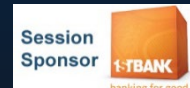


# 2020 COLORADO COMMERCIAL REAL ESTATE SYMPOSIUM

## *KEYNOTE – NATIONAL CRE MARKET PERSPECTIVE*

September 17, 2020



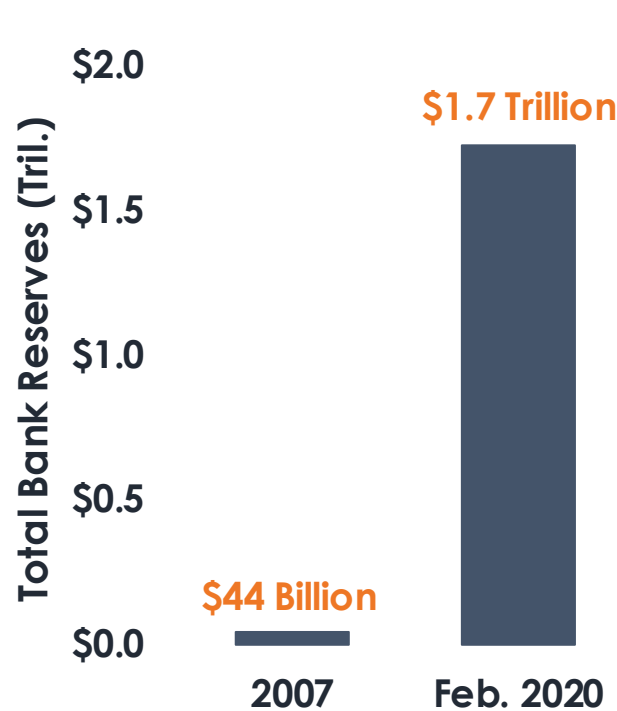
Marcus & Millichap

# Key Economic and Real Estate Conditions

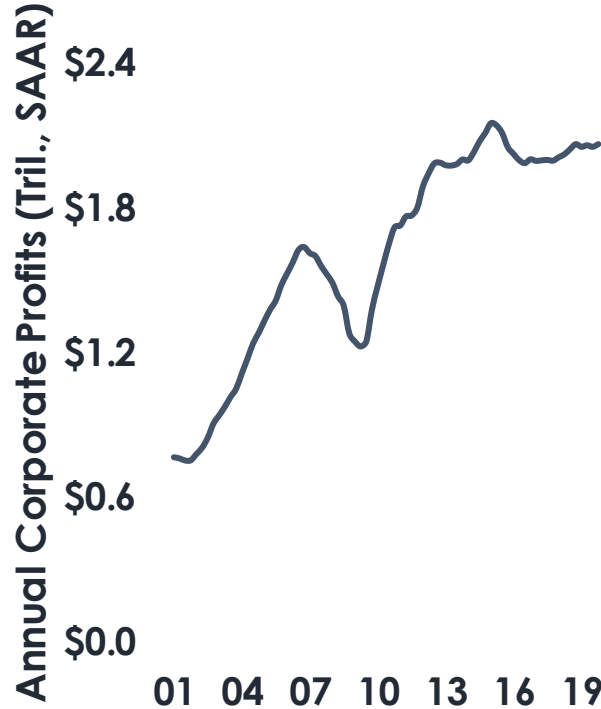
- ❖ **Current State **Mixed**: Fighting Through Prolonged Uncertainty, Pandemic**
- ❖ **Eventual Pent Up Demand, Stimulus Encouraging**
- ❖ **Short-Term Impact: Massive **Property Type Variations****
  - Short to Mid-Term Price Adjustment Driven by Property Type
  - Overall Distressed Pricing Expectations Unrealistic
  - New Buyers Entering the Market, More Sellers Becoming Motivated
- ❖ **Long-Term Real Estate Implications Must Drive Strategy **Moving Forward****
  - Urban vs. Suburban (Some Life-Style/Attitude Changes will Persist Post Vaccine)
  - Future of Retail, Office, Housing Most Impacted by Innovation Acceleration
  - Power of Pent-Up Demand; Human Behavior/Needs Major Forces

# Pre-Crisis Financial Foundation Solid – Bank Liquidity Particularly Critical

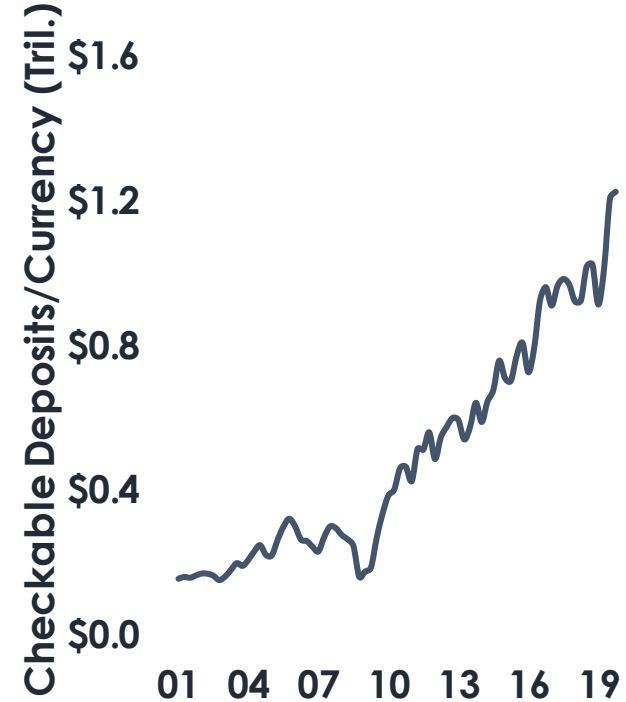
## U.S. Bank Reserves



## Corporate Profits\*



## Corporate Cash on Hand

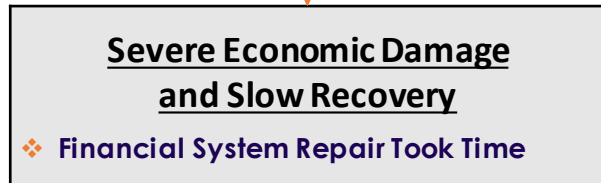
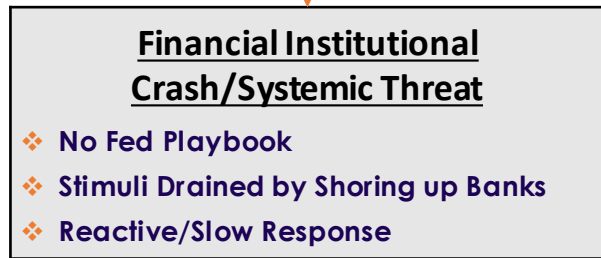


\* Trailing 12-month average

Sources: Marcus & Millichap Research Services, BEA, Federal Reserve Bank of St. Louis, Federal Reserve Board

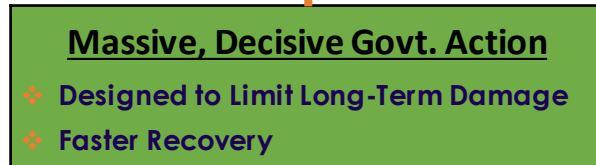
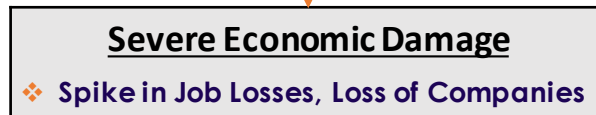
# What Can the Most Severe Recent Shock and Actions Tell Us - Does it Matter?

## Global Financial Crisis (2008-2009)



**Response Timeline**  
13-Months  
(~6% of GDP)

## Global Health Crisis (2020)



**Response Timeline**  
7-Weeks  
(~33% of GDP)

Could Threaten Financial System

# An Unprecedented Response to an Unprecedented Problem

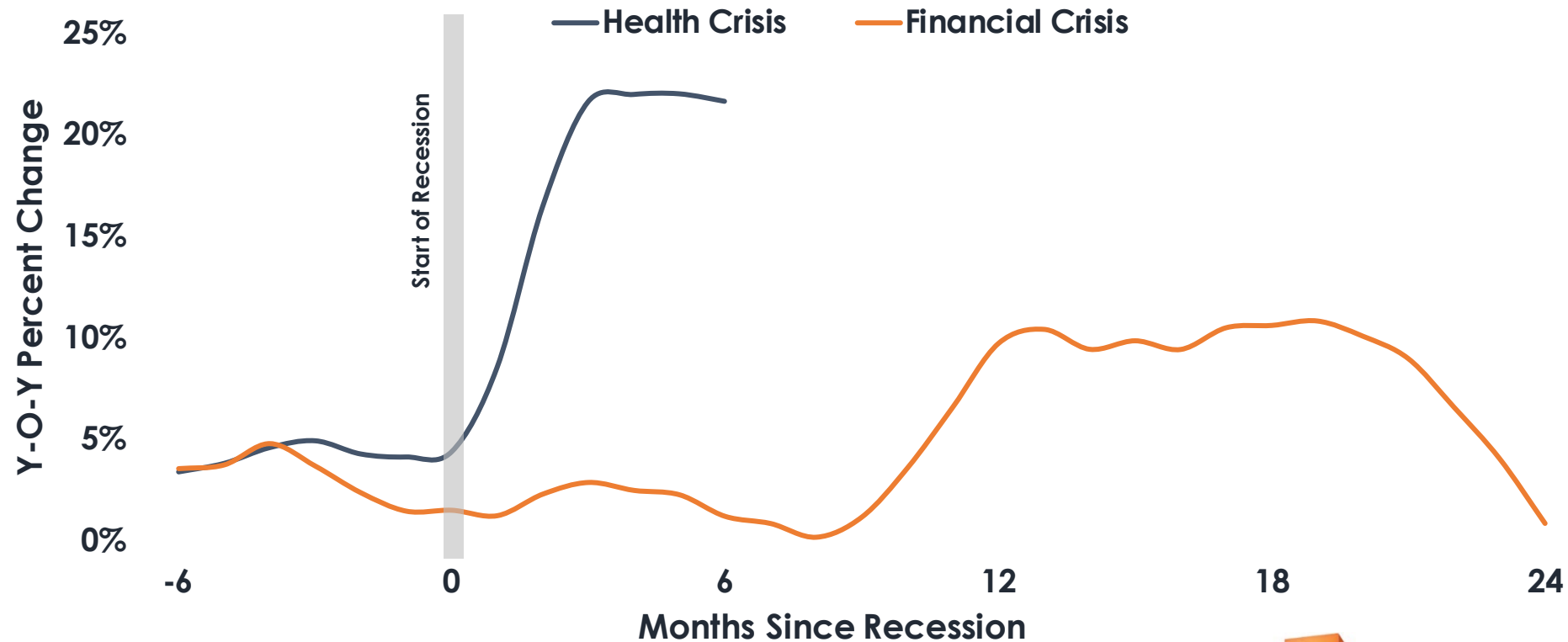
## Fiscal Stimulus

- ❖ Congress appropriated \$2.9 trillion in fiscal stimulus, including:
- ❖ \$758B for small business assistance with \$671B of that for the Paycheck Protection Program (PPP)
- ❖ \$500B in large business loans
- ❖ \$300B in individual cash payments
- ❖ \$260B for enhanced unemployment benefits

## Fed Response

- ❖ Slashed Fed Fund Rate to near 0% range
- ❖ Established Funding Facilities with \$2.3T in lending to backstop liquidity, including:
  - \$600B Main Street Lending Facilities
  - \$750B Primary & Secondary Market Corporate Credit Facility
  - \$500B Municipal Liquidity Facility
- ❖ Restarted quantitative easing and committed to open-ended purchase of Treasuries and MBS

# Federal Reserve Expanded Money Supply Boost Exponentially Faster than Financial Crisis

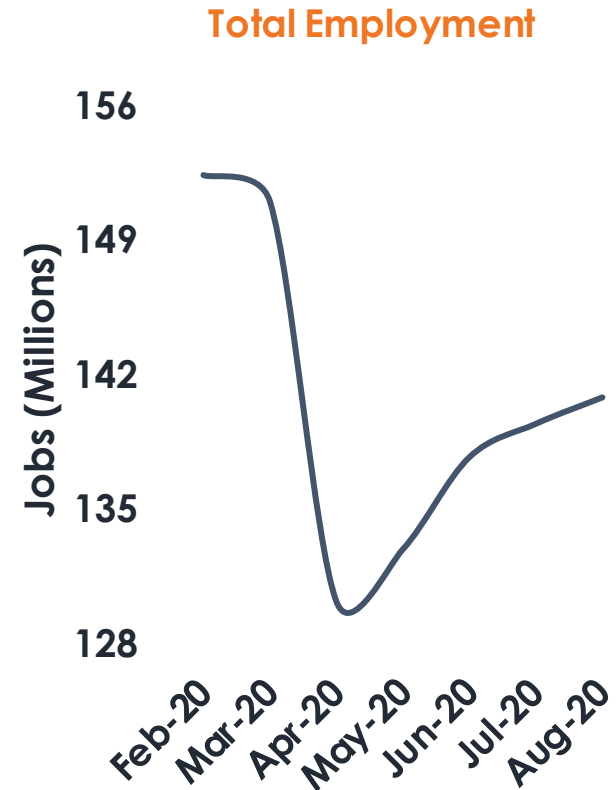
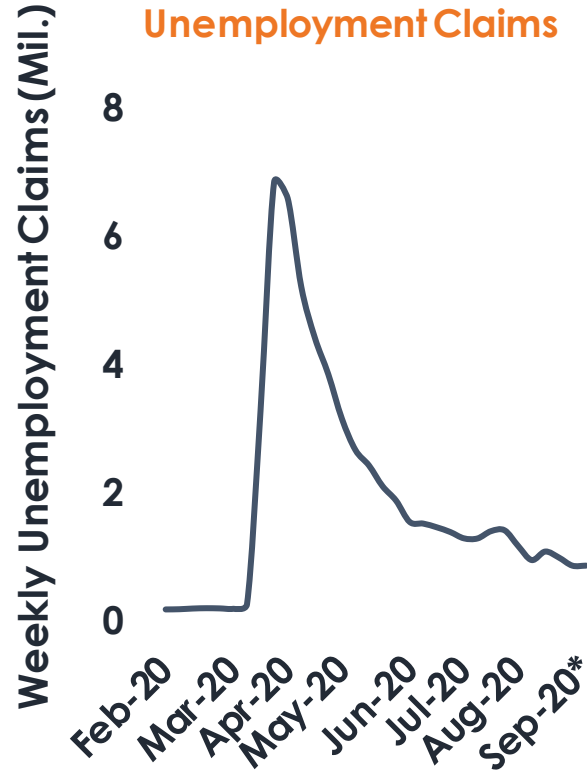
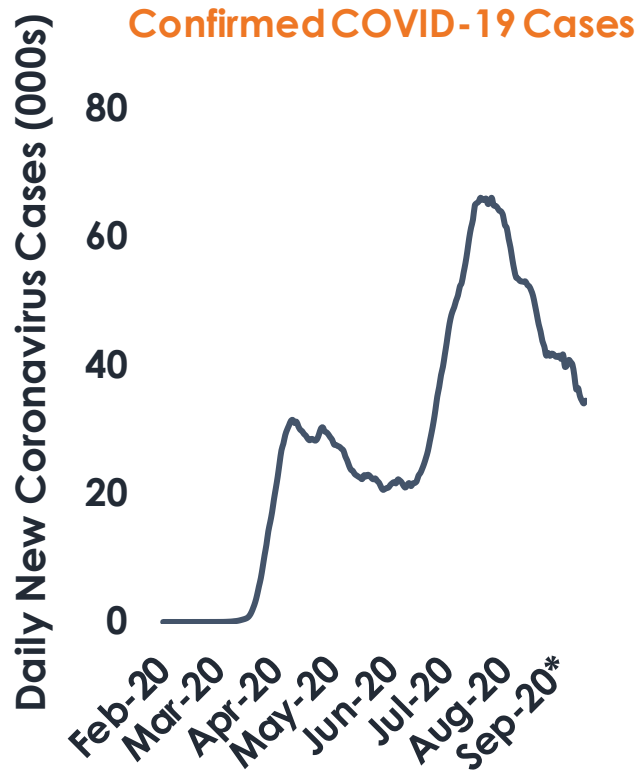


As of August 2020  
Real M2 includes inflation-adjusted cash, checking deposits, savings deposits, money market securities, mutual funds and other time deposits  
Sources: Marcus & Millichap Research Services, Federal Reserve



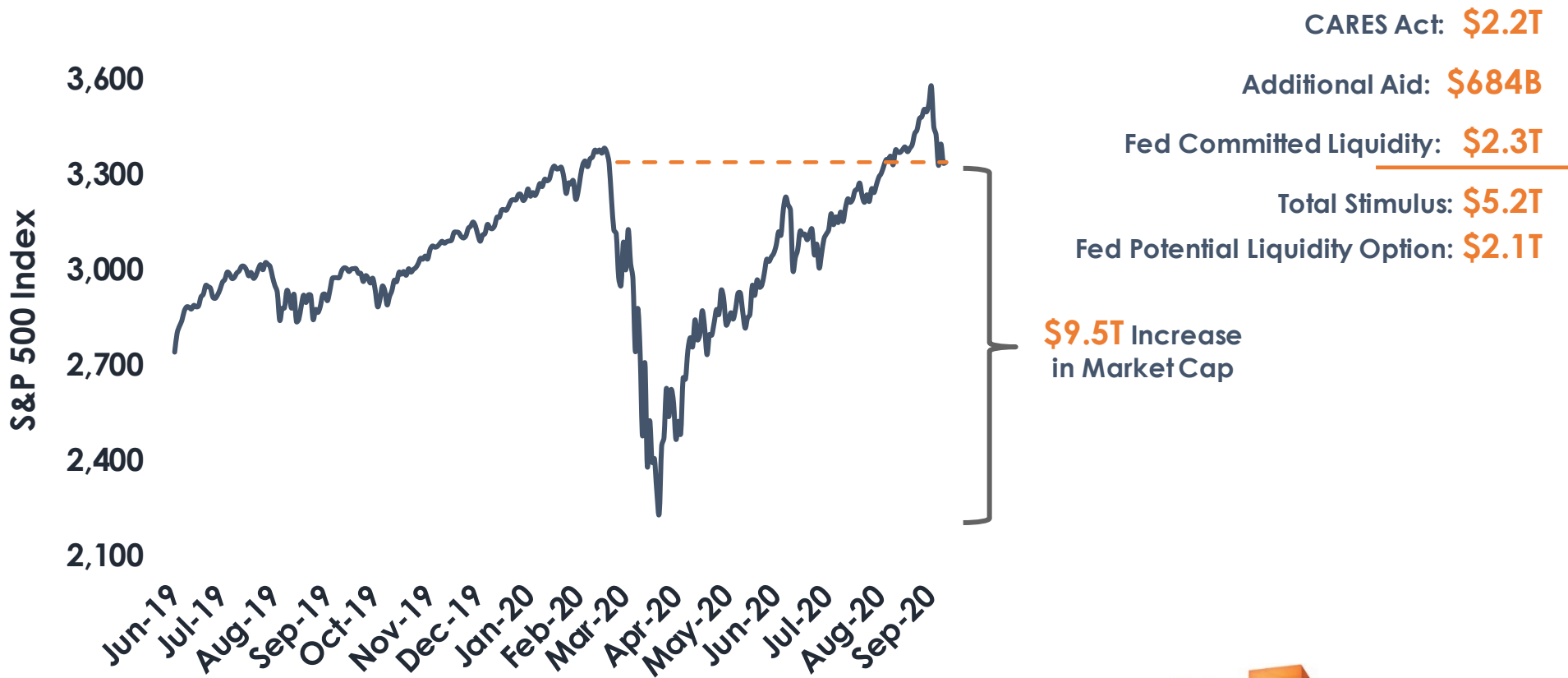
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# Pandemic, Economic Shock Running Through Their "Curve"



\* Through September 13; Unemployment claims through September 05  
Trailing 7-day average for COVID-19 cases  
Sources: Marcus & Millichap Research Services, ETA, BLS, The New York Times

# Interpretation of 'V-Shaped' Stock Market Recovery: Link to Broader Economic Recovery Prospects Uncertain



As of September 11

Sources: Marcus & Millichap Research Services, Standard & Poor's

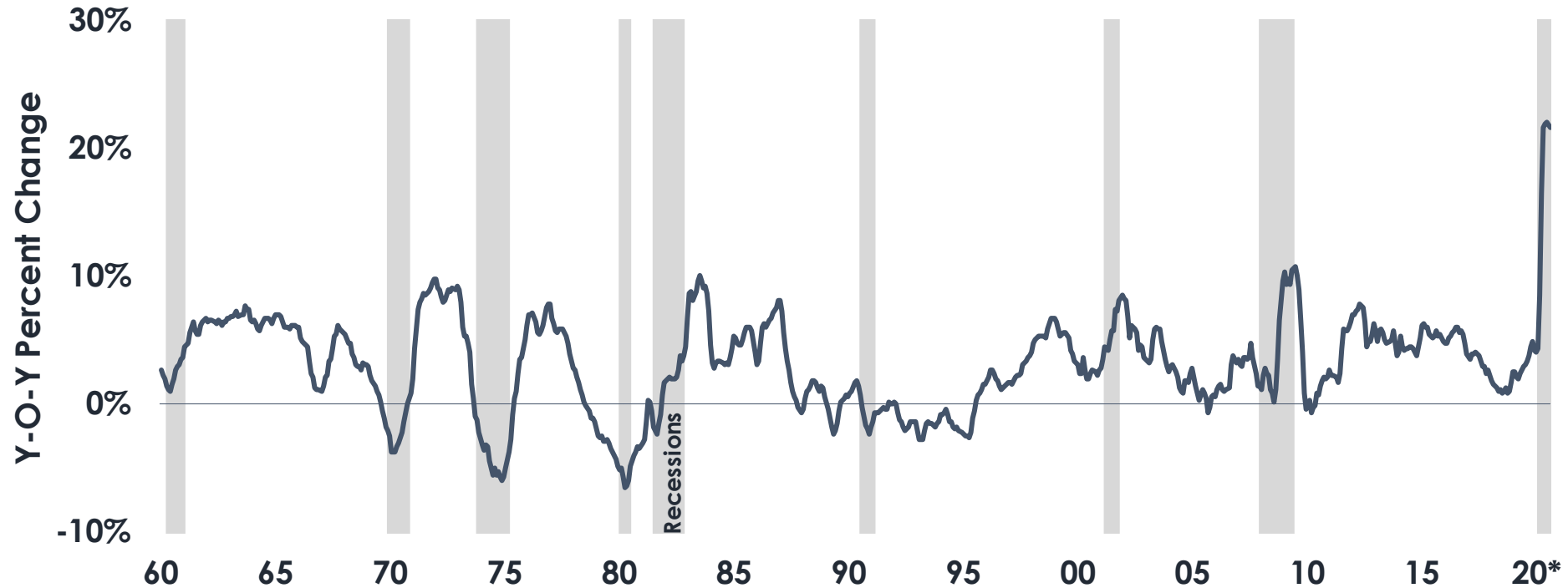
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# Real Money Supply (M2) Spikes as Fed Moves Urgently to Offset Shut-Down



\* Through August

Real M2 includes inflation-adjusted cash, checking deposits, savings deposits, money market securities, mutual funds and other time deposits

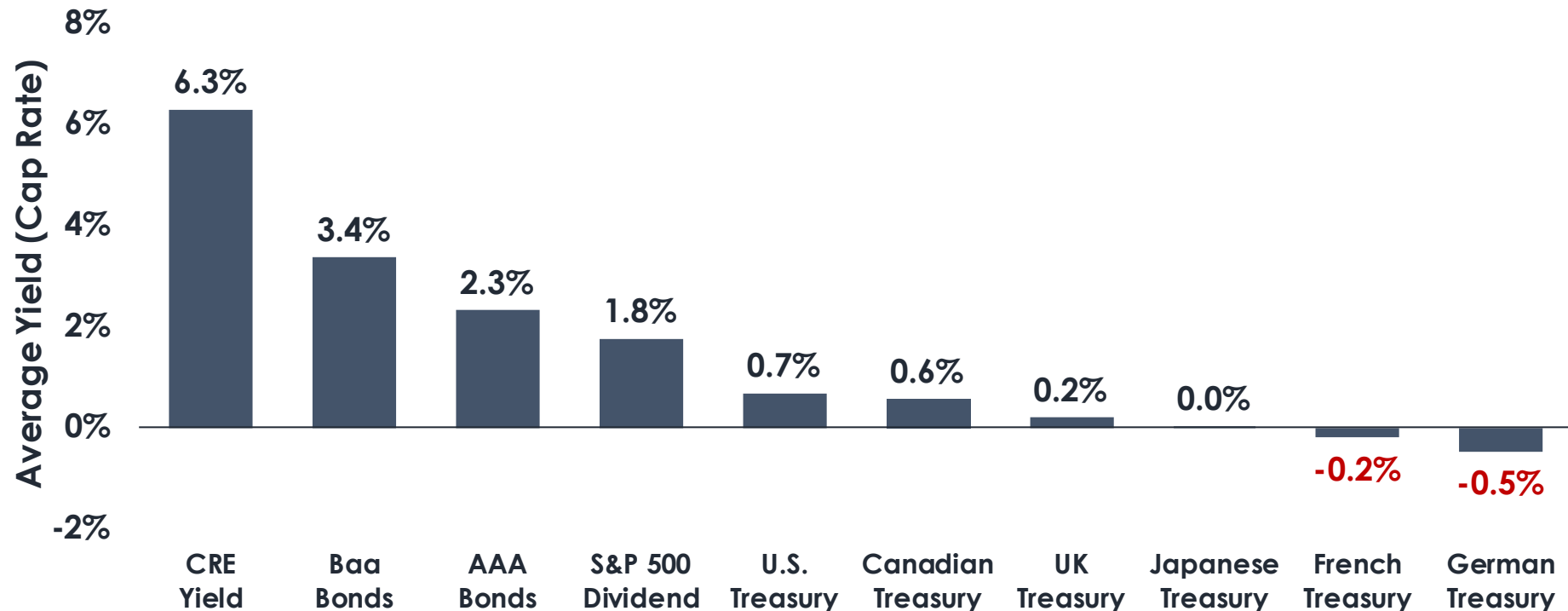
Sources: Marcus & Millichap Research Services, Federal Reserve

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# Commercial Real Estate a Compelling Investment Alternative Due to Competitive Yields



As of September 11, 2020

Treasury rates for 10-year treasuries

Commercial real estate yield (cap rate) includes apartment, retail, office, and industrial sales \$1 million and greater

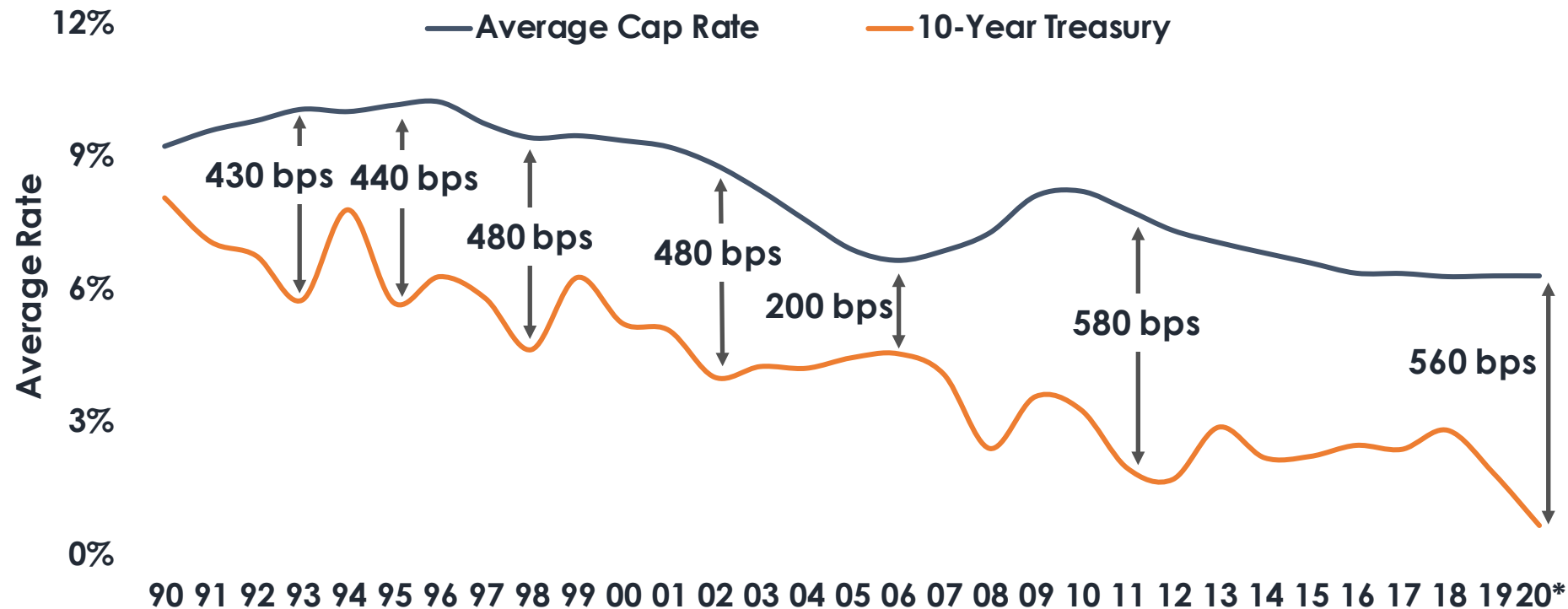
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Real Capital Analytics, Standard & Poor's, Federal Reserve

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# Commercial Real Estate Avg. Yield vs 10-Year Treasury – Spread Indicates “Buy” Window



\* Through September 11

Includes apartment, retail, office, and industrial sales \$1 million and greater

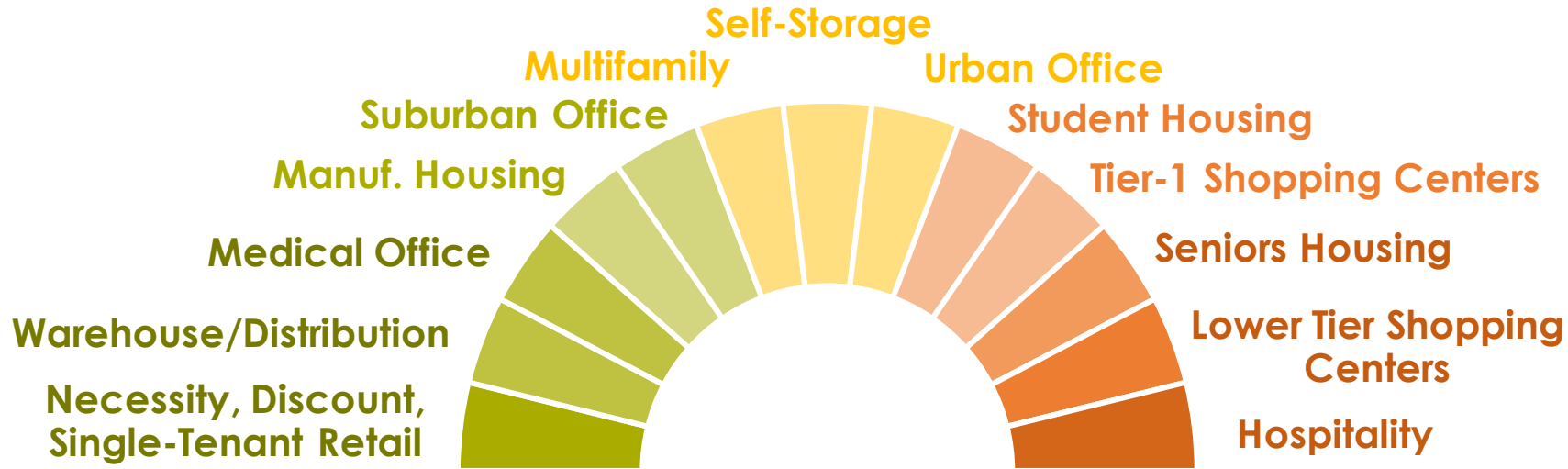
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Real Capital Analytics, Federal Reserve



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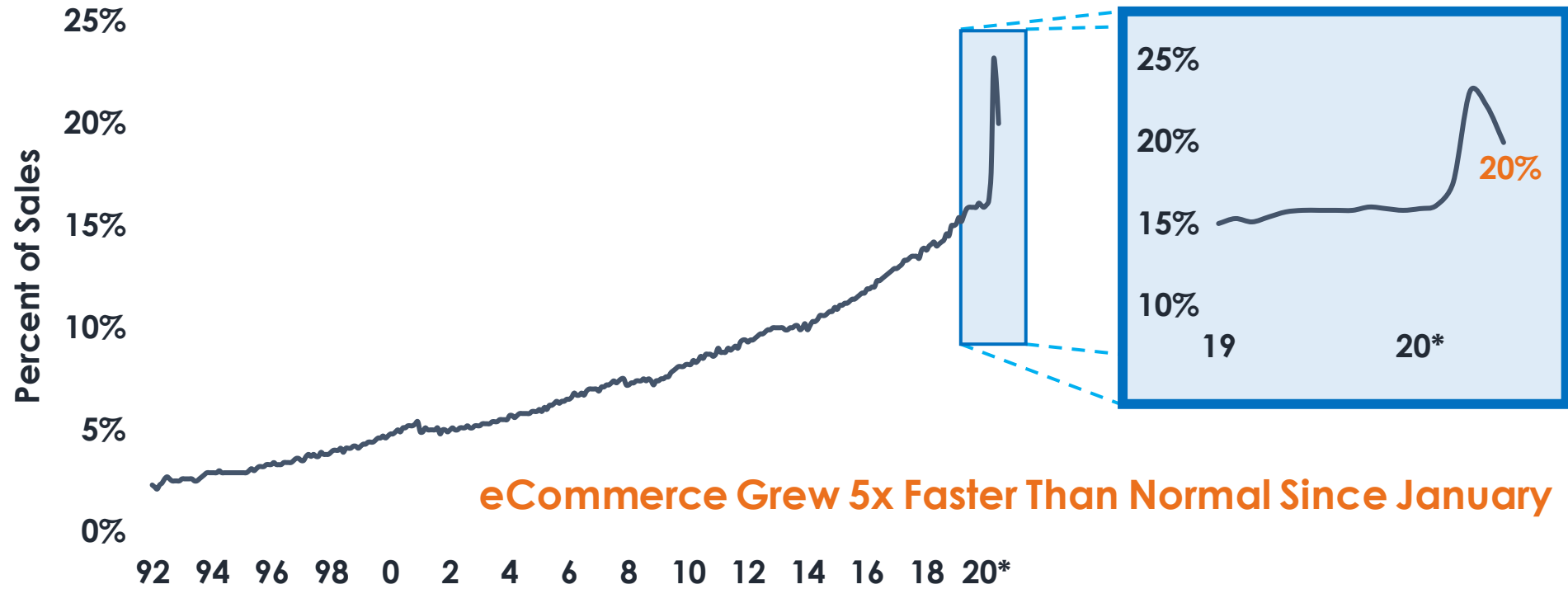
# Current Environment Requires Granular Execution

## Shock Impact by Segment Varies - Solutions/Actions Work Across



### Commercial Real Estate

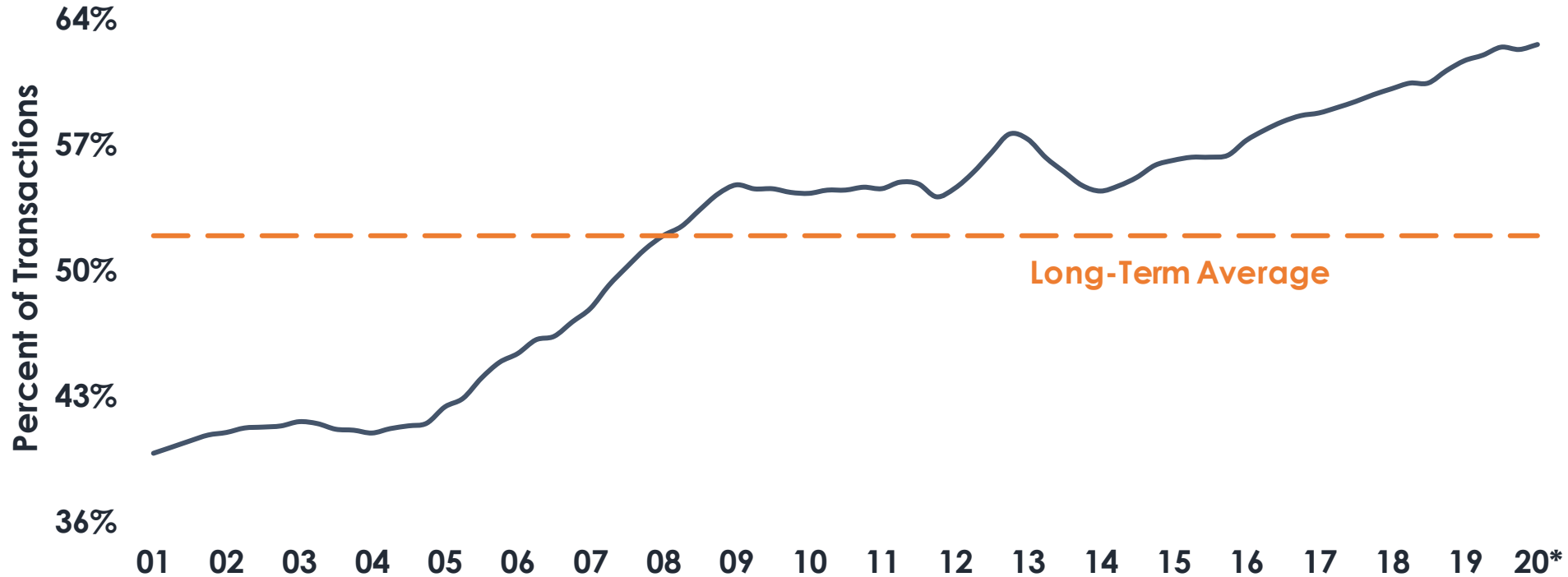
# U.S. eCommerce Share of Core Retail Sales



**eCommerce Grew 5x Faster Than Normal Since January**

\* Through June  
Excludes auto and gasoline sales  
Sources: Marcus & Millichap Research Services, U.S. Census Bureau

# Capital Allocation Has Been Moving Beyond Core Metros; Share of Transactions in Secondary/Tertiary Markets



\* Through 1Q  
Trailing 12 months average  
Includes apartment, retail, office, and industrial sales \$1 million and greater  
Sources: Marcus & Millichap Research Services, Real Capital Analytics, CoStar Group, Inc.

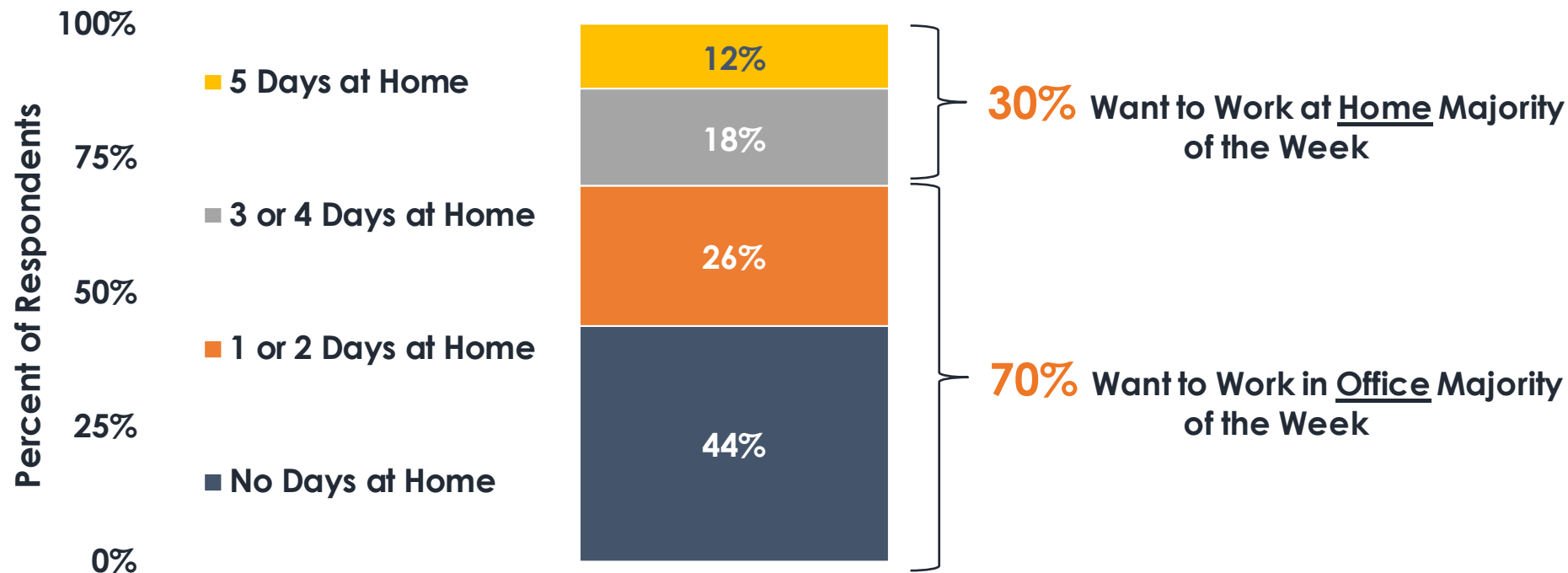


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# Will Workers Return to the Office?

## Vast Majority Value Benefits of Office Environment

“Do you prefer to go back to the office or continue to work from home?”

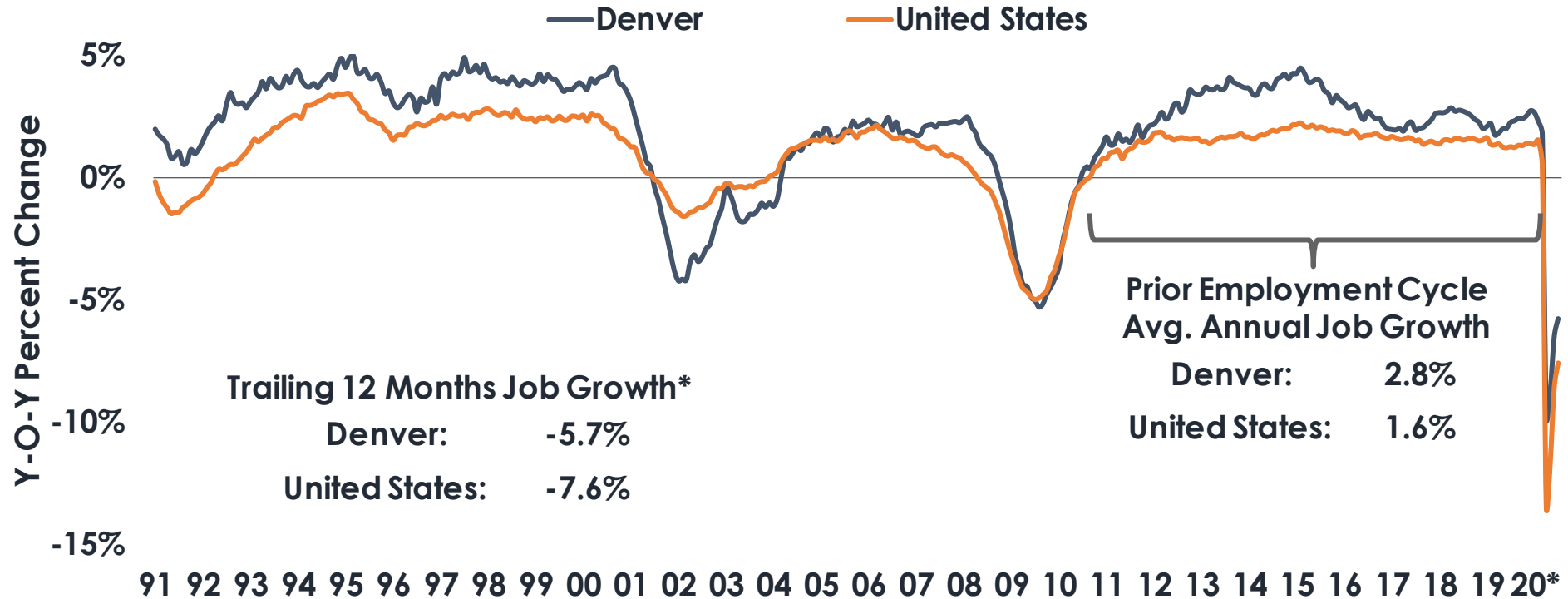


# Remaining Clouds on the Horizon

- 1. Fundamentally in a Health Crisis - Full Recovery Contingent on Medical Solution, Human Behavior, Consumer and Business Attitudes.**
- 2. Job Gains May be Gradual as Companies Stay Conservative; Some Small Businesses Will Close Permanently.**
- 3. Lack of Clarity on Size, Scope and Timing of Next Round of Fiscal Stimulus.**
- 4. Upcoming Election and Ongoing Political Gridlock Creates Additional Uncertainty.**

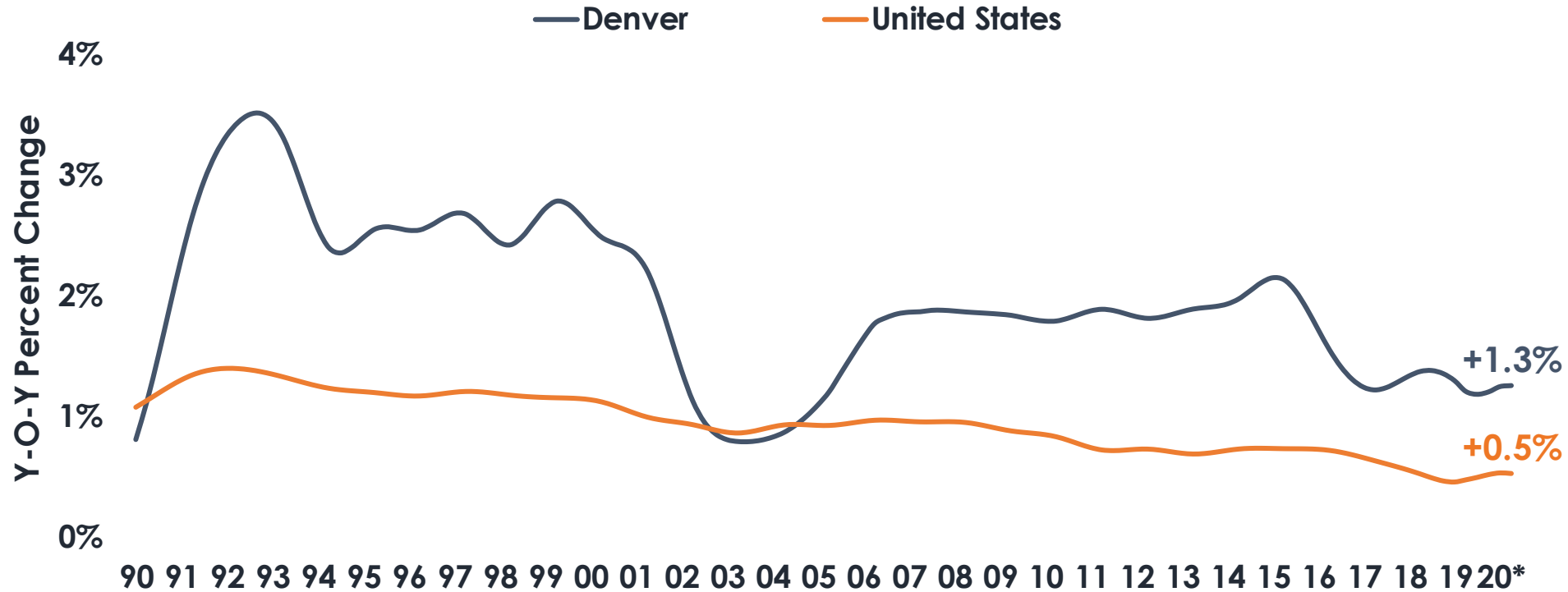


# Denver Employment Growth vs. U.S. Employment Growth



\* Through July  
 Employment Cycle: September 2010 to March 2020  
 Sources: Marcus & Millichap Research Services, BLS

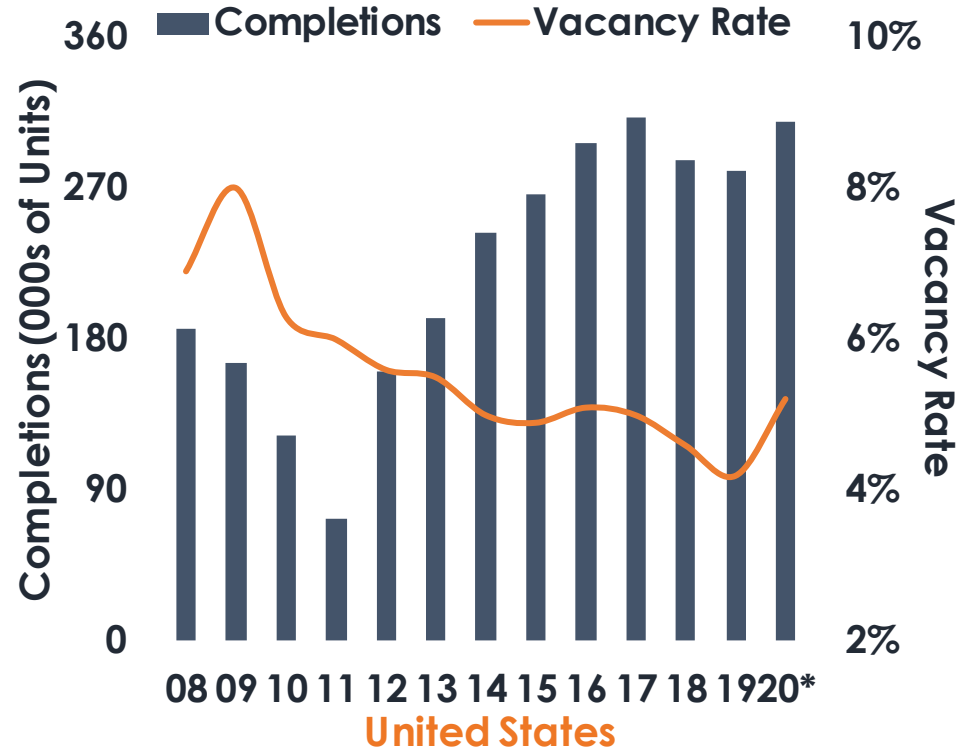
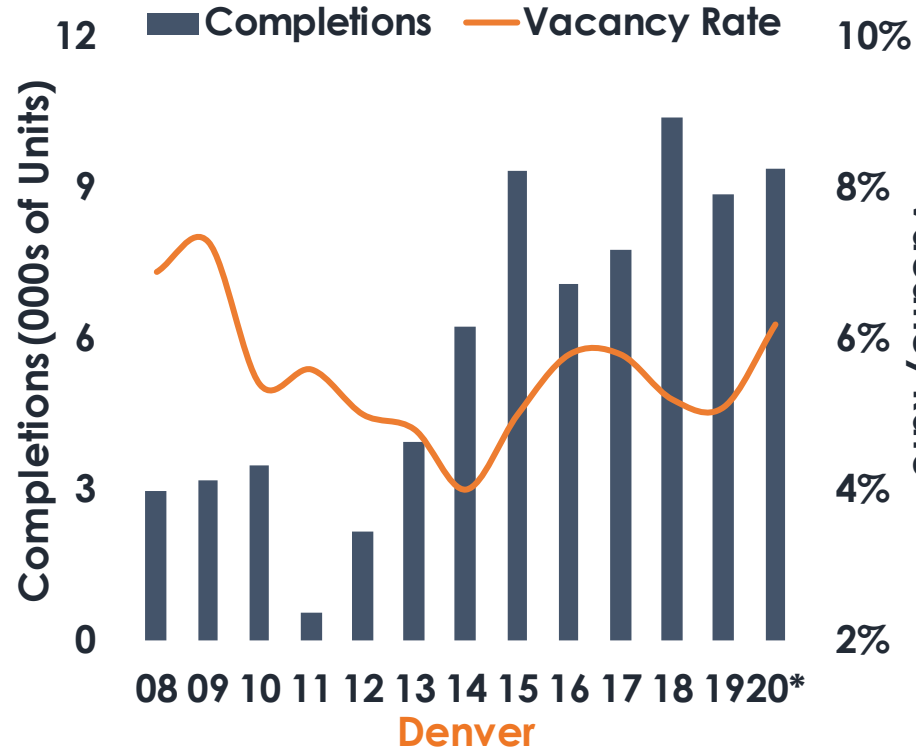
# Denver Population Growth Outpacing National Average



\* Through 2Q  
Sources: Marcus & Millichap Research Services, U.S. Census Bureau



# Apartment Supply and Demand Trends



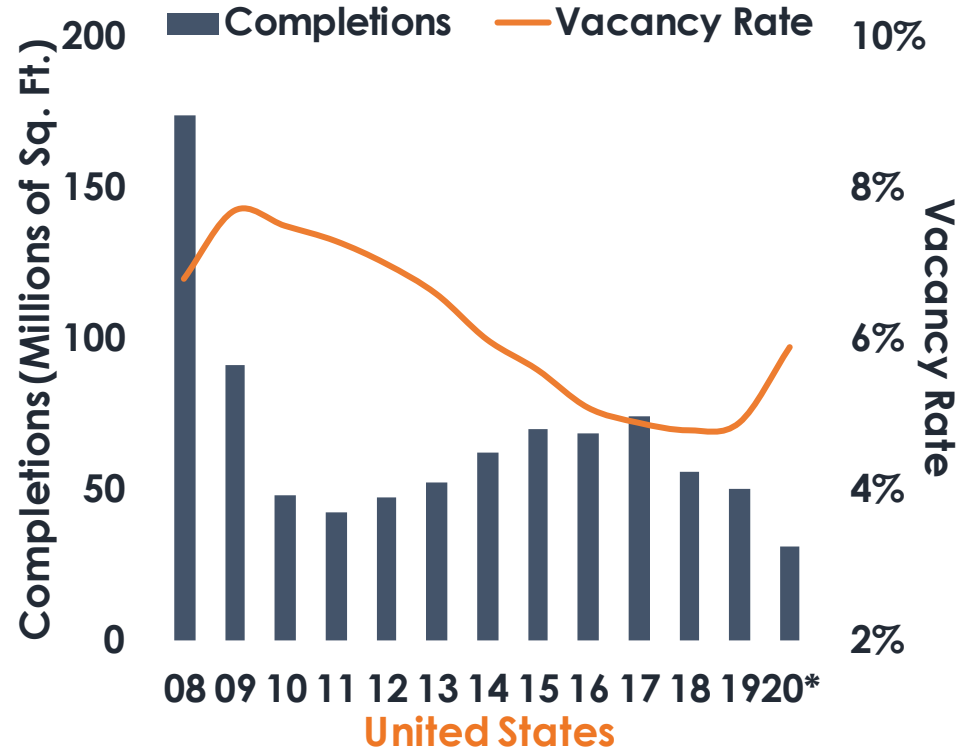
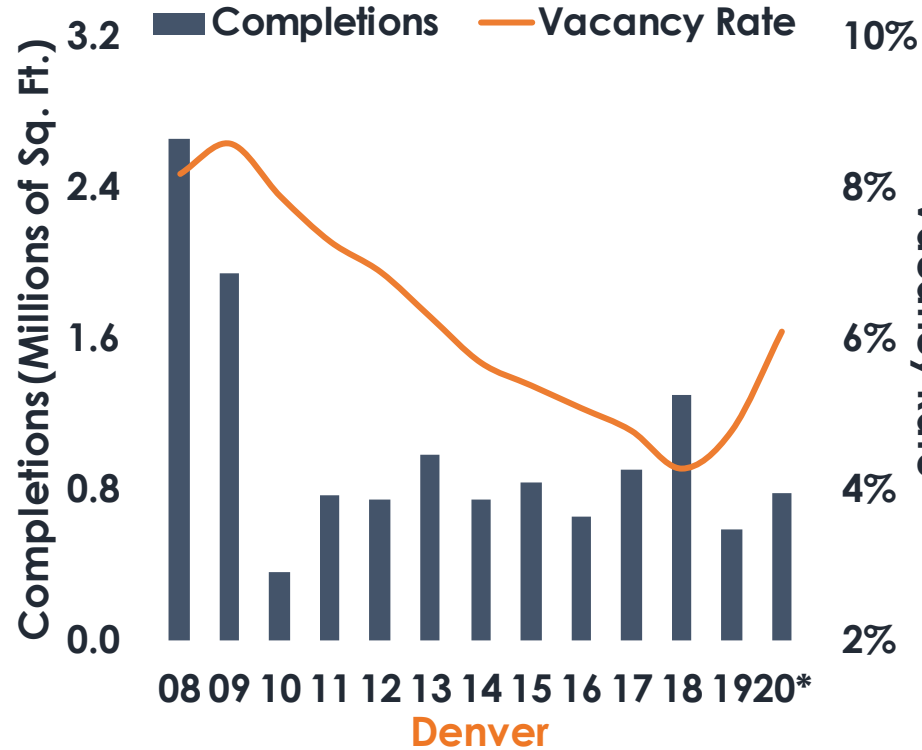
\* Forecast

Sources: Marcus & Millichap Research Services, RealPage, Inc.



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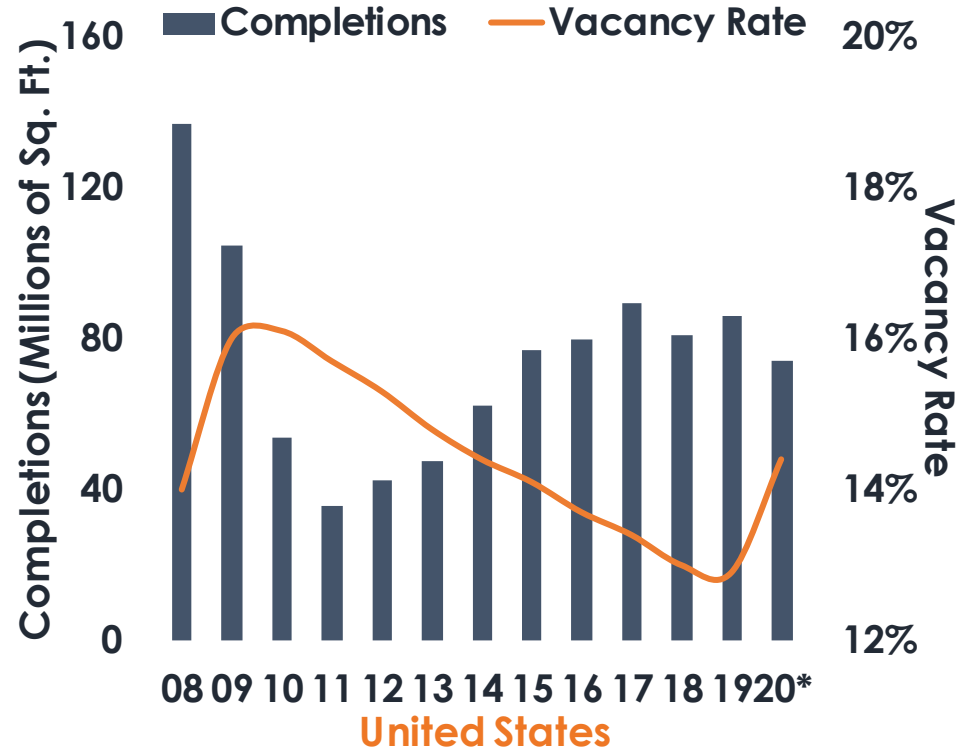
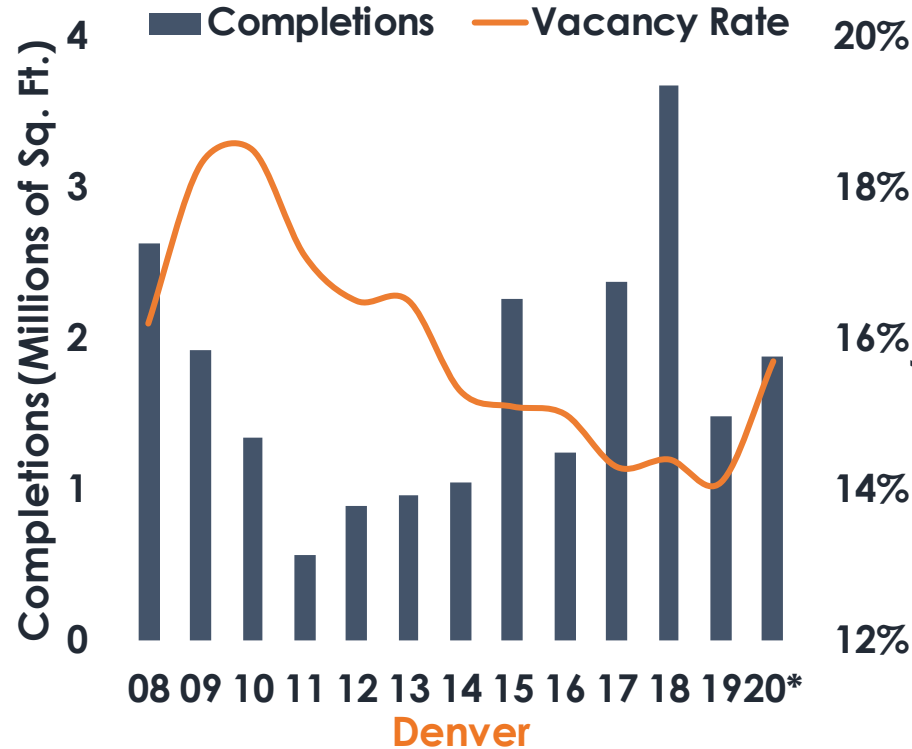
# Retail Supply and Demand Trends



\* Forecast  
Sources: Marcus & Millichap Research Services, CoStar Group, Inc.



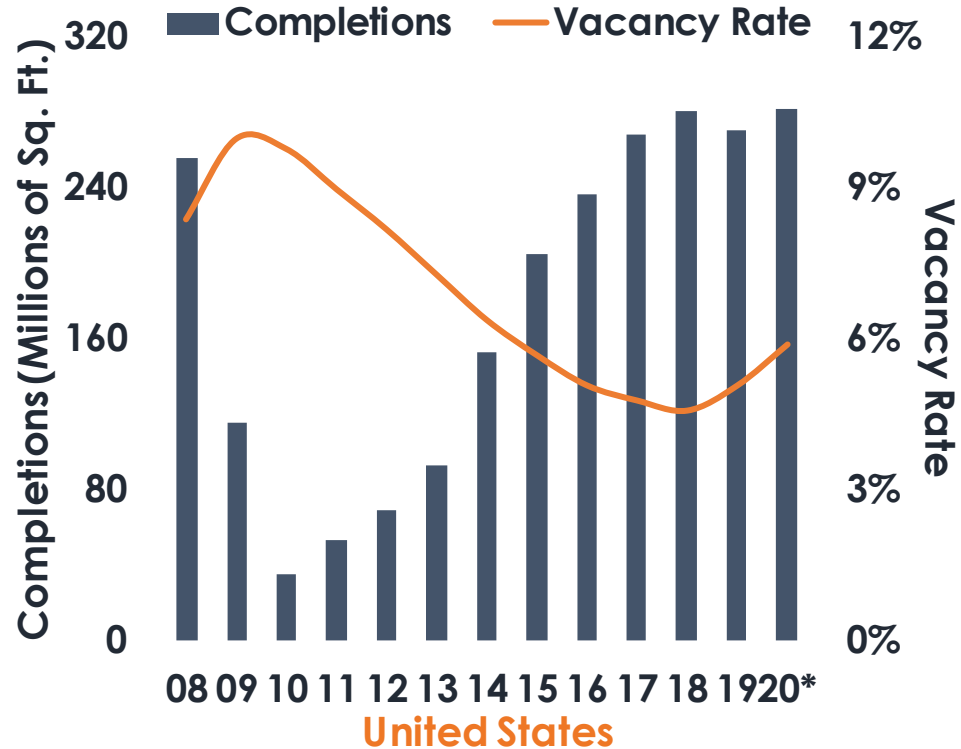
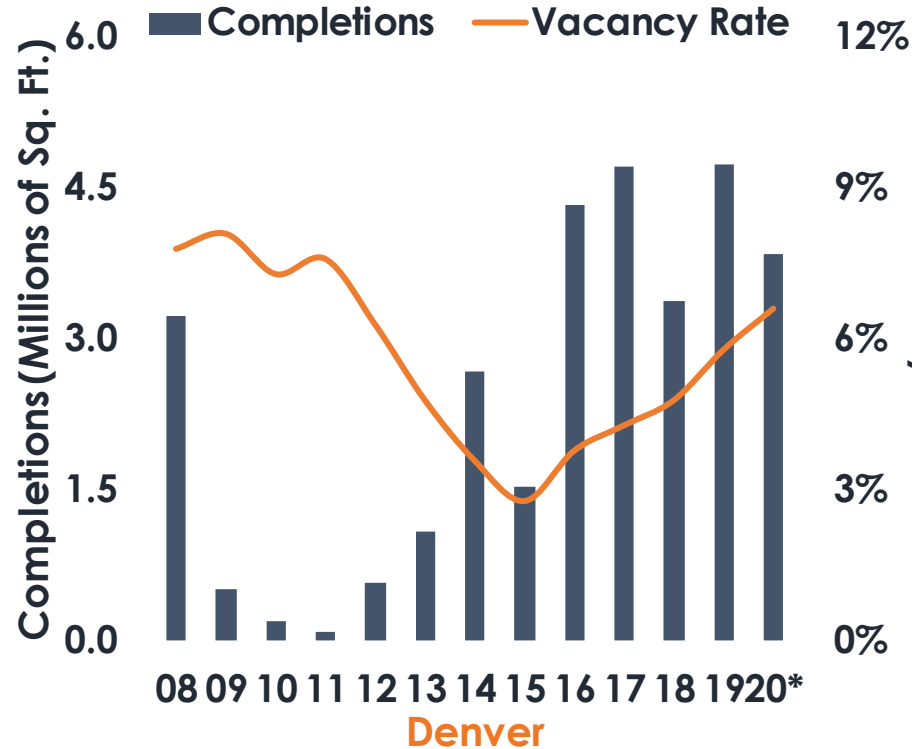
# Office Supply and Demand Trends



\* Forecast  
Sources: Marcus & Millichap Research Services, CoStar Group, Inc.



# Industrial Supply and Demand Trends



\* Forecast  
Sources: Marcus & Millichap Research Services, CoStar Group, Inc.



# Denver Commercial Real Estate Values Reflect Its Exceptional Growth Drivers

	Apartment	Retail	Office	Industrial
Price Growth Since '07	DEN <b>+149%</b> U.S. +61%	<b>+36%</b> +20%	<b>+40%</b> +20%	<b>+113%</b> +42%

## Factors Driving Denver Metro Appreciation

- ❖ **563,400** Gain in Population, +23% Since 2007 **Rank #10**
- ❖ **198,000** New Jobs Created, +16% Since 2007 **Rank #7**
- ❖ **39%** Increase in Median HH Income Since '07 **Rank #8**
- ❖ **\$82B** Economic Growth (GSP), +30% Since '07 **Rank #5**

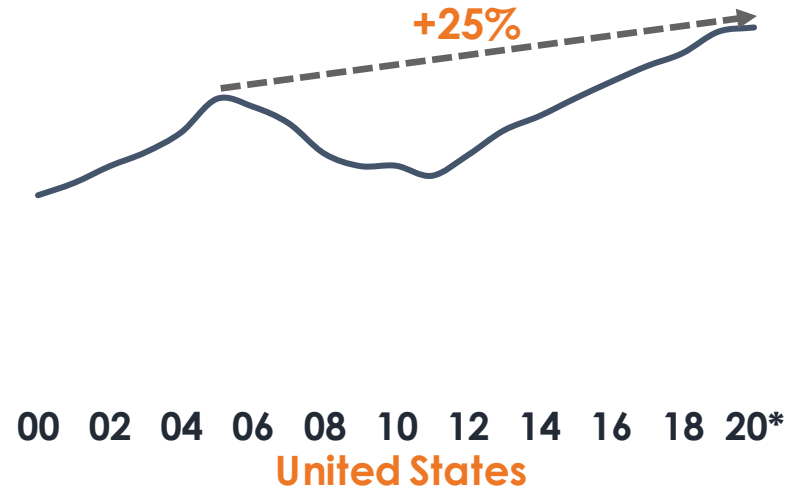
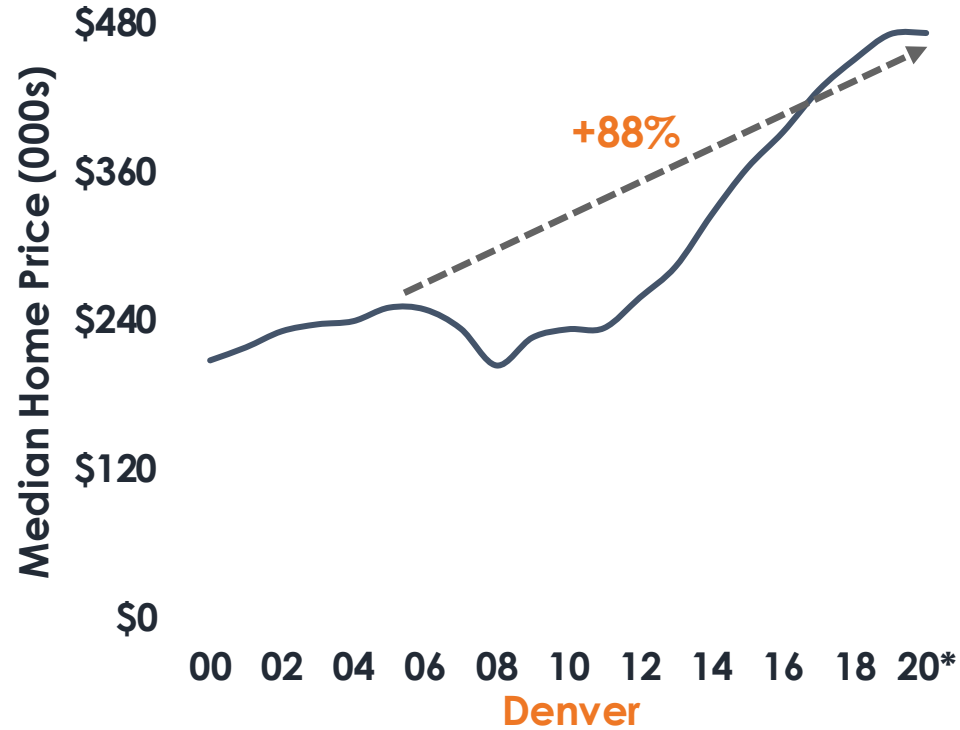
As of 2Q 2020; Employment through July 2020  
GSP for state of Colorado through 1Q 2020  
Includes sales \$1 million and greater

Sources: Marcus & Millichap Research Services, BEA, BLS, U.S. Census Bureau, CoStar Group, Inc., Real Capital Analytics



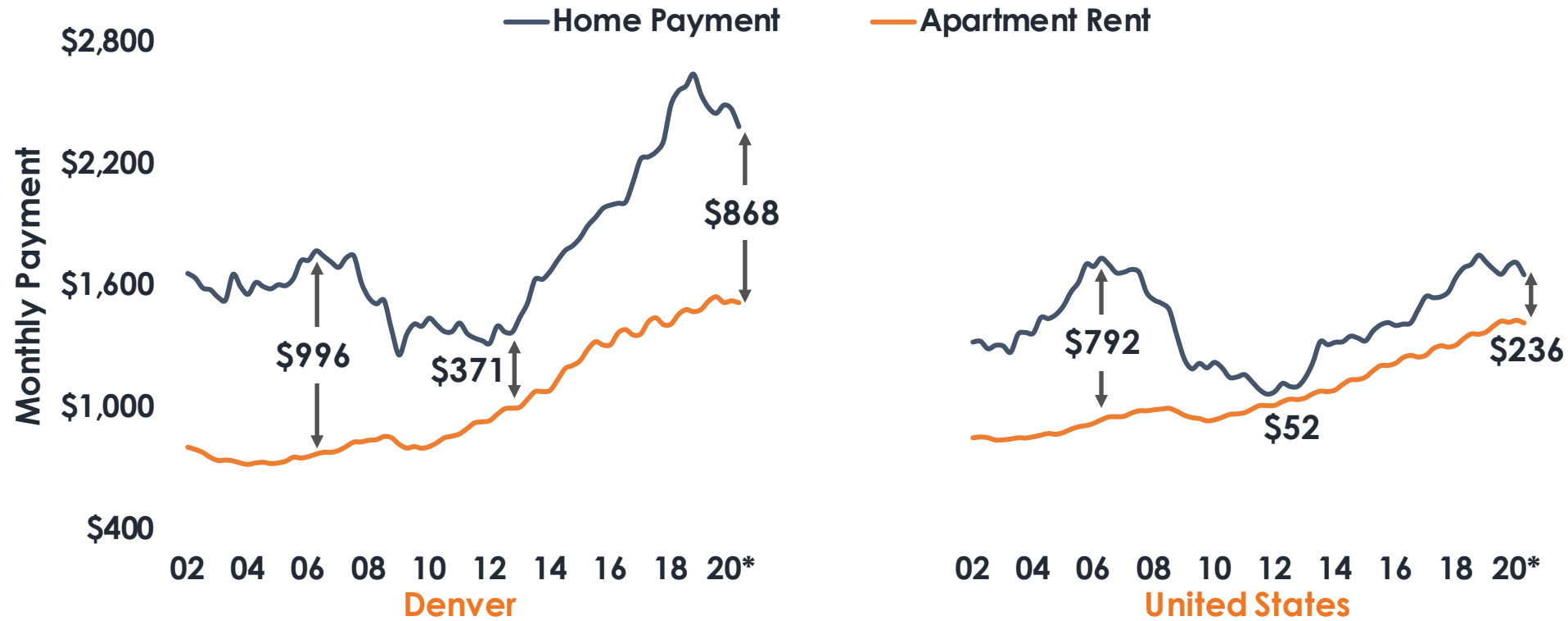
Marcus & Millichap

# Single-Family Home Price Trends





# Apartment Rent and Home Payment Trends



\* Through 2Q  
 Mortgage payments based on 2Q 2020 median home price for a 30-year fixed rate mortgage, 90% LTV, taxes, insurance, and PMI  
 Sources: Marcus & Millichap Research Services, RealPage, Inc., Freddie Mac, National Association of Realtors

# Key Drivers of Long-Term Growth in Denver

## ❖ Positive Demographic Trends

- ❖ 20- to 34-year-old population will grow 38,600 (+6%) over the next five years
- ❖ Young adults comprise 23% of the total population
- ❖ Approximately 66% of young adult householders are renters
- ❖ \$81,400 median household income, compared to \$67,600 for the U.S.
- ❖ 42% of population 25+ has bachelor's degree or higher, compared with 30.4% for the U.S.

## ❖ Robust Housing and Employment Markets

- ❖ Single-family home prices up 88% from prior-cycle peak, compared to 25% for the U.S.
- ❖ Nearly 250,000 (+21%) jobs created since 2010
- ❖ 7.9% unemployment rate, compared to 10.2% for the U.S.
- ❖ Tech firms like Amazon, Marqeta, Checkr, and others expanding in Denver

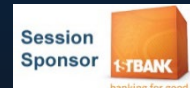
## ❖ Infrastructure/Competitive Advantage

- ❖ Ongoing overhaul of Denver International Airport and I-70 freeway to provide long-term benefits
- ❖ Attractive lifestyle and deep talent pool encourages business expansion and relocation
- ❖ Central geographic location provides trade advantages
- ❖ First-rate universities ensure large base of highly skilled workers

# 2020 COLORADO COMMERCIAL REAL ESTATE SYMPOSIUM

## *KEYNOTE – NATIONAL CRE MARKET PERSPECTIVE*

September 17, 2020



Marcus & Millichap