

Commercial Real Estate and the Covid-19 Recovery

John D. Worth
May 2021



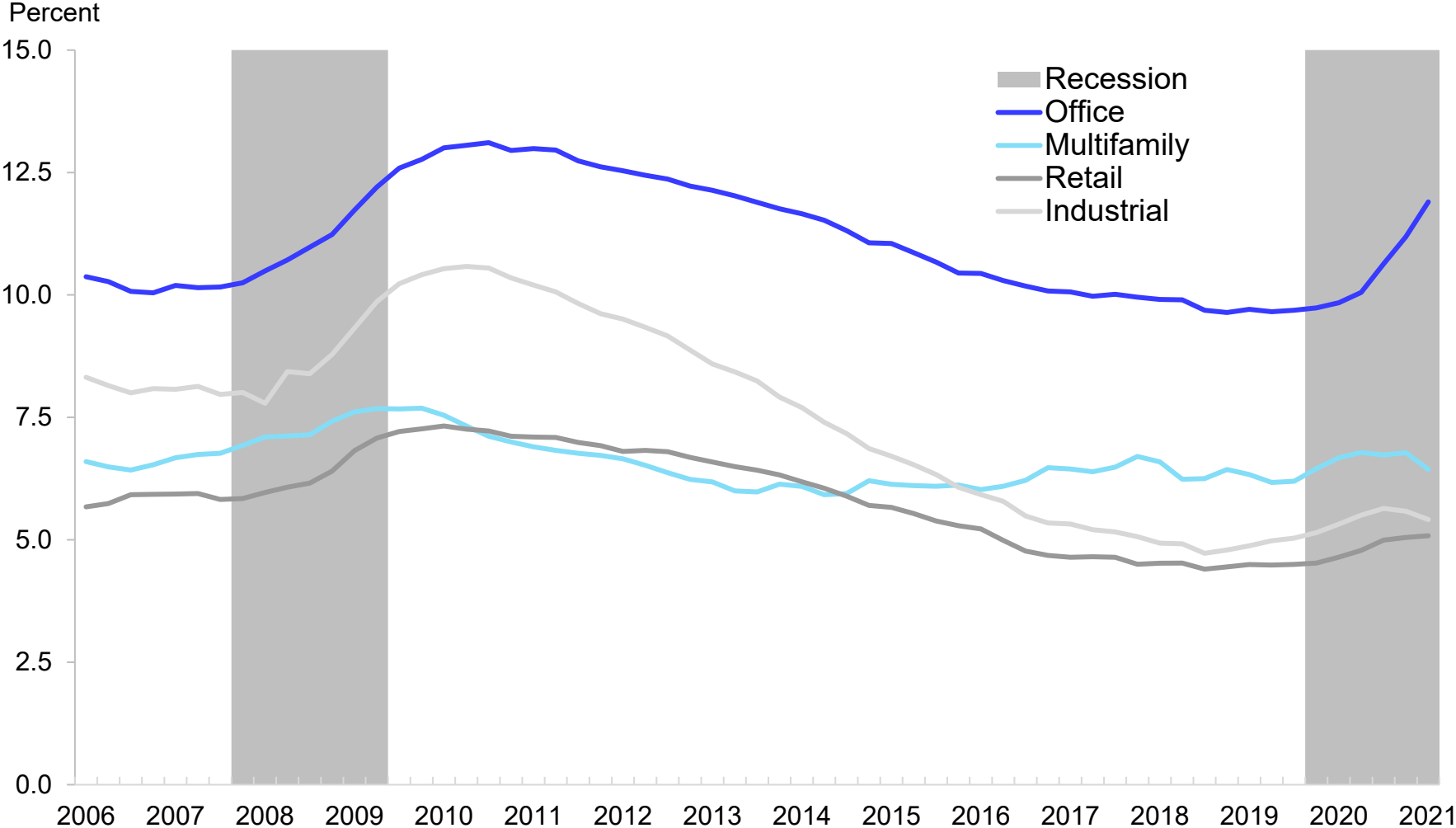
Key Themes Emerging from Covid-19

4 key themes for 2021 and 2022

- Digitization and 21st Century real estate
- Work-from-home and the future of offices
- Interest rates and inflation expectations
- ESG integration

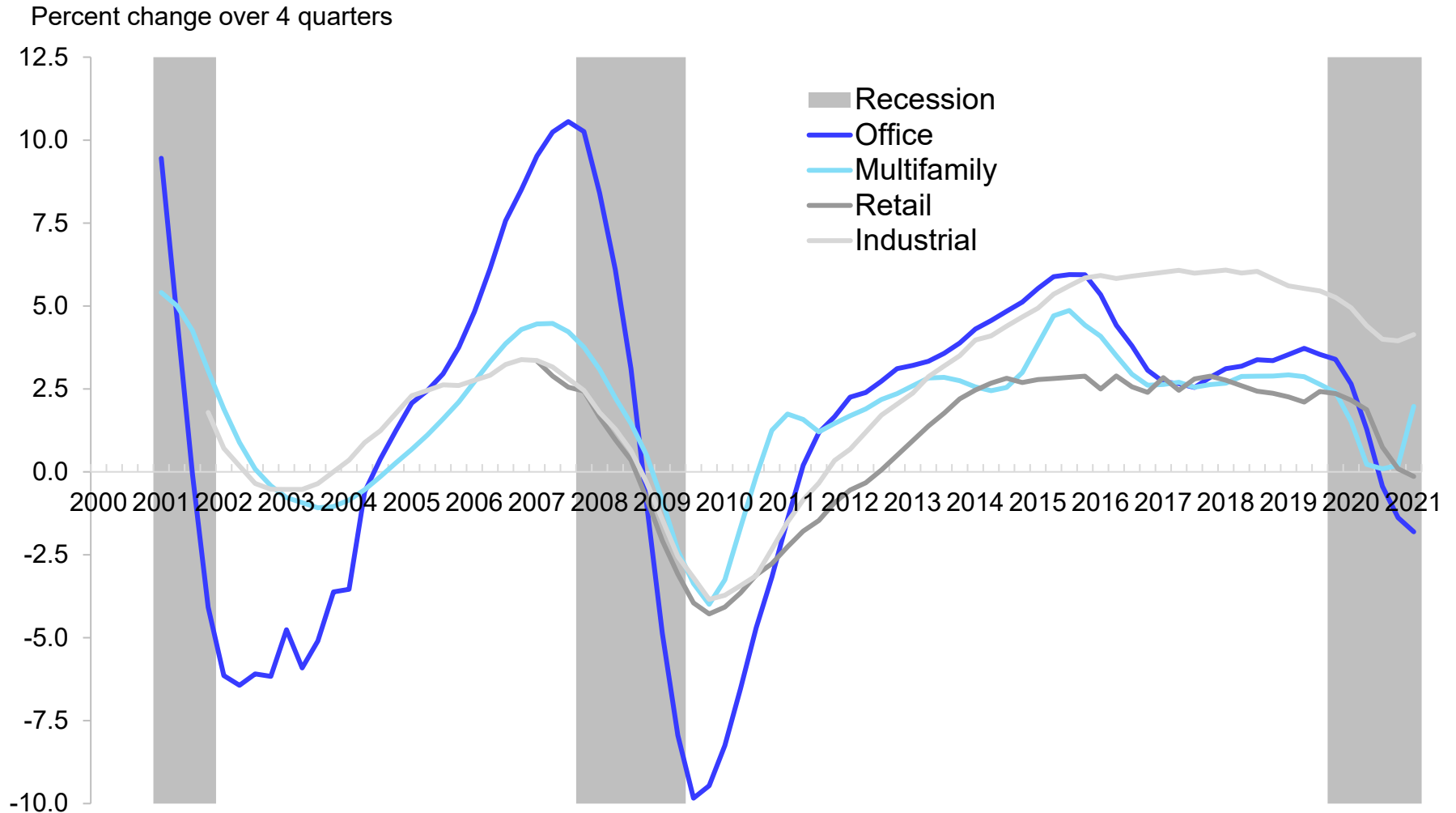
Vacancy Rates

Office vacancy rates moved sharply higher in 2021:Q1. Multifamily and industrial vacancy rates declined, while retail vacancies were little changed



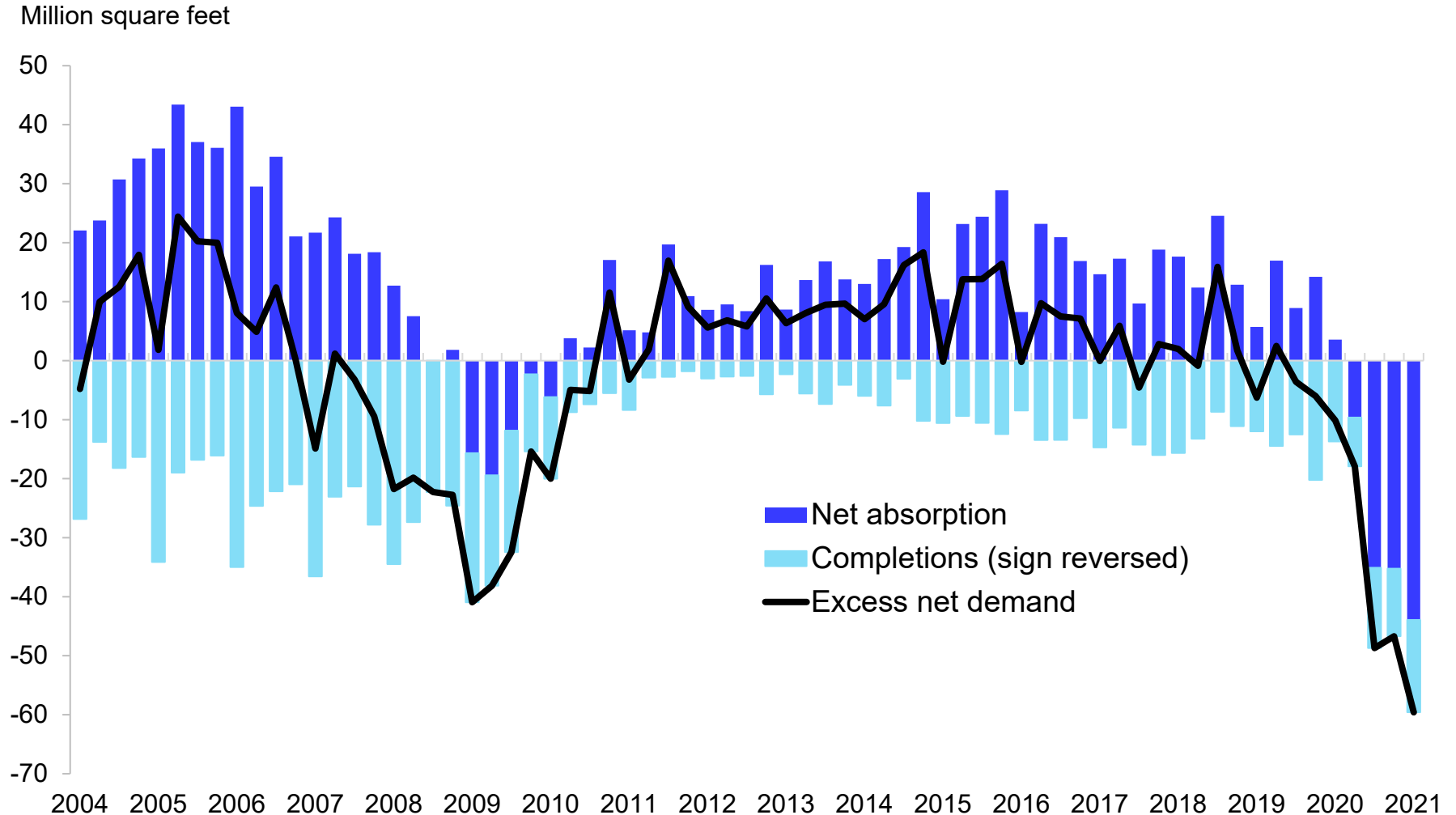
Rent Growth

Office rents have declined over the past four quarters, with the largest quarterly declines in 2020 Q2 & Q3. Retail rents are flat, while multifamily rents jumped in Q1



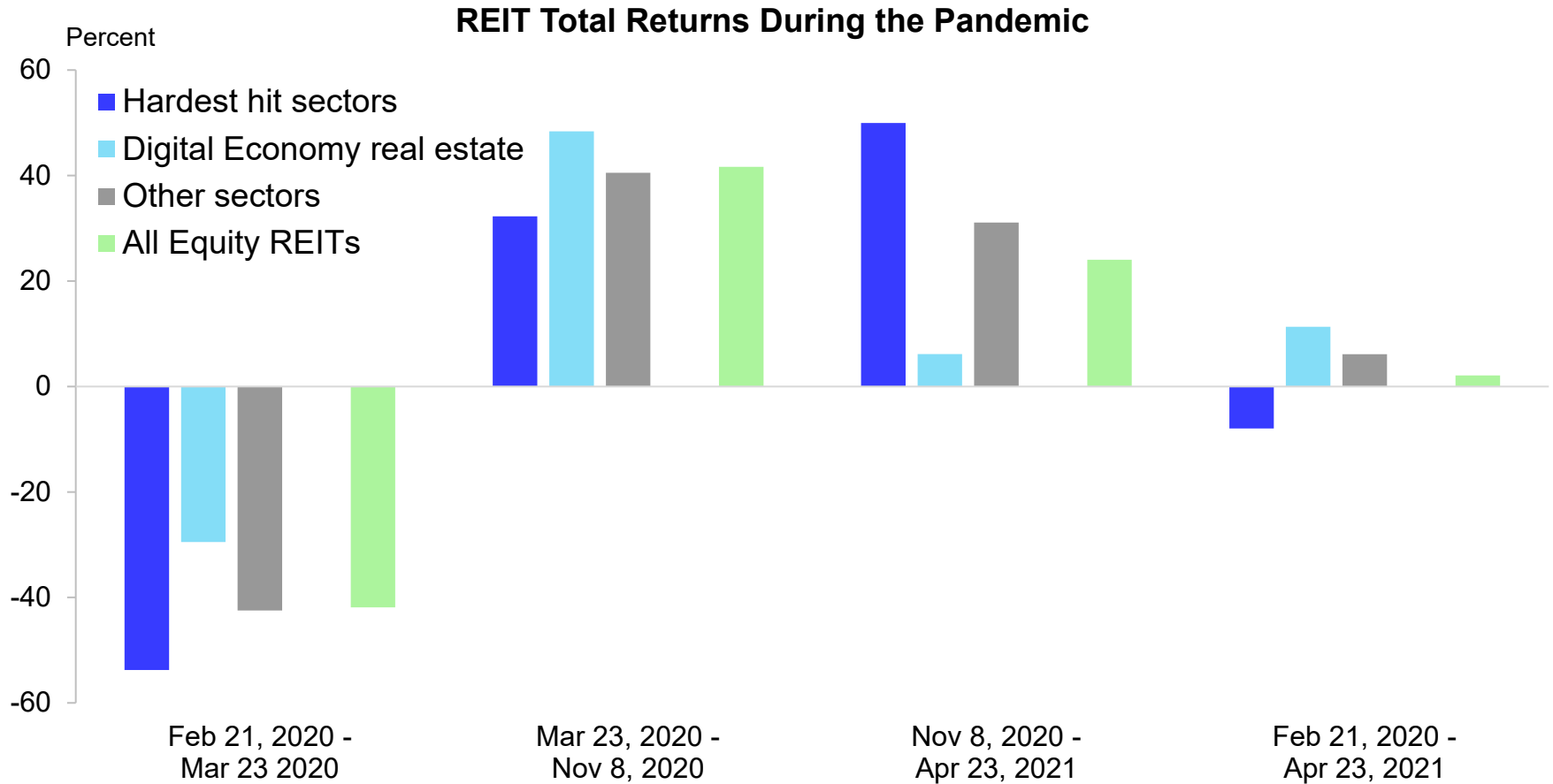
Demand and Supply of Office Space

Net absorption of office space was negative 44 million square feet in 2021:Q1, a record decline in leased space



REITs and Pandemic Era Returns

Share prices fell across the board in spring of 2020. Valuations are recovering, but unevenly across property types



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Index / Property Sector	Constituents	Market Cap (\$M)	Total Return (%)			
			Period			
			Feb 21, 2020 - Mar 23 2020	Mar 23, 2020 - Nov 8, 2020	Nov 8, 2020 - Apr 23, 2021	Feb 21, 2020 - Apr 23, 2021
All Equity REITs	158	1,321,849	(41.9)	41.6	24.0	2.1
Equity REITs	150	1,060,162	(44.4)	40.9	27.7	0.1
Retail	32	156,390	(54.6)	25.9	63.5	(6.5)
Shopping Centers	18	55,219	(52.0)	11.0	93.3	3.1
Regional Malls	4	41,923	(62.3)	21.8	90.2	(12.6)
Free Standing	10	59,248	(50.3)	41.9	29.8	(8.5)
Lodging/Resorts	13	39,313	(56.5)	25.2	78.3	(2.8)
Infrastructure	4	223,472	(28.5)	39.7	8.0	7.9
Data Centers	5	122,998	(24.8)	53.5	(3.5)	11.4
Industrial	13	150,549	(34.5)	58.6	12.3	16.6
Office	19	90,845	(43.8)	12.7	36.7	(13.4)
Residential	20	193,552	(44.1)	35.4	29.1	(2.4)
Apartments	15	135,020	(44.7)	27.5	35.2	(4.7)
Manufactured Homes	3	29,822	(40.9)	40.0	14.8	(5.1)
Single Family Homes	2	28,711	(44.4)	75.6	18.8	15.9
Diversified	16	50,258	(53.1)	33.0	36.0	(15.1)
Health Care	17	122,329	(50.6)	43.8	29.8	(7.8)
Self Storage	5	77,799	(30.9)	52.0	25.7	32.0
Timber	4	38,215	(51.1)	91.4	37.3	28.4
Home Financing	20	43,022	(61.0)	53.4	35.2	(19.0)
Commercial Financing	13	26,675	(66.2)	90.8	55.0	(0.2)
<i>Russell 1000</i> ®			(33.7)	62.0	21.0	30.0

Source: FTSE, Nareit, FactSet.

REITs and Pandemic Era Returns

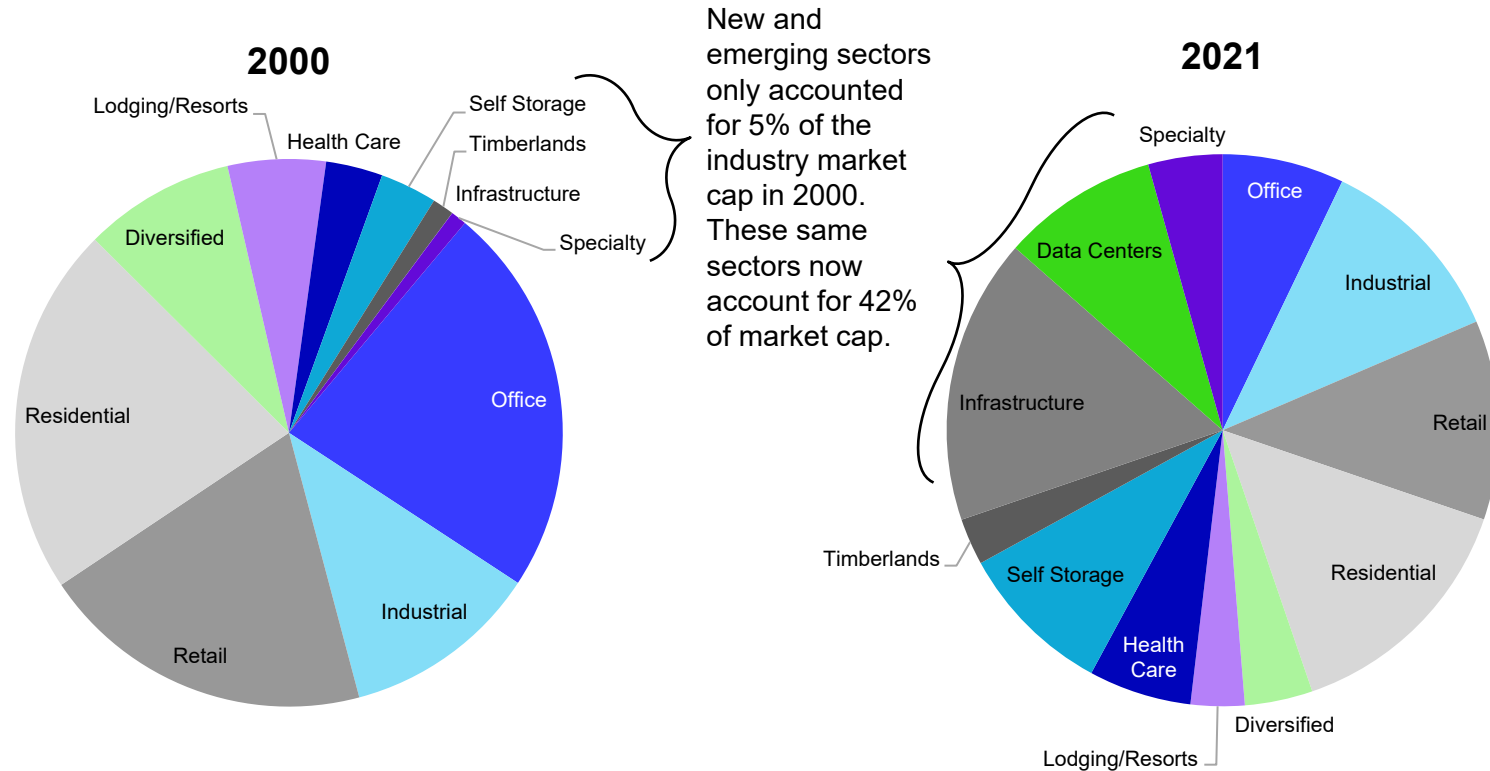
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REIT Sectors over Time

Listed REIT property ownership has become more diverse over time



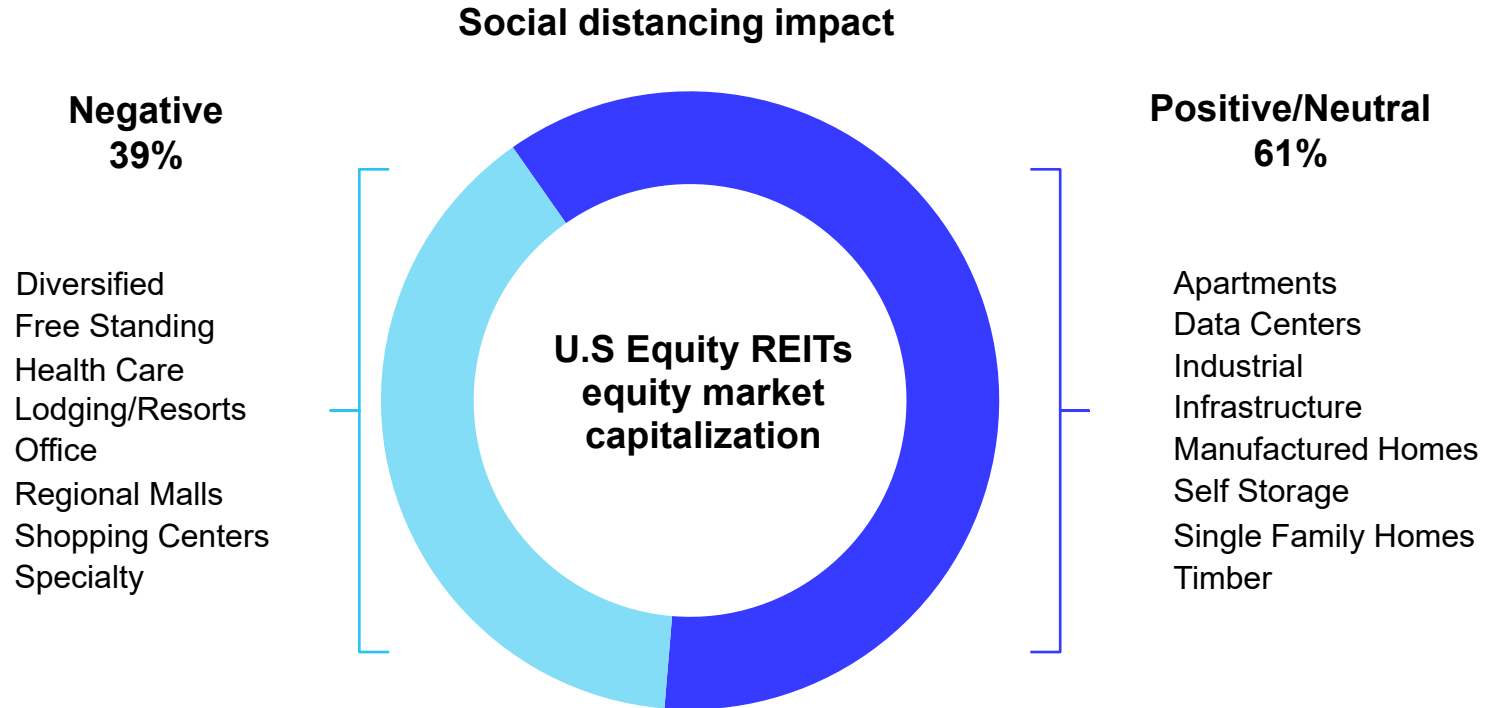
- Historically, the dominant property sectors offering the largest scale and investment opportunity included retail centers, apartment buildings, office buildings, and industrial warehouses.
- The industry has expanded to include property types reflecting the evolution of the changing U.S. economy and providing investors with a broader opportunity set.

Source: FactSet, Nareit

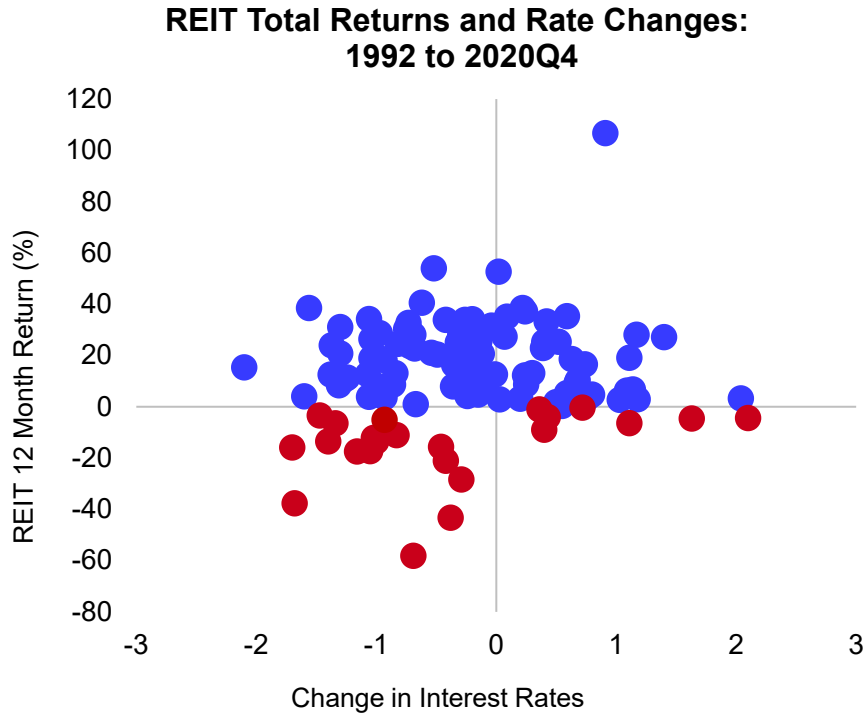
New Sectors includes cell tower, data center, self storage, timberlands, single family home, and farmland REITs. All Other includes all other sectors in the FTSE Nareit All Equity REITs index. Data as of March 31, 2021.

Impact of COVID-19 Pandemic on REIT Sectors

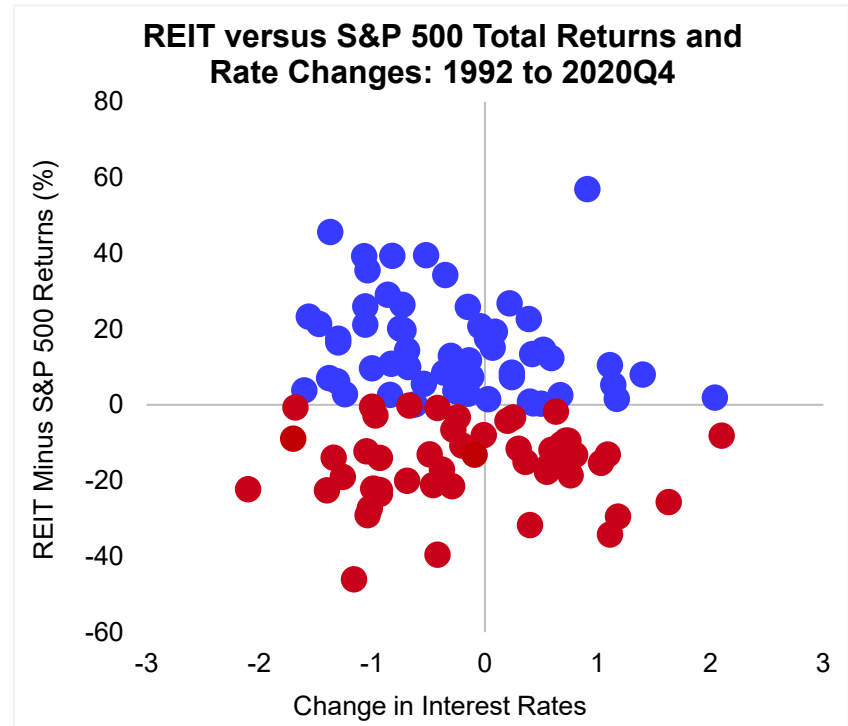
60% of Equity REITs are less impacted by social distancing



REIT performance positive and often outperforms stock market during periods of rising rates



Positive REIT returns in 83% of rising rate periods

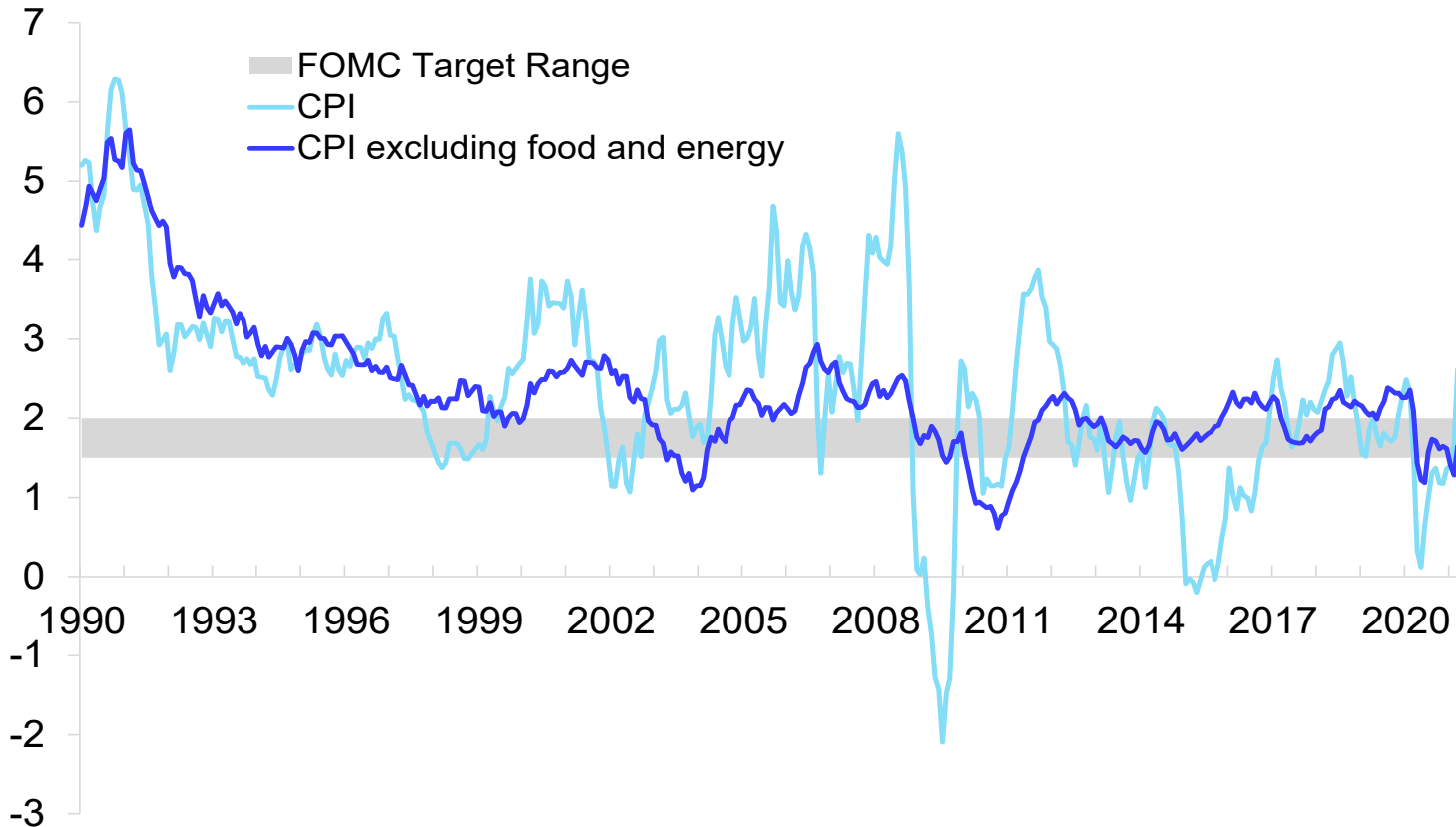


REIT returns exceed S&P 500 in 50% of rising rate periods

Inflation Expectations

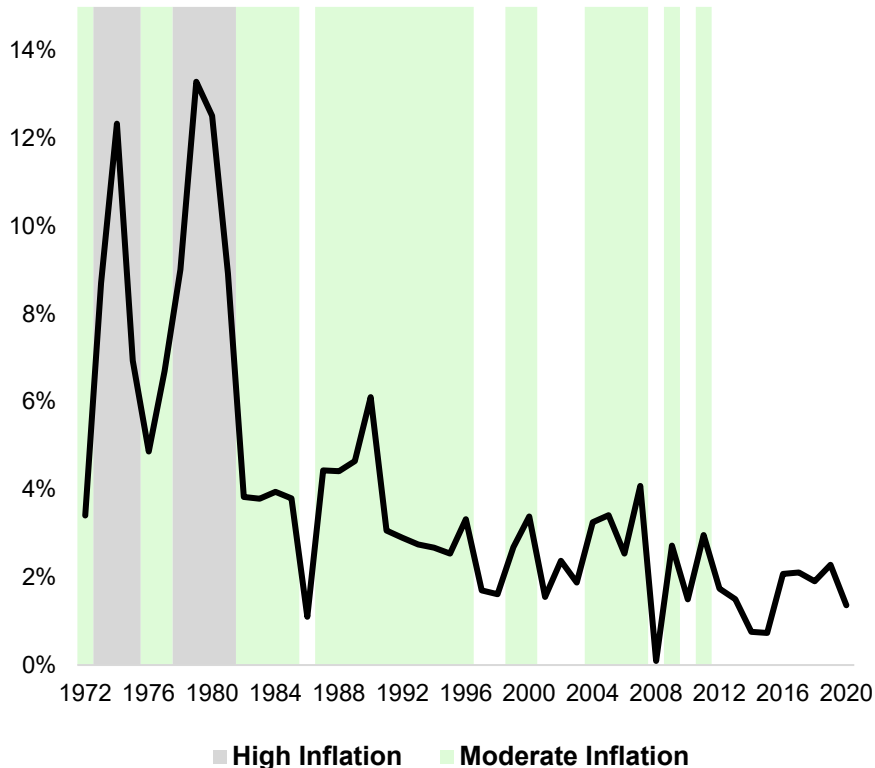
Core inflation has stayed near the FOMC's target range since the mid-1990s

Percent change over 12 months

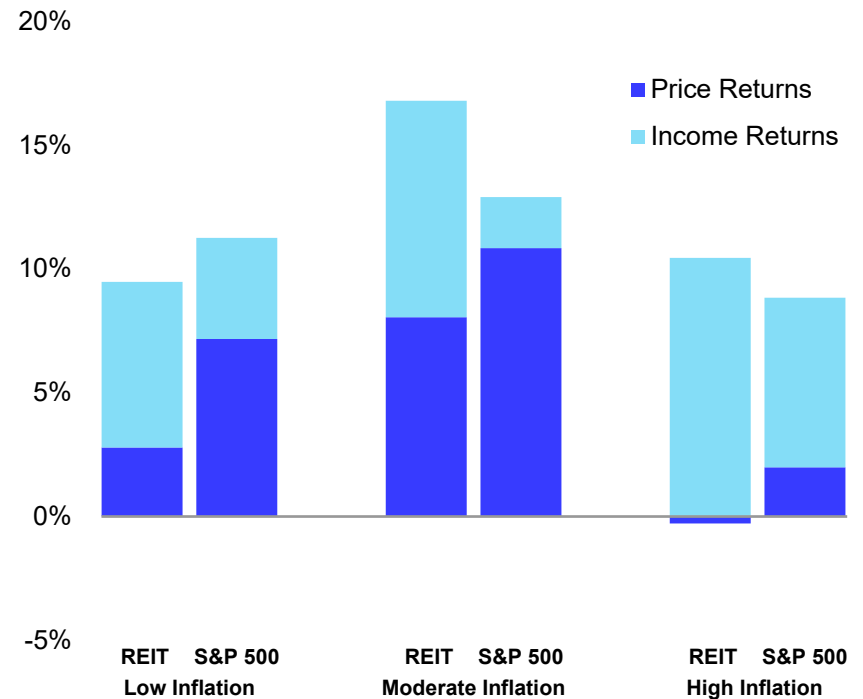


REIT Performance At Different Inflation Levels

Annual Inflation Rate, All Urban Consumers, Not Seasonally Adjusted



REIT Returns Compared to S&P 500 Returns During Different Inflation Periods



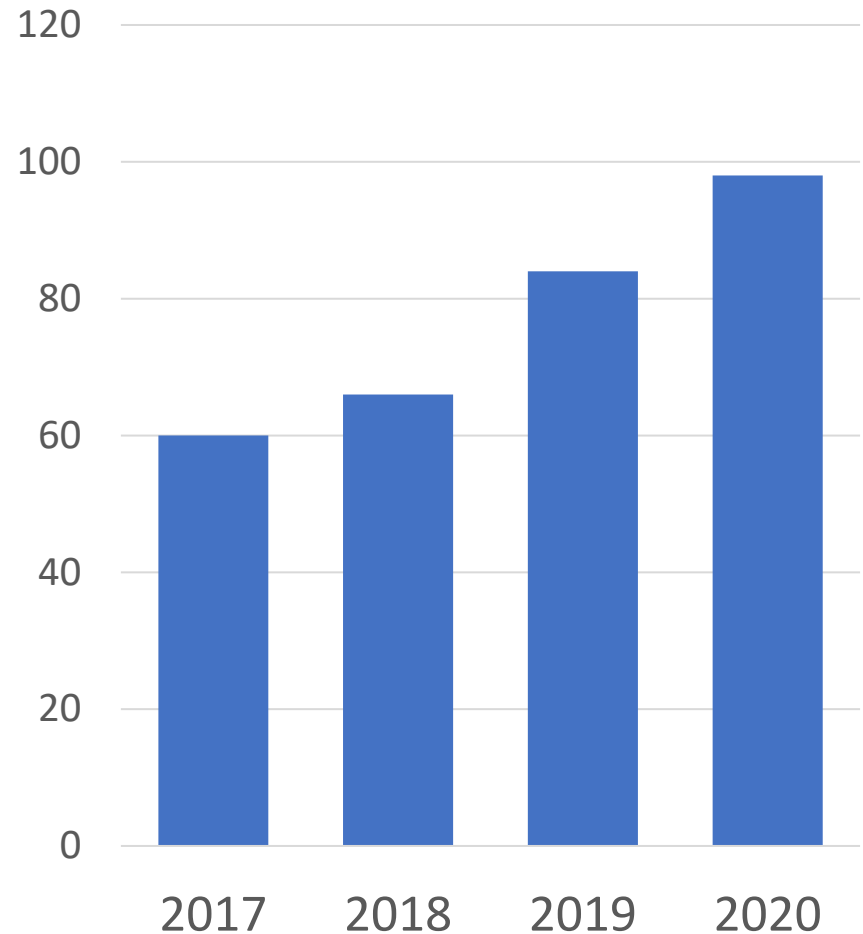
- The U.S. has not had periods of high inflation since the 1970s and 80s when it was as high as 13% annually
- During periods of high inflation, REITs' total return was higher than the S&P 500 while having comparable returns in periods of low and moderate inflation

REITs and Sustainability

REITs are reporting on sustainability and ESG

- The number of REITs that report on ESG each year continues to increase. In 2020, 98 of the 100 largest equity REITs publicly reported on ESG efforts and outcomes.
- REITs are reporting using frameworks including GRESB, CDP and GRI and increasingly are disclosing carbon targets and sustainability goals.
- REITs are also increasing their staff dedicated to sustainability, the diversity of their Boards, and engaging in community development programs.
- Nareit is a resource for information on sustainability initiatives by REITs:
 - [REIT Sustainability](#)

REITs Reporting ESG Publicly



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