50 Years of Excellence

Marcus & Millichap

2021

# U.S. Commercial Real Estate

## INVESTMENT OUTLOOK

MULTIFAMILY | RETAIL | OFFICE | INDUSTRIAL | HOSPITALITY | SELF-STORAGE | SENIORS HOUSING

# TO OUR VALUED CLIENTS

The global health crisis has left an indelible mark on society, structurally changing how people live, work, play, vacation, dine and shop. Many question when things will return to normal, or if the definition of normal has been changed forever. The dramatic lifestyle changes of the last year will directly affect the supply and demand characteristics of all types of commercial real estate — both over the short- and long-term.

To help commercial real estate investors adapt to and capitalize on the unprecedented health crisis-driven economic and investment climate, Marcus & Millichap presents the 2021 U.S. Commercial Real Estate Investment Outlook: an integrated compendium delivering holistic insights and perspectives on seven different investment property types.

The pandemic-incited disruption has challenged long-held investment standards, presenting investors with a unique investment landscape and the potential to recalibrate strategies and portfolios. Taking a broader view of the entire commercial real estate spectrum offers investors a fresh context, potentially opening the door to new opportunities.

This publication replaces Marcus & Millichap's traditional property-specific forecasts for 2021. By delivering a broader perspective, we hope to support investors' ability to be more flexible and nimble in key decisions during this period of flux. We look forward to the passing of the health crisis and a return to our traditional publications next year. As always, our investment brokerage and financing specialists across the U.S. and Canada are at your disposal, providing street-level investment guidance to empower your decisions.

Thank you for your continued trust in Marcus & Millichap in guiding your investment decisions and here's to your success in 2021.

**JOHN CHANG**
Senior Vice President/National Director
Research Services Division

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*Years of Excellence*

## National Perspective



## Multifamily



## Hospitality



## Industrial



## Office



## Retail



## Self-Storage



## Seniors Housing



## Client Services



*Developed by Marcus & Millichap Research Services. The Capital Markets section was co-authored by Evan Denner, Executive Vice President, Head of Business of Marcus & Millichap Capital Corporation. Additional contributions were made by Marcus & Millichap investment brokerage professionals nationwide.*

## National Economy

- Vaccine distribution will play a critical role in how the economy performs this year. The nation's economic situation has regained much of the momentum lost last spring as it continues along an upward path in 2021. Ongoing health challenges and other potential hurdles may suspend or abate that progress, however. Incoming federal aid will uplift the economy in the near term, but at the cost of introducing some potential longer-term risks.

## Multifamily Market Outlook

- Sunbelt metros noting exceptional in-migration, household formation and employment growth prior to the health crisis have the strongest multifamily tailwinds. Fewer job losses in these markets should help expedite the economic recovery, aiding rental demand.
- Gateway metros that are typically premier apartment markets face significant near-term hurdles amid accelerated population out-migration and high unemployment. They should bounce back in the longer term as they remain some of the most attractive places to live.

## Hospitality Market Outlook

- Markets located near larger gateway cities have better weathered the pandemic's impact on hospitality. Residents in dense urban environments where lockdowns have been more severe are escaping to these settings where more businesses are open and there are outdoor amenities.
- Major gateway markets where hotels normally post nation-leading performance metrics fueled by robust international and corporate travel were some of the most challenged areas in 2020.

## Industrial Market Outlook

- The health crisis has augmented the evolution of the industrial marketplace. In 2021, the sector will continue its upward trajectory even as the advancement of e-commerce returns to a more sustainable level of long-term growth. A more permanent shift in consumer behavior will enhance online platforms' role in the retail sales landscape, prompting firms to broaden their warehouse and distribution operations.
- Robust growth recorded during the pandemic and strong fundamentals have the potential to expand the industrial buyer pool and amplify exuberance among some investors in 2021. Strong absorption in a collection of regional hubs and major local service markets has supported a refilling of the industrial development pipeline that will translate to notable inventory expansion in 2021.

## Office Market Outlook

- Southern markets such as Atlanta and Charlotte are either outperforming the U.S. average or are holding steady. These metros are also gaining traction due to pandemic driven in-migration.
- Workers vacating office towers and companies offering space for sublease will extend the time for fundamentals to improve in gateway metros such as Los Angeles, New York City and San Francisco.

## Retail Market Outlook

- Markets that were more aggressive with reopening strategies due to lower population density or public policy are positioned to lead the retail recovery this year. Sunbelt states and many Midwestern cities will be among the first to recoup pandemic-related losses.
- In larger cities where lockdowns were necessarily stricter, the damage done to the retail sector will be more pronounced and temper the pace of recovery through this year. Government stimulus could minimize the strain on retailers in these metros.

## Self-Storage Market Outlook

- As a new year progresses, the self-storage sector is poised to ride several demand tailwinds. Remote learning and working are taking away storage space in the home, while businesses also must put aside excess items amid physical distancing.
- A relocation trend to less dense areas may also drive new storage use. Elevated COVID-19 infections, renewed lockdowns and high unemployment may come to weigh on consumer demand. Future fiscal stimulus and the ongoing vaccine rollout nevertheless improve the general economic outlook for the second half of 2021.

## Seniors Housing Market Outlook

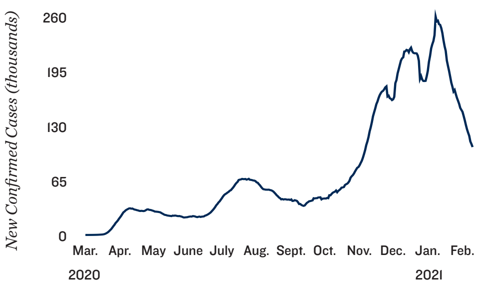
- Care providers face a long path to full recovery in 2021, characterized by new operational initiatives and an increased focus on clinical care. Seniors housing will play a more significant role in the healthcare continuum, developing and implementing evidence based solutions to improve the quality of life and safety of residents and staff.
- The seniors housing sector has been forced to evolve in a new environment that has placed closer scrutiny on operations, design, amenities and infectious disease control. Advancements in technology will play a key role in a post-pandemic world.

# Health Crisis Upends Commercial Real Estate; Uncertainty Will Carry Well Into 2021

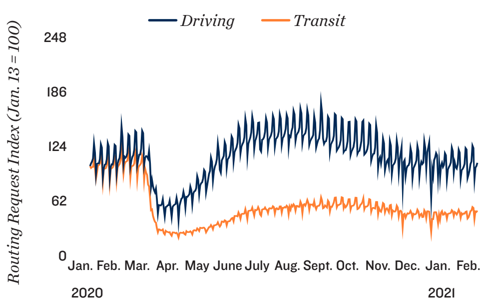
**Pandemic transforms commercial real estate.** COVID-19 changed the world in early 2020 as efforts to curb the spread of the pandemic had a dramatic impact. Stay-at-home orders, the need to physically distance, and having to abide by health and safety protocols had harsh effects on many real estate sectors. Hospitality, seniors housing and brick-and-mortar retail were hit hard while others including necessity-based retailers, medical offices, e-commerce retailers, life science and pharmaceutical firms, and many industrial segments thrived. As of February 2021, more than 486,000 Americans have died from the coronavirus and after reaching a peak in mid-January that strained healthcare systems across a wide swath of the U.S., cases, hospitalizations and deaths have begun to taper.

**Health crisis exacerbated demographic shifts.** Employers laying off workers and sending staff home to work remotely contributed to an acceleration of demographic changes that were already underway. Economic uncertainty led many households to search for lower-cost housing, while the need to work from home and attend school online generated demand for larger spaces. Commute times became less of a factor in housing decisions, pushing residential and apartment demand away from dense urban cores that are more reliant on mass transit to the benefit of suburbs as well as secondary and tertiary markets. Although driving returned during the summer months, public transit usage remains well below the pre-coronavirus level as fewer people are commuting to offices and physical distancing protocols limit ridership. Higher unemployment is also leading to more people spending time at home, which consequently may have boosted new business applications to the highest rate since the Great Recession. This surge in entrepreneurship could have positive results in the years ahead.

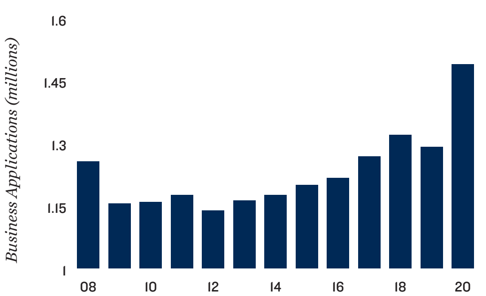
## Daily U.S. COVID-19 Cases Ease From Spike



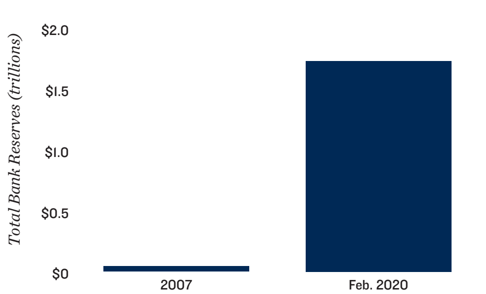

## Aversion to Public Transit



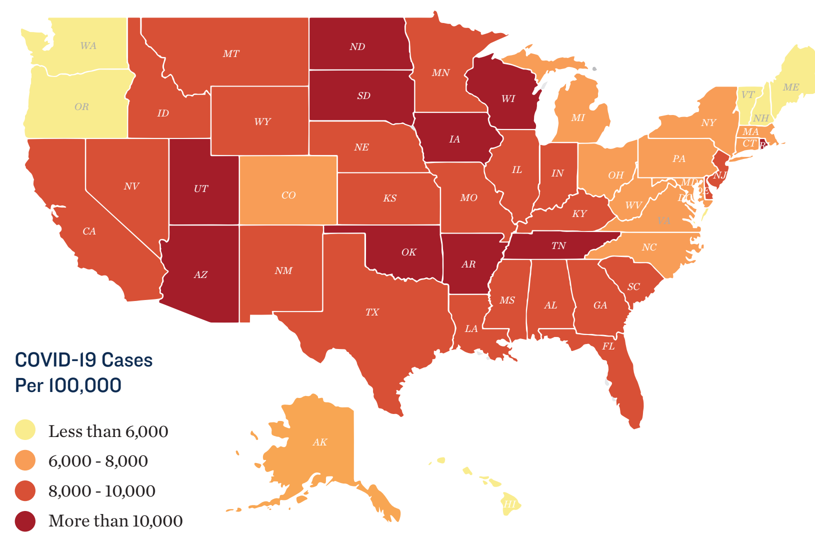

## New Business Applications Surge




## Banks in Stronger Position Than in 2007




## Coronavirus Cases Continue to Spread*




** As of Feb. 11, 2021*

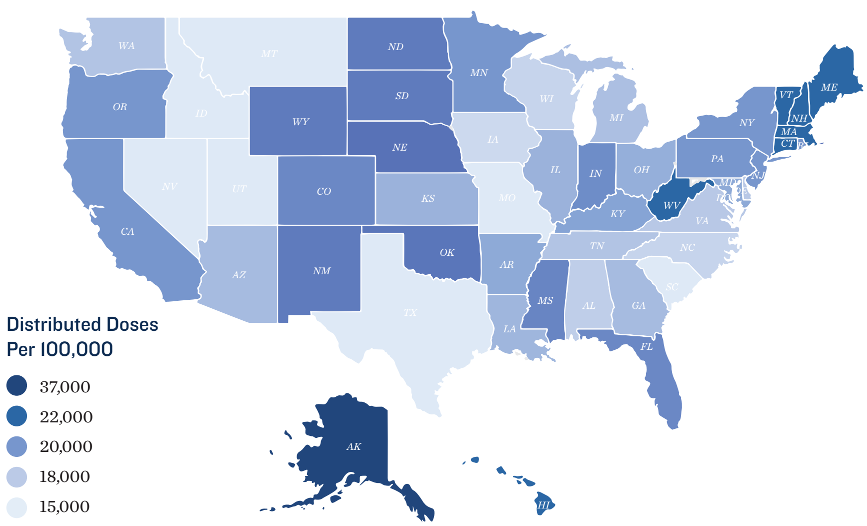
*Sources: Apple; Federal Reserve; New York Times; U.S. Census Bureau*

## Government Response, Market Liquidity, Fast-Tracked Vaccine Development Provide Optimistic Outlook

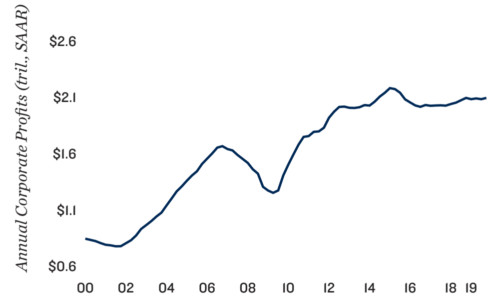
**Economy jolted as coronavirus spread.** The economy was on relatively solid footing heading into the pandemic. Company profits were hovering near the 20-year peak and corporate cash on hand had set a new high, supplying many firms with cushions to weather a downturn. Bank reserves were also significantly above those registered in 2007, providing a much healthier comparison to the start of the Great Recession. Through the health crisis, the money supply has remained liquid as the federal government quickly infused cash into the market and funded stimulus measures via the CARES Act and other legislation. The Paycheck Protection Program (PPP) was one of several systems that assisted in keeping people employed and allowed businesses and households to make rent payments. Additional infusions in 2021 will provide further economic stimulus.

**Immunizations provide a path forward.** In response to the coronavirus, the government initiative Operation Warp Speed was established to fast track the development and approval of vaccines to combat COVID-19. By the end of 2020, two vaccines had been approved and others were in trial phases. Inoculations were underway by mid-December, providing some hope, especially to real estate segments hit hard by the pandemic. Immunization efforts, however, were slow to ramp up, extending the time needed before enough people are vaccinated to a level that would provide herd immunity and allow a freer movement of people. Although clarity is in sight, these delays will prolong uncertainty for investors well into 2021.

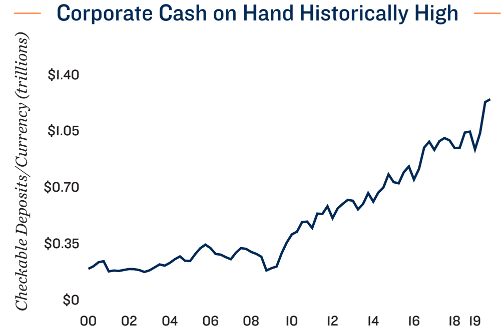
### Immunizations Ramping Up Across the Nation*



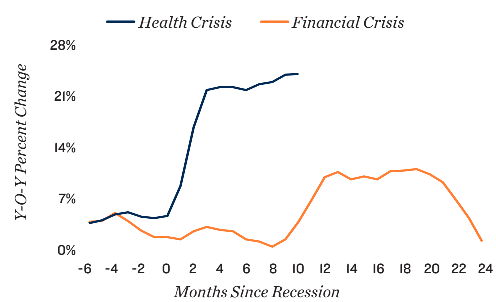

### Pre-Crisis Profits Near Record



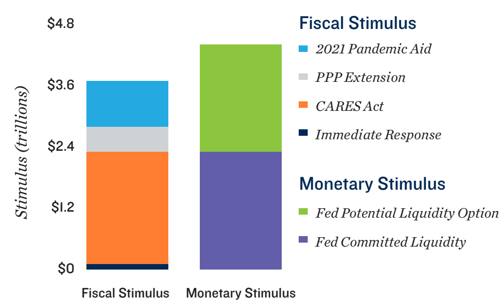

### Corporate Cash on Hand Historically High




### Money Supply Gets Big Boost




### Government Stimulus Response

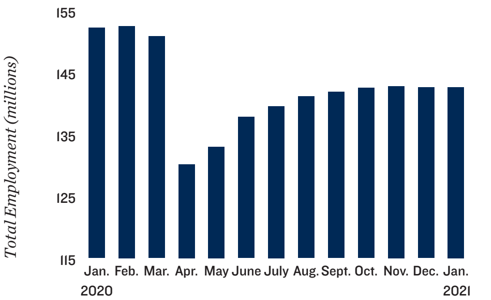



** As of Feb. 11, 2021*

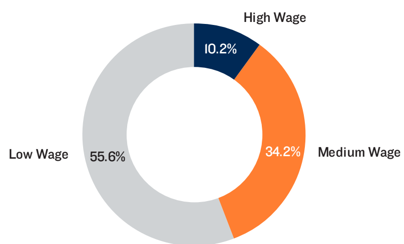
*Sources: BEA; Federal Reserve; U.S. Census Bureau*

## Possibilities for Second Growth Surge or Double Dip in 2021 Hinge on Vaccine Rollout and Labor Recovery

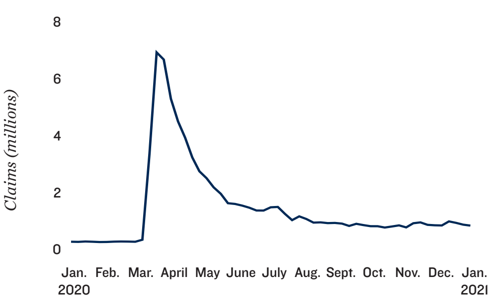
Employment Trends



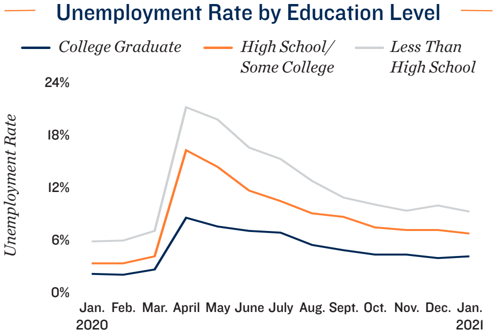

Share of Job Losses*




Unemployment Claims




Unemployment Rate by Education Level




** February to December 2020*

*Sources: BLS; ETA*

**Vaccine distribution to play a critical role in economic outlook.** The nation's economic situation has regained much of the momentum lost last spring as it continues along an upward path in 2021. Ongoing health challenges and other potential hurdles may suspend or abate that progress, however. If the current set of COVID-19 vaccines are distributed as efficiently as predicted, then enough people may be inoculated by midyear to safely allow most businesses to fully reopen. Employed consumers with idle cash on hand from months in sequestration will be able to more freely travel and patronize bars, restaurants, entertainment venues, and brick-and-mortar retailers, potentially boosting the economy. If, however, the pace of the vaccine rollout is slowed or the nature of the virus changes, these exogenous encumbrances to the economy will remain in place longer. Employers who are challenged by physical distancing requirements and areas of the country where infection risk is higher will fall further behind other segments of the economy. This disparity, if severe enough, could lead to another quarterly economic contraction. The fortitude displayed during the second half of 2020 makes this scenario improbable, however, especially with continued government support.

**Economy has been resilient so far, aided by robust federal aid.** The forced closure of many businesses last year led to the sharpest decline in Gross Domestic Product in the post-World War II era. After sliding 5 percent in the first quarter, U.S. GDP fell an annualized 31.4 percent in the April-to-June period as 22 million jobs were shed and the unemployment rate soared to 14.8 percent. This unprecedented shock was met with an equally unprecedented government response. Applying lessons learned during the last downturn, the Federal Reserve and Congress collectively delivered roughly $5 trillion in aid within a matter of weeks, divided between direct fiscal stimulus and added financial market liquidity. These actions, followed by the implementation of other lending programs and federal legislation in subsequent months, helped GDP leap 33.4 percent in the third quarter and a more modest 4 percent in the fourth quarter. The strong gains made in the second half of the year mostly offset the earlier losses, translating to an overall economic contraction of 3.5 percent in 2020.

**Labor market recovering but some sectors are falling behind.** Over half of the jobs lost in March and April last year were restored or replaced by December, but as 2021 progresses certain industries face a longer road to total recovery than others. Physical distancing requirements and travel restrictions had a disproportionate impact on the leisure and hospitality sector, which encompasses hotels, bars, restaurants and other entertainment venues. While the overall employment base remained 6.5 percent below its pre-pandemic level at the start of 2021, the leisure and hospitality sector was still down 23.2 percent. Conversely, staff working in essential services or in positions more easily shifted to a remote setting were better protected. The number of jobs in financial activities, construction and in the trade, transportation and warehousing sector were all at or within 3 percent of their February 2020 mark by the start of the new year. How the labor market improves going forward will depend on how well vaccines are administered. If infection rates drop enough to permit widespread reopening and social patterns normalize, many of the jobs most impaired by the health crisis could quickly return, although not all roles are likely to be restored this year as some employers have permanently closed.

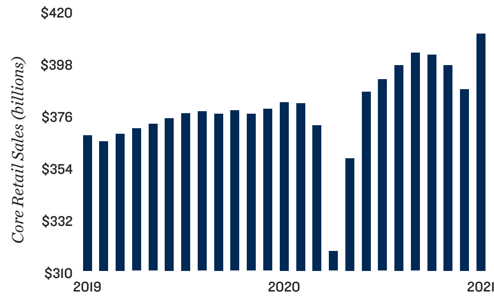
## Administration Weighs Policy Goals Against Stimulus Needs While the Federal Reserve Guides Inflation

**Biden administration must balance policy objectives and health crisis management.** President Biden campaigned on a platform of widespread legislative reform, including taxation, healthcare and public spending on infrastructure. Achieving these goals must be managed in relation to the immediate needs of the health crisis. Some intended policy reforms, such as increasing taxes on businesses and investors, could weigh on economic growth in the short term. Even if political division in Congress does not preclude the passage of wide-sweeping changes, the focus of the legislative and executive branches will likely to be dominated by the health crisis through at least the middle of the year. Making more substantial alterations to laws and regulations could create uncertainty among consumers and investors, dampening the intended effects of stimulus measures that the Biden administration is currently pursuing.

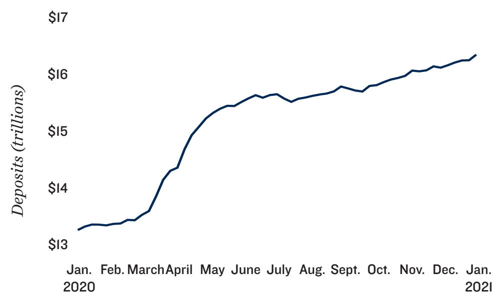
**Additional federal aid likely incoming; holds significant implications on growth.** The $900 billion stimulus package passed at the end of last year is serving as a vital economic stopgap as the country deals with the difficult health challenges. Many of the legislation's key benefits, such as renewed federal unemployment insurance, will nevertheless fade by the spring. The Biden administration is therefore pursuing a $1.9 trillion stimulus package to further buttress the economy. The legislation would include a third round of larger direct payments to taxpayers as well as expanded unemployment benefits, rental assistance, and funding for state and local governments. While the final stipulations of the bill are almost certain to change, the incoming aid will uplift the economy in the near term, but at the cost of introducing some potential longer-term risks. The extensive deficit spending necessitated by the health crisis will likely result in an overall higher tax burden down the line, whether at the local or federal level or both. The ample amount of liquidity injected into the market also raises inflation risk.

**The Federal Reserve continues to carefully monitor inflation.** As this year progresses, the Fed will have to walk a tightrope balancing economic growth and the potential for accelerated inflation. The Federal Open Market Committee has already signaled that it is willing to allow inflation to rise above a 2 percent annual growth rate following multiple years of below-target increases. To what extent above that threshold the FOMC will permit is as of yet unclear. Even so, the Fed may still be forced to raise interest rates and tighten monetary policy later this year if the risk of spiraling inflation becomes likely. This shift in policy could elicit an unintended reaction from the market, derailing economic growth in unexpected ways. If the central bank acts too early it could also prematurely temper economic growth. Even if the FOMC executes its strategy flawlessly, high inflation could still occur. Recent government actions have injected ample liquidity into the market. At the same time, many consumers have added to their savings while staying at home, expanding their potential spending power. The financial standings of many households have also improved via rising home equity values, a byproduct of a competitive single-family housing market fueled by low interest rates and recent lifestyle changes. All of these factors together create a scenario in which, once the health crisis is mitigated, consumer spending substantially jumps ahead of the available supply of goods and services, raising prices. Depending on the timing, however, this wave of spending could also act as its own form of stimulus.

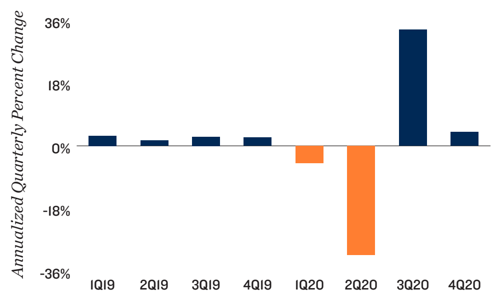
**Core Retail Sales Bounce Back**



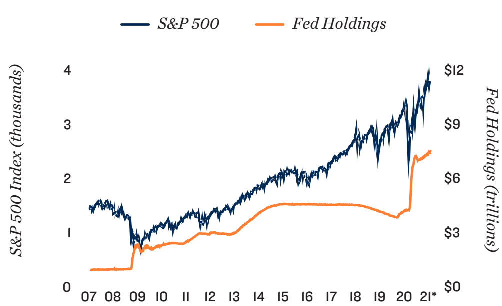

**Savings Deposits Steadily Climbing**




**GDP Growth Trends**



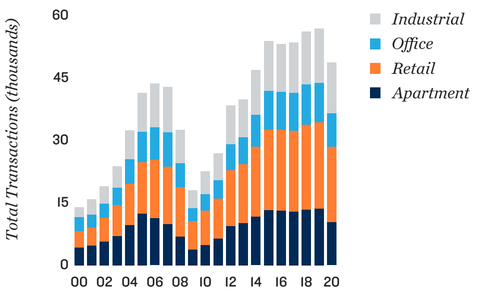

**Fed-Injected Liquidity Lifting Equity Prices**



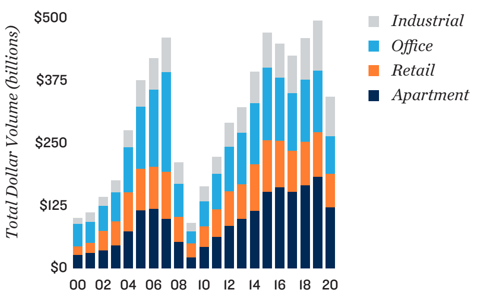

* Through January

*Sources: BEA; Federal Reserve; Standard & Poor's; U.S. Census Bureau*

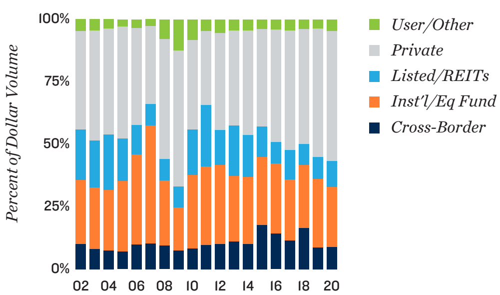
## Commercial Real Estate Transaction Activity



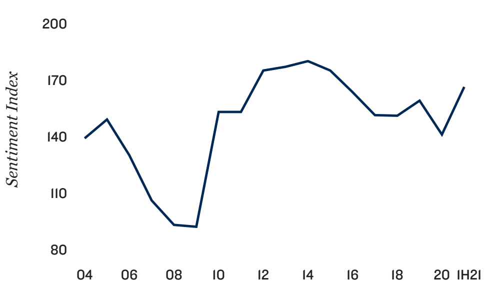

## Commercial Real Estate Dollar Volume




## Commercial Real Estate Buyer Composition




## Investor Sentiment Index




*Sources: Marcus & Millichap/NREI Investor Survey; CoStar Group, Inc.; Real Capital Analytics*

# Following Recalibration Period, Investors Returning to Market; Attractive Returns Draw Additional Eyes

**Investors positioned to deploy dry powder.** Uncertainty surrounding economic and commercial property performance caused by the pandemic pushed a significant portion of investment capital to the sidelines, reducing transaction activity across all major asset types last year. Many would-be buyers have since reevaluated their strategies while monitoring changes in asset valuations and property fundamentals. The rollout of vaccines and additional federal relief measures implemented during the first half of 2021 should augment investors' confidence, improving their willingness to deploy capital. Many buyers, after gaining greater pricing certainty and reassessing commercial sectors' future demand drivers, have adjusted their underwriting standards and are ready to act. This includes investors who are focused on value-add and opportunistic transactions. A late-2020 surge in COVID-19 cases and tepid January job growth illustrate the turbulent state of the U.S. economy. Investors will need to continue to monitor the impacts of store closures, remote-working models and household migration on commercial assets, adapting strategies as needed until the health crisis has been resolved.

**Compelling returns attract capital.** A more than 500-basis-point gap between the average commercial real estate yield and the 10-year Treasury rate existed at the onset of this year. This significant disparity should continue as the low cost of capital is anticipated to persist in the near term and all major property types have exhibited yield stability for at least the past two years. Steady commercial yields and minimal interest rates will preserve and perhaps enhance commercial real estate's appeal when weighed against other investment options. Corporate bond yields compressed in 2020 and are anticipated to stay low for a considerable stretch of 2021. Moving forward, borrowers are likely to take advantage of low commercial mortgage rates to acquire properties that are generating comparatively high return potential in the current environment.

**Buyers come off the sidelines.** Equipped with stricter underwriting standards and greater confidence in commercial real estate's long-term demand drivers, more buyers are likely prepared to deploy capital that has been shelved so far during the pandemic. The influx of new investment could support a competitive bidding environment this year. After being muted during the initial months of the pandemic, transaction velocity and loan origination volume climbed between 40 percent and 60 percent in the third quarter of 2020, depending on asset class. Activity continued to expand in the fourth quarter as investor sentiment and listing volume both improved, limiting the overall severity of the health crisis's impact on annual sales. For all of 2020, the total number of transactions across the major commercial sectors fell between 10 percent and 50 percent from levels recorded in 2019. Industrial and multifamily trading activity was less dampened than sales for retail and hotel assets. As the health situation continues to evolve, investors are reevaluating their strategies in the new climate, repositioning to capitalize on trends either created by or accelerated by the pandemic.

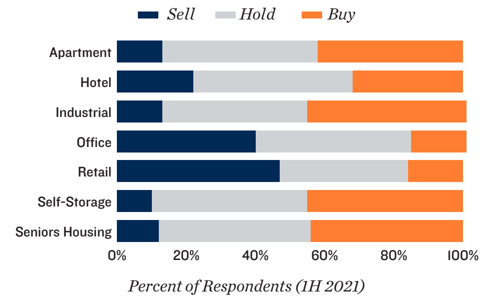
## Acceleration of Pre-Established Trends Unlocks Opportunities for Buyers

**Investors adjust criteria as drivers evolve.** The pandemic has forced households and companies to make drastic changes to their daily habits and business practices, directly affecting commercial real estate performance and sentiment. Some of these adjustments, including household migration to less-costly settings or greater online retail spending, have expedited real estate trends that were emerging prior to the health crisis. Investors must consider these altered demand drivers when underwriting potential acquisitions. Businesses adapting their spaces and potentially relocating to other settings, in addition to new remote working arrangements, will impact investors' decision making in 2021 as well, potentially altering deal flow in major metros and secondary and tertiary markets. To capitalize on these shifts and curtail risk exposure, many prospective buyers have already adjusted their investment criteria this year. Nevertheless, these accelerated trends and their impacts on individual markets and properties will need to be monitored as their longevity and growth remain uncertain until the health crisis is controlled.

**Migration trends influence apartment and office investment.** Household and business relocations to metros with lower living costs and business-friendly conditions are positioned to continue this year, potentially expanding these locales' buyer pools. Major Texas markets, Phoenix and other Sunbelt metros that have been among the fastest growing in terms of employment and population gains over the past cycle should continue to lure new residents and businesses from other higher-cost markets, stoking investment activity. Secondary and tertiary metros in proximity to larger primary markets should also benefit from migration trends. Sacramento and Riverside-San Bernardino have drawn residents from the Bay Area and Los Angeles during the health crisis, movement that will boost these metros' economies and catalyze job creation. Throughout growth markets, household demand for lower-cost housing will sustain buyer competition for Class B/C properties. Investor demand for luxury apartments should also emerge, the byproduct of a boost in higher-paying jobs generated by corporate relocations. Office-focused buyers will continue to monitor how sustained rates of remote work will impact the downsizing of corporate footprints; however, investors are likely to remain attracted to single-tenant assets with long-term leases in place.

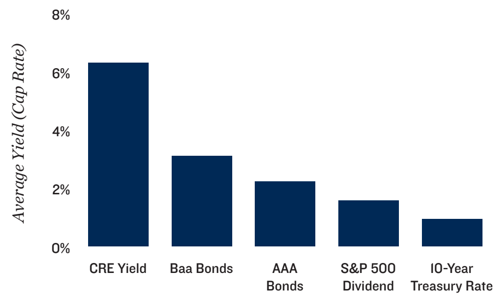
**Shopping habits elevate buyer demand for industrial and well-performing retail.** Consumers' usage of online platforms for essential and nonessential goods is expected to stay strong in 2021, driving tenant demand for warehouse and distribution space. This trend has the potential to intensify buyers' pursuit of industrial assets at a time when equity demand may already outweigh listings volume. Strong investor competition and property valuations should exist for last-mile facilities as households' order fulfillment expectations make this space highly desirable to expanding online retailers, logistics firms and big-box vendors. The strong performance of grocers and drugstores during the pandemic will impact deal flow in the single-tenant retail space as investors target properties occupied by high-credit tenants. Shopping centers anchored by these retailers will also warrant buyer attention as the foot traffic these vendors bring will attract new tenants to vacant storefronts once the health crisis lifts. In contrast, multi-tenant properties without these anchors are likely to draw investors pursuing redevelopment strategies.

### Investors Buy/Hold/Sell Sentiment

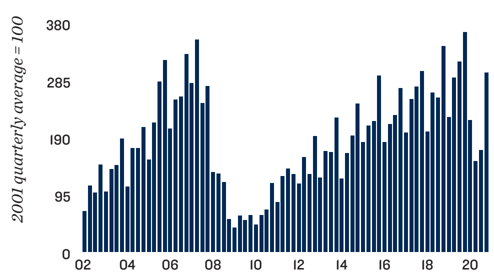



### 10-Year Treasury Rate


### Compelling CRE Yields



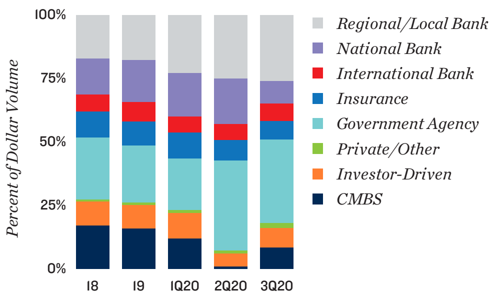

### Commercial/Multifamily Loan Originations Volume Index



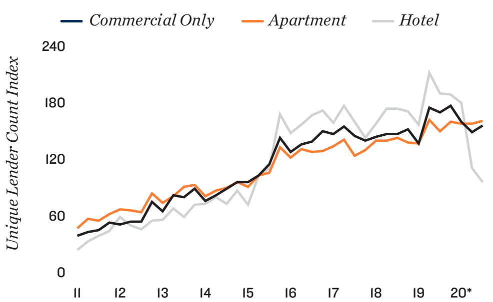

* January 2021

*Sources: Marcus & Millichap/NREI Investor Survey; CoStar Group, Inc; Federal Reserve; Mortgage Bankers Association; Real Capital Analytics; Standard & Poor's*

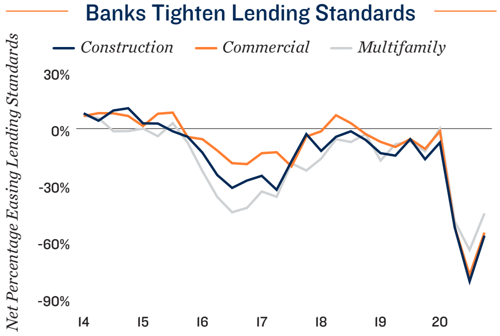
## Commercial Real Estate Lender Composition



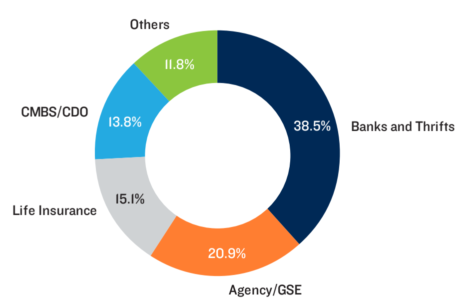

## Lender Pool Remains Deep for Most Assets




## Banks Tighten Lending Standards




## Total Outstanding Mortgage Debt*




** As of third quarter 2020*
*Sources: Federal Reserve; Mortgage Bankers Association; Real Capital Analytics*

# Capital Markets Healthy and Finding Balance; Availability of Financing to Spur Sales Activity

**Lenders adapt to post-pandemic environment.** During a tumultuous and economically challenging 2020, the capital markets for commercial properties were more resilient than in prior downturns. Early in the pandemic, the Fed quickly adjusted to the new climate with expansive monetary policy giving confidence to markets and ensuring access to debt capital. Underwriting criteria was nevertheless rapidly altered to mitigate risk, limiting liquidity for the more challenged property sectors. Last year's more stringent underwriting will continue through at least midyear 2021 as the recovery gains momentum, holding debt service coverage elevated, loan-to-value ratios lower or static, and cash reserve requirements higher. The capital markets are anticipated to loosen up and find greater balance as the year progresses, increasing debt availability to support sales activity. Looking ahead, lenders will scrutinize the borrower relationship with the institution, historical performance and creditworthiness — in some instances as much as the asset itself.

**Financing landscape to remain fluid and dynamic.** Government agencies increased originations at the end of last year to comprise a larger share of lending activity, narrowing the gap left by larger banks. Lender composition could shift again this year with lending caps at Fannie Mae and Freddie Mac each reduced from $80 billion to $70 billion, with at least 50 percent of originations dedicated to affordable housing. Local and regional banks will continue to fill the void left by other lenders, financing debt across most property types. Banks, and to a lesser extent life insurance companies and CMBS lenders, remain active originators for essential retail, including grocery-anchored multi-tenant properties, drugstores, and single-tenant assets with a national credit tenant. Smaller restaurants and bars, health clubs, movie theaters and hotels have faced greater financial challenges and will continue to experience a shallower lender pool and lower LTVs due to elevated delinquency risk. Extended forbearance periods put in place by many lenders have limited foreclosures and greater fluctuations in pricing, though risks remain as payment relief for troubled assets eventually comes to an end.

**Low cost of capital to encourage investment activity.** The strong performance of industrial and multifamily assets through the pandemic will sustain capital availability levels this year as lenders are targeting more pandemic-resilient investments. Banks and non-agency lenders have been financing five- to seven-year loans for these property types in the mid-2 percent to mid-3 percent range. The agencies are quoting debt in the upper-2 percent to low-3 percent territory for primary and secondary markets, assuming 60 percent LTV and 1.35 times debt service coverage ratio. Smaller markets can reach the mid-3 percent band for well-capitalized borrowers. Caution could remain for offices until more workers return to the workplace, though medical office and life science space has held strong. CMBS lenders are active in the sector, funding deals in the 3.25 to 4.25 percent range. Yield-driven debt funds are focusing on struggling retail and hospitality assets, financing deals that start in the 3.5 to 4 percent span. Interest rates will likely remain low through this year with the Federal Reserve's commitment to hold the federal funds rate near zero, maintaining commercial real estate's status as a compelling long-term investment relative to other asset classes.

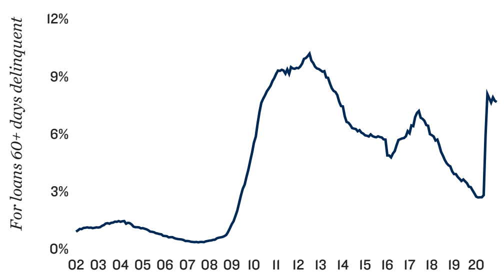
## Potential Distress Uneven Across Asset Classes; Liquid Debt Market Eager to Find Discounts

**Distress environment not mirroring past downturn.** The prospect of real estate trading at deeply discounted values has investors raising billions of dollars in capital in anticipation of a wave of distressed assets hitting the market. While the global financial crisis registered an elevated level of distressed asset sales, investors expecting a repeat are likely to be disappointed. The market factors present in the last downturn — overleveraged investors, locked-up credit markets and unavailable refinancing for cash-generating properties — are not materializing. Lenders view the current economic situation as more transient, which encouraged banks to step in and help borrowers by granting elongated forbearance periods to avoid foreclosure as they wait for the recovery to build momentum. Large fiscal packages and swift monetary policy have helped to backstop property markets as well, providing tenants with funds to weather the storm and meet rent obligations. Risks remain for some particularly hard-hit sectors. Hotel and retail assets are where most potential distress will be concentrated over the coming years.

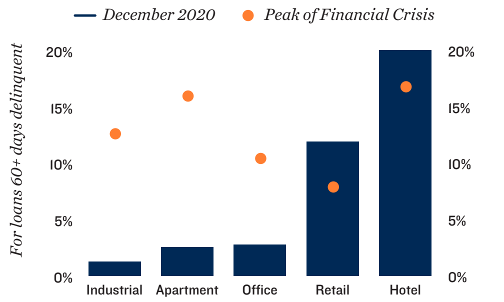
**Challenges fixed on select property sectors.** Retail and hotel properties represent more than 86 percent of total outstanding distress in the market at approximately $24 billion each. Another estimated $24 billion for each asset class may potentially enter distress in the near future as well. These are properties that have high levels of debt and little to no income with tenants unable to pay rent as the pandemic has been particularly difficult for tourism, restaurants, bars and retailers. Eviction moratoriums, a modest decline in rent collection and softening rental rates in some markets may impact select apartment owners as well. Strong long-term demand characteristics, however, should keep bank foreclosures limited. The discount for any potential apartment sale is generally anticipated to be small, especially compared with the previous downturn. At the height of the financial crisis, distressed sales were more than 20 percent of total sales as investors piled in and waited for the economy to recover. Similar strategies are not likely to work in the current climate. The capital currently set aside to pursue distressed sales well exceeds the number of assets that are expected to be troubled. The competition for these types of trades will likely limit any type of discounting that takes place.

**Large pool of capital awaiting distressed sales.** The CMBS delinquency rate continued to track lower last year after two large spikes in May and June. The hotel sector remains the most impacted, with the overall rate at 19.8 percent in December. Retail loans had a 12.9 percent delinquency rate in the same month, while the percentage of office, apartment, and industrial loans delinquent was under 3 percent. Foreclosure rates through December have remained low at less than 1.5 percent as lenders were in no hurry to take over struggling assets, especially with uncertainty still surrounding the recovery. With as much as $200 billion in capital ready to deploy for distressed properties, competition for real estate-owned assets will be substantial as properties become available. As capital returns to the market, investors are likely to place greater weight on property performance over discounts to pre-pandemic pricing due to the challenges with repositioning.

### CMBS Delinquency Rate




### Delinquency Rate Comparison



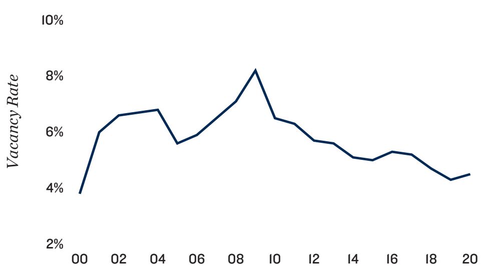

### Distressed Sales Trends


### Buyer/Seller Expectations Gap

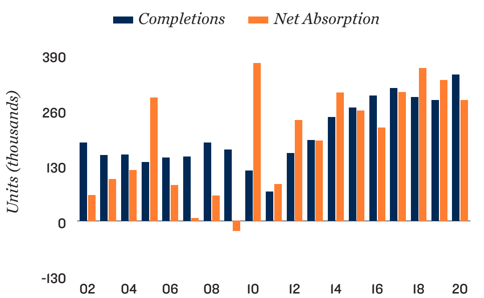

*Sources: CBRE; Moody's Analytics; Real Capital Analytics*

# MULTIFAMILY

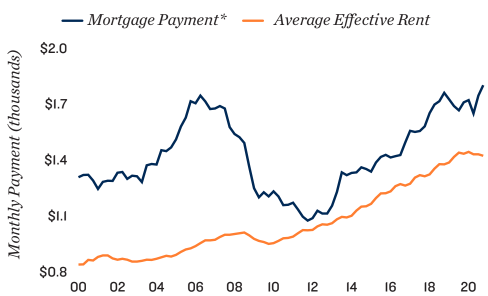
Apartment Vacancy Rate




Completions vs. Absorption




Rent and Home Payment Trends




Homeownership Rate


** Mortgage payments based on quarterly median home price for a 30-year fixed rate mortgage, 90 percent LTV, taxes, insurance and PMI.*

*Sources: Freddie Mac; National Association of Realtors; RealPage, Inc.; U.S. Census Bureau*

## Trends Preceding the Health Crisis Accelerated by the Quarantine Experience and Adoption of Remote Work

**Expedited homeownership transition not a major concern.** Many people prioritized space and privacy after experiencing quarantine, leading to a wave of first-time homebuyers, assisted by low interest rates. The rapid increase in homebuying pushed prices up significantly, though, with new supply constrained by higher material costs and fewer existing homes available for purchase. Those with tighter budgets will be unable to meet the down-payment requirement, keeping them as renters. Economic distress could also play a factor, stalling career advancement and pressing on wage growth. Multiple-bedroom apartments may draw favor from families wanting to accommodate at-home work and schooling.

**Renters' living preferences altered.** Living and working at home have made many reevaluate their ideal conditions. Suburban apartments are garnering more attention for their larger floor plans, less population density and comparatively lower rental costs. In the short term, remote workers could take advantage of the flexibility and distance themselves from their office. Apartments in the suburbs will lure more of these tenants long term as well, with some firms likely to keep staff remote beyond the pandemic. Urban complexes are facing greater near-term headwinds, largely due to the closure of downtown offices and shops. The reopening of CBD workspaces, entertainment and services will catalyze downtown renter demand, however, as many prefer this immersive lifestyle.

**Apartment tiers facing different sources of adversity.** High unemployment among lower-wage earners is a burden on Class C demand, though the segment was resilient in 2020. Expanded unemployment benefits, rental assistance and eviction moratoriums are helping bolster rent collections and Class C fundamentals, but challenges remain evident amid historically high weekly initial jobless claims. At the same time, budget-friendly options could appeal to financially cautious tenants during economic turbulence. The Class A segment was less impacted by job losses, with more tenants able to work remote, but it had a greater adjustment to fundamentals when builds were completed amid limited move-ins. Supply overhang could prompt operators in overbuilt areas to use concessions, though demand for upper-tier rentals should ramp up alongside economic recovery momentum.

**Solid performance, promising outlook sustain investment appeal.** The key pillar supporting apartment demand is the interminable need for housing. While economic distress presses on many households' discretionary spending habits, having a place to live remains an indispensable priority and apartments reap a significant share of this demand. Alongside this, trends including the population's preference to wait longer to start families underpin extended tenant timelines. Uncertainty regarding near-term hurdles such as past-due rent and high unemployment will keep some buyers passive this year, though major asset discounts did not materialize. Capital has built up on the sidelines and is ready to be allocated as the nation makes headway on combating the virus.

## In-Migration Momentum

*Atlanta*
*Austin*
*Charlotte*
*Dallas/Fort Worth*
*Denver*
*Nashville*
*Phoenix*
*Raleigh*
*Salt Lake City*

- Sunbelt metros noting exceptional in-migration, household formation and employment growth prior to the health crisis have the strongest multifamily tailwinds. Fewer job losses in these markets should help expedite the economic recovery, aiding rental demand.
- Mountain region metros have significant demand momentum due to their fast-growing populations and underlying dynamics. Quality-of-life and cost-of-living considerations are luring new residents.

## Demographic Tailwinds

*Houston*
*Indianapolis*
*Riverside-San Bernardino*
*Sacramento*
*San Antonio*
*Seattle-Tacoma*
*Tampa- St. Petersburg*

- Markets that fall in this category align closely with the strongest tailwind grouping in terms of demographic trends and location, though in-migration and household formation have been slightly less impressive, keeping them a notch lower in the outlook.
- The two main inland metros in California that are attracting residents away from the larger coastal markets hold a spot in this category. The adoption of remote working is bolstering tenant relocations.

## Mild Pandemic Setback

*Cincinnati*
*Columbus*
*Fort Lauderdale*
*Kansas City*
*Louisville*
*Miami-Dade*
*Minneapolis-St. Paul*
*Portland*
*Washington, D.C.*
*West Palm Beach*

- A handful of markets throughout the Midwest and central U.S. comprise this grouping. Apartment conditions here have been comparatively calm during the pandemic with modest development helping abate demand-driven headwinds.
- Some metros in Florida belong to this category despite the state's overall positive migration trends. Growth momentum may be subdued by the beleaguered service sectors amid fewer visitations.

## Protracted Recovery

*Boston*
*Chicago*
*Las Vegas*
*Los Angeles*
*New York City*
*Northern New Jersey*
*Oakland*
*Orange County*
*Orlando*
*San Diego*
*San Francisco*
*San Jose*

- Gateway metros that are typically premier apartment markets face significant near-term hurdles, though they should recover in the longer term as they remain some of the most attractive places to live in the country.
- Metros with a heavy reliance on tourism fall into the protracted recovery category this year. The recovery timeline for places like Las Vegas and Orlando is elongated by steep job losses within service fields.

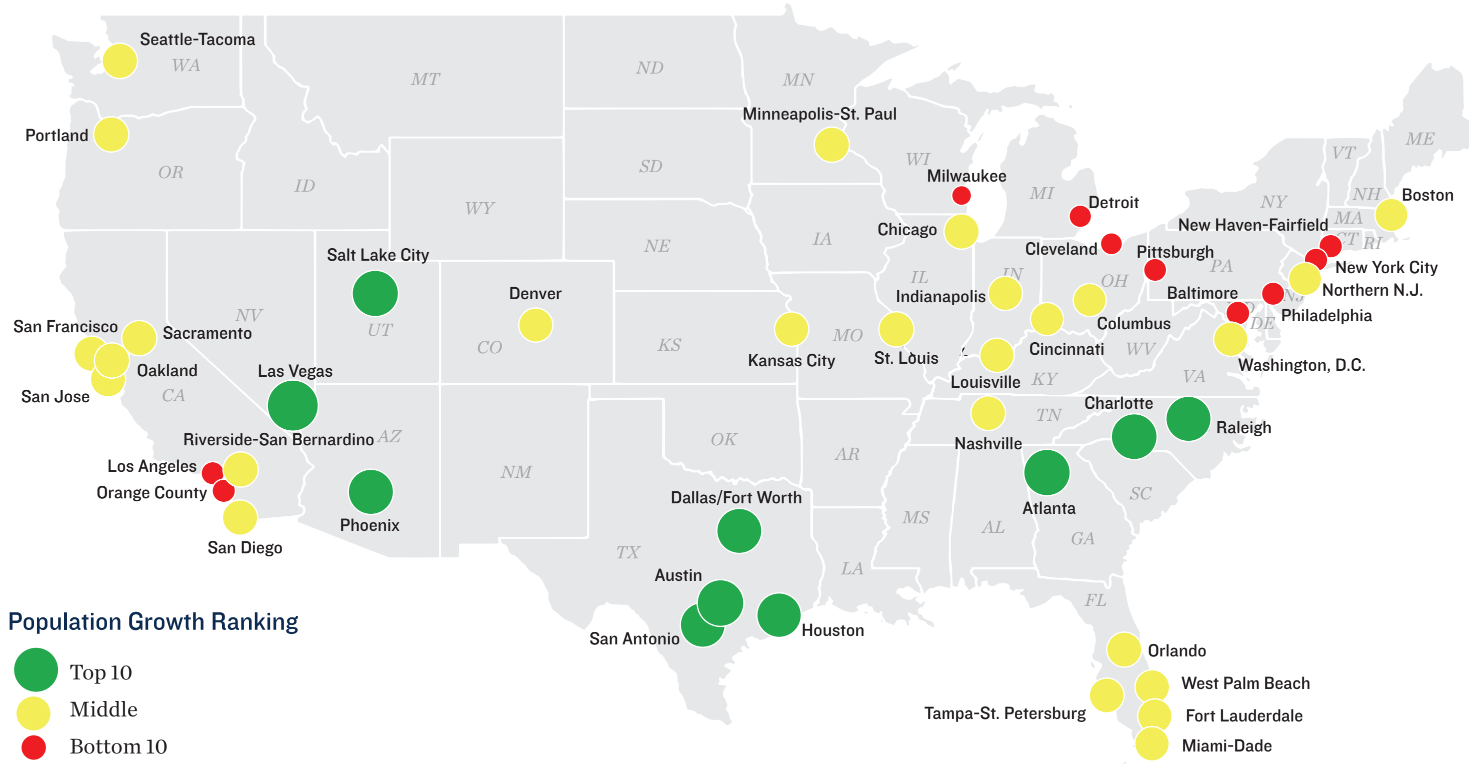
## Slow Growth

*Baltimore*
*Cleveland*
*Detroit*
*Milwaukee*
*New Haven-Fairfield County*
*Philadelphia*
*Pittsburgh*
*St. Louis*

- Several Midwest markets drop into this category due to slow economic growth and subpar demographic trends. A tailwind is that secondary and tertiary markets are increasingly luring residents, though these markets may not be the primary beneficiaries.
- Smaller metros along the East Coast hold a spot in the slow growth category. In-migration to these markets has been weak despite population movement out of larger cities nearby.

## Young Adult Population Growth Influences Local Rental Demand

### Five-Year Percent Change Forecast: 2020-2025




## 2016-2020 Household Growth

### Highest Growth

| Metro | Trailing-5-Year Total |
|---|---|
| Dallas/Fort Worth | 271,500 |
| Houston | 212,000 |
| Atlanta | 162,600 |
| Phoenix | 149,300 |
| Washington, D.C. | 130,100 |
| Austin | 111,200 |
| Orlando | 98,100 |
| Seattle-Tacoma | 96,400 |
| Charlotte | 94,100 |
| Tampa-St. Petersburg | 91,900 |

## 2016-2020 Net Migration

### Largest Gains

| Metro | Trailing-5-Year Total |
|---|---|
| Dallas/Fort Worth | 390,100 |
| Phoenix | 352,800 |
| Atlanta | 252,300 |
| Tampa-St. Petersburg | 239,400 |
| Houston | 219,100 |
| Orlando | 207,100 |
| Austin | 197,000 |
| Seattle-Tacoma | 189,500 |
| Charlotte | 172,000 |
| Las Vegas | 166,800 |

## 2016-2020 Household Growth

### Lowest Growth

| Metro | Trailing-5-Year Total |
|---|---|
| Cleveland | 500 |
| Pittsburgh | 2,500 |
| San Jose | 6,600 |
| Milwaukee | 7,400 |
| New Haven-Fairfield County | 11,100 |
| New York City | 13,300 |
| San Francisco | 13,800 |
| Louisville | 15,300 |
| Orange County | 15,300 |
| St. Louis | 25,500 |

## 2016-2020 Net Migrations

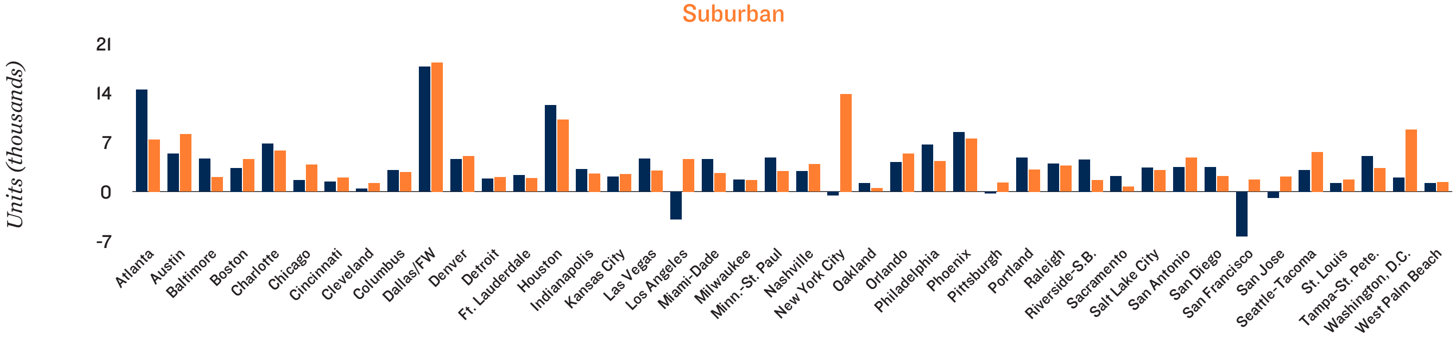
### Net Losers

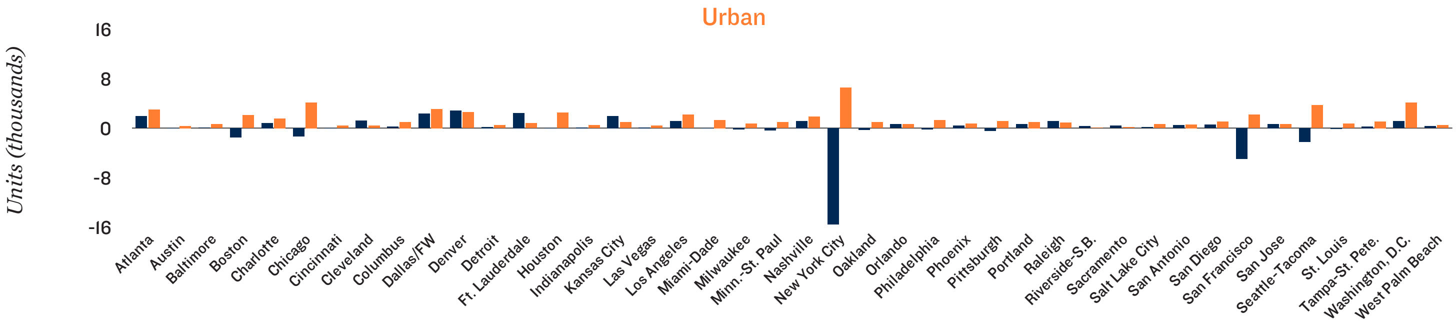
| Metro | Trailing-5-Year Total |
|---|---|
| New York City | -379,900 |
| Chicago | -313,900 |
| Los Angeles | -296,400 |
| Northern New Jersey | -66,900 |
| Orange County | -57,900 |
| San Jose | -34,400 |
| Detroit | -33,000 |
| San Diego | -28,000 |
| St. Louis | -28,000 |
| New Haven-Fairfield County | -27,800 |

*Sources: Experian; Moody's Analytics*

## Net Absorption vs. Five-Year Trailing Average

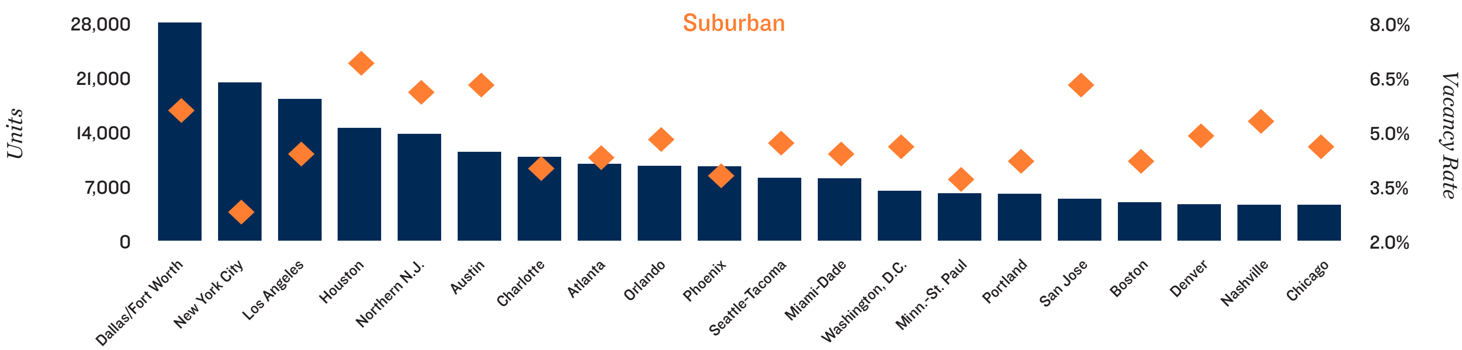
*2020* *2015-2019 Annual Average*

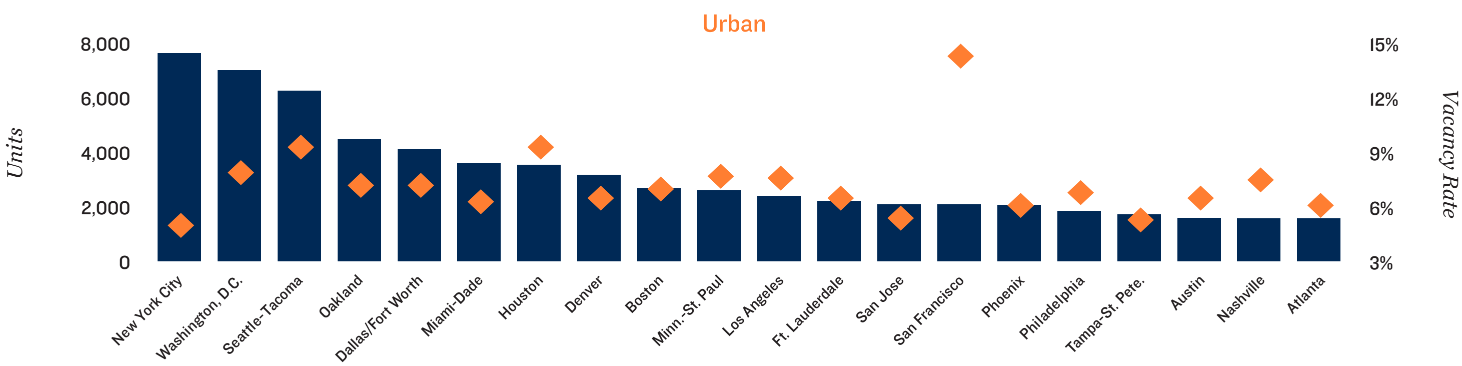



## 2021 Pipeline - Top 20 Markets

*2021 Pipeline (Units)* *2020 Year-End Vacancy*



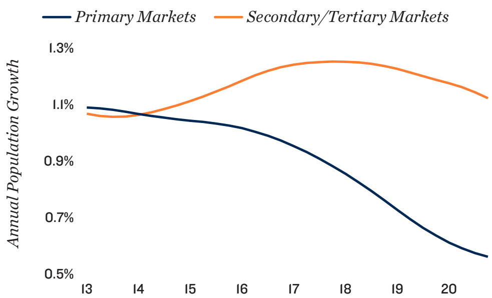

*Sources: CoStar Group, Inc.; RealPage, Inc.*

| Market Name | Employment Growth | | | | Completions (Units) | | | | Vacancy | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2017 | 2018 | 2019 | 2020 | 2017 | 2018 |
| Atlanta | 2.2% | 1.9% | 2.5% | -2.6% | 12,700 | 8,800 | 9,500 | 13,800 | 6.1% | 5.3% |
| Austin | 3.3% | 4.2% | 3.6% | -1.0% | 10,100 | 8,800 | 8,700 | 9,900 | 6.0% | 5.3% |
| Baltimore | 1.1% | 0.8% | 1.2% | -5.1% | 4,100 | 3,500 | 1,700 | 3,400 | 5.8% | 5.2% |
| Boston | 1.3% | 1.3% | 0.9% | -9.2% | 7,800 | 7,300 | 6,100 | 9,400 | 4.3% | 3.7% |
| Charlotte | 2.2% | 2.5% | 2.3% | -4.9% | 7,800 | 7,800 | 8,200 | 7,400 | 5.5% | 5.1% |
| Chicago | 0.7% | 0.7% | 0.4% | -7.4% | 9,500 | 9,200 | 10,400 | 8,400 | 6.0% | 5.3% |
| Cincinnati | 1.3% | 1.1% | 0.8% | -4.6% | 1,500 | 1,600 | 800 | 2,200 | 5.1% | 4.3% |
| Cleveland | 0.4% | 1.4% | 0.5% | -8.6% | 1,100 | 1,900 | 700 | 1,500 | 5.8% | 4.7% |
| Columbus | 1.3% | 1.3% | 1.2% | -6.2% | 3,500 | 4,200 | 3,900 | 3,600 | 4.6% | 4.1% |
| Dallas/Fort Worth | 2.2% | 2.5% | 3.2% | -2.1% | 24,700 | 24,500 | 25,300 | 25,800 | 5.6% | 5.5% |
| Denver | 2.6% | 2.0% | 2.8% | -4.4% | 7,900 | 10,400 | 8,500 | 8,000 | 5.9% | 5.2% |
| Detroit | 1.2% | 1.3% | 0.5% | -11.0% | 1,300 | 800 | 1,400 | 1,100 | 3.9% | 3.4% |
| Fort Lauderdale | 1.7% | 1.8% | 1.2% | -7.3% | 3,600 | 2,900 | 2,300 | 4,900 | 5.3% | 5.1% |
| Houston | 1.6% | 2.7% | 2.0% | -4.3% | 18,900 | 8,300 | 8,700 | 18,800 | 6.5% | 7.2% |
| Indianapolis | 1.8% | 0.9% | 0.9% | -0.8% | 1,800 | 2,500 | 2,800 | 2,600 | 6.5% | 5.7% |
| Kansas City | 1.3% | 0.4% | 1.1% | -2.8% | 4,200 | 3,200 | 2,300 | 5,100 | 5.4% | 5.3% |
| Las Vegas | 2.9% | 3.1% | 1.9% | -9.5% | 3,100 | 3,400 | 2,400 | 2,900 | 5.5% | 4.8% |
| Los Angeles | 1.6% | 1.4% | 1.1% | -9.1% | 5,900 | 8,200 | 7,600 | 10,600 | 3.9% | 3.6% |
| Louisville | 1.1% | 0.7% | 0.4% | -5.1% | 1,700 | 1,600 | 1,500 | 2,500 | 5.7% | 4.9% |
| Miami-Dade | 1.5% | 1.8% | 1.1% | -5.5% | 4,900 | 5,000 | 6,700 | 7,800 | 3.7% | 4.1% |
| Milwaukee | 0.9% | 0.4% | 0.2% | -7.4% | 3,300 | 2,400 | 2,400 | 2,000 | 4.8% | 3.5% |
| Minneapolis-St. Paul | 1.5% | 1.2% | 0.3% | -8.0% | 4,300 | 5,000 | 5,300 | 7,800 | 3.1% | 3.0% |
| Nashville | 3.1% | 3.3% | 3.0% | -4.2% | 8,100 | 6,700 | 4,000 | 6,200 | 5.1% | 5.3% |
| New Haven-Fairfield County | -0.1% | 0.4% | 0.0% | -8.0% | 1,300 | 1,600 | 1,400 | 1,700 | 5.0% | 4.4% |
| New York City | 2.0% | 2.1% | 1.8% | -12.2% | 25,400 | 21,900 | 21,200 | 17,900 | 2.3% | 2.0% |
| Northern New Jersey | 1.3% | 0.5% | 0.7% | -9.1% | 9,900 | 7,700 | 9,200 | 10,200 | 4.5% | 3.9% |
| Oakland | 1.9% | 1.2% | 0.1% | -9.6% | 2,200 | 900 | 4,200 | 4,300 | 4.0% | 3.9% |
| Orange County | 2.0% | 1.2% | 1.2% | -8.5% | 5,000 | 3,800 | 2,800 | 2,700 | 4.0% | 3.8% |
| Orlando | 3.4% | 2.7% | 2.5% | -9.7% | 7,000 | 6,800 | 6,800 | 7,600 | 3.8% | 4.0% |
| Philadelphia | 1.3% | 1.0% | 0.9% | -7.2% | 5,200 | 4,500 | 5,300 | 6,800 | 4.9% | 4.2% |
| Phoenix | 3.4% | 3.4% | 3.6% | -2.3% | 6,100 | 8,500 | 8,200 | 8,500 | 5.6% | 4.6% |
| Pittsburgh | 1.3% | 0.8% | 0.5% | -7.1% | 1,900 | 1,600 | 600 | 900 | 5.9% | 4.0% |
| Portland | 2.5% | 2.0% | 1.4% | -8.5% | 4,700 | 4,700 | 5,100 | 6,000 | 5.0% | 4.5% |
| Raleigh | 2.5% | 2.1% | 2.0% | -4.5% | 5,400 | 5,000 | 5,500 | 5,900 | 5.8% | 5.2% |
| Riverside-San Bernardino | 4.0% | 3.0% | 1.5% | -7.2% | 900 | 1,300 | 2,500 | 1,700 | 3.9% | 3.6% |
| Sacramento | 2.7% | 2.6% | 1.5% | -6.9% | 700 | 800 | 1,300 | 1,800 | 3.5% | 3.6% |
| Salt Lake City | 3.2% | 2.7% | 3.3% | 0.4% | 4,700 | 4,300 | 3,400 | 3,800 | 4.4% | 4.3% |
| San Antonio | 1.6% | 2.1% | 2.3% | -3.4% | 6,800 | 5,300 | 4,600 | 4,900 | 7.4% | 6.6% |
| San Diego | 2.1% | 1.7% | 1.5% | -6.9% | 2,500 | 3,600 | 3,600 | 3,300 | 3.7% | 3.5% |
| San Francisco | 2.1% | 3.6% | 3.0% | -9.9% | 5,200 | 4,200 | 2,700 | 4,100 | 4.8% | 4.4% |
| San Jose | 2.2% | 2.0% | 1.3% | -6.9% | 2,800 | 2,400 | 2,000 | 4,300 | 4.7% | 4.3% |
| Seattle-Tacoma | 2.4% | 2.1% | 2.5% | -7.2% | 9,700 | 9,700 | 11,600 | 6,800 | 5.1% | 4.7% |
| St. Louis | 1.0% | 0.3% | 0.5% | -4.6% | 1,600 | 2,300 | 1,900 | 2,000 | 6.9% | 5.8% |
| Tampa-St. Petersburg | 1.9% | 2.2% | 2.7% | -3.6% | 4,300 | 5,400 | 5,400 | 5,500 | 4.9% | 4.6% |
| Washington, D.C. | 1.0% | 1.3% | 1.7% | -5.2% | 13,600 | 11,500 | 11,700 | 12,700 | 5.0% | 4.5% |
| West Palm Beach | 1.6% | 1.8% | 0.7% | -6.0% | 3,300 | 2,200 | 1,100 | 1,800 | 6.1% | 5.2% |
| United States | 1.5% | 1.6% | 1.4% | -6.1% | 312,800 | 291,100 | 284,200 | 344,400 | 5.1% | 4.6% |

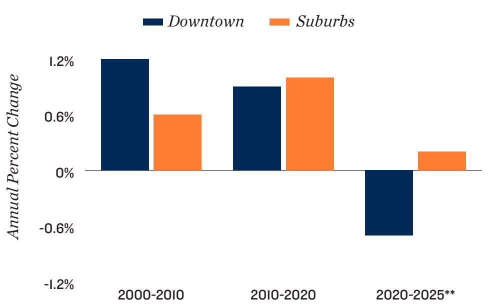
| Rate | | Effective Monthly Rate | | | | Average Price/Unit | | | | Market Name |
|---|---|---|---|---|---|---|---|---|---|---|
| 2019 | 2020 | 2017 | 2018 | 2019 | 2020 | 2017 | 2018 | 2019 | 2020 | |
| 5.1% | 4.5% | $1,131 | $1,206 | $1,273 | $1,302 | $98,800 | $113,400 | $122,000 | $136,500 | Atlanta |
| 4.6% | 6.2% | $1,191 | $1,255 | $1,311 | $1,258 | $125,200 | $136,900 | $150,200 | $155,700 | Austin |
| 4.8% | 4.1% | $1,270 | $1,310 | $1,347 | $1,383 | $127,800 | $130,300 | $133,700 | $142,100 | Baltimore |
| 3.4% | 4.9% | $2,186 | $2,320 | $2,410 | $2,221 | $303,800 | $304,200 | $309,100 | $303,200 | Boston |
| 4.7% | 4.4% | $1,038 | $1,098 | $1,175 | $1,199 | $105,900 | $116,300 | $126,200 | $142,100 | Charlotte |
| 4.9% | 5.9% | $1,415 | $1,498 | $1,542 | $1,472 | $162,000 | $157,400 | $158,000 | $157,700 | Chicago |
| 3.3% | 3.6% | $900 | $939 | $994 | $1,022 | $52,600 | $54,000 | $56,000 | $56,200 | Cincinnati |
| 3.7% | 3.5% | $882 | $900 | $963 | $980 | $56,500 | $58,600 | $60,600 | $64,400 | Cleveland |
| 4.2% | 4.1% | $901 | $942 | $980 | $1,026 | $60,000 | $67,200 | $76,600 | $84,600 | Columbus |
| 5.1% | 5.7% | $1,081 | $1,124 | $1,174 | $1,182 | $97,100 | $103,700 | $114,900 | $122,500 | Dallas/Fort Worth |
| 5.1% | 5.1% | $1,407 | $1,471 | $1,516 | $1,509 | $174,800 | $185,400 | $198,100 | $205,500 | Denver |
| 3.3% | 2.6% | $935 | $968 | $998 | $1,056 | $61,900 | $67,900 | $75,500 | $77,500 | Detroit |
| 4.4% | 4.2% | $1,500 | $1,587 | $1,637 | $1,650 | $148,700 | $155,100 | $163,000 | $168,500 | Fort Lauderdale |
| 6.3% | 7.0% | $1,073 | $1,100 | $1,122 | $1,095 | $96,700 | $102,600 | $109,500 | $117,200 | Houston |
| 5.3% | 4.7% | $839 | $881 | $924 | $952 | $62,900 | $68,500 | $74,400 | $80,800 | Indianapolis |
| 4.6% | 4.9% | $917 | $941 | $980 | $1,002 | $78,300 | $85,600 | $92,900 | $99,000 | Kansas City |
| 4.7% | 3.5% | $952 | $1,039 | $1,113 | $1,153 | $91,500 | $104,800 | $124,900 | $135,200 | Las Vegas |
| 3.7% | 4.5% | $2,161 | $2,255 | $2,332 | $2,221 | $251,800 | $273,400 | $288,100 | $289,700 | Los Angeles |
| 4.8% | 4.9% | $829 | $865 | $901 | $917 | $85,000 | $89,000 | $95,100 | $96,400 | Louisville |
| 3.8% | 4.8% | $1,547 | $1,656 | $1,715 | $1,668 | $172,500 | $170,100 | $173,000 | $175,400 | Miami-Dade |
| 3.5% | 3.7% | $1,068 | $1,127 | $1,172 | $1,205 | $81,200 | $88,700 | $90,000 | $91,400 | Milwaukee |
| 3.3% | 4.3% | $1,236 | $1,294 | $1,358 | $1,346 | $123,100 | $127,600 | $136,800 | $147,300 | Minneapolis-St. Paul |
| 4.5% | 5.6% | $1,116 | $1,198 | $1,283 | $1,245 | $127,400 | $134,500 | $145,800 | $160,400 | Nashville |
| 4.4% | 4.0% | $1,800 | $1,866 | $1,889 | $1,888 | $177,200 | $178,900 | $181,100 | $185,600 | New Haven-Fairfield County |
| 2.0% | 3.7% | $2,652 | $2,709 | $2,760 | $2,668 | $324,100 | $324,900 | $329,400 | $328,500 | New York City |
| 4.4% | 6.1% | $1,868 | $1,922 | $1,967 | $1,923 | $159,000 | $164,800 | $176,100 | $178,000 | Northern New Jersey |
| 3.9% | 4.5% | $2,241 | $2,318 | $2,361 | $2,247 | $248,100 | $267,400 | $306,800 | $289,400 | Oakland |
| 3.6% | 3.2% | $2,012 | $2,080 | $2,147 | $2,139 | $265,700 | $304,100 | $304,200 | $307,100 | Orange County |
| 4.1% | 5.0% | $1,174 | $1,240 | $1,287 | $1,252 | $132,200 | $144,000 | $155,100 | $152,900 | Orlando |
| 3.5% | 3.3% | $1,257 | $1,320 | $1,382 | $1,417 | $151,600 | $163,800 | $172,800 | $164,500 | Philadelphia |
| 4.0% | 3.8% | $993 | $1,074 | $1,185 | $1,248 | $113,100 | $124,200 | $144,000 | $163,400 | Phoenix |
| 3.2% | 4.5% | $1,073 | $1,124 | $1,185 | $1,180 | $80,800 | $89,800 | $104,300 | $105,400 | Pittsburgh |
| 4.5% | 4.4% | $1,321 | $1,370 | $1,427 | $1,427 | $167,700 | $177,400 | $192,400 | $200,900 | Portland |
| 4.7% | 4.9% | $1,056 | $1,105 | $1,167 | $1,182 | $123,800 | $135,500 | $148,500 | $168,400 | Raleigh |
| 3.5% | 1.8% | $1,426 | $1,492 | $1,568 | $1,717 | $133,900 | $149,400 | $159,000 | $165,700 | Riverside-San Bernardino |
| 3.5% | 2.6% | $1,351 | $1,416 | $1,501 | $1,597 | $123,300 | $140,100 | $155,400 | $174,800 | Sacramento |
| 4.2% | 4.2% | $1,070 | $1,130 | $1,177 | $1,205 | $123,100 | $136,000 | $154,900 | $165,200 | Salt Lake City |
| 6.2% | 6.3% | $927 | $972 | $1,013 | $1,009 | $97,700 | $103,400 | $105,500 | $102,200 | San Antonio |
| 3.6% | 3.3% | $1,867 | $1,965 | $2,046 | $2,069 | $241,100 | $258,200 | $267,300 | $282,800 | San Diego |
| 5.1% | 11.7% | $2,742 | $2,854 | $2,898 | $2,568 | $427,400 | $460,400 | $470,600 | $452,700 | San Francisco |
| 3.9% | 6.1% | $2,689 | $2,826 | $2,890 | $2,480 | $361,000 | $398,000 | $412,100 | $397,300 | San Jose |
| 4.3% | 5.3% | $1,641 | $1,709 | $1,817 | $1,747 | $233,900 | $239,600 | $260,600 | $265,800 | Seattle-Tacoma |
| 4.4% | 4.7% | $869 | $900 | $963 | $989 | $84,000 | $87,400 | $92,500 | $100,800 | St. Louis |
| 4.6% | 4.2% | $1,114 | $1,195 | $1,242 | $1,286 | $106,300 | $116,400 | $125,800 | $130,900 | Tampa-St. Petersburg |
| 4.0% | 5.1% | $1,695 | $1,751 | $1,812 | $1,732 | $203,600 | $206,700 | $215,400 | $224,600 | Washington, D.C. |
| 4.7% | 4.6% | $1,503 | $1,593 | $1,683 | $1,707 | $168,000 | $171,000 | $175,900 | $182,100 | West Palm Beach |
| 4.2% | 4.4% | $1,300 | $1,364 | $1,421 | $1,410 | $148,100 | $151,800 | $161,200 | $164,600 | United States |

*Sources: BLS; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.*

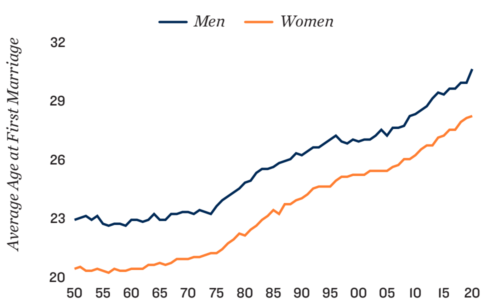
### Annual Population Growth*



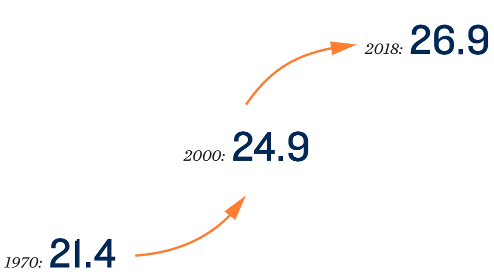

### Young Adult Population Growth




### Millennials Forming Families




### Average Age of First-Time Mothers




** Trailing five-year average*

*** Forecast*

*Sources: Experian; Moody's Analytics; U.S. Census Bureau*

## High Density in Large Cities Unfavorable During the Pandemic, Accelerating Population Outmigration

**Population movement out of major markets hastened by the pandemic.** Many of the largest cities along the coast, such as New York City, Los Angeles and San Francisco, have been noting outmigration over the past decade due to the high costs of living and overcrowding. This trend was accelerated by the health crisis when people desired lower population density and remote working provided the flexibility to move. Concerns over social distancing and the closure of downtown businesses are stunting the allure of primary markets, though these should be relatively short-term headwinds. Once the health crisis is under control, major metros along the coast should retain their position as some of the most attractive places to live in the United States, although the forces driving residents out of these places prior to the pandemic will continue to be at play. Smaller inland markets have significantly lower costs of living and doing business, drawing residents and firms that are looking to tighten up their budgets. Additionally, some companies will allow remote working beyond the end of the health crisis. Employees who are working virtually could explore living options in secondary and tertiary markets to save money, while firms could make the move out of primary markets if remote working diminishes the advantage of having an office space within the largest population hubs.

**Migration trends favor the South, greater job availability a factor.** Sunbelt markets such as Dallas/Fort Worth, Austin and Phoenix have been among the fastest growing in terms of employment and population growth over the past cycle. Labor market conditions in these metros have outperformed most coastal markets through the health crisis as well, signaling that the recovery in the Sunbelt could be comparatively smooth and swift. This region of the southern United States is luring firms and residents for a variety of factors including a lower cost of living, business-friendly conditions and a high quality of life. Corporations will continue to expand their employment bases in these cities and others will relocate from gateway markets as they look to tap into the local talent pool. Young adults in particular may be eager to move to the Sunbelt, where job availability is greater than in markets recovering at a slower pace. Apartment operators will benefit from these trends as robust household growth will dictate demand for rental housing.

**Remote working a tailwind for cities proximate to larger gateways.** Secondary and tertiary metros that neighbor larger primary markets are benefiting from population migration trends. Cities such as Sacramento and Riverside-San Bernardino have been luring residents from the Bay Area and Los Angeles with remote working allowing employees to distance themselves from their company office. Lower living costs paired with less traffic congestion are bolstering the appeal of these smaller markets, which are still within driving distance of the coastal markets in case the employee needs to make the trip to their workplace. The longevity of this tailwind is still uncertain, however, as many companies will bring workers back into the office once it is safe to do so. Metros neighboring larger gateway cities will need to maintain employment growth over the long term via business relocations. The ongoing household creation and population growth in these inland markets should provide a boost for the local economies and catalyze job creation, providing near-term momentum for apartment fundamentals.

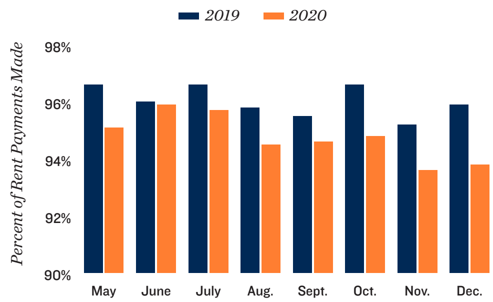
## Stimulus Bill Helps Bridge the Gap; Political Transition May Lead to More Assistance This Year

**December 2020 stimulus timely help for the multifamily industry.** Unemployment benefits have been a crucial lifeline during the health crisis, helping many jobless tenants meet financial obligations, including rent. It was feared that collections would fall drastically both at the beginning of the pandemic when unemployment skyrocketed and after the expiration of the CARES Act, but this was not the case. Collections held relatively firm at down roughly 2 percent year over year during most of the summer and fall months, but they began to trend down in late 2020. The stimulus passed in December should help brace the industry in the early stages of this year, though. The COVID-19 relief package restarted the federal unemployment benefits at $300 per week, lasting until March 14. First-quarter rent collections should also be boosted by the $600 per person direct payment that was sent out to qualifying taxpayers. If another larger stimulus check emerges with the Biden administration collaborating with a more Democratic Party-aligned Congress, it will further reinforce rent collections and reduce financial shortfalls.

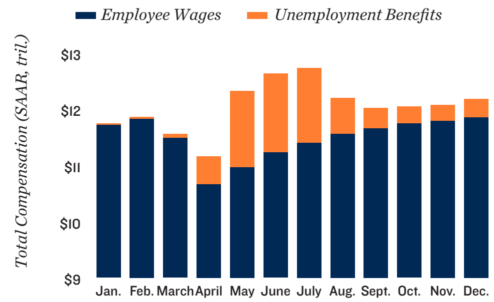
**Protections for tenants and owners extended.** The December 2020 stimulus bill included language to extend the nationwide eviction moratorium by one month through Jan. 31, 2021. The Biden administration further lengthened the moratorium on a national level until March 31. Another extension could follow, or the decision may be given to states and local governments. Freddie Mac also elongated its loan forbearance program by three months, accepting new applications until March 31. Borrowers of federally backed mortgages facing financial challenges may use this avenue, while being aware that it disallows evicting tenants for nonpayment. Additionally, the stimulus included $25 billion in rent relief funds, which will be used to pay off overdue rent and utilities tracing back to the start of the pandemic. State and local governments will distribute relief funds directly to landlords and utility companies in most cases, hopefully streamlining the process. The Biden administration, now with a slim majority in the Senate, has also expressed interest in additional rent relief later this year, which could help resolve tenant shortcomings and reduce the number of evictions that will play out.

**President Biden's infrastructure plan may present multifamily investment opportunities.** One of the key components of President Biden's campaign efforts centered around improving infrastructure, with long-term sustainability in mind. The proposed plan is to invest $2 trillion into a myriad of projects, some of which could benefit multifamily in certain metros and submarkets. Approximately $46 billion would be allocated toward improving roads, bridges and public transportation. This would create construction jobs in metros undergoing major overhauls, generating demand for living options. Additionally, new transit lines may spur household formation in outlying neighborhoods that now have access to the urban core via light rail or bus. Biden's plan would also create jobs in the auto and clean energy industries, potentially benefiting markets in the Midwest and Texas. Other aspirations are to retrofit 4 million buildings and to build at least 1.5 million affordable housing units, which should bolster construction employment and underpin apartment demand in cities where the most upgrades are planned. Nevertheless, the details of the plan remain negotiable and some ambitions may not come to fruition.

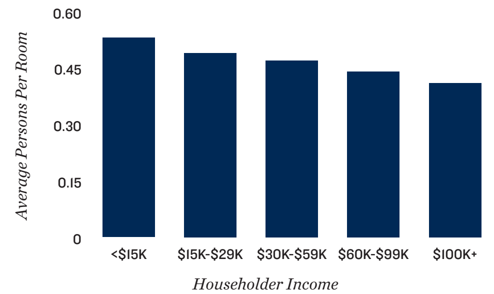
### Share of Rent Payments Made



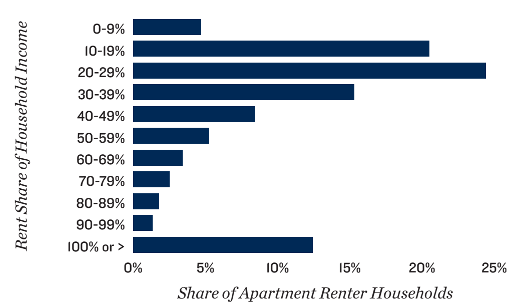

### Unemployment Benefits Offset Lost Wages




### How Income Affects Crowding*




### Gross Rent as a Percent of Household Income**

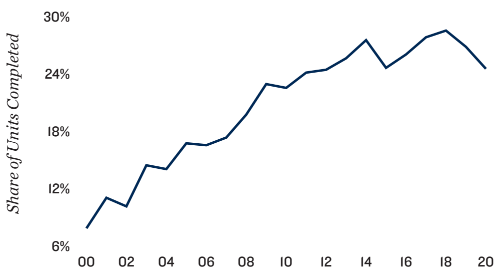



*As of 2018

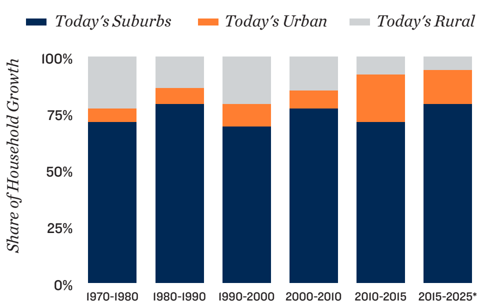
**As of 2019

Sources: BEA; NMHC; U.S. Census Bureau

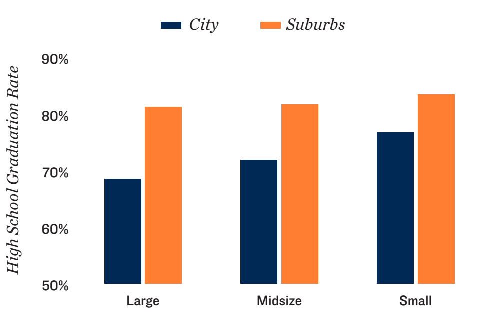
## Share of Completions in Downtown



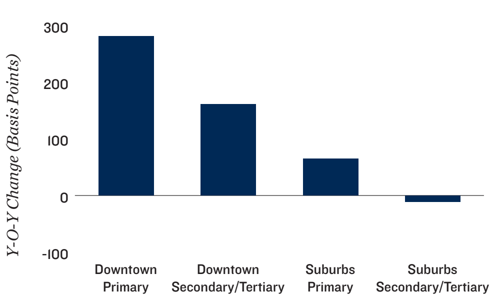

## Suburbs to See More Growth




## Grad Rates Higher in Suburbs




## Y-O-Y Vacancy Change




** Forecast*

*Sources: CoStar Group, Inc.; Department of Education; John Burns Real Estate Consulting; RealPage, Inc.*

# Flexibility of Remote Working, Space Needs and Budget Considerations Underpin Demand in Suburbs

**More tenants prioritizing square footage, renting suburban units.** Spending more time at home during quarantine and the shift to remote working have altered renters' attitudes regarding their ideal living situation. Space has taken priority over location for many when looking for an apartment, leading more tenants to the suburbs where unit sizes and communal areas can be larger. The trade-off between urban and suburban multifamily has been put in the spotlight by diverging performance metrics in 2020, though the shift was occurring prior to the onset of the pandemic. Household growth in the suburbs was notably increasing over the past five years, and it was anticipated that aging millennials moving out of urban cores to start families would reinforce this trend going forward. Nevertheless, suburban apartments face more direct competition from single-family houses than urban complexes as housing construction is impractical downtown. Apartments in markets with a larger percentage of later-stage millennials may lose out on potential tenants that are making the transition to homeownership; however, high mortgage down-payment requirements could bolster the renter pool in the suburbs even within this demographic.

**Employment growth outside of urban cores supplement household formation.** Suburban office demand is expected to be more stable coming out of the health crisis alongside household creation, further underpinning demand for apartments beyond the urban core. Difficulty accommodating social distancing in downtown high-rise buildings and plans for less in-office staff are driving firms to suburban floor plans. This could create new employment hubs in rings just outside of urban cores, where companies can attract personnel from both the suburbs and downtown. Employees that are working in the office will want to live close to their workplace, buoying demand for apartments in nearby neighborhoods. Additionally these suburban rings also appeal to tenants considering a move outside of the urban core, but not so far away that they cannot enjoy some of the dynamics of downtown. Multifamily complexes in corridors just beyond the core will benefit from underlying trends such as these over the coming years, potentially providing a tailwind for rent as robust demand presses down on vacancy.

**Reopening of downtown shops and workplaces will revive demand for urban units.** Downtown apartments have faced significantly greater headwinds during the health crisis and challenges will continue into 2021, though the long-term outlook remains promising. Many of the factors that are diminishing the appeal of urban living are relatively short term and should subside soon after the end of the pandemic. Urban amenities such as entertainment and nightlife that are typically decisive selling points to tenants when considering their living space have been closed or operating at limited capacity. This and the closure of central business district offices are pivotal components of the ongoing demand shift away from urban cores. Looking longer term, downtown businesses and workplaces will reopen once it is deemed safe to do so. Downtown apartments will once again be attractive options for young adults, as many prefer this type of lifestyle and proximity to services. Downtown fundamentals will take longer to recover in markets that have had greater restrictions in place, though, as businesses in usually high-foot-traffic areas have been especially hit hard. Job losses from downtown employers and shuttered shops will hinder demand for urban apartments in some of these places.

## Multifamily Performance Differs Around the Country; Tourism and Coastal Markets the Most Challenged

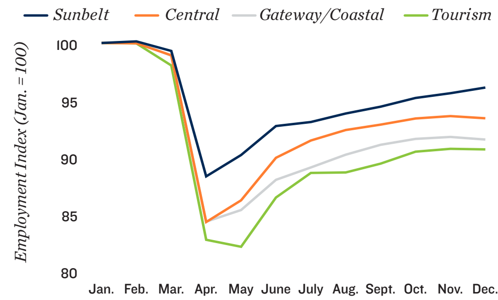
**Sunbelt employment on better footing, aiding multifamily.** Metros in the Sunbelt sustained higher levels of employment than other areas of the country in 2020, largely due to economic diversity, less restrictions and migration trends. Comparatively low unemployment throughout the region and especially in Tampa-St. Petersburg and Atlanta have been favorable for multifamily fundamentals and rent collections. Sunbelt markets, in general, should also be some of the quickest to regain growth momentum coming out of the health crisis, further boosting apartment demand. However, a handful of markets here including Dallas/Fort Worth and Austin top the nation in construction activity, which could present near-term supply-side pressure. Nevertheless, any adjustment to fundamentals within the Class A tier competing with these new additions should be temporary, and the long-term demand outlook is underpinned by steady in-migration and business relocations.

**Apartments in the Central U.S. face fewer obstacles.** A handful of secondary and tertiary markets in mid-America have been resilient to the economic disruption, bracing multifamily fundamentals. Rent collections in many of these metros held higher than other areas of the country as well since the ratio of unemployment benefits to the cost of living was more suitable for jobless tenants to meet dues. Metros including Indianapolis, Kansas City and Columbus noted unemployment rates well below the national average ending 2020 after avoiding the most severe outbreaks and shutdowns, which kept more shops open and staff on payrolls. At the same time, vital transportation networks run through central U.S. markets and the growth of e-commerce could be a tailwind for logistics employment. The outlook for central region apartments is more modest than the Sunbelt, but owners will face less supply-side pressure, aiding fundamentals.

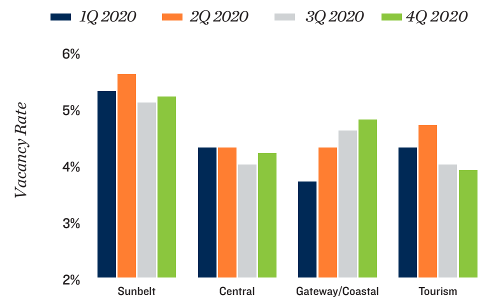
**Vacation destinations reliant on combating the pandemic.** Tourism markets including Las Vegas, Orlando and Orange County have been particularly beleaguered by the health crisis that brought an abrupt halt to travel. A large share of these metros' employment bases work within service and entertainment fields, which slashed headcounts significantly. These markets face some of the steepest and most challenging recoveries in the near term, and multifamily fundamentals will remain dampened by high joblessness. Positive news on the health front provides a sense of optimism for apartment owners here, however, and longer-term population migration trends favor the South where many of these metros are located. The local economies in tourism-reliant places could also use this disturbance to diversify, as seen in other fast-growing Sunbelt markets.

**Major hubs retain positive long-term outlook, considerable challenges ahead.** Multifamily in historically strong performing coastal cities has a comparatively difficult near-term outlook with many of these places facing a longer recovery timeline. Metros such as New York City and Los Angeles have recorded some of the largest job losses in the nation, and despite positive momentum in the summer and fall of 2020, recuperating the rest of the jobs lost will be difficult in the current environment. These metros have high population densities, which is unfavorable to containing the virus, prompting greater restrictions on businesses. This could result in more permanent job losses as store closures mount and firms relocate. Looking longer term, though, these economic engines along the coastline will still be among the most demanded places to live and work, supporting the need for multifamily housing.

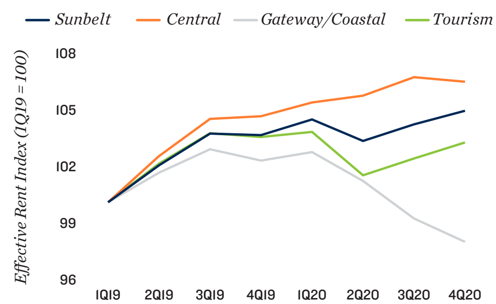
### 2020 Total Employment Index



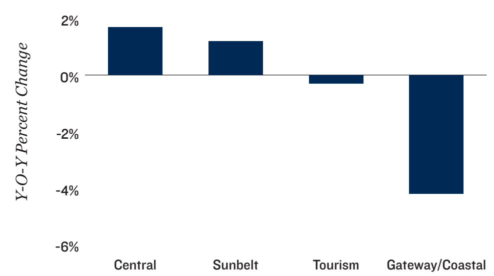

### Coastal Market Vacancy Still Rising



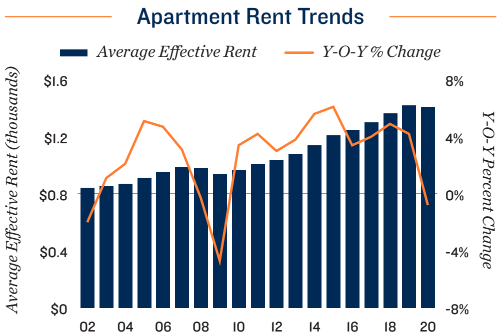

### Apartment Effective Rent Index

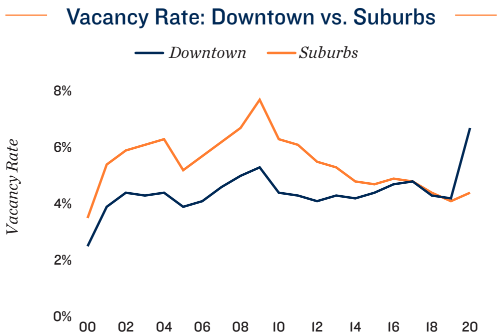


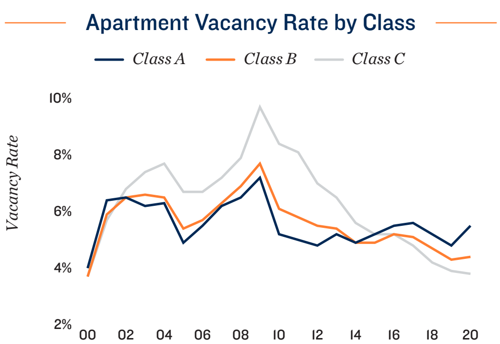

### Apartment Rent Growth by Region

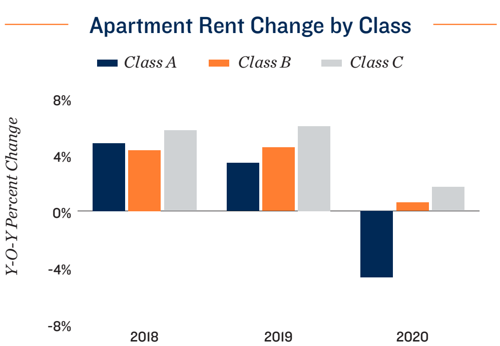



*Sources: BLS; CoStar Group; RealPage, Inc.*




*Sources: CoStar Group, Inc.; RealPage, Inc.*

## Suburban Apartments Benefit From Pandemic-Induced Trends; Urban Vacancy and Rent Burdened

**Urban vacancy reached a more than two-decade high last year.** Demand for urban units was diminished by the health crisis, leading to a nationwide vacancy increase of 250 basis points year over year in 2020 to 6.8 percent. This was the highest urban vacancy recording in at least the past 20 years, demonstrating the unprecedented challenges that downtown operators are facing in most markets. In comparison, U.S. suburban vacancy rose just 30 basis points over that stretch to 4.3 percent. The Bay Area noted the greatest adjustment to suburban vacancy during those 12 months with a 570-basis-point jump recorded in San Francisco and a 260-basis-point rise logged in San Jose. Conversely Sacramento, Riverside-San Bernardino and Las Vegas posted the most notable suburban vacancy drops during that span. Most markets throughout the country recorded higher urban vacancy in 2020 relative to the previous year. Cleveland, Las Vegas and Riverside-San Bernardino were the only metros to post urban vacancy declines in 2020.

**Rent down most in urban corridors of primary gateway markets.** The diverging demand preference between urban and suburban apartments was reflected in rent. During the four quarters of 2020 U.S. suburban average effect rent fell by 0.6 percent, while urban rates decreased by an average of 7.2 percent. Unsurprisingly the two Bay Area markets that had the largest suburban vacancy jumps also had the greatest rent reductions. Average rates shrunk by more than 9 percent last year in the suburbs of both San Francisco and San Jose. The most pronounced urban rent subtractions were also found in coastal markets with the city centers of Boston, Oakland, San Francisco and San Jose, each posting average effective rent drops of more than 14 percent. On the other hand, two markets — Riverside-San Bernardino and Detroit — ranked in the top five nationally for both urban and suburban rent growth. Additional markets with notable rate increases during that time frame include Sacramento, Columbus and suburban Phoenix, as well as West Palm Beach and the urban core of Las Vegas.

**Sunbelt markets had impressive suburban lease-up.** Net absorption counts last year varied dramatically throughout the U.S. and within individual metros. On a national level, a net of nearly 160,000 suburban units were absorbed during that 12-month time frame. Conversely, 2,800 urban units returned to the market, the majority of them during the second quarter at the onset of the pandemic when people fled dense locales. This transition out of downtown corridors to suburban neighborhoods was evident in the disparity between absorption recordings. Markets that have been attracting new residents and growing rapidly in recent years posted the greatest suburban lease-up. Dallas/Fort Worth, Atlanta, Houston and Phoenix all notched positive four-quarter absorption totals of more than 8,000 units in the suburbs. Alternatively Los Angeles, which had been losing residents prior to the health crisis, saw almost 4,000 suburban rentals return to the market last year. Urban net absorption was the greatest in Denver, Fort Lauderdale and Dallas/Fort Worth, with more than 2,000 additional units becoming occupied during that stretch. New York City, on the other hand, had negative absorption of nearly 15,600 urban rentals, which equated to 1.9 percent of local stock returning to the market.

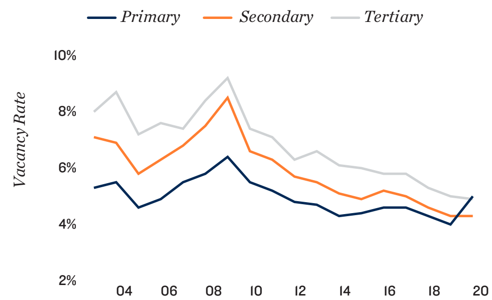
## Class A Tier Recorded Higher Vacancy and Lower Rent; Elevated Construction a Factor in Some Metros

**Lower-tier vacancy contracted despite record joblessness.** Availability of Class C units dropped by 10 basis points over the course of 2020 to 3.7 percent, which was the only vacancy compression among the three tiers. The Class B vacancy rate moved up 10 basis points from the beginning of the year to 4.3 percent in December, while the Class A rate increased by 70 basis points over that time frame to 5.4 percent. This may reveal that supply-side pressure had more of a direct impact on vacancy than unemployment, as job losses were disproportionately in lower-wage fields that would typically dampen demand within the budget-friendly segment. The Class C rate, however, could be buttressed by eviction moratoriums that have been allowing non-paying tenants to occupy units. Conditions also differ throughout the country. Major markets on the coast that have had significant virus outbreaks and greater restrictions on businesses, including New York City, San Francisco and San Jose, all recorded Class C vacancy rises of at least 100 basis points during those 12 months. Over that same stretch, less populous inland markets such as Atlanta and Indianapolis logged Class C vacancy declines of 100 basis points or more.

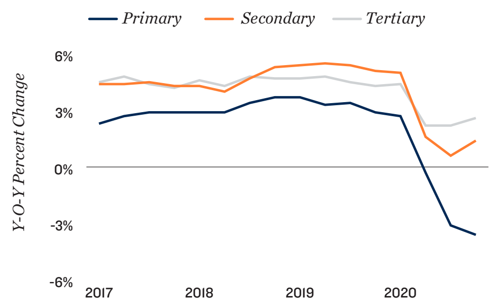
**Class C and A rent moved in opposite directions.** Driven by contrasting vacancy trends within the different apartment tiers last year, the average rent for Class A units decreased while the other two segments logged gains. The average effective rent for Class C rentals increased by 1.7 percent year over year as the average Class B rent ticked up by 0.6 percent. Competition from new builds amid economic headwinds pressed on rates within the luxury segment as the average Class A rent fell by 4.7 percent over those 12 months. A handful of primary markets such as Boston and San Francisco noted significant Class A rate cuts, as did markets adding inventory quickly, including Austin, Nashville and Miami-Dade. Mid-tier apartment performance was the strongest in migration markets like Phoenix, Tampa-St. Petersburg and Riverside-San Bernardino, which each posted Class B rent growth of more than 6 percent last year. Those three metros also ranked near the top nationally for Class C rent gains during that stretch. Other markets with Class C rent increases exceeding 5 percent over those four quarters include Charlotte, Atlanta, Miami-Dade and Columbus.

**Pace of construction remains elevated nationwide and especially in Texas.** Following a brief stoppage at build sites during the early stages of the lockdown, deliveries ramped up in the latter stages of last year. The completion total in the second half of 2020 was almost 194,000 units, which represented the largest six-month addition of the current millennium. The 2021 pipeline in both the suburbs and city centers are heavy as well, necessitated by an ongoing shortfall of supply versus demand. Dallas/Fort Worth will lead the country in suburban deliveries this year, with more than 28,000 units slated for completion. Two other Texas metros that will see inventory expand rapidly — Houston and Austin — will gain 14,600 and 11,400 suburban rentals, respectively, in 2021. Strong underlying migration and household creation trends in these markets, particularly in the suburbs, should help demand keep pace with supply. Nevertheless, some submarkets may experience near-term headwinds. The urban pipeline is the most loaded in primary coastal markets, with New York City leading the pack. Roughly 7,600 units are scheduled to finalize in the metro core this year, and lease-up timelines will correlate with the success of combating the health crisis and life returning to a sense of normalcy downtown.

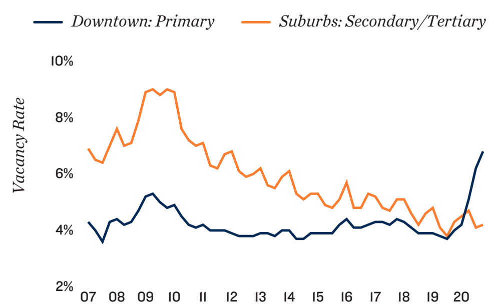
### Vacancy Rate by Market Type



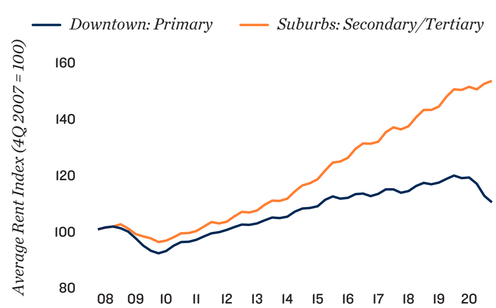

### Rent Growth by Market Type




### Vacancy Rate Trends



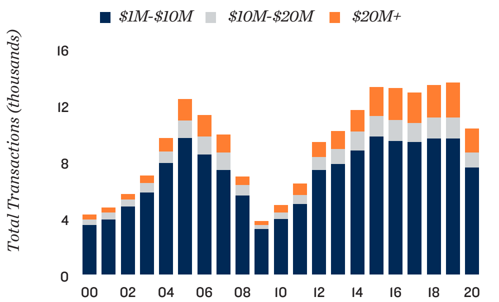

### Apartment Rent Index



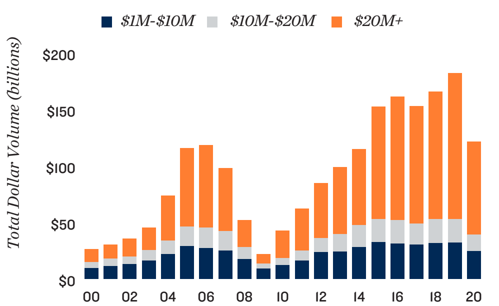

*Sources: CoStar Group, Inc.; RealPage, Inc.*

## Assets in Sunbelt Markets Have Growth Potential; Investment Capital to Flow in From Gateway Metros

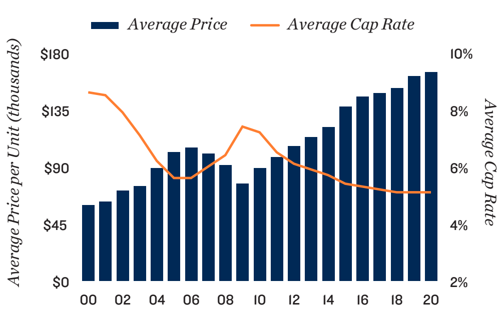
### Apartment Transaction Activity



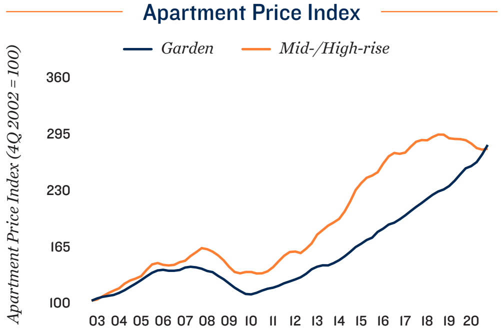

### Apartment Dollar Volume




### Apartment Price vs. Cap Rate




### Apartment Price Index




*Sources: CoStar Group, Inc.; Real Capital Analytics*

**Markets in the Southeast have favorable investment tailwinds.** Most of the metros in the region sustained solid fundamentals last year and have intriguing in-migration trends that could underpin rent growth over the next decade. Apartments in Atlanta, Charlotte, Raleigh and Nashville may be top of mind for investors transferring capital from more challenged gateway markets, while being aware of potential near-term supply-side pressure. Of those four markets the average cap rate is the lowest in Raleigh at 4.9 percent. Multifamily properties in the other three metros trade with initial yields in the mid-5 percent range, a notch higher than primary markets along the East Coast. Appreciation has been exceptionally strong in these four Southeast markets, with each logging 25 percent-plus pricing increases over the past three years. Metros in Florida will lure more out-of-state investors as well, for similar reasons. Assets in the highest-entry-cost market in the state, West Palm Beach, change hands with average first-year returns in the high-5 percent tranche. Tampa-St. Petersburg apartments trade in that range as well, while Fort Lauderdale, Miami-Dade and Orlando have average cap rates roughly 50 basis points above the other metros, in the low-6 percent area.

**Capital will flow into strong performing Mountain region metros.** Impressive household formation, population migration and employment growth trends prior to the health crisis paired with resilience exhibited in 2020 have bolstered investor sentiment in the region. Phoenix, Salt Lake City and Denver will be top targets for many out-of-state buyers, particularly from major West Coast markets. Average multifamily cap rates range from a low of 5.2 percent in Denver to a high of 5.8 percent in Las Vegas. In Phoenix, the average price reached $163,000 per unit last year after rising almost 75 percent since 2016. Similarly, in Salt Lake City appreciation during that four-year stretch totaled 47 percent to bring the average to $165,000 per unit. Price growth was slightly less impressive in Denver, but the market still has the highest entry cost in the region at $205,000 per unit. Las Vegas faces more significant hurdles than the other markets in the near-term, though suburban properties will garner buyer attention. The average multifamily property in the metro trades for $135,000 per unit.

**Texas multifamily in high demand as underlying trends strengthen.** All four major markets in the Lone Star state are catching buyers' eyes as fundamentals held solid in 2020 and the economic recovery is advancing at a faster pace than in other areas of the country. Business relocations from coastal markets and in-migration highlight the demand catalysts in Texas that could boost investment returns, though elevated construction activity may limit momentum in the near term. Austin commands the highest pricing in the state at an average of $156,000 per unit and the lowest initial returns at a mean of 5.0 percent. Dallas/Fort Worth and Houston have average first-year returns 50 basis points and 100 basis points higher than this, respectively. Properties in these two metros trade for close to $120,000 per unit on average. The one major market in the state with a moderate pipeline, San Antonio, has the lowest entry cost. Properties here trade for just a tick above $100,000 per unit with an average cap rate of 5.9 percent.

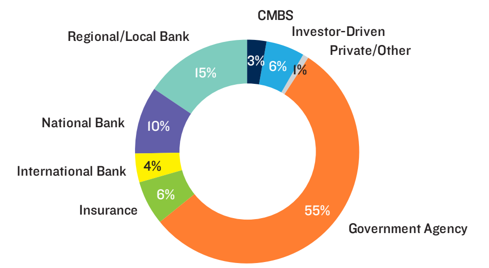
## Apartments in Dense Primary Markets Less Appealing in Near Term; Operators May Diversify Holdings

**Investment landscape bifurcated on the West Coast.** Riverside-San Bernardino and Sacramento are two metros in California that will lure more buyers this year as they expand their search criteria. Migration from the state's gateway markets underpins growth potential, while entry costs are significantly lower and initial yields higher than larger markets on the coast. Properties in Riverside-San Bernardino and Sacramento trade with price points under $175,000 per unit on average with first-year returns in the mid- to low-5 percent area. The investment environment in Los Angeles and the Bay Area is much different. Owners here may be interested in diversifying their holdings and tapping into markets with greater near-term prospective. Long-sighted buyers will still be active in the primary markets, though expectations for significant pricing adjustments should be tempered. In 2020, values remained relatively unchanged on a year-over-year basis in Los Angeles, and they dropped roughly 4 percent in San Francisco and San Jose, although trading composition was influenced by a higher proportion of lower-tier properties changing hands while institutions were less active. The two major Northwest metros, Seattle-Tacoma and Portland, will attract buyers that have longer-term aspirations as well.

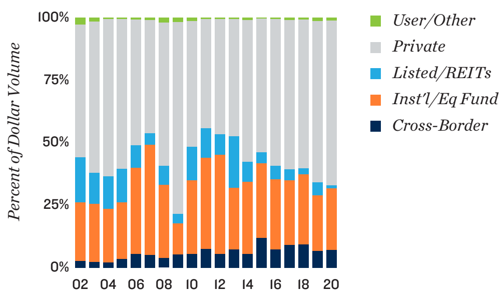
**The Northeast is facing a longer recovery timeline.** New York City is likely facing one of the most difficult roads to recovery in the nation, and pricing adjustments could emerge in some troubled urban corridors. The average cap rate here jumped by 30 basis points last year to 5.2 percent, though it should be taken into consideration that many institutions paused activity, which led to fewer high-value assets changing hands. Average first-year returns in the other two Northeast gateway markets, Boston and Washington, D.C., remained more stable during that stretch. Secondary and tertiary markets in the Northeast are facing fewer headwinds than the larger cities but also have limited renter demand momentum. Average initial returns in Baltimore, Northern New Jersey, Pittsburgh and Philadelphia are in the low-6 percent tranche. New Haven-Fairfield County first-year returns are a tick higher at 6.8 percent on average. Apartment owners may be inclined to sell and transfer returns into multifamily assets in the Sunbelt and other areas of the country that are on more solid footing, potentially providing local buyers opportunities.

**Apartments in Midwest markets could be a hedge.** Trading in the region has been dominated by local investors, but more out-of-state buyers could enter the arena in search of stability. Fundamentals and rent collections in most Midwest markets held solid during the health crisis and while the long-term growth prospects are less exciting than other areas of the country, competition for assets is more moderate. Two markets in the region that could be in higher demand after a strong 2020 performance are Indianapolis and Columbus. Asset values in these metros were increasing prior to the pandemic as well, with the average price per unit rising by more than 60 percent over the past five years. Markets in the Midwest with the highest entry costs include Chicago and Minneapolis-St. Paul, where diverging population trends are influencing price movements in the opposite direction. Since 2015, average pricing increased by 32 percent in Minneapolis-St. Paul to $147,000 per unit. During that same time, apartment values in Chicago dropped by 3 percent to $158,000 per unit.

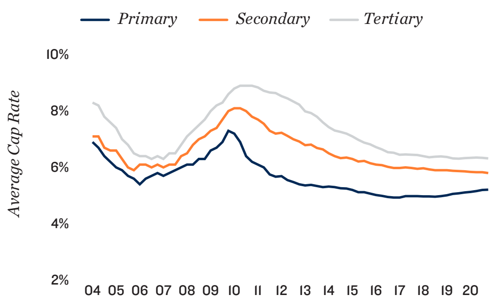
### Lender Composition*



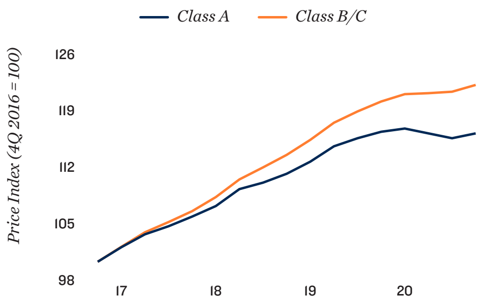

### Buyer Composition




### Cap Rate by Market Type




### Apartment Price Index by Class

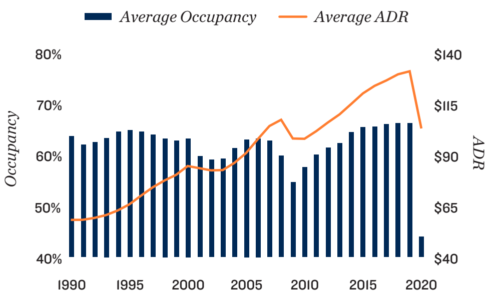



*Year to date through third quarter 2020

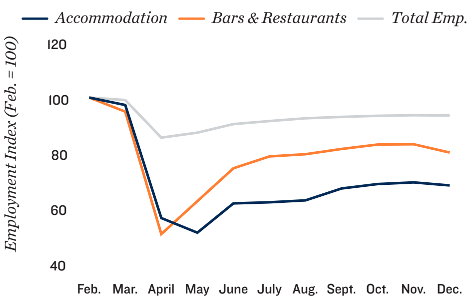
Sources: CoStar Group, Inc.; Real Capital Analytics

# HOSPITALITY

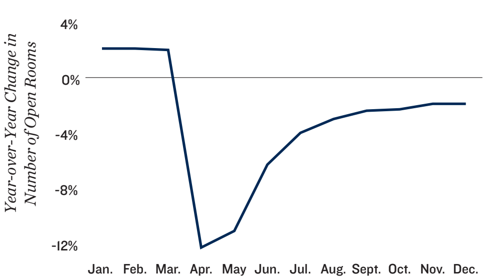
Hotel Performance Historically Low in 2020



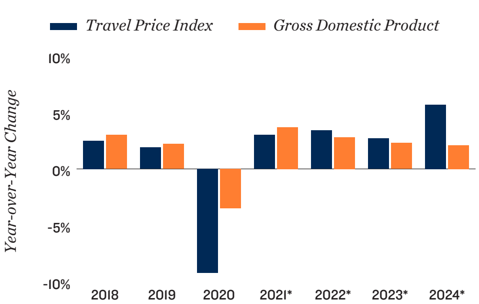

Hospitality Payrolls Deeply Affected in 2020




Pandemic Limits Available Rooms




Travel Prices Forecasted to Grow Most in '24




** Forecast*

*Sources: BLS; STR, Inc.; U.S. Travel Association*

## Hotel Room and Investor Demand Could Take Positive Steps Forward in 2021 if Health Risks Abate

**Health crisis inhibited hotels more than most other property types last year.** The travel restrictions and stay-at-home orders enacted in the first quarter of 2020 to slow the spread of COVID-19 had an immediate and severe impact on the hospitality sector. Occupancy levels quickly dropped from weekly averages above 60 percent to a low of 21 percent in mid-April, with revenue per available room (RevPAR) down over 80 percent year over year. Some properties temporarily closed, either due to local mandates or from minimal guest demand. As the first wave of infections crested and the weather improved, more individuals and families took vacations, lifting occupancy to over 50 percent by October. At year end that metric was back to 40 percent, however, as a resurgence of infections renewed downward pressure on occupancies, and daily rates. Full-service hotels situated in the urban cores of major metros were more affected than limited-service properties in smaller, scenic venues. Though challenged by the current health environment, the rollout of multiple vaccines paves a more positive road forward this year.

**Guest bookings poised for large upswing later this year.** Hotel room demand is anticipated to make up considerable ground in 2021, though a complete restoration to pre-pandemic levels may not occur until well beyond this year. The recovery will be led by leisure travel, similar to the summer of last year. As vaccines steadily become more available throughout the first half of 2021, households are expected to take trips with greater frequency, initially by road and then later by air. Moving into the second half of the year, more companies will permit employees to travel, likely starting with smaller firms for which trips are necessary components of the business. Once a large portion of the U.S. population has been inoculated, the return of larger professional and entertainment events should inspire even more people to travel, boosting hotel demand in late 2021 going into 2022. A full return to 2019's historically high performance figures may take multiple years to come to fruition, however, especially if international travel remains constrained due to differing levels of COVID-19 containment globally.

**Investors avoid pitfall from the previous economic downturn.** The anticipated recovery trajectory for hotels will continue to propel investment this year. Sales velocity has already improved from the nadir in the second quarter of 2020. The comparatively stronger performance of limited service hotels in suburban settings and smaller metros has momentarily shifted investor interest more toward assets priced under $10 million. Buyers seeking premium, full-service hotels should nevertheless return to the market in greater numbers as travelers to these same destinations do. A wave of distressed sales has yet to manifest, unlike during the 2008-2009 financial crisis, reflecting the exogenous nature of the current shock to the economy and high level of capital liquidity still in the market. While the number of active hotel lenders has fallen, relationship and private equity financiers continue to work with borrowers, reducing the immediate need to sell an asset. Although not every property in every location will improve in unison, the demand by travelers as well as buyers is poised to rise in 2021.

*Visit MarcusMillichap.com to explore the industry's largest inventory of exclusive Hospitality listings.*

## Getaway Destinations

*Austin*
*Fort Lauderdale*
*Memphis*
*Norfolk-Virginia Beach*
*Phoenix*
*Raleigh*
*Riverside-San Bernardino*
*Sacramento*
*San Diego*
*Tampa-St. Petersburg*

- Markets near larger gateway cities have better weathered the pandemic's impact on hospitality. Those living in dense urban environments where lockdowns have been more severe are escaping to these settings, where more businesses are open and there are outdoor amenities.
- Occupancy, ADR and RevPAR metrics remain below pre-health-crisis highs but lead the country in the current environment.

## Measured Setback

*Atlanta*
*Charlotte*
*Cincinnati*
*Detroit*
*Los Angeles*
*Indianapolis*
*Salt Lake City*
*San Antonio*

- A mix of temperate weather, natural attractions, and less-stringent lockdowns place these Sunbelt and Midwest secondary markets in this category. While the Los Angeles community has been significantly impacted by COVID-19, warm weather and nearby beaches improve the outlook for hotels once travel restrictions lift.
- Hotel performance metrics were challenged throughout 2020 but a focus on leisure demand should contribute to a 2021 upswing.

## Moderate Headwinds

*Cleveland*
*Dallas/Fort Worth*
*Denver*
*Houston*
*Kansas City*
*Minneapolis-St. Paul*
*New Orleans*
*Philadelphia*
*Pittsburgh*
*Portland*

- Some larger Midwest and Southwest metros where business travel represented a larger part of regular room demand will take longer to see a full recovery in room sales.
- Elevated construction pipelines in Denver, Minneapolis-St. Paul and Portland pose potential challenges this year. Hotels in Philadelphia, Pittsburgh, and Cleveland may see a slower return.

## Urban Destinations

*Boston*
*Chicago*
*New York City*
*San Francisco*
*Seattle-Tacoma*
*Washington, D.C.*

- Major gateway markets where hotels normally post nation-leading performance metrics fueled by robust international and corporate travel were some of the most challenged areas in 2020.
- Occupancy levels in some of these metros dropped below 20 percent during the initial lockdown period even with numerous temporary room closures. Demand will be slow to recover until barriers to overseas travel and holding large-scale events are removed.

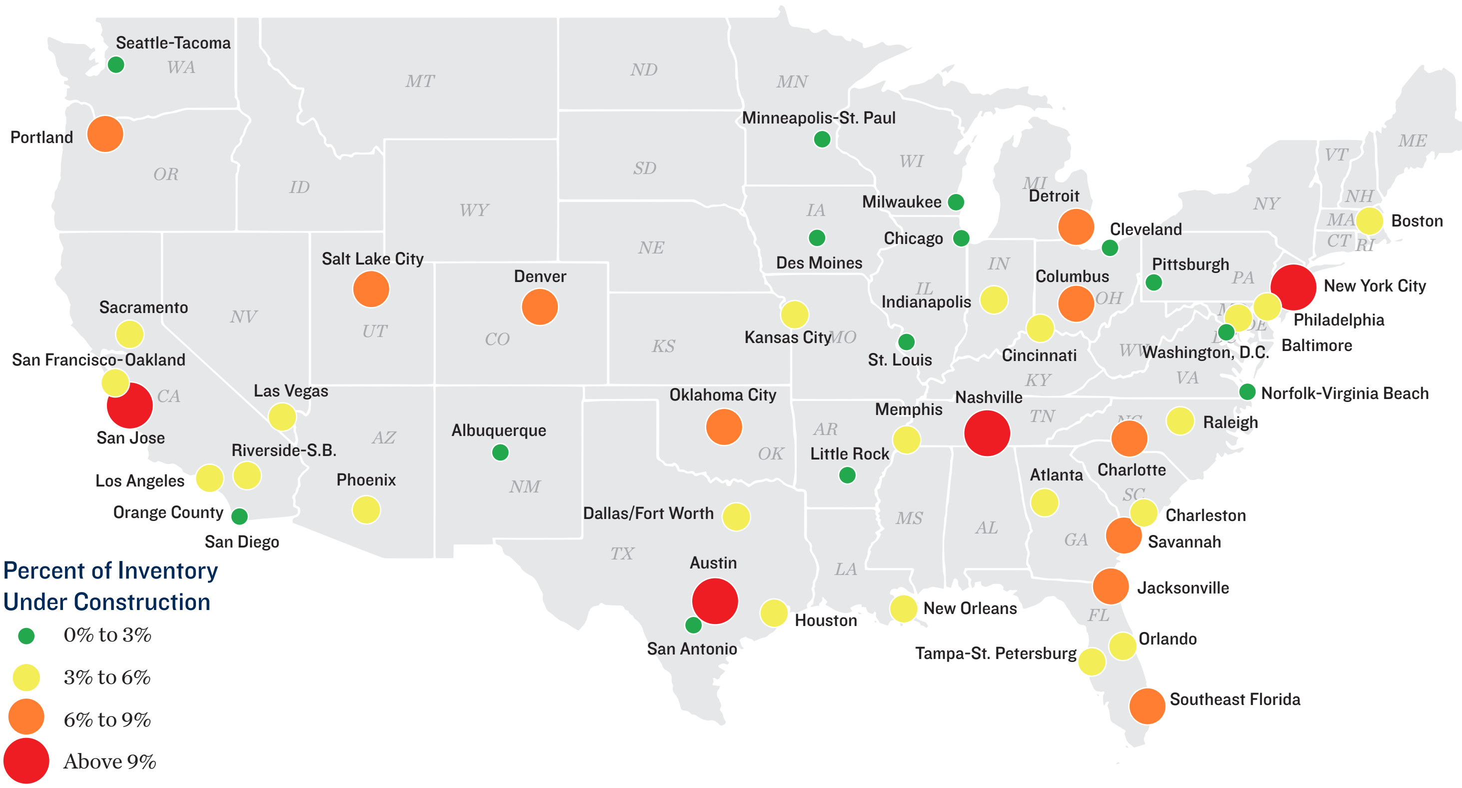
## High Tourism Exposure

*Las Vegas*
*Nashville*
*Orlando*
*Orange County*

- A select number of metro economies were acutely impaired by the health crisis last year, given a large focus on tourism and corporate travel. The temporary closure of theme parks and casinos did much to constrain demand in 2020, but visitors are returning to the extent allowed by current safety guidelines.
- While theme parks remained closed in Orange County in early 2021, access to beaches will still attract numerous leisure visitors.

## Traditionally Popular Travel Markets Most Encumbered With New Supply

### Rooms Underway at Start of 2021



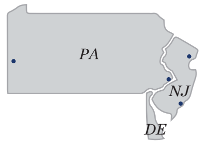

## Top 15 Markets by Total Rooms Under Construction at the Start of 2021

| Metro | Existing Inventory | Rooms Opened in 2020 | Openings as a % of Inventory | Rooms Under Construction | Construction as a % of Inventory |
|---|---|---|---|---|---|
| New York City | 178,600 | 2,400 | 1.3% | 20,300 | 11.4% |
| Las Vegas | 154,900 | 1,600 | 1.0% | 8,400 | 5.4% |
| Los Angeles | 151,700 | 2,600 | 1.7% | 8,400 | 5.5% |
| Dallas/Fort Worth | 132,600 | 4,200 | 3.2% | 7,500 | 5.7% |
| Southeast Florida | 108,000 | 2,700 | 2.5% | 7,200 | 6.7% |
| Atlanta | 105,000 | 2,700 | 2.6% | 6,200 | 5.9% |
| Orlando | 114,700 | 4,300 | 3.7% | 4,900 | 4.3% |
| Houston | 105,600 | 2,400 | 2.3% | 3,600 | 3.4% |
| Phoenix | 66,900 | 1,800 | 2.7% | 3,400 | 5.1% |
| Chicago | 114,600 | 1,000 | 0.9% | 3,200 | 2.8% |
| Boston | 61,400 | 1,100 | 1.8% | 3,100 | 5.0% |
| Washington, D.C. | 101,600 | 1,700 | 1.7% | 2,500 | 2.5% |
| San Francisco-Oakland | 65,600 | 200 | 0.3% | 2,200 | 3.4% |
| Philadelphia | 55,900 | 1,000 | 1.8% | 1,700 | 3.0% |
| San Diego | 62,700 | 700 | 1.1% | 900 | 1.4% |

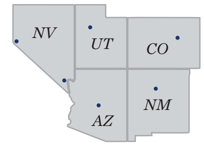
*Source: STR, Inc.*

## 2020 Hotel Performance by Region

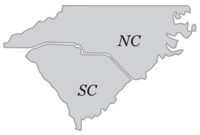

### California
Occupancy: *48.6%*
Y-O-Y Change: *-2,640 bps*
RevPAR: *$63.09*
Y-O-Y Change: *-51.0%*




### Mid-Atlantic
Occupancy: *40.2%*
Y-O-Y Change: *-2,370 bps*
RevPAR: *$40.77*
Y-O-Y Change: *-49.3%*



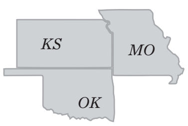

### Southwest
Occupancy: *46.1%*
Y-O-Y Change: *-2,180 bps*
RevPAR: *$47.91*
Y-O-Y Change: *-42.6%*




### Carolinas
Occupancy: *45.1%*
Y-O-Y Change: *-1,920 bps*
RevPAR: *$42.26*
Y-O-Y Change: *-40.9%*

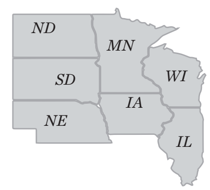

### Mid South
Occupancy: *42.8%*
Y-O-Y Change: *-2,050 bps*
RevPAR: *$38.23*
Y-O-Y Change: *-46.5%*


### Texas
Occupancy: *45.6%*
Y-O-Y Change: *-1,920 bps*
RevPAR: *$38.02*
Y-O-Y Change: *-43.8%*




### Central Midwest
Occupancy: *39.5%*
Y-O-Y Change: *-1,790 bps*
RevPAR: *$31.09*
Y-O-YChange: *-41.0%*


### New York
Occupancy: *42.3%*
Y-O-Y Change: *-3,160 bps*
RevPAR: *$54.44*
Y-O-Y Change: *-63.6%*



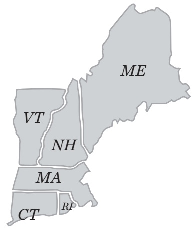

### Upper Midwest
Occupancy: *37.5%*
Y-O-Y Change: *-2,280 bps*
RevPAR: *$32.20*
Y-O-Y Change: *-53.1%*


### Florida
Occupancy: *47.0%*
Y-O-Y Change: *-2,530 bps*
RevPAR: *$61.72*
Y-O-Y Change: *-41.3%*


### North Central
Occupancy: *41.1%*
Y-O-Y Change: *-1,910 bps*
RevPAR: *$35.17*
Y-O-Y Change: *-43.6%*

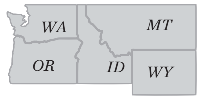

### Washington, D.C. Central Atlantic
Occupancy: *41.1%*
Y-O-Y Change: *-2,390 bps*
RevPAR: *$40.16*
Y-O-Y Change: *-51.9%*


### Georgia
Occupancy: *47.7%*
Y-O-Y Change: *-1,740 bps*
RevPAR: *$40.89*
Y-O-Y Change: *-41.6%*




### Northeast
Occupancy: *38.3%*
YOY Change: *-2,580 bps*
RevPAR: *$46.65*
YOY Change: *-54.3%*


### Gulf Region
Occupancy: *47.0%*
Y-O-Y Change: *-1,280 bps*
RevPAR: *$39.36*
Y-O-Y Change: *-31.9%*




### Northwest
Occupancy: *44.6%*
Y-O-Y Change: *-2,010 bps*
RevPAR: *$45.43*
Y-O-Y Change: *-44.0%*

*Note: Occupancy change is measured in basis points or bps.*
*Source: STR, Inc.*

| State | Employment Growth | | | | Rooms Currently Under Construction | Occupancy | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | | 2017 | 2018 | 2019 |
| Alabama | 0.9% | 1.7% | 1.3% | -1.7% | 1,800 | 60.6% | 62.4% | 63.1% |
| Alaska | -0.9% | 0.6% | -0.2% | -6.9% | 140 | 63.0% | 63.6% | 65.7% |
| Arizona | 2.8% | 3.2% | 2.5% | -2.8% | 4,550 | 66.3% | 67.6% | 68.7% |
| Arkansas | 1.5% | 1.8% | 0.2% | -2.8% | 1,400 | 53.4% | 52.6% | 53.6% |
| California | 2.4% | 1.6% | 1.5% | -8.0% | 22,480 | 75.2% | 75.3% | 75.0% |
| Colorado | 2.7% | 2.3% | 1.9% | -5.4% | 5,620 | 66.6% | 67.2% | 67.9% |
| Connecticut | -0.2% | 0.1% | 0.5% | -6.1% | 690 | 61.5% | 62.1% | 62.6% |
| Delaware | 1.1% | 0.5% | 1.1% | -6.5% | 1,400 | 78.7% | 77.5% | 76.4% |
| District of Columbia | 0.5% | 1.4% | 0.9% | -7.8% | 350 | 58.7% | 58.8% | 59.9% |
| Florida | 2.0% | 2.4% | 2.0% | -4.6% | 22,550 | 73.7% | 72.9% | 72.3% |
| Georgia | 1.7% | 2.4% | 1.2% | -1.7% | 9,470 | 65.2% | 65.4% | 65.1% |
| Hawaii | 0.6% | 0.2% | 0.3% | -13.8% | 110 | 80.2% | 80.3% | 80.8% |
| Idaho | 3.0% | 3.2% | 2.4% | 0.6% | 720 | 63.6% | 63.4% | 63.5% |
| Illinois | 0.9% | 0.7% | 0.1% | -6.9% | 3,580 | 64.0% | 64.5% | 65.0% |
| Indiana | 1.0% | 1.6% | -0.1% | -2.8% | 3,720 | 61.9% | 60.8% | 60.2% |
| Iowa | 0.7% | 0.7% | -0.4% | -4.3% | 1,010 | 55.8% | 55.7% | 55.7% |
| Kansas | 0.6% | 0.7% | 0.9% | -4.2% | 810 | 55.7% | 55.8% | 56.2% |
| Kentucky | 0.2% | 1.0% | 0.3% | -5.2% | 1,830 | 60.2% | 58.8% | 58.9% |
| Louisiana | 0.2% | 1.0% | -0.4% | -4.2% | 1,910 | 61.1% | 61.4% | 61.3% |
| Maine | 0.8% | 1.3% | 0.6% | -7.7% | 570 | 57.1% | 58.7% | 58.7% |
| Maryland | 0.7% | 1.1% | 1.0% | -4.5% | 1,820 | 65.2% | 63.7% | 64.2% |
| Massachusetts | 1.1% | 1.2% | 0.9% | -9.1% | 3,400 | 68.7% | 70.2% | 67.7% |
| Michigan | 0.9% | 0.8% | 0.5% | -10.9% | 6,090 | 61.0% | 61.7% | 59.9% |
| Minnesota | 1.0% | 0.7% | 0.3% | -8.3% | 1,930 | 61.4% | 62.4% | 61.6% |
| Mississippi | 0.0% | 0.9% | 0.1% | -1.4% | 1,970 | 57.7% | 58.0% | 58.4% |
| Missouri | 0.4% | 0.9% | 0.3% | -3.1% | 2,030 | 60.7% | 58.7% | 58.9% |
| Montana | 1.2% | 1.4% | 1.4% | -2.9% | 590 | 57.5% | 58.1% | 58.2% |
| Nebraska | 0.4% | 0.7% | 0.8% | -2.3% | 1,070 | 55.3% | 55.8% | 57.8% |
| Nevada | 2.9% | 3.4% | 1.7% | -6.8% | 8,800 | 70.5% | 69.4% | 69.8% |
| New Hampshire | 0.8% | 1.2% | 0.9% | -8.8% | 300 | 60.8% | 62.6% | 60.6% |
| New Jersey | 1.0% | 1.2% | 1.3% | -8.0% | 2,170 | 65.6% | 67.1% | 66.1% |
| New Mexico | 1.1% | 1.6% | 1.8% | -7.6% | 620 | 61.1% | 63.4% | 63.7% |
| New York | 1.1% | 1.5% | 0.8% | -10.4% | 20,300 | 73.3% | 74.5% | 73.9% |
| North Carolina | 1.7% | 2.4% | 1.1% | -4.2% | 6,190 | 63.3% | 64.8% | 65.4% |
| North Dakota | 0.3% | 1.3% | 0.6% | -6.7% | 130 | 49.7% | 51.2% | 55.1% |
| Ohio | 0.5% | 1.0% | 0.0% | -6.3% | 4,760 | 60.1% | 60.4% | 60.6% |
| Oklahoma | 1.9% | 1.3% | 0.0% | -4.7% | 2,250 | 55.0% | 57.3% | 56.0% |
| Oregon | 3.0% | 1.9% | 1.0% | -7.8% | 2,050 | 66.3% | 65.6% | 65.8% |
| Pennsylvania | 1.0% | 1.2% | 0.7% | -7.8% | 3,240 | 61.4% | 63.4% | 62.6% |
| Rhode Island | 0.3% | 1.4% | 0.6% | -8.7% | 220 | 66.1% | 65.6% | 65.1% |
| South Carolina | 2.8% | 1.7% | 1.9% | -2.4% | 4,080 | 63.9% | 63.6% | 62.8% |
| South Dakota | 0.8% | 1.0% | 0.7% | -2.9% | 190 | 54.5% | 54.7% | 56.7% |
| Tennessee | 1.5% | 2.3% | 1.5% | -3.2% | 7,310 | 64.5% | 64.9% | 65.5% |
| Texas | 1.9% | 2.6% | 2.3% | -3.3% | 20,300 | 64.9% | 64.9% | 64.8% |
| Utah | 3.2% | 3.0% | 2.8% | 0.6% | 1,980 | 65.3% | 64.0% | 63.3% |
| Vermont | -0.5% | 0.8% | -0.3% | -9.0% | 200 | 60.7% | 61.2% | 62.0% |
| Virginia | 1.3% | 1.3% | 1.3% | -4.4% | 2,650 | 63.8% | 64.2% | 64.1% |
| Washington | 2.7% | 2.1% | 2.1% | -6.0% | 2,130 | 69.6% | 69.0% | 68.6% |
| West Virginia | 0.5% | 0.8% | -1.3% | -6.1% | 380 | 57.4% | 63.1% | 59.6% |
| Wisconsin | 1.0% | 0.7% | 0.2% | -7.0% | 1,740 | 56.9% | 57.4% | 56.2% |
| Wyoming | 0.7% | 1.6% | -0.6% | -4.3% | 190 | 48.9% | 52.5% | 57.4% |
| United States | 1.5% | 1.6% | 1.4% | -6.1% | 195,730 | 66.0% | 66.2% | 66.2% |

| | ADR | | | | RevPAR | | | | State |
|---|---|---|---|---|---|---|---|---|---|
| 2020 | 2017 | 2018 | 2019 | 2020 | 2017 | 2018 | 2019 | 2020 | |
| 49.7% | $85.21 | $87.69 | $90.97 | $81.23 | $51.85 | $54.99 | $57.66 | $40.89 | Alabama |
| 45.2% | $120.13 | $125.03 | $133.00 | $103.08 | $79.94 | $84.48 | $92.82 | $47.28 | Alaska |
| 49.8% | $117.36 | $120.17 | $123.07 | $104.09 | $78.85 | $82.34 | $85.58 | $54.40 | Arizona |
| 41.1% | $81.34 | $82.23 | $83.50 | $73.42 | $43.56 | $43.38 | $44.95 | $30.41 | Arkansas |
| 48.6% | $161.41 | $167.59 | $171.14 | $124.49 | $121.81 | $126.66 | $128.75 | $63.09 | California |
| 46.2% | $139.79 | $141.30 | $145.22 | $116.13 | $93.09 | $95.13 | $98.72 | $56.00 | Colorado |
| 40.2% | $115.86 | $118.62 | $118.19 | $94.61 | $71.72 | $74.14 | $74.48 | $39.08 | Connecticut |
| 27.6% | $231.70 | $217.91 | $221.52 | $154.95 | $183.70 | $171.69 | $172.22 | $46.20 | Delaware |
| 45.9% | $117.56 | $119.67 | $122.27 | $100.33 | $70.52 | $71.85 | $74.89 | $47.61 | District of Columbia |
| 47.0% | $137.31 | $142.61 | $143.77 | $122.49 | $101.87 | $105.01 | $105.06 | $61.72 | Florida |
| 47.7% | $100.88 | $103.77 | $107.35 | $83.96 | $65.87 | $68.03 | $70.06 | $40.89 | Georgia |
| 31.7% | $264.14 | $276.05 | $282.63 | $208.28 | $212.05 | $221.93 | $228.65 | $80.05 | Hawaii |
| 50.2% | $100.32 | $102.53 | $104.99 | $94.52 | $65.25 | $66.37 | $68.13 | $49.13 | Idaho |
| 35.9% | $126.10 | $130.61 | $128.22 | $83.34 | $82.21 | $86.01 | $84.89 | $30.79 | Illinois |
| 41.6% | $99.02 | $100.89 | $101.80 | $80.63 | $61.68 | $61.67 | $61.58 | $34.12 | Indiana |
| 40.5% | $91.54 | $92.20 | $92.05 | $79.83 | $51.42 | $51.81 | $51.69 | $32.95 | Iowa |
| 40.8% | $87.13 | $86.91 | $87.73 | $75.36 | $48.72 | $48.65 | $49.47 | $31.08 | Kansas |
| 38.6% | $96.47 | $98.29 | $100.49 | $79.20 | $58.61 | $58.31 | $59.76 | $31.01 | Kentucky |
| 46.5% | $111.48 | $112.20 | $111.60 | $88.85 | $68.42 | $69.36 | $68.86 | $42.83 | Louisiana |
| 39.9% | $119.90 | $126.82 | $131.18 | $109.65 | $72.21 | $79.00 | $82.04 | $46.49 | Maine |
| 42.8% | $119.54 | $119.48 | $120.67 | $96.64 | $79.00 | $77.30 | $78.67 | $42.37 | Maryland |
| 35.3% | $178.52 | $181.64 | $184.50 | $128.28 | $125.62 | $130.36 | $128.04 | $47.40 | Massachusetts |
| 42.2% | $103.86 | $105.90 | $106.73 | $89.81 | $63.88 | $65.99 | $64.60 | $39.34 | Michigan |
| 36.3% | $110.19 | $115.53 | $114.92 | $89.13 | $68.34 | $72.56 | $71.64 | $33.33 | Minnesota |
| 49.6% | $84.07 | $85.69 | $85.94 | $78.41 | $48.70 | $49.91 | $50.40 | $39.24 | Mississippi |
| 38.0% | $98.44 | $99.37 | $100.39 | $84.14 | $60.14 | $58.75 | $59.56 | $32.60 | Missouri |
| 46.3% | $99.32 | $100.92 | $103.66 | $94.87 | $59.66 | $61.13 | $62.88 | $46.08 | Montana |
| 40.5% | $91.63 | $91.15 | $91.43 | $76.83 | $51.24 | $51.46 | $53.47 | $31.51 | Nebraska |
| 44.2% | $113.92 | $112.49 | $114.91 | $91.02 | $80.50 | $77.89 | $80.20 | $42.16 | Nevada |
| 40.5% | $130.09 | $134.83 | $136.35 | $119.75 | $80.54 | $86.03 | $84.32 | $51.25 | New Hampshire |
| 42.1% | $117.29 | $124.54 | $127.23 | $100.36 | $77.61 | $84.39 | $84.93 | $43.74 | New Jersey |
| 43.7% | $87.47 | $94.62 | $96.76 | $78.26 | $53.72 | $60.35 | $61.98 | $34.57 | New Mexico |
| 42.3% | $199.38 | $204.73 | $200.86 | $125.85 | $147.09 | $153.38 | $149.51 | $54.44 | New York |
| 45.0% | $102.11 | $104.67 | $107.02 | $89.16 | $64.90 | $68.16 | $70.30 | $40.92 | North Carolina |
| 39.2% | $80.64 | $80.77 | $80.63 | $72.08 | $40.14 | $41.41 | $44.64 | $28.54 | North Dakota |
| 39.8% | $96.59 | $98.47 | $99.79 | $79.49 | $58.49 | $59.95 | $60.91 | $32.25 | Ohio |
| 40.8% | $78.75 | $79.41 | $79.96 | $70.18 | $43.36 | $45.58 | $44.91 | $28.93 | Oklahoma |
| 46.0% | $119.56 | $120.85 | $121.40 | $98.82 | $80.91 | $80.84 | $81.33 | $46.63 | Oregon |
| 38.3% | $118.31 | $120.36 | $122.83 | $96.21 | $73.13 | $76.86 | $77.53 | $38.00 | Pennsylvania |
| 41.3% | $141.94 | $146.02 | $146.74 | $117.81 | $97.08 | $99.02 | $98.63 | $51.20 | Rhode Island |
| 45.4% | $111.90 | $114.32 | $114.54 | $95.41 | $72.78 | $74.20 | $73.22 | $44.18 | South Carolina |
| 44.8% | $89.83 | $89.45 | $89.22 | $81.56 | $50.75 | $50.74 | $52.34 | $38.24 | South Dakota |
| 45.0% | $110.50 | $114.11 | $117.42 | $91.10 | $71.72 | $74.49 | $77.33 | $41.86 | Tennessee |
| 45.6% | $102.34 | $105.16 | $104.07 | $81.22 | $66.57 | $68.39 | $67.63 | $38.02 | Texas |
| 46.7% | $121.89 | $123.17 | $124.46 | $104.41 | $79.30 | $78.76 | $78.51 | $50.33 | Utah |
| 41.9% | $142.29 | $146.12 | $147.28 | $119.00 | $87.54 | $90.84 | $92.80 | $51.97 | Vermont |
| 43.1% | $108.73 | $109.54 | $111.49 | $87.48 | $70.02 | $71.15 | $72.26 | $38.48 | Virginia |
| 41.7% | $130.28 | $134.21 | $133.55 | $95.09 | $92.11 | $94.03 | $92.95 | $40.88 | Washington |
| 40.9% | $93.68 | $96.27 | $99.54 | $88.12 | $54.11 | $61.12 | $59.65 | $36.40 | West Virginia |
| 36.0% | $104.88 | $106.25 | $108.20 | $89.34 | $60.65 | $62.04 | $61.78 | $33.03 | Wisconsin |
| 44.2% | $120.58 | $120.04 | $120.17 | $115.39 | $61.90 | $65.32 | $71.32 | $54.35 | Wyoming |
| 44.0% | $126.65 | $129.67 | $131.16 | $103.09 | $83.57 | $85.87 | $86.80 | $45.39 | United States |

*Sources: BLS; STR, Inc.*

## While Loan Delinquencies Elevated, Wave of Distress Sales Not Seen in Current Investment Climate

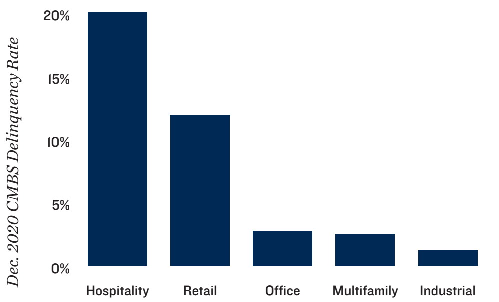
**Health crisis requires hoteliers to adjust operations.** Global lockdowns significantly disrupted hotel revenue generation across the country last year as properties only welcomed a fraction of their regular guest volumes. After posting moderate growth year over year in February, gross operating profit per available room (GOPPAR) had fallen 118 percent year over year in May. To compensate for the lost demand, hoteliers reduced expenses. Between March and May, over 1 million accommodation jobs were lost, roughly half the pre-pandemic workforce. By shrinking staffs and suspending some services, lodging businesses were able to decrease labor costs per available room and as an industry record a positive year-to-date average GOPPAR value by October. Hoteliers nevertheless continue to face negligible margins, raising steep financial hurdles for some investors as debt obligations remain undiminished.

**Hospitality loan delinquency sets new record, raising questions of distress.** The rapid drop of income last year made it harder for hotel owners to meet their debt obligations. Despite forbearance on the part of many lenders, as well as a range of other government-backed support programs, more hoteliers fell behind on their loan payments. The delinquency rate on outstanding CMBS hospitality loans jumped from 2.6 percent in May to 13.3 percent in June and fluctuated within the 18 percent to 20 percent band through the rest of the year. This increase was both more sudden and severe than during the 2008-2009 global financial crisis when, in 2010, the CMBS delinquency rate only reached 16.8 percent. That downturn also resulted in a surge of distressed hotel sales, which by some estimates reached as high as 60 percent of total trade volume in the fourth quarter of 2010. Such a spike in distressed sales activity has yet to occur in the hotel sector.

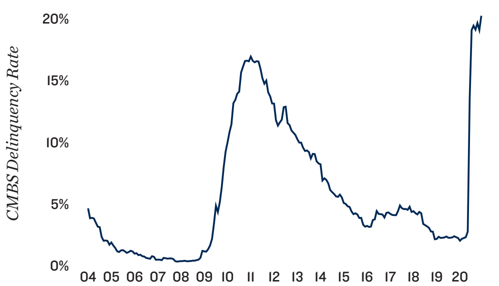
**Distressed sales remain a small segment of recent investment activity.** Despite current challenges, distress in commercial real estate sales has not become widespread. Distressed trades only represented about 1 percent of total dollar volume last year, a small fraction of the level recorded during the previous economic downturn. Among hotels, the share of distressed transactions was higher, reaching 10 percent in the second quarter before dipping to 9 percent in the fourth quarter. Although high compared with the other major property types, the measure is still well below the benchmark set in 2010. Sale prices and cap rates have also not deteriorated in a manner that would be consistent with large-scale distress. Following a drop in mid-2020, the median sale price per room reached parity with 2019 measures by year end.

**Widespread distress unlikely as year advances.** The period when distressed sales were most likely to occur was between March and June of 2020 when uncertainty was greatest. Every day since has brought added clarity, allowing hotels and investors to problem solve. Many lenders have collaborated with borrowers to form modified payment plans. As more vaccines are administered, people are anticipated to travel in larger numbers, improving hotel performance. At the micro level however, some hotels, especially those in high-cost urban centers, will be heavily challenged. This may prompt a higher frequency of defaults and distressed sales in these locations. Generally though, property owners can turn to a liquid capital market, something that was unavailable during the financial crisis. Paired with growing clarify, these factors will keep most investors from entering into a forced transaction in 2021.

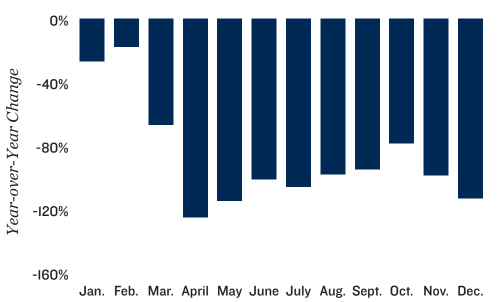
### Hotels & Retail Stores Lead Delinquencies



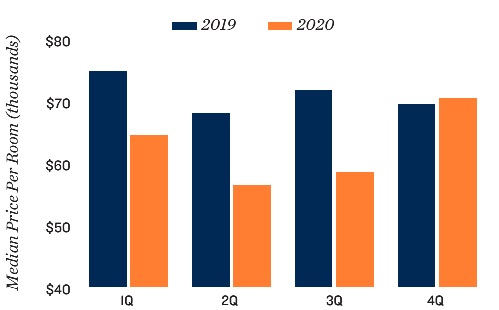

### Hospitality Delinquency Hits New Record




### Average EBITDA per Available Room in 2020




### Median Hotel Sale Prices Recover in 4Q*




** Sales $2.5 million and greater*

*Sources: Moody's Analytics; Real Capital Analytics; STR, Inc.*

# Coronavirus Curbs Vacations, Impairing Hotels; Bulk of Domestic Leisure Travel Expected Back by 2022

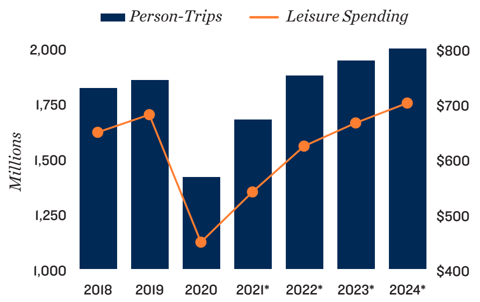
**Vacation plans fall to the wayside during initial outbreak.** The spread of COVID-19 dramatically altered travel patterns in 2020 and will continue to hold significant influence over tourism this year. After the initial series of stay-at-home orders were enacted, travel dropped precipitously. By early April the number of people crossing TSA airport checkpoints daily fell to under 100,000, less than 5 percent of normal volume, while the average hotel occupancy rate was around 21 percent. Those who were still traveling, including healthcare workers, supply-chain professionals, and others responding to personal emergencies, were largely sticking to the road. This behavior was reflected in the stronger performance of hotels located along interstates compared with facilities in other settings. As uncertainty began to abate, though, leisure travel started to recover.

**Partial return of summer travel gives way to winter infections.** Weary from months in sequestration, individuals and families set out in the summer for a change of scenery. This activity improved hospitality fundamentals, especially at drive-to destinations. A need to avoid crowds and the lack of many vacation activities, such as concerts, conventions and festivals, led many to seek nearby areas with outdoor amenities. Cost was also a factor as nationwide business shutdowns had led to historically high unemployment. After briefly surpassing the 50 percent threshold in late summer and early autumn, hotel occupancies began to recede in November, correlated with a rise in coronavirus infections. While numerous people continued to travel in the winter, especially around the holidays, hotel performance softened, suggesting individuals opted to stay with friends and family to limit exposure. Although health risks remain severe in early 2021, the ongoing vaccine rollout sets the stage for an upcoming recovery in leisure trips.

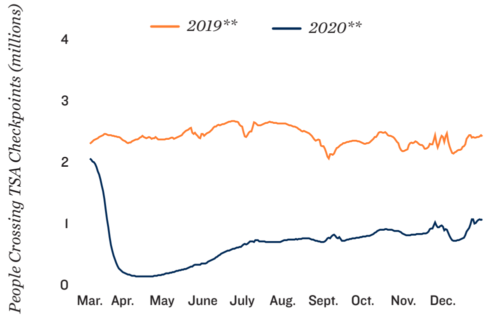
**Domestic leisure travel restoration expected within two years.** After declining more than 20 percent in 2020, domestic leisure travel is anticipated to recover by the end of 2022. As more vaccines become available through the first half of this year, individuals and families will take vacations with greater frequency. Based on last summer's behavior, these trips will likely be taken more by road and to affordable destinations with outdoor amenities, including beaches and national parks. Later in the year, once physical-distancing restrictions are lessened, smaller group events, such as weddings, will resume. Larger group trips are unlikely to occur until vaccines are widely available and major entertainment events can be safely held. This is not likely to happen until late 2021 or early 2022.

**International visitation into the U.S. may not fully recover until 2024.** The return of international leisure travel to the U.S. will trail that of the domestic market due to the legal, logistical and financial hurdles involved. Current travel restrictions complicate the visitation process while there are also fewer reasons to make the trek to the U.S. without marquee entertainment events. The global economic downturn also means that fewer individuals will have the financial means to travel abroad in the near future. For these reasons, international travel into the U.S. is not expected to recover to the benchmarks set in 2018 or 2019 until possibly 2024. Major gateway markets such as New York City, San Francisco and Chicago will be the most affected as the strong performance of their hospitality sectors in recent years was buttressed by demand from international visitors.

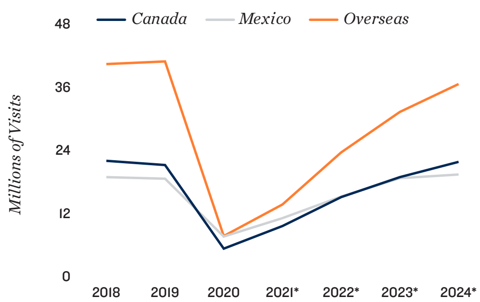
### U.S. Domestic Leisure Travel Forecast



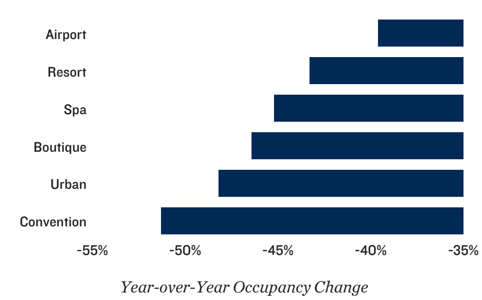

### People Still Reluctant to Fly




### International Visitor Forecast




### Urban & Convention Hotels Most Hit in '20

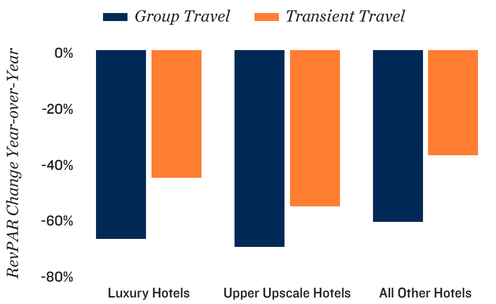



* Forecast

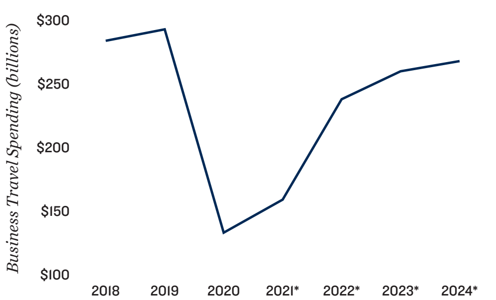
** Trailing seven-day average

Sources: STR, Inc.; TSA; U.S. Travel Association

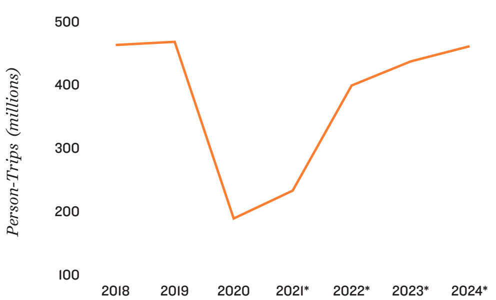
Group Revenue Drops Most in 2020



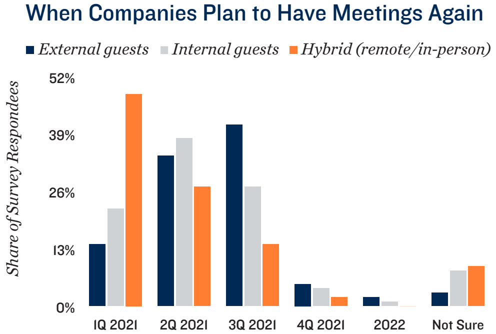

U.S. Business Travel Spending Forecast




U.S. Business Trips Forecast




When Companies Plan to Have Meetings Again




* *Forecast*

*Sources: GBTA; STR, Inc.; U.S. Travel Association*

## Business Travel Will Be Slow to Return as Companies Await Widespread COVID-19 Containment

**Pandemic limits company trips as events are canceled or shifted online.** Business travel into and within the U.S. was more severely impaired by the health crisis than the leisure sector. The large-scale shift to remote work and cancellation of most corporate events led to an estimated annual decline in business trips of over 60 percent in 2020. The enterprise travel that did take place last year was largely associated with necessity functions, including the migration of in-demand medical personnel. People supporting logistical supply chains also traveled, and some individual entrepreneurs may have opted to assume the risk as well. Certain hotels catered to businesses in a new way by offering private spaces to work remotely or to quarantine. Despite these niche sources, hotel room demand from professionals is anticipated to remain heavily subdued until a substantial improvement in the health crisis permits employees to safely travel and interact with one another again. Even then, months of working remotely have demonstrated that a certain level of social interaction can still be conducted virtually. For companies facing financial challenges, funds for travel budgets may go elsewhere as meetings and other functions are held online.

**A multiyear restoration of business travel is likely; smaller events the first to return.** The recovery in enterprise transit will trail that of the leisure sector by a year or more, until the underlying motivators for commercial trips return. Outside of essential industries, organizations are highly unlikely to permit employee travel until the coronavirus has been substantially contained via the ongoing vaccine rollout. As infection rates slow, relaxed safety precautions may permit some small business events to occur, possibly by mid- to late 2021. These functions would be local or regional in scope, limiting the health risk of air travel and reducing costs on employers. A December 2020 survey revealed that firms are anticipating spending less of their already reduced travel budgets this year on trade shows and internal company meetings, and more on travel to provide necessary services, such as repairs or training. This outlook aligns with the expectation that larger corporate group bookings will be slowest to resume.

**Difficulties in holding major events will slow upswing in business travel.** Large-scale corporate gatherings, such as conventions and trade shows, will be the last segment of the broader travel industry to recover. The inherent size and scope of these occasions, with attendees coming from across the country or the globe, will require substantial containment of the coronavirus. Unless that condition is met, local governments are unlikely to permit gatherings of significant size, and companies will be cautious about requiring air travel. These same larger organizations are also more likely to have the resources to conduct alternative virtual meetings. While not every aspect of a face-to-face interaction can be replicated over video conference, it remains the safest alternative in the current environment. Even when vaccines are widely available and enough people have been inoculated to allow sizable conventions and other events to occur, corporate travel budgets are unlikely to be at 2018 and 2019 levels. The economic damages of the pandemic may limit how many business trips can be afforded initially. In the interim, hotels may see new room demand from relocated employees. If remote work remains a common option moving forward, staff members who had moved to a new city during the pandemic may book a room while visiting the home office on a regular basis

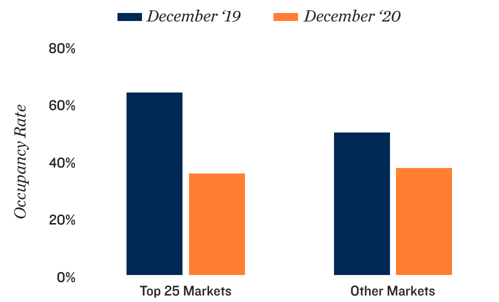
# Hotels in Smaller Settings and Drive-To Destinations Likely to Perform Best for Most of 2021

**Hotels in gateway markets are experiencing the most operational stress.** Travel restrictions, business closures, and the lack of organized social gatherings have substantially reduced visitor volume in the country's largest urban metros. In the past, hotels in these settings have benefited from robust tourist and business traveler demand, often leading the nation in occupancies and revenues. Since the onset of the pandemic, however, the hospitality landscapes of markets such as San Francisco, Boston, Chicago, and the District of Columbia have struggled. This is acutely true of New York City, where approximately a third of hotel rooms were still temporarily closed at the start of 2021, the most of any major metro. Nationally, low occupancies paired with a protracted recovery period place lodging establishments in the country's largest urban cores at the most financial risk. More hotels will permanently shutter or sell out of distress in these settings than anywhere else. In the long term, however, the gateway markets are anticipated to make full recoveries. Investors able to weather the short-term challenges of the pandemic may be able to secure trades given a lack of competition from other buyers.

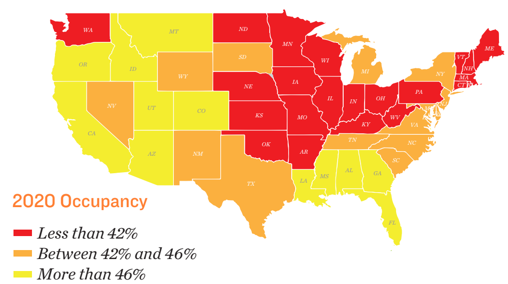
**Drive-to leisure destinations with outdoor activities show resilience.** Hospitality markets geared more specifically toward leisure travelers have fared better than the gateway metros in some cases and worse in others. Leisure destinations that feature outdoor attractions and draw upon a regional customer base that can travel by car are performing relatively well. Parks and beaches are clear favorites of households leaving their homes after months of sequestration. Yellowstone noted historically strong monthly attendance last summer, and occupancy in Norfolk-Virginia Beach never dropped below 30 percent. It was also the only market in the top 25 to break the 60 percent occupancy threshold last year. Hotels in the warmer climates of Phoenix and Tampa-St. Petersburg also outperformed the nation throughout 2020 as warmer weather did not interrupt activities such as outdoor dining, hiking and boating. These same attributes should capture much of the recovering travel population in the spring and summer months of 2021. In contrast, the closure of theme parks and casinos last year have cut occupancy rates in Orlando, Orange County and Las Vegas to about half of what they were in 2019. Health-based precautions and the slower return of international visitation will challenge these metros this year.

**Lodging demand in smaller markets less impaired by the health crisis.** Hotels in smaller cities and towns, where fewer large entertainment or corporate events are usually held, normally trail the top travel markets in occupancy and revenue. Partly because of this factor these locations have recorded shallower drops in performance during the pandemic than in other, more-populated areas. Many of these metros were also less impacted by the health crisis and more lenient on businesses, drawing visitors from surrounding areas under stricter lockdowns. Such has been the case in California, where occupancy rates in Sacramento and Riverside-San Bernardino surpassed those in San Francisco and Orange County by more than 1,000 basis points. Hotels along the Sunbelt also reported performance metrics above that of the U.S. average. Properties in these locations also offer comparatively more affordable room rates than in the traditionally popular travel markets. This appeals to travelers who may have a tighter budget due to the pandemic. Because of all of these factors, hotels in smaller scenic venues are likely to record the most positive performance metrics in 2021.

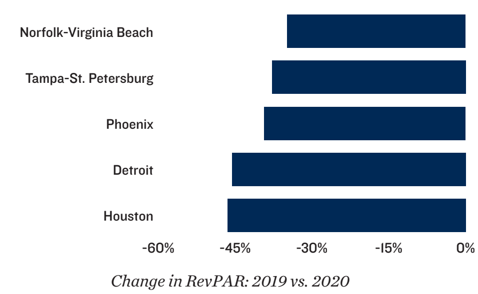
## Occupancy Dropped More in Larger Metros



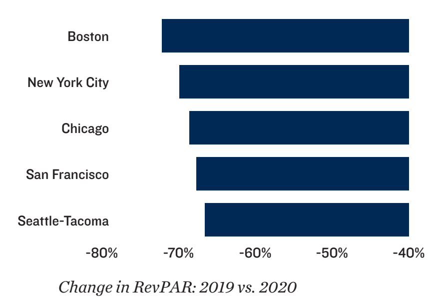

## Sunbelt, Mountain States Faring Better




## Markets With Least Decrease in RevPAR



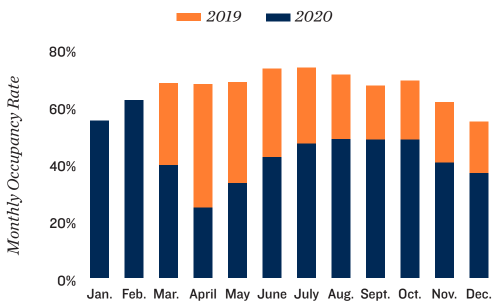

## Markets With Greatest Decrease in RevPAR



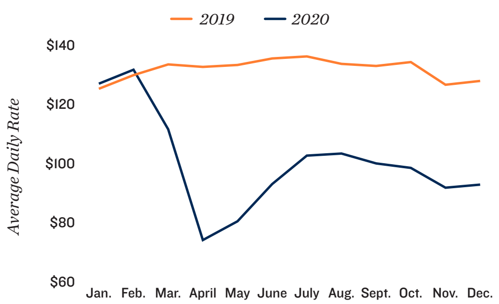

* Forecast

Source: STR, Inc.

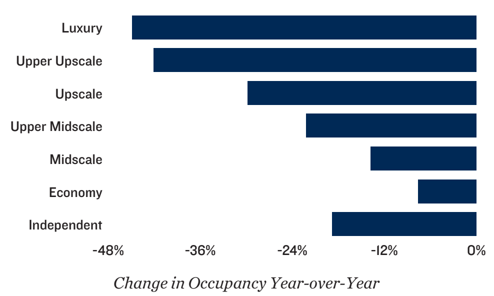
Occupancy Remains Below 2019 Levels



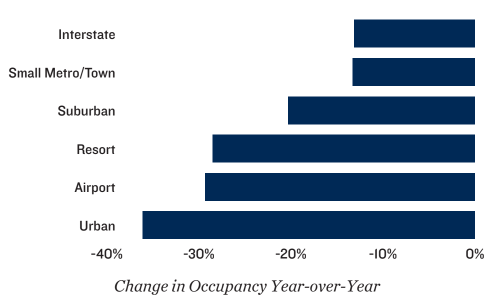

ADR Recovery Slows as 2020 Ends




Occupancy Loss in 2020 by Chain Scale




Occupancy Loss in 2020 by Location




*Source: STR, Inc.*

## Limited-Service Hotels Near Interstates and in Smaller Towns Benefit From Shifting Travel Preferences

**Cautionary budgets, fewer operational adjustments help limited-service hotels.** The lower room rates offered by economy and midscale hotels, favorable during periods of economic uncertainty, and fewer supplemental amenities required to close are helping keep demand more stable. The yearlong average occupancy at economy hotels was 51 percent in 2020, which was down just 8 percentage points from the previous 12-month stretch. Occupancy at midscale hotels was soft early in the pandemic, dropping to almost 27 percent in April, but it recovered to above 50 percent during the late summer months. Room rates benefited from these comparatively high occupancy levels as well, with the economy segment maintaining an ADR in the $50 to $60 range throughout the year and ending December just 5 percent lower than the same month in 2019. Similarly, the average midscale ADR for all of 2020 was $76.53, down 11 percent year over year, half the drop suffered across all hotel types over the same span. Minimal declines in these metrics among limited-service hotels supported revenue. The economy grouping posted a yearlong average RevPAR of $29.62 and the midscale segment noted an average of $34.14, down 21 percent and 32 percent year over year, respectively. The overall U.S. average decreased 48 percent. As such, these properties have less ground to recover this year.

**Closure of desirable amenities weighs on demand and rates of full-service hotels.** Premium services such as spas and live entertainment that typically bolster demand for luxury and upper upscale hotels were required to close or operate at limited capacity during the health crisis, stunting demand and pressing on rates. Occupancy in the luxury segment bottomed at almost 6 percent in April and despite some recovery over the second half of the year only 21 percent of available rooms were occupied in December, a 69 percent decline from the same month in 2019. Upper upscale occupancy averaged roughly 32 percent in 2020, which was well below the 74 percent average logged in the previous year. Sluggish demand for rooms pressed on rates as well, with the luxury segment noting a year-over-year ADR decline of 11 percent to $306.15. Upper upscale ADR fell by an even larger margin, dropping 23 percent on an annual basis to $145.20. These steep drop-offs in both occupancy and daily rates were a hurdle for revenue streams. In 2020 the average luxury RevPAR was just $93.70, down from $253.19 in the previous year. Over that same time frame, upper upscale RevPAR dropped by roughly 64 percent to $49.90. These full-service hotels will take the longest to recover, likely extending past 2021.

**Travel trends during the pandemic impact locational metrics.** Many who traveled in 2020 chose to take shorter trips, often within driving distance, which affected the hospitality landscape. Hotels along interstates and in small metros/towns outperformed their counterparts in resort destinations and urban settings. The average occupancy for hotels along interstates and in small metros in 2020 was 45 percent and 44 percent, respectively, each down from 58 percent in the previous year. Comparatively, average occupancy for urban hotels fell from 73 percent in 2019 to 37 percent last year, and the same measure for resort hotels dropped to 42 percent from 70 percent. Revenue streams were also significantly impacted. Average RevPAR in 2020 for interstate and small metros/town hotels declined nearly 30 percent from the previous year, while urban lodging establishments experienced the largest adjustment, falling roughly 65 percent year over year. RevPAR for resort hotels also dropped by a notable 46 percent annually in 2020.

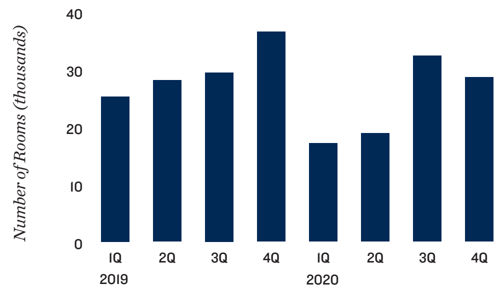
## Development Activity to Ease, Though New Arrivals Could Exacerbate Challenges in Some Metros

**Projects underway at a two-year low following a large second-half delivery last year.** After completions fell significantly in the first half of 2020 amid construction site shutdowns, the pace of delivery ramped up in the last six months of the year. A total of roughly 96,800 rooms were finalized in 2020 and 63 percent of that volume came in the second half of the year. Now that many of the projects that had broken ground prior to the onset of pandemic have reached completion, however, the development pipeline moving forward is more modest. Uncertainty about how quickly the lodging sector will recover has put some planned projects on hold, at least for now. At the end of last year approximately 196,500 rooms were under construction nationwide, the lowest tally in two years. Nevertheless, some markets will face greater supply-side pressure than others. Inventory in New York City, Austin and San Jose will grow by more than 10 percent once the projects that have broken ground reach completion. Urban fundamentals, in particular, could be stressed by these new arrivals, as demand for hotel rooms downtown will remain sluggish with fewer business events and conferences expected to take place in the near future.

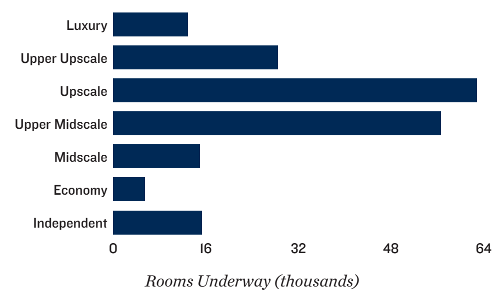
**Sunbelt markets to add inventory quickly, but tailwinds in place.** Three markets that have been comparatively resilient to the disruption — Dallas/Fort Worth, Atlanta and Phoenix — have a sizable volume of projects underway. These markets may be better suited to handle the new arrivals, though, as demographic trends are favorable and restrictions on businesses have been less stringent. Dallas/Fort Worth will gain the largest delivery volume among the three markets, as roughly 7,500 rooms were underway at the beginning of 2021 which will increase inventory by 5.7 percent. Atlanta will note a slightly larger inventory expansion of 5.9 percent once the 6,200 rooms currently underway finalize. In Phoenix, hotel stock will grow by roughly 3,400 rooms or 5.1 percent of inventory once the rooms being built open. Neighborhood location will also play a key factor alongside incoming supply in these metros, as air travel and business-related demand will remain soft in the near term. Competition from new builds could present an additional hurdle for operators in some submarkets, especially those near the major airports and in the central business districts.

**Limited construction activity will aid the recovery in a few challenged markets.** The pipeline is relatively small in Chicago, San Diego and Seattle-Tacoma, which should help mitigate supply-side headwinds as these markets take preliminary steps toward recovery. In Chicago, roughly 3,200 rooms were underway entering this year, which would represent an inventory expansion of just 2.8 percent. San Diego and Seattle-Tacoma each had fewer than 1,000 doors in the construction stage, growing the local inventories by less than 1.4 percent upon completion. Owners of existing hotels in these three markets will benefit from subdued new building activity in the near term, though room demand will remain sluggish as well. Along the West Coast, San Diego and Seattle-Tacoma have had greater restrictions on businesses than other areas of the country, which could continue until the health crisis is combated. Outside of a limited-window beach season in San Diego, travelers may be hesitant to go to these areas when services and shops are closed, while local conferences and conventions may not be allowed for some time. Similarly in Chicago, weak international tourism will weigh on demand alongside limited in-person entertainment, festivals and business events.

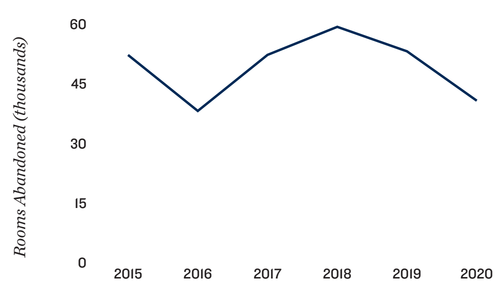
### Deliveries Ended 2020 on a Strong Note



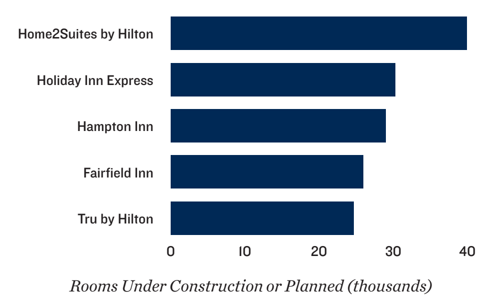

### Rooms Underway by Chain Scale




### No Spike in Abandoned Development Plans

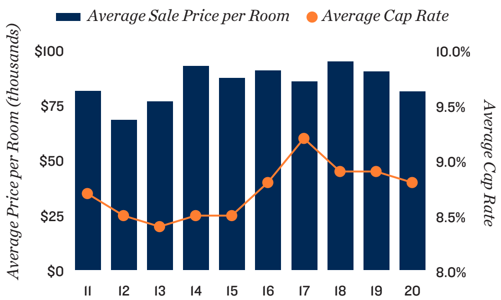



### Top 5 Brands in Development

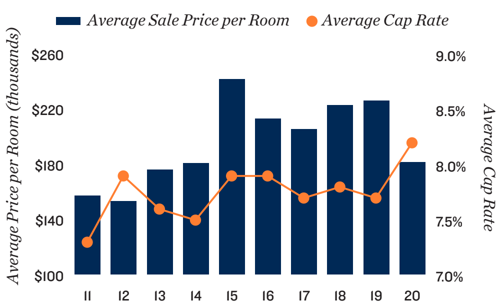



*Source: STR, Inc.*

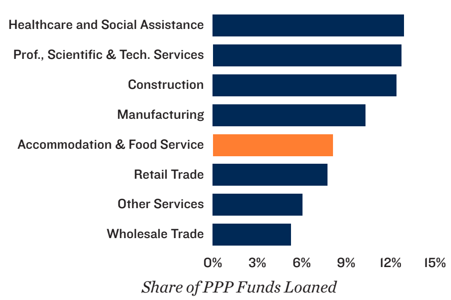
### Limited Service Hotels Pricing and Cap Rates*



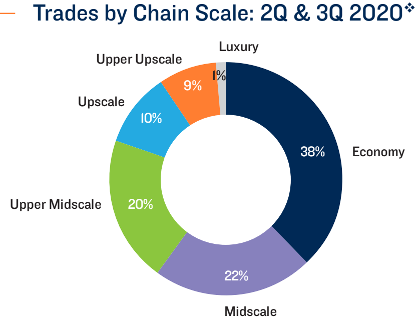

### Full-Service Hotels Pricing and Cap Rates*




### Hospitality a Top 5 Recipient of PPP Loans**




### Trades by Chain Scale: 2Q & 3Q 2020✧




** Sales $2.5 million and greater*
*** First round of PPP, as of Aug. 8, 2020*
*✧ Excludes independent or unflagged sales*
*Sources: CoStar Group, Inc.; SBA; Real Capital Analytics*

## Lender Forbearance Critical to Hospitality Sector, Lower-Service Level and Unbranded Assets Lead Sales

**Many lenders work with borrowers to provide forbearance.** Hotel owners have been challenged to re-engineer their operations. As revenues fell, debt obligations remained, pushing loan delinquency rates up by a factor of six within just one month. Many investors were nevertheless able to obtain forbearance from their lenders before entering the default period. This often took the form of deferred loan payments for up to 12 months, giving hoteliers time to configure an alternative payment plan, many of which are now in progress. Hotels with outstanding CMBS loans received the least relief, and as a result are at the most risk of non-performance later this year. Amid varying debt management strategies, government support has been key, specifically the Paycheck Protection Program (PPP). Funding for the first wave of PPP loans expired last year although resources for a second round of loans was provided in the opening weeks of 2021. Hotels can apply for a first or second PPP loan to cover up to $2 million in payroll expenses and other costs, including mortgages. These loans will be pivotal for smaller hotels in the short term. The possibility for more, industry-specific stimulus in 2021 remains as well. Such financial resources could go a long way to buttressing struggling hotels until COVID-19 infections dampen and more people travel, in turn fostering added investment.

**After initial fall, hospitality sales activity shows upward trend.** As with other property types, the spread of COVID-19 notably slowed transaction velocity in the second quarter of 2020. For hotels the drop was particularly steep, down over 60 percent quarter over quarter and 80 percent year over year. As time advanced and occupancies began to recover, investment activity improved, with private buyers less bearish on the market than institutions. The number of trades in the third quarter grew 120 percent from the previous three-month period, although year to date only about half as many assets had changed hands compared with the first nine months of 2019. The average sale price per available room followed a similar trajectory, falling to $84,000 in the second quarter but rising after for a yearlong average of $110,000 per room, 20 percent below 2019's average. This change was driven heavily by hotel revenue, which informed what types of hotels changed hands. Compared with years past, a smaller share of trades were represented by hotels of the upper midscale chain scale or above. The health crisis had a disproportionate impact on the financial performance of higher service level establishments. Fewer institutions, which tend to target that asset type, were also active. A greater focus was instead placed by private buyers on unflagged assets at sale prices under $10 million.

**Private buyers to be most active group in 2021.** The trajectory and composition of the travel recovery in 2021, which will favor smaller hotels in regional travel markets, will likely foster more private buyer engagement. These investors are likely to target limited-service hotels in outdoor-oriented vacation destinations or along major motorways that service traveling essential workers, which often fall into the $1 million to $10 million price tranche. Independent assets with a strong connection to the local travel landscape will also be pursued. Some higher-net-worth individuals and small investment groups may be able to pursue higher-service level assets due to less competition from institutional investors. Market participants with sufficient reserves to weather the short-term disruption may pursue urban assets in historically strong travel metros. Institutional investors may follow later in the year when room demand is on more certain ground.

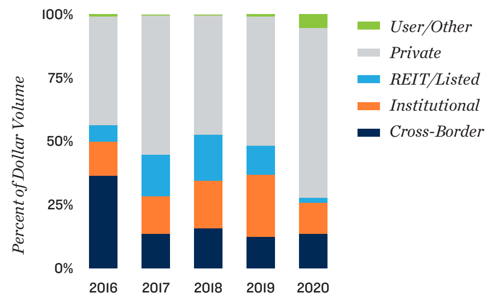
## Moderate Capital Liquidity Bolsters Investment Landscape as Regional Trading Volumes Shift

**Investors focus on low-entry cost assets and markets with outdoor activities.** The nationwide disruption to hotel investment has varied by region. Compared with the past several years, a smaller proportion of hotels changed hands in Florida in 2020, but more assets traded in the Upper Midwest and the Southwest. California and Texas also continued to be popular destinations among hospitality investors. These trends are likely to continue this year. The temporary suspension of the cruise line industry as well as tourism more broadly will impact sales trends in Florida. A shift in vacation preferences to scenic outdoor options may underscore investor interest in the Southwestern states and Texas as well, where pandemic-related lockdowns have been generally less stringent than on the coasts. Hotels in California, while subject to stricter lockdowns, have long-term appeal aided by comfortable weather and numerous natural attractions including beaches and national parks. The Upper Midwest states, while lacking temperate winters, generally feature lower entry costs per room, advantageous during an economic downturn.

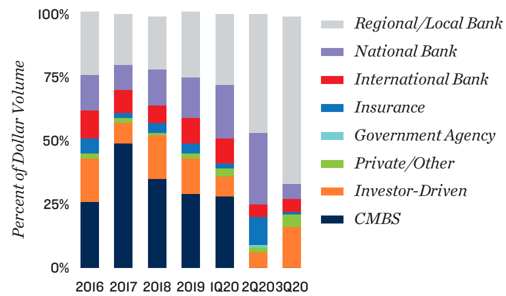
**Regional sales engagement shifts.** The part of the country that experienced the sharpest reduction in trading activity last year was the Central Atlantic region, which encompasses Washington, D.C. A popular destination for international summits and major trade shows, the temporary shutdown of such activities has significantly hampered hotel performance in the area through year end. The Mid-South region reported a similarly sharp slowdown last year, but unlike the Central Atlantic, trading in the Mid-South has since recovered to levels witnessed before the pandemic. The Central Midwest, Mid-Atlantic, and New York regions have also recorded an improvement in trading since the second quarter of last year. Looking into 2021, all regions are expected to benefit from investors seeking to enter long-term travel stalwarts as well as those responding to the current drive-to leisure trend.

**Capital availability bolsters investment landscape, lifts outlook for 2021.** The hotel investment landscape, as troubled as it is by the current health crisis, is in better shape than during the height of the global financial crisis. Much of that has been due to continued liquidity in the capital markets. While the total number of lenders conducting business with hotels as of late 2020 is down an estimated 50 percent, the number of active lenders still well exceeds levels recorded following the previous recession a decade ago. Although CMBS funding is essentially closed to hotel borrowers at this stage, local and regional banks are active as well as some investor-driven lenders, including debt funds. Between these capital sources and forbearance within existing debt obligations, most hotel owners have so far been able to weather the current climate and not had to sell a hotel out of distress. However, that does not mean all buyers and sellers are in agreement on sales price. A growing buyer-seller expectations gap could continue to constrain sales velocity in 2021 despite the availability of capital. Investors waiting on the sidelines for a wave of distress may be slower to return to the market when said wave does not materialize. Despite this, as vaccines become widely available and more people resume travel, improved revenues should allow for greater cash flow clarity. At the same time, interest rates are historically low, highlighting the return profile of hotel assets, where the average cap rate is 8.6 percent. The ability to produce high yields under normal cash flows will engage more investors moving forward as operations stabilize.

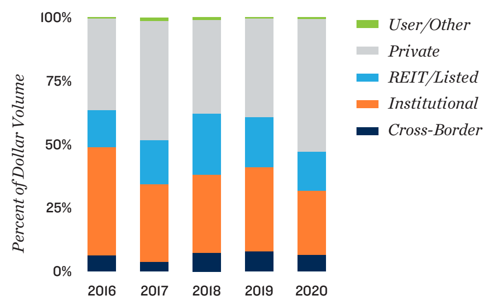
### Private Buyers Take Lead in 2020*



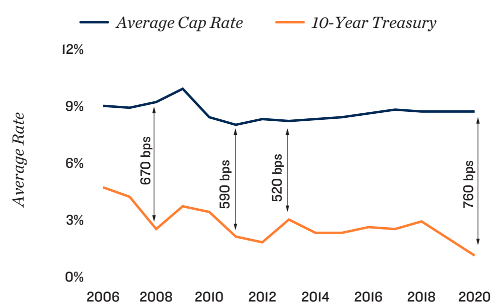

### Mortgage Originations by Lender 2016-2020*




### Private Sellers More Active in 2020*




### Yield Margin at Multiyear High*




* Sales $2.5 million and greater

Sources: Federal Reserve; Real Capital Analytics

# INDUSTRIAL

### Tailwinds for Industrial Growth in 2021

- Households continue their current usage of online platforms for essential and nonessential purchases, fueling e-commerce growth.
- Lease agreements are in place for roughly half of the 340 million square feet of space slated for completion this year, minimizing the impact of supply additions on overall vacancy.
- Household migration to suburban communities and secondary and tertiary markets prompts industrial users to expand their distribution networks in growing population centers.
- An influx of imports at major U.S. ports generates demand for nearby storage space and increases rail traffic and air cargo volumes.
- Consumers' same- and next-day delivery expectations motivate retailers and wholesalers to improve their last-mile capabilities via the leasing of additional storage space near population clusters.
- Industrial production returns to a pre-pandemic level following improvement in consumer spending and factory orders during the second half of last year.
- President Biden's plan to pursue tax reform may encourage organizations to reshore operations and return supply chains to the states.
- Grocers maintain larger inventories of refrigerated goods for online order processing and in-store restocking, boosting demand for cold-storage space.
- Personal and corporate reliance on tech platforms prompts data center proposals during a period of sparse vacancy.

## Health Crisis Transforms Logistics and Consumer Behavior, Industrial Space Demand on the Rise

**Consumer behavior drives sector's upward movement.** The rapid growth of e-commerce ranked the industrial market as the nation's top performing commercial real estate segment before the pandemic. The health crisis has since augmented the evolution of the sector, cramming multiple years of expansion into a three-quarter stretch. Entering 2021, the industrial sector will continue its upward trajectory even as the advancement of e-commerce returns to a more sustainable level of long-term growth. A more permanent shift in consumer behavior will enhance online platforms' role in the retail landscape, prompting multichannel merchants, wholesalers, and logistics firms to broaden operations. Steady demand for warehouse and distribution space should emerge as a byproduct, spurring a refilling of what is already a robust development pipeline.

**Industrial users respond to household migration patterns.** The rise in suburban, secondary, and tertiary market relocations prompted by the health crisis is anticipated to evolve into a longer-term trend as more families and individuals seek lower housing costs and locales of reduced density. As smaller metros and suburban communities record population growth, the number of local consumers that utilize web-based platforms for essential and nonessential purchases should elevate. Online and multichannel retailers are likely to act, bolstering their safety stocks, storage presence and last-mile capabilities in these locations to better meet potential order surges and heightened consumer expectations for next- and same-day delivery. Tenant expansions and population growth are likely to deepen buyer pools in emerging markets where above-average yields are readily obtainable.

**Investor sentiment leans toward acquisitions.** Heightened space demand recorded during the pandemic and strong near-term fundamentals have the potential to expand the industrial buyer pool and amplify enthusiasm among some investors in 2021. Those projecting the sector to continue its rapid expansion for years to come may fuel a competitive bidding environment where asset values are pushed to historically high marks. The potential for properties to achieve new heights may increase listing activity as more owners are enticed to sell assets they previously anticipated holding.

**Select subsectors outperform broader category.** Data centers and cold-storage facilities enter the year in a position of strength with vacancy rates historically tight and future demand drivers in place. An increasing reliance on tech and cloud-based platforms for personal and corporate use will only serve to boost data storage requirements for the foreseeable future. Long-term demand for these facilities should bolster the absorption of available space, likely fueling a wave of near-term groundbreakings. Meanwhile, consumer utilization of online platforms for grocery delivery and pickup in a post-pandemic world will require supermarkets to increase their cold-storage capacities. A surge of imports following the pandemic and vaccine storage requirements should also intensify cold-storage demand near port facilities and in local service markets.

## Elevated Supply

*Atlanta*
*Austin*
*Dallas/Fort Worth*
*Indianapolis*
*Memphis*
*Phoenix*
*Riverside-San Bernardino*

- Inventory expansion spearheaded by Sunbelt metros. Strong absorption in a collection of regional hubs and major local service markets has supported a refilling of these locales' development pipelines that will translate to notable inventory expansion in 2021. Atlanta and Dallas/Fort Worth top the list of high growth markets with active pipelines that each exceed 20 million square feet. Austin and Phoenix represent additional markets that face industrial expansion this year as both metros benefit from household migration trends. Phoenix is also emerging as a second transshipping hub for Southern California ports. Home to the nation's busiest cargo airport, Memphis' pipeline was historically large at the onset of this year. Similarly, Indianapolis will record inventory growth of 7 million square feet this year. Riverside-San Bernardino's pipeline will continue to remain robust, driven by tight vacancy and expectations of revived trade with Asia following the pandemic.

## Stable Operations

*Boston*
*Chicago*
*Detroit*
*Los Angeles*
*Milwaukee*
*Northern New Jersey*
*Orange County*
*Orlando*
*San Diego*
*Washington, D.C.*

- Key Northeast and Midwest markets record stable demand. Strong pre-leasing and moderate shifts in vacancy during the health crisis will benefit landlords in locales that represent major components of regional supply chains. Neighboring Chicago and Milwaukee both have relatively minimal speculative space underway at a time when vacancies are near cyclical-low levels. Ranking as the Midwest's tightest market, Detroit should benefit from an improvement in manufacturing production. Availability in Boston compressed 10 basis points last year, signaling demand for newly built space. Likewise, Washington, D.C., recorded a 20-basis-point decrease in vacancy from January to September of last year, with half of its active pipeline pre-leased. Port activity and proximity to New York City should preserve Northern New Jersey's limited vacant stock.

## Protracted Recovery

*Baltimore*
*Charlotte*
*Denver*
*Fort Lauderdale*
*Miami-Dade*
*Minneapolis-St. Paul*
*Philadelphia*
*Sacramento*
*Seattle-Tacoma*
*Tampa-St. Petersburg*
*West Palm Beach*

- Tenant interest swells in popular relocation destinations. South Florida markets registering in-migration gains as a byproduct of the pandemic will attract more expanding retailers and e-commerce firms this year. Development pipelines in Miami-Dade and West Palm Beach are subdued, with vacancy in both locales well below the national average. In Fort Lauderdale, the multifamily delivery boom recorded last year and the additional units slated for 2021 completion should fuel an increase in consumer spending. Denver, Charlotte, and Sacramento represent additional markets where population growth should prompt an uptick in industrial absorption. While unlikely to record positive net migration this year, Baltimore's increasing port volumes may position the metro to record vacancy compression.

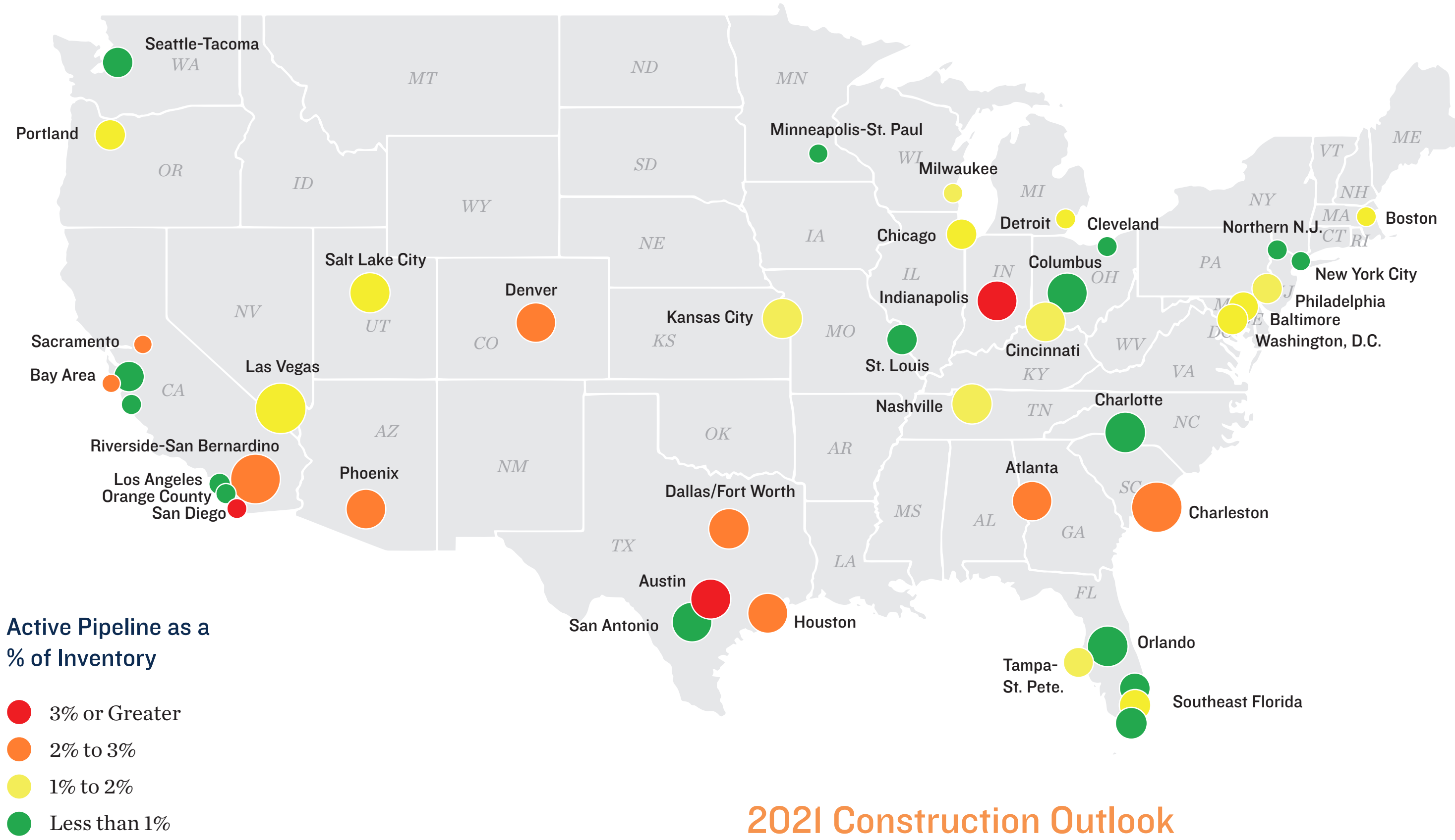
## Selected Headwinds

*Cleveland*
*Houston*
*New York City*
*Oakland*

- Select metros brace for potential vacancy increases. Significant inventory growth in Houston and flat port volumes last year played a role in pushing availability to its highest rate since 2004. The downturn in the oil and gas industry is likely to slow economic growth and job recovery this year, with another wave of industrial completions on deck. Cleveland's inability to recover a significant volume of jobs lost during the onset of the pandemic could heighten the pace of out-migration this year, potentially prolonging a recent span of negative quarterly absorption. Outbound household movement occurring in New York City places the metro in a state of transition at a time when industrial availability is at more than 20-year high. Comparably, relocations from the Bay Area will impact demand in Oakland; however, the high volume of imports projected at the market's port may buoy industrial demand.

# Industrial Construction Exaggerated in Texas Metros and Hub Markets

### Inventory Growth and Projects Underway




## Top 10 Markets by Active Pipeline

| Market | Active Pipeline (sq. ft. millions) | Pipeline as % of Total Inventory | 4Q 2020 Vacancy Rate |
|---|---|---|---|
| Dallas/Fort Worth | 23.1 | 2.8% | 7.5% |
| Atlanta | 20.1 | 2.9% | 6.3% |
| Chicago | 13.2 | 1.1% | 6.4% |
| Riverside-San Bernardino | 12.3 | 2.0% | 3.7% |
| Houston | 11.3 | 2.0% | 8.9% |
| Indianapolis | 9.3 | 3.2% | 6.2% |
| Austin | 9.3 | 11.0% | 6.8% |
| Philadelphia | 8.4 | 1.7% | 5.2% |
| Phoenix | 6.2 | 2.0% | 7.7% |
| Detroit | 5.3 | 1.0% | 4.6% |

*Sources: CoStar Group, Inc.; RealPage, Inc.*

## 2021 Construction Outlook

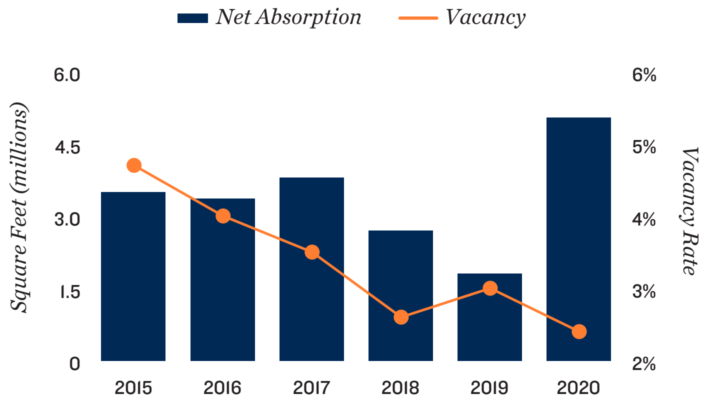
- The health crisis did not alter the progress of most projects. Instead, 315 million square feet of space was finalized last year in major U.S. markets, increasing the nation's industrial inventory by 1.9 percent. In 2021, delivery volume is slated to exceed that total, further testing demand for newly built space.
- Industrial demand in Atlanta has matched the influx of completions recorded over the past five years. Strong absorption warrants the nation's second largest active pipeline, which totaled more than 20 million square feet at the start of 2021. The top market for recent delivery volume, Dallas/Fort Worth has been more impacted by recent supply additions, as the Metroplex began this year with its highest vacancy rate since 2013. Still, more than 23 million square feet was underway at the onset of 2021.
- Widely recognized as a continual growth market, Austin's expansion will carry over into industrial this year. Driven by the completion of a Tesla Gigafactory and an Amazon distribution center, the metro will record the largest annual inventory growth among major U.S. metros. These projects will deliver a significant economic injection for the metro, potentially encouraging additional development.

## Industrial Subsectors Enter 2021 in a Position of Strength

### DATA CENTERS

- Demand in the subsector is robust, having outpaced the record volume of space delivered last year. Strong absorption placed vacancy below 3 percent entering 2021, a rate more than 100 basis points below the prior five-year average.
- The acceleration of cloud adoption and the extensive use of apps, online videos and social media platforms during 2021 will further drive demand for data centers, including the nearly 8 million square feet of space that was underway at the onset of this year.

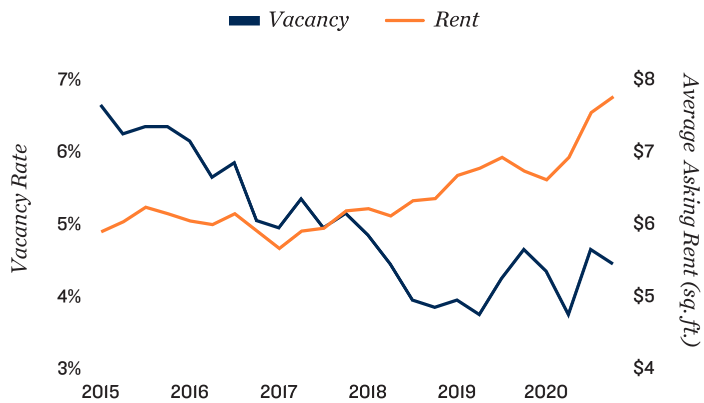
### Data Center Vacancy Reaches Historical Low



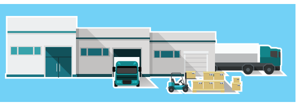

### COLD-STORAGE FACILITIES

- The health crisis has motivated grocers and food suppliers to maintain larger inventories of refrigerated goods to expedite the replenishing of in-store stock and processing of home-delivery and curbside pickup orders. This stockpiling supported the absorption of more than 2 million square feet of cold-storage space last year.
- Demand for existing cold storage is positioned to remain elevated in 2021 as less than 1 million square feet was under construction at the start of this year. Vaccine storage requirements should support additional demand during the first half.

### Tight Conditions Boost Cold-Storage Rents

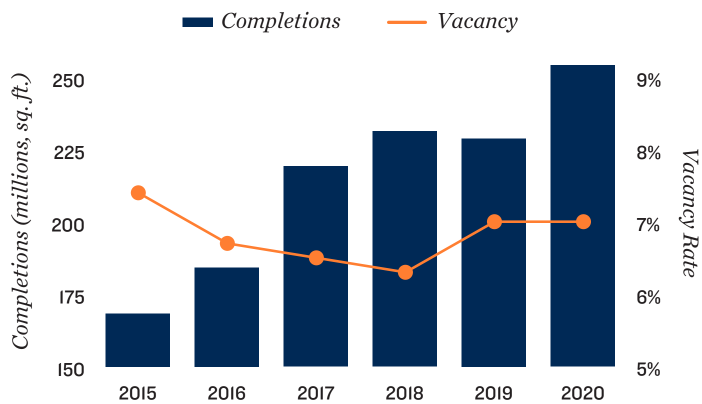



### 200K+ SQ. FT. WAREHOUSES-DISTRIBUTION CENTERS



- Total completions for big-box facilities in each of the past four years exceeded 200 million square feet. Amid this stretch of elevated construction, vacancy in the subsector consistently hovered in the mid-6 to low-7 percent range, signaling steady demand for larger facilities that will carry over into 2021.
- The development pipeline for these large facilities will remain elevated moving forward as construction was underway on roughly 270 million square feet at the beginning of 2021. E-commerce companies', wholesalers', and multichannel retailers' desire to operate warehouses and distribution centers closer to population centers could spur another round of project starts.

### Demand Matches Rise in Large-Scale Projects




*Source: CoStar Group, Inc.*

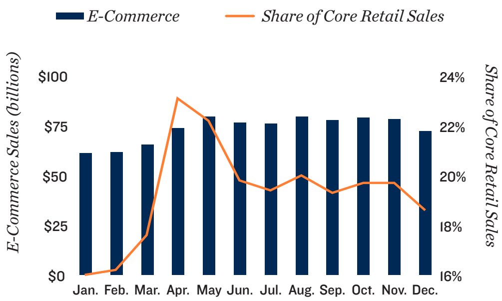
## Industrial Data Summary

| Market Name | Employment Growth | | | | Completions (000s of Sq. Ft.) | | | | Vacancy | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2017 | 2018 | 2019 | 2020 | 2017 | 2018 |
| Atlanta | 2.2% | 1.9% | 2.5% | -2.6% | 17,400 | 17,000 | 21,440 | 20,410 | 6.5% | 5.8% |
| Austin | 3.3% | 4.2% | 3.6% | -1.0% | 2,160 | 2,140 | 1,590 | 2,250 | 6.3% | 6.2% |
| Baltimore | 1.1% | 0.8% | 1.2% | -5.1% | 1,460 | 5,410 | 1,670 | 6,560 | 8.4% | 8.3% |
| Boston | 1.3% | 1.3% | 0.9% | -9.2% | 1,150 | 3,100 | 1,320 | 3,400 | 5.3% | 5.2% |
| Charlotte | 2.2% | 2.5% | 2.3% | -4.9% | 6,950 | 7,190 | 5,960 | 7,650 | 5.9% | 5.8% |
| Chicago | 0.7% | 0.7% | 0.4% | -7.4% | 22,000 | 13,900 | 20,030 | 21,250 | 6.3% | 6.0% |
| Cleveland | 0.4% | 1.4% | 0.5% | -8.6% | 870 | 3,390 | 3,110 | 1,000 | 4.2% | 4.1% |
| Dallas/Fort Worth | 2.2% | 2.5% | 3.2% | -2.1% | 28,060 | 22,250 | 26,510 | 29,290 | 6.0% | 6.5% |
| Denver | 2.6% | 2.0% | 2.8% | -4.4% | 4,730 | 3,410 | 4,730 | 3,580 | 4.3% | 4.8% |
| Detroit | 1.2% | 1.3% | 0.5% | -11.0% | 3,500 | 7,900 | 4,520 | 1,080 | 3.9% | 3.8% |
| Fort Lauderdale | 1.7% | 1.8% | 1.2% | -7.3% | 420 | 1,510 | 2,650 | 2,050 | 3.4% | 3.6% |
| Houston | 1.6% | 2.7% | 2.0% | -4.3% | 8,810 | 13,440 | 15,230 | 28,990 | 5.2% | 5.6% |
| Indianapolis | 1.8% | 0.9% | 0.9% | -0.8% | 7,720 | 7,900 | 6,430 | 9,160 | 5.4% | 4.6% |
| Los Angeles | 1.6% | 1.4% | 1.1% | -9.1% | 7,370 | 5,830 | 2,560 | 5,190 | 1.9% | 2.1% |
| Memphis | 0.2% | 1.1% | 0.7% | -2.6% | 5,020 | 6,770 | 2,360 | 10,260 | 6.7% | 6.0% |
| Miami-Dade | 1.5% | 1.8% | 1.1% | -5.5% | 3,180 | 3,780 | 3,240 | 3,390 | 4.0% | 4.0% |
| Milwaukee | 0.9% | 0.4% | 0.2% | -7.4% | 1,050 | 1,840 | 2,230 | 4,730 | 4.1% | 4.6% |
| Minneapolis-St. Paul | 1.5% | 1.2% | 0.3% | -8.0% | 2,630 | 2,180 | 1,810 | 3,210 | 3.3% | 3.0% |
| New York City | 2.0% | 2.1% | 1.8% | -12.2% | 570 | 2,310 | 430 | 2,030 | 3.9% | 4.7% |
| Northern New Jersey | 1.3% | 0.5% | 0.7% | -9.1% | 1,120 | 3,200 | 1,370 | 950 | 5.1% | 4.5% |
| Oakland | 1.9% | 1.2% | 0.1% | -9.6% | 1,310 | 1,500 | 1,690 | 4,940 | 3.6% | 4.1% |
| Orange County | 2.0% | 1.2% | 1.2% | -8.5% | 470 | 1,280 | 420 | 610 | 2.4% | 3.0% |
| Orlando | 3.4% | 2.7% | 2.5% | -9.7% | 2,520 | 3,900 | 3,340 | 2,050 | 3.9% | 4.0% |
| Philadelphia | 1.3% | 1.0% | 0.9% | -7.2% | 7,210 | 2,460 | 7,440 | 7,310 | 5.0% | 4.6% |
| Phoenix | 3.4% | 3.4% | 3.6% | -2.3% | 6,550 | 7,890 | 6,680 | 16,730 | 7.0% | 6.9% |
| Riverside-San Bernardino | 4.0% | 3.0% | 1.5% | -7.2% | 25,120 | 25,450 | 24,380 | 16,940 | 5.4% | 4.9% |
| Sacramento | 2.7% | 2.6% | 1.5% | -6.9% | 1,460 | 830 | 510 | 2,840 | 6.0% | 4.3% |
| San Diego | 2.1% | 1.7% | 1.5% | -6.9% | 1,060 | 2,320 | 1,580 | 1,140 | 4.6% | 5.3% |
| Seattle-Tacoma | 2.4% | 2.1% | 2.5% | -7.2% | 3,590 | 5,800 | 5,360 | 4,020 | 2.7% | 3.3% |
| Tampa-St. Petersburg | 1.9% | 2.2% | 2.7% | -3.6% | 2,400 | 2,500 | 2,890 | 3,730 | 4.4% | 4.1% |
| Washington, D.C. | 1.0% | 1.3% | 1.7% | -5.2% | 3,840 | 2,210 | 2,040 | 3,430 | 5.8% | 5.6% |
| West Palm Beach | 1.6% | 1.8% | 0.7% | -6.0% | 540 | 520 | 260 | 570 | 3.0% | 2.9% |
| United States | 1.5% | 1.6% | 1.4% | -6.1% | 272,980 | 281,060 | 275,800 | 315,450 | 4.8% | 4.6% |

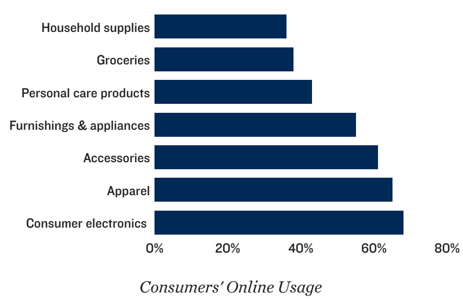
| Rate | | Asking Rent per Sq. Ft. | | | | Average Price per Sq. Ft. | | | | Market Name |
|---|---|---|---|---|---|---|---|---|---|---|
| 2019 | 2020 | 2017 | 2018 | 2019 | 2020 | 2017 | 2018 | 2019 | 2020 | |
| 6.5% | 6.3% | $4.49 | $4.77 | $5.03 | $5.10 | $76 | $87 | $90 | $93 | Atlanta |
| 7.1% | 6.8% | $9.58 | $10.16 | $10.25 | $10.60 | $119 | $124 | $130 | $129 | Austin |
| 7.8% | 8.0% | $5.30 | $5.30 | $6.29 | $6.28 | $95 | $99 | $103 | $104 | Baltimore |
| 5.3% | 5.2% | $7.54 | $8.06 | $8.58 | $9.17 | $119 | $133 | $154 | $180 | Boston |
| 6.3% | 7.1% | $4.41 | $4.66 | $4.91 | $4.99 | $88 | $95 | $106 | $116 | Charlotte |
| 6.1% | 6.4% | $5.66 | $5.72 | $5.94 | $6.17 | $79 | $83 | $91 | $99 | Chicago |
| 4.3% | 4.9% | $3.97 | $3.97 | $3.80 | $4.10 | $46 | $50 | $50 | $50 | Cleveland |
| 6.6% | 7.5% | $5.04 | $5.73 | $5.76 | $6.33 | $73 | $80 | $86 | $86 | Dallas/Fort Worth |
| 5.5% | 6.3% | $7.74 | $7.89 | $8.11 | $8.30 | $144 | $155 | $180 | $183 | Denver |
| 4.0% | 4.6% | $5.47 | $5.67 | $5.98 | $6.24 | $60 | $65 | $67 | $69 | Detroit |
| 5.9% | 7.7% | $9.74 | $9.56 | $10.28 | $10.33 | $122 | $139 | $161 | $157 | Fort Lauderdale |
| 6.6% | 8.9% | $6.55 | $6.84 | $6.76 | $7.14 | $82 | $88 | $91 | $95 | Houston |
| 4.3% | 6.2% | $4.31 | $4.19 | $4.62 | $5.27 | $57 | $59 | $64 | $74 | Indianapolis |
| 2.3% | 3.4% | $10.73 | $11.59 | $12.39 | $12.75 | $215 | $244 | $288 | $267 | Los Angeles |
| 6.4% | 6.6% | $3.39 | $3.43 | $3.24 | $3.36 | $50 | $51 | $51 | $51 | Memphis |
| 4.3% | 5.1% | $9.74 | $10.17 | $10.46 | $10.68 | $154 | $162 | $175 | $172 | Miami-Dade |
| 4.3% | 4.2% | $4.62 | $4.69 | $4.61 | $4.66 | $59 | $61 | $62 | $64 | Milwaukee |
| 3.1% | 4.0% | $6.31 | $6.33 | $5.94 | $5.65 | $70 | $79 | $84 | $88 | Minneapolis-St. Paul |
| 4.6% | 6.2% | $20.08 | $21.46 | $22.98 | $21.96 | $383 | $423 | $449 | $445 | New York City |
| 4.3% | 3.6% | $7.77 | $8.80 | $9.38 | $9.94 | $124 | $139 | $146 | $160 | Northern New Jersey |
| 5.2% | 6.6% | $13.23 | $14.49 | $14.08 | $14.23 | $190 | $216 | $252 | $238 | Oakland |
| 3.5% | 3.4% | $11.54 | $12.24 | $12.94 | $13.43 | $227 | $234 | $258 | $272 | Orange County |
| 6.3% | 5.6% | $6.19 | $6.49 | $6.96 | $7.23 | $89 | $103 | $115 | $110 | Orlando |
| 5.1% | 5.2% | $5.43 | $5.78 | $6.26 | $7.15 | $75 | $85 | $89 | $95 | Philadelphia |
| 7.7% | 7.7% | $6.86 | $7.11 | $7.42 | $7.81 | $105 | $119 | $128 | $130 | Phoenix |
| 4.7% | 3.7% | $7.83 | $8.84 | $9.74 | $10.24 | $145 | $156 | $178 | $180 | Riverside-San Bernardino |
| 3.8% | 5.4% | $5.82 | $7.75 | $8.02 | $7.39 | $102 | $112 | $121 | $123 | Sacramento |
| 5.8% | 5.4% | $12.96 | $15.20 | $15.89 | $16.03 | $189 | $192 | $213 | $226 | San Diego |
| 5.0% | 5.3% | $8.92 | $9.50 | $9.84 | $10.77 | $190 | $210 | $230 | $261 | Seattle-Tacoma |
| 4.8% | 5.1% | $6.21 | $6.11 | $6.38 | $6.68 | $78 | $83 | $91 | $100 | Tampa-St. Petersburg |
| 5.9% | 5.8% | $8.44 | $8.68 | $8.71 | $8.98 | $142 | $162 | $185 | $179 | Washington, D.C. |
| 3.5% | 4.1% | $10.47 | $10.97 | $11.24 | $11.64 | $126 | $142 | $159 | $165 | West Palm Beach |
| 5.0% | 5.5% | $6.70 | $7.11 | $7.39 | $7.66 | $80 | $87 | $95 | $102 | United States |

*Sources: BLS; CoStar Group, Inc.; Real Capital Analytics*

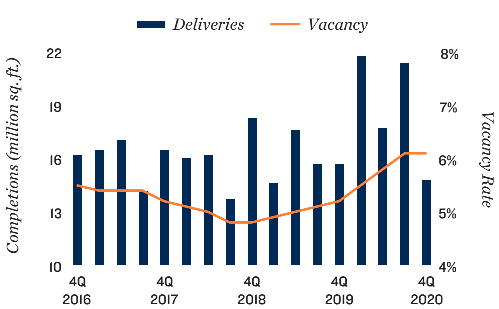
### Online Spending Hit Record in 2020



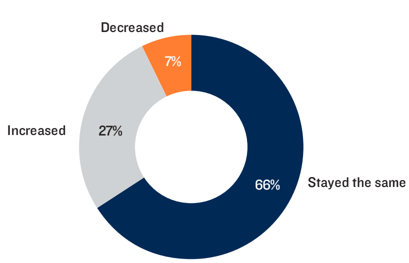

### Usage of Online Platforms Remains High




### Last-Mile Completions vs. Vacancy*




### Firms Expand Fulfillment Center Networks




*Online retailers' facility counts since March*

** Properties comprising 50,000 to 200,000 square feet*
*Sources: Blue Yonder; CoStar Group, Inc.; McKinsey & Company; U.S. Census Bureau*

## Growth of E-Commerce Extends Beyond Health Crisis; Retailers Upgrade Distribution, Warehousing Networks

**Consumer shopping habits adopted during the health crisis are here to stay.** Since the onset of the pandemic, online spending has accounted for 16 percent to 23 percent of monthly U.S. retail sales, with e-commerce purchase volume from July to December of last year increasing by roughly 30 percent on an annual basis. While widespread vaccination has the potential to usher in a return to in-store shopping across the nation, lowering the percentage of total retail sales represented by online orders, consumers' reliance on e-commerce is not anticipated to fade. Households plan to continue their current usage of online platforms in the post-COVID-19 era, relying on websites for grocery, household and personal item, and electronic-device purchases. The sustained role of e-commerce in essential and nonessential retail is positioned to inflate multichannel and online-focused companies' demand for storage this year, with logistics firms that support both parties also expanding their industrial footprints. Larger organizations focused on aligning their operations for the future will likely occupy warehouses and distribution facilities that feature a high level of automation, benefiting newer properties.

**Retailers' increasing reliance on e-commerce prompts last-mile improvements.** Anticipating a more permanent shift in consumers' behavior and order-processing expectations, online and multichannel retailers will place a heavy focus on expediting delivery timelines and restocking in-store inventory in 2021. For these companies, processing a high volume of same- and next-day orders will hinge on improvements to their last-mile distribution capabilities as well as regional and local warehouse presence. A portion of these groups had already begun this process entering the year, with recent surveys showing roughly one-third of firms with an online presence had expanded the number of fulfillment centers in their logistics networks during the pandemic. The continued growth of e-commerce and the need for retailers to be closer to population centers moving forward will sustain company growth and this leasing trend. Landlords with available space are poised to benefit as vacancy rates in the 50,000- to 200,000-square-foot and 200,000-square-foot-plus subsectors are limited, and half the space slated for 2021 completion was pre-leased at the onset of this year.

**Brick-and-mortar shops respond to more permanent shifts in consumer behavior.** Grocers, big-box retailers and drugstores that anticipate processing a high volume of same- and next-day pickup and delivery orders after the health crisis ends may lease additional or larger cold-storage and warehouse space this year. In population centers that house numerous chains, this space could come at a premium as owners may be reluctant to discount on lease terms and asking rents. A percentage of these brick-and-mortar shops will also establish permanent micro fulfillment centers to allow for the rapid processing of online purchases and the replenishment of in-store stock. Some of these retailers will convert existing store space into areas dedicated for micro fulfillment. Others may lease space at nearby multitenant warehouses that are capable of handling both wet and dry products. Leasing adjacent, vacant storefronts in shopping centers they already anchor is an additional option for supermarkets, drugstores and big-box retailers, potentially aiding landlords that have recorded recent vacancies.

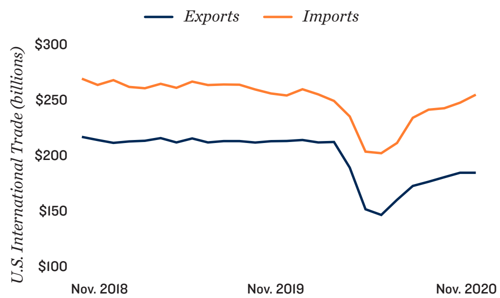
# Demand for Warehouse Space to Benefit From Imports Surge and Port Limitations

**Improving trade volumes and potential changes to U.S. tariffs brighten outlook.** Propelled by inventory replenishments and retailers preparing for the holidays, imports to the U.S. returned to a pre-pandemic level during the fourth quarter of last year, fueling demand for warehouse and distribution space in the nation's major industrial hubs. Exports, on the other hand, were slower to recover during the latter portion of last year with the exception of China. Shipments to the country in October were the highest on record. The combination of surging imports and an uptick in trade with China has elevated freight-handling operations at seaports. The influx of containers is expected to continue at terminals throughout this year, generating demand from carriers and logistics firms for storage space adjacent to ports and intermodal facilities. International trade has the potential to further improve as 2021 progresses, depending on President Biden's stance on the Trump administration's tariffs on China. While Biden may not entirely repeal the taxes and instead opt to take on multilateral action to resolve trade conflicts, a reduction of the tax would provide relief to U.S. businesses and consumers.

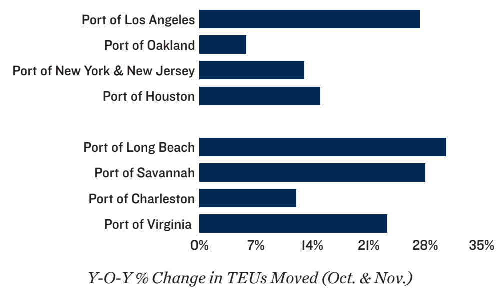
**Capacity limitations at ports generate need for additional storage space.** The surge in imports that translated to record activity across U.S. ports late last year is anticipated to continue through 2021, testing terminals' abilities to store containers onsite and move 20-foot equivalent units (TEUs) to rail lines and distribution centers. Until vaccines are widely administered, staff capacity shortages at ports are likely to persist, extending the time required to unload carriers. Lengthened dwell times during a period of heightened vessel calls have previously forced cargo ships traveling to West Coast ports to sit anchored offshore. If delays continue this year, forwarders may shift trips originating from Asia away from California terminals to destinations along the East Coast or Gulf of Mexico, which would bolster warehousing requirements near these regions' major ports. Carriers that continue to ship to West Coast terminals may be required to utilize temporary storage yards via short-term leases if ports reach their storage capacities, benefiting landlords of nearby properties.

**Shipment activity lifts demand for airport-adjacent industrial.** Consumers' increasing use of online retail and a surge of imports raised domestic air cargo volume during the second half of last year. Activity at major airports will remain elevated in 2021, fueled by international trade and e-commerce firms' reliance on air transport to expedite delivery timelines. The high volume of goods handled at hub airports will support demand from logistics firms and online retailers for nearby storage space. Anticipating this, developers are expanding logistics centers near terminals by constructing sizable distribution facilities and midsized warehouses. Submarkets in Riverside-San Bernardino and Atlanta that encompass international airports had active pipelines of roughly 8 million and 5 million square feet of space, respectively, at the onset of this year. Additionally, airports are setting aside more space for freight shipment in response to the rapid growth of online shopping. Amazon Air is building a sorting center at Cincinnati/Northern Kentucky International Airport as part of a 3 million-square-foot cargo hub. The e-commerce giant is finalizing another facility at Ontario International Airport, where FedEx recently completed a 51-acre project. These sorting centers and similar proposals at other airports are poised to be catalysts for nearby construction activity and long-term industrial demand.

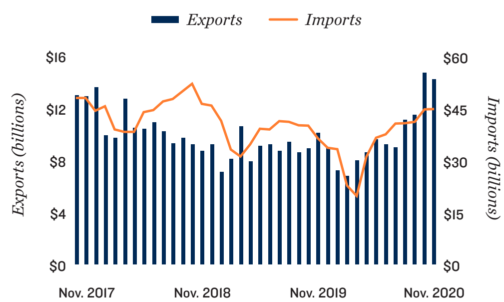
U.S. Trade Improves as Pandemic Extends



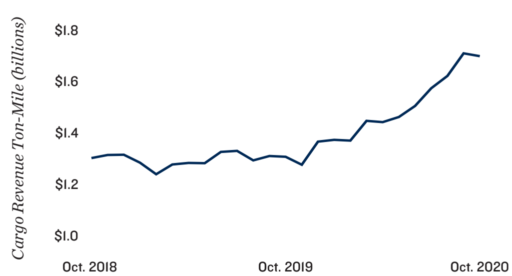

Surge in Imports Boosts Port Activity




Exports to China Reach Record Level




Domestic Air Cargo Volume Elevates




*Sources: Bureau of Transportation Statistics; major U.S. port authorities; U.S. Census Bureau*

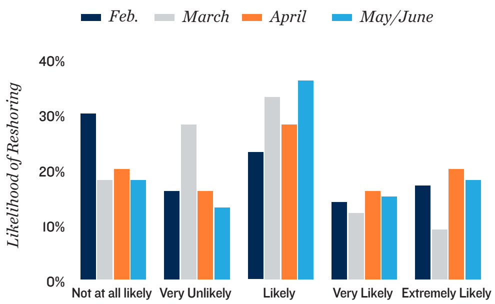
## Focus on Domestic Manufacturing Escalates as New Orders and Factory Production Levels Recover

**Manufacturing demand to benefit from rise in reshoring and government initiatives.** The global supply-chain disruptions that emerged as a byproduct of the health crisis and the U.S.-China trade war have accelerated organizations' reshoring plans heading into 2021. The realignment of supply chains in communications infrastructure, packaged food production, defense-contract applications and pharmaceuticals — sectors critical to the population's well-being — represent the initial, logical set of reshoring opportunities. However, because the process is a complicated and often cost-laden endeavor for manufacturers, government incentives will be required to encourage a large-scale movement toward relocations and offset the higher cost of manufacturing associated with domestic production. President Biden has indicated an interest in making reshoring a major policy initiative, with plans to pursue aggressive tax reform to return supply chains to the states. A 10 percent advanceable tax credit for investments that create U.S. manufacturing jobs or modernize manufacturing facilities has been initially proposed, as has a 10 percent offshoring penalty surtax on profits from certain goods and services that are produced overseas by domestically based companies and sold back to the U.S.

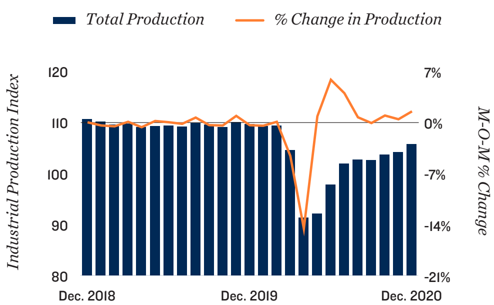
**Demand for materials and finished-goods storage potentially lifts.** Based on manufacturing outputs and order volumes recorded during the latter portion of last year, industrial production is on pace to return to a pre-pandemic level in 2021. Improving retail sales activity and a steady rise in new factory orders for computers, electronics and fabricated metal products have consistently boosted industrial production on a month-over-month basis since the midpoint of last year. The uptick in consumer spending and purchase requests has prompted manufacturers to maintain steady inventories of raw materials and parts to fulfill large orders, with merchant wholesalers and retailers holding a consistent stock of finished goods heading into 2021. This combination will preserve demand for warehouse space used to store these products in the near term. A further uptick in industrial production has the potential to heighten demand for manufacturing space at a time when availability in the subsector remains extremely tight on a national level.

**Modern facilities attract a larger pool of prospective tenants.** As more companies mull repositioning their supply chains to mitigate future risk and improve output this year, demand for automated production and distribution space will rise. For manufacturers focused on reshoring operations, the shift to automation and away from routine labor will be a critical component of their long-term plans. Integration of automated production lines will enable the fabrication process to be streamlined, offsetting the labor costs associated with domestic assembly. Online retailers will utilize advanced robotics and remote monitoring equipment to expedite sorting and processing timelines, eliminating the need for laborers to perform basic tasks. Newer speculative developments with a high level of technology and automation stand to benefit as many companies may be unwilling to make the financial commitment required to upgrade existing properties.

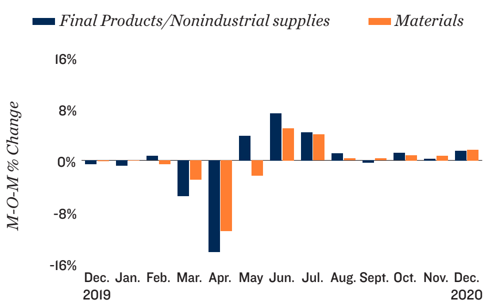
### Interest in Reshoring Increases



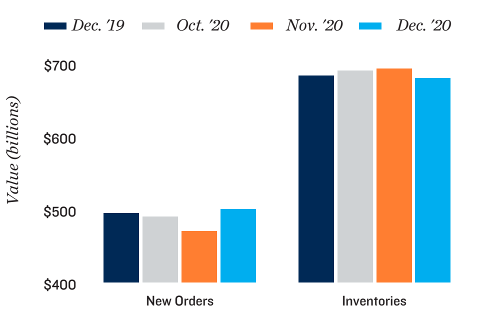

### Industrial Production Trails Pre-Pandemic Pace




### Production Improves Among Major Market Groups




### Orders, Inventories Near Pre-Pandemic Marks




*Sources: Federal Reserve; Thomasnet; U.S. Census Bureau*

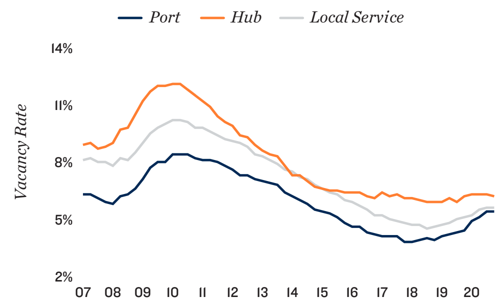
## Deliveries Temper in Hub and Harbor Metros; Local Service Markets See Construction Uptick

**Demand in port metros positioned to match development pipeline.** Vacancy across major harbor markets is below the national rate entering 2021 after these metros absorbed an elevated volume of supply additions last year. Economic improvement, surging imports and the growth of the e-commerce sector should all uphold demand for warehouse and distribution space in these entry points of the national supply chain this year. Limited space availability in these markets will support the absorption of properties slated for upcoming finalization, which will total less than 40 million square feet this year. Demand for newly built space among retailers, importers and logistics firms is positioned to be robust in Central and Northern New Jersey as well as Los Angeles, locales where vacancy rested in the mid-3 to low-4 percent range at the onset of 2021. After recently recording triple-digit basis point increases in availability, Oakland, Jacksonville, and Houston are also slated to benefit from smaller construction pipelines, as a reduction in supply additions eases the competition for recently delivered speculative space to secure tenants.

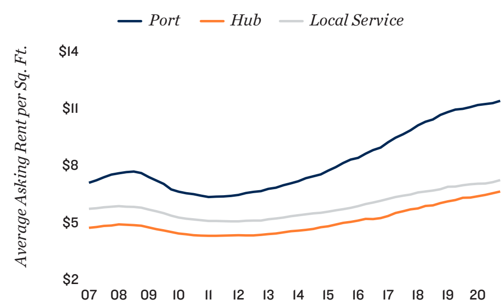
**Steady vacancy in hub markets aids speculative projects.** Many retailers and logistics firms maintained or expanded their logistical presence last year in metros that serve as regional hubs. These actions outweighed the impacts of economic uncertainty and heightened development, equating to moderate vacancy fluctuation across these markets. In response, additional project proposals and groundbreakings in hub metros moved forward during the pandemic, with 70 million square feet on pace for 2021 delivery — more than half of which is speculative. Having recorded minimal shifts in vacancy amid numerous waves of development, Atlanta and Riverside-San Bernardino should continue to represent top destinations for speculative leasing activity this year, with the rapid growth of Dallas/Fort Worth also supporting strong absorption.

**Impending supply additions weighted toward localized markets.** In contrast to port and hub markets, local service metros are slated to record an uptick in deliveries this year. The rise in construction activity indicates developers are anticipating more industrial users will upgrade and expand their distribution networks to improve efficiencies and be closer to large population centers. The increase in development appears warranted as average vacancy across local service markets was on par with the national rate entering this year. Additionally, many of these metros are positioned to benefit from changing consumer behaviors and migration trends that emerge from the health crisis. Deliveries in major non-hub Southern metros are expected to total 27 million square feet, with similar Midwest markets registering a combined 25 million square feet of completions. Supply pressure may also be felt in the Mountain region, where the combined inventory of the area's four largest metros' will expand by roughly 15 million square feet.

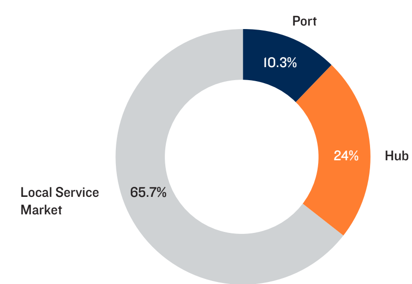
### Vacancy Rate by Market Type



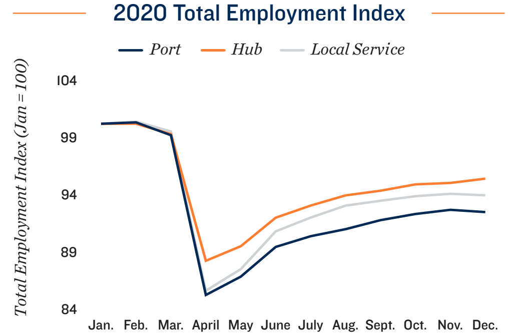

### Rent Trends by Market Type




### Composition of 2021 Deliveries

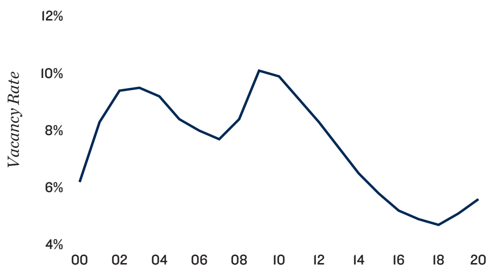



### 2020 Total Employment Index

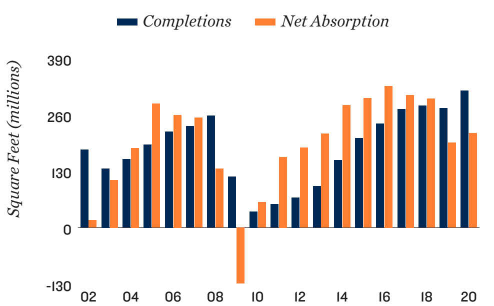



*Sources: BLS; CoStar Group, Inc.*

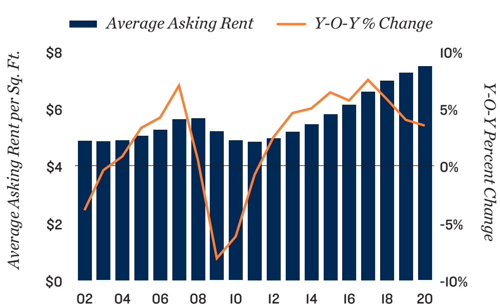
### Industrial Vacancy Trends



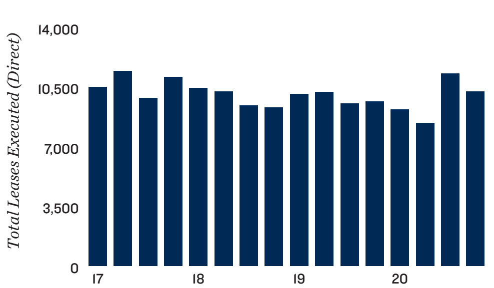

### Completions vs. Absorption




### Industrial Rent Trends




### Quarterly Industrial Leasing Trends




*Source: CoStar Group, Inc.*

## Tenant Demand Refills Pipeline; Rise in Lease Executions Aids Vacancy

**Heightened development persists as deliveries shift to Northeast and Midwest metros.** Industrial supply additions remain robust in 2021, exceeding the 315 million square feet delivered last year. At the onset of this year, half the space underway and slated for completion in the next 12 months had lease agreements in place, an indication of the demand that exists for new facilities. Strong pre-leasing suggests elevated construction will not have a dramatic effect on overall vacancy, which increased 50 basis points last year. As more speculative properties secure tenants prior to finalization, additional proposals and groundbreakings are likely to occur during the first quarter. Some of these project starts may have construction windows of nine months to one year, potentially elevating delivery volume this year. Texas, California and Florida markets, which accounted for nearly half of last year's delivery volume, represented roughly 30 percent of the projected 2021 supply additions as of January. In contrast, major Northeast metros that recorded nearly 24 million square feet of completions last year are on pace to exceed that mark this year, driven by heightened activity in Boston, Philadelphia and Northern New Jersey. A group of Midwest metros are also slated to record a year-over-year increase in supply additions, highlighted by Indianapolis and Kansas City.

**Leasing activity likely to improve during 2021.** Tenant demand in the sector has remained overwhelmingly positive throughout the health crisis as 36 of the nation's 43 major industrial markets recorded positive absorption last year and 12 metros registered vacancy compression. The roughly 21,500 total leases executed during the second half of last year suggest demand for industrial space is rising as a more apparent health solution brings greater economic clarity. The recent uptick in leasing activity, driven by new contracts, indicates industrial users are both upgrading to higher-quality spaces and expanding the number of facilities they occupy, positioning the market to handle a second consecutive year of elevated construction. These factors are likely to minimize fluctuations in availability this year or even increase the number of metros that record vacancy compression.

**Tight conditions extend in top performing markets.** The collection of markets that hold claim to the nation's lowest vacancy rates are likely to maintain that distinction this year. Tenant demand in these integral components of regional supply chains will remain consistent as online retail, port activity and household migration trends promote the absorption of supply additions and recently vacated space. Across these markets, availability rested below 4 percent entering this year, led by Nashville, Orange County and Los Angeles. The latter two locales are unlikely to feel upward supply pressure as their active pipelines account for less than 1 percent of total inventory. Nashville is positioned to benefit from continued population growth and economic expansion that should boost industrial demand. The potential for Salt Lake City to record similar conditions exists, suggesting the metro may register a second straight year of vacancy compression. Having recorded the largest reductions in vacancy last year, Northern New Jersey and Riverside-San Bernardino are likely to witness the strong pre-leasing of speculative projects this year, preserving tight conditions in both locales.

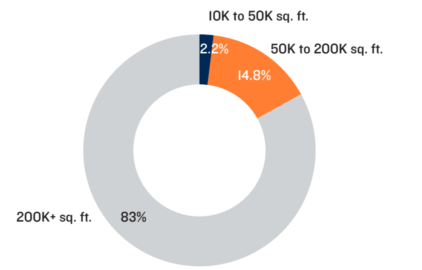
## Large-Scale Projects Dominate Delivery Landscape; Subsectors Poised for Continual Rent Lift

**Impact of construction activity varies by segment.** The availability of smaller warehouses and distribution facilities will remain extremely sparse this year. Tenant demand for these properties is likely to intensify as retailers upgrade their last-mile capabilities and initiate steps to expedite their regional supply chains. Additionally, upcoming supply additions that feature less than 50,000 square feet will account for a nominal percentage of total delivery volume in 2021. In contrast, projects that exceed 200,000 square feet of space will account for more than 80 percent of this year's completions. This wave of larger-scale deliveries is warranted, however, as vacancy in this market segment was unchanged last year. Accounting for roughly 15 percent of the space slated for 2021 delivery, the 50,000- to 200,000-square-foot sector is likely to feel the most pressure from supply additions as the segment's vacancy rate entered the year at a nearly five-year high.

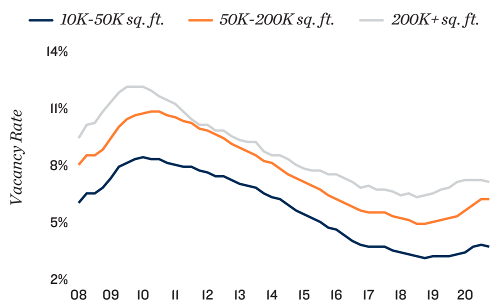
**Backing for rent growth exists across warehouse and distribution properties.** Positive absorption and a return to historical levels of leasing activity will serve as a springboard for continued rent growth across industrial segments this year. Solid demand for last-mile operations, large distribution centers and newly built properties will allow landlords to push asking rents across the triad of warehouse and distribution subsectors, all of which displayed encouraging performance leading up to 2021. Vacancy in the 10,000- to 50,000-square-foot space sits below 4 percent after availability was unchanged during the second half of last year. Nearly 5,000 leases were executed in the 50,000- to 200,000-square-foot segment during the six-month period, translating to absorption of nearly 20 million square feet. Furthermore, availability in the 200,000-square-foot-plus warehouse and distribution sector compressed 10 basis points from July to December as nearly 125 million square feet was absorbed. This strong, across-the-board leasing activity should represent a boon for landlords with available square footage and developers slated to deliver speculative projects this year.

**Manufacturing sector improvement preserves sparse vacancy.** A bounce back in factory production and companies' plans to reshore operations during 2021 has the potential to further aid job recovery in the manufacturing sector following the gains recorded since May of last year. This hiring activity may support manufacturer expansions that along with the growth of the biotech and life sciences industries have the potential to bolster demand and lift rent for production and research and development space. Entering 2021, vacancy in the manufacturing sector rested just below 4 percent, following an annual increase of 50 basis points. The second half of last year marked a return to historical levels of leasing activity, supporting the absorption of nearly 5 million square feet of space. This performance combined with tight vacancy and a minimal construction pipeline should support solid demand for available space if factory production and order volumes improve this year.

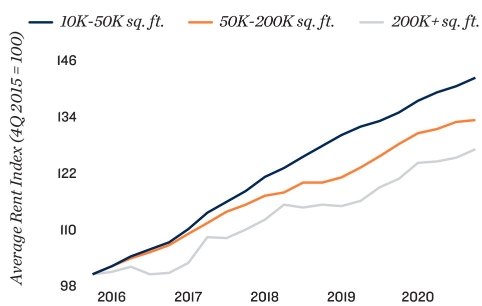
### 2021 Deliveries by Property Size



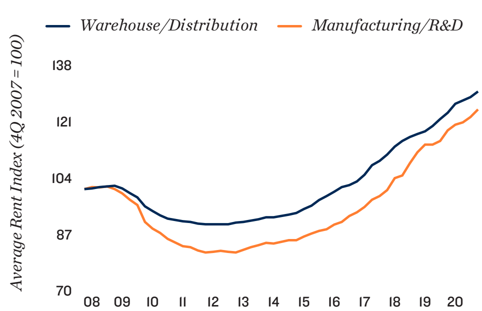

### Warehouse/Distribution Vacancy Rate




### Warehouse/Distribution Rent Index

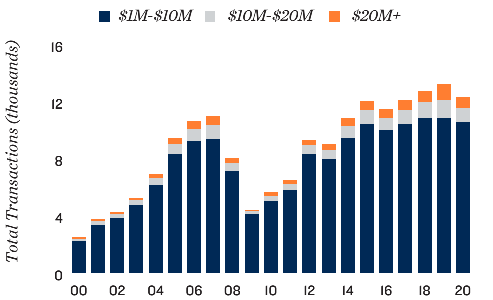



### Industrial Rent Index

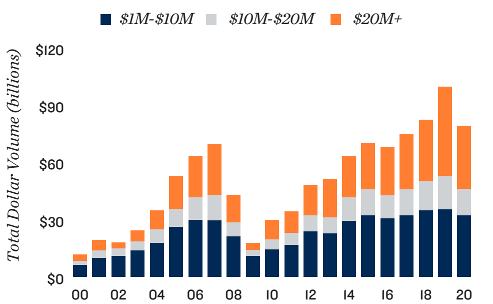



*Source: CoStar Group, Inc.*

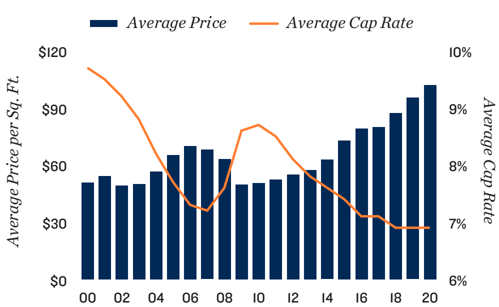
Transaction Activity



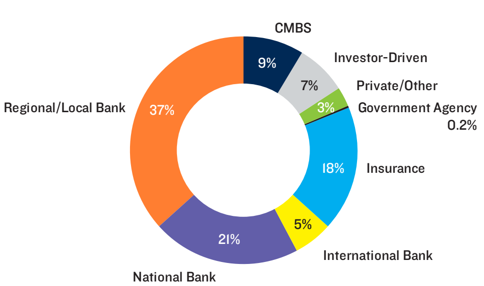

Industrial Dollar Volume




Industrial Price vs. Cap Rate




Industrial Lender Composition*




** Through third quarter 2020*

*Sources: CoStar Group, Inc.; Real Capital Analytics*

## Anticipated Increase in Seller Activity to Expand Sales Volume in 2021; Inventory Growth Creates Opportunities

**Competitive bidding environment on deck.** Strong industrial fundamentals and steady returns are poised to generate robust investor demand for warehouses and distribution facilities in 2021, with national deal flow hindered only by a lack of available listings. The sector's ability to record positive rent growth and solid absorption during an extended stretch of economic volatility and shifting consumer behavior has drawn new entrants to the marketplace. These prospective buyers are prepared to deploy capital this year after re-evaluating their strategies during the pandemic and monitoring changes in asset valuations and property fundamentals. The low cost of capital and significant gap between the average cap rate and the 10-year Treasury rate should further motivate these investors to pursue acquisitions while the sector continues to exhibit consistent performance. These same factors should also motivate owners wishing to expand or diversify their existing industrial holdings to take action. This situation should support a competitive bidding environment throughout this year, likely building upon the 7 percent gain in average pricing that was already recorded last year. If buyers exhibit a willingness to pay a substantial price to secure sought after assets, more owners may accelerate their disposition and reinvestment plans, potentially allowing listings volume to fall in line with equity demand.

**Investors react to tenant shift toward modern space.** Anticipating an increase in industrial user demand for automated, streamlined operations a pool of buyers will pursue tech integrated listings in 2021, likely building on the notable improvement in Class A deal flow that was recorded last year. The volume of recent development — more than 1.3 billion square feet delivered over the past five years — and the roughly 340 million square feet slated for 2021 completion should provide ample opportunities for investors to acquire modern assets designed to meet users' future specifications. Epicenters of recent and ongoing development activity, Dallas/Fort Worth, Houston, and Riverside-San Bernardino are poised to garner significant buyer attention as tenant movement from Class B properties into newer facilities gains additional steam. Secondary metros that are registering industrial growth and corporate relocations also have the potential to rise in appeal among this same class of investors. Phoenix, Austin, and Denver are positioned to top the list of attractive non-primary markets. In these metros, first-year returns for Class A assets have recently fallen in the 5 percent range, and strengthening investor activity in recent months has placed downward pressure on cap rates. If a significant wave of capital enters these secondary markets in 2021 bidding could intensify, putting additional strain on returns. Buyers targeting yields that exceed the 5 percent threshold may acquire recently or soon-to-be finalized speculative properties, taking on the lease-up risk in exchange for higher cap rates. Other investors may target newer properties in expanding tertiary markets, where first-year returns for sub-$10 million Class A assets can exceed 6 percent.

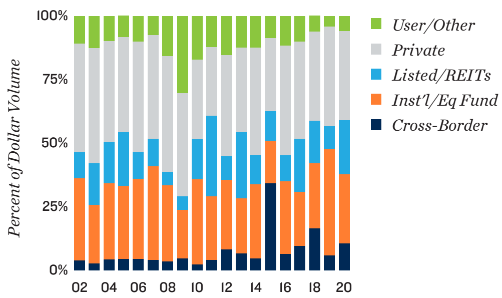
# Responding to Supply-Chain Upgrades, Investors Target Tertiary Assets and Properties Near Dense Locales

**Buyers prioritize proximity to sizable consumer bases.** Investor demand for smaller and midsized industrial properties in major metros will remain strong this year as more multichannel retailers and wholesalers decentralize larger distribution centers in favor of establishing additional warehouse and fulfillment operations closer to population centers. Assets in coastal markets and primary inland metros should warrant competitive bidding among buyers seeking properties suited for last-mile distribution. Home to some of the tightest vacancy rates in the nation, Southern California will continue to represent a top location for Class B/C deal flow, as the region benefits from its sizable populace, two prominent ports and one of the nation's largest inland hubs. Recording rapid population expansion and commercial growth, Dallas/Fort Worth will attract a mix of buyers seeking below-average pricing and an availability of 7 percent-plus returns in submarkets with strong long-term fundamentals. Despite economic volatility, New York City/Northern New Jersey and Chicago are also positioned to record steady deal flow this year as these markets' sizable ports and large population bases make them essential locations for online retailers, logistics firms and multichannel retailers.

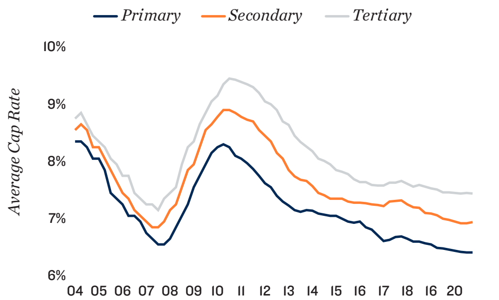
**Higher yields and reduced institutional presence drive buyers to Mid-America.** With institutions more likely to target Phoenix, Nashville and other Sunbelt metros that will benefit from household migration, a window of opportunity may open for private investors to obtain 7 and 8 percent yields in Midwest metros this year. Minneapolis-St. Paul, Detroit and other markets with sparse vacancy and a significant manufacturing presence that could boost future industrial demand would prove appealing to more investors moving forward. Home to low-8 percent average cap rates, Memphis and Cincinnati have industrial demand that is positioned to benefit from increased activity at both markets' airports, which already rank as some of the most active in terms of annual cargo volume.

**Smaller metros buoy overall transaction activity.** The tertiary investment market enters 2021 on solid footing, as the risk of a supply overhang appears minimal across most smaller metros. Investors with a desire for higher yields and below-average pricing may find opportunities in tertiary areas that serve as linchpins in regional supply chains, preserving what has been a recent stretch of steady sales activity. Locations where vacancy is at or below the national level and recent development has been well leased will be most considered by upside-seeking investors. Markets that also serve as regional industrial hubs or boast a number of sizable distribution centers occupied by large national retailers have the potential to register the most diverse buyer pool. Indianapolis, Kansas City and Milwaukee represent likely targets for tertiary-focused buyers as each metro meets this criterion. Additionally, these metros provide investors opportunities to acquire Class B/C properties at cap rates that exceed those available for comparable assets in secondary and primary markets by 50 to 100 basis points. The California Central Valley represents an additional place likely to benefit from stable tertiary demand, as the region serves as a connection between Southern and Northern California.

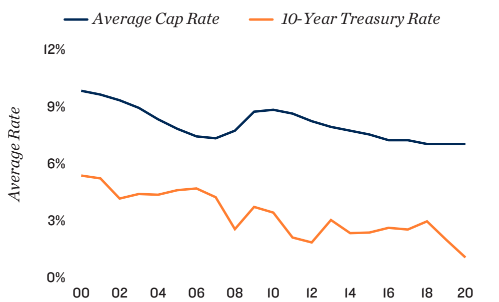
## Buyer Composition



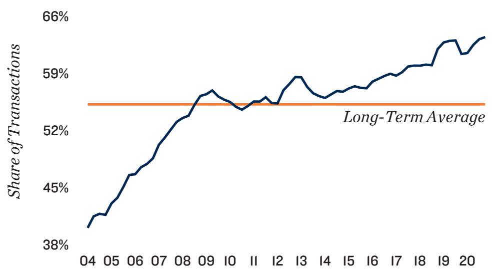

## Cap Rate by Market Type




## Cap Rate vs. Treasury



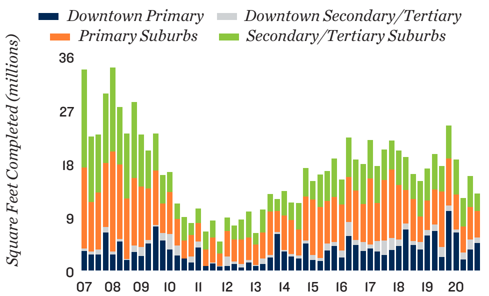

## Transactions in Secondary/Tertiary Markets



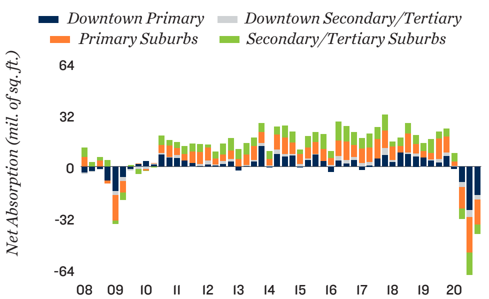

*Sources: CoStar Group, Inc.; Federal Reserve; Real Capital Analytics*

# OFFICE

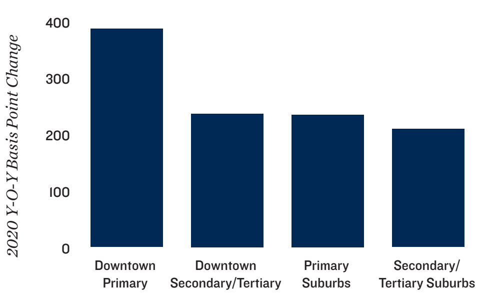
### Office Construction



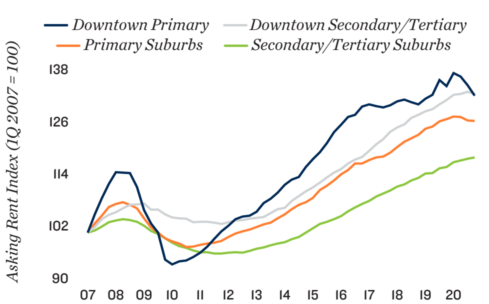

### Absorption Downtown vs. Suburbs




### Largest Vacancy Change in Downtown




### Rent Index Falls Most Downtown




*Source: CoStar Group, Inc.*

## Companies Delay Office Space Decisions as They Await Clarity; Health Crisis Redefines Sector Outlook

**Coronavirus drives office sector transformation.** The significant pandemic-driven changes to the office sector last year will carry into 2021 and beyond as companies adopt innovative new operations models. Buildings, particularly in the urban core, emptied last year as companies downsized and shifted their staff to working from home. To meet health and safety standards, facility operators quickly enhanced their cleaning procedures, upgraded HVAC systems, erected plexiglass barriers, closed shared spaces and added other physical-distancing measures to keep workers safe. But the biggest question office investors face is whether companies will bring their workforce back to the office, and if they do, when that will be. Companies have become increasingly nimble, adding sophisticated remote-work capabilities, and many have suggested that staff will have the option to work remotely for an extended period. This has allowed workers to migrate from downtown housing to larger, lower-cost options in the suburbs and to smaller cities across the country, begging the question of how long it will take for the urban core, particularly in gateway cities, to recover.

**The future of office space demand.** Most companies have effectively halted their office space expansion plans, shelving growth strategies until the vaccine reaches a critical mass of the population and clarity on the future of office work emerges. Business leaders know that they will have to entice workers back to the office at some point, but they are not sure when that will be. Most employees, particularly younger staff members in the early stages of career development, prefer to return to the office at least some days where they can more easily collaborate, build relationships and be mentored. Until the health risks are addressed, however, companies are reluctant to place their employees at risk. As a stop-gap solution, many firms are negotiating short-term extensions for expiring leases, often paying a modest premium for the shorter lease duration. One of the most important unanswered questions business leaders face is at what level their workers will return to the office full time and if they will need to enhance the space allocations per employee to increase physical distancing in the office. This created a significant band of variance in the outlook for office space demand — if a significant portion of the labor force continues to work from home after the pandemic, then the need for office space will likely fall, but if companies expand the allocated space per employee, space demand could remain stable or even grow.

**Labor force drives office strategies.** Historically, companies often relocated new hires to principal office locations, but a recent trend accelerated by the pandemic has been the opening of satellite offices located proximate to concentrations of prime personnel. Millennial workers, many now focused on family formation, have capitalized on the work-from-home opportunity to relocate to suburban areas and to smaller, secondary and tertiary cities. Companies have begun to adapt, targeting low-rise suburban space closer to employees. This lower-cost space, often with now-favored private entrances, offers employers more space per employee for physical distancing and more control over the workspace to moderate potential health risks. This trend shift, reminiscent of the 1980s baby boomer-driven suburban expansion, could reshape the office market in coming years.

## Momentum Markets

*Atlanta*
*Charlotte*
*Minneapolis-St. Paul*
*Raleigh*
*Riverside-San Bernardino*
*Sacramento*
*Tampa-St. Petersburg*
*West Palm Beach*

- Entries in momentum markets are either outperforming the U.S. average or are holding steady. These metros are also gaining traction due to pandemic driven in-migration.
- Southern markets dominate this segment as the coronavirus sped up the trend of migration to metros with lower-cost housing such as Atlanta, Sacramento and Charlotte in the Sunbelt.

## In-Migration Tailwinds

*Boston*
*Houston*
*Indianapolis*
*Kansas City*
*Orlando*
*Phoenix*
*San Diego*
*Seattle-Tacoma*
*St. Louis*
*Washington, D.C.*

- Metros in this segment have vacancy that is moderate or higher than the U.S. level due in part to restrained negative absorption. Pandemic-related migration also support rent gains in some markets.
- Higher job gains are drawing residents to these metros that include areas with growing tech employment including Seattle-Tacoma, Boston and Indianapolis.

## Nearing Recovery

*Baltimore*
*Cincinnati*
*Cleveland*
*Columbus*
*Fort Lauderdale*
*Las Vegas*
*Louisville*
*New Haven-Fairfield County*
*Oakland*
*Pittsburgh*

- Although these markets have registered a temporary loss in absorption, a restrained development pipeline will not pose an overdevelopment problem in the near term.
- Smaller markets dominate this segment, many in the Midwest. Some metros such as Louisville, Cincinnati and Cleveland also have less available sublease inventory.

## Development Overhang

*Austin*
*Chicago*
*Dallas/Fort Worth*
*Miami-Dade*
*Nashville*
*Salt Lake City*
*San Antonio*
*San Jose*

- These markets are characterized by rising vacancy driven mainly by an increase in inventory amid a slowdown in leasing activity.
- Markets with a growing population and tech employment base dominate this category as construction projects started in a different environment pre-pandemic and the recent increase in sublease space is imposing supply pressures.

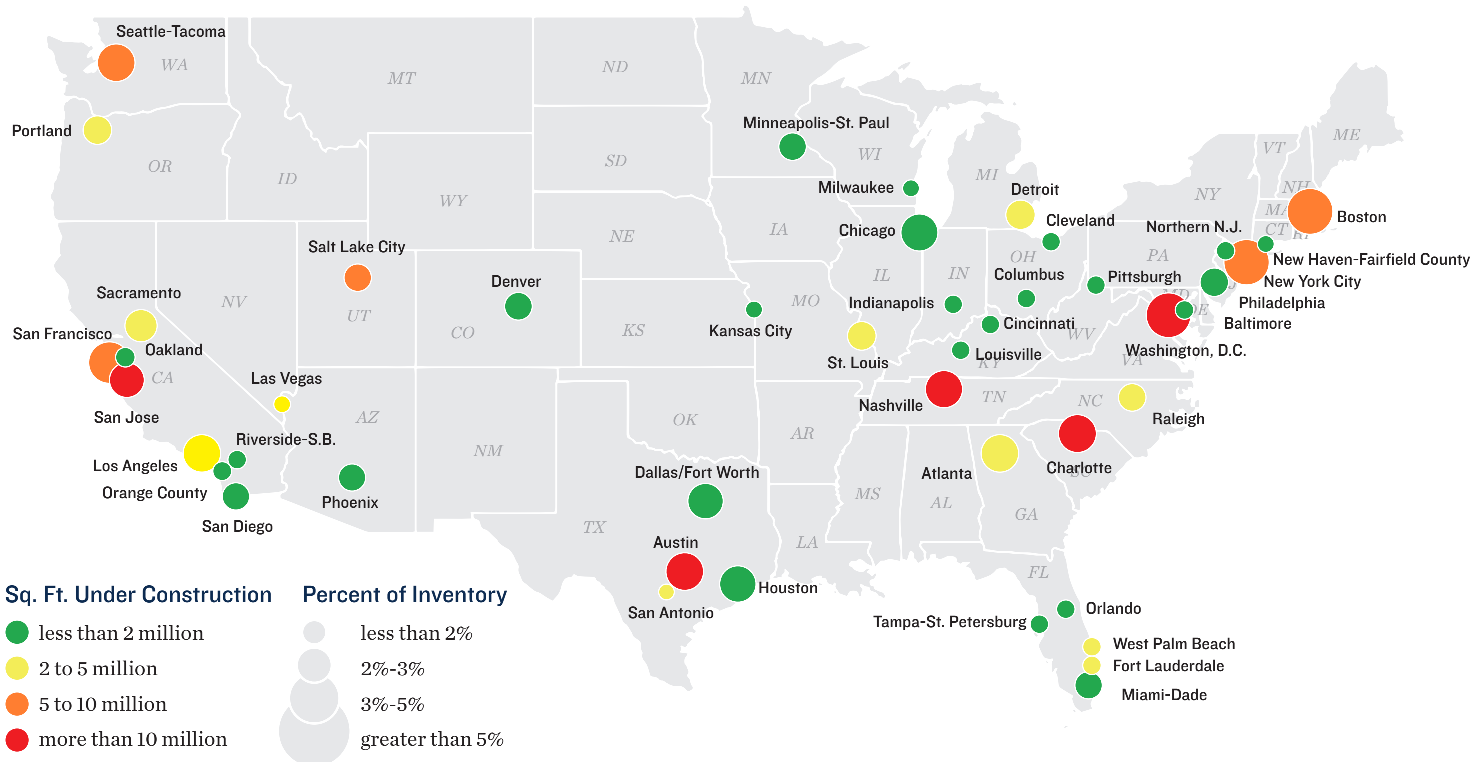
## Protracted Recovery

*Denver*
*Detroit*
*Los Angeles*
*Milwaukee*
*New York City*
*Northern New Jersey*
*Orange County*
*Philadelphia*
*Portland*
*San Francisco*

- The pandemic hit these markets harder, producing significant amounts of negative absorption and resulting in rising vacancy.
- This segment includes the gateway metros of Los Angeles, New York City and San Francisco. Workers vacating office towers and companies offering space for sublease will extend the time for fundamentals to improve.

## Office Construction Concentrated in Few Markets

### Square Feet Under Construction at Year-End 2020




## Markets With Highest Vacancy

| Market | % Vacant 2020 | Y-O-Y Basis Point Change |
|---|---|---|
| Houston | 22.4% | 200 |
| Dallas/Fort Worth | 21.2% | 320 |
| Washington, D.C. | 18.9% | 210 |
| Atlanta | 18.2% | 320 |
| Chicago | 18.0% | 260 |

## Markets With Lowest Vacancy

| Market | % Vacant 2020 | Y-O-Y Basis Point Change |
|---|---|---|
| Louisville | 7.8% | 40 |
| Riverside-San Bernardino | 10.3% | 160 |
| Raleigh | 10.6% | 170 |
| Seattle-Tacoma | 11.0% | 330 |
| Kansas City | 11.2% | 190 |

## Markets With Highest Absorption

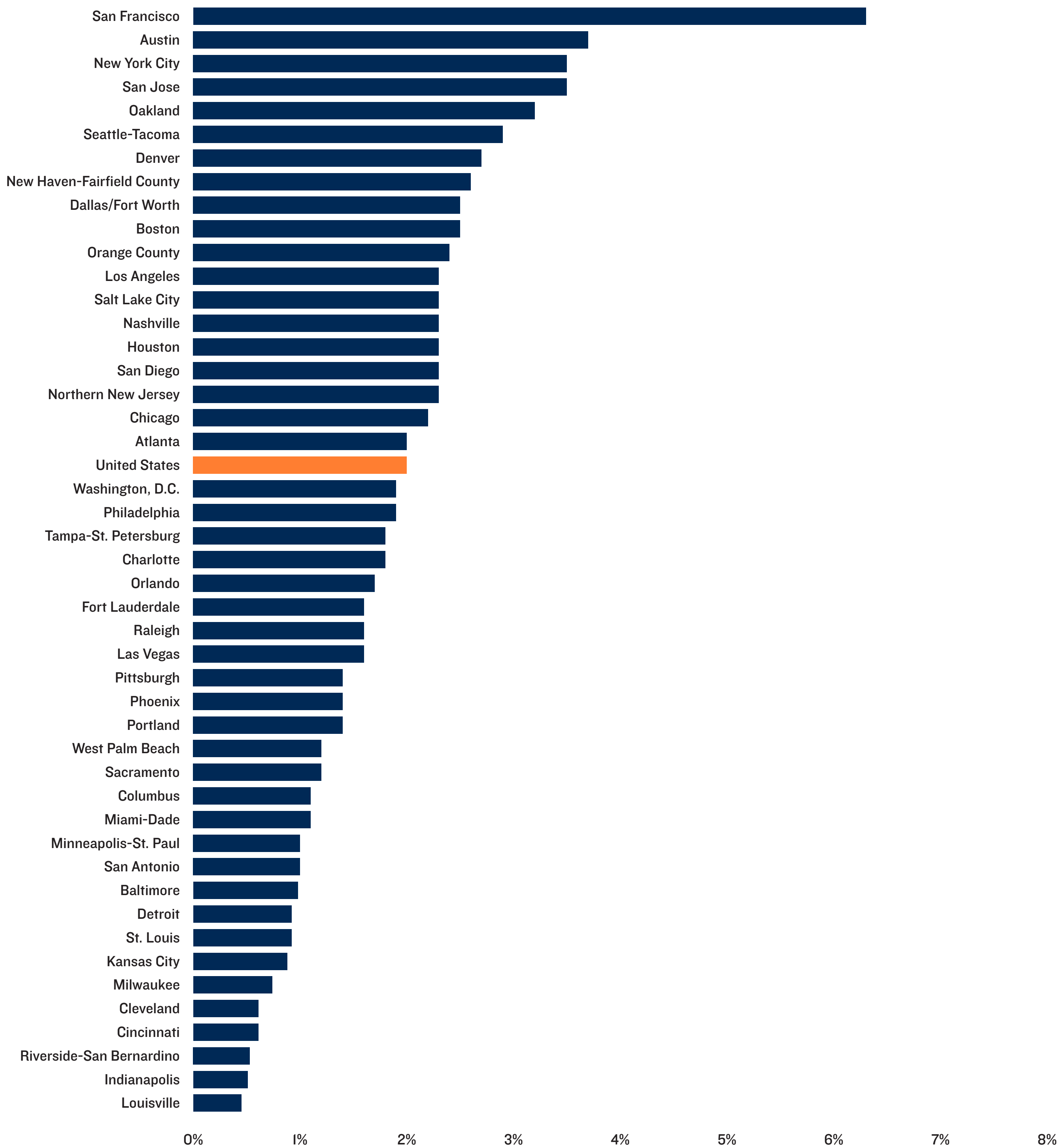
| Market | Net Absorption Square Feet | Y-O-Y Change |
|---|---|---|
| Raleigh | 337,146 | -0.9% |
| Louisville | 126,629 | -0.8% |
| Indianapolis | -139,389 | -1.2% |
| Las Vegas | -210,129 | -1.3% |
| Milwaukee | -215,610 | -0.8% |

## Markets With Weakest Absorption

| Market | Net Absorption Square Feet | Y-O-Y Change |
|---|---|---|
| New York City | -19,093,570 | -4.0 % |
| Los Angeles | -12,329,657 | -4.7% |
| San Francisco | -11,125,035 | -6.8% |
| Dallas/Fort Worth | -8,610,225 | -2.0% |
| Chicago | -8,153,149 | -2.7% |

*Source: CoStar Group, Inc.*

## Gateway and Tech Markets Lead Nation in Available Sublease Inventory




*Available Sublease Space Year-End 2020 (Percent of Total Inventory)*

*Source: CoStar Group, Inc.*

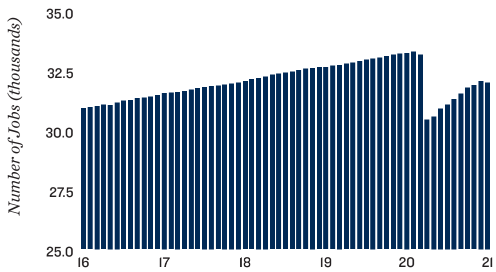
## Office Data Summary

| Market Name | Office-Using Employment Growth | | | | Completions (000s of Sq. Ft.) | | | | Vacancy | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2017 | 2018 | 2019 | 2020 | 2017 | 2018 |
| Atlanta | 3.1% | 0.6% | 3.1% | -3.9% | 3,160 | 2,510 | 2,660 | 3,410 | 15.5% | 15.5% |
| Austin | 5.1% | 7.1% | 5.5% | 5.8% | 2,720 | 3,460 | 2,370 | 3,040 | 11.1% | 11.3% |
| Baltimore | 0.3% | 1.6% | 3.3% | -3.4% | 1,170 | 1,120 | 640 | 340 | 12.5% | 12.1% |
| Boston | 1.4% | 2.2% | 1.1% | -1.4% | 3,250 | 3,650 | 2,410 | 1,740 | 11.4% | 10.6% |
| Charlotte | 2.7% | 2.6% | 2.6% | 1.1% | 2,260 | 680 | 3,070 | 500 | 11.7% | 10.7% |
| Chicago | 1.2% | 0.5% | -0.1% | -3.9% | 3,030 | 3,320 | 4,840 | 4,470 | 16.4% | 15.5% |
| Cincinnati | -0.2% | 0.7% | 3.5% | -5.0% | 640 | 310 | 240 | 90 | 13.1% | 13.5% |
| Cleveland | 1.0% | 1.9% | 0.1% | -8.3% | 340 | 860 | 360 | 240 | 10.5% | 10.2% |
| Columbus | 0.3% | 0.8% | -0.8% | -2.1% | 1,500 | 1,100 | 970 | 580 | 10.4% | 11.7% |
| Dallas/Fort Worth | 1.9% | 3.8% | 3.6% | 2.8% | 10,160 | 6,380 | 7,580 | 3,630 | 18.4% | 18.6% |
| Denver | 2.8% | 2.5% | 2.5% | 1.8% | 2,480 | 3,690 | 1,440 | 1,290 | 14.3% | 14.4% |
| Detroit | 0.3% | 0.7% | -0.3% | -5.2% | 990 | 720 | 570 | 410 | 14.8% | 15.3% |
| Fort Lauderdale | 2.5% | 2.2% | 0.6% | -4.2% | 640 | 450 | 440 | 540 | 13.0% | 12.9% |
| Houston | 2.6% | 2.1% | 2.6% | -0.3% | 4,860 | 1,880 | 1,880 | 2,020 | 19.9% | 20.1% |
| Indianapolis | 2.2% | -0.2% | 0.7% | 0.7% | 900 | 1,010 | 490 | 580 | 10.9% | 11.2% |
| Kansas City | 0.7% | -1.6% | 0.1% | -2.6% | 1,020 | 730 | 830 | 1,420 | 10.3% | 10.0% |
| Las Vegas | 3.9% | 4.3% | 2.4% | -8.7% | 660 | 570 | 270 | 570 | 15.3% | 14.6% |
| Los Angeles | 1.5% | 2.2% | 0.5% | -6.6% | 2,500 | 1,950 | 2,190 | 1,950 | 13.8% | 13.6% |
| Louisville | -0.4% | 0.2% | 3.0% | -5.5% | 260 | 160 | 400 | 360 | 7.9% | 7.7% |
| Miami-Dade | 2.3% | 1.4% | 1.3% | -1.1% | 910 | 1,270 | 320 | 910 | 11.8% | 12.1% |
| Milwaukee | 1.3% | -2.5% | -0.7% | -4.4% | 1,490 | 320 | 670 | 760 | 12.3% | 11.2% |
| Minneapolis-St. Paul | 0.7% | 1.3% | -0.1% | -1.8% | 1,310 | 1,700 | 1,370 | 590 | 10.7% | 11.2% |
| Nashville | 4.4% | 4.1% | 4.3% | 1.2% | 2,840 | 1,350 | 2,310 | 2,020 | 10.1% | 10.0% |
| New Haven-Fairfield County | -1.6% | -0.3% | 1.5% | -6.8% | 140 | 100 | 670 | 290 | 17.1% | 17.4% |
| New York City | 2.4% | 2.5% | 2.2% | -7.7% | 2,680 | 4,580 | 11,120 | 5,260 | 11.0% | 10.6% |
| Northern New Jersey | 1.6% | 0.5% | 0.1% | -5.2% | 670 | 200 | 550 | 450 | 16.0% | 15.2% |
| Oakland | 1.2% | 2.0% | 0.2% | -3.4% | 170 | 800 | 1,300 | 400 | 11.7% | 11.6% |
| Orange County | 1.2% | 1.5% | 2.6% | -5.2% | 2,100 | 850 | 1,370 | 210 | 13.6% | 13.1% |
| Orlando | 4.4% | 2.6% | 2.7% | -2.6% | 630 | 680 | 510 | 1,860 | 11.1% | 10.2% |
| Philadelphia | 1.0% | -0.4% | 1.0% | -4.3% | 1,290 | 3,070 | 1,760 | 730 | 13.0% | 13.4% |
| Phoenix | 3.4% | 4.1% | 3.3% | -2.6% | 2,250 | 1,220 | 3,170 | 2,160 | 16.3% | 15.9% |
| Pittsburgh | 0.0% | 0.8% | 1.9% | -2.6% | 510 | 340 | 630 | 820 | 12.1% | 11.4% |
| Portland | 1.7% | 1.7% | 3.2% | -3.2% | 610 | 1,700 | 140 | 1,130 | 9.6% | 10.2% |
| Raleigh | 3.1% | 3.2% | 2.2% | 3.1% | 2,390 | 2,070 | 1,840 | 2,250 | 10.5% | 9.9% |
| Riverside-San Bernardino | 1.8% | 2.0% | 2.3% | -2.8% | 210 | 270 | 260 | 580 | 11.0% | 9.9% |
| Sacramento | 0.7% | 0.9% | 1.8% | 0.2% | 60 | 260 | 530 | 620 | 12.7% | 12.4% |
| Salt Lake City | 3.0% | 2.8% | 2.7% | -2.1% | 2,450 | 2,470 | 2,560 | 3,110 | 10.5% | 8.8% |
| San Antonio | 1.8% | 2.9% | 1.0% | -2.9% | 1,540 | 760 | 1,380 | 780 | 11.4% | 11.3% |
| San Diego | 3.5% | 2.2% | 2.9% | 0.8% | 770 | 650 | 480 | 1,230 | 13.2% | 12.9% |
| San Francisco | 4.3% | 6.1% | 5.3% | -2.1% | 880 | 4,310 | 3,360 | 610 | 9.2% | 8.1% |
| San Jose | 3.9% | 3.0% | 3.4% | -2.6% | 8,680 | 3,140 | 1,830 | 1,840 | 11.9% | 11.1% |
| Seattle-Tacoma | 3.1% | 3.9% | 3.1% | 2.3% | 3,580 | 1,750 | 3,310 | 4,490 | 9.4% | 7.6% |
| St. Louis | 0.7% | 0.1% | -0.1% | -2.4% | 930 | 310 | 850 | 520 | 10.0% | 10.7% |
| Tampa-St. Petersburg | 2.9% | 3.0% | 2.7% | -2.0% | 440 | 550 | 940 | 1,020 | 10.7% | 9.9% |
| Washington, D.C. | 1.5% | 1.4% | 2.9% | -1.9% | 4,040 | 4,260 | 5,570 | 3,990 | 17.5% | 17.2% |
| West Palm Beach | 1.7% | 1.5% | 0.1% | -3.5% | 80 | 70 | 430 | 220 | 14.4% | 13.3% |
| United States | 1.7% | 2.0% | 1.7% | -3.5% | 91,710 | 80,240 | 88,020 | 70,640 | 13.3% | 12.9% |

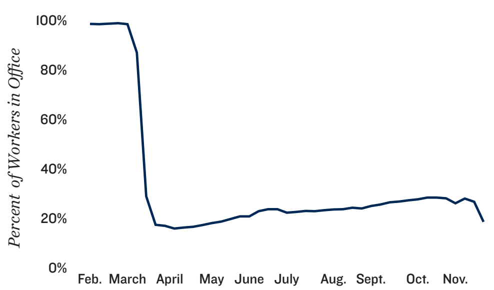
| Rate | | Asking Rent per Sq. Ft. | | | | Average Price per Sq. Ft. | | | | Market Name |
|---|---|---|---|---|---|---|---|---|---|---|
| 2019 | 2020 | 2017 | 2018 | 2019 | 2020 | 2017 | 2018 | 2019 | 2020 | |
| 15.0% | 18.2% | $22.55 | $23.35 | $24.13 | $24.54 | $162 | $185 | $196 | $215 | Atlanta |
| 11.5% | 17.0% | $23.80 | $25.29 | $26.34 | $26.33 | $296 | $321 | $349 | $365 | Austin |
| 11.8% | 12.8% | $21.84 | $21.76 | $21.63 | $21.70 | $151 | $160 | $166 | $169 | Baltimore |
| 11.3% | 13.6% | $29.96 | $29.27 | $30.81 | $29.14 | $283 | $298 | $323 | $319 | Boston |
| 10.7% | 12.6% | $23.56 | $24.65 | $26.22 | $27.30 | $201 | $219 | $239 | $258 | Charlotte |
| 15.4% | 18.0% | $21.64 | $22.22 | $22.30 | $22.42 | $169 | $184 | $194 | $191 | Chicago |
| 13.3% | 14.0% | $14.16 | $14.43 | $14.59 | $14.41 | $108 | $110 | $113 | $118 | Cincinnati |
| 10.9% | 11.6% | $15.97 | $16.06 | $16.04 | $16.18 | $96 | $100 | $99 | $97 | Cleveland |
| 10.5% | 12.7% | $14.52 | $14.85 | $14.90 | $14.91 | $109 | $115 | $121 | $122 | Columbus |
| 18.0% | 21.2% | $20.79 | $21.16 | $21.20 | $21.52 | $195 | $209 | $217 | $230 | Dallas/Fort Worth |
| 14.1% | 17.7% | $22.12 | $22.93 | $23.28 | $23.80 | $187 | $209 | $219 | $213 | Denver |
| 14.8% | 16.2% | $17.07 | $17.23 | $17.56 | $18.34 | $118 | $127 | $128 | $124 | Detroit |
| 13.7% | 16.6% | $20.27 | $21.29 | $21.55 | $22.35 | $216 | $221 | $243 | $270 | Fort Lauderdale |
| 20.4% | 22.4% | $20.66 | $20.72 | $21.19 | $21.09 | $183 | $194 | $197 | $200 | Houston |
| 10.7% | 11.4% | $18.23 | $19.11 | $18.88 | $19.10 | $129 | $136 | $145 | $145 | Indianapolis |
| 9.3% | 11.2% | $18.01 | $18.65 | $19.26 | $19.39 | $130 | $137 | $146 | $144 | Kansas City |
| 13.8% | 15.1% | $19.69 | $20.33 | $21.47 | $21.40 | $181 | $192 | $212 | $229 | Las Vegas |
| 13.2% | 16.9% | $34.91 | $35.97 | $37.78 | $37.83 | $402 | $433 | $457 | $467 | Los Angeles |
| 7.4% | 7.8% | $15.89 | $16.75 | $16.41 | $16.40 | $138 | $145 | $146 | $141 | Louisville |
| 12.4% | 14.5% | $31.42 | $32.12 | $32.91 | $34.12 | $302 | $324 | $332 | $354 | Miami-Dade |
| 13.3% | 14.5% | $15.70 | $15.56 | $15.52 | $16.01 | $138 | $148 | $146 | $150 | Milwaukee |
| 11.0% | 12.1% | $15.35 | $15.92 | $16.24 | $16.56 | $145 | $149 | $157 | $166 | Minneapolis-St. Paul |
| 10.6% | 13.7% | $24.38 | $24.99 | $26.00 | $26.27 | $225 | $249 | $275 | $283 | Nashville |
| 17.2% | 17.8% | $26.83 | $24.61 | $25.08 | $26.69 | $199 | $216 | $225 | $228 | New Haven-Fairfield County |
| 11.2% | 14.7% | $59.20 | $58.35 | $60.16 | $59.93 | $605 | $608 | $602 | $576 | New York City |
| 14.9% | 17.1% | $24.49 | $25.08 | $25.31 | $25.56 | $192 | $199 | $210 | $204 | Northern New Jersey |
| 12.1% | 14.2% | $35.91 | $38.16 | $38.91 | $39.06 | $313 | $333 | $355 | $365 | Oakland |
| 12.7% | 15.9% | $28.31 | $29.45 | $29.91 | $29.32 | $289 | $309 | $321 | $340 | Orange County |
| 9.6% | 12.3% | $20.01 | $20.83 | $21.29 | $21.77 | $185 | $198 | $202 | $211 | Orlando |
| 12.8% | 14.8% | $21.98 | $22.34 | $22.85 | $23.05 | $163 | $171 | $181 | $183 | Philadelphia |
| 14.7% | 17.6% | $22.64 | $23.07 | $24.01 | $24.69 | $183 | $204 | $213 | $234 | Phoenix |
| 11.6% | 13.4% | $21.34 | $20.97 | $21.15 | $21.29 | $140 | $143 | $145 | $148 | Pittsburgh |
| 9.9% | 13.6% | $24.38 | $25.25 | $25.08 | $24.86 | $251 | $264 | $285 | $283 | Portland |
| 8.9% | 10.6% | $22.71 | $24.13 | $24.73 | $25.25 | $172 | $197 | $221 | $243 | Raleigh |
| 8.7% | 10.3% | $20.02 | $20.14 | $21.17 | $21.88 | $186 | $194 | $212 | $235 | Riverside-San Bernardino |
| 11.2% | 13.5% | $21.92 | $22.88 | $23.42 | $24.07 | $185 | $192 | $199 | $208 | Sacramento |
| 8.7% | 12.4% | $20.22 | $20.66 | $21.20 | $21.43 | $167 | $176 | $181 | $191 | Salt Lake City |
| 11.5% | 13.6% | $19.65 | $20.25 | $21.00 | $21.13 | $177 | $193 | $207 | $228 | San Antonio |
| 12.6% | 15.7% | $30.26 | $30.54 | $31.65 | $32.18 | $298 | $312 | $320 | $336 | San Diego |
| 8.8% | 15.7% | $57.05 | $61.75 | $66.14 | $59.91 | $539 | $582 | $630 | $681 | San Francisco |
| 9.4% | 12.8% | $46.59 | $48.81 | $50.03 | $49.16 | $453 | $528 | $568 | $588 | San Jose |
| 7.7% | 11.0% | $29.39 | $29.89 | $32.41 | $30.96 | $327 | $345 | $375 | $414 | Seattle-Tacoma |
| 10.1% | 11.4% | $17.92 | $18.61 | $18.75 | $19.24 | $126 | $129 | $129 | $131 | St. Louis |
| 10.4% | 12.2% | $20.80 | $21.63 | $22.25 | $22.56 | $173 | $180 | $190 | $193 | Tampa-St. Petersburg |
| 16.8% | 18.9% | $35.87 | $36.54 | $36.79 | $36.87 | $291 | $305 | $315 | $334 | Washington, D.C. |
| 13.6% | 14.4% | $21.64 | $22.38 | $23.59 | $24.50 | $252 | $266 | $291 | $280 | West Palm Beach |
| 12.8% | 15.2% | $27.29 | $27.78 | $28.55 | $28.52 | $241 | $257 | $276 | $283 | United States |

*Sources: BLS; CoStar Group, Inc.; Real Capital Analytics*

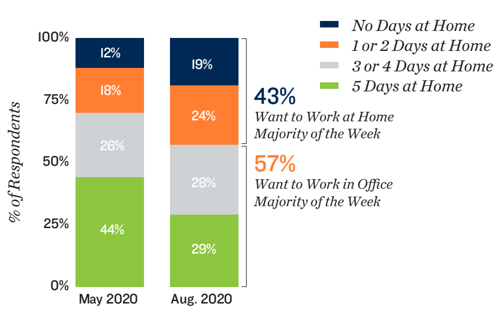
## Office-Using Jobs Returning



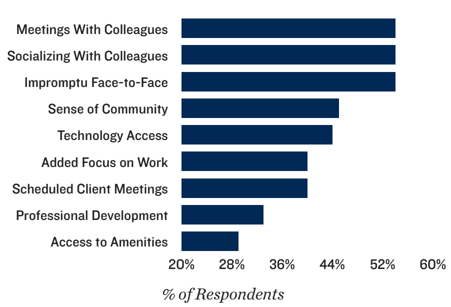

## Return to Office Slows After Steady Climb




## Workers Value Benefits of Offices




## Employees' Reasons to Return to the Office




** Through January 2021*
*Sources: BLS; Gensler; Kastle Systems*

# Uncertainty Will Remain in Office Sector Until Firms Can Gauge Long-Term Space Requirements

**Office-using jobs are returning.** During the March and April 2020 lockdown, nearly 2.9 million positions in traditional office-using segments were eliminated, a 9 percent reduction from the pre-coronavirus level in February. Through December, more than half of these positions had returned; however, not all parts of the nation are faring equally. Double-digit losses were posted during the first two months of the pandemic in metros including Los Angeles, Las Vegas, Detroit and Cleveland, while cities with large tech or government sectors such as Austin, Denver, Washington, D.C., and Salt Lake City were able to stem sizable job cuts as a number of office employees were able to work remotely.

**Office demand beyond the pandemic to take multiple forms.** Since firms sent employees to work at home, many are evaluating how they intend to use office space in the future and will be reassessing floor-plate requirements beyond COVID-19. In a recent study, many employees indicated a preference for being in an office at least part of the time but preferred the flexibility to work remotely some days. Before staffs return to offices, open layouts may need to be made less dense or altered with barriers between workers to adhere to physical-distancing protocols. Individual space may shrink and be shared as employees work from home more often, while collaborative and communal space may be expanded to ensure physical distancing. Cubicles may need to be altered to accommodate the rise in videoconferencing as more workers remain local instead of traveling to meet with clients. Office needs will depend on the industry and the type of work being done. What benefits one firm will not work the same way for another. Companies that are task oriented or conduct business primarily by telephone such as call centers may decide to permanently give up space, while creative, sales, client-oriented or service-based firms may keep or look to expand space requirements.

**Available subleases will proliferate throughout 2021.** The current demand for office space varies greatly among business sectors and job requirements. Remote working is being successfully achieved by many employees across a wide swath of companies including tech firms. Companies with a task-oriented labor force that can easily work from home are considering downsizing offices, especially those that sustained revenue declines. In contrast, positions requiring more collaboration will find it beneficial to work in offices. These firms may shift from smaller square footage per employee to larger collaborative spaces with open, flexible layouts that can be reconfigured to accommodate physical distancing so employees can safely return to the office. Companies in other segments such as back-office operators have found that they can permanently shift staff to work remotely, or to areas with more affordable rent, saving costs as leases come up for renewal. Businesses downsizing space needs raised the total sublease space available by 43 percent year over year in the fourth quarter. The surge in floor plates available for sublease will likely put downward pressure on rent in 2021 as lower rates are often offered to attract users. Companies with lease expirations looming and a lack of clarity on space needs may find a shorter-term solution in a sublease. Subleases can also give firms the ability to move into a more prominent space or building, at potentially lower rates, which may generate demand in Class A buildings and leave older, lower-quality space available well beyond the pandemic.

# Suburbs Gaining Momentum, Benefiting Garden-Style Office Buildings

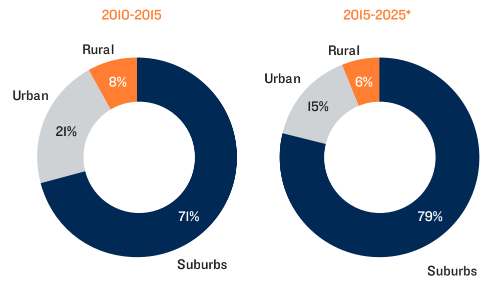
**Changing demand drivers shift focus to suburbs, less-dense cities.** As the coronavirus spread during 2020, the lower density of the suburbs and smaller metros appealed to businesses and residents seeking to avoid heavily populated areas, public transit and small enclosed spaces, including elevators. Many employees sent home to work found the space available to them lacking and began to search for larger, affordable residences with room to work and school their children from home. These factors led more people to residences in the suburbs, accelerating a trend that had already begun as the millennial cohort aged into their 30s and began to marry and start families. Companies wanting to be closer to where their employees live are reassessing space needs with some firms establishing satellite accommodations outside the main office in the central part of the city to foster collaboration and maintain the company culture.

**Hub-and-spoke model benefits suburbs.** As companies reevaluate space requirements, some are opting to downsize their higher-cost offices in the urban core and lease smaller spaces in suburban areas closer to employees in a hub-and-spoke-style arrangement. In some instances, sublease or coworking space is sought for its immediate occupancy, shorter lease terms and lower capital expenditures. This system cuts down on commute times while allowing staff to interact with colleagues in a nearby location when collaboration is necessary. Firms can also maintain their corporate culture and assist employees in finding a work-life balance, which may attract new workers. Not every industry or metro will fare equally in this type of system. Cities with high housing prices in the core and business sectors in which remote working is easier to achieve will benefit the most.

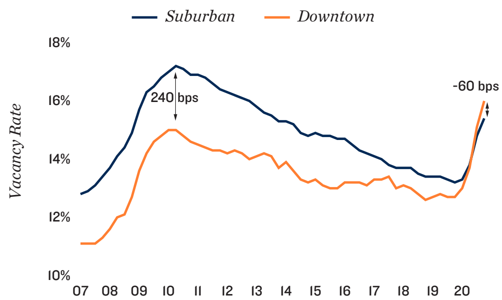
**Low-slung, non-elevator buildings with ample parking are desired.** Hesitancy from many workers to use public transit or gather in small, enclosed spaces in densely populated areas is drawing companies out of towers in the urban cores. Garden-style buildings with offices that can be accessed directly from the outdoors by open stairwells instead of an elevator are being favored during the pandemic. These properties are typically located in suburban areas and provide ample free parking. Buildings offering lower rents, providing a cost savings beyond the pandemic, are attractive to firms with diminished revenues this year. The trend of companies moving to the suburbs was already underway due to changing demographics but sped up during the pandemic.

**Investors favoring suburban assets.** Investment in the suburbs has outpaced that of the urban core during the past five years and through the first three quarters of 2020 accounted for 77 percent of total dollar volume of assets $2.5 million and greater, the highest percentage since 2009. This dynamic is due in part to a larger inventory of suburban assets, more suburban medical offices trading, and fewer high-priced towers in the core changing hands. Through the end of 2020, the average price of suburban properties was 33 percent lower than downtown buildings. Suburban buildings typically offer investors the potential for lower price points and higher yields. Lower-slung assets along main transit arteries, in amenitized neighborhoods and with essential tenants will be highly desired. Well-located older assets with renovation potential are likely to provide value-add opportunities as firms hit hard by the pandemic seek lower-cost office space.

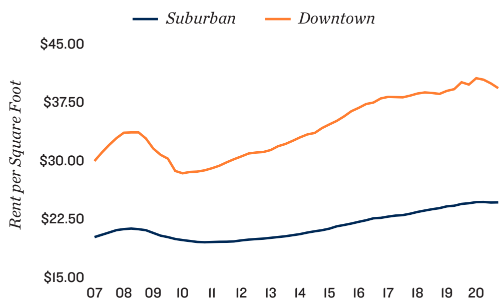
Household Growth Shifts to Suburbs



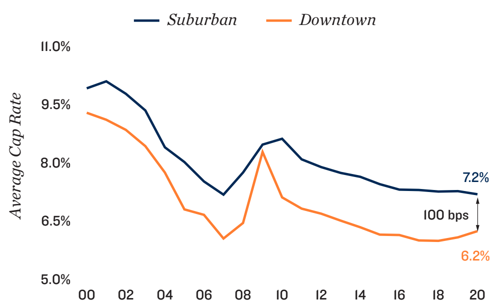

Vacancy in Core Rises Above Suburbs




Lower Rent Available in Suburbs



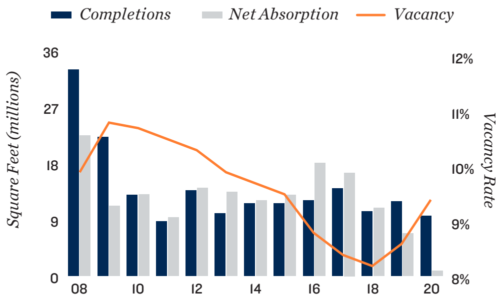

Suburban Properties Offer Higher Returns



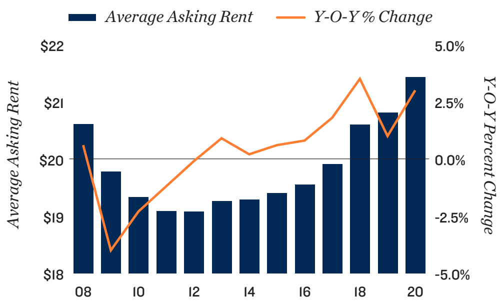

** Forecast*

*Sources: CoStar Group, Inc.; John Burns Real Estate Consulting; Real Capital Analytics*

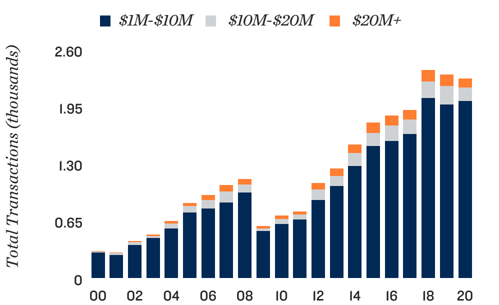
Absorption Slows, Pushing Vacancy Up



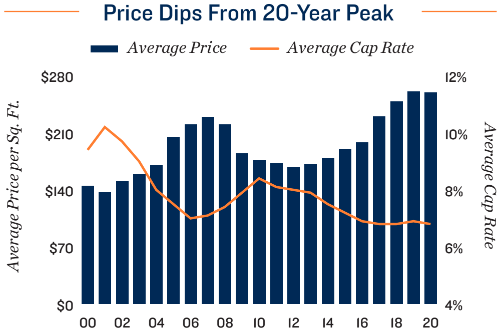

Rent Reaches New High




Transaction Activity Wanes




Price Dips From 20-Year Peak




*Sources: CoStar Group, Inc.; Real Capital Analytics*

## Strong Growth Among Necessity-Based Users Produces Medical Office Dichotomy

**Changes are needed to accommodate increased safety protocols.** While necessity-based medical facilities including dialysis and urgent care centers remained open during the pandemic, many other medical office tenants were shuttered while stay-at-home orders were in effect, postponing or delaying appointments. This resulted in many medical providers reducing hours and restricting patient loads to ensure safe physical distancing and sanitation, cutting into revenues. At the trough in April, personal consumption expenditures on health services (excluding pharmaceuticals) were down 32 percent on an annualized basis. In the spring, almost 2.3 million healthcare and social assistance positions were cut during the lockdown as medical providers closed and many elective procedures were delayed. As of January 2021, healthcare employment remained roughly 898,800 positions below the pre-pandemic level.

**Decline in leasing softens fundamentals.** Developers had more than 10 million-square-feet of medical offices under construction in the nation's major metros at the end of 2020 with completion dates into 2023. More than half of the underway inventory is due in 2021, although some projects could be delayed, providing the lowest delivery pace in more than 10 years. Reduced deliveries in 2020 still outpaced net absorption, raising vacancy to 9.4 percent, a year-over-year jump of 80 basis points and the highest rate since 2015. Leasing activity will likely recover relatively quickly once patients feel comfortable returning to medical providers for checkups and elective procedures. Competition for tenants may come from alternative buildings such as shopping centers being used for medical practices. Although vacancy ticked up, the asking rent rose 2.3 percent year over year to $21.43 per square foot on average at year end, setting a 12-year high and keeping investors active. Buyers have focused on buildings with necessity-based medical and lab tenants.

**Telemedicine gains traction during pandemic.** Greater use of telemedicine may change the needs of medical office space in the future. Although the use of telemedicine had been on the upswing in recent years, the coronavirus accelerated the adoption as more health insurers covered the cost to keep patients at home. Post-COVID-19, a rise in use of video consultations could allow for an increase in patient load and may require altering medical offices to accommodate virtual appointments. Looking forward, demographic trends favor increased demand for medical office space as the last of the baby boom generation ages into retirement. Between 2020 and 2025, the population age 65 and older is expected to jump 17 percent. These tools will be more useful as people age and their mobility becomes more limited.

**Pandemic has highlighted need for medical lab space.** The search and increased funding for vaccines and therapeutics to combat COVID-19 has generated the need for lab space by biotech, medical-device makers, and pharmaceutical companies. The coronavirus has also focused attention on the need to onshore the supply chain used to produce medical and life science goods. Innovations in artificial intelligence, gene and cell therapies, as well as an aging population that will use more of the products generated by these firms, should keep demand for lab space elevated in the years ahead. The rise in demand should benefit metros with large life science clusters, including Boston, San Diego, Raleigh and San Francisco, as well as expanding hubs in Philadelphia and Baltimore.

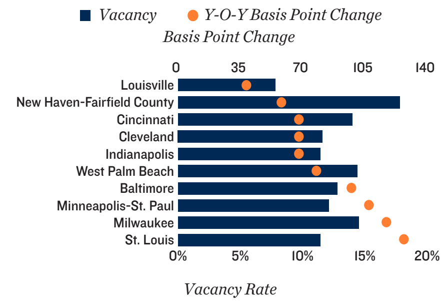
# Smaller Midwest Markets Outperform Gateway Metros During Pandemic; South Dominates Rent Growth

**Gateway metros face long road to recovery.** As the pandemic took hold, office towers in major urban population centers cleared out as staff began working from home. Markets with highly utilized public transportation systems including New York City, San Francisco and Chicago registered the largest decline in office users as personnel stayed away from high-density enclosed spaces. These cities will face the most difficult recovery as their very nature tends to be contrary to physical distancing, causing many employees to prefer working from home. Buildings featuring updated HVAC systems and touch-free surfaces will be favored as society re-adapts to working from the office once vaccines are widespread, and they will likely generate additional tenant interest as businesses reopen offices. These properties, however, will confront competition from a surge in subleased space becoming available that may provide companies seeking marquee space with a more prestigious floor plate at a discounted rate. San Francisco, Austin, San Jose, Oakland and New York City lead the nation, with all having more than 3 percent of total inventory available for sublease.

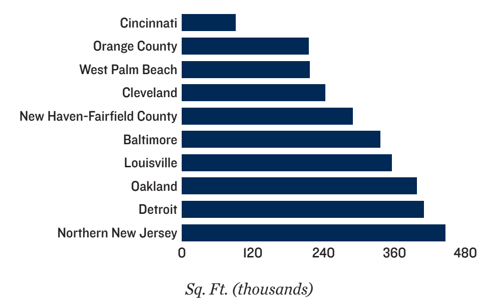
**Lower cost of living benefits smaller metros.** Employees able to work from anywhere are choosing to relocate to less-expensive quarters outside the urban cores. More affordable rents and home prices are drawing many of these workers to the suburbs and secondary/tertiary cities. Metros where year-end 2020 office-using employment had risen above the pre-COVID-19 level include tech powers Austin, Seattle-Tacoma and Raleigh. Employment in these cities should do well in 2021 as many tech firms continue to expand. A number of Midwest markets are also outperforming as firms seek to lower costs. Louisville, Indianapolis, Cleveland and Kansas City were among metros registering the lowest vacancy increases year over year in 2020. Cities in the nation's midsection also rank among those having the least amount of construction underway and sublease space available, which should help to steady the fluctuation in the vacancy rate during the year ahead. Beyond the pandemic, lower rents in these markets should continue to lure expanding office users.

**Sunbelt markets record largest rent gains.** Southern metros are prominent in the list of major U.S. metros with the highest annual asking rent growth last year. West Palm Beach, Charlotte, Fort Lauderdale and Miami-Dade each posted increases of more than 3.5 percent. These metros offer lower rates than larger Northeast markets, luring more financial and tech firms to increase operations in Southern markets. Riverside-San Bernardino, Sacramento and Phoenix also ranked in the top 10 nationwide. Phoenix in particular has been successful in drawing new companies to the Southwest. The largest rent jump of 6.4 percent was recorded in New Haven-Fairfield County. The metro registered one of the smallest vacancy increases during the same period but still has one of the nation's highest office vacancy rates.

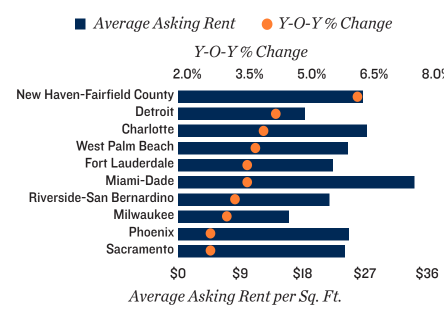
## Smallest Vacancy Rise



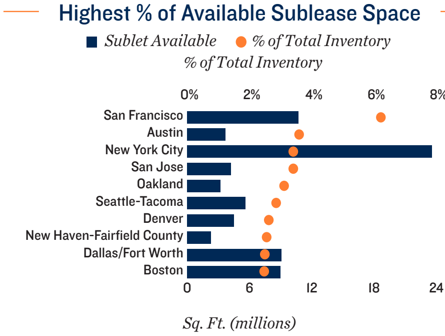

## Lowest Level of Deliveries




## Largest Rent Growth

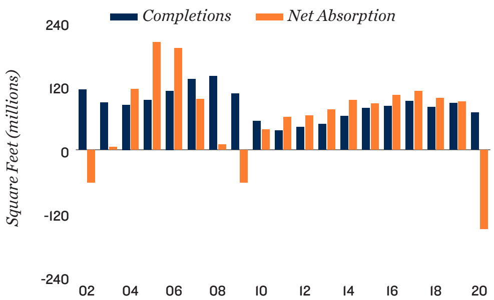



## Highest % of Available Sublease Space

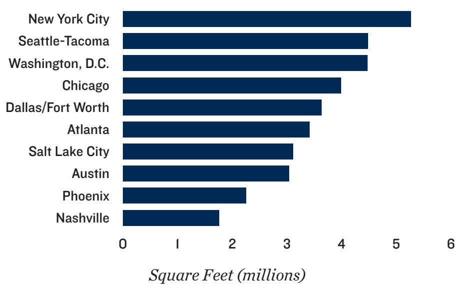



*Source: CoStar Group, Inc.*

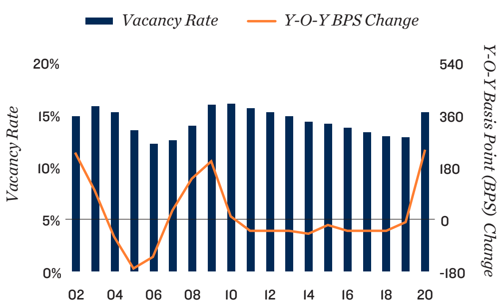
### Absorption Tumbles as Space Needs Reassessed



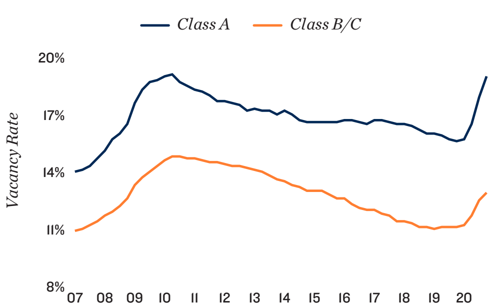

### Largest Inventory Gains in 2020




### Uncertainty Challenges Demand




### Class B/C Office Less Challenged




*Source: CoStar Group, Inc.*

## Companies Reevaluating Space Requirements, Generating Shifts in Office Fundamentals

**Construction projects begun before the health crisis are delivering.** Office developments started in a significantly different economic climate were completed in 2020, raising new inventory by 70.6 million square feet, slightly above the 10-year average margin. Finalizations were concentrated in five larger metros, which accounted for nearly 22 million square feet. Chicago, Dallas/Fort Worth, New York City, Seattle-Tacoma and Washington, D.C., each received more than 3.6 million square feet. Looking ahead, a lack of clarity on space decisions by a number of companies has delayed construction on some projects underway, pushing openings later into 2021. In addition, the groundbreakings on more planned projects have been delayed or canceled, which will likely slow deliveries in the years ahead.

**Technology companies continue to add office space.** Tech firms in particular have been in expansion mode during the pandemic even though many of their staffs are working remotely. Amazon added 2 million square feet to its campus in Seattle-Tacoma and signed leases for additional buildings underway in nearby Bellevue. The company has another 2.1 million square feet under construction at its HQ2 in the Washington, D.C., metro, that are expected to be completed in 2023. In Tennessee, the firm will occupy 3.2 million square feet in the Nashville Yards development and another 500,000 square feet is set to open in Boston during 2021. Nearby in Cambridge, Google is due to move into a 420,000-square-foot building in 2022. The company also has 1.7 million square feet expected to deliver during 2021 in Mountain View, California. Microsoft is set to expand into roughly 500,000 square feet in Atlanta, while Facebook and Apple have penned multiple new leases.

**Vacancy heads higher as leasing decisions are delayed.** The office vacancy rate for the U.S. held between the mid-12 percent to the low-13 percent zone over the past six years. The pandemic, however, slowed leasing activity beginning in the first quarter of 2020 as many companies paused to reassess the impact of the pandemic on their future space requirements. Some firms have vacated floor plates or put expansion plans on hold, while new projects continue to come online. As a result, net absorption fell out of positive territory in the second quarter of 2020. The vacancy rate change was especially pronounced in Class A inventory, having jumped 340 basis points during 2020 to 18.9 percent, the highest rate since 2010. In comparison, the Class B/C rate climbed 180 basis points to 12.8 percent, a rate last surpassed in 2015. Some operators of buildings with rising vacancy are being more flexible on lease terms to fill space and allowing companies to renew leases on a short-term basis until they have more certainty on their long-term space needs. As a result, roughly 27 percent of office leases are due to expire in 2021 and another 24 percent in 2022. Looking forward, vaccines will provide tenants with additional clarity on office needs as the year progresses and many firms are likely to implement a hybrid of remote and in-office schedules, limiting the amount of vacated space. In the meantime, companies with business picking up during the pandemic, including many tech and financial organizations, will drive leasing activity during 2021.

## Rising Vacancy, Increased Subleasing Activity Suppress Outlook on Rental Rates

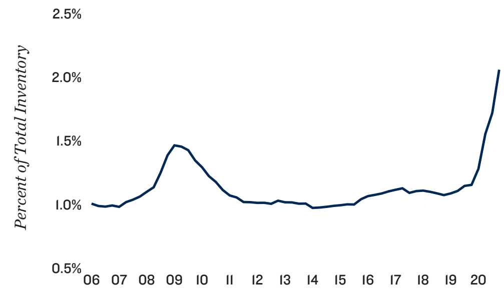
**Sublease availability surges.** New buildings coming online with unleased floor plates will face additional competition from an influx of subleased space being marketed. A number of firms that have successfully moved to working remotely are not re-leasing some or all office inventory and those without leases expiring are trying to sublease their floor plans. As a result, space available for sublease soared to the highest level in more than 15 years during 2020. The increase in competing floor plates will likely keep vacancy on an upward trajectory in 2021 and suppress rent gains in some submarkets. Lower rates for sublease space will likely attract firms seeking to move into higher-quality offices at a reduced price point, benefiting inventory in Class A buildings. Markets with large tech workforces, including San Francisco, San Jose, Austin and Seattle-Tacoma, dominate the list of U.S. metros with available sublease space.

**Absorption tumbles.** Companies giving back space contributed to a surge in vacant stock, sending net absorption into negative territory for the first time since the Great Recession. Occupied stock dropped by 149.1 million square feet last year, more than double the reduction of 61 million square feet recorded in 2009. The decline in occupied inventory was widespread. Major markets with an active delivery pipeline, including Dallas/Fort Worth, Houston, Washington, D.C., and Atlanta, registered weak absorption during 2020, pushing vacancy in these metros up more than 200 basis points annually to more than 18 percent. Only two major metros in the nation, Raleigh and Louisville, posted positive net absorption. Both benefited from limited supply of new inventory.

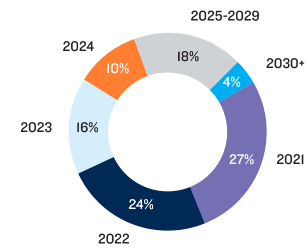
**Pandemic weighs on rent gains.** Rent growth slowed after reaching a nationwide peak of $28.91 per square foot during the first quarter of 2020 due to a rise in vacancy and a jump in sublease space being marketed. Between March and December of last year, the average asking rent receded to $28.52 per square foot, a 1.3 percent decline. On an annual basis, however, the rate dipped only slightly. Metros with above-average rent improvement year over year in 2020 include the smaller markets of New Haven-Fairfield County, West Palm Beach and Charlotte. Nationwide, leasing demand will be soft until workers are back in offices and uncertainties brought about by the coronavirus are sorted through, weighing on rent advances well into 2021. Rates are also facing stiff competition from the surge in sublease space that is typically offered at a lower price point, posing a challenge to operators trying to maintain rents as vacancy trends higher. In addition, companies leveraging an uptick in vacancy as an opportunity to move into more desirable space are leaving lower-rent floor plates available, putting further downward pressure on asking rent.

**Rent growth eases among office classes.** So far, long-term lease commitments are assisting in slowing the rate of office rent decline among classes. Since reaching a peak of $35.55 per square foot in March of 2020, Class A rent has declined 1.4 percent through the end of last year. The rate was up 0.3 percent annually but well below the prior year's 2.8 percent jump. Class B/C rent has followed a similar path, rising to a new high of $24.47 per square foot in the first quarter of 2020, but it slipped 1.5 percent to $24.11 per square foot by the end of December. On an annual basis, the rate decreased 0.7 percent, after a 2.4 percent climb 12 months earlier.

### Available Sublease Space Soars

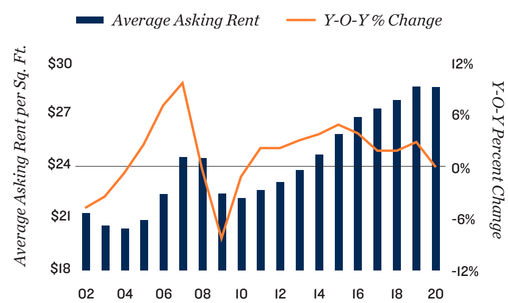



### Lease Expirations by Year: 2021 Favored

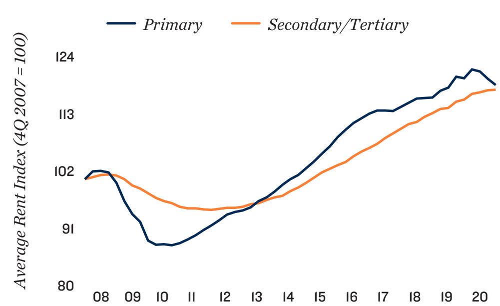



*Percent of Office Leases**

### Asking Rent Growth Slows



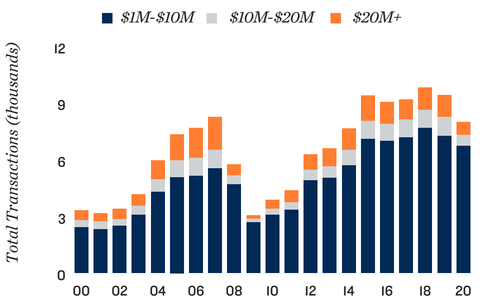

### Office Rent Index



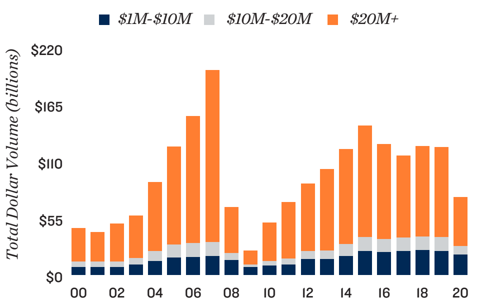

* *Not including leases with unknown expiration dates.*

*Source: CoStar Group, Inc.*

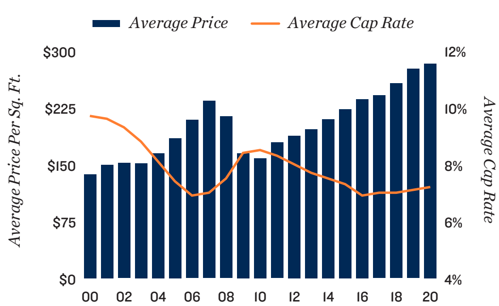
### Transaction Activity Wanes



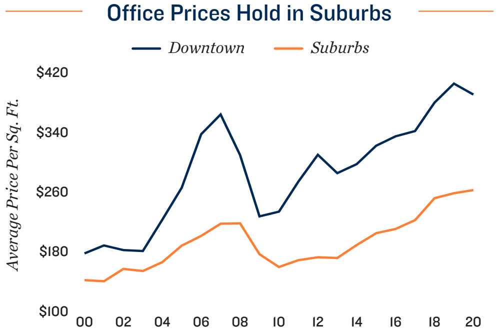

### Office Dollar Volume Contracts




### Prices Continue to Climb




### Office Prices Hold in Suburbs




*Sources: CoStar Group, Inc.; Real Capital Analytics*

## Deal Flow Keeps Moving Despite Cloudy Long-Range Outlook; Flight to Safety Pushes Prices Higher

**Office transactions picked up after slow spring.** Stay-at-home orders and a decline in foreign investment cut purchasing during the second quarter of last year, contributing to trading activity and dollar volume retreating to their lowest levels in more than five years in 2020. Year over year in March trading decreased roughly 40 percent. The largest decline was in the $20 million-plus price tranche as many institutional investors and REITs stepped to the sidelines to wait for more clarity. Fewer transactions by private investors also cut deal flow in the $1 million to $10 million span by roughly 33 percent, lowering dollar volume by 41 percent over the same period. Despite the slow transaction velocity in the spring, purchasing activity picked up in the second half of the year as shelter-in-place orders were lifted. Transactions and dollar volume in all office classes and price tranches jumped from March to December. Class B/C buildings with valuations between $1 million and $10 million drove deal flow.

**Primary markets favored.** During the second half of 2020, primary markets recorded the largest percentage increase in sales activity. The volume of trading in the $20 million-plus segment surged the most among price tranches as prime assets were sought. During the fourth quarter, rising primary metro vacancy contributed to the average cap rate in these settings shifting up 10 basis points to 6.6 percent. Investors favored buildings in Dallas/Fort Worth, Houston and Los Angeles as capital continued to move to the south. These three markets accounted for roughly 10 percent of the all transactions during 2020. Among secondary markets, assets in Phoenix, Philadelphia, Denver and Austin most often changed hands. Nationwide, the average cap rate in secondary markets held steady year over year at 7.3 percent, while the rate in tertiary metros rose 10 basis points to 7.8 percent. Tertiary metros targeted by investors during 2020 were growing tech hubs including Raleigh and Indianapolis.

**Demand for prime assets keeps prices rising.** The average price nationwide rose 1 percent in the second half of 2020 to $283 per square foot and up 3 percent annually as buyers shifted focus to medical office, life science or quality assets in prime office markets. Increased interest in premium buildings outside the urban core pushed the average price for suburban assets up 2 percent in 2020 to nearly $260 per square foot. During the same span, the average price of downtown buildings dipped slightly to an average of nearly $388 per square foot as fewer trophy towers transacted. The added risk profile of urban assets led to the average cap rate for office assets nationwide rising 10 basis points in the fourth quarter, but the rate is still holding in the low-7 percent bracket. Financing remains available with nearly half of transactions being funded by local, regional and national banks.

**Some metros face acute pricing challenges**. Not all markets fared as well across the country last year. Vacant office towers in New York City contributed to a price drop of over 4 percent in 2020. Other metros with price pressure include Northern New Jersey and West Palm Beach. In comparison, strong buyer demand amid relatively tight vacancy contributed to double-digit price gains in Riverside-San Bernardino and Seattle-Tacoma. The former metro is bolstered by some relocations out of nearby larger cities, while the sizable technology presence in Seattle-Tacoma is seen as a long-term stabilizer.

## Buyers Follow Tenants, Employees to Suburbs; Properties That Held Up During Pandemic Targeted

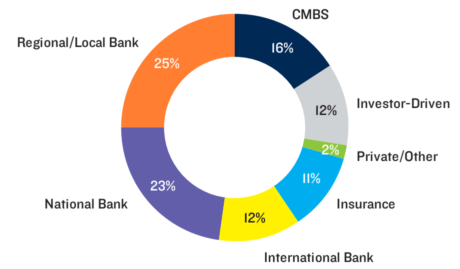
**Suburban office assets gaining favor.** Tenant trepidation in addition to higher price points in city cores have more investors willing to expand their search boundaries. More buyers are considering suburban assets, especially in neighborhoods near major transit arteries and urbanized amenities. Buyers are willing to pay for high credit tenants with long-term leases. Net lease assets and properties with a roster of tenants in critical or expanding industries are receiving increased attention. Buildings equipped with updated features that enable tenants to return to offices and amenities that allow for physical distancing are also desired. During the year ahead, many suburban submarkets are expected to outperform urban areas due to heightened leasing demand, a slower pace of construction, and favorable demographic trends.

**Downtown assets should not be dismissed.** Barriers to entry, access to talent, and a wide variety of amenities make core assets attractive, especially once workers return to offices. In the short term, however, the delivery of towers started before the pandemic will increase competition for tenants, likely delaying downtown rent growth in many markets. These new properties, especially those with post-coronavirus amenities, will likely draw REIT and institutional capital. Buyers seeking value-add plays may focus on well-located assets in urban centers with high vacancy that can be readily updated to enhance physical distancing and attract additional tenants once immunizations are widespread.

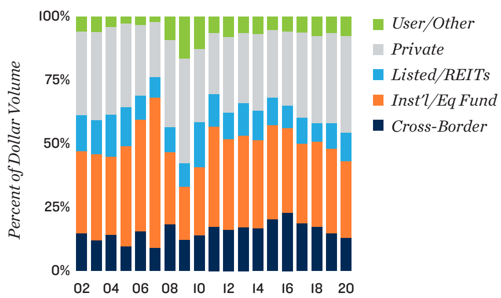
**Investors fix eyes on office assets that thrived during the coronavirus.** Many buyers in a move to safety are seeking properties that held up through the pandemic and have a positive long-term outlook. The need for flu shots, COVID-19 tests and vaccines, as well as an aging population, are generating buyer interest in medical office and lab space. Net lease assets or buildings backed by a hospital system in particular are receiving attention. Tenants at these facilities, including urgent care, dialysis centers and lab users, that remained open during the shutdown have also received greater investor demand. After pausing during the spring and summer of 2020, foreign investors have begun to return, many targeting life sciences buildings, boosting interest in metros with a large biotech sector including Raleigh, Boston and Philadelphia. Buyers seeking lower entry costs and higher yields may focus on assets in smaller but growing hubs such as Salt Lake City and Indianapolis. The competition for medical office and lab properties has tightened the supply of listed investment-grade assets, contributing to higher pricing.

**Uncertainty will restrain deal flow.** Looking ahead to this year investors will remain cautious, scrutinizing the credit worthiness of tenants and lease terms. Many buyers will focus on buildings in desirable growing markets that are well leased to essential tenants with long terms. Some companies in need of recapitalization or to improve balance sheets may be willing to negotiate a sale-leaseback opportunity, providing some additional buying options. While interest rates are historically low, some buyers may nevertheless wait on the sidelines for the desired transaction given current ambiguities with the property type. Even with vaccines on the way, it will take some time for widespread inoculations to make employees feel safe enough to use public transportation and return to offices in large numbers. These factors will delay clarity on the long-term outlook of many office assets, especially in metro cores.

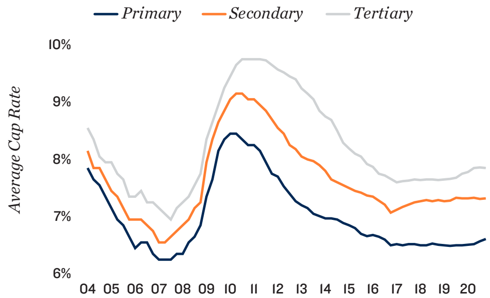
### Banks Drive Lending Activity in 2020



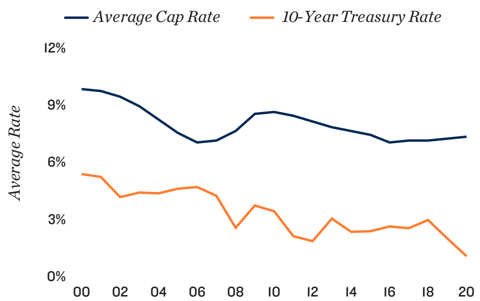

### Private Buyers Lead Dollar Volume




### Cap Rates Hold in Primary Markets



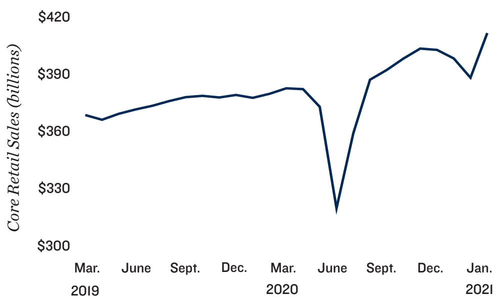

### Cap Rate vs. Treasury Gap Widens



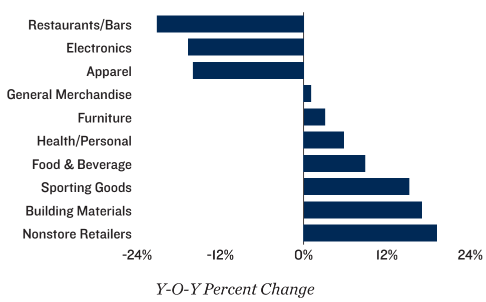

*Sources: CoStar Group, Inc.; Federal Reserve; Real Capital Analytics*

# RETAIL

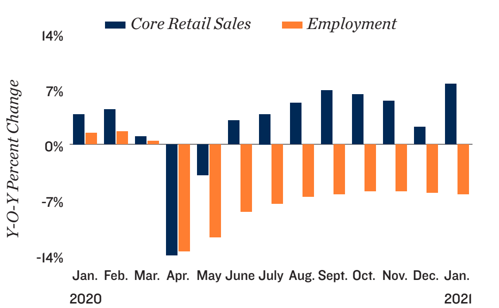
### Core Retail Sales




### 2020 Retail Sales Growth by Sector




### Employment and Spending Trends




### 1 out of 6 Restaurants Have Closed Long-Term


*Sources: BLS; National Restaurant Association; U.S. Census Bureau*

## Bifurcated Recovery of Retail Sector Could Yield to Broader-Based Expansion in Second Half

**Retail market faces fragmented recovery in 2021.** Property performance will fluctuate regionally and by building type as policymakers manage healthcare capacity against economic damage. In dense locations where stricter lockdowns are necessary to prevent the spread of COVID-19, many retailers will struggle to remain in business through the downturn despite a new round of stimulus. Suburban and rural retailers are likely to suffer fewer near-term impacts in the wake of the health crisis, along with properties that host essential businesses. Nonetheless, the consequences of shutdowns, particularly to small retailers and some already-teetering national brands, will ultimately lead to significant damage to some areas of the retail sector.

**Vaccine provides light at end of tunnel.** After wide vaccine distribution is achieved, the retail market will begin to heal. Experience-based concepts are the largest wild card as many have been unable to open to any degree through the duration of the pandemic. Two different challenges await these businesses following the crisis. First, startup costs may make it prohibitive to reopen. Presumably much of the staff has moved on to other opportunities or relocated. Second, gauging demand after a year hiatus could be challenging. Other concepts will see a post-pandemic surge. Demand for restaurants could soar and choices for diners will be more limited after thousands of restaurants never return.

**Retail sales challenged to duplicate 2020 performance.** Lockdowns across the nation funneled discretionary spending into the retail sector and away from entertainment options. Concerts, movies, sporting events and other large gatherings should return in the second half of this year, creating competition for consumer dollars. Although an excess $2.5 trillion was sitting in savings accounts at the beginning of the year, retail spending had largely leveled off in the fourth quarter. While headwinds may persist, some encouraging indicators also exist. A full reopening will generate service-industry jobs, and those workers will spend more freely. An additional swell will come in pent-up spending at bars and restaurants, where consumption was down approximately 20 percent year over year at the end of 2020.

**Gap between spending and employment to narrow.** Since the onset of the health crisis, either closures or a shift in behavior have impaired the ability of retail employees to return to work. Year over year, core retail sales were up approximately 3 percent in 2020, while retail trade employment was down nearly 3 percent and employment at food service and drinking places was off 19 percent. Many of these jobs will not immediately return due to the time it will take to create new establishments. However, by the end of the year new businesses will emerge as entrepreneurs enter the market or establishments that benefited from the health crisis begin expansionary cycles.

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## Sustained Momentum

*Charlotte*
*Indianapolis*
*Louisville*
*Orlando*
*Raleigh*
*Salt Lake City*
*Seattle-Tacoma*
*Tampa-St. Petersburg*

- High-growth markets that were relatively insulated from the downturn make up some of the metros in this category. Nearly all of the markets are building on relatively strong rent positions heading into 2021.
- Seattle-Tacoma is poised for a strong comeback due to the tech sector. Raleigh's combination of positive demographic trends and the Research Triangle support the market's position.

## Demographic Tailwinds

*Atlanta*
*Austin*
*Chicago*
*Columbus*
*Houston*
*Las Vegas*
*Miami-Dade*
*Nashville*
*Sacramento*

- The demographic tailwinds in these markets should hasten the retail recovery. Several of these markets, including Atlanta, Austin, Sacramento and Houston, have been a popular destination for workers migrating away from dense gateway cities.
- Orlando and Miami-Dade should receive a boost in tourism when the vaccine is widely distributed. Stimulus money will facilitate travel and a surge in visitors is anticipated in the second half of the year.

## Short-Term Setback

*Boston*
*Cincinnati*
*Milwaukee*
*Minneapolis-St. Paul*
*Northern New Jersey*
*Orange County*
*Phoenix*
*Portland*
*San Jose*

- More densely populated markets begin to fill this category and make up the first of the hard-hit metros to recover. Orange County, Portland, Boston and San Jose are among the markets with a fair outlook moving forward.
- Phoenix would occupy a higher group but elevated overall vacancy could be a small hurdle at a time when finding expanding retailers may be difficult.

## Pressured Fundamentals

*Dallas/Fort Worth*
*Denver*
*Kansas City*
*New Haven-Fairfield County*
*New York City*
*Philadelphia*
*San Antonio*
*San Diego*
*St. Louis*
*West Palm Beach*

- New York City, New Haven-Fairfield County and Philadelphia were particularly impacted by the health crisis, and the distribution of a vaccine could hasten the return to workplaces in these cities. Nonetheless, retail sales growth for all of these markets is anticipated to be below average.
- San Antonio faces relatively high vacancy entering 2021. Despite having above-average retail sales growth, a resumption of travel to the area's tourist destinations will be necessary for a stronger recovery.

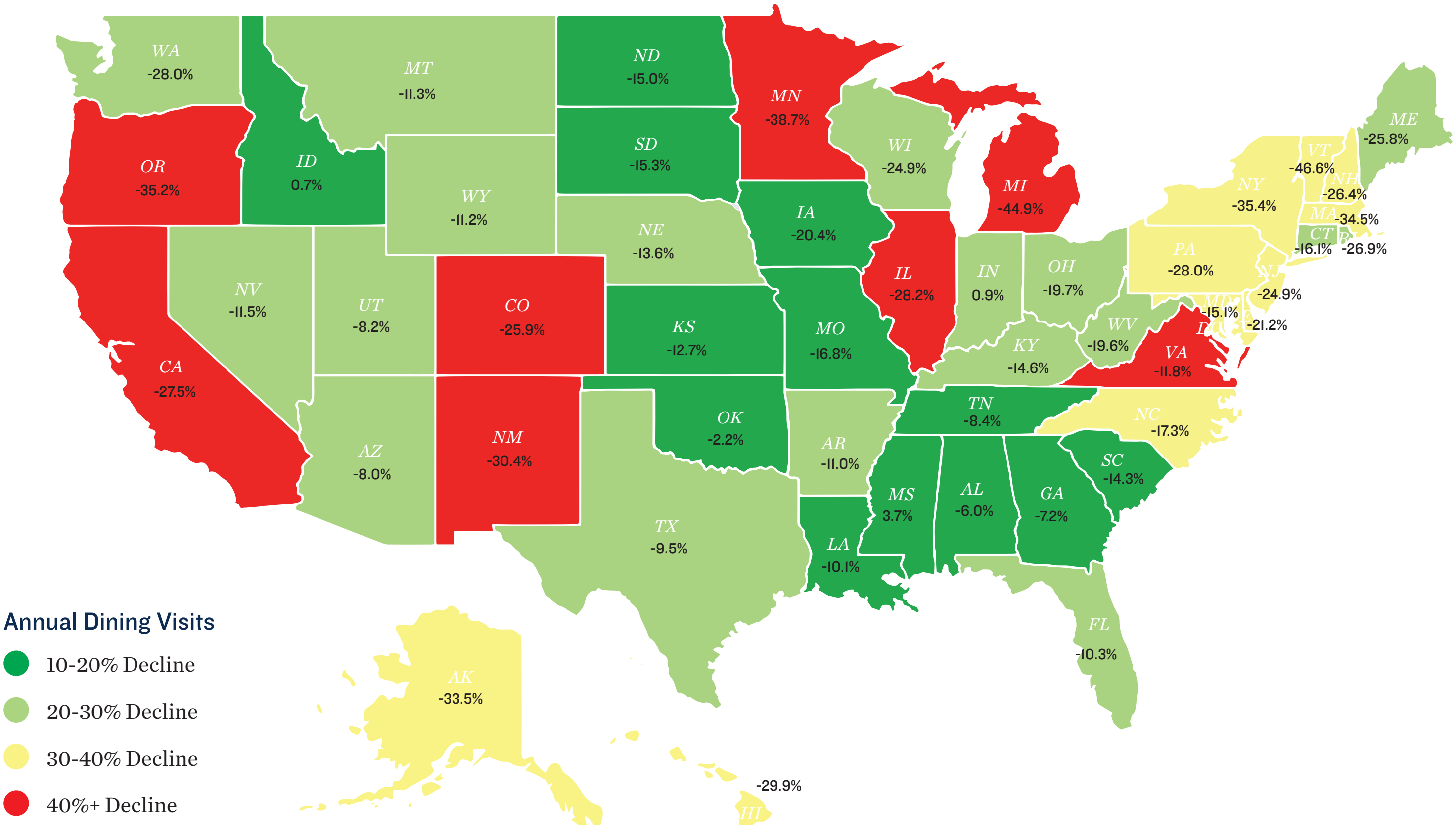
## Protracted Recovery

*Baltimore*
*Cleveland*
*Detroit*
*Fort Lauderdale*
*Los Angeles*
*Oakland*
*Pittsburgh*
*Riverside-San Bernardino*
*San Francisco*
*Washington, D.C.*

- Densely populated or hard-hit markets are a common shared characteristic of this group. San Francisco and Los Angeles may face the longest path to recovery. Washington, D.C., and Baltimore also face weak retail sales projections.
- Some of the slow-growth Midwest metros fall into this group due to their typical economic recoveries. Detroit and Cleveland account for those metros, and Pittsburgh to a lesser extent.

## States With Relaxed Reopening Policies Far Ahead in Dining Traffic and Job Recovery

### 2020 Job Performance at Restaurants and Bars vs. Visits to Dining Establishments




*State Color: Annual Change in Visits to Dining Places*

*State Percentage: Annual Change in Food Services Employment*

## Top 10 States by Dining Visits

| Market | Y-O-Y Dining Visits* |
|---|---|
| Mississippi | -10.1% |
| Alabama | -13.2% |
| Idaho | -13.3% |
| Missouri | -14.4% |
| Oklahoma | -15.5% |
| Kansas | -16.1% |
| Georgia | -16.6% |
| North Dakota | -18.5% |
| Louisiana | -18.6% |
| South Dakota | -19.2% |

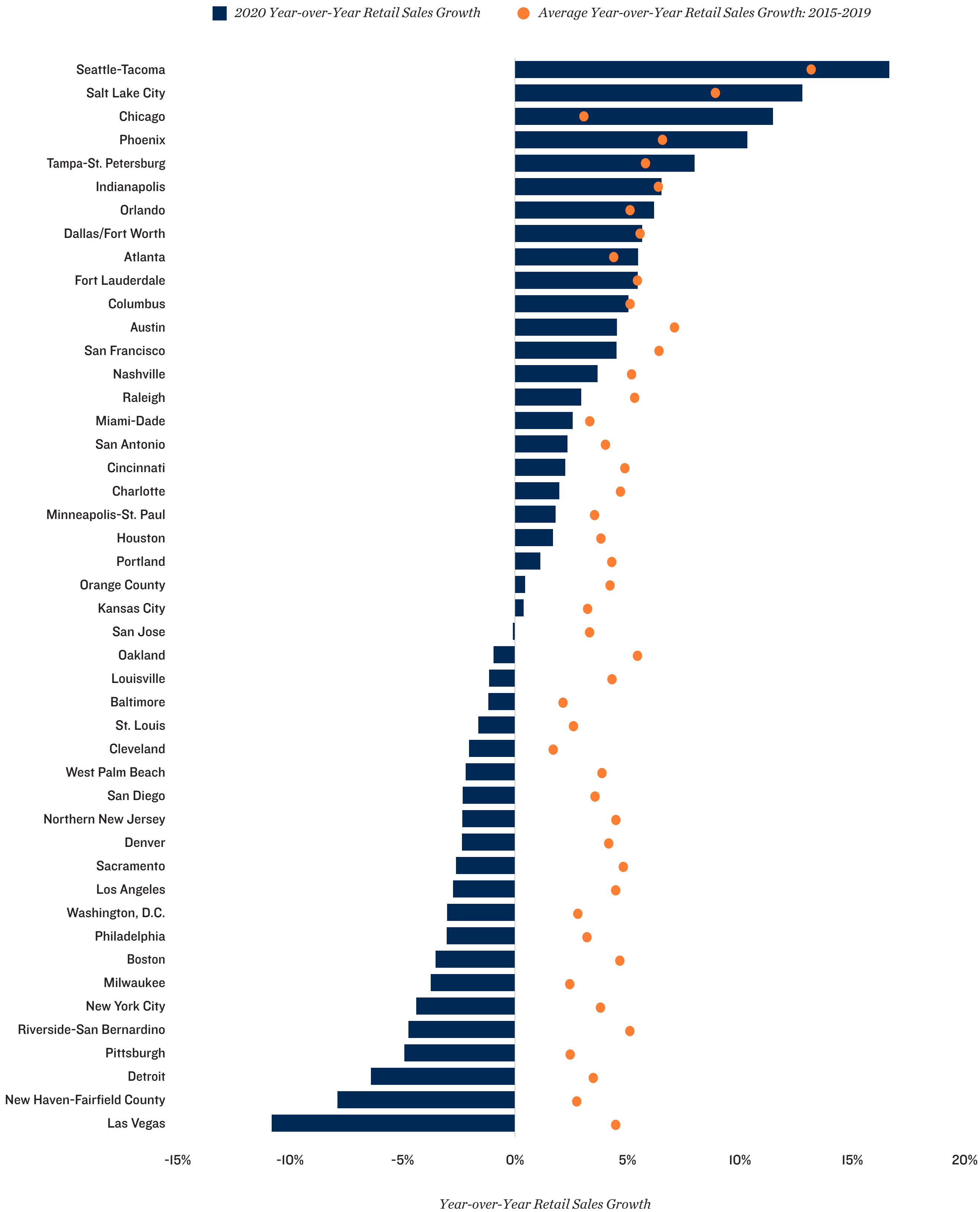
** Year-over-year foot traffic through Dec. 31*

*Source: Placer.ai*

## 2021 Dining Foot Traffic Outlook

- A combination of policy decisions and geographical advantages have placed several states far ahead in a recovery at dining establishments, which serve as a bellwether for a broader experience-based retailer comeback. Population density and winter weather also pose risks to some areas.
- States in the highest tiers are generally in the South and Midwest, where lockdowns were more relaxed or shorter. The availability of outdoor dining during the winter months has also served as an advantage for states in the Sunbelt.
- The lower two tiers face a steeper recovery from the downturn. Elevated restrictions likely forced a greater percentage of restaurants to permanently close, creating an environment where new establishments will need to be opened.

## Unbalanced Retail Sales Growth Persists Amid Health Crisis




*Source: U.S. Census Bureau*

# Retail Data Summary

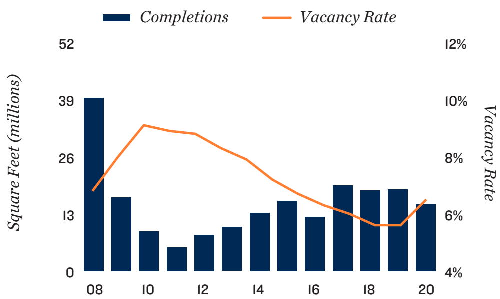
| Market Name | Employment Growth | | | | Median Household Income | | | | Retail Sales Growth | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2017 | 2018 | 2019 | 2020 | 2017 | 2018 | 2019 | 2020 |
| Atlanta | 2.2% | 1.9% | 2.5% | -2.6% | $67,000 | $70,100 | $72,200 | $71,300 | 4.8% | 4.2% | 4.0% | 5.5% |
| Austin | 3.3% | 4.2% | 3.6% | -1.0% | $75,100 | $78,800 | $81,500 | $80,300 | 6.3% | 6.9% | 7.2% | 4.5% |
| Baltimore | 1.1% | 0.8% | 1.2% | -5.1% | $79,000 | $81,300 | $83,500 | $85,600 | 2.3% | 3.0% | 1.8% | -1.2% |
| Boston | 1.3% | 1.3% | 0.9% | -9.2% | $87,100 | $91,400 | $95,000 | $88,600 | 4.5% | 5.0% | 5.2% | -3.5% |
| Charlotte | 2.2% | 2.5% | 2.3% | -4.9% | $61,800 | $64,400 | $67,000 | $69,400 | 4.9% | 5.2% | 4.4% | 2.0% |
| Chicago | 0.7% | 0.7% | 0.4% | -7.4% | $69,400 | $73,100 | $76,100 | $74,700 | 3.4% | 2.8% | 2.7% | 11.5% |
| Cincinnati | 1.3% | 1.1% | 0.8% | -4.6% | $62,300 | $65,000 | $67,400 | $69,800 | 6.4% | 4.8% | 3.5% | 2.2% |
| Cleveland | 0.4% | 1.4% | 0.5% | -8.6% | $54,200 | $56,100 | $57,500 | $59,500 | 1.7% | 2.8% | 3.0% | -2.0% |
| Columbus | 1.3% | 1.3% | 1.2% | -6.2% | $63,500 | $66,000 | $67,700 | $69,600 | 10.3% | 4.9% | 3.9% | 5.0% |
| Dallas/Fort Worth | 2.2% | 2.5% | 3.2% | -2.1% | $67,900 | $70,800 | $72,500 | $72,000 | 6.1% | 5.4% | 5.0% | 5.7% |
| Denver | 2.6% | 2.0% | 2.8% | -4.4% | $77,600 | $82,700 | $86,300 | $82,500 | 4.8% | 5.0% | 3.3% | -2.4% |
| Detroit | 1.2% | 1.3% | 0.5% | -11.0% | $59,100 | $61,800 | $64,000 | $63,600 | 4.8% | 3.6% | 3.1% | -6.4% |
| Fort Lauderdale | 1.7% | 1.8% | 1.2% | -7.3% | $57,400 | $61,000 | $61,600 | $61,500 | 5.0% | 6.4% | 5.5% | 5.5% |
| Houston | 1.6% | 2.7% | 2.0% | -4.3% | $64,400 | $67,400 | $69,600 | $70,100 | 3.9% | 4.5% | 3.3% | 1.7% |
| Indianapolis | 1.8% | 0.9% | 0.9% | -0.8% | $59,700 | $61,600 | $62,700 | $66,400 | 7.4% | 4.8% | 4.8% | 6.5% |
| Kansas City | 1.3% | 0.4% | 1.1% | -2.8% | $64,300 | $68,000 | $70,900 | $73,900 | 3.6% | 3.7% | 2.8% | 0.4% |
| Las Vegas | 2.9% | 3.1% | 1.9% | -9.5% | $57,900 | $62,100 | $62,000 | $50,500 | 5.1% | 5.6% | 4.2% | -10.8% |
| Los Angeles | 1.6% | 1.4% | 1.1% | -9.1% | $66,800 | $71,500 | $73,400 | $71,700 | 5.3% | 4.8% | 3.5% | -2.8% |
| Louisville | 1.1% | 0.7% | 0.4% | -5.1% | $57,100 | $59,600 | $61,700 | $63,800 | 5.2% | 3.7% | 2.1% | -1.2% |
| Miami-Dade | 1.5% | 1.8% | 1.1% | -5.5% | $51,100 | $54,500 | $55,300 | $55,100 | 3.7% | 4.2% | 2.9% | 2.6% |
| Milwaukee | 0.9% | 0.4% | 0.2% | -7.4% | $60,100 | $63,400 | $66,500 | $67,800 | 4.5% | 3.1% | 1.3% | -3.8% |
| Minneapolis-St. Paul | 1.5% | 1.2% | 0.3% | -8.0% | $77,500 | $81,800 | $84,400 | $82,800 | 4.3% | 4.6% | 3.0% | 1.8% |
| Nashville | 3.1% | 3.3% | 3.0% | -4.2% | $64,300 | $68,200 | $70,700 | $75,200 | 5.8% | 5.8% | 5.5% | 3.7% |
| New Haven-Fairfield County | -0.1% | 0.4% | 0.0% | -8.0% | $80,000 | $82,400 | $83,700 | $85,100 | 3.9% | 3.5% | 2.2% | -7.9% |
| New York City | 2.0% | 2.1% | 1.8% | -12.2% | $65,800 | $70,800 | $73,300 | $74,000 | 4.1% | 4.8% | 4.5% | -4.4% |
| Northern New Jersey | 1.3% | 0.5% | 0.7% | -9.1% | $82,000 | $85,900 | $89,200 | $91,000 | 5.9% | 3.6% | 4.2% | -2.3% |
| Oakland | 1.9% | 1.2% | 0.1% | -9.6% | $98,300 | $104,300 | $109,000 | $107,200 | 6.4% | 5.3% | 2.8% | -0.9% |
| Orange County | 2.0% | 1.2% | 1.2% | -8.5% | $88,700 | $94,300 | $96,700 | $93,400 | 5.3% | 4.3% | 3.4% | 0.4% |
| Orlando | 3.4% | 2.7% | 2.5% | -9.7% | $56,500 | $60,000 | $62,300 | $60,800 | 6.7% | 6.1% | 4.9% | 6.2% |
| Philadelphia | 1.3% | 1.0% | 0.9% | -7.2% | $69,300 | $72,700 | $75,100 | $76,400 | 3.4% | 4.2% | 3.5% | -3.0% |
| Phoenix | 3.4% | 3.4% | 3.6% | -2.3% | $62,500 | $66,000 | $68,400 | $69,600 | 6.7% | 6.2% | 5.9% | 10.3% |
| Pittsburgh | 1.3% | 0.8% | 0.5% | -7.1% | $58,700 | $61,300 | $63,100 | $65,900 | 3.4% | 3.2% | 2.8% | -4.9% |
| Portland | 2.5% | 2.0% | 1.4% | -8.5% | $73,300 | $76,700 | $78,800 | $77,900 | 5.6% | 4.9% | 3.0% | 1.1% |
| Raleigh | 2.5% | 2.1% | 2.0% | -4.5% | $70,000 | $73,400 | $75,900 | $78,700 | 5.5% | 4.3% | 4.1% | 2.9% |
| Riverside-San Bernardino | 4.0% | 3.0% | 1.5% | -7.2% | $63,400 | $68,100 | $72,000 | $70,000 | 6.2% | 5.1% | 4.2% | -4.7% |
| Sacramento | 2.7% | 2.6% | 1.5% | -6.9% | $69,900 | $74,300 | $77,600 | $75,700 | 5.5% | 5.3% | 3.1% | -2.6% |
| Salt Lake City | 3.2% | 2.7% | 3.3% | 0.4% | $72,800 | $77,000 | $80,400 | $76,100 | 8.3% | 8.5% | 7.1% | 12.8% |
| San Antonio | 1.6% | 2.1% | 2.3% | -3.4% | $57,300 | $60,200 | $63,000 | $62,500 | 4.2% | 3.7% | 3.9% | 2.3% |
| San Diego | 2.1% | 1.7% | 1.5% | -6.9% | $77,600 | $82,400 | $84,700 | $82,200 | 5.4% | 3.7% | 2.8% | -2.3% |
| San Francisco | 2.1% | 3.6% | 3.0% | -9.9% | $115,000 | $124,300 | $132,300 | $132,000 | 6.5% | 6.4% | 4.5% | 4.5% |
| San Jose | 2.2% | 2.0% | 1.3% | -6.9% | $120,100 | $127,100 | $132,000 | $128,300 | 4.9% | 4.6% | 1.5% | -0.1% |
| Seattle-Tacoma | 2.4% | 2.1% | 2.5% | -7.2% | $84,400 | $90,400 | $95,000 | $90,500 | 14.3% | 9.1% | 11.3% | 16.6% |
| St. Louis | 1.0% | 0.3% | 0.5% | -4.6% | $62,100 | $64,700 | $67,100 | $70,200 | 3.9% | 3.3% | 1.7% | -1.6% |
| Tampa-St. Petersburg | 1.9% | 2.2% | 2.7% | -3.6% | $53,600 | $56,200 | $58,300 | $59,000 | 4.2% | 5.8% | 4.7% | 8.0% |
| Washington, D.C. | 1.0% | 1.3% | 1.7% | -5.2% | $100,400 | $103,800 | $106,400 | $106,700 | 3.2% | 3.4% | 1.8% | -3.0% |
| West Palm Beach | 1.6% | 1.8% | 0.7% | -6.0% | $61,600 | $65,800 | $66,800 | $70,500 | 4.6% | 4.3% | 3.4% | -2.2% |
| United States | 1.5% | 1.6% | 1.4% | -6.1% | $61,000 | $63,200 | $67,000 | $67,000 | 4.7% | 4.4% | 3.5% | 0.6% |

| Market Name | Completions (000s of Sq. Ft.) 2017 | 2018 | 2019 | 2020 | Vacancy Rate 2017 | 2018 | 2019 | 2020 | Asking Rent per Sq. Ft. 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Atlanta | 2,530 | 2,130 | 1,790 | 1,200 | 6.0% | 5.7% | 5.6% | 6.0% | $14.17 | $14.81 | $15.06 | $15.17 |
| Austin | 1,100 | 1,610 | 870 | 1,170 | 3.9% | 4.1% | 4.2% | 4.9% | $22.19 | $22.24 | $21.95 | $22.06 |
| Baltimore | 490 | 470 | 830 | 240 | 4.0% | 4.6% | 4.8% | 6.3% | $18.48 | $19.78 | $19.65 | $19.78 |
| Boston | 2,210 | 980 | 1,120 | 710 | 2.7% | 3.1% | 3.1% | 3.7% | $19.94 | $20.85 | $20.96 | $20.67 |
| Charlotte | 1,160 | 1,810 | 1,180 | 880 | 4.3% | 4.1% | 4.2% | 4.9% | $14.68 | $14.97 | $16.75 | $17.40 |
| Chicago | 2,840 | 2,570 | 1,720 | 1,900 | 6.4% | 6.5% | 6.6% | 6.9% | $17.13 | $17.44 | $17.69 | $17.60 |
| Cincinnati | 500 | 340 | 580 | 90 | 5.2% | 4.6% | 4.5% | 4.8% | $11.63 | $12.12 | $12.21 | $11.80 |
| Cleveland | 570 | 1,340 | 1,310 | 760 | 5.1% | 4.5% | 4.8% | 5.5% | $10.13 | $10.67 | $11.13 | $10.77 |
| Columbus | 1,620 | 380 | 610 | 480 | 4.0% | 3.0% | 2.9% | 3.8% | $12.19 | $13.92 | $13.42 | $14.55 |
| Dallas/Fort Worth | 6,040 | 5,080 | 2,930 | 2,700 | 5.1% | 5.0% | 5.3% | 6.7% | $16.07 | $17.07 | $16.75 | $16.77 |
| Denver | 920 | 1,320 | 620 | 560 | 4.7% | 4.1% | 4.7% | 5.7% | $17.71 | $18.58 | $18.35 | $18.63 |
| Detroit | 1,220 | 1,300 | 940 | 710 | 6.0% | 5.8% | 5.7% | 6.5% | $12.97 | $13.27 | $14.19 | $14.35 |
| Fort Lauderdale | 610 | 810 | 770 | 480 | 3.7% | 4.2% | 4.5% | 5.7% | $21.87 | $25.11 | $23.36 | $22.84 |
| Houston | 6,750 | 4,750 | 4,990 | 3,620 | 5.7% | 5.8% | 5.9% | 6.6% | $16.46 | $16.98 | $17.74 | $18.10 |
| Indianapolis | 1,390 | 620 | 830 | 220 | 4.7% | 5.5% | 5.1% | 5.5% | $13.65 | $12.86 | $13.13 | $13.55 |
| Kansas City | 1,260 | 780 | 660 | 540 | 5.8% | 5.7% | 5.8% | 6.7% | $12.18 | $12.76 | $12.94 | $13.08 |
| Las Vegas | 440 | 320 | 820 | 650 | 7.2% | 7.3% | 7.1% | 7.2% | $17.39 | $17.98 | $18.60 | $19.63 |
| Los Angeles | 1,700 | 910 | 1,320 | 960 | 4.4% | 4.8% | 5.1% | 5.8% | $29.17 | $30.06 | $30.93 | $30.87 |
| Louisville | 310 | 420 | 420 | 390 | 3.4% | 3.8% | 4.0% | 3.6% | $13.24 | $13.01 | $13.33 | $14.25 |
| Miami-Dade | 1,670 | 1,010 | 1,080 | 420 | 3.6% | 4.1% | 4.4% | 4.4% | $32.79 | $31.95 | $33.27 | $32.24 |
| Milwaukee | 1,690 | 1,090 | 420 | 110 | 5.3% | 4.3% | 4.5% | 4.6% | $11.27 | $12.18 | $12.63 | $12.67 |
| Minneapolis-St. Paul | 1,640 | 790 | 630 | 420 | 2.9% | 3.2% | 3.5% | 4.5% | $15.59 | $14.99 | $15.64 | $16.05 |
| Nashville | 1,230 | 600 | 950 | 630 | 3.0% | 3.2% | 3.4% | 4.1% | $17.59 | $18.39 | $20.03 | $20.47 |
| New Haven-Fairfield County | 430 | 370 | 780 | 170 | 4.2% | 4.1% | 4.5% | 5.7% | $21.18 | $21.94 | $20.56 | $22.05 |
| New York City | 1,560 | 1,040 | 3,140 | 910 | 3.2% | 3.3% | 3.4% | 4.0% | $56.69 | $56.08 | $61.90 | $57.43 |
| Northern New Jersey | 830 | 690 | 940 | 1,570 | 4.6% | 4.1% | 4.2% | 4.7% | $24.19 | $25.12 | $24.03 | $24.16 |
| Oakland | 770 | 600 | 260 | 160 | 4.0% | 3.5% | 4.2% | 5.0% | $25.46 | $26.75 | $30.42 | $28.69 |
| Orange County | 730 | 450 | 160 | 60 | 4.4% | 3.8% | 4.1% | 4.8% | $25.52 | $26.45 | $27.71 | $28.50 |
| Orlando | 2,000 | 980 | 1,370 | 850 | 4.6% | 4.5% | 4.7% | 5.2% | $17.37 | $17.86 | $19.28 | $19.49 |
| Philadelphia | 1,600 | 1,590 | 1,140 | 830 | 5.0% | 4.6% | 5.0% | 5.8% | $16.49 | $17.17 | $17.42 | $17.74 |
| Phoenix | 1,930 | 950 | 980 | 1,270 | 8.0% | 7.7% | 7.7% | 8.6% | $15.26 | $15.52 | $16.16 | $16.07 |
| Pittsburgh | 820 | 470 | 270 | 270 | 3.6% | 3.6% | 4.2% | 5.1% | $13.66 | $14.02 | $12.43 | $11.98 |
| Portland | 370 | 390 | 250 | 100 | 3.7% | 3.3% | 3.6% | 4.4% | $18.68 | $18.29 | $19.66 | $19.56 |
| Raleigh | 940 | 410 | 650 | 820 | 3.5% | 3.0% | 2.9% | 3.6% | $17.04 | $17.41 | $17.69 | $19.08 |
| Riverside-San Bernardino | 1,170 | 1,350 | 770 | 860 | 8.3% | 8.1% | 7.8% | 9.2% | $16.76 | $17.98 | $18.95 | $18.25 |
| Sacramento | 1,020 | 650 | 220 | 320 | 7.0% | 6.7% | 6.5% | 7.0% | $15.82 | $16.78 | $17.53 | $18.25 |
| Salt Lake City | 1,690 | 1,260 | 600 | 630 | 4.8% | 4.6% | 5.1% | 5.8% | $15.39 | $16.63 | $15.93 | $16.61 |
| San Antonio | 940 | 800 | 1,300 | 1,060 | 4.3% | 4.5% | 4.8% | 5.7% | $14.64 | $15.63 | $16.30 | $16.20 |
| San Diego | 740 | 330 | 350 | 260 | 3.6% | 4.1% | 4.1% | 5.1% | $24.28 | $24.18 | $24.14 | $24.74 |
| San Francisco | 490 | 160 | 210 | 0 | 2.7% | 3.0% | 3.7% | 4.9% | $40.14 | $39.89 | $40.88 | $37.88 |
| San Jose | 450 | 270 | 160 | 710 | 3.0% | 3.8% | 4.0% | 4.5% | $32.44 | $33.22 | $35.34 | $35.04 |
| Seattle-Tacoma | 1,540 | 740 | 750 | 520 | 3.6% | 3.4% | 2.9% | 3.0% | $20.25 | $21.16 | $21.14 | $22.63 |
| St. Louis | 690 | 340 | 360 | 570 | 5.0% | 4.9% | 4.8% | 5.1% | $12.52 | $13.35 | $13.40 | $13.25 |
| Tampa-St. Petersburg | 1,590 | 1,830 | 1,500 | 1,040 | 4.5% | 4.8% | 4.5% | 4.9% | $15.10 | $16.13 | $16.51 | $17.05 |
| Washington, D.C. | 1,360 | 1,170 | 950 | 770 | 4.7% | 4.7% | 4.7% | 5.6% | $25.94 | $26.31 | $26.35 | $26.12 |
| West Palm Beach | 350 | 180 | 510 | 160 | 4.3% | 4.7% | 4.7% | 5.5% | $23.11 | $23.78 | $23.98 | $24.39 |
| United States | 75,680 | 57,100 | 52,470 | 38,070 | 4.9% | 4.8% | 4.9% | 5.6% | $18.86 | $19.44 | $19.93 | $19.94 |

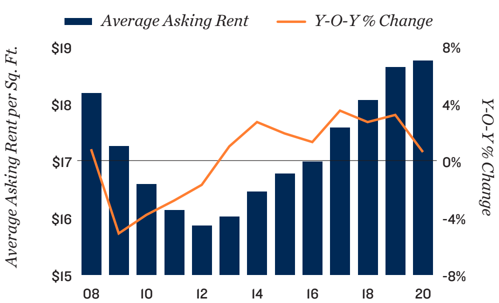
*Sources: BLS; Moody's Analytics; CoStar Group, Inc.; U.S. Census Bureau*

## Multi-Tenant Retail Faces Transformation; Consolidation on Table This Year

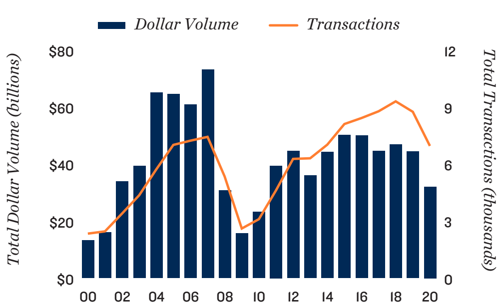
### Multi-Tenant Retail Supply and Demand



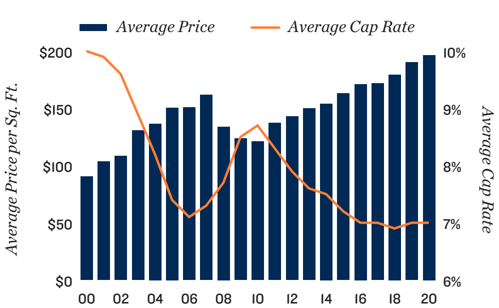

### Multi-Tenant Rent Trends




### Multi-Tenant Retail Sales Trends




### Multi-Tenant Price and Cap Rate Trends




*Sources: CoStar Group, Inc.; Real Capital Analytics*

**Dead malls temporarily exacerbate supply overhang.** Thousands of stores that typically operate in malls will shutter, testing the viability of many properties. Anchors such as J.C. Penney and Macy's are liquidating hundreds of locations to rightsize in the wake of a shift in demand. Gap also recently announced plans to close all of its mall-based stores. Other traditional mall retailers have also shuttered completely, including GNC. These moves will leave a large number of these properties with an insufficient base of retailers to continue operating due to the decrease in traffic. Mall vacancy has jumped more than 100 basis points since the end of 2019, the largest rise across all retail concepts. Mostly constructed in the 1970s and 1980s, these failing properties will need to be repurposed by operators in the coming year. Some will be repositioned as distribution space as owners take advantage of the increase in online sales and prevalence of delivery. Others may be razed and redeveloped by existing operators or sold to developers. A shortage of infill housing units presents the opportunity to repurpose the land for residential units.

**Open-air centers to backfill vacant space with tenants from failed properties.** Retail refugees from malls and other centers that failed during the prolonged shutdown due to the heath crisis will search for vacant space where traffic generators persist. Centers with multiple essential retailers will be among the first to attract tenants seeking a new location. Power and community centers with the broader mix of tenants should be at the top of retailers' destination lists, filling any vacant in-line space that comes available. An additional stimulus payout for many families could also amplify foot traffic at these centers in the coming months as eager shoppers re-emerge. While the most recent stimulus checks are largely helping immediate needs, the next round of stimulus, if approved, will reach consumers when more retailers are open and capacity restrictions are lower. Shoppers' preference for limited trips will likely persist beyond a next round of individual payments, making power centers ideal locations for consumers. Beyond mall retailers seeking new accommodations, some retail centers will struggle with high vacancy, encouraging the remaining tenants to seek better locations.

**Centers with grocers set to outperform.** Necessity-based stores have done fairly well throughout the broad shutdowns. For the first time since 2015, grocery store sales have eclipsed restaurants, reversing a trend that saw restaurants gain in popularity over more than a decade. With so many tenants forced to close to prevent the spread of COVID-19 cases, many multi-tenant properties without a major essential retailer have little traffic from consumers. Shopping centers across the nation saw an approximate 20 percent decline in visits during 2020. Grocery stores, however, only reported a 4 percent decline in traffic last year. The full effect on the retail vacancy rate due to these discrepancies remains to unfold, though tenants from hard-hit strip centers are expected to migrate to grocery anchored-assets as the impact of the heath crisis becomes clearer and space comes available. Unanchored strip centers with a national credit tenant or drive-thru retailer will likely be an exception, while mid-block strip centers may struggle.

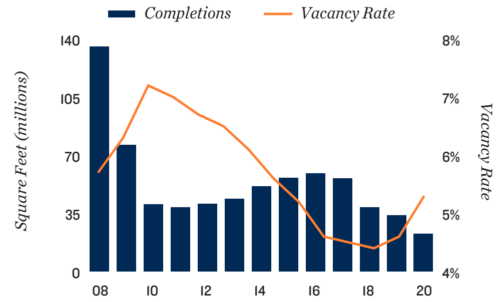
## Most Single-Tenant Uniquely Positioned to Handle Crisis; Investors Favor National Credit Tenants

**National quick-service restaurant chains weather shutdowns.** Although eating places have experienced a 30 percent decline in visits over the last year, the drop at many drive-thru concepts has not continued to impact performance. Closed dining rooms at these locations account for a significant contribution in the decrease in visits while sales have remained healthy. Visits to burger concepts, for instance, are between 55 percent to 65 percent of prior-year levels, though nearly all major chains recorded annual gains in sales in the third quarter. The lack of competition from permanently closed restaurants and casual dining locations has helped boost theses chains. As more states lift capacity restrictions in the coming months, the number of visits to these locations could dampen as diners are presented with a greater number of choices. Apart from mall pad locations, the ability of national chains to manage the health crisis more effectively than smaller operators should provide a boost to property performance and draw investor interest. Local restaurants that emerge from the pandemic will also attract buyer attention due to the perceived strength of these businesses.

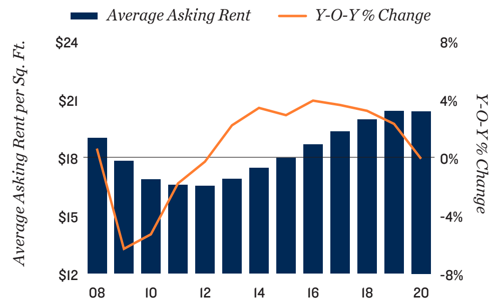
**Health crisis boosts drugstores and dollar stores.** Shoppers have relied on these two categories over the past year and will continue to frequent them more often as the pandemic persists. Vaccine distribution at local pharmacies should elevate trips to drugstores in the coming months, boosting sales at those locations as consumers package their trips. Drugstores generally experience an uptick in visits during the winter months due to the prevalence of endemic illnesses and availability of flu vaccines. Dollar stores, meanwhile, recorded relatively flat traffic during the past year. However, a rise in shoppers was experienced during December. Although some holiday shopping contributed to the rise, the expiration of federal support related to COVID-19 may have persuaded residents to seek lower-cost options for home essentials. Dollar stores remain on track to increase store openings in 2021. Dollar General has more than 1,000 new locations on tap for next year, while Dollar Tree and Family Dollar also have aggressive expansion plans. Moreover, the dollar stores are remodeling hundreds of existing locations to support coolers and fresh produce.

**Convenience stores and casual dining restaurants poised for recovery.** Although some convenience stores have remained relatively healthy due to their designation as an essential business, the dramatic decline in commuting is making a dent in spending. In December, gasoline station retail sales were down 12 percent annually, though that level is a significant improvement from the 39 percent annual decline recorded at the onset of the pandemic. Vaccine distribution will enable more workers to return to their traditional offices, elevating the trajectory of the recovery for convenience stores. Casual dining, meanwhile, will be frequented by diners as more locations become available. Several states have reversed course on closures recently, including California and New York, in an effort to prevent too many indoor dining locations from permanently closing as the end of the pandemic comes into focus. Sunbelt states largely remained open, which should orient the casual dining industry in a stronger position this year.

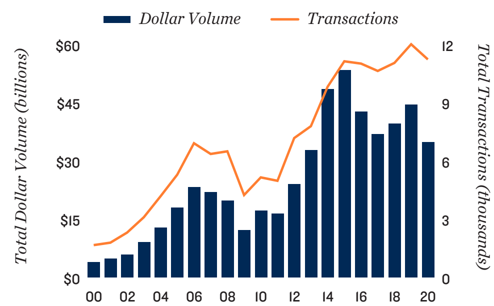
Single-Tenant Retail Supply and Demand



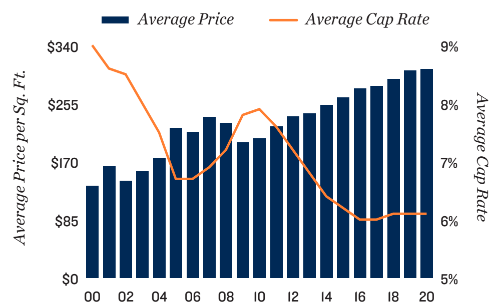

Single-Tenant Rent Trends




Single-Tenant Retail Sales Trends

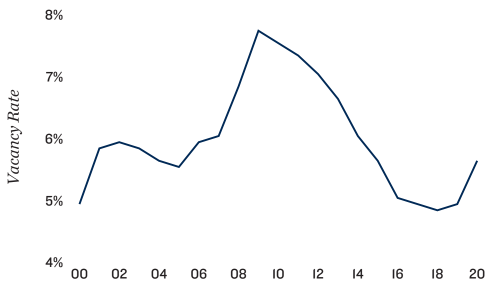



Single-Tenant Price and Cap Rate Trends

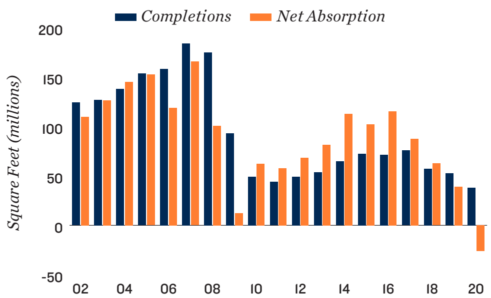



*Sources: CoStar Group, Inc.; Real Capital Analytics*

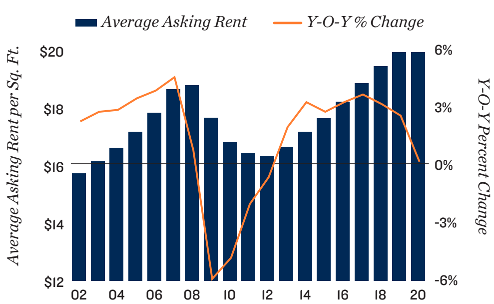
### Retail Vacancy Rate



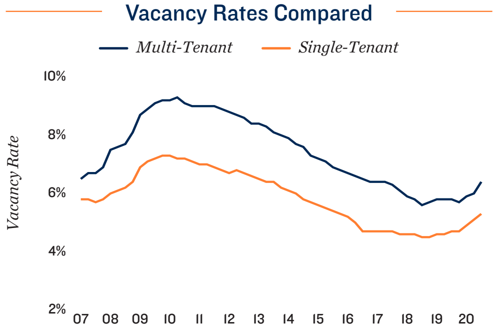

### Retail Completions vs. Absorption




### Retail Rent Trends




### Vacancy Rates Compared




*Source: CoStar Group, Inc.*

## Retail Fundamentals Align for Second-Half Stabilization, Carrying Momentum Into Following Year

**Renewed unemployment insurance critical for consumer spending.** Although most residents received a second stimulus check at the beginning of the year, the impact will be muffled as many households pay down debt or catch up on bills. Families in which workers have remained employed during the shutdown are unlikely to need stimulus to trigger shopping as savings have grown due to the reduced options for dining and experience-based retailers. Additionally, many older consumers will remain extraordinarily cautious in coming months, delaying the impact of liquidity. Nonetheless, the latest round of direct checks should keep retail sales from continuing the decline that started at the end of 2020 Unemployment insurance, meanwhile, should provide a bump as households that were drained of necessity items restock or loosen spending habits. Furthermore, retail sales at restaurants and bars may recover more quickly after several large states have begun allowing restaurants to reopen under capacity restrictions after takeout-only guidelines since Thanksgiving. The next round of stimulus checks, if approved, should help kickstart the economy and retail sales as more shoppers and stores are able to participate in the market.

**Lower construction anticipated again in 2021.** Last year marked the lowest amount of new inventory in at least two decades as many projects were shelved due to the health crisis. The pace of development was already on the decline as builders generally have taken a cautionary stance since the last downturn, when the supply overhang took years to dissipate. This year, growth markets in Texas and other Sunbelt states should be able to absorb the outsized share they have of projects under construction. Washington, D.C., and New York City, meanwhile, may need additional time to fill space following the health crisis. Currently, properties over 200,000 square feet underway across the country are approximately 70 percent pre-leased, relatively low compared with the pre-pandemic projects that came online. These developments will compete for fewer tenants, potentially applying pressure to nearby existing assets. This year's new construction was underwritten during a stronger rent environment and owners may be forced to fill vacant space at lower rates before a clearer picture about the strength of the economy emerges.

**Wide range of vacancy outcomes possible.** The rate of marketed space only increased 70 basis points last year to 5.6 percent, though the level of actual vacant space remains clouded by the prevalence of permanent or temporary closures. National chains announced over 20,000 store closings in 2020, more than double the previous year. Many of these will be wrapped up in permanently closed malls and have little consequence on the overall vacancy rate as that inventory is removed from the market. Around 110,000 restaurants closed last year, though some of those are likely temporary shutdowns. A new round of Paycheck Protection Program funding and earlier-than-anticipated reopenings in New York and California could restrain the percent of those closures that end up permanent. Overall, availability will climb, perhaps significantly, in the first half of 2021. If the economy strengthens strongly in the second half, the beginnings of a retail reset could materialize. Nonetheless, vacancy is expected to finish 2021 higher than at the end of last year.

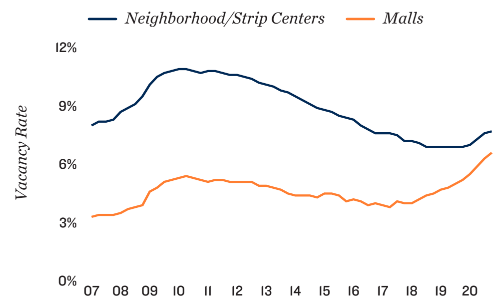
## Early-Opening States Have Head Start in Fundamental Improvement; Downturn Potentially Condensed

**Uneven vacancy increases last year affect recovery.** Several factors have contributed to discrepancies in the impact of the health crisis across markets. Strict and long shutdowns pushed vacancy higher in California and the Northeast, while supply growth was a major contributor to a vacancy rise in some Sunbelt markets. San Francisco, which recorded the largest relative increase in vacancy, also saw many high-earning residents leave in search of larger living accommodations as tech companies allowed employees to work remotely. The degree of permanence of remote work will be critical to San Francisco's retail market. New York City, to a lesser degree, faces similar challenges, though major financial institutions have signaled that their employees will come back to the office. Despite elevated vacancy, Phoenix, Sacramento, Houston and Dallas/Fort Worth are well positioned to form a strong retail market this year after serving as primary destinations for lockdown refugees and job seekers in 2020.

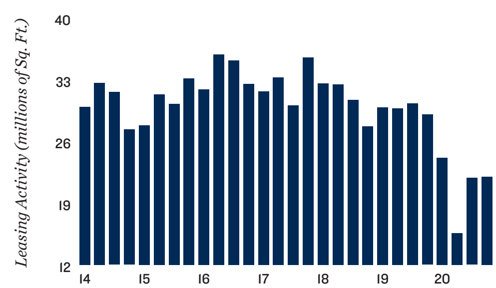
**Rent recovery potentially abbreviated.** Following the global financial crisis, rents retreated for four consecutive years before turning positive in 2013. The underlying fundamentals of the current downturn indicate a different trajectory. The pace of retail bankruptcies is far more abrupt, which will bring more space to the market at the same time and potentially lead to an initial sharper decrease in rents as the industry searches for new footing. Conditions heading into the recession are a net benefit for operators as well. The market was not overbuilt, and vacancy was approximately 100 basis points lower than the rate at the start of the last recession, setting up the conditions for an abridged recovery. Furthermore, overall asking rents finished 2020 in positive territory, though just barely. More clarity on the economic damage to retailers will need to surface before the depth of a rent correction emerges this year, and that information will not be fully understood until a complete economic reopening. The most optimistic prospects for a return to rent growth will need to include the removal of dilapidated stock from the market to close the supply overhang more quickly. Access to federal aid by local retailers is another contributing factor in the eventual return to rent growth.

**Single-tenant fundamentals have brighter near-term outlook than multi-tenant sector.** Although the allure of single-tenant space as an avenue to manage COVID-19 conditions will fade in the coming months, retailer demand for the sector will remain sturdy. Overall, vacancy should hover approximately 150 to 200 basis points below the multi-tenant rate nationwide. The spread between the two vacancies is expected to be maximized in fast-growing Sunbelt states where construction has been elevated and some Midwest markets where finding smaller tenants to fill multi-tenant availabilities is more difficult. Rents, meanwhile, will depend on location for the single-tenant sector. Assets with a drive-thru are highly sought after as many consumers may be slow to alter their behavior even when given the opportunity to do so. Suburban areas, which have seen an influx of high-earning individuals move in the past year, should capture pre-pandemic rents. Similarly, in-line, multi-tenant available space in suburban locations will recover more quickly than infill areas.

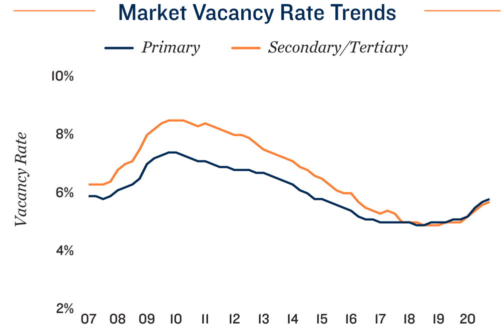
Retail Vacancy Rate by Center Type



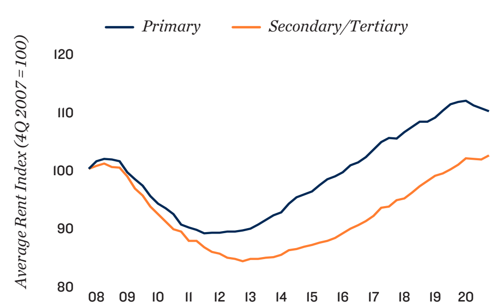

Leasing Activity




Market Vacancy Rate Trends

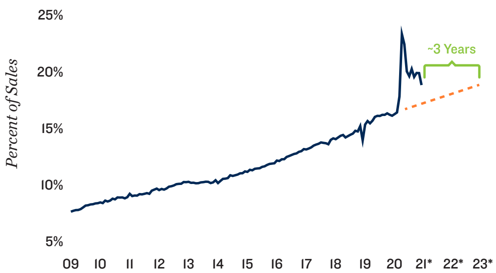



Market Retail Rent Index

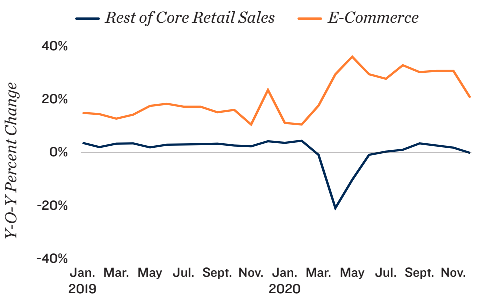



*Source: CoStar Group, Inc.*

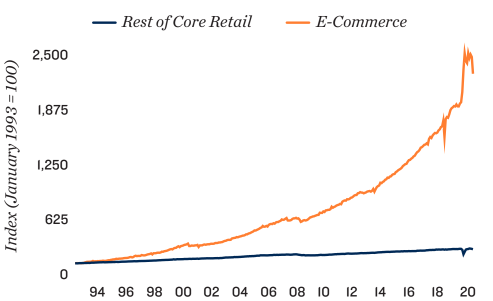
## E-Commerce Share of Core Retail Sales



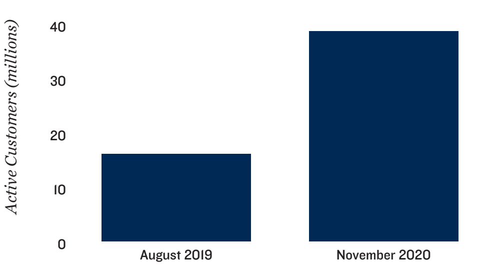

## Online Sales Growth Outpacing




## Retail Sales Growth Index




## Online Grocery Delivery and Pickup Customers




** Forecast*

*Sources: Bricks Meet Click/Mercatus Grocery Shopping Survey; U.S. Census Bureau*

# Online Retailing Increases in Popularity; Consumer Behavior Jumps Forward

**Health crisis exacerbates existing trends.** Prior to the pandemic, the shift to e-commerce shopping was already moving 0.5 to 1.0 percent of retail sales online each year. After significant lockdowns last spring and over the winter, the jump in e-commerce equated to an approximately three-year advance in that trend. Spending at nonstore retailers is up approximately 30 percent year over year, though some of those gains will retreat when the wide distribution of the vaccines enables people to return to brick-and-mortar stores. Nonetheless, some of the rise is expected to remain permanent and e-commerce is anticipated to exceed 15 percent of core retail sales in 2021, roughly double the level just 10 years ago. Older Americans are a driving force in the rise, partially due to the elevated risk of suffering complications from the novel coronavirus. Those age 55 and older increased their frequency of weekly online shopping orders from 27 percent to 34 percent since the onset of the health crisis.

**Grocery stores among largest beneficiaries.** Following the initial nationwide shutdown when less was known about the transmission of COVID-19, online and pickup grocery sales soared to $7.2 billion in June 2020. Some of those gains have been surrendered as restaurants have opened, safety measures were installed in stores, and concerns regarding contact transmission abated. In November, however, online and pickup sales still accounted for $5.9 billion and nearly 40 million households were taking advantage of these services. The largest change over the past several months is the degree of permanence in online ordering. Many customers had resisted the practice, preferring to choose their own meat and produce rather than leaving those choices to grocery store workers. After less than half of customers who made an initial purchase considered reordering groceries in May, the number of repeat customers soared to more than 80 percent using the service again in November. The massive shift forward in sentiment for the practice could create profound changes in grocery store designs in the coming years. Additional space for outgoing delivery trucks and layouts more conducive to putting together orders for delivery may greatly enhance productivity.

**Online shopping demand to help absorb vacant retail space.** Many national retail chains have announced thousands of store closures due to the migration to delivery options. The last few years had a record number of store closures despite the strength of the national economy. Last year, a new high watermark of closures was reached, though much of that dark space was inevitable given existing consumer trends. The accelerated pace of shutterings will create more empty retail centers that will be utilized for delivery space in some fashion. Amazon and other online retailers will be able to turn dead malls into last-mile distribution facilities, helping erase the supply overhang resulting from the transition to delivery and a permanent shift in consumer behavior that will equate to fewer visitors to traditional retailers. As a result, consolidation in the sector will be necessary to marry traditional retailers and lifestyle centers. The pace of that transition will be accelerated by the rapid collapse of many national retail chains, giving the remaining tenants with an opt-out clause due to vacancy requirements an opportunity to move to stronger shopping centers rather than delaying the evolution of retailing.

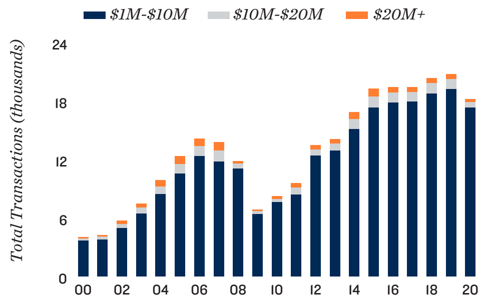
## Investors to Target a Larger Pool of Assets as the Year Progresses; Malls to be Repositioned

**Retail assets continue to attract investor interest.** As the vaccine roll out progresses, buyers will begin to broaden search criteria in terms of both property type and location. During much of the pandemic, single-tenant, net lease assets drew the most attention, followed by anchored multi-tenant buildings. The amount of capital flowing into these properties is unlikely to change significantly even with a plethora options in the coming quarters. A lack of net lease listings has been the limiting factor in the sector, so a drop in demand will be insufficient to alter market dynamics. As the dust settles in the retail sector, buyers and sellers will find price exploration easier to achieve for a wider variety of assets. In addition to a greater number of anchored multi-tenant assets, strip centers with national credit tenants will also draw capital. Due to low interest rates, underwriting will focus on yield spreads, bringing more properties into buyers' crosshairs. Overall, retail assets are expected to be traded in greater numbers this year despite an overall increase in other commercial real estate sectors.

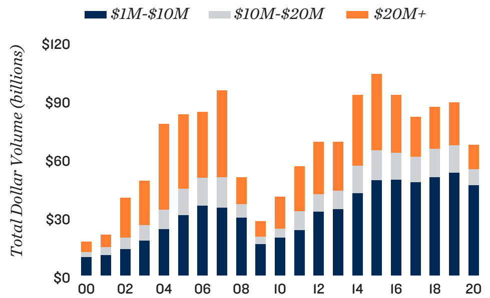
**Additional shopping center deals expected despite higher vacancy.** The low cost of capital will aid in more deals penciling out this year notwithstanding rental revenue declines. The yield spread for some properties should remain consistent or even widen in the coming months. As a result, the shopping center transaction market should be active this year even as many in-line retailers permanently close. Entering 2021, the average cap rate for these properties was in the low-7 percent range nationwide, with community center first-year returns dipping to approximately 7 percent. The trajectory of the economic recovery, which will become clearer by midyear, will determine the percentage of distressed deals that occur in the second half of 2021. Risk-tolerant buyers will preemptively move ahead on some high-vacancy locations in the first two quarters in an effort to achieve outsized gains. The prevailing trend through the course of this year will be more flexibility in buyers' expectations as more competition enters the market.

**Large multi-tenant assets attract institutional capital.** Some malls will go dark this year following the closures of many traditional mall concept locations. Many malls were on the path to close in the next few years regardless, and others will need a lifeline to survive. Simon Property Group, the nation's largest mall owner, is the most active buyer as consolidation increases. The firm also acquired J.C. Penney, guaranteeing some stability in the mall anchor space. Vacant malls, meanwhile, will attract investors with repositioning plans. Several options have emerged as leading contenders, including distribution centers, data warehousing and repositioning plays. Raze and redevelop could prove to be lucrative for developers due to the sheer size of contiguous land, though favorable acquisition costs will be necessary. Mixed-use projects with a focus on multifamily in housing-starved locations fit well into infill areas. When available, lifestyle and power centers will draw institutions, REITs and other large investors, though deal flow is anticipated to be limited as owners retain performing assets in the wake of uncertainty.

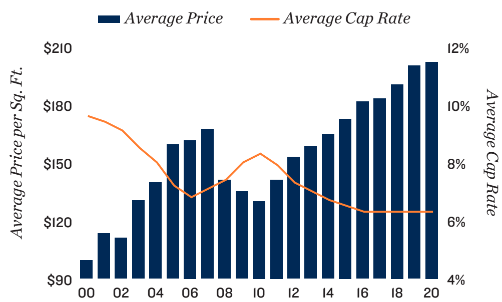
### Retail Transactions by Price Tranche



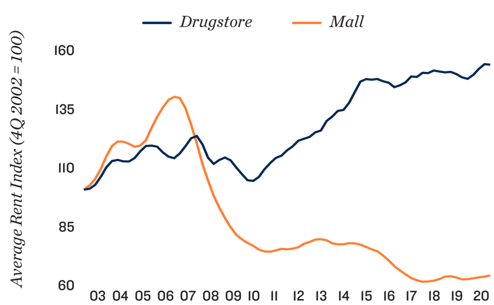

### Retail Volume by Price Tranche




### Retail Price vs. Cap Rate

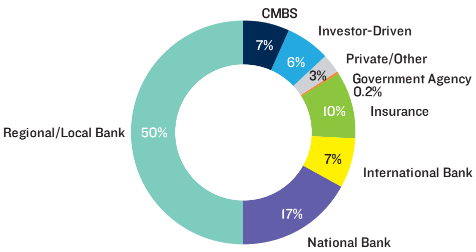



### Retail Rent Index

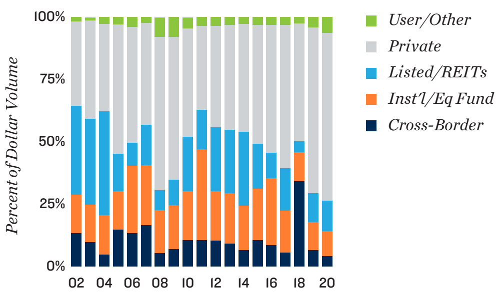



*Sources: CoStar Group, Inc.; Real Capital Analytics*

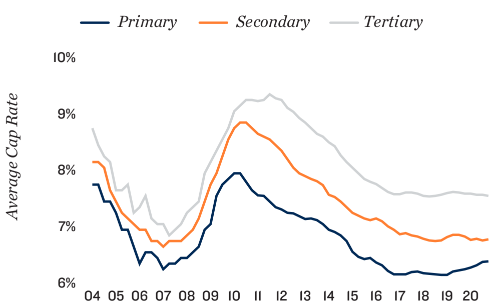
## 2020 Retail Lender Composition



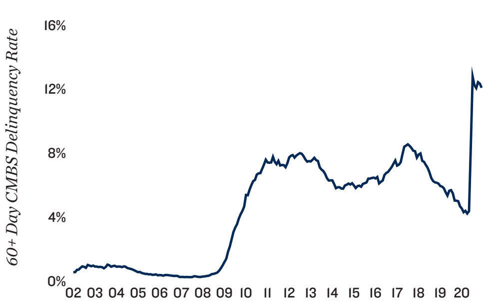

## Retail Buyer Composition




## Cap Rate by Market Type




## Retail Delinquency Trends




*Sources: CoStar Group, Inc.; Moody's Analytics; Trepp; Real Capital Analytics*

# Single-Tenant Properties Attractive Fixed-Income Option; Competition Remains Strong

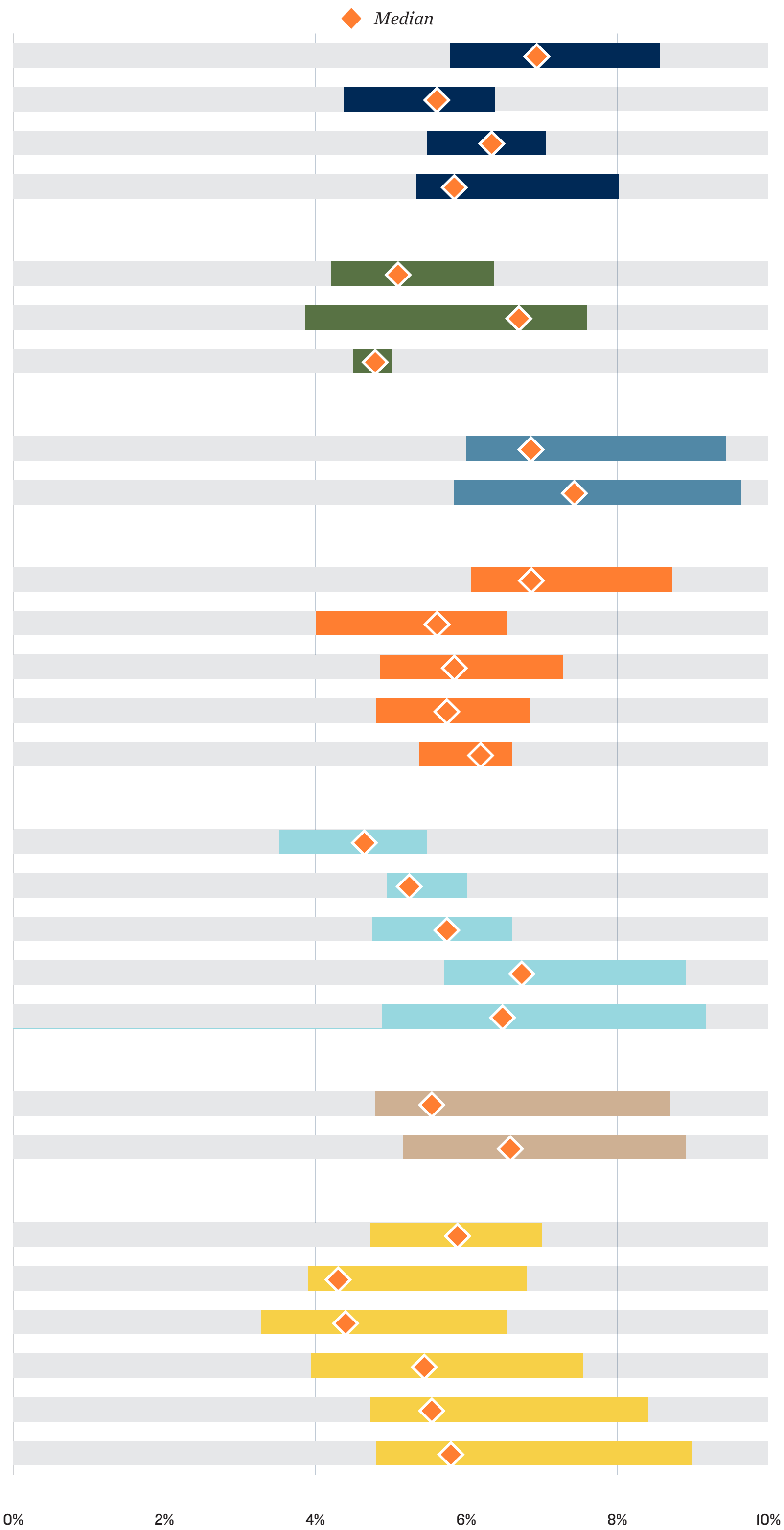
**Uncertainty motivates some sellers and buyers.** The Biden administration included tax reform that called for the elimination of the like-kind exchange. Section 1031 has also been targeted during previous reform efforts, including the elimination of all assets but real estate with the passage of the Tax Cuts and Jobs Act. Congress is unlikely to take up tax reform until the health crisis dissipates, and there is no guarantee the 1031 exchange will be abolished. Nonetheless, owners considering an exchange in the next year may move plans forward. Capital is likely to follow population migration related to the health crisis. While coastal cities traditionally dominate as origination sources, this trend may accelerate this year. Texas, Arizona and Florida should see an influx of investors. Private buyers are expected to account for the largest group of investors this year. In 2020, 67 percent of dollar volume was from private buyers, the largest share in more than two decades. That trend will continue during the early stages of 2021, though more institutional capital is expected to participate as the year progresses.

**Drugstores and quick-service restaurants top investors' wish lists.** Drugstores fared well during the pandemic as receipts extended nearly 6 percent last year. Continued strength in the sector is attracting both traditional and exchange buyers. Multifamily sellers from California and New York will compete for these properties with local investors throughout the year. Nationwide, average cap rates for CVS and Walgreens are near 6 percent entering 2021, though new construction or assets with favorable lease terms can trade significantly lower. Quick-service restaurants have remained a popular destination for capital throughout the pandemic and momentum is not anticipated to wane. Average cap rates are generally in the high-5 percent range, though they vary by concept. Chick-fil-A and McDonald's trade 100 basis below that area, while Burger King and Yum Brands have average cap rates on the higher end of the scale. Some cap rate compression between corporate chains and franchisees may occur. Low yields and an abundance of capital chasing assets will encourage more buyers to accept tighter spreads for franchisee-owned properties as the year progresses.

**Investors find opportunity in several single-tenant concepts.** Discount stores are opening hundreds of new locations across the country this year, offering buyers an avenue to acquire assets with new leases. Typically, first-year yields average in the 7 percent range for all dollar stores, though new locations with freezers and fresh produce will have much lower cap rates. Convenience stores will also change ownership with relative frequency throughout the year at average yields ranging from below 5 percent for WaWa to near 7 percent for Circle K. The wildcard in the single-tenant sector remains casual dining restaurants. Although many locations were unable to open for months during the downturn, the support of a corporate office and the lines of credit that entails should keep them afloat at a much greater percentage than local restaurants. Auto parts stores should rebound as the health crisis winds to a close in the coming months and commuters resume their daily drive. However, total miles traveled may remain subdued for a long time, lowering the frequency of repairs.

| Brand | Locations* |
| --- | --- |
| **Auto Parts** | |
| Advance Auto Parts | 4,276 |
| AutoZone | 5,815 |
| Caliber Collision | 1,062 |
| O'Reilly Auto Parts | 5,477 |
| **Convenience Stores** | |
| 7-Eleven | 8,707 |
| Circle K | 6,250 |
| Wawa | 815 |
| **Dollar Stores** | |
| Dollar General | 16,278 |
| Dollar Tree/Family Dollar | 15,288 |
| **Fast Casual Restaurants** | |
| Applebee's | 1,682 |
| Bloomin' Brands | 1,214 |
| Chili's | 1,238 |
| Darden Restaurants | 1,812 |
| Red Lobster | 749 |
| **Grocery and General Retail** | |
| Aldi | 1,987 |
| Safeway | 895 |
| Sherwin-Williams | 4,415 |
| Verizon Wireless | 1,703 |
| Walmart | 5,078 |
| **Pharmacies** | |
| CVS | 8,131 |
| Walgreens | 8,916 |
| **Quick Service Restaurants** | |
| Burger King | 7,566 |
| Chick-fil-A | 2,497 |
| McDonald's | 15,338 |
| Starbucks | 16,752 |
| Wendy's | 6,289 |
| Yum! Brands | 18,841 |

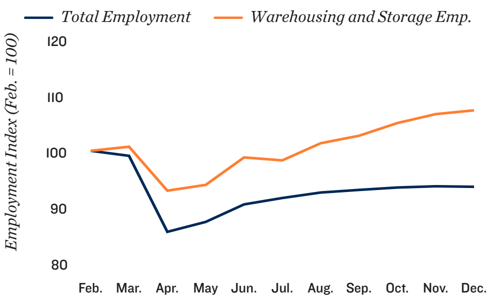
## STNL CAP RATE RANGE BY BRAND



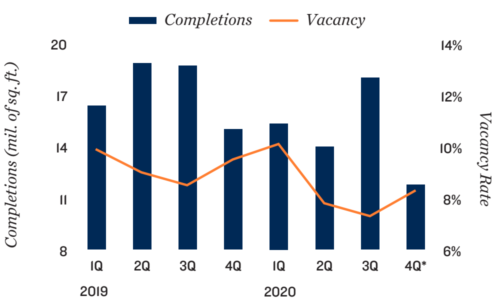

*Cap rates shown above are representative of transactions that closed in the trailing 12 months ending in September. Actual yields will vary by locations, tenant, lease terms and other considerations.*
*Locations sourced from Creditntell for public companies and company websites for private companies.*
** U.S. and Canadian locations*
*Sources: CoStar Group, Inc.; Real Capital Analytics*

# SELF-STORAGE

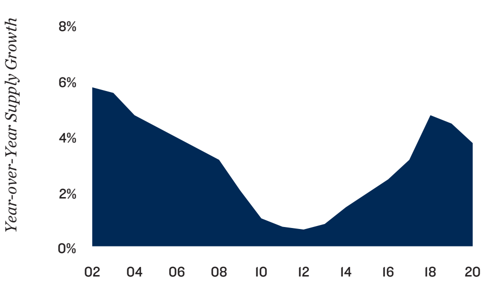
## Storage Employment Less Impacted in 2020



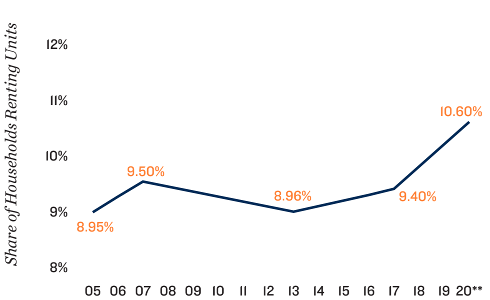

## Quarterly Self-Storage Performance Trends




## Supply Growth Recedes From 2018 High




## Market Penetration Rising Before Pandemic❖




** Vacancy estimate*
*** Pre-pandemic analysis*
*❖Time series estimated based on observations from 2005, 2007, 2013, 2017 and 2020.*
*Sources: BLS; Self Storage Association; Radius+; Yardi Matrix*

## Resilient Self-Storage Sector Emerges From 2020 on Upward Path, Aided by Historically Strong Fundamentals

**Initial uncertainty briefly weighed on self-storage performance.** When a wave of stay-at-home orders came into effect in March 2020 in response to the health threats of COVID-19, many commercial real estate demand factors were substantially disrupted. Self-storage properties were not immune to this trend. While storage was classified as essential business and permitted to stay open during lockdown, general uncertainty about the health situation kept many renters away from their units. Although more people sequestering at home means that fewer tenants were ending existing leases, fewer new rental agreements were also being signed. The precipitous drop in move-ins prompted operators at many facilities to cut marketed rates in anticipation of a prolonged slowdown in demand, decreasing the average asking rent nationally in the second quarter to its lowest level in at least four years. This dynamic, however, proved to be short lived.

**Sector recovers in the second half of 2020, achieving new vacancy low.** As spring moved into summer and the impact of the pandemic became more clear, the self-storage sector began to demonstrate its resilience. New leasing improved as stay-at-home orders were relaxed and customers felt more comfortable visiting units. At the same time more existing tenants were holding onto their units for longer, even after many eviction moratoriums ended. This combination resulted in a net increase in self-storage demand, driving vacancy to a record low of 7.3 percent in the third quarter of 2020. As vacancy fell, asking rents improved, erasing the earlier decline to achieve a two-year high at year end.

**Transaction environment improves from early disruption.** The investment landscape for self-storage properties mirrored the operational changes of the sector in many respects. During the initial period of uncertainty, sales velocity slowed, both due to logistical limitations in closing trades as well as ambiguity over cash flows. As property performance stabilized and then improved, transaction activity similarly rebounded, with buyer competition adding upward pressure to the average sales price. Trading volume and pricing are well above previous economic cycles, even with current challenges, and the tight competition for assets is anticipated to continue.

**Outlook for 2021 points to continued growth.** As a new year progresses, the self-storage sector is poised to ride several demand tailwinds. Remote learning and working are taking away storage space in the home, while businesses also must put aside excess items amid physical distancing. A relocation trend to less dense areas may also drive new storage use. However, elevated COVID-19 infections, renewed lockdowns and high unemployment may come to weigh on consumer demand. New and prospective future fiscal stimulus and the ongoing vaccine rollout nevertheless improve the general economic outlook for the second half of 2021.

*Visit MarcusMillichap.com to explore the industry's largest inventory of exclusive Self-Storage listings.*

## Outperforming

*Riverside-San Bernardino*
*Las Vegas*
*Los Angeles*
*Phoenix*
*Sacramento*
*Salt Lake City*
*San Diego*
*Southeast Florida*

- Markets with robust in-migration and household formation are demonstrating resilience during the health crisis. This is even the case in metros with significant square footage constructed there, like Phoenix and Las Vegas.
- Several California metros are also in this category. While some of these cities are reporting net out-migration, high land costs and numerous regulations continue to constrain construction, producing minimal new supply pressure.

## Sustained Momentum

*Chicago*
*Cincinnati*
*Dallas/Fort Worth*
*Houston*
*Indianapolis*
*Orange County*
*Raleigh*
*Seattle-Tacoma*
*St. Louis*

- Metros in this category are performing broadly in line with the national trend, posting modest improvements or only mild losses in vacancies and rents in 2020 that limit how much ground must be recovered this year.
- Strong local demographic demand drivers play the main role in differentiating performance of markets within this group, with Texas cities slightly outdistancing coastal metros.

## Underperforming

*Atlanta*
*Charlotte*
*Cleveland*
*Columbus*
*New Haven-Fairfield County*
*Philadelphia*
*San Antonio*
*Washington, D.C.*

- Despite generally strong economies, self-storage fundamentals for markets in this group trailed countrywide averages. Minimal population growth, new supply pressure, and complications from COVID-19 all contribute to performance constraints in 2021.
- Metros in this category had to prioritize higher occupancy over facilitating rent growth, and they face ongoing pressure from new construction and infection rates.

## Short-Term Setback

*Austin*
*Boston*
*Nashville*
*New York City*
*Orlando*
*San Francisco-Oakland*
*San Jose*
*Tampa-St. Petersburg*

- Markets in this cohort are generally large gateway cities whose economies were substantially impaired by the health crisis last year. Recovery will first require infection rates to notably subside, likely through the widespread adoption of vaccines.
- Other metros in this group are those where elevated construction has weighed on fundamentals, including Austin and Nashville, despite favorable self-storage demand drivers.

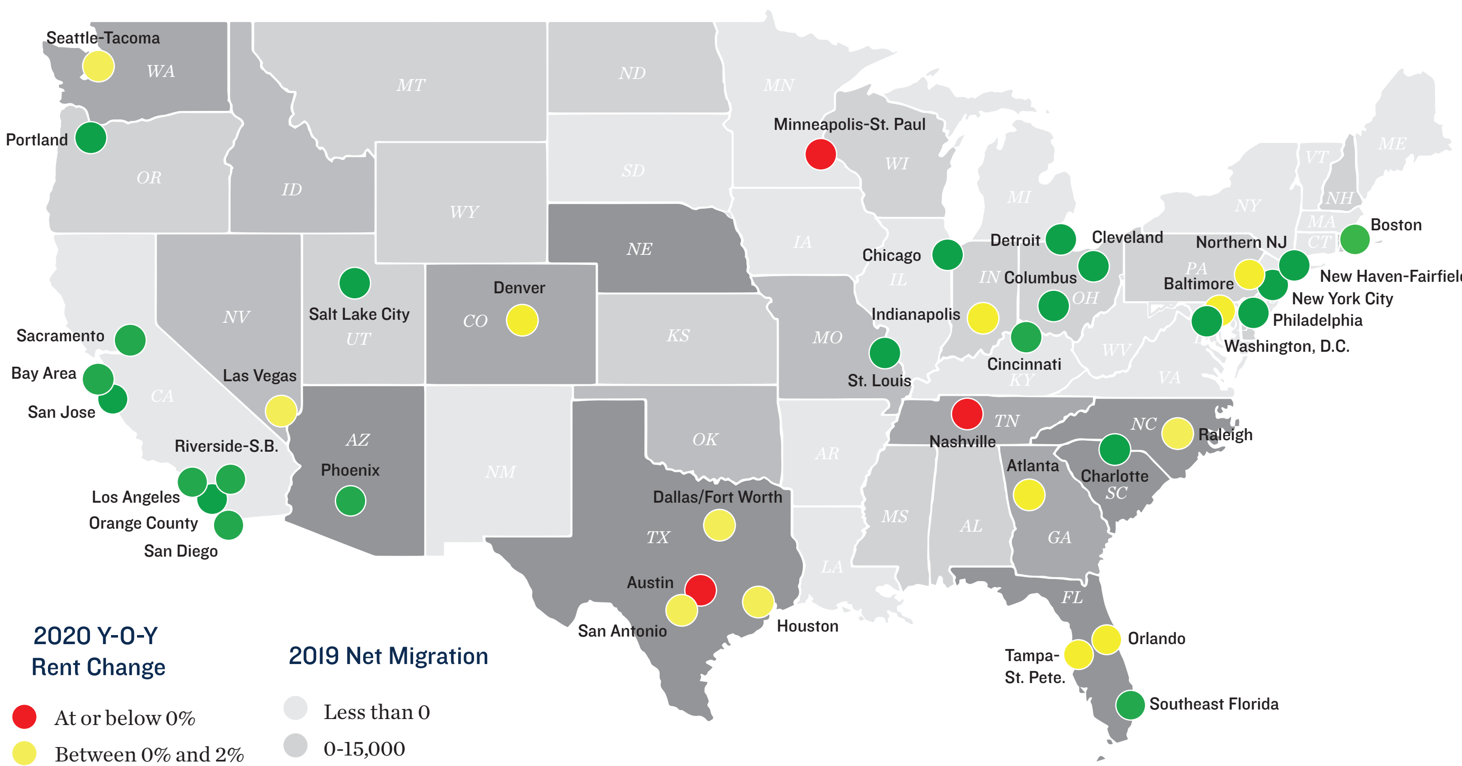
## Supply Overhang

*Baltimore*
*Denver*
*Detroit*
*Minneapolis-St. Paul*
*Northern New Jersey*

- A select number of markets have yet to overcome critical hurdles. Minimal to negative population growth dampens the self-storage demand outlook in Baltimore, Detroit and Northern New Jersey.
- Minneapolis-St. Paul and Denver have more favorable demographics to support long-term storage renting, but recent waves of construction pose headwinds for the immediate future.

## Migration Patterns Favor South and Southwest, Aiding Rent Growth

### Rent Growth & Net Migration




**2020 Y-O-Y Rent Change**

- At or below 0%
- Between 0% and 2%
- Above 2%

**2019 Net Migration**

- Less than 0
- 0-15,000
- 15,000-30,000
- 30,000-45,000
- More than 45,000

## Top 10 Markets by Net Migration

| Market | 2019 Net Migration | 2020 Average Asking Rent Growth |
|---|---|---|
| Phoenix | 77,664 | 4.9% |
| Dallas/Fort Worth | 68,366 | 1.0% |
| Austin | 46,616 | 0.0% |
| Atlanta | 43,602 | 1.0% |
| Tampa-St. Petersburg | 41,796 | 1.0% |
| Houston | 37,902 | 1.0% |
| Charlotte | 33,283 | 2.4% |
| Las Vegas | 31,280 | 1.9% |
| Raleigh | 26,147 | 1.1% |
| Seattle-Tacoma | 25,048 | 2.0% |

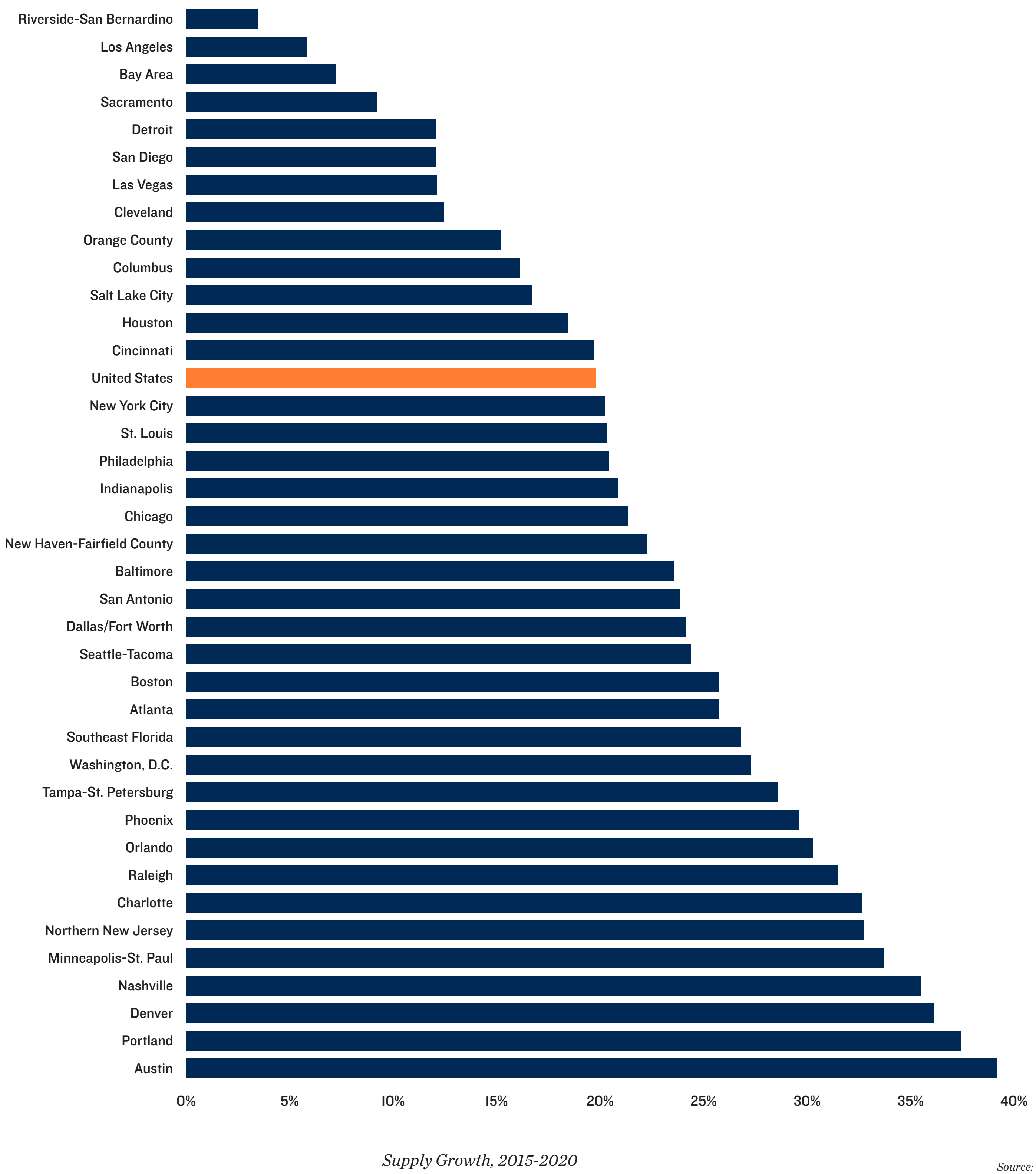
*Sources: U.S. Census Bureau; Yardi Matrix*

## Migration's Effect on Self-Storage

- The events of the past year have reinforced demographic trends that were already underway, chiefly the relocation of households from major gateway markets to more affordable destinations, often in the Sunbelt. Before 2020 this trend often required a transfer to a secondary office or a change of position. The current remote work environment has, at least temporarily, removed that hurdle.
- As new residents arrive in states such as Arizona, Texas, the Carolinas and Florida, demand for self-storage increases. Moving is a common driver of self-storage renting in the short term, and a general rise in population will also improve storage needs over time. However, much of this demographic shift has coincided with historically high self-storage construction activity.
- While the long-term demographic outlook warrants the overall increase in self-storage inventory, the rapid pace of deliveries had depressed asking rents until recently as operators of new facilities prioritized achieving high occupancy. Conversely, markets with low to negative net in-migration may record stronger rent performance because of minimal construction, as is the case in many California cities.

## Legacy of Elevated Supply Growth Still Weighs on Many Markets

### 2015-2020 Self-Storage Inventory Growth




*Source: Yardi Matrix*

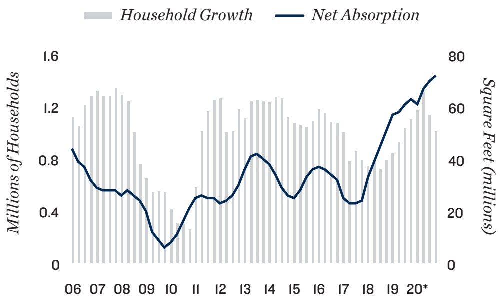
| Market Name | Employment Growth | | | | Population Growth | | | | Completions | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2017 | 2018 | 2019 | 2020 | 2017 | 2018 |
| Atlanta | 2.2% | 1.9% | 2.5% | -2.6% | 1.3% | 1.2% | 1.4% | 1.3% | 1,070 | 2,400 |
| Austin | 3.3% | 4.2% | 3.6% | -1.0% | 2.4% | 2.5% | 2.7% | 2.1% | 1,470 | 1,320 |
| Baltimore | 1.1% | 0.8% | 1.2% | -5.1% | 0.1% | 0.0% | 0.0% | 0.2% | 460 | 810 |
| Bay Area | 2.1% | 2.3% | 1.5% | -8.8% | 0.3% | 0.1% | 0.2% | 0.6% | 620 | 470 |
| Boston | 1.3% | 1.3% | 0.9% | -9.2% | 0.5% | 0.3% | 0.3% | 0.5% | 370 | 1,730 |
| Charlotte | 2.2% | 2.5% | 2.3% | -4.9% | 1.9% | 1.6% | 1.7% | 1.2% | 1,300 | 1,740 |
| Chicago | 0.7% | 0.7% | 0.4% | -7.4% | -0.3% | -0.3% | -0.3% | 0.1% | 2,110 | 1,390 |
| Cincinnati | 1.3% | 1.1% | 0.8% | -4.6% | 0.5% | 0.4% | 0.5% | 0.6% | 410 | 380 |
| Cleveland | 0.4% | 1.4% | 0.5% | -8.6% | -0.2% | -0.2% | -0.3% | -0.2% | 190 | 430 |
| Columbus | 1.3% | 1.3% | 1.2% | -6.2% | 1.3% | 0.9% | 1.0% | 1.2% | 170 | 930 |
| Dallas/Fort Worth | 2.2% | 2.5% | 3.2% | -2.1% | 1.8% | 1.6% | 1.6% | 1.4% | 3,320 | 3,980 |
| Denver | 2.6% | 2.0% | 2.8% | -4.4% | 1.3% | 1.4% | 1.2% | 1.1% | 1,220 | 3,310 |
| Houston | 1.6% | 2.7% | 2.0% | -4.3% | 1.2% | 1.1% | 1.5% | 1.4% | 2,850 | 4,120 |
| Indianapolis | 1.8% | 0.9% | 0.9% | -0.8% | 1.1% | 1.2% | 1.0% | 1.1% | 80 | 1,260 |
| Las Vegas | 2.9% | 3.1% | 1.9% | -9.5% | 2.0% | 2.0% | 2.1% | 1.6% | 170 | 370 |
| Los Angeles | 1.6% | 1.4% | 1.1% | -9.1% | -0.2% | -0.4% | -0.2% | 0.2% | 90 | 560 |
| Minneapolis-St. Paul | 1.5% | 1.2% | 0.3% | -8.0% | 1.0% | 0.9% | 0.8% | 0.9% | 410 | 1,240 |
| Nashville | 3.1% | 3.3% | 3.0% | -4.2% | 1.7% | 1.6% | 1.8% | 1.5% | 620 | 1,350 |
| New Haven-Fairfield County | -0.1% | 0.4% | 0.0% | -8.0% | 0.0% | 0.0% | -0.2% | 0.1% | 650 | 990 |
| New York City | 2.0% | 2.1% | 1.8% | -12.2% | -0.5% | -0.6% | -0.5% | -0.1% | 790 | 950 |
| Orange County | 2.0% | 1.2% | 1.2% | -8.5% | 0.2% | 0.0% | -0.1% | 0.1% | 430 | 290 |
| Orlando | 3.4% | 2.7% | 2.5% | -9.7% | 2.4% | 1.9% | 1.3% | 1.4% | 780 | 1,210 |
| Philadelphia | 1.3% | 1.0% | 0.9% | -7.2% | 0.2% | 0.2% | 0.2% | 0.3% | 1,210 | 1,150 |
| Phoenix | 3.4% | 3.4% | 3.6% | -2.3% | 1.8% | 2.0% | 2.2% | 1.5% | 1,510 | 1,370 |
| Portland | 2.5% | 2.0% | 1.4% | -8.5% | 0.9% | 0.7% | 1.1% | 1.0% | 410 | 930 |
| Raleigh | 2.5% | 2.1% | 2.0% | -4.5% | 2.0% | 2.0% | 1.9% | 1.5% | 990 | 1,540 |
| Riverside-San Bernardino | 4.0% | 3.0% | 1.5% | -7.2% | 1.1% | 0.9% | 0.7% | 1.2% | 90 | 290 |
| Sacramento | 2.7% | 2.6% | 1.5% | -6.9% | 1.1% | 0.9% | 0.7% | 0.8% | 270 | 380 |
| Salt Lake City | 3.2% | 2.7% | 3.3% | 0.4% | 1.7% | 1.5% | 1.7% | 1.5% | 140 | 1,220 |
| San Antonio | 1.6% | 2.1% | 2.3% | -3.4% | 1.8% | 1.5% | 1.5% | 1.2% | 720 | 1,040 |
| San Diego | 2.1% | 1.7% | 1.5% | -6.9% | 0.4% | 0.3% | 0.1% | 0.6% | 180 | 770 |
| Seattle-Tacoma | 2.4% | 2.1% | 2.5% | -7.2% | 1.5% | 1.1% | 1.3% | 1.1% | 650 | 1,100 |
| Southeast Florida | 1.6% | 1.8% | 1.0% | -6.2% | 0.7% | 0.3% | 0.7% | 0.8% | 1,680 | 3,000 |
| St. Louis | 1.0% | 0.3% | 0.5% | -4.6% | 0.0% | -0.1% | 0.0% | 0.1% | 650 | 330 |
| Tampa-St. Petersburg | 1.9% | 2.2% | 2.7% | -3.6% | 1.7% | 1.4% | 1.1% | 0.8% | 1,010 | 2,600 |
| Washington, D.C. | 1.0% | 1.3% | 1.7% | -5.2% | 0.8% | 0.5% | 0.6% | 0.8% | 1,520 | 1,590 |
| United States | 1.5% | 1.6% | 1.4% | -6.1% | 0.6% | 0.5% | 0.4% | 0.5% | 45,310 | 69,860 |

| (000s of Sq. Ft.) | | Vacancy Rate | | | | Asking Rent per Sq. Ft. | | | | Market Name |
|---|---|---|---|---|---|---|---|---|---|---|
| 2019 | 2020 | 2017 | 2018 | 2019 | 2020* | 2017 | 2018 | 2019 | 2020 | |
| 2,550 | 1,730 | 8.1% | 8.4% | 8.9% | 7.7% | $1.02 | $1.01 | $0.96 | $0.97 | Atlanta |
| 1,500 | 920 | 10.1% | 8.7% | 8.0% | 7.2% | $1.03 | $0.99 | $0.97 | $0.97 | Austin |
| 780 | 820 | 8.4% | 7.9% | 9.1% | 8.2% | $1.31 | $1.29 | $1.27 | $1.29 | Baltimore |
| 850 | 860 | 6.3% | 6.9% | 6.9% | 4.9% | $1.90 | $1.89 | $1.87 | $1.96 | Bay Area |
| 1,630 | 1,070 | 7.6% | 9.0% | 9.8% | 7.5% | $1.44 | $1.45 | $1.40 | $1.47 | Boston |
| 550 | 860 | 7.6% | 8.9% | 11.0% | 7.8% | $0.92 | $0.87 | $0.83 | $0.85 | Charlotte |
| 2,060 | 1,600 | 9.0% | 8.1% | 7.6% | 6.0% | $1.04 | $1.02 | $1.01 | $1.05 | Chicago |
| 340 | 370 | 8.6% | 6.1% | 5.3% | 5.1% | $0.88 | $0.87 | $0.88 | $0.92 | Cincinnati |
| 530 | 370 | 7.3% | 8.6% | 8.4% | 6.6% | $0.97 | $0.95 | $0.94 | $0.97 | Cleveland |
| 150 | 340 | 8.1% | 9.4% | 8.2% | 7.7% | $0.86 | $0.86 | $0.85 | $0.87 | Columbus |
| 3,070 | 2,310 | 8.7% | 8.8% | 7.0% | 6.5% | $1.01 | $0.96 | $0.93 | $0.94 | Dallas/Fort Worth |
| 1,820 | 160 | 9.4% | 10.0% | 7.1% | 4.8% | $1.32 | $1.21 | $1.18 | $1.19 | Denver |
| 2,080 | 1,100 | 6.6% | 9.4% | 9.0% | 7.7% | $0.90 | $0.87 | $0.84 | $0.85 | Houston |
| 560 | 670 | 7.6% | 7.8% | 5.9% | 5.9% | $0.84 | $0.83 | $0.82 | $0.83 | Indianapolis |
| 510 | 890 | 5.0% | 6.1% | 6.5% | 6.8% | $0.97 | $1.03 | $1.07 | $1.09 | Las Vegas |
| 810 | 400 | 6.0% | 8.2% | 7.5% | 5.5% | $1.89 | $1.90 | $1.91 | $2.00 | Los Angeles |
| 2,110 | 1,510 | 8.5% | - | - | - | $1.17 | $1.15 | $1.13 | $1.10 | Minneapolis-St. Paul |
| 1,070 | 700 | 8.3% | 8.7% | 10.2% | 9.7% | $1.17 | $1.08 | $1.00 | $1.00 | Nashville |
| 670 | 500 | 7.9% | 9.4% | 10.6% | 6.6% | $1.19 | $1.21 | $1.16 | $1.21 | New Haven-Fairfield County |
| 1,160 | 860 | 7.4% | 7.7% | 9.0% | 6.6% | $2.48 | $2.59 | $2.58 | $2.65 | New York City |
| 510 | 400 | 6.0% | 8.2% | 7.5% | 5.5% | $1.63 | $1.72 | $1.75 | $1.79 | Orange County |
| 2,540 | 1,120 | 7.7% | 8.1% | 9.6% | 8.1% | $1.06 | $1.03 | $1.01 | $1.03 | Orlando |
| 590 | 1,270 | 6.7% | 6.5% | 8.3% | 7.8% | $1.21 | $1.24 | $1.22 | $1.29 | Philadelphia |
| 2,750 | 2,330 | 8.3% | 7.6% | 6.2% | 6.9% | $1.04 | $1.03 | $1.03 | $1.08 | Phoenix |
| 1,610 | 1,550 | 8.2% | 9.1% | 6.1% | - | $1.53 | $1.43 | $1.38 | $1.41 | Portland |
| 870 | 340 | 10.7% | 9.8% | 10.7% | 8.7% | $0.97 | $0.90 | $0.88 | $0.89 | Raleigh |
| 340 | 270 | 5.8% | 6.9% | 6.4% | 4.8% | $1.08 | $1.11 | $1.13 | $1.19 | Riverside-San Bernardino |
| 480 | 490 | 7.4% | 8.9% | 8.5% | 6.0% | $1.37 | $1.33 | $1.31 | $1.36 | Sacramento |
| 1,500 | 580 | 7.9% | 9.7% | 7.5% | 7.0% | $0.99 | $0.97 | $0.95 | $0.97 | Salt Lake City |
| 900 | 990 | 8.9% | 9.2% | 7.5% | 7.0% | $1.01 | $0.99 | $0.95 | $0.96 | San Antonio |
| 430 | 720 | 6.9% | 6.3% | 7.3% | 6.1% | $1.54 | $1.56 | $1.54 | $1.62 | San Diego |
| 2,120 | 1,990 | 6.5% | 10.2% | 8.4% | 7.5% | $1.50 | $1.50 | $1.49 | $1.52 | Seattle-Tacoma |
| 2,220 | 1,900 | 7.3% | 8.8% | 7.1% | 5.6% | $1.41 | $1.36 | $1.33 | $1.39 | Southeast Florida |
| 750 | 760 | 9.5% | 11.5% | 11.0% | 7.5% | $1.02 | $0.93 | $0.89 | $0.92 | St. Louis |
| 1,620 | 1,300 | 7.2% | 7.9% | 8.8% | 7.6% | $1.17 | $1.11 | $1.05 | $1.06 | Tampa-St. Petersburg |
| 1,540 | 1,560 | 8.2% | 8.0% | 8.7% | 7.8% | $1.47 | $1.46 | $1.42 | $1.48 | Washington, D.C. |
| 69,560 | 59,930 | 9.6% | 9.8% | 9.5% | 8.3% | $1.20 | $1.16 | $1.14 | $1.18 | United States |

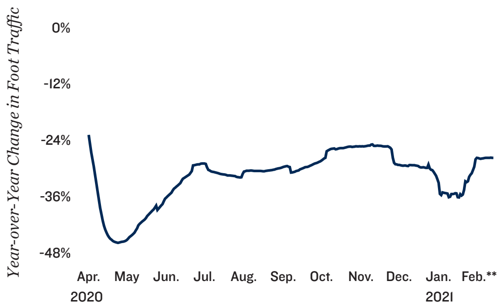
*Sources: BLS; Moody's Analytics; Radius+; Yardi Matrix*

## Household Consolidation, Campus Closures and Remote Work Leave Little Room for Home Storage

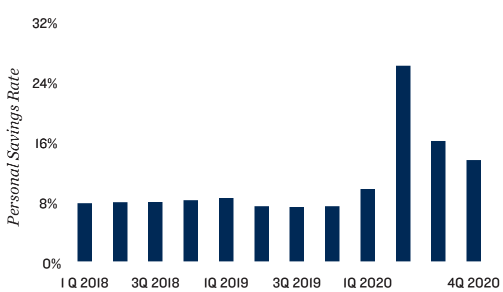
Will Absorption Follow Household Growth Down?



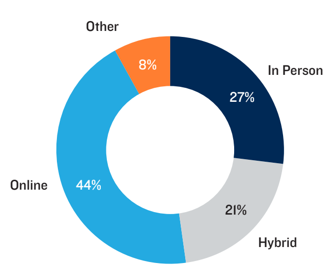

Foot Traffic in Workplaces Depressed




Savings Rate Spikes as People Stay Home




Breakdown of College Reopening Models❖




**Following early disruptions, health crisis bolsters self-storage demand in key ways.** After the initial months of the pandemic when less population movement and historically high unemployment tempered self-storage move-ins, leasing activity improved. Easing restrictions and fiscal stimulus helped assuage consumers' concerns, but storage facilities also recorded demand from households and businesses contending with new challenges posed by the health crisis. Whether out of economic hardship or choice, many households are consolidating and changing how living space is used, adding to the need for separate storage. Businesses are also contending with capacity restrictions and other changes in consumer behavior that require them to reevaluate their space needs. Together, these new factors have the potential to offset the normal winter slowdown in storage use and propel the sector to new levels of occupancy and rent growth this year.

**Household consolidation driving some self-storage leasing activity.** Population growth and the corresponding formation of new households is generally associated with new self-storage demand. The health crisis may be disrupting this relationship. Since the onset of the pandemic, the rate of household formation has decreased. Yet, self-storage vacancy has continued to decline, even amid new supply. Self-storage leasing velocity may yet feel the impact of slower household formation, or the process itself could be adding to demand in a different way. Children moving back in with their parents and combining previously single households may be prompting residents to lease a storage unit due to the loss of available space. Current sequestration behavior prompted by the pandemic may be accentuating this dynamic. Households that must now facilitate remote learning and working, and that have been able to save money otherwise spent on unavailable leisure activities, may direct those funds to renting a storage unit.

**Students returning home due to campus closures bolster storage operations**. Self-storage demand received a boost in the spring of 2020 from college and university campus closures. The widespread shift to remote learning brought many students, as well as their belongings, home early. Self-storage properties normally see an increase in demand from student renters in the summer months, but the premature closures pushed those needs forward to the spring. The fact that many parents were also working from home only added to the need to store ancillary items. When fall semesters began, less than a third of college campuses were holding in-person classes as normal. A majority of schools were either continuing to focus on online instruction or practicing a hybrid model with only some students in residence. As the year advanced, more colleges shifted back to a remote focus given a resurgence of cases during the winter holidays. In 2021, remote learning will continue to be a prominent pillar of colleges' instruction practices in the near term, likely maintaining college students' elevated need for storage, which contrasts with past school years. Self-storage use from this cohort is unlikely to normalize until vaccines are widely available and the health risks posed by in-person instruction are substantially mitigated, both for the students themselves as well as for associated faculty and staff. Even when students return to campus housing, parents working from home may continue to leverage self-storage to keep excess clutter to a minimum.

** Net absorption based on vacancy estimate*
*** Through February 12*
*❖ As of September 2020*
*Sources: BEA; Google; Moody's Analytics; College Crisis Initiative; Radius+; Yardi Matrix*

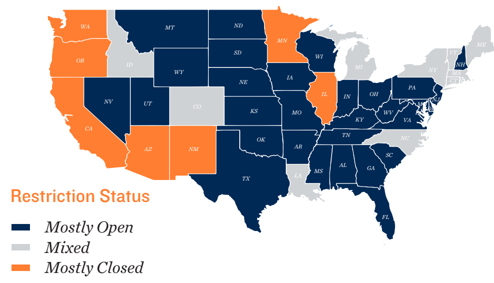
## Changing Business Practices Raise Storage Needs; Pandemic Behavior May Sway Demand Patterns

**Capacity restrictions push restaurants, stores and offices to consider self-storage.** As with the consumer tenant base, the needs of commercial self-storage renters have also changed because of the coronavirus. Pre-health crisis, a wide range of businesses rented units, most often to keep paper records, excess inventory, and unneeded equipment and furniture. The widespread restrictions enforced at many places of business, especially bars, restaurants and other retailers, have accentuated some of these needs. In order to accommodate physical distancing, many eating and drinking places have had to remove furniture, or in some cases, completely reinvent their retail space. A surge in COVID-19 infections entering 2021 prompted a renewed commitment to these limitations that may drive such storage demand until vaccines are widely available. Many offices will also remain closed until vaccines are more common. When facilities do reopen, an expectation of greater physical spacing may require some firms to place excess furniture or equipment into off-site storage. Any on-site storage space in the office may be re-tasked to accommodate workstations given these new physical distancing standards.

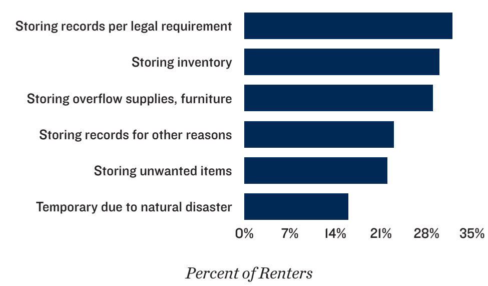
**Shift with inventory management, shopping patterns to influence storage needs.** The widespread sequestration that took place in 2020 changed retail shopping patterns in ways that also impacted self-storage demand. First, inventory management practices changed. An initial wave of preparedness buying led to shortages of key necessities that pushed many retailers and distributors to shift from "just-in-time" inventory management to "just-in-case," resulting in expanded inventories. Stores seeking an affordable alternative to expanding their retail footprint turned in some cases to self-storage facilities to keep the added stock. The second retail trend with implications for self-storage use is the acceleration of online shopping. E-commerce sales volumes have essentially leaped multiple years forward in time and in order to meet this demand, some logistics firms are leveraging storage units as a hyper local extension of their delivery networks. This trend may reflect a temporary, niche use, or could foretell a broader change.

**A confluence of pandemic-related factors may disrupt normal seasonal trend.** Whether the renter is a private consumer or a business, the health crisis has had a profound impact on self-storage needs. The combined effects of the shift to remote working and learning, in addition to household consolidation and capacity restrictions on businesses, boosted self-storage occupancy to record levels last year. That trend is anticipated to continue in the first half of 2021 even though winter is a typically subdued period for self-storage leasing, with students back in school and fewer people moving. That was not the case this winter. More students were at home and many households may still relocate. The health crisis has shifted lifestyle preferences, with an emphasis on living in larger spaces away from high-density neighborhoods. Advancing into the latter half of 2021, the performance of self-storage properties will depend on the broader economic recovery. The anticipated widespread availability of effective vaccines should pave a path toward normalization. The end to temporary pandemic-related demand drivers such as campus closures and business capacity restrictions will be offset by a more general improvement in the national economy, including falling unemployment and renewed household formations. These factors also underpin self-storage needs and will likely return the sector to more typical seasonal patterns by year end.

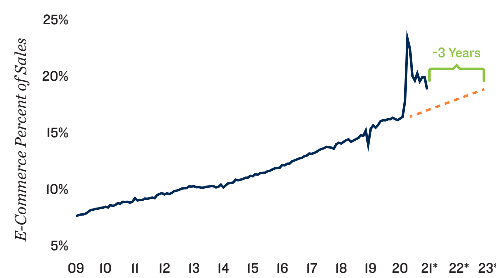
### Business Restriction Level at End of 2020



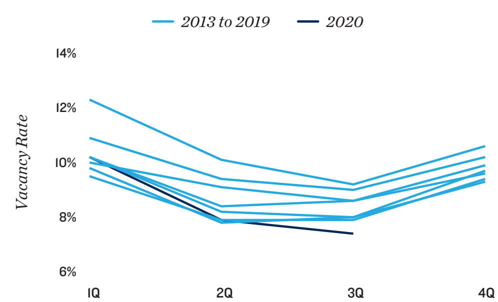

### Top Reasons Businesses Rent, Pre-COVID-19




### Online Shopping Jumps Ahead Three Years




### Seasonal Pattern Disrupted in 2020

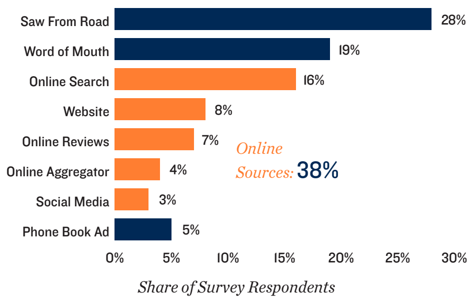



* Forecast

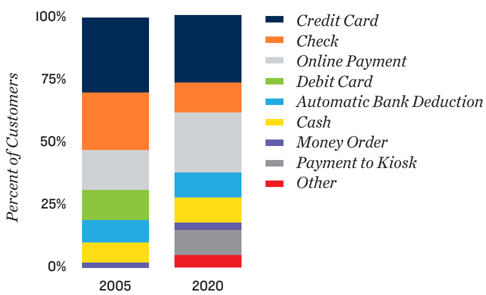
Sources: New York Times; Self Storage Association; Radius+; U.S. Census Bureau

# Health Crisis Recharacterizes Role of Technology and Automation Among Self-Storage Properties

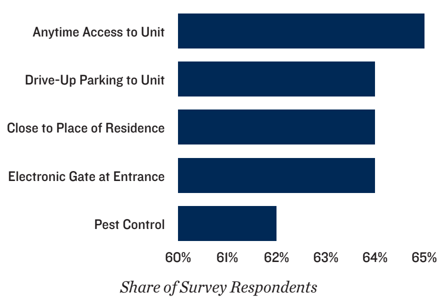
### Method of First Contacting Facility Pre-Pandemic



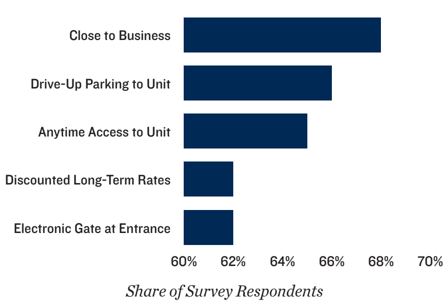

### Preferred Payment Option by Customers




### Top Features for Private Renters




### Top Features for Businesses




*Source: Self Storage Association*

**Online rental platforms gain prominence during lockdowns.** The health crisis has shed new light on the prospect of technological innovation within the self-storage sector. When the country first entered lockdowns last spring, the digital tools that most benefited property owners were online rental platforms. Going into 2020, the most common method of finding a self-storage facility was from first-hand encounters while commuting, but online searches were the third most used method. Sequestration immediately made a full service online portal a much more critical part of a facility operator's business plan. Some major self-storage owners and management firms had already activated digital rental platforms before March, while others deployed similar tools in the subsequent months. The ability to not only locate a storage facility, but to rent and pay for a specific unit entirely online has become a structural component of the industry. From an operational standpoint, this software can also allow for clearer price discovery and more varied price differentiation among renters, aiding revenue and occupancy.

**On-site automation tools take on new significance in pandemic environment.** The sudden need to avoid close personal interaction whenever possible added new value to many of the automation solutions taking hold in the sector. Beyond new safety procedures and cleaning protocols, applicable technologies include electronic locks and key-code accessible security systems that allow consumers 24-hour access to the facility and their unit. Other business-centric tools include remote monitoring systems, for both security and climate-control purposes. Additional devices that help limit face-to-face interaction include kiosks and mobile smartphone apps, which can allow customers to obtain a unit and make a rent payment without physically meeting an employee.

**New technologies may foster customer engagement post-pandemic.** Mobile smartphone integration is a growing practice in the self-storage sector. In addition to offering the same rental services as a website, these apps can be linked with on-site features such as smart locks to create a contact-less experience for the renter. Beyond the obvious safety benefits during the health crisis, these tools, when implemented well, can help differentiate a property for customers who value that type of user experience. Demand for smart entry may grow further as more customers shift their visits to off hours in an attempt to avoid congestion. Smart locks, when paired with other unit-level monitoring devices, also grant staff greater control over facility security, even from a remote location.

**Technological innovation does not preclude success at older facilities.** Some of the recent automation tools adopted by self-storage owners are tied to newer facilities, but older properties have not fallen by the wayside during the pandemic either. Drive-up access to a unit is still a top requested feature among both private and commercial renters, and limits the kinds of personal interactions that can occur when sharing a common loading area or elevator. A key automation component for single-level properties with outdoor units would be 24-hour facility access provided by an electronic gate system that would not require an employee to be physically present. An online presence to attract and engage customers is also not dependent on the age or design of a facility.

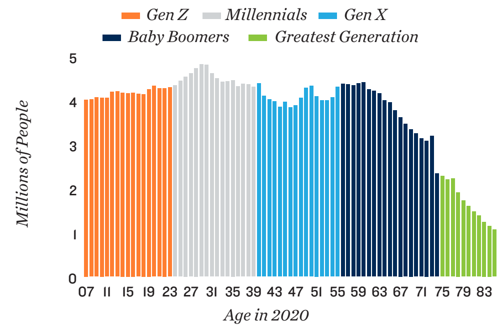
## Demographic Tailwinds and Migration Patterns Sustain Favorable Long-Term Outlook for Self-Storage

**Millennial renter block bolsters long-term outlook of property type.** Since the last financial crisis, the millennial generation has emerged as an important pillar of the self-storage renter base, outnumbering every other generation in the self-storage renter pool. A decade ago most millennials were in their early 20s or younger, and the oldest of the cohort were not yet 30. As time advanced, more members of the generation finished school and left home to start new jobs. Many moved to dense urban areas where living space was at a premium, pushing some to rent nearby storage units. The nature of their living situations pushed them to access the units more frequently than past generations. In 2021, the leading edge of the cohort is almost 40. Many members of the generation have started families and moved out of the urban core, and they are now facing many of the same self-storage demand drivers that previous generations experienced. This aging has prompted a migration trend that has only been reinforced by the pandemic, with important long-term implications for the sector.

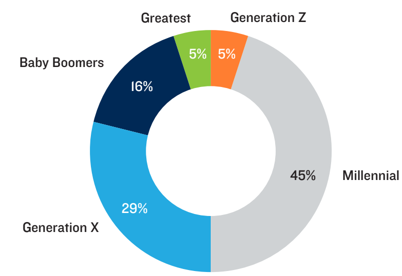
**Migration to less costly, warmer climates underscored by lockdown environment.** Before the current health crisis, regional migration across the U.S. was already influencing self-storage performance. Households in search of lower costs of living and more temperate climates were relocating from parts of the West Coast and Northeast to the Sunbelt and Southwest. This in turn had increased renter demand and prompted additional construction activity in those settings. Markets that have led the nation in self-storage supply growth over the past five years, such as Austin, Charlotte, Nashville and Phoenix, have also seen their populations expand by multiple times that of the U.S. pace over that same span. The pandemic has only reinforced this trend, highlighting some of the drawbacks of living in a dense urban environment while simultaneously removing many of the benefits, such as being close to places of work or entertainment. Metros such as New York City and San Francisco in particular have been impacted by a migration of some residents to less dense, more affordable areas. Part of this shift may be temporary, aided by the ability of some professionals to work remotely until offices reopen, but other relocations may be permanent. This creates demand for self-storage both now, during the moving process, as well as in the future from the broader increase in population. The age breakdown of the local residents will factor into storage demand moving forward as well.

**Anticipated downsizing trend fosters storage needs.** Another major demographic tailwind for the self-storage sector is the aging of the baby boomer generation. As the population of people over the age of 75 grows at an accelerated rate in the coming years, a wealth transfer is expected. An estimated 13 million to 14 million individuals are anticipated to leave the homeownership pool between 2026 and 2036, more than 40 percent above the 2009-2019 period. Numerous baby boomer households are likely to downsize, either out of preference or need, requiring them to either store or distribute many of their possessions and family heirlooms. Younger relatives receiving these gifts may still have to store them for a protracted period of time, especially if they have yet to expand their own living situations. Many of the markets with an aging demographic, including some of those discussed above as well as others in the Southeastern U.S., bolsters the long-term demand outlook for self-storage properties in many parts of the country.

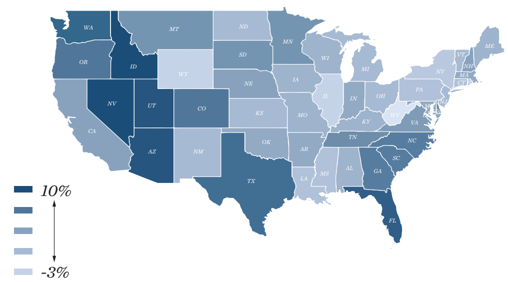
### Population by Generational Cohort



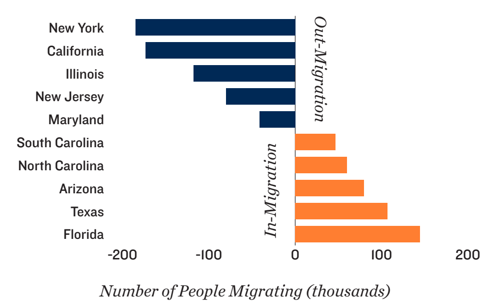

### Self-Storage Renters by Generation




### Population Growth by State: 2015-2020

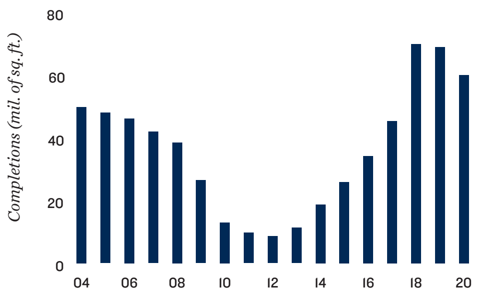



### States With Most In/Out-Migration in 2019

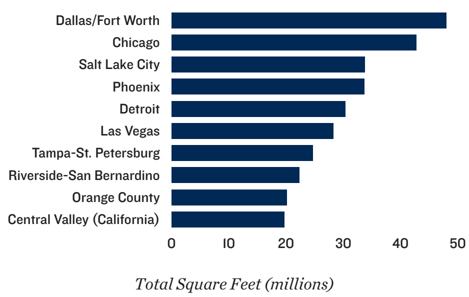



*Sources: Moody's Analytics; Self Storage Association; U.S. Census Bureau*

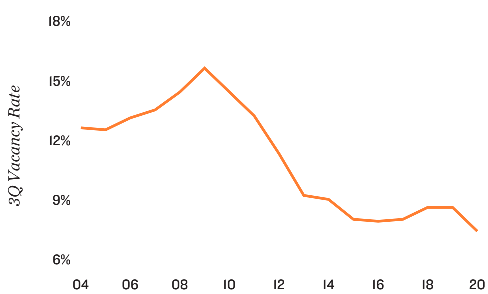
## Pandemic Hastens Construction Drop



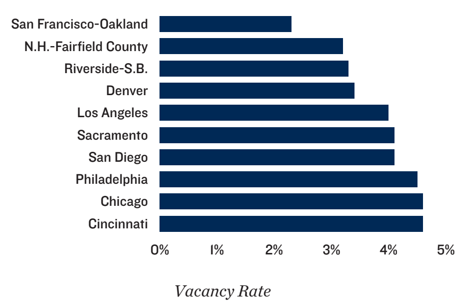

## Available Conversion Space by Metro




## Vacancy Hits Multidecade Low




## Least Vacant Metros - 3Q 2020




*Sources: Radius +; Yardi Matrix*

# Health Crisis Constricts Development Pipeline; Vacancy Hits Multidecade Low

**Coronavirus shutdowns temper construction activity.** One of the most notable effects of the health crisis on the self-storage sector has been with development. Temporary work stoppages and new safety procedures substantially slowed the pace of self-storage construction last year. Less than 14 million square feet of space was completed in the second quarter of 2020, the lowest quarterly delivery total since mid-2017. Arrivals picked up again in the September-to-October period but dropped to 12 million square feet for the final three months of the year. Total completions for 2020 reached 60 million square feet, down 14 percent from the year before and short of the record 70 million square feet deposited in 2018. Spiking infections in early 2021 and difficulties obtaining some raw materials will continue to trouble the pipeline this year, likely tempering construction activity even further. This process will not happen uniformly across the U.S., as each market contends with its own pandemic challenges and self-storage development schedules.

**Certain markets take brunt of recent development wave.** Over the past five years, self-storage inventory in the U.S. has grown by nearly 20 percent, but space has not been distributed evenly across all markets. Metros that have experienced the most development since 2015 include Portland, Austin and Denver, where stock has swelled by over 35 percent. Raleigh, Nashville, Minneapolis-St. Paul, and Phoenix also had large pipelines. Much of the construction activity in these and other markets was driven by robust population growth that will facilitate new self-storage rental demand over time, but the brief period in which many of these properties opened challenged short-term leasing. Conversely, metros in California such as Riverside-San Bernardino, Sacramento, Los Angeles and the Bay Area have seen more modest inventory increases of less than 10 percent. High land costs and regulatory hurdles drove this behavior. For some other cities, such as Detroit and Cleveland, smaller pipelines were warranted by less positive demographic trends. Looking forward, Dallas/Fort Worth, Phoenix and Tampa-St. Petersburg lead the nation with the most deliveries anticipated in 2021.

**Most metros observed record-low vacancy last year.** Despite historically high development in recent years, the disruption to construction in the spring of 2020 paired with increased renter demand from the pandemic translated to falling vacancy in most major markets. Metros with comparatively few recent arrivals, such as Riverside-San Bernardino and the Bay Area, reported some of the tightest availability in the country at under 3.5 percent in the third quarter of 2020. Vacancy was similarly low in heavily developed Denver, as the area's favorable migration trends, likely accelerated by the health crisis, caught up with new supply. Only a handful of major metros reported year-over-year vacancy increases. Las Vegas, which had the highest unemployment rate in the country at the time, reported a 20-basis-point annual vacancy increase in September to 5.8 percent. Availability also rose in Phoenix, where new supply growth remains a hurdle. For newly opened units, drawing in tenants has been made more difficult by the need to physically distance from one another. Despite these exceptions, the national vacancy rate still fell to its lowest level since before 2004 at 7.3 percent last September and is anticipated to stay low this year, reflecting the resiliency of the product type.

## Asking Rents Recover From Initial Health Crisis Disruption; Growth to Improve as Supply Pressures Dissipate

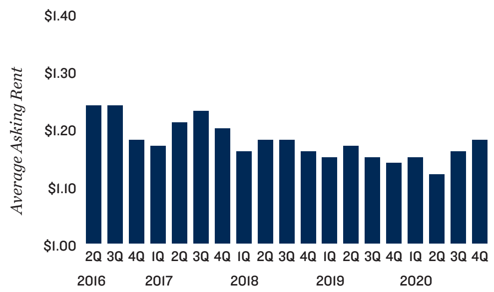
**Asking rents recover from spring decline.** Entering 2020, multiple years of elevated construction had weighed on rent growth as operators leveraged lower asking rates to support occupancy. That dynamic became even more true in March and April when stay-at-home orders prompted fewer people to visit or lease storage units for a brief window. The average marketed rate for a standard 10-foot by 10-foot unit fell from $1.15 per square foot in February to $1.12 in May. However, as tenant turnover began to improve in the summer, asking rates rose, returning to $1.16 per square foot by the end of the third quarter, slightly up from a year prior. Between then and the end of the year, the average asking rate rose another 1.7 percent to achieve $1.18 per square foot. Up 3.5 percent from 12 months prior, 2020 became the first year to record an increase in the U.S. average asking rent since 2017.

**Rent growth follows similar paths across unit types.** The performance of marketed rental rates through 2020 has been largely the same for climate-controlled as well as non-climate-controlled units. Both types of rentals recorded rate drops in April and May, with the higher-cost climate-controlled space declining more steeply. The average asking rate for a climate-controlled 10-foot by 10-foot unit fell from $1.30 per square foot in March to $1.25 in May, a 3.8 percent drop. Non-climate-controlled units recorded a 2.6 percent decrease. Since June, climate-controlled marketed rents have climbed past the level observed in March to $1.33 per square foot at the end of the year. Similar to non-climate-controlled units, the asking rate surpasses the year-end 2019 mark by 2.3 percent.

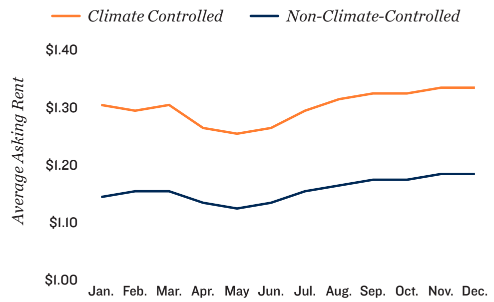
**Metros with less supply growth, strong in-migration post rent gains.** Following two consecutive years of falling asking rent at the national level, rent growth returned in 2020, led by several outperforming markets. These metros included Philadelphia, Los Angeles, Riverside-San Bernardino and Phoenix, where the average asking rates each improved by about 4.9 percent or more. A supply shortage contributed to the rent growth in Los Angeles while robust in-migration fostered demand in Phoenix, with rate hikes in the Riverside-San Bernardino resulting from a combination of those two factors. Southeast Florida, Sacramento and the San Francisco-Oakland area also recorded positive rent momentum year over year in December 2020. Several other markets reported rent growth more in line with the national average, spanning all regions of the country. The factors that drove strong rent jumps in these metros last year are anticipated to continue into 2021.

**Some markets still experiencing downward pressure on rents.** While the self-storage sector overall is continuing to benefit from many demand tailwinds spurred on by the health crisis, several markets still reported tepid growth in asking rates last year. These metros included Austin, Nashville, Dallas/Fort Worth and Denver, where averages all improved by 1 percent or less. The average asking rent declined in Minneapolis-St. Paul over the same span, down 3 percent. Although development slated for 2021 across several of these markets is more muted than in it has been in past years, new supply continues to be a lingering issue in those destinations. Falling vacancies suggest operators are lowering street rates in order to fill units amid the broader economic turbulence. As the health crisis abates and leasing velocity improves, the downward pressure on asking rents should dissipate.

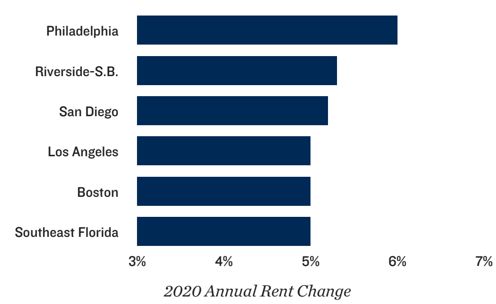
### Average Asking Rent Trends



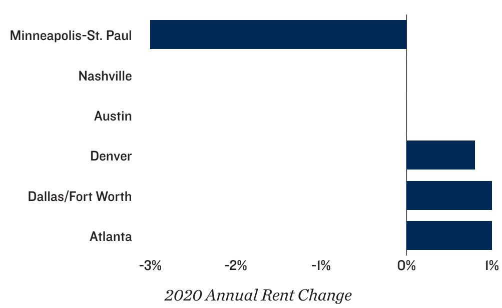

### 2020 Rent Performance by Unit Type




### Top Markets by Rent Growth

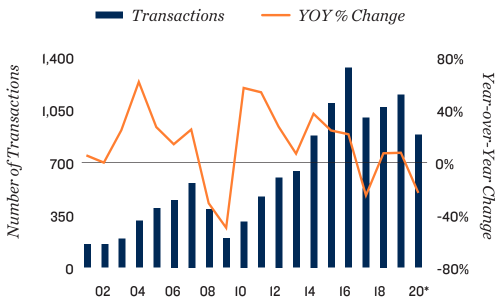



### Most Challenged Metros by Rent Growth

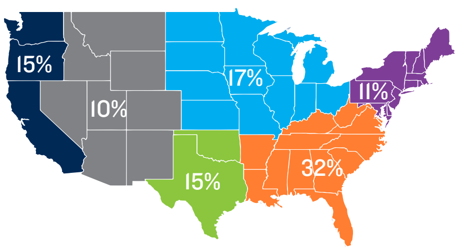



*Source: Yardi Matrix*

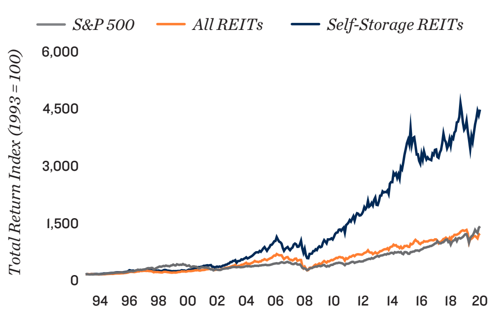
Transaction Trends



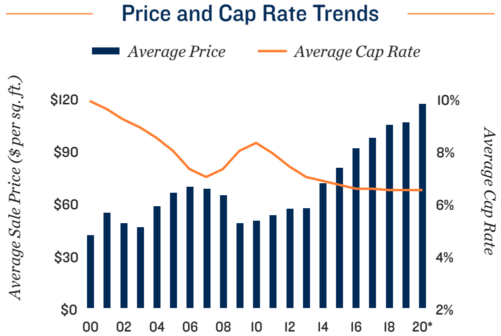

2020 Sales Volume by Region*




Self-Storage REITs Post Strong Returns




Price and Cap Rate Trends




*Includes preliminary fourth quarter data

Sources: Costar Group, Inc.; Nareit; Real Capital Analytics; Standard & Poor's

## Sales Velocity Recovering From Early-2020 Shock; Investment Landscape Broader Than in Past Cycles

**Transactions continue through the pandemic.** While not immune to health crisis disruptions, self-storage sales velocity slowed by a smaller margin compared with other property types. Investment activity contracted by only about 10 percent between the first and second quarters of 2020, when physical distancing requirements and limited lender bandwidth delayed trades. Sales rebounded by more than 15 percent in the third quarter, however, as easing lockdowns led to more assets changing hands in that period than during the first 90 days of 2020. Competition for listings helped sales prices appreciate for the 11th consecutive year, rising to a national average of $116 per square foot for all of 2020, up 6.0 percent annually. The average cap rate remained unchanged over the same span at 6.5 percent. While severe infection rates have prompted new restrictions in some parts of the country, lessons learned earlier in the health crisis are likely to keep transactions moving forward.

**Impact of the health crisis on sales varies by region.** The overall positive national sales trend was bolstered by some outperforming regions. During the second quarter, when strict lockdowns were in place in the Northeast and along the West Coast, roughly one in three self-storage transactions involved a facility in the Southeast. The Texas/Oklahoma region also recorded fairly consistent velocity throughout the year. Some other areas experienced greater slowdowns, however. Sales velocity decreased the most between the first and second quarters across the Midwest states. Whereas assets in that region comprised 25 percent of trades in the first quarter, that ratio receded to about 11 percent in the following three months. In the third quarter, however, Midwest sales velocity notably improved, making it the only region to report more trades in the first nine months of 2020 than during the same span the year before.

**Current investment environment well above previous downturn.** Despite new logistical hurdles, the number of properties traded in 2020 far exceed velocity from before the 2008-2009 financial crisis, reflecting greater investor demand. Buyer competition has contributed to a 57 percent increase in the average sale price since 2006, a phenomenon reflected in the positive returns of the public operators. Between 2009 and 2019, the equity value of the major self-storage REITs collectively improved by a wider margin than that of the S&P 500 or all REITs together. Similarly, the self-storage REITs posted a return of nearly 12 percent in 2020, whereas many other REITs ceded value.

**Changing product mix an influence on but not the driver of higher sales prices.** Many of the self-storage facilities built over the past decade are fully enclosed, multilevel buildings with more climate-controlled units than older assets. These properties are also often located closer to population centers. These factors bolster the selling price of these buildings, which, as more of them enter the expanding buyer pool, has partly contributed to the substantial rise in sales values recorded over the past several years. Nevertheless, the majority of self-storage trades posted in recent years were still single-story buildings constructed prior to 2010. As such, the historically strong investment trends observed in the market today are still more so a reflection of the underlying growth of the sector, among renters and investors, than a change to the mix of properties that are changing hands.

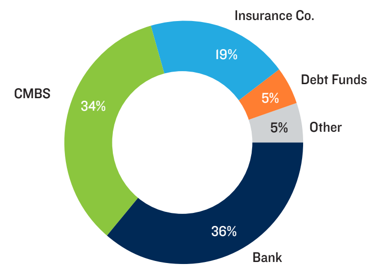
## Capital Sources Return to the Market After Interruption; Positive Fundamentals Point to Favorable 2021 Outlook

**After pause, lending activity resumes with self-storage facilities holding advantage.** During the initial months of the health crisis when uncertainty was high, capital was limited. Many lenders stepped away from the market in the spring or became backlogged with servicing Paycheck Protection Program loans. Since June the capital markets have thawed, however, as more information about the economic damage of the pandemic on commercial real estate granted pricing clarity. This was particularly true of stabilized self-storage properties, which faced fewer disruptions to cash flows due in part to their essential status under lockdowns. Banks and credit unions, already prominent lenders in the property type, have taken on an even greater role in recent transactions as new CMBS issuance has been slow to resume. Interest rates on new debt are generally in the 3 to 4 percent range, with loan-to-value ratios below 70 percent. Life insurance companies are providing more conservative terms, while SBA-guaranteed loans can feature higher LTVs for experienced borrowers. A critical factor for due diligence is the property's location. Some parts of the country experienced more severe stay-at-home orders than others, affecting renter demand. An asset's specific position relative to competing businesses within a 3- to 5-mile radius is also important. Facilities that are reporting pre-crisis income levels earn more favorable lending terms.

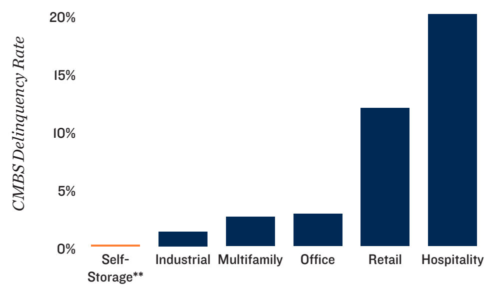
**Capital sources become more cautious of recent or new construction.** The lending landscape differs notably for non-stabilized self-storage properties and projects under development. Given the historic level of construction that has taken place over the past five years, numerous newer properties are still in the process of achieving full occupancy. Spring and summer stay-at-home orders made that goal even harder to obtain. After a subsequent economic reopening period, spiking COVID-19 case counts in the final weeks of 2020 and early 2021 have led to an economic regression in some areas. Non-stabilized properties in danger of failing to meet loan performance expectations may turn to bridge lenders for short-term gap financing. Competition for these loans as well as the risks posed by the broader economic situation have prompted more stringent terms. Lenders in general are also being more cautions regarding new self-storage construction loans, for largely the same reasons. This will likely contribute to an even greater slowdown in openings in the near future as the ability to finance development lessens.

**Investors face many favorable prospects and some hurdles in 2021.** Looking forward, the investment climate has significant potential. The Federal Reserve will likely keep the federal funds rate low for an extended period, holding interest rates well below the average first-year return on a self-storage asset. Strong property fundamentals also point to the stability of the asset class, which together with low lending rates reflects a compelling risk-adjusted return profile. At the same time, 2021 will not be without its challenges. The legacy of elevated development will continue to create pockets of concern in the sector. The ample increase in sales price over the past 10 years, while generally a positive for sellers, does raise the asset's tax burden after appraisal. Various operating costs, including online advertising, continue to climb. Finally, the final outcome of the health crisis is still uncertain. While the ongoing disbursement of numerous vaccines improves the outlook, unforeseen challenges could arise that sway the recovery's path.

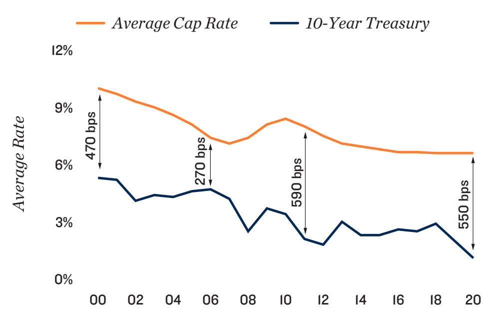
### Lender Composition on Outstanding Loans*



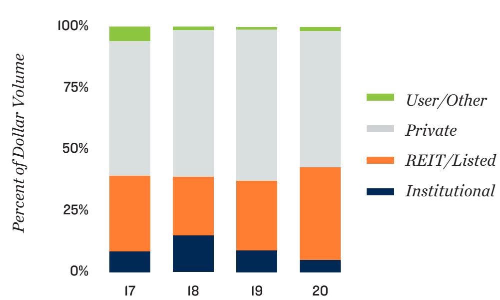

### Self-Storage CMBS Delinquency Negligible




### Yield Margin Near Widest Level




### Self-Storage Buyer Composition✣




** As of February 2021*

*** Self-storage rate as of September 2020 for 30-plus days delinquent; all other rates as of December 2020 for 60-plus days*

*✣ Sales $2.5 million and greater*

*Sources: Federal Reserve; Moody's Analytics; Trepp; Real Capital Analytics; Yardi Matrix*

# SENIORS HOUSING

### Tailwinds for Seniors Housing Growth

- The 65 and older population will increase by 16.2 million over the next 10 years, driving demand for senior living communities.
- By 2030, the senior cohort will comprise 21 percent of the total population, up from 17 percent in 2020.
- The daily care needs of the older generation increase with age, pressuring demand for assisted living and skilled nursing facilities.
- Roughly 8.4 million Americans will have Alzheimer's by 2030, up from 4.7 million in 2020, placing greater focus on memory care options.
- Sunbelt markets are anticipated to register outsized growth of the senior cohort as retirees seek warmer climates, driving demand for modern and upgraded communities.
- New technologies will increase the care capabilities of the seniors housing industry, giving aging adults greater independence and improving patient outcomes.
- The pandemic emphasized the senior housing sector's position in the healthcare continuum, cementing its role as a needs-based product with few comparable alternatives.
- Strong federal support through the pandemic has helped to bolster operations and sustain investor confidence, paving the way for a strong rebound this year.
- The seniors housing sector supports the varying demands of the aging population with a social and community-based environment, hospitality and healthcare capabilities, and minimal responsibilities, ensuring strong penetration rates in the years ahead.

## Seniors Housing Entering a Transformational Period, Reshaped by the Health Crisis

**Seniors housing changed forever.** After a challenging year that stretched staffing, impacted finances, and will forever reshape the seniors housing industry, the rollout of the COVID-19 vaccine is a light at the end of the tunnel for operators. Care providers face a long path to full recovery in 2021, characterized by new operational initiatives and an increased focus on clinical care, utilizing lessons learned through the health crisis to restore consumer confidence. Seniors housing will play a more significant role in the healthcare continuum, as it has during the pandemic, developing and implementing evidence based outcomes to improve the quality of life and safety of residents and staff. Assisted living, in particular, has cemented its position in the healthcare marketplace, and moving forward, the care segment's role in the healthcare industry will continue to grow.

**Sector recovery closely tied to vaccine distribution.** The pandemic's unprecedented financial and operational challenges weighed on property performance and brought occupancy to record lows for all care segments. The return to pre-pandemic property metrics will be long and uneven across markets and care segments and will hang on the successful procurement of the COVID-19 vaccine. The race to vaccinate the nation began last December when regulatory bodies approved two vaccines, though a decentralized distribution model and varying guidance at the federal, state, and local levels have created challenges and bottlenecks. Care providers that have been quick to adapt during the crisis and leverage their healthcare relationships will be on a faster path to recovery, while some smaller operators and unlicensed facilities could be more challenged.

**Advancing technological capabilities a top priority.** The senior housing sector has been forced to evolve in a new environment that has placed closer scrutiny on operations, design, amenities and infectious disease control. Advancements in technology will play a key role in a post-pandemic world, connecting residents virtually to families, staff and physicians. Eased regulations accelerated the use of telehealth and it will remain essential to provide high acuity care at lower costs, driving care providers to invest in new technologies moving forward.

**Greater oversight likely for senior living providers.** Through the recovery, staffing and maintaining appropriate levels of care will be a top priority. The health crisis highlighted areas in need of improvements, including staffing, and has drawn the attention of regulators. Some states have already taken steps to enforce stricter minimum staffing levels and lower resident-to-nursing assistant ratios for the skilled nursing sector, and more regulations could be on the horizon with a change of leadership at the Centers for Medicare & Medicaid Services.

## Demographic Tailwinds

*Dallas/Fort Worth*
*Greenville*
*Jacksonville*
*Las Vegas*
*Minneapolis-St. Paul*
*Orlando*
*San Francisco*
*San Jose*
*Tampa-St. Petersburg*
*Tucson*

- The outsized projected growth of the 65 and older cohort over the next five years and more stable property metrics provide a strong tailwind to a range of markets. Orlando leads the nation, increasing its 65-plus population by 25.1 percent by the end of 2025.
- Development challenges and a steady growth of the baby boomer generation provide a stout tailwind to existing communities in San Francisco and San Jose.

## In-Migration Momentum

*Austin*
*Charleston*
*Cincinnati*
*Denver*
*Houston*
*Miami-Dade*
*Milwaukee*
*Phoenix*
*San Diego*
*Seattle-Tacoma*

- Sunbelt markets are attracting more retirees as they seek out warmer climates, a lower cost of living and a favorable tax environment, creating a positive outlook for other Florida markets as well as Southwestern metros. Austin, Miami-Dade and Phoenix will all record strong growth of the older cohort, helping to align future supply trends.
- Favorable economic and migration trends will support seniors housing recovery in Charleston, Denver and Seattle-Tacoma. These markets also face minimal threats from new construction, keeping supply and demand better aligned over the coming quarters.

## Short-Term Setback

*Birmingham*
*Boston*
*Charlotte*
*Columbia*
*Oklahoma City*
*Portland*
*Raleigh*
*Richmond*
*Sacramento*
*San Antonio*

- A mix of secondary and tertiary markets including Portland, Raleigh, and Sacramento have been able to sustain relatively stable property operations and will record steady expansion of the 65 and older population, supporting a positive outlook.
- A preference to live outside of dense metros and instead in smaller markets as Americans age is a bright spot for Richmond and San Antonio over the coming years.

## Pressured Fundamentals

*Atlanta*
*Cleveland*
*Columbus*
*Greensboro*
*Hartford*
*Indianapolis*
*New Haven-Fairfield County*
*New York City*
*Riverside-San Bernardino*
*Salt Lake City*
*Tulsa*
*Virginia Beach*
*Washington, D.C.*

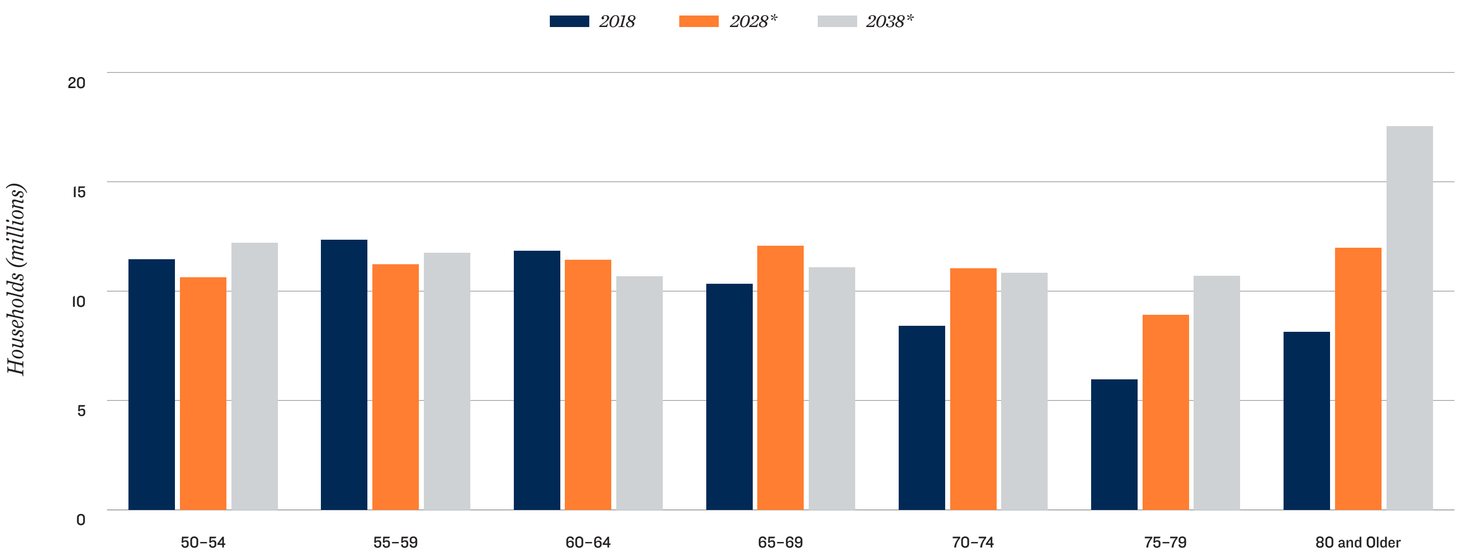
- A greater impact on property metrics coupled with a wave of new supply will weigh on the recovery for Indianapolis, Riverside-San Bernardino and Salt Lake City.
- A stout development pipeline could create challenges for a handful of markets as they work to bring property operations back to pre-pandemic levels, which could lead to an elongated recovery for Atlanta, New York City and Washington, D.C.

## Protracted Recovery

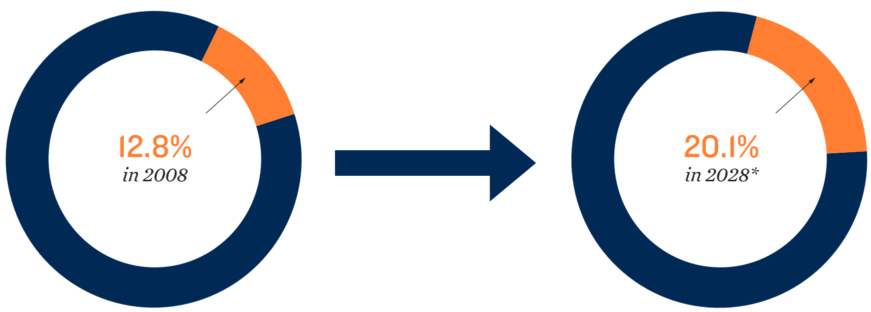
*Baltimore*
*Chicago*
*Detroit*
*Los Angeles*
*Louisville*
*Nashville*
*Philadelphia*
*Pittsburgh*
*St. Louis*

- Markets that will register weaker expansion of the senior cohort over the next five years in contrast with the rest of the nation could create challenges in filling available units, placing Baltimore, Chicago and Detroit on the lower end of the spectrum.
- Some metros have posted steep declines in occupancy for an array of reasons in 2020, creating more ground to cover over the coming quarters for Louisville, Philadelphia, and St. Louis. These markets are also anticipated to record weaker growth of the older population, leading to a bumpy recovery.

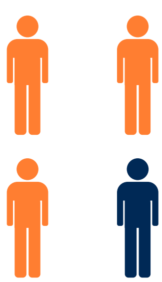
## Older Households' Growth Accelerates Over the Next Two Decades



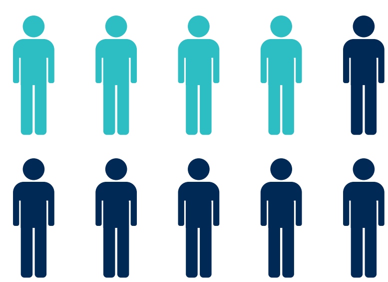

## 65+ Population Grows as a Percentage of Total Population




## Daily Care Needs Increase With Age



*Almost* 75% *of Americans older than 65 will require some form of long-term care in their lives.*



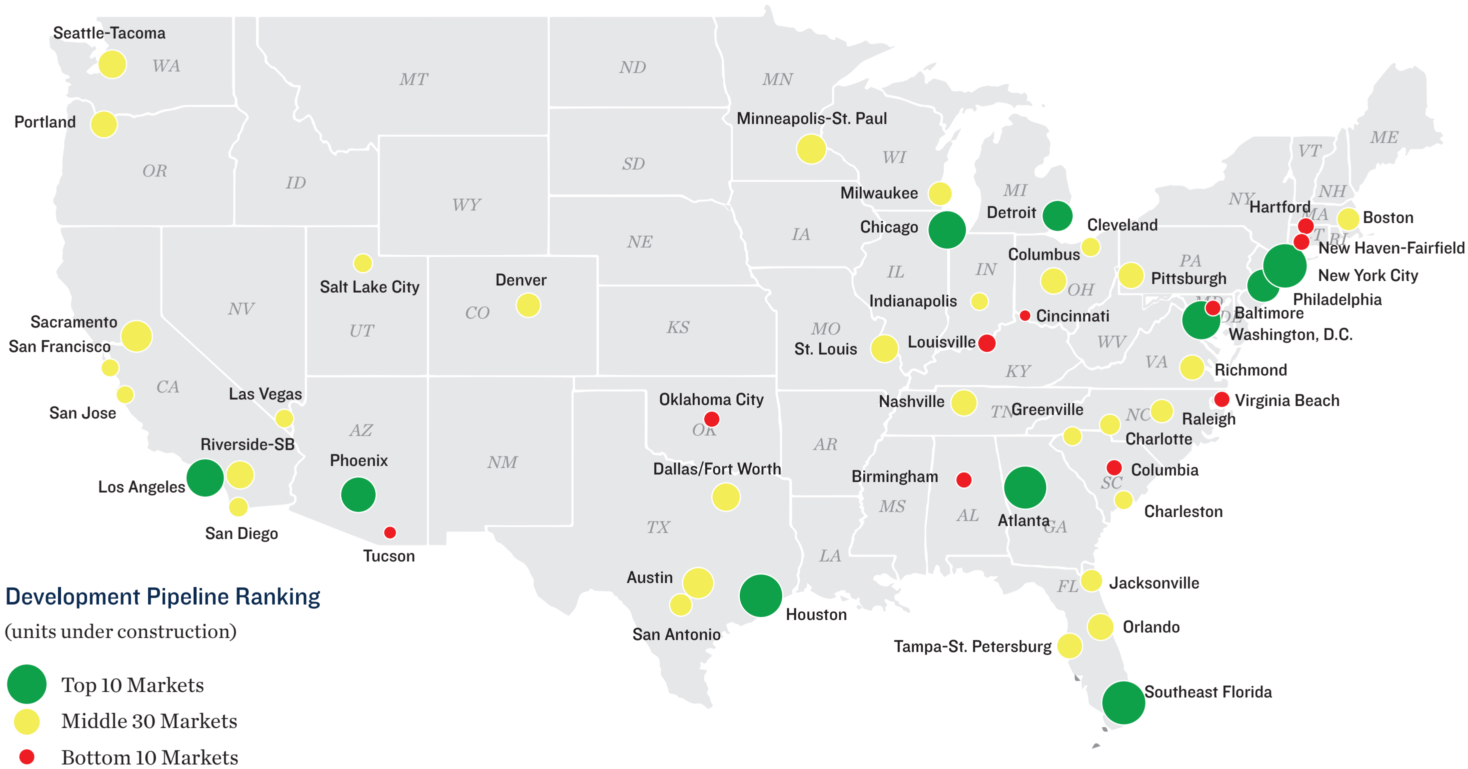
*More than* 40% *of individuals will require long-term care in a nursing home.*

** Forecast*

*Sources: Harvard Joint Center for Housing Studies; National Center for Assisted Living*

# Sunbelt Markets Grow Seniors Housing Supply, Anticipating Strong Migration Trends

## 2020 Seniors Housing Construction and 5-Year Growth of the 65 and Older Cohort




## 2020 Development Pipeline
### Highest Growth

| Metro | Units |
|---|---|
| New York City | 2,933 |
| Atlanta | 2,666 |
| South Florida | 2,657 |
| Houston | 2,529 |
| Washington, D.C. | 2,042 |
| Chicago | 1,831 |
| Los Angeles | 1,794 |
| Phoenix | 1,528 |
| Philadelphia | 1,238 |
| Detroit | 1,136 |

## 2020-2025* Population Growth (65+)
### Biggest Gainers

| Metro | 5-Year Percent Change |
|---|---|
| Orlando | 25.1% |
| Austin | 24.2% |
| Phoenix | 23.3% |
| Las Vegas | 22.6% |
| Jacksonville | 21.3% |
| South Florida | 20.9% |
| Dallas/Fort Worth | 20.6% |
| Houston | 20.3% |
| Tampa-St. Petersburg | 19.9% |
| Charleston | 19.7% |

## 2020 Development Pipeline
### Lowest Growth

| Metro | Units |
|---|---|
| Cincinnati | 40 |
| Tucson | 60 |
| Birmingham | 73 |
| Columbia | 128 |
| Virginia Beach | 132 |
| Baltimore | 139 |
| Hartford | 140 |
| New Haven-Fairfield County | 166 |
| Oklahoma City | 188 |
| Louisville | 195 |

## 2020-2025* Population Growth (65+)
### Smaller Expansion

| Metro | 5-Year Percent Change |
|---|---|
| Cleveland | 10.6% |
| Chicago | 10.8% |
| Detroit | 11.4% |
| Baltimore | 11.6% |
| Pittsburgh | 11.7% |
| St. Louis | 12.1% |
| Hartford | 12.9% |
| New Haven-Fairfield County | 13.0% |
| New York City | 13.3% |
| Louisville | 13.3% |

** Forecast*

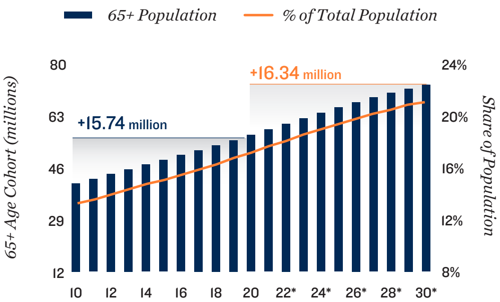
*Source: NIC Map® Data and Analysis Service (www.nicmap.org)*

| Market Name | Net Inventory Change -Independent Living (units) | | | | Net Inventory Change - Assisted Living (units) | | | | Net Inventory Change - | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2017 | 2018 | 2019 | 2020 | 2017 | 2018 |
| Atlanta | 617 | 783 | 1,426 | 564 | 533 | 731 | 214 | 434 | 6 | -21 |
| Austin | 487 | 205 | 416 | 258 | -17 | 396 | 137 | 443 | 114 | -140 |
| Baltimore | 62 | 407 | 255 | -231 | -28 | -143 | 116 | 258 | 4 | -57 |
| Boston | 121 | 113 | 389 | 202 | 442 | 253 | 95 | 687 | -26 | -574 |
| Charlotte | 141 | 314 | 2 | 113 | 116 | -21 | 146 | 102 | 31 | -11 |
| Chicago | 564 | 309 | 669 | -347 | 1,106 | 1,150 | 607 | 955 | -377 | -125 |
| Cincinnati | 63 | 0 | 135 | -8 | 235 | 220 | 501 | 248 | 409 | -527 |
| Cleveland | 1 | 60 | 294 | 683 | 354 | 694 | 503 | 296 | -250 | -11 |
| Columbus | 565 | 245 | 96 | -19 | 215 | 183 | 482 | 101 | -180 | -106 |
| Dallas/Fort Worth | 1,243 | 138 | 372 | 1,133 | 200 | 1,063 | 442 | 30 | 425 | 88 |
| Denver | 228 | 31 | 310 | 115 | 434 | 599 | 30 | 798 | 202 | -134 |
| Detroit | 571 | 408 | 452 | 39 | 400 | 454 | 975 | 361 | -9 | -241 |
| Houston | 563 | 663 | 609 | 549 | 186 | 401 | 94 | 179 | -283 | -16 |
| Indianapolis | 270 | 247 | 0 | 192 | 198 | 269 | 252 | 328 | -106 | -1 |
| Las Vegas | 11 | 151 | 130 | 0 | 61 | 222 | 1 | 44 | 0 | 35 |
| Los Angeles | -269 | -1,159 | -451 | 222 | 340 | 1,095 | 514 | 312 | 4 | 230 |
| Louisville | -99 | 129 | 91 | 137 | 124 | 102 | 195 | -3 | 24 | -76 |
| Milwaukee | 351 | 121 | 127 | 665 | 141 | 199 | 664 | 93 | -171 | -226 |
| Minneapolis-St. Paul | -152 | 18 | -269 | 613 | 967 | 1,011 | 1,502 | 724 | 287 | -285 |
| Nashville | 266 | 87 | 376 | 333 | 92 | 409 | 180 | -13 | 67 | -37 |
| New Haven-Fairfield County | 119 | -115 | 0 | 0 | -114 | 115 | 293 | 3 | -54 | -106 |
| New York Metro Area | -152 | 3 | 315 | 452 | 471 | 836 | 576 | 767 | -91 | -755 |
| Orlando | 184 | 397 | 32 | 0 | 223 | 330 | 137 | 215 | -9 | -17 |
| Philadelphia | 155 | -4 | 348 | 657 | 34 | 134 | 175 | 478 | 49 | 215 |
| Phoenix | 357 | 794 | 324 | 582 | 861 | 448 | 1,366 | 309 | -88 | 261 |
| Pittsburgh | 132 | 1 | 190 | 127 | -56 | 166 | 225 | 51 | 30 | -60 |
| Portland | 427 | 389 | 349 | 138 | -317 | 130 | 281 | 296 | 30 | -67 |
| Raleigh | -189 | 120 | 386 | 192 | -1 | -26 | 1 | 13 | 110 | -12 |
| Riverside-San Bernardino | -73 | 273 | -160 | 66 | 193 | 135 | 192 | -22 | 44 | -3 |
| Sacramento | 148 | -14 | 244 | -165 | 202 | 101 | 182 | 836 | -131 | 29 |
| Salt Lake City | 273 | 96 | 113 | 9 | 123 | 207 | -111 | -266 | 42 | -70 |
| San Antonio | 845 | 5 | 3 | 1 | 46 | -3 | 27 | -37 | 166 | -233 |
| San Diego | 11 | -261 | 82 | 377 | 518 | 666 | 10 | -275 | 2 | 0 |
| San Francisco | 144 | -465 | 287 | 0 | 205 | 460 | -256 | -42 | 104 | -12 |
| San Jose | 3 | 1 | -1 | -1 | -28 | -92 | 53 | -52 | -9 | 0 |
| Seattle-Tacoma | -83 | 16 | 28 | 101 | 178 | 470 | 336 | 56 | -155 | -254 |
| South Florida | -143 | 664 | 19 | 34 | -86 | 40 | 149 | 810 | -79 | -236 |
| St. Louis | 29 | 190 | 62 | 231 | 372 | 543 | 145 | 215 | 9 | -139 |
| Tampa-St. Petersburg | 122 | 434 | -99 | 102 | -85 | 346 | 329 | 127 | 27 | 25 |
| Washington, D.C. | 314 | 96 | 329 | 141 | 517 | 542 | 511 | 273 | 12 | 197 |
| United States | 11,297 | 6,868 | 11,747 | 11,265 | 13,879 | 18,579 | 14,711 | 11,361 | -1,134 | -5,032 |

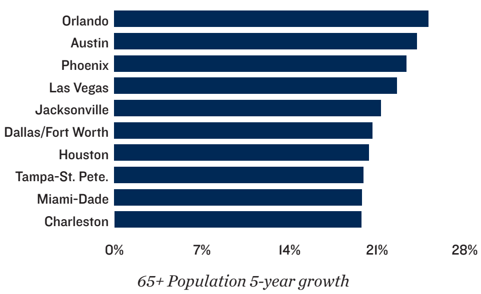
| - Skilled Nursing (beds) | | Occupancy Rate - Independent Living | | | | Occupancy Rate - Assisted Living | | | | Market Name |
|---|---|---|---|---|---|---|---|---|---|---|
| 2019 | 2020 | 2017 | 2018 | 2019 | 2020 | 2017 | 2018 | 2019 | 2020 | |
| -60 | -3 | 86.6% | 85.5% | 84.9% | 76.9% | 90.4% | 90.4% | 90.3% | 77.0% | Atlanta |
| -14 | -335 | 87.5% | 81.4% | 82.9% | 71.1% | 79.7% | 77.6% | 78.1% | 69.0% | Austin |
| 65 | -4 | 88.7% | 88.4% | 89.9% | 76.4% | 89.4% | 88.8% | 87.4% | 75.9% | Baltimore |
| -399 | -283 | 91.3% | 90.3% | 89.4% | 80.4% | 88.2% | 88.7% | 89.2% | 73.1% | Boston |
| 15 | -94 | 85.8% | 84.8% | 82.8% | 75.4% | 81.6% | 84.4% | 85.1% | 75.0% | Charlotte |
| -109 | 60 | 89.0% | 88.6% | 89.5% | 81.1% | 81.4% | 81.1% | 82.0% | 74.6% | Chicago |
| 168 | 56 | 85.8% | 86.3% | 87.0% | 76.4% | 87.0% | 87.4% | 86.6% | 79.1% | Cincinnati |
| -200 | -199 | 89.6% | 86.0% | 86.4% | 77.7% | 83.7% | 82.5% | 81.6% | 74.7% | Cleveland |
| 133 | 4 | 90.1% | 89.9% | 88.0% | 78.2% | 87.4% | 86.4% | 85.0% | 74.4% | Columbus |
| 106 | 146 | 85.4% | 84.1% | 85.9% | 77.9% | 72.9% | 72.4% | 72.0% | 63.0% | Dallas/Fort Worth |
| 67 | -23 | 88.1% | 89.2% | 88.7% | 78.7% | 84.8% | 84.6% | 84.3% | 76.6% | Denver |
| -57 | 54 | 88.8% | 86.2% | 83.8% | 76.0% | 83.7% | 85.6% | 85.9% | 71.6% | Detroit |
| -149 | -67 | 86.8% | 82.2% | 82.0% | 75.0% | 75.2% | 73.1% | 72.3% | 59.6% | Houston |
| 68 | -102 | 89.6% | 86.6% | 85.8% | 77.0% | 77.4% | 79.3% | 80.6% | 71.7% | Indianapolis |
| 281 | 0 | 79.5% | 83.6% | 85.0% | 75.8% | 89.4% | 90.0% | 90.8% | 82.3% | Las Vegas |
| -62 | -51 | 90.6% | 89.5% | 88.6% | 80.3% | 90.2% | 90.9% | 91.5% | 76.6% | Los Angeles |
| -243 | 1 | 88.4% | 85.2% | 85.2% | 76.3% | 86.2% | 85.8% | 87.3% | 76.6% | Louisville |
| -410 | -91 | 89.3% | 89.6% | 90.4% | 83.9% | 82.3% | 80.8% | 79.6% | 72.2% | Milwaukee |
| -107 | -328 | 91.3% | 91.1% | 91.5% | 83.9% | 86.3% | 87.4% | 87.2% | 76.1% | Minneapolis-St. Paul |
| -19 | 45 | 87.4% | 83.2% | 85.6% | 78.0% | 78.1% | 80.8% | 82.4% | 72.7% | Nashville |
| -154 | 67 | 89.8% | 92.4% | 90.3% | 81.0% | 90.0% | 89.4% | 90.0% | 79.5% | New Haven |
| -530 | 420 | 92.5% | 92.5% | 92.7% | 85.6% | 91.8% | 92.2% | 92.1% | 79.2% | New York Metro Area |
| 184 | -63 | 89.7% | 87.4% | 86.2% | 79.3% | 92.1% | 91.5% | 92.7% | 82.4% | Orlando |
| 19 | 2 | 88.3% | 88.1% | 88.1% | 77.8% | 87.9% | 88.1% | 86.8% | 72.9% | Philadelphia |
| 6 | 42 | 87.0% | 87.6% | 85.9% | 74.5% | 85.9% | 83.9% | 85.8% | 75.1% | Phoenix |
| -143 | 41 | 88.9% | 90.7% | 89.3% | 80.3% | 86.4% | 87.9% | 88.2% | 76.0% | Pittsburgh |
| -51 | -73 | 91.3% | 92.1% | 91.5% | 84.1% | 77.6% | 79.7% | 81.7% | 72.7% | Portland |
| -7 | -5 | 89.0% | 90.2% | 90.6% | 81.4% | 84.9% | 84.6% | 87.1% | 73.2% | Raleigh |
| 195 | -2 | 90.3% | 89.2% | 87.7% | 76.6% | 90.8% | 92.5% | 93.5% | 79.9% | Riverside-San Bernardino |
| 32 | -5 | 93.2% | 91.6% | 91.2% | 82.1% | 90.1% | 90.6% | 90.7% | 81.0% | Sacramento |
| 20 | -14 | 84.1% | 85.8% | 88.7% | 77.5% | 82.0% | 80.8% | 80.9% | 72.4% | Salt Lake City |
| -127 | -46 | 78.7% | 73.9% | 78.2% | 72.4% | 76.4% | 73.8% | 74.6% | 63.1% | San Antonio |
| -8 | 1 | 89.4% | 91.3% | 90.3% | 82.1% | 92.7% | 93.0% | 92.9% | 84.3% | San Diego |
| -86 | 187 | 90.8% | 89.2% | 89.9% | 84.5% | 90.1% | 89.9% | 90.9% | 87.4% | San Francisco |
| 0 | 226 | 92.3% | 92.2% | 94.1% | 83.6% | 92.6% | 93.3% | 92.8% | 80.2% | San Jose |
| -80 | -182 | 91.7% | 89.0% | 89.3% | 83.9% | 84.9% | 85.3% | 83.7% | 72.6% | Seattle-Tacoma |
| 198 | -86 | 87.9% | 88.6% | 88.2% | 78.0% | 90.5% | 91.7% | 90.5% | 79.2% | South Florida |
| -548 | 22 | 88.3% | 88.6% | 88.5% | 77.8% | 77.6% | 75.9% | 76.9% | 65.8% | St. Louis |
| 6 | 77 | 88.0% | 87.3% | 89.0% | 83.1% | 90.8% | 91.5% | 91.3% | 79.5% | Tampa-St. Petersburg |
| -16 | -16 | 90.9% | 89.0% | 88.2% | 81.0% | 89.4% | 89.3% | 89.7% | 79.0% | Washington, D.C. |
| -3,662 | -1,655 | 89.2% | 88.3% | 88.3% | 80.3% | 86.0% | 86.1% | 86.3% | 75.2% | United States |

*Source: NIC Map® Data and Analysis Service (www.nicmap.org)*

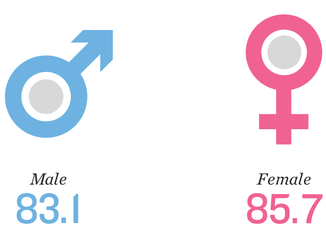
## Growth of U.S. Population Over Age 65



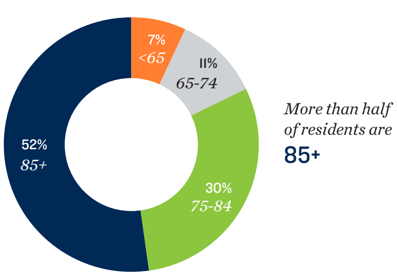

## Strongest Growth of 65+ Cohort




## Life Expectancy at Age 65 as of 2019




## Age Breakdown of Assisted Living Residents




** Forecast*

*Sources: Centers for Disease Control and Prevention; Centers for Medicare & Medicaid Services*

# Increased Care Needs of an Aging Population To Drive Seniors Housing Demand

**Substantial expansion of older households on the horizon.** The seniors housing sector faces numerous near-term challenges as the health crisis pressures the industry and places an unprecedented financial and operational strain on communities. Long-term demand drivers remain in place, though, with a wave of baby boomers entering retirement over the next decade, a bright spot for the sector. The leading edge of the baby boomer generation is quickly approaching 75, which will substantially grow the number of older households across the nation. Over the next two decades, the number of households between the ages of 75 and 79 will expand by approximately 4.7 million, a nearly 80 percent increase. With advancements in modern medicine and greater levels of care, the number of heads of households 80 and older will grow at an even faster pace. Roughly 17.5 million heads of household will be 80 and older by 2038, more than doubling the 2018 level and placing greater pressure on the industry to add more supply to meet the coming wave of demand.

**Health needs of aging population met with continuum of care.** From 2010 through 2018, more Americans have been placed on government health insurance plans, supporting demand for seniors housing and skilled nursing facilities. The number of individuals on Medicaid increased by 9.5 million over that time frame and will continue to rise as the aging population grows. The number of retirees on Medicare expanded by 13.9 million during the same period, which helps to bolster demand for assisted living facilities and to a lesser extent the skilled nursing segment. Senior living providers have become more integrated in the healthcare continuum in recent years, particularly with more patients recovering post-surgery at a retirement community or skilled nursing facility than in a hospital setting. The pandemic has highlighted the vital position the seniors housing sector serves to keep an expanding population of retirees healthy while also limiting costs. Care providers have launched their own Medicare Advantage plans or have partnered with Medicare Advantage insurers to be able to provide coordinated care to residents, a trend that could accelerate through the recovery. With more adults anticipated to need support with daily living activities, the needs-based segment of assisted living will experience strong demand, particularly as in-home services are cost prohibitive for many families. Investor sentiment remains rigorous as the long-term care needs of older adults are better matched at senior living facilities than in home health settings, providing for a positive long-term outlook.

**Seniors moving to warmer climates in large numbers.** Markets in the Sunbelt will attract a greater share of the 65 and older cohort over the next five years, contributing to stable seniors housing demand. Florida, Arizona and Nevada will lead the way as more retirees decide to relocate to find warmer climates and a lower cost of living, helping to lift occupancy and fill new supply over the coming years. Orlando is anticipated to grow the retiree cohort by nearly 34 percent from 2020 through 2025, the largest increase in the nation, followed by a roughly 30 percent gain in West Palm Beach and Las Vegas. Developers have been active across the Sunbelt in anticipation of future population growth, which has caused supply to overshoot current demand, weighing on property metrics, particularly for the independent living segment. The rise in population will help to absorb new units and better align supply and demand characteristics.

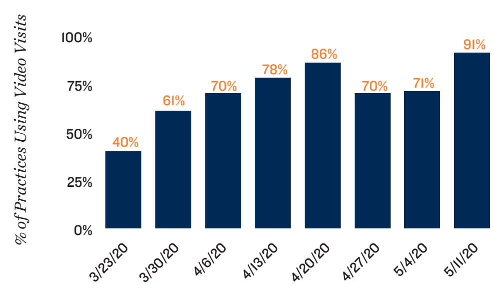
# Senior Living Providers Undergo a Digital Transformation, Improving Health Outcomes

**Telehealth grows in popularity as restrictions are eased.** The health crisis accelerated the adoption of innovative technologies and continues to highlight the importance of a fully integrated technology infrastructure. Senior living communities had been reluctant to adopt new technologies in the past, viewing platforms for workforces and residents as costly luxuries. Today though, care providers are racing to improve their technological capabilities including virtual care, telehealth, and resident engagement/communication tools that will improve care coordination and health outcomes in the acute-care space. The use of telehealth surged last year as the pandemic shuttered doctors' offices and hospitals moved to free up resources. After the Centers for Medicare & Medicaid Services rolled back regulations, 43.5 percent of primary care visits for Medicare beneficiaries were via telehealth services in April, up from nearly zero in February. Successful implementation of telemedicine can reduce unnecessary transport and time-consuming visits to a physician's office, and it can connect residents with medical assistance outside of normal clinic hours, improving the quality of care of older adults. With a demographic shift on the horizon and a looming physician shortage, telehealth serves as a strong alternative to increase throughput of patients for minor care needs, driving care providers to offer these solutions.

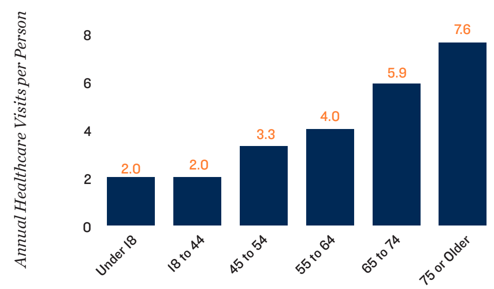
**New technologies to monitor patients' health in high demand.** COVID-19 has placed greater focus on the health and safety of residents, leading the industry to adopt virtual care platforms that can monitor, analyze and communicate with residents. Families have become increasingly tech savvy and are demanding that communities provide online platforms that are capable of monitoring their loved ones and continuously update vital signs such as temperature, blood oxygen level and heart rate. As more communities boost investments in these technologies, they are better able to care for residents and improve patient outcomes, helping care providers to differentiate themselves as they add on more targeted levels of medical service. New technologies are also making it easier for seniors to age in place with health monitors, wearables, smart speakers and virtual visits, which could delay entry into senior living communities for some potential residents. Remote monitoring and other types of virtual care will play a more integral role in the seniors housing sector going forward and will work to better manage chronic illnesses, reduce hospitalizations and empower residents to take a more active role in their health.

**Digital transformation touches all aspects of the industry.** Harnessing technology in new ways will be a major focus of senior living providers this year, requiring substantial investments and upgrades for some communities. Resident engagement will be overhauled with private TV channels and smart devices that can connect residents and family members. Maintaining the social aspect of seniors housing has been especially difficult during the pandemic, leading providers to imagine new ways to connect residents and avoid isolation by embracing technology. Communities are also rethinking how they connect with prospective residents by revamping their traditional marketing channels. More communities are pivoting to virtual tours and social media platforms to drive lead generation as care providers restricted access to visitors. Social media channels and an online presence have become an essential sales and marketing tool, encouraging providers to increase spending and redefine digital marketing strategies.

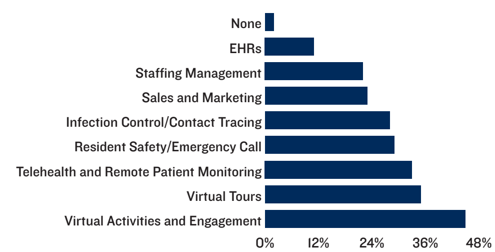
### Primary Care Offices Rapidly Go Virtual




### Office Visits Increase With Age

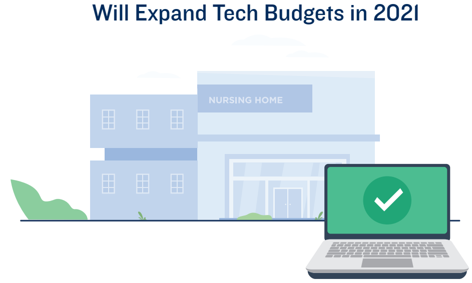



### Organizations Increase Tech Investments




*Percentage of Organizations to Increase Spending in Category*

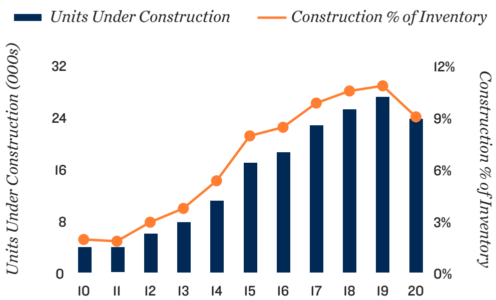
### 87% of Senior Living Providers Will Expand Tech Budgets in 2021



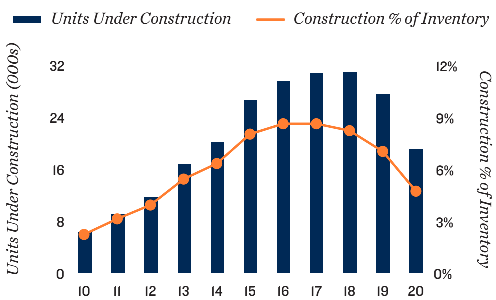

*Sources: Philips; Primary Care Collaborative; Senior Housing News; The Larry A. Green Center*

## Pandemic Pressures Impact Construction Timeline; New Design Strategies Emerge

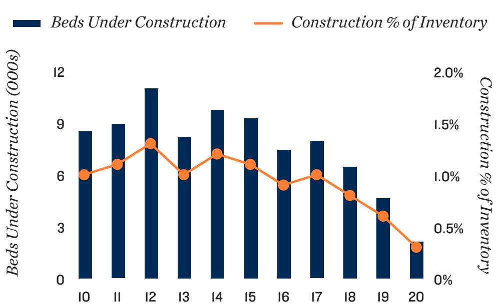
Independent Living Construction Trends



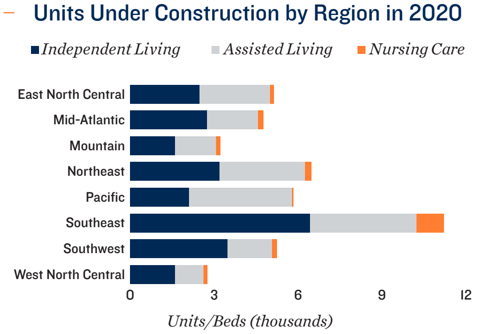

Assisted Living Construction Trends




Skilled Nursing Construction Trends




Units Under Construction by Region in 2020




*Source: NIC Map® Data and Analysis Service (www.nicmap.org)*

**Slowdown in construction allows operators to catch up.** Development activity had started to wane entering 2020, falling from a cyclical peak reached in 2018 when seniors housing construction totaled 9.3 percent of current inventory. Construction continued to fall in the fourth quarter of last year with more developers delaying or canceling projects, which will help markets to rebalance supply and demand more rapidly during the recovery. Metros were starting to achieve parity prior to the pandemic as overbuilding had hit some segments in anticipation of a demographic wave, particularly independent living, which had weighed on property performance. In the fourth quarter of last year, 23,600 independent living units were underway across the country, representing 9 percent of current inventory. Construction is headlined by the Southeast region where more than 6,400 units are working through the pipeline as more retirees are moving to Florida and other Sunbelt states. Supply growth is more balanced in the assisted living segment, where construction accounts for 4.7 percent of inventory and more than 18,900 units were underway at the end of last year. Development of skilled nursing facilities has been minimal with 2,100 beds underway, representing 0.3 percent of inventory. Many projects under construction have extended their timelines amid numerous pandemic pressures, which will help the market absorb existing units.

**Challenges to construction financing disrupt new projects.** The health crisis has halted developments and placed plans on the shelves as developers face an uncertain investment climate and are challenged with obtaining financing for new projects. Many banks are focusing on servicing existing clients and are resistant to assess new projects, which has led to substantial delays of up to 120 days for some developers. Projects that secured financing prior to the pandemic are underway, though many have contended with labor and materials shortages that have caused construction costs to surge. As more people receive the vaccine and the occupancy rates begin to recover, construction financing should return and delayed projects will resume.

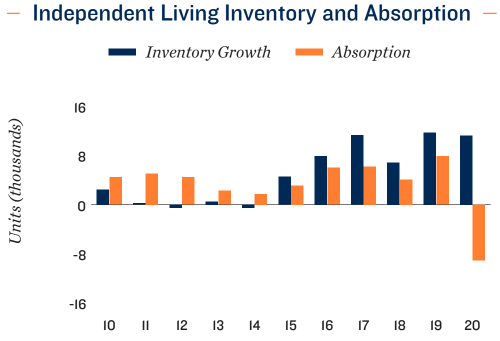
**Property design shifting to increased infection control.** Senior living providers and developers are rethinking community design, placing greater focus on pandemic-resilient design and how to prevent the spread of infections. Improved HVAC systems, fewer touch points, larger floor plans and enhanced outdoor spaces for residents will be top considerations in a post-pandemic environment. Some operators are also focused on increasing the healthcare capabilities of their communities with on-site clinics and dedicated spaces for telehealth appointments as they work to ensure the health and safety of residents. Other features that care providers are touting include larger apartment layouts with cooktops and a full-size refrigerator as opposed to smaller kitchens, improving the quarantine experience for residents. A large inventory of older and outdated communities will require greater capital expenditures to modernize their properties and provide the amenities that residents will demand, which will be a challenge for struggling operators. Many of these types of protocols will be key in regaining confidence among prospective residents.

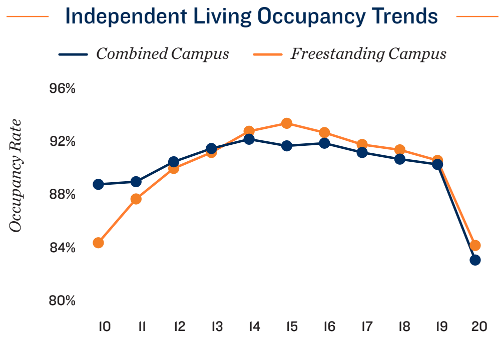
## Independent Living Less Impacted by Health Crisis; Operations Have Room for Improvement

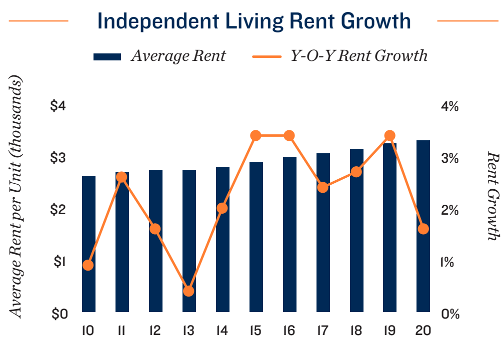
**Care segment faces fewer vulnerabilities.** Independent living has proved to be more resilient, facing fewer threats from COVID-19 as a less needs-based care segment. Sentiment among consumers has remained durable as most communities took necessary precautions and the better health, mobility, and greater independence of residents allow for fewer infections. The penetration rate of the virus for independent living has been well below that of assisted living and memory care communities, averaging 0.4 percent for confirmed or suspected positive cases at midyear 2020. Restrictions on visitation at many communities and slowdowns in lead conversion lowered stabilized occupancy substantially last year, though, falling to a record low of 83.3 percent in the fourth quarter. Occupancy has been less impacted than at assisted living and skilled nursing facilities, however, falling 690 basis points on an annual basis in contrast with an 800-basis-point decline for assisted living. More stable property metrics will result in quicker recovery as more residents begin to receive the vaccine and restrictions are eased, driving investor activity in the sector.

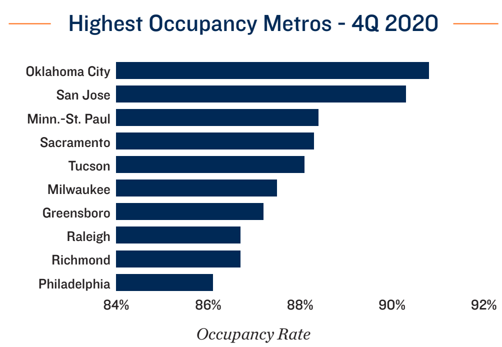
**Health crisis highlights areas in need of improvement.** While independent living has been less vulnerable, the pandemic has exposed pain points that providers will need to address moving forward. Technology has proved to be a vital line of connection between residents, staff, and families, though investments in infrastructure prior to the pandemic often fell short in some communities. Care providers that have not made the necessary investments will focus on streamlining communications by leveraging new tech platforms and tools, bringing their facilities up to speed with competitors over the coming quarters. More effective use of technology will also help to alleviate isolation challenges that many residents have dealt with during lockdowns, particularly as many older adults are drawn to senior living for the sense of community and socializing opportunities that it can provide.

**Inconsistent impact across markets though strong sentiment to support recovery.** The impact COVID-19 has had on property metrics has been uneven across markets and communities. While nearly all metros registered a decline in stabilized occupancy, some markets recorded smaller fluctuations and have sustained higher occupancy levels, including Oklahoma City, San Jose and Minneapolis-St. Paul. Several other markets have not fared as well, posting a more than 800-basis-point reduction year over year to stabilized occupancy in Indianapolis, Orlando, and Phoenix. Occupancy was under pressure before the outbreak since construction has been near all-time highs with more than 23,000 units underway nationally at the end of 2020. Southeastern and Mid-Atlantic markets could experience a slower turnaround in operations with construction representing a greater share of overall inventory than other regions at 13.3 percent and 16.6 percent, respectively. Lead generation continues to be strong though with many adults 55 and older ready to make the move to seniors housing, providing a positive outlook for the recovery. An exceptionally strong housing market will create a tailwind to the sector as well, aiding in the recovery as many seniors use home sale proceeds to finance the move to a community.



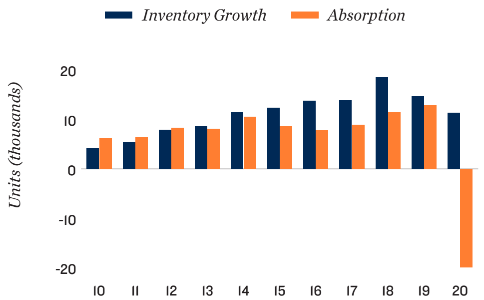



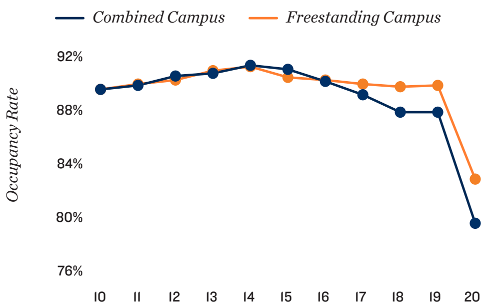




Source: NIC Map® Data and Analysis Service (www.nicmap.org)

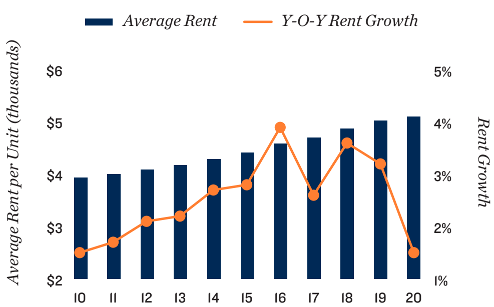
## Assisted Living Inventory and Absorption



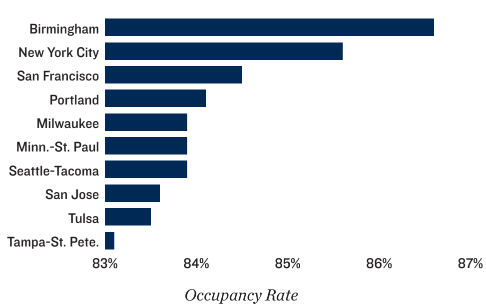

## Assisted Living Occupancy Trends




## Assisted Living Rent Growth Trends




## Highest Occupancy Metros - 4Q 2020




*Source: NIC Map® Data and Analysis Service (www.nicmap.org)*

# Assisted Living Undergoing a Rapid Transformation; Care Segment Poised for Robust Long-Term Demand

**Senior living providers adapting for a post-pandemic environment.** As the vaccine becomes available to assisted living communities across the country and substantial herd immunity is reached, the sector will be poised for a strong turnaround this year. The care segment will be permanently reshaped by the pandemic with operators placing a greater focus on health and wellness, while also harnessing technology to meet resident needs more appropriately. Staffing will be a top theme this year as care providers work to address fatigue and workforce shortages to improve the personalized care that many residents will need. Favorable pre-leasing activity sustains a positive outlook for the industry, though some operators will fare better as communities and markets have been unevenly impacted. Stronger operators that are able to provide more clinical levels of care and are able to leverage partnerships along the healthcare continuum will emerge in a better position as prospective residents place a greater focus on health. Smaller operators could be more challenged as many face greater financial hurdles and lesser reserves, which will be compounded if cash flows remain pinched.

**Pent-up demand to restore property performance over coming months.** Occupancy deteriorated considerably last year as restrictions were placed on move-ins and many prospective residents chose to delay a transition to a community. The national average for stabilized occupancy was 82 percent in October, down 600 basis points from a year earlier. Some markets registered an even sharper drop-off in census, headlined by Phoenix where the average stabilized occupancy fell by more than 1,000 basis points to 75.3 percent in the third quarter. Other markets have recorded narrower fluctuations in property metrics, including Seattle-Tacoma, San Antonio and Milwaukee, which posted a less than 400-basis-point year-over-year reduction to occupancy. While near-term challenges to property performance remain as the industry adjusts to pandemic-generated financial and operational pressures, long-term demand for assisted living will lead to a solid recovery for most markets. The recovery could pick up its pace by midyear with pent-up demand entering the market and building back occupancy levels that were eroded during the pandemic. The daily care needs of the aging population and the elevated expense of home health aides will ensure momentum for the industry over the coming quarters.

**Healthcare capabilities and care coordination of greatest importance in 2021.** The health crisis has motivated operators to better integrate personalized healthcare and add more services that will help to reassure consumers after a year of unfavorable headlines and media coverage. On-site clinics staffed with healthcare professionals could be a new amenity that several larger operators have been considering, bringing increased levels of care and attention directly to residents. As the pandemic subsides, senior living providers that are able to pivot to a mix of healthcare and hospitality and shift their focus to the care and safety of residents will rebound quicker than others. Medicare Advantage will also come under the microscope this year as more providers consider adding the additional revenue stream to operations, while also enhancing a community's position on the healthcare continuum.

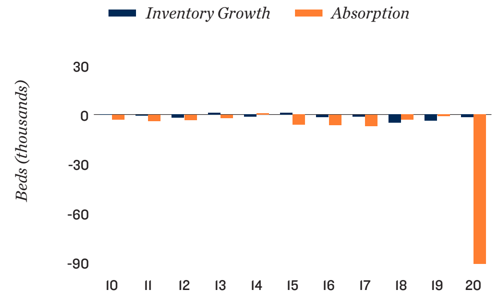
## Strong Position Along Healthcare Continuum To Power Skilled Nursing Recovery

**Nursing care entering a new era, taking the lessons learned from the health crisis.** The economic and emotional toll of COVID-19 placed the skilled nursing segment under exceptional pressure last year and will leave a lasting impact on the industry. The pandemic exposed numerous pain points and areas for operators to improve post-acute and long-term healthcare, while taking notes from the shift in consumer preferences and expectations. A move to add more amenities and private rooms to create a better sense of home was well underway prior to the pandemic, a trend that will accelerate as skilled nursing facilities are forced to adapt. To restore faith in the care segment, providers will need to remain overly transparent, as many have during the pandemic. Healthcare consumers have become increasingly savvy, and more families will demand that facilities have a technology infrastructure in place that can provide timely and accurate reporting of patient health and care metrics. In a post-pandemic environment, loved ones and consumers are demanding a better patient experience, which will be a differentiator for operators moving forward.

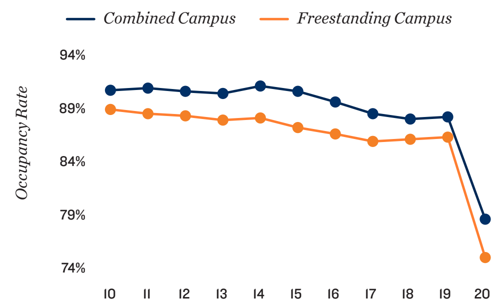
**Skilled nursing positioned for strong bounce back as a needs-driven care segment.** Restrictions on elective surgeries across the nation contributed to a sharp decline in occupancy last year, which was compounded by the increased move-outs as residents fell ill. Entering 2020, stabilized occupancy was 86.3 percent but fell to 75.2 percent by year end, a record low as facilities worked to combat the spread of the virus. As the vaccine is distributed and pent-up demand for elective surgeries enters the market, the need for nursing care will return rapidly to restore occupancy erosion. The pandemic could lead more older adults to opt for in-home services that can deliver skilled levels of care, though home care costs can be prohibitive for many on a fixed income. Skilled nursing facilities could recover quicker than other sub-sectors due to their strong standing in the continuum of care. Complex post-acute care and other need-driven health services are best carried out in the skilled nursing space, supporting a more rapid restoration of operating fundamentals following greater containment of COVID-19.

**Strong government support bolsters skilled nursing and sustains investor sentiment.** The federal government has offered billions in aid to skilled nursing facilities during the pandemic and is anticipated to remain supportive through the recovery, providing liquidity to operators and creating a positive outlook for the sector. Leases are most often the largest expense for operators, and as cash flows fell during the crisis and other operating expenses surged, the array of government programs will minimize future deferrals for skilled nursing tenants. Staffing has also been a top expense in response to the health crisis as facilities bring on more nursing assistants and provide additional pay, compressing operating margins below 3 percent for many properties. Those that struggle with restoring occupancy to pre-pandemic levels will be at greater risk of needing additional support or rent relief, which could come from REITs if government aid dries up. Government support to fund operations has been a bright spot for investors as the subsidies have helped the sector to perform moderately well during an exceptionally challenging period. Operators also received relief from the CMS, which chose not to revise downward the Patient-Driven Payment Model and eliminated an effort to closely scrutinize and reform supplemental payments.

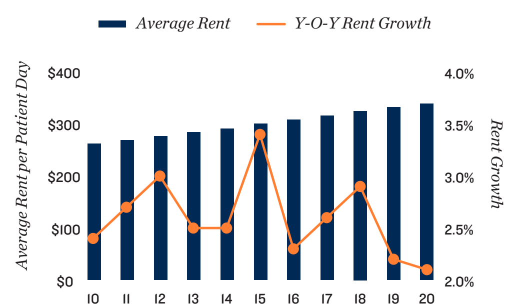
Skilled Nursing Inventory and Absorption



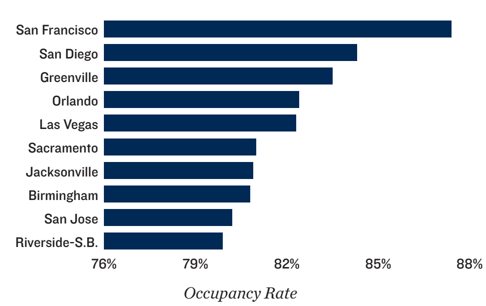

Skilled Nursing Occupancy Trends




Skilled Nursing Rent Trends



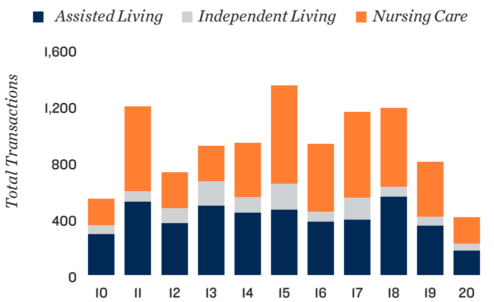

Highest Occupancy Metros - 4Q 2020



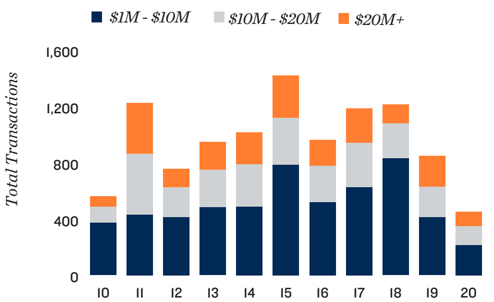

*Sources: American Health Care Association; NIC Map® Data and Analysis Service (www.nicmap.org)*

## Liquidity and Investor Demand Strong Despite Operational and Health Challenges

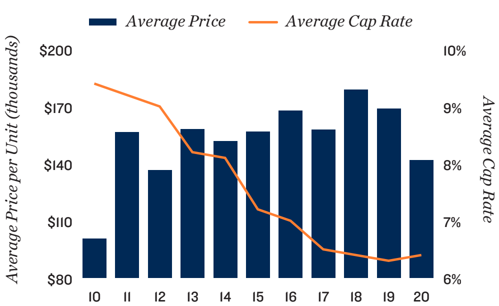
Transaction Activity by Community Type



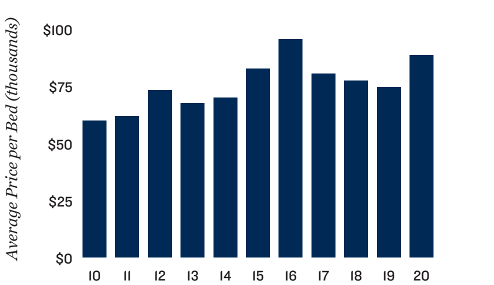

Transaction Activity by Price Tranche




Seniors Housing Pricing Trends




Skilled Nursing Pricing Trends




*Source: NIC Map® Data and Analysis Service (www.nicmap.org)*

**Long-term demand trends sustain investor sentiment.** Investment activity slowed considerably last year in alignment with other asset classes. The array of hurdles in getting deals across the finish line and an abundance of uncertainty surrounding future operations stalled closings and led some investors to put acquisitions on hold. Restrictions on visitations, falling occupancy and surging expenses led to new challenges when underwriting and valuing potential acquisitions, pushing many investors to await greater clarity on pricing. A widening disconnect has formed with more buyers anticipating steep discounts, though distressed properties entering the market have yet to materialize with strong support from lenders and extended forbearance periods. While operational difficulties have weighed on transaction activity, the sector is poised for a stable recovery this year as the vaccine is rolled out and risks to the senior population fall. Despite the near-term uncertainty, investor sentiment and liquidity for seniors housing remains strong as many recognize the unique resiliency of the industry as there is a growing demand for the housing, hospitality and needs-driven services provided at communities. With an abundance of capital in the market, an exceptionally low interest rate environment, and robust long-term demand characteristics for seniors housing, more investors and lenders will return this year as the market stabilizes.

**Capital markets beginning to loosen up for seniors housing.** Balance is returning to the capital markets with more active lenders than in the early months of the pandemic, though loan underwriting will likely remain tight as the sector recovers. Occupancy trends and operators' ability to cover debt service will be closely scrutinized with lenders requiring up to a year of cash reserves and shifting to a forward-looking net operating income, which is generally 25 percent lower than the current trailing-12 month look back. Loan-to-value ratios are likely to remain tight through the recovery as well, falling between 50 to 70 percent, largely dependent on the strength of the operator, asset and location. Bridge debt remains more challenging to obtain, with limited lenders willing to take on the additional risk, and is not likely to relax with the agencies requiring lower leverage and significant reserves for operations and interest. The agencies and life insurance companies are penciling debt in the 3.0 percent to 3.6 percent band, which will help to drive investors this year to capitalize on the low interest rate climate. Local and regional banks will remain a substantial capital source until the national banks return to the market, and will continue to fill the gap for development financing.

**Widening gap between care providers impacting valuations.** The health crisis has exposed the wide bifurcation between strong, well-capitalized providers and smaller operators that will struggle to recover. Pricing will be closely tied to the quality of the operator as buyers will target those that have successfully kept residents safe and efficiently managed operational expenses over the past year. Communities that have not been able to do so and have challenges with restoring occupancy will be eyed by private equity investors that are in search of deep value add deals. Less-seasoned owners with fewer properties may be motivated to sell, though a large exodus is not anticipated. Those that have the ability to provide top levels of care and commit to seniors housing as a healthcare model will gain in credibility and be more attractive to investors.

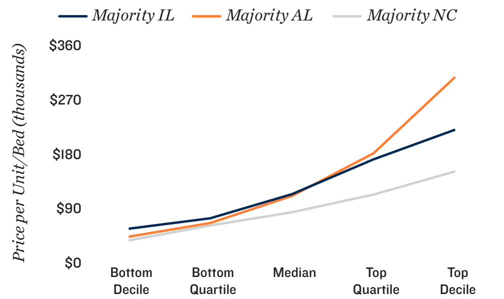
## Seasoned Owners Well-Positioned to Consolidate Portfolios in Evolving Climate

**Skilled nursing facilities lead transactions with bright outlook.** Investors will become more accustomed to the new challenges that need to be navigated to close transactions this year, in some cases turning to virtual tours to conduct due diligence. While sales have been suppressed, acquisition activity is picking up in anticipation of a strong second half of the year, illustrating investor confidence and the general strength of the senior living sector. Pricing dipped modestly for assisted living assets through the remainder of last year amid limited rent growth assumptions and increases in operational costs, to approximately $171,800 per unit. The independent living segment exhibited resiliency with less movement, averaging $197,200 per unit. The average price per unit for skilled nursing facilities on a trailing-12-month basis at year end was more stable as well at roughly $89,200 per bed. Nursing home transactions accounted for the majority of sales activity in the fourth quarter, showcasing elevated sentiment for the care segment amid unique operational and reputation challenges. Looking ahead through the remainder of the year, as more investors return to the market and property fundamentals improve, the sector should have limited risk of pricing deterioration, particularly with large demographic tailwinds. It is likely though that the gap between healthy and struggling operators will widen, which will have a large impact on valuations moving forward.

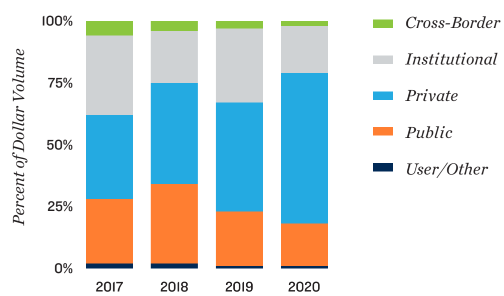
**Cap rates hold steady through the health crisis.** While uncertainty remains surrounding cap rates and risk premiums as a wave of new infections took hold in the winter, greater clarity will emerge possibly by midyear as the vaccine is successfully distributed. Skilled nursing and assisted living facilities, coupled with those older than 75, have been prioritized to receive the vaccine, helping to largely immunize the senior cohort by the spring. Looking ahead, expenses are likely to remain elevated as communities add more staff and take additional measures to maintain a healthy and safe environment, which will erode net operating income. Underwriting assumptions are also being adjusted surrounding lower first-year income with occupancy levels down across many properties. The sector is still characterized as having an attractive yield profile and minimal cap rate compression through the pandemic, noted by an average first-year return of 9 percent for nursing care facilities in 2020. Assisted living properties were able to record an average cap rate of 7.3 percent over the past year, while independent living communities changed hands with an initial yield in the low-5 percent band.

**Financial hurdles open the door to mergers and acquisitions.** Smaller and struggling operators that continue to face pressure from low occupancy and rising capital expenditure are prone to consolidation this year. While government and local support through the CARES Act has helped to keep communities afloat, financial challenges and thin margins will bring more underperforming properties to the market. Larger care providers with strong balance sheets and REITs will help to drive acquisitions of these communities as the turnaround process can be capital intensive to many investors. Still, many opportunities are on the horizon for seasoned private investors who can successfully navigate the nuances of senior living and its role in the healthcare continuum, particularly with an exceptionally low cost of capital. Robust government support and a strong position in the healthcare industry have lifted optimism for skilled nursing facilities and will help to attract investors this year.

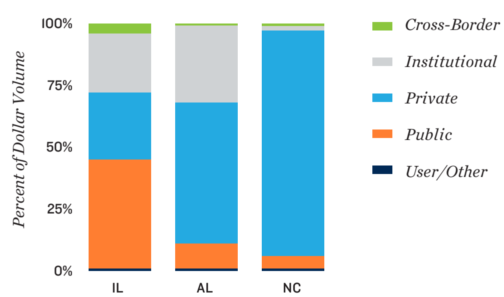
### 2020 Pricing Distribution



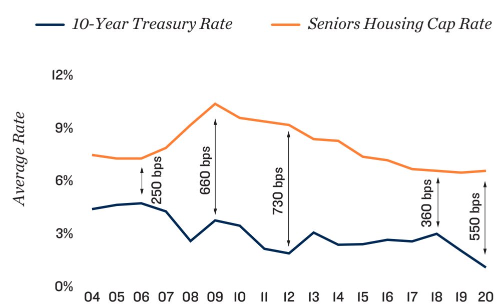

### Seniors Housing Buyer Composition




### Buyer Composition by Majority Subtype - 2020




### Yield Spread Reopens




*Source: NIC Map® Data and Analysis Service (www.nicmap.org)*

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*Data Summary Note: Employment, population, household income, vacancy/occupancy (seniors housing) and rents are year-end figures and are based on the most up-to-date information available as of February 2021. Retail sales, occupancy (hotel), ADR and RevPAR are full-year 2020 figures. Self-storage vacancy rates for year-end 2020 are estimated. Average prices are a function of the age, class, type and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at $1,000,000 and greater unless otherwise noted. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.*

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