



*For NCREIF Discussion Only
Dated March 20, 2020*

NCREIF VALUATION COMMITTEE BULLETIN

Evolving COVID-19 Situation and its impact on March 31, 2020 Valuations

NCREIF sponsored a special meeting of the valuation committee on March 19, 2020 to discuss the current perspectives from NCREIF members, specifically internal valuation staff of data contributing member firms and the leading experts in appraisal and consulting.

Valuation Standards/Process

The NCREIF valuation member community has a fiduciary responsibility to report property values in a fair and transparent way. Many of the valuations are utilizing third-party appraisals that are performed according to USPAP (Uniform Standards of Professional Appraisal Practice).

Appraisals typically take place over a 4 to 6-week process with quarter-end values being substantially completed in the first two weeks of the last month of the quarter. Changes in facts or markets that occur in the last two weeks are usually immaterial given the nature of institutional real estate. However, should a material event occur, it would be measured and included in quarter-end results.

Impact on March 31, 2020 Valuations - Key Takeaways

Given this historically unprecedented time with the evolving COVID-19 situation and its impact on tenants and investors of real estate, NCREIF's valuation committee discussed various approaches to "measure" COVID-19's valuation impact, if any, with all the uncertainties and lack of visibility. This measurement should be analyzed giving consideration to the broader situational context.

The impact to March 31, 2020 valuation results should be methodical, thoughtful, and defensible, as private real estate is a long-term investment, often secured by leases. Prior to this event, many real estate markets had sound underlying real estate supply/demand and underlying fundamentals.

Meeting participants voiced generally consistent opinions. Key takeaways are outlined below.

- Much of the federal and state government packages being discussed could mitigate damage for institutional real estate tenants and landlords.
- While near term income will be disrupted, its materiality differs for various asset classes. In addition, it is unclear how landlords will negotiate rent relief.

- Broadly speaking, the following list indicates the asset types that probably need to be evaluated using the best available information. Others asset types not listed below will be evaluated on a property by property basis.
 - Hotels (only specific asset class likely to be reduced across the board for March 31, 2020)
 - Senior Housing
 - Student Housing
 - Non-grocery, large retail
 - Grocer-anchored retail with outsized local, non-credit tenant exposure
 - Non-stabilized assets
- There was a consensus that many adjustments for March 31, 2020 valuation conclusions would not be on the pricing metrics, i.e. little to no adjustments on discount rates, cap rates and terminal rates.
- Adjustments to income assumptions in years one and/or two should be considered:
 - Stabilized occupancy
 - Short term occupancy
 - Credit loss
 - Inflationary rent growth
 - Percentage rent
 - Transient parking revenue (if material)
 - Lease-up (pushing out an additional 3 to 6 months or more)
 - Rent relief impacts
- Appraisers are concerned about future valuation work where there is an inspection requirement. It was communicated that from a client perspective, it is expected inspections will be waived for the foreseeable future for most of the NCREIF valuation work.