



REIA/DEPAUL REAL ESTATE BREAKFAST

TOM ERRATH

SEPTEMBER 22, 2022 | CONFIDENTIAL



HARRISON STREET

WHERE ARE WE NOW?

MACRO

- Recession
- Interest Rates
- Consumer
- Employment
- Housing
- Demographics

KEY METRICS

FINANCIAL INDICATORS

	3-Jan-22	21-Sep-22
Federal Funds Rate	0.08%	3.0% to 3.25%
10-Year Treasury Rate	1.63%	3.51%
2-Year Treasury Rate	0.08%	4.04%
30-Year Fixed Rate Home Mortgage	3.22%	6.19%
SOFR (Secured Overnight Financing Rate)	0.05%	2.27%

ECONOMIC INDICATORS

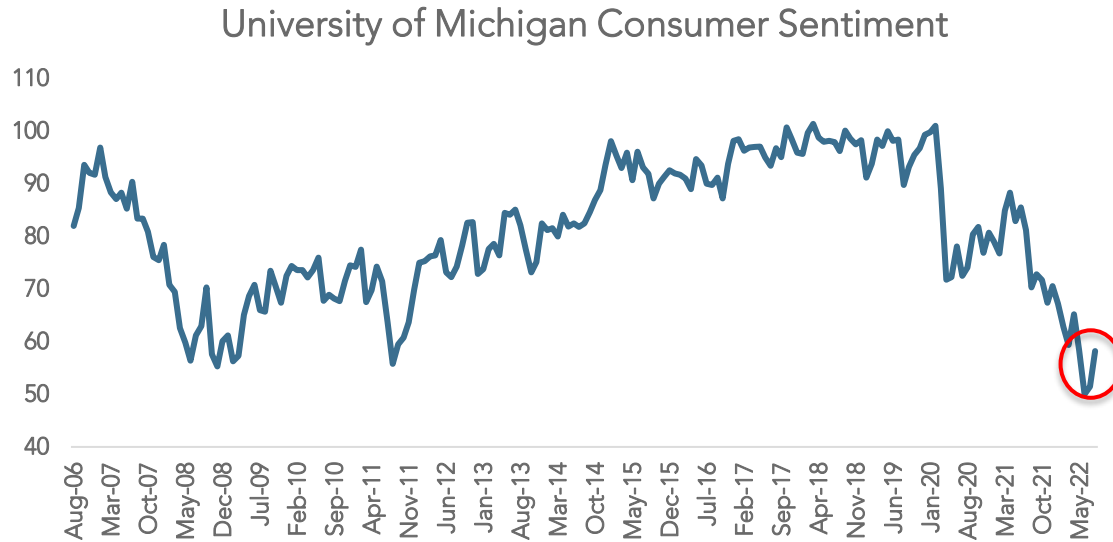
	Early 2022	21-Sep-22
Consumer Price Index	7.50%	8.30%
Core CPI (Less food and energy)	6.00%	6.30%
Unemployment Rate	4.00%	3.70%
Job Openings	11.3M	11.3M
Michigan Consumer Sentiment Index	67.2	58.2
Conference Board Consumer Confidence Index	113.8	103.2
WSJ Economic Survey - Est. 2022 GDP Growth	3.33%	0.71%
WSJ Economic Survey - Recession Probability	18%	49%

RATES - FED'S ACTIONS DURING 2022

FOMC Meeting Date	Rate Change (bps)	Federal Funds Rate
December 15, 2022	TBD - +50	4.00% to 4.25%
November 2, 2022	TBD - +50	3.5% to 3.75%
September 21, 2022	+75	3.0% to 3.25%
July 27, 2022	+75	2.25% to 2.5%
June 16, 2022	+75	1.5% to 1.75%
May 5, 2022	+50	0.75% to 1.00%
March 17, 2022	+25	0.25% to 0.50%

- Fed was holding the federal funds rate at around zero as recently as the first quarter of 2022. The Fed was also still buying billions of dollars of bonds every month to stimulate the economy. All despite 40-year highs in U.S. inflation
- Fed goal is to reduce inflation, keeping prices stable and maximize employment

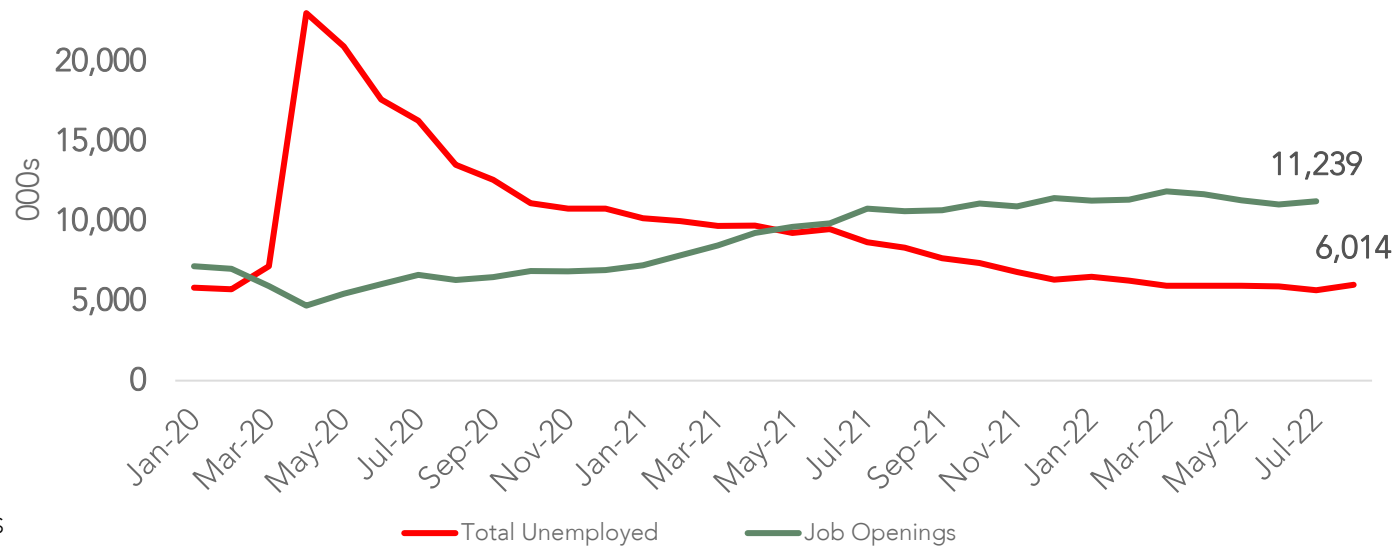
CONSUMER



- Consumer confidence has taken a hit this year amid the highest inflation in a generation and remains near a record low
- Higher borrowing costs may force consumers to cut back discretionary purchases and big-ticket items (cars), which would contribute to a slowdown in economic activity.
- August's improvement, 13% (due to lower gas prices/inflation) may support spending, but inflation and additional rate hikes still pose risks to economic growth in the short term

EMPLOYMENT

Job Openings vs. Unemployed



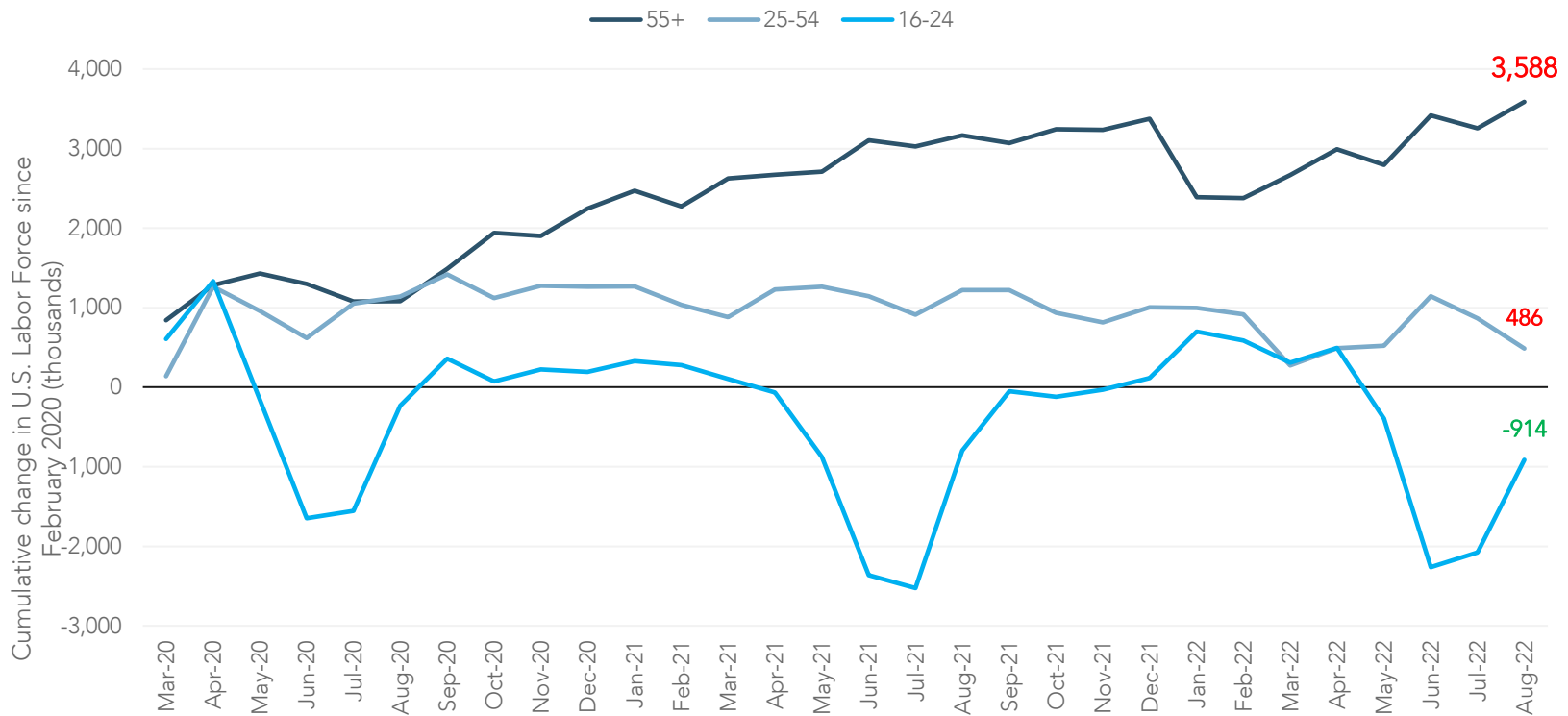
BLS

- Still have far more openings than workers, very resilient market
- Unemployment rate moved from 3.5% July to 3.7% in August as more workers joined the labor force, (a good thing!)

LEAVING US LABOR FORCE BY AGE

A total of 3.16M people left the labor force since Feb. 2020 including:

- 3.59M people aged 55+
- 0.48M people aged 25-54
- 0.914M people aged 16-24 entered the labor force since Feb 2020.



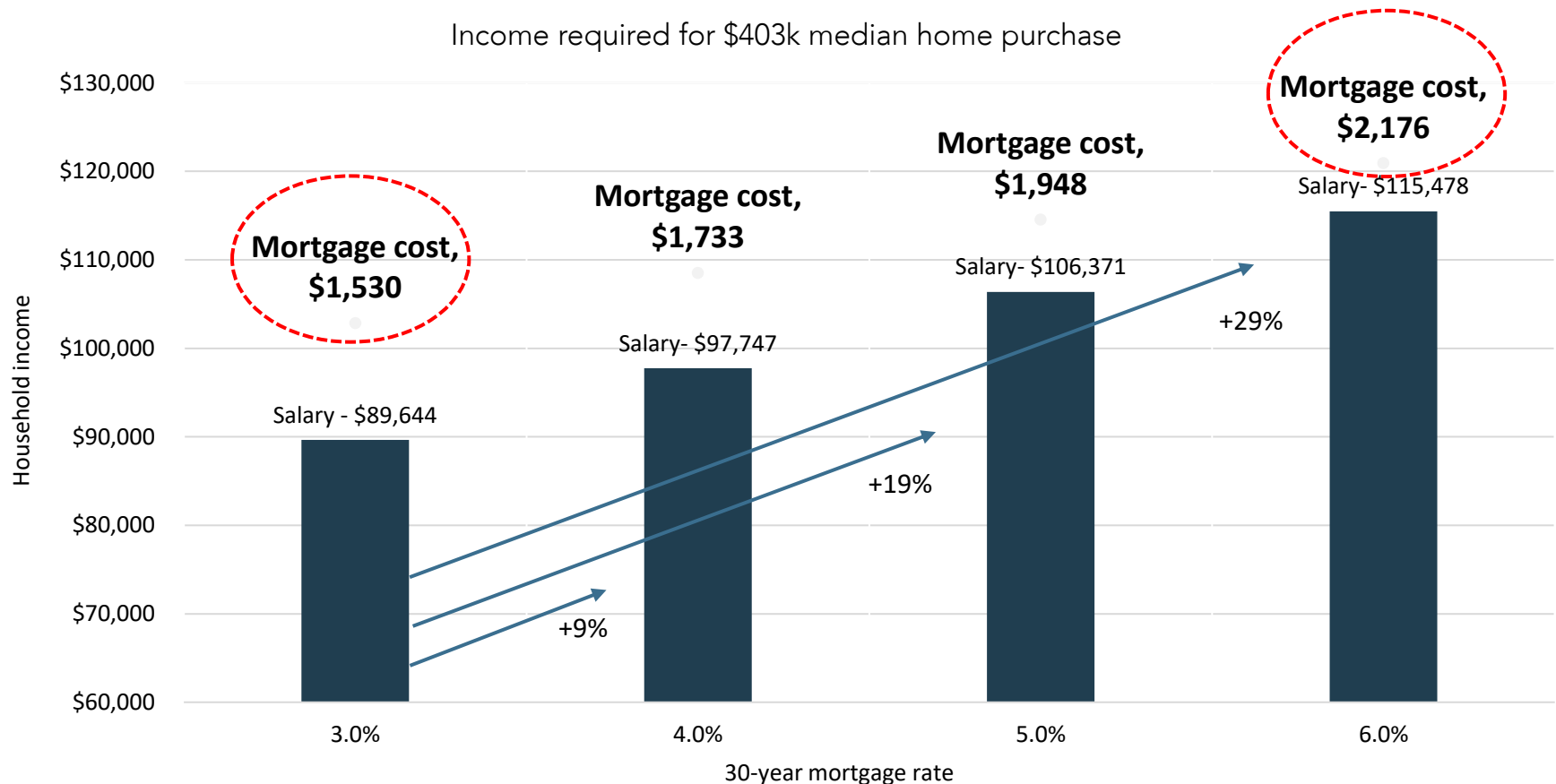
HOUSING

- Housing shortage of 3.8M units, (Freddie Mac '21)
 - Land, NIMBY, construction costs, lack of entry-level homes, household formations
- Fed has shut down housing market with rate increases
 - Higher mortgage rates have reduced home-buying demand. Prices have slid, sellers are reluctant to lower their asking prices
 - Many people have fixed rate loans, ARMs until recently were less than 10% of market
- Supply and demand issues on owned and rental housing
 - Rental market is red hot, occupancy in high 90s nationally and rental rate increases in "teens"
 - "Newish" institutional investor segment - Single Family Rental ("SFR") and Build to Rent ("BTR")
 - Rent control efforts occurring/on ballot in many states

Footnotes

HOUSING

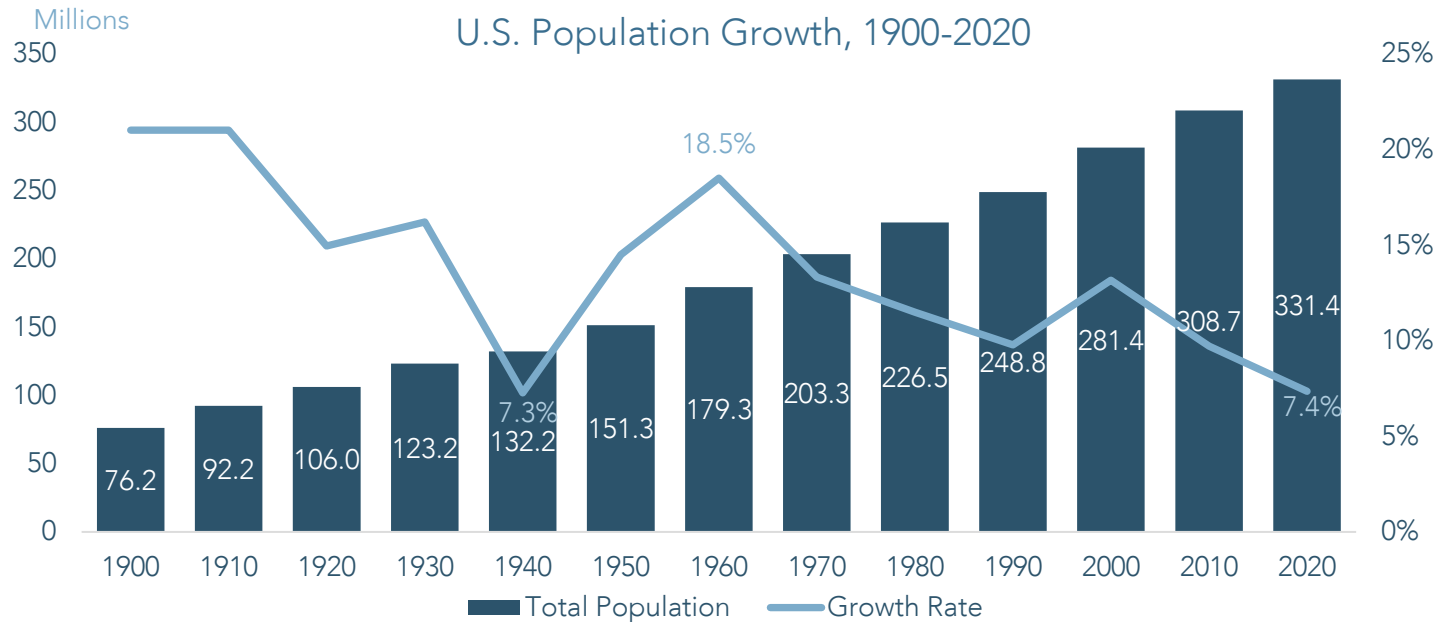
RISING RATES CHALLENGE HOMEOWNERSHIP



Sources: US Census Bureau, American Community Survey, US Energy Information Administration, April 2022

*Assumes 10% down payment, national average for tax and utility costs, and PMI at 73bps. Income required assumes the total housing burden is less than 30% of gross household income.

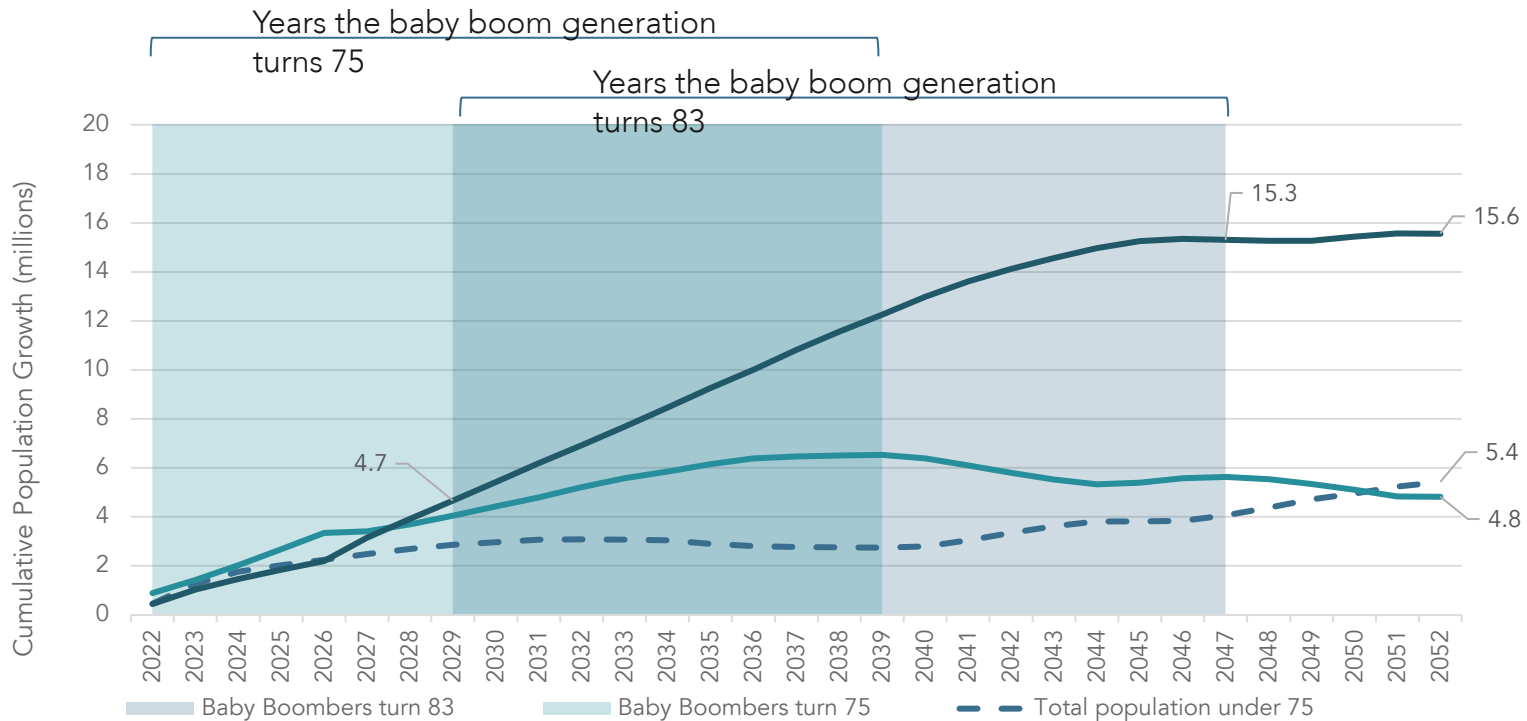
US CENSUS 2020 2ND LOWEST POPULATION GROWTH RATE IN HISTORY



- Youth population (<18) decline, (22% in '20, 24% in '10 and 36% in '60)
- Geographic shifts have occurred (South and West population shifts)
- Continued aging of the population (Needs?)

AGING POPULATION

U.S. Population Growth by Age Group from 2021 (2022 - 2052)



- Composition of the US population will undergo a dramatic shift
- The 75+ population will grow by roughly 20.4 million.
- In contrast, the under 75 population is forecast to grow by just 5.4 million

Footnotes

WHERE ARE WE NOW - REAL ESTATE?

- Covid Winners/Losers
 - Migration, WFH, Online, Healthcare (Industrial, Multi-family, Data Center, Life Sciences)
- Fundamentals Strong
 - Many all-time highs in occupancy/rental rate growth – Can it hold?
- Inflation and Real Estate Now
 - Long term hedge, ability in some asset classes to regularly reprice
- New Supply Muted
 - Existing owner's benefit, replacement cost vs elevated construction costs
- No Distress
 - Fundamentals strong, lenders were disciplined from GFC forward
- Transactions/Capital markets
 - Holding pattern, asset repricing, \$500B in RCA sales - 55% of '21 and 80% of '19
 - Opp./Value-add: SOFR plus 300-500bps @ 60%-70%. Core 150 to low 200's @ 50% or less
 - Money center banks out of the market now through end of year. Large deals slowed
 - Regional banks are still providing solid quotes (but can only do the smaller deals).

LOOKING AHEAD

OPPORTUNITIES AND THEMES

- Markets: University Towns, better with state capitols, economic engines
 - Columbus, OH, Madison, WI, Austin, TX – also Atlanta, GA, Denver, CO and Raleigh, NC
- Healthcare: \$3.8T or 20% of US GDP, “Need solutions to reduce cost”
 - Cost vs. Value, Gov’t programs - mixed results against aging population
 - Pharmaceutical innovation increased life by 1.23 years, Cost is \$35K in US
 - New participants, tech firms attempting entry, doctor wait time 26 days (short/employees)
- Data proliferation, insatiable demand
 - Power first
- Reshoring
 - National defense, drugs/goods and shortened supply chains. 83% likely to reshore some to US
- ESG and Decarbonization
 - Investor imperative
 - Climate change and Inflation Reduction Act (IRA)

QUESTIONS?