



# Real Estate Advisory Group

## Update: COVID-19 and the Impact on The Real Estate Market

DUFF & PHELPS

REAL ESTATE ADVISORY GROUP

A **KROLL** BUSINESS

March 30, 2021

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# 01

Speakers



# Ross Prindle

Managing Director and Global Head of the Real Estate Advisory Group



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## OVERVIEW

Ross is a Managing Director and Global Head of the firms' [Real Estate Advisory Group](#). Ross is primarily focused on real estate consulting for corporate clients, pension funds, private equity firms, hedge funds, money center banks and real estate investment trusts (publicly traded and non-traded). He oversees teams that perform [Financing and Debt Advisory](#), [Hospitality Advisory Services](#), [Property Asset Management and Optimization](#), and [Real Estate Valuation](#) as well as the [Investment Advisory Team](#). Ross has a distinct competency to complete large multi-property, multi-national & global valuation engagements. Ross has also had several engagements for financing and litigation support purposes.

Ross has also completed many engagements for financial reporting and tax purposes including valuations for ASC 805/350 purchase accounting, Lease Accounting, IRS Section 338 (h) (10) elections, IRS Section 1.897-1(b) foreign ownership of real property, IRS Section 861 transfer pricing, FAS 150 and FIN 46 and other tax and financial accounting purposes.

## BACKGROUND

Ross has been a valuation consultant since 1988. His most recent work experience prior to Duff & Phelps is the Managing Director in-charge of the Real Estate Valuation and Consulting Practice at Standard & Poor's. Before he worked at S&P, Ross was a Midwest partner in the real estate valuation and consulting practice for Arthur Andersen LLP.

Ross received his M.B.A. in finance from Kellstadt Graduate School of Business at DePaul University and his B.S. in real estate and urban planning from the University of Illinois at Champagne/Urbana. He is a certified general real estate appraiser in Illinois & California, a member of the Appraisal Institute (MAI designation #10614), the Counselors of Real Estate, and the FRICS member of the Royal Institute of Chartered Surveyors. Ross is also an active participant of the Valuation Committee at the National Council of Real Estate Investment Fiduciaries (NCREIF). Ross has also spoken several times on hot accounting topics at the NAREIT Law & Accounting Conference Accounting Committee and the Investment Program Association.

# Dan Carlson

Managing Director, Real Estate Advisory Group



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## OVERVIEW

Dan Carlson is a managing director in [Real Estate Advisory Group](#), based in the [Houston](#) office. Dan leads the firm's bank financing appraisal industry focus and has over 13 years of real estate valuation and development experience. He also leads the firm's right of way services division, with a focus on electrical transmission and pipeline easements.

Dan is primarily focused on real estate appraisal and consulting for lending institutions and publicly-traded REITs. His appraisals have been used for collateral, lending, financial reporting, portfolio valuation, internal planning and decision making purposes. Dan is uniquely skilled in executing large-scale portfolio appraisals across the national platform and has led engagements consisting of single-property assets and portfolios in excess of 500 properties. His specialty areas include franchise restaurants, gas stations/c-stores, hospitality and multi-family. Dan has extensive experience valuing both the going concern and the fee simple real property in these specialty areas.

## BACKGROUND

Dan's clients include leading financial institutions involved in balance sheet lending and CMBS securitizations and he also has several client's in the REIT sector. Dan is accredited and approved to perform going concern appraisals in conjunction with the SBA lending requirements.

Dan received his master's degree in real estate from the University of Florida and his B.S. in regional development from the University of Arizona. Dan is a designated member of the Appraisal Institute and is a state-certified general real estate appraiser in many states throughout the Southern U.S. and Mid-Atlantic.

# James Gavin

Managing Director, Real Estate Advisory Group



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## OVERVIEW

Jim Gavin is a managing director in the San Francisco office and is part of the [Real Estate Advisory Group](#). Jim leads real estate services on the West Coast, which specializes in consulting and valuation assignments. He has more than 30 years of experience in the real estate industry.

Jim is primarily focused on real estate valuation and consulting for institutional owners/operators of real estate in the Bay Area. He has worked throughout the United States, along with completing international valuation and lease review projects in Europe, Asia and South America. He primarily works with owners of core property types on the investment side and special use facilities on the corporate side.

In addition to core property-like office, industrial and retail, Jim's engagement highlights include special purpose valuations in technology (data centers, clean room fabrication), financial institutions (bank branches), government oriented (courthouses, military bases) and development land (masterplanned communities).

## BACKGROUND

Jim has been an appraiser and consultant for over 30 years. His most recent work experience prior to Duff & Phelps was as a managing director of the Real Estate Valuation and Consulting Practice at Standard & Poor's (S&P). Before he worked at S&P, Jim was the West Coast principal-in-charge of real estate valuation and consulting practice for Arthur Andersen LLP.

Jim received his B.B.A., with an emphasis in real estate and urban economics, from the University of Wisconsin and has taken advanced level courses in statistics and accounting in the Masters Business Program at Santa Clara University. He is also a certified general real estate appraiser in California and a state certified appraiser in Arizona, Hawaii, Oregon and Nevada. Jim is a Member of the Appraisal Institute (MAI), Counselor of Real Estate (CRE) and Fellow of the Royal Institute of Chartered Surveyors (FRICS). He is a past Chairman of the Northern California Experience Committee for the Appraisal Institute and current member of the CRE financial committee. Jim is currently a member of the Tangible Property Board for the International Valuation Standards Committee (IVSC).

Jim has also provided expert witness testimony and been deposed on a variety of real estate valuation matters including leasehold interests, hospitality property, residential master plan developments and industrial property.

# Kurt Uhler

Managing Director, Real Estate Advisory Group



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## OVERVIEW

Kurt Uhler is a managing director in the [Real Estate Advisory Group](#), based in the Los Angeles office. Kurt performs valuation and consulting assignments for REITs (publicly traded, public non-traded and private), private real estate companies, corporate clients, pension funds, private equity firms and hedge funds.

Kurt has over 11 years of valuation experience with all core property types as well as specific expertise in the healthcare industry. He has experience with additional non-traditional asset types, including hospitality/gaming, regional malls, residential sub-division sell outs and self-storage.

## BACKGROUND

Kurt is an industry leader in performing valuations for financial reporting purposes such as purchase price allocations (ASC 805), net asset value (NAV) calculations, goodwill impairment testing and above/below-market leasehold analysis. He also routinely completes due diligence appraisals, market feasibility studies, fairness opinions, debt valuation, appraisal review and consulting assignments.

Kurt received his B.S. with an emphasis in real estate finance and investments from the University of Southern California. He is a certified general real estate appraiser in multiple states and a Designated Member of the Appraisal Institute.

# Michael Gibbs

Managing Director, Real Estate Advisory Group



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## OVERVIEW

Michael Gibbs is a managing director in the Atlanta office and part of the [Real Estate Advisory Group](#). Michael has 25 years of experience in real estate valuation and consulting. Mike is a Member of the Appraisal Institute and American Society of Appraisers and holds the MAI and ASA designations.

Mike has been involved in real estate valuation and consulting, appraisal management, tenant representation and corporate real estate since 1992. He has a wide range of experience in the analysis and valuation of office buildings, industrial buildings, manufacturing facilities, retail shopping malls and centers, restaurants, net leased and franchise real estate, free-standing retail buildings, apartment complexes, mixed-use developments, master planned communities, single-family developments, golf courses, marinas, hotels and motels, resorts, timeshare developments, condominiums, convenience stores, conservation easements, vacant land and various special purpose properties. Mike has significant experience completing engagements for financing, ASC 805, ASC 820, and IRC 170 purposes.

## BACKGROUND

As a director of corporate real estate, Mike was responsible for portfolios of owned and leased real estate with a primary focus on office and retail properties. His duties included strategic planning, portfolio optimization, sale and leaseback analysis, asset management, and lease negotiations. Additionally, Mike has performed feasibility analysis, market studies, site selection and acquisition/disposition due diligence for real estate investment trusts, investment banks, lenders and institutional owners/operators of real estate. He also specializes in the valuation of national and international portfolios of commercial real estate assets. Prior to his work at Duff & Phelps, Mike was a director at Standard & Poor's. Before joining S&P in 2004, he spent four years as an internal and external director of corporate real estate. Prior to that, Mike was an experienced manager in Arthur Andersen's Valuation Services Group.

Mike received his M.A. in real estate and urban land analysis and his B.S. with a concentration in real estate and letter of completion in finance from the University of Florida. He is also a certified general real property appraiser licensed in Alabama, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, Virginia, Tennessee, and Texas. He is also a member of the Mortgage Bankers Association, and the Real Estate Group of Atlanta. and the Association for Corporate Growth. He is an active participant of the National Council of Real Estate Investment Fiduciaries, the National Association of Real Estate Investment Trusts and the Pension Real Estate Association.



# James Feltman

Managing Director, Global Restructuring Advisory



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## OVERVIEW

James (Jim) Feltman is a managing director in the [Global Restructuring Advisory](#) practice. His practice is focused on providing fiduciary, advisory consulting and expert witness testimony in the areas of insolvency, restructuring, money laundering, Ponzi schemes, asset tracing and recovery, accounting and financial statement reporting issues, causes of action against officers, directors and third parties, securities fraud, misrepresentation, and hedging and trading in complex securities schemes.

Based in New York, Jim has more than 30 years of experience in a broad range of litigation, forensic and investigative services.

He has substantial experience leading cross-border forensic and investigative engagements on behalf of U.S. and foreign government agencies and is an established expert in determining the underlying fact pattern, establishing liability and determining damages in myriad engagements.

## BACKGROUND

Jim has served as an appointed fiduciary with a branch of the United States Department of Justice spanning nearly 30 years. He has been appointed as an advisor by both Federal (U.S. District and U.S. Bankruptcy) and State Courts, served as an arbitrator and mediator and has been appointed as a Monitor by the U.S. Federal Trade Commission (FTC). Recently, Jim was named a Top 25 Consultant in the "Excellence in Client Service" category for 2015 by Consulting Magazine.

Prior to joining Duff & Phelps, Jim had over two decades of experience with Big 4 Accounting firms, and was previously a partner at Mesriow Financial, Arthur Andersen LLP and KPMG LLP.

Jim earned a M.P.S. from Cornell University and a B.A. from the University of Wisconsin, Madison. He is a Certified Public Accountant.



# 02

## Overview

# United States - March 2021

## What has changed since the onset of the virus?

- Sheltering in place requirements have eased or have been removed in some states – Texas, for example, has dropped mask mandates
- **140** million doses of vaccine have been given, **50.1** million people have been vaccinated and **15.28%** of the U.S. population have been fully vaccinated
- The unemployment rate for February was **6.2%**, down from **8.4%** last August of 2020. Since April of 2020, the jobless rate has tumbled from a peak of **14.7%**.
- Unemployment rate is still below the pre-pandemic level of **3.5%**
- U.S. Federal Reserve continues massive intervention with the passing of the **\$1.9** trillion COVID-19 relief bill
- Federal funds rate continues to be **0.25%** (could it go negative?)
- Public Markets are strong
  - U.S. S&P 500 up **6.2%** YTD (as of 3-26-2021)
  - Russell 2000 up **12.73%** YTD (as of 3-26-2021)

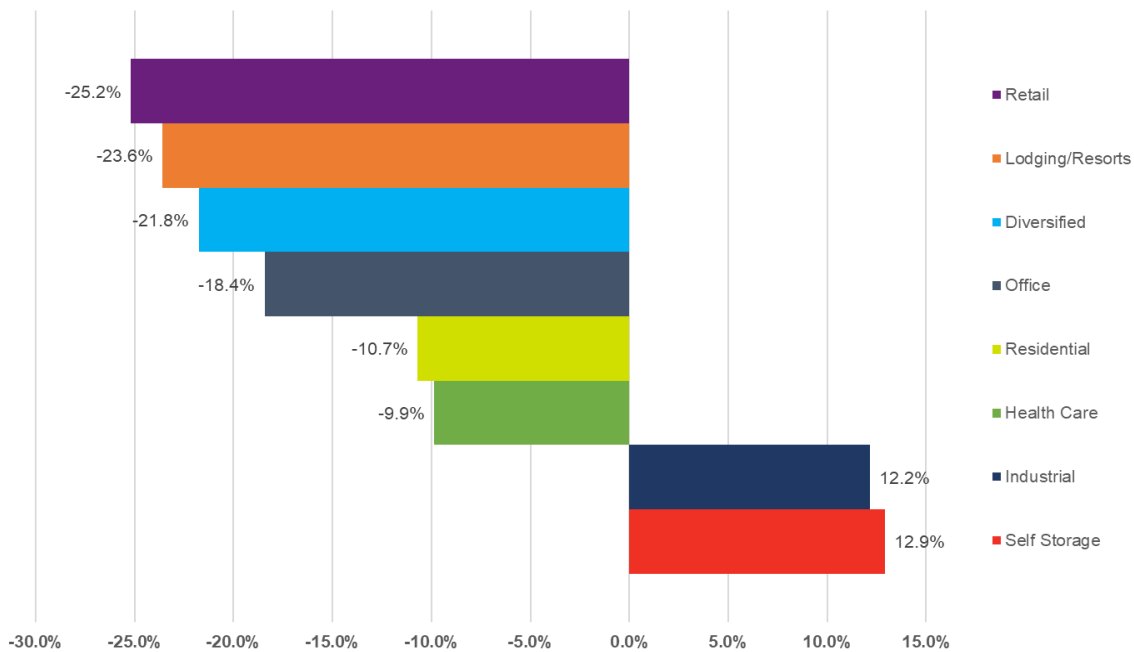
## What has not changed?

- The definition of fair value: ***the price that would be received TO SELL an asset or paid to transfer a liability in an ORDERLY transaction between market participants at the measurement date.***
- Fair Value  $\neq$  Fire Sale Price
- Fair Value does take into account current market conditions
- The need for fair value: Investors (LPs) need timely reported fair value based Net Asset Values (NAV) for decision making, financial reporting, exercising fiduciary duty.

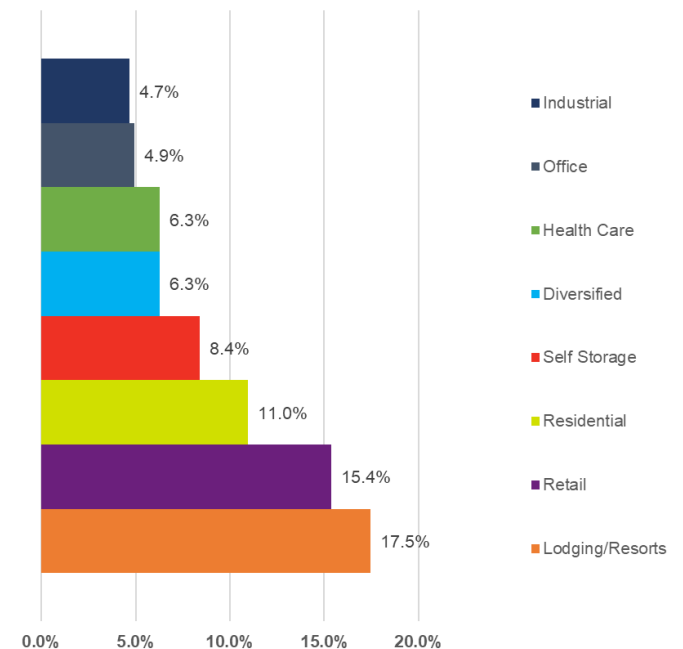


# REIT Equity Returns by Property Sector

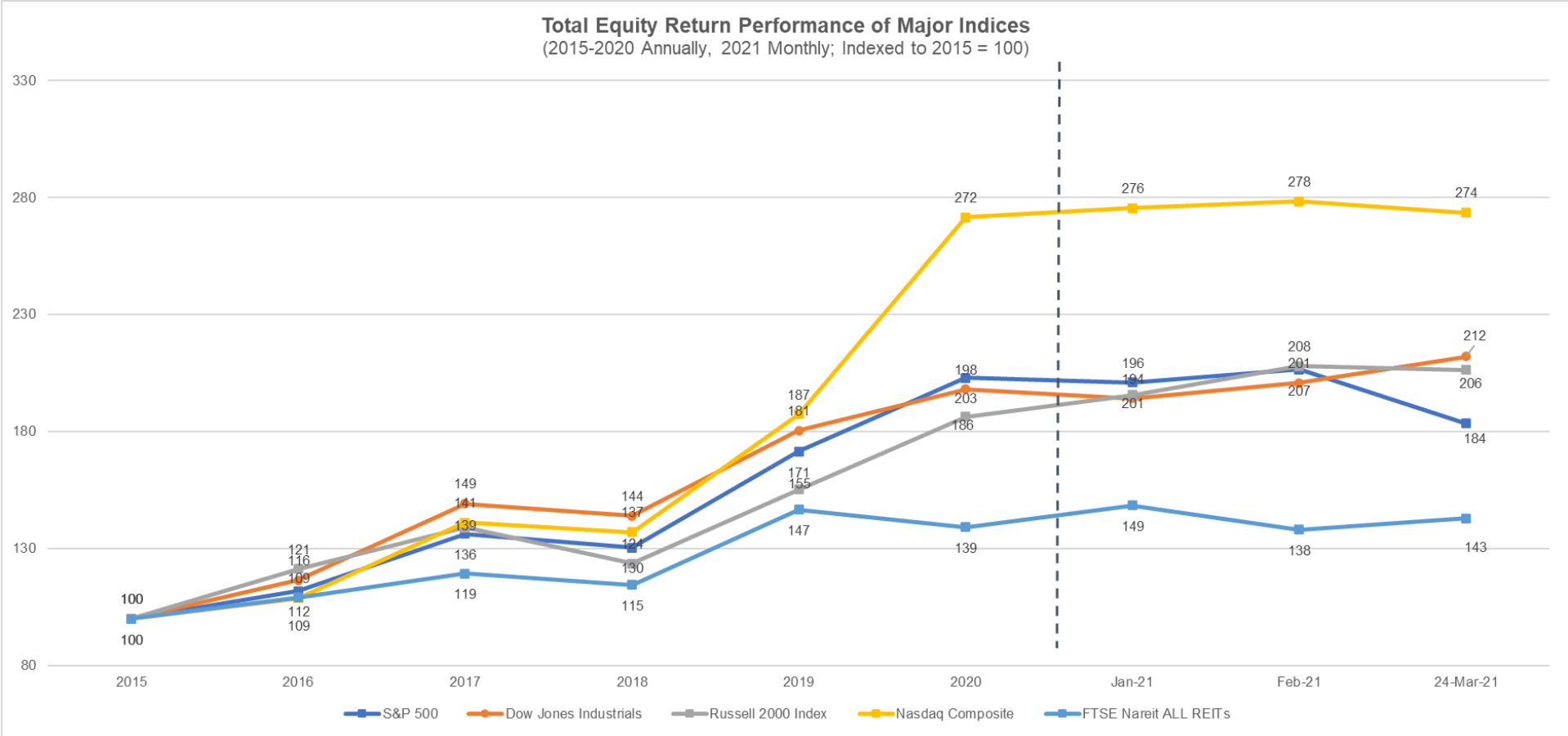
NAREIT YTD Equity Returns (%) by Property Sector  
(Jan 2020 - December 2020)



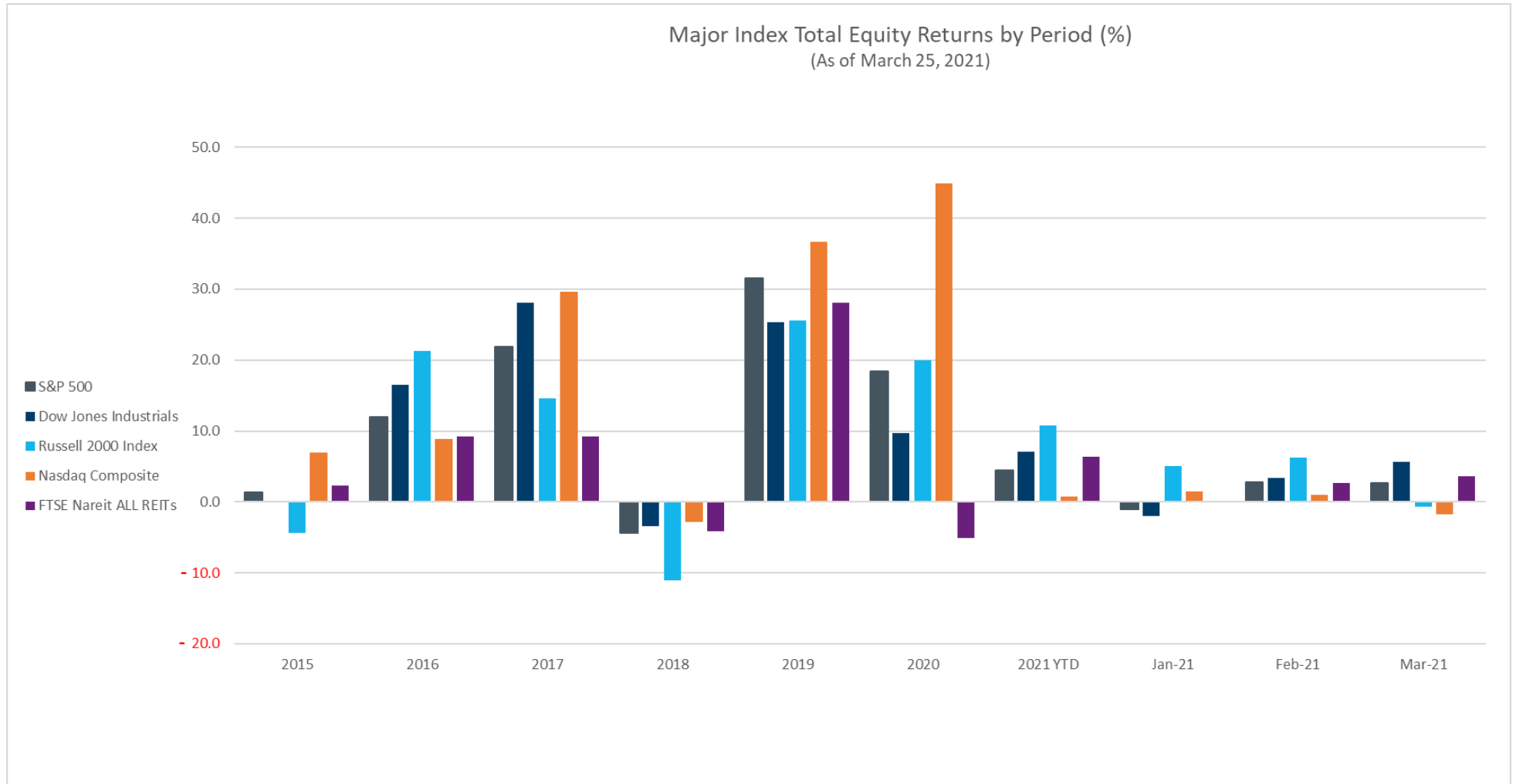
NAREIT YTD Equity Returns (%) by Property Sector  
(Jan 2021 - March 24th, 2021)



# REIT Equity Returns Indexed to Major Indices



# REIT Equity Returns vs. Major Indices by Period





# 03

Retail



# Retail – Valuation Implications

- In most states, businesses are open but with reduced foot traffic and social distancing requirements
- Essential retail properties continue to perform well
- Enclosed malls are starting to re-open in some areas, but foot traffic is poor, at best landlords are still in negotiation on retail terms with their tenants
- Approximately **84%** of retailers made their rent (plus cam/tax) payments for Jan and Feb. Well up from 2020 which was in the 70s
- Theater Operator Cineworld/Regal is reopening at lower capacity in April 2021. **98%** of AMC U.S. theaters are open as of April. Last grouping opened in CA two weeks ago
- 30 retailers filed for bankruptcy in the U.S. in 2020 including JC Penney, Lord & Taylor, Neiman Marcus, GNC, J Crew, Tuesday Morning & Brooks Brothers
- 6 new retailers have filed for bankruptcy in the U.S. including Belk, Loves Furniture and Christopher & Banks
- NOI & Occupancy declines in '20 exceeded those of the global financial crisis

# Retail – Valuation Implications

- About **\$4** billion in value was erased from **118** retail-anchored properties with commercial mortgage-backed securities debt after reappraisals triggered by payment delinquencies, defaults or foreclosures, according to data compiled by Bloomberg.
- The biggest owners, such as Simon Property Group Inc., Brookfield Asset Management Inc. and Starwood Capital Group, have started to divest, walking away from money-losers while reinvesting in viable locations.
- Unibail-Rodamco-Westfield, owner of **37** U.S. shopping centers, said in its fourth-quarter earnings statement that it's looking to 2022 to “Significantly reduce our financial exposure to the U.S. when the investment market reopens.”
- Regional Malls are an out of favor asset class; estimated 'A' mall values have fallen nearly **45%** from the '16 peak. Foot traffic at Simon and Macerich portfolios remains **~30%** below pre-pandemic levels
- Strip Shopping Centers - Improving. Grocery Anchor the most investor interest
- Foot traffic is expected to be strong in the back half of the year and into 2022. The first half of 2021 will be tough, but there is hope of a robust recovery with a strong economic backdrop.
- Foot traffic is down **~20%** vs. pre-pandemic levels, faring better than mall foot traffic. Leasing volume in 4Q 2020 was robust, only **~5%** down vs. pre-pandemic

# Retail – Valuation Implications

- **Rent, Rent Growth & Expense Reimbursements - Most In-Line Retailers are closed and have asked landlords for:**
  - Rent Relief – Still there but most have started paying rent again
  - Deferred Rent Payments (as well as CAM and RE tax allocations)
  - Rent Growth – Flat, already declined in 2020 and flat for next 12-24 months
  - Renewal Probability – lower due to stores not having foot traffic still but on a case-by-case basis, enclosed malls inferior to strip shopping centers
- **Vacancy & Credit Loss**
  - How do we practically calculate these? Depends on tenancy location
- **Expenses**
  - Increased Marketing/Advertising Expenses starting to be spent
  - Potential Successful Real Estate Tax Appeals lead to lower tax expense
  - Increased Incentives – Tenant Improvements, Rent Abatements
- **Capital Market Assumptions**
  - Discount Rates increased and stabilizing in 2021
  - Overall and Terminal Capitalization Rates – still a dearth of Sales but definitely higher in malls, grocer anchor starting to see interest and a slight drop-in cap rate from 2020



# 04

## Hospitality



# Hospitality – Valuation Implications

## Most Recent Developments

- Sector wise no surprise with major value declines, but disproportionate based on service level, chain scale, location, among other issues.
- Less disruption at lower tiers (economy and midscale along major transportation routes) where essential workers, healthcare providers, and construction workers were housed during the height of the pandemic. Leisure travelers looking for favorable pricing along with minimal staff interaction favored these hotels. Value declines per CBRE research indicate **10%** or less in value drops. Most of these hotels are in the **\$10** million or less value category.
- Upper scale and luxury hotels have been a different story, especially in urban locations. These hotels depend on large groups, business travelers, conventions, inbound international guests and these travelers have not returned. These hotels have seen value impacted in the **20%** to **30%** range. These hotels are typically in the **\$25** million plus category. Overall, the higher the level of service and price tier, the larger the value drop.
- 2020 transaction levels per JLL dropped **60%** from 2019 compared to 2020. **50%** of the deals that closed in 2020 were at least originated in Q1 of 2020. Those selling post Q1 were heavily weighted towards alternate use opportunities or motivated sellers willing to take discounted pricing because they did not have deep enough pockets to reinvest into COVID-19 related spacing or opted to take losses rather than reinvest as they felt such a course was more prudent from a shareholder perspective.
- Lender flexibility in a zero cash environment allowed many owners to at least carry properties through 2020, although this is changing in 2021. Expectations are changing and pressure is being placed on borrowers to reinvest and reposition or face foreclosure.
- In terms of repositioning, hotel owners and operators had to look closely at a modification of the lodging experience in terms of expected social distancing platforms via room, public area and technology updates. Also, an expected trend of longer stays due to reduced numbers of trips, the result of continuing ESG (environmental, societal and governance) pressures to reduce corporate carbon emissions is seen as another likely outcome from the pandemic.

# Hospitality – Valuation Implications

## Who are the Buyers and What is Trending?

- Private Equity and Institutional Investors are driving market liquidity with these groups funding almost **60%** of the 2020 activity.
- The best operational performers have been the Resort destination and lower density recreational locations where “stay-cations” remain popular. Typically, this hotel grouping makes up roughly **10%** of sales and occupancy activity; in 2020 those numbers doubled.
- As a result of the preceding, historically difficult markets to invest in where many “trophy” asset reside (e.g., New York City) are expected to be primary targets in 2021 as deeply discounted assets enter the market due to current ownership not having the wherewithal to carry these assets further.
- An example of the above is the Eagle Hospitality Trust portfolio to be put up for auction in May. Hotels in this portfolio are all well known business hotels in major Southeastern, Northern California, Southern California and Rocky Mountain markets. A floor price has been set at **\$470** million for 15 properties which is the stalking horse bid by an affiliate of Monarch Alternative LP. All of these hotels are located in or around major central business districts and have premium brands affiliated with them.
- Stabilization of COVID-19 spread has resulted-in value recovery, although still **10%** to **15%** below pre-pandemic levels.
- Overall, per JLL, 2021 sales activity is expected to increase by **35%** to **40%** over 2020.

# Hospitality – Valuation Implications

## 2021 Expectations

### Changing design and operations

- The success of the AirBnB IPO in late 2020, which piggybacked off of a significant Q3 turnaround once the consumer understood COVID-19 risks were going to force Hoteliers to look at updated room design and technology enhancements support guests expecting longer stays. This is in stark contrast to the direction hotel room design had been going for a decade which had resulted in smaller guest rooms while enhancing greater social gathering areas.
- New construction is receiving greater focus now on branded residential developments in places like the Napa Valley and DisneyWorld where individual homes, flats and villas are being or will be built in lieu of traditional mid/high rise hotels.
- Technology adoption may provide negative impact to long term lodging demand.
- ESG will also continue to be at the forefront in 2021. Priorities of the new Administration in creating a greener U.S. will result in greater engineering of design around sustainability in new construction. This means measurement of efficient energy use; carbon emissions and water use will be critical. Hence, eco-type attractions and health/wellness offerings will take center stage at longer stay destination locations.
- Hotel operations will also be expected to focus on pay equity and employment expectations prevalent in today's business environment. This and ESG requirements will generate upfront cost additions which are expected to eventually provide meaningful return on investment (ROI).

### Timing of a Return to Pre-Pandemic Levels:

- Key to return is vaccinations. This provides a path forward which should allow business travelers and convention goers opportunities to remerge. Companies will need to first open up themselves before allowing their employees to actively travel as before.
- Increased group booking has begun focusing on 2022 for the most part.
- Realistically the vaccination process will run through much of 2021. Hospitality employment remains over **20%** down from pre-pandemic levels but given what has been learned while operating at streamlined levels this number may never recover fully. Domestic leisure travel isn't expected to fully recover not until 2023 and international visitation until 2024.

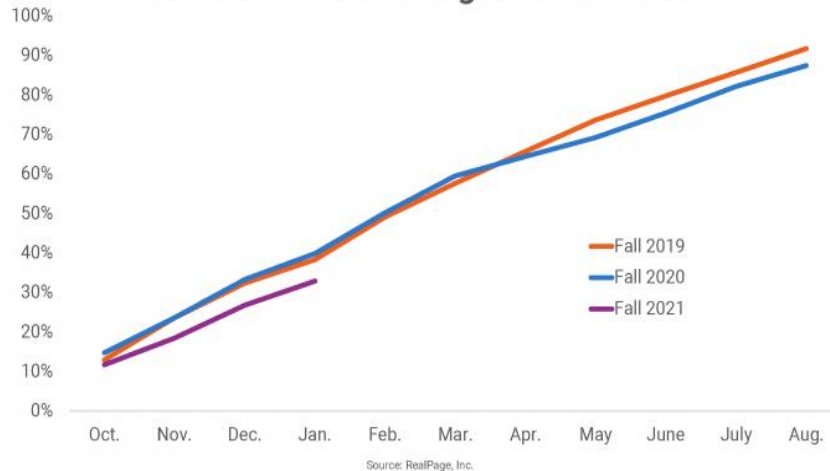


# 05

Student Housing

# Student Housing

## Pandemic Looms Large Over Fall 2021



- Slight dip in pre-leasing y-o-y
- As of August 2020, **88.3%** of beds pre-leased **340** basis points below 2019
- As of January, **32.9%** pre-leased for Fall 2021
- Enrollment decline of **2.5%** in Fall 2020 with **8.1%** fewer first-time students and **10.5%** fewer students entered 4-year private universities
- Commuter schools hit hardest along with universities with heavy virtual learning and stricter state lock down requirements
- Midwest and Sunbelt performed best

## Rent Change Slumps From Recent Years



- Rent growth y-o-y has slumped
- Properties within ½ mile from campus hit hardest
- As of February, annual rent growth is **0.1%** versus **1.7%** in 2020 and **1.8%** in 2019
- Rent growth 1 mile from campus is **0.3%**
- Total annual effective rent growth for Fall 2021 is **0.1%** versus **1.7%** in February 2020

Source: Real Page, Inc.



# Student Housing

## Investment Sales/Capital Markets

- Deal volume down **40-50%**
- Sellers not willing to accept discounts
- Buyers are staying away from smaller/tertiary, budget constrained institutions
- Neither buyers nor sellers are discounting operating income for Fall 2021
- Trades have priced at pre-crises highs, relative to income
- Cap rates have not increased
- Debt capital is challenging
  - Agency debt is **65%** LTV vs. **75%** pre COVID
  - Escrow 12-month debt payments

## Trends

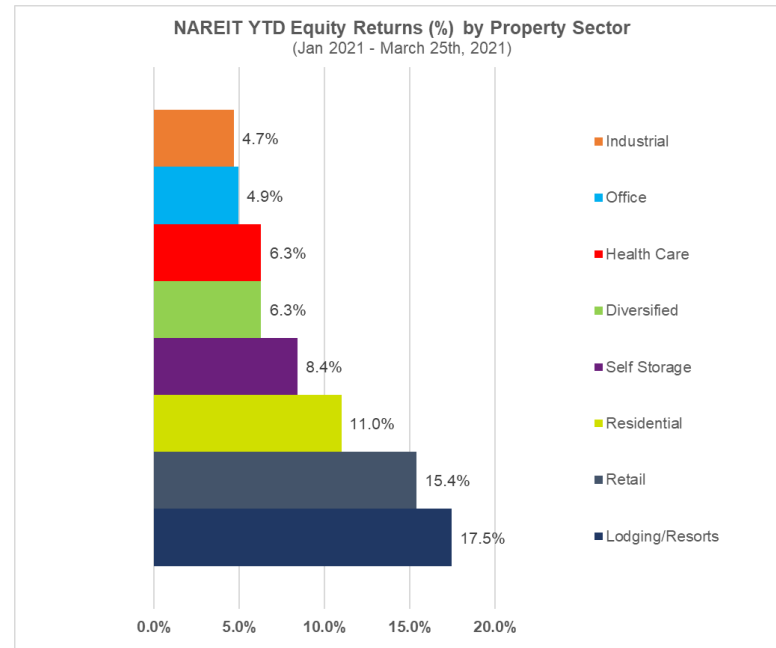
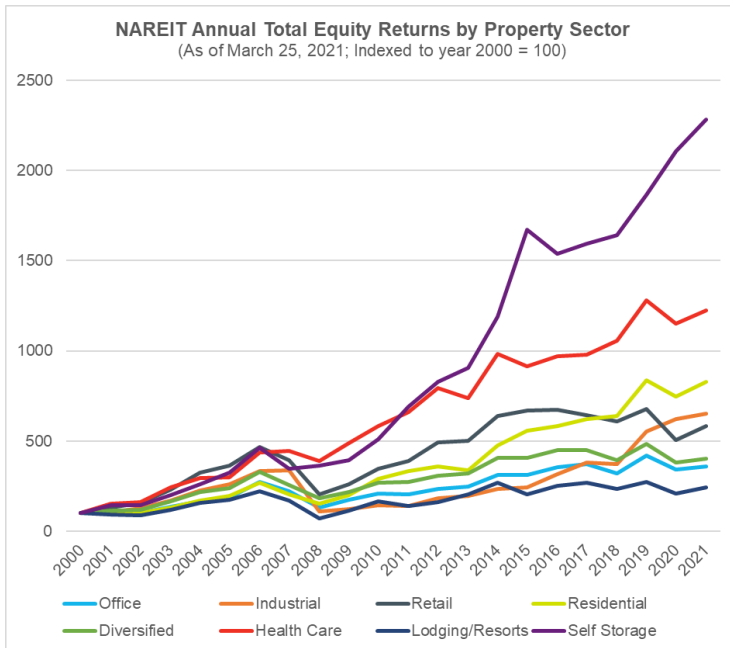
- Touch free / contactless
- Connectivity / Technology
- Privacy / De-densification
- Increased demand
- Upgraded sanitation measures / Mental health
- New design standards



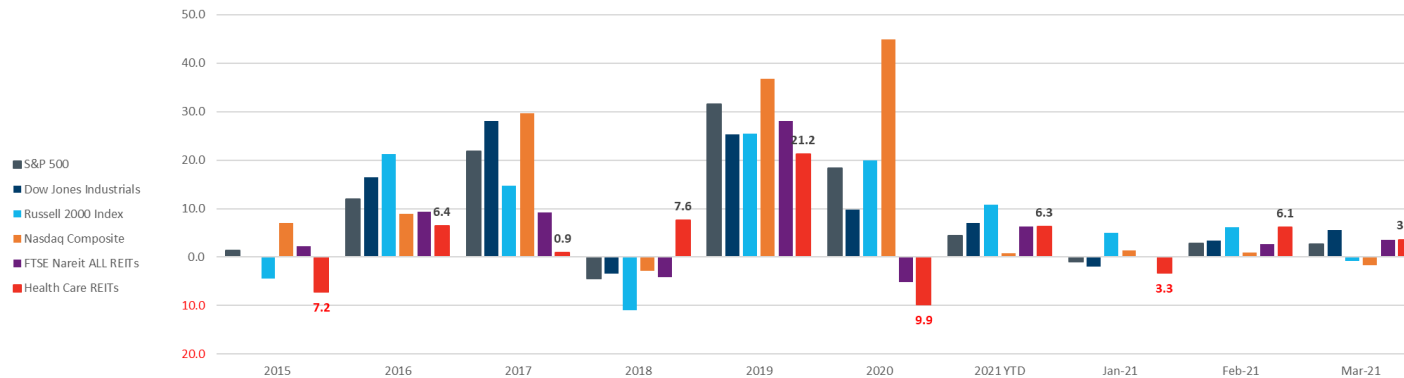
# 06

Healthcare

# Healthcare – Overview of the Public Markets

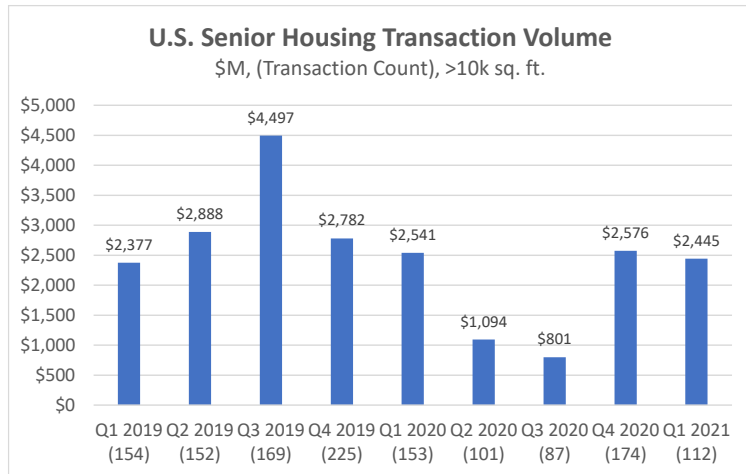


Major Index Total Equity Returns by Period (%)  
(As of March 25, 2021)

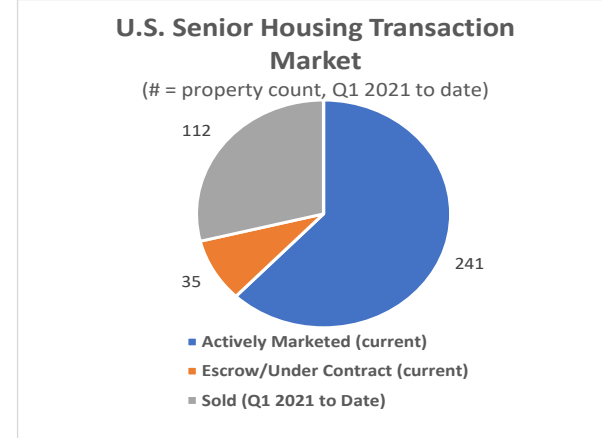
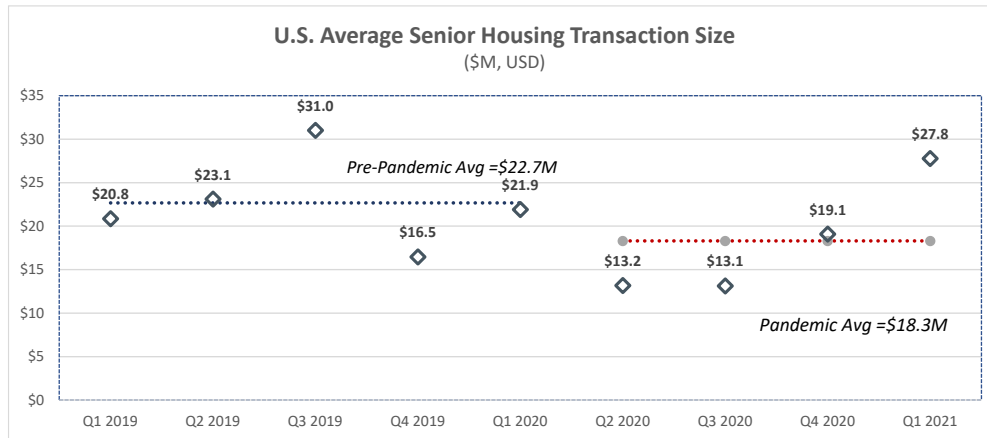


# Healthcare – Seniors Housing Valuation Implications

Deal sizes and transaction volumes of senior housing facilities - including CCRC, Senior Living, Assisted Living, and Skilled Nursing facilities – have approached pre-pandemic levels.



- **\$2.4 billion** transaction volume in Q1 2021, up from **\$801 million** in Q3 2020
- **112** closed transactions in Q1 2021 up from **87** in the Q3 2020
- **241** active listings as of March 2021 up from **239** in Oct 2020
- Larger deal sizes - **67%** were sub **\$10M** vs. **79%** in Q3 2020

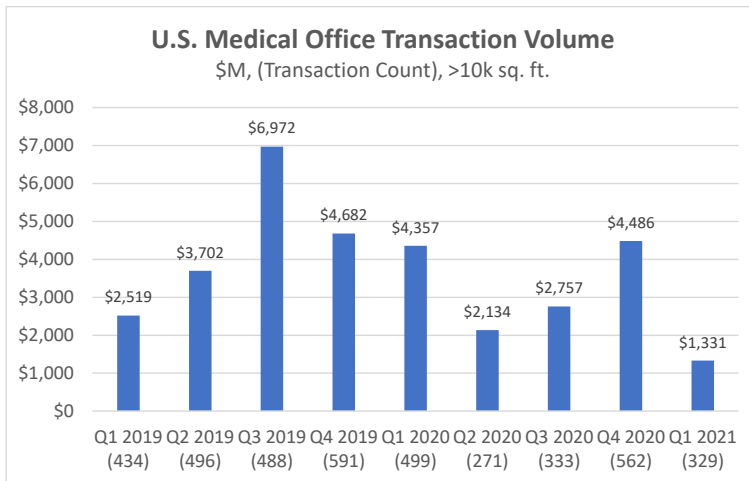


Source: CoStar property sales of CCRC, Senior Living, Assisted Living, and SNF transactions over 10,000 square feet

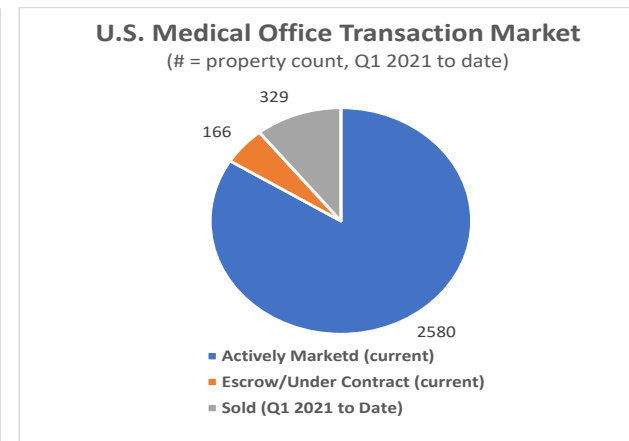
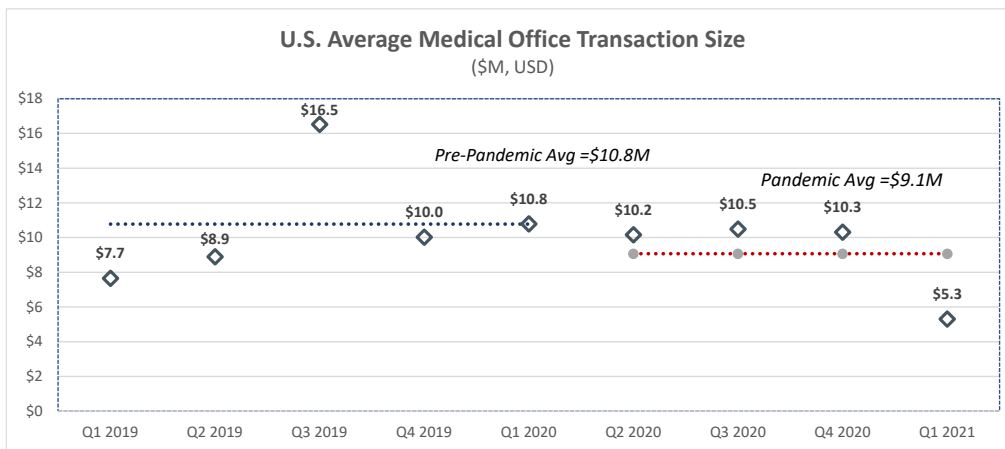


# Healthcare – Medical Office Valuation Implications

Deal sizes and transaction volumes of medical office facilities have approached pre-pandemic levels but are down slightly in the most recent quarter.



- **\$1.3 billion** transaction volume in Q1 2021 down from **\$4.5 billion** transaction volume in Q4 2020
- **329** closed transactions in Q1 2021 down from **562** in Q4 2020
- **2,580** active listings as of March 2021 down from **2,665** in Oct 2020
- Deal sizes were similar- **86%** were sub **\$10M** vs. **83%** in Q4 2020



Source: CoStar property sales of CCRC, Senior Living, Assisted Living, and SNF transactions over 10,000 square feet



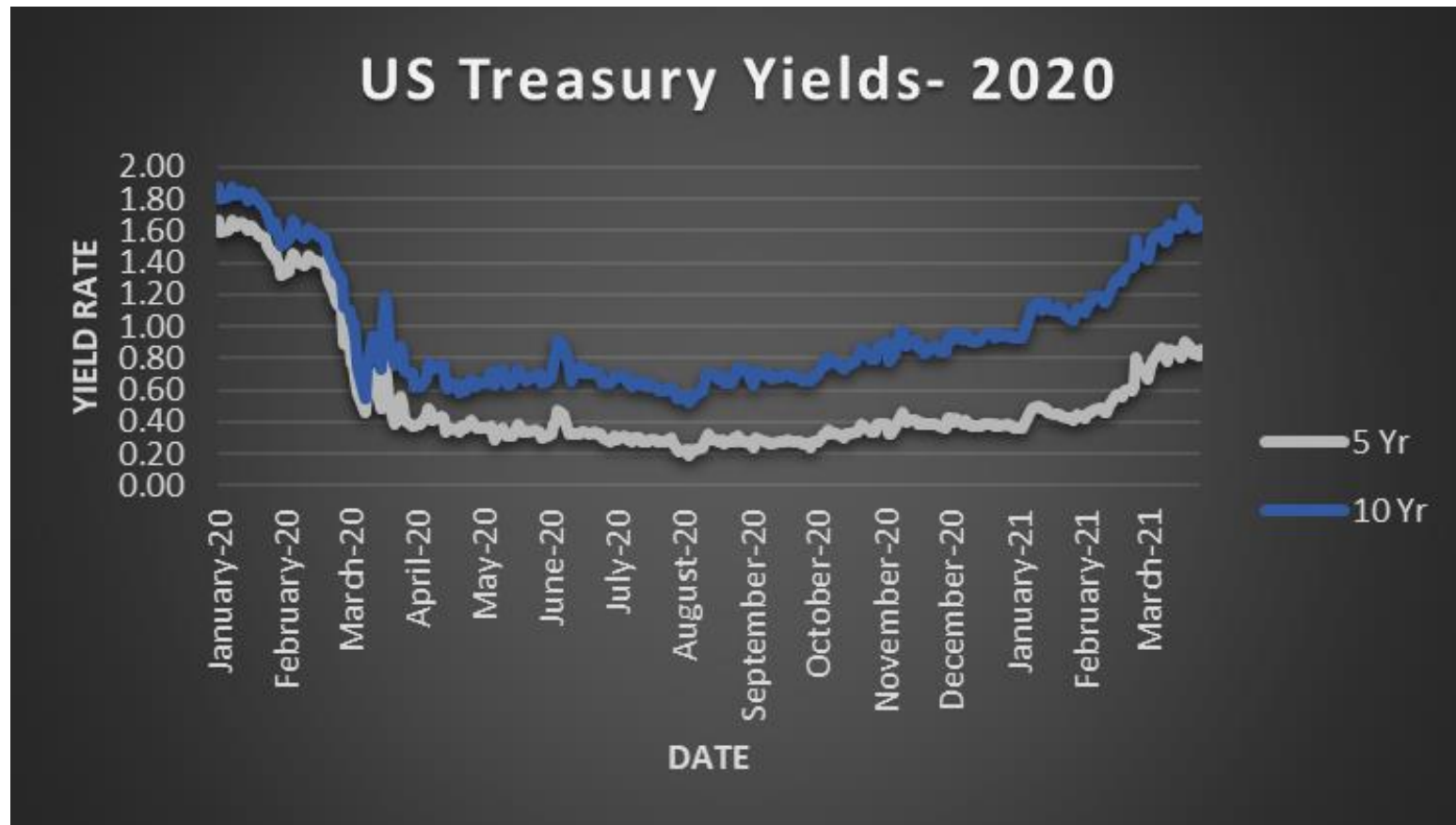


# 07

## Capital Markets

# Benchmark Rate Fluctuation

Treasury yields fell significantly, 120 basis points from January to the beginning of the COVID outbreak. Since that period, yields have risen back to pre-COVID levels, and the 10-year yield has remained above 100 basis points throughout 2021.



# Capital Markets Implications by Property Type

Specific effects of the capital market disruption will vary by property type:

- **Hotels:** Lending has resumed in strong tourist markets which have reopened (Florida). Lending and transaction activity has remained scarce in more restrictive markets like California and New York.
- **Big Box Retail:** Rent collections for big box retail have been disappointing and there have been several high-profile bankruptcies. Troubled tenants in the fitness and cinema sectors have made financing location and rent roll specific.
- **Seniors Housing:** Conservative underwriting is the norm, along with a general lack of debt availability in this sector.
- **Office:** Debt is available for well-leased product. Construction and lease-up financing is limited.
- **Multi-Family:** Remains strong, as it has throughout the pandemic. The U.S. Centers for Disease Control and Prevention has extended their no-eviction policy through June 2021.
- **Industrial:** This is one of the strongest sectors of the market.
- **Grocery-Anchored Retail:** Lending has remained steady for well-located product.
- **Quick Service Restaurant and Single-Tenant Lease:** These are extremely sought-after with cap rate compression fueling transactions amid a flight to safety. Lending has resumed in earnest.





# 08

## Intersection of COVID-19: The Real Estate Market and Restructuring

# COVID-19 Influences on the Real Estate Market (Generally)

- Unprecedented conditions and limitations
- Restrictions and limitations on foreclosure and evictions/build-up of backlog
- Federal/State/Municipality restrictions on travel/quarantines (i.e. requirements to quarantine between 10 to 14 days upon crossing state lines).
- International travel restrictions prohibit or severely limit international travel and those countries permitting international travel require lengthy quarantine periods upon entry.
  - Vaccination passports / potential to liberalize international travel
- Government financial support programs and industry specific bailouts continue
- Multiple federal assistance programs have been enacted to support continuing employment
- Migration from high tax states to low tax states
- Office closures have dramatically increased the level of work at home or offsite/workplaces.
- Restrictions on access to the typical office has caused people to work remotely, to work at an offsite location.



# Interim Impact on Real Estate

- COVID-19 produces winners and losers in the real estate industry
  - Winners
- Rental Revenues Deferred and Debt Service Delinquencies Increasing
  - Many tenants are in arrears in rent and lease obligations
  - Many homeowners and borrowers are delinquent on mortgage and commercial loan payments
- Landlords and real estate property owners cash flows have been negatively impacted and many are delinquent on their debt service obligations.
- Diminished cash flows and Net Operating Income (“NOI”) pre-debt service are negatively impacting current valuations.
- Commercial and residential lenders loan reserves are impacted and will be subject to regulatory oversight.
- Business travel severely curtailed airport and major city lodging at historic minimums.

# Out of Court Workouts - Objectives

- Out of court workouts can be done in a private (non-public/confidential) environment for a variety of reasons
- Buy time to give borrowers options (i.e. sale, refinance, or collateral support) and to control professional fees during an agreed period of time
- Seek agreements to renegotiate debt service terms/tenant leases and borrower covenants, to negotiate to an ownership transition (i.e. friendly foreclosure), or to address or modify personal guarantees.
- To negotiate forbearance agreements and interim relief agreements
- Bring on advisors including Chief Restructuring Officer to explore alternatives

# In Court Restructuring - Objectives

- States requiring a court supervised foreclosure / eviction process (non-notice states) are experiencing 1 year plus time frames to complete foreclosures. Once filed, routine access to courts may be limited.
- Limited number of Real Estate Chapter 11 filings in the current environment
- **Chapter 7** – A liquidation requiring an appointment of an independent trustee. Generally, not used for operating companies
- **Chapter 11** - Cases are Complex and Large. Do not meet eligibility for Single Asset/Subchapter 5
- **Single Asset Real Estate Case and Subchapter 5** cases are designed to accelerate the time before a court and can be concluded in
  - **Single Asset Real Estate Cases** – A single property or project, not residential real property, designed to be streamlined with controlled costs.
  - **Subchapter 5 Cases** – Multiple properties (real estate), small business debtor reorganization, total debts not to exceed **\$7.5** million.

# Restructuring Process - Usefulness

- Stop foreclosure sale, appointment of state court receiver, and stay civil litigation.
- Arrange a sale under section **363** to sell real estate and separate the property interest from the debt.
- Bankruptcy allows for the assumption, modification, or rejection of contracts including leases.
- Chapter 11 reorganization will allow a borrower to renegotiate terms on its secured debt and potentially eliminated unsecured debt; recapitalize borrowers.
- Process that allows debtors time to sell property or reorganize their business operations; address alternatives for guarantor issues.
- Workouts and in-court restructurings require planning and defining of goals and costs can be considerable in order to fully execute a disposition or reorganization strategy.



# 09

Questions?





# 10

About Us

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# **1. Real Estate Advisory Group Overview**

# REAL ESTATE ADVISORY GROUP OVERVIEW



## Global Practice

- Our Real Estate Advisory Group (REAG) uses its market presence in North America (United States, Mexico & Canada), Asia (China and Japan), South America (Brazil) and Europe (Italy, United Kingdom & Germany) to coordinate resources and databases across the firm.
- Our group is comprised of a total of approximately 325 individuals focused on completing complex, diverse real estate services on a daily basis in North America, Asia, South America and Europe. In the United States, we have approximately 140 consultants operating in 19 offices.

## Industry Experts

- The Real Estate Advisory Group has specific experts working in different industry segments including, but not limited to, REITs retail, office, hospitality, real estate investment trusts, hedge funds, pension funds, structured finance, CMBS securitization, insurance and banking, corporate real estate, railroad & utilities and franchise real estate.

## Local Expertise

- Each local office is responsible for local market expertise. Each group compiles and analyzes data on the major markets within their region on a periodic basis to ensure we closely monitor the dynamic marketplace.

# REAL ESTATE ADVISORY GROUP OVERVIEW

The Real Estate Advisory Group (REAG) provides comprehensive real estate valuation and consulting services for acquisitions, dispositions, financial reporting, tax, financing, insurance and other strategic planning purposes.

## Our Services Include:

- Financial/Tax Reporting Valuations
- Financing Appraisals
- Corporate Real Estate Services
- Real Estate Restructuring
- Transaction Opinions/Due Diligence
- Loan Underwriting Due Diligence
- Market/Feasibility Studies
- Right of Way Appraisal
- Cost Segregation



## Why REAG?

- Decades of experience
- Independence, no conflicts of interest
- Global scale
- Industry expertise
- Local market knowledge



# NORTH AMERICA OFFICE LOCATIONS

- Continental Reach, Local expertise
- Appx 120 Staff in 17 offices
- 225 U.S. state certified general appraiser licenses
- Licensed personnel in Canada and Mexico



# REAL ESTATE ADVISORY GROUP OVERVIEW

## Real Estate Valuation & Consulting

- MAI Appraisals
- Financial & Tax Reporting Valuations
- REIT & Real Estate Operating Company Valuations
- Debt Valuation
- Financing Appraisals
- Portfolio Valuation – Positive Assurance
- Cost Segregation & Construction Tax Planning

## Real Estate Transaction Due Diligence

- Lease Abstraction and Analysis
- Site / Market Due Diligence
- Estoppels' Certificate Preparation & Review
- NOI Trend Analysis
- Tenant Reimbursement Analysis
- Argus & Dyna Modeling / Auditing
- REIT Income Analysis

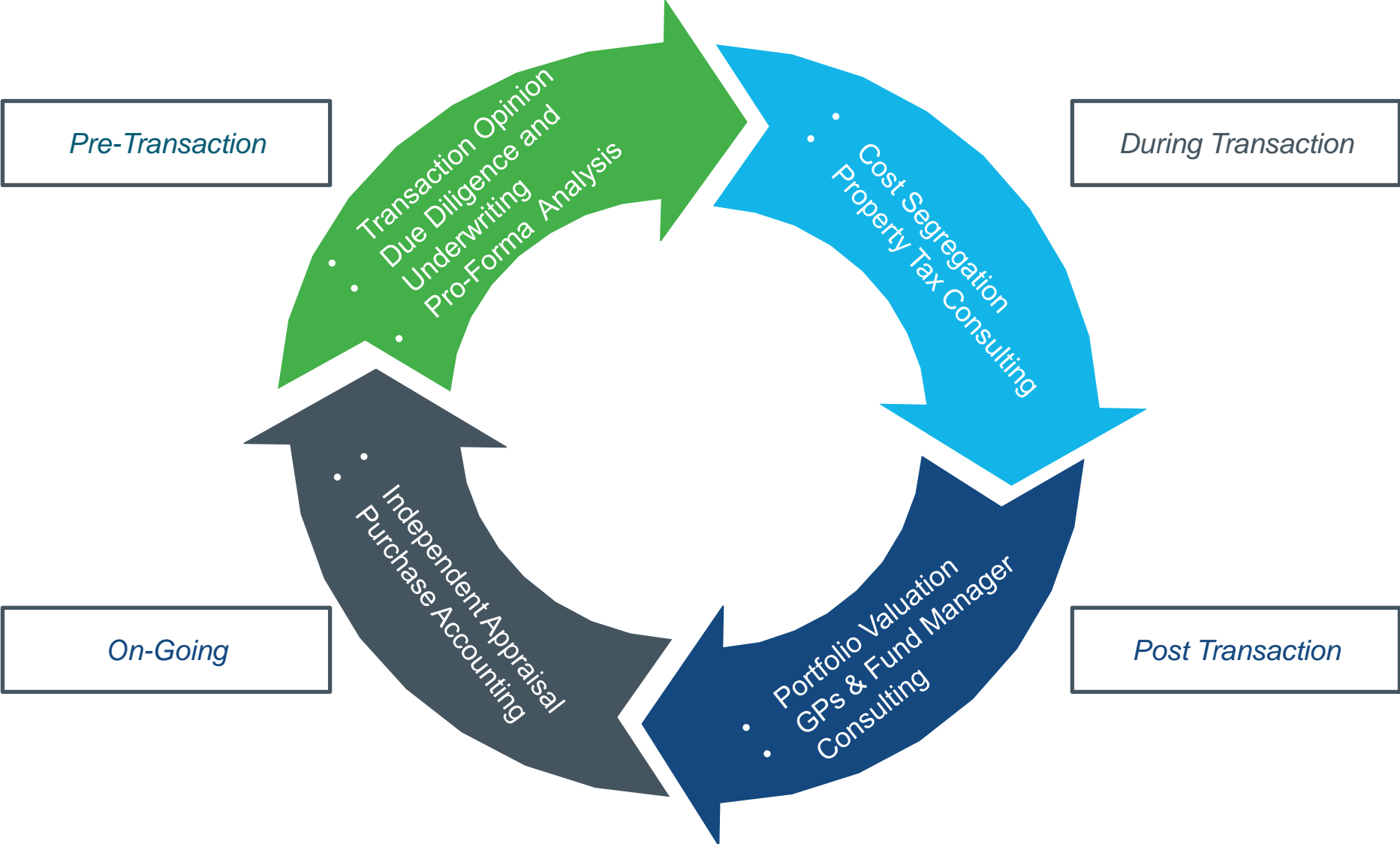
## Real Estate Advisory Services

- Operational & Process Improvements
- Technical Advisory/Property Condition Reports
- Market Feasibility Studies
- Loan Services
- Debt Advisory
- Construction Project & Program Management

## Real Estate Investment Banking

- Equity & Debt Placement Services
- Sell Side Advisory Services
- Buy Side Consulting Services
- Real Estate Transaction Opinions
- Solvency Opinions
- Fairness Opinions
- Independent Fiduciary Opinions

# REAL ESTATE ADVISORY GROUP OVERVIEW



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**2.**

## **About Kroll**



# ABOUT DUFF & PHELPS, A KROLL BUSINESS

For **nearly 100 years**, Duff & Phelps has helped clients make confident decisions in the areas of valuation, real estate, taxation and transfer pricing, disputes, M&A advisory and other corporate transactions.

Kroll is the world's premier provider of services and digital products related to **governance, risk and transparency**. We work with clients across diverse sectors in the areas of valuation, expert services, investigations, cyber security, corporate finance, restructuring, legal and business solutions, data analytics and regulatory compliance.

The firm's nearly **5,000 professionals** are located in **30 countries and territories** around the world.

**~5,000**

**TOTAL PROFESSIONALS  
GLOBALLY**

**13,400**

CLIENTS INCLUDING  
NEARLY

**48%** OF THE

**S&P 500**

THE  
AMERICAS

**2,000+**

PROFESSIONALS

EUROPE AND  
MIDDLE EAST

**1,100+**

PROFESSIONALS

ASIA  
PACIFIC

**850+**

PROFESSIONALS

# ENHANCING VALUE ACROSS A RANGE OF EXPERTISE

## Our service areas



### VALUATION ADVISORY

Valuation and consulting for financial reporting, tax, investment and risk management purposes

- Valuation Services
- Alternative Asset Advisory
- Real Estate Advisory
- Tax Services
- Transfer Pricing
- Fixed Asset Management and Insurance Solutions



### CORPORATE FINANCE

Objective guidance to management teams and stakeholders throughout restructuring, financing and M&A transactions, including independent fairness and solvency opinions

- M&A Advisory
- Fairness and Solvency Opinions
- Transaction Advisory Services
- ESOP and ERISA Advisory
- Private Equity - Financial Sponsors Group
- Distressed M&A and Special Situations
- Private Capital Markets and Debt Advisory



### GOVERNANCE, RISK, INVESTIGATIONS AND DISPUTES

Risk management and mitigation, disputes and other advisory services

- Business Intelligence and Investigations
- Compliance and Regulatory Consulting
- Compliance Risk and Diligence
- Cyber Risk
- Disputes Consulting
- Global Restructuring Advisory
- Legal Management Consulting
- Security Risk Management



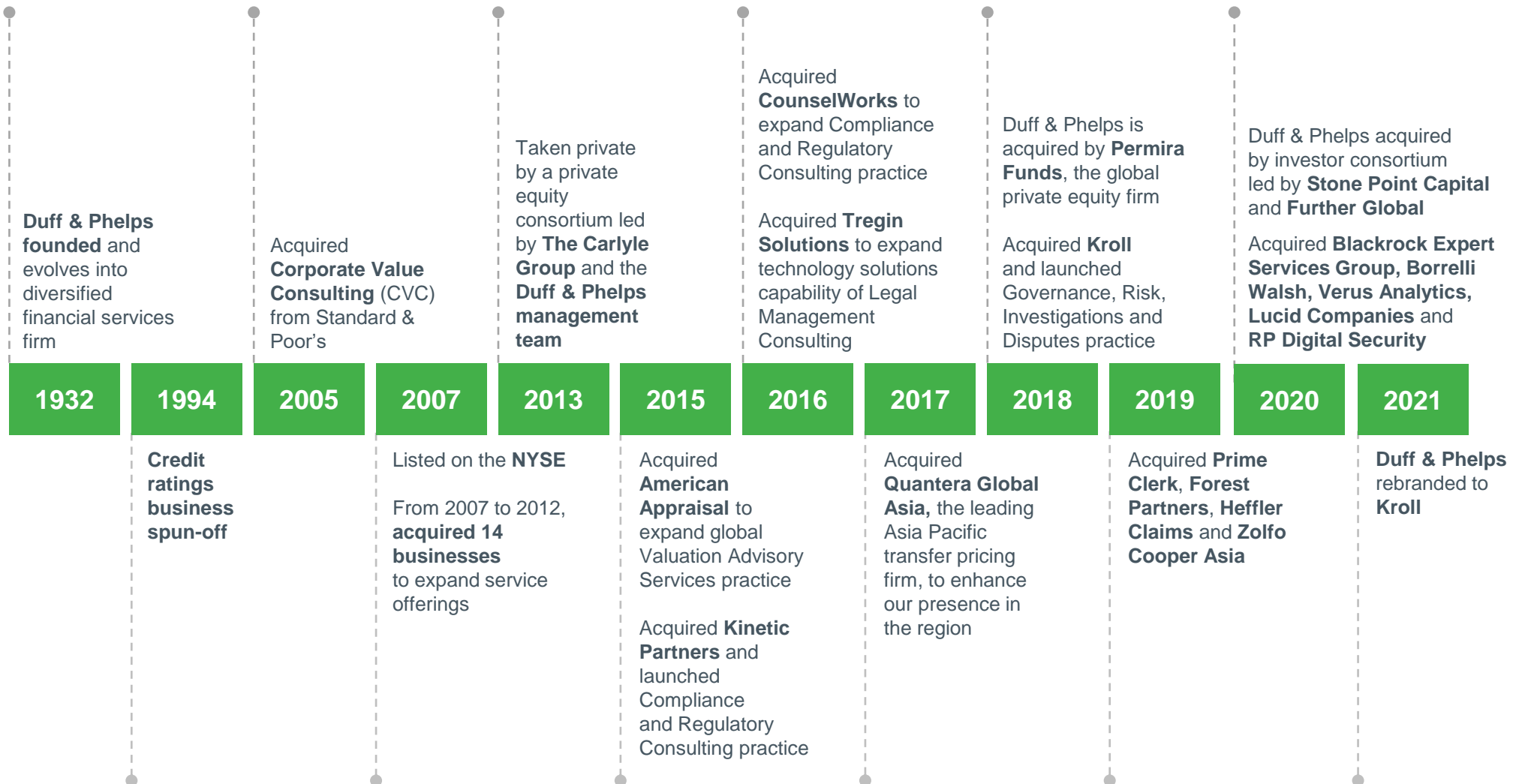
### BUSINESS SERVICES

Complex legal and business solutions through our proprietary technology and team of experts

- Prime Clerk Restructuring
- Kroll Corporate Actions
- Lucid Issuer Services
- Lucid Agency and Trustee Services
- Kroll Class Action Administration
- Kroll Mass Tort Administration
- Kroll Notice Media Solutions
- Kroll Business Technology
- Kroll Agency Cloud

# OUR EVOLUTION

In operation for nearly 100 years



# OUR LOCATIONS

Across 30 countries and territories worldwide



## THE AMERICAS

Addison	Houston	San Francisco
Atlanta	Los Angeles	São Paulo
Austin	Mexico City	Seattle
Bogota	Miami	Secaucus
Boston	Minneapolis	Silicon Valley
Buenos Aires	Morristown	St. Louis
Chicago	Nashville	Toronto
Dallas	New York	Washington, D.C.
Denver	Philadelphia	Waterbury
Ellensburg	Reston	Westchester

## EUROPE AND MIDDLE EAST

Abu Dhabi	Dublin	Moscow
Agrate Brianza	Frankfurt	Munich
Amsterdam	Gibraltar	Padua
Barcelona	Lisbon	Paris
Bari	London	Pesaro
Berlin	Longford	Riyadh
Bilbao	Luxembourg	Rome
Birmingham	Madrid	Turin
Channel Islands	Manchester	Zurich
Dubai	Milan	

## ASIA PACIFIC

Bangalore	New Delhi
Beijing	Shanghai
Guangzhou	Shenzhen
Hanoi	Singapore
Hong Kong	Sydney
Hyderabad	Taipei
Jakarta	Tokyo
Kuala Lumpur	
Mumbai	

## CARIBBEAN

British Virgin Islands  
Cayman Islands

## STRATEGIC PARTNERS

Almaty  
Athens  
Limassol  
Moscow



# OUR CREDENTIALS

## WE SERVE

61% of Fortune 100 companies

85% of Am Law 100 law firms

72% of the 25 largest Euro STOXX® companies

76% of the 25 largest private equity firms in the PEI 300

52% of the 25 largest hedge funds in the Alpha Hedge Fund 100

## WE RANK

One of America's Best Management Consulting Firms 2020<sup>9</sup>

#1 Total Number of U.S. and Global Fairness Opinions Over the Past 10 Years<sup>1</sup>

#5 U.S. Middle-Market Transactions Over The Past 10 Years<sup>2</sup>

Leading patent consulting firm<sup>11</sup>

## WE WON

**Best Cyber Security Services Provider**<sup>4</sup>

**Best Compliance Consultancy Firm**<sup>5</sup>

**Thought Leader** in Digital Forensics, Arbitration and Investigations<sup>3</sup>

International Mid-Market M&A Advisory Firm of the Year in Canada – 2020<sup>6</sup>

**Thought Leader** in Corporate Tax and Digital Forensics<sup>7</sup>

**Best Valuations Firm** for Hard-to-Value Assets<sup>8</sup>

**Kroll recognized** as Pacesetter in the ALM Intelligence: Cybersecurity Services 2020

Duff & Phelps and Kroll named **Best Compliance Consultant/Advisor**<sup>10</sup>

Recommended Vendor for Security Incident Response in Gartner® Invest Analyst Insight: SRM 2020 and 2019

1. Source: Thomson Reuters' cumulative data 2011-2020  
2. Source: Thomson Financial Securities Data (U.S. deals \$10M < \$150M, including deals without a disclosed value). Full years 2011 through 2020  
3. Who's Who Legal 2018-2020: Forensic and Litigation Consulting.  
4. HedgeWeek 2018

5. HFM European Quant Awards 2019  
6. 2020 Corporate INTL Global Awards  
7. Who's Who Legal 2019  
8. 11th Annual HFM European Hedge Fund Services Awards in 2019

9. America's Best Management Consulting Firms – Forbes  
10. Compliance Week's 2020 Excellence in Compliance Awards  
11. IAM Patent 1000 2020

# VALUATION PROFESSIONAL AFFILIATIONS

Respected across the globe for our expertise

Our managing directors provide input to regulators and standard-setters and actively contribute to the development of valuation industry best practices.



INSOL International



## For more information, please contact:

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A Kroll Business  
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312-730-3756

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