



amazon A Reset Button for Site Selection



SEP
19

Amazon HQ2 - How Site Selection is Evolving - Featuring KC Conway

by CARW

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CCIM Institute
Commercial Real Estate's
Global Standard for Professional Achievement



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K.C. Conway currently serves as CCIM's Chief Economist and as the Director of Research and Corporate Engagement at the Alabama Center for Real Estate housed with the University of Alabama's Culverhouse College of Commerce.

K.C. is a proud graduate of Emory University. Professionally, he has amassed more than 30 years of experience in commercial real estate as an appraiser, lender, credit officer and economist. He is recognized as a Counselor of Real Estate (CRE) and Member of the Appraisal Institute (MAI). Conway is also a prolific speaker, addressing more than 750 industry, regulatory and academic bodies in the last decade. Throughout his career, Conway has been recognized for accurately forecasting real estate trends and changing market conditions across the United States.

At the Alabama Center for Real Estate, Conway manages the research division's market trends publications and creates new organic and collaborative research initiatives while also serving as its ambassador to corporate real estate entities. The heart of the center is advancing relationships by providing servant leadership with a passionate, adaptable and humble spirit.

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Monmouth Real Estate Investment Corporation

Headline: Monmouth Real Estate Announces The Election Of
Kiernan "KC" Conway To The Board Of Directors

Date: September, 14, 2018

FREEHOLD, N.J., Sept. 14, 2018 /PRNewswire/ -- On September 13, 2018, the Board of Directors of Monmouth Real Estate Investment Corporation (NYSE: MNR) (the "Company") increased the number of its directors from twelve to thirteen. **To fill the resulting vacancy, the Board elected Mr. Kiernan "KC" Conway as a Class II Director, to serve for the remaining term of Class II Directors, until the Company's 2020 annual meeting of stockholders** and when his successor is duly elected and qualifies. The Board has determined that Mr. Conway is an independent director under the listing standards of the New York Stock Exchange.

Commenting on the announcement, Eugene W. Landy, Chairman of the Board, said, "KC Conway has extraordinary experience in commercial real estate, real estate finance, economics and logistics. We have followed and benefited from KC's extensive research for over a decade. With his appointment, the Board of Directors recognizes his wide-ranging expertise in market intelligence and valuation, as well as his history of accurately forecasting real estate trends. I am confident that KC will be an excellent addition to our Board for many years to come."

ABOUT MONMOUTH REAL ESTATE INVESTMENT CORPORATION

Monmouth Real Estate Investment Corporation, founded in 1968, is one of the oldest public equity REITs in the world. The Company specializes in single tenant, net-leased industrial properties, subject to long-term leases, primarily to investment-grade tenants. **Monmouth Real Estate Investment Corporation property portfolio consists of 111 properties containing a total of approximately 21.2 million rentable square feet, geographically diversified across 30 states.**

Disclaimer: Not in fine print...



CARW & CCIM Wisconsin

CE Event – Site Selection, Adaptive Reuse and more – September 19, 2018

This Presentation reflects the analysis and opinions of the author, **but not necessarily those of the faculty and staff of the Culverhouse College of Business** or the administrative officials of The University of Alabama.

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Furthermore, in preparation of this presentation, I did not consult with Russian Authorities, Alexa or Siri. I did consult with CARW & CCIMs.



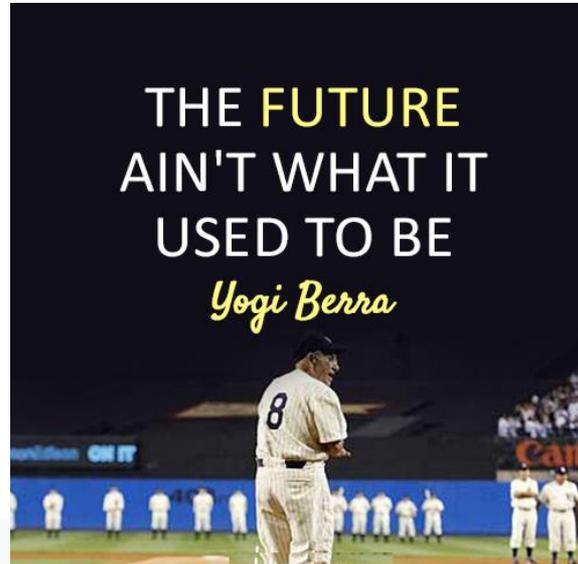
Alexa



This presentation consists of materials prepared exclusively by **K.C. Conway, MAI, CRE**, and is provided during this meeting solely for informational purposes of attendees. This presentation is not intended to constitute legal, investment or financial advice or the rendering of legal, consulting, or other professional services of any kind.

Fall Baseball, Site Selection & Commercial Real Estate

Yogi Berra had a Quote to put Anything in Perspective.



IT'S LIKE DÉJÀ
VU ALL OVER
AGAIN.

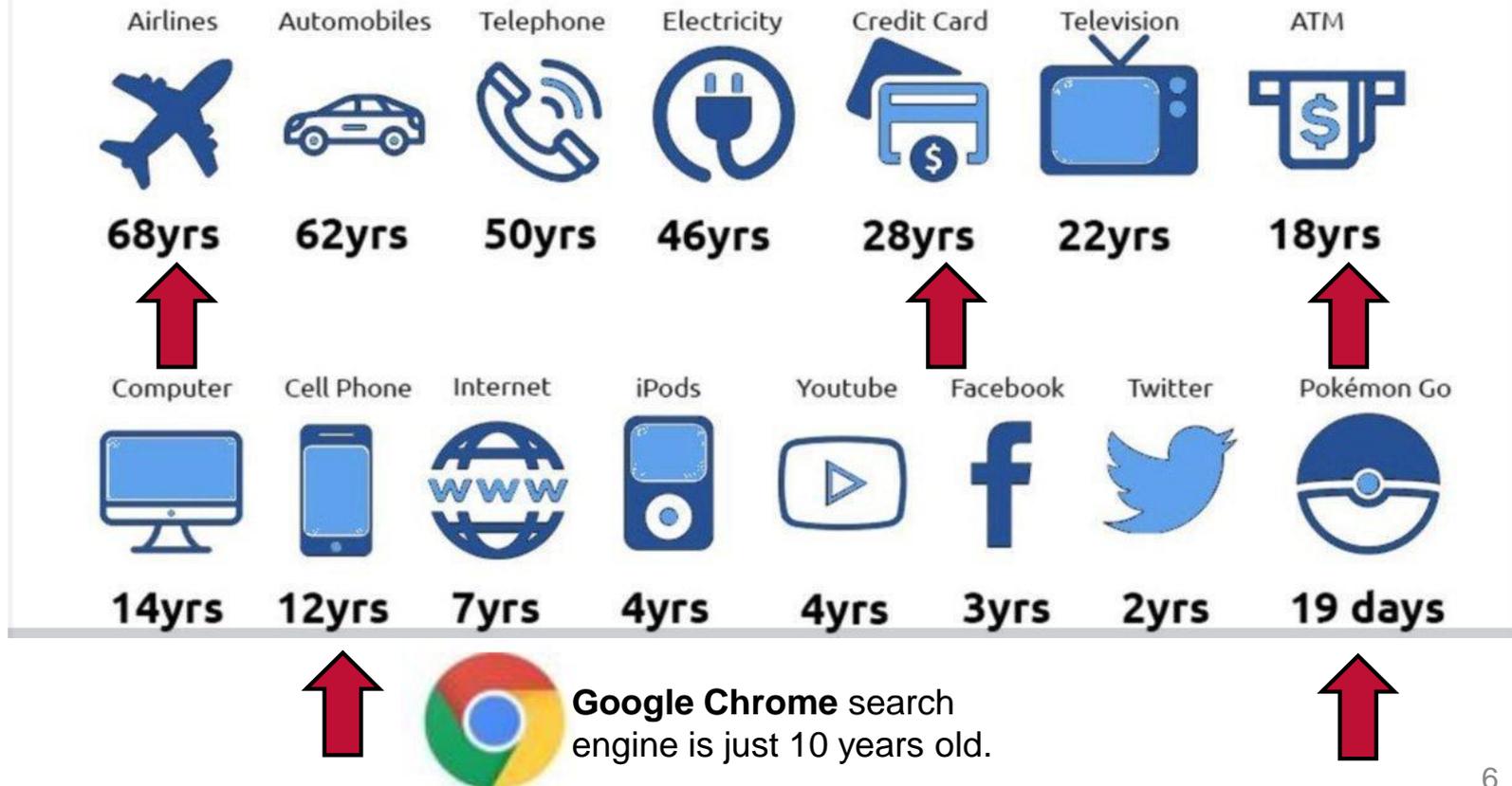


Yogi Berra
Baseball Manager
(Born 1925)

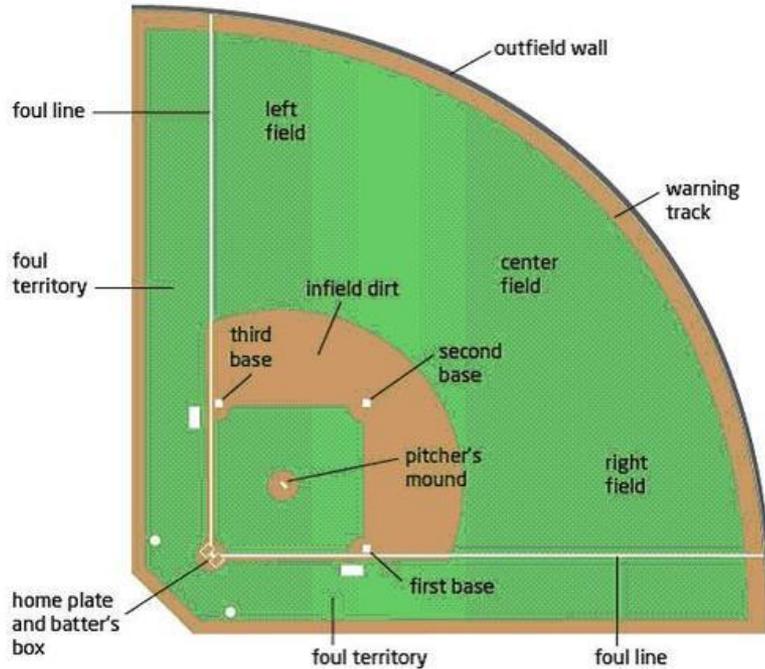
QuoteHD.com

Before Site Selection, there is the Economy and ... Disruption is Producing a “Performance-Enhanced” Economy

NUMBER OF YEARS IT TOOK FOR EACH PRODUCT TO GAIN 50 MILLION USERS:



How will Disruption affect Site Selection?



What is the
“Field of Play”
for Corp. Site Selection in
the
NexGen of Disruption?



Site Selection in the NextGen of Disruption



Robotics / 3D Mfg.



Remaking
Supply-Chain



“AI-cation”

KC's Mid-2018 Macro Eco. Outlook – Earnings = ?



- **GDP:** Tr-4 quarter average is **+2.85%**
1st guess at Q2 GDP is **+4.2%** 
- **Corporate Earnings:** grew **24%** (>80% of companies reporting). Q2 likely to go on the books as **2nd highest YOY growth** since Q3 2010
- **Housing:** **Pending Home Sales were the bright spot** in housing during June – up 0.9% to 106,900 contracts. **Existing home stock below 5.4 million units** and **New Home Sales declined 5.3%** to 631,000 units. **It's a cost to build and MARGIN problem** inhibiting new inventory.
- **Home Price Appreciation is running approximately +6.5 percent YOY** for both CS/FHFA
- **Autos:** Sales in **July fell 3.4%** to <17 million annual units when they should be surging (clearance sales)
- **Rail Traffic:** **AAR.org** July intermodal rail traffic activity was the **largest % increase in 19 mos.** It should result in another record year for intermodal activity in 2018.
- **Manufacturing:** Factory Orders, the **PMI** (Purchase Managers for Mfg Index) and **ISM** (Institute for Supply Mgmt.) are **sending mixed signals**. **The good is being told by Factory Orders – up a solid 0.7% in June. Why?** Q3 activity moved up ahead of tariffs

RENT vs **BUY**

Current U.S. Housing Trends

realtor.com

A graphic with two colored boxes: a blue box on the left containing the word "RENT" in white, and an orange box on the right containing the word "BUY" in white. Between the boxes is the word "vs" in blue. Below the boxes is the text "Current U.S. Housing Trends" in blue, and at the bottom is the "realtor.com" logo in orange.

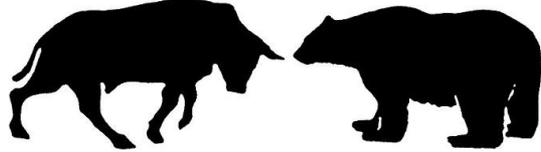
The Bulls & Bears Score-Board:



K.C.'s COLUMN: By K.C. Conway, MAI, CRE
 ACRE Director of Research & Corporate Engagement / CCIM Chief Economist

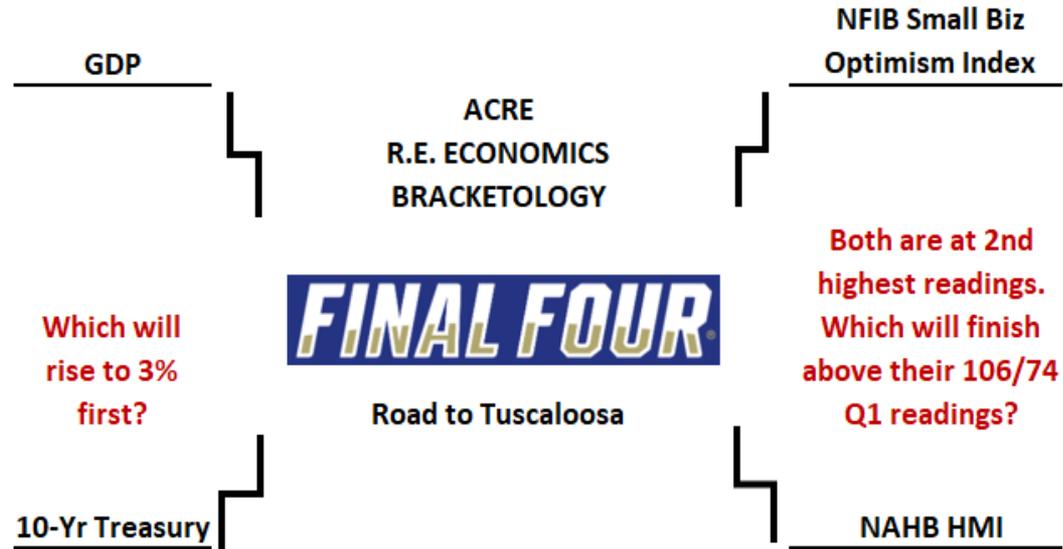
Column: Version 2018 – Vol 21 (Mid-August edition)

Title: The Second-Half: Adaptive Reuse, Houston, Retail, Small Biz, & FED

<u>ACRE / KC's Economic Score-Board</u>		
SCORE		
Q1 2018	45	30
Q2 2018	40	20
YTD	100	58
Bull/Bear %	63%	37%
January	19	12
February	7	10
March Madness	19	8
April	11	5
May	20	5
June	9	10
July	15	8



The Economy is as simple as NCAA Bracketology!



Since Jan-2018, KC has forecast that the 2018 Economic Outlook would be determined by the 10-Yr Treasury & Small Biz Optimism/Expansion (40% of GDP)

NFIB Small Bus. Optimism Index – Just Broke a 45-year record!

OPTIMISM INDEX

Based on Ten Survey Indicators
(Seasonally Adjusted 1986=100)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2013	88.8	90.9	90.0	91.7	94.0	94.0	94.4	94.0	93.8	91.5	92.2	93.8
2014	94.0	91.6	94.0	94.8	96.2	95.4	96.0	95.9	95.3	96.0	97.8	100.3
2015	97.7	98.1	95.7	96.5	97.9	94.6	95.7	95.7	96.0	96.0	94.5	95.2
2016	93.9	92.9	92.6	93.6	93.8	94.5	94.6	94.4	94.1	94.9	98.4	105.8
2017	105.9	105.3	104.7	104.5	104.5	103.6	105.2	105.3	103.0	103.8	107.5	104.9
2018	106.9	107.6	104.7	104.8	107.8	107.2	107.9	108.8				

K.C.s Blast Sept 11th on the News while at FDIC:

“Wow - Wow - Wow!

Somebody share with the Deep State trying to tear America and Democracy down.

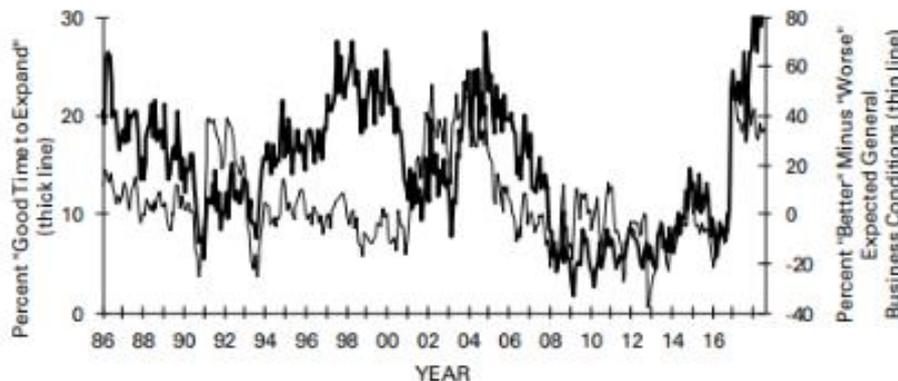
You won't see this business news covered on CNN today.

What better way to honor the memory of those that lost their lives on Sept 11, 2001 - and since battling for Democracy - than to have Small Business score record optimism.

SMALL BUSINESS OUTLOOK

OUTLOOK

Good Time to Expand and Expected General Business Conditions
January 1986 to August 2018
(Seasonally Adjusted)



Is a Recession on the Horizon?

The History of Recessions in the U.S.

It's commonly believed that a recession is defined as **two consecutive quarters of declining gross domestic product (GDP)**. Although that's definitely a sign of trouble, it's not how a recession is designated. A recession has occurred only when the folks at the **National Bureau of Economic Research (NBER)** say so. **NBER is** a private, nonprofit research organization made up of more than **1,400 business and economics professors**, the NBER officially designates when recessions begin and end.

Here's its definition of a recession: "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales. A recession begins just after the economy reaches a peak of activity and ends as the economy reaches its trough."

NBER maintains data on past U.S. recessions, starting with the one that began in 1857.

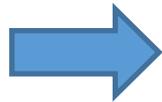
The Recession Duration & Pattern: The U.S. has experienced 33 recessions since 1857. On average, a recession occurs every 4.9 years and lasts 17.5 months. And ... there's been at least one recession in every decade.

<u>Peak Month</u>	<u>Trough</u>	<u>Duration</u>
Jan1980	July 1980	6
July 1981	November 1982	16
July 1990	March 1991	8
March 2001	November 2001	8
Dec. 2007	June 2009	18



September 10, 2018

Monthly Budget Review for August 2018



KC's ONE Eco./Political Observation to Consider for the Nov 6th Elections:
The 2017 Tax Act didn't bust the Budget – The FED did!

Receipts up 4.2% / Outlays up 4.7% ... BUT Interest on Debt up 19.2%

Receipts, October–August				
Billions of Dollars				
Major Program or Category	Actual, FY 2017	Preliminary, FY 2018	Estimated Change	
			Billions of Dollars	Percent
Individual Income Taxes	1,422	1,523	101	7.1
Payroll Taxes	1,066	1,070	4	0.4
Corporate Income Taxes	234	163	-71	-30.4
Other Receipts	245	229	-16	-6.4
Total	2,966	2,985	19	0.6
Memorandum:				
Combined Individual Income and Payroll Taxes				
Withheld taxes	2,182	2,214	32	1.5
Other, net of refunds	306	379	73	23.9
Total	2,488	2,593	105	4.2

Sources: Congressional Budget Office; Department of the Treasury.
 FY = fiscal year.

Outlays, October–August					
Billions of Dollars					
Major Program or Category	Actual, FY 2017	Preliminary, FY 2018	Estimated Change	Estimated Change With Adjustments for Timing Shifts ^a	
				Billions of Dollars	Percent
Social Security Benefits	855	918	63	39	4.6
Medicare ^b	518	563	46	22	4.0
Medicaid	343	356	13	13	3.8
Subtotal, Largest Mandatory Spending Programs	1,716	1,837	121	74	4.2
DoD—Military ^c	515	552	37	33	6.4
Net Interest on the Public Debt	288	343	55	55	19.2
Other	1,121	1,148	27	10	0.9
Total	3,640	3,880	240	172	4.7

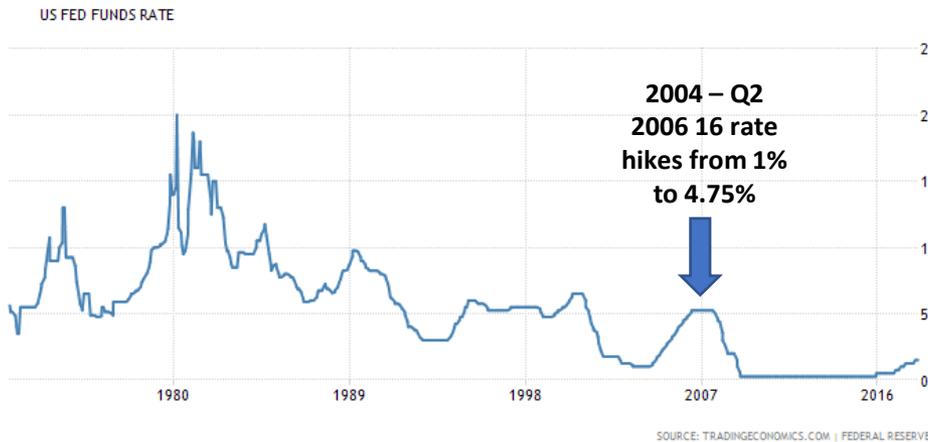
Sources: Congressional Budget Office; Department of the Treasury.

Interest Rates

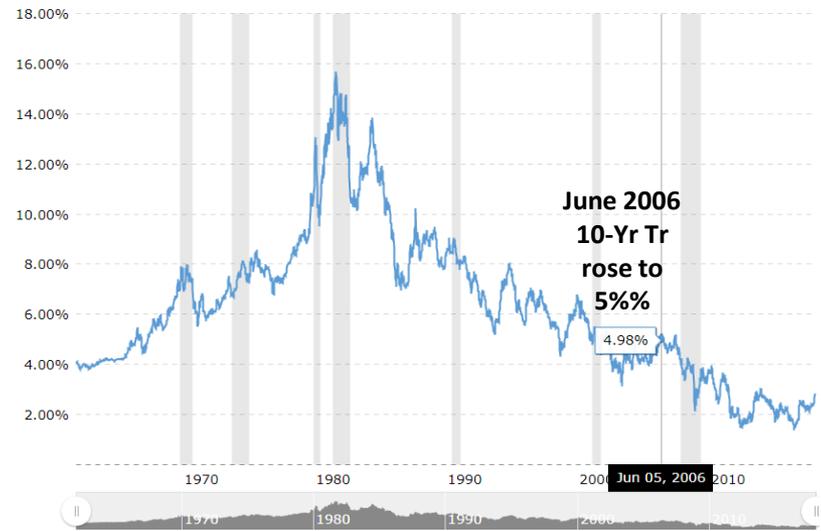
Rising Rates lead to Higher Cap Rates 12-24 months later
 History of FOMC Rate Hikes & 10-Yr Treasury

Coming off QE to **Q-Normal** – **Dust off Band of Investment**

History of FOMC Rate Hikes
16 hikes Q2 2003 to Q2 2006



History of 10-Yr. Treasury (5% Q2 2006)



Mtg. Equity Method to Develop Cap Rate (10-Yr @ 2.6%)

Capital Structure	Ratio	Mc or Equity	
		Yield	Capital Factor
Debt	75%	4.75%	3.56%
Equity	25%	9.00%	2.25%
			5.81%

Mtg. Equity Method to Develop Cap Rate (10-Yr @ 3.5%)

Capital Structure	Ratio	Mc or Equity	
		Yield	Capital Factor
Debt	75%	5.65%	4.24%
Equity	25%	10.00%	2.50%
			6.74%

Enough about the Economy ... The Where & Why of Site Selection

1Q18 Commercial Real Estate Insights Report

Entitled "Amazon HQ2: A Reset Button for Site Selection," the 1Q18 report examines how corporate relocations and expansions will occur over the next decade.

[READ THE 1Q18 REPORT](#)

3Q18 Commercial Real Estate Insights Report

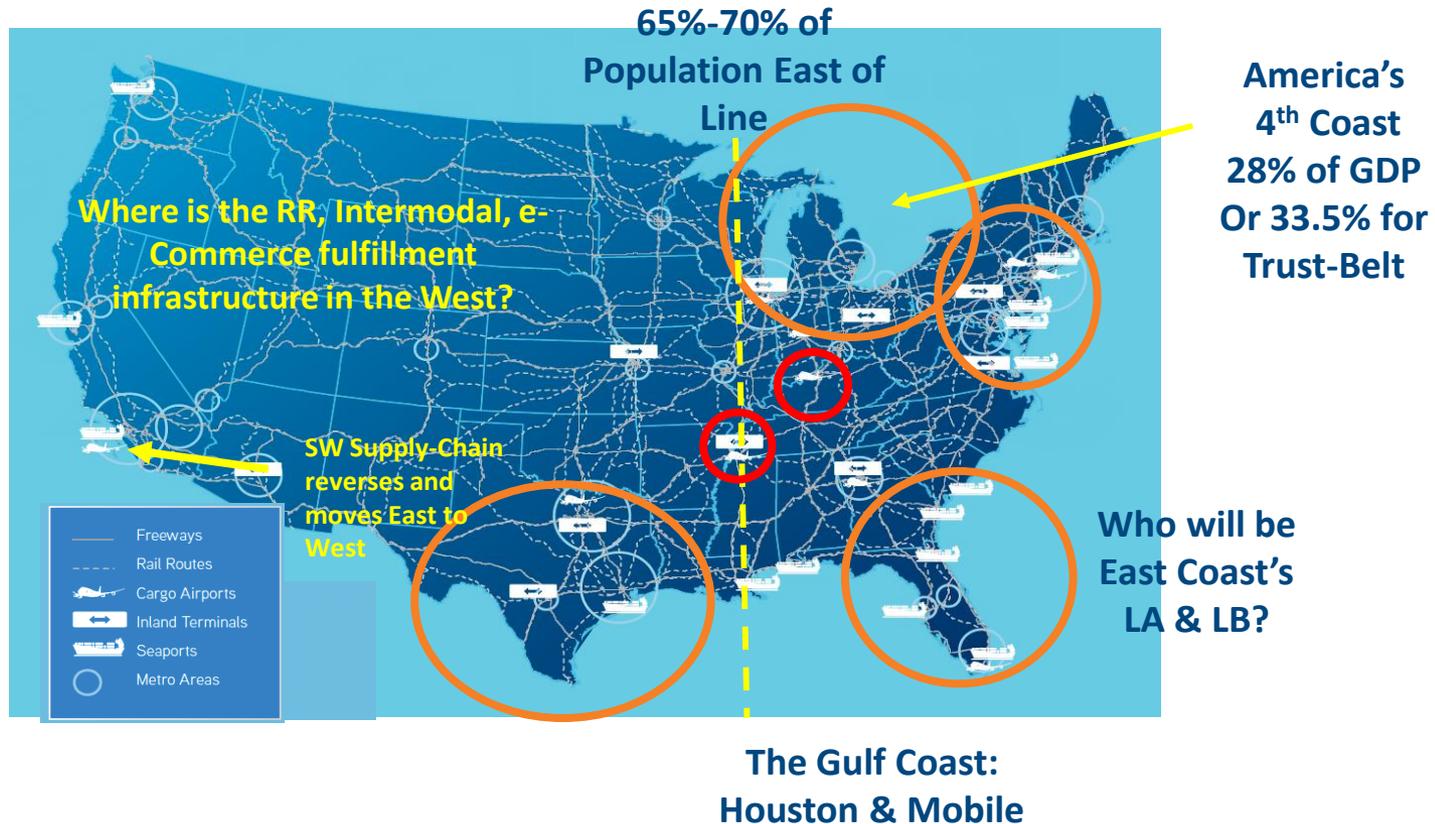
"Adaptive Reuse: Turning Blight into Bright" represents the first step to redefine and quantify the adaptation of obsolete commercial properties for new uses as an institutional-grade product category. Highlighting projects from across the country, the 3Q18 report explores the opportunities and challenges of the new era of adaptive reuse.

[READ THE 3Q18 REPORT](#)

<https://www.ccim.com/resources/commercial-real-estate-insights-series/?gmSsoPc=1>

“FREIGHTWAYS” Define the Growth Markets

Freightways are CORRIDORS of Eco Growth - sea-land-air.



Remaking the U.S. Supply-Chain:

This Change is what is Driving Eco. Growth & Site Selection

Rail Time Indicators

AAR.org – American Assoc. of RRs

The 7- Class I RRs (Note CN (red) & KCS (brown))



<http://www.intermodal.org/>
 “All that happens on the ports, doesn’t stay on the ports” – Rail, Intermodal!



KC Southern

- ✓ Only direct to all Mexico.
- ✓ Link KCS with BNSF or CSX and create a mega RR/E-commerce power!

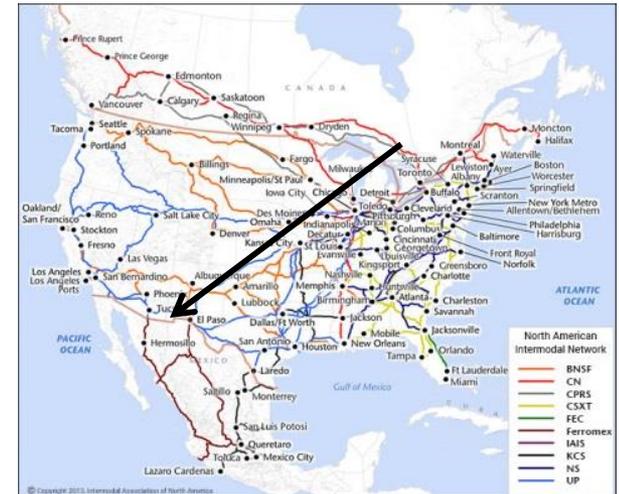
Port Freeport:

- + 3 Class 1 RR connections;
- + Saudi Arabia of Natural Gas
- + The Port of Savannah for Dallas;

Port of Mobile:

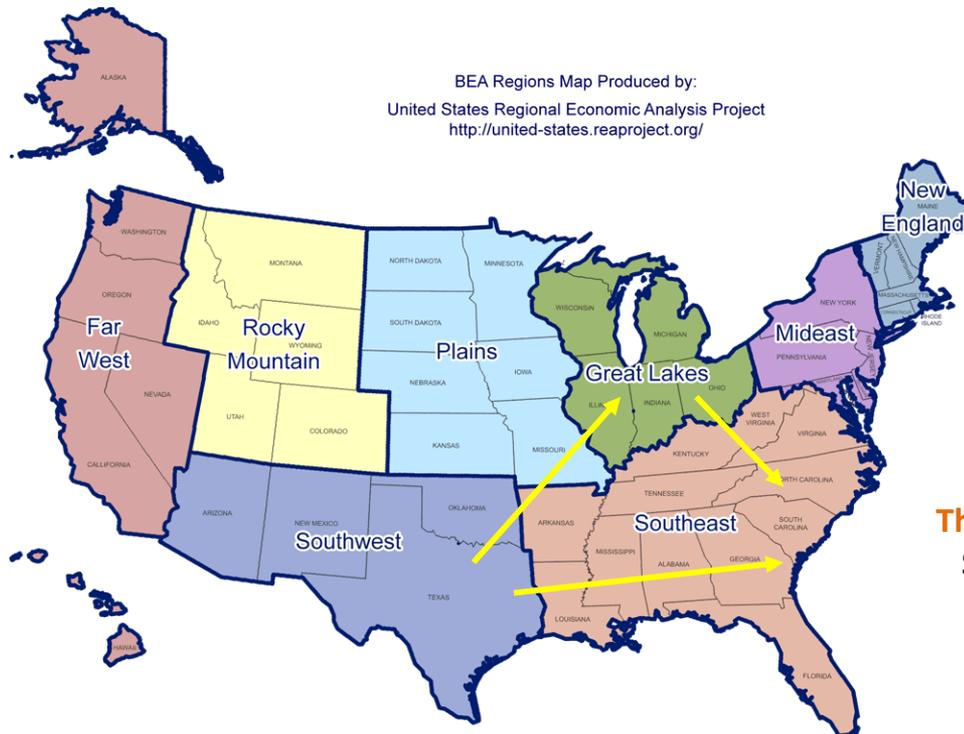
- + 5 Class 1 RR connections;
- + Only CN to Gulf RR connection;
- + Largest Steel Port in US;
- + Huge auto mfg state (Mercedes etc.); but
- 2nd largest estuary in No.Am (Env. Challenges)

- CSX:
- ✓ The East-coast RR line serving E-coast ports.
 - ✓ CSX and NFS are to SE & Mid-Atlantic what UP is to CA & West-coast. CSX in financial trouble, UP is strong. Think about a UP/CSX merger



The “Golden Triangle” – It’s “All about Logistics!”

Remaking the Supply-Chain – A GREAT story for Mid-Central & SE U.S. The GDP Golden Triangle



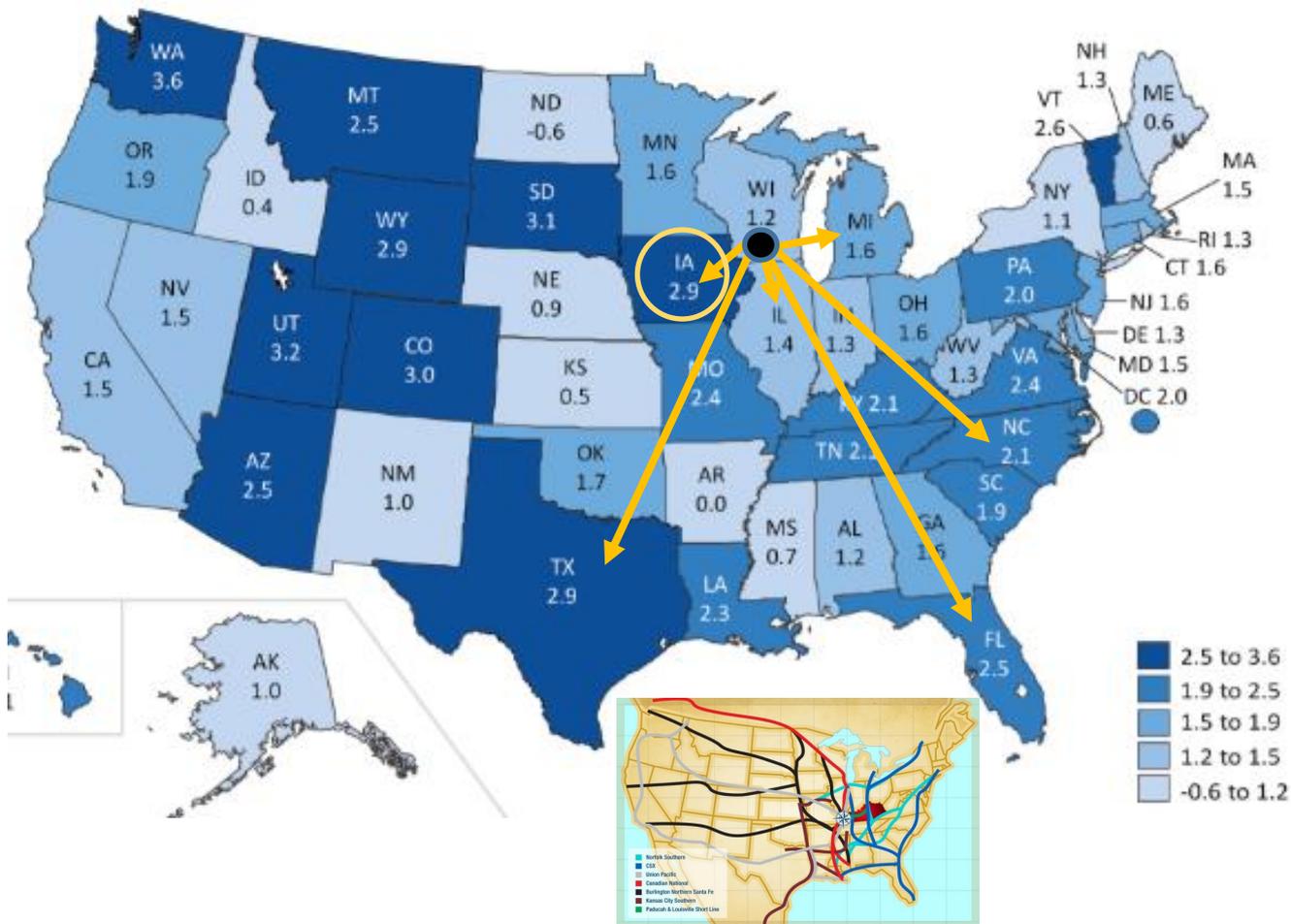
Q. What is it about the
“Golden Triangle” that
makes it tops in GDP,
Logistics & Supply-Chain?

A. Best “Freightways!”

The Golden Mfg & Logistics Triangle:
SE (#1 @ 22%) + SW + Great lakes
47% US GDP

GDP by State & Remaking Supply-Chain: Infrastructure Investment & Ports are Key

Percent Change in Real GDP by State, 2017:Q4–2018:Q1



The States growing GDP in 2%+ range have Supply-Chain Infrastructure in common (Ports, Inland Ports, Rail and STEM Workforce)

Why is Iowa GDP = TX?
STEM Workforce and Trucking/logistics.

Why does Iowa GDP = TX?

Iowa is so much more than AG. It has diversified, developing **Advance Manufacturing, Logistics** and producing **Skilled Workforce**.



TOP 10 Advanced Manufacturing Community

TOP 10 Community for Raising a Family

TOP 50 MILITARY COMMUNITY
G.I. Jobs Magazine

TOP 5 DEFENSE COMMUNITY
Expansion Solutions Magazine

AWARD OF EXCELLENCE FOR REGIONALISM
Expansion Solutions Magazine

BEST OVERALL
BUSINESS RETENTION & ATTRACTION PROGRAM
Professional Developers of Iowa

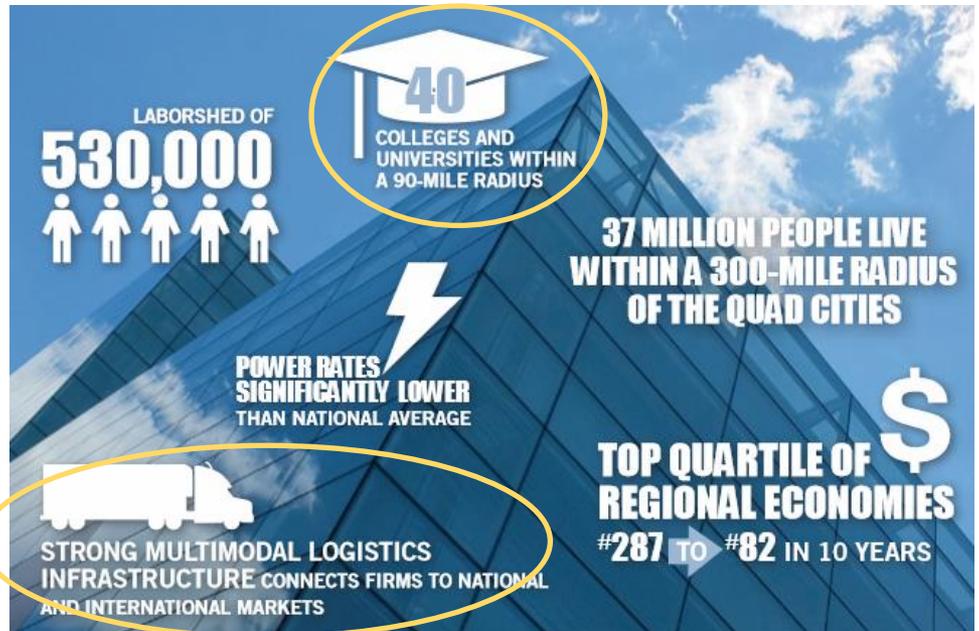
RANKED 16th NATIONALLY
for high-tech job growth
Bay Area Economic Institute

2ND BEST RIVERFRONT
Along the Mississippi River
Mississippi River Traveler



QUAD CITIES REGION

- Advanced Manufacturing
- Logistics
- Food Processing & Packaging
- Defense
- Professional & Technical Services



LABORSHED OF 530,000

40 COLLEGES AND UNIVERSITIES WITHIN A 90-MILE RADIUS

37 MILLION PEOPLE LIVE WITHIN A 300-MILE RADIUS OF THE QUAD CITIES

POWER RATES SIGNIFICANTLY LOWER THAN NATIONAL AVERAGE

TOP QUARTILE OF REGIONAL ECONOMIES
#287 TO #82 IN 10 YEARS

STRONG MULTIMODAL LOGISTICS INFRASTRUCTURE CONNECTS FIRMS TO NATIONAL AND INTERNATIONAL MARKETS

Site Selection Dissected – Amazon HQ2 Paper by CCIM



<https://www.ccim.com/resources/commercial-real-estate-insights-series/?gmSsoPc=1>



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Disruptors Are Becoming Growth Engines

Key Ideas



1 Traditional industries that communities relied on for the past three decades for job and revenue growth, such as retail and financial services, are being replaced. The Amazon HQ2 RFP is an early blueprint for how this process will play out, and it has given 238 cities a chance to illustrate what makes them attractive.

2 With its HQ2 RFP, Amazon has probably altered how corporate relocations and expansions will occur in the next decade. A close reading of the RFP reveals that the search seems less about incentives and more about workforce solutions and corporate culture fit. Other rising and transformative technology companies may use similar criteria for future site selections.

3 Workforce availability is the most important factor driving corporate relocation and expansion decisions today. Tomorrow's growth companies need that skilled workforce. Without it, their growth stalls out.

4 Amazon and other expanding companies are moving east to follow the growth. Most of Amazon's business customers in the U.S. reside east of the Rocky Mountains. But Amazon and other companies are looking to "The Golden Triangle" because it produces approximately one-half the U.S. annual GDP and a skilled workforce, and it's the epicenter of America's new supply chain.

5 Commercial real estate professionals have a key role to play in the new era of site selection. But capitalizing on new opportunities requires a deep understanding of market analysis fundamentals, economic principles, and the new factors driving corporate site selection decisions.

- ✓ **The Amazon RFP process will be emulated.** Does your community know how the new game is played?
- ✓ **Traditional Industries (Retail-malls & Financial-Banks) need to be replaced.**
- ✓ **It's all about access to Workforce – Atlas Van Lines 50-year study of Corp Relocations** reinforces the key driver in decision to relocate or expand.

<https://www.ccim.com/newscenter/commercial-real-estate-insights-report/amazon-hq2/?gmSsoPc=1>

Amazon HQ2 & Atlas Van Lines 50-Yr Corp. Relocation Survey

Workforce #1 Factor / **R.E. Conditions bottom of Top-5 for 1st time**



The top three factors affecting relocation last year were lack of local talent (44%); Economic Conditions (34%); and Company growth (22%).

Lack of local talent remains the top external factor.

Real Estate Market Conditions has fallen to the bottom on the Top 5 Factors for the 1st Time in 50-year Survey.

Factors Impacting Relocations

Q.13 – External Factors Having the Most Significant Impact on the Number of Employee Relocations in 2016



The decline in importance of R.E. Conditions does NOT mean R.E. is not important. It means the SITE SELECTION variables are changing. It's less about traffic count, vacancy % and cost of rent and more about STEM Workforce count, Band-width, Util cost, etc.

<https://www.atlasvanlines.com/corporate-relocation/survey>

Amazon HQ2 – The 20 Finalists

CCIM / ACRE Amazon HQ2 Paper by KC Conway

<https://www.bisnow.com/national/news/office/ccims-official-prediction-for-amazons-hq2-contains-a-few-surprises-83802>

Why The East Coast Dominated Amazon's HQ2 Shortlist

January 19, 2018 | Champaign Williams, National Editor ✉

The final list includes: Atlanta, GA, Austin, TX, Boston, MA, Chicago, IL, Columbus, OH, Dallas, TX, Denver, CO, Indianapolis, IN, Los Angeles, CA, Miami, FL, Montgomery County, MD, Nashville, TN, Newark, NJ, New York City, NY, Northern Virginia, VA, Philadelphia, PA, Pittsburgh, PA, Raleigh, NC, Toronto, ON, and Washington DC.

The tech goliath whittled 238 proposals down to a selection of 20 metro areas across North America, including major East Coast markets like Boston, New York City, Newark, Washington, D.C., Atlanta and Miami. **KC Conway, the new chief economist at CCIM Institute — a global real estate organization recognized throughout the industry for its real estate designations — said though the site selection for HQ2 is about talent acquisition** and expanding Amazon’s presence across the country, a number of business benefits will also factor into Amazon’s decision. Below are three reasons Amazon is strongly considering the East Coast for its second headquarters, which will house 50,000 Amazon employees and involve an estimated \$5B investment, according to the company.

1. Amazon Already Has A West Coast Presence

2. The Golden Triangle

3. Proximity To Business Customers

In case you missed this. Here's Saturday Night Live Amazon HQ2 pick

<https://www.youtube.com/watch?v=Xop8ug07KS8&sns=em>

Top States for Businesses using Amazon Products & Services								
West-Coast			East-Coast			Mid-West/Mid-South		
Rank	State	# Businesses	Rank	State	# Businesses	Rank	State	# Businesses
1	CA	480,000	1	NY	190,000	1	IL	95,000
2	TX	160,000	2	FL	150,000	2	PA	90,000
3	WA	90,000	3	MA	90,000	3	MI	65,000
4	CO	50,000	4	NJ	90,000	4	OH	65,000
5	OR	40,000	5	VA	85,000	5	MN	40,000
6	AZ	40,000	6	GA	80,000	6	IN	40,000
			7	NC	60,000	7	TN	35,000
			8	MD	50,000	8	MO	35,000
			9	CT	30,000	9	WI	30,000
			10	SC	20,000	10	KY	20,000
			11	Misc NE	20,000	11	AK	11,000
Total		860,000	Total		865,000	Total		526,000

Source: Amazon <https://www.amazon.com/p/feature/nsog9ct4onemec9>

What are Best R.E. Markets?

ULI Updated for 2018 – 2 of top 5 MSAs in TX (Austin & Dallas)

Carolinas & FL make strong Top 20 showing. DC #15 & Atl #17 - Note the Amazon HQ2 Finalists!

U.S. Markets to Watch: Overall Real Estate Prospects

Port Markets
40% of Top 20
E-commerce & Remaking
Supply-Chain.

Also note: i) the Amazon
HQ2 20-Finalists MSAs; and
ii) the “Inland Port
markets like Greenville SC,
Kansas City, Phoenix,
Indianapolis, Columbus OH.



	Investment	Development		Investment	Development
1 Seattle (2, 1)	3.74	3.74	40 New York—other boroughs (43, 35)	3.29	3.14
2 Austin (3, 2)	3.69	3.61	41 Palm Beach (45, 36)	3.28	3.14
3 Salt Lake City (1, 10)	3.79	3.42	42 Chicago (35, 49)	3.34	3.03
4 Raleigh/Durham (4, 4)	3.65	3.56	43 Long Island (56, 33)	3.15	3.18
5 Dallas/Fort Worth (6, 5)	3.62	3.52	44 Columbus (53, 37)	3.21	3.13
6 Fort Lauderdale (16, 3)	3.54	3.57	45 Richmond (48, 41)	3.25	3.08
7 Los Angeles (8, 8)	3.61	3.45	46 New York—Manhattan (37, 55)	3.33	3.00
8 San Jose (11, 9)	3.60	3.43	47 Sacramento (42, 51)	3.29	3.01
9 Nashville (5, 13)	3.63	3.41	48 Washington, DC—MD suburbs (40, 56)	3.30	2.99
10 Boston (9, 14)	3.61	3.38	49 Birmingham (50, 42)	3.22	3.07
11 Miami (18, 6)	3.53	3.46	50 Westchester, NY/Fairfield, CT (46, 58)	3.26	2.94
12 Charlotte (12, 16)	3.59	3.37	51 Jacksonville (59, 45)	3.09	3.05
13 Portland, OR (7, 20)	3.62	3.33	52 Cape Coral/Fort Myers/Naples (60, 47)	3.07	3.05
14 Charleston (17, 12)	3.54	3.41	53 St. Louis (49, 65)	3.24	2.87
15 Washington, DC—Northern VA (10, 21)	3.61	3.32	54 Tacoma (51, 62)	3.22	2.88
16 Orlando (21, 11)	3.49	3.42	55 Louisville (54, 61)	3.19	2.91
17 Atlanta (15, 15)	3.54	3.37	56 Cleveland (47, 67)	3.26	2.82
18 San Antonio (13, 18)	3.55	3.35	57 Spokane, WA/Coeur d'Alene, ID (55, 60)	3.17	2.92
19 Tampa/St. Petersburg (27, 7)	3.41	3.45	58 Baltimore (58, 57)	3.10	2.98
20 Oakland/East Bay (20, 19)	3.50	3.34	59 Portland, ME (61, 52)	3.07	3.00
21 Orange County (23, 17)	3.45	3.35	60 Houston (44, 71)	3.28	2.77
22 Greenville, SC (19, 24)	3.52	3.28	61 Virginia Beach/Norfolk (64, 54)	3.04	3.00
23 Denver (29, 22)	3.39	3.32	62 Madison (65, 53)	3.00	3.00
24 Cincinnati (25, 25)	3.43	3.27	63 Milwaukee (62, 64)	3.06	2.87
25 Minneapolis/St. Paul (14, 39)	3.55	3.13	64 Detroit (63, 66)	3.06	2.85
26 Pittsburgh (22, 31)	3.49	3.18	65 Honolulu (57, 70)	3.11	2.77
27 San Francisco (28, 26)	3.40	3.25	66 Omaha (66, 63)	3.00	2.88
28 Philadelphia (31, 27)	3.38	3.23	67 New Orleans (71, 59)	2.89	2.93
29 Kansas City, MO (41, 23)	3.29	3.31	68 Providence (74, 48)	2.76	3.05
30 New York—Brooklyn (33, 28)	3.35	3.23	69 Hartford (73, 50)	2.78	3.02
31 Boise (36, 30)	3.33	3.20	70 Knoxville (67, 68)	2.99	2.80
32 San Diego (24, 44)	3.45	3.07	71 Tucson (68, 69)	2.97	2.79
33 Northern New Jersey (32, 34)	3.35	3.16	72 Albuquerque (70, 72)	2.91	2.63
34 Phoenix (38, 32)	3.32	3.18	73 Memphis (72, 73)	2.84	2.62
35 Washington, DC—District (26, 43)	3.41	3.07	74 Oklahoma City (69, 75)	2.93	2.43
36 Las Vegas (34, 40)	3.34	3.10	75 Gainesville (75, 76)	2.46	2.43
37 Indianapolis (39, 38)	3.30	3.13	76 Tallahassee (76, 74)	2.25	2.53
38 Inland Empire (52, 29)	3.21	3.22	77 Buffalo (77, 77)	2.20	2.25
39 Des Moines (30, 46)	3.38	3.05	78 Deltona/Daytona Beach (78, 78)	2.13	2.00



Source: Emerging Trends in Real Estate 2018 survey.
Note: Numbers in parentheses are rankings for, in order, investment and development.

<https://urbanland.uli.org/economy-markets-trends/smaller-slower-emerging-trends-real-estate-2018-report-predicts-u-s-real-estate-market-cruising-altitude/>

Amazon HQ2 – The 20 Finalists

What 20 made the cut from 238 Applicants? Only 4 in West

The final list includes 20, but really 17 (Metro DC = 3 of 20):

- Atlanta, GA – Lt.Gov/DL-NRA
- Austin, TX – West & SG imbalance
- Boston, MA – Best Consolation
- ✓ Chicago, IL – Fiscal/Crime
- ✓ Columbus, OH – OSU, NCMM ...
- Dallas, TX - West – Arlington Our
- Denver, CO – West/Doesn't want
- Indianapolis, IN – a runner up
- Los Angeles – West / Repeat Seattle
- Miami, FL - Climate Change
- Montgomery County, MD
- Nashville, TN – Gr. Mgmnt ?
- Newark, NJ– incentive play
- New York City, NY – Housing/\$
- ✓ Northern Virginia, VA – Site?
- Philadelphia, PA – runner up
- ✓ Pittsburgh, PA – CM/Google
- Raleigh, NC– wins if NoVa
- Toronto, ON – a runner up
- Washington DC – Site?

LinkedIn Workforce Skills Gap Report

April 2018

Cities with the Largest Skills Gaps

- | | |
|------------------------------|----------------------------|
| 1 San Francisco Bay Area, CA | 6 Seattle, WA |
| 2 Washington, D.C. | 7 Houston, TX |
| 3 Austin, TX | 8 Miami-Ft. Lauderdale, FL |
| 4 New York City, NY | 9 Raleigh-Durham, NC |
| 5 Los Angeles, CA | 10 Boston, MA |



K.C's one-time pick of Top-5 Sept. 2017 - 2 weeks after Amazon RFP in Tampa @ REIAC:

Atlanta, GA
Metro DC - NoVA
Pittsburgh, PA

Columbus, OH
Nashville, TN
Orlando as tie for

#5

But ... SNL probably captured the competition & 20 Finalists best!

Saturday Night Live Amazon HQ2 pick: <https://www.youtube.com/watch?v=Xop8ug07KS8&sns=em>

1-Yr Later ... Who wins Amazon HQ2? WeWork in a multi-city Co-Work structure

Workforce & Site Selection: ADP & LinkedIn Vs. BLS-L=BS

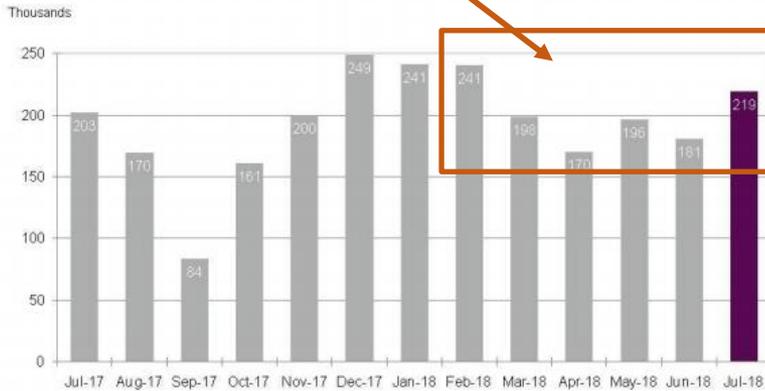
2018 is on track to be the 8th consecutive year in which the economy creates over 2 million jobs, if Small Biz can find the Workforce.

July 2018: ADP Employment Reports



Tr 3-Mos = 199k / Tr 6-mos = 201k / Tr 12-mos = 198k

➔ **ADP: Job Gr is stalled at 200k/mo due to labor shortage**



Sources: ADP Research Institute

LinkedIn Workforce: 146m / 3m / 50k / Q1 18 hiring 20% > Q1 17



This new “Skills-Gap” analysis in LinkedIn Workforce jobs report is a must-teach in CCIM Site Selection

<https://economicgraph.linkedin.com/resources/linkedin-workforce-report-july-2018>

NCMM: National Center for Middle Market Cos.

This is Site Selection Hunting Heaven!

NCMM: Another related source and report that I follow related to small business is a quarterly report by the National Center for Middle Market Companies (NCMM). The NCMM is housed at Ohio State University in Columbus OH and sponsored by such companies as Cisco and Grant Thornton. I became involved with them a few years back in my banking career. **The NCMM is a tremendous resource started in 2012 to gauge what is going on with Middle Market Companies (those with revenues between \$10 million and \$1.0 billion). These are the growth engines of the US economy** trying to learn about exporting, Supply-chain, etc., and a good supplement to the NFIB Small Business Index. If you are a bank, this is your sweet spot for growth. **If you are a Realtor, these are your future tenants that are expanding in size and geographically.** The latest data and NCMM report show **Middle Market Companies still growing near 7.5%.** The opening paragraph to the current Q2 2018 Middle Market Companies report sums it up quite well:

Executive Summary: *"Business conditions in the middle market remain decidedly positive. A solid majority (72%) of companies continue to say their overall performance is stronger today than it was one year ago. Middle market leaders are predicting a strong third quarter and they expect to continue growing at a healthy clip for the next 12 months. While the rate of revenue growth has slowed somewhat from last quarter, middle market businesses continue to add jobs at an aggressive pace. Even in industries where revenue has increased least (wholesale and retail trade), hiring remains strong. Nearly half (46%) of all middle market companies expect to increase the size of their workforce in the 12 months ahead."*

I recommend you check out the Q2 report and become familiar with the NCMM. The NCMM is another ingredient in KC's "secret economic sauce" to supplement Rail Time Indicators, LinkedIn Workforce report, etc.



**Think beyond the MSA
to
Building Options within the MSA in Site Selection**

Adaptive Reuse:
Turning Blight into Bright



Adaptive Reuse:

AdRu – Turning Blight Bright

Adaptive Reuse Defined: To be considered Adaptive Reuse, the following **4 elements must be present:**

- **Existing Structure:** While adaptive reuse projects may involve some level of new construction or an expansion/addition of space, AdRu projects involve an “existing structure” at the core.
- **Presence of Functional and/or Economic Obsolescence:** All adaptive reuse projects commence with a property in a state of disrepair, high rate of vacancy, or with a highest & best use in transition.
- **Change of Use:** not merely a re-tenanting or changing out the tenant improvements.
- **Economically Viable.** Not only does the property/project reutilization need to be physical possible, and legally permissible, it has to be economically viable.

The Factors Redefining Demand for R.E.:

- i) **Millennials entering the workforce**
- ii) **Workforce Availability** requiring companies to rethink site selection and workplace env.;
- iii) **Evolution of e-Commerce** that is reshaping demand for retail and industrial real estate;
- iv) **A new era of urbanism** in which the NextGen Workforce is comfortable with the “D”s – density, diversity, and driverless;
- v) **Social and environmental awareness** emphasizing sustainability and adaptability - The antithesis of the legacy “**Clear-it & Erect-It**” suburban land development pattern of 1980s/1990s;
- vi) **Focus on the experience of real estate.**

The Forces behind Adaptive Reuse Activity:

- i) **Trend toward urbanism:** From go to the suburbs post WWII to back to the city by Millennials.
- ii) **Lifestyle** – Related to the trend toward urbanism, this item speaks to why workforce is moving to the city.
- iii) **Cost and Scarcity of land in urban areas ;**
- iv) **Reinvention of Retail/ Remaking of Supply-Chain:** E-commerce and logistics technology means **population doesn’t have to be close to stores.** It also means households can reallocate discretionary income away from “buying stuff” to entertainment.
- v) **Cost: Increasingly, the cost to repurpose an older or unoccupied use is cheaper than site acquisition, permitting/approval process, and cost of ground up construction** due to rising materials prices and scarce construction labor.

Adaptive Reuse

How much Activity and Forecast its Growth

Quantifying Adaptive Reuse Activity

The Problem: AdRu activity is not tracked

We estimate that the U.S. has an existing inventory of nearly 32 billion square feet of commercial office, retail, and industrial warehouse space¹. In addition, the U.S. has an estimated 11 million multifamily units and 2.5 million hotel rooms. Altogether, that amounts to an estimated 32.3 billion sf of core commercial real estate space. AdRu activity is comingled with, and thus hidden among, those billions of square feet.

As a result of this data void, developers, lenders, and equity investors have no source to turn to today that can translate how much of this existing multifamily, hospitality, office, retail, and industrial space has been or is currently undergoing adaptive reuse². They're unable to discover the impact AdRu is having on existing inventory — and the market implications on absorption, vacancy, and rents -- without engaging in an expensive and time-consuming custom market and feasibility study.

Today, AdRu is 1% of 32 billion SF of CRE

Using this sampling, we estimate that AdRu projects constitute between 1 percent and 2 percent of all commercial real estate space in the U.S. today. That figure will likely increase by two-fold over the next five years, to up to 4 percent, largely thanks to store and mall closings, as well as the impact of e-commerce and artificial intelligence, which will render many properties obsolete.

AdRu to double to 3%- 4% of CRE over next 5 years

AdRu is in the early stages of its development life cycle. It will be a key source of both redevelopment and investment opportunity in the coming years, in much the same way as historic structures became investment-worthy in the 1980s until their demise with the 1986 tax act. ACRE and CCIM Institute will continue to track and report on this progress.

Adaptive Reuse Becomes Key Product Category

1. **GlobeSt.com:** Adaptive reuse has been part of the industry conversation for the past 10 years.

Why have you decided to examine this topic now?

Conway: **Several factors** are driving interest in adaptive reuse now more than ever before.

- ➔ **First**, there is a **population migration back to the city**.
- ➔ **Second**, there is a **scarcity of developable land** in most urban areas.
- ➔ **Third**, ground-up new **construction costs** are rising to levels that make adaptive reuse an economically attractive option. AdRu projects cost as much as 15% to 20% less than a new construction alternative.
- ➔ **And finally**, the growth of e-commerce and demise of traditional retailing is creating a supply of assets that need to be repurposed. **The loss of property tax and sales tax revenue is a material concern to cities.**

2. **GlobeSt.com:** **What factors have been preventing adaptive reuse?**

Conway: The primary factors inhibiting adaptive reuse activity until late have been **cost and the approval and permitting process**.

Cities are realizing that flexibility is required in zoning and approval process to bring vacant or functionally obsolete assets back to life. To date, these items revolve around things like **parking and density**.

3. **GlobeSt.com:** **How can commercial real estate professionals prepare to capitalize on adaptive reuse?**

Conway: The first thing is become familiar with the fundamental demand drivers: **Millennials entering the workforce, scarcity of developable land in urban areas, rising costs for new construction** and alternative solutions for needs like affordable housing. **Begin to inventory the assets that are candidates for adaptive reuse in their own community.** Those who can match the demand to a supply alternative, like a functionally obsolete warehouse to a need for new experiential retail concept, will be the ones that advance adaptive reuse.

Adaptive Reuse

Retail to E-Commerce Solution in Mesquite TX

The Best Place for a New Warehouse? An Old Mall

With wide-open spaces and central locations, dead malls are coming back to life as logistics centers for online shopping facilities.

The dramatic shift in the retail industry and growth of e-commerce have led **some analysts to estimate that 400 or so of the roughly 1,100 malls in the U.S. will close in the coming years.**

Meanwhile, the appetite for industrial space continues unabated. Roughly 247 million square feet of industrial space is expected to be delivered this year, JLL

In North Randall, Ohio, Amazon.com Inc. is considering the site of the former Randall Park Mall as a fulfillment center, according to Port of Cleveland, a local government agency focused on spurring job creation and economic growth in Cuyahoga County.

In Mesquite, Texas, FedEx Corp. next month will open a 340,000 square-foot distribution facility on what once was the site of the former Big Town Mall. Located along U.S. Highway 80



<https://www.wsj.com/articles/the-best-place-for-a-new-warehouse-an-old-mall-1502190001>

Adaptive Reuse – Milwaukee, WI gets it!

A Candy Factory to Innovative Intown Housing

Brix Apartment Lofts

Year Completed: 2016

Size: 98 MF Units

Renovation Cost: \$19,00,000 / \$190k+ per unit

Architect: Adam Voltz, architect and project manager for Kubala Washatko

Link: <https://urbanmilwaukee.com/2016/01/19/eye-s-on-milwaukee-inside-the-brix-apartments/>

The Story: A former south side candy factory at 408 W. Florida St. is now home to nearly 100 apartment dwellers, another step in the transformation of Walker's Point. The Brix Apartment Lofts, developed by Hovde Properties, is a 98-unit apartment building and a great example of the impact of historic preservation tax credits. **Designed by The Kubala Washatko Architects, Inc.**, the \$19-million, adaptive-reuse project incorporates modern amenities within the historic framework of the turn-of-the-century factory building. Measured by occupancy rates, the project's a resounding success with every available unit rented.



Adaptive Reuse – Milwaukee has AdRu Inventory - Schools

	<p>Request for Proposals Adaptive re-use of former Phillis Wheatley School at 2442 North 20th Street</p> 
	<p>LIST PRICE: \$585,000 APPRAISED VALUE</p> <p>Building: 84,222 SF constructed in 1902 Lot Area: 165,853 SF Zoning: RT4</p> <p><i>Application for rezoning to permit multi-family development is in process. Buyer is responsible to obtain any additional zoning entitlements required for mixed-use elements of project.</i></p> <p>Assessor records, photographs, appraisal and environmental data on website at city.milwaukee.gov/SurplusSchools.</p>
	<p>PROJECT VISION</p> <p>PROPOSAL SOUGHT FOR A REDEVELOPMENT PLAN THAT WILL ATTRACT RESIDENTS WHO ARE COMMITTED TO ACHIEVING AND SUSTAINING A HEALTHY PERSONAL LIFESTYLE AND BUILDING A COHESIVE COMMUNITY. THE LOFT-STYLE APARTMENTS, AMENITIES AND FEATURES OF THE BUILDING AND SITE WILL BE A SPRINGBOARD FOR A HOLISTIC, HEALTHY LIFESTYLE; ENTREPRENEURSHIP; SOCIAL RESPONSIBILITY, AND COMMUNITY ENGAGEMENT. RESIDENTS WILL OWN SHARES IN A GROCERY CO-OP WITHIN THE BUILDING, AND BE RESPONSIBLE FOR OPERATING IT. THEY ALSO WILL TAKE RESPONSIBILITY FOR ESTABLISHING SHARED STANDARDS OF CONDUCT AND PARTICIPATION FOR RESIDENTS.</p>
	<p>BUYER DEVELOPMENT OBLIGATIONS</p> <ul style="list-style-type: none"> Adapt existing building and site for use as a mixed-use project that includes residential units and other elements that encourage healthy living and entrepreneurial activity. These elements should include: (1) space for a co-op grocery store within the building; (2) fitness facility within the building; (3) outdoor children’s play area; (4) outdoor basketball courts; (5) shared incubator/work space; (6) technology-enabled community meeting space; (7) garden plots for residents. Complete renovations and achieve certificate of occupancy within 18 months of sale closure. Upgrade parking areas to meet City design standards as specified in Milwaukee Code of Ordinances Ch. 295. Provide a fully taxable use with deed restriction prohibiting future tax exempt status. Enter into an agreement requiring best efforts to utilize City-certified Small Business Enterprises and individuals certified through the City’s Resident Preference Program for construction activity.



Adaptive Reuse: Repurposing the Old & Blight to **Bright**

A great example of Adaptive Reuse & new Mixed-Use with a new High School

THEN:

The vacant Sears Crosstown building, constructed and expanded in phases between 1927 and 1965, will be transformed into a \$175 million mixed-use project. Sears stopped retail operations there in 1983 and the building has been abandoned since the company closed its distribution center in 1993. Blight has marred the neighborhood, now one of the poorest in Memphis, ever since.



NOW:

High in Mixed Use redevelopment

The first class of freshmen students has been selected for the fall semester of Crosstown High, a new public charter school opening this August. The school, which will welcome 600 students by 2021, will be located on the first, fourth and fifth floors of the new community-driven, mixed-use Crosstown Concourse redevelopment. .



Adaptive Reuse – Industrial Warehouse to Office HQ

Old Blight Industrial to a Modern HQ by CAT – Littlerock AR

Riggs CAT Headquarters

Year Completed: 2015

Size: 23,980 sq. feet

Renovation Cost: \$4,500,000

Architect: Polk Stanley Wilcox Architects

Link:

<http://www.architectmagazine.com/project-gallery/riggs-cat-headquarters>

The Story: The Riggs family of Little Rock took a 50-year-old building and refurbished it into a sleek, modern headquarters for their heavy equipment business. An adjacent 1950s warehouse was also renovated into a training center. The main building has an exposed steel structure that conveys the industrial nature of the CAT brand. The building is also reminiscent of large earth moving equipment, as Caterpillar equipment was studied for design inspiration.



Adaptive Reuse

Adaptive Reuse is Scalable to even Tertiary MSAs

Newbern AL Library

Location: Newbern, Alabama

Prior Use: Branch Bank

Year Built / Transformed: 1906 / 2013-2015

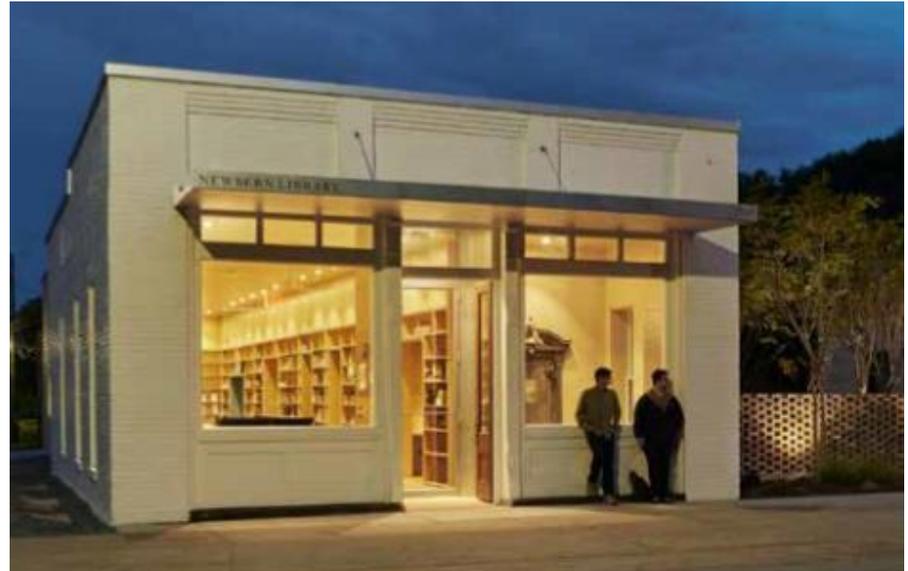
Project Team: Auburn University's Rural Studio

Link: <http://www.ruralstudio.org/>

The Story: Adaptive Reuse is not just a development fad for populated primary MSAs. **It applies to cities large and small,**

Adaptive reuse can transform even the smallest tertiary MSAs. **Built in 1906, this former bank building was redesigned by Auburn University students to meet another,** relatively simple community need: **a new town library.**

AdRu projects don't have to be overwhelmingly complex. But it pays to leverage local university talent and understand the needs of the surrounding market.



Adaptive Reuse

Repurposing Old Infrastructure to Reintroduce Green Space

Rotary Trail

Location: Downtown Birmingham

Size: 4 blocks in heart of CBD

Renovation Cost: \$3,500,000

Project Team: Rotary Club of B'ham AL

Link:

<http://www.businessalabama.com/Business-Alabama/September-2016/More-Magic-in-Birmingham/>

The Story: Adaptive Reuse is not just a development fad for densely populated primary MSAs. **It applies to cities large and small**, as well as in urban concentric states like CA and NY - and more rural states in the South & Midwest.

Rotary Trail in Birmingham AL is an open-air, rail tunnel left over from Birmingham's rail and industrial past converted to an inviting communal green space in the heart of the City's CBD thanks to the vision and \$3.5 million investment by the local Rotary Club.



Adaptive Reuse for Industrial Warehouse Demand

Think of an Amazon “Tent Warehouse” pioneered by Iowa Company



Real Estate Design – It is a Changin! Building design is adapting **to meet with the challenges of rising construction costs** while simultaneously evolving to meet e-Commerce’s need for more efficiency.

<https://www.memphisdailynews.com/news/2018/aug/2/digest/>

Amazon’s development of a warehouse made of a taut fabric supported by steel-tube trusses and cables **with no columns** is underway in Memphis. The design, engineering and construction is not too dissimilar to that used to construct the Denver International airport main terminal. This first-of-its-kind warehouse for Memphis, TN (home to FedEx) and the building’s tenant (Amazon - the world’s largest retailer and likely next trillion dollar company) is going to be a disruptor for industrial warehouse space. **The building design and components are being provided by ClearSpan Fabric Structures HQ in Dyersville, Iowa for a cost of \$595,000 - or just under \$36 per SF**

Adaptive Reuse: **It can go too far!** Affordable, but ...



Fortunately WI has not gone too far 😊

Q&A



Including more new
businesses calling your MSA
home ...

If You have the

- i) Workforce;**
- ii) Golden Triangle Location;**
- iii) Logistics Infrastructure; and**
- iv) Affordable Housing / AdRu**