

REAL CAPITAL
ANALYTICS

NEW YORK SAN JOSE LONDON SINGAPORE

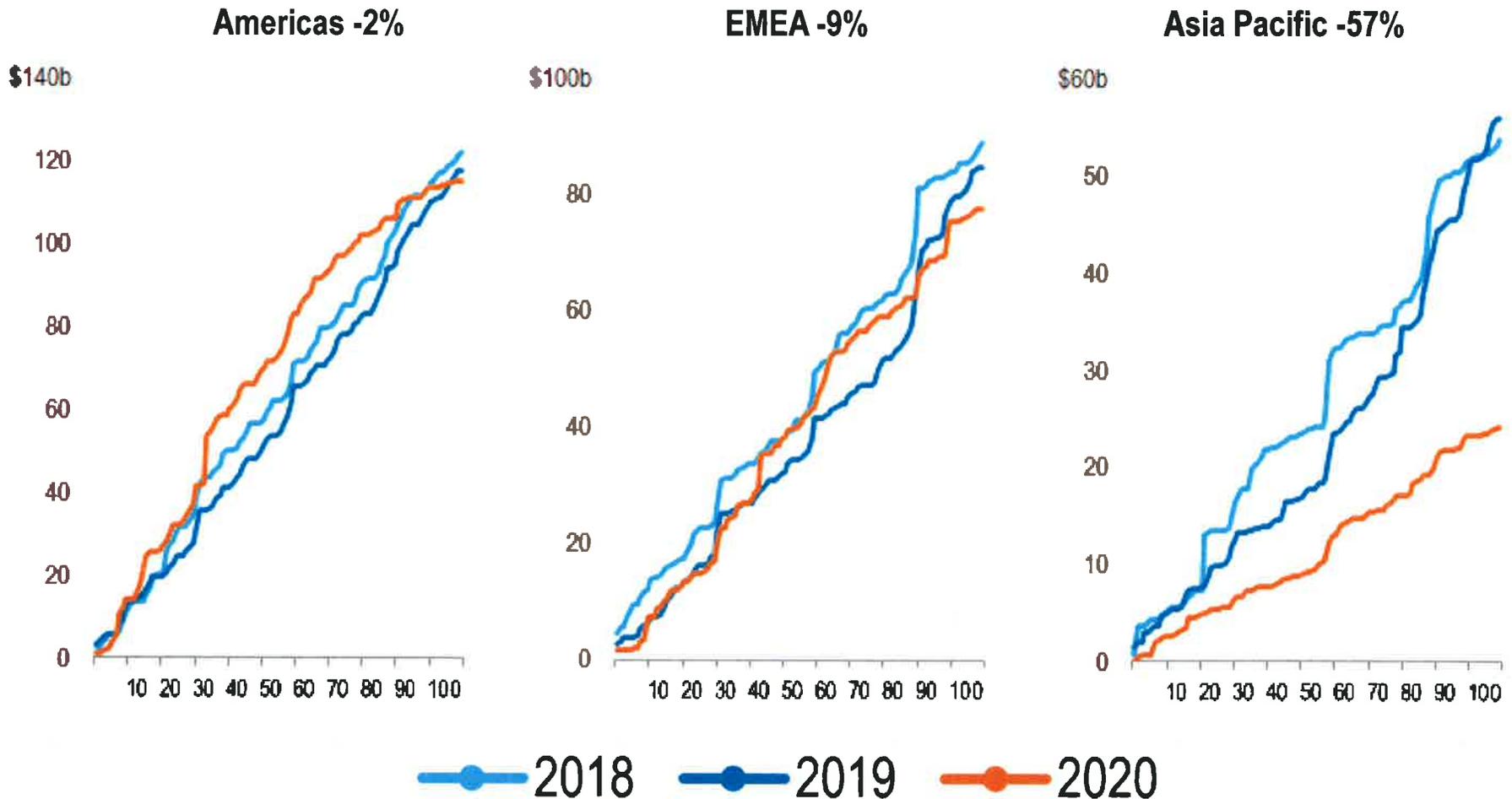
Preliminary View on April trends through COVID-19 Pandemic



May 14, 2020

ASIA PACIFIC LEAD THE WORLD INTO THE PANDEMIC

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



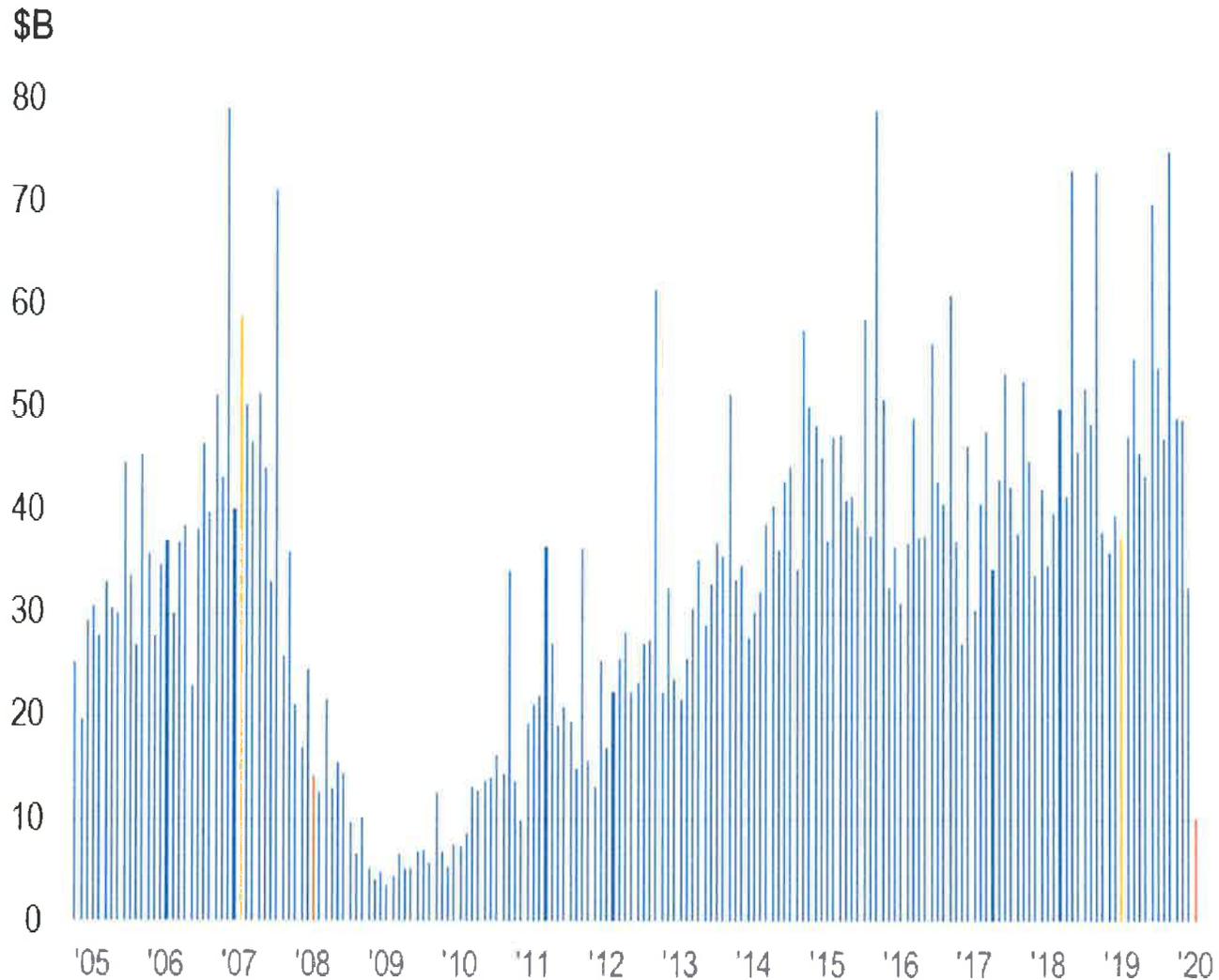
Global deal volume floor of \$10 million

LIMITED ABILITY TO DETERMINE DESIRE LINES



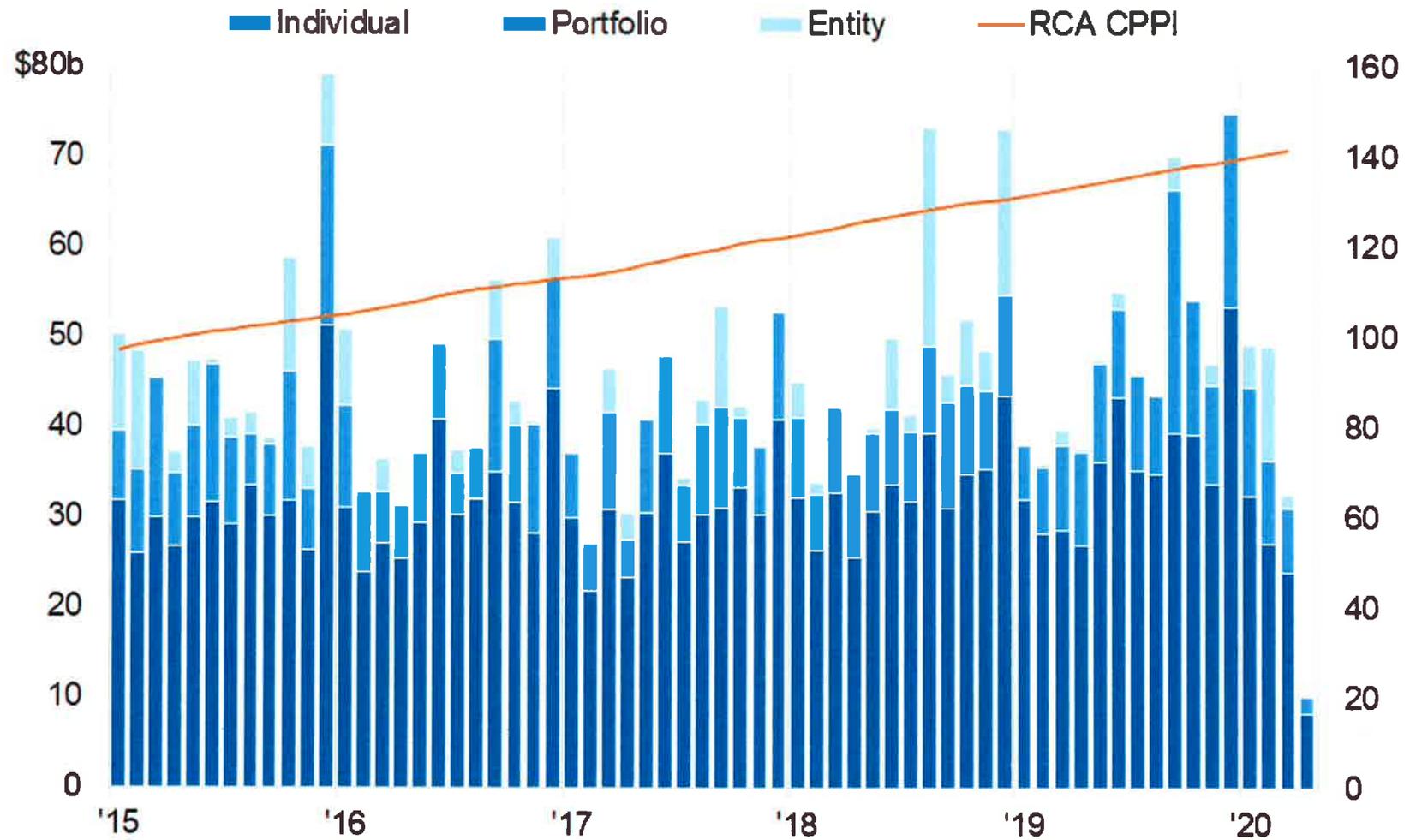
PRELIM APRIL DEAL VOLUME JUST AT \$10B

We got to the worst parts of the GFC only after months of declines.



VOLUME FELL EARLIER IN 2020 FOR SOME DEALS

Activity was already weakening, but weakness was masked by entity level deals.



DEAL ACTIVITY BY PROPERTY TYPE

Every property sector had bad news in April

	Apr '20		YTD	
	Vol (\$b)	YOY	Vol (\$b)	YOY
Office	3.3	-61%	33.2	-10%
Retail	0.8	-86%	13.7	-23%
Industrial	2.1	-64%	35.6	51%
Hotel	0.0	-99%	5.1	-48%
Apartment	3.3	-73%	42.8	-16%
Seniors Housing & Care	0.3	-84%	3.6	-37%
Dev Site	0.4	-77%	6.8	5%
Total	10.2	-73%	140.9	-7%
Major Metros	4.2	-65%	48.9	-12%
Secondary Mkts	5.0	-71%	66.5	-4%
Tertiary Mkts	0.9	-88%	20.7	-21%
Portfolio	2.0	-82%	49.3	38%
Single Asset	8.2	-69%	91.6	-21%

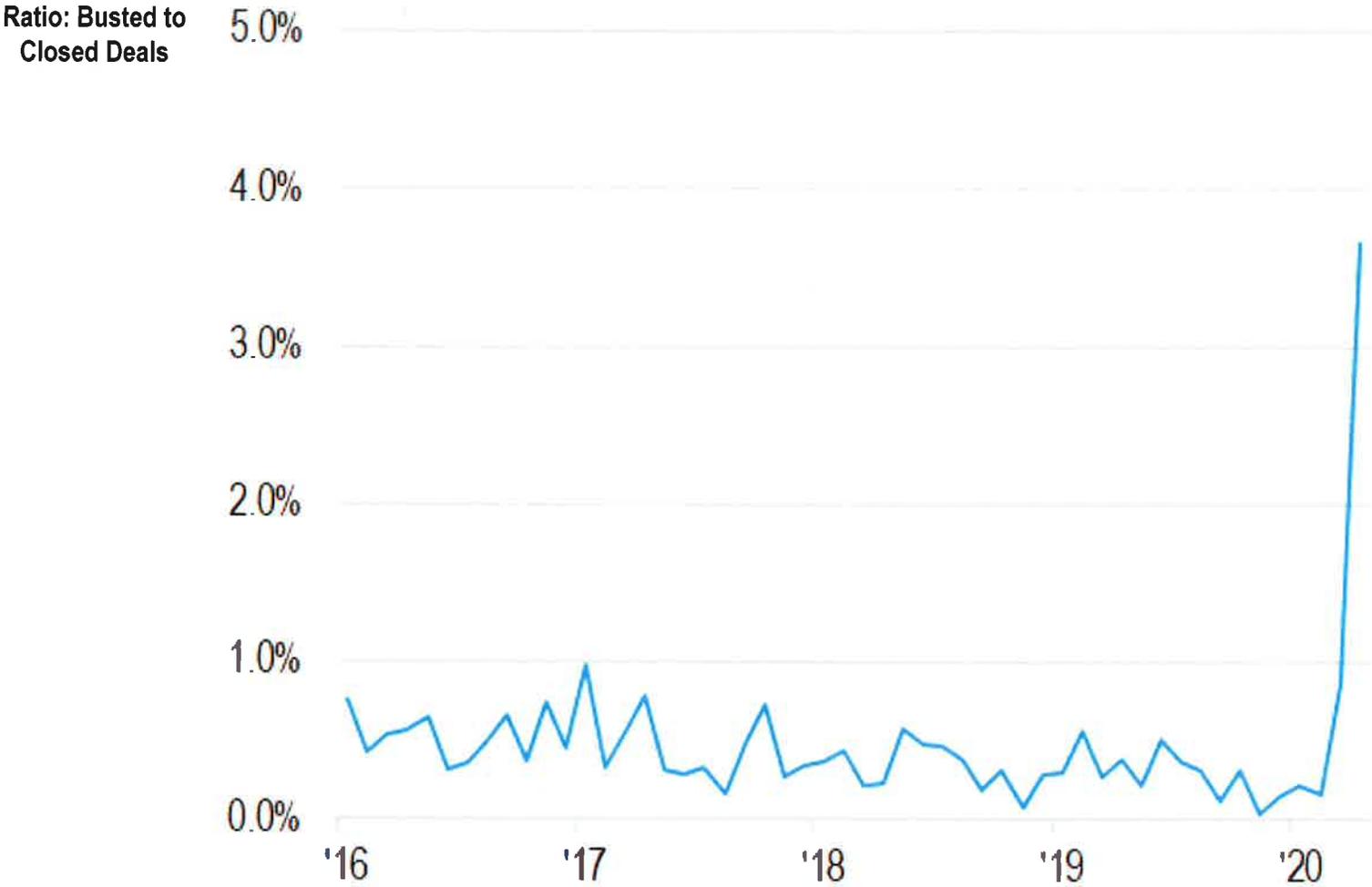
US HOTEL DEALS IN APRIL

Yes, that is all of them. \$28 million in activity vs \$1.9 billion in April of 2019.

	Transaction ▼ Date Prop Type	Property Name Address City, State Postal /Country	Units Year Bldg/Reno #Bldgs /Flrs	Price (\$m) \$/Units Cap Rate
<input type="checkbox"/>	Sale Apr '20 Hotel	La Cienega Motel 1725 S La Cienega Blvd Los Angeles, CA 90035 USA	26 units 1946 1 bldg/1 flr	\$6.7 confm'd \$257,692/unit
<input type="checkbox"/>	Sale Apr '20 Hotel	Amerihost Inn & Suites 3370 Gold Ave Kingdom City, MO 65262 USA	60 units 1989/1996 1 bldg/3 flrs	n/a est
<input type="checkbox"/>	Sale Apr '20 Hotel	SpringHill Suites Houston Hwy 290/NW Cypress 20350 Northwest Fwy Houston, TX 77065 USA	78 units 2016 1 bldg/4 flrs	n/a est
<input type="checkbox"/>	Sale Apr '20 Hotel	La Quinta Summerville 106 Merchant Walk Summersville, WV 26651 USA	104 units 2000/2012 1 bldg/4 flrs	\$4.0 approx \$37,981/unit
<input type="checkbox"/>	Sale Apr '20 Hotel	Quality Suites South 1701 E St Elmo Rd Austin, TX 78744 USA	50 units 1998 1 bldg/3 flrs	n/a est

THE PACE OF BUSTED DEALS UP SHARPLY IN APRIL

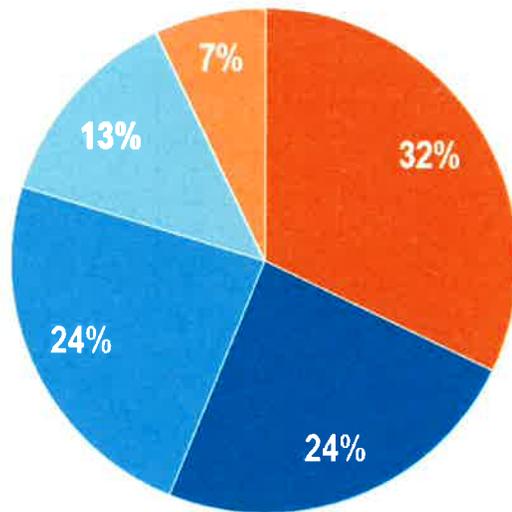
Deals falling out of contract is a sign of investors resetting their price expectations.



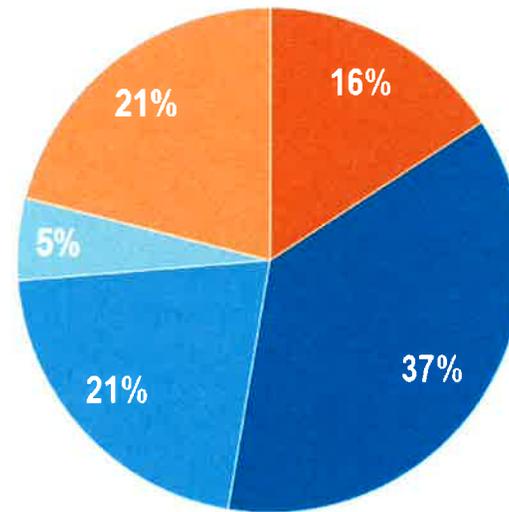
BUSTED DEALS BY PROPERTY SECTOR

Investors are less concerned about industrial challenges. Worried about hotels.

'08'-'11



'20

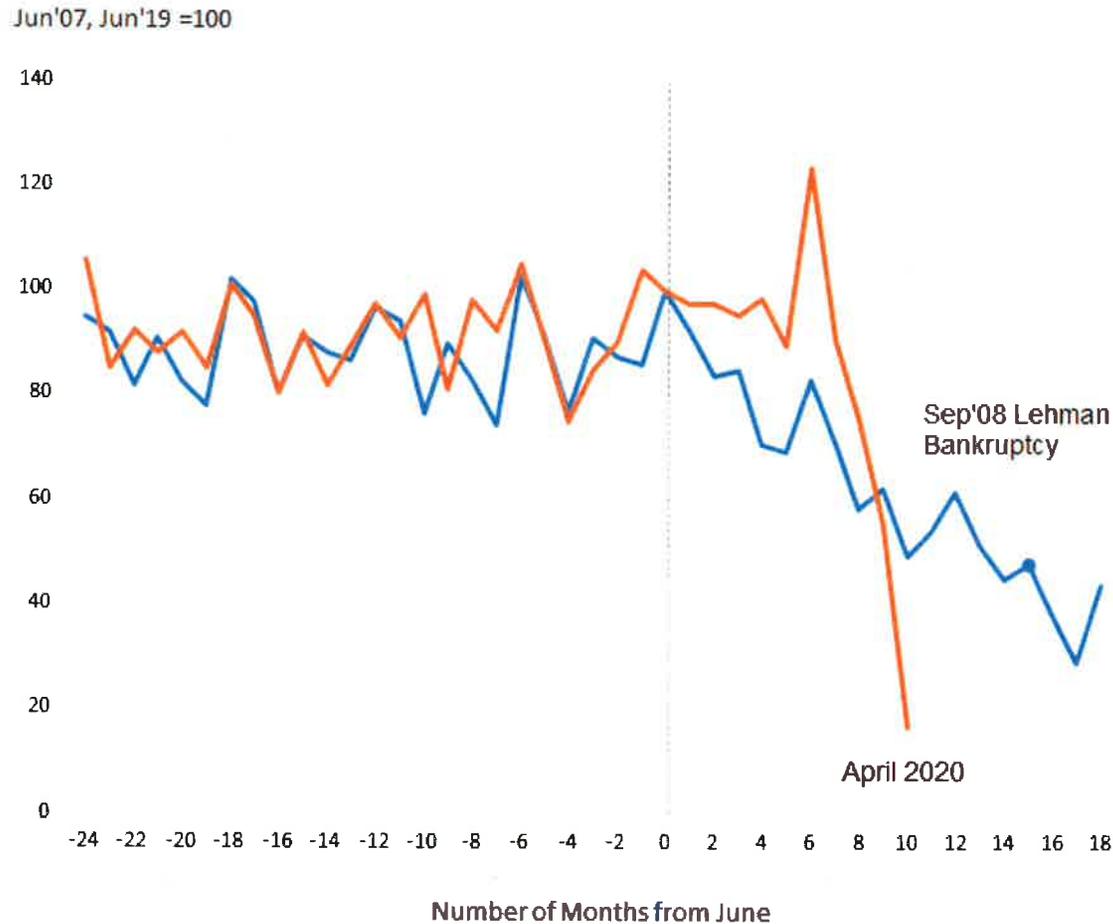


The 2020 share of total is for March and April of 2020 only. Two months of data is a limited picture but it is different than what we saw last time so far.

■ Apartment ■ Office ■ Retail ■ Industrial ■ Hotel

THIS DOWNTURN IS FASTER THAN THE LAST

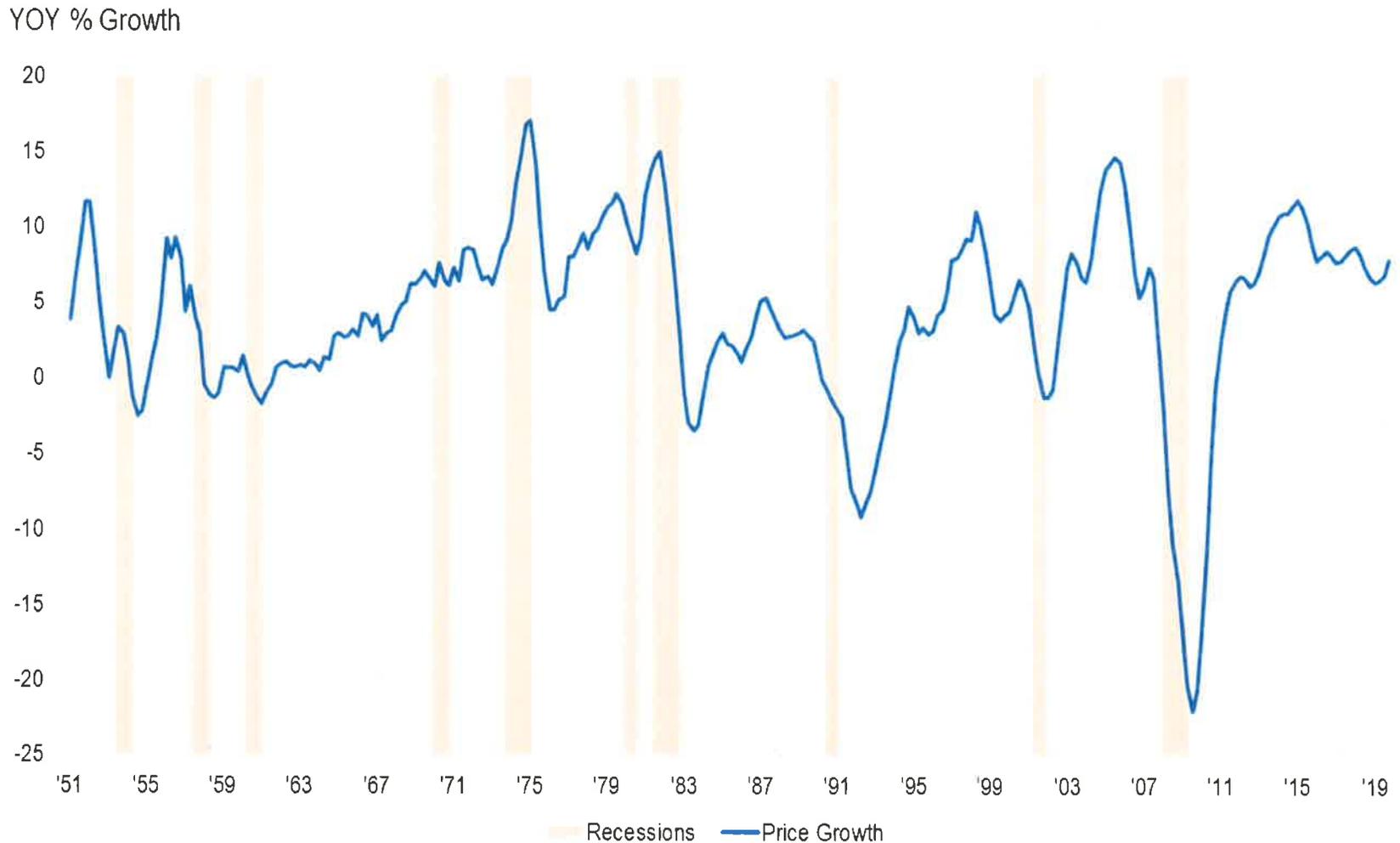
Relative pullback of the number of active buyers in the US faster this time than last.



Trend for unique monthly buyers for office, industrial, retail, apartments, hotels. This data is one of the many series built up into the RCA Liquidity Scores.

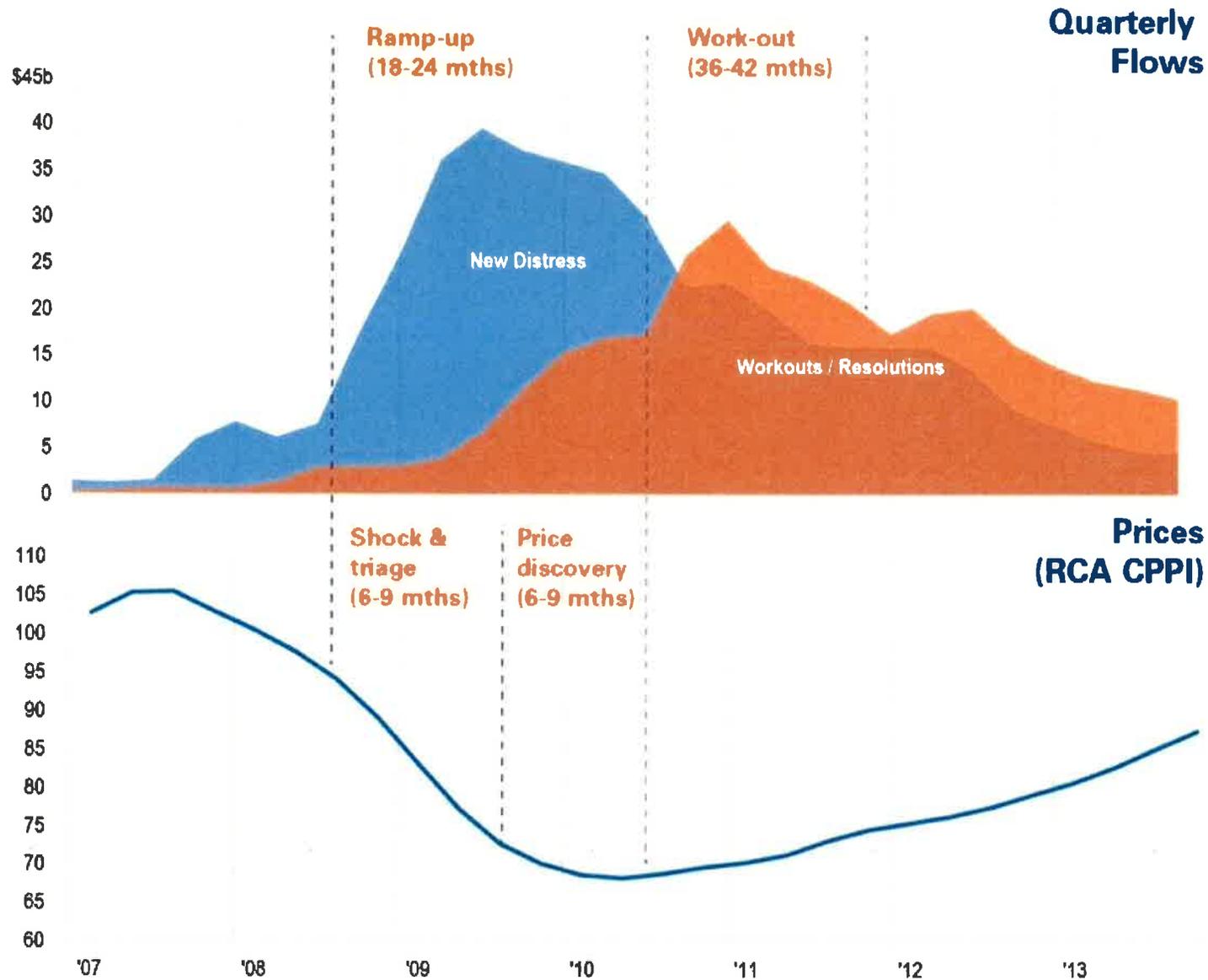
COMMERCIAL PROPERTY PRICES IN RECESSIONS

Prices have not dropped like in the '08-'09 period in every recession.



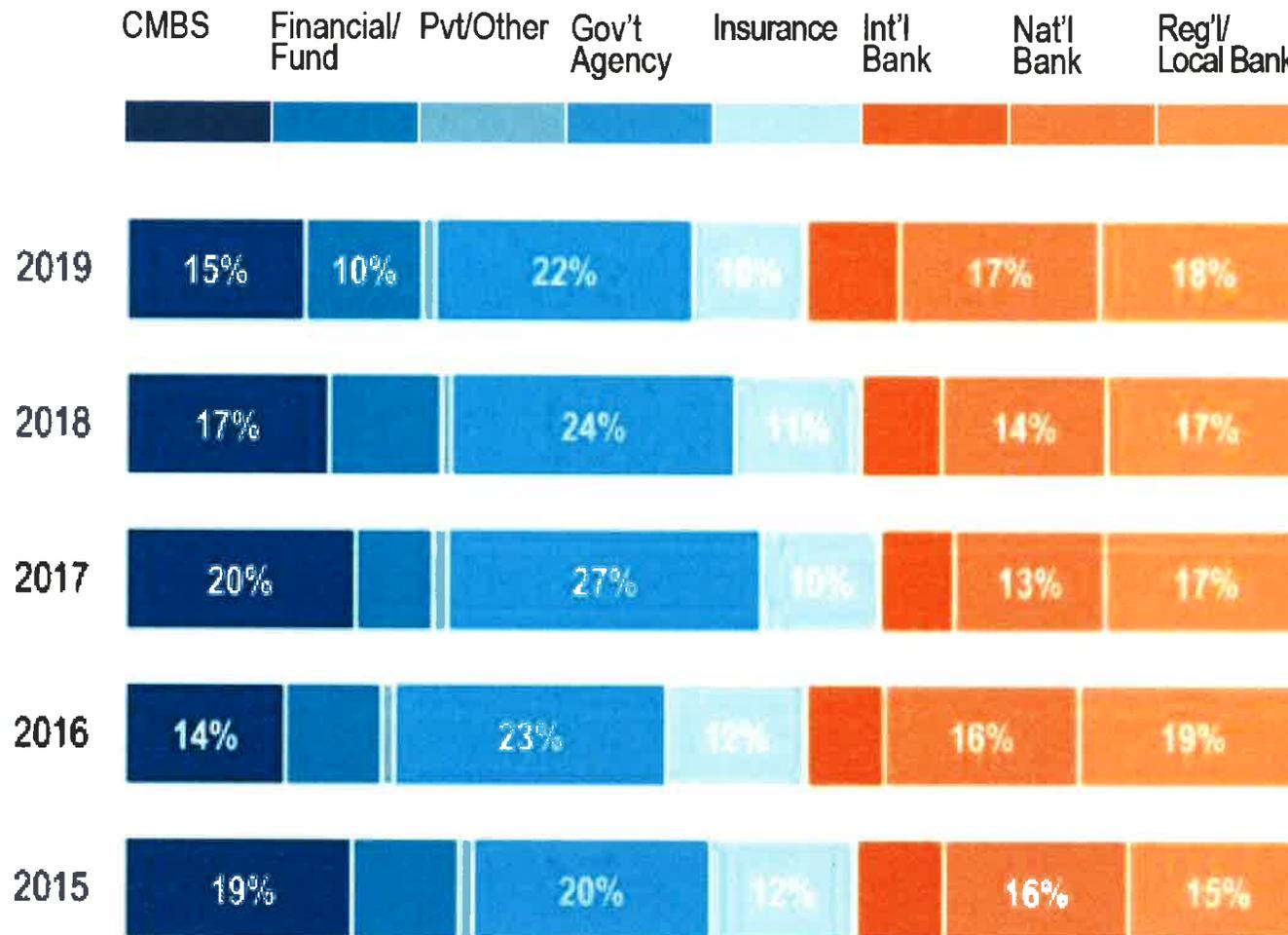
Sources: Real Capital Analytics, NREI, Fed Flow of Funds Database, NBER

A DISTRESS CYCLE IN THE US REAL ESTATE MARKET



THE COMPOSITION OF DEBT IS DIFFERENT

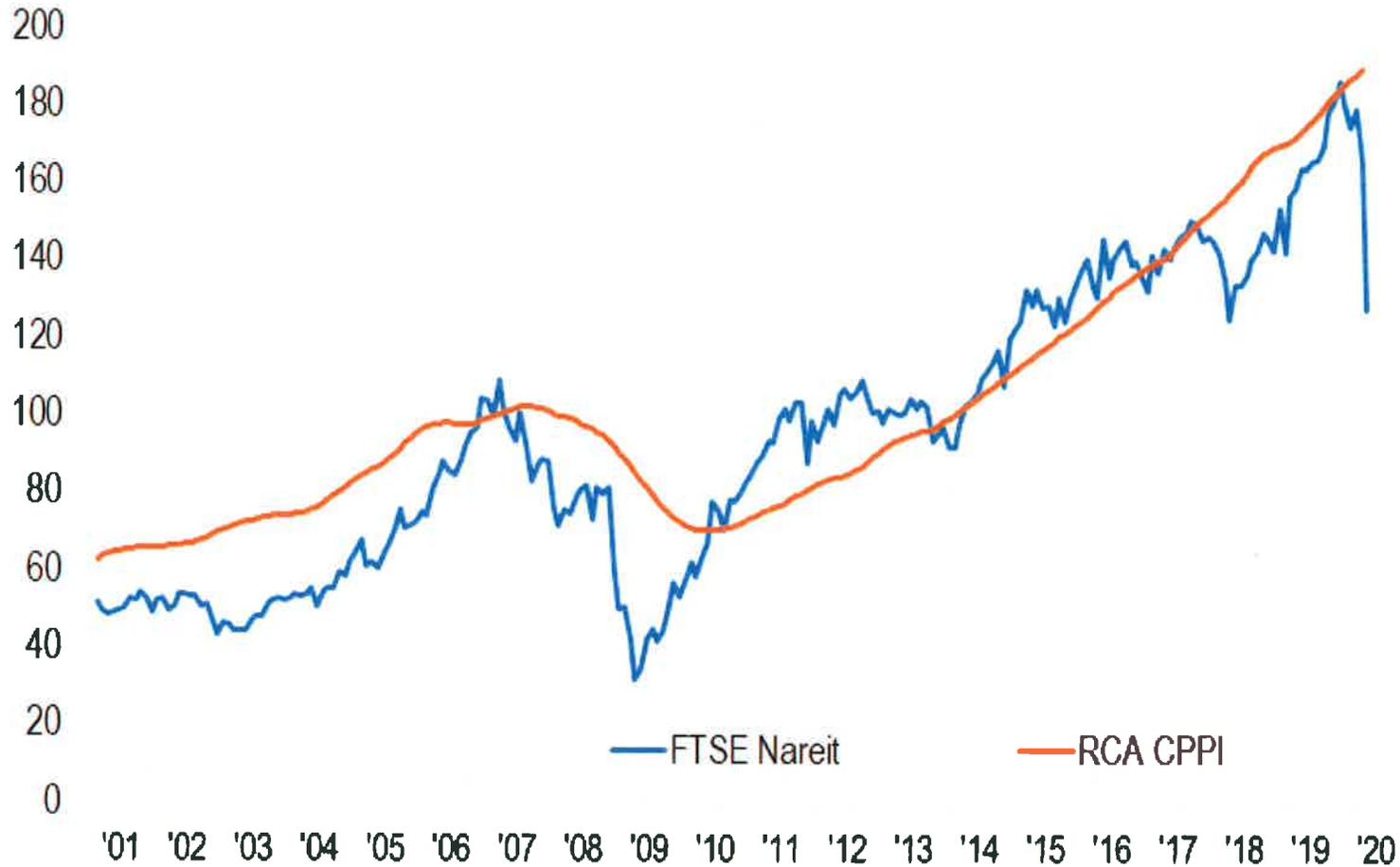
Bank lenders this time have more options to handle distress than CMBS last time.



WILL PROPERTY PRICES FALL AS MUCH AS REITS?

Example here is a comparison for apartment prices.

Dec'06 = 100



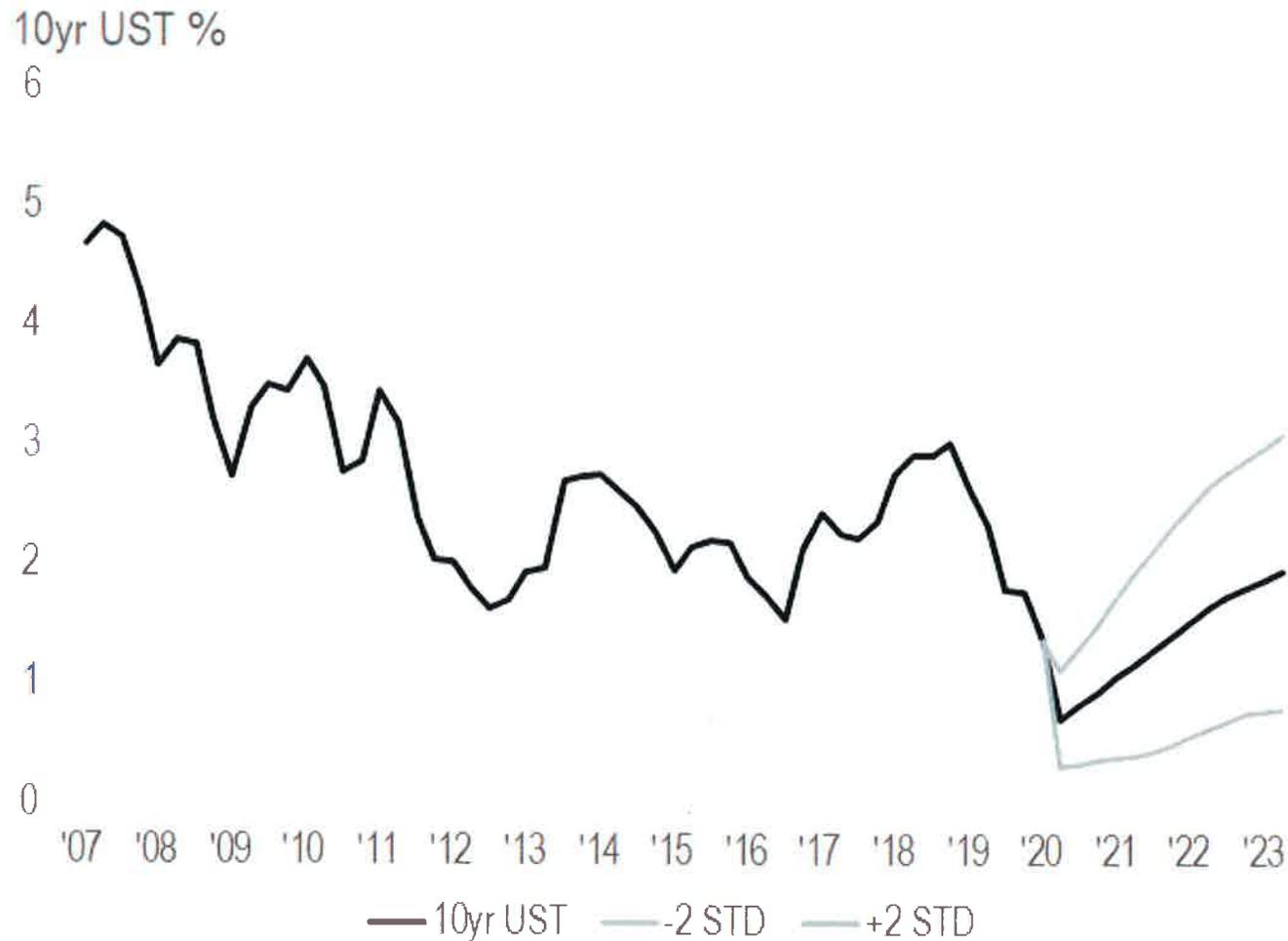
WHAT MUST HAPPEN FOR A 22% DECLINE IN PRICES?

What combination of income and cap rate changes are needed if cap rates start at 5.5%?

		Cap Rate Level								
		5.5	5.7	5.9	6.1	6.3	6.5	6.7	6.9	7.1
Income Change	0%	0%	-4%	-7%	-10%	-13%	-16%	-18%	-21%	-23%
	-2%	-2%	-6%	-9%	-12%	-15%	-17%	-20%	-22%	-24%
	-4%	-4%	-8%	-11%	-14%	-16%	-19%	-21%	-24%	-26%
	-6%	-6%	-10%	-13%	-16%	-18%	-21%	-23%	-25%	-27%
	-8%	-8%	-12%	-15%	-17%	-20%	-22%	-25%	-27%	-29%
	-10%	-10%	-13%	-16%	-19%	-22%	-24%	-26%	-29%	-31%
	-12%	-12%	-15%	-18%	-21%	-23%	-26%	-28%	-30%	-32%
	-14%	-14%	-17%	-20%	-23%	-25%	-27%	-30%	-32%	-34%
	-16%	-16%	-19%	-22%	-25%	-27%	-29%	-31%	-33%	-35%
	-18%	-18%	-21%	-24%	-26%	-29%	-31%	-33%	-35%	-37%
	-20%	-20%	-23%	-26%	-28%	-30%	-33%	-35%	-36%	-38%
	-22%	-22%	-25%	-28%	-30%	-32%	-34%	-36%	-38%	-40%

FIRST READS ON IMPACT OF CRISIS

Even in best case scenarios, interest rates stay low for the next three years.



Sources: Real Capital Analytics, Wall Street Journal Consensus Survey April 2020

INVESTOR RISK PREMIUMS ARE ELEVATED

Even with low interest rates, more investor fear means higher cap rates.

BPS

700

The spread between Moody's BAA Corporate Bond Index and 10yr UST is a broad indicator of investor risk tolerance.

600

500

400

Back down to 340 BPS today but still high.

300

233 BPS Average over time.

200

100

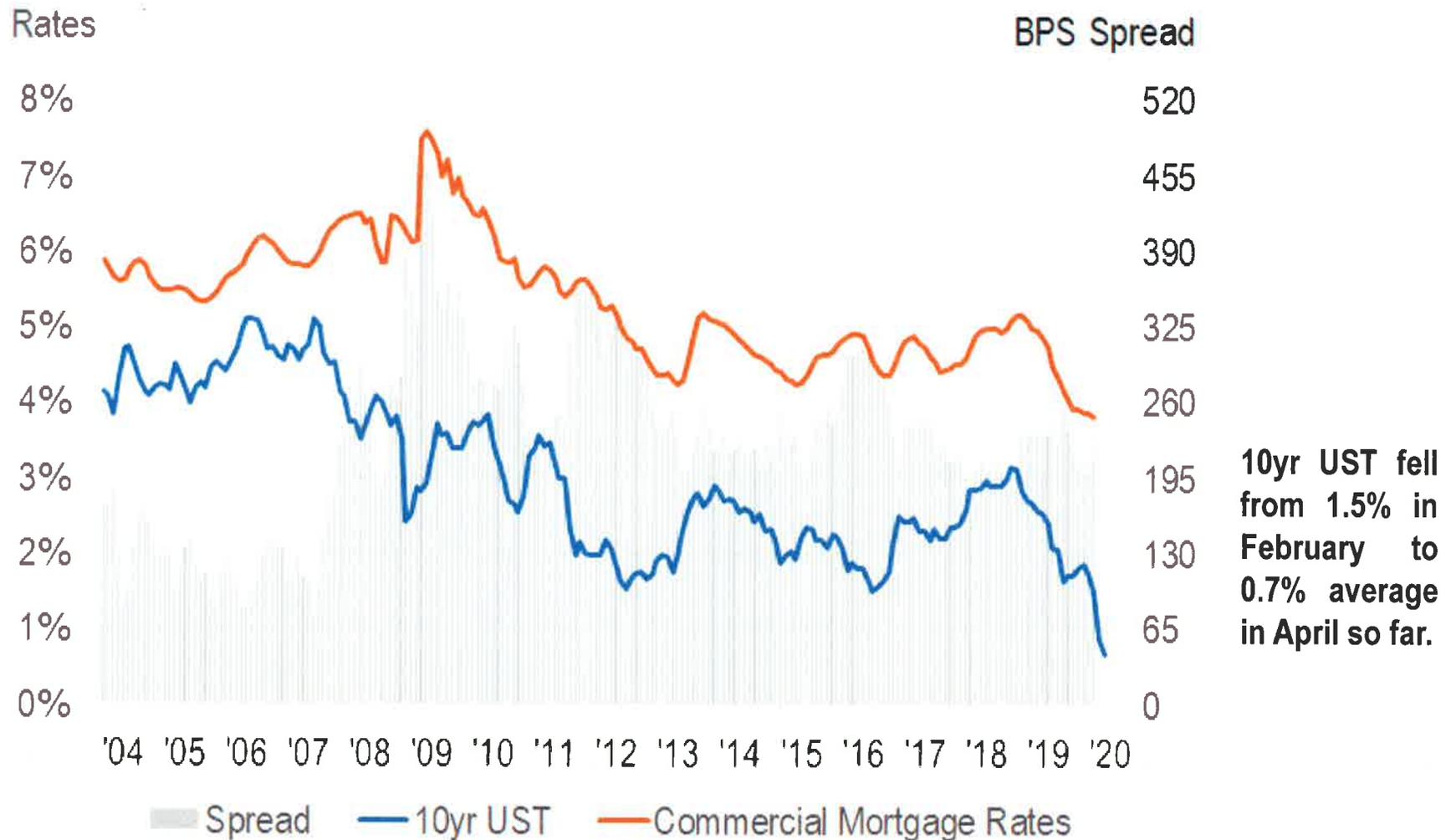
0

'86 '87 '88 '89 '90 '91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13 '14 '15 '16 '17 '18 '19 '20

Sources: Real Capital Analytics, Moody's Investors Service, Federal Reserve Bank updated through May12, 2020

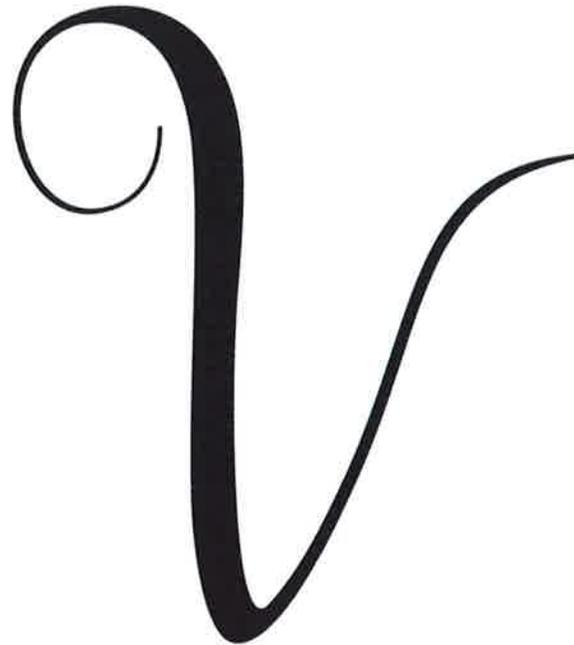
MORTGAGE RATES HIT A FLOOR BEFORE THE CRISIS

Cap rates were rising before the crisis. COVID crisis will pile on the hurt.



A V-SHAPED RECOVERY

But a cursive V.



CAP RATE LEVELS IN Q1'20 ... PRE CRISIS

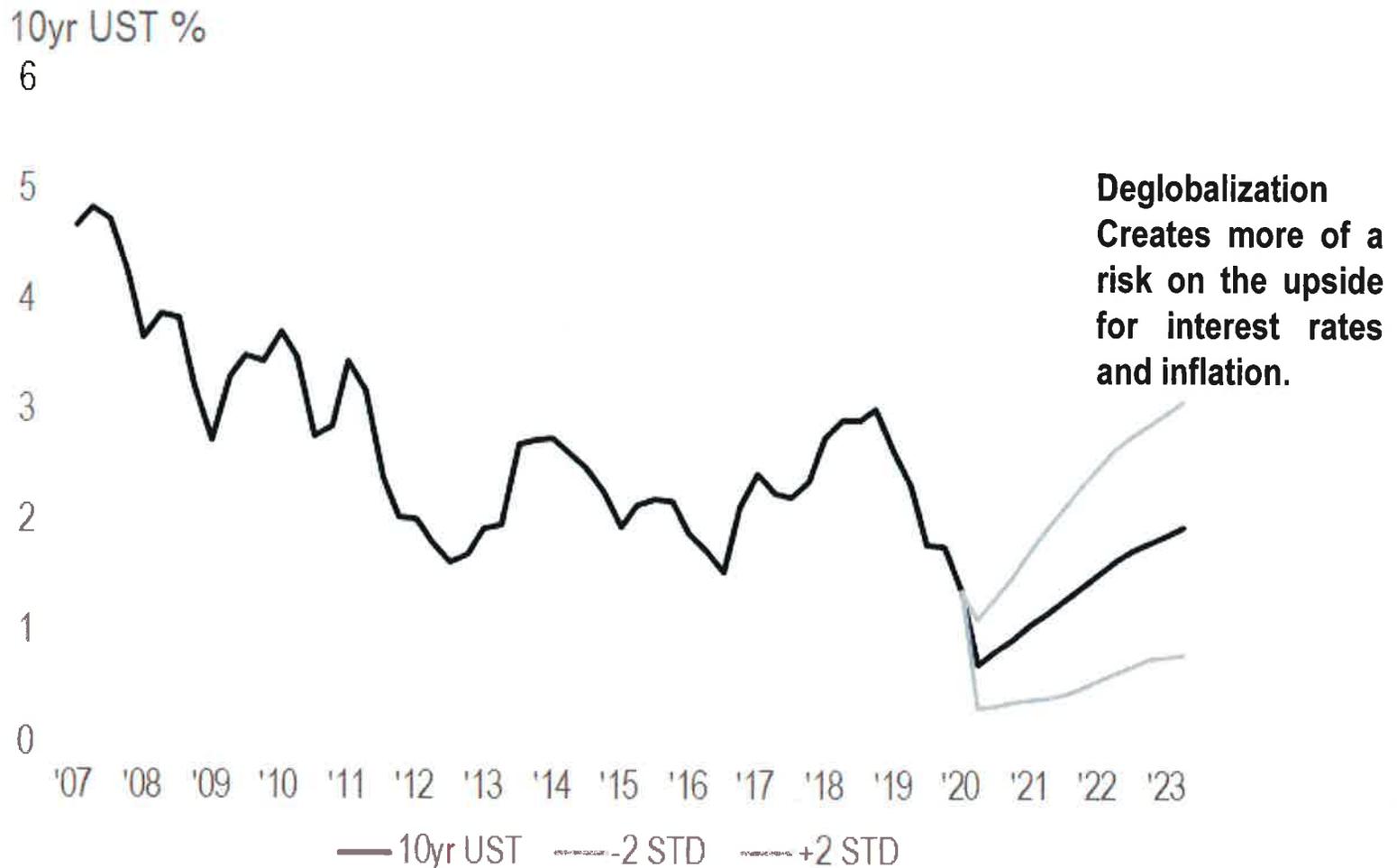
Not everything was priced at the same extremes.

		Q1'20	Long Run	BPS Spread
Office	Office - CBD	5.6%	6.6%	-100
	Office - Sub	6.8%	7.7%	-88
Industrial	Flex	6.7%	7.7%	-104
	Warehouse	6.1%	7.5%	-143
Retail	Shops	6.2%	6.8%	-64
	Centers	7.1%	7.7%	-60
Apartment	Garden	5.5%	6.5%	-100
	Mid/Highrise	4.9%	5.7%	-80
Hotel	Full-Service	7.2%	7.6%	-44
	Limited Service	9.2%	9.2%	-3
Seniors Housing & Nursing Care		7.0%	8.2%	-121

Real Capital Analytics Hedonic Series

FIRST READS ON IMPACT OF CRISIS

Even in best case scenarios, interest rates stay low for the next three years.



Sources: Real Capital Analytics, Wall Street Journal Consensus Survey April 2020

WHAT HAPPENS NEXT?

Big Topics Being Discussed by Investors

1. How many retail properties will die?
2. Will people leave cities?
3. Is office space doomed?

WHAT HAPPENS NEXT?

Big Topics Being Discussed by Investors

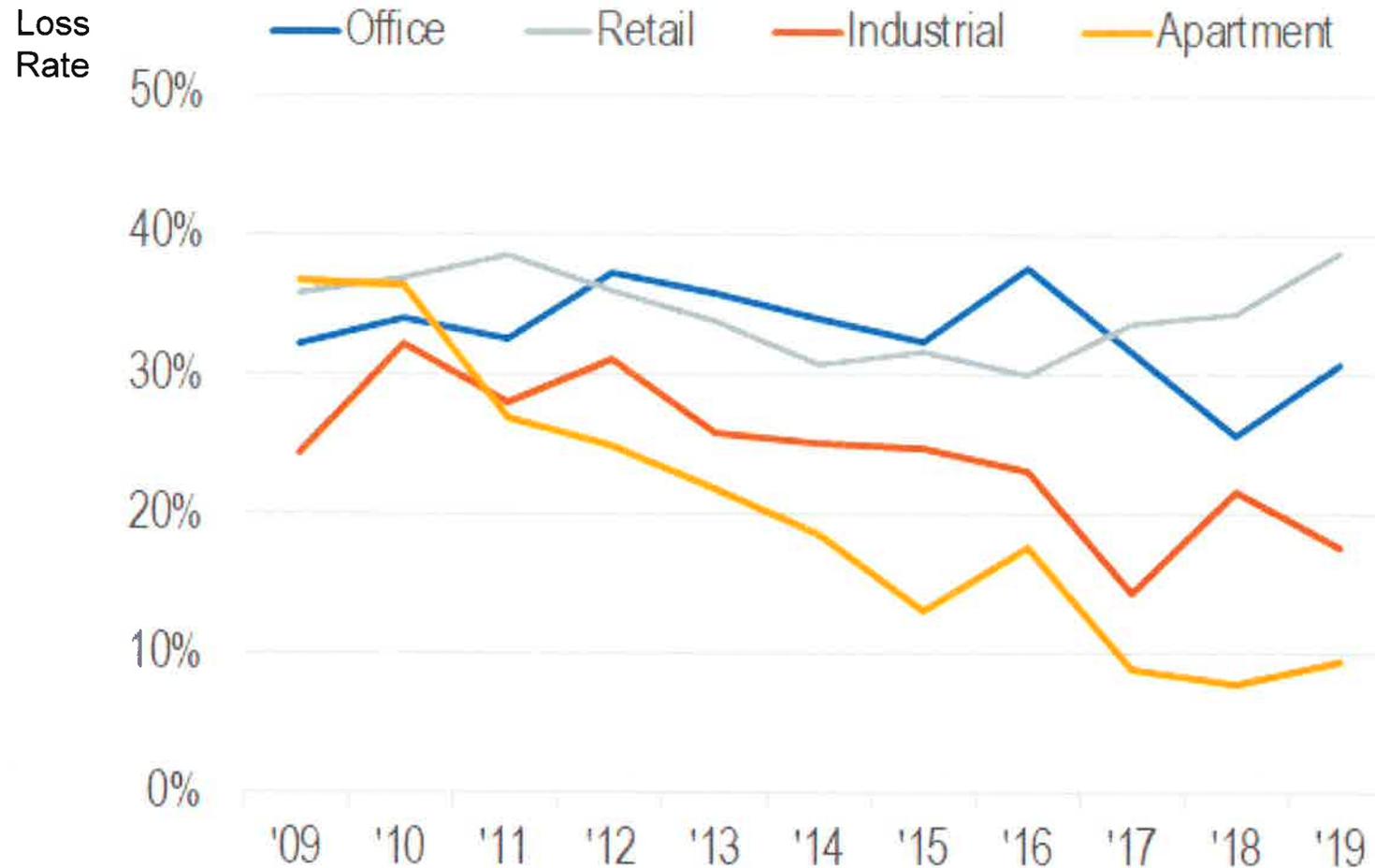
1. How many retail properties will die?
2. Will people leave cities?
3. Is office space doomed?

People were afraid of office towers after 9/11 for a time but not in the last 17 years...

Don't make long term decisions driven by short term fears.

US LOAN LOSS RATES HEADING INTO THE CRISIS

Distress will be coming ... but the nature and location will vary in this cycle.





Thank You!

Jim Costello

 @JimCostelloCRE

rcanalytics.com