

EXPECTATIONS & MARKET REALITIES IN REAL ESTATE 2021

FINDING ALPHA

Identifying Opportunities in a Changing Landscape



Expectations & Market Realities in Real Estate 2021

FINDING ALPHA

© 2021

Deloitte Development LLC

© 2021

NATIONAL ASSOCIATION OF REALTORS®

© 2021

RERC

© 2021

SitusAMC

All Rights Reserved.

No part of this publication may be reproduced in any form electronically, by xerography, microfilm, or otherwise, or incorporated into any database or information retrieval system, without the written permission of the copyright owners.

Expectations & Market Realities in Real Estate 2021 is published by:

Deloitte Development LLC

111 S. Wacker Drive
Chicago, IL 60606

NATIONAL ASSOCIATION OF REALTORS®

430 N. Michigan Ave.
Chicago, IL 60611

RERC

1075 Jordan Creek Pkwy
Suite 240
West Des Moines, IA 50266

SitusAMC

150 East 52nd St.
Suite 4002
New York, NY 10022

Disclaimer: This report is designed to provide general information in regard to the subject matter covered. It is sold with the understanding that the authors of this report are not engaged in rendering legal or accounting services. This report does not constitute an offer to sell or a solicitation of an offer to buy any securities, and the authors of this report advise that no statement in this report is to be construed as a recommendation to make any real estate investment or to buy or sell any security or as investment advice. The examples contained in the report are intended for use as background on the real estate industry as a whole, not as support for any particular real estate investment or security. Neither Deloitte, NATIONAL ASSOCIATION OF REALTORS®, SitusAMC, RERC, nor any of their respective directors, officers, and employees warrant as to the accuracy of or assume any liability for the information contained herein.

TABLE OF CONTENTS

CHAPTER 1: INTRODUCTION

Finding Alpha 2
 Reconsidering the Alternative Investments 2
 Taking a Look Back: 2020 Deloitte Dbriefs Poll Results 4

CHAPTER 2: THE ECONOMY

Economy Recovers in Second Half, But Output Is Still Below Pre-Pandemic Level..... 10
 Consumers Are Spending on Goods, but Holding Off on Services..... 11
 12.5 Million Jobs Recovered, but Nearly 10 Million More Remain Out of Work 12
 Federal Support Helps Limit Business Closures 13

CHAPTER 3: RESIDENTIAL REAL ESTATE

The Residential Real Estate Market 16
 FHA Working to Keep Homeowners in their Homes..... 17
 Technology and Compliance in The Residential Mortgage Industry 17

CHAPTER 4: THE CAPITAL MARKETS

Financial and Capital Markets Overview 22
 CRE Compared to the Alternatives 23
 Availability and Discipline of Capital 24
 CRE Debt Markets 24
 CRE Equity Markets 26

CHAPTER 5: THE PROPERTY MARKETS

The Office Market 32
 The Industrial Market 35
 The Retail Market 38
 The Apartment Market..... 42
 The Hotel Market..... 44

CHAPTER 6: OUTLOOK

Economic Outlook 50
 Residential Real Estate Outlook 50
 Capital Markets Outlook 52
 CRE Market Outlook 53
 Property Type Outlooks 56
 RERC Total Return Forecast..... 60
 Conclusion..... 61

Sponsoring Firms 63
 RERC 63
 NATIONAL ASSOCIATION OF REALTORS® 64
 Deloitte..... 65



ABOUT OUR CONTRIBUTORS

RERC AND SITUSAMC

RERC and SitusAMC are partnered together to provide the commercial real estate industry's most comprehensive valuation advisory services. With the deepest bench of senior-level professionals, the industry's most reliable data set and best-in-class technology solutions, we provide our clients the third-party, objective insights they need to understand the value of their assets and deliver on their business goals. RERC is headquartered in West Des Moines, Iowa, and SitusAMC is headquartered in New York, NY. The firms have offices across the U.S., Europe and APAC.

SitusAMC (www.situsamc.com) is the leading provider of consulting, strategic outsourcing, talent and technology solutions for institutional lenders and investors across both the commercial and residential real estate debt and equity life cycle. SitusAMC offers consulting and advisory services, underwriting and due diligence, servicing and asset management, claims management, valuations, MSR and whole loan brokerage, talent solutions, and technology solutions including warehouse management, conduit management, collateral management, document management, OCR, indexing, data extraction, portfolio management and remittance reconciliation among others.

NATIONAL ASSOCIATION OF REALTORS®

The NATIONAL ASSOCIATION OF REALTORS® is America's largest trade association, representing more than 1.4 million members involved in all aspects of the residential and commercial real estate industries. NAR membership includes brokers, salespeople, property managers, appraisers, counselors and others. The term REALTOR® is a registered collective membership mark that identifies a real estate professional who is a member of the NATIONAL ASSOCIATION OF REALTORS® and subscribes to its strict Code of Ethics. Working for America's property owners, the NAR provides a facility for professional development, research and exchange of information among its members and to the public and government for the purpose of preserving the free enterprise system and the right to own real property.

DELOITTE

The steady erosion of trust in financial institutions and across civic society – compounded by the COVID-19 pandemic – has created the opportunity for profound and meaningful change in the coming decade. Deloitte's Financial Services industry practice—and its Real Estate practice in particular—is rising to the challenge and working with our clients to help the industry in shaping its future—helping it set **A higher bottom line**. We embrace the idea that the bottom line is no longer just a sum total of earnings and losses, but a more human-centered form of capitalism that prizes people as much as profit.

Deloitte is a recognized leader in providing audit, tax, consulting, and risk and financial advisory services to the real estate industry. Our clients include top real estate investment trusts (REITs), private equity investors, developers, property managers, lenders, brokerage firms, investment managers, pension funds, leading homebuilding companies, and those that occupy real estate. Deloitte's Real Estate practice provides an integrated approach to assisting clients to enhance their property, portfolio, and enterprise value. We customize our services in ways to fit the specific needs of each player in a real estate transaction, from owners to investment advisors and from property management and leasing operators to insurance companies. Our multidisciplinary approach allows us to provide regional, national, and global services to our clients. Our real estate practice is recognized for bringing together teams with diverse experience and knowledge to provide customized solutions for clients. Deloitte's US real estate group comprises more than 1,400 professionals assisting real estate clients out of offices in 50 cities. Globally, the real estate practice includes over 7,000 professionals located in more than 50 countries throughout the Deloitte Touche Tohmatsu Limited network of member firms.

*Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. In the United States, Deloitte refers to one or more of the U.S. member firms of DTTL, their related entities that operate using the "Deloitte" name in the United States and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see www.deloitte.com/about to learn more about our global network of member firms.

FOREWORD

Dear Readers,

Expectations & Market Realities in Real Estate is now in its 18th year of publication. Over the years, we have experienced highs and lows in the real estate market. We saw the devastating economic impact of the Global Financial Crisis (GFC) and the record-long recovery that followed. One year ago, we thought that we were approaching the peak of the market with the lowest imaginable interest rates.

Then, a few weeks after we published our annual report, a world-wide pandemic shut down the economy. The investment environment changed drastically and remains volatile even as widespread distribution of vaccines gives us hope for a return to normalcy. In this dramatically different environment, investors are looking to **find alpha**, the excess returns on an investment relative to benchmark returns.

While the industrial sector generally thrived during the pandemic, due to soaring e-commerce sales, and multifamily held steady, thanks in part to eviction moratoriums and federal stimulus checks, many retailers and hotel chains were crushed by the pandemic, and the office sector remains a question mark because so many people are still working from home. We expect investors to **find alpha** within the specialized commercial real estate (CRE) sectors, such as self-storage, data centers, land and single-family rentals.

The Fed has vowed to keep interest rates historically low for the foreseeable future and provided much-needed liquidity to keep the economy afloat during the darkest, earliest days of the pandemic. This helped the stock market recover from its historic plunge last spring. But despite the recent increase in Treasury rates, they still remain at historic lows. Overall, CRE appears poised to be the best alternative in 2021, especially for those who prioritize risk assessment and navigation and critically examine property fundamentals before making their investment decisions.

RERC, a SitusAMC company, the NATIONAL ASSOCIATION OF REALTORS® and Deloitte would like to extend our gratitude to all who contributed to this report. This includes the data providers, survey respondents, economists, researchers and analysts, and reviewers and business colleagues, without whom this report would not have been possible. We also would like to thank our clients and subscribers for their continued support of this annual publication.



Matthew G. Kimmel, CRE, FRICS, MAI
Principal

Global & U.S. Real Estate Advisory Leader
Deloitte Transactions and Business Analytics LLP




Lawrence Yun, Ph.D.
Chief Economist & Sr. Vice President
NATIONAL ASSOCIATION OF REALTORS®




Kenneth P. Riggs, Jr., CFA, CRE, MAI, FRICS, CCIM
Vice Chairman
RERC



ACKNOWLEDGMENTS

SPONSORING FIRMS & CHAIRS

Matthew G. Kimmel, CRE, FRICS, MAI

Principal
Global & U.S. Real Estate Advisory Leader
Deloitte Transactions and Business Analytics LLP

Lawrence Yun, Ph.D.

Chief Economist and Senior Vice President of Research
NATIONAL ASSOCIATION OF REALTORS®

Kenneth P. Riggs, Jr., CFA, CRE, MAI, FRICS, CCIM

Vice Chairman
RERC

LEAD CONTRIBUTORS

Jodi Airhart

Senior Vice President
RERC

Scholastica (Gay) Cororaton

Senior Economist and Director of Housing and Commercial Research
NATIONAL ASSOCIATION OF REALTORS®

Todd J. Dunlap, MAI, MRICS

Senior Manager
Deloitte Transactions and Business Analytics LLP

Brandon Hardin

Research Economist
NATIONAL ASSOCIATION OF REALTORS®

Kenneth W. Kapecki, CRE, FRICS, MAI

Managing Director
Deloitte Transactions and Business Analytics LLP

Jen Rasmussen, Ph.D.

Vice President
RERC

ASSOCIATES

Drew Cummins

Senior Consultant
Deloitte Transactions and Business Analytics LLP

Nellie Desai

Senior Consultant
Deloitte Transactions and Business Analytics LLP

Charles Ellis

Associate
RERC

Nick Gibbs, MAI

Manager
Deloitte Transactions and Business Analytics LLP

Surabhi Kejriwal

Research Leader, Real Estate
Deloitte Support Services India Pvt. Ltd.

Nick LeVeque

Manager
Deloitte Transactions and Business Analytics LLP

Saurabh Mahajan

Manager, Real Estate
Deloitte Support Services India Pvt. Ltd.

Madison Martin

Graphic Designer
RERC

Luke Miller

Analyst
RERC

Alec Roth

Associate
RERC



CHAPTER 1: INTRODUCTION

INTRODUCTION

FINDING ALPHA – IDENTIFYING OPPORTUNITIES IN A CHANGING LANDSCAPE

As the nation’s and world’s economies start to emerge from the deadly pandemic amid historically low interest rates, investors are leaving no stone unturned in their quest for higher returns. The search for “alpha” is intensifying amid the surge of capital pumped into the markets by the Federal Reserve’s (Fed’s) aggressive monetary policies and the government’s fiscal stimulus.

Investopedia¹ defines alpha, as used in the finance industry, as, “... a measure of performance, indicating when a strategy, trader, or portfolio manager has managed to beat the market return over some period.”

Alpha is essentially the performance of an active management strategy over and above the performance of the market as a whole as measured by an index fund or other benchmark; it represents the value that a portfolio manager adds (or subtracts) from a fund’s return that is not a result of the general movement of the market, according to Investopedia². Finding alpha means identifying the opportunities that will provide higher returns for the same amount of risk.

How do we find alpha in the real estate sector? It involves identifying the opportunities that others may have not considered. It’s about not thinking like everyone else. Alpha can be found as investors commit capital to a broadening array of value-add and opportunistic strategies that reflect an appetite for higher total returns than those expected from core, traditional properties. In particular, the industry should rethink the products in which it is directing capital, those beyond the “four main food groups” that have heretofore not been strongly considered by the private marketplace. These include data centers, single-family rentals, life sciences and cold storage facilities.

Other strategies can include redeveloping or repurposing existing buildings, upgrading amenities or instituting more efficient operational policies and procedures. Savvy investors are scooping up distressed hotels

at a steep discount and transforming them into in-demand apartments in a cost-effective way. In addition, the historically ultra-low interest rates are providing positive leverage opportunities.

The proliferation of diverse real estate funds, including Real Estate Investment Trusts (REITs), has made access to a broader universe of such real estate strategies much more feasible. However, as the spectrum of CRE investment opportunities has increased, so has the spectrum of risk to which investors are exposed.

Success in moving up the risk spectrum in search of real estate alpha will require even greater investor emphasis on careful risk assessment and navigation. Prior to the pandemic-induced recession, capitalization (cap) rate compression often masked any underlying strategy execution missteps at the property level. This is why critical examination of property fundamentals, in addition to rooting out the new opportunities, can allow us to find alpha.

Alpha often takes longer to reveal itself in the CRE market than the alternatives because it is typically a long-term investment strategy. Still, we find that CRE returns are often more favorable on a risk-adjusted basis than the alternatives – no small feat in this era of global political and economic uncertainty amid rapidly changing technological, demographic and societal changes.

RECONSIDERING THE ALTERNATIVE INVESTMENTS

This past year has amplified the existing bifurcation in the CRE market, with some property types thriving and others really struggling in this COVID-19 environment. As COVID-19 begins to dissipate, finding alpha will largely be identifying which property types and markets present the greatest opportunities for investors, recognizing that some of the changes brought upon by COVID-19 may be here to stay.

The private market can certainly take a page from the public market. Major institutional

capital sources need to think creatively about what CRE investment can be. Instead of being limited to the core property types, investors are now looking into single-family housing, infrastructure and data centers, to name just a few.

SELF-STORAGE, MEDICAL OFFICE, DATA CENTERS AND INFRASTRUCTURE

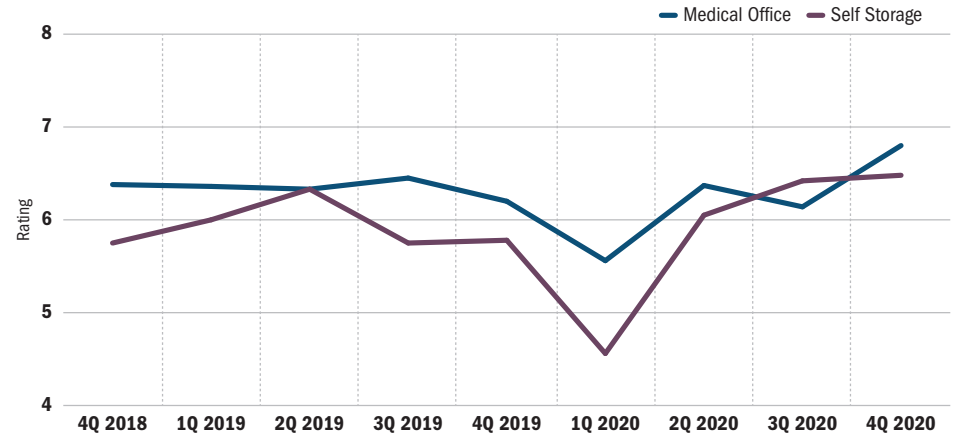
RERC³ data certainly suggest opportunities in alternative property types. Each quarter, RERC surveys institutional investors. Over the past two years, RERC has asked respondents about investment conditions in some of the alternative property types. Ratings are on a scale of 1 to 10, with 10 being excellent. While investor skittishness caused the ratings to drop at the beginning of the pandemic, investment conditions for self storage and medical office have since surpassed pre-pandemic highs and are commensurate with investment conditions in apartment, still a favorite among investors (see Exhibit 1-A). RERC began asking about data center investment conditions in 2Q 2020. Over the past three quarters, ratings for this alternative property types has surpassed all core property types, including the overall industrial sector (see Exhibit 1-B).

Since 4Q 2017, RERC⁴ has also asked institutional investors about how private infrastructure investment change over the upcoming year. About half of respondents said that private infrastructure investment would increase in 2021, while less than 20% thought that it would decrease (see Exhibit 1-C).

LAND

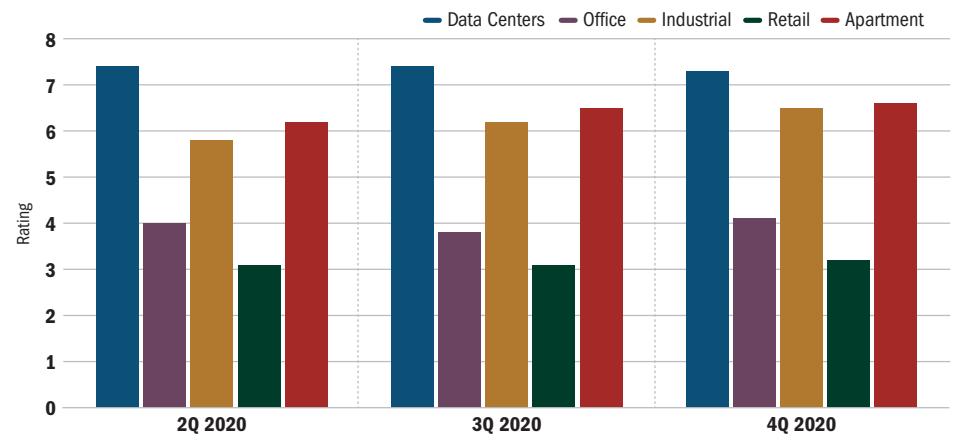
In the National Association of REALTORS[®] (NAR) Commercial Real Estate Quarterly Market Survey⁵, REALTORS[®] reported that their sales transactions volume in 4Q 2020 contracted on average by 2% YOY. Among the 12 property types that NAR tracks, only two – land and industrial warehouse – posted an increase in sales volume. The largest increase in sales acquisitions was for land, with sales volume up by 3% YOY. Among land transactions, the largest gains were in sales of recreational land (e.g., for camping), ranches and residential land (see Exhibit 1-D). This could be related to increased interest for land outside urban centers in the wake of the COVID-19 pandemic. REALTORS[®] reported higher prices for all types of land, with the largest

EXHIBIT 1-A. INVESTMENT CONDITIONS



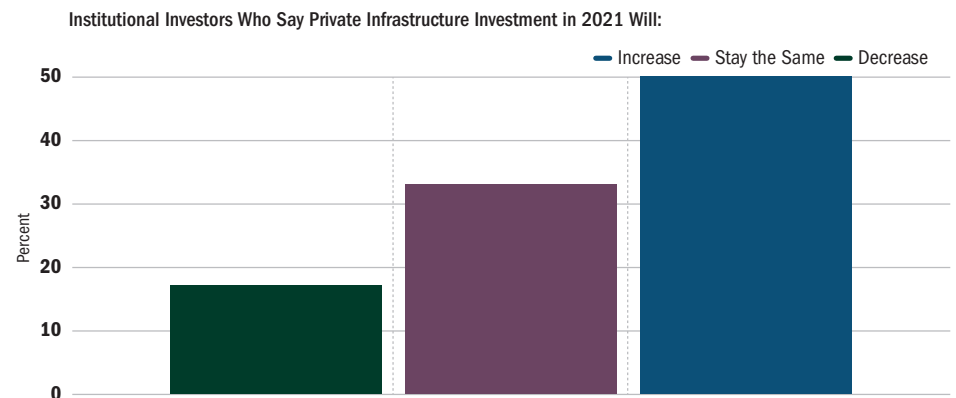
Ratings are based on a scale of 1 to 10, with 10 being excellent. Source RERC, 4Q 2020.

EXHIBIT 1-B. DATA CENTERS VS. CORE PROPERTY TYPES



Ratings are based on a scale of 1 to 10, with 10 being excellent. Source RERC, 4Q 2020.

EXHIBIT 1-C. INFRASTRUCTURE INVESTMENT OUTLOOK



Source RERC, 4Q 2020.

price increase in ranch land, industrial land and residential land, an indication of the strong demand for land outside urban areas since the COVID-19 pandemic (see Exhibit 1-E).

SINGLE-FAMILY RENTALS

Since the Global Financial Crisis (GFC), large investors have gotten into single-family homes in a big way. The pandemic has accelerated this trend, as more people opt to rent single-family homes. As reported by Walker & Dunlop, the single-family rental (SFR) market was estimated at \$3.4 trillion⁶ and growth is expected to outpace all major property types within the next few years. The build-to-rent strategy is growing in popularity too, making up as much as 10% of new homes built.

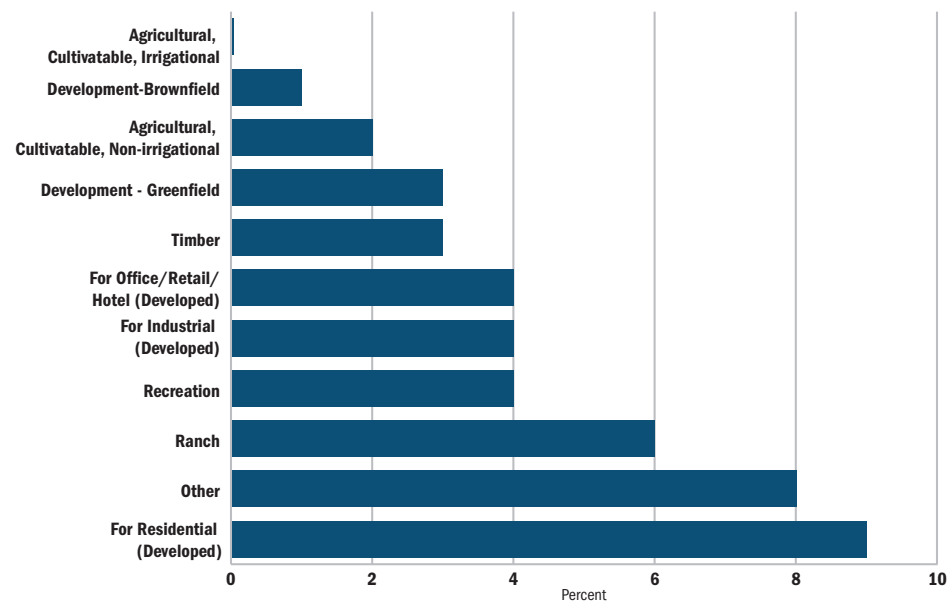
In 2009, SFRs were identified as a new institutional asset class, and by 2012 many institutional investors had become publicly traded REITs following initial public offerings of common stock; by 2019, these firms' portfolios included more than 200,000 homes worth a total of over \$30 billion⁷.

As the pandemic hit, many people who started working (or schooling) from home decided they needed more space and amenities but didn't want to make a long-term commitment to the property (i.e., renter by choice). In addition, a growing number wanted to live in single-family homes but couldn't afford a down payment (i.e., renter by need). In light of these trends, we can expect the number of people renting single-family homes to keep rising – even as the economy bounces back.

Investors have been able to find alpha by relying on market density to ensure efficiency in leasing agents, maintenance crews and contractors, and combined holdings can make the financing cheaper, according to The Wall Street Journal.⁸ Big companies such as Invitation Homes Inc. and American Homes 4 Rent, which already own thousands of single-family homes, have capitalized on the rush to move to the suburbs by raising their rents at the fastest rate in a decade. Renters are paying on time and accepting rent increases, and new renters are eager to pay whatever it takes to move in.

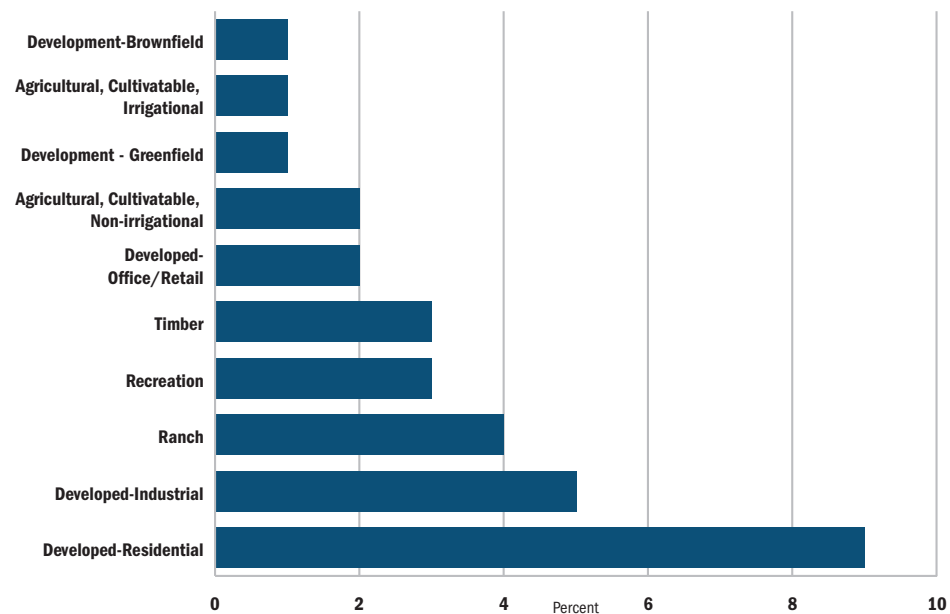
According to John Burns Real Estate Consulting⁹, the number of U.S. SFRs has increased from about 11 million in 2006 to over 16 million

EXHIBIT 1-D. YOY CHANGE IN LAND SALES AMONG REALTORS[®]



Source NATIONAL ASSOCIATION OF REALTORS[®] Commercial Real Estate Quarterly Market Survey, 4Q 2020.

EXHIBIT 1-E. YOY CHANGE IN LAND PRICES AMONG REALTORS[®]



Source NATIONAL ASSOCIATION OF REALTORS[®] Commercial Real Estate Quarterly Market Survey, 4Q 2020.

today. U.S. single-family rents are still rising, in spite of the economic fallout from COVID-19. Based on the most recent data published, September's growth of 3.8% YOY exceeded the 3.4% YOY historical average dating back to 1985, according to the Burns Single-Family Rent Index. U.S. single-family rent growth has historically moderated during recessions but does not turn negative.

TAKING A LOOK BACK: EXPECTATIONS AND MARKET REALITIES IN REAL ESTATE 2020 DELOITTE DBRIEFS POLL RESULTS

Since 2011, the authors of this report have used the Deloitte Dbriefs platform to showcase the results of our report. Each year, the

webcast participants are polled to gauge their sentiment about the market. Over 5,200 people attended the 2020 webcast and nearly 4,300 people participated in the poll, which was conducted on Feb. 27 – just a few weeks before the pandemic shut down the economy. See Exhibits 1-F through 1-J for charts of the poll results.

The 2020 Dbriefs poll participants showed a similar lack of confidence in the state of the economy and pessimistic view of the CRE market as they showed in 2019. Only 9.0% of the respondents believed that the economy would hit on all cylinders in 2020 slightly less than 9.6% in 2019.

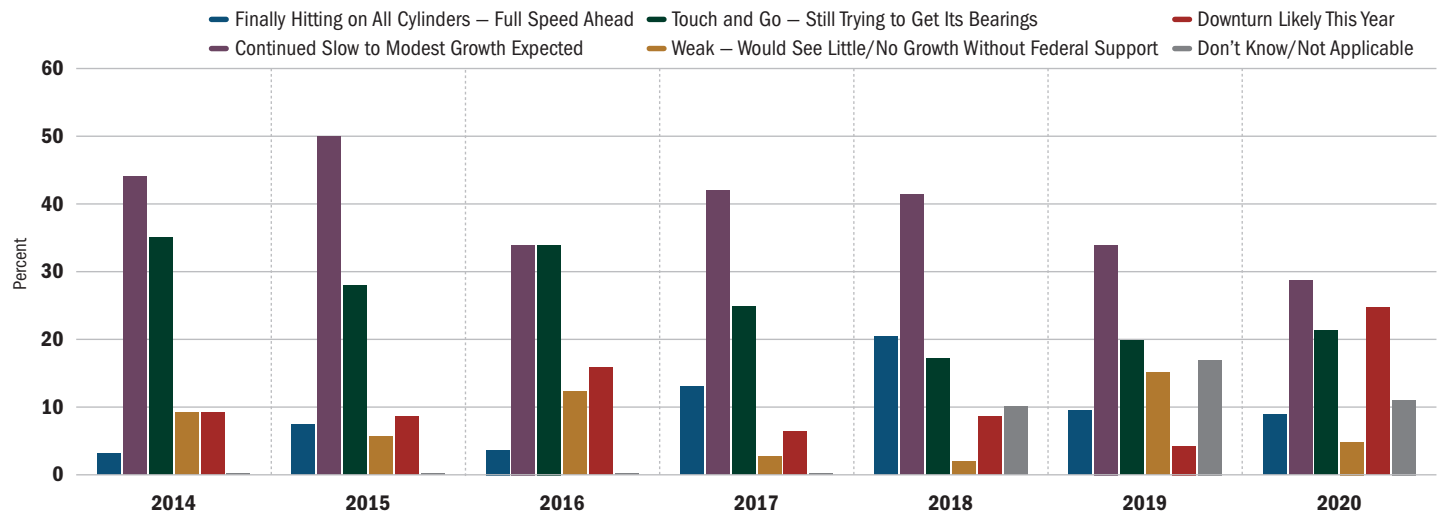
Additionally, 28.8% of the respondents believed that the economy would continue to grow in a slow to modest pace in 2020, down from 34.0% of the respondents in 2019. There was, however, a significant decrease in the percentage of respondents who said the economy would be weak with little or no growth without support from the Fed – 4.9% in 2020 compared to 15.2% in 2019.

In terms of the CRE market, 12.6% of the respondents believed that robust transaction volume and price appreciation would continue in 2020, up from 9.6% in 2019. The highest number of respondents – 30.1% – believed that the CRE market was experiencing a gradual slowing of deal volume and

price increase, somewhat less than 34.0% in the previous year. Only 4.8% of the respondents believed that the CRE market would experience a deceleration in 2020, marginally higher than 4.3% in 2019. As in 2019, respondents were more likely to expect minimal change (-2% to +2%) than moderate improvement (+2% to +5%) in CRE values over the next 12 months; in 2020, the margin was 37.2% to 23.9% in favor of minimal change over moderate improvement.

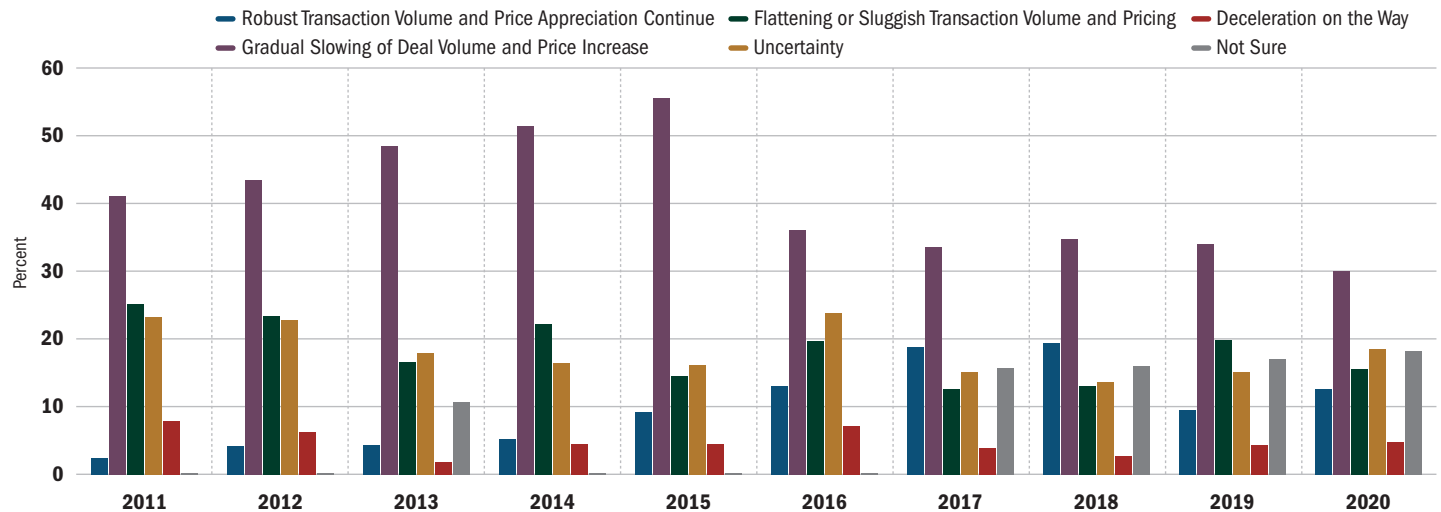
More than two-fifths of the respondents said that multifamily assets had the most favorable investment opportunity in 2020 based on recent performance of fundamentals. Multifamily respondents represented the

EXHIBIT 1-F. DELOITTE Dbrief POLL RESULTS – WHAT IS YOUR VIEW OF THE STATE OF THE ECONOMY?



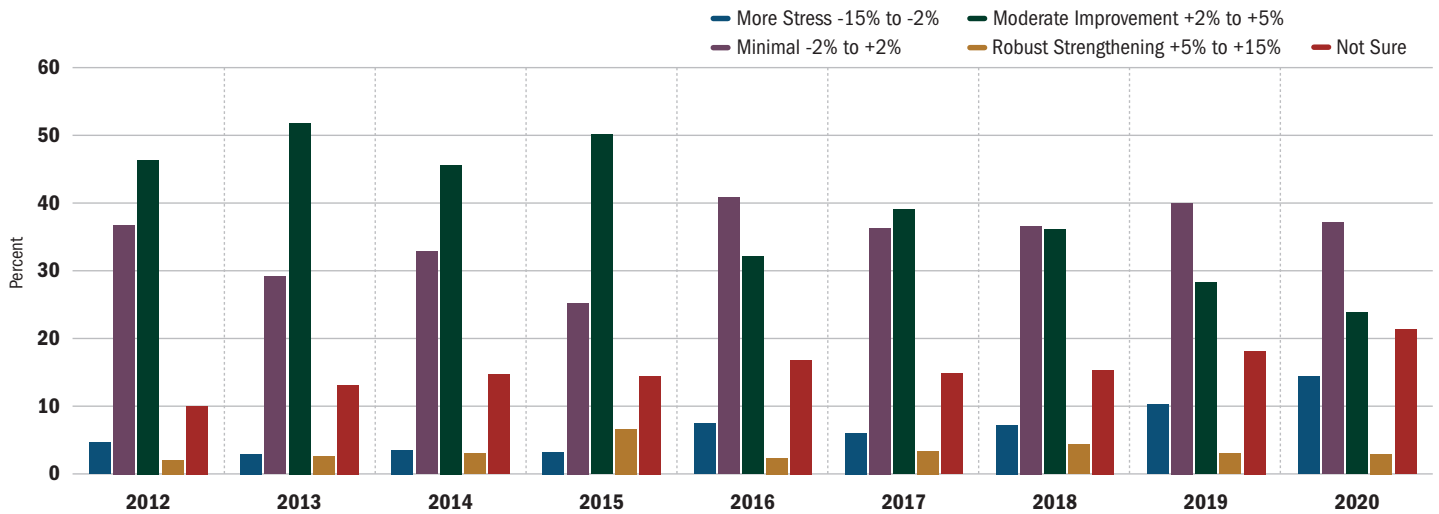
Source The Deloitte Dbriefs Real Estate Series, *Expectations and Market Realities in Real Estate*, February 2020.

EXHIBIT 1-G. DELOITTE Dbrief POLL RESULTS – WHAT IS YOUR VIEW OF THE CURRENT STATE OF CRE?



Source The Deloitte Dbriefs Real Estate Series, *Expectations and Market Realities in Real Estate*, February 2020.

EXHIBIT 1-H. DELOITTE Dbrief POLL RESULTS – TO WHAT EXTENT DO YOU EXPECT COMMERCIAL REAL ESTATE VALUES TO CHANGE OVER THE NEXT 12 MONTHS?



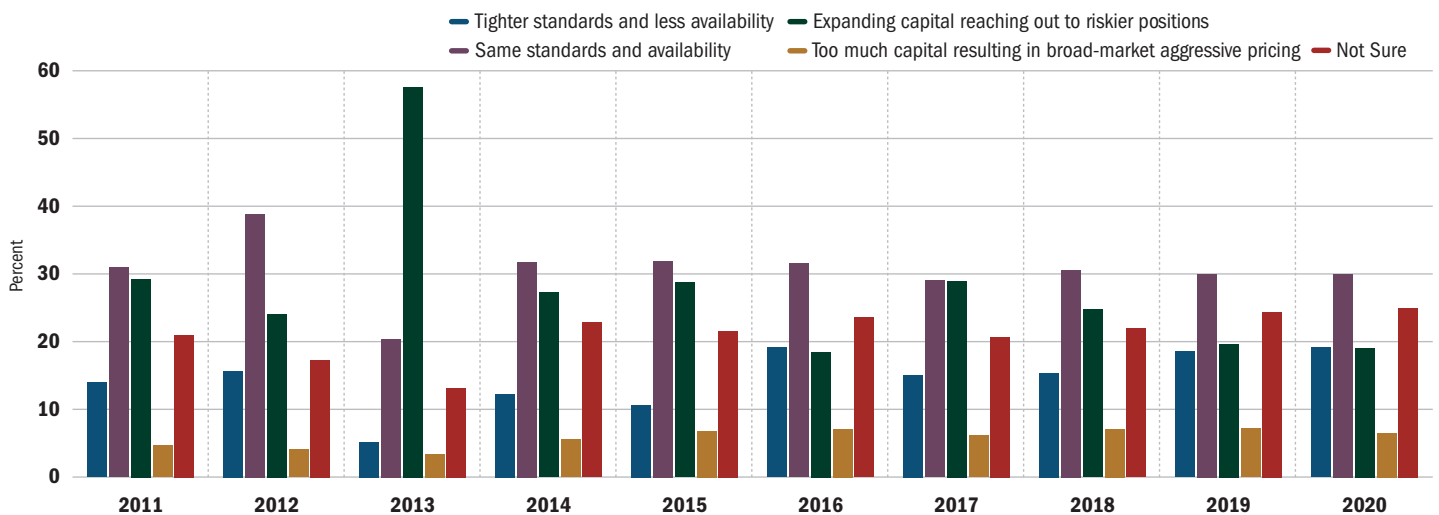
Source The Deloitte Dbriefs Real Estate Series, *Expectations and Market Realities in Real Estate*, February 2020.

EXHIBIT 1-I. DELOITTE Dbrief POLL RESULTS – PROPERTY TYPE INVESTMENT OPPORTUNITY

WHICH PROPERTY TYPE DO YOU VIEW AS OFFERING THE MOST FAVORABLE INVESTMENT OPPORTUNITY BASED ON RECENT PERFORMANCE OF FUNDAMENTALS?										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Office	17.5%	13.1%	12.3%	13.0%	16.0%	14.0%	11.5%	14.0%	13.3%	11.2%
Industrial/Warehouse	11.9%	10.0%	11.1%	12.4%	12.8%	10.4%	14.0%	20.4%	18.2%	17.4%
Multifamily	29.2%	45.8%	46.8%	45.5%	35.5%	40.7%	46.8%	36.8%	35.3%	41.5%
Retail	9.4%	8.4%	8.4%	6.5%	8.3%	7.7%	6.8%	7.1%	7.6%	5.7%
Hotel	4.7%	3.7%	3.2%	4.4%	6.0%	6.9%	3.8%	4.0%	5.3%	3.1%
Not Sure	27.4%	19.1%	18.2%	18.2%	21.4%	20.3%	17.1%	17.7%	20.3%	21.1%

Source The Deloitte Dbriefs Real Estate Series, *Expectations and Market Realities in Real Estate*, February 2020.

EXHIBIT 1-J. DELOITTE Dbrief POLL RESULTS – HOW DO YOU VIEW THE OUTLOOK FOR CAPITAL AVAILABILITY FOR COMMERCIAL REAL ESTATE IN 2021 VERSUS LAST YEAR?



Source The Deloitte Dbriefs Real Estate Series, *Expectations and Market Realities in Real Estate*, February 2019.

largest percentage at 41.5% among the property types, up from 35.3% in 2019 and ending a down-ward trend in opinions about the multifamily sector since 2017, when 46.8% of respondents said multifamily would offer the most favorable investment opportunity; its favorability has been in the 35%-47% range since 2012. Multifamily has ranked highest among all the property types since the poll began in 2011, when 29.2% favored the sector.

The industrial/warehouse sector was deemed favorable by 17.4% of respondents in 2020, down from 18.2% in 2019 and 20.4% in 2018, but still higher than 2017, when the percentage was 14.0%. After ranking No. 3 among the sectors from 2011 through 2016, it surpassed office for No. 2 in 2017, and has remained there since.

Since 2012, the office sector's favorability has been in the 11%-16% range, but it has been slipping in recent years, according to the Dbriefs poll. The office property type was the most favorable investment opportunity for 11.2% of respondents in 2020, down from 13.3% in 2019, 14.0% in 2018 and even less than its previous low point of 11.5% in 2017. Its peak was in the first year of the survey, 2011, at 17.5%.

The percentage of those favoring the retail sector fell from 7.6% in 2019 to 5.7% in 2020. Dating back to 2011, the retail sector has ranked as the second-least favorable sector. The percentage of respondents who viewed retail as the most favorable investment opportunity generally fell every year from 2011 through 2014, rose in 2015, dropped again in 2016, and remained in the 6% to 8% for three years before slipping below 6% in 2020.

Hotel was rated the least favorable investment opportunity, with only 3.1% of the respondents preferring the asset class in 2020. Hotel has been the least-favorable sector in every year of the polling, and it plummeted from 5.3% in 2019.

Dbriefs participants believed that capital availability for CRE in 2020 would remain comparable to that of 2019. About 30% of the respondents believed that the standards and availability would remain the same in 2020, nearly identical to the 2019 poll results. The percentage of respondents suggesting they would seek riskier positions declined from 19.7% in 2019 to 19.1% in 2020.

THE EXPECTATIONS VS. THE REALITIES

It's always interesting to look back a year later and wonder: What did we get right? What did we miss?

Last year's Expectations & Market Realities in Real Estate report was written before COVID-19 had become a pandemic, and very few people could have predicted its economic, political and social fallout from the pandemic. If the poll had been taken a few months – or even a few weeks – later, it's reasonable to suggest that some of the answers would have been significantly different.

While last year's poll participants weren't overly optimistic about the CRE market, they had no way of predicting that the overall volume of CRE acquisitions would be down a whopping 32% from 2019, according to Real Capital Analytics (RCA)¹⁰. While over \$405 billion in total CRE acquisitions occurred in 2020, most of the activity occurred in 1Q and 4Q, with a drop of 64% in 2Q 2020, a larger decline than had occurred in the aftermath of the GFC.

The respondents accurately predicted the continued strength of multifamily and industrial and the weakness of retail and hotel, trends that were emerging prior to COVID-19, but they had no way of knowing that a pandemic would tremendously magnify the existing bifurcations in the markets. Of the four main property types, investor demand was primarily directed toward apartment and industrial assets for the year, according to RCA¹¹ data. In fact, December 2020's industrial volume was the highest December number ever. Dbriefs participants' waning optimism for the office sector played out in 2020. With the surge in vacancies, it's not surprising that transaction volume in office, which has historically been a safe-haven property type in past downturns, was down almost as much as retail for the year.

Contrary to pre-pandemic predictions, overall CRE capital availability declined during the first half of 2020, according to RERC¹² survey data. It did, however, begin to rebound during the second half of the year as investors loosened their purse strings. Nonetheless, capital availability ratings are well below pre-pandemic levels, declining from 7.4 in 4Q 2019 to 5.5 in 4Q 2020.



SOURCES

¹James Chen, Investopedia, "Alpha," Dec. 28, 2020.

²Ibid.

³RERC, 4Q 2020.

⁴Ibid.

⁵National Association of REALTORS®, "2020 Q4 Commercial Real Estate Quarterly Market Survey of REALTORS®," January 2021.

⁶Walker & Dunlop, Inc., "Amid Rising Popularity of Single-Family Rental and Build-for-Rent Assets, Walker & Dunlop Launches Dedicated Practice Group," Feb. 1, 2021.

⁷Gregg Colburn, Rebecca Walter and Deirdre Pfeiffer, Urban Affairs Review, "Capitalizing on Collapse: An Analysis of Institutional Single-Family Rental Investors," June 3, 2020.

⁸Ryan Dezember, Wall Street Journal, "Race for Space Pushing Up Suburban Rents," Nov. 10, 2020.

⁹Rick Palacios Jr., John Burns Real Estate Consulting, "Burns Single-Family Rent Index™ Shows U.S. Rents Up 3.8% YOY in September," Nov. 4, 2020.

¹⁰RCA, 4Q 2020.

¹¹Ibid.

¹²RERC, 4Q 2020.



CHAPTER 2: THE ECONOMY

THE ECONOMY

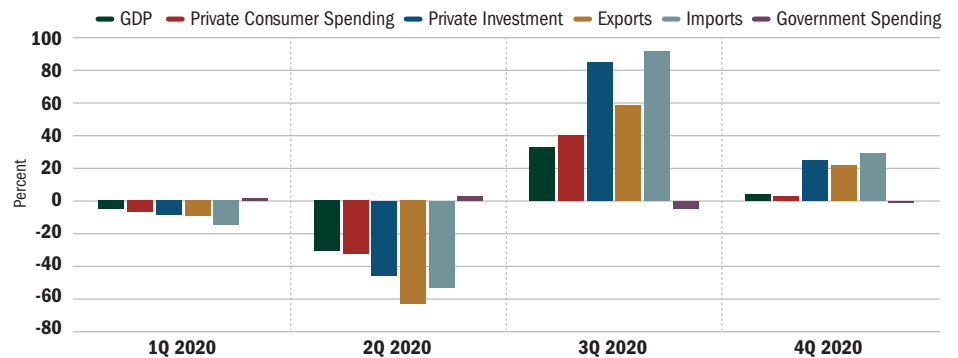
The COVID-19 pandemic caused a severe economic downturn in the U.S. and brought an eight-year expansion to a halt. By the end of 2020, employment was down about 9 million jobs¹, and the number of people working from home had quadrupled². Massive and quick monetary support³ and fiscal spending funded by the \$2.2 trillion Coronavirus Aid, Relief, and Economic Security Act (CARES Act) contained the sharp contraction to just two quarters, with GDP returning to positive growth in the third quarter. However, social distancing measures to control the spread of COVID-19 have affected some industries more heavily, notably hotel/hospitality, retail trade, and some segments of the professional and business services industry. The workers in these industries tend to be at the lowest rung of the wage ladder⁴ and are more likely to be renters than homeowners⁵. Meanwhile, e-commerce sales accelerated in 2020 as consumer spending shifted toward durable goods and away from services (e.g., recreation).

ECONOMY RECOVERS IN SECOND HALF, BUT OUTPUT IS STILL BELOW PRE-PANDEMIC LEVEL

With massive and quick financial and fiscal stimulus, economic output contracted sharply but briefly. GDP contracted 5% in the first quarter followed by a 31% contraction in the second quarter⁶ (see Exhibit 2-A). Consumer spending, private investment spending, and state/local government spending all collapsed, with government spending as the sole engine of growth. However, when many states started lifting stay-in-place orders and infection rates initially fell in May, the economy started to recover, and by the third quarter, GDP expanded by 33% followed by a 4% expansion in the fourth quarter.

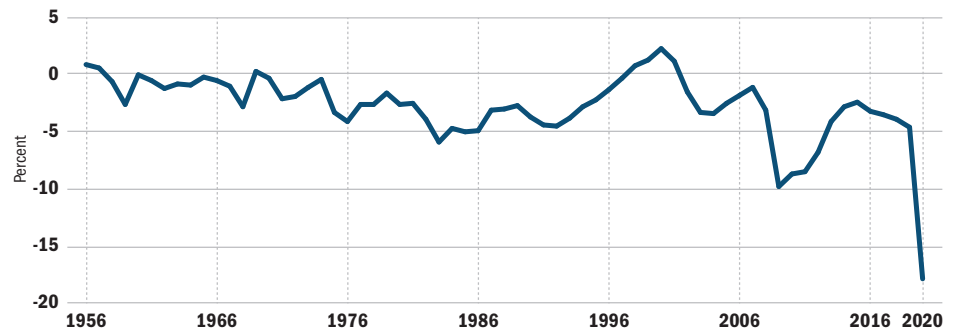
The economy came out of the brief but sharp contraction in the third quarter with a powerful dose of income support⁷ and swift and accommodating monetary policy⁸. Congressional action to support the unemployment insurance system, provide business financing, and fund public health were critical in limiting the economic collapse. At the same time, the Fed's intervention in a large number of financial markets potentially prevented the economic downturn from becoming a crisis.

EXHIBIT 2-A. GDP AND COMPONENTS: SEASONALLY ADJUSTED ANNUALIZED RATE OF CHANGE



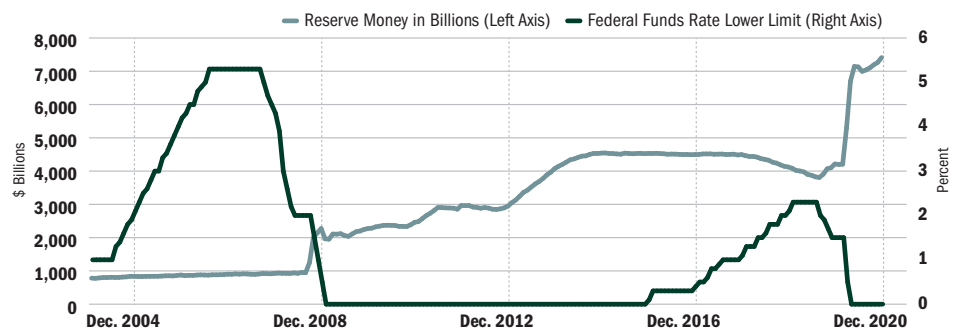
Source U.S. Bureau of Economic Analysis, 4Q 2020.

EXHIBIT 2-B. THE LARGEST AMOUNT OF FEDERAL SPENDING SINCE THE '50s; FEDERAL FISCAL DEFICIT TO GDP



Source Congressional Budget Office, December 2020.

EXHIBIT 2-C. MASSIVE AND QUICK MONETARY POLICY



Source Board of Governors of the Federal Reserve System, December 2020.

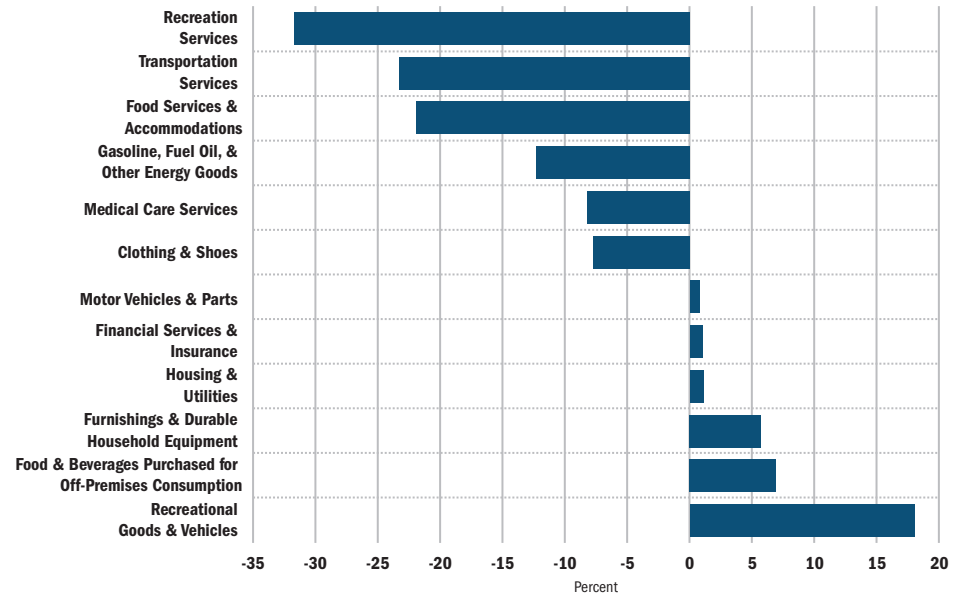
Of course, these successful policies came at a cost. The Congressional Budget Office reported that the 2020 federal fiscal deficit rose to 16.3% of GDP, the largest fiscal deficit spending since World War II, and that the federal fiscal deficit is expected to increase further to 17.5% during 2022-2031⁹ (see Exhibit 2-B). And the Federal Open Market Committee (Fed) provided quick and massive monetary support, increasing the supply of reserve money (“printing money”) from \$4.2 trillion in February to \$7.4 trillion as of December 2020 in order to prop up the financial market support¹⁰ (see Exhibit 2-C). The Fed also took the federal funds rate down to near zero by April and is keeping it there, possibly for years to come. In contrast, it took two and a half years for the federal funds rate to go down to near zero during the GFC (5.3% in July 2006 to near zero in February 2009).

Yet despite the massive monetary and fiscal stimulus, GDP ended 2020 still 3.5% below its level in 2019, with spending across all broad sectors still below the levels in 2019, except for government spending. Private consumer spending, which accounts for 69% of GDP, is nearly 4% below the 2019 level. This reflects large declines in consumer spending on services such as travel and recreation. The economy’s recovery greatly hinges on a recovery in consumer spending, which in turn depends on combating the pandemic so these strongly affected sectors can resume normal business.

CONSUMERS ARE SPENDING ON GOODS BUT HOLDING OFF ON SERVICES

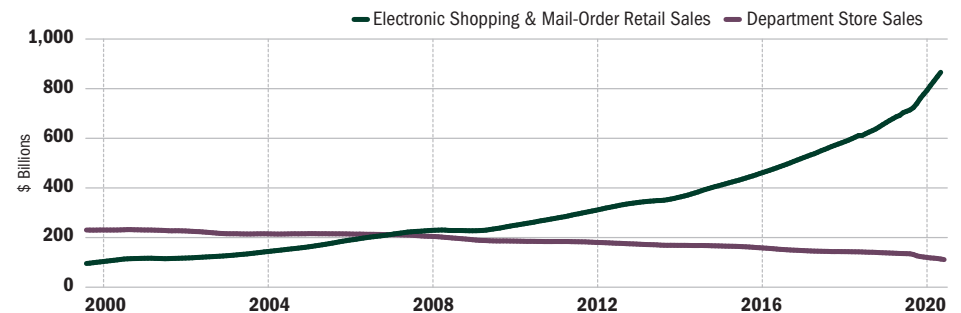
A closer look into consumer spending shows that the decline is coming from certain areas that are strongly impacted by social distancing¹¹ (see Exhibit 2-D). Consumers are spending less on recreation services, transportation services, food services and accommodation, medical services and gasoline. However, consumers are spending more on recreational goods and vehicles, furniture, and food for off-premises consumption. Consumers are more likely than before the pandemic to purchase these mostly durable items online rather than through brick-and-mortar stores. Retail sales from electronic shopping and mail-order houses increased from \$693 billion in November 2019 to \$867 billion in the 12 months ended November 2020 (see Exhibit 2-E). Electronic commerce now accounts for 16% of retail trade sales.¹²

EXHIBIT 2-D. YOY PERCENT CHANGE IN PERSONAL CONSUMER SPENDING 2020



Source U.S. Bureau of Economic Analysis, 4Q 2020.

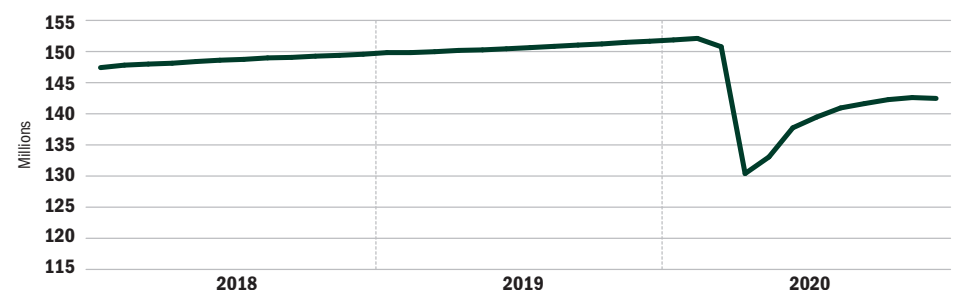
EXHIBIT 2-E. 12-MONTH RETAIL SALES



Note 12-month moving total, Electronic Shopping & Mail Order Retail Sales as of November 2020; Department Store Sales as of December 2020.

Source U.S. Census Bureau, December 2020.

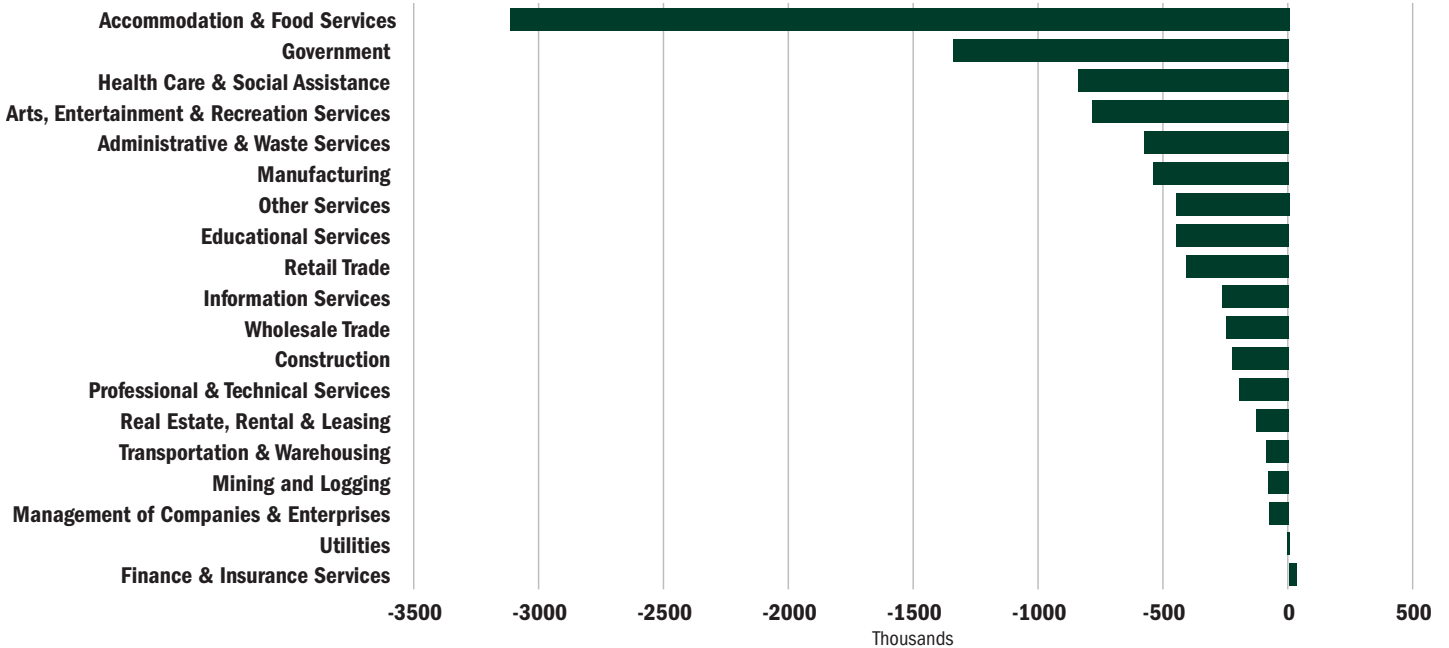
EXHIBIT 2-F. JOB CREATION



Note Non-farm payroll employment, seasonally adjusted.

Source U.S. Bureau of Labor Statistics, December 2020.

EXHIBIT 2-G. JOB LOSSES BY SECTOR



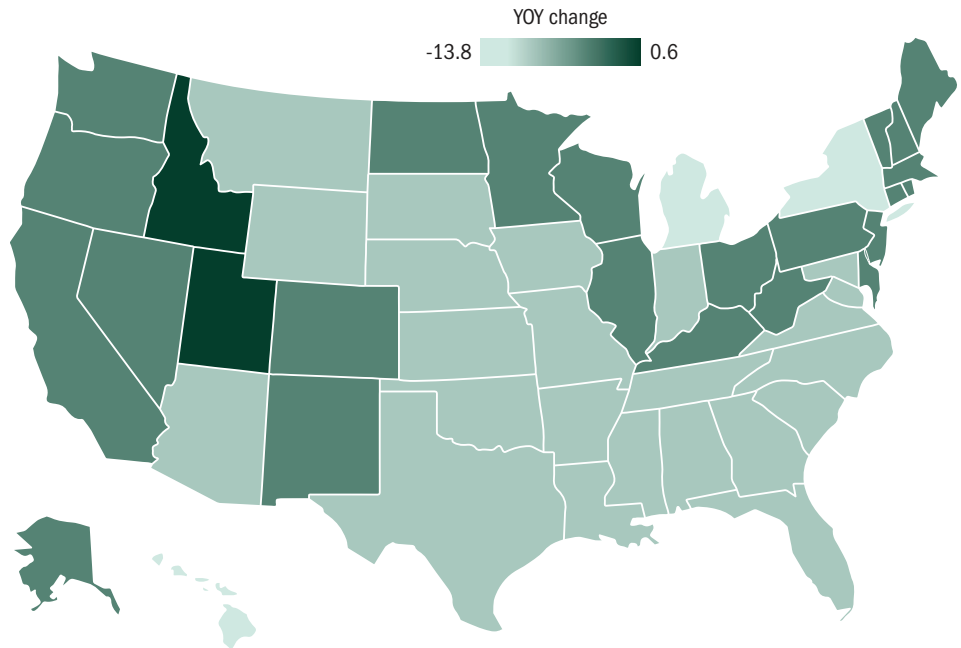
Note Change in non-farm employment between February 2020 and December 2020.
Source U.S. Bureau of Labor Statistics, December 2020.

12.5 MILLION JOBS RECOVERED, BUT NEARLY 10 MILLION MORE REMAIN OUT OF WORK

As of January 2021, non-farm payroll employment was still 9.8 million below the pre-pandemic level¹³ (see Exhibit 2-F). In March and April 2020, employment fell by 22.3 million. Since then, 12.5 million — or 56% — have been regained. The largest job loss was in accommodation and food services (-3.1 million jobs), which accounts for one-third of the total job decline over the course of 2020 (see Exhibit 2-G). The government sector lost 1.3 million jobs at the state and local level (the federal government gained 41,000 jobs). Over half a million jobs were each lost in health care and social assistance; arts, entertainment, and recreation services; administrative and waste services.

Only the finance and insurance sector has gained jobs since February 2020. Low mortgage rates have led to a surge in home purchases and mortgage refinancing, which is up about 60% YOY as of January 2021¹⁴. Lenders also have had to work with borrowers seeking forbearance and applying for Paycheck Protection Payment (PPP) loans. As of Feb. 7, 6.4 million PPP loans have been approved¹⁵.

EXHIBIT 2-H. YOY PERCENT CHANGE IN NON-FARM PAYROLL EMPLOYMENT



Source U.S. Bureau of Labor Statistics, December 2020.

All states are still facing net job losses as of December 2020, except Idaho and Utah, which each had nearly 1% job growth (see Exhibit 2-H). Hawaii, New York, and Michigan experienced the largest job losses — over 10%

compared to levels in December 2019¹⁶.

As of December 2020, nearly 19 million people were receiving unemployment insurance benefits, compared to only 2.2 million in January

2020 (see Exhibit 2-I). However, the number of claimants has gone down from 30.2 million in July 2020, a decrease of 12 million.¹⁷ Some of these workers have found employment, but others have left the labor force or simply no longer qualify for unemployment insurance.

FEDERAL SUPPORT HELPS LIMIT BUSINESS CLOSURES

The shelter-in-place measures that states implemented in March through May and pullback in consumer spending have

naturally led to decreased operating capacity. As of the Jan. 4-10, 2021, Small Business Pulse Survey conducted by the U.S. Census Bureau, 50% of small businesses are operating at lower capacity compared to one year ago¹⁸ (see Exhibit 2-J). Among small businesses in the accommodation and food services sectors, 77% reported a decline in operating capacity, and in the arts/entertainment/recreation services sector, 73% reported a decrease in operating capacity.

However, despite the steep cuts in operating

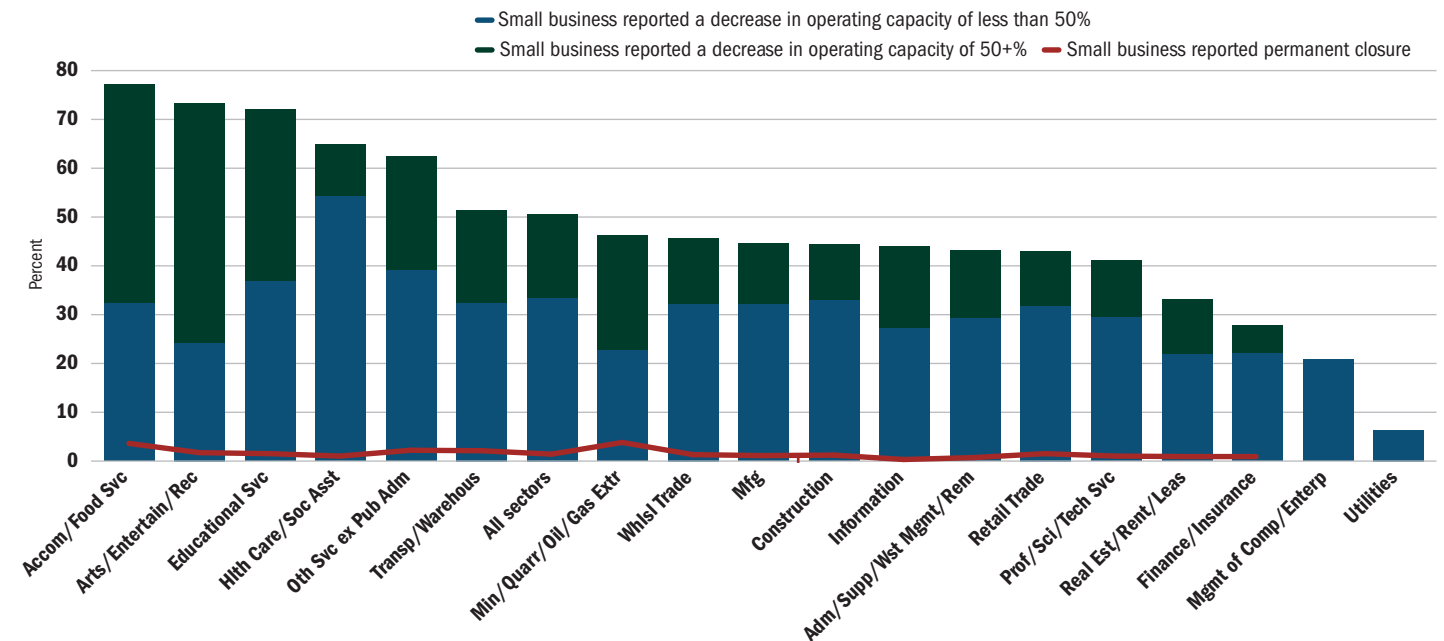
capacity, only about two out of 100 small businesses have closed in part to the federal support, according to the U.S. Census Bureau's U.S. Small Business Pulse Survey¹⁹. According to the Small Business Administration, 6.4 million Paycheck Protection Program (PPP) loans have been approved as of Feb. 7, 2021²⁰, about 17% of 31.7 million small businesses in the U.S.²¹. With limited business closures, the economy may be able to recover more quickly than if more businesses had folded up.

EXHIBIT 2-I. PERSONS RECEIVING UNEMPLOYMENT BENEFITS IN STATE AND FEDERAL PROGRAMS



Source U.S. Department of Labor, December 2020.

EXHIBIT 2-J. BUSINESS OPERATING CAPACITIES AND CLOSURES



Source U.S. Census Bureau Business Pulse Survey, January 2021.

SOURCES

¹U.S. Bureau of Labor Statistics, "Current Employment Statistics," accessed Feb. 25, 2021.

²U.S. Bureau of Labor Statistics, "Supplemental Data Measuring the Effects of the Coronavirus (COVID-19) Pandemic on the Labor Market," accessed Feb. 25, 2021.

³Board of Governors of the Federal Reserve System, "Factors Affecting Reserve Balances," January 2021. Note: The Fed dropped the federal funds rate (lower limit) from 1.5% in February 2020 to 0% in March and increased its assets from \$4.2 trillion in February to \$7.4 trillion as of January 2021.

⁴U.S. Bureau of Labor Statistics, "Usual Weekly Earnings," accessed Feb. 25, 2021.

⁵Scholastica (Gay) Cororaton, National Association of REALTORS®, "Outlook for Multifamily Market Financing," April 8, 2020.

⁶U.S. Bureau of Economic Analysis, "Gross Domestic Product," Jan. 29, 2021. Note: Growth rates are seasonally adjusted annualized rates, which is the growth rate if the growth in the quarter were to be sustained for four quarters.

⁷U.S. Department of the Treasury, "The Treasury Department is Providing COVID-19 Relief for All Americans," accessed Feb. 25, 2021.

⁸Board of Governors of the Federal Reserve System, "Federal Reserve issues Fed statement," March 23, 2020.

⁹Congressional Budget Office, "The Budget and Economic Outlook, 2021-2031," February 2021.

¹⁰Board of Governors of the Federal Reserve System, "Credit and Liquidity Programs and the Balance Sheet," Feb. 19, 2021.

¹¹U.S. Bureau of Economic Analysis, "Gross Domestic Product," accessed Feb. 25, 2021.

¹²U.S. Census Bureau, "Monthly Retail Trade," accessed Feb. 25, 2021.

¹³U.S. Bureau of Labor Statistics, "Current Employment Statistics," accessed Feb. 25, 2021.

¹⁴Mortgage Bankers Association (MBA), "Weekly Applications Survey," January 2021; Freddie Mac, "Quarterly Refinance Statistics," accessed Feb. 25, 2021.

¹⁵U.S. Small Business Administration, "PPP Data," accessed Feb. 25, 2021; Peter G. Peterson Foundation, "How Is the Government Supporting Small Businesses During The Coronavirus Pandemic?" Feb. 19, 2021.

¹⁶U.S. Bureau of Labor Statistics, "State Employment and Unemployment," Jan. 26, 2021.


¹⁷U.S. Department of Labor (as downloaded from Haver Analytics), "Unemployment Insurance Weekly Claims," January 2021.

¹⁸U.S. Census Bureau, "Small Business Pulse Survey (data for the week of Jan. 4-10, 2021), accessed Feb. 25, 2021.

¹⁹Ibid.

²⁰U.S. Small Business Administration, "PPP Data," accessed Feb. 25, 2021.

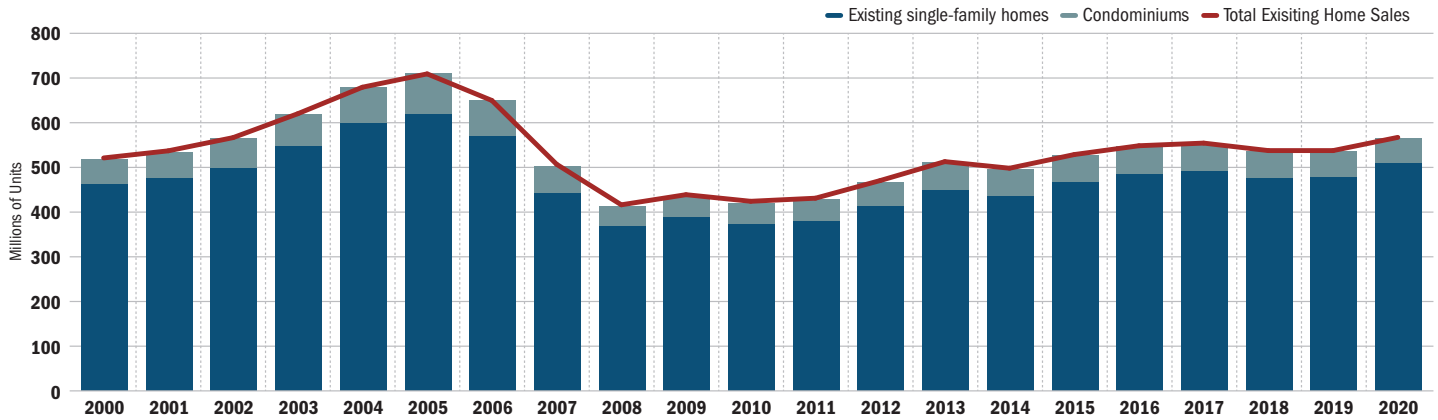
²¹U.S. Small Business Administration Office of Advocacy, "2020 Small Business Profile," accessed Feb. 25, 2021.



CHAPTER 3: RESIDENTIAL REAL ESTATE

RESIDENTIAL REAL ESTATE

EXHIBIT 3-A. EXISTING HOME SALES



Source National Association of REALTORS®, December 2020.

THE RESIDENTIAL REAL ESTATE MARKET

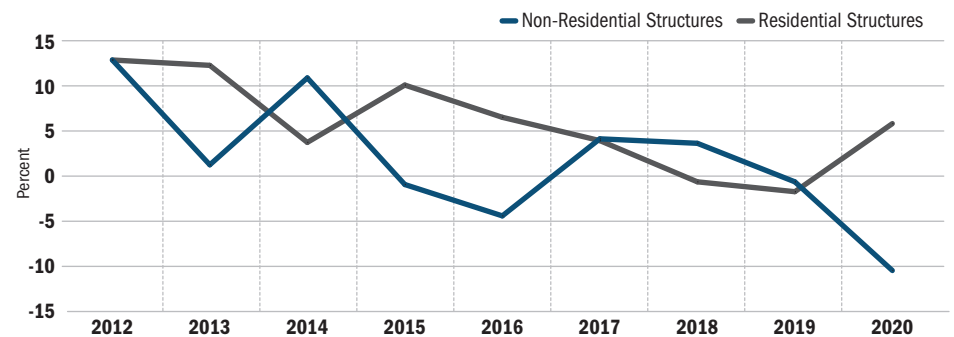
THE HOUSING MARKET IS STRONG

The housing market has been a strong factor in the economic recovery. Existing-home sales rose to 5.64 million, the highest pace since 2006, according to the National Association of REALTORS®¹ (see Exhibit 3-A). Residential construction spending rose 6% in 2020 while non-residential construction spending declined 11%² (see Exhibit 3-B). With low mortgage rates and buyers preferring bigger homes and more space, single-family home sales rose at a faster pace than condominiums.

BUSINESSES INVEST IN TECHNOLOGY AS WORKING FROM HOME INTENSIFIES

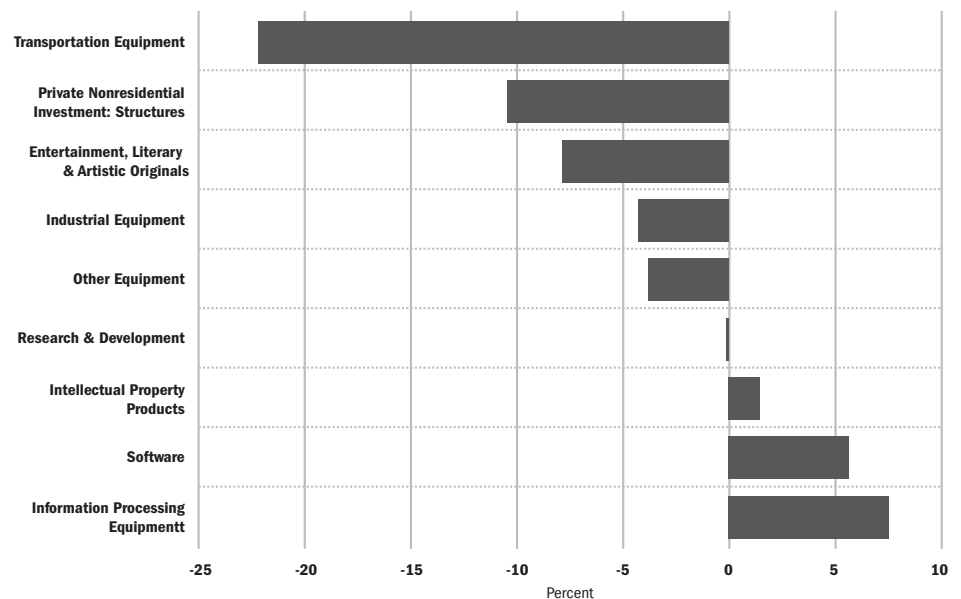
While non-residential construction spending declined, businesses invested more in information processing equipment, software and intellectual property products (see Exhibit 3-C). This increased investment is likely associated with the increase in employees working from home. As of January 2021, 23.2% of workers (16 years old and over) were working from home³, which is nearly quadruple the 6% share in 2019⁴ (see Exhibit 3-D). Among computer and mathematical workers, nearly seven in 10 workers were still working from home, according to data from the U.S. Bureau of Labor Statistics. With a higher fraction of the workforce

EXHIBIT 3-B. YOY PERCENT CHANGE IN INVESTMENT



Source U.S. Census Bureau, December 2020.

EXHIBIT 3-C. YOY PERCENT CHANGE IN PRIVATE INVESTMENT SPENDING



Source U.S. Bureau of Economic Analysis, 4Q 2020.

working from home, businesses relied on virtual meeting platforms and quick and informal communication channels to hold meetings, collaborate, keep office communication flowing, and engage in social activities like virtual happy hours.

According to the U.S. Census Bureau's Small Business Pulse Survey⁵, 75% of businesses were adversely affected by the pandemic. And according to the U.S. Bureau of Labor Statistics supplemental survey, 35% of the workforce was working from home in May, although that had gone down to 23% by January 2021⁶.

HOUSEHOLDS STRUGGLE TO PAY RENT OR MORTGAGE

While the housing market overall has remained strong, the elevated number of people who became unemployed, dropped out of the workforce or saw their hours cut have led to many households struggling to pay mortgage and rent. According to the U.S. Census Bureau's Household Pulse Survey for the week of Jan. 20-Feb. 1, 9.6 million renters, or 18%, are not caught up on rent payments⁷. About three in four of these renters who are not caught up have a household income of less than \$50,000. Non-Hispanic Blacks have greater difficulty making a rent payment: 30% of Black renters are not caught up on rent compared to 12% among renter households where the head of household was White (see Exhibit 3-E). Renters struggling to pay rent affects landlords, especially the owners who run the day-to-day management of the property ("mom-and-pop" landlords); this group of landlords manage 72% of properties owned, according to the 2018 Rental Housing Finance Survey of the U.S. Census Bureau⁸ (see Exhibit 3-F).

Among homeowners, 5.4% of mortgages, equivalent to 2.7 million households, were in forbearance as of Jan. 31, 2021, according

to the Mortgage Bankers Association (MBA)⁹ (see Exhibit 3-G).

FHA WORKING TO KEEP HOMEOWNERS IN THEIR HOMES

The mission of the Federal Housing Administration (FHA) is to serve low- to moderate-income and minority borrowers, and many have been hit hard by COVID-19, said Dana Wade, FHA Commissioner and Assistant Deputy Secretary of the Department of Housing and Urban Development (HUD), in a SitusAMC podcast¹⁰. About 8 million homeowners have FHA-insured mortgages, and about 10% of them, more than 800,000, have fallen behind on their loans during the pandemic, in forbearance and delinquency. The FHA has been working to avert a foreclosure crisis by providing a range of forbearance policies and loss-mitigation tools for the imperiled homeowners. For example, the FHA allows for a stand-alone partial payment of claims, so borrowers don't have to worry about balloon payments if they've taken forbearance.

The FHA hopes its policies will help avoid or at least minimize a foreclosure and eviction crisis this year. The agency is also working to keep the lines of communication open with the residential mortgage industry to preserve the loans with borrowers in danger of foreclosure.

Over the last four years, the agency has modernized technology, updated rules and regulations, provided more transparency in financial reporting and given lenders and servicers clearer rules to mitigate their risks. It's been part of the agency's commitment to providing strong enforcement along with certainty to the mortgage marketplace.

The FHA has implemented FHA Catalyst¹¹, the agency's technology modernization

initiative. FHA Catalyst includes an automated underwriting system (AUS) that digitizes much of the claims submission and processing tasks. The system allows participants in the single-family forward mortgage insurance program to electronically submit case binders and supplemental claims, which simplifies and streamlines the process for lenders, services and the agency. Additional functionality will be added over time to address all aspects of FHA's business.

According to Wade on the SitusAMC podcast¹², In the past four years, the FHA:

- issued more than 65 mortgagee letters and rewrote the FHA handbook;
- grew the economic value of Mutual Mortgage Insurance (MMI) Fund by \$40 billion, doubling its value and tripling the capital ratio from 2% to 6%;
- managed through 30 hurricanes and implemented the congressionally mandated forbearances and foreclosure moratoriums triggered by the COVID-19 pandemic;
- and improved the financial performance of the Home Equity Conversion Mortgage (HECM) program serving senior citizens.

In addition to helping borrowers, the FHA's paramount concern is reducing the risk for the industry. One way to accomplish that is by fostering clarity and transparency amid the various new rules and regulations that emerged to address the pandemic's impact on borrowers. It involves aggressive enforcement combined with more certainty and clearer rules. For example, FHA executed a memorandum of understanding with the Department of Justice on the use of the False Claims Act and other measures.

TECHNOLOGY AND COMPLIANCE IN THE RESIDENTIAL MORTGAGE INDUSTRY

Consumer protection regulations in the



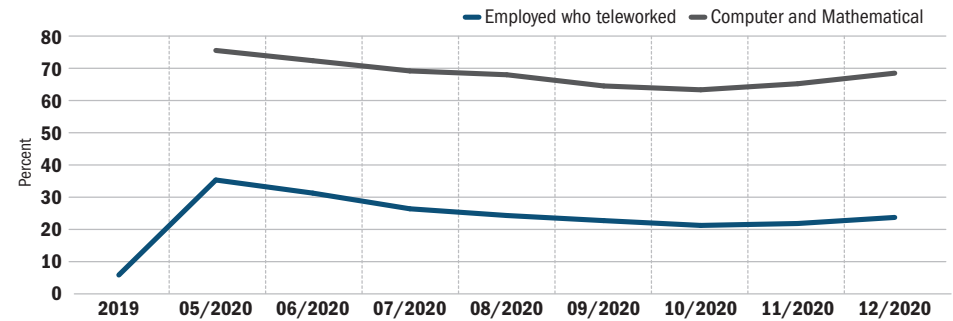
mortgage lending process have grown exponentially since the GFC. U.S. lenders must comply with federal mandates, regulations from 50 states and hundreds of different license types used by non-banks. Every step of the mortgage lending process requires specific disclosures, creating significant regulatory compliance risks. The real estate industry has often been behind the curve on technology implementation. However, technology is quickly evolving to tackle these issues, according to SitusAMC³³.

One of the biggest challenges is compliance with the 2018 TILA RESPA Integrated Disclosure rule, or TRID. This truth-in-lending measure combined two complex federal regulations into one and has been difficult for lenders to implement and comply with. Another challenge is the detail of all the state regulations, and laws related to licenses. Across the country, there are nearly 200 licenses under which lenders can originate loans. Each of these license types are subject to unique compliance criteria, creating a complex myriad of regulations for lenders to wade through. As lenders take an application, originate and underwrite the loan, improved technology can help to quickly and easily ensure that they are 100% compliant at every step of the process before they close.

Automated compliance software for residential mortgages allows companies to process millions of loan audits in a year, supporting mortgage originators, secondary market participants, and federal and state regulators. Automation is also streamlining systems of record for the custodial and warehouse space; conduit and pipeline management system; document classification and data extraction technology; document management system; and loan accounting and master servicing system. Platforms can integrate into existing loan origination software without having to enter data directly into a system.

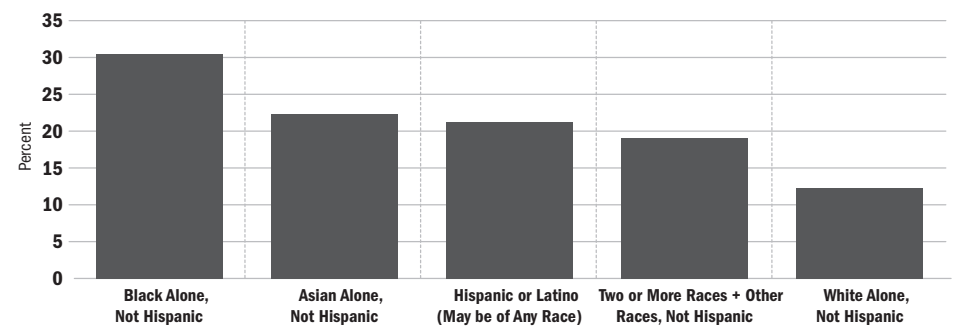
Servicers face some of the most intense regulatory scrutiny in years because of COVID-19 and the resulting forbearance actions. As loans begin to move out of forbearance, the unprecedented volume of loans requiring default processing will increase the need for comprehensive regulatory scrutiny to protect borrowers.

EXHIBIT 3-D. WORKING FROM HOME BECOMES THE NORM IN 2020



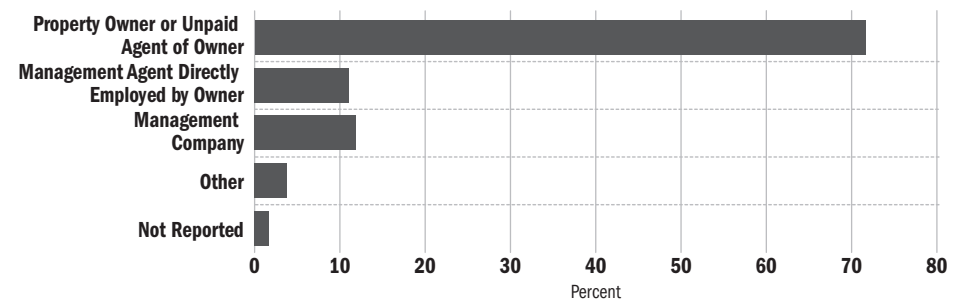
Note 2019 data from ACS
Source U.S. Census Bureau American Community Survey (ACS) and U.S. Bureau of Labor Statistics Supplemental Survey, December 2020.

EXHIBIT 3-E. RENTERS NOT CAUGHT UP ON PAYMENTS



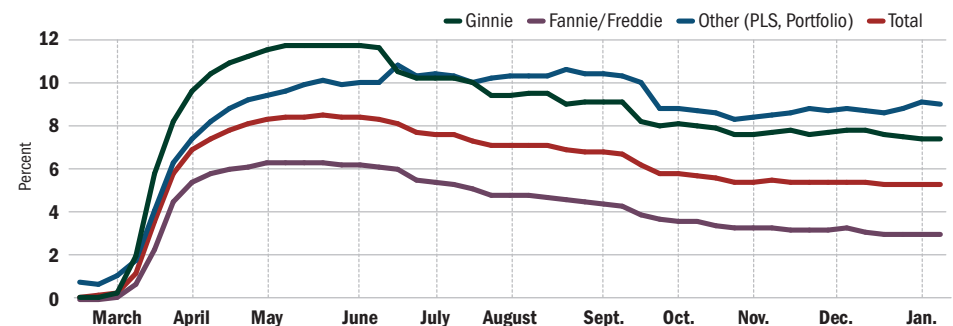
Source U.S. Census Bureau Household Pulse Survey, Jan. 20-Feb. 1, 2021.

EXHIBIT 3-F. RENTAL PROPERTIES OWNED BY “MOM & POP” LANDLORDS



Source Rental Housing Finance Survey, 2018.

EXHIBIT 3-G. LOANS WITH FORBEARANCE STATUS BY INVESTOR TYPE



Source Mortgage Bankers Association's Weekly Forbearance and Call Volume Survey, Jan. 31, 2021.

SOURCES

¹National Association of REALTORS®, “Existing Home Sales,” accessed Feb. 25.

²U.S. Census Bureau, “Construction Spending,” accessed Feb. 25, 2021.

³U.S. Bureau of Labor Statistics, “Supplemental Data Measuring the Effects of the Coronavirus (COVID-19) Pandemic on the Labor Market,” January 2021.

⁴U.S. Census Bureau, “2019 American Community Survey (ACS),” accessed Feb. 25, 2021.

⁵U.S. Census Bureau, “Small Business Pulse Survey Data Tables” (data for the week of Jan. 4-10, 2021), accessed Feb. 25, 2021.

⁶U.S. Bureau of Labor Statistics, “Supplemental Data Measuring the Effects of the Coronavirus (COVID-19) Pandemic on the Labor Market,” January 2021.

⁷U.S. Census Bureau, “Household Pulse Survey Data Tables” (data for the week of Jan. 20-Feb. 1, 2021), accessed Feb. 25, 2021. Note: Percentage does not include those who did not report to specific items.

⁸U.S. Census Bureau, “2018 Rental Housing Finance Survey,” Oct. 20, 2020.

⁹Mortgage Bankers Association (MBA), “Share of Mortgage Loans in Forbearance Declines to 5.35 Percent,” Feb. 8, 2021.


¹⁰SitusAMC, “FHA Commissioner Dana Wade On COVID-19 and Expectations for 2021,” Jan. 13, 2021.

¹¹U.S. Department of Housing and Urban Development, “FHA Catalyst,” Feb. 25, 2021.

¹²SitusAMC, “FHA Commissioner Dana Wade On COVID-19 and Expectations for 2021,” Jan. 13, 2021.

¹³SitusAMC, “How Technology Is Transforming Compliance in the Residential Mortgage Industry,” Nov. 5, 2021.





CHAPTER 4: THE CAPITAL MARKETS

THE CAPITAL MARKETS

FINANCIAL AND CAPITAL MARKETS OVERVIEW

FINANCIAL MARKETS

The year 2020 provided evidence that the stock market and the economy are very different things. The world is awash in capital with few alternatives, which has led to euphoria and record-breaking performances in the stock market. In 2020, the Dow climbed 7.3%, the S&P 500 rose 16.3% and the Nasdaq soared 43.6%¹. This was against a backdrop of close to 11 million² people still being out of work by the end of the year. In February 2020, the U.S. seasonally adjusted unemployment rate was at a 50-year low of 3.5%. By April, it had soared to 14.7%. It dropped every subsequent month down to 6.7% in November³, and the rate stayed steady in December. Nonetheless, employment numbers declined in December, and retail sales were down three consecutive months by the end of the year. This was also a year in which the GDP contracted 3.5%⁴. It was the first year of GDP decline since the GFC and the largest decline since 1946. Moody's Analytics⁵ is not projecting GDP growth to return to pre-COVID-19 levels until late 2021. The IMF⁶ predicts U.S. GDP growth of 5.1% in 2021 and 2.5% in 2022.

And yet, in some ways, the stock market mirrored the overall economy. When the economy was riding high in January and February, so was the stock market as the Dow reached record highs over 29,000⁷. When the economy shut down in March, the stock market plummeted below 19,000. After that, however, the stock market and the overall economy diverged. The nation's GDP plunged at an astonishing annualized rate of 31.4% in the second quarter, but the Dow clawed its way back in April, May and June, briefly surpassing 27,000 before closing at 25,812.88 on June 30. When the economy roared back with an annualized GDP increase of 33.4%, the stock market went up – but not as dramatically – and closed out on Sept. 30 at 27,781.70. The GDP rose at annualized rate of 4% in 4Q 2020⁸, while the Dow soared past 30,000 for the first time in history on Nov. 24. Overall, the Dow rose

11.8% in November for its best one-month performance since January 1987⁹. At the end of the year, the Dow closed at 30,606.48¹⁰.

Following the broader stock market trends, public REIT market performance as measured by Nareit's All Equity Index had a strong return in November of 9.22%, which brought the annual return to a negative 5.12% in 2020¹¹. However, this annual return masks a whipsaw from a negative return of about 19% in March to a positive 9% return in April.

In contrast, the private CRE market, as measured by the National Council of Real Estate Investment Fiduciary's (NCREIF's) NPI¹² (which is gross of fees) and NFI-ODCE¹³ (which is net of fees) came in at much higher annual total returns of positive 1.60% and 0.34%, respectively. The industrial sector posted stellar annual returns of 11.78% for the NPI; apartment and office also had positive total returns at 1.83% and 1.57%, respectively. Hotel and retail had annual NPI returns of -25.56% and -7.48%, respectively.

A comparison of major market indexes is found in Exhibit 4-A. The table compares the total return indexes for the S&P 500 and the Dow to CRE total returns.

THE FED AND INFLATION

The Fed took an aggressive, pre-emptive stance to the coronavirus pandemic in March 2020, when it lowered the federal funds target range¹⁴ to between zero and 0.25%. The Fed kept the target range at this level through all of 2020, citing the grave economic impact of COVID-19¹⁵.

In January 2021, the Fed signaled it expects to keep its key short-term rate between zero and 0.25% until it believes the economy has reached maximum employment and inflation has reached 2% and is on track to moderately exceed 2% for some time. In addition, the Fed said it will continue to increase its holdings of Treasury securities by at least \$80 billion per month and at least \$40 billion of mortgage-backed securities per month until the economy has reached

INDIANAPOLIS





its employment and inflation goals¹⁶.

After kicking off 2020 near 1.9%, the 10-year Treasury yield¹⁷ rate plunged in March to an all-time low of 0.54% and remained under 1% for the rest of the year, save for three days (see Exhibit 4-B). The rate topped 1% in the beginning of January 2021 as investors were optimistic about the prospect for additional fiscal stimulus under the Biden administration¹⁸.

A comparison of RERC's cap and discount rates to 10-year Treasury rates is found in Exhibit 4-C.

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.3% in January, seasonally adjusted, after rising 0.2% in November and December, according to the U.S. Bureau of Labor Statistics (BLS). The 12-month CPI-U ending January 2021 rose 1.4%, not seasonally adjusted¹⁹ (see Exhibit 4-D).

The personal consumption expenditures (PCE) Price Index rate is the Fed's preferred inflation measure. The annual core PCE rate was 0.3% in December 2020, compared to zero in October and November²⁰. It was up 1.5% YOY in December 2020. In January 2021, the IMF projected annual U.S. consumer

prices to rise 2.8% in 2021 and 2.1% in 2022²¹.

CRE COMPARED TO THE ALTERNATIVES

The Fed pulled out all stops to keep the economy afloat during the pandemic, including providing much-needed liquidity and market making. The market today has ample liquidity and is disciplined in character, and we are not seeing widespread distressed sales like we did during the GFC. This is supporting values and prices in the CRE market, according to institutional investors surveyed each quarter by RERC²².

With stock market returns strong in 2020, investor preference for stocks increased QOQ in 4Q 2020 and is now above pre-pandemic ratings (see Exhibit 4-E). With miniscule yields on the 10-year Treasury in 2020, institutional investor preference for bonds remained the lowest among the alternatives. A quarterly increase in the rating for CRE made it nearly as attractive as stocks in 4Q 2020. With vaccines beginning to roll out, CRE is poised to be the best investment alternative in 2021, according to RERC²³. Institutional investors still prefer cash over stocks, bonds and CRE, which is no surprise given the amount of uncertainty in the economic environment.

Institutional investors overwhelmingly recommended a "hold" position in 4Q 2020, according to RERC²⁴ data, followed by the "buy" recommendation. The pandemic has flipped the buy vs. sell spread such that the recommendation to buy has outweighed the recommendation to sell throughout all of 2020, something not seen since 2013. This indicates that CRE will likely continue to be a sought-after investment in 2021.

RERC surveys institutional investors about perceptions of CRE returns relative to risk (i.e., the extent to which returns are commensurate with the amount of risk in the CRE market). The overall CRE return vs. risk rating declined YOY (indicating greater risk relative to return) from 4.9 in 4Q 2019 to 4.3 in 4Q 2020²⁵. All property types, except industrial, were rated as riskier relative to returns on a YOY basis. Industrial and apartment were the only property types where returns outweighed risk, according to institutional investors.

RERC also surveys institutional investors about perceptions of CRE values relative to prices (i.e., whether the CRE market is underpriced or overpriced). The overall CRE value vs. price rating has remained near equilibrium since the pandemic began;

prices and values are roughly aligned²⁶ (see Exhibit 4-F). In 4Q 2020, hotel and retail were rated as considerably overpriced. The hotel sector had the largest YOY decline in ratings from 5.2 in 4Q 2019 to 3.9 in 4Q 2020. Industrial was the only sector rated as undervalued, though only slightly so. The largest YOY rating increase was for the office sector from 4.5 in 4Q 2019 to 4.9 in 4Q 2020.

AVAILABILITY & DISCIPLINE OF CAPITAL

With the Fed's accommodative stance and rates historically low, the markets are hungry for the right opportunities. Though overall CRE capital availability declined during the first half of 2020, it began to rebound during the second half of the year, according to RERC survey data²⁷, likely as investors loosened their purse strings. Capital availability ratings are well below pre-pandemic levels, declining from 7.4 in 4Q 2019 to 5.5 in 4Q 2020.

Overall CRE capital discipline declined

substantially QOQ, from a rating of 6.4 in 3Q 2020 to 5.7 in 4Q 2020²⁸. Underwriting standards were also less aggressive compared to pre-pandemic levels, but it is important to note that ratings of overall capital discipline are still above average and are similar to ratings in 2015 and 2016.

Equity capital is more readily available than debt capital, a reversal of the pre-pandemic conditions²⁹. However, debt capital availability appears to be rebounding after a rocky first half of 2020. Equity and debt discipline ratings were similar in 4Q 2020 and both above average. However, equity discipline was the least aggressive it has been since RERC began collecting these data in 2Q 2014; debt discipline is the least aggressive it has been since 2016.

CRE DEBT MARKETS

According to RCA³⁰, the LTV ratio for commercial (office, industrial and retail) declined from 61% in January to 59% in November and is down about 3 percentage

points from pre-COVID-19 levels. Commercial LTVs peaked in February through April of 2020 at 62%. The LTV ratio for the apartment sector declined from 67% in the beginning of the year to 64% by November 2020, peaking in May and June at 69%. LTV ratios for apartment are also down compared to pre-COVID-19 levels.

Data on debt yield ratios were provided by RCA³¹. Debt yield ratios for commercial properties began the year at 10.4%, peaking in April before falling to its trough in June. November 2020 debt yield ratios were 10.4%. Commercial debt yields are commensurate with pre-COVID-19 levels. Debt yield ratios for the apartment sector dipped from 8.0% in January to 7.8% in November. Peak debt yield ratios were in August and September. Apartment debt yield ratios are down from pre-COVID-19 levels.

RCA³² also provided trends analysis regarding the debt service coverage ratio (DSCR). According to RCA's methodology, DSCR is provided through commercial

EXHIBIT 4-A. CRE & INVESTMENT ALTERNATIVES

	2020	3-Year	5-Year	10-Year	15-Year
NCREIF NPI ¹	1.60%	4.89%	5.91%	9.00%	7.14%
NCREIF NFI-ODCE ¹	0.34%	3.99%	5.27%	8.87%	5.46%
NAREIT Index (All Equity REITS) ²	-5.12%	5.41%	6.70%	9.27%	7.15%
Consumer Price Index ³	1.22%	1.82%	1.87%	1.74%	1.84%
Dow Jones Industrial Average ²	9.72%	9.90%	14.65%	12.97%	10.00%
NASDAQ Composite ⁴	43.64%	23.13%	20.81%	17.12%	12.49%
NYSE Composite ⁴	4.40%	4.28%	7.44%	6.19%	4.27%
S&P 500 ²	18.40%	14.18%	15.22%	13.88%	9.88%
	4Q 2020	4Q 2017	4Q 2015	4Q 2010	4Q 2005
10-Year Treasury Bond ⁵	0.86%	2.37%	2.19%	2.86%	4.49%

¹NCREIF total return, composed of capital and income returns.

²Based on total return index, and includes the dividend yield.

³Based on the published data from the BLS (seasonally adjusted).

⁴Based on price index, and does not include the dividend yield.

⁵Based on average quarterly T-bond rates.

Sources U.S. Bureau of Labor Statistics, Board of Governors of the Federal Reserve System, S&P Dow Jones, NCREIF, NAREIT, compiled by RERC, current as of 4Q 2020.

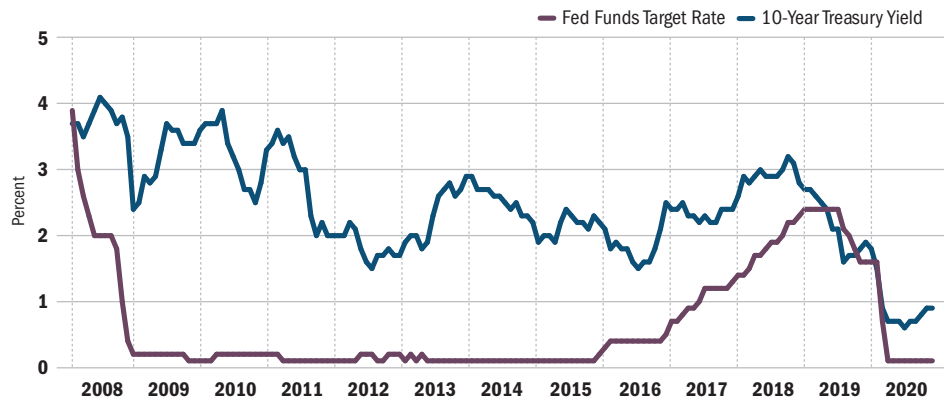
mortgage-backed securities (CMBS) tapes and only includes ratios between 1 and 2.5. The commercial DSCR started the year at 1.88, increasing to a peak of 2.03 in May before settling at 1.94 in November. Commercial DSCRs are almost 10 bps higher than they were pre-COVID-19. The apartment sector was more stable in 2020, with the DSCR the same in January and November, at 1.54, similar to ratios at the end of 2019. The 2020 peak DSCR was 1.57 in September.

The MBA reported that delinquency rates for commercial and multifamily mortgage loans increased between 2Q 2020 and 3Q 2020³³. CMBS delinquency rates were 7.9%, within the highest quartile of the range beginning in 1996. Fannie Mae delinquencies were at 1.1%, near the top of its historical range since 1996. Banks and thrifts, life insurance companies and Freddie Mac delinquencies were 0.7%, 0.2% and 0.1%, respectively, at the lower end of their historical ranges. MBA notes that delinquency rates across investor groups are not comparable due to differences in how they are tracked.

Commercial and multifamily mortgage debt outstanding rose in 3Q 2020 by \$57 billion to \$3.82 trillion, a 1.5% increase from 2Q 2020, according to MBA³⁴. Of this total, multifamily mortgage debt outstanding was at \$1.6 trillion – an increase of \$31 billion or 1.9% from the second quarter. The increase was attributed to loan refinancings. Agency and government-sponsored entity (GSE) portfolios and mortgage-backed securities (MBS) had the largest quarterly gains in dollar terms for commercial/multifamily debt outstanding – increasing 3.0%, or \$23.2 billion. Commercial banks increased their holdings 0.8% (\$12.1 billion) and CMBS increased their holdings 2.1% (\$10.6 billion). REITs increased their holdings by 5.6% (\$4.9 billion).

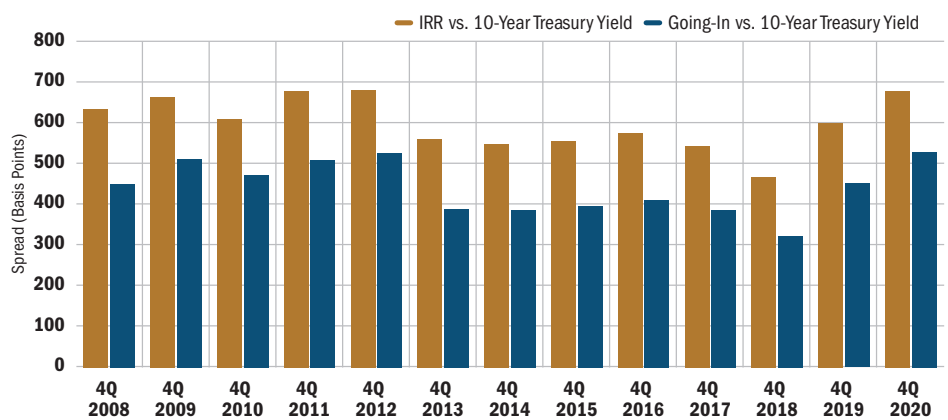
According to MBA³⁵, commercial and multifamily loan originations were down 47% YOY in 3Q 2020, but up 12% QOQ. YOY declines occurred for all property types in 3Q 2020, though less so for industrial and multifamily originations. Not surprisingly, hotel and retail originations dropped the most YOY – 94% and 83%, respectively. Among the lender groups, commercial bank

EXHIBIT 4-B. 10-YEAR TREASURY YIELD AND FEDERAL FUNDS RATE COMPARISON



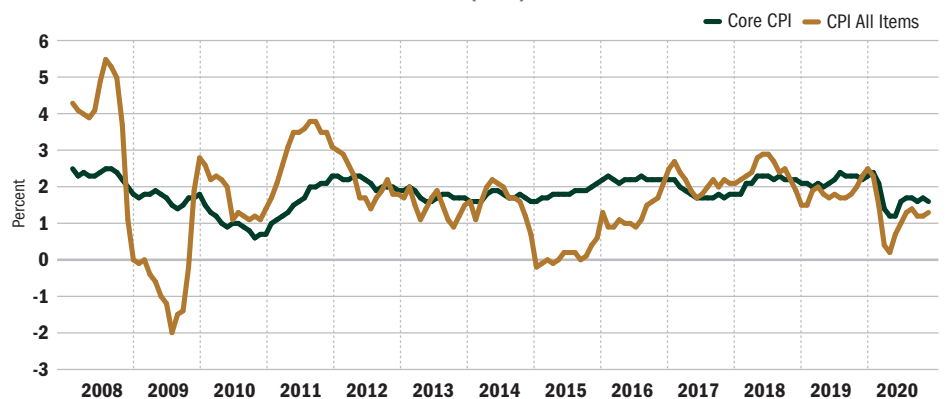
Source Board of Governors of the Federal Reserve System Board, December 2020.

EXHIBIT 4-C. RERC HISTORICAL CAP RATE SPREADS



Source RERC, Board of Governors of the Federal Reserve System 4Q 2020.

EXHIBIT 4-D. CONSUMER PRICE INDEX (CPI)



Source U.S. Bureau of Labor Statistics, December 2020.

portfolio originations declined 68% YOY in 3Q 2020. CMBS originations declined 58% YOY; life insurance companies were down 55% YOY. GSEs reported only an 8% decrease YOY.

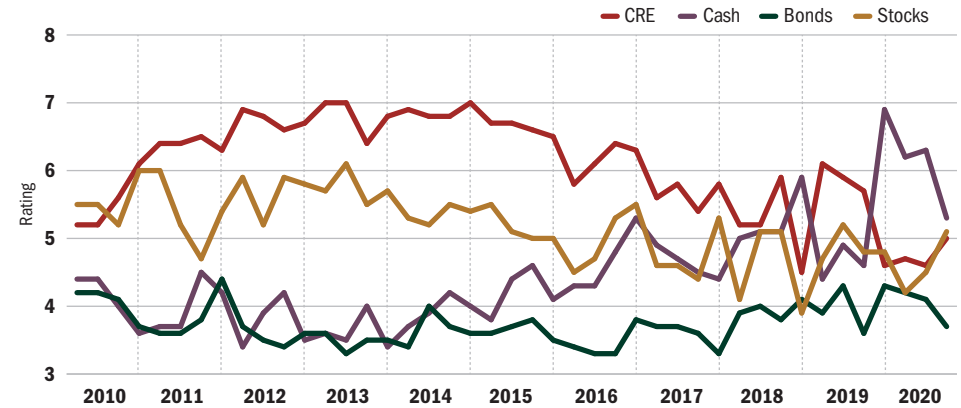
CRE EQUITY MARKETS

A list of major transactions, as reported by RCA³⁶, can be found in Exhibit 4-G.

Over \$405 billion in total CRE acquisitions occurred in 2020, with most activity occurring in 1Q and 4Q, according to RCA³⁷. Overall volume in 2020 was down a whopping 32% from 2019 (see Exhibit 4-H). This includes a drop of 64% in 2Q 2020, a larger decline than had occurred in the aftermath of the GFC. As the dust settled amid the COVID-19 confusion, deal activity declines slowed in the latter part of the year. Of the four main property types, investor interest was primarily directed toward apartment and industrial assets for the year. In fact, December 2020's industrial volume was the highest December number ever. Interestingly, transaction volume in office, which has historically been a safe-haven property type in past downturns, was down almost as much as retail for the year.

Private CRE prices, as measured by the RCA Commercial Property Price Index (CPPI)³⁸, grew by 7.3% YOY in December, a quicker pace than the YOY price increases of 2018 and 2019. The increase was due primarily to jumps in industrial and apartment

EXHIBIT 4-E RERC RATINGS OF INVESTMENT ALTERNATIVES



Ratings are based on a scale of 1 to 10, with 10 being excellent.
Source RERC, 4Q 2020.

prices – 8.8% and 8.3% YOY, respectively (see Exhibit 4-I). Retail was the only sector with a negative CPPI. According to RCA³⁹, the difference in pricing between the six major metros and the non-major metros in December was the largest in almost a decade. Non-major metro price growth was over double that of the six major metros.

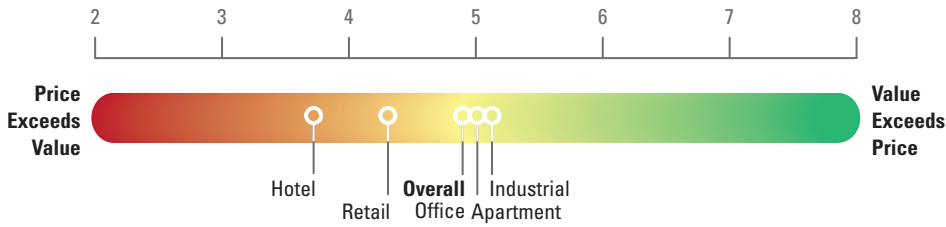
Cross-border, institutional/equity funds and unknown investor groups contributed to positive net capital flows in 2020, according to RCA⁴⁰ (see Exhibit 4-J). Private equity investors had the largest net dispositions in 2020 at nearly \$23 billion. This was the first year that private investors had net dispositions since 2015.

Industrial and apartment price jumps were

reflected in average cap rates for the sectors, according to RCA⁴¹ (see Exhibit 4-K). Industrial cap rates declined 30 bps between 1Q 2020 and 4Q 2020. At 6.0%, 4Q 2020 industrial cap rates were tied with 4Q 2019 for a record low. Average apartment cap rates were at a record-low 5.1% in from 2Q 2020 to 4Q 2020, down 20 bps from pre-pandemic levels. Office cap rates rose slowly throughout the year and, at 6.7% in 4Q 2020, are 20 bps higher than pre-pandemic levels. Surprisingly, retail cap rates remained relatively steady throughout 2020, despite relatively large price declines. The 4Q 2020 cap rate was 6.6%, the same as 4Q 2019. The average retail cap rate has been between 6.5% and 6.6% since early 2017.

PHOENIX


EXHIBIT 4-F. RERC VALUE VS. PRICE RATINGS



Ratings are based on a scale of 1 to 10, with 10 indicating that return far exceeds risk or value far exceeds price.
Source RERC, 4Q 2020.

EXHIBIT 4-G. TOP U.S. CRE TRANSACTIONS


NAME: fmr Lord & Taylor (Manhattan) **PLACE:** New York, NY
BUYER: Amazon **SF/UNITS:** 667,350
SELLER: Rhone Group JV WeWork




NAME: 460 West 34th St **PLACE:** New York, NY
BUYER: 601W Companies **SF/UNITS:** 546,929
SELLER: SL Green JV Kaufman Organization




NAME: 330 Madison Ave **PLACE:** New York, NY
BUYER: Meag OBOI Munich Re **SF/UNITS:** 849,372
SELLER: ADIA



NAME: Southeast Federal Center **PLACE:** Washington, D.C.
BUYER: GSA (U.S. Government) **SF/UNITS:** 1,353,700
SELLER: JBG Smith



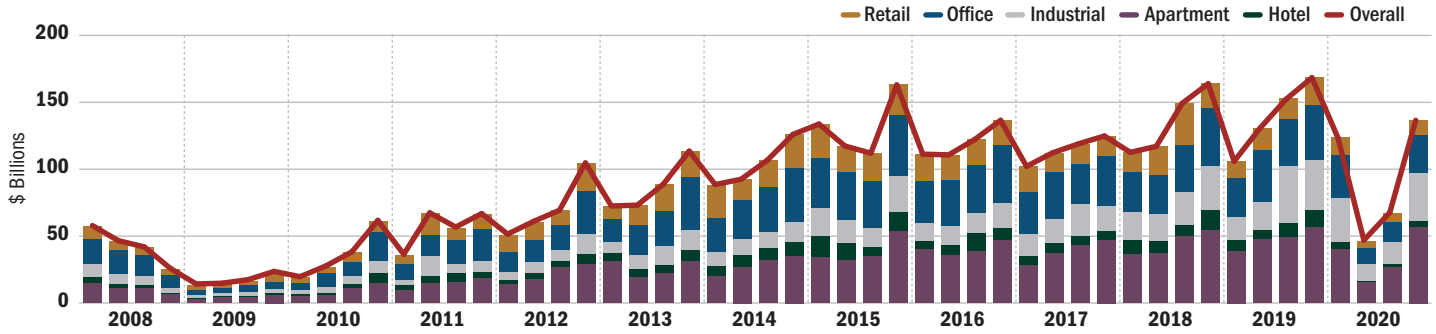
NAME: 245 Summer St **PLACE:** Boston, MA
BUYER: Fidelity Investments **SF/UNITS:** 904,000
SELLER: Benderson Development



Source RCA, 4Q 2020.

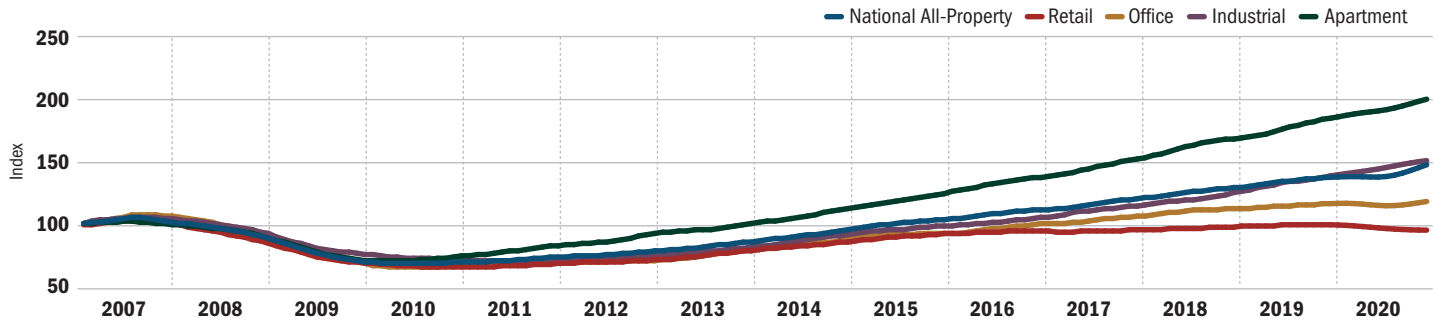


EXHIBIT 4-H. COMMERCIAL PROPERTY VOLUME



Source RCA, 4Q 2020.

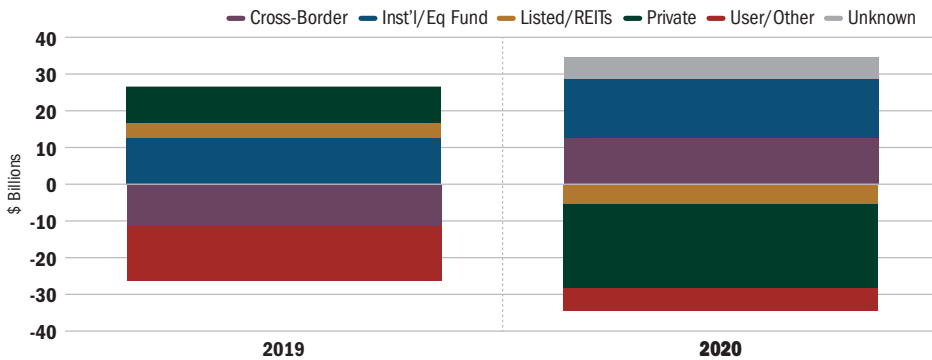
EXHIBIT 4-I. RCA CPPI



The RCA CPPI is based on repeat-sales (RS) transactions that occurred at any time up through the month of the current report.

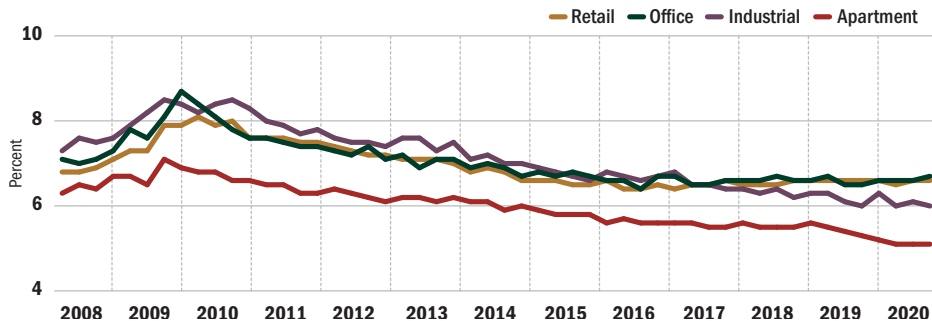
Source RCA, 4Q 2020.

EXHIBIT 4-J. COMMERCIAL REAL ESTATE NET ACQUISITIONS



Source RCA, 4Q 2020.

EXHIBIT 4-K. COMMERCIAL PROPERTY CAP RATES



Source RCA, 4Q 2020.



SOURCES

- ¹William Watts, MarketWatch, "Dow, S&P 500 Carve Out Records in Final Session of Year, with Nasdaq Scoring Best Annual Gain Since 2009," Dec. 30, 2020.
- ²U.S. Bureau of Labor Statistics, "Employment Situation," Jan. 8, 2021.
- ³Ibid.
- ⁴Harriet Torry, The Wall Street Journal, "U.S. Economy Shrank in 2020 Despite Fourth-Quarter Growth," Jan. 28, 2021.
- ⁵Moody's Analytics, 4Q 2020.
- ⁶International Monetary Fund (IMF), "World Economic Outlook Update," January 2021.
- ⁷Yahoo! Finance, "Dow Jones Industrial Average," accessed Jan. 27, 2021.
- ⁸U.S. Bureau of Economic Analysis, "Gross Domestic Product," Jan. 29, 2021.
- ⁹Keris Lahiff, CNBC, "Dow Nets Its Best Monthly Performance Since 1987 – Three Market Analysts on What's Next," Nov. 30, 2020.
- ¹⁰Yahoo! Finance, "Dow Jones Industrial Average," accessed Jan. 27, 2021.
- ¹¹Nareit, 4Q 2020.
- ¹²NCREIF, 4Q 2020.
- ¹³Ibid.
- ¹⁴Board of Governors of the Federal Reserve System, "FOMC's Target Federal Funds Rate or Range, Change (Basis Points) and Level," Jan. 27, 2021.
- ¹⁵The New York Times, "Daily Briefing," Jan. 27, 2021.
- ¹⁶Board of Governors of the Federal Reserve System, "Federal Reserve Issues FOMC Statement," Jan. 27, 2021.
- ¹⁷Board of Governors of the Federal Reserve System, "10-Year Treasury Constant Maturity Rate," Jan. 27, 2021.
- ¹⁸Matthew Boesler and Steve Matthews, Bloomberg, "Powell Says No Bond Taper for 'Some Time' as Recovery Moderates," Jan. 27, 2021.
- ¹⁹U.S. Bureau of Labor Statistics, "Consumer Price Index Summary," Feb. 10, 2021.
- ²⁰U.S. Bureau of Economic Analysis, "Personal Income and Outlays, December 2020," Jan. 29, 2021.
- ²¹International Monetary Fund (IMF), "World Economic Outlook," October 2020.
- ²²RERC, 4Q 2020.
- ²³Ibid.
- ²⁴Ibid.
- ²⁵Ibid.
- ²⁶Ibid.
- ²⁷Ibid.
- ²⁸Ibid.
- ²⁹Ibid.
- ³⁰RCA, 4Q 2020.
- ³¹Ibid.
- ³²Ibid.
- ³³MBA DataBook, 3Q 2020.
- ³⁴Ibid.
- ³⁵Ibid.
- ³⁶RCA, 4Q 2020.
- ³⁷Ibid.
- ³⁸Ibid.
- ³⁹Ibid.
- ⁴⁰Ibid.
- ⁴¹Ibid.

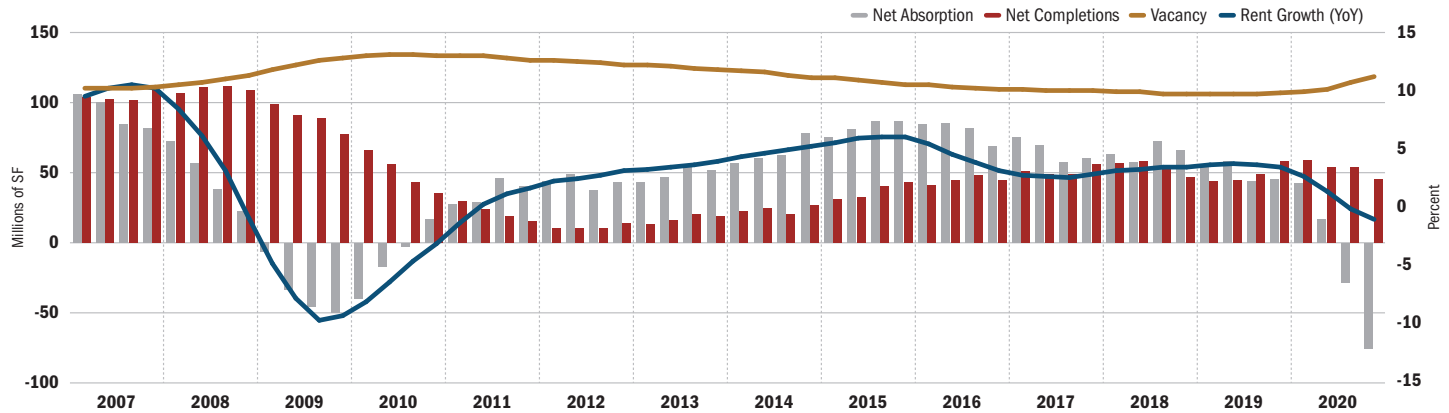


A stylized, monochromatic red silhouette of a city skyline. The buildings vary in height and shape, with some featuring unique architectural details like a square window cutout in a tall building. The overall composition is layered, with some buildings appearing more prominent than others.

CHAPTER 5: THE PROPERTY MARKETS

THE OFFICE MARKET

EXHIBIT 5-A. OFFICE PROPERTY TYPE FUNDAMENTALS



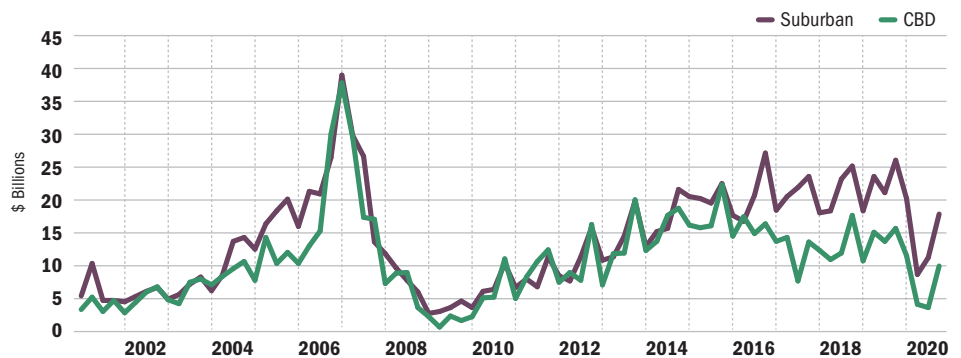
Source CoStar Market Analytics (www.costar.com), 4Q 2020. The information is provided "As Is" and without any representations, warranties or guarantees.

OFFICE FUNDAMENTALS

As working from home became the norm in 2020, office occupancy fell by 75.6 million SF in 2020, far surpassing the loss of 50 million SF in 2009, according to CoStar 4Q 2020 market data¹. The pandemic has taken a heavier toll on Class A properties, where occupancy fell by 21 million SF, a steeper plunge from the positive net absorption of 50 million SF in 2019. Class B properties had a negative net absorption of 40 million SF, compared to 1.5 million of negative net absorption in 2019. Office occupancy fell the least in Class C properties, by 14 million SF, a continued decline in occupancy since 2019, when there was a negative net absorption of 4.5 million SF.

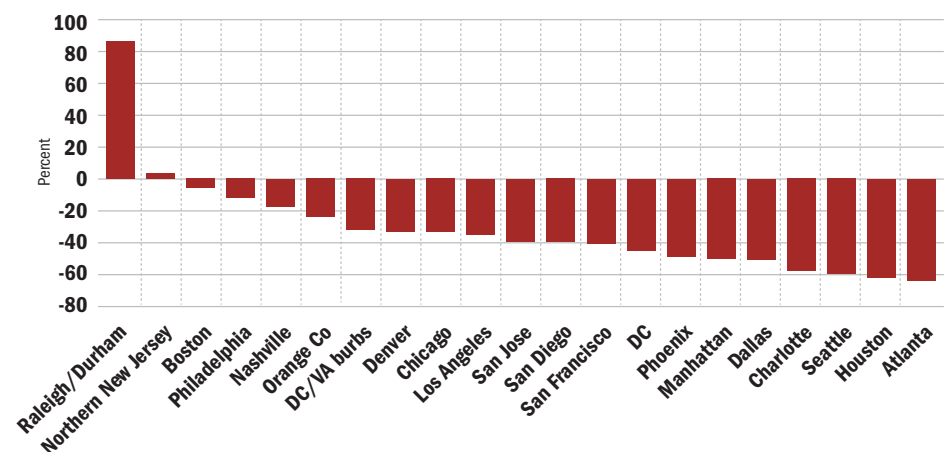
As of 4Q 2020, the overall office vacancy rate stood at 11.2%, about a percentage point higher than in 2Q 2020, based on data from CoStar² (see Exhibit 5-A). The office vacancy rate in Class A properties, which has always been higher than the overall office vacancy rate, rose to 14.3% from 12.7% in 2Q 2020. Class C properties had the smallest rise in vacancy rate, just 0.5 percentage points, with the vacancy rate at 5.4% in 4Q 2020. In short, Class C office properties are holding up better against the pandemic's onslaught compared to Class A and B properties. One reason could be that Class C building occupants tend to be small businesses, so they have been able to tap into the PPP to pay their employees, rent, utilities and mortgage. As of Jan. 24, 5.5 million PPP loans had been disbursed, or 17.5% of the 31.4 million

EXHIBIT 5-B. OFFICE ACQUISITIONS IN 2020



Source RCA, 4Q 2020.

EXHIBIT 5-C. YOY PERCENT CHANGE IN DOLLAR SALES VOLUME IN AREAS WITH AT LEAST \$1 BILLION IN SALES



Source RCA, 4Q 2020.

small businesses in the U.S.³

As vacancy rates rose, office rents fell, although the decline is marginal in the context of the large decline in office occupancy. As of 4Q 2020, office market rents were down just 1.1% YOY. Class A rents were down 1%, Class B rents were 1.3% lower, and Class C rents declined 1.2%, according to CoStar⁴ data.

TRANSACTION TRENDS

With rising vacancies and with the future outlook of the office property sector facing high uncertainty (will work from home be the norm? will there be a great migration out of the city?), investors shied away from acquiring office properties in the second and third quarter, according to RCA⁵ market data (see Exhibit 5-B). Sales picked up in the fourth quarter, but that did not make up for the prior losses. On a full-year basis, the dollar sales volume for properties or portfolios of \$2.5 million or more fell by 40% in 2020, from \$144 billion in 2019 to \$86 billion in 2020, according to RCA⁶ market data. The Central Business District (CBD) market experienced a larger decline in sales transactions of 48%, compared to a 35% drop in sales transactions in the suburban market.

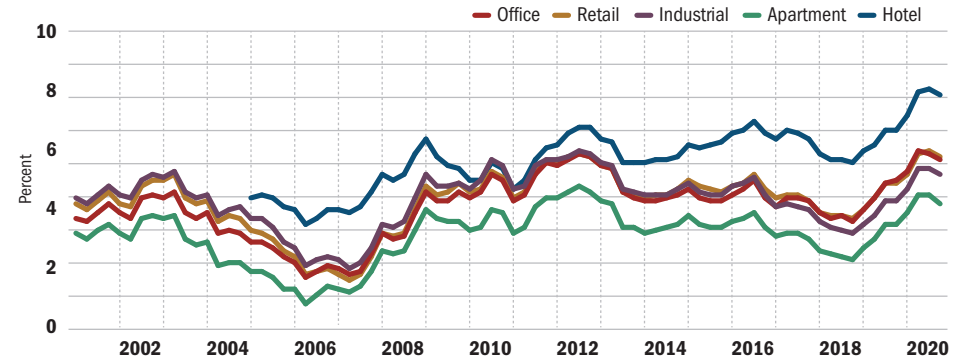
Dollar sales volume of properties or portfolios of \$2.5 million or over declined across the nation's major metropolitan areas, including the gateway cities of Boston (-6%), Manhattan (-51%), San Francisco (-41%), Los Angeles (-36%), Seattle (-61%), San Jose (-40%), Washington, DC (-46%). However, sales increased in Raleigh/Durham (88%) and Northern New Jersey (4%), according to RCA⁷ (see Exhibit 5-C).

Investors demanded higher cap rates to compensate for the riskiness of investing in CRE. The spread between the cap rate and the 10-year Treasury yield rose from 4.9% in 4Q 2019 to 5.8% as of 4Q 2020⁸. Multifamily and the industrial sector had the lowest risk spread, at 4.2% (3.5% in 4Q 2019) and 5.2% (4.3% in 4Q 2019) respectively, but even in this most favored sectors, the risk spreads have increased YOY⁹ (see Exhibit 5-D). Hotel had the highest risk spread at 7.9% (6.7% in 4Q 2019) followed by retail at 5.7% (5.0% in 4Q 2019).

INVESTOR COMPOSITION

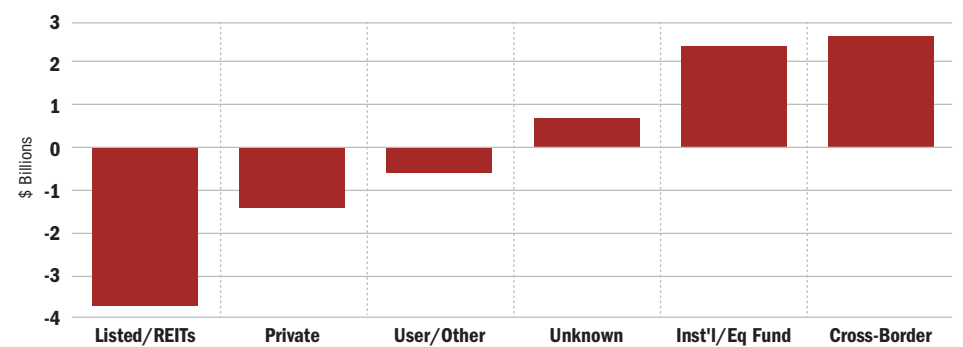
REITs had the largest net divestment (\$3.7 billion), followed by private investors and other

EXHIBIT 5-D. CAP RATE SPREADS OVER 10-YEAR TREASURY



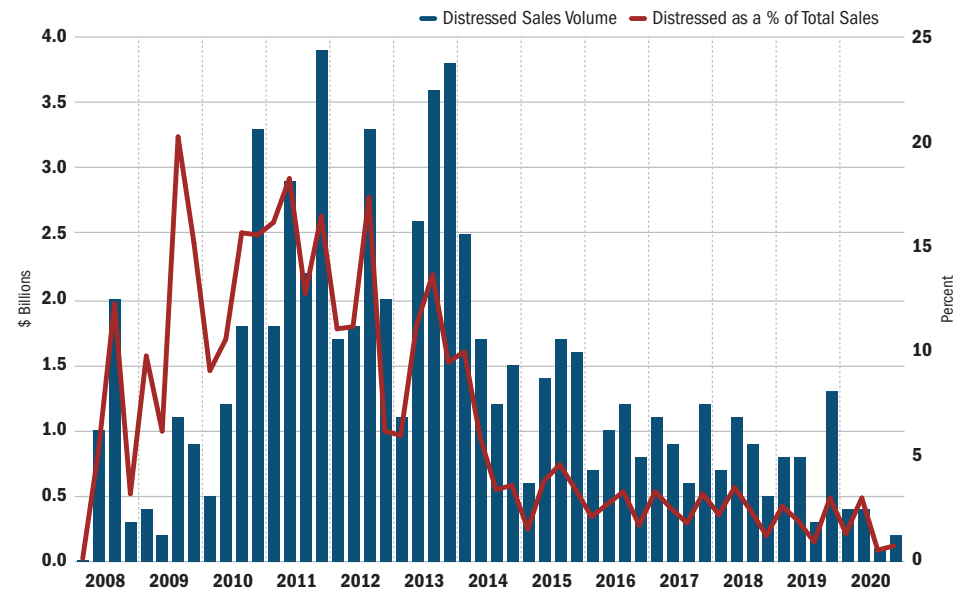
Source RCA, 4Q 2020.

EXHIBIT 5-E. OFFICE INVESTOR COMPOSITION



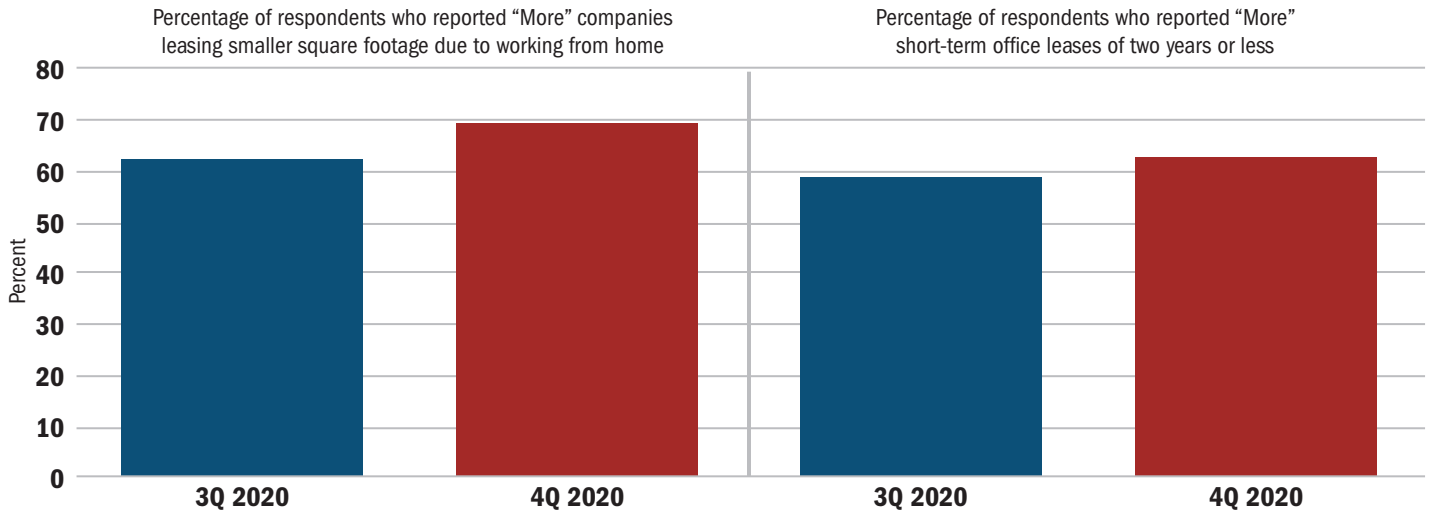
Source RCA, 4Q 2020.

EXHIBIT 5-F. OFFICE DISTRESSED SALES



Source RCA, 4Q 2020.

EXHIBIT 5-G. NAR COMMERCIAL MARKET SURVEY: OFFICE RESPONSE



Source NATIONAL ASSOCIATION OF REALTORS® Commercial Market Survey, 4Q 2020.

investors¹⁰. However, institutional investors and foreign investors were acquiring properties on a net basis. Acquisitions of institutional investors outpaced their dispositions by \$2.4 billion, while cross-border net acquisitions rose \$2.64 billion (see Exhibit 5-E).

While the office market has suffered a large loss in occupancy and declining rents, there has been little financial distress to the point where the properties have had to be liquidated. Distressed sales¹¹ accounted for less than 1% of total dollar sales volume, according to RCA (see Exhibit 5-F). In comparison, distressed sales accounted about 10% to 20% of sales during 3Q 2008 through 1Q 2014¹². This indicates that office property owners

came into the pandemic crisis in a stronger financial position, with less debt, than during the GFC.

TREND TOWARD SHORTER TERM LEASES AND SMALLER OFFICES

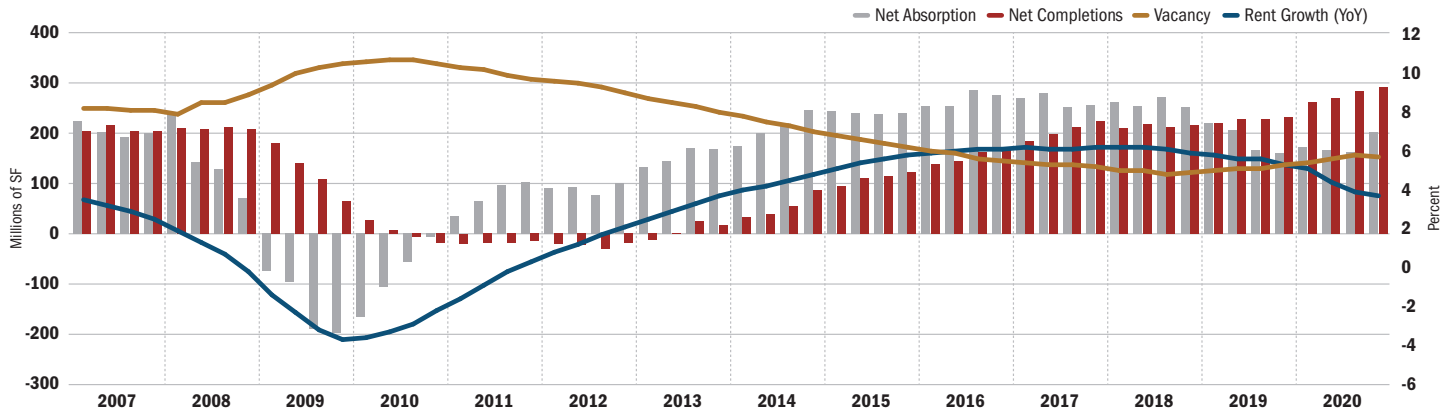
As of December 2020, 24% of the workforce was working from home, compared to 6% in 2019. Among those in professional and business services, the percentage was much higher, with two in three workers still working from home. The impact of this on the size of the office space and the length of the lease term is still evolving, but the trend seems to be moving toward smaller offices and shorter lease terms, according to a survey of

REALTORS® who participated in NAR's 2020 Q4 Quarterly Commercial Market Survey¹³ (see Exhibit 5-G). About 69% of respondents reported that companies are moving into smaller offices. About 63% also reported that they are observing more office leases of two years or less compared to the pre-pandemic period. REALTORS® reported that, on average, the office lease term among occupiers was 38 months (Class B/C) to 47 months (Class A) while the average lease term of occupiers of office class A buildings was 47 months. With the adverse effect of pandemic on the retail sector, the shortest leases terms were leases for malls, with the average lease term at just slightly over two years.



THE INDUSTRIAL MARKET

EXHIBIT 5-H. INDUSTRIAL PROPERTY TYPE FUNDAMENTALS



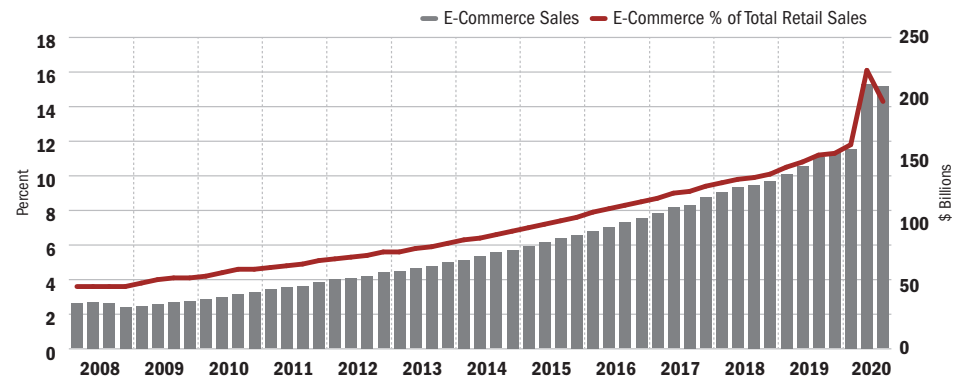
Source CoStar Market Analytics (www.costar.com), 4Q 2020. The information is provided "As Is" and without any representations, warranties or guarantees.

INDUSTRIAL FUNDAMENTALS

Industrial continues to be the preferred property type and highlight of CRE, with its durability on display as net absorption for industrial space strengthened in 2020 amid an ongoing pandemic. In the 12 months that ended 4Q 2020, net absorption increased to 203.4 million SF, the highest level since 2Q 2019 and a 26% increase from 4Q 2019, according to CoStar data¹⁴ (see Exhibit 5-H). Net completions also increased in 4Q 2020; 12-month net completions totaled 291.9 million SF, a 25% increase YOY¹⁵. The increase in net completions provided insight into investors' optimism toward the industrial sector's outlook, given trends that were already growing and accelerated as a result of the pandemic. The industrial market vacancy rate marginally increased from 5.2% to 5.6% YOY¹⁶. Despite the marginal increase, the difference in industrial vacancy rates compared to one year ago is the lowest among all property types.

The increased demand for industrial space was sparked by extraordinary growth in e-commerce sales even before 2020, and it accelerated as a result of COVID-19 and the measures taken to mitigate its impact. The most recent U.S. Census Bureau e-commerce retail sales data, in 3Q 2020, indicates e-commerce retail sales of \$209.5 billion, a decrease of 1% from 2Q 2020¹⁷ (see Exhibit 5-I). Total retail sales for 3Q 2020 were estimated at \$1.47 trillion where e-commerce sales accounted for 14.3% of total sales. While already trending upward, e-commerce sales sharply increased

EXHIBIT 5-I. GROWTH IN E-COMMERCE SALES



Source Census Bureau, 3Q 2020.

from 4Q 2019's 11.3% and 1Q 2020's 11.8% to 16.1% in 2Q 2020 before moderating to 14.3% in 3Q 2020.

Industrial asset investment, on average, provided investors with a total return of 9.1% in 4Q 2020. The majority of the total return originates from income return, 6.7%, with price appreciation providing 2.5%, based on CoStar's¹⁸ 4Q 2020 Market data. The total return on industrial property investments is down from 11.0% in 4Q 2019. Although trending downward, the industrial property investments yield a higher return that is more than double that of retail, office and multifamily property investments, which had total returns of 4.5%, 4.1% and 4.0% respectively¹⁹. In 4Q 2020, rent growth for industrial space continued its descent to 3.6% from 5.2% one year ago, falling to its lowest rate since 4Q 2013.

TRANSACTION TRENDS

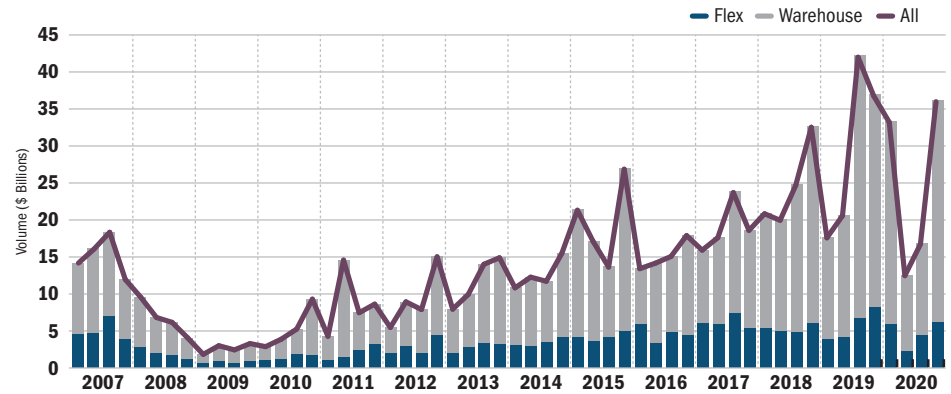
At the conclusion of 2020, overall industrial sales transactions totaled \$98.8 billion, down 16% from one year ago. Conversely, 4Q sales transactions increased significantly QOQ from 2Q 2020 by more than 189% and 3Q 2020 by 115%, according to data provided by RCA²⁰ (see Exhibit 5-J). Warehouse transactions were the primary cause of the huge increase, which totaled \$30.0 billion as warehouse continues to exceed flex with respect to dollars transacted and the number of properties, for which warehouse accounts for 83% of total dollar volume in 4Q 2020 and 81% of total industrial transaction volume spanning all of 2020. Warehouse sales transactions were up 4% YOY in 4Q 2020, but total transactions were down to \$80.1 billion, a 15% decline YOY across 2020 in aggregate. Although sales volume for warehouses increased, sales volume

for flex space decreased significantly to \$6.1 billion, a 25% decline YOY in 4Q alone. Flex space sales fell to \$18.6 billion in 2020, a 18% decrease from the prior year. The total dollar volume of industrial transactions has grown incredibly over the past two decades. Total dollar volume for transactions of \$2.5 million or greater increased from \$16.1 billion in 2001 to \$117.4 billion in 2019, which represented a 613% increase²¹. Despite the COVID-19-related drop in transactions in 2020, total dollar volume was still up 500% between 2001 and the end of 2020.

The average price per SF for the overall industrial market rose to an average of \$101 through the first four quarters of 2020 and was \$105 in 4Q 2020. This is an increase of 7.3% from 4Q 2019 (see Exhibit 5-K), according to RCA²². Warehouse space had the greatest YOY price growth of the industrial subtypes, increasing by 11% to an average \$99 per SF, while flex space averaged \$138 per SF, down 2% YOY. In the six major metro areas, the price per SF increased to \$165, up 13% from one year ago²³. Price per SF in the non-major metro markets are a little more than half the cost, at \$87 per SF, with prices rising at a slower pace of 8%. Industrial prices varied broadly by market. According to RCA²⁴ data, the top five most expensive metros for industrial space by price per SF were Washington, D.C. (\$573), New York City boroughs (\$553), San Francisco (\$534), San Jose (\$286) and Orange County (\$238). Compared to these metros, the price for industrial space in Cleveland (\$49), St. Louis (\$52) and Memphis (\$55) are inexpensive.

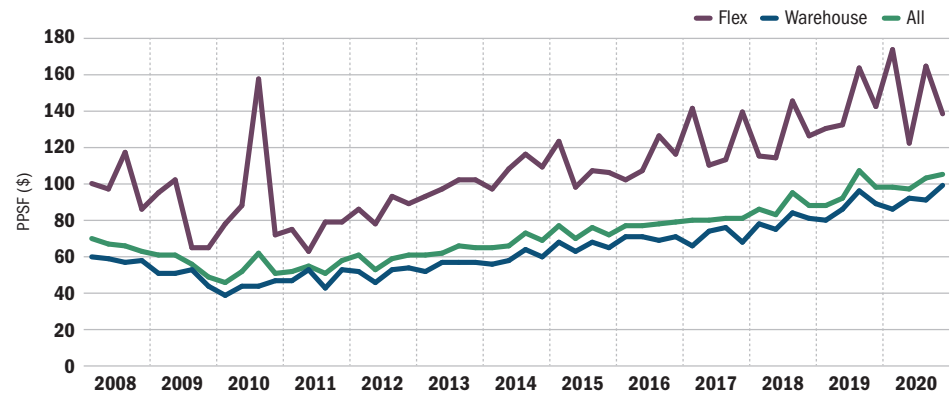
As reported by RCA²⁵, transaction volume in the industrial sector was driven by investments in the non-major U.S. markets. Non-major U.S. markets accounted for \$65.6 billion in 2020 with \$24.5 billion coming from 4Q 2020, which is down from \$25.0 billion in 4Q 2019. Investments in the major markets totaled \$33.1 billion in 2020 with a 4Q 2020 total of \$11.6 billion, which is a decline from \$11.9 billion recorded in 4Q 2019. Los Angeles ranked the highest for industrial asset investments with \$5.8 billion in transaction volume through the four quarters of 2020, a 22% decrease²⁶. Dallas was second with \$5.1 billion in volume, a YOY decrease of 12%. Chicago (\$4.9 billion), Atlanta (\$3.5 billion) and Inland Empire (\$3.5 billion) round out the top five in industrial volume (see Exhibit 5-L).

EXHIBIT 5-J. INDUSTRIAL ACQUISITIONS



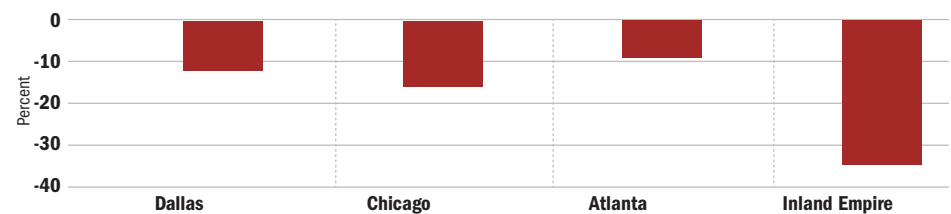
Source RCA, 4Q 2020.

EXHIBIT 5-K. INDUSTRIAL AVERAGE PRICE PER SQUARE FOOT



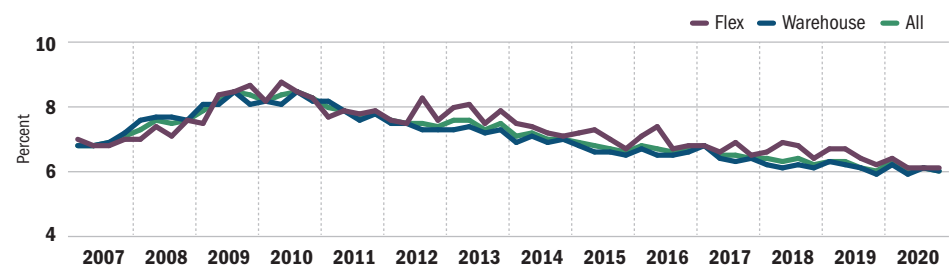
Source RCA, 4Q 2020.

EXHIBIT 5-L. TOP 5 METRO INDUSTRIAL SALES VOLUME (YOY % CHANGE)



Source RCA, 4Q 2020.

EXHIBIT 5-M. AVERAGE INDUSTRIAL CAP RATES



Source RCA, 4Q 2020.

According to RCA²⁷, cap rates for the overall industrial property type remain at a record-low 6.0% in 4Q 2020 (see Exhibit 5-M). Cap rates for flex were slightly higher at 6.1%, compared to warehouse space at 6.0%. YOY, overall industrial sector cap rates remained unchanged while the cap rates for flex decreased by 10 bps YOY and warehouse sub-type cap rates increased by 10 bps YOY.

INVESTOR COMPOSITION

Private investors were the most active buyers in 4Q 2020, accounting for 36% of total industrial purchases, according to data provided by RCA²⁸. The second most active buyer of industrial in 4Q 2020 was institutional/equity funds, at 29% of the total. Cross-border, listed/REITs and user/other all increased their acquisitions. Institutional/equity funds were also the only group to decrease their acquisitions (by 43% YOY). Cross-border investors had the most significant increase in acquisitions, at 109% YOY.

According to RCA²⁹, private investors were the most active sellers in 4Q 2020, increasing dispositions by 33% YOY. Institutional/equity funds were the second-most active sellers in 4Q 2020, with a 12% decline in dispositions YOY. Listed/REITs, user/other and cross-border investors decreased their dispositions YOY by 82%, 17% and 9%, respectively. Private investors and institutional/equity funds combined account for 80% of total industrial sales. Cross-border, listed/REITs and institutional/equity fund investors were net buyers. User/other and private investors were the only net sellers of industrial.



THE RETAIL MARKET

RETAIL FUNDAMENTALS

COVID-19 has had a huge impact on the retail sector. Due to the physical nature of the retail real estate industry, stay-at-home orders and capacity restrictions sent economic and operational shock waves through shopping centers, urban storefronts and mom-and-pop shop stores, upsetting each retail subcategory in strong yet dissimilar ways. According to a CoStar Insight article³⁰, more than 40 major retailers declared bankruptcy, and almost 150 million SF of retail space was vacated. Among these closures were popular department store anchors and home goods retailers, with some previously prized anchor retailers closing their doors at their most esteemed locations. Retailers that were already facing distress in the market, possibly due to the impact that e-commerce had on their business for years, felt their anguish amplified, and were therefore

unable to hold out until the rebound that the market is sure to experience, according to the CoStar Insight article³¹. However, the disruption was not felt equally across the retail sub-sectors, as discount retailers that typically target lower-income areas were able to open locations in 2020 due to increases in demand for these products and price points. Additionally, the CoStar Insight article³² found that Class A malls proved once again that they can survive even the most difficult of circumstances. Overall, while faced with immense challenges, many retailers were able to react quickly to the obstacles they faced to keep their doors open and provide for consumers both virtually and in-person.

According to 4Q 2020 CoStar data³³, vacancy rates within the national overall retail market increased during 2020, reaching 5.1% in 4Q 2020 compared to fluctuating between 4.4% and 4.7% in 2018 and 2019 (see Exhibit

5-P). This represents a slight increase in vacancy, reaching similar to rates in 2015 and 2016. It is important to note that these rates are relatively moderate and have not reached the vacancy high point of 7.3% in 4Q 2009 to 2Q 2010. However, CoStar³⁴ forecasts vacancy rates for the overall retail market to continue to increase throughout the next year, predicting vacancy of 5.6% in 4Q 2021. The neighborhood center submarket experienced the greatest vacancy rate of 7.9% as of 4Q 2020, which has increased rather rapidly from 7.0% vacancy just one year prior in 4Q 2019.

Market rent for the overall retail sector averaged \$21.59 per SF as of 4Q 2020, a modest 1.4% increase over asking rents of \$21.29 per SF in 1Q 2019, according to CoStar³⁵. Throughout the retail market, rents have experienced nominal increases during the year with no significant decreases predicted for the periods to come – a rather positive outlook after



the significant changes that have occurred.

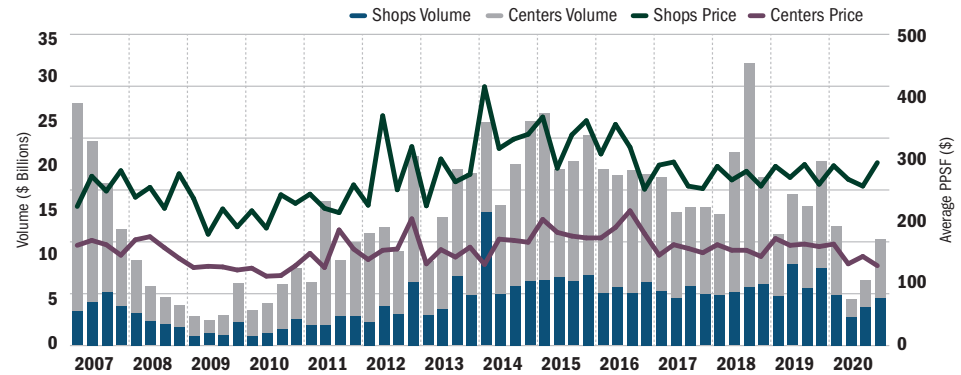
TRANSACTION TRENDS

According to RCA³⁶, volume of retail property sales totaled approximately \$37.7 billion YTD as of 4Q 2020, a 43% decrease from \$65.9 billion in the same period in 2019. Approximately two-thirds of the retail sales that occurred in 2020 (\$23.8 billion) were in non-major metropolitan areas, while the remaining one-third (\$12.8 billion) occurred in major metropolitan areas. All retail subcategories, with the exception of drugstores and malls, experienced significant decreases in property sales YTD, with the big box subcategory leading the pack with a drastic decline in sales YTD of only 72 properties sold (compared to 195 the previous year), or 63%, resulting in only \$687.1 million in volume³⁷. This is in stark contrast to the YTD change observed in the previous year, where this subcategory experienced a significant 47% increase in sales equivalent to almost \$1.8 billion in volume.

Property sales in several of the retail subcategories decreased by over 50% YTD compared to 2019, with sales of anchored retail, lifestyle/power centers and unanchored retail reporting decreases of 55%, 53% and 50%, respectively³⁸. Lower decreases in sales volume were measured in centers, grocery stores, urban/storefront retail, single-tenant retail and shops, reporting decreases of 47%, 47%, 44%, 43% and 38%, respectively (see Exhibit 5-N). However, the drugstore and mall subcategories managed to report modest YOY increases in property sales, with both reporting sales volume increases of 14% in 4Q 2020, equivalent to 626 drugstore transactions (compared to 547 in 2019), and 55 mall transactions (compared to 50 in 2019), according to RCA³⁹. The decrease in overall retail property sales activity was felt across almost the entire retail market, as investing in the volatile property type was not a priority for most investors during the pandemic.

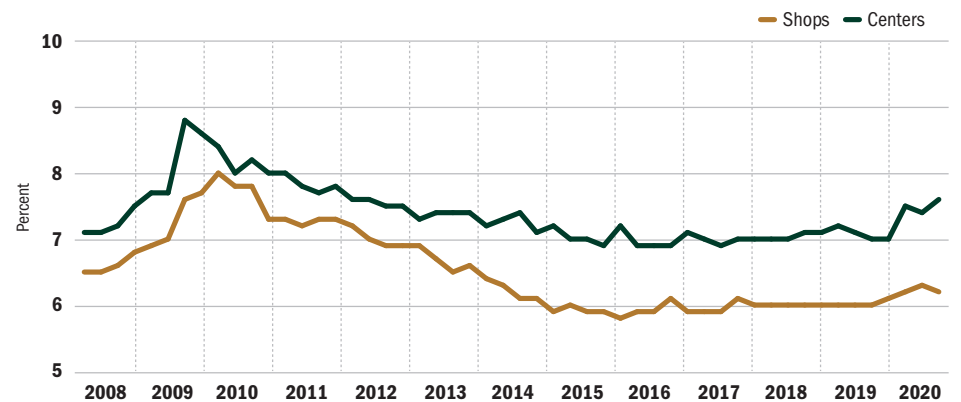
Average price per SF for the retail market decreased a slight 1% from 2019, falling to an average \$196 per SF over the four quarters in 2020, reaching a low mark for the year of \$191 per SF in the final quarter of 2020. These averages can be compared to an average price of \$199 per SF in 2019, based on data provided by RCA⁴⁰. Similar to the

EXHIBIT 5-N. RETAIL (SHOPS AND STRIP CENTERS) VOLUME AND PRICING



Source RCA, 4Q 2020.

EXHIBIT 5-O. AVERAGE RETAIL CAP RATES



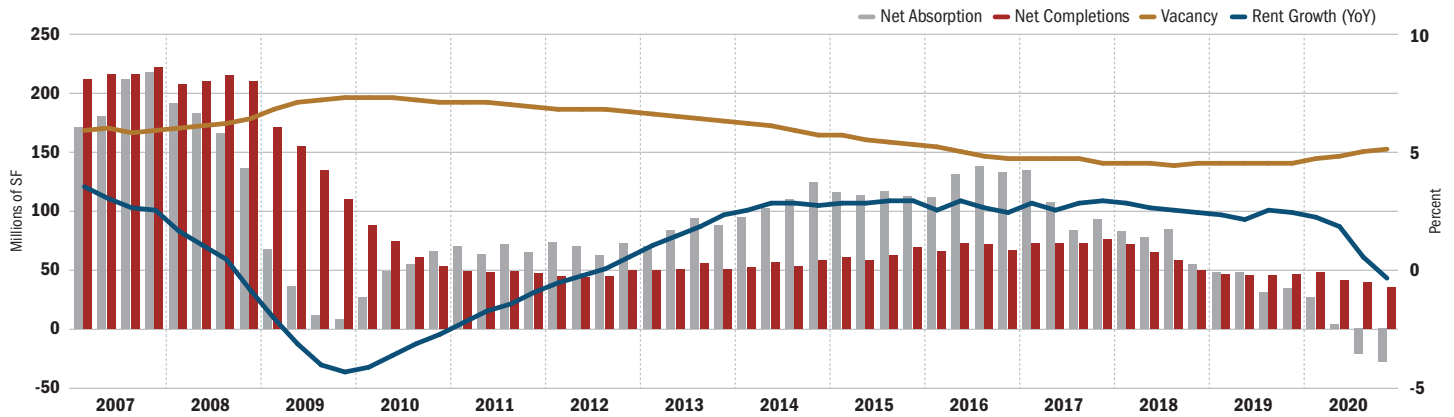
Source RCA, 4Q 2020.

decreases observed in sales volume across the subcategories, decreases in average price per SF were observed in the majority of the subcategories, with some experiencing more drastic decreases from others. While single-digit YOY decreases in average price per SF were reported in the urban/store front retail, mall, drug store, grocery, anchored retail, unanchored retail, and shops subcategories (ranging from -7% to 0%), more significant YOY decreases were observed in the centers subcategory (decreasing 14% YOY), and the lifestyle/power center subcategory (decreasing 26% YOY), with the lifestyle/power center reporting a record-low average of \$44 per SF in 4Q 2020⁴¹. However, both the single tenant retail and big box subcategories observed YOY increases in average price per SF – a modest 1% in the single tenant subcategory, and a substantial 35% in the big box subcategory, which reported a record peak average of \$161 per SF in 4Q 2020. While the former narrative around the retail market focused on the vitality of

strong anchored centers and grocery stores, and the precariousness of malls, we have learned that all retail categories present risk when consumers can't be present.

Average cap rates remained stable, according to RCA⁴² data, which shows cap rates holding at 6.6% with a spread of 566 basis points. Several subcategories observed fluctuations in cap rates of less than 50 basis points, with the urban/storefront, big box, drugstore, anchored retail, centers and shops subcategories reporting increases ranging from 20 to 40 basis points, and the single-tenant retail and mall subcategories reporting decreases ranging from 10 to 50 basis points (see Exhibit 5-o). The lifestyle/power center subcategory, along with a significant decrease in sales volume and average price per SF, observed a 140-basis point increase YOY, reporting average cap rates that increased from 7.3% in 2019 to 8.8% in 4Q 2020, according to RCA⁴³. With the unique market that was presented in 2020, it is surprising that there were not

EXHIBIT 5-P. RETAIL PROPERTY TYPE FUNDAMENTALS (OVERALL RETAIL)



The information provided is "As Is" and without any representations, warranties or guarantees.
 Source CoStar Market Analytics, 4Q 2020.

significant fluctuations in cap rates across more of the retail subcategories.

INVESTOR COMPOSITION

According to RCA⁴⁴, private investors increased their share of the buyer pool to once again own the majority at 63%. This has essentially normalized the market compared to the last five years, where private investors owned between 47% and 64% of the market. This market composition is consistent among most of the retail subcategories, with private investors representing over 60% of the buyer pool in the urban retail, drugstore, single tenant, grocery store, unanchored retail, anchored

retail, shops and retail centers subcategories. REITs have increased their share of the buyer pool to now be the second largest player, owning 11% of the buyer pool, as their position has fluctuated over the past five years, reaching a high of 18% in 2015 and a low of 4% in 2018, according to RCA⁴⁵. Institutional/equity fund investors retained a 9% share of the buyer pool, down from 11% in 2019. The remaining portion of the buyer pool consists of user/other investors, which increased their share from 4% in 2019 to 6% in 2020, while cross-border investors maintained their involvement as the previous year, making up 4% of the buyer pool in 2020, and unknown investors rounded out the remaining 7% of the pool.

The lender pool proportions appear largely the same as years prior, according to the 2020 RCA Trends Report⁴⁶. Regional/local banks increased their position as owning the largest share of the lender pool at 36%, while CMBS maintained their position of owning the second largest share of the lender pool at 18% as of 3Q 2020. National banks and insurance agencies' presence in the market has decreased slightly, making up 12% and 11% of the pool, respectively. Conversely, international banks and investor-driven lenders have increased their share of the lender pool from 2019, making up 10% and 9% respectively, with private/other lenders making up the remaining 2% of the lender pool.





THE APARTMENT MARKET

APARTMENT FUNDAMENTALS

According to Moody's Analytics Real Estate Information Services (REIS)⁴⁷, annual effective rent change was 3.6% in 2019 and ended 2020 at -2.9%. Based on Moody's Analytics REIS's baseline forecast, the annual effective rent change is projected to continue to decline by another 1.9% in 2021 before gradually increasing to 3.0% in 2025 (see Exhibit 5-S).

Since the apartment recovery began in late 2009, the vacancy rate fell in each year through 2016 – from 8.0% to 4.2%, according to Moody's Analytics REIS⁴⁸. The vacancy rate since then has inched back up slightly and was at 5.3% as of January 2021. The vacancy rate is expected to increase to a peak of 6.3% in 2021, dropping steadily thereafter.

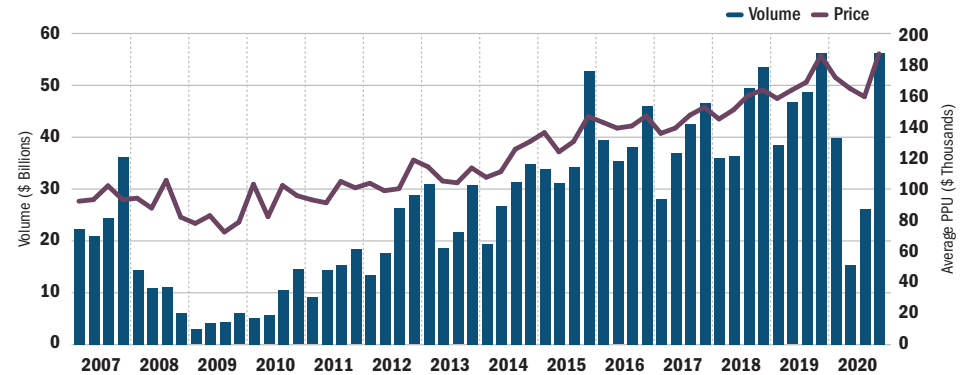
According to forecast information from Moody's Analytics REIS⁴⁹ for the top 50 markets, suburban Virginia, Oakland-East Bay, Westchester County, suburban Maryland and Minneapolis are expected to have the highest cumulative effective rent change by the end of 2024. Of the top 50 markets, the lowest performing markets are expected to be Orange County, San Bernardino/Riverside and Fairfield County.

TRANSACTION TRENDS

Despite the continued strength of the multi-family sector, the level of transaction activity was affected, as to be expected. A total of \$138.7 billion of significant apartment properties was sold throughout 2020, representing a YOY decrease of approximately 28% based on RCA data⁵⁰ (see Exhibit 5-Q). However, after industrial, which experienced a decrease of just 16%, apartments fared the best among the major property types. The decrease in volume was more heavily weighted to single-asset transactions at -29% compared to portfolio transactions at -22%. Further, the volume decline in major metros was far greater relative to secondary and tertiary markets⁴¹.

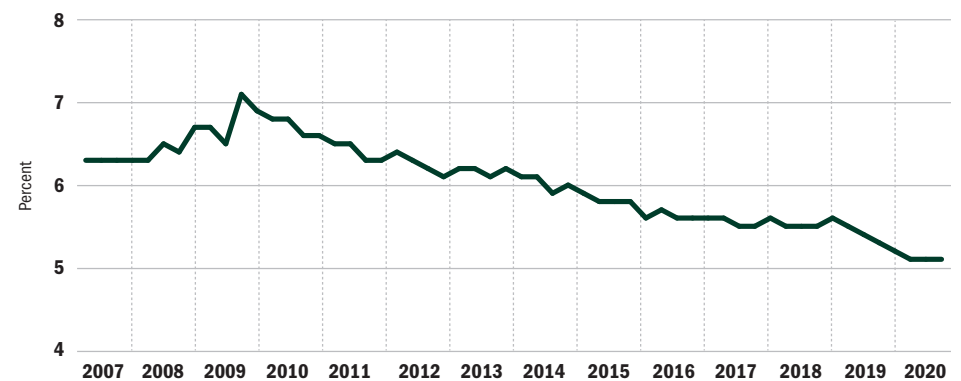
Among apartment types, the decrease in volume for garden-style properties (-26%)

EXHIBIT 5-Q. APARTMENT VOLUME AND PRICING



Source RCA, 4Q 2020.

EXHIBIT 5-R. AVERAGE APARTMENT CAP RATES



Source RCA, 4Q 2020.

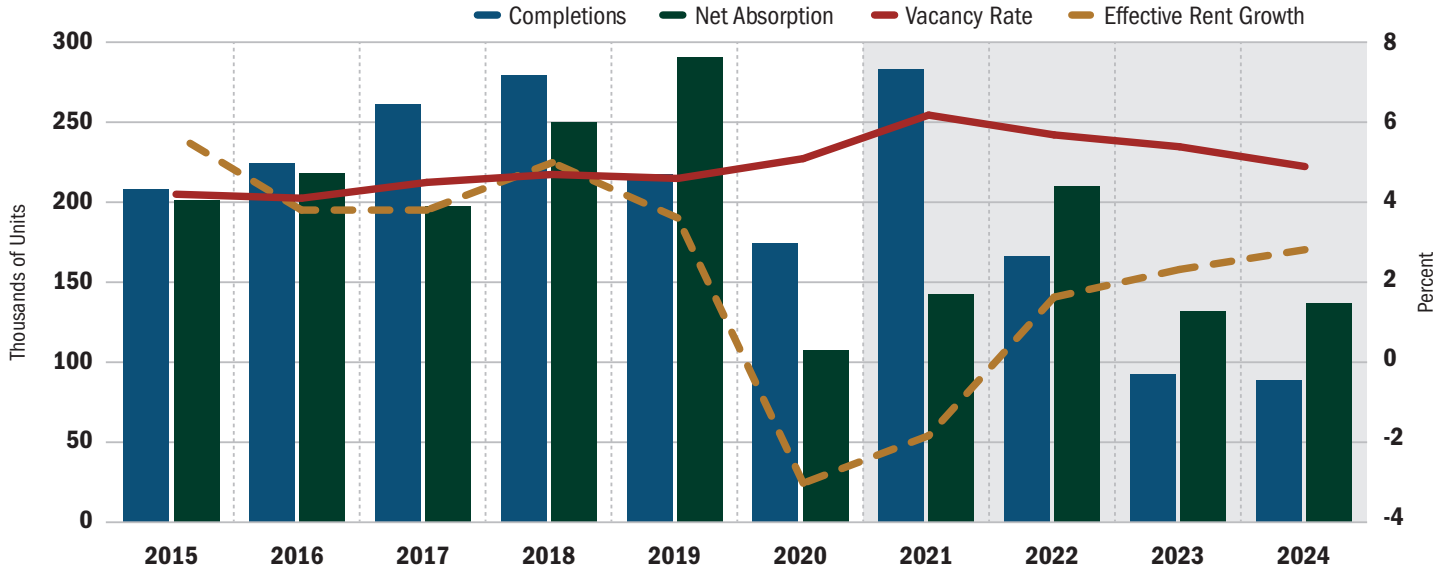
was less than that of mid/high-rise properties (-31%) in 2020, according to RCA⁵². Additionally, over this time frame, garden apartments comprised approximately two-thirds of the overall transaction volume.

Based on the CPPI⁵³, pricing for apartment properties nationally increased approximately 8% YOY through December 2020. This is the second largest increase of the major property types over this time frame, behind only industrial. However, looking at this data by apartment type provides better insight. The 9% YOY change in value for garden apartments was dramatically better than the slight decrease in value for mid/high-rise apartments of -0.2%⁵⁴. This divergence may be the result of certain tenants leaving more densely populated areas for more suburban settings as a result of the pandemic.

The average price per unit (PPU) has also increased, averaging \$176,237 in 2020 compared to \$171,610 in the prior year, per RCA⁵⁵.

As presented in Exhibit 5-R, average cap rates for the apartment sector dropped slightly from 4Q 2019 to 4Q 2020, from 5.3% to 5.1%. As of 4Q 2020, RCA⁵⁶ reported that the average cap rate for mid/high-rise properties stood at 4.9%, while the average cap rate for garden-style properties dropped to 5.1%. Notably, the delta between cap rates for these two apartment types is narrowing. As recently as 2016, the cap rate for garden-style properties was a full 100 basis points above that of mid/high-rise⁵⁷. With both apartment types, the rates are well below historical levels, reflecting the availability of capital, low mortgage rates and the high demand for this property type. It appears cap rates may continue to hold steady in 2021.

EXHIBIT 5-S. APARTMENT MARKET VACANCY AND EFFECTIVE RENTAL GROWTH RATE



Shaded area indicates forecast.
 Source Moody's Analytics REIS, 4Q 2020.

INVESTOR COMPOSITION

Similar to recent years, private investors have largely dominated the market in 2020, representing 63% of all apartment acquisition activity based on RCA data⁵⁸. The second largest group of buyers was institutions/funds at over 23%. REITs accounted for just 1% of apartment acquisition activity in 2020, down from 5% in 2019.

Blackstone was the most active buyer (in terms of investment volume) in 2020, according to RCA⁵⁹. Other notable buyers were Harbor Group International, Greystar,

bcIMC, and Belveron RE Partners. The top sellers were Cortland, Aragon Holdings, CA Ventures, Blackstone, and Conifer Realty.

The geographic areas leading in transaction volume for apartment properties in 2020 included Dallas, Atlanta, Phoenix and Los Angeles, according to RCA⁶⁰. However, markets faring the best relative to 2019 include Jacksonville, Charlotte, Dallas and Denver.

A diminishing supply of apartment properties, strong sector fundamentals and intense competition led to a significant pipeline of new apartment projects over the past

decade. However, it appears that supply has begun to slow. Prior to 2019, the new supply of apartment units had increased in every year since 2011 – from just 42,919 units in that year to 284,752 in 2018⁶¹. However, the supply of new units decreased to 218,443 in 2019 and fell again to 189,488 in 2020⁶².

According to Moody's Analytics REIS's baseline forecast⁶³, 283,902 apartment units are expected to be delivered in 2021, followed by 167,153 and 92,635 in 2022 and 2023, respectively. The total apartment stock as of December 2020 was approximately 11.7 million units.



THE HOTEL MARKET

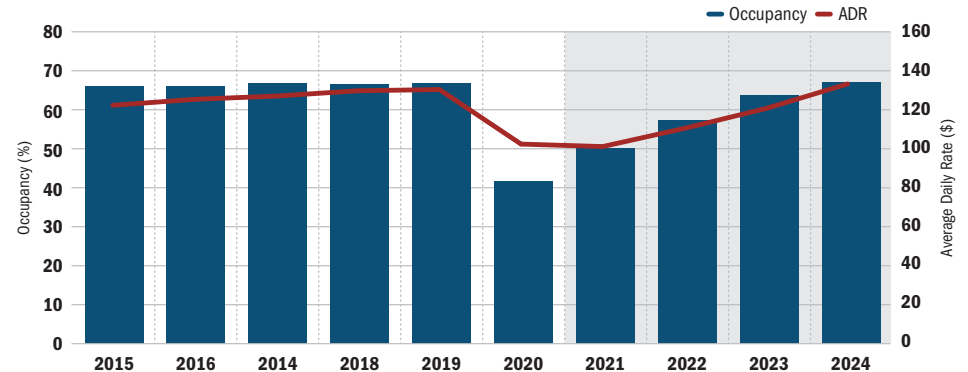
HOTEL FUNDAMENTALS

After the period of stronger growth and record-setting metrics, especially since 2016, ADR and RevPAR responded in parallel, suggesting that the market was at or near equilibrium, according to a CBRE Hotel Horizons Report⁶⁴. The market began to shift in 2019 as the YOY RevPAR growth rate slowed to 0.9%, which is the lowest recorded since the recovery from the GFC and well below the long-run average growth of 2.9% since 2000. The deceleration in RevPAR was primarily related to changes in ADR, which challenged investors' continued optimism as the market entered 2020 and even before COVID-19's severe impact on hotel markets.

CBRE⁶⁵ found that as 2020 began, RevPAR growth in January and February continued the trend established in late 2019. In March, the hotel market suffered a major drop in demand due to the COVID-19 pandemic, reporting negative RevPAR that bottomed out at negative 80% growth in April, according to CBRE Hotel Horizons⁶⁶. ADR continued its decline; however, low occupancy was a greater contributor to the overall decline in RevPAR (see Exhibit 5-T). By the summer months, active consumers began to travel, and projected occupancy began to improve. However, occupancy stayed negative YOY, with most markets down approximately 50%⁶⁷. Similar trends or slow growth in recreational markets are projected during the summer of 2021, and corporate travel will likely begin with more coverage and rollout of the COVID-19 vaccines through 4Q 2021, according to CBRE Hotel Horizons⁶⁸. As the occupancy is expected to rise throughout 2021, ADR is expected to remain stagnant or slightly declining due to trailing demand growth of higher priced chain scales. New construction of hotels peaked in April 2020 and is lessening, which may also help reduce competition of existing hotels and even further support occupancy throughout 2021⁶⁹.

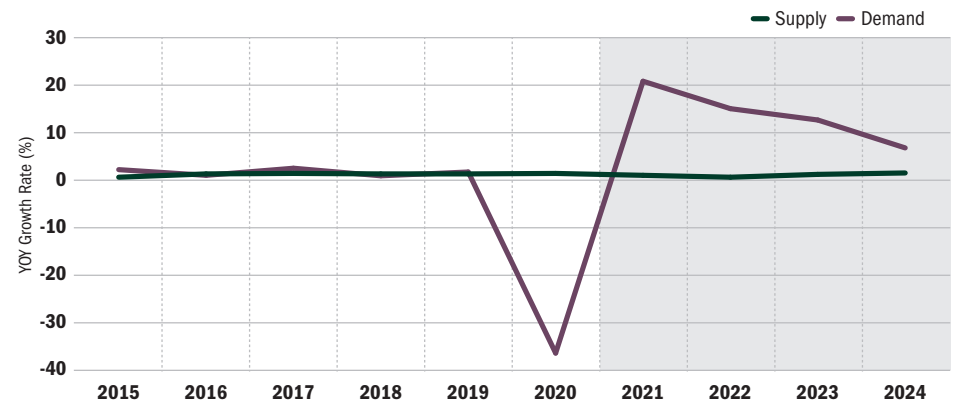
As expected, due the pandemic, occupancy declined in 2020 from 66.8% in 2019 to 41.8% in 2020, according to CBRE Hotel Horizons⁷⁰. This is far below the long-run average of 66.5% in the lodging industry⁷¹.

EXHIBIT 5-T. HOTEL ADR AND OCCUPANCY



Note Shaded area reflects forecast rates.
Source CBRE Hotels' Americas Research, Kalibri Labs, 3Q 2020.

EXHIBIT 5-U. HOTEL SUPPLY VS. DEMAND GROWTH



Note Shaded area reflects forecast rates.
Source CBRE Hotels' Americas Research, Kalibri Labs, 3Q 2020.

Correspondingly, ADR has declined 12.2%, which is far below the long-run average of a positive 2.4%. Despite the large decline in all categories of measurement for the hotel industry, some areas that have succeeded, including recreational locations within driving distance of larger populated sectors of the country. Other bright spots include highway hotels because of increased vehicle travel and extended-stay hotels related to COVID-19 essential work⁷². Per CBRE's Q3 2020 U.S. Hotel Horizons Report⁷³, ADR declined in the luxury, upper upscale, upscale, upper midscale, midscale and economy chain segments. However, luxury and upper upscale chain segments have seen the least amount of ADR deterioration within the trailing four-quarter averages, dropping 3.5% and 7.7%, respectively⁷⁴.

All of this turmoil has forced industry participants to be patient about a long-term recovery. The pandemic's severe impact has shown that the hotel industry likely won't begin to recover until the vaccines have been rolled out. Overall, 2019 hotel performance metrics aren't expected to return until sometime between late 2023 and 2025⁷⁵.

According to Cushman & Wakefield⁷⁶, as of 3Q 2020, lack of hotel revenue in 2020 has halted most new hotel projects, but construction on previously started projects continued after the initial wave of the pandemic. However, for the properties continuing to build, the timing has slowed to line up better with when the vaccines will be broadly distributed. Additionally, new construction will continue to be slow throughout 2021, and some hotels will be converted

to different property types (see Exhibit 5-U). Lastly, there will continue to be supply chain problems and delayed delivery of materials, furniture, fixtures and equipment due to the pandemic. Some industry participants see the lack of supply as a positive because it will help increase the occupancy rate and ADR while the industry recovers⁷⁷.

In general, 2020 has affected the hotel industry immensely. A sharp decline in all hotel fundamentals occurred, and it will take time to reach their pre-COVID numbers. With a vaccine rollout and additional safety precautions, market participants are confident they'll see a recovery in two to four years⁷⁸.

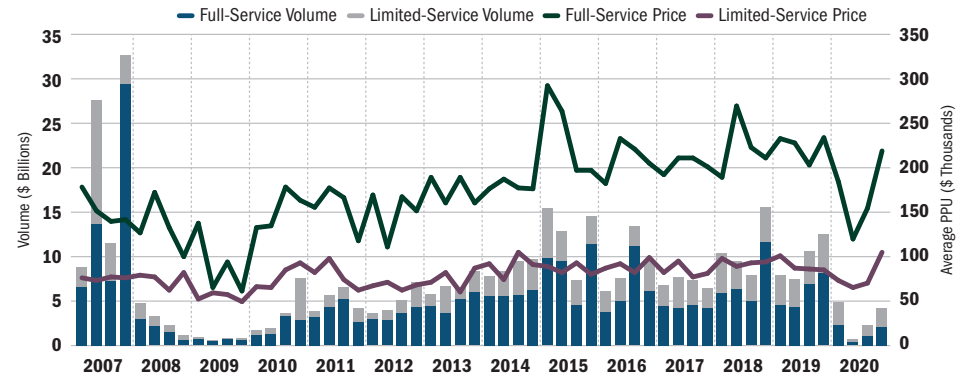
TRANSACTION TRENDS

Transactions decreased significantly in dollar volume and trade numbers in 2020 due to the global pandemic crippling the world's travel industry. A strong reason for the transaction decline is the large disconnect between buyers and sellers in the determination of property value. Sellers have been open to a 15% to 20% markdown due to the pandemic while buyers have expressed interest in acquiring properties with a 20% to 40% value reduction. This disconnect will likely keep hotel values uncertain until pre-pandemic transaction volume returns⁷⁹. According to RCA⁸⁰, transaction volume in 2020 for full-service hotels was \$5.79 billion, an 76% decrease from 2019's transaction volume (see Exhibit 5-V). Additionally, limited-service volume was \$6.43 billion, a 56% decrease from 2019's transaction volume. Total hotel volume was \$12.2 billion, a 68% decrease from the prior year.

Transaction highlights in 2020 included three active firms: Highgate Holdings, Cain International and EOS Investors were responsible for \$2.9 billion in acquisitions, according to RCA⁸¹. Highgate Holdings acquired 197 properties at an average sales price of \$11.9 million. For the three buyers combined, their average acquisition price approximately ranged from \$11.9 million to \$150.0 million.

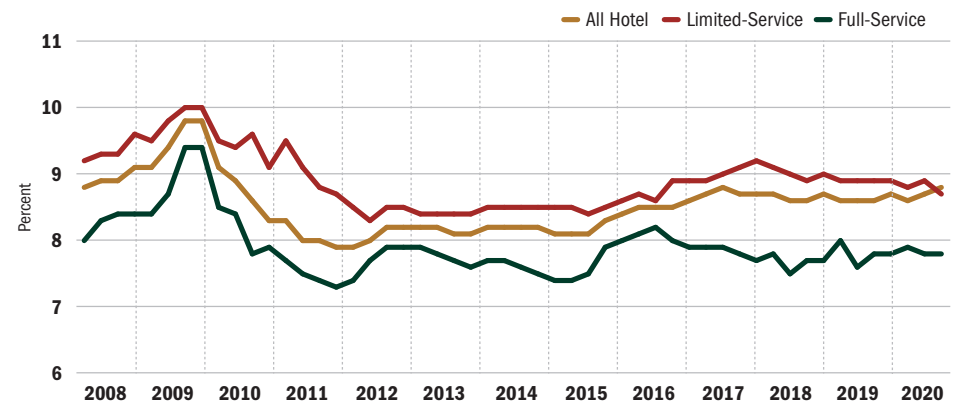
Despite significant losses across all markets, according to the RCA Capital Trends Hotel Report⁸², New York's Manhattan, Los Angeles and Phoenix experienced the highest sales volumes with sales totaling \$1.03 billion,

EXHIBIT 5-V. HOTEL VOLUME AND PRICING



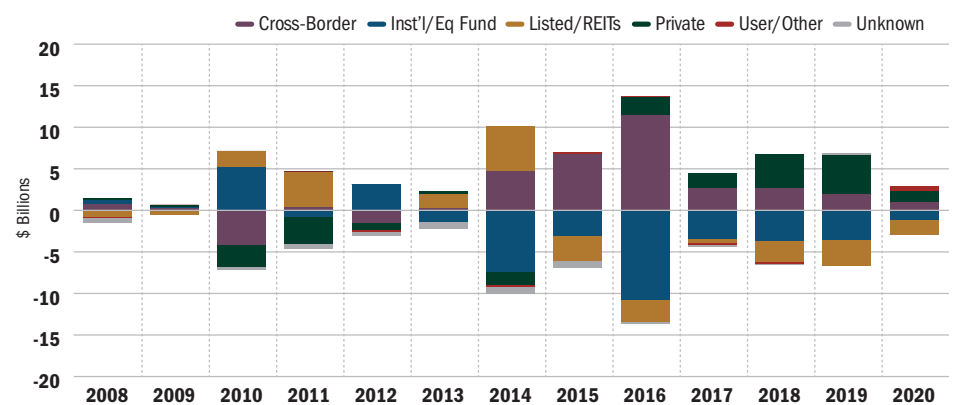
Source RCA, 4Q 2020.

EXHIBIT 5-W AVERAGE HOTEL CAP RATES



Source RCA, 4Q 2020.

EXHIBIT 5-X. HOTEL NET ACQUISITIONS BY INVESTOR TYPE



Source RCA, 4Q 2020.

\$689 million and \$602 million, respectively. Markets that had the sharpest YOY decline in 2020 were San Francisco, New Orleans, Miami/Dade County and Orange County⁸³.

All top 25 markets had lost momentum for average occupancy and average rates leading up to 2020, according to RCA⁸⁴. Some markets that experienced the most significant decline include Boston, Chicago,

Seattle, Minneapolis-St. Paul and New York City, while the markets that experienced the least amount of decline include Phoenix, Tampa-St. Petersburg, Miami-Hialeah, Norfolk-Virginia Beach, VA, and Houston⁸⁵.

Shown in Exhibit 5-W, cap rates for full-service hotels remained at 7.8%. Limited-service hotel dropped from 8.9% in 1Q 2020 to 8.7% in 4Q 2020, according to RCA⁸⁶.

INVESTOR COMPOSITION

Data shown from RCA⁸⁷ showed a compelling decline in cross-border foreign capital investment (see Exhibit 5-X). Investments have dropped from \$4.9 billion in 2019 to \$1.75 billion in 2020.



SOURCES

¹CoStar Market Analytics (www.costar.com), 4Q 2020. Information is provided As Is and without any representations, warranties or guarantees.

²Ibid.

³U.S. Small Business Administration, “PPP Data,” accessed Feb. 25, 2021.

⁴CoStar Market Analytics (www.costar.com), 4Q 2020. Information is provided As Is and without any representations, warranties or guarantees.

⁵RCA, 4Q 2020.

⁶Ibid.

⁷Ibid.

⁸Ibid.

⁹Ibid.

¹⁰Ibid.

¹¹RCA, 4Q 2020. Note: RCA defines the indicator of distress sales as those known through announcements of bankruptcy, default and court administration as well as significant publicly reported issues – such as significant tenant distress or liquidation – that would exemplify property-level distress. This also includes CMBS loans transferred to a special servicer.

¹²RCA, 4Q 2020.

¹³NATIONAL ASSOCIATION OF REALTORS®, “January 2021 Commercial Market Trends and Outlook Report,” January 2021.

¹⁴CoStar Market Analytics (www.costar.com), 4Q 2020. Information is provided As Is and without any representations, warranties or guarantees.

¹⁵Ibid.

¹⁶Ibid.

¹⁷U.S. Census Bureau, “Quarterly E-commerce Report,” 2Q 2020.

¹⁸CoStar Market Analytics (www.costar.com), 4Q 2020. Information is provided As Is and without any representations, warranties or guarantees.

¹⁹Ibid.

²⁰RCA, 4Q 2020.

²¹Ibid.

²²Ibid.

²³Ibid.

²⁴Ibid.

²⁵Ibid.

²⁶Ibid.

²⁷Ibid.

²⁸Ibid.

²⁹Ibid.

³⁰Kevin Cody and Robin Trantham, CoStar Advisory Services, “2020 Sets New Record As Retailers Announce Plans to Close More Than 11,100 Stores,” Dec. 2, 2020.

³¹Ibid.

³²Ibid.

³³CoStar Market Analytics (www.costar.com), 4Q 2020. Information is provided As Is and without any representations, warranties or guarantees.

³⁴Ibid.

³⁵Ibid.

³⁶RCA, 4Q 2020.

³⁷Ibid.

³⁸Ibid.

³⁹Ibid.

⁴⁰Ibid.

⁴¹Ibid.

⁴²Ibid.

⁴³Ibid.

⁴⁴Ibid.

⁴⁵Ibid.

⁴⁶Ibid.

⁴⁷Moody’s Analytics Real Estate Information Services (REIS), 4Q 2020.

⁴⁸Ibid.

⁴⁹Ibid.

⁵⁰RCA, 4Q 2020.

⁵¹Ibid.

⁵²Ibid.

⁵³Ibid.

⁵⁴Ibid.

⁵⁵Ibid.

⁵⁶Ibid.

⁵⁷Ibid.

⁵⁸Ibid.

⁵⁹Ibid.

⁶⁰Ibid.

⁶¹Moody’s Analytics Real Estate Information Services (REIS), 4Q 2020.

⁶²Ibid.

⁶³Ibid.

⁶⁴CBRE, “Hotel Horizons,” 3Q 2020.

⁶⁵Ibid.

⁶⁶Ibid.

⁶⁷Ibid.

⁶⁸Ibid.

⁶⁹Ibid.

⁷⁰Ibid.

⁷¹Ibid.

⁷²Elaine Sahlins, Cushman & Wakefield, “U.S. Lodging Industry Overview Q3 2020,” Dec. 9, 2020.

⁷³CBRE, “Hotel Horizons,” 3Q 2020.

⁷⁴Ibid.

⁷⁵Elaine Sahlins, Cushman & Wakefield, “U.S. Lodging Industry Overview Q3 2020,” Dec. 9, 2020.

⁷⁶Ibid.

⁷⁷Ibid.

⁷⁸CBRE, “Hotel Horizons,” 3Q 2020.

⁷⁹Daniel Lesser, Hotel Online, “How Hotel Sales Performed in Q3,” Oct. 29, 2020.

⁸⁰RCA, 4Q 2020.

⁸¹Ibid.

⁸²Ibid.

⁸³Ibid.

⁸⁴Ibid.

⁸⁵Elaine Sahlins, Cushman & Wakefield, “U.S. Lodging Industry Overview Q3 2020,” Dec. 9, 2020.

⁸⁶RCA, 4Q 2020.

⁸⁷Ibid.





CHAPTER 6: OUTLOOK

OUTLOOK

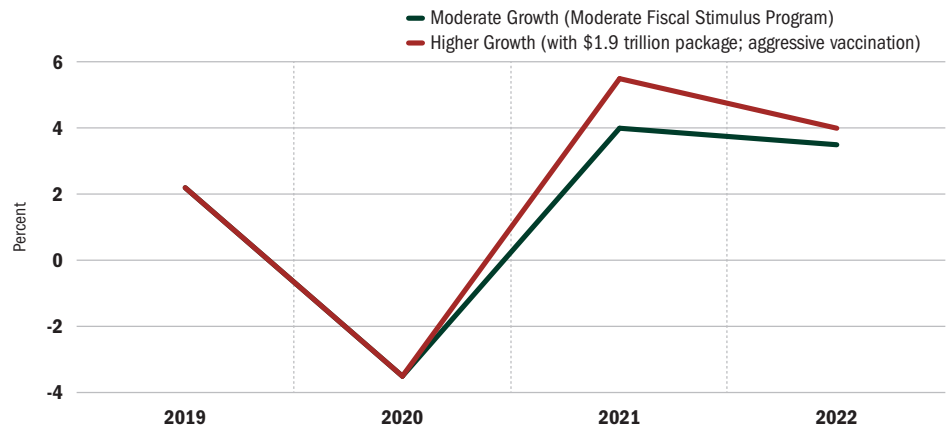
ECONOMIC OUTLOOK

Monetary and fiscal policy will continue to be geared to support the economic recovery, combat COVID-19 and provide relief to households and businesses. In its Jan. 26-27, 2021, meeting, the Fed statement noted that “overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses¹.” The statement stresses that the Fed will keep the target range for the federal funds rate at 0 to 0.25% percent “until labor market conditions have reached levels consistent with the Committee’s assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time².” This is the Fed’s way of saying that it will keep its easy-money policy even if inflation begins to creep up, and it is more concerned about the state of the labor market than about driving economic activity above the economy’s capacity. That is a big change from past policy.

President Biden has proposed a \$1.9 trillion fiscal relief package to continue support for the economy until the pandemic is over. The key elements of this plan that are likely to be effective are an extension of enhanced unemployment benefits through September, money for state and local governments, and financing for public health. It also includes a \$1,400 stimulus payment and spending for other, specific needs³.

If the \$1.9 trillion budget passes, NAR⁴ estimates that GDP could expand by 5% in 2021

EXHIBIT 6-A. GDP GROWTH SCENARIOS IN 2021-2022



Source NATIONAL ASSOCIATION OF REALTORS®, January 2021.

with personal consumption spending bolstered by the fiscal stimulus check in the first and second quarter (see Exhibits 6-A through 6-C). In this forecast, the growth in consumer spending picks up from 2.5% in 2020 to 3.7% in 2021 and then tapers to 3.5% as the effect of the fiscal stimulus checks wears off. Investment spending also increases by 15% in 2021 and 11% in 2022, mainly coming from investments in COVID-19-related investment (equipment for testing and vaccination, the development of therapeutics and data monitoring). Investment spending for non-residential structures is expected to remain modest as businesses first absorb the existing vacant spaces. Investment in residential housing would rise at a stronger pace of 18% in 2021 and 10% in 2022, which are consistent with housing starts of 1.57 million in 2021 and 1.62 million in 2020.

However, if a smaller package passes, NAR⁵

estimates that GDP is likely to rise at a more modest pace of 4.0% in 2021, with growth tapering to 3.5% as the impact of the stimulus checks fades. Personal consumption spending would rise at more modest pace to a high of 3.5% in the second quarter. Private fixed investment rises would be at a more modest pace.

NAR⁶ also forecasts that unemployment rate could decline to 5.7% by 2022 under the high-growth scenario, but that is still well above the unemployment rate in February 2020 of 3.5%.

RESIDENTIAL REAL ESTATE OUTLOOK

HOUSING AND MORTGAGE MARKET IMPACT OF THE STIMULUS BILL

President Joe Biden hit the ground running,

LAS VEGAS

signing 17 Executive Orders on his Inauguration Day and nine more on Jan. 21⁷. They included an order extending the eviction and foreclosure moratorium until the end of March, which bought Biden and struggling households time for Congress to pass another stimulus bill. It also allowed Biden to place his team in critical housing agencies to hammer out more concrete policies for mitigating a potential foreclosure crisis.

According to an article by Tim Rood, Managing Director of SitusAMC⁸, the most directly relevant aspects of Biden’s \$1.9 trillion COVID-19 relief plan to the housing and housing finance markets is the extension of the eviction and foreclosure moratoriums. Biden proposes extending the national moratorium on evictions and foreclosures until Sept. 30 and setting aside money to provide legal assistance to households facing foreclosure or eviction. He further called for housing agencies to continue allowing applications for forbearance on federally backed mortgages until that date. This is a starting point that is being negotiated in Congress. It’s doubtful that the rent relief will be negotiated down, but the moratoriums could be pared back perhaps to the end of June. The topic likely will be heavily debated.

The challenge related to eviction and foreclosure moratoriums is that from a budgetary and legislative scoring perspective, the extensions do not cost much (just the modeled impact on the Federal Housing Administration’s Mutual Mortgage Insurance Fund)⁹. Therefore, it is not likely to be a major item to be negotiated on the merits of its cost, because cutting it from the end of September to the end of June will not likely have much of a financial impact. This does not mean that legislators will not negotiate it down as a public policy matter, but it does not impact the overall spend materially – unlike, for example, reducing unemployment payments.

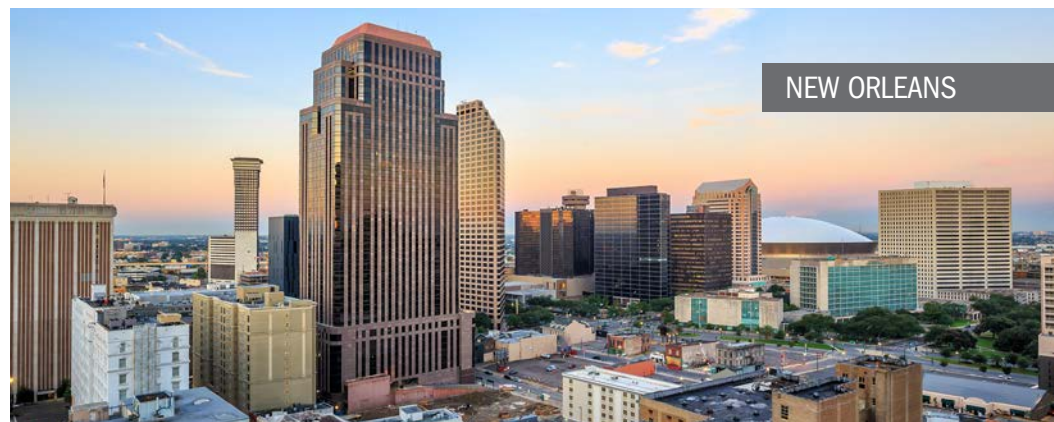
MORTGAGE MARKET OUTLOOK

Despite the pandemic, there was a frenzy of home buying in 2020, and that is expected to continue in 2021, said Michael Fratantoni, Chief Economist for the MBA, during a recent SitusAMC webinar¹⁰. The trend was fueled by historically low interest rates and favorable demographic trends, which will remain in place this year. Millennials are approaching

EXHIBIT 6-B. U.S. ECONOMIC OUTLOOK (BASELINE)

	ACTUAL		FORECAST	
	2019	2020	2021	2022
Economic Indicators (Annual Growth Rate*)				
Real GDP	2.2	-3.5	4.0	3.5
Nonfarm Payroll Employment	1.4	-5.8	4.3	3.3
Consumer Prices	1.8	1.3	2.3	2.8
<i>Percent</i>				
Unemployment	3.7	8.1	6.5	5.9
Fed Funds Rate	2.1	0.4	0.1	0.1
30-Year Fixed Rate	3.6	3.1	2.9	2.9
Housing Indicators (Thousands)				
Existing Home Sales**	5340	5640	6490	6440
New Single-Family Sales	683	834	1010	1060
Housing Starts	1290	1381	1570	1620
Single-Family Units	888	991	1200	1230
Multifamily Units	402	390	370	390
Median Home Prices				
<i>Thousands of Dollars</i>				
Existing Home Prices	271.9	330.1	342.5	354.0
New Home Prices	321.5	330.1	342.5	354.0
<i>Percent Change – One Year Ago</i>				
Existing Home Prices	4.9	9.0	6.6	3.2
New Home Prices	-1.5	2.8	3.8	3.4

*Quarterly figures are seasonally adjusted annual rates.
 **Existing home sales of single-family homes and condo/co-ops.
 Source NATIONAL ASSOCIATION OF REALTORS®, January 2021.



the peak first-time buyer age. In addition, the need to work remotely and educate children from home during the pandemic shifted the locations, size and type of housing that buyers desire. As a result, 2020 was the best year for origination since 2003, topping out at \$3.6 trillion in purchase and refi volume. The MBA expects record purchase volume in 2021.

By the end of 2020, however, the supply of existing homes had fallen to an all-time low of 2.3 months. This record-low inventory, combined with high demand, caused prices to skyrocket 14.6% YOY in December. The housing boom won't be sustainable if prices continue to rise as much as four times faster than wage growth. The good news on this front is that the supply is expected to increase this year as sellers become more eager to list their homes this spring compared to 2020, when uncertainty about COVID-19 made them more cautious.

The Federal Reserve has promised unequivocally that it will keep short-term interest rates near zero through 2022. The Fed's goal is to sustain economic growth to reduce the nation's unemployment rate significantly lower than the 6.3% rate recorded in January. Until recently, the Fed sought to keep inflation at about 2%, but now it has said it will accept a slightly higher inflation rate. The MBA¹¹ predicts inflation will rise above 2% this year, but that the Fed will hold off on raising rates until 2023, when it will do so in two increments of 0.25 percentage points.

The MBA¹² predicts the nation's unemployment rate will likely hover between 6% and 7% in the first half of 2021 and then drop sharply – perhaps below 5% – by the end of the year, especially if a third stimulus plan is approved. Much of the nation's economic growth will also hinge on the success of the vaccine rollout.

During the pandemic, a tremendous amount of pent-up demand across multiple sectors has accumulated. This will lead to a flood of spending by the middle of the year and support some additional hiring in leisure and hospitality, health care and education.

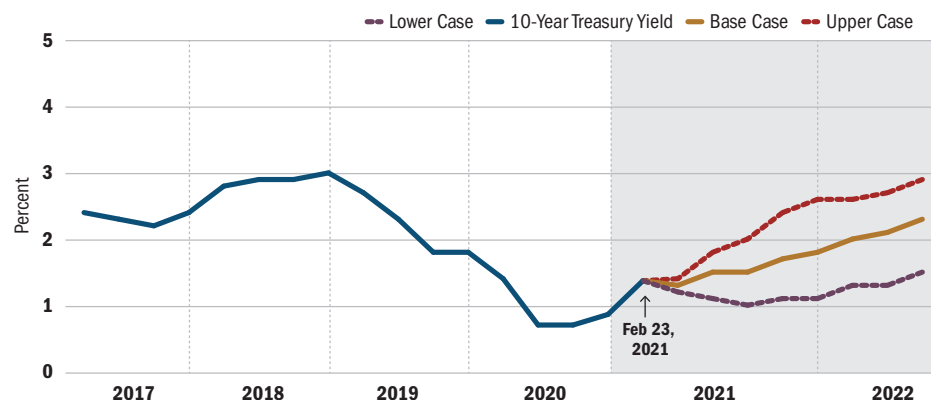
In the meantime, many of those workers are still struggling to pay their bills. The delinquency rate on Federal Housing Administration loans reached an all-time high of 15.7%

EXHIBIT 6-C. GDP GROWTH OUTLOOK (BASELINE)

	ACTUAL		FORECAST		FORECAST	
	2019	2020	2021	2022	2021	2022
			With \$1.9T Fiscal Stimulus		With \$600B Fiscal Stimulus	
Real GDP	2.2	-3.5	5.5	4.0	4.0	3.5
Personal Consumption	2.4	-3.9	3.7	3.5	3.3	3.0
Private Investment	1.9	-1.8	15.4	10.9	13.0	9.0
Nonresidential	2.9	-4.0	15.6	12.3	12.5	10.0
Residential	-1.7	5.9	18.0	10.0	15.0	3.2
Exports	-0.1	-13.0	26.0	20.0	17.3	13.0
Imports	1.1	-9.3	26.0	20.0	21.9	15.0
Government	4.0	4.4	13.8	10.2	5.9	4.6
Unemployment Rate	3.7	8.1	6.1	5.7	6.5	5.9

Note Figures represent annual growth rate
Source NATIONAL ASSOCIATION OF REALTORS®, January 2021.

EXHIBIT 6-D. RERC'S 10-YEAR TREASURY FORECAST



Note Data based on quarterly average. Shaded area indicates forecast.
Source Board of Governors of the Federal Reserve System, compiled and forecast by RERC, 4Q 2020.

by the end of June. Loans in forbearance peaked at 8.5% by the end of the second quarter, or more than 4 million mortgages, before settling around 5.37% as of Jan. 10. The estimated 2.7 million homeowners who remain in forbearance will likely remain there through at least the end of the first quarter.

With any luck, a significant drop in the unemployment rate will lead to more people being able to make regular rent and mortgage payments again, but this will remain an extraordinary challenge for the industry this year.

CAPITAL MARKETS OUTLOOK

TREASURY FORECAST

In 4Q 2020, the average 10-year Treasury rate was 0.9%. Although rising slightly from the previous two quarters, concerns about the effects of COVID-19 on the economy are keeping rates low for the time being. As interest rates have remained at historic lows, investors continue to place their money in the stock market to compensate for abysmal yield. The low rates are good news for homebuyers; refinancing is at an all-time high and many renters can afford to move into the suburbs due to

the low cost of debt. The low rates are also typically good for commercial borrowers as debt often accounts for a significant portion of the capital stack. According to RCA¹³, commercial mortgage rates are at historical lows around 3.7%. Unlike the 10-year Treasury rate that has declined roughly 100 bps YOY, commercial mortgage rates have been mostly stable throughout the COVID-19 crisis, indicating a healthy lending pool.

CRE remains a strong investment alternative due to the tangibility of real estate compared to more traditional assets like stocks and bonds. Historically, real estate values and returns are more stable in an economic crisis than the equity market. After decreasing by 64% YOY in 2Q 2020, then rebounding in the latter half of the year, investment sales still ended 2020 with an overall 32% decrease, as reported by RCA¹⁴. However, 4Q 2020 sales nearly doubled over those in 3Q 2020, indicating the resiliency in the asset class and the confidence investors have in a continued market rebound.

RERC¹⁵ forecasts the 10-year Treasury under three different scenarios, which are found in Exhibit 6-D.

The base case scenario assumes the most probable economic situation over the next two years, with Treasury rates increasing through the rest of 2021 and into 2022. This scenario assumes that unemployment continues to decrease at a modest rate and businesses begin to resume normal activity in mid-2021 following widespread availability of a vaccine in late 1Q 2021. The base case scenario sees the 10-year Treasury rate ending 2021 at about 1.7% and ending 2022 at about 2.3%.

The higher case scenario reflects stronger economic growth but has a lower probability of occurrence than the base case. The higher case scenario assumes that the vaccine is safe and able to be widely distributed earlier than

expected in 2021 and that additional federal stimulus is approved. Even in this optimistic scenario, RERC sees the 10-year rate remaining below 3% through 4Q 2022.

The lower case scenario reflects a more pessimistic economic projection and is also less likely than the base case scenario. This scenario assumes that another wave of infections carries well into 2021 and that the vaccine is ineffective or distributed slowly, sending the economy into another downturn with Treasury rates remaining near 1.0% through 2021 and bumping up near 1.5% by the end of 2022.

Predicting rates is a difficult endeavor under any circumstance. The above scenarios are RERC's best estimates of inflection points for expected rates. The RERC 10-year Treasury Forecast produces similar results to other third-party consensus forecasts and models, including analyses from Moody's, Kiplinger and The Wall Street Journal.

CRE MARKET OUTLOOK

THE 2021 DELOITTE COMMERCIAL REAL ESTATE OUTLOOK¹⁶

The COVID-19 pandemic had an unprecedented impact on CRE and could make made digital transformation of the business and tenant experience essential, according to the 2021 edition of Deloitte's Commercial Real Estate Outlook: Rebuilding to Enhance Resilience.

BREAKING INERTIA, GAINING MOMENTUM

In the wake of the pandemic, CRE companies have needed to digitize operations, close physical facilities and prepare for reopening, while ensuring the health and safety of employees and occupants and considering the financial health of tenants and end users. The massive disruption of the economy has

affected CRE subsectors in radically different ways. Industrial real estate, health care, data centers and cell towers have all gained, while offices, hotels and retail have felt the negative effects.

In an effort to gauge how equipped CRE leaders are to weather the current economic landscape, Deloitte surveyed 200 CRE senior executives. Only one-third of those respondents agree or strongly agree that they have the resources and skills required to operate a digitally transformed business; fewer than half consider digital tenant experience a core competency of their organization; and only 41% said their company has stepped up efforts to redefine business processes, job roles and skill requirements to include the use of technology and tools. In 2021, they should strive to be digital—optimizing business, operating, and customer models for a digital environment. Rapid digital transformation will likely be needed to build operational resilience, maintain a strong financial position, develop and retain talent, and create an enabling culture.

DIGITAL TRANSFORMATION AND TENANT EXPERIENCE ARE A BUSINESS IMPERATIVE

The pandemic accelerated the use of technology in the CRE industry. Some CRE companies increased their use of cloud-based collaboration and productivity tools to lower in-house technology costs and increase flexibility, but many CRE companies are still struggling with defining digital workflows and digitizing key business processes. Most respondents (56%) believe the pandemic has uncovered shortcomings in their company's digital capabilities and affected their plans to transform. Additionally, survey respondents expressed growing concerns about cybersecurity and data privacy, due to the increase in virtualization, data capture and data-sharing using cloud and digital tools.



MIAMI

CRE leaders need to work on digital transformation and ensure the transformation team has the right talent and governance structure. They should focus on effectively managing transformation programs and encouraging innovation. Unfortunately, only 45% of respondents plan to increase their investment in cloud, robotic process automation (RPA), artificial intelligence (AI) and digital channels over the next 12 months.

Companies can significantly increase tenant engagement by enhancing real-time updates about facilities and developing a sense of community using mobile apps. CRE companies should look for strategic partnerships with technology providers or proptechs. On an average, 58% of REIT respondents have increased their intent to partner, compared to 45% of respondents who are developers.

CRE companies need to capture and analyze high-frequency data to create a meaningful tenant experience. This could include data around how tenants use different amenities, and/or engagement and performance levels. Companies can analyze tenant engagement levels and behavior to understand preferences and provide a more customized experience.

OPERATIONS: THE KEY TO ENHANCING BUSINESS RESILIENCE

With much lower demand for leased space, CRE companies face rising pressure to contain costs. More companies are rethinking how and when they use office spaces. In a 9,100-respondent pulse survey published in *The Deloitte Global Millennial Survey 2020*⁷, more than 60% of respondents say they want the option to work remotely more frequently, even after the pandemic fades. Nearly as many say they would prefer videoconferencing over traveling for work. This suggests that demand for hotel, retail and office space could potentially decline by double digits over the next 18 months. Also, people are starting to avoid overcrowded cities, causing tremendous short-term uncertainty surrounding property valuations and the premium associated with Class A properties globally.

According to Deloitte's survey data, responding CRE companies aim to cut costs by an average of 20% over the next year or more. To accomplish this, companies can consider streamlining and restructuring

their operations to allow work to get done faster, cheaper and more efficiently. Companies can use automation or outsourcing of noncore operations, or a combination of both, to gain operational efficiency.

Tenants no longer are as preoccupied with location or traditional metrics such as cost/SF or sales/SF. They want experiential value and health and safety-related smart building features. CRE leaders need to use technology and data at every step of decision making and execution and should frequently collaborate, communicate and coordinate with tenants.

Companies can increase the value of their properties by deploying smart building design and maintenance capabilities and offering more relevant services to tenants and end users. These services include using sensor technologies and predictive analytics to monitor facilities remotely and offer preemptive or usage-driven maintenance activities; or using smart building technologies and 3-D visualizations to help landlords assess operational readiness of physical spaces in real time, implement more rigorous cleaning systems, and monitor HVAC systems.

FINANCE: TREADING CAUTIOUSLY

Companies should strengthen their asset portfolios and implement a data-driven finance function so they can be more responsive and efficient. For instance, they could use cloud-based software tools and RPA to digitize invoices, automate ledger entries, and handle reconciliation, reporting and compliance checks.

TALENT: A KEY COMPETITIVE DIFFERENTIATOR

The pandemic appears to have accelerated the need for many organizations to revamp their job roles, recruiting strategy, talent systems and processes and culture to attract and retain a multigenerational workforce. In the future, companies may need to be more accepting about having work done remotely even after it's safe to come back to the office.

CRE DEBT MARKET OUTLOOK

Similar to the CRE equity trends predicted for 2021, RERC anticipates a flight to quality for

the CRE debt markets in the upcoming year as investors remain skittish about the residual economic effects of COVID-19. With the Fed signaling it will continue its ultra-accommodative policies, the 2021 outlook for CRE debt availability remains strong, with lenders facing increasing pressure to place capital. However, with historically low interest rates for the foreseeable future, debt yields are expected to remain low.

RERC expect lenders to become more aggressive, especially as vaccines become more widely available and CRE fundamentals and tenant cash flows improve. Competition should remain strong in 2021 for the property types that have been resilient in the face of the pandemic – industrial and apartment. There will likely be an increasing interest in alternative property types, such as medical office and data centers, similar to the equity markets, as lenders attempt to satiate investor appetite for yield. Debt investors are expected to become increasingly focused on tenant creditworthiness and asset cash flows. Demand for hotel and retail will likely remain muted, except for high-quality stabilized assets in strong markets. There will likely be increased scrutiny on office assets due to uncertainty about long-term work-from-home policies.

After a rocky 2020, RERC sees CMBS issuance picking up in 2021, though activity will likely be well below pre-pandemic levels. Conduit spreads will likely tighten, following the trend seen in late 2020. Large banks, which pulled back in 2020, are expected to loosen their purse strings, albeit very cautiously. Regional banks should remain active in 2021, at least for high-quality loans. With the Federal Housing Finance Authority (FHFA)¹⁸ implementing 2021 purchase caps with requirements for affordable housing, there should be a flurry of agency activity in early 2021, followed by a decline in volume and an increase in prices after the caps take effect.

CRE EQUITY MARKET OUTLOOK

THE NATIONAL ASSOCIATION OF REALTORS® COMMERCIAL REAL ESTATE TRENDS & OUTLOOK¹⁹

A January 2021 report from the National Association of REALTORS® reveals that the CRE market continues to recover, but sales, leasing and construction activity remain below

year-ago levels. The recovery also remains uneven, with stronger investor interest for land, multifamily and industrial properties than for hotels, retail and office properties. Here are some of the findings:

REALTORS® reported that YOY in 4Q 2020, sales declined 1%, leasing volume fell 1% and construction activity dropped 3% (see Exhibit 6-E). They reported the largest decline in sales/acquisitions in the hotel/hospitality market (-5%), retail malls (-5%) and retail strip centers (-4%). REALTORS® reported a decline in leasing transactions YOY for apartments (-1%) and office buildings (-1%), but leasing transactions for industrial properties increased 1%. The largest increase in sales acquisitions was for land, with volume up 3% YOY. Among land transactions, the largest gains were in sales of recreational (e.g., for camping), ranches and residential.

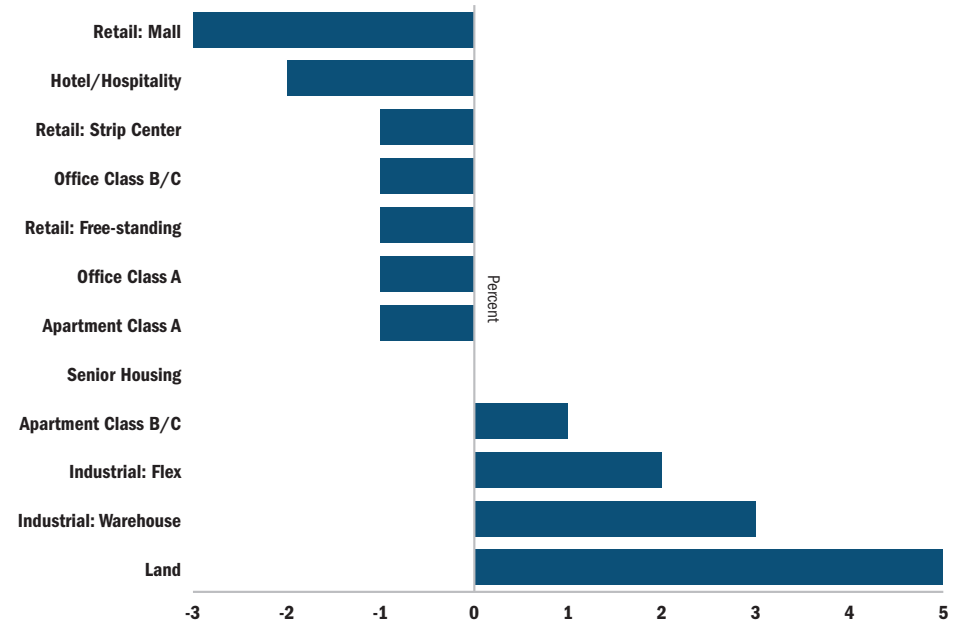
Commercial sales prices in their markets were down an average 1% in 4Q 2020 YOY, REALTORS® reported (see Exhibit 6-F). The largest decline in property value was for hotels/hospitality and retail malls (-6%), followed by office buildings (-4%). On the bright side, REALTORS® reported higher property values for apartments (1%), industrial assets (2%) and land (4%). REALTORS® expect commercial prices to increase YOY in 1Q 2021 for multifamily properties (1%), industrial (2%) and land assets (3%), and to decrease in the office market (-3%), retail (-6%), and hotel/hospitality (-6%).

The risk spread (cap rates less 10-year Treasury bond) remains at 6%, compared to 4% before the pandemic. REALTORS® reported apartment Class A acquisitions had the lowest going-in cap rate (or lowest risk) among commercial assets, at 5.4%. Hotel/hospitality, retail and office Class B had going-in cap rates of over 7%.

Office vacancy rates increased to 15.5%, about 3 percentage points higher than in the second quarter. However, the vacancy rate is still below the 17% rate during the GFC. Industrial vacancy rates have also increased slightly to 5.3%. The rental vacancy rate for apartments increased slightly to 6.4% in 3Q 2020 but remained below the historical rate of about 8% -- only half the level during the GFC.

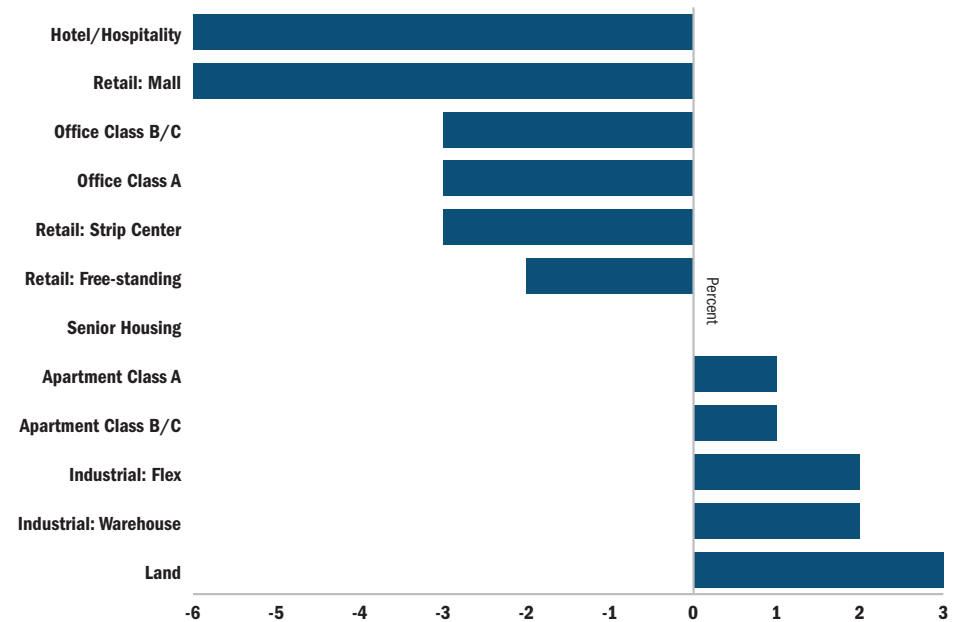
REALTORS® expect vacancy rates in 2021 to

EXHIBIT 6-E. REALTORS® OUTLOOK OF YOY COMMERCIAL SALES VOLUME FOR 1Q 2021



Source NATIONAL ASSOCIATION OF REALTORS® Commercial Real Estate Quarterly Market Survey, 4Q 2020.

EXHIBIT 6-F. REALTORS® OUTLOOK OF YOY COMMERCIAL PRICES FOR 1Q 2021



Source NATIONAL ASSOCIATION OF REALTORS® Commercial Real Estate Quarterly Market Survey, 4Q 2020.

hover at about 5% among multifamily and industrial properties, at 10% for retail properties, 12% for office properties and 50% for hotel/hospitality properties. In 2020, on a net basis, 98 million SF of office space was vacated, a third of which was in the Northeast. However, the loss in office space was

offset by the net gain of 268 million SF of industrial space, about 45% of which was in the South region.

REALTORS® reported an average of 3% YOY decline in construction activity in 4Q 2020, led by drops of 13% in hotel/hospitality and



10% for retail and office. On the other hand, construction activity increased YOY in Class A apartments (5%), industrial warehouses (2%), Class B/C apartments (1%) and senior housing (1%).

PROPERTY TYPE OUTLOOKS

OFFICE OUTLOOK

The path of recovery for the office sector is heavily tied to efforts to mitigate the impacts of COVID-19 and the success of the vaccination program that is underway. It is likely that a higher fraction of workers may not start returning to work until the fourth quarter. The continued economic recovery should lift the demand for office space in 2021 and beyond, but vacancy rates are not likely to return to pre-pandemic levels over the short term. There is still over 150 million SF under construction and new deliveries are not expected to top out until 4Q 2021 at over 87 million SF, according to CoStar²⁰ market data. Rents will tend to remain slightly negative in 2021 as vacancy rates remain elevated.

Even if COVID-19 is brought under control by vaccine distribution and continued safety practices (e.g., wearing of masks, physical distancing), the office sector may still face uncertainty arising from how the new normal for working from home will look. A survey from 451 Research²¹, an S&P Global Market Intelligence Unit that polled 575 IT decision-makers from a range of industries, found that 67% of respondents expect work-from-home policies will remain in place permanently or at least for the long term, and 47% said their companies are likely to reduce their physical office footprint. However, while the workforce may want to work from home, a hybrid model (where some teams report to the office and some teams work remotely) presents big challenges for management that require planning and perhaps some experimentation before implementing a full-blown rollout or change in company policy. The hybrid model presents challenges that are not evident when the entire workforce is working from home, which is ensuring that both offsite and onsite workers are able to work seamlessly and productively and that both groups receive equal treatment in terms of training, networking and promotion. This means that changes in the demand

for office space related to working from home will likely be gradual, and the cyclical economic upturn will likely at first offset the small declines in the demand for office space due to working from home. Working from home will likely continue strongly in high-cost cities and in areas that have a large tech workforce, such as Boston; Washington, D.C.; San Francisco; Seattle; and San Jose.

The CBD markets, which were harder hit economically by the pandemic due to social distancing and transportation constraints, may recover more strongly as well in the last quarter of 2021.

INDUSTRIAL OUTLOOK

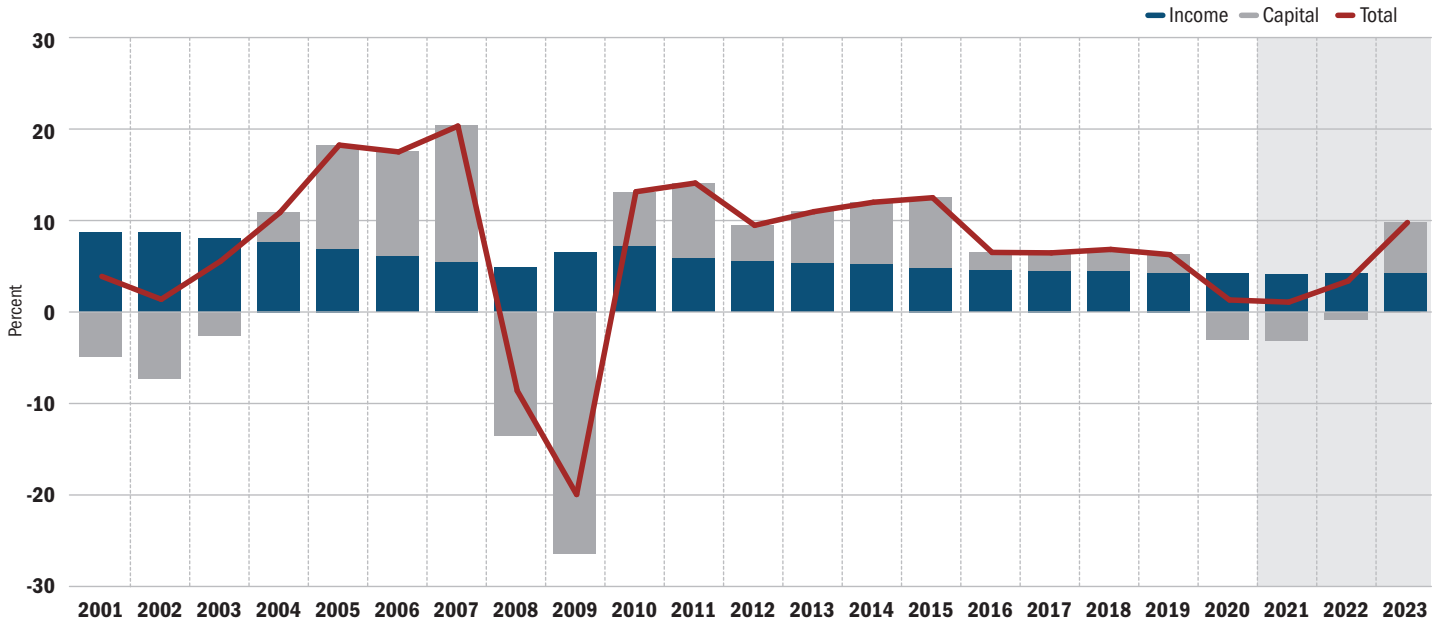
The industrial market is likely to continue to have the most favorable near-term fundamentals of any asset type, as it is driven by the increasing growth of e-commerce. While already a fast-growing phenomenon, e-commerce sales, as a result of the coronavirus pandemic and associated stay-at-home orders, has grown explosively and increased the demand for warehouse space.

The supply of industrial space is roaring as well. According to CoStar²² market data, industrial absorption is expected to approach 400 million SF over the next two years. Net completions, which have surpassed net absorption since 1Q 2019, will maintain the trend over the long term. Net completions are projected to reach more than 500 million SF over two years, 2021-2022.

While industrial vacancy should remain low, it is expected to increase from 5.6% in 4Q 2020 to 6.1% in 4Q 2022. Despite the increase, rent growth is expected to increase over the same period, according to CoStar²³ market data. Industrial fundamentals will lead to solid rent expansion, and rent growth will be strongest in metros with the highest demand and quality supply such as Los Angeles, Dallas, Chicago, Atlanta and Inland Empire.

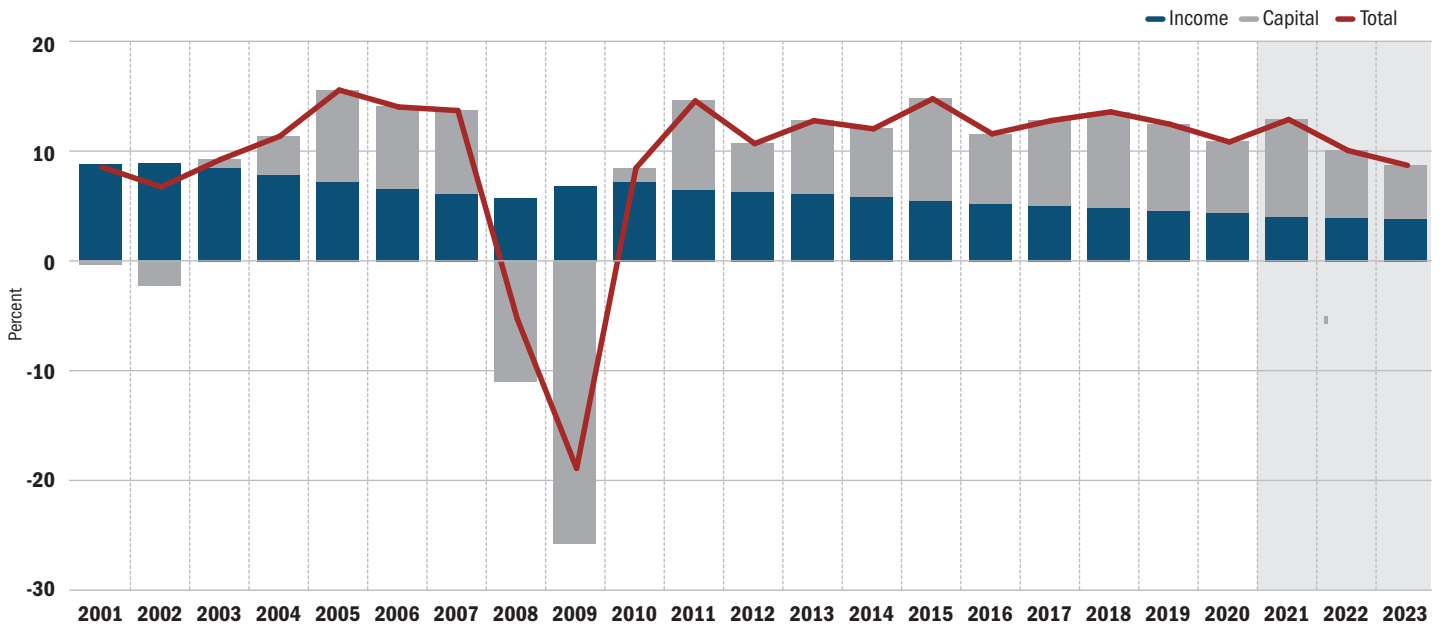
Industrial's strong fundamentals will put upward pressure on rents, which should further fuel investor interest in the sector. With an abundance of investment capital attracted to industrial properties, volume of consumption and its sources will determine location

EXHIBIT 6-G. RERC TOTAL RETURN FORECAST – OFFICE (BASE CASE SCENARIO)



The total return forecast is RERC's proprietary model based on RERC data and data from NPI-ODCE and is for unleveraged, institutional-grade properties. Total returns are derived from an income component and a capital appreciation/depreciation component. Shaded area reflects RERC's outlook for the base case scenario for 2021, 2022 and 2023.
Sources RERC, NCREIF, 4Q 2020.

EXHIBIT 6-H. RERC TOTAL RETURN FORECAST – INDUSTRIAL (BASE CASE SCENARIO)



The total return forecast is RERC's proprietary model based on RERC data and data from NPI-ODCE and is for unleveraged, institutional-grade properties. Total returns are derived from an income component and a capital appreciation/depreciation component. Shaded area reflects RERC's outlook for the base case scenario for 2021, 2022 and 2023.
Sources RERC, NCREIF, 4Q 2020.



SAN DIEGO

and total space allotment. Even after the pandemic ends, we can expect consumers to continue their habits of online shopping. As retail sales remain solid and the share of e-commerce sales to total retail sales increases, tenants and investors will continue their strong demand for industrial properties.

RETAIL OUTLOOK

If the players in the retail industry have learned anything over the course of the recent economic cycles, it is the importance that adaptability plays in remaining successful. Retailers must continue to evolve to keep up with the ever-changing needs of the consumer. According to a Commercial Property Executive (CPE)²⁴ article, retailers have known for years that they need to enhance their e-commerce presence to provide an omnichannel experience in order to appeal to the wave of Generation Z consumers who are driving the market. They developed strategies to utilize their digital platforms to drive virtual sales and draw customers into their brick-and-mortar stores, specifically by enhancing the use of retail locations to satisfy the “last-mile” for consumers by allowing and encouraging them to buy-online-pick-up-in-store (BOPIS), according to GlobeSt²⁵. This concept has saved costs for retailers and created convenience for consumers. Further, an interesting adaptation of the BOPIS trend has emerged in the form of the “dark store” – a brick-and-mortar location that does not cater to foot-traffic consumers at all, but serves only for curbside pick-up and same-day delivery options, according to Yahoo! Finance²⁶. This presents yet another example of an omnichannel strategy adapted by retailers to rely on e-commerce shopping trends and the importance of having an in-person customer experience.

The long-standing trend of tenant diversification within malls and shopping centers holds true in the e-commerce era. Landlords

of Class B and C malls remain focused on adapting to consumers by aiming to fill vacant space with tenants that will create optimal synergies at their property. These include service-oriented tenants like gyms that do not directly compete with online retailers, and entertainment and restaurant tenants that provide an experience that will draw the consumer to the site, according to the January 2021 article from The Business Journal and the 2021 Global Alternatives Outlook published by JPMorgan Chase²⁷. While social distancing requirements and stay-at-home mandates have severely impacted consumers’ ability to partake in such activities, consumers will want to return to in-person entertainment and leisure experiences as the pandemic begins to subside. This should encourage landlords of malls and shopping centers to continue to seek these desirable, non-traditional tenants, even if that includes offering free rent, increased tenant improvements, or other such incentives, according to the January 2021 article from The Business Journal.

Not only should landlords consider offering incentives to fill vacancies at their properties, but they are also learning that they need to do this to retain tenants. According to Retail Dive²⁸, landlords offering rent deferrals and abatements will likely be mutually beneficial into 2021 for landlords and tenants, as both have been impacted by COVID-19. This cooperative relationship between landlords and tenants could serve as leading practice for the future, with tenants more informed on lease provisions and landlords prepared for a transparent discussion, reminding both parties that open discussion and flexibility could be advantageous all around, according to Retail Dive.

Retailers and landlords have tried to persevere through a year like no other, with some crumbling under the pressure and others coming out stronger on the other side. The

problems that have been front and center in years past prepared many of these players well for implementing a necessary rapid response in 2020. For retailers, previous years’ emphasis on the importance of blending e-commerce and brick-and-mortar into one cohesive operating model meant that the successful companies were ahead of the pack, with technologies already in place to allow consumers to shop or experience virtually. For landlords, the fight against previously climbing vacancy rates meant many were already identifying unique tenants to fill their spaces, which should (eventually) beckon consumers to their doors again. While the majority of the retail real estate market felt a negative impact, the resiliency the market has shown in the past may help reverse the current pessimistic outlook for the sector.

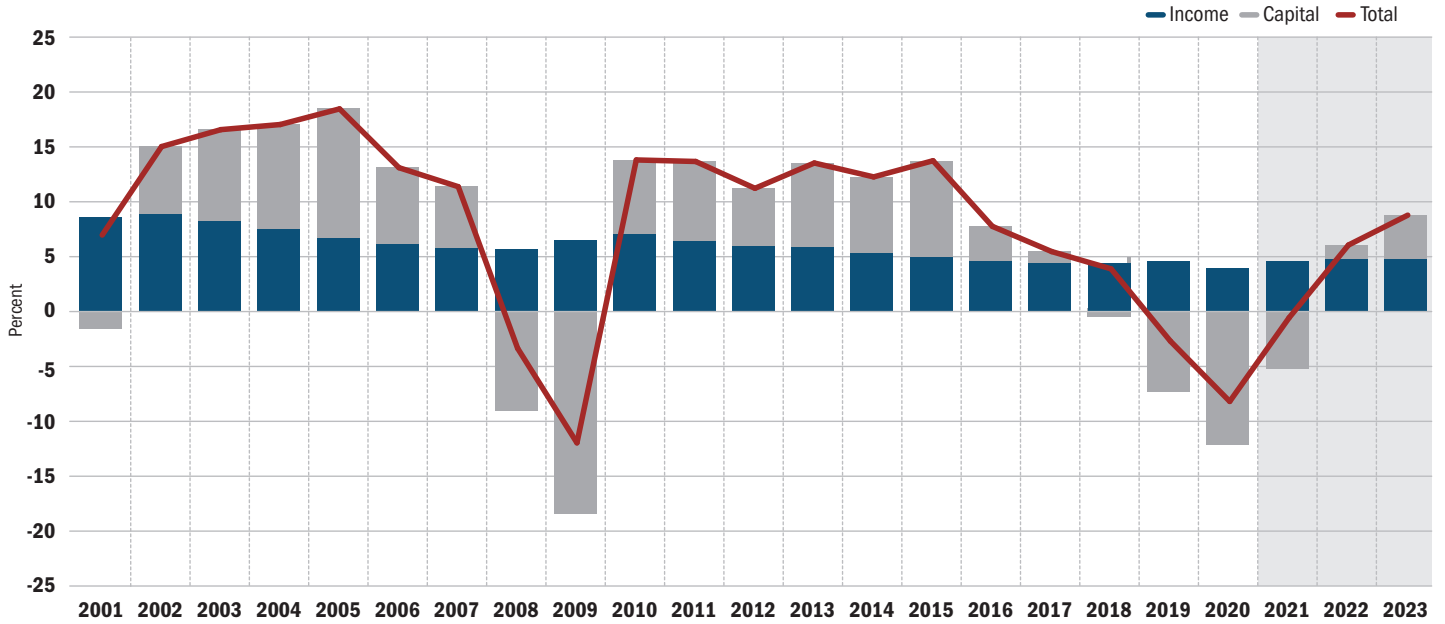
As people across the globe wait for broad distribution of the COVID-19 vaccine to reinstate a form of normalcy in the world, the outlook of the industry appears to be similar to what was experienced in the market for the majority of 2020, pointing toward store closures continuing into the first half of the year while retailers’ rainy-day reserve accounts deplete, according to Yahoo! Finance²⁹. However, the same article suggests that the second half of this year may cause cautious optimism as retailers hope to be able to reopen their doors to full capacity, and consumers return on-site to experience the personal connection that many have been craving during this pandemic. In the meantime, owners, landlords and retailers must stay nimble and adapt to changing trends to achieve alpha over traditional strategies to conquer the year ahead.

APARTMENT OUTLOOK

Despite some short-term negative trends in fundamentals, the longer-term outlook for the apartment market appears to be positive,



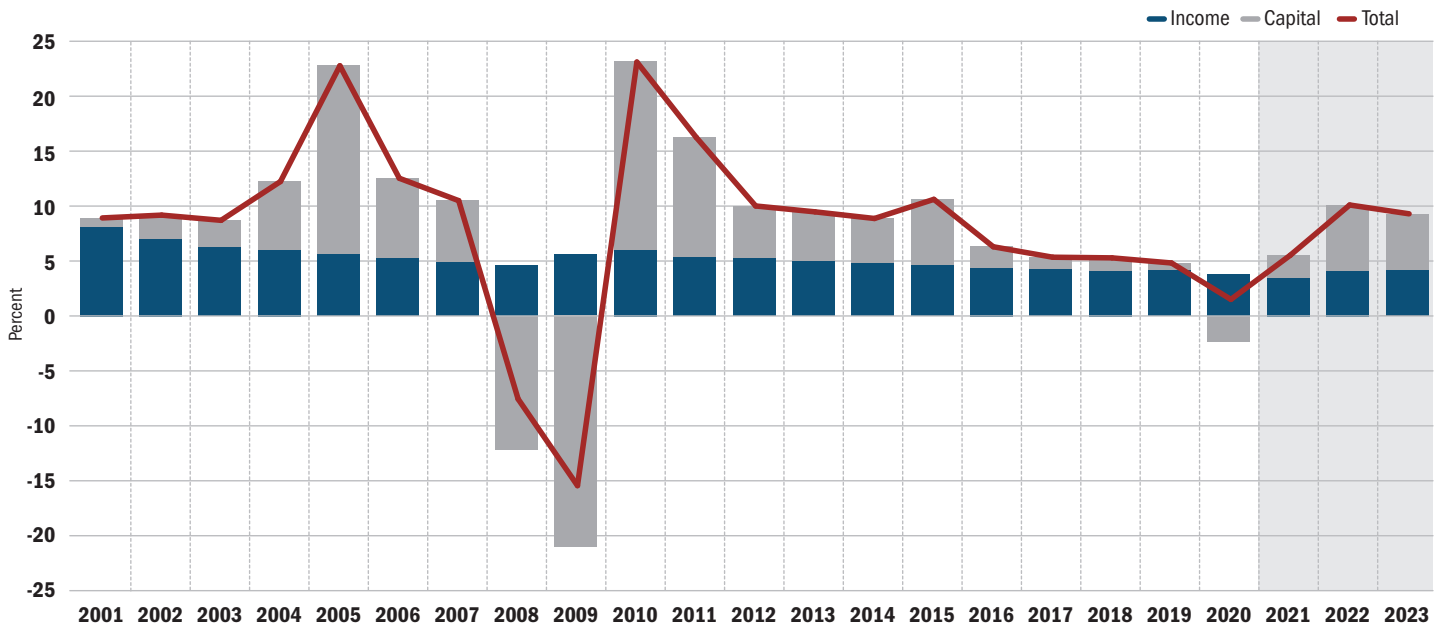
EXHIBIT 6-I. RERC TOTAL RETURN FORECAST – RETAIL (BASE CASE SCENARIO)



The total return forecast is RERC's proprietary model based on RERC data and data from NPI-ODCE and is for unleveraged, institutional-grade properties. Total returns are derived from an income component and a capital appreciation/depreciation component. Shaded area reflects RERC's outlook for the base case scenario for 2021, 2022 and 2023.

Sources RERC, NCREIF, 4Q 2020.

EXHIBIT 6-J RERC TOTAL RETURN FORECAST – APARTMENT (BASE CASE SCENARIO)



The total return forecast is RERC's proprietary model based on RERC data and data from NPI-ODCE and is for unleveraged, institutional-grade properties. Total returns are derived from an income component and a capital appreciation/depreciation component. Shaded area reflects RERC's outlook for the base case scenario for 2021, 2022 and 2023.

Sources RERC, NCREIF, 4Q 2020.



HONOLULU

with continued investor appetite in this sector and increasing property values.

Despite the significant and severe challenges brought upon by COVID-19, apartments have generally been resilient and in many ways continue to be perceived as a lower risk and higher return choice for investors. Unlike most of the major property types other than industrial, apartments have not faced the same level of challenges resulting from shutdowns during the pandemic. Further, based on the Rent Payment Tracker published by the National Multifamily Housing Council (NMHC)³⁰, rent collections for institutional-quality, professionally managed assets have not been heavily impacted, as households appear to be prioritizing their rent payments over some other obligations.

According to 4Q 2020 U.S. Census Bureau data³¹, the homeownership rate increased from 65.1% in 4Q 2019 to 65.8% in 4Q 2020. The homeownership rate had spiked in 3Q 2020 to nearly 68%, before declining back down under 66% in 4Q 2020. Still, the homeownership rate had been trending negatively for a prolonged period through 2016 when it was under 63% and has since reversed course; this is likely the result of increasing affordability for homebuyers due to historically low mortgage rates and other factors. It remains to be seen what impact this trend will ultimately have on apartments, but the projected reduction in future supply of new units should help maintain balance with any declines in demand.

Given trends in fundamentals, the apartment sector may be moderating after a long and sustained period of growth. However, relative to the other major property types,

apartments still appear to be an attractive choice for investors and have shown resiliency during a challenging COVID-19 economy.

HOTEL OUTLOOK

CBRE³² forecasts annual National Guest-Paid ADR at \$108.08 in 3Q 2020, a 20.3% decline from the 3Q 2019 average of \$135.58, while RevPAR had a projected decrease of \$44.77 from the 2019 average. CBRE projects that occupancy will rise from 41.8% in 2020 to 50.1% in 2021, RevPAR growth will rise to 18.2%, and demand growth will increase from -36.2% to 21.3% over the same time period³³.

According to Cushman & Wakefield³⁴, pandemic recovery will be on a market-by-market and property-by-property basis. These next few years will be critical for the industry, and operators will have to determine daily rates going forward to help accelerate the recovery.

This pandemic-related economic downturn has resulted in a correction of the lodging market after a 10-year run of growth. The correction has given operators an opportunity to find new efficiencies such as technology, changes in housekeeping service levels, and reduced food and beverage operations to improve hotel profitability³⁵. Starting in March 2020, the shift to more work-from-home staffs and growth of virtual meetings has negatively impacted the industry. However, there is confidence that starting in 3Q 2021, group business travel will likely increase once the COVID-19 vaccines are more available to the general public and state restrictions are reduced³⁶. Despite 2020's challenges, there is optimism

the lodging industry will return to prior form within a few years.

RERC TOTAL RETURN FORECAST

RERC³⁷ forecasts total returns for NPI-ODCE as well as the income components and capital components of total returns (see Exhibits 6-G through 6-K). All of RERC's forecasts incorporate data from the NPI-ODCE and are for unleveraged, institutional-grade properties. Although we provide individual forecasts for each of these components, it is important to note that RERC's forecast for NPI-ODCE returns assumes interdependency among these (and other) metrics. Therefore, any changes in one metric would affect the other forecasts.

To produce the Total Return Forecast, RERC analyzes over 30 economic, capital market and space market fundamental variables, including unemployment, vacancy rates and rents, using advanced modeling techniques. Combined with qualitative analysis, our RERC Total Return Forecast³⁸ projects three years of NPI-ODCE unleveraged income returns, capital returns and total returns, across three separate scenarios.

TOTAL RETURN FORECAST – BASE CASE SCENARIO RESULTS

THE INCOME COMPONENTS

Net Operating Income (NOI): NCREIF defines NOI as equal to a property's gross income (i.e., rental income and other income) less operating expenses. Our base case scenario calls for annual NOI to decline from about \$2.73 billion in 4Q 2020 to approximately \$2.67 billion in 4Q 2021 and increase back to \$2.72 billion by the end of 2022. RERC



predicts NOI will regain some ground in 2023, increasing to about \$2.81 billion by the end of 2023.

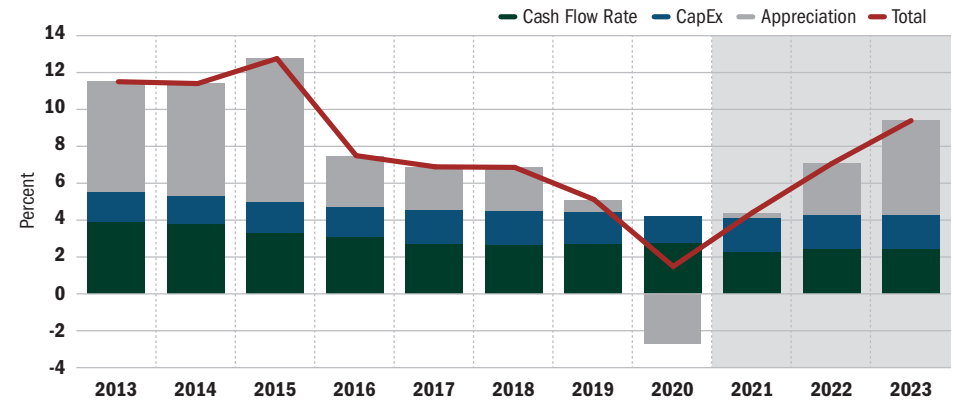
Free Cash Flow Yield (FCFY): Per NCREIF, FCFY is the quarterly NOI minus ordinary or routine capital expenses, divided by the beginning market value in the quarter. It focuses on quarterly net cash flow from operations, which accounts for ordinary or routine capital expenditures. This measure represents additional income beyond rent that investors can expect to receive from investing in the properties at a particular time and is comparable to a stock dividend yield after capital expenditures have been paid. Our base case scenario calls for annual FCFY to be about 2.2% in 2021 and 2.4% in 2022 and 2023.

Implied Cap Rate: NCREIF implied cap rates can be interpreted as the current quarter NOI divided by the current quarter-ending market value. This result is then multiplied by 4 to get an annual rate. RERC's base case scenario predicts the NCREIF implied cap rate will decrease throughout 2021 to just under 3.9% at the end of the year and remain there throughout 2022. We expect the implied cap rate to decrease to below 3.8% by 4Q 2023.

THE CAPITAL COMPONENT

CRE value can be described in terms of a price change, which combines capital expenditures and capital returns, or capital appreciation only. RERC's capital appreciation forecast provides an alternative way to examine prices, because a significant portion of the run-up in CRE prices is due to capital improvement projects (including leasing

EXHIBIT 6-K. RERC TOTAL RETURN FORECAST (BASE CASE SCENARIO)



The total return forecast is RERC's proprietary model based on RERC data and data from NPI-ODCE and is for unleveraged, institutional-grade properties. Total returns are derived from an income component and a capital appreciation/depreciation component. Shaded area reflects RERC's outlook for the base case scenario for 2021, 2022 and 2023.

Sources RERC, NCREIF, 4Q 2020.

activity). Given our extraordinary current economic situation, capital returns for the year are expected to be 0.3% by the end of 2021. We expect to see a rebound in the rate of return to 2.8% in 2022 and 5.1% in 2023.

TOTAL RETURNS

NCREIF total return is the return generated from an investment from both operations (income return) and changes in the market value (capital appreciation). RERC's base case scenario predicts the annual NPI-ODCE annual total return will be 4.4% at the end of 2021, 7.0% in 2022 and 9.4% in 2023.

CONCLUSION

The search for "alpha" is intensifying amid the surge of capital pumped into the markets by the Fed's aggressive monetary policies and the government's fiscal stimulus.

In general, alpha represents the performance of an active management strategy over and above the performance of the market as a whole as measured by an index fund or other benchmark. For CRE, it involves identifying the opportunities that others may have not considered.

In 2021, there are several CRE strategies that investors may want to consider as they search for alpha. These include utilizing favorable leverage, determining the point in a property's life cycle that can provide the best risk-adjusted returns, considering investment in non-core properties, and analyzing the opportunity in certain markets (i.e., urban vs. suburban). Deloitte, the National Association of REALTORS® and RERC have explored these ideas in this issue of Expectations & Market Realities in Real Estate and hope that this research will help you **find alpha** in 2021 and beyond.



DENVER

SOURCES

¹Board of Governors of the Federal Reserve System, "Federal Reserve issues FOMC statement," Jan. 27, 2021.

²Ibid.

³The White House, "National Strategy for the COVID-19 Response and Pandemic Preparedness," January 2021.

⁴National Association of REALTORS, "U.S. Economic Outlook," January 2021.

⁵Ibid.

⁶Ibid.

⁷Elizabeth Janowski, NBC News, "Here's the Full List of Biden's Executive Actions So Far," Jan. 28, 2021.

⁸Tim Rood, SitusAMC, "What the Real Estate Industry Can Expect from Our President and the 117th Congress," Jan. 21, 2021.

⁹Ibid.

¹⁰SitusAMC, "MBA Chief Economist Offers Forecast for 2021 Housing Market," Jan. 22, 2021.

¹¹Ibid.

¹²Ibid.

¹³RCA, 4Q 2020.

¹⁴Ibid.

¹⁵RERC, 4Q 2020.

¹⁶This section provides a summary of the 2021 Deloitte Commercial Real Estate Outlook Report. To download the full report, visit <https://www2.deloitte.com/us/en/insights/industry/financial-services/commercial-real-estate-outlook.html>

¹⁷Deloitte, "The Deloitte Global Millennial Survey 2020," June 25, 2020.

¹⁸Federal Housing Finance Authority, "FHFA Announces 2021 Multifamily Loan Purchase Caps for Fannie Mae and Freddie Mac," Nov. 17, 2020.

¹⁹This section provides a summary of the 2020 Q4 Commercial Real Estate Quarterly Market Survey of REALTORS®. To download the full report, visit

<https://www.nar.realtor/commercial-real-estate-market-trends-and-outlook/january-2021-commercial-real-estate-market-trends-and-outlook>

²⁰CoStar Market Analytics (www.costar.com), 4Q 2020. Information is provided As Is and without any representations, warranties or guarantees.

²¹451 Research (Part of S&P Global Market Intelligence), "How COVID-19 and Remote Work Will Influence Unified Communications and Collaboration," Aug. 7, 2020.

²²CoStar Market Analytics (www.costar.com), 4Q 2020. Information is provided As Is and without any representations, warranties or guarantees.

²³Ibid.

²⁴Jonathan Hipp, Commercial Property Executive, "How to Repurpose Retail for New Realities," Jan. 21, 2021.

²⁵Kelsi Maree Borland, GlobeSt., "E-commerce Isn't Replacing Retail," Dec. 30, 2020.

²⁶Sarah Paynter, Yahoo! Finance, "What to Expect from Commercial Real Estate in 2021," Dec. 7, 2020.

²⁷Breanna Hardy, The Business Journal, "Retail Real Estate and the Rise of Service Businesses In 2021," Dec. 23, 2020; JPMorgan Chase & Co., "2021 Global Alternatives Outlook," Jan. 19, 2021.

²⁸Daphne Howland, Retail Dive, "The New Retailer-Landlord Relationship," Jan. 6, 2021.

²⁹Sarah Paynter, Yahoo! Finance, "What to Expect from Commercial Real Estate in 2021," Dec. 7, 2020.

³⁰National Multifamily Housing Council, "NMHC Rent Payment Tracker," accessed Feb. 26, 2021.

³¹U.S. Census Bureau, "Housing Vacancies and Homeownership," 4Q 2020.

³²CBRE, "Hotel Horizons," 3Q 2020.

³³Ibid.

³⁴Elaine Sahlins, Cushman & Wakefield, "U.S. Lodging Industry Overview Q3 2020," Dec. 9, 2020.

³⁵Ibid.

³⁶Danielle Hess, Hotel News Now (Part of CoStar News), "Hoteliers Expect Group Business to Return in Late 2021," Jan. 6, 2021.

³⁷RERC, 4Q 2020.

³⁸Ibid.

SPONSORING FIRM



PROPRIETARY REAL ESTATE DATA, RESEARCH AND INSIGHTS.

SitusAMC is a leader in data, research and insights supporting better real estate decision making. Our team leverages robust data sets, deep real estate expertise and unique perspectives to provide economic, market, asset class and transaction-based analysis. We provide multivariate asset and portfolio analyses from acquisition through surveillance to disposition for the entire gamut of real estate market participants, helping develop and articulate investment strategies that drive efficiency, reduce costs and save time.

Through RERC, a SitusAMC Company, we provide a suite of market-leading, trusted research that commercial real estate investors and lenders rely on to guide their investment decisions. RERC has a 90-year legacy of providing rich market insights and data. To learn more about our full suite of RERC product offerings, please visit www.erc.com.

OUR SERVICES:

Data & Analytic Tools, Market Research, & Consulting Services

- Screening Tools
- Market Reports
- Proprietary Forecasts and Modeling
- Cap and Discount Rate Data
- Data Visualization
- Strategy Development and Private Placement Memorandum Support
- Thought Leadership
- White Papers
- Investor Communications and Presentations
- Consultative Support

RERC Products & Publications

- Insight: CRE Information Management Portal
- DataCenter: Centralized Portal for All RERC Proprietary Research Data
- Real Estate Report: Quarterly Institutional, Regional and Metro Investment Criteria
- ValTrends: Quarterly CRE Trends
- Expectations & Market Realities in Real Estate: Annual Real Estate Outlook

LEADERSHIP

MICHAEL FRANCO
CEO, SitusAMC
646.518.8159
MichaelFranco@situsamc.com

STEVEN J. POWEL
Executive Chairman, SitusAMC
713.328.4403
StevePowel@situsamc.com

KENNETH P. RIGGS, JR.
CFA, CRE, MAI, FRICS, CCIM
Vice Chairman, RERC
312.587.1900
riggs@erc.com

BRIAN T. VELKY
CFA, CRE
Managing Director, SitusAMC Real Estate Valuation Services (REVs)
515.309.7601
BrianVelky@situsamc.com

PETER MUOIO, Ph.D.
Senior Director, SitusAMC Insights
PeterMuoio@situsamc.com

RERC
319-352-1500
www.erc.com

SPONSORING FIRM



NATIONAL
ASSOCIATION *of*
REALTORS®

The Mission of the NATIONAL ASSOCIATION OF REALTORS® Research Group is to produce timely, data-driven market analysis and authoritative business intelligence to serve members and inform consumers, policymakers and the media in a professional and accessible manner.

The Research Group monitors and analyzes housing and commercial real estate trends and how economic, demographic, and technological changes affect homeownership; the demand, supply, and prices of real estate; and the business of its members. It evaluates regulatory and legislative policy proposals for their impact on REALTORS®, their clients and America's property owners.

The Research Group publishes information and reports on housing statistics, home buyers and sellers, commercial real estate, and the economy. Its flagship commercial reports are

- **Commercial Real Estate Market Trends & Outlook:** a quarterly assessment of market fundamentals from a survey of commercial members of the NATIONAL ASSOCIATION OF REALTORS®, the report covers macroeconomic conditions underpinning commercial core property sectors, market performance in sales, leasing, and development transactions in the small commercial market (properties of less than \$2.5 million), business challenges, and the economic and commercial real estate outlook.
- **Commercial Real Estate International Business Trends:** a monthly report on commercial market trends with special feature articles that take a deeper dive into emerging trends and issues
- **Commercial Local Market Reports:** quarterly data reports on about 50 markets on 40 economic and commercial market indicators on the core property types: apartment, office, industrial, and retail
- **Commercial Real Estate International Business Trends:** an annual report focused on foreign investment in smaller commercial markets, through the lens of REALTORS®' experiences.

Real estate information and insights are available at www.nar.realtor/research-and-statistics

CONTACTS

Lawrence Yun, PhD
Sr. Vice President, Chief Economist
lyun@realtors.org

Scholastica (Gay) Cororaton
Senior Economist and Director of
Housing & Commercial Research
scororaton@nar.realtor

Brandon Hardin
Research Economist
bhardin@nar.realtor

NATIONAL ASSOCIATION
OF REALTORS®
Headquarters
430 North Michigan Ave.
Chicago, IL 60611

DC Office
500 New Jersey Ave., NW
Washington, DC 20001

800-874-6500
www.nar.realtor

SPONSORING FIRM



In today's competitive environment, it is critical to stay ahead of industry trends and respond dynamically to market opportunities.

As a recognized leader in providing audit, tax, consulting and risk and financial advisory services to the real estate industry, Deloitte's clients include top REITs, private equity investors, developers, property managers, lenders, brokerage firms, investment managers, pension funds, and leading homebuilding companies.

Our multi-disciplinary approach allows us to provide regional, national, and global services to our clients. Our real estate practice is recognized for bringing together teams with diverse experience and knowledge to provide customized solutions for clients. Deloitte's U.S. Real Estate practice comprises more than 1,400 professionals assisting real estate clients out of offices in 50 cities. Globally the real estate practice includes over 7,000 professionals located in more than 50 countries throughout the Deloitte Touche Tohmatsu Limited network of member firms.

KEY REAL ESTATE ADVISORY SERVICES INCLUDE

- Analysis of Distressed Real Estate, Debt, and Equity
- Real Estate Due Diligence
- Real Estate Corporate Finance*
- Real Estate Valuations and Appraisals
- Regulatory Capital Markets
- Lease Advisory
- Real Estate Market Studies
- Fairness Opinions
- Internal Audit Outsourcing or Cosourcing
- M&A and Reorganization Services
- Cost Segregation Analysis
- Accounting and Reporting Advisory Services

DELOITTE REAL ESTATE SERVES

- 8 of the top 10 REITs based on equity market capital
- 19 of the top 25 REITs based on equity market capital
- 8 of the top 10 shopping center/regional mall REITs based on AUM
- 6 of the top 10 builder 100 firms based on sales
- 6 of the top 10 PERE Fifty based on total capital raised
- 10 of the top 10 largest money managers ranked by U.S. institutional, tax-exempt assets

Sources Builder Online 2019, NAREIT (10/20), P&I (May-December 2019), PERE Fifty (2020)

*Investment banking products and services within the United States are offered exclusively through Deloitte Corporate Finance LLC ("DCF"), an SEC registered broker-dealer and member FINRA and SIPC, and an indirect wholly-owned subsidiary of Deloitte Financial Advisory Services LLP and affiliate of Deloitte Transactions and Business Analytics LLP.

This document contains general information only and Deloitte is not, by means of this document, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This document is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this document.

Copyright © 2021 Deloitte Development LLC. All rights reserved

CONTACTS

Kathy Feucht
Partner
Global Real Estate Leader
Deloitte & Touche LLP
414.977.2662
kfeucht@deloitte.com

Jeff Smith
Partner
U.S. Real Estate Leader
Deloitte & Touche LLP
617.437.2804
jefsmith@deloitte.com

Matt Kimmel
Principal
Global & U.S. Real Estate Advisory Leader
Deloitte Transactions and Business Analytics LLP
312.486.3327
mkimmel@deloitte.com

John D'Angelo
Managing Director
U.S. Real Estate Consulting Leader
Deloitte Consulting LLP
415.783.7570
johndangelo@deloitte.com

To learn more, visit:
www.deloitte.com/us/realestate





EXPECTATIONS & MARKET REALITIES IN REAL ESTATE 2021

RERC | NATIONAL ASSOCIATION OF REALTORS® | DELOITTE