

COVID-19 AND EXPECTED IMPACT ON THE WASHINGTON, DC MARKET

MARCH 31, 2020

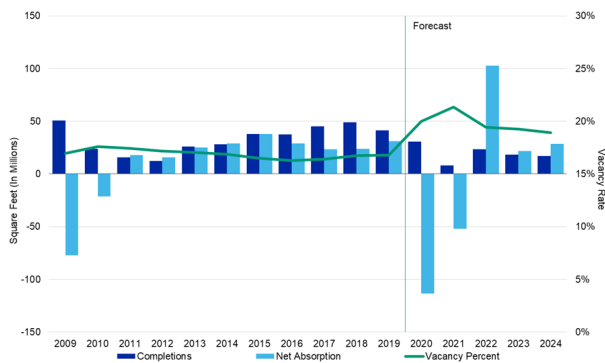


As of March 30, 2020 there were 140,904 COVID-19 (Novel Coronavirus) cases in the United States, according to the CDC, with 2,660 cases in Washington, DC, Maryland, and Virginia combined. DC, VA and MD have mandated a stay-at-home order for the time being. The virus' impact on the U.S. economy and commercial real estate market, not to mention our daily lives, is an extremely fluid situation. However, your leasing team at LPC would like share some insight and expectations on COVID-19's short-term, and potentially long-term, impact on the Metropolitan Washington, DC CRE Market.

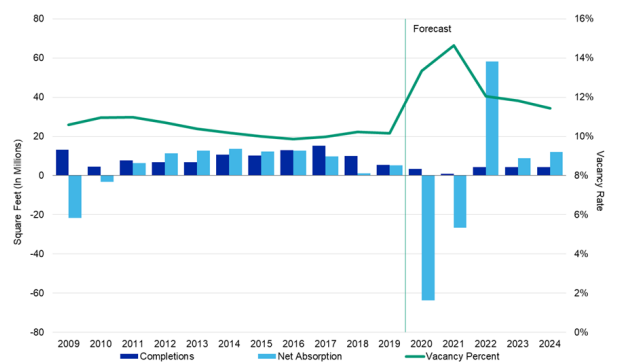
NATIONALLY

- The Office Market is expected to slump initially in 2020 as U.S. Office REIT performance is already down 35.8% year-to-date.
- The most dramatic impact has been to Hospitality and Retail REITs, down 67.5% and 55.2% respectively year-to-date.
- Vacancy rates for Office and Retail are both expected to spike in 2020; while negative net absorption is expected for both sectors and a decrease in leasing activity until 2022.
- On Friday, March 27th, President Trump signed into law an unprecedented \$2 trillion stimulus package, including \$349 billion to assist small businesses with rent and payroll and \$250 billion for expanded unemployment insurance.
- 3.3 million Americans filed for unemployment the week ended March 21st; an unprecedented and exponential jump from the 282,000 jobless claims from the week earlier. The 5-year average is around 240,000 jobless claims per week.

Office Fundamentals | Protracted Slump



Retail Fundamentals | Protracted Slump

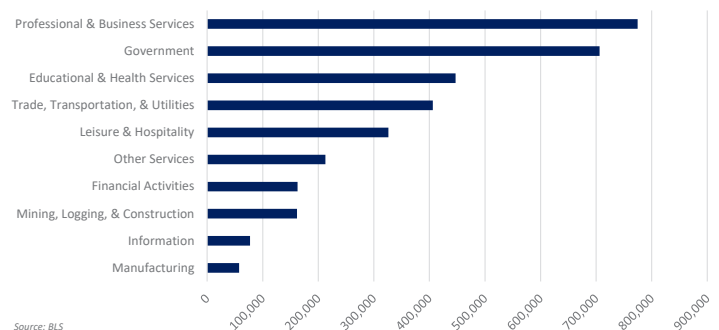


Source: Moody's Analytics REIS

LANDLORDS

- As of January 2020, employment in Metropolitan, Washington, DC totaled 3,332,500. Professional & Business Services and Government account for 44.4% of the region's employment, with a majority of those employees able to telework.
- Currently the hardest-hit sector with forced closures and layoffs is Leisure & Hospitality, which accounts for 9.8% of the region's employment. Marriott (headquartered in Bethesda) and Hilton (headquartered in McLean) have announced furloughs for thousands of employees.
- The Coworking industry will also be hit hard short term, as overall occupancy is expected to fall due to city/state mandated stay-at-home policies and social distancing practices. Significant layoffs have been announced. The future is uncertain as flexible work space may see increase demand as tenants become more familiar with flex work solutions.
- Landlords awaiting details on rent relief policy packages, mortgage relief, SBA packages, etc.

Metro DC Employment By Sector



Source: BLS

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LINCOLN
PROPERTY
COMPANY

LEASING

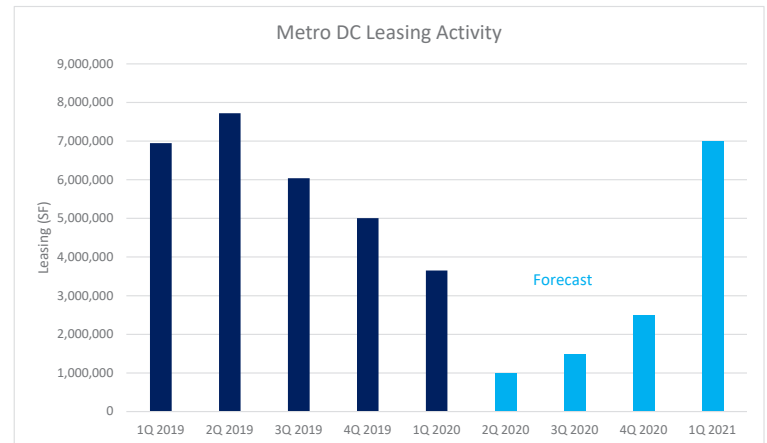
- Leasing activity in the first quarter of 2020 is expected to be modest, followed by a drastic reduction in leasing velocity for the second and third quarters of 2020. A modest recovery in transactions may occur in the fourth quarter, with above market leasing activity in 2021 due to pent-up demand.
- New deals are being placed on hold temporarily, while tours are suspended as prospects and brokers honor the new social distancing guidelines.
- **Marketing Efforts:**
 - LPC Agency Leasing/Marketing shifting to digital and virtual tour programs.
 - Targeting prospects with video tours, photos, and email campaigns.
 - Virtual broker events, and engagement to replace physical tours short term.

TENANTS

- Telework/remote policies may impact office needs going forward, as tenants are forced to implement plans during a crisis.
- Decision makers will address employee well-being, and then assess critical business processes and personnel.
- A substantial decrease in transaction volume is expected. New space, expansions, renewals have been placed on hold temporarily while decision makers assess the impacts to their business model and office space needs.
- Temporary remote work impact may impact commercial real estate market long-term.

ACQUISITIONS & VALUATIONS

- Select sales processes that were farther along are/have continued, but others have stalled/been shutdown.
- Price adjustments of 2-5% have been common (but not 100%) for motivated sellers who just wanted to close.
- Brokers are not recommending to bring any new assets to market for foreseeable future (2-6 weeks, depending on broker.)
- Some investors already seeking buying opportunities, but there is a widening bid-ask spread, as sellers aren't readily adjusting prices from just a few weeks ago.
- Financing market has been hurt by spreads gapping on corporates and the complete shutdown of CMBS. Lenders who are still active are being cautious – LTVs down, spreads wider.
- With a few exceptions (especially the largest deals), lenders who had committed to loans were working hard to honor their commitments.



GSA

- OPM issues directive to “ensure that employees are in a position to perform mission-critical functions, and adjust employee and work units’ work assignments as necessary to higher-priority activities, and activities that can be performed remotely and maximize telework for the entire Federal workforce, while maintaining mission-critical functions.”
- Experiencing business as usual at GSA; actually have seen an uptick in volume of RLP distribution & FBO ads; successful lease awards.
- Trump administration has communicated that in the event the pandemic worsens and there may be a need for more space for medical use. “Unused” federal space may be the first to be utilized as triage centers and medical response centers.
- After discussions with GSA PBS Regional Commissioners, these endeavors will be handled out of GSA Central Office (HQ) rather than at the regional level.
- LPC GSG team has discussed with ownerships to present any vacant/unused buildings to GSA HQ at various locations to be considered when federal space is unavailable.
- It is our opinion that the Federal government’s protocol, methods, and overall needs for emergency/disaster response centers will change/evolve predicated on the overall outcome/experience from this Covid-19 pandemic.

COMMUNICATION IS KEY.

Active communication between landlords, property management, engineering, leasing team, and tenants is imperative.