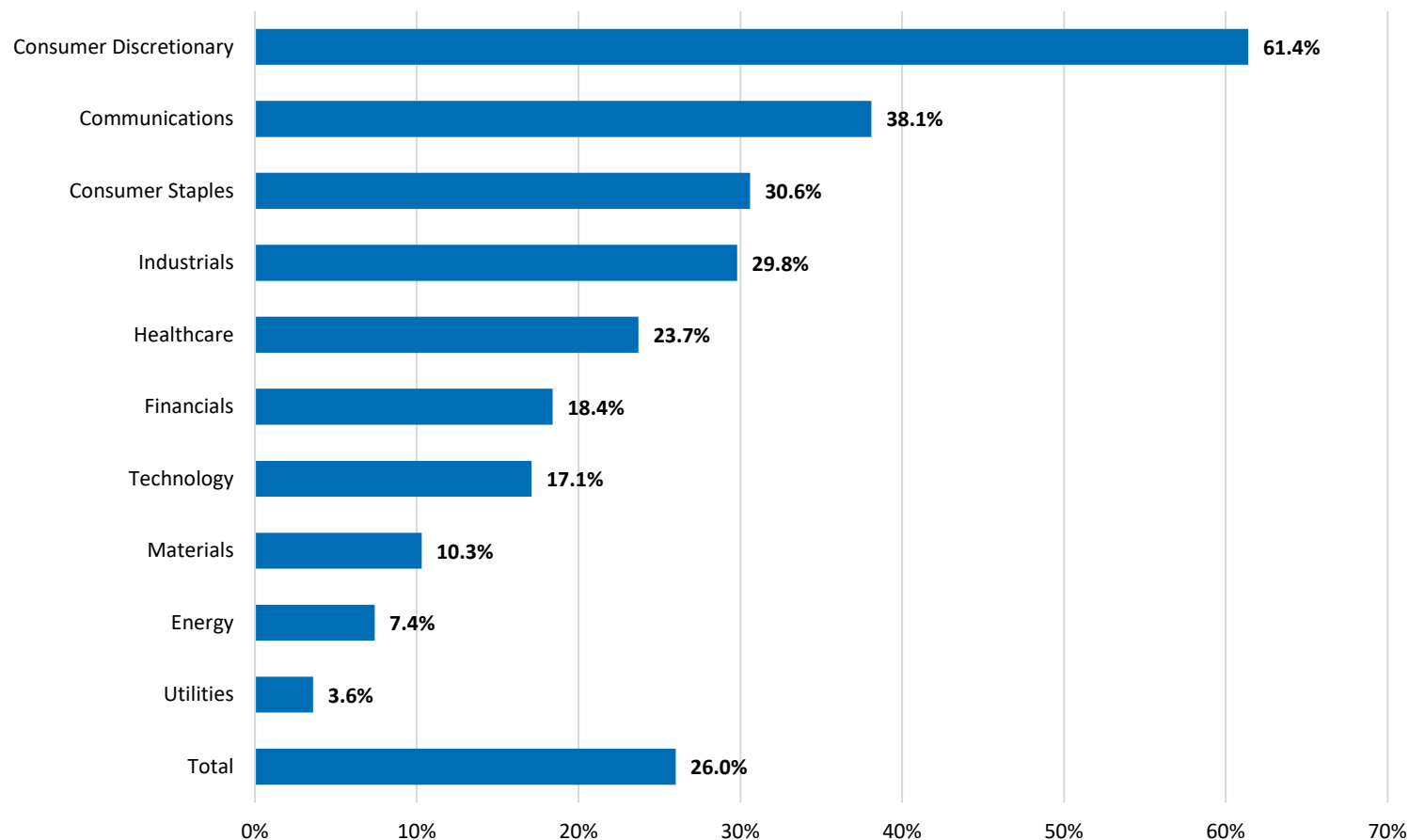
Source: Transwestern Investment & Data Analytics, Bureau of Economic Analysis



CONSUMER-DEPENDENT FIRMS UNCERTAIN

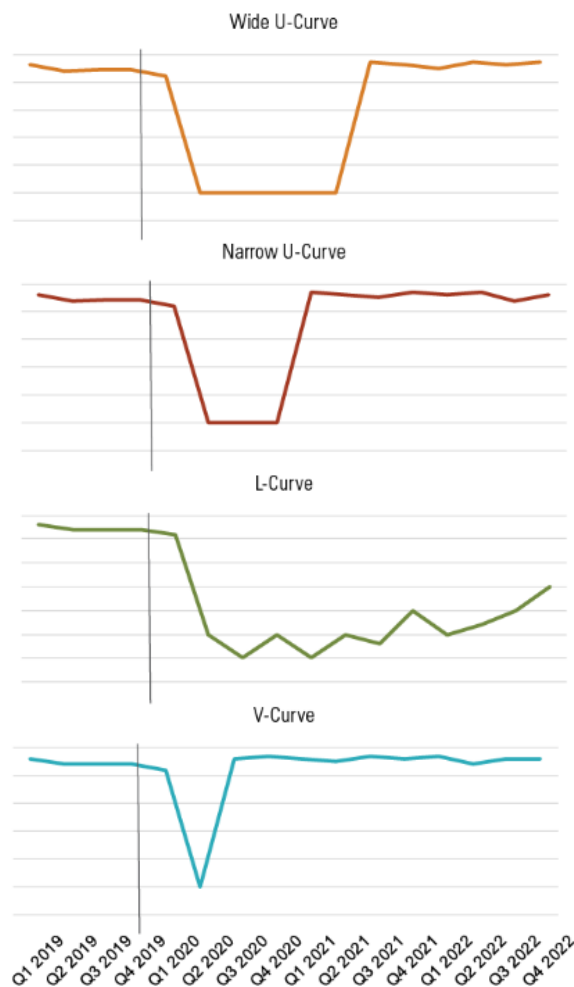
Spending Under Threat, Poor Implications For Retail Properties

S&P 500 Firms Pulling Forward Guidance



V-SHAPED RECOVERY NOT PROBABLE

Majority Expect U-Shaped Rebound

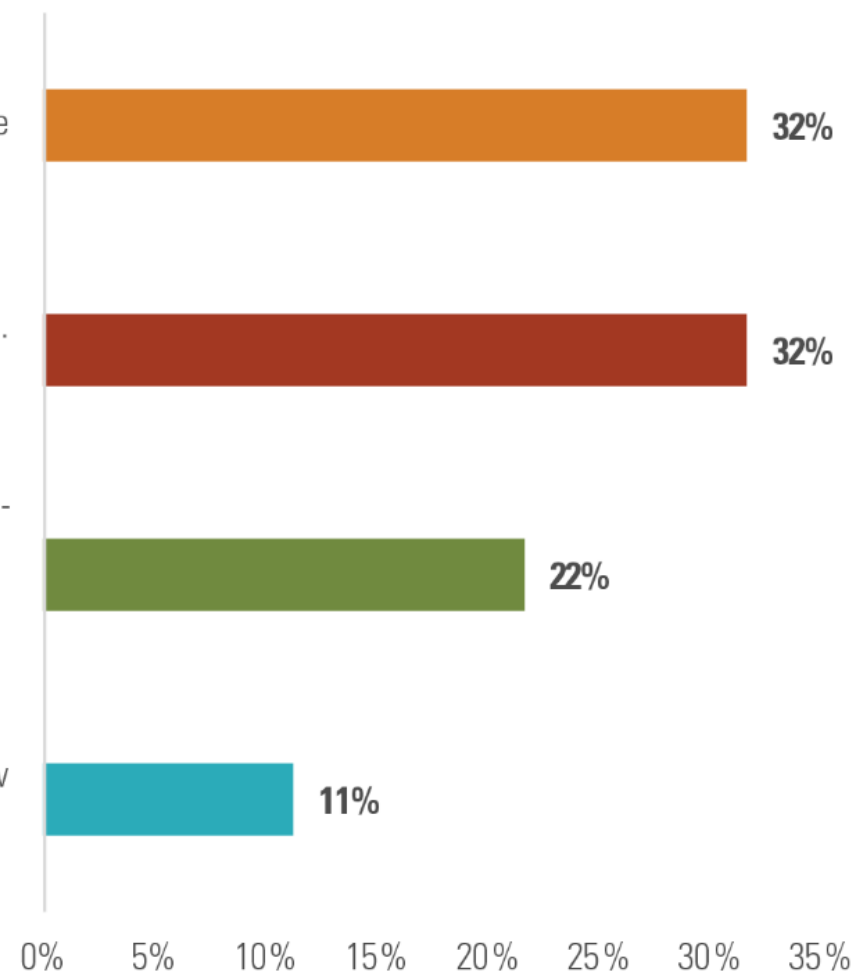


Wide U-Curve: managed control of new COVID-19 cases helping to flatten the curve, but stretching the economic impact across the balance of 2020

Narrow U-Curve: peak new COVID-19 cases in the U.S. higher and delayed until May

L-Curve: the country continues to deal with new COVID-19, or sees a resurgence in the fall that requires additional rounds of social distancing throughout 2020 and into 2021

V-Curve: relatively quick recovery with peak new COVID-19 cases in the U.S. in mid-April



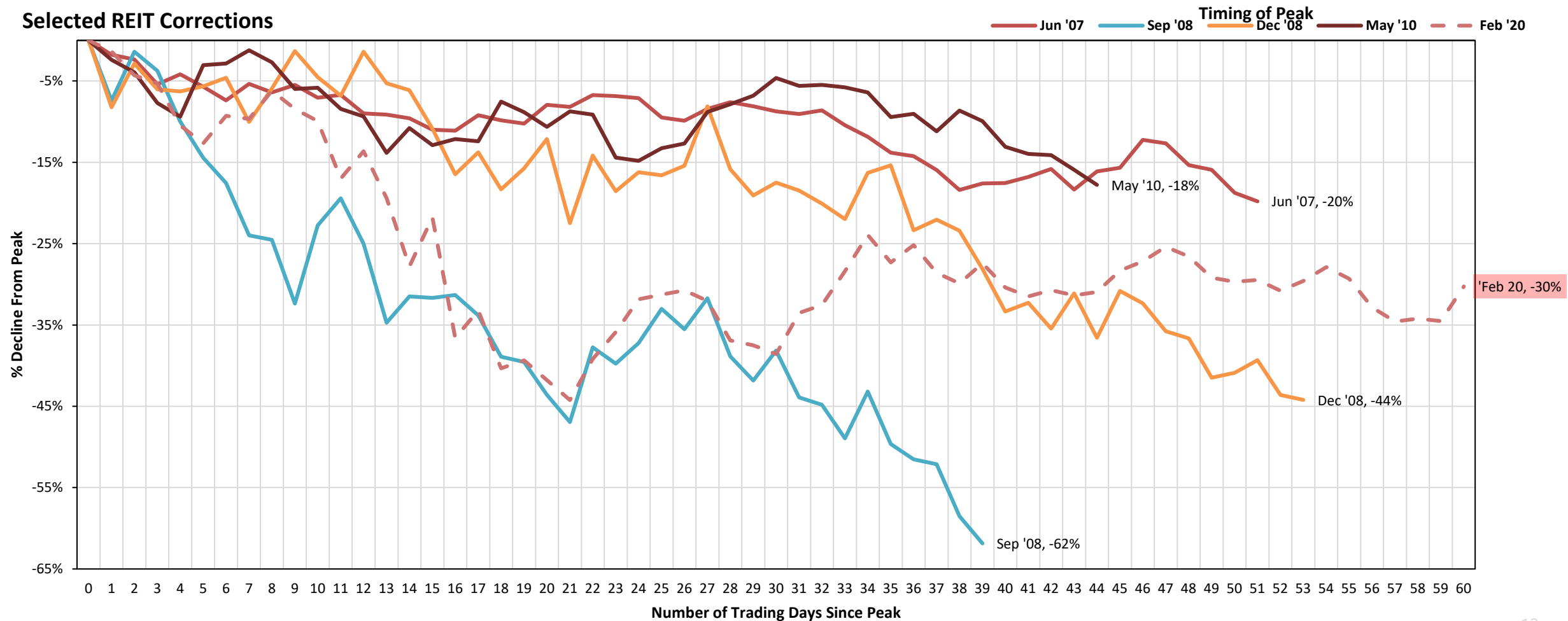
PROPERTY VALUATIONS



REIT CORRECTION RESEMBLES 2008

Comparable REIT Corrections Resemble Periods Of CRE Distress

Selected REIT Corrections



Source: Transwestern Investment & Data Analytics, Bloomberg, as of May 18, 2020

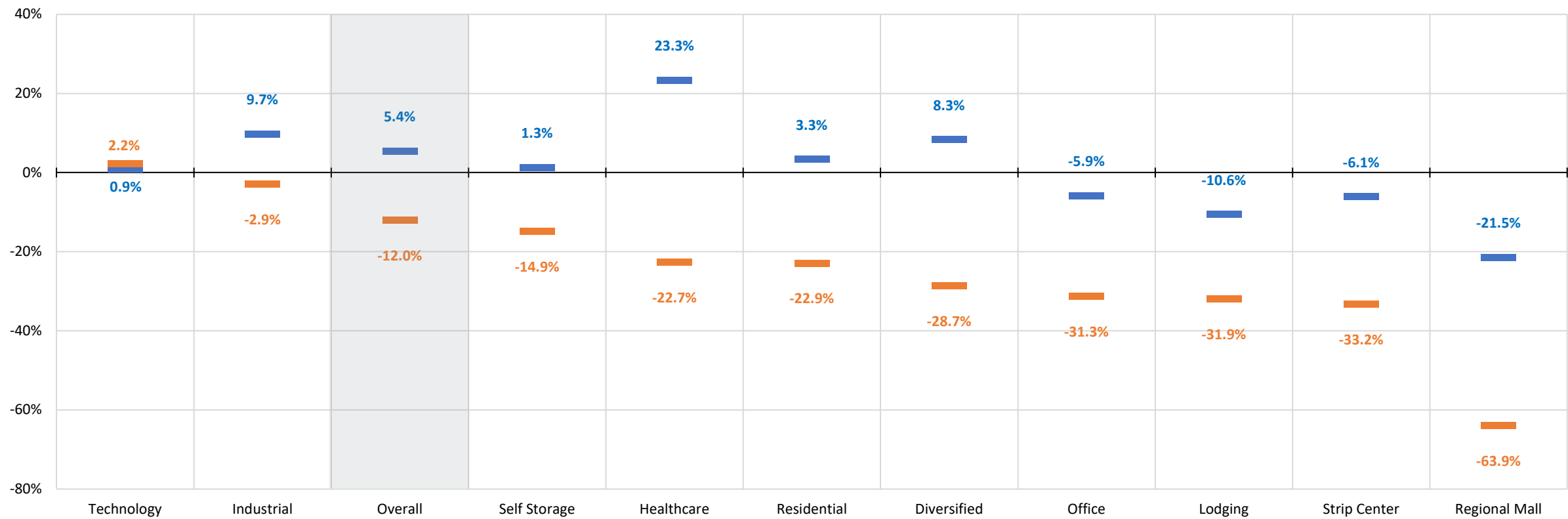
REIT VALUATION IMPACT VARIES BY PROPERTY TYPE

Industrial & Data Favored, Healthcare Presents Demographic Challenges, Residential Faces Rent Growth Doubts, Malls Under Significant Pressure

REIT Price:NAV Ratios

— as of 12/31/2019

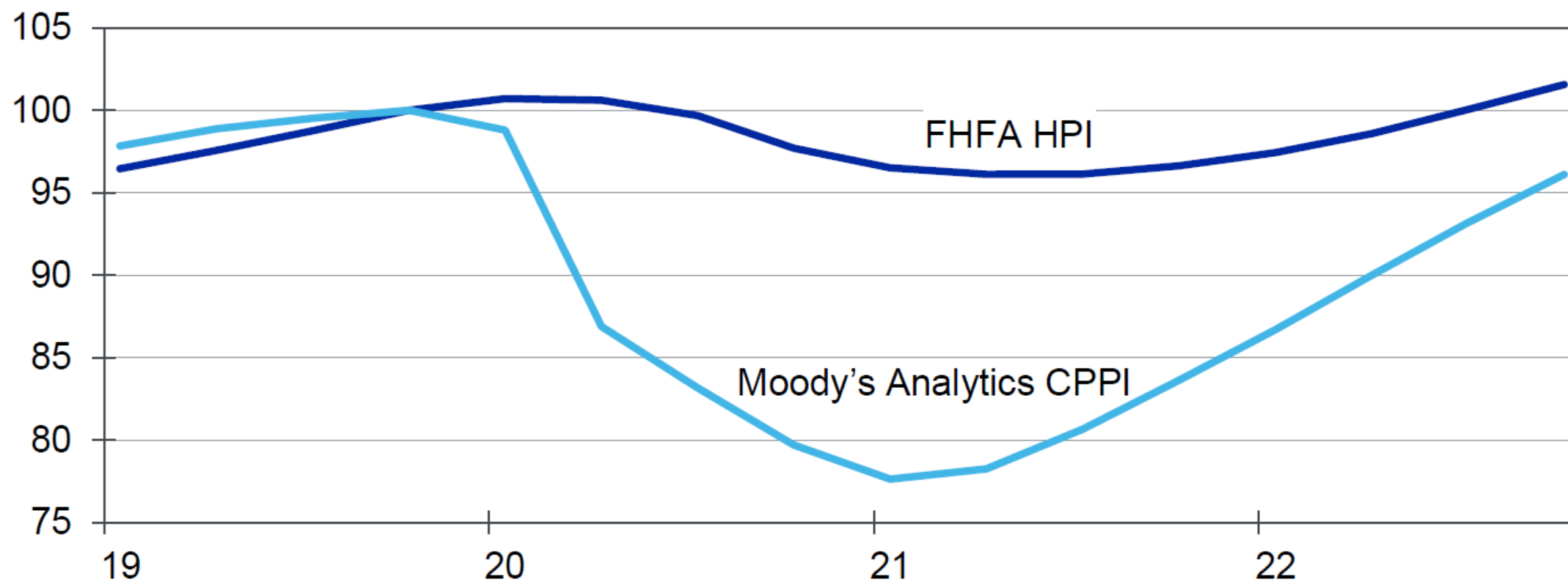
— as of 5/15/2020



MOODY'S: THREE-YEAR CYCLE, 25% CORRECTION

Losses Due To Cap Rate & NOI Volatility, Property Type Performance Will Vary

Index: 2019Q4 = 100, April preliminary baseline



PROPERTY SECTOR KPIs

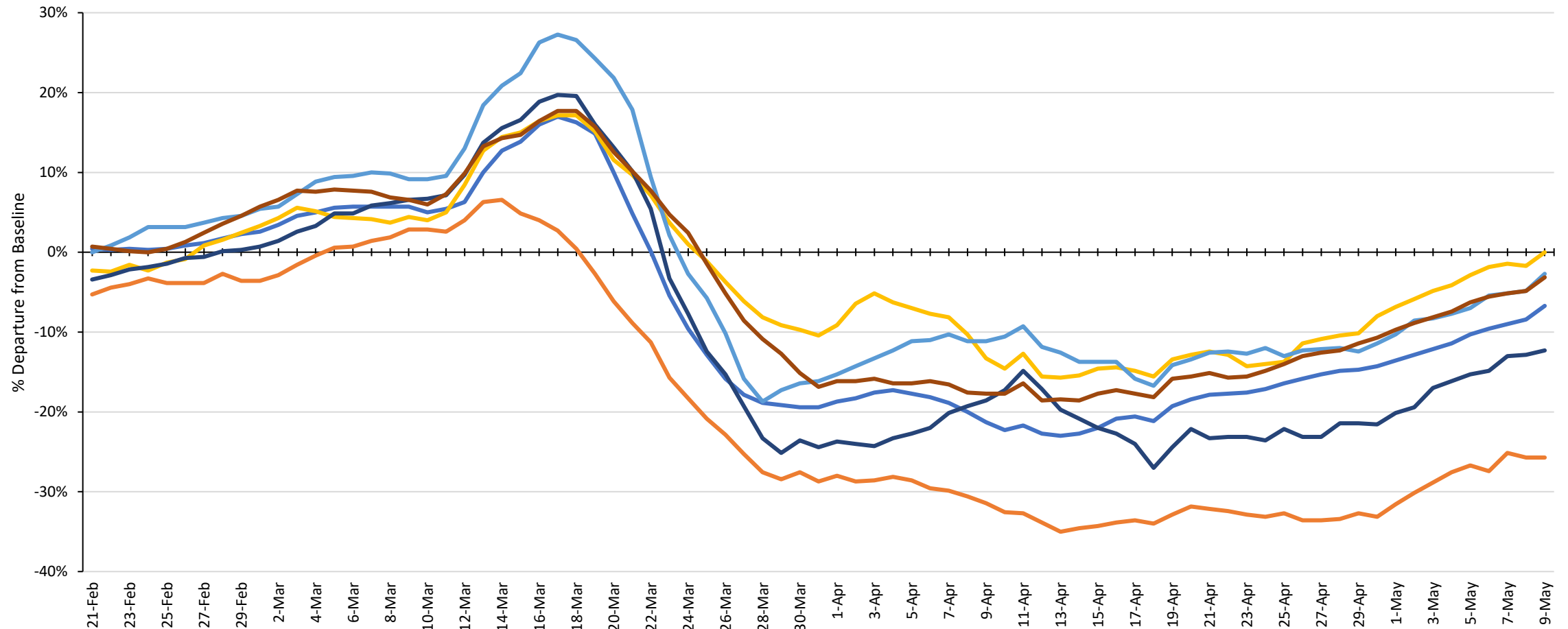


EARLY SALES IN GROCERY STORES PROVED TRANSIENT

States Allowing Looser Shelter-In-Place Directives Report Faster Recovery

Google Mobility: Grocery Visits

California District of Columbia Georgia Illinois New York Texas



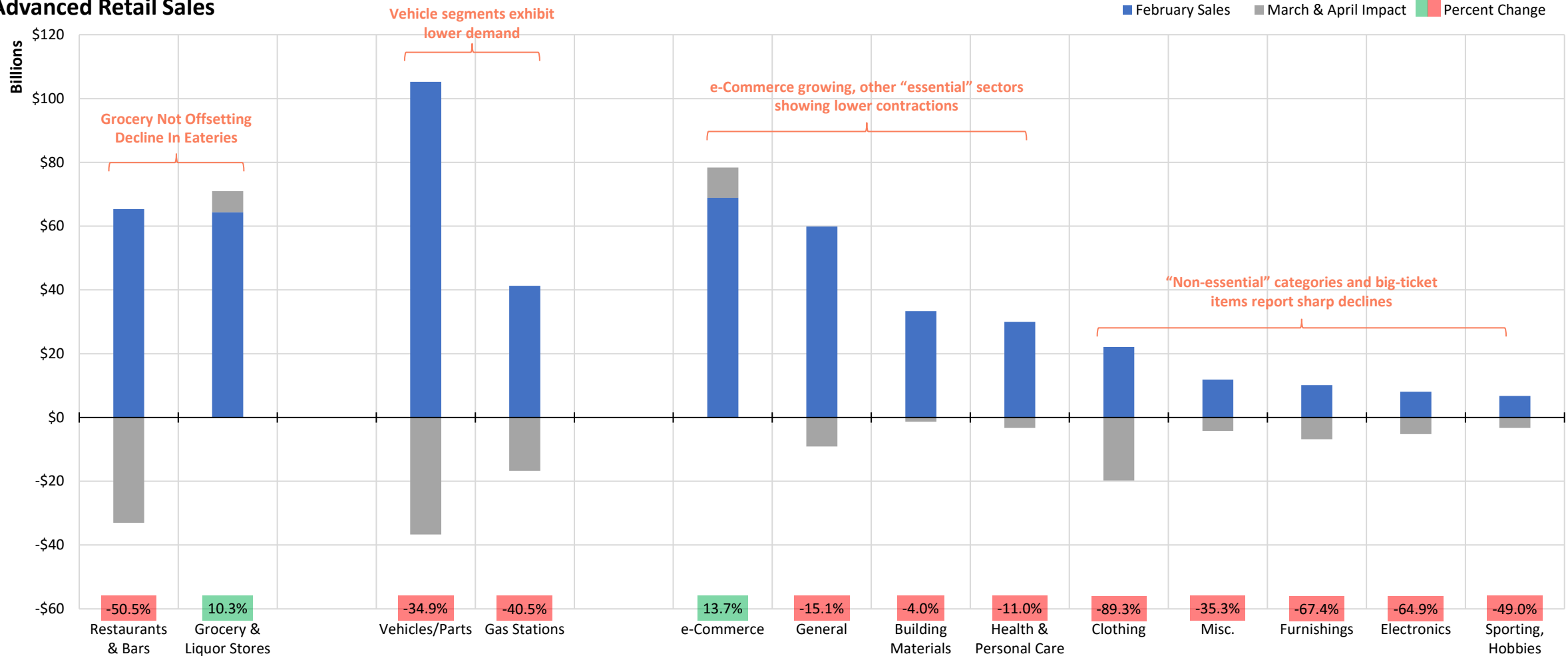
Note: Rolling seven-day mobility score

Source: Transwestern Investment & Data Analytics, Google, as of May 9, 2020

APRIL SALES COLLAPSE -16.4%, THE WORST ON RECORD

Grocery Sales Decline After Initial Surge, e-Commerce Sales Now 19% Of Total

Advanced Retail Sales

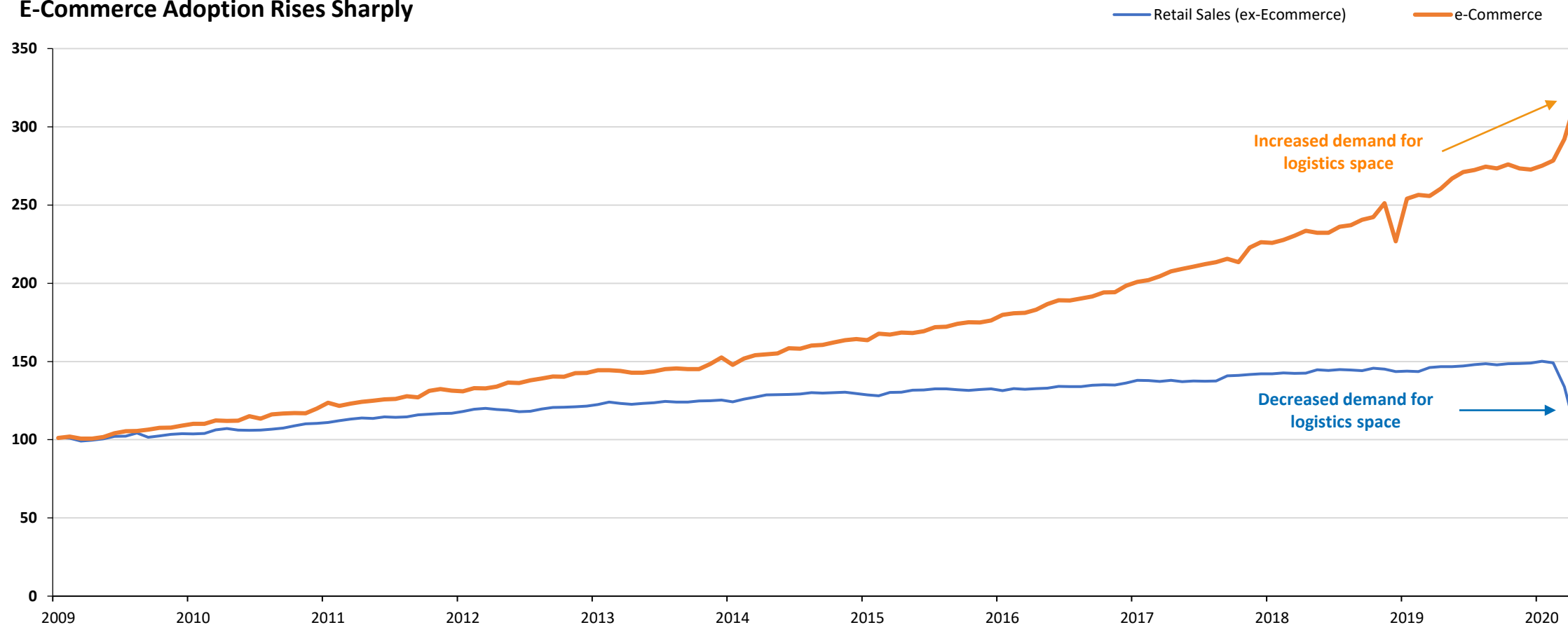


Source: Transwestern Investment & Data Analytics, Census Bureau

E-COMMERCE RISES 3x OTHER RETAIL CATEGORIES

Nonstore Sales Now Account For 19.4% Of Total Retail Sales

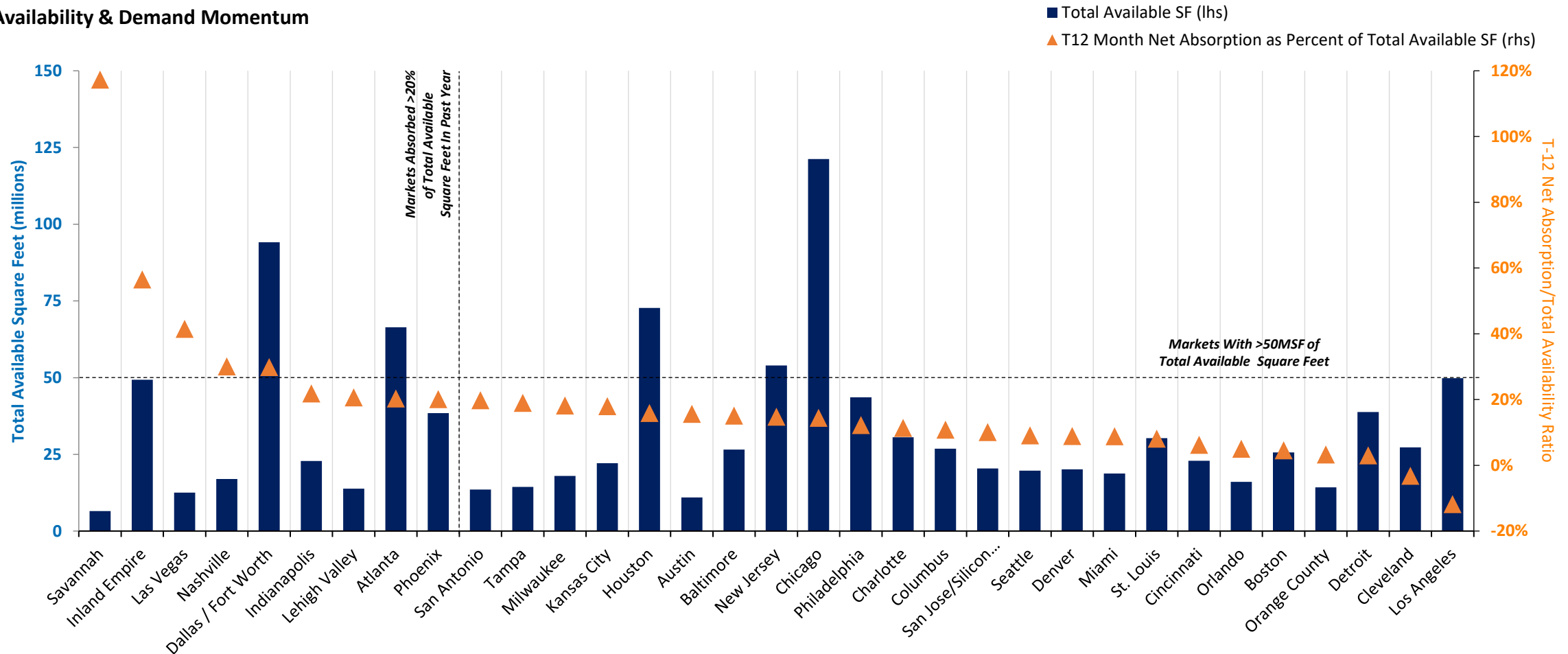
E-Commerce Adoption Rises Sharply



MIXED FOOTING AMID LARGE INDUSTRIAL MARKETS

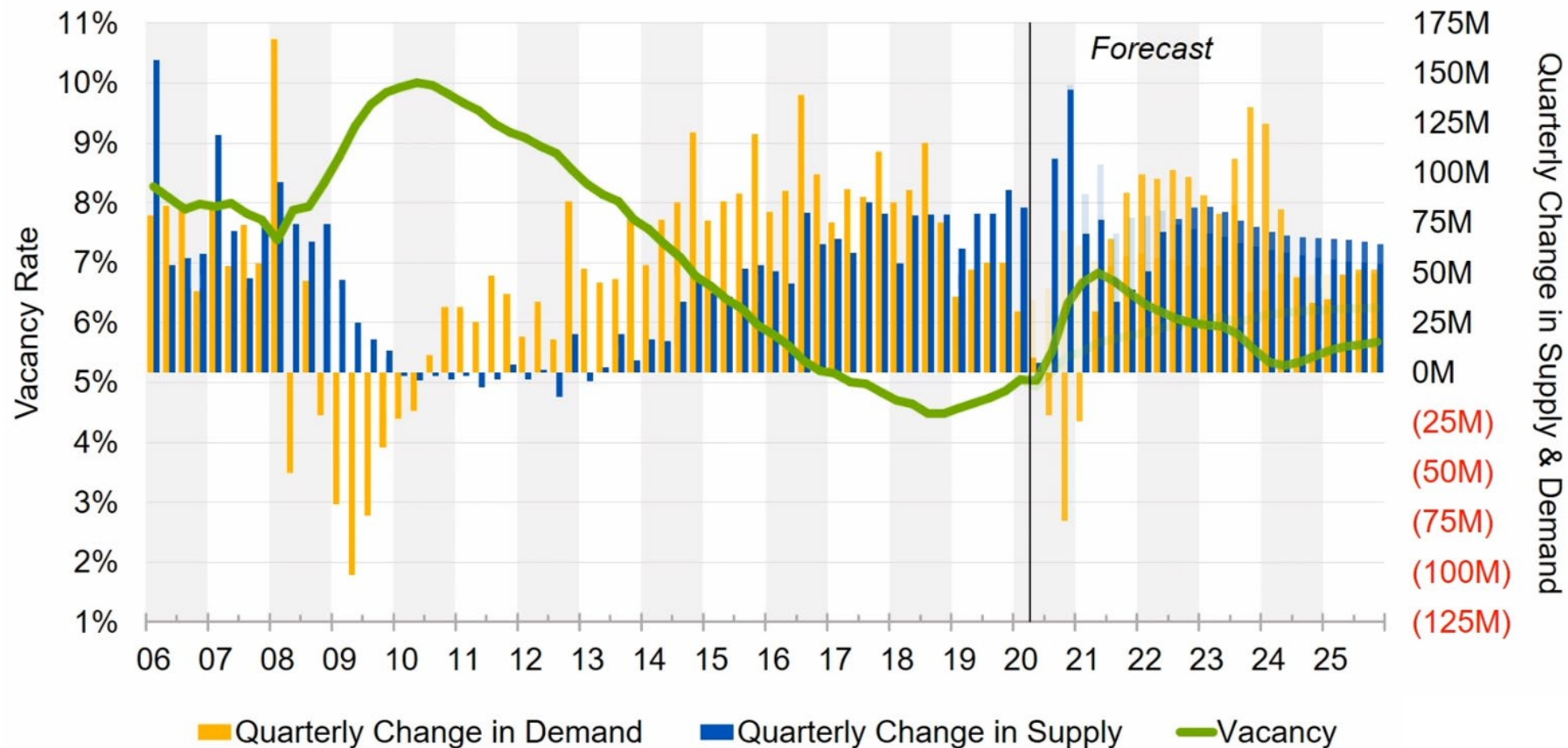
INL EMP & DFW Strong In Spite Of Availability, CHI & HOU More Challenged

Availability & Demand Momentum



NEW BASELINE: SHORT-TERM PAIN, LONG-TERM UPSIDE

Vacancy Rises Sharply, Stronger Demand & Lower Supply In Medium-Term

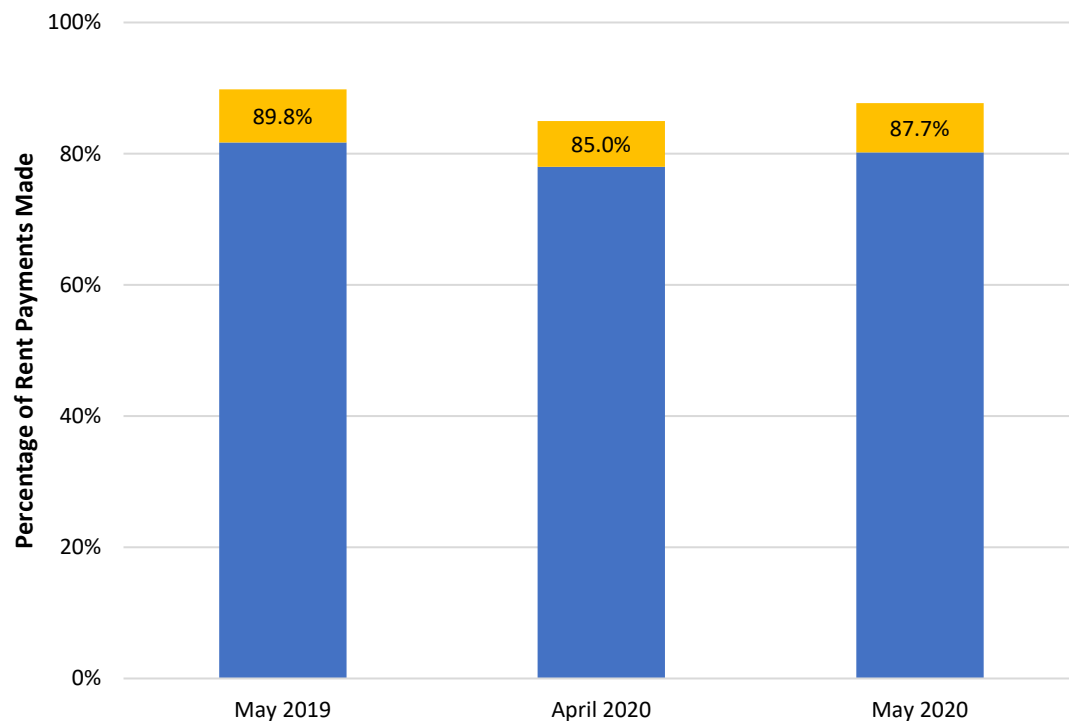


APARTMENTS TRENDS SURPRISE FOR NOW

Rent Collections Better Than Expected, Asking Rents Will Deteriorate

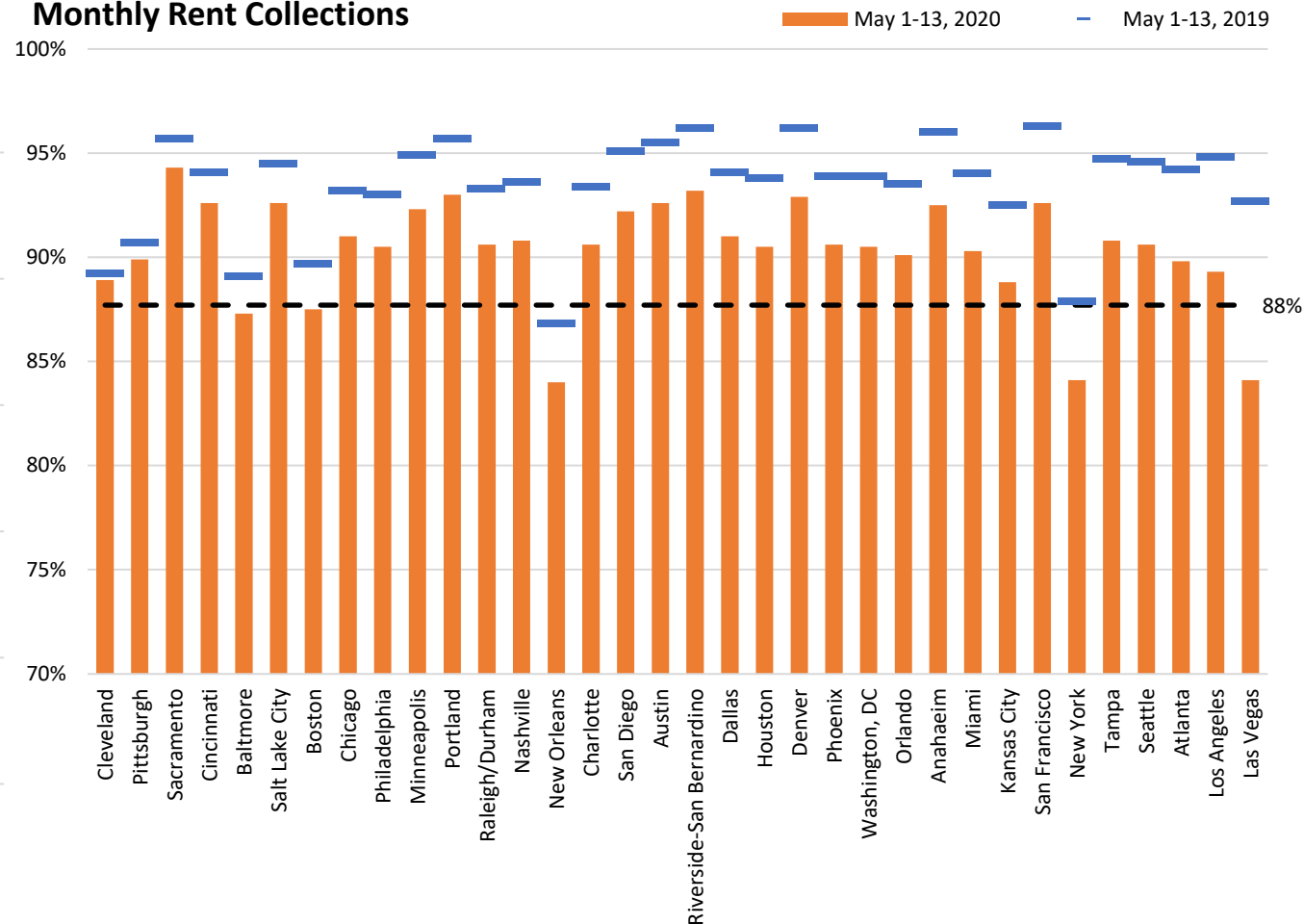
Rent Payment Tracker

***Data collected from 11.5MM Units*



Monthly Rent Collections

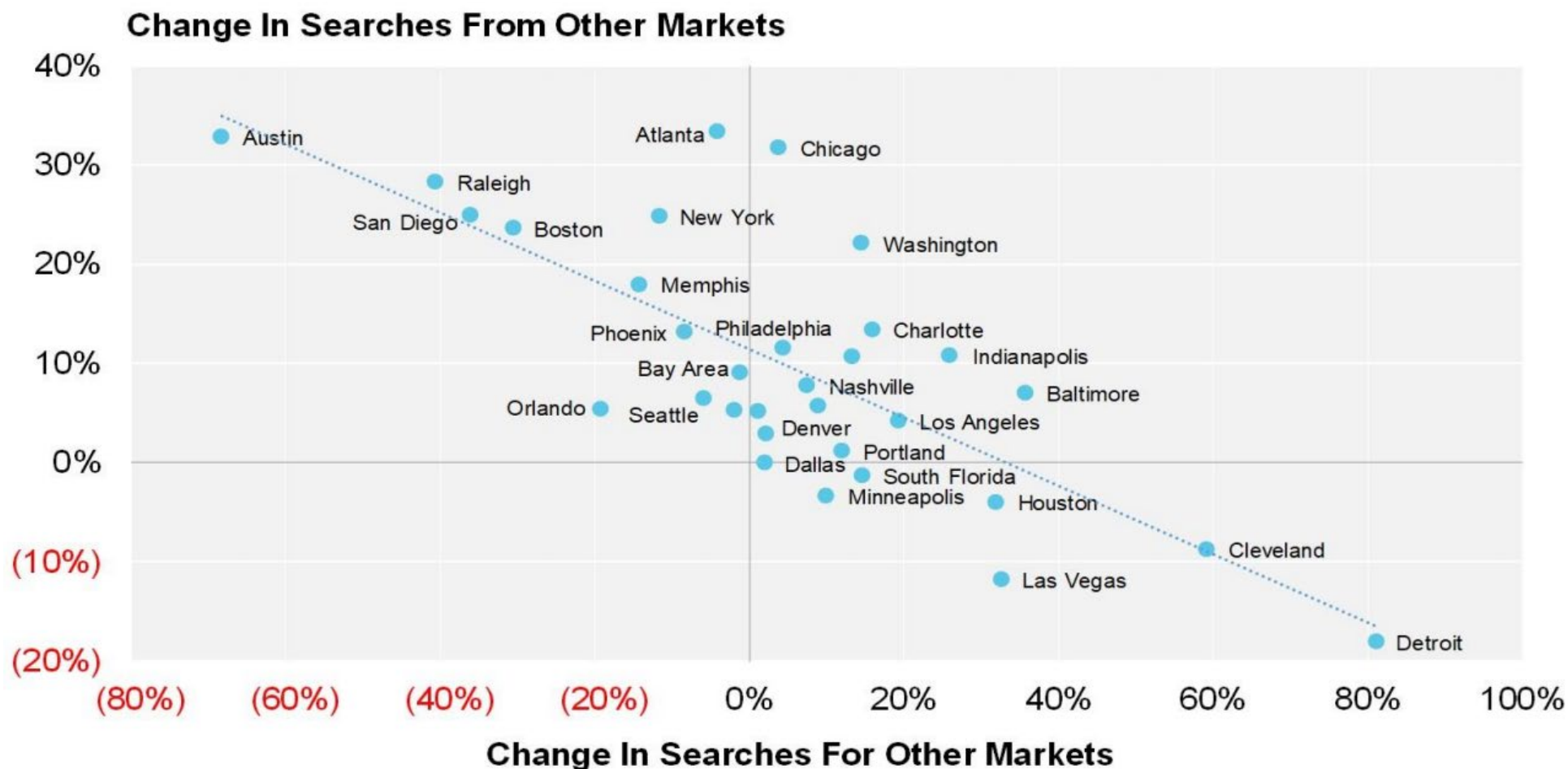
100%



Note: * These figures are as initially reported; these are calendar days, so the specific day of the week can have an affect on these reported figures, as leasing offices can have reduced hours or be closed on those days, creating potential delays for payment processing. **Unit counts may change to reflect refinements to the methodologies and changing occupancy levels due to move in-move out activity.
Source: National Multifamily Housing Council, Entrata, MRI Software, RealPage, ResMan, Yardi

APARTMENTS TRENDS SURPRISE FOR NOW

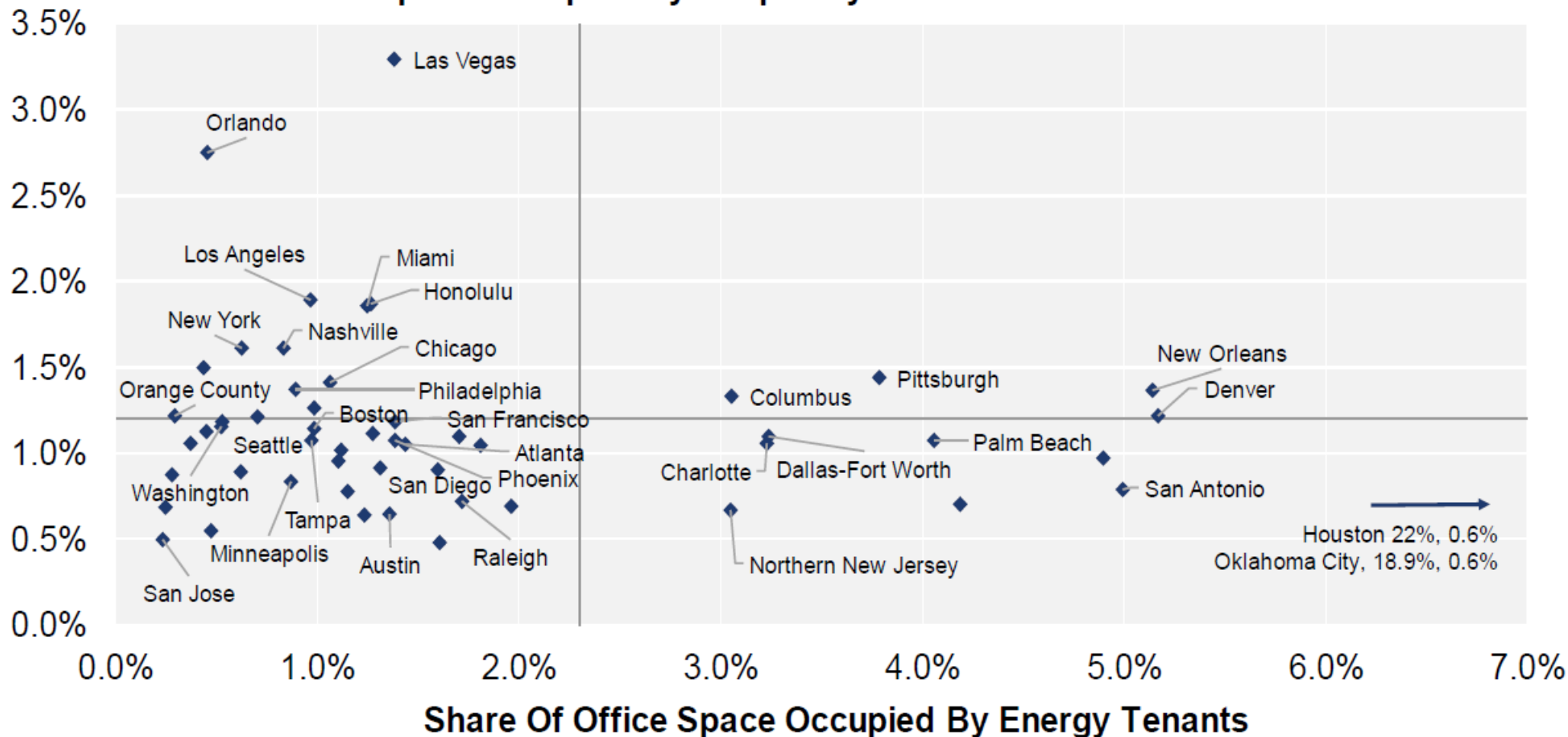
Rent Collections Better Than Expected, Asking Rents Will Deteriorate



OFFICE MOSTLY INSULATED FROM INDUSTRY DENSITY

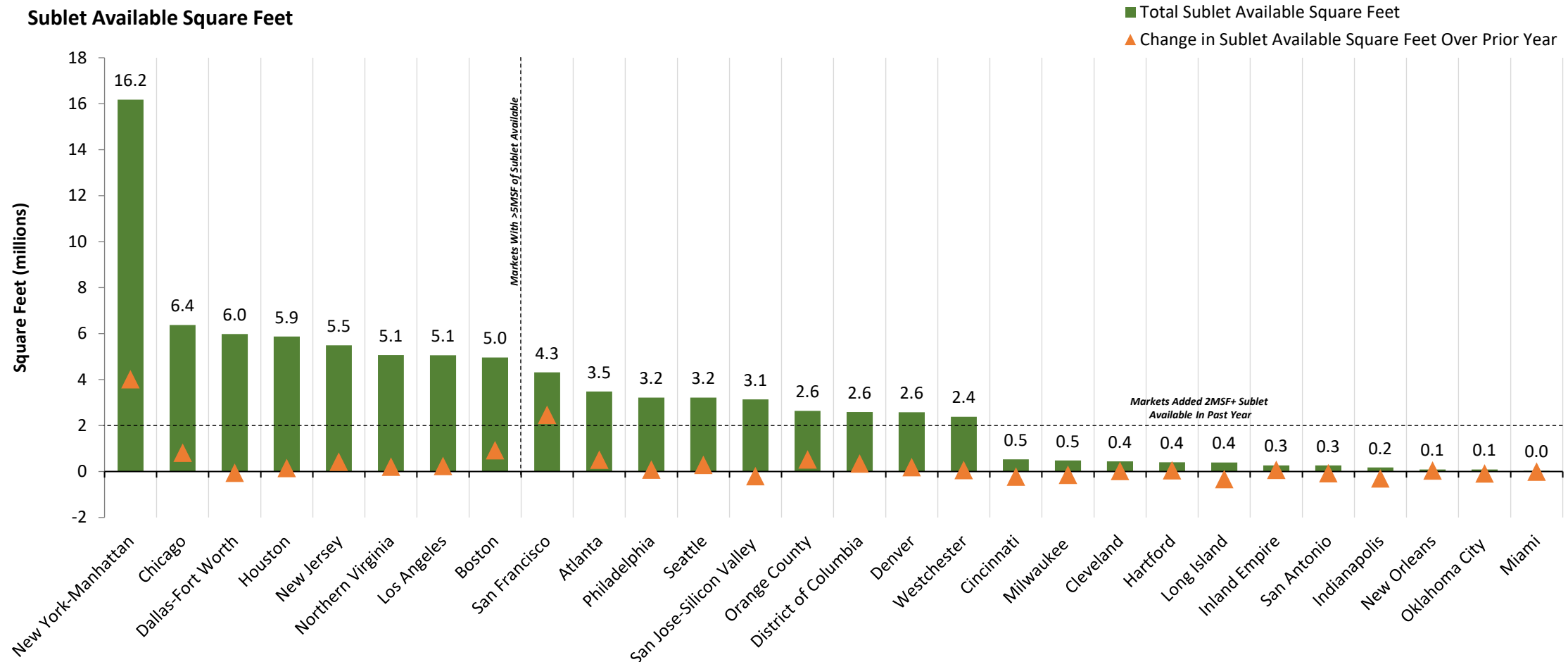
Few Markets Exposed To Energy/Hospitality

Share Of Office Space Occupied By Hospitality Tenants



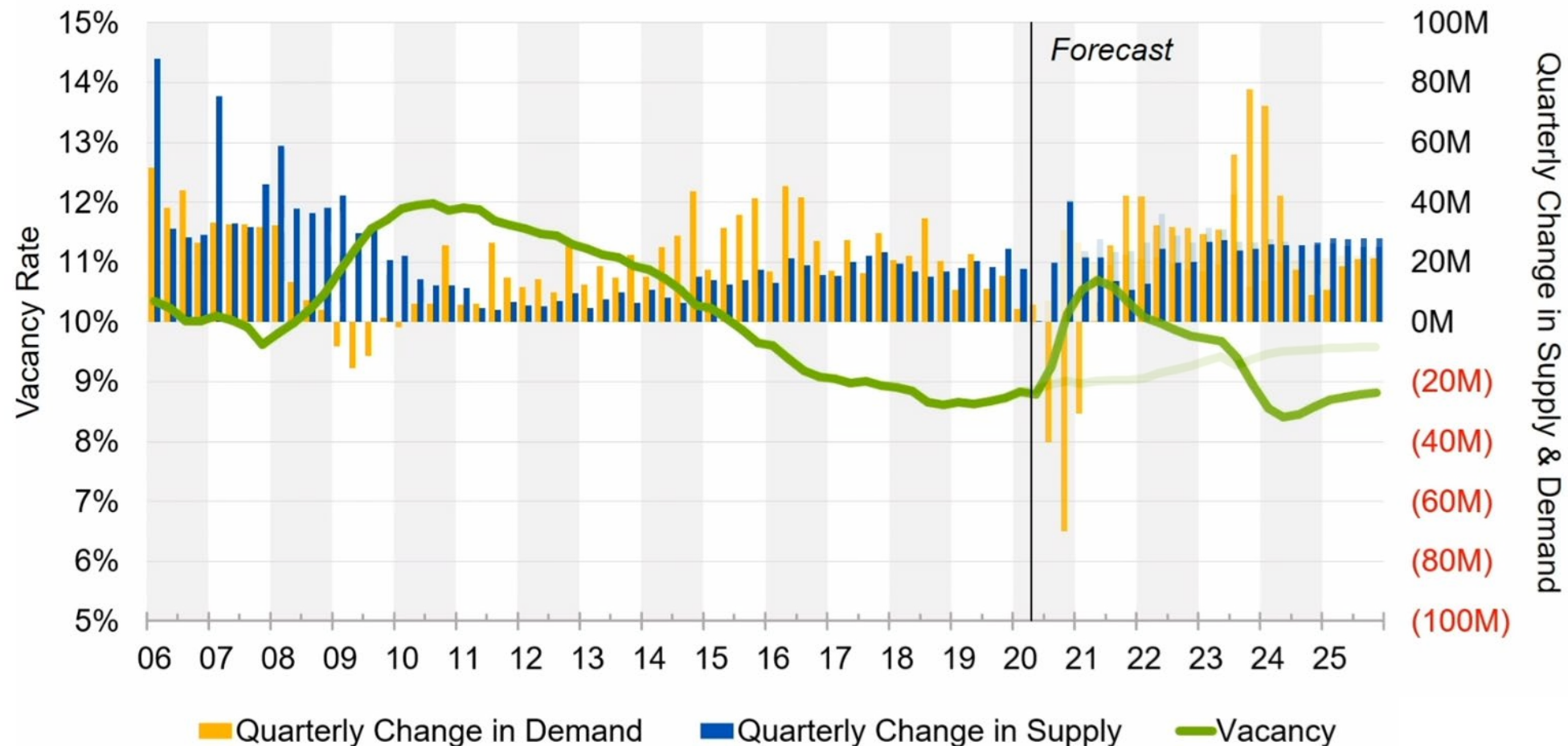
SUBLET AVAILABILITY THE CANARY IN THE COALMINE

NYC & SFO Experience Sharp Re-Direction In Tenant Demand



NEW BASELINE: DIVERGENCE IN SUPPLY & DEMAND

Vacancy Peaks Near 11% But Remains Below 2010 High, Recovery In 2021



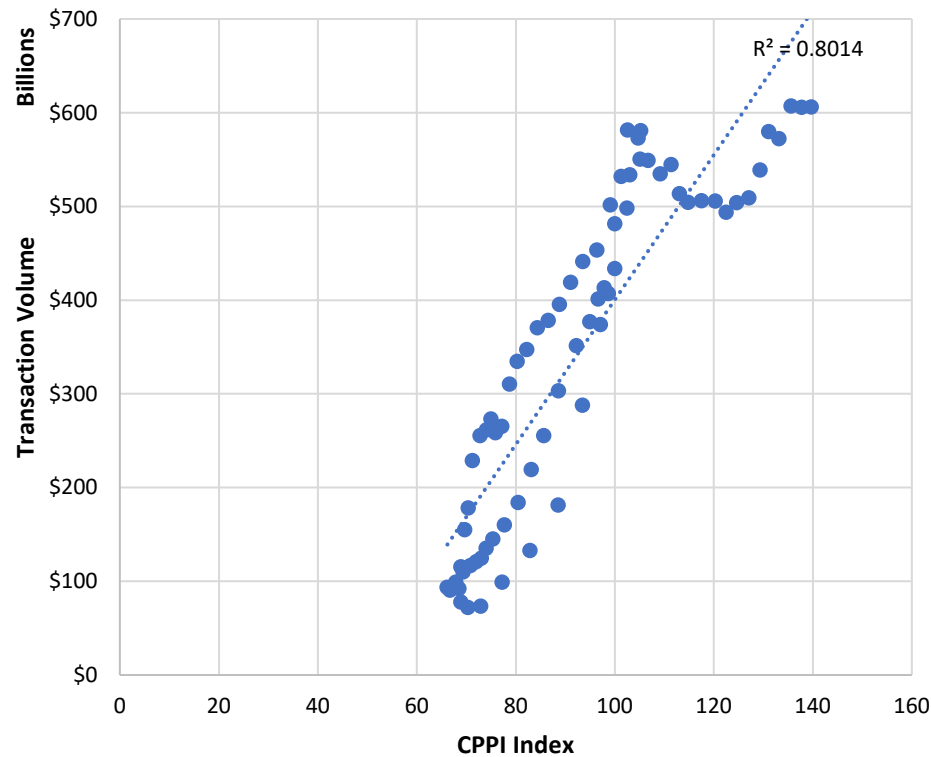
CAPITAL MARKETS



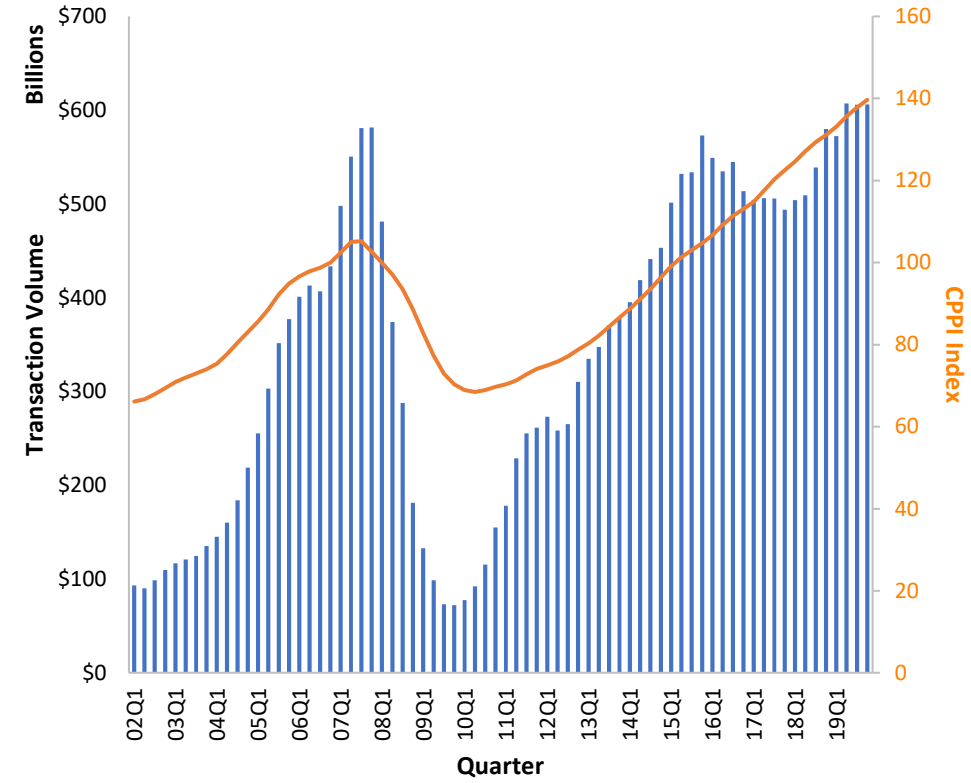
TRANSACTION VOLUMES WILL DECLINE

"Price Discovery" Will Slow Pace of Sales

Values vs. Volumes



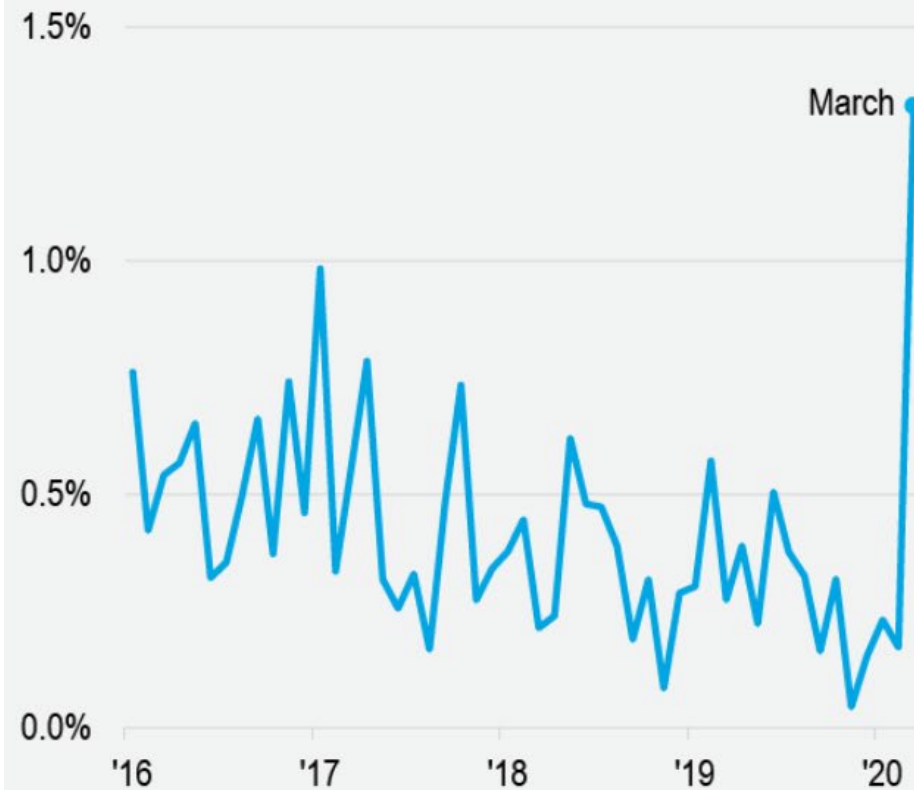
Values vs. Volumes



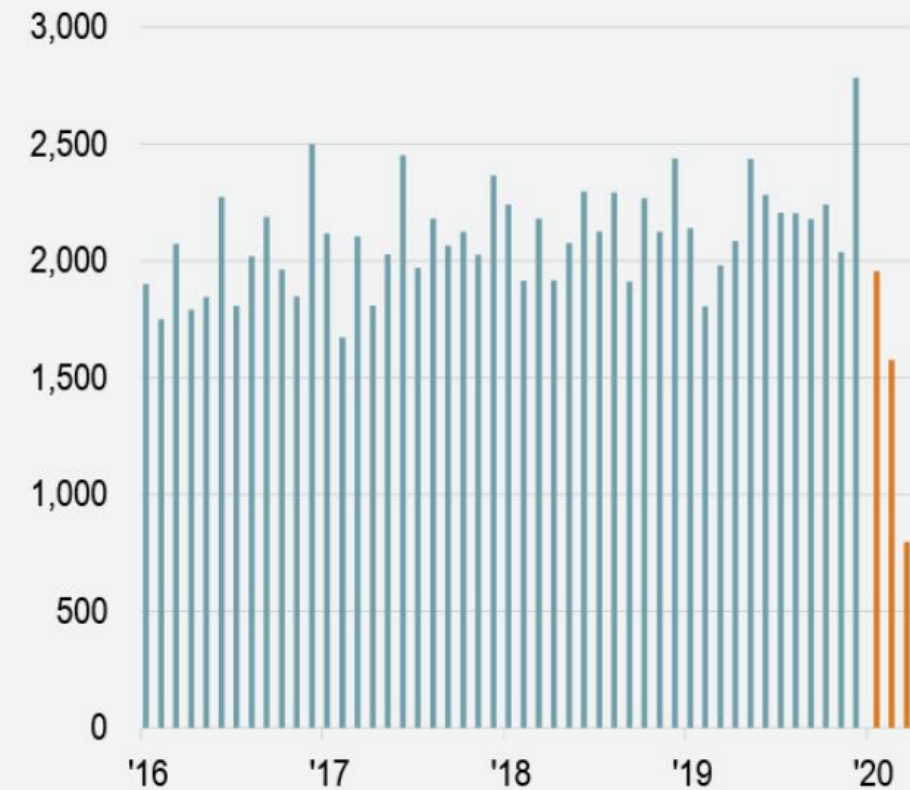
FEW DEALS DISSOLVING, BUT BIDDER POOLS THINNING

"Price Discovery" Will Slow Pace of Sales

Collapsed deals share of closed deals

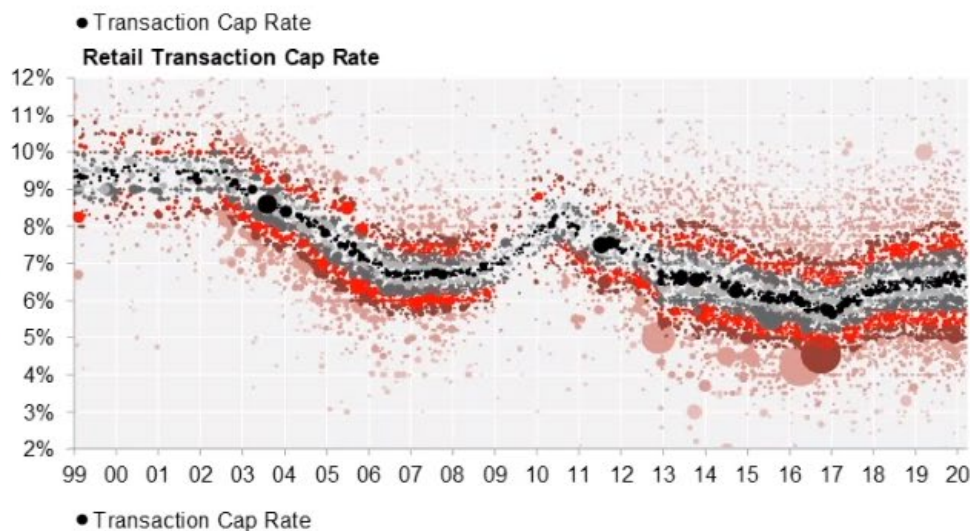
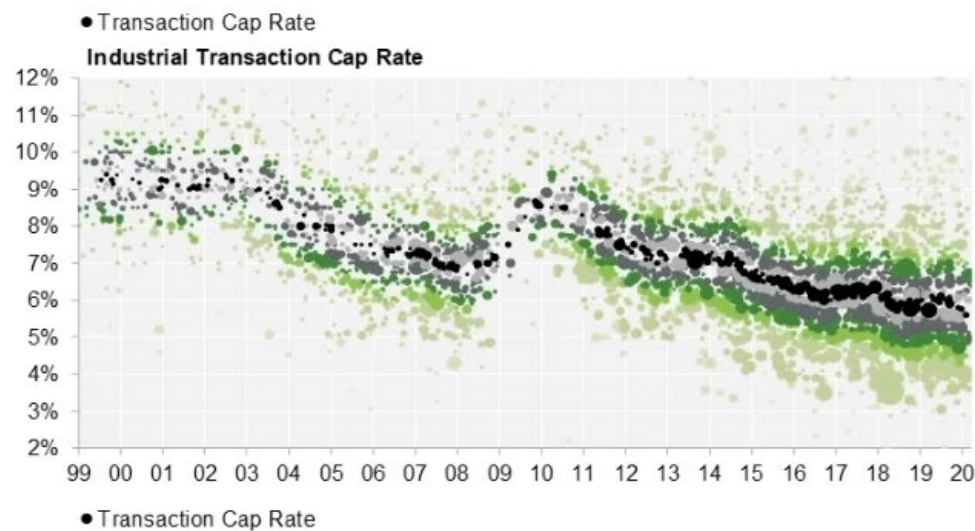
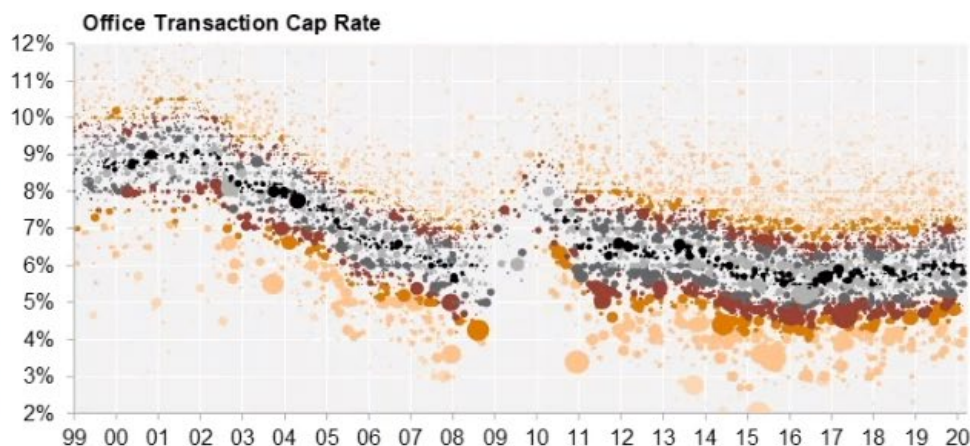
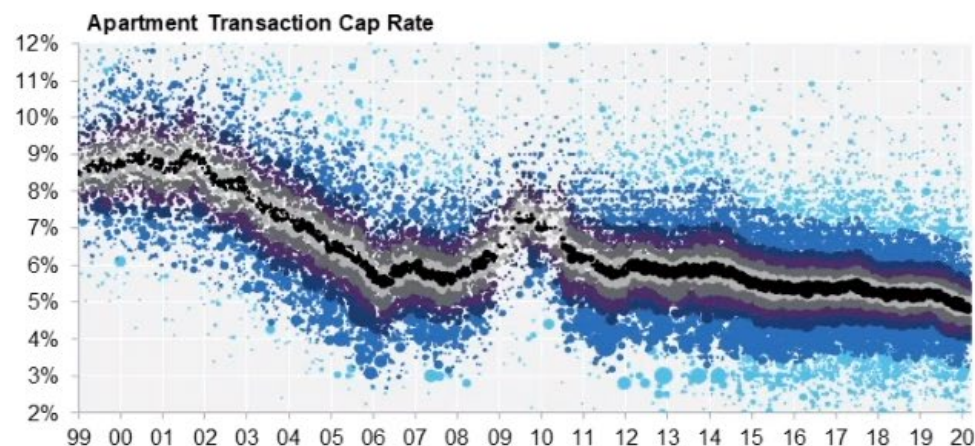


Count of unique buyers



CAP RATES RISE DURING PRICE DISCOVERY

Fewer Transactions = Higher Cap Rates



Note: Cap rates are shaded by distance from trailing average to identify trend, Industrial assets selling for at least \$5 million.

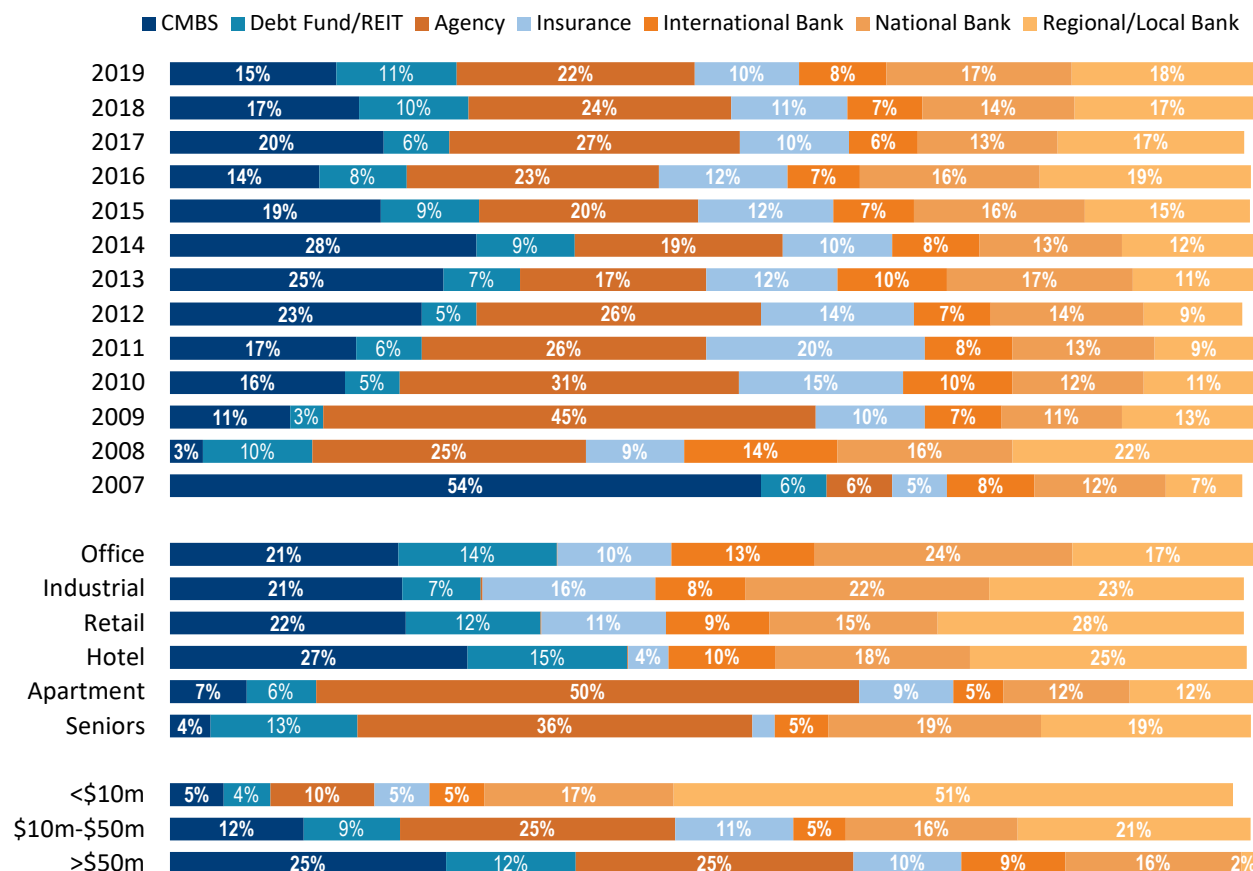
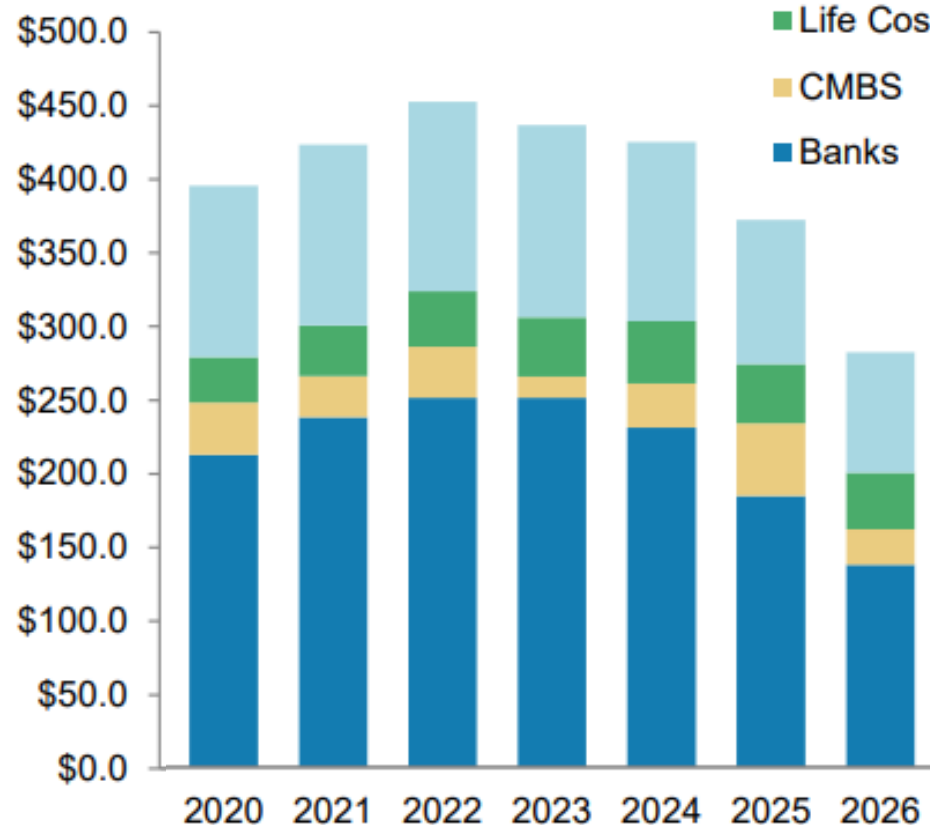
Source: CoStar Portfolio Strategy

DEBT MARKET WELL-POISED FOR TURBULENCE

Banks Liquid, CMBS & Debt Funds <25% of Originations and Maturities

Maturing Loans by Lender Type (in \$Bn)

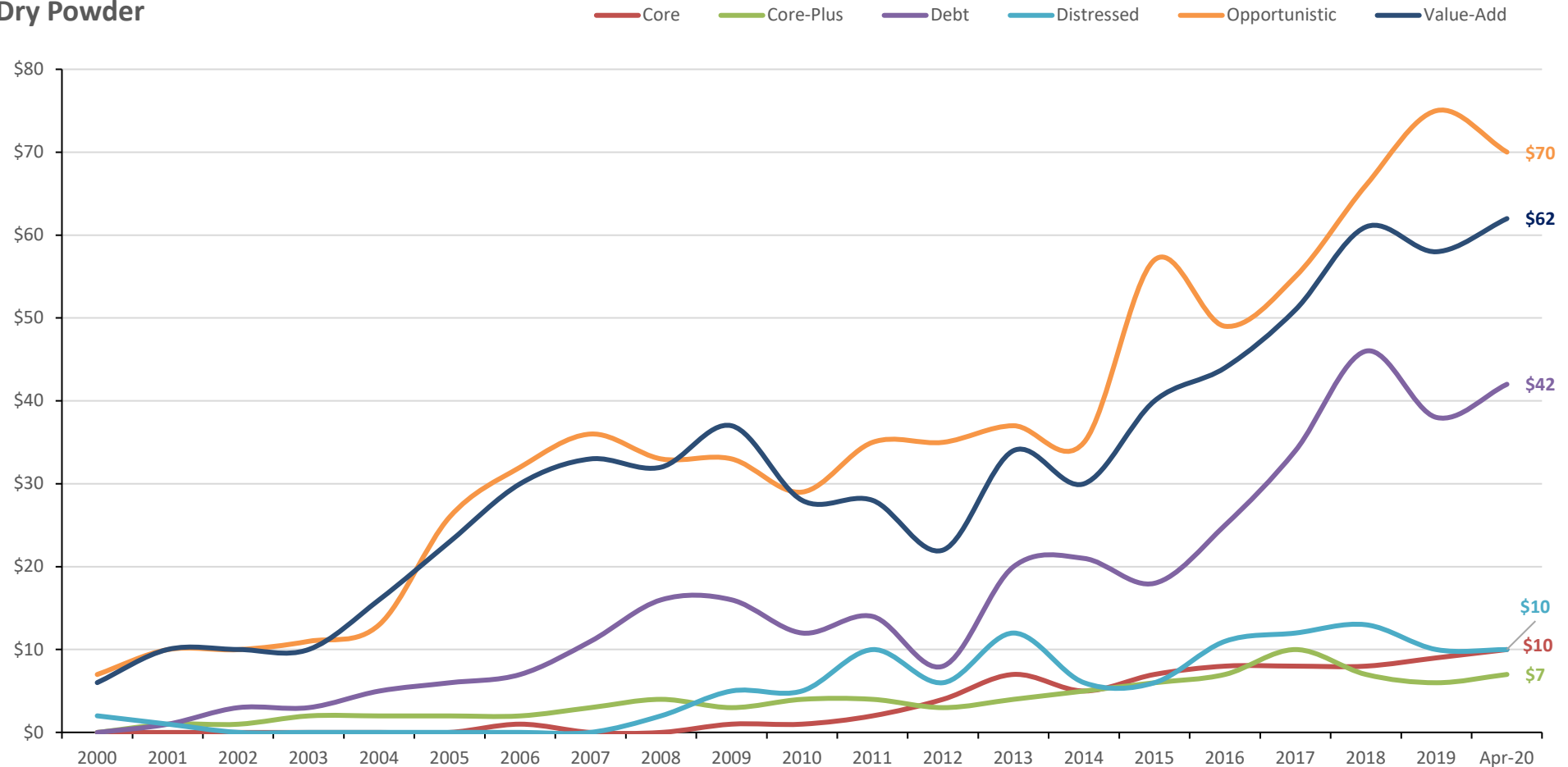
Other
Life Cos
CMBS
Banks



DRY POWDER READY TO RECAP

Investors Seek Yield | Opportunistic Dry Powder ~8x Core Dry Powder

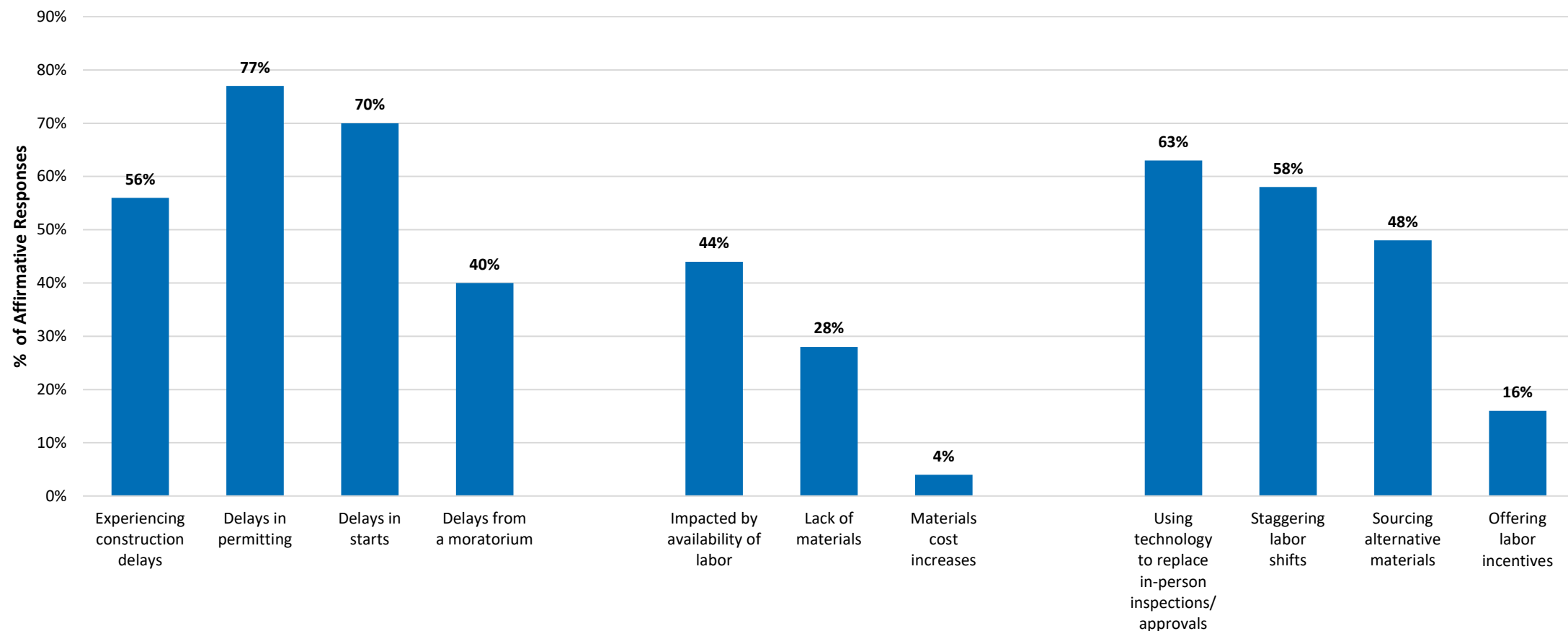
Dry Powder



NEW CONSTRUCTION STARTS WILL BE DELAYED

Inspections, Approvals & Permitting Experiencing Largest Disruption

Construction Impacts



CONCLUSIONS



IDIOSYNCRATIC RISKS COMPLICATE THE OUTLOOK

Timing & Duration of Shelter-In-Place Orders & Consumer Confidence Are The Most Important Considerations To Determine

Sector	Pros	Cons
Industrial	<ul style="list-style-type: none"> Low employee-to-square-foot ratios can result in lower health-related disruption to the tenant workforce and productivity Forced transition to e-commerce among retailers may accelerate demand for related warehousing space over the long run Longer term, on-shoring of light manufacturing may improve absorption of older vintage assets 	<ul style="list-style-type: none"> Markets with high concentrations of retail-oriented industrial tenants may be impacted as tenant demand declines in the near term In some cases, landlords may undermine one another to secure cash flow amid fewer tenant requirements Supply pipeline may have more difficult time achieving stabilization
Apartments	<ul style="list-style-type: none"> Single-family housing affordability has likely deteriorated based on higher unemployment, lost wages and lack of down payment Rent collections have broadly outperformed expectations, though may be supported artificially by PPP and CARES Act Majority of new construction catered to highly-educated, above-median wage earners, insulating impact to associated rent rolls → Supply pipeline will diminish until property fundamentals and debt markets recover, removing a recent headwind 	<ul style="list-style-type: none"> Moratoriums on rent increases and evictions either governed or taken as best practices (120 days + 30-day notice period) Some rent rolls may therefore require up to 150 days of delay in ability to completely stabilize ← Majority of new construction catered to highly-educated, above-median wage earners, which typically decrease in number in a recession Shorter-term nature of lease agreements result in more immediate net operating income declines and higher economic/physical vacancy
Office	<ul style="list-style-type: none"> Cost of building and tenant space improvements to accommodate health concerns are relatively modest Long-duration lease terms provide stable cashflow WALT will continue to be preferred by investors 	<ul style="list-style-type: none"> Space density trends inhibit full restoration of attendance and productivity Coworking firms face deteriorating financials, could add to building vacancy Conjecture over economy and political elections may lead to lower leasing and related net absorption
Retail	<ul style="list-style-type: none"> Wide labor availability will reduce labor costs to surviving tenants Pent-up demand for “experience” could rebound sharply Grocery-anchored and Healthcare-related properties will benefit from higher utilization and investor preferences Preleasing requirements and debt availability have limited supply pipeline, underpinning a bottom in property fundamentals 	<ul style="list-style-type: none"> Increased requests for rent relief or forbearance Heavier weighting to e-commerce distribution channels may accelerate consolidation plans for brick and mortar space Underwriting capital reserves will increase Bankruptcies will increase physical vacancies Increased competition among landlords will drive occupancy costs down
Capital Markets	<ul style="list-style-type: none"> Fed intervention has aided market liquidity dramatically Majority of lenders well-capitalized Dry powder concentrated in value-add/opportunistic funds Liquidity availability is broad, and investors are eager to place capital in a favored asset class 	<ul style="list-style-type: none"> Cost of capital in the debt and equity space still above pre-pandemic norms Bid-ask gap between buyers and sellers has emerged broadly Volumes will remain challenged until property inspections can move forward Economic and physical vacancies are being underwritten, impacting hold period IRRs

transwestern.com



TRANSWESTERN

REAL ESTATE
SERVICES