Commercial Valuation: 2021 the City and beyond

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Outline

- Market conditions
  - Sector themes
  - Cap rates
  - Data sources and critical assumptions
- COVID and valuations
- Vacancy policy – new in 2020, continues for 2021
  - New construction and lease up – as opposed to "vacancy"
- Why RPIE and Data Modernization is important

Polling Question #1

Which property type do you think will perform most favorably in 2021?

A. Office
B. Multifamily
C. Retail
D. Industrial
E. Hotel

Chicago Market Conditions

UNCERTAINTY

Office
> Sublet space

Multifamily
> Concessions

Retail
> Tale of essential vs. non
> Restaurants, "Medtail"

Industrial
> Ecommerce and lasting behaviors

Hotel
> Business and leisure travel
> Development and redevelopment

Special (data centers, affordable housing, venues)

Polling Question #2

Which property type do you think will take the longest to return to pre-pandemic levels?

A. Office
B. Multifamily
C. Retail
D. Industrial
E. Hotel

Polling Question #3

How long do you think it will take that asset class from Polling Question #2 to recover?

A. < 12 months

B. 12-24 months

C. 24-36 months

D. >36 months

E. New normal and it may not return to pre-pandemic levels
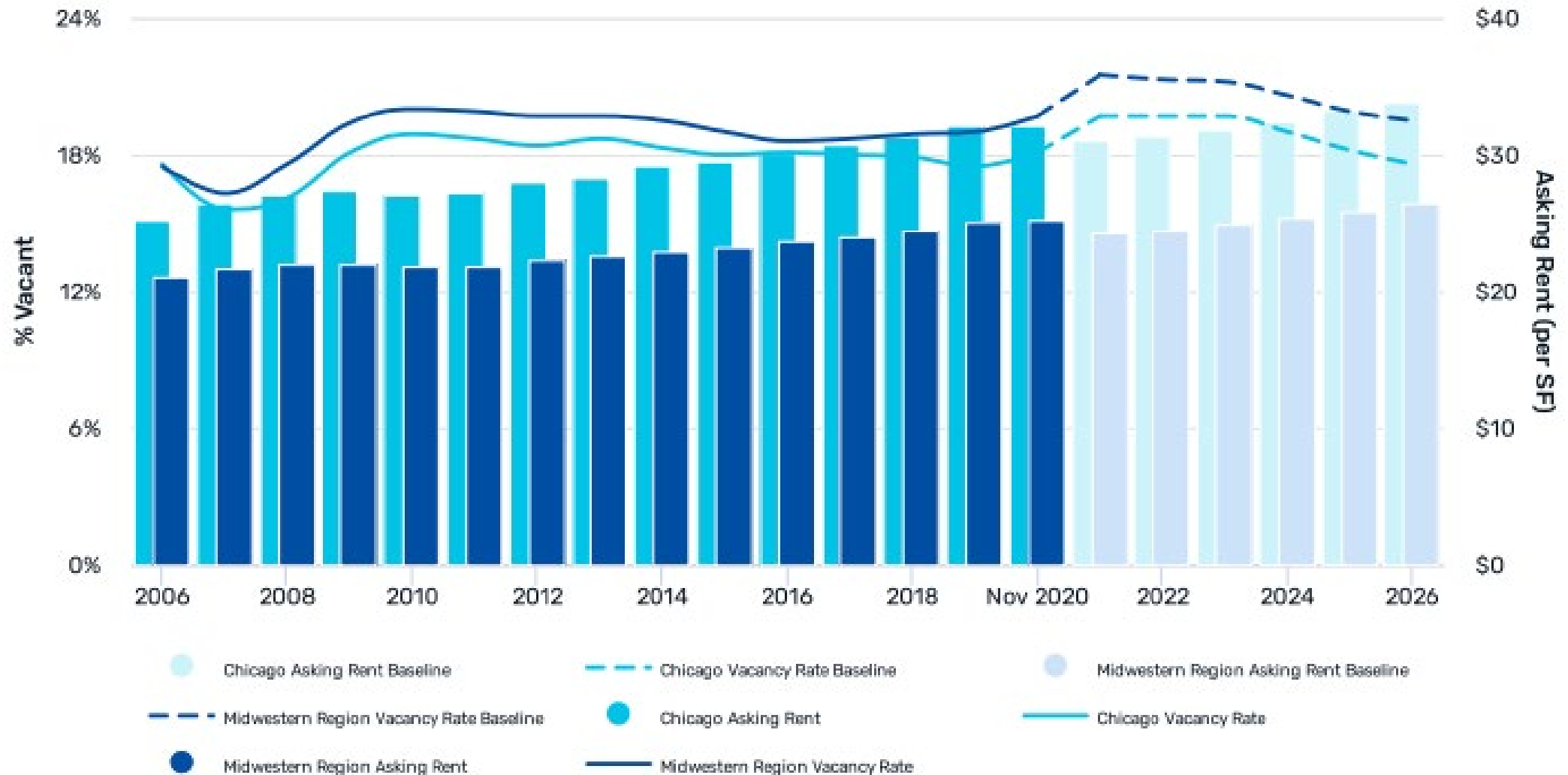
Chicago Market Conditions, Continued

Surveys and Publications

Office

Source				
	Office	CBD A	CBD B	
IRR (Chicago) 2021		5.50%	6.25%	
	CBD avg	First-Tier		
RERC (Chicago) 3Q2020	6.70%			
	CBD	Low	Avg	High
Realty Rates (National) 3Q2020		5.66%	8.77%	13.02%
	CBD	Low	Avg	High
PwC (National, Chi Office) 4Q2020		4.50%	7.61%	10.00%
	CBD	Low	Avg	High
CBRE Cap Rate Survey (Chicago) 3Q2020		6.00%	n/a	7.00%

Retail

Source	Retail	Reg Mall	Comm Ctr	Nbhd
IRR (Chicago) 2021		6.75%	7.50%	8.00%
		Reg Mall	Power Ctr	Nbhd
RERC (Chicago) 3Q2020		7.40%	7.30%	7.00%
	Ret All	Low	Avg	High
Realty Rates (National) 3Q2020		4.51%	8.52%	14.50%
	Avg	Reg Mall	Pow Ctr	Strip
PwC (National, Chi Office) 4Q2020		6.93%	6.68%	7.30%
	Ret All	Low	Avg	High
CBRE Cap Rate Survey (Chicago) 3Q2020		6.25%	n/a	7.25%

Industrial

Source	Industrial	Industrial - A	Flex - A	
IRR (Chicago) 2021		5.25%	8.25%	
	Whse avg	6.40%	First-Tier	
RERC (Chicago) 3Q2020	Flex avg	7.00%	First-Tier	
	Ind All	Low	Avg	High
Realty Rates (National) 3Q2020		4.42%	8.15%	13.34%
	Whse	Low	Avg	High
PwC (National, Chi Office) 4Q2020		3.40%	4.85%	7.00%
	Ind All	Low	Avg	High
CBRE Cap Rate Survey (Chicago) 3Q2020		4.40%	n/a	4.75%

Multi-Family

Source	Multi-Fam	Urban - A	Urban - B	
IRR (Chicago) 2021		4.75%	5.25%	
	Apt avg	First-Tier		
RERC (Chicago) 3Q2020	6.10%			
	Apts All	Low	Avg	High
Realty Rates (National) 3Q2020		3.91%	7.38%	12.77%
	Apt	Low	Avg	High
PwC (National, Chi Office) 4Q2020		3.50%	5.22%	8.00%
	Apts All	Low	Avg	High
CBRE Cap Rate Survey (Chicago) 3Q2020		4.25%	n/a	4.50%

Chicago Market Conditions: Office forecast (base case)

Source: Moody's Analytics, REIS

Asking Rent and Vacancy Trends: By Year per SF

Legend:
- Chicago Asking Rent Baseline
- Chicago Vacancy Rate Baseline
- Midwestern Region Asking Rent Baseline
- Midwestern Region Vacancy Rate Baseline
- Chicago Asking Rent
- Chicago Vacancy Rate
- Midwestern Region Asking Rent
- Midwestern Region Vacancy Rate

Chicago Market Conditions: Multifamily forecast (base case)

Source: Moody's Analytics, REIS

Asking Rent and Vacancy Trends: By Year per Unit

Chicago Market Conditions: Retail forecast (base case)

Source: Moody's Analytics, REIS

Asking Rent and Vacancy Trends: By Year per SF

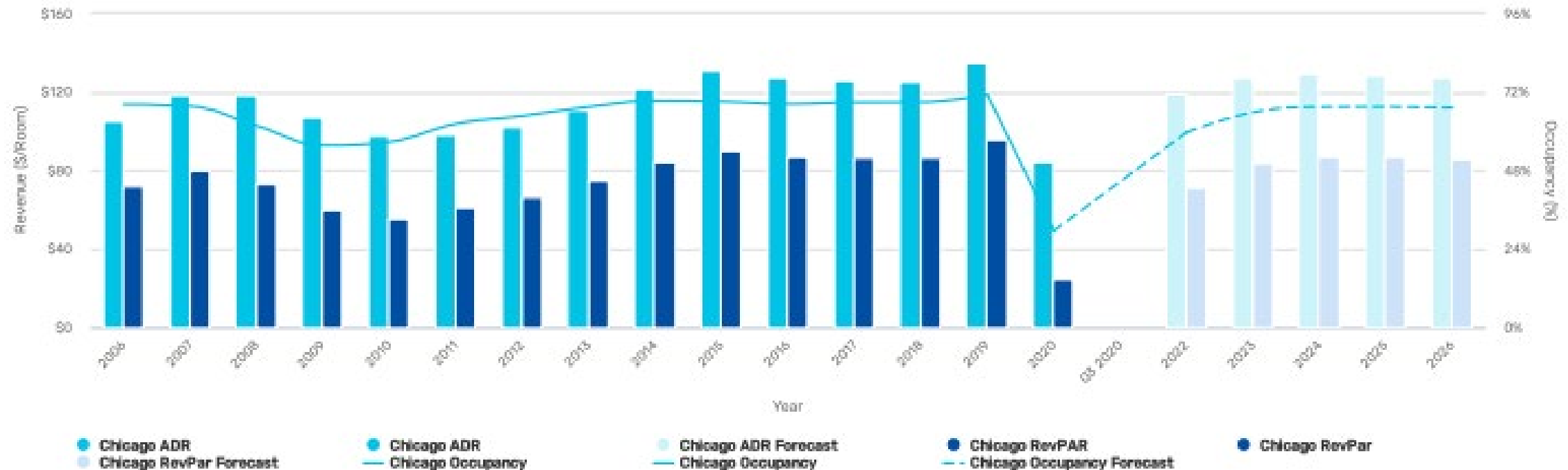# Chicago Market Conditions: Warehouse/Distribution forecast (base case)

Asking Rent and Vacancy Trends: By Year per SF
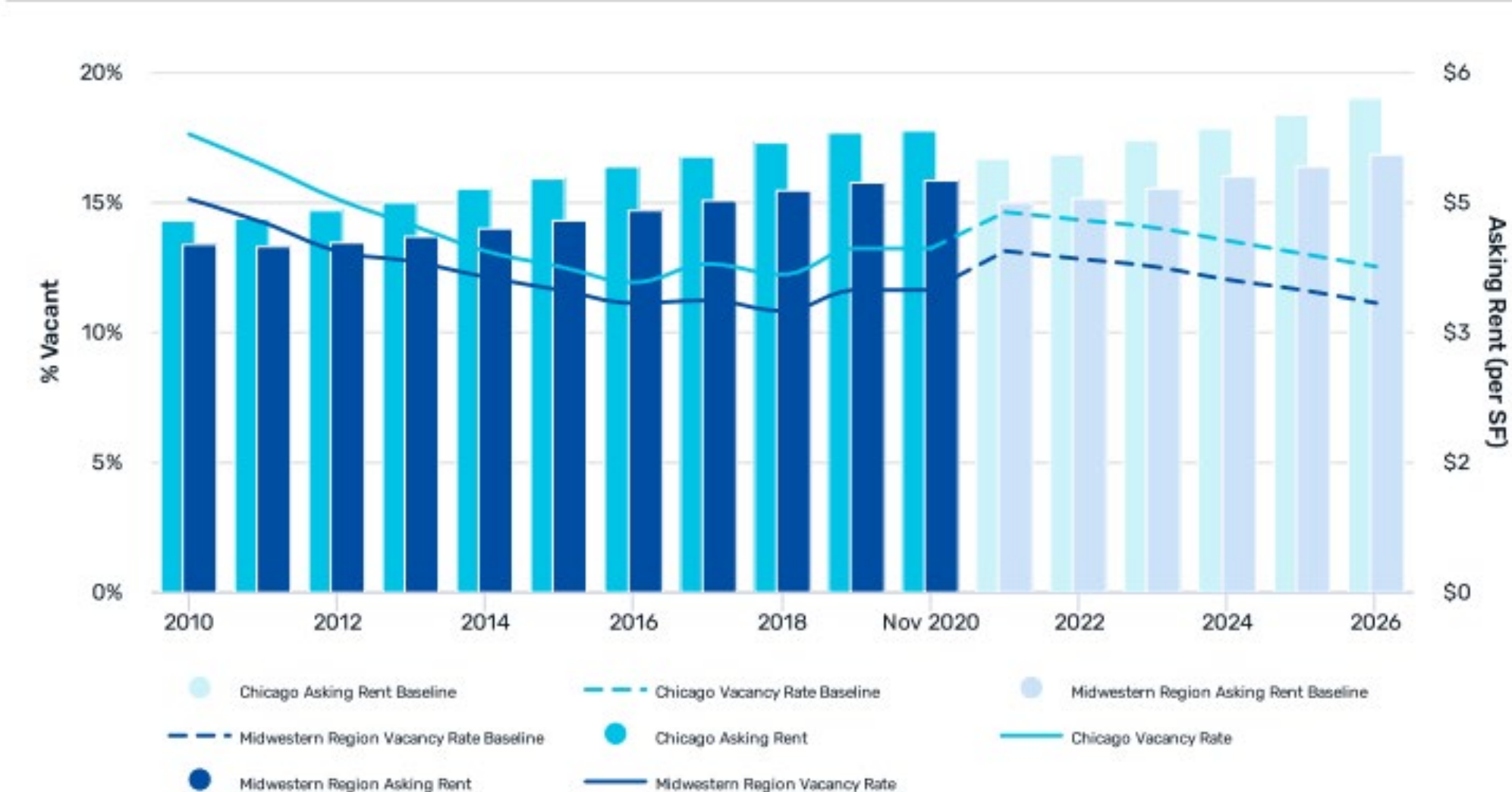
Chicago Market Conditions: Hotel forecast (base case)

Source: Moody's Analytics, REIS

Revenue and Occupancy Trends – All Tiers (as of Q3 2020)

COVID Implications in 2021

- Not likely to make explicit COVID adjustments
- Our approach will be to bake in current and future expectations into the assumptions
- Limitations of the direct cap approach vs. DCF

Vacancy Policy and New Construction

Vacancy policy for existing buildings
- Prior Office Vacancy policy has had a lot criticism
- Not reflective of the market value of a building in a less than full occupancy state
- Commissioners examining a policy of their own

Contrast with the approach for new construction, gut rehab, lease up period
- Here our need is **information**, as soon as it can be provided
- We can incorporate the lease up plan into our initial valuation for a new development

RPIE and Data Modernization

We have best-in-class data sources. We are performing mass appraisal. However, that does not mean we cannot get granular…and use more relevant market data.

With RPIE and better access to property level data we can:

- Better aggregate like kind properties

- Produce more accurate valuations

- Have the ability to identify outlier and unique valuation issues that require closer examination

- Create an entire pool of information

Apartment value modeling – again, we need data.

- A beta tool for 2021

- A great deal of sale data on the Institutional grade properties