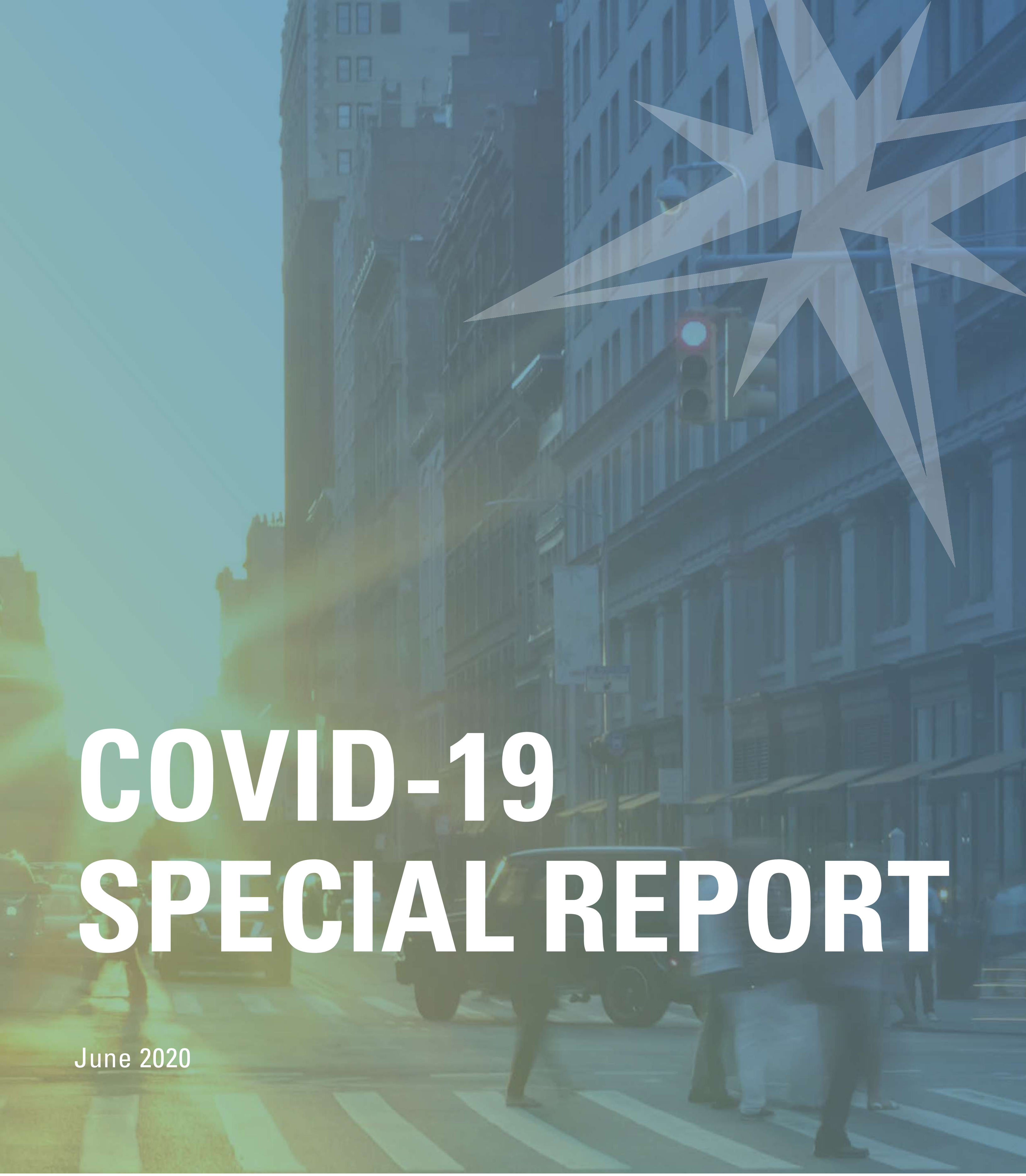


COVID-19 SPECIAL REPORT

June 2020

NorthMarq

Even with the extreme economic volatility, the apartment market has been performing consistently well.

COVID-19 JUNE STATUS UPDATE

In this third monthly installment of the NorthMarq Investment Sales COVID-19 special report series, the economic outlook has brightened considerably. One month ago, the labor market had shed 20 million jobs in a month, the unemployment rate had spiked by 10 full percentage points, and forecasters were calling for additional job cuts.

The latest employment release painted a far different picture than the forecast. Instead of another month of job losses in the millions and an unemployment rate topping 20 percent, the economy added approximately 2.5 million net new jobs and the unemployment rate trended lower. This latest reading suggests the economic downturn will be less severe and have a shorter duration than was originally forecast, which should ultimately benefit the national multifamily market.

Looking ahead, the Federal Reserve anticipates unemployment will end 2020 at 9.3 percent, or 400 basis points lower than the current figure. For the economy to reach the forecast rate, approximately 10 million jobs would be added to payrolls by the end of the year, with the bulk of the gains likely during the next few months.

Even with the extreme economic volatility, the apartment market has been performing consistently well. Rent collections have remained strong throughout the last few months, with expanded unemployment benefits and a one-time stimulus payment offsetting the impact of lost wages for displaced workers. With many workers who were laid off or furloughed going back to work, apartment rents should continue to be paid at a fairly steady pace.

While multifamily property performance has been mostly stable since the onset of COVID-19, investors have generally taken a wait-and-see approach, limiting transaction volume. As local economies reopen and uncertainties around property operations are reduced, we anticipate a sharp acceleration in transaction activity, particularly in the fourth quarter of this year.

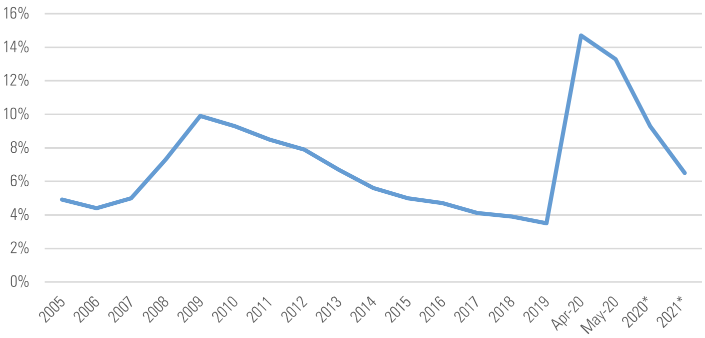
ECONOMIC IMPACT:

May 2020 Employment Report

The May employment report was one of the most surprising economic releases in more than a decade. Economists originally called for job losses in the millions, and the employment report from payroll provider ADP for the same period showed net losses of nearly 2.8 million jobs.

Despite these predictions, the official release from the Department of Labor showed a net gain in May of approximately 2.5 million jobs. Gains for the month were recorded across several industries highlighting the broad-based impact of the reopening of the economy across the country.

U.S. Unemployment Rate

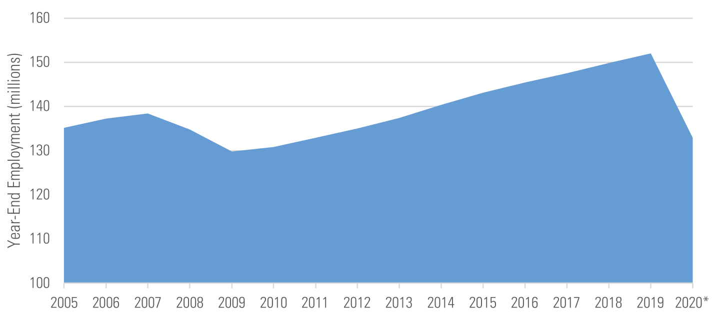


* Federal Reserve Year End Forecasts
Sources: Bureau of Labor Statistics, Federal Reserve, NorthMarq

The Federal Reserve predicted the unemployment rate would end 2020 at 9.3 percent, and dip to 6.5 percent by the end of next year.

The unemployment rate, which was forecast to top 20 percent—and potentially approach 30 percent—instead retreated 140 basis points to 13.3 percent in May. The Bureau of Labor Statistics included language in the release about the sampling methodology that indicated that the real unemployment rate is likely closer to 16 percent, but comparisons to levels last recorded in the Great Depression seem to have been unnecessarily pessimistic. Earlier this month, the Federal Reserve predicted the unemployment rate would end 2020 at 9.3 percent, and dip to 6.5 percent by the end of next year.

Total U.S. Employment



* Through May
Sources: Bureau of Labor Statistics, NorthMarq

Employment gains in May were led by the leisure and hospitality sector, which added more than 1.2 million jobs for the month. Restaurants and bars accounted for nearly all of this total, as approximately 20 percent of the positions that were cut in March and April returned in May. The sector will likely continue to bring back workers at a rapid pace in the coming months.

Another sector that benefitted from the reopening of the economy was healthcare and social assistance, which added nearly 400,000 jobs in May after steep layoffs recorded in the preceding months. This sector has been in a significant expansion mode since 2014, but losses were recorded as doctors' offices closed or limited hours during the COVID-19 outbreak. Nearly all of these jobs are expected to be added back rapidly, and employment totals in healthcare and social assistance should return to previous peaks in a matter of a few months.

With the stock market coming roaring back, and low interest rates sparking new mortgage activity for purchases and refinances, the financial activities sector added workers last month. Many employees in this sector can work from home so losses were limited compared to the rest of the labor market. Year over year, losses in financial activity total just 1.5 percent, compared to contraction of nearly 12 percent in the economy as a whole.

The latest jobs release brightens the outlook about the pace and timing of the employment recovery. In March and April, payrolls contracted at an unprecedented pace, and the initial forecast was for additional losses in May. Instead, the labor market pivoted earlier than expected, meaning that job losses were likely not as severe as first forecasted, and the recovery is already under way.

These employment readings track with trends that started to emerge in the economy during May, as all 50 states fully or partially eased restrictions on businesses beginning in late-April continuing through late-May. The economy has largely reopened, although a wide range of industries, including airlines, retailers, and hospitality-related businesses are operating at levels well below capacity.

The latest jobs release brightens the outlook about the pace and timing of the employment recovery.

Employment figures for the next few months will be worth monitoring in trying to determine the pace of the recovery. Net job losses totaled approximately 22 million positions, meaning that it would take another 8 months of gains at the current pace before the labor market reaches pre-recession levels. The more likely scenario calls for a few more months of job gains in the millions, followed by more modest increases in the second half of the year. We continue to forecast that roughly half of the jobs that were cut in March and April will return by the end of this year.

BUSINESSES REOPENING IN PHASES

The economic shutdown was sudden, far-reaching, and occurred essentially all at once throughout the country. As the economy moves into a reopening phase, the speed of the recovery will be determined by two critical components. The first is how quickly businesses that shuttered operations will return to normal, while the second is how quickly demand will snap back. While the degree of pent-up demand is unknown, several companies have rolled out plans on how they plan to reopen.

The list below highlights some of the major employers in industries that were impacted by the COVID-19 shutdown and their latest plans for coming back online.

Disney World in Orlando employs approximately 75,000 workers, making it the largest single-site employer in the country. The Disney World complex and Disneyland facility in Anaheim shut down in mid-March. The Disney World resorts and hotels are scheduled to begin reopening in late-June, with the Orlando theme parks resuming operations in mid-July. California has been a bit more restrictive, and Disneyland will likely open in mid- to late-July.

Starbucks, which has more than 15,000 stores in the U.S. and a domestic workforce of nearly 200,000 employees, has largely reopened for business. The company has approximately 4,100 stores in China, which provided a template for ramping up business as the U.S. came back online. By mid-May, Starbucks had reopened approximately 85 percent of its U.S. stores, and the total rose to more than 90 percent in early June. Starbucks announced plans to close 400 stores in the U.S. during the next 18 months as the company transitions away from the traditional sit-down cafes.

By mid-May, Starbucks had reopened approximately 85 percent of its U.S. stores, and the total rose to more than 90 percent in early June.

DARDEN

The parent company of Olive Garden, LongHorn Steakhouse and The Capital Grille is the largest full-service dining company in the U.S. The company has more than 180,000 employees working at nearly 1,800 restaurants throughout the country. While nearly all of Darden's restaurants stayed open for to-go orders during March and April, a full return to normal will take some time. The company began reopening restaurants for in-person dining during the last week of April, and had more than 65 percent of its dining rooms opened with limited capacity (25%-50%) by the end of May.

amc

All movie theaters effectively closed throughout the country in mid-March and AMC is the country's largest with nearly 700 locations in the U.S. The company furloughed all 26,000 employees in late-March, with corporate employees working reduced hours. While an official reopening date has not been announced, the company plans to return to operations in July. Competitor Cinemark was slated to begin a phased reopening approach starting June 19.

CAESARS PALACE

The casino giant furloughed approximately 90 percent of its 66,000 employees in April, but has been in the process of reopening. The first wave of casinos in Las Vegas opened on June 4, and Caesars has opened several regional properties. Caesars and rival MGM Resorts are also scheduled to open additional Las Vegas resorts in the second half of June and early July.

American Airlines

Air travel stalled among all major carriers In mid-March, with widespread cancellations driving down air travel 87 percent by the end of May. The industry is slowly coming back; American plans to fly 55 percent of its domestic routes in July, United is increasing capacity by approximately 30 percent in July and Southwest has plans to increase flights through the winter. Most major airlines were included in a $25 billion relief package that prohibited carriers that received aid from laying off or cutting the pay rate of employees through September 30. Many carriers are trying to make staffing cuts through buyouts, but there could be layoffs beginning October 1. American and United both announced a goal of cutting administrative and support staff by 30 percent.

Marriott

Hotels were particularly hard hit during the shutdown, with occupancy rates of approximately 20 percent in late-April and early-May. Marriott is the largest hotel chain in the world, with more than 7,000 properties worldwide and nearly 4,000 locations in the U.S. The company had approximately 130,000 workers in the U.S., and began laying off much of its workforce in March and April, while closing approximately 25 percent of its hotels. In late-May, the company announced that furloughs and reduced work week schedules will be extended into early October.

MULTIFAMILY INVESTMENT MARKET

Sales velocity in the national multifamily investment market cooled from April to May. After being cut approximately in half in April, transactions involving apartment properties dipped another 25 percent in May. The decline in activity was expected, as many investors are taking a wait-and-see approach before making acquisitions, and many existing owners are reluctant to list properties in the current environment.

Transaction activity thus far in the second quarter has largely been concentrated in the markets that have led the way for the past few years. In April and May, Atlanta and Dallas/Fort Worth combined to account for more than 10 percent of the total transaction activity in the U.S. Other top markets for investment activity through May were Phoenix, Houston, Chicago, and Denver. While the top markets for activity each recorded a few transactions over $25 million, generally the bulk of the transactions occurring thus far in the second quarter have been in the $15 million to $25 million range.

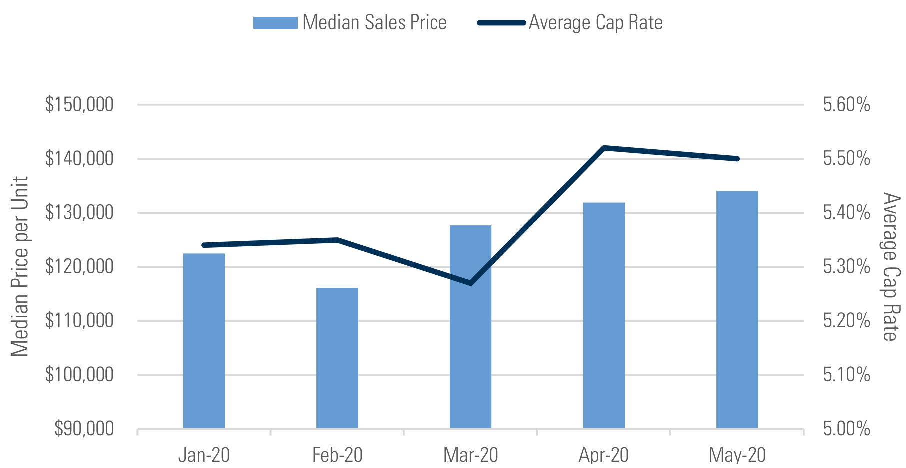
While fewer properties have changed hands in recent months, prices have remained elevated. The median price in May was approximately $134,000 per unit, a bit higher than in April, and 12 percent higher than the $120,000 per unit median price during the first quarter. While pricing is a function of the mix of assets that are changing hands, combined with the markets where sales are occurring, current pricing trends highlight the general health of the market.

In April and May, Atlanta and Dallas/Fort Worth combined to account for more than 10 percent of the total transaction activity in the U.S.

Cap rates have averaged 5.5 percent in the second quarter, approximately 25 basis points higher than during the first quarter. While there is greater uncertainty in the market as a whole, cap rates are remaining low, in part because bond yields are creeping lower and attractive agency financing rates are still attainable. The yield on the 10-year Treasury has not reached 1 percent at any point during the second quarter, after starting the year at nearly 2 percent and averaging approximately 1.5 percent in the first quarter.

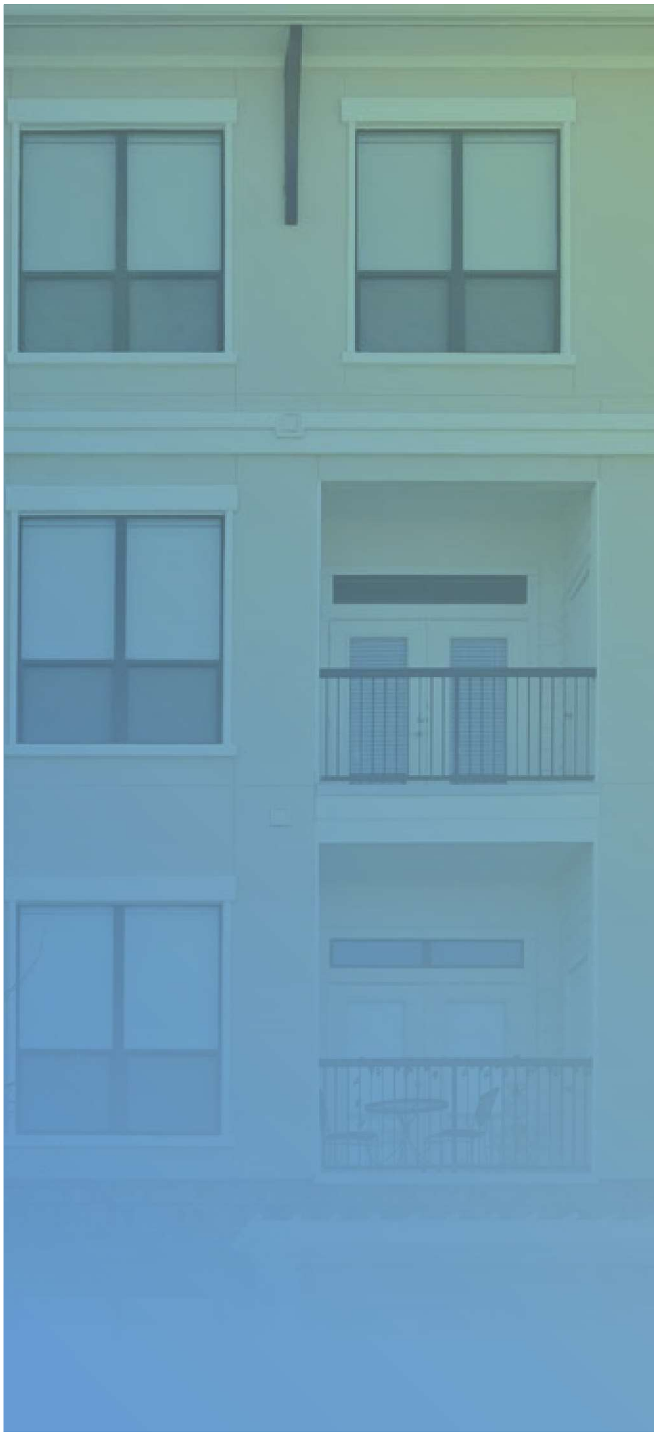
The median price in May was approximately $134,000 per unit, a bit higher than in April, and 12 percent higher than the $120,000 per unit median price during the first quarter.

U.S. Price and Cap Rate Trends



IMPACT ON THE MULTIFAMILY MARKET:

June Rent Collection



NMHC Rent Tracker

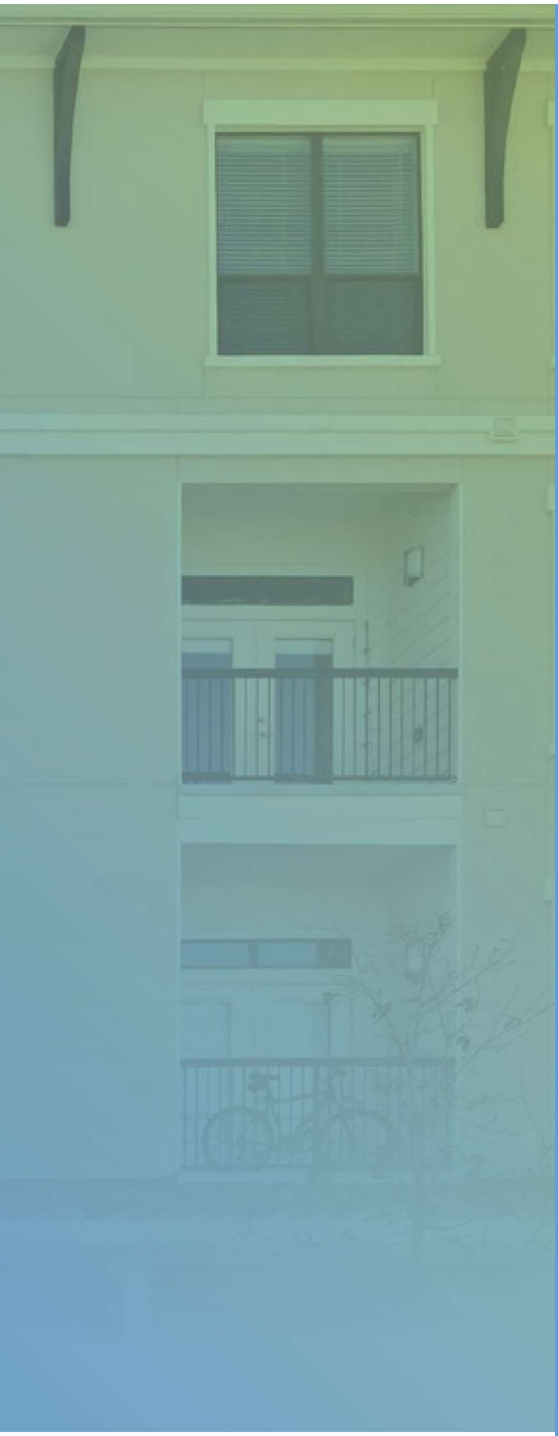
The National Multifamily Housing Council (NMHC) has been tracking the payment rates for apartments to determine how job losses are impacting property performance. To this point in the cycle, rent collections for apartments have been quite consistent, closely tracking levels from last year.

NMHC conducted a survey of approximately 11.5 million apartment units, and found that 80.8 percent of households had paid their June rent as of June 6, up 60 basis points from the same date in May. That figure was just 70 basis points lower than during the same period in 2019 when the economy was thriving. By June 13, the NMHC survey showed 89 percent of households had made their June rent payments, which was nearly identical to levels from one year earlier.

The payment results continue to outperform expectations. The initial forecasts assumed severe job losses would lead to a significant drop in rent collections. The thought was cash-strapped renters would be unable to make rent payments, but that has not proven to be the case to this point. Looking ahead, there are two significant sources of uncertainty. The first is the high level of unemployed renters. The latest jobs reading supports the view that the employment market may bounce back sooner than expected, but it will still take a few years to return to full employment.

The second factor is the scheduled expiration of expanded unemployment benefits. Congress passed the CARES Act at the beginning of the COVID-19 outbreak, adding an extra $600 per week to unemployment benefits. This additional benefit is forecast to expire at the end of July, and there has been some discussion about whether there will be an extension of this benefit, or if there might be some kind of return to work bonus as a next phase of stimulus.

To this point in the cycle, rent collections for apartments have been quite consistent, closely tracking levels from last year.

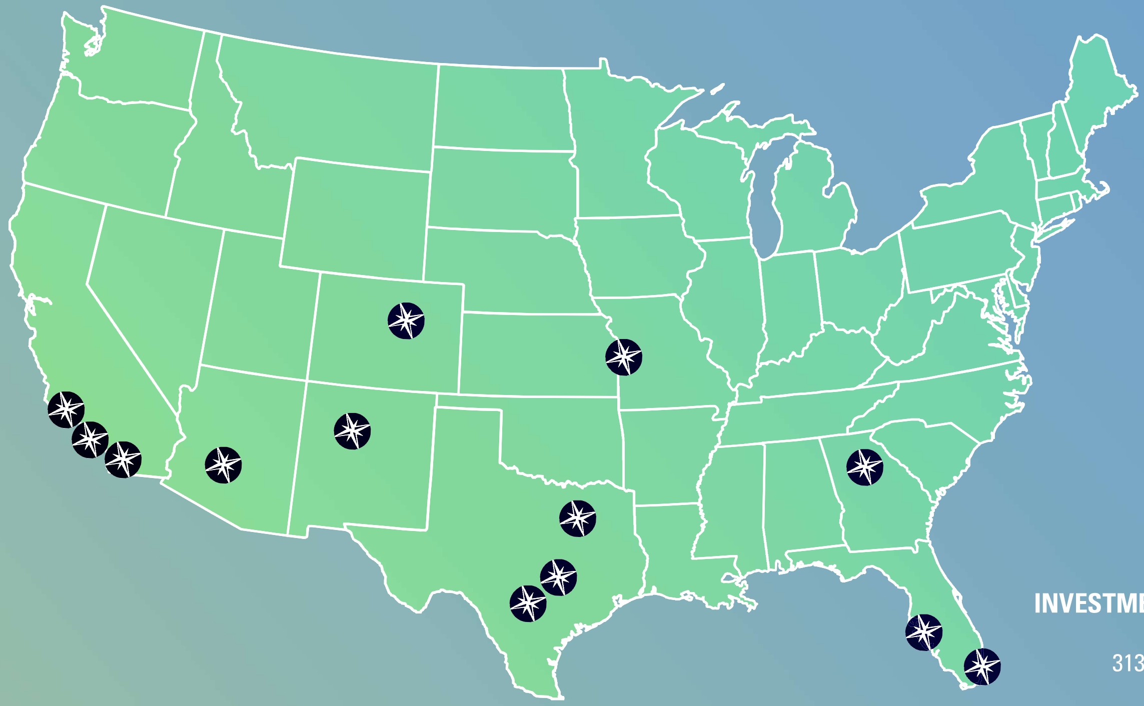


LOOKING AHEAD

While the market outlook today is brighter and has less uncertainty than in earlier months, the full impact of COVID-19 on the nation's economy and the multifamily sector remains unknown. The economy is reopening, which is an early step in a return toward normalizing operations. The temporary stimulus measures appear to have worked, employers are bringing back workers, and additional industries such as airlines and hotels expect to see their businesses resume in the second half of the year.

The greatest potential threat appears to be a second wave of the virus. There are already some signs that cases are on the rise across the South and Southwest, including in states such Florida, Texas, and Arizona, which could result in business closures as employees test positive. In addition, increases in positive tests could drag down sentiment, just as consumer demand had started roaring back.

Despite the ongoing challenges posed by the coronavirus, a repeat of the widespread, state-ordered business closures that occurred throughout the country in March and April is nearly guaranteed not to be reinstituted. Clinical drug trials for treatments or a vaccine are reported to be showing encouraging results, and if a vaccine can be developed, manufactured in mass quantities, and distributed, that would provide a tremendous boost to the economy going forward.



RESEARCH DEPARTMENT
PETE O'NEIL
DIRECTOR OF RESEARCH
602.508.2212
poneil@northmarq.com

INVESTMENT SALES HEADQUARTERS
PHOENIX OFFICE
3131 E CAMELBACK RD, SUITE 415
PHOENIX, AZ 85016

OUR LOCAL INVESTMENT SALES OFFICES

ALBUQUERQUE, NM
CYNTHIA MEISTER
VICE PRESIDENT | MARKET LEADER
505.219.0724
cmeister@northmarq.com

ATLANTA, GA
JASON NETTLES
MANAGING DIRECTOR | MARKET LEADER
678.954.4676
jnettles@northmarq.com

AUSTIN, TX
SCOTT LAMONTAGNE
MANAGING DIRECTOR | MARKET LEADER
512.450.6820
slamontagne@northmarq.com

DALLAS, TX
TAYLOR SNODDY
MANAGING DIRECTOR | MARKET LEADER
972.455.4928
tsnoddy@northmarq.com

DENVER, CO
DAVE MARTIN
MANAGING DIRECTOR | MARKET LEADER
303.225.2130
dmartin@northmarq.com

FT. LAUDERDALE, FL
ERROL BLUMER
SENIOR VICE PRESIDENT | MARKET LEADER
754.755.9286
eblumer@northmarq.com

KANSAS CITY, MO
JEFF LAMOTT
MANAGING DIRECTOR | MARKET LEADER
913.647.1640
jlamott@northmarq.com

LOS ANGELES, CA
BRYAN SCHELLINGER
MANAGING DIRECTOR | MARKET LEADER
424.422.0905
bschellinger@northmarq.com

NEWPORT BEACH, CA
SHANE SHAFER
MANAGING DIRECTOR | MARKET LEADER
949.270.3690
sshafer@northmarq.com

PHOENIX, AZ
TREVOR KOSKOVICH
PRESIDENT | MARKET LEADER
602.952.4040
tkoskovich@northmarq.com

SAN ANTONIO, TX
MOSES SILLER
MANAGING DIRECTOR | MARKET LEADER
210.281.8155
msiller@northmarq.com

ZAR HARO
MANAGING DIRECTOR | MARKET LEADER
210.281.5276
zharo@northmarq.com

SAN DIEGO, CA
KYLE PINKALLA
MANAGING DIRECTOR | MARKET LEADER
858.675.7865
kpinkalla@northmarq.com

TAMPA, FL
LUIS ELORZA
MANAGING DIRECTOR | MARKET LEADER
813.233.5207
lelorza@northmarq.com

NORTHMARQ