

The Economy and CRE in 2021

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Agenda

1. Economic Overview
2. CRE Update: NAIOP Sectors of Interest
3. Transaction Activity and Pricing Forecasts

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Economic Overview

Alternative Trajectories of Recovery

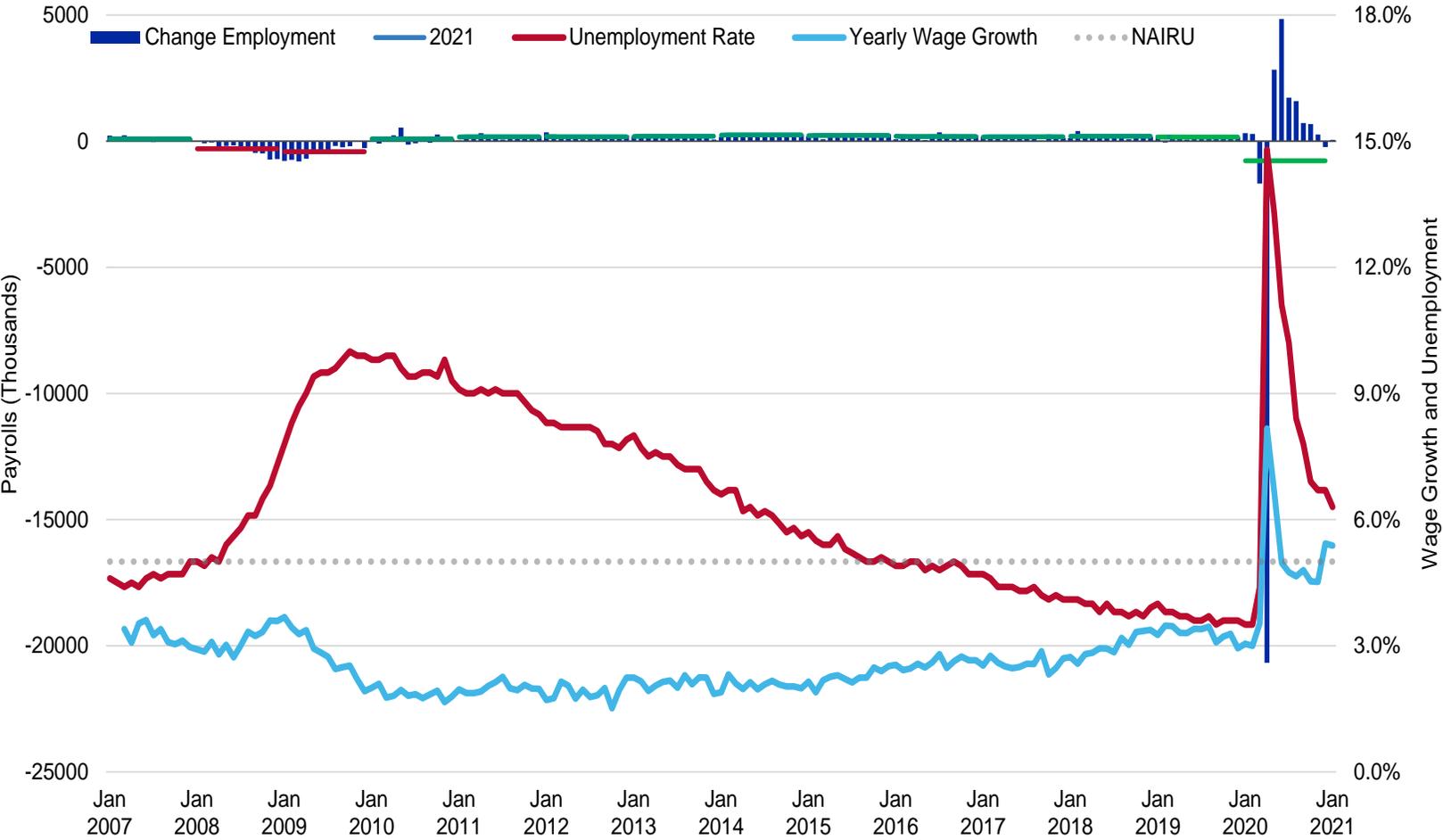
Real GDP, annualized quarter/quarter growth rate



Sources: BEA; Moody's Analytics

The Labor Markets Through February 2021

Job Creation and the Unemployment Rate



Sources: Bureau of Labor Statistics; FRED

MSAs Projected to Incur the Largest Job Losses (% of 2019)

MSA	Projected Decline in Total Employment (2020)	Projected Decline in Leisure & Hospitality Employment (2020)	Share of Leisure and Hospitality Jobs vs Total Employment Base
Flagstaff AZ	-17.2%	-45.7%	15.4%
Lake Charles LA	-15.7%	-34.7%	10.4%
Yuba City CA	-15.0%	-29.4%	8.4%
Atlantic City NJ	-14.8%	-24.4%	26.7%
Monroe MI	-14.5%	-34.8%	8.3%
Atlantic City-Cape May NJ	-14.2%	-25.8%	26.6%
Brunswick GA	-13.6%	-29.2%	18.6%
Wheeling WV-OH	-12.7%	-15.2%	11.2%
Springfield MA	-12.4%	-38.2%	7.1%
Ocean City NJ	-12.3%	-29.6%	26.3%
Santa Cruz-Watsonville CA	-12.3%	-18.2%	12.9%
Williamsport PA	-12.0%	-25.5%	7.3%
Muskegon-Norton Shores MI	-11.8%	-32.4%	9.4%
San Luis Obispo-Paso Robles CA	-11.7%	-25.5%	14.1%
US Average	-6.1%	-19.8%	9.4%

Source: Moody's Analytics

Select Markets of Interest

MSA	Projected Decline in Total Employment (2020)	Projected Decline in Leisure & Hospitality Employment (2020)	Share of Leisure and Hospitality Jobs vs Total Employment Base
Salt Lake City, UT	-1.4%	-15.1%	7.8%
Provo-Orem UT	-0.4%	-13.9%	7.6%
St. George UT	0.0%	-15.2%	11.9%
Logan UT-ID	0.6%	-14.4%	7.0%
Ogden-Clearfield UT	1.1%	-10.1%	8.6%
US Average	-6.1%	-19.8%	9.4%

Source: Moody's Analytics

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CRE Update

National Office Market

Quarterly & Annual Market Conditions

- » Office vacancies rose by 90 basis points in 2020, ending the fourth quarter at 17.7%.
- » Despite strengthening GDP growth projections, still a lot of uncertainty regarding the future of office space post-COVID. Expect rent declines in 2021 and a continued slide in occupancy for the next couple of years.

Quarterly

Year	Qtr	Net Absorption	Asking Rent	Percent Change	Effective Rent	Percent Change	Vacancy Rate
2013	4	6.4	\$29.32	0.7%	\$23.69	0.8%	17.0%
2014	1	10.1	\$29.54	0.8%	\$23.87	0.8%	17.0%
2014	2	1.9	\$29.77	0.8%	\$24.06	0.8%	17.1%
2014	3	7.3	\$29.92	0.5%	\$24.18	0.5%	17.0%
2014	4	9.9	\$30.24	1.1%	\$24.45	1.1%	16.9%
2015	1	4.8	\$30.54	1.0%	\$24.70	1.0%	16.8%
2015	2	8.3	\$30.78	0.8%	\$24.90	0.8%	16.7%
2015	3	12.2	\$31.01	0.7%	\$25.10	0.8%	16.6%
2015	4	12.7	\$31.28	0.9%	\$25.32	0.9%	16.5%
2016	1	8.2	\$31.57	0.9%	\$25.58	1.0%	16.4%
2016	2	5.1	\$31.76	0.6%	\$25.74	0.6%	16.4%
2016	3	2.9	\$31.89	0.4%	\$25.85	0.4%	16.4%
2016	4	12.9	\$32.00	0.3%	\$25.95	0.4%	16.3%
2017	1	5.7	\$32.16	0.5%	\$26.08	0.5%	16.3%
2017	2	4.9	\$32.26	0.3%	\$26.16	0.3%	16.4%
2017	3	5.6	\$32.38	0.4%	\$26.25	0.3%	16.4%
2017	4	7.7	\$32.57	0.6%	\$26.42	0.6%	16.4%
2018	1	6.2	\$32.84	0.8%	\$26.65	0.9%	16.5%
2018	2	2.4	\$33.08	0.7%	\$26.84	0.7%	16.6%
2018	3	5.1	\$33.22	0.4%	\$26.95	0.4%	16.7%
2018	4	9.6	\$33.45	0.7%	\$27.14	0.7%	16.7%
2019	1	8.4	\$33.59	0.4%	\$27.27	0.5%	16.7%
2019	2	4.4	\$33.86	0.8%	\$27.49	0.8%	16.8%
2019	3	10.1	\$34.13	0.8%	\$27.71	0.8%	16.8%
2019	4	15.0	\$34.33	0.6%	\$27.89	0.6%	16.8%
2020	1	-0.1	\$34.48	0.4%	\$28.01	0.4%	17.0%
2020	2	2.6	\$34.47	0.0%	\$27.91	-0.4%	17.1%
2020	3	-5.0	\$34.53	0.2%	\$27.87	-0.1%	17.4%
2020	4	-9.8	\$34.47	-0.2%	\$27.70	-0.6%	17.7%

Annual

Year	Net Absorption	Asking Rent	Percent Change	Effective Rent	Percent Change	Vacancy Rate
2011	17.7	\$28.02	1.7%	\$22.58	2.2%	17.4%
2012	15.5	\$28.60	2.1%	\$23.09	2.3%	17.2%
2013	25.1	\$29.32	2.5%	\$23.69	2.6%	17.0%
2014	29.2	\$30.24	3.1%	\$24.45	3.2%	16.9%
2015	38.0	\$31.28	3.4%	\$25.32	3.6%	16.5%
2016	29.1	\$32.00	2.3%	\$25.95	2.5%	16.3%
2017	23.9	\$32.57	1.8%	\$26.42	1.8%	16.4%
2018	23.3	\$33.45	2.7%	\$27.14	2.7%	16.7%
2019	37.9	\$34.33	2.6%	\$27.89	2.8%	16.8%
2020	-12.3	\$34.47	0.4%	\$27.70	-0.7%	17.7%
2021	-26.6	\$32.77	-4.9%	\$25.62	-7.5%	19.4%
2022	23.7	\$32.85	0.2%	\$25.72	0.4%	19.5%
2023	17.2	\$33.38	1.6%	\$26.24	2.0%	19.6%
2024	46.7	\$33.96	1.7%	\$26.89	2.5%	19.0%
2025	44.6	\$34.59	1.9%	\$27.58	2.6%	18.5%

Source: Moody's Analytics REIS;
79 of 190 Office Markets

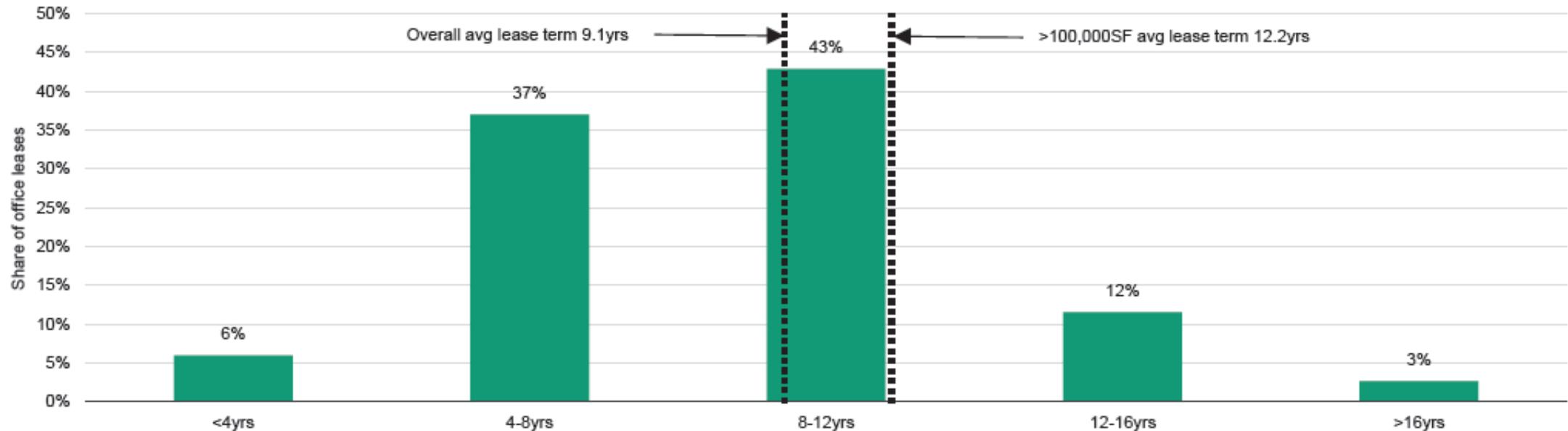
Net absorption figures are in millions of square feet.

But Why Hasn't The Other Shoe Dropped?

The Evolution of the Office Sector Will Take Time

The majority of office lease terms are greater than eight years

Distribution lease terms for US offices of 10,000 SF or more



Sources: Moody's Investor Service, Moody's Analytics, Compstak

How Much Time, Exactly?

Office leases expire slowly over many years
Quarterly share of office leases expiring in the six major markets*



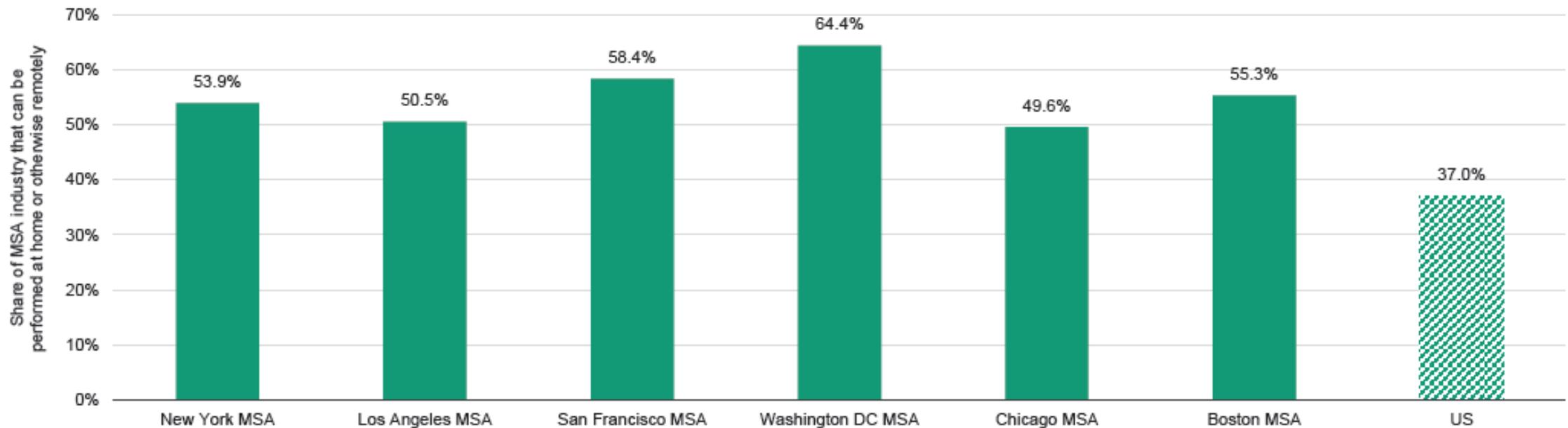
*The six markets in this chart are New York, San Francisco, Chicago, Boston, Los Angeles, and Washington DC.

Sources: Moody's Investor Service, Moody's Analytics, Compstak

Let's Assess Risk In a Nuanced Way

Major office market industries are more easily performed remotely

Estimated share of "jobs that can be done from home" in the six major markets, per the NBER

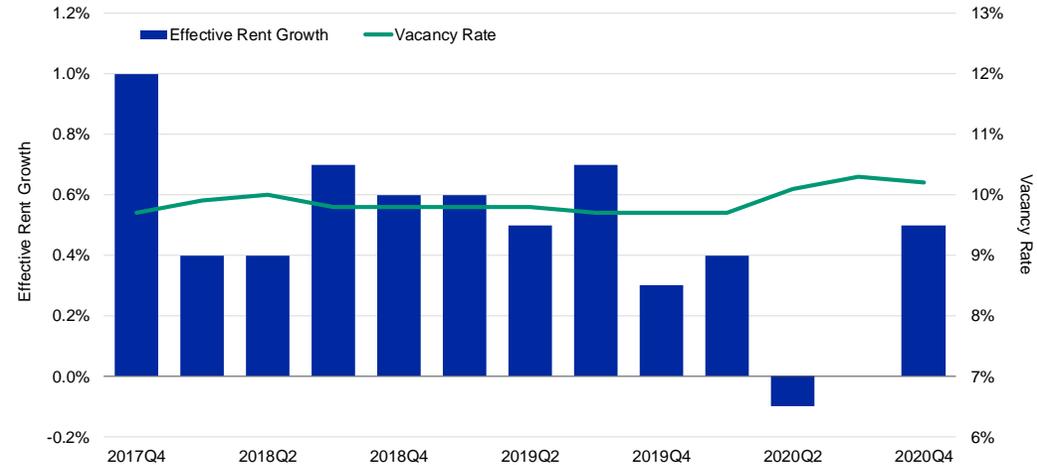


Sources: Moody's Investors Service, National Bureau of Economic Research (NBER)

Industrial: Holding Steady in the Fourth Quarter

Flex/R&D

- » Flex/R&D vacancies *down* by 10 basis points in the fourth quarter to 10.2%.
- » Effective rents rose by 0.5% in the fourth quarter.



Warehouse/ Distribution

- » Warehouse/distribution vacancies *down* by 10 basis points in the fourth quarter to 10.5% - despite close to 140 million SF of new space delivered in 2020.
- » Effective rents rose by 0.6% in the quarter.



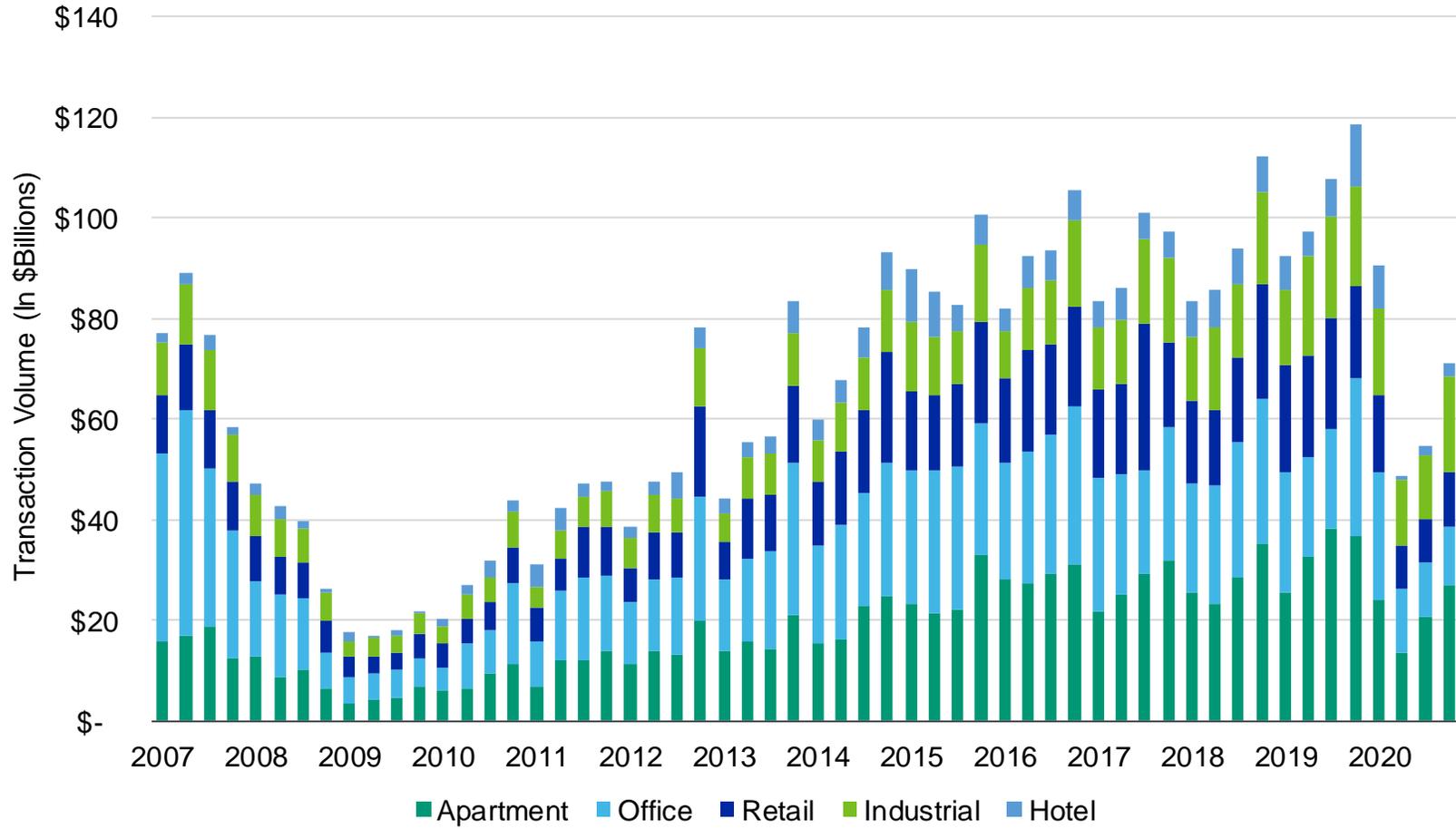
Source: Moody's Analytics REIS

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CRE Pricing and Transaction Markets

Transaction Activity Throughout 2020

Compare and contrast this with 2008-2009

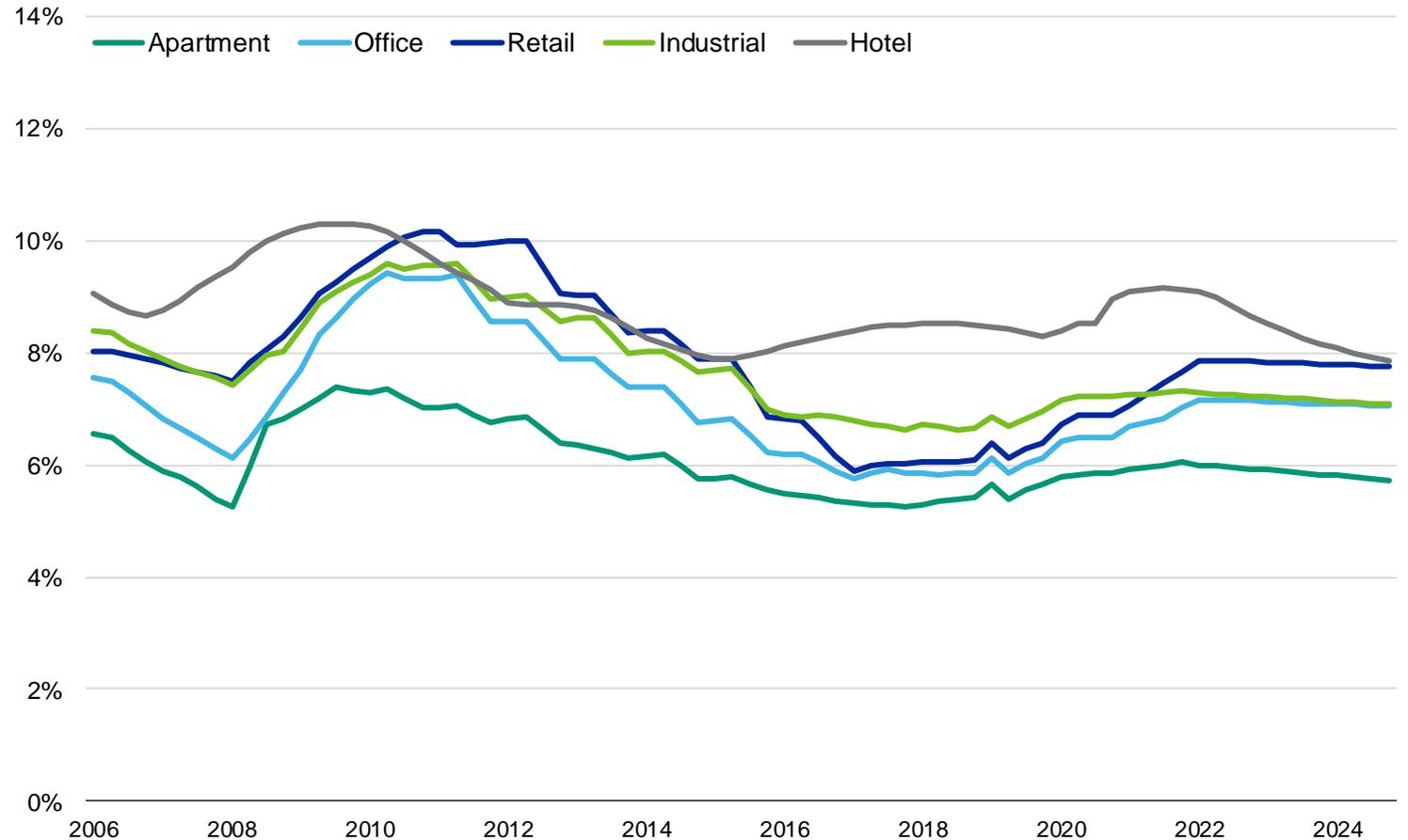


Source: Moody's Analytics REIS

Cap Rate Forecasts

Implied Peak-to-Trough Declines Significantly Lower

- » Cap rate increases are still forecasted for 2021 through 2022, but at a trajectory much less steep than before. Price declines are therefore expected to be much less severe.
- » Peak-to-trough declines for industrial (5%) and multifamily (6.4%) still reflect relative resilience versus office (12.6%) and retail (16.5%) – the latter two being subject to medium- to long-term evolutionary risk.



Source: Moody's Analytics REIS

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