PATTERSON
REAL ESTATE ADVISORY GROUP

CAPITAL VIEWS

PATTERSON PERSPECTIVE

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Welcome to the fourth edition of the Patterson Real Estate Advisory Group newsletter! For me, writing the introductory article to our newsletter is always great in that it allows (forces!) me to sit back and reflect, not only on where we've been but more importantly, where we're going.

So with that as a preface, the following is what comes to my mind as we end 2019 and begin 2020:

First, as always, I want to thank the wonderful people who have chosen to work at our firm. All of our people are hard-working and smart and are dedicated to providing the highest-quality service to our clients. I'm proud to be associated with each and every one of you.

Second, I want to thank our clients – how fortunate are we to have such wonderful people who entrust their capital efforts to us. It's truly a blessing, and one which we do not take lightly.

And now – the real estate capital markets. I think it's important to start with something that has been talked about in our industry and in general in our economy for several years – and that is the question, "Where are we in the cycle?" This question is getting even more play now that we're entering a presidential election year, a time when it's always worthwhile to reflect upon strategies we think are best suited for our businesses.

My view is this – I have not thought this is a relevant question for many years and personally don't think it's the right one to ask. More important to me are the following questions: How are the real estate markets performing? Are we overbuilt? Are rents declining or decreasing? Is there a lack of absorption? Is there sufficient liquidity in the markets? We could ask more similar questions, but the answers seem pretty clear to me – things are very good in commercial real estate, especially in the Sunbelt markets. And it's hard to see what will change that. Certainly it's not a lack of underwriting discipline – capital remains diligent, smart, thorough, prudent and cautious while at the same time being willing to take acceptable risks. This is not the environment that is consistent with an end of cycle crash or even a soft downturn.

I think it's very important for our industry to keep this in mind, particularly because I believe it is possible that believing we're in for trouble just because of how long things have been good is probably the biggest way we can actually cause problems – the self-fulfilling prophecy concept. For our company, we see great growth opportunities in 2020, so much so that we are continuing to hire people, open new offices and invest capital to grow our firm.

Let me give you just one example of where our industry has gotten things wrong. You might have heard of the "forward LIBOR curve," which is the "market's" prediction of where LIBOR will be in the future. This is an important metric for commercial real estate, as assumptions on where interest rates will be in the future have a big impact on decisions we make today. The actual forward LIBOR curve is usually predicted by smart people on Wall Street, armed with reams of historical data, statistical analysis and computer models that allow them to make these predictions. So take a look at the following:

Date	10/2019	10/2018	10/2017
Actual LIBOR	1.97%	2.28%	1.24%
April 2020 Projection	1.35%	3.11%	1.95%
October 2020 Projection	1.18%	3.09%	2.03%
Forward LIBOR Prediction	Declining	Increasing	Increasing

As seen, 60 days ago the market felt LIBOR would be declining rapidly, vs. 14 months ago the market thought LIBOR would be increasing rapidly, vs. 26 months ago when the market also thought LIBOR would increase. In other words, the market has gotten this important indicator incorrect. Another example might be this – for any of you who bid on, and didn't win, the acquisition of an asset over the past five years, because some other bidder agreed to pay more, I'd ask you if in retrospect you wished you had increased your offer to where you were the winning bidder. My guess is the vast majority of the time you would be well in the money if you had been the winning bidder.

I could come up with more examples, but my point is, we are keen to make predictions about the future, especially if they're negative projections. But we are still human – which means we really don't know what the future will bring. I'm more inclined to soberly look at the current situation, which for commercial real estate looks good. And I believe it will continue that way in 2020 and beyond.

And now as I've done with previous newsletters, I'd like to end with something personal. In our summer of 2019 newsletter, I wrote about my youngest son Andrew, a platoon commander in the U.S. Marine Corps, who at the time was in the midst of his first deployment. I'm happy to say he finished that deployment in November and is now back at Camp Pendleton in California, training for his future missions. I am a big supporter of our military and of those who risk their own lives to provide the freedoms that we all enjoy. I am proud of Andrew and in his honor, I'd like to recommend something to you. If you've never watched a congressional medal of honor ceremony, or even if you have, I think it will be worth you spending 15 minutes to watch the ceremony where Lieutenant Michael Murphy was posthumously awarded the medal of honor. You might have heard of the movie Lone Survivor – or you might have heard of the Murphy Challenge. Either way, we all owe a huge debt of gratitude to heroes like him.

SELECT RECENT TRANSACTIONS

TYPE	**LAND ACQUISITION**
LOCATION	**ATLANTA, GA**
PROJECT COST / VALUE	**$40,000,000**
ASSIGNMENT	**BRIDGE DEBT & EQUITY**

TYPE	**OFFICE DEVELOPMENT**
LOCATION	**CHARLESTON, SC**
PROJECT COST / VALUE	**$37,000,000**
ASSIGNMENT	**CONSTRUCTION DEBT**

TYPE	**OFFICE REFINANCE**
LOCATION	**ATLANTA, GA**
PROJECT COST / VALUE	**$18,200,000**
ASSIGNMENT	**PERMANENT DEBT**

TYPE	**MULTIFAMILY DEVELOPMENT**
LOCATION	**CHARLESTON, SC**
PROJECT COST / VALUE	**$13,000,000**
ASSIGNMENT	**CONSTRUCTION DEBT**

TYPE	**HOTEL DEVELOPMENT**
LOCATION	**SAVANNAH, GA**
PROJECT COST / VALUE	**$87,000,000**
ASSIGNMENT	**CONSTRUCTION DEBT & EQUITY**

TYPE	**MULTIFAMILY DEVELOPMENT**
LOCATION	**ATLANTA, GA**
PROJECT COST / VALUE	**$78,000,000**
ASSIGNMENT	**CONSTRUCTION DEBT & EQUITY**

TYPE	**RETAIL DEVELOPMENT**
LOCATION	**ATLANTA, GA**
PROJECT COST / VALUE	**$59,000,000**
ASSIGNMENT	**CONSTRUCTION DEBT**

TYPE	**STUDENT HOUSING DEVELOPMENT**
LOCATION	**AUBURN, AL**
PROJECT COST / VALUE	**$106,000,000**
ASSIGNMENT	**CONSTRUCTION DEBT**

TYPE	**INDUSTRIAL DEVELOPMENT**
LOCATION	**TAMPA, FL**
PROJECT COST / VALUE	**$50,000,000**
ASSIGNMENT	**CONSTRUCTION EQUITY**

TYPE	**OFFICE ACQUISITION**
LOCATION	**ATLANTA, GA**
PROJECT COST / VALUE	**$27,000,000**
ASSIGNMENT	**BRIDGE DEBT**

TYPE	**OFFICE ADAPTIVE RE-USE**
LOCATION	**CHARLOTTE, NC**
PROJECT COST / VALUE	**$52,000,000**
ASSIGNMENT	**CONSTRUCTION DEBT & EQUITY**

TYPE	**HOTEL DEVELOPMENT**
LOCATION	**ATLANTA, GA**
PROJECT COST / VALUE	**$53,600,000**
ASSIGNMENT	**CONSTRUCTION DEBT & EQUITY**

A FRESH START

TODD FLAMAN, ***Managing Director***
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2020 came quickly for the Patterson team, and our perception is that this was the case for most of our clients and the capital providers we work with as well. To summarize the year end:

- 2019 deal flow was strong for many – some with record volume;
- Prioritization was a mandate, and there was a good amount of emphasis on year-end closings, more than in years past;
- Heading into 2020, pipelines across the board remain robust;
- Capital was and is plentiful, but cautious and smart.

That said, hopefully, you all had a chance to spend time with family and friends over the holidays and were able to get the reset you needed to take on 2020. It seemed that most people were at full capacity in 2019, and we expect that trend to continue in the new year. The good news is we think 2020 will be as positive as 2019. All transactions remain difficult, take longer than expected and cost more than budgeted, but we are still seeing deals close. We spend a lot of time listening to our clients, equity investors and debt providers. Below is what we are hearing and seeing for 2020:

PATTERSON POSITIVE PROGNOSTICATIONS FOR 2020

LIQUIDITY: Capital remains abundant and looking for good deals. New equity and debt funds continue to be raised. The demand for quality real estate investments has continued to push prices higher and has kept cap rates lower.

- As of December 2019, there was over $325 billion of dry powder available for private capital funds to invest in commercial real estate.
- $207 billion of this is targeted at North America, with $136 billion seeking opportunistic and value-add transactions. The dry powder available for North America investment is slightly down from 2018 year-end, but it remains over $70 billion above the average from 2013 through 2017. The overall growth over the past few years has been in opportunistic, value-add and debt strategies.[1]

FUNDAMENTALS:
Job growth is still robust in the Southeast.

- Across the states where Patterson has offices (GA, NC, SC, TN), combined jobs increased by +/-240,000, a 1.7% increase YoY, from November 2018 to November 2019.
- Within the cities Patterson has offices (Atlanta, Charlotte, Charleston, Nashville), the job growth was +/-2.0%. The pace of growth for these states and cities has slowed as compared to November 2017 to 2018, but it remains above the national average.[2]

ECONOMIC:
Interest rates altered their upward trajectory in 2019 and appear to be holding at lower rates through 2020.

- Last year at this time, the Federal Reserve had just come off four rate hikes in 2018 leading investors to believe interest rates would be elevated above the historically low rates we saw from 2009 – 2017.
- The Federal Reserve changed course in 2019 and decreased the Fed Funds rate three times.

PREQIN - DRY POWDER (USD BN) - NORTH AMERICA

YEAR ENDING	TOTAL	REAL ESTATE VALUE ADDED	REAL ESTATE OPPORTUNISTIC	REAL ESTATE DEBT	OTHER STRATEGIES
Dec-19	207.7	59.3	76.7	37.8	33.9
Dec-18	211.0	60.8	65.7	45.3	39.2
Dec-17	175.4	50.3	53.9	34.1	37.1
Dec-16	148.9	44	48.6	25.2	31.1
Dec-15	138.4	39.3	56.5	17.5	25.1
Dec-14	106.3	29.7	34.3	21	21.3
Dec-13	116.4	34.3	36.6	19.6	25.9
Dec-12	82.8	22.1	34.7	8.1	17.9
Dec-11	97.5	27.7	34.8	13.7	21.3
Dec-10	83.0	28.3	28.9	11.6	14.2

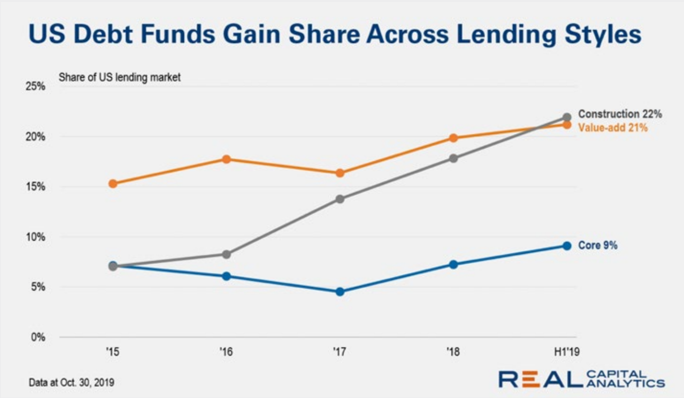
[1] *Preqin, December 2019*

[2] *Nonfarm employment, Bureau of Labor Statistics*

CAPITAL COMPETITION/EVOLUTION:

Debt funds continue to increase competition providing investors more alternatives to traditional lenders. As the debt fund internal competition has increased, rates have lowered and activity in construction has increased.

- In 2015, debt funds only accounted for 7% of construction loan activity. Through the first half of 2019, debt funds accounted for 22% of construction loans. Similarly, over this same period, debt funds increased their share of value-add loans from 15% to 21% of the market.[3]
- The increased competition has helped sponsors attain competitive and, when debt funds were involved, non-recourse financing for their projects. We have seen debt funds be very aggressive on construction take-out loans (even pre-CO) and bridge-to-bridge loans where business plans did not materialize as fast as planned.
- Loan-to-value ratios have climbed about two hundred basis points from 62% to 64% over the past year. We suspect that growth is the result of more debt fund executions in the market.



[3] *Real Capital Analytics*

2020 WATCHLIST

We're excited about 2020, but always watching carefully for signs of change. Areas we'll be focused on include:

TRUMP VS. ????:

Who wins will be impactful, but who competes will also have impact.

- The 2020 election may slow investing, but like past elections, we expect investors will learn the new rules and quickly adjust.
- Politics and regulations will continue to be an outside influence, but we continue to hope brighter minds prevail when it comes to trade wars, tariffs and international conflicts.

RISK MITIGATION:

While capital is abundant, equity is in a defensive state. In our equity raising efforts, preferred equity interest seems to be the favored stance over limited partner equity as investors look to limit their last dollar risk. It is our sense that sponsors will continue to utilize preferred equity or mezzanine financing to complete capital stacks.

WEWHO?:

The Patterson team just returned from a trip to New York to visit with various capital providers.

- WeWork was a topic at most meetings. However, the feeling was that it is just a popular topic given the recent headlines, and investors are not overly concerned. The co-working concept is here to stay, but the businesses that facilitate the concept may change.
- While concerns over WeWork are tempered, is WeWork an indicator that there are cracks in the startup market? Will growth stall in this sector?

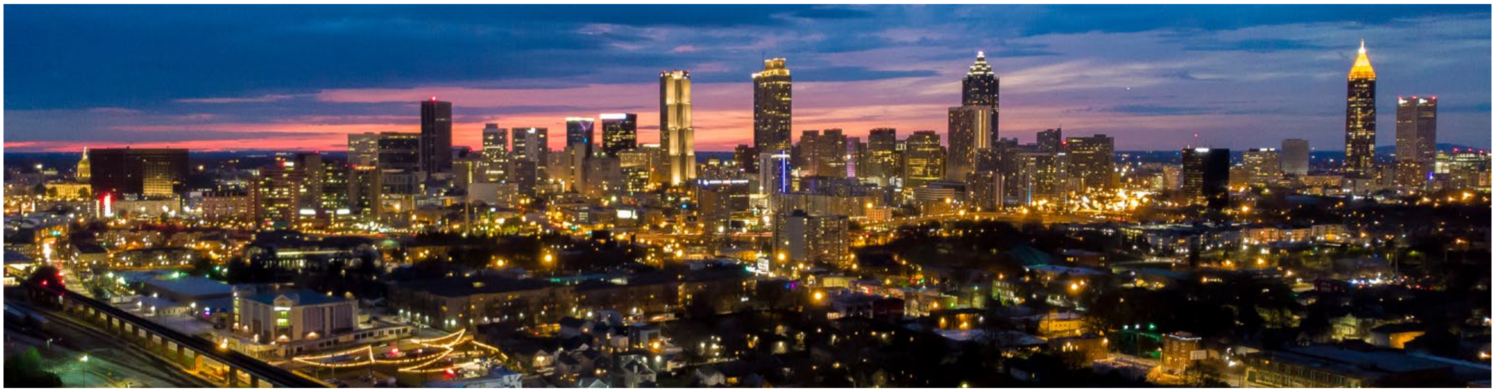
DEVELOPER INFLATION:

While inflation remains in check for most of the economy, it certainly doesn't feel that way when we discuss construction costs, which continue to escalate at a rapid pace.

- From our analysis across development deals, hard cost figures are increasing, on average, between 7 – 10% from original project conceptual design to final GMP. This cost creep continues to burden deals, but capital has been accommodating.
- As stated earlier, projects are still closing, but construction costs remain a concern in 2020.

We all know our economy is having a great run – more than 10 years of growth, albeit slow growth. We know economic expansions are not infinite. However, we should also know, the majority of us (certainly the contributors to this newsletter) are not smart enough to predict the next pullback. The anticipation of a recession has kept most real estate investors skeptical and prudent with their money. This is a good thing for all parties as it helps maintain discipline and balance in the capital markets and more importantly the business of real estate. The US is in its longest expansion period on record. And while we are not suggesting we could match Australia's 28 years without a recession, the US economy feels good/solid. Furthermore, real estate fundamentals in the Southeast continue to be healthy – the word is out on the Southeast, and people continue to want to live, work, employ and invest here. The lower cost of living, talented workforce and better climate continues to attract growth, and is helping to diversify the employment base. While many Southeastern markets are seeing record rent and sales across all property types, the Southeast is still an incredible value compared to Northern and Western markets. Additionally, technology and enhanced air travel have made jobs and companies more portable allowing corporations to more efficiently take advantage of lower cost structures and better quality of life as an employing recruitment tool.

As always, we welcome the chance to discuss, debate and brainstorm your and/or our business, so feel free to use any of our team as a resource as you head into 2020. We are expecting a big year at Patterson, and we hope your 2020 pipeline reflects the same!



ATLANTA MARKET BRIEF

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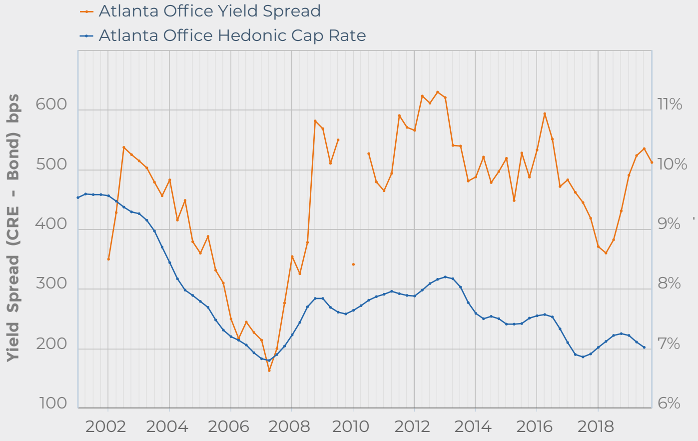
SURE 2019 WAS A GREAT YEAR, BUT WHAT A DECADE!

2019 felt like a year in which everyone was waiting for the other shoe to drop. Prognosticators in our industry talked about it a lot. While many opined about the timing of the next recession, the Dow Jones rose 22.3% by the closing trading bell to cap off a year of growth in 2019. That marks the index's best annual performance since 2017. Twenty-two record highs were achieved in the year despite an onslaught of uncertainty concerning trade wars. Stocks soared and investment maintained in the face of domestic political tumult over impeachment and foreign political uncertainty around BREXIT and a slew of other headlines. Despite record high valuations, investors maintained appetite in the stock market and in real estate throughout 2019 and found opportunity. On the home front, Patterson had a record year, though 2/3 of our transactions focused on development. While not a leading indicator of capital perspective on our markets, such investment activity and the strength of responses that we have seen in 2019 and the initial weeks of 2020, indicate that real estate capital markets are still strong.

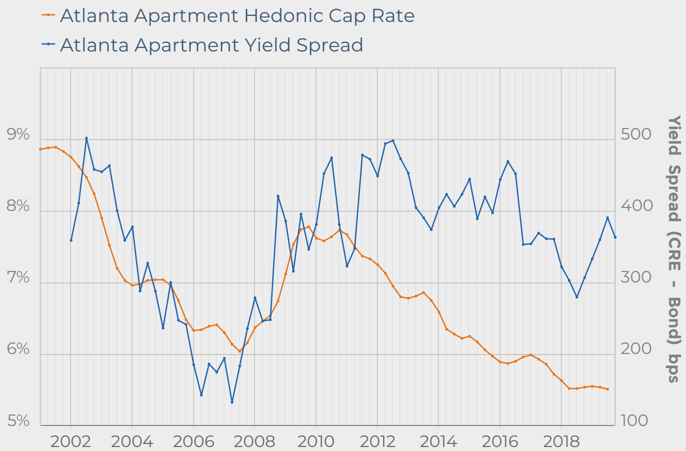
As great as 2019 was, the decade as a whole was even more remarkable. The period from 2010 to 2019 marks the longest bull run in stock market history (it technically began in March 2009). Prior to this expansionary period, the previous high for the Dow was recorded in October 2007 when it reached 14,160. While it took almost six years to hit that high again, the market blew past that previous record and ended the 2019 year just shy of 29,000.

More relevant to our business and with a local focus, the highest Atlanta multi-tenant office valuation in the decade prior to 2010 was $407 psf in 2006 when 1180 Peachtree sold. As a point of comparison, adaptive reuse deals in nascent submarkets have achieved valuations approaching $500 psf while the few non-medical, multi-tenant, new buildings of scale to trade have surpassed the previous cycle's peak. Notably, Three Alliance achieved $534 psf in a January 2018 closing. Our firm has seen office appraisal valuations in excess of $600 psf and $700 psf in Atlanta while projects in Nashville and Charlotte, where new construction has recently traded, are also achieving record valuations in excess of $600 and $700 psf. Much of the price increase is being driven by rent growth, but cap rates for core assets are reflective of the increased capital appetite flowing to the Southeast and Atlanta, however, pricing seems durable given the wide yield spreads.



Price floor selections do not apply to Indices, Hedonic or Fundamentals data. Volume displayed as 12 Month Totals.
Cap rates and PPU displayed as a 12 Month Average.
Includes property or portfolio sales $2.5 million or greater. Q4 2019 preliminary data.
Source: Real Capital Analytics

The multifamily world has witnessed even more dramatic growth. According to Real Capital Analytics, volume for mid/high rise apartments in Atlanta crested at $711 mm in 2006 in the prior decade. Annual volume has not been below that level since Q3 2012. Investment volume peaked at $3.0 bn in Q3 2017. Similarly, pricing in the last decade peaked at $155k / unit in Q4 2004 whereas pricing for midrise projects is firmly in the mid $200k's to over $300k per unit while high-rise pricing is approaching $400k / unit. Multifamily cap rates previously hovered close to 6.0% whereas capital appetitive for well-executed core projects in our high-growth market are regularly in the low to mid 4.0% range. Again, while valuations are full and multifamily cap rates are compressed relative to historic norms, pricing appears to be fair given the yield spread.



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Cap rates and PPU displayed as a 12 Month Average.
Includes property or portfolio sales $2.5 million or greater. Q4 2019 preliminary data.
Source: Real Capital Analytics

All of us have been witness to unprecedented growth over the last 10 years. What we are all unsure of is whether growth will continue, slow, or stop; however, it would seem that Atlanta's appeal as a target for capital investment is sustainable given the following:

Development is measured.

- CoStar estimates that 60%+ of current office development is pre-leased, and, while supply is increasing over recent years, it is still below Atlanta's historic average.
- According to CoStar, Atlanta's pipeline of 17,000 multifamily units is in line with the national average of new construction as a percentage of inventory. Atlanta has been relatively constrained in adding new inventory relative to peers like Dallas / Ft. Worth (135,000 units) and Houston (90,000 units). Nearly half of units under construction in Atlanta now are outside the perimeter, representing mostly new frontier for this cycle, which has seen most development ITP.

While cap rates are persistently strong and there has been some compression, rent growth is a primary driver of valuation appreciation. For example, take the aforementioned 1180 Peachtree valuation of $407 psf. It was based on a 4.4% cap rate, while Three Alliance's valuation of $535 psf was based on a 5.4% cap rate according to RCA. While there are nuances to each deal and the reporting of those transactions, the gap is wide enough to exemplify the point.

Speaking of rent growth:

- Office rent growth in Atlanta is 2.9% according to CoStar vs a national average of 1.8%. Absorption and rent achievement in the newest buildings in Atlanta stands out, reflecting tenant appetite for new construction.
- Apartment rent growth has been stronger than the national average in each year from 2012 – 2018, and 2019 was in line with the national average.

Combined with nation-leading labor and population growth[1], the above fundamentals should cause us to consider the fact that stability could persist for a long time even if growth slows. Projections of a low inflationary environment and large yield spreads indicate that pricing is full but fair. Perhaps we will enter a period in which Southeastern markets like Charlotte, Atlanta, and Nashville are viewed as more robust and stable, core markets as Drew suggests in his piece on Charlotte.

Atlanta and Georgia are doing their parts to ensure that the City warrants continued investment and elevates its perception as a global city that appropriately manages smart growth while continuing to feed the economic engine.

Savannah Port Expansion: The Port of Savannah is adding a second container port. The new, 200-acre container port will add 2.5 million TEUs to Savannah's capacity. When combined with a planned expansion of 3 million TEUs at the Garden City Terminal's existing 1,200 acre-footprint, the new port will bring Savannah's total capacity to 11 million TEUs. The Port of Savannah moved a record 4.5 million TEUs in its last fiscal year, spurring industrial growth throughout the state.

AtlNext: Hartsfield Jackson is in the midst of improving infrastructure, terminals, air cargo, support facilities, parking and surrounding mixed-use amenities like hotels as part of a $6 bn investment in a series of 20-projects aimed at preserving its reputation as one of the world's busiest airports.

Atl Beltline: The well-known and often touted Atlanta Beltline is continuing to expand as the paved trail snakes through neighborhoods in east and west Atlanta. With the eastside and westside trails complete, Atlanta Beltline Inc will turn its focus to commencing construction on the southside trail. The ABI estimates that this massive project connecting 45 neighborhoods has already spurred $4.6 bn of private investment along the beltline corridor as residents reconsider the way they live and work in urban neighborhoods. A total of $20 bn in private investment is projected by completion.

Road Infrastructure: Anyone who has traveled to the Central Perimeter knows that the congestion around the I-285 / GA-400 intersection can be a headache as 400,000 passengers move through the intersection daily. G-DOT is focused on improving traffic flow for our growing city by investing $800+ mm in this project that is well under way with an anticipated completion date in 2020.

The Gulch: In November of 2019, the City Council approved a $2 bn incentive package to support CIM's $5 bn redevelopment of the Gulch in downtown. This development, which is underway, has the potential to be one of, if not the, largest mixed-use project in the Southeast.

While Atlanta's future looks promising though uncertain, one thing is certain, Patterson has been in a fortunate seat to watch capital flow into real estate throughout the Southeast during a robust decade. We are lucky to work with great clients, and while 2019 was a record year for our firm in terms of capital placed, it was more meaningful to close a deal with our 100th client over a truly remarkable decade. We owe a lot of thanks to our clients and capital partners who have made our last 10 years a success.

Best wishes in 2020 and the next decade!

[1]Atlanta added nearly 800,000 people net from 2010 to 2019 according to the Metro Atlanta Chamber and grew the labor force from 2.7 mm people to over 3.0 mm with an employment rate of 2.6% (BLS).

CHARLESTON MARKET BRIEF

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DOING THE CHARLESTON!

THE CHARLESTON AREA IS WRAPPING UP ONE OF THE BEST ECONOMIC YEARS IN ITS HISTORY

JOBS:
The unemployment rate for September was a remarkable 1.5 percent, with less than 6,000 people unemployed in a working population of nearly 390,000. It bounced up to 1.8 percent in November, but will end in year in record territory (link).

HOUSES:
Residential sales in 2019 set a record in terms of number of sales (17,925) as well as average price ($280,000), an increase of more than $100K over last peak period of 2005.

COMPANIES:
While names like Boeing, Mercedes and Volvo have been making headlines for years, others like Google, Alcami, Blackbaud and Phishlabs continue Charleston technology explosion.

And while many prefer to predict doom and gloom, the reality is that what was true for 2019 is likely to be recreated in 2020. Nationwide, the decade-long economic expansion is expected to continue through the coming year, according to a panel of 57 economists consulted by The Wall Street Journal, and it's already the longest period of job creation on record.

That said, we're all aware of our cyclical industry, and while we feel somewhat insulated in the Southeast in general and Charleston specifically, we are always watching for signs of stress to the system. So, as we race into 2020, below are some predicted Charleston highlights for 2020 followed by a few things that we're keeping an eye on.

CHARLESTON 2020 – POSITIVE TRENDS IN WHAT WE'RE SEEING

Infrastructure investment: The worst thing about growth, is growth!

While the past decade has seen an amazing transformation of the Charleston economy from a tourism dominated industry to a diversified economic powerhouse, with this growth comes the potential to strain the infrastructure. Charleston is not resting on its laurels, but planning for the future, with more than $2.0 billion of committed projects:

- **$305mm airport expansion** – while the current terminal underwent a $200mm renovation in 2016, passenger figures have doubled since 2010; plans call for the addition of a third concourse with construction starting in 2021 (link).

- **I-526 completion** – after more than 15 years of discussion, funding has been secured for the $1 billion dollar project, and its five-year construction clock has started (link)

- **Port** – a multi-year plan to give Charleston the deepest commercial waterway on the East Coast will enter its final phases fully funded in 2020, with $138 million secured in the federal budget to finish the job of dredging the Charleston Harbor to 52 feet to allow for supersized container ships (link).

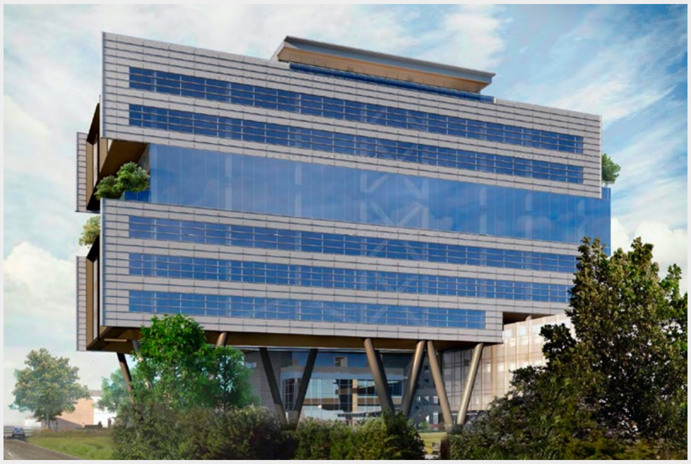
High impact development

As Charleston has evolved, so has its real estate and its need for more homes, hotel rooms and office space – on a different and more institutional level, impactful projects include:

- **Greystar HQ and the Guild** – with 228 units and 82,000 square feet of office/retail, Greystar's new headquarters is not the largest project, but with Robert Stern as the architect and a focus on technology, it's reflective of the world-class company that Charleston-based Greystar has become (link).

- **Lowe Hospitality Group** is moving into the vertical phase of its 250-room waterfront hotel and mixed-used development. Its location, size and scale will open the waterfront to the community and allow for larger events in downtown (link).

- **Morrison Yards** – the gateway into downtown Charleston from its iconic bridge is about to receive a significant enhancement with more than 350 multifamily units, +40,000 square feet of retail and a dramatic +150,000 square foot office building (pictured here) redefining the front door (link).



Mixson Properties Morrison Yard Office Development

CHARLESTON AREAS OF FOCUS – WHAT WE'RE WATCHING

- **Transportation** – always a bi-product of growth, Charleston (like a lot of Southeast cities) is in need of a comprehensive transportation plan to address our rapidly growing population of more than 26 people a day. While there are some positive initiatives like the Low Country Rapid Transit (link) in the works, more needs to be done over the next decade to support and not constrain growth.
- **Multifamily supply** – the multifamily community has found Charleston, and we've seen significant new supply added from the suburbs to the peninsula. And while our long-term view is that the supply will balance itself due to the growth, as we're seeing incentives enter the market for the first time, we're keeping an eye on things and expect slower lease-up of new communities.
- **Trade and Boeing** – with the Charleston port contributing to many facets of the economy, trade tensions with China and in general can have an impact across a variety of sectors. Add in Boeing's ongoing concerns, and these two impactful Charleston contributors will be in focus for 2020.

While sometimes our crystal ball isn't totally clear, what we're seeing for Charleston in 2020 and beyond is continued economic strength that will support our expanding commercial real estate industry.

One other point of major impact for our Atlanta-based company is that Delta will finally have competition in the CHS-ATL route, with Southwest launching service later this year (link). So, grab a flight and come visit the low country, we'll happily show you what everyone's been talking about!

As always, please consider our entire team a resource, we enjoy our business and like to learn more about yours – so give us a ring if we can help you think about your project or pipeline.

CHARLOTTE MARKET BRIEF

DREW BARNETTE, *Director*
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WE'RE *COOL* TOO!!!

It's an exciting time in Charlotte; our economic engine is firing on all cylinders. Major infrastructure and civic projects are advancing in the region. The sports and entertainment landscape is drastically changing. The hospitality sector is experiencing a robust facelift and expansion, and we're getting an MLS team........so that must mean we're COOL!

GOOOAALLLLL......CHARLOTTE LANDS MORE THAN JUST AN MLS TEAM

In mid-December Major League Soccer awarded Charlotte the 30th, and final, professional soccer franchise. The spoils were not cheap for Carolina Panthers billionaire, David Tepper, who will pay a record $325 million for the franchise rights. The implication for the City is more than just adding a professional sports team; the City will also contribute $110 million toward the development of training headquarters for the team and an entertainment district around the Gateway Station project in Uptown. It's rumored the training headquarters will be developed on the former Eastland Mall site, currently owned by the City of Charlotte and being developed in a public-private partnership with Crosland Southeast. Overall, it's a win-win, as the Eastland Mall site has long experienced numerous stalled efforts in feasible redevelopment. For Gateway Station, Charlotte's multimodal hub in the making, this just adds another catalytic injection to the City and Mr. Tepper's vision of casting the Queen City into a vibrant entertainment destination.

FRIENDLY REMINDER, IT'S AN ELECTION YEAR.... CHARLOTTE HOSTS THE RNC, AND WE'VE GOT A ROOM FOR YOU

Keep reading, this is a story about hotel development..... Charlotte will host the Republican National Convention at the end of August, and hotel developers are working feverishly to deliver their new projects while existing owners are completing renovation work. As marquis new hotel developments are set to deliver in the near term, existing hotel owners are undergoing a significant facelift. The Ritz-Carlton, Marriott City Center, Westin Charlotte and the Omni have either recently completed or are currently undergoing significant renovation with capital investment totaling near $100 million. Expected delivery of new hotel rooms in the Charlotte Metro region totals more than 2,300, with 1,582 of those located in Uptown. Notable recent and expected project deliveries in the next 12 to 18 months include: The Grand Bohemian (254 rooms), JW Marriott (381 rooms), Intercontinental (256 rooms) and Moxy (208 rooms).

BIG....THAT "GATEWAY" MARKET FEELING

Some of you may remember the 1980's Tom Hanks movie where his character's wish comes true to become an adult overnight. "Gateway" may seem like a distant characterization of the Charlotte market, but considering the market's economic durability as evidenced through the Great Recession and robust expansionary demographic elements over the past five years, a compelling case is being made for the City's long-term significance in the global landscape for capital investment. In the second half of 2019 and leading into the first quarter of 2020, the Charlotte market will have three separate single-asset transactions each valued near, or above, half a billion dollars.

Duke Energy's Charlotte Metro Tower stands to smash the price per square foot record previously held by 615 S. College St. along with a total deal size high watermark. The unprecedented concentration of single-asset institutional investment reflects the capital markets confluence of corporate credit tenancy depth in the market that has long defined the economic spine of the Charlotte region with the fundamental demographic expansion. Highlights of the transactions:

- **Charlotte Metro Tower**
  $675,000,000 / $675 PSF:
  The million square foot tower, which Duke Energy will solely occupy, is expected to complete in 2022. CGA Capital based in Washington, DC is the buyer of the CTL sale-leaseback transaction.

- **Bank of America Tower at Legacy Union**
  $436,000,000 / $518 PSF:
  The first, and largest, of three office building developments anchoring Lincoln Harris' Legacy Union development closed in November to Highwoods Properties. The 841,000 square foot tower was 90% leased at the time of sale with Bank of America the majority tenant of the Building with the tenant roster also including KPMG and law firm Parker Poe.

- **Truist Center**
  $455,500,000 / $470 PSF:
  Truist Bank, following the close of the merger between BB&T and SunTrust Bank in early December, announced their intent to exercise their purchase option with Cousins Properties to acquire Hearst Tower. The deal for the 955,000 square foot tower, which will be renamed Truist Center, is not expected to close until March.

PLANES, TRAINS & A MEDICAL SCHOOL?

The Charlotte region is amid a transportation, infrastructure and civic renaissance marked by a plethora of projects aimed at transforming Charlotte into a world-class City.

- **Charlotte Douglas International Airport:**
  December marked the commencement of a $600 million main terminal lobby expansion that will increase the existing 191,000 square foot main terminal by 175,000 square feet. The expansion marks a significant piece of the $3.5 billion Destination CLT strategic plan that began in 2015.

- **Charlotte Convention Center Expansion:**
  The Charlotte Regional Visitor's Authority is embarking on a $127 million expansion of the Convention Center.

- **Charlotte Transportation Center:**
  Charlotte-based White Point Partners and Texas-based Dart interests were awarded in August the RFP to redevelop the site of the current Uptown bus center. The proposed plans call for up to 690,000 square feet of office and retail development along with a hotel component.

- **Gateway Station Multimodal Hub:**
  The City of Charlotte has narrowed the list to three potential partners in the development of Charlotte's new multimodal transportation hub that will include an Amtrak station, LYNX Silver line and Gold Line streetcar platforms along with bus service. The short list of developers includes: East West Partners, developer of iconic Denver Union Station; a partnership between Charlotte-based Spectrum Properties and Washington, DC-based Republic; and Hoffman & Associates, a Washington, DC based developer.

- **LYNX Silver Line:**
  In November, Charlotte City Council approved a $50 million study for the proposed LYNX Silver Line, the planned connecting light rail service from Matthews through Uptown, continuing to Charlotte Douglas International Airport, and terminating in the Gaston County bedroom community of Belmont.

- **Carolina Theatre Restoration:**
  The Foundation of the Carolinas will embark on a $50 million restoration of the historic theater built in 1927. The restoration is being led by Australian-based SB&G Group, who will also develop the $100 million, 256-room, Intercontinental Hotel on the adjacent site.

- **Establishing Charlotte's 1st Medical School:**
  Atrium Health formalized a strategic agreement with Wake Forest Baptist Health and Wake Forest University in planting a sister campus of the Wake Forest School of Medicine in Charlotte.

Thank you to our clients and partners that made 2019 great. We look forward to the prosperity ahead in 2020!

NASHVILLE MARKET BRIEF

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A TALE OF TWO CITIES

As we round out the end of a decade, we tend to reflect over the events and statistics during that ten-year period as a measure of progress or change. After attending a state of the market event at Colliers earlier this month that detailed the dramatic changes within the office arena over the past decade, it peaked my interest to look at all of the major food groups and the transformation of the city as a whole. So let's rewind to the start of the decade.... in May of 2010, Nashville was reeling from a 1,000-year flood event, with just over 13 inches of rainfall in a 48-hour period and the Cumberland River cresting to 52 feet. The City sustained over $2 bn in damages and yet, that flood seemed to serve as a tipping point for the cataclysmic growth the city would undergo over the upcoming decade. Fast forward ten years later, and Nashville is truly no longer comparable to its former self.

Multifamily has been the darling of this cycle. The numbers are staggering, particularly with a focus on the class A product. Nashville has experienced an over 200% increase in class A inventory with the addition of 36,000+ units and an overall vacancy rate hovering just above 8%. Clearly, compared to the more than $1 bn in sales volume in 2019, the capital market's interest in Nashville ten years ago was almost non-existent.

MULTIFAMILY	2010	2019	% Change	Absolute Change
Inventory (Units)	87,906	125,887	43.2%	37,981
Overall Mkt. Rents	$965	$1,262	30.8%	$297
# of Sale Transactions	22	74	236.4%	52
Sale Volume (M)	$182	$1,762	868.1%	$1,580
Sales Price per Unit	$81,530	$167,395	105.3%	$85,865
4/5 Star Product				
Inventory (Units)	16,422	53,074	223.2%	36,652
Mkt. Rents	$1,262	$1,513	19.9%	$251
# of Sales Transactions	5	26	420.0%	21
Sales Volume (M)	$116	$1,094	839.9%	$978

Source: CoStar

Since 2010, Nashville has been one of the top performers in the nation for employment growth, fueling the dramatic increase in office demand. Over the last ten-year period, the labor force increased 2.5% annually in metro Nashville compared to less than 1% annually for the overall US market. Consistent with the multifamily market, the demand for class A product drove rents to all-time highs reaching $34 net accelerating development with over 1.6M square feet of office space currently under construction in the CBD and 7.3M square feet since 2010, an almost 100% increase in the urban core. Perhaps the most impactful shift in Nashville's office market, is its emergence as a true institutional investment target evidenced by Blackstone's recent purchase of Fifth Third Center in the urban core, contributing to Nashville's 1500% increase in sales volume.

OFFICE	2010	2019	% Change	Absolute Change
Inventory (SF) (M)	83,356	91,993	10.4%	8,637
Overall Mkt. Rents	$18.52	$27.88	50.5%	$9.36
# of Sale Transactions	113	266	135.4%	153
Sale Volume (M)	$79.7	$1,281.0	1507.3%	$1,201.3
Sales Price/ SF	$96.1	$217.1	126.0%	$121.0
4/5 Star Product				
Inventory (SF) (M)	20	28	45.3%	9
Mkt. Rents	$20.92	$34.06	62.8%	$13.14
# of Sales Transactions	1	10	900.0%	9
Sales Volume (M)	$24.2	$701.6	2799.2%	$677.4

Source: CoStar

Consistent with the rest of US, Nashville has seen its industrial market thrive. Averaging over an 8% annual increase in market rents, the Nashville industrial sector outperforms the other commercial real estate sectors in rent growth. Despite pricing having more than doubled over the last decade, Nashville finished 2019 with the strongest year yet in sales volume, cresting over $1.1 bn.

INDUSTRIAL	2010	2019	% Change	Absolute Change
Inventory (SF) (M)	214.7	239.5	11.6%	24.9
Overall Mkt. Rents	$4.26	$7.59	78.2%	$3.33
# of Sale Transactions	114	206	80.7%	92
Sale Volume (M)	$196.1	$1,151.0	486.9%	$954.9
Sales Price/ SF	$30.59	$71.64	134.2%	$41.05

Source: CoStar

There is no denying that once upon a time, Nashville's main draw was a touristy visit to Broadway with the hopes of bumping into Wynonna Judd or Reba McEntire around town or at a minimum, enjoying a late-night bologna sandwich at Robert's. While the live music and late-night sandwich is still an option, there are multiple new Broadway bars to supplement the establishment honky tonk dives, the number of A listers has grown dramatically... see Taylor Swift, Maren Morris, and Kristin Cavallari, and you are just as likely to see executives from Amazon, Alliance Bernstein and Blackstone walking to lunch on the downtown sidewalks in Nashville as you are in any other institutional real estate market.

The end of 2019 for Nashville continued in a similar fashion to the past ten years with a number of record-setting transactions and a few potential major announcements looming on the horizon.

Multifamily

- Closing out the year, Broadstone Gulch was purchased by Securities Properties from Alliance Residential for $80.8M ($340,000/unit), making this the highest per unit sale to date in Nashville.
- In September, Eleven North was sold to GEM Realty Capital by Mesirow Financial for $85.6M ($283,444/door). While this price per unit doesn't top the charts this year, it should be noted Eleven North is 2012 vintage, 3 story surface parked deal on a 7.96 acre site located in the heart of the north Gulch.
- Suburban product is making major headlines with sales pricing comparable to or exceeding some urban transactions. Crescent Communities sold Novel Lockwood Glen in Franklin to AEW Capital for $68.5M or $286,611 per unit.

Office

- In December 2019, Blackstone Group purchased Fifth Third Center for $144.75M ($295/sf) from Goldman Sachs. Goldman purchased the building in 2017 for $117.6, selling the building for just under 25% more than they paid for it two years prior. This is one of a number of examples in Nashville where the same asset has traded multiple times in the past few years for a sizable increase over the former purchase price. However, this comp feels right sized when fast forwarding to some pending trades....
- 222 - Rumored to be under contract for over $725/sf, if this asset closes at or near its estimated sales price, it will set the high water mark (and then some!) for Nashville new office construction further bolstering the City's attractiveness to institutional capital.
- On the demand side, 2019 was full of impressive jobs announcements including Smile Direct and Postmates expansions, as well as ICEE and Mitsubishi HQ relocations from California. Although no announcements appear to be imminent, Nashville continues to be attracting large-scale tenants including a 970,000 sf RFP lingering in the marketplace in the later part of 2019.

Industrial

- In December 2019, Amazon commenced construction on a behemoth prototype distribution hub in Mt. Juliet that will contain 3.52 million square feet of distribution space, 80,000 square feet of office, standing 100 feet tall with five levels of conveyors and robots. Once complete, the facility will create an estimated 1,200 jobs. Additionally, Amazon is the intended user for a new 130,000 sf facility under contract with Panattoni Development Co. at Myatt Drive, approximately 12 miles north of downtown. With the addition of these two recent developments, Amazon will occupy close to 8M square feet in Nashville.
- Facebook is rumored to be scouting Gallatin for a data center location to accommodate a facility similar to the ones in Huntsville, Alabama, Salt Lake City and Columbus, Ohio. Facebook's investment in those facilities was approximately $750M for a 970,000 sf data center.

We continue to be bullish on Nashville as we roll into this new decade and look forwarding to serving all of our clients in their exciting new endeavors and continued successes.

Since our founding in 2010, Patterson has closed over 250 transactions totaling more than $5 billion in capital raised with more than 100 clients

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