2020 REALTORS®
LEGISLATIVE MEETINGS

HOME FRONT

FIGHTING FOR THE FUTURE OF REAL ESTATE

COMMERCIAL ECONOMIC ISSUES AND TRENDS FORUM

May 8, 2020 | 1 – 2 PM Central Time

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COMMERCIAL ECONOMIC ISSUES AND TRENDS FORUM

May 8, 2020 | 1- 2 PM Central Time

1:00 – 1:05 PM | 2020 Forum Chair Mike Vachani, MBA

Opening Remarks

1:05-1:40 PM | Lawrence Yun, PhD

Economic Outlook and Impact of Social Distancing on Commercial Real Estate

1:40-2:00 PM | 2020 Forum Chair Mike Vachani

Q & A

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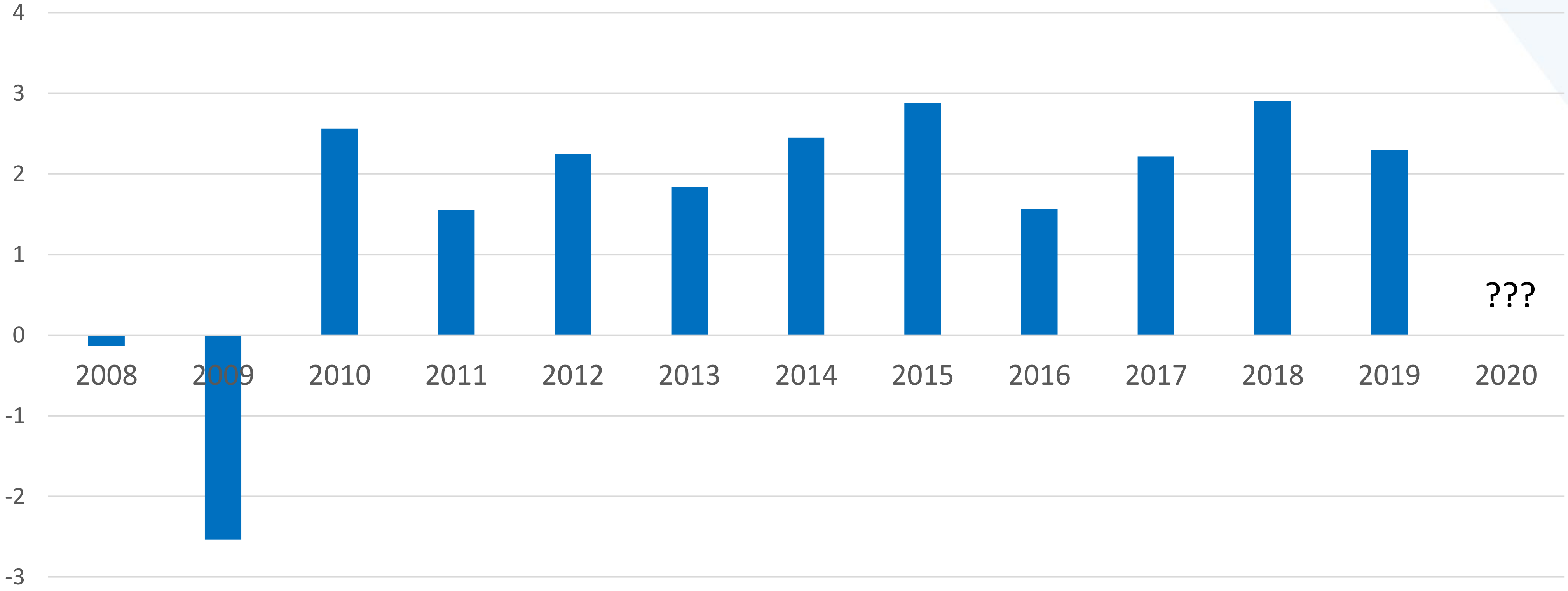
GDP Collapse in 2020 after a decade of growth



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GDP Details in 2020 Q1

2020 Q1	% change annualized rate
GDP	-4.8%
Consumer Spending	-8%
Business Spending	-9%
Residential Investment (Home building, home sales, remodeling)	+21%
Commercial Structure Completion	-7%
Federal and State Government Spending on Investment	Modestly Positive
Personal Income	+2%
Personal Savings	+152%

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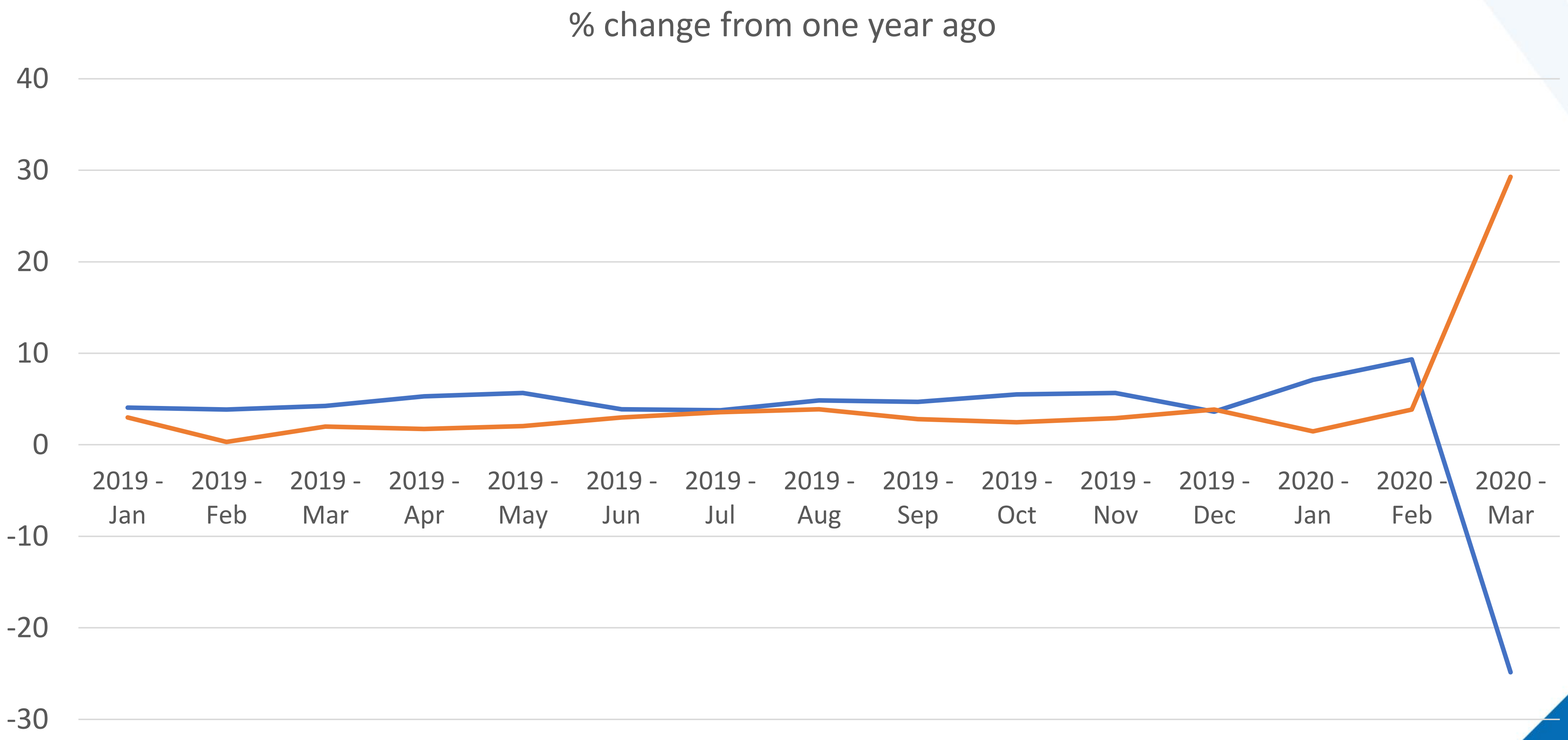
Spending Growth at Grocery Shops versus Restaurants



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Consumer Retail Spending

	% change from one year ago to March
Building Material and Gardening	+10.4%
Clothing Stores	-52.5%
Sporting and Hobby Stores	-23.8%
Department Stores	-24.5%
Non-Store Purchase	+15.5%

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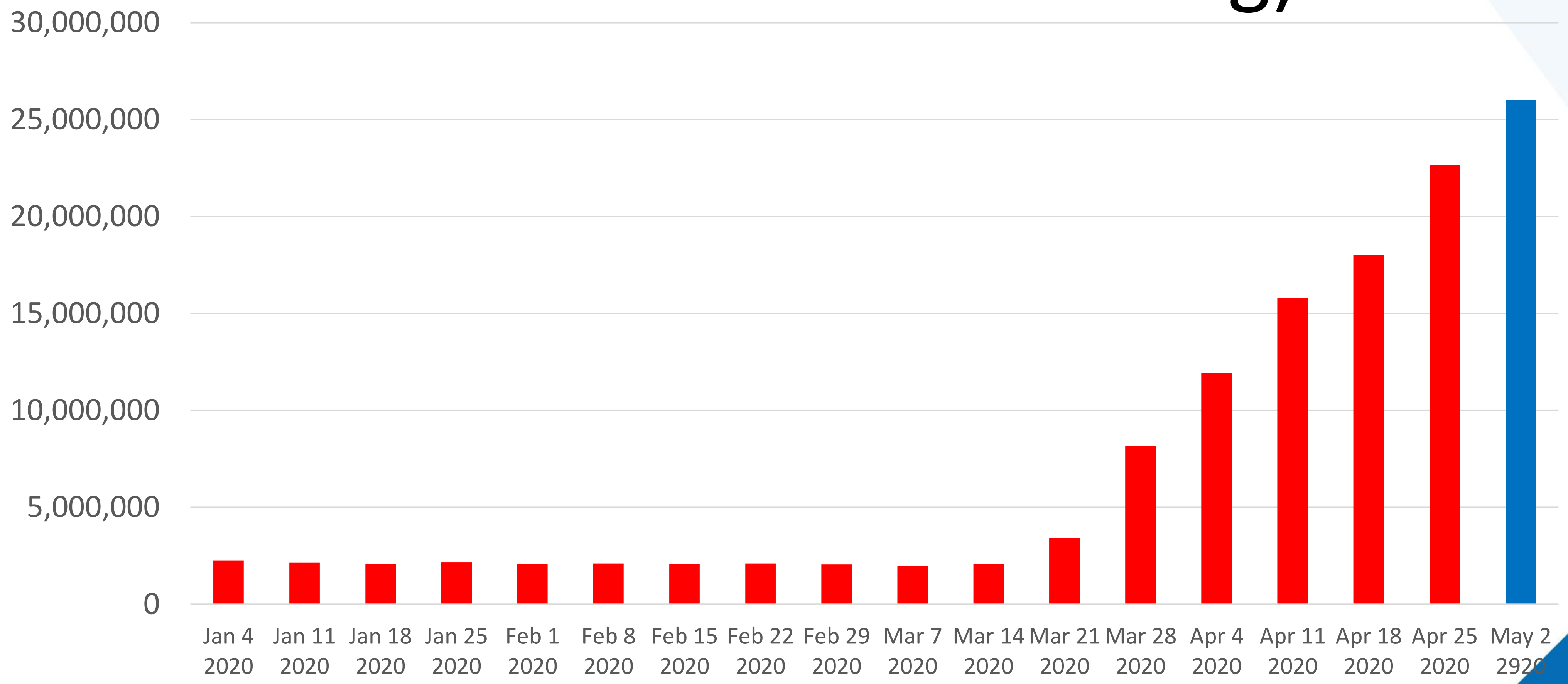
<u>Total</u> Cases: Unemployment Insurance Filers (26 million estimated due to data lag)



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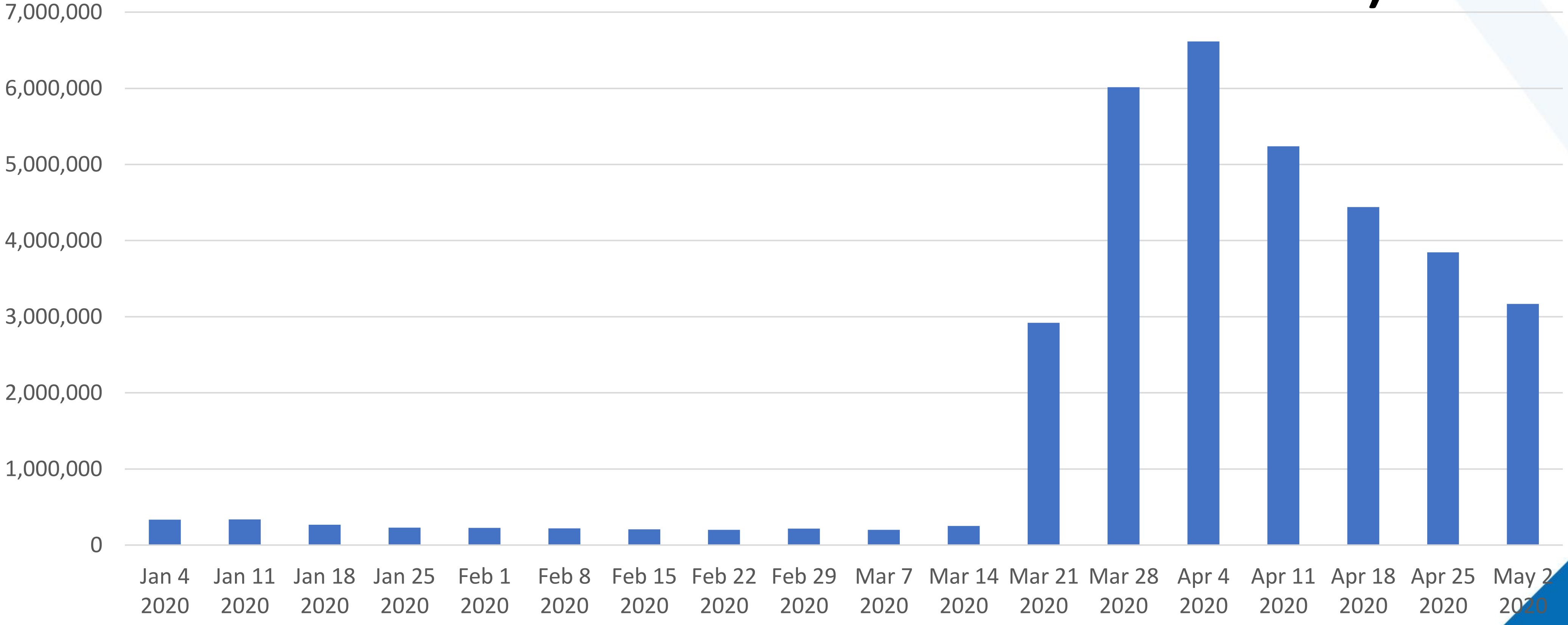
New Cases: Unemployment Insurance Filers: (33 million cumulative since Lockdown)



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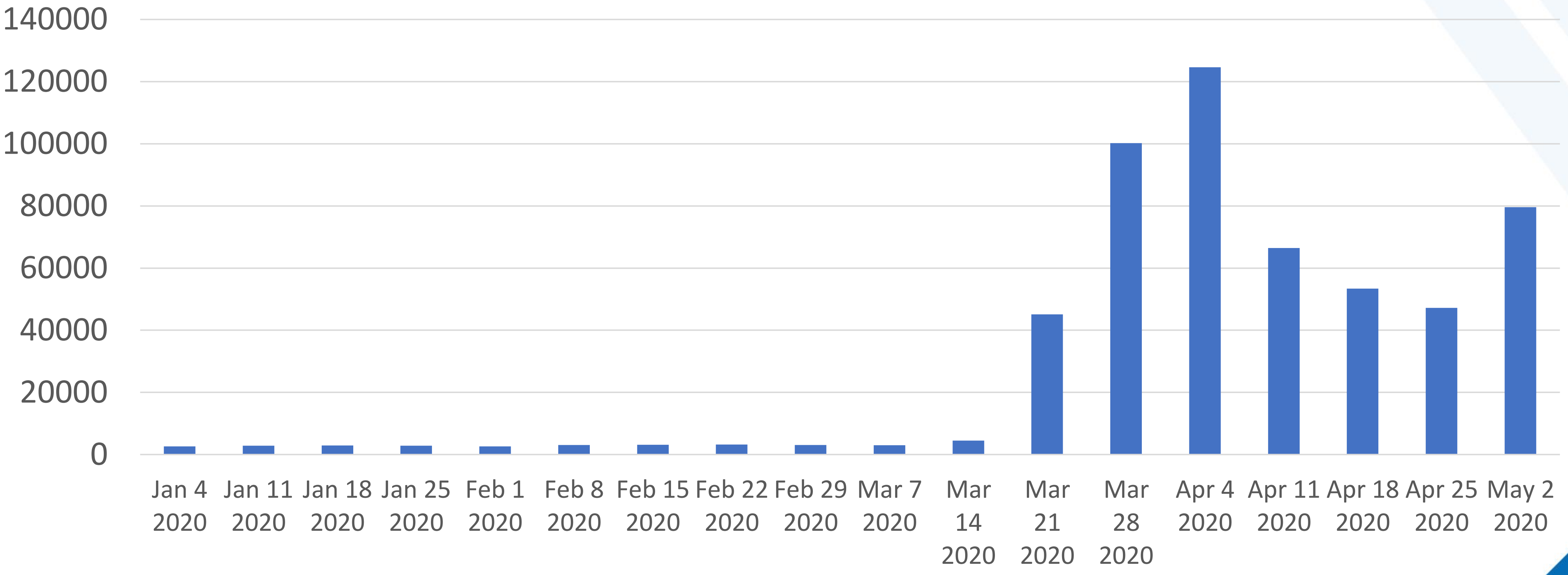
Maryland: New Cases Increased because of New Website for Independent Contractors



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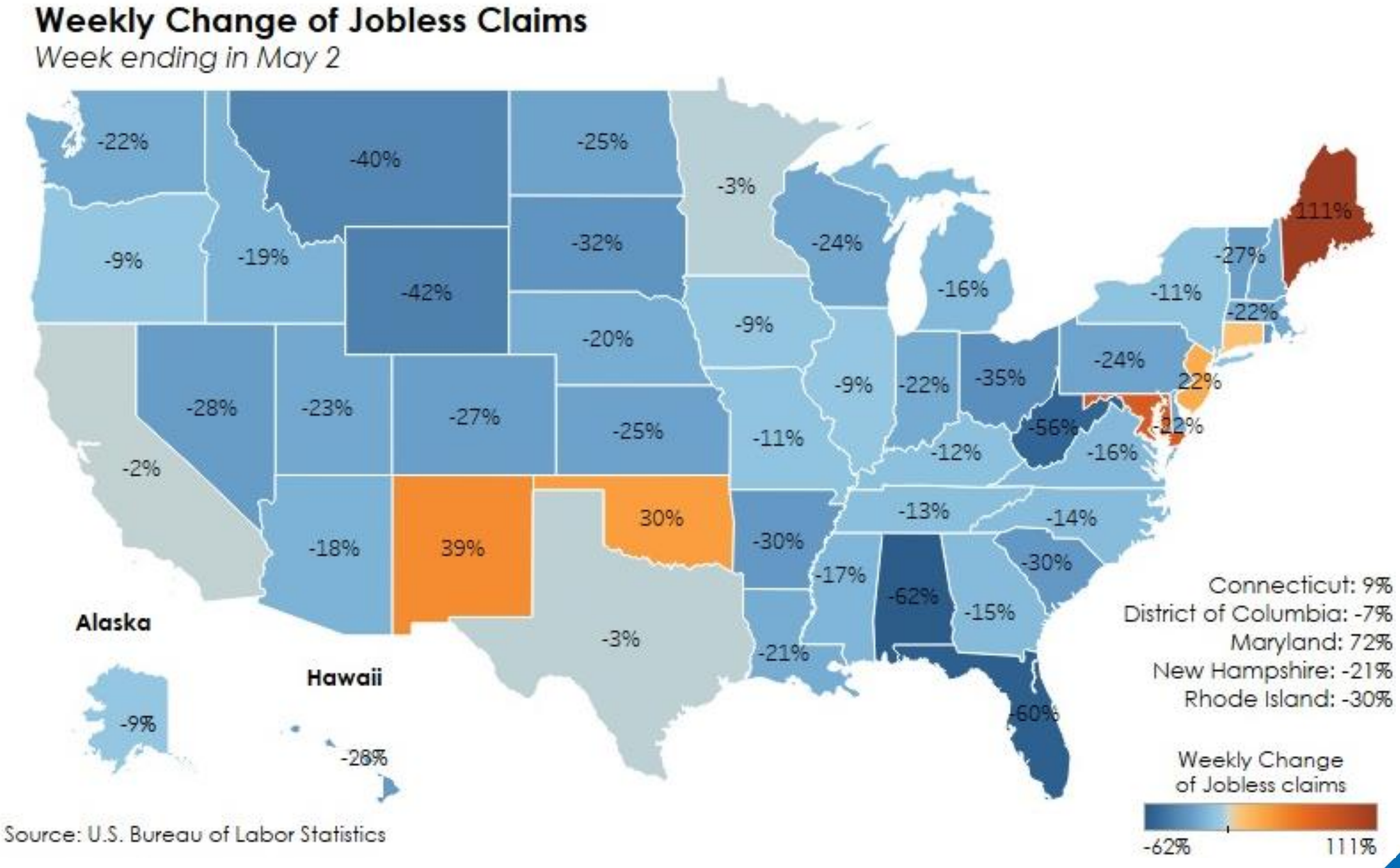
However, claims filed has fallen in the past two weeks, indicating furloughed/unemployed are getting back to work



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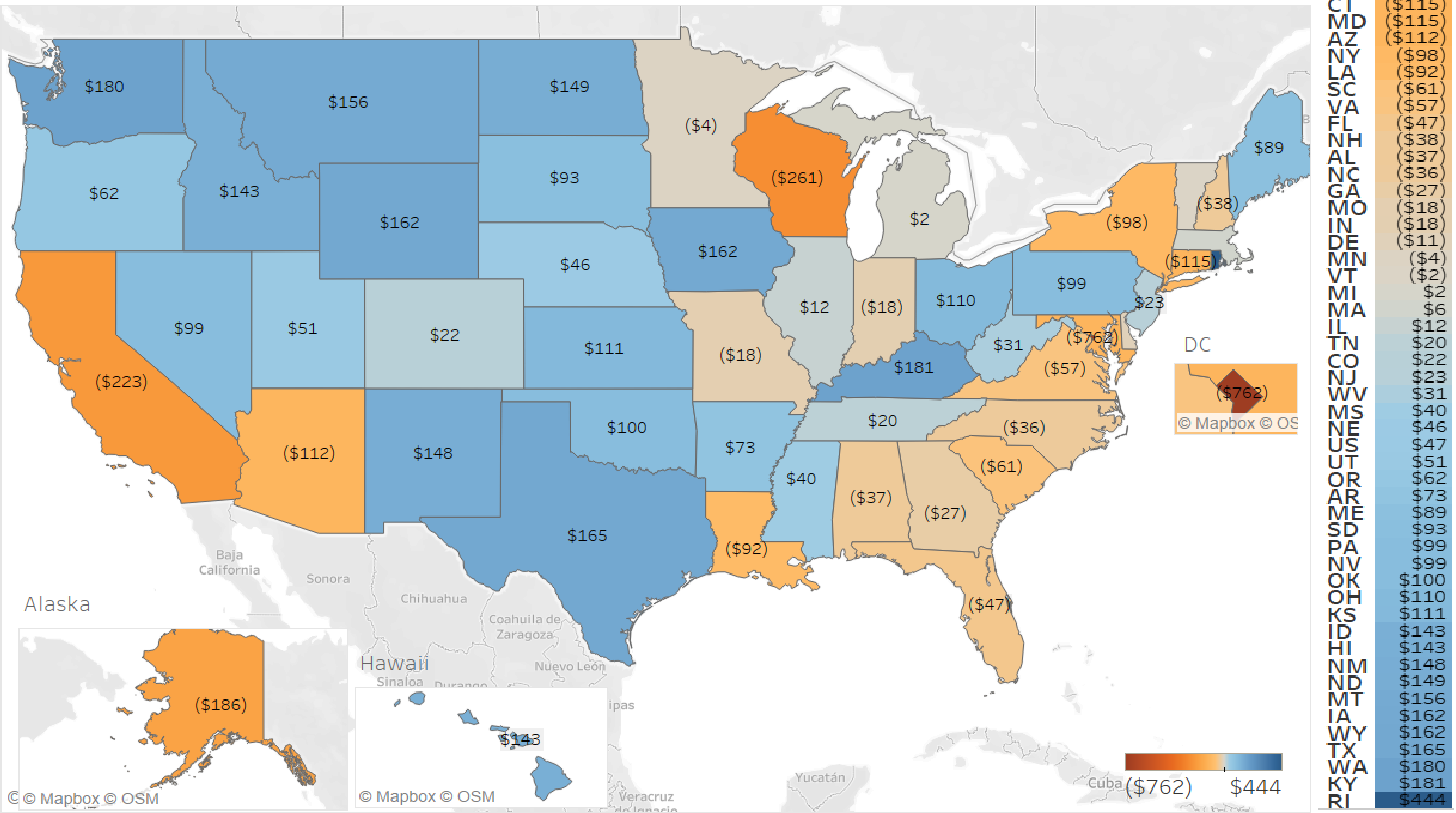
Unemployment insurance benefits don’t fully replace wages in some states

Wage Gap: State Unemployment Insurance +$600 -Average Weekly Wage
(Orange areas: UI less than wages)



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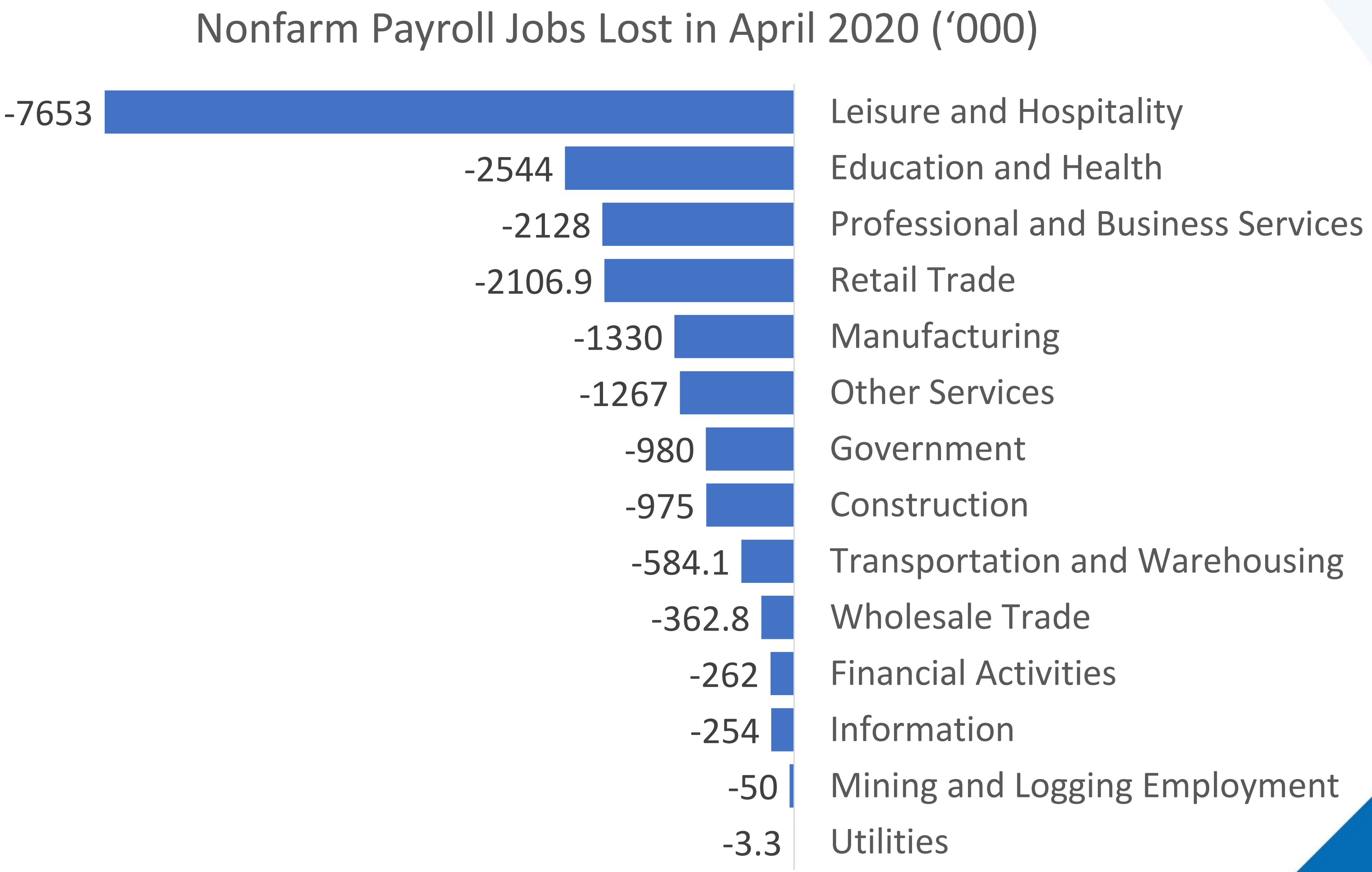
20.5 M jobs lost in April 2020; one in three jobs lost were in leisure/hospitality



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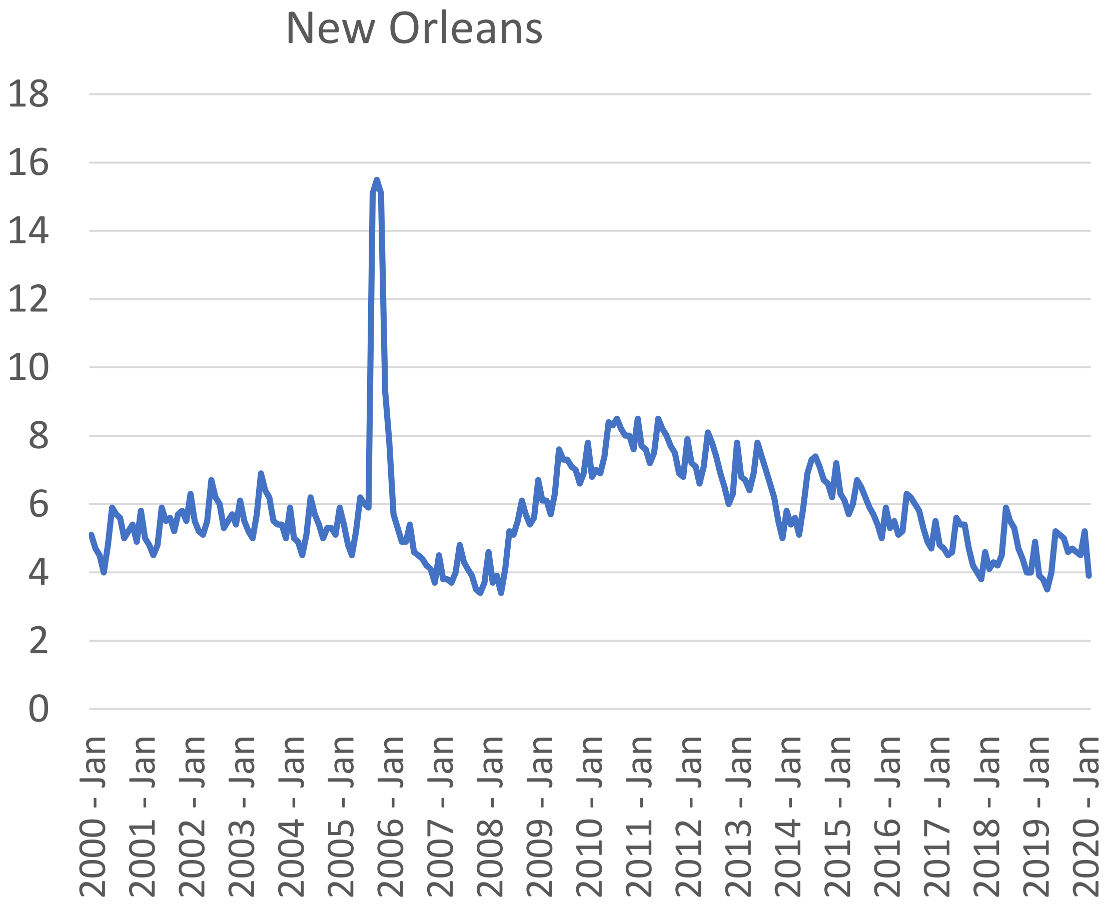
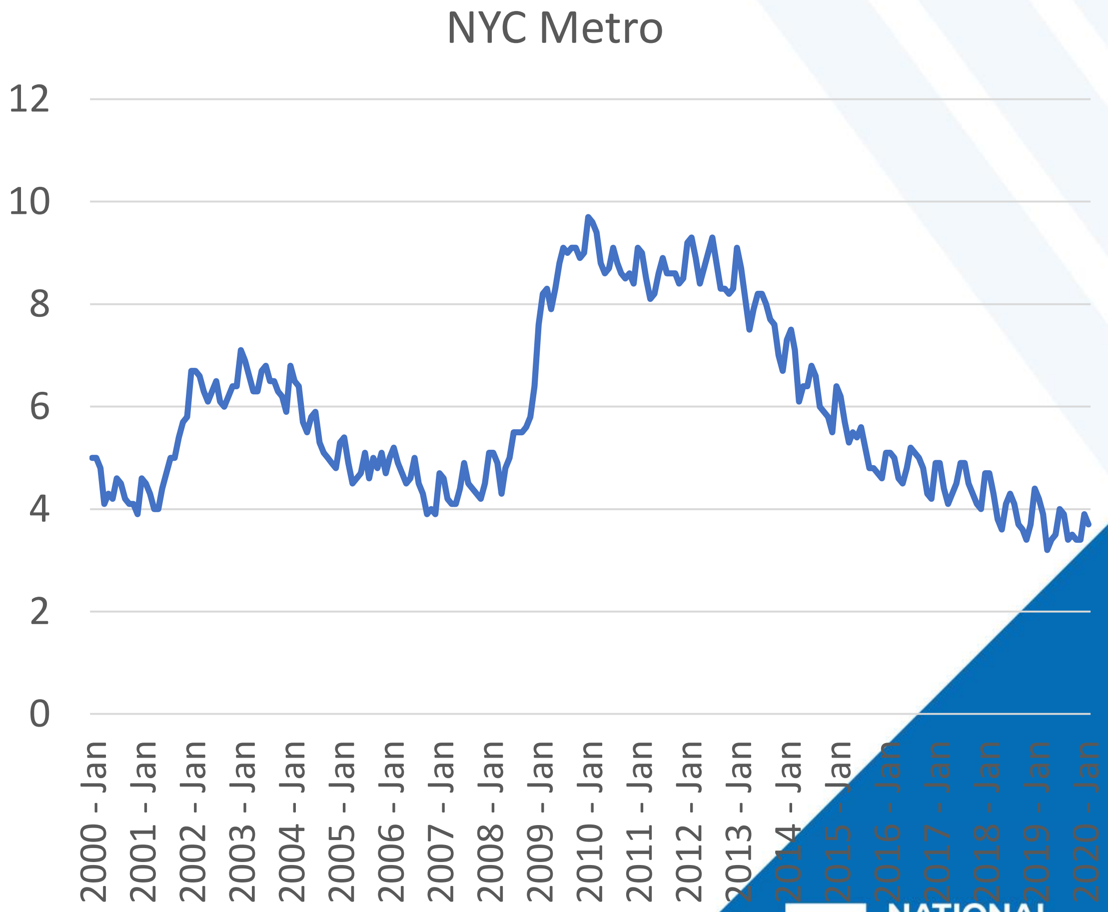
Local Disaster Events: Katrina and 9-11 Unemployment Rates





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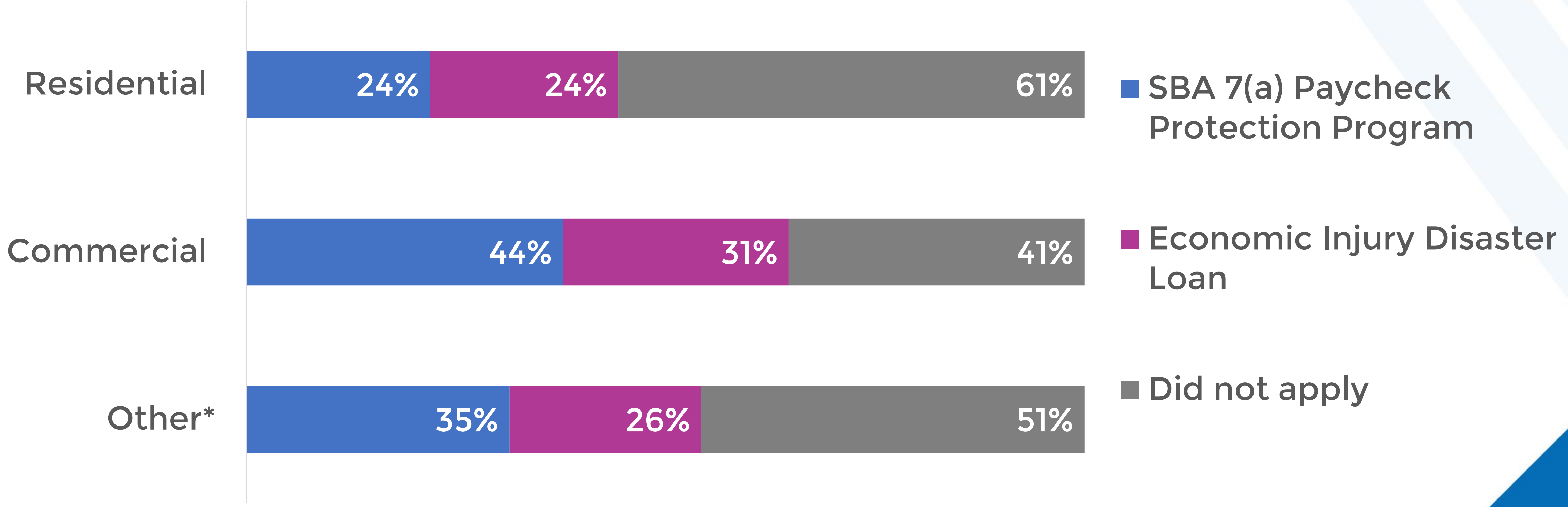
All-out monetary and fiscal policy to mitigate coronavirus impact

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

Source: NAR 2020 CARES Act Small Business Loans Survey

CARES Act PPP/EIDL small business loans to mitigate coronavirus impact

59% of commercial members have availed of SBA loans



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

Source: NAR 2020 CARES Act Small Business Loans Survey

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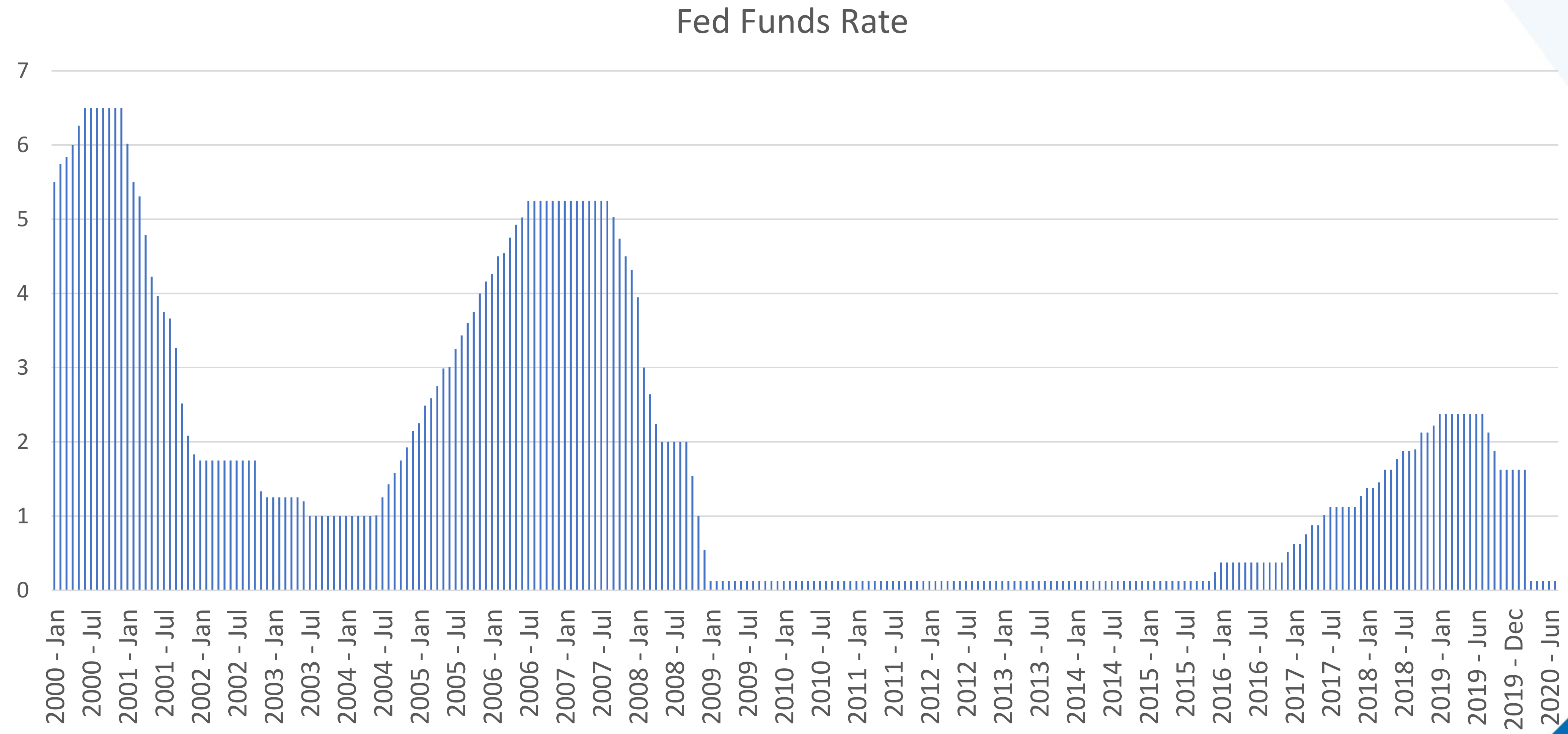
Federal Reserve All-In
Quantitative Easing including buying Corporate Debts



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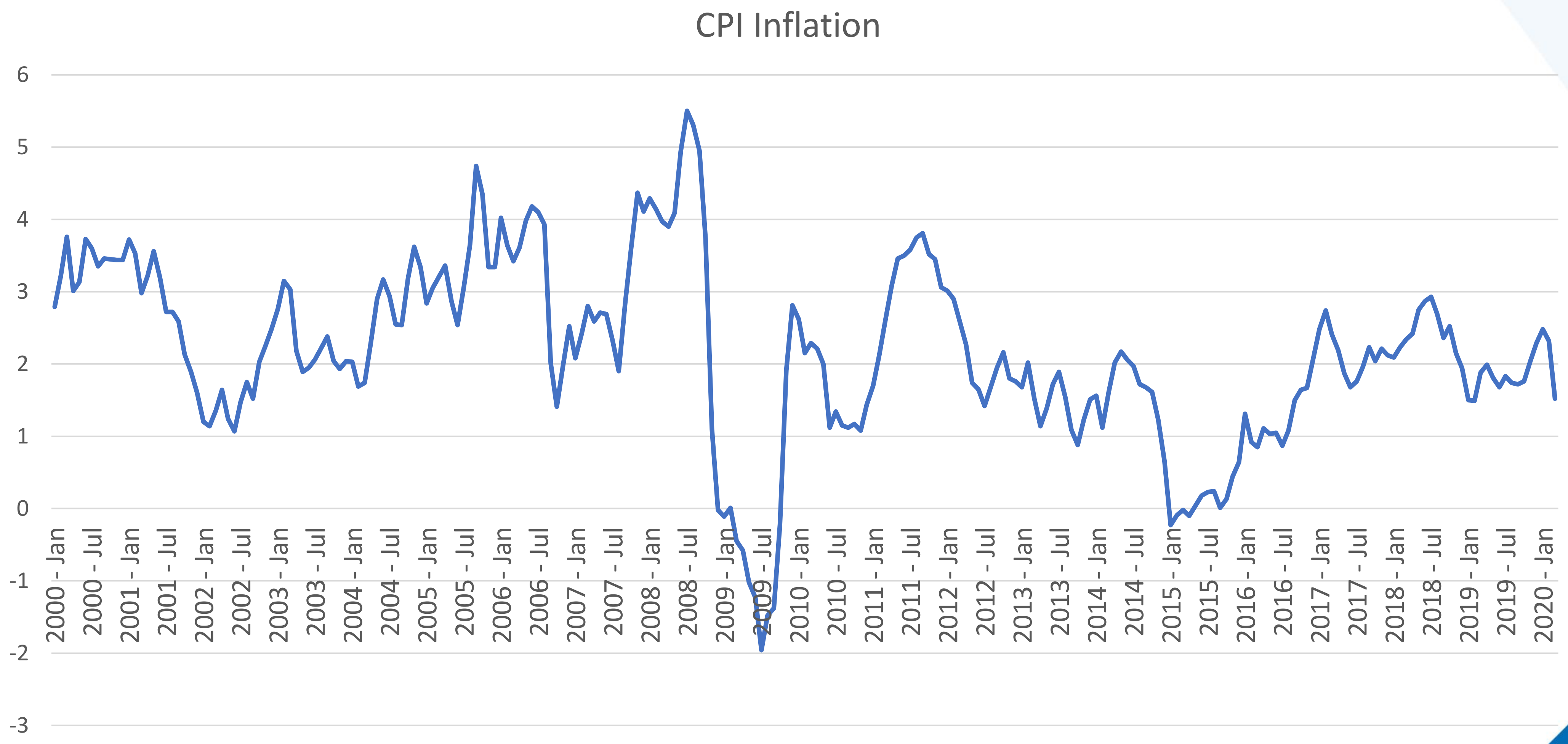
No Inflation … No Worries for Now



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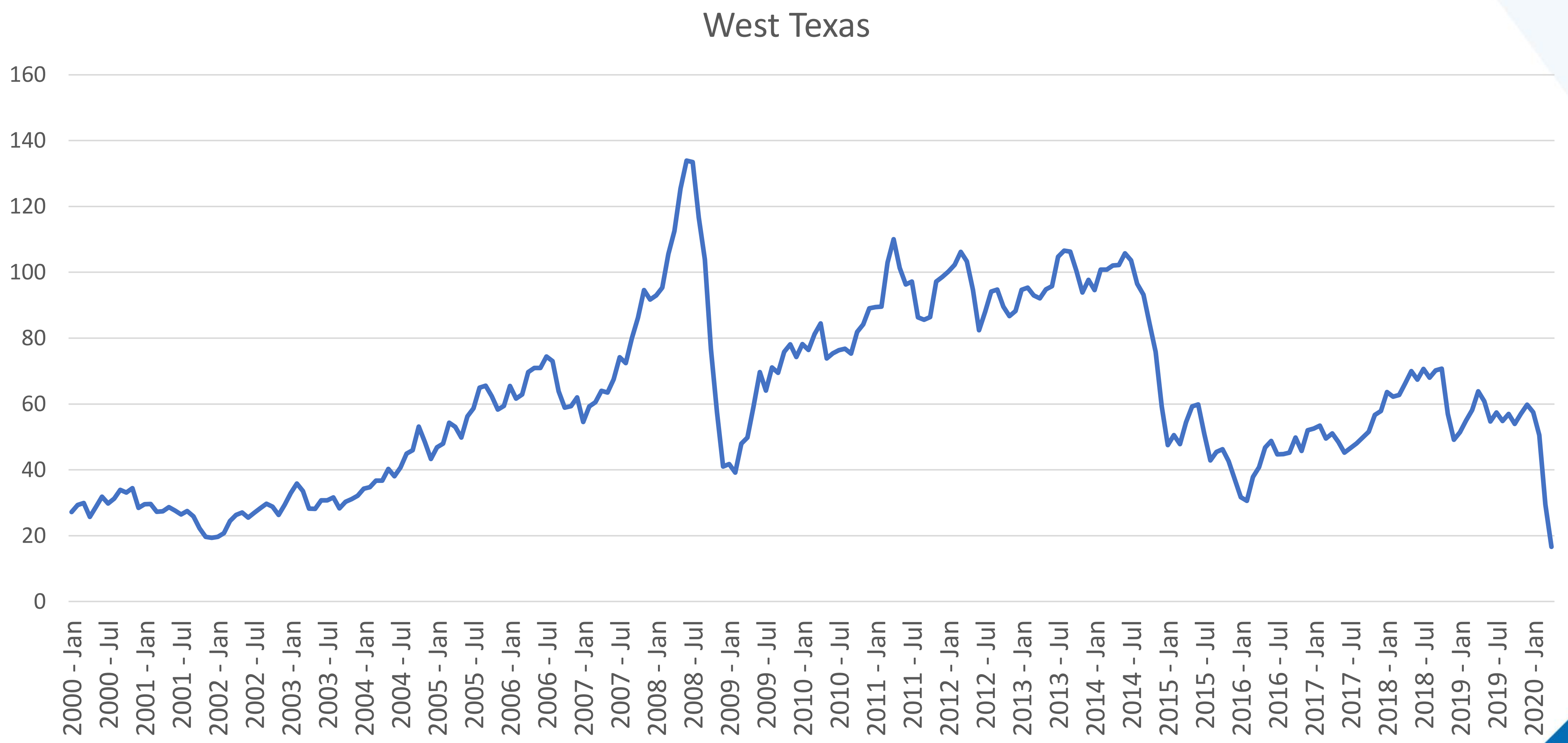
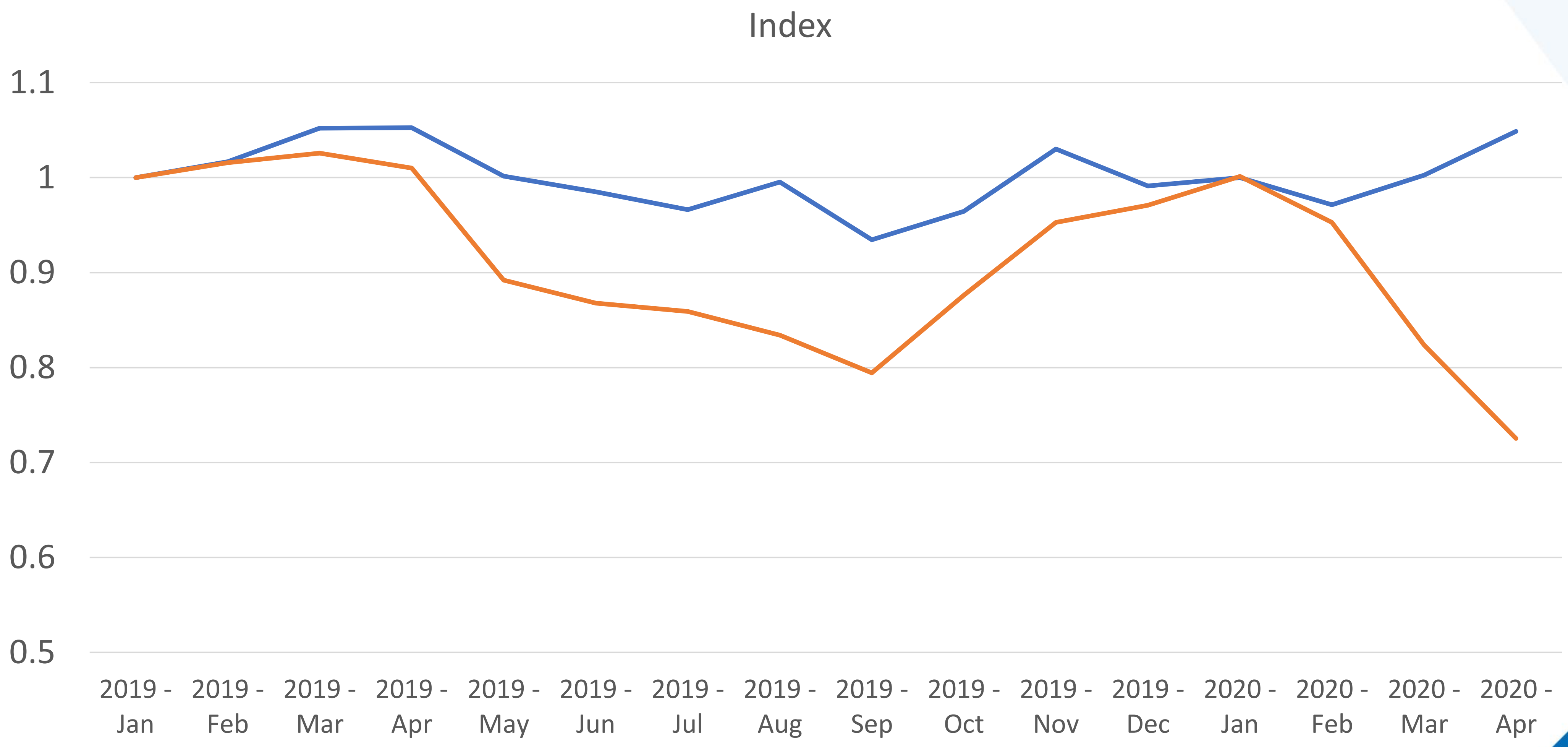
Oil Price Collapse … Global Economic Collapse … Russia and Saudi Oil War



Beef Price Rising … Cattle Price Falling



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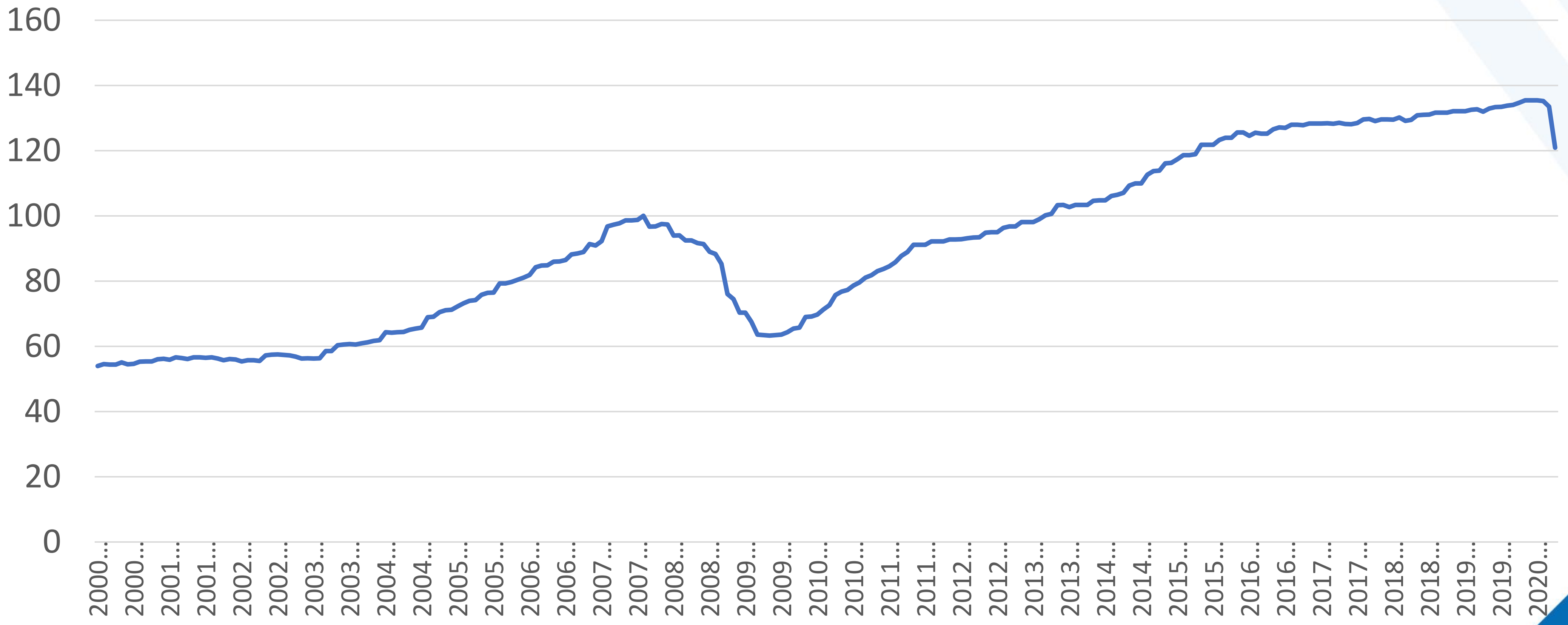
Commercial Property Price Index

Green Street Advisors



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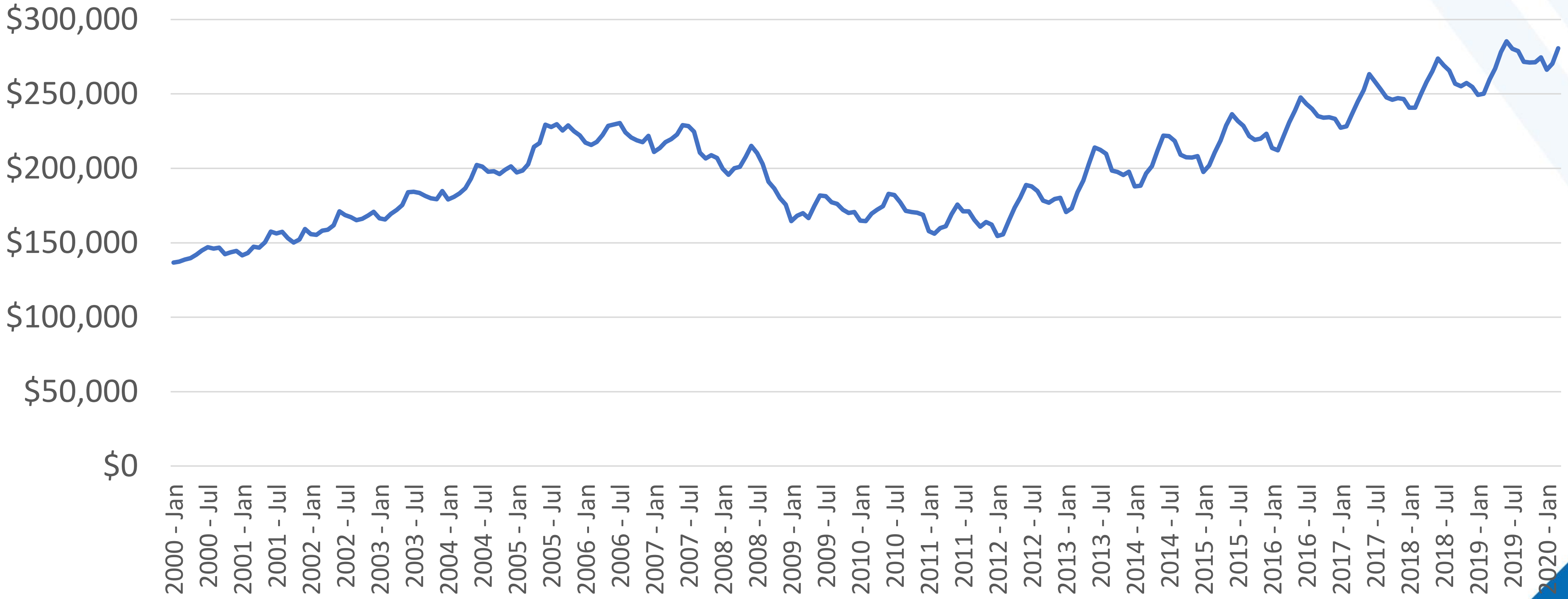
Home Price

NAR Median Home Price … 8% higher from a year ago



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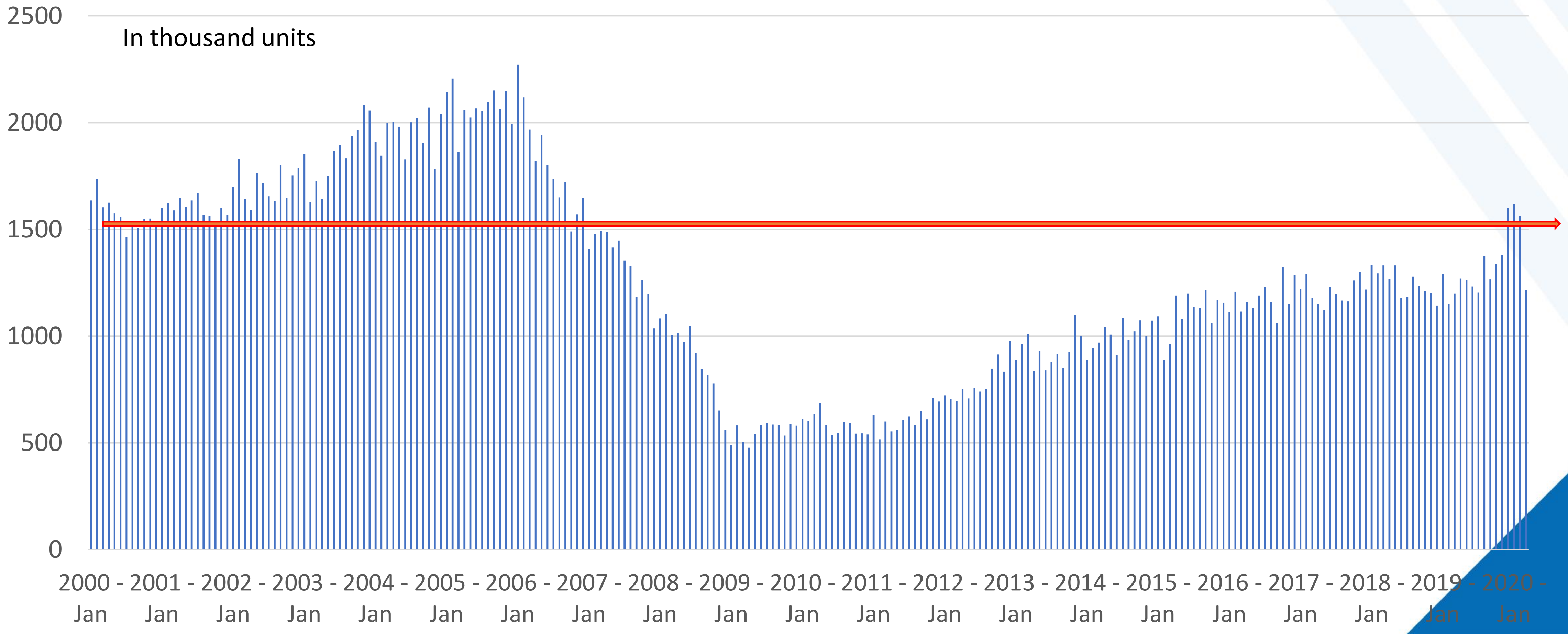
Housing Shortage …
Land Purchase and Development in the Suburbs in the Future



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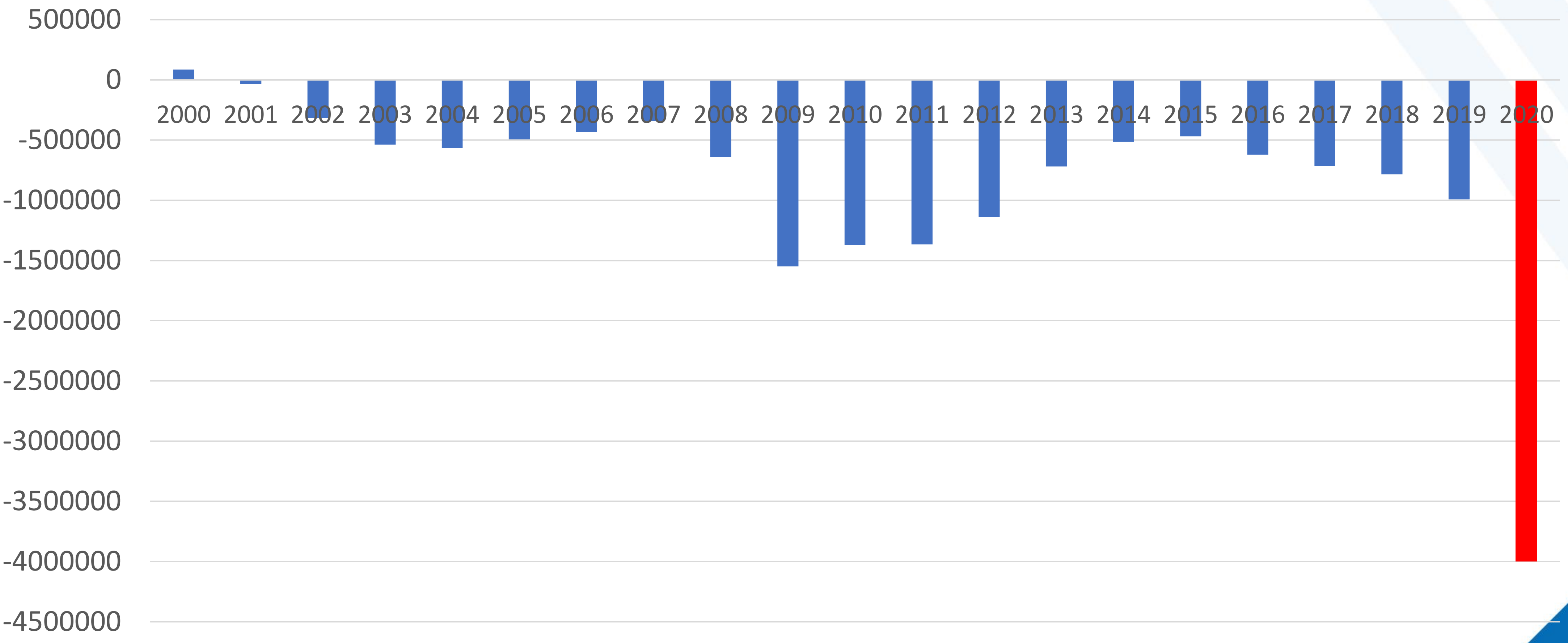
Federal Budget Deficit … $4 trillion in 2020



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COMMERCIAL MARKET TRENDS

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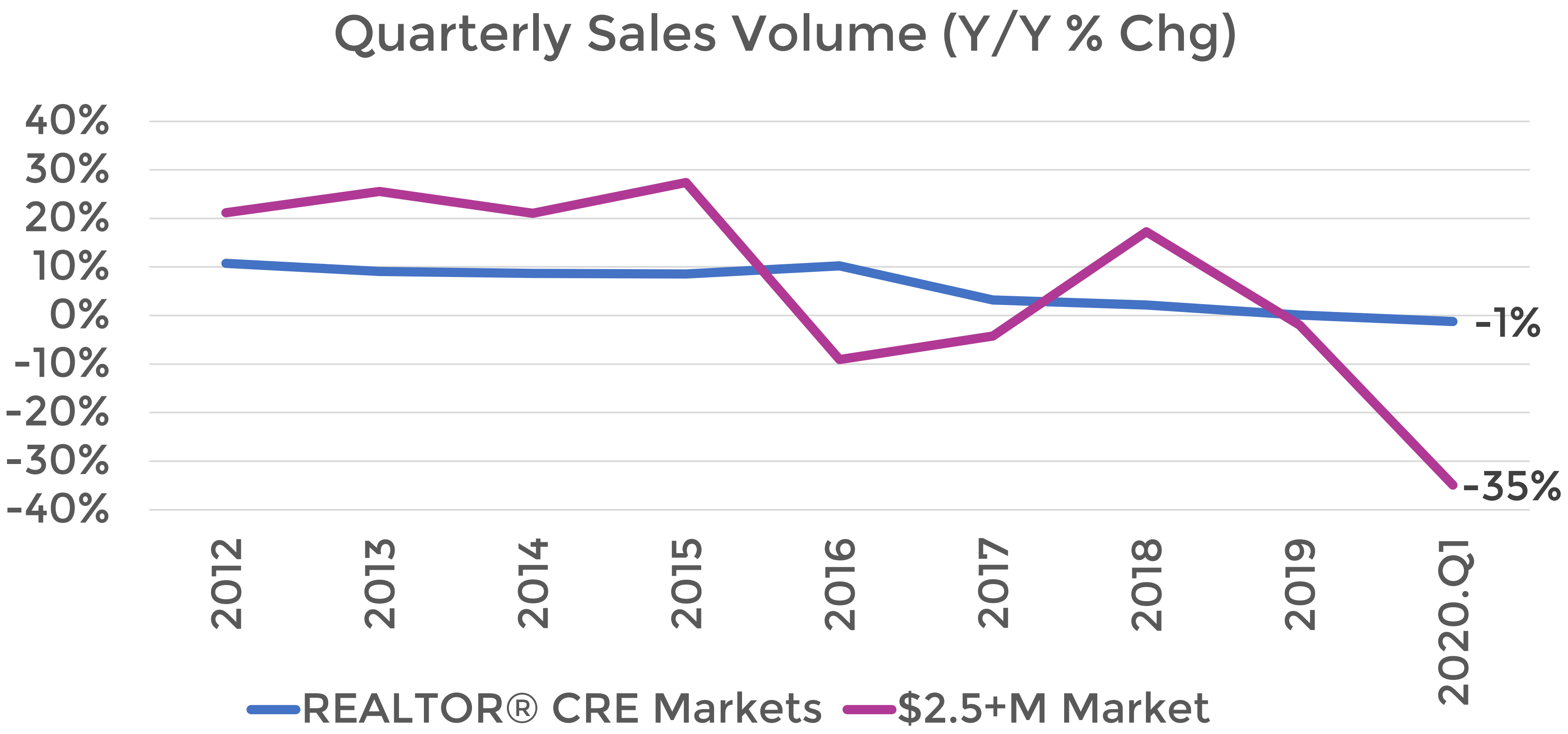
Sales transactions contracted in both small and large CRE markets in 2020 Q1

Less than $2.5M market: -1%y/y; $2.5M+ market: -35% y/y



Sources: National Association of REALTORS®, Real Capital Analytics

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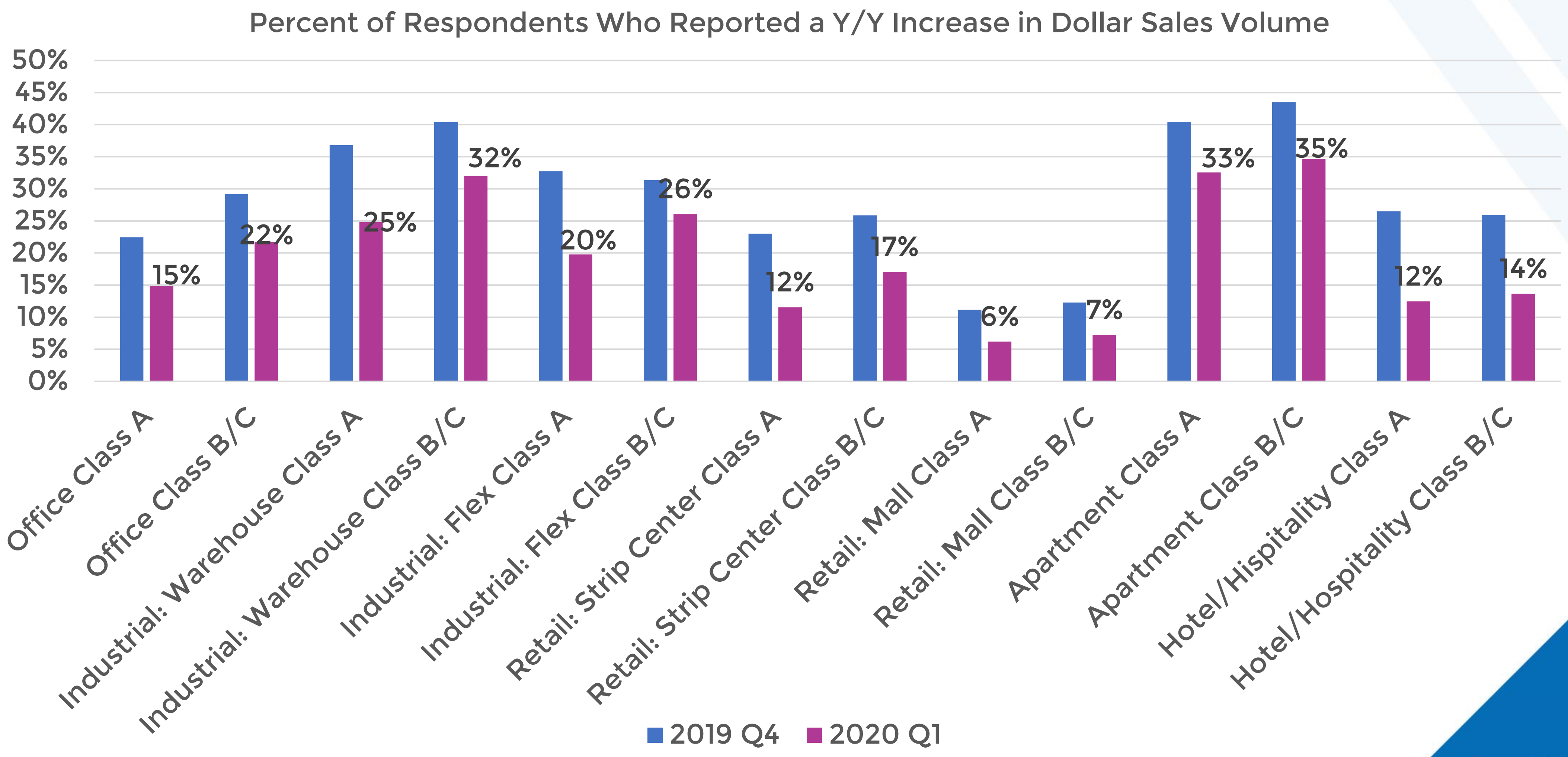
Source: NAR Commercial Real Estate Quarterly Market Survey and Real Capital Analytics. Among Realtors®, the typical transactions is less than $2.5 million ('small" commercial market) while RCA tracks $2.5 M or over transactions ("large" commercial market).

Fewer respondents reported y/y sales gains in 2020 Q1 compared to 2019 Q4



Source: NAR Commercial Real Estate Quarterly Market Survey; Realtor® typical transaction is less than $2.5 M.

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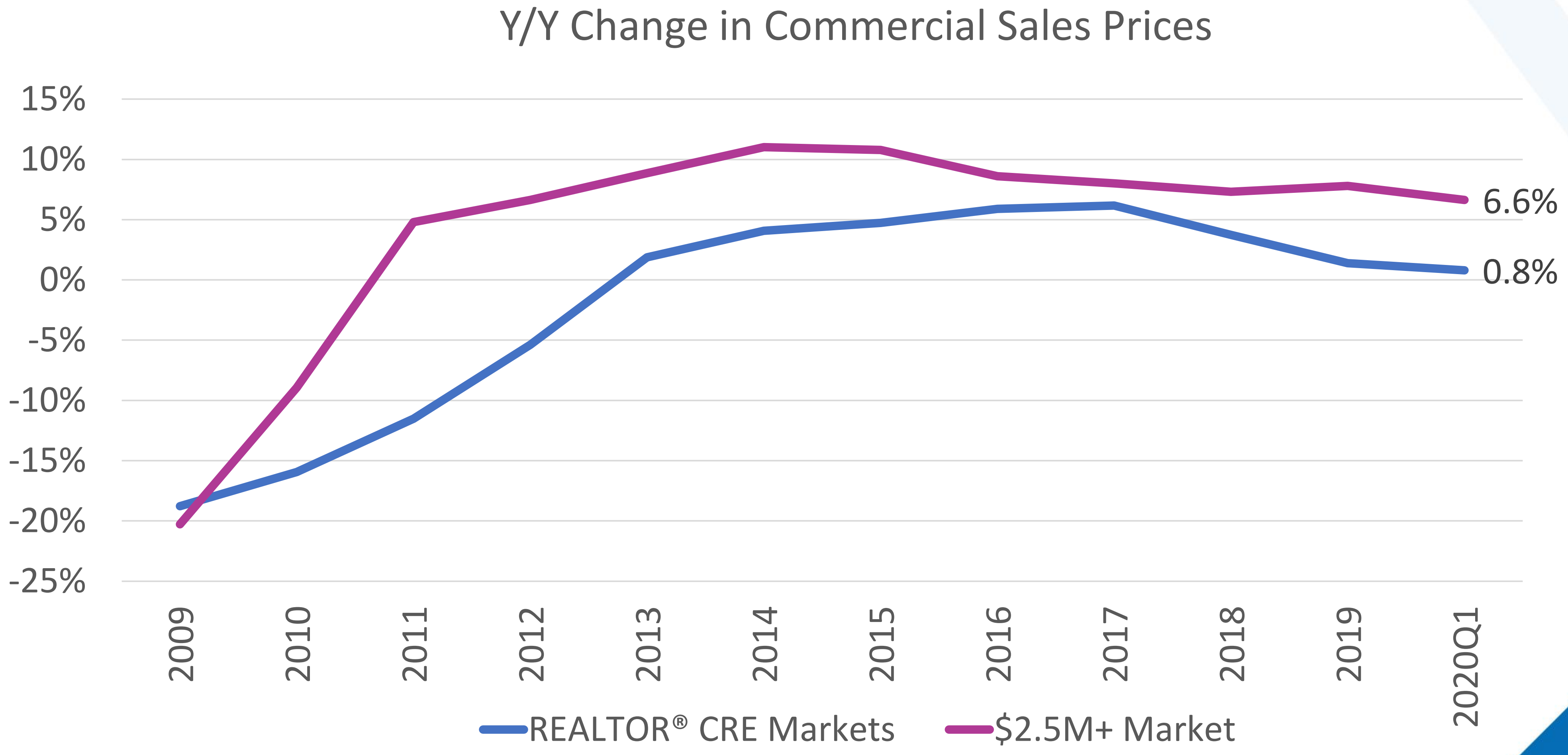
Commercial sales prices increased at a slower pace in 2020 Q1

Less than $2.5M market: 0.8%y/y; $2.5M+ market: 6.6% y/y



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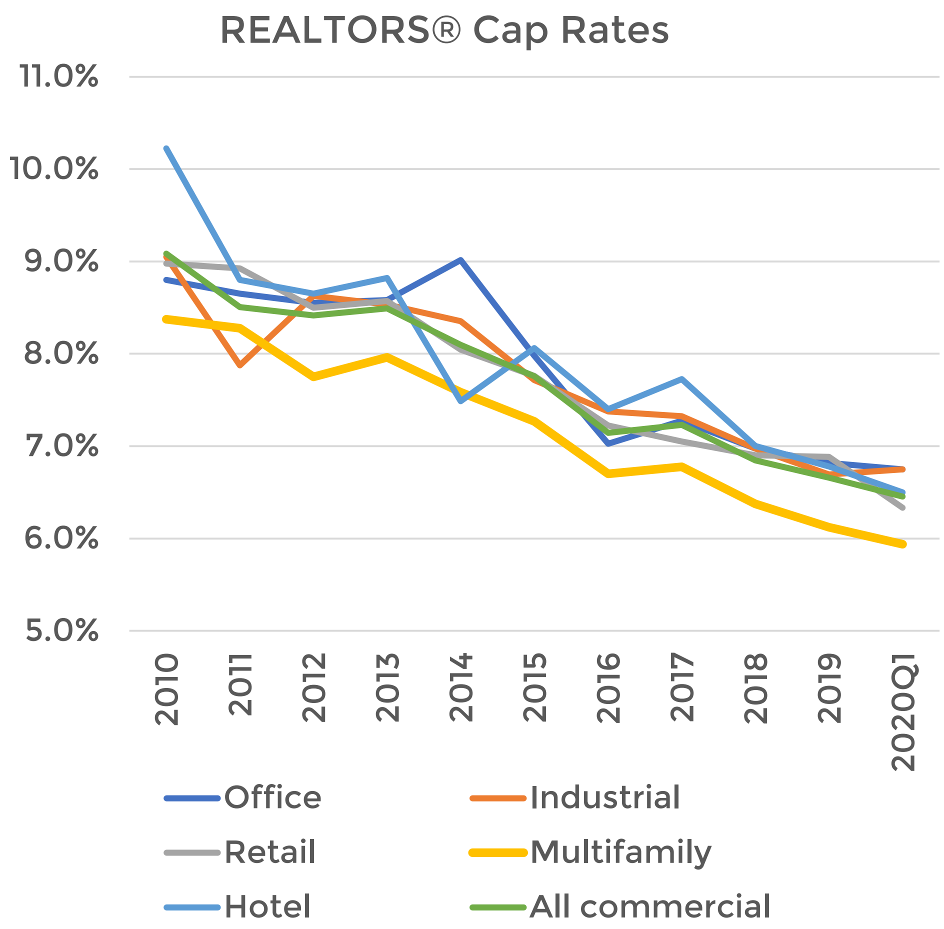
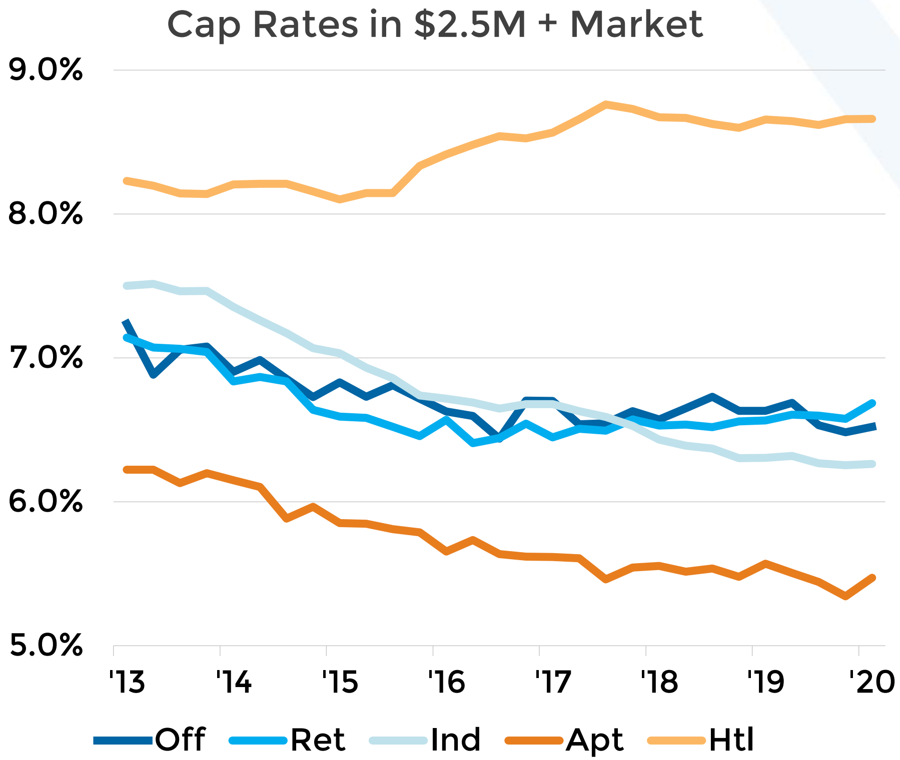
Cap rates compressed in small commercial market, but slightly rose in the large CRE market; large investors more risk-averse?





Source: NAR Commercial Real Estate Quarterly Market Survey and Real Capital Analytics. Among Realtors®, the typical transactions is less than $2.5 million ('small" commercial market) while RCA tracks $2.5 M or over transactions ("large" commercial market).

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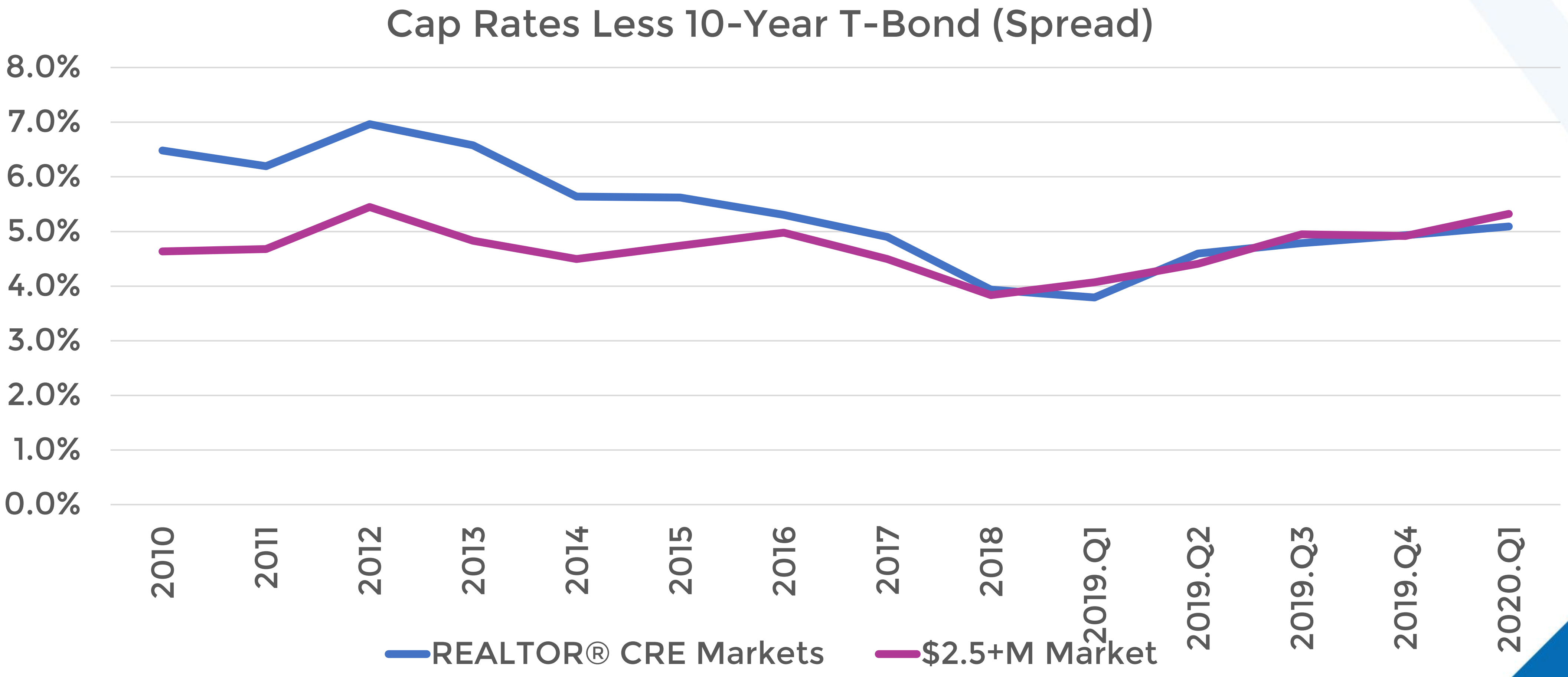
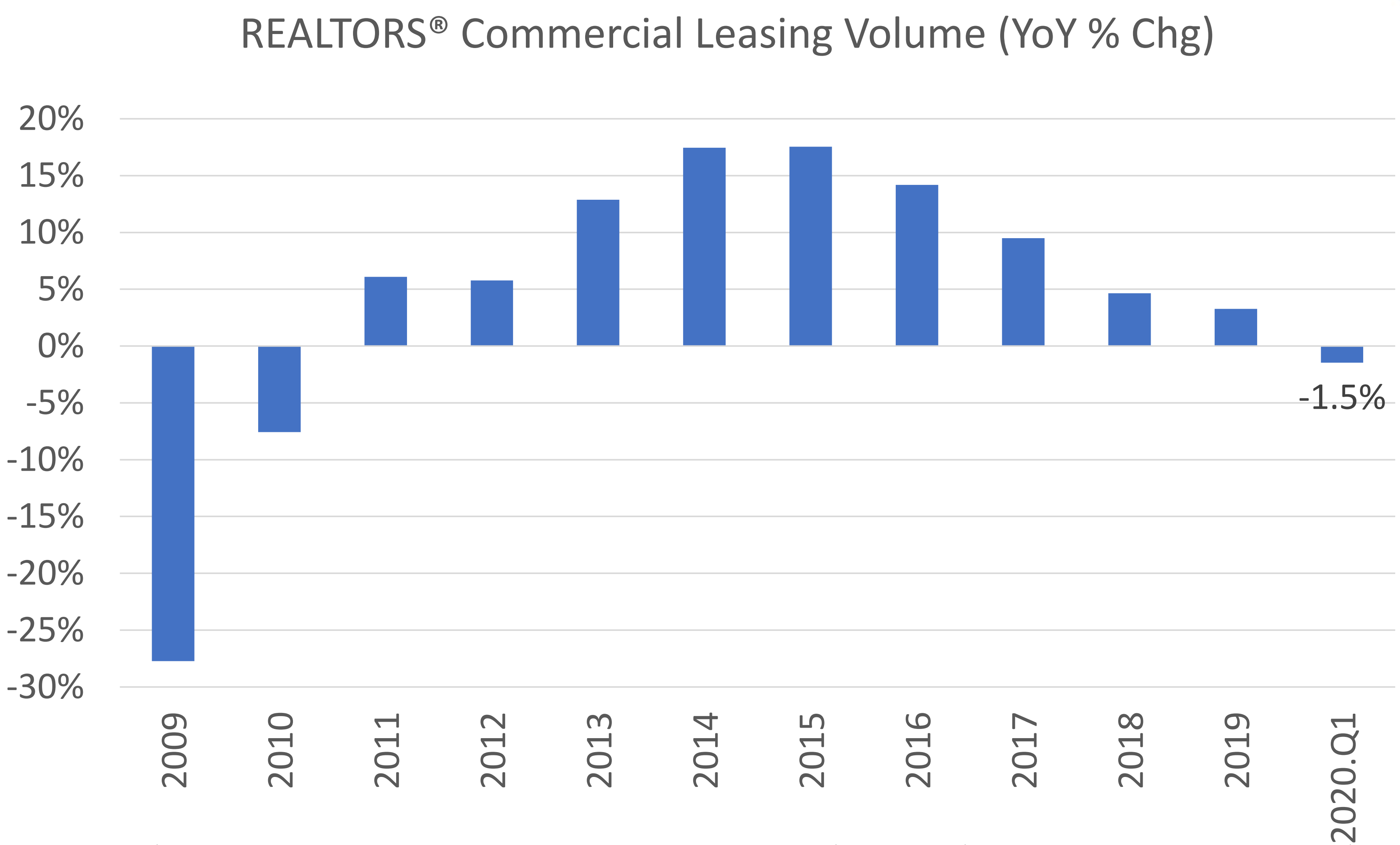
Investors more risk-averse, indicated by rising cap rate spreads since 2019

Less than $2.5M market: 510 bp; $2.5M + market: 530 bp (~ 400 bp in 2018)



Source: NAR Commercial Real Estate Quarterly Market Survey and Real Capital Analytics. Among Realtors®, the typical transactions is less than $2.5 million ('small" commercial market) while RCA tracks $2.5 M or over transactions ("large" commercial market).

Volume of new leases declined 2% in 2020 Q1 in small CRE market



Source: NAR Commercial Real Estate Quarterly Market Survey and Real Capital Analytics. Among Realtors®, the typical transactions is less than $2.5 million ('small" commercial market)

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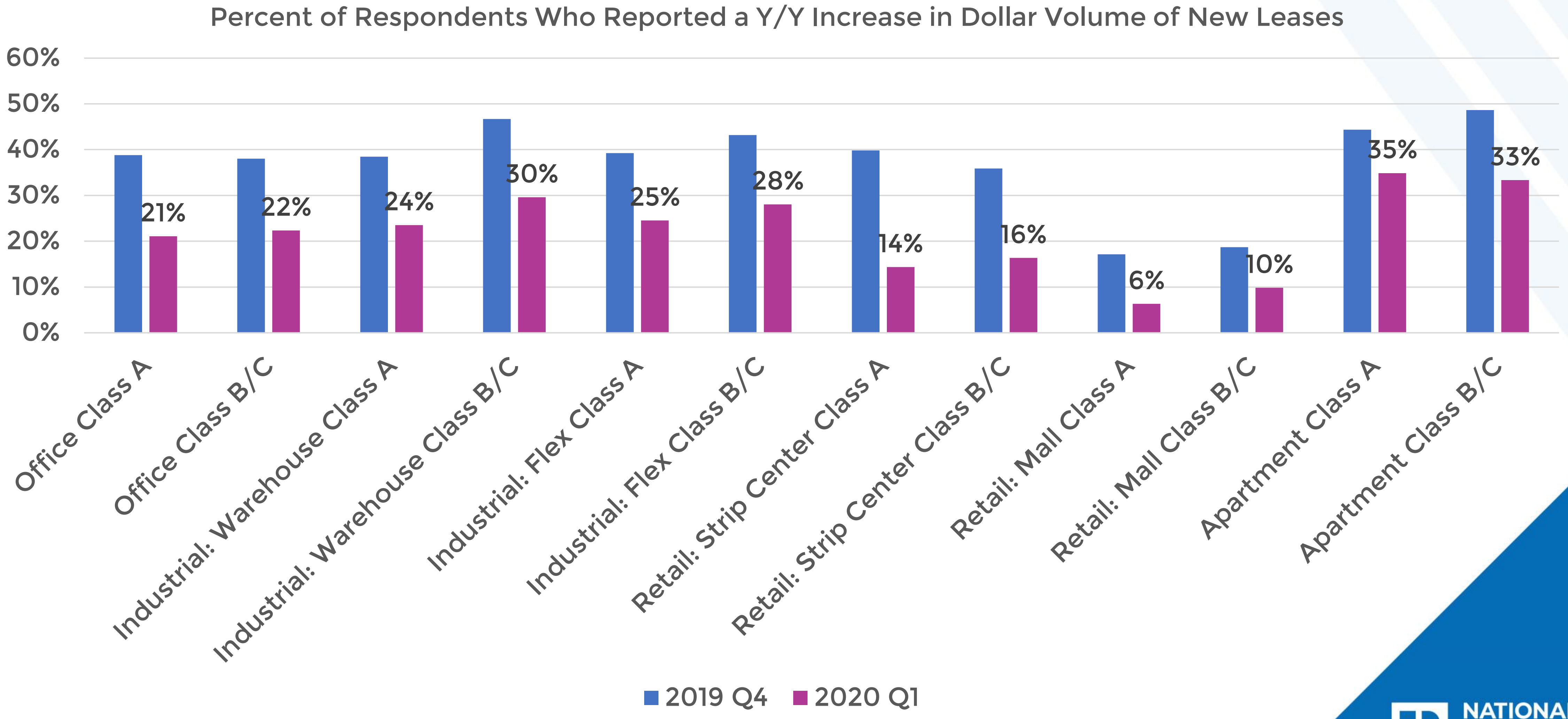
Fewer respondents reported y/y new leasing volume in 2020 Q1 vs. 2019 Q4



Source: NAR Commercial Real Estate Quarterly Market Survey and Real Capital Analytics. Among Realtors®, the typical transactions is less than $2.5 million ('small" commercial market)

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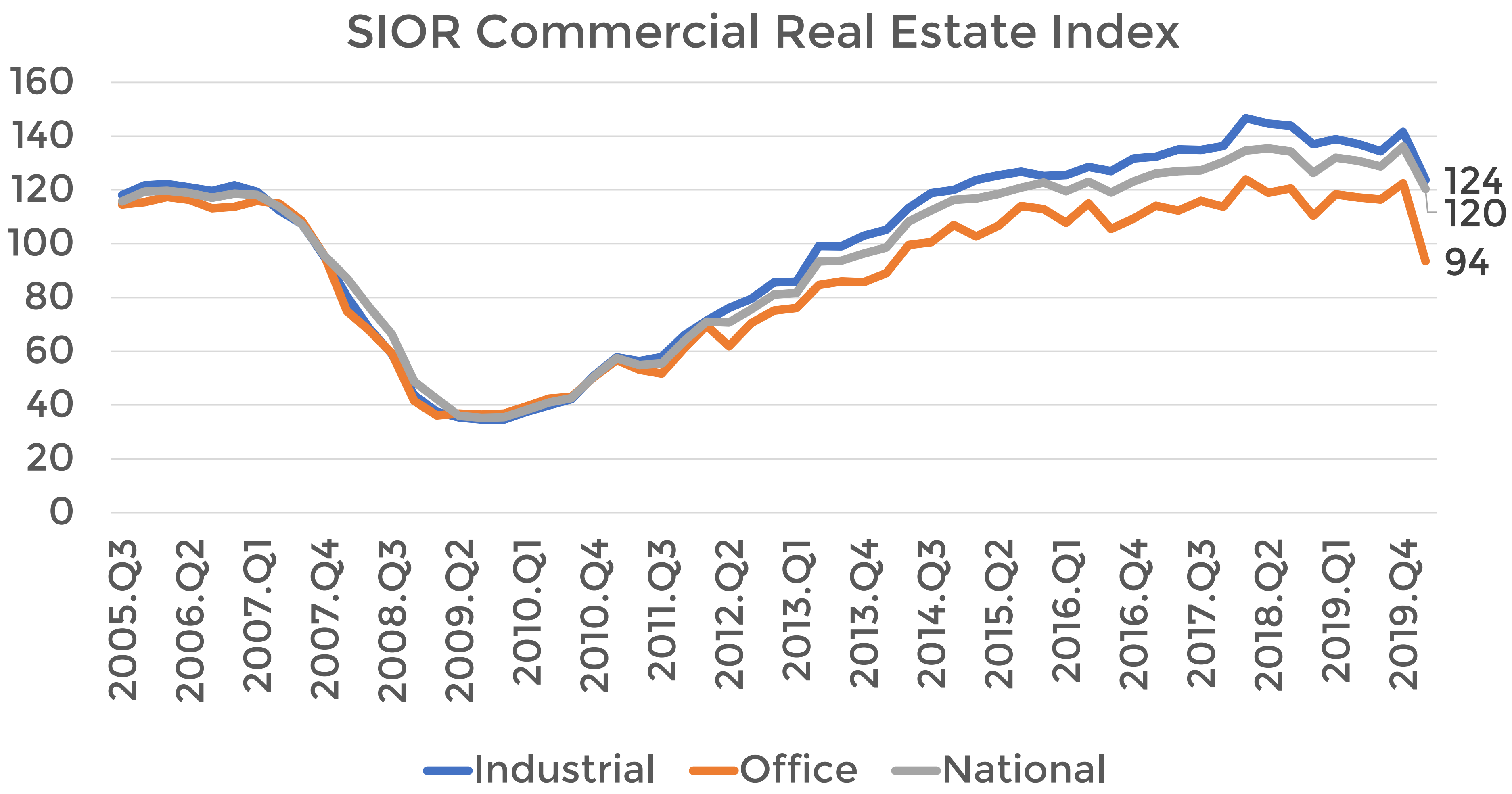
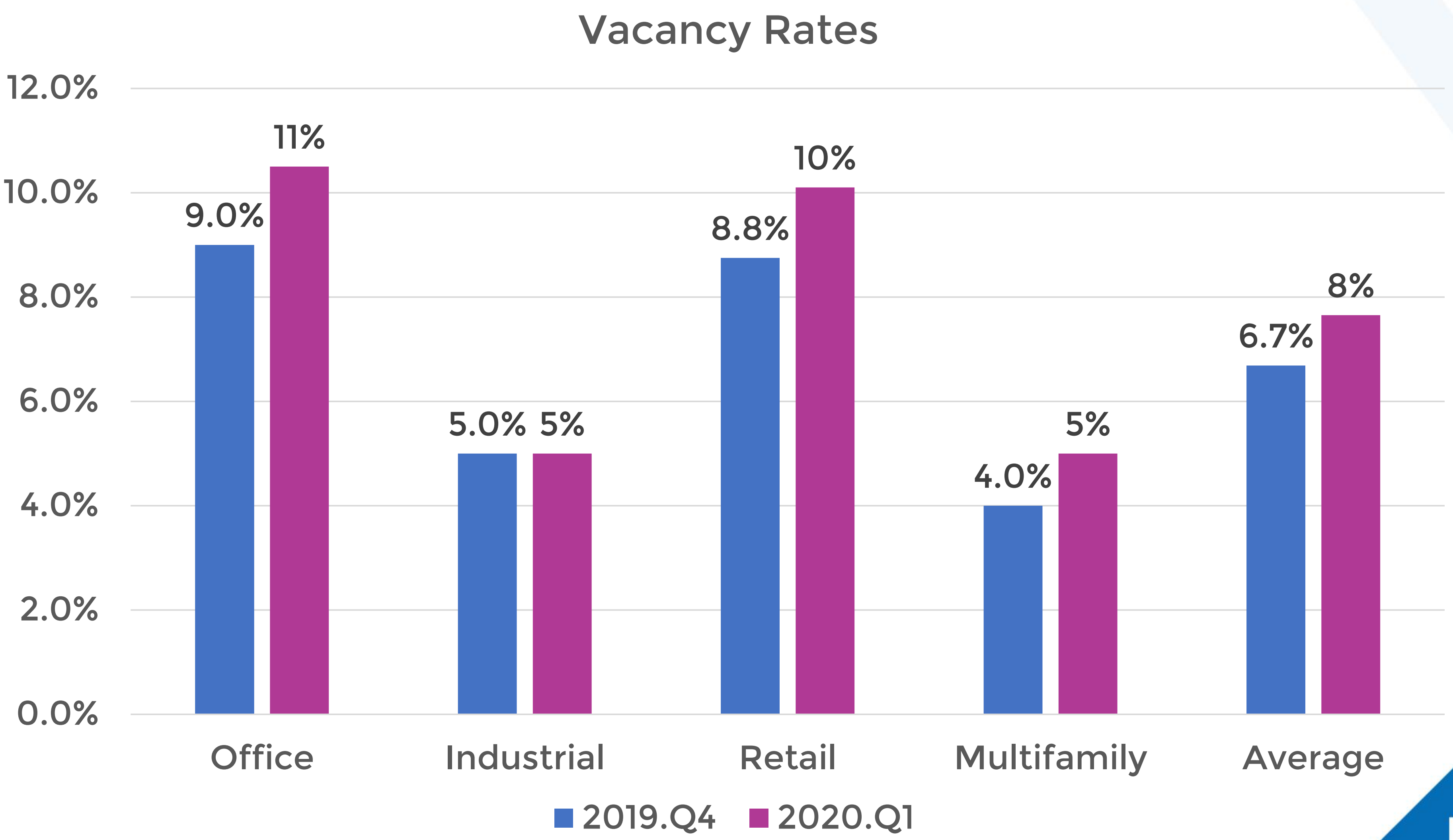
SIOR Commercial Index on office and industrial markets declined in 2020 Q1



Source: SIOR, NAR

Source: SIOR Commercial Survey

Vacancy rates rose in all property markets in 2020 Q1 compared to 2019 Q4



Source: NAR Commercial Real Estate Quarterly Market Survey

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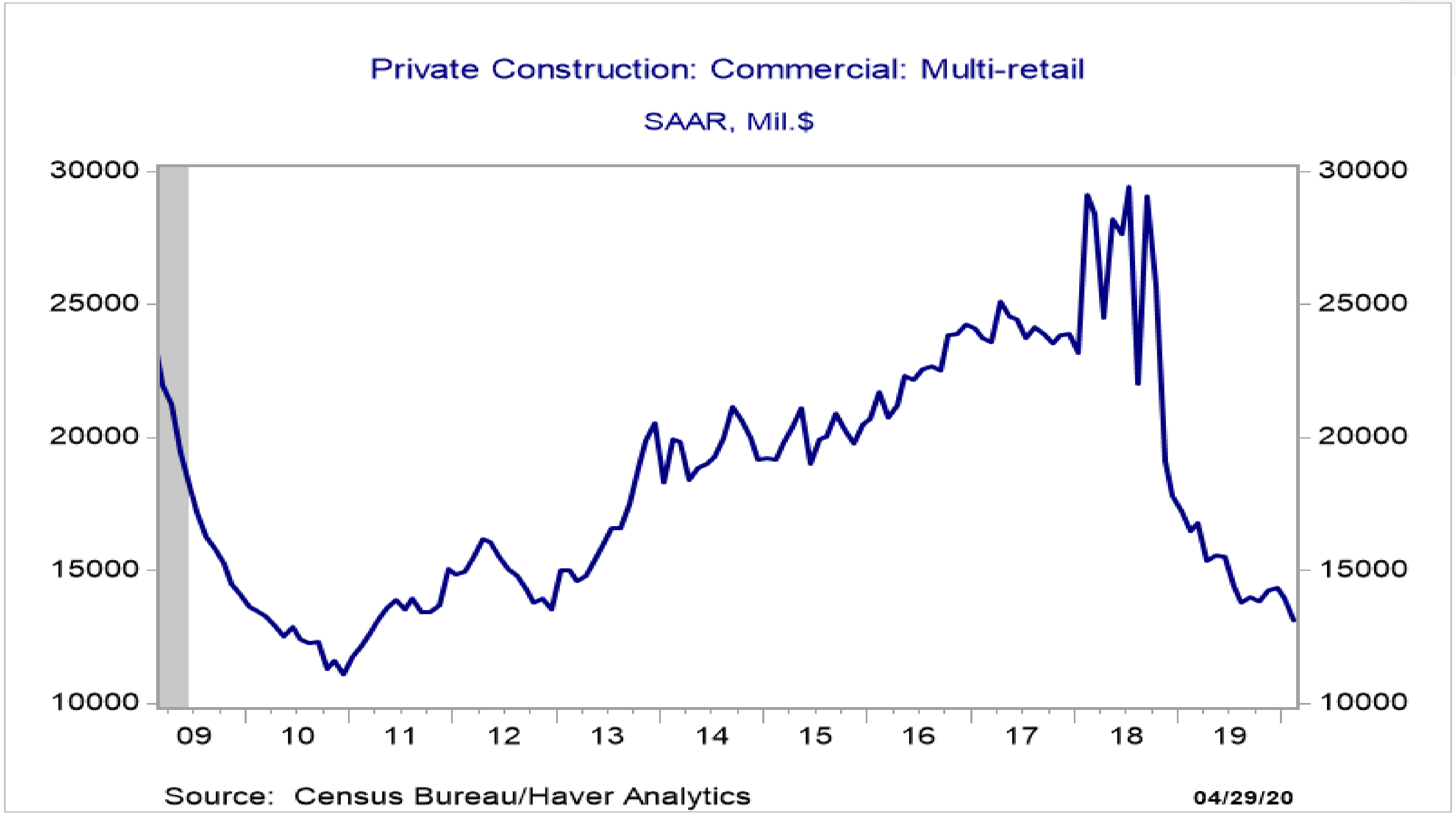
Steep decline in retail construction since 2018 through Feb 2020



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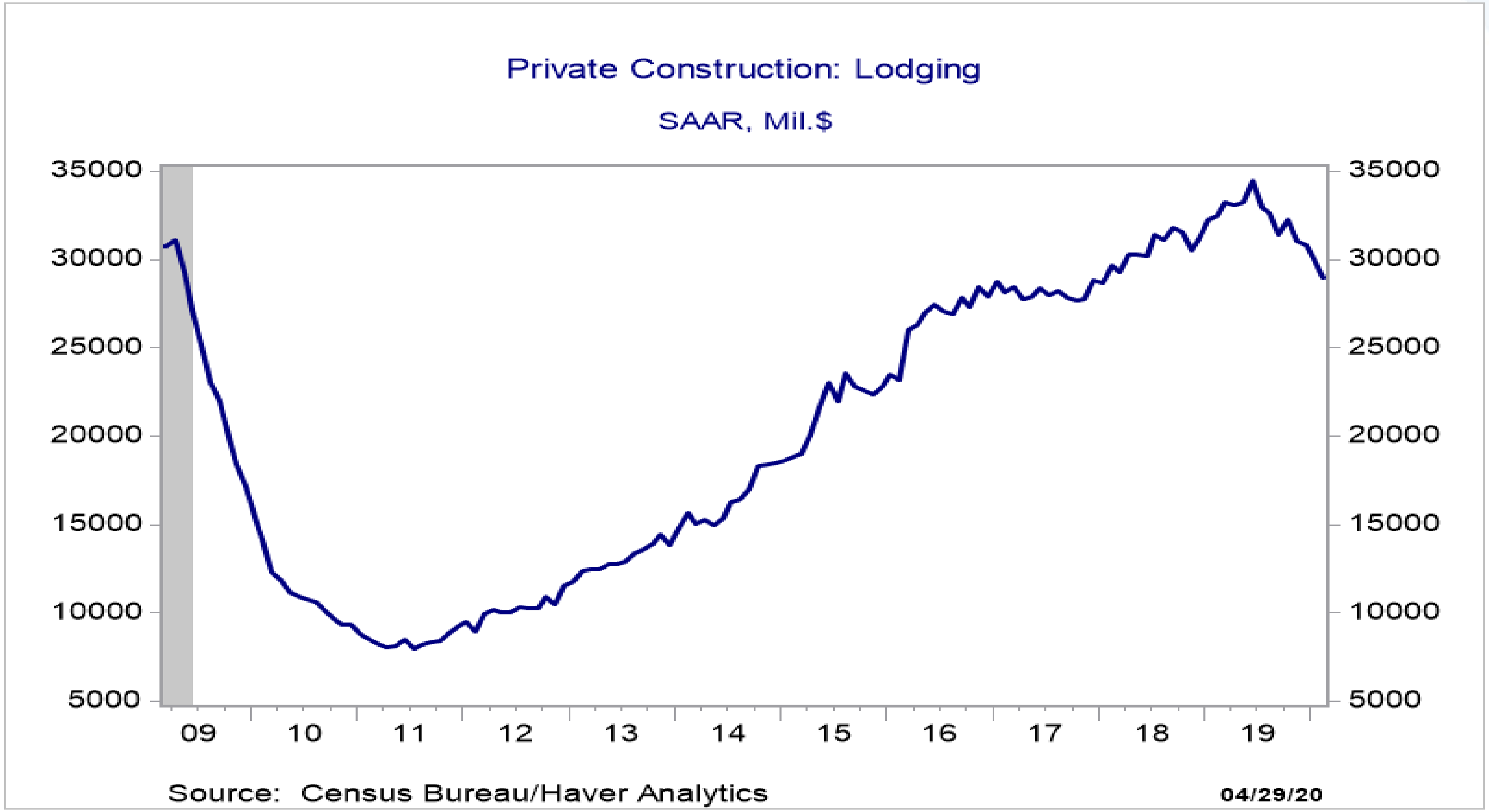
Downturn in lodging construction since 2019 through Feb 2020



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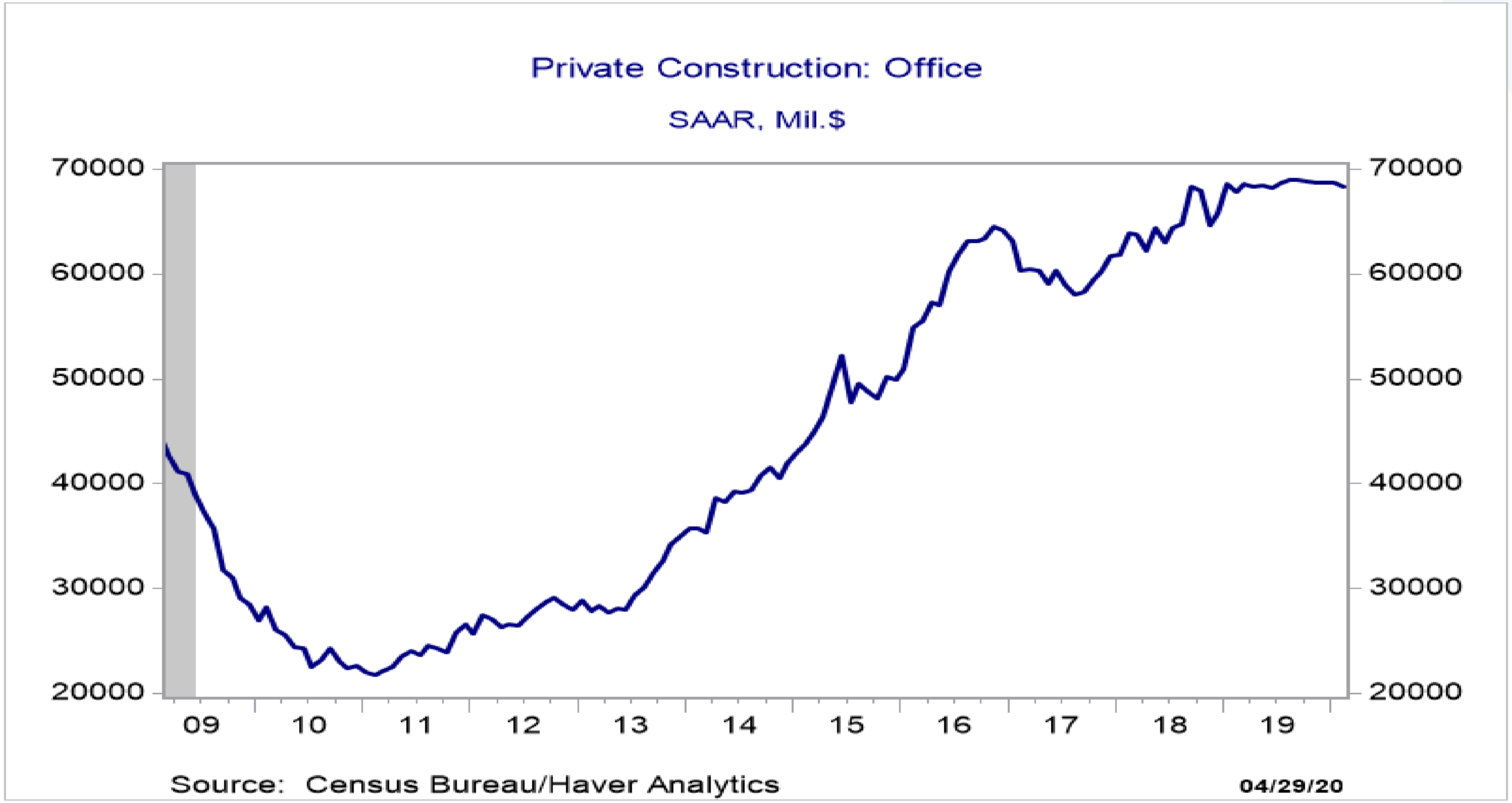
Flat office construction since 2018 through Feb 2020



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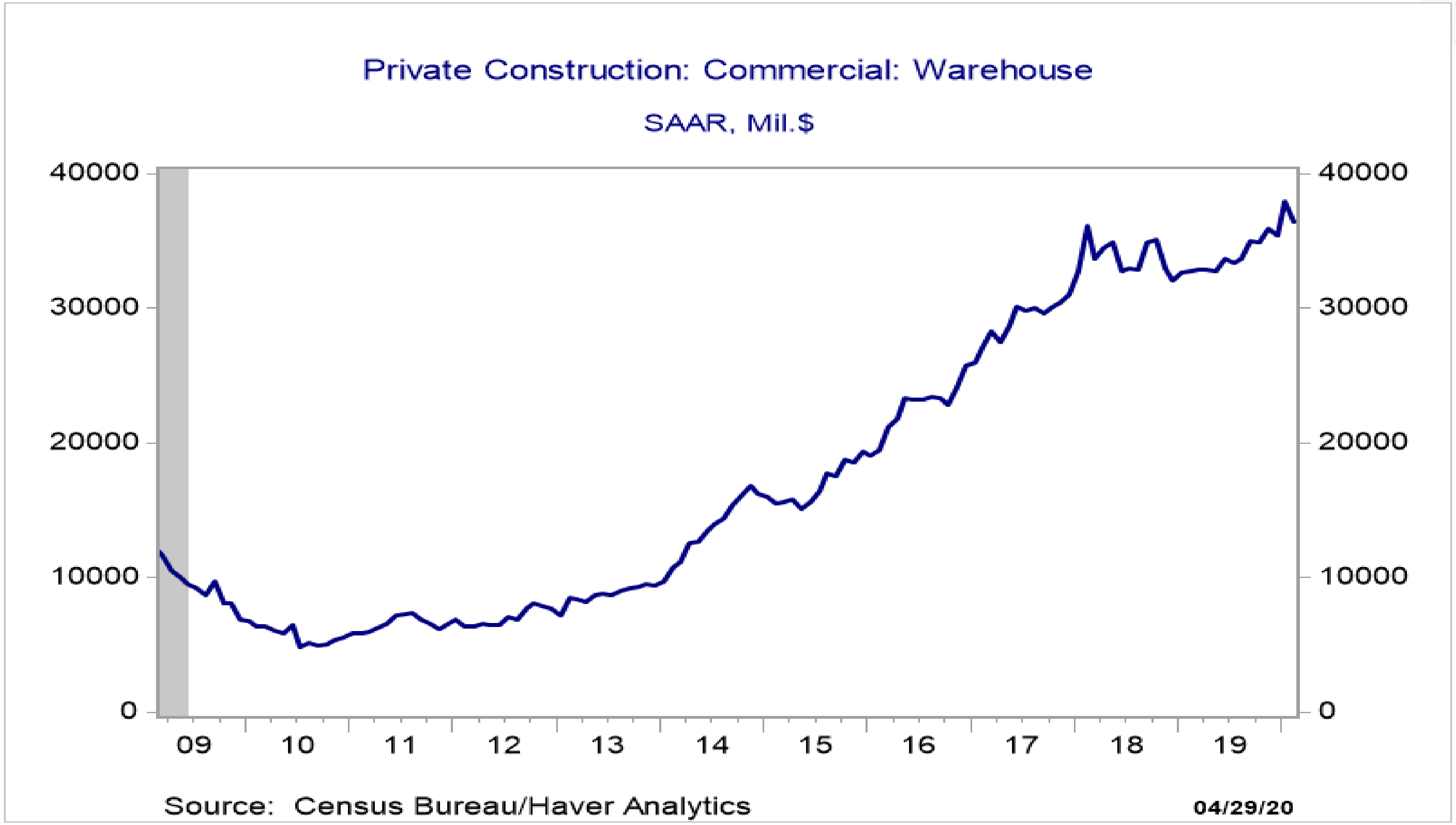
But warehouse construction has been rising



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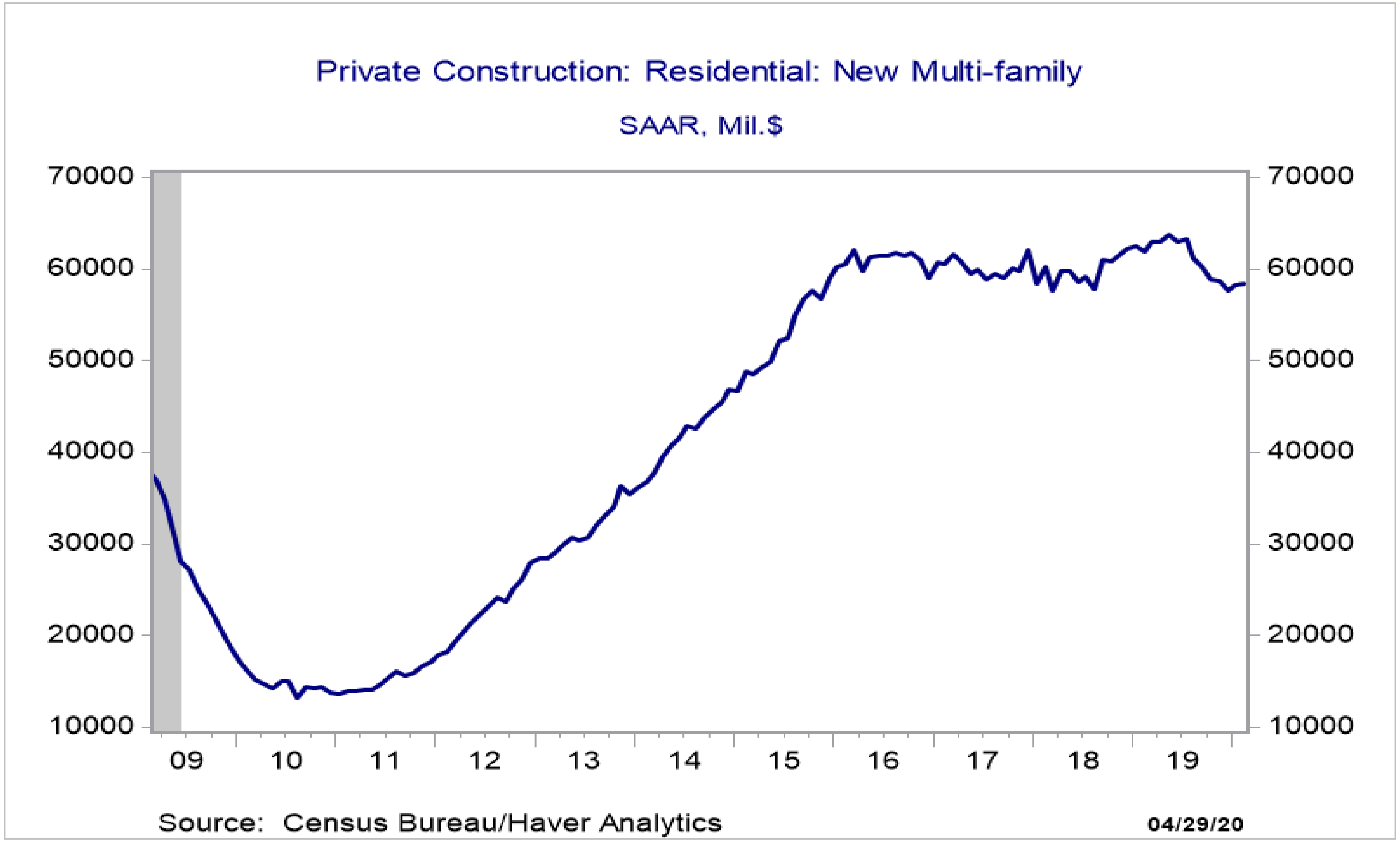
Multi-family construction was picking up prior to the coronavirus pandemic



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OUTLOOK 2020-2021

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Forecast

	2019	2020 Forecast	2021 Forecast
GDP Growth	+2.3%	-4.5%	+3%
Job Gains	+2.2 million	- 4 million	+ 2 million
Commercial RE Prices	+7%	-10% to -13%	+1% to +3%

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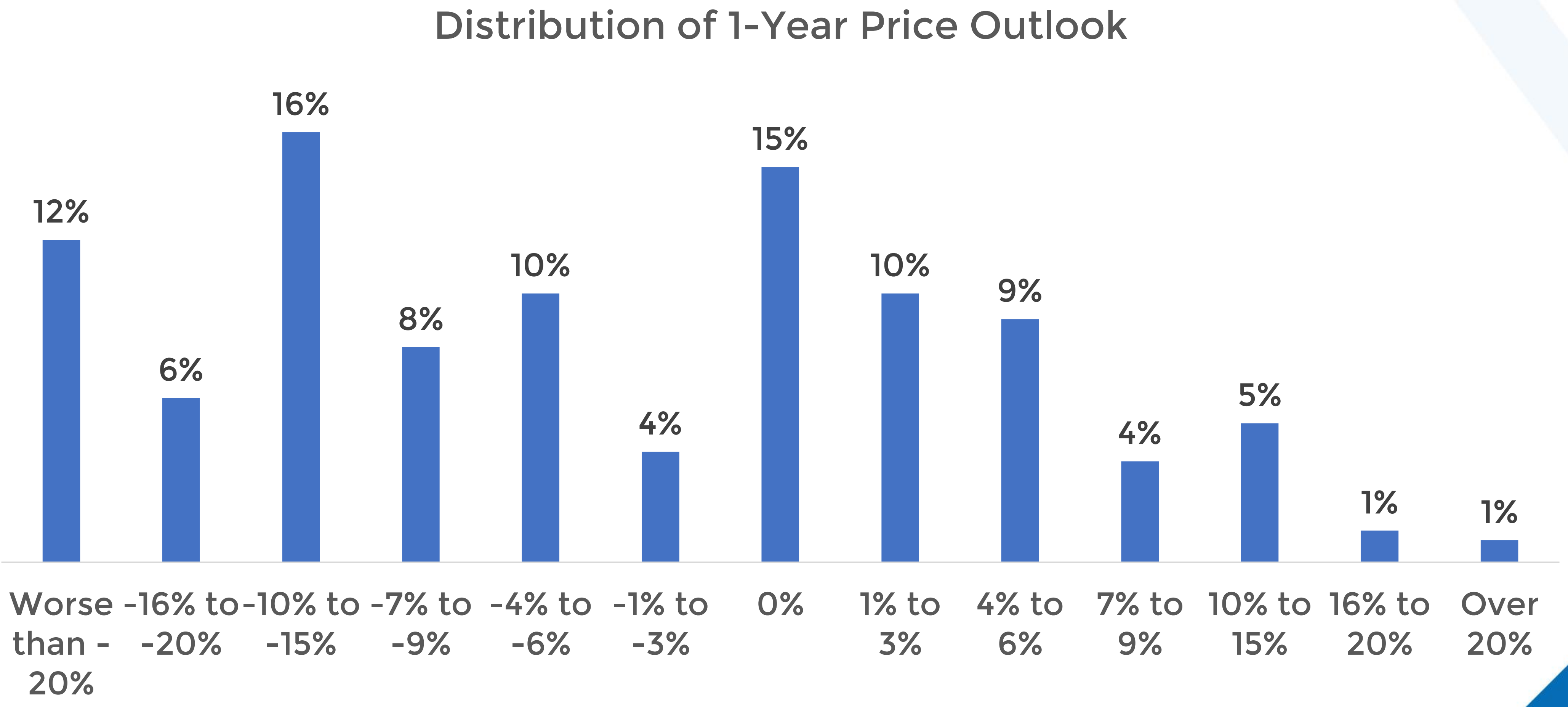
Realtors® expect 5% decline in commercial prices in next 12 months



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Demand for apartments and industrial properties expected to increase in 2020-2021

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

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

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

Retail: social distancing and online shopping will continue to depress demand for brick and mortar stores; retail stores will be repurposed for other uses (e.g. fulfillment/distribution centers such as Target and BJ's).

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FTSE Nareit U.S. Real Estate Index Series

Index / Property Sector	Constituents	Market Cap ($M)	Total Return (%) Weekly Mar-27	Apr-3	Apr-10	Apr-17	Apr-24	May-1	2020: YTD
Office	18	74,490	18.4	(8.6)	23.4	(5.5)	(6.0)	2.4	(26.0)
Industrial	13	108,846	20.9	(6.4)	22.1	(2.6)	(2.3)	(1.9)	(6.2)
Retail	32	90,424	12.8	(20.1)	35.6	(12.9)	(6.0)	14.6	(44.2)
Residential	21	145,158	17.8	(13.4)	26.5	(0.4)	(6.7)	1.0	(20.5)
Diversified	16	38,184	18.8	(15.5)	32.6	(7.1)	(6.2)	8.2	(34.3)
Lodging/Resorts	15	22,037	23.9	(18.0)	27.8	(5.9)	(2.8)	7.9	(49.6)
Health Care	17	80,181	22.9	(19.7)	41.1	(8.5)	(9.8)	5.3	(34.3)
Self Storage	5	48,462	16.0	0.1	8.3	(7.3)	(4.1)	(1.8)	(15.1)
Timber	4	18,831	14.3	(9.3)	31.8	(4.4)	(1.8)	(6.3)	(36.6)
Infrastructure	5	200,961	10.6	3.2	15.0	0.0	(3.3)	(4.2)	7.0
Data Centers	5	110,807	15.0	4.2	9.2	1.2	(0.1)	(2.4)	16.3
Specialty	11	32,246	22.4	(13.7)	26.4	(4.9)	(5.0)	5.9	(35.8)
Home Financing	23	26,708	12.4	(36.8)	50.5	(2.8)	(3.4)	4.5	(50.5)
Commercial Financing	14	13,321	25.7	(30.3)	58.4	(6.3)	(7.8)	11.8	(45.6)
Memo: Russell 1000 ®			10.6	(2.5)	12.6	3.0	(1.2)	(0.0)	(12.3)

Source: FTSE, Nareit, FactSet.

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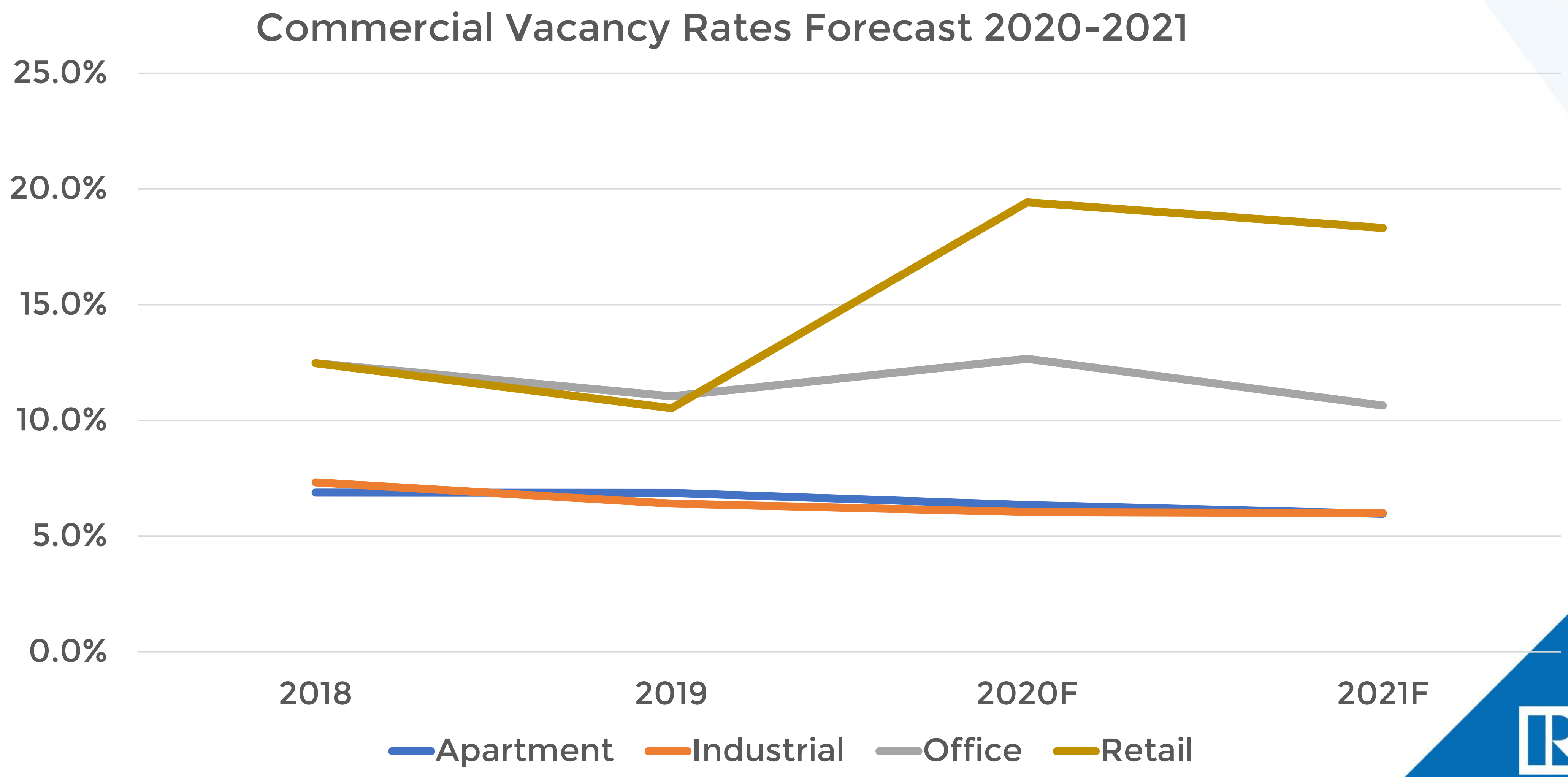
Higher vacancy rates in 2020: Retail (19%), Hotel (22%), Office (13%)
Lower vacancy rates in 2020: Apartment (6%), Industrial (6%)



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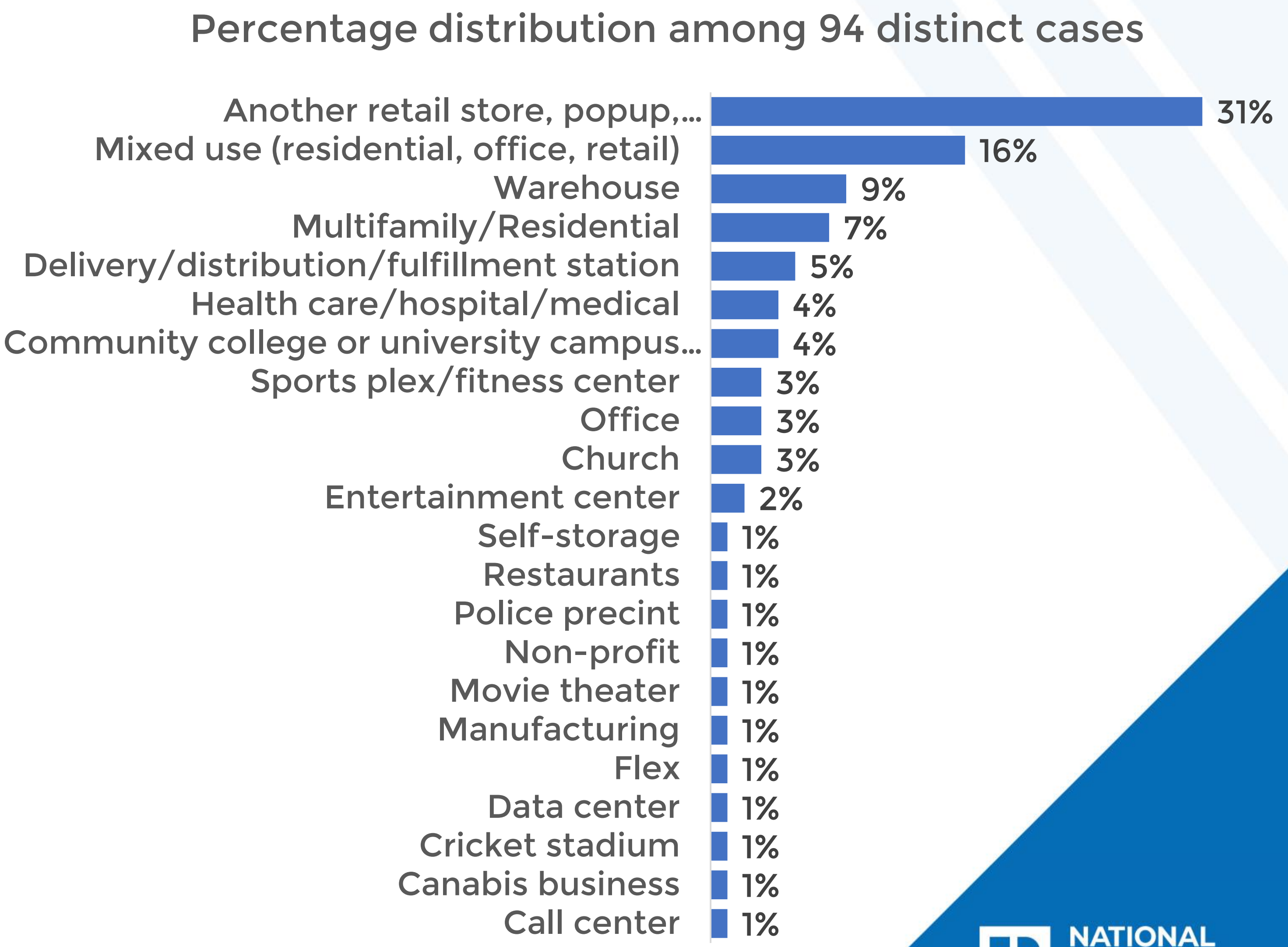
Vacant malls are being repurposed for mixed use development, warehouses, multifamily, fulfillment centers, health care centers, data centers, storage centers, a potentially as health armories.



Source: NAR, Repurposing Vacant Retail Malls, May 2020

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Empty Malls into Healthcare Armory?

Photo by Brett Jordan on Unsplash

Post-Pandemic Suburban Retail/Office

Virtual Office Meetings

More Remote Working

Parking Spaces, not public transit

Less Traffic near City Centers

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THANK YOU

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