

Has the Northwest Flattened the Curve?

COVID-19, Economic Scenarios, and What May Follow

Agenda

1. Welcoming Remarks
2. COVID-19 – Thinking Through Economic Scenarios
3. COVID-19 – Northwest Property Markets
4. What's Next, and What Can We Really Know?
5. Questions & Answers

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Welcoming Remarks

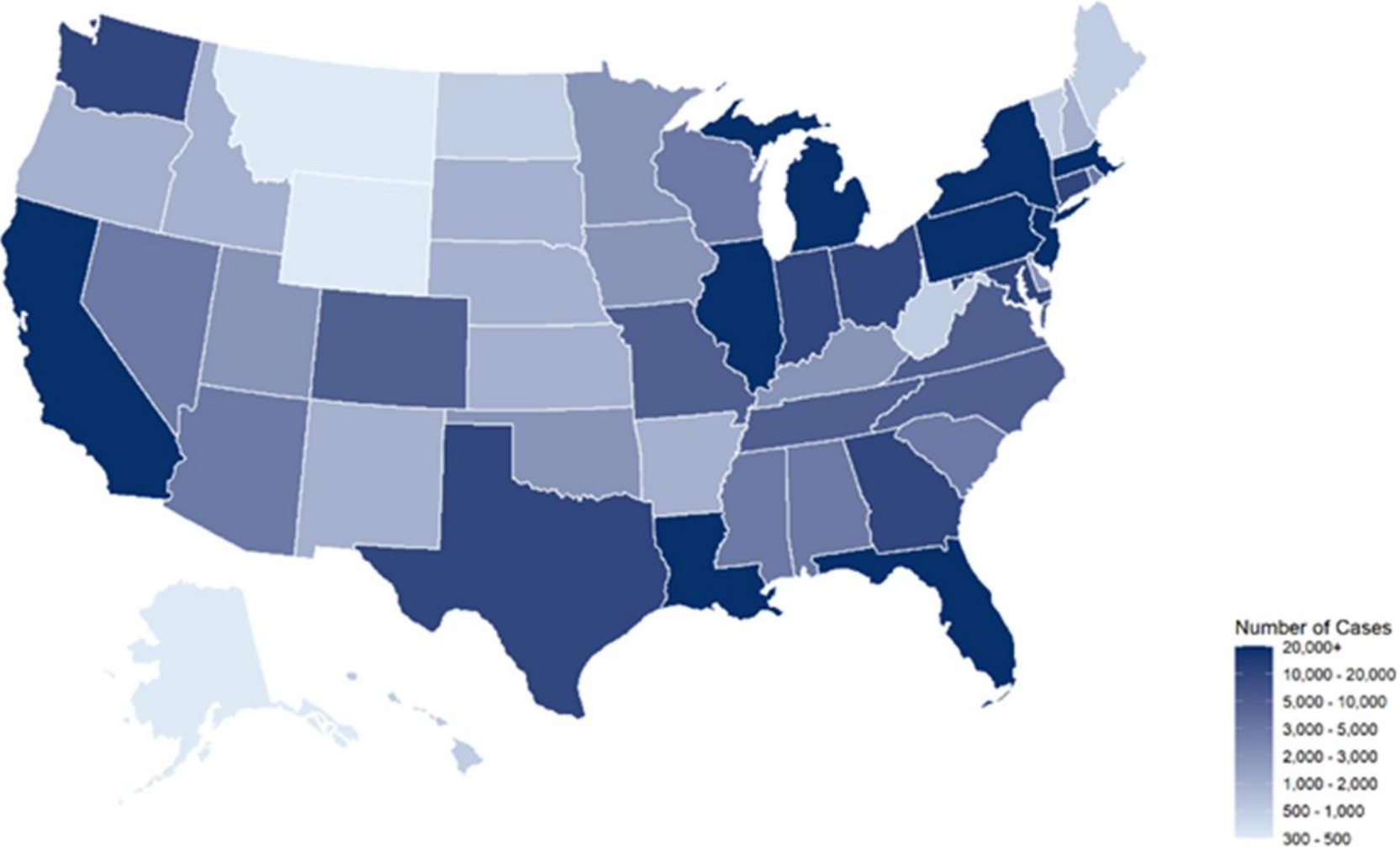
Cristina Pieretti, *Managing Director | Head of REIS*
Moody's Analytics

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COVID-19 – Thinking Through Economic Scenarios

Victor Calanog PhD, *Head of CRE Economics*
Moody's Analytics

Concentration Risk Apparent Given Identified Cases



Source: US CDC, as of April 27, 2020

COVID-19 Economic Transmission Channels

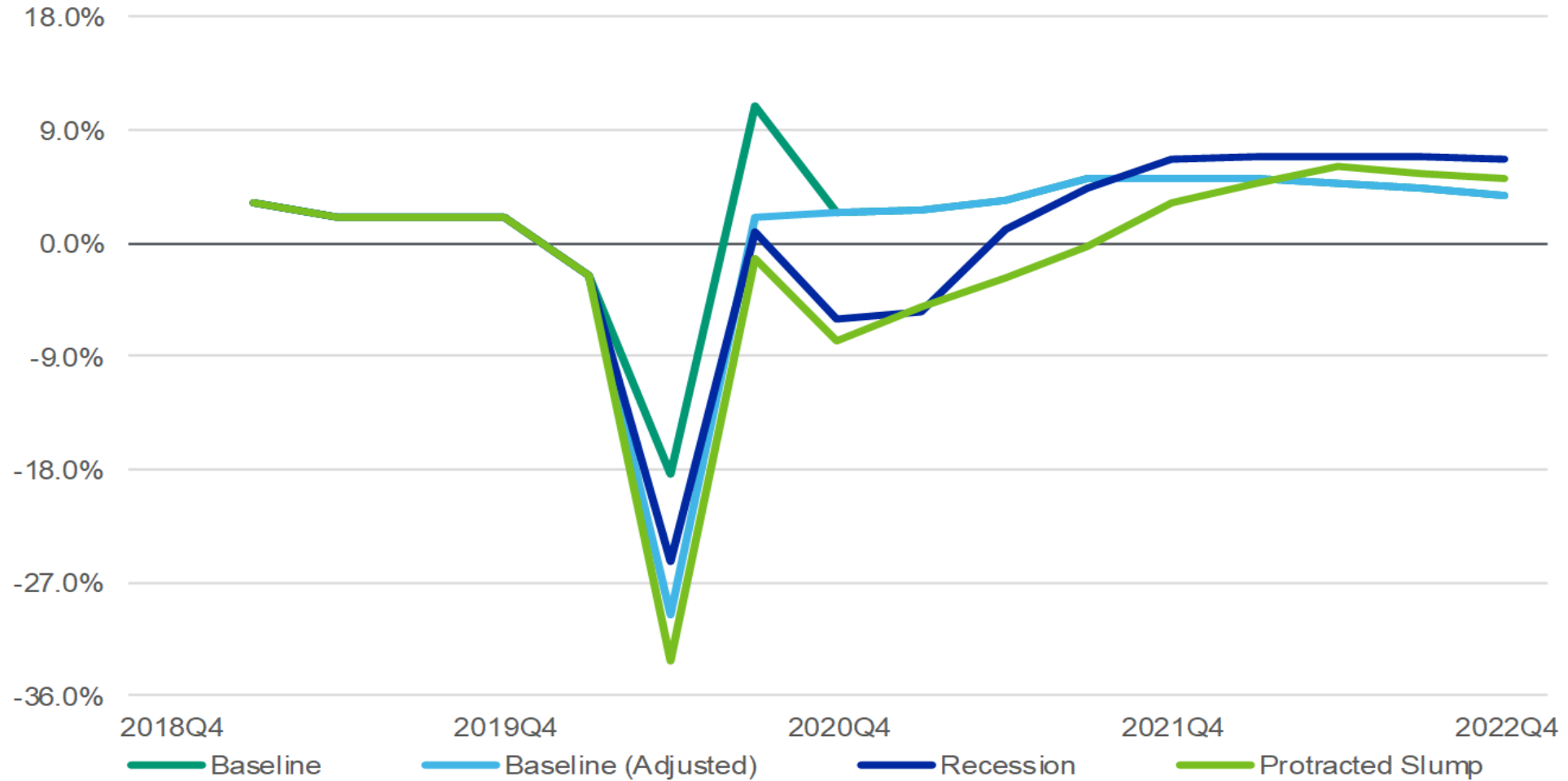
1. Tourism/Leisure/Hospitality
2. Trade
3. Commodity prices
4. Financial markets
5. Confidence



**Combination of Supply and Demand
Shocks Complicates Forecasts**

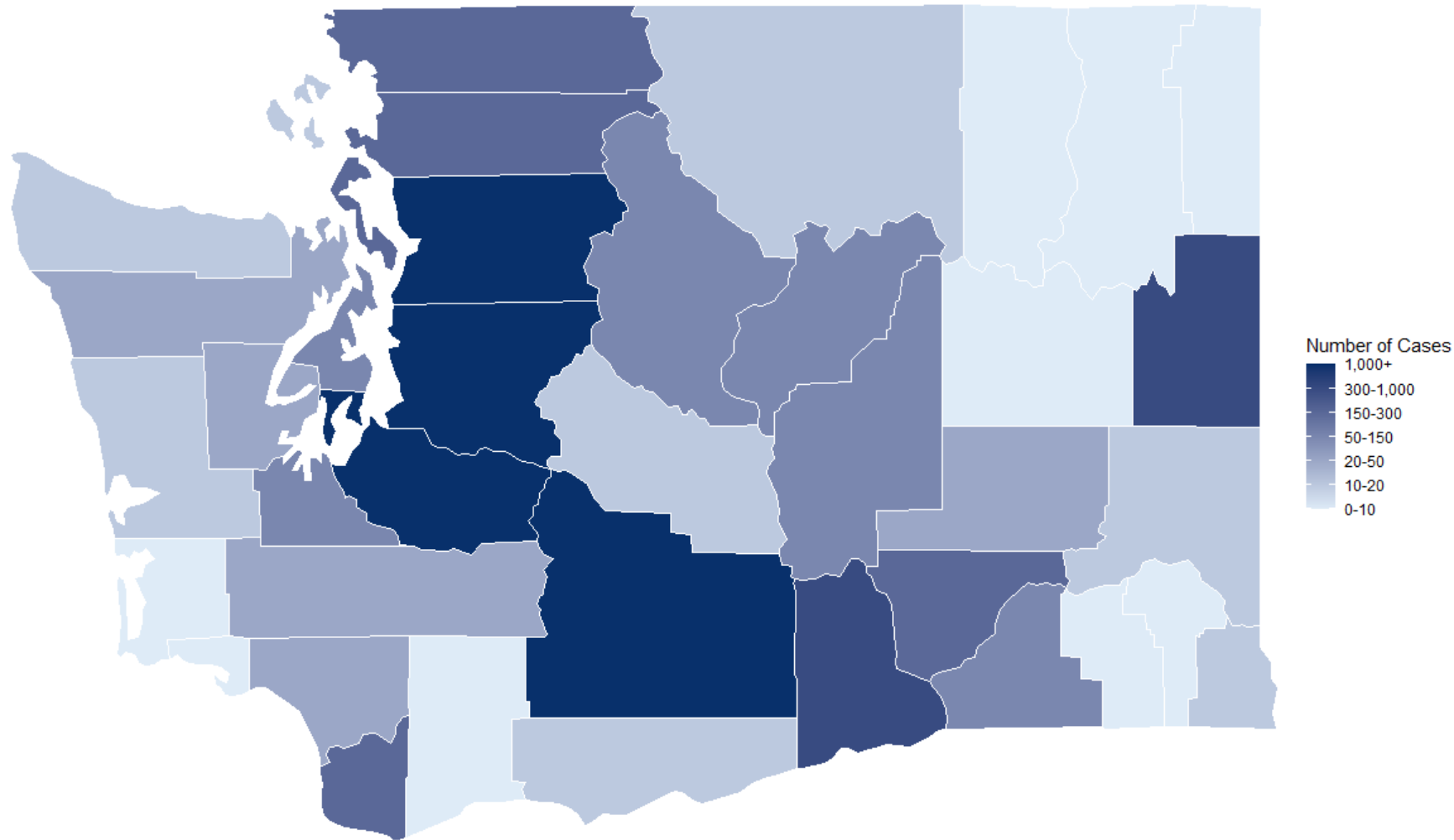
What Does the Crystal Ball Say (Today?)

Real GDP, annualized quarter/quarter growth rate



Sources: BEA; Moody's Analytics

The Northwest Situation: Washington State



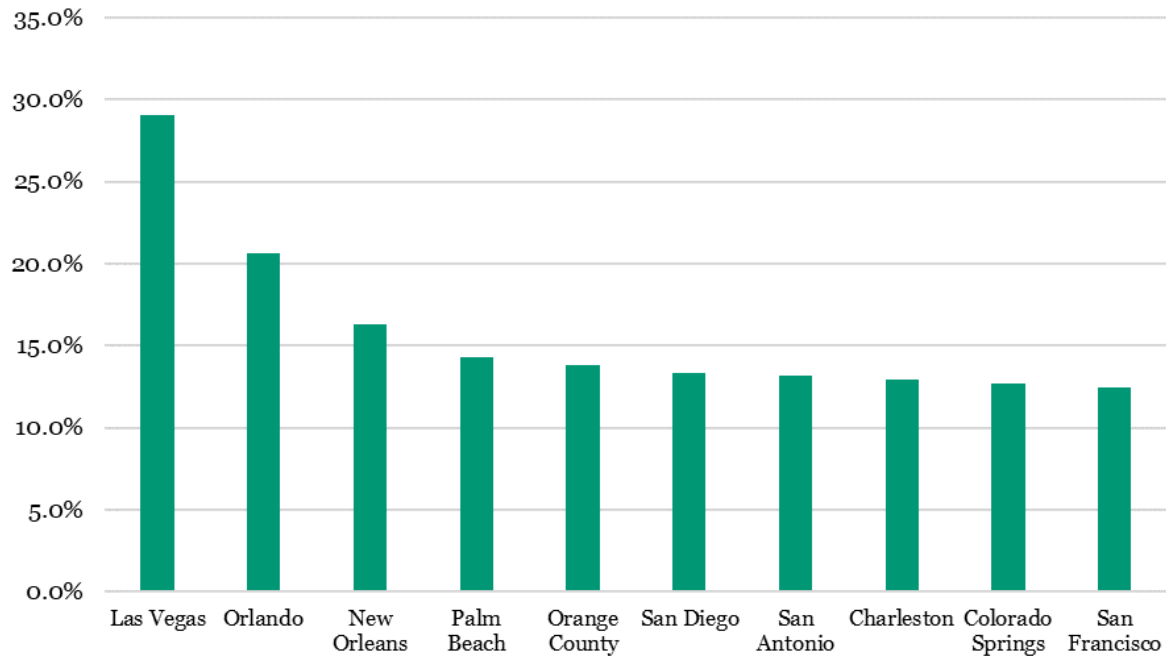
Source: Washington State Department of Health, as of April 27, 2020.

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Northwest Property Markets

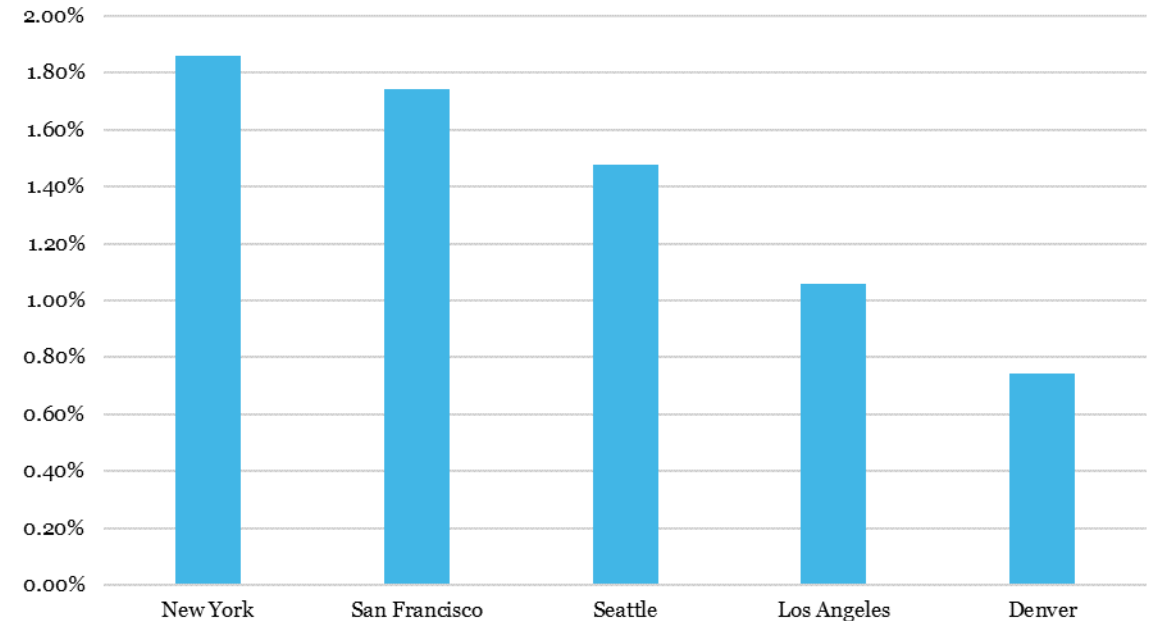
Shorter Lease Lengths = The Front Lines

Share of Leisure and Hospitality Employment



Source: Moody's Analytics

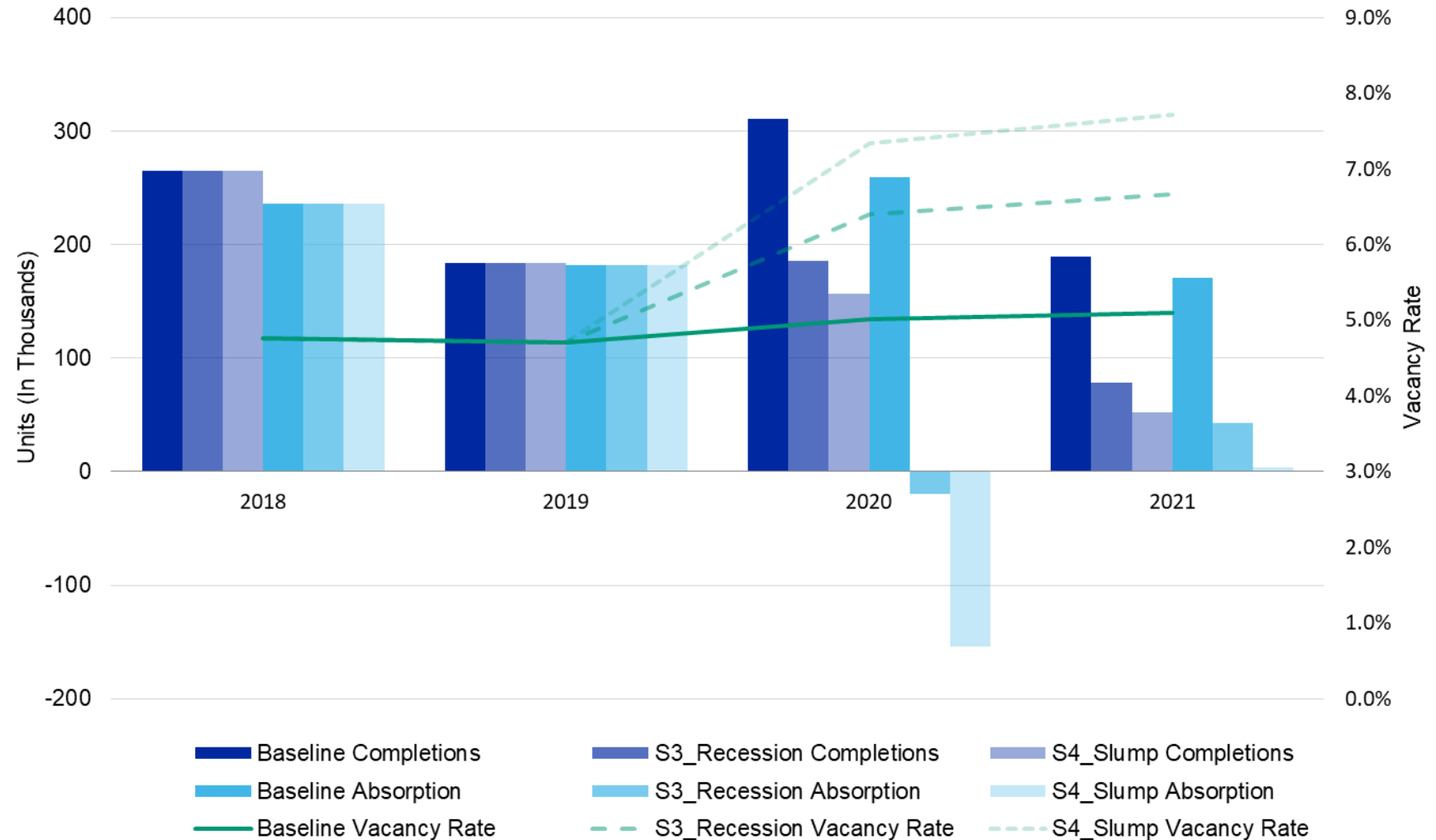
Largest WeWork Leases Relative to Metro Inventory



Source: Moody's Analytics REIS; CompStak

Recession & Protracted Slump | Multifamily

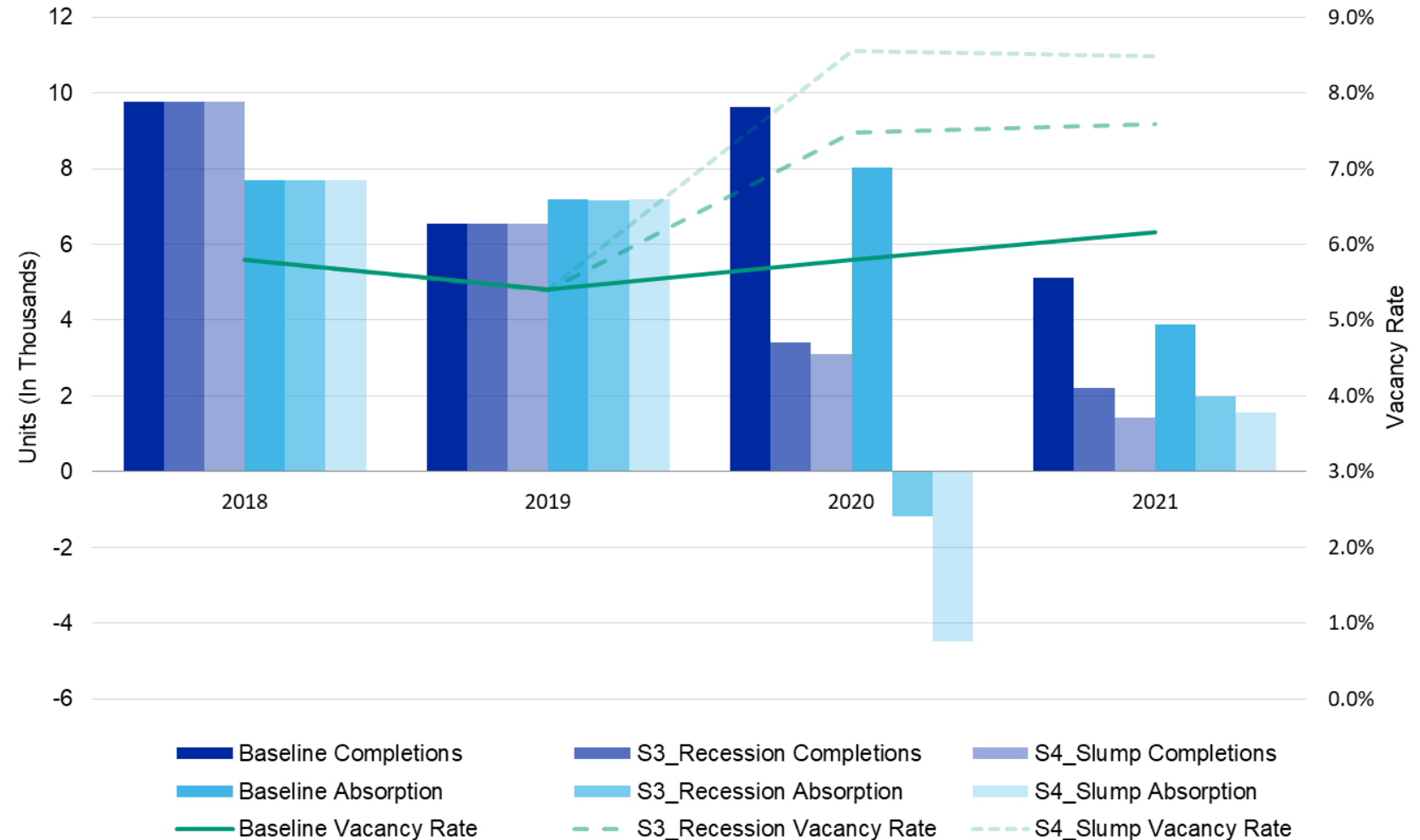
- Baseline expected a record high in terms of deliveries for 2020: over 300,000 new units.
- Recession and protracted slump scenarios produce an increase in vacancies, but construction pullback is a countervailing effect.



Source: Moody's Analytics REIS

Recession & Protracted Slump | Seattle

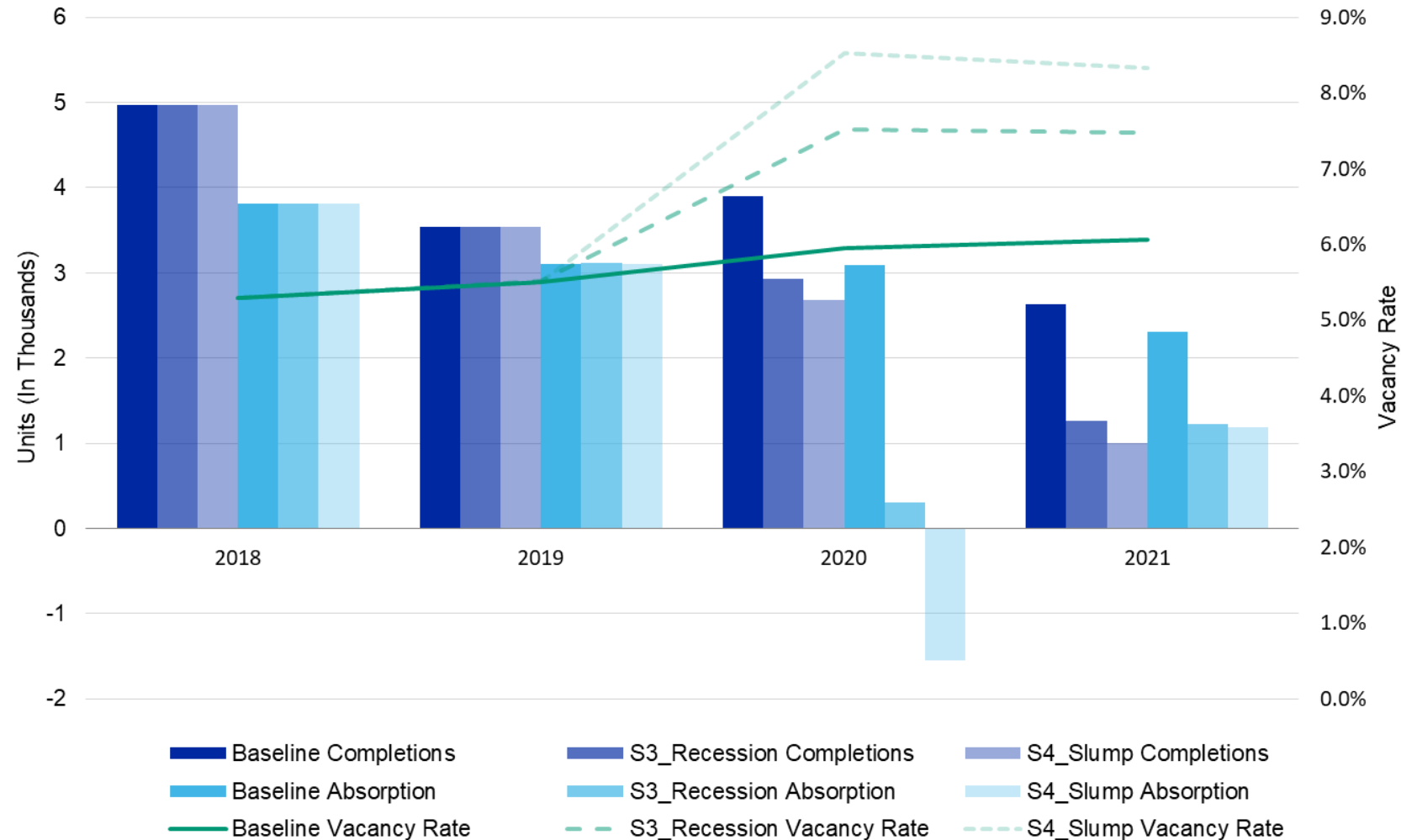
- For Seattle, we were expecting close to 10,000 units to be delivered in 2020 – close to prior record highs.
- Worst case scenario has vacancies breaching 8.6% (an historic record) in 2020 before beginning to recover in the following year.



Source: Moody's Analytics REIS

Recession & Protracted Slump | Portland

- Close to 4,000 units of expected deliveries in Portland for 2020 (pre-pandemic, end-2019) was not unreasonable.
- Vacancies are expected to rise to the mid-8's, but this will not break the historic high of 8.9% in 1981 (shortly after UGBs were drawn)



Source: Moody's Analytics REIS

Protracted Slump | Major Northwest Multifamily Markets

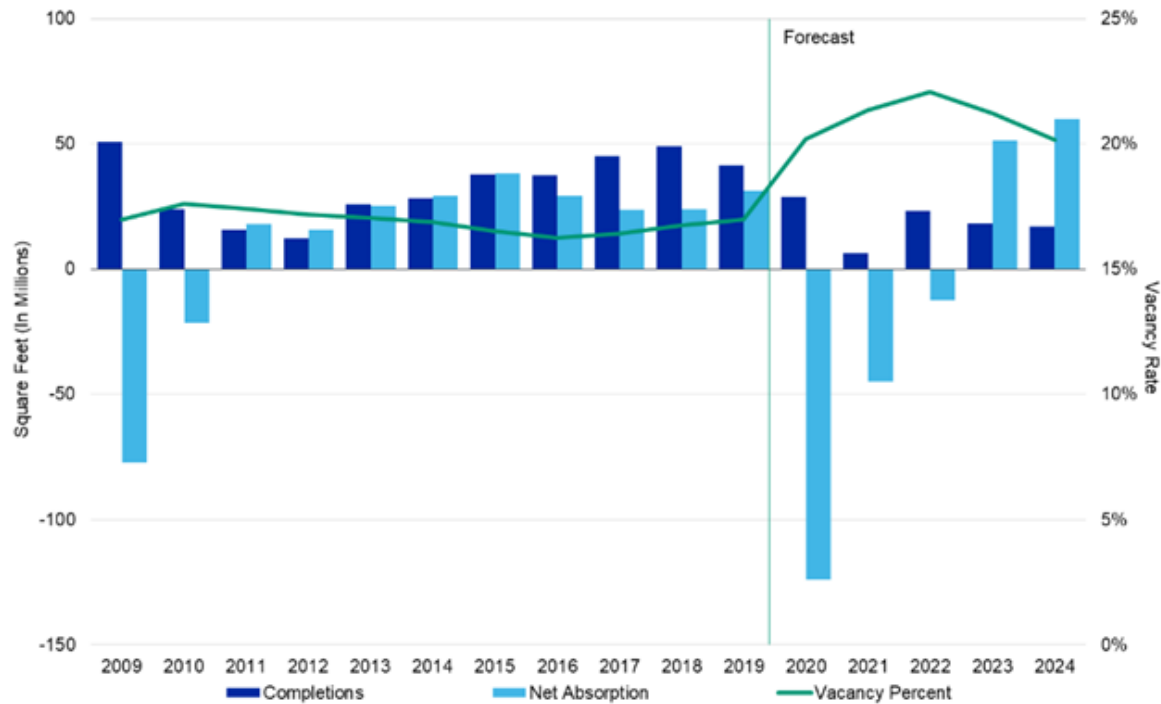
Source: Moody's Analytics REIS

MSA	Vacancy Level (2020)	Effective Rent Change (2020)	Employment Change (2020)
Seattle	8.6%	-5.8%	-3.8%
Tacoma	7.4%	-4.3%	-3.4%
Portland	8.5%	-4.0%	-3.0%

- Historical reaction functions to downturns determine the relative focus and magnitude of distress in various property types and geographic markets.
- Recent record of oversupply will position any geographic market for distress, if demand pulls back abruptly (as per a severe pandemic or protracted slump scenario).
- Recent record of poor performance, particularly when vacancies have been rising and/or rent growth has been moderating, suggests markets will not fare as well in a downturn.
- In relative terms, Tacoma occupancies hover lower than Seattle and Portland; Seattle effective rents take a bigger hit given the greater decline in employment.

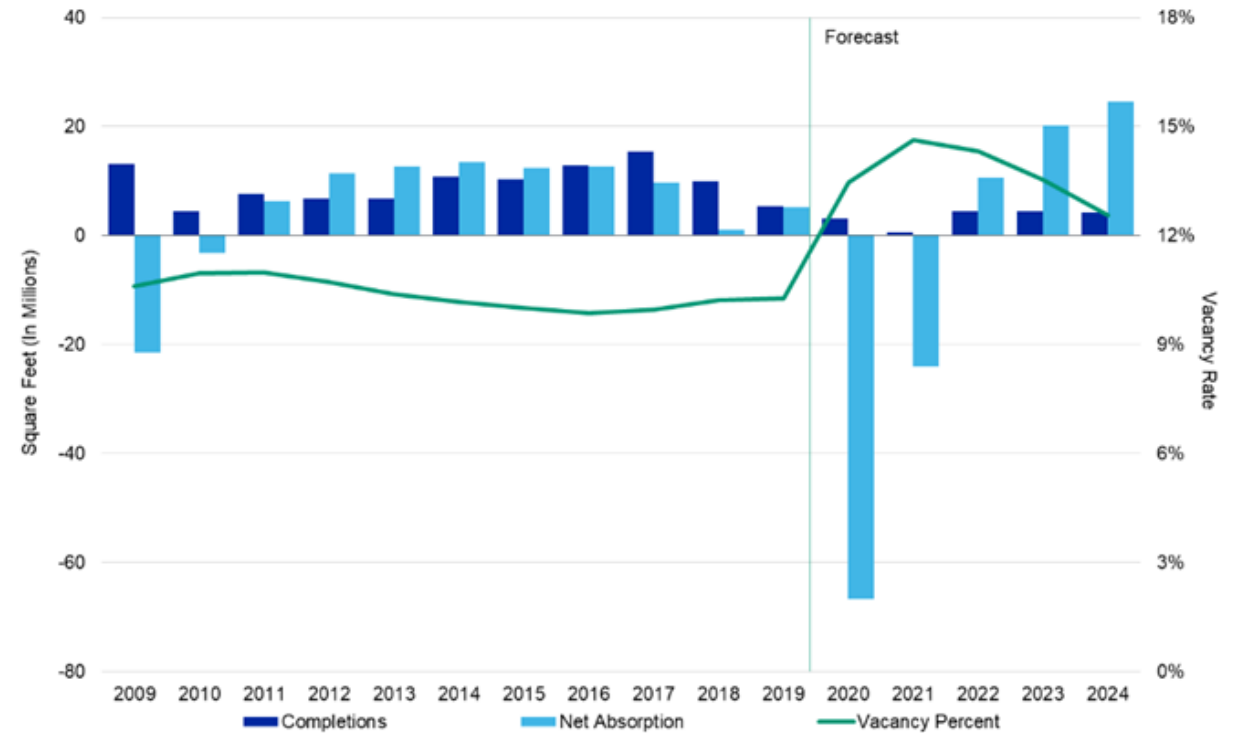
Office & Retail Do Not Fare as Well

Office Fundamentals | Protracted Slump



Source: Moody's Analytics REIS

Retail Fundamentals | Protracted Slump

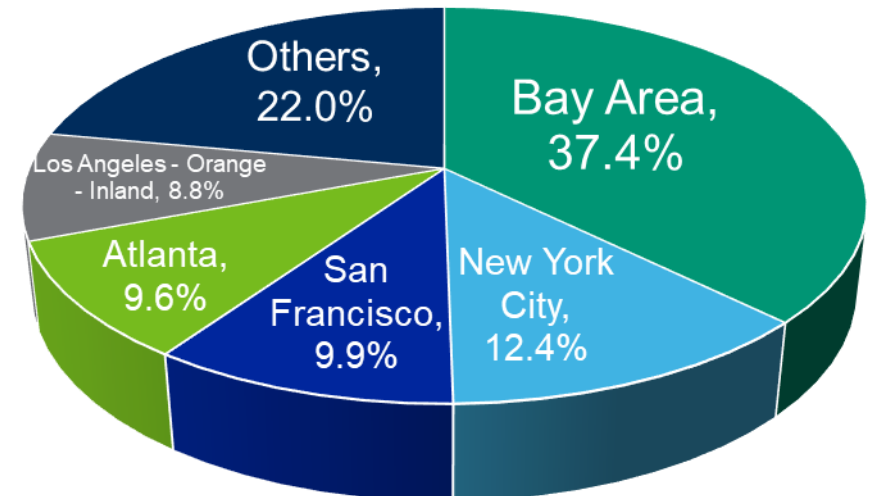


Source: Moody's Analytics REIS

Northwest Markets in a Protracted Slump: Office

MSA	Vacancy Level (2020)	Effective Rent Change (2020)	Employment Change (2020)
Seattle	14.1%	-9.8%	-3.8%
Tacoma	21.4%	-5.2%	-3.4%
Portland	16.8%	-7.4%	-3.0%

- Office effective rent growth will take a hit given the depth and magnitude of the recession.
- How will office space evolve? The case of Google in Seattle.

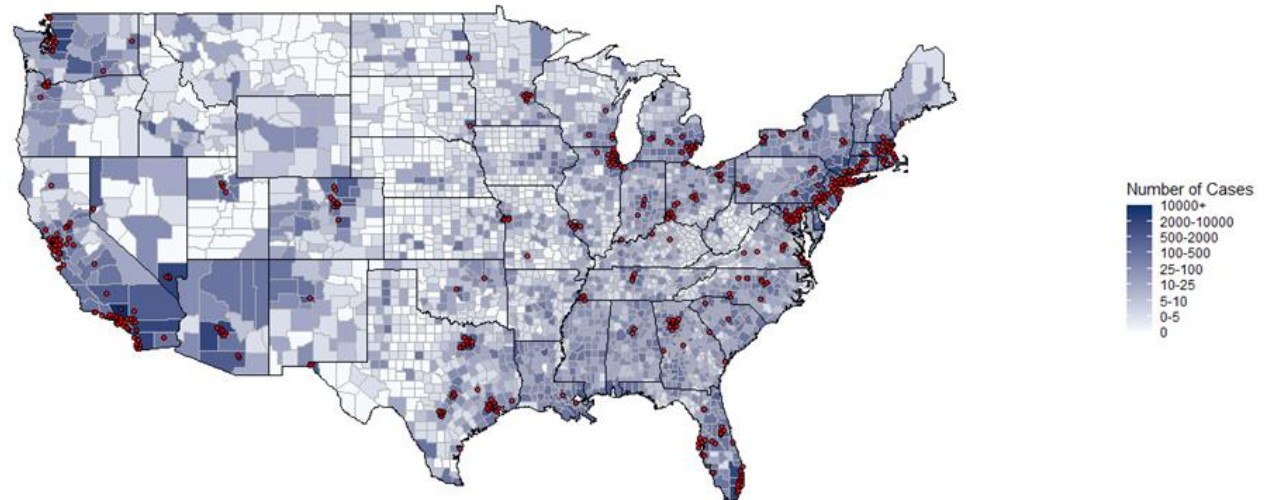


Source: Moody's Analytics REIS; CompStak

Northwest Markets in a Protracted Slump: Retail

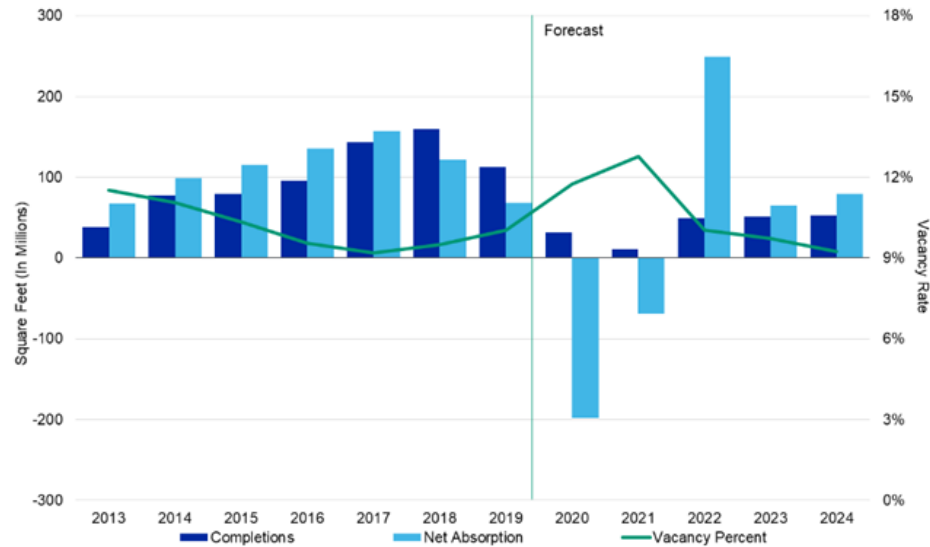
MSA	Vacancy Level (2020)	Effective Rent Change (2020)	Employment Change (2020)
Seattle	9.5%	-11.3%	-3.8%
Tacoma	16.0%	-10.8%	-3.4%
Portland	10.5%	-10.2%	-3.0%

- Retail will suffer worse than office given pressure from e-commerce and effect of economic closure on stores.
- Need to go case by case: Example of Macy's



Source: Moody's Analytics REIS

Northwest Warehouse/Distribution Markets



Source: Moody's Analytics REIS

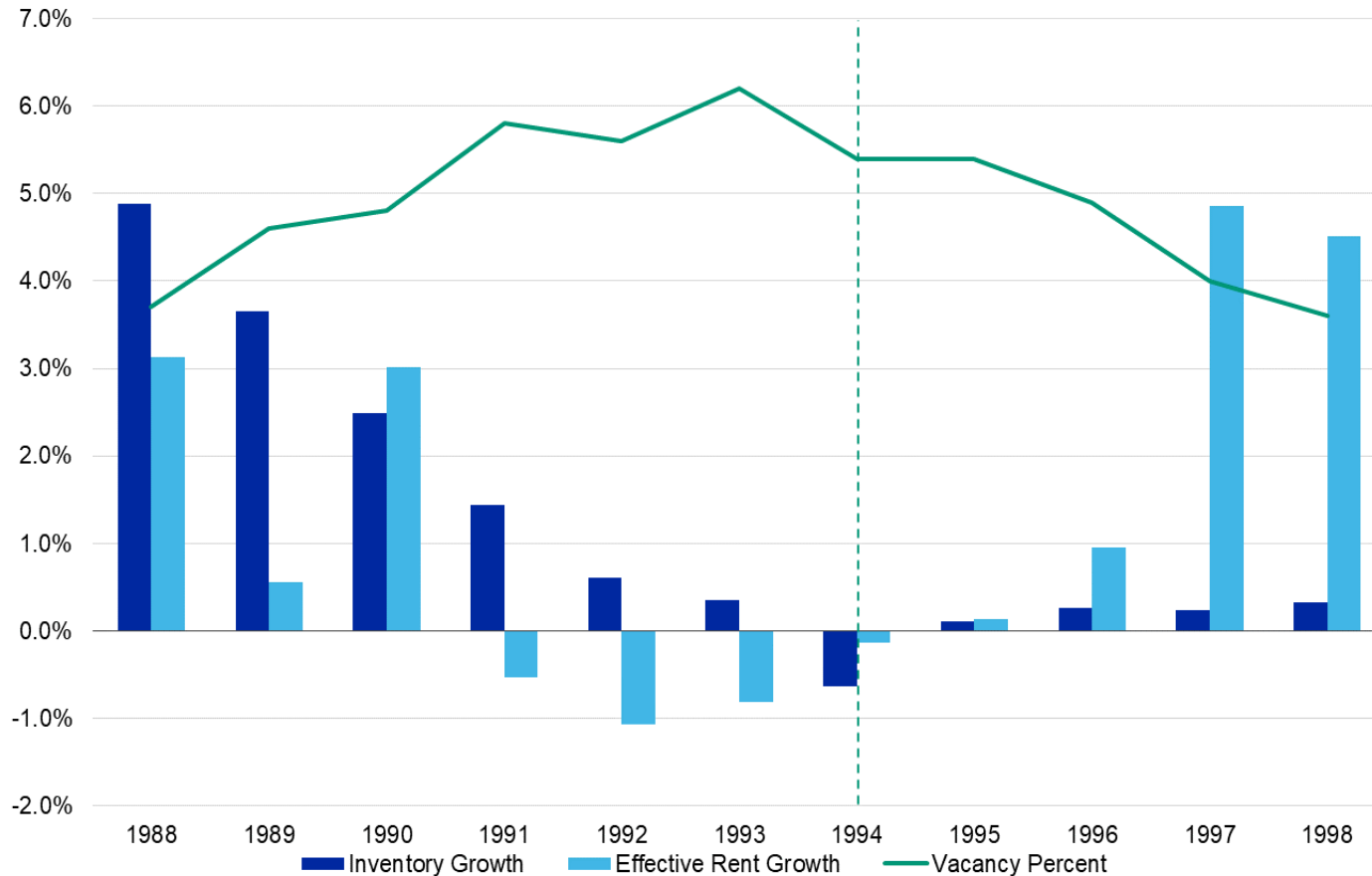
MSA	Vacancy Level (2020)	Effective Rent Change (2020)	Employment Change (2020)
Seattle	11.5%	-7.3%	-3.8%
Portland	13.0%	-6.8%	-3.0%

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What's Next, and What Can We Really Know?

Idiosyncratic Shocks? Some Experience

Los Angeles Multifamily Fundamentals, 1988 to 1998

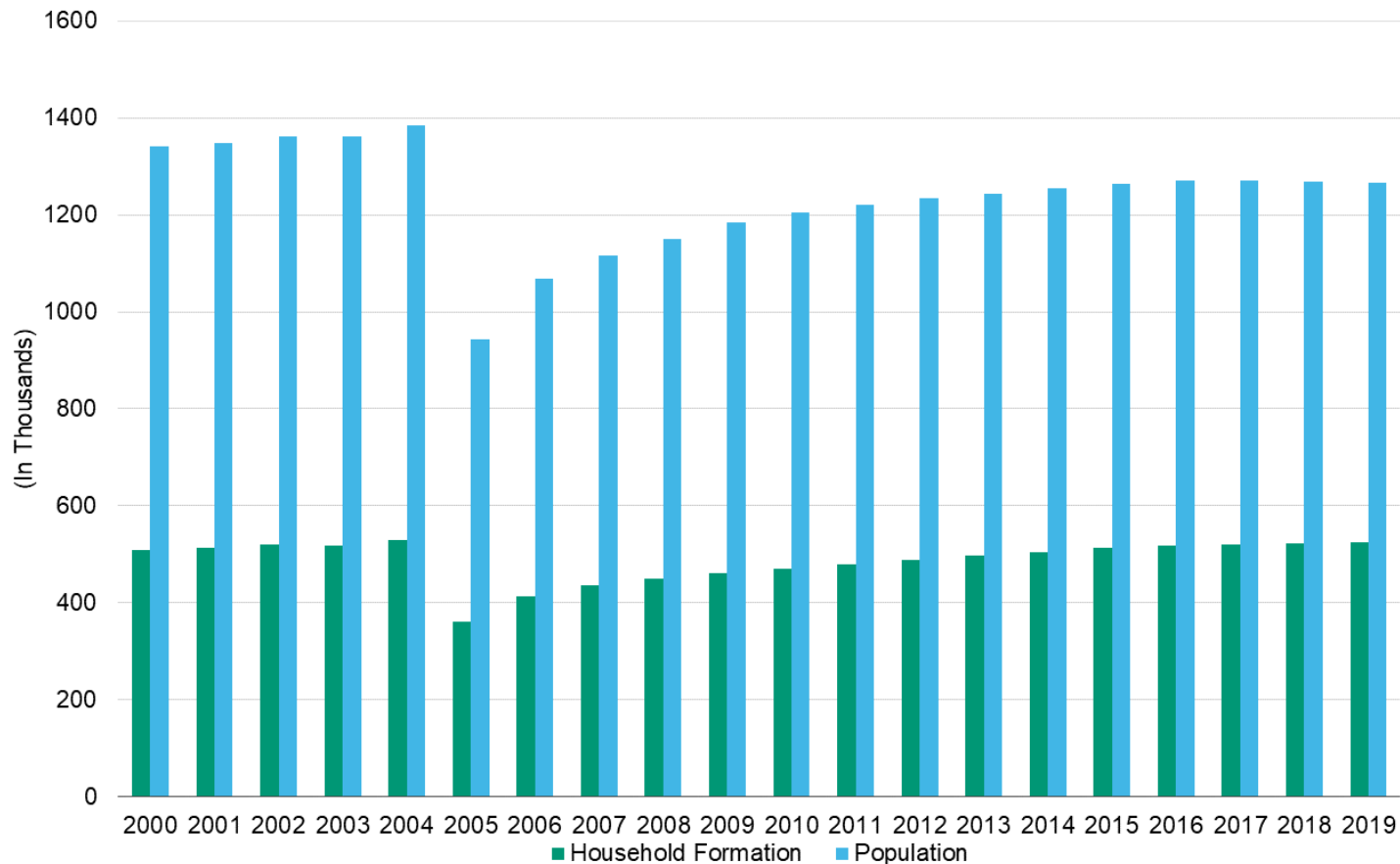


Source: Moody's Analytics REIS

- The Northridge Earthquake of 1994 remains the costliest earthquake on record in the US (\$26.4 billion in damages, 2018 dollars)
- *Net positive* for Los Angeles multifamily fundamentals – but *why?*
- This is the optimistic case: that demand remains strong in urban areas where multifamily properties tend to cluster.

Idiosyncratic Shocks? Potential Negatives

New Orleans Demographics, 2000 to 2019

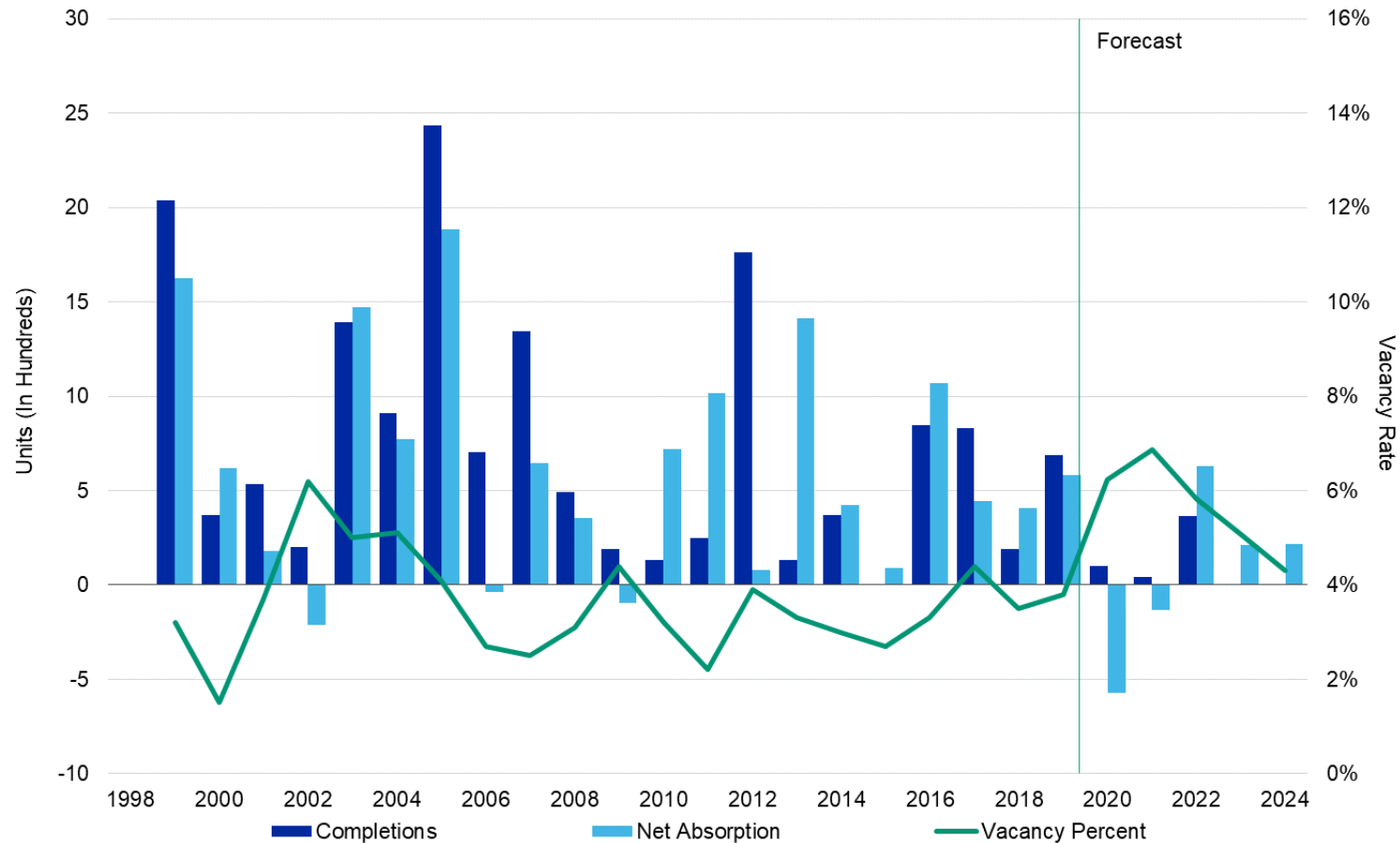


Source: Moody's Analytics

- Hurricane Katrina in 2005 devastated New Orleans and the area suffered a permanent shock to demand
- Multifamily fundamentals received a temporary boost because of destroyed units, but over the long run weaker demand did not sustain occupancies.
- What will happen post-COVID-19?

Downtown NYC: 9/11 and Its Aftermath

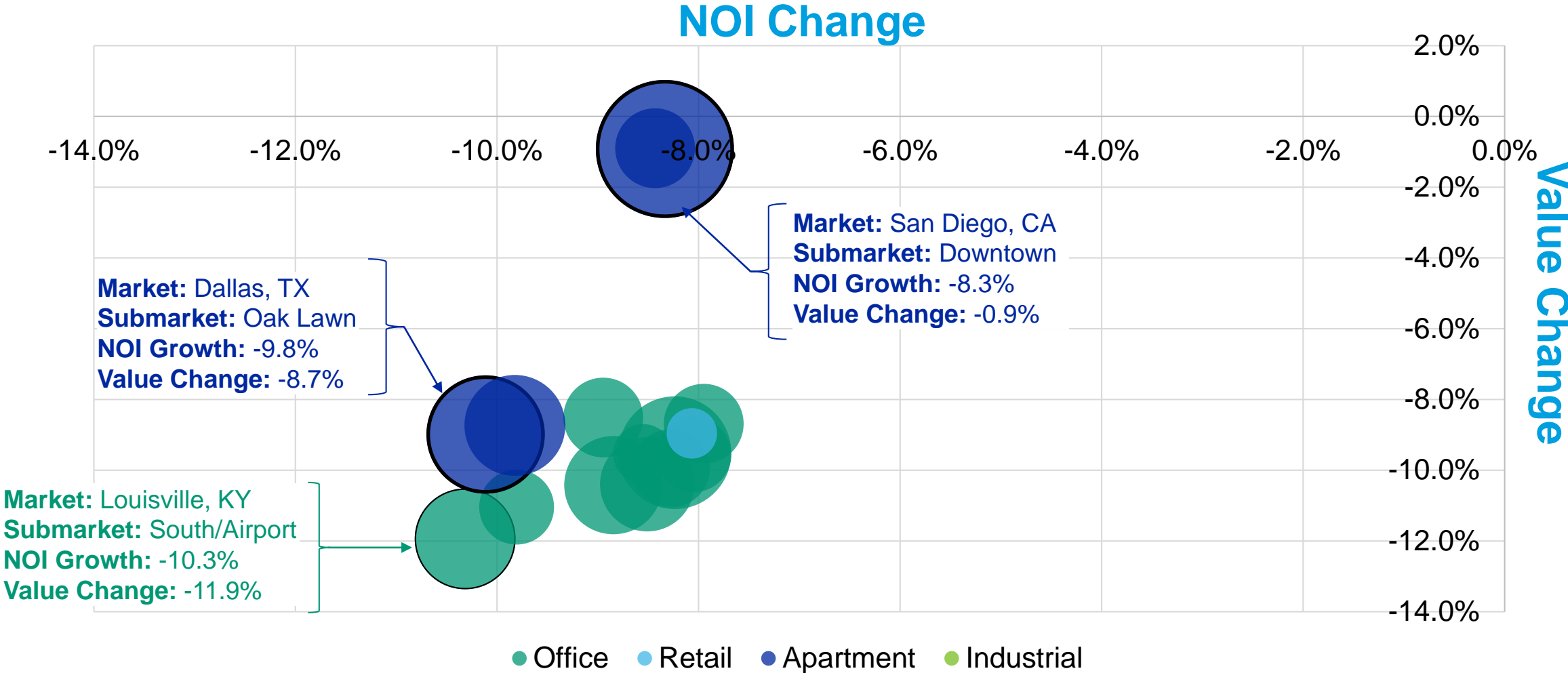
Downtown NYC Multifamily, 1999 to 2024



- Downtown NYC vacancies spiked in 2001 after 9/11 and took a few years to recover – but it did recover.
- Over 60,000 households moved to downtown NYC and helped transform it into a residential neighborhood (not just office).
- What will happen post-COVID-19?

Source: Moody's Analytics

Applications: Portfolio Analysis



Source: Moody's Analytics REIS | Baseline scenario as of EOM March 2020

Applications: COVID-19 Impact Assessment Tool

<https://cre.reis.com/covid-19>

COVID-19 Outbreak: Impact on CRE

Sign-up for our COVID Impact Newsletter [Resources](#) Search

New York Metro, NY

NEW YORK METRO, NY Office

NEW CONSTRUCTION IMPACT - OFFICE

Construction: **STOPPED** SQ FT at Risk: **34M**

Declared Non-Essential: 03/27/2020

View data set →

EMPLOYMENT IMPACT

Impact: **LOW**

MARKET INSIGHT

Bracing for COVID-19 Fallout Despite Recent Balanced Growth

PUBLISHED ON 4/19/2020

COVID-19 Impact on New Construction - Office

Metro	County	Construction Non-Essential?	Date Declared Non-Essential	Projects at Risk Under Construction	SF at Risk	Projects at Risk Planned	SF at Risk
New York Metro, NY	Kings County	Yes	03/27/2020	19	3,371,379	25	2,808,995

Questions & Answers

Today's Speakers



Cristina Pieretti
MANAGING DIRECTOR / HEAD OF REIS



Victor Calanog
HEAD OF CRE ECONOMICS

Thank You

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