Setting your VECTORS for a New Decade

“Know What You Don’t Know”

VECTORS:

2019

“Naughty” vs. “Nice” Elves

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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.

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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 Institute (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.

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A.K.A
“The Red-Shoe Economist”
Navigating ACRE Website, Accessing WIN, Research, & Presentations …

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

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

The Naughty and Nice Economic and CRE Elves of 2019 are …

The “Naughty” Elves:
- 435 Congress Elves
- FED/FOMC Elves
- Yield-Curve Elf
- Builder Elf
- Derail the Rails – Rail Elf

The “Nice” Elves:
- Jobs Elves
- Corporate Earnings Elves
- Optimism Elves (NFIB, NAHB, Consumer)
- C-RE Performance Elves
- Industry Org Elves (NAR …)
What’s behind this Economy? Disruptive Technologies

Source: Future Thinking Canvas Frank Diana
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.
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 Uncertainty
The FED, Monetary Policy, Inverted Yield Curve
It’s an “ED” thing: “Economic Data Dependent Dysfunction”

Eco. Dev. & Retention – Coors example
Congress & USMCA – still 90 days to go
Energy – Independence & Iran Vs 1970s
C-RE Capital – Debt (The FED) & Equity
Zebras vs “Self-Inflicted” Corp.
Missteps (Boeing, Under Armour, etc.)
BOEING – Largest U.S. Exporter
Lease Accounting ASC 842 now Jan 1, 2021

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

Consumer Confidence
NFIB Small Bus. Optimism
REIT Returns – All about Yield
Corporate Earnings - AMEX, WD-40, WalMart, Target, and yes Home Depot if you look beneath the 10(Q) …
Home Depot is investing CapEx in e-Commerce for long term and still finding efficiencies to meet profit expectations.
2019 “Pitcher Influences”
7 Items the RSE Brought to Light During 2019

i) **IOER** (Interest on Excess Reserves – a monetary tool that the Federal Reserve should have used in 2018 versus raising interest rates four times);

ii) **OTIF** (On-Time & In-Full as the new logistics measure introduced by Walmart in 2018 to impose on suppliers and vendors across its supply-chain to guarantee it could deliver on its e-Commerce promise to consumers as it went head-to-head with Amazon and ventured into online grocery);

iii) **Logistics Infrastructure** (ACRE’s signature ports and logistics Q1 2019 research paper to understand the why and where supply-chain was developing in certain places and not others. This paper also highlighted the importance of states funding vital infrastructure that goes beyond roads and bridges - and extends to rail, intermodal facilities, ports and cranes at the ports, etc.);

iv) **Retail e-Volution** (ACRE/CCIM Institute’s Fall 2019 Insights paper that dispelled the myths about retail contraction and store closings over the past decade – hint, it was overleverage. And then the paper went on to forecast the growth of online retail as a percent of total sales to 20% by 2025, and that while retail would close thousands more stores by 2025, it would reinvent itself aligned with services – like the hospitality industry - to find its new points of sale and procurement.

v) **Vertical Warehouses** – land is increasingly hard to obtain and the need for more acreage and land to building ratios of 7:1 versus three or four to one in the past decade means its back to the 1940s and the Sears and Montgomery Wards model for distribution.

vi) **Lease Accounting** – It’s here; and

vii) **BBQ Sauce** – The “Red-Shoe Economist’s” unique way of calling out flawed or incorrect analyses (like the Brookings Institute’s characterization of the Birmingham and AL economy mid-2019; or Ball State Universities poor rating of North Carolina for Logistics – recall the Charlotte-Douglas airport is the only one in North America with intermodal rail directly into it and that NC earned the RSE’s 2019 recognition as the state with the best airports).
Lease Accounting: New Impl. Date of Jan 1, 2021

How Retailers Can Prepare for New Lease Accounting Standards

Brick-and-mortar stores remain a vital component of multichannel sales strategies, despite the steady march of e-commerce. And for many retailers, leasing that real estate (rather than buying it outright) has been the most economically expedient option.

In 2020, nonpublic companies that report according to U.S. Generally Accepted Accounting Principles (GAAP) will be required to recognize most of those leases on their balance sheets — including operating leases that retailers and other historically maintained off balance sheet. Complying with the new lease standard likely will require significant changes, therefore, retailers that can manage their resources more effectively and start stakeholder conversations about the anticipated changes.

What happened at the recent FASB meeting

Earlier this week, the FASB met to decide on whether to delay the effective date for lease accounting for private companies and nonprofits. The proposal to delay the date, first brought to the floor over the summer, seeks to offer companies extra time to learn from the experiences of public companies so they could implement the new standard effectively and efficiently.

The FASB proposal was approved, making the new effective date for those companies January 1, 2021. This only impacts domestic leases for domestic companies, as it appears that IASB does not plan to change the effective date. Accordingly, any lease that is outside of the United States will most likely need to comply with the new standard according to the IASB guidance and effective date.

2020 “Pitcher Influences”
A few Items the RSE recommends be added to your 2020 Dashboard

2020 “Pitcher Influences”

- **ESG** – Env. Social Governance applies to C-RE. DO you have a ESG Policy?

- **LIBOR Transition** – especially in light of [U.S. Debt (The Debt Clock)]

- **Lease Accounting ASC 842** – A reprieve to Jan 1, 2021

- **Boeing**

- **November Elections** – Control of Congress, Unwind 2017 Tax Act & Opportunity Zones. The C-RE Industry was a big winner from 2017 Tax Act

- **Zebras** – not the safari or zoo kind, but the corporate kind displacing Unicorns. Zebras are startups focused on fixing real-world problems by building sustainable and profitable businesses that grow at a manageable pace, says Hearken co-founder and CEO Jennifer Brandel. **Zebra founders are largely women and minority entrepreneurs who were left out of the venture capital model**

- **Augmented Retail**

- **Reverse Logistics**

- **OYO** – not a saying in the Old McDonald nursery song, but maybe the next WeWork in the hotel space. I think this acronym will come to be known as “Oh, You Overlooked” as a new area of study in Business School
The Debt Clock: The Elephant in the Room!

https://usdebtclock.org/index.html
Forecasting Pitcher Influences
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

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
   “Self Inflicted 20” like 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).
A Look at 3 of the RSE’s “Modern-8 Indicators”

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

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<td>101.8</td>
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North American Freight Rail Traffic Highlights

2019 was a challenging year for U.S. rail traffic. Total carloads fell 4.9% (668,075 carloads) and intermodal fell 5.1% (740,240 containers and trailers) from 2018. Total carloads of 12.97 million in 2019 were the fewest for any year since sometime prior to 1988, which is when our data begin. Intermodal volume of 13.73 million units in 2019 was the second most ever, behind 2018.

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

CMBS: 247bps (lowest on record)
2019 was a challenging year for U.S. rail traffic. Total carloads fell 4.9% (668,075 carloads) and intermodal fell 5.1% (740,240 containers and trailers) from 2018. Total carloads of 12.97 million in 2019 were the fewest for any year since sometime prior to 1988, which is when our data begin. Intermodal volume of 13.73 million units in 2019 was the second most ever, behind 2018.

- In the 30 years since 1989, year-over-year U.S. intermodal volume fell seven times, most recently in 2016. Only 2009, during the Great Recession, had a bigger year-over-year percentage decline for intermodal than 2019 did. Moreover, 2019’s intermodal decline of 5.1% was slightly worse than the 4.9% decline in total U.S. carloads, making 2019 just the fifth time since 1990 that annual intermodal volumes performed worse (in percentage terms) than total carloads. All that said, U.S. intermodal volume in 2019 was still the second highest in history, behind 2018 (14.47 million) and fractionally ahead of 2017 (13.72 million). In 2019, containers were 91.9% of U.S. intermodal units, about the same as the past few years.
A Look at Rail Earnings Q3 – These 2 RRs matter to GA-nomics!

FOR IMMEDIATE RELEASE

Norfolk Southern reports third-quarter 2019 results

Achieves record third-quarter operating ratio


Third-quarter net income was $657 million and diluted earnings per share were $2.49. The operating ratio for the quarter was 64.9%, a third-quarter record for NS. These results include a $32 million write-off of a receivable resulting from a legal dispute, which unfavorably impacted the operating ratio by 110 basis points and earnings per share by $0.09.

*Our team achieved a record third-quarter operating ratio while successfully rolling out the first phase of our TOP21 operating plan, followed by the swift transition to the plan’s second phase.

In Midtown, Norfolk Southern’s $575M HQ is officially under construction
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.

Salt Lake City is the affordable Austin.
Know What You Don’t Know
Pay Attention to Economic “Retention:” Coors move to IL a wake-up call

Denver Reacts To Coors Leaving Town

News that longtime Denver stalwart Molson Coors will be pulling up stakes and moving its headquarters to Chicago rattled the Mile High City this week, with many residents stunned by losing an iconic brand. The company said this week that it will eliminate up to 500 jobs and relocate its HQ after a painful third-quarter loss of $402M, as well as change its name to Molson Coors Beverage Co. and consolidate its four business units into two.

A sad day for Denver as Coors opts to move HQ to CHI. This situation is a good example of local Gov taking its eye off great local companies to instead give Eco incentives to lure new companies - or wreck it's economy with legalizing recreational Cannabis. And at the end of this story, Denver asks Coors for a gift to remember it. Give me a break! After all the philanthropy to Denver and Colo from Coors, Denver leaders have some audacity.

I knew Peter Coors as a youth in High School and saw 1st hand all that Coors did for Denver. All I can say is thank you Coors for all you did for Colo - and very sad day for Colo. The loss of Coors would be like the Broncos leaving for another MSA or Coca Cola leaving Atlanta. Yep, that’s that big a loss.

Local Eco. Development leaders should take this news as a wake up call to value and dial-into your existing iconic companies.

A final point to Denver economic leaders - think about the logic of Coors moving its HQ to a state in terrible fiscal shape and a city that is more expensive from all perspectives. Denver officials should take a field trip to Salt Lake, Phoenix & San Antonio who are your competition with affordability, workforce & outdoor lifestyle.

The San Francisco Bay Area economy continues to hum along - but the real estate market's future is uncertain. Is a strong local economy enough to sustain development in all sectors? It still feels like boom times in the Bay Area economy - but we see warning signs in slowing residential demand, retail vacancies, shrinking office footprints. What does all this mean for Bay Area real estate investments, construction, and development?

We’ll find out at the, annual real estate event that Nixon Peabody LLP hosts with Association of Asian American Bankers (AAAB) on November 19th in San Francisco. Hear from Riaz Taplin, Catherine House, FRICS, CCIM, Stuart Keirle, Jeffrey Gibson, and Michael Jakimzak, CPA, MST. With David Kaufman, Director of Global Strategies, as the moderator. It is sold out but you can register for the wait list! https://linkd.in/g5S3RyX #cre #commercialrealestate #bayarearealestate #realestate #AAAB
Ross DeVol and the Walton Family Foundation just did small-town America a huge favor. They showed every rural community, through quantitative data and objective research, the way out of recession. They did it by measuring the performance of every micropolitan area in the nation, from first through 531st. In case you’re wondering, Pecos, Texas is the top-performing small town in America. Zapata, Texas ranks dead last.

The findings come from the Walton Family Foundation, which on Feb. 20 released new research that ranks every micropolitan statistical area across the United States.

“The research concludes that small-town America has big-time potential for economic growth. The research found that small towns with strong economic performance share several key traits, such as: travel, tourism and recreation as key industries; prevalence of professional services; a culture of entrepreneurship; and research universities and 4-year colleges.

“Findlay is a really interesting story. It shows that you can succeed in the Midwest.”

Findlay is an aberration, he says, because it’s mastered things that are largely ignored in the vast majority of American small towns. “They are obviously attracting investment into business expansions from outside the community. It shows that Findlay is an attractive location for new investment,” DeVol says. “They have several corporate headquarters; they have a lower cost of doing business than other places in the Midwest; they are a very good transportation location; and there is a close relationship between the area colleges and local employers, with a great deal of collaboration.”
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

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<tr>
<td>1</td>
<td>Nevada</td>
<td>1,160,115</td>
<td>1,370,984</td>
<td>210,869</td>
<td>18.2%</td>
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<td>2</td>
<td>Utah</td>
<td>1,254,582</td>
<td>1,478,814</td>
<td>224,232</td>
<td>17.9%</td>
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<tr>
<td>3</td>
<td>Idaho</td>
<td>630,328</td>
<td>790,815</td>
<td>160,487</td>
<td>25.9%</td>
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<tr>
<td>4</td>
<td>Florida</td>
<td>7,518,448</td>
<td>8,696,480</td>
<td>1,181,032</td>
<td>15.7%</td>
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<tr>
<td>5</td>
<td>Colorado</td>
<td>2,335,803</td>
<td>2,673,688</td>
<td>337,885</td>
<td>14.5%</td>
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<td>6</td>
<td>Oregon</td>
<td>1,678,726</td>
<td>1,919,918</td>
<td>241,192</td>
<td>14.4%</td>
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<td>7</td>
<td>Washington</td>
<td>2,960,123</td>
<td>3,374,998</td>
<td>414,875</td>
<td>14.0%</td>
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<td>8</td>
<td>Arizona</td>
<td>2,488,009</td>
<td>2,825,986</td>
<td>337,971</td>
<td>13.6%</td>
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<tr>
<td>9</td>
<td>South Carolina</td>
<td>1,846,621</td>
<td>2,092,971</td>
<td>246,350</td>
<td>13.3%</td>
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<tr>
<td>10</td>
<td>Georgia</td>
<td>3,918,085</td>
<td>4,430,043</td>
<td>512,958</td>
<td>13.1%</td>
</tr>
</tbody>
</table>

**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%**

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

**Why?**

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

Port/Logistics

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Average Annual Employment for States
Source: Bureau of Labor Statistics, Quarterly Census of Employment & Wages, Garner Economics

20
Small Business Jobs Index

The Small Business Jobs Index provides insight into the small business employment trends driving the U.S. economy. Using aggregated payroll data from businesses with fewer than 50 workers, the index offers a monthly, up-to-date measure of change in small business employment.

Metro Highlights

- At 98.10, Detroit had the strongest one-month increase in December (0.83 percent).
- Denver (99.44) has posted strong back-to-back gains and now trails only Dallas (100.21).
CRE Finance Disruption: Déjà vu or New?

Commercial Real Estate Finance Disruption: Déjà Vu or Something New?
By CCIM Institute Chief Economist K.C. Conway, MAI, CRE

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


The 1990s: The Not-So-Great Recession. 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 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
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.

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
Vector Calibration: 2020 Capital Markets
By CCIM Institute Chief Economist K.C. Conway, MAI, CRE

Chapter 2: What's a Vector Calibration?

Chapter 3: It All Starts With the Economy

Chapter 5: Capital Is Coming From All Directions

Chapter 7: How to Navigate CRE in 2020

Chapter 8, The Final Chapter: What Could Go Wrong in 2020 and Why CRE Investors Need a Plan B?
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.
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 (31.6%) 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

http://www.acre.culverhouse.ua.edu/research/explore-research
Feb 11, 2019 Publication

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 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.

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

WHERE DO APPAREL RETAILERS MAKE THE LARGEST PROFIT?

IN STORE
37.5%
ON LINE
26.0%
DELIVERED TO STORE PICKUP
12.5%
ONLINE DROP SHIP
23.0%
ONLINE SELF PICKUP
12.0%

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.
### Property Type Outlook: Housing – SF and MF

<table>
<thead>
<tr>
<th>How do you value a “All Homes For-Rent” Subdivisions? (5% of new home construction is 4-Rent subdivisions)</th>
</tr>
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<tbody>
<tr>
<td>Multifamily: Furnished units is the new amenity</td>
</tr>
</tbody>
</table>

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?**

<table>
<thead>
<tr>
<th>Potential U.S. Supreme Court Case Could Result In Ban On Inclusionary Zoning</th>
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<tr>
<td>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. <strong>Marin County law mandates such fees for zoning changes that don’t set aside a portion of planned residential units for affordable housing.</strong></td>
</tr>
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<th>'Unassuming' Tertiary Markets Lead Multifamily Opportunity Zone Charge</th>
</tr>
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<tbody>
<tr>
<td>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.</td>
</tr>
</tbody>
</table>

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
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
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 #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

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

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

Retail Prediction

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

Retailers with Largest CMBS Exposures

<table>
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<tr>
<th>TENANT/ANCHOR</th>
<th>TOTAL LOAN BALANCE</th>
<th>TOTAL EXPOSURE BALANCE</th>
<th># OF DEALS</th>
<th># OF LOANS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forever 21</td>
<td>$19.53 Billion</td>
<td>$981.5 Million</td>
<td>145</td>
<td>187</td>
</tr>
<tr>
<td>Macys</td>
<td>$19.47 Billion</td>
<td>$4.13 Billion</td>
<td>133</td>
<td>181</td>
</tr>
<tr>
<td>JCPenney</td>
<td>$17.52 Billion</td>
<td>$3.45 Billion</td>
<td>199</td>
<td>270</td>
</tr>
<tr>
<td>H&amp;M</td>
<td>$12.10 Billion</td>
<td>$683.3 Million</td>
<td>111</td>
<td>133</td>
</tr>
<tr>
<td>Dick’s Sporting Goods</td>
<td>$11.02 Billion</td>
<td>$1.40 Billion</td>
<td>173</td>
<td>227</td>
</tr>
<tr>
<td>Nordstrom</td>
<td>$11.27 Billion</td>
<td>$1.89 Billion</td>
<td>101</td>
<td>111</td>
</tr>
<tr>
<td>Ross Dress for Less</td>
<td>$9.00 Billion</td>
<td>$1.13 Billion</td>
<td>247</td>
<td>301</td>
</tr>
<tr>
<td>Cold Navy</td>
<td>$8.65 Billion</td>
<td>$712.7 Million</td>
<td>195</td>
<td>182</td>
</tr>
<tr>
<td>Barneys and Noble</td>
<td>$9.34 Billion</td>
<td>$500.5 Million</td>
<td>120</td>
<td>149</td>
</tr>
<tr>
<td>Burlington Coat Factory</td>
<td>$7.48 Billion</td>
<td>$1.01 Billion</td>
<td>143</td>
<td>178</td>
</tr>
</tbody>
</table>

Source: Trepp (www.trepp.com)

Know which tenants are overleveraged in your retail center! 33
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.

Adaptive Reuse Solution for Retail: Turning Blight Bright again?

We estimate that the U.S. has an existing inventory of nearly 32 billion square feet of commercial office, retail, and industrial warehouse space. In addition, the U.S. has an estimated 11 million multi-family 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.

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 lifecycle. 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.

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

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

**E-Commerce Driving Bigger Demand for Smaller Warehouses**

**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.

**Nuveen Acquires 29M SF Industrial Portfolio From Blackstone**

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?**

**Math Behind A Last Touch Warehouse Location**

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.
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.
VAIL ASSOCIATES, LTD.
(a Colorado Limited Partnership)

$700,000 IN ADDITIONAL LIMITED PARTNERSHIP INTERESTS
140 Units at a Price of $5,000 Per Unit

THESE ARE SPECULATIVE SECURITIES
See heading SPECULATIVE ASPECTS on page 3

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

<p>| Price to | Underwriting | Proceeds to |</p>
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<th>Public (1)</th>
<th>Commissions (2)</th>
<th>Register (3)</th>
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<tr>
<td>Per Unit</td>
<td>$200</td>
<td>$4,800</td>
</tr>
<tr>
<td>Total</td>
<td>$28,000</td>
<td>$672,000</td>
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(1) The General Partners have the right at their discretion to sell Additional Limited Partnership Interests in units smaller than $5,000.
(2) Vail Associates, Ltd., has agreed to pay a commission of 4% of the gross proceeds of the sale of the Units offered hereunder, contingent on the sale of all Units, to Reoether and Company. Reoether and Company will be an underwriter within the meaning of Section 2(11) of the Securities Act of 1933. It will bear all of the expenses connected with such sales. See heading UNDERWRITING on page 9.
(3) Before the deduction of certain expenses of registration payable by Vail Associates, Ltd., estimated at $12,870.

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40
Transformational Risks & Opps:

- A new industry & sport to Colorado
- Tourism Opportunity
- No Ski or Transport Infrastructure (I-70 & Eisenhower tunnel visions)
- ASPEN – The 1st experiment
- Gondolas Vs Ski Lifts - Secretariat
- Original Price of Vail Valley Ranches (55,000 for 500 acres or $110/acre)

HISTORY

Preliminary Investigation

In 1957, after thorough reconnaissance of the area which Vail Associates is developing (Vail) and other potential sites in Colorado, John E. Conway, Jr., Earl V. Eaton, J. Robert Fowler and Peter W. Seibert purchased a tract of land containing 500 acres, more or less, known as the Hanson Ranch, for a purchase price of $55,000. In 1959, Messrs. Conway, Eaton, Fowler and Seibert, together with George P. Caultins, Jr., and John B. Tweedy, obtained from the U. S. Department of Agriculture, Forest Service, (Forest Service) approval of their application for a Conditional Special Use Permit (Conditional Permit) for the financing of the development of a summer and winter recreational area on National Forest land abutting the southern boundary of the Hanson Ranch. The Hanson Ranch, the area covered by the Forest Service Permit, and the other properties hereinafter referred to are shown on the map appearing on pages 20 and 21.

The Transmontane Company

As of May 2, 1960, Messrs. Caultins, Conway, Eaton, Fowler, Seibert and Tweedy and the other stockholders of The Vail Corporation named above formed a general partnership for the acquisition, ownership and disposition of real estate in Gore Creek Valley under the name of The Transmontane Company. On that date, The Transmontane Company purchased from Peter E. Katsos a tract of land known as the Katsos Ranch, containing 500 acres, more or less, situated approximately 1.5 miles east of the Hanson Ranch for a purchase price of $75,000. The purchase price was payable as follows: $10,000 at closing, with the balance represented by the purchaser's promissory note for $55,000 payable in ten equal annual installments with interest at the rate of six per cent per annum. As of the same date, Messrs. Caultins, Conway, Eaton, Fowler, Seibert and Tweedy assigned to The Transmontane Company the remaining 300 acres of the Hanson Ranch, which had not been assigned to The Vail Corporation. The cost of such land to the assignors was $35,504 in cash. Subsequently on December 20, 1961, all lands held by The Transmontane Company and proceeds from the sale of a grazing preference and cattle, totaling $6,333, were assigned by it to Vail Associates as part of the contribution of its partners to the capital of the partnership. Since the assignment, The Transmontane Company has remained inactive, although it has not been formally dissolved.
The difference between a RISK and OPPORTUNITY is an ability to Connect-The-Dots & Connect the Relationships!

For Example:

• E-commerce & Retail
• LIBOR Transition in 2021
• LEED Certification & ESG
• Logistics Infrastructure
• Eco. Dev & Affordable Housing
• Eco Dev & Eco Retention (Coors in Denver, SunTrust Bank in Atlanta examples.)
CONCLUSION

2020 “Pitcher Influences”

- ESG – Env. Social Governance applies to C-RE. DO you have a ESG Policy?
- LIBOR Transition – especially in light of U.S. Debt (The Debt Clock)
- Lease Accounting ASC 842 – A reprieve to Jan 1, 2021
- Boeing
- November Elections – Control of Congress, Unwind 2017 Tax Act & Opportunity Zones. The C-RE Industry was a big winner from 2017 Tax Act
- Zebras – not the safari or zoo kind, but the corporate kind displacing Unicorns. Zebras are startups focused on fixing real-world problems by building sustainable and profitable businesses that grow at a manageable pace, says Hearken co-founder and CEO Jennifer Brandel. Zebra founders are largely women and minority entrepreneurs who were left out of the venture capital model
- Augmented Retail
- Reverse Logistics
- OYO – not a saying in the Old McDonald nursery song, but maybe the next WeWork in the hotel space. I think this acronym will come to be known as “Oh, You Overlooked” as a new area of study in Business School

RSE says:

“Bulls charge again in 1H 2020”

2019 In Review – Economic and C-RE Measures of Importance

- GDP: Increased $790 billion or 2.4% YOY
  GDP Q3 2019 $217.25T

- 10-Year Treasury Yield
  Dec 27, 2016: 2.57%  Dec 28, 2018: 2.72%  Dec 11, 2019: 1.80%

BLS Employment Report: 2018 Vs 2019

- +266,000 jobs for November
- 21st consecutive month unemployment below 4%
- NFIB Small Bus. Optimism
  Nov 2016: 98.4 Dec 2018: 104.8 Nov 2019: 104.7

YOU'VE GOT TO BE VERY CAREFUL IF YOU DON'T KNOW WHERE YOU ARE GOING BECAUSE YOU MIGHT NOT GET THERE

Yogi Berra
celebquote.com