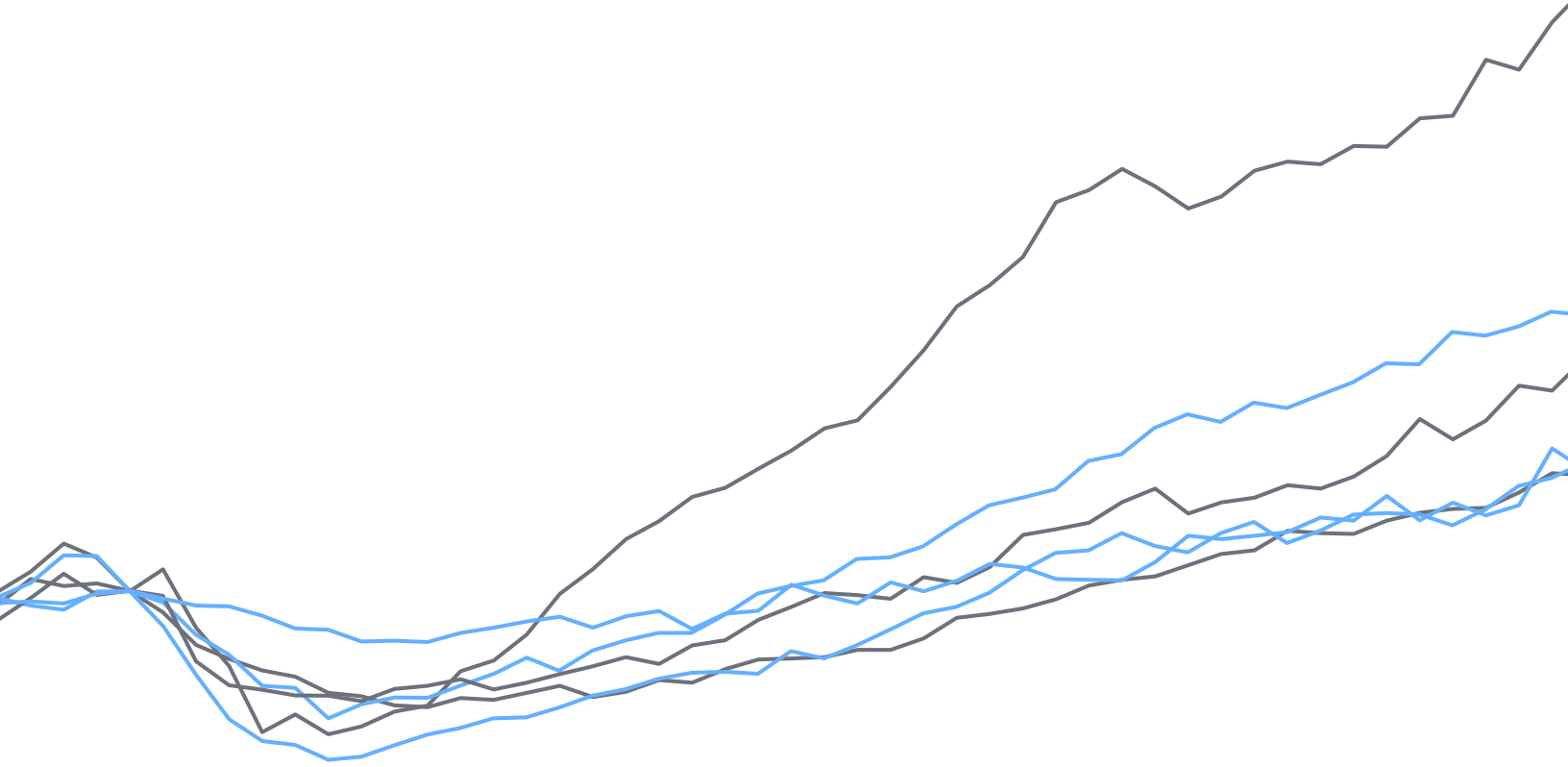




COMPSTAK

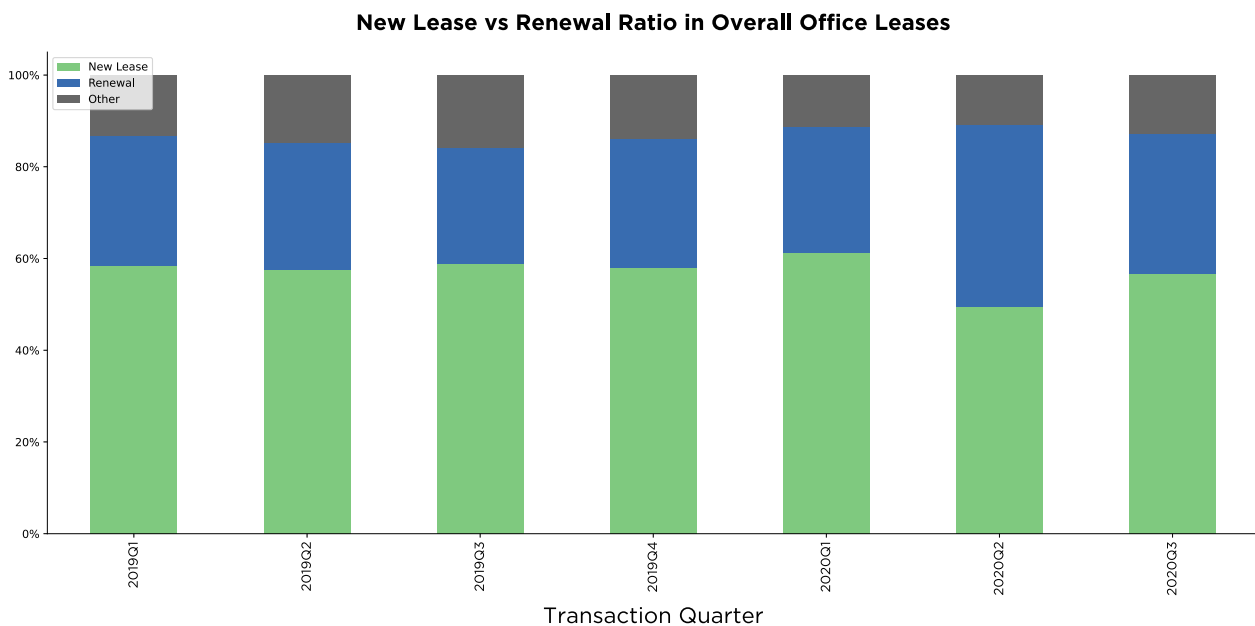
# Impact of COVID-19 on CRE Market Dynamics



To evaluate the impact of COVID-19 on commercial real estate markets, it is crucial to understand industry dynamics based on various datasets and indicators. CompStak, the only national platform specializing in crowdsourced real-time comp data, has the best vantage point for understanding what exactly happened in the CRE industry in 2020, and more importantly, where the industry is heading.

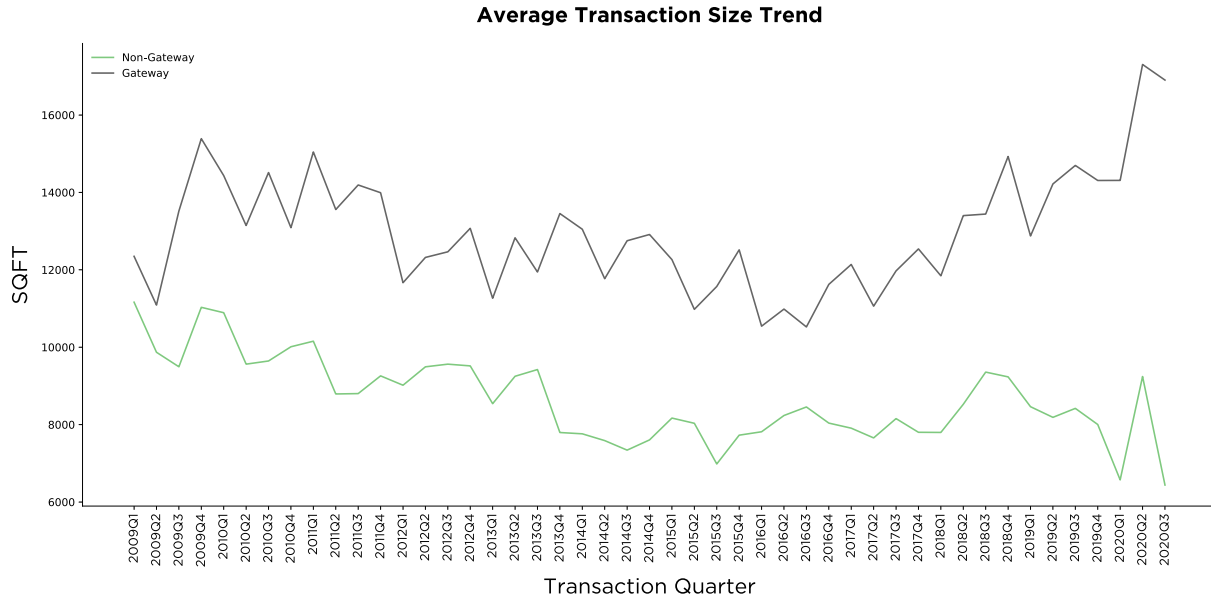
Based on real-time and historic comp data, this report is an assessment of the state of the market as of December 1st, 2020, constructed with CompStak's granular, analyst-reviewed information on averages in gateway markets like New York City, Los Angeles, San Francisco/Bay Area, Chicago, Boston, and Washington, D.C.

## New Leases vs. Renewals



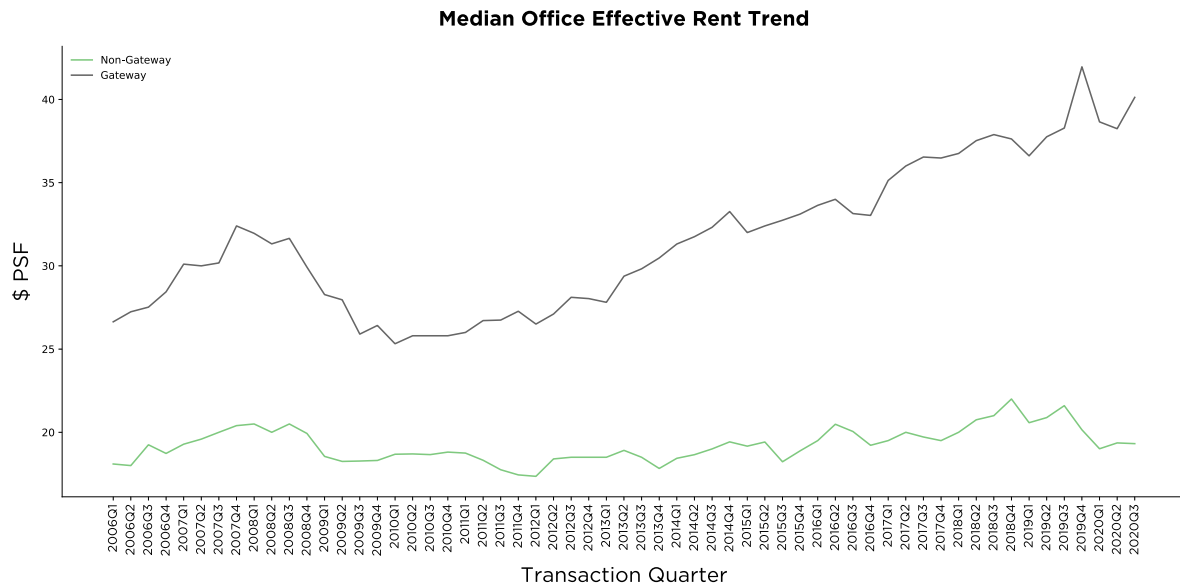
In Q2, CompStak saw a 15% drop in new leases signed as a percentage of overall lease deals. In contrast, CompStak received a larger share of lease renewals, indicating that companies were proactive in taking advantage of depressed market conditions. Tenants were able to lock in favorable long-term rates as companies were generally more hesitant to sign new leases due to current market conditions.

## Transaction Size



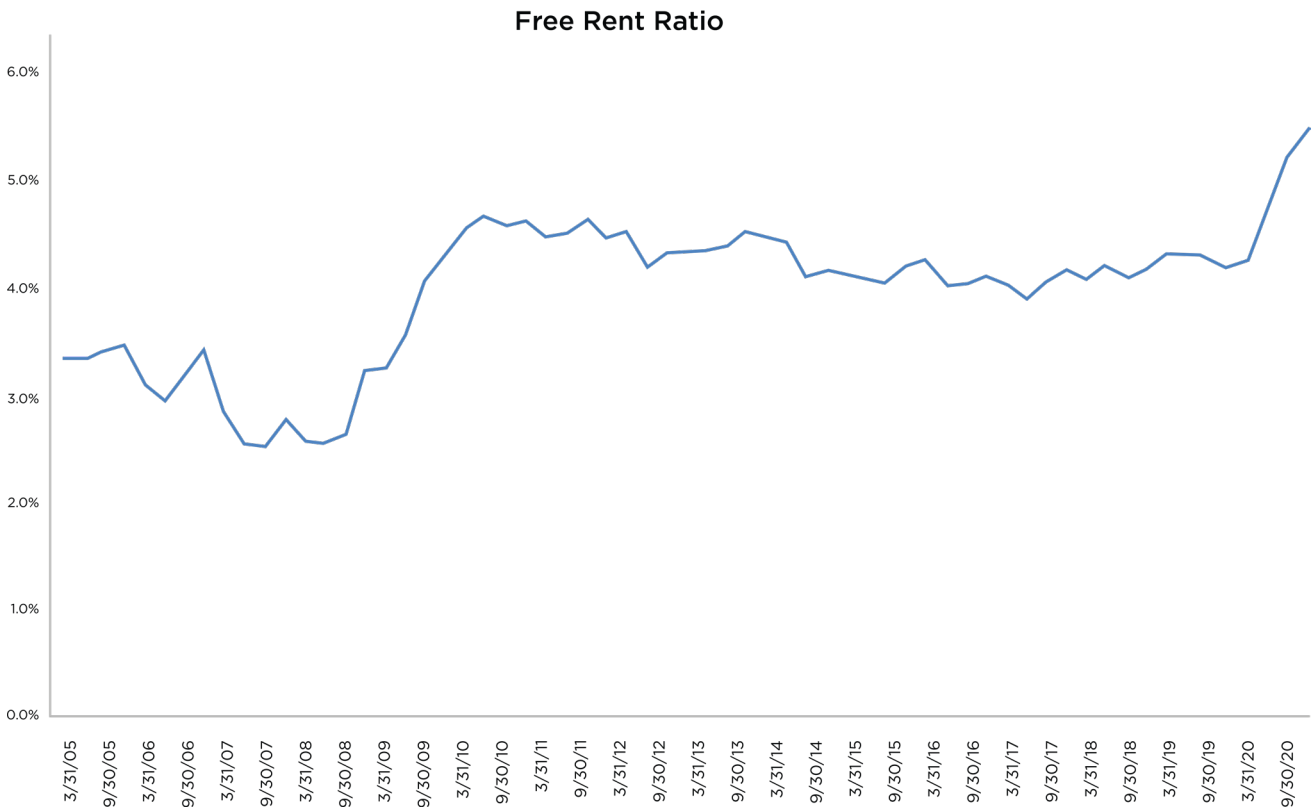
The average transaction size increased by 30% in both gateway and non-gateway markets. A likely reason is that prospective tenants are waiting to sign new leases and existing tenants are letting their current lease obligations expire. However, larger deals, which in some cases have been in the works for years are given additional concessions, continue moving forward.

## Net Effective Rent



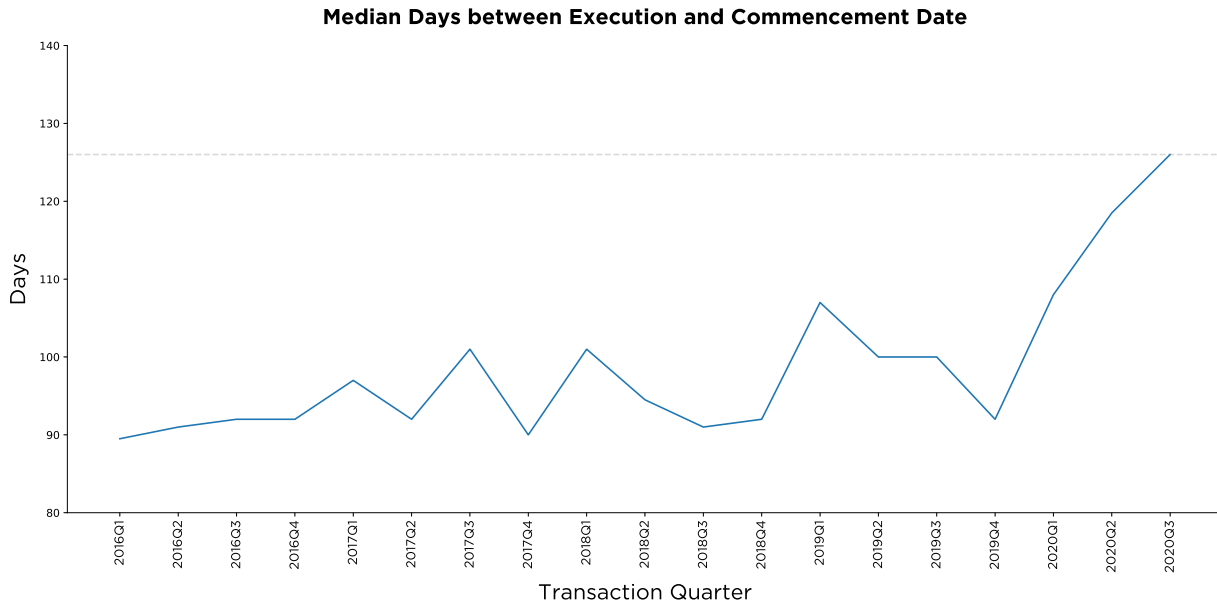
Net effective rents decreased across the US, but particularly in gateway markets. Despite a small uptick in Q3 2020, CompStak expects more effective rent decreases across the Midwest in the first part of 2021.

## Free Rent



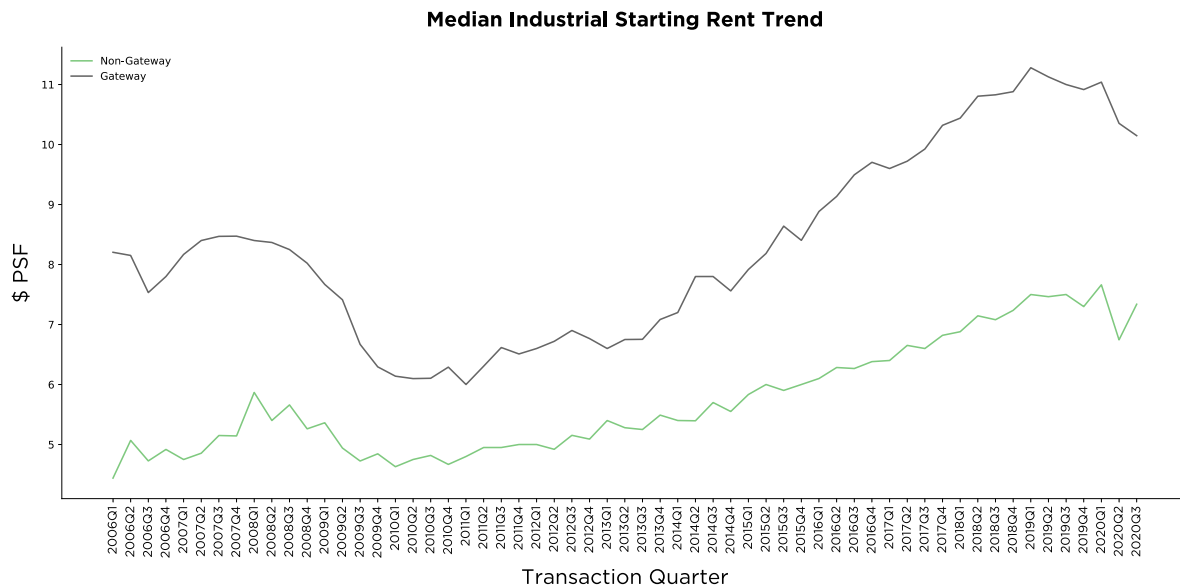
The number of free months as a percentage of the deal value (free rent ratio) has gone up dramatically. Compared to the same time period in 2019, free rent has increased by approximately 30%. Since the beginning of 2020, free rent ratio now averages over 5% of the total lease term for recently executed leases. Since 2011, the free rent ratio has been steady or slightly decreasing; however, since March 2020, there has been a sudden jump in the free rent ratio, likely related to the effect of COVID-19 on the market. A similar spike in free rent can be seen during the financial crisis from 2009 to 2011, which could indicate how free rent will move in 2021.

## New Concession: Delayed Commencement



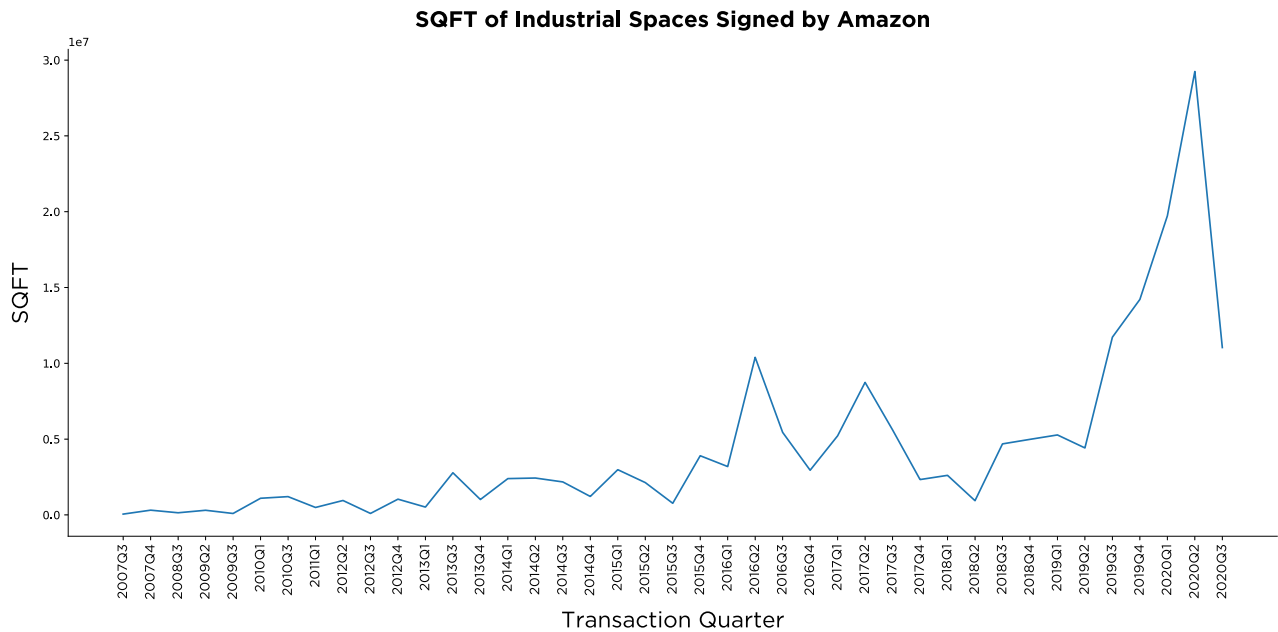
In 2020, the median number of days between lease execution and commencement dates for office space increased by a full month to 126 days. This is more than one month longer than the average over the past 5 years. Delaying commencement does not decrease net effective rent, which benefits landlords.

## New Concession: Delayed Commencement



Even though industrial assets have outperformed other asset classes, CompStak's data shows that industrial assets are not entirely COVID proof. The starting rents for industrial in both gateway and non-gateway markets have decreased similarly to office, but not as sharply.

## Industrial Tenants



One interesting exception in the industrial sector has been Amazon. Amazon continues to be a substantial driving force in industrial occupancy. As e-commerce has boomed through nationwide quarantines, Amazon's leasing activity continued to surge, taking advantage of the decreased rents in industrial markets nationally.

## About CompStak

CompStak is a real estate data and analytics company leveraging crowdsourced commercial lease and sale transaction data and property information combined with AI driven analytics. CompStak's 30,000 members provide data covering the entire US, and its paying customers include the world's largest real estate investors and lenders like Wells Fargo, Tishman Speyer, Vornado, AEW, CIM, and many more. For more information, visit <http://www.compstak.com>.

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