LIGHTBOX 2021 SENTIMENT REPORT

HOSPITALITY & RETAIL

Q2 2021

LIGHTBOX

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Introduction

At mid-year 2021, there are many signs of optimism for the commercial real estate industry as the U.S. economy moves into a more distinct and widespread reopening phase. After nearly a year and a half of disruption, the industry continues to forge ahead, as brokers, landlords and investors work to push past adversity, find their stride and define that elusive “new normal.” This report looks at the hospitality and retail sectors, two market segments that were evolving before the pandemic and then suddenly hit with severe shutdowns and business hardships. How have they fared and what is ahead?

“Real estate is a resilient, dynamic industry, evolving and adapting to meet new challenges while also following traditional cycles. Investors and their advisors are mindful of the issues and challenges that remain, but with unprecedented levels of capital, they are focused on the opportunities that exist and are, at the very least, displaying optimism for what points to a solid finish to 2021.”

Tina Lichens, Senior Vice President, Broker Operations, LightBox

Key Findings

Retail

- **Bricks and mortar retail is expected to grow in 2021.** Some experts are predicting a tipping point where ecommerce growth will slow and in-store sales will regain ground. “The pandemic has accelerated ecommerce penetration, but it’s also reached a point where it’s in that 20 percent range and we’ve stress-tested the physical stores and seen people’s desire to be around other people,” says Brian Moss, Principal, Coventry Real Estate Advisors, New York, NY.
- **Omnichannel retail is the way of the future.** The pandemic has shown the power of ecommerce — and the need for consumers to experience retail in person. An approach that gives customers the control to shop online, in-store, or on the phone is seen as the key to consumer activation.
- **The retail investor profile has shifted.** Private investors, high net worth individuals and non-traded REITs are the primary deal makers, with institutional capital waiting on the sidelines. Many investors are searching for well-located grocery anchored assets or lifestyle centers in the $25 million and under range, but demand for larger deals is growing.

> *“We’ll see more distressed properties coming available for sale, or a continuation of note sales from the banks, later this year.”*
>
> Michael T. Fay, Principal, Managing Director, Chairman,
> U.S. Capital Markets Executive Committee, Avison Young

Hotel

- **Resort and leisure travel is back** for the all-important Summer season. The jury, however, is still out on when business and convention travel will return — an absolute necessity for the industry to become whole.
- **All eyes are on Labor Day** as a critical timeframe for understanding which hotel properties and investors can be called survivors.
- **Sales are expected to spike significantly in the second half of 2021,** potentially reaching pre-pandemic levels in 2022 and 2023. Many buyers will focus first on properties that can benefit from leisure travel, particularly those in driving distance of large population pools.
- **Hotel distress statistics are potentially misleading.** More hotels than any other property type are in the distress pipeline, through a transfer to special servicers. Yet looking ahead, the stat does not evoke widespread concern.

Retail Perserveres and Transforms

The retail industry experienced an extreme stress test over the past 15 months as stores were forced to shut down and consumers hunkered down in their homes, away from malls, restaurants and entertainment. Ecommerce surged and many retail businesses pivoted toward online ordering and curbside pickup as a way to survive and maintain customer connections. As local economies have reopened, more and more consumers are gravitating to in-store shopping, creating a more balanced combination of online and in-store purchases.

Heading into mid-year 2021, the retail sector is faring much better than expected, with overall sales in April jumping by more than 50 percent year-over-year and many store closings and bankruptcies avoided. While many large shopping malls continue to struggle, new concepts are emerging to draw consumers to retail centers. And, some of those quick fix options that allowed customers to order ahead and pick up in the parking lot or store may become part of the new retail experience that strives to meet consumer where they are — and deliver a strong customer experience.

This positive picture is due in large part to stimulus checks from the American Rescue Plan Act, as well as the increased vaccine rollout that is pushing COVID cases downward and moving many states to open more fully. The National Retail Federation is forecasting a strong summer for retail as pent-up demand, and additional consumer income and savings push consumers to spend in the many retail environments.

"While the pandemic exposed retailers and properties that were already flawed, it also shined a light on where there are foundational strengths within the market and retail sector."

Chris Angelone, Senior Managing Director, Retail, JLL

The Retail Sector: A Bright Future Despite COVID-19 Disruption

In the early days of the pandemic, there were dire warnings about the retail sector, which had been in the throes of reinvention and was now facing unprecedented obstacles to in-person shopping. Many retailers received federal PPP loans and found ways to adapt through curbside pickup, reconfigured online strategies, and other measures. The big boost, however, came in 2021 as the second and third federal stimulus checks rolled out to consumers.

“Retail became the absolute hot potato last year, with many people projecting that COVID would decimate the sector, following years of trailing behind ecommerce,” says Sanford D. Sigal, President and Chief Executive Officer, NewMark Merrill Companies, a shopping center owner and operator in Woodland Hills, CA. “There was a lot of gloom and doom talk, which, thankfully, didn’t materialize.”

A look at 2021 shows that pedestrian traffic and leasing activity have increased at many retail centers and investment activity in sought-after property types is stable and trending upward. Sigal notes that 2020 retail traffic in approximately 100 NewMark Merrill properties in the U.S. reached 93 percent of the traffic seen in 2019. “That’s a pretty positive story.”

“The top performer right now is single tenant retail, especially those with grocery and pharmacy tenants because that’s where the demand has been during the pandemic,” says Angelone. “Cap rates have compressed to levels we’ve never seen before and, in many cases, closely resembles the demand for industrial.”

Retail Sales: Full Speed Ahead?

U.S. retail and food services sales reached $619.9 billion in April 2021 — a 51.2 percent jump from April 2020, according to the U.S. Census Bureau. This activity, which was largely fueled by federal stimulus programs, is a dramatic turnaround and one that defies expectations set in the early days of the pandemic.

A closer look at retail activity shows that consumers' needs are being met at all levels — from large tenants such as Home Depot, Walmart and Macy's, which all reported more than 20% increases in sales recently — to grocery-anchored, lifestyle centers, and local strip malls, as well as restaurants.

The Census Bureau data provide a broad brush view of the market, however, and does not drill down into specifics by market, demographics or retail strategy. That type of comprehensive sales review will be forthcoming as a wider swath of transactions occurs in the months ahead.

"We're just starting to see data points emerging from COVID and you have to be careful when generalizing on pricing," says Angelone. "When exiting a time of disruption, what trades first is the safest, best-in-class assets or the really broken and highly opportunistic assets. We don't have the stable middle of the spectrum yet so it is challenging to try to use sales data as a barometer of the whole market."

What's Hot, What's Not

At this stage in the recovery, grocery-anchored centers and lifestyle centers, particularly those with top name tenants and in proximity to strong demographics, are among the sought-after assets. Those with good population density, high-income levels, and some evidence of supply constraint will rise to the top and command lower cap rates.

"What we're seeing on the investment side is that good shopping centers are getting bid up very aggressively. The pricing is similar to pre-COVID levels," says Sigal. "People wrote off retail and it still seems to be alive, so many investors are taking another look."

> *"There is continued aggressive pricing of industrial and residential properties and now a 500 basis point spread between solid retail and those other categories, so some investors are trying to beat the market yield."*
>
> Sanford D. Sigal, President and Chief Executive Officer, NewMark Merrill Companies

What's Hot, What's Not *(cont'd)*

Similar assets that are a step below the top-level grocery and lifestyle centers are also attracting investors, provided there is a strong regional tenant with a long-term lease, the rents are reasonable and the neighborhood is stable. Those properties typically trade at a 5 to 6.6 percent cap rate, says Sigal.

According to LightBox statistics, when using the number of confidentiality agreements (CAs) as a barometer of popularity, the most sought-after types of retail properties are grocery-anchored centers, securing an average of 137 CAs per listing. Strip centers average half that attention, 69 CAs per listing. Outlet and specialty centers secured, on average, 107 CAs per listing while Malls attracted, on average, 87 CAs per listing.

Retail is not without its trouble spots, a sentiment that has been exacerbated by the pandemic. For example, soft goods stores — especially those selling men's and women's clothing — have struggled. Additionally, centers with movie theaters have experienced a greater slowdown — by a margin of nearly 2:1 — in traffic levels than centers without them.

While the clothing stores are likely to dig themselves out of their hole, questions remain for movie theaters. As one investor suggested, the fate of movie theaters is in the hands of Hollywood and the filmmakers who will determine the content and timeline for production and release dates.

The Role of Retail Auctions

While many properties sell through the traditional managed/sealed bid process, there is a growing interest in online auctions as a platform for generating sales with a certainty of closing. This approach is attracting many new investors looking to capitalize on the lingering effect of the pandemic and a widening range of distressed assets. Further, for sellers and buyers alike, auctions are helping to establish appropriate current pricing levels in an accelerated timeframe and to generate attention in growing and emerging markets. Finally, the auction process has also made it easier to bring properties to market by working around state-to-state COVID restrictions and without relying on visiting properties.

On the retail front, investors were looking in many secondary markets for strong anchored centers supported by good demographics and income levels. "Investors are being priced out of primary markets and are looking to invest in the Southeast and Midwest," says Phil Kates, First Vice President with CBRE's National Auction Group. "We're seeing a lot of interest for retail properties in places like Florida, Georgie and Texas. In the Midwest, investors are looking in Cleveland and Dayton for yield."

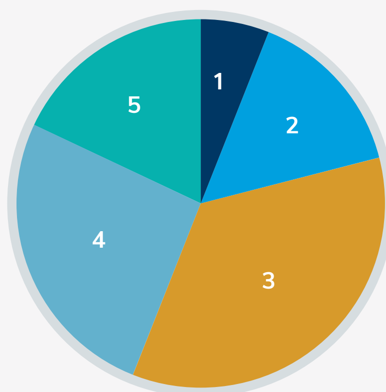
> *"Pricing remains strong and has not dipped much during the pandemic. If it's a really desirable asset, like a grocery anchored center, the demand is outrageous and we end up getting a lot of bids."*
>
> Adam Sklaver First Vice President, CBRE National Auction Group

Retail: The Reinvention Continues

Retail Survey

On a scale of 1 to 5 — with 5 extremely likely and 1 not likely at all — how likely are properties in these sectors to undergo significant redevelopment efforts (including a change in use)?

(Source: LightBox Retail & Hotel Investor Sentiment Survey)



“The pandemic is creating a seismic change in how people spend money and how they entertain themselves. It’s up to us to recreate a retail environment that essentially has been the same for 30 to 40 years.”

Steven Levin, Founder and Chief Executive Officer, Centennial Real Estate

Retail: The Reinvention Continues *(cont’d)*

The future of obsolete retail, such as many sprawling suburban malls, continues to be a hot topic of debate in the retail sector. What are the best ways to reinvent and repurpose assets to attract today’s consumers? Among the concepts being explored are mixed-use environments where multifamily intertwines with specialized retail and entertainment uses. There also is much talk about converting large anchor stores into retail distribution centers, although some properties present cost and zoning obstacles.

Some investors, such as Centennial Real Estate, are focusing on repurposing suburban retail to create an urban style environment that meets demand for vibrant, walkable live-work-play settings. Centennial has several projects with this theme underway in Orange County (CA), Virginia and Connecticut.

“The challenge is that you have to look at the property as an entire campus,” says Steven Levin, Founder and Chief Executive Officer of the Dallas, TX-based firm. “Creating a master vision to establish the destination is more difficult in an established mall. It is imperative to own the real estate, not just the parcel; otherwise, it is hard to integrate as a well-designed project.”

The goal is to entice consumers looking for new experiences, such as plaza settings with outdoor cafes, live music, and places for kids and dogs to play. “These are the projects of the future, but they are difficult to do and are resource and capital intensive,” says Levin. “At the end of the day, it will all come down to the project, its location and sponsorship. There are lots of malls across the country in varying stages of operation and each is different, so each solution has to be tailored to the specific property and demographics.”

Mixing Multifamily with Retail

Increasingly, retail property owners are considering multifamily development opportunities as a means for enhancing the value of their assets. Centennial Properties, for example, announced plans to transform former Sears stores in suburban Chicago into mixed-use projects with 303-unit luxury apartments and Main Street retail at Hawthorn Mall in Vernon Hills, IL and a 304-unit luxury apartment project at Fox Valley Mall in Aurora, IL. The focus is on planning the development as an entire campus and creating a master vision to establish the destination and integrate all elements together.

Another example is Poag Shopping Centers which is evaluating options at a Philadelphia center it owns. It has secured zoning to add apartments and is in talks with investment partners and developers before making a final commitment.

The challenge with these types of lifestyle centers is that, in the absence of vacant department stores, they must take over existing GLA, which typically has value to it, or convert an underutilized parking area. “It comes down to cost and the cost benefit analysis,” says Josh Poag, President and CEO Poag Shopping Centers, Nashville, TN.

The Future of Omnichannel

While the surge in ecommerce activity during the pandemic has garnered considerable attention, some industry experts are suggesting a need for rebalance between online and in-store shopping. “E-commerce growth can’t continue at this rate forever — there has to be a tipping point,” says Moss. “We’re seeing stress in the supply chain and headwinds as delivery times are increased. Trying to order the right size clothing online can be a challenge, then you have to deal with the returns. Coming out of the pandemic, we expect to see a more balanced flow of goods between online and bricks and mortar stores.”

Also, logistics costs are twice as high for ecommerce retailers than bricks and mortar retailers, says Moss. “The future of retail is omnichannel, where consumers can access goods from multiple online and in-store channels and have the type of customer service experience that ties it all together. Omnichannel customers spend four times more than store-only buyers and 10 times that of digital only customers.”

Retail Lending Overview

The lending environment also has improved in recent months. "While most lenders are now back in the market and making loans on retail assets, lenders are generally more conservative from a leverage standpoint than we saw pre-pandemic," says Shaun R. Moothart, Senior Vice President, Debt and Structured Finance, CBRE Capital Markets. "Big box retailers are still going to be viewed with a cautionary eye. Lenders will be looking for long-term leases with Amazon-resistant tenancy."

Moothart added that lenders are looking for 50% to 60% LTV, with some pushing up into the mid 60 %s on a case-by-case basis. Lenders are still heavily scrutinizing tenant collections to understand and underwrite the durability of the income generated from each tenant at the property.

> *"Grocery anchored centers are getting best in class pricing, for the right leverage and sponsorship we are seeing 10-year fixed-rate pricing in the high 2% range for what we refer to as "price to perfection."*
>
> Shaun R. Moothart
>
> Senior Vice President, Debt and Structured Finance, CBRE Capital Markets

Distress

The general consensus is that everyone has, or has had, a level of distress, to some extent. When a business depends on retail tenants that have faced the COVID roller coaster ride of spikes, mandatory shutdowns and other restrictions imposed by local, state and federal government agencies, there is going to be an impact. The struggles have been universal, from national chains to local businesses. Some simply couldn't survive, but many of those were showing signs of stress before the pandemic.

Many retail property owners say that some of those spaces have been backfilled, but it takes time. Poag says that they've seen positive trends in leasing activity in the last 60 to 90 days, comparing activity to 2019 levels. The larger vacancies some experience won't be filled overnight, however.

It seems very likely, as borne out by statistics, that retail properties will be among the most signi icantly impacted by distress. Nearly one third of the CMBS backed properties that have been transferred to special servicer are retail, according to Morningstar.

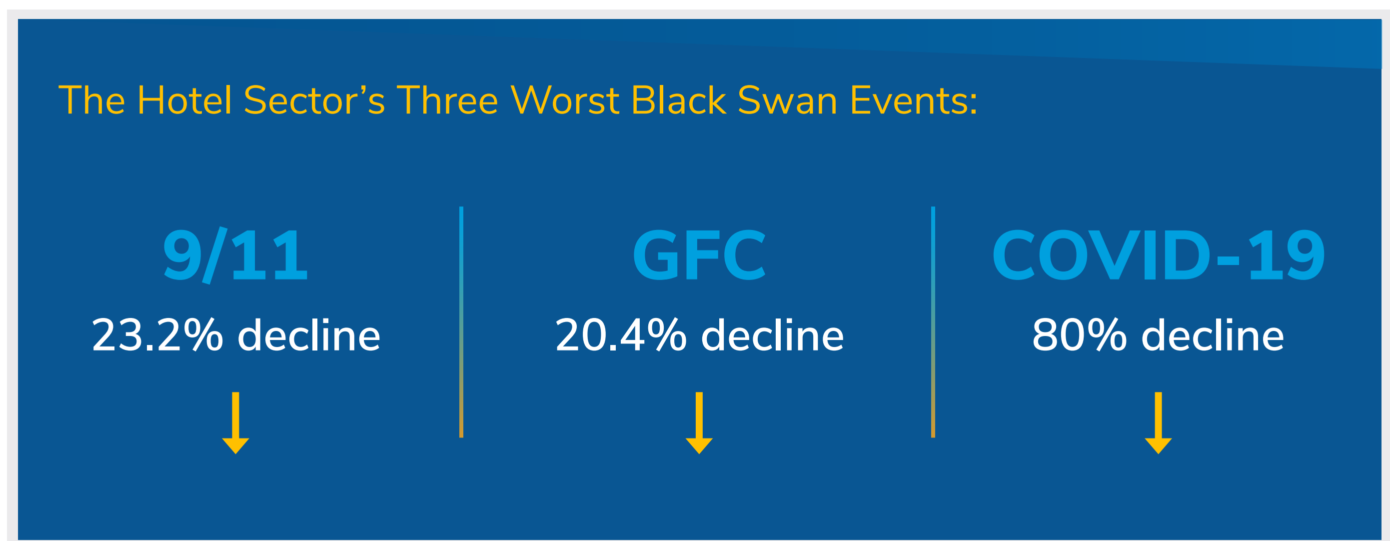
Poag believes there will be plenty of acquisition opportunities in the near term. "We have an appetite for acquisitions right now and there is a high possibility that we acquire properties we believe in for the long term. Among the target acquisitions are properties with enough distress to bring pricing to desirable levels and the opportunity for the right value."

Experts remind that dollars follow trends. Among the biggest trends right now are the migration patterns to the suburbs and to areas of the country that include the Southeast and Texas. Those trends aren't likely to change anytime soon.

The Hotel Sector: Pandemic = Blackest Black Swan

Hotels are among the most glamorous of all property types. They may also be the most complex and volatile, given that occupancy and room rates can change instantly, rising and falling (like the NYSE) on the breaking news of the day. “In an up market that’s a beautiful thing,” says Daniel Lesser, President & CEO, LW Hospitality Advisors in New York, NY. “In a down market, it will kill you.”

The pandemic, and its aftermath, has been the single worst Black Swan event to hit the hotel industry. Over the last 30 years, three events have wreaked havoc on the sector, forcing massive declines in key industry metrics, according to Smith Travel Research. Immediately following 9/11, the fall-off in the industry was a remarkable 23.2%. The falloff after the Great Recession was slightly improved, at 20.4%. Since mid-March 2020, the pandemic fallout has been nearly four times those amounts — 80%.



In spite of the fallout, industry experts are expressing significant, albeit somewhat cautious, optimism. As vaccination levels rise across the country and cities are re-opening for business, the outlook — at least for the Summer travel season and especially for drive-to resorts and destinations — is quite promising. “We have to be careful,” says Vamsi Bonthala, CEO and Cofounder of Arbor Lodging Partners, a Chicago-based hotel investment and management firm. “We’re not out of the woods yet with the pandemic.”

There still are many question marks on the horizon, ranging from concerns about another wave of COVID cases and the emergence of new variants, which would lead to a slower recovery in the business and convention travel sectors. There are also many questions about the return of foreign travelers. Such events, even if short in duration, could pause activity for 30 to 90 days and significantly slow momentum.

Distress: Will that shoe drop?

For the past year, most in the industry have anticipated the eventual arrival of a tsunami of distressed properties in both the hotel and retail sectors. While the presence of distress is not disputed, missing is the expected devastation. While each sector has nuances, they both are benefitting from a confluence of factors:

- Many owners are more institutional and highly capitalized;
- Lenders generally are more reasonable and collaborative, focusing on working through issues instead of moving toward taking back troubled assets;
- Federal policies and programs — PPP loans and the Recovery Act — have provided financial assistance to help property owners and businesses.

While a sweeping level of distress has not occurred in either sector, statistics show that the hotel industry is one of the hardest hit sectors. “I predict a mix of distress that will work through the process over the next two to three years,” says Michael Cahill, President and Founder, HREC Investment Advisors in Denver. “Most distressed properties will be those that had issues pre-pandemic; COVID just magnified the problems.”

Fay says that while distress is occurring in hotel and retail properties, the wave of troubled properties has been uneven. The main reasons are:

- The myriad federal and state laws and directives regarding foreclosure and eviction moratoriums that are preventing owners from taking full advantage of the justice system.
- The passage of time has helped to dramatically curtail the wave of properties coming into the system. This has softened the impact from a tsunami of distressed properties to a watch list, with some property situations improving and others being further exacerbated.

Distress: Will that shoe drop? (cont'd)

Kevin Davis, Senior Managing Director, JLL's Hotels & Hospitality Group, suggests that only 10-15% of the assets sold over the next several years will be distressed. "It will be in the minority and it will not drive the market."

Good properties that were going well but were devastated by COVID will rebound. The general consensus is that lenders will extend loans rather than pursue taking properties back. Michael C. Shindler, President, Four Corners Advisors, Inc., is surprised there haven't been more foreclosures, attributing the lack of activity to lender generosity and a CMBS market that has been slow to take action. "I expect we'll start to see more." he says. "But the feeling is we are in recovery."

Pricing

The pandemic has created myriad challenges to completing hotel valuations and setting asking prices, mainly due to the duration of the pandemic and its impact on cash flow and net operating income — key metrics of valuation.

Sellers typically are using 2019 as a baseline, answering the question how much it was worth in January 2020, pre-pandemic. The next consideration is the cash flow then, what it is now and how quickly a property can return to or exceed that level. "If properties are coming to market, it's because sellers are being realistic about pricing," says Cahill.

Lesser notes that pricing and valuation reflect the actions, not the sentiments of the market. For example, at the outset of the pandemic, early estimates were that values could be down anywhere from 20 to 40%. "How do you know; there was only a trickle of activity," he says.

As the length of the pandemic progressed, benchmark transactions occurred and set the tone. They include: the Baltimore Renaissance selling at a 20% discount from a previous acquisition; the Renaissance Austin selling at 30% less than its previous acquisition price; the Embassy Suites in Manhattan selling for 40% less in just 18 months and the Waldorf Astoria in Chicago selling for 50% less than its purchase price six years before.

Pricing is evolving rapidly, however, with some seeing pricing rising to levels rom our to five months ago. "We've seen a rapid shift in the perception on pricing, and an even more rapid shift among properties that are in favor versus out of favor," says Davis. He estimates that there may be an aggregated 10% discount, with some that may have only a 5% discount and others that may even be priced at a premium.

Cahill counters that while some extended stay and resort hotels will return to 2019 pricing levels this year, other larger properties and those with convention space in downtown Chicago will take longer.

As a result, the most likely scenario is that owners will hold on to the convention hotels the longest, as a rebound in financials is coming, albeit the cash flow resurgence may take a while. Lenders, for the most part, are still being patient with borrowers. Similarly, business travel hotels are likely to stay off the market until cash flow resumes suficiently to achieve acceptable pricing.

The Lender Perspective

A recent JLL report noted that hotel leverage levels are increasing, with banks and insurance companies willing to push levels as high as 60%, up from 50% in Fall 2020. Debt funds may go up to 80% for the best, high-quality assets.

The increase in leverage amount is attributable to:

- Lending practices returning to historical norms, starting at 60-65% pre-COVID and moving to 40-50% during COVID. Levels moving forward are likely to reach 55-60%. This is coupled with a reset in asset valuations.
- Net leverage still being low related to the pre-COVID period
- Bank selectivity

Experts note that demand is greater, but lenders are being very selective, chasing a smaller subset of deals. The thought process is that when people see the best product, they'll chase it. The result is that investors will pay more and lenders will lever more.

There is a tiering of assets that is occurring with banks providing the lowest amount of leverage and having the lowest cost of capital. They are extremely selective in the opportunities they'll pursue and are drawn to the highest quality, best performing assets.

Debt funds have three distinct subsets. They too will pursue the highest quality assets at the first tier, but also will carefully assess opportunities of lesser quality; though even at the third tier the hotel properties all are strong or relatively strong assets. The amount of leverage they'll provide, the cost of funds and the caliber of asset they'll pursue will change according to the tier. Deals may have a 100 bps disparity between the lowest and highest bid, for example.

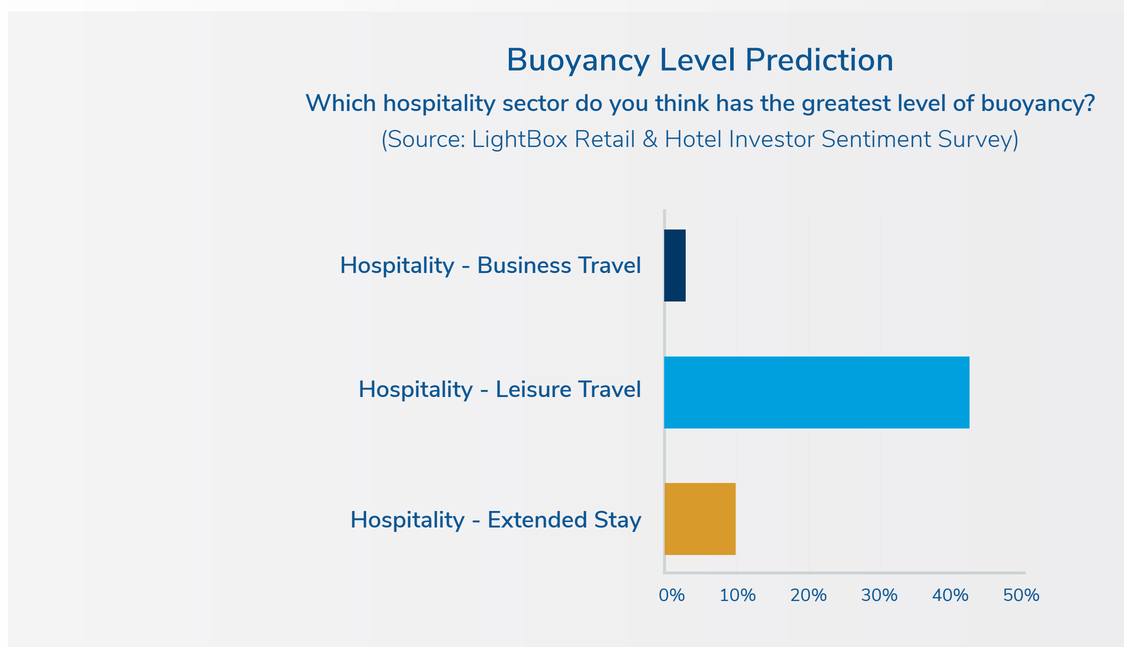
Hotel owners and operators, particularly of resorts, drive-to leisure and various other properties are banking on the wave of momentum that is being predicted. Lenders and debt holders are eager to let the summer run its course.

"Lenders will postpone taking action until absolutely necessary."

Michael Cahill, President and Founder, HREC Investment Advisors

For lenders, Labor Day may be a red-letter day. Owners that have maximized the Spring and Summer travel seasons should be stabilized and in a better position than others. Yet, there will be casualties; the depth of which remains to be seen. "The trillion dollar question is what happens after Labor Day," says Lesser.

Markets and Segments to Watch



In looking ahead to better understand the future state of the sector, many market experts note that, much like many of the other asset classes, the most attractive markets will be in the Sun Belt states and in markets where there are positive job and population shifts. Just as retail follows the rooftops, beds (hotel rooms) follow heads. This points to the potential for opportunity in various markets across Texas, Florida, North Carolina and Tennessee where there is likely to be both business and leisure travel growth.

JLL's Davis suggests that as investors get priced out of early sides of the recovery, they'll quickly gravitate to the more challenging urban markets such as New York, Chicago and San Francisco. Those markets, and others like them, are on investors' "watch" lists to understand the return of business, meeting and convention travel; events that will book hundreds to perhaps even thousands of hotel and meeting rooms. Experts across the sector are quick to note that the return of the hotel sector will rely on more than just the leisure travel that has exploded as we emerge from the pandemic.

> *"The recovery of urban markets may be a '22 story instead of the bounce back themes being seen in other markets in '21."*
>
> Vamsi Bonthala, President and CEO, Arbor Lodging

The Outlook for Activity

By all accounts, the market is beginning to ramp up with an increasing stream of properties coming to market and numerous owners/investors laying out strategies for the balance of 2021 and beyond. “There will be a significant spike in activity in the second half of the year,” predicts Davis. “Looking out further, in 2022 and 2023, activity could reach levels akin to 2018 and 2019.”

ACTIVITY LEVELS BY QUARTER

	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021*
Transactions >$10M	39	35	40	54	30	6	12	32	30
Total Transaction ($)	$2.7B	$2.6B	$3.73B	$9.1B	$1.9B	$246B	$839B	$2.3B	$1.85B
Hotel Keys	7,900	9,100	13,200	19,900	7,600	1,459	2,705	7,700	9,900
Average Sale Price/Key	$339,000	$286,000	$283,000	$453,000	$259,000	$169,000	$307,000	$295,000	$187,000

** Does not include the sale of the 7,100 key, $6.2 billion sale of the Venetian Resort Las Vegas & Sands Expo/Convention Center (Source: LWH Advisors)*

In the midst of the pandemic, Shindler was forecasting that 2022 would be a transition year, followed by greater stabilization in 2023 and full recovery in 2024. Although the market has generally improved, his optimism is more tempered given the uncertainty of the return of meetings/conventions and other corporate travel, particularly in urban markets.

Among likely sellers of hotel properties are real estate private equity firms that were buying properties as the market was rising in 2016, 2017 and 2018. Because of typical hold strategies that average about five years, they’ll look to be taking assets to market in 2022 and beyond.

	Private Equity	Hotel Owner / Operator	Off-Shore	Other*	Developer	HNWI	REIT
2018	37%	10%	13%	5%	11%	0%	24%
2019	32%	11%	12%	12%	10%	2%	20%
01/20 - 03/20	50%	15%	13%	11%	7%	2%	1%
04/20 - Q1/21	37%	13%	6%	16%	10%	10%	7%

** includes Institutional Investors, Banks, and Corporates. (Source: JLL)*

Conclusion

In January 2019, hotel investors were anticipating further expansion of an unparalleled 10 year run. At the same time, there were questions about whether the state of the market was too good to be true, and how long a good thing could last. Obviously, no one could have predicted COVID-19 and the devastation it would inflict virtually overnight.

Retail had a much rockier path ahead of COVID but was working through reinvention and creating a stronger future. In each case, government loans and stimulus programs, as well as the patience and perseverance on the part of investors and lenders have helped keep catastrophe at bay. At the mid-point of 2021, the long-term outlook for both is generally good to cautiously optimistic.

Many in the industry believe there will be plenty of acquisition opportunities in the near term. The opportunities, whether in the hotel or retail sector will include those that are too hot, which makes them too expensive, or too far gone to be feasible. The secret will be finding those that are somewhere in the middle, with enough distress to be in the sweet spot and where a buyer can get the right pricing and the right value.

"Over the decades, and through all types of economic and industry cycles, veterans of all sectors in real estate have embraced the idea that 'in this business you can't get too excited or too upset' by the ebb and flow of the market. The pandemic has reinforced that. The key moving forward, as we've learned from other previous cycles, is being informed and prepared to move quickly and decisively."

Steve Shanahan, General Manager,
Broker Solutions, LightBox

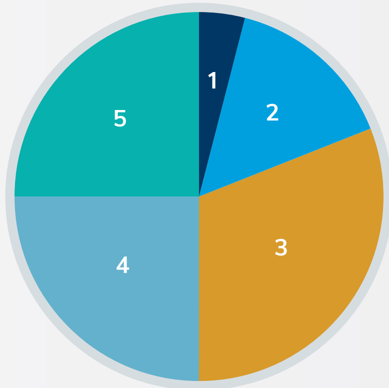
A Closer Look at Distress

Distress Level Ranking

On a scale of 1 to 5, with one being very low and 5 being very high,
how would you rank the level of distress that you are seeing in the hospitality and retail sectors?

(Source: LightBox Retail & Hotel Investor Sentiment Survey)

HOSPITALITY



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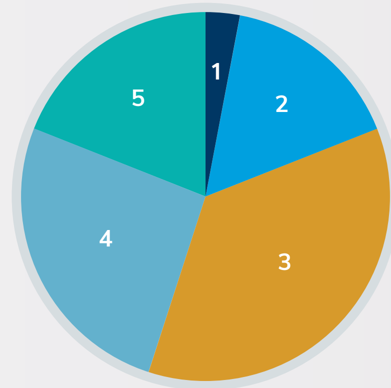
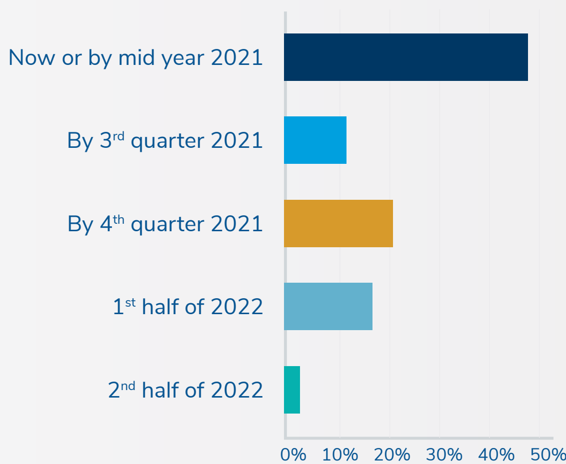


Distress Peak Level Prediction

When do you think distress in these segments
of the market will reach peak levels?

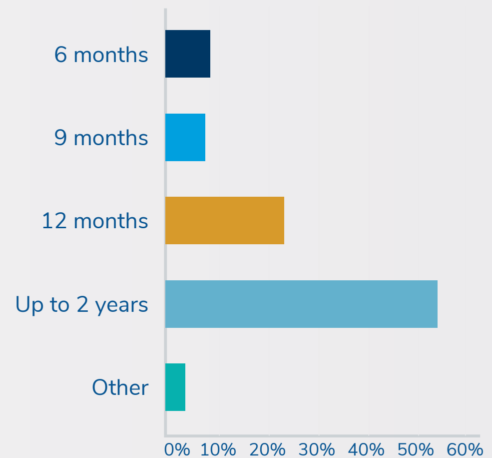
(Source: LightBox Retail & Hotel Investor Sentiment Survey)



Duration of Distress Prediction

How long do you think distress will be an issue
in the hospitality and retail sectors?

(Source: LightBox Retail & Hotel Investor Sentiment Survey)



A Closer Look at Distress (cont'd)

Discount Level Predictions

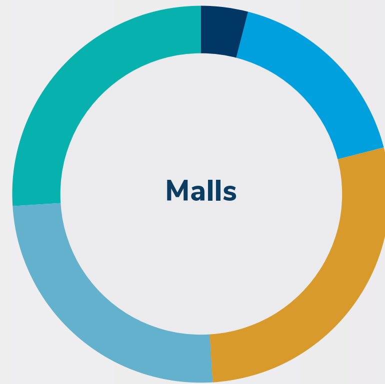
On a percentage basis, what level of discounting do you expect for various property sectors?

(Source: LightBox Retail & Hotel Investor Sentiment Survey)

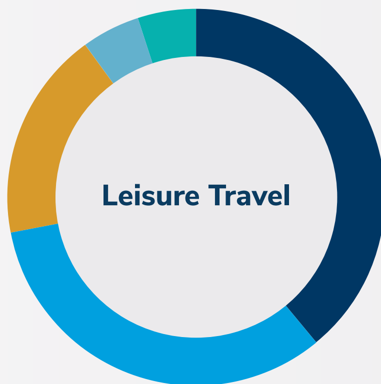
10 | 20 | 30 | 40 | 50 or more

HOSPITALITY

RETAIL



HOSPITALITY



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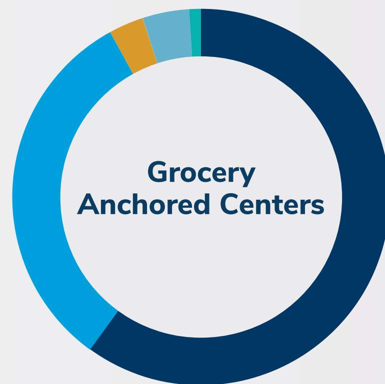

HOSPITALITY

RETAIL

Acknowledgments

To produce this Investor Sentiment Report, LightBox surveyed its extensive and comprehensive database of owners, investors, lender and brokers to gauge their thoughts on the state of the market. Further, a number of expert sources in the retail and hotel sectors were interviewed to gain their insights and perspective.

LightBox would like to sincerely thank the following individuals for participating in interviews to provide further insights into the U.S. commercial real estate market:

- **Chris Angelone**
  Senior Managing Director, Retail, JLL
- **Vamsi Bonthala**
  CEO, Cofounder, Arbor Lodging Partners
- **Michael Cahill**
  President and Founder, HREC Investment Advisor
- **Kevin Davis**
  Senior Managing Director, JLL Hotels & Hospitality Group
- **Michael T. Fay**
  Principal, Managing Director, Chairman, U.S. Capital Markets Executive Committee, Avison Young
- **Phil Kates**
  First Vice President, CBRE's National Auction Group
- **Daniel Lesser**
  President & CEO, LW Hospitality Advisors
- **Steven Levin**
  Founder and Chief Executive Officer, Centennial Real Estate
- **Shaun R. Moothart**
  Senior Vice President, Debt and Structured Finance, CBRE Capital Markets
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- **Michael C. Shindler**
  President, Four Corners Advisors, Inc.
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  President and Chief Executive Officer, NewMark Merrill Companies
- **Adam Sklaver**
  First Vice President, CBRE's National Auction Group

About LightBox:

LightBox is a leading provider of CRE data and workflow solutions for marketing, prospecting, due diligence, risk management, and location intelligence that enable decision making for 50,000 CRE brokers, 1,100 banks and lenders, 2,000 appraisal firms, and 5,000 environmental consulting and engineering firms. By combining proven brands with innovative technology and data capabilities, the company is creating new solutions to facilitate transparency, efficiency and insight for real estate.

Through RCM, LightBox offers a global marketplace for buying and selling CRE and increases the speed, exposure, and security of CRE sales through a streamlined online platform. Solutions include integrated property marketing, transaction management, and business intelligence tools to unify broker-level and firm-level data and workflows. The company has executed over 72,000 assignments with total consideration in excess of $2.4 trillion. Approximately 50% of all U.S. commercial assets sold, over $10 million, are brought to market using the company's online marketplace annually. LightBox was established in 2018 and backed by Silver Lake and Battery Ventures. Learn more and follow LightBox at www.lightboxre.com, on Twitter at @LightBoxRE, or on LinkedIn.

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