

Market Conditions Amid Transitions, Reopenings, and Recovery

Survey Results: SECOND QUARTER 2021



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Real Estate Valuation & Consulting

Survey of Commercial Real Estate Professionals:

Market Conditions
Second Quarter 2021

August 7, 2021

It has been said that “*normal*” is overrated, although most of us would be more than happy to return to *normal* or any semblance thereof when it comes to our daily routines. Thankfully, commercial real estate continues to move forward with increased levels of clarity, and even optimism, as many sectors settle into their “new normal”.

Properties in sectors which were already showing signs of weakness prior to the downturn continue to endure a variety of hardships. Conversely, many *Industrial* and *Multifamily* assets are performing at record levels despite — or in some cases because of — the medical calamity.

This quarter’s edition of our survey includes a diverse mix of participants in terms of property types and geography. They include a balanced list of specialists and generalists. More than half of the respondents work in multiple market areas.

I greatly appreciate the input provided by those who participated and am delighted to share the following survey results with you. Please watch your inbox for a request to participate in our next survey in September 2021.

PINNACLE ASSOCIATES, INC.

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President

Pinnacle Associates, Inc. specializes in providing valuation and consulting services to institutional investors, financial institutions, governmental agencies, private investors, corporations, and other entities that are actively involved with income-producing, owner-user, and special-use properties.



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The survey was distributed to a wide range of commercial real estate (CRE) professionals from local, regional, and national firms. This quarter's edition represents one of the largest and most-diverse lists of respondents we have had since the survey's inception.

The initial questions were intended to establish a general profile of the survey's respondents. The first question pertained to the real estate activities or lines of service in which the respondents are typically engaged. The most common responses:

- Sales (75%)
- Leasing (60%)
- Development (50%)
- Investing (35%)
- Lending (15%)

**** Percentages sum to greater than 100% since many respondents are involved with more than one line of service.**

- ▲ Roughly 60% of the individuals are involved in more than one real estate activity. In some cases, respondents are engaged in as many as five lines of service.

The second question dealt with the types of properties the survey respondents handle. Property types cited include (in order of prevalence):

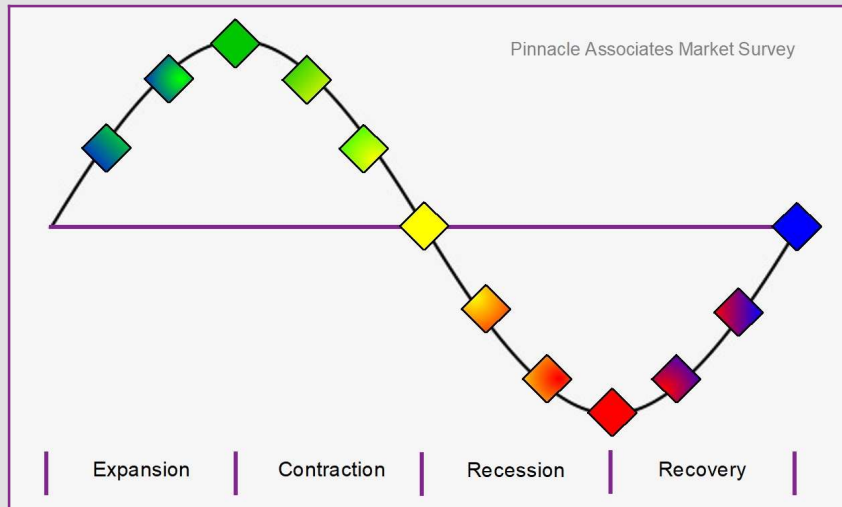
- Multifamily
- Industrial
- Office
- Retail
- Land
- Hospitality
- Mixed Use

- ▲ Most of the survey's participants work with more than one property type. Individual responses ranged from one to six property types.
- ▲ Not surprisingly, the “four basic food groups” — *Industrial, Multifamily, Office, and Retail* — were among the most-frequently listed by respondents. Relatively few of the respondents noted that they handle all four of the basic types.

The respondents work in a variety of geographic markets. More than half were active in more than one metropolitan area during the past 12 months. Several of those surveyed are also involved with properties outside of Ohio.

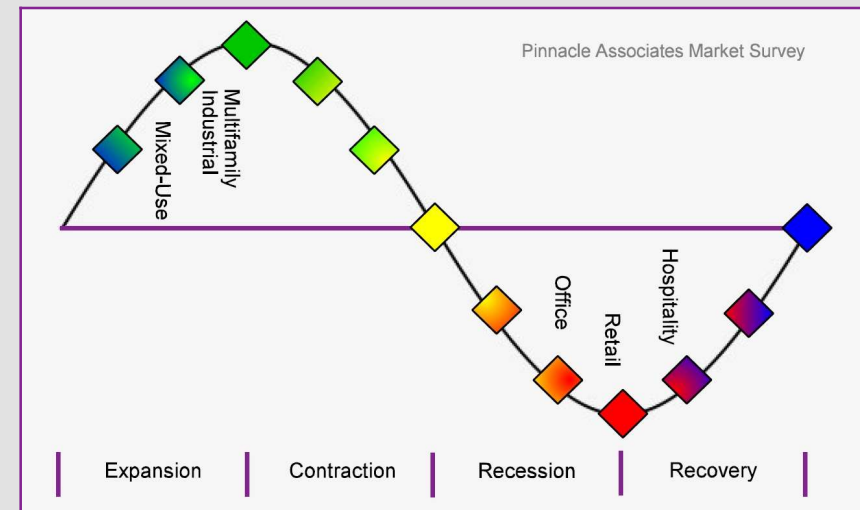


QUESTION: At which stage in the Market Cycle is each of the following property types? [You may mark two responses if a property type is between stages.]



	Expansion	Contraction	Recession	Recovery
Industrial	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Multifamily	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Retail	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Land	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Hospitality	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Mixed Use	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Special Purpose	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- ▲ The survey results were most consistent for *Industrial* and *Multifamily*. Virtually all of the respondents pegged the two property types as being within the *Expansion Phase*.
- ▲ There was also a relatively-strong consensus that *Hospitality* is transitioning from the *Recession Phase* to the *Recovery Phase*.
- ▲ The remaining property types exhibited a wider distribution of opinions. The following graphic is derived from an examination of the mean and median responses for each property type.

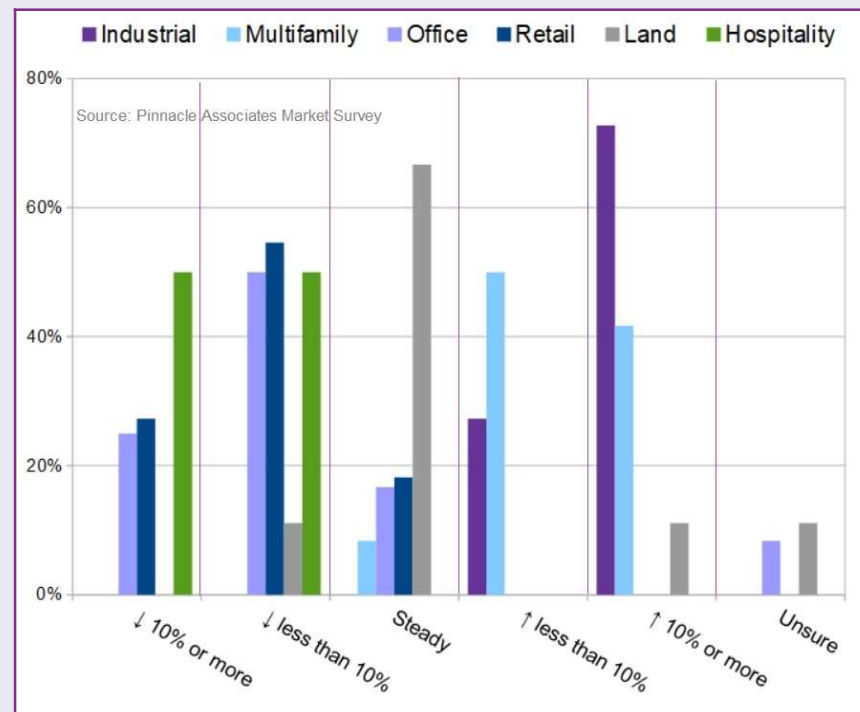


Question: Ohio's initial Stay-at-Home Order took effect on March 23, 2020. In the period following that date, which of the following statements best matches your view of CRE market values for the property type(s) you deal with most frequently? [Mark only one response per property type.]

	Industrial	Multifamily	Office	Retail	Land	Hospitality
Market values declined by 10% or more.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Market values declined by less than 10%.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Market values generally held steady.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Market values increased by less than 10%.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Market values increased by more than 10%.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Unsure and/or there has not been enough activity to say with a meaningful level of certainty.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- ▲ **Comparison to Previous Survey:** There continues to be an increase in market clarity coupled with measured optimism.
- ▲ Participants are growing more and more confident regarding the resilience of *Industrial* and *Multifamily* values.

- ▲ While virtually all respondents reported value losses for *Office*, *Retail* and *Hospitality*, there was a tempering of the magnitude of perceived declines for all three. For example, roughly 50% of current respondents estimated the loss in hospitality values to have been 10% or more. For our prior survey, approximately 80% of the participants gave that response.



CHANGES IN MARKET VALUE



QUESTION: For cases where properties lost value, how long do you anticipate it will be until they return to their pre-COVID level? [Mark only one response per property type.]

	Industrial	Multifamily	Office	Retail	Land	Hospitality
Values have already bounced back.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Less than 3 months from now.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Between 3 and 6 months.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
More than 6 months but less than 12 months.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Between 12 months and 24 months.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Greater than 24 months, but eventually.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Values will not return to their pre-COVID levels in the foreseeable future.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- As one might expect, the property types which were noted most frequently in the previous question as having lost the greatest percentages of value (e.g., *Office*, *Retail* and *Hospitality*) are also among the ones expected to suffer for the longest periods of time.



DURATION OF CHANGES IN MARKET VALUE

- Comparison to Previous Survey:** The outlook for *Industrial* and *Multifamily* continued to be favorable. This quarter's results indicate an uptick in pessimism for *Retail*, *Office*, and *Hospitality* properties regarding the possibility that some values are unlikely to bounce back. Meanwhile, *Land* has emerged as a surprisingly-strong performer.

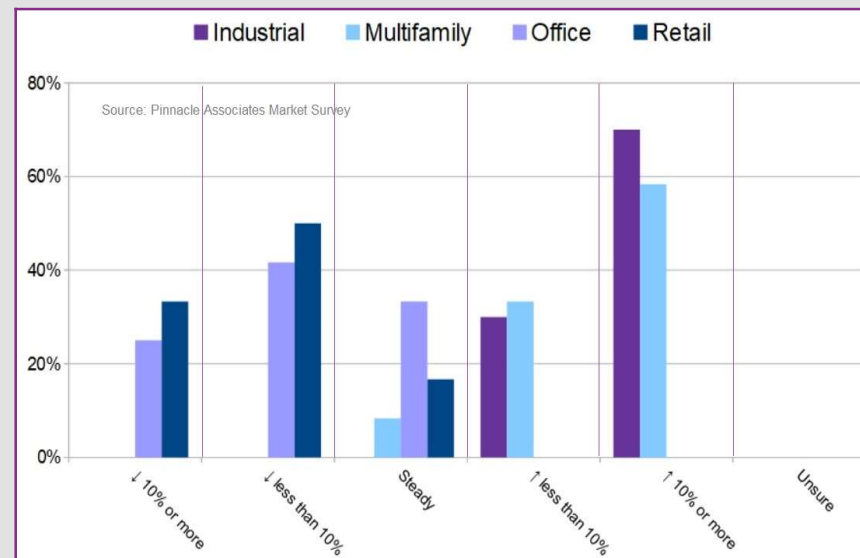


QUESTION: Following the effective date of Ohio's initial Stay-at-Home Order, which of the following statements best matches your view of CRE market rents for the property type(s) you deal with most frequently? [Mark only one response per property type.]

	Industrial	Multifamily	Office	Retail	Other
Market rents declined by 10% or more.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Market rents declined by less than 10%.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Market rents generally held steady.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Market rents increased by less than 10%.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Market rents increased by more than 10%.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Unsure and/or there has not been enough activity to say with a meaningful level of certainty.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- ▲ Respondents' views of market rents are largely — but not completely — consistent with their corresponding views for market values. Perceived changes in rents and values for *Office* and *Retail* track rather closely. Alternatively, the rent-versus-value relationship for *Multifamily* suggests the potential for a longer-term shift in required rates of return.

- ▲ Survey participants are in general agreement that rents for *Industrial* and *Multifamily* assets have typically increased.



CHANGES IN MARKET RENT

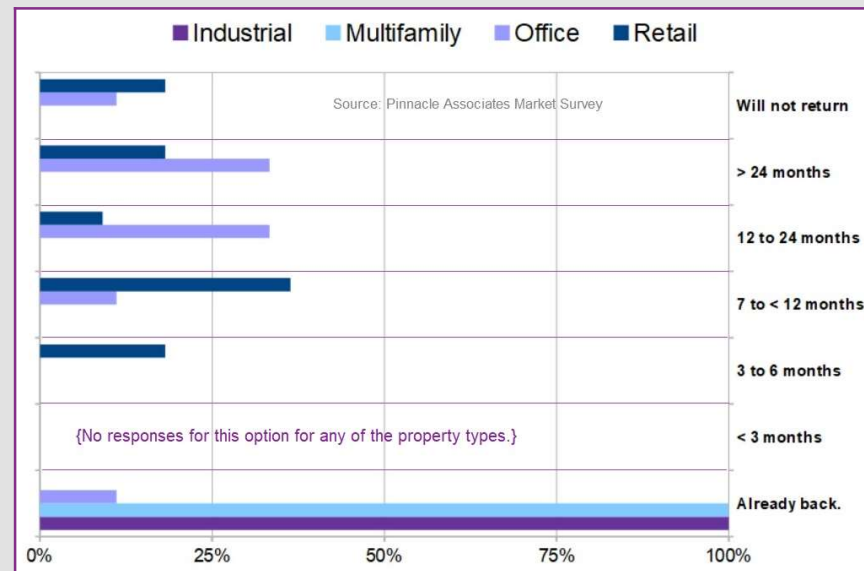
- ▲ **Comparison to Previous Survey:** Pessimism regarding *Office* and *Retail* rents subsided at least to some degree as the level of reported rent impairment declined for both property types. *Industrial* and *Multifamily* rents are perceived to be even stronger than before.



QUESTION: For cases where effective market rents declined, how long do you anticipate it will be from the current date until they return to their pre-COVID level? [Mark only one response per property type.]

	Industrial	Multifamily	Office	Retail	Other
Rents have already bounced back.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Less than 3 months from now.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Between 3 and 6 months.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
More than 6 months but less than 12 months.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Between 12 months and 24 months.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Greater than 24 months, but eventually.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Values will not return to their pre-COVID levels in the foreseeable future.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- ▲ Similarly to market values, the property types which were cited as having suffered more-severe declines in market rents are expected to require a longer period of time to rebound. A sliver of respondents do not anticipate that *Office* or *Retail* rents will return to their pre-Pandemic levels in the foreseeable future. Conversely, participants are virtually unanimous in their beliefs that *Industrial* and *Multifamily* rents are currently at or above their pre-Pandemic levels.



DURATION OF CHANGES IN MARKET RENT

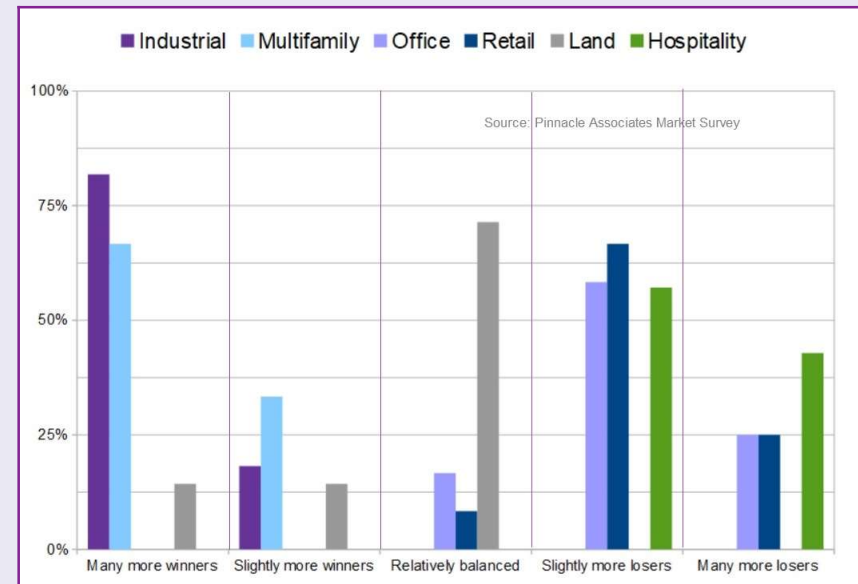
- ▲ **Comparison to Previous Survey:** The respondents continued their unanimity in the opinion that *Industrial* rents have already bounced back. Survey participants now see *Multifamily* rents in a similar light. The responses for *Office* and *Retail* tend to be more pessimistic than they were in the prior survey. The majority of respondents expect it to be a year or more until *Office* rents rebound. Roughly half of the participants felt similarly about the return of *Retail* rents.



QUESTION: Within each property type there can be both "winners" and "losers" based upon sub-type, property class, location, etc. When considering changes in market conditions over the past year or so, how balanced do you see the winners and losers within each category? [Mark only one response per property type.]

	Industrial	Multifamily	Office	Retail	Land	Hospitality
Many more winners than losers.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Slightly more winners than losers.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Relatively balanced mix of winners and losers.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Slightly more losers than winners.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Many more losers than winners.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- ▲ Last quarter we added a question about winners and losers in an attempt to understand the degree of performance homogeneity there was within each property type.
- ▲ Survey respondents were unanimous in their belief that there were "many more" or "slightly more" winners than losers for *Industrial* and *Multifamily* assets.



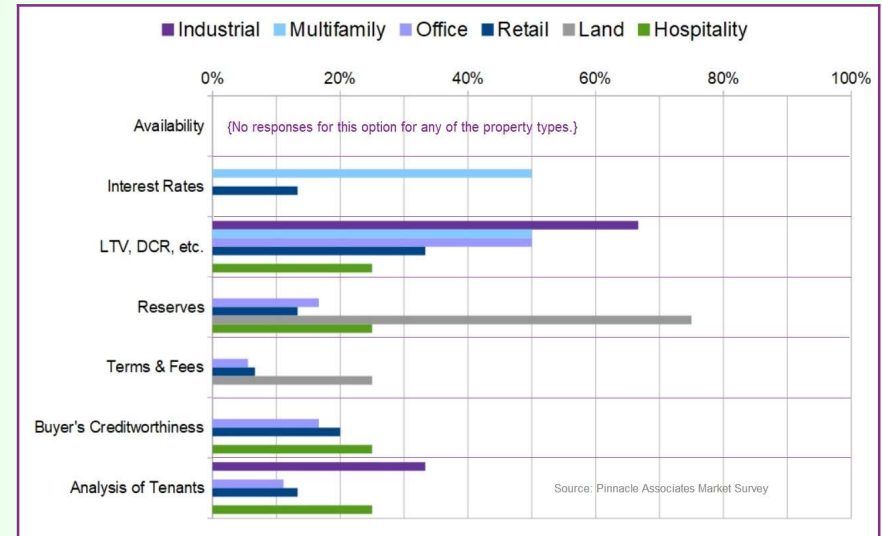
- ▲ The majority of participants reported *Hospitality* properties as being at the other end of the continuum with "many more" or "slightly more" losers than winners.
- ▲ **Comparison to Previous Survey:** The current survey seems to show more uniformity or consistency in beliefs relative to each respective property type. For example, *Office* and *Hospitality* responses were spread out across four or five answers in the prior survey, whereas they are more consolidated in the current survey.



QUESTION: For situations where financing is more challenging to secure than prior to the COVID outbreak, what factor or factors are causing the situation? [Check all that apply.]

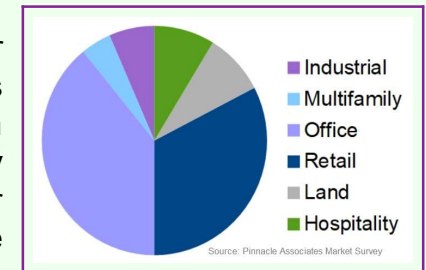
	Industrial	Multifamily	Office	Retail	Land	Hospitality
Lack of availability of funding.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Less-favorable interest rates.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
More-conservative requirements for loan-to-value ratio, debt-coverage ratio, etc.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Additional requirements for higher reserves or backstops.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Less-favorable loan terms and/or fees.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
More-stringent analysis of buyers' creditworthiness.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
More-stringent analysis of tenants.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- ▲ Tighter underwriting metrics (e.g., loan-to-value ratios, debt-coverage ratios, etc.) are a key impediment to obtaining financing for many property types, even those which have performed relatively well. Lenders continue to closely scrutinize the creditworthiness and viability of buyers and tenants, although the availability of credit seems to be of only minimal concern in the present market.



FINANCING FACTORS

As shown within the pie chart, respondents noted a broader range of financing impediments for *Office* and *Retail* assets than for any of the other property types. *Hospitality* accounted for a surprisingly-small share of the reported challenges.



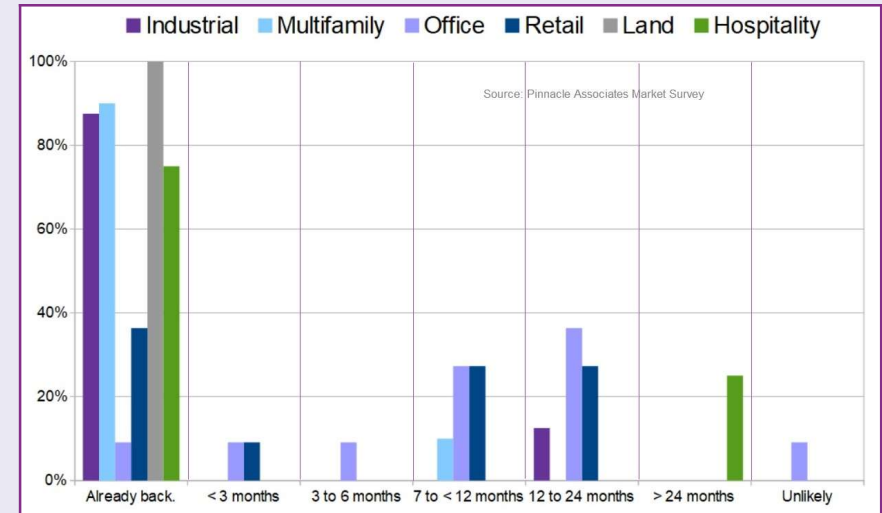
- ▲ **Comparison to Previous Survey:** Fewer respondents cited financing challenges in the current survey. In fact, the collective total number of challenges faced across all of the property types declined by nearly 50% as compared to our prior survey.



QUESTION: For buy-and-hold investors who had been "saving their dry powder", when do you anticipate that they will re-enter the market in search of acquisitions? [Mark only one response per property type.]

	Industrial	Multifamily	Office	Retail	Land	Hospitality
Buyers have already re-entered the market seeking acquisitions.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Less than 3 months.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Between 3 months and 6 months.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
More than 7 months but less than 12 months.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Between 12 months and 24 months.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Greater than 24 months, but eventually.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Buyers are unlikely to seek acquisitions in the foreseeable future.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- ▲ As one might expect, *Industrial* and *Multifamily* assets are among the favored property types, although *Land* scored surprisingly well too.
- ▲ Conversely, *Retail* and *Office* garnered the gloomiest outlooks for a return to the market of buy-and-hold investors, although that sentiment was not unanimous.



INVESTORS RE-ENTERING THE MARKET

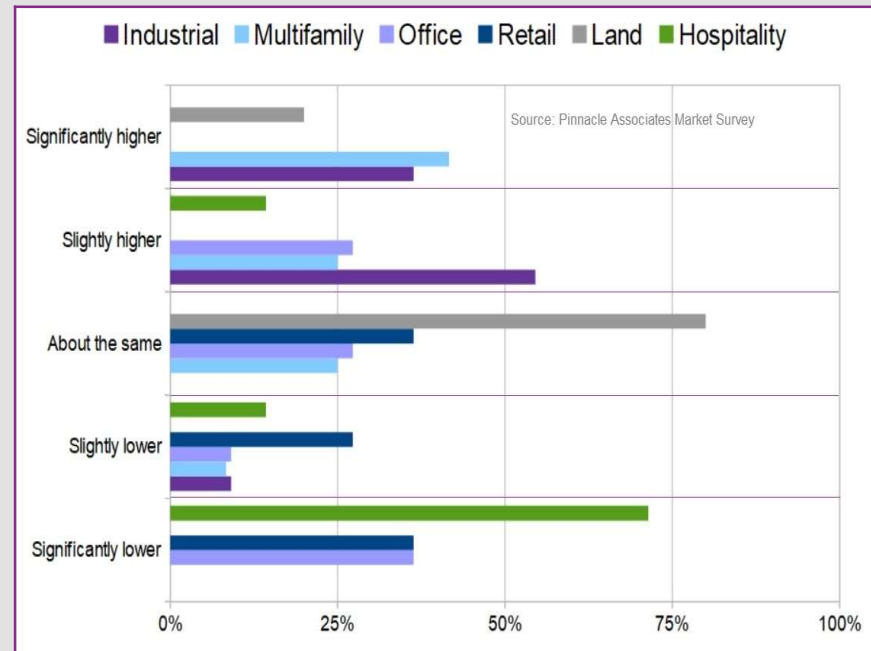
- ▲ **Comparison to Previous Survey:** With the caveat that comparisons to the prior survey are inherently less-than-scientific, responses to the current survey imply a more optimistic overall view of when buyers are expected to return to the market (or that they have already returned). *Hospitality* posted the most-significant change. Roughly 75% of current respondents are of the belief that *Hospitality* buyers are already back in the market as compared to just over 12% of respondents in the prior survey.



QUESTION: How does the deal volume you are currently experiencing compare to the deal volume in the months prior to the initial Stay-at-Home Order? [Mark only one response per property type.]

	Industrial	Multifamily	Office	Retail	Land	Hospitality	Other
Current volume is significantly lower.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Current volume is slightly lower.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Current volume is about the same.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Current volume is slightly higher.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Current volume is significantly higher.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- ▲ The survey confirms what many might otherwise have suspected. The property types suffering from reduced rents and values also typically experienced the biggest setbacks in terms of deal volume.
- ▲ Conversely, the property types which enjoyed stable to increasing rents and values tended to see stability in terms of sale and lease activity.



- ▲ **Comparison to Previous Survey:** Deal volume for *Industrial* and *Multifamily* remains strong while activity across most of the other property types appears to be picking up steam. *Hospitality*, *Office*, and *Retail* all posted significant improvements in reported deal volume as compared to the previous survey.



Concluding Remarks

- ▲ As the health and economic crises rolled into Summer 2021, there was increased clarity and even optimism expressed in the most-recent responses as compared to our previous survey editions.
- ▲ The financing of commercial real estate assets continues to present a variety of challenges. Survey respondents reported fewer hurdles for most property types. For the first time since we began the survey back in May 2020, “availability” was not listed as a financing impediment by any of the participants.
- ▲ Deal volume picked up across most sectors, although *Office*, *Retail*, and *Hospitality* transactions still lag behind their pre-Pandemic levels.

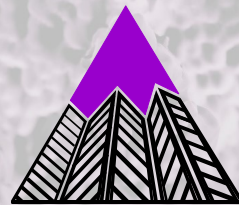
- ▲ Buy-and-hold investors are returning — or have already returned — to the market for most property types. Notable exceptions include segments of *Office* and *Retail*.
- ▲ When there are market consensuses, they tend to be at the extremes of the continua.

One of the challenges in constructing a survey is finding a balance between providing a meaningful level of depth versus trying to not lose respondents who may be suffering from survey fatigue after answering numerous detailed questions. We will continue to be mindful of such concerns in constructing our upcoming surveys.

We welcome your feedback. Please send your comments and suggestions to: sreynolds@pinnacle-associates.net

Be well and stay safe.





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