

2022 Economic Forecast Luncheon

KC Conway, CCIM, CRE, MAI

January 19th, 2022



CARW

COMMERCIAL ASSOCIATION OF REALTORS®



What to Expect in 2022? Commercial Real Estate Insights Luncheon

January 19, 2022, 11:30 to 1:30 pm



2022 is the Year of the Water Tiger a Year of Extremes

What are the EXTREMES confronting the Economy and CRE?

- Inflation
- FOMC Monetary Policy
- COVID Variants
- Supply-Chain Disruption
- Mid-Term Congressional Elections
- CRE Values under DSCR Debt Strain



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ECONOMIST



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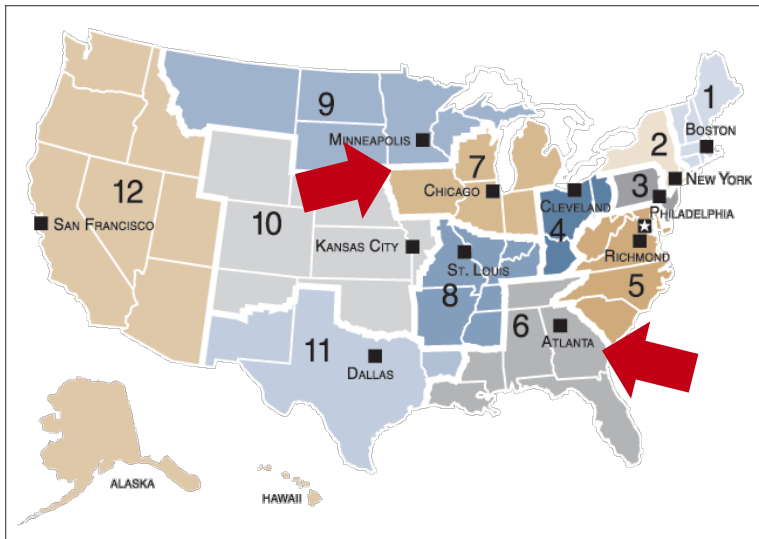
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2022 Economic Influences: FOMC/FED, Inflation, Logistics & Black Swans



2022 FOMC Meetings	
January	25-26
March	15-16*
May	3-4
June	14-15*
July	26-27
September	20-21*
November	1-2
December	13-14*

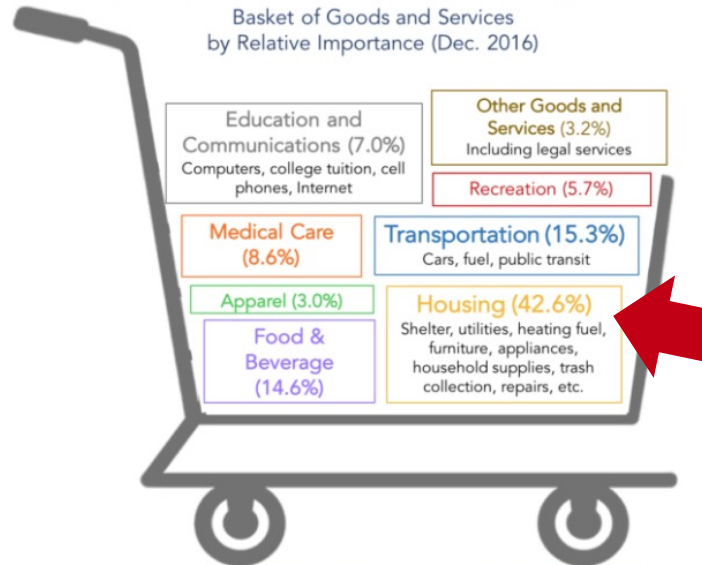


**Atlanta FED has most Ports yet
NO Supply-Chain nor Ports Research**



Consumer Price Index (CPI)

Basket of Goods and Services
by Relative Importance (Dec. 2016)



Source: Data from U.S. Bureau of Labor Statistics, graphic by Legal Evolution PBC



Black Swan Events like Government Shut-Downs, Volatile Jobs Reports, & Cyber Attack on Infrastructure like the Colonial Pipeline

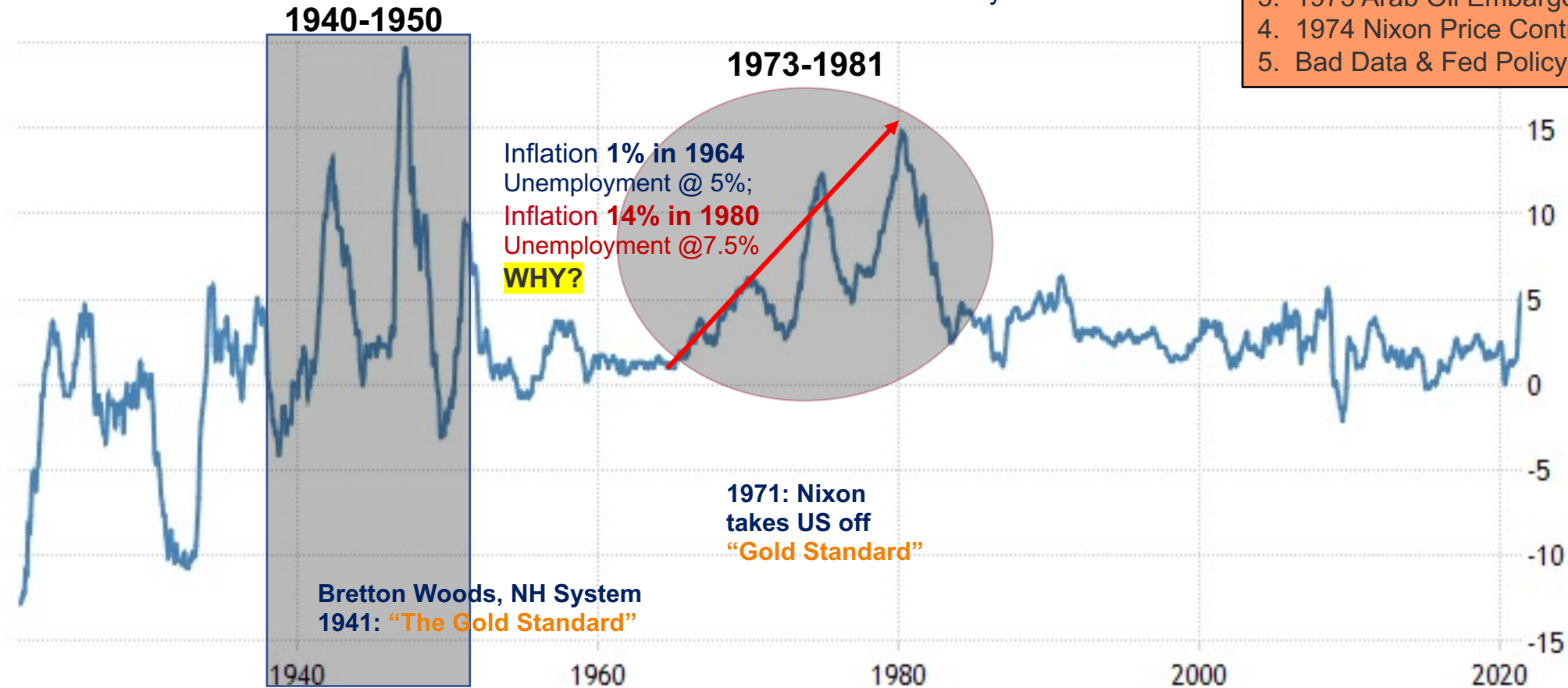
INFLATION: A Historical Perspective – *Can 1977 to 1981 be Repeated?*

WW II War-Time & then
Peace-Time Economy

The Great Inflation (1965-1982) was the defining macroeconomic period of the second half of the twentieth century.

What caused 1% to 14%?

1. 1960s Vietnam War Deficit spending
2. 1971 Off the Gold Standard
3. 1973 Arab Oil Embargo / Supply-Chain
4. 1974 Nixon Price Controls / FED's Balance Sheet
5. Bad Data & Fed Policy / Unchanged



Mandate
#1



Employment Act of 1946 –
Where Fed's mandate for "Full
Employment" originated

Mandate
#2



Humphrey-Hawkins Act of 1978
gave FED its 2nd Mandate of
"Price Stability"

INFLATION: The FED's Monetary Policy is a Roller Coaster Ride

Q1/Q2 2021

FED position:

“Transitory Inflation”

Q3 2021

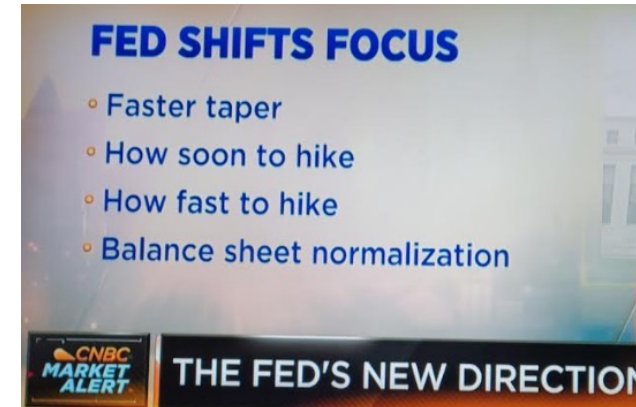
FED position:

“Transitory Longer”

Q4 2021

FED position:

“Persistent Inflation”



4 Mistakes The Powell Fed Made (from a former insider)

Former NY FED President Bill Dudley said,

The 1st mistake was how the Fed “operationalized” this framework

The 2nd mistake was misjudging the labor market

The 3rd mistake was to view inflation as “transitory”

The 4th mistake was being too worried about spooking the bond market and causing another “taper tantrum”

“Terminal Rate” – What is the FED's end target on rate hikes once they begin in 2022?

3% Taper-Tantrum – You ain't seen anything yet! **Get ready for >3% if Inflation stays $\geq 7.0\%$**

INFLATION: CPI aside – How Does Inflation Impact R.E.; NOLA, ATL & Dallas highest

CONSTRUCTION ECONOMICS

Construction Cost Index **+8.0%**
ANNUAL INFLATION RATE **JAN. 2022**

1913=100	INDEX VALUE	MONTH	YEAR
CONSTRUCTION COST	12555.55	+0.6%	+8.0%
COMMON LABOR	24365.52	0.0%	+1.4%
WAGE \$/HR.	46.82	0.0%	+1.4%

Building Cost Index **+13.9%**
ANNUAL INFLATION RATE **JAN. 2022**

1913=100	INDEX VALUE	MONTH	YEAR
BUILDING COST	7359.09	+1.0%	+13.9%
SKILLED LABOR	11055.72	0.0%	+2.6%
WAGE \$/HR.	60.99	0.0%	+2.6%

Construction Cost Index **+8.0%**
ANNUAL INFLATION RATE **OCT. 2021**

1913=100	INDEX VALUE	MONTH	YEAR
CONSTRUCTION COST	12464.94	0.0%	+8.0%
COMMON LABOR	24355.78	0.0%	+1.3%
WAGE \$/HR.	46.80	0.0%	+1.3%

Building Cost Index **+14.2%**
ANNUAL INFLATION RATE **OCT. 2021**

1913=100	INDEX VALUE	MONTH	YEAR
BUILDING COST	7244.90	+0.4%	+14.2%
SKILLED LABOR	10978.76	+0.9%	+2.6%
WAGE \$/HR.	60.58	+0.9%	+2.6%

Construction Cost Index **+3.8%**
ANNUAL INFLATION RATE **APR. 2021**

1913=100	INDEX VALUE	MONTH	YEAR
CONSTRUCTION COST	11849.31	+0.8%	+3.8%
COMMON LABOR	24253.88	+0.4%	+1.4%
WAGE \$/HR.	46.59	+0.4%	+1.4%

Building Cost Index **+6.1%**
ANNUAL INFLATION RATE **APR. 2021**

1913=100	INDEX VALUE	MONTH	YEAR
BUILDING COST	6612.50	+1.0%	+6.1%
SKILLED LABOR	10805.01	0.0%	+1.7%
WAGE \$/HR.	59.73	0.0%	+1.7%

CHI or MN a good proxy for Milwaukee (Up 13% YOY)

ENR's Cost Indexes by City

1913=100
1967=100
R=REVISED

	CONSTRUCTION COST		BUILDING COST	
	JAN '22: 1913	% CHG. YEAR	JAN '22: 1913	% CHG. YEAR
ATLANTA	8066.77	+17.3	5986.91	+24.7
BALTIMORE	9965.04	+6.0	6515.31	+13.9
BIRMINGHAM	8363.01	+11.0	5609.46	+17.8
BOSTON	16962.26	+13.4	9527.56	+16.5
CHICAGO	17977.18	+5.7	9260.51	+13.3
CINCINNATI	11340.56	+9.9	6270.20	+13.1
CLEVELAND	13250.20	+5.0	6903.84	+11.6
DALLAS	7176.09	+16.8	5785.39	+21.7
DENVER	8418.76	+10.2	6021.13	+14.9
DETROIT	12910.01	+5.2	7216.15	+9.8
KANSAS CITY	12623.32	+6.4	7257.26	+10.6
LOS ANGELES	12996.09	+7.6	7293.41	+14.4
MINNEAPOLIS	13811.00	+4.4	7594.45	+13.0
NEW ORLEANS	7545.75	+15.8	6041.18	+35.1
NEW YORK CITY	21335.07	+3.6	10561.93	+6.8
PHILADELPHIA	15013.06	+7.8	8353.08	+7.6
PITTSBURGH	12104.54	+9.4	7095.75	+9.8
ST. LOUIS	13228.25	+5.1	7231.89	+12.0
SAN FRANCISCO	14301.24	+9.2	9007.82	+15.4
SEATTLE	13722.83	+6.8	7648.51	+13.0

32 • ENR • January 3-17, 2022 enr.com

Construction Loans and Cost Overruns?



Mexico ends year with inflation at 7.36%, most in 20 years

MEXICO CITY (AP) — Mexico ended 2021 with an annualized inflation rate of 7.36%, the highest in 20 years, the national statistics institute said Friday.

Inflation in December continued at about the same rate as in November, and was led by fresh food products, air travel and other rising costs.

The institute said inflation was last that high in 2001.

Mexico's central bank faces pressure to increase interest rates, without constraining economic growth. **The country's interbank interest rate is around 5.50%**, and the target inflation rate of 3% seems a very distant goal.



KC Conway, MAI, CRE, CCIM

Principal & Co-Founder at Red Shoe Economics

2d •

Inflation - it's not just a US problem. Mexico is experiencing greater than a 7% rate. Why is this noteworthy? Mexico manufacturers a lot for US manufacturers (auto components), and consumers (AG and Winter food commodities).

Mexico's higher inflation gets exported to the US. The FED remains clueless as to how embedded inflation has become.

They now lack the ability to reign it in without a Paul Volcker 1970s type response.

INFLATION & CRE Values: Are these increases sustainable?



Green Street CPPI Past 12 Mos (Nov YOY)

Green Street CPPI®: Sector-Level Indexes

	Index Value	Change in Commercial Property Values		
		Past Month	Past 12 Mos	From Pre Covid
All Property	154.8	5%	24%	14%
Core Sector	159.6	6%	26%	18%
Apartment	189.7	3%	29%	22%
Industrial	253.9	9%	41%	53%
Mall	97.6	16%	27%	1%
Office	113.6	2%	6%	-4%
Strip Retail	126.7	6%	30%	13%
Health Care	150.9	0%	10%	6%
Lodging	107.5	3%	32%	-1%
Manufactured Home Park	323.8	2%	24%	34%
Net Lease	115.7	0%	26%	17%
Self-Storage	306.8	18%	66%	66%
Student Housing	168.7	0%	16%	9%

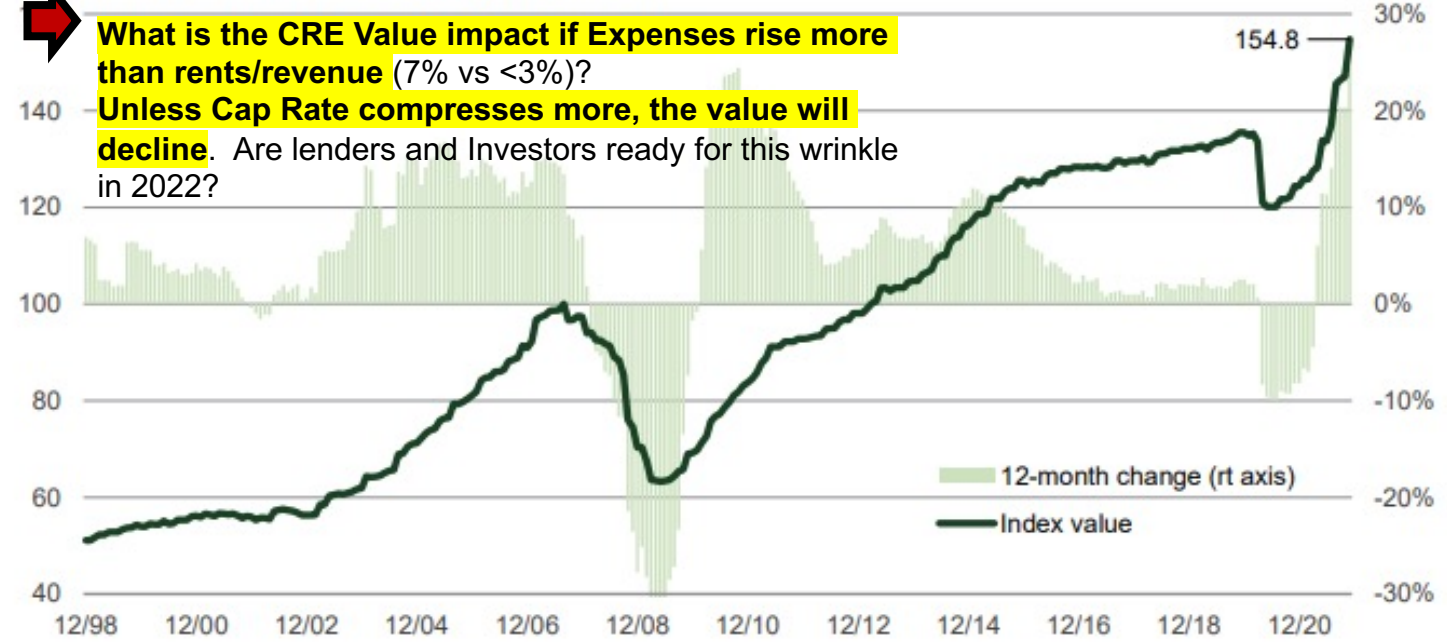
- #1 – Self Storage **+66%**
- #2 – Industrial **+41%**
- #3 #4 TIE – Lodging **(+32%)** & Strip Retail **(+30%)**
- #5 – MF **+29%**

Green Street CPPI®: All-Property Index

Property Values Continue Upward

The Green Street Commercial Property Price Index® increased 5.3% in November. Property price increases were widespread, with self-storage, industrial, and retail registering the largest month-over-month gains. **The all-property index has increased 24% this year and is now 14% higher than it was before the pandemic began.**

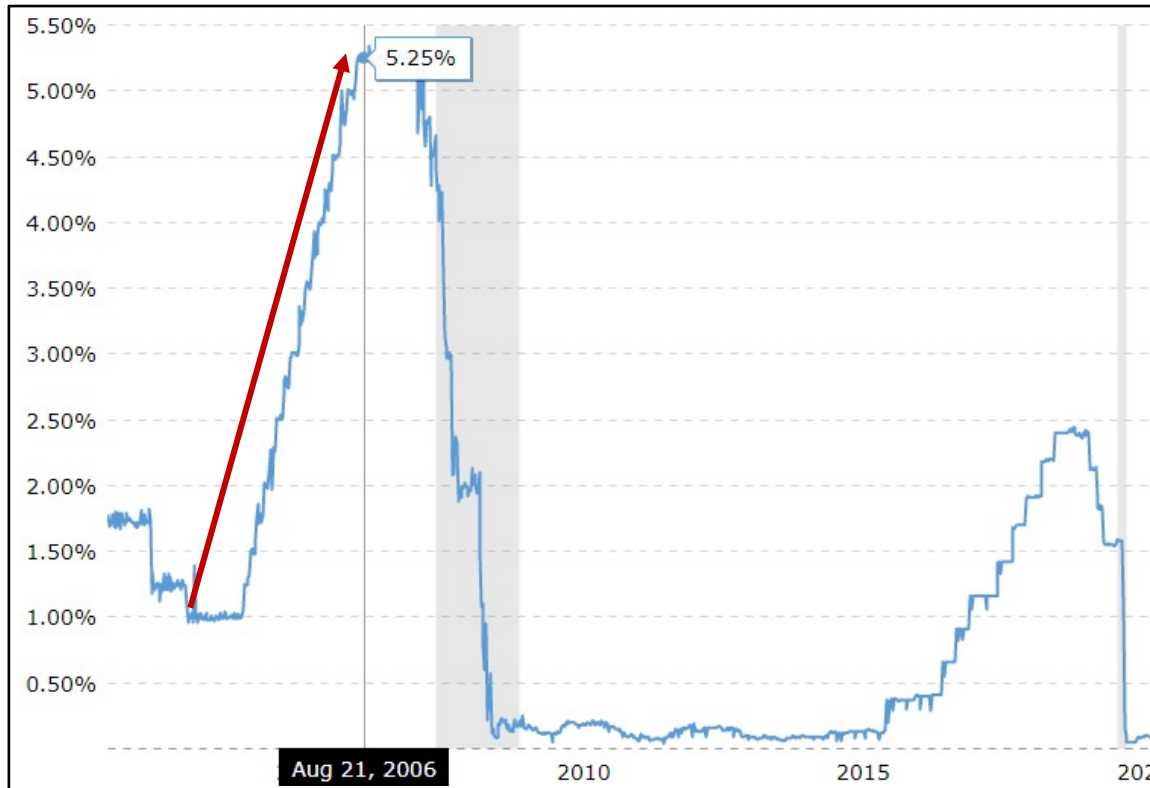
Green Street Commercial Property Price Index®



History of FED Rate Hikes: They don't just hike 3 to 4 times – try 8+

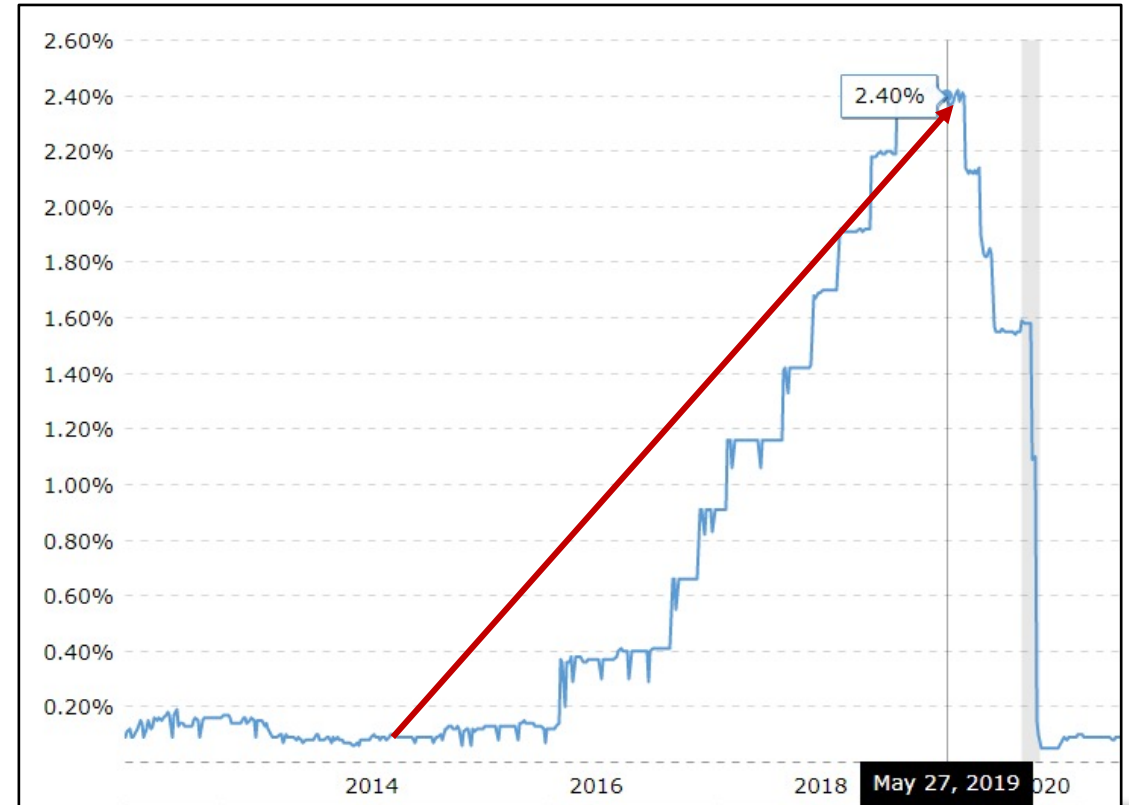
Fed Funds Rate – FOMC Rate Hikes

20-Yr View (1% to 5.25% 2004-Summer 2006)



Fed Funds Rate – FOMC Rate Hikes

10-Yr View (0.20% to 2.40% 2014-Spring 2019)

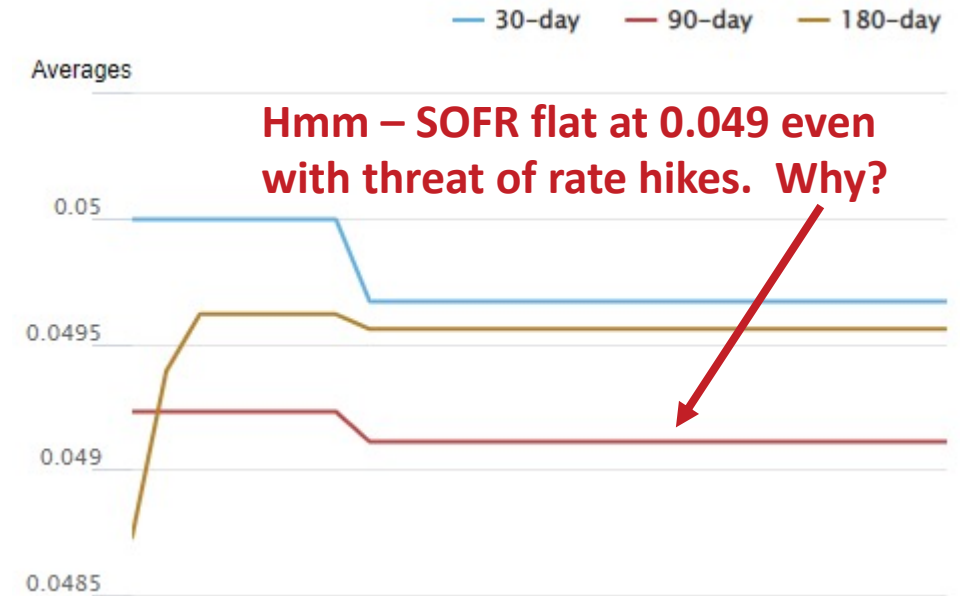


End of LIBOR: Does it impact CRE? Yes! (Construction & Variable Rate Loans)



FCA announcement on **future cessation** and loss of representativeness of the **LIBOR benchmarks** (05 March 2021)
26 of 35 LIBOR settings will permanently cease as set out below:

- This statement announces the **future cessation or loss of representativeness of the 35 LIBOR benchmark settings** currently published by ICE Benchmark Administration (IBA), an authorized administrator, regulated and supervised by the FCA
- **Publication of all 7-euro LIBOR settings, all 7 Swiss franc LIBOR settings, the Spot Next, 1-week, 2-month and 12-month Japanese yen LIBOR settings, the overnight, 1-week, 2-month and 12-month sterling LIBOR settings, and the 1-week and 2-month US dollar LIBOR settings will cease immediately after 31 December 2021.**
- Publication of the **overnight and 12-month US dollar LIBOR settings will cease immediately after 30 June 2023.**



What happens to SOFR in a Fed Rate hike environment? No history!



Latest SOFR rate

FEDERAL RESERVE BANK of NEW YORK

SOFR is published by the New York Federal Reserve every business day for the previous business day, the latest is:

0.05% on January 7, 2022



Jobs: Making sense of ADP, BLS, JOLTS and 10.6M Job Openings & <4% Unemployment



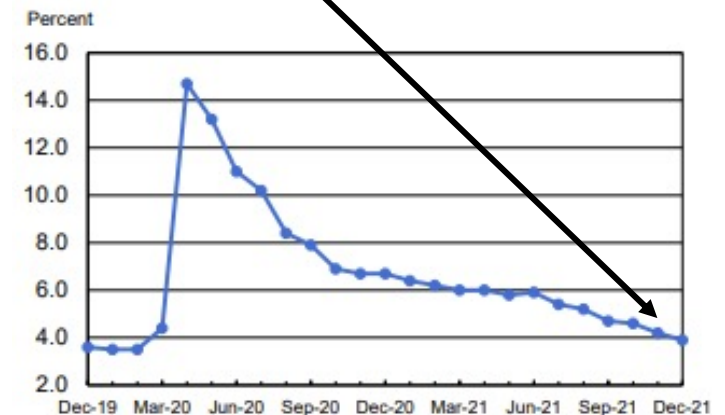
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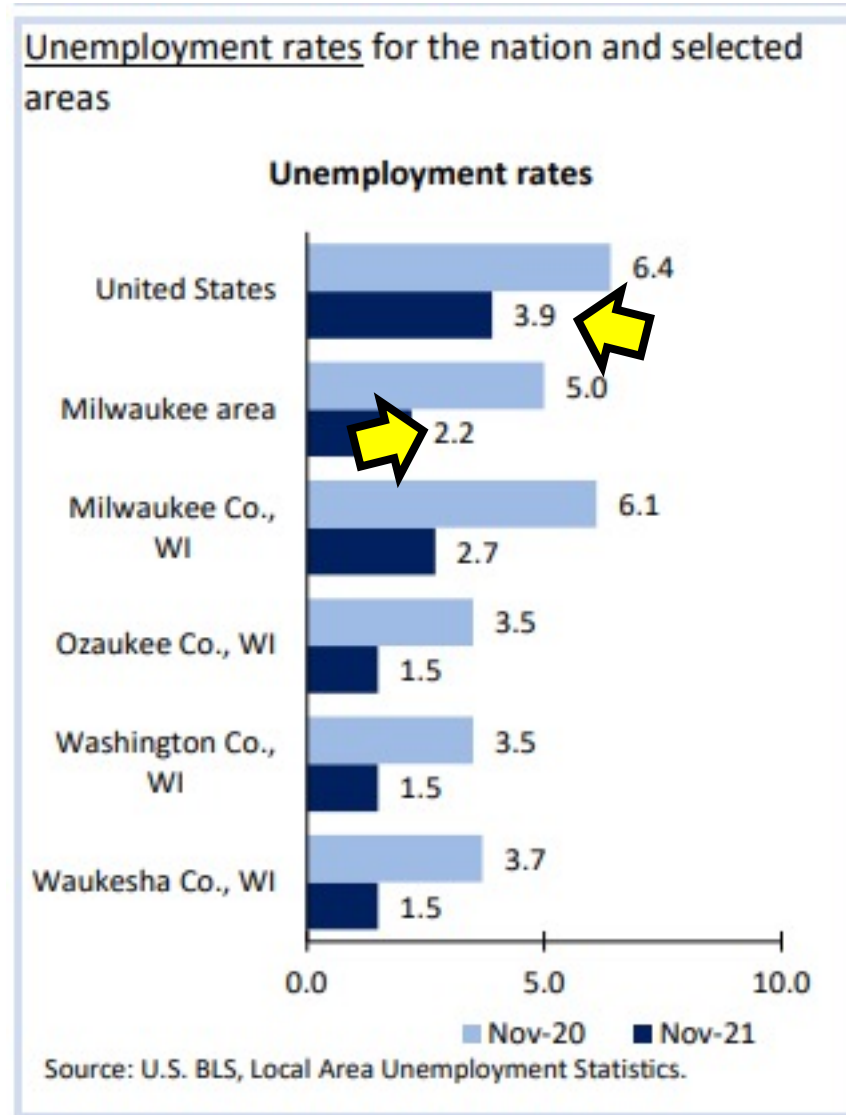
3d •

December' 2021 BLS Jobs report another confusing bust of just 199k jobs after just 210k in November, That is the headline. The context is these numbers are a mess and contradict with a now 3.9% unemployment Rate and 650k more employees in December. The BLS is undercounting jobs - especially the surge in Self-Employed (like me and my Red-Shoe Economics firm). Businesses are not responding to BLS surveys and State Gov data is delayed and inaccurate not picking up subcontractors or new Self-Employed. How can ADP document 800k new private jobs, unemployment drop below 4% near our record 3.5% low, and hourly earnings rising >0.5% per month (+0.6% in December) and BLS report we are only creating 200k jobs a second month in a row. Put this one in the BBQ-Sauce bucket and go with ADP, JOLTS and the reality of wage inflation. The Red-Shoe Economist thinks the FED may have to move with a 1st rate hike in January with no FEB meeting and inflation running hotter and hotter.

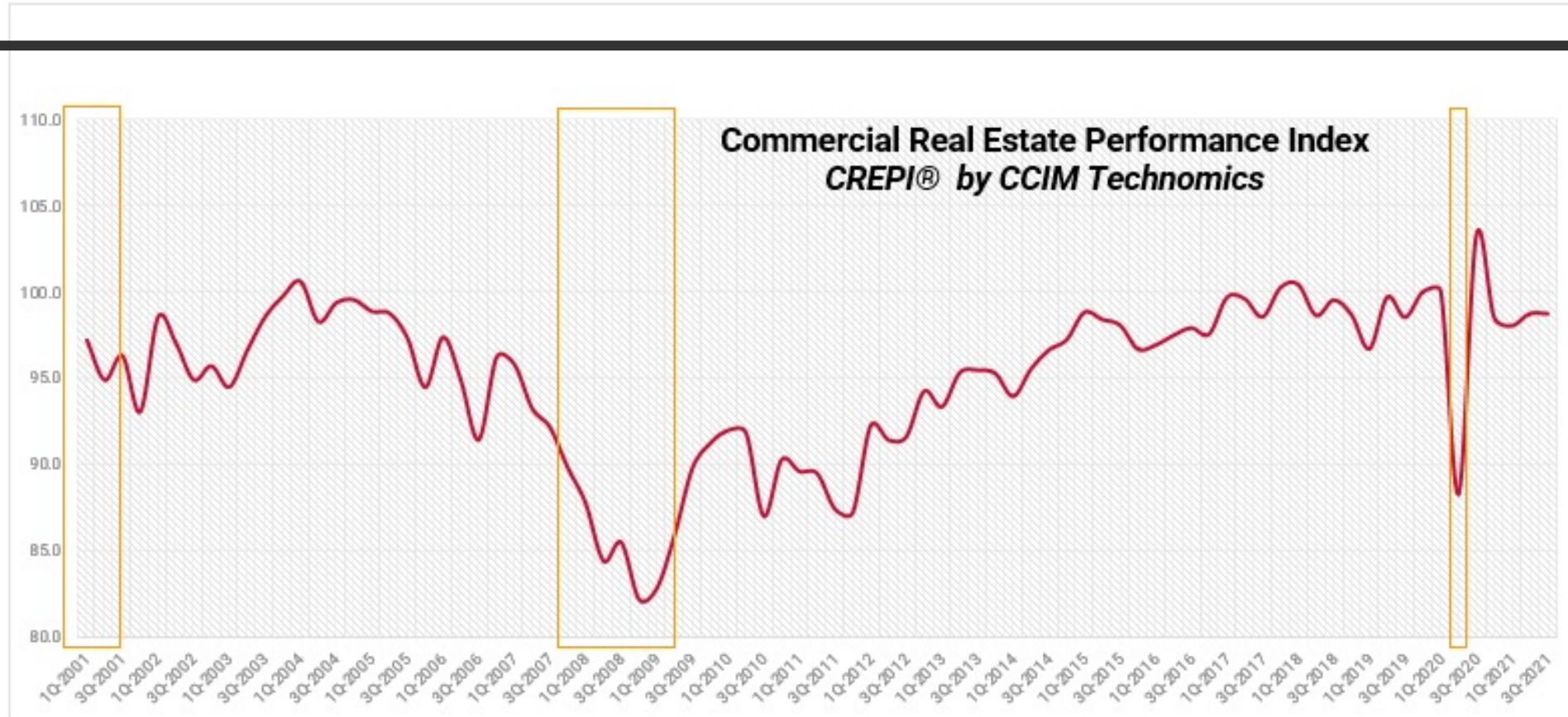
Chart 1. Unemployment rate, seasonally adjusted, December 2019 – December 2021



Milwaukee has lower Unemployment than US's current 3.9%



CCIM-TECH's new CREPI: A Broader Measure of Economy



CREPI® Source: **CCIM Technomics**

CREPI® Chart:
 4Q 2019 Index = 100
 Highlighted areas represent U.S. economic recessions
 Current data as of **3Q-2021**

CREPI® Data Components:

- | | |
|--|--|
| <ul style="list-style-type: none"> 1. University of Michigan Consumer Sentiment Index 2. NFIB Business Confidence Index 3. Yield Curve Spread between 10-Year and 2-Year Treasuries 4. NAHB / Wells Fargo Housing Market Index 5. BEA Personal Consumption Expenditures Price Index | <ul style="list-style-type: none"> 6. BLS Producer Price Index 7. BLS Job Openings and Labor Turnover Survey 8. BLS Civilian Labor Force Participation Rate 9. S&P 500 Index 10. Green Street Commercial Property Price Index |
|--|--|

This index is free to anyone from CCIM-TECH & the **Red Shoe Economist** will author the narrative.

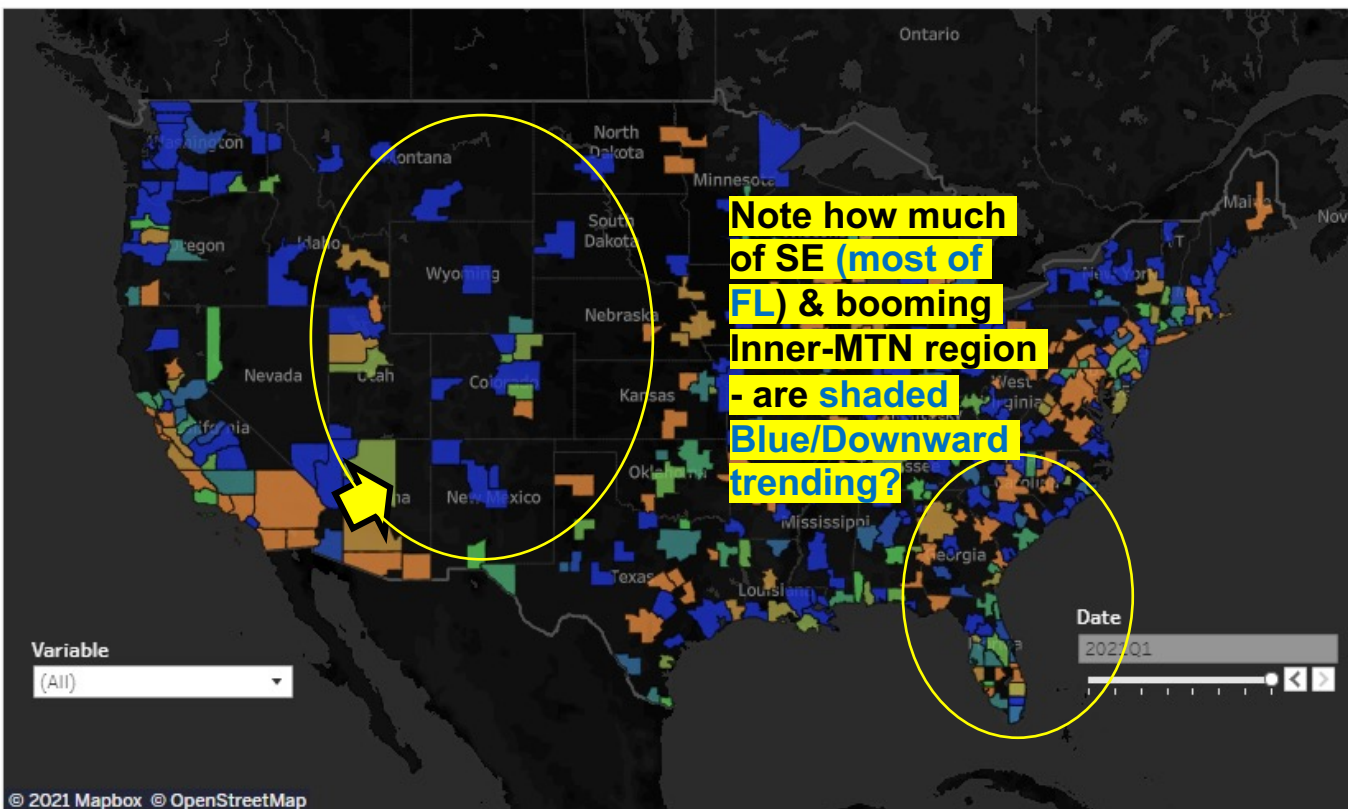


Ignore: Be Careful using FED tools - FED's "CRE Momentum Index"

Federal Reserve Bank of Atlanta

CREMI: Commercial Real Estate Momentum Index

CRE Momentum Index - Retail - 2021Q1



CREMI is counter-intuitive to CRE Industry

- **Color:** A color of a particular variable is determined by its relation to the long-term average of that variable. **Orange hues indicate a value above the average ("upward")** and **blue hues indicate a value below the average ("downward")**. Green hues reflect data that are in line with the long-term average. This shows the **direction of momentum**.
- **Shade:** The deepness of the color (darker versus lighter hues of a color) represents the variable's fluctuation, as measured by deviation in the variable over time. **Deeper colors reflect higher deviation and, therefore, greater market volatility**. This shows the **strength of momentum**.

It's a Black-Box: Good luck using in litigation of Bank Appraisal work where you can't explain it.

CREMI FAQ :

- Q: What are the numeric values of the data? Why can't I see them?
- A: "Due to contractual obligations with our data providers, we are not able to share the underlying data." It's CoStar & Moody's. Go direct to CoStar & Moody's!

Downward Trending Momentum  Upward Trending Momentum

Blue & Green are "Downward Trending / Bad; Orange & Yellow are "Upward/Good?"

BBQ Sauce is “Southern Polite” for “BS”



CNBC's annual “Top States for Business” &
Atlanta Federal Reserve's “CREMI” are

The Red Shoe Economist's BBQ-Sauce!

I'm calling BBQ Sauce on this one!

Population Migration:

Q: Where can you “Out- Run” Inflation?

A: South (TX, FL, TN, SC) Mtn. Region & MW



U-Haul Growth Index: Texas is the #1 Growth State of 2021 & Florida #2

- | | |
|------------------------|------------------------|
| 1. TEXAS (2) | 13. WISCONSIN (13) |
| 2. FLORIDA (3) | 14. OREGON (45) |
| 3. TENNESSEE (1) | 15. WASHINGTON (36) |
| 4. SOUTH CAROLINA (15) | 16. ALASKA (34) |
| 5. ARIZONA (5) | 17. MINNESOTA (20) |
| 6. INDIANA (12) | 18. CONNECTICUT (43) |
| 7. COLORADO (6) | 19. NORTH CAROLINA (9) |
| 8. MAINE (29) | 20. NEBRASKA (32) |
| 9. IDAHO (30) | 21. WYOMING (33) |
| 10. NEW MEXICO (39) | 22. MONTANA (19) |
| 11. SOUTH DAKOTA (25) | 23. GEORGIA (10) |
| 12. VERMONT (26) | 24. OHIO (4) |

Where is media covering WI ranking in Top-15?



California remained the top state for out-migration, but its net loss of U-Haul trucks wasn't as severe as in 2020. That can be partially attributed to the fact that U-Haul simply ran out of inventory to meet customer demand for outbound equipment.

Texas's growth is statewide, although some of its biggest gains occurred in the suburbs around the DFW Metroplex. Florida's gains are equally widespread, with considerable growth south of Orlando and along both coastlines.

U-Haul is the authority on migration trends thanks to its expansive network that blankets all 10 provinces and 50 states. The geographical coverage from more than 23,000 U-Haul truck- and trailer-sharing locations provides a comprehensive overview of where people are moving like no one else in the industry.

States with MOST Out-Migration

- 45. NEW YORK (42)
- 46. ALABAMA (22)
- 47. MASSACHUSETTS (47)
- 48. PENNSYLVANIA (41)
- 49. ILLINOIS (49)
- 50. CALIFORNIA (50)

Don't ask me to explain AL as they didn't com out well in 2020 Census either. Maybe a delayed impact from Toyota, Mercedes, Walmart & Airbus hiring. **United Van Lines moving report has AL @ #6 for Most Move-Ins."**

**Top 5 = South / 5 of Top-22 = Mtn-West
And 4 of Top 25 in Midwest including WI @ #13**

Methodology: Growth states are calculated by the net gain of one-way U-Haul trucks entering a state versus leaving that state in a calendar year. Migration trends data is compiled from more than 2 million one-way U-Haul truck customer transactions that occur annually.



Population Migration: Q: Where can you “Out-Run” Inflation?

A: South (TX, FL, TN, SC), Mtn Region & Midwest



United Van Lines 2021 Moving Report



WI ranked #34 for Inbound Moves in United Van Lines vs #13 in U-Haul,

States like GA had a Big-Fall in 2021 due to COVID, riots, and housing shortage.

2021 United Van Lines National Movers

	State	Total Shipments	Inbound Shipments	Inbound %
1	Vermont	413	307	74%
2	South Dakota	446	307	69%
3	South Carolina	5,508	3,484	63%
4	West Virginia	451	282	63%
5	Florida	21,179	13,201	62%
6	Alabama	2,726	1,692	62%
7	Tennessee	6,004	3,720	62%
8	Oregon	3,370	2,038	61%
9	Idaho	1,623	980	60%
10	Rhode Island	892	527	59%
11	District of Columbia	1,415	836	59%
12	Delaware	718	424	59%
13	North Carolina	10,318	6,084	59%
14	Maine	1,376	797	58%
15	New Mexico	2,276	1,276	56%
16	Utah	2,516	1,393	55%
17	Texas	22,715	12,358	54%
18	Arizona	7,540	4,080	54%
19	New Hampshire	1,047	561	54%
20	Georgia	8,861	4,739	54%

Exhibit 2-7 Local Market Perspective: Investor Demand

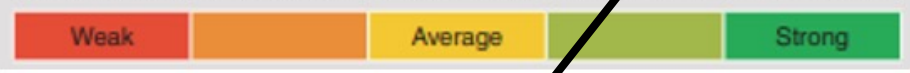
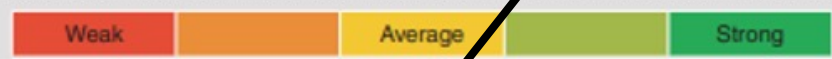


Exhibit 2-8 Local Market Perspective: Development/Redevelopment Opportunities



Overall Ranking

Nashville	4.73
Austin	4.73
Boston	4.59
Charlotte	4.57
Raleigh/Durham	4.53
Inland Empire	4.50
Denver	4.48
Salt Lake City	4.46
Dallas/Fort Worth	4.44
Phoenix	4.43
Tampa/St. Petersburg	4.42
Boise	4.41
Atlanta	4.40
Seattle	4.39

1	Nashville
2	Raleigh/Durham
3	Phoenix
4	Austin
5	Tampa/St. Petersburg
6	Charlotte
7	Dallas/Fort Worth
8	Atlanta
9	Seattle
10	Boston
11	Salt Lake City
12	Denver
13	San Diego
14	Washington, DC–Northern VA
15	Miami

Tampa/St. Petersburg	4.35
Nashville	4.27
Raleigh/Durham	4.24
Charlotte	4.18
Phoenix	4.15
Dallas/Fort Worth	4.12
Atlanta	4.08
Denver	4.04
Austin	4.04
Salt Lake City	4.04
Fort Lauderdale	3.94
Seattle	3.93
Boise	3.92
Inland Empire	3.92
Washington, DC–Northern VA	3.90

Note:
**NO “Strong”
 Development
 Opportunity
 MSAs. WHY?**



What the US needs now: WI is Expanding with Nexus Pharma

Nexus Pharmaceuticals Celebrates Grand Opening of New Facility

by Alicen Baran | Jul 21, 2021 | News



PLEASANT PRAIRIE, Wis.–(BUSINESS WIRE)–On Friday, July 16, 2021, Nexus Pharmaceuticals, Inc., a U.S.-based healthcare company and domestic pharmaceutical manufacturer, celebrated the opening of **Project Tomorrow**—the company’s new, state-of-the-art manufacturing facility in Pleasant Prairie, Wisconsin. Wisconsin Governor Tony Evers and U.S. Representative Bryan Steil (WI-01) attended the Project Tomorrow Grand Opening event.


“Today marks another milestone in our company’s continued mission to manufacture specialty and generic injectables right here in America,” said **Mariam S. Darsot, CEO & President of Nexus Pharmaceuticals, Inc.** “By investing in this new, state-of-the-art facility, Nexus has greatly expanded our capability to deliver dependable, life-saving treatments to millions of patients in need.”




What the US needs now: WI is Expanding with Generac

The logo for Generac, featuring the word "GENERAC" in white capital letters on a black background, with a horizontal orange line underneath.

Generac plans to create 700 additional jobs, invest \$53 million in its Wisconsin operations

Waukesha-based energy company Generac said Tuesday that it plans to significantly expand its presence in Wisconsin by  adding 700 new jobs and investing \$53 million in its operations.

Generac's business building power generator equipment for homes and businesses has been booming after strong storms knocked out power for millions and raised concerns about the dependability of the electric power grid. And with more employees working from home, the need for power and electricity  has become even more of a necessity, the company says.

“Generac is experiencing phenomenal demand and growth as the combination of an aging (electricity) grid and extreme weather are resulting in more frequent and longer-lasting power outages,” said Aaron Jagdfeld, president and CEO of Generac

“We are proud to continue to expand our presence in Wisconsin as we work to meet the incredible market demand.”

2021-22 Top Ten Issues Affecting Real Estate®

LOGISTICS &
INDUSTRIAL WAREHOUSES

TOP TEN ISSUES AFFECTING REAL ESTATE®

The Counselors of Real Estate®

10. Bifurcation of Capital Markets
- ➔ 9. Adaptive Reuse 2.0
8. Economic Structural Change
7. Political Polarization
- ➔ 6. Housing Supply and Affordability
5. Infrastructure: New Imperatives Emerge
- ➔ 4. Logistics KC Conway, CRE, CCIM, MAI authored this Top-10 Issue
3. ESG at a Tipping Point
2. Technology Acceleration and Innovation
1. Remote Work & Mobility

Adaptive Reuse 2.0: “A Neighborhood Approach” led by South Florida



Adaptive Reuse 2.0 *Making Bright Brighter*

*“We create Magic in Places Often Overlooked.”
Tony Goldman – Wynwood Visionary”*



Examples of the neighborhood-centric approach to adaptive reuse in South Florida developed and explained in this paper include:

- **Wynwood Arts District** (Preserve & Enhance Vs. Erase and Rebuild)
- **Doral** (Local Gov can be part of the Solution – Incorporating made the difference)
- **Coral Gables** (Whose experimentation with adaptive reuse dates back nearly 100 years)
- **Cutler Bay** (How to redefine a community whose identity evolved around a defunct mall?)
- **The Underline** (Greenspace & Walkability are essential to “Neighborhood” AdRu)
- **Ritz Carlton Residences, Miami Beach** (Nothing is too big or complex to repurpose)

Adaptive Reuse: A Candy Factory to Innovative Intown Housing

Milwaukee, WI gets it!

Brix Apartment Lofts

Year Completed: 2016

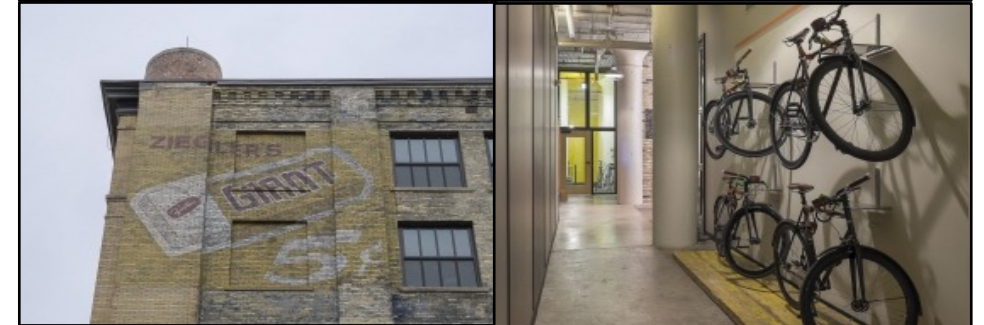
Size: 98 MF Units

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/eyes-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.



Housing: 4-Rent Subdivisions – Affordable Housing Option Midwest too



Migration Trends Favor AMH Footprint

AMH At A Glance



Peer-Leading Growth & Balance Sheet



Industry Leading Operating Platform



First-of-its-Kind Built-For-Rent Platform

- 2021 Guidance of 17.2% Core FFO Growth at Midpoint, highest amongst Residential REIT Peers

- Issued \$750 Million in a Dual-Tranche Unsecured Bond Offering, Becoming First BBB-Residential REIT in History to Issue 30-Year Bonds



- 56,077 high-quality properties in 22 states with ~ 200,000 residents⁽¹⁾



- Same-Home 3Q21 Average Occupied Days of 97.4%

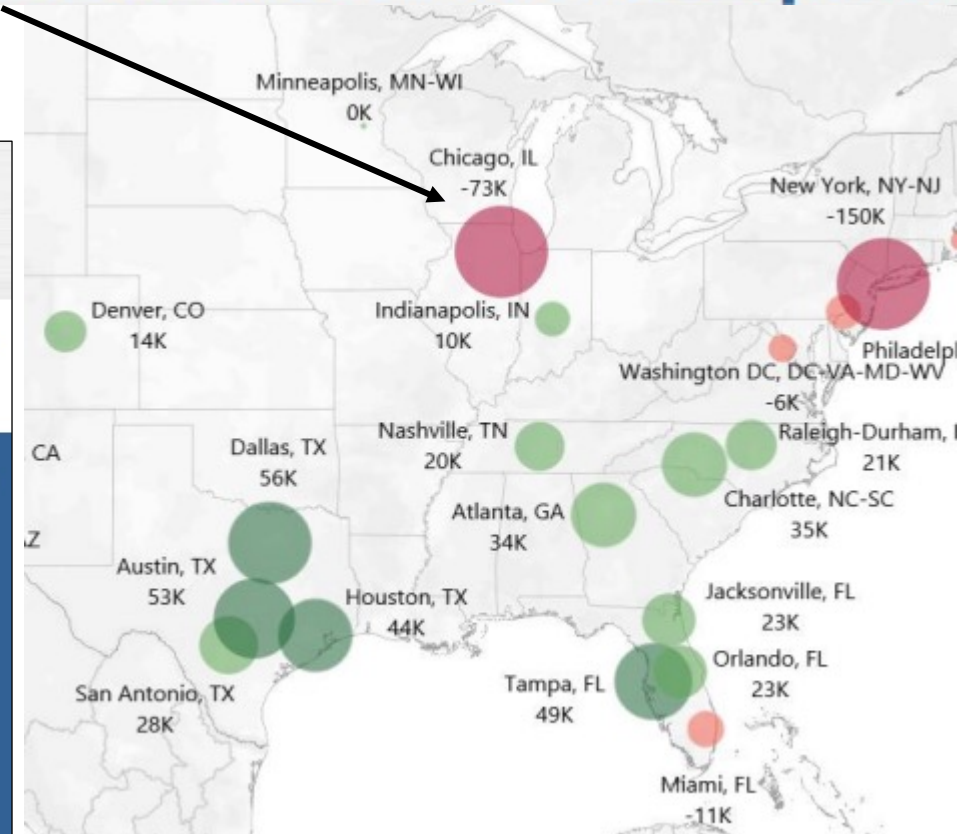
- Best-in-Class Operating Platform with Proprietary Technology & Call Center



- Largest Builder of Single-Family Homes For Rent with more than 2,000 Deliveries Expected in 2021⁽¹⁾

- 16,000 Unit Land Pipeline to Fuel Further Acceleration⁽²⁾

- Highest-Quality Product and Superior Investment Returns







KC Conway, MAI, CRE, CCIM

Principal & Co-Founder at Red Shoe Economics

3m •

MF Stats 2021 and heading into 2022 - RealPage via Globe Street piece is worth the read if you touch MF assets. These numbers mean much more housing inflation and may bring some of that capital back over to MF that left for Industrial in 2021. Below are the key stats:

#1 "Nearly 360,000 market-rate apartment units completed in 2021. That's the biggest addition in more than three decades. Another 682,000 units are under construction. Of those, roughly 426,000 are scheduled to complete in 2022—marking the first time  since 1987 supply will top the 400,000-unit mark. Parsons said that household formation is likely occurring at a faster clip than official government data sources are reporting."

#2 "The Sun Belt and Mountain/Desert regions combined to account for more than half of the nation's apartment demand in 2021, led by Dallas/Fort Worth's 7.4% share of the US total. Remarkable  occupancy rates hit or top 96% in 148 of the nation's 150 largest metro areas."

Logistics: Remake the Supply-Chain to N/S via **The Golden Triangle**



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

A. The best “Freightways!”

Amazon’s HQ2 Finalists:
15 of 20 Finalists were located within the “**Golden Triangle**”

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

(GT: 1/3rd states = 50% GDP)

The Importance of Rail: Rail Connectivity (Inland Port, Intermodal, etc.)

The 7- Class I RRs Note: CN (red) KCS (brown) CSX (blue)



KC Southern:

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

CSX:

- The East coast RR line serving East coast ports.
- CSX and NFS are to SE & Mid-Atlantic what UP is to CA & West-coast.
- Rail mergers are on the horizon post COVID. (Financially 'weak' merges with 'strong' wanting SE & Gulf reach).

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;
- + New WalMart Container Terminal;
- + Airbus + auto mfg. state (Mercedes);
- + New RoRo by 2022 / Rebuild AL Bill to fund

LOGISTICS: The Supply Chain & Rail Story is **KSU & Canadian Rail Merger!**



The long-standing negotiation pertaining to the takeover of the Kansas, MO-based railroad operator **Kansas City Southern KSU finally came to a conclusion.**

Per **Canadian National Railway Company CNI**, the company will not upgrade its **\$33.6-billion (inclusive of \$3.8-billion outstanding debt)** offer to purchase **Kansas City Southern.**

A Brief Flashback to the Takeover Drama

In March 2021, Canadian Pacific reached a merger agreement with Kansas City Southern, under which the former agreed to acquire the latter for approximately \$29 billion.

KSU initially turned down the CP offer as it preferred the Canadian National offer. However, in a twist to the events, **Canadian National suffered a regulatory setback.** On Aug 31, the **U.S. Surface Transportation Board (STB)** gave its **verdict against CNI's proposal** to set up a voting trust.

Following this sentence, advisors, decided earlier this month that **Canadian Pacific's proposal constitutes a "Company Superior Proposal"**



America's 4th Coast: These 4th – Coast Ports Matter!



America's 4th Coast: The Great Lakes and the Canadian Border

Duluth-Superior is a diversified multimodal shipping hub, connecting global maritime cargo transport to free-flowing major highways and **four Class I railroads** with direct service to the East, West and Gulf Coasts.

Located at the westernmost tip of Lake Superior, the Port of Duluth-Superior is North America's farthest inland freshwater seaport.



A remarkable 9-mile natural breakwater shelters the port's 49 miles of harbor frontage.

The Changing Industrial Box: Pioneering a New Path



No more room at the logistics warehouse inn, Prologis says **Space in its markets` effectively sold out,**' CEO says



Prologis Inc. ([NYSE:PLD](https://www.nyse.com/quote/NYSE:PLD)) Chairman and CEO Hamid R. Moghadam said in the San Francisco-based third-quarter earnings report that **"space in our markets is effectively sold out."**

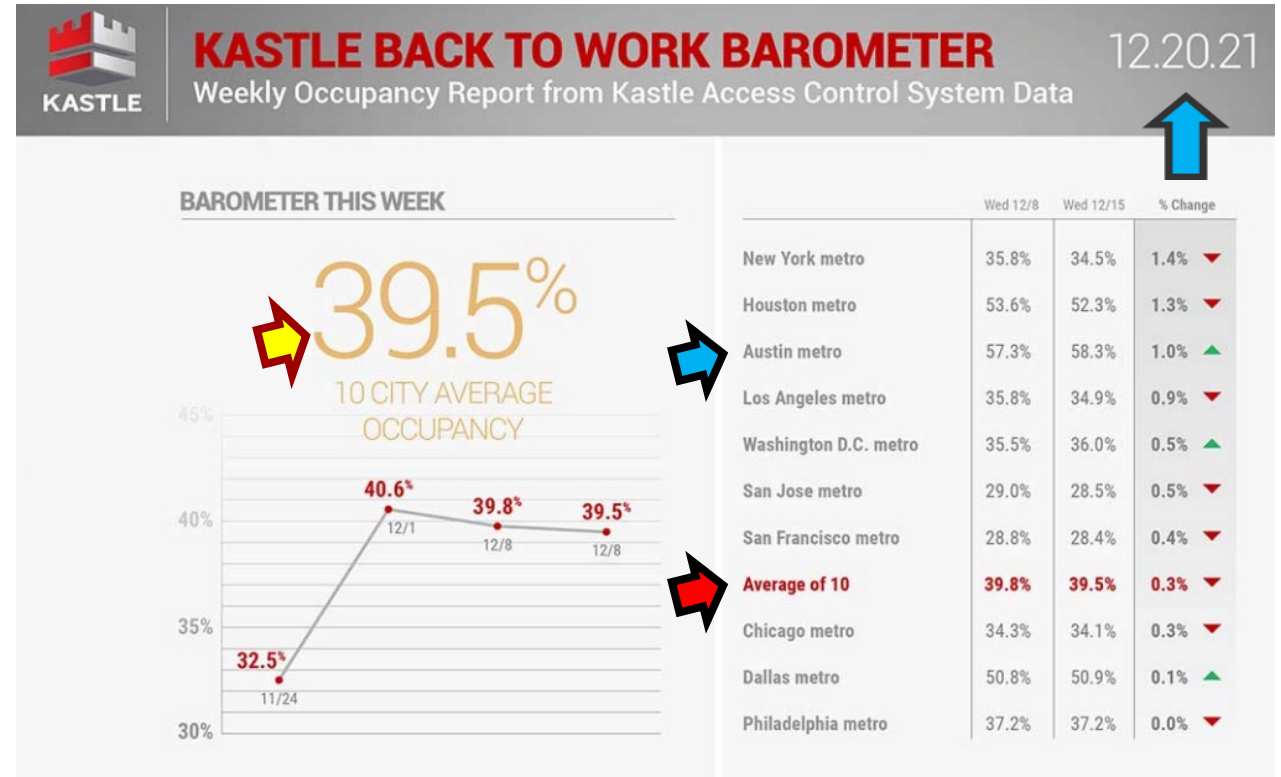
Prologis operates **995 million square feet** of logistics warehouse space in **19 countries**.



Office & Remote Work?

Kastle Back to Work Barometer City-by-City Views of America's Office Use

	Wed 12/8	Wed 12/15	% Change
New York metro	35.8%	34.5%	1.4% ▼
Houston metro	53.6%	52.3%	1.3% ▼
Austin metro	57.3%	58.3%	1.0% ▲
Los Angeles metro	35.8%	34.9%	0.9% ▼
Washington D.C. metro	35.5%	36.0%	0.5% ▲
San Jose metro	29.0%	28.5%	0.5% ▼
San Francisco metro	28.8%	28.4%	0.4% ▼
Average of 10	39.8%	39.5%	0.3% ▼
Chicago metro	34.3%	34.1%	0.3% ▼
Dallas metro	50.8%	50.9%	0.1% ▲
Philadelphia metro	37.2%	37.2%	0.0% ▼



Austin has highest "Return-to-Office" ratio at 58%.
Austin, Dallas & Houston are the only MSAs with >50% ratio.

Despite vaccinations, <40% of us are returning to the office!



Office CRE: The Rest of the Story Is Still Being Written

By CCIM Institute Chief Economist K.C. Conway, CCIM, MAI, CRE



Office Sublet Vacancy

CRE brokerage companies such as Colliers have led the charge on this data during COVID-19. In November 2020, Colliers again began tracking sublet vacancies in their quarterly Office Market Outlook reports. The 2Q21 edition showed the U.S. had more sublet office vacancy than at any point since data began being tracked in 1990 — and a shocking 30 msf more than at the peak of the Great Recession.⁹ Colliers tracks this data at an MSA level and reports across most major markets (excluding the San Francisco, Houston, New York, Chicago, and Washington, D.C., elevated outliers) that sublet vacancy now adds approximately 2 percent to the overall vacancy rate compared to pre-COVID-19. The report also cites that sublet vacant space rents are anywhere from 25 percent to 50 percent below market asking rents.

OFFICE SUBLEASE CONTINUES TO RISE

Top 10 Office Markets: 3Q20 Sublease Data

- Nationally, 44.2 million sf of sublease space has been added in the past six months.
- Sublease space is 30 million sf higher than it was at the peak of the Great Financial Crisis. The national sublease availability rate on multi-tenant space is 2.2%.
- But nearly all top 10 markets have a higher sublease rate than that, indicating pressure on the major markets.
- San Francisco leads with a sublease availability rate of 7.8%. Seattle, Los Angeles, and San Jose/Silicon Valley are all at or above 3%.
- CBD Class A sublease rental discounts are highest in Houston (49.5%), Seattle (35.9%), and Washington, D.C. (31.8%).

MARKET	MARKET INVENTORY (SF)	CLASS A SUBLEASE RENT DISCOUNT	AVAILABLE SUBLEASE (SF)	SUBLEASE AVAIL. RATE
Atlanta 	225,837,422	24.4% 	4,403,826	1.9% 
Boston	220,716,735	14.3%	6,180,446	2.8%
Chicago	312,299,861	25.7%	8,044,889	2.6%
Dallas*	299,401,159	11.3%	8,565,953	2.9%
Houston	229,305,284	49.5%	5,695,339	2.5%

Office Assets: CBD Declines, SUB Rises

RCA CPPI™ US

Commercial Property Price Indices

August 2021

CRE Asset types had Positive CPPI every period past decade, except Office past 1Yr.



Change in RCA CPPI August 2021

	1-mth	3-mth	1-yr	3-yr	5-yr	10-yr
Office	1.3%	2.6%	11.2%	14.1%	29.9%	82.6%
Office - CBD	0.0%	-0.1%	-3.7%	0.6%	10.4%	77.2%
Office - Sub	1.6%	3.3%	14.8%	15.7%	33.9%	85.7%
Industrial	1.3%	2.7%	13.6%	37.7%	60.4%	130.7%
Retail	1.9%	3.7%	12.1%	10.7%	13.9%	58.3%
Commercial	1.3%	2.5%	11.3%	19.8%	32.5%	87.3%
Apartment	1.6%	3.2%	14.7%	33.4%	62.9%	172.0%
All Types	1.5%	3.0%	13.5%	25.0%	43.5%	116.6%
6 Major Metros All Types	1.1%	2.3%	9.9%	19.2%	35.0%	107.3%
Non-Major Metros All Types	1.4%	2.7%	13.9%	26.8%	46.5%	121.5%



Milwaukee Office: NOT dissimilar to National Trend (Suburban Strong)



Colliers through Q2 Office Report Key Takeaways

• With four of five suburban office submarkets experiencing positive absorption, and a notable decrease in significant downsizes and move-outs, the suburban office market in Metro Milwaukee rebounded from negative activity seen throughout the COVID-19 pandemic.

• Large users taking space continue to have a significant impact on absorption, offsetting some of the smaller and mid-size move-outs seen throughout the market.

	20Q3	21Q2	21Q3
Total Inventory (SF)	49,851,591	50,504,641	50,504,641
New Supply (SF)	-	465,050	-
Net Absorption (SF)	(210,166)	336,111	115,268
Overall Vacancy	12.42%	14.85%	14.62%
Under Construction (SF)	783,045	565,000	565,000

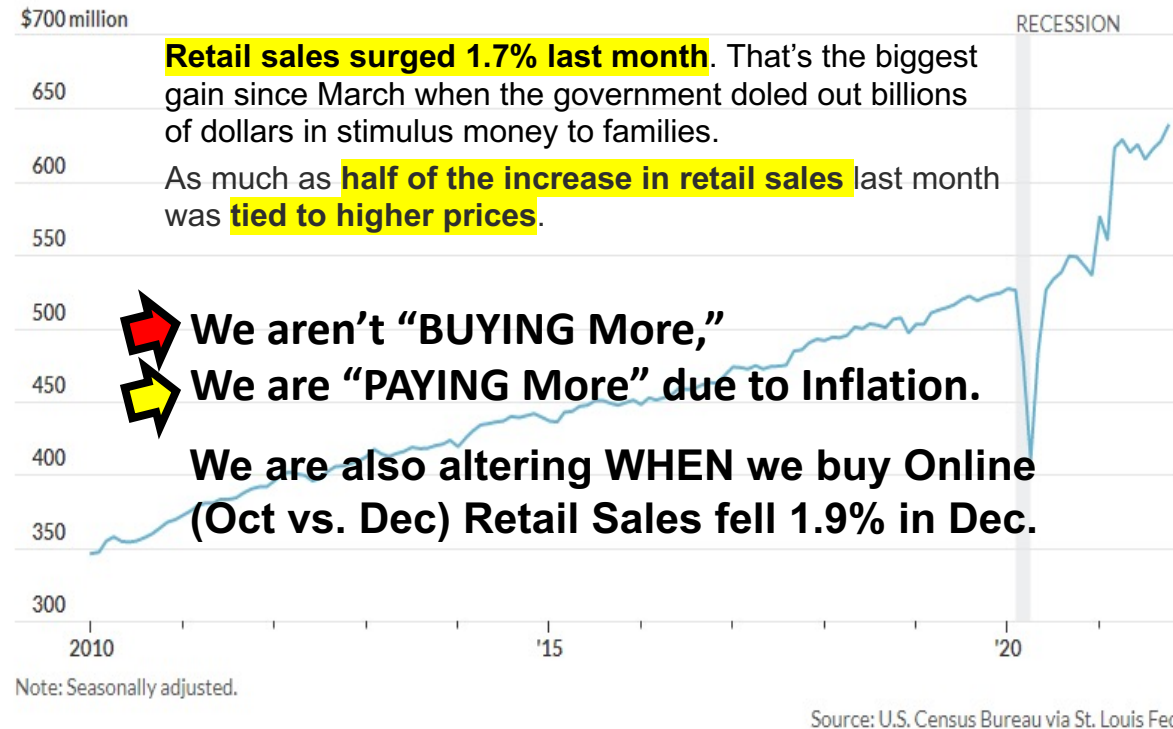


RETAIL Headlines: It's a mixed bag of Good and Not-So-Good

MarketWatch

U.S. retail sales still strong but ...

... higher prices, or inflation, is exaggerating some of the increase



Is the fun ever coming back to holiday shopping?

The joy of the season wasn't as prevalent last year. With the continued threat of the pandemic and rise of e-commerce, it hasn't fully returned this year either.

17 retailers have filed for IPOs in 2021. What does that say about the industry?

From Warby Parker and Allbirds to Claire's and Mattress Firm, companies across sectors are seizing the opportunity to enter the public markets.

The war for retail talent: Breaking down the search for workers

Oracle Retail addresses the war for talent by sharing strategies and technology for recruiting and retention.

To woo workers, Macy's boosts hourly pay to \$15, introduces education benefits

The retailer is investing in efforts to attract and retain talent as it accelerates its Polaris growth strategy, which was delayed by the pandemic.

? - NRF reports 13.4% increase in US retail sales in December Retail sales in the US dropped by 2.7% last month from November



CRE Performance: Strip Retail a Plus Surprise



2022 Emerging Trends

Exhibit 1-19 Change in Share of All CRE Transactions, 1H 2021 versus 1H 2019

Sector	Change
Apartments	-8%
Hotel*	23%
Industrial	12%
Office	-49%
Retail	-33%
Total conventional	-17%
Development sites	-30%
Total alternative**	11%
Total, all sectors	-14%

Source: Real Capital Analytics; compiled by Nelson Economics.

Industrial and Hotel are the only CORE Property Types with **Increasing CRE Transactions** for the period 1H2021 vs 1H2019

Table 1.1: REIT Returns During the Pandemic

Index / Property Sector	Constituents	Market Cap (\$B)	Total Return (%)			
			Feb 21, 2020 - Mar 23 2020	Mar 23, 2020 - Nov 8, 2020	Nov 8, 2020 - May 21, 2021	Feb 21, 2020 - May 21, 2021
All Equity REITs	158	1,319	(41.9)	41.6	24.1	2.2
Equity REITs	150	1,059	(44.4)	40.9	28.3	0.6
Hardest-hit sectors:						
Retail	32	154.8	(54.6)	25.9	63.5	(6.5)
Shopping Centers	18	55.2	(52.0)	11.0	94.3	3.6
Regional Malls	4	42.8	(62.3)	21.8	99.6	(8.2)
Free Standing	10	56.7	(50.3)	41.9	24.9	(12.0)
Diversified	16	51.2	(53.1)	33.0	39.8	(12.8)
Lodging/Resorts	13	37.3	(56.5)	25.2	70.3	(7.2)
Health Care	17	116.6	(50.6)	43.8	25.6	(10.8)
Digital Economy real estate sectors:						
Industrial	13	151.8	(34.5)	58.6	13.8	18.2
Infrastructure	4	223.4	(28.5)	39.7	6.5	6.4
Data Centers	5	123.9	(24.8)	53.5	(2.8)	12.2
Other sectors:						
Office	19	91.7	(43.8)	12.7	39.4	(11.7)
Residential	20	196.1	(44.1)	35.4	31.1	(0.8)
Apartments	15	135.8	(44.7)	27.5	36.2	(4.0)
Manufactured Homes	3	30.4	(40.9)	40.0	17.8	(2.6)
Single Family Homes	2	29.9	(44.4)	75.6	24.2	21.2
Self Storage	5	78.4	(30.9)	52.0	25.8	32.1

Influence Density



The Red Shoe Economist's Naughty & Nice Elves 2021

2022 Year of the TIGER – A Year of Extremes Ahead!

Naughty Elves

1. *Inflation* +6.8% and highest since 1982

2. *FOMC* \$4.7 trillion Balance Sheet

Expansion; GDP-Now & CREMI tools

3. *JOLTS* Reconcile 11.0 million Job

Openings and <5% Unemployment

4. *Bob-the-Builder* +19.5% YOY HPA

fueled by a 5.0mm housing shortfall

5. *CHIPS* and Not the edible kind

6. *Proxy Advisors* ISS & Glass Lewis

7. *Smash & Grab* CA form of “Tap & Go”

8. *Infrastructure* ASCE truth vs.

Build-Back-Better BBQ-Sauce legislation

9. *Aviation* Air Travel is awful!

#10. *CRE Valuation* Rearview Mirror

concentric, no updated IAG, or USPAP

Nice Elves

1. *Vaccinations* 241.5mm or 73% of all US (83% for those over age 12)

2. *Commercial Property Prices* Up, Up, Up

3. *Remote Working* Kastle Systems at 62%

4. *Zoom-Towns* U-Haul and 2020 Census: West-Coast and NE moving to Inner-Mtn and South (UT, TX, FL, NC)

5. *Back-in-Person* Keep it in person for '22

6. *Corp. Earnings* Monitor 2022 Margins

7. *BOPIS* Walmart model vs. Amazon

8. *Adaptive Reuse 1.0* Evolving to AdRu 2.0 Neighbor-Approach -Ask Miami Realtors

9. *Transportation* Ports, Rail & Intermodal

#10. *Kaleidoscope NEW DATA* (Logistics Managers Index, CompStak, Kastle, etc.)



Red Shoe Economics is an independent research firm exclusively serving today's commercial real estate community providing organic research initiatives, reports and insights on the impact of applied Economics on our industry. The company's four pillars include Economics, Forecasting, Valuation and Consulting.

Our promise is to deliver unique content providing the most comprehensive, concise and cutting-edge information on the economic impacts on commercial investments, trends and transactions - eight days a week! As a WOSB, Red Shoe Economics is dedicated to giving back to the industry we serve by furthering the advancement of women in commercial real estate.



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Corporate Operations Strategist

Economics

- Macro and Micro Analysis
- **Rezoning Impact Analysis**
- Corporate Earnings Analysis
- Ports & Logistics Industry Trends
- **Housing Economics**
- Commercial Real Estate Impacts
- State & Local Government Taxation
- Current CRE Conditions

Forecasting

- **Association Presentations**
- Red Shoe Review
- Industry/Corporate Webinars
- Podcasts/Articles/SME Interviews
- Real Estate Finance reports
- **Special Projects (LIHTC or NIMBY)**

Valuation

- USPAP Appraisal Review
- Bank Regulatory Compliance
- **Valuation Analysis**
- Highest & Best Use Advisory
- **Property Tax Expert Witness**

Consulting

- **Adaptive Reuse Advisory**
- Site Selection Validation
- **Financing Feasibility**
- Market & Feasibility Studies
- **Ports & Logistics Advisory**
- Retail Industry Insights
- ESG / DEI Advisory at CRE level
- **Story-Map Building**

