PATTERSON
REAL ESTATE ADVISORY GROUP

CAPITAL VIEWS

"Capital of all types has never been more abundant. All of the lenders are back, equity is plentiful. Great news if you have a good deal, but..."

PATTERSON PERSPECTIVE

LANCE PATTERSON, ***Chief Executive Officer***
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2021 – THE WORLD AWAKENS

One of the things that I've observed over my almost 40 years working in real estate finance is it's not difficult to be busy. There are always an innumerable amount of deals to chase – I call it the "river of deals." You can jump in and get carried away quickly, feeling like you're in the mix, making a difference, about to get rich, etc. But I've also learned there's a big difference between being busy and making money, the latter happening only if we're working on things that can actually happen. Knowing that difference, and knowing how to focus our attention only on those things that we can actually get done, is maybe the most difficult trick in our industry.

There's something else I've learned in my career, something I learned the hard way. And that is, when you try to do everything, you do everything in a mediocre fashion. The convergence of these two thoughts – knowing what to focus our attention on, while not trying to do everything – tends to reach its peak in times that can feel euphoric.

I think the above is more relevant now than at any time in my career. Our firm has never experienced the high level of deal flow that we're seeing now, and I feel like this is happening throughout our industry. Yet closing real estate deals, whether as a developer, capital broker, capital provider, attorney, government official, whatever, has in my opinion never been harder, more tedious, more time-consuming, more expensive, etc., than now. There are lots of reasons for this, but I don't see it reversing. So being selective on what we work on and having patience with the process has never been more critical. Patience – a hard-found commodity in an industry full of hard-charging people.

AND NOW, REAL ESTATE AND THE CAPITAL MARKETS

- As I'm writing this, lumber prices on the spot market are at $703 per board foot, down 60% from the peak early in May. While lumber isn't the only material used in construction, and other construction costs are at very high levels, what a relief to have lumber prices decline! This massively eases the pressure on the residential development industry, whether you're building for-sale housing or for-rent apartments.

- Speaking of other construction costs, take a look at Brantley Barrow's article later in this newsletter. Brantley is currently the chairman of Adolfson and Peterson Construction, Inc. (a large Minnesota-based general contractor), was formerly chairman of Hardin Construction in Atlanta, and is a member of our company's advisory board. He is wise, smart and very much in the know.

- Capital of all types has never been more abundant. All of the lenders are back, equity is plentiful. Great news if you have a good deal, but…

- While abundant, capital is still very smart, prudent, judicious and in our view is not financing bad or even many average deals. I find this to be great – we need this type of governor on the process.

- Cap rates have declined substantially in the past 12 months and seem to be continuing on that trend. Very helpful to counter the increase in construction costs. Capital is willing to underwrite the reality of the current valuation environment.

- There are lots of big, massive development projects in the Southeast, multiple projects at $300 mm or even much larger. Fun to see in our geographic area.

- It's no longer just all about industrial and multi-family. Capital will entertain conversations about financing all product types. That said, remember capital is smart, prudent, judicious, etc. So don't expect to get much traction today on a spec office building development or the development of a new hotel. But this is changing quickly, and we believe we'll see construction in these areas on a more active basis as the year progresses.

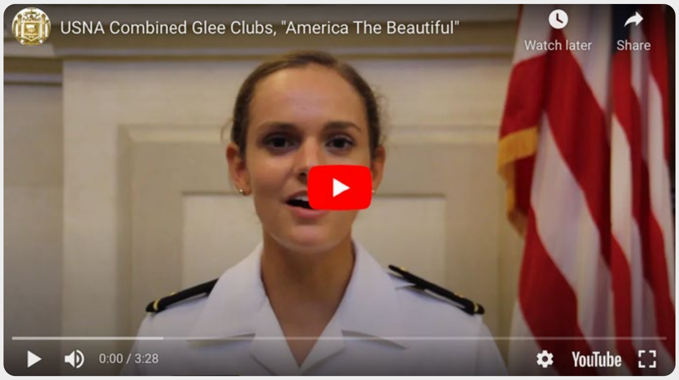
- In my opinion, the most important topic in our industry is office leasing. Until tenants are back en masse, leasing space, moving to new buildings, making large, long-term financial commitments, the investment side of the office business won't be back to normal levels of activity. We're seeing this leasing activity in certain areas, but my sense is it will be well into next year before this situation has settled.

- Where to make money today in real estate? Lots of areas, but there's strong interest today from capital to finance emerging product types – cold storage, data centers and life sciences being among them.

THE END

I mentioned earlier that our firm is currently experiencing the greatest volume of activity we've ever had. To help us address our own increased deal flow, we're very pleased to announce the addition of three new people to our firm this spring, including Emily Harte as a senior analyst and Caroline Bond and Ben Graham both as analysts. Welcome to the fun world of real estate!

And finally, if you've read previous editions of our newsletter, you may recall that my youngest son went to university at the United States Naval Academy in Annapolis. Although he graduated four years ago, while he was there I had numerous opportunities to visit him, see the campus and meet the other young people who were there in school. If you've never been on that campus while school is in session – and the same goes for the United States Military Academy at West Point – I strongly suggest you do so. While the campuses themselves are beautiful, what will impact you more are the midshipmen and the cadets. They are smart, they are healthy, they are happy, they are serious, they are ready, they are dedicated. And they are dedicating their lives for us – for our freedoms, our security, our ability to do whatever we want in these United States of America, the greatest country our world has ever seen. So go and soak it in, I think it will bolster your faith in our future. And so I'll leave you with this – click on it, I know you'll enjoy it.



2021 SELECT TRANSACTIONS

CLIENT	**POPE & LAND**
PROJECT	**POWERS FERRY LANDING**
MARKET	ATLANTA, GA
TYPE	OFFICE RECAPITALIZATION
ASSIGNMENT	BRIDGE DEBT

CLIENT	**POPE & LAND**
PROJECT	**980 SOUTH LUMPKIN**
MARKET	ATHENS, GA
TYPE	STUDENT HOUSING DEVELOPMENT
ASSIGNMENT	CONSTRUCTION DEBT

CLIENT	**POPE & LAND**
PROJECT	**750 COMMERCE DRIVE**
MARKET	DECATUR, GA
TYPE	OFFICE ACQUISITION
ASSIGNMENT	BRIDGE DEBT

CLIENT	**BROAD STREET INVESTMENTS**
PROJECT	**615 3RD AVENUE**
MARKET	DECATUR, GA
TYPE	MULTIFAMILY ACQUISITION
ASSIGNMENT	BRIDGE DEBT

CLIENT	**DRAPAC CAPITAL PARTNERS**
PROJECT	**129 NORTH**
MARKET	ATLANTA, GA
TYPE	REFINANCE
ASSIGNMENT	LAND LOAN

2021 SELECT TRANSACTIONS

CLIENT	**THIRD & URBAN / FCP**
PROJECT	**WESTSIDE PAPER**
MARKET	ATLANTA, GA
TYPE	ADAPTIVE RE-USE
ASSIGNMENT	CONSTRUCTION DEBT

CLIENT	**MADISON CAPITAL GROUP**
PROJECT	**651 MEETING STREET**
MARKET	CHARLESTON, SC
TYPE	MULTIFAMILY DEVELOPMENT
ASSIGNMENT	CONSTRUCTION DEBT

CLIENT	**SHELTON MCNALLY & VINTAGE SOUTH**
PROJECT	**LAUREL & PINE**
MARKET	NASHVILLE, TN
TYPE	MULTIFAMILY AND COMMERCIAL DEVELOPMENT
ASSIGNMENT	CONSTRUCTION DEBT & EQUITY

CLIENT	**BRIGHTMAN-GIL**
PROJECT	**GREAT OAKS CENTER**
MARKET	ALPHARETTA, GA
TYPE	OFFICE RECAPITALIZATION
ASSIGNMENT	BRIDGE DEBT

CLIENT	**WECCO / WEAVER CAPITAL**
PROJECT	**NORTH GARCO**
MARKET	CHARLESTON, SC
TYPE	ADAPTIVE RE-USE
ASSIGNMENT	SALE

CLIENT	**WECCO / WEAVER CAPITAL / JAMESTOWN**
PROJECT	**STOREHOUSES AT THE NAVY YARD**
MARKET	CHARLESTON, SC
TYPE	MIXED-USE ACQUISITION
ASSIGNMENT	PERMANENT DEBT

2021 SELECT TRANSACTIONS

CLIENT	**TWO CAPITAL PARTNERS**
PROJECT	**CAPITAL COLLECTIVE**
MARKET	SAVANNAH, GA
TYPE	MULTIFAMILY DEVELOPMENT
ASSIGNMENT	CONSTRUCTION DEBT

CLIENT	**ALBANY ROAD REAL ESTATE PARTNERS**
PROJECT	**DISCOVERY CENTER**
MARKET	HUNTSVILLE, AL
TYPE	OFFICE ACQUISITION
ASSIGNMENT	BRIDGE DEBT

CLIENT	**GATEWAY VENTURES / BULLPEN COMMERCIAL**
PROJECT	RESEARCH STATION
MARKET	HUNTSVILLE, AL
TYPE	MULTIFAMILY DEVELOPMENT
ASSIGNMENT	CONSTRUCTION DEBT & EQUITY

CLIENT	**BLUE HORSESHOE**
PROJECT	**CHASTAIN OAKS**
MARKET	ATLANTA, GA
TYPE	OFFICE RECAPITALIZATION
ASSIGNMENT	BRIDGE DEBT

CLIENT	**CARTER**
PROJECT	**MET ATLANTA**
MARKET	ATLANTA, GA
TYPE	MIXED-USE RECAPITALIZATION
ASSIGNMENT	BRIDGE DEBT

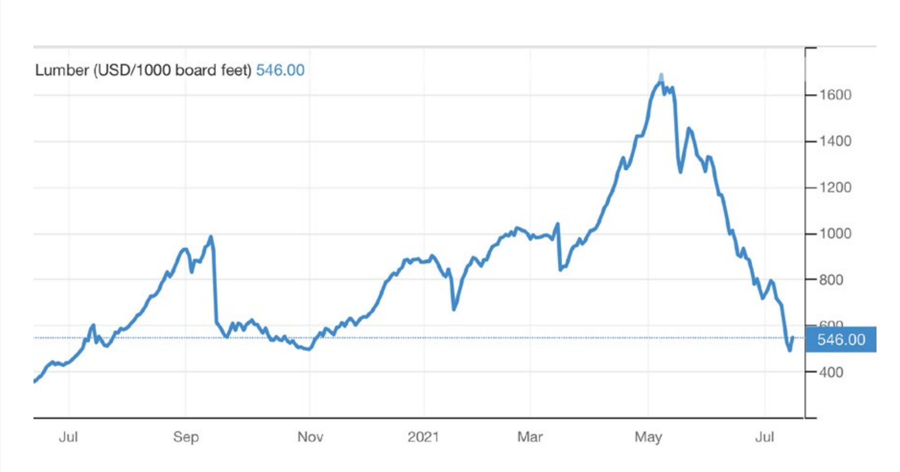
CLIENT	**THE UNIVERSITY FINANCING FOUNDATION**
PROJECT	**BRIDGESIDE POINT**
MARKET	PITTSBURGH, PA
TYPE	LIFE SCIENCES ACQUISITION
ASSIGNMENT	BRIDGE DEBT

INFLATION AND SUPPLY CHAIN ISSUES

BRANTLEY BARROW, *Patterson Board of Advisors*

We have all heard that inflation is much higher in 2021 than it has been in recent years. The Core Consumer Price Index was up 4.5 % year over year in June, the biggest increase since the early 1990s. Meanwhile the Producer Price Index was up 7.3% from June of 2020, the most in 10-1/2 years. However, it is a lot less than we have been seeing in construction costs!! All of us have read about and probably experienced the results of the skyrocketing prices of lumber, steel, PVC, copper and other building materials which have hit the building industry very hard and made projects much more expensive to build. Just as the industry was ready to rebound, owners, contractors and subcontractors are dealing with some of the largest price increases ever, which is delaying project starts or leading to project cancellations. In addition, the lead times to obtain some essential materials such as metal roof joists have increased to over 6 months.

From April 2020 to April 2021, the producer price index price for lumber rose over 85.7%, steel products rose 67%, copper and brass mill shapes rose 49% and aluminum rose 20.5%. The Associated General Contractors of America ("AGC") reported that prices for overall construction inputs rose 19.1% from April 2020 to April 2021, the highest increase in the 35 year history of tracking by the AGC. The index rose 3.5% in March alone. The spot market price for lumber was up over 700% from April 2020 to May 2021. Fortunately, the rate of increase has subsided somewhat and has actually decreased for some materials, but prices have not returned to early 2020 pre pandemic levels. For lumber, the price is only up 20% in mid-July 2021 compared to the February 2020 levels.



According to Brent Reid, CEO of the Winter Companies, an Atlanta-based general contractor who serves clients in the Southeast, "Over the past 5 to 6 months, we have experienced unprecedented price escalation of commodities such as steel, copper, asphalt, gypsum, plastics, and obviously wood. Depending on the major systems involved in any given project, the net impact has been between 5% and 10% increase to the direct construction cost over that same time period. Prior to the pandemic, construction in Atlanta has typically experienced annual escalation rates over the past decade of around 3% to 5%, and the current market conditions will further exacerbate these typical escalation rates."

Material pricing in the concrete formwork industry has also seen significant increases, ranging from 8% for concrete to over 70% for lumber and 44% for rebar according to Steve Lewis, CEO of United Forming. Reportedly, owners were seeing 20% to 30% cost increases in stick built apartment projects at the height of the inflation issues.

WHAT IS CAUSING ALL OF THESE PRICE INCREASES?

Primarily, it is a case of demand outstripping supply. Manufacturing or mining had been dormant in much of the world due to the COVID 19 pandemic and resulting slowdown in economic activity. There also was, and still is, a shortage of workers in critical industries that manufacture construction materials. There were other contributing issues too like the February 2021 freeze in Texas which damaged much of the plastics manufacturing industry. For example, 57% of the capacity to manufacture PVC was shuttered after the ice storm. To make things worse, even as manufacturing is returning, the transportation infrastructure is also emerging from over a year of slow demand which led to much of the transportation sector being out of commission. It will also eventually recover as workers return to trucking and shipping jobs and our ports work off the backlog of ships delivering goods, but it will take time.

Brent Reid anticipates, "As supply catches up to demand over the next 6 to 8 months, construction escalation will level off and may decrease, but will not return to pre-pandemic levels." He anticipates the same time frame for capacity to return to the supply chain.

Jeff Hansen, CEO of Adolfson and Peterson Construction, Inc., a Minneapolis based general contractor who works in the Midwest, Texas, Arizona and Colorado, says, "Part of the cure for high prices is high prices. At these levels, you have to believe that suppliers have an incentive to boost capacity and output. Supply and demand will eventually kick in to shift prices lower. This will require bringing back workers over time and getting their production back to pre-pandemic efficiency levels."

As people return more to their normal lives and spend more on travel and entertainment, it is believed that the home remodeling business will slow which will lower demand somewhat. The extra federal unemployment benefit will expire in September which should encourage more people to return to the work force. Many feel the government should eliminate tariffs on lumber and other construction inputs to lower prices.

At some point, the Federal Reserve may have to tighten monetary policy if the current inflation is not shown to be transitory. The higher rates will no doubt affect home building and lead to other difficulties in development, however.

WHAT DO WE DO IN THE MEANTIME?

The best advice is to try to make commitments to contractors and subcontractors early on and have them be a part of the design process so pricing can be maintained current and commitments can be made to suppliers and subcontractors early on in the design and development process. Even then, commitment times for prices are becoming ever shorter. What used to be a 30 day price hold is now 3 days Jeff Hansen reports.

Brent Reid advises, "In the right circumstances, we (Winter) are utilizing subcontractors early in the preconstruction process in a design-assist role to identify potential supply chain issues, identify potential substitutions, minimize schedule issues, and maximize cost certainty. We are releasing subcontractors and vendors to pre-buy and bulk order as much as possible, even if it means additional insured storage is needed. Owners have responded well to this approach and agreed to appropriately pay for expedited and stored materials if it means cost and schedule certainty in this current market."
"We (Adolfson and Peterson) are encouraging all of our customers to place orders for assemblies and other long lead time materials as quickly as possible. This means that the drawings and specs need to be more accurate and documented. This will require access to offsite storage of materials, but to ensure production to meet schedules, it is becoming a necessity," per Jeff Hansen.

Owners and contractors need to evaluate alternatives for materials that have experienced tremendous inflation, like lumber. Jeff reports, "We have been quoting light gauge metal framing due to the availability and lower costs (in lieu of lumber)."

With the inflation and supply chain issues continuing to affect the industry, expect to see contractors and subcontractors negotiating force majeure language in contracts to include supply chain and inflation issues as compensable delays. Jeff Hansen says they are also recommending that owners include price escalation contingency in their construction contracts or development budgets. Most importantly he says, "We are being honest that this current trend is not temporary, and the transportation and supply chain issues will last at least through the fourth quarter of this year." For Adolfson and Peterson, the delays in deliveries has resulted in an increase in subcontractor delay claims which is taking much more management time to manage and to solve problems.

Until supply and demand are more balanced and the supply chain and transportation issues are resolved, inflation and delays will continue to be a problem in the development and construction industry. The best advice in these difficult times is to recognize the problems and work with the development, design and construction team members to address the issues early on. Hopefully, by later his year supply and demand for construction materials will be more balanced, prices will decline somewhat and the transportation system will be functioning more normally.

OUR BOARD OF ADVISORS

The Patterson Board of Advisors provides invaluable guidance and expertise on matters related to corporate strategy, profitability, and risk management. Each advisor was hand-selected based on expertise and industry knowledge.

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Chairman of the Board, Adolfson and Peterson Construction, Inc.; consultant and board member for several for-profit and not-for-profit entities

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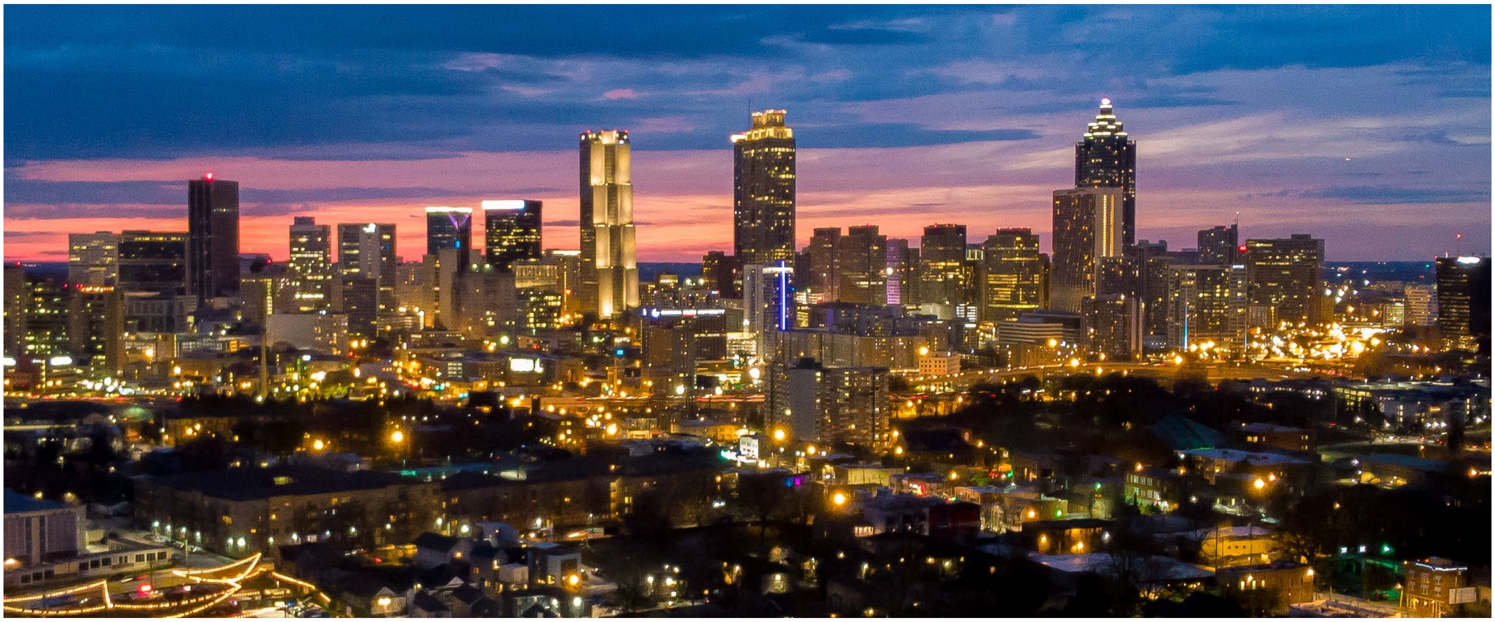

BACK TO BUSINESS

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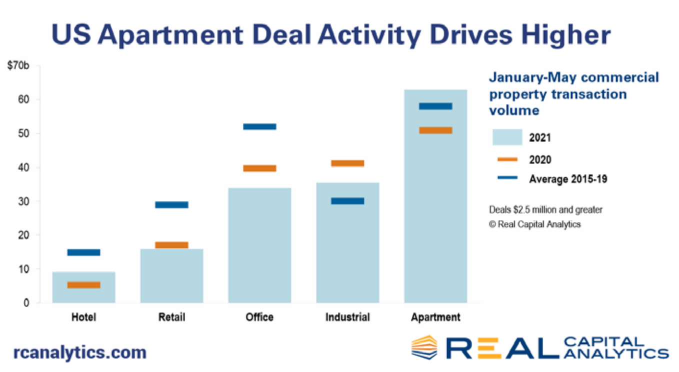
We returned to business across our markets in 2021, but it is not quite business as usual.

COVID's lingering effects on property markets are varied and not all asset classes have fully recovered to pre-pandemic levels; however, three primary trends across all our geographies are: (i) transactions have accelerated, (ii) capital is very competitive and (iii) a recurring theme from attorneys, lenders, peers, investors and operators is that everyone is busier than they have been in recent memory, even relative to pre-pandemic workloads. The hours we all seem to be logging at work are a function of the positive activity in the market.

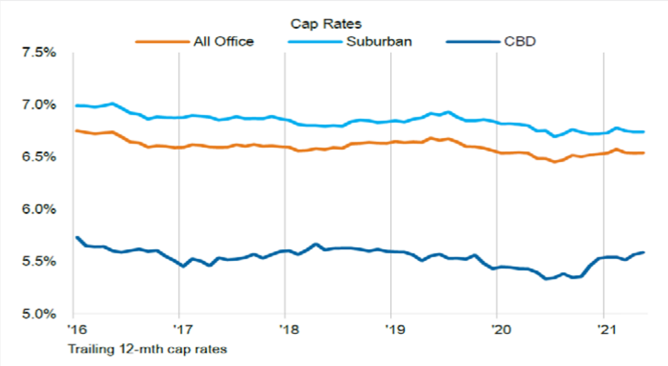
Property fundamentals appear to be restoring, but like other recoveries, there are many sides to this recovery. Whereas prior recessions were typically caused by over-borrowing or imprudent financial activities and seemed to impact all asset classes, this crisis resulted from a pandemic-caused shock to demand that didn't impact all asset classes equally. There is still a lack of clarity around how certain property markets will recover from the demand shock (e.g. CBD office markets) or how long it may take (e.g. business driven and conference hospitality). That lack of clarity is reflected in capital appetite. While investors seemingly are eager to deploy pent-up capital, not every asset class is a current beneficiary.

NATIONAL THEMES TO CAPITAL INVESTMENT

Industrial and multifamily continue to be the largest beneficiaries of capital interest; however, life science / medical office / R&D has emerged as a major theme to investing as well. On a national level, industrial and multifamily investment led deal activity in the first half of 2021 and surged above pre-pandemic levels. Apartments are the only asset class to eclipse average deal levels from 2015 to 2020. Industrial has experienced more activity than the 2015 to 2019 average but has yet to eclipse the 2020 surge of activity. While industrial volume from January through May of 2021 is up 18% relative to pre-pandemic levels (2015 to 2019), and multifamily is up 8% for the same time period, other asset classes are well below pre-pandemic averages according to Real Capital Analytics ("RCA").



Office remains a challenging pursuit for LP investors, though there appear to be themes emerging in investor appetite. Office volume for May in total across the nation is down 58% from the pre-pandemic average. Whereas urban, trophy office was previously the belle of the ball in the office world, there appears to be a shift to the benefit of "shorter" suburban office which fared better than the broader office category as its dip from pre-pandemic levels was about 46%. CBD office was down 72% in May according to RCA.



Patterson's experience over the first half of 2021 reflects some larger national trends; however, there are some exceptions worth pointing out.

PATTERSON'S FIRST HALF

Since the inception of Patterson, we have found success outside the themes of national investor sentiment. While our closed transactions can fit within the overall national narrative, there are plenty of outliers when looking back at what we accomplished in the first half of 2021. Here is a brief recap and some take-aways:

- It is dangerous to singularly categorize any one asset class. The story and the sponsor always matter. In the world of opportunistic investing and bottom-up analysis, exceptions to national themes always exist. While plenty of equity investors say they invest on macro themes and pass on office development, others indicate they are "contrarian" or their assessment depends on the story.

- Creative office is an example of an exception to office (re-)development investment. Patterson closed a construction loan on a spec office redevelopment in 1Q. We have received a significant amount of recent interest in placing equity for two speculative creative office redevelopments, indicating not all deals are equal.

- We worked on and continue to work on several ground-up multifamily deals. Many of these transactions closed despite pricing pressure as investors adjusted cap rate underwriting to more accurately reflect current valuations. We anticipate that pricing relief should enable further flow of capital into multifamily development.

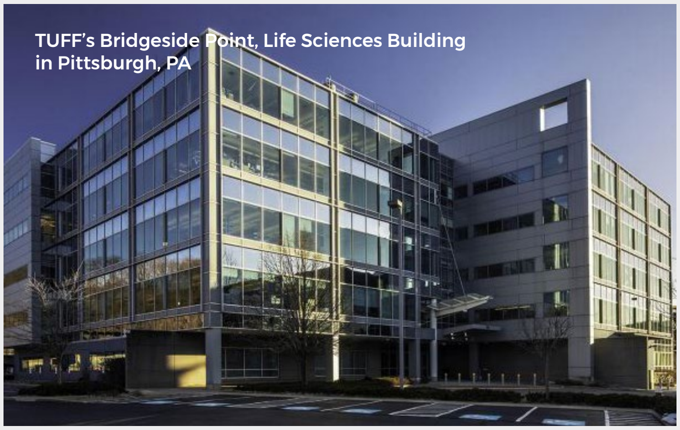
- Investors are looking to secondary and suburban markets in pursuit of greater multifamily yield, which seems to be compressing across the spectrum. Most of our multifamily pipeline is in secondary or tertiary Southeastern markets; however, we also have had success in raising capital for luxury, urban-core multifamily towers, proving that not all investors are seeking a flight to suburbs.


Gateway Venture's Research Station in Huntsville, AL

- Out of the 24 transactions that Patterson closed as of publication, 10 were office or office-anchored mixed-use assets. The transactions range from spec office development or re-development to permanent debt financing for acquisitions. The bulk of the activity, however, focused on bridge refinancing efforts. We certainly have heard the preference for shorter, COVID friendly buildings. Closed transactions include several suburban bridge refinancing efforts.

- Office oriented to tech industries, near universities, or that can be positioned as medical / R&D are treated differently.

- Two transactions involved life science / R&D assets. These transactions do reflect a macro theme. According to Real Capital Analytics, more than $11 billion has been invested in R&D properties globally so far in 2021, compared with $16 billion in the whole of 2020, which was the second strongest year on record.


TUFF's Bridgeside Point, Life Sciences Building in Pittsburgh, PA

- Capital is competitive, especially debt capital. Debt funds have largely returned to the market and are influencing both leverage and pricing across the spectrum. On an urban multifamily construction loan, debt fund interest matched bank interest with the debt funds pushing leverage and reducing rate over 75 basis points during the capital raising process.

- Local and regional bank lenders continue to be more aggressive for bridge and construction loans than larger institutions. While these lenders don't compete as well on pricing, the local and regional banks are willing to compete on leverage and recourse provisions.

- The winds may be beginning to shift or maybe not blow quite as hard. We heard equity and debt investors in 2Q lament that apartment and industrial transactions are very competitive. Many investors indicated that portfolios have weighted too heavily toward multifamily and industrial over the last 18 months, and yields are very compressed. That has led some investors to consider other asset classes more earnestly.

As we look forward to the second half of the year we can note that deal volume continues to accelerate. Commercial acquisitions are picking up pace as are requests for development financing and refinancing. The audience for non-multifamily and non-industrial transactions is broadening.

The last figure we will leave you with is 60, which is the age Lance Patterson turns this summer. He sets a great example of work ethic and integrity. He continues to outwork just about everyone. He will tell you its easy and not work when you love what you do. Happy Birthday Lance!

Since inception, Patterson has closed more than 300 transactions encompassing over $6.0 billion in capital placement.

INTEGRITY + INGENUITY + INVESTMENT = SUCCESS

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