Deloitte.

2021 real estate M&A outlook

Balancing opportunity and uncertainty

MAKING AN IMPACT THAT MATTERS since 1845

Contents

Overview and outlook **3**

2020 in review 4

2021 outlook 10

2021 real estate M&A drivers and trends **12**

Potential opportunities for distressed asset purchases 12

PERE dry powder may ignite dealmaking 13

Urban exodus and other migration trends 15

Reevaluating CRE asset value propositions 16

Portfolio balancing for risk mitigation 18

Moving forward with 2021 real estate M&A opportunities **19**

Overview and outlook

COVID-19's impact on the commercial real estate (CRE) industry is a study in contrasts, with a stark dichotomy in operating fundamentals among subsectors and asset classes. Warehouses, grocery stores, multifamily residential, health care, data centers, and cell towers have been affected differently than offices, hotels, restaurants, and retail, which have felt the brunt of the pandemic's negative effects.[1]

In the short term, many CRE owners face cost pressures due to softening operating fundamentals: increasing vacancy rates, rental collection declines, and higher operating costs from implementing additional health and safety measures. And there are longer-term concerns: The pandemic has dramatically altered where and how people live, work, and play, which could radically reframe the future of certain property sectors. Yet even amid the challenges, pent-up demand for desirable properties and abundant available, low-cost funding should help the CRE industry revive (albeit unevenly) as 2021 progresses and, ultimately, thrive.

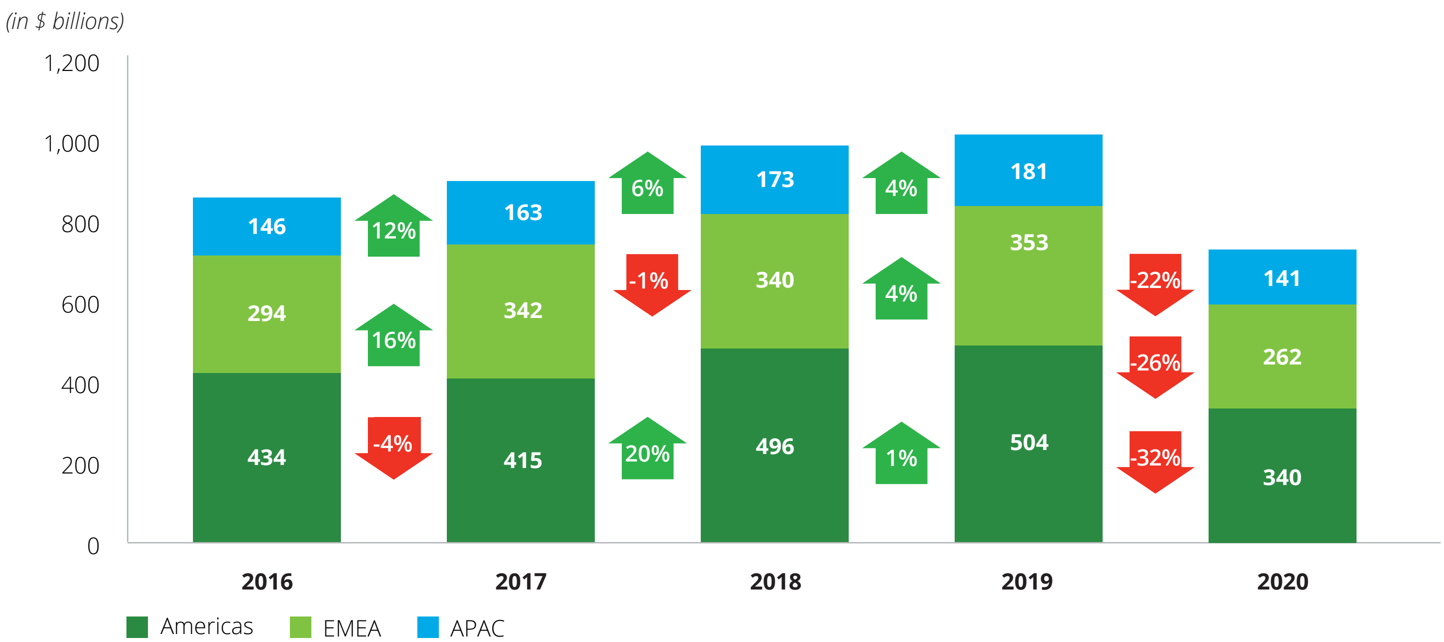
This report reviews 2020 CRE mergers and acquisitions (M&A) activity and explores trends and drivers that may shape organizations' efforts to balance opportunity and uncertainty in 2021.

2020 in review

The COVID-19 outbreak severely dented real estate M&A activity during 2020, with a marked drop in overall global and US deal volume and value when compared with 2019 (figure 1).[2]

- Global CRE activity dropped by almost one-third in 2020, to $759.4 billion.[3]
- The Americas region saw the biggest year-over-year (YoY) decline, at 32%, followed by Europe Middle East Africa (EMEA), at 26%. Asia Pacific (APAC) CRE market activity declined 22%; however, APAC finished 2020 on a positive note: Q4 acquisitions surpassed those of a year ago, and South Korea, India, and Taiwan posted record annual deal volume.[4]
- The global real estate industry saw more localized and regional investor activity versus cross-border deals in 2020. One theory for this occurrence: Due diligence, an important aspect of onsite property review, was severely curtailed due to pandemic lockdowns, which slowed or prevented certain M&A deals.
- US CRE sales volume tumbled 32% in 2020, to $405.4 billion, amid the pandemic's onslaught—but it could have been a lot worse. Q4 2020 deal activity slipped less than seen earlier in the year, and the national rate of price growth picked up.[5]

Figure 1. Global CRE volume declined in 2020



Source: Real Capital Analytics.
Note: Chart excludes senior housing and care properties.

Real estate investment trust (REIT) M&A activity was led by the office subsector in 2020 global deal value and was second (after diversified REITs) in deal volume (figure 2).

Looking at the top 10 global and US CRE announced transactions across industry segments and property types, 2020 deal value ranged from $1.2 billion to $14.6 billion (table 1).

Figure 2. The office subsector led 2020 REIT M&A activity by value

Percentage of overall transaction volume | M&A by number of transactions

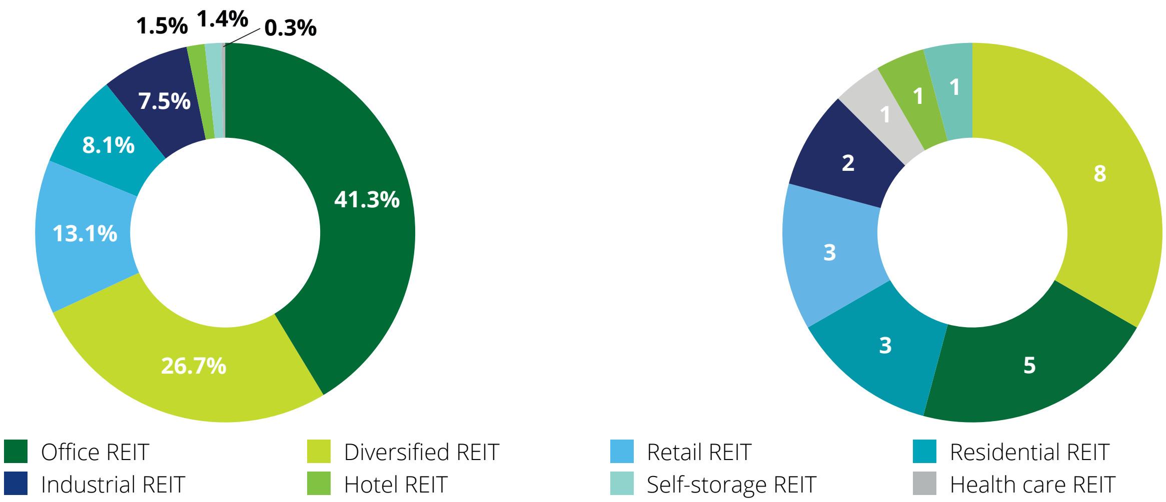


Table 1. Top 10 2020 real estate deals

Top 10 global announced transactions

Date announced	Acquirer	Acquirer nation	Target	Target nation	Target subsector	Value ($B)
10/15/2020	Existing Investors	United States	BioMed Realty Trust Inc.	United States	REITs	14.6
10/14/2020	China Energy Engineering Corp. Ltd.	China	China Gezhouba Group Co. Ltd.	China	Building, construction, and engineering	14.4
1/22/2020	Capitaland Mall Trust	Singapore	Capitaland Commercial Trust	Singapore	REITs	8.0
11/24/2020	Samhallsbyggnadsbolaget i Norden AB	Sweden	Entra ASA (unsolicited tender offer)	Norway	Nonresidential	6.3
2/10/2020	Simon Property Group LP	United States	Taubman Centers Inc.	United States	REITs	6.3
2/27/2020	Investor Group[6]	Hong Kong	Wheelock & Co. Ltd. (32.513% stake)	Hong Kong	Other real estate	6.2
11/25/2020	Castellum AB	Sweden	Entra ASA (unsolicited tender offer)	Norway	Nonresidential	6.0
9/14/2020	Shareholders[7]	United States	Apartment Income REIT	United States	REITs	5.6
2/20/2020	Investor Group[8]	Canada	Northview Apartment Real Estate Investment Trust	Canada	REITs	3.6

Top 10 US announced transactions

Date announced	Acquirer	Acquirer nation	Target	Target subsector	Value ($B)
10/15/2020	Existing Investors	United States	BioMed Realty Trust Inc.	REITs	14.6
2/10/2020	Simon Property Group LP	United States	Taubman Centers Inc.	REITs	6.3
9/14/2020	Shareholders[7]	United States	Apartment Income REIT	REITs	5.6
12/14/2020	Blackstone Property Partners Life Sciences	United States	Brookfield Asset Management Inc. - Life Sciences Real Estate Portfolio	Nonresidential	3.5
12/21/2020	Blackwells Capital LLC	United States	Monmouth Real Estate Investment Corp.	REITs	3.1
12/7/2020	Ready Capital Corp.	United States	Anworth Mortgage Asset Corp.	REITs	1.9
1/15/2020	Harbor Group International LLC	United States	Aragon Holdings Inc. - Apartment Properties (36)	Residential	1.9
11/19/2020	Investor Group[9]	United States	IQHQ Inc.	REITs	1.7
10/26/2020	Blackstone Real Estate Income Trust Inc.	United States	Simply Storage Management LLC	Nonresidential	1.2

Sources: 1 Composed of Admiral Power Holdings Ltd., Woo Kwong Ching, and HSBC Trustee (CI) Ltd.

2 Apartment Investment & Management Co (AIMCO) completed the spin off of Apartment Income REIT.

3 Composed of Starlight Group Property Holdings Inc.

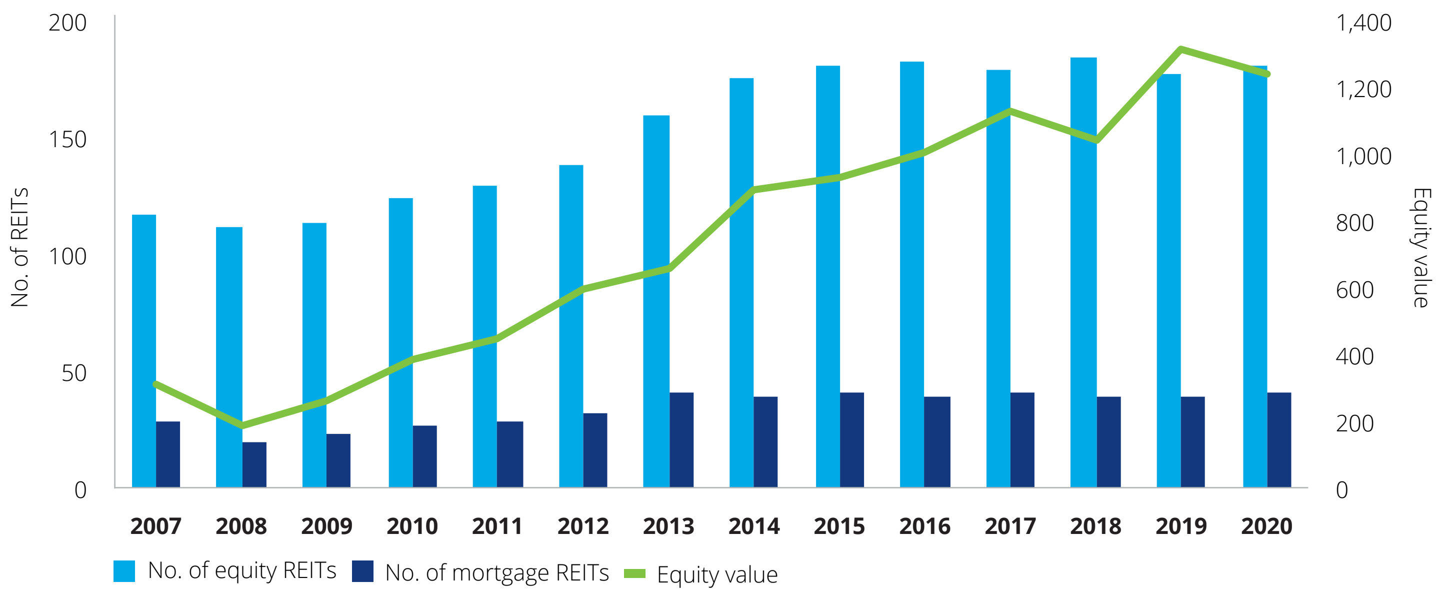
4 Composed of undisclosed new and existing investors.

2020 YoY REIT equity value only declined slightly overall from 2019, from to $1.3 billion to $1.2 billion (figure 3), which, given the impact of the pandemic on certain sectors, is a positive sign of resilience in the US REIT market. The pandemic's impact varied across REIT property types based on its influence on tenant businesses. Broadly, the immediate leasing risk was softened for some REITs because they have long-term lease contracts. However, leases associated with the most affected segments have felt pressure because tenant businesses and liquidity were affected. In addition to base rents, percentage rents, which are calculated as a proportion of sales volume, were significantly affected by business shutdowns.[10]

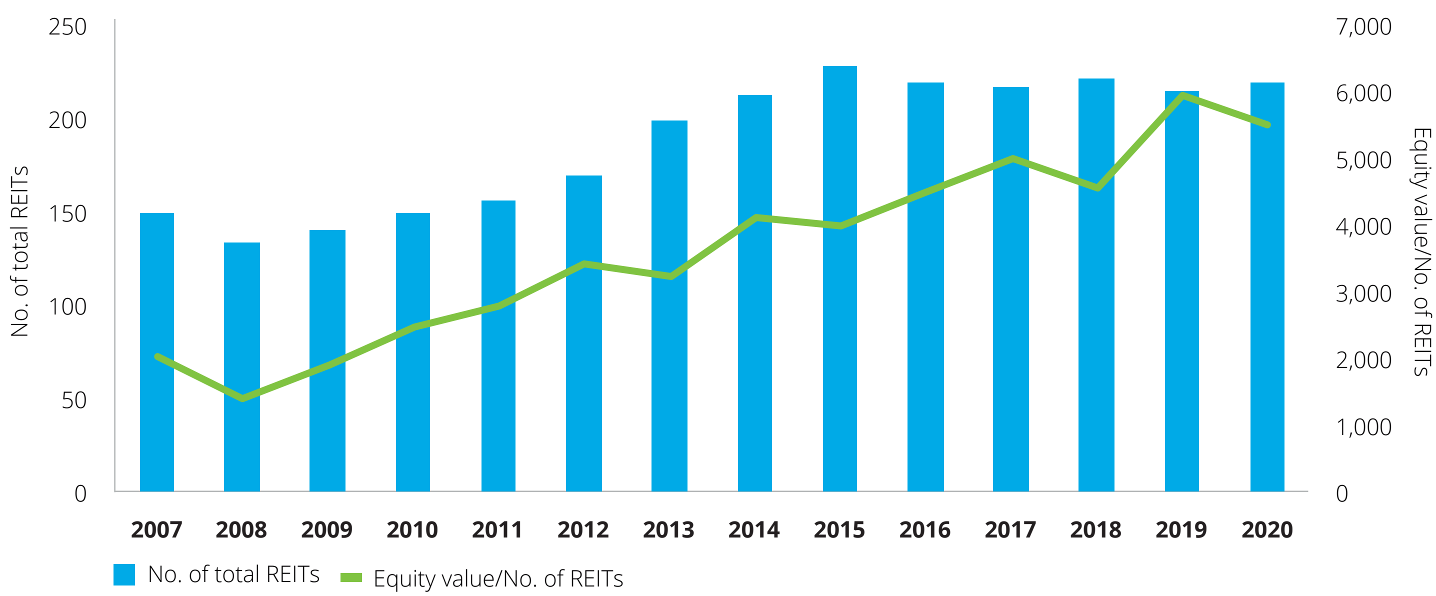
From a subsector perspective, 2020 M&A performance was a tale of "haves" and "have-nots," with the pandemic accelerating trends already in play that benefited some subsectors but punished others. The year started on solid footing, with a good supply-demand balance and plenty of available capital, which assisted in preserving liquidity. Q1 2020 saw several large deals, including two by logistics real estate company Prologis: its $13 billion acquisition of Liberty Property Trust[11] and $4 billion purchase of Industrial Property Trust.[12]

Figure 3. 2020 REIT performance

Equity and mortgage REITs



Total REITs



Source: NAREIT.

The tables turned in Q2 2020, as the expanding health crisis and its economic fallout constricted capital flow—with significant impact felt in the retail, hospitality, and office subsectors—and triggered widespread uncertainty about real estate's near- and long-term future that shut down dealmaking for several months. US hotel and motel M&A value, for example, plummeted 75.2% (to $7.6 billion) in the first half of 2020, while deal count fell 38.7% (to 38).[13]

Certain subsector property types also got lumped together in people's minds; this created a disconnect between buyer and seller expectations, with the biggest gap in office and retail. Headlines said, "retail is in trouble," but grocery stores were faring well, even though indoor malls were struggling. CBRE's Q3 2020 Cap Rate Survey[14] found that 61% of CRE buyers were looking for discounts from prepandemic prices, but only 9% of sellers were willing to give such discounts.[15] There also was a marked drop in market rent growth in 2020 across certain asset classes, most notably for regional malls and strip centers.

M&A in certain subsectors started to revive in Q3 and Q4; there were big deals in real estate infrastructure, apartments, industrials, and data centers. 2020 ended with positive news in the retail subsector: Simon Property Group completed its $3.4 billion acquisition of an 80% ownership interest in Taubman Centers (Taubman Realty Group),[16] although the deal priced out 18% lower than was originally negotiated in February 2020, prior to the pandemic.

In general, 2020 M&A in the industrial (logistics) and nontraditional (data centers, cell towers, biotechnology) subsectors profited from the explosive growth of e-commerce and the digital economy and low borrowing costs. Traditional retail extended its downward slide, and hospitality was hammered by travel restrictions. The multifamily residential subsector held its own, being viewed as a safe investment because increasing numbers of people are working remotely. Single-home construction picked up steam midyear, propelled by mortgage rates near historic lows and limited inventory in some major markets. The office subsector remained relatively stable: Tenants continued to pay rent, but with some continuing to be under stress in 2021, lease renewals are an ongoing concern.

Office

Big picture: +1.5% YoY change in prices, -40% YoY decline in volume[17]

Fueled by organizations' dramatic switch from physical to virtual workplaces during the COVID-19 pandemic, office occupancy losses hit unprecedented highs in 2020, with 84 million square feet in occupancy declines for the year. In Q4 2020 alone, occupancy losses totaled 40 million square feet.[18] More than half of the occupancy declines happened in central business district (CBD) markets, with nearly 30 million square feet of givebacks occurring in gateway markets New York and San Francisco—2.2 times the national rate of national occupancy losses.[19]

Negative net absorption trended similarly. Expensive markets with a high concentration of technology and energy companies—Seattle, Boston, New Jersey, and Los Angeles among them—had the largest decline in office absorption.[20] Occupancy losses pushed the vacancy rate up to 17.1%; the vacancy rate in CBD markets increased twice as fast as the national rate.[21]

Secondary, close-in, and suburban market office activity was more resilient, supported by a pandemic-driven urban exodus and more diversified job markets. Metro areas with less than 60 million square feet of total inventory had negative 1.3% net absorption, 60 basis points lower than the national average.[22]

Industrial

Big picture: +8.8% YoY change in prices, -16% YoY decline in volume[23]

Demand in the logistics real estate subsector drove up the prices of US industrial real estate in 2020 by 8.8% YoY versus October 2019.[24] Deal activity paused around midyear in response to the COVID-19 pandemic, but by year-end was as robust as it has ever been. The strength in investment activity into the end of the year was broad-based, with deal activity propelled by portfolio deals, not one-off transactions. For the year in total, the industrial sector in the United States is now larger and more liquid than the office market.

Retail

Big picture: -4.3% YoY change in prices, -43% YoY decline in volume[25]

Traditional retail was already going through a downturn due to major shifts in consumption patterns when the pandemic hit and sales of retail properties plummeted, with investment activity falling 70% YoY in Q2 2020.[26] Uncertainty over future retail property income, combined with lockdowns, created obstacles for acquisition teams looking to investigate and underwrite properties. Teams found ways to work around the lockdown obstacles over time, and the drops in deal volume moderated to only a 54% YoY pace of decline in Q3. The 42% YoY decrease in deal volume for Q4 would seem to suggest an ongoing moderation,[27] but one deal skews the figures: Simon Property Group's $3.4 billion acquisition of an 80% ownership interest in Taubman Centers.

Retail property prices slipped for most of 2020. The year started with no annual growth in prices, ebbing to a 4.3% YoY pace of decline in Q4 2020. No other property subsector posted drops as sharp as retail. Still, not all retail assets are the same: Grocery-anchored and single-tenant-anchored properties continued to perform well in 2020, but indoor malls and shopping centers with multiple restaurant and retail spaces to fill struggled mightily.

Hotel and leisure

Big picture: +1.1% YoY change in prices, -68% YoY decline in volume[28]

COVID-19 travel restrictions in 2020 shuttered many hotel and leisure properties and dramatically drove down M&A volume. The worst period for subsector deal activity was Q2, when deal volume fell 90% YoY to hit the $771 million level.[29] This, however, was not the lowest point in history for hotel transactions; that occurred in Q2 2009, when hotel deal volume fell to just $646 million. In that downturn, deal volume only recovered to $750 million by year's end. In 2020, the rebound was stronger, with deal volume back to the billions by Q4.

The price component of hotel returns will be challenged for a while. The Real Capital Analytics Commercial Property Price Index (RCA CPPI) for hotels was up only 1.1% YoY in Q4 2020 after several declining quarters earlier in the year.[30] Also, a large overhang of distressed assets may depress prices again in the future. There is growing optimism, however, that travel may resume in mid-2021 as COVID-19 vaccination levels increase, which could bring a quick change in outlook for the subsector. In addition, limited-service, extended-stay, and drive-to resort locations have been seeing stronger recoveries than expected.

Residential (multifamily, single-family)

Big picture: +8.3% YoY change in prices, -28% YoY decline in volume[31]

Residential real estate performed better than expected in 2020, buoyed by access to debt at low rates and high loan-to-value (LTV), which allowed M&A transactions to progress at good cap rates. CARES Act provisions designed to assist economically distressed homeowners and renters also added stability during an uncertain year.

The worst of the downturn in deal volume was in Q2 2020, with activity down 67% YoY. The decline moderated in Q3 2020 as the uncertainty that pervaded everything in March and April began to ease. Apartment deal activity turned an important corner in Q4 2020, with a halt in the transaction volume declines that began in Q2.[32] Not all of the subsector's pandemic-related challenges are over; however, recent trends suggest that the panic-driven part of the downturn is likely in the past. Also, there are likely to be fewer distressed opportunities in residential coming out of the downturn than some investors had hoped to see.

Nontraditional

Several real estate specialty sectors posted strong performance in a generally disappointing 2020, among them data centers, infrastructure (cell towers), self-storage, biotechnology, and production studio space (see sidebar):

Data centers. The first 11 months of 2020 saw the completion of 113 data center deals at a total value of $30.9 billion, eclipsing the previous annual record set in 2017. Final 2020 deal volume also is likely to exceed the record set in 2019.[33] The year's top deal was Digital Realty's $8.4 billion acquisition of European data center operator Interxion;[34] five other billion-dollar-plus deals also closed, and there was a $2 billion secondary share listing.[35] Global investors, including two new special-purpose acquisition companies (SPACs) featuring teams of data center executives,[36] continue to raise billions of dollars to invest in digital infrastructure,[37] signaling an active M&A landscape in 2021. Investment interest in data centers has been boosted by the growth of hyperscale computing, where the long-term tenant is a giant corporation with excellent credit, lowering the risk profile for investors.[38]

Infrastructure (cell towers). 2020's "stay-at-home" economy, the continued increase in data demand, and 5G network activity in the United States and Europe catapulted cell tower REITs into acquisition mode, even with prices hitting all-time highs. American Tower Corporation (AMT), a global REIT with a portfolio of about 183,000 communications sites, got the ball rolling by closing in January 2021, closing its previously announced $1.85 billion acquisition of Eaton Towers and adding about 5,700 communications sites to its African portfolio. AMT closed its $3.5 billion acquisition of InSite Wireless Group in December[39] and extended its buying spree into January 2021 by announcing a $9.4 billion deal to buy Europe's Telxius Towers.[40] In August 2020, Brookfield Infrastructure Partners closed its previously announced acquisition of a 100% stake in a telecom tower company in India from Reliance Industrial Investments and Holdings. Brookfield and its institutional partners will be making an equity investment of about $3.4 billion.[41]

Self-storage. Blackstone Group's nontraded real estate investment trust, BREIT, purchased Simply Self Storage, an 8 million-square-foot portfolio of self-storage facilities, for about $1.2 billion from Brookfield Asset Management, expanding its presence in a sector that has remained strong throughout the pandemic. Simply's more than 120 locations across 23 states make it one of the largest private players. BREIT, which already owns 2.6 million square feet of self-storage facilities, plans to continue to acquire smaller assets in the fragmented industry and run them under the Simply brand.[42]

Biotechnology. Growth and resilience in the biotechnology CRE subsector was aided, in part, by COVID-19 vaccine and treatment research and development. In one megadeal, Blackstone Real Estate Partners VIII (BREP VIII) and coinvestors agreed to sell BioMed Realty, the largest private owner of life science office buildings in the United States, for $14.6 billion to a group led by existing BioMed investors. BREP VIII and coinvestors acquired BioMed in January 2016.[43]

Production studio M&A goes prime time

Homebound consumers spent much of 2020 of downloading their favorite comedies, dramas, home improvement, travel, and cooking shows to TVs, tablets, and smartphones as COVID-19 accelerated the amount of content being watched and dramatically increased the percentage of US consumers with a paid streaming service:

- Eighty percent of US consumers now subscribe to a paid streaming video service.[44]
- Subscribers pay for an average of four services, up from three pre–COVID-19.[45]
- Ninety-three percent of consumers plan to maintain or increase the number of services to which they are subscribed.[46]
- Fifty-seven percent of all current US streaming consumers (and 71% of millennials, ages 22–35) say they subscribed to streaming video services to access original content.[47]

Movie studios, networks, video streaming services, and independent producers have been scrambling to fulfill consumers' binge-watching desires, creating a huge backlog of requests for production studio space in New York City, Los Angeles, London, Toronto, and secondary markets—a situation exacerbated by the "content desert" created when COVID-19 delayed and/or shut down many production facilities.

When Netflix introduced its streaming service in 2007, creating a platform on which members could watch content instantly online, when and where they wanted to,[48] network TV studios were happy to license their content to the company for pennies on the dollar. However, by doing so, the networks saw their DVD and Blu-Ray business collapse and gave Netflix the tools it needed to steal their viewers.[49]

The content landscape changed again in 2013, when Netflix began producing its own original programming.[50] Today, Amazon, Hulu, Apple, Disney+, and other media companies are investing heavily to keep up with the demand for original content. Major media companies spent more than $78 billion on content in 2019, and Netflix alone is projected to spend $26 billion on content in 2028, up from $3.2 billion in 2014.[51] Even network broadcasters have upped the content production budgets for their existing platforms. This tidal wave of content creation, which shows no sign of ebbing, is creating a massive demand for expanded and/or new studio space, presenting attractive M&A opportunities for private equity investors and REITs. Two 2020 M&A deals illustrate how private equity real estate (PERE) firms and studio REITS are taking advantage of the boom.

- Blackstone purchased a 49% stake in Hudson Pacific's Hollywood Media Portfolio,[52] a 2.2 million-square-foot collection of three studio facilities and five on-lot or adjacent Class A office buildings valued at $1.65 billion. The studio lots are critical infrastructure for TV, film, and digital production and house content production tenants from both traditional and streaming media companies. Netflix is the portfolio's largest tenant, leasing more than 700,000 square feet, in addition to signing long-term deals for stages and production space.[53]
- Hackman Capital Partners and Square Mile Capital acquired Silvercup Studios, the iconic New York City independent film and television studio behind *Mad Men*, *Sex and the City*, and *The Sopranos*, for an undisclosed price from brothers Stuart and Alan Suna. Silvercup has three campuses in Long Island City and the Bronx covering 10.4 acres; they include 23 soundstages totaling more than 240,000 square feet and 265,000 square feet of office and production support space. The studio's customer base includes major media and digital content producers. The acquisition, which includes the property's operational components and equipment, is the seventh made by the joint venture's media platform.[54]

2021 outlook

The resumption of sustained CRE M&A in 2021 won't be like flipping on a light switch; we expect deal activity to remain slow in the year's first half, although the industrial (logistics) and multifamily residential subsectors will continue to show forward movement. However, an interesting mix of factors, led by widening distribution of COVID-19 vaccines and passage of the $1.9 trillion American Rescue Plan, should build enthusiasm for dealmaking as the year progresses:

- Overall sentiment across the CRE market is increasing, with confidence sharply rebounding from historic lows recorded in the middle of 2020. The latest RCLCO Current Real Estate Market Sentiment Index has increased 22.4 points over the past six months, with respondents predicting that conditions will improve "significantly" over the next 12 months.[55]
- The headline rate of US commercial property price growth accelerated into the last month of 2020, gathering strength on the back of robust apartment and industrial sector price increases. The US National All-Property Index grew 7.3% YoY. The industrial index posted a 0.6% monthly gain in December and rose 8.8% YoY. Annual price gains in the apartment sector reached 8.3%, with 0.9% of that increase coming in December.[56]
- Baseline economics remain favorable: Low interest rates appear to be here to stay (at least for 2021), according to recent Federal Reserve policy statements, and capital allocations remain available for potential real estate investments.
- PE firms have a tremendous amount of capital to deploy in 2021 and may be potential lifelines for struggling hotels, retail properties, and entertainment venues. Private investors are always on the lookout for attractively priced assets, and we expect transaction activity levels to rise in 2021. We also may see some REITs either selling noncore assets to PE investors or establishing partnerships with PEs on strategic acquisitions.
- There may be an opportunity for some level of consolidation within REITs: Those stronger financially will be looking at ways to reposition their balance sheet by acquiring REITs in existing or adjacent markets.

We expect 2021 M&A to be most active in the industrial and nontraditional, specialized office (medical), and multifamily residential subsectors.

Office. Demand for office space (especially for Class A, CBD properties) will remain muted for much of 2021, as occupiers plan for a gradual reentry to the workplace.[57] According to a September 2020 *Fortune* survey in collaboration with Deloitte, 76% of responding CEOs said they'll need less office space in the future, 28% said they'll need *a lot* less office space, and only 4% said they'll need more office space.[58] This is a strong indicator that remote and hybrid work arrangements will continue—and are likely to expand—postpandemic. Company announcements of headquarter relocations from expensive, crowded gateway cities to cheaper and more desirable areas should continue, as employers seek tax advantages and an opportunity to offer employees a better quality of life. Offices will remain gathering places to strengthen corporate culture and help people build relationships, which are important to drive business. However, the impact of evolving workforce roles on workspace needs is becoming evident in landlord-tenant negotiations. Property owners are showing a willingness to greatly expand tenant improvement allowances and rent abatements to keep buildings leased.

Industrial. The US industrial market will continue to flourish in 2021, with low vacancy rates, record-high rental rates, robust development, and a return to pre–COVID-19 levels of absorption gains. Nearly 250 million square feet of industrial net absorption is expected in 2021, more than the previous five-year annual average of 211 million square feet (an uptick of nearly 18.5%).[59] Although e-commerce sales are expected to decline from their 2020 COVID-19–fueled surge,[60] we see continued high demand for warehouse space to accommodate companies' sourcing, inventory, and "last-mile" distribution needs, which should keep M&A firing on all cylinders.

Retail. "Reposition" and "repurpose" are watchwords for the retail subsector in 2021 as properties challenged by high vacancy rates and sputtering rent collection—Class B and C malls have been hit hard by pandemic restrictions—attempt to claw their way out of an ongoing downturn exacerbated by COVID-19. Recovery, even for well-functioning malls, will take time and require significant capital. We expect REITs and PE firms sitting on plenty of capital to take the lead as they look for opportunities to convert empty space into, for example, warehouses and data centers and to generate more traffic by adding density (e.g., apartments, entertainment venues) to valuable, underdeveloped real estate adjacent to the malls.

Hotel and leisure. The hospitality subsector's recovery from a year in which fear, social distancing, and economic turmoil saw hotel demand plummet to unprecedented depths depends greatly on the trifecta of expanded COVID-19 vaccine distribution, loosened travel restrictions, and US economic recovery. Once people feel comfortable resuming normal activities, including leisure travel, pent-up demand should boost hotel occupancy in 2021, with some sources projecting a return to pre–COVID-19 levels by 2023[61] or 2024. Economy and mid-scale properties within driving range have started to rebound more quickly than higher-priced resorts and large group destinations that require airline flights. Resumption of business and group travel remains a near-term question mark. Hotel operators that have a great property and location, even those currently in distress, may emerge intact on the other side of the pandemic. Others, however, won't be able to hold onto their properties, setting the stage for distressed sales in 2021 and beyond.

Residential. US multifamily real estate has been a top M&A performer for several years, a trend that should continue in 2021 with subsector investment expected to increase by 33% to $148 billion.[62] And while high-cost coastal cities like New York and San Francisco saw rent declines during 2020, almost half of the top 30 markets finished the year with flat or positive YoY rent growth, providing a solid platform for growth.[63] Meanwhile, a COVID-19–related trend of locked-down renters gravitating toward larger apartments with more professional workspace may influence the way developers think about unit sizes in their future projects. In the single-family residential subsector, low inventory levels leading to strong occupancy and rent growth, combined with continued low interest rates, are expected to keep sale prices elevated.

In addition to continuing to guide their company through the pandemic and its economic and market impacts, CRE executives in 2021 should consider the following M&A trends and drivers that may influence their ability to execute on strategic growth plans:

- Potential opportunities for distressed asset purchases
- PERE dry powder for dealmaking
- Urban exodus and other migration trends
- Reevaluating CRE asset value propositions
- Portfolio balancing for risk mitigation

Regulatory and tax influences on 2021 M&A activity

The US government and Federal Reserve (the Fed) have taken multiple measures to respond to the impact of COVID-19, some of which affect the CRE industry. With rising selling pressure and liquidity concerns in commercial mortgage–backed securities (CMBS) markets, the Fed provided short-term financing to investors. Further, the federal government passed the CARES Act to boost cash flows and liquidity. The Act includes several tax and business spending provisions that can be favorably leveraged by CRE companies: It increases bonus depreciation, expands ability to utilize net operating losses (NOLs), and allows companies to obtain cash refunds for carryforward of minimum tax credits.

Other CARES Act provisions designed to assist economically distressed homeowners and renters have implications for CRE companies, landlords, lenders, and servicing companies. They include payment delays for up to 360 days on federally backed mortgages[64] and temporary moratoriums on eviction filings.[65]

Of interest to real estate investors from a tax perspective are updates to Section 1061 of the 2017 Tax Cuts and Jobs Act (TCJA), which generally extends the holding period for a taxpayer to obtain long-term capital gains from one year to three years for certain partnership interests issued or held in connection with investment management services. The Final Regulations, released on January 7, 2021,[66] generally retain the framework of the proposed regulations published on August 14, 2020;[67] however, they include several important revisions and clarifications that may affect existing real estate partnership agreements.

While tax code changes in 2020 were limited, the landscape is likely to change in 2021 as the Biden administration considers, among other options, increasing corporate and capital gains tax rates. This may fuel M&A transactions because property owners will want to sell at a lower rate. In addition, state and local governments saddled by existing deficits and pandemic-related expenditures may increase taxes.

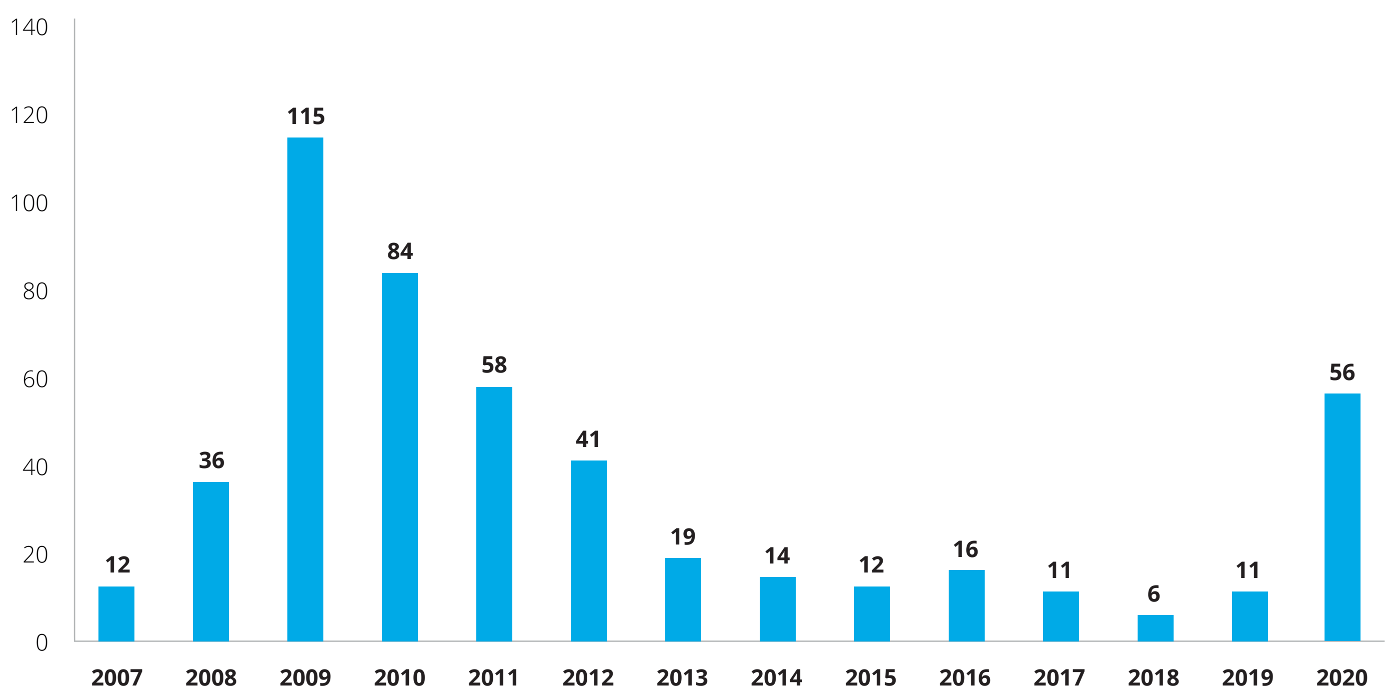
2021 real estate M&A trends and drivers

Potential opportunities for distressed asset purchases

What a year it might have been. US CMBS issuance volume had strong momentum coming into 2020; it soared 27% in 2019 to $97.8 billion, the highest level since the pre-financial-crisis year of 2007,[68] and debt markets were sufficiently liquid. However, COVID-19's negative effects on capital flow surfaced late Q1 and Q2 2020 and extended throughout the year, contributing to a dramatic rise in troubled assets and delinquencies (figure 4).

The hotel and retail subsectors accounted for more than 90% of 2020 distress,[69] and they continued to post elevated distress levels in Q1 2021.[70] Many CRE borrowers in these and other subsectors applied for debt relief to offset short-term liquidity management issues due to delays in rent collection and increased costs. In another sign of economic stress, delinquencies rose sharply. The CMBS delinquency rate remained above 9% in August 2020 after reaching an all-time high of 10.3% in June, largely driven by hotels at 23% and retail at 15%.[71] The rising delinquency rate is among factors affecting lending practices. In July, 78% of US domestic banks tightened lending standards for CRE loans.[72]

Figure 4. Newly troubled CRE assets ($B)



CMBS delinquencies

- Post-recording close to an all-time-high delinquency in June at 10.32%, driven by hotels (24.30%) and retail (18.07%), the rate fell steadily in the subsequent months.
- CMBS delinquency rate in February 2021 fell to 6.80%. Hotel and retail delinquencies are rebounding faster at 16.38% and 11.83%, respectively.

Sources: Real Capital Analytics; Manus Clancy, "CMBS Delinquency Rate Plunges In February; Hotel And Retail Rebound Accelerates," Trepp, March 3, 2021.

Distressed asset sales accounted only for 1.4% of total 2020 deal volume, a level similar to the past two years. Government-provided capital and support to offset COVID-19's impacts gave banks more leeway to grant forbearance on loans and not push them into workout mode; however, if delinquencies and foreclosures further increase or the government reverses course, it could exacerbate pricing and valuation concerns and create opportunities for distressed asset deals in 2021.

We expect to see distressed buying begin to accelerate in Q2 2021 on the other side of a final stimulus bill and more widespread vaccinations, with attractive targets in hospitality, entertainment, retail, and (to some extent) traditional office. Likely acquirers include large institutional investors and PERE firms, which hold a huge amount of dry powder and are looking to scoop up bargain-priced assets as the economic turmoil of COVID-19 translates through to workouts, foreclosures, and sales.[73] (See the "PERE dry powder for dealmaking" trend.)

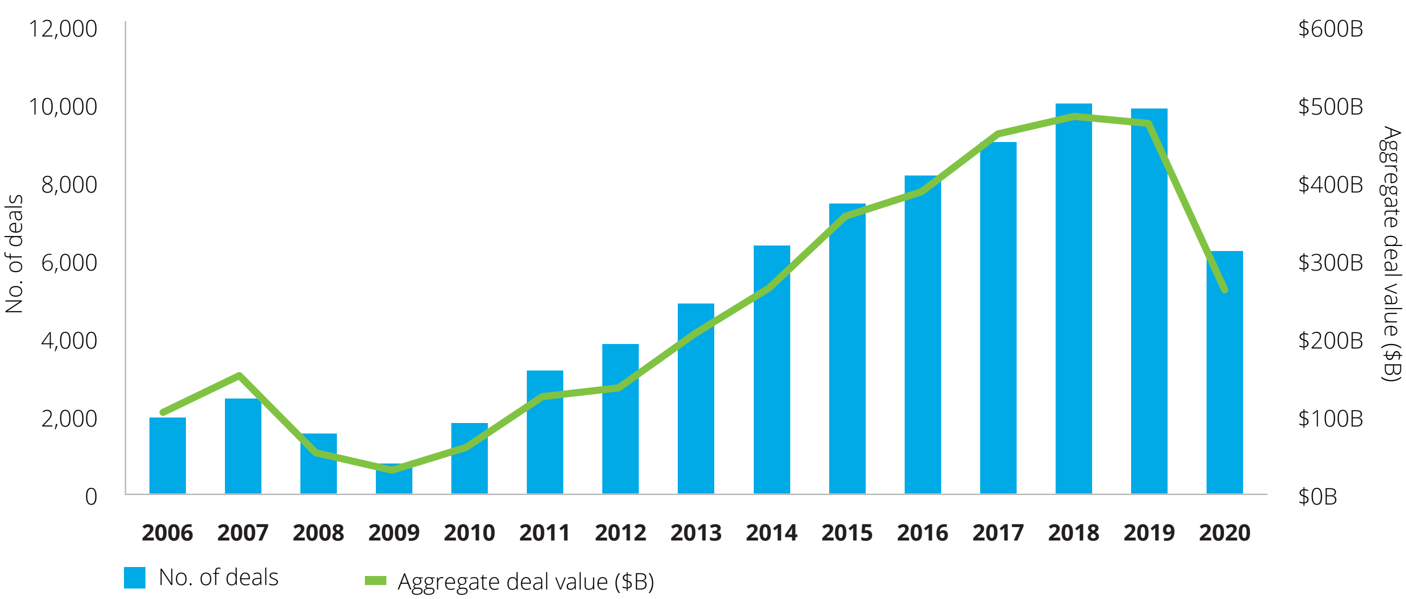
In addition to abundant capital, distressed asset deals require a convergence of price expectations. Three business quarters into the COVID-19 crisis, such sales were again at that 1% of the total market threshold, which was the start of the price declines in the great financial crisis (GFC).[74] The pace of price increases has tempered, but there is still significant growth. Data through October 2020 shows continued price growth for the industrial and apartment subsectors, while the retail and hotel sectors continue to slide. The office subsector is somewhere in the middle.[75] The gap between buyer and seller expectations has narrowed for the apartment subsector. For the industrials, this gap is gone, and deal volume, while down from a year ago, is back to a normal level.[76] Conversely, the gap in price expectations continues to widen for the retail sector, and deal volume hovers near record-low levels. The hotel subsector is also experiencing abnormally low levels of deal activity: Prices are falling, but not fast enough to entice buyers to step off the sidelines and push deal activity back to a more typical pace.

PERE dry powder may ignite dealmaking

Although PE firms are often first movers when it comes to investing in riskier asset classes, in 2020 many opted to acquire technology, online retail, and other perceived "safe" assets versus distressed real estate. And although there were several notable 2020 PE-originated CRE deals—Blackstone Group acquired Prologis Inc.'s 22-property UK logistics warehouse portfolio for $618 million,[77] and KKR & Co. Inc. purchased two industrial distribution assets in Phoenix, one built in 2019 for about $43 million[78] and the other built in 2001 for $32 million[79]—2020's overall global PERE M&A deal volume and value declined dramatically YoY, with 6,249 deals worth a combined $265 billion compared with 9,920 deals and aggregate deal value of $479 billion in 2019 (figure 5).

Figure 5. Private equity real estate activity

Yearly private equity real estate deals



Source: Preqin.

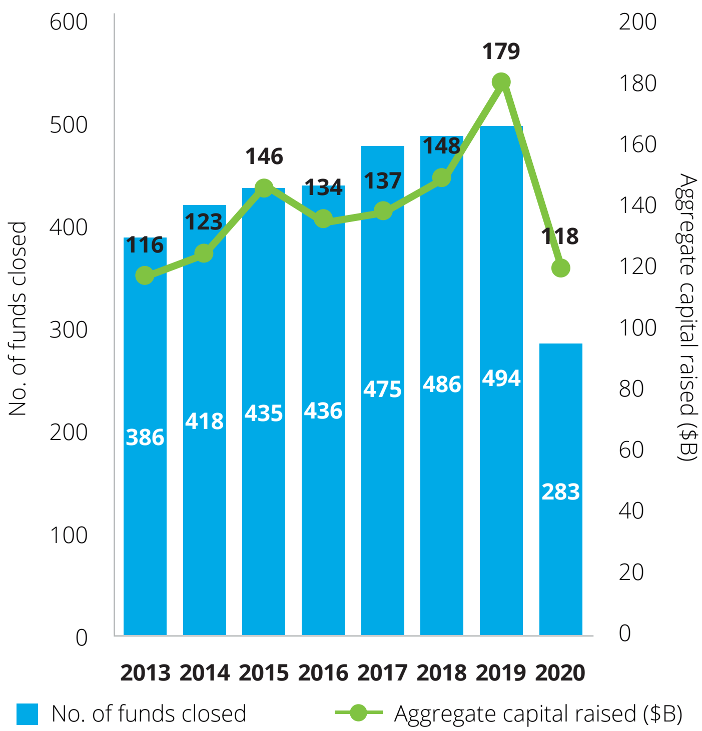
While their 2020 M&A transaction levels fell far short of previous years, PE firms, including Blackstone Real Estate, Brookfield Property Partners, Starwood Capital Group, and Colony Capital, did continue to fundraise (albeit at a much slower rate during the pandemic) and now have $324 billion in dry powder to deploy in 2021 M&A (figure 6).

We are also seeing specific fundraising activity in certain asset classes (for example, CGI Merchant Group's $500 million fund to invest in distressed and value-add hotels in North America and the Caribbean that would be branded as Hilton properties[80] and JPMorgan Chase's $700 million fund targeting residential rental developments in US Sun Belt states).[81] And there are more fund vehicles today than ever before: opportunistic funds, permanent vehicles, nontraded REITs, SPACS, and debt funds.

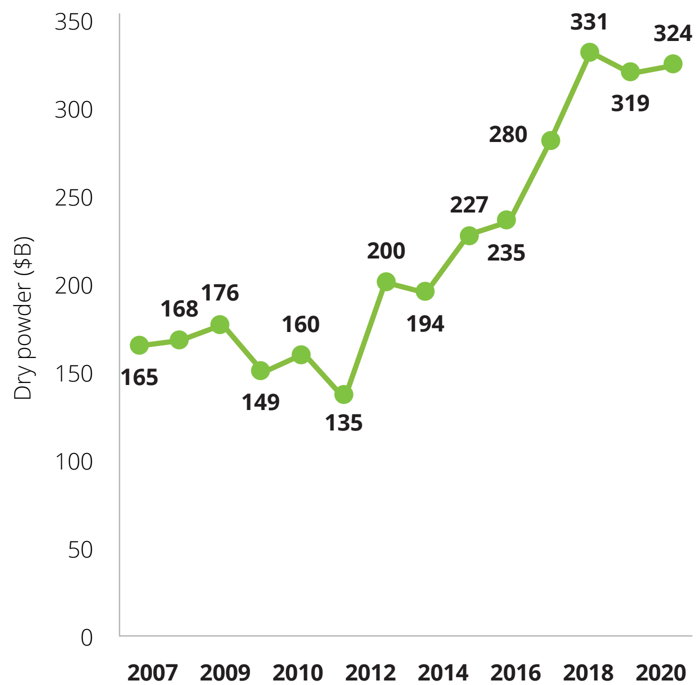
A potent mix of suppressed M&A activity, abundant (and increasing) dry powder to deploy, continuing CRE distress, and widening seller and buyer price expectations could spark an extended period of real estate dealmaking, with recapitalizations, refinancings, restructurings, and M&A activity, beginning as early as Q2 2021.

Figure 6. PERE fundraising falls substantially and dry powder increases in 2020

Global annual closed-end private real estate fundraising



Closed-end private real estate dry powder, 2007–2020



Sources: Preqin; Amy Whyte, "2020 Was Terrible for Real Estate Investing. Will 2021 Be Better?" Institutional Investor, February 4, 2021.
Note: Dry powder refers to cash reserves on hand, especially to cover future obligations.

Urban exodus and other migration trends

Is the traditional real estate value barometer of "location, location, location" losing relevance? With COVID-19 emptying office buildings and Class A city centers in 2020, working from home (wherever that may be) has not only become both necessary and acceptable, but also has the potential to dramatically change the office and residential real estate landscape in coming years.

There is growing evidence that pandemic-spawned remote working arrangements may be contributing to shifting CRE market dynamics: The so-called urban exodus from high-cost, overcrowded gateway cities, namely San Francisco and Manhattan, in spring and summer 2020 has produced, at least in the near term, an excess of available office space, declines in rental rates, and short-term uncertainty around property valuations and the premium associated with Class A office buildings and high-rise urban CBD apartments.

In August 2020, Manhattan's apartment vacancy rate exceeded 15,000 available units, climbing above 5% for the first time in the 14 years since real estate firm Douglas Elliman started recording it.[82] There were 24% fewer leases signed in August 2020 than the year earlier, with a 166% increase in listings available to rent. In addition, the median rent for all apartments was 4% lower than a year ago, and more than of half of new leases signed included a landlord concession, the largest share in a decade of tracking.[83]

From an M&A perspective, overall CBD office investment fell 37% YoY in Q4 2020, but this was a rebound from a lower low; it fell 75% from a year earlier in Q3 2020.[84] However, COVID-19 was not the only factor affecting deal volume; CBD office investment was less popular than in the past even before the onset of COVID-19.[85]

While the current urban outflow may be cyclical—people leave cities, property price points go down and become more attractive, people move back, and prices climb—it also could signal a longer-term trend of workers and companies (led by technology firms looking for high-quality, lower-cost talent) migrating to more affordable, less crowded close-in suburbs, secondary cities, and Sun Belt states. As of 2020's end, suburban real estate appeared to be benefiting from the migration. For example, areas around New York City that have seen declining values for years are suddenly hot, with multiple competing offers becoming the norm for home listings in turnkey condition, especially if they're priced under $1 million. Demand for single-family rentals is also high,[86] which is good news for landlords.

Among urbanites who have already moved, it's unclear how many relocations will be only temporary.[87] It's clear, however, that office life won't be as before, thanks to advancing technology and evolving onsite-remote work policies. Some people who are now working from home may be able to shift to a hybrid arrangement; others might never have to return to their downtown office and can have increased freedom in where they choose to settle.[88]

Even as COVID-19 recovery expands and restrictions lift, workers' return to traditional offices is likely to be gradual. In addition, the pandemic is creating longer-term evolving shifts in tenant and end-user preferences, which will likely influence leasing demands. More and more companies are rethinking how and when they use office spaces; some plan to shrink their CRE footprint, reserving offices for face-to-face interactions and team-based activities and enhancing collaboration and innovation, while employees would continue to work remotely for more individualized tasks and assignments.[89]

Spaces are likely to be valued based on their experiential qualities or a space's conduciveness to what the tenant wants to accomplish rather than traditional metrics such as cost or sales per square foot. Deloitte's proprietary CRE survey responses suggest that, unlike an earlier emphasis on location, health- and safety-related smart building features and occupancy density may play a more important role in leasing decisions going forward.[90]

Office owners will need to differentiate their properties to compete in what we expect to be a renter's market in 2021. This means making more creative use of space, upgrading cleaning protocols so people feel safe and comfortable, and taking advantage of current vacancies to install the smart technologies tenants want. Owners also should consider conducting more real-time analyses of changing user preferences and preparing to adapt design and leasing models.[91]

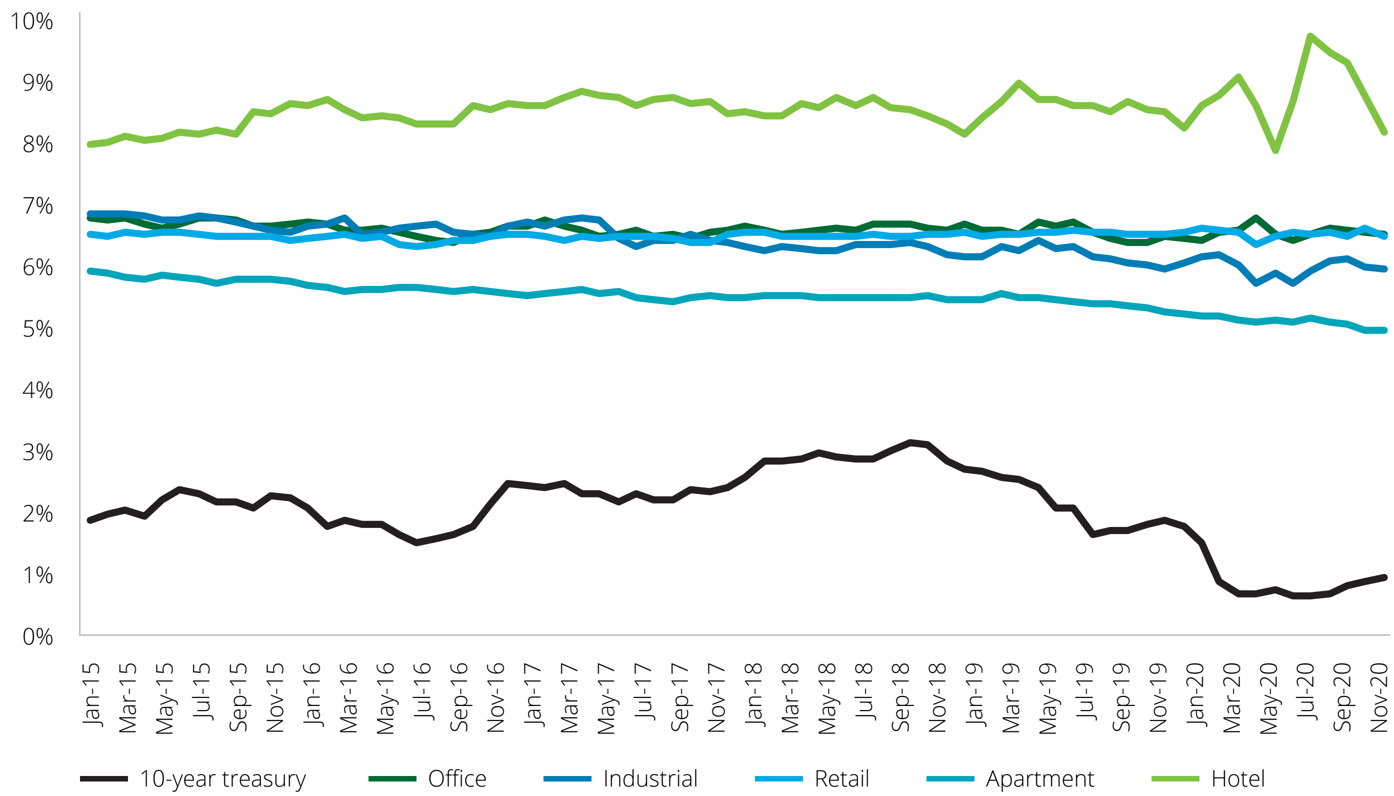
Reevaluating CRE asset value propositions

Real estate investment classes today are broader than ever before, and the pandemic is disrupting different assets' value propositions in different ways. Some subsectors (industrial, residential, nontraditional) are seeing positive impacts, while others (retail, hotel, CBD office) are struggling. This disruption is prompting many companies to reevaluate their real estate portfolios. For example, whereas pre–COVID-19, office properties in core markets were viewed very favorably, the shift to a technology-enabled, work-from-home society has (at least in the near term) diminished their luster. Longer-term shifts in tenant and end-user preferences are also expected to influence leasing demand and asset value. A company may have to be creative and adapt a property for complementary or new purposes (for example, converting an empty retail space into a mixed-use development). Or an owner may look at an asset's current performance, factor in key secular trends, determine it has a less-than-promising future, and decide to sell.

Capitalization rates (cap rates) and pricing indices are common indicators of asset value. Cap rates were somewhat volatile in 2020, but appear to be stabilizing in recent periods due to government support of the capital markets (low treasury rates and relaxation of forbearance rules) and the resilience of certain subsectors (figure 7):

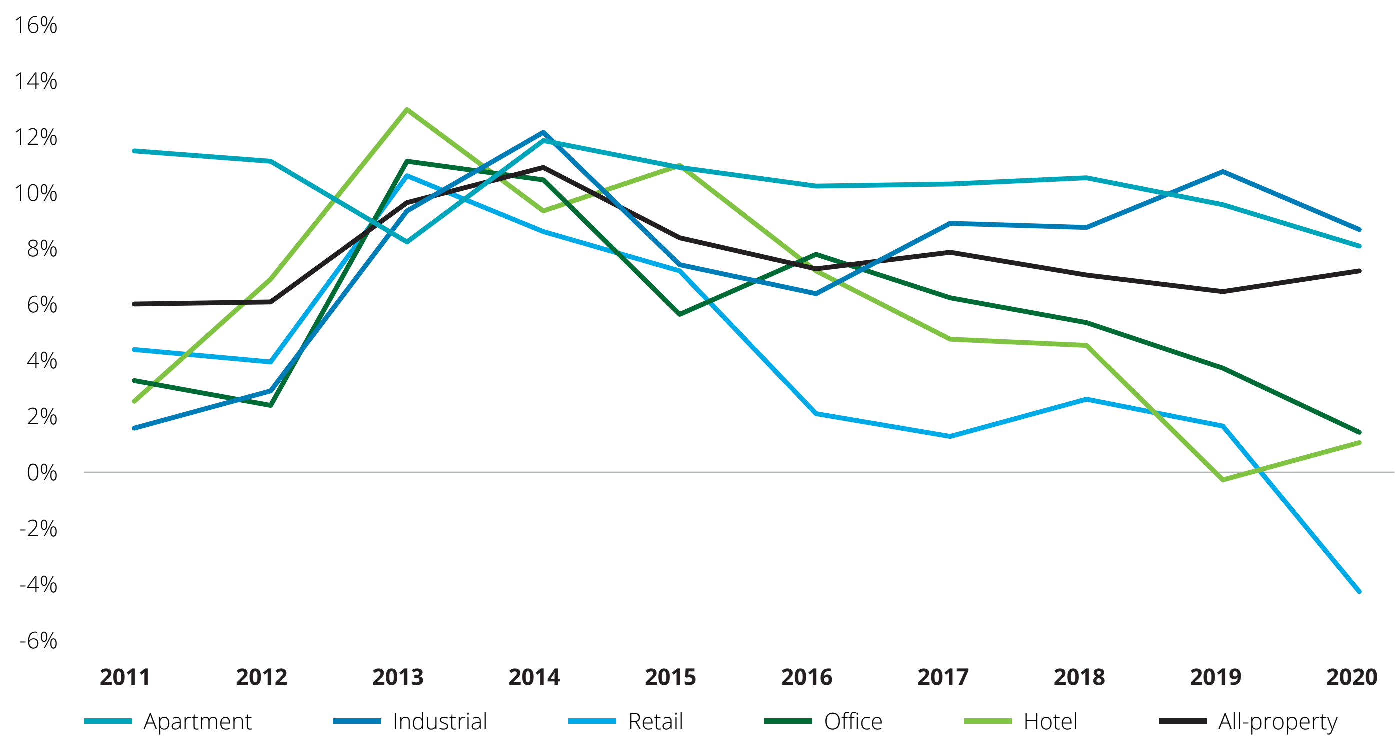
Figure 7. Capitalization rates have been ticking down

Monthly cap rates



Source: Real Capital Analytics.
Note: Monthly cap rates are a three-month rolling average.

Figure 8. YoY pricing changes have decreased
Year-over-year pricing change



Source: Real Capital Analytics.

Real estate pricing changes also have decreased over the past year (figure 8); however, low interest rates and investors seeking yield have enabled some assets to maintain some level of pricing strength.

The industrial subsector was a powerhouse before the pandemic and continues to thrive; the huge demand for logistics space in 2020 should continue into 2021, keeping prices high. Nontraditional assets such as data centers and cell towers also fared well in 2020 and will continue to see strong demand in 2021. Multi- and single-family residential pricing has been quite robust, with mobile and manufactured home park transactions seeing an uptick in volume and value.

Office pricing has been a mixed bag. COVID-19–related restrictions and work-from-home orders turned some gateway cities' CBDs into virtual ghost towns for much of 2020, producing an excess of Class A office space and exerting downward pressure on pricing during lease negotiations. By comparison, tier-two city and suburban office pricing has been proving more resilient and is poised for a positive 2021, as companies consider back-to-work scenarios that include breaking up large headquarter offices into smaller regional offices.

COVID-19 has sped up an existing downward pricing trend for hospitality and retail properties. Investors have been shedding some or all of their holdings in these subsectors to free up capital for industrial and infrastructure purchases. While pricing for hotels, restaurants, and entertainment venues may improve as vaccine distribution becomes more widespread, capacity restrictions ease, and business and leisure travel increases, the outlook for brick-and-mortar (BAM) retail assets (in particular, enclosed shopping malls) is more bearish. According to real estate analytics firm Green Street, the values of A-rated malls (about 250 top-tier malls that account for the majority of mall value in the United States) have fallen about 45% from peak 2016 levels.[92] And while mall values rebounded strongly after the 2008–2009 global financial crisis, the overall retail environment was much healthier than it is today. The pandemic sent e-commerce sales skyrocketing and shut down physical retail for months, accelerating the rightsizing process.

The biggest ongoing risk factor for mall values is obsolete anchors. Green Street estimates about 360 mall-based department stores have closed since 2016 and forecasts roughly half of those remaining will shutter by the end of 2025. These closures can produce a ripple effect of decreasing sales and occupancy among other mall tenants.[93] A-rated malls can increase their chances of remaining viable by adding nonretail assets to their tenant mix.[94] Online shopping is here to stay, but consumers will continue to patronize multipurpose retail establishments where they can shop, have a nice dinner, and enjoy an evening of entertainment. B- and C-rated malls are at greater risk in the coming years[95] and may need to repurpose to survive. Some uses will be temporary, but others may have stickiness:

- Epic Games announced it is buying the mostly vacant Cary Town Center in North Carolina for a reported $95 million. It plans to convert the nearly 1 million-square-foot mall situated on 87 acres into its new global headquarters by 2024.[96]
- Urban Edge Properties purchased Sunrise Mall in Massapequa, New York, for $29.7 million, and plans to redevelop it for industrial purposes.[97]
- Brookfield Properties is looking at two options to grab a share of expanding online sales revenue: turning parts of its 121-mall portfolio into mini-distribution centers that its tenants could rent out to handle online orders and getting retailers to fulfill more of their online orders from their store locations instead of a special warehouse or logistics property.[98]
- Developers are turning a large portion of the Alderwood Mall in Lynnwood, a suburb north of Seattle, into a 300-unit apartment complex with underground parking and 90,000 square feet of retail.[99]
- The Westside Pavilion shopping mall in Los Angeles is being converted into office space, with Google signing on as the sole tenant of the 584,000-square-foot development. The 14-year lease is set to commence upon the completion of construction in 2022.[100]
- The scarcity of desirable assets near large metro areas and their locations near major highways also make underperforming malls attractive options for data center and industrial park conversions. And where the land is more valuable than the building, some malls are likely to be razed and rebuilt for other purposes.

While some real estate operating metrics in 2020 may have trended negative due to the pandemic, we are beginning to see that reverse. Better net operating income should drive better pricing in 2021 and 2022. In addition, COVID-19 has accelerated trends already underway and created a new set of opportunities arising from pricing and use dislocation. For some asset classes, this will be the perfect storm for real estate investors.

Portfolio balancing for risk mitigation

Real estate is a popular asset in many investment portfolios; however, COVID-19 has introduced new risks (and elevated others) for certain real estate holdings. This is prompting strategic and financial investors to look at ways to balance their portfolios to mitigate risk and propel future growth.

As discussed earlier, the pandemic's impacts on the real estate industry vary across subsectors and asset classes. Hotels and tenant-dependent retail, and (to a lesser extent) CBD office properties, are experiencing substantial financial stress and, thus, carrying higher levels of risk. As the economic implications of COVID-19–related travel restrictions and stay-at-home orders began to manifest in Q2 2020, property owners and operators (particularly in retail) quickly pulled down their debt, trimmed operating expenses, and negotiated early and often with struggling tenants to help them retain their leases. Still, real estate companies and REITs in some hard-hit subsectors have experienced huge declines in funds from operations: Through Q3 2020, lodging and resort REITs declined 173.9%, retail REITs 26.8%, and health care REITs 13.5%.[101]

The challenge for companies that are overexposed in vulnerable asset classes or subsectors is deciding whether to hold on and weather the storm, repurpose current holdings, or divest and concentrate future investments in fewer, high-quality categories. Coming out of the GFC, shedding noncore assets was a common way for real estate companies to balance portfolio risk. We saw a similar trend begin to emerge in 2020 and expect it to accelerate in 2021 as companies engage in post–COVID-19 portfolio and business restructuring. Divesting noncore assets or entire asset categories provides opportunities to diversify risk through subsector, asset-class, and geographic weighting, and to raise capital for acquisitions that support primary growth strategies. Colony Capital, for example, in 2020 sold six hotel portfolios and its Colony Bulk Industrial Portfolio to exit the hospitality and industrial markets and focus on acquisitions that fit its new digital infrastructure strategy. Colony Capital now has $23.3 billion in digital assets under management, 50% of its total managed assets.[102]

Disciplined companies are constantly reassessing and rebalancing their portfolios; those focused on enhancing financial stability and strengthening longer-term risk mitigation should do so with an eye toward expanding risk factors to include pandemic-like scenarios and tenant concentration in a single industry. Leaders could conduct a strategic review of core competencies, such as running a REIT or property specialization, then decide if they should divest underperforming or noncore assets, unlock value through spinoffs, or acquire similar or complementary properties to build a more diverse, balanced portfolio.[103]

Moving forward with 2021 real estate M&A opportunities

COVID-19 will continue to overhang real estate in 2021, accelerating key trends already in play: the shift to more flexible office and remote work arrangements; increasing demand for industrial assets to support the "last mile" in e-commerce deliveries; growing application of technology and data to enhance tenant experiences and optimize operations; repurposing or closing of struggling retail properties; and surging multi- and single-family residential construction and sales. The pandemic also may accelerate M&A opportunities for real estate sellers, buyers, and investors.

The widening rollout of multiple vaccines may boost optimism about a return to some type of "normal" life later in the year; however, the extent of the pandemic's economic impact on the CRE industry, its individual subsectors, and M&A remains cloudy. How quickly will hotels, restaurants, retail stores, and offices be able to once again stand on their own without government subsidies? Will companies holding considerable property-level debt in the more distressed asset classes have the financial strength to weather the recovery? Should potential buyers pursue distressed assets now, hoping prices have hit bottom, or wait a few months and risk missing out on affordable targets?

Being cash-flush versus cash-strapped is a strong determinant of whether an organization ***can*** or ***must*** do a deal. Real estate operators with a solid balance sheet, available capital, and a clear M&A approach should be well-positioned to scoop up distressed properties or expand into new asset categories. Meanwhile, companies under stress may try to hang on until they get some wind in their sails; however, time may not be on their side, and they could be forced to sell.

CBRE professionals indicate that investors are placing greater importance on certain investment criteria than they did before the pandemic, particularly tenant credit quality, length of remaining lease term, and building occupancy.[104] Property owners should, therefore, consider actions and investments that would positively differentiate their assets' value propositions under these heightened conditions. These may include expending capital on existing properties (especially those related to health and safety); investing in "smart" building technologies, data, and analytics;[105] or repurposing all or a portion of an asset to counter or capitalize on post–COVID-19 consumption shifts (e.g., companies downsizing their office space).

The increasing availability of distressed CRE assets in 2021 may coax deep-pocketed investors to reengage in dealmaking, especially in the office and multifamily subsectors; however, potential acquirers should be patient and strategic with their capital. Numerous buying opportunities, distressed and otherwise, are likely to emerge as the year progresses, even if conditions remain volatile and uncertain. Buyers should regularly update their target list, confirm that their financing "ducks" are in a row, conduct due diligence through a pandemic lens, and pursue full-value assets that can add scale to existing subsector holdings or provide entry into exciting new markets.

Contacts

Nathan Florio
Principal
Deloitte Transactions and Business Analytics LLP
+1 212 436 3451
naflorio@deloitte.com

Max Hughes
Senior manager
Deloitte Transactions and Business Analytics LLP
+1 214 840 1558
maxhughes@deloitte.com

Jonathan Keith
Managing director
Deloitte & Touche LLP
+1 212 436 4554
jokeith@deloitte.com

Tom Morrisroe
Partner
Deloitte Tax LLP
+ 1 212 436 6278
tmorrisroe@deloitte.com

Anthony Scalese
Partner
Deloitte & Touche LLP
+ 1 404 631 3375
ascalese@deloitte.com

Special thanks to:
Jim Berry, Curt Bimschleger, Allan Cook, Kathy Feucht, Matt Kimmel, Guy Langford, Eva Lee, Blair Morgan, Bob O'Brien, and Jeff Smith

Endnotes

1. Deloitte, "2021 commercial real estate outlook: Rebuilding to enhance resilience."
2. Dollar amount and percentages in the commentary may vary slightly from the chart, as the chart does not include data on senior housing and care properties. Also, commentary shows Europe and charts shows EMEA, which might also show variance.
3. Real Capital Analytics.
4. Ibid.
5. Ibid.
6. Composed of Admiral Power Holdings Ltd., Woo Kwong Ching, and HSBC Trustee (CI) Ltd.
7. Apartment Investment & Management Co (AIMCO) completed the spinoff of Apartment Income REIT.
8. Composed of Starlight Group Property Holdings Inc. and KingSett Capital Inc.
9. Composed of undisclosed new and existing investors.
10. COVID-19's impacts on commercial real estate: Preparing for the "next normal."
11. Prologis, "Prologis Completes $13 Billion Acquisition of Liberty Property Trust," PR Newswire, February 4, 2020.
12. FreightWaves, "Prologis Closes On $4 Billion Purchase Of Industrial Property Trust," Benzinga, January 9, 2020.
13. Refinitiv data.
14. CBRE, "U.S. Cap Rate Survey Special Report 2020."
15. Ibid.
16. Simon Property Group, "Simon Property Group Completes Acquisition Of Taubman Centers, Inc.," December 29, 2020.
17. Real Capital Analytics.
18. Kelsi Maree Borland, "Office Occupancy Losses Were Unprecedented in 2020," GlobeSt, citing JLL report, January 21, 2021.
19. Ibid.
20. Ibid.
21. Ibid.
22. Ibid.
23. Real Capital Analytics.
24. Ibid.
25. Ibid.
26. Ibid.
27. Ibid.
28. Simon Property Group, "Simon Property Group Completes Acquisition Of Taubman Centers, Inc.," December 29, 2020.
29. Real Capital Analytics.
30. Ibid.
31. Ibid.
32. Ibid.
33. Ibid.
34. Synergy Research Group, "2020 Data Center M&A Deal Value Passes the $30 Billion Milestone," Globe Newswire, December 15, 2020.
35. Mike Robuck, "Digital Realty closes $8.4 billion deal to buy Interxion," Fierce Telecom, March 13, 2020.
36. Synergy Research Group, "2020 Data Center M&A Deal Value Passes the $30 Billion Milestone," Globe Newswire, December 15, 2020.
37. Rich Miller, "Data Center M&A On the Horizon as New SPACs Go Shopping," Data Center Frontier, February 15, 2021.

38. Ibid.
39. Ibid.
40. American Tower Corporation, "American Tower Closes Eaton Towers Transaction and Announces Agreement to Acquire Joint Venture Stakes in Ghana and Uganda From MTN," Business Wire, January 2, 2020.
41. Zacks Equity Research, "American Tower (AMT) Announces $9.4B Deal to Buy Telxius Towers," January 14, 2021.
42. Brookfield Infrastructure Partners, "Brookfield Infrastructure Announces Closing of Indian Telecom Towers Transaction," August 31, 2020.
43. Inside Self Storage, "Blackstone Agrees to Acquire Simply Self Storage for $1.2B," updated January 6, 2021.
44. Real Estate Watching, "Blackstone to Sell BioMed Realty for $14.6B," October 17, 2020.
45. Deloitte Insights, *"Digital media trends survey," 14th edition.*
46. Ibid.
47. David Bauder, "Study Shows Explosive Growth in Time Spent Streaming TV," ABC News, 2020.
48. Deloitte Insights, *"Digital media trends survey," 14th edition.*
49. Dave Butler, "History of Netflix: Timeline and Facts," The Street, last updated October 5, 2020.
50. Ibid.
51. Ibid.
52. Deloitte, "*Physical production studios in NYC: How demand for original content is driving a shortage in the supply of physical production space in NYC*," 2020.
53. Investable Universe, "Hollywood Blockbuster: Blackstone, HPP Seal Deal for Studio Lot Portfolio," August 3, 2020.
54. Blackstone, "Hudson Pacific Properties and Blackstone Announce New Joint Venture to Expand Studio Platform," June 29, 2020.
55. Hackman Capital Partners, "Hackman Capital Partners and Square Mile Capital Acquire Iconic Silvercup Studios in New York City," October 2, 2020.
56. Daniel Kagan, "Press: CRE Sentiment Is on the Upswing," RCLCO real estate advisors, January 25, 2021.
57. Real Capital Analytics.
58. CBRE.
59. Lance Lambert, "76% of American CEOs they'll likely reduce company office space," *Fortune*, October 22, 2020.
60. CBRE.
61. Ibid.
62. Ibid.
63. Ibid.
64. Yardi Systems, "Multifamily Rents Dropped in December as Disparate Impacts on Markets Persist, Says Yardi Matrix," January 14, 2021.
65. Michelle Black, "COVID-19 Mortgage Forbearance: What To Know Before You Delay Payment," Forbes Advisor, April 16, 2020.
66. Jim Probasco, "Renters: How to Get COVID-19 Rent Relief," Investopedia, last updated March 29, 2021.
67. Avi Reshtick and David K. Salamon, "IRS Issues Final Regulations on Taxation of Carried Interest Under Section 1061," Mintz, January 13, 2021.
68. Deloitte, "Tax News & Views," August 14, 2020.
69. CM Alert.
70. Real Capital Analytics.
71. Lynn Pollack, "CMBS Delinquency Rate Shows Most Improvement Since COVID," GlobeSt, March 5, 2021.
72. Manus Clancy, "CMBS delinquency rate continues retreat from near all-time high," Trepp, September 1, 2020.
73. Board of Governors of the Federal Reserve System, "Senior Loan Officer Opinion Survey on Bank Lending Practices," last updated August 3, 2020.
74. Jim Costello, "All Eyes on US Distressed Assets Into 2021," Real Capital Analytics, January 14, 2021.
75. Ibid.
76. Jim Costello, "Distress and Pricing in the US Commercial Property Market," Real Capital Analytics, November 18, 2020.
77. Ibid.
78. Todd Maiden, "Prologis completes largest-ever sale of logistics warehouses in the UK," FreightWaves, October 28, 2020.
79. KKR, "KKR acquires Phoenix industrial distribution property for $43M," S&P Global Market Intelligence, September 17, 2020.
80. KKR, "KKR buys industrial distribution property in Phoenix for $32m," CRE Herald, November 20, 2020.

81. The Real Deal, "CGI plans $500M fund to acquire distressed hotels, rebrand with Hilton," August 20, 2020.
82. The Real Deal, "JPMorgan wants to invest $700M building rentals in Sun Belt states," September 30, 2020.
83. Anna Bahney, "Manhattan had 15,000 empty apartments in August -- a new record," CNN, September 10, 2020.
84. Ibid.
85. Real Capital Analytics.
86. Deloitte analysis.
87. Lisa Prevost, "5 Ways the Coronavirus Has Changed Suburban Real Estate," New York Times, July 17, 2020.
88. Marie Patino, "What We Actually Know About How Americans Are Moving During Covid," Bloomberg, September 16, 2020.
89. Hannah Steinkopf-Frank, "Urban Exodus? First Signs Of A Move Out Of The World's Cities," August 6, 2020.
90. Deloitte, "*2021 commercial real estate industry outlook: Rebuilding to enhance resilience*."
91. Ibid.
92. COVID-19 implications for commercial real estate: Preparing for the "next normal."
93. Deloitte, "*2021 commercial real estate industry outlook: Rebuilding to enhance resilience*."
94. Lauren Thomas, "America's top-tier malls were resilient, but values are now crumbling, down 45% from 2016 levels, Green Street says," CNBC, January 26, 2021.
95. Ibid.
96. Ibid.
97. Ibid.
98. Neal Freyman, "What Epic Games Buying a Dying North Carolina Mall Tells Us About the Future of Retail," Morning Brew, January 9, 2021.
99. Urban Edge Properties, "Urban Edge Properties Acquires Sunrise Mall in Massapequa, NY," Bloomberg, January 4, 2021.
100. Joe Dyton, "Brookfield looks to turn malls into distribution centers, child care facilities etc.," Connected Real Estate Magazine, February 11, 2021.
101. Patrick Sisson, "The Dying Mall's New Lease on Life: Apartments," Bloomberg, June 30, 2020.
102. Steven Sharp, "Westside Pavilion Gutted as Google Office Campus Takes Form," Urbanize Los Angeles, November 25, 2019.
103. Nareit, "Quarterly REIT performance data," accessed September 20, 2020.
104. Kelsi Maree Borland, "Colony Capital Exits Industrial Market With $400M Sale," GlobeSt, December 3, 2020.
105. Jim Berry, "COVID-19 implications for commercial real estate: Preparing for the 'next normal'," Deloitte Insights, 2020.
106. U.S. Cap Rate Survey Special Report 2020 | CBRE.
107. Jim Berry, "COVID-19 implications for commercial real estate: Preparing for the 'next normal'," Deloitte Insights, 2020.

Deloitte.

About Deloitte
Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the "Deloitte" name in the United States, and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see www.deloitte.com/about to learn more about our global network of member firms.