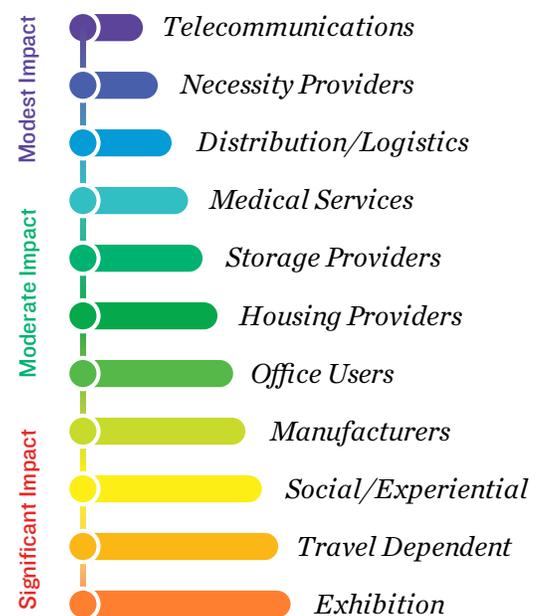


Commercial Properties Adapt in Varied Ways to Evolving Health Crisis; Provide Investors with a Range of Options for Balancing Portfolio

Some commercial real estate show strength in health crisis. The rapid and unprecedented spread of the new coronavirus has upended daily life and disrupted numerous businesses across a wide array of sectors. Swift response from the Federal Reserve and Congress will help partially offset the short-term economic impact, though many properties will face tough times in the weeks ahead. While a full recovery cannot happen without first containing COVID-19, some asset classes are proving to be more resistant to the current economic downturn.

Grocery stores, pharmacies, fulfillment centers, and medical offices demonstrate resilience. While many types of commercial real estate are being negatively impacted by the current health threat, not all commercial real estate is performing the same. Certain tenants and properties are proving to be more resistant. This is even true of retail, where a multiyear shift toward more social experiences disproportionately exposed many concepts to the coronavirus. A trend that began in late February with preparedness buying, shopping at grocery stores, wholesalers and pharmacies has risen dramatically over the past few weeks as the United States began to restrict nonessential movement. Encouraged to stay at home, more individuals are also shopping online, emphasizing the need for distribution services. Understandably, the need for healthcare is also high. While nonessential procedures are being postponed and routine appointments are being delayed. This will drag on the performance of some medical offices in the short term but will benefit this property type later when appointments will likely be rescheduled.

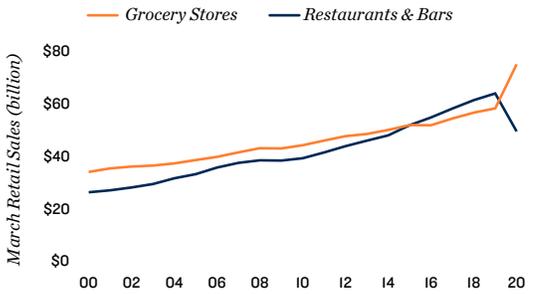
Different Commercial Real Estate Properties Face Spectrum of Impact



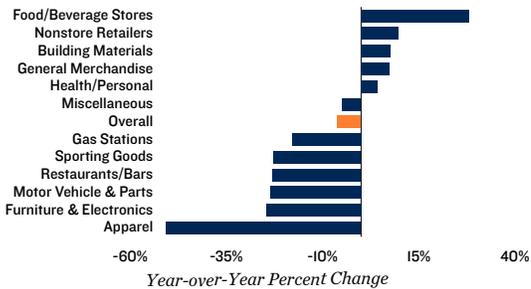
Executive Summary

- Stay-at-home orders and other health precautions have led to a resurgence in grocery shopping, driving spending at those retailers above that of restaurants and bars for the first time in five years. To meet demand, companies are hiring more and embracing online ordering and curbside pickup.
- Overlapping offerings with traditional grocers, as well as a continuing need for medicine, also drove greater retail sales at health and personal care stores, which include pharmacies. Upcoming coronavirus testing centers to work with pharmacies but be located in separate areas.
- Social distancing has pushed more customers to shop online, benefiting digital marketplaces as well as retailers with delivery options. Higher demand and new health guidelines nevertheless present new challenges that national credit tenants will be more able to aptly manage.
- A delay in nonessential procedures and routine appointments will challenge many medical office tenants in the short term. Visitation will return in full force over the longer period however. Investors are likely to favor assets near population centers and large healthcare campuses.

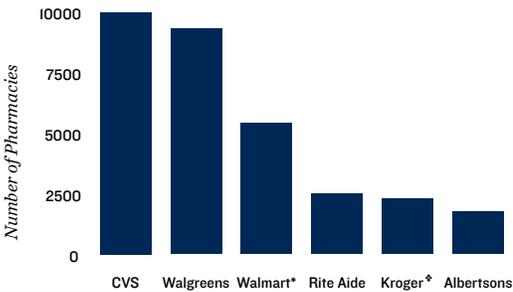
Shift Toward Greater Spending at Restaurants & Bars Undone



Change in Retail Sales: March 2020 vs. March 2019



Pharmacy Leaders Provide Staple Products: Medicine, Necessities, Groceries



Retail Yield to Interest Rate Spread Has Rarely Been Wider



Grocers and Pharmacies Provide Retail Investors with Solid Pillar of Support

Health precautions spark surge in grocery shopping. The radical shift in spending patterns predicated by stay-at-home orders has led to a resurgence in grocery shopping. While core retail sales remained about flat year over year in March, spending at grocery stores increased by 29.3 percent. Much of the nearly \$17 billion in additional sales came at the expense of restaurants and bars. Many dining establishments had to close or limit services to comply with public health orders. The corresponding 23 percent annual decline in sales at eating and drinking locales meant that last month more money was spent at grocery stores than out to eat for the first time since early 2015. Greater grocery spending is likely to persist at least as long as social distancing is in practice, and it could continue longer if habits are structurally changed by this event.

Spending shift could have future implications for grocers. The immediate impact of the rise in grocery sales has been a need for more workers. Hiring is expected to draw heavily from the pool of recently unemployed, mildly offsetting some of the jobs lost due to the coronavirus. Added employees are helping to implement new safety guidelines, including new equipment and best practices. The ways people are buying groceries may instill even more changes. Both grocery pickup and delivery have grown rapidly, with distributors like Instacart meeting multiyear demand projections within weeks. To better meet needs, some stores are now considering adapting their layouts and parking lots. If this behavior shift continues, more permanent changes could come.

Pharmacies resist coronavirus downturn. Health and personal care stores were other segments of the retail sector that reported gains last month, increasing by 4.3 percent year over year. Gains were likely driven by an overlap in offerings at convenience and drugstores with traditional grocers, in addition to a continued need for medicine. While multiple pharmaceutical retail companies are collaborating with government agencies and medical research firms to develop coronavirus testing centers, these will likely not correlate to higher foot traffic at stores. Many of the purposed testing sites are located in separate areas that can handle heavy auto traffic.

Grocers and pharmacies bolster investor sentiment in retail assets. Grocery stores will continue to serve as strong anchors for multi-tenant centers as other tenants adapt to new circumstances. Some restaurants are orienting to be more like grocers, repackaging otherwise wasted inventory to sell as individual items. Some former dine-in space has also been occupied by ghost kitchens to meet greater delivery needs. Refits such as these will help multi-tenant assets endure current headwinds while long-term demand trends remain stable. Drugstores, convenience stores and some freestanding grocers are also supporting buyer interest in single-tenant net-lease properties. Other common lessors of such space such as national credit quick-service dining chains with drive-thru windows are also maintaining moderate sales. Net-lease buildings are frequent acquisition targets for investors completing 1031 exchanges, particularly for investors seeking low-management, comparably safer options. Numerous such transactions are active in the market, and while the IRS has extended 1031-exchange deadlines to mid-July, ultimately these trades must be completed or investors will face capital gains consequences.

* Through March
 ** Treasury rate as of April 16, cap rate is preliminary estimate
 * For Kroger: year-end 2018 value; For Walmart: total retail properties
 Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Federal Reserve; Real Capital Analytics; SEC; U.S. Census Bureau

Online Ordering Underscores Value of Industrial Properties in Arduous Times

Prevalence of E-commerce receives boost from sheltering. The industrial sector was already being transformed by the rise of e-commerce before the spread of the new coronavirus further changed the landscape. Between 2009 and 2019, the share of core retail sales composed of online purchases increased from about 8 percent to 15 percent. That growth trend may accelerate in response to new health concerns. Currently, widespread stay-at-home orders have forced many traditional brick and mortar retailers to close, pushing customers to purchase goods online. Digital marketplaces such as Amazon, as well as the direct-to-consumer delivery arms of mass merchandisers, are seeing added demand. Even when the virus is contained, e-commerce activity is likely to continue at a higher level than it otherwise would have. Some people who were reluctant to make online purchases before the coronavirus are now likely more comfortable with online shopping and may not revert back to previous consumer patterns. This reemphasizes the importance of digital systems for traditional retailers as well as their distribution infrastructure. This includes last-mile delivery facilities as well as curbside pickup at retail locations, a service that is being utilized during the pandemic by companies such as Best Buy and Kohl's.

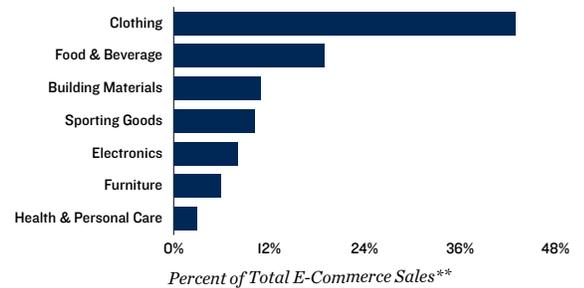
National tenants better positioned to face current dilemmas. While digital sales keep distribution space in high demand, new health risks pose immediate challenges that not all industrial tenants will withstand. Keeping fulfillment center workers safe and healthy during the pandemic is the top priority, but new precautions complicate productivity. Several companies, including both digitally native and traditional brands, are hiring more personnel to compensate. Larger-scale organizations such as Amazon and Walmart will likely be able to leverage their national reach to meet labor needs and manage costs. Small and medium-sized businesses may be more at risk, however. Companies serving a small area or limited range of products may be more hard hit by the pandemic. Smaller firms may not have the financial resources to compensate for the higher operational costs associated with new health and safety guidelines. Investor sentiment is likely to shift toward facilities that support national-credit tenants.

Near-term outlook for other parts of the industrial sector mixed. Investor demand for industrial space that serves non-logistical tenants varies. Manufacturing firms will face hurdles from interrupted supply lines, greater health precautions, and a buildup of existing inventory. This is particularly true of the automotive sector, where declining sales in March may mean fewer vehicles will be assembled later this year. Lessors of flex space, such as contractors, may be less affected by the economic downturn, particularly if they are working with government or defense agencies. The strong performance of the industrial sector as a whole going into the outbreak is encouraging, however. Nationally, vacancy fell 330 basis points from 2008 to 2019, contributing to a 28 percent increase in the average asking rent. The average marketed rate would have to fall by twice as much as it did during the Great Recession to erase those gains. As such, investors of industrial space have room to maneuver around short-term challenges while long-term consumer demand trends underscore the need for such assets.

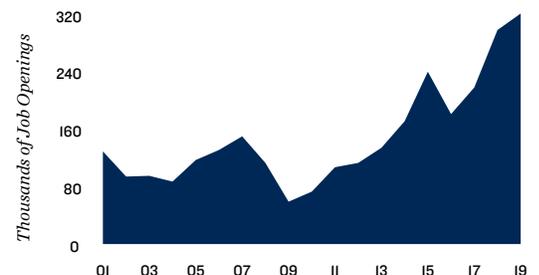
Rising E-Commerce Demand Reinforces Industrial Sector's Strength



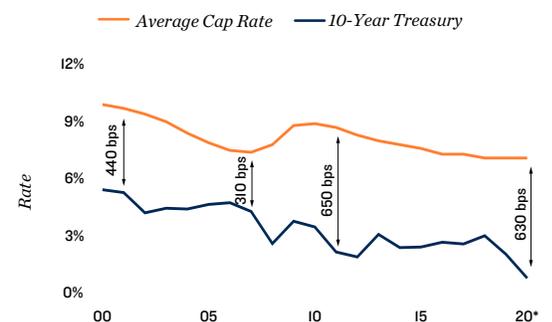
How Online Spending at Physical Retailers is Distributed: Insights from 2018



Annual Average Job Openings In Trade, Transportation and Utilities

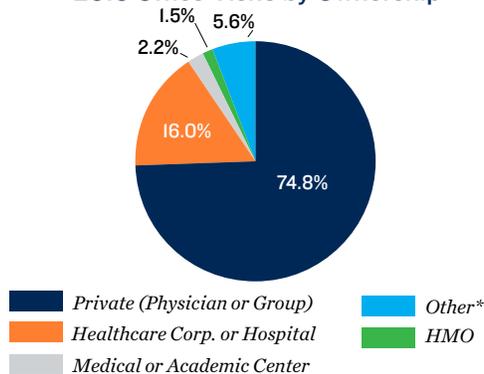


Industrial Yield to Interest Rate Spread Widens

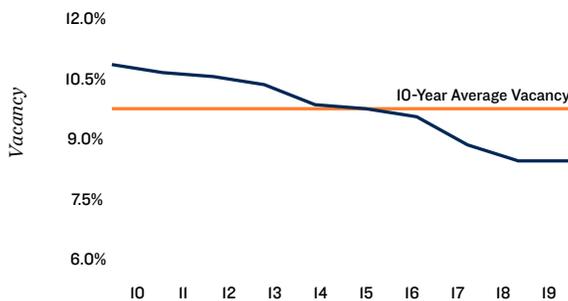


* Treasury rate as of April 16; cap rate is preliminary estimate
 ** Excludes e-commerce sales from digital only retailers and motor vehicles
 Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Federal Reserve; Real Capital Analytics; U.S. Census Bureau

Most Medical Offices Not Connected to Institution
2016 Office Visits by Ownership



Medical Office Building Vacancy
Tight Entering 2020



* Also includes uncategorized
 Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; NAMCS 2016; U.S. Census Bureau

Rescheduled Appointments to Sustain Medical Practices Following End to Social Distancing

Coronavirus interferes with some medical offices. The widespread restriction on personal mobility and temporary delay to nonessential medical procedures has created several short-term challenges for medical office tenants. Independent practices in fields such as primary care and dentistry will be hit hard as individuals delay routine appointments due to the elevated health risk. Providers have shifted to telehealth services where possible, but even then, the lower insurance fees associated with those resources can still lead to financial difficulties. Recently passed fiscal stimulus may help some companies meet immediate costs. While these hurdles may raise caution for some investors, medical offices benefit from strong fundamentals prior to the coronavirus outbreak. Entering 2020, vacancy was 90 basis points below the trailing 10-year average at 8.8 percent, while recent supply additions were a fraction of deliveries made during the past downturn. Lower availability and less construction activity will help medical office properties weather the current economic storm until behavior normalizes, at which point longer-term demand trends will take hold.

Delay in services improves long-term outlook. Medical office tenants that were not already focused on supporting hospitals and other healthcare facilities with essential services will receive an influx of business once the current restrictions on social distancing are removed. A backlog of routine appointments and elective procedures will bring patients back in mass for visits. Other trends contribute to the long-term need of these services. A structural shift away from hospitals that was underway before COVID-19 is likely to resume, while the aging baby boomer generation will continue to support a variety of healthcare providers for years to come. Investor confidence should return in kind, driving new buyer demand. Assets in strong locations near population centers and larger healthcare campuses will be most sought after. Infrastructure to support tenants providing in-demand, modern medical procedures will distinguish trades. Assets in less central locations with smaller, independent tenants that were financially challenged during the pandemic may transact more slowly.

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