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REAL ESTATE SERVICES

U.S. CRE AMID COVID-19

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JUNE 17, 2020

EMPLOYMENT TRENDS

“FLATTENING THE CURVE” IN UNEMPLOYMENT CLAIMS

How Many Will Be Temporary Vs. Permanent?

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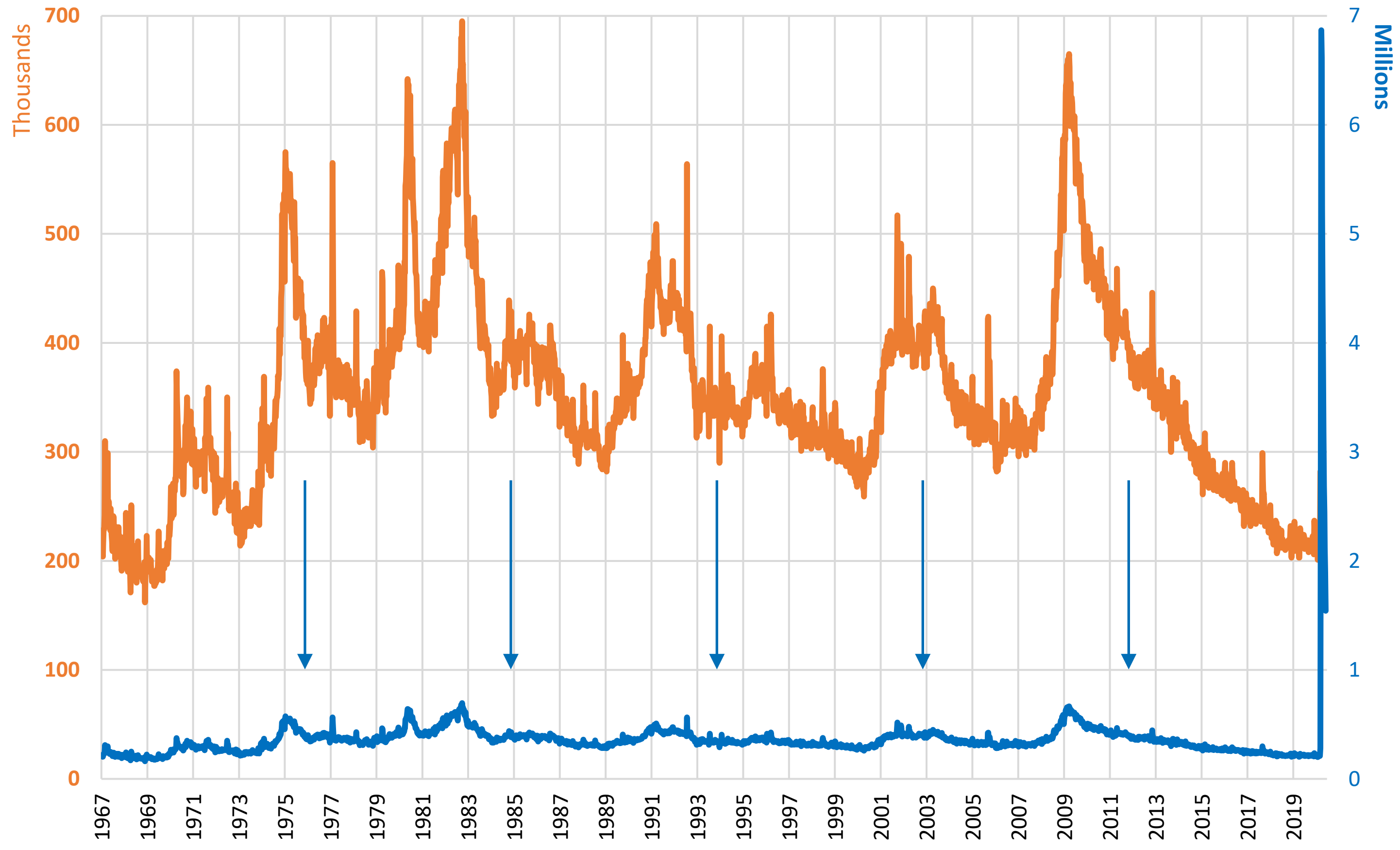
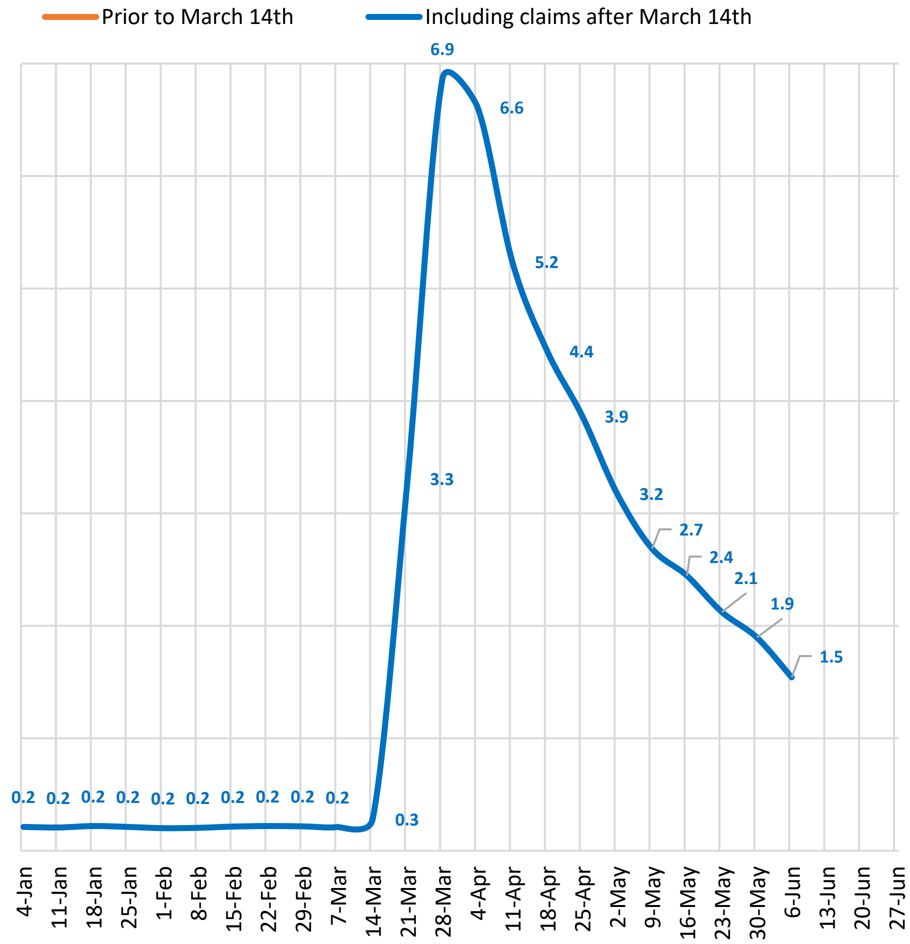
Weekly Unemployment Claims

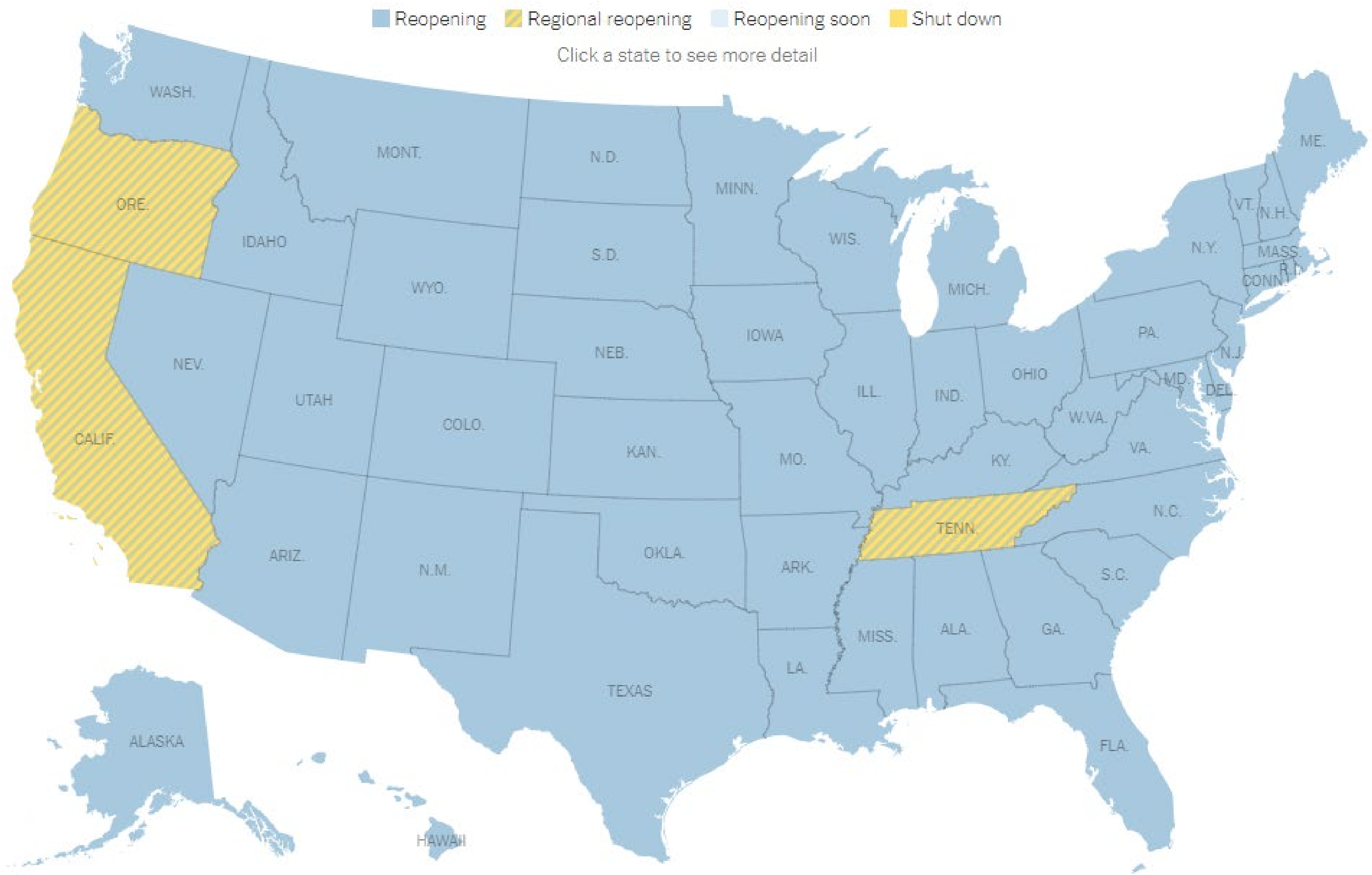




Source: Transwestern Investment & Data Analytics, Department of Labor

MAJORITY OF STATES RE-OPENED

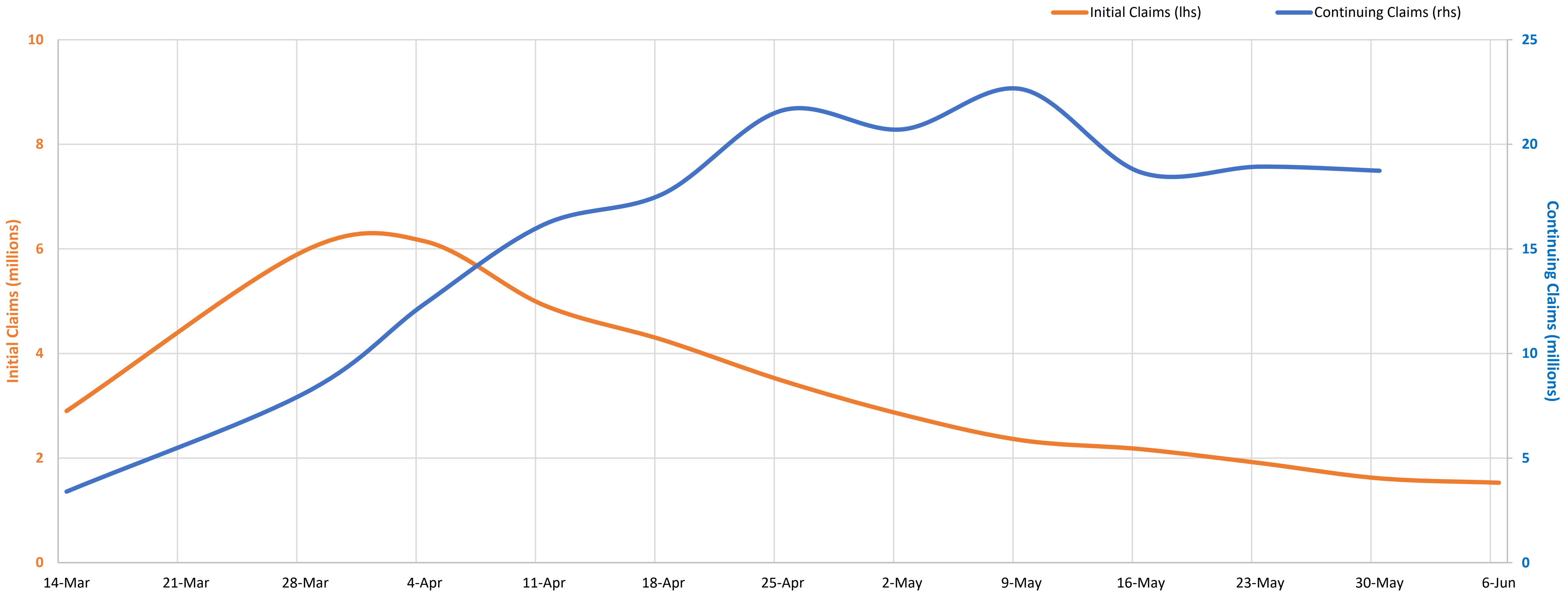
Three Large States (CA, OR, TN) Remain In Transition



Source: The New York Times

CONTINUING CLAIMS PLATEAU

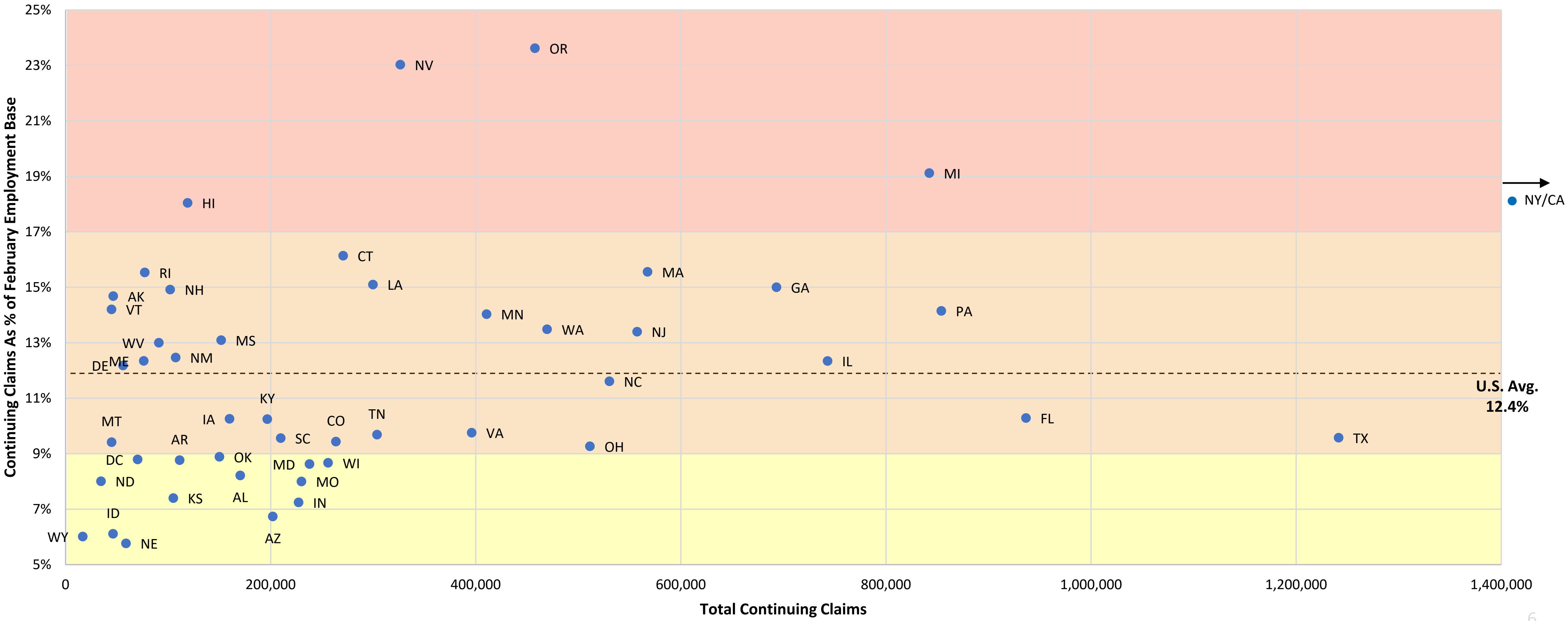
Re-Openings Bring Many Workers Back Onto Payrolls



Source: Transwestern Investment & Data Analytics, Department of Labor

CONTINUING CLAIMS OUTLINE LASTING IMPACTS

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



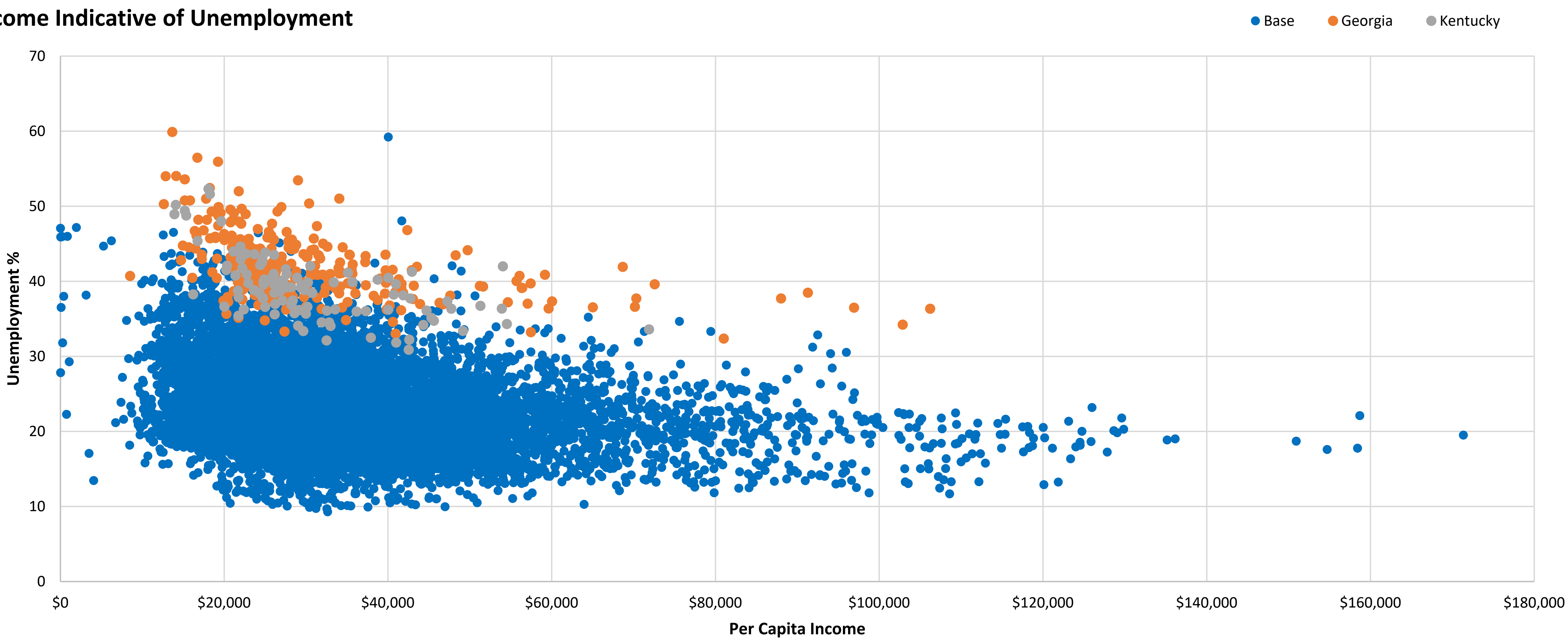
Note: California: 2.85 million continuing claims, New York: 1.70 million continuing claims

Source: Transwestern Investment & Data Analytics, Department of Labor, data as of May 30, 2020 (latest available)

INCOME PREDICTIVE OF UNEMPLOYMENT?

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

Income Indicative of Unemployment

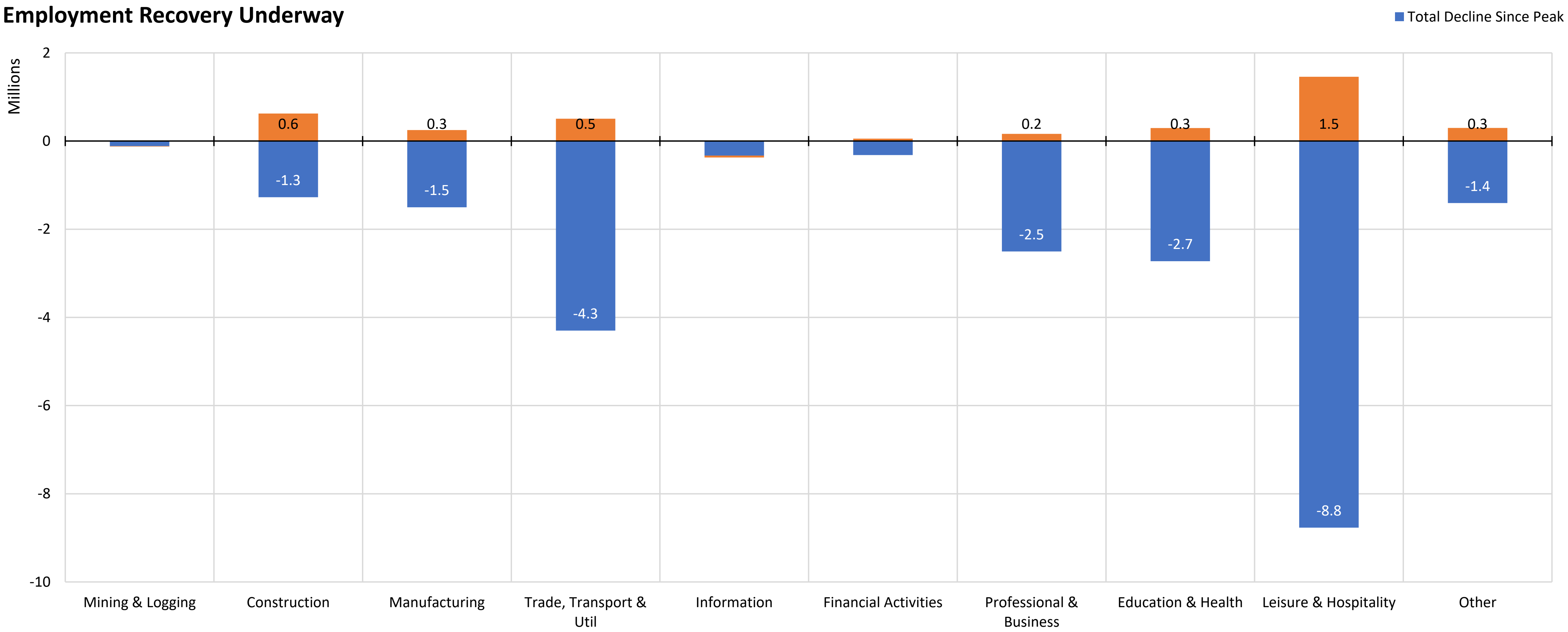


Note: CBSA ZIP codes with minimum 2,500 residents

Source: Transwestern Investment & Data Analytics, EMSI, PopStats, AGS

RESTAURANTS & BARS ADD STAFF

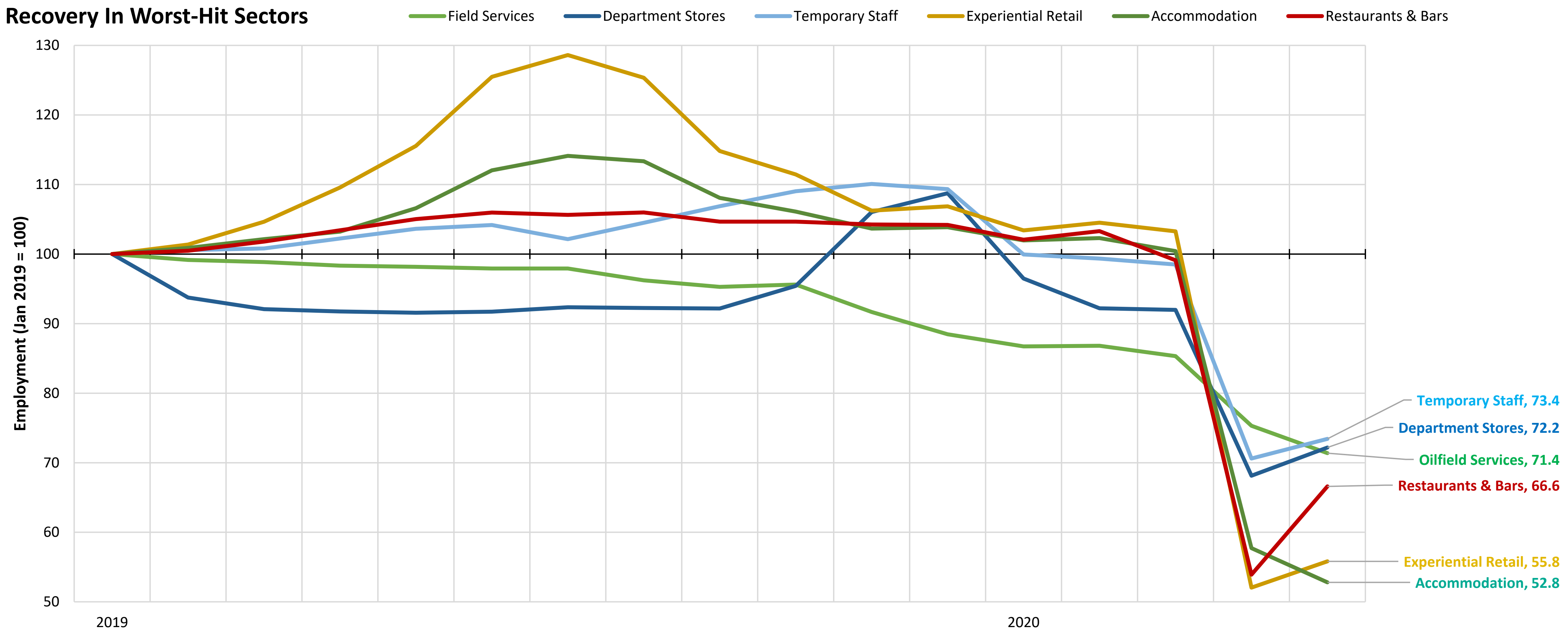
Long Road Ahead To Recover Fully



Source: Transwestern Investment & Data Analytics, Bureau of Labor Statistics

OFFICE TEMPS & FOOD SERVICE STAFF RE-ENTER PAYROLL

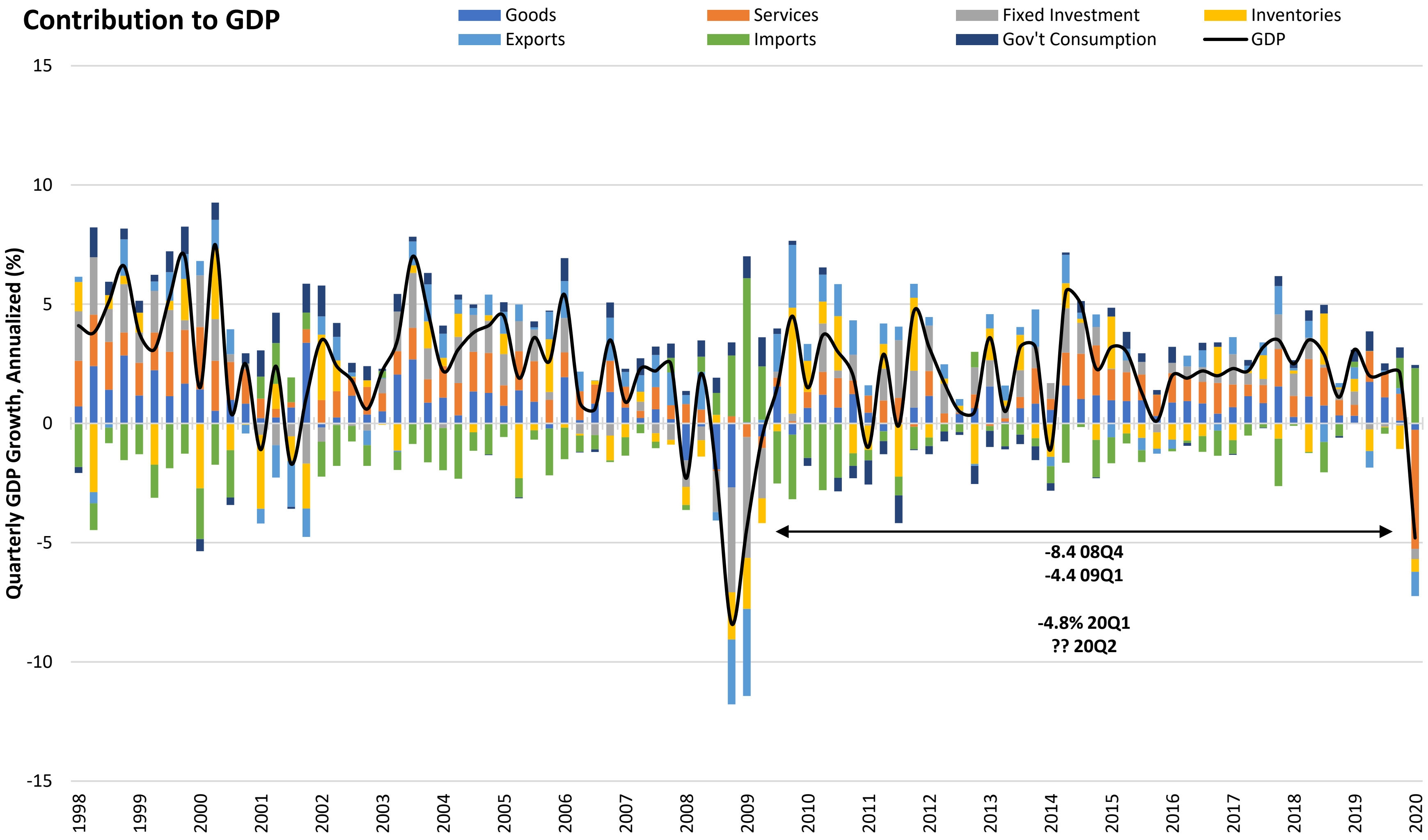
Accommodations & Oilfield Services Still Shedding Employment

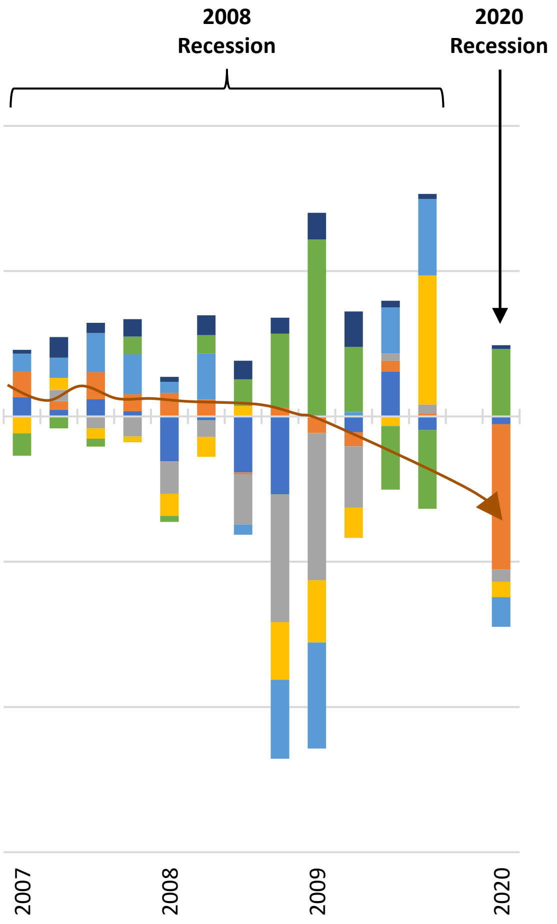


Source: Transwestern Investment & Data Analytics, Bureau of Labor Statistics

-4.8% GDP CONTRACTION WORST SINCE Q4 2008

Contraction In Personal Consumption Worst Ever, Could Prove Elastic



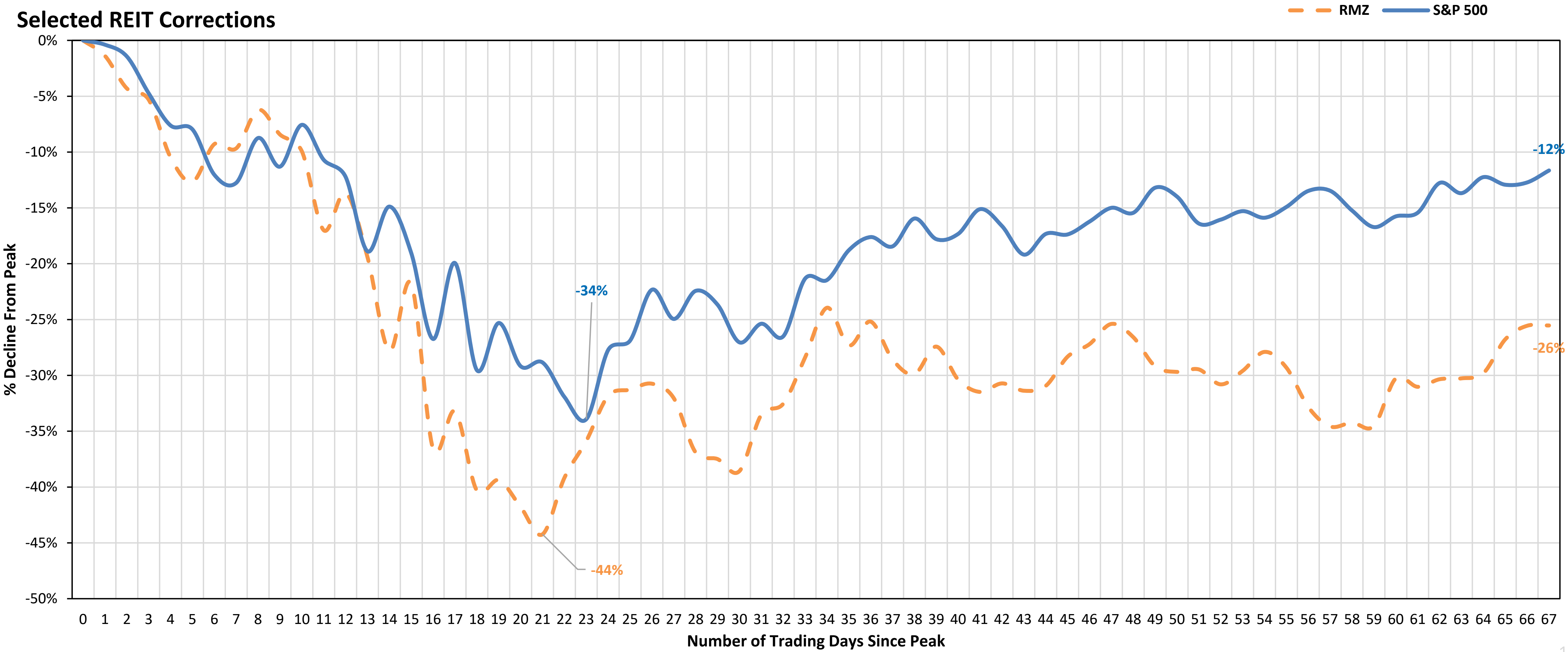


Source: Transwestern Investment & Data Analytics, Bureau of Economic Analysis

PROPERTY VALUATIONS

REIT CORRECTION STABILIZES ~-30%

Correction More Pronounced Than Broader Equities

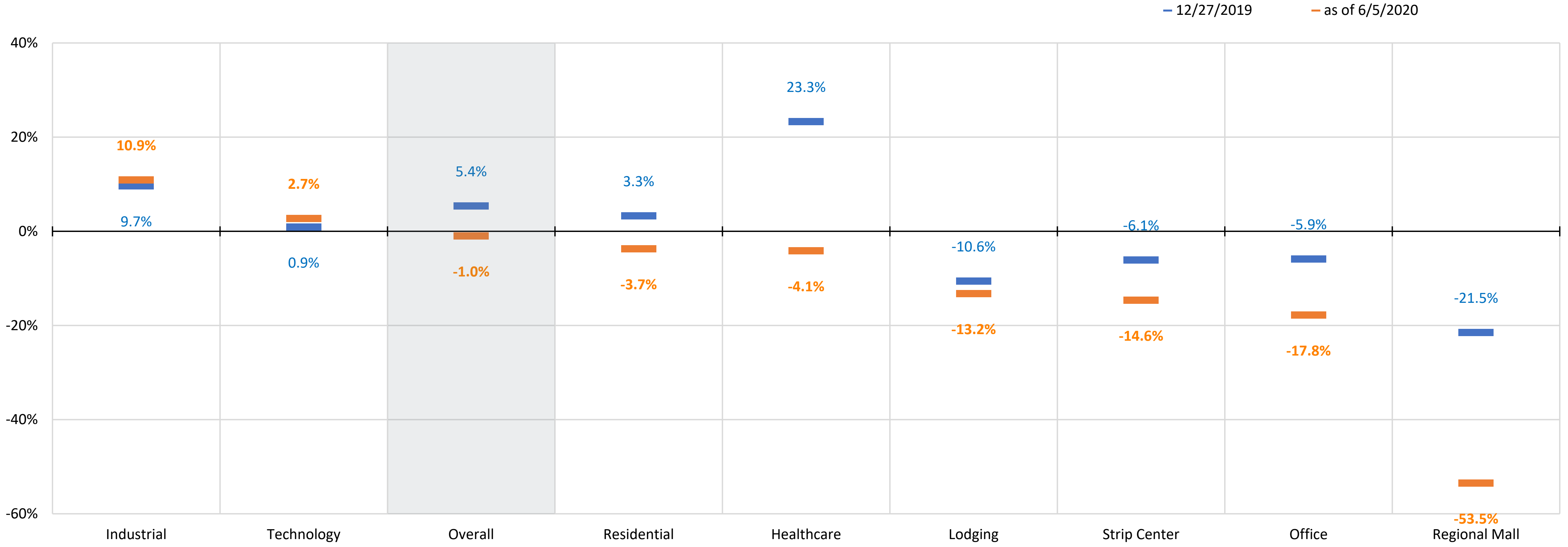


Note: RMZ Peak = February 21, 2020; S&P 500 Peak = February 19, 2020
Source: Transwestern Investment & Data Analytics, Bloomberg, as of May 29, 2020

REIT VALUATION IMPACT VARIES BY PROPERTY TYPE

Industrial & Data Centers Favored, Office Under Increasing Pressure
Retail Property Types Suffer Worst Impacts

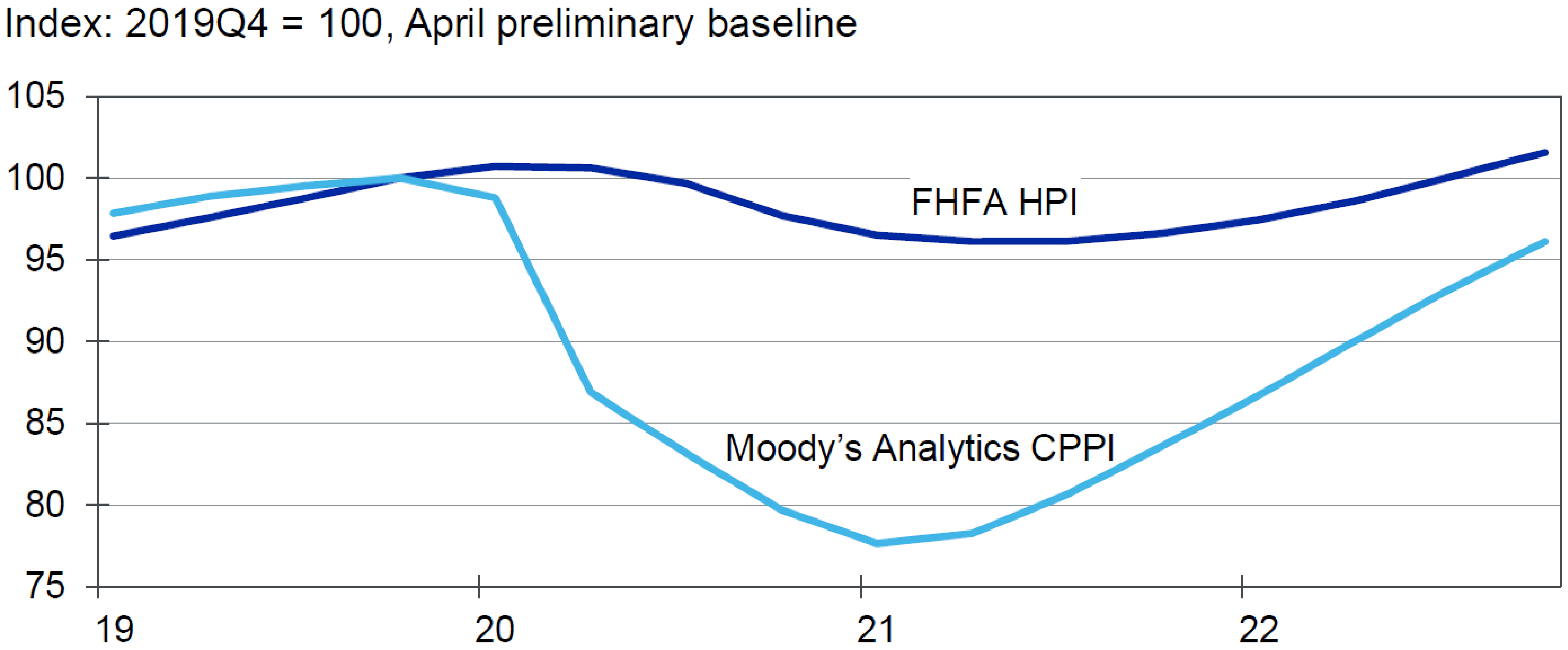
REIT Price:NAV Ratios



Source: Transwestern Investment & Data Analytics, JPMorgan

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

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

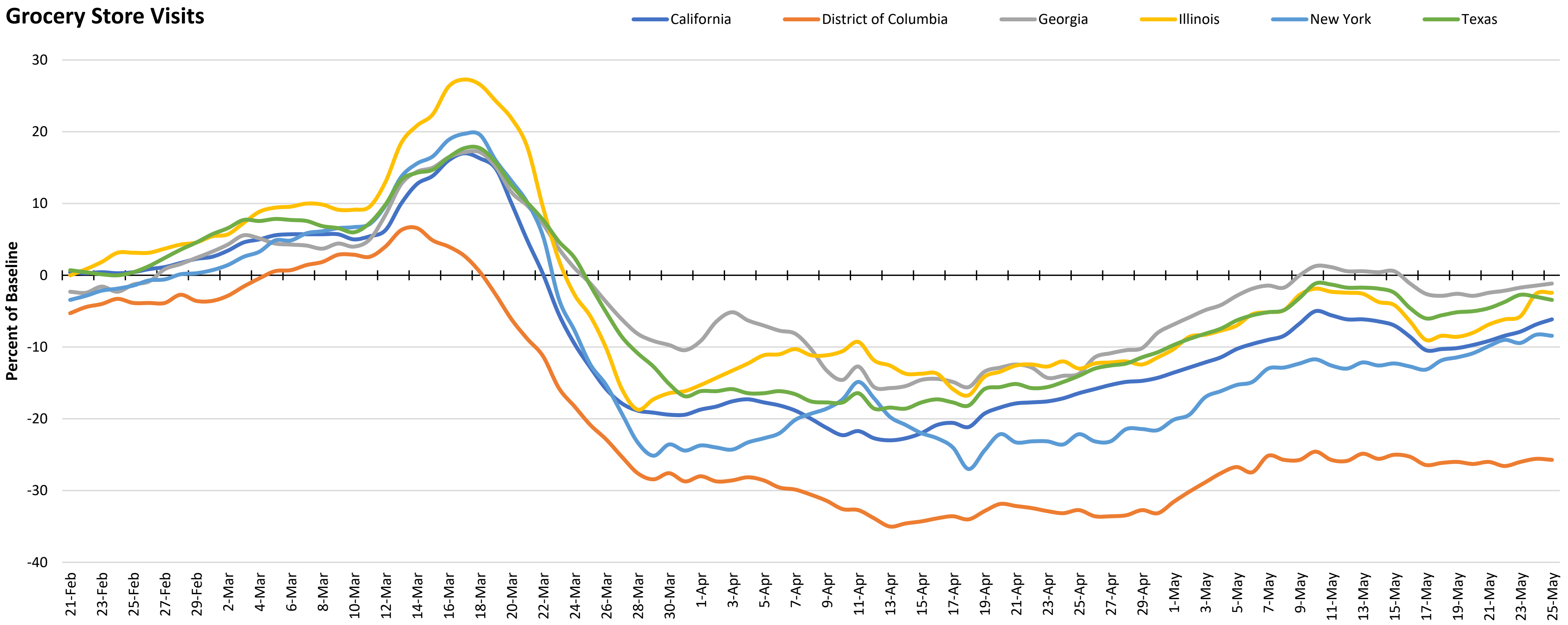


Source: Moody's, Federal Housing Finance Agency

PROPERTY SECTOR KPIs

EARLY SALES IN GROCERY STORES PROVED TRANSIENT

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



Note: Rolling seven-day mobility score

Source: Transwestern Investment & Data Analytics, Google, as of May 25,2020

MAY SALES FALL 7.9% FROM FEBRUARY NORMS

Grocery Sales Decline After Initial Surge, e-Commerce Sales Now 18% Of Total

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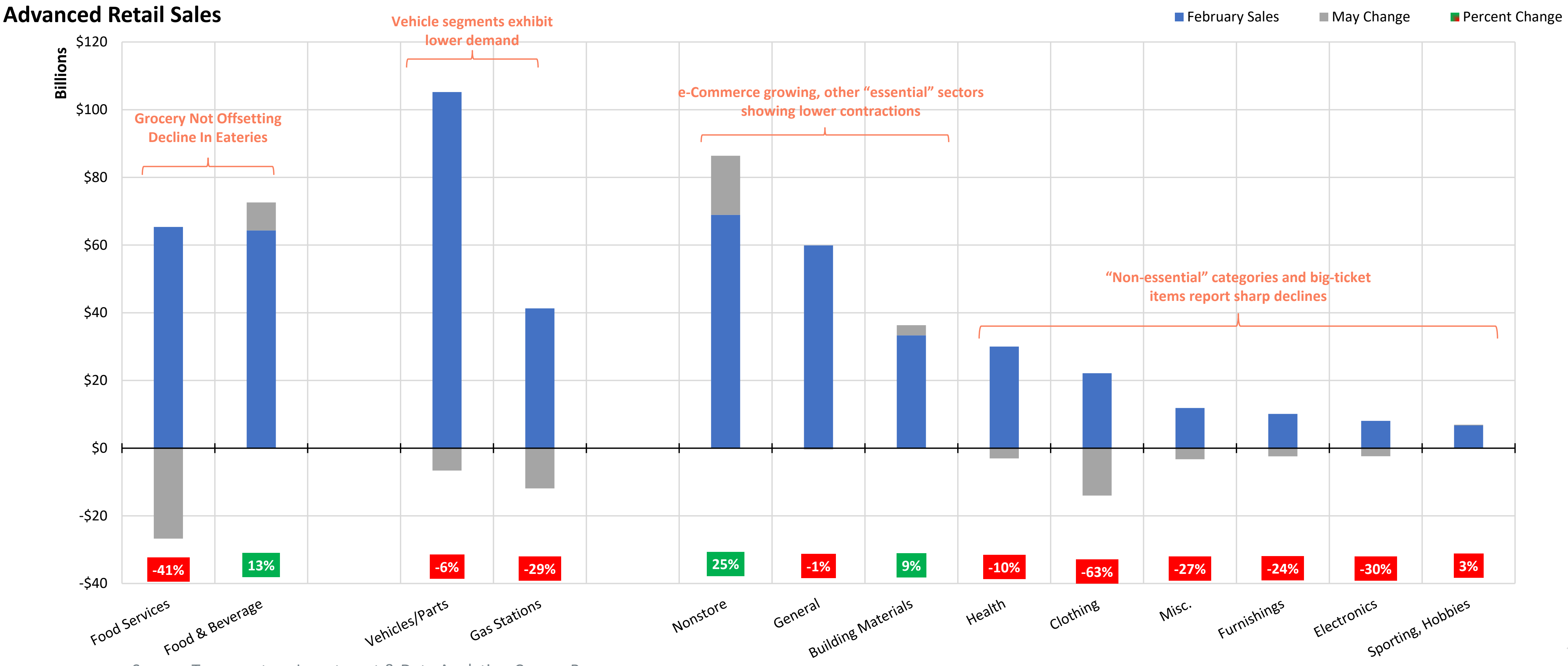
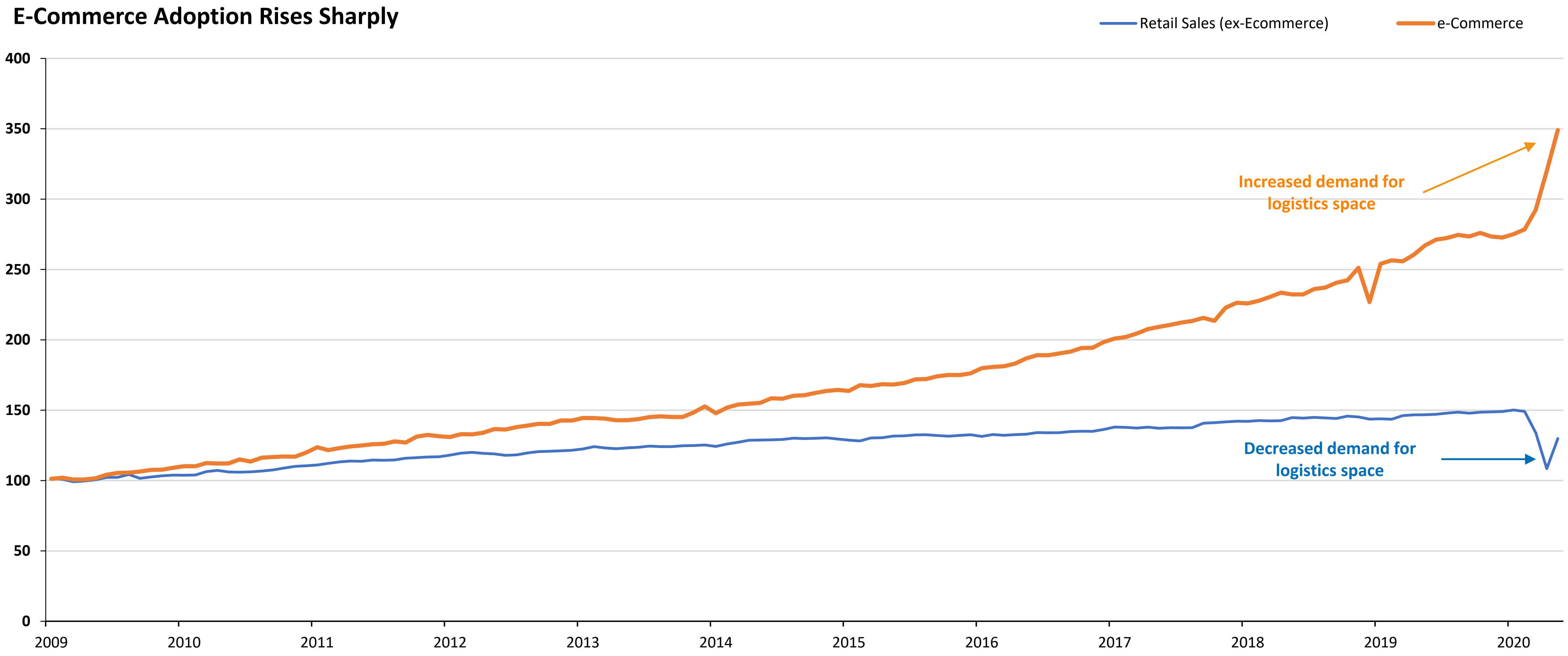


Source: Transwestern Investment & Data Analytics, Census Bureau

E-COMMERCE RISES 3x OTHER RETAIL CATEGORIES

Nonstore Sales Now Account For 19.4% Of Total Retail Sales



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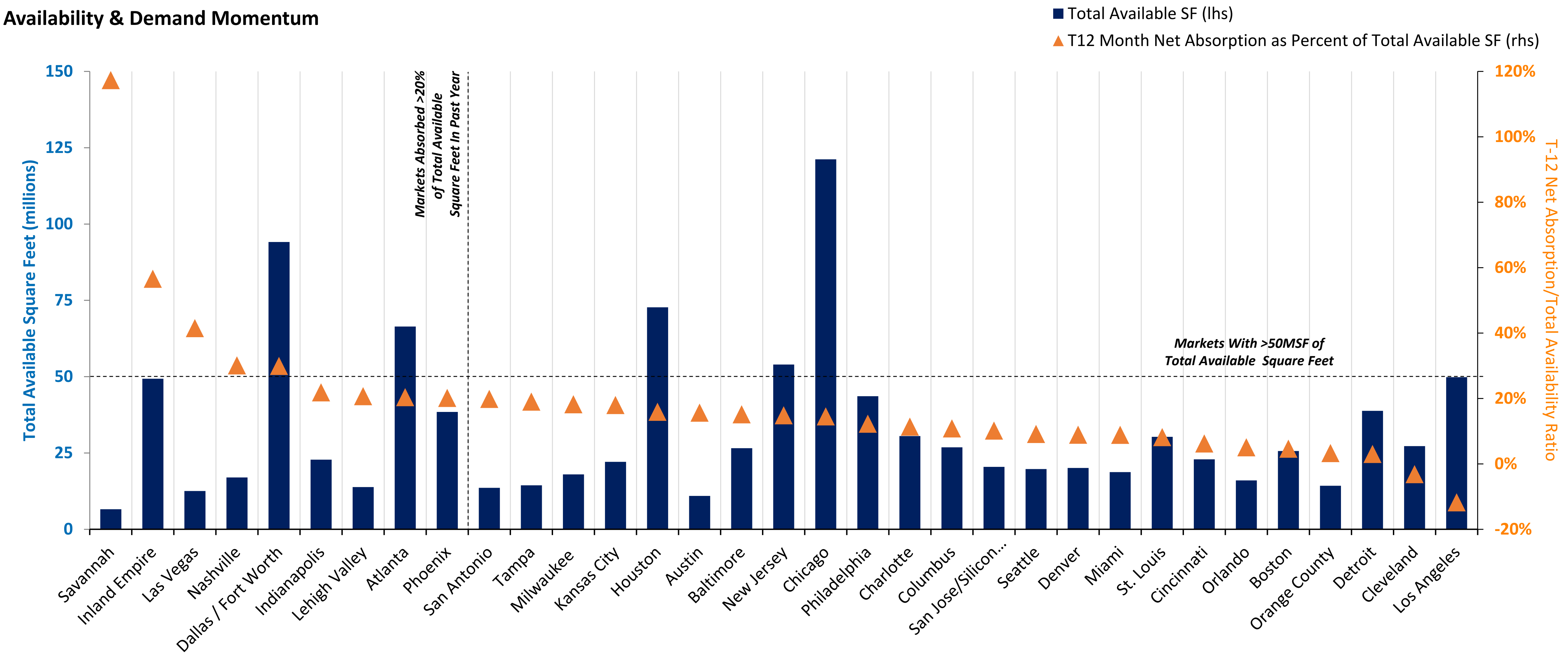
MIXED FOOTING AMID LARGE INDUSTRIAL MARKETS

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

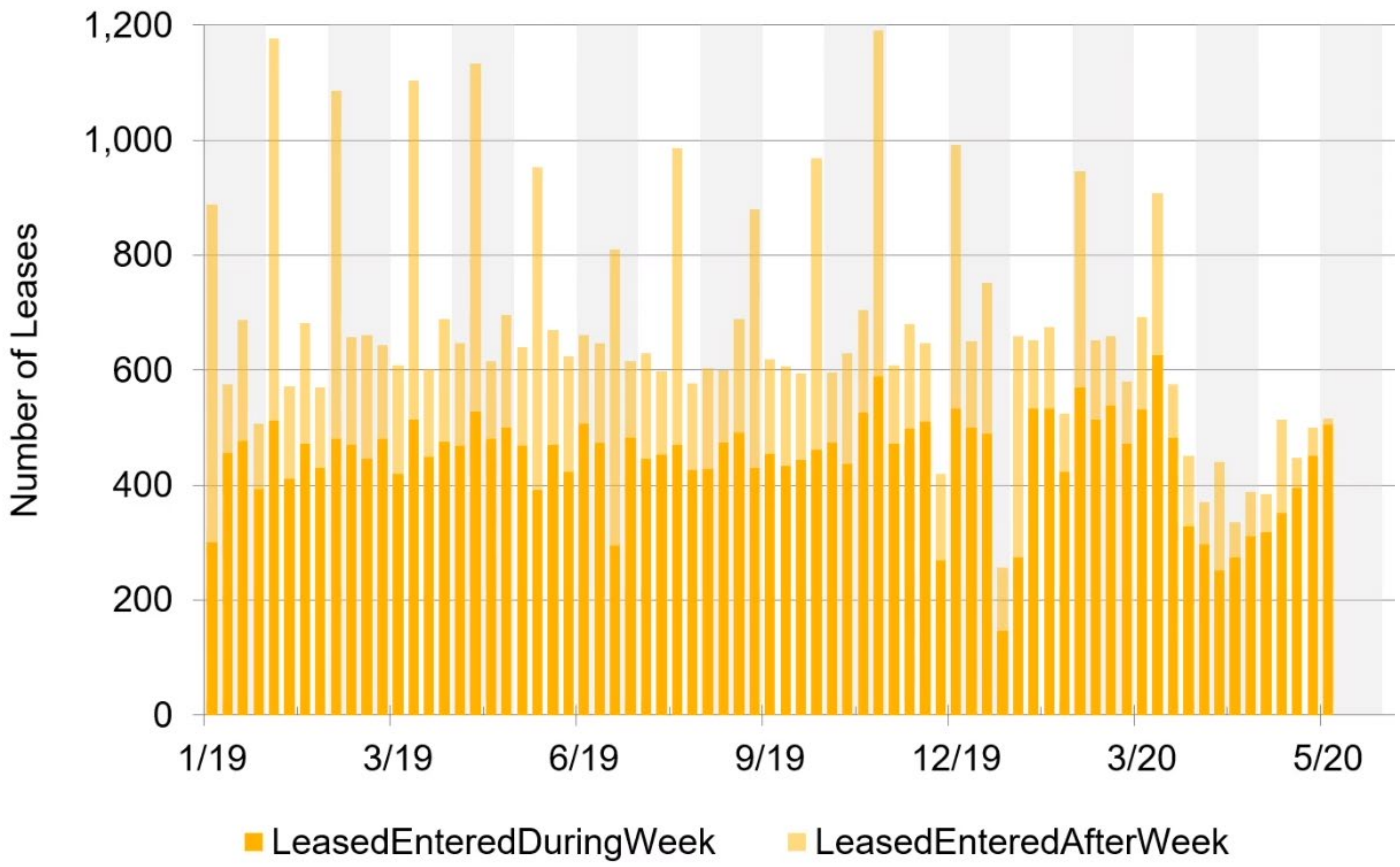
Availability & Demand Momentum



Source: Transwestern Investment & Data Analytics ,CoStar, data as of March 31, 2020

INDUSTRIAL SHOWS LEASING REBOUND

Weekly Leasing Activity Bank To Normal Levels



Source: CoStar Advisory Services

WIDE AVAILABILITY OF NEW LOGISTICS SPACE

Logistics Demand Has Options

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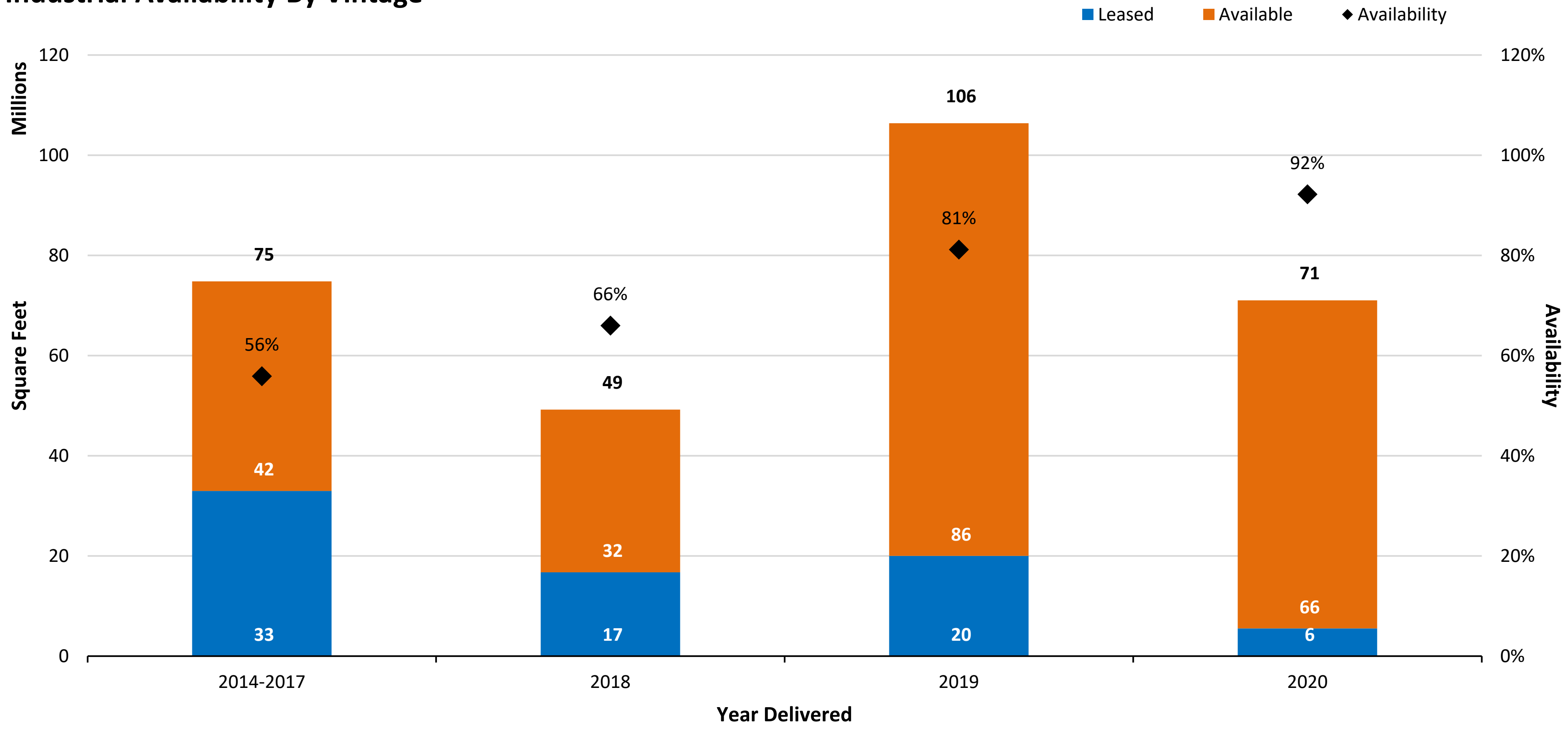
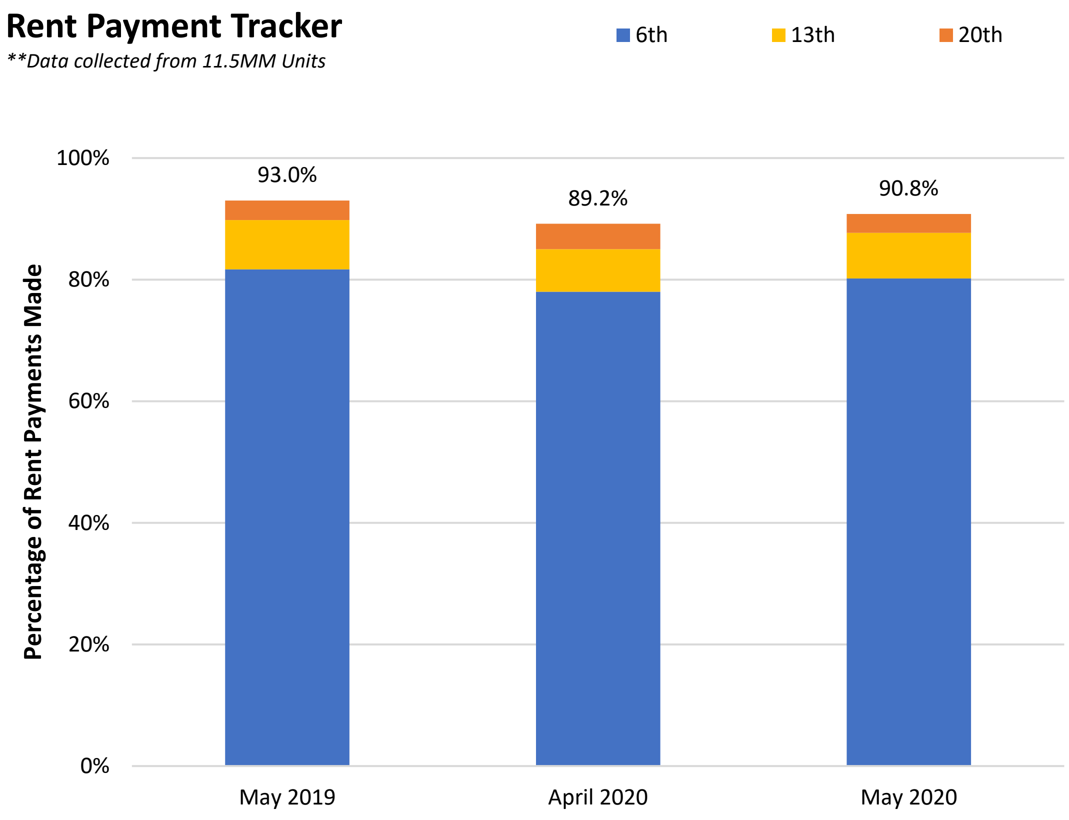
Industrial Availability By Vintage

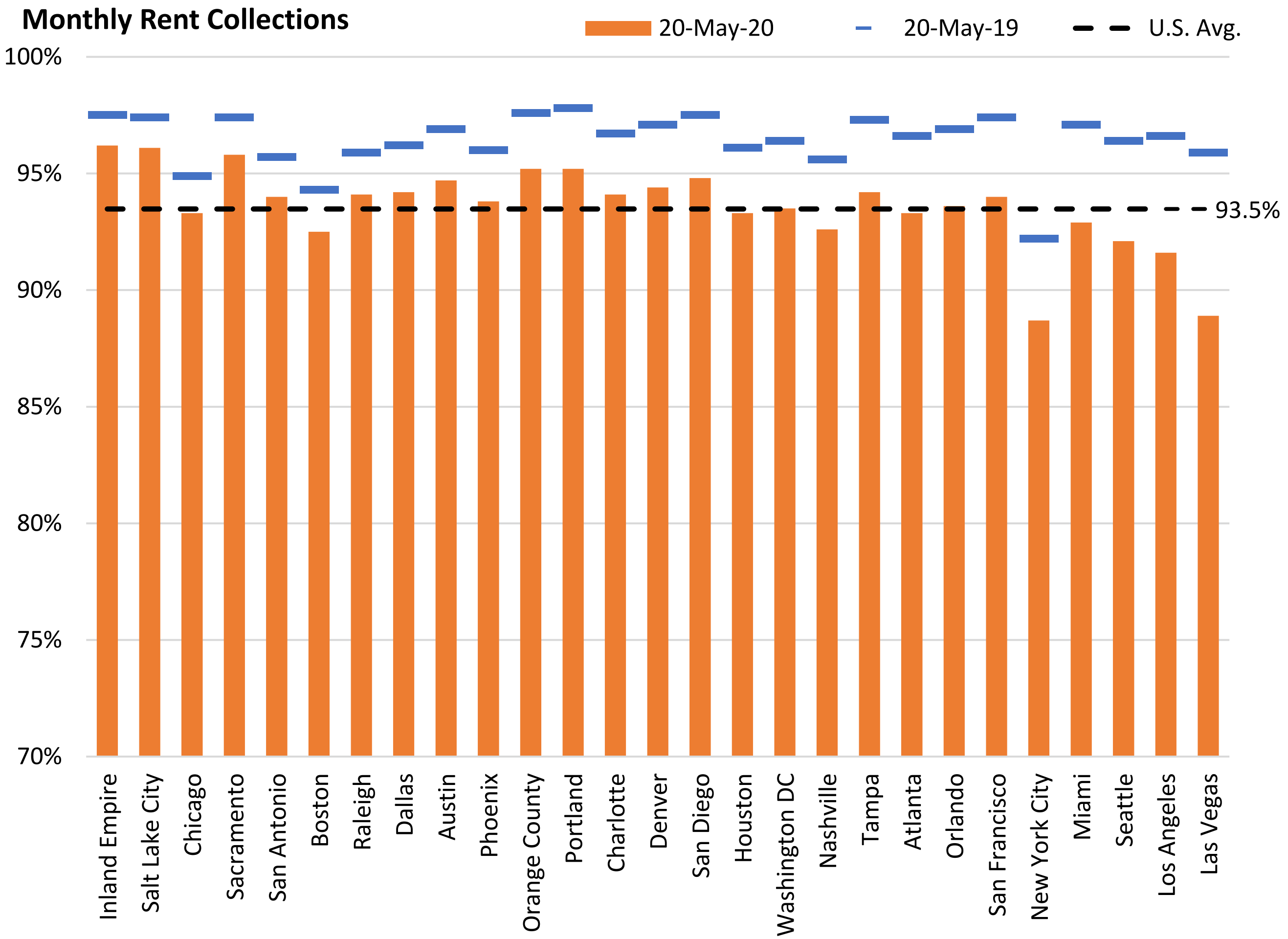


Note: 237.6 million square feet under construction, 96.9% available
Source: Transwestern Investment & Data Analytics, CoStar

APARTMENTS TRENDS SURPRISE FOR NOW

Rent Collections Better Than Expected, Asking Rents Will Deteriorate



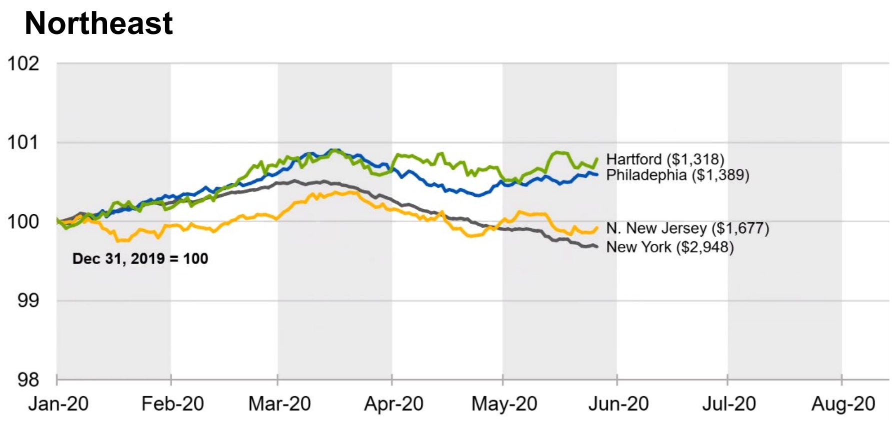


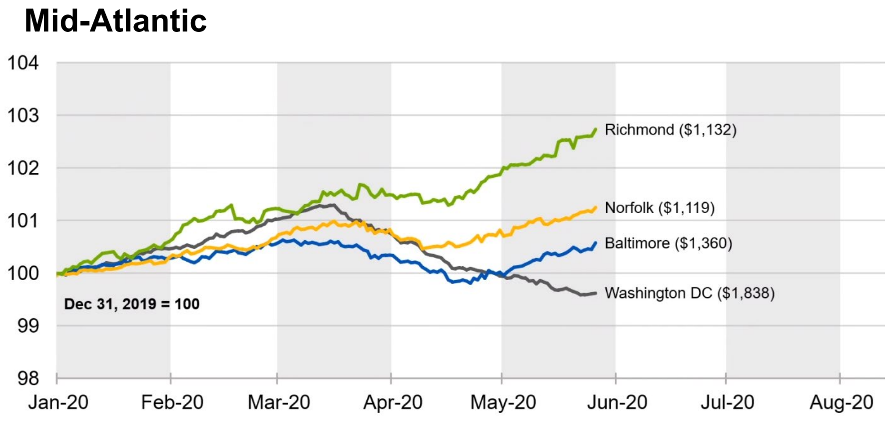
Note: * These figures are as initially reported; these are calendar days, so the specific day of the week can have an affect on these reported figures, as leasing offices can have reduced hours or be closed on those days, creating potential delays for payment processing. **Unit counts may change to reflect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

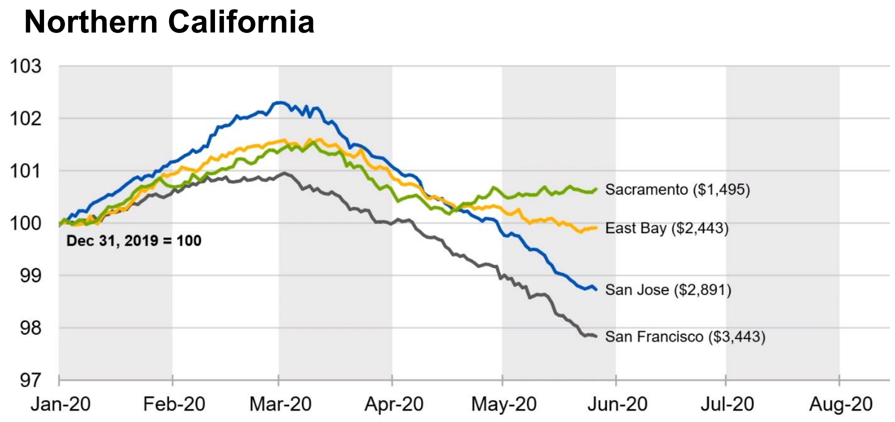
Source: National Multifamily Housing Council, Entrata, MRI Software, RealPage, ResMan, Yardi

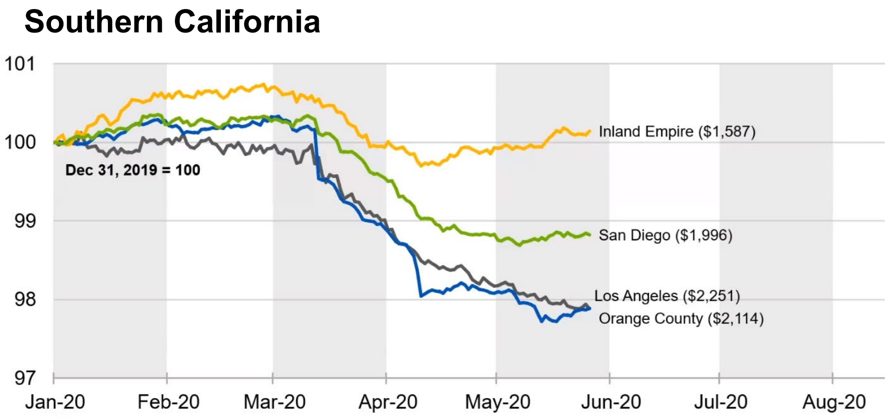
ASKING RENTS IMPACTED IN LARGER MARKETS

Core Multifamily Markets Exhibit Sharper Declines In Asking Rents





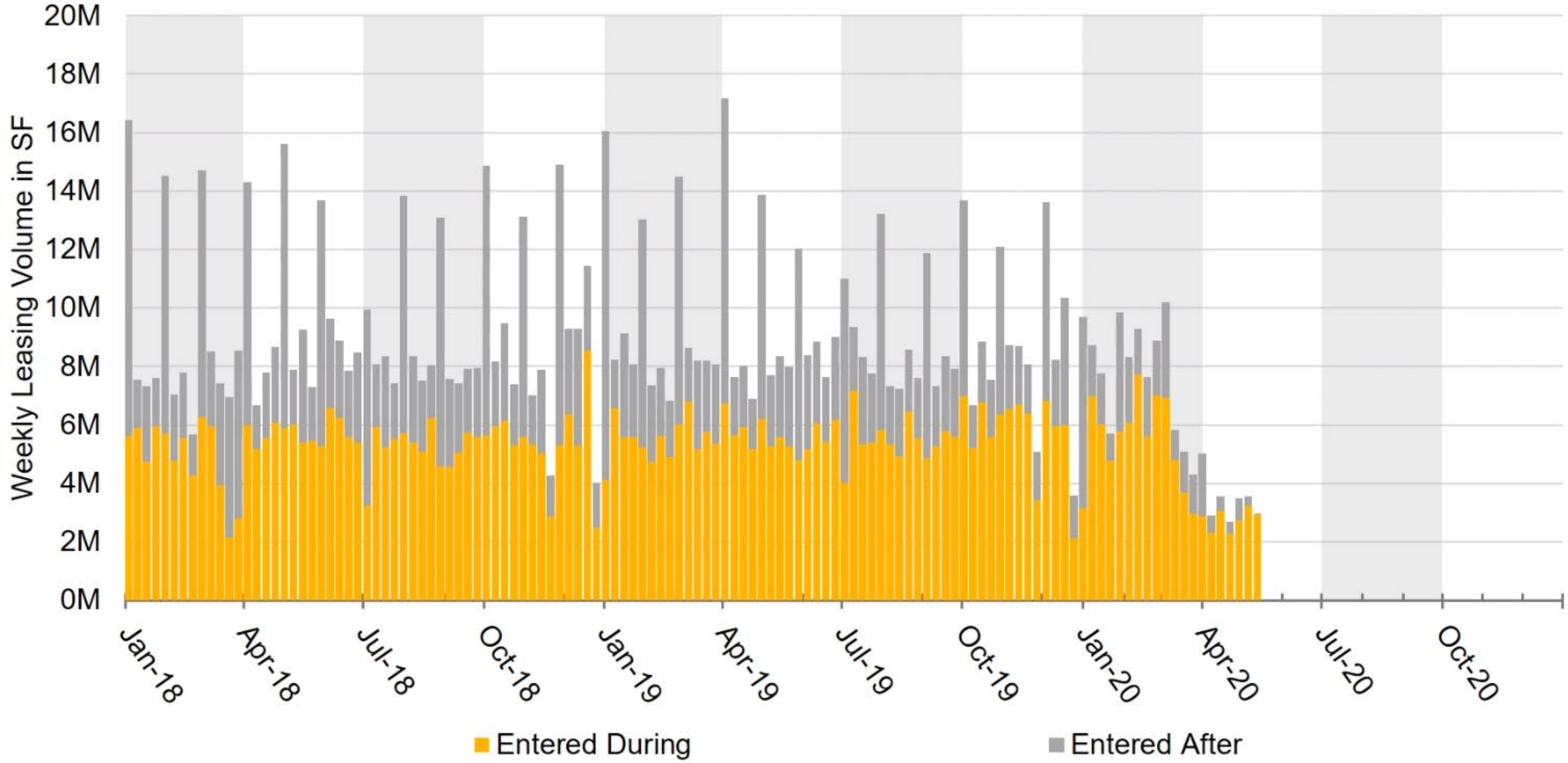




Source: CoStar

OFFICE LEASING VOLUME SLOWS

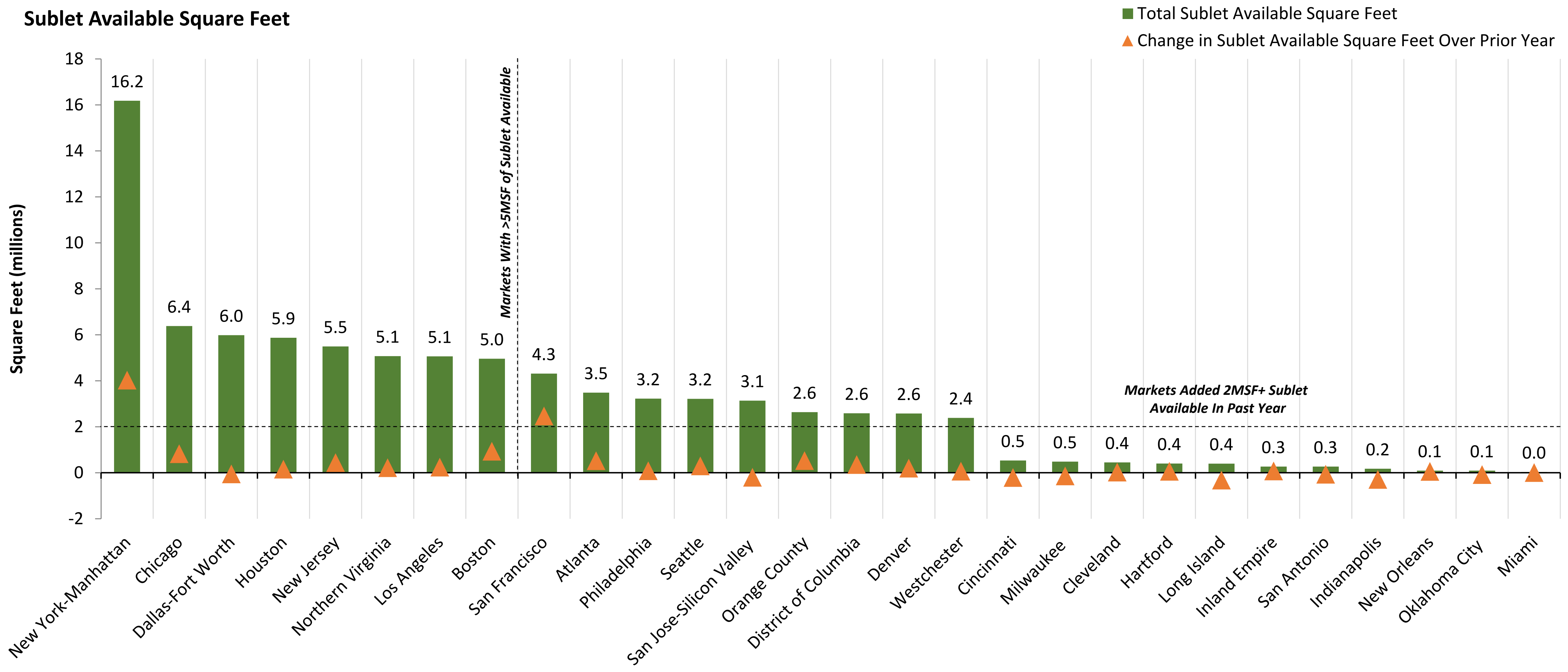
Renewals Comprise Majority of Lease Executions



Source: CoStar

SUBLET AVAILABILITY THE CANARY IN THE COALMINE

NYC & SFO Experience Sharp Re-Direction In Tenant Demand



Source: Transwestern Investment & Data Analytics ,CoStar, data as of March 31, 2020

PRECEDENT FOR SUBURBAN OUTPERFORMANCE

Suburban Office Assets Lease Up Slack More Quickly

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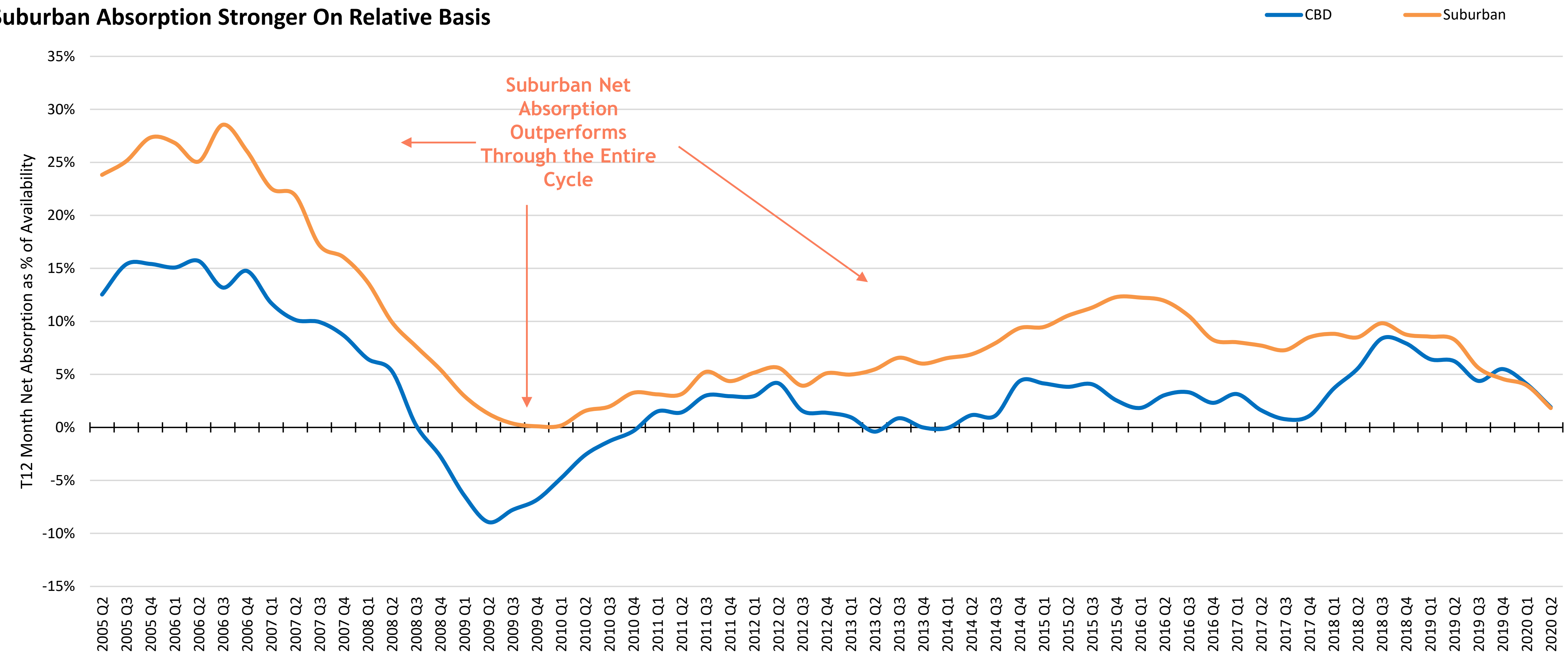
Suburban Absorption Stronger On Relative Basis



Note: National index office analysis was restricted to leases entered by CoStar Jan 1 to May 15

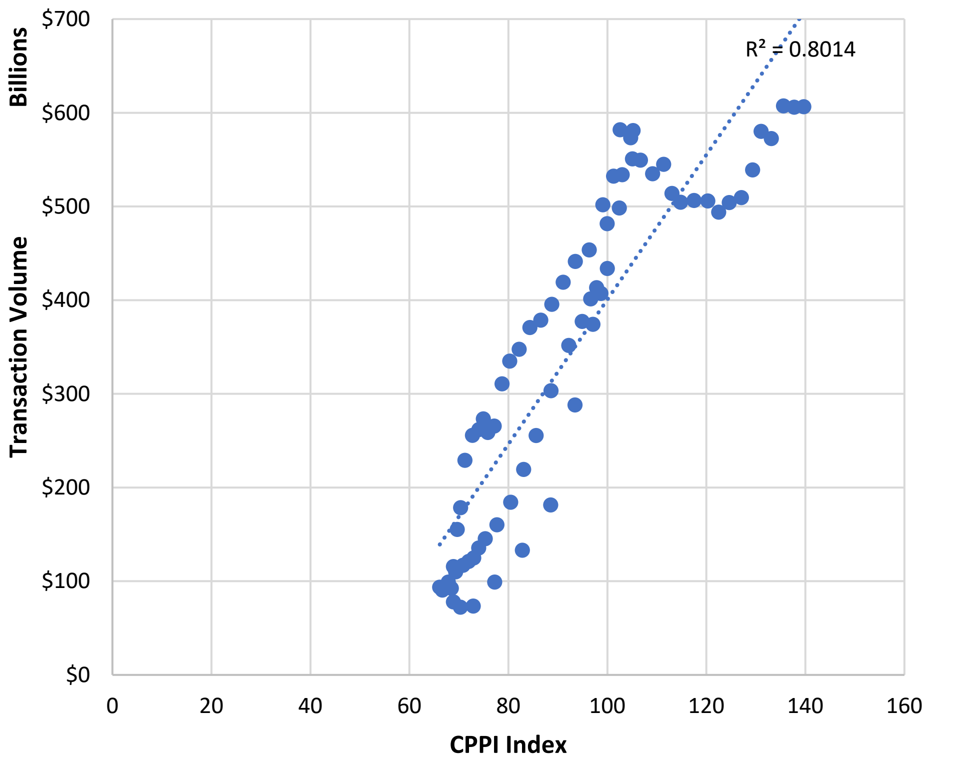
Source: Transwestern Investment & Data Analytics, CoStar

CAPITAL MARKETS

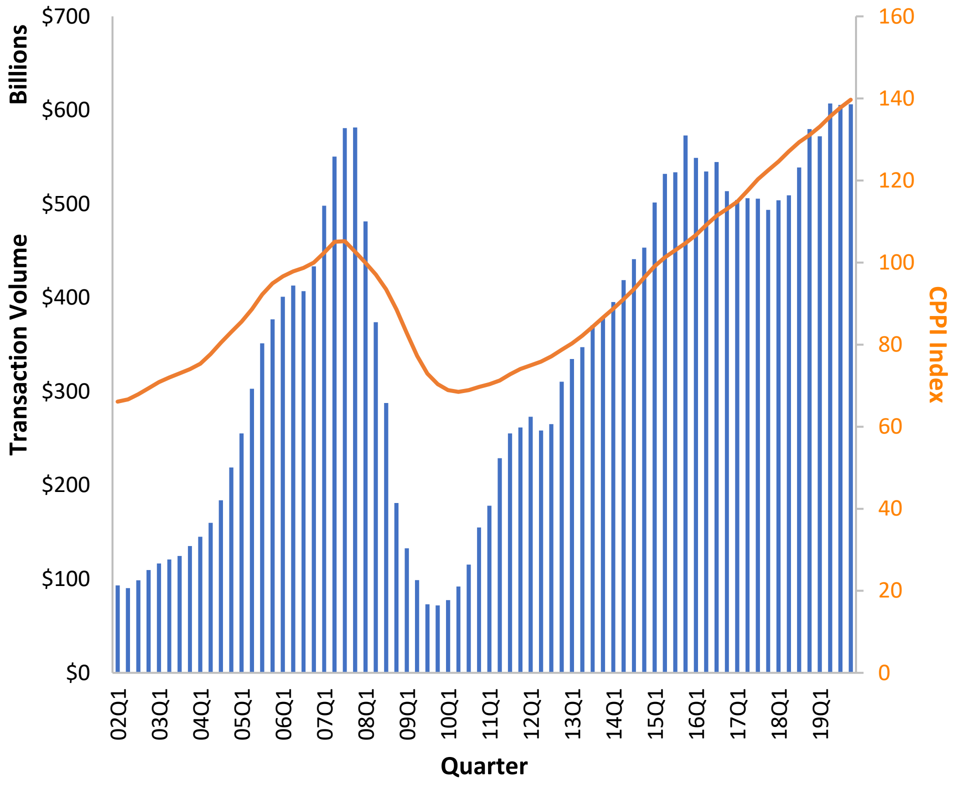
TRANSACTION VOLUMES WILL DECLINE

"Price Discovery" Will Slow Pace of Sales

Values vs. Volumes



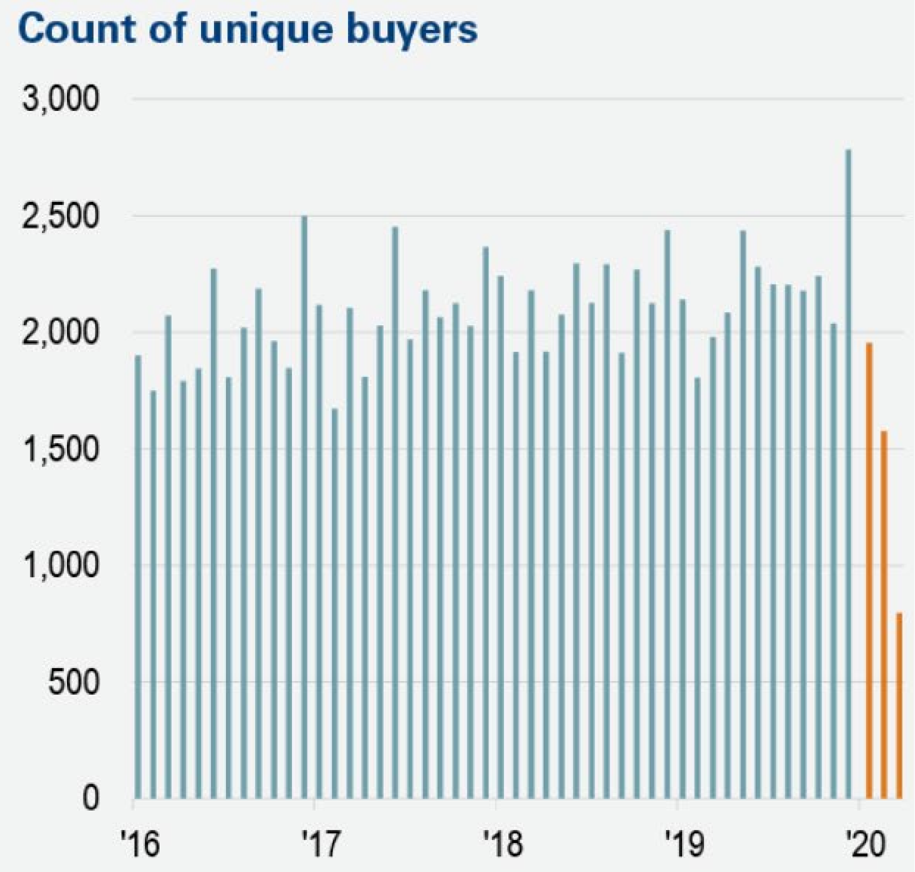
Values vs. Volumes



Note: Trailing twelve-month transaction volumes, data Q1 2002 through Q4 2019
Source: Transwestern Investment & Data Analytics, Real Capital Analytics

FEW DEALS DISSOLVING, BUT BIDDER POOLS THINNING

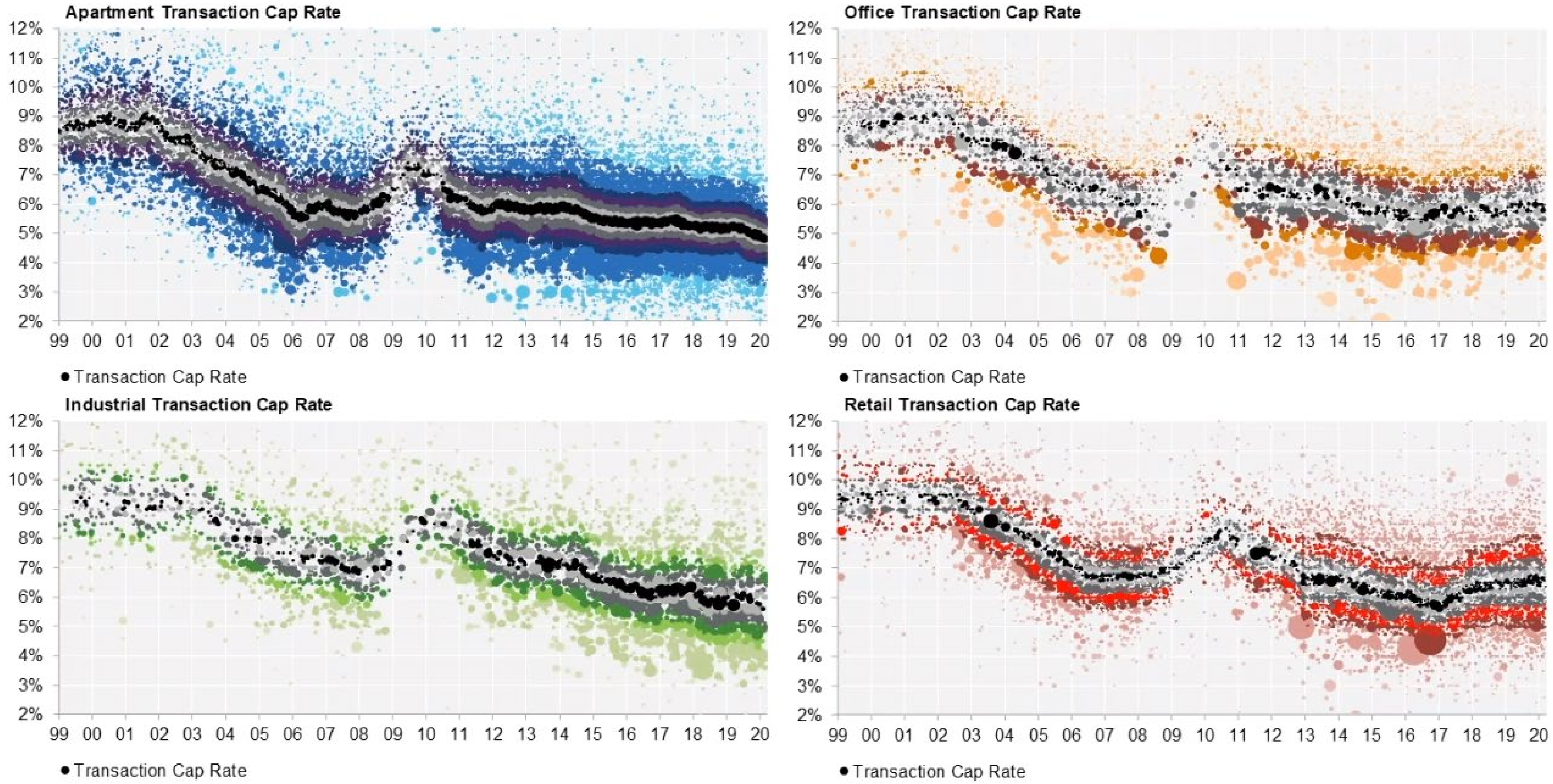
"Price Discovery" Will Slow Pace of Sales



Source: Real Capital Analytics

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

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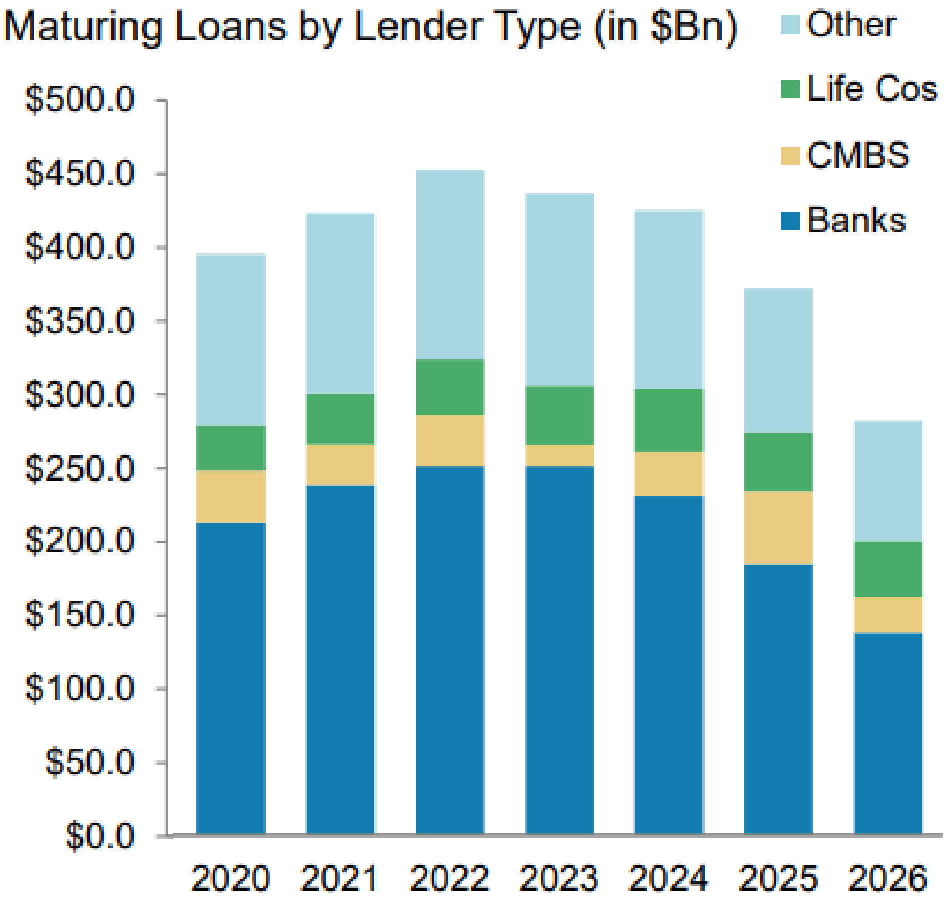
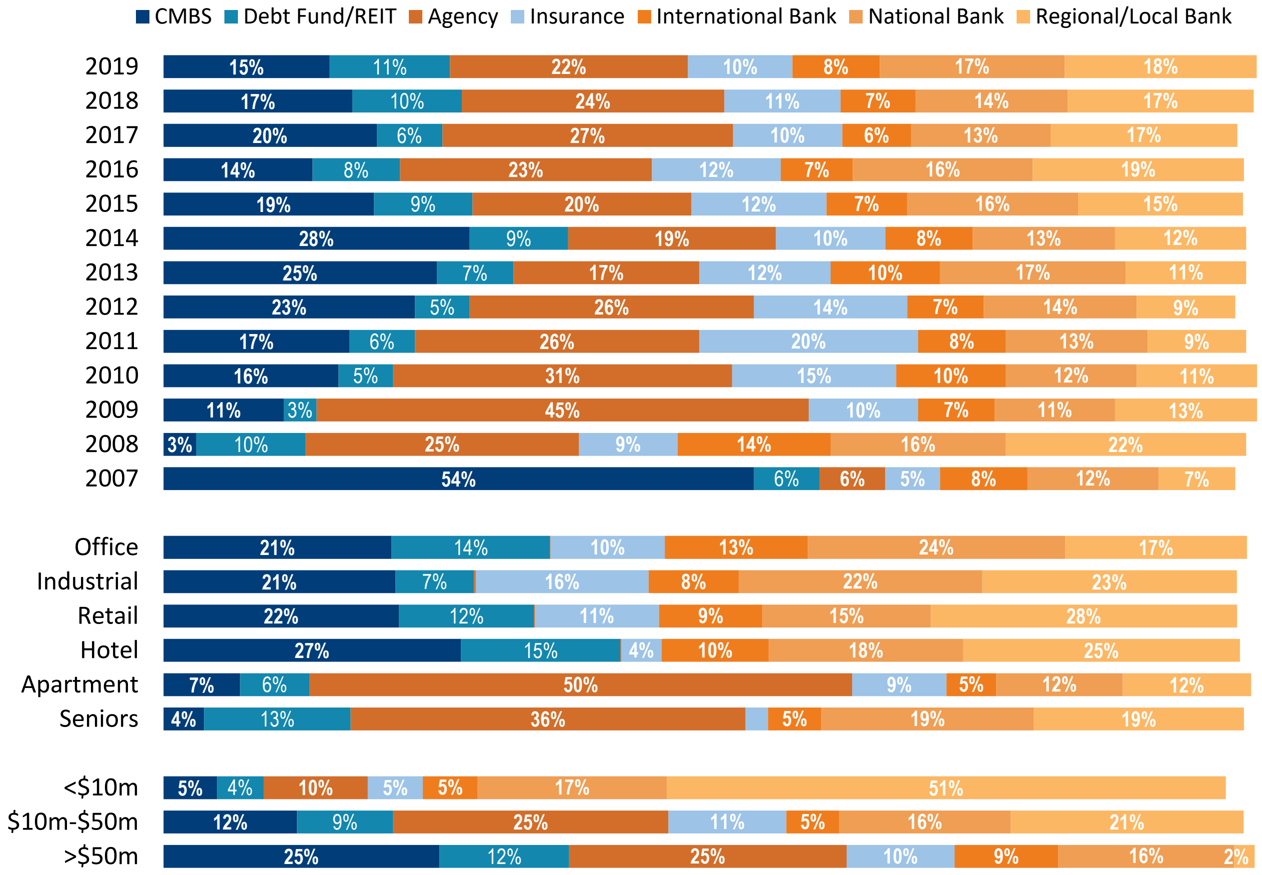
DEBT MARKET WELL-POISED FOR TURBULENCE

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

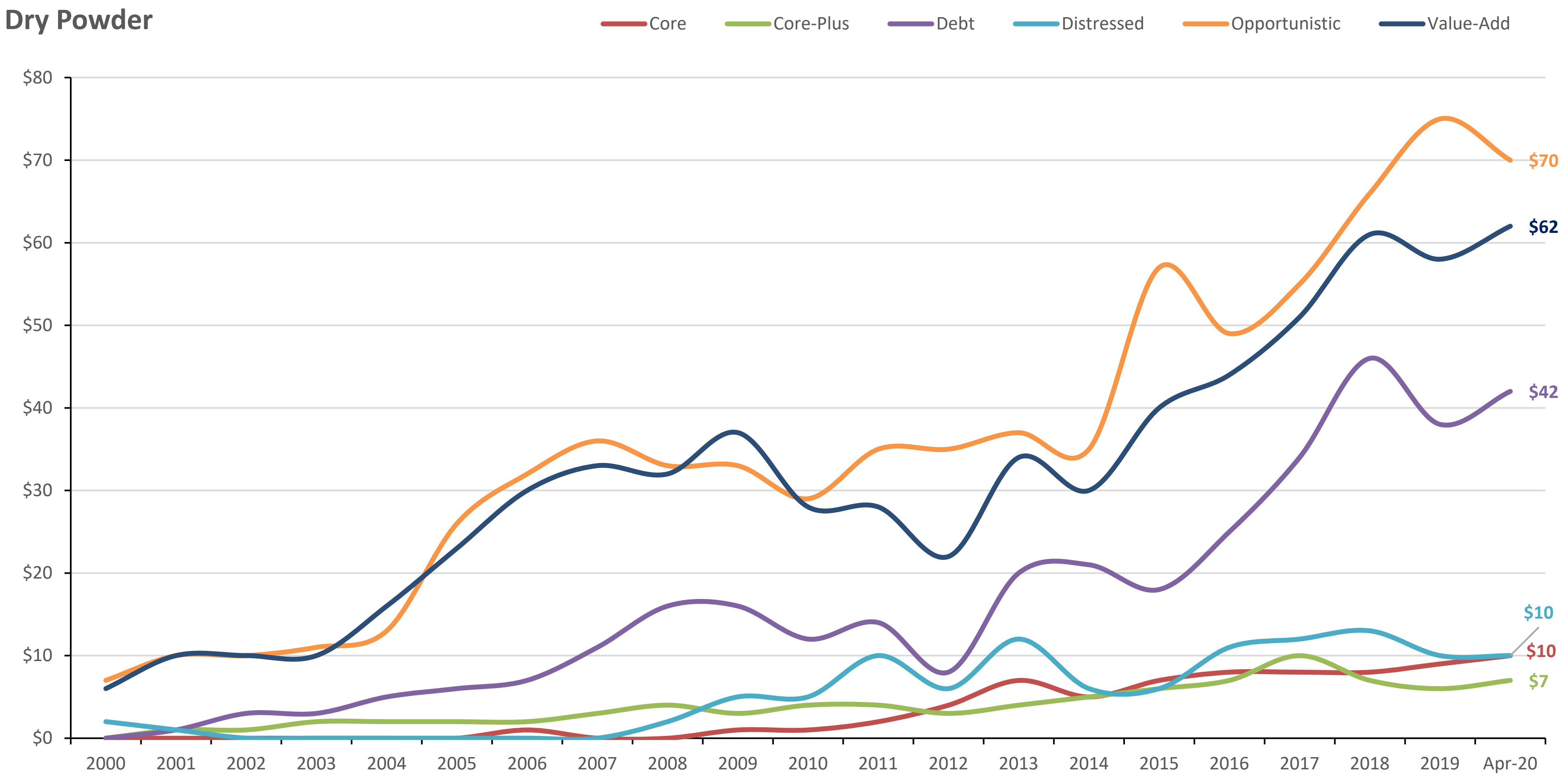




Source: Mortgage Bankers Association, Real Capital Analytics, Morgan Stanley Research

DRY POWDER READY TO RECAP

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



Source: Transwestern Investment & Data Analytics, Preqin

CONCLUSIONS

IDIOSYNCRATIC RISKS COMPICATE THE OUTLOOK

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

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Sector	Pros	Cons
Industrial	▪ 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	▪ 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	▪ 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	▪ 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	▪ 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	▪ 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	▪ 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	▪ 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	▪ 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	▪ 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


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