

Covid-19 Hits Commercial Real Estate Market

First Half 2020 Highlights

- Commercial Real Estate Investment Sales volumes have been significantly impacted by COVID-19 during the second quarter of 2020, and Colliers expects that impact to continue for at least the remainder of 2020. Omaha has also been impacted, but COVID-19 has not hit Omaha as hard as many parts of the US. Omaha never formally went into “lockdown,” so Commercial Real Estate Investment Sales volumes in the first half of 2020 were down, but not to the same degree as the entire US.
- Much like the entire US, Omaha Investment Sales dropped significantly during the second quarter after beginning the year in strong fashion. Activity during the first quarter of 2020 was up 32% compared to first quarter of 2019, with total sales of \$339 million. However, once COVID-19 arrived, sales dropped significantly in the second quarter of 2020, which brought the total first half of 2020 Omaha Investments Sales to \$534 million. So while overall this is only a slight 3% decline from the first half of 2020, the effects of COVID-19 have hit Omaha and we expect investment sales to fall significantly during the second half of 2020.
- Omaha Investment Sales activity during the first half of 2020 was well diversified, with eight transactions over \$10 million. Out of those eight, there were two office transactions, two apartment transactions, two land transactions, a mobile home park and one retail transaction. Pricing continued to be strong for deals closed in the first quarter, and apartments continued to lead the way with the lowest cap rates.
- On a national basis, the investment market fell off a much steeper cliff, with second quarter 2020 sales down a whopping 68% compared to the second quarter of 2019. For the first half of 2020, US Investment Sales were down 30%, dropping to \$180 billion, versus the \$255 billion posted in the first half of 2019. Not surprisingly, we expect US investment Sales to continue to be down significantly during the second half of 2020.
- In terms of volume by sector in the second quarter, hotel sales

were down 91% year on year, retail was down 73% year on year, office was down 71% year on year, apartments were down 70% year on year, and industrial was down 50% year on year.

- For deals that did trade, pricing nationwide continued to be strong per Real Capital Analytics with prices up 3.6% year over year; and pricing up .1% for the second quarter of 2020. However, as the graph clearly shows, the pricing trend headed downward in the second quarter of 2020 and we expect pricing to fall for several asset classes including hotels and retail as those sectors continue to be hardest hit by COVID-19. Meanwhile, apartments and industrial warehouses continue to perform well, and pricing there is buoyed by aggressive financing terms for many deals.
- Overall the U.S. economy has been hit hard by COVID-19 with real GDP dropping an annualized 5% in the first quarter followed by a whopping 32.9% in the second quarter. On the good news front, the Philadelphia Federal Reserve’s Survey of Professional Forecasters predicts that the economy will grow on an annualized basis by 10.6% in the 3rd quarter and then by 6.5% in the fourth quarter.
- The Greater Omaha economy continues to be relatively strong overall with an unemployment rate of 6.5% in May of 2020 according to the Bureau of Labor Statistics. Importantly, that number is down significantly from the 10.2% in April of 2020 and is just under half of the national 13.3% reported or May of 2020. Similar to the last downturn in 2008, we expect Omaha to be less impacted than larger cities, many of which are experiencing much more difficult COVID-19 situations as well as social justice protests.

First Half 2020 Analysis

On a national basis, the US Commercial Real Estate Investment Sales market has been significantly impacted by COVID-19 during the first half of 2020. When compared to the first half of 2019, the US Commercial Real Estate Investment sales volume dropped by 30% from \$255 billion in 2019 down to \$180 billion in 2020. The impact on the second quarter of 2020 was even more pronounced with sales volume dropping by 68% from \$141 billion in 2019 down to \$45 billion in 2020. We expect sales volumes during the second half of 2020 to remain at low levels as the world and the US make our way through the COVID-19 pandemic.

For deals that did trade, pricing nationwide continued to be solid during the first half of 2020, but we expect that to change as the more recent deals show a downward trend in prices. For example, Real Capital Analytics shows prices up 3.6% year over year; and pricing up .1% for the second quarter of 2020. However, the pricing trend headed downward in the second quarter of 2020 and we expect

pricing to fall for several asset classes including hotels and retail as those sectors continue to be hardest hit by COVID-19. Meanwhile, apartments and industrial warehouses continue to perform well, and pricing there is buoyed by aggressive financing terms for many deals.

In terms of volume by sector in the second quarter, hotel sales were down 91% year on year, retail was down 73% year on year, office was down 71% year on year, apartments were down 70% year on year, and industrial was down 50% year on year. Frankly we expect the sales markets to continue to be stalled until there is more visibility regarding the impacts of COVID-19. Certainly, there will be some deals that trade on a distressed basis, but we expect most owners to take a wait-and-see approach until the effects of COVID-19 are more clearly known.

On the financing front, lenders have become more selective in their approach to both asset classes and individual assets. On one end of the spectrum hotel loans are hard to come by as lenders are more concerned about existing hotel loans than booking new ones. On the other end of the spectrum are apartments which continue to have ample access to low rates and aggressive terms primarily Fannie Mae and Freddie Mac. But even for apartments Fannie Mae and Freddie Mac instituted COVID-19 principal and interest reserves in the second quarter of 2020, but have since largely backed away from those. Meanwhile, interest rates have dropped as the 10-year treasury rate has fallen precipitously to just under .60% after beginning 2020 at 1.88%. This drop is not surprising given the market's flight to safety and the Federal Reserve and US Government in general taking unprecedented steps in an attempt to thwart the economic impact of COVID and associated shutdowns.

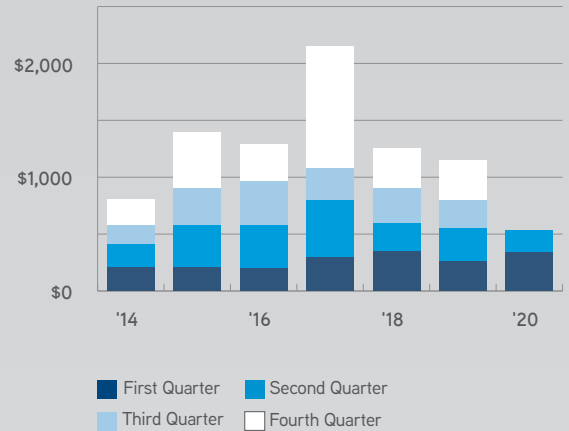
Overall the U.S. economy has been hit hard by COVID-19 with real GDP dropping an annualized 5% in the first quarter followed by a whopping 32.9% decline in the second quarter according to the US Bureau of Economic Analysis. On the good news front, the Philadelphia Federal Reserve's Survey of Professional Forecasters predict that the economy grow on an annualized basis by 10.6% in the 3rd quarter and then by 6.5% in the fourth quarter. As a whole, the U.S. economy remains fundamentally sound and well positioned to rebound if the country can get past COVID-19.

Similar to the US as a whole, Omaha Investment Sales dropped significantly during the second quarter after beginning the year in strong fashion. Activity during the first quarter of 2020 was up 32% compared to first quarter of 2019, with total sales of \$339 million. However, once COVID-19 arrived, sales dropped significantly in the second quarter of 2020, which brought the total first half of 2020 Omaha Investments Sales to \$534 million. So, while overall there was only a slight 3% decline from the first half of 2020, the effects of COVID have hit Omaha and we expect investment sales to fall significantly during the second half of 2020.

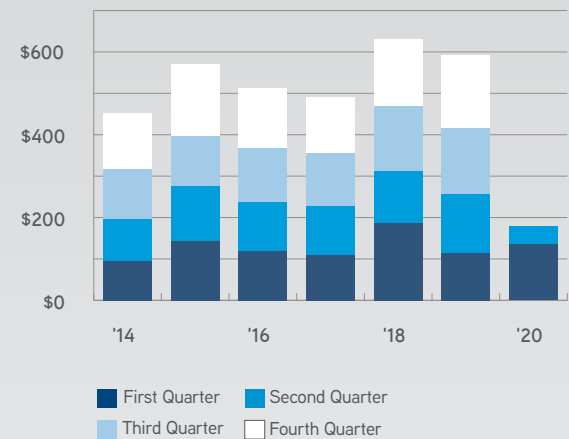
In terms of done deals, Omaha Investment Sales activity during the first half of 2020 was well diversified, with eight transactions over \$10 million. Leading the way was the \$40 million sale of the Village Pointe Cancer Center building, the \$30 million sale of Maplewood Estates Mobile Home Park, and the \$29 million sale of The Apex at Twin Creek apartments. Pricing continued to be strong for deals closed in the first quarter, and apartments continued to lead the way with the lowest cap rates.

The Greater Omaha economy continues to be relatively strong overall with an unemployment rate of 6.5% in May of 2020 according to the Bureau of Labor Statistics. Importantly, that number is down significantly from the 10.2% in April of 2020 and is just under half of the national 13.3% reported or May of 2020. In raw numbers, Greater Omaha had a net decrease of 9,400 employed workers compared to the same period in 2019 according to the Chamber of Commerce. For the time being, wages remain strong with average private hourly wages up 5.5% compared to the prior year. That being said, much of the near-term future direction of the Greater Omaha economy will depend on COVID-19 and COVID-19 related impacts, many of which are yet to be fully reflected in the aforementioned numbers. Similar to the last downturn in 2008, we expect Omaha to be less impacted than larger cities, many of which are experiencing much more difficult COVID situations as well as social justice protests.

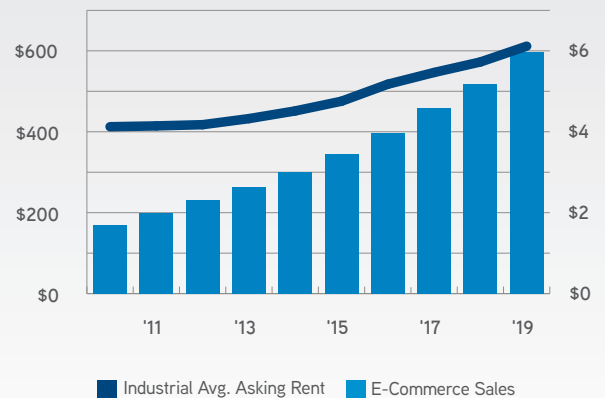
Investment Activity Omaha Quarterly Activity (in Millions)



National Quarterly Activity (in Billions)

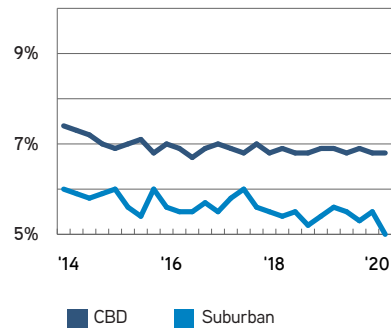


U.S. E-Commerce Sales vs Industrial Market Average Asking Rent (in Billions)



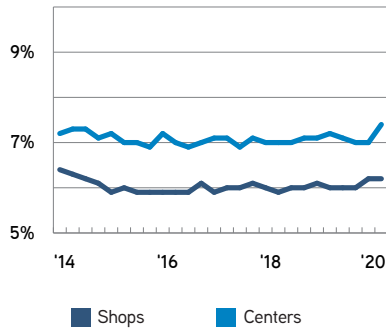
OFFICE CAP RATES

Quarterly



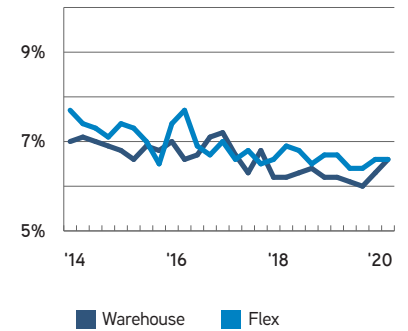
RETAIL CAP RATES

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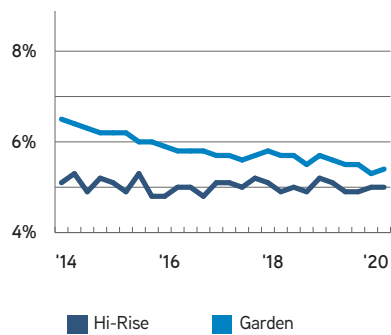
INDUSTRIAL CAP RATES

Quarterly



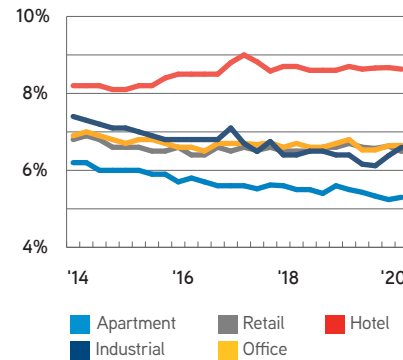
APARTMENT CAP RATES

Quarterly



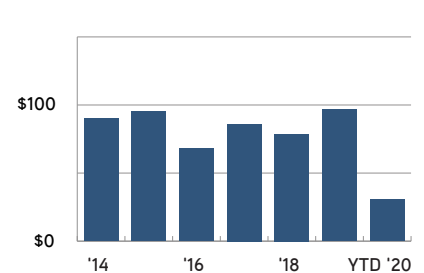
CAP RATES - ALL PROPERTY TYPES

Quarterly



U.S. CMBS ISSUANCE

(in Billions)



Recent Transactions - SALE ACTIVITY

Buyer	Seller	Property	Sale Price	Units/Price Per Unit or SF/Price Per SF
Noddle VP1 LLC	WVP Medical Building LLC	Village Pointe Cancer Center	\$40,000,000	\$554.57
Maplewood Estate MHC Holdings LLC	Maplewood Spaulding Plaza LLC	Maplewood Estates Mobile Home Park	\$30,135,000	\$75,716
Trailside Property LP	Trailside Apatments LLC	The Apex at Twin Creek	\$29,100,000	\$121,250
Raven Northbrook LLC	Keyes Enterprises LP	Highway 50 & Fairview Road, 298-acres	\$19,070,696	\$1.47
Deancurt Papillion LLC	Papillion Apartments LP	Meridian Club Apartments	\$17,200,000	\$81,132
HNLR Omaha Holdings LLC	Omaha Headquarters Venture Dst	10826 & 10842 Farnam Drive	\$15,500,000	\$125.95
Westroads Anchor Acquisition LLC	Realty Trust Group Inc Tr	Former Youngers	\$13,000,000	\$74.60
Spirit Realty LP	Cornhusker Development LLC	Insurance Auto Auctions	\$11,347,405	\$683.99

68 countries

\$3.5

billion in
annual revenue

2.0

billion square feet
under management

15,000

professionals
and staff

\$129

billion in
total transaction value

*All statistics are for 2019, are in U.S. dollars and include affiliates.

MARKET CONTACT:

Melissa Torrez
Director of Market Research | Omaha
+1 402 763 1744
melissa.torrez@colliers.com

CONTRIBUTORS:

Ed Fleming | Executive Vice President, Principal

CONTACT US:

Colliers International | Omaha
6464 Center Street, Suite 200
Omaha, Nebraska | USA

+1 402 345 5866



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