CROWDSTREET

CrowdStreet Market Views

EDITION II

Executive Summary

Our Investments team knows that information empowers investors and that being more informed leads to better investing decisions. This report aims to provide you with our latest professional market analysis and industry insights, helping you to critically evaluate the commercial real estate market and the investment opportunities it presents.

In Edition II of Market Views, we're highlighting the national student housing market, a unique sub-sector of the broader multifamily asset class. Many universities and colleges nationwide simply don't have the dorm space to guarantee student housing for all four years, so students are exploring their off-campus housing options. Delivering modern and competitive housing isn't necessarily a core competency for institutions whose mission is to educate and, as a result, developers are taking advantage of the demand for student housing, locating their projects in close proximity to larger public universities, particularly in the Sun Belt.

And they aren't building basic dorms–these new student housing communities are often well-amenitized properties with rooftop pools and terraces, outdoor spaces with bars and grilling areas, study rooms with high-tech features, smart home products, and so much more. We believe projects like these will perform well as long as students continue to enroll and student loans enable them to afford the price tag.

We're also providing a brief update on the state of the national economy and product type news headlines and trends including office, multifamily, industrial, retail, and hotel. We've included several spotlights that highlight how different states are dealing with a lack of affordable housing, how the need for production space is stressing Hollywood's shrinking real estate market, the growth of new medical office spaces, and more.

The views contained in this report are our own, based on the combined knowledge and experience of our Investments team.

MARKET VIEWS | November 2019

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Student Housing Has Graduated, Cum Laude In Fact

Student housing development has ticked up. Will that continue with an outlook of slower growth for 2020?

Student housing has come a long way in the past decade. Development has surged with more than 33,000 units under construction as of October 2019. And as students move from the dorm to off-campus housing, they're seeking properties with the best amenities. In recent years, developers have begun to provide students with exactly what they want: well-amenitized properties with rooftop pools and terraces, outdoor spaces with bars and grilling areas, study rooms with high-tech features, smart home products, and so much more. Why would you ever want to graduate? All kidding aside, as developers (and investors) pour money into student housing, they expect to get high returns to justify the expense.

With the normalization, and near expectation, of obtaining a college degree, demand for student housing has been mounting. When you couple the expectation to obtain a college degree with student loan financing, "easy money" which can be used to cover living expenses like housing (there is $1.47 trillion of outstanding student loan debt) there is little doubt as to why student housing is a hot opportunity, for developers and investors alike.

An Axiometrics report[1] showed that at 175 universities, privately owned beds increased on average by 6.9%, compared to total enrollment in 2017. Further, a REIS report[2] shows off-campus inventory has been growing consistently at approximately 5% for the past four years. Even with the new inventory on the market, demand has kept up with supply as vacancy rates are hovering around 5%.

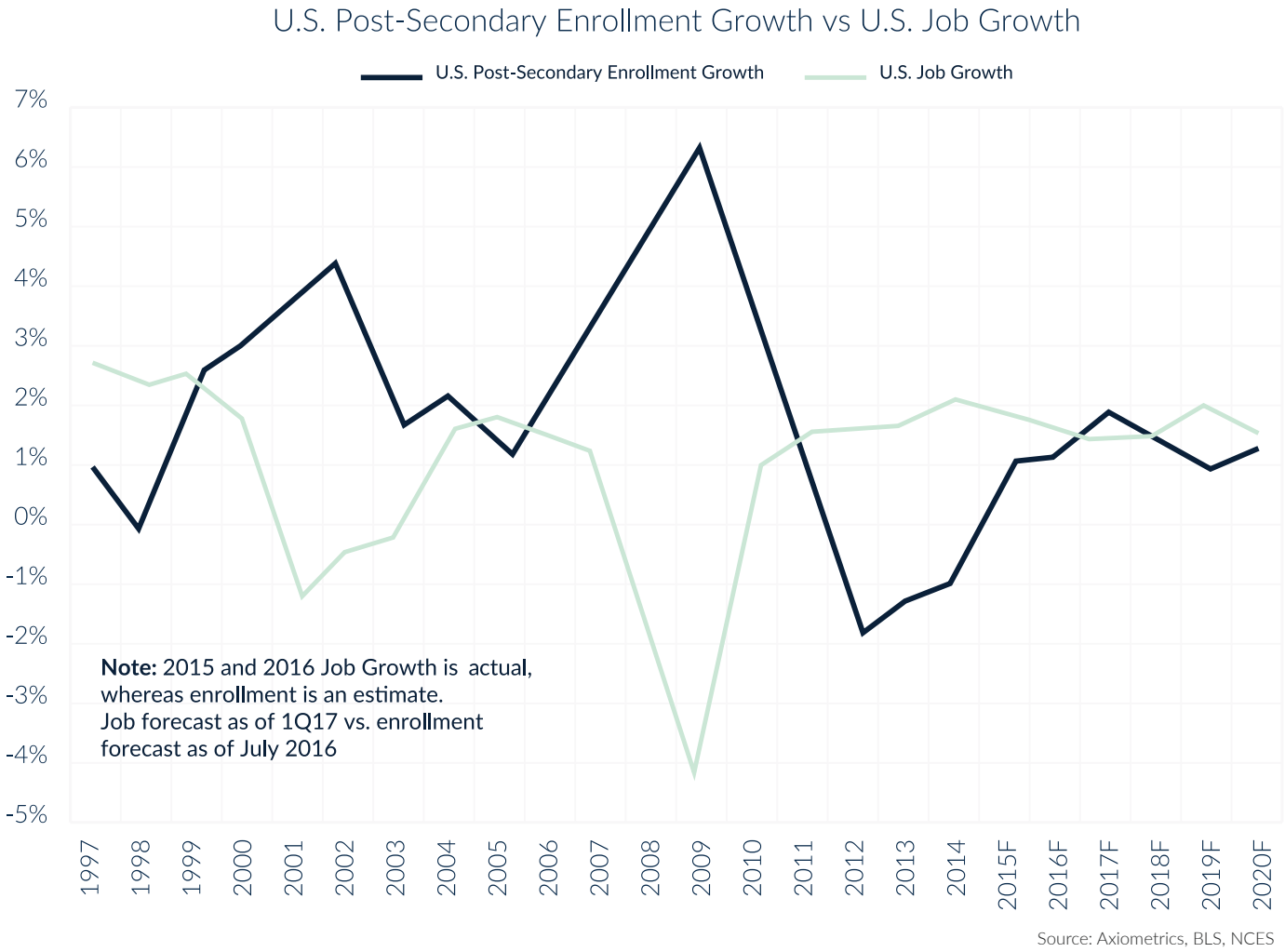
NATIONAL STUDENT HOUSING MARKET BY BED, FALL 2016-FALL 2019

Year	Vacancy Rate	Vacancy Chg, BPS	Rent Growth	Inventory Growth
2016	4.6%	130	3.5%	4.9%
2017	5.8%	120	2.4%	5.8%
2018	5.0%	-80	3.3%	4.9%
2019	4.9%	-10	3.5%	5.1%

Source: Kelly, Keegan. "Reis Inc. Student Housing Quarterly View."

[1] (2016). Student Housing Executive Summary. Student Housing Executive Summary. AXIOMetrics.
[2] (2019). United States Student Housing 2019. UNITED STATES STUDENT HOUSING 2019. CBRE, Inc.

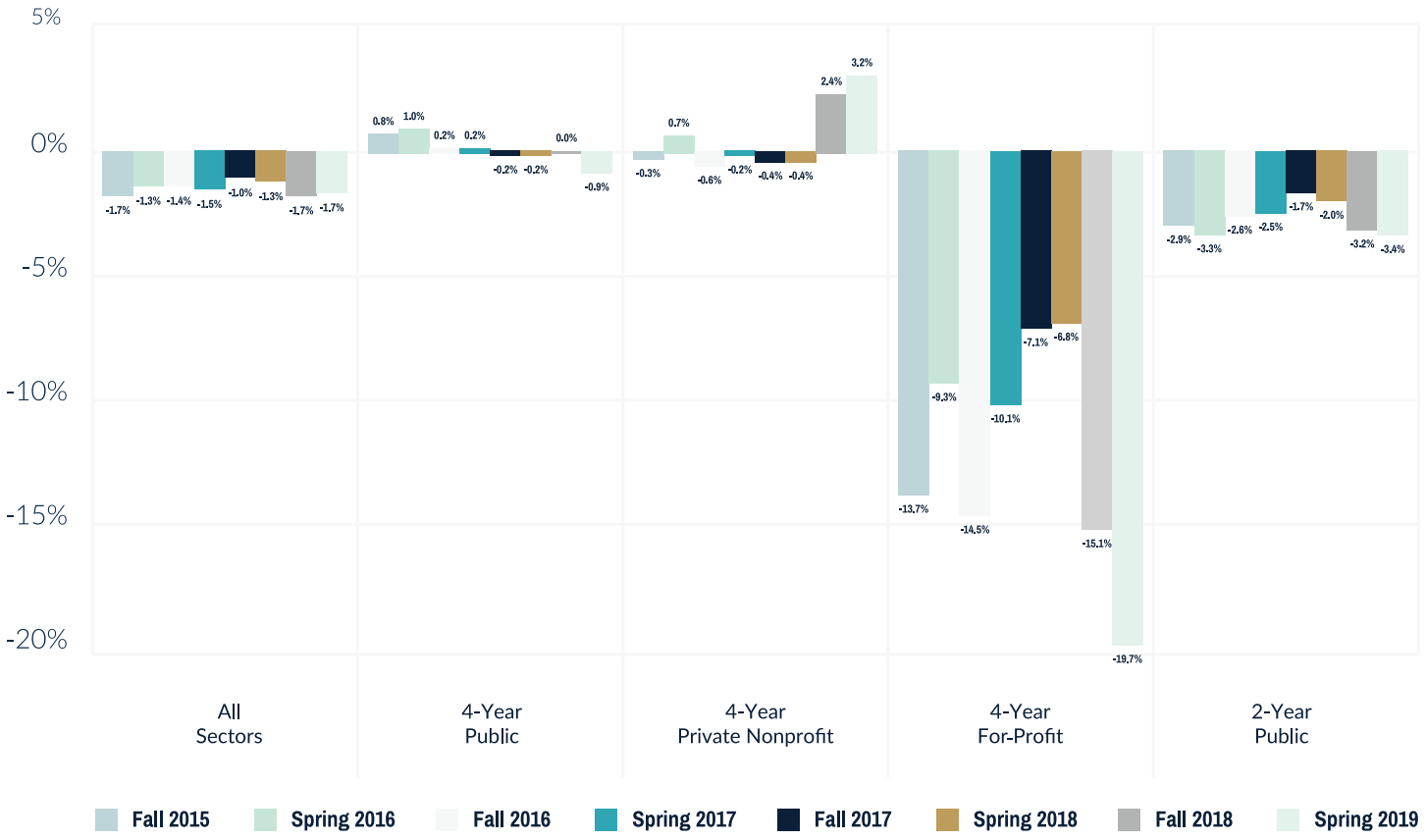
Additionally, student housing has a reputation for good performance in times of economic distress as laid-off workers and others seeking new opportunities tend to revert to school during recessions. Axiometrics reports that from 2008-2009, the beginning of the Great Recession there was an overall increase of 2.07MM students enrolled across the U.S.



Source: Axiometrics, BLS, NCES

However, The National Student Clearinghouse Research Center reports that overall undergraduate enrollment has *decreased* by 1.7% this past spring. The chart on the next page explains where that decline stems from.

It's important to note that the largest decrease was a 19.7% drop in four-year for-profit universities, such as DeVry University. The primary reason for the plummet in enrollment is due to increased federal oversight. The Obama administration had restricted student loans that were federally guaranteed to for-profit colleges if the incomes they earned post graduation weren't able to pay off student debt, known as the gainful employment rule. Some four-year, private, nonprofit universities, such as University of Southern California and Duke, had a 3.2% increase in enrollment during the same time frame. Other public universities, such as University of Colorado and University of Oregon, saw a minor decrease (0.9%) in enrollment in Spring 2019.



Source: National Student Clearinghouse Research Center

Despite student housing loan delinquency rates in commercial mortgage-backed securities (CMBS) increasing by 9%,[3] Goldman Sachs is betting big on student housing. They recently agreed to a $600MM partnership with Core Spaces to recapitalize and build nine properties near college campuses across the U.S.

Urban Land Institute (ULI), a leader in commercial real estate research, reports[4] developers have specifically been focusing on building in close proximity to universities, with nearly 75% of student housing projects delivered within a half-mile of campus. The projects positioned closer to campus generally have higher occupancy levels than those located further away.

To date, the majority of student housing projects have been that located near Sun Belt schools, specifically in Texas and Florida. Looking to the future, our hypothesis is large, state-funded schools and universities with larger-than-normal endowments will likely pull more students in, and those students will need a place to call home. Developers have taken note and are concentrating on increasing the supply of beds in universities with over 10,000 students. Supply at larger institutions has ticked up by 8.0% from Spring 2018, compared to a slight increase of 0.8% at institutions with enrollment between 3K and 10K.

[3] Heschmeyer, M. (2019). CoStar Money: More Student Housing Loans May Fail; Baby Boomers Catch Up; Howard Hughes Plan. CoStar Group. Retrieved from https://product.costar.com/home/news/2057143986?keywords=student housing&tag=1

[4] PwC and the Urban Land Institute: Emerging Trends in Real Estate® 2020. Washington, D.C.: PwC and the Urban Land Institute, 2019.

Considering that studies show in the last recession there was an uptick in enrollment, there is a strong argument to suggest that students will keep enrolling in school, provided that they can obtain the necessary financing to enroll. If this remains the case then student housing should continue to roll. However, there is a risk that lenders could be more conservative, which could disrupt enrollment growth. And with development there is always risk. We will keep our eye on this evolving sub-sector to see if the velocity of student lending decelerates or if there is a meaningful decrease in enrollment.

Outlook: What's Old is New Again

HOW WEWORK'S PATH MIRRORS REGUS

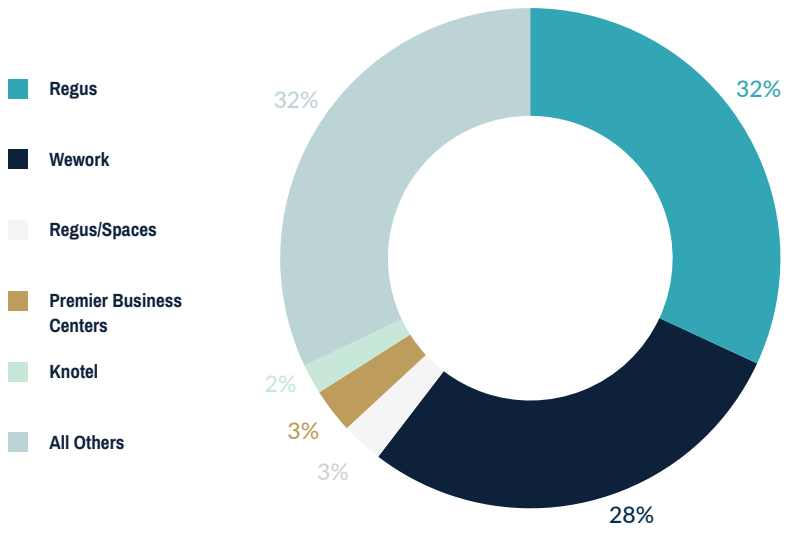
Practically everyone has heard of WeWork, and their recent IPO struggles have made national headlines. But maybe not everyone has heard of Regus, WeWork's predecessor. Regus started in Brussels, Belgium in 1989, right before the dot-com era. Private investors backed Regus and the company took off as a provider of flexible workspace. According to CoStar,[5] dot-com companies leased up a massive amount of office space, further propelling Regus' success. To prove its viability to investors, Regus decided the next move, after a run of substantial growth and private backing, was to go public.

Sounds familiar, right?

The IPO was originally well-received, but eventually took a turn for the worse after the dot-com bubble burst and Regus' members started to shrink, rapidly. Office spaces were emptying all around the U.S. and in 2003 the company filed for Chapter 11 bankruptcy. They were ultimately able to survive and reorganize by relying on funds from other business units, especially holdings in Europe that were more sheltered from the implications of the dot-com bubble bursting.

Current National Occupancy by Provider

Midyear 2018



Source: CoStar Group: Cushman & Wakefield Research

[5] Armbrister, M., & Heschmeyer, M. (2019). History Of Regus, WeWork's 'Twin,' May Provide Glimpse Into Future. History Of Regus, WeWork's 'Twin,' May Provide Glimpse Into Future. CoStar. Retrieved from https://product.costar.com/home/news/shared/1218850716?utm_source=costar&utm_medium=email&utm_campaign=1&utm_content=p1

Regus is currently owned and operated by International Workspace Group and is traded on the London Stock Exchange. As of September 2019, Regus boasts itself as the world's largest provider of flexible workspace solutions with 3,000 business centers, spanning almost 900 cities across 120 countries. For comparison, WeWork has 837 locations across 125 cities. As the chart[6] on the previous page depicts, WeWork accounts for 28% of total co-working occupancy while Regus and their subsidiary, Spaces, accounts for 35%.

Regus, unlike many others, was able to rebound from the hit caused by the burst of the dot-com bubble. Will WeWork be able to mimic Regus and survive the next downtown? In a downturn, many of WeWork's members may return to their home offices and no longer spend the extra expense on renting a desk. Office space demand overall will likely decrease as tenants will not want to spend the capital on moving expenses and signing a long term lease–they'll happily make due with where they currently reside. Further, tenants whose leases are up may choose to downsize their existing space in order to operate more cost efficiently.

Finally, and perhaps most importantly, traditional office tenants who find themselves with excess space may seek to sublease unused portions of their own space, fully furnished and amentized, which would make them direct competitors of WeWork in a market already facing weakness. These factors make WeWork's position, and many offices, vulnerable in a downturn. Only time will tell as WeWork has only operated in an expansionary cycle. Even its recent $1.5B cash infusion from SoftBank may not be enough to see it through to stabilization.

Check out our first edition of Market Views to read what CrowdStreet's VP of Investments, Ian Formigle, thought lay ahead for WeWork.

Regional Spotlight: Lights, Camera, Hollywood

Production space is already hard to come by and getting increasingly difficult to find as internet streaming providers ramp up production.

With a boom in the production of movies and TV shows, the entertainment industry is occupying any space available, even transitioning non-traditional spaces into studios and sound rooms. Studio spaces are sprawling out from downtown LA to submarkets as far as 30 miles away, like the Santa Clarita Valley. And as Netflix, Amazon Prime Video, Hulu, and other internet streaming services are creating even more proprietary entertainment content, production space is far more limited than it used to be. Triscenic Production Services owner Vince Gervasi says, "I'm building seven stages up here [Santa Clarita Valley], and I'm renting them out faster than I can build them. There's a waiting list four or five deep on just about every stage."

[6] Greenwood, R. (2018). Coworking And Flexible Office Space. COWORKING AND FLEXIBLE OFFICE SPACE (pp. 1–28). Cushman & Wakefield.

It's no surprise that entertainment is one of the main drivers in the LA real estate market. According to CoStar,[7] studio and stage occupancy ranges from 90-96%. In addition to strong demand, there are a number of supply constraints, such a union law that limits the distance (30 miles) from downtown LA where studios can lease space, further compounding the lack of space. The distance requirement was put in place to determine daily rates and driving distances for crew members. With these significant demand drivers and supply constraints, production companies and commercial real estate developers are forced to get creative.

Netflix filmed "Rim of the World" in an old mental hospital. YouTube transitioned a historic airplane hanger into sound stages, and Amazon went to the moon to film. Alright, we're kidding on the last one, but supply has become so sparse that Quixote Studios is announcing a $30MM stage facility in Pacoima, traditionally an industrial neighborhood, located 25 miles away from LA.

Even with state incentives, production is getting squeezed out of California, partially because there is simply no room. Gervasi said in the LA market, "Netflix is pretty much coming in and taking everything, renting entire studios and deciding later what they're going to do with them…Then, if Netflix decides not to do a particular show and another production calls and want to rent a stage, [they] now have to go through Netflix to get access."

The number of sound stages in the Santa Clarita Valley has nearly doubled and are at practically 100% occupancy. With extremely low supply and high demand, cash flowing properties are extremely desirable as an investment. And institutional partners are investing. Hackman Capital Partners recently added to their entertainment portfolio by purchasing MBS Media Campus for $650MM.

While supply is shrinking and users are forcing existing space to work, demand is still increasing. PricewaterhouseCoopers has valued the streaming entertainment industry at $23B and projects that by 2020 the valuation will jump to more than $30B. More online streaming providers will likely be fighting for less and less space, especially as Apple TV+ and Disney enter the streaming world.

[7] Drummer, R. (2019). Shortage of Studio Space Drives Productions to Far-Flung Parts of Los Angeles County. CoStar. Retrieved from https://product.costar.com/home/news/shared/462307583?utm_source=costar&utm_medium=email&utm_campaign=costar-national-newsletter&utm_content=p1

Industry Spotlight: Rent Control and the Housing Crisis

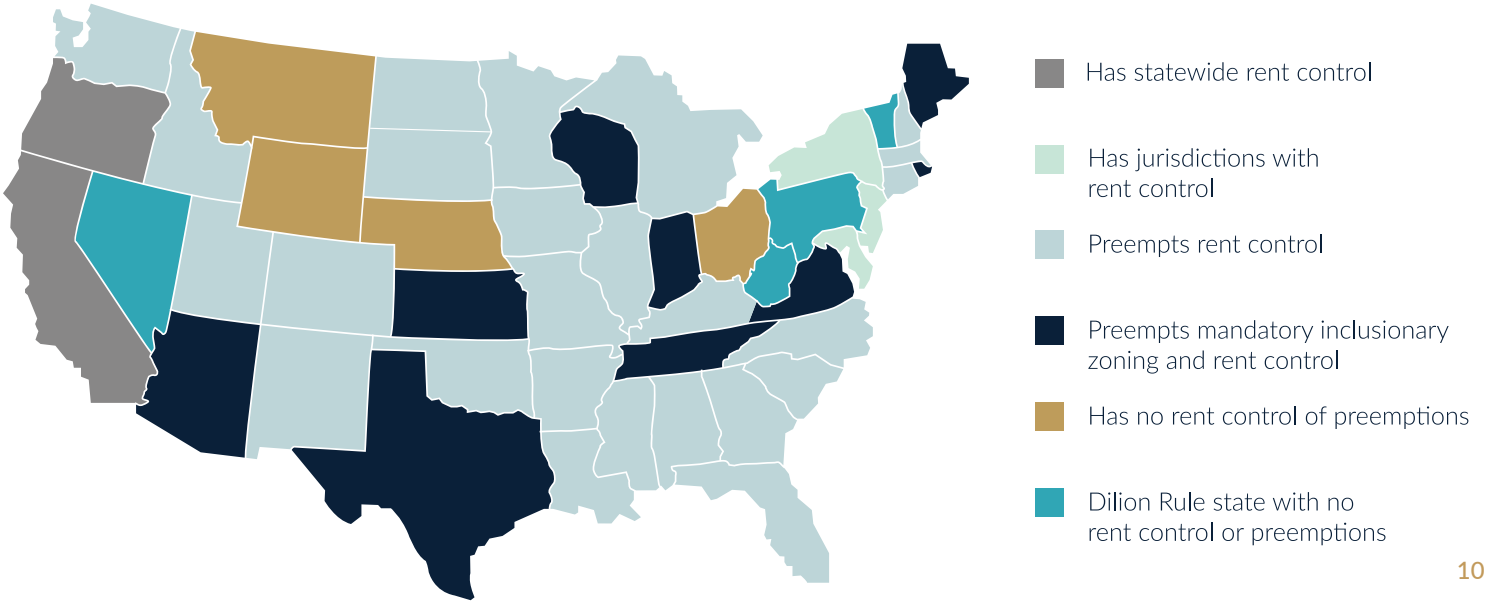
Three states–Oregon, New York, and most recently, California–have passed rent control legislation. Will your state be next?

California has passed the most extensive legislation with a statewide rent control bill capping yearly increases at 5%, plus inflation. Colorado, Illinois, and Washington are also considering similar rent control legislation.

Affordable housing is a problem for most major cities. While rent control could seem like a solution, it isn't that simple. Without developers building, there will be a supply shortage. A supply shortage will lead to higher demand in existing buildings, thus raising rents. Just look at San Francisco, a city that has had strict regulations on apartment owners for more than 40 years. The irony is that San Francisco is now infamous for its homelessness and lack of affordable housing. It should not come as a surprise that California has passed the most extensive law after many years of criticism. However, some are disappointed that this is the conclusion after many years of discussion. Jim Lapides, VP of The National Multifamily Housing Council, points out the new legislation will discourage apartment investment, shorten supply of affordable housing, and further squeeze the already struggling residents of CA, neither helping developers nor address the affordability crisis.

San Francisco's rent growth peaked in 2015 with 6% annual growth, and the bill will restrict it to just one percent lower at 5% (plus inflation). Further, according to CoStar, 10% of Los Angeles County has been developed since 2004. This 10% will, as of 2019, be exempt from the rent control bill as buildings less than 15 years old are exempt.

Rent Control Status



Lapides also brought up a bill that stalled in favor of statewide rent control. Senate Bill 50 would eliminate certain zoning restrictions, enabling developers to build high-rise apartments near major transit lines. This bill seems promising as it would incentivize developers to build in areas of lower income, and in close proximity to transit lines that many lower income residents use to commute to work.

The other bills that are aiding in the fight for affordability and encourage building are Senate Bills 330 and 5. Senate Bill 330 creates restrictions on preventing a county or city from placing new rules that dampen housing supply. Senate Bill 5 allows cities and counties to keep a percentage of local property tax revenue to provide a much needed facelift to some of the more overlooked neighborhoods.

Developers and lawmakers have been debating rent control for years, and multiple states have proposed new legislation. We anticipate a heightened debate surrounding the topic for the foreseeable future–affordability vs. incentivizing developers.

Here is a breakdown of where states around the nation stand on rent control:

Passed Legislation:[9]

OREGON

- Was the first state to pass statewide rent control
- Limits rent increase to 7% annually, plus inflation
- **Exception:** Subsidized rents & new construction (buildings less than 15 years old)

CALIFORNIA

- Caps rent increase statewide to 5% plus inflation for buildings 15 years and older
- Evictions to tenants with less than a year of residing in the building must state a cause
- **Exception:** Single-family rentals not managed by a large corporation

NEW YORK

- Average rent increase is equal to the lesser of:
  - Average of the last five years rent increase or;
  - 7.5% annually

Contemplating Legislation:

COLORADO

- Reversing a 1980's law prohibiting rent control
- **Status:** Stalled as of April

ILLINOIS

- Reversing a 1990's ban on rent control
- Proposing rent control boards across the state
- **Status:** Stalled as of March

WASHINGTON

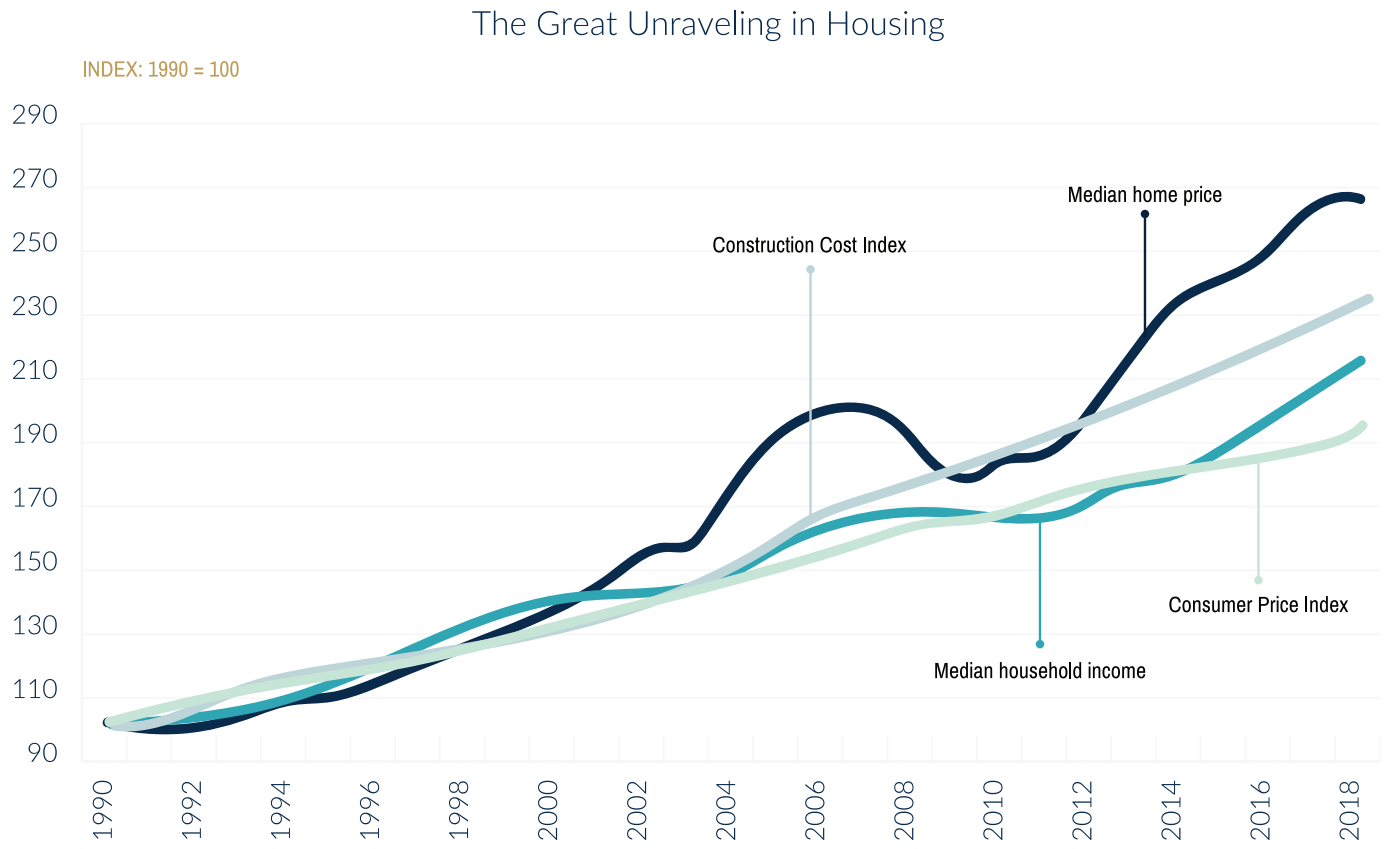
- Groups advocating for tenant rights push for removal of statewide rent control prohibitions
- Lawmakers are putting together legislation following Oregon's bill

[8] Drummer, R. (2019). California's New Rent Control Law Would Be the Nation's Most Stringent. CoStar. Retrieved from https://product.costar.com/home/news/212465819?keywords=rent%20control&tag=1

[9] Hirsch, L. (2019). Rent Control Score Card: States, Presidential Candidate Push for Caps. CoStar. Retrieved from https://product.costar.com/home/news/662609158?keywords=rent%20control&tag=1

All of these states are likely to continue discussions starting in 2020. In total, 14 states plus Washington, D.C. have expanded rent control since 2017.[10]

On a broader note, the housing sector in the United States is failing to solve the issue of affordability. A lender quoted in the ULI 2020 Emerging Trends report[11] said, "We are building 90 percent of our housing for 10 percent of our households." As the chart below illustrates, the median home price is far above the median household income.



There has been an apparent shift towards multifamily housing, however renters are also feeling the pressure. **Half of renters are spending more than 30% of their paychecks on housing.** With rising construction costs and downward pressure on rental growth, renters are looking towards legislation to help. However, as legislation is either not coming or the effects of it haven't taken place, some employers are taking action. Microsoft has announced a $500MM investment in housing development across the Puget Sound. Additionally, Apple has pledged $2.5B and Google $1B to address the housing shortage in California. As the affordability crisis mounts, we will be watching lawmakers and employers to see how they address this problem.

[10] Drummer, R. (2019). California's New Rent Control Law May Have Limited Effect on Apartment Investors, Executives Say. CoStar. Retrieved from https://product.costar.com/home/news/745517458

[11] PwC and the Urban Land Institute: Emerging Trends in Real Estate® 2020. Washington, D.C.: PwC and the Urban Land Institute, 2019.

CrowdStreet State: Q3 2019

Data from the Bureau of Economic Analysis shows GDP increased minimally by 3.2% year-over-year ("YoY"), reaching $21.1T. Disposable income increased by 3.0% to $116B, showing incremental but positive growth. As we continue the 10th year of economic expansion, the unemployment rate hovers around 3.6%.

While the U.S. is experiencing slow but steady economic growth, inbound capital investing[12] in U.S. properties fell 48% in the first half of 2019 from $22.6B to $18.6B. Further, manufacturing jobs fell 5% in September, the most significant drop in three years. How the decrease in manufacturing jobs will impact the overall economic state is to be seen, especially as overall industrial employment has grown by 3.2%.

Overall, the economic state continues to expand, just at slower rates than seen in recent years.

Economic Indicators	Current	YoY Change
Gross Domestic Product (GDP)	$21.1T	+ 3.2%
Disposable Income	$116B	+ 3.0%
Personal Savings Rate (% of disposable income)	7.0%	
Unemployment Rate	3.6%	
Total Employment	150MM	+ 1.8%
Office Employment	30.2MM	+ 1.8%
Industrial Employment	21MM	+ 3.2%
Population	328MM	+ 0.7%
Median Household Income	$65,103	+ 5.1%

[12] U.S. Capital Markets Figures Q2 2019. (n.d.). Retrieved from https://www.cbre.us/research-and-reports/US--Capital-Markets-Figures-Q2-2019.

National Office Market

OFFICE NEWS HEADLINES & TRENDS:

Office Metrics	Current	YoY Change
12 Month Net Absorption	50.8 MSF	- 26.5%
Vacancy	9.7%	- 8 basis points (BPS)
Supply/Under Construction	150.0 MSF	+ 10.8%
Overall Office Gross Rent	$29.00 (FSG) Full Service Gross	+ 3.9%
Total Sales Volume	$25.6B	- 11.0%
Median Cap Rate	7.5%	- 25 bps
Average Price Per Square Foot	$135.00	+ 4.1%
Appreciation Return	0.8%	- 102 bps
Income Return	6.7%	- 3 bps

The national office market has hit its 30th consecutive quarter of positive net absorption. The 12 month net absorption is at 50.8 MSF, down 15.1% from the five year average. While the net absorption is slowing, employment, the driving force behind office space demand, accelerated from 28,000 jobs per month in the first quarter of 2019 to 48,000 per month in the second quarter.[13]

With the increase in jobs, the overall office vacancy rate has declined by 8 bps to 9.7%. Low vacancy is driving rates as rents have increased 3.9% YoY to $29.00 FSG.[14]

DOCTORS ORDERS: FIND MEDICAL OFFICE

If you spend any time following politics, one of the biggest debate topics is healthcare. According to the Center for Medicare and Medicaid Services, healthcare makes up approximately 18% of overall GDP in the U.S. Additionally, healthcare spending has increased by 3.7% on an annual basis since 2010. Of the overall U.S. population, 16% is 65 years and older.[15] This cohort of the population needs medical services seven times annually, representing 36% of total healthcare spending.

But how does all that relate to commercial real estate?

With insurance costs often at the forefront of patients' minds, many are foregoing hospitals and going to outpatient facilities, such as urgent care. The number of outpatient care centers has increased by 24.5% from 2016-2019. Urgent care centers are essentially on-demand care outlets equipped to treat more serious ailments, including fractures, sprains, and wounds, making them (usually) a cheaper alternative to the ER — A 2016 study found that ER treatment costs were about ten times greater than in an urgent

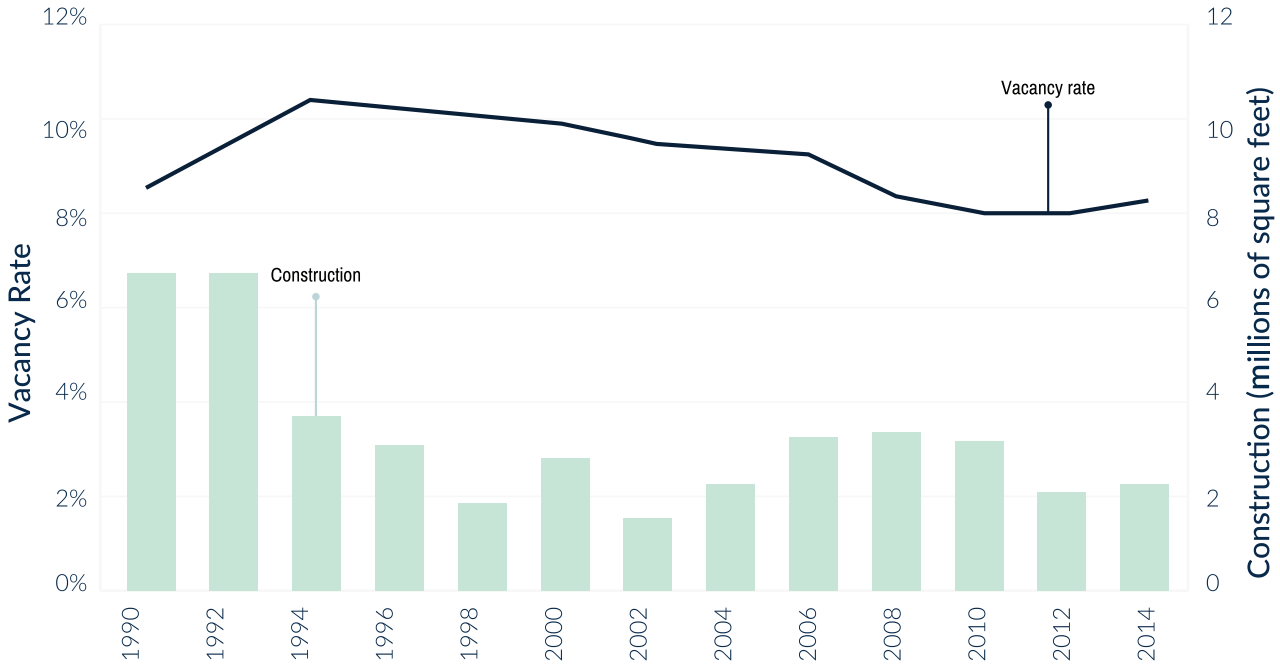
[13] U.S. Office Figures Q3 2019. (n.d.). Retrieved from https://www.cbre.us/research-and\reports/US-Office-Figures-Q3-2019.
[14] Marketbeat U.S. Office Q2 2019. (n.d.). Retrieved from https://cushwk.co/2YZmVyC.
[15] United States Census Bureau

care center. They also offer services like blood tests, stitching, and X-rays. According to Consumer Reports,[16] the number of urgent care facilities increased from 6,400 in 2014 to 8,100 in 2018. Urgent care clinics handle about 89MM patient visits each year–more than 29% of all primary care visits and nearly 15% of all outpatient physician visits.

CBRE reported[17] that the number of outpatient facilities jumped from 26,900 to 40,600 between 2005 and 2016. The national price per square foot of medical office properties has followed, boosting from $158 PSF to $283 PSF.

Further increasing investor appetite, demand far outweighs supply. According to CBRE data, medical office vacancy rates have consistently been lower than the total office sector. Vacancy rates dipped from 11.1% in 2010 to 8.4% in the second quarter of 2018. As our population ages, more investment is needed in medical care services and medical innovation–spurring even more demand for medical office space. We aren't getting any younger, in fact we are living longer than ever before. According to Stanford,[18] expected human life spans are increasing by three years every 25 years. To put that into perspective–every human, on average, could live six years longer than their grandparents. Demand for medical space will likely remain constant for years to come, especially if supply remains constrained.[19]

Limited Medical Office Development Supports Tight Vacancy



[16] Findlay, S. (2018, May 4). When You Should Go to an Urgent Care or Walk-in Health Clinic. Retrieved October 27, 2019, from https://www.consumerreports.org/health-clinics/urgent-care-or-walk-in-health-clinic/.

[17] Bodnar, C., Asher, L., Seitz, S., Lamp, M., & Skolnick, C. (2018). 2018 U.S. Medical Office Buildings. 2018 U.S. Medical Office Buildings . CBRE. Retrieved from https://www.cbre.us/research-and-reports/2018-US-Medical-Office-Buildings

[18] Bates, S. (2018, November 13). Lifespan is increasing in people who live to 65 Retrieved October 31, 2019, from https://news.stanford.edu/2018/11/06/lifespan-increasing-people-live-65/.

[19] PwC and the Urban Land Institute: Emerging Trends in Real Estate® 2020. Washington, D.C.: PwC and the Urban Land Institute, 2019.

UBER'S DESTINATION: DALLAS [20]

In Market Views Edition I, we reported that Uber was considering expanding into the Deep Ellum submarket of Dallas. After we released the report, Uber confirmed that they signed a lease for 618,000 SF at the Epic, a mixed-use development located just east of Dallas. Signing this deal makes Deep Ellum their second-largest office outside of San Francisco.

Uber started scouting site locations starting early this year, and they landed on the artsy area of Deep Ellum for several reasons. One of the main factors being that Uber was promised government incentives, valued at $36MM, in exchange for creating 3,000 jobs with an average salary of $100K by 2025. This incentives plan is the largest tax abatement deal Dallas County has ever made.

As companies are looking to move into expansionary markets, they need to determine what makes a site a great location for them. Dallas-Fort Worth continues to grow its labor force, adding 1.1MM residents to the metro area since 2010, taking the crown for the fastest growing MSA in the country. As Uber will be located in an upcoming submarket of Dallas, they were able to get a discount on rent, while still being able to draw from the deep labor pool Dallas offers.

Another key consideration among companies looking for their next office is the nearby amenities. In Uber's case, building amenities. The Epic, the building Uber identified, is a mixed-use building offering a 164-room Kimpton hotel. As any company with a large workforce, there will likely be many people coming to town to visit the new office, and having a hotel in the building was an unparalleled benefit. No data has been released, but perhaps Uber will be able to strike a deal with Kimpton for a discount on group rates.

[20] Carlisle, C. (2019). Behind the Deal: Why Uber Chose Artsy Area of This City for Major Regional Hub.
Behind the Deal: Why Uber Chose Artsy Area of This City for Major Regional Hub. CoStar. Retrieved from https://product.costar.com/home/news/1287290354?tag=1

National Multifamily Market

MULTIFAMILY NEWS HEADLINES & TRENDS:

Multifamily Metrics	Current	YoY Change
12 Month Net Absorption	325.7K Units	- 8.2%
Vacancy	5.8%	- 23 bps
Supply/Under Construction Units	663.7K	- 0.1%
12 Month Rent Growth	2.9%	- 7.8%
Median Price/Unit	$118,750	+ 14.0%
Total Sales Volume	$36.8B	- 5.4%
Median Cap Rate	6.0%	- 19 bps
Appreciation Return	2.8%	- 39 bps
Income Return	5.8%	- 6 bps

Multifamily acquisitions totaled $36.8B, down 5.4% YoY. There is a healthy supply of approximately 664K new units under construction with vacancy rates hovering around 5.8%. Further, the price per unit has increased 14% from last year to $119K.

The multifamily assets that increased the most in volume have been garden-style apartments (22%) and suburban mid/highrise apartments (24%).[21]

MULTIFAMILY LOANS GO PRIVATE? [22]

The Trump administration has announced plans to try to privatize Fannie Mae and Freddie Mac in order to decrease their dominance over multifamily loan origination. The Treasury and the Housing and Urban Development (HUD) departments are suggesting legislative and administrative changes that would allow for more competition from private companies. Critics of the proposed plans are worried that affordable housing will take a hit as Fannie Mae and Freddie Mac play a heavy hand in influencing affordable housing supply.

Talk of privatizing Fannie Mae and Freddie Mac first appeared shortly after the 2008 financial crisis. Since then, the Treasury has funneled $190B into the entities, and now they currently own or guarantee 40% of outstanding multifamily debt, a dramatic increase since early 2008 where they only guaranteed or owned 25%.

[21] Marketbeat U.S. Multifamily Q2 2019. (n.d.). Retrieved from https://cushwk.co/2YzpM5j. esch meyer, M. (2019, May 8). Lending Shoots Up in Opportunity Zones.

[22] Heschmeyer, M. (2019). Treasury, Hud Seek to Limit Scope of Nation's Largest Multifamily Lenders. Treasury, HUD Seek to Limit Scope of Nation's Largest Multifamily Lenders. CoStar. Retrieved from https://product.costar.com/home/news/1694735414?tag=1

Recommendations by the Treasury Department would limit the size of Fannie Mae and Freddie Mac, reducing the number of mortgage loans packaged and sold to investors. In addition, the proposed plan includes limiting the dollar amount the two entities can lend for affordable housing projects. However, we predict that any limit on affordable housing will receive immediate push back, foreseeably from both parties in Congress.

These plans are just the beginning of a long road. The proposed plans will need bipartisan support, and with a lengthy regulatory process any impactful changes could get pushed out well past the 2020 election as other political agendas are prioritized.

GREEN LOANS GET CAPPED, SORT OF [23]

In the past four years, Fannie Mae and Freddie Mac have backed $100B in energy efficiency upgrades to multifamily properties, referred to as "green loans." Fannie Mae boasts that green loans have saved renters $220 a year. Previously, the two entities weren't restricted by the amount of green loans they could originate as green loans were exempt from restrictions or caps. Now, green loans are getting lumped in with affordable housing loans, which are eligible to be capped. This change is coming from the annual reset of caps, known as the 'Conservatorship Scorecard.'

In 2016, the Federal Housing Finance Agency (FHFA) made energy efficient programs exempt from lending limits. Consequently, 2016 was also the year that Fannie Mae and Freddie Mac became the largest green lenders in the U.S. This growth is the exact reason that the FHFA moved to put green loans back as nonexempt. As lenders, affordable housing, and energy efficient program advocates pushed back, FHFA came to an agreement with lenders. This agreement will allow lenders to originate green loans as long as 37.5% of green loans are related to affordable housing.

[23] Herschmeyer, Mark. "New Federal Limits Cloud Green Financing Outlook." CoStar, 4 Oct. 2019, https://product.costar.com/home/news/2145509205?tag=1.

National Industrial Market

INDUSTRIAL NEWS HEADLINES & TRENDS:

Industrial Metrics	Current	YoY Change
12 Month Net Absorption	154.1 MSF	- 40.9%
Vacancy	5.1%	- 37 bps
Supply/Under Construction	312.0 MSF	+ 9.1%
Rent Growth	5.1%	- 1.3%
Total Sales Volume	$14.2B	- 0.7%
Average Cap Rate	7.0%	+ 96 bps
Appreciation Return	4.2%	- 132 bps
Income Return	6.7%	- 3 bps

Even though net absorption is down 28.4% from the five year average, it is expected to increase through the rest of the year due to high levels of user demand and more available space. Even more encouraging, the supply of new industrial spaces is 312 MSF, a 9.1% increase from last year, answering demand.

While there is a large volume of space coming on the market, vacancies are near historic lows. The average vacancy level is around 5.1% and is expected to decline through the new year.

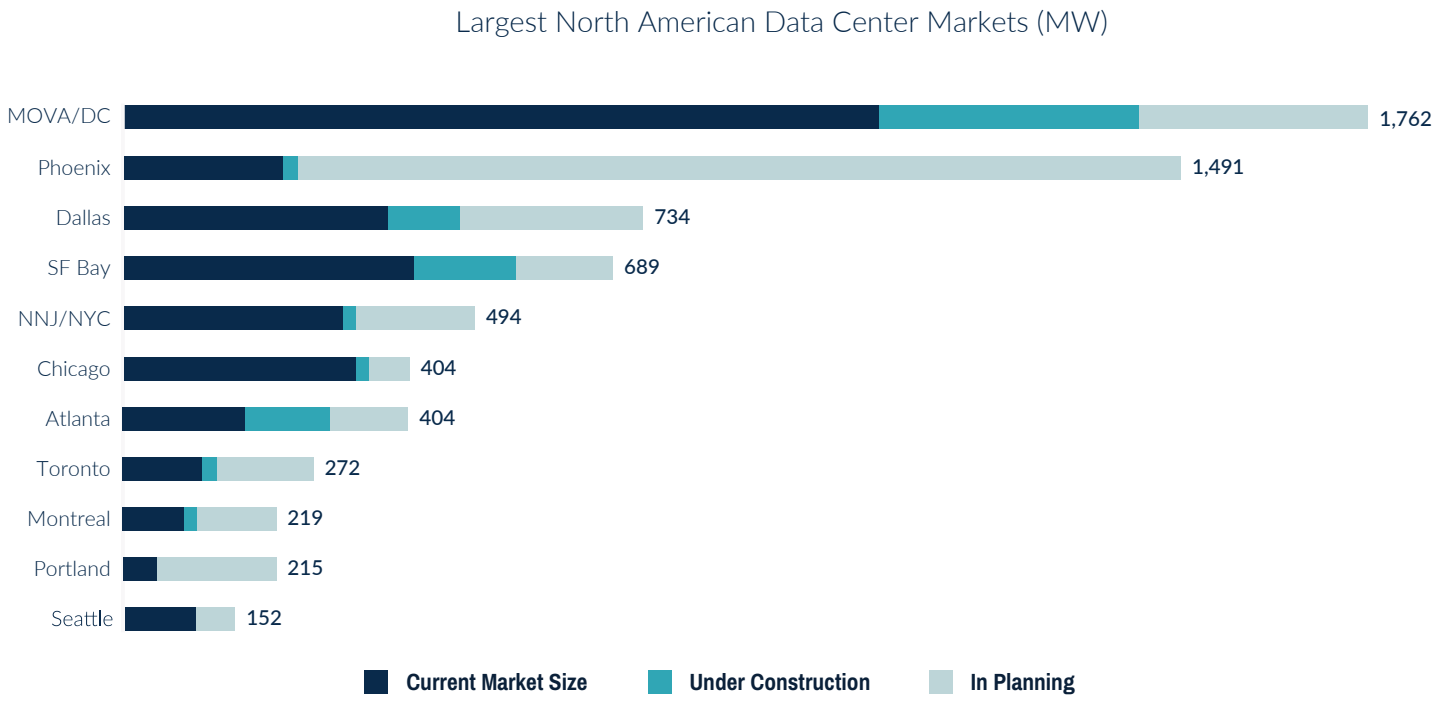
5G = 5 STAR RETURNS

The talk of the commercial real estate town right now is the performance of 'niche assets.' A reason for the uptick in demand for niche assets is that they have a lower exposure to cyclical factors and a higher exposure to non-cyclical factors. For example, demand for one niche asset, data centers, is being driven by establishing 5G networks and artificial intelligence–two non-cyclical factors.

As more investors are thinking about a possible upcoming recession, having higher exposure to non-cyclical factors could diversify some market risk away from other assets that are more subject to volatility and cyclical factors. Certainly, all businesses are exposed to cyclical factors in some way, but new technologies could continue to grow even in a down cycle. Conversely, investors could simply be seeking properties that are servicing a changing business environment that focuses on cloud services, AI, and the overall use of data, rather than the sole intention of diversifying risk with non-cyclical investments.

According to Cushman & Wakefield,[24] the amount of data stored in data centers will grow by a compound annual growth rate of 36%. As businesses such as Daimler, Uber, and Tesla continue to develop autonomous vehicles, the need to store data will only increase.

[24] Cushman & Wakefield. (n.d.). Niche Assets: Well-Positioned for Growth. (n.d.). NICHE ASSETS: Well-Positioned for Growth. (n.d.).

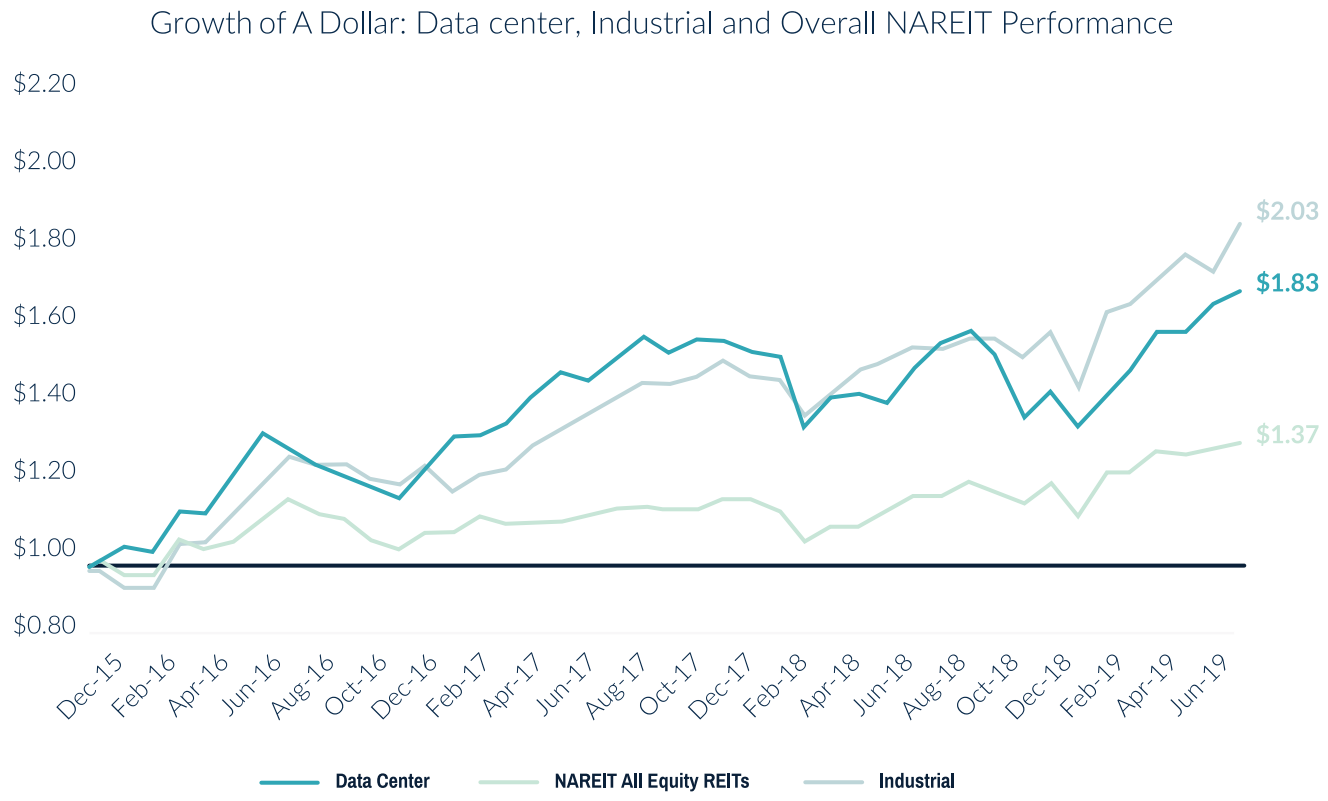


Combined with streaming services edging away from traditional cable networks, data centers will be in demand for many years to come as they are the support system of the internet.

As internet-based services are worked into the core business of companies, there is more trust put into cloud services. But with a heavy reliance on cloud services there is a higher risk for a cyber attack. U.S. cities are facing a mounting threat of hackers seizing government computer systems for ransom. For example, the city of Baltimore was attacked earlier this year and it is estimated that the cyberattack cost upwards of $18MM in lost revenue and recovery expenses. The city has since purchased $20MM in cyber insurance. Perhaps ironically, as the demand for cybersecurity increases the demand for data storage with new data centers will also increase.[25]

Due to an uptick in demand from cloud service providers, supply has responded accordingly. The chart above depicts which markets are already responding to the uptick in demand. Northern Virginia/D.C. is outpacing all markets, and by a considerable amount. One reason Northern Virginia has a stronghold on data center development with half of all investments made in data centers from 2015-2018, jumping from $121MM to $1.4B, is due to fast connectivity.

[25] Calvert, S. (2019, October 16). Baltimore to Buy $20 Million in Insurance in Case of Another Cyber Attack. Retrieved from https://www.wsj.com/articles/baltimore-to-buy-20-million-in-insurance-in-case-of-another-cyber-attack-11571246605.



Using a data center REIT as a proxy to private data centers, the NAREIT All Equity REIT tracks below the data center REIT and overall industrial performance. Not surprisingly, data centers will have similar performance to overall industrial performance as data centers are warehouses with a specific use and power. As data centers continue to progress driven by technological advances, it is possible this niche asset class will be highly sought after.

MULTI-LEVEL WAREHOUSES MAY TAKE FLIGHT

One of the biggest hurdles industrial product is currently facing is the lack of buildable land. In the Pacific Northwest, for instance, industrial developers are extending far past where they used to build. On the leasing side, where some tenants wouldn't deign go a few years ago now seems normalized. As long as tenants can have freeway access, most now consider the extra mileage not too painful. Plus, being outside a city's core often comes with a rent discount. Tenants are choosing between the extra commute time for workers and mileage in distributing products, but at a cheaper rent versus paying higher rents for a more centrally located space.

One solution to land-constrained markets could be multi-level warehouses. According to Cushman & Wakefield,[26] multi-level warehouses are frequently used in Asia.

[26] Bitner, D. (2019, February 28). Retreived from http://blog.cushwake.com/americas/industrial-strokes-for-opportunity-zone-folks.html

ProLogis built the first multi-level warehouse in the U.S. in Seattle in late 2018. The second story of the building has ramp serviced loading docks–picture drop off and pick-up loading at an airport just with 18 wheelers. The third level offers 16-foot clear height and two loading docks accessed through freight elevators. Since ProLogis only delivered this building less than a year ago, other developers are waiting to see how this niche asset class performs. They haven't yet been widely adopted stateside, and with increasingly higher construction costs, multi-level warehouses could be a risky development play because of the unproven returns needed to justify the higher construction costs.

But as more markets become land and capacity constrained they may have no choice but to build vertical. We specifically predict that these future multi-level facilities will likely be positioned in proximity to airports and seaports due to their distribution access. A multi-level warehouse development in an Opportunity Zone neighboring JFK International Airport has already been announced. ProLogis has also bought approximately nine acres near the San Jose airport, but have yet to announce what they intend to do with the land.

National Retail Market

RETAIL NEWS HEADLINES & TRENDS:

Retail Metrics	Current	YoY Change
12 Month Net Absorption	30.4MSF	- 60.7%
Vacancy	4.5%	- 8bps
Supply/Under Construction	65.9MSF	+ 7.3%
Inventory/Stock	11.5BSF	+ 0.4%
12 Month Rent Growth	+ 1.3%	
Total Sales Volume	$14.5B	- 6.8%
Median Cap Rate	6.9%	- 14 bps
Appreciation Return	- 0.8%	- 8 bps
Income Return	7.1%	- 2 bps

The national retail market is the property type that is evolving the most. Demand is seen in strip malls and grocery-anchored neighborhood centers. The niches that are thriving in retail are fitness, discounters, off-price apparel, and superstores. [27]

Rents are both increasing on an annual and quarterly basis with 66 MSF of new construction underway.

[27] Marketbeat U.S. Multifamily Q2 2019. (n.d.). Retrieved from https://cushwk.co/2Z430Pq.

FLEX YOUR MUSCLES INTO THIS SPACE

While e-commerce and bankruptcies usually dominate retail's headlines, a trend silently developing is fitness studios occupying retail space. From 2013 to 2018, more than 6,000 fitness centers moved into retail-centric real estate.

How do malls and shopping centers attract fitness related tenants? A study done by JLL reports[28] that 47% of consumers want to multitask when it comes to shopping and working out. After a good sweat, what sounds better to a millennial than a green smoothie or an acai bowl? The multitasking trend, or better referred to as work, live, and play, is shifting the locations of fitness studios. Fitness studios see the benefit of being located in proximity to the likes of a juice bar, grocery store, or simply a health-oriented restaurant.

In years past, larger fitness centers would be able to take entire retail buildings by themselves. However, now some studios are locating themselves within shopping centers. In fact, fitness tenants occupying space in shopping malls has tripled, while the number of outdoor lifestyle centers having a fitness component have quadrupled. Last year, boutique fitness spaces to the likes of SoulCycle and Pure Barre accounted for 34% of all fitness related occupiers.

Owners are adapting how to keep up and adjust accordingly with the shifting trends in retail. The savvy owners are figuring out how to keep tenants lingering in their shopping centers and visiting multiple stores. Fitness seems to be drawing in customers and owners alike.

[28] Waters, J. (2019). New Shopping Center Mix: Live, Work Out, Play. New Shopping Center Mix: Live, Work Out, Play. CoStar Group. Retrieved from https://product.costar.com/home/news/952719641

National Hotel Market

HOTEL NEWS HEADLINES & TRENDS:

Hotel Metrics[29]	Current
Average Cap Rate	8.9%
Sales Volume	$393B
Sale vs Asking Price	- 12.3%
Average SF	63.8K
Months to Sale	10.5

With the hospitality market closely linked to the travel industry, growth in one would affect the other. The travel industry contributed $1.9T to U.S. GDP with a growth of 8.2%.[30] As many are anticipating a recession, the travel industry may slow down in the near future which could impact hospitality.

HURRICANES HIT THE BALANCE SHEET

U.S. hoteliers are rejoicing that Hurricane Dorian didn't rip off the roof or cause massive flood damage to most of their hotels. Bahama hoteliers, on the other hand, are feeling the pain as the damage was estimated to cost anywhere from $1.5B to $7.0B. AccuWeather estimated total damage and economic loss in both the Bahamas and the U.S. at $5B.

But the implications of a hurricane can go well beyond the physical damage.

According to CoStar,[31] Kip Sowden, president and CEO of RREAF Holdings, says that a typical beachfront hotel can lose $30,000 to $50,000 per night for five to seven nights depending on the storm's proximity.

Sowden referenced RREAF's two resorts in Panama City Beach, FL that were affected by Hurricane Michael, which made landfall in October 2018. The properties didn't sustain physical damage and were able to recover some losses by housing first responders and nearby evacuating or displaced residents after the storm, but they still lost . Sowden cautioned that not all hoteliers can count on a post-storm recovery or insurance covering all losses to make up the difference.

[29] Data points are subject to change. Historical data is not available for the hotel product type.
[30] Turner, Rochelle.(2019). TRAVEL & TOURISM ECONOMIC IMPACT 2019 WORLD.
Retrieved from https://www.wttc.org/-/media/files/reports/economic-impact-research/regions-2019/world2019.pdf.

HOTELS ARE (COSTING) ONE IN A MILLION [32]

According to a STR report, this is the first time since 2010 that revenue per room grew less than 2% for two straight quarters. The drop in revenue growth is likely due to an excess of supply and over-development in the hospitality space. Hoteliers are citing declining business travel and competition as the biggest detractors from performance.

Mayor Bill de Blasio is taking action in New York City, proposing a new bill that requires developers to have a special permit in hand to build a new hotel anywhere within the city. This bill would relieve current hotel owners of more incoming competition and provide more pricing power. NYC, especially, has seen a flood of new rooms come to market with 10,798 rooms delivering since 2016.

[31] Owers, P. (2019). Even a Hurricane's Near Miss Can Be Costly to Hoteliers and Businesses. Even a Hurricane's Near Miss Can Be Costly to Hoteliers and Businesses. CoStar. Retrieved from https://product.costar.com/home/news/shared/1187573739?utm_source=costar&utm_medium=email&utm_campaign=1&utm_content=p6

[32] S Fung, Esther. "Long Hotel Rally Losing Steam as Supply Swells, Business Travel Falls." The Wall Street Journal, 10 Sept. 2019, https://www.wsj.com/articles/long-hotel-rally-losing-steam-as-supply-swells-business-travel-falls-11568113201?emailToken=3b14dff46489025ea0c5ed25cded08cdORE4CXSflj3wzxp09mH/7SOqEraToNsZ5sTMQloQkI3HJWdySsxacFc1FCneMfPNEqQOuQ6VoSP/Uxk9KIFiUEktjbELc RdagsPwqZrefjk4 1zryTvop3nMiuRN258yHgB6XxqTquqTqd IhnIeA==&reflink=article_copyURL_share.

CONCLUSION

Multifamily deals have historically made up the greatest percentage of investment opportunities on the CrowdStreet Marketplace. At the end of the day, people have to live somewhere regardless of exogenous factors such as trade wars or changing consumption patterns.

The same principle holds true for student housing, a unique sub-asset of the multifamily market. Students need beds, and if the university cannot guarantee them students will look for off-campus options instead. As students continue to enroll in higher education and loans enable them to afford off-campus rent, we predict that student housing developments will perform well.

However, there is an inherent risk in development–there are just more things that can go awry with ground-up developments–and student housing development has additional considerations including a decrease in student enrollment and tighter restrictions on student loans. Student housing markets are a micro markets that live or die based upon the demand drivers of a single university. This means that the analysis of any student housing investment is rooted in the fundamentals of its exact location.

DIVING DEEPER: KEY TAKEAWAYS FROM OUR ANALYSIS

- Regus could be a case study in how to survive a downturn for the ever-evolving and frankly, volatile, WeWork.
- Technological advancements, such as artificial intelligence and the race to establish 5G networks, are driving the need for data centers across the U.S.
- Rent control measures are spreading along the densely populated West Coast, with other cities and corporations joining the affordable housing movement.
- Healthcare spending is mounting and subsequently, so is the demand for medical office buildings.
- Strip malls and retail centers are attracting fitness related tenants to round out their live, work [out], and play lifestyle.

Commercial real estate is not a monolith. While what is happening on the national scale inevitably has a local impact, the unique factors of a regional market have an even greater impact on a project's long-term success. Where people and their money is moving to, how much confidence there is in the local economy, and what kind of demand there is for a specific asset type in an area are all factors that investors need to weigh when evaluating an investment opportunity.

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