COMMERCIAL ECONOMIC ISSUES AND TRENDS FORUM

May 8, 2020 | 1 – 2 PM Central Time
1:00 – 1:05 PM | 2020 Forum Chair Mike Vachani, MBA
Opening Remarks

1:05-1:40 PM | Lawrence Yun, PhD
Economic Outlook and Impact of Social Distancing on Commercial Real Estate

1:40-2:00 PM | 2020 Forum Chair Mike Vachani
Q & A
GDP Collapse in 2020 after a decade of growth
## GDP Details in 2020 Q1

<table>
<thead>
<tr>
<th>2020 Q1</th>
<th>% change annualized rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>-4.8%</td>
</tr>
<tr>
<td>Consumer Spending</td>
<td>-8%</td>
</tr>
<tr>
<td>Business Spending</td>
<td>-9%</td>
</tr>
<tr>
<td>Residential Investment</td>
<td>+21%</td>
</tr>
<tr>
<td>(Home building, home sales, remodeling)</td>
<td></td>
</tr>
<tr>
<td>Commercial Structure Completion</td>
<td>-7%</td>
</tr>
<tr>
<td>Federal and State Government Spending on Investment</td>
<td>Modestly Positive</td>
</tr>
<tr>
<td>Personal Income</td>
<td>+2%</td>
</tr>
<tr>
<td>Personal Savings</td>
<td>+152%</td>
</tr>
</tbody>
</table>
Spending Growth at Grocery Shops versus Restaurants

% change from one year ago
### Consumer Retail Spending

<table>
<thead>
<tr>
<th>Category</th>
<th>% change from one year ago to March</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building Material and Gardening</td>
<td>+10.4%</td>
</tr>
<tr>
<td>Clothing Stores</td>
<td>-52.5%</td>
</tr>
<tr>
<td>Sporting and Hobby Stores</td>
<td>-23.8%</td>
</tr>
<tr>
<td>Department Stores</td>
<td>-24.5%</td>
</tr>
<tr>
<td>Non-Store Purchase</td>
<td>+15.5%</td>
</tr>
</tbody>
</table>
Total Cases: Unemployment Insurance Filers
(26 million estimated due to data lag)
New Cases: Unemployment Insurance Filers:
(33 million cumulative since Lockdown)
Maryland: **New** Cases Increased because of New Website for Independent Contractors
However, claims filed has fallen in the past two weeks, indicating furloughed/unemployed are getting back to work.
Unemployment insurance benefits don’t fully replace wages in some states
20.5 M jobs lost in April 2020; one in three jobs lost were in leisure/hospitality

Nonfarm Payroll Jobs Lost in April 2020 (‘000)

-7653 Leisure and Hospitality
-2544 Education and Health
-2128 Professional and Business Services
-2106.9 Retail Trade
-1330 Manufacturing
-1267 Other Services
-980 Government
-975 Construction
-584.1 Transportation and Warehousing
-362.8 Wholesale Trade
-262 Financial Activities
-254 Information
-50 Mining and Logging Employment
-3.3 Utilities

Source: BLS
Local Disaster Events: Katrina and 9-11 Unemployment Rates

New Orleans

NYC Metro
All-out monetary and fiscal policy to mitigate coronavirus impact

- $2.2 trillion CARES Act Package and supplemental $484 billion to assist furloughed or laid off workers through the Pandemic Unemployment Assistance program; provide forgivable loans under the Payment Protection Plan to small businesses if they retain employees; provide financial assistance through the Economic Injury Disaster Loan program
- Mortgage forbearance on federally backed loans (67% of residential mortgages and 47% of multifamily mortgages)
- Federal Open Market Committee reduced federal funds rate to 0% to 0.25% on March 15
- Federal Reserve Bank reduced the discount window rates by 150 basis points to 0.25% (rates it charges to lend to banks)

Source: NAR 2020 CARES Act Small Business Loans Survey
CARES Act PPP/EIDL small business loans to mitigate coronavirus impact

59% of commercial members have availed of SBA loans

<table>
<thead>
<tr>
<th>Category</th>
<th>SBA 7(a) Paycheck Protection Program</th>
<th>Economic Injury Disaster Loan</th>
<th>Did not apply</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>24%</td>
<td>44%</td>
<td>24%</td>
</tr>
<tr>
<td>Commercial</td>
<td>44%</td>
<td>31%</td>
<td>26%</td>
</tr>
<tr>
<td>Other*</td>
<td>35%</td>
<td>26%</td>
<td>51%</td>
</tr>
</tbody>
</table>

*Multiple responses allowed so percentages won’t sum up to 100 percent. “Other” includes brokers/owners without sales activity, appraisers, property managers, consultants, developers.

Source: NAR 2020 CARES Act Small Business Loans Survey
Federal Reserve All-In
Quantitative Easing including buying Corporate Debts

Fed Funds Rate
No Inflation ... No Worries for Now

CPI Inflation
Oil Price Collapse ... Global Economic Collapse ... Russia and Saudi Oil War

West Texas

2000 - Jan ... 2020 - Jan
Beef Price Rising ... Cattle Price Falling

Index

Commercial Property Price Index

Green Street Advisors
Home Price

NAR Median Home Price ... 8% higher from a year ago
Housing Shortage …
Land Purchase and Development in the Suburbs in the Future

In thousand units
Federal Budget Deficit ... $4 trillion in 2020
Sales transactions contracted in both small and large CRE markets in 2020 Q1
Less than $2.5M market: -1% y/y; $2.5M+ market: -35% y/y

Quarterly Sales Volume (Y/Y % Chg)

Source: NAR Commercial Real Estate Quarterly Market Survey and Real Capital Analytics. Among Realtors®, the typical transactions is less than $2.5 million (“small” commercial market) while RCA tracks $2.5 M or over transactions (“large” commercial market).
Fewer respondents reported y/y sales gains in 2020 Q1 compared to 2019 Q4.

Source: NAR Commercial Real Estate Quarterly Market Survey; Realtor® typical transaction is less than $2.5 M.
Commercial sales prices increased at a slower pace in 2020 Q1
Less than $2.5M market: 0.8% y/y; $2.5M+ market: 6.6% y/y

Source: NAR Commercial Real Estate Quarterly Market Survey and Real Capital Analytics. Among Realtors®, the typical transactions is less than $2.5 million ("small" commercial market) while RCA tracks $2.5 M or over transactions ("large" commercial market).
Cap rates compressed in small commercial market, but slightly rose in the large CRE market; large investors more risk-averse?

Source: NAR Commercial Real Estate Quarterly Market Survey and Real Capital Analytics. Among Realtors®, the typical transactions is less than $2.5 million (‘small’ commercial market) while RCA tracks $2.5 M or over transactions (‘large’ commercial market).
Investors more risk-averse, indicated by rising cap rate spreads since 2019
Less than $2.5M market: 510 bp; $2.5M + market: 530 bp (~ 400 bp in 2018)

Source: NAR Commercial Real Estate Quarterly Market Survey and Real Capital Analytics. Among Realtors®, the typical transactions is less than $2.5 million (‘small’ commercial market) while RCA tracks $2.5 M or over transactions (‘large’ commercial market).
Volume of new leases declined 2% in 2020 Q1 in small CRE market

Source: NAR Commercial Real Estate Quarterly Market Survey and Real Capital Analytics. Among Realtors®, the typical transactions is less than $2.5 million ('small' commercial market)
Fewer respondents reported y/y new leasing volume in 2020 Q1 vs. 2019 Q4

Source: NAR Commercial Real Estate Quarterly Market Survey and Real Capital Analytics. Among Realtors®, the typical transactions is less than $2.5 million (‘small’ commercial market)
SIOR Commercial Index on office and industrial markets declined in 2020 Q1

SIOR Commercial Real Estate Index

Source: SIOR, NAR

Source: SIOR Commercial Survey
Vacancy rates rose in all property markets in 2020 Q1 compared to 2019 Q4. According to the NAR Commercial Real Estate Quarterly Market Survey, vacancy rates increased in the following sectors:

- **Office**: 2019.Q4 - 9.0%, 2020.Q1 - 11%
- **Industrial**: 2019.Q4 - 8.8%, 2020.Q1 - 10%
- **Retail**: 2019.Q4 - 4.0%, 2020.Q1 - 5%
- **Multifamily**: 2019.Q4 - 6.7%, 2020.Q1 - 8%

The average vacancy rate across all sectors also rose from 5% in 2019.Q4 to 6.7% in 2020.Q1.
Steep decline in retail construction since 2018 through Feb 2020

Source: Census Bureau/Haver Analytics

04/29/20
Downturn in lodging construction since 2019 through Feb 2020
Flat office construction since 2018 through Feb 2020

Private Construction: Office
SAAR, Mil.$

Source: Census Bureau/Haver Analytics
04/29/20
But warehouse construction has been rising...
Multi-family construction was picking up prior to the coronavirus pandemic.
## Forecast

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020 Forecast</th>
<th>2021 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP Growth</td>
<td>+2.3%</td>
<td>-4.5%</td>
<td>+3%</td>
</tr>
<tr>
<td>Job Gains</td>
<td>+2.2 million</td>
<td>- 4 million</td>
<td>+ 2 million</td>
</tr>
<tr>
<td>Commercial RE Prices</td>
<td>+7%</td>
<td>-10% to -13%</td>
<td>+1% to +3%</td>
</tr>
</tbody>
</table>
Realtors® expect 5% decline in commercial prices in next 12 months

Distribution of 1-Year Price Outlook

- 12% Worse than -20%
- 6% -16% to -20%
- 16% -10% to -15%
- 8% -7% to -9%
- 10% -4% to -6%
- 4% -1% to -3%
- 15% 0%
- 10% 1% to 3%
- 9% 4% to 6%
- 4% 7% to 9%
- 5% 10% to 15%
- 1% 16% to 20%
- 1% Over 20%
Demand for apartments and industrial properties expected to increase in 2020-2021

Apartment: higher unemployment, pandemic uncertainty will delay homebuying, increasing demand for multifamily properties

Industrial: on-line delivery due to social distancing and changes in habit will lead to more lead to higher demand for warehouses; because this is a bright sector, more construction expected in this sector

Office: some decline as businesses hire more cautiously, less demand for co-working; but expect a pickup in demand for financial services, insurance companies, legal offices, banks, software/tech companies as demand for legal, financial and technology services increase as businesses prepare for potential pandemics

Retail: social distancing and online shopping will continue to depress demand for brick and mortar stores; retail stores will be repurposed for other uses (e.g. fulfillment/distribution centers such as Target and BJ’s).
<table>
<thead>
<tr>
<th>Index / Property Sector</th>
<th>Constituents</th>
<th>Market Cap ($M)</th>
<th>Total Return (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Weekly</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Mar-27</td>
</tr>
<tr>
<td>Office</td>
<td>18</td>
<td>74,490</td>
<td>18.4</td>
</tr>
<tr>
<td>Industrial</td>
<td>13</td>
<td>108,846</td>
<td>20.9</td>
</tr>
<tr>
<td>Retail</td>
<td>32</td>
<td>90,424</td>
<td>12.8</td>
</tr>
<tr>
<td>Residential</td>
<td>21</td>
<td>145,158</td>
<td>17.8</td>
</tr>
<tr>
<td>Diversified</td>
<td>16</td>
<td>38,184</td>
<td>18.8</td>
</tr>
<tr>
<td>Lodging/Resorts</td>
<td>15</td>
<td>22,037</td>
<td>23.9</td>
</tr>
<tr>
<td>Health Care</td>
<td>17</td>
<td>80,181</td>
<td>22.9</td>
</tr>
<tr>
<td>Self Storage</td>
<td>5</td>
<td>48,462</td>
<td>16.0</td>
</tr>
<tr>
<td>Timber</td>
<td>4</td>
<td>18,831</td>
<td>14.3</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>5</td>
<td>200,961</td>
<td>10.6</td>
</tr>
<tr>
<td>Data Centers</td>
<td>5</td>
<td>110,807</td>
<td>15.0</td>
</tr>
<tr>
<td>Specialty</td>
<td>11</td>
<td>32,246</td>
<td>22.4</td>
</tr>
<tr>
<td>Home Financing</td>
<td>23</td>
<td>26,708</td>
<td>12.4</td>
</tr>
<tr>
<td>Commercial Financing</td>
<td>14</td>
<td>13,321</td>
<td>25.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Memo: Russell 1000®</th>
<th>Total Return (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source: FTSE, Nareit, FactSet.</td>
<td>10.6</td>
</tr>
</tbody>
</table>
Higher vacancy rates in 2020: Retail (19%), Hotel (22%), Office (13%)

Lower vacancy rates in 2020: Apartment (6%), Industrial (6%)

Commercial Vacancy Rates Forecast 2020-2021
Vacant malls are being repurposed for mixed use development, warehouses, multifamily, fulfillment centers, health care centers, data centers, storage centers, a potentially as health armories.

Source: NAR, Repurposing Vacant Retail Malls, May 2020
Empty Malls into Healthcare Armory?
Post-Pandemic Suburban Retail/Office

- Virtual Office Meetings
- More Remote Working
- Parking Spaces, not public transit
- Less Traffic near City Centers
THANK YOU