CROWDSTREET

CrowdStreet Market Views

EDITION I

Executive Summary

Our Investments team knows that information empowers investors. This report aims to provide you with some industry insights and analysis so you are better equipped to evaluate and think critically about the overall commercial real estate (CRE) market and the investment opportunities it presents.

In this report, we're highlighting the up-and-coming 18-hour cities of Milwaukee WI, Columbus OH, Charleston SC, and Kansas City MO. Measured on four metrics–employment and population growth, influx of institutional capital and millennial population–we predicted the growth of these cities in 2017. After two years, Charleston reigns supreme due to strong net migration, job growth, and investor demand.

We're also providing a brief, national economic update and its current impact on commercial real estate. But it's important to remember that all real estate, at the end of the day, is local. In that vein, we're diving into several spotlights that highlight the office market in East Austin, the senior housing middle market, the 'success' of WeWork, and third party logistics (3PLs).

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

TABLE OF CONTENTS

Feature Story: 18-Hour Cities

In the U.S., 24-hour cities essentially translate to our gateway cities: Boston, Chicago, Los Angeles, New York, San Francisco, and Washington D.C. Meanwhile, 18-hour cities are the markets with above-average urban population growth, plus a lower cost of living and lower cost of doing business relative to those 24-hour cities. The poster children for this emerging class of up-and-comers have been cities like Denver, Austin, and Nashville.

Although new markets and metros are always on the rise, in 2017 we predicted that the next 18-hour cities would be Milwaukee, WI, Columbus, OH, Charleston, SC, and Kansas City, MO. We identified these four cities because they generally have had population and employment growth well above the national rate, major millennial migration and influx of institutional capital—all key factors in how our Investments team assess potential growth in a metro area.

So how have these markets actually performed since 2017? Taking a high level look at the ULI (Urban Land Institute) U.S. Markets to Watch rankings, Milwaukee and Kansas City have improved the most overall, but Charleston and Columbus have also grown for the better.

Market	What We Liked in 2017[1]	Performance Since 2017
Milwaukee, WI	• New development • High 5-year millennial growth	• Low cost of living and doing business • Introduction of new public transit and new NBA stadium
Columbus, OH	• Above national average employment growth • Home to one of the nation's largest universities	• Relative low cost of living and rapidly growing population • Low unemployment rate • Diverse economic base
Charleston, SC	• Year-over-Year population growth growing at approximately double the national rate • Downtown vibrancy	• Employment has grown at nearly twice the national average for the past five years • Growing sales volume • Companies relocating and expanding
Kansas City, MO	• Above average employment growth • Rise of technology • Affordability	• Expanding biotech & telecom hub • Business friendly environment

[1] Source: PwC and the Urban Land Institute: Emerging Trends in Real Estate® 2019. Washington, D.C.: PwC and the Urban Land Institute, 2018.

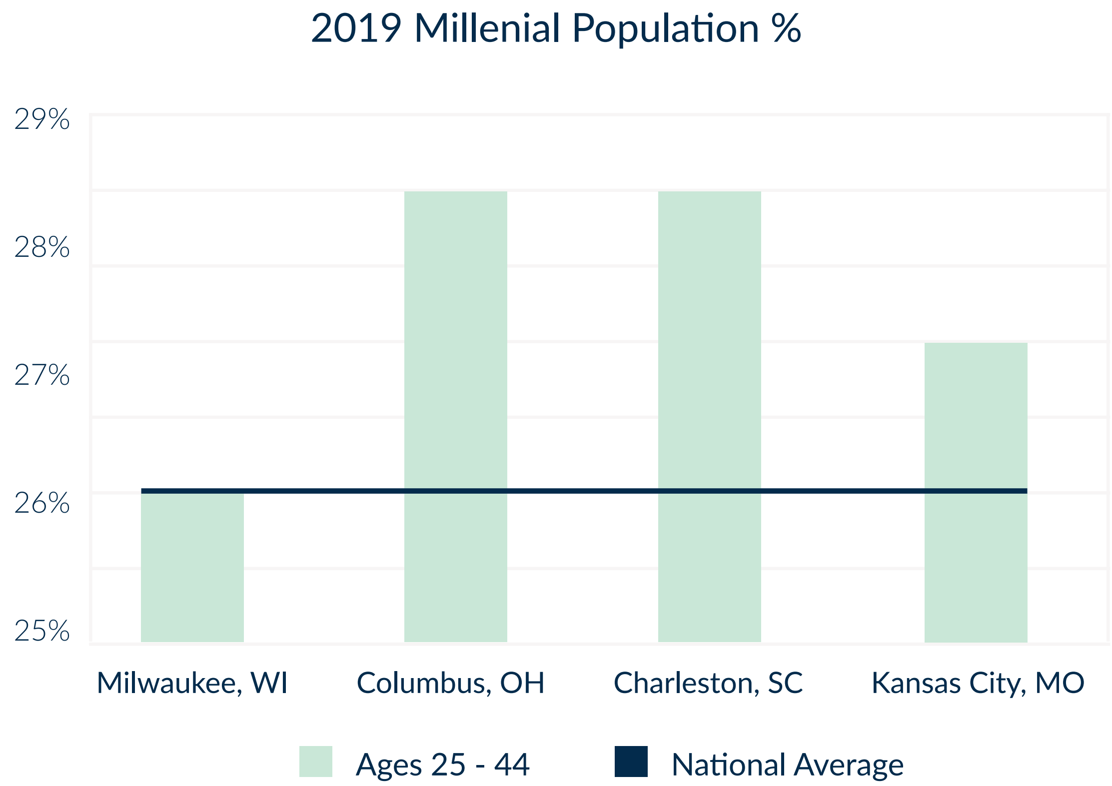
Market Overview & Comparison

We measured the performance of these cities based on four major factors:

1. Millenial Population (%)[2]
2. Employment Growth[3]
3. Cost of Doing Business & Affordability Index[4]
4. Influx of Institutional Capital[5]

MILLENIAL POPULATION (%)

Buying a home in a 24-hour city is simply not in the budget for most millennials, so young workers are relocating in search of well paying jobs, affordable housing, and a live-work-play balance. As the largest cohort of the workforce, millennial migration greatly impacts the employment growth of an area as they move in.



Of the four up-and-comers, Columbus and Charleston are the cities that stand out with a higher than average millennial population.

[2] Source: PwC and the Urban Land Institute: Emerging Trends in Real Estate®2019. Washington, D.C.: PwC and the Urban Land Institute, 2018.
[3] Source: Bureau of Labor Statistics (April 2019)
[4] Ibid [2]
[5] Source: Real Capital Analytics (July 2017-July 2019)

EMPLOYMENT GROWTH

Employment growth indicates a market's economic health, and gives us insight to employers' confidence in the market. Employment growth can also be used as an indicator of future growth. Charleston greatly outperformed the competition, growing at nearly double the national average growth rate.

5- Year Average Annual Employment Growth

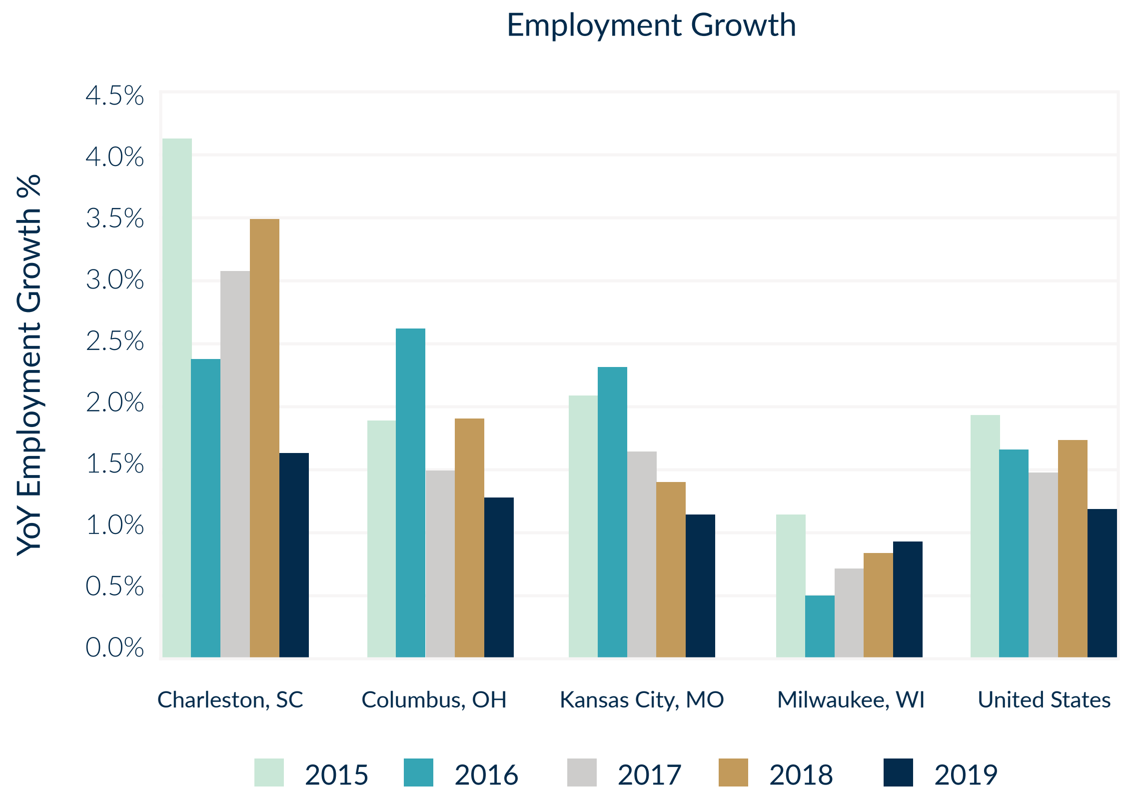
Charleston: 2.9%

Columbus: 1.8%

Kansas City: 1.7%

Milwaukee: 0.9%

USA: 1.6%



COST OF DOING BUSINESS & AFFORDABILITY INDEX

Location	2019 Cost of Doing Business	2019 Cost of Living/ Affordability Index[6]
Milwaukie, WI	96.3	153.1
Columbus, OH	94.3	196.2
Charleston, SC	98.4	137.9
Kansas City, MO	95.4	193.2
United States of America	100.0	151.7

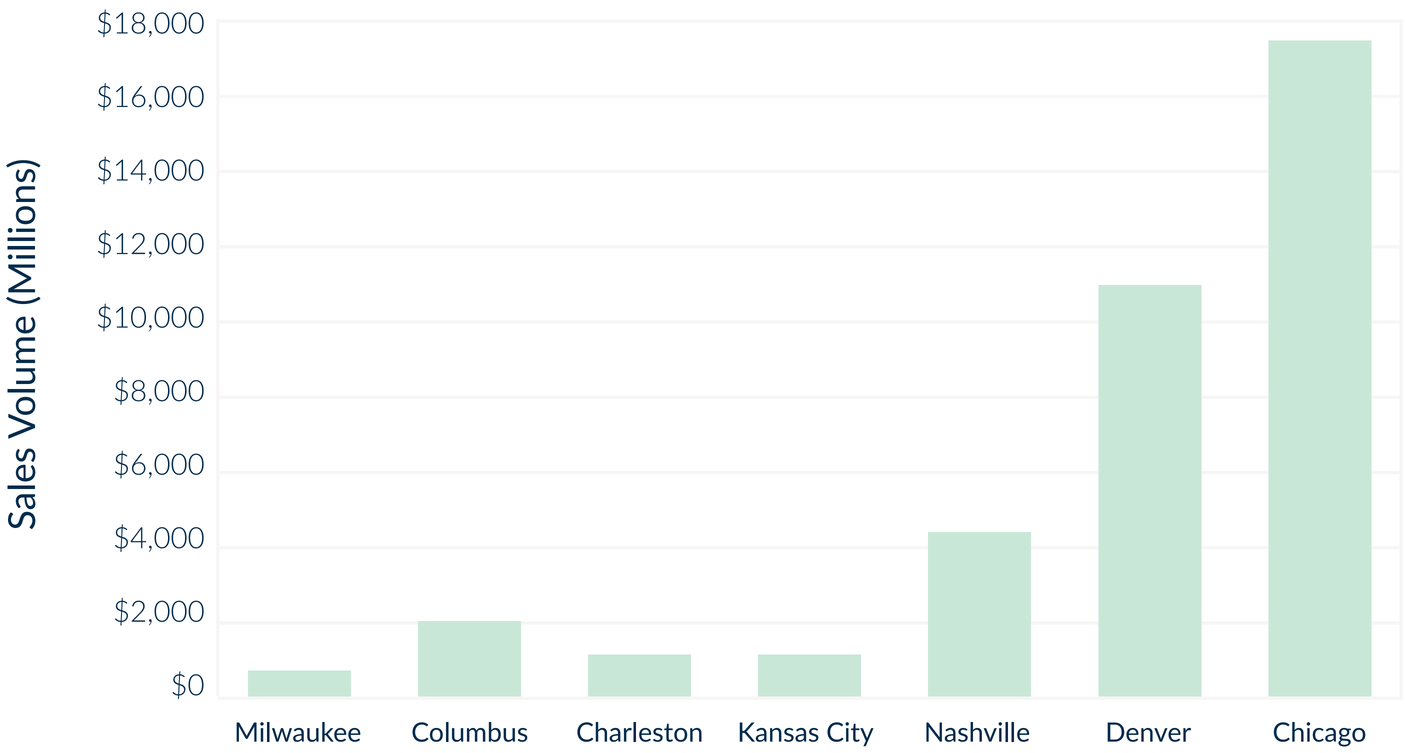
[6] The affordability index is measured by the percentage of residents that can buy a home at the median home price with the median income for the market.

Cost of doing business can be vital to a market's success as some companies will choose to forgo one market in lieu of a cheaper neighboring market, like Chicago-area companies moving to Milwaukee.

INFLUX OF INSTITUTIONAL CAPITAL

Institutional capital represent investments made from pension funds, endowments, foundations, etc. They represent where the 'big money' is moving. Columbus had the largest influx of institutional capital in a 24 month period from July 2017-July 2019 with nearly $2 billion (B) in institutional investment, making it the closest in institutional capital akin to the golden-child 18-hour city of Nashville.

Institutional Buyers Sales Volume (Past 24 Months)[7]

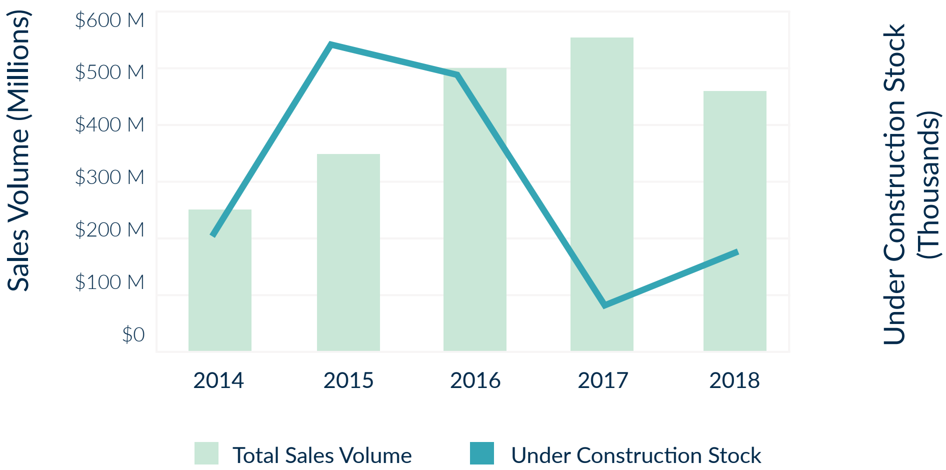


[7] Institutional Capital sales volume was pulled from Real Capital Analytics on July 16, 2019.

City Breakdown

MILWAUKEE

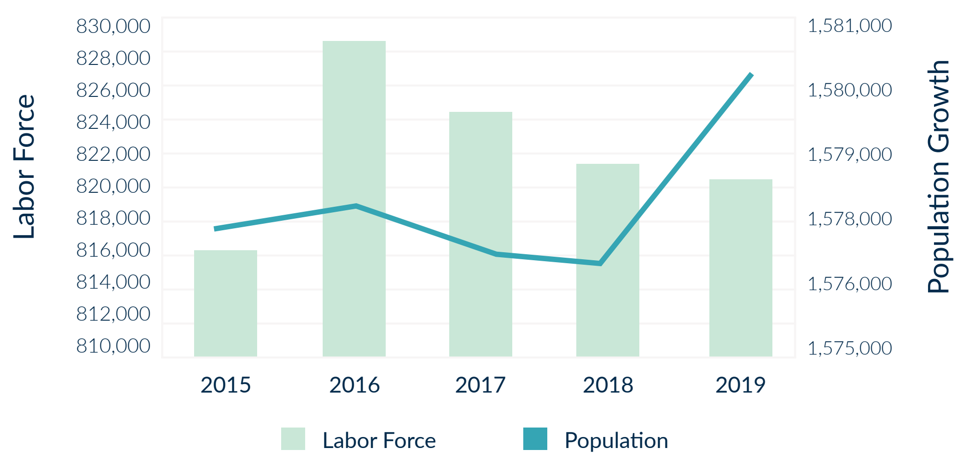
Milwaukee Supply & Sales Volume[8]



Milwaukee was chosen as an up-and-coming 18-hour city in large part due to the amount of major development projects underway/completed. One of the largest projects of 2018 was the $524 million (MM) Wisconsin Entertainment and Sports Center, home of the Milwaukee Bucks NBA team. Another large project is the new streetcar, named The Hop, which will run downtown within a quarter mile of the most densely occupied office towers.

One of the largest office towers in Milwaukee is also home to one of the city's most recognized companies, Northwestern Mutual. Regardless of the recently announced hiring freeze within the metro area, they remain committed to the city and have invested $450MM in their headquarters in the downtown core.

Milwaukee Labor Force & Population Growth[9]



Milwaukee also has a lower cost of doing business, especially in comparison to its neighboring 24-hour city, Chicago. Several companies have already made the journey north from Chicago to Milwaukee, including Gold Standard Banking (bringing 300 jobs), Vonco Products, and Colbert Packaging.

Milwaukee's manufacturing employment comprises 14.3% of the labor force, nearly double the national average. As automation continues to improve, the city's exposure to manufacturing jobs could negatively affect employment

[8] Total Sales Volume & Supply Source: CoStar Q1 2019
[9] Labor Force Source: Bureau of Labor Statistics (April 2019) Population Growth Source: CoStar

growth. However, the city is taking steps in order to reduce that exposure through non-profit programs. The Milwaukee Economic Development Corporation offers technical training and financial assistance to companies dedicated to growing their business in Milwaukee. More generally, Wisconsin as a whole is incentivizing businesses to relocate with tax incentives including exemptions, credits, and other preferential treatment.

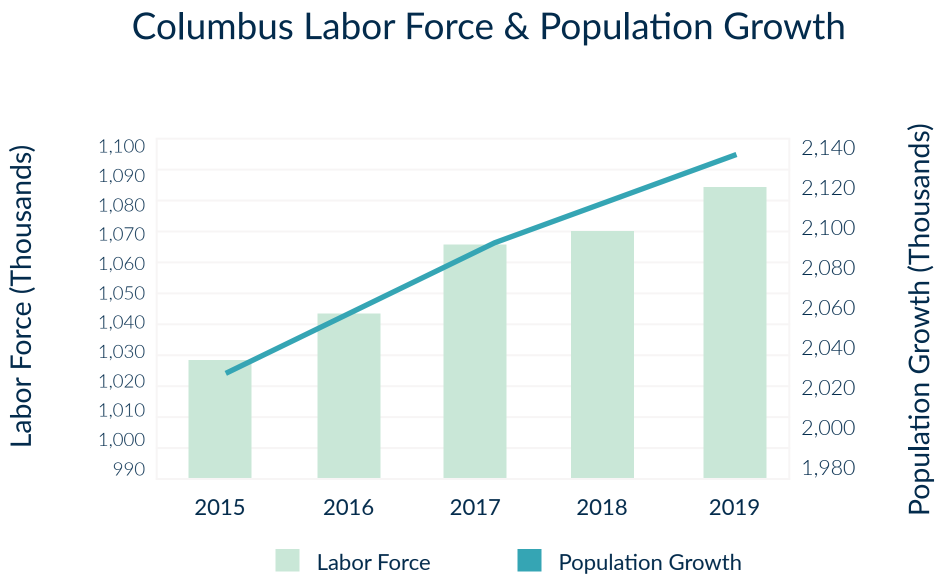
While Milwaukee hits the mark of an up-and-coming 18-hour city with its relative low cost of doing business and rising population, it falls a bit short on employment growth and the influx of institutional capital. As some of the metrics are a mixed bag, we will continue to watch Milwaukee's progress.

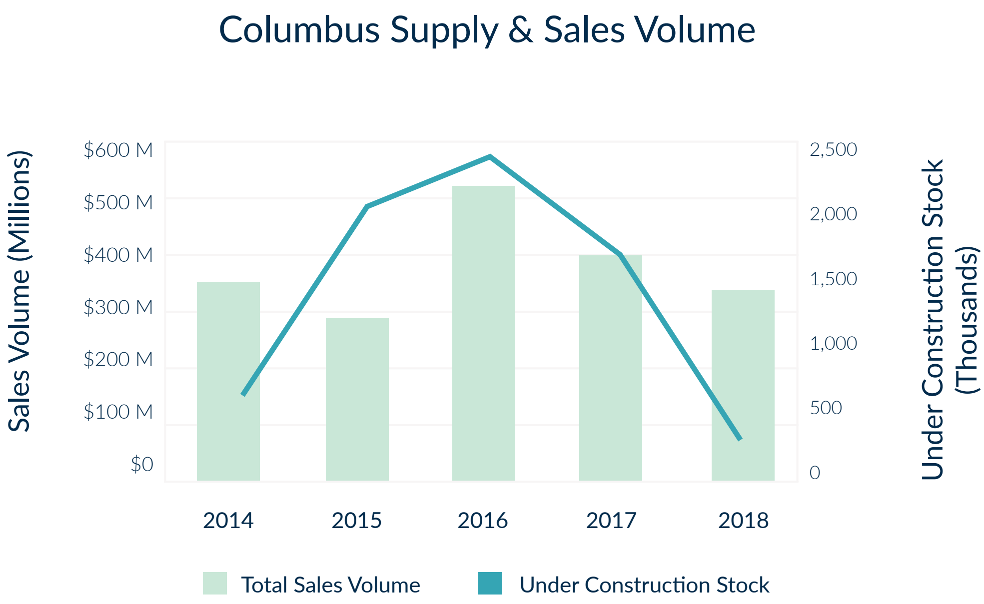
COLUMBUS

Most notably, Columbus' labor force and population have grown tremendously and don't seem to be slowing. Positive net migration, specifically college-educated millennials moving to downtown Columbus, has aided the population growth.

Due to the millennial migration, Columbus has a higher than average population of prime workers (employees ages 25-44). As the labor market is extremely tight with unemployment below 3.0%, the influx of quality workers is welcomed.

Unlike other midwest cities, Columbus doesn't have a large exposure to manufacturing, shielding it from potential job loss due to automation. Alternatively, a large portion of the labor force, 16% of overall employment, is employed by





the state government, providing a sturdy backbone and less office rent volatility. Sector diversity within an economy provides insulation against economic volatility. Other expanding sectors in Columbus include education, healthcare, professional services, and hospitality.

Approximately 7,800 multifamily units are currently under construction, with a majority of projects within the downtown core. Despite the boom in construction, multifamily vacancy remains near record lows at 6.1%. Net absorption (the amount of space that was occupied) was positive as over 3,000 apartments were occupied from June 2018 - June 2019, rounding out the extremely healthy fundamentals. Columbus has also had a push of development in the past two years. Over 2.5 million square feet (MSF) of office space delivered, more than the previous ten years combined.

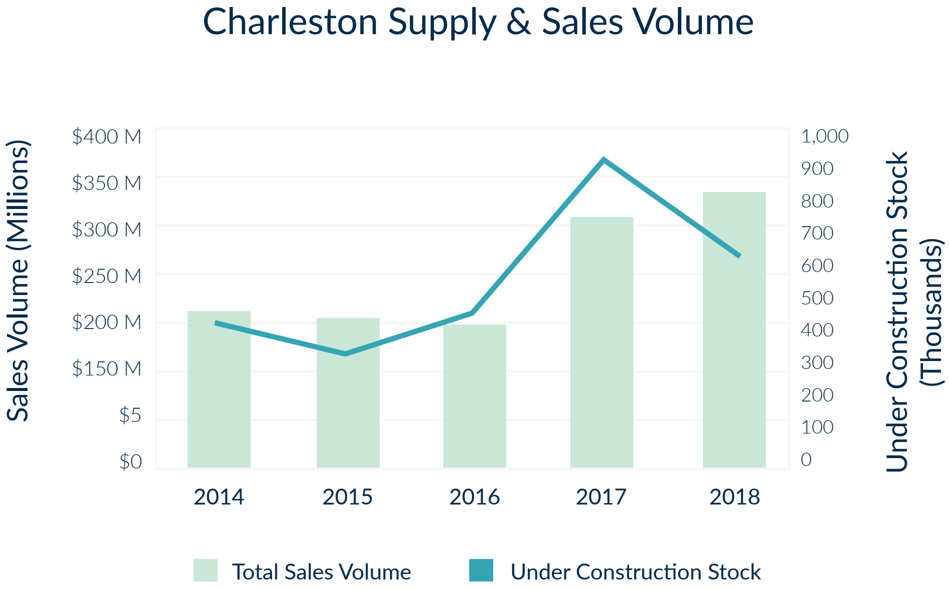
CHARLESTON

We chose Charleston as an 18-hour city due to its downtown vibrancy, population and job growth. Charleston has continued to build on that momentum and can be characterized by low unemployment, strong net migration, and investor demand.

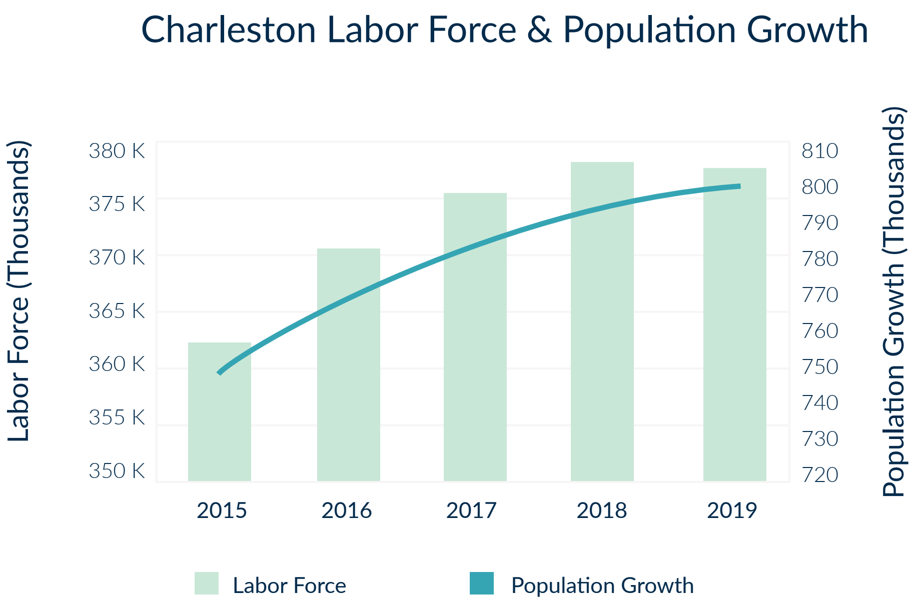
Sales volume hit a record high in 2018 as 200 office buildings traded for a total of $330 MM, beating a record year in 2017. Sales volume in 2019 is likely to continue on an upward trajectory.

Economically, Charleston is booming as employers are flocking to the area to expand, following the likes of Boeing and Mercedes-Benz, to name a few. Charleston's average five year job growth of 2.9% is nearly double the national average of 1.6%. According to the Chamber of Commerce, 9,000+ jobs were created in 2018 alone and Vovlo recently expanded into a $1.1B factory that will hire on an additional 4,000 employees.

The Port of Charleston has also been a driving force in expanding job growth, specifically manufacturing jobs. The Port's deepening of the Charleston Harbor will accommodate increased container volume.



Market and economic fundamentals are extremely strong in Charleston. While tourism continues to bring a spotlight to the city. As long as manufacturing continues, from automotive companies and the Port, the city will likely remain a hotbed for investment, employment, and population growth.

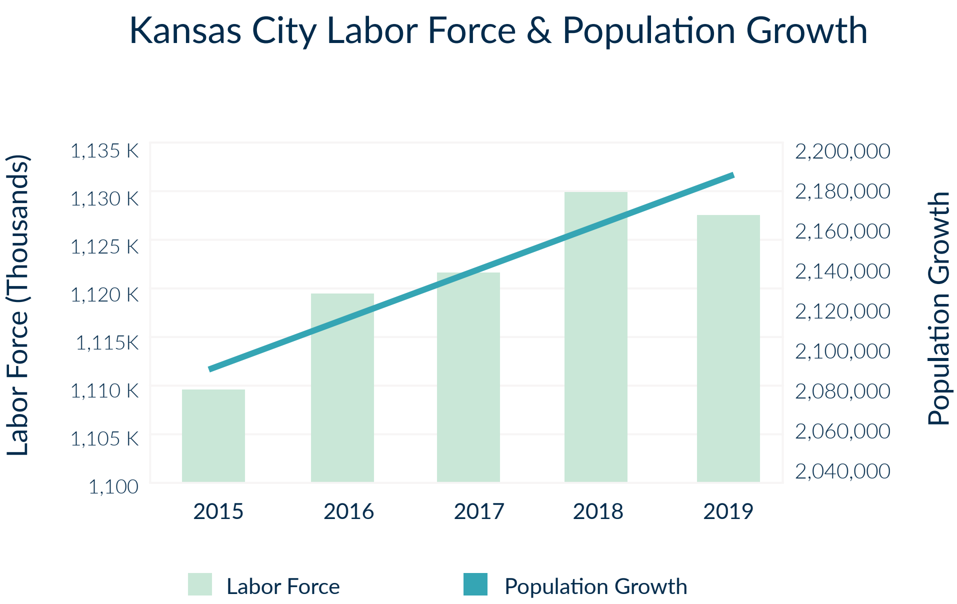


KANSAS CITY

Like Charleston, Kansas City was chosen for a surging downtown. This surge is driven by higher than average population growth, steadily growing since 2015 in large part due to a lower cost of living.

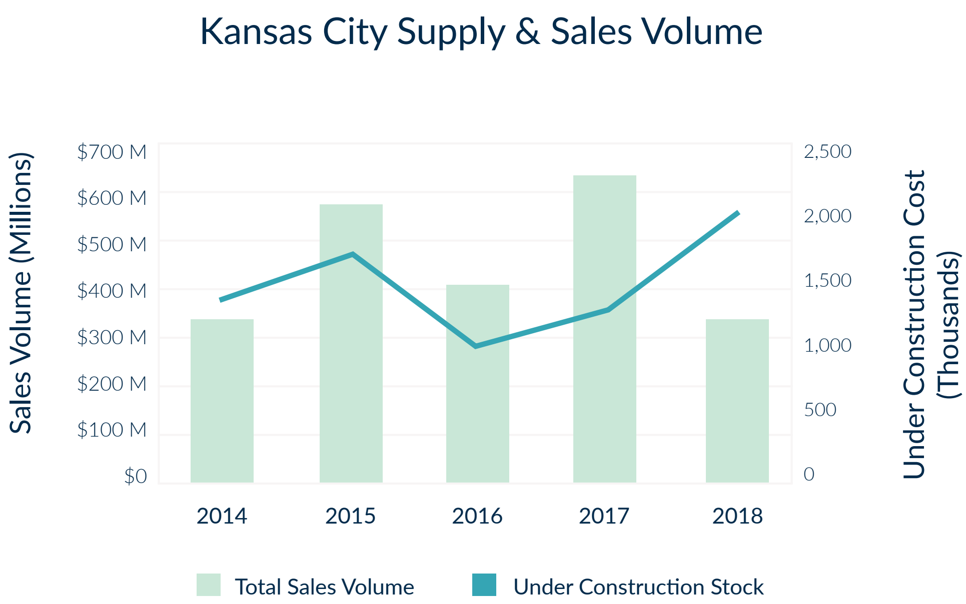
Additionally, job growth has been on the rise. Kansas City's unemployment rate is low at 3.1%, compared to the national unemployment rate of 3.6%. None other than Warren Buffet announced that GEICO selected Lenexa, a submarket of Kansas City, as its next service center. Kansas City offered an economic incentive package to the insurance company in exchange for GEICO adding 500 entry-level jobs to the economy. Incentivizing large corporations like GEICO to move into the market will continue to grow Kansas City's employment growth. This could be a strategy Kansas City continues to leverage.

Biotech research also has a massive presence in Kansas City. The healthcare IT giant, Cener Corporate, is rapidly expanding with already 900,000 sf of space in the market. After winning a $624MM contract, Cener is expected to employ more than 16,000 people over the next ten years. Additionally, Children's Research Institute is expanding their research arm and will soon employ over 3,000 researchers.



Along with biotech research, telecom companies like Sprint Corp. and AT&T occupy over 2MSF of office space and are major employers of the area. Kansas City has historically been more dependent on large employers like these but recently the city has had a spike in small business creation, an indicator of positive market health and investor confidence.

Due to Kansas City being centrally located geographically, the industrial sector has room to grow exponentially. E-commerce has revolutionized warehousing and other retailers are under pressure to have Amazon-like shipping. The need to have warehouses in centralized areas like Kansas City is crucial to national distributors and supply chain operators.



Conclusion

After reviewing our prediction from 2017, our Investment team found that Charleston proved to be the most sound case as an 18-hour city, while the other three are promising as well. Kansas City and Columbus have high job and population growth that will propel the two cities as emerging markets. Milwaukee had conflicting results, but the city is making promising strides by incentivizing companies to move into the city with tax benefits and the low cost of living and doing business.

National News & Trends

THE STATE OF THE ECONOMY

June marked ten years since the official end of the Great Recession. Broad economic indicators performed well in the second quarter of 2019 as the economy continued churning through its longest expansion period in history.

Q2 2019 REVIEW:

Economic Indicators[10]	Current	YoY Change
Consumer Price Index	255.2	+ 1.8%
Average Nonfarm Hourly Earnings	$27.83	+ 3.1%
Personal Savings Rate (% of disposable income)	6.1%	- 7.6%
Unemployment Rate	3.6%	- 5.3%
Total Employment	151.2 MM	+ 1.8%
Office Employment[11]	30.1 MM	+2.1%
Indsustrial Employment[12]	21.1 MM	+2.9%

Demographics	Current	YoY Change
Population	329.2 MM	+ 0.7%
Median Household Income (Real)	$63,976	+ 3.6%

*Source: Bureau of Labor Statistics BLS (June 2019)
Unemployment Rate by State. US Average: 3.6%

- Total employment increased slightly to 151.2 million.
- Office and industrial employment had positive gains boosting by 2.1% and 2.9%, respectively. 18-hour cities generally have higher employment growth than the national average.
- Unemployment rate remains low at 3.6%, compared to the 10-year historical average of 6.6%.

[10] Consumer Price Index, Average Hourly Earnings, Personal Savings Rate (% of disposable income) and Unemployment Rate are all as of May 2019. All other economic indicators are as of 6/30/2019. Economic data source is Oxford Economics, demographic data source is Neustar and CRE data source is CoStar
[11] Office Employment are categorized by the NAICS sectors: Financial activities; Professional and business services; Information
[12] Industrial Employment are categorized by the NAICS sectors: Wholesale trade;Retail trade; Transportation and warehousing; Utilities. Manufacturing is not included)

National Office News & Trends

THE STATE OF THE OFFICE MARKET

Office Metrics	Current	YoY Change
12 Month Net Absorption[13]	70.7MSF	
Vacancy	9.6%	- 33 basis points (bps)
Supply/Under Construction	142MSF	+ 9.5%
Overall Office Gross Rent	$28.94 Full Service Gross	+ 4.7%
Total Sales Volume	$26.1B	+ 11.8%
Avg. Price Per Square Foot	$136.41	+ 11.4%
Median Cap Rate[14]	7.3%	- 11 bps
Appreciation Return[15]	0.2%	+ 70 bps
Income Return[16]	6.7%	+ 4 bps

The office market started 2019 much like it ended 2018–with slow, consistent rent growth, and minimal change to vacancy. This trend continued into the second quarter. Expect a bump in vacancy as a significant amount of office space is under construction, especially affecting key 18-hour markets like Austin, Charlotte, and Seattle. Numerous projects are under construction, and we expect many of these buildings to open without being fully leased, leading to an uptick in market vacancy rates.

This new construction is also driving up office rents, in large part due to elevated construction costs. The higher cost of raw materials and a shortage of labor are increasing the overall cost to build, so developers expect premium rents. Since the cost of raw materials is subject to increased volatility as the trade war continues, it's likely that prices will continue to push up.

[13] 12 Month Net Absorption is the change in occupied inventory for a rolling 12 month value (Source: CoStar)

[14] Median Cap rate is an unlevered initial return from the acquisition of a real estate asset calculated by dividing net operating income (NOI) by the property sales price. The cap rate is typically calculated using the NOI generated in the first year of ownership so investors can normalize and compare potential returns among competing investment properties. (Source: NAIOP)

[15] Appreciate return is the change in price value net of capital expenditures (Source: CoStar)

[16] Income Return is the portion of total return derived from income distribution. (Source: MorningStar)

Office News Headlines & Trends:

LIFE SCIENCES IS GROWING UP [17]

In 2008, the City and County of San Francisco created a special use district in Mission Bay for life science and technology companies. Currently, Mission Bay has an office vacancy rate at 0.3%, with a majority of the space occupied by tech giants who have managed to push the life sciences companies out of prime city center real estate.

With life science companies looking for a new place to call home, developers are getting creative to meet their demand for space. Opposed to the traditional life science spaces, which are akin to industrial space with high-ceiling lab space, developers are going vertical and building high rise office towers. Two buildings in South San Francisco, originally built for office use, have already been leased by life science firms and a third tower is under construction. How San Francisco and the South Bay accommodate life science firms could blaze a trail for other life science hubs such as San Diego and Boston to follow suit and build vertical.

UBER ON THE MOVE [18]

Uber Technologies, Inc. is looking to expand and has confirmed they're eyeing the up-and-coming neighborhood of Deep Ellum in the Dallas market, although a final decision timeline has not been released. The company is looking at an 8-acre, mixed-use development for a new campus location that would employ thousands of workers.

The ownership of the 8-acre development, Westdale Real Estate Investment and Management firm, recently raised $140 million by placing a portion of their real estate portfolio on the Tel Aviv Stock Exchange and could potentially use those funds to pay down the construction loan on the project.

[17] Armbrister, M. (2019, June 10). Life Science Industry Elbows Its Way Into Tight Bay Area Property Market. Retrieved from https://product.costar.com/home/news/618810624?tag=2

[18] Carlisle, C. (2019, May 20). Uber's New Destination for a Big Regional Hub Employing Thousands Could Be Dallas. Retrieved from https://product.costar.com/home/news/1738650979

The State of the National Multifamily Market

Multifamily Metrics	Current	YoY Change
12 Month Net Absorption	332.7K sf	
Vacancy	5.9%	- 9 bps
Supply/Under Construction Units	687.2K	+ 9.9%
12 Month Rent Growth	2.8%	- 20 bps
Median Price Per Unit	$112,500	+ 11.4%
Total Sales Volume	$28.3B	- 12.0%
Median Cap Rate	6.0%	+15 bps
Appreciation Return	1.5%	- 143 bps
Income Return	5.9%	- 3 bp

Strong multifamily fundamentals suggest another healthy quarter to come. Lifestyle trends such as delaying marriage and children, the desire for live-work-play communities, and high prices for single-family homes in both major and 18-hour cities are driving multifamily demand. As investors have shown an interest in Opportunity Zone development, specifically multifamily projects, construction will increase.

Multifamily News Headlines & Trends:

ZONING IN ON MULTIFAMILY [19]

Simply put, Opportunity Zones are a tax incentive for investors to reinvest capital gains in areas of economic distress. Multifamily is expected to be a key target of Opportunity Zone Funds due to the higher proportion of small to medium-sized multifamily properties that cater to low-income residents in economically underserved communities. The Federal Home Loan Mortgage Corporation (Freddie Mac) has pointed out that fewer than half of all households own their home in these zones. Freddie Mac has also reported that multifamily loan origination in Opportunity Zones has increased by 180% since the program was initiated.

[19] Heschmeyer, M. (2019, May 8). Lending Shoots Up in Opportunity Zones. Retrieved from https://product.costar.com/home/news/701094667

HIGH RISES GET BETTER WITH AGE [20]

A new demographic is taking over multifamily renting–empty nesters and retirees looking to downsize. A study done by Harvard University's Joint Center for Housing Studies shows that renters age 55 and older account for more than a quarter of all renters. These renters don't want to be tied down by ownership, nor care to keep up the maintenance of a large house when their children no longer live at home. A high rise, with a massive amount of amenities and no required up keep, is an appealing alternative.

Landlords are also rejoicing as these tenants have the money to pay top of market for a new, highly amenitized building. Additionally, many landlords feel these empty nesters and retirees are more likely to "keep up" an apartment and sign longer leases than a recent college grad. Developers are enticing this older demographic by adding larger kitchens and dining rooms, still allowing tenants to host large family gatherings, without having to maintain a large home.

The State of the National Industrial Market

Industrial Metrics	Current	YoY Change
12 Month Net Absorption	189.6 MSF	
Vacancy	4.9%	- 11 bps
Supply/Under Construction	285.3 MSF	+ 9.0%
12 Month Rent Growth	5.6%	- 80 bps
Total Sales Volume	$10.6B	- 31.2%
Average Cap Rate	6.7%	- 25 bps
Appreciation Return	4.2%	- 65 bps
Income Return	6.7%	- 2 bps

Industrial has been a favorite of investors for the past several years. Institutional owners have sought out industrial products due to the high returns and stable income often associated with the properties. Right now, the industrial market can be categorized by consistently low vacancy and high demand from investors and tenants alike. Industrial vacancy is less than half of what it was a decade ago, prior to e-commerce, which has fueled tenant demand.

[20] Owers, P. (2019, June 24). US Rental Demand Begins Rebound, Helped by Seniors. Retrieved from https://product.costar.com/home/news/417966953

Industrial News Headlines & Trends:

INDUSTRIAL ON ICE [21]

As online grocery and meal kit delivery sales rise, so does the demand for cold-storage space. Investment in temperature-controlled warehousing has climbed from $560MM in 2016 to $963MM in 2018. The industry's current foothold is 214 MSF, but according to a CBRE report,[22] the demand for cold-storage warehousing space could expand by 100 MSF by 2024, signifying growth up to 50%.

The cities most likely to experience a majority of the demand will be port cities like Los Angeles and New York, hubs that handle fresh imports from around the country and internationally. However, as cold-storage grows they will likely trickle into 18-hour markets with strong consumer demand for delivery services.

MADE IN AMERICA [23]

Amid volatile trade negotiations with China and Mexico, Stanley Black & Decker, the world's largest toolmaker, had made a push to bring manufacturing operations back to the U.S. They recently purchased a 40-acre tract in Fort Worth, TX to build a $90MM, 425,000 sf, high-tech manufacturing plant. An estimated 500 full-time employees will work at the plant with a scheduled building completion in late 2020. Trade negotiations will continue to heavily influence industrial product, especially manufacturing companies budgeting costs for raw materials, possibly inducing more companies to bring manufacturing stateside.

[21] Hirsh, L. (2019, June 12). US Cold Storage Demand Expected to Heat Up in Next Five Years. Retrieved from https://product.costar.com/home/news/1600590357?tag=4
[22] Russell, L., & Egan, D. (n.d.). Cold Storage: About to heat up? Retrieved from http://www.cbre.us/real-estate-services/real-estate-industries/industrial-and-logistics/industrial-and-logistics-research/us-marketflash---cold-storage-heating-up
[23] Carlisle, C. (2019, May 17). World's Largest Toolmaker Picks Texas to Host High-Tech Plant for Iconic Brand. Retrieved from https://product.costar.com/home/news/425131256?tag=1

The State of the National Retail Market

Retail Metrics	Current	YoY Change
12 Month Net Absorption	43.0 MSF	
Vacancy	4.5%	- 3 bps
Supply/Under Construction	71.4 MSF	- 8.0%
12 Month Rent Growth	1.4%	- 120 bps
Total Sales Volume	$11.4B	- 31.0%
Median Cap Rate	6.9%	+ 3 bps
Appreciation Return	- 1.0%	- 8 bps
Income Return	7.1%	- 3 bps

Currently, retail has the lowest vacancy rate of all property types. Interestingly, retail also has the least amount of construction (relative to overall inventory) underway. Retail's future will be exciting to watch as more retail users are repurposing nontraditional retail spaces to fit their needs, like old warehouses being turned into trendy restaurants or stores.

Retail News Headlines & Trends:

NOT YOUR SCHOOL'S FOOD HALL

A common trend in retail in recent years has been the introduction or rebranding of food halls. In a study done by Cushman & Wakefield[24], the market has quadrupled in five years. No more of the antiquated, bland, and boring dining halls like the ones from your college years. Now food halls are trendy and hip, with some of the hottest vendors in a city all centrally located.

Operators are enticing vendors with short term licenses, rather than leases, providing more flexibility as vendors prove themselves and build a local following. Many operators are implementing a single point-of-sale system to better identify outperforming or underperforming vendors. Food halls in mixed-development properties may even be the ultimate office amenity.

[24] Brown, G. (2019, May 16). FOOD HALLS 3.0: THE EVOLUTION CONTINUES (Rep.). Retrieved https://cushwake.cld.bz/Food-Halls-3-0-The-Evolution-Continues/3/#zoom=z

BREATHING LIFE & SOCIAL MEDIA INTO OUTLET CENTERS [25]

Outlet centers have a dried up pipeline. In the past two years zero discount centers have opened, nor are there any under construction. Why? Because consumers have changed the way they shop. No longer hunting in bargain stores, they are browsing the internet for deals. Outlet and discount centers are addressing this challenge by trying to entice consumers with more on-site amenities like movies, dining, and social spaces. Some centers have even designated space for social media experiences where visitors can post they were at the center in exchange for discount coupons.

The State of the National Hotel Market

Hotel Metrics[26]	Current	YoY Change
12 Month Net Absorption	60.1 K SF	
Vacancy	27.6%	- 48 bps
Supply/Stock	2.8 MSF	+ 2.4%
Net Completions 12 Mos	64.8K SF	- 9.1%
Demand[27]	$2.0MM	+ 3.1%
Rev Par Index[28]	191.7	+ 5.4%
Room Rate Index[29]	175.1	+ 3.6%

The hotel industry has enjoyed a long stretch of high levels of occupancy and growing demand. The summer months are usually the busiest for hotels. As we approach the end of summer, expect vacancy to creep up in the later months of Q3 and most of Q4. Most industry reports are projecting continuing positive growth through 2020.

[25] Hirsh, L. (2019, May 20). Outlet Centers Look for New Ways to Get Bargain Hunters off Their Couches. Retrieved from https://product.costar.com/home/news/1750344337?tag=1
[26] Please note hotel data is on a quarter lag, as of 3/31/2019. All other product type data is as of 6/30/2019.
[27] Demand is the amount of inventory occupied
[28] RevPAR Index = (Subject hotel RevPAR / Aggregated group of hotels' RevPAR) x 100
[29] Daily average room rates

Hotel News Headlines & Trends:

MY PLACE IS YOUR NEW PLACE [30]

The founder of Super 8 Hotels is betting big on his second venture, My Place. My Place offers modern hotel amenities at an affordable price for long and short stay travelers. Carving out a niche in economy hotels since 2012, My Place has expanded to 47 current locations with more locations under construction.

My Place's construction model is to build ground-up developments on one to two acre plots of land at the fringe of 18-hour cities. For example, a new My Place is coming to Avondale AZ, a suburb of the rapidly expanding Phoenix market. Being on the fringe of an emerging market enables My Place to offer lower prices to their budget customers, while benefiting from the boom of the nearby up-and-coming market.

DENVER'S SMOKING HOT(EL) MARKET [31]

Investors continue to bet on the poster child for 18-hour cities, Denver. CoStar has deemed Denver the hottest hotel city, where hotel inventory has grown by 5.1% this year, the highest ratio of new development to existing stock in any U.S. market.

The Denver market has gone through an expansion period for over a decade now. However, with the influx of construction, the market has elevated labor, material, and land costs. Coupled with low unemployment, new hotels will likely be stretched to find enough employees to staff the hotel upon completion.

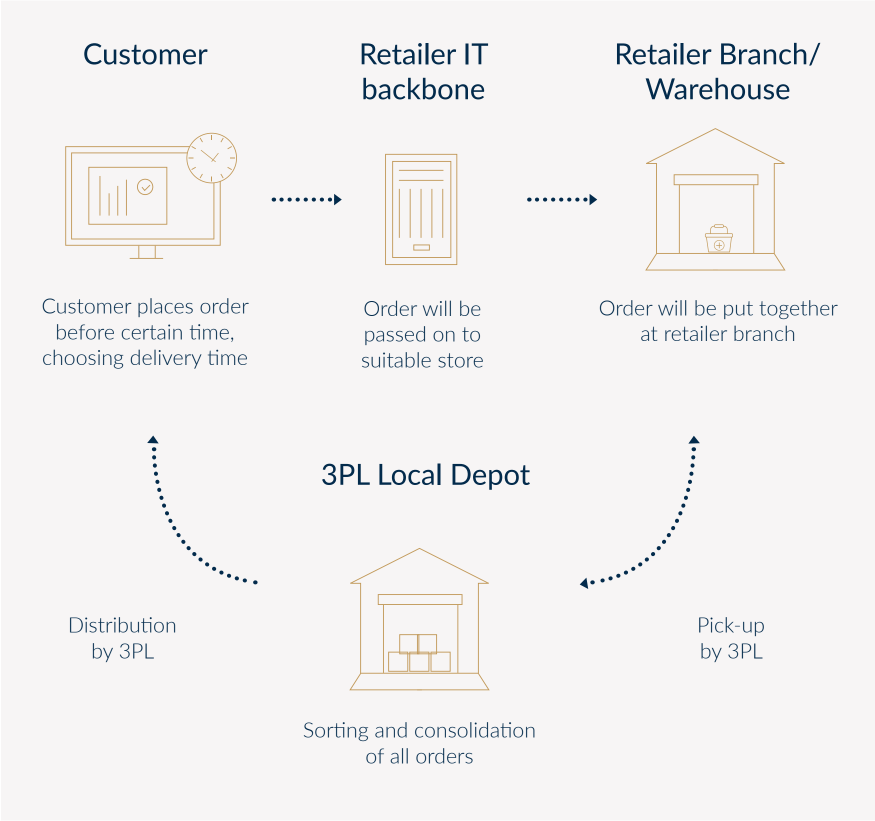
[30] Drummer, R. (2019, June 17). All in the Family: Super 8 Founder Hopes to Duplicate National Success With My Place Hotels. Retrieved from https://product.costar.com/home/news/819658744?tag=2048
[31] Armbrister, M. (2019, June 4). America's Hottest Hotel City Surges on Convention Center. Retrieved from https://product.costar.com/home/news/721487584?tag=2048

SPOTLIGHTS

THE IMPACT OF THIRD PARTY LOGISTICS ON RETAIL & INDUSTRIAL

Retailers are struggling to keep up with the market pressure of two-day or same day delivery. As consumer demand mounts, retailers are looking to third party logistics for enhanced delivery efficiency which, in turn, is driving demand for warehousing space.

A 2019 Third Party Logistics (3PLs) study conducted by Infosys Consulting and Korn Ferry[32] stated that 63% of retailers are increasing their use of outsourced logistics services, a driving trend for retail and industrial. Even as e-commerce companies like Amazon dominate news headlines, they are actually dwarfed by 3PL transactions. 3PLs have been the largest occupier of warehouse space for the past two years, signing 42 MSF and accounting for nearly a third of all lease transactions.[33]



Two-day shipping has become the market standard, with same-day shipping becoming even more popular. Pushing more and more retailers to outsource shipping and handling of their products to 3PLs. 3PLs provide efficiency and expertise that retailers just don't have regarding shipping.

McKinsey[34] released a report claiming that 20-25% of the consumer market will be handled by same-day delivery service by 2025.

Thus, the demand for last mile distribution warehousing, smaller warehouses serving as the last stop between a transportation hub and the final consumer destination, is extremely high. As more last mile warehousing is built, a majority will be servicing 18-hour cities as 24-hour cities already have existing and usually efficient delivery logistics and processes.

[32] Infosys Consulting, Korn Kerry, PENSKE, & PennState. (n.d.). 2019 Third-Party Logistics Study (23rd ed., Rep.).
[33] Tolliver, J., & Salzer, C. (2019). Marketbeat U.S. Industrial Q1 2019 (Rep.). Cushman & Wakefield.
[34] Netzer, T., Krause, J., Dr., Hausmann, L., Dr., & Herrmann, N. (2014). Same-Day Delivery (Rep.). McKinsey & Company.

Because of the highly specialized nature of a fulfillment center design, the demand for build to suit warehousing has increased dramatically. A report from Cushman & Wakefield[35] stated that a third of all build-to suit-construction are logistics product. As retailers outsource their logistics, they will be able to operate more cost effectively in smaller spaces without the need of so many loading docks and warehousing space for products.

Middle Market Senior Housing Spotlight:

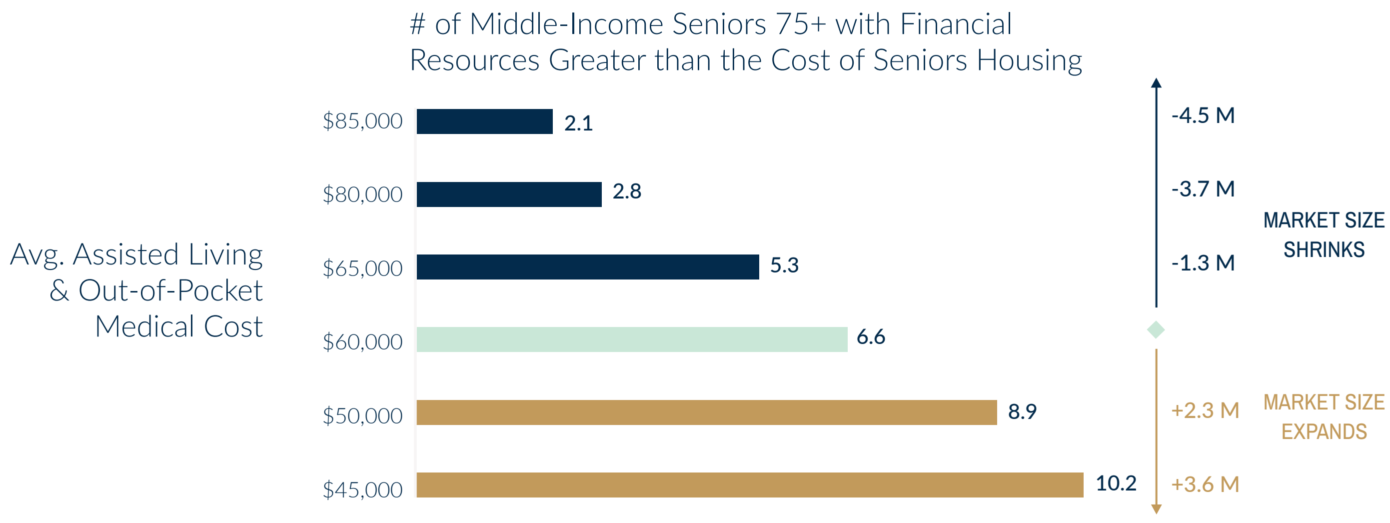
UNTAPPED MIDDLE MARKET

The next opportunity is in the untapped senior housing middle market as middle class baby boomers are becoming one of the largest socioeconomic groups retiring.

According to a study done by the National Investment Center (NIC),[36] the next hot opportunity in senior living–which has already hit $15.2B in investment volume–is specifically in the middle-income senior housing market. This middle market will grow by more than 6MM people within the next decade, and more than 700,000 senior housing units will be needed to serve middle-income demands.

Approximately 54% of middle-income seniors will not be able to afford assisted living that costs $60,000 annually. However, if the annual cost drops by to $50,000, an additional 2.3MM middle-income seniors could afford assisted living. This middle income demand and supply gap represents an underserved market, says NIC. To be further cost effective, middle-income seniors may select housing in 18-hour cities as an alternative to the pricier 24-hour cities.

As the Cost Of Assisted Living Decreases, the Market Expands, Presenting An Opportunity

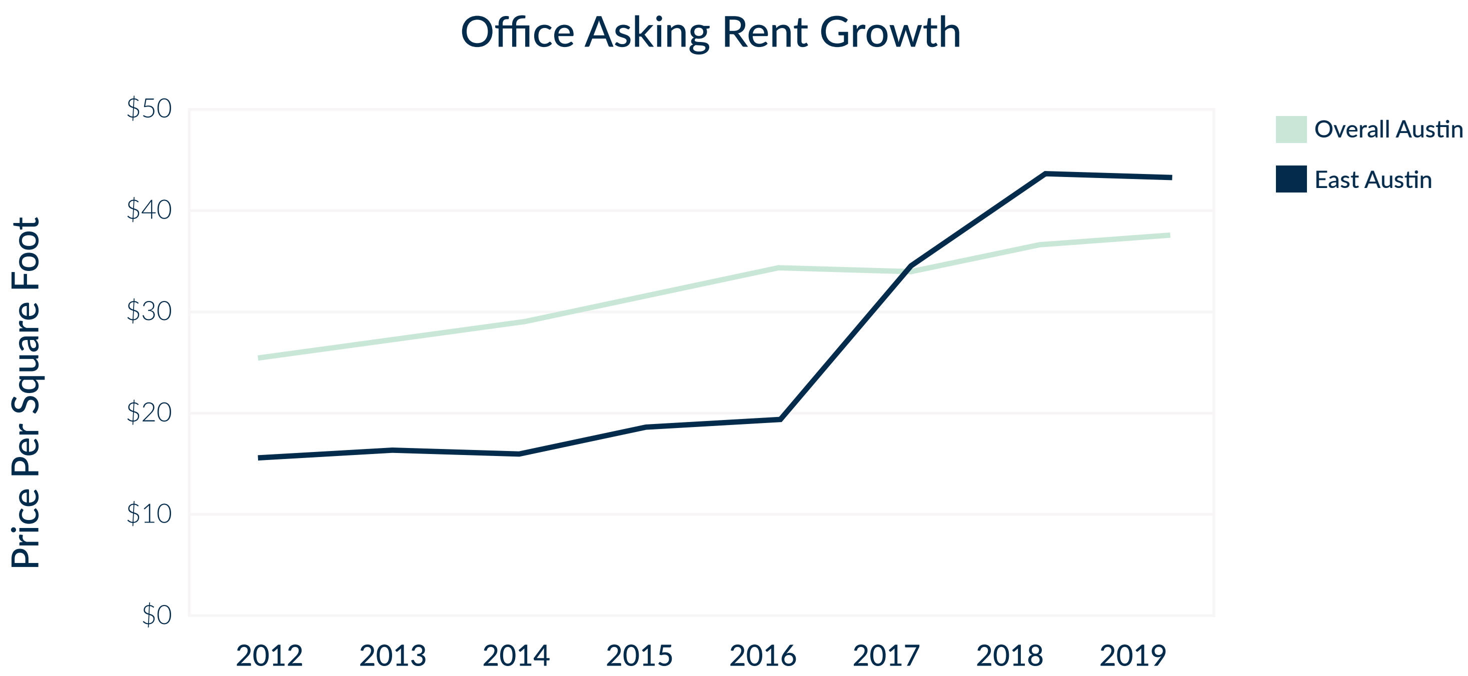


[35] Tolliver, J., & Salzer, C. (2019). Marketbeat U.S. Industrial Q1 2019 (Rep.). Cushman & Wakefield.
[36] Mace, B. B. (2019). NIC INSIDER Newsletter June 2019 (Rep.). National Investment Center.

Regional Spotlight: East Austin

LOOK AT THE CITY AND THEN STUDY THE NEIGHBORHOODS

Everyone, including us, agrees that Austin is a hot 18-hour market, but Austin is a large metro area. Each submarket comes with its own nuances, demographic trends, economic trajectory and more. So which Austin submarket do we have our eyes on? East Austin.



According to a CBRE report,[37] East Austin's office rates have more than doubled, growing by 162% since 2012 and out performing Austin's overall lease rates which has increased by only 43% in the same time.

Proving that Austin's tech scene is still trending, the tech sector represents 34% of leases signed in 2019. Large corporate users lease up large blocks of space, usually at the top of the market's rates, pushing lease rates higher and higher. Google just took down 150,000 sf in East Austin and the area is trying to meet the growing demand with over one MSF of office space under construction.

[37] Goebel, L., Linares, I., & Miller, E. (2019). Austin Office MarketView Q1 2019 (Rep.). CBRE.

Industry Spotlight: WeWork

CO-WORKING: DISRUPTING THE NORMS OF OFFICE SPACE

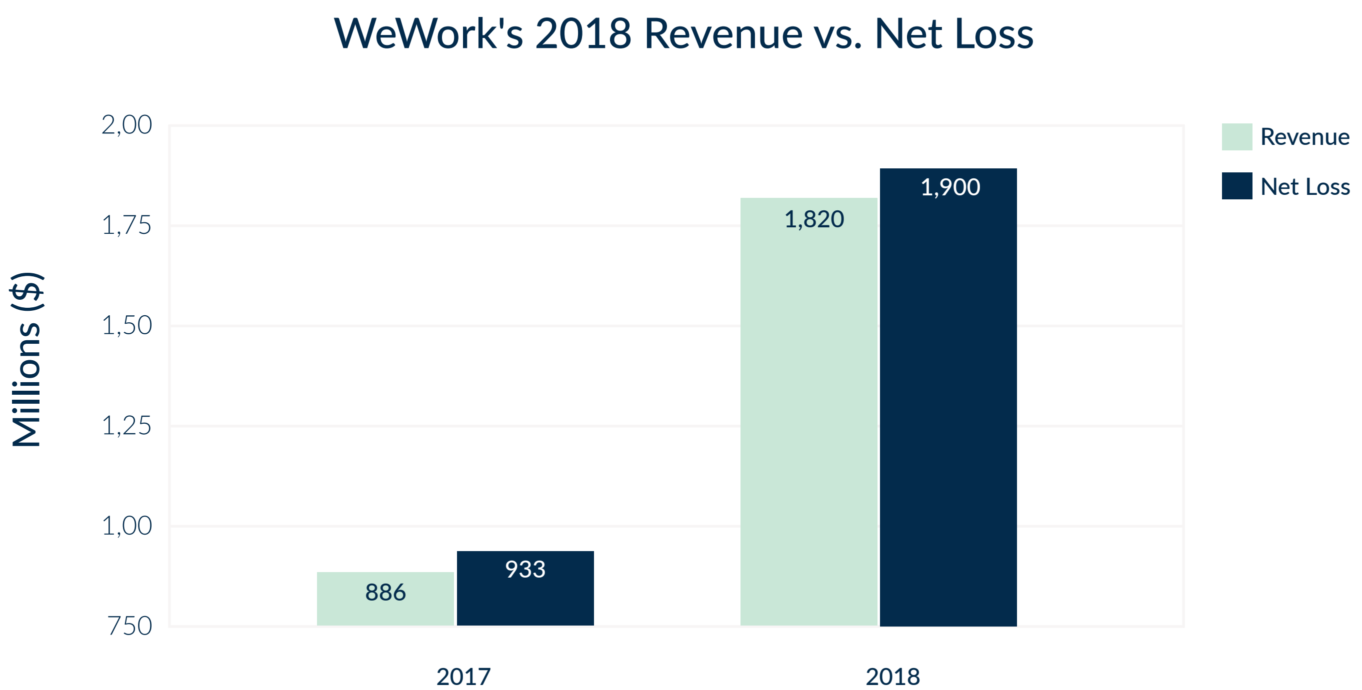
WeWork is the leader of coworking. Starting in 2010 with just one location, there are now 695 locations in 120 cities internationally. One would think that business has to be booming for such unprecedented growth... Right?

JLL's 2019 coworking report[38] stated the coworking sector has grown an average of 23% annually since 2010, which is unlike any other sector's growth. In 2018 alone, coworking accounted for approximately two-thirds of the national office market occupancy gains.

Some landlords are relieved to have WeWork lease up 40,000-120,000 sf of their building. But other landlords can only lease to creditworthy tenants, and WeWork is not a creditworthy tenant.

[38] JLL Research. (2019). Flexible space evolves (Rep.). JLL.

Furthermore, leasing to WeWork can come with high tenant improvement allowances and invasive build outs, making them an unattractive tenant. Their redemption comes in the lease terms–usually signing longer term leases at top of market prices. When signing leases, WeWork signs under an LLC, after putting down a significant security deposit to render the cost of the build out. But they only guarantee a portion of their lease term length, leaving the balance of the term to be held liable by the limited liability company. This relieves WeWork of liability for the full length of the lease.



Even though WeWork has made significant jumps in revenue from 2017 to 2018, so has their net loss. Their net margin is negative and overall growth is flat. As WeWork approaches a possible IPO, analysts are scrutinizing WeWork's profitability despite revenue growing by 105.4% in one year.[39]

CrowdStreet's VP of Investments, Ian Formigle believes, "the fatal blow for WeWork may be the IPO itself. In a market downturn, you can easily see a scenario where, on the heels of successive disappointing quarterly results, the street decimates its stock price. In that event, what follows is a downward spiral of rising debt costs and bad press that accelerates beyond the company's control. Faced with such a prospect, the prudent move is for WeWork is to stay private until the next cycle emerges."

Further, Formigle predicts "WeWork is headed for a major correction in the next downturn. With losses that have been doubling year-over-year (and losses that exceed total revenues), a decrease in office leasing demand is all that is needed for the company to experience a full-blown crisis. The type of tenant to whom WeWork caters has the most elastic demand for office space. Many of its current tenants like WeWork mainly for the camaraderie and cool vibe and not for getting actual work done, which makes WeWork's space a "nice to have" but not "must have". In a downturn, the people coming out of the basement to take space at WeWork can easily go back to the basement."

[39] Sourced from WeWork Financials

CONCLUSION

We believe that 18-hour cities with strong population and employment growth, coupled with a relatively low cost of doing business, provide investors with the best range of commercial real estate investing opportunities.

KEY TAKEAWAYS FROM OUR ANALYSIS:

- We believe the most promising emerging 18-hour city is Charleston, SC.
- In order to keep up with consumer demand for two-day shipping, retailers are outsourcing shipping and handling to third party logistics (3PLs). Those 3PLs are fueling demand for warehouse space.
- The senior housing middle market demands are not being met by current inventory, providing the opportunity to reach an underserved (and growing) market.
- WeWork, and coworking in general, have grown tremendously. However, WeWork’s net losses outweigh revenue. Despite our overall optimism about co-working as an office space solution, we having growing skepticism about WeWork's business model as a possible IPO approaches.

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.