COMMERCIAL REAL ESTATE TRENDS REPORT

An Integra Realty Resources Publication

2021

ABOUT VIEWPOINT

Integra Realty Resources (IRR) is one of the largest independent commercial real estate valuation and consulting firms in North America, with over 170 MAI-designated members of the Appraisal Institute among over 600 professionals based in our more than 50 offices throughout the United States and the Caribbean. Founded in 1999, the firm specializes in real estate appraisals, feasibility and market studies, expert testimony, and related property consulting services across all local and national markets. Our valuation and counseling services span all commercial property types and locations, from individual properties to large portfolio assignments.

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COMPREHENSIVE COMMERCIAL REAL ESTATE MARKET RESEARCH, VALUATION AND ADVISORY SERVICES

ABOUT IRR

For over 20 years, Integra Realty Resources, Inc. (IRR has grown to become one of North America's largest independent CRE market research, valuation, and counseling firms. Our clients tell us that our 600+ professionals in 50+ offices deliver extraordinary insight, unbiased advice, and excellent service. In 2020, IRR valued over $113 billion in real estate assets across more than 60 metro markets comprising over 27,000 assignments.

Every IRR office is supervised by one of our more than 170 MAI-designated professionals, industry leaders who have over 25 years, on average, of experience in their local markets. Having more MAI-designated experts than any other firm is just one testament to the high levels of training and experience which we put at our clients' disposal: as of January 2021, IRR's senior management team also includes: 16 FRICS; 13 MRICS; 16 CREs; 25 SRAs; 18 CCIMs; 5 ASAs.

These designations from the most prestigious real estate organizations in the world mean that from a culture of quality and ongoing professional development, we can offer unparalleled expertise in appraisals, feasibility and market studies, expert testimony, and related property consulting services across all local and national markets. IRR stands ready to serve you with unmatched Local Expertise...Nationally.

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A LETTER FROM THE CEO

Anthony M. Graziano, MAI, CRE
Chief Executive Officer

Welcome to the 28th edition of IRR's Viewpoint Report, Integra's annual forecast of conditions affecting the U.S. commercial real estate market.

I closed last year's letter by saying, "I choose to be optimistic that the sun will remain shining in 2020. Nevertheless, I'll be bringing an umbrella."

I made this statement in light of last year's state of the market, where most economic indicators pointed to continued strength, and yet most economists predicted a more than 50 percent chance of a recession in the coming 18 months.

And here we are, one year later, in a situation I can only characterize as trying to catch a sword that's been thrown into the air. The greatest peril the world has seen in more than 80 years has shattered U.S. small businesses, along with our hospitality and retail sectors. A pandemic has fractured our politics and challenged every one of us to confront our own fragility.

In less than nine months, we now have three major vaccines for COVID-19 either in market or soon to be released, the stock market has confounded the bears, most local housing markets throughout the U.S. posted their best close on volume and price gains in years, and the vulture real estate funds remained on the sidelines for the entire year asking, "Where are all the deals?"

Imagine if we stood at the beginning of 2021 with no near-term prospects for an effective vaccine, most Americans had lost 25 percent or more in their stock/retirement portfolios and 35 percent of their home equity? We are fortunate to have hope that we might just be able to catch this sword.

At the same time, it was always very unlikely we could catch it without being cut. We have lost more than 300,000 American lives, our institutions and citizens are more polarized than ever, a vast number of Americans of all walks of life believe the entire system is stacked against them, and the costs of federal government financial intervention will take years to work off. The downstream impacts to real estate are only beginning. We must remember that the objective is to catch the sword without being killed, not just without being cut.

So, what can we expect from the Great Reset of 2021? First, we must catch the sword that is still falling, albeit not as quickly as back in May. To catch the sword, we must bind ourselves together in compassion and understanding. This starts at home, as we turn to our families and thank them for their love and support in 2020. Then, we turn outward and offer our greatest appreciation to our healthcare workers and scientists who worked tirelessly in 2020 and who have much more to do to keep us healthy in 2021 and beyond. If you are a parent, then you have also likely discovered your greatest appreciation for teachers in your entire lifetime. Next, we must turn to one another and acknowledge the truth: The problems of tomorrow will require everyone's best efforts. As we reset the economy, we should work together to transform it into a system that rewards everyone's best efforts.

To achieve this, we must govern ourselves with compassion and understand people's needs and motivations. In a free democratic society, economic opportunity has always served as the prime driver of hope, invention, creativity, growth, progress and ultimately, has delivered our immeasurable historic success as a society.

Seizing economic opportunity requires other basic human needs though. Housing, healthcare, and in an ever-increasingly complex knowledge economy, advanced education are all the costs of entry to opportunity.

So, the question we should be asking ourselves as we try to catch the sword is, "How can we turn the efficient use of capital to our advantage and transform our society?" Will Opportunity Zones fulfill their promise in 2021? Will Environmental, Social and Governance (ESG) investments provide sufficient economic reward to lead the transformation? Will we feasibly build smarter, adaptable buildings? Will better information transparency inform our decision-making to support our progress?

And while we debate how complex the housing market or the healthcare system is to transform, let us remember, there is no vaccine for climate change. Investment in infrastructure and energy is both a stimulus tool and one that creates future opportunities and immediate jobs.

May 2020 be the year that reminded us of our frailty but also brought forth our greatest strength – our humanity. May we be thankful and hopeful for renewed economic creativity and transform our economy into a better, healthier, smarter, inclusive and sustainable one, where the best of all Americans is realized.

We hope you find our 2021 Viewpoint Report insightful and wish you continued health, hope and prosperity in 2021 and beyond.

Now, let's go catch that sword.

01. CRE TRENDS

Viewpoint begins with a look at the U.S. economy, which has suffered its sharpest contraction in decades thanks to the global pandemic. As we turn a hopeful eye towards a 2021 recovery, the economy may not hit its full stride until the latter part of the year.

ECONOMIC OUTLOOK

A new order of the ages emerges

> "Those hoping that a post-pandemic economy will swiftly return to conditions prevailing in late 2019 are going to be disappointed."

After 2020, it is fairly easy to predict that 2021 is bound to be better. The coronavirus vaccines mean real hope for improved public health conditions supporting economic revival. But hold off on popping the champagne. The winter viral surge is proving deadly and will leave economic scars. Washington gridlock in the lame-duck period has raised risks of a "W" recession, constraining early 2021 growth. So, while there are reasons for optimism, there are reasons for caution, too.

The Great Seal of the United States features the Latin motto, Novus Ordo Seclorum, which is translated as "A new order of the ages." It is not unusual for those living through the kind of disruption experienced in the COVID-19 pandemic to assess conditions and solutions in one of two ways. Some tend to be restorationists who seek a return to normalcy, understood to be the pre-crisis status quo. Others are inclined toward a transformative perspective, seeing crisis as a signal and opportunity for a new approach.

The generation of the American Revolution bequeathed us a remarkable compound. The Founders envisioned something new in the American Experiment and captured that philosophy in the Great Seal's motto. But they also remained grounded in traditions extending back to ancient Greece and Rome, understanding that even revolutionary change depended upon fundamentals of human nature and required institutional expressions that could adapt and persist over time. That compound perspective was brought to life in the extraordinary founding documents of our republic.

What do such historical – indeed philosophical – musings have to do with an economic outlook for 2021 and beyond? We dare say a lot and, perhaps, everything.

Those hoping that a post-pandemic economy will swiftly return to conditions prevailing in late 2019 are going to be disappointed. We are just in too deep of a hole. Here are some numbers to consider.

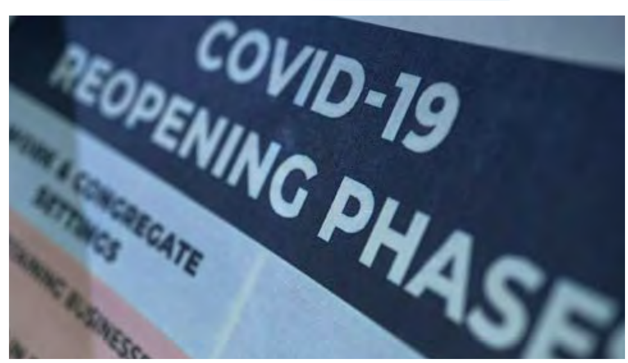
> "Real GDP is still $670 billion off the pre-COVID peak."

GDP INDICATORS

Real gross domestic product (GDP) is still $670 billion off the pre-COVID peak. Even anticipating some stimulus plan, the impact will come with a lag that delays traction into 2021. Consider the magnitude of the task ahead. The best three-year average real GDP gain in the past decade (2010 – 2019) was $115 billion per quarter. The worst three-year average was $70 billion per quarter. With this range as a guide, a return to the prior real GDP peak would be the first quarter of 2022 at the earliest or the second quarter of 2023 at the latest. This incorporates an optimistic assumption that the past decade sets the norm. But the trajectory of potential GDP was already flatter for this coming decade in pre-COVID projections, as we pointed out a year ago in forecasting "a decade of deceleration."

Even with the third quarter 2020 rebound, structural damage to the economy has been done. In September, Fortune magazine reported that 100,000 businesses had permanently closed. For firms that make it through to next summer, recovery could be a long haul. After 9/11, for example, it took airlines three years to return to previous passenger volume. It also took until 2004 for the hotel industry to recover to prior volumes of domestic and international travel. After the Great Recession (2008-2009), it took until 2016 for private sector non-residential construction to recapture its prior level of dollar volume. Slower GDP growth indicates lower levels of final demand in the economy, affecting businesses across a broad range of goods and services.

> "The coronavirus disruption is creating innovation opportunities across a swath of industries."



KEY ECONOMIC INDICATORS

JOBS

February 2020 set the pre-pandemic peak at 152.5 million jobs. Even with the bounce-back through October, the U.S. is down 10.1 million jobs. At best, jobs will recover by September 2024, and at worst, October 2026.

GDP

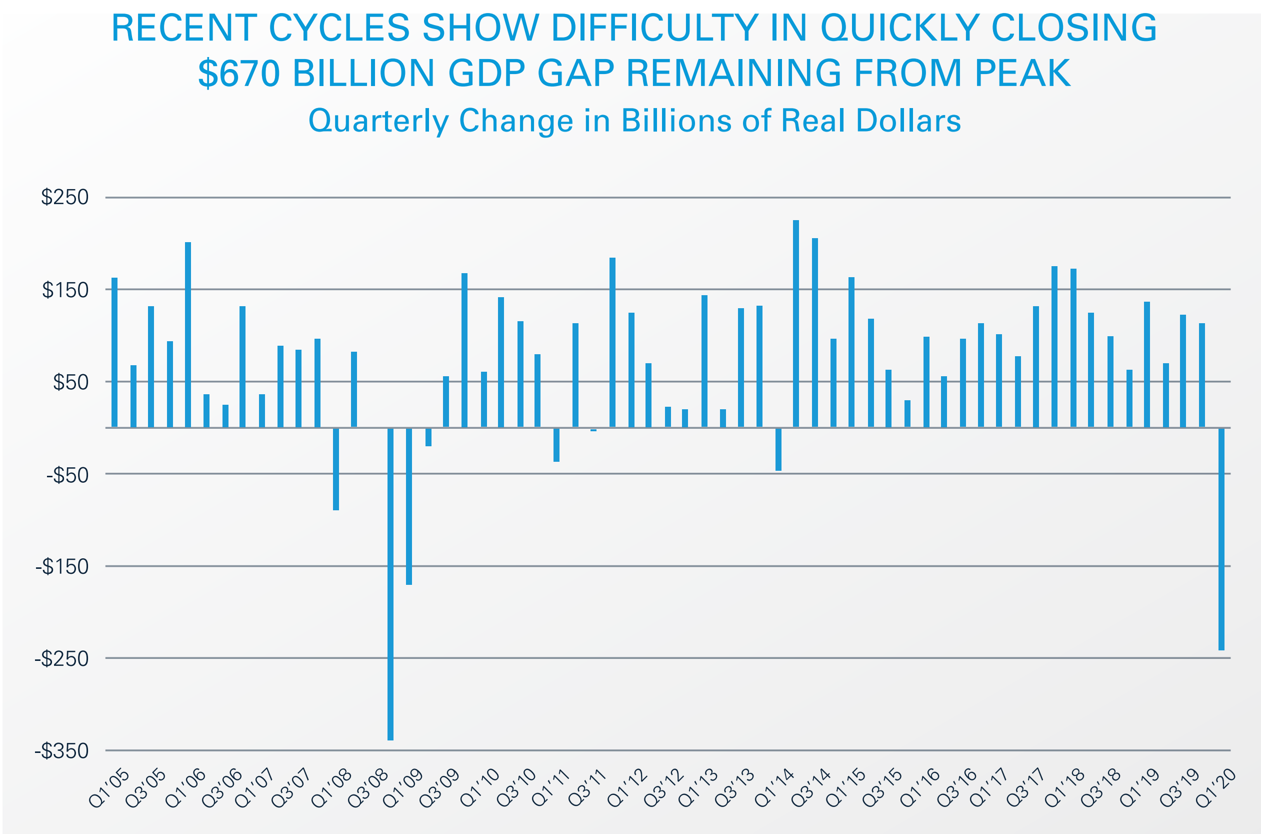
Real GDP is still $670 billion off its pre-COVID peak. Even anticipating some stimulus, the impact will come with a lag. A return to the prior real GDP peak is projected in Q1 2022 at the earliest or Q2 2023 at the latest.

CAPITAL MARKETS

Cap rates for real estate and commercial property mortgage rates have remained stable. With commercial property transactions down 50% YOY, risk-adjusted returns are high and will remain that way into 2021.

INTEREST RATES

The Chairman of the Fed says the central bank will hold rates near zero “for as long as it takes” to get the post-COVID economy revived. Rates are anticipated to remain low through 2023 or even 2024.



CREATIVE DESTRUCTION DRIVES CAPITALISM

But if "restoration" hopes look unpromising, "transformation" possibilities may have been accelerated in this crisis. A McKinsey study notes that the coronavirus disruption is creating innovation opportunities across a swath of industries: technology, communications, pharmaceuticals, health services, and even retailing and financial services. Even though (as Viewpoint noted a year ago) business investment levels have been discouragingly low, historical data from Fast Company, tracking its 50 most innovative companies, show that firms making investments in new products and services during a crisis outperform the broad market (measured by the S&P 500) by 30 percent in post-crisis years. The World Economic Forum notes that digital transformation is only one of the spheres where innovation will likely spur growth. Others are supply chain reconfiguration, localization for essential business relationships, and attention to ESG (environmental, social, and governance) initiatives. Prudent risk-taking in tough times, rather than just hunkering down, has proven to bring payoffs.

The seminal work of economist Joseph Schumpeter stressed "creative destruction" as the driving force of capitalist economies. It is fairly easy to see the destruction visited upon us in 2020. But the future is more likely to be shaped by those focused on creativity in an era of change.

HOUSING

Prices show strength, despite the pandemic

It is often said that generals tend to fight the last war, meaning that strategies are developed on the premise that history tends to repeat itself. On just such an assumption, forecasters often characterize recessions as simply phases of a well-understood pattern of cycles. The implication is that market downturns will provoke behaviors that are consistent over time, and, therefore, reasonably predictable.

> "The housing markets in 2020 followed a path that proved diametrically opposed to the Global Financial Crisis of 2008."

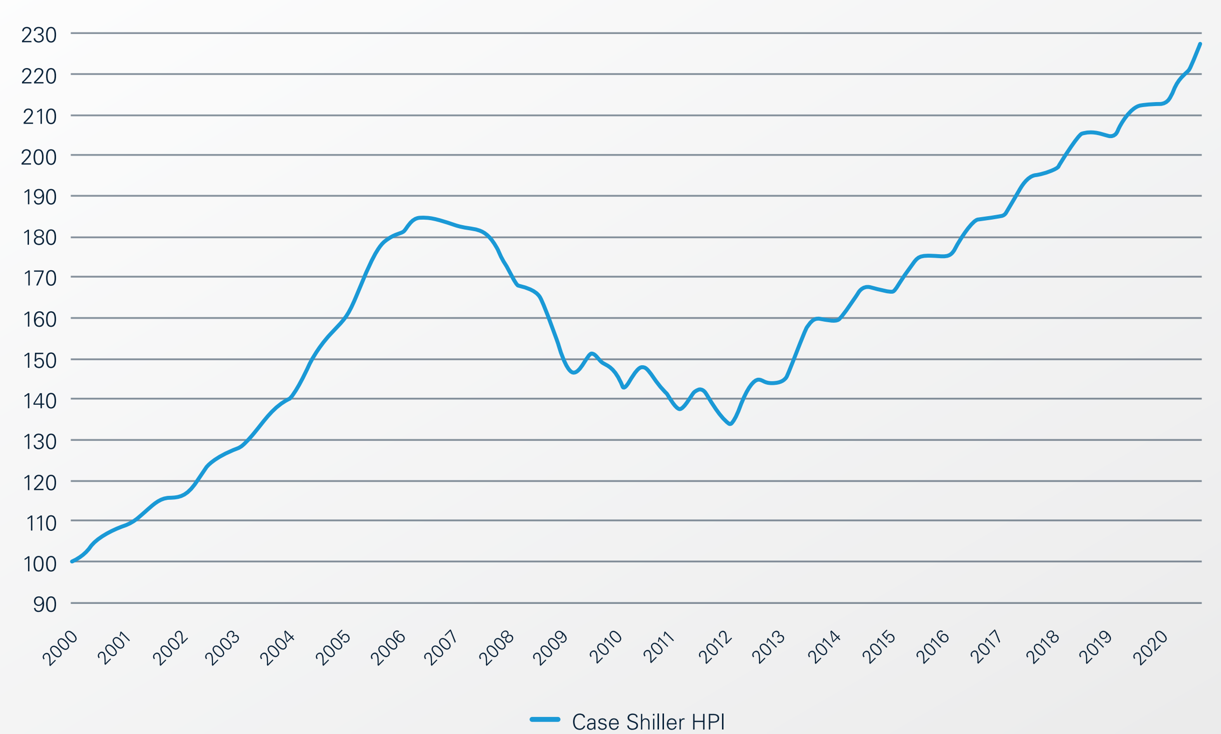
As George and Ira Gershwin reminded us in Porgy and Bess, "It ain't necessarily so." In fact, the housing markets in 2020 followed a path that proved diametrically opposed to the prior recession, during the Global Financial Crisis (GFC) of 2008 and thereafter. Of course, that recession was directly related to imbalances in the housing market itself and abuses in the financial system related to housing debt. This time, the underlying market conditions were distinctly different, and the motivations of households shaped by something so new that it was scientifically called "the novel coronavirus." An argument can be made that while cycles, as normally understood, are examples of continuous change prompting familiar adjustments, the experience of 2020 has been an instance of discontinuous change triggering a truly unique response.

What is different this time? The answer: both the internal conditions of the housing market itself and the disruptive character of the public health crisis.

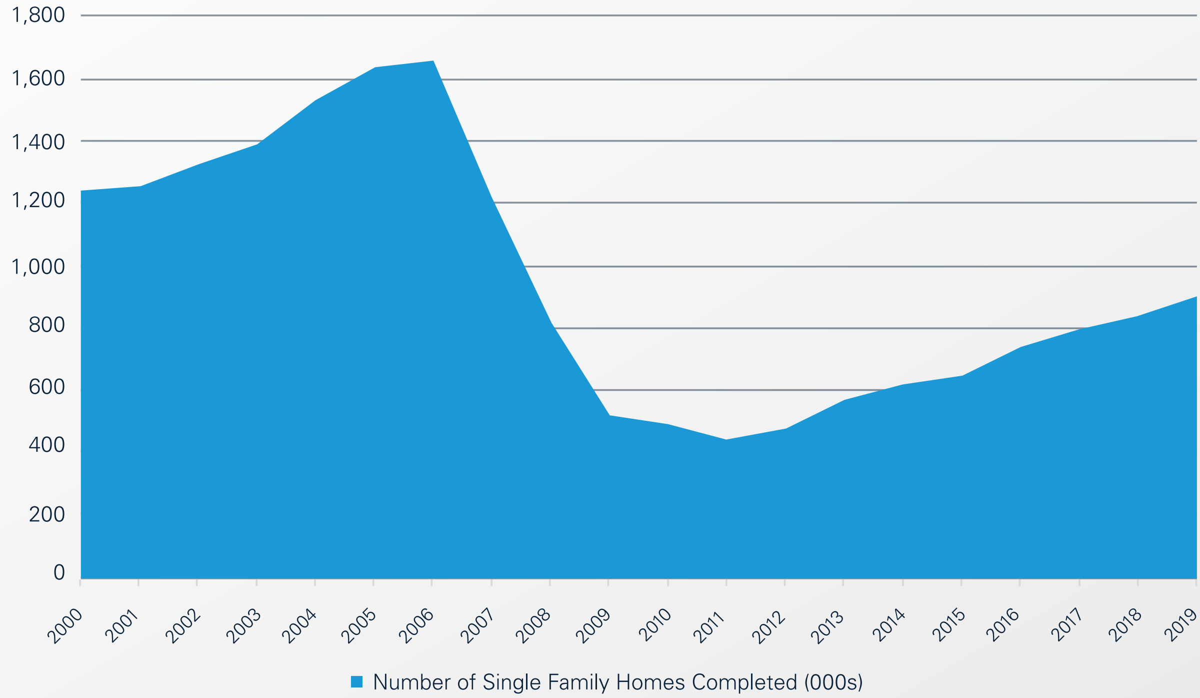
DISCIPLINED SUPPLY CONDITIONS

The supply conditions in the residential market are vastly more disciplined in the time of COVID than they were leading up to the GFC. In 2006, the homebuilding sector produced a record 1.65 million single-family houses. That figure plummeted to 446,600 by 2011. By 2019, production rebounded, but only to 903,200 units, or just 54.6 percent of the 2006 output. Construction was propelled in the early 2000s by a pricing surge averaging 10.6 percent annually from 2000 to 2007. This, in turn, was driven by historically lax home mortgage underwriting standards, especially in sub-prime lending. The result was a boom/bust cycle that put the U.S. and international banking systems into crisis and the economy into deep recession.

U.S. HOME PRICES HAVE STRENGTHENED IN THE COVID-19 PANDEMIC



ONE EFFECT OF GLOBAL FINANCIAL CRISIS: EXTENDED SHORTFALL IN NEW HOME CONSTRUCTION



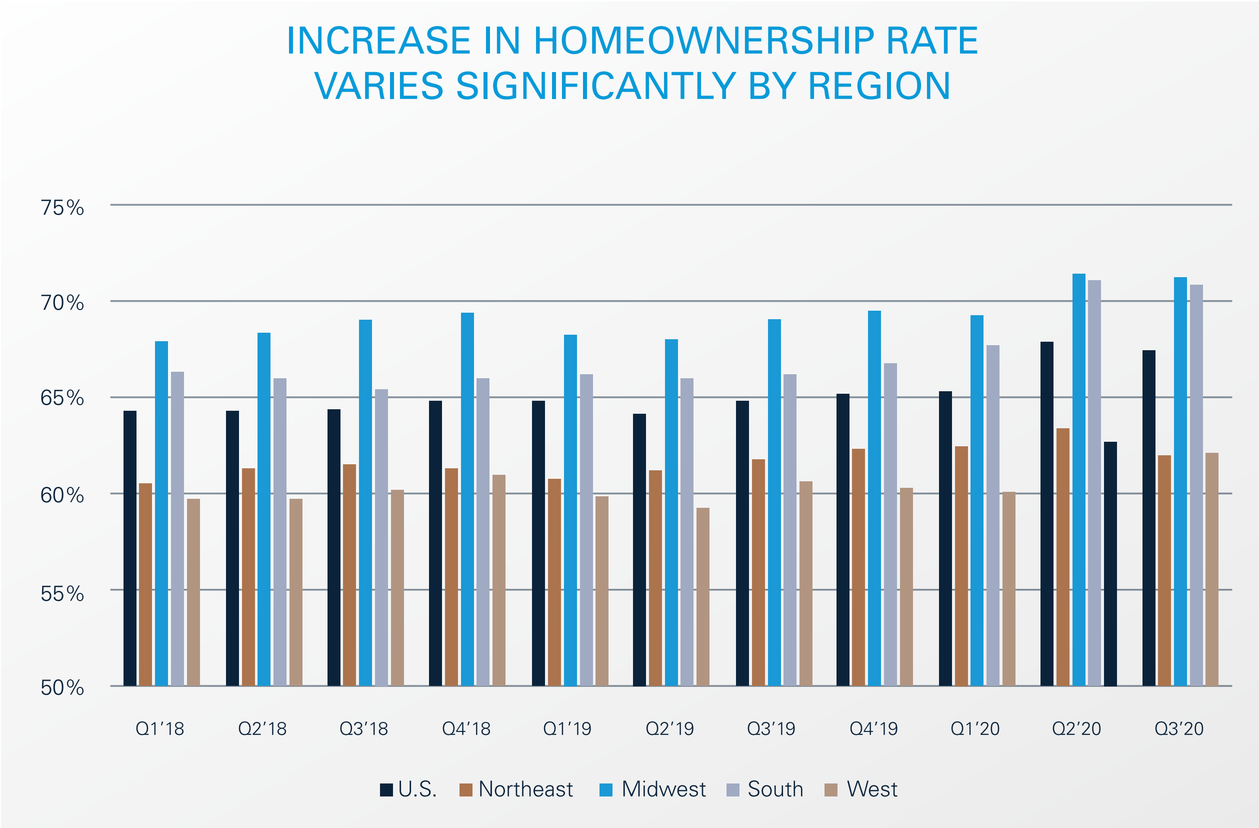
No such housing conditions prevail today. The moderate level of homebuilding reflects a housing price appreciation rate of just 5.2 percent annually over the past six years. Mortgage rates have fluctuated between 2015 and 2020 in a narrow band, averaging between 3.6 percent and 4.0 percent for 30-year conventional home loans. In contrast to the subprime era, home borrowers are presenting a credit score above 760 in a majority of cases, and the ratio of these strongest borrowers sharply increased in the second and third quarters of 2020, according to national data published by the Federal Reserve Bank of New York. Meanwhile, homeownership in the United States shot up above 67 percent in those same quarters – the highest rate since 2008, according to U.S. Census Bureau data.

SHIFTS IN DEMAND

It has been COVID itself that has driven the abrupt and dramatic shift in housing. As the pandemic has had its surges, with its third and largest wave late in the year, disproportionate impacts have shaped the economic and housing demand response. Interestingly, the data shows that the more costly coastal regions have seen only small shifts in the homeownership rate, while the less expensive Midwest and South – which have borne the brunt of the summer and fall COVID surges – have seen greater increases, with both those regions rising above 70 percent. The homeownership increases have also been greatest in householder age groups under 45 years and above 65 years. And more affluent households (those above the median family income) have soared above 80 percent in homeownership, in contrast to below-median income ownership rates below 55 percent.

> “The single-family housing sector has been most adaptive for households whose age, location, and incomes provided the greatest flexibility in the public health crisis.”

Taken together, the single-family housing sector has been most adaptive for households whose age, location, and incomes provided the greatest flexibility in the public health crisis. Those whose workplace conditions could support “working from home” options and for whom “shelter in place” requirements motivated larger living quarters were, in large measure, the key demand drivers. Those falling into



the "essential worker" categories in direct consumer-contact jobs had neither the financial capacity nor the locational mobility to exercise options to move from renter to ownership status. In this way, among others, the pandemic is widening both income and wealth gaps across the economy.

How this will shape housing in the years ahead remains to be seen. But for now, the multi-year trends favoring the renter-by-choice segment of housing appears to be on pause. The newest homeowners, having made their purchases, are unlikely to be reversing course any time soon.

CAPITAL MARKETS AND INTEREST RATES

Fed signals optimism in 2021

Interest rate forecasting becomes much, much easier when the Chairman of the Fed says out loud that the central bank will hold rates near zero "for as long as it takes" to get the post-COVID economy revived. The Blue Chip Economic consensus, in November, suggested that "as long as it takes" could stretch into 2023 or even 2024. Though arrived at independently, this is roughly in sync with the projection presented in our above discussion of the economy.

> "Monetary policy will be keeping the sluice gates of capital wide open."

Naturally, though, the Fed Funds and short-term Treasury rates are just one indicator. The 10-year Treasury, as of this writing, is yielding 0.86 percent. It is entirely probable that 2021 will bring a slight steepening of the yield curve, although it is difficult to project a 10-year Treasury rate above 1.4 percent in the year ahead. This means that monetary policy will be keeping the sluice gates of capital wide open, bringing an optimistic air to private sector capital markets both on the equity and the debt side.

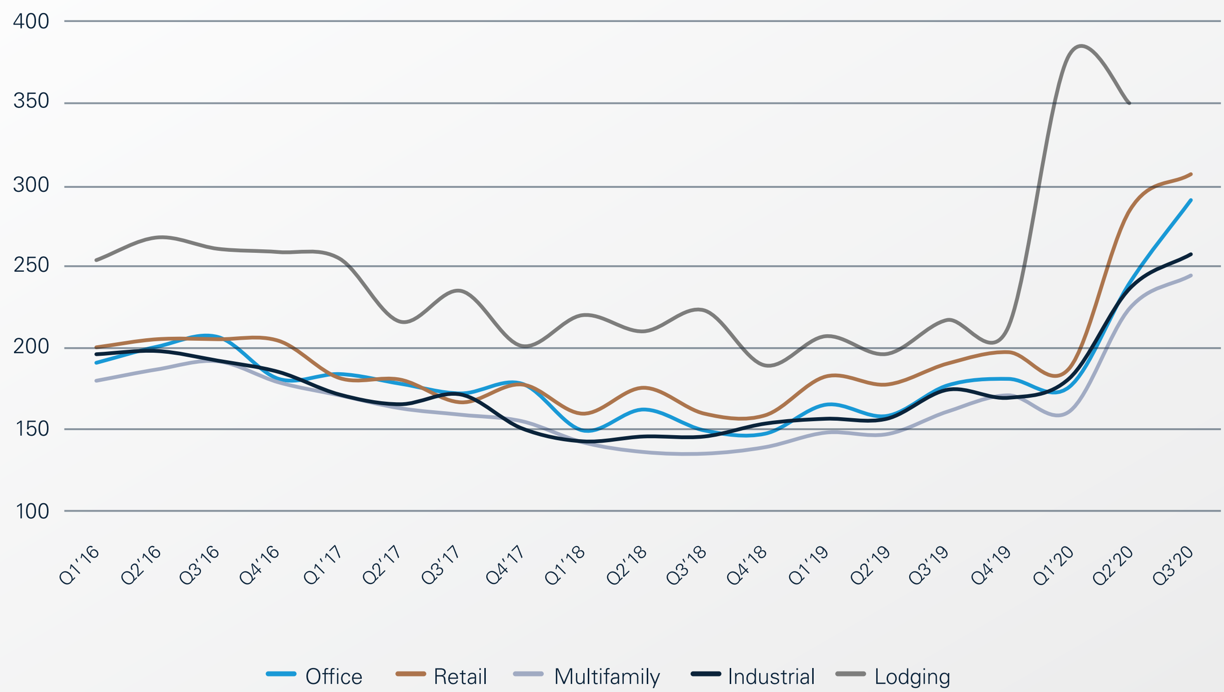
The appointment of Janet Yellen as U.S. Treasury Secretary enhances the odds that fiscal policy and monetary policy will be in sync as they have not been since the immediate passage of the post-GFC stimulus package in 2009. It is hard to imagine that some package of COVID stimulus will not come out of Congress in the first quarter of 2021. However, whether this will be at the $2 trillion level that the Blue Chip Economists indicate is necessary to avoid prolonging the recession remains to be seen.

The extremely low level of the risk-free rates on government securities means that the risk premium available to investors is high. Cap rates for real estate have stayed quite stable, widening spreads. The same is true for commercial property mortgage rates, with a spread of 272 basis points over Treasuries as of the third quarter 2020, up nearly 100 basis points from the first quarter, according to American Council of Life Insurers data.

With commercial property transaction data down about 50 percent year-over-year in Real Capital Analytics' comprehensive survey (as of October 2020), risk-adjusted returns are high and should stay quite high well into 2021. Only when commercial real estate investors see final demand for property convincingly back will they step off the sidelines. That is going to take a while, if our GDP and employment expectations are even approximately correct.

RISK PREMIUM FOR ALL PROPERTY TYPES EXPANDED IN 2020

Spread Over Treasuries in Basis Points



Note: Spread is adjusted for prepayment penalties and option costs. Lodging lending too low in 3Q 2020 for statistical use.

EMPLOYMENT

A slow reopening
is on the horizon

"The jobs recovery to prior peak is September 2024, at best, and October 2026, at worst."

We should anticipate a slow jobs recovery once the "reopening" effect has run its course after this winter. February 2020 set the pre-pandemic peak at 152.5 million jobs. Even with the bounce-back through October, the U.S. is still down 10.1 million jobs. Our best 3-year average monthly job gain 2010-2019 was 226,000, and the worst 3-year average was 147,000 jobs. Within such a range, the jobs recovery to prior peak is September 2024, at best, and October 2026, at worst.

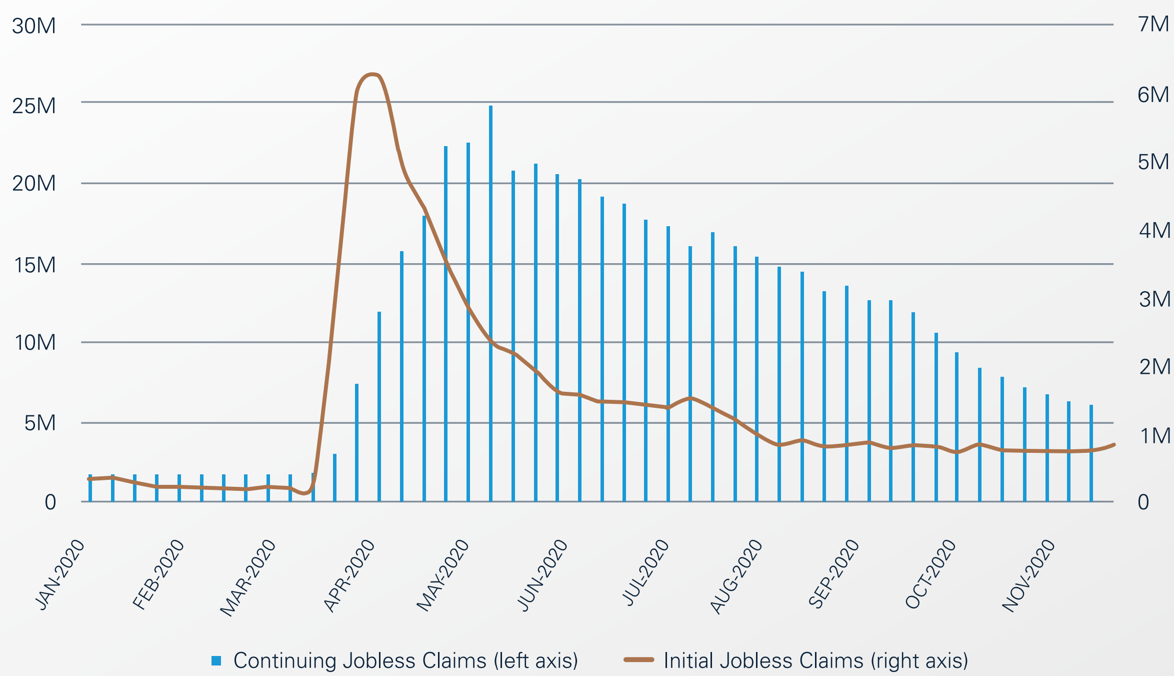
The trend is likely to skew toward the later date due to permanent job losses during COVID, a figure now estimated to be 3.8 million by the U.S. Bureau of Labor Statistics. The most severely affected industries are the airlines, hotels, restaurants, and other leisure activities. Of course, each of these is linked to dozens of supporting sectors. A November 2020 report by the Brookings Institution warns that those on long-term unemployment pose a structural hurdle for the economy, as such workers have relatively low re-employment rates. This suggests that we may have seen much, if not most, of the labor market slack caused by the pandemic taken up by the end of September. This would mean that further gains are going to be harder to come by, particularly if the W-shaped recession hits us in early 2021.

Not the least of the knock-on effects is in state and local government employment, which will be hammered by shortfalls in tax revenue in the economic slowdown already experienced. There are approximately 16 million state and local government workers. Since February 2020, there has already been a loss of about 1,346,000 state and local jobs. Jobs at future risk include many essential workers in public safety, education, and the administration of vital services, including transportation and health.

The economic ripple effects are troubling to contemplate. The most recent estimate of state and local payrolls totals $85.8 billion. New hires in this sector were down 23.4 percent year-over-year, as of September 2020. A material reduction in state and local government portends a noticeable slowdown in personal consumption expenditures, which remains 70 percent of total U.S. GDP.

The real estate community should plan for "full" employment recovery no earlier than mid-decade. Consequently, the level of final demand for commercial property utilization should be considered attenuated for several years.

UNEMPLOYMENT INSURANCE PROVIDES SOME SUPPORT TO MILLIONS DURING COVID



02. PROPERTY REPORTS

Commercial real estate properties across the board have felt the impacts of COVID-19. Some sectors have thrived, including industrial, while others such as office, retail and hospitality have not been as fortunate.

OFFICE

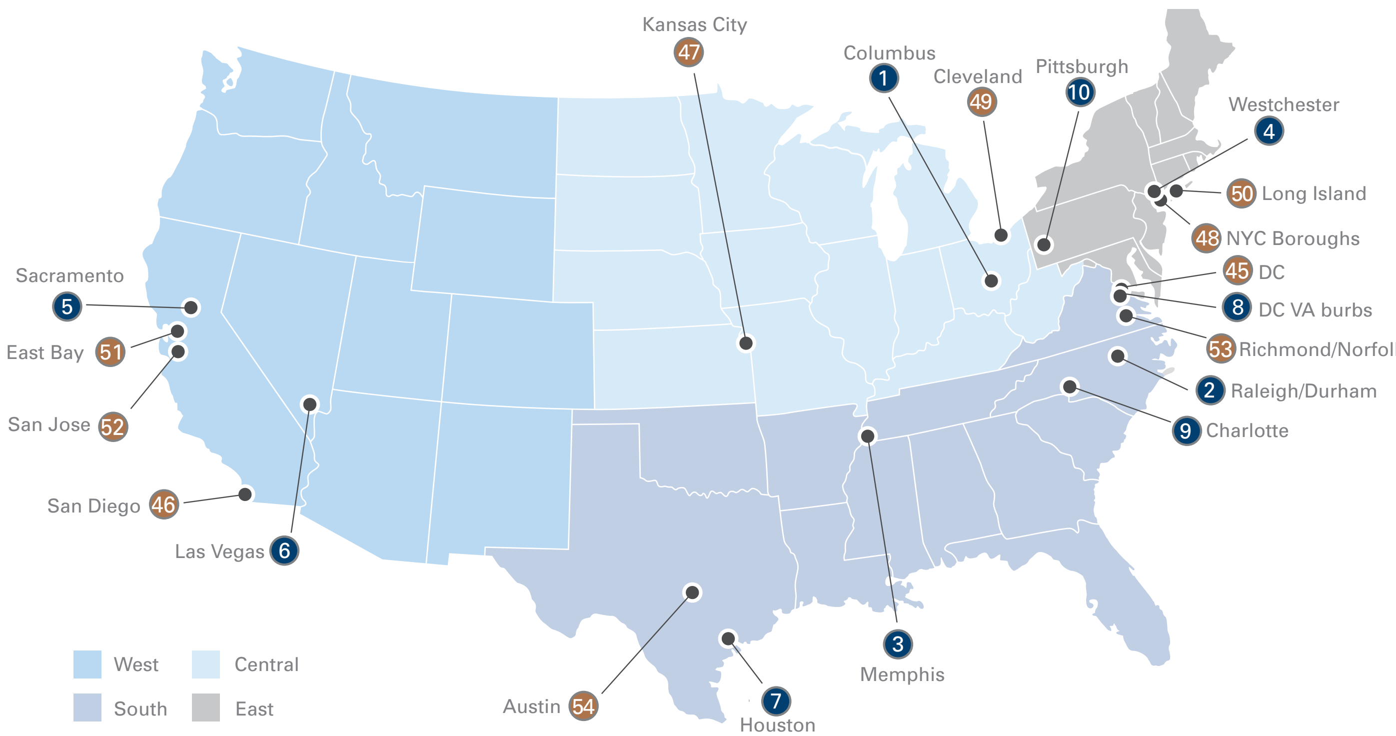
Is there a black swan among us?

The roughly 5 billion-square-foot U.S. office market has been directly in the crosshairs of the coronavirus pandemic. While many "essential workers" – defined in unexpected, if well-justified ways – were exempted from shelter-in-place mandates during the first wave of infection, office workers were, by-and-large, expected to work from home. Social distancing protocols demanded alterations in many office-using norms, from crowded elevators to densified floor plans.

Central business districts that had enjoyed advantages in recent years, due to the rich mix of uses and amenities in large downtowns, found that assets such as mass transit, abundant restaurant opportunities, entertainment venues, and walk-to-work residential choices were suddenly and severely compromised. The initial jolt hit the East Coast, especially the northeast region centered around New York City, and the West Coast, with Seattle and the California Bay Area, was also hard hit by COVID-19. But, as 2020 evolved, no part of the country – urban or rural, densely or sparsely populated, blue-collar or white-collar – proved immune to the pandemic.

Thus, Integra's survey of market conditions taken in the fourth quarter, uncovered at least two salient and

TOP MARKETS BY OFFICE TRANSACTION VOLUME BASED ON YOY PERCENTAGE CHANGE



Bulls (Top 10)

2020 Rank	City	YOY Change	Total 4Q19-3Q20	Vol. Rank*
1	Columbus	87.0%	$416.3 M	41
2	Raleigh/Durham	58.6%	$2,001.7 M	15
3	Memphis	47.4%	$339.2 M	47
4	Westchester	32.2%	$678.0 M	29
5	Sacramento	17.9%	$1,185.3 M	23
6	Las Vegas	13.8%	$495.1 M	36
7	Houston	8.0%	$3,036.0 M	8
8	DC VA burbs	3.6%	$3,406.8 M	7
9	Charlotte	1.9%	$2,072.9 M	14
10	Pittsburgh	-3.3%	$366.3 M	45

Bears (Bottom 10)

2020 Rank	City	YOY Change	Total 4Q19-3Q20	Vol. Rank*
45	DC	-53.7%	$2,435.7 M	10
46	San Diego	-54.6%	$1,343.4 M	20
47	Kansas City	-55.0%	$536.9 M	34
48	NYC Boroughs	-56.8%	$1,282.4 M	21
49	Cleveland	-61.9%	$155.3 M	54
50	Long Island	-63.2%	$352.4 M	46
51	East Bay	-65.2%	$1,042.7 M	28
52	San Jose	-66.6%	$2,520.6 M	9
53	Richmond/Norfolk	-69.7%	$296.8 M	50
54	Austin	-70.3%	$1,074.5 M	25

* Volume Ranking is based on the overall transaction volume among 54 markets nationally

surprising findings. First, quantifiable comparisons across regions and across property classes indicate the market is sorting itself out in a "flight to quality" rather than "a flight to cost-advantage." Second, even as the user-market must cope with the immediate effects of the public health emergency, the investor-market has moved en masse to the sidelines, making it difficult, if not impossible, to generalize from thin transaction data to the broad impacts on asset pricing looking forward into 2021.

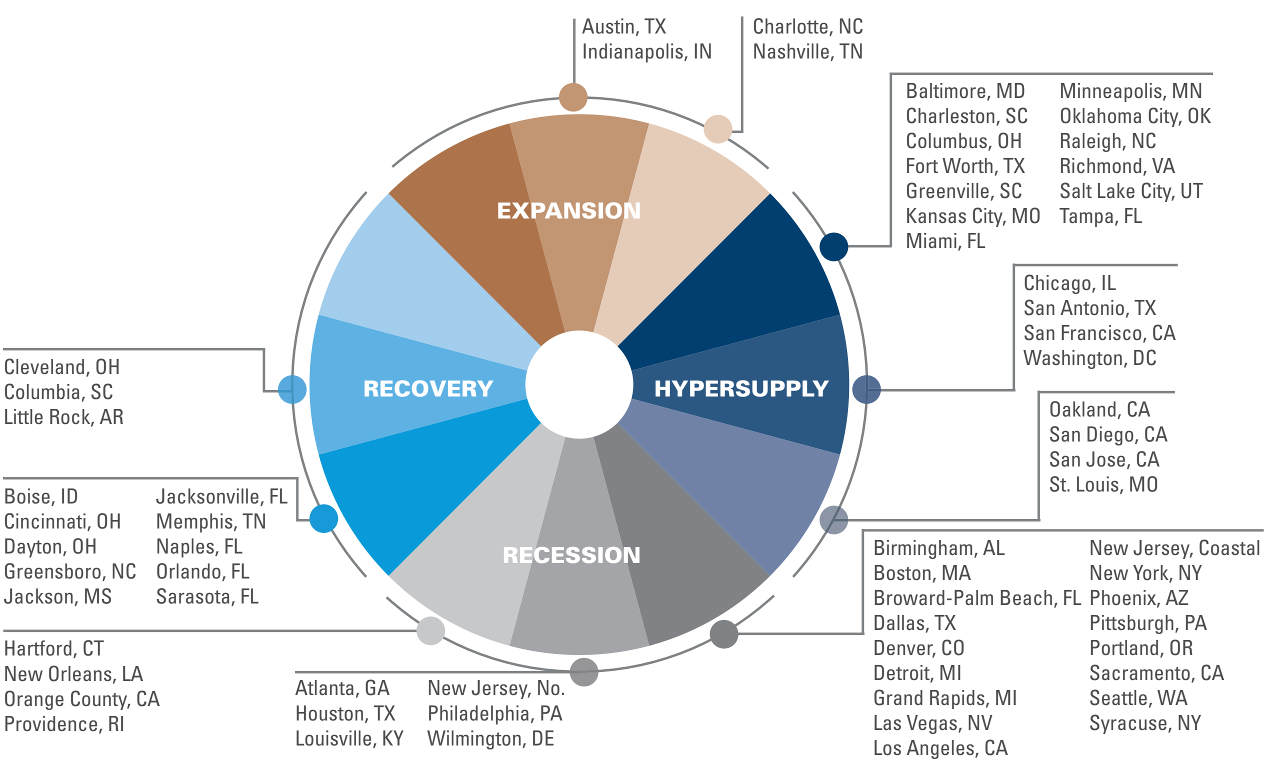
From the point of view of property operations, the East and West regions are sustaining the highest market rents and the strongest occupancy levels. Furthermore, in all cases, the Class A office sector is outperforming Class B assets. There has been much discussion of migration to the South and to suburban-dominated metros in general. But the South region has seen the greatest rise in vacancy, compared to a year ago, with Class A property availability up 396 basis points, and Class B property vacancy in the region up a stunning 544 basis points.

Discount rates – the expected yield over an investment holding period – likewise display a significant range of regional differences. The West is able to attract capital at the lowest discount rates, as well as the lowest cap rates. Similarly, reversionary cap rates in the West are the lowest in the nation. What this means is that, as Integra assays the market, offices in the three West Coast states plus Arizona, Utah, and Colorado are best positioned to convert a dollar in income into dollars of value, now and in the future.

> "The pattern of the future may require a transformative change in the physical, operational, and financial aspects of the office markets."

But while this is a relative advantage, it is only converted into real advantage if there is sufficient deal volume and velocity to lift markets. And it is clear that the pandemic disruption has shrunk transactions so steeply – down 44 percent year-to-date through

OFFICE MARKET CYCLE



EXPANSION

Decreasing Vacancy Rates
Moderate/High New Construction
High Absorption
Moderate/High Employment Growth
Med/High Rental Rate Growth

HYPERSUPPLY

Increasing Vacancy Rates
Moderate/High New Construction
Low/Negative Absorption
Moderate/Low Employment Growth
Med/Low Rental Rate Growth

RECESSION

Increasing Vacancy Rates
Moderate/Low New Construction
Low Absorption
Low/Negative Employment Growth
Low/Neg Rental Rate Growth

RECOVERY

Decreasing Vacancy Rates
Low New Construction
Moderate Absorption
Low/Moderate Employment Growth
Neg/Low Rental Rate Growth

October according to Real Capital Analytics – that office investors should be cautious about drawing firm conclusions from survey data at this point.

Where there is meaningful consensus, however, can be seen in the Office Cycle Chart for 2021. The upper-left quadrant of the pie, which should represent currently strong markets with good immediate prospects, is strangely empty. Only Austin, Charlotte, Indianapolis, and Nashville find themselves in the desirable "Expansion" category. Meanwhile, no fewer than 27 markets are evaluated as being in "Recession," with an additional 21 rated as "Hypersupply" with the attendant outlook for near-term deterioration.

So, it is clear that IRR's professionals are not inclined to "put lipstick on the pig" for the year ahead. And it should be said that our economic condition is not so clearly the classical cycle that real estate readily understands and can adapt to. The model of a cycle is a market systematically attempting to attain equilibrium and, when out of balance, adjusting supply and demand to return to a healthier condition. This can be termed a "linear" process, in that it follows a known pattern and has a reasonable degree of predictability.

That's probably not the case right now. The nature of a systemic disruption, such as the present public health and economic crisis, is that it is a "non-linear" dislocation (perhaps a Black Swan, properly so-called). If that is so, the pattern of the future may require a transformative change in the physical, operational, and financial aspects of the office markets, rather than a comforting return to normalcy once vaccination permits Americans to live, work, and play in greater numbers and with greater confidence.

Right now, as 2020 draws to a close, it appears that such a post-crisis period will arrive no sooner than mid-2021 and that the path to pre-COVID levels of GDP and employment may wind well beyond next year. We do well to recall that the resolution of the Great Depression of the 1930s was emphatically NOT a return to the Gilded Age of the Roaring 20s. It may well be that, for office markets, the guidepost can be found on the dollar bill, in the Great Seal's motto: Novus Ordo Seclorum.

"The pandemic disruption has shrunk transactions so steeply that office investors should be cautious about drawing firm conclusions at this point."

REGIONAL RATES COMPARISON – OFFICE

	CAP RATE	DISCOUNT RATE	MARKET RENT ($/SF)	VACANCY RATE	4Q '19 - 4Q '20 CAP RATE D
SOUTH REGION					
CBD Class A	6.87%	8.12%	$26.42	16.52%	▲ 16 bps
CBD Class B	7.23%	8.49%			▲ 12 bps
Suburban Class A	7.76%	8.95%	$19.74	20.32%	▲ 10 bps
Suburban Class B	7.97%	9.09%			▲ 8 bps
EAST REGION					
CBD Class A	7.13%	8.25%	$38.24	15.54%	▲ 58 bps
CBD Class B	7.43%	8.55%			▲ 36 bps
Suburban Class A	8.00%	8.98%	$27.64	18.04%	▲ 38 bps
Suburban Class B	8.33%	9.43%			▲ 26 bps
CENTRAL REGION					
CBD Class A	7.88%	9.15%	$23.99	19.02%	▲ 6 bps
CBD Class B	7.81%	9.02%			▲ 15 bps
Suburban Class A	8.60%	9.58%	$18.17	22.94%	▲ 8 bps
Suburban Class B	8.60%	9.60%			▲ 20 bps
WEST REGION					
CBD Class A	6.00%	7.56%	$37.87	14.77%	▲ 25 bps
CBD Class B	6.30%	7.77%			▲ 12 bps
Suburban Class A	6.48%	7.94%	$28.05	18.67%	▲ 11 bps
Suburban Class B	6.79%	8.16%			▲ 2 bps
NATIONAL AVERAGES/SPREADS					
CBD Class A	6.93%	8.22%	$30.51	16.46%	▲ 27 bps
CBD Class B	7.17%	8.44%			▲ 18 bps
Suburban Class A	7.70%	8.87%	$22.63	20.07%	▲ 18 bps
Suburban Class B	7.90%	9.05%			▲ 12 bps

MULTIFAMILY

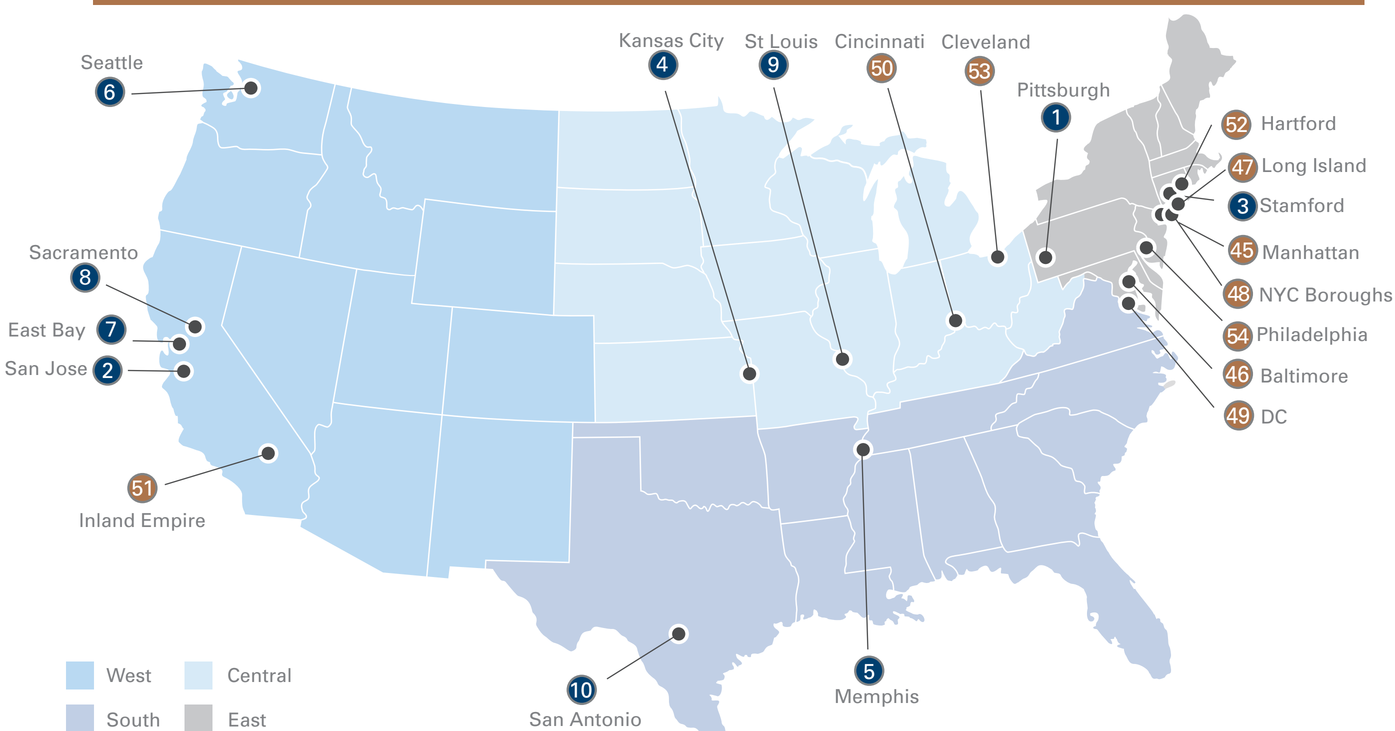
Be cautious of
quick conclusions

> "The multifamily rental housing sector has been the darling of those looking for income-producing property assets."

For more than a decade, since the battering of the single-family home market in the subprime mortgage debacle and the consequent Global Financial Crisis, the multifamily rental housing sector has been the darling of those looking for income-producing property assets.

There was a tectonic shift in residential property market behavior around 2008. From the point of view of homeowners, the expectation of uninterrupted appreciation in housing prices was rudely contravened. Not only did equity evaporate, but many found themselves underwater on their home mortgages and needed to resort to selling at distressed prices, whether or not they could get lenders to accept short sales to recover at least some of the principal amount owed.

TOP MARKETS BY MULTIFAMILY TRANSACTION VOLUME BASED ON YOY PERCENTAGE CHANGE



Bulls (Top 10)

2020 Rank	City	YOY Change	Total 4Q19-3Q20	Vol. Rank*
1	Pittsburgh	53.8%	$855.7 M	39
2	San Jose	11.7%	$1,913.3 M	22
3	Stamford	10.3%	$440.9 M	50
4	Kansas City	-4.4%	$1,063.6 M	34
5	Memphis	-5.6%	$509.6 M	48
6	Seattle	-6.5%	$5,524.9 M	4
7	East Bay	-7.8%	$2,079.2 M	21
8	Sacramento	-8.9%	$1,384.2 M	28
9	St Louis	-12.7%	$649.6 M	45
10	San Antonio	-13.4%	$2,139.7 M	20

Bears (Bottom 10)

2020 Rank	City	YOY Change	Total 4Q19-3Q20	Vol. Rank*
45	Manhattan	-46.6%	$3,820.0 M	8
46	Baltimore	-47.3%	$1,177.5 M	32
47	Long Island	-48.3%	$469.5 M	49
48	NYC Boroughs	-49.0%	$2,656.5 M	15
49	DC	-49.8%	$795.2 M	41
50	Cincinnati	-59.3%	$272.5 M	52
51	Inland Empire	-60.4%	$1,035.4 M	35
52	Hartford	-63.2%	$109.6 M	54
53	Cleveland	-66.9%	$240.2 M	53
54	Philadelphia	-69.4%	$1,013.4 M	36

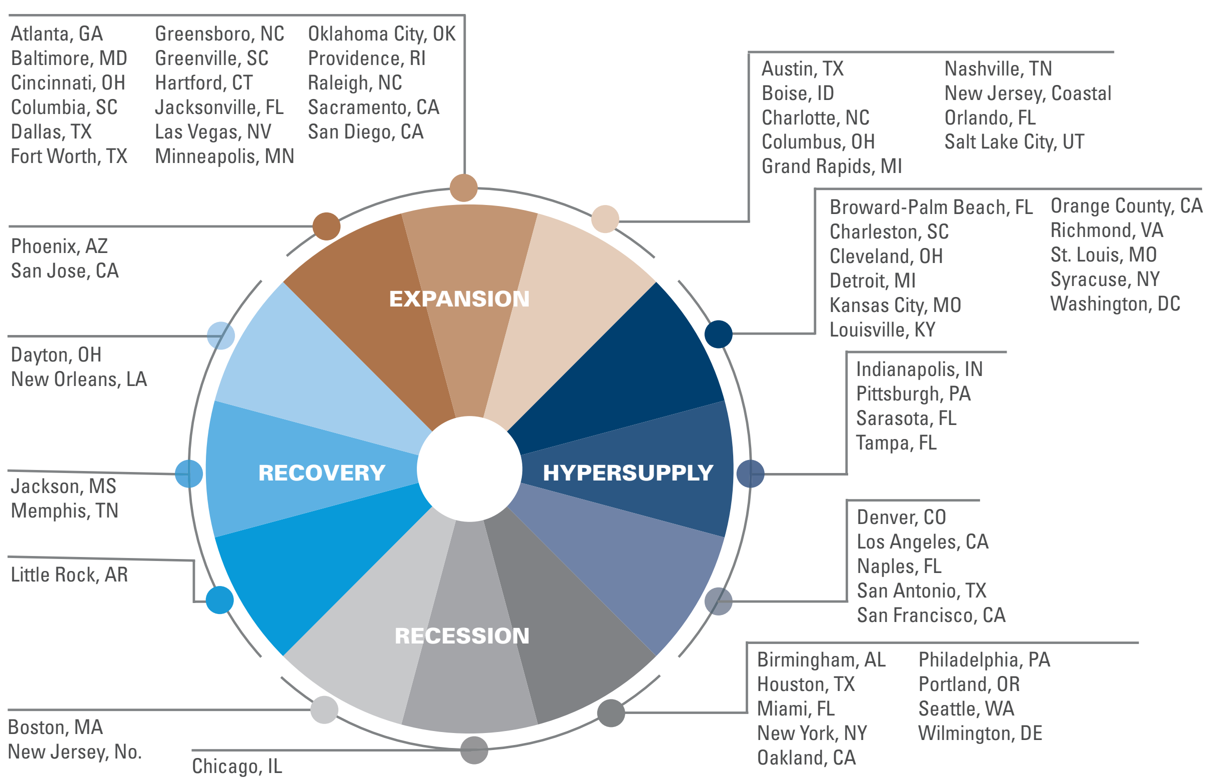
* Volume Ranking is based on the overall transaction volume among 54 markets nationally

The carry-over into the 2010s was two-fold. First, there was a loss of creditworthiness that made qualifying for a new home mortgage difficult in the extreme. Second, there was a much wider acceptance of the concept of "renters by choice." This latter condition was bolstered by two critical social and economic phenomena: the emergence of the Millennial generation as a key demographic for the housing market as a whole and the re-establishment of America's downtowns as desirable places to "live, work, and play" in the parlance of 24-hour and 18-hour cities.

As these factors played out, the U.S. homeownership peak descended almost monotonically from 69.1 percent in 2005 to 62.9 percent in 2016. Then, quietly and almost unnoticed, it began to rise again. This did not at all discourage investors in the rental apartment sector. In 2016, apartments attracted $160 billion in investment, the highest of all the property types, according to Real Capital Analytics (RCA). Multifamily continued to have the highest volume of transactions through 2019, when it hit $190 billion in aggregate price.

As of October 2020, apartments have held on to their top ranking in investment volume, with $92.4 billion in year-to-date deals. But that figure represents a 40 percent decline year-over-year. Multifamily, then, appears to be in the same boat as commercial investment properties. A review of National Council of Real Estate Investment Fiduciaries (NCREIF) data shows that not only have total returns for apartment assets declined from 7.3 percent to 5.5 percent between 2016 and 2019, but in the 12 months ending September 2020, their return has dropped to just 2.3 percent. Interestingly, while income returns have remained fairly steady over the past five or so years, the appreciation component of total return has been weakening and has turned negative in 2020.

MULTIFAMILY MARKET CYCLE



EXPANSION

Decreasing Vacancy Rates
Moderate/High New Construction
High Absorption
Moderate/High Employment Growth
Med/High Rental Rate Growth

HYPERSUPPLY

Increasing Vacancy Rates
Moderate/High New Construction
Low/Negative Absorption
Moderate/Low Employment Growth
Med/Low Rental Rate Growth

RECESSION

Increasing Vacancy Rates
Moderate/Low New Construction
Low Absorption
Low/Negative Employment Growth
Low/Neg Rental Rate Growth

RECOVERY

Decreasing Vacancy Rates
Low New Construction
Moderate Absorption
Low/Moderate Employment Growth
Neg/Low Rental Rate Growth

Does that portend a reversal of fortune for multifamily investors? Don't jump too quickly to that conclusion. For one thing, uniquely among the major property types, apartments have sustained a reduction in cap rates over the course of 2020, according to RCA data. Both garden apartments and mid-to-high-rise properties had lower cap rates in October than they did in January. That means optimism about future returns for this sector. Furthermore, equity yields appear to be on the upswing, given the descent of mortgage interest rates on fixed loans to 3.09 percent reported in the American Council of Life Insurers (ACLI) database for the third quarter – 44 basis points lower than a year ago, improving the leverage of buyers.

Adding to the strong news from the debt markets, Trepp reports that 30+ days delinquency in multifamily CMBS is still relatively low at 3.11 percent, as of November. This compares to double-digit rates for retail and hotel securitizations. Delinquencies are, in large part, being triggered by rent collection issues in lower-quality apartment properties, although Class A and B assets are not totally exempt. The National Multifamily Housing Council's Rent Payment Tracker places rent payment at the 94- to 95-percent level during the May to October 2020 period, down about one to one-and-a-half percentage points from the prior year. Unfortunately, the trend in recent months has been weakening, and the eventual sunset of eviction moratorium may turn 2021 statistics downward, with an accompanying rise in properties being put into special servicing.

Thus, the approximately 50/50 split in markets deemed in expansion or recovery (33 metros, or 50.8 percent) versus those in recession or hypersupply (32 markets, or 49.2 percent) certainly betrays the awareness of IRR's professionals of the tension faced by apartment investors going into 2021. Numbers alone do not tell the story. Most of the nation's largest and most visible multifamily markets are those mired in recession: New York, Boston, Chicago, Miami, Houston, Seattle, and Portland, among them.

There appears to be an intriguing disconnect between the elements that renters and investors are prioritizing in this stress test that is the pandemic. For while the cycle indicators seem to reflect advantage accruing to the least expensive rental markets, the cap rate data show preference for urban properties over suburban assets, and Class A over Class B apartments – and this is true across regions, as well as being consistent in the discount rate and reversion rate pricing metrics.

This does make considerable sense. Renters themselves need to react to the emergency situation of loss of jobs and incomes, so immediate cost sensitivity is totally rational. For investors, however, in times of uncertainty, a "flight to quality" is a sign of risk aversion and a longer-term perspective that this public health and economic dislocation will not last forever. Let that positive note stand as our final word in this discussion.

REGIONAL RATES COMPARISON - MULTIFAMILY

	CAP RATE	DISCOUNT RATE	MARKET RENT ($/UNIT)	VACANCY RATE	4Q '19 - 4Q '20 CAP RATE D
SOUTH REGION					
Urban Class A	5.36%	6.84%	$1,289.22	7.19%	0 bps
Suburban Class A	5.64%	6.95%			▲ 9 bps
Urban Class B	6.13%	7.43%	$896.91	4.49%	▼ -2 bps
Suburban Class B	6.44%	7.66%			▲ 3 bps
EAST REGION					
Urban Class A	5.58%	6.67%	$1,871.31	5.76%	▲ 17 bps
Suburban Class A	5.79%	7.00%			▲ 17 bps
Urban Class B	6.22%	7.29%	$1,418.31	3.34%	▼ -1 bps
Suburban Class B	6.33%	7.58%			▼ -14 bps
CENTRAL REGION					
Urban Class A	5.94%	7.48%	$1,275.65	5.84%	▲ 2 bps
Suburban Class A	6.02%	7.56%			▲ 8 bps
Urban Class B	6.79%	8.21%	$845.32	3.68%	▲ 3 bps
Suburban Class B	6.75%	8.29%			▼ -1 bps
WEST REGION					
Urban Class A	4.71%	6.36%	$2,009.26	5.93%	▲ 25 bps
Suburban Class A	5.02%	6.69%			▲ 34 bps
Urban Class B	5.10%	6.78%	$1,418.49	3.45%	▲ 4 bps
Suburban Class B	5.45%	7.15%			▲ 18 bps
NATIONAL AVERAGES/SPREADS					
Urban Class A	5.38%	6.83%	$1,546.09	6.39%	▲ 10 bps
Suburban Class A	5.60%	7.02%			▲ 16 bps
Urban Class B	6.06%	7.42%	$1,094.03	3.89%	▲ 1 bps
Suburban Class B	6.26%	7.65%			▲ 3 bps

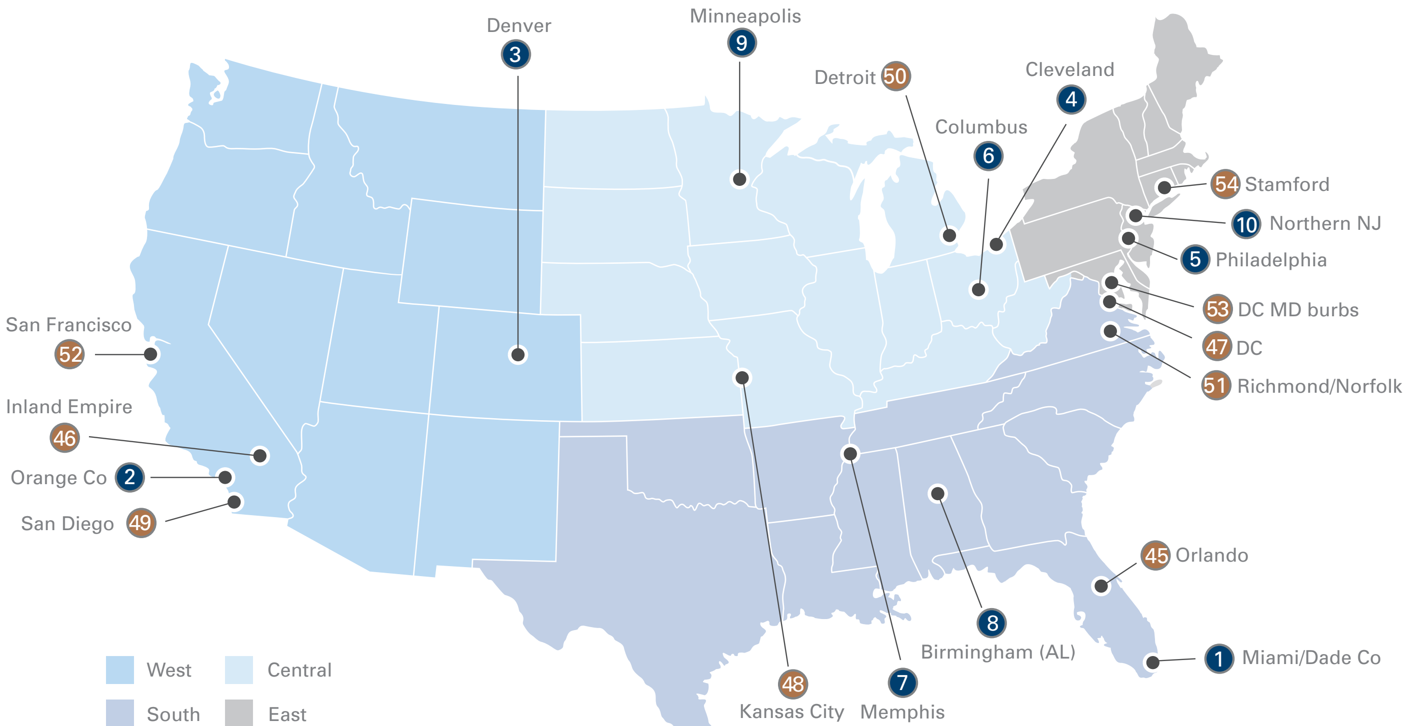
RETAIL

Creativity will
unlock potential

Real Capital Analytics tallied a meager $1.4 billion in retail property transactions in October 2020, a 73 percent decline from the already wizened volume a year ago. On a year-to-date basis, this puts sales of malls, shopping centers, and stores at just $26.6 billion, itself a startling 47 percent drop from the comparable 10 months in 2019.

> "The rise of e-commerce has been accelerated by the pandemic, and it is questionable whether consumer habits will return to in-store shopping once the public health emergency is past."

TOP MARKETS BY RETAIL TRANSACTION VOLUME BASED ON YOY PERCENTAGE CHANGE



Bulls (Top 10)

2020 Rank	City	YOY Change	Total 4Q19-3Q20	Vol. Rank*
1	Miami/Dade Co	54.4%	$1,170.6 M	7
2	Orange Co	42.5%	$1,096.6 M	10
3	Denver	32.9%	$1,146.8 M	9
4	Cleveland	29.5%	$185.5 M	47
5	Philadelphia	18.1%	$578.0 M	21
6	Columbus	15.7%	$160.1 M	50
7	Memphis	9.5%	$142.1 M	51
8	Birmingham (AL)	4.2%	$164.7 M	49
9	Minneapolis	0.9%	$671.1 M	18
10	Northern NJ	-0.1%	$833.4 M	15

Bears (Bottom 10)

2020 Rank	City	YOY Change	Total 4Q19-3Q20	Vol. Rank*
45	Orlando	-52.3%	$394.4 M	30
46	Inland Empire	-53.2%	$703.1 M	17
47	DC	-53.8%	$118.7 M	52
48	Kansas City	-55.9%	$232.0 M	43
49	San Diego	-56.3%	$533.8 M	22
50	Detroit	-58.8%	$213.8 M	45
51	Richmond/Norfolk	-62.1%	$370.1 M	32
52	San Francisco	-66.5%	$522.4 M	23
53	DC MD burbs	-69.8%	$253.1 M	41
54	Stamford	-81.5%	$33.9 M	54

* Volume Ranking is based on the overall transaction volume among 54 markets nationally

Pricing is a major issue, and yet pricing is only a symptom of investors' concerns. Buyers understand well the challenges facing the stores sector. The rise of e-commerce, now capturing 16.7 percent of all retail sales (excluding automotive-related), has been accelerated by the pandemic, and it is questionable whether consumers will return to in-store shopping once the public health emergency is past. Moreover, the surplus of store space itself and the resulting competition for shoppers are long-standing problems, lying at the root of the difficulties of chain stores and department stores.

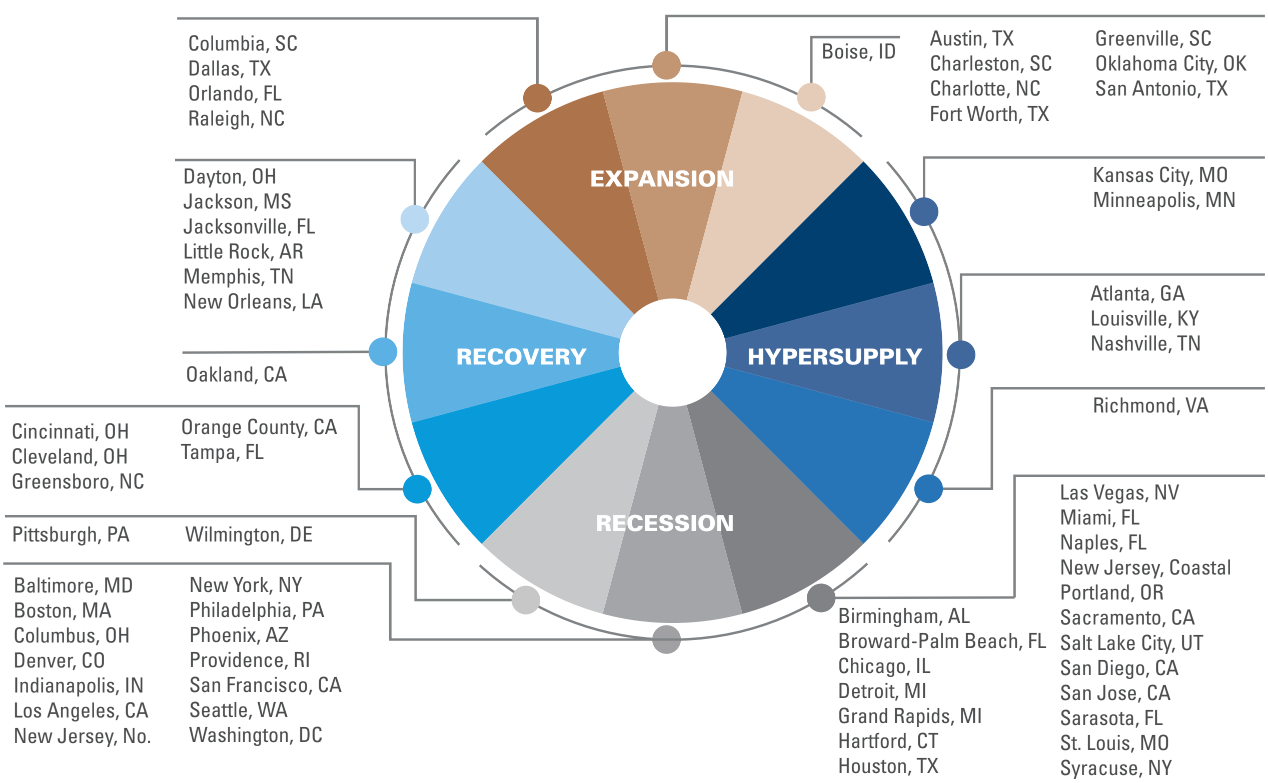
The risk of purchasing retail property should be generating discounted prices for these assets. But sellers have been unwilling to adjust their price expectations and recognize a loss in value. Loss aversion is a powerful force in decision-making, as the behavioral economists have discussed for over a quarter-century now. Deal velocity in the retail sector is at, or very near, a bottom. But pricing probably has a distance to fall in the year or so ahead.

> "It is no surprise that more than half of the retail markets evaluated in IRR's Market Cycle survey are rated as being 'in recession.' "

Integra's survey of valuation variables captures the market's conundrum. As much as any other property type – and more than most – cap rate, discount rate, and reversion rate for the retail sector reflect the extremely thin transaction market of 2020. That is to say, the rates represent data taken from the minority of properties, where buyers and sellers successfully reached a negotiated agreement on price.

Yes, the strikingly puny variance of those rates in the final quarter of 2020, compared with the year prior, might suggest that the risks in this sector were well-known in 2019 and pricing had already accounted for those risks. But that is an abstract argument. It can hardly be claimed that late-2019 transactions anticipated the wholesale economic disruption of the

RETAIL MARKET CYCLE



EXPANSION

Decreasing Vacancy Rates
Moderate/High New Construction
High Absorption
Moderate/High Employment Growth
Med/High Rental Rate Growth

HYPERSUPPLY

Increasing Vacancy Rates
Moderate/High New Construction
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coronavirus. Thus, the apparent stability in investment rates will likely prove chimerical when (not if) retail deal volume trends upward from this bottom. At that point, buying is going to be driven by "opportunistic" investors (think the "gravedancers" of the 1990s) and sellers will be motivated by exasperated creditors demanding some recapture of their mortgage principal.

By last August, retail property delinquencies already stood at 15.0 percent, according to the Mortgage Bankers Association's Commercial Real Estate Finance Loan Performance Survey, with about half the loans either more than 90 days in arrears or categorized as in the foreclosure process. Trepp's authoritative database on structured finance reported that retail properties placed into special servicing this year reached 18.3 percent, higher than at any point during the Global Financial Crisis. Thus, it is reasonable to expect that sales of distressed retail assets will expand substantially from the 7.5 percent share of sector total, calculated as "workouts" in the Real Capital Analytics database through the first three quarters of 2020.

> "The cap rate, discount rate, and reversion rate for the retail sector reflect the extremely thin transaction market of 2020."

Given the widespread structural difficulty that retail properties are coping with and the thoroughness with which COVID-19 is blanketing the economy in the 2020-2021 winter season, it is no surprise that more than half of the retail markets evaluated in IRR's Market Cycle survey are rated as being "in recession." These include all the metro areas in the East region, and 78.6 percent of markets in the West. It is in the South that the best prospects are expected, including markets in Florida (Jacksonville, Orlando, and Tampa), the Carolinas (Charlotte and Raleigh, North Carolina, and Greenville and Charleston, South Carolina, among others), and Texas (Dallas/Ft. Worth and Austin). In the Central region, Ohio cities seem to have the best outlook, while the remainder of the Midwest markets can expect further struggles in 2021.

Given high-profile bankruptcies by department stores including J.C. Penney, Neiman Marcus and Lord & Taylor, and such iconic merchants as Brooks Brothers, J. Crew, Pier 1 and Century 21, now even Class A malls face elevated risk. Malls of lesser quality are well down the road to adaptive re-use, if they have not already experienced that fate. With the exception of metros in the West, both community and neighborhood shopping centers are averaging regional vacancies above 10 percent. Declining market rents are the norm today. And this is occurring even as the anchors of such smaller centers – drug store chains and groceries – remained open as "essential services" throughout the pandemic and have bucked the trend by posting double-digit percentage gains in sales, year-over-year.

Lest our message be unremittingly gloomy, it must be said that the horror of 2020 does not translate directly into a black hole forecast for the stores sector. At some point around the middle of 2021, the economy will be decisively putting the public health crisis behind it, and a more familiar pattern of consumer behavior will restore to physical retail properties some of the market share that has been captured, by default, in e-commerce. Scars will undoubtedly remain. A bounce-back from the bottom will not mean that malls and shopping centers will return to the halcyon days when they were the darlings of professional investors. It will take a new generation of creative, hands-on operators to unlock the potential of this sector. But don't take that as an impossibility, especially with consumption still accounting for about 70 percent of U.S. GDP.

REGIONAL RATES COMPARISON - RETAIL

	CAP RATE	DISCOUNT RATE	MARKET RENT ($/SF)	VACANCY RATE	4Q '19 - 4Q '20 CAP RATE D
SOUTH REGION					
Community Retail	7.20%	8.40%	$18.66	10.75%	▲ 14 bps
Neighborhood Retail	7.22%	8.35%	$17.14	11.80%	▲ 12 bps
EAST REGION					
Community Retail	7.70%	8.60%	$21.83	11.24%	▲ 64 bps
Neighborhood Retail	7.90%	8.71%	$19.83	10.30%	▲ 66 bps
CENTRAL REGION					
Community Retail	7.67%	8.67%	$16.70	12.76%	▲ 28 bps
Neighborhood Retail	8.02%	8.85%	$15.10	13.38%	▲ 24 bps
WEST REGION					
Community Retail	6.30%	7.88%	$29.10	8.30%	▲ 20 bps
Neighborhood Retail	6.45%	8.07%	$25.39	8.66%	▲ 18 bps
NATIONAL AVERAGES/ SPREADS					
Community Retail	7.17%	8.36%	$21.14	10.66%	▲ 26 bps
Neighborhood Retail	7.31%	8.44%	$19.03	11.17%	▲ 25 bps

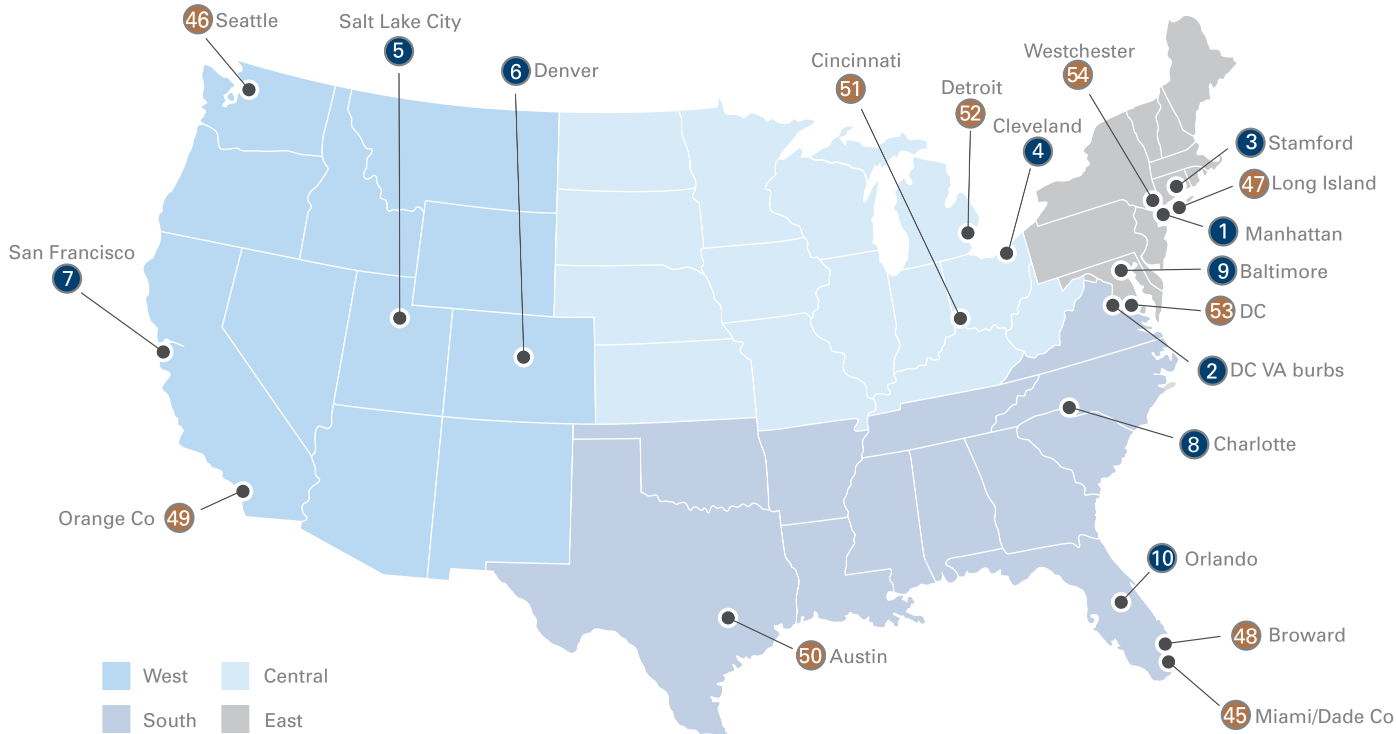
INDUSTRIAL

In the face of challenges, we play to our strengths

For those seeking statistics indicating current success and a promising future in the real estate sector, the search begins with the industrial property type. The 2021 edition of the Urban Land Institute/PwC annual Emerging Trends report ranks fulfillment centers and warehouses at the very top of its lists for investment and development prospects in the year ahead. In addition, industrial real estate was the only property type to post a double-digit return (10.14 percent) in the NCREIF Property Index (NPI) for the one-year period ending September 30, 2020. On the whole, the NPI was up just 2.0 percent.

Moody's Analytics/Reis has commented that as U.S. employment dropped during the pandemic, the warehouse and storage sector saw a net increase of 46,000 jobs, or 3.8 percent. As in so many ways, Amazon has set the pace both in jobs and in industrial property use. Amazon's U.S. workforce of 810,000 is about 85 percent concentrated in its warehousing and distribution operations. This figure does not count seasonal employees or the roughly half-million delivery drivers who are contractors rather than employees. Walmart, meanwhile, has also surged hiring, adding 180,000 jobs since March to accommodate its 79 percent increase in online sales.

TOP MARKETS BY INDUSTRIAL TRANSACTION VOLUME BASED ON YOY PERCENTAGE CHANGE



Bulls (Top 10)

2020 Rank	City	YOY Change	Total 4Q19-3Q20	Vol. Rank*
1	Manhattan	1,486.4%	$706.8 M	33
2	DC VA burbs	51.7%	$1,482.7 M	17
3	Stamford	36.3%	$76.8 M	52
4	Cleveland	34.5%	$211.1 M	48
5	Salt Lake City	34.1%	$890.1 M	31
6	Denver	21.7%	$1,917.3 M	12
7	San Francisco	21.1%	$1,305.4 M	21
8	Charlotte	20.3%	$1,219.9 M	24
9	Baltimore	17.9%	$1,547.6 M	16
10	Orlando	16.6%	$981.8 M	29

Bears (Bottom 10)

2020 Rank	City	YOY Change	Total 4Q19-3Q20	Vol. Rank*
45	Miami/Dade Co	-44.5%	$1,061.6 M	27
46	Seattle	-45.8%	$1,762.1 M	14
47	Long Island	-49.2%	$273.1 M	47
48	Broward	-53.0%	$656.1 M	37
49	Orange Co	-54.4%	$1,374.9 M	19
50	Austin	-55.0%	$689.4 M	34
51	Cincinnati	-57.9%	$668.3 M	35
52	Detroit	-70.2%	$293.8 M	46
53	DC	-83.8%	$30.9 M	54
54	Westchester	-86.2%	$104.9 M	51

* Volume Ranking is based on the overall transaction volume among 54 markets nationally

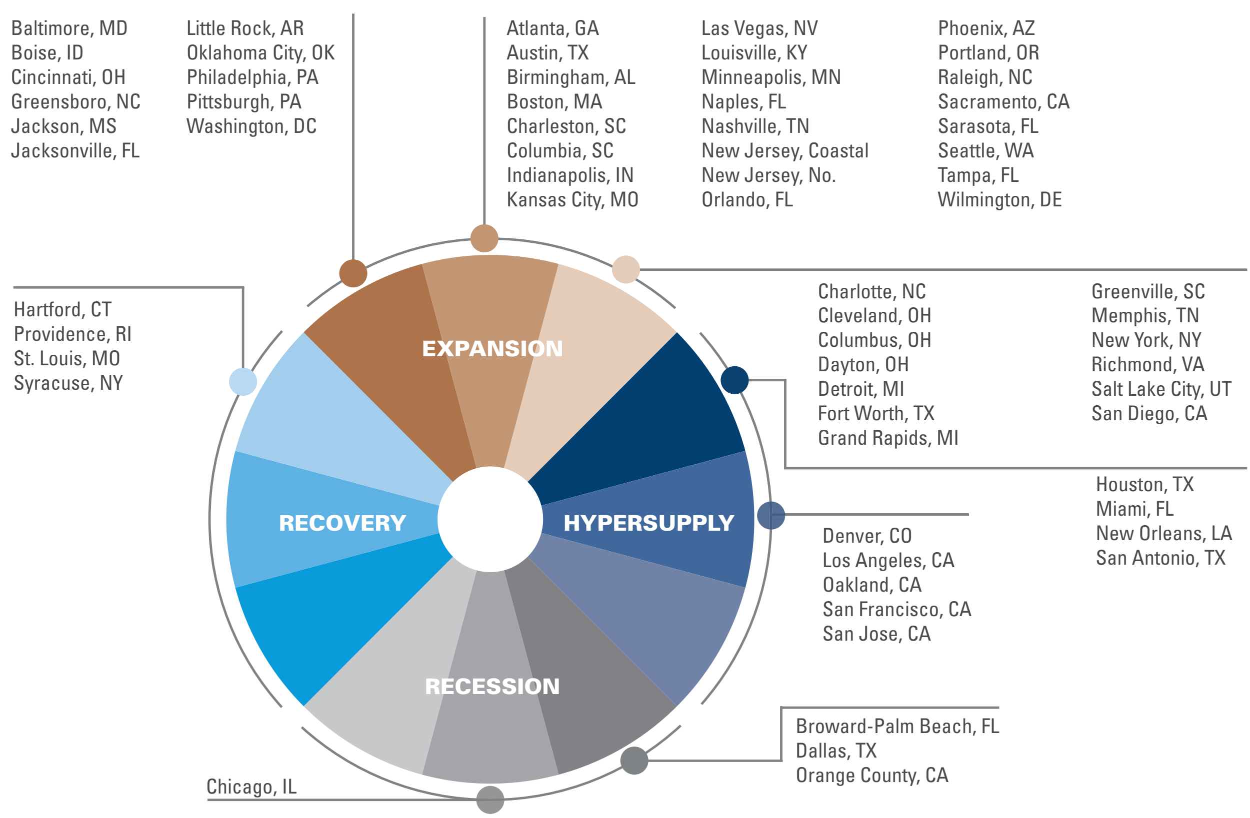
Target, too, has seen its e-commerce volume soar by 155 percent in the third quarter, compared with a year ago. All of this has massively contributed to the 36 million square feet of net absorption registered by Reis in the second and third quarters of 2020.

> "It has become apparent that businesses need to supplement their 'just-in-time' strategies with 'just-in-case' measures."

One of the key lessons of the coronavirus crisis has been the need to re-think supply chain management that has been exclusively committed to "just-in-time" production/distribution processes oriented to minimizing cost. First in key medical supplies and equipment but then in a broader array of goods, it has become apparent that businesses need to supplement that strategy with some "just-in-case" measures.

Dependency upon highly dispersed global sources can leave firms unable to adjust to significantly changed levels of demand, such as those experienced by e-commerce in 2020. Hence there has been a re-thinking of expanding domestic sources of goods production. Greater attention is being paid to inventory along the whole chain – including finished goods in warehouse, inventory in transit, and inventory covered by pre-orders. And then there is the whole "last mile" question, much talked about for the past couple of years but now increasingly critical for distributors and consumers. Amazon's introduction of one-day shipping in 2019 has tripled the number of warehouses used to service that "last mile," according to logistics specialist MWPVL International.

INDUSTRIAL MARKET CYCLE



EXPANSION

Decreasing Vacancy Rates
Moderate/High New Construction
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> "Fully 80 percent of the industrial markets are deemed in recovery or in expansion in this year's IRR survey of cyclical conditions."

This confluence of expanding demand pressures creates a stark contrast for industrial properties vis-à-vis office, retail, and hotels. Taken together, fully 80 percent of the industrial markets are deemed in recovery or in expansion in this year's IRR survey of cyclical conditions. Only four markets across the country are rated as being in recession going into 2021, and these are (perhaps surprisingly) inclusive of major industrial markets like Chicago, Dallas, Orange County (California), and Broward/Palm Beach (Florida). How much of this is due to the spread of COVID-19 through the South and Midwest since the spring is uncertain.

For the most part, however, the pandemic's effects have favored most local warehousing markets, and in 2021, that is expected to continue, as the economy recovers after vaccination allows disrupted patterns of work and consumption to revert more closely to pre-COVID norms. In the meantime, the adjustments at both ends of the supply and distribution chains (namely, gains in domestic sourcing of goods production and the last mile warehousing phenomenon) seem to be affecting most markets, large and small, across the country.

Cap rates indicate the degree to which investors translate income performance into prices. Both the East and West Coasts manifest the greatest multiplier effect, with sub-7 percent cap rates for both the warehousing and the flex segments of the industrial sector. The coastal regions are also commanding the highest levels of market rent. The longer-term lease structures typical of warehouse/distribution properties mitigates cash flow risk, an important consideration in times of economic uncertainty. Flex industrial, on the other hand, has historically exhibited greater volatility and thus, typically requires a higher risk premium in total yield. Also, except in the South, vacancy rates for flex space will be higher than for warehouse properties.

Against such a background, then, how are we to explain the reduction in transaction volume in the industrial real estate sector through the first 10 months of 2020? It is not enough to say the contraction is not as bad as in the other property types. Industrial real estate is still down 26 percent year-to-date and had less than $5 billion in deal volume in October, according to Real Capital Analytics. It turns out that in property investment, as in public health, it was hard to find immunity to the impact of the coronavirus. The deal volume dip reflects a common propensity in times of economic difficulty to adopt a "wait-and-see" approach. A combination of solid performance in 2020 and reasonably anticipated economic improvement later in 2021 should bring buyers off the sidelines relatively soon. This could place industrial properties at the head of the line in a renewal of real estate investment interest.

> "A combination of solid performance in 2020 and reasonably anticipated economic improvement later in 2021 should bring buyers off the sidelines relatively soon."

REGIONAL RATES COMPARISON - INDUSTRIAL

	CAP RATE	DISCOUNT RATE	MARKET RENT ($/SF)	VACANCY RATE	4Q '19 - 4Q '20 CAP RATE D
SOUTH REGION					
Flex Industrial	7.51%	8.51%	$8.80	9.04%	▼ -14 bps
Industrial	6.76%	7.90%	$5.17	11.30%	▼ -13 bps
EAST REGION					
Flex Industrial	6.94%	7.99%	$9.84	12.42%	▼ -29 bps
Industrial	6.21%	7.38%	$6.99	8.56%	▼ -37 bps
CENTRAL REGION					
Flex Industrial	7.79%	8.75%	$7.50	13.36%	▼ -7 bps
Industrial	7.08%	8.27%	$4.34	11.02%	▼ -3 bps
WEST REGION					
Flex Industrial	6.20%	7.68%	$12.63	9.50%	▼ -18 bps
Industrial	5.64%	7.18%	$7.27	8.44%	▼ -5 bps
NATIONAL AVERAGES/ SPREADS					
Flex Industrial	7.17%	8.28%	$9.67	10.52%	▼ -15 bps
Industrial	6.48%	7.72%	$5.80	10.12%	▼ -13 bps

HOSPITALITY

Hotel owners
focus on survival

The World Health Organization declared a global emergency in January 2020, and by the end of the first quarter of 2020, the emergency was labeled a "pandemic." Soon, the lodging market was devastated.

According to STR, by the third quarter of 2020, the absolute year-over-year occupancy level of 48.6 percent was the lowest for any period on record in the United States.

> "We do not anticipate a return to pre-pandemic metrics until early 2024 due to decreased demand."

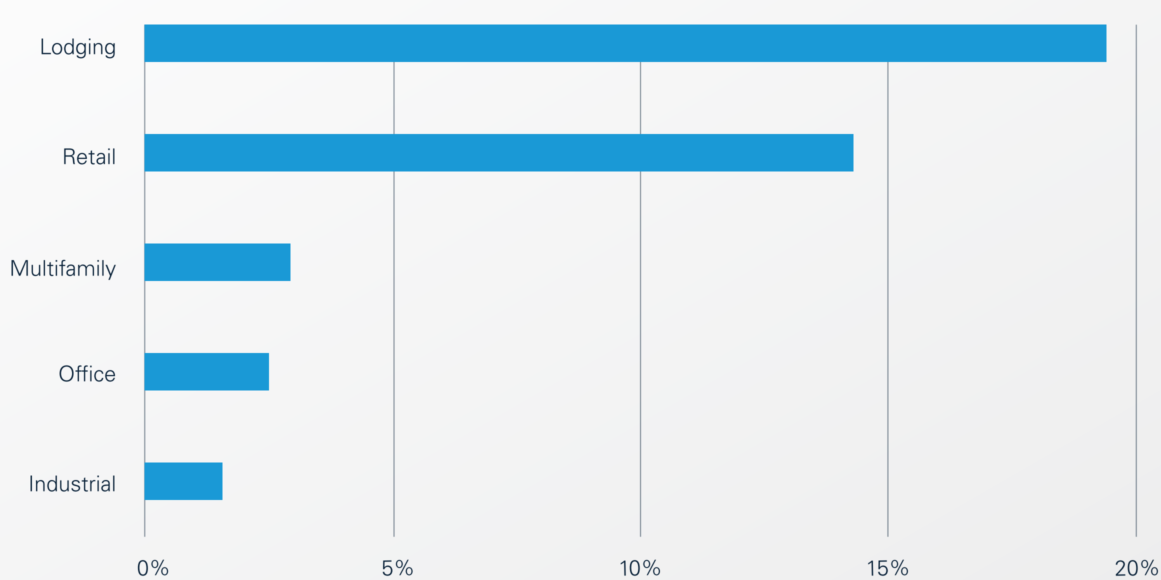
STR's and Tourism Economics' latest projections for 2021 forecast occupancy at 52.2 percent, ADR at $109.21 and RevPar at $57.03. Unfortunately, these numbers are likely to deteriorate, as second and third waves of COVID-19 infections have surged in the fourth quarter of 2020, and new shutdowns have been enacted on a state-by-state basis. There is some light at the end of the tunnel, as both Pfizer and Moderna's new vaccines have been approved and are currently being deployed. More than 100 million doses should be out by March 31, and an additional 100 million plus by June 30. And there are several other vaccines being brought to market in coming months. Assuming effective deployment and efficacy of these vaccines, demand should begin to increase by the second quarter, beginning with leisure and extending to commercial and group by the fourth quarter 2021. We do not anticipate a return to pre-pandemic metrics until early 2024 due to decreased demand.

LODGING METRICS TAKE A DEEP DIVE

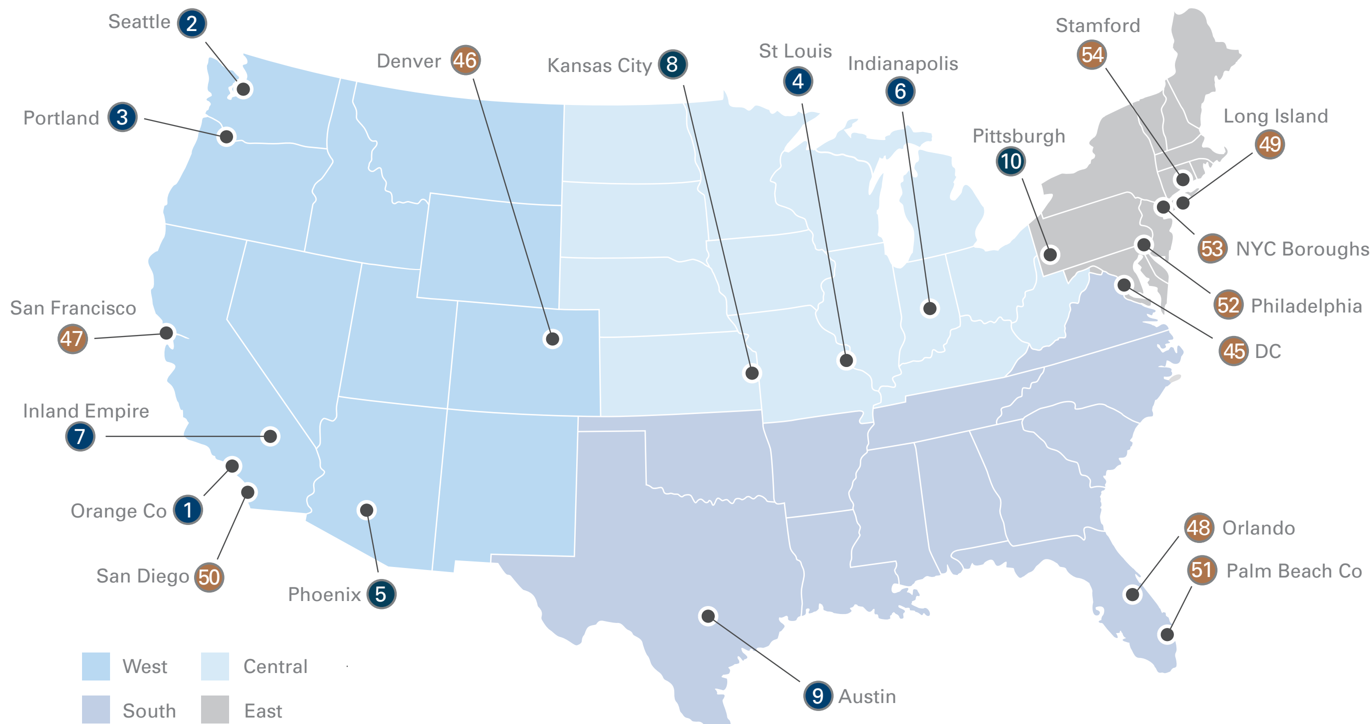
The American Hotel & Lodging Association estimates that 68 percent of hotels have less than half of their pre-crisis staff. Fifty percent of their respondents believe that their properties are in danger of foreclosure, and two-thirds believe that they can last only six more months at their projected revenue level. The Top 25 Markets, as defined by STR, are showing an overall occupancy rate of only 39.5 percent (-46.6 percent), with an ADR of $100.90 (-26.2 percent) and RevPar of $40.01 (-60.6 percent). The hardest hits to

LODGING PRESSURES BUILDING FOR LENDERS

CMBS 30+ Days Delinquent as of October 2020



TOP MARKETS BY HOSPITALITY TRANSACTION VOLUME BASED ON YOY PERCENTAGE CHANGE



Bulls (Top 10)

2020 Rank	City	YOY Change	Total 4Q19-3Q20	Vol. Rank*
1	Orange Co	103.8%	$1,168.6 M	2
2	Seattle	88.5%	$786.4 M	5
3	Portland	56.8%	$476.4 M	11
4	St Louis	43.5%	$66.2 M	44
5	Phoenix	-0.9%	$1,088.5 M	3
6	Indianapolis	-1.8%	$202.0 M	22
7	Inland Empire	-4.0%	$162.4 M	27
8	Kansas City	-7.3%	$112.6 M	36
9	Austin	-8.1%	$184.3 M	24
10	Pittsburgh	-9.4%	$115.0 M	35

Bears (Bottom 10)

2020 Rank	City	YOY Change	Total 4Q19-3Q20	Vol. Rank*
45	DC	-77.0%	$382.8 M	15
46	Denver	-77.5%	$215.3 M	20
47	San Francisco	-80.7%	$400.9 M	14
48	Orlando	-81.6%	$205.5 M	21
49	Long Island	-81.9%	$34.0 M	51
50	San Diego	-82.4%	$253.6 M	17
51	Palm Beach Co	-86.9%	$161.1 M	28
52	Philadelphia	-90.5%	$49.7 M	48
53	NYC Boroughs	-91.2%	$26.6 M	53
54	Stamford	-100.0%	$0.0 M	54

* Volume Ranking is based on the overall transaction volume among 54 markets nationally

occupancy have been to the Luxury Scale (-74.1 percent), Upper Upscale (-67.6 percent) and Upscale (-44.6 percent). The Economy hotel market has fared the best (-10.8 percent), primarily due to transitional housing for healthcare and first responders. The Mid-Atlantic region experienced the steepest decline in occupancy (-44.7 percent), followed by New England at (-44%) and the Pacific Region at (-41.1 percent). ADR decreases were steepest in Mid Atlantic (-28.2 percent), Pacific (-23.3 percent) and New England (-22.9 percent). Not surprisingly, Urban property occupancies were hardest hit (-53.8 precent), followed by Resort (-46.6 percent) and Airport (-41.7 percent), with small metropolitan/towns faring best (-24.9 percent). The top markets for occupancy include Phoenix, Atlanta, Norfolk/VA Beach, Los Angeles/Long Beach, San Diego, and Tampa/St. Petersburg. The hardest hit states were Hawaii (-65.2 percent), followed by Illinois, Massachusetts, New York (-49.1 percent), California, and Florida.

TRANSACTION VOLUME

Transaction volumes through the third quarter of 2020, as measured by Real Capital Analytics, reached $20.07 billion, a 51.8 percent year-over-year decrease. The South region led all markets at $14.2 billion, followed by the West at $12.1 billion, the East at $10.6 billion, and the Central at $3.7 billion. A total of 1,418 properties were sold (-34 percent), containing 165,274 units (-38 percent). The 12-month average price per unit was $114,771 (-17 percent) with an average cap rate of 8.6 percent.

NOTABLE SALES, ACTIVITY AND M&A:

"As the U.S. exits the current pandemic, major M&A activity is anticipated among the "Big 6" hotel companies."

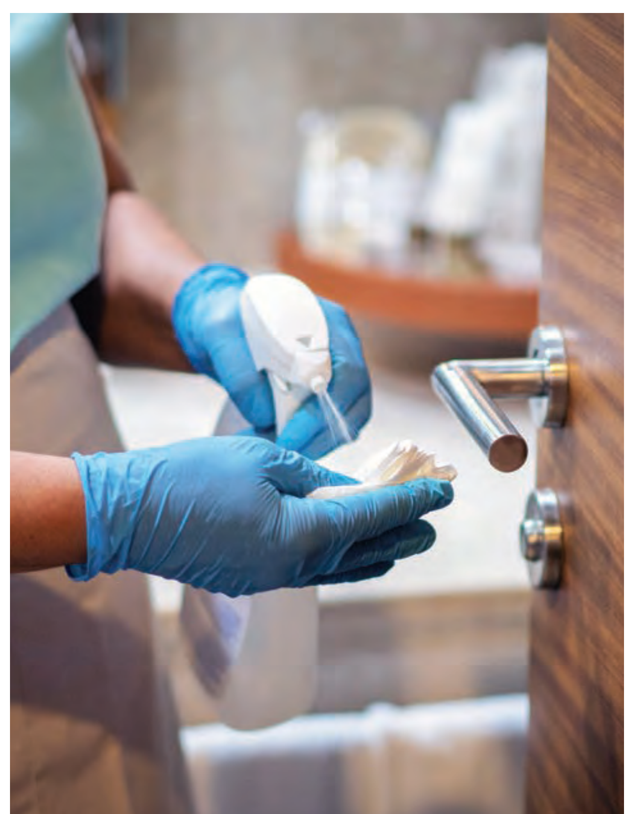
According to Hospitality.net, delinquencies are rising significantly in Houston (+64 percent), Chicago (+42 percent), New York (+34 percent), and Los Angeles (+22 percent), signaling imminent danger. The Hilton Times Square permanently closed its 478-room tower and Ashford Hospitality turned over the keys to its recently purchased Embassy Suites in Midtown West. The disruption in the market has stalled most of the conventional sales and restricted M&A activity. Notable sales were the 878-unit Hudson Hotel in New York, the 1003-room Sheraton Grand Prix in Phoenix ($264,706/room), the 53-room Newport Beach (California) Marriott ($406,015/room), and the 600-unit Hyatt Regency Portland ($316,667/room). The 192-room Residence Inn by Marriott in San Diego was sold to the San Diego Housing Commission for transitional housing for $349,000/room. As the U.S. exits the current pandemic, major mergers and acquisitions (M&A) activity is anticipated among the "Big 6" hotel companies, as a result of market financial stress.

U.S. HOTEL CONSTRUCTION PIPELINE

According to STR, the number of hotel rooms under construction peaked in the second quarter of 2020. The greatest number of pipelined hotels were in Upscale (65,678; +8 percent) and Upper Midscale (61,678; +5 percent), while the lowest numbers in the pipeline were for Midscale, Luxury and Economy (6,039; +1 percent). We anticipate that few rooms will come online after the properties in the pipeline are completed. Supply is anticipated to decrease in 2020 by 3.5 percent and then increase in 2021 by 5.6 percent.

CURRENT AND EMERGING TRENDS

The market has set trends aside and is fully focused on the operation of its existing properties. Operators are placing emphasis on sanitation/cleaning protocols, increased customer service, and digital check-ins. Due to limited capacities, daily operations will change, and operators will look for alternative sources of guests, as they re-purpose under-utilized spaces. Sellers are finding new, non-traditional buyer pools, as cities and counties are purchasing under-performing hotels for transitional and low-income housing requirements. Once the pandemic begins to abate, attention will return to enhancing the guest experience and building loyalty programs.



03. INVESTOR RATES TABLES

INTEGRA REALTY RESOURCES
CAPITALIZATION RATES, DISCOUNT RATES, AND REVERSION RATES

2021 INVESTOR RATES TABLE

INTEGRA REALTY RESOURCES
CAPITALIZATION RATES DISCOUNT
RATES AND REVERSION RATES

GOING IN CAPITALIZATION RATES (%)

Region	Market	CLASS A CBD Office	CLASS A Suburban Office	CLASS A Industrial	CLASS A Flex Industrial	CLASS A Urban Multifamily	CLASS A Suburban Multifamily	CLASS A Regional Mall Retail	CLASS A Community Retail Center	CLASS A Neighborhood Retail	CLASS B CBD Office	CLASS B Suburban Office	CLASS B Urban Multifamily	CLASS B Suburban Multifamily
EAST REGION	BALTIMORE, MD	7.25	7.75	5.75	7.75	5.75	6.50		6.75	7.50	9.00	8.50	7.50	7.50
	BOSTON, MA	5.00	6.25	6.00	6.75	4.00	5.00	6.75	7.75	6.75	6.00	8.00	4.75	5.75
	HARTFORD, CT	8.25	8.50	7.50	7.75	5.50	5.75	9.00	7.75	8.25	9.00	9.25	6.25	6.50
	NEW JERSEY, COASTAL		7.00	5.75	6.50	5.65	5.75	7.00	7.00	7.25		7.25	5.85	6.00
	NEW JERSEY, NO	6.00	6.50	4.50	6.00	5.50	5.25	9.00	8.25	7.75	7.50	8.25	5.75	5.50
	NEW YORK, NY	6.20	6.70	5.00	5.50	5.50	5.75	9.00	8.25	7.75	6.80	7.20	6.50	6.00
	PHILADELPHIA, PA	7.50	7.50	5.50	6.00	6.00	5.75	6.50	7.50	8.00	8.00	8.00	6.50	6.50
	PITTSBURGH, PA	7.75	7.50	8.00	7.50	6.00	6.50	8.75	8.25	8.00	9.00	8.75	6.50	7.00
	PROVIDENCE, RI	8.75	9.00	7.50	7.50	5.75	6.25	9.00	7.75	8.25	9.00	9.25	6.25	6.75
	SYRACUSE, NY	8.00	8.00	8.00	8.50	6.00	5.75	7.25	7.75	9.50	9.00	8.50	6.75	6.50
	WASHINGTON, DC	5.75	7.00	5.50	7.50	4.75	5.25	5.50	6.50	7.00	6.25	9.00	5.00	5.50
	WILMINGTON, DE	8.00	7.50	5.50	6.00	6.50	6.00	6.50	8.00	8.50	8.50	8.00	7.00	6.50
SOUTH REGION	ATLANTA, GA	5.50	7.00	5.75	7.50	4.50	5.50	6.25	6.50	7.00	6.00	7.50	5.75	6.75
	AUSTIN, TX	5.50	6.00	6.00	7.25	5.00	5.25	6.00	6.50	6.50	5.75	6.25	6.00	6.50
	BIRMINGHAM, AL	7.00	7.00	6.75	7.50	5.00	5.00	8.50	8.50	7.00	7.25	7.25	6.00	6.00
	BROWARD-PALM BEACH, FL	6.20	7.30	6.10	9.00	5.50	5.50	6.00	7.00	7.00	7.30	8.20	6.50	6.00
	CHARLESTON, SC	6.50	7.75	7.75	8.00	4.75	5.25	7.50	7.25	7.00	7.00	8.50	5.75	6.00
	CHARLOTTE, NC	5.25	6.00	6.25	7.75	4.80	5.25	6.75	6.75	6.50	6.75	7.25	6.00	6.75
	COLUMBIA, SC	7.00	7.25	6.00	7.25	5.50	6.00	7.00	7.75	7.00	7.50	8.00	5.75	6.25
	DALLAS, TX	6.00	6.75	5.50	7.00	5.00	6.00	7.50	6.50	6.50	7.50	7.75	5.25	6.50
	FORT WORTH, TX	5.75	6.50	6.50	7.25	5.00	5.50	9.85	6.22	6.39	6.50	7.50	5.25	6.00
	GREENSBORO, NC	7.75	8.50	6.75	8.00	6.25	6.00	8.00	7.50	7.25	8.75	9.00	8.00	7.50
	GREENVILLE, SC	7.00	7.75	5.75	7.00	5.75	6.00	7.25	7.00	6.75	7.50	8.00	6.25	6.25
	HOUSTON, TX	6.90	7.00	6.70	7.30	5.60	5.70	7.40	7.20	7.20	7.70	8.10	6.40	6.50
	JACKSON, MS	8.50	7.50	7.75	8.50	6.50	6.50	9.50	8.25	8.75	10.50	9.00	7.00	7.00
	JACKSONVILLE, FL	8.25	8.25	6.25	7.00	5.00	5.00		7.75	6.75	9.50	9.75	5.50	6.00
	LITTLE ROCK, AR	7.75	7.25	7.00	8.50	5.25	5.50	8.25	7.25	8.25	10.00	9.00	7.00	7.25
	MEMPHIS, TN	8.00	5.50	6.00	7.00	5.50	5.50	8.25	7.00	8.00	9.00	7.50	6.00	6.25
	MIAMI, FL	5.10	6.30	5.90	7.40	5.50	6.00	4.40	7.00	7.00	6.30	6.80	6.50	7.50
	NAPLES, FL		7.25	7.25	7.25		6.00	7.00	7.00	7.25		7.50		6.50
	NASHVILLE, TN	6.50	8.00	7.25	7.00	5.00	5.00	8.75	7.50	7.50	7.00	8.25	6.00	6.00
	NEW ORLEANS, LA	8.50	9.00	8.50	8.25	6.25	6.50	8.00	7.50	8.00	9.00	9.50	7.00	7.25
	OKLAHOMA CITY, OK	7.00	7.25	8.00	8.50	6.50	7.00		7.50	7.50	8.00	8.25	7.00	7.50
	ORLANDO, FL	7.75	8.00	6.75	7.25	5.00	5.00		6.75	6.75	8.75	9.00	5.25	5.25
	RALEIGH, NC	6.50	7.25	7.00	7.00	5.00	5.25	7.50	7.25	7.25	7.25	8.00	5.25	5.50
	RICHMOND, VA	6.75	7.25	7.00	6.00	5.50	5.50		7.50	7.50	8.00	8.00	6.75	6.75
	SAN ANTONIO, TX	7.50	7.75	7.25	7.25	5.25	5.50	7.50	7.50	7.50	7.75	8.00	6.00	6.25
	SARASOTA, FL		6.25	7.25	7.25	6.00	6.00	7.25	6.75	7.75		6.25	6.25	6.25
	TAMPA, FL	7.25	7.50	7.50	7.75	4.50	5.00		7.50	7.75	7.50	7.00	5.00	5.50
CENTRAL REGION	CHICAGO, IL	5.50	7.50	5.25	8.25	4.75	5.25	6.75	7.50	8.00	6.25	8.50	5.25	5.75
	CINCINNATI, OH	8.00	8.50	7.25	7.75	6.00	6.25	8.00	7.75	7.75	9.00	9.50	7.00	7.00
	CLEVELAND, OH	8.00	8.00	7.25	8.00	6.50	7.25	7.75	8.25	8.50	8.75	9.00	8.00	8.25
	COLUMBUS, OH	8.00	8.25	7.25	8.25	5.75	5.25	8.50	7.75	7.50	8.75	8.75	6.25	6.25
	DAYTON, OH	10.50	8.50	8.75	8.75	7.75	6.75	8.00	8.25	8.50	11.00	9.25	8.50	7.75
	DETROIT, MI	8.25	8.00	8.25	8.00	5.75	6.25	7.50	8.00	8.50	8.75	8.50	6.25	6.50
	GRAND RAPIDS, MI	7.00	8.00	8.50	8.25	5.75	6.00	7.00	7.50	8.00	7.50	8.50	6.25	6.50
	INDIANAPOLIS, IN	8.00	7.75	6.00	7.50	6.00	6.25	6.50	7.50	8.25	8.50	8.25	6.25	6.50
	KANSAS CITY, MO	7.50	7.75	7.25	8.00	5.75	5.75	7.00	7.25	7.75	8.25	8.50	6.75	6.75
	LOUISVILLE, KY	7.75	7.50	6.50	7.00	6.50	6.00	6.75	7.75	7.75	8.50	8.50	8.00	6.75
	MINNEAPOLIS, MN	6.50	6.75	5.50	6.25	4.50	5.25	7.00	7.00	8.00	7.50	7.75	5.50	5.75
	ST. LOUIS, MO	9.50	7.25	7.25	7.50	6.25	6.00	7.50	7.50	7.75	10.50	8.25	7.50	7.25
WEST REGION	BOISE, ID	7.00	7.25	7.00	7.00	5.00	5.50	6.75	7.00	7.25	7.25	7.50	5.50	6.00
	DENVER, CO	6.00	6.00	5.75	5.75	4.50	4.75	7.50	7.50	7.00	6.00	6.50	4.75	5.00
	LAS VEGAS, NV	7.00	7.50	5.75	6.00	5.00	5.00	7.00	7.25	7.00	7.50	8.00	5.25	5.25
	LOS ANGELES, CA	5.25	5.75	4.75	5.50	4.00	4.25	5.25	5.25	5.75	6.00	6.50	5.00	5.25
	OAKLAND, CA	6.00	6.25	5.50	6.25	5.50	6.00	6.50	6.50	6.75	6.50	6.75	5.75	6.25
	ORANGE COUNTY, CA		6.20	4.50	5.25		4.25	5.50	5.25	5.50		6.50		5.00
	PHOENIX, AZ	6.50	6.50	5.00	6.50	5.50	5.75	7.50	7.00	7.00	7.00	7.00	5.00	5.25
	PORTLAND, OR	6.00	6.25	5.75	6.75	4.50	5.50		6.75	6.50	6.75	6.75	5.75	6.25
	SACRAMENTO, CA	6.00	6.25	6.25	6.50	5.75	6.50	6.50	6.50	6.75	6.50	6.75	6.00	7.00
	SALT LAKE CITY, UT	6.25	6.50	6.00	6.50	4.75	4.75	7.50	6.75	7.50	6.75	6.75	5.25	5.25
	SAN DIEGO, CA	6.25	6.25	6.00	5.50	3.75	4.00	6.75	5.75	5.75	6.50	6.75	4.25	4.50
	SAN FRANCISCO, CA	5.00	5.50	6.50	6.50	4.25	4.75	6.00	5.25	5.50	5.25	6.00	4.50	5.25
	SAN JOSE, CA	5.75	6.25	5.75	6.00	4.25	4.25	6.00	5.00	5.25	6.00	6.50	4.50	4.50
	SEATTLE, WA	5.00	5.75	4.50	6.75	4.50	5.00	5.50	6.50	6.75	6.25	6.75	4.75	5.50
	AVERAGES	6.90	7.00	6.31	6.93	5.30	5.48	6.90	6.93	7.17	7.50	7.63	5.91	6.05

DISCOUNT RATES (%)

Region	Market	CLASS A CBD Office	CLASS A Suburban Office	CLASS A Industrial	CLASS A Flex Industrial	CLASS A Urban Multifamily	CLASS A Suburban Multifamily	CLASS A Regional Mall Retail	CLASS A Community Retail Center	CLASS A Neighborhood Retail	CLASS B CBD Office	CLASS B Suburban Office	CLASS B Urban Multifamily	CLASS B Suburban Multifamily
EAST REGION	BALTIMORE, MD	9.25	8.75	6.75	8.75	6.75	7.50		7.75	8.50	10.50	10.00	8.00	8.50
	BOSTON, MA	7.00	8.00	7.50	8.00	5.50	6.50	8.25	9.25	8.25	8.00	9.50	6.50	7.25
	HARTFORD, CT	9.25	9.50	8.25	8.50	6.25	6.50	10.00	8.75	9.25	10.00	10.25	7.00	7.50
	NEW JERSEY, COASTAL		8.35	7.00	7.50	7.50	7.50	8.25	8.25	8.35		8.65	7.50	7.50
	NEW JERSEY, NO	7.75	8.50	6.00	7.00	6.00	6.00	9.00	8.25	7.75	8.50	9.50	6.50	6.50
	NEW YORK, NY	6.75	7.25	5.75	6.00	6.00	6.50	9.00	8.25	7.75	7.30	7.80	6.75	6.75
	PHILADELPHIA, PA	7.75	8.00	7.50	8.00	8.00	8.00	7.50	8.50	8.50	8.50	8.50	8.50	8.50
	PITTSBURGH, PA	8.75	8.25	9.00	8.50	7.00	7.25	10.25	9.75	9.50	9.75	9.50	7.50	8.00
	PROVIDENCE, RI	9.75	10.00	8.25	8.25	6.00	6.50	10.00	8.75	9.25	10.00	10.25	6.50	7.00
	SYRACUSE, NY	9.00	9.00	9.00	9.40	7.00	6.75	8.00	8.50	10.00	9.50	9.50	7.75	7.50
	WASHINGTON, DC	6.50	8.50	6.00	8.00	5.50	6.50	6.50	7.25	7.75	7.25	10.75	6.00	7.00
	WILMINGTON, DE	9.00	8.50	7.50	8.00	8.50	8.50	8.00	8.50	9.00	9.50	9.00	9.00	9.00
SOUTH REGION	ATLANTA, GA	7.50	9.00	7.00	8.75	6.50	6.75	6.70	7.75	8.25	8.00	9.50	7.00	7.50
	AUSTIN, TX	7.00	7.75	7.25	8.25	6.25	6.50	8.00	7.75	7.75	7.50	8.25	7.25	7.75
	BIRMINGHAM, AL	8.00	8.00	7.75	8.50	6.00	6.00	10.00	10.00	8.00	8.25	8.25	7.00	7.00
	BROWARD-PALM BEACH, FL	8.10	8.30	7.40	7.85	6.00	7.00	6.50	7.50	8.50	8.50	8.50	7.00	7.40
	CHARLESTON, SC	7.50	8.75	9.00	9.25	6.50	6.75	9.00	8.75	8.50	8.50	9.50	7.25	7.50
	CHARLOTTE, NC	7.25	8.00	8.00	8.50	6.75	6.75	8.00	7.75	7.00	8.50	8.00	8.00	8.75
	COLUMBIA, SC	8.00	8.50	7.50	8.50	7.75	7.75	8.50	8.75	7.75	8.25	9.00	8.25	8.50
	DALLAS, TX	7.50	8.00	6.75	8.25	6.00	7.00	8.25	7.50	7.50	8.00	8.50	6.25	7.50
	FORT WORTH, TX	7.25	7.75	7.25	7.75	7.00	7.50	8.00	7.75	7.75	7.75	8.25	7.25	8.00
	GREENSBORO, NC	9.50	10.25	8.50	9.75	7.75	7.50	10.00	9.25	9.00	11.25	12.00	9.25	9.00
	GREENVILLE, SC	8.25	8.50	7.25	8.25	8.00	8.00	9.00	8.75	8.25	8.50	9.00	8.25	8.50
	HOUSTON, TX	8.10	8.60	7.70	8.50	7.50	7.50	8.30	8.30	8.30	8.90	9.40	8.00	8.00
	JACKSON, MS	9.00	8.50	8.75	9.50	8.00	7.50	10.50	9.25	9.50	11.00	10.00	8.00	8.00
	JACKSONVILLE, FL	9.50	9.50	7.25	8.00	6.50	6.50		8.75	7.75	10.50	10.75	7.00	7.50
	LITTLE ROCK, AR	8.75	8.25	8.75	9.50	6.75	7.00	9.25	8.25	9.25	11.00	7.75	8.25	8.50
	MEMPHIS, TN	9.00	7.75	7.75	8.25	7.00	7.00	9.00	8.00	9.00	9.50	9.50	7.50	7.75
	MIAMI, FL	7.20	7.80	6.25	7.75	7.00	7.00	6.40	8.00	8.00	8.20	8.30	8.00	8.00
	NAPLES, FL		8.25	8.25	8.25		7.00	8.25	8.25	8.50		8.50		7.50
	NASHVILLE, TN	7.50	9.00	7.75	7.50	6.00	6.00	9.75	8.50	8.50	8.00	9.25	6.50	6.50
	NEW ORLEANS, LA	9.00	9.50	9.25	9.00	6.75	6.50	8.50	8.00	8.25	10.00	9.50	7.50	7.25
	OKLAHOMA CITY, OK	8.00	8.50	9.00	9.25	7.00	6.00		9.25	9.25	9.00	9.50	6.00	5.00
	ORLANDO, FL	8.75	9.00	7.75	8.25	7.00	7.00		7.75	7.75	9.75	10.00	7.25	7.25
	RALEIGH, NC	7.75	8.50	8.50	8.50	6.75	7.00	9.00	8.75	8.75	8.50	9.25	7.00	7.50
	RICHMOND, VA	8.00	8.50	7.25	8.25	7.00	7.00		9.00	9.00	9.50	9.50	8.25	8.25
	SAN ANTONIO, TX	8.75	9.00	8.75	8.75	6.50	6.75	8.75	8.75	8.50	9.50	9.50	7.25	7.50
	SARASOTA, FL		8.00	8.25	8.25	7.00	7.50	8.00	8.00	8.50		8.00	7.00	7.50
	TAMPA, FL	7.75	7.75	8.50	8.75	6.50	7.00		9.25	9.50	7.50	8.00	7.00	7.50
CENTRAL REGION	CHICAGO, IL	7.00	8.75	6.50	8.50	5.50	6.00	7.75	8.50	7.75	7.25	9.25	6.00	6.50
	CINCINNATI, OH	9.25	9.75	8.50	8.75	7.00	7.25	9.25	9.00	9.00	10.25	10.75	8.00	8.25
	CLEVELAND, OH	9.25	9.25	8.00	8.75	8.00	8.50	8.50	9.00	9.25	9.50	9.75	8.75	9.00
	COLUMBUS, OH	9.25	9.25	8.25	9.25	8.25	8.00	9.50	9.00	8.75	9.75	9.75	8.75	8.75
	DAYTON, OH	12.00	9.50	9.75	8.75	8.75	7.75	8.25	8.75	9.00	12.00	10.50	9.50	8.75
	DETROIT, MI	9.25	9.25	9.50	9.00	7.25	7.50	8.50	9.00	9.25	9.50	9.50	8.00	8.25
	GRAND RAPIDS, MI	8.25	9.00	9.75	9.50	8.00	8.25	8.25	8.75	9.25	8.75	9.50	8.50	8.75
	INDIANAPOLIS, IN	9.50	9.25	7.00	8.50	7.00	7.00	7.50	8.50	9.25	10.00	9.75	7.25	7.25
	KANSAS CITY, MO	9.00	9.25	8.75	9.50	7.50	7.50	8.25	8.50	9.00	9.75	10.00	8.50	8.50
	LOUISVILLE, KY	9.00	9.00	8.00	8.25	8.25	8.75	9.00	9.00	9.00	9.00	9.00	9.25	9.75
	MINNEAPOLIS, MN	7.50	7.75	7.00	7.50	7.00	7.00	7.25	7.50	8.00	7.75	8.25	7.50	7.50
	ST. LOUIS, MO	10.50	8.25	8.25	8.75	7.25	7.25	8.75	8.50	8.75	11.50	9.25	8.50	8.25
WEST REGION	BOISE, ID	9.00	9.25	9.00	9.00	7.00	7.50	8.75	9.00	9.25	9.25	9.50	7.50	8.00
	DENVER, CO	8.50	8.50	8.00	8.00	8.00	8.00	10.00	10.00	10.00	8.50	8.50	8.00	8.00
	LAS VEGAS, NV	8.75	9.00	7.25	7.50	7.15	7.15	8.25	8.50	8.25	9.25	9.50	7.45	7.40
	LOS ANGELES, CA	7.00	7.50	6.50	7.25	5.75	6.00	7.00	7.00	7.50	7.75	8.25	6.75	7.00
	OAKLAND, CA	7.25	7.50	6.75	7.50	6.75	7.25	7.75	7.75	8.00	7.75	8.00	7.00	7.50
	ORANGE COUNTY, CA		7.25	6.25	7.00		6.00	7.50	7.25	7.50		7.75		6.75
	PHOENIX, AZ	8.00	8.00	6.00	8.00	6.00	6.50	9.00	8.50	8.50	8.50	8.50	6.50	7.00
	PORTLAND, OR	7.25	7.75	7.00	7.75	6.00	6.75		8.25	8.25	7.75	7.75	6.75	7.50
	SACRAMENTO, CA	7.25	7.50	7.50	7.75	7.00	7.75	7.75	7.75	8.00	7.75	8.00	7.25	8.25
	SALT LAKE CITY, UT	8.00	8.00	7.25	7.50	5.75	5.75	9.00	8.00	8.50	8.25	8.25	6.25	6.25
	SAN DIEGO, CA	7.25	7.25	8.00	7.50	5.75	6.00	8.25	8.00	8.25	7.50	7.75	6.25	6.50
	SAN FRANCISCO, CA	6.25	6.75	7.75	7.75	5.50	6.00	7.25	6.50	6.75	6.50	7.25	5.75	6.50
	SAN JOSE, CA	7.00	7.50	7.00	7.50	5.50	5.50	7.25	6.25	6.50	7.25	7.75	5.75	5.75
	SEATTLE, WA	6.75	7.00	6.25	7.50	6.50	7.50	6.75	7.50	7.75	7.25	7.50	7.00	7.75
	AVERAGES	8.32	8.35	7.68	8.17	6.90	7.09	8.21	8.24	8.43	8.73	8.83	7.47	7.68

REVERSION RATES (%)

Region	Market	CLASS A CBD Office	CLASS A Suburban Office	CLASS A Industrial	CLASS A Flex Industrial	CLASS A Urban Multifamily	CLASS A Suburban Multifamily	CLASS A Regional Mall Retail	CLASS A Community Retail Center	CLASS A Neighborhood Retail	CLASS B CBD Office	CLASS B Suburban Office	CLASS B Urban Multifamily	CLASS B Suburban Multifamily
EAST REGION	BALTIMORE, MD	8.00	9.25	6.50	8.00	7.00	7.50		7.50	8.00	9.50	9.00	8.00	8.00
	BOSTON, MA	5.50	6.75	6.50	7.25	4.50	5.50	7.50	8.50	7.50	6.50	8.50	5.25	6.25
	HARTFORD, CT	8.50	8.75	7.75	8.00	5.75	6.00	9.25	8.00	8.50	9.25	9.50	6.50	6.75
	NEW JERSEY, COASTAL		7.65	6.95	7.25	6.50	6.75	7.75	7.50	7.75		7.85	6.65	6.75
	NEW JERSEY, NO	6.75	7.25	5.00	6.50	5.75	5.50	9.50	8.75	8.25	8.00	8.50	6.00	5.75
	NEW YORK, NY	6.80	7.20	5.50	6.00	6.25	6.00	9.50	8.75	8.25	7.30	7.70	7.00	6.25
	PHILADELPHIA, PA	7.75	7.75	7.75	8.25	6.25	6.00	6.75	7.75	8.50	8.25	8.25	6.75	6.75
	PITTSBURGH, PA	8.25	8.00	8.75	8.00	6.75	7.00	9.25	8.75	8.75	9.50	9.25	7.50	8.00
	PROVIDENCE, RI	9.00	9.25	7.75	7.75	6.50	7.00	9.25	8.00	8.50	9.25	9.50	7.00	7.50
	SYRACUSE, NY	9.00	9.00	9.00	9.00	6.50	6.25	8.00	8.50	10.25	10.00	9.50	7.25	7.00
	WASHINGTON, DC	6.25	8.00	6.00	8.00	5.25	5.75	6.50	6.75	7.25	6.75	8.75	6.25	6.25
	WILMINGTON, DE	8.50	8.00	6.00	6.50	7.00	6.50	7.00	8.50	9.00	9.00	8.50	7.50	7.00
SOUTH REGION	ATLANTA, GA	6.50	8.00	6.25	8.00	5.25	5.50	6.75	7.00	7.75	7.00	8.50	5.75	6.50
	AUSTIN, TX	6.00	7.00	7.00	7.25	5.50	5.75	7.00	7.00	7.00	6.75	7.75	6.50	7.00
	BIRMINGHAM, AL	7.50	7.50	7.25	8.00	5.50	5.50	9.00	9.00	7.50	7.75	7.75	6.50	6.50
	BROWARD-PALM BEACH, FL	6.70	7.80	6.25	7.90	6.25	6.50	6.00	7.30	7.50	8.20	8.50	6.50	6.75
	CHARLESTON, SC	7.50	8.75	8.00	8.25	5.25	5.75	9.00	7.75	7.50	8.50	9.50	6.25	6.50
	CHARLOTTE, NC	6.00	6.75	7.50	8.25	5.25	5.25	7.25	6.75	6.20	7.25	8.00	6.50	7.25
	COLUMBIA, SC	7.25	7.25	6.75	8.00	6.75	6.75	7.75	8.50	7.75	7.75	8.00	7.00	7.25
	DALLAS, TX	6.25	7.25	6.00	7.50	5.00	6.00	7.75	7.00	7.00	7.00	8.00	5.50	6.50
	FORT WORTH, TX	6.00	7.00	6.50	7.50	6.00	6.50	7.00	7.00	7.00	6.75	7.75	6.25	7.00
	GREENSBORO, NC	9.75	10.00	7.50	8.50	8.00	7.75	9.00	8.00	7.75	10.75	11.00	9.75	9.50
	GREENVILLE, SC	7.50	7.50	6.25	7.75	6.50	6.75	8.25	7.75	7.50	8.00	8.00	6.75	7.00
	HOUSTON, TX	7.60	7.60	7.20	8.10	6.10	6.20	8.00	7.90	7.90	8.40	8.80	7.00	7.00
	JACKSON, MS	8.50	8.00	8.50	9.50	7.00	7.00	10.00	9.00	9.25	10.50	9.50	7.50	7.50
	JACKSONVILLE, FL	8.75	8.75	6.75	7.50	5.50	5.50		8.25	7.25	10.00	10.25	6.00	6.50
	LITTLE ROCK, AR	8.25	7.75	7.75	9.25	5.50	6.00	8.75	7.75	8.75	9.50	8.50	7.25	7.75
	MEMPHIS, TN	8.50	7.50	6.50	7.50	5.75	6.00	9.00	7.25	9.00	9.50	8.25	6.50	6.75
	MIAMI, FL	5.60	6.60	7.20	7.50	6.20	6.00	6.00	7.30	7.30	6.60	7.60	7.40	8.10
	NAPLES, FL		7.75	7.75	7.75		6.50	7.50	7.50	7.75		8.00		7.50
	NASHVILLE, TN	7.00	8.50	7.50	7.25	5.50	5.50	9.25	8.00	8.00	7.50	8.75	6.25	6.25
	NEW ORLEANS, LA	9.25	9.50	9.00	8.75	7.00	7.50	8.75	8.25	8.50	10.25	9.50	7.75	7.75
	OKLAHOMA CITY, OK	7.50	7.75	8.50	8.75	7.00	7.50		8.00	8.00	8.50	8.75	7.50	8.00
	ORLANDO, FL	8.00	8.25	7.00	7.50	5.50	5.50		7.00	7.00	9.00	9.25	6.25	6.25
	RALEIGH, NC	7.00	7.75	7.50	7.50	5.50	5.75	8.00	7.75	7.50	7.75	8.50	5.75	6.00
	RICHMOND, VA	7.25	7.75	6.50	7.50	6.00	6.00		8.00	8.00	8.50	8.50	7.25	7.25
	SAN ANTONIO, TX	7.50	7.75	8.50	8.50	6.00	6.25	7.75	7.75	7.75	8.00	8.25	7.00	7.25
	SARASOTA, FL		6.75	7.75	7.75	6.25	6.25	7.75	7.25	8.25		6.75	6.50	6.50
	TAMPA, FL	7.25	7.50	8.00	8.75	5.00	5.50		8.00	8.25	7.75	8.00	5.50	6.00
CENTRAL REGION	CHICAGO, IL	6.25	8.25	5.75	8.00	5.50	5.75	7.00	7.50	8.25	7.00	8.75	5.75	6.25
	CINCINNATI, OH	8.50	9.00	8.00	8.25	6.25	6.50	8.50	8.50	8.50	9.50	10.00	7.50	7.50
	CLEVELAND, OH	8.75	8.75	8.00	8.50	7.25	8.00	8.25	8.75	9.00	9.50	9.75	8.75	9.00
	COLUMBUS, OH	8.50	8.75	7.75	8.75	6.75	6.25	8.75	8.00	8.00	9.25	9.25	7.25	7.25
	DAYTON, OH	11.00	9.00	9.25	9.50	8.50	7.25	8.50	8.75	9.00	11.50	9.75	9.00	8.00
	DETROIT, MI	9.00	8.75	9.00	8.50	6.75	7.00	8.25	9.00	8.75	9.25	9.25	7.25	7.25
	GRAND RAPIDS, MI	7.50	8.50	8.75	8.50	6.00	6.25	7.75	8.25	8.75	8.00	9.00	6.25	6.75
	INDIANAPOLIS, IN	8.50	8.25	6.50	8.00	6.25	6.50	7.00	8.00	8.75	9.00	8.75	6.75	6.75
	KANSAS CITY, MO	8.00	8.25	7.75	8.50	6.25	6.25	7.50	7.75	8.25	8.75	9.00	7.25	7.25
	LOUISVILLE, KY	7.75	7.50	7.00	8.00	7.25	6.80	7.25	8.25	8.25	8.75	8.50	8.40	7.40
	MINNEAPOLIS, MN	7.00	7.25	6.00	6.75	5.00	5.75	7.75	8.00	8.50	8.00	8.25	6.00	6.25
	ST. LOUIS, MO	10.00	7.75	8.25	8.25	6.50	6.25	8.00	8.00	8.25	11.00	8.75	7.75	7.50
WEST REGION	BOISE, ID	7.50	7.75	7.25	7.25	5.50	6.00	7.25	7.50	7.75	7.75	8.00	6.00	6.50
	DENVER, CO	7.50	7.00	8.50	8.50	5.50	5.75	8.50	8.00	8.00	7.50	7.50	6.00	6.00
	LAS VEGAS, NV	7.25	8.00	6.25	6.50	5.50	5.50	7.25	7.75	7.25	7.75	8.50	5.75	5.75
	LOS ANGELES, CA	5.75	6.25	5.25	6.00	4.50	4.75	5.75	5.75	6.25	6.50	7.00	5.50	5.75
	OAKLAND, CA	6.50	6.75	6.00	6.75	6.00	6.50	7.00	7.00	7.25	7.00	7.25	6.25	6.75
	ORANGE COUNTY, CA		6.50	5.00	5.75		4.25	5.75	5.50	5.75		7.00		5.75
	PHOENIX, AZ	7.00	7.00	6.25	7.75	5.50	5.50	8.00	7.50	7.00	7.50	7.50	6.00	6.00
	PORTLAND, OR	6.75	6.75	6.50	7.25	5.50	6.00		7.75	7.75	7.25	7.25	6.25	7.00
	SACRAMENTO, CA	6.50	6.75	6.75	7.00	6.25	7.00	7.00	7.00	7.25	7.00	7.25	6.50	7.50
	SALT LAKE CITY, UT	6.75	7.00	6.50	7.00	5.25	5.25	8.00	7.25	8.00	7.25	7.25	5.75	5.75
	SAN DIEGO, CA	6.75	6.75	6.50	6.00	4.25	4.50	7.25	6.25	6.25	7.00	7.25	4.75	5.00
	SAN FRANCISCO, CA	5.50	6.00	7.00	7.00	4.75	5.25	6.50	5.75	6.00	5.75	6.50	5.00	5.75
	SAN JOSE, CA	6.25	6.75	6.25	6.50	4.75	4.75	6.50	5.50	5.75	6.50	7.00	5.00	5.00
	SEATTLE, WA	6.00	6.25	6.00	6.75	5.00	5.50	6.00	7.00	7.00	6.50	7.00	5.25	6.00
	AVERAGES	7.47	7.52	7.00	7.52	5.86	5.96	7.41	7.47	7.67	8.03	8.13	6.48	6.60

NOTES:

1. Capitalization, discount, And reversion rates data is Based on irr's 4q '20 Viewpoint survey.

Source: integra realty Resources, inc.

TO DOWNLOAD DATA RATES TABLE, VISIT: IRR.COM/RESEARCH

04. SPECIALTY REPORT

Healthcare & Senior Housing

COVID-19 VS. BABY BOOMERS

The Baby Boomers are not here yet, but their shadow is looming over senior housing with annual growth rates peaking in 2030 around 5.5 percent. This expected growth has been negatively affected by COVID-19. In skilled nursing alone, over 72,000 deaths as of early December 2020, representing 25 percent of all U.S. COVID-19 deaths.

Cash flows at many properties are disrupted by reduced occupancy, higher operating expenses, possible lowering of rent caused by changes in short-term demand, and additional risk premiums applied to the capitalization processes. Lower interest rates are an offsetting force.

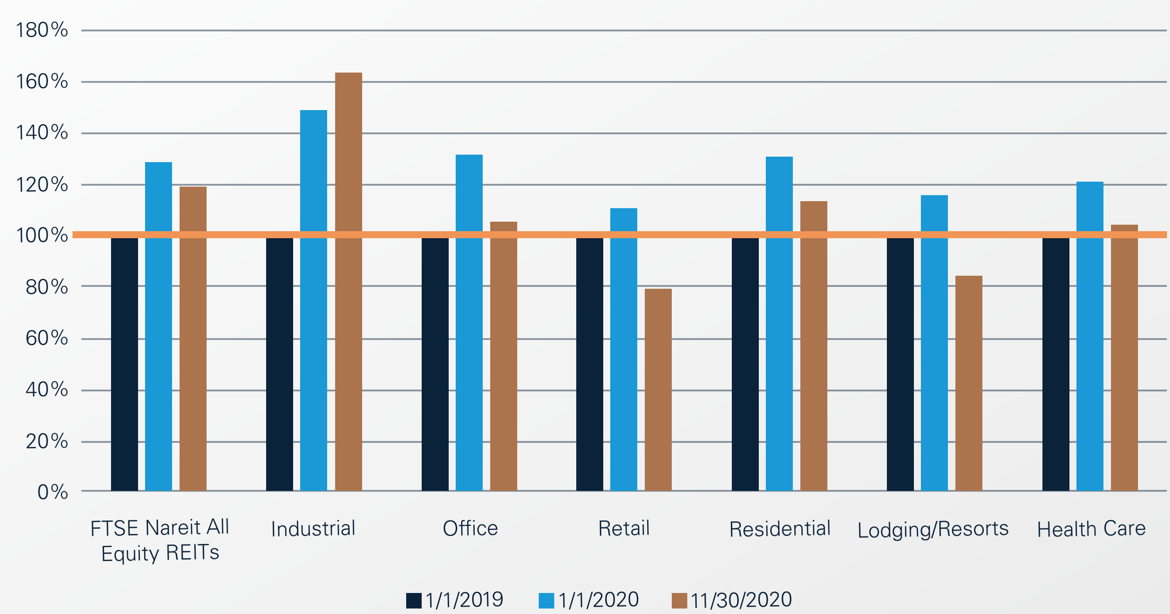
INDUSTRY PERFORMANCE

> "Healthcare is performing better than retail and hospitality, but valuations have declined more than residential and industrial."

Using REIT valuations as a reflection of individual asset values, senior housing and healthcare real estate is higher than January 1, 2019 levels but still below the level from January 1, 2020. Notably, healthcare is performing better than retail and hospitality, but healthcare valuations have declined more than residential and industrial. Healthcare REIT enterprise valuations fell 12.4 percent between January 1, 2020 and early December 2020. For those same REITs, equity valuations have declined 18.0 percent over the same time span. At the lowest point, these REITs experienced enterprise valuation losses in excess of 25 percent, on average.

While the pandemic caused a net reduction in occupied units, slowed move-ins and accelerated move-outs, senior housing continued to grow in 2020. The National Investment Center for Senior Housing and Care (NIC MAP) data service reported occupancy was relatively flat through the first quarter of 2020, as supply and demand remained in balance. Then, as the pandemic emerged in the late part of the first quarter, demand dropped off at an unprecedented pace. A review of public companies, both in the operating and REIT spaces, shows significant declines in census and EBITDAR.

NAREIT INVESTMENT PERFORMANCE BY PROPERTY SECTOR



A CURE ON THE WAY

By November 2020, a partial senior housing valuation recovery began as two major pharmacy groups, led by Pfizer and Moderna, reported successful Phase Three testing of highly effective COVID-19 vaccines. As of this writing, fast-track approvals have been awarded and distribution of the two vaccines are underway. Long-term care facility residents and healthcare workers are the first to receive vaccines. These approved vaccines, along with several others on the way, have injected optimism into the markets, generally.

INDEPENDENT LIVING

Between the third quarter of 2018 and the third quarter of 2020, independent living supply grew 10.8 percent, while occupancy decreased 690 basis points, among the properties that NIC MAP tracks.

SUPPLY AND DEMAND CHANGES Q3 2018 TO Q3 2020

Quarter	Properties	Units	Occupied Units	Occupancy
3Q2018	1,524	233,804	205,981	88.1%
3Q2020	1,655	259,059	210,356	81.2%
Change (Basis Point Occupancy Spread)	-53	25,255	-18,489	-690

- Occupancy rate declined 690 basis points between Q3 2018 and Q-3 2020.
- Occupied unit increase of 4,375 between Q-3 2018 and Q3 2020
- In this two-year period, inventory grew by 25,255 units, or 131 properties. Currently, there are 147 more properties (22,833 units) under development. Most of these units will be delivered in the next 12 months and will add 8.8 percent to the existing supply.

ASSISTED LIVING

Pre-COVID, most major markets were oversupplied with occupancies dropping into the mid-80s. Post-COVID, the average occupancy has dropped to 79.6 percent, a decline of 6.0 percent compared to the fourth quarter of 2019. New construction continues in most major markets, but the pace has slowed, compared to the peak construction years of 2016 and 2017. Absorption has not kept up with supply, and occupancies continue to trend downward in most markets, especially in markets where development costs are relatively low and developable land is readily available. Resident entry age and acuity continue to rise. Wage increases continue to place pressure on net incomes.

SUPPLY AND DEMAND CHANGES Q3 2018 TO Q3 2020

Quarter	Properties	Units	Occupied Units	Occupancy
3Q2018	4,400	358,826	308,232	85.9%
3Q2020	4,719	397,035	315,643	79.5%
Change (Basis Point Occupancy Spread)	319	38,209	7,411	-640

- Occupancy rate declined 640 basis points between Q3 2018 and Q3 2020.
- Occupied unit increase of 7,411 between Q3 2018 and Q3 2020
- In this two-year period, inventory grew by 38,209 units, or 319 properties. Currently, there are 221 more properties (20,818 units) under development. Most of these units will be delivered in the next 12 months and will add 5.2 percent to the existing supply.
- Brookdale's 50,000-plus unit senior housing group experienced a same-store occupancy decline of 480 basis points in their second quarter 2020 and 2019 periods, and a 3.5 percent decline in RevPOR (revenue per occupied unit).

TRANSACTIONS

Many transactions that were set to close in the earliest months of the pandemic were abandoned or repriced to lower levels. Sales transaction data from the pandemic is becoming available and reveals conflicting value trends. Some transactions clearly illustrate price discounting, while others reportedly do not. Obviously, each property and situation differ, and blanket assumptions regarding value trends are not absolute. According to Real Capital Analytics, transaction volume for senior housing declined 22 percent in 2020 after an increase of 35 percent in 2019. Capitalization rates for senior housing properties compiled by IRR have been relatively stable for the last year but are showing signs of increases for mature, stabilized properties and for property in lower-barrier markets. On the other hand, high-quality properties in markets with strong barriers to entry appear to be commanding lower capitalization rates, in tandem with lower interest rates, generally, as explained by IRR clients.

SKILLED NURSING FACILITIES

OUTLOOK

New supply volume is likely to decrease until occupancies recover in many markets. Lenders have shown additional caution in underwriting. Until the oversupply is absorbed, transaction volume is expected to maintain its current level or decrease, and capitalization rates are expected to increase slightly if interest rates rise.

INDUSTRY PERFORMANCE

> "Nursing Home occupancy has been declining for years."

Many factors have kept occupancy compressed. These include a shift to greater home health and hospice use, rising managed care utilization, the influence of value-based care, and immense pressure to shorten the length of stay for rehab-based care. Pre-COVID occupancies averaged 86 percent, dropping to 76.3 percent in the third quarter of 2020. The population now aged 85+ is known as the "Silent Generation." They experienced the Great Depression and were born in an era of lower birth rates. The Baby Boomers will not reach the 85+ bracket until 2029, when annual growth rates in this bracket are expected to be around 5.0 percent and demand for nursing home services are expected to increase as a result. The Patient Driven Payment Model (PDPM) for Medicare began in October 2019, and reports have been positive with similar-to-increased reimbursement rates and additional savings on the expense side. Public company Ensign has seen an increase in its valuation, so far, in 2020 due to the remarkable earnings improvement tied to Medicare PDPM changes.

ACTIVITY

New construction volume is likely to remain modest until COVID-19 clears and the Baby Boomer demand changes the trajectory of nursing home occupancy. Wage increases and difficulty staffing continue to place pressure on facilities, especially those with slim margins. The number of facility closures is on the rise due to these pressures. Demand for skilled nursing will eventually increase with an aging population. However, advances in technology and the growing emphasis on value-based care will be offsetting forces.

TRANSACTIONS

Transaction volume has slowed with many of the recent sales being smaller scale operators or underperforming facilities. According to Real Capital Analytics, transaction volume for skilled nursing declined 43 percent for nursing homes after a decline of 9 percent in 2019. Capitalization rates for skilled nursing compiled by IRR have been relatively stable for the last year. Even with the mounting pressures, investors seeking higher potential yields in this sector are resulting in transaction activity.

OUTLOOK

> "Valuations will continue to see some price discounting for short-term reduced cash flows."

The pandemic is expected to gradually wane over the next 12 to 15 months, as the vaccines continue to be deployed. In the meantime, reduced occupancy and higher operating expenses will continue.
The PDPM payment model is geared to more appropriately reimburse facilities based on resident needs. Sophisticated, better-positioned companies have gained from this change, and transaction volume will likely consist of less sophisticated owners

getting out of the market. The possibility of Centers for Medicare and Medicaid Services (CMS) reducing reimbursement rates does exist, but this concern has been somewhat minimized due to COVID-19 and the financial strain facilities are experiencing. Additionally, these sectors will need to overcome stigma issues. For example, roughly 25 percent of COVID-19-related deaths are occurring in people who are in long-term care facilities — a matter that is difficult to resolve. Valuations will continue to see some price discounting for short-term reduced cash flows. The impact of low interest rates on values is profound, and without these lower rates, valuations would be more seriously impacted.

HOSPITALS

MERGERS & ACQUISITIONS

The Health Care M&A Report, published by Irving Levin Associates, reported 81 transactions in 2018, 99 in 2019, and 51 through the third quarter of 2020.

> "Industry consolidation via mergers and acquisitions remains an ongoing trend in the hospital industry."

Industry consolidation via mergers and acquisitions remains an ongoing trend in the hospital industry. Affiliations and partnerships, although not as widely tracked, are also occurring at a strong pace. Independent hospitals continue to join larger systems for access to professional, IT, and financial resources. Buyers with profits and proven care models strive to capitalize on their strengths and gain footholds in secondary service areas. More distressed hospitals are sometimes compelled to sell to smaller private companies with limited track records and investment capital. Most metro hospital markets are highly concentrated, limiting the potential for future like-kind M&A transactions. Rural markets are less concentrated, and most hospitals and systems prefer to remain independent if they can.

COVID-19

Many hospitals suffered through revenue declines in the second quarter of 2020, resulting from limitations placed on profitable elective procedures, lockdown restrictions, and a desire among many people to simply avoid hospitals and other healthcare settings. With the CARES Act and other financial relief, hospitals and health systems have mostly survived, albeit with lower revenues, proportionately greater expenses, some employee layoffs, and reduced earnings. Currently, patient volumes are substantially close to normal and are expected to fully recover by late 2021 or early 2022, in part due to COVID vaccinations. At the beginning of December 2020, Moody's changed its outlook for for-profit hospitals from negative to stable.

RURAL HOSPITAL CLOSURES

Rural hospital closures, as tracked by UNC's Rural Health Research Program, hit a 15-year record high in 2019, at 18. There have been 17 closures through the end of November 2020. Of the 17 closures in 2020, four had critical access hospital designations, four had Medicare-dependent designations, and nine were reimbursed by Medicare on the standard prospective payment system.

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CRE Trends

Written By: Hugh F. Kelly, PhD, CRE

Recent Cycles Show Difficulty in Quickly Closing $670 Billion GDP Gap Remaining from Peak
Source: US Bureau of Economic Analysis

U.S. Home Prices Have Strengthened in the COVID-19 Pandemic
Source: S&P CoreLogic Case-Shiller Home Price Index; as of September 30, 2020

One Effect of Global Financial Crisis: Extended Shortfall in New Home Construction
Source: US Bureau of Census; "New Privately Owned Housing Units Completed"

Increase in Home Ownership Rate Varies Significantly by Region
Source: US Bureau of Census; "Housing and Vacancy Survey, October 27, 2020"

Risk Premium for all Property Types Expanded in 2020
Source: American Council of Life Insurers

Unemployment Insurance Provides Some Support to Millions During COVID
Source: US Bureau of Labor Statistics

Property Reports

Office

Top Markets by Office Transaction Volume Based on YOY Percentage Change
Source: Real Capital Analytics

Market Cycle
Source: Integra Realty Resources

Regional Rates Comparison
Source: Integra Realty Resources

Multifamily

Top Markets by Multifamily Transaction Volume Based on YOY Percentage Change
Source: Real Capital Analytics

Market Cycle
Source: Integra Realty Resources

Regional Rates Comparison
Source: Integra Realty Resources

Retail

Top Markets by Retail Transaction Volume Based on YOY Percentage Change
Source: Real Capital Analytics

Market Cycle
Source: Integra Realty Resources

Regional Rates Comparison
Source: Integra Realty Resources

Industrial

Top Markets by Industrial Transaction Volume Based on YOY Percentage Change
Source: Real Capital Analytics

Market Cycle
Source: Integra Realty Resources

Regional Rates Comparison
Source: Integra Realty Resources

Hospitality

Written By: Jeff A. Greenwald, MAI, SRA, AI-GRS, ASA, FRICS, Senior Managing Director/Principal, IRR - San Diego

Lodging Pressures Building for Lenders
Source: Trepp CMBS Research, November 2020 report

Top Markets by Hospitality Transaction Volume Based on YOY Percentage Change
Source: Real Capital Analytics

Specialty Reports

Healthcare & Senior Housing

Written By: James K. Tellatin, MAI, National Practice Leader, Bradley J. Schopp, MAI, Victor D. Cremeens, MAI, and Mark R. Tracy, Managing Directors, IRR - Healthcare & Senior Housing

NAREIT Investment Performance by Property Sector
Source: FTSETM, Nareit®

Supply and Demand Changes Q3 2018 to Q3 2020
Source: NIC MAP Data Service

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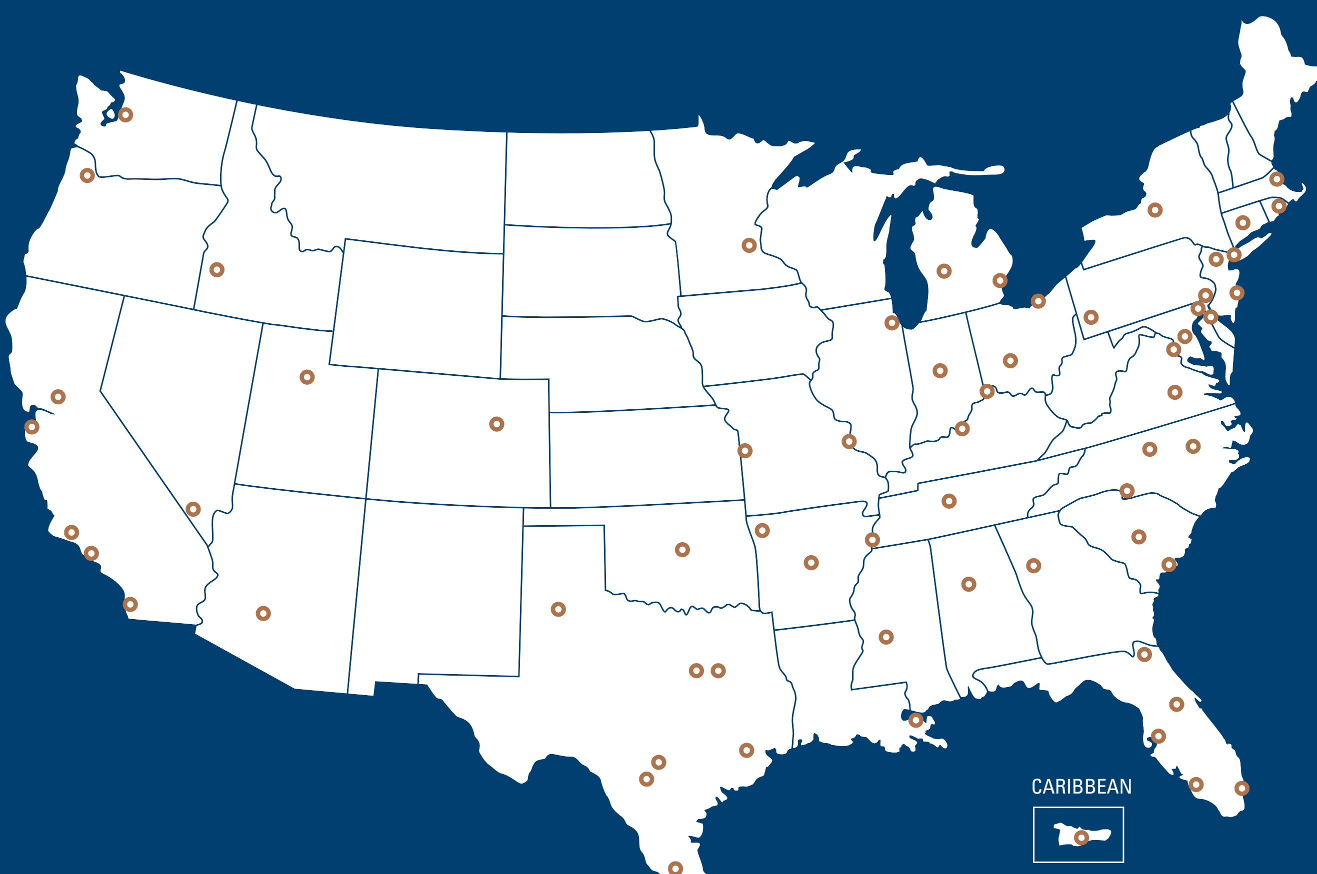

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