

2020 Year in Review and a Look Ahead

Jim Costello



February 16, 2021

REAL CAPITAL ANALYTICS

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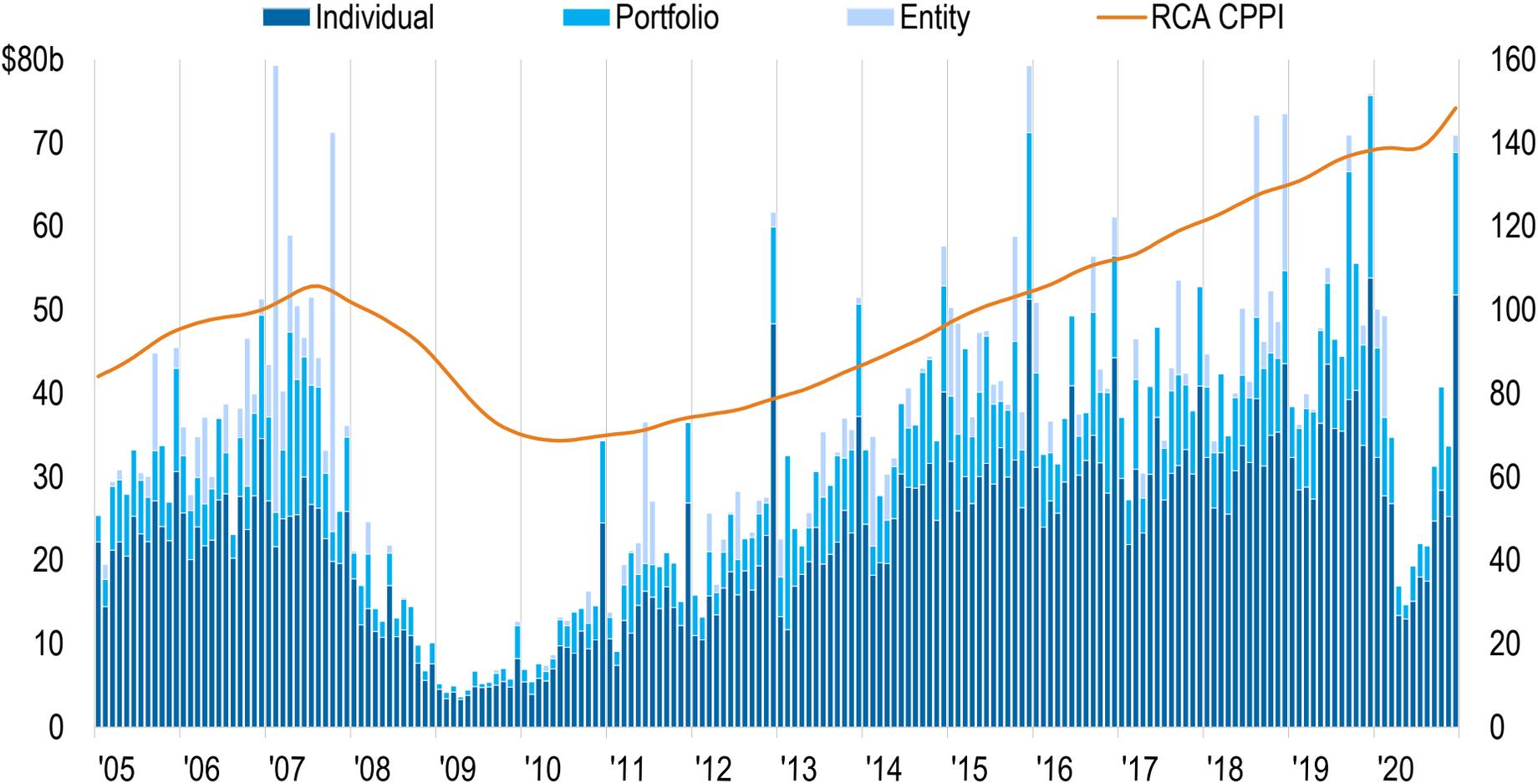


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A Look Back at 2020

A STRONG REBOUND IN DEAL VOLUME INTO THE YEAR END

Was the slowdown from Covid-19 temporary with no lasting effects? Doubtful



ALL MAJOR SECTORS WERE DOWN IN 2020

But some faced less downward pressure.

	Dec'20		Q4'20		2020	
	Vol (\$b)	YOY	Vol (\$b)	YOY	Vol (\$b)	YOY
Office	15.4	-16%	27.6	-34%	86.1	-40%
Retail	6.3	-27%	11.9	-42%	37.7	-43%
Industrial	19.8	16%	36.2	-2%	98.8	-16%
Hotel	1.8	-42%	4.2	-67%	12.2	-68%
Apartment	25.1	7%	56.7	0%	138.7	-28%
Seniors Housing & Care	0.8	-67%	2.6	-52%	9.6	-48%
Dev Site	0.3	-46%	6.2	9%	22.3	4%
Total	69.5	-5%	145.4	-19%	405.4	-32%
Major Metros	23.8	9%	47.4	-18%	138.3	-35%
Secondary Mkts	35.3	-14%	70.4	-20%	191.8	-33%
Tertiary Mkts	10.9	-1%	24.0	-14%	69.7	-25%
Portfolio	19.1	-14%	39.9	-23%	111.3	-31%
Single Asset	51.8	-4%	105.5	-18%	294.1	-32%

All property sectors posted lower deal activity in 2020 than 2019. Even sectors where investors understand that there is ongoing tenant demand for space.

The apartment and industrial sectors saw growth in deal activity in Dec'20.

Development site sales grew in 2020 but boosted by Prologis entity-level deals pre-Covid.

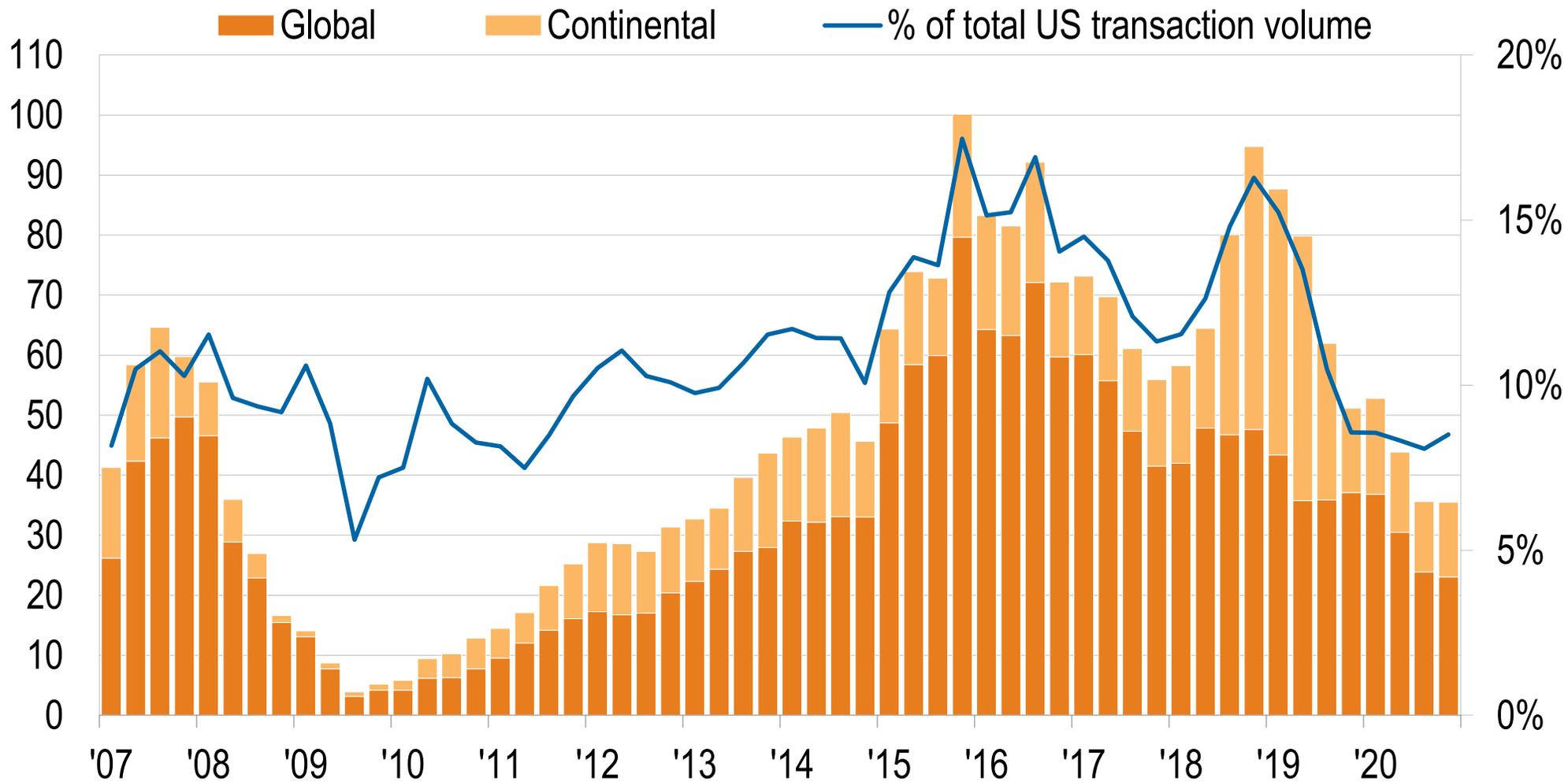
THE INDUSTRIAL SECTOR SURPASSED OFFICES IN 2020

The pandemic simply accelerated the shift. Office as a share of total has been on a decline since 2016.



CROSS-BORDER INVESTMENT DID NOT PLUMMET IN 2020

As a share of total, these investors were fairly consistent in 2020.



4 Qtr Trailing Data

TOP MARKETS FOR 2020 SHOW BIG CHANGES FROM THE PAST

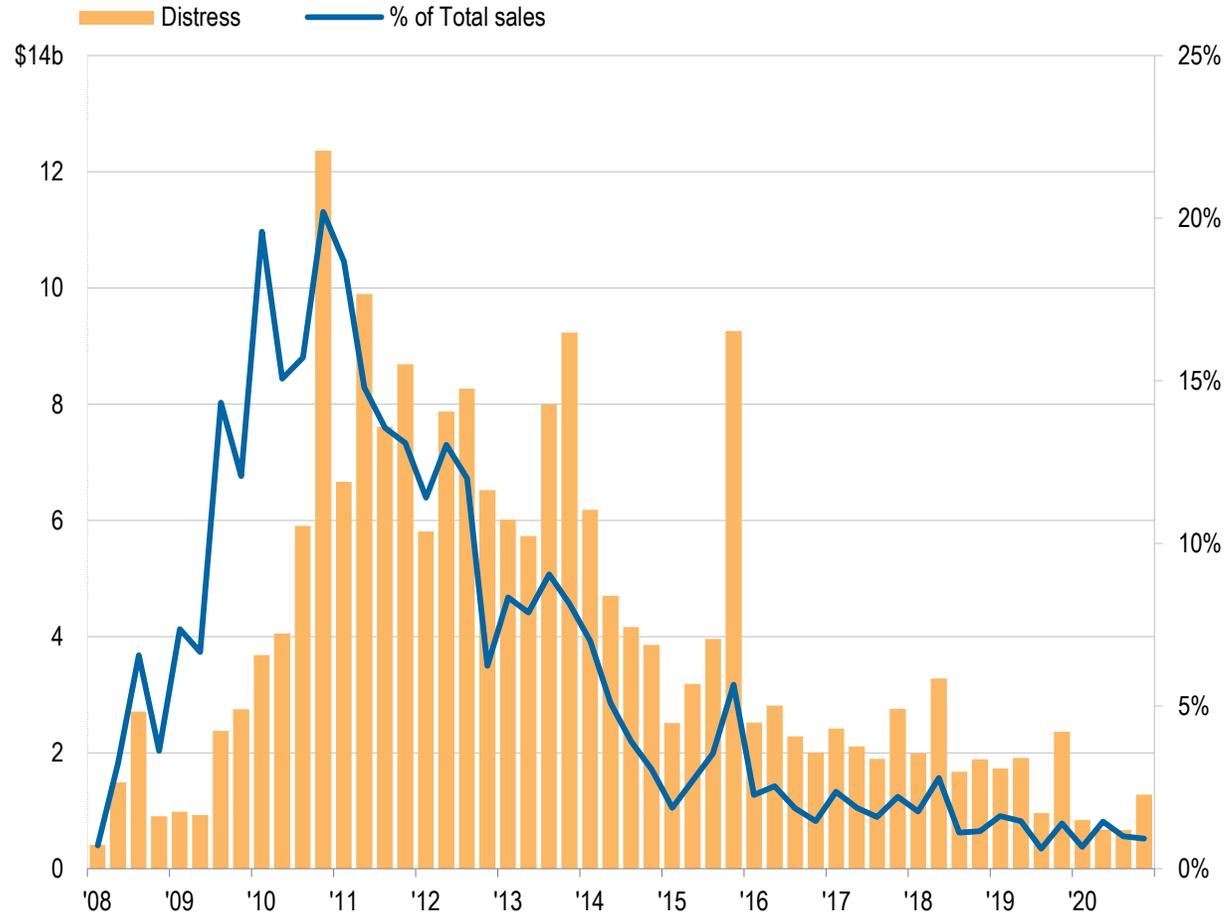
2018	2019	2020	Market	Sales Volume (\$m)	YOY Change
3	3	1	Dallas	19,738	-25%
2	1	2	Los Angeles	18,980	-35%
9	6	3	Boston	15,593	-14%
5	5	4	Atlanta	14,366	-28%
1	2	5	Manhattan	13,150	-50%
8	7	6	Phoenix	11,963	-32%
4	8	7	Chicago	10,869	-36%
7	4	8	Seattle	10,508	-59%
6	9	9	Houston	9,020	-46%
11	11	10	Denver	9,018	-29%
12	10	11	San Francisco	8,720	-45%
14	14	12	No NJ	8,377	-26%
15	12	13	DC VA burbs	8,149	-31%
13	15	14	San Jose	7,933	-30%
26	19	15	Charlotte	7,043	-23%
10	16	16	NYC Boroughs	6,762	-30%
27	30	17	Raleigh/Durham	6,082	-1%
16	17	18	Inland Empire	5,793	-39%
19	13	19	Austin	5,538	-52%
21	18	20	Orange Co	5,524	-39%

Resolving Distress in 2021

WHEN WILL THE BILL FOR 2020 COME DUE?

Distressed asset sales are a big topic for 2021 but how many sales will be realized?

Distressed Sales and Share of Total Sales



Outstanding Distress YTD Through Q4	\$m	# Props
Outstanding distress	55,604	2,312
Potential distress	90,477	6,774
Total outstanding distress & potential distress	146,082	9,086

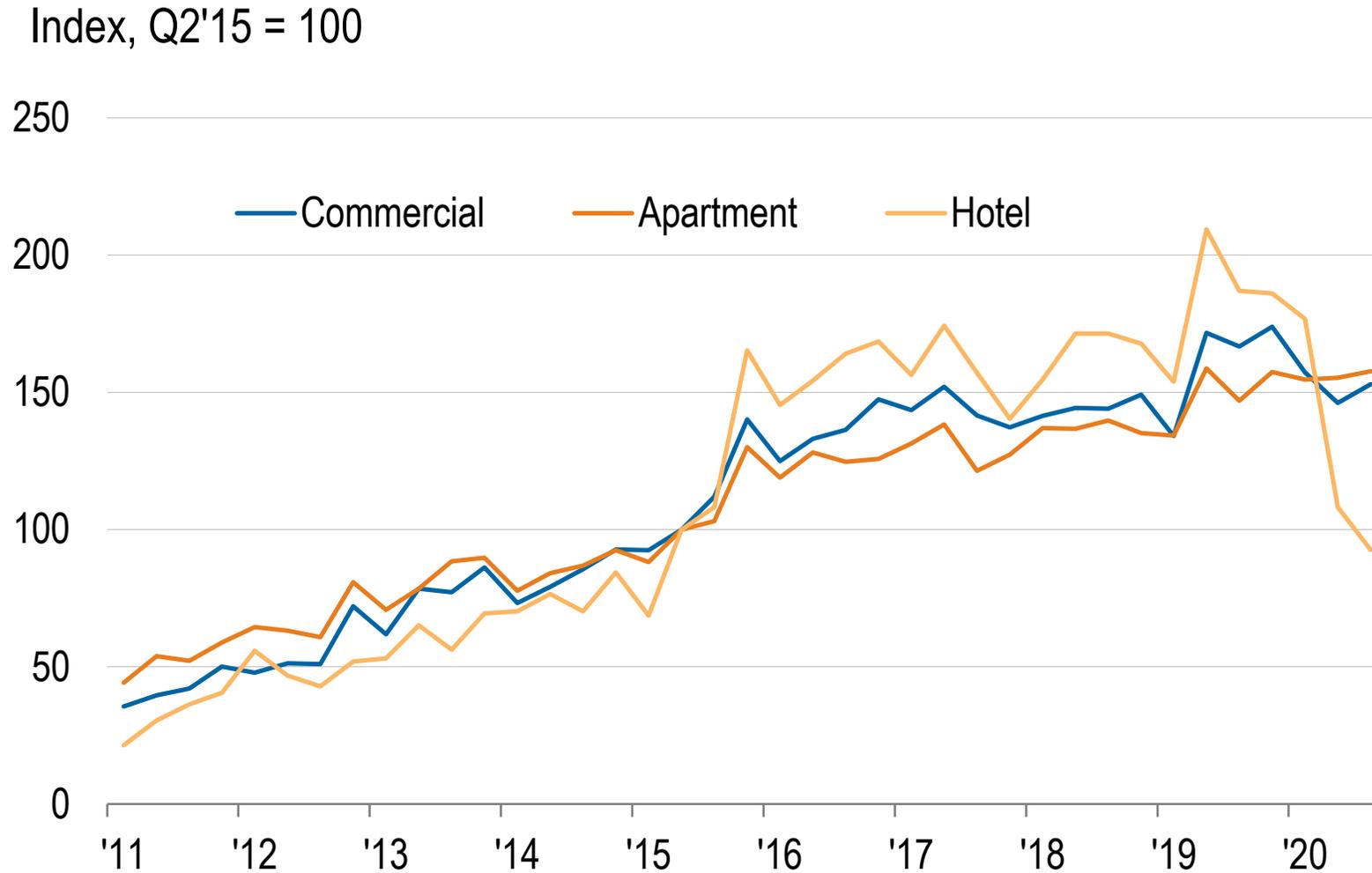
Property Type	Outstanding Distress (\$m)	Potential Distress (\$m)
Office	4,331	13,167
Industrial	482	2,042
Retail	23,279	24,795
Apartment	2,526	23,080
Hotel	24,599	23,662
Others	371	3,532
Total	55,604	90,477

Outstanding distress and potential distress arising in 2020 and outstanding at the end of Q3'20.

Aggregate statistics and the *Others* category capture asset types not included in our standard volume statistics, such as residential condominiums, self storage, manufactured housing, and parking facilities.

TRENDS IN UNIQUE LOAN ORIGINATORS BY SECTOR

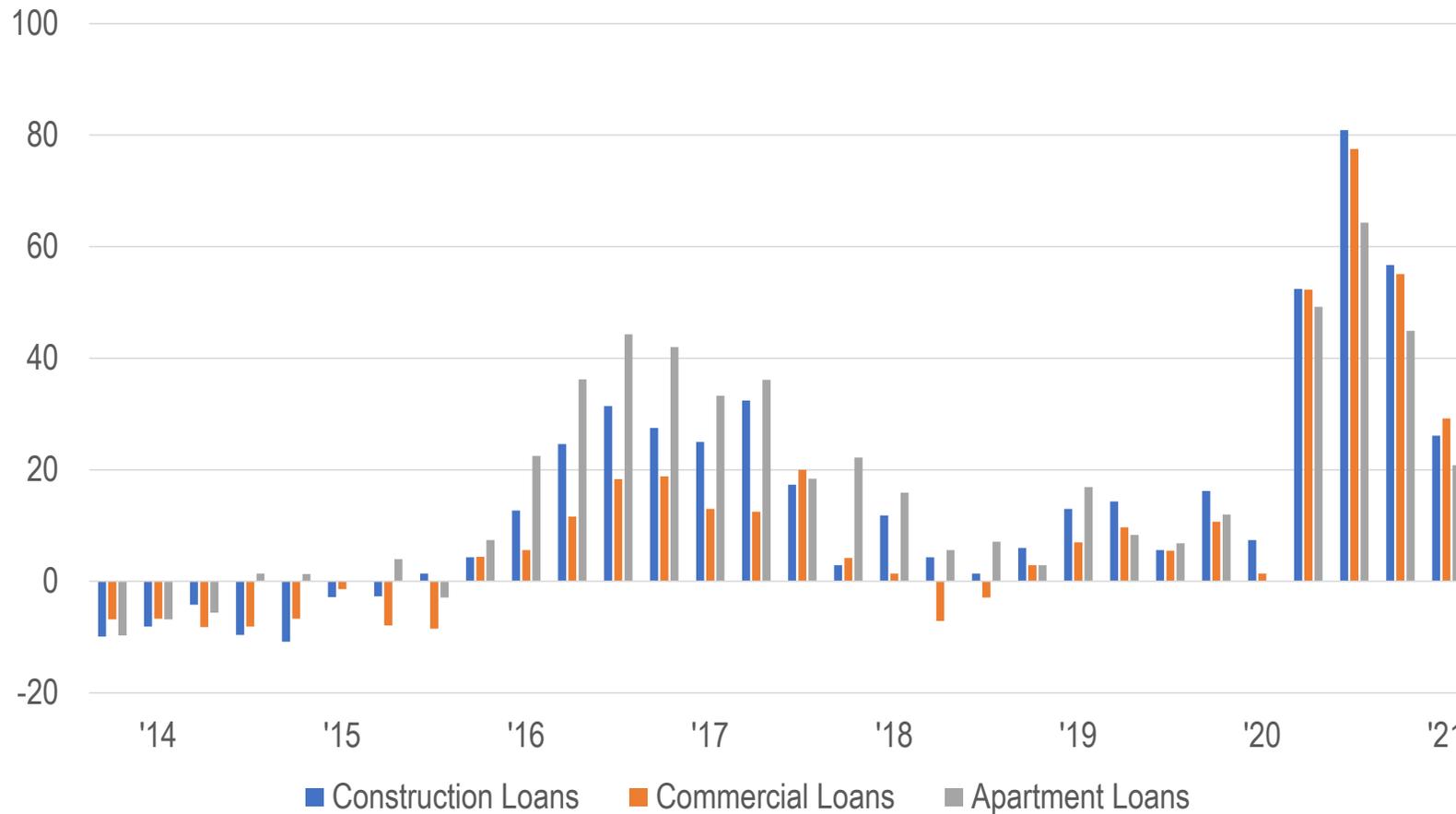
Except for the hotel sector, the debt portion of the capital stack is not experiencing a shutdown.



CREDIT AVAILABILITY IS NOT AS DIFFICULT AS INTO EARLY 2020

Lenders are still tightening standards, but less so than a year earlier.

Net Percent Tightening Standards

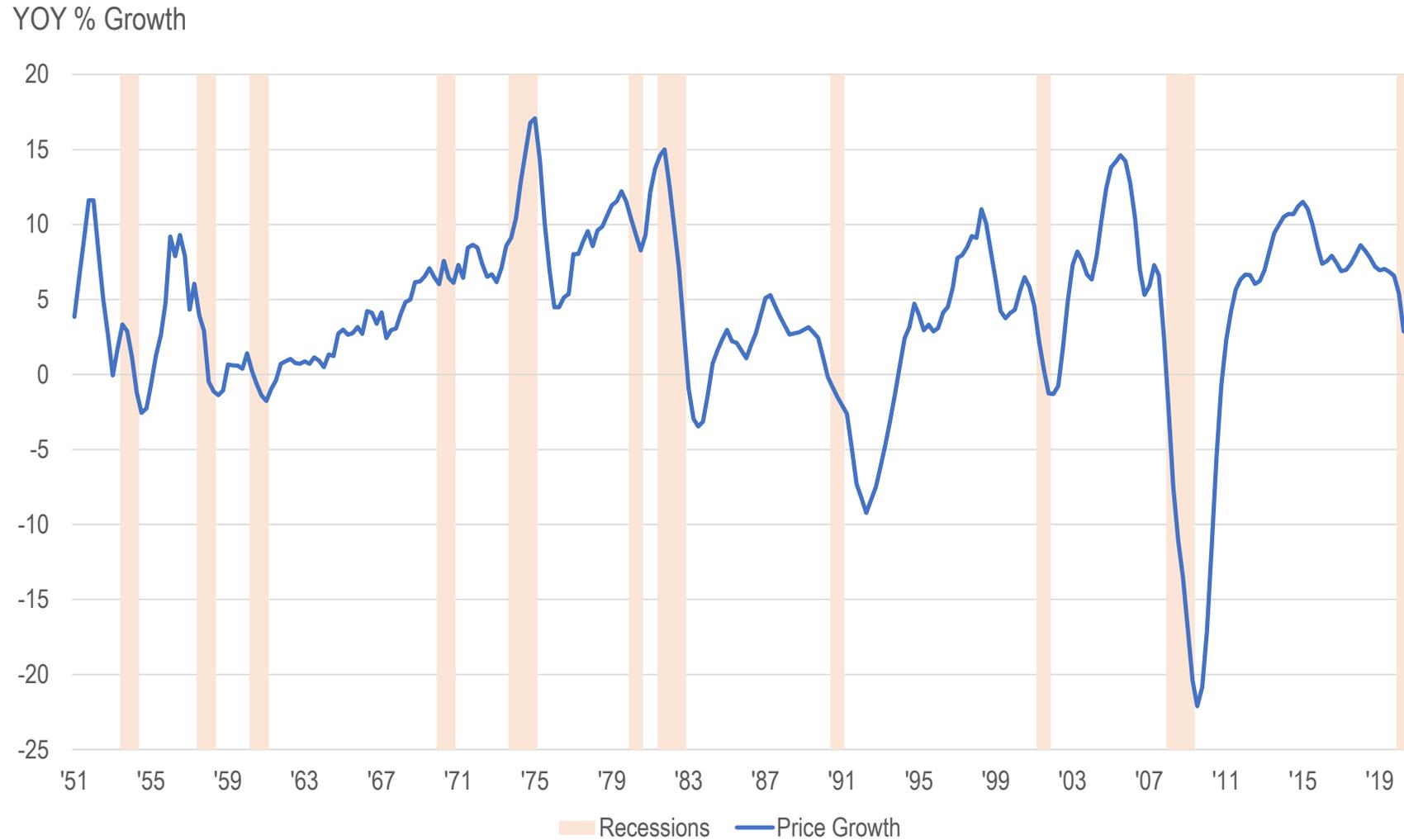


Sources: Real Capital Analytics, Federal Reserve Bank, Senior Loan Officer Survey

Pricing Impacts

NOT EVERY DOWNTURN IS THE SAME

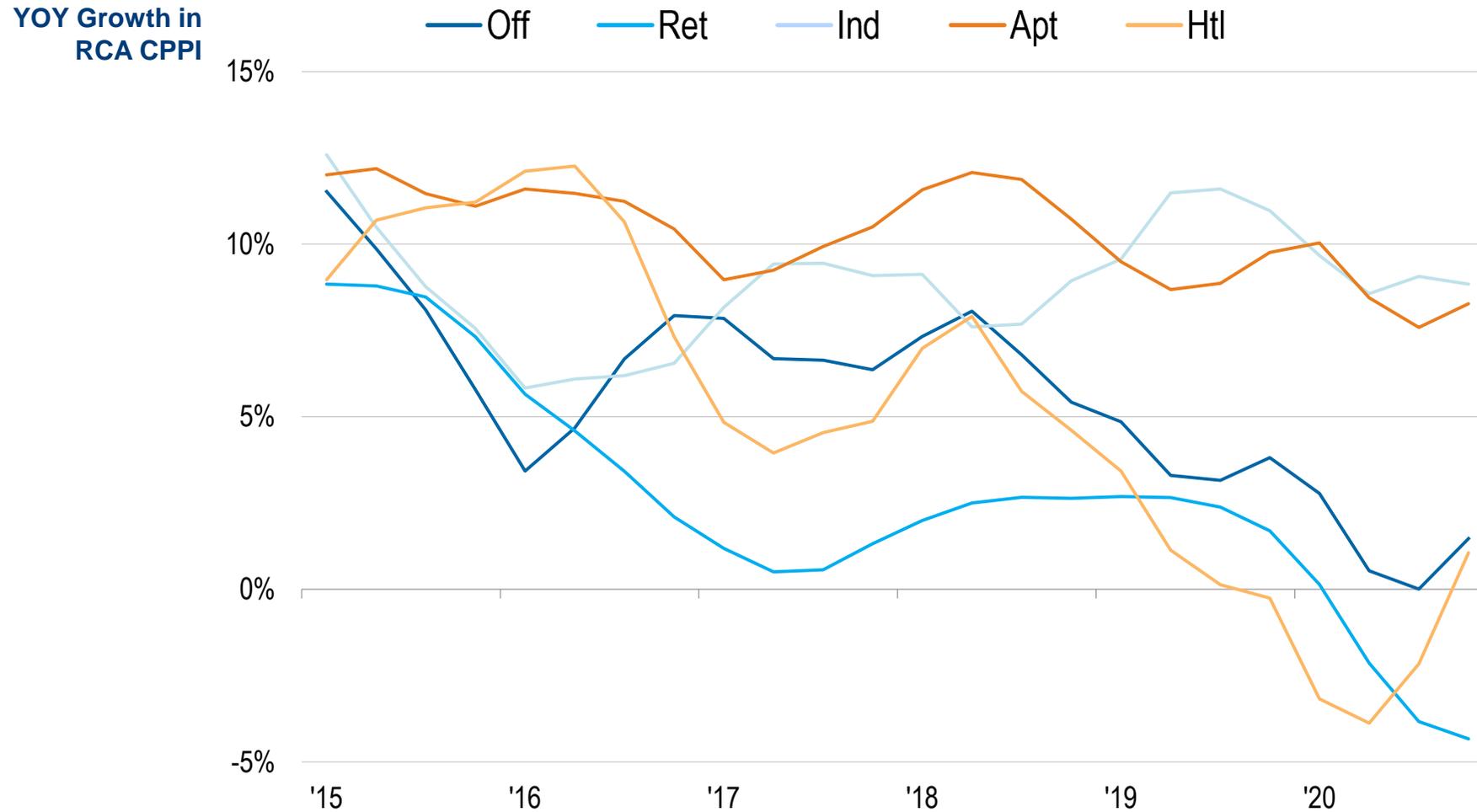
Prices react differently in every recession, different forces at play in each.



Sources: Real Capital Analytics, NREI, Federal Reserve Bank

K-SHAPED TREND FOR COMMERCIAL PROPERTY PRICES

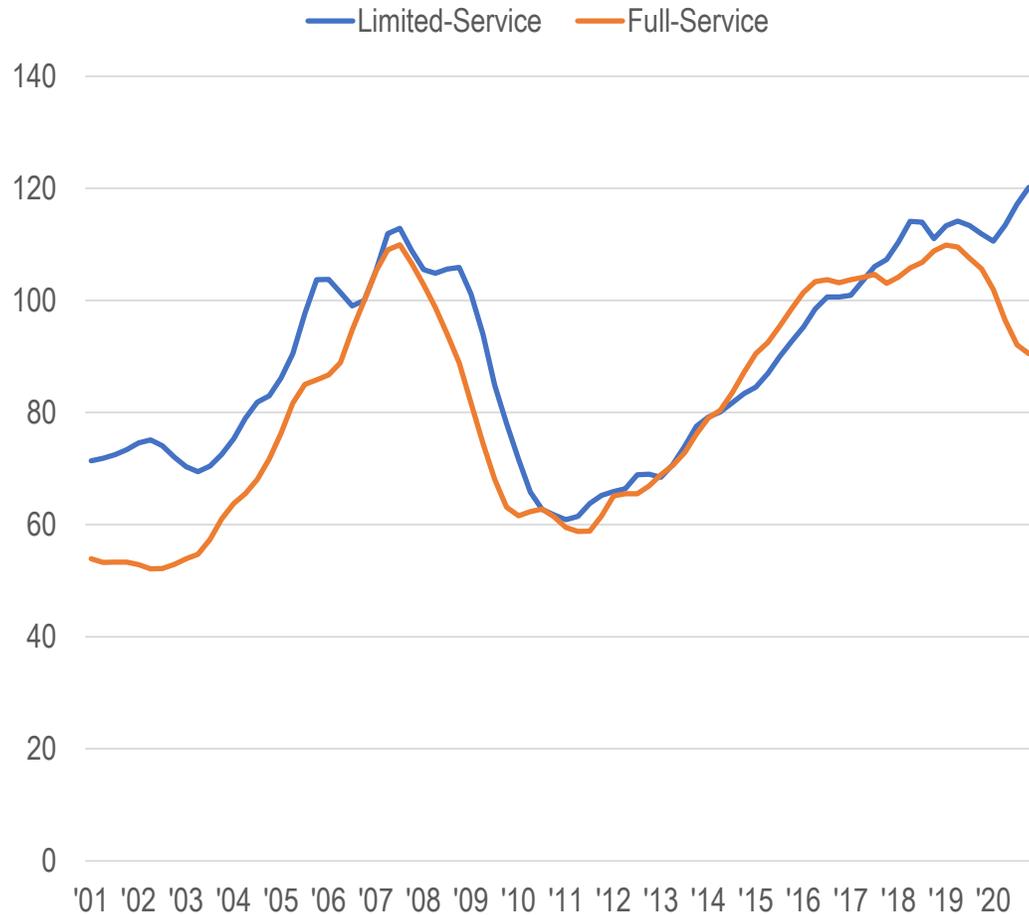
RCA CPPI for apartments and industrial growing while weakness is the story for others.



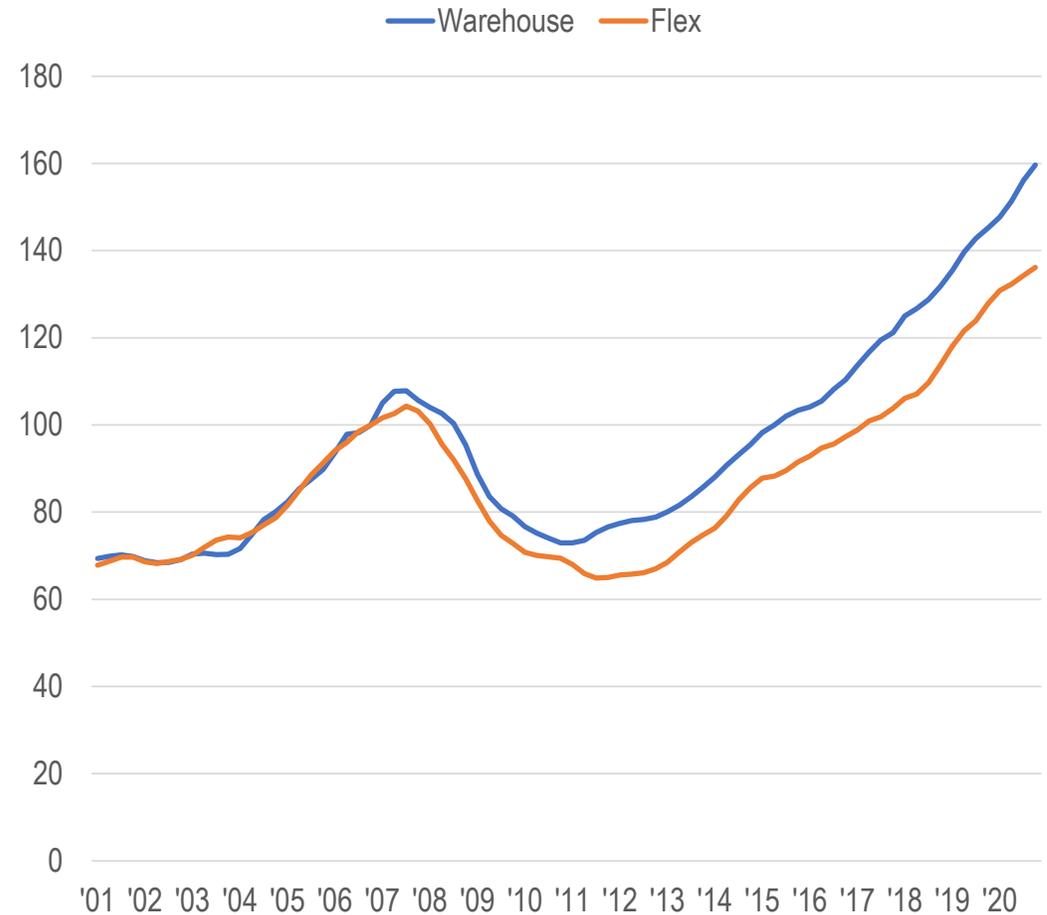
EVEN WITHIN PROPERTY SECTORS PRICES ARE NOT CONSISTENT

Significant difference between winners and losers in the hotel market, double digit growth for some industrial.

RCA CPPI, Dec'06 = 100



RCA CPPI, Dec'06 = 100

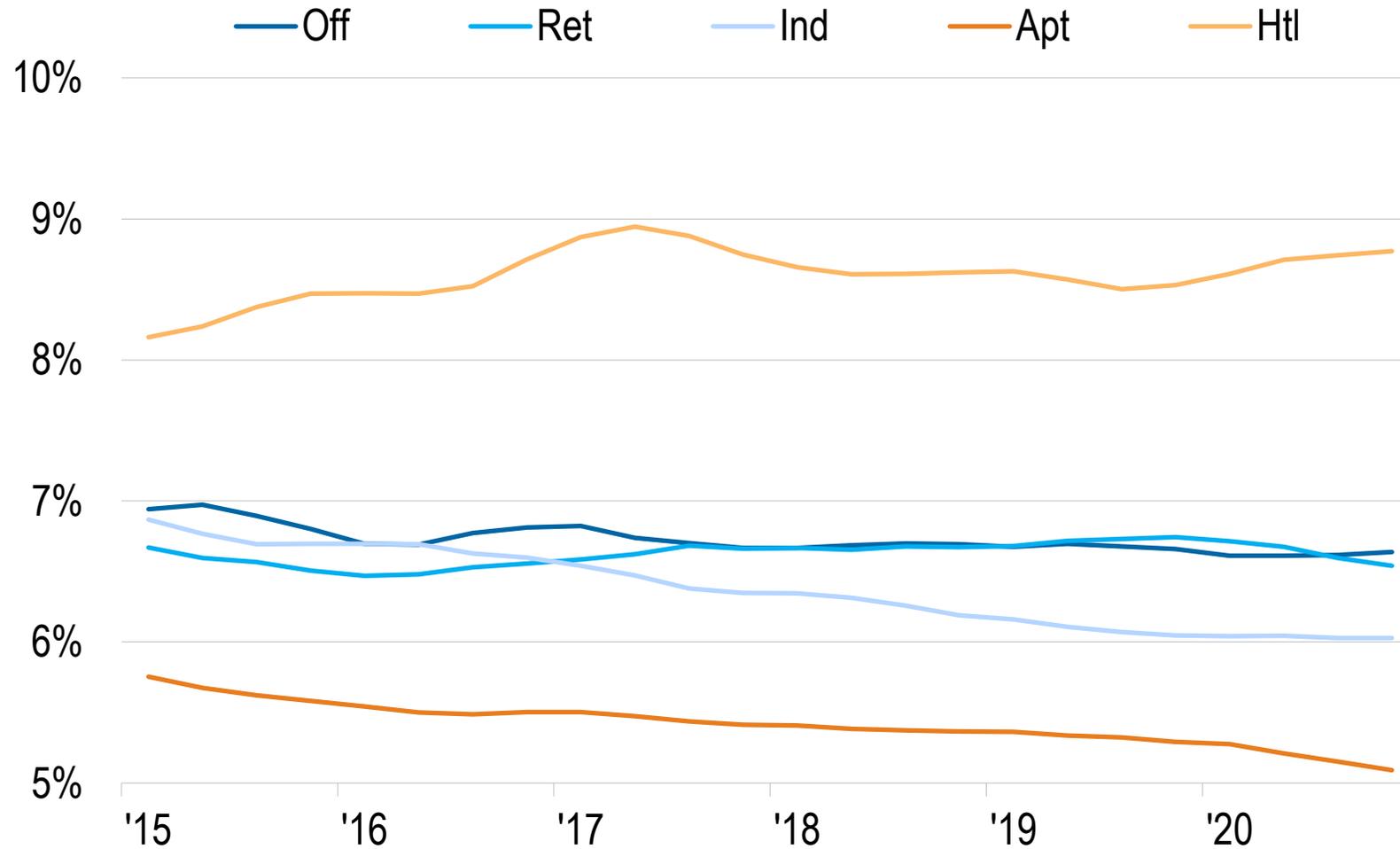


NOT EVERY SELLER IN 2020 WAS A LOSER



CAP RATES HAVE NOT MOVED MUCH FROM THIS CRISIS

Hotels were on the rise before the Covid-19 crisis.



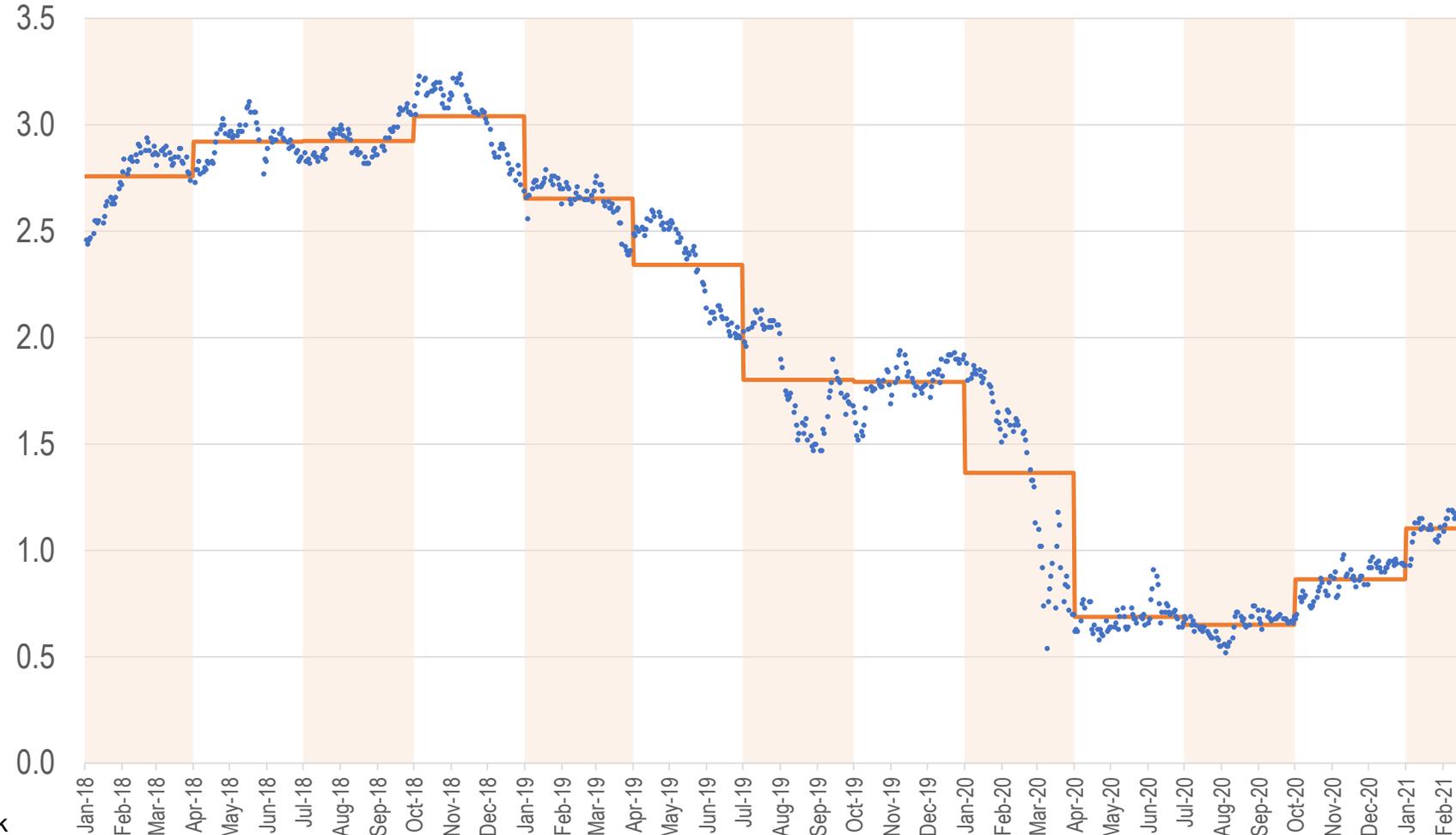
Real Capital Analytics Hedonic Cap Rate Series

What Comes Next?

INTEREST RATES ARE TRENDING UPWARD AGAIN

The 10yr US Treasury is back above the 1% range again. Still quite low, but not toying with 0.5% anymore.

Percent Rates

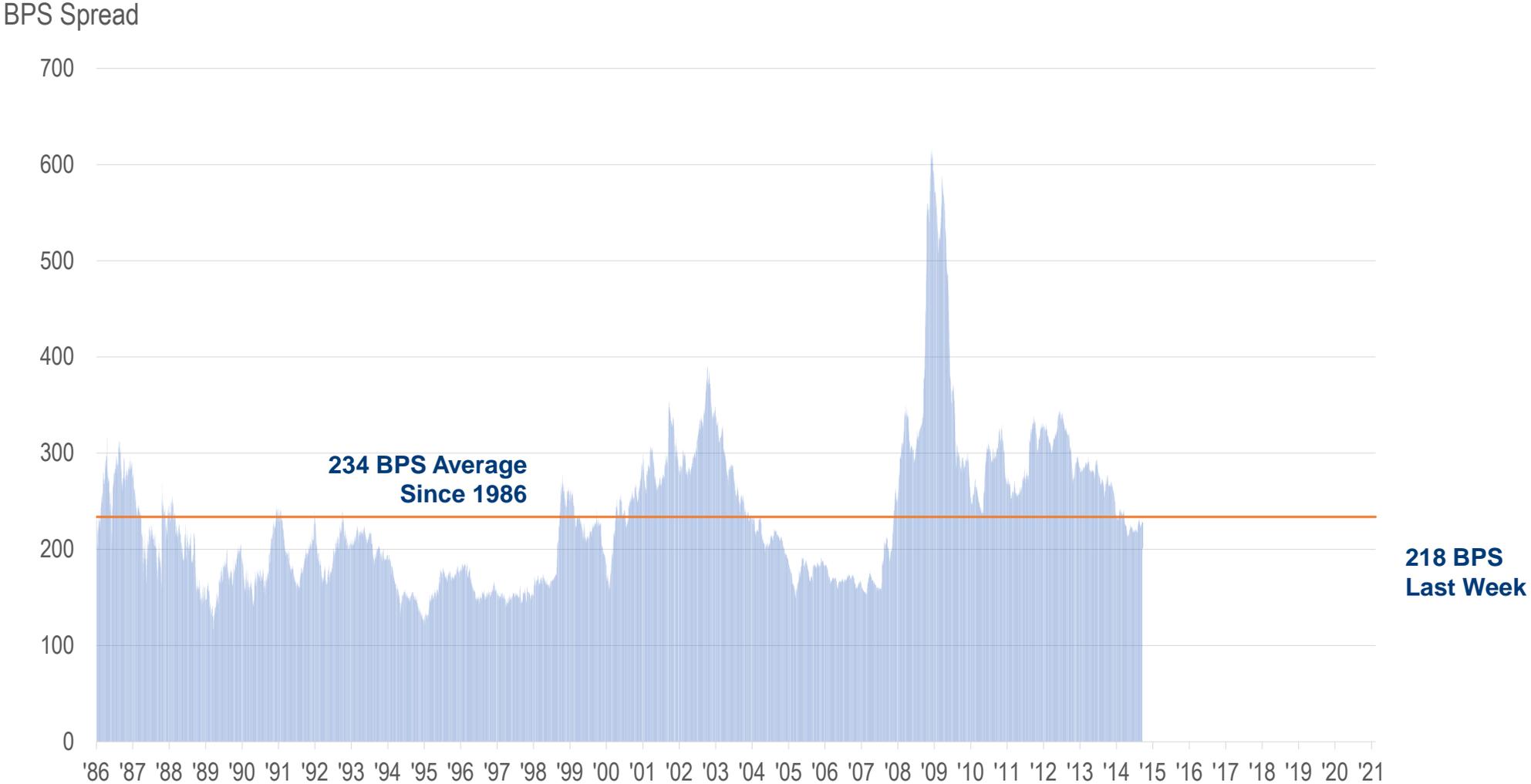


Source: Federal Reserve Bank

Updated 2/15/21

RISK AVERSION IS FALLING

The spread between the 10yr UST and Moody's BAA Corporate Bond Index is below long-term trends again.



Sources: Federal Reserve Bank, Moody's Investor Services

Updated 2/15/21

HOW HIGH WILL INTEREST RATES GO?

A wide range of opinions in the survey of forecasters.



Source: Wall Street Journal Forecast Survey, January 2021

INFLATION FEARS ARE MOUNTING

Will the economy run hotter for a while and push the 10yr more towards the high-end of estimates?

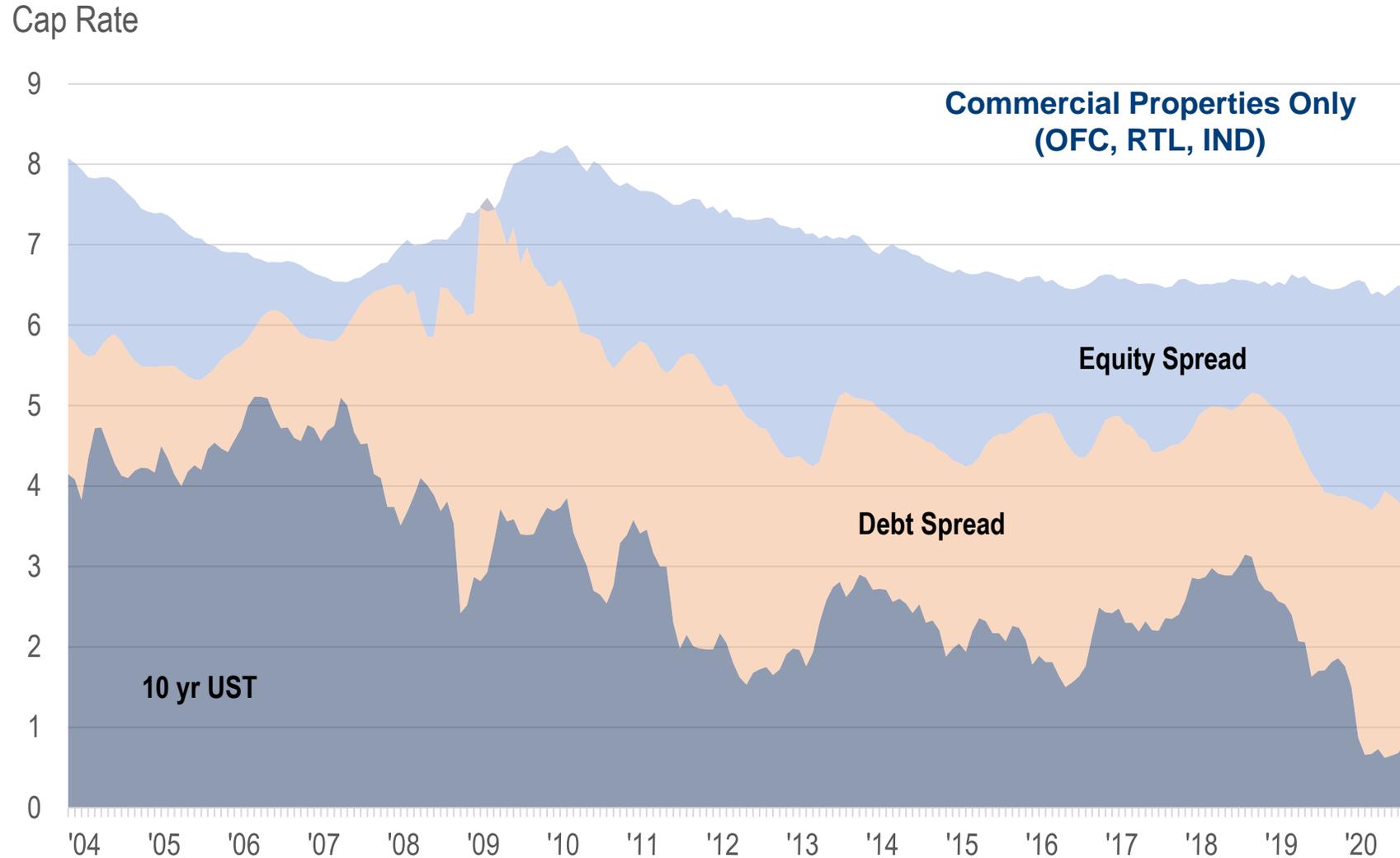


Source: Federal Reserve Bank, spread between 10yr Constant Maturity and 10yr TIPS

Updated 2/15/21

WHAT HAPPENS TO CAP RATES NEXT?

Having the 10yr UST below 1% for such a long period is not a sign of health.



Thank You!

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