

NKF RESEARCH

MARKET PULSE

SURVEY RESULTS: RESPONSES & STRATEGIES FOR THE CURRENT CRISES

Office Capital Markets

Industrial

Office Leasing

Hospitality

Occupiers

Retail

Multifamily Capital Markets

Debt and Structured Finance

APRIL 2020

NKF MARKET PULSE SURVEY

RESPONSES AND STRATEGIES FOR THE CURRENT CRISES

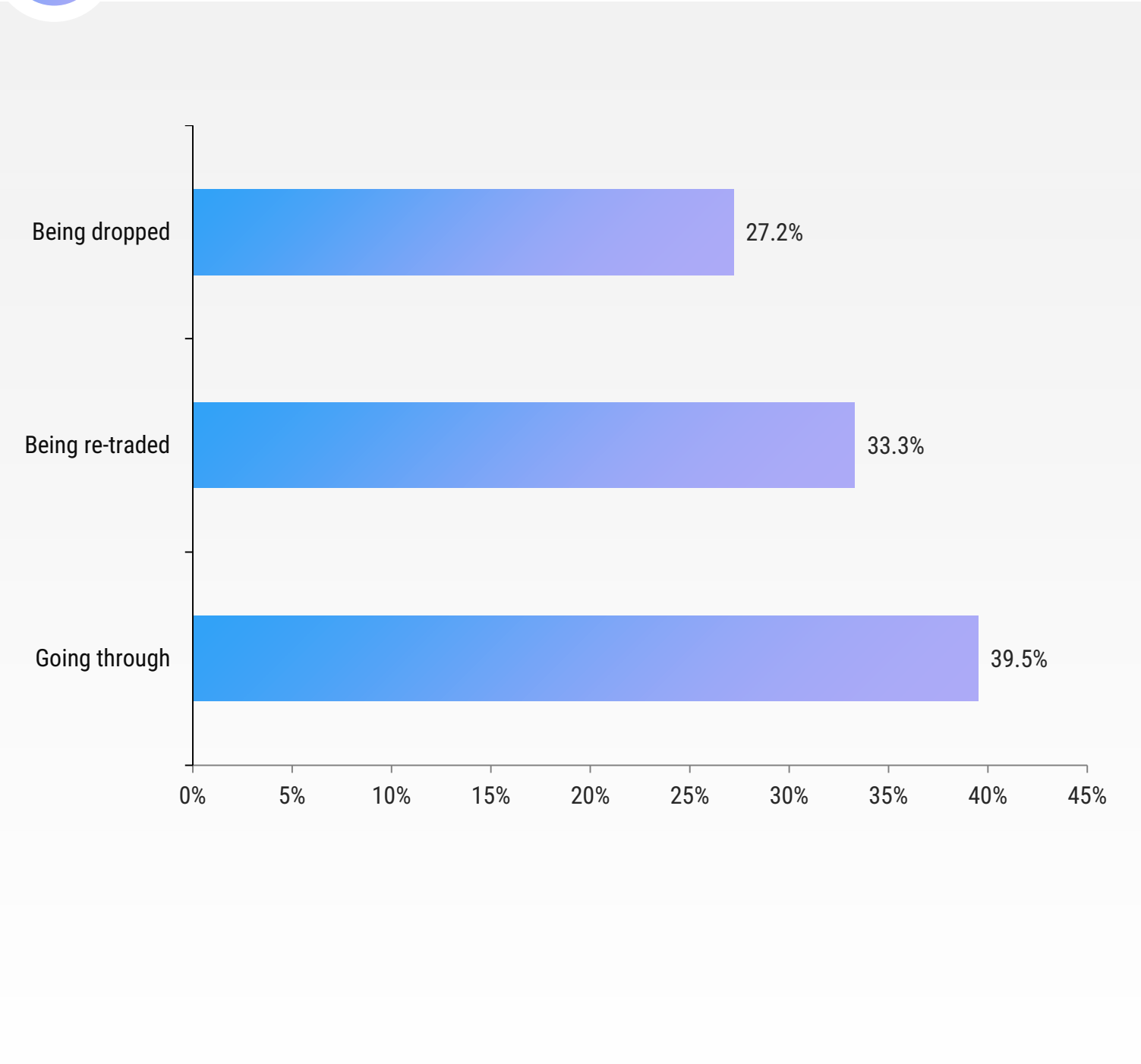
NKF is focused on delivering substantive guidance and real-time solutions to the challenges our clients are facing as a result of the global coronavirus pandemic. As such, we continue to develop industry-specific data to assist with understanding how the commercial real estate markets are evolving and adapting to the health and economic crises. We thank our clients who participated in these surveys, and are pleased to share the following survey results.

OFFICE CAPITAL MARKETS

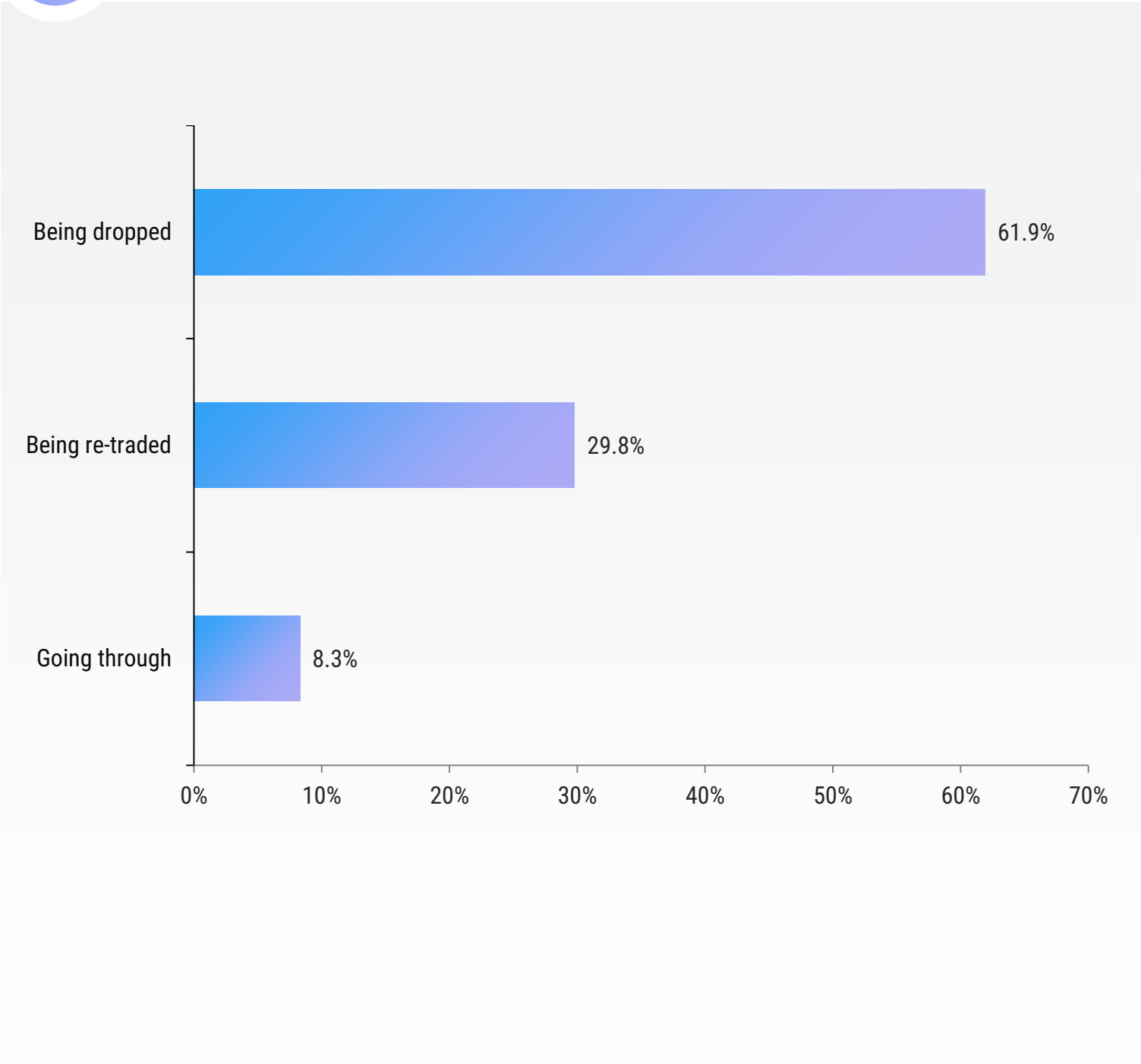
1

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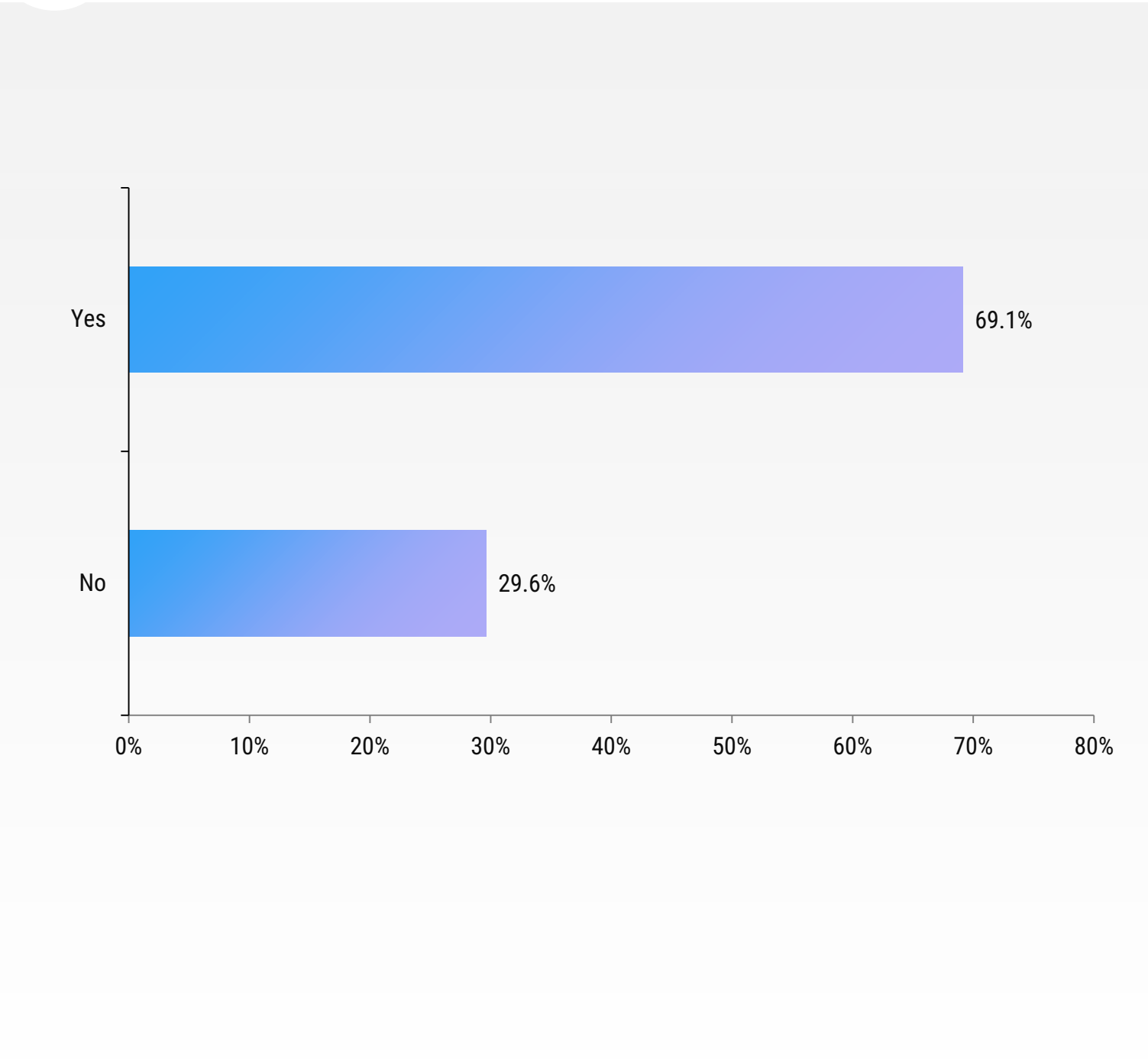
1 Of transactions that are **hard**, are they primarily...?



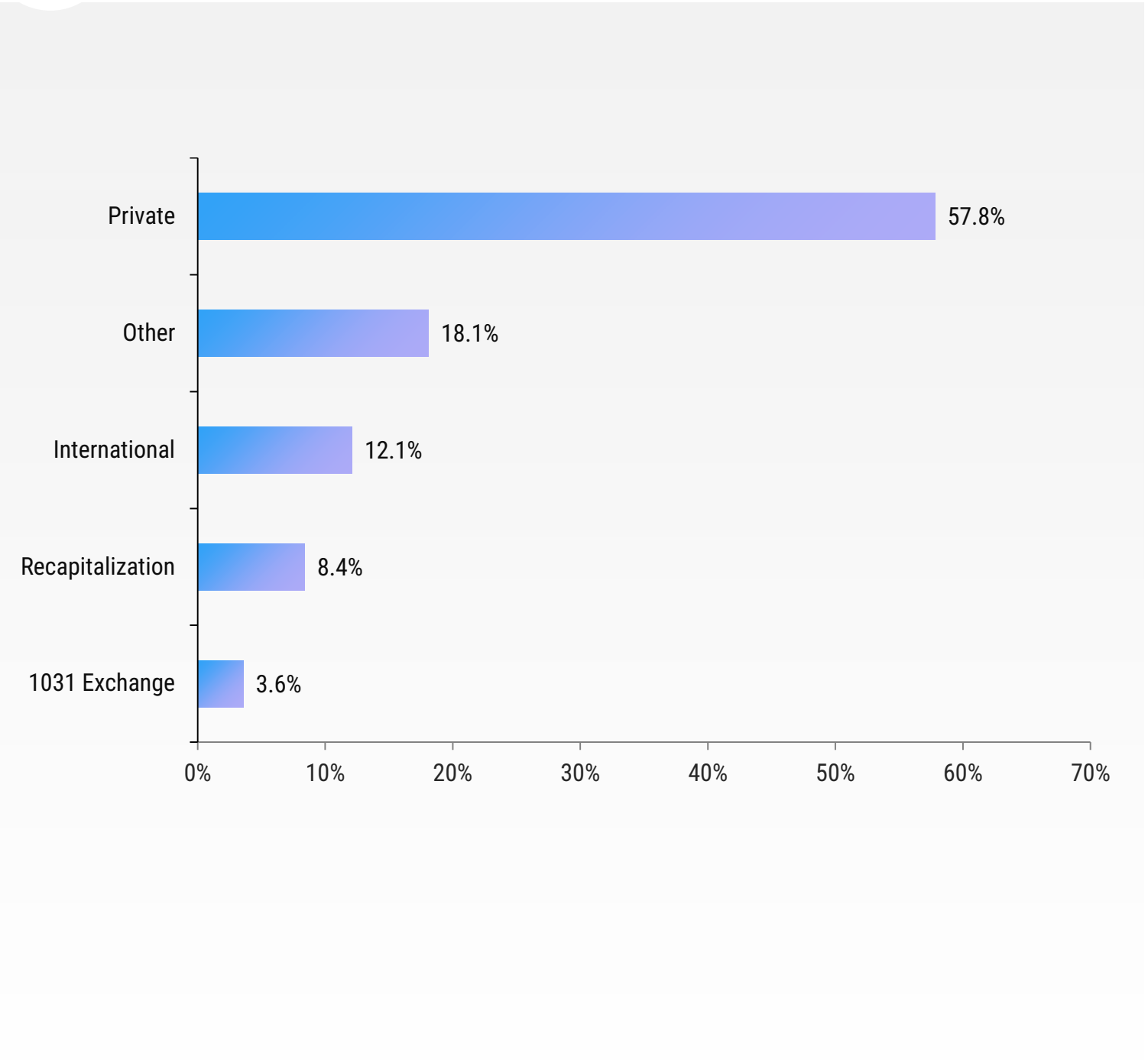
2 For transactions that are **refundable**, are they primarily...?



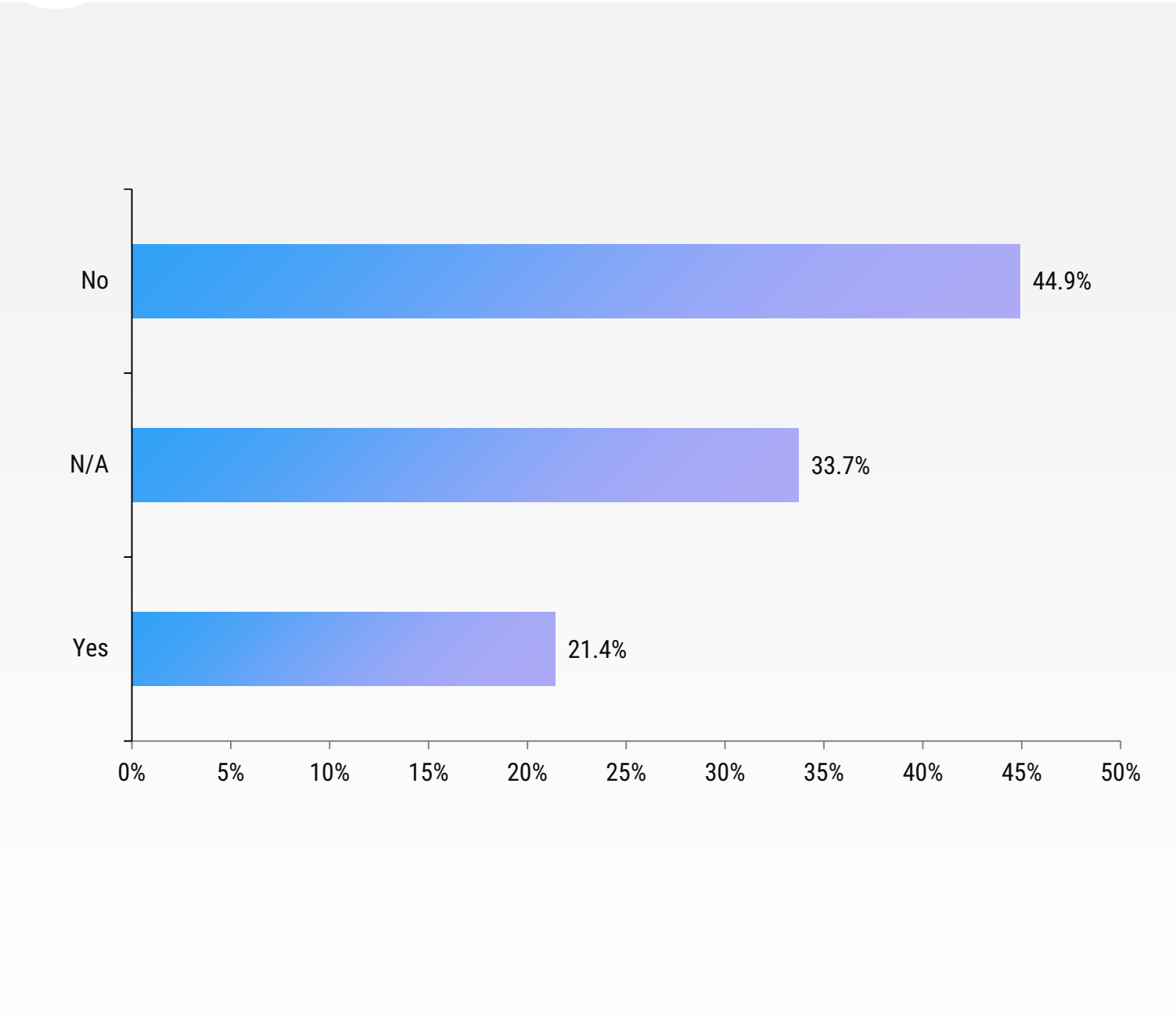
3 Are you continuing with development projects that are under construction?



4 If you are in the market to acquire, what is the nature of your capital?



5 Have you shifted your debt strategy to longer-term holds?



6 Have you launched a deal in the last week? If yes, what is providing the confidence to move forward?

- **89% of respondents** said they have not launched a deal in the past week.
- Respondents who are proceeding with launching deals cited the quality and type of asset as factors in their decision. For example, seeking an all-cash buyer for a NNN-leased asset or selling land to a hospital group.

IMPLICATIONS FOR OUR CLIENTS

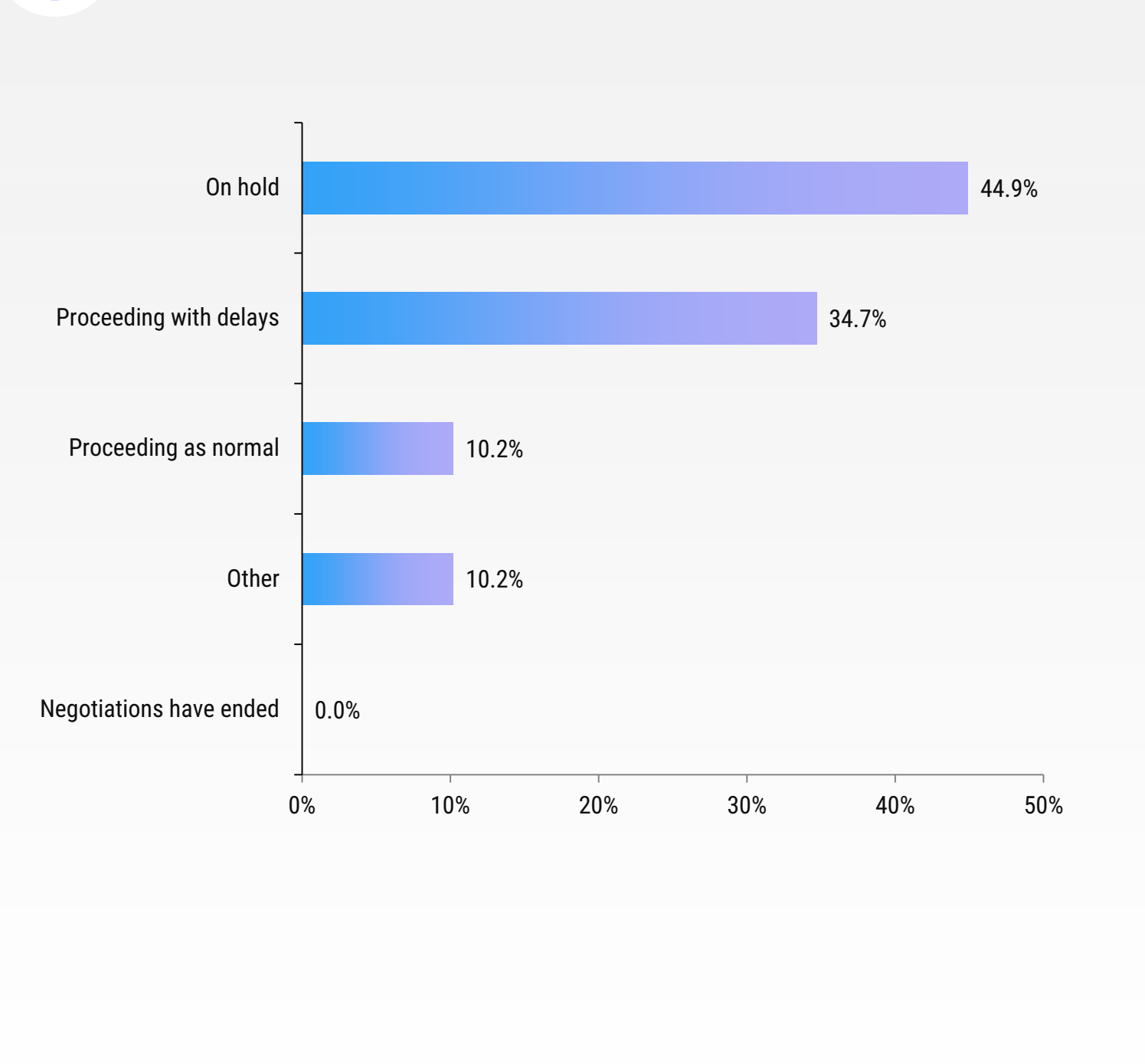
OFFICE CAPITAL MARKETS

- A majority of hard transactions are going through or being re-traded, with only 27% being dropped. However, for refundable transactions, a majority—62% are being dropped. Once transactions that were already in progress either close or are dropped, deal volume will be sparse in the near-term but will likely ramp back up once the virus is contained, as a significant amount of dry powder awaits on the sidelines.
- A significant portion—69%—of development projects under construction are still proceeding, with 30% stopping work. The share of projects that are stopping could be a result of construction moratoriums in some cities, and those that are proceeding could be stopped at any time should conditions worsen. However, a slowing of the construction pipeline can help alleviate some immediate oversupply concerns in some markets.
- 58% of the capital in the market to acquire is private. While many deals are currently on hold, more robust market activity is likely to resume once the virus is contained.
- Almost half (45%) of respondents have not shifted debt strategies to longer-term holds, suggesting confidence that the current downturn will not be prolonged.
- While a significant majority of respondents (89%) have not launched a deal in the past week, those that have cite high-quality assets or unique situations as their reason for proceeding. Where possible, it may be prudent to proceed with offerings for unique assets or situations.

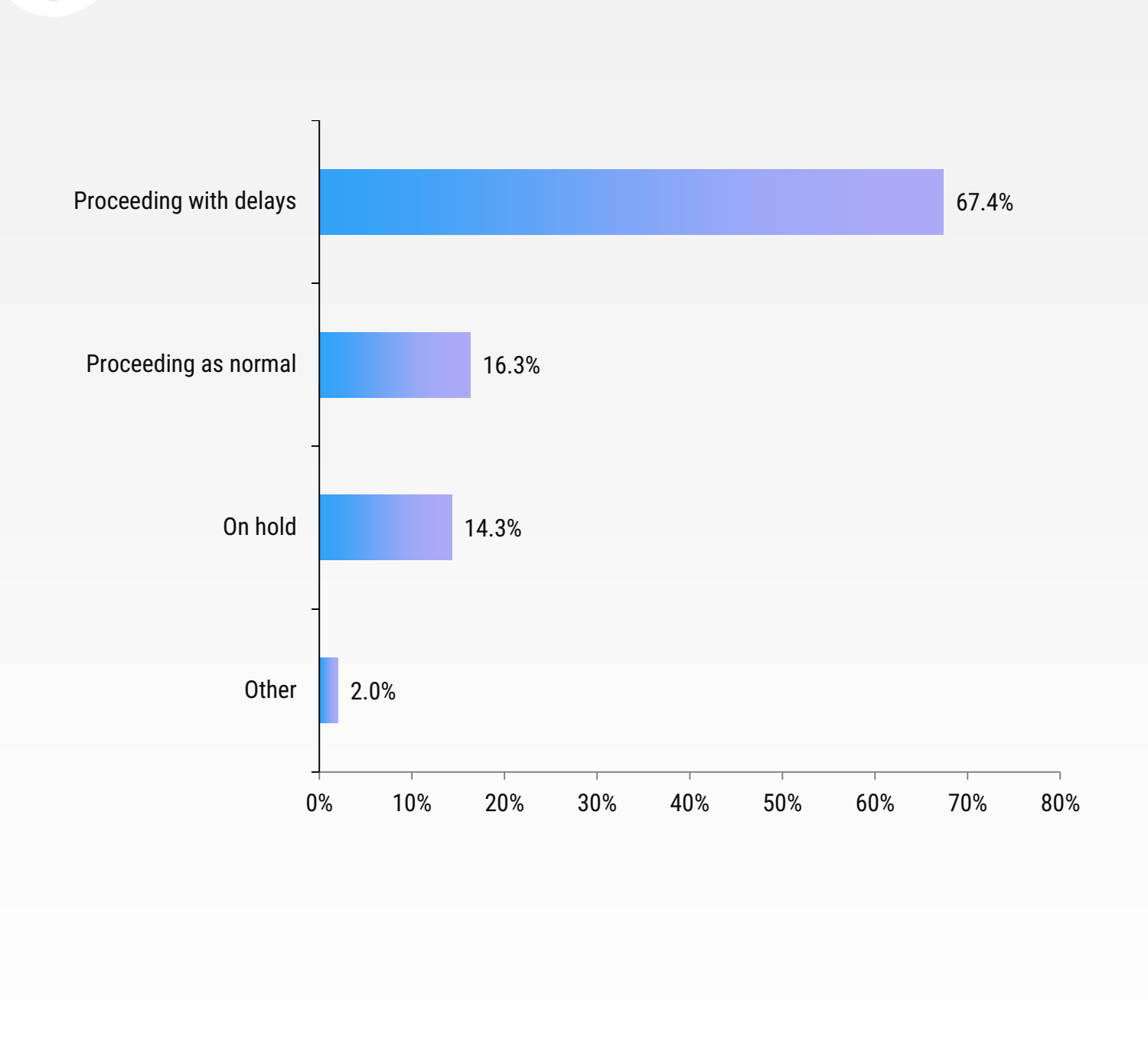
OFFICE LEASING

2

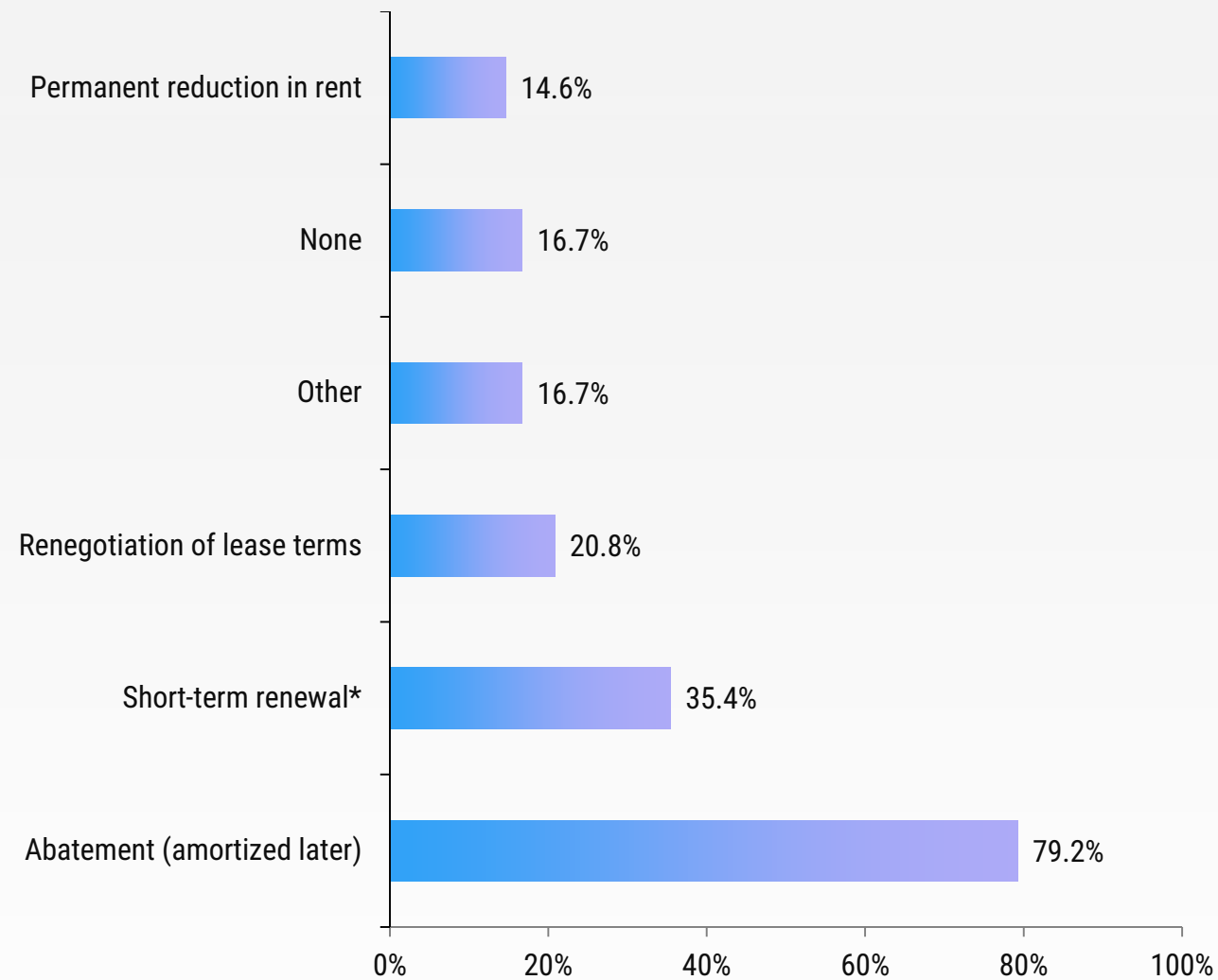
1 In general, are office leasing deals that were in negotiation as COVID-19 was breaking in the U.S. ...



2 For leases signed, what is the current state of the planning/design/permitting process?

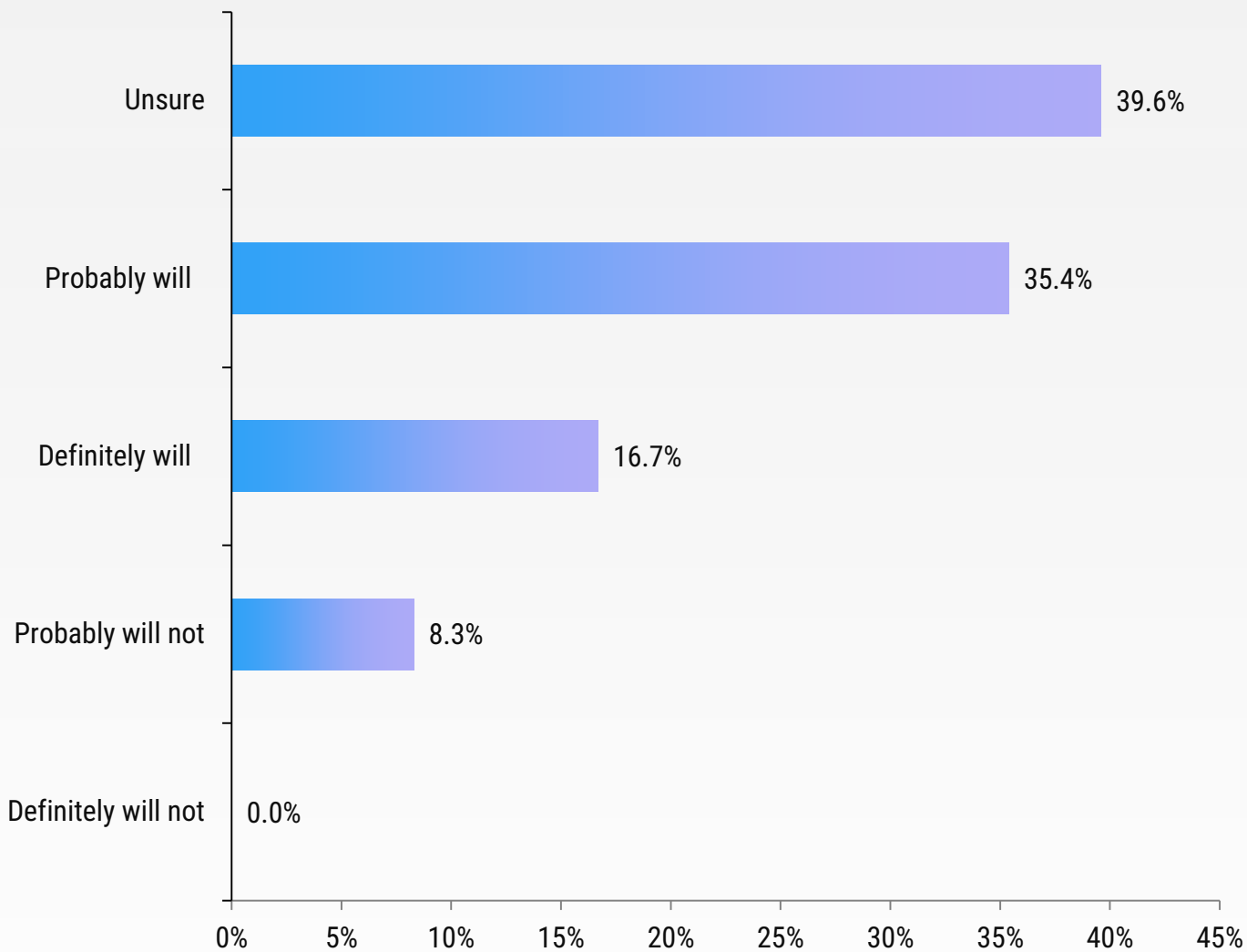


3 What accommodations are being requested (by tenants) and granted on existing lease obligations (select all that apply)?



* For tenants nearing end of term

4 Are you considering increasing the amount of concessions offered to keep existing tenants or attract new ones?



5 What is the greatest challenge to your business at this time?



IMPLICATIONS FOR OUR CLIENTS

OFFICE LEASING

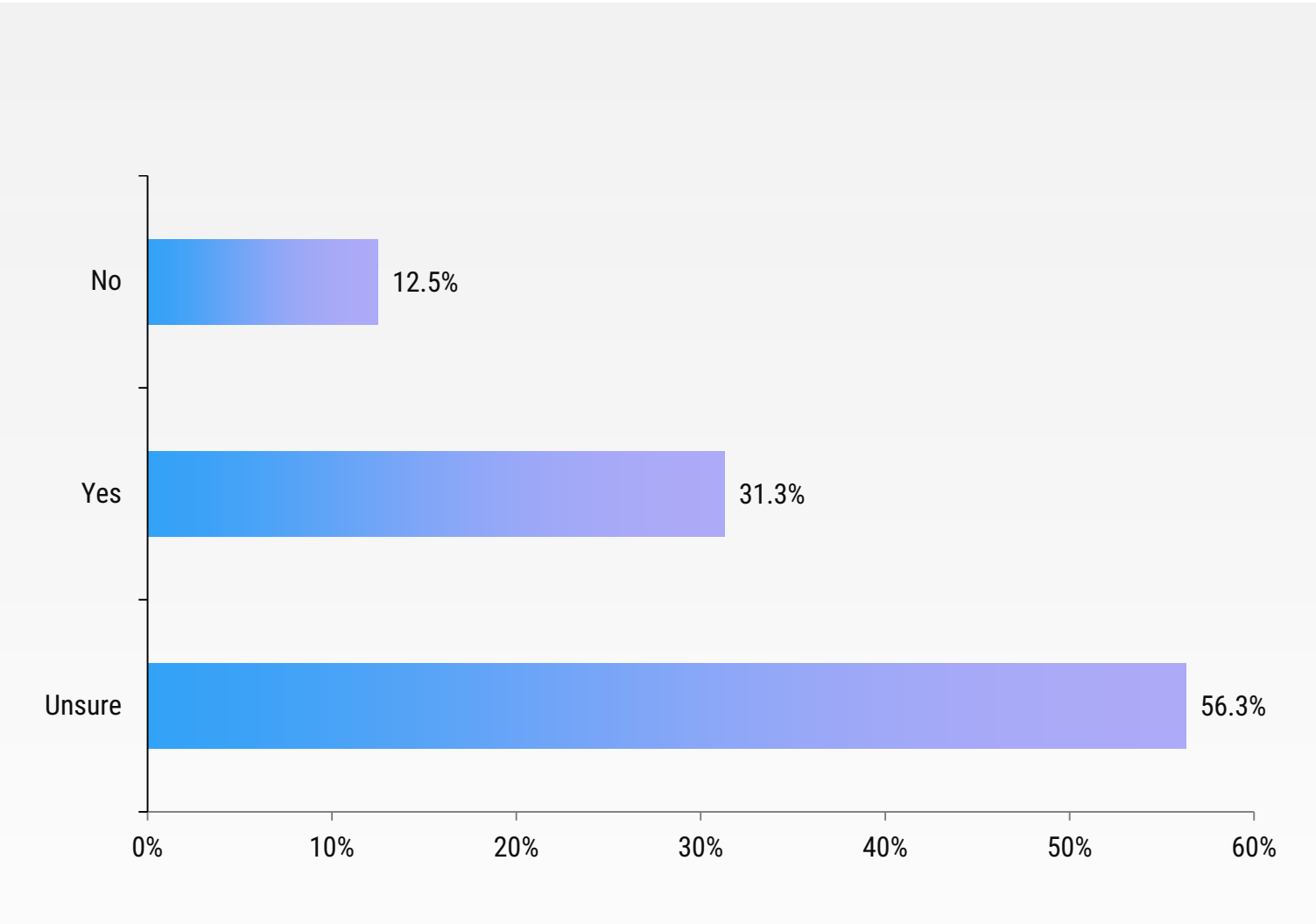
- Office lease deals are generally moving forward if the tenant has an inflexible move date, but 45% of transactions are on hold and another 35% are proceeding with delays. Asset owners eager to boost occupancy may find that those tenants are willing to engage at the right price, and that outreach now can fill a void in the market.
- Planning, design and permitting for leases already signed is proceeding for 84% of respondents, although 67% of respondents cited delays. With remote work continuing and some permitting offices closed, these challenges will persist until the virus is contained.
- The most common accommodation being requested by tenants and offered by leasing teams is rental abatement to be amortized later in the term, with 79% of respondents offering this option. Another common strategy is offering short term renewals for those tenants who are nearing the end of their term (35% of respondents).
- While 40% of respondents are unsure whether they will offer increased concessions, another 35% said they probably will, and 17% said they definitely will. Increasing concessions now to retain existing tenants may be a more attractive option than backfilling space in a time of economic uncertainty.
- More than half of respondents cited uncertainty as the greatest challenge to their business at this time, with 23% citing concerns around collecting rent and 20% citing reduced deal activity. Strategies to address these challenges include approaching tenants early to discuss payment options and pursuing high-quality virtual tours.

OCCUPIERS

3

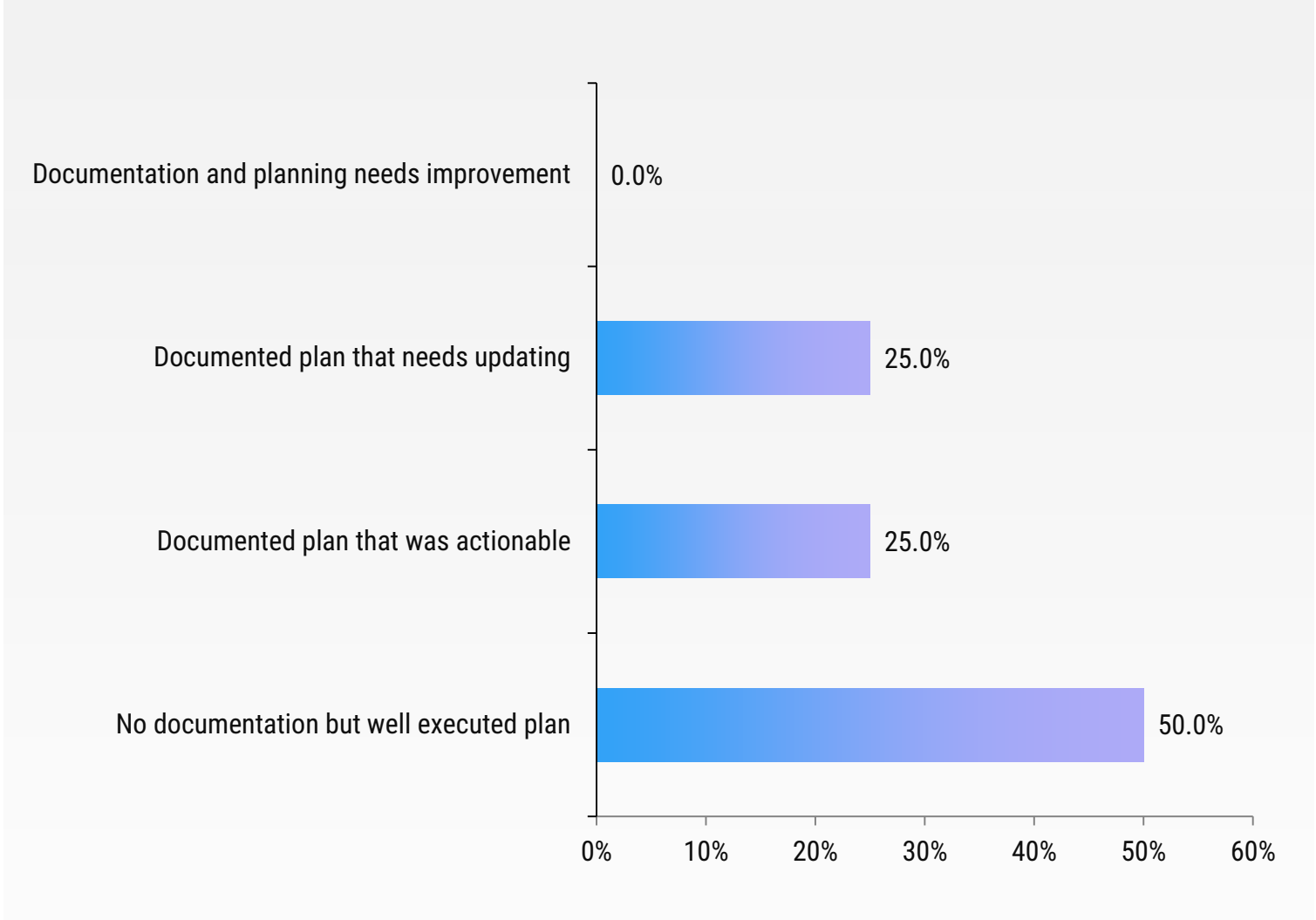
1

As we return to the new normal, it is anticipated that social distancing will become a part of our daily lives, reducing density in our spaces (offices, retail, restaurant, housing, etc.) Is your organization planning to reduce density as you transition back to the new normal?

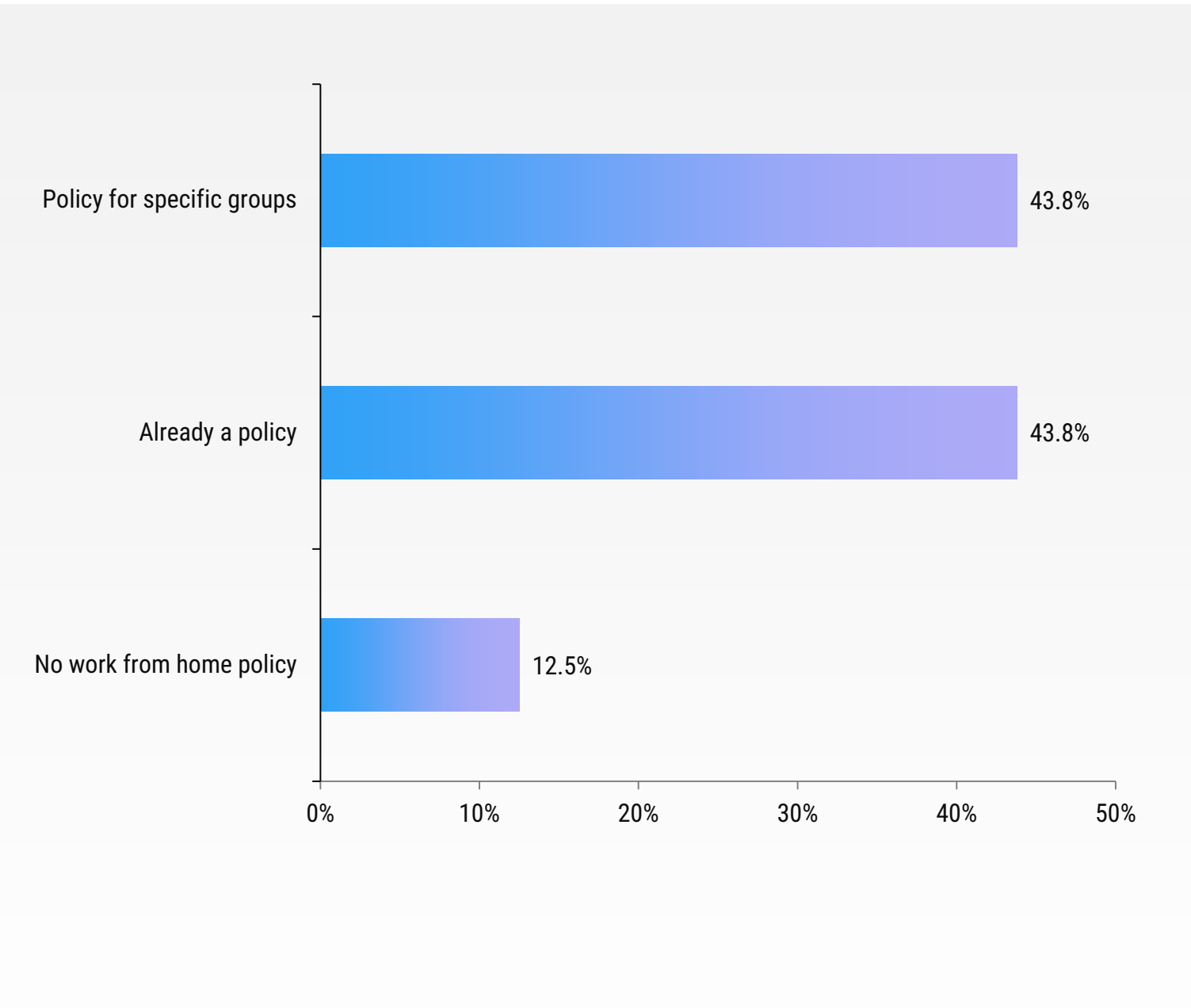


2

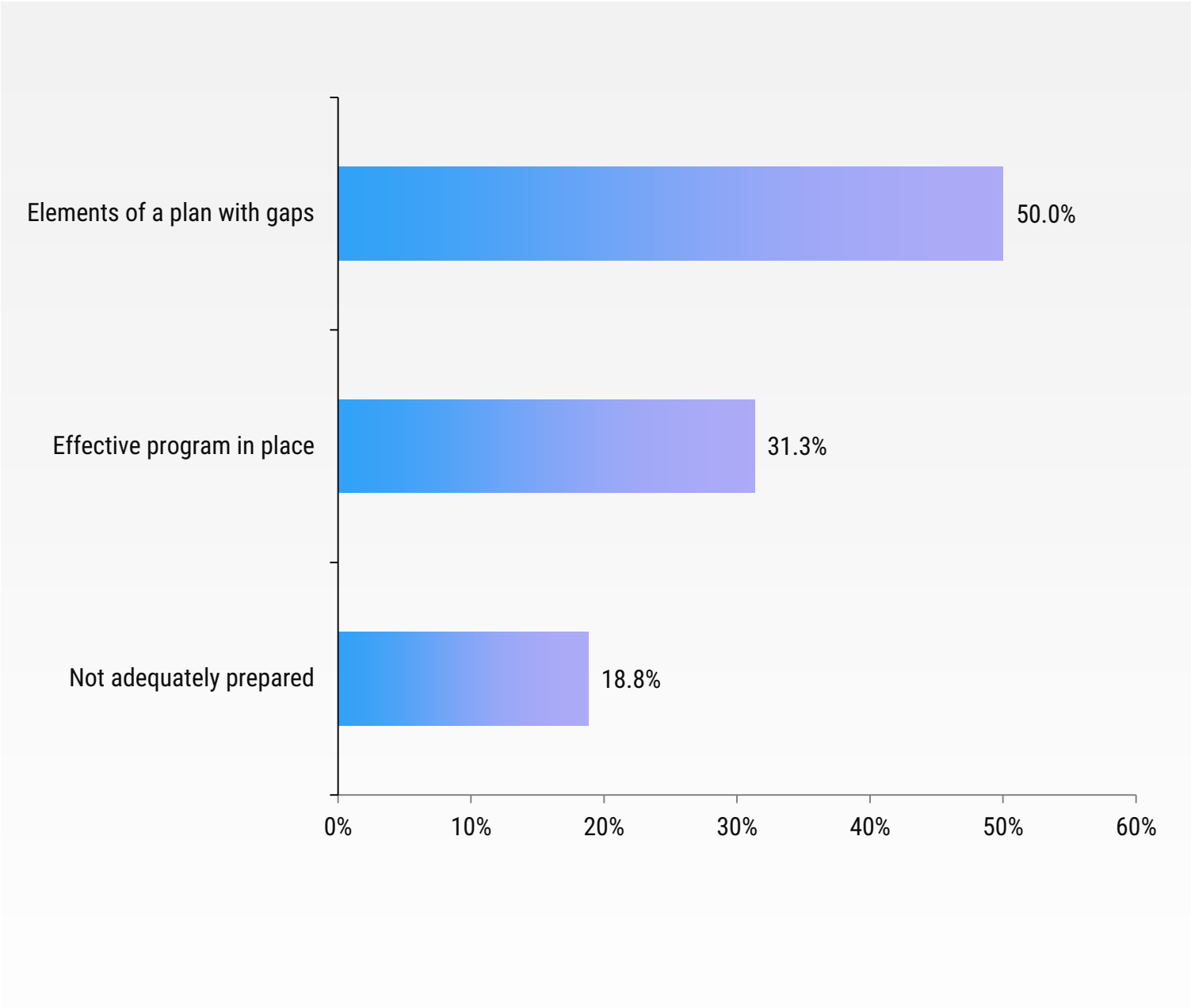
How would you rate your preparedness for deployment of work from home strategies in response to COVID-19?



3 As a result of COVID-19, where do you see work from home strategically?

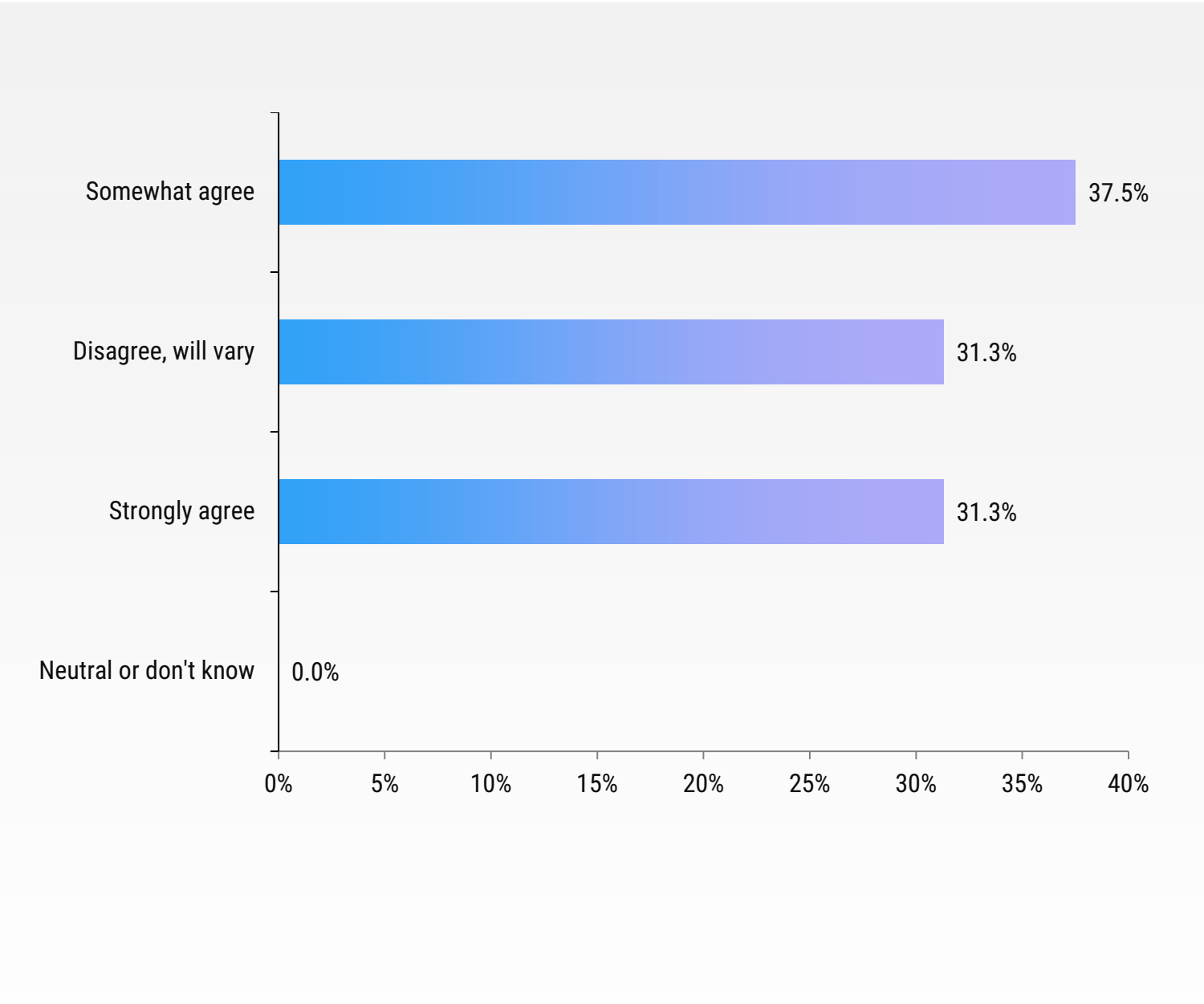


4 Enterprise risk management (ERM) has become a more common and rigorous discipline within companies over the past 20 years. How would you assess your company's ability and capacity to manage the unexpected risks to personnel and operations from COVID-19? Notwithstanding the uniqueness and severity of this particular situation...



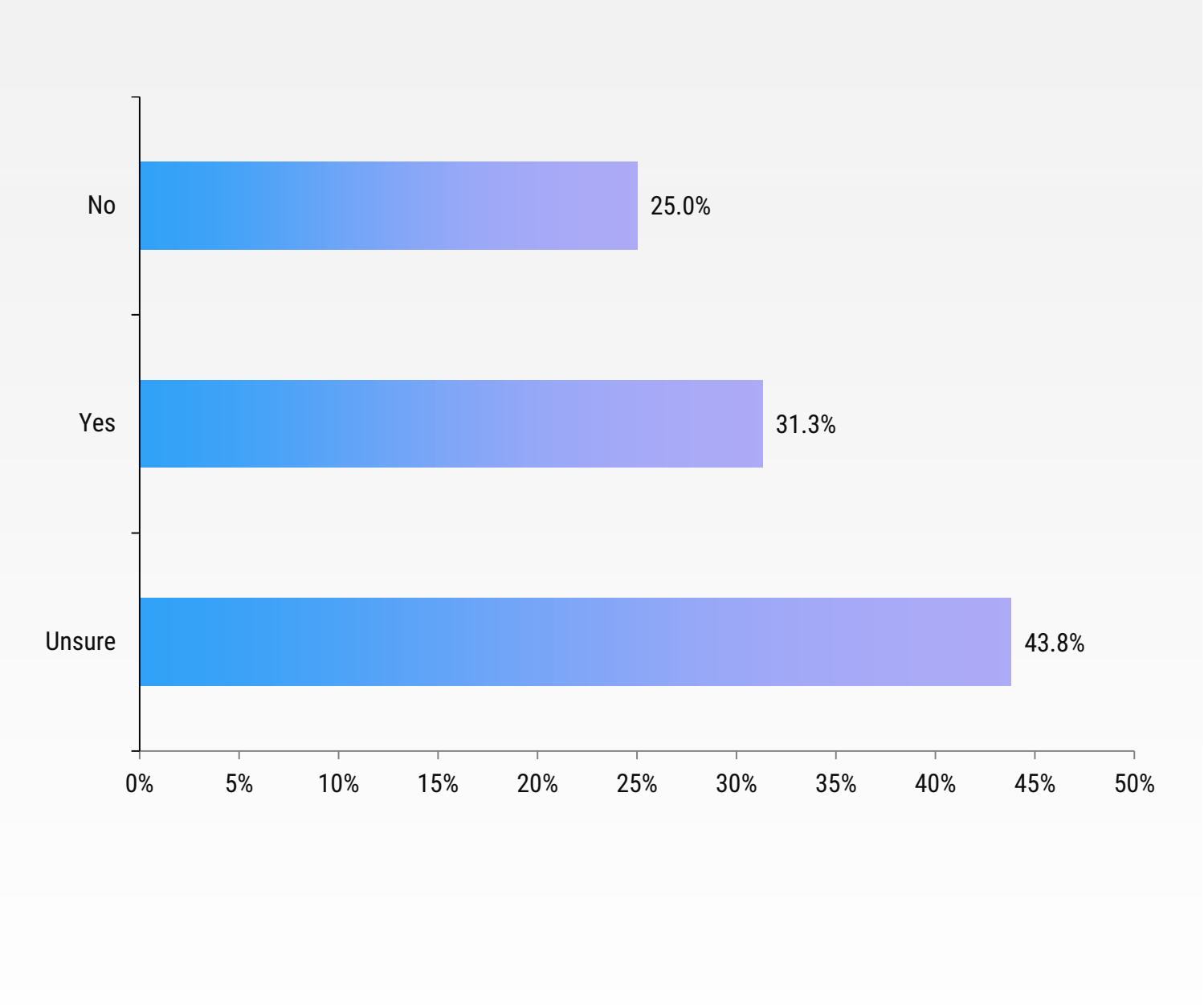
5

In light of current events, is this the time to fundamentally redesign the office workplace from a real estate model to a cloud-based operating model? While investments will be required to improve existing technology and management processes, locational issues such as economic incentives, cost of real estate, and the location and cost of labor evaporate. Organizations can assemble the ideal team regardless of their physical location.

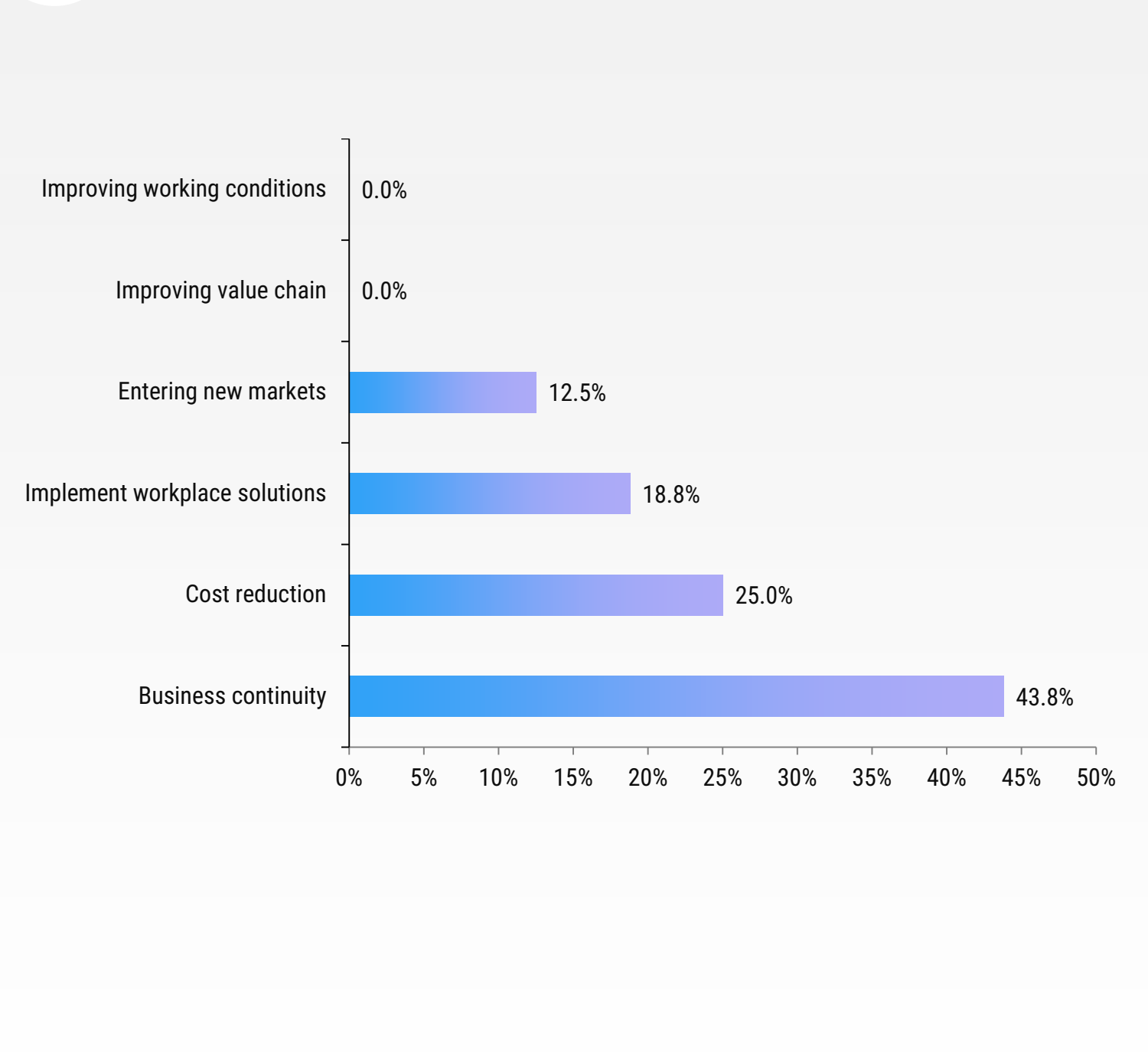


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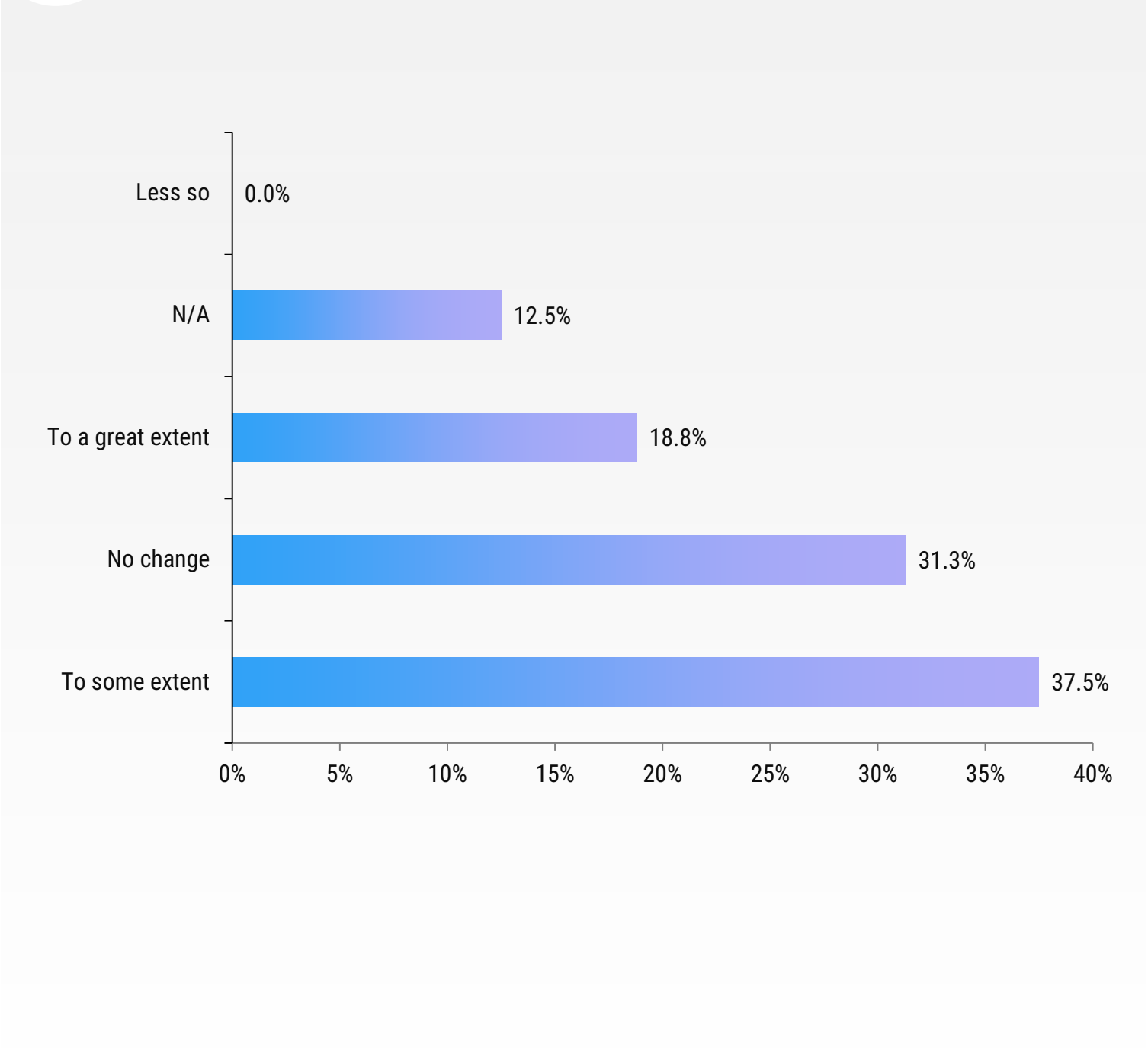
Will your company have the opportunity to participate directly in the \$500 billion CARES Act stimulus grants?



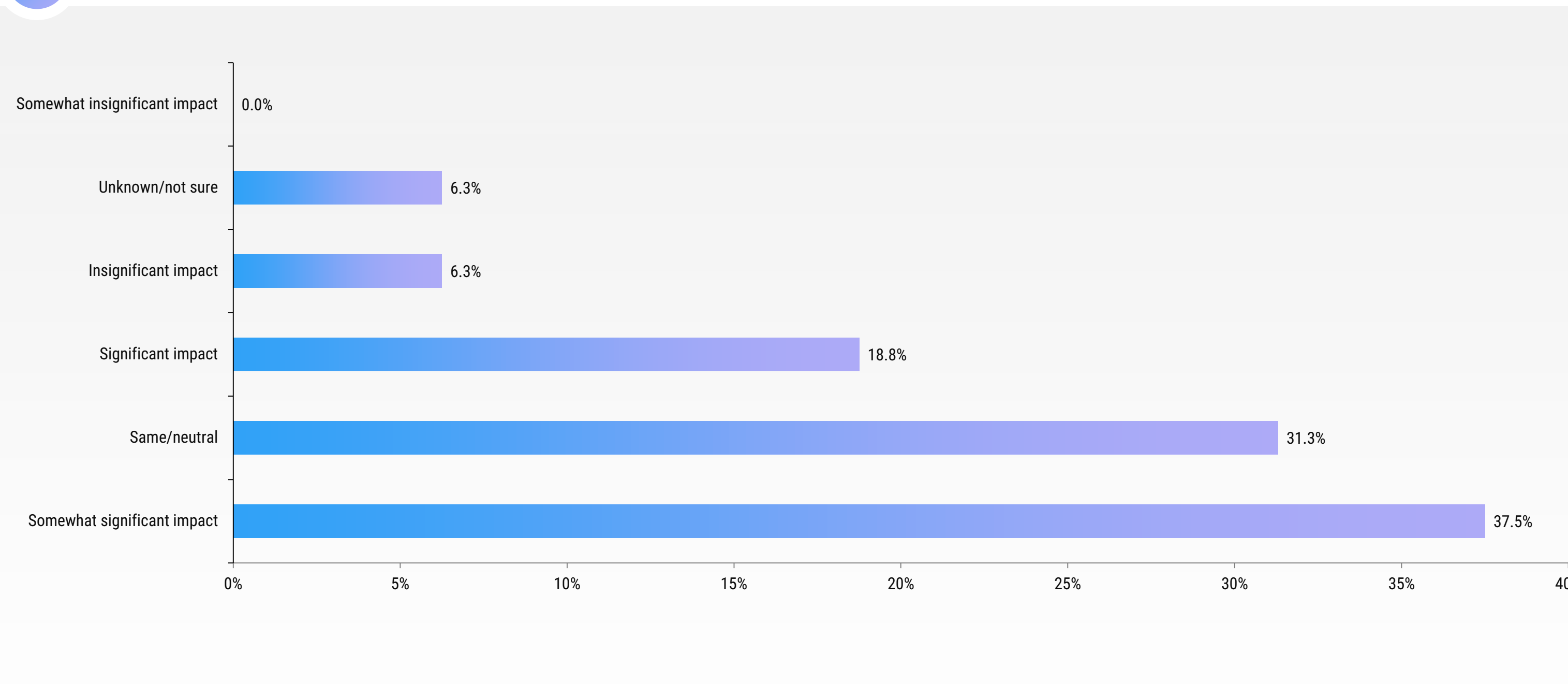
7 What will be the primary driver within your organization to face the new economic environment?



8 Technology in the workplace: To what extent will the COVID-19 event accelerate your investment in artificial intelligence, robotics, automation, machine learning, etc.?



9 What is your early opinion on how COVID-19 and its potential lasting effect will have on how your company’s backshoring/nearshoring facility location decisions are made?



IMPLICATIONS FOR OUR CLIENTS

OCCUPIERS

- While 31% of occupiers say they plan to reduce density when conditions return to a new normal, 56% are unsure, suggesting it may be too early in this process to make those decisions.
- 87% of occupier respondents have some form of work from home policy, and 75% of respondents said their remote work strategies have been successful. It appears occupiers are well-equipped for business continuity, which was listed as a primary driver for facing the new economic environment. Similarly, 81% of occupier respondents had some form of enterprise risk management in place, although 50% note their plan had gaps.
- 31% of occupier respondents plan to participate in the CARES Act stimulus grants, with another 44% unsure. Opportunities to take advantage of grants may be available for some occupiers. Please see NKF's [COVID-19 Perspectives web page](#) for more on the CARES Act.
- 56% of respondents said this COVID-19 event will accelerate their investment in technology in the workplace.
- 56% of occupier respondents said the COVID-19 event will have an impact on backshoring/nearshoring facility location decisions, with 19% noting it will have a significant impact.

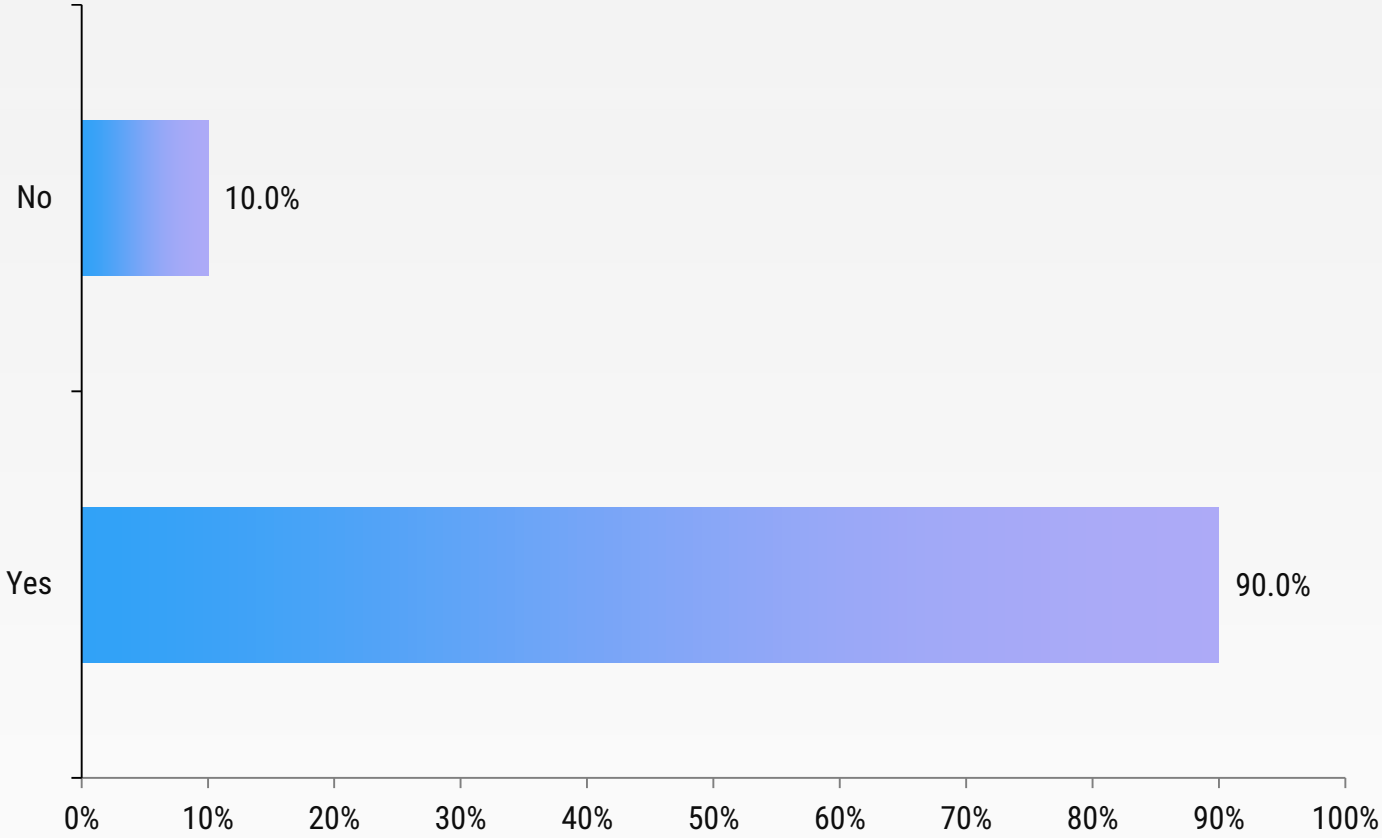
MULTIFAMILY CAPITAL MARKETS

4

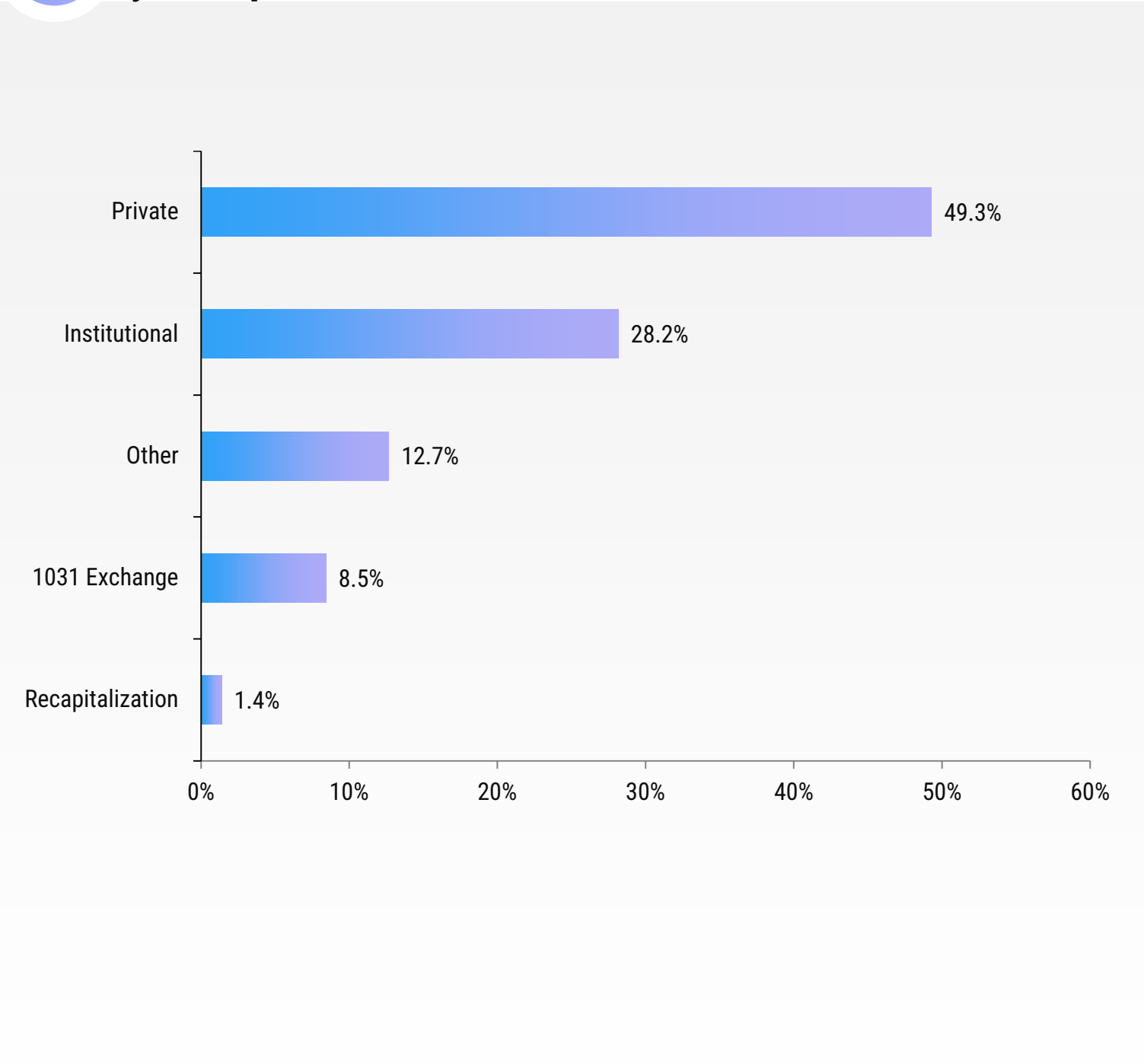
1 If you are continuing with acquisitions, how are you handling site inspections, on-site operations and work orders?

- **Acquisitions:** More than 50% of respondents indicated they intend to pause temporarily, with most indicating they would begin moving forward once shelter-in-place orders and lockdowns are lifted.
- **Due Diligence/On-Site Operations:** Approximately 20% of respondents indicated they would continue with modified due diligence efforts on a case-by-case basis. Regarding on-site inspections and operations, many of the same respondents indicated those are being conducted remotely or virtually, all with proper protection and social distancing practices in place.
- **Work Orders:** The majority of respondents indicated they were only executing on emergency repairs in units.

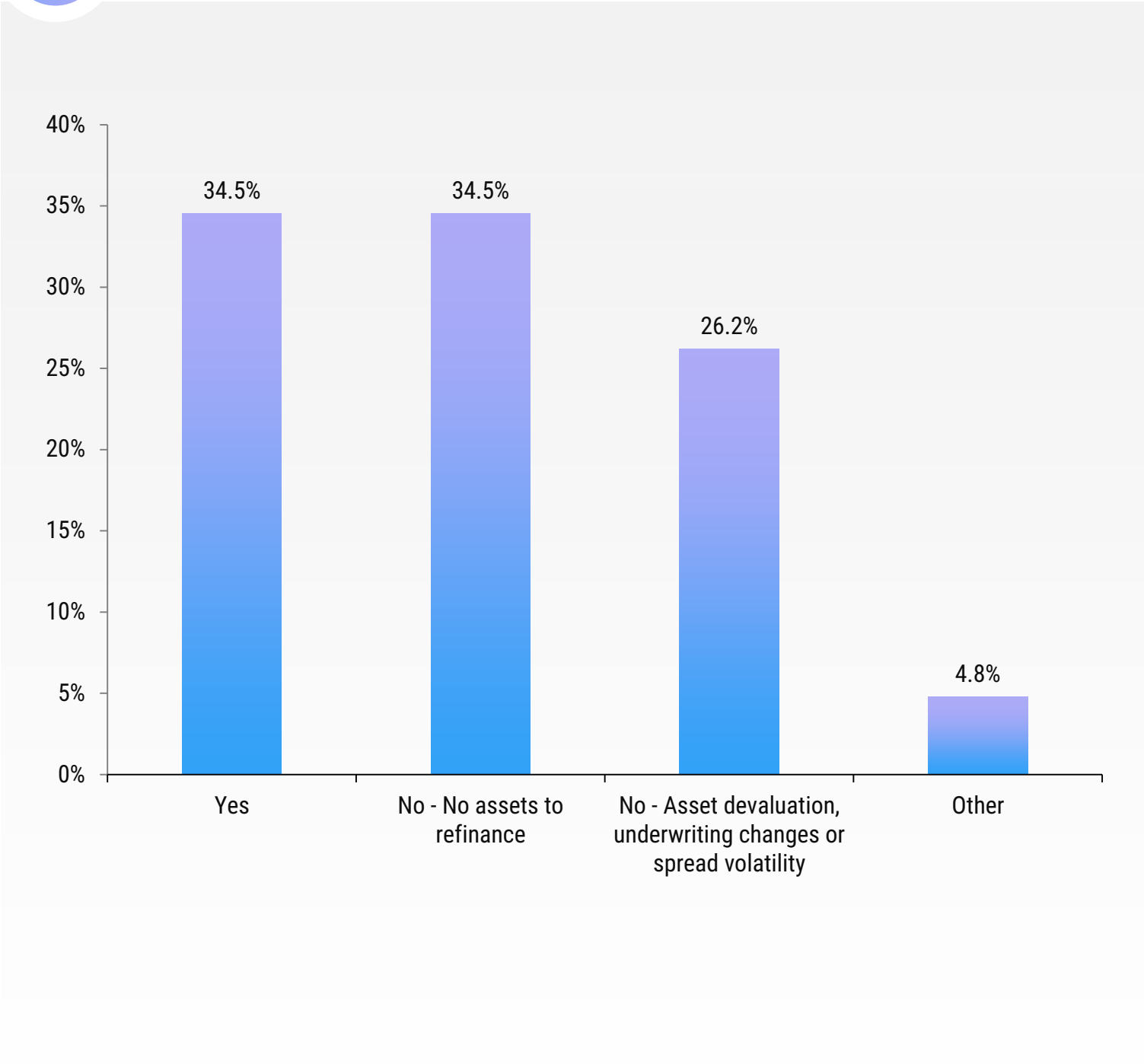
2 Are you continuing with development projects under construction?



3 If you are in the market to acquire, what is the nature of your capital?



4 Are you looking to refinance existing debt?



IMPLICATIONS FOR OUR CLIENTS

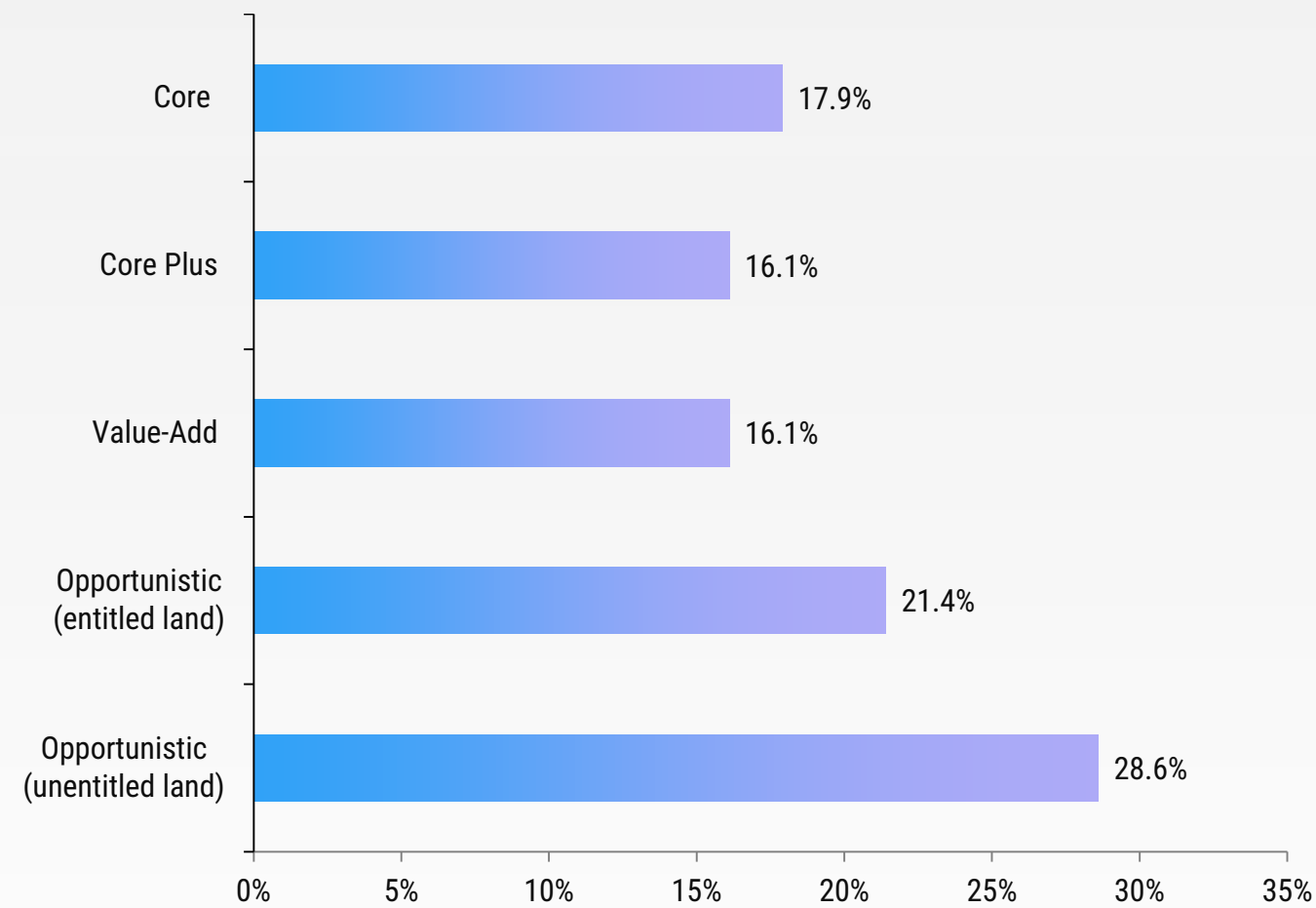
MULTIFAMILY CAPITAL MARKETS

- Anecdotally, even in this challenging environment, quotes, rate locks, and closed financings are happening.
- A significant portion—90%—of development projects under construction are still proceeding, with only 10% stopping work. The share of projects that are stopping could be a result of construction moratoriums in some cities. These projects that are proceeding could be halted at any time by local governments should conditions worsen. However, a pause in deliveries could mitigate some immediate oversupply concerns in some markets.
- Fannie Mae and Freddie Mac remain committed to providing liquidity and stability to the multifamily market. Each have implemented revised underwriting requirements to include debt service reserves and revised forbearance programs to comply with the CARES Act.
- Nearly half of the capital in the market to acquire is private, with 28% institutional. There is plenty of dry powder on the sidelines waiting for deals, suggesting robust market activity will resume once the virus is contained.
- NMHC has also launched its Rent Payment Tracker which tracks rent collections on a weekly basis. The first report, which tracks April rents through April 5th, saw a 12 percentage point decline in collections over previous periods.
- Many clients also shared an interest in getting first look at any deals that have fallen out of contract or are coming to market.

INDUSTRIAL

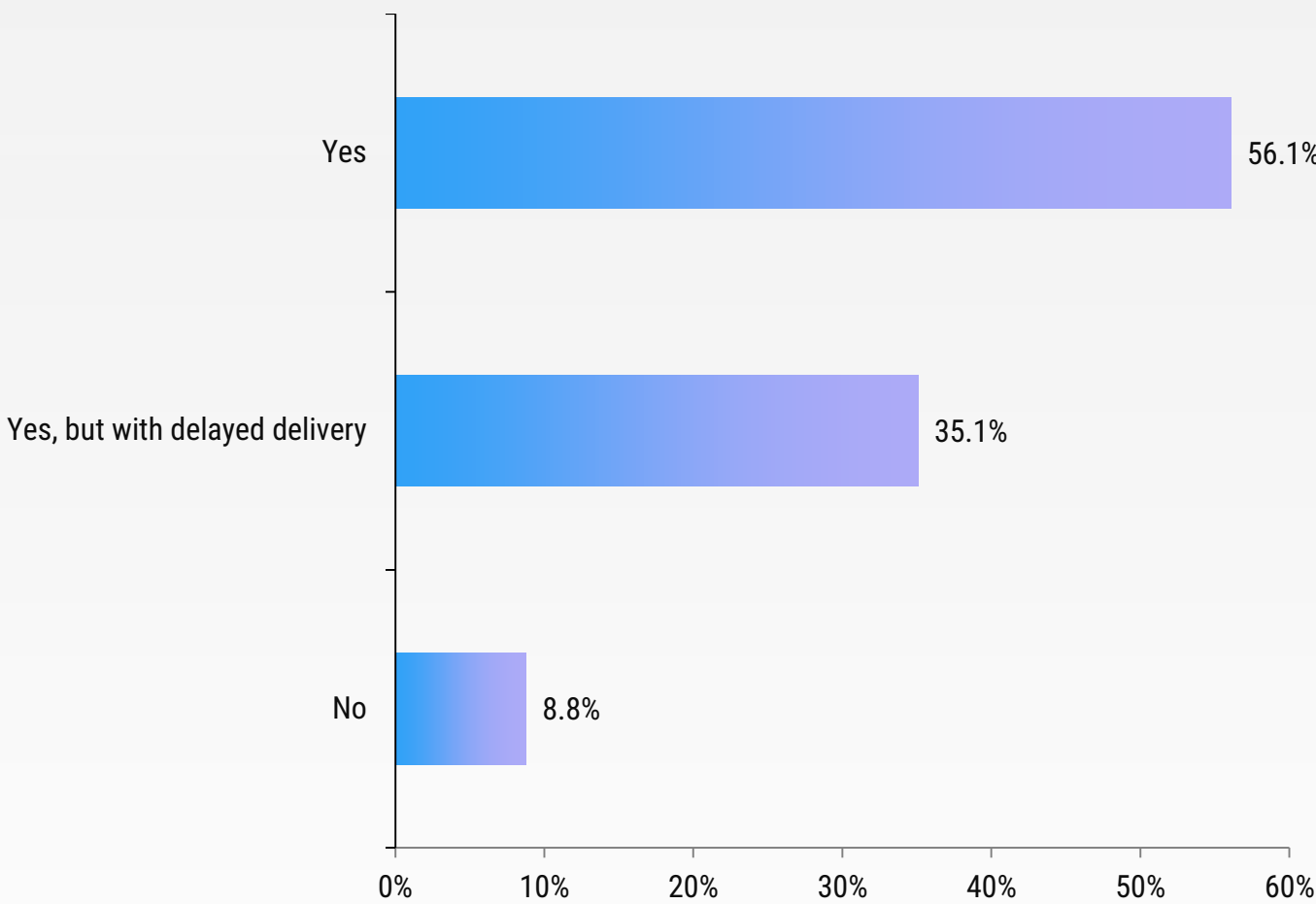
5

1 What investment profile are you planning to focus on for the remainder of 2020?

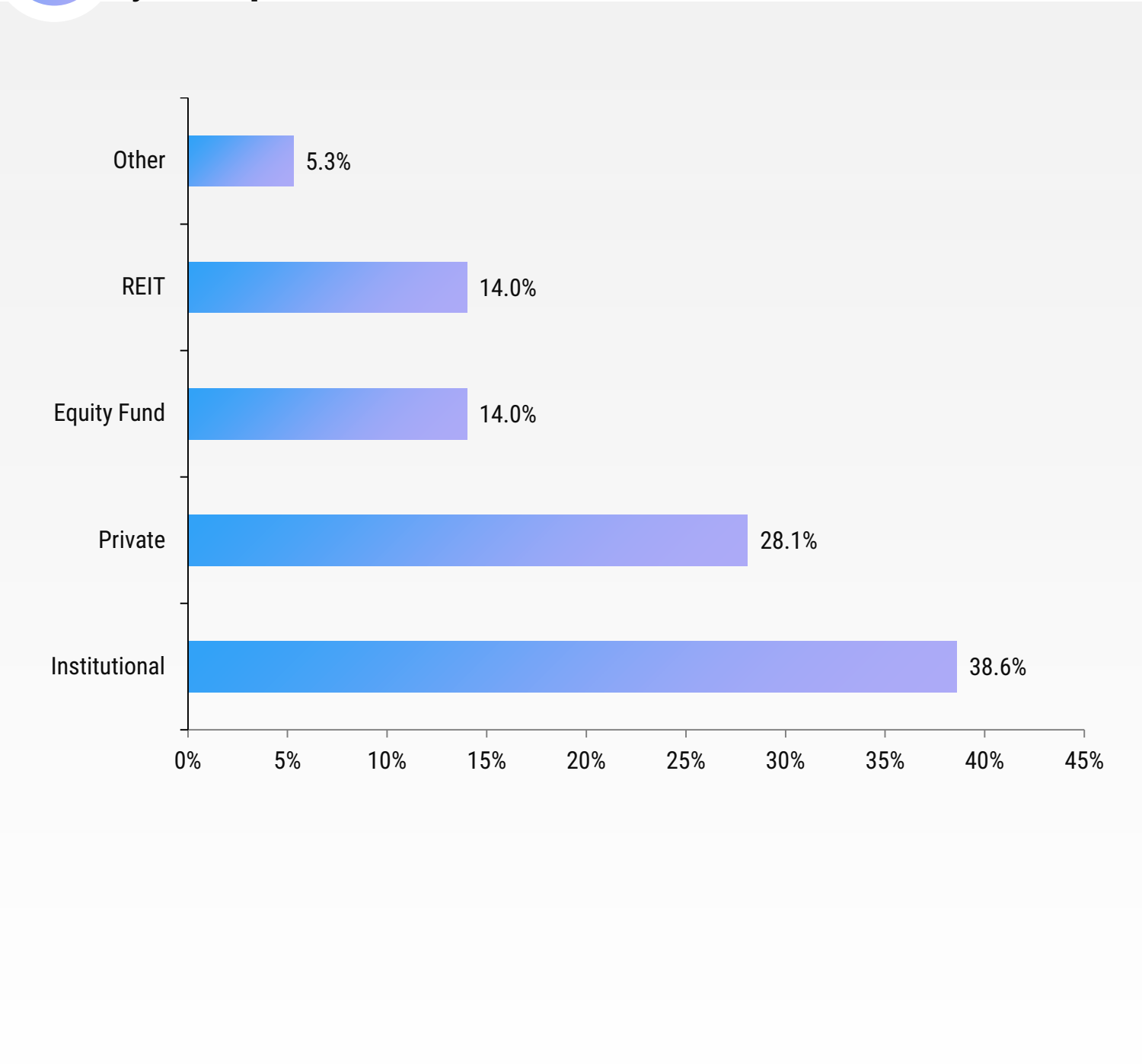


Core Plus defined as medium-term (3-5 year) leases.
Value-Add defined as vacancy/short-term leases.

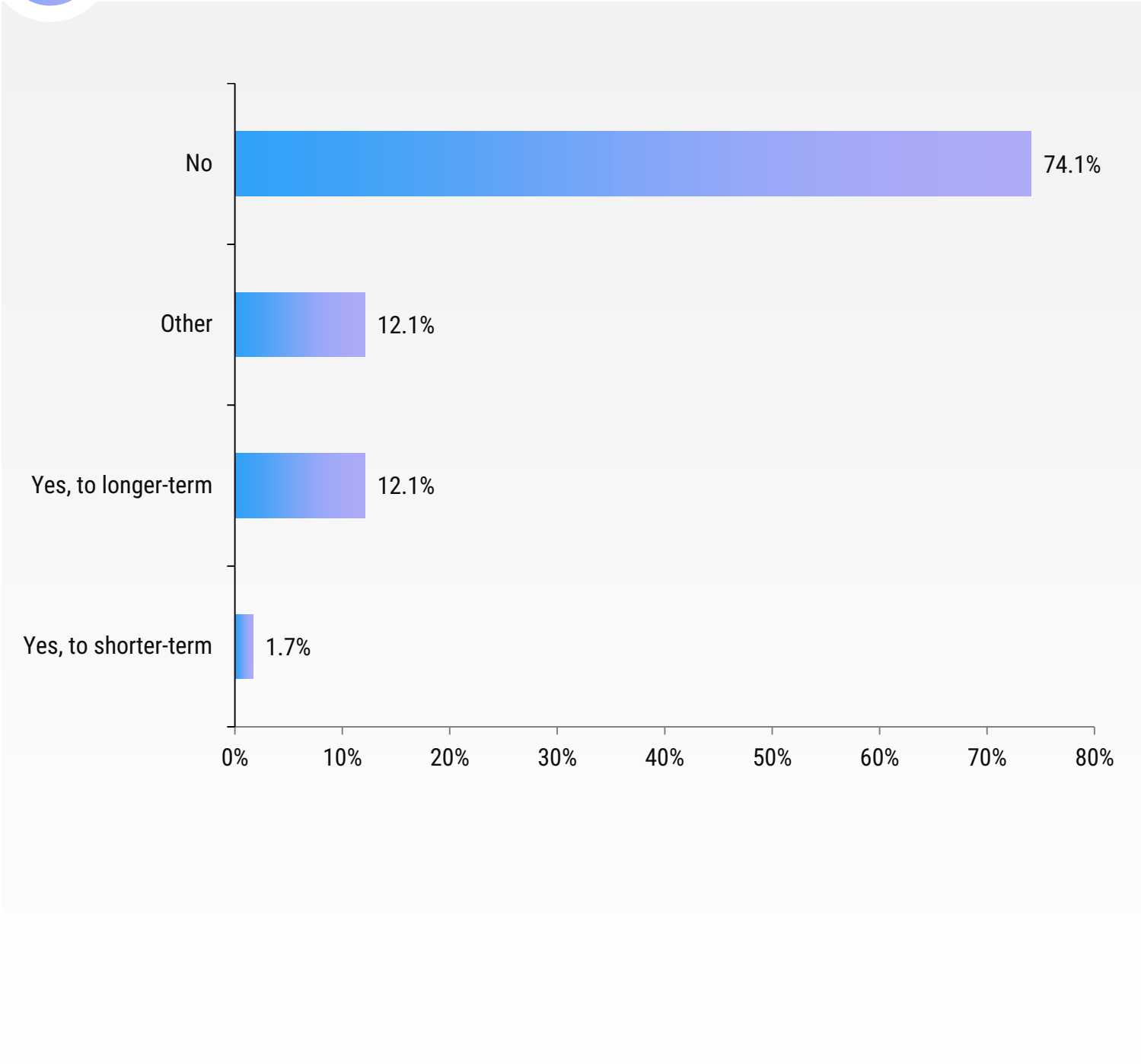
2 Are you continuing to move forward with development projects under construction?



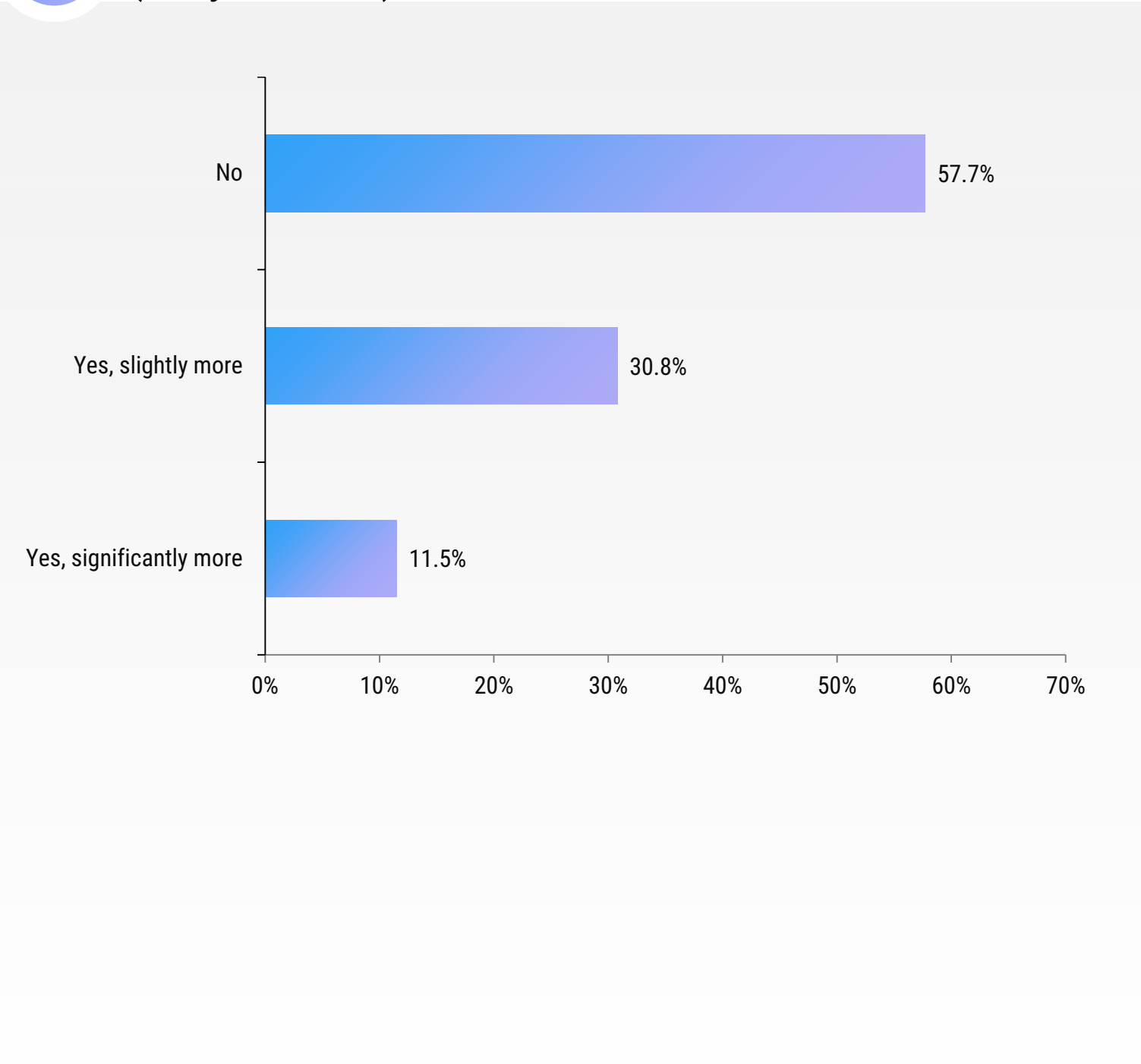
3 If you are in the market to acquire, what is the nature of your capital?



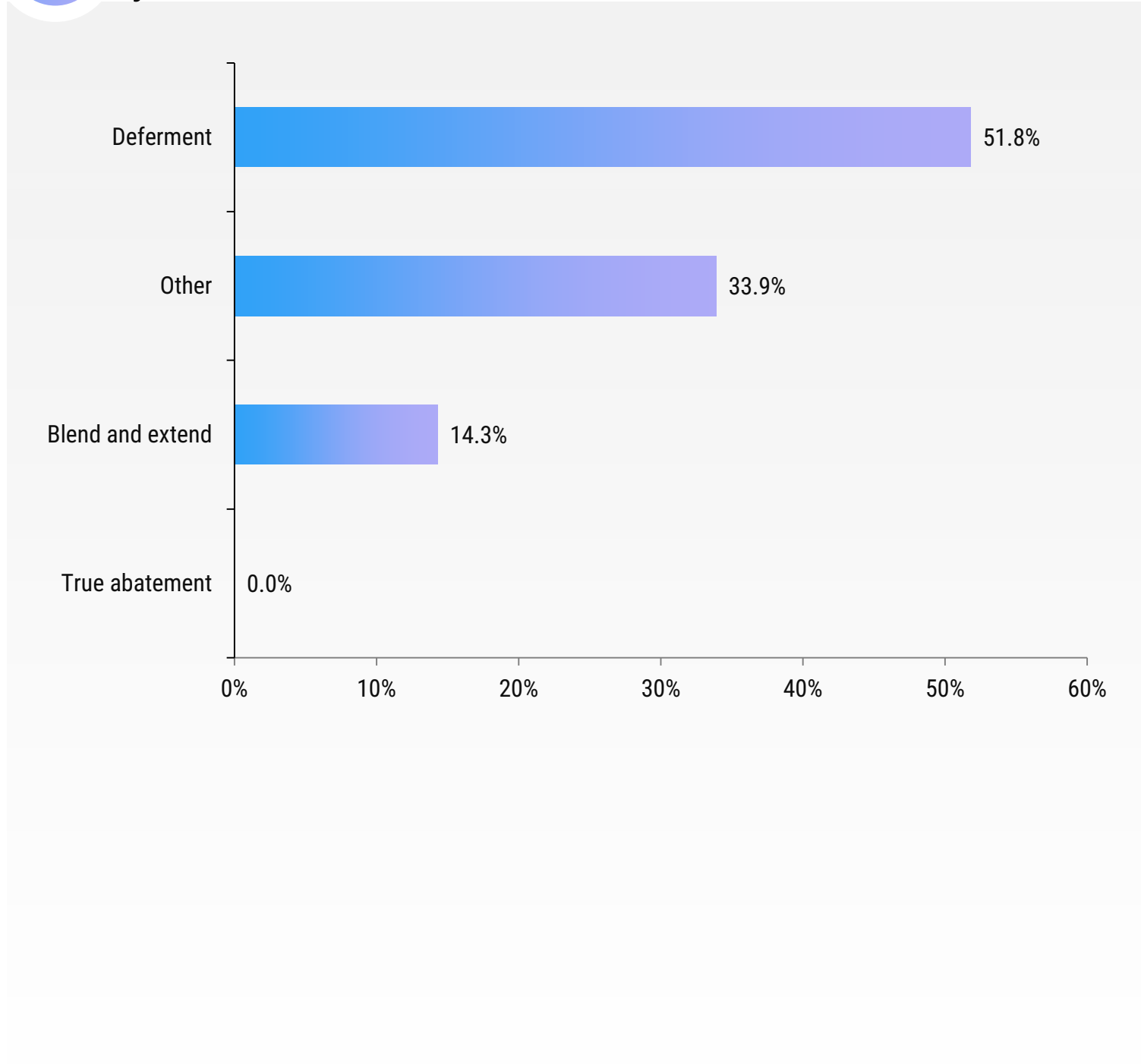
4 Have you shifted your debt strategy?



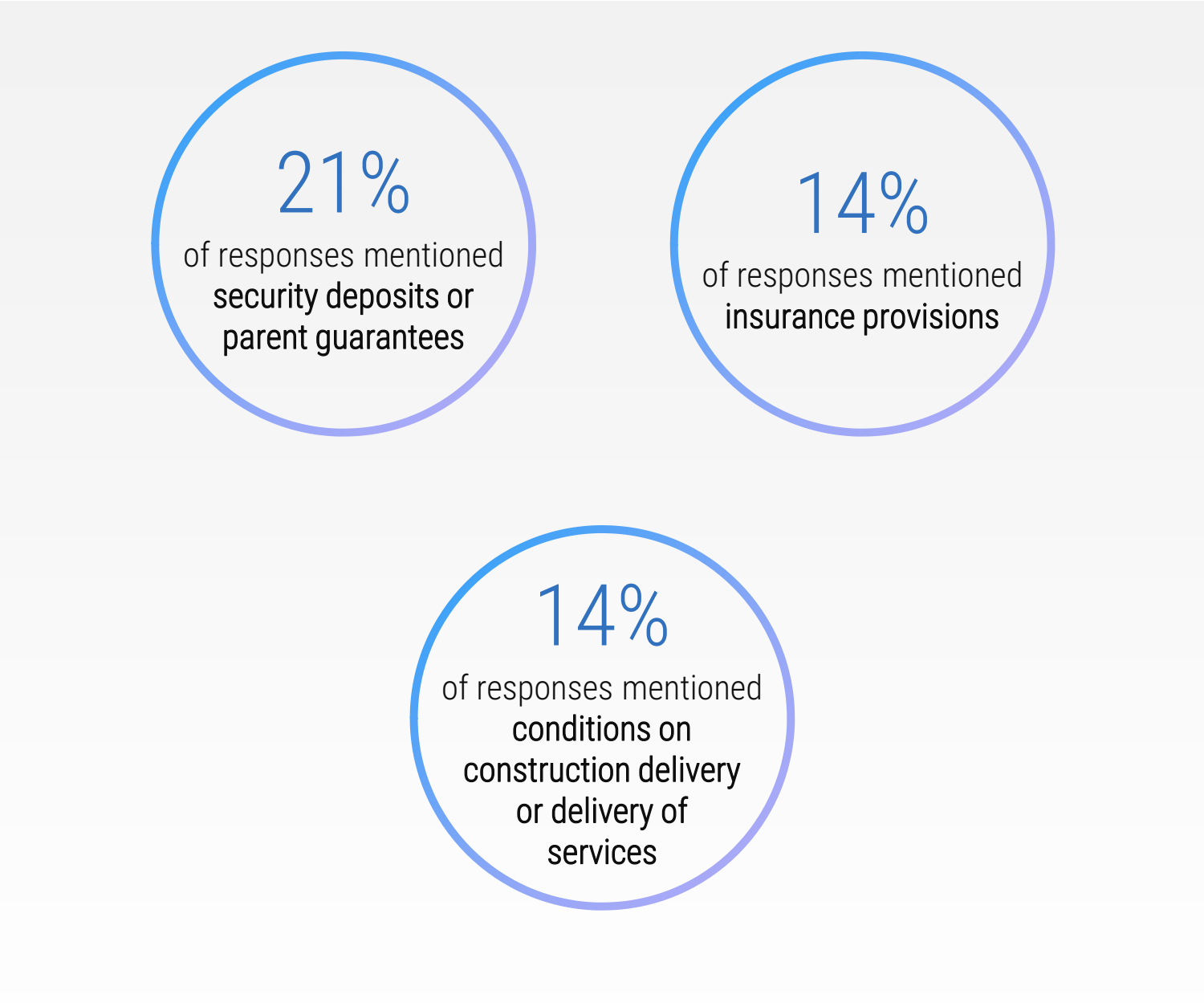
5 Are you seeing an uptick in shorter-term deals (2-3 year terms)?



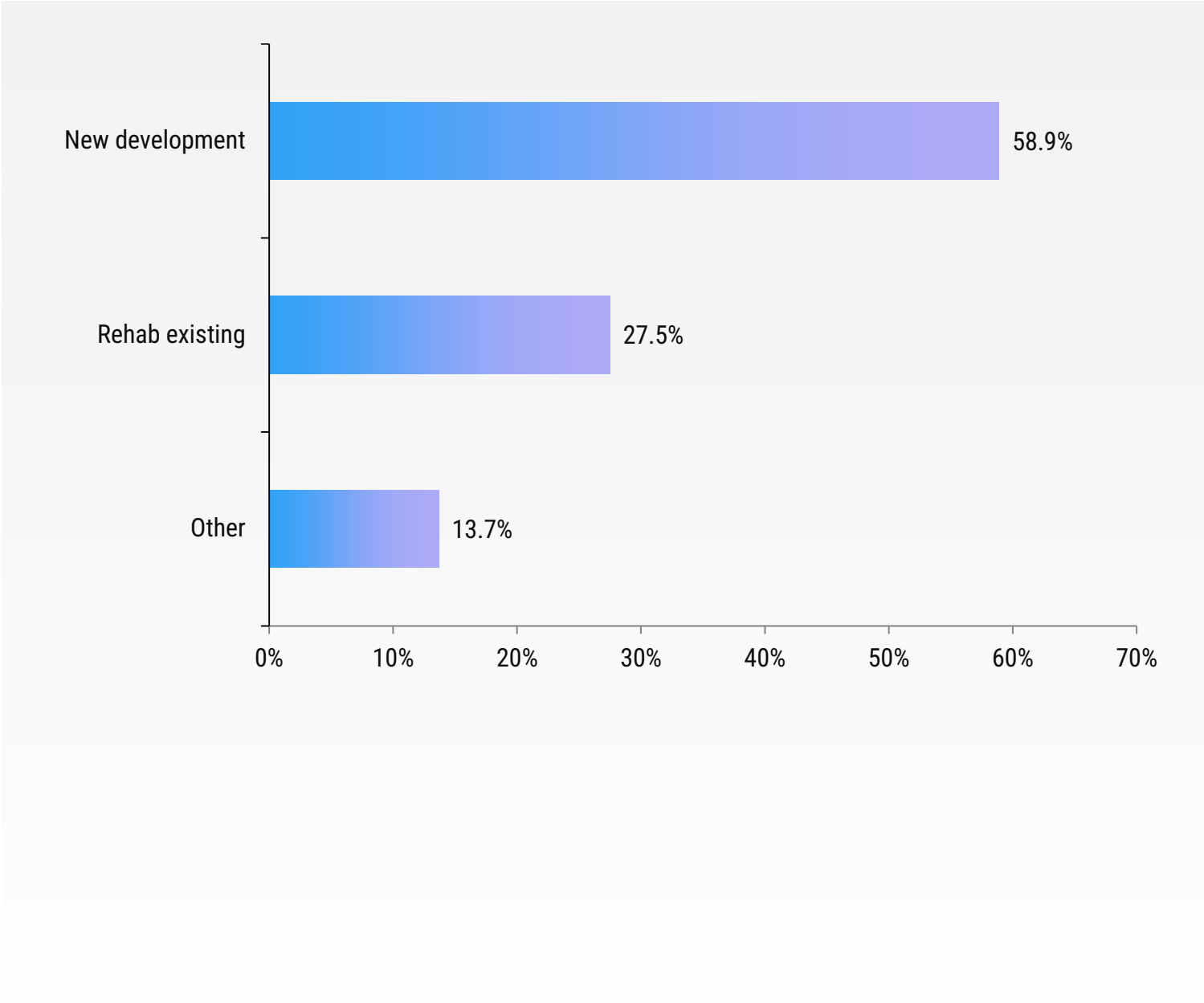
6 How are you managing potential requests for rent relief from your tenants?



7 Other than Force Majeure, what provisions or language in your leases are you reviewing with your attorneys to protect your assets from this pandemic and similar future disruptions?



8 Cold and freezer storage are an undersupplied asset class for industrial; how would you establish the protocol to pursue this type of product?



IMPLICATIONS FOR OUR CLIENTS

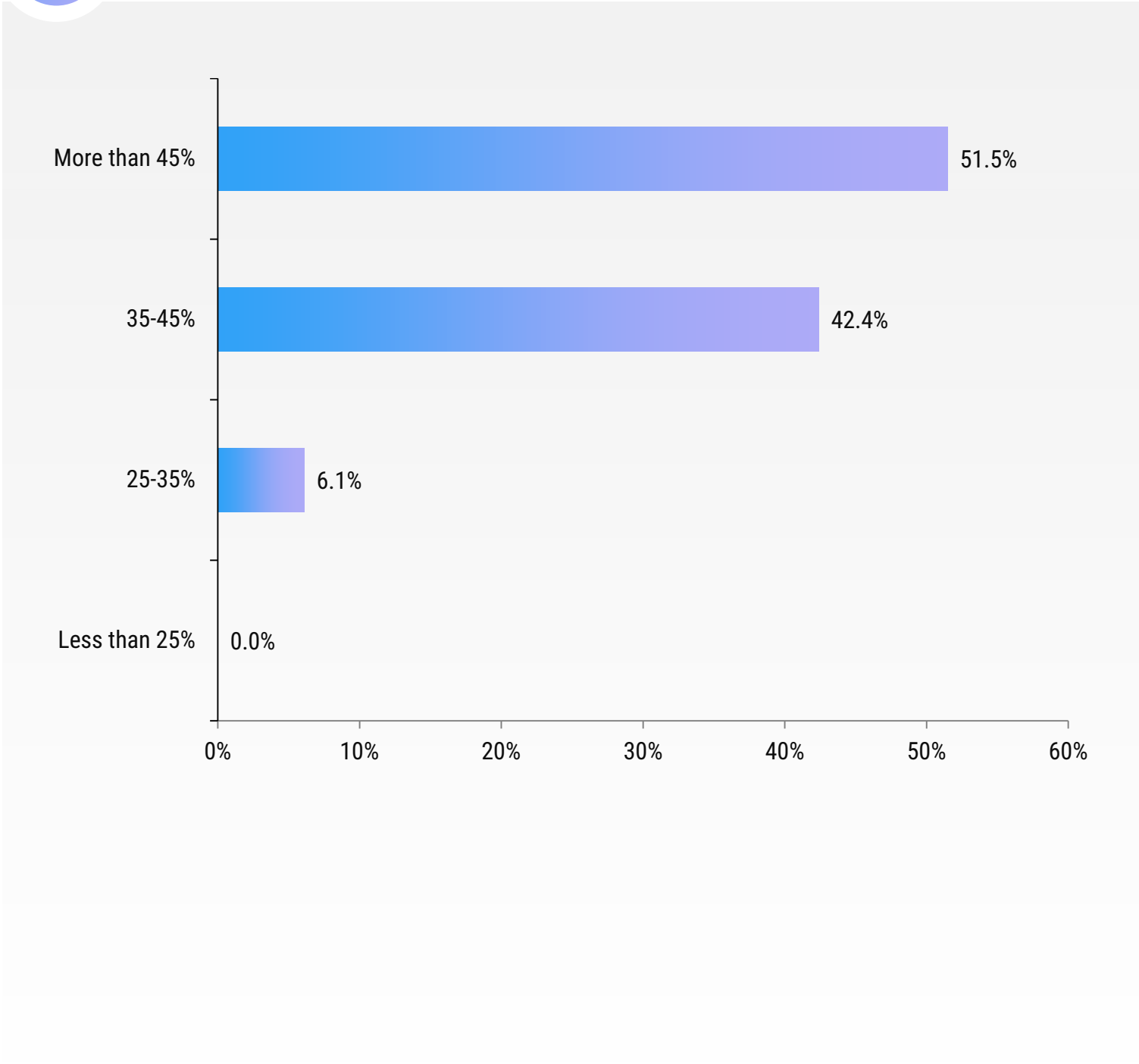
INDUSTRIAL

- Half of investors who responded to the survey plan to focus on opportunistic deals this year. Logistics firms are likely to further evaluate the use of robotics in their activities, possibly leading to new leasing requirements for modern facilities as the industrial sector remains an economic driver in the period ahead.
- According to the survey, a significant portion—91%—of development projects under construction are still proceeding (35% with delayed delivery). The share of projects that are stopping could be a result of construction moratoriums in some cities, and those projects that are proceeding could be halted at any time by local governments should conditions worsen.
- 39% of the capital in the market to acquire is institutional, and another 28% is private. While some deals are currently on hold, the industrial sector has felt less of an impact than other sectors, and more robust market activity is likely to resume once the virus is contained.
- 74% of respondents have not shifted debt strategies to longer-term holds, suggesting confidence that the current downturn will not be prolonged. Further, only 12% of respondents are seeing a significant uptick in shorter-term deals, with 58% seeing no uptick.
- While no respondents are offering true rent abatement, 52% are offering tenants deferment, 14% are offering a blend and extend strategy, and 34% are offering a combination of these, or other options including directing tenants to relief via the CARES act.

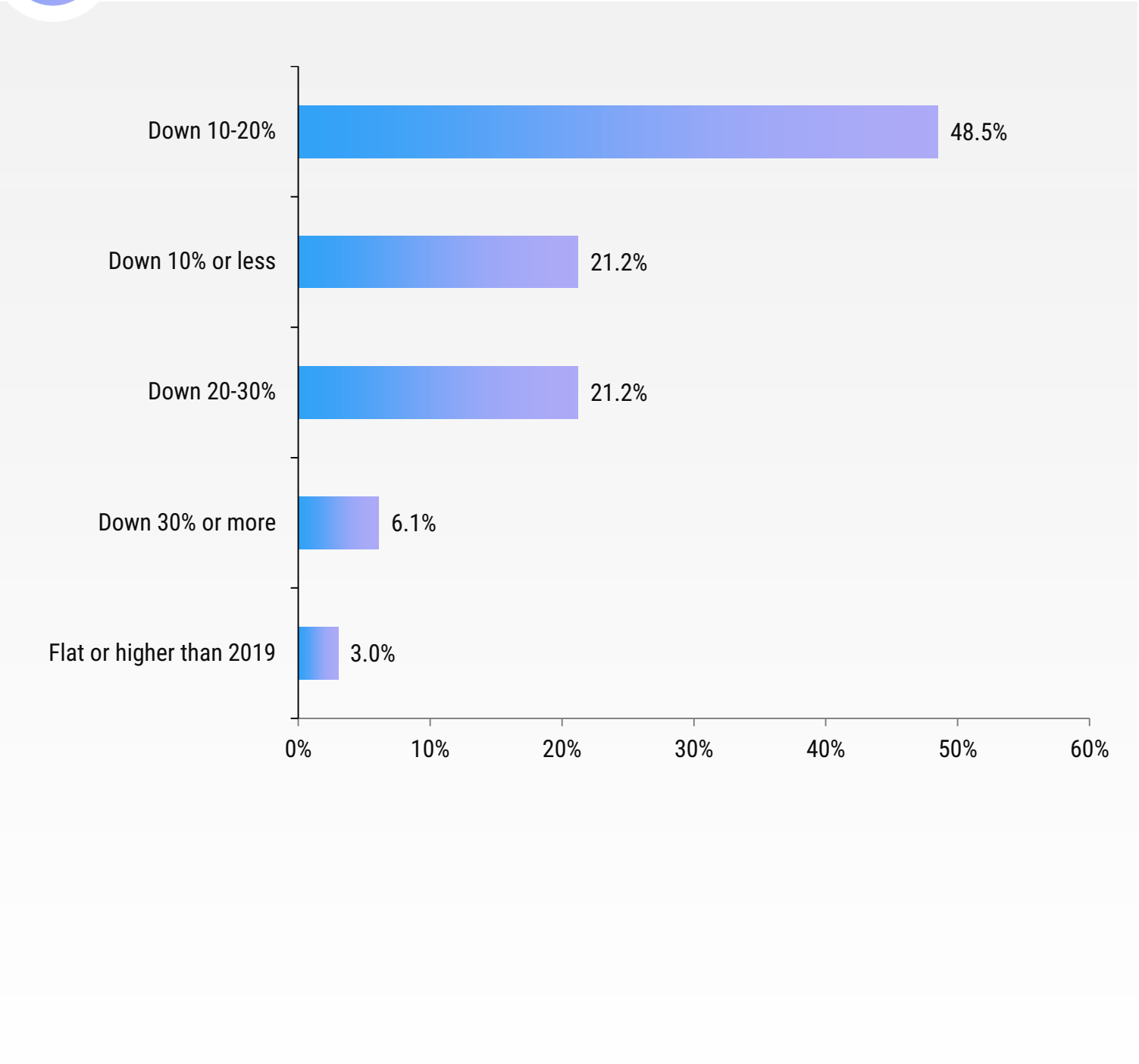
HOSPITALITY

6

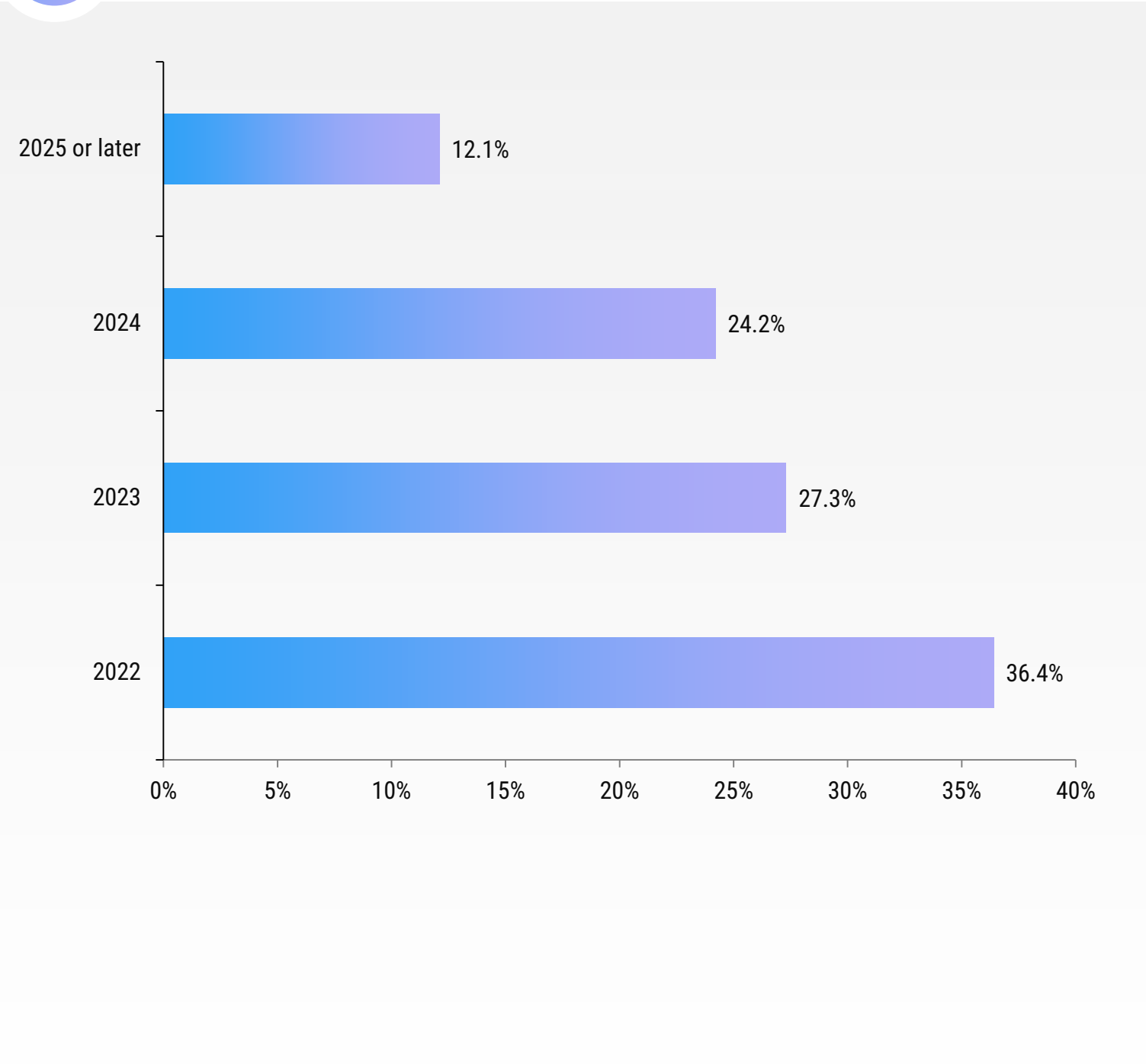
1 What are your estimates for RevPAR declines in 2020?



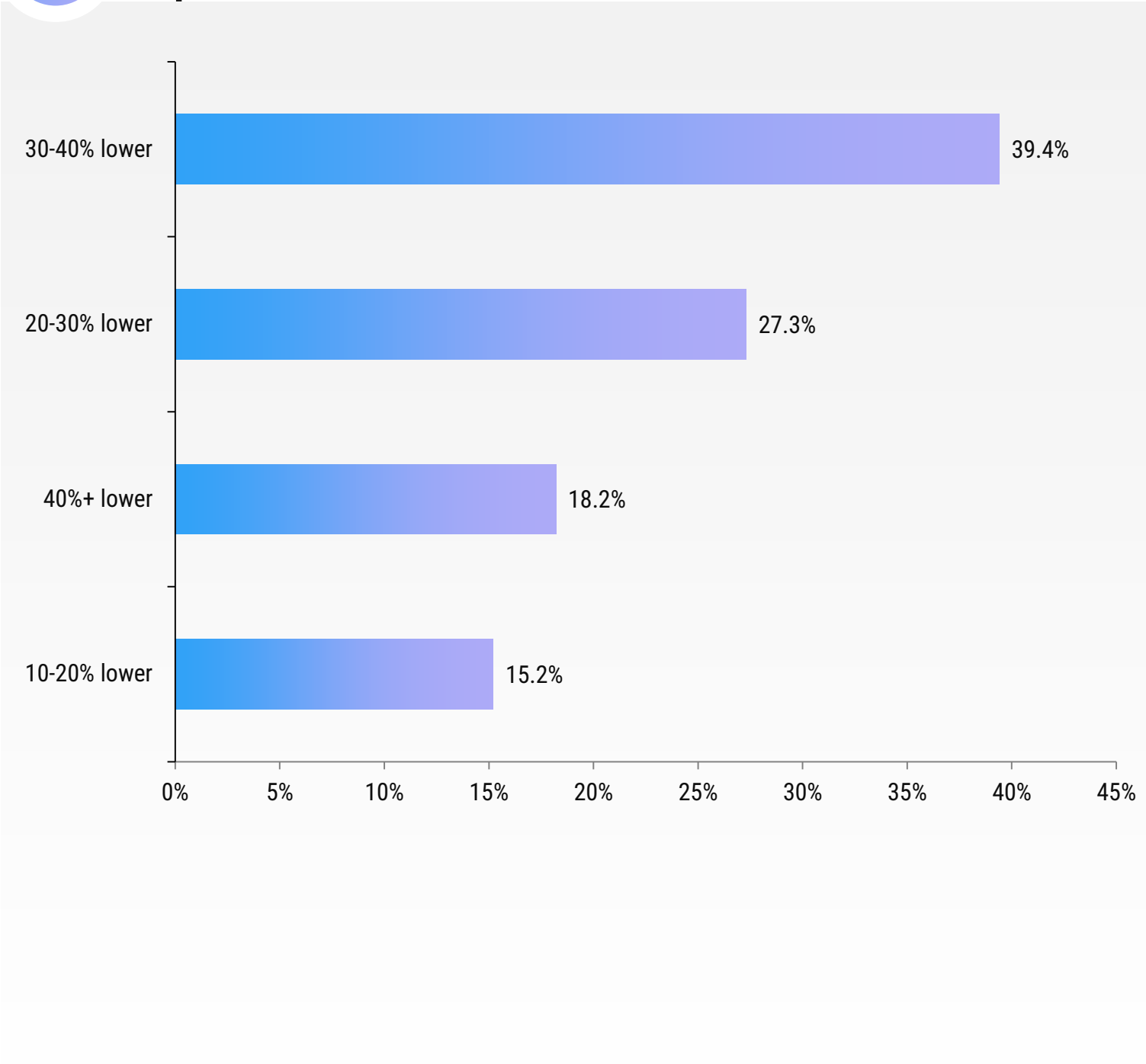
2 What are your estimates for 2021 RevPAR levels as compared to 2019?



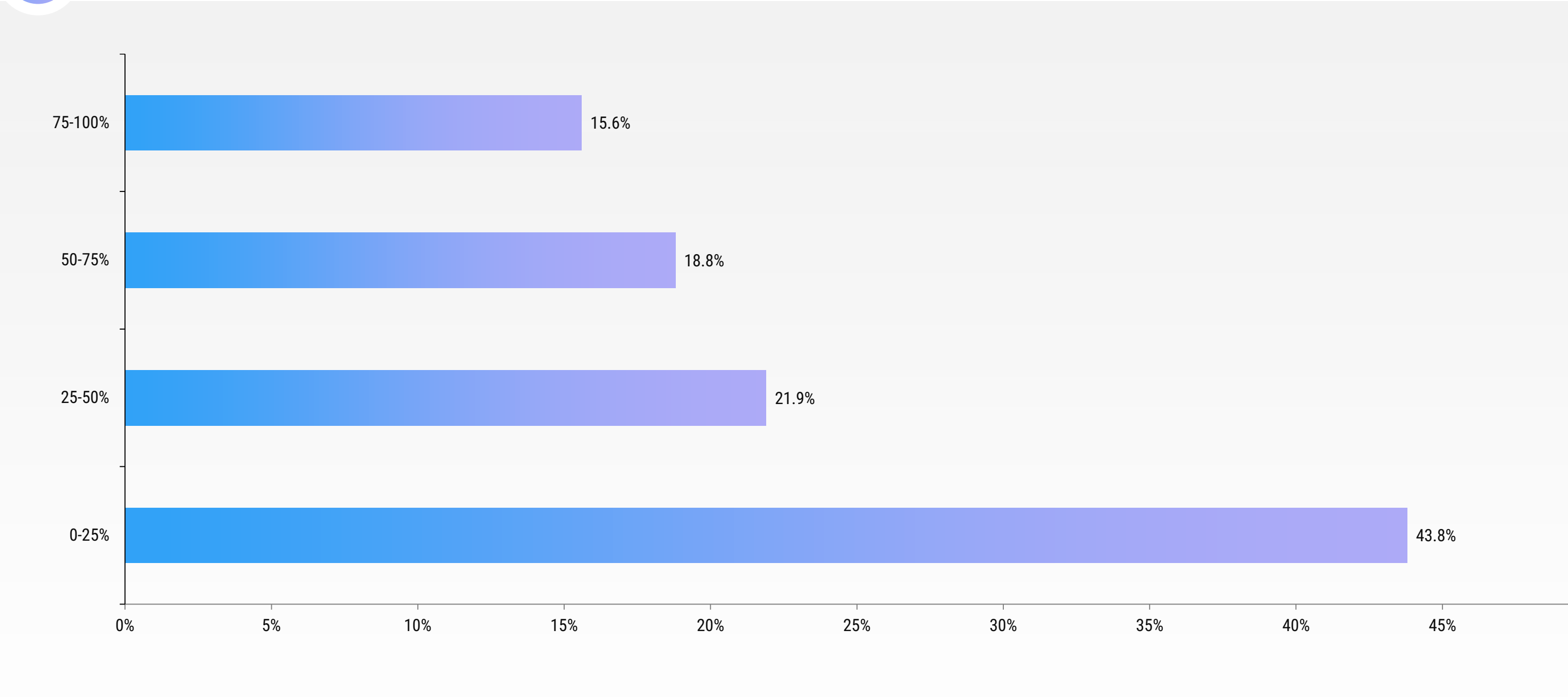
3 When do you think RevPAR and NOI will return to pre-COVID-19 levels?



4 Where do you think spot asset values currently stand relative to pre-COVID-19 levels?



5 What percentage of the hotels that you own and/or operate are closed or will be closing shortly?



IMPLICATIONS FOR OUR CLIENTS

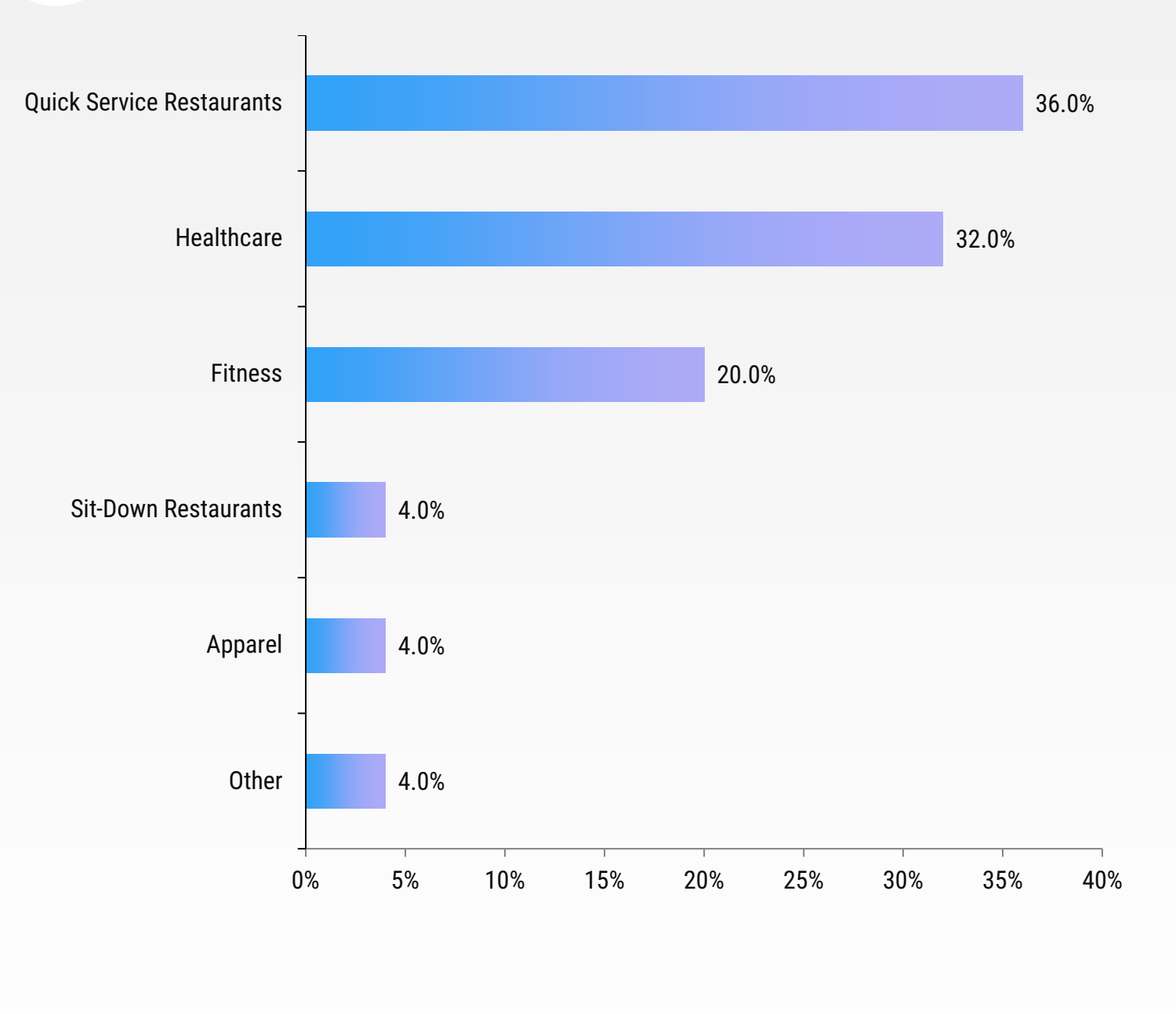
HOSPITALITY

- A significant majority of respondents think RevPAR declines will top 35% in 2020, with 52% of respondents estimating RevPAR will decline more than 45%. Although hotels are enduring substantial disruption to their business, lodging is likely to experience a material bounce in demand once the outbreak has been contained. Almost half of respondents estimate RevPAR levels in 2021 will be only 10-20% lower than 2019, reflecting confidence that demand will rebound next year. Similarly, a plurality of respondents (36%) estimate that RevPAR will return to pre-COVID-19 levels by 2022.
- There has been a gradual resumption of economic activity and hotel market recovery following the containment of the coronavirus in China. Mainland China's daily hotel occupancy reached an absolute level of 31.8% on March 28, up from a low of 7.4% during the first week of February. Smith Travel Research now shows that 87% of the hotels in its Mainland China sample are open for business after a majority of properties had closed over the previous two months.
- 39% of respondents estimate that spot asset values are currently 30-40% lower than pre-COVID-19 levels. Investors may find that asset pricing falls to attractive levels in some markets, with significant upside available as demand returns once the crisis has passed.
- While the share of hotels that are closed or will be closing varies widely among respondents, a silver lining for the hospitality sector is that downtime offers a rare opportunity to renovate, although cash and financing may be hard to come by.

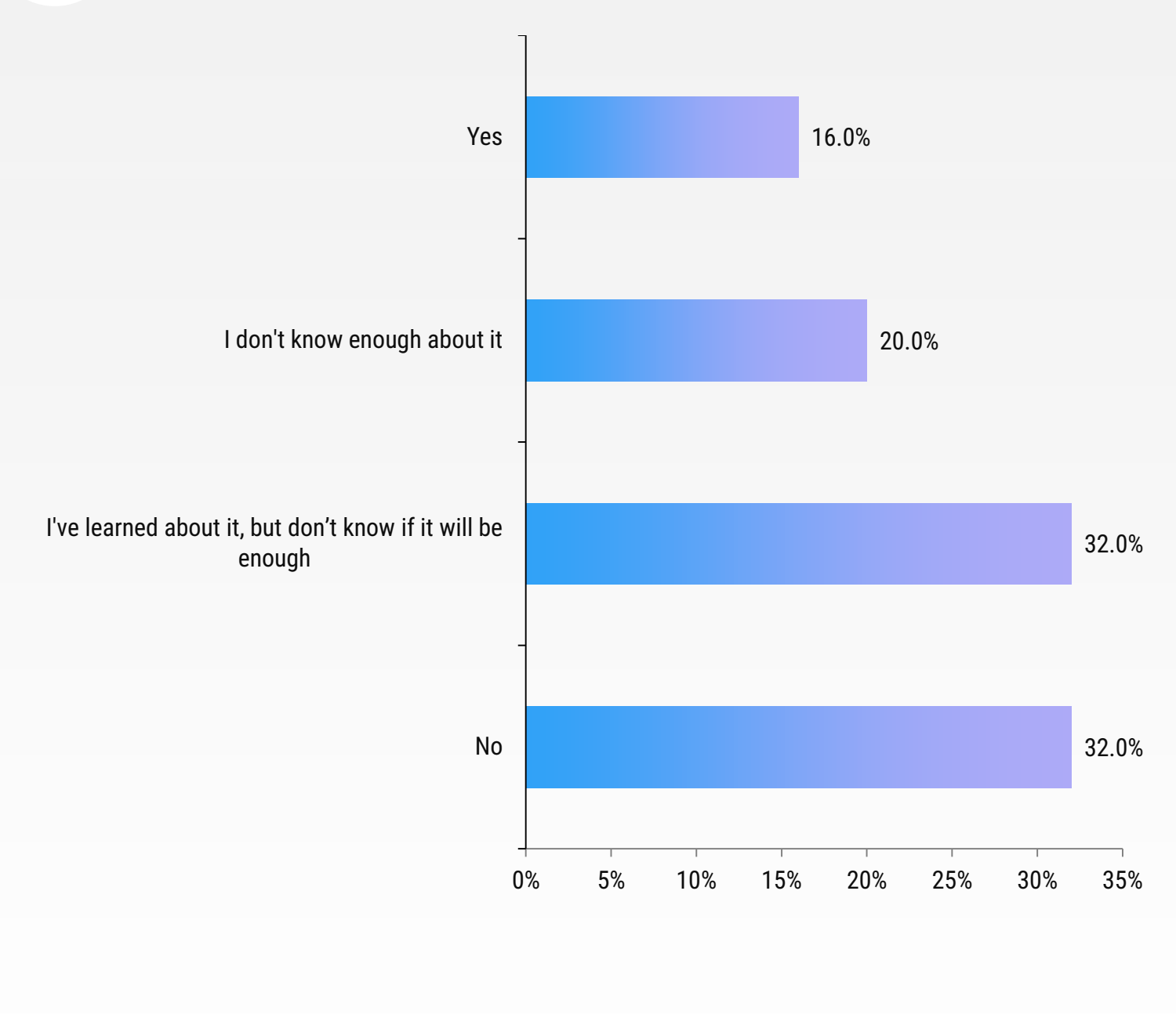
RETAIL INVESTORS AND OWNERS

7

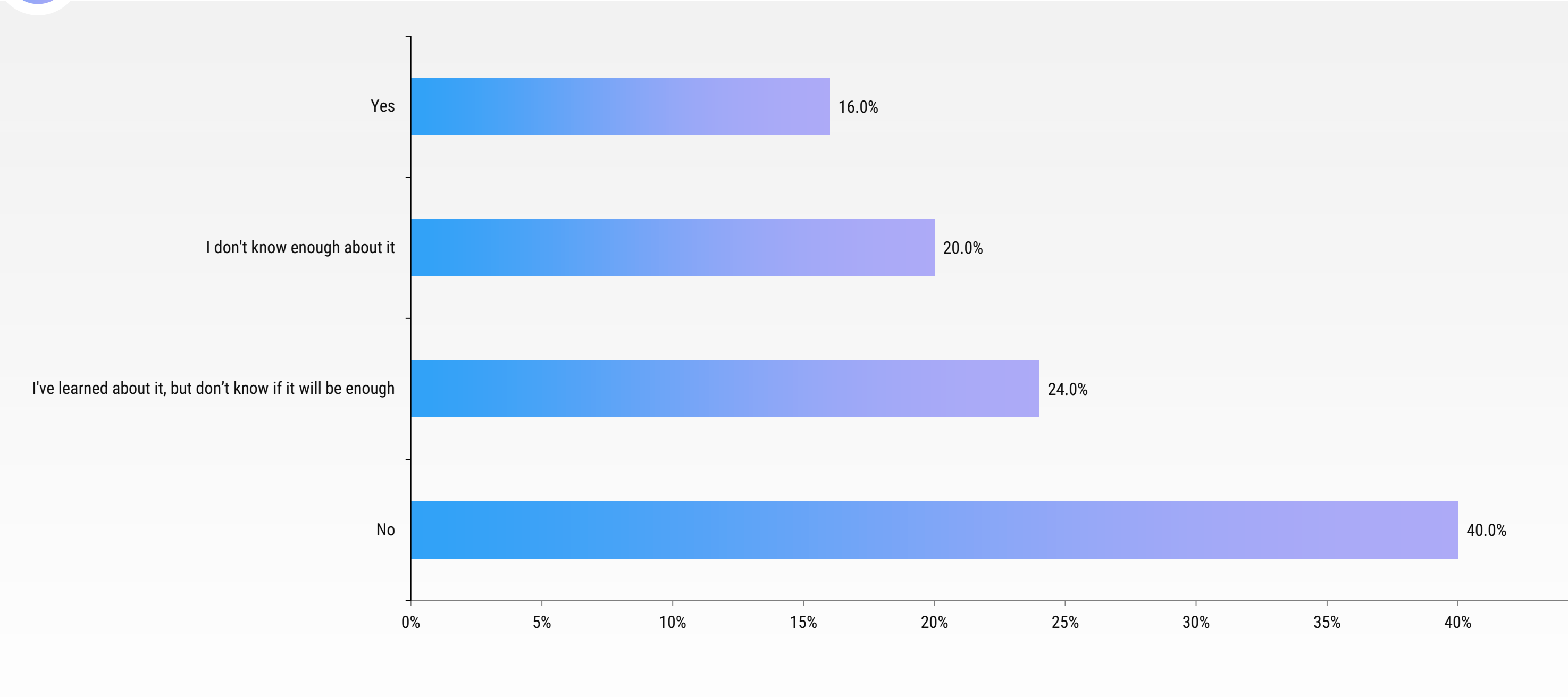
1 Excluding essential goods and services (grocery stores, pharmacies, etc.), which sectors of retail do you expect to come back soonest?



2 Do you expect the CARES Act to provide the relief your tenants will need to be able to stay open or reopen?



3 Do you expect the CARES Act to provide the relief you will need to be able to maintain your debt payments?



IMPLICATIONS FOR OUR CLIENTS

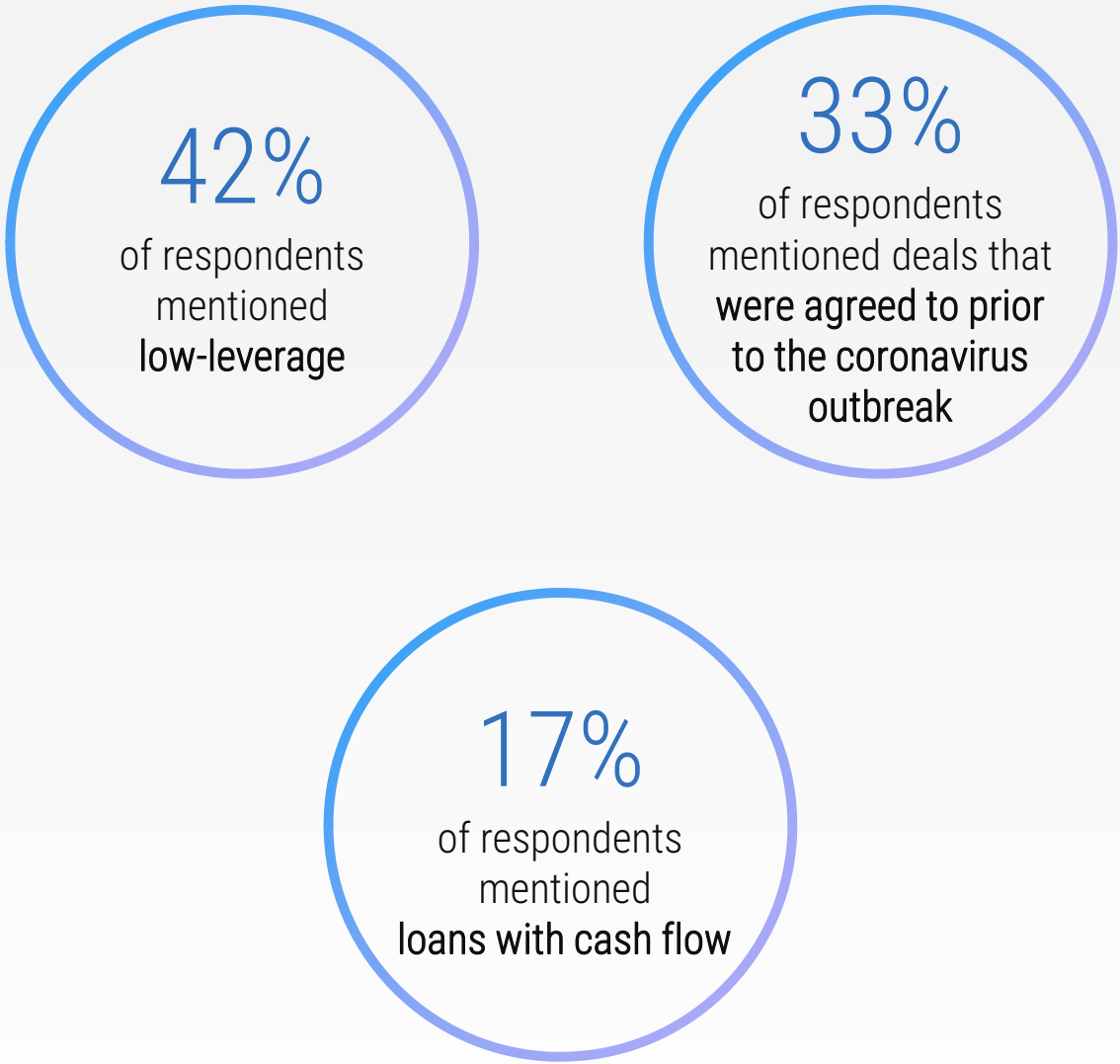
RETAIL INVESTORS AND OWNERS

- Quick service restaurants (36%) and healthcare (32%) are the sectors respondents think will bounce back first. Investors may wish to evaluate their portfolios now to ensure appropriate weighting toward essential goods and services retailers like groceries and pharmacies. The accelerating movement toward using retail spaces for urgent care centers also is likely to gain further momentum.
- Regarding the CARES Act, 64% of respondents either do not believe it will provide enough relief to help tenants stay open, or are unsure whether it will. Investors might consider accommodating tenants on matters of existing lease obligations and offering temporary rent and parking abatements in order to keep them in their spaces. Also, many office asset owners consider their retail space to be an investment in their office space. There may be willingness, ability, and desire to save threatened retailers who provide services to workers, such as quick service restaurants.
- Regarding maintaining their own debt payments, 40% of respondents do not think the CARES Act will provide the relief needed, and another 24% are unsure. Additional forthcoming legislation may provide more help for the retail sector.

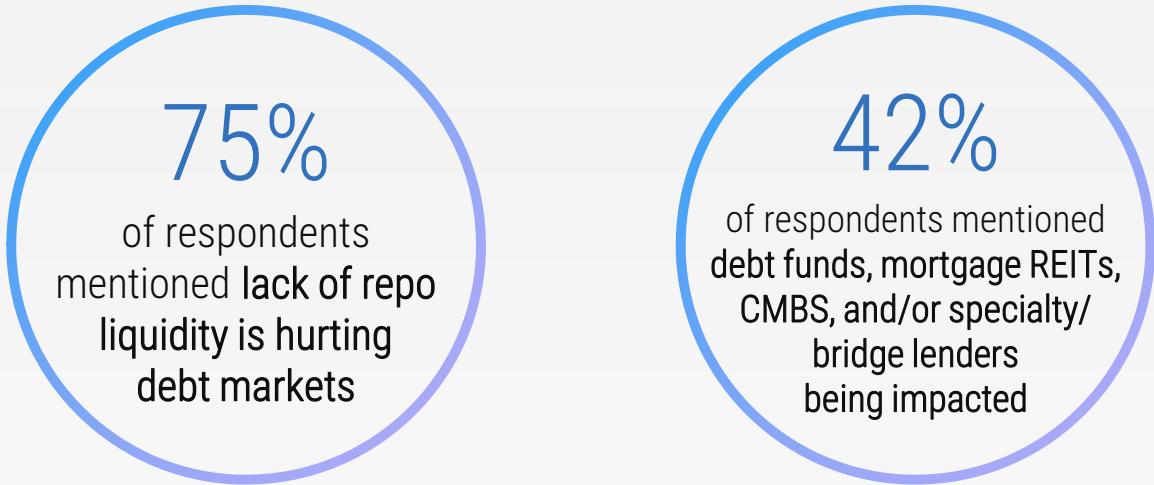
DEBT AND STRUCTURED FINANCE

8

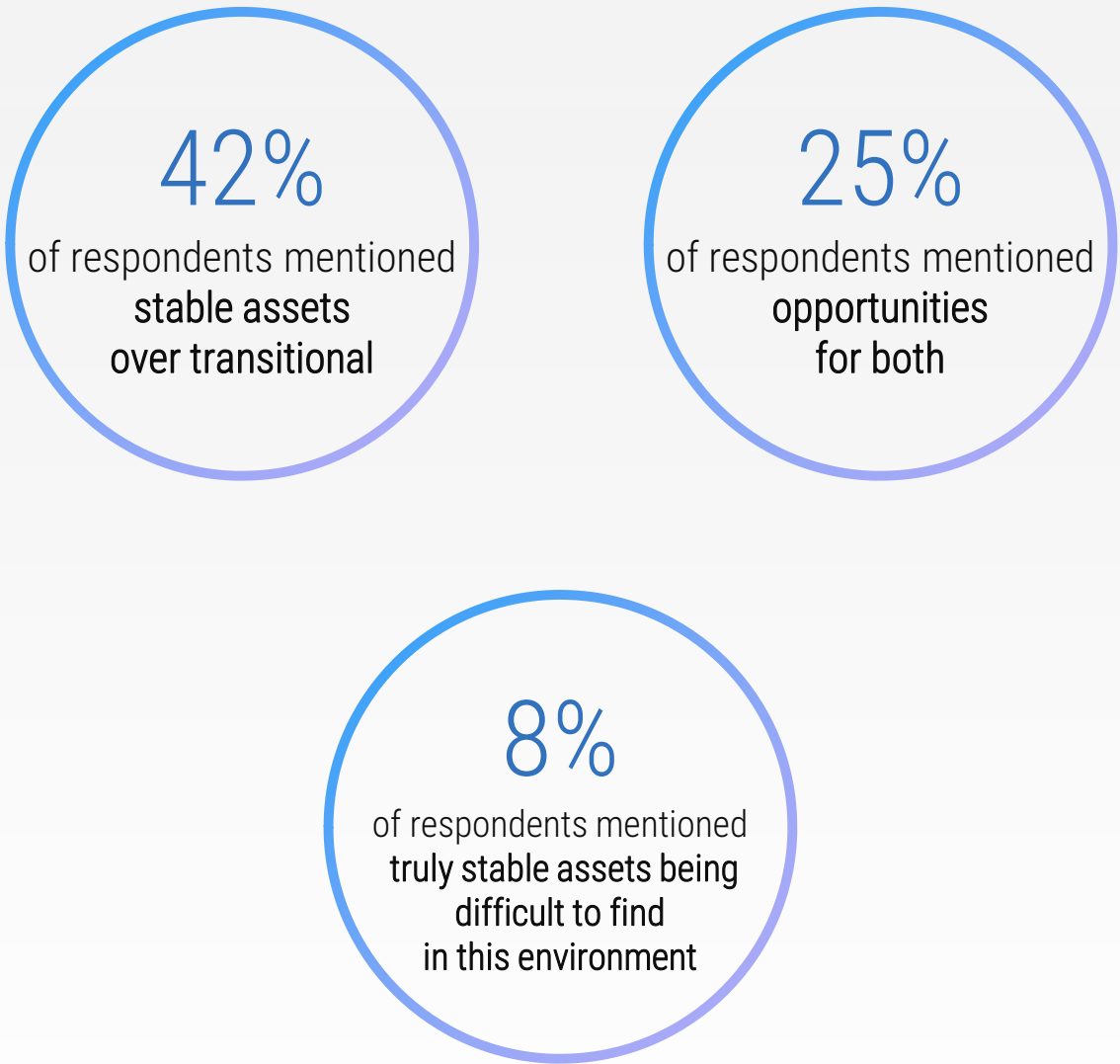
1 What type of loan profile are you seeing going through and closing right now?



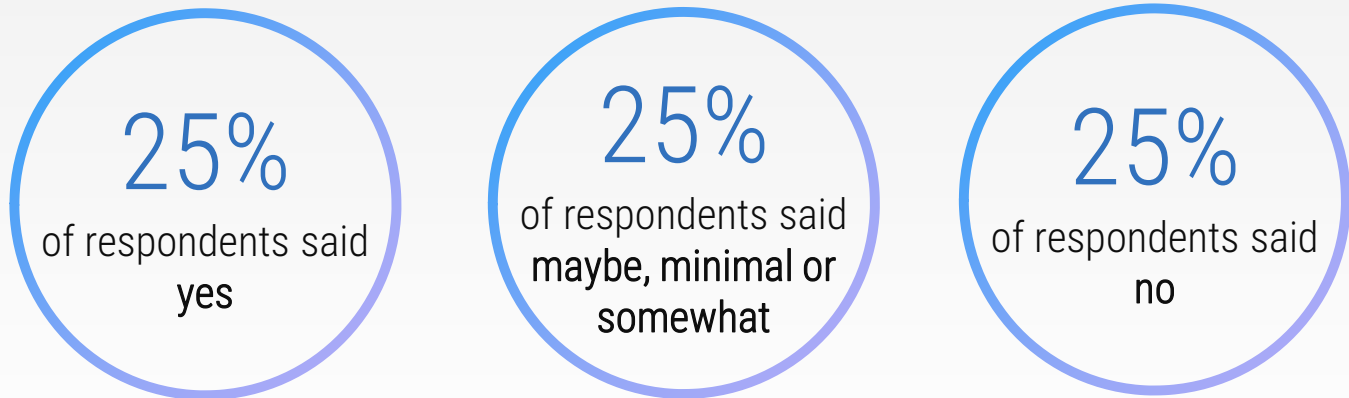
2 How are you seeing the repo market impacting commercial real estate loans?



3 Is there a good debt market for stable assets vs transitional?



4 Is construction financing available?



5 How is availability of debt impacting acquisitions already in process?



IMPLICATIONS FOR OUR CLIENTS

DEBT AND STRUCTURED FINANCE

- Cash flow and low-leverage loans appear to still be proceeding and closing.
- Many debt funds, mortgage REITs and specialty/bridge lenders are either on the sidelines or pricing and structuring loans differently. The bank market seems to be open but with less appetite for bridge deals.
- Stable asset deals appear to be faring better than transitional deals.
- Results on whether construction financing is available were mixed, but some of those who responded that financing is available indicated that it was only for unique deals or situations.
- Investors are better capitalized than during the 2008-2009 recession, with generally lower debt levels. Lenders are being very careful with new deals, but the recent actions of the Federal Reserve, Fannie Mae, and Freddie Mac have bolstered overall confidence in the investment markets.

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