BEYOND THE GLOBAL HEALTH CRISIS

Marcus & Millichap

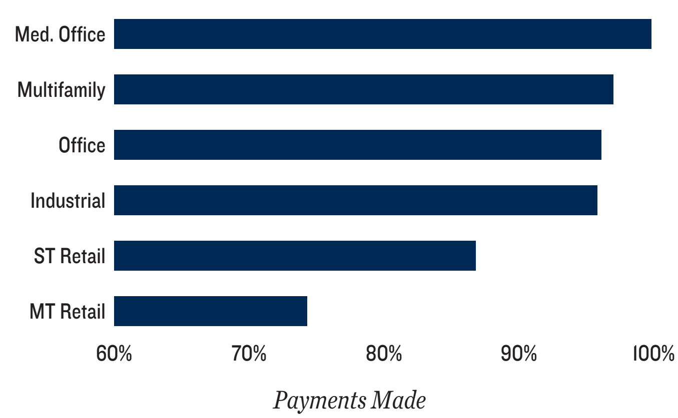
SPECIAL REPORT 2Q RENT COLLECTIONS SUMMER 2020

Second Quarter Rent Collections Were Solid for Most Property Types; Recovery Timelines Differ by Sector and Concept

Most tenants able to meet dues despite unprecedented headwinds. July earnings releases from REITs provided some insight to the health of commercial real estate. Collections from healthcare, multifamily, industrial and office tenants all exceeded 95 percent. Medical office and industrial could continue to outperform other types in the third quarter, while the expiration of stimulus will weigh more heavily on multifamily and office collections.

Retail collections trailed other types. Single-tenant retail performance has been segmented by concept, with experience-based tenants facing greater challenges than necessity-based shops. Restaurants and drugstores among other types will recover faster than gyms and theaters, which need to reopen more gradually. Similarly, the impact to multi-tenant retail varies widely, with centers anchored by essential retailers more resilient than malls and small retailers. In the third quarter, retail collections could continue to trail other types as consumer spending may moderate with less government support.

2Q Rent Collections Vary by Property Type



Note: Includes publicly traded U.S. equity real estate investment trusts that disclosed the percentage of second quarter collections in July 2020 earnings releases

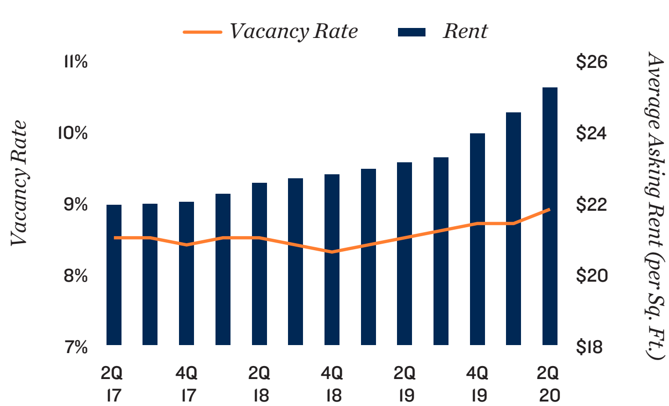
Medical Office:

Medical office space faring better than most property types. While some tenants faced hurdles when elective surgeries were banned, the segment as a whole was resilient. Rent collections in the second quarter were reported at 99.8 percent, the highest among property types. Going forward, medical office buildings will continue to perform well as people who postponed services amid shutdowns feel safer returning to treatment centers for care with new protocols in place.

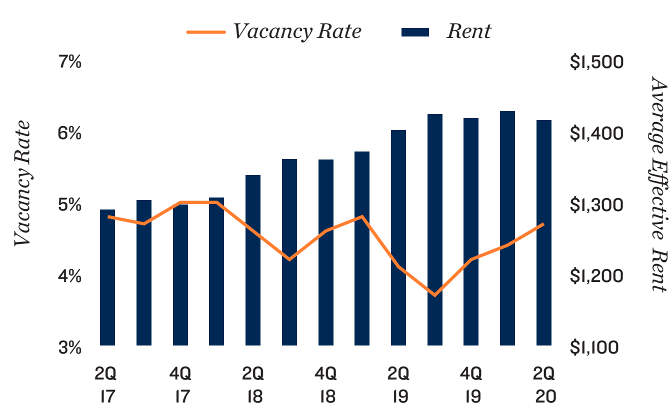
Multifamily:

Federal support reinforced multifamily through initial headwinds. Despite the rapid influx of jobless claims in the second quarter, rent collections exceeded expectations, with 97 percent of tenants meeting obligations. The $600 weekly federal unemployment benefit helped many jobless tenants make rent. However, collections could drop in the third quarter as the federal benefit was reduced and more tenants could struggle to meet dues with less support.

Medical Office Rent Surges Amid Health Crisis



Multifamily Vacancy Ticks Up and Rent Stalls

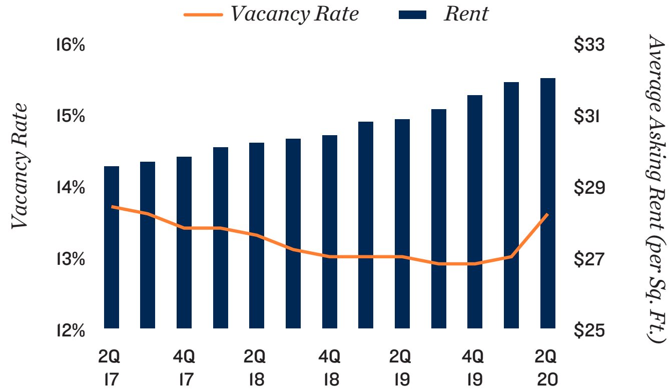


Sources: Marcus & Millichap Research Services; S&P Global Market Intelligence; CoStar Group, Inc.; RealPage, Inc.

Office:

Initial disruption had minimal impact; longer-term hurdles evident. In the second quarter, rent collections came in at 96.1 percent despite office shutdowns and economic headwinds. Yet, the office sector will face greater pressure in both the short and long term. Some firms could downsize to offset revenue lost during the economic disruption, while others may shift operations to remote working.

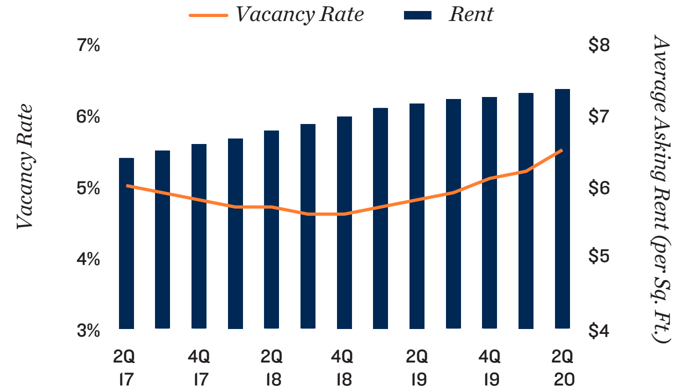
Higher Office Vacancy Yet to Reflect on Rent



Industrial:

Positive trends strengthen outlook. Rent collections were reported at 95.8 percent in the second quarter and will continue to be strong going forward. The industrial segment is underpinned by the rapid growth of online shopping and efforts to reshore manufacturing. Several e-commerce businesses have grown amid the pandemic and could be looking to expand operations.

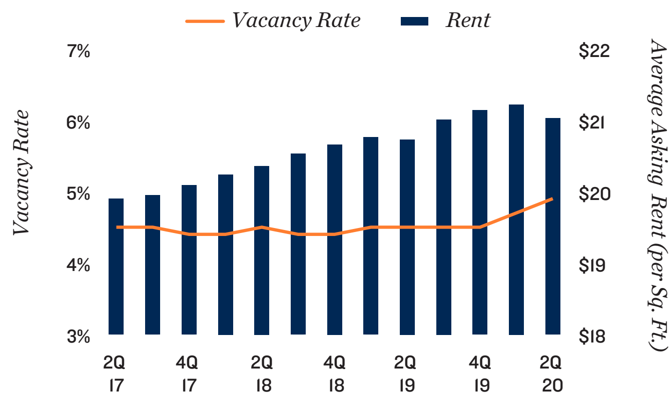
Industrial Rent Growing Despite Vacancy Rise



Single-Tenant Retail:

Some concepts face significant challenges while others could recover quickly. There was a notable drop in collections in the second quarter, with 86.8 percent of tenants meeting dues. Quick-service restaurants, auto parts stores and drugstores, among others, could be poised for a quick recovery. Experience-based retailers such as gyms and theaters face greater challenges returning to normal operations.

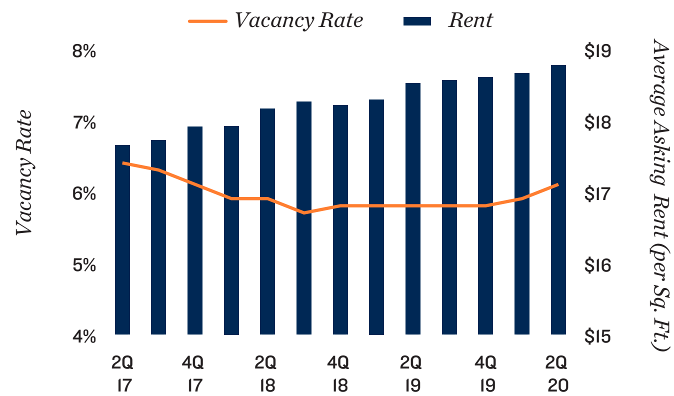
ST Retail Fundamentals Moderately Regress



Multi-Tenant Retail:

Multi-tenant sector facing several obstacles. Multi-tenant collections trailed the pack, with only 74.3 percent of tenants meeting obligations in the second quarter. Neighborhood and power centers with essential anchors have been resilient; however, several mall-concepts and small retailers face heavy burdens. Going forward, collections could continue to come in below other property types.

MT Retail Vacancy Beginning to Climb



Sources: Marcus & Millichap Research Services; CoStar Group, Inc.

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