

Welcome to Q4'2020: We are Almost There...

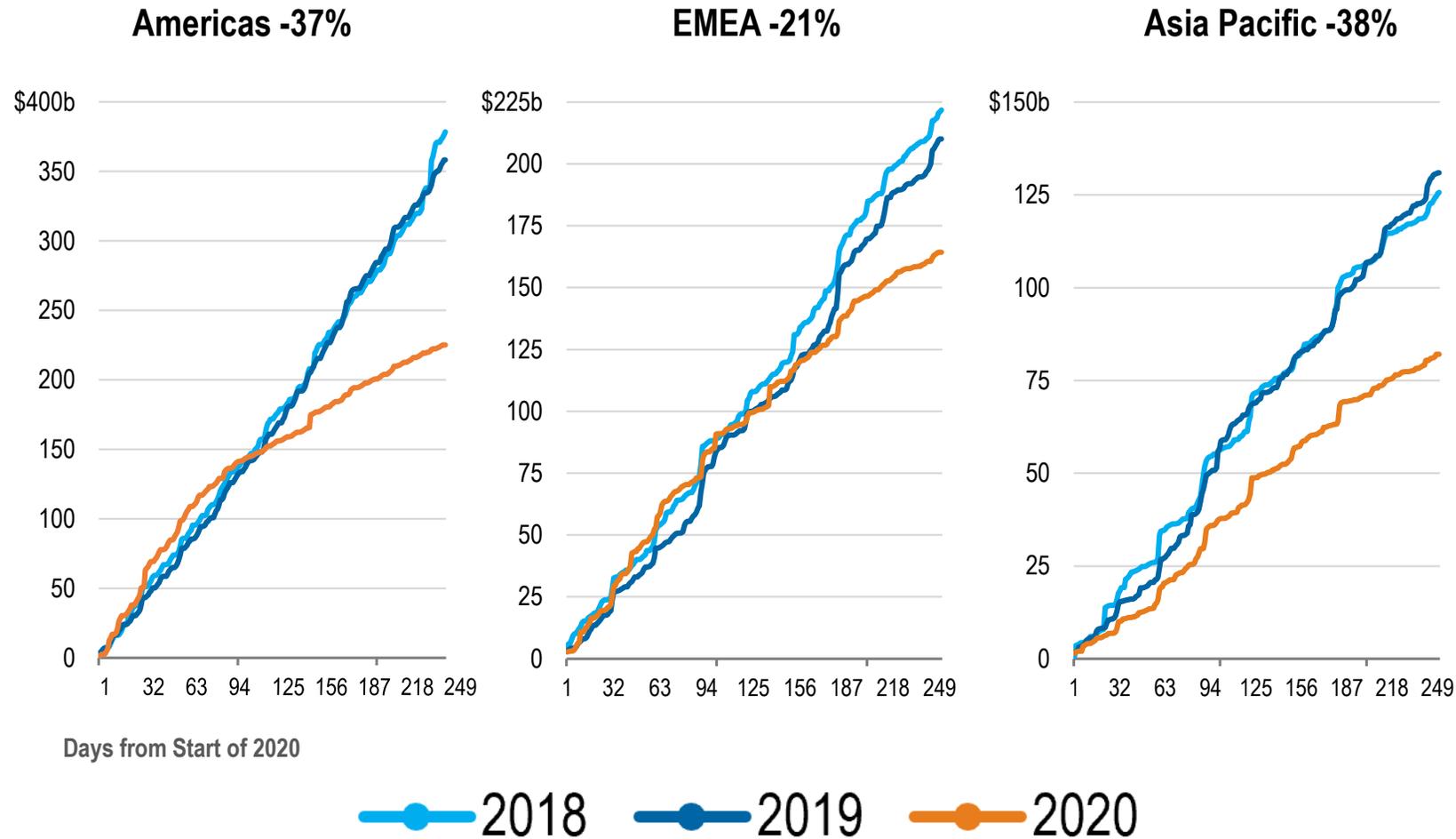
Jim Costello



October 1, 2020

ASIA PACIFIC LEAD THE WORLD INTO THE PANDEMIC

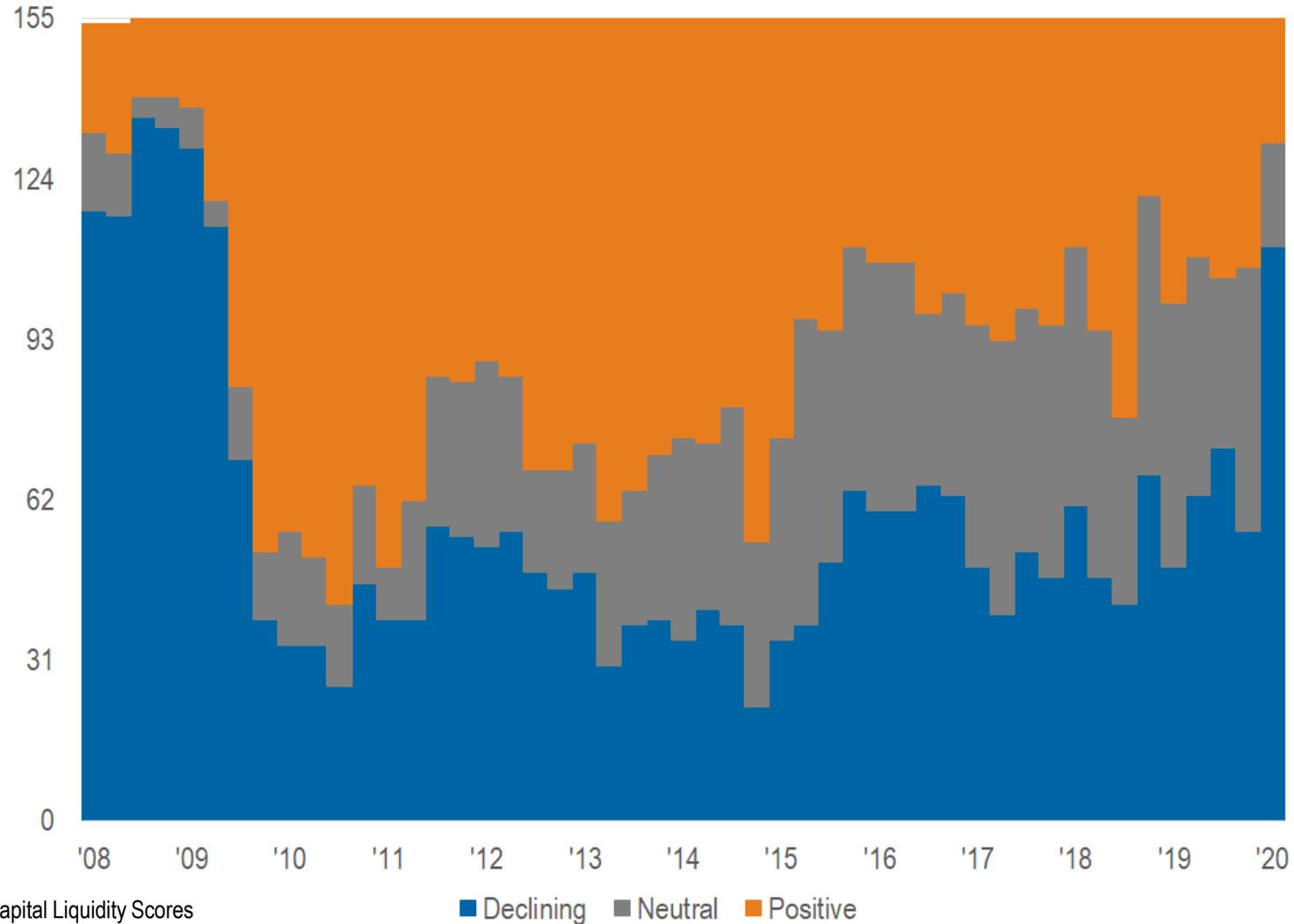
255 days into the year, cumulative deal activity is down from 2019 levels



Global deal volume floor of \$10 million

MARKET LIQUIDITY IN RETREAT GLOBALLY

Across 155 global markets, 118 have declining liquidity into Q2'20

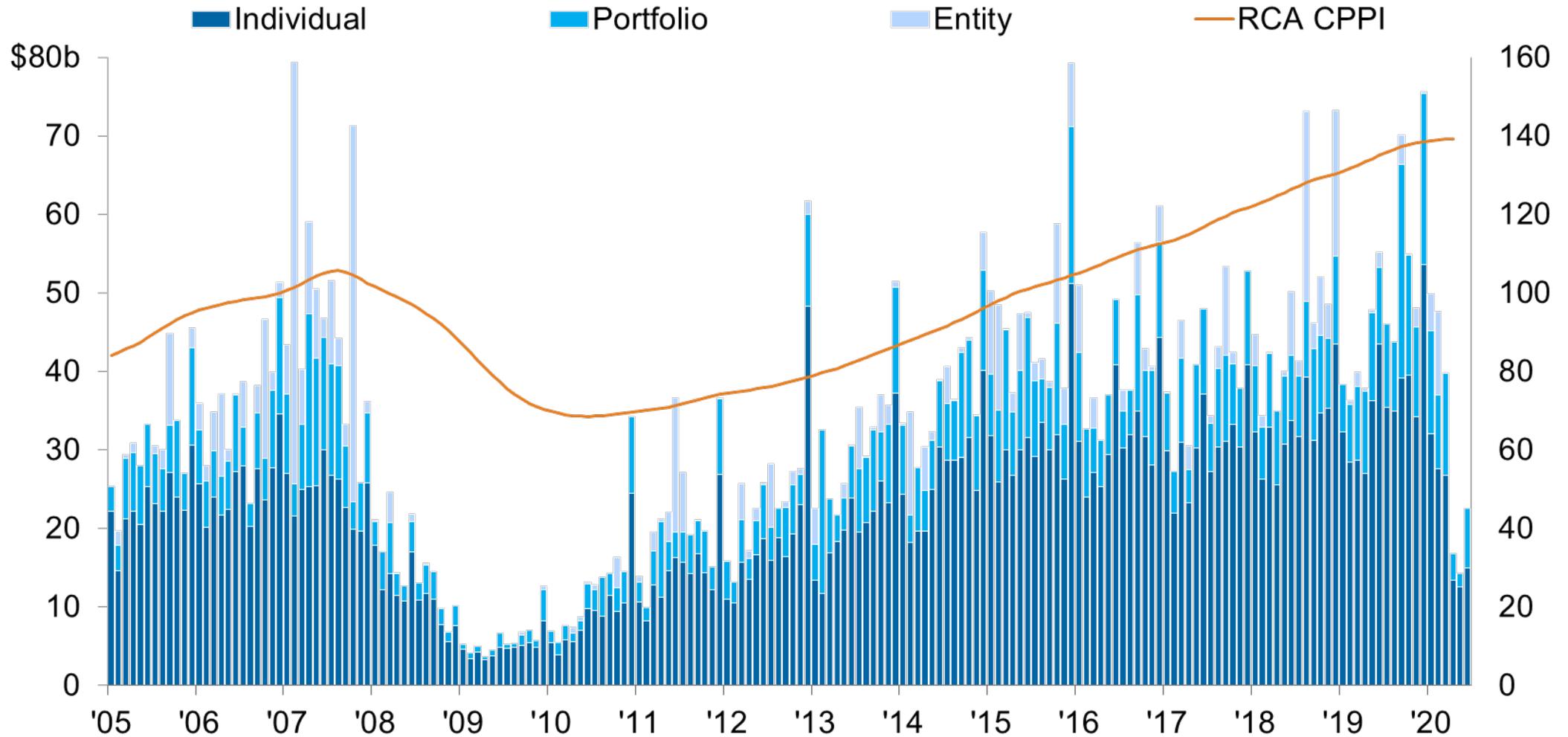


Diffusion Index of Real Capital Analytics Capital Liquidity Scores

■ Declining ■ Neutral ■ Positive

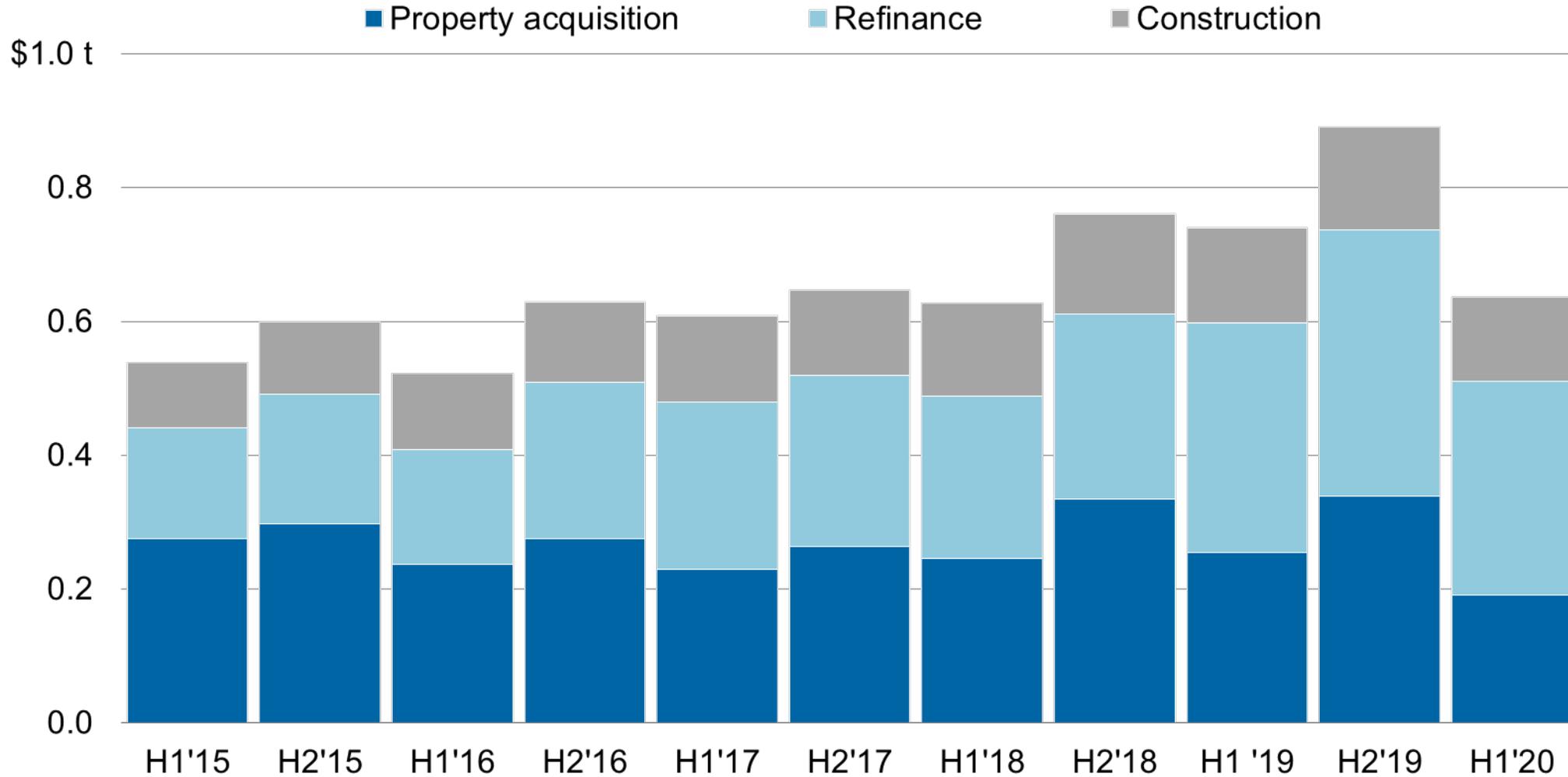
U.S. ACQUISITION VOLUME FALLING YEAR OVER YEAR

At least we are not at the 2009 levels of deal activity. But will we get there?



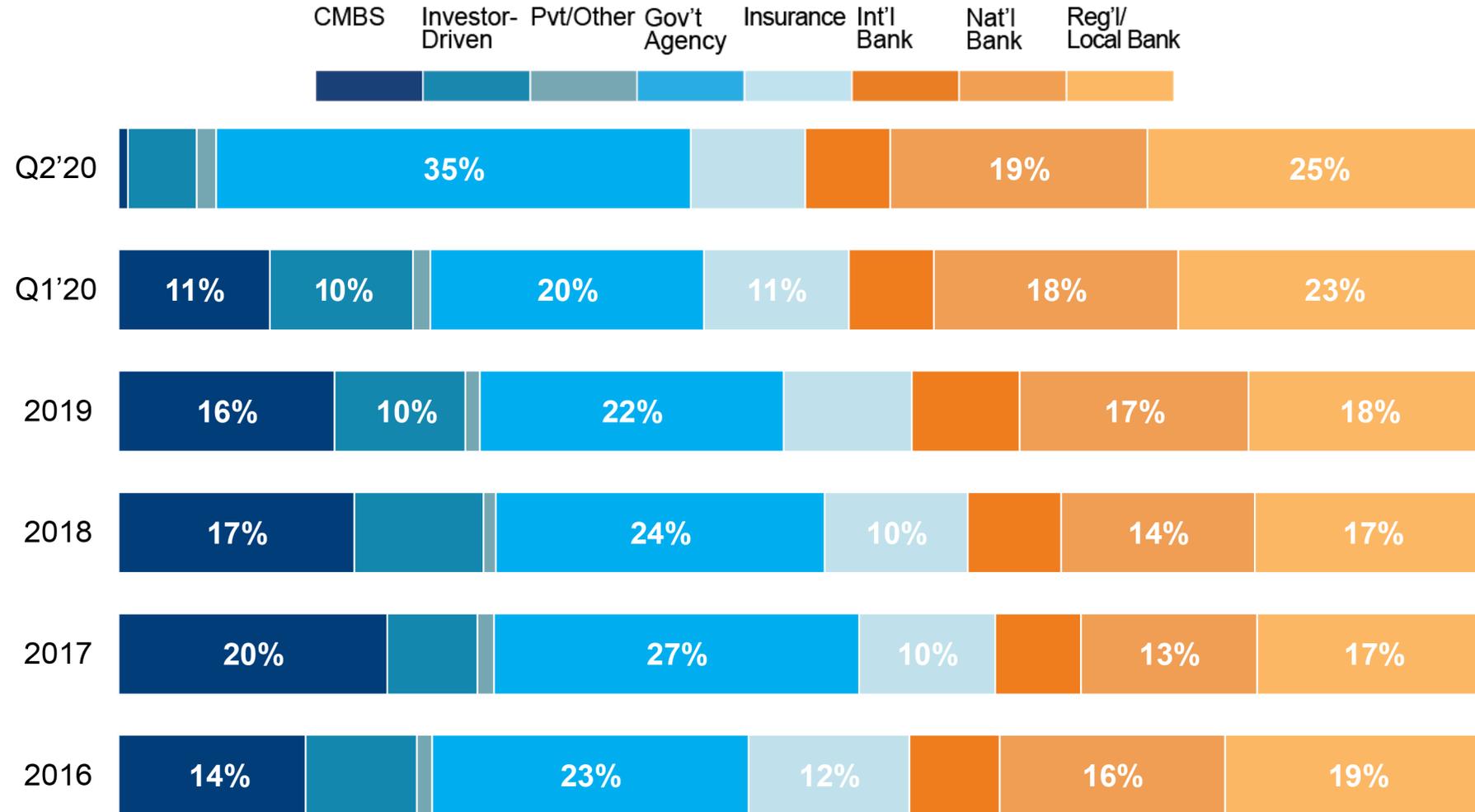
CAPITAL FLOWS TO U.S. COMMERCIAL REAL ESTATE

Refinance capital accounted for 50% of capital flows in H1'20.



ONE LEG OF THE FINANCING STOOL IS GONE

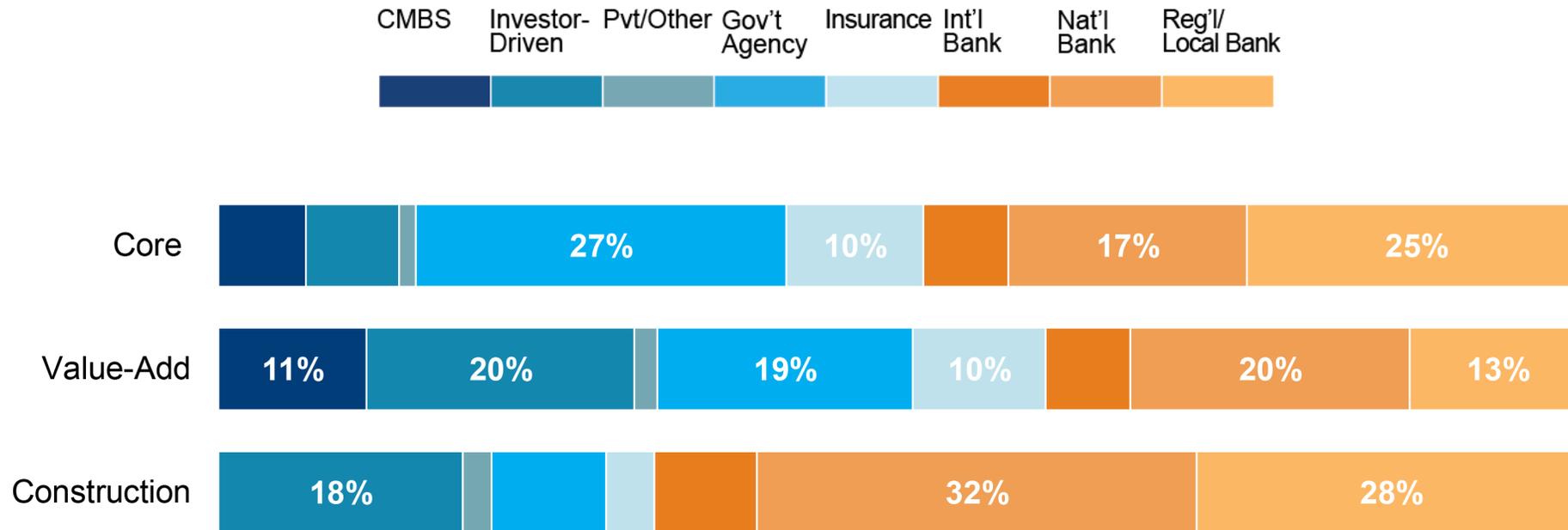
Lender composition changed dramatically into Q2'20. Not a sign of gloom and doom.



1st Mortgages Only

H1'20 LENDER COMPOSITION BY INVESTMENT STYLE

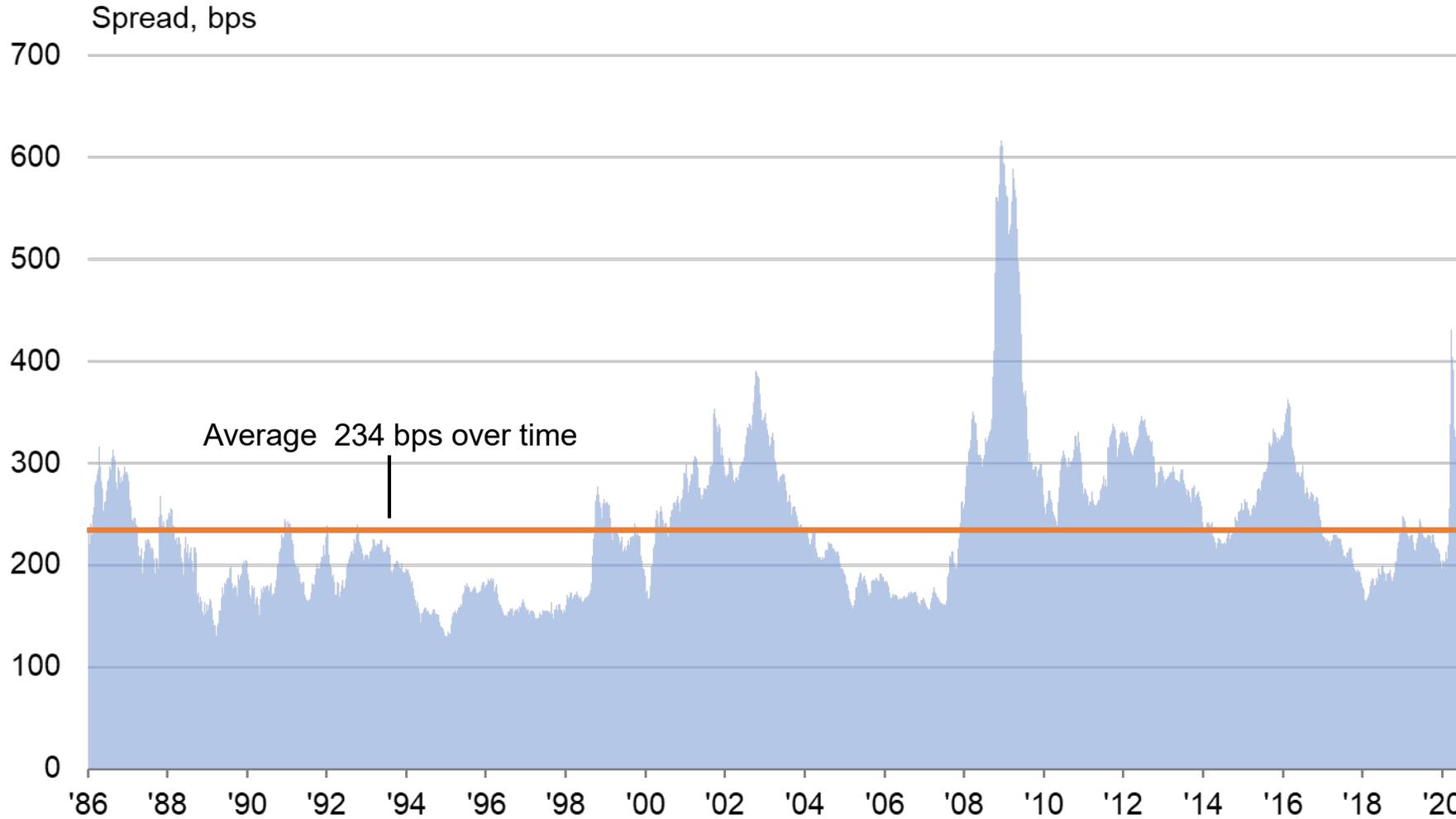
Investor driven lenders pulling back on riskier construction loans, especially into Q2'20.



1st Mortgages Only

RISK AVERSION HAS BEEN SHRINKING SINCE MARCH OF 2020

We are not back to 2018, but abject fear in the market is fading.

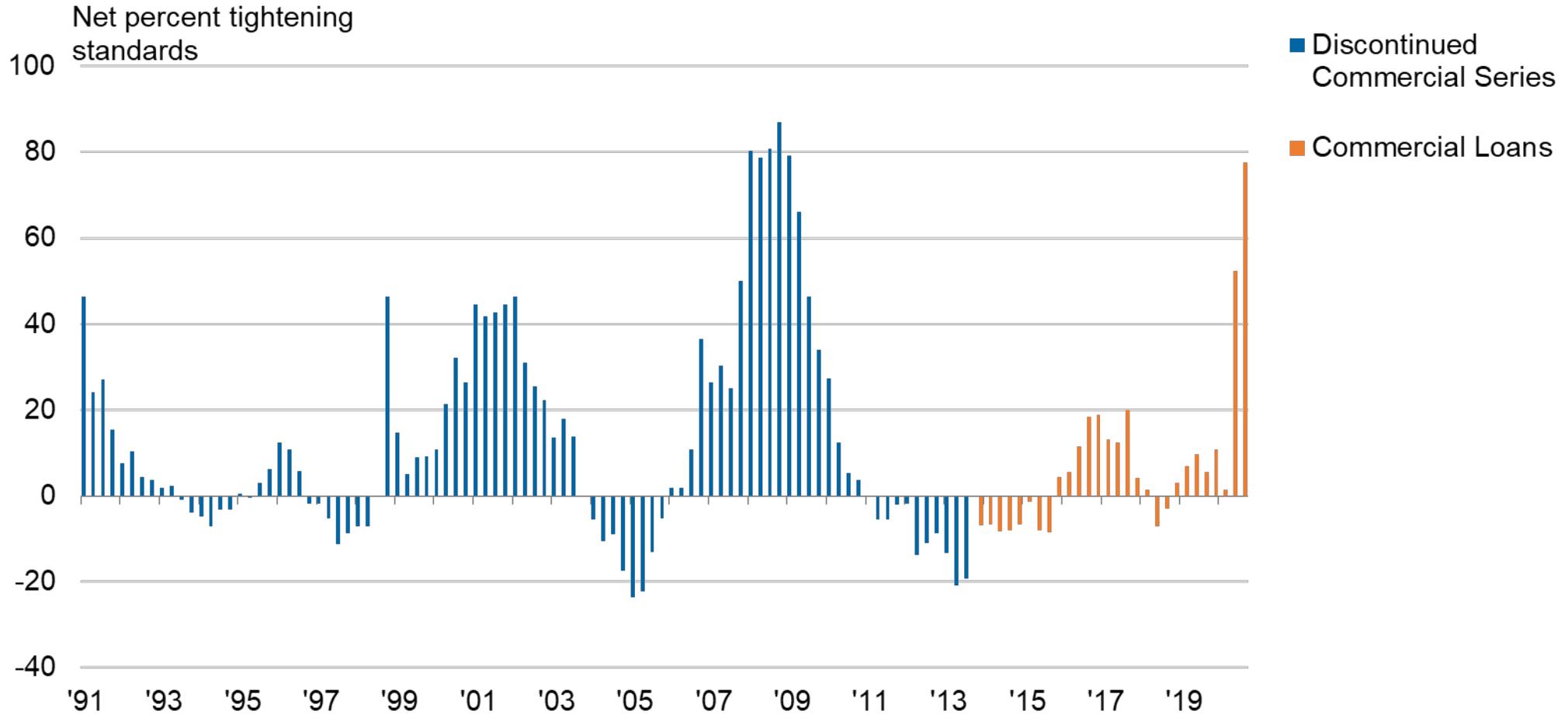


The BPS spread between the 10yr UST and Moody's BAA Bond Index is generally reflective of investor appetite for risk.

Sources: Real Capital Analytics, Federal Reserve Bank, Moody's Analytics

COMPARED TO GLOBAL FINANCIAL CRISIS, LOOKING ALMOST AS BAD

The relative tightening seems as bad as the GFC at first glance.



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

“TIGHTENING” IS RELATIVE

LTVs in H1'20 are lower than in 2019 in general, but not by much.

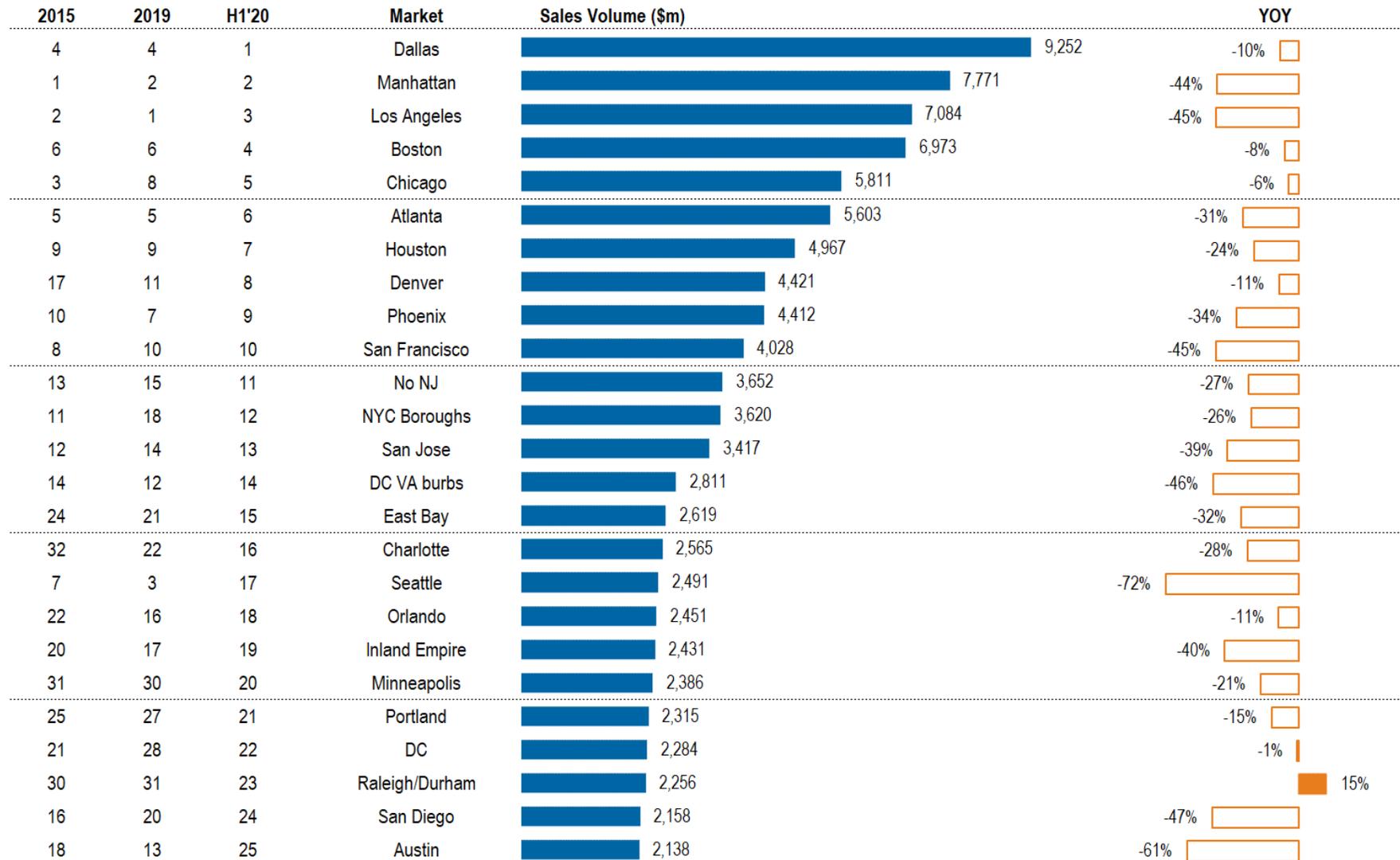
| | Avg H1'20 | Avg H1'20 | Avg '19 | Avg H1'20 | Avg '19 |
|------------------|------------|-----------|---------|-----------|---------|
| | Loan (\$m) | LTV | LTV | Cap | Cap |
| Gov't Agency | 15.8 | 68.0% | 69.2% | 5.1% | 5.5% |
| CMBS | 14.2 | 65.6% | 64.7% | 6.4% | 6.7% |
| Int'l Bank | 18.4 | 65.1% | 66.2% | 6.1% | 5.8% |
| Nat'l Bank | 11.7 | 64.2% | 64.8% | 6.2% | 6.0% |
| Reg'l/Local Bank | 5.9 | 68.1% | 68.0% | 6.5% | 6.8% |
| Investor-Driven | 18.9 | 70.6% | 72.1% | 6.1% | 5.8% |
| Insurance | 17.5 | 60.3% | 61.3% | 6.1% | 5.7% |
| Grand Total | 10.4 | 67.0% | 67.1% | 5.5% | 6.0% |

NO SECTOR IS SPARED IN 2020

Though some were hurt more than others.

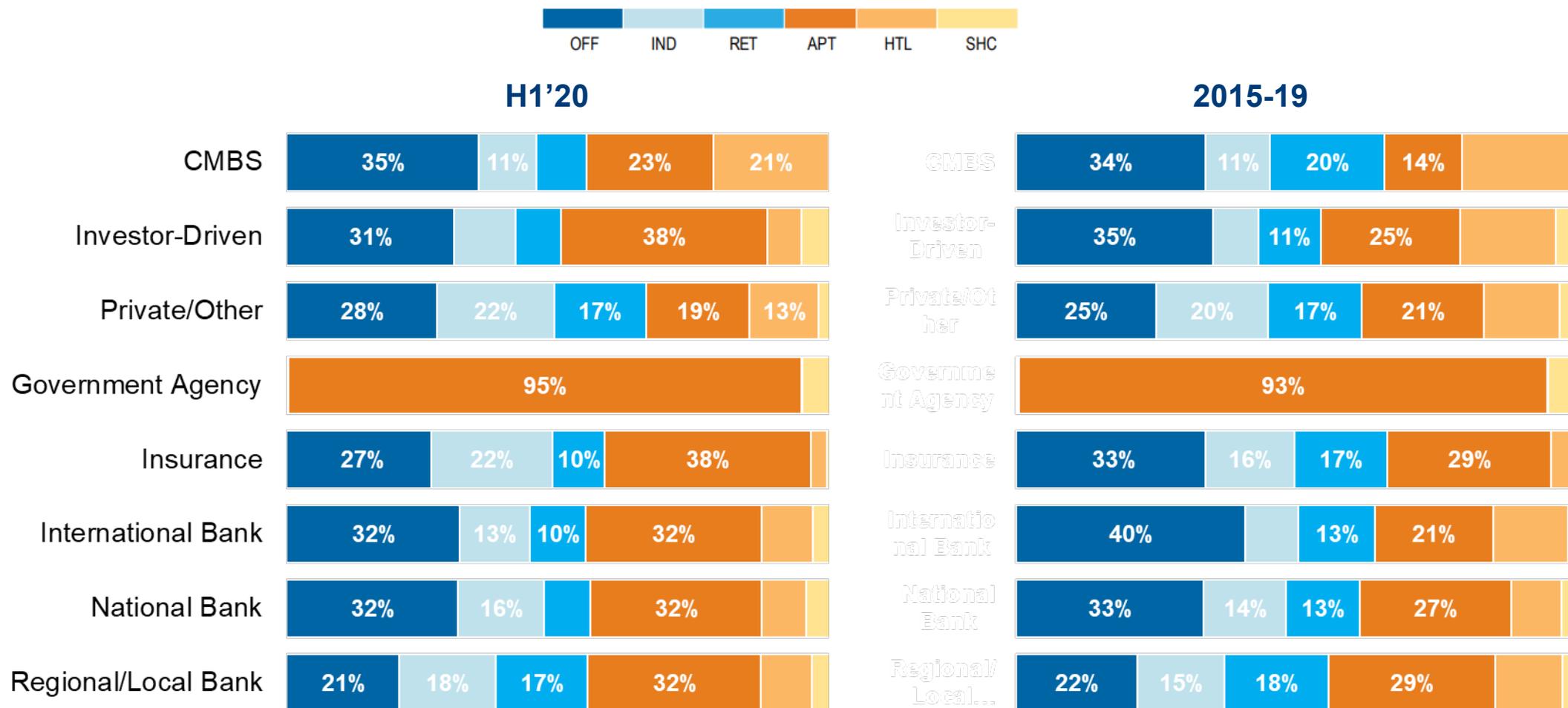
| | August '20 | | Year to Date | |
|------------------------|-------------|-------------|--------------|-------------|
| | Vol (\$b) | YOY | Vol (\$b) | YOY |
| Office | 2.6 | -74% | 50.4 | -43% |
| Retail | 1.1 | -74% | 21.3 | -45% |
| Industrial | 2.9 | -63% | 51.5 | -3% |
| Hotel | 0.3 | -89% | 6.6 | -69% |
| Apartment | 5.4 | -66% | 74.2 | -37% |
| Seniors Housing & Care | 0.3 | -71% | 5.7 | -52% |
| Dev Site | 0.9 | -45% | 12.0 | -16% |
| Total | 13.6 | -69% | 221.7 | -36% |
| Major Metros | 4.7 | -67% | 75.9 | -40% |
| Secondary Mkts | 7.4 | -66% | 97.5 | -40% |
| Tertiary Mkts | 1.5 | -81% | 35.2 | -36% |
| Portfolio | 2.5 | -72% | 69.2 | -12% |
| Single Asset | 11.1 | -68% | 152.5 | -43% |

FEW MARKETS SPARED IN THE FIRST HALF OF 2020



COMPOSITION OF LENDER LOAN VOLUME BY PROPERTY TYPE

CMBS originators were more exposed to retail and hotels from 2015-19.

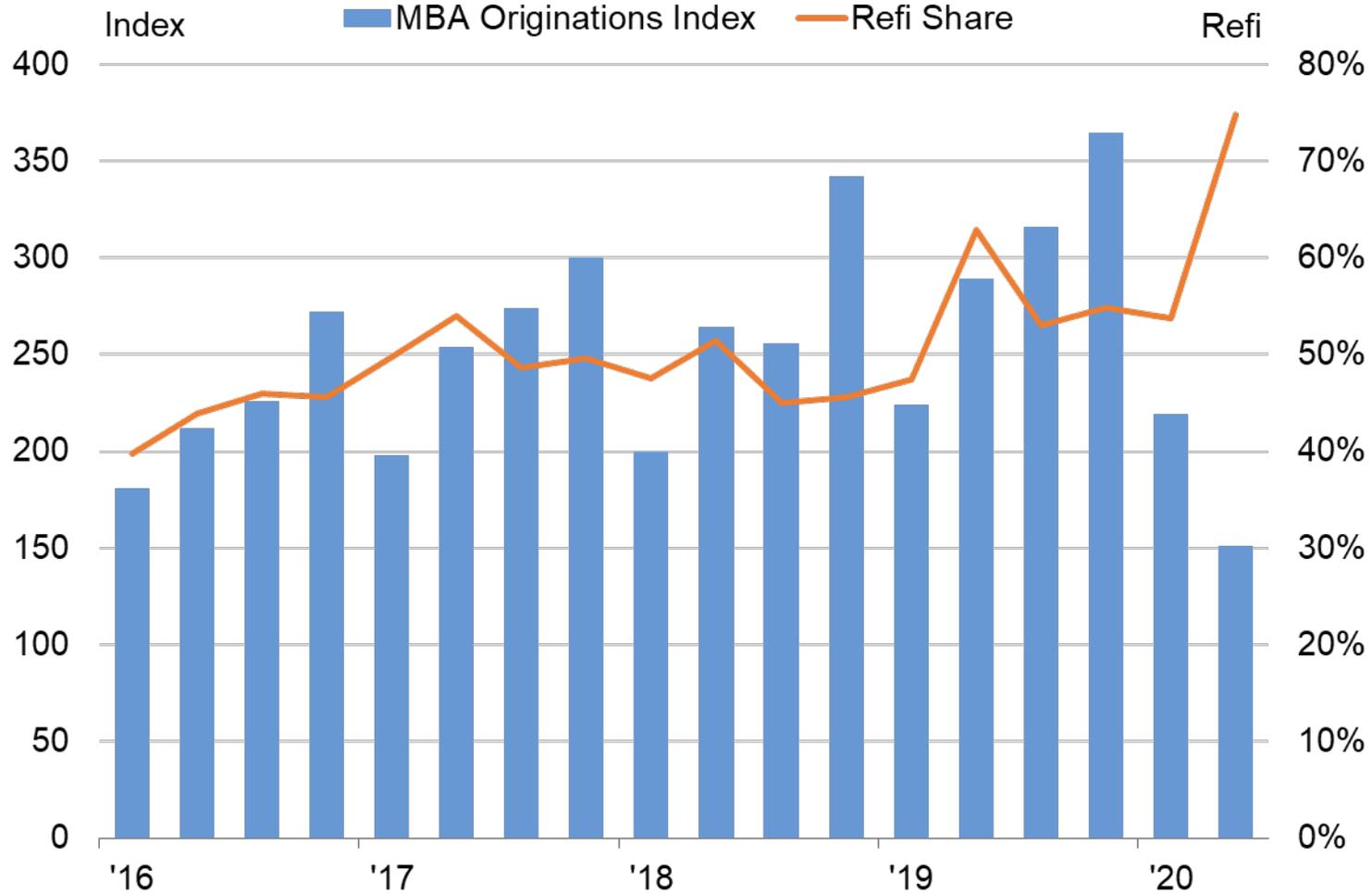


1st Mortgages Only

ORIGINATIONS ARE FALLING INTO Q2'20

The market is focused on refi deals with fewer acquisitions underway.

**MBA
Originations
Index down 48%
YOY in Q2'20**



Sources: Real Capital Analytics, Mortgage Bankers Association Originations Index

NUMBER OF ACTIVE LENDERS FALLING BUT BY LESS

The number of unique lenders active in Q2'20 down 20% YOY

Unique Lender Counts

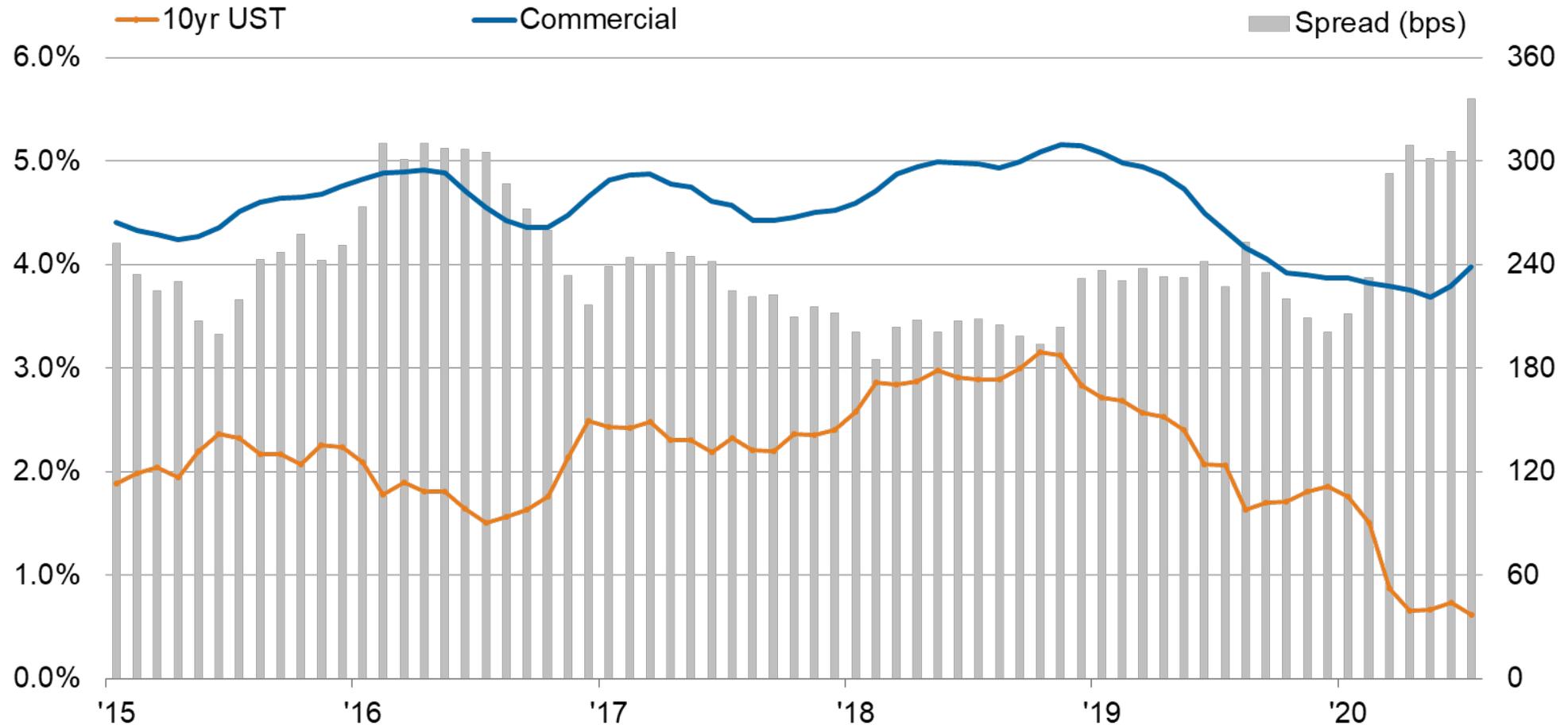


Lenders in Q2'20

| | Number of Unique Lenders | YOY % Change |
|------------|--------------------------|--------------|
| Apartment | 604 | -2% |
| Hotel | 257 | -50% |
| Industrial | 591 | -15% |
| Office | 605 | -13% |
| Retail | 532 | -20% |

RISK AVERSION CLIMBING FOR LENDERS AS WELL

But debt is still available. If availability was challenged, rates would rise.

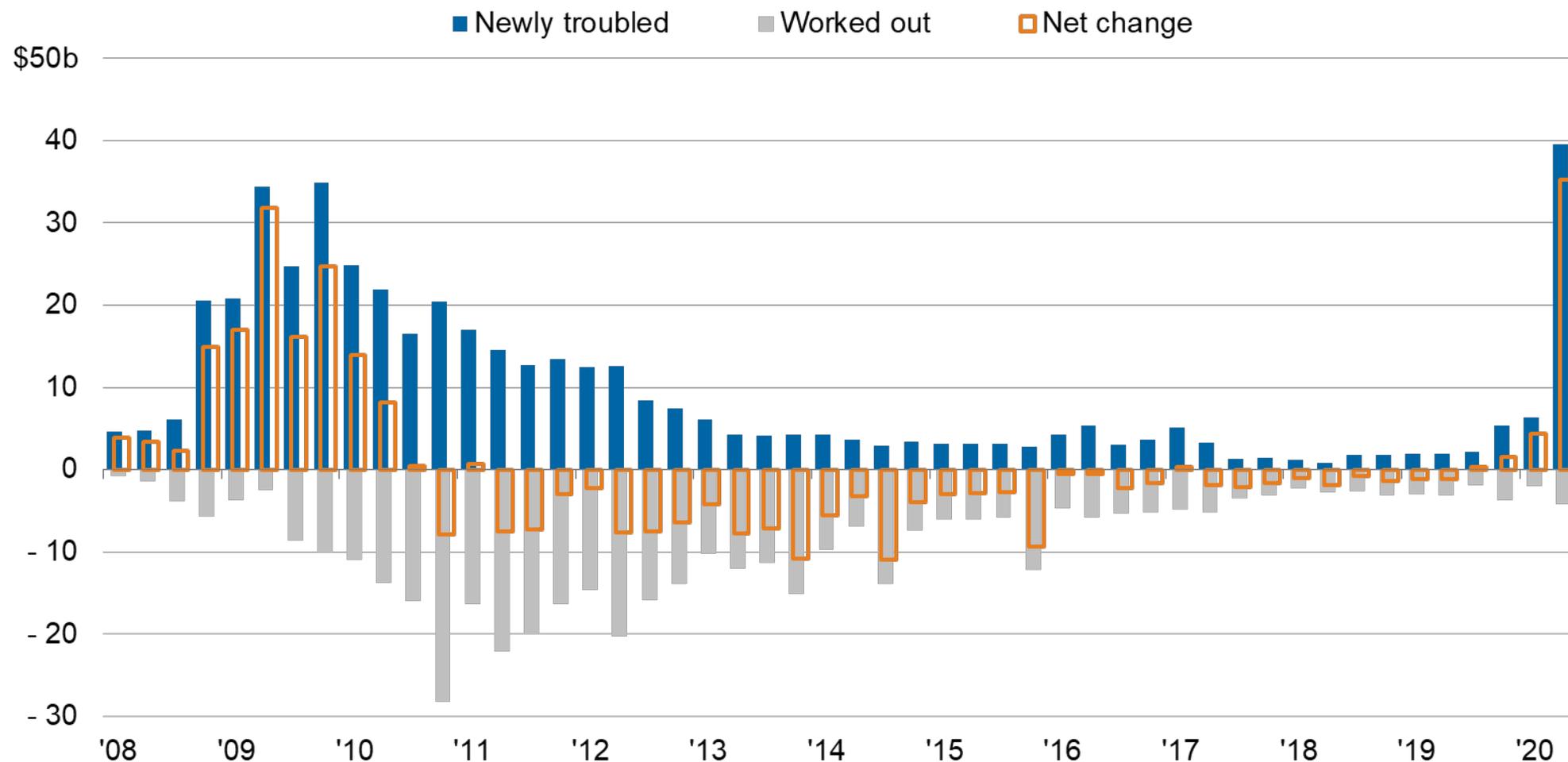


Sources: Real Capital Analytics, Federal Reserve Bank

7/10 Year Fixed Rate Commercial Property Loans, Office/Industrial/Retail 1st Mortgage Only

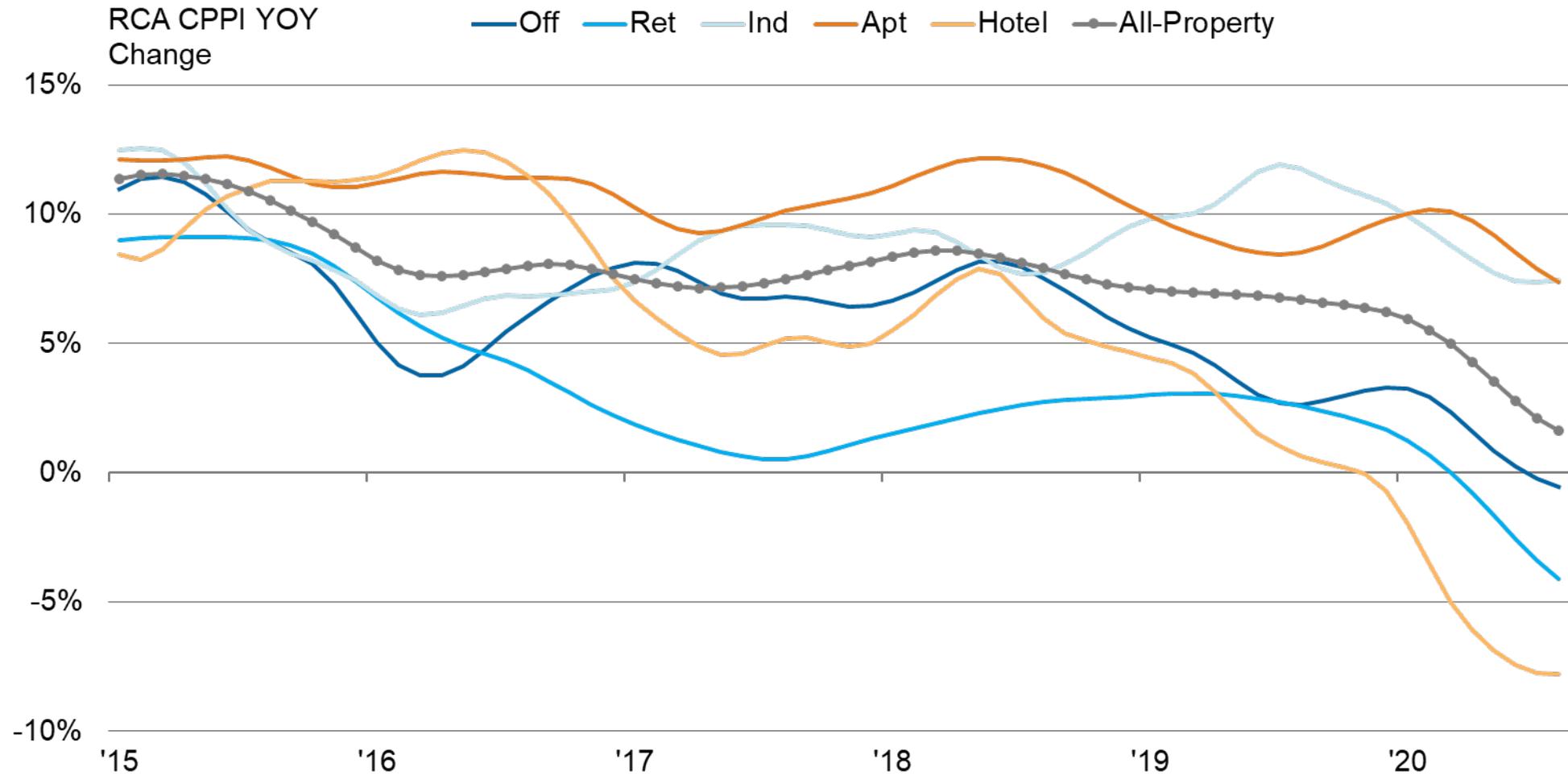
DISTRESSED DEBT SITUATIONS ARE SPIKING

This spike is however only the tip of the iceberg...



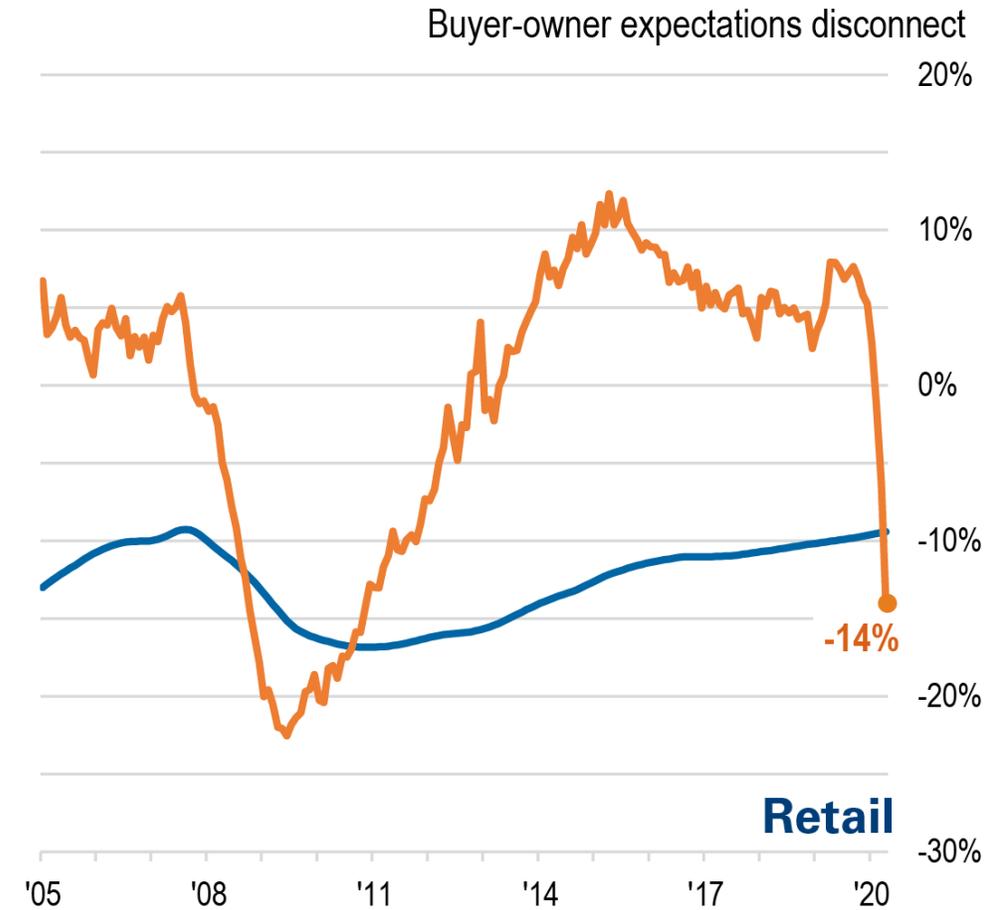
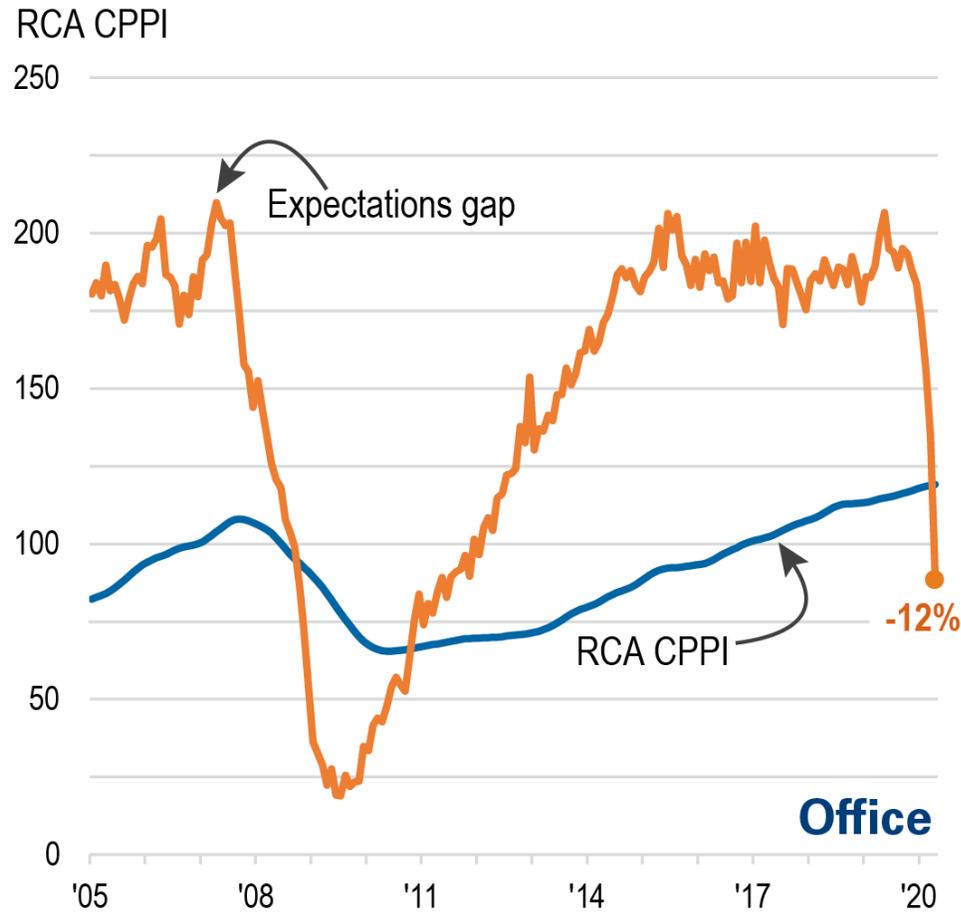
PROPERTY PRICES ARE GENERALLY FALLING

Apartments and industrial are on a different path.



SIGNIFICANT DISCONNECT ON PRICING

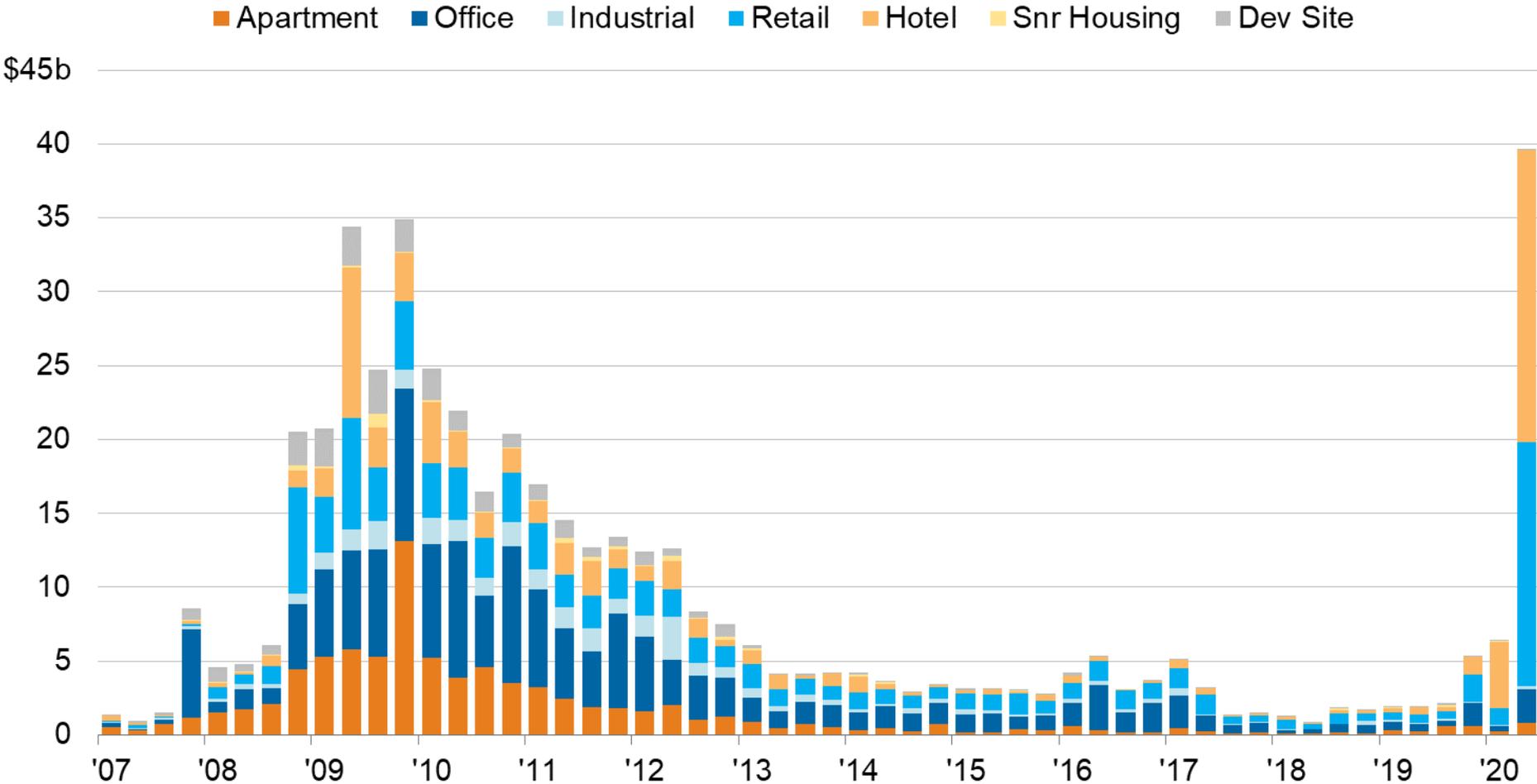
Buyers and sellers have wildly different expectations on where prices should be.



Sources: Real Capital Analytics, MIT Center for Real Estate Price Dynamics Platform

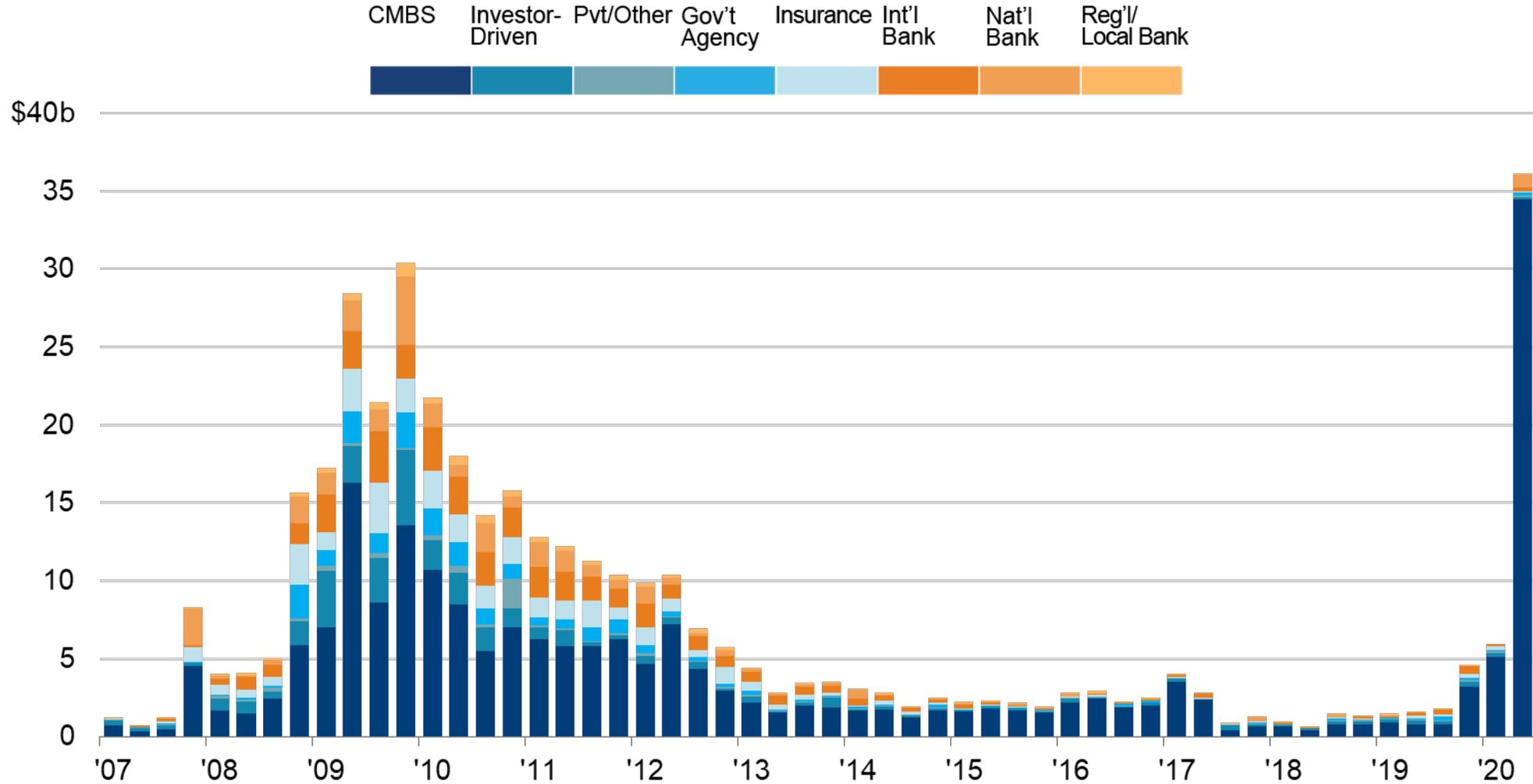
NEWLY TROUBLED LOANS BY PROPERTY SECTOR

The challenges so far are largely in the hotel and retail sectors.



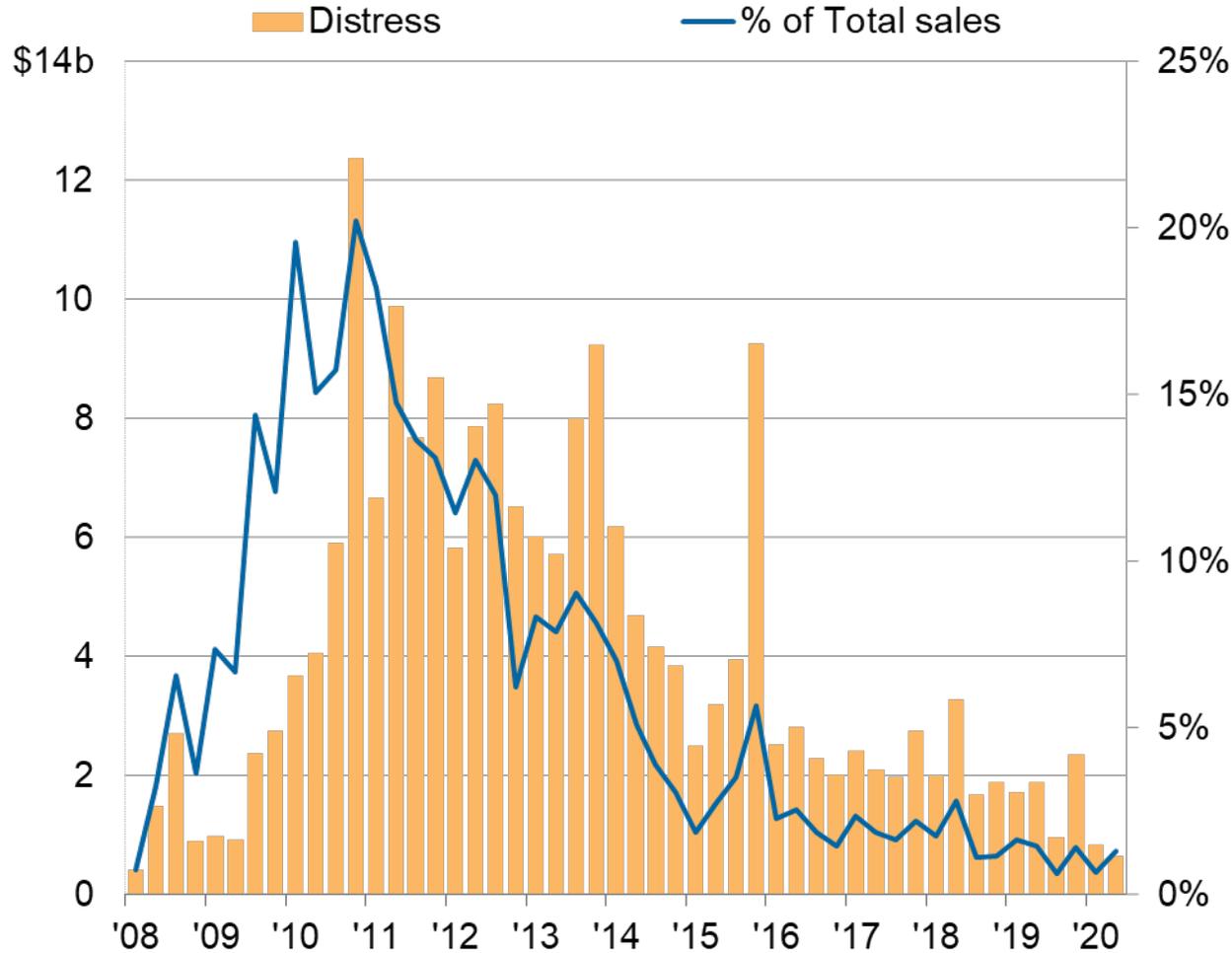
NEWLY TROUBLED LOANS BY ORIGINATOR GROUP

Troubled loans by other originator groups has simply not been revealed yet. Will be coming.



DISTRESSED SALES ARE STILL MINIMAL

We have not yet reached that price discovery or work out phase, except in hotel.



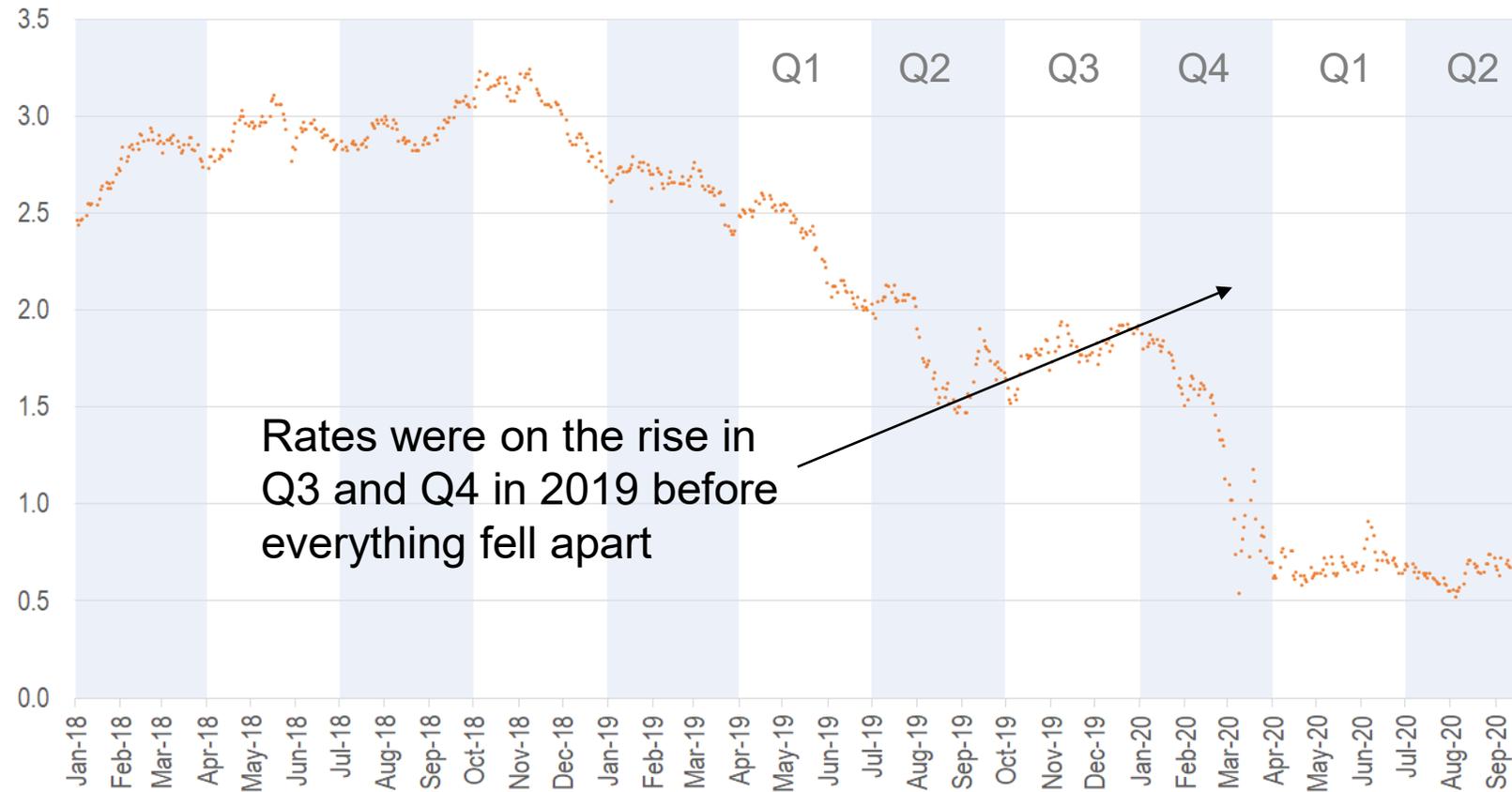
Breakdown of Q2'20 Distressed Sales \$b

| | Non-Distress | Distress | Total | % of Total |
|--------------|--------------|------------|-------------|-------------|
| Office | 11.3 | 0.4 | 11.7 | 3.2% |
| Apartment | 18.9 | 0.0 | 18.9 | 0.3% |
| Retail | 5.0 | 0.1 | 5.1 | 2.4% |
| Industrial | 12.4 | 0.0 | 12.5 | 0.4% |
| Hotel | 0.7 | 0.1 | 0.7 | 7.8% |
| Senior Hsg | 1.3 | 0.0 | 1.3 | 0.0% |
| Total | 49.6 | 0.6 | 50.3 | 1.3% |

THE INTEREST RATE ENVIRONMENT IS UNREAL

In 2019 investors feared a recession from rising rates.

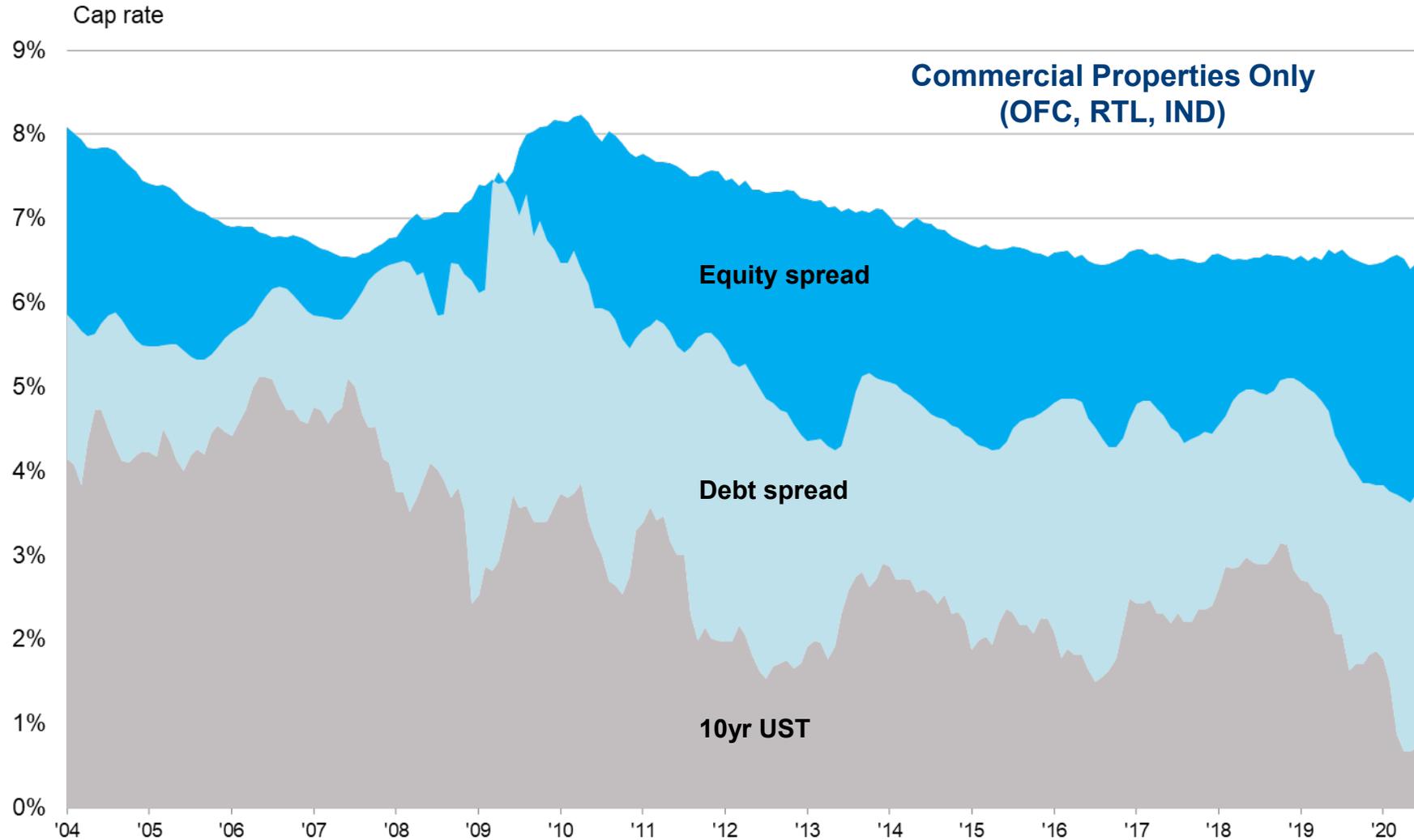
Percent Rates



Sources: Real Capital Analytics, Federal Reserve Bank

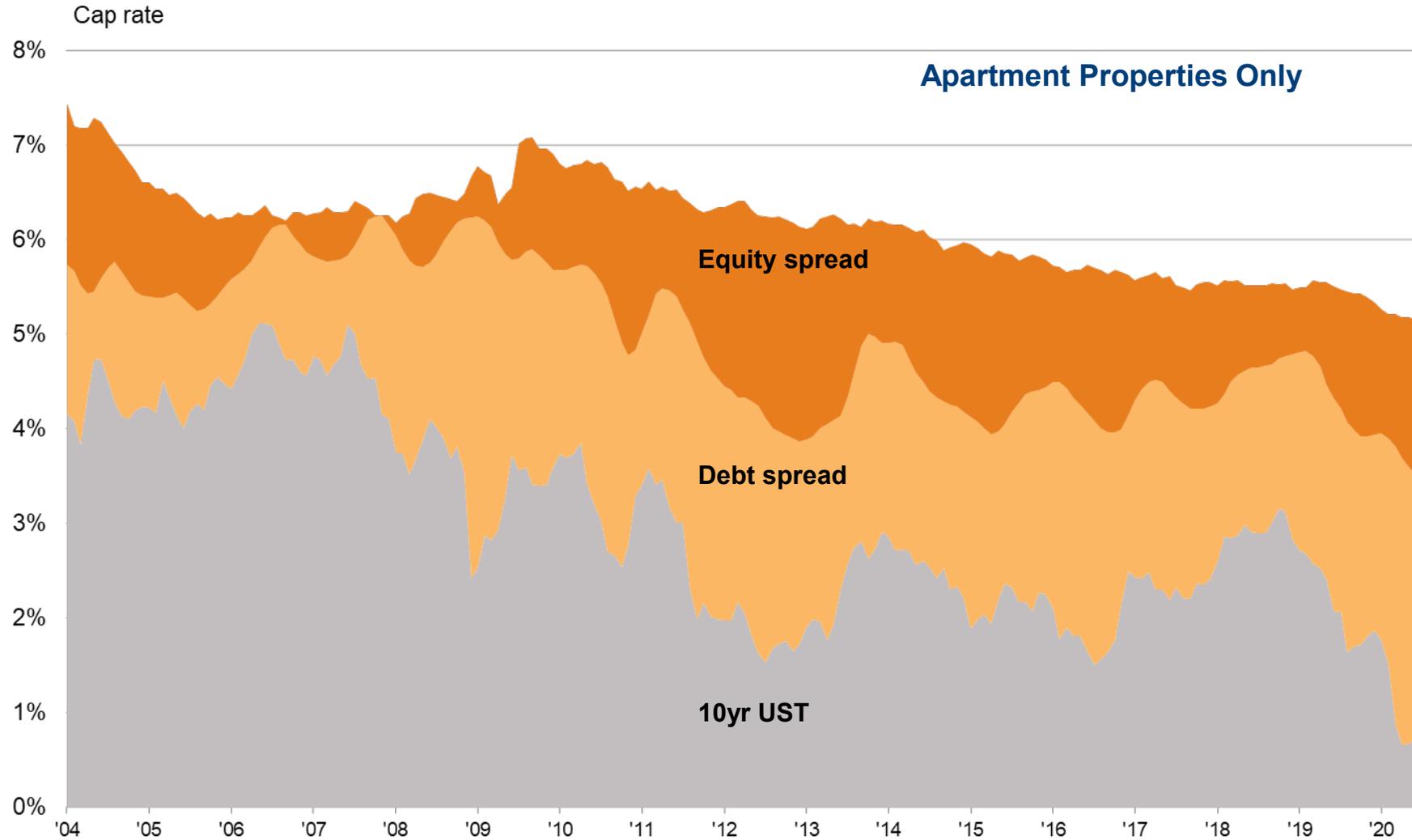
WHAT HAPPENS TO CAP RATES NEXT?

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



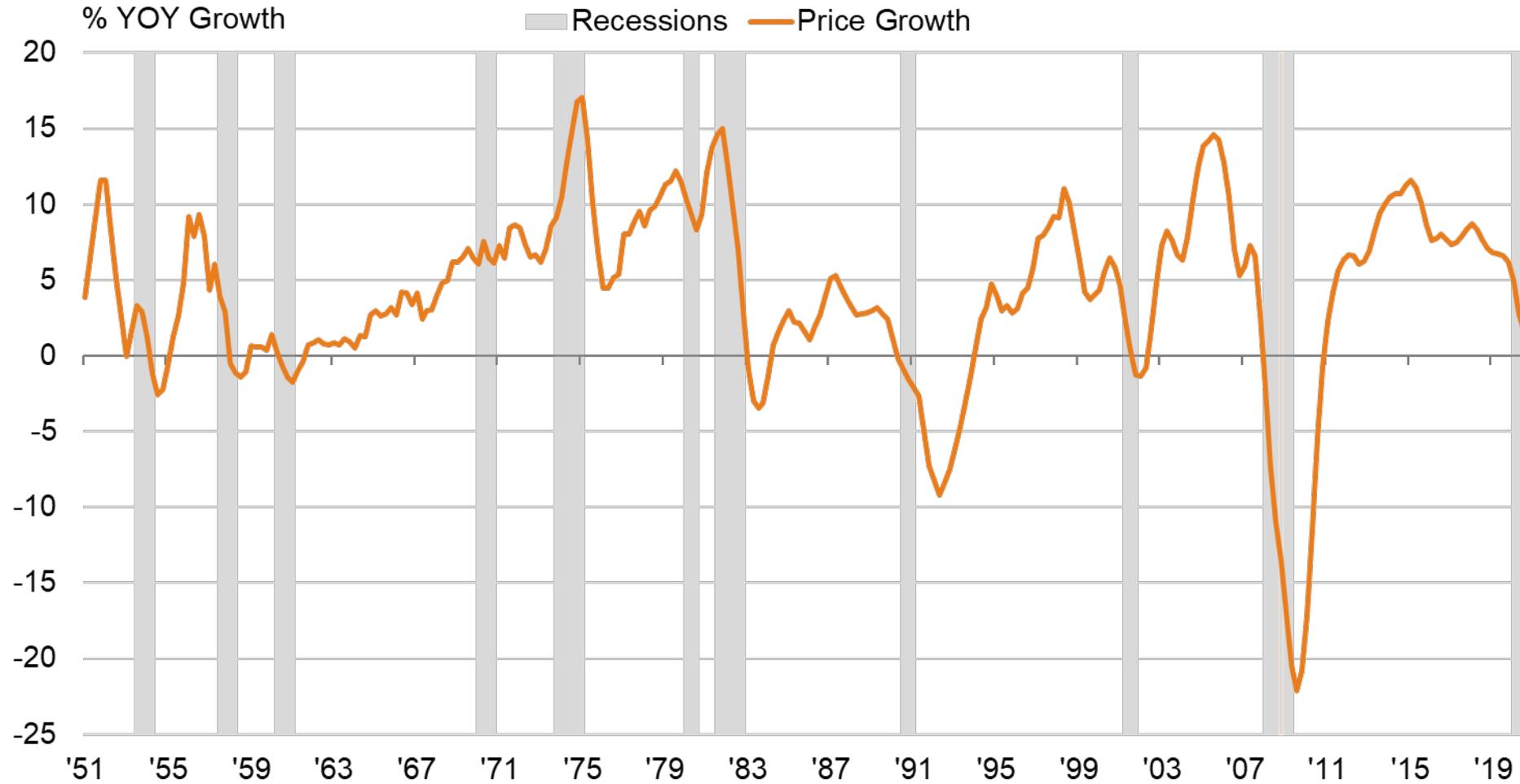
WHAT HAPPENS TO CAP RATES NEXT?

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



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



Thank You!

Jim Costello



@JimCostelloCRE

rcanalytics.com