FRIDAY ROUND-UP WITH RCLCO: COVID-19 & The Impact on Real Estate

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RCLCO

REAL ESTATE ADVISORS

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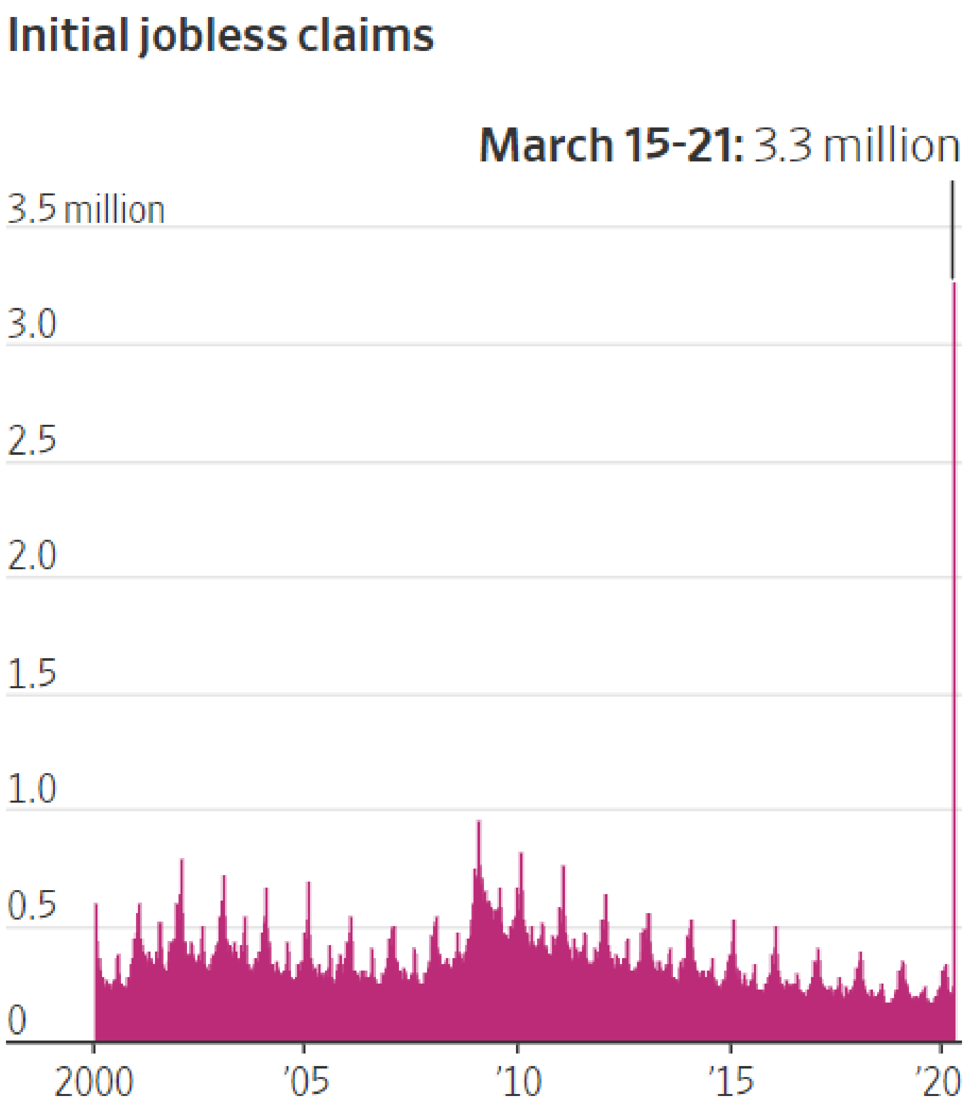
AGENDA

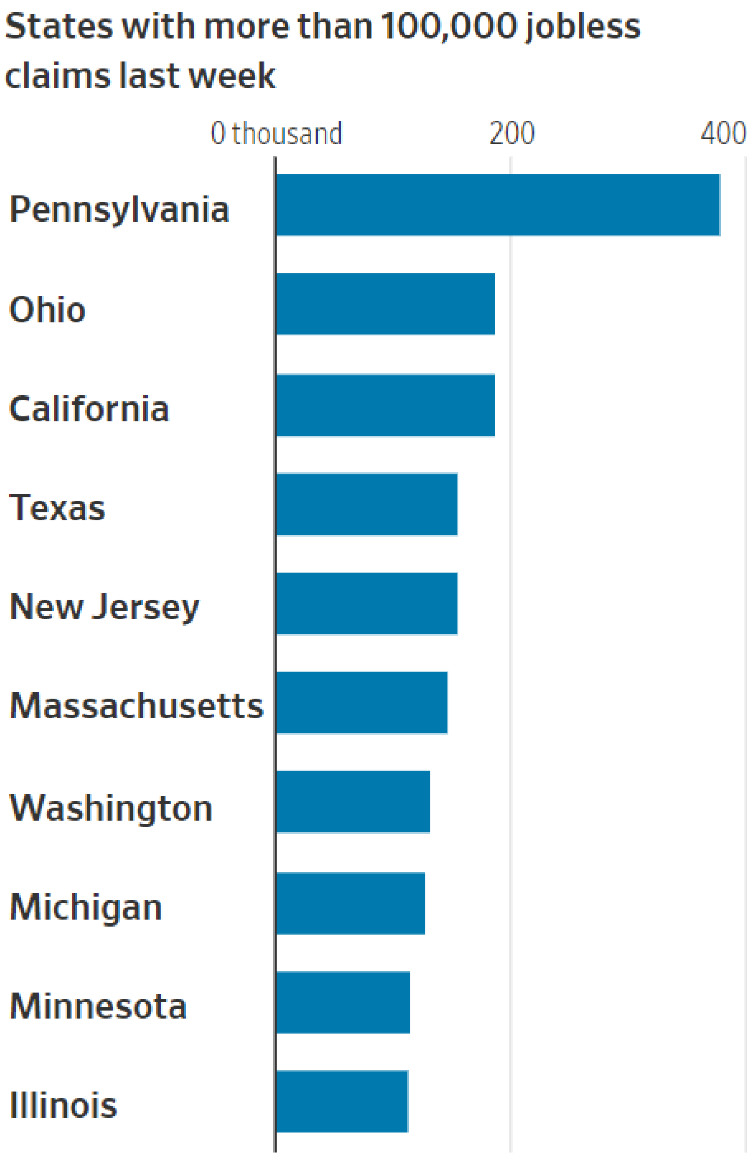
1. WHAT DO WE KNOW – WHAT'S THE LATEST?
2. WHAT CAN WE LEARN FROM THE PAST, IF ANYTHING?
3. WHAT IMPACT WILL THIS HAVE ON REAL ESTATE?
4. WHAT IS THE RCLCO POV?
5. Q&A

COVID-19 & UNEMPLOYMENT

- A record **3.28 million** workers applied for unemployment benefits last week as the new coronavirus hit the U.S. economy, marking the end of a decade long job expansion.
- Nearly **5x** the previous record high



Note: Seasonally adjusted, latest figure is preliminary
Source: Labor Department



Source: Labor Department

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COVID-19 & U.S. FISCAL STIMULUS VOTE: 96 - 0

WHAT'S IN THE $2.2 TRILLION STIMULUS BILL?

- **Direct payments to individuals:**
  - $1,200 per individual <$75,000 AGI; $0 >$99,000; $2,400 for married couple <$150,000 AGI
  - $500 per child under age 17
- **Historic boost for unemployment benefits:**
  - Extra $600 a week for four months on top of state benefits (that range $200-$550 a week, depending upon that state)
  - Up to 13 weeks of extended benefits covered by federal government (state checks last between 12 and 28 weeks)
  - Covers independent contractors, self-employed, and gig economy workers (who are not eligible in many states)
- **Student loan payments suspended:**
  - No payments or penalties through September 30
- **Protections against foreclosures and evictions:**
  - Forbearance on federally backed mortgages of up to 60 days, with (4) extensions of 30 days each available
  - Forbearance for those with multifamily federal mortgages for 30-day forbearance and up to (2) 30-day extensions
  - Limits evictions, fees or penalties for those with tenants in federally backed mortgages solely for failure to pay for 120-days

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COVID-19 & U.S. FISCAL STIMULUS

- **$367 billion in loans for small businesses (<500 employees) up to $2 million**
- **$150 billion for state and local governments**
- **$130 billion for hospitals**

$500 BILLION IN LOANS FOR LARGER INDUSTRIES, INCLUDING:

- $25 billion in grants for wages and benefits for passenger air carriers
- $4 billion in grants for wages and benefits for cargo air carriers
- $3 billion in grants for wages and benefits for airline industry contractors (e.g., catering, baggage handlers, ticketing, cleaning, etc.)
- Additional $29 billion for passenger and cargo airlines in the form of loans
  - DoT can require service to small & remote communities & maintain health care and pharmaceutical supply chains
- Loans to businesses come with restrictions, including:
  - Creation of an oversight board and inspector general to oversee loans to large companies
  - No dividends for a year after loan retired; retain 90% of March 24 level employment ("to the extent practical") through September 30
  - Limits on executive compensation
  - Five year max loan term
  - Trump businesses can't get money - legislation prohibits federally elected officials & families from obtaining funds

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COVID-19 & U.S. FISCAL STIMULUS

WHAT'S IN THE $2.2 TRILLION STIMULUS BILL (CONTINUED)?

- **No money for border wall:**
  - DoD will get $1.2 billion for National Guard coronavirus response, plus $1 billion for Defense Purchases Act
  - But no funding for counter-drug account, which the administration has used to transfer funds for the wall
- $1.1 billion for Peace Corps, diplomatic programs, international disaster assistance, USAID, and refugee assistance
- $324 million to the State Department for "evacuation expenses"
- $400 million for election security grants
- $25 million for the Kennedy Center
- Real ID deadline delayed to at least September 2021

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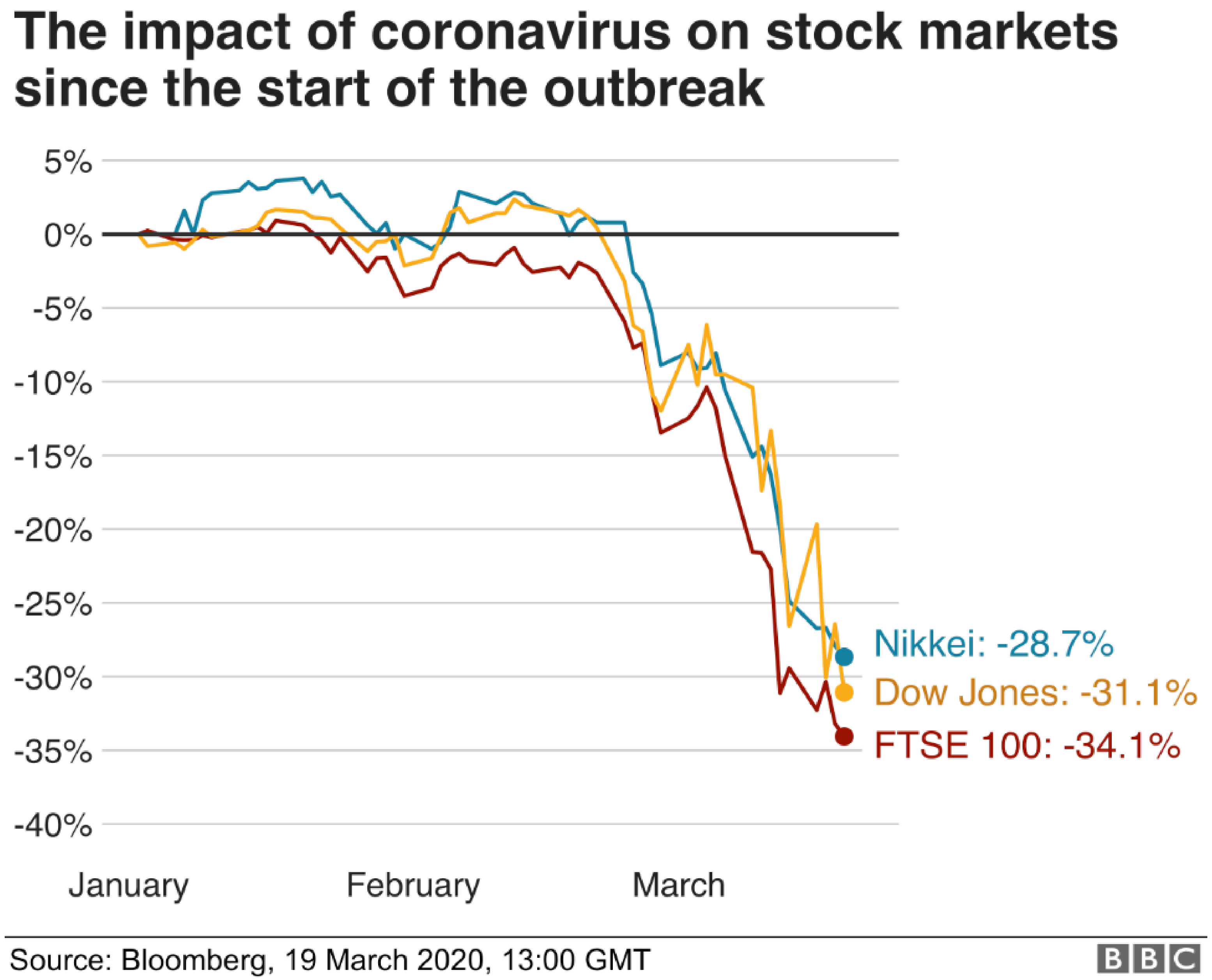
COVID-19 & THE MARKET CRASH

- The Great Depression was the most severe stock market crisis to date, with the DOW tanking 89% from its pre-crisis peak, over a period of about 34 months
- The Great Recession saw the markets fall by 49% over a period of 16 months
- In comparison, the DOW fell by more than 31% over the coronavirus crisis between February 11 and March 12, 2020, before staging a partial recovery this past week.



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COVID-19 & DEAD CAT BOUNCE?

- Since the initial sell off (over correction?), most major stock markets have bounced back, likely in response to global fiscal stimulus enacted over the past several days and weeks…but are still down on a year to date basis:

Stock Market Indexes

	Date	Level	Ch.	This Week ch.	Mon. ch.	Ann. ch.	YTD
DOW [+]	03/25/2020	21,200.55	2.39%	10.57%	-21.72%	-16.92%	-25.71%
NASDAQ [+]	03/25/2020	7,384.30	-0.45%	7.34%	-17.64%	-3.32%	-17.70%
S&P 500 [+]	03/25/2020	2,475.56	1.15%	7.40%	-20.86%	-11.54%	-23.38%
STOXX 50 [+]	03/25/2020	2,800.14	2.44%	9.87%	-21.62%	-15.16%	-25.23%
FTSE 100 [+]	03/25/2020	5,688.20	4.17%	9.58%	-18.95%	-20.75%	-24.58%
DAX [+]	03/25/2020	9,874.26	1.32%	10.59%	-22.80%	-12.98%	-25.47%
CAC 40 [+]	03/25/2020	4,432.30	4.47%	9.47%	-21.96%	-15.75%	-25.86%
NIKKEI [+]	03/26/2020	18,664.60	-4.52%	12.76%	-16.77%	-12.90%	-21.10%

dead cat bounce

/ˈded ˈkat ˌbouns/

noun STOCK MARKET

a temporary recovery in share prices after a substantial fall, caused by speculators buying in order to cover their positions.

"is the recession really over, or is it a dead cat bounce?"

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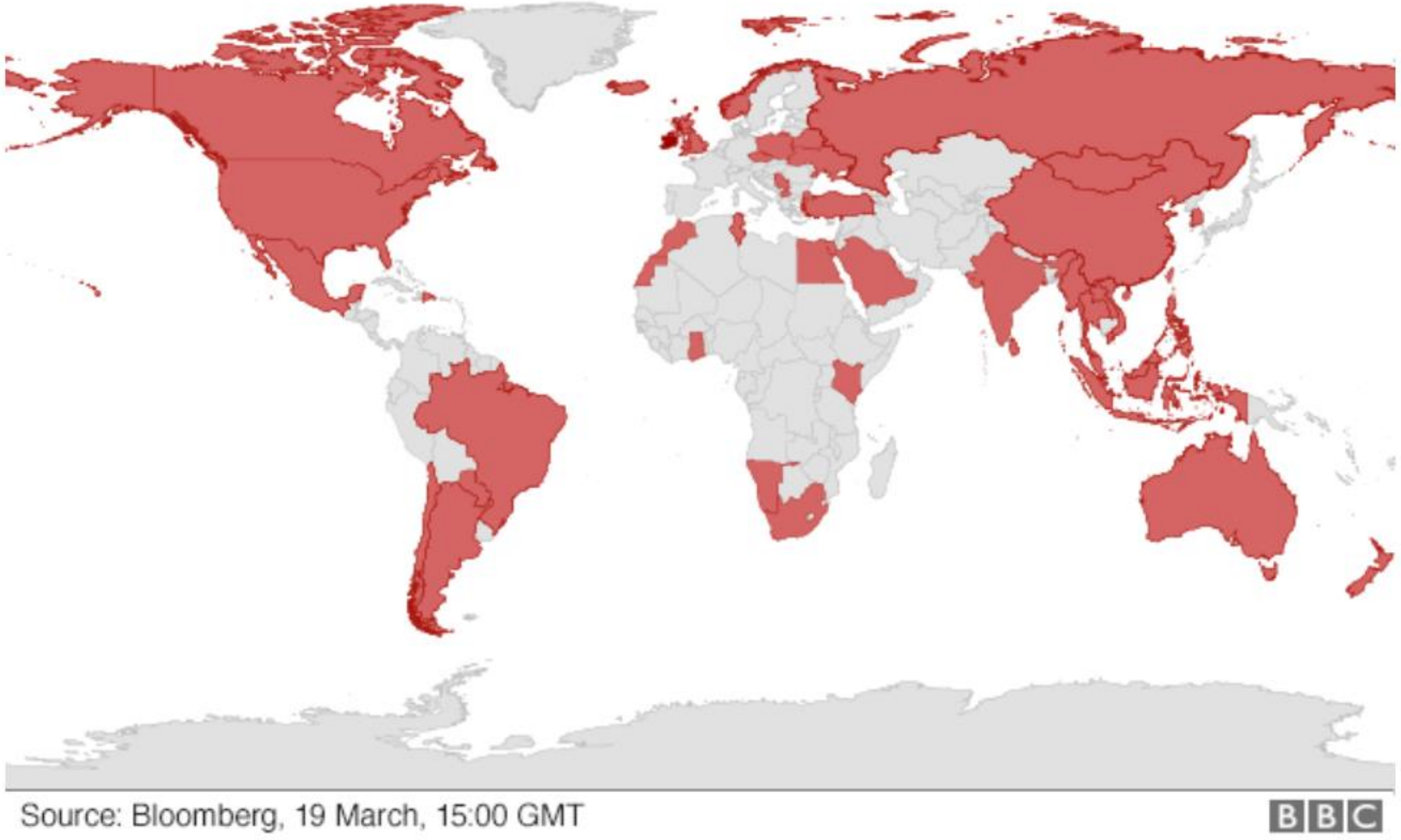
COVID-19 & STIMULUS

► Central banks in more that 50 countries have cut interest rates to try to strengthen their economies…



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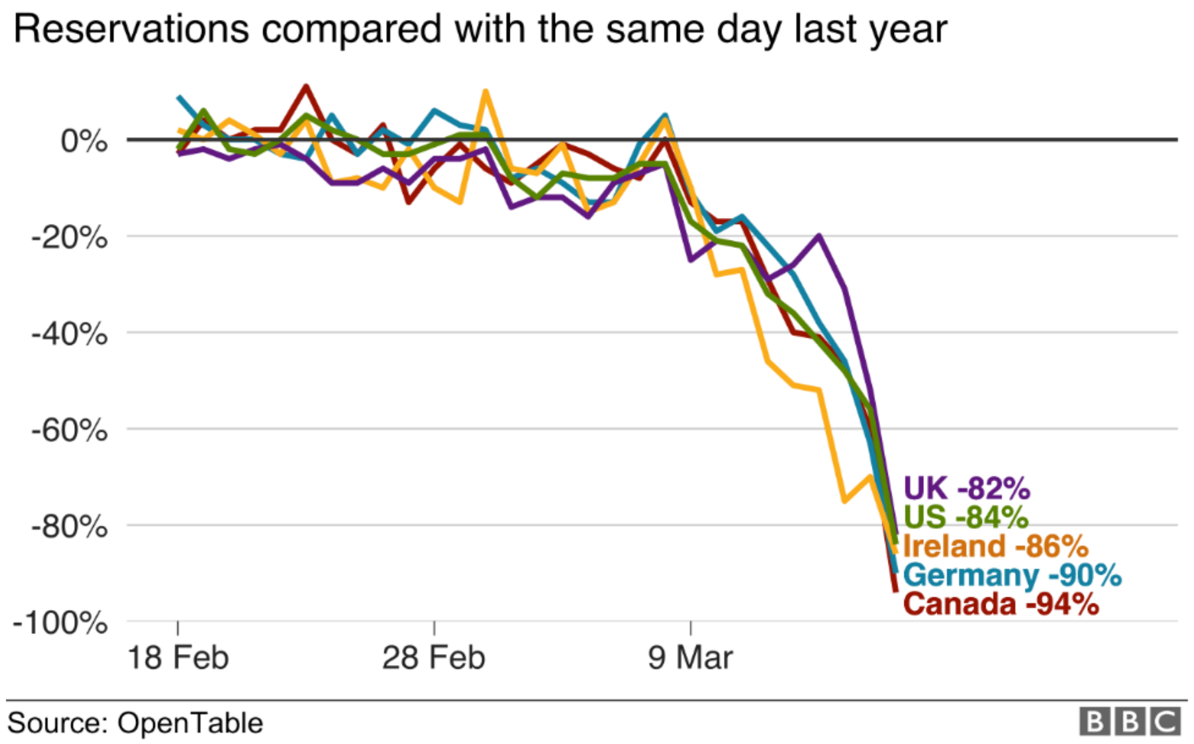
COVID-19 & EATING OUT

Name	3/24	3/23	3/22	3/21	3/20	3/19	3/18	3/17	3/16	3/15	3/14	3/13	3/12	3/11	3/10	3/09	3/08	3/07	3/06	3/05	3/04	3/03
Global	-100%	-100%	-99%	-99%	-98%	-96%	-89%	-83%	-56%	-47%	-40%	-36%	-28%	-19%	-18%	-14%	-3%	-4%	-7%	-7%	-6%	-9%
Australia	-100%	-100%	-66%	-54%	-52%	-53%	-50%	-43%	-30%	-12%	-11%	-8%	-12%	-10%	-4%	-10%	-4%	-3%	-6%	-8%	-12%	-6%
Canada	-100%	-100%	-100%	-100%	-100%	-99%	-97%	-94%	-60%	-47%	-41%	-40%	-28%	-19%	-18%	-13%	-1%	-9%	-8%	-4%	-2%	-7%
Germany	-100%	-100%	-100%	-100%	-99%	-98%	-95%	-90%	-63%	-46%	-38%	-28%	-17%	-11%	-16%	-10%	11%	4%	-7%	-6%	-4%	0%
Ireland	-100%	-100%	-98%	-99%	-99%	-99%	-97%	-86%	-70%	-75%	-52%	-51%	-46%	-27%	-28%	-10%	4%	-5%	-13%	-15%	-1%	-7%
Mexico	-96%	-95%	-95%	-91%	-85%	-78%	-73%	-62%	-48%	-35%	-21%	-16%	-16%	-15%	-16%	-19%	-5%	-2%	-8%	-6%	-6%	-10%
United Kingdom	-100%	-100%	-100%	-100%	-94%	-91%	-88%	-82%	-52%	-31%	-20%	-26%	-24%	-14%	-17%	-18%	1%	-3%	-5%	-12%	-9%	-11%
United States	-100%	-100%	-100%	-100%	-99%	-98%	-91%	-84%	-56%	-48%	-42%	-36%	-28%	-19%	-18%	-14%	-2%	-3%	-6%	-5%	-5%	-9%

- Restaurant bookings in several countries have almost completely collapsed…



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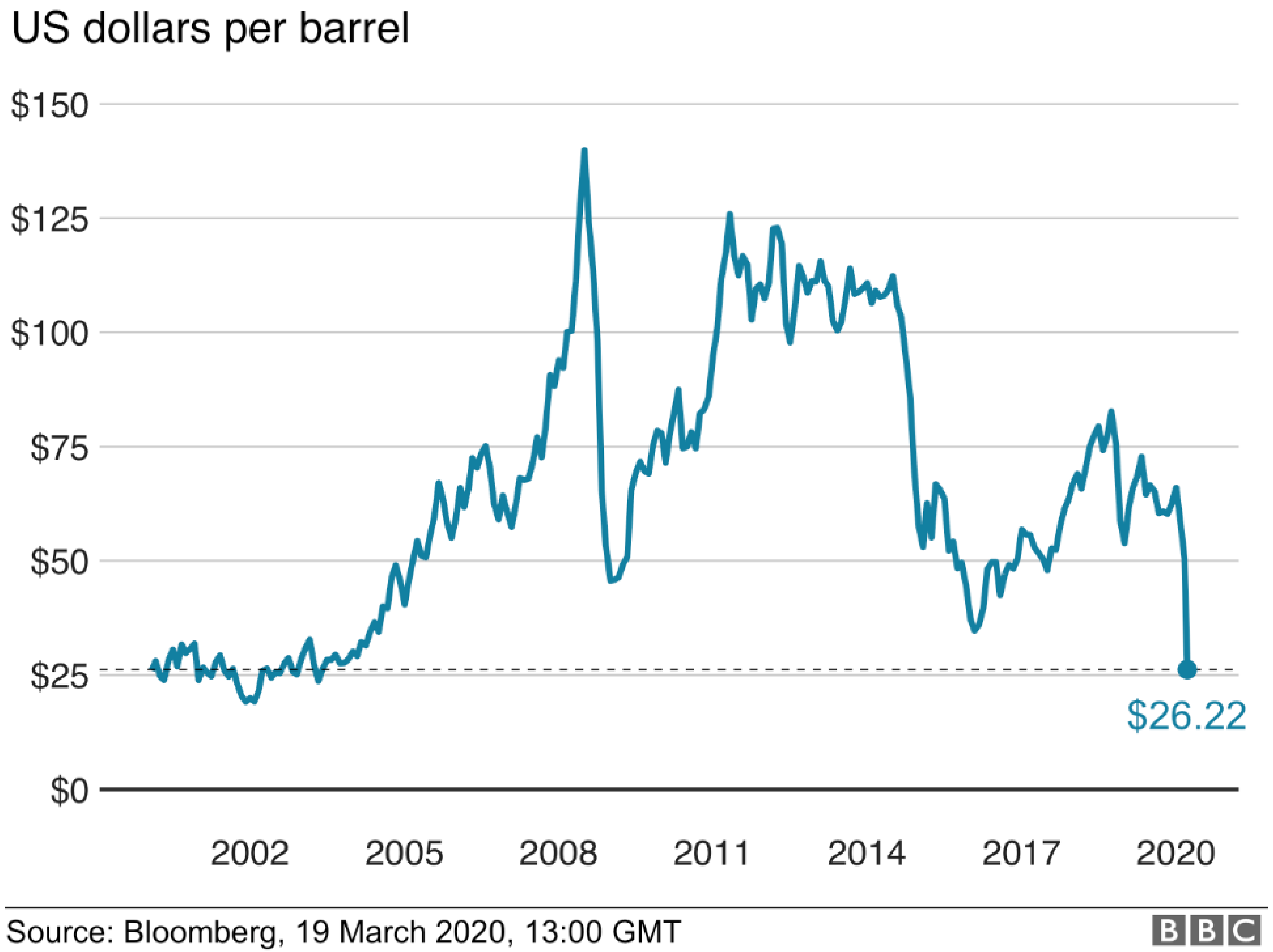
COVID-19 & OIL PRICES

- The oil price had already been affected by a row between OPEC, the group of oil producers, and Russia. Coronavirus has driven the price down further…



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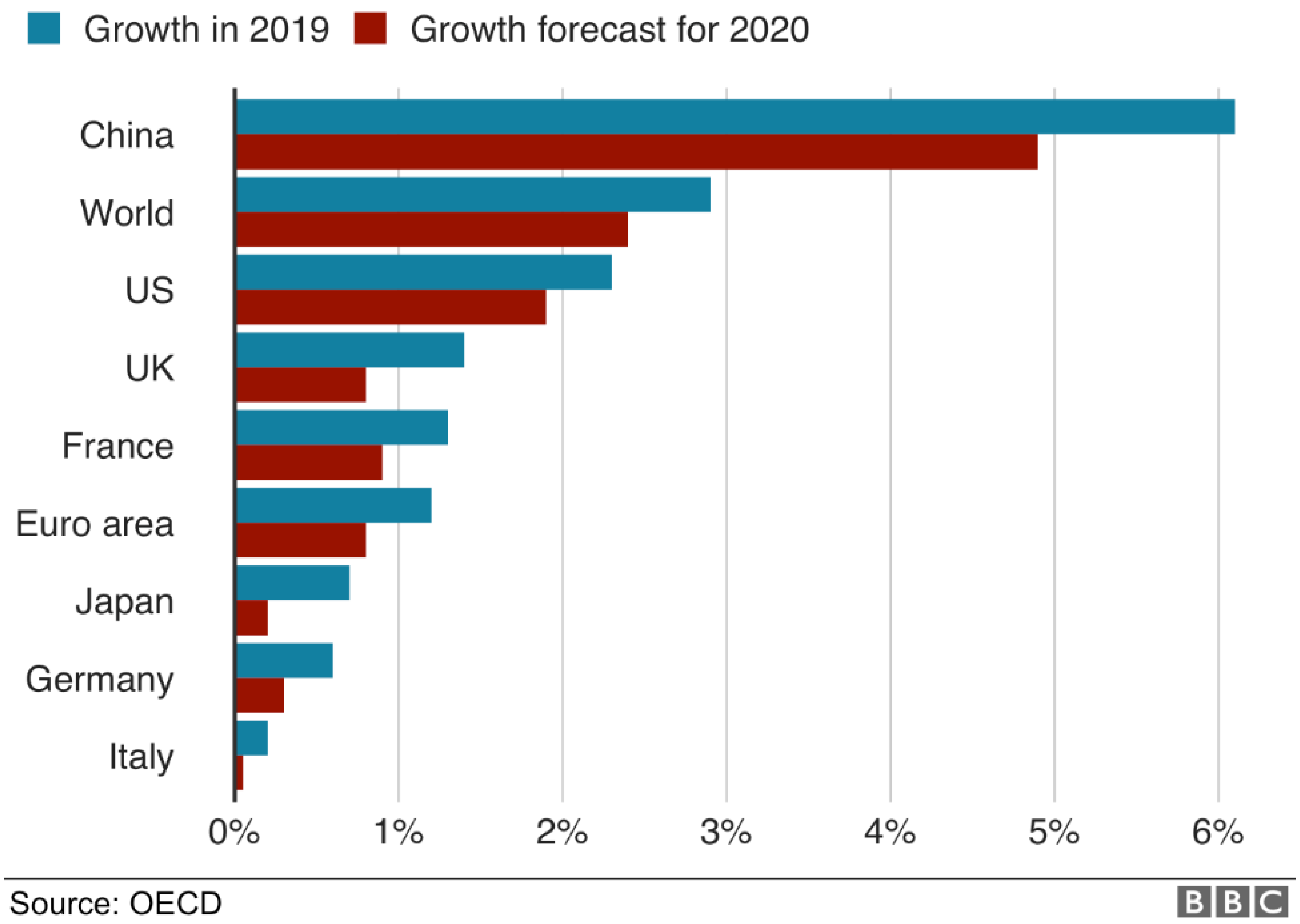
COVID-19 & GLOBAL ECONOMIC GROWTH – OPTIMISTIC?

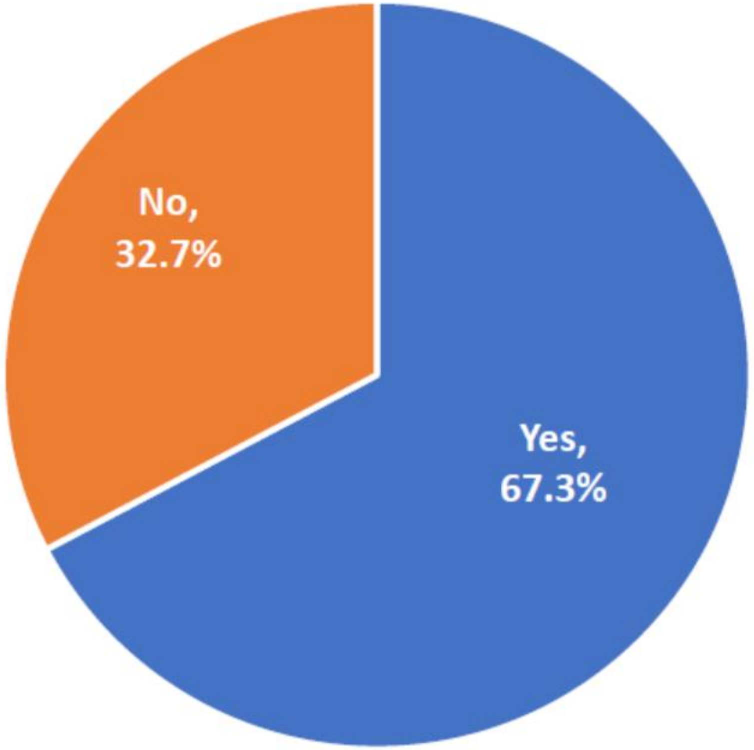
- The world's economy could grow at its slowest rate since 2009 this year due to the coronavirus outbreak, according to the Organization for Economic Cooperation and Development (OECD)
- A "longer lasting and more intensive" outbreak could halve growth to 1.5% in 2020 as factories suspend their activity and workers stay at home to try to contain the virus



COVID-19 & DEAL FLOW

- A majority have seen deals fall through due to current conditions…

QUESTION: Has your organization seen any previously agreed to real estate deals not be completed because of financial market volatility or inability to travel/meet? [Based on real estate markets in North America (U.S. and/or Canada).]



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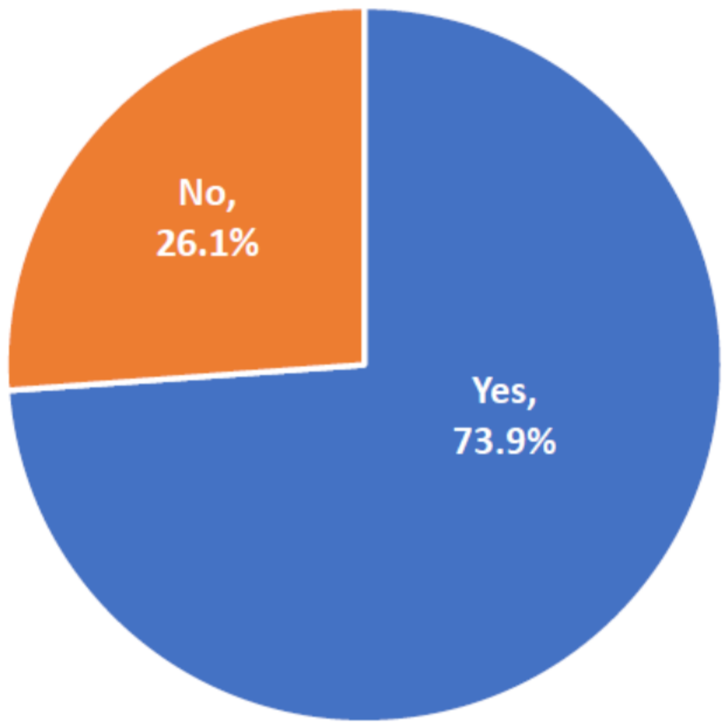
Source: PREA

COVID-19 & DEAL FLOW

- Investment plans have, at least temporarily, been scaled back…

QUESTION: Has your organization reduced or temporarily suspended its plans to deploy capital into real estate because of financial market volatility or inability to travel/meet? [Based on real estate markets in North America (U.S. and/or Canada).]

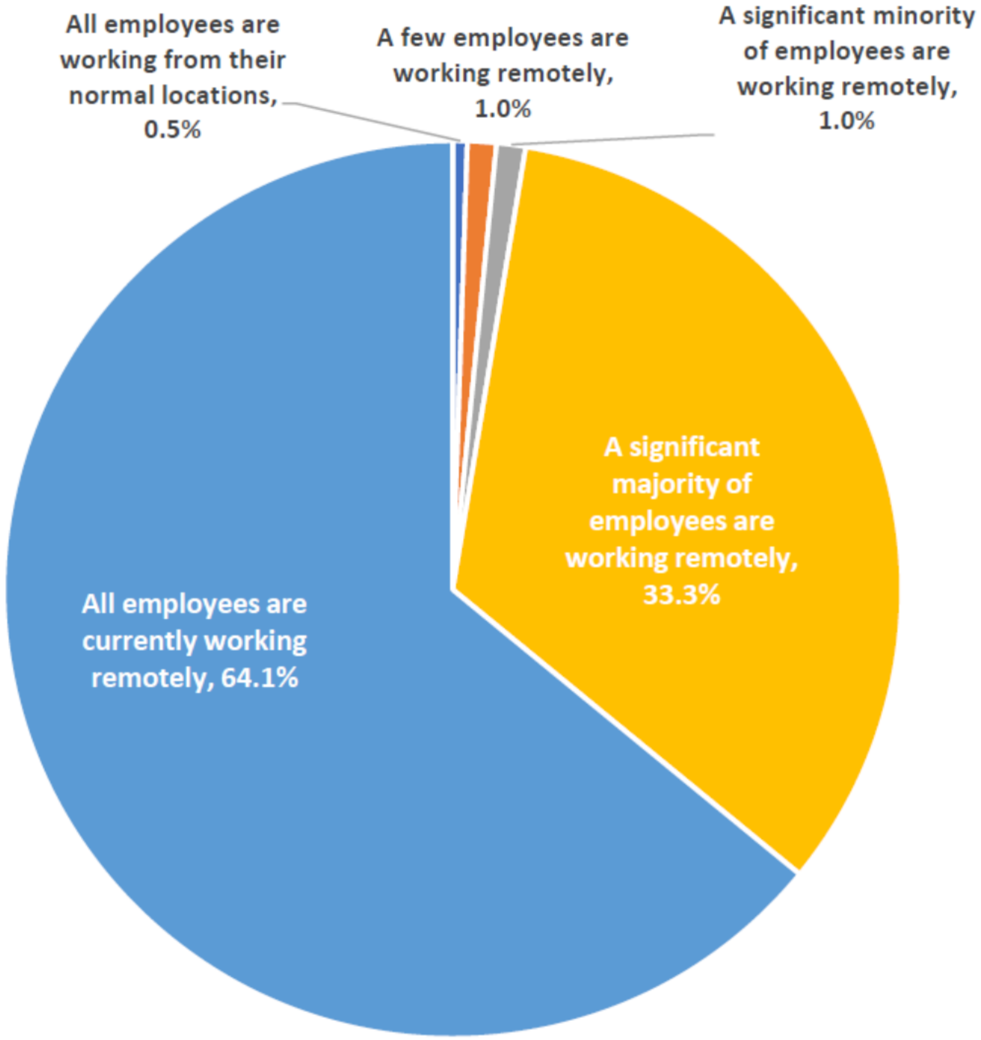


Source: PREA

COVID-19 & THE WORKPLACE

- Most of the industry is working remotely…

QUESTION: Are employees of your organization currently working remotely (that do not normally work remotely)?



Source: PREA

COVID-19 & LESSONS LEARNED FROM CHINA

- The U.S. and Europe are about a month behind China in terms of the virus spread and economic recovery
  - While Wall Street markets remain down on a year to date basis, the Shanghai Composite Stock index and Shenzhen composite appear to have stabilized
- Global virus spread means China's economy will continue to be in recovery mode along with the rest of the world
- China's industrial production, fixed-asset investment and retail sales were extremely bad in the first two months of 2020 due to the impact of Covid-19
  - China's industrial production fell 13.5% year-on-year year-to-date
  - Will continue to be hit in April as the spread in other countries means global demand will be off, supply chains will remain impaired
  - Fixed asset investments fell 24.5% YoY YTD
  - Retail sales fell 20.5% YoY YTD
  - Retail sales have recovered only very slowly as consumers are still wary about going into shopping malls and restaurants

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Source: China National Bureau of Statistics

COVID-19 & WHAT'S IN STORE FOR THE U.S.(?)

- If the experience in China is any indication…

Category	Feb YTD (100 mm yuan)	YoY Change
Investment of Real Estate	10115.42	-16.3%
Investment in Residential Buildings	1282.88	-25.1%
Purchase of Equipment and Industrial Equipment	122.96	-35.1%
Construction	6394.4	-16.3%
Sources of Funds for Real Estate Development	20209.94	-17.5%
Total Retail Sales of Consumer Goods	52129.8	-20.5%
Online Retail Sales (Total)	13712	-3.0%
Online Retail Sales (Food)	26.4	-18.1%

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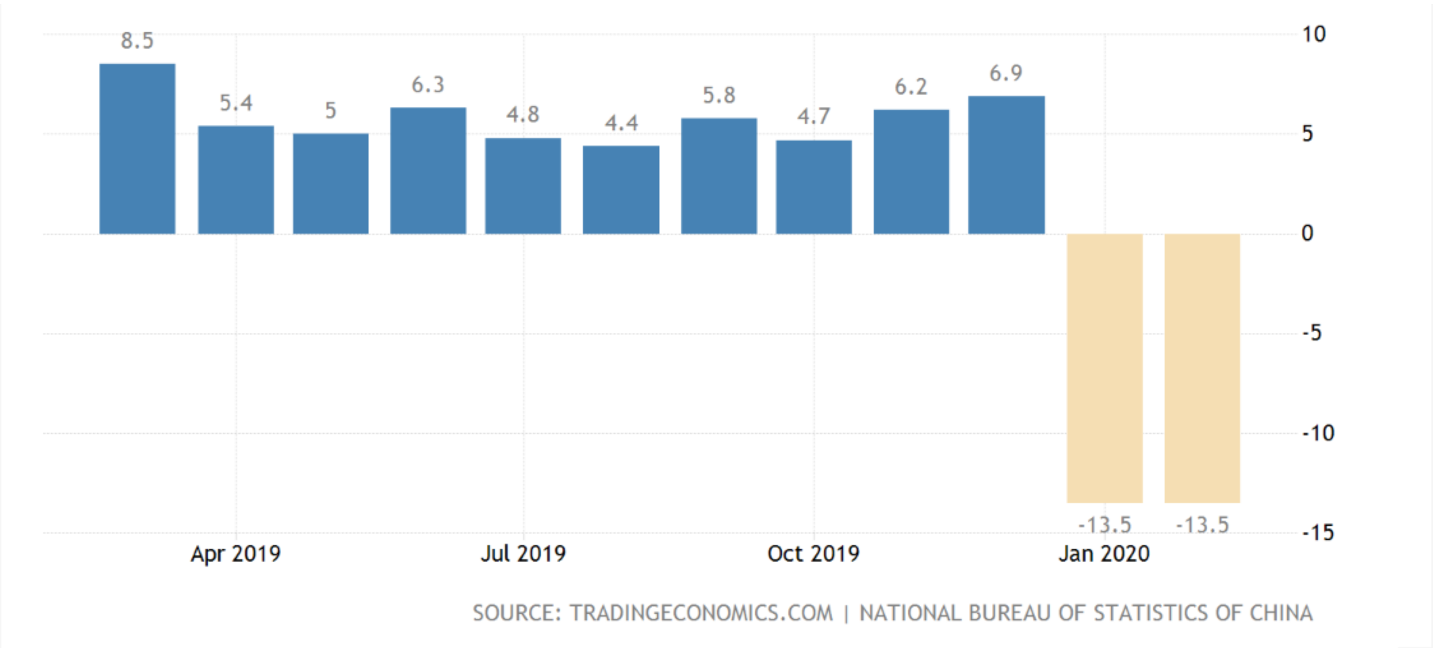
Source: China National Bureau of Statisitcs

COVID-19 & CHINESE INDUSTRIAL PRODUCTION

- China's industrial production plunged 13.5% year-on-year in January-February 2020, missing market expectations of 1.5% growth
  - This was the first drop in industrial output since at least 1990
- Output dropped across all industries:
  - Transport equipment (-28%);
  - General equipment (-28%);
  - Textiles (-27%);
  - Machinery (-25%);
  - Non-metal minerals (-21%);
  - Communication (-14%);
  - Chemicals (-12%);
  - Power equipment (-7%); and
  - Ferrous metals (-2%)
  - Meanwhile, industrial exports slumped -19.1%

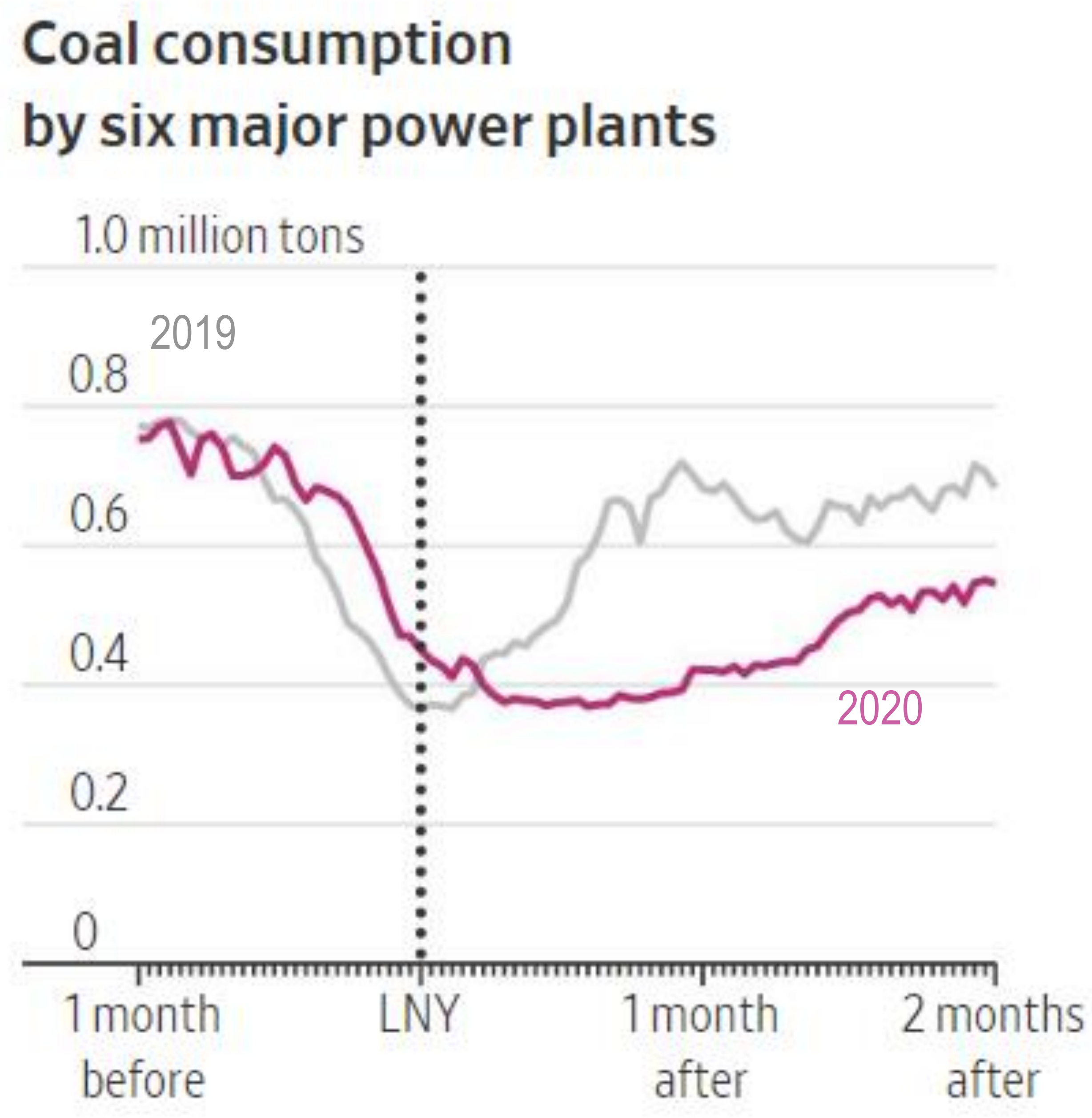


Actual	Previous	Highest	Lowest	Dates	Unit	Frequency
-13.50	-13.50	29.40	-21.10	1990 - 2020	percent	Monthly

Source: China National Bureau of Statistics

COVID-19 & REBOUND IN CHINA?

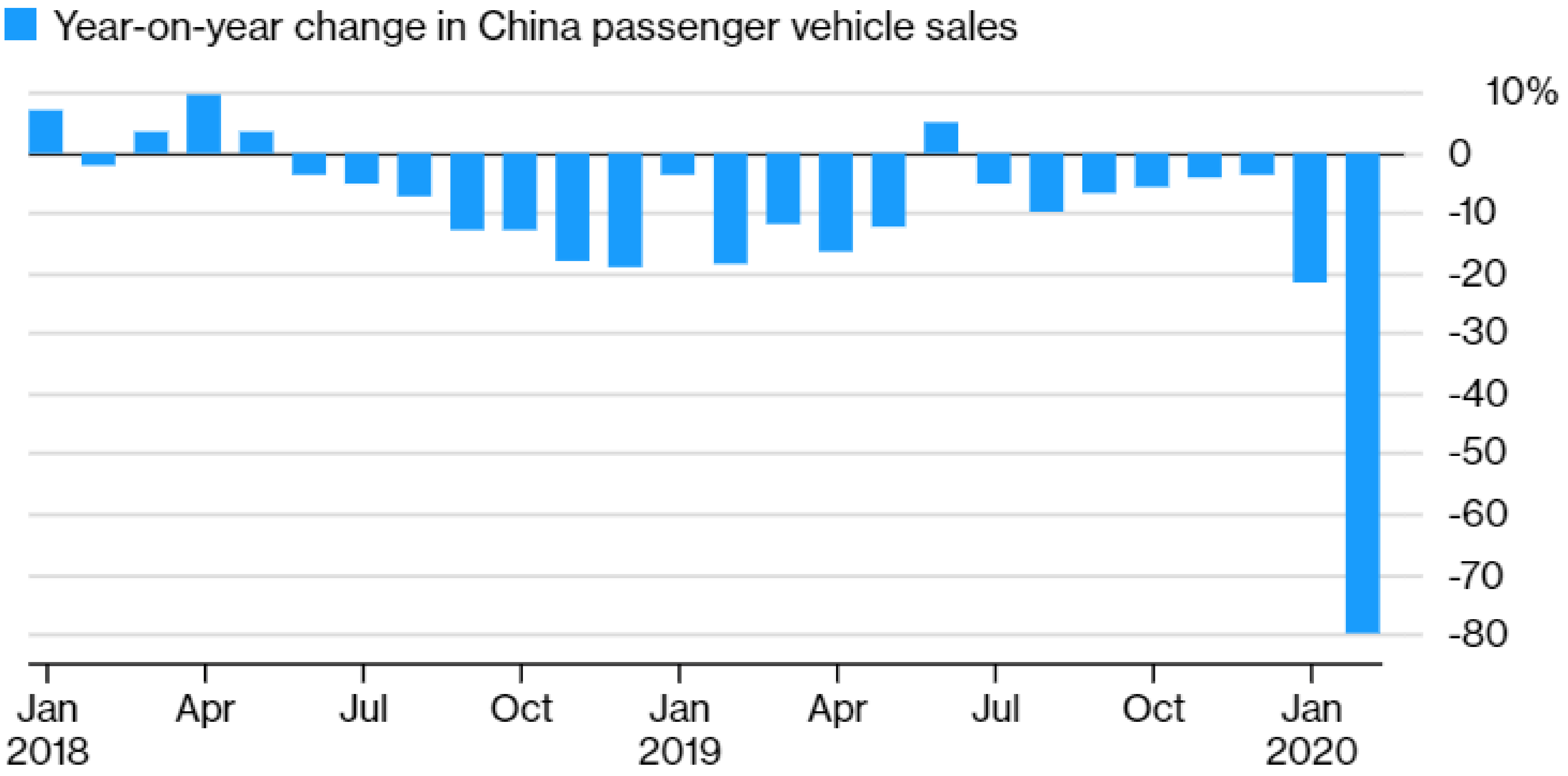
- Coal consumption getting close to normal…



Source: China National Bureau of Statistics

COVID-19 & CHINESE CAR CRUNCH

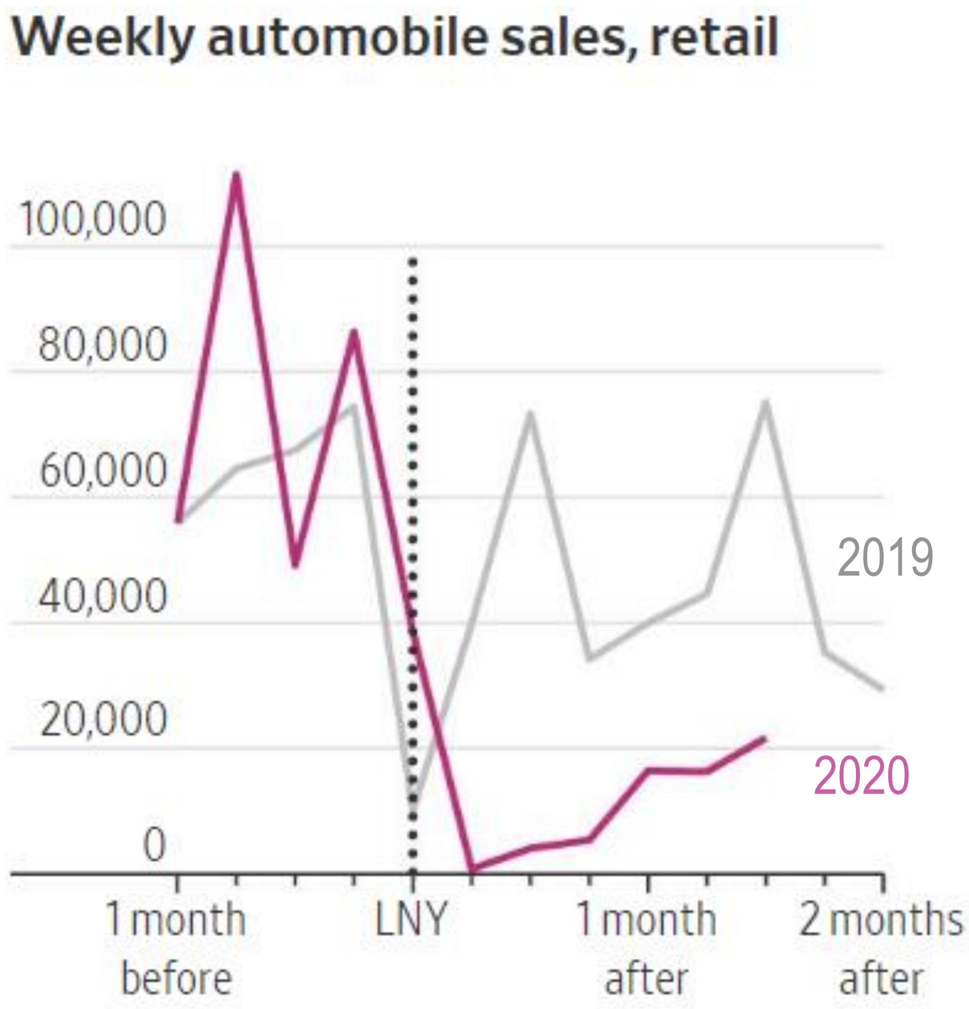
- China car sales sank a record 80% during February amid the virus outbreak…

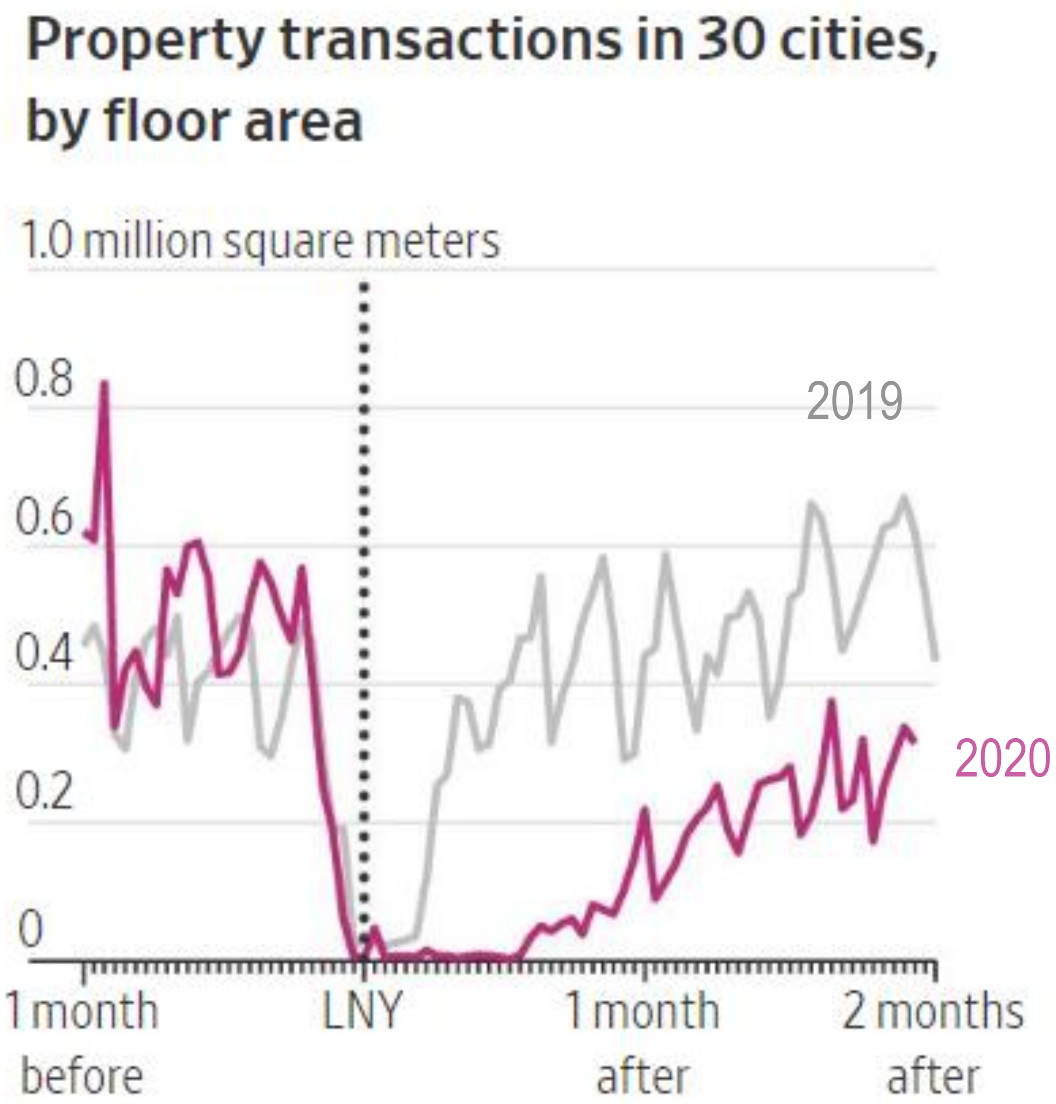


Source: China Passenger Car Association

COVID-19 & REBOUND IN CHINA?

► China auto and property sales gradually normalizing…





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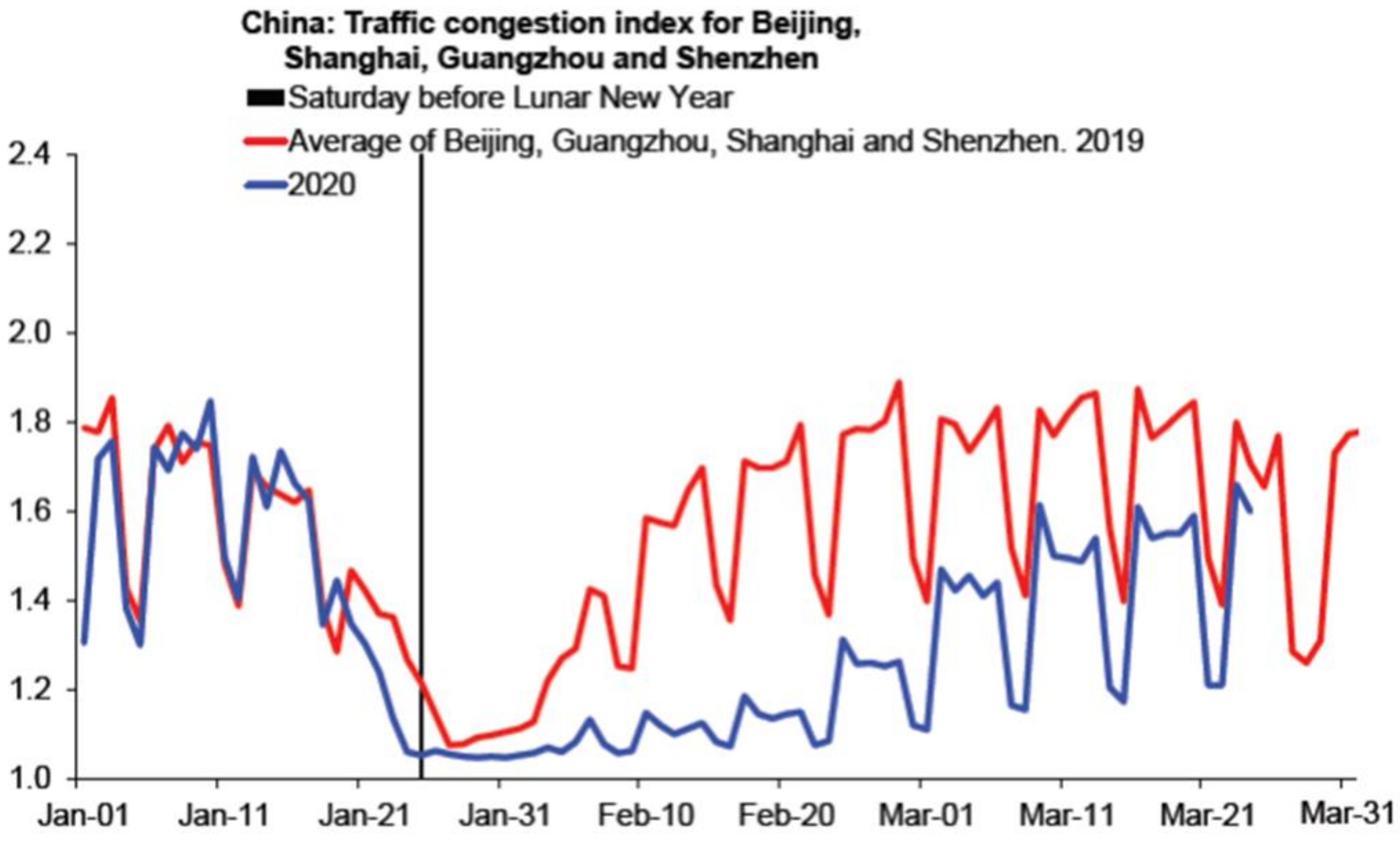
COVID-19 & REBOUND IN CHINA?

- China traffic congestion close to normal…



Source: Yi Xiong, WIND, DB Global Research

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COVID-19 & IMPLICATIONS FROM PAST RECESSIONS

- This is a unique event, but the healthy fundamentals prior to the current crises suggests residential real estate impacts similar to other mild recessions such as in 2001, following the dot.com bust and the 9-11 attacks when all travel ground to a halt:

Recession	Change in GDP	Change in New Home Median Sales Price [1]	Change in New Home Sales Volume [1]	Single-Family Permit Issuance [1]	Multi-Family Permit Issuance [1]	Change in Mortgage Interest Rates	Severity and Causes
1969-1970	-1.10%	-6.00%	-3.50%	-5.00%	-15.00%	0	Mild; coincided with fiscal tightening and Federal Reserve raising interest rates
1973-1975	-2.50%	7.50%	-10.60%	-24.90%	-40.00%	1.10%	Deep; Significant period of economic stagnation caused by oil crisis and fall of the Bretton Woods system
1980	-2.20%	4.40%	-5.90%	-4.20%	-8.60%	-0.70%	Mild; Federal Reserve raised interest rates, seeking to thwart high inflation which had increased to 7.7%
1981-1983	-2.60%	1.30%	-13.00%	-11.00%	-7.30%	-3.80%	Deep; Iranian revolution caused a spike in oil prices; Federal Reserve tight monetary policies
1990-1991	-1.40%	-0.70%	-11.60%	-7.30%	-17.30%	-0.70%	Mild; Inflation began to grow, the Federal Reserve raised interest rates, weakening growth; high oil prices contributed
2001	-0.40%	3.00%	-13.20%	-3.50%	-5.40%	-0.80%	Brief and shallow recession following the collapse of the Dot.Com bubble and September 11 attack
2008-2009	-4.00%	-16.70%	-66.20%	-63.60%	-61.10%	-1.70%	Worst since the 1930's; Subprime lending and housing speculation

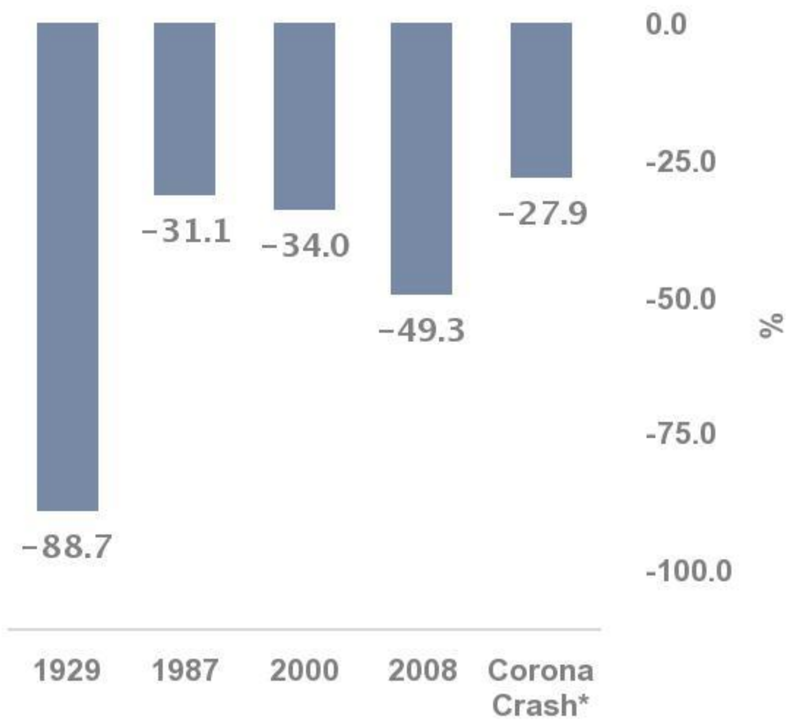
[1] Change in New Home Sales Pricing, New Home Sales Volume, and Single-Family and Multi-Family Permit issuance shows the change in demand in the initial year of the associated recession.

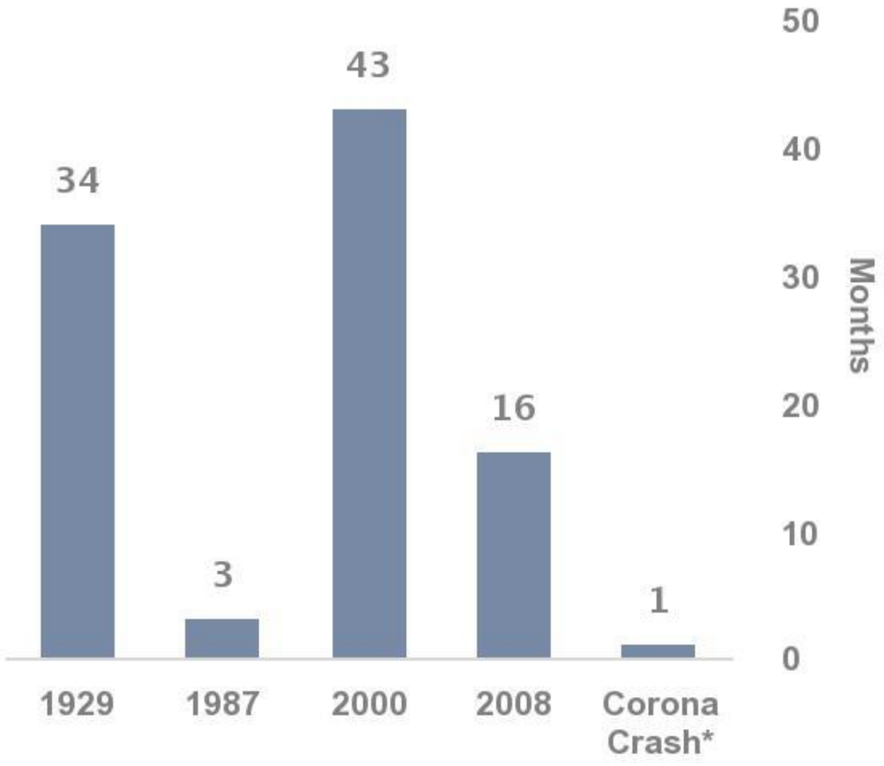
Source: Federal Reserve Bank of St. Louis; Census; HUD; RCLCO

COVID-19 & THE MARKET BOTTOM

TIMELINE OF PAST CRISES: CRISIS PRE-CRISIS PEAK MARKET BOTTOM

- Great Depression Aug-1929 Jun-1932
- Black Monday Aug-1987 Nov-1987
- 2000s Recession Dec-1999 Sep-2002
- Great Recession Oct-2007 Feb-2009





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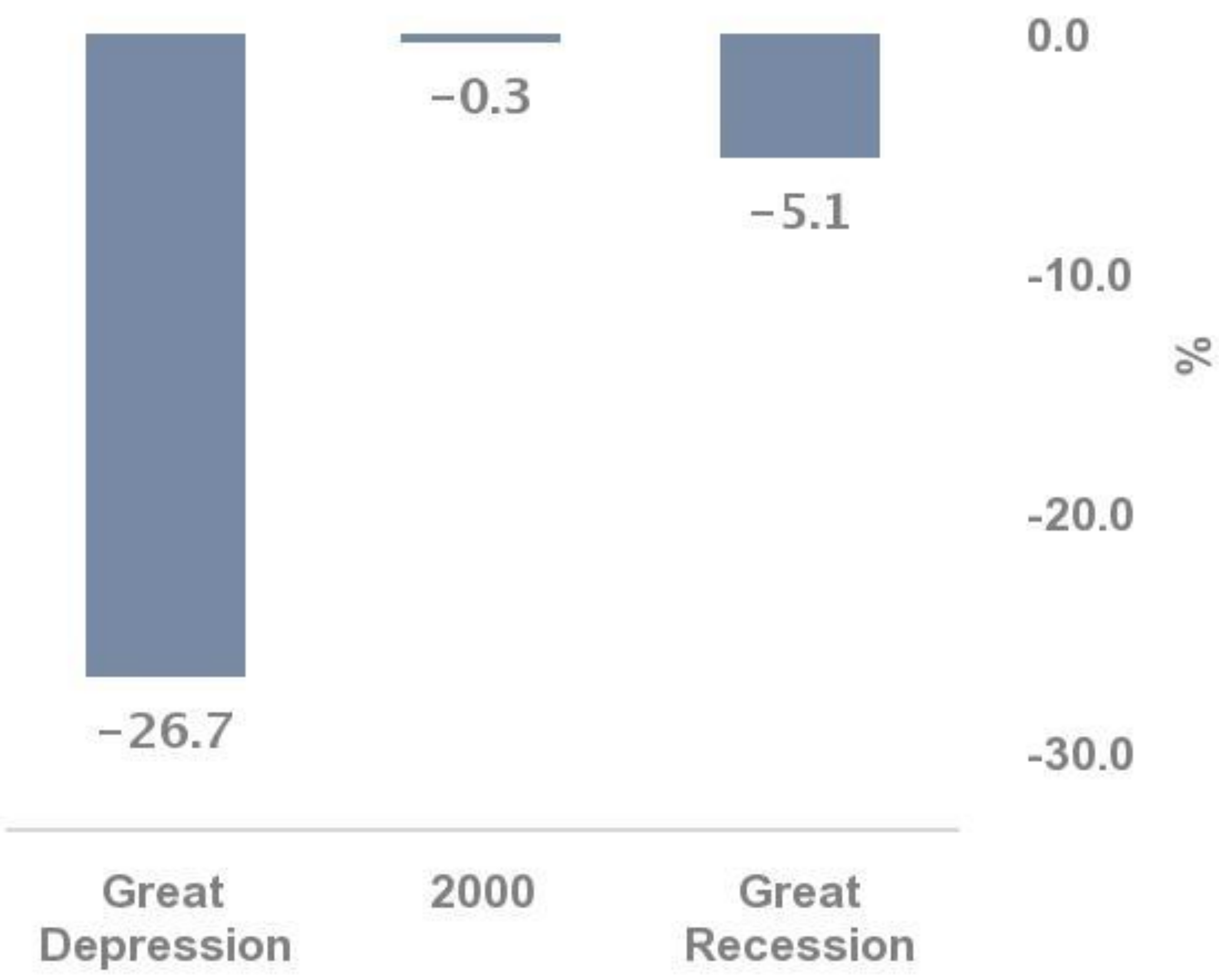
COVID-19 & GDP

HOW MUCH DID GDP DECLINE THROUGH THE CRASH?

- GDP shrank by about 27% through the Great Depression and by about 5% from the Great Recession of 2007-08.



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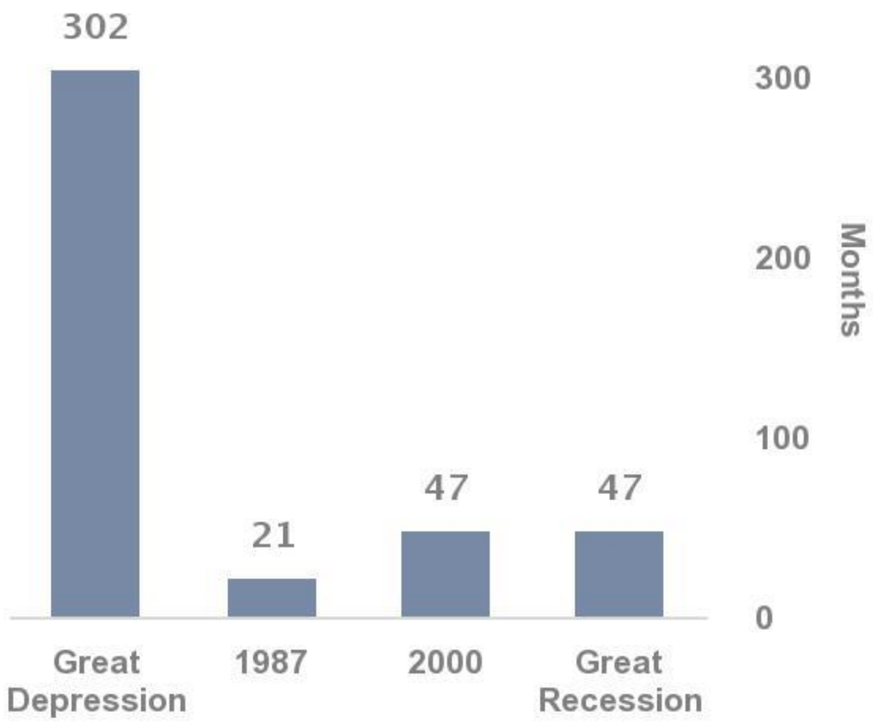
COVID-19 & THE RECOVERY?

HOW MANY MONTHS DID IT TAKE FOR THE MARKET TO RECOVER TO THE PRE-CRISIS PEAK?

- The markets took about 25 years to recover to their pre-crisis peak after bottoming out during the Great Depression.
- In comparison, it took about 4 years after the Great Recession of 2007-08 and a similar amount of time after the 2000s crash.



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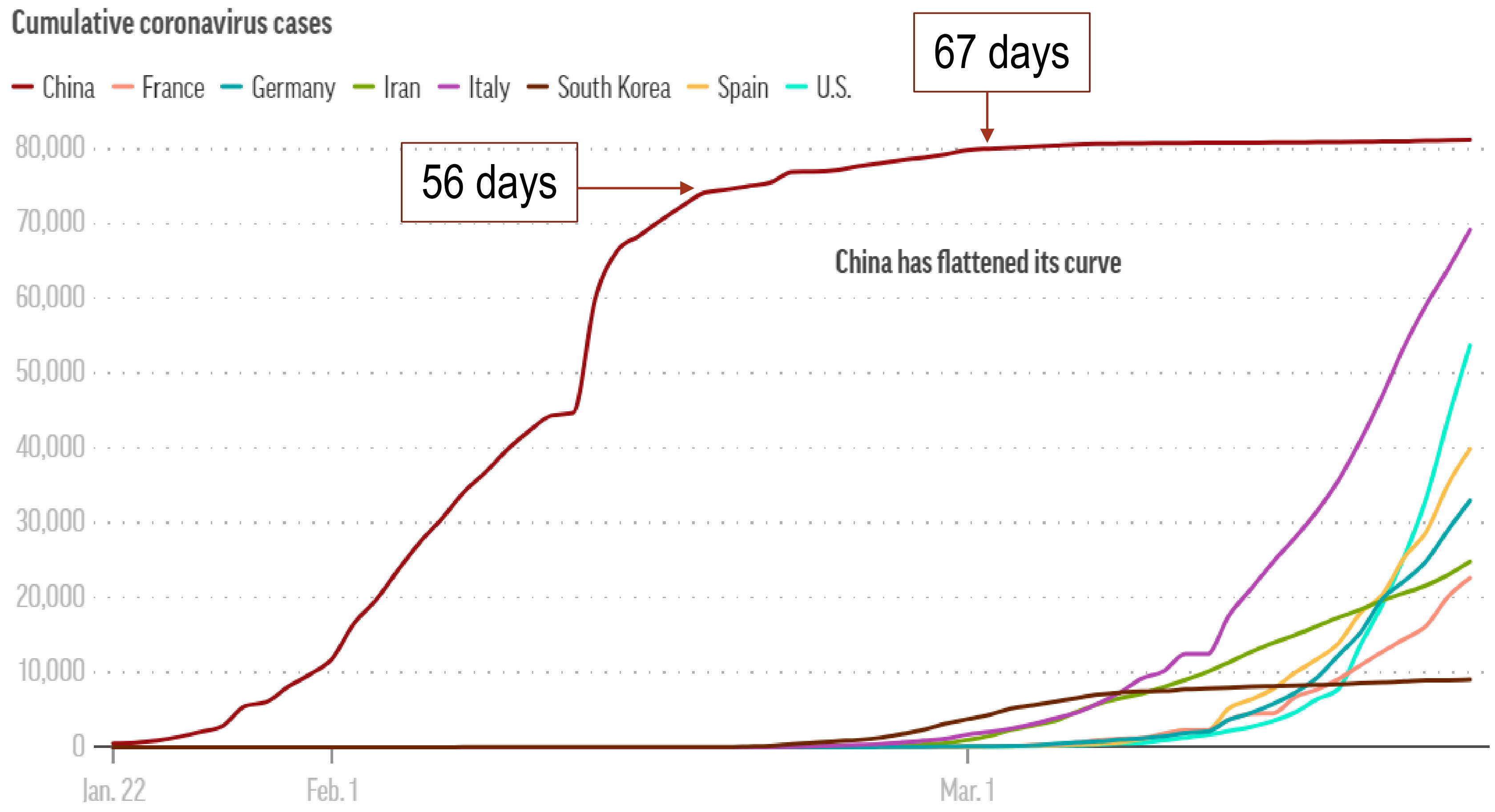
COVID-19 & THE BEGINNING OF THE END?

- In China, the first cases were discovered on January 22, 2019; the curve of new cases of Coronavirus began to flatten on February 18, 2020, or in approximately 56 days; and the curve went essentially flat on March 1, 2020, or 11 days later.
- South Korea went flat in just 31 days, owing to rigorous testing and quarantine measures deployed early in the outbreak
- If the U.S. Follows a similar trajectory (big if?), and the data from China is reliable (bigger if?), then following the first reported cases on March 1, 2020, the curve in the U.S. should begin to flatten April 25, 2020, and go essentially flat May 6, 2020…



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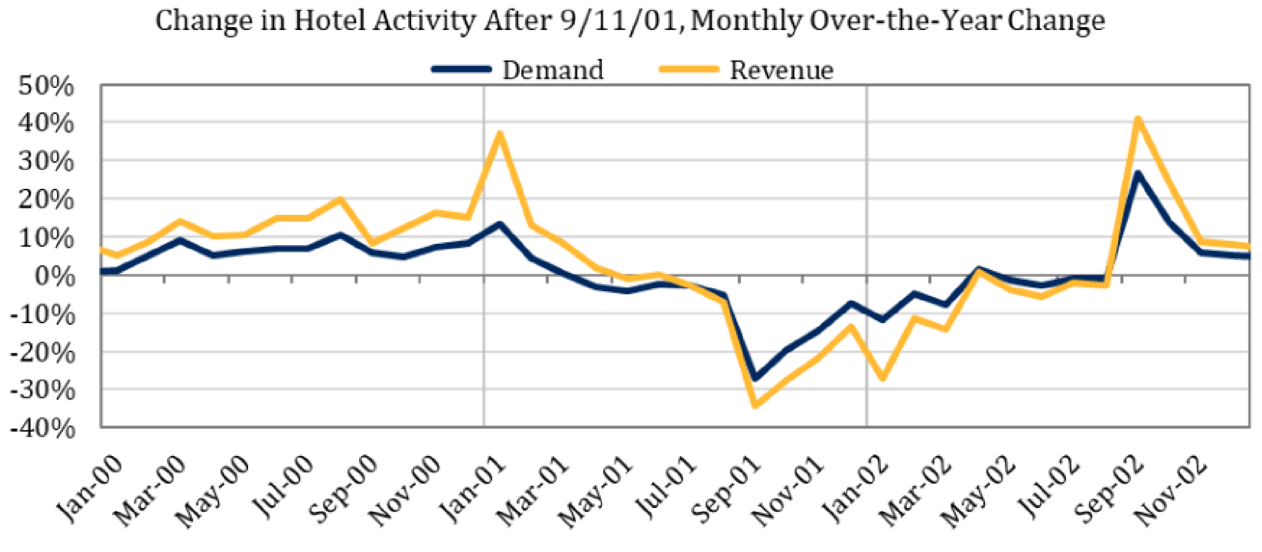
COVID-19 & HOTEL

- U.S. hotel industry reports 30.3% occupancy for week ending March 21, 2020
- U.S. hotel occupancy dropped 24.4% to 53% during the week of 8-14 March.
- ADR fell 10.7% to $120.30 and RevPar declined 32.5% to $63.74.
- Showing further effects of the COVID-19 pandemic, the U.S. hotel industry reported significant year-over-year declines in the three key performance metrics during the week of 15-21 March 2020, according to data from STR.
- In comparison with the week of 17-23 March 2019, the industry recorded the following:
  - Occupancy: -56.4% to 30.3%
  - Average daily rate (ADR): -30.2% to US$93.41
  - Revenue per available room (RevPar): -69.5% to $28.32



Sources: Smith Travel Research; The Stephen S. Fuller Institute at the Schar School, GMU

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COVID-19 & RETAIL

- Morgan Stanley analysts found that early March total retail traffic fell 9.1%
- Apparel retail traffic fell 3.9% and luxury retail traffic declined by 14.7%.
- As coverage in recent weeks in the U.S. has expanded around COVID-19 specialty and category retailers grapple with even more traffic declines.
- Retailers that focus on apparel, big ticket, and discretionary goods are becoming ghost towns while those retailers that focus on food and consumables are seeing an ongoing boom that's spreading over the nation.
- Some stores like category specialists, especially if they stock consumables, can fall in the middle.
- This shift must be temporary as the virus proceeds along its course, yet the full effects of the virus on retail and shopper behavior or how long it will last cannot be known.
- Could this change in consumer behavior result in substantial growth in online shopping post-crisis?

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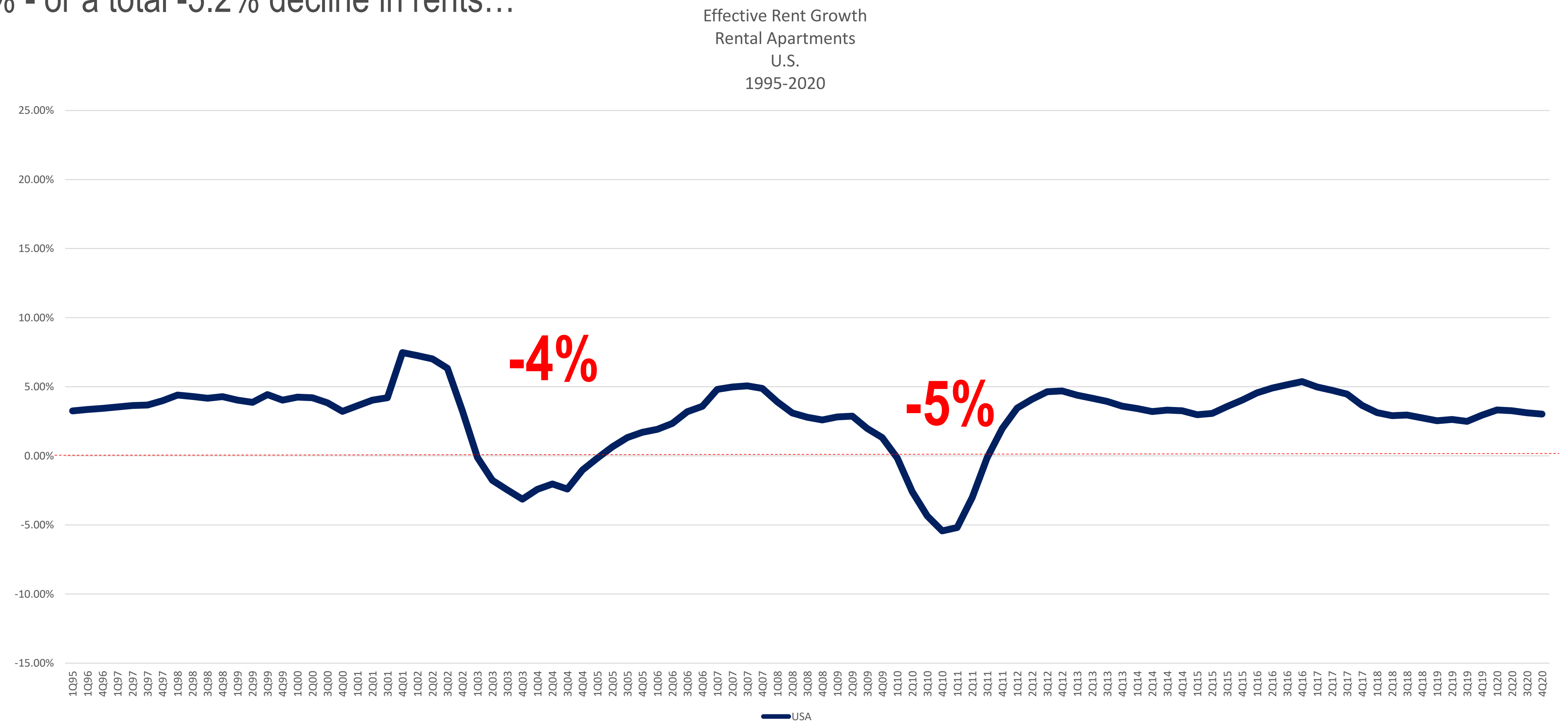
COVID-19 & INDUSTRIAL

- Ironically, this could be good news for some in the industrial sector as demand for ecommerce and distribution in the wake of this pandemic ramps up even further.
- In the long run, expect more manufacturing facilities to locate in north America to ensure supply and access to markets during episodes like this one, a boon to economic growth and industrial and logistics facilities in the U.S. And Mexico.
- Overall leasing activity remained consistent in February and early-March, even as the outbreak broadened. Continued strong activity from those who serve essential daily needs (via e-commerce and rapid replenishment to stores), such as food/beverage, consumer products and general retailers.
- Healthcare, including medical equipment, supplies, pharmaceuticals could see more activity. That growth should help to offset hard hits to customers in the events/travel/hospitality and automobile industries.
- Some market participants are expecting a one-time boost as goods start to flow through supply chains from China. Some customers are concerned about capacity, as the significant catchup volume from China is expected to land in April and May.
- Last week, spot rates for freight shipments to the West Coast jumped 18% as companies competed for limited shipping capacity.
- Demand for distribution and warehouse space may likely increase as U.S. companies favor higher inventory levels and emphasize supply chain resiliency over efficiency.
- One market participant calculates that a 5% increase in total business inventories would translate into the need for an additional 500 to 700 million square feet of industrial space.

COVID-19 & RENTAL APARTMENTS – EFFECTIVE RENT GROWTH

- 2001 (Q1 2001 to Q4 2001) recession, MF experienced 9 consecutive quarters of negative effective rental rate growth in U.S. at annualized rate of -1.7% - or a total -3.9% decline in rents before returning to growth mode…
- 2008-09 (Q4 2007 to Q2 2009) recession – MF experienced 7 consecutive quarters of negative effective rent growth at an annualized rate of -3.0% - or a total -5.2% decline in rents…



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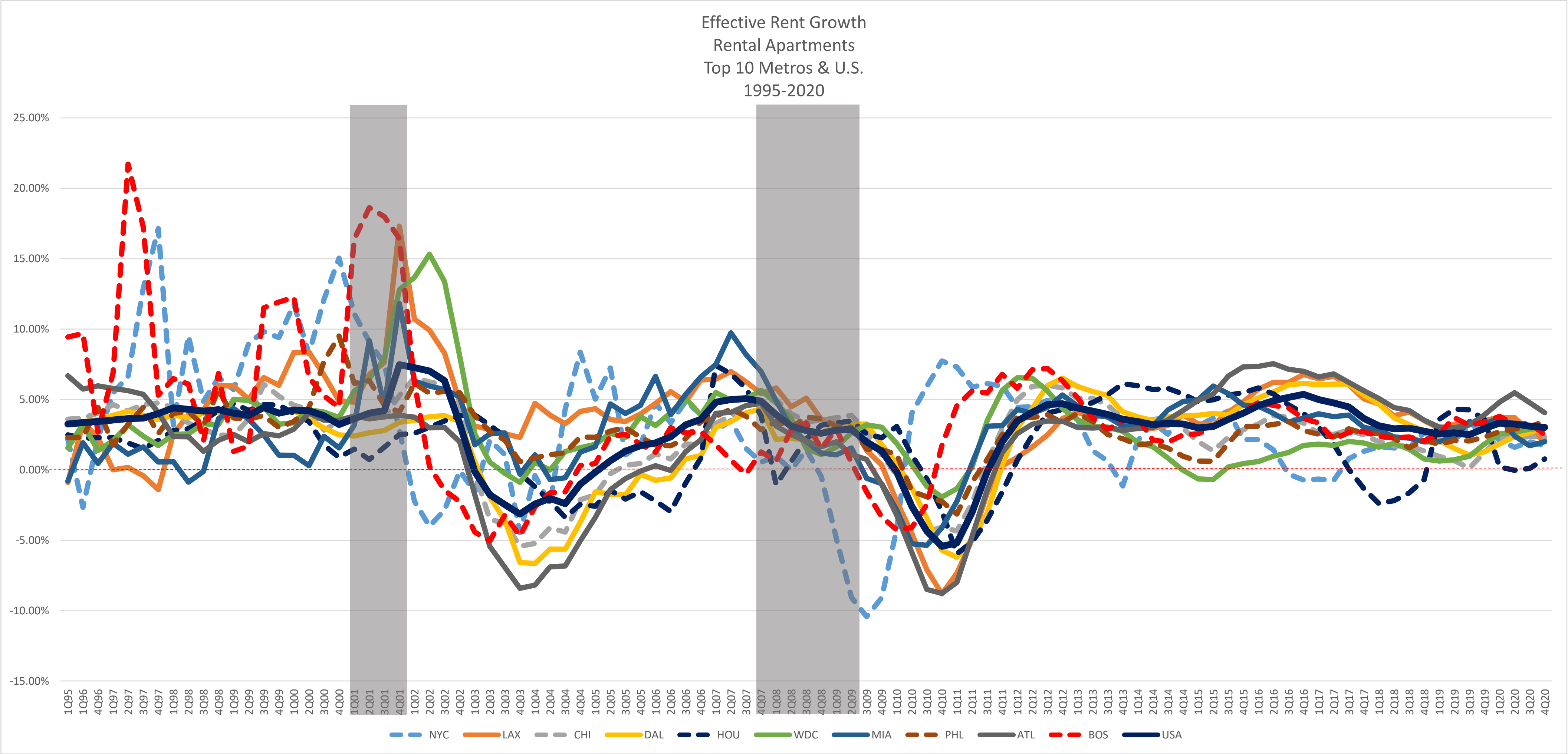
COVID-19 & RENTAL APARTMENTS – EFFECTIVE RENT GROWTH

- After the 2001 recession, LA and PHL experiencing no period of negative effective rent growth; ATL (14 quarters -13.7%) and DAL (13 quarters -10.3%) were the most impacted; average for top 10 metros was 7.6 quarters and -4.8% of negative effective rent growth…
- In the wake of the 2008-09 recession, ATL again (8 quarters, -10.4%) and NYC (6 quarters, -9.5%) of effective rent growth were most impacted; WDC fared best (3 quarters, -1.0%); and the average for the top 10 metros was 6 quarters and -5.8% effective rent growth…



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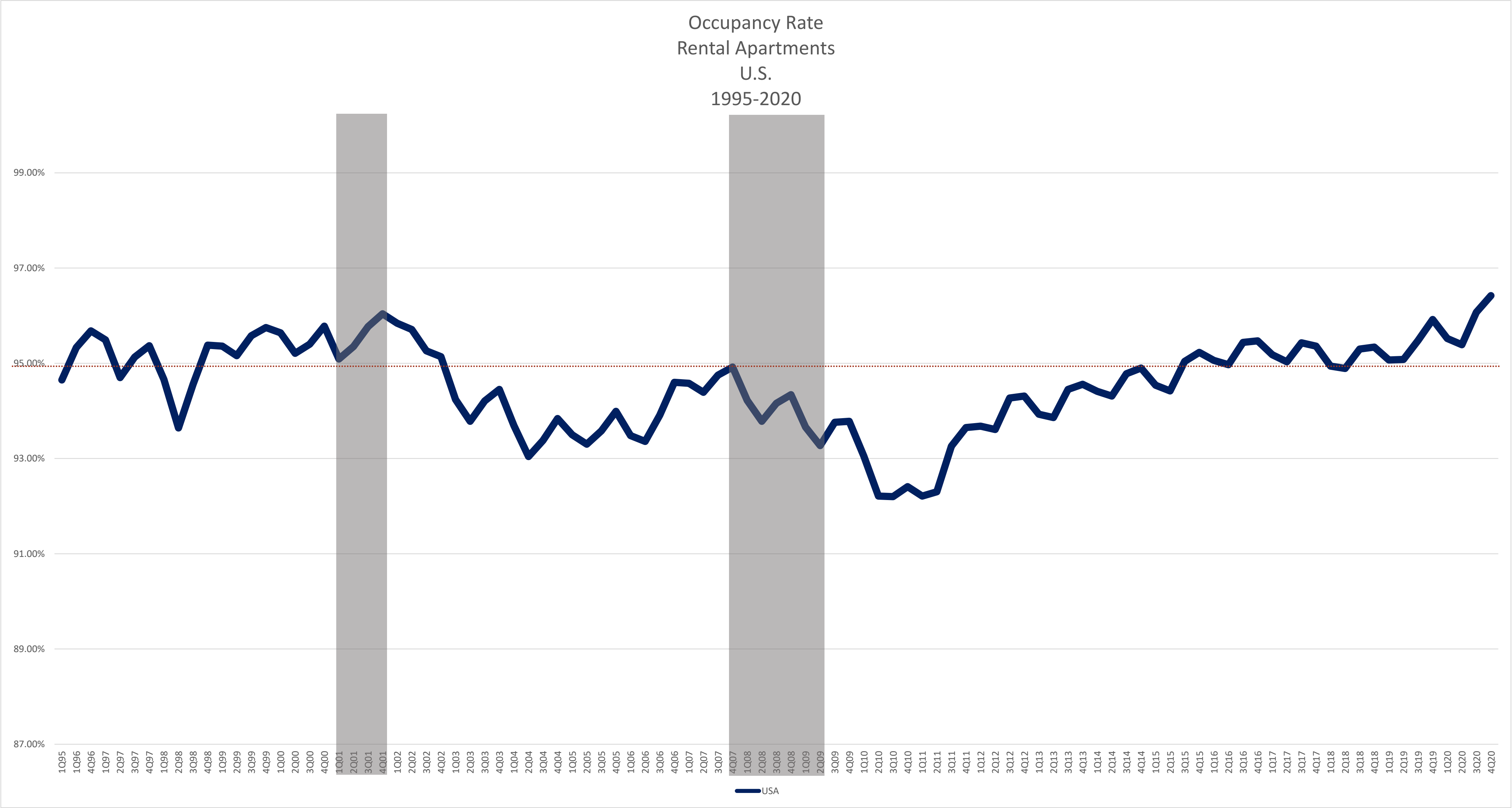
COVID-19 & RENTAL APARTMENTS – OCCUPANCY RATE

- Vacancy rates following the 2001 recession reached a low of 93%; and 92% following the 2008-09 recession…



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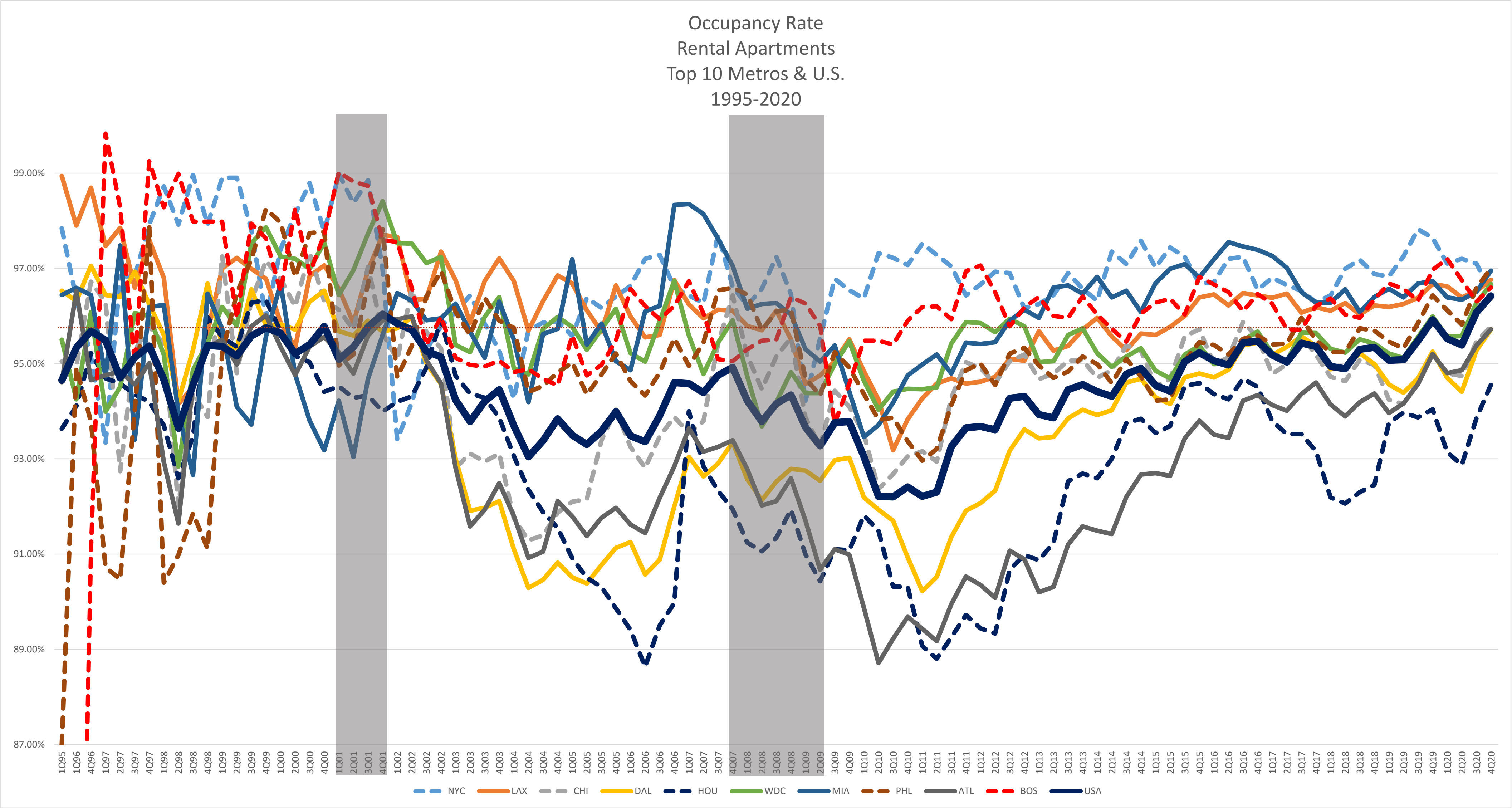
COVID-19 & RENTAL APARTMENTS – OCCUPANCY RATE

- 2001 HOU low point at 89% occupancy; all other top 10 remained above 90%
- 2008-09 HOU & ATL low point 89% occupancy; all other top 10 above 90%



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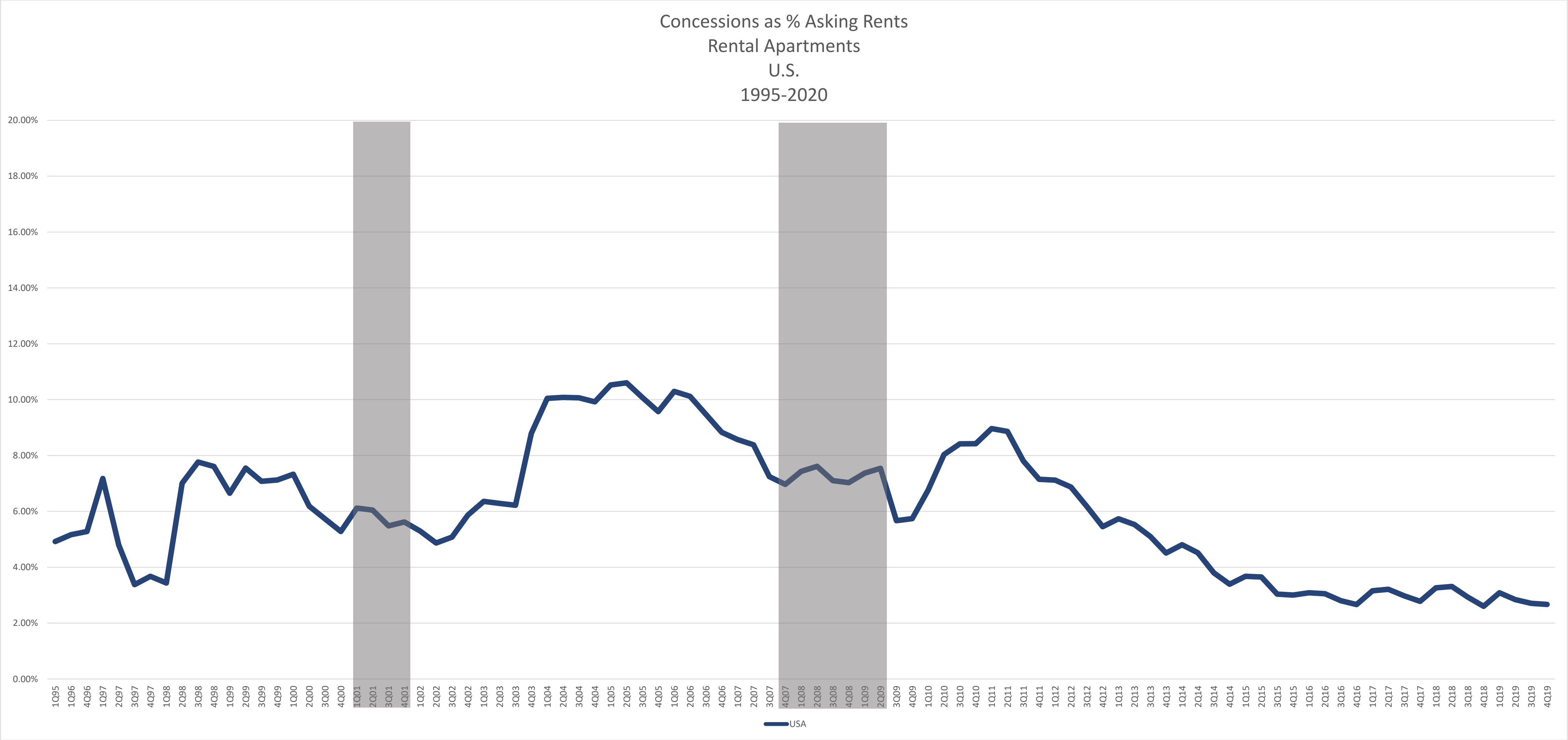
COVID-19 & RENTAL APARTMENTS - CONCESSIONS

- Concessions during and immediately after the 2001 downturn averaged nearly 5.0% of asking rents
- 2008-09 recession concessions below 9.0%



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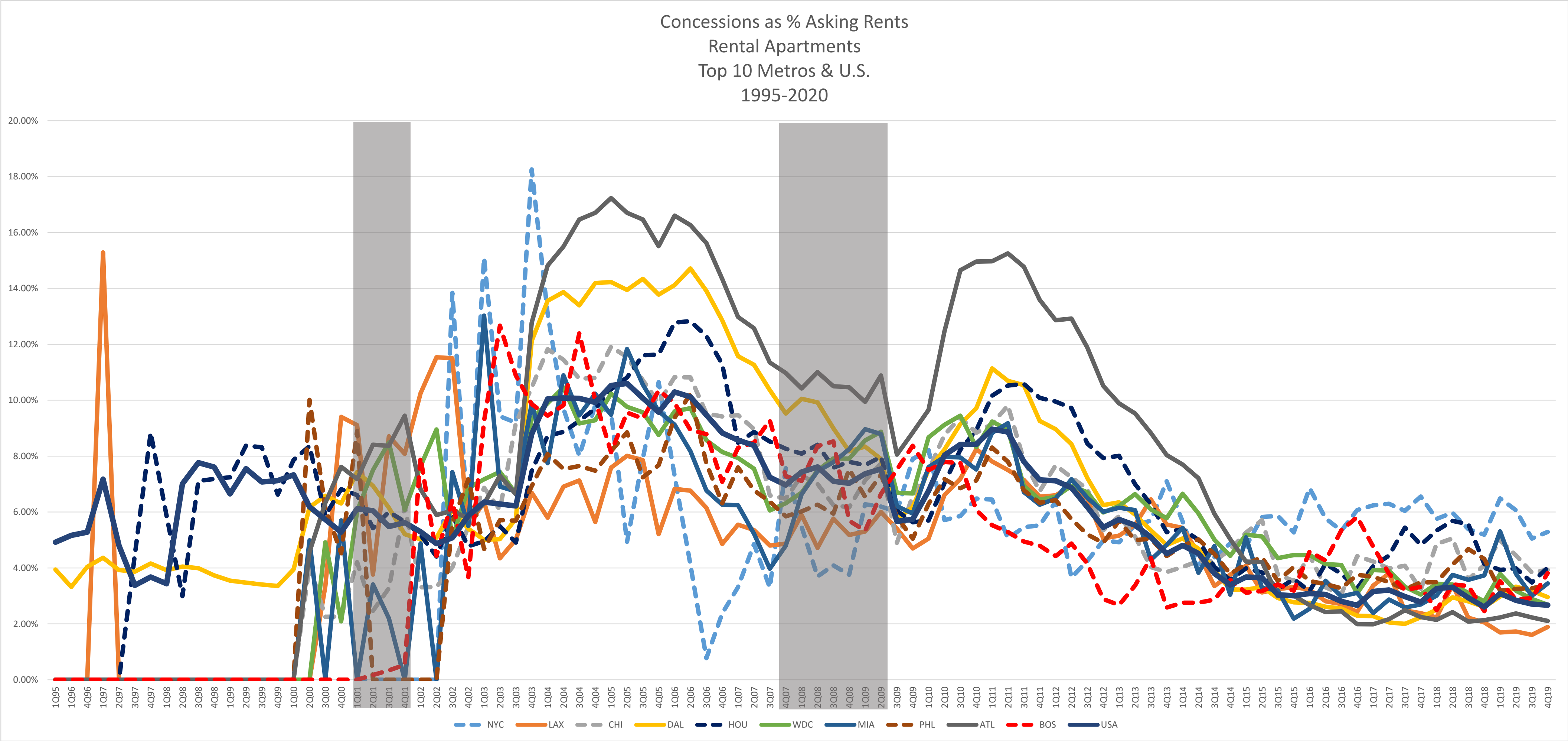
COVID-19 & RENTAL APARTMENTS - CONCESSIONS

- In 2001, ATL was the leader in this category at 5.8%; the MIA and BOS markets offered no concessions during this downturn; and the average for the top 10 was 2.6%.
- Concessions were significantly higher in 2008-09, peaking at 5.7% of asking rents for the U.S. Overall; ATL peaked at 15.3% and NYC had the lowest level of concessions at 3.7%; and the average for the top 10 was 5.4%.



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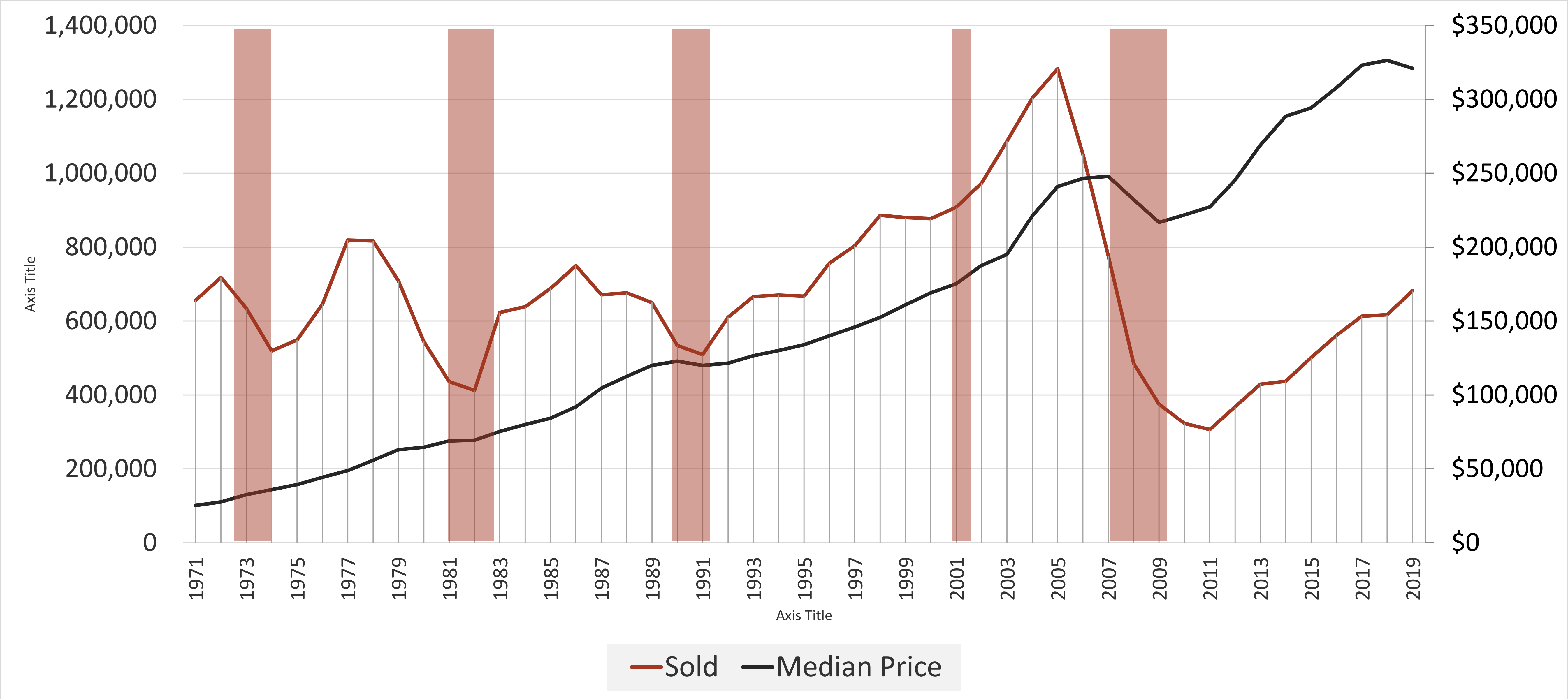
COVID-19 & MF RCLCO POV

- Evidence from China, South Korea, and even Italy now, indicates that there may be a light at the end of the tunnel, and the trajectory of the coronavirus may be of relatively short duration in the U.S. As well
- If this is the case, then perhaps the Q2 2020 to Q3 2020 (?) downturn will be relatively short – but probably fairly deep/damaging, given the fact that it has touched nearly every aspect of business/life
- Without the for-sale headwinds of 2001-2003, the impact to the rental apartment sector will look more like the 2008-09 experience – with a relatively short period of (but potentially steep) rental rate declines over a period of 12 to 18 months totaling 5% to 10%; moderate increases in vacancy rates, but still in a healthy zone (93% or better)
- This is likely to be followed by a return to relatively robust rental growth in the 24 months following a recovery at a clip of 3% to 5% annual growth
- However, if the contagion persists longer and there is continued and/or multiple rounds of social distancing, then this outlook could be materially worse

COVID-19 & FOR SALE HOUSING



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COVID-19 & FOR SALE HOUSING

- Potential for recession, layoffs, lower consumer confidence, fear etc. pushing some homebuyers onto the sidelines
- Most recent NAR survey shows 61% of sellers still moving forward with marketing their property (down from 81% earlier in the month), with 16% of sellers taking steps to stop marketing their homes - stock market decline
- Sales of newly built homes slowed in February; data for March not yet available but further sales decline expected
- RCLCO interviewed builder and developer clients say sales office traffic has slowed but not stopped
  - Social distancing, and economic uncertainty keeping some buyers away, though online traffic is up
- New home sales activity will slow but not stop
  - The spring sales season usually starts to get going now (March) but its likely delayed until summer;
    - 21 State governments ordering nonessential workers to stay at home
    - Luxury market was already showing declines and turbulence in financial markets impacting household wealth will add to that
    - Vacation and second home markets likely to lag primary home recovery
- How long and how deep the impact will be on the housing market is hard to say because we don't yet know the duration of this crisis
  - If indications from China and South Korea are guides, the market could recover late this year

Uncertainty among buyers and sellers will last until the rate of new Covid-19 cases slows, people go back to work, stock market improves more substantially

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COVID-19 & FOR SALE HOUSING

- The Coronavirus Aid, Relief, and Economic Security Act will soften the impacts of a recession, with Single Family and MF mortgage relief and other provisions beneficial to construction
- Interest rates at historic lows which make it a great time to buy for those feeling secure about their economic situation, likely not the majority of consumers
- Fannie Mae and Freddie Mac are providing alternative appraisal requirements and employment verifications on loans the agencies service through May -- these will have moderately positive effects
- The crisis may be hastening the future of real estate sales: Redfin brokerage announced a 494% increase in agent-led video home tours last week, with the majority of the requests for video-chat tours
  - New Home Communities: Time to step up your online sales and marketing tech
- New Home Prices have not been dramatically impacted in most recessions
  - Low Rates and fewer new homes constructed due to workers staying home, supply chain disruptions on materials from China etc. could keep pressure on home prices even with falling demand
  - Unsold inventory is already at low levels, and reduced construction activity means that is likely to continue, even more so if at least some buyers respond to lower rates

Depending on the duration of the health crisis, the primary for-sale housing market could recover late this year, back to the state of dealing with the affordability crisis, and moderate growth due to strong underlying demand

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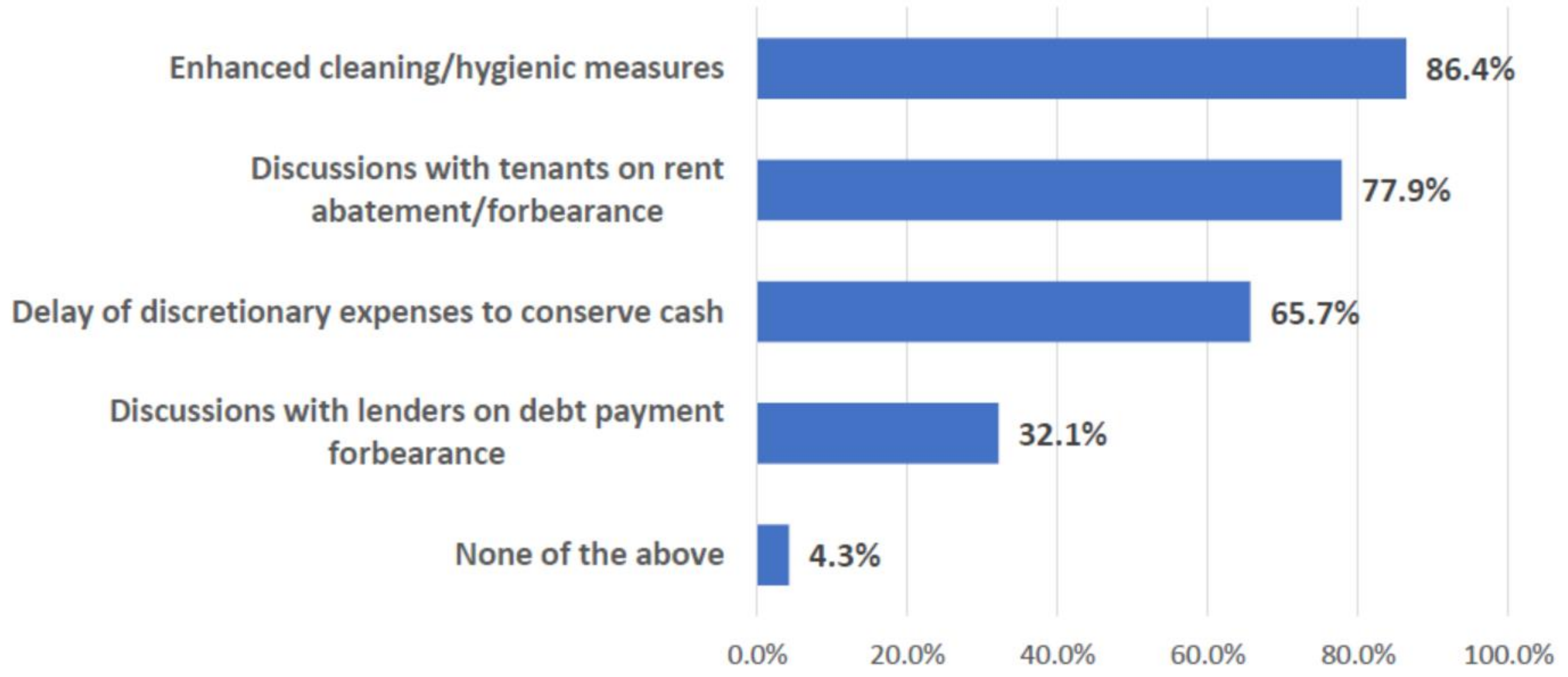
COVID-19 & ACTION PLANS

► Property owners are taking action…

QUESTION: Asset management: Which, if any, of the following have you already implemented at properties which you own/invest in due to the COVID-19 coronavirus and/or the associated market volatility (choose all that apply)?



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Source: PREA

COVID-19 & COMPANY EMERGENCY RESPONSES

WHAT ARE MULTIFAMILY COMPANIES DOING IN RESPONSE TO COVID-19:

- Closing amenities
- Implementing enhanced cleaning and disinfecting protocols
- Promoting responsible personal hygiene and COVID-19 diagnosis protocols
- Completing essential or emergency service calls only
- Equipping maintenance staff with appropriate protective gear
- Providing resident support via phone and email channels only
- Conducting self-guide and/or virtual tours with prospects
- Waiving late fees
- Halting evictions for 90 days for residents who can document impacts
- Providing payment plans for residents unable to pay due to the crisis
- Offering flexible renewals with no rent increases for 90 days
- Closing leasing offices and reducing on-site personnel hours, but not pay
- Providing full- & part-time employees up to 4 weeks emergency paid leave
- Reducing non-essential capital expenditure programs
- Suspending construction on new developments at company's discretion
- Evaluating and delaying new starts on a case by case basis

WHAT ARE HOMEBUILDING COMPANIES DOING IN RESPONSE TO COVID-19:

- Keeping some sales centers remain open, but appointment only or touring only one family at a time to manage group sizes
- Offering virtual tours and walkthroughs
- Making sales centers are no handshake zones
- Cleaning sales centers and model homes routinely
- Instructing employees exhibiting symptoms to stay home
- Conducting a digital wellness check with all employees daily

WHAT ARE INDUSTRIAL COMPANIES DOING IN RESPONSE TO COVID-19:

- Forming a COVID-19 task force which regularly meets to assess risk
- Barring employees from attending industry events until at least April 30
- Requiring employees to work from home in high risk regions
- Communicating regularly with tenants via customer experience teams
- Elevating cleaning practices in offices
- Implementing remote work policy
- Updating employee travel policy to align with health officials' guidance
- Focusing on maintaining liquidity
- Monitoring potential impacts to tenants at property level and solutions

COVID-19 & COMPANY EMERGENCY RESPONSES

WHAT ARE RETAIL COMPANIES DOING IN RESPONSE TO COVID-19:

- Closing all non-essential retail stores to be evaluated at a later date
- Beginning active dialogue with tenants on how to address changes
- Reducing non-staff expenses
- Increasing the frequency and intensity of janitorial services
- Securing/extending lines of credit and converting to unsecured, where possible
- Making any relevant facility available to national authorities
- Stopping all business travel
- Instituting 100% work from home policy
- Offering paid time off to care for themselves or family

WHAT ARE HOTEL COMPANIES DOING IN RESPONSE TO COVID-19:

- Offering free cancelation
- Reducing reward thresholds and delaying reward expiration
- Implementing aggressive cost reduction and capital preservation measures
- Reducing marketing costs
- Deferring brand standards temporarily to help owners & franchisees
- Cancelling all non-essential travel and spending
- Closing portions of hotels to match expected occupancy
- Closing food and beverage outlets at some properties
- Shortening the work week
- Reducing hourly and part-time staffing to match occupancy
- Requiring salaried employees to perform some functions normally performed by hourly and part-time staff
- Making significant cuts in senior executive salaries

COVID-19 & YOUR RE COMPANY STRATEGY

- The survivors will be those who:
  a. Enjoy healthy debt coverage ratios to cover debt service requirements even if NOIs fall off
  b. Have little exposure to lease and debt maturation over the next few years, and
  c. Managed to arrange standby capital for “dry powder”.
- The action plan is to manage cash, monitor the situation closely and bear in mind that the situation in the United States will get worse before it gets better but that the message from China and South Korea is there is an endgame in sight.
- This is absolutely the time, if you have not done so already, to:
  1. Stress test your portfolio and understand what a 5% or even 10% drop in rents, or a 10% to 15% decline in sales, will mean to your cash flows, your ability to service your debt, and maintain your distributions to shareholders, and ensure that you have sufficient liquidity to weather the downturn.
  2. Decide now what you want to own that you don’t already, and develop a plan to closely track those sectors and/or markets to detect early signs of distress.
  3. Be ready to move quickly and decisively – the windows of opportunity are relatively short and there is a lot of capital waiting to take advantage of distress, so the early bird will get the worm.
  4. Keep contingency “Plan B” at the ready in the event that things get worse, but “Plan A” should be to stay the course and ride out the storm.

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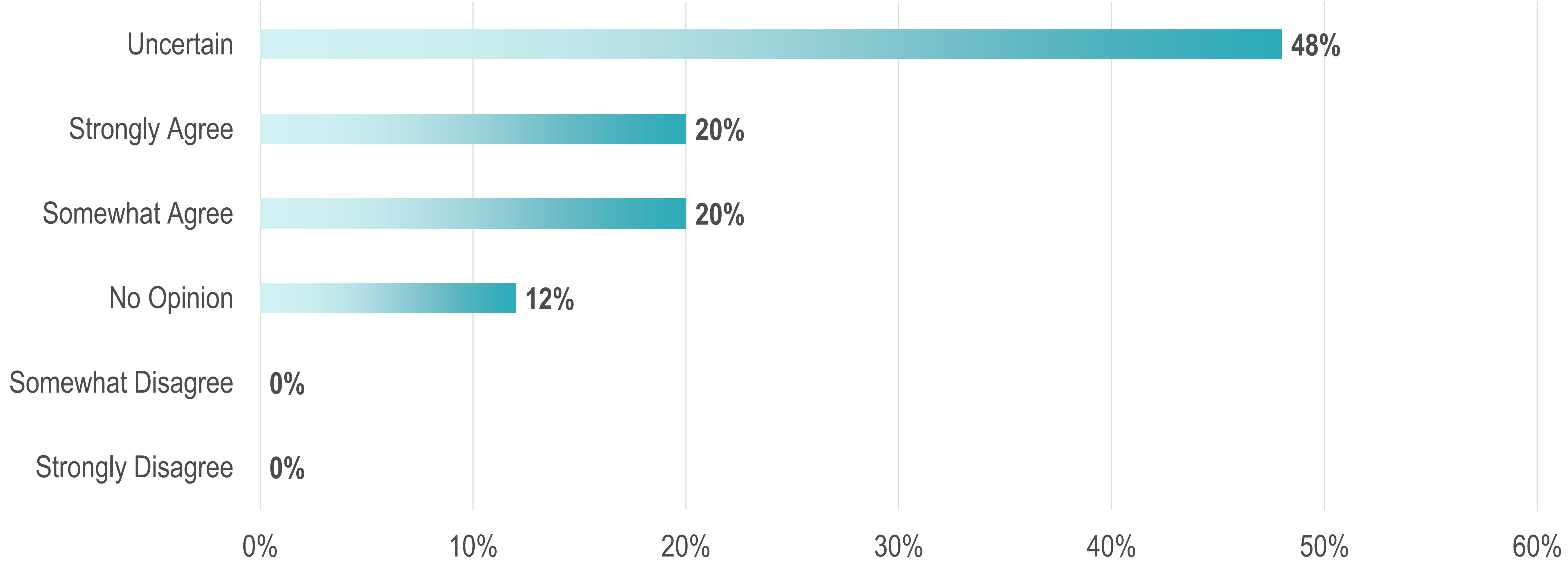
LAST WEEK'S POLL QUESTIONS

The economic effects of COVID-19 coming from reduced spending will be larger than those coming from disruptions to supply chains and illness-related workforce reductions.



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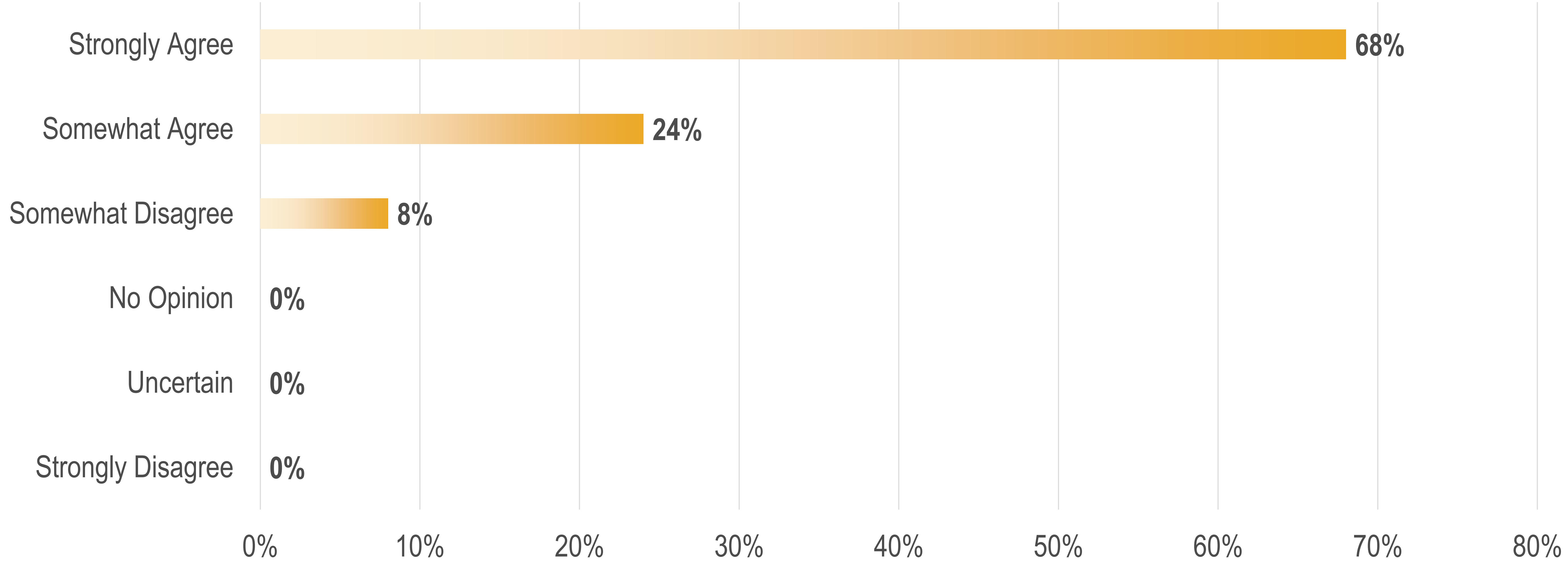
LAST WEEK'S POLL QUESTIONS

Even if the mortality of COVID-19 proves to be limited (similar to the number of flu deaths in a regular season), it is likely to cause a major recession.



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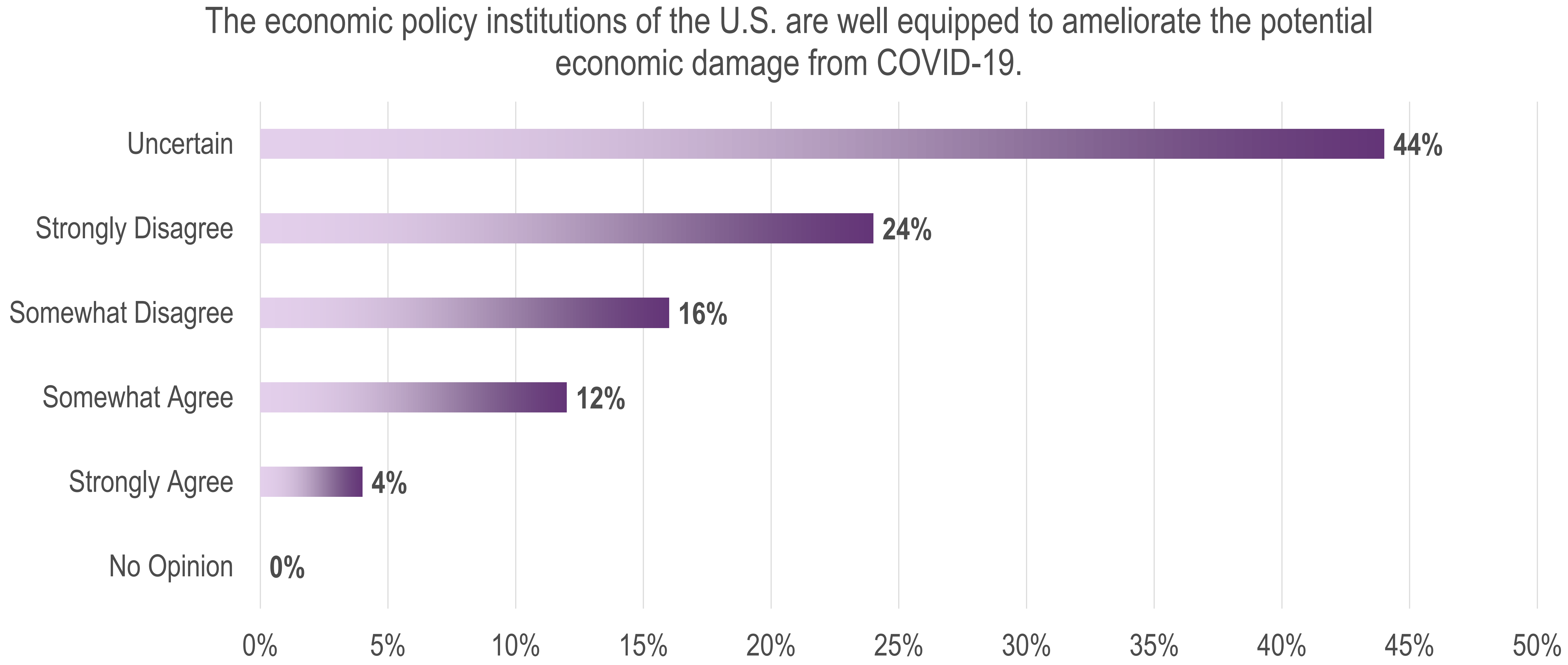
LAST WEEK'S POLL QUESTIONS



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DISCLAIMERS

CRITICAL ASSUMPTIONS

Our conclusions are based on our analysis of the information available from our own sources and from the client as of the date of this report. We assume that the information is correct, complete, and reliable.

We made certain assumptions about the future performance of the global, national, and local economy and real estate market, and on other factors similarly outside either our control or that of the client. We analyzed trends and the information available to us in drawing these conclusions. However, given the fluid and dynamic nature of the economy and real estate markets, as well as the uncertainty surrounding particularly the near-term future, it is critical to monitor the economy and real estate markets continuously and to revisit the aforementioned conclusions periodically to ensure that they are reflective of changing market conditions.

This is particularly the case in light of recent developments that have occurred in Q1 2020, including fears of disruption due to the novel coronavirus, a price war that has precipitated a sharp drop in global oil prices, and concern over the level of corporate debt in the U.S. that could become a problem in a slowing economy. These events underscore the notion that stable and moderate growth patterns are historically not sustainable over extended periods of time, the economy is cyclical, and real estate markets are typically highly sensitive to business cycles. Further, it is particularly difficult to predict inflection points, including when economic and real estate expansions will end, and when downturn conditions return to expansion.

Our analysis and recommendations are based on information available to us at the time of the writing of this report, including the likelihood of a downturn, length and duration, but it does not consider the potential impact of additional/future shocks on the national and/or local economy, and does not consider the potential benefits from major "booms" that may occur. Similarly, the analysis does not reflect the residual impact on the real estate market and the competitive environment of such a shock or boom. Also, it is important to note that it is difficult to predict changing consumer and market psychology. As such, we recommend the close monitoring of the economy and the marketplace, and updating this analysis as appropriate.

Further, any project and investment economics included in our analysis and reports should be “stress tested” to ensure that potential fluctuations in revenue and cost assumptions resulting from alternative scenarios regarding the economy and real estate market conditions will not cause unacceptable levels of risk or failure.

In addition, and unless stated otherwise in our analysis and reports, we assume that the following will occur in accordance with current expectations by market participants:

- Tax laws (i.e., property and income tax rates, deductibility of mortgage interest, and so forth)
- Availability and cost of capital and mortgage financing for real estate developers, owners and buyers
- Competitive supply (both active and future) will be delivered to the market as planned, and that a reasonable stream of supply offerings will satisfy real estate demand
- Major public works projects occur and are completed as planned

Should any of the above change, this analysis should be updated, with the conclusions reviewed accordingly (and possibly revised).

GENERAL LIMITING CONDITIONS

Reasonable efforts have been made to ensure that the data contained in this study reflect accurate and timely information and are believed to be reliable. This study is based on estimates, assumptions, and other information developed by RCLCO from its independent research effort, general knowledge of the industry, and consultations with the client and its representatives. No responsibility is assumed for inaccuracies in reporting by the client, its agent, and representatives or in any other data source used in preparing or presenting this study. This report is based on information that to our knowledge was current as of the date of this report, and RCLCO has not undertaken any update of its research effort since such date.

Our report may contain prospective financial information, estimates, or opinions that represent our view of reasonable expectations at a particular time, but such information, estimates, or opinions are not offered as predictions or assurances that a particular level of income or profit will be achieved, that particular events will occur, or that a particular price will be offered or accepted. Actual results achieved during the period covered by our prospective financial analysis may vary from those described in our report, and the variations may be material. Therefore, no warranty or representation is made by RCLCO that any of the projected values or results contained in this study will be achieved.

Possession of this study does not carry with it the right of publication thereof or to use the name of "Robert Charles Lesser & Co." or "RCLCO" in any manner without first obtaining the prior written consent of RCLCO. No abstracting, excerpting, or summarization of this study may be made without first obtaining the prior written consent of RCLCO. This report is not to be used in conjunction with any public or private offering of securities or other similar purpose where it may be relied upon to any degree by any person other than the client without first obtaining the prior written consent of RCLCO. This study may not be used for any purpose other than that for which it is prepared or for which prior written consent has first been obtained from RCLCO.

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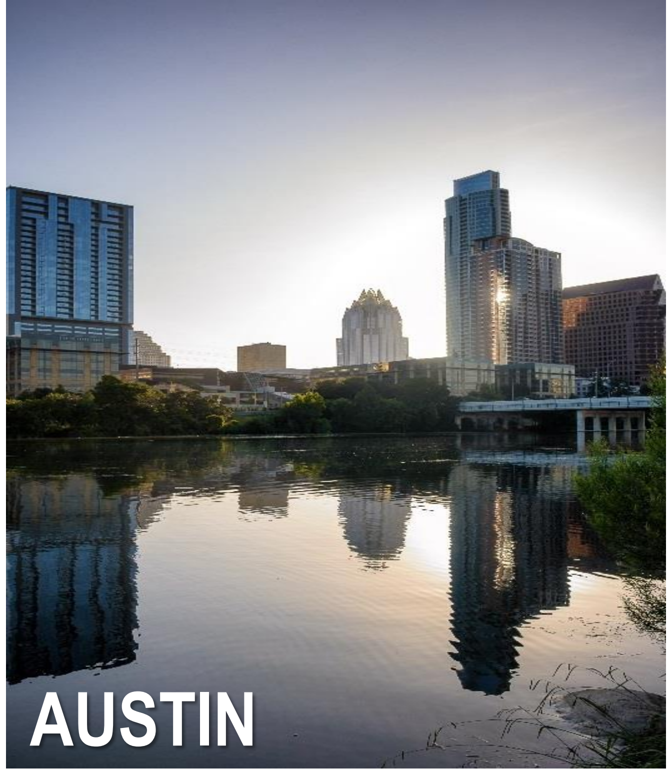

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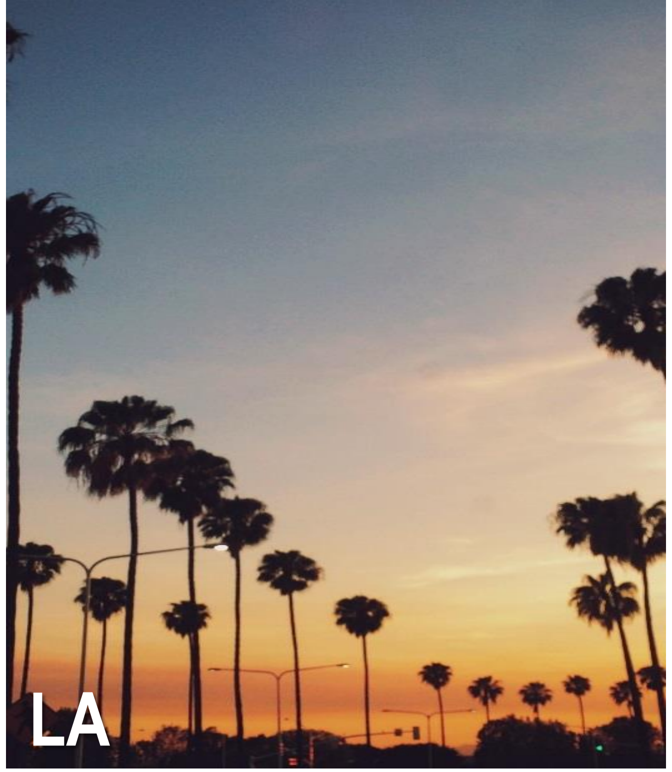

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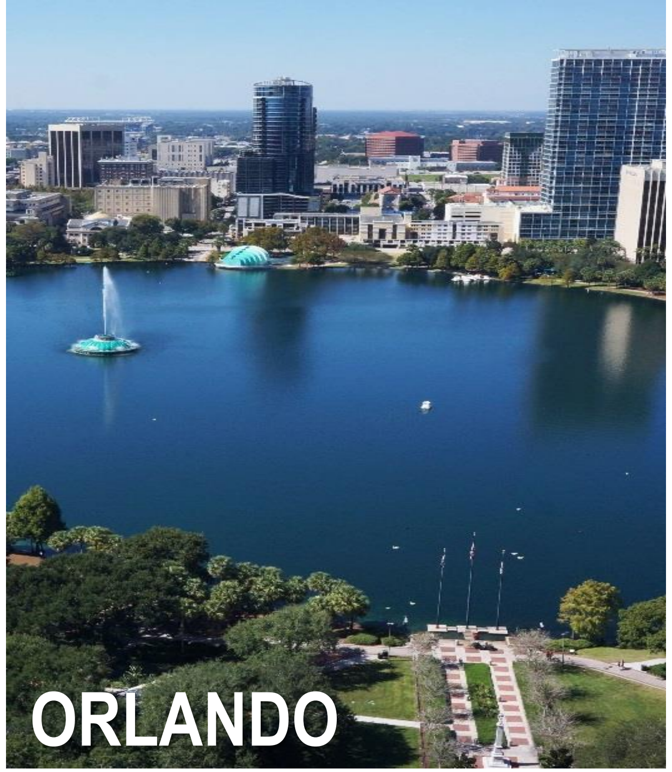

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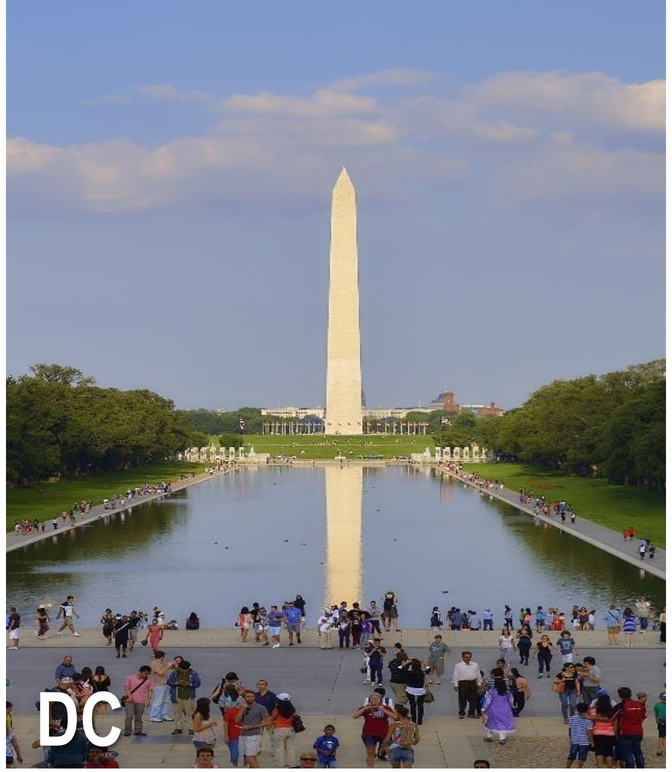

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