

# THE 3 R's

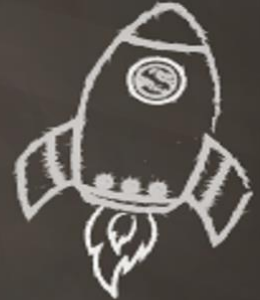
## COMMERCIAL VALUATION IN A PANDEMIC LANDSCAPE



**REINVENT**



**RECHARGE**



**REIGNITE**

Ted C. Jones, PhD  
Chief Economist SVP



# Takeaways

- *déjà vu* All Over Again
- Accelerating Pre-Existing Trends
- Leading Indicator of Values:  
Sales Volume

# “It’s All About Jobs”

Ted C. Jones, PhD *Most Used Axiom*

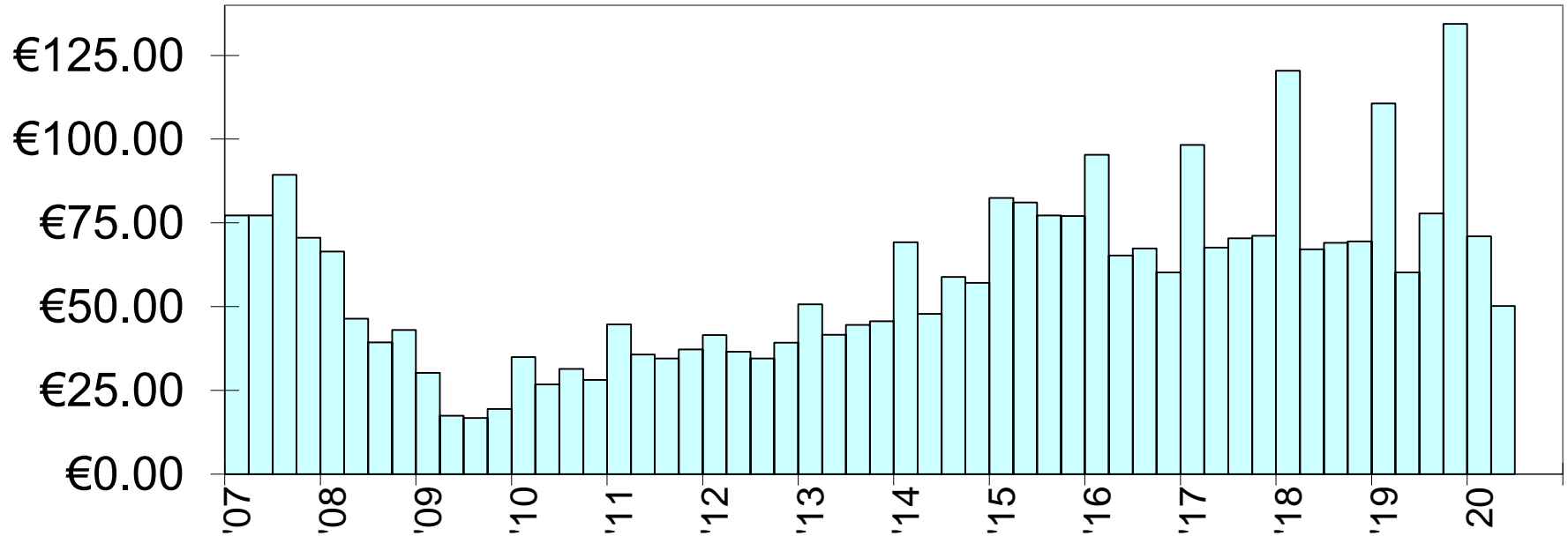
# EU Employment

Jobs – Millions *Not Seasonally Adjusted*



# EU Commercial Real Estate Sales

€ Billions



# EU Commercial Real Estate Sales

Comparisons to  
Same Quarter 2007

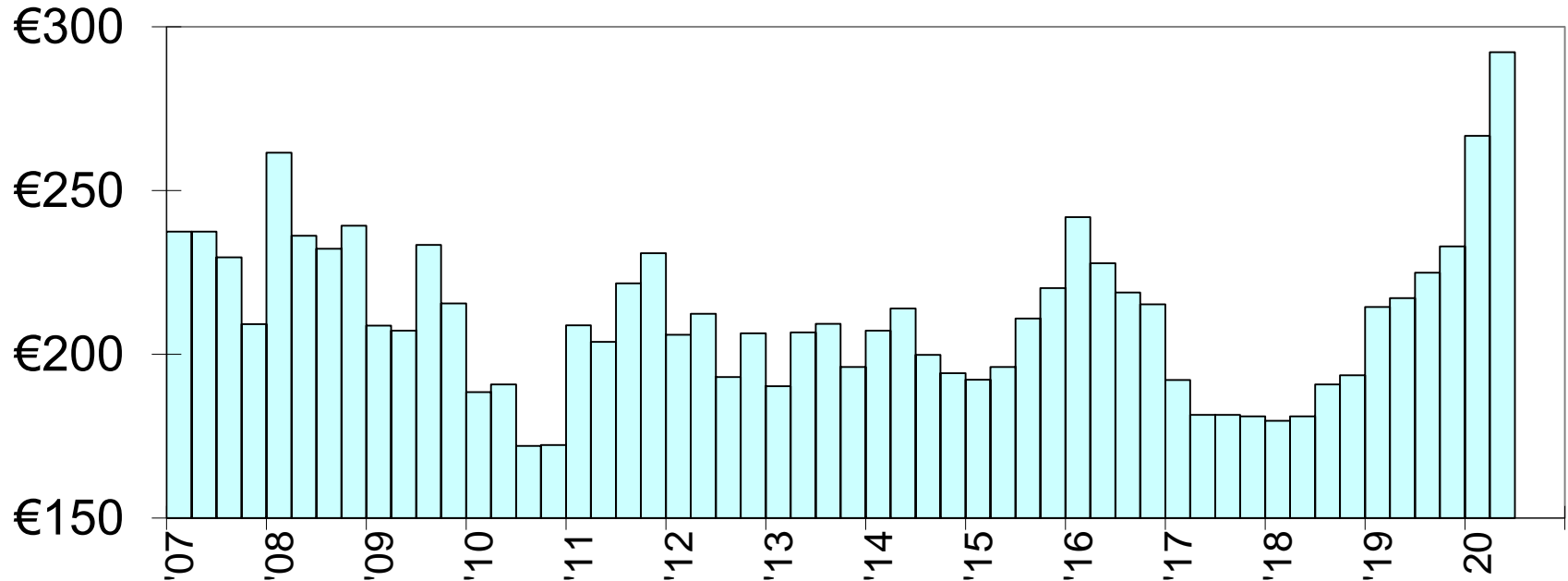
## € Billions

'07	€ 77.2	
	€ 89.3	
	€ 70.5	
	€ 66.4	
'08	€ 46.4	-40%
	€ 39.3	-49%
	€ 43.0	-44%
	€ 30.2	-61%
'09	€ 17.4	-77%
	€ 16.7	-78%
	€ 19.4	-75%
	€ 34.9	-55%
'10	€ 26.8	-65%

**-32%**  
**Q2 2020**

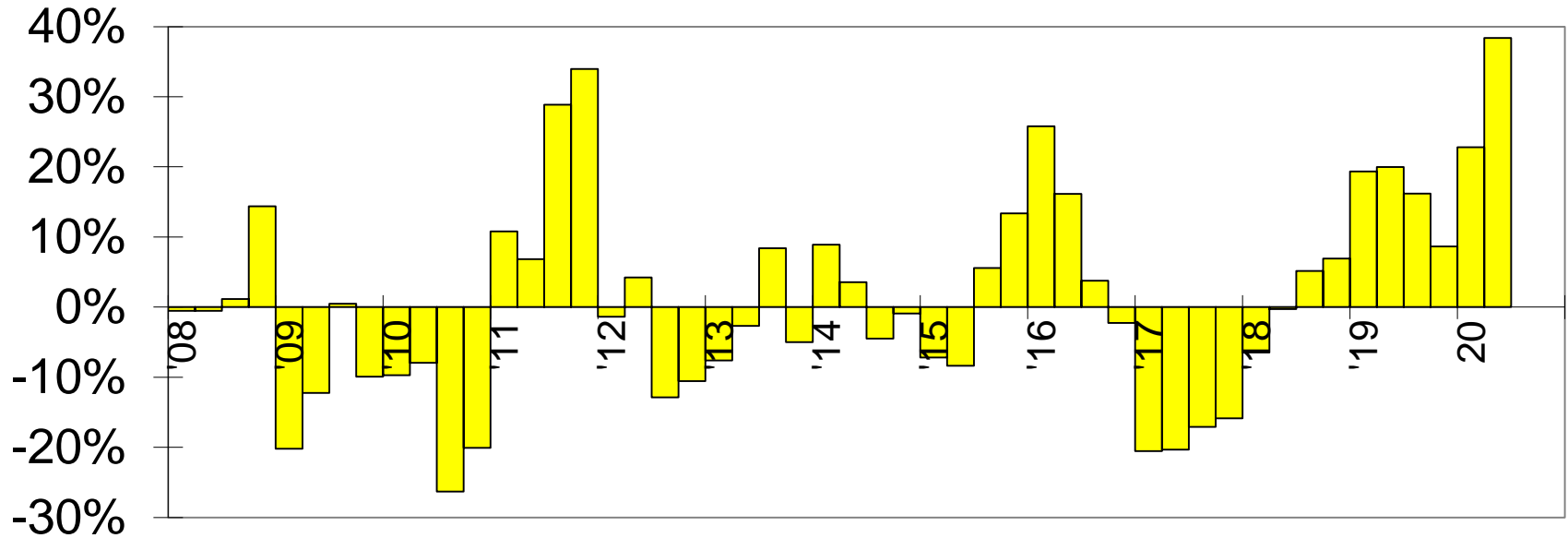
# EU Average Hotel Room Sale Price

€ Thousands



# EU Average Hotel Room Sale Price

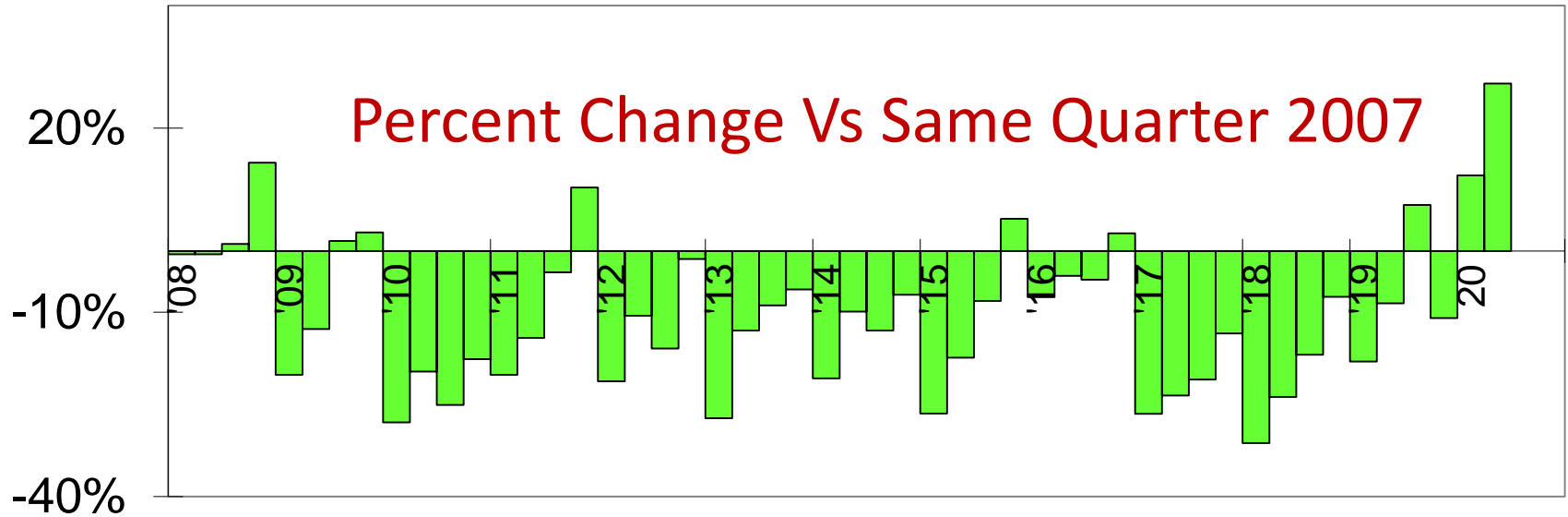
*Percent Change Vs Prior Year*





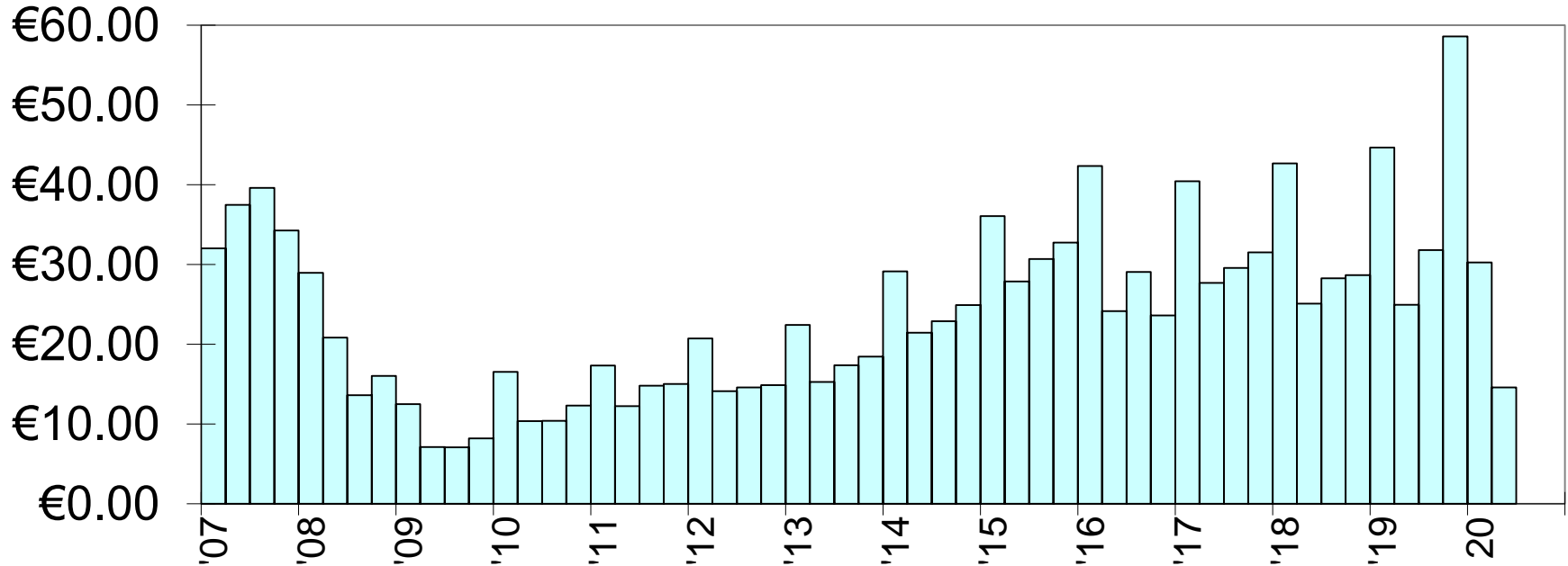
# EU Average Hotel Room Sale Price

*Percent Change Vs Same Quarter 2007*



# EU Office Real Estate Sales

€ Billions – *Trailing 12 Months*



# EU Office Real Estate Sales

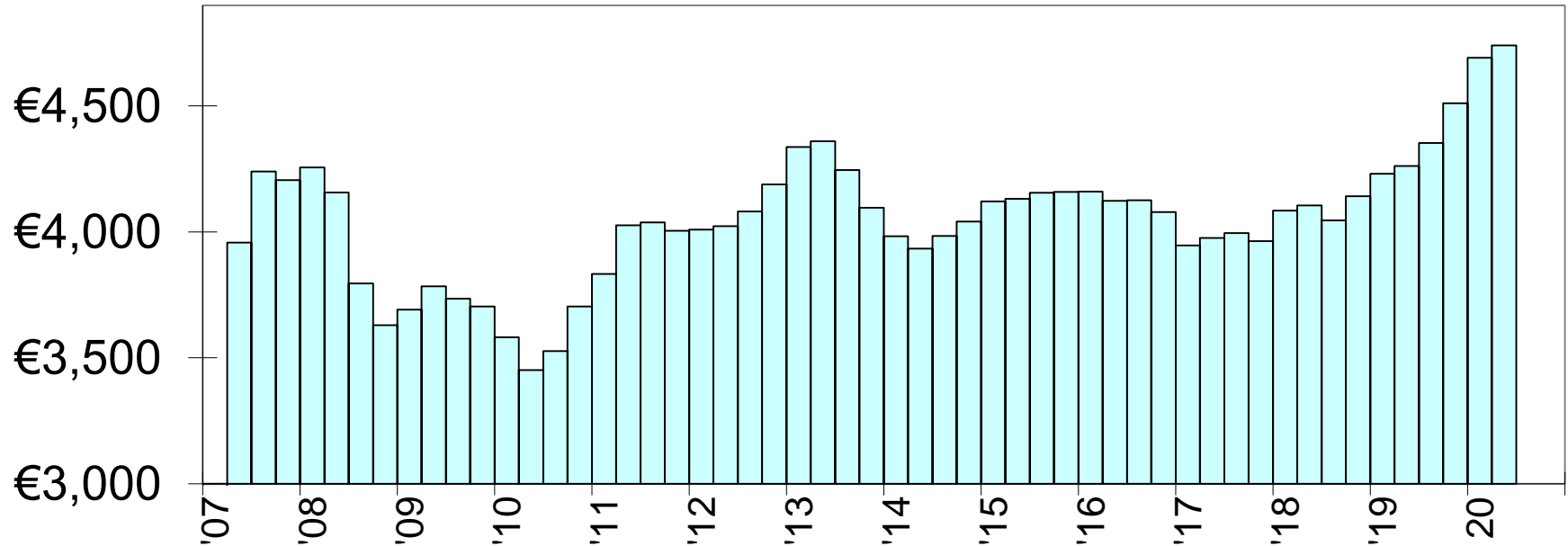
Comparisons to  
Same Quarter 2007

€ Billions		
'07	€ 20.8	
	€ 13.6	
	€ 16.0	
	€ 12.5	
'08	€ 7.1	-66%
	€ 7.1	-66%
	€ 8.2	-61%
	€ 16.5	-21%
'09	€ 10.3	-50%
	€ 10.4	-50%
	€ 12.3	-41%
	€ 17.3	-17%
'10	€ 12.2	-41%

-51%  
Q2 2020

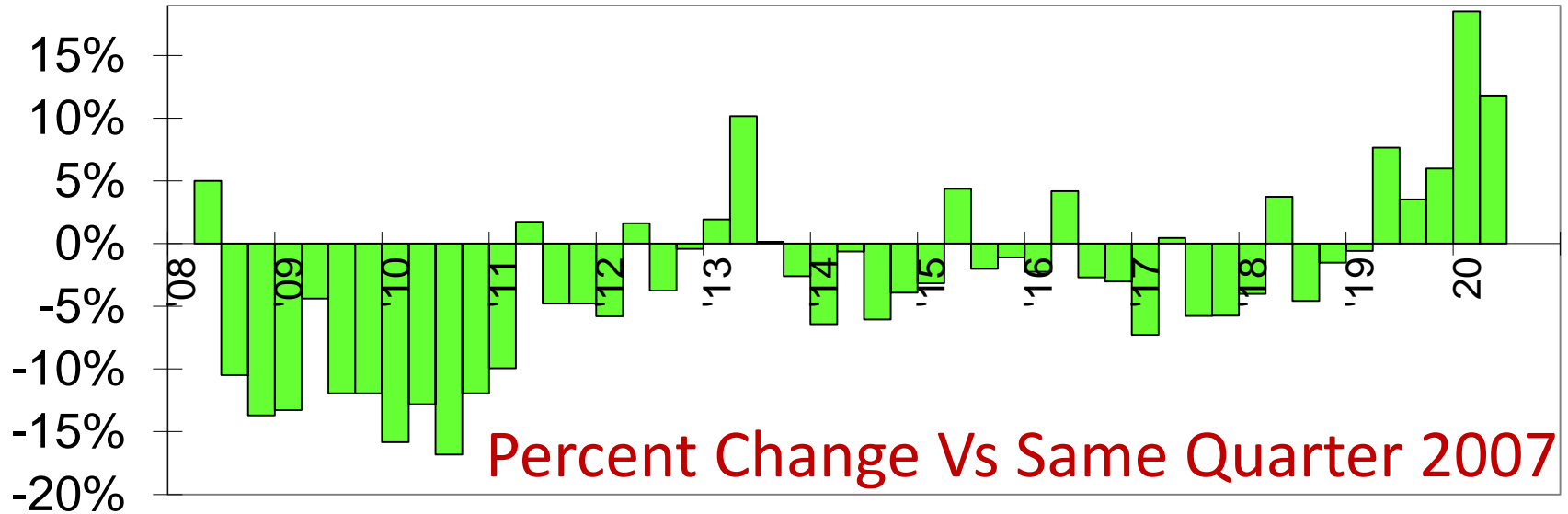
# EU Office Average Price Per MSqr

€ Thousands



# EU Average Office Sales Price Per MSqr

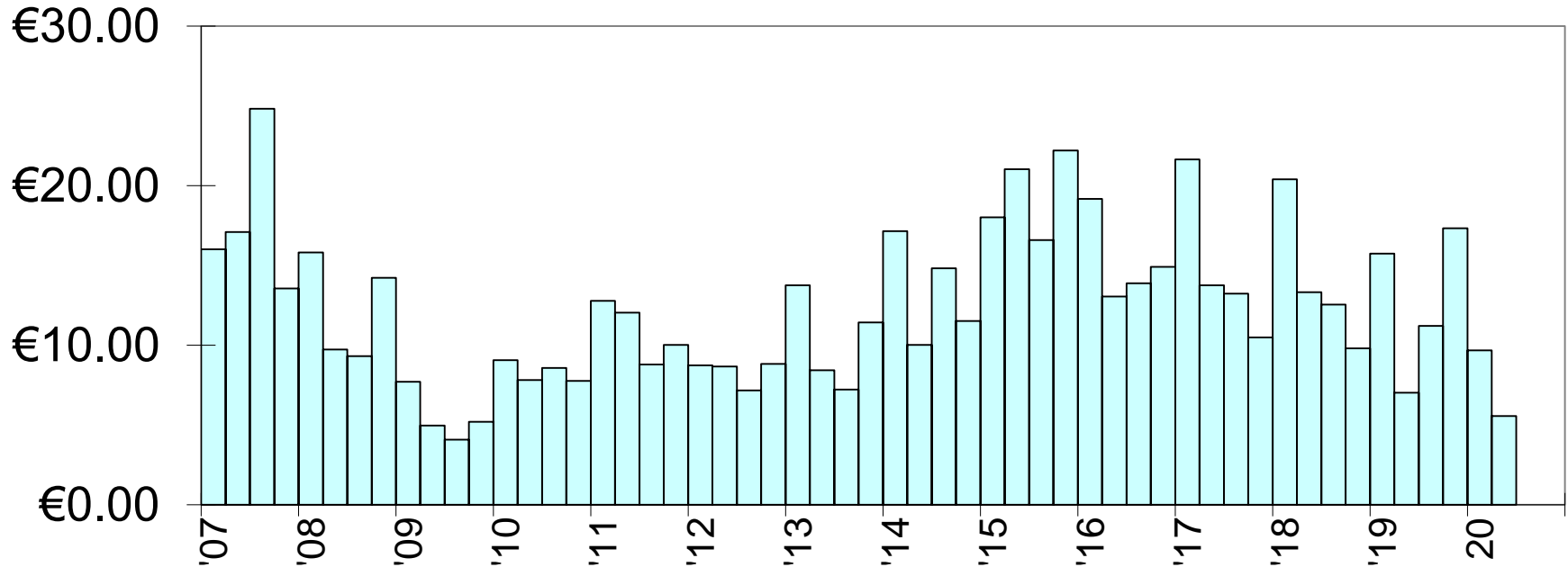
*Percent Change Vs Same Quarter 2007*



Percent Change Vs Same Quarter 2007

# EU Retail Real Estate Sales

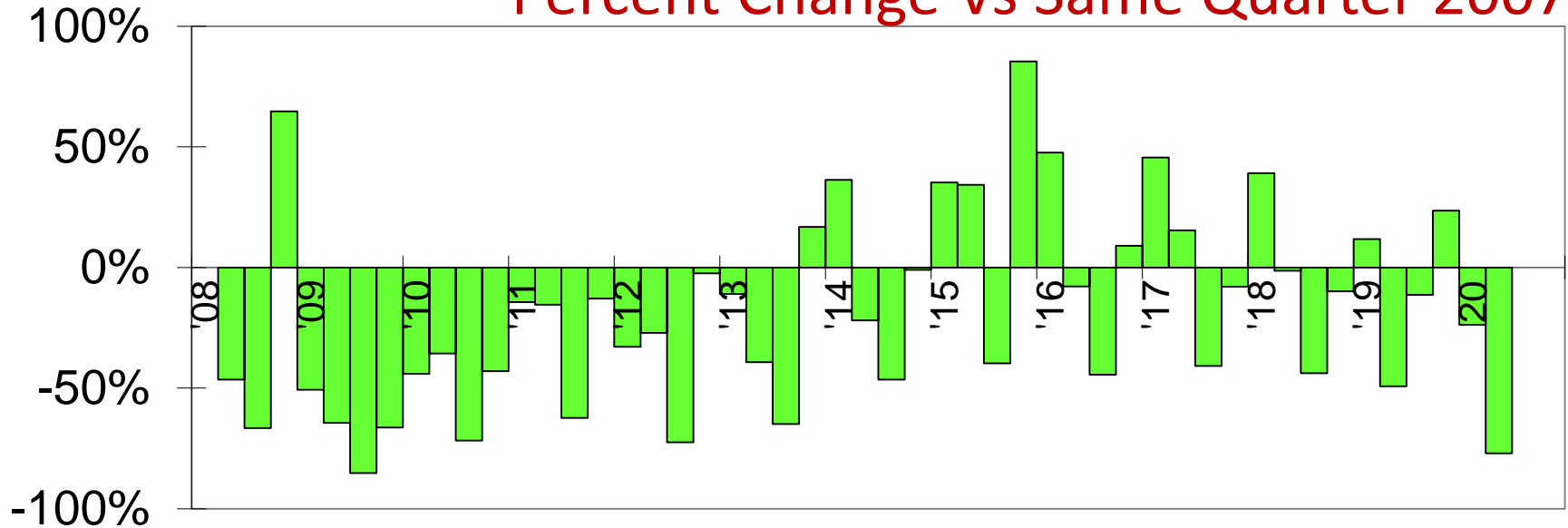
€ Billions



# EU Average Retail Sales Price Per MSqr

*Percent Change Vs Same Quarter 2007*

Percent Change Vs Same Quarter 2007



# Value Impacts – Commercial Real Estate

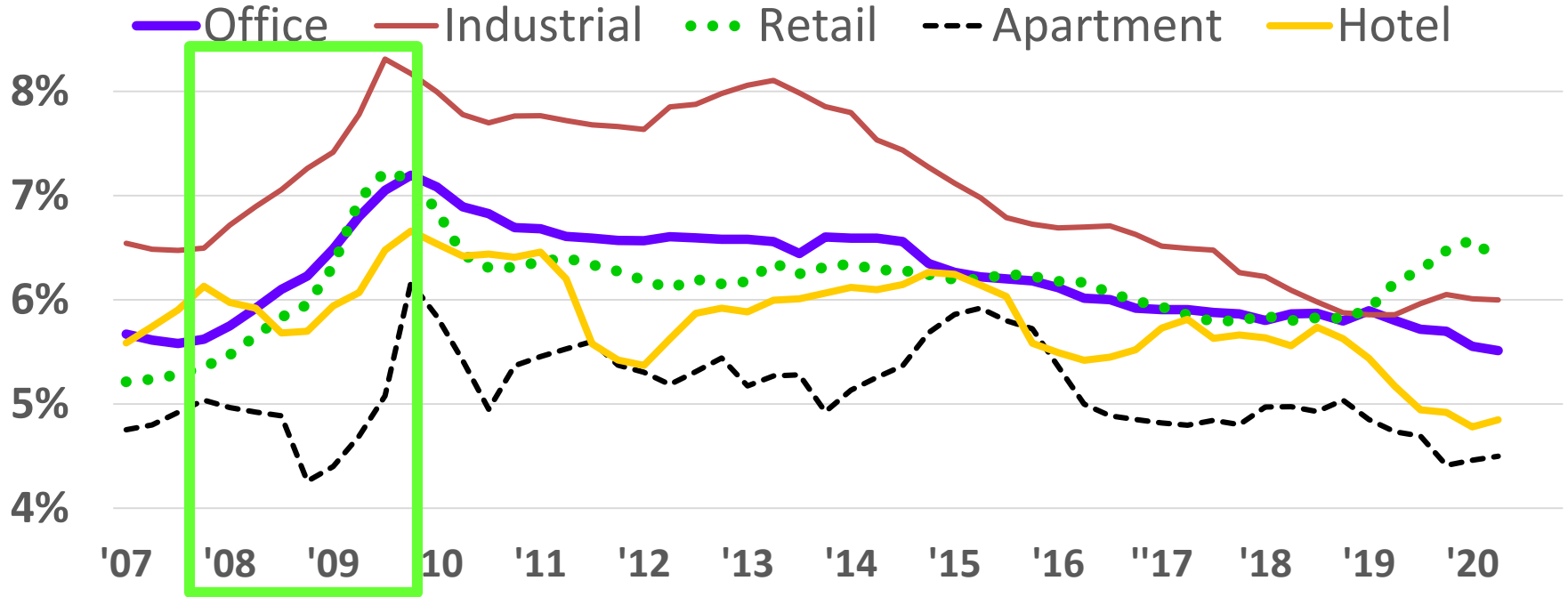
- **Cap Rates – Risk Component**
- **Demand – Rent Component**
- **Vacancy & Collection Loss**

$$\text{Value} = \frac{\text{Income}}{\text{Cap Rate}}$$



# EU Average Cap Rates

Cap Rate

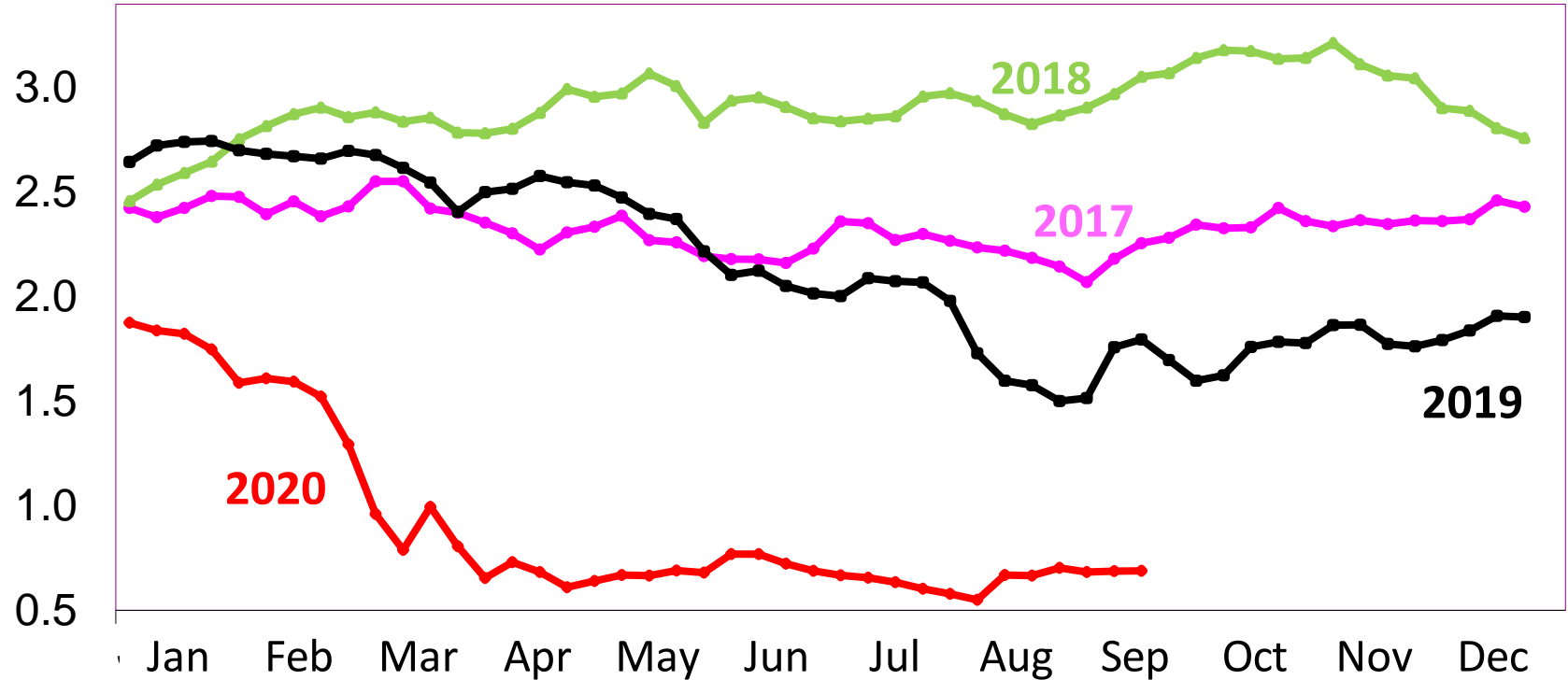


# Capitalization Rate Change Impact Alone on Value 2007 - 2009

	Average Cap Rates		Basis	Implied
	2007 Minimum	2009 Maximum	Points Increase	Value Decline
Office	5.6%	7.2%	161.60	-22.5%
Industrial	6.5%	8.3%	183.69	-22.1%
Retail	5.2%	7.2%	201.41	-27.9%
Apartment	4.8%	6.2%	141.35	-22.9%
Hotel	5.6%	6.7%	107.30	-16.1%

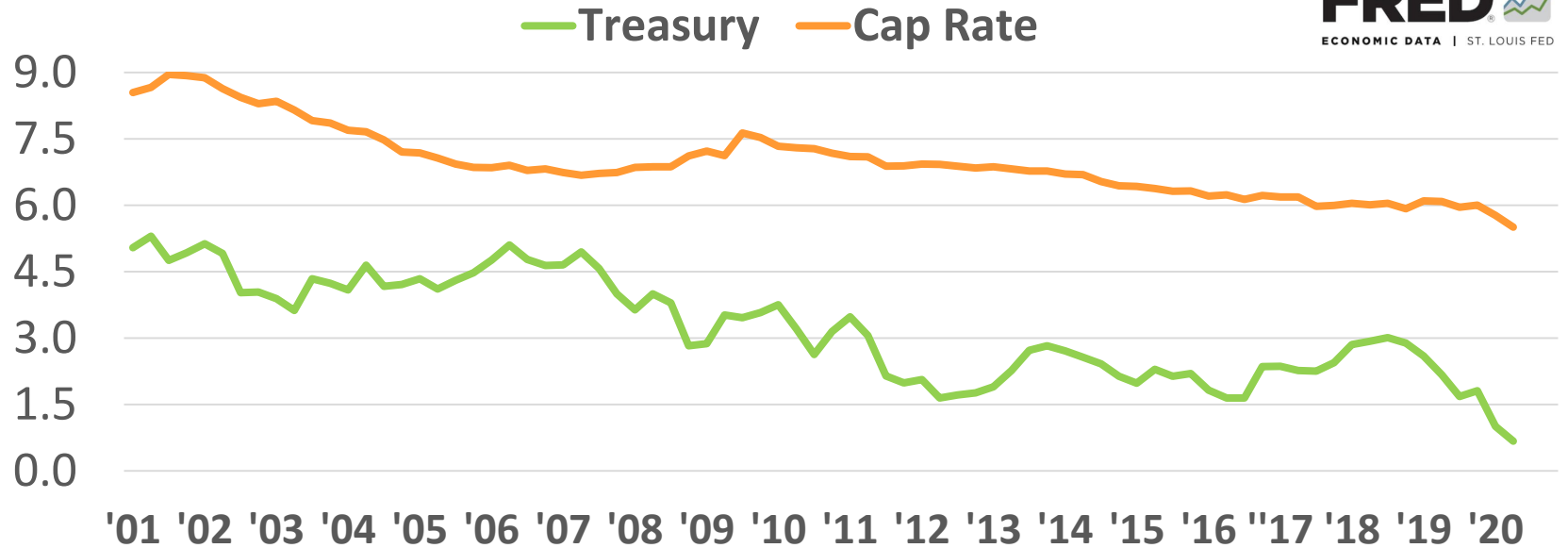
# 10-Year Treasury Rates

Percent



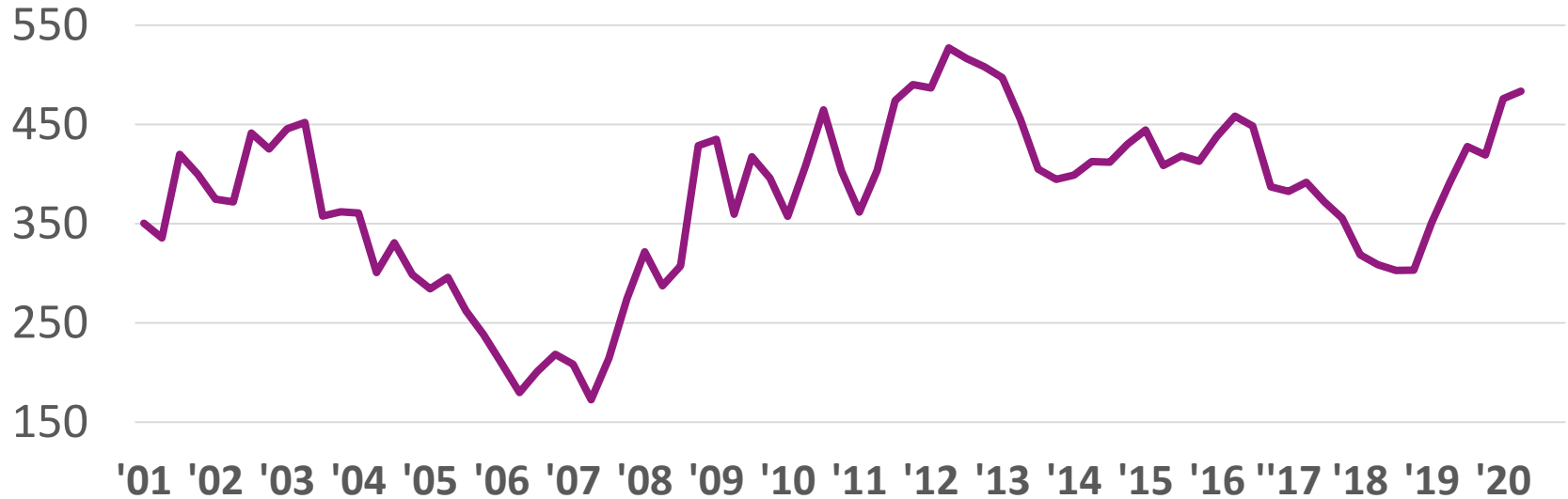
# U.S. 10-Year Treasury Yield Vs Cap Rates

Percent



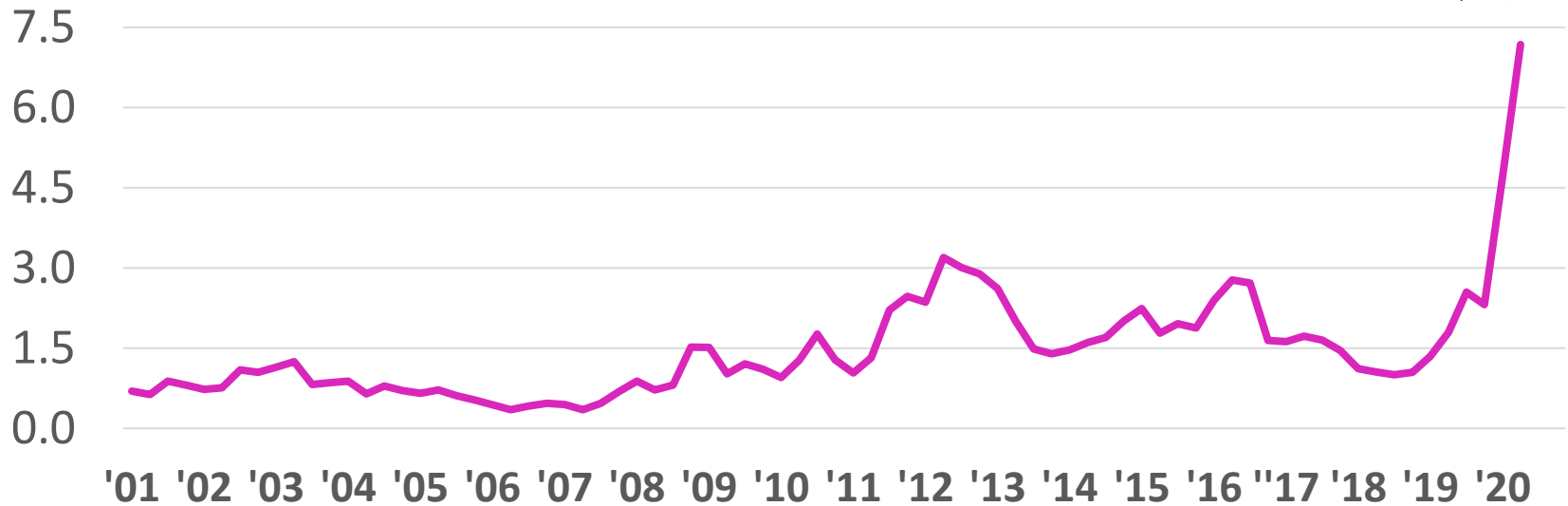
# U.S. 10-Year Treasury Yield-Cap Rates Spread

Spread – Basis Points






# U.S. 10-Year Treasury Yield-Cap Rates Spread

Spread – As a Multiple of 10-Year Treasury



# Commercial Property Price Index

## Green Street Pan-European CPPI: Sector-Level Indexes

October 2020	Local Currency Index Value	Euro Denom. Index Value	Change in Comm. Prop. Value (Local Currency)		
			Past Month	Past 3 Mos	Past 12 Mos
 Industrial	146.5	142.1	0.1%	2.6%	8.8%
 Office	129.6	127.7	0.1%	1.4%	-0.2%
 Retail	74.9	73.6	-0.7%	-1.5%	-20.3%
<b>Core Sector Average*</b>	113.1	110.7	-0.2%	0.8%	-4.4%



# 2021 Economic Outlook

*Ted's Take*

**Record Low Interest Rates – *No Place But UP!***

**Long Term Valuation Issues *i.e. Hotels Post 2008***

*Demand for Office & Retail Down Permanently*

*Industrial Up Permanently*

*Coronavirus Merely Accelerated Existing Trends*



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# OF REAL ESTATE AND THE ECONOMY



**REINVENT**



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