Economic Update

DECEMBER 4, 2020

1. RETAIL

- According to Moody's Analytics / REIS reporting, signs of distress are spreading in the retail sector. The sector's vacancy rate rose by 0.2% to 10.4% in the third quarter, reaching a seven-year high.
- Average asking rents declined 0.1% from the previous quarter for the sector as a whole.
- For mall assets, asking rents declined by a more significant 0.7%, eclipsing the total decline measured in all of 2010.
- At the metro-level, Moody's / REIS notes that 56 metros saw an uptick in retail vacancies in Q3, though all but one increased by less than 1%.
- The report notes that while distress is becoming more apparent, the observed levels are still below what market watchers had expected to see at this point.
- There is a rising sense that a new wave of store closures may follow the conclusion of the holiday shopping season, absent a new comprehensive stimulus package.

2. OFFICE DEMAND FORECAST

- According to its latest projections, NAIOP currently forecasts that net absorption in the office sector will total -18M square feet in Q4.
- Some progress is expected in Q1 2021, though net absorption will likely remain negative, with the current forecast projecting a reading of -10M square feet.
- However, the forecast continues to improve through the remainder of 2021 and into 2022.
- The sum total of positive net absorption between Q2 2021 and Q3 2022 is forecasted to exceed the negative net absorption observed during the COVID recession.

3. HOTEL

- According to Real Capital Analytics, Hotel cap rates have risen during the pandemic, albeit marginally.
- In RCA's Hedonic Series, cap rates across all lodging subtypes averaged 8.67% through the third quarter, up a hairline 2 bps from Q2 and 17 bps from the recent low of 8.50% observed one year ago.
- Still, measured on a per-unit basis, pricing has softened. Unit prices have declined in seven of the past eight quarters and are currently down 14.5% from 2018-highs.
- Transaction volumes fell to depths not seen since the GFC in Q2 before recovering slightly in Q3.
- Despite a 194% quarter-over-quarter bounce, Q3 transaction volumes remain 79% below the same point last year.
- According to Moody's Analytics / REIS, revenue per available room (RevPAR) increased by 16% between Q4 2014 and Q4 2019, topping out at $85.

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- RevPAR fell as low as $34 in Q2 2020 and recovered by 18% to $40 in the third quarter. RevPAR is not forecasted to return to 2019 peaks until at least 2025.

4. LIFE SCIENCES

- According to Real Capital Analytics reporting, Life Sciences, while still a niche property type, are continuing to take up a larger share of the commercial real estate investment pie.
- While COVID-19 has accelerated demand for the property type, the pandemic is just one of the sector's several tailwind factors. Advancements in medical technology, an aging population, and a shrinking of the commercial real estate investable universe are all seen as trends elevating either user or investor demand for the product type.
- RCA has tracked $10B in Life Sciences transaction volume through mid-November, accounting for 1.9% of the total invested in income-producing commercial real estate nationally this year, eclipsing 2019's 1.4%.
- According to Crunchbase, Life Sciences companies had raised more capital from IPOs through August of this year than they had through all of 2019.

5. NMHC RENT TRACKER

- NMHC's Rent Payment Tracker continues to suggest that renters are successfully prioritizing their monthly obligations and paying their rent.
- Based on data collected from 11.5M professionally managed units, 94.8% of apartments paid full or partial rent in October, just 1.8% below the same mark from one year ago.
- For November, 90.3% have made full or partial payments through the week ending the 20th, falling just 1.6% from the same period in November 2019.
- NMHC President, Doug Bibby, notes that the continued strong renter performance is not only due to tenant prioritization; comprehensive COVID relief measures, including congressional stimulus and landlord workouts, are undeniably factors that have also supported topline performance.

6. MBA MORTGAGE APPLICATIONS

- According to data from the Mortgage Bankers Association's Weekly Mortgage Applications Survey, mortgage applications on an adjusted basis increased by 3.9% during the week ending November 20th compared to the week prior.
- Refinances rose 5% week-over-week and stand 79% higher than the same week one year ago.
- New purchases fell by 2% from the week prior and measured 19% higher than last year's benchmark.
- Refinance applications as a share of mortgage activity rose to 71.1% of all lending activity, up from 69.8% the

week before.

- The VA share of total applications dropped from 12.1% to 11.8%.
- Meanwhile, the FHA share of applications fell 50 bps to 10.0%, and the adjustable-rate mortgage share of activity remained unchanged at 1.9%.

7. INITIAL & CONTINUING JOBLESS CLAIMS

- According to the Department of Labor's most recent report, initial unemployment claims increased to 778k during the week ending on November 21st, rising by 30k from the week before.
- The four-week moving average of initial claims had fallen every week since late-April, a streak now broken by the most recent data release. Currently, the 4-week moving average stands at 748.5k, up 5k from last week's revised average.
- The number of continued unemployment claims decreased by 299k to 6M during the week ending on November 13th, more than 75% below the high of 24.9M measured the week ending May 9th.

8. SINGLE-FAMILY HOUSING ACTIVITY

- According to the Census Bureau, building permits for Single-Family housing units rose 0.6% in October from the month prior and 20.6% from one year ago, reaching an annualized rate of 1.1 million units.
- Meanwhile, privately-owned housing starts rose by 4.9% from September, reaching an annualized 1.5 million units. On a year-over-year basis, October's single-family starts stand 14.2% higher from October 2019.
- Completions of Single-family homes fell by 3.4% from the previous month to an annualized rate of 883,000 per year and are currently 4% below their 2019 benchmark, a symptom of widespread permitting delays and resource shortages reported throughout the construction industry.

9. MULTIFAMILY BUILDING ACTIVITY

- According to the Census Bureau, Multifamily building permits fell by 1,400 units to 33,100 during October, representing a 34.1% decrease compared to October 2019.
- October's decline is the steepest year-over-year drop for multifamily permit activity since June of 2016.
- Privately-owned multifamily starts fell to a seasonally adjusted annual rate of 334,000 units in October, down from 345,000 annualized units in September.
- Growth in multifamily starts have recovered since their April-nadir but remain well below the annualized rate of 619,000 units briefly reached in January.
- Multifamily completions dropped to a seasonally adjusted annual rate of 444,000 in October, a 35,000 unit drop from September. Despite the decline, multifamily completions in October were up 27.6% above the

same month last year.

10. S&P CASE-SHILLER: U.S. NATIONAL HOME PRICE INDEX

- The U.S. National Home-Price Index, part of S&P's Case-Shiller series, rose by 1.2% in September from the month prior, the highest month-over-month growth rate in more than seven years.
- Moreover, this September's reading is the highest September month-over-month reading on record, as property prices historically soften through the Fall and into the Winter.
- Measured year-over-year, property prices are up 7.0%, reaching the highest rate since May 2014.
- In 2019, property prices were moderating, falling to an annual growth rate as low as 3.2% in August of last year.
- Outside of a period of price compression between April and June, home price levels have risen progressively throughout 2020 despite pandemic headwinds.

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SUMMARY OF SOURCES

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