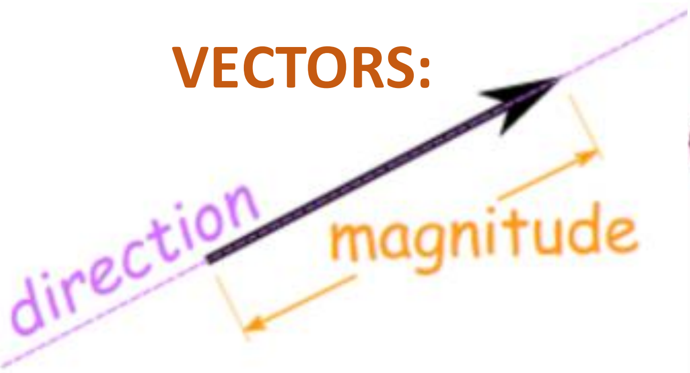
Urban Land Institute South Carolina

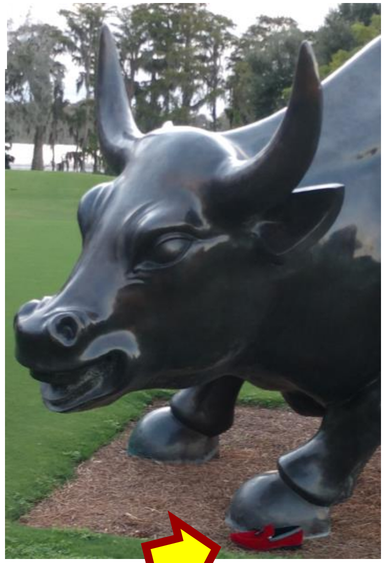
2019 CAPITAL MARKETS CONFERENCE

Hear from national experts about strategies and trends driving real estate investment today!

"Know What You Don't Know"

VECTORS:





Culverhouse College of Business
Alabama Center for Real Estate
THE UNIVERSITY OF ALABAMA®

K.C. Conway, MAI, CRE
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CCIM Institute
Commercial Real Estate's
Global Standard for Professional Achievement

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Disclaimer: Not in fine print…

ULI 2019 Capital Markets Conference 2.0
Kiawah Island, South Carolina – November 19-20, 2019

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

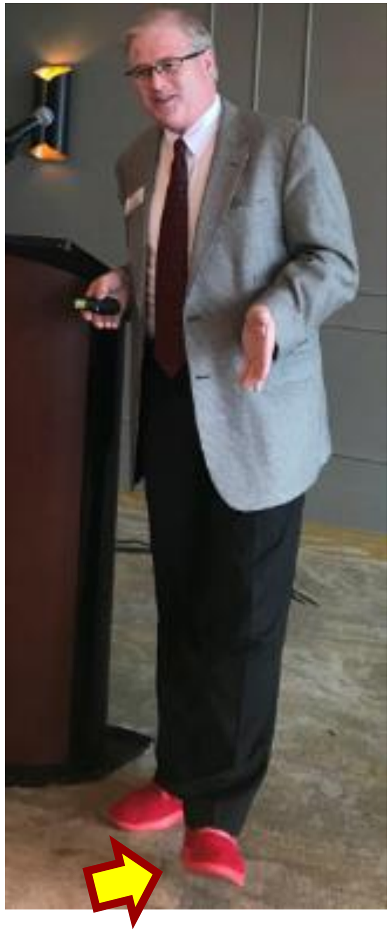
K.C. Conway, MAI, CRE
Director of Research & Corporate Engagement
Alabama Center for Real Estate
Chief Economist, CCIM Institute

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

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

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

A.K.A "The Red-Shoe Economist"



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CCIM Chief Economist / https://www.ccim.com/resources/commercial-real-estate-insights-series/?gmSsoPc=1
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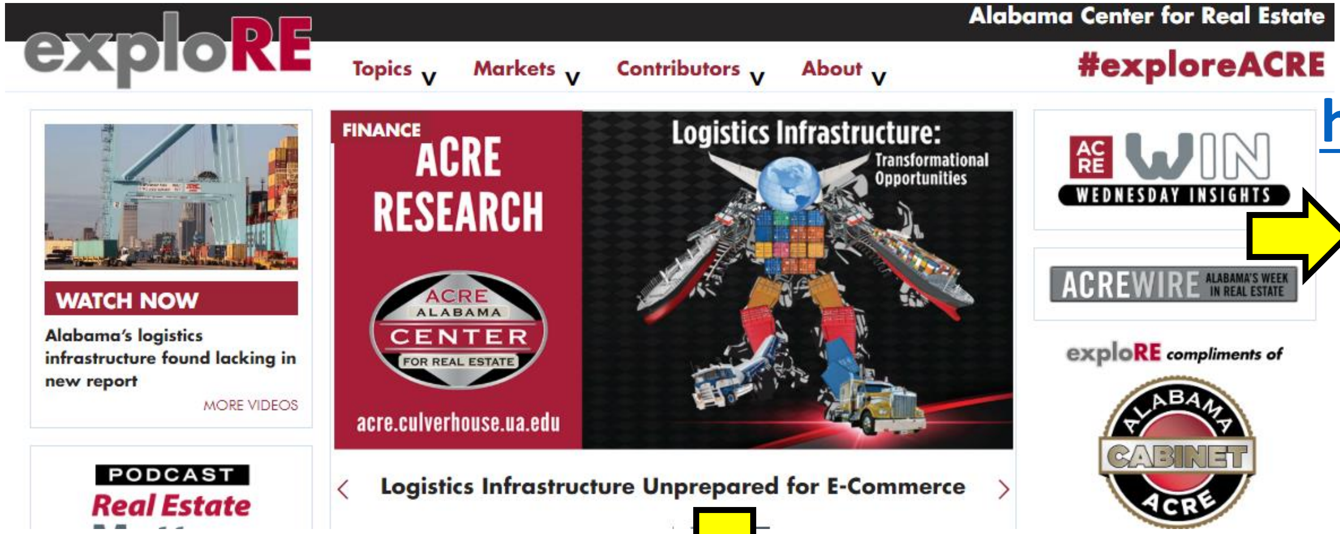
Navigating ACRE Website, Accessing WIN, Research, & Presentations …

http://www.acre.culverhouse.ua.edu/explore



http://www.acre.culverhouse.ua.edu/win

Fall Back is a time-of-year thing, not the Fall 2019 Economic Outlook:

"Modern 8" Indicators

1. **ADP and LinkedIn Employment Measures**
2. **Forward-Looking Employment Metrics: JOLTS** (more job openings than U-3) & spread between workforce expansion (new entrants 110k+-) and actual net job growth (150k/mo.)
3. **NFIB Small Business Optimism Index:** Readings above 100 are predictive of small business growth and hiring.
4. **Corporate Earnings:** As goes corporate earnings goes, CapEx spending, hiring, and wage growth = 3 quarters > expectations
5. **Rail Traffic / Emphasis on Intermodal Container Activity:** As goes rail traffic goes the U.S. economy (7 mos. of decline).
6. **Consumer Spending/Optimism:** Consumers spend less on goods today and more on services.
7. **Interest Rates and Lending Activity:** Low and accommodative lending tends to increase business investment and consumer $.
8. **CMBS Loan Delinquency:** Continuing to decline to lower levels post-2009 Financial Crisis (2.51% 3Q19).

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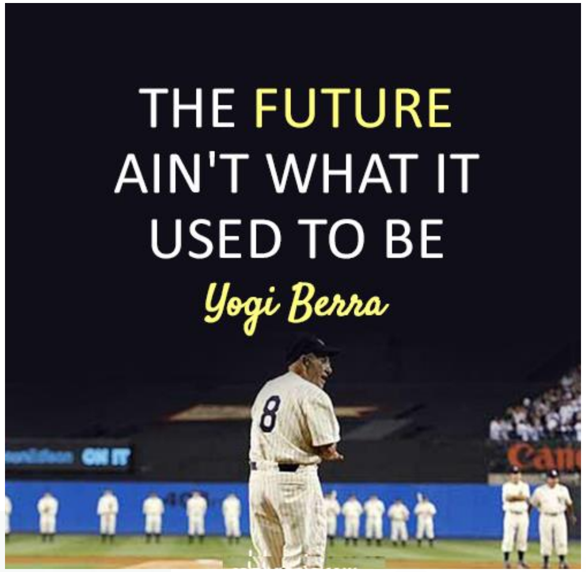
The Best Futurist Ever!

Yogi Berra had a Quote to put Anything in Perspective.



The 2nd Best Futurist is the Red-Shoe Economist!

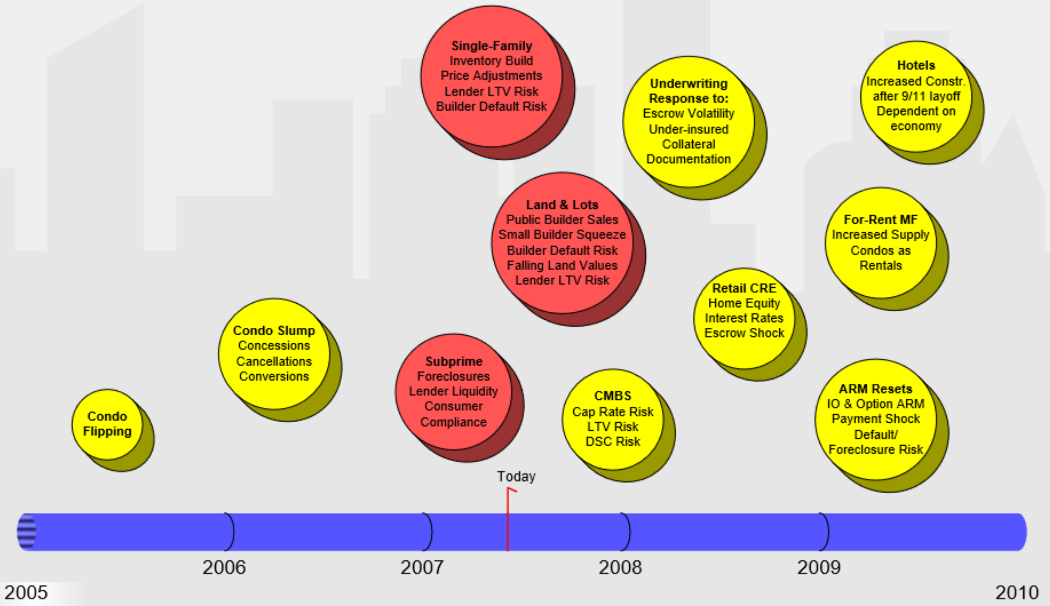
Federal Reserve Bank of Atlanta

June 11, 2007 Chairman Briefing
Board of Governors
KC Conway, MAI

FEDERAL RESERVE BANK of ATLANTA

A Bank Supervisor's View of Real Estate Market Conditions

A Bank Supervisor's Real Estate Risk Timeline



THE WALL STREET JOURNAL.

WEDNESDAY, OCTOBER 7, 2009 - VOL. CCLIV NO. 83

What's News—

Business & Finance

U.S. banks are slow to take losses on battered commercial real-estate loans, said a Fed report, and with low loan-loss reserves risk a replay of the bust in the housing market now hitting the sector. The report predicts commercial losses could reach 45% next year. C1

World-Wide

■ Some centrist Democrats warm to a health compromise. A new proposal by Delaware Sen. Tom Carper calls for government-run insurance plans at the state level to compete with private insurers. Liberals have challenged legislation nearing a vote in the Senate Finance Committee because it

Fed Frets About Commercial Real Estate

With Banks Slow to Take Losses, Fears of a Residential-Bust Repeat; 'More Pain Likely Lies Ahead'

BY LINGLING WEI AND MAURICE TAMMAN

THE PROPERTY REPORT

BANKS IN THE U.S. "are slow" to take losses on their commercial real-estate loans being battered by slumping property values and rental payments, according to a Federal Reserve presentation to banking regulators last month.

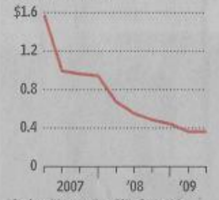
The remarks suggest that banking regulators are girding for a rerun of the housing-related losses now slamming thousands of banks that failed to set aside enough capital during the boom to cushion themselves when the bubble burst. "Banks will be slow to recognize the severity of the loss—just as they were in residential," according to the Fed presentation, which was reviewed by The Wall Street Journal.

A Fed official confirmed the authenticity of the document, prepared by an Atlanta Fed real-estate expert who is part of the central bank's Rapid Response program to spread information about emerging problem areas to federal and state banking examiners throughout the U.S.

While the Sept. 29 presentation by K.C. Conway doesn't represent the central bank's formal opinion, worries about the banking industry's commercial real-estate exposure have been building inside the Fed for months. "More pain likely lies ahead for this sector and for those banks with heavy commercial real estate exposures," New York Fed President Bill Dudley said in a speech Monday.

Rainy-Day Funds Get Swamped

Amount set aside by commercial real-estate banks* for every dollar in souring loans



*Banks with more than 50% of assets in commercial real estate

Source: FDIC

In another sign that many U.S. financial institutions are inadequately protected against potential losses on commercial real-estate loans, banks with heavy exposure to such loans set aside just 38 cents in reserves during the second quarter for every $1 in bad loans, according to an analysis of regulatory filings by The Wall Street Journal. That is a sharp decline from $1.58 in reserves for every $1 in bad loans from the beginning of 2007.

The Journal's analysis includes more than 800 banks that reported having more half of their loans tied up in commercial real-estate, ranging from apartments to office buildings to warehouses.

Loan-loss reserves typically rise and fall during any credit cycle, being drawn down as losses mount. Some analysts and investors say the recession combined with inadequate loan-loss provisions when times were good have left banks dangerously vulnerable to the deteriorating commercial real-estate market.

Mr. Conway's presentation painted a bleak picture of the sliding real-estate values and enormous debt that will need to be refinanced in the next few years. Vacancy rates in the apartment, retail and warehouse sectors already have exceeded those seen during the real-estate collapse of the early 1990s, Mr. Conway noted. His report also predicted that commercial real-estate losses would reach roughly 45% next year. Valuing real estate has always been tricky for banks, and the problem is particularly acute now because sales activity is practically nonexistent.

Some of the banks with especially low levels of loan-loss re-

Please turn to page C13

AC RE

What's behind this Economy? Disruptive Technologies

Understood/ Disruption Done

Transformation in Process creating the Risks & Opportunities

Ahead of Us. We still need to Connect these Dots

Source: Future Thinking Canvas Frank Diana

Driverless big rigs could be hitting Florida highways next year

Miami Herald

Shared from the 6/15/2019 The Miami Herald eEdition

http://digital.olivesoftware.com/Olive/ODN/MiamiHerald/shared/ShowArticle.aspx?doc=TMH%2F2019%2F06%2F15&entity=Ar74E7&sk=A1FAEE28&mode=text

Driverless semi-trucks could be sharing Florida highways as early as next year, and there will be no requirement that surrounding motorists know it.

Nor will autonomous driving systems need to be tested, inspected, or certified before being deployed under a new state law that takes effect July 1.

Starsky Robotics, a San Francisco-based startup company that's been testing its driverless trucking technology in Florida and Texas, has put out a call for job applicants who one day want to pilot big rigs remotely.

Starsky envisions its remote drivers logging onto computers in an office environment to take the reins of its trucks during the first and last miles of their long hauls.

That means the trucks will be on autopilot for the vast majority of their highway journeys.

Driverless deployments should begin in Florida by the end of 2020, Starsky says.

That's much sooner than 2027, the year consulting firm McKinsey & Company projects fully driverless trucks will be ready to hit the highway.

On Thursday, Gov. Ron DeSantis signed the bill enacting the law in a ceremony **at SunTrax, the state's new autonomous vehicle testing track in Auburndale.**

Owners of autonomous commercial vehicles will be required to carry at least as much liability insurance as the state requires for commercial vehicles driven by humans. Currently, that means a minimum level of $300,000 in combined bodily liability and property damage coverage for trucks with a gross vehicle weight of 44,000 pounds or more, and lesser amounts for lighter vehicles.

Autonomous vehicles also will be required to achieve what's called "minimal risk condition" – such as coming to a complete stop and activating their hazard lights – if their operating systems fail..

Tech Disruption – NC leads with Drones & Supply-Chain

KC Conway, MAI, CRE
ACRE - Alabama Center for Real Estate / CCIM Chief Economist / kcmaicre@gm...
1w

FAA grants a pilot Drone-Food-Delivery program to NC. Ball State University may rank NC low for Logistics, but Red Shoe Economist and FAA disagree.
https://lnkd.in/dyDeMrr
#drone #realestate #logistics #ccim #cre #realtors #exploreacre #northcarolina #technology #nc #ecommerce

Dive Brief:

- The Federal Aviation Administration (FAA) has granted Israeli dronemaker Flytrex and North Carolina-based drone services firm Causey Aviation Unmanned approval for a drone-based food delivery pilot, according to a press release emailed to Supply Chain Dive.
- The team will deliver food via drone in Holly Springs, North Carolina, as part of the FAA's UAS Integration Pilot Program (IPP) program in partnership with the North Carolina Department of Transportation and the Town of Holly Springs.
- The drones will travel along a single fixed route from a distribution center to an outdoor recreational area over mostly unpopulated areas, though the route does cross a highway. The FAA approved this route. Flytrex drones have been delivering food in Iceland in partnership with a local e-commerce site since 2017.

Want to Know about Global Transformation? 2019 FedEx Global Citizenship Report

About This Report

Our 11th annual *Global Citizenship Report* covers FedEx corporate social responsibility (CSR) strategies, goals, programs and progress. Unless otherwise noted, data covers each of our operating companies and all geographies in our 2018 fiscal year (FY18), which ended May 31, 2018.

Multiplying Opportunities Across the World

Spanning six continents and more than 220 countries and territories, our networks connect people and possibilities. We enable opportunities by drawing on our vast network of more than 5,000 hubs and facilities to deliver more than 15 million shipments each day.

Page 19 of CSR Sustainability Section: Trucks!

(Longer, double trailers = Bigger Sites / Land:Bldg ratio changing)

Also in FY18, we continued engaging with U.S. regulators to allow larger 33-foot trailers in a twin configuration. This would increase freight capacity by 18 percent and reduce truck traffic by 1.3 billion miles per year. The resulting fuel and emissions savings for our linehaul and freight operations, as well as others, would be significant.

Know What You Don't Know

It starts with a change in focus from the
Glass is half-full or half-empty
to
Who controls the pitcher
(The Pitcher Influences)

Tariffs & Trade War
Congress & USMCA
2020 Elections – Senate (GA)
Energy – Independence, Demand, Prices, …
Manufacturing & Freight Recession
C-RE Capital – Debt (The FED) & Equity
"Self-Inflicted" Corp. Missteps
(Boeing, Under Armour, etc.
BREXIT 2019 and FLEXIT US 2021

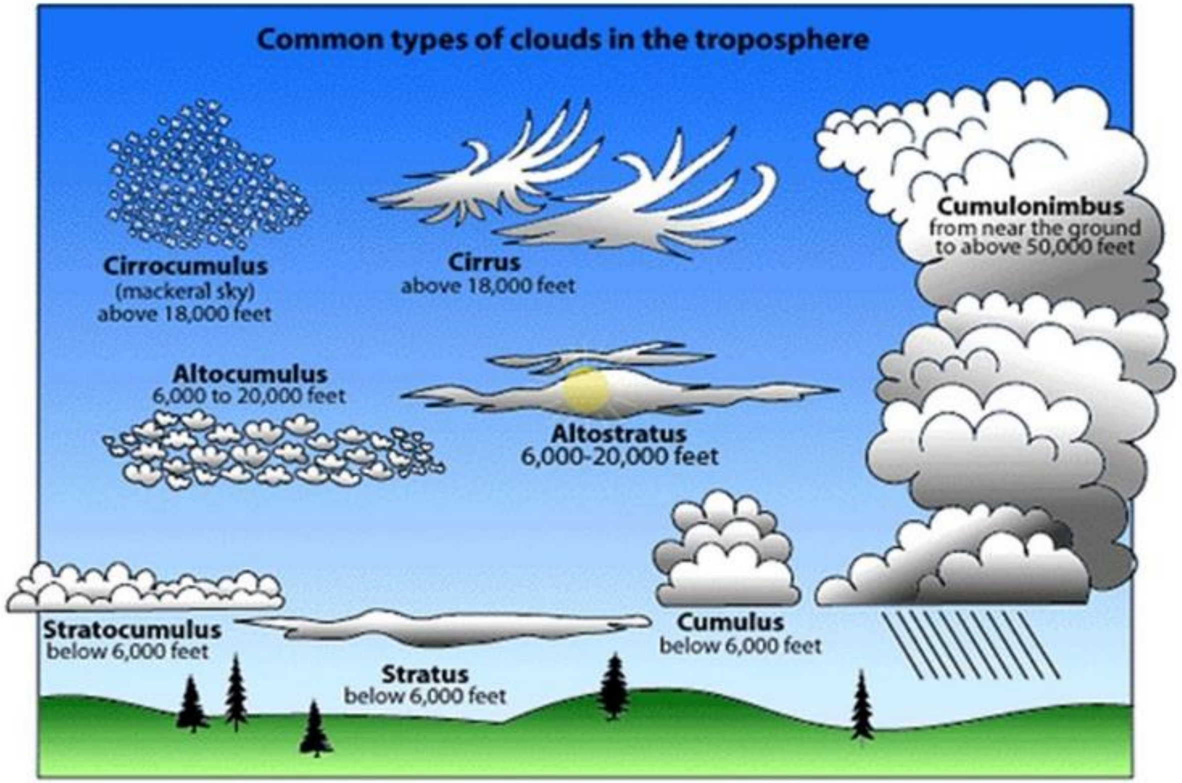
Consumer Confidence
NFIB Small Bus. Optimism
REIT Returns – All about Yield
Corporate Earnings - AMEX, WD-40 …

The FED, Monetary Policy, Inverted Yield Curve
It's an "ED" thing: "Economic Data Dependent Dysfunction"
Tariffs & Trade Uncertainty

Manufacturing – Freight Recession
Corp. Earnings – Self-Inflicted 20, like Boeing, Under Armour, WeWork
Rail Traffic

Forecasting R.E. Cycles w/o Yogi Requires

Weather Forecasting Skills like Interpreting "Economic Clouds"

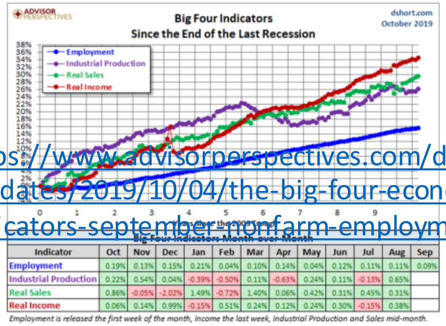


- Which clouds/economic metrics are the **innocuous cloud** formations?
- Which clouds/measures are the **cumulus types** that foretell the approach of threatening storms.

Innocuous vs. Cumulus Clouds:
What *Cloud Type/Eco Metrics* Determine a Recession?

National Bureau of Eco. Research (NBER) "4 Big Indicators"

- **Non-Farm Employment**
- **Industrial Production**
- **Real Retail Sales**
- **Real Personal Income**



Indicator	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Employment	0.19%	0.13%	0.15%	0.21%	0.04%	0.10%	0.14%	0.04%	0.12%	0.11%	0.11%	0.09%
Industrial Production	0.22%	0.54%	0.04%	-0.39%	-0.50%	0.11%	-0.63%	0.24%	0.11%	-0.13%	0.65%	
Real Sales	0.86%	-0.05%	-2.02%	1.49%	-0.72%	1.40%	0.06%	0.42%	0.31%	0.45%	0.31%	
Real Income	0.06%	0.14%	0.99%	-0.15%	0.51%	0.24%	0.12%	0.24%	0.30%	-0.15%	0.38%	

Employment is released the first week of the month, Income the last week, Industrial Production and Sales mid-month.

https://www.advisorperspectives.com/dshort/updates/2019/10/04/the-big-four-economic-indicators-september-nonfarm-employment

While simplistic, these are dated with too much emphasis on industrial production and retail sales.

An updated profile of the U.S. economy is needed to reflect the:

1. **Importance of small business activity over industrial production (more robotic & less labor intensive than prior recessions)**
2. **Consumer spending over physical retail sales**
3. **Intermodal rail traffic**
4. Growth in logistics employment as an alternative to the industrial production measure
5. **Importance of corporate earnings**
6. **Loan performance metrics (DQT %)**

The Red-Shoe Economist's "Modern 8" Indicators

1. **ADP and LinkedIn Employment Measures (BLS-L=BS)**
2. **Forward-Looking Employment Metrics: JOLTS** (more job openings than U-3) & spread between workforce expansion (new entrants 110k+-) and actual net job growth (150k/mo.)
3. **NFIB Small Business Optimism Index:** Readings above 100 are predictive of small business growth and hiring.
4. **Corporate Earnings:** As goes corporate earnings goes, CapEx spending, hiring, and wage growth = **3 quarters > expectations**
   - **TI (Chip-wreck) and Boeing do not make the U.S. economy**
   - **CSX shows a miss on Revenue but beat on expenses = Profits**
5. **Rail Traffic / Emphasis on Intermodal Container Activity:** As goes rail traffic goes U.S. eco. (**Freight Recession** 7 mos decline).
6. **Consumer Spending/Optimism:** Consumers spend less on goods today and more on services.
7. **Interest Rates and Lending Activity:** Low and accommodative lending tends to increase business investment and consumer $.
8. **CMBS Loan Delinquency:** Continuing to decline to lower levels post-2009 Financial Crisis (2.51% 3Q19).

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A Look at 3 of the **RSE's** "Big 8"

OPTIMISM INDEX

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

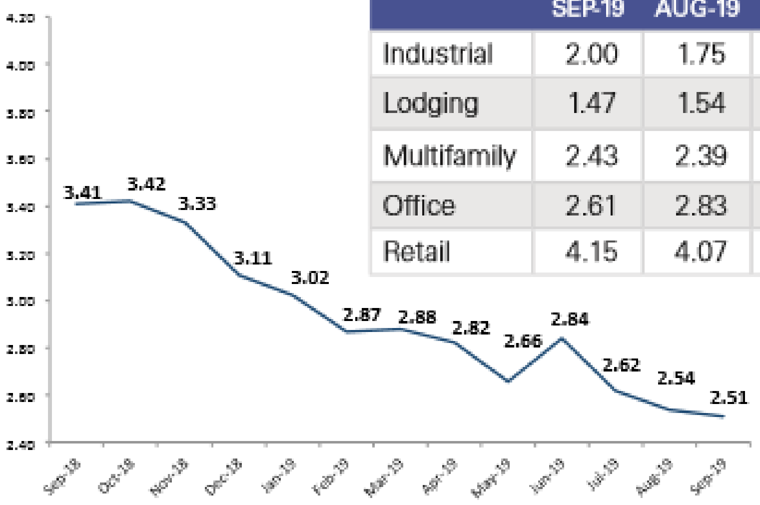
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2014	94.0	91.6	94.0	94.8	96.2	95.4	96.0	95.9	95.3	96.0	97.8	100.3
2015	97.7	98.1	95.7	96.5	97.9	94.6	95.7	95.7	96.0	96.0	94.5	95.2
2016	93.9	92.9	92.6	93.6	93.8	94.5	94.6	94.4	94.1	94.9	98.4	105.8
2017	105.9	105.3	104.7	104.5	104.5	103.6	105.2	105.3	103.0	103.8	107.5	104.9
2018	106.9	107.6	104.7	104.8	107.8	107.2	107.9	108.8	107.9	107.4	104.8	104.4
2019	101.2	101.7	101.8	103.5	105.0	103.3	104.7	103.1	101.8			

SMALL BUSINESS OUTLOOK

https://www.nfib.com/assets/SBET-September-2019.pdf

GRAPH 1: PERCENTAGE OF CMBS MARKED AS 30+ DAYS DELINQUENT

	SEP-19	AUG-19	JUL-19	3 MO.	6 MO.	12 MO.
Industrial	2.00	1.75	1.70	1.94	2.02	2.98
Lodging	1.47	1.54	1.80	2.41	1.60	2.27
Multifamily	2.43	2.39	2.04	2.11	2.01	1.95
Office	2.61	2.83	2.71	3.02	3.07	3.94
Retail	4.15	4.07	4.35	4.44	4.90	5.01



Source: Trepp

Trepp®

https://conference-board.org/data/consumerconfidence.cfm

ASSOCIATION OF AMERICAN RAILROADS

North American Rail Freight Traffic "Lowlights"

It seems clear that **U.S. railroads are facing a freight recession**. **Total originated U.S. rail carloads fell 4.6% in August 2019 from August 2018, their seventh straight year-over-year decline.** The average decline over those seven months was 4.2%, a not-insignificant amount. Meanwhile, **U.S. intermodal volume fell 5.4% in August, also the seventh straight monthly decline**.

Why Down 7 mos?

- Petro & Coal
- Autos
- Less exports/Tariffs

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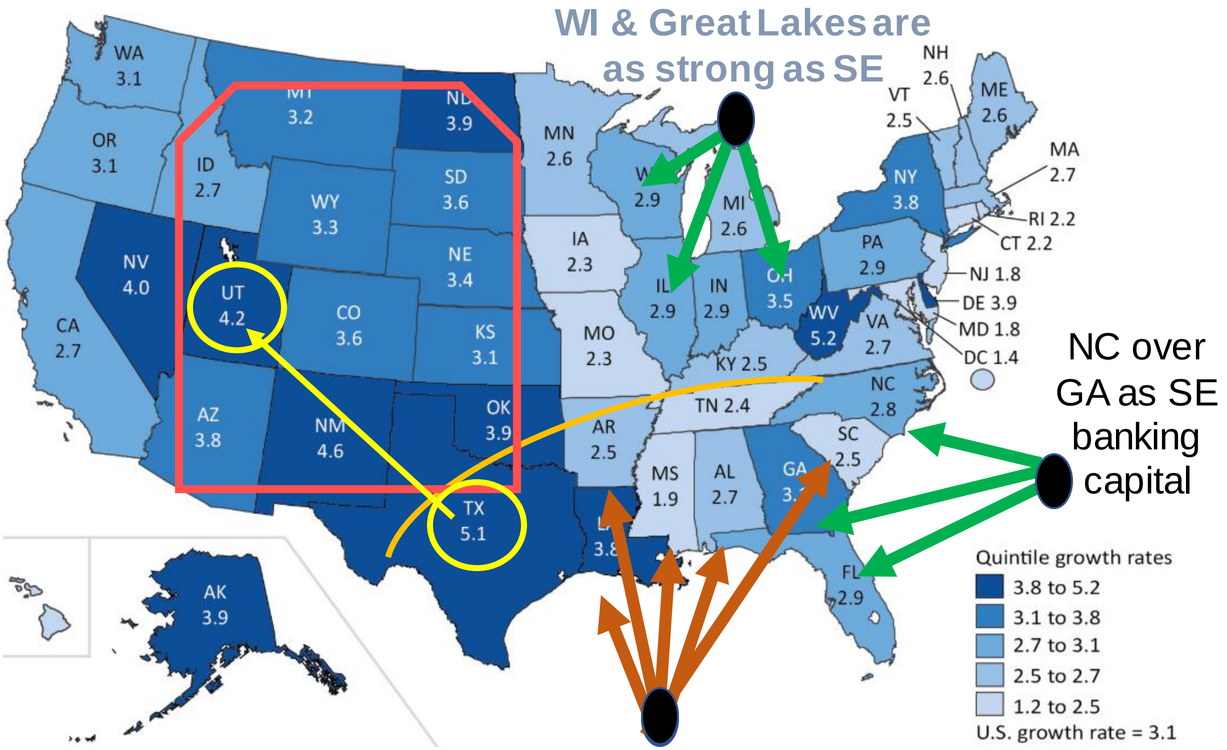
Know What You Don’t Know - GDP: Translate GDP LOCAL

Percent Change in Real GDP by State, 2018:Q4–2019:Q1 https://www.bea.gov/system/files/qgdpstate0719.png



+3% to >4% GDP in TX, the Plains & Rocky Mountain West > SE

<u>Why?</u>

- ✓ **Energy,**
- ✓ **Tech flow from West Coast**
- ✓ **Taxes (SALT) & Affordability**

- **A 2020 or 2021 recession will NOT play out uniformly** across all regions of the U.S.
- **Know your region’s exposures and risks tied to various industries:**
  - ➢ **ALMA & SC = Autos & Tariffs**
  - ➢ NC & GA = Banking (STI/BB&T)
  - ➢ The Plains = **Energy & AG**
  - ➢ Great Lakes = GM strike
  - ➢ **West & Mtn Region** = Tech, Tourism, Mining & **Where’s the STEM – w/o Cannabis issues? Colo unwinding in favor of TX, UT and AZ**

NC, FL, and GA are NOT autos and energy and less AG. It’s professional businesses, financial services (SunTrust & BBT merger win for NC and loss for GA), and tech & logistics **(What the OTIF). Could Atlanta & Richmond Fed consolidate to MIA or Charlotte NC?** AL, SC & TN have risks with both **auto and airplane manufacturing**.

UT GDP out-pacing all major Western State Economies except TX.
SLC is the affordable Austin.

Know What You Don't Know

Translate Local Data: Job Growth a 5-Yr Look

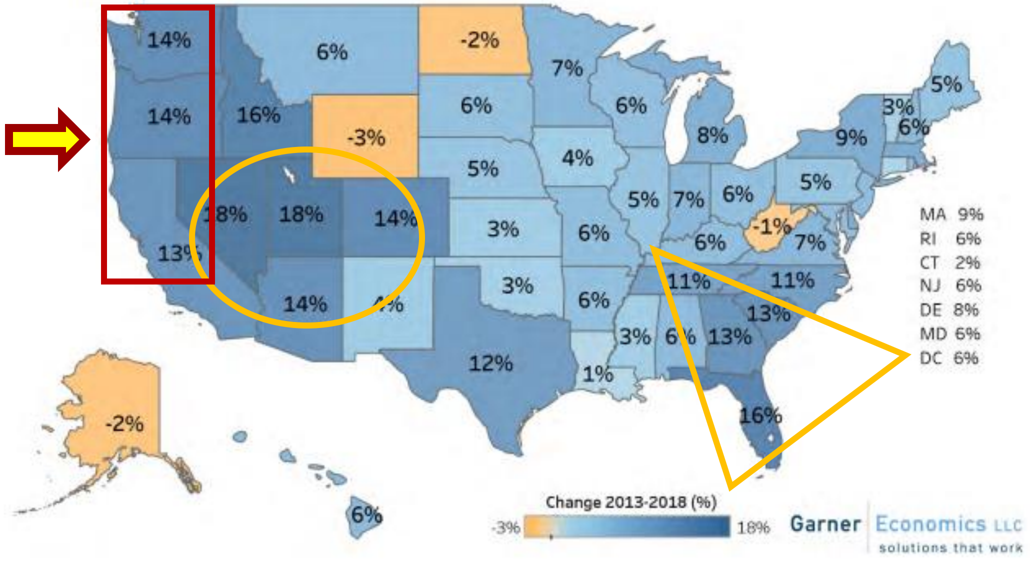
TABLE 1: TOP STATES FOR EMPLOYMENT GROWTH

Ranked by % Change 2013–2018

Rank	State	2013 Employment	2018 Employment	Change 2013-2018	% Change 2013-2018
1	Nevada	1,160,115	1,370,984	210,869	18.2%
2	Utah	1,254,582	1,478,814	224,232	17.9%
3	Idaho	630,328	730,815	100,487	15.9%
4	Florida	7,518,448	8,699,480	1,181,032	15.7%
5	Colorado	2,335,803	2,673,688	337,885	14.5%
6	Oregon	1,678,726	1,919,918	241,192	14.4%
7	Washington	2,960,123	3,374,998	414,875	14.0%
8	Arizona	2,488,009	2,825,980	337,971	13.6%
9	South Carolina	1,846,621	2,092,971	246,350	13.3%
10	Georgia	3,918,085	4,430,043	511,958	13.1%

FIGURE 3: EMPLOYMENT GROWTH IN STATES

Percent Change 2013–2018



Average Annual Employment for States

Source: Bureau of Labor Statistics, Quarterly Census of Employment & Wages, Garner Economics

Utah **#2 (+18%)**

Florida **#4 +15.7%**

(Try growing Big at >10%)

South Carolina **#9 +13.3%**

Georgia #10 +13.1%

Texas **#11 +12%**

North Carolina & Tennessee **#12 tie +11%**

West-Coast still double-digits, but knocked off top perch by Utah & FL.(SALT)

Why?

- **AFFORDABILITY**
- **STEM Workforce**
- **TECH**
- **Logistics**
- **Cannabis Revolt**

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IT'S LIKE DÉJÀ VU ALL OVER AGAIN.

CRE Finance Disruption: Déjà vu or New?

<u>The 1970s:</u> The Great Inflation. Interest rates rose sharply from 5.25% in 1972 to a Prime lending rate of 20.5% in summer of 1980.

<u>The 1980s:</u> Savings & Loan Crisis The 1981 Economic Recovery Tax Act and the change in the tax law in 1986 triggered the implosion of a critical CRE finance source, S&Ls.

<u>The 1990s:</u> The Not-So-Great Recession. United States' restrictive monetary policy in response to inflation concerns and the Fed raising rates were among the causes.

<u>The 2000s</u> The Great Recession. Leading into the 2007-2009 crisis, the Federal Reserve raised interest rates 16 times between 1Q2004 and 2Q2006, pushing the 10-year Treasury rate back to 5.0 percent.

<u>The 2010s</u> The QE Unwind and $20,000 Bitcoin question

Commercial real estate finance has come a long way **since 1955, when total debt capital invested was $250 billion**. **By 1H2018, outstanding commercial and multifamily debt totaled $4.1 trillion — a staggering 1,500-plus percent increase** in less than seven decades.

https://www.ccim.com/commercial-real-estate-insights-report/deja-vu-or-something-new/?gmSsoPc=1

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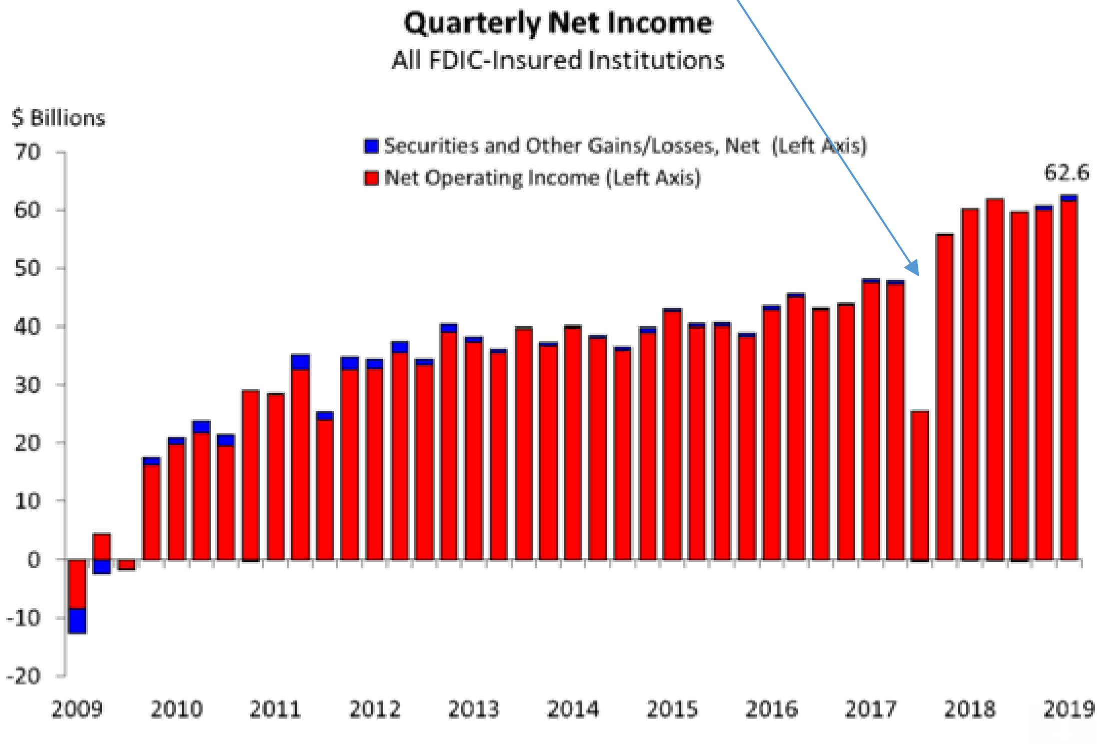
The Good & Not-so-Good about Banks/C-RE Lending

Record Net Income, but elevated CRE Concentration

Bank Performance for FDIC Insured Institutions:

The Federal Deposit Insurance Corporation (FDIC) Insured Institutions **Q2 2019 Report on Net Income** (latest available with Q3 update due December 2019) **for the 5,303 commercial banks and savings institutions insured by the FDIC** reveal plenty of wind-in-the-sails regarding profitability and C-RE credit quality. **Aggregate net income totaled $62.6 billion in second quarter 2019, an increase of $2.5 billion (4.1 percent) from a year earlier**, and **best post 2009**. Note that the noticeable dip in 2017 was a result of tax code changes.

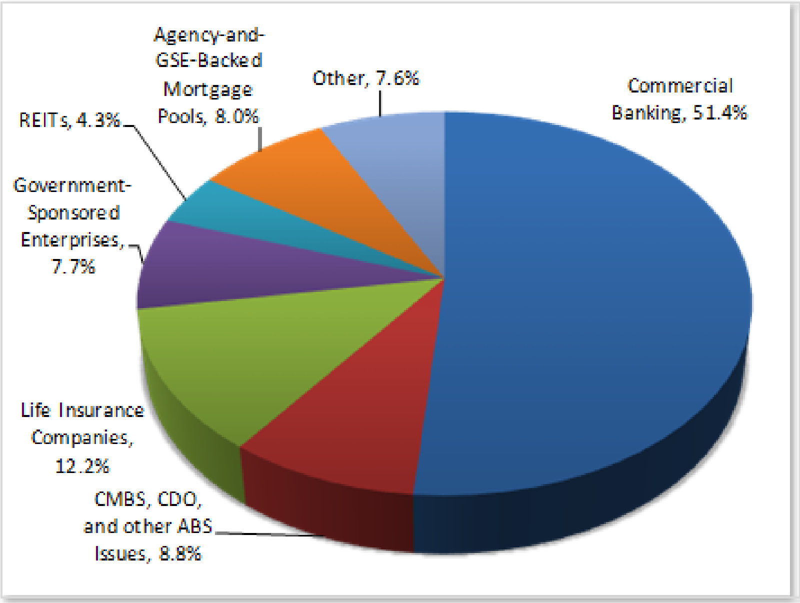


Source: FDIC.

CRE Debt Markets

Commercial and Multifamily Debt Outstanding

Total Commercial and Multifamily Debt Outstanding: $4.368 Trillion



Source: Federal Reserve Flow of Funds Report, latest data available as of June 2019

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CRE Finance: Disruption: CRE Concentration Deja Vu

Commercial Real Estate Finance Disruption: Déjà Vu or Something New?

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

Recessions and CREF Disruptions Create New Demands on Technology and Data Analytics

Look back at prior CRE finance disruptions from the past five decades and consider how this next CRE finance disruption may look like prior ones, but with very different root causes and outcomes.

The 1970s
The Great Inflation. Interest rates rose sharply from 5.25% in 1972 to a prime lending rate of 20.5% in the summer of 1980.

The 1980s
The Savings & Loan Crisis. The 1981 Economic Recovery Tax Act and the change in the tax law in 1986 triggered the implosion of a critical CRE finance source, S&Ls.

The 1990s
The Not-So-Great Recession. The United States' restrictive monetary policy in response to inflation concerns and the Fed raising rates were among the causes.

The 2000s
The Great Recession. Leading into the 2007-2009 crisis, the Federal Reserve raised interest rates 16 times between 1Q2004 and 2Q2006, pushing the 10-year Treasury rate back to 5.0 percent.

The 2010s
The $20,000 Bitcoin question.

https://www.ccim.com/commercial-real-estate-insights-report/deja-vu-or-something-new/?gmSsoPc=1

Watershed Commercial Real Estate Finance Events

How did CRE become the darling of mainstream investment?

1968
Conversion of Fannie Mae to a publicly traded company, which brought liquidity to single-family and multifamily loans that were previously limited.

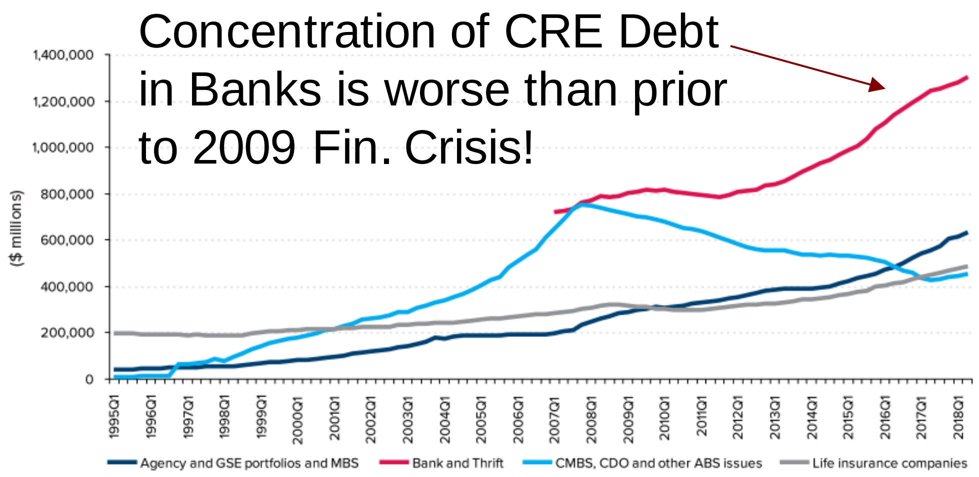
1970
Creation of Freddie Mac, creating much-needed competition in the mortgage market.

1971
Issuance of Freddie Mac's first mortgage-related security planted the seeds for the modern-day CMBS.

Early 1990s
Creation of modern-day CMBS mirrored the model pioneered by Fannie Mae and Freddie Mac, but for commercial real estate.

Figure 1: Commercial and Multifamily Mortgage Debt Outstanding

Total Commercial and Multifamily Mortgage Debt Outstanding, by Selected Sector by Quarter



Source: Mortgage Bankers Association; Federal Reserve Board of Governors; Wells Fargo Securities, LLC; Intex Solutions, Inc. and FDIC. *Used with permission.*

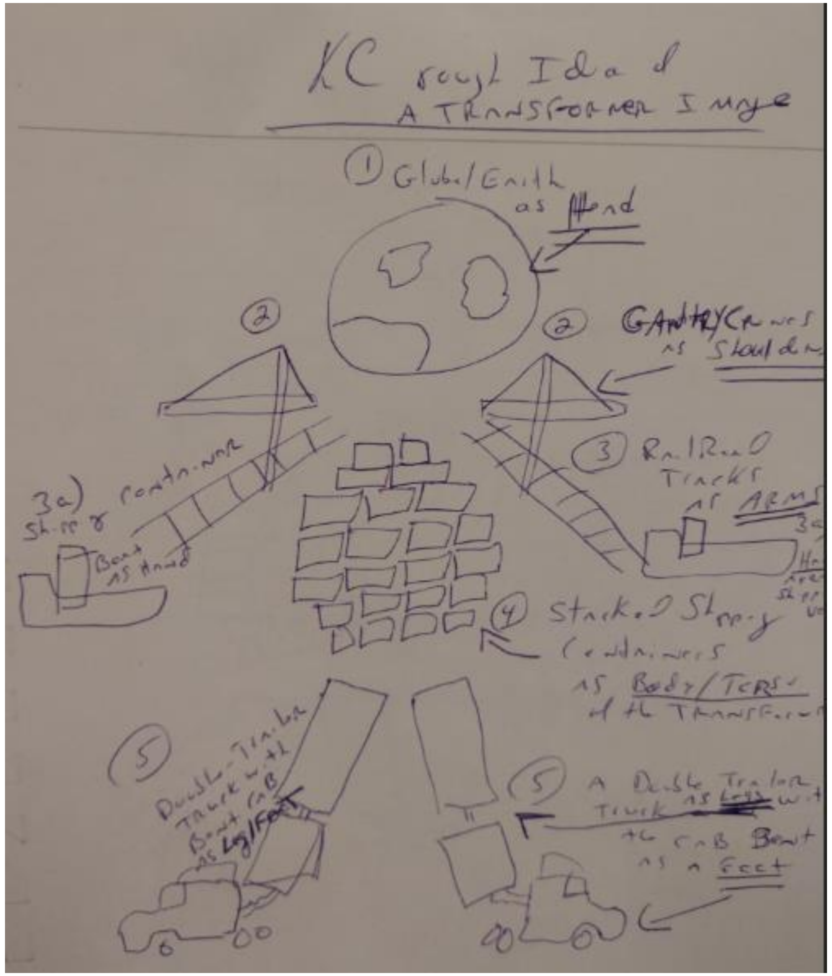
https://www.cre.org/the-counselor/fall-2018/its-like-deja-vu-all-over-again/

The Big Story 2019 and Beyond will be
Logistics & Convergence of Retail & Industrial R.E.

http://www.acre.culverhouse.ua.edu/research/logistics-infrastructure-research - Feb 8, 2019 Publication

In the beginning, the Logistics Transformer was a bad sketch

Logistics & Convergence of Retail & Industrial R.E.




ACRE Logistics Outlook

1. **The E-commerce economy will drive on-line retail sales to 20 percent of total sales by 2022.** Using Black Friday 2018 on-line sales of a record $6.2+ billion (up 20% over 2017) as a proxy, the ratio of logistics related leasing will rise from its current level of 20 percent of total industrial leasing to 30-35 percent over the next 3 years. As annual on-line retail activity grows by a mid-teen to twenty percent rate, expands into more merchandise categories - such as grocery, pharmacy, and big-and-bulky

http://www.acre.culverhouse.ua.edu/research/logistics-infrastructure-research - Feb 8, 2019 Publication

The Key Takeaways

Key Takeaway #2

A horseless-carriage, supply-chain from the 1950s cannot support a modern E-commerce Supply-Chain that is growing 25-30 percent per year.

According to the Verizon-Tracking-Digital-Commerce-Retail-Index, average e-commerce retail traffic for the Monday before Thanksgiving through Black Friday 2018 period was up nearly one-third (32.6%) over the same period in

2017. The demands on supply-chain infrastructure from a rapidly growing e-commerce economy only increase over the next decade. The pot-hole in our supply-chain is reconciling how the largest economy in the world is so far behind regarding infrastructure. The United States is the largest economy globally at $20 trillion dollars (2nd is Europe and 3rd is China with $12.5 trillion annual GDP), yet the American Society of Civil Engineers gives our Nation's infrastructure a cumulative grade of "D"+ in its latest report covering the 2013-2017 period. The age and state of our vintage infrastructure is not just inhibiting future economic and real estate development, it is forcing existing industry to relocate toward destinations

5 The shift from shop-and-take-home to online-order and deliver will result in less retail store square footage, but the tradeoff will be many new fulfillment centers and warehouses aligned with new LI.

E-commerce fulfillment centers will displace one-third of America's 1,100 malls.

From
"Shop & Take Home"
to
"Order Online and Deliver to me."

6 The development metrics by the major commercial real estate brokerages suggest a boom is ahead for new industrial warehouse development.

Warehouse is the new department store or retail big-box due to E-commerce. Demand/absorption still exceeds supply resulting in another 800msf to 1.0 billion square feet of new development

Source: April 19, 2017 CNB Feature Think-running-retail-stores-is-more-expensive-than-selling-online-think-again

Key Takeaway #7

Today the margins for On-line-Shop-and Deliver do not beat Shop-and-Take-Home, but retailers will not reverse course from E-commerce. Retailers will double-down on technology and LI to get the margins right.

The conventional assumption by manufacturers and retailers alike that on-line retail is more cost effective than traditional brick-and-mortar store retailing is not proven by the numbers. Alix Partners crunched the numbers for CNBC in 2017 and found that for apparel retailers the net margin from merchandise sold at brick-and-mortar stores was 32 percent compared to 30 percent for on-line apparel sales. How can this be? It's because the cost to build the

The consumer isn't going back to traditional retail any more than it is to traditional banking.

retail Omnichannel systems, operate last-mile delivery reliant upon an inefficient 1950s to 1970s infrastructure utilizing congested highways and roadways, and the volume of returned online merchandise (now an estimated 30% of all merchandise sold online), are much more capital intensive than leasing, stocking, and staffing brick & mortar retail stores.

http://www.acre.culverhouse.ua.edu/research/explore-research

Feb 11, 2019 Publication

05 JUL 2019 | DIANA BELL

https://product.costar.com/home/news/shared/1878512855?utm_source=costar&utm_medium=email&utm_campaign=1&utm_content=p0

Industrial Wave Surges With Tallest East Coast Distribution Center

Goldman Sachs Venture Aims for Fastest Last-Mile Fulfillment

Goldman Sachs Asset Management and DH Property Holdings have started construction for their joint-venture development of 640 Columbia St., **a three-story logistics facility in Brooklyn's Red Hook neighborhood that the team says will allow for the fastest last-mile fulfillment possible in the nation's largest city.**

Spanning 336,500 square feet and designed by architecture firm Ware Malcomb, **the project is touted to be the tallest distribution center on the East Coast.** Located on the Red Hook waterfront, 640 Columbia is within an hour's drive of 13.5 million consumers and specifically designed to capitalize on demand for efficient warehouse space by e-commerce tenants, according to the joint venture.

It is expected to be open in the fourth quarter of 2020, said Joe Sumberg, managing director of Goldman Sachs' Private Real Estate division.

"We are more bullish now about last-mile industrial in the New York City area than we were when we originally acquired the property," Sumberg said. According to a recent industrial report by CoStar market analytics, **the team signed a 99-year ground lease for the lots comprising the site valued at $280 million.**

The Logistics Jewell in NC …

Charlotte Intermodal @ Charlotte-Douglas Airport

Charlotte Regional Intermodal Facility at CLT

On Wednesday, March 28, 2012, Norfolk Southern and the City of Charlotte signed a lease agreement for the property, which allowed Norfolk Southern to begin construction immediately at Charlotte Douglas International Airport (CLT).

- The Airport is strategically positioned for the intermodal facility, creating an intermodal hub linking air, rail and truck to east coast seaports.
- North Carolina Department of Transportation (NCDOT) completed construction of the I-485 ramps to West Boulevard and the Airport completed a relocation of West Boulevard that provides the facility's road connection.
- Construction was completed in 2014.
- The facility is managed by Norfolk Southern.
- It replaces the 40-acre intermodal facility along North Davidson and North Brevard Streets in Uptown Charlotte.
- By relocating to the Airport, Norfolk Southern was able to expand the facility to 200 acres and remove hundreds of tractor trailers from the streets of Center City.
- The facility is expected to generate $7.6 billion in regional economic development throughout the next 20 years. It also promises to create more than 7,000 jobs in Charlotte and the surrounding region by

NC Gets no RESPECT re Logistics

Red-Shoe Economist (RSE) calls BBQ Sauce on Ball State Univ. Logistics Rankings

Study: NC gets a 'C' grade in manufacturing, logistics

https://www.bizjournals.com/triad/news/2019/08/02/study-nc-gets-a-c-grade-in-manufacturing-logistics.html?ana=e_me_set1&j=89727461&mkt_tok=eyJpIjoiTUdZeU9EZ3dZVGN5T0RJMyIsInQiOiJxNWMyeHRzMHdnWEJYYzlnRm16Kzdxa1BLXC9XNWdwXC9Uc0dCOWZWQ0hKcGJPMGZRZ2hUZ1FyMDAwT2Y3dTA4cndsMlJCRjJ0XC9RaGFIVUduWnRqNnZYXC9YbWl5T0hLTitxejErbzkyUUFUSUFNS1ZWQ3dFbGlNaFwvRE5OQTBsWWZGIn0%3D

RSE's BBQ-Sauce list:

The latest Logistics rankings study by **Ball State University giving North Carolina a "C" and poor ranking for Logistics.** My LinkedIn BBQ-Sauce call on Ball State University Logistics rankings this week calling BBQ-Sauce on the rating for North Carolina noted the following refuting the "C" grade and poor ranking:

- **North Carolina has the only airport with intermodal rail directly into it at Charlotte airport**.
- North Carolina is bisected by I-85, I-95 and it has great port access south to Charleston, S.C., and north to Virginia.
- **RSE ranked North Carolina as state with the best airports earlier this year**.
- Industry Week just published a piece on the 10 best places to work in manufacturing and two were in the Carolinas.
- Also check out ACREs 2019 Logistics Infrastructure report for the real story on Logistics Infrastructure.

  (North Carolina has my RESPECT on Logistics Infrastructure.)

Foreign Direct Investment (fDI) likes the SE & Logistics/Port MSAs

[FDi's (Foreign Direct Investment) 2019 American Cities of the Future] recent study is a robust look at American cities with an eye as to where foreign direct investment should be looking in the U.S.

https://www.scribd.com/document/413192559/FDi-American-Cities-of-the-Future-2019-20#from_embed?campaign=SkimbitLtd&ad_group=126006X1587343X94d259a9c2fec436463053ef991adb86&keyword=660149026&source=hp_affiliate&medium=affiliate

MAJOR AMERICAN CITIES OF THE FUTURE

TOP 10 MAJOR AMERICAN CITIES OF THE FUTURE 2019/20 – OVERALL

RANK	CITY	STATE	COUNTRY
1	New York	New York	US
2	San Francisco	California	US
3	Toronto	Ontario	Canada
4	Montréal	Quebec	Canada
5	Houston	Texas	US
6	Chicago	Illinois	US
7	Boston	Massachusetts	US
8	Los Angeles	California	US
9	Mexico City	Federal District	Mexico
10	Miami	Florida	US

MID-SIZED AMERICAN CITIES OF THE FUTURE

TOP 10 MID-SIZED AMERICAN CITIES OF THE FUTURE 2019/20 – OVERALL

RANK	CITY	STATE	COUNTRY
1	Mississauga	Ontario	Canada
2	San José	San José	Costa Rica
3	Raleigh	North Carolina	US
4	Salt Lake City	Utah	US
5	Québec	Québec	Canada
6	Hamilton	Ontario	Canada
7	Richmond	Virginia	US
8	Brampton	Ontario	Canada
9	Birmingham	Alabama	US
10	Surrey	British Columbia	Canada

Property Type Outlook: Office, Retail, Industrial & Housing

1. **Too Much Focus on Cycle? No recession in, but maybe State Secession.**
2. **U.S. Remains the Preferred Destination for Capital.**
3. **This Market Loves Industrial.** Industrial properties of **any stripe are highly desirable** (Small & older are the other boxes with opportunity)
4. **Retail - Retail e-Volution and Adaptive Reuse.**
5. **Office -** Companies now look at costs in terms of **cost-per-person rather than** purely **cost per square foot.**
6. **On the Horizon? Rent Control & Prop. Taxes. These are the Black-Swans that could stop the party?"**

5 Predictions for the Future of Retail

Prediction #1: As Online Continues to Grow, Retail Reimagines Itself

Prediction #2: More Co-Retailing Pops Up in Hospitality

Prediction #3: E-Commerce Goes the Extra Last-Mile

Prediction #4: What's Old Is New Again: The Rise of Adaptive Reuse

Prediction #5: Nothing Is Certain Except Death and Property Taxes

Logistics & Industrial: What the OTIF?

Potential U.S. Supreme Court Case Could Result In Ban On Inclusionary Zoning

BISNOW

October 8, 2019 | Matthew Rothstein, Bisnow East Coast

The U.S. Supreme Court is considering whether to hear a case that could have **implications for affordable housing.** The case, Dartmond Cherk v. Marin County,

ACRE

Property Type Outlook: Housing – SF and MF

How do you value a **"All Homes For-Rent" Subdivisions?** (5% of new home construction is 4-Rent subdivisions)

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The U.S. Supreme Court is considering whether to hear a case that could have **implications for affordable housing.** The case, Dartmond Cherk v. Marin County, rests on whether or not it is legal for a California county north of San Francisco to impose a fee. **Marin County law mandates such fees for zoning changes that don't set aside a portion of planned residential units for affordable housing.**

Multifamily: Furnished units is the new amenity

Last week BizNow (Oct 3, 2019) published a feature titled: **"For Millennials In Multifamily, Furniture Is The Newest Amenity."** The news is that developers and home furnishing retailers are teaming up to compete for tenants in markets saturated with new luxury MF housing. **Great twist on an old concept, but many issues emerge.** For example, who is liable for the leased furnishings? **How does the lender and appraiser segregate this amenity that is not real estate?**

'Unassuming' Tertiary Markets Lead Multifamily Opportunity Zone Charge

BISNOW

Investors that have been looking to big cities like New York, Boston, Los Angeles and San Francisco have faced high construction costs and higher levels of supply — and **turned their focus elsewhere - like**"unassuming" markets in Nevada (Reno), Oklahoma City and Kentucky have attracted a flurry of multifamily investment activity, according to real estate data site **Reonomy's State of the Multifamily Market in Opportunity Zones report.**

https://www.bisnow.com/national/news/opportunity-zones/unassuming-tertiary-markets-lead-multifamily-opportunity-zone-charge-101176?utm_source=CopyShare&utm_medium=Browser

Housing Affordability: Opportunity or Risk?

Affordable, but … NOT quite a SF-Home; CA at Crisis Point; DC is Innovating

Affordability gone too far, but not far-fetched☺

Parking lots are the new solution to the homelessness crisis in cities — but they're also part of the problem

Los Angeles Curbs Homelessness with Safe, Overnight Parking Lots

Parking lots, subsidies fill breach

The California Assembly has passed a bill that would require every community college in the state to provide a safe parking lot where homeless students can sleep in their cars overnight. Massachusetts, meanwhile, launched a pilot project this year that enables students at four community colleges to live in campus housing at nearby four-year universities.

https://www.usatoday.com/story/money/2019/06/10/homelessness-among-college-students-growing-crisis/3747117002/?utm_source=Alabama+Center+for+Real+Estate&utm_campaign=5bb6c42062-EMAIL_CAMPAIGN_2019_05_31_03_38_COPY_01&utm_medium=email&utm_term=0_4c31a9273e-5bb6c42062-35222455

Housing Affordability showing up in Green Street CPPI

Commercial Property Price Index – November 6, 2019

Green Street CPPI: Sector-Level Indexes

	Index Value	Change in Commercial Property Values		
		Past Month	Past 3 Mos	Past 12 Mos
All Property	134.8	1%	1%	2%
Core Sector	134.1	1%	1%	4%
Apartment	151.3	2%	4%	6%
Industrial	160.6	2%	3%	12%
Mall	107.4	0%	-6%	-13%
Office	116.8	0%	1%	3%
Strip Retail	111.5	0%	1%	2%
Health Care	141.8	0%	1%	1%
Lodging	109.2	0%	0%	0%
Manufactured Home Park	230.2	2%	7%	20%
Net Lease	99.0	0%	0%	1%
Self-Storage	186.7	0%	5%	5%
Student Housing	155.3	0%	2%	5%

Manufactured Housing leads all Property Types by a long-shot at +20% YOY (Nov '19 Gr-St-Adv CPPI)

https://www.greenstreetadvisors.com/insights/CPPI

Key Attributes of Green Street's Commercial Property Price Index

- **Institutional Quality:** The index is based on Green Street's frequently updated estimates of price appreciation of the property portfolios owned by the REITs in its U.S. coverage universe. It is driven by the NAV models maintained by the research team, which, in turn, are driven primarily by changes in market cap rates and NOI growth prospects. Since REITs own high-quality properties, the index measures the value of institutional-quality commercial real estate.
- **Timeliness:** Other indices, based on either closed transactions or formal appraisals, reflect market prices from several months earlier. Also, the Green Street index value for a given month is released within days of month-end, whereas other indices have a sizable lag.

Property Type Outlook: Retail
In Retail, Small Is the New Black; Think Services

This white paper is not another examination into the demise of retail, because in the immortal words of Mark Twain, "The reports of [its] death are greatly exaggerated."

Nor is it another foretelling of how the use of retail stores is morphing from a place to shop to something experiential. Retail has always been experiential.

5 Predictions for the Future of Retail

Prediction #1: As Online Continues to Grow, Retail Reimagines Itself

Prediction #2: More Co-Retailing Pops Up in Hospitality

Prediction #3: E-Commerce Goes the Extra Last-Mile

Prediction #4: What's Old Is New Again: The Rise of Adaptive Reuse

Prediction #5: Nothing Is Certain Except Death and Property Taxes

And new metrics and data like OTIF and inline store closings/openings

Property Type Outlook: Retail - Small is the new Black;

Retail e-Volution: Predictions for 2025

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

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Retail Prediction

As Online Continues to Grow, Retail Reimagines Itself

More Co-Retailing Pops Up in Hospitality

E-Commerce Goes the Extra Last-Mile

OTIF: The New Retail Logistics Metric

What’s Old Is New Again

Nothing Is Certain Except Death and Property Taxes

Myth #1: Retail Bankruptcies and Store Closings Are Due to Less Consumer Spending

Myth #2: After Years of Bankruptcies and Thousands of Store Closings, Both Will Abate in Coming Years

Myth #3: Online Retail Is Expanding Because It Is More Cost Effective

RETAILERS WITH LARGEST CMBS EXPOSURES

TENANT/ANCHOR	TOTAL LOAN BALANCE	TOTAL EXPOSURE BALANCE	# OF DEALS	# OF LOANS
Forever 21	$19.53 Billion	$991.5 Million	146	187
Macys	$18.47 Billion	$4.18 Billion	133	161
JCPenney	$17.52 Billion	$3.45 Billion	199	270
H&M	$12.10 Billion	$663.3 Million	111	133
Dick's Sporing Goods	$11.82 Billion	$1.40 Billion	173	227
Nordstrom	$11.27 Billion	$1.69 Billion	101	111
Ross Dress for Less	$9.60 Billion	$1.13 Billion	247	361
Old Navy	$9.05 Billion	$712.7 Million	156	182
Barnes and Noble	$8.34 Billion	$560.5 Million	126	146
Burlington Coat Factory	$7.48 Billion	$1.01 Billion	143	178

Source: Trepp (www.trepp.com)

Know which tenants are overleveraged in your retail center!

AC RE

BISNOW

Levi's Opening 100 More Retail Stores As Its Wholesale Numbers Drop

Small is the New Big for Levi's

October 27, 2019 | Dees Stribling, Bisnow National

Levi Strauss & Co. has been busy this year **bucking the tide of retail closures, and said it will have opened a total of about 100 new U.S. locations by the end of 2019.** The openings represent a retail thrust by the clothier as **its wholesale business declines, including sales to struggling concepts such as department stores**.

According to Levi's CEO Chip Bergh, **the company's direct-to-consumer performance in the U.S. remains very strong, up 7% for the year**, with e-commerce outlets and full price stores all growing. When he joined Levi's **eight years ago, U.S. wholesale was almost half of the company's entire global business**, Bergh said during the company's most recent earnings call. **"Today, it's around 30%** of the company's business, and this will continue to trend down as other parts of the business grow at a faster pace," Bergh said. He said **the company's U.S. strategy in the next few quarters will include testing smaller footprint stores.** **The company is betting that consumers will continue to be willing to pay full price for jeans in Levi's stores, as opposed to picking them up at a discount in a non-specialty store**. Bergh **blamed the overall softness in U.S. department stores and chains, primarily due to the well-known downward traffic trends in the sector, for the weakness in Levi's wholesale sales.**

https://www.bisnow.com/national/news/retail/levis-opening-100-more-retail-stores-as-its-wholesale-numbers-drop-101492

Adaptive Reuse Solution for Retail: Turning Blight Bright again?

CCIM

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

Adaptive Reuse: Turning Blight into Bright

Quantifying Adaptive Reuse Activity

We estimate that the U.S. has an existing inventory of nearly 32 billion square feet of commercial office, retail, and industrial warehouse space[1]. In addition, the U.S. has an estimated 11 million multifamily units and 2.5 million hotel rooms. Altogether, that amounts to an estimated 32.3 billion sf of core commercial real estate space. AdRu activity is comingled with, and thus hidden among, those billions of square feet.

The Problem: AdRu activity is not tracked

As a result of this data void, developers, lenders, and equity investors have no source to turn to today that can translate how much of this existing multifamily, hospitality, office, retail, and industrial space has been or is currently undergoing adaptive reuse[2]. They're unable to discover the impact AdRu is having on existing inventory — and the market implications on absorption, vacancy, and rents -- without engaging in an expensive and time-consuming custom market and feasibility study.

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

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

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

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

https://www.ccim.com/newscenter/commercial-real-estate-insights-report/ccim_cre_insights_report_3q18_web/

ACRE

Adaptive Reuse

Retail to E-Commerce Solution in Mesquite TX

The Best Place for a New Warehouse? An Old Mall

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

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

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

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

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

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

Adaptive Reuse: Repurposing former Macy's in Pittsburgh to Office & School

KC Conway, MAI, CRE

ACRE - Alabama Center for Real Estate / CCIM Chief Economist / kcmaicre@gm...

2w

Here is my new favorite Adaptive Reuse project - former Macy's to become office and a charter K-12 Charter cyber school in Pittsburgh.

There is life after retail. Think Adaptive Reuse when trying to repurpose a dark Big-Box. Nice job Pittsburgh - and thank you Sharon DiPaolo for passing this new AdRu project onto my attention. City leaders across the US struggling with what to do with empty retail, check out this Adaptive Reuse

The former Macy's department store in the Waterfront shopping center in Homestead is being converted into **Class A office space with the signing of two tenants** who will occupy most of the two-story building.

Siemens Mobility Inc. and the **Commonwealth Charter Academy** have signed long-term lease agreements to occupy most of the former Macy's store, according to Marty Sweeney, senior vice president of M&J Wilkow, the Waterfront's managing partner.

Siemens will operate a 56,165-square-foot engineering and research and development hub for rail infrastructure on the second floor.

Commonwealth Charter Academy, a K-12 cyber charter school, will lease 64,197 square feet of the building's first floor.

Siemens said the company **signed a 10-year lease** for space in the former Macy's building, which **will be the company's Pittsburgh headquarters**

Adaptive Reuse: Repurposing former Car Dealership in NC to Office

KC Conway, MAI, CRE
ACRE - Alabama Center for Real Estate / CCIM Chief Economist / kcmaicre@gm...
5d

What a great Adaptive Reuse. More of thus to come as auto sales migrate to online model and great auto dealer locations need to be repurposed. We are seeing former auto dealerships being repurposed to MF (Phoenix with firmer Mercedes dealership near downtown) to office like this example. Nice job!

By Caleb Harshberger – Staff Writer, Triangle Business Journal
Aug 13, 2019, 2:33pm EDT

The Crossroads Ford dealership in Cary has a new owner with big plans to spend millions on renovating the property into more than 100,000 square feet of modern office space.

Property Type Outlook: Industrial – Small & Old-Infill are Big

E-Commerce Driving Bigger Demand for Smaller Warehouses
https://www.wsj.com/articles/e-commerce-driving-bigger-demand-for-smaller-warehouses-cbre-says-11570701600

Demand for smaller warehouses is soaring as e-commerce and the push for faster delivery accelerates competition for industrial space close to major population centers.
Rents for U.S. warehouses of between 70,000 and 120,000 square feet rose by more than 33.7% over the past five years, to an average of $6.67 per square foot, according to real-estate consulting firm CBRE Group Inc.

Math Behind A Last Touch Warehouse Location GlobeSt.com

Not all logistics R.E. is created equal, according to **new study by ProLogis. They now break it down as follows:**

Last Touch. Bldgs. that reach large dense populations **within hours**.

City Distribution. Properties that are well-positioned to **provide 1-2 day shipping to an entire large market**. These buildings tend to be small to mid-sized located in urban areas.

Multi-Market. Distribution facilities must have the right balance between location and functionality. These buildings are newer/larger located at key transportation hubs **access to major sea and intermodal ports.**

Nuveen Acquires 29M SF Industrial Portfolio From Blackstone BISNOW

Want a current proxy for the rising value of Industrial warehouses in strategic e-commerce MSAs. **How about $103/SF** paid by Nuveen for this portfolio.

And the outlook for slowing absorption in this article is BBQ Sauce.
The Red-Shoe Economist refers you to recent Logistics and Industrial Outlook reports by Colliers, CBRE, JLL, etc. Record low vacancy. Record high asking rents. Record growth in e-commerce. **Do those facts align with slowing absorption - or why a savvy institutional investor like Nuveen would "Anticipate" value to drop** for their warehouse investment?

OTIF: The New Retail Logistics Metric

What the OTIF?

OTIF is a new metric in the logistics industry being used by retailers like Walmart and Kraft-Heinz to measure logistics performance. It will play into warehouse and e-commerce fulfillment site selection and serve as the measure of success in the online grocery battle.

OTIF went mainstream as a supply chain metric around August 2017 when Walmart began evaluating suppliers by their score and penalizing those that couldn't comply by assessing fines up to 3 percent of the value of the shipment. In 2018, Walmart started imposing this 3 percent penalty on the value of shipments if an OTIF measure of 85 percent or greater wasn't achieved. In 2019, that benchmark increased to 87 percent.

The **Red-Shoe Economist** forecasts OTIF will be an embedded variable in all warehouse site selection for e-commerce and logistics companies within two years.

And don't be surprised if you see an OTIF of 90 percent as the standard among large retailers by 2025.

Conclusion: Things the RSE Thought he Would Never Hear

"Things I thought I would never hear" update:

The Top statements thus far in 2019 include:

i) **"Bitcoin in a Safe-Haven;"** July 31, 2019

ii) **"Zero is meaningless"** Aug 19, 2019 former Fed Chair Greenspan re: interest rates/negative yielding bonds;

iii) **"REITs have low volatility"** (August 27, 2019 – CNBC Half-Time Report August 27, 2019)

iv) **Kentucky Fried Chicken's (KFC) "plant-based" chicken sandwich**. Wendy's was ahead of its time in the 1980s with its "Where's the Beef" advertising campaign.

v) **Agritainment and Goat Yoga** – Sept 10, 2019 WSJ feature story titled: *"How Do Farmers Make Money on Corn? By Charging to Shoot It from a Cannon."* What is Agritainment? It is another great American Capitalism Ideer that the **Red-Shoe Economist** forecasts is going to be exported - and could even save Europe from Brexit. Can you imagine the British Parliament and EU shooting corn at each other?

vi) **A lease is not an encumbrance on property;** and a leased property has the same property rights as a Fee Simple property without a lease." (An MAI as an expert witness in a property tax case I served as a rebuttal witness for in Sept 2019)

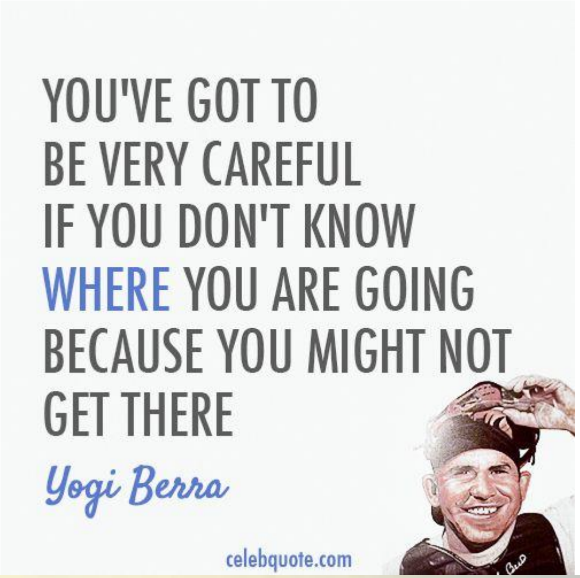
vii) **The Milk** T-Shirt

viii) **"Dallas Tiny House."**

ix) **Legal Harvesting of Road Kill** – California joined 27 other states in October to allow at the same time Beyond Meat reports record earnings.

x) **Coors is moving its HQ from Colorado."** As a native Coloradoan, I am stunned.

Q&A



KNOW WHAT YOU DON'T KNOW

Focus on the Pitcher Influences

Luke says "the Bulls are coming" again in 2020.