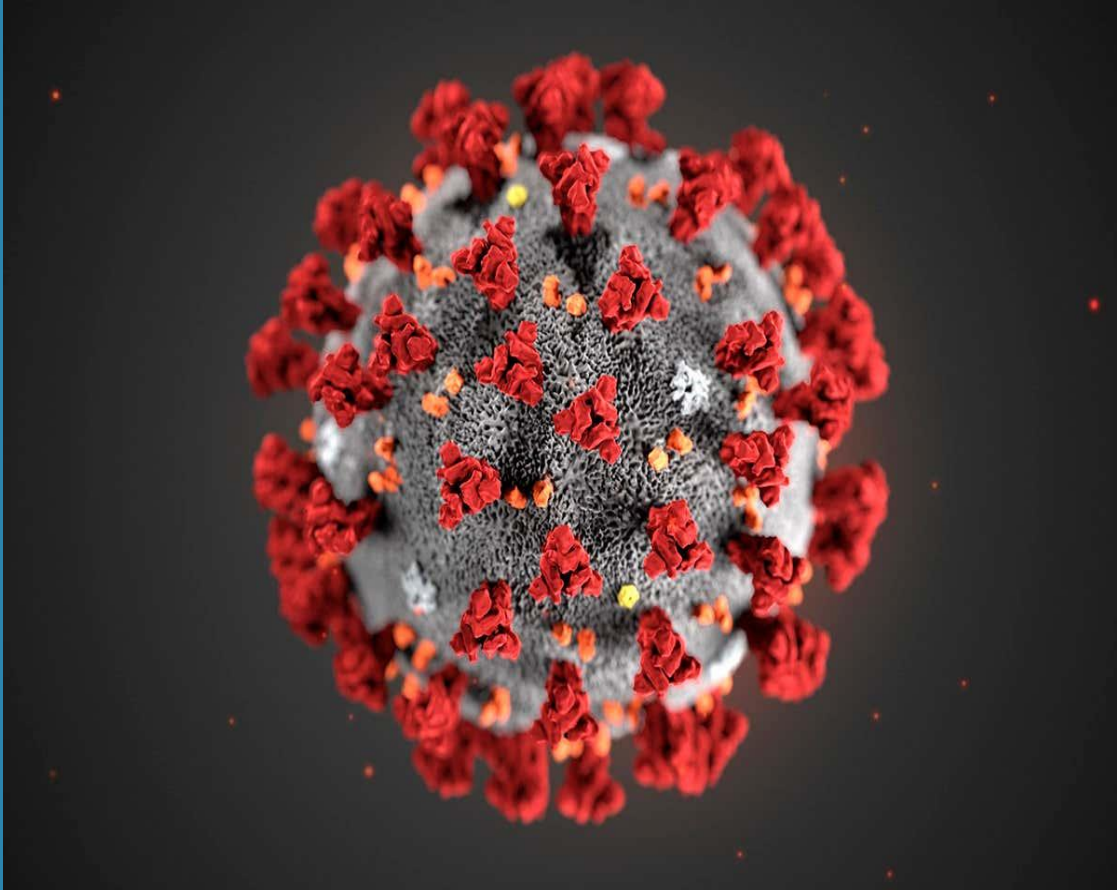


Effects of COVID-19 on Valuation of Hotels, Office Buildings, Retail

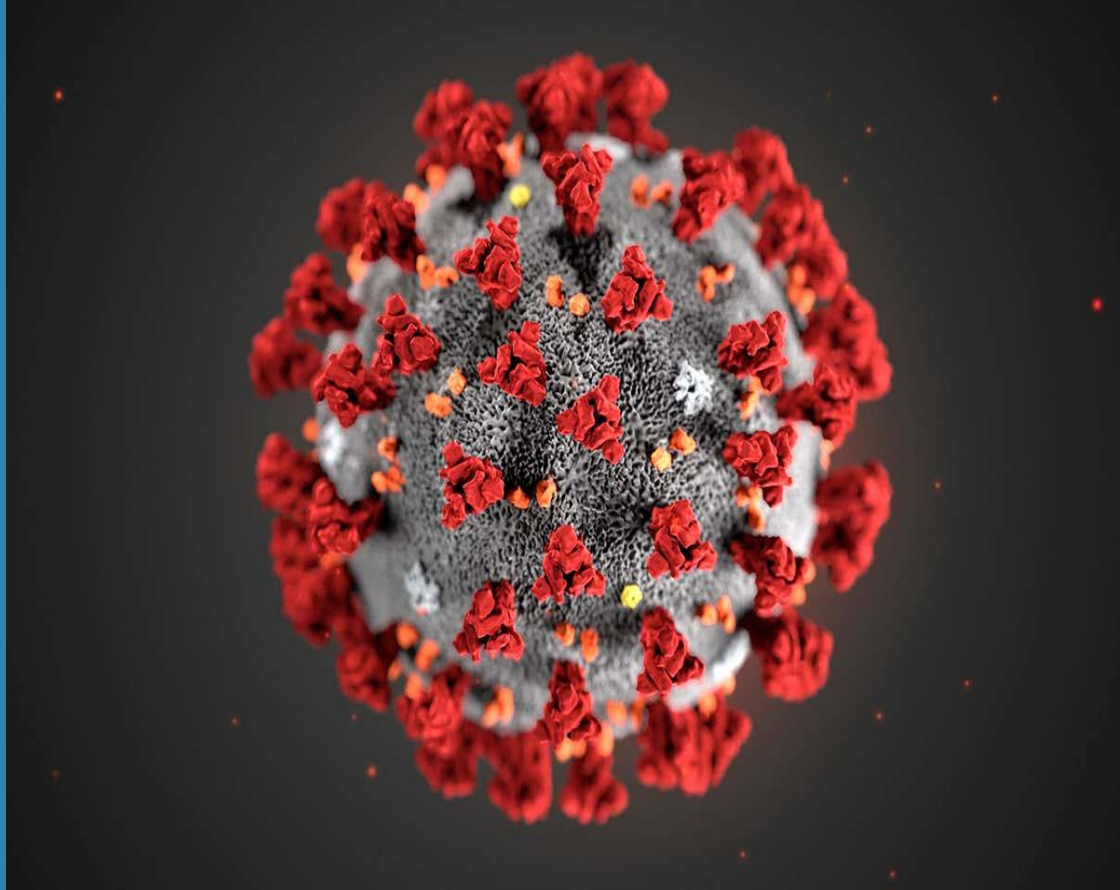
John S. Trabold, MAI

February 23, 2021



COVID – 19 Timeline

- 12-31-19; Wuhan Municipal Health Commission, China, reported a cluster of cases of pneumonia in Wuhan, China
- 1-13-20; First case reported outside of China in Thailand
- 3-6-20; 21 of 46 Carnival cruise passengers test positive for COVID
- 3-7-20; 100,000 worldwide cases reported
- 3-30-20; Trump signs CARES Act
- 4-4-20; 1,000,000 worldwide cases reported



COVID – 19 Timeline

- 5-28-19; US death total passes 100,000
- 6-10-20; US Cases reach 2,000,000
- 9-28-20; Worldwide death toll surpasses 1,000,000
- 10-19-20; Worldwide cases pass 30,000,000
- 11-4-20; US surpasses 100,000 cases in a single day
- 12-11-20; Pfizer vaccine approved; Moderna approval follows one week later
- 2-22-20 US death toll passes 500,000

COVID Hotel Real Estate Impact

2019

- Occupancy: 66.1%
- Average Daily Rate: \$131.11
- REVPAR: \$86.73
- REVPAR Increase: 0.9%

2020

- Occupancy: 41.0%
- Average Daily Rate: \$101.67
- REVPAR: \$41.67
- REVPAR Increase: -51.9%



Hotel Performance and Projections

BASELINE FORECAST – US LODGING INDUSTRY

Year	Occ	Occ ^	ADR	ADR ^	RevPAR	RevPAR ^	Supply ^	Demand ^
2016	65.4%	0.1%	\$ 124.06	3.0%	\$ 81.14	3.1%	1.4%	1.5%
2017	65.9%	0.7%	\$ 126.81	2.2%	\$ 83.52	2.9%	1.7%	2.4%
2018	66.1%	0.4%	\$ 129.91	2.5%	\$ 85.94	2.9%	2.0%	2.4%
2019	66.1%	-0.1%	\$ 131.11	0.9%	\$ 86.73	0.9%	2.0%	2.0%
2020F	41.0%	-38.0%	\$ 101.67	-22.5%	\$ 41.67	-51.9%	1.5%	-37.0%
2021F	55.9%	36.3%	\$ 110.69	8.9%	\$ 61.83	48.4%	-1.1%	34.8%
2022F	65.0%	16.4%	\$ 122.93	11.1%	\$ 79.95	29.3%	0.0%	16.4%
2023F	66.6%	2.4%	\$ 130.47	6.1%	\$ 86.92	8.7%	0.6%	3.0%

Source: CBRE Hotels Research, STR, May 2020.

CBRE

COVID IMPACT ON HOTEL VALUES BY CLASSIFICATION

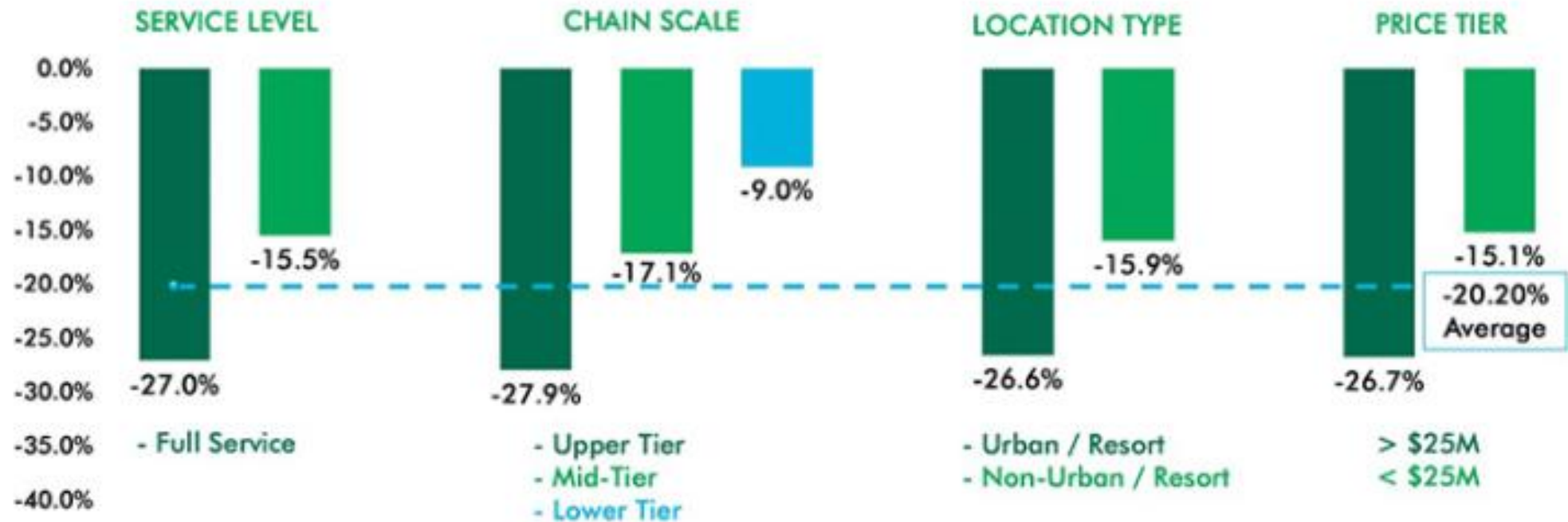
FIGURE 1: COVID-19 VALUE IMPAIRMENT CLASSIFICATIONS

	LOW <10%	MODERATE 10 - 20%	HIGH 20 - 30%
Chain Scale	Economy / Midscale / Upper Midscale	Upper Midscale / Upscale	Upper Upscale / Luxury
Market	Drive to markets	Primary and secondary drive to markets, including resorts	Primary / Gateway markets, Fly to Resorts
Location	Suburban / Small Metro / Interstate	Suburban / Small Metro / Interstate / Drive to Resort	Urban / Fly to Resort
Service Level	Non-Urban Limited Service / Extended Stay	Non-Urban Limited Service / Select Service / Extended Stay	Full Service / Convention Hotels
Price Range	<\$10M	\$10M - \$25M	>\$25M
Demand Sources	Essential travelers; first responders; transportation industry; construction crews; temporary housing	Essential travelers; first responders; drive to leisure / corporate	Group / Convention; inbound international; fly to leisure / corporate

Source: CBRE Hotels Advisory

COVID IMPACT ON HOTEL VALUES BY CLASSIFICATION

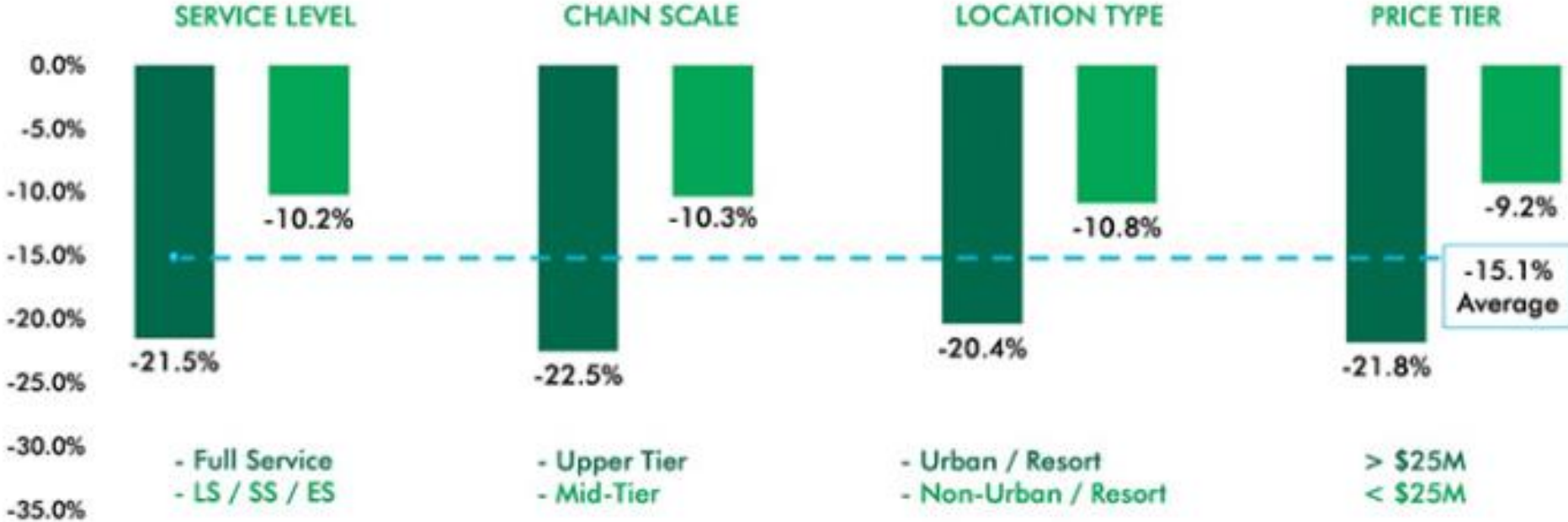
FIGURE 2: COVID-19 VALUE IMPAIRMENT DATA



Source: CBRE Hotels Advisory, Transaction and Appraisal Data

COVID IMPACT ON HOTEL VALUES STABILIZED

FIGURE 3: COVID-19 STABILIZED VALUES - APPRAISAL DATA ONLY



Source: CBRE Hotels Advisory Appraisal Data

Valuation Keys

- Data
- Get pre-COVID operating statements. YE 2019 and 2018 preferable.
- Make a reasonable estimate of when the new normal will occur.
- Deduct the loss of income during lease up.
- Good news – business value argument may disappear for a period of time.
- Monitor markets closely for transactions.

COVID Office Impact (Colliers)

3Q-2019

- Absorption: 10,400,000 in one quarter; 17,900,000 in the previous quarter
- Vacancy Rate: 11.4%. Vacancy had been below its historic average for 19 consecutive quarters
- Gross Asking Rate: \$50.05 psf in the CBD Class A; \$31.15 Suburban Class A

3Q-2020

- Absorption: -36,100,000 in one quarter; lowest total in 20 years, surpassing -25,900,000 in Q1 2009 (Global Financial Crises)
- Vacancy Rate: 12.6% (70 basis points over previous quarter). Sublease part of problem (168,800,000 sf available)
- Gross Asking Rate: \$50.80 psf in the CBD Class A; \$32.03 Suburban Class A. More concessions
- Future of flexible office space: **WeWork; floorplans**
- Year over year transactions down 52%



Office Key Takeaways

- We will see the true impact of COVID as leases begin to expire across the market. More work at home.
- We will see more concessions across many markets. These concessions impact the top line and the bottom line.
- Many operating expenses are going to increase (especially janitorial and security).
- Designs could be shifted as to what is “productive”.
- Monitor markets closely for transactions.

COVID Retail Impact – Jones Lang LaSalle (JLL)

3Q-2019

- Total SF: 11,356,718,005
- Total Vacancy: 4.5%
- Quoted Rent: \$18.36
- Absorption: 8,400,000 SF in 3Q alone

3Q-2020

- Total SF: 11,589,282,893 SF
- Total Vacancy: 5.0%
- Quoted Rent: \$21.58
- Absorption: -19,200,000 SF; a 329.9% decline year over year



Retail Key Takeaways

- At quarantine peak, 263,250 stores were closed (61.8% of total). This represents 55.8% of all space.
- There have been 56 bankruptcy filings by major retailers since 2019. 89.3% have taken place since COVID-19. These bankruptcies will include the closing of over 7,800 stores. Most in Apparel, Health & Beauty and Department stores.
- Since COVID-19, entertainment visits are down 75% and fitness centers are down 50.8%.
- Grocery anchored centers have outperformed non-grocery anchored centers.
- Consumers continue the flight to on-line purchases. In store purchases focused on value.
- UBS forecasts that 100,000 brick and mortar stores will permanently close by 2025, while on-line sales will represent 25% of total sales.
- Monitor markets closely for transactions.

Rays of Sunshine

- Many residential markets have demonstrated appreciation during the pandemic.
- Many markets experienced a surge in residential remodeling.
- Demand has been extremely high for large distribution centers.
- Please stick around next year for my presentation...



Slide 27

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