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REAL ESTATE CORPORATION

The Changing Landscape of Commercial Real Estate

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Key Economic Risk Factors

- **Topping the list now of course is geopolitical risk:**
  - Russian invasion of Ukraine
  - Effect of sanctions on global and local economies
  - Early days but energy markets and financial markets are already on a wild ride

- **Covid:**
  - Reopenings/dropping of restrictions will aid the economy and CRE
  - Risk of future variants setting us back

- **Inflation:** Inflation has proven to be longer lived than everyone hoped and the Fed has begun to respond through ramping down stimulus and its first rate increase since 2018.

- **Fed moves:**
  - They are in a tough spot with the need to mitigate continuing inflation through rate increases and pulling back stimulus.
  - At the same time there is the risk that growth and inflation may slow due to the geopolitical disruptions.

Snapshot of U.S. Market Fundamentals

Rents	2021 Rent Growth	2022 Forecast	Prior Trough	Prior Peak
Apartments	+13.4%	+6.8%	-6.1% (2009)	+7.6% (2000)
Office	0.1%	-4.2%	-9.2% (2001)	+13.2% (2000)
Industrial	+6.8%	+5.5%	-6.9% (2009)	+10.2% (2000)
Retail	+1.7%	+2.6%	-4.9% (2009)	+5.2% (1999)

Vacancy	2021 Vacancy	2022 Forecast	Prior Trough	Prior Peak
Apartments	3.6%	3.2%	7.0% (2009)	3.6% (2000)
Office	16.6%	17.4%	18.9% (1991)	8.5% (2000)
Industrial	5.2%	5.1%	14.2% (2009)	6.1% (2018)
Retail	8.0%	8.0%	12.9% (2010)	7.1% (2000)

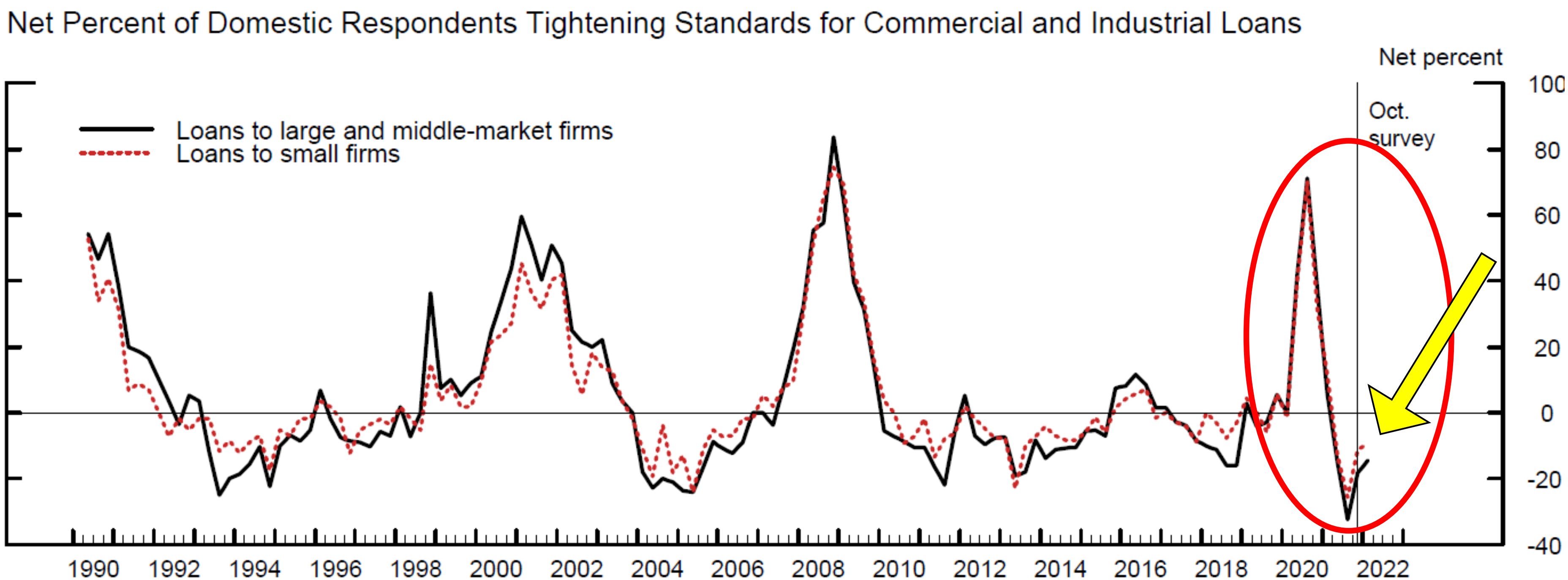
Source: CBRE-EA

U.S. Market Summary

- Apartments
  - In aggregate, the U.S. apartment market has fully recovered from the effects of the pandemic.
  - Some variation by market is natural, but for the most part the return to urban cores has already been realized.
- Industrial
  - The darling property type of the pandemic has continued to outpace other property types in terms of market fundamentals and investment performance.
  - Many years of demand growth from e-commerce fulfillment has been brought forward into the space of the last two years, altering structural market dynamics strongly in favor of landlords for years to come.
- Retail
  - The retail shakeout began well before the pandemic but the pandemic accelerated the disruptions in retail with lesser/secondary locations suffering the worst effects.
  - In the long run much of the less desirable retail in the U.S. will be converted to other uses or demolished.
- Office
  - With staggered lease expirations, the office market has only begun to feel the effects of the pandemic and remote work.
  - That said, the ultimate impact may be less than feared once the dust settles on thousands of leasing decisions by landlords and tenants over the next several years. CBRE-EA estimates a 24% reduction in average in office time for workers but only a resulting 9% decrease in overall office-using space demand.

Debt Market: Lenders Increasing Spreads

- Lending environment improved dramatically since the worst of the pandemic. Spreads, however, have shown an uptick recently.



(Fed Lender Survey)

Debt Market

- Base rates remain near historic lows but spreads have recently widened.
- Lenders continue to have a bias for their preferred asset classes (multifamily, industrial, life science), markets, and sponsors.
- Lending for other property types is available, but somewhat more challenging.
- Fed expected to raise rates materially this year but they will be watching the effects of geopolitical ruptures on the global and U.S. economies.
- Lower leverage deals remain preferred.
- All in rates generally range from low 3% at lower leverage to 5% at higher leverage.
- GSEs: Fannie Mae and Freddie Mac remain active lenders on multifamily. Rates generally range from around 3-4% depending on leverage and debt service coverage/debt yields underwritten.
- Construction Loans are more difficult to obtain today, but are generally available for well capitalized and well located multifamily and industrial; office projects generally require significant pre-leasing and credit tenancy. Financing new hotels and retail remains very challenging.
- Construction loan rates mainly range from L+250-350 for partial recourse.

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