



Economic & Real Estate Market Conditions

Catching the Wave

2022

IRWA
Chapter 67
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Integra Realty Resources – Los Angeles
January 11, 2022

Things We'll Talk About Today

- 1. Macroeconomic Picture (Government and Big Money)**
- 2. COVID's Impacts – Past, Present and Future**
- 3. Population Decline and Growth**
- 4. Broad Trends in Commercial Real Estate**
- 5. Local Real Estate Markets, Including Housing**
- 6. Projections for the Future**

Bullish Backdrop for U.S. Assets

- 1. Huge Government Spending + Massive QE, Very Low Rates**
- 2. Rapidly Improving Employment**
- 3. Increasing Commodity Prices & Increasing Replacement Costs**
- 4. Growing Focus on Inflation Protection**
- 5. Negative Real Returns on Cash and I.G. Bonds**
- 6. Nearly Every Sector in the Global Markets at All-time Highs**

The Scale of the Monetary & Fiscal Response

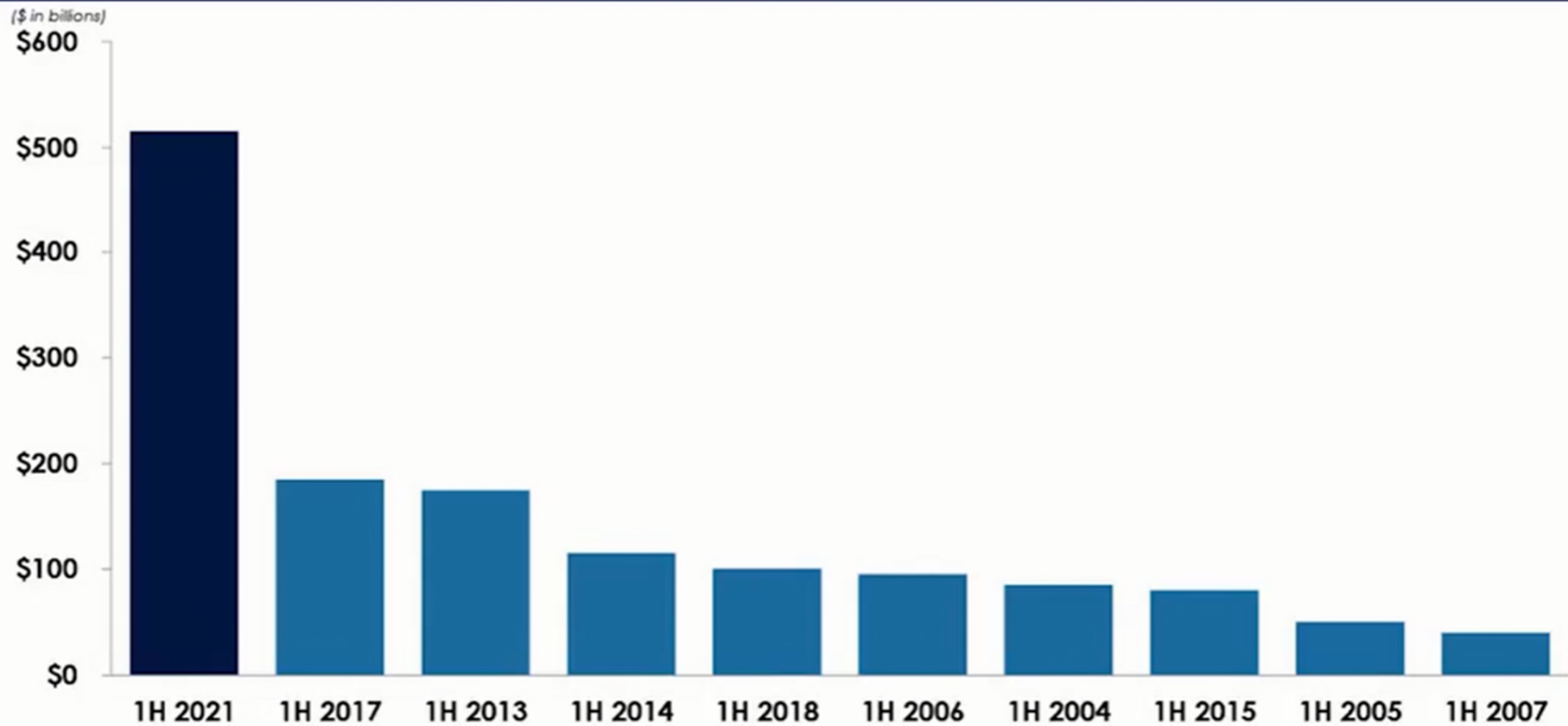
- A. Unlimited QE - \$4.0 + Trillion:
Fed Balance Sheet Doubled**
- B. \$5.6 Trillion of Fiscal Stimulus:
25% of GDP!**
- C. \$3.0+ Trillion of Additional Spending Proposed**

Infrastructure Investment and Jobs Act

Billions of Dollars	New Spending Authority	Billions of Dollars	Previously Authorized Spending
150	Roads, Bridges, and Bridge Repair		
66	Passenger and Freight Rail		
65	Electric Grid Improvements		
65	Broadband		
55	Water Infrastructure		
50	Flood Protection		
25	Airports	300	Highway Trust Fund
21	Brownfield Restoration	90	Existing Public Transit
17	Ports	260	Other Projects
<u>35.5</u>	Major Projects (Including Safety, Charging Stations, and Reconnecting Communities)	<u>650</u>	<u>Previously Authorized Spending</u>
549.5	New Spending	1,199.5	Total (1.2 Trillion Dollars)

First Half of 2021: Record Level Fund Flows

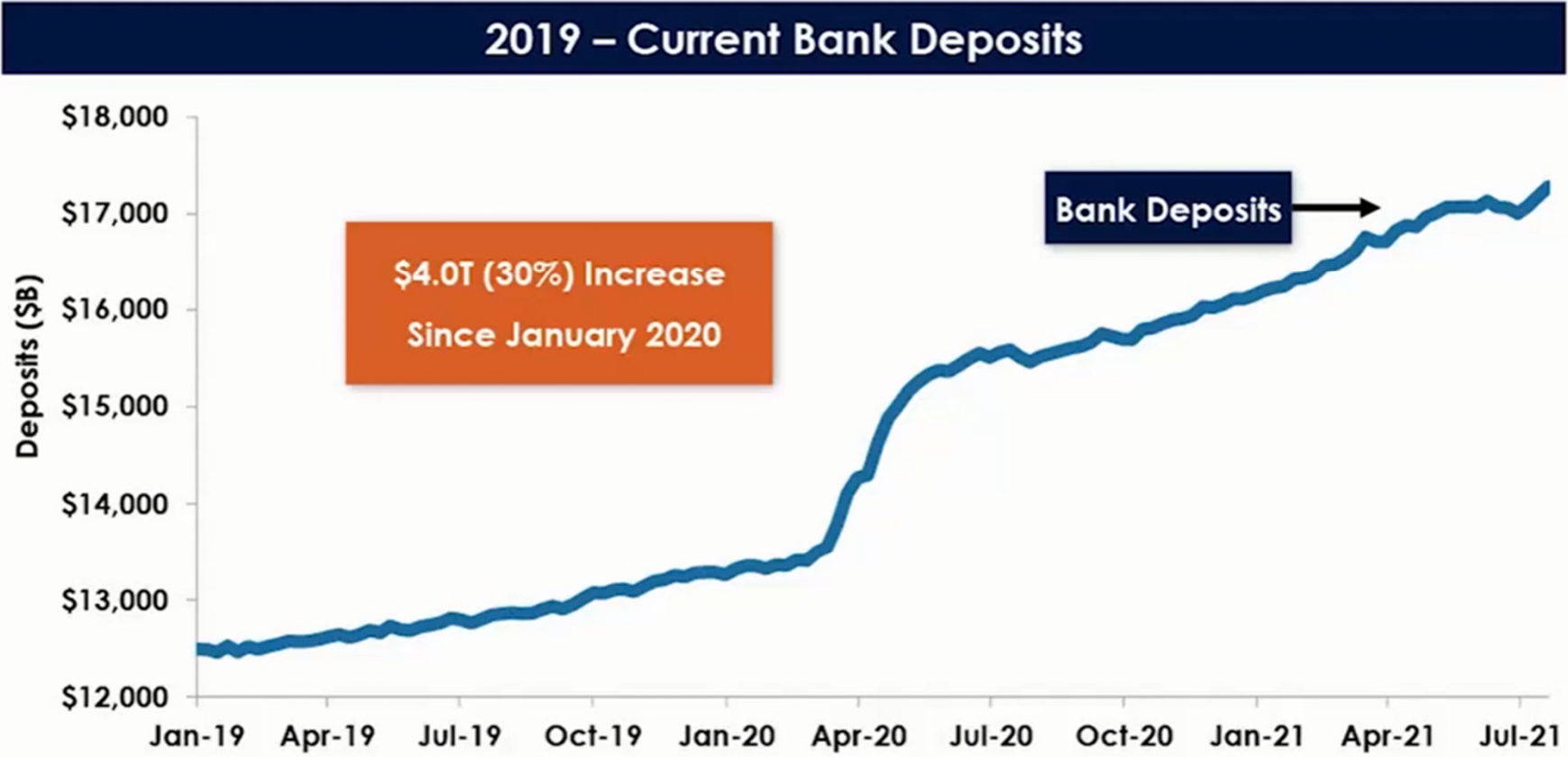
Largest Equity Fund Flows in 1H (Since 1996)



16 Source: Goldman Sachs Investment Research Division, Carmo Corneer.



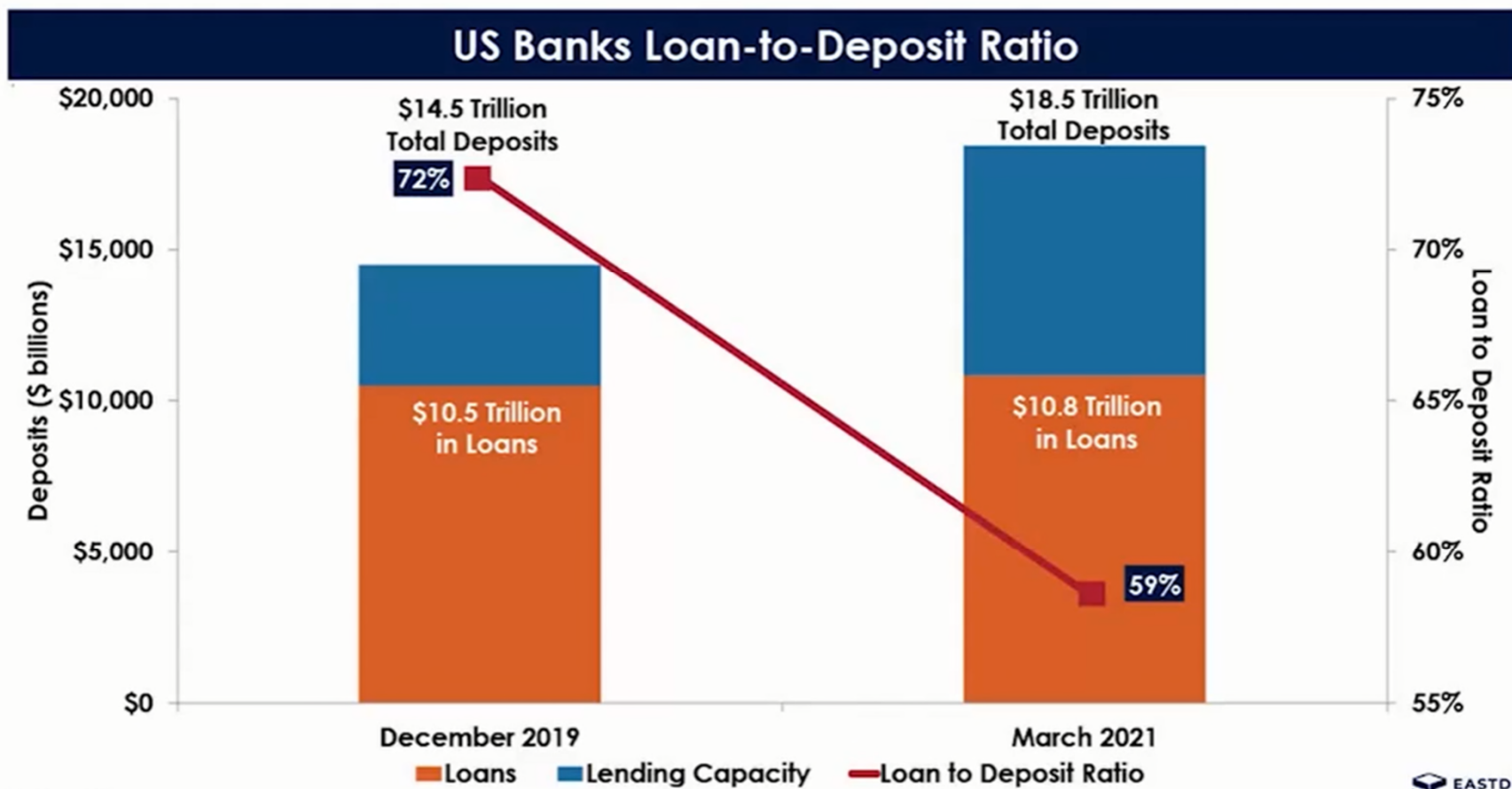
Bank Deposits at Record Levels



22 Source: FRED.



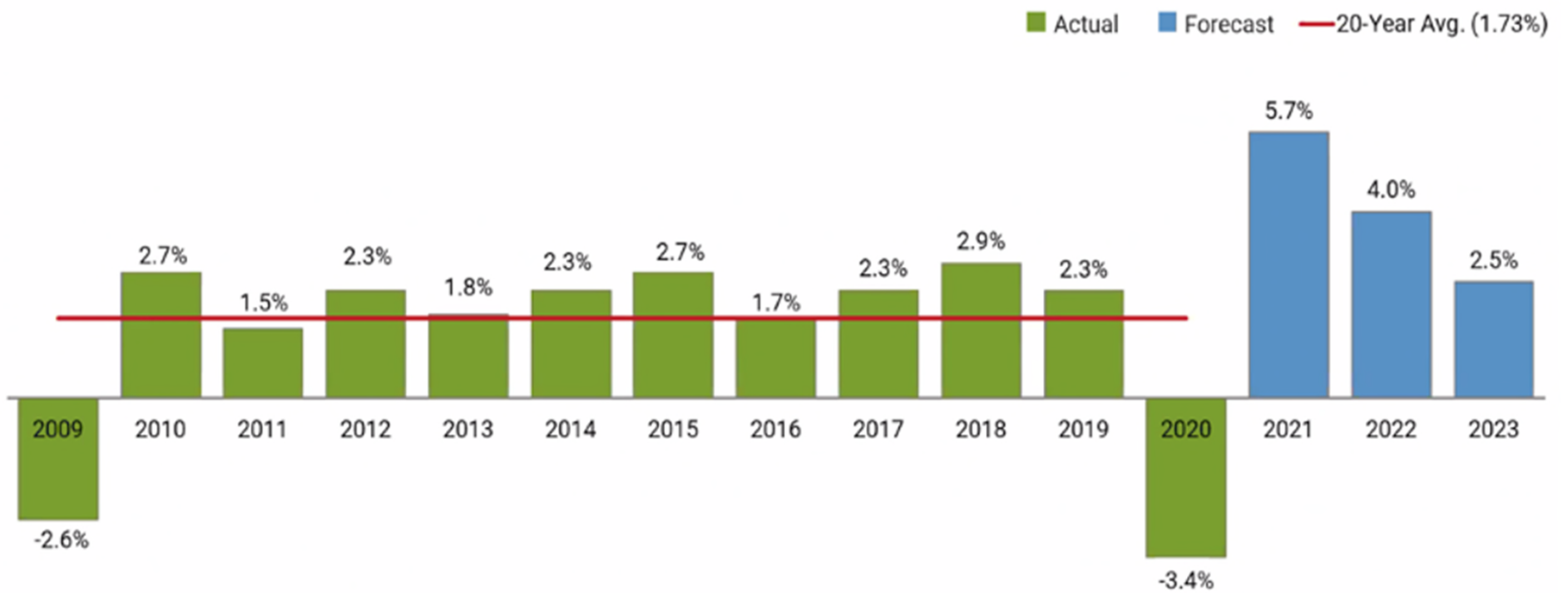
Liquidity in the System



23 Source: FDIC

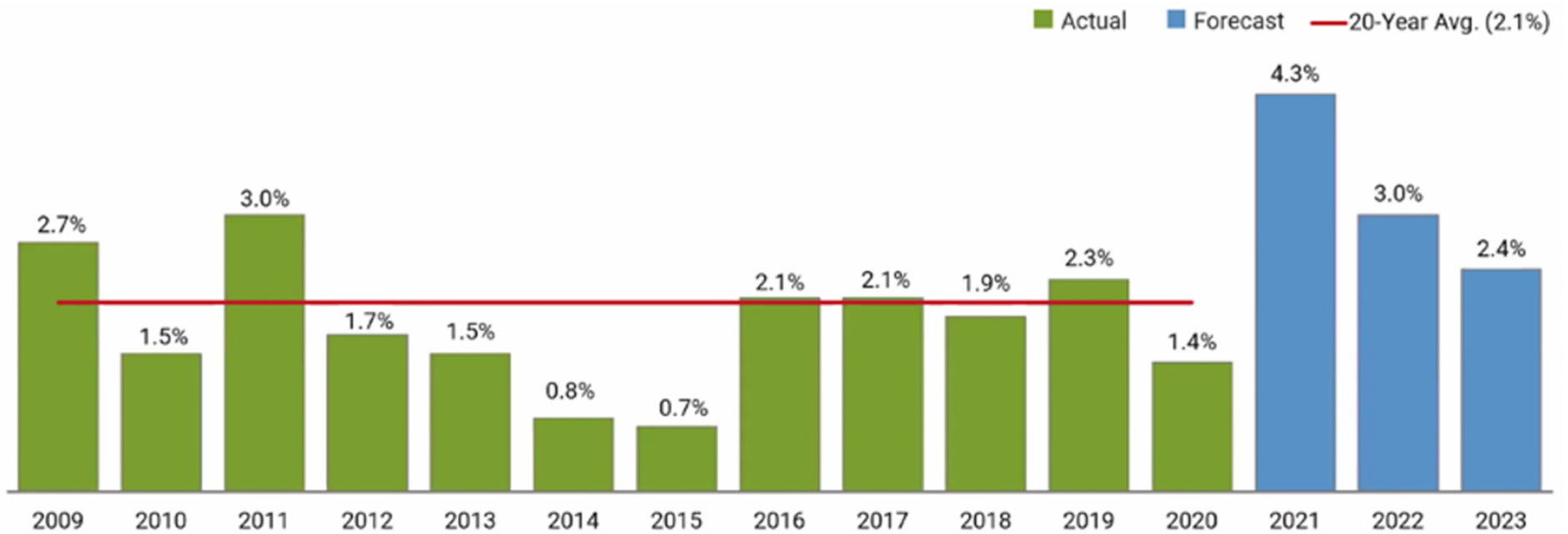


Real GDP Growth

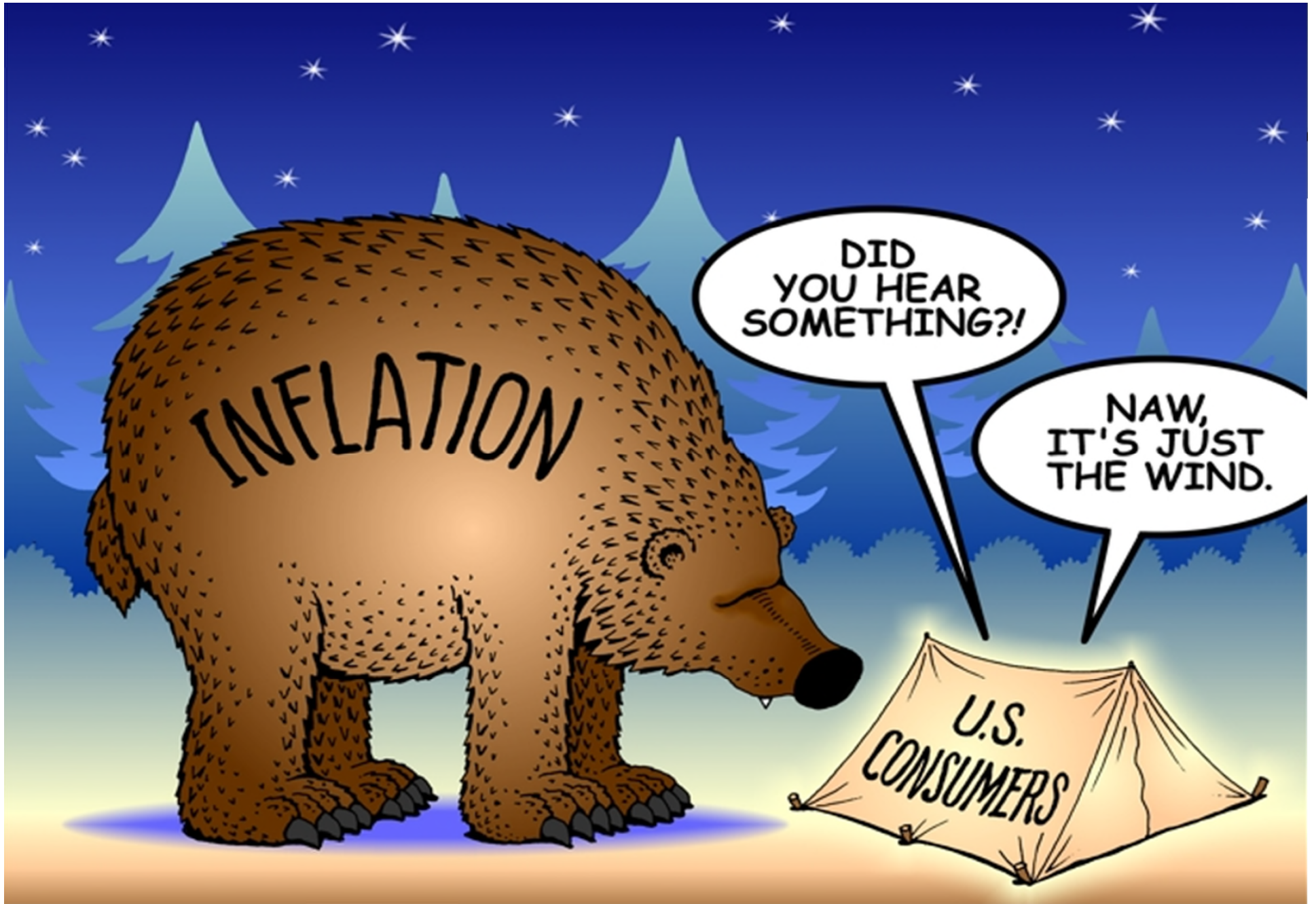


Sources: 2001-2020, Bureau of Economic Analysis; 2021-2023, ULI Real Estate Economic Forecast.

Consumer Price Index Inflation Rate



Sources: 2001-2020, (12-month change, as of December), Bureau of Labor Statistics; 2021-2023 (YE), ULI Real Estate Economic Forecast.

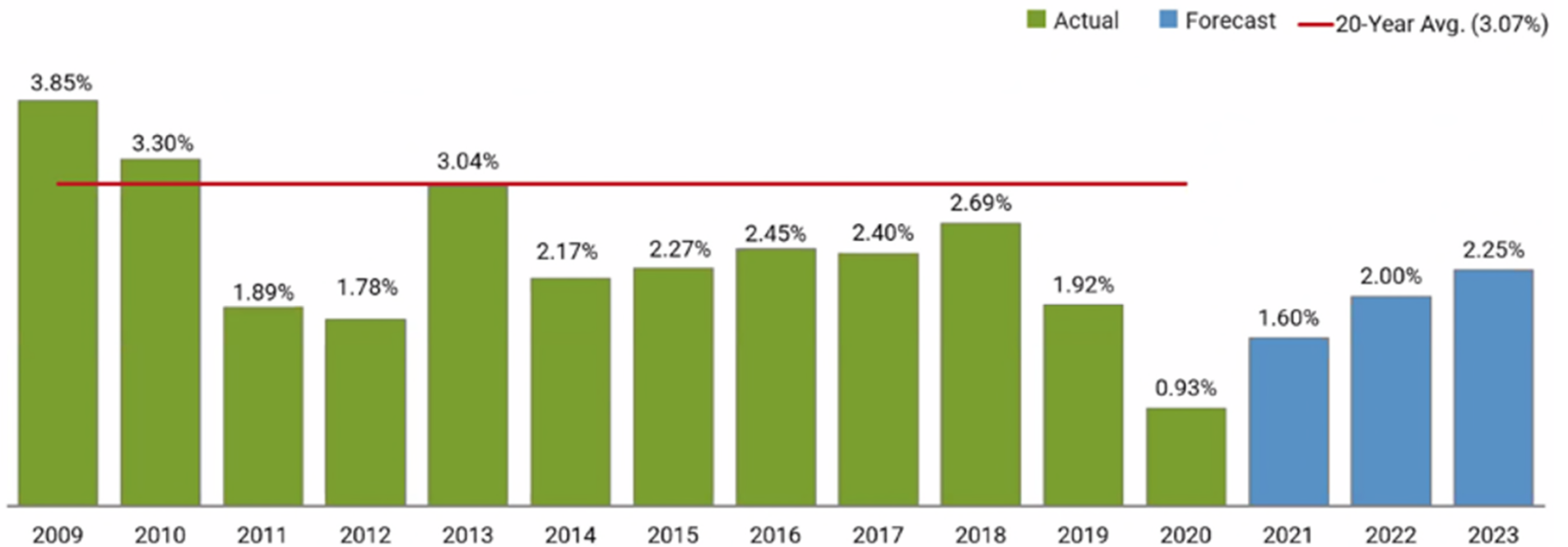


Commodity Prices Strengthening; Costs of Building Materials Increasing

Price Change Since January 1, 2020

✓ Natural Gas +84%	✓ Coffee +35%
✓ Copper +57%	✓ Corn +34%
✓ Lumber +50%	✓ Sugar +34%
✓ Soybeans +48%	✓ Gasoline +34%
✓ Steel Rebar +42%	✓ Cotton +31%
✓ Palladium +39%	✓ Wheat +30%
✓ Silver +35%	✓ Gold +19%

Ten-Year Treasury Rate



Sources: 2001-2020 (YE), U.S. Federal Reserve; 2021-2023 (YE), ULI Real Estate Economic Forecast.

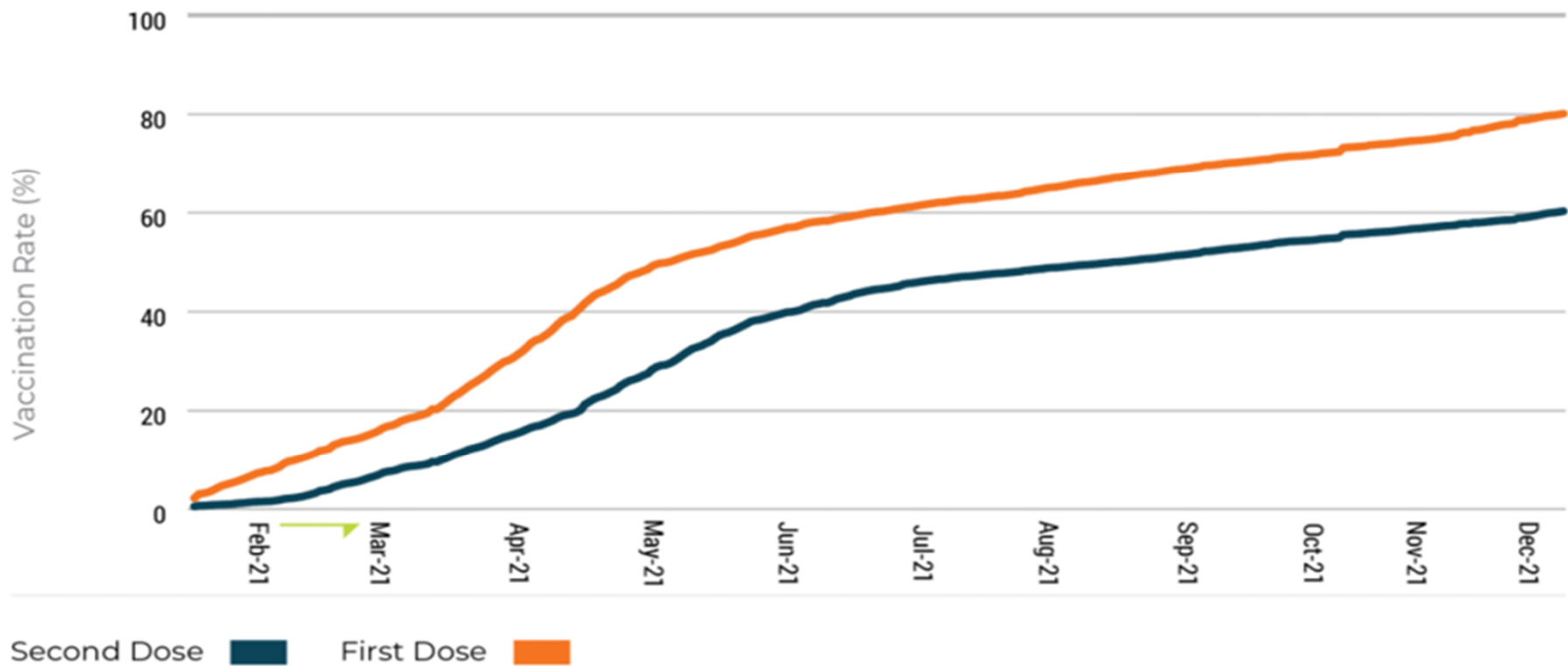
Low Rates Will Push Investors to Take More Risk

US Corporate HY Bond Yields (2007 – Current)



Covid and the Economy

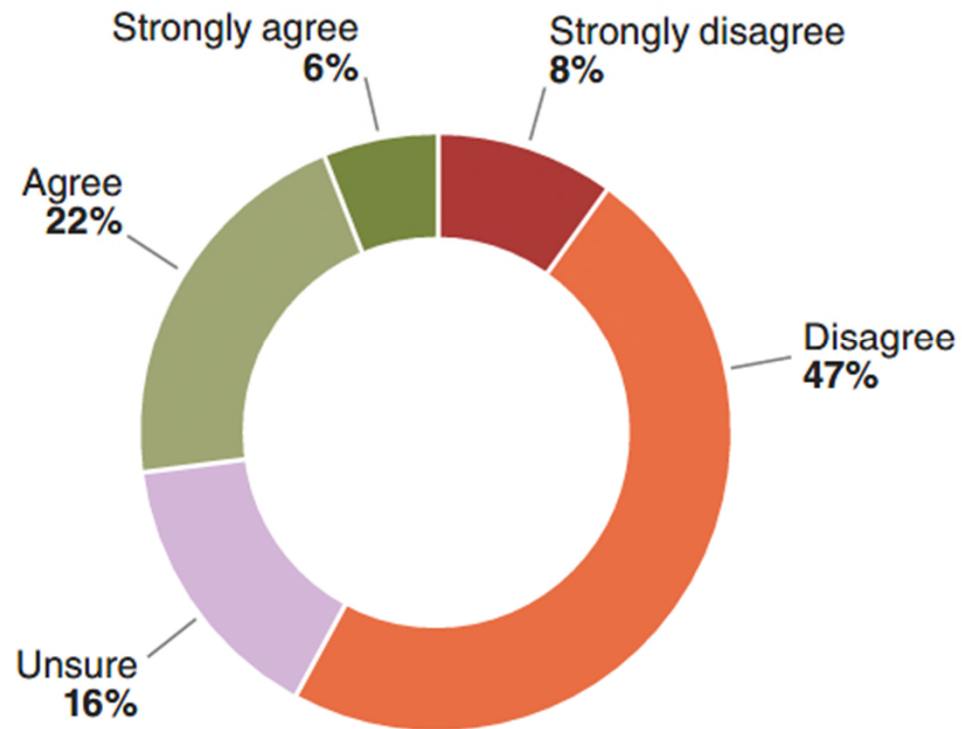
CALIFORNIA VACCINATION RATE



Source: Los Angeles Times, Centers for Disease Control and Prevention; Analysis by Beacon Economics

Covid and the Economy

Exhibit 1-6 Changes implemented as a result of COVID-19 will revert to pre-pandemic activity in 2022



Source: *Emerging Trends in Real Estate 2022* survey.

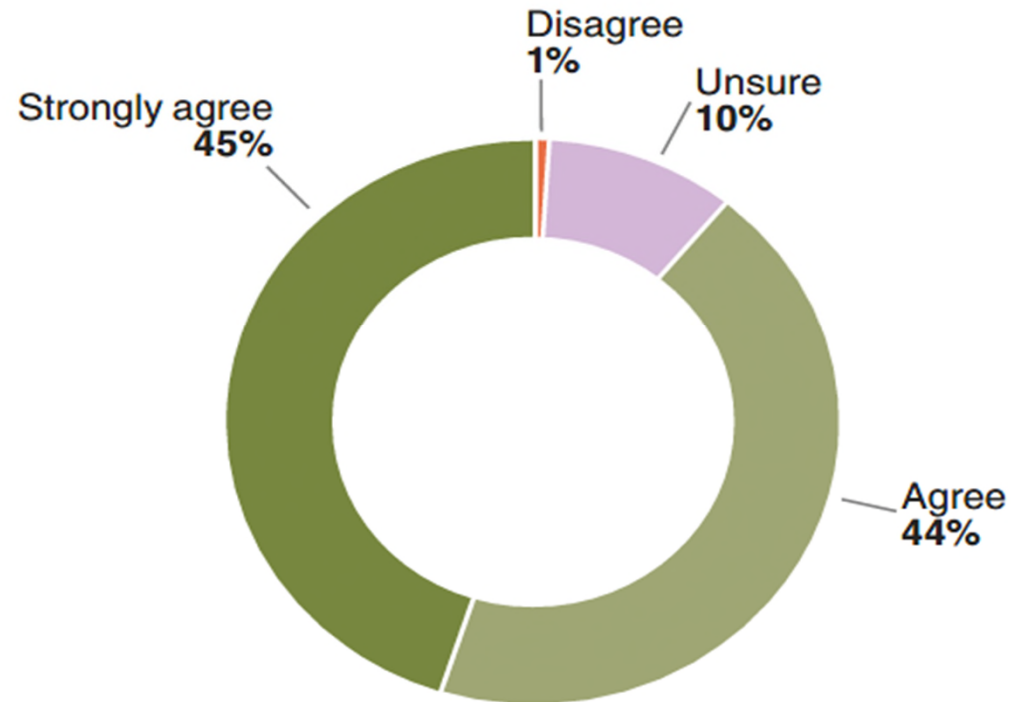
Covid and the Economy

NEW HABITS & ACCELERATED TRENDS FROM COVID MAY NOT ALL GO AWAY

- **Migration to Lower Cost, Lower Tax, More Suburban/Open Locations**
- **Work from Home**
- **Reduced Business Travel**
- **Expanded E-Commerce**
- **Desire for “State-of-the-Art” Space**
- **The Great Resignation**

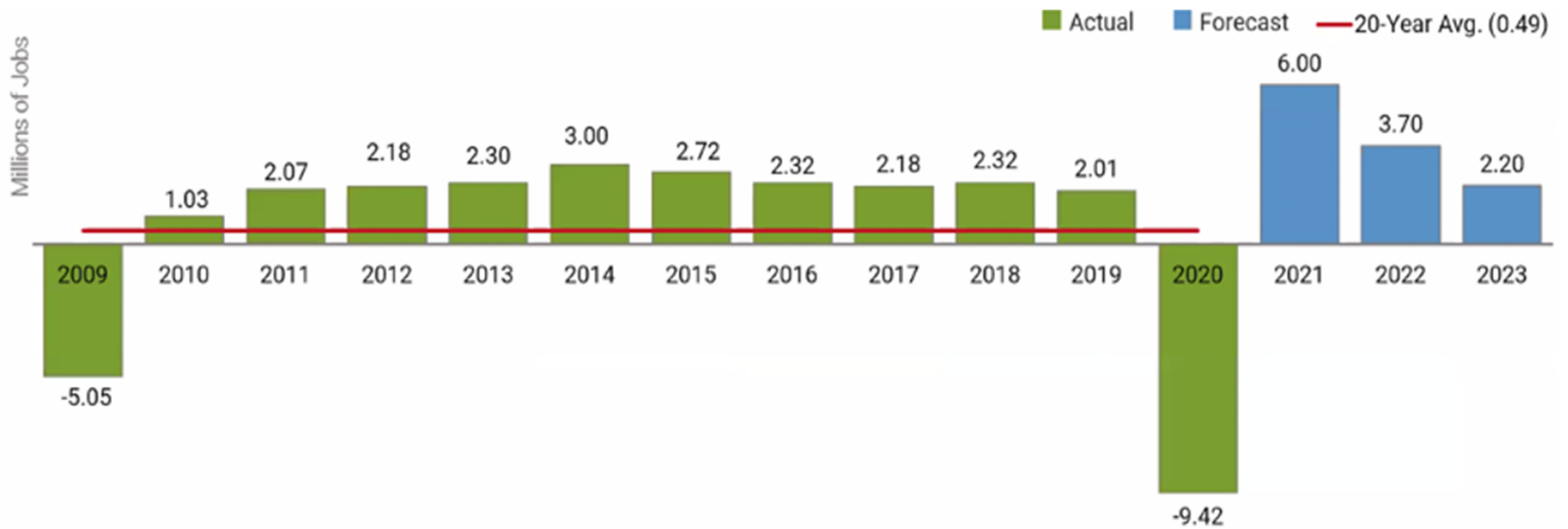
Covid and the Economy

Exhibit 1-20 I am confident making long-term strategic real estate decisions in today's environment



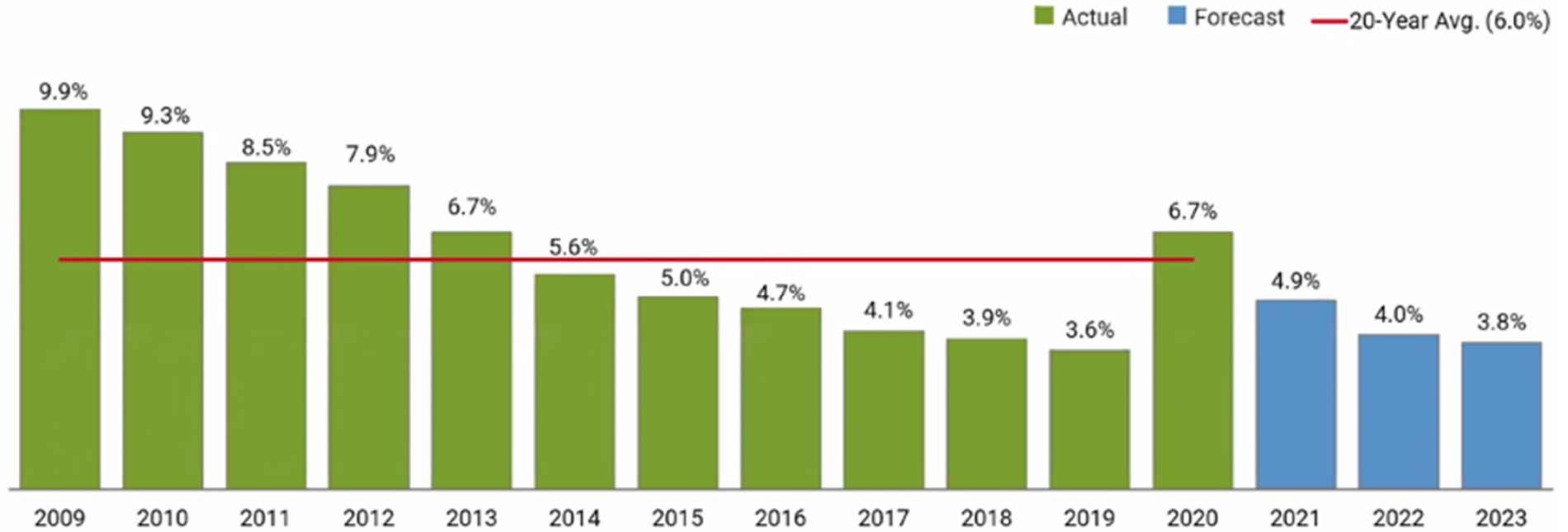
Source: *Emerging Trends in Real Estate 2022* survey.

Employment Growth (Millions)



Sources: 2001-2020, Bureau of Labor Statistics; 2021-2023, ULI Real Estate Economic Forecast.

Unemployment Rate: United States



Sources: 2001-2020, (seasonally adjusted, as of December), Bureau of Labor Statistics; 2021-2023 (YE), ULI Real Estate Economic Forecast.

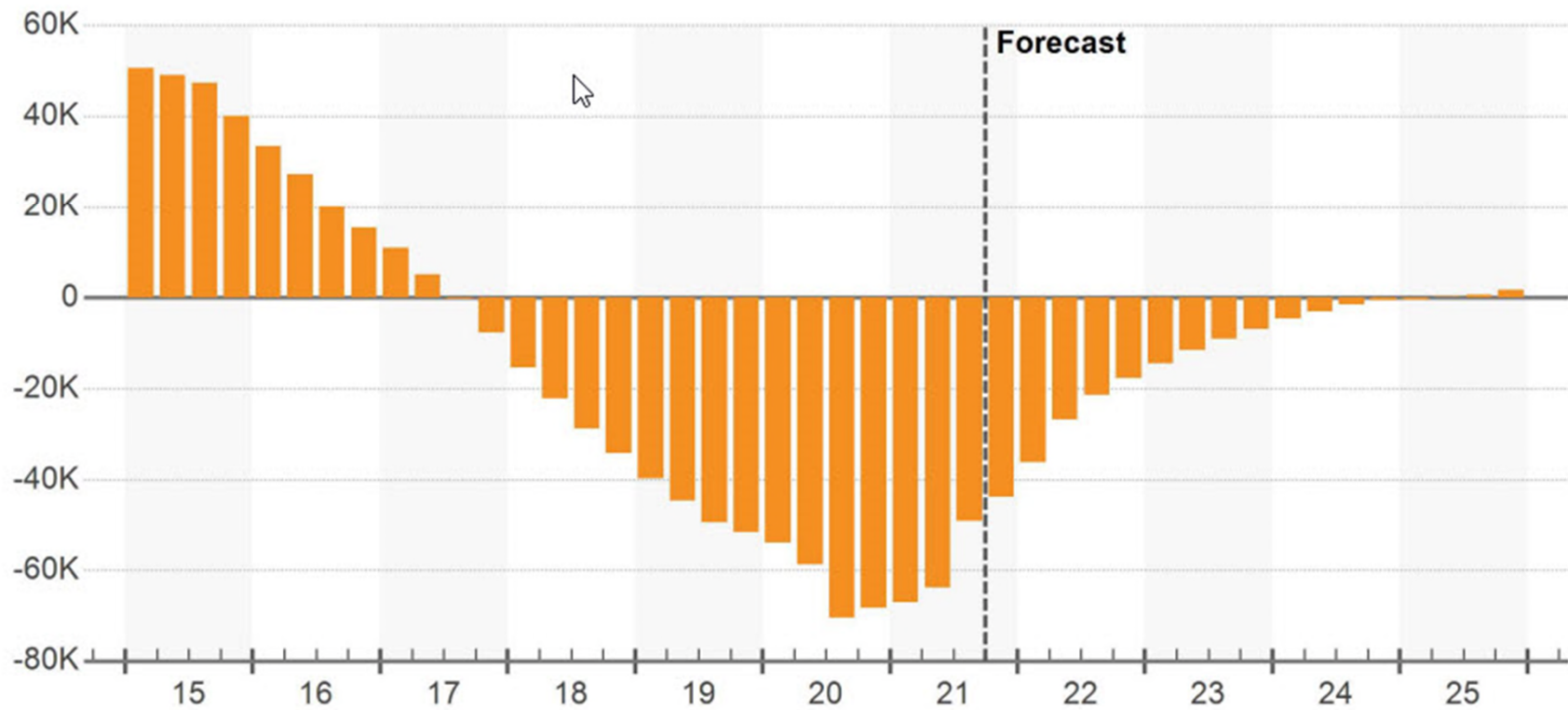
...And Total Job Availability is at An All-Time High

June 2021 JOLTS Report Points Toward Tightening Labor Market



Los Angeles County Net Population Change

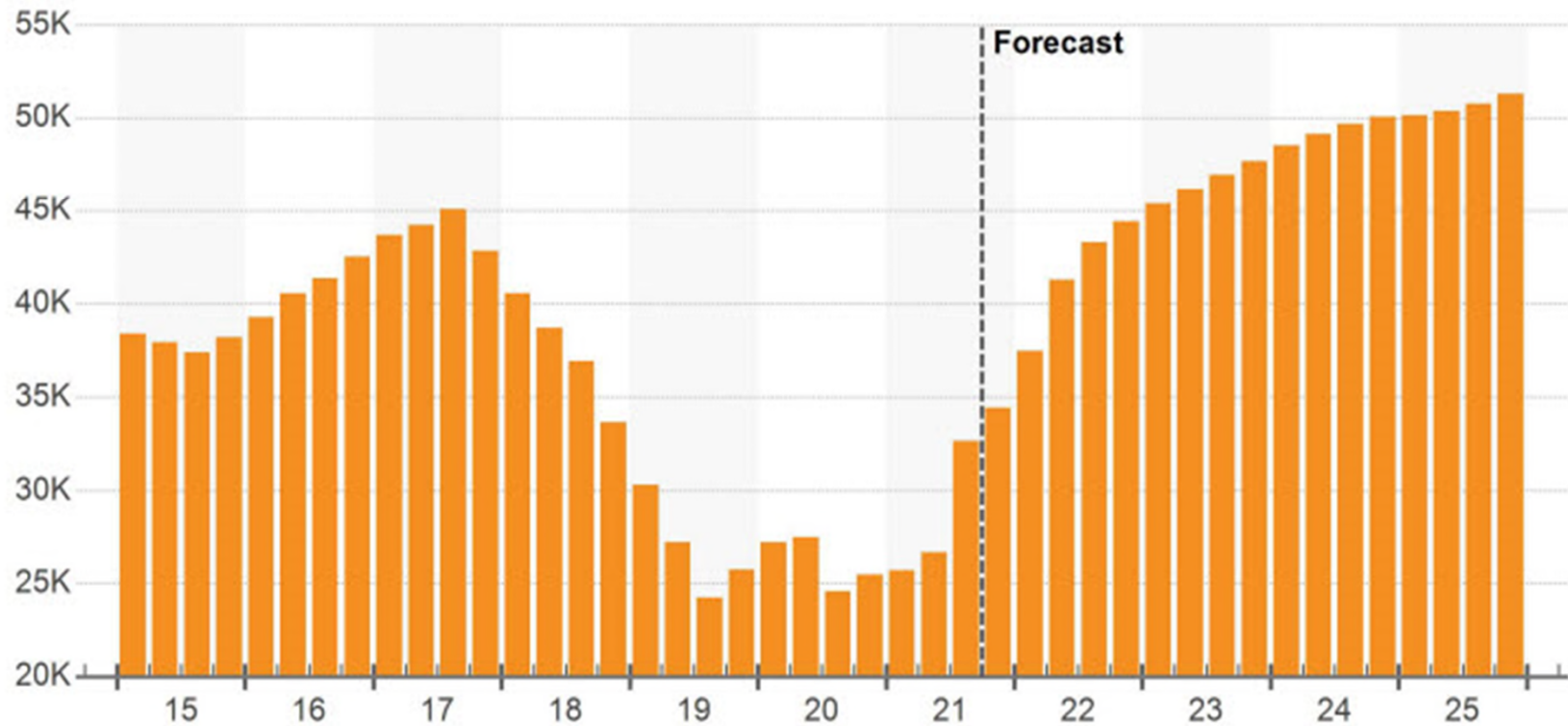
NET POPULATION CHANGE (YOY)



Source: CoStar

Inland Empire Net Population Change

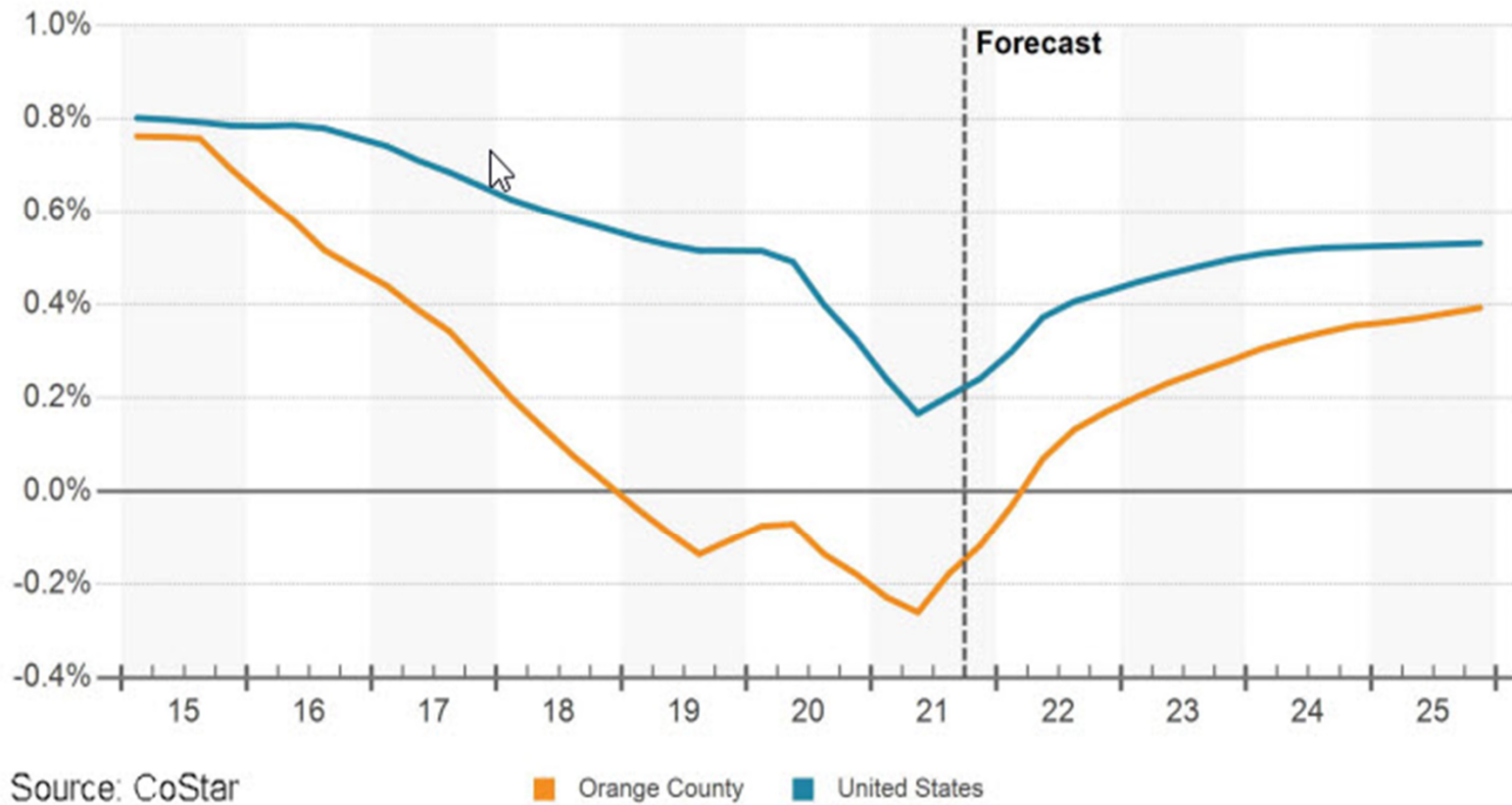
NET POPULATION CHANGE (YOY)



Source: CoStar

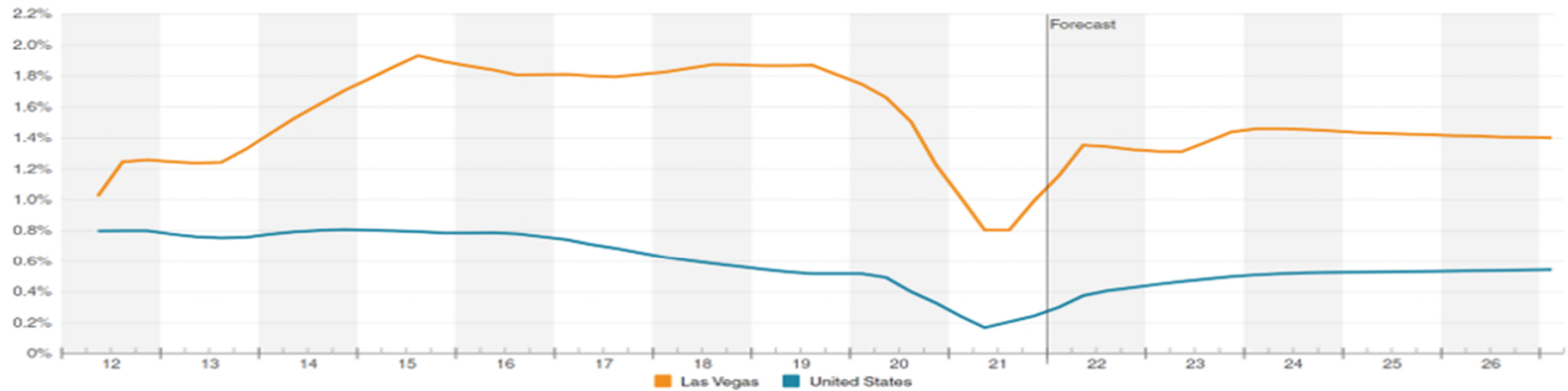
Orange County Population Growth (YOY%)

POPULATION GROWTH (YOY %)

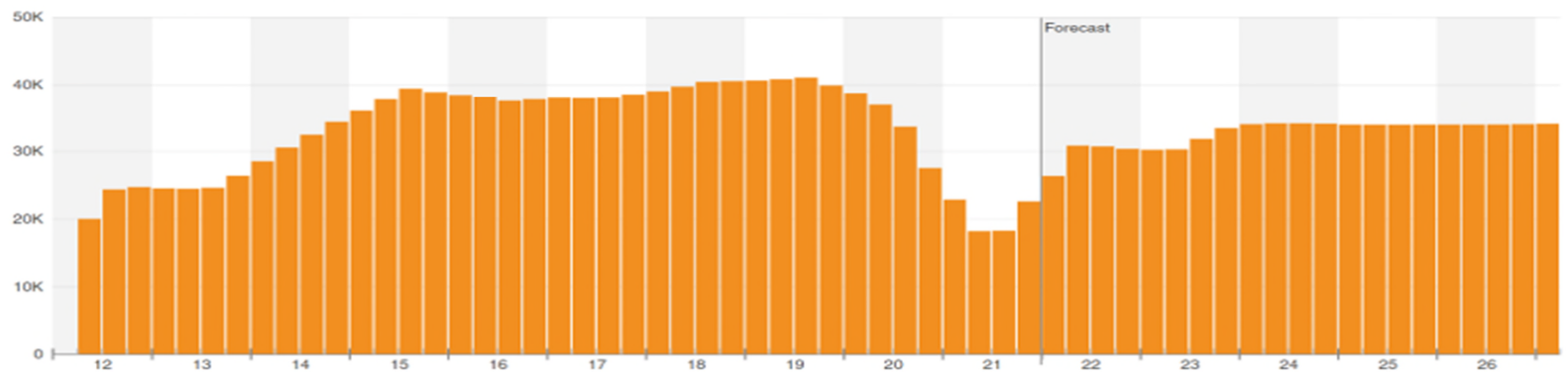


Population Growth is Booming in Las Vegas

POPULATION GROWTH (YOY %)

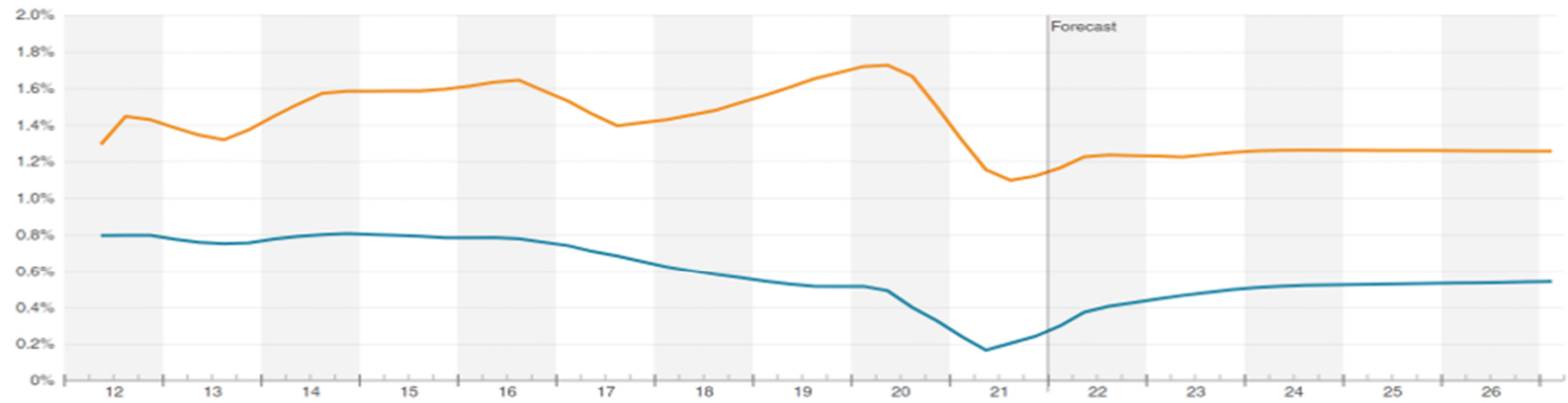


NET POPULATION CHANGE (YOY)

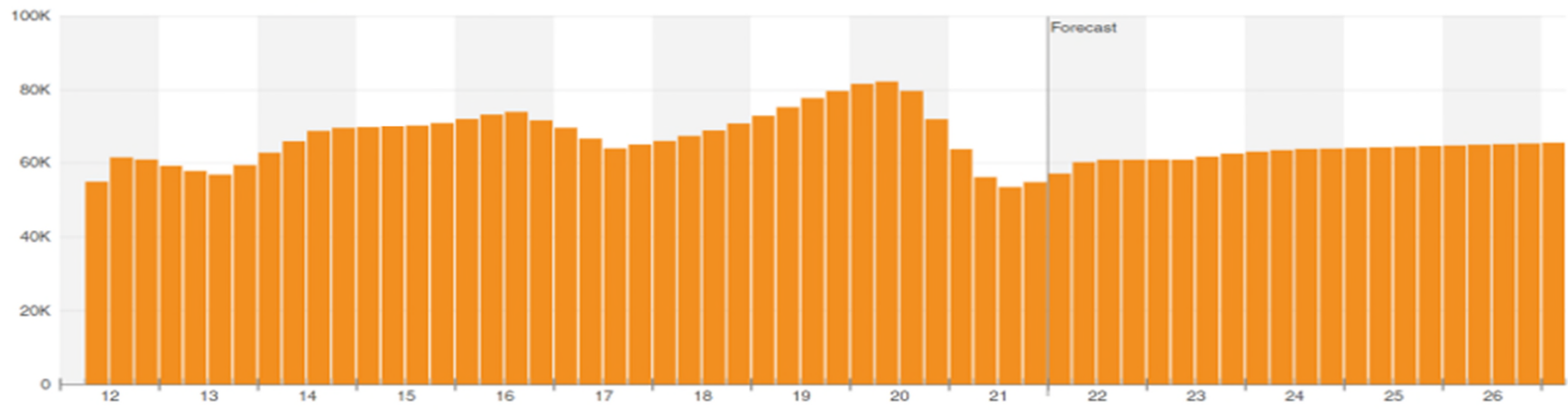


... and in Phoenix, Arizona

POPULATION GROWTH (YOY %)

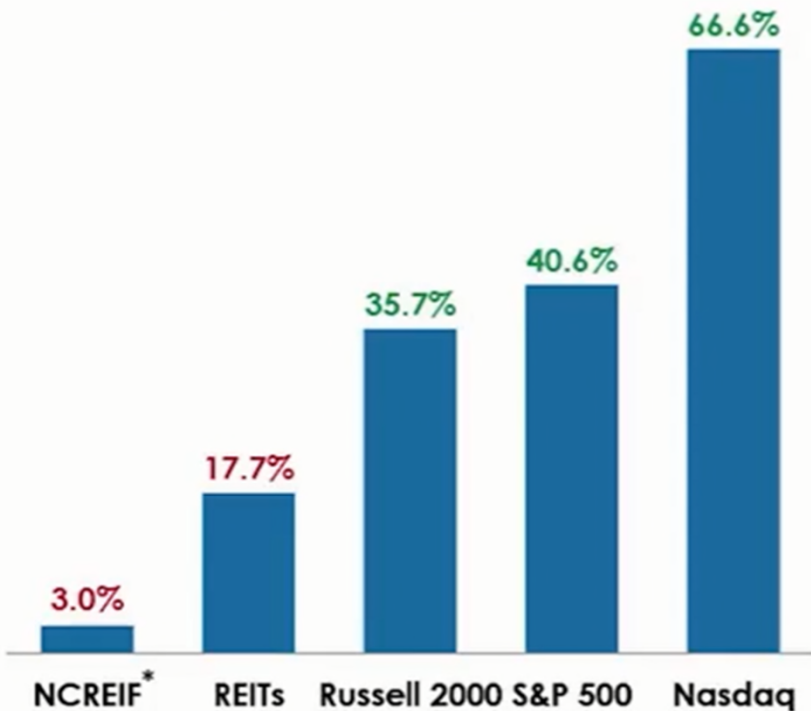


NET POPULATION CHANGE (YOY)

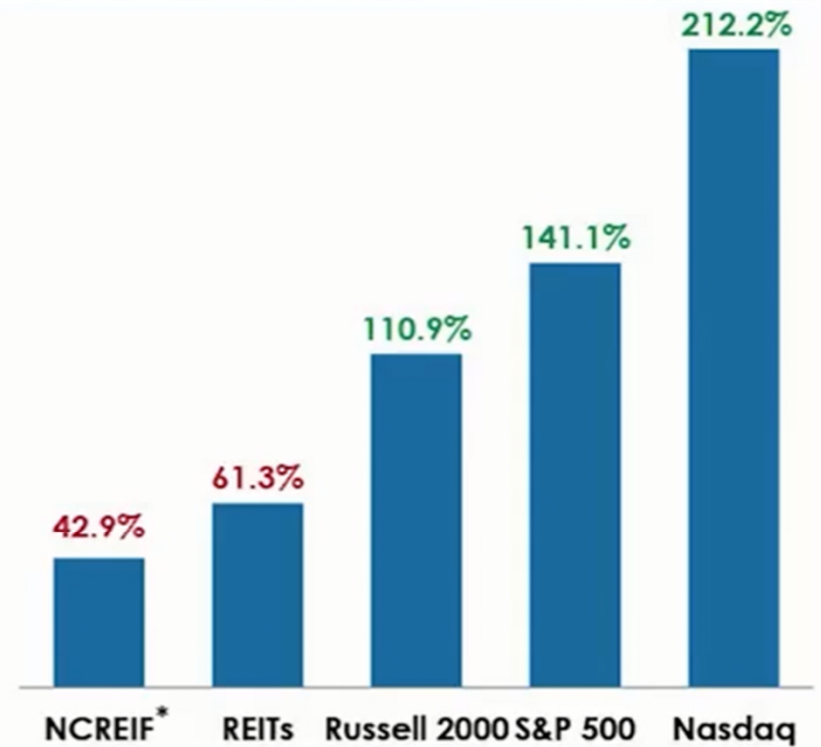


Commercial Real Estate Has Underperformed in the Short and Medium Term

Benchmark Total Returns (Since 1/1/2020)

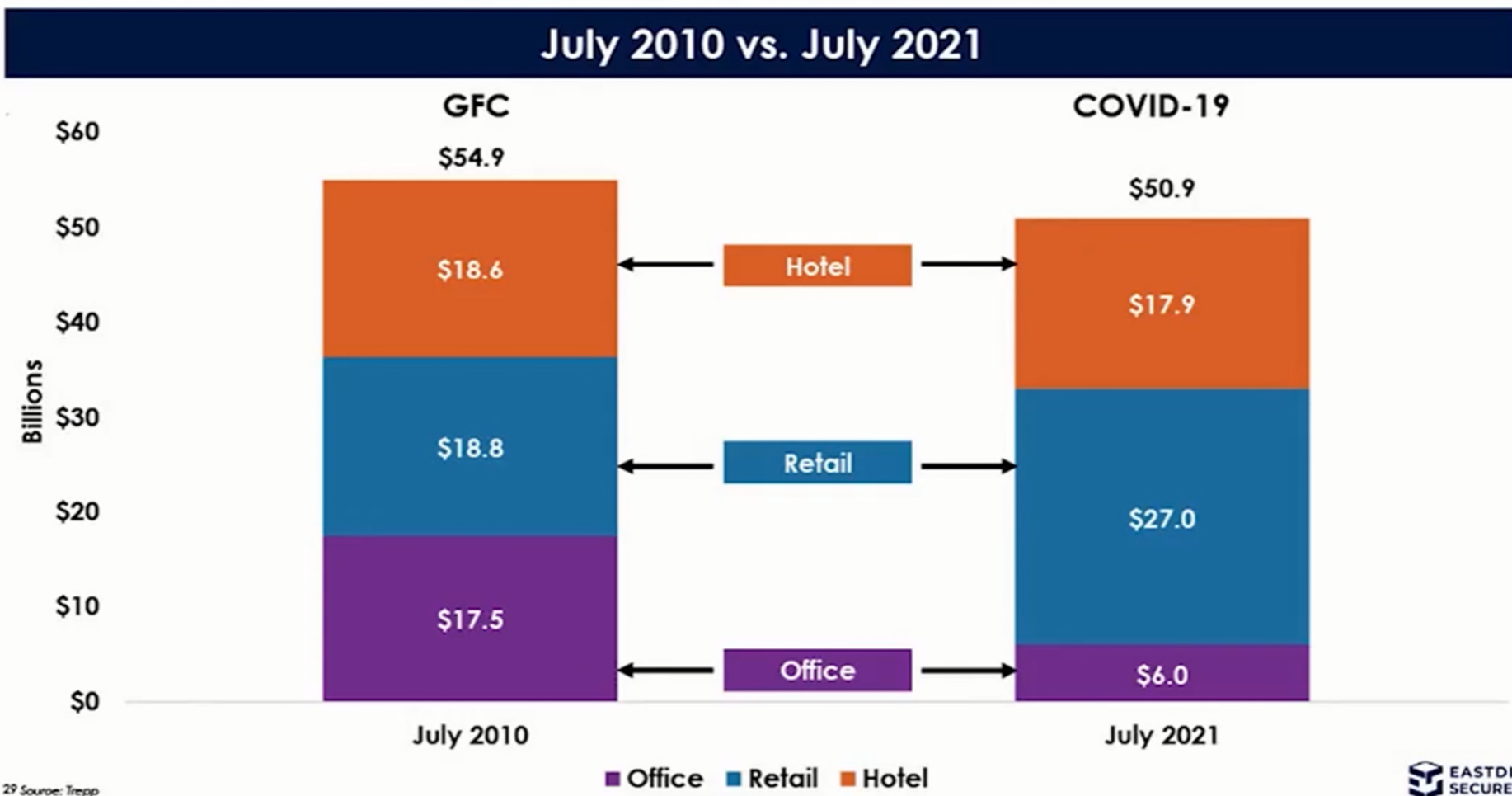


Benchmark Total Returns (Since 1/1/2016)



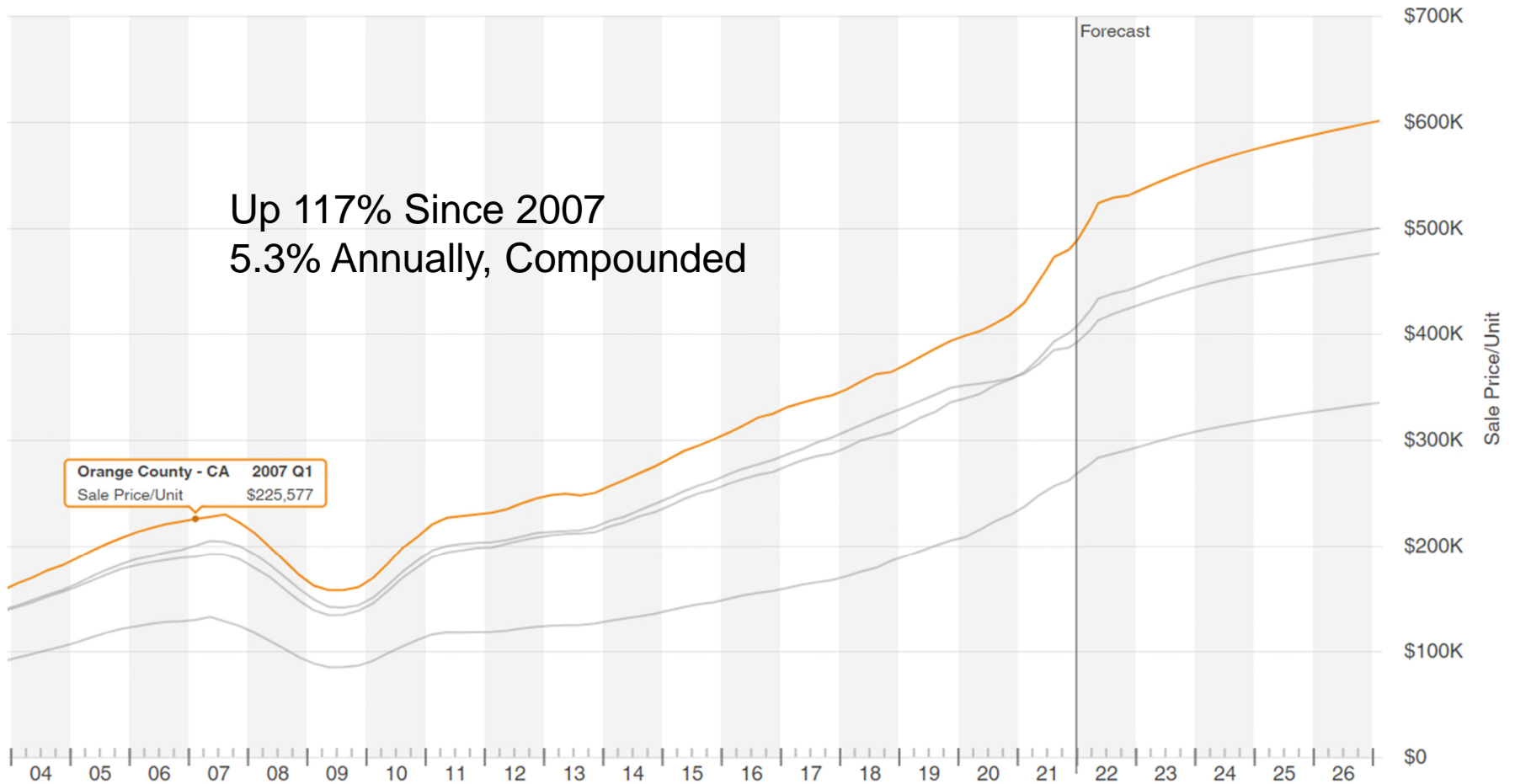
17 Source: SNL Financial.
* NCREIF returns as of Q2 2021.

Total Delinquency by Property Type: Most Impacted Sectors

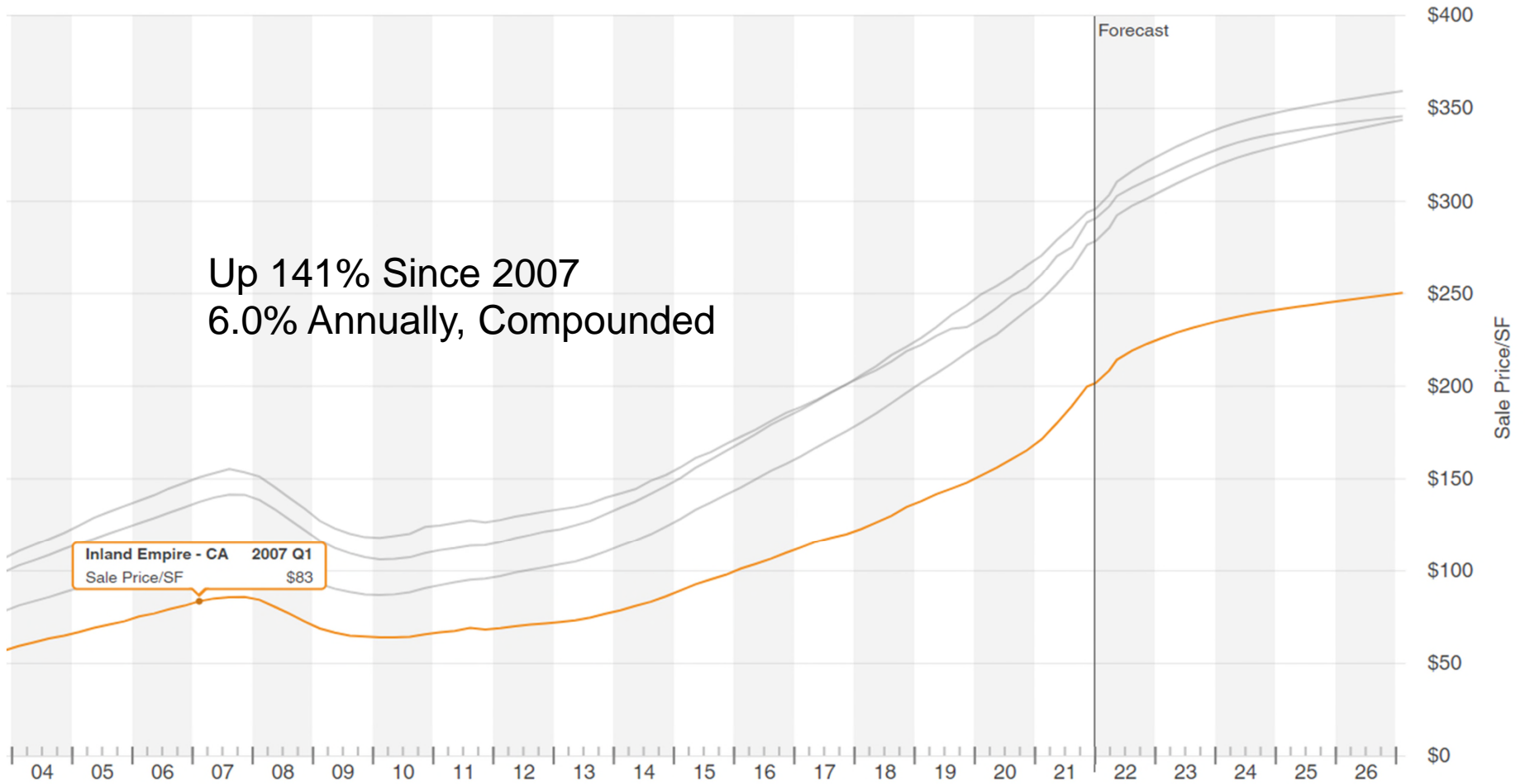


29 Source: Trepp

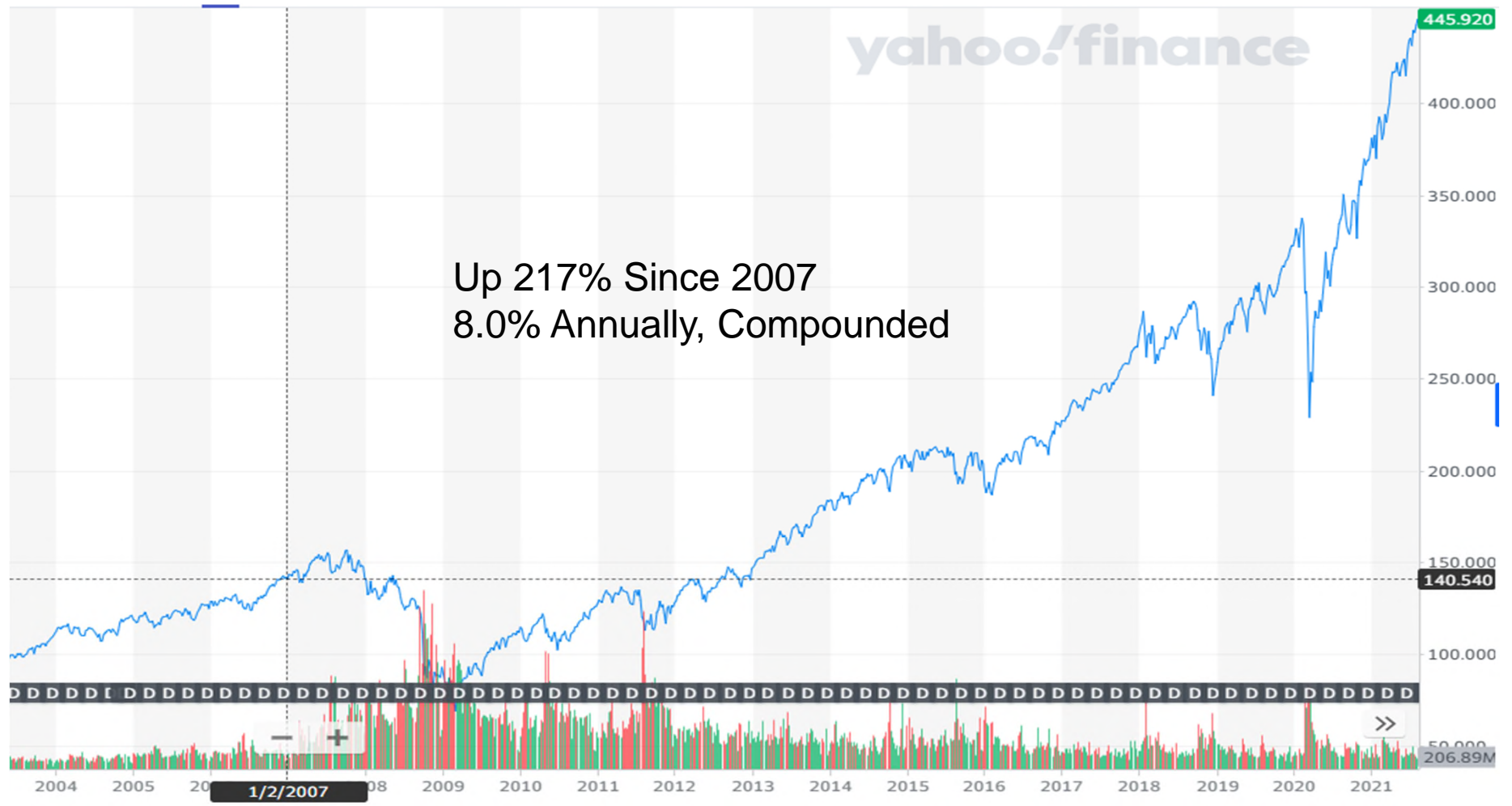
Orange County Apartment Price Index



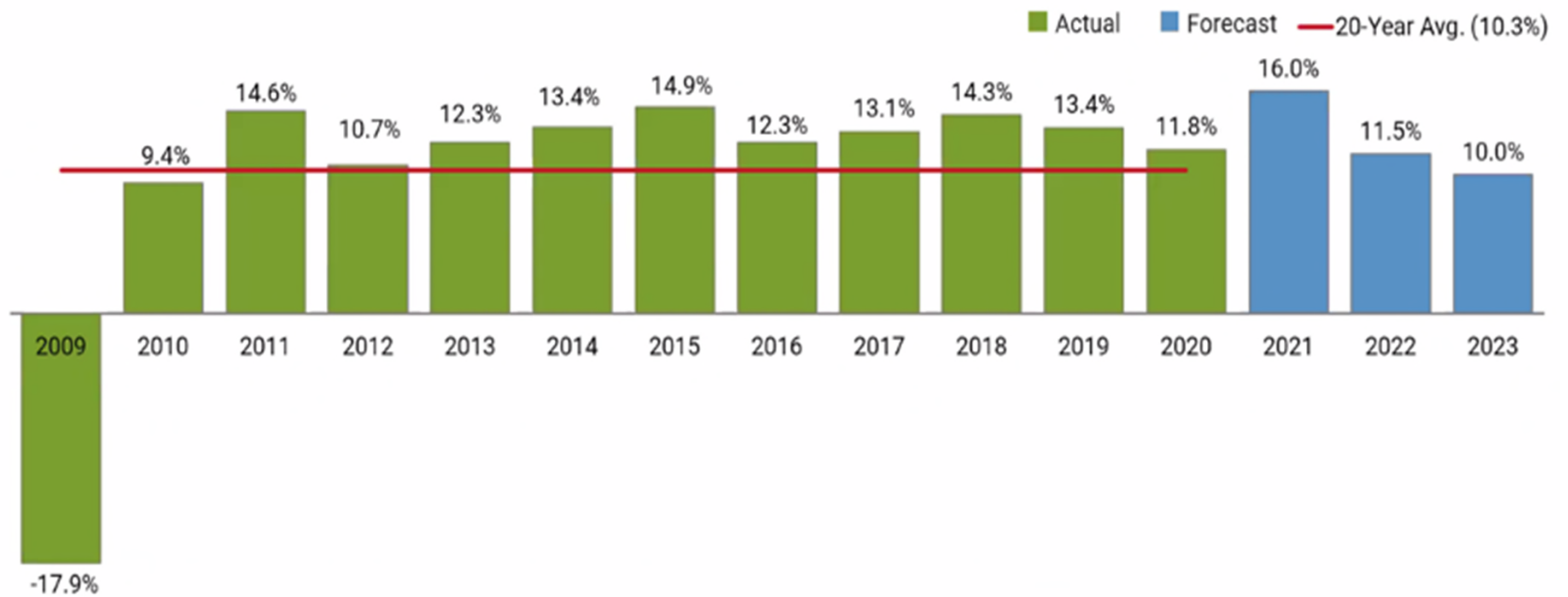
Inland Empire Industrial Price Index



Standard and Poor 500 ETF



NCREIF Industrial Total Annual Returns

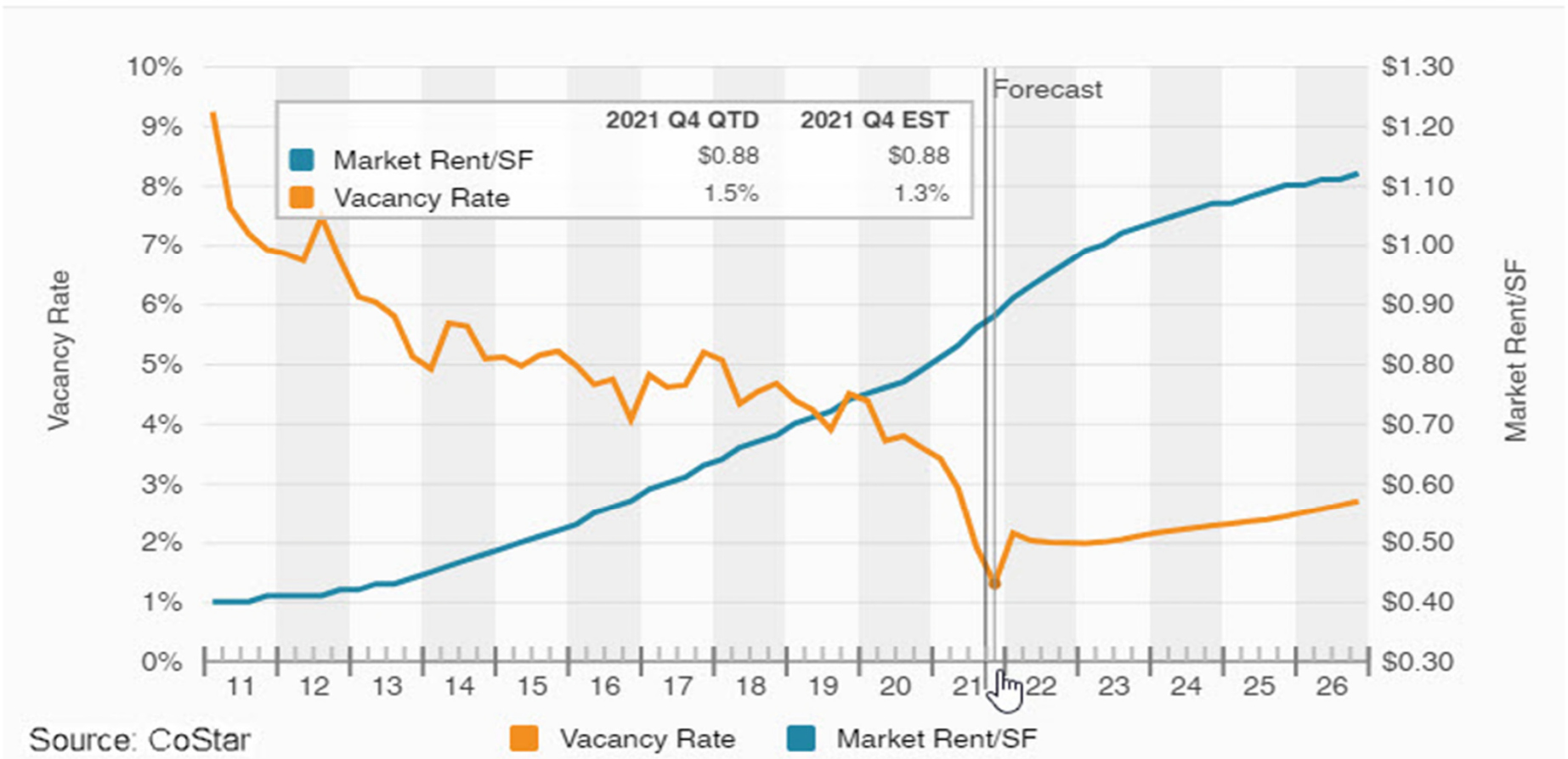


Sources: 2000-2020, National Council of Real Estate Investment Fiduciaries (NCREIF); 2021-2023, ULI Real Estate Economic Forecast.

Outlook for Industrial Property by Sub-Type

	Short-Term	Longer-Term
Big Box	●	↑
Infill / Light Industrial	●	↑
Last Mile Logistics	●	↑
Cold Storage	●	↑
Business Park	●	↑

Inland Empire Industrial Vacancy and Market Rent Per SF



Big Box Industrial is Hot

**5600 E. Airport Dr.
Ontario**

1,630,000 SF
Distribution Warehouse
On 94 acres

\$215,000,000
March 12, 2020 Closing
\$132 PSF of Bldg.

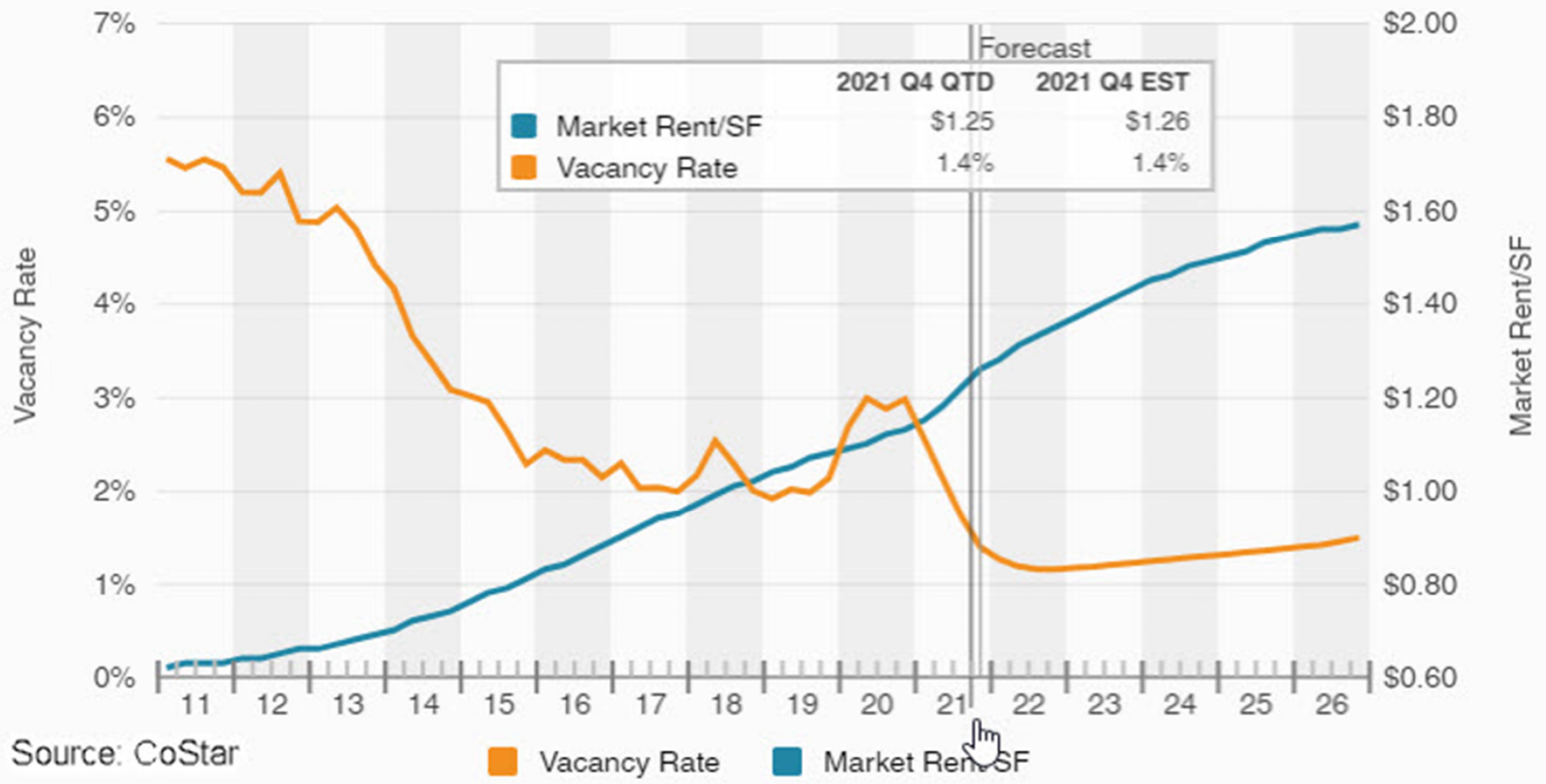
Then Costco bought it:

\$345,000,000
May 6, 2021 Closing
\$212 PSF of Bldg.

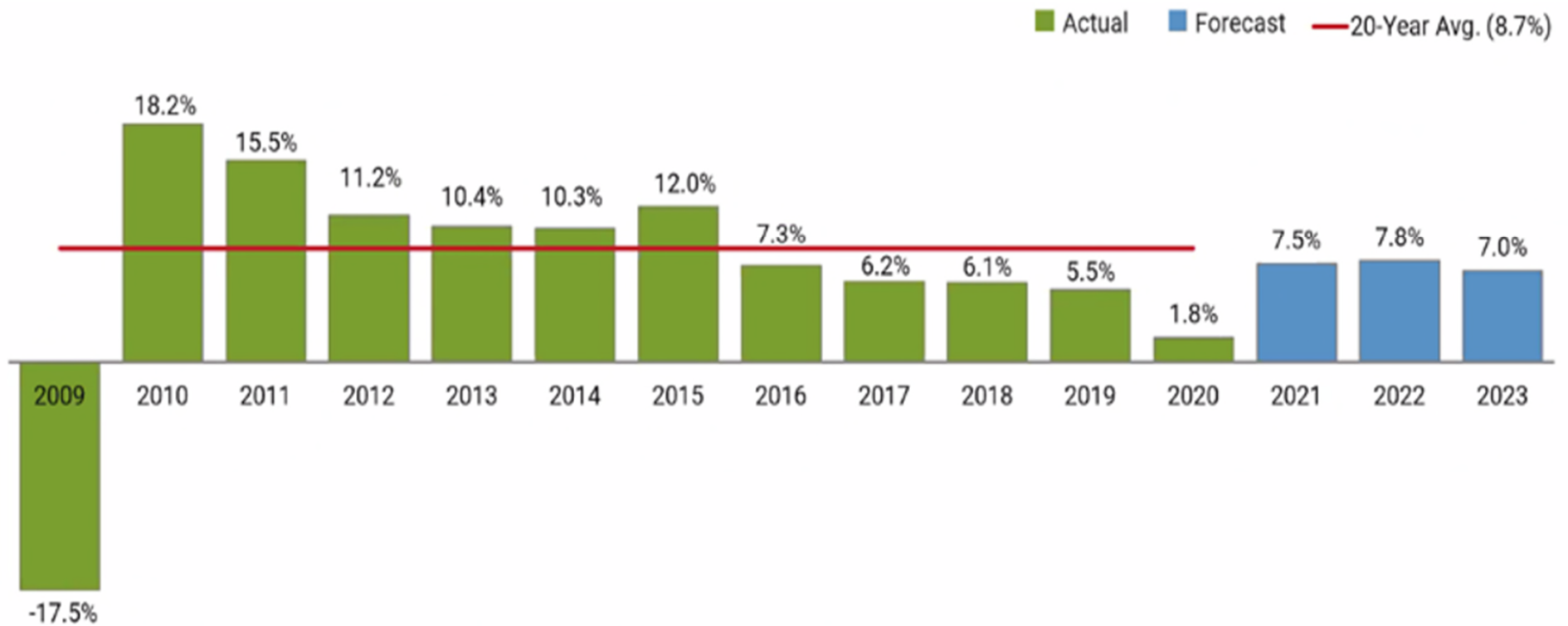


Price increase over 14 months: **60%**

Los Angeles County Industrial Vacancy and Market Rent Per SF

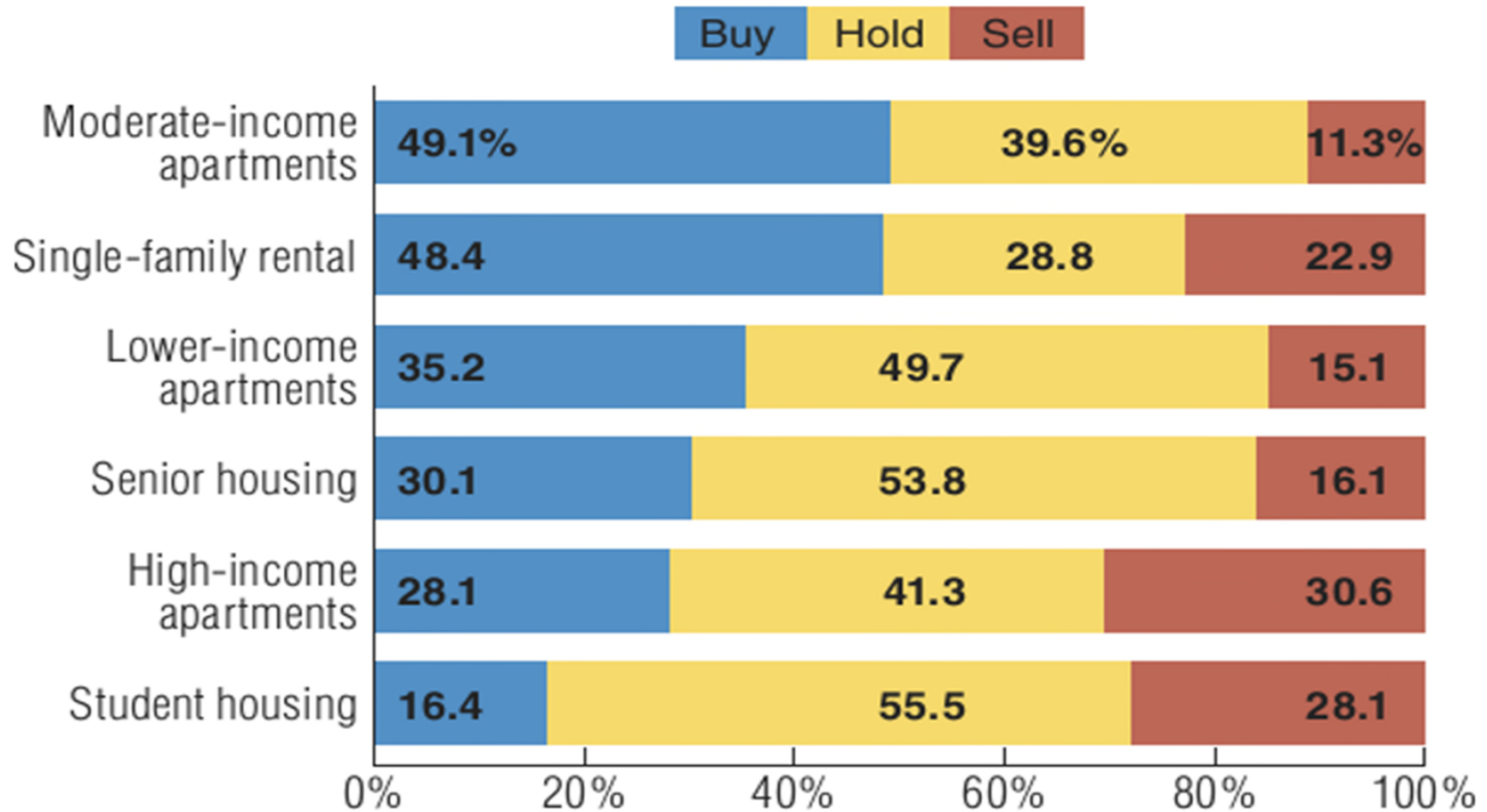


NCREIF Apartment Total Annual Returns



Sources: 2000-2020, National Council of Real Estate Investment Fiduciaries (NCREIF); 2021-2023, ULI Real Estate Economic Forecast.

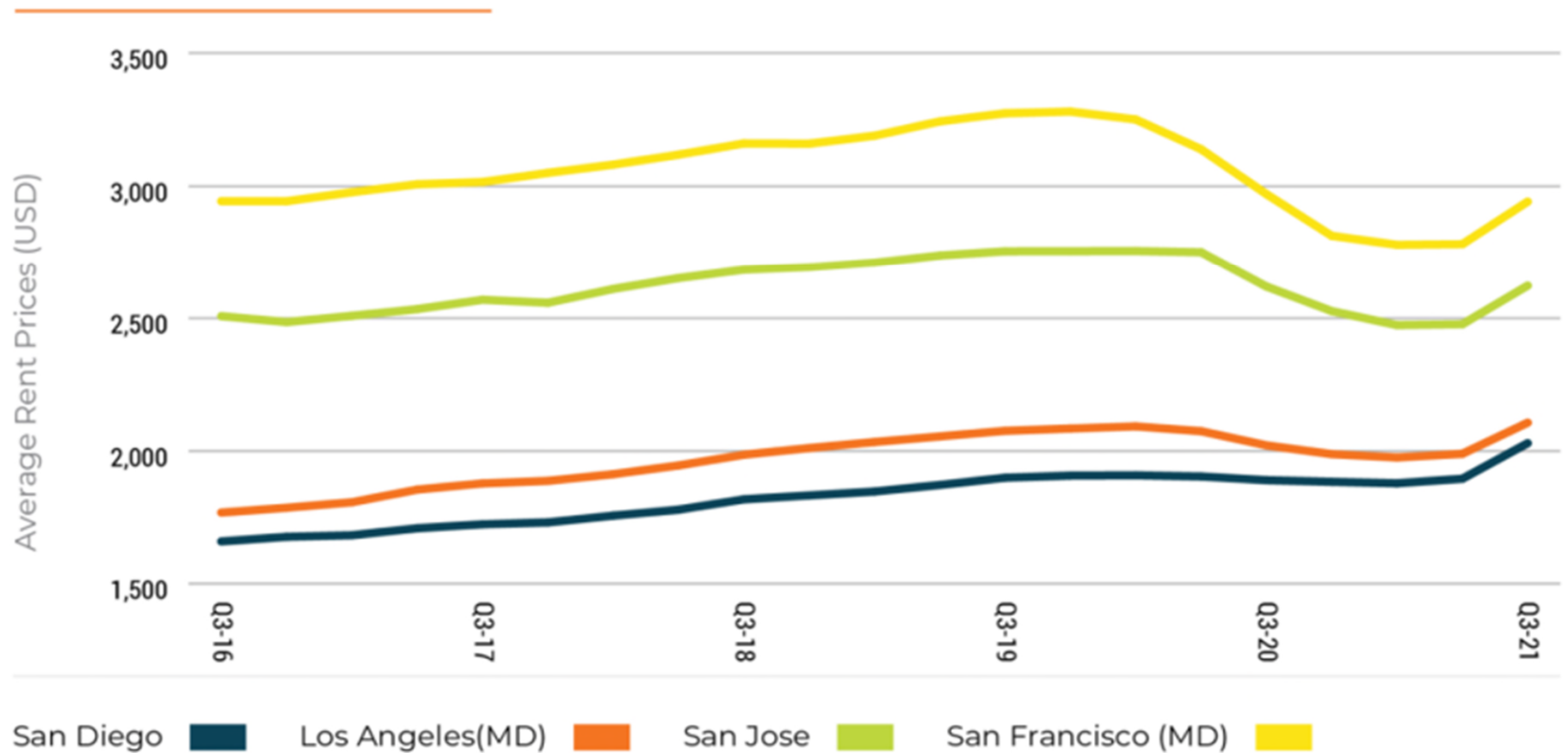
Apartment: Buy/Hold/Sell Recommendations



Outlook for Multi-Residential by Sub-Type

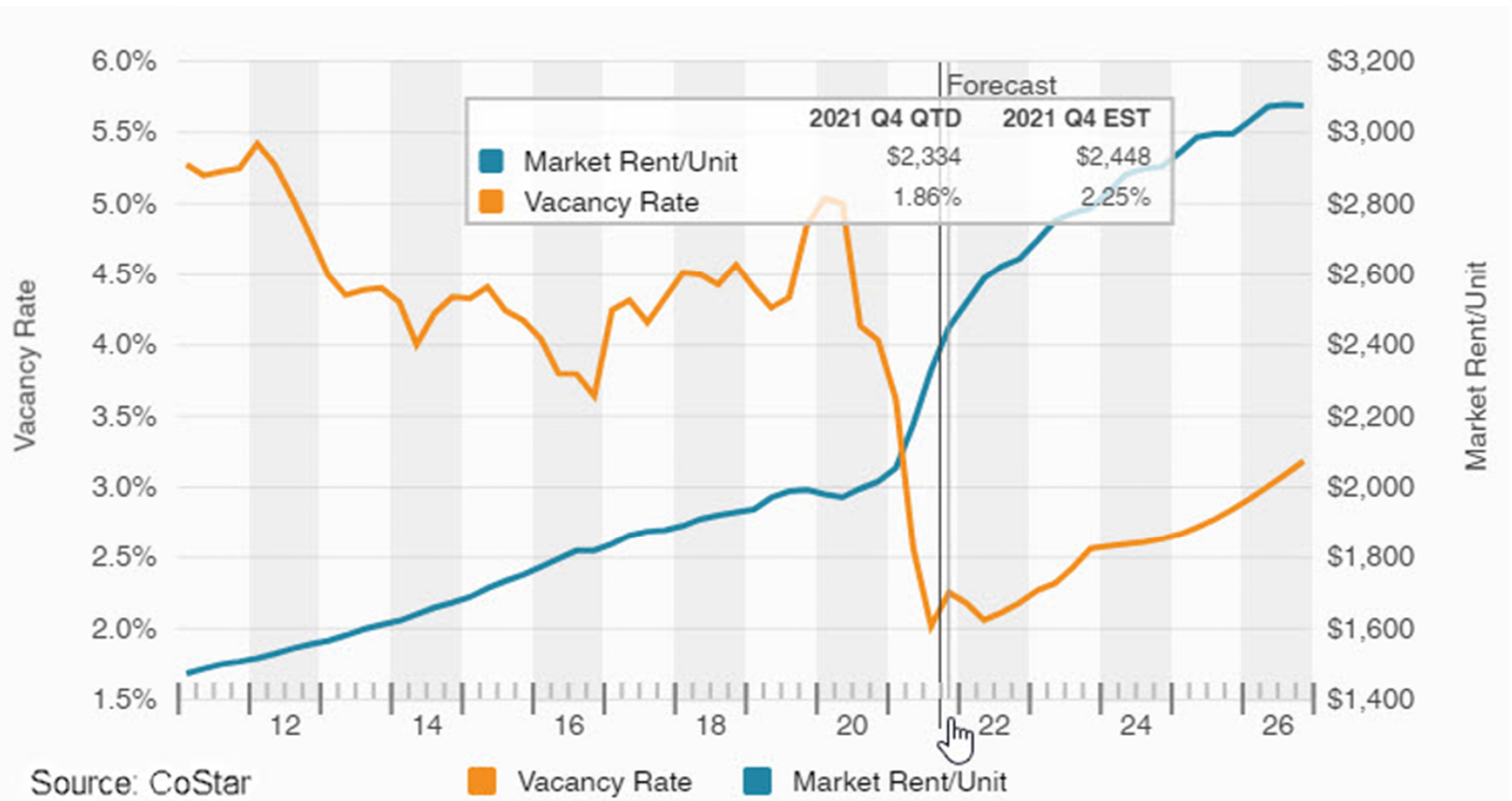
	Short-Term	Longer-Term
Suburban Multifamily		
New, City Center		
Student Housing		
Senior Housing		 
Older, City Center		

California Rent Price Trends

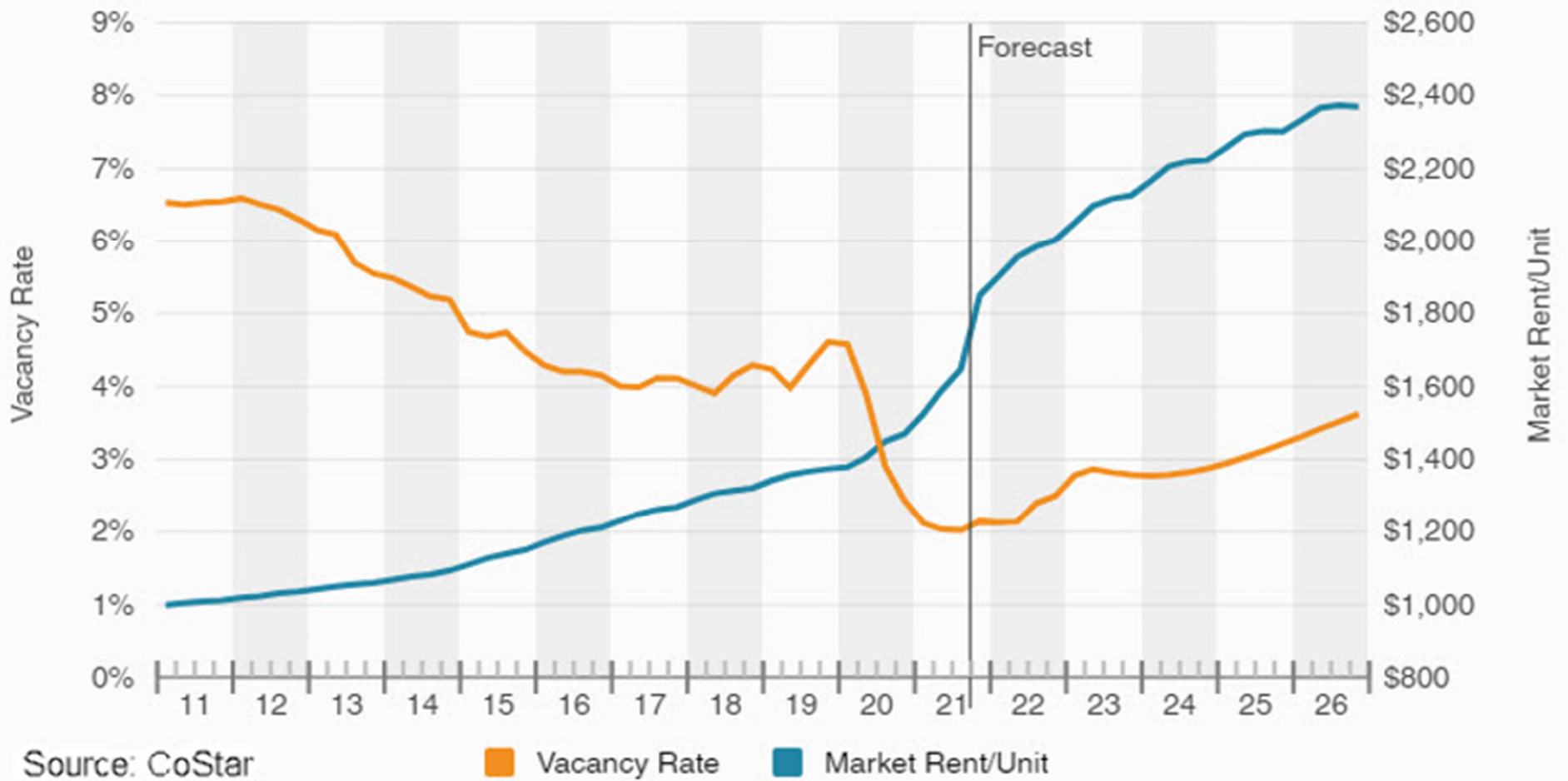


Source: REIS, Inc.; Analysis by Beacon Economics

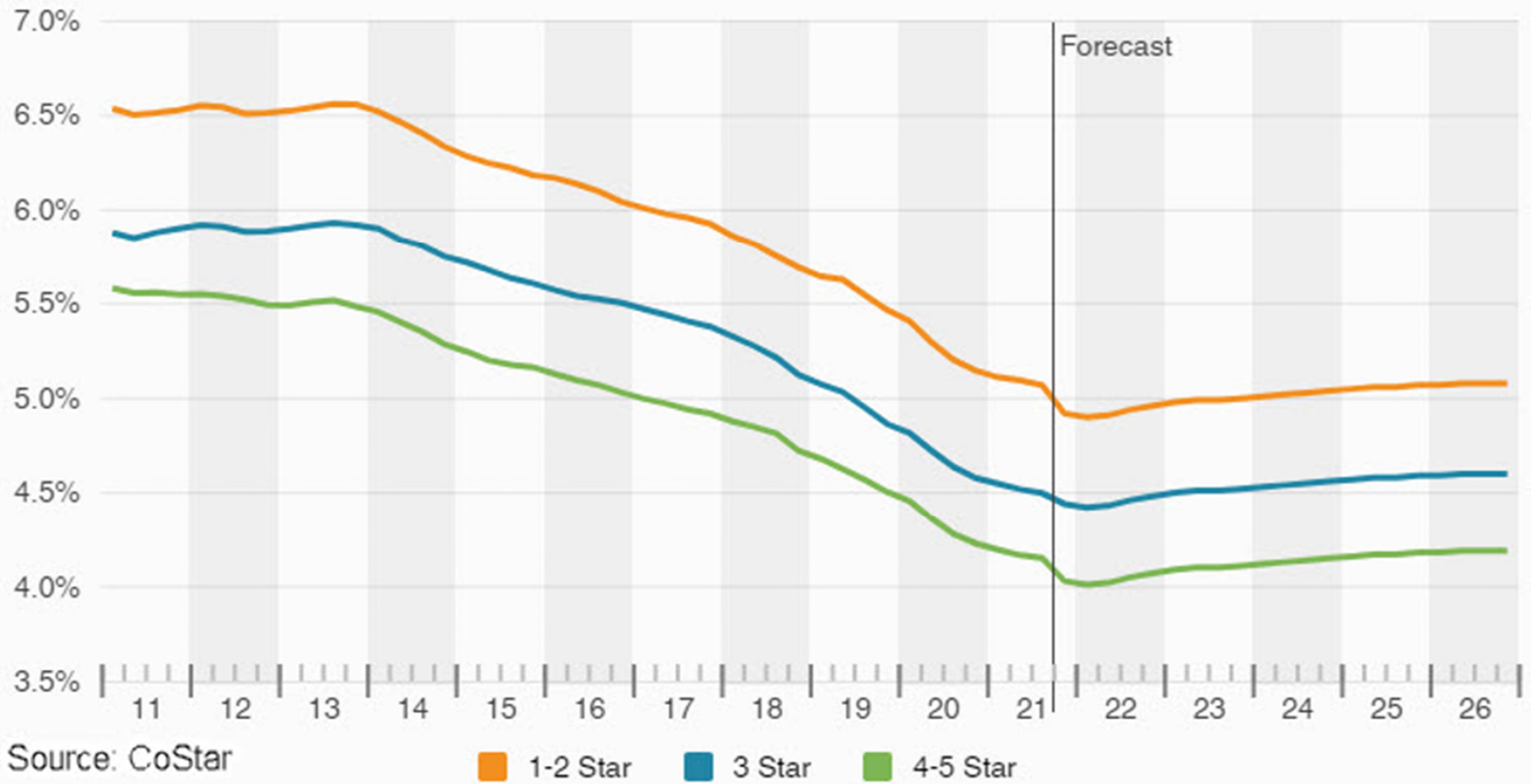
Orange County Apartments Vacancy and Market Asking Rent Per Unit



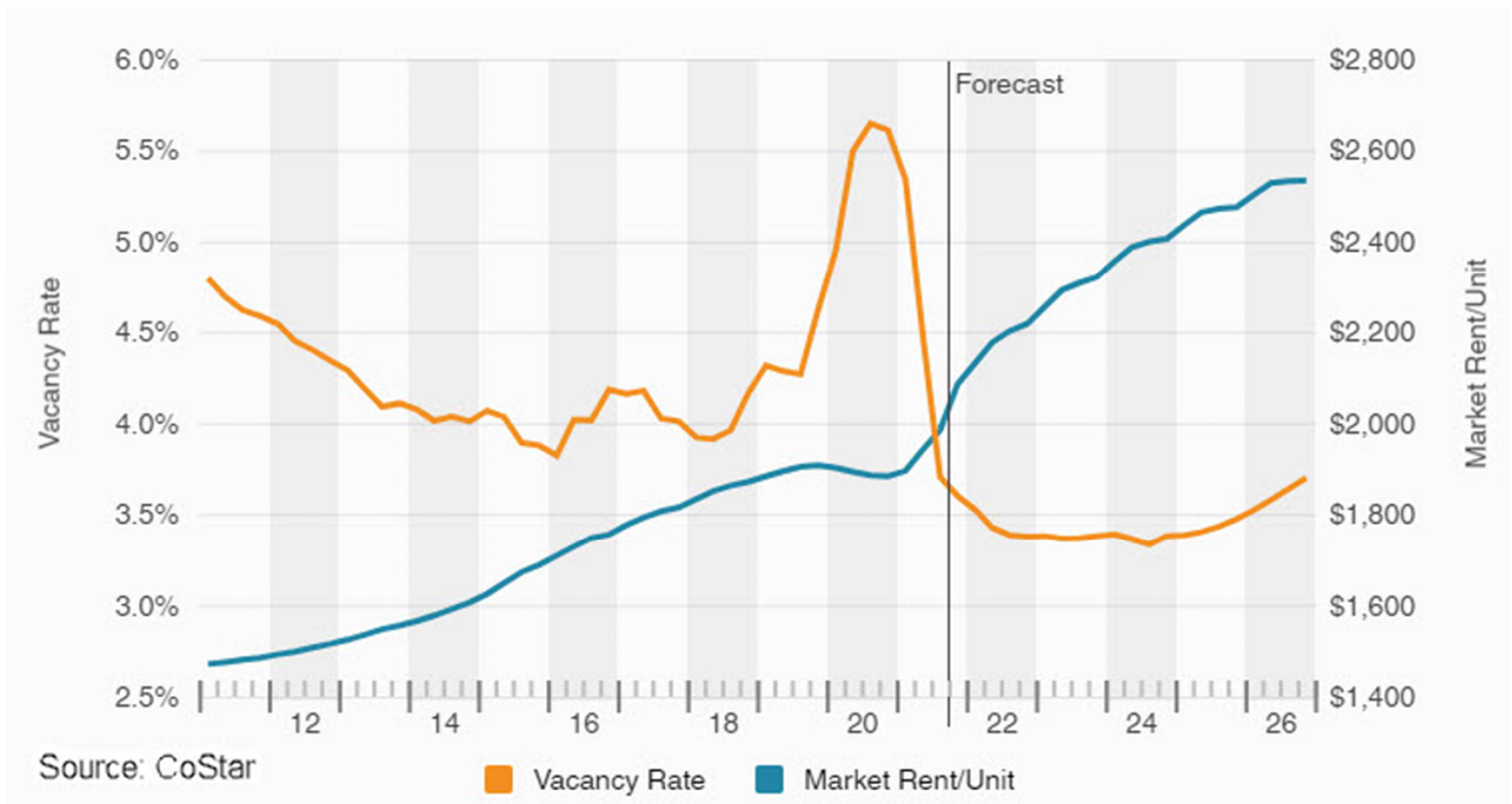
Inland Empire Apartments Vacancy and Market Asking Rent Per Unit



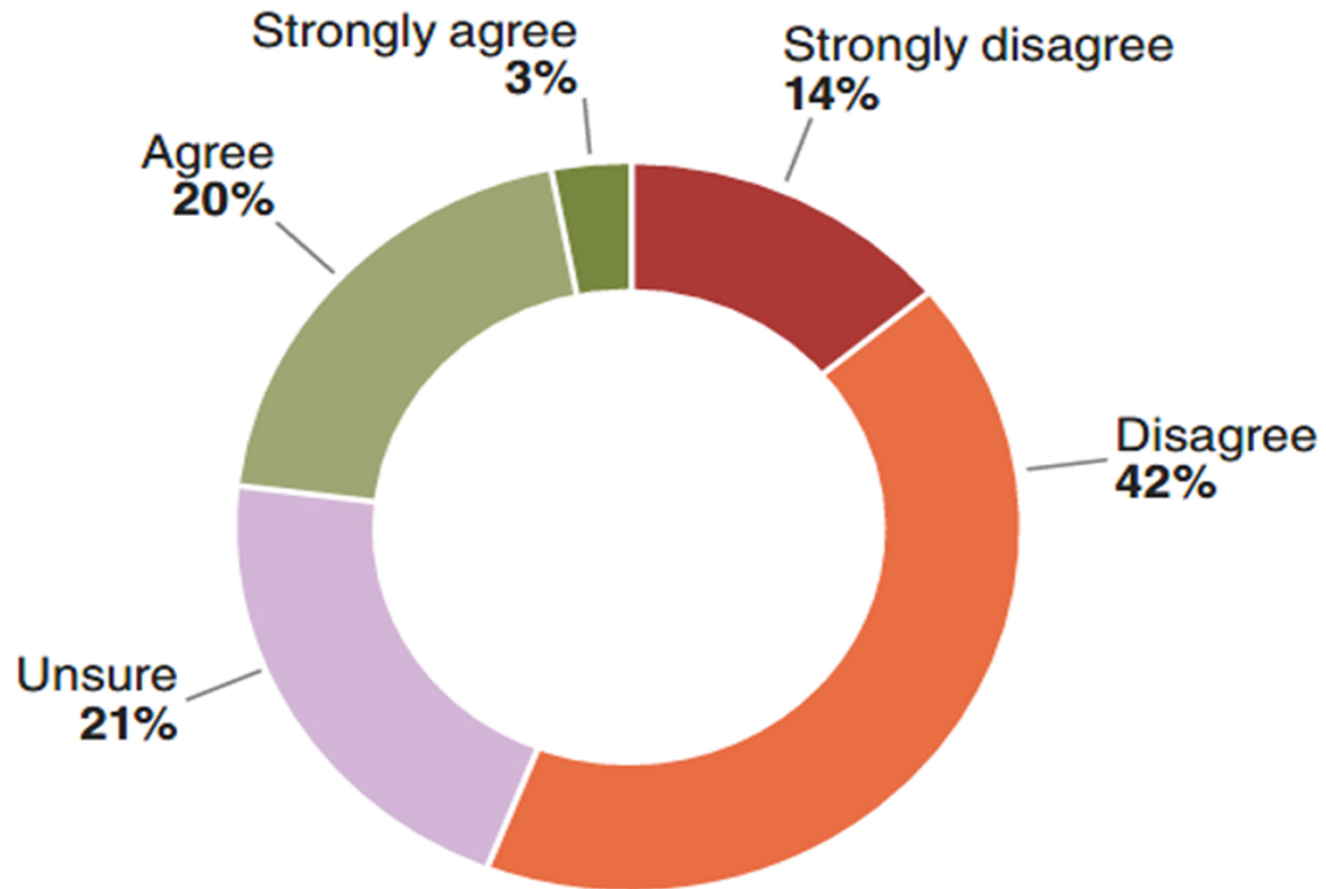
Inland Empire Apartments Market Cap Rate By Star Rating



Los Angeles County Apartments Vacancy and Market Asking Rent Per Unit

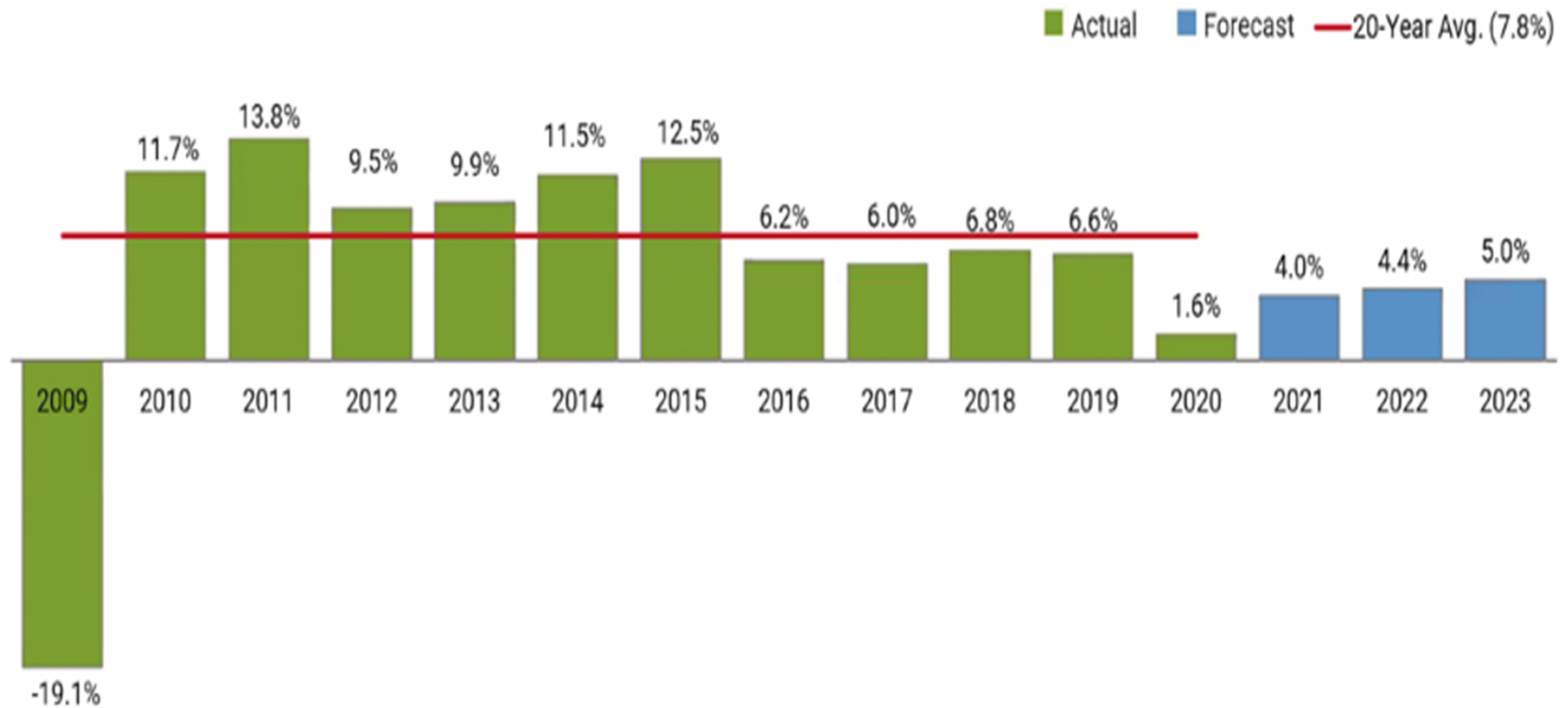


There Will Be a Trend Away from High Urban Density



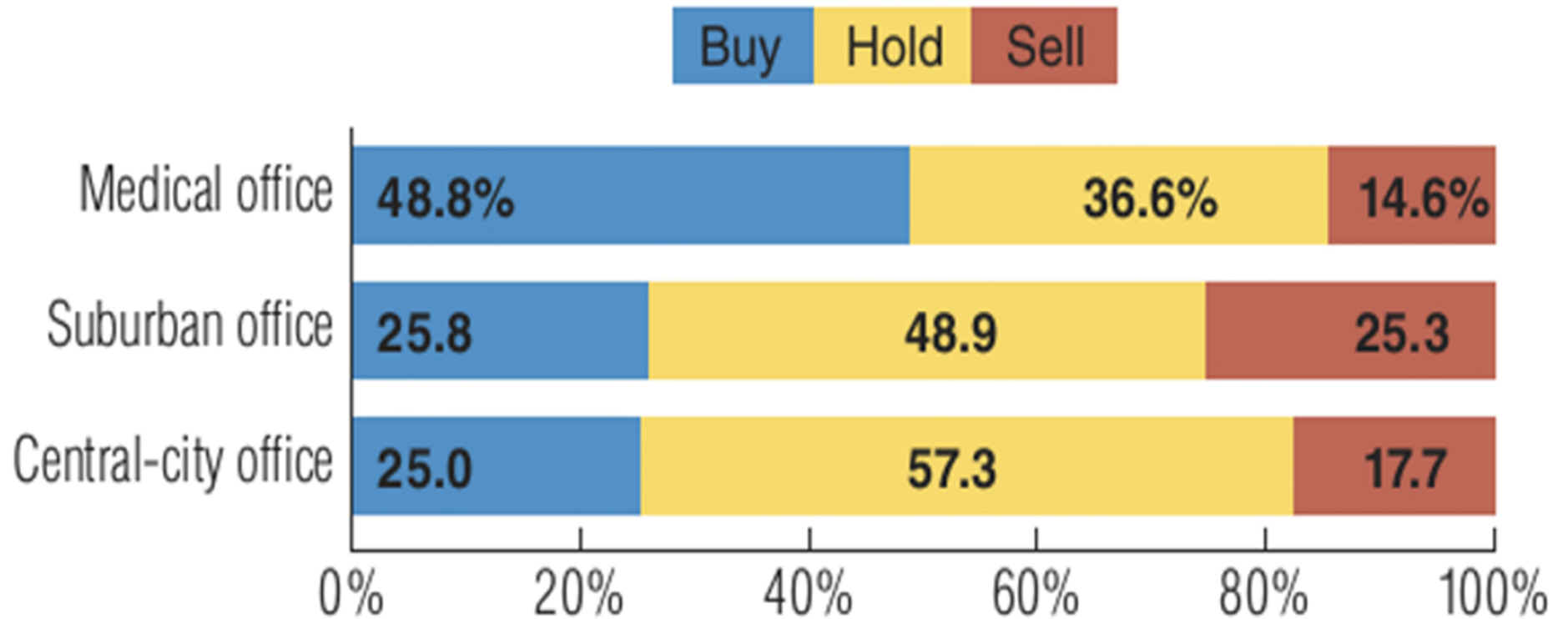
Source: *Emerging Trends in Real Estate 2022 survey.*

NCREIF Office Total Annual Returns



Sources: 2000-2020, National Council of Real Estate Investment Fiduciaries (NCREIF); 2021-2023, ULI Real Estate Economic Forecast.

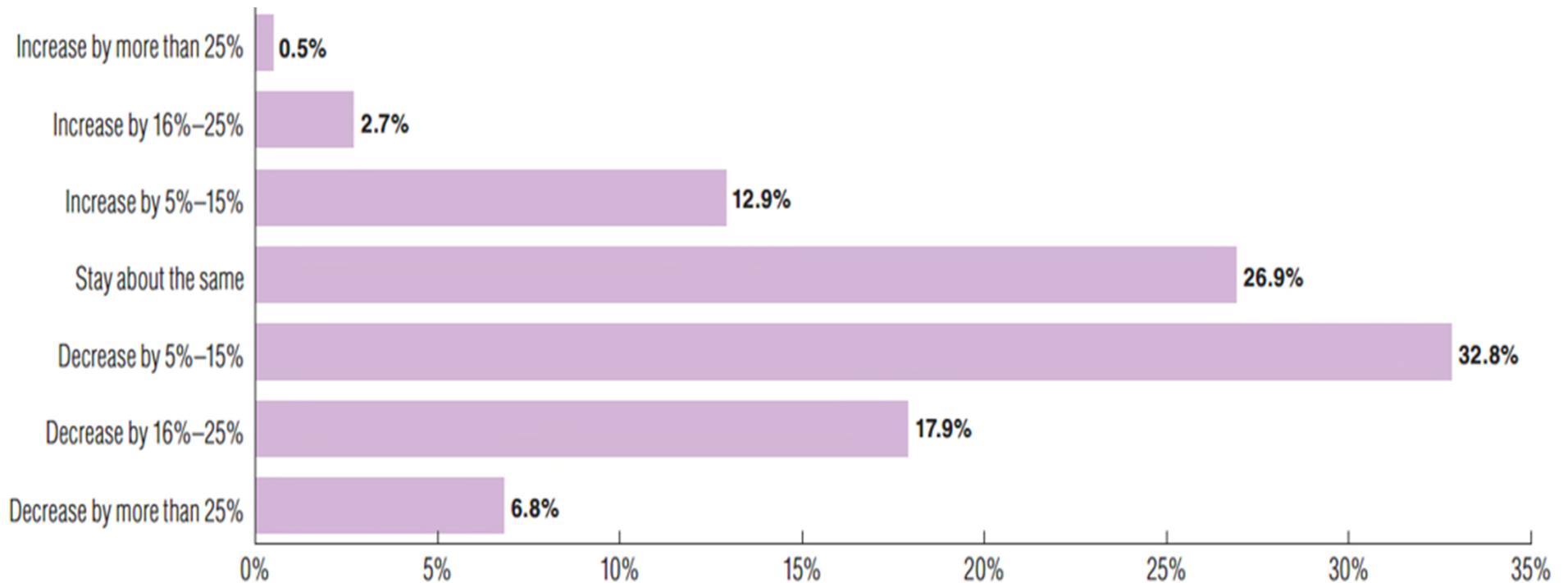
Office: Buy/Hold/Sell Recommendations



Outlook for Office by Sub-Type

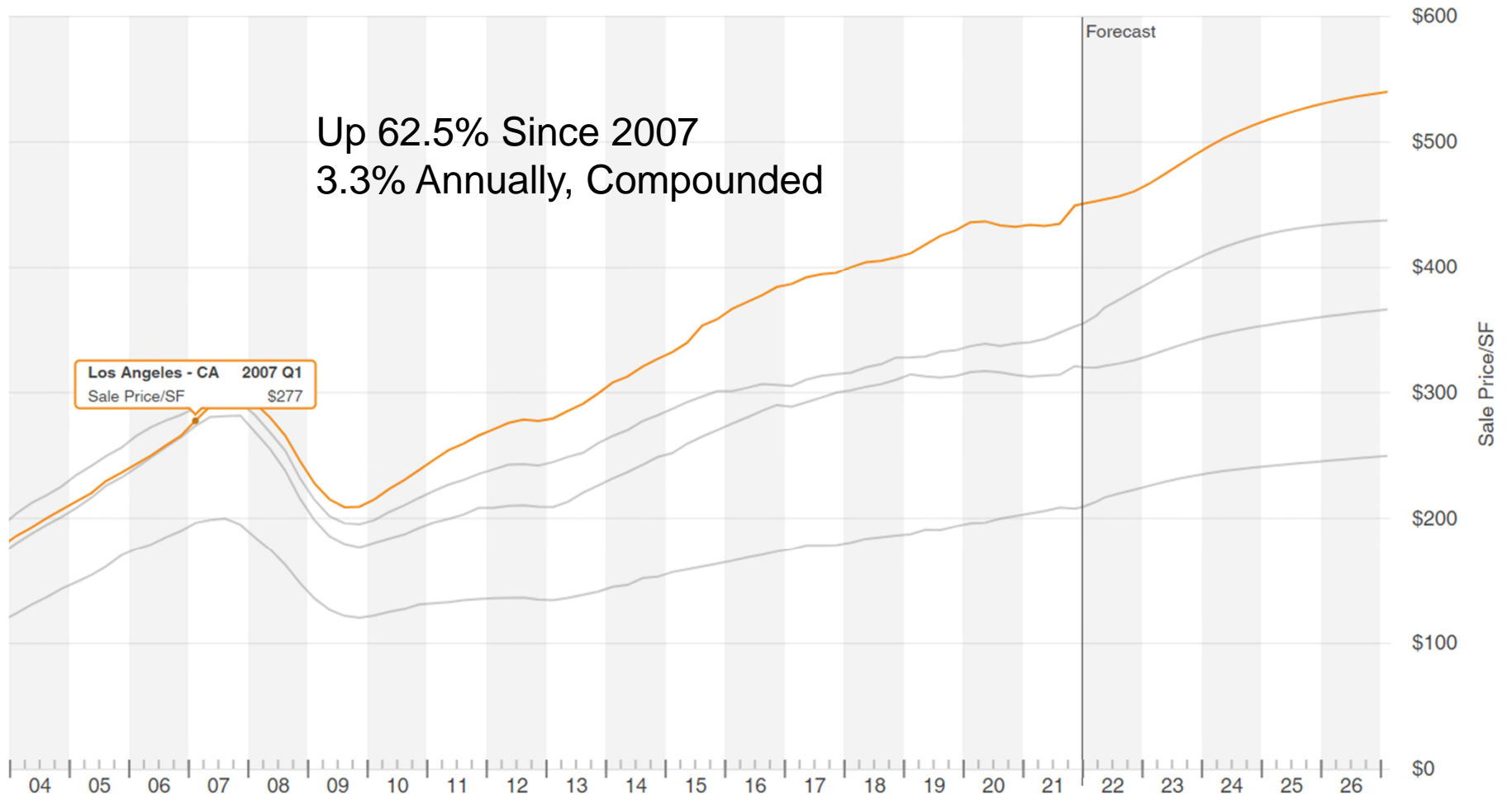
	Short-Term	Longer-Term
Long Term Leased; Newer Quality		
Innovation Markets / "TechTainment"		
Front Office – Newer Quality		
Suburban – Outside Urban Cores		
Back Office		
Commodity / Older with Material Rollover / Lease-Up		

How Do You Anticipate Total Office Space Needs to be Different Three Years from Now?

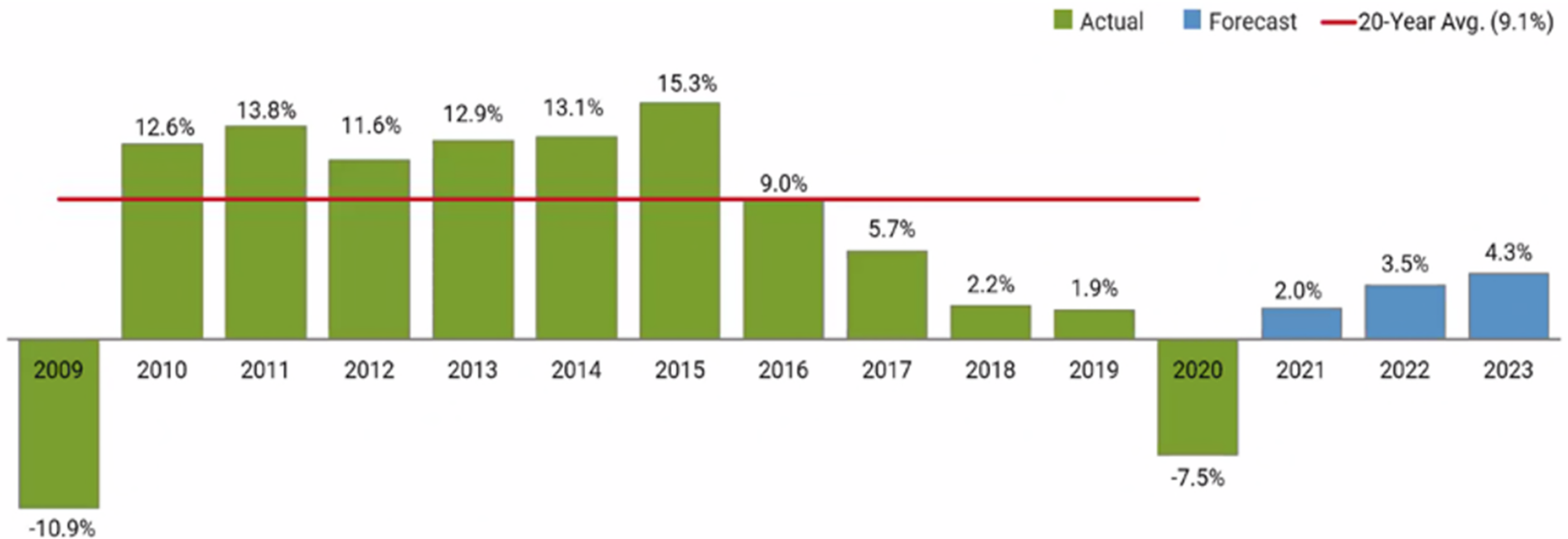


Source: *Emerging Trends in Real Estate 2022* survey.

Los Angeles County Office

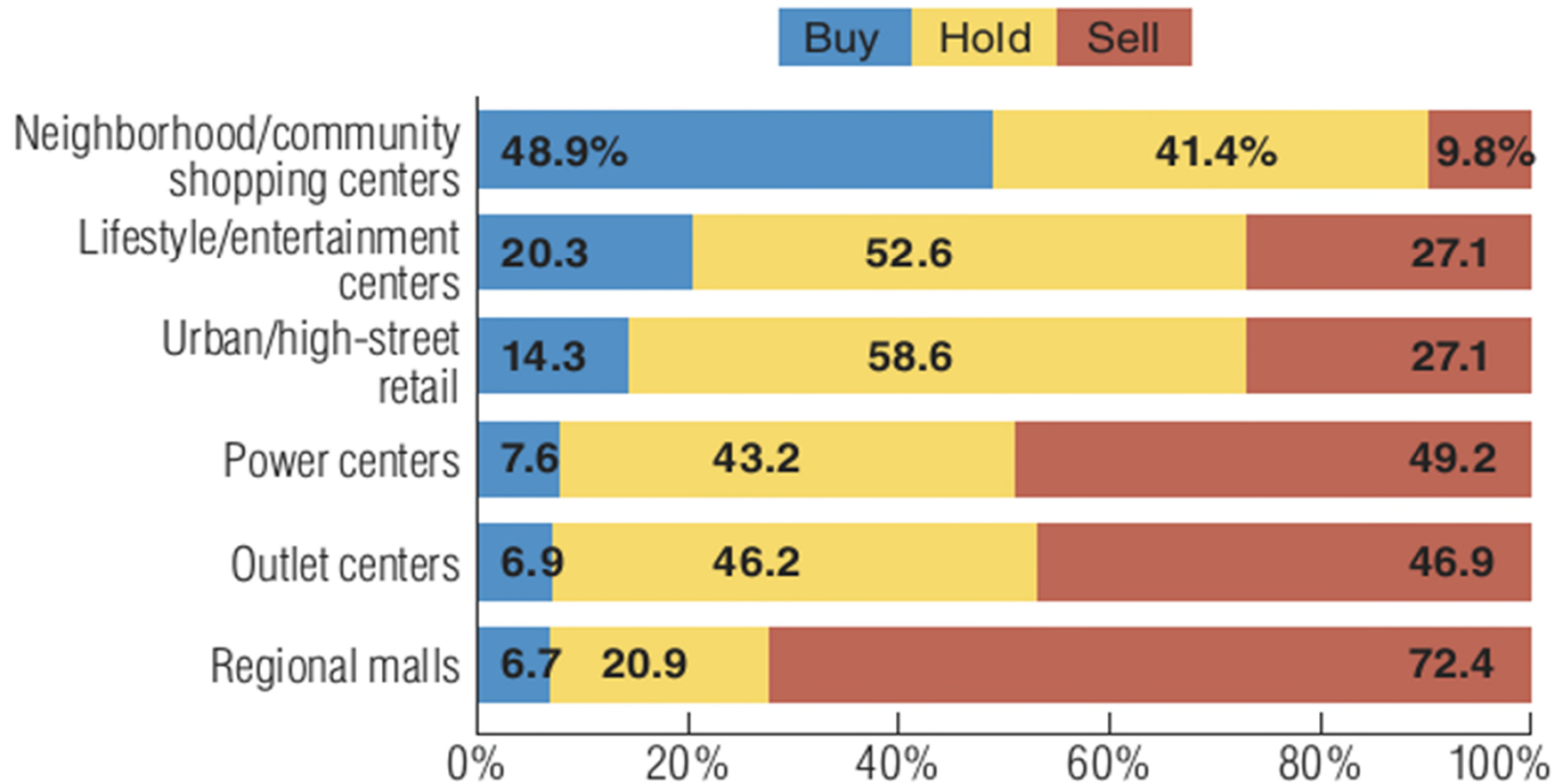


NCREIF Retail Total Annual Returns



Sources: 2000-2020, National Council of Real Estate Investment Fiduciaries (NCREIF); 2021-2023, ULI Real Estate Economic Forecast.

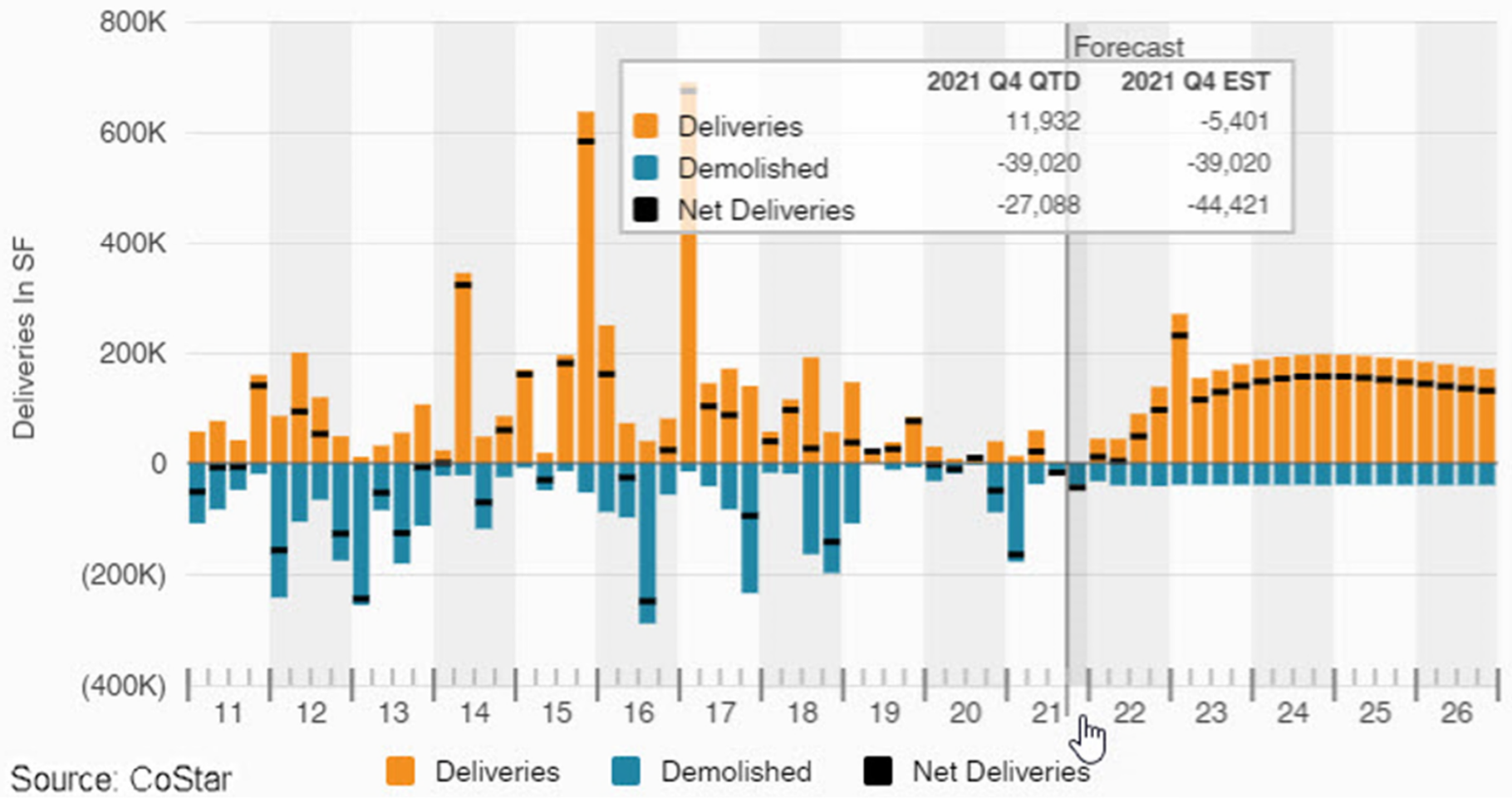
Retail: Buy/Hold/Sell Recommendations



Outlook for Retail by Sub-Type

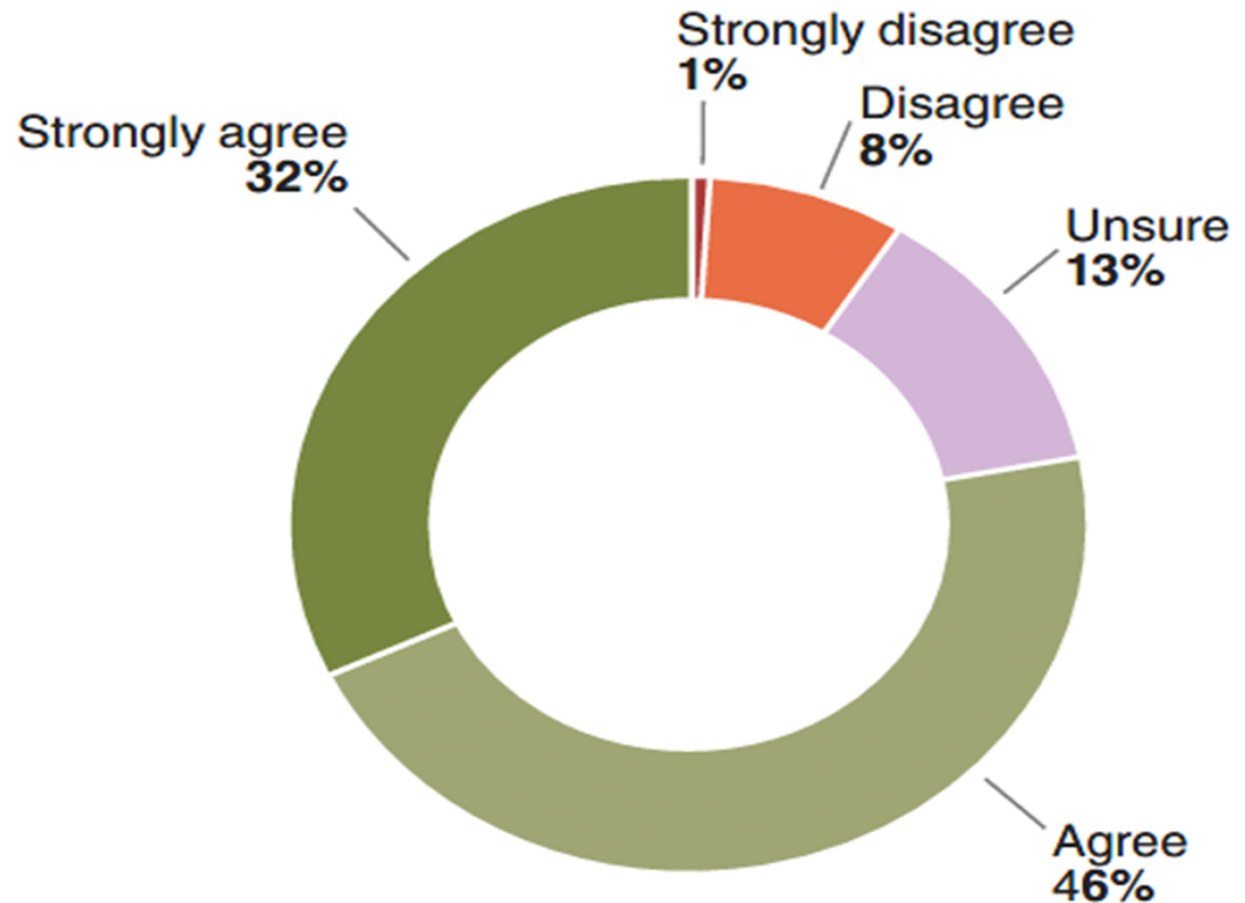
	Short-Term	Longer-Term
Grocery/Drug Neighborhood Centers		
NNN with Credit		
Retail which Wants to be Something Else		
Power Centers		
Lifestyle Centers		 
High Street Retail		
Malls – Class A		

Orange County Retail Deliveries and Demolitions













COVID-19 . . .

...accelerated the shakeout among retailers that likely would have occurred over the next few years anyway



Source: *Emerging Trends in Real Estate 2022 survey.*

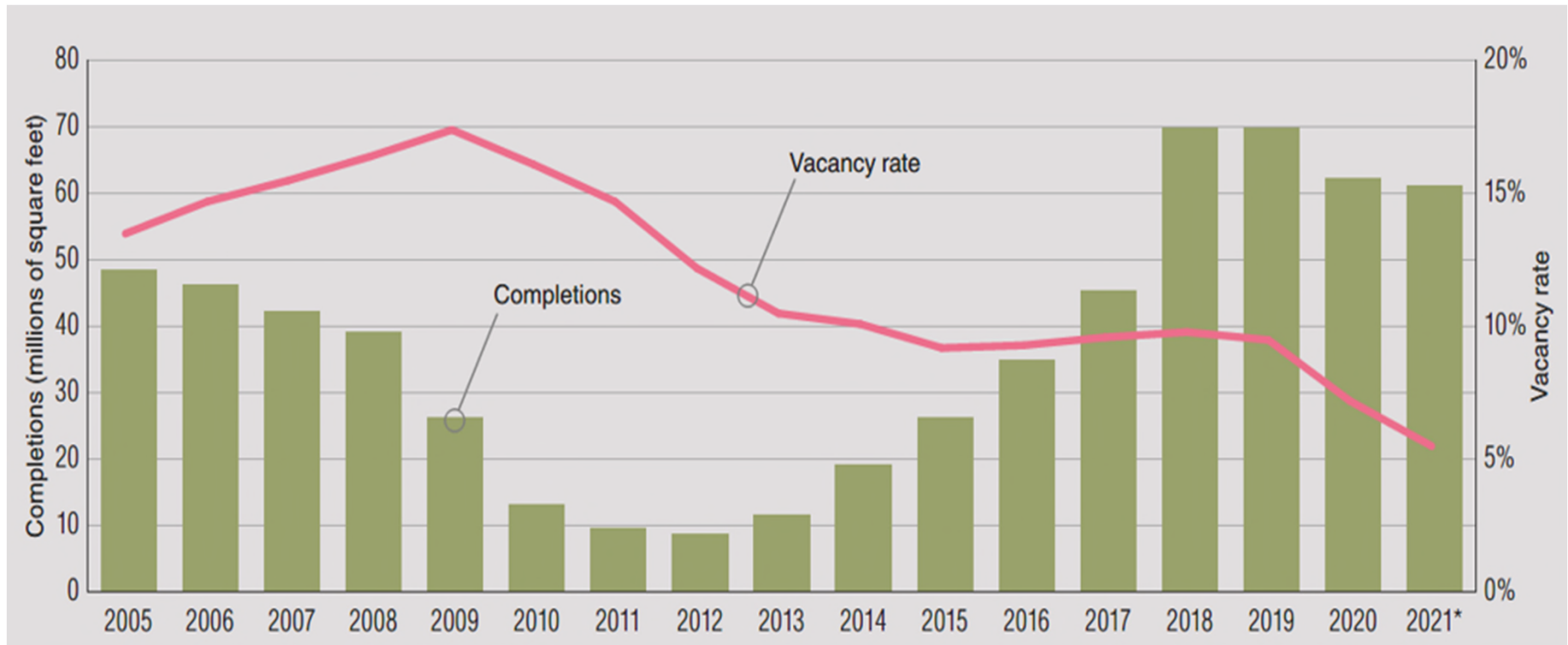
Outlook for Hospitality by Sub-Type

	Short-Term	Longer-Term
Drive to Resort		
Select Service		
Fly to Resort		
Convention		
City Center, Full-Service Business		

Outlook for Alternative Real Estate Categories

	Short-Term	Longer-Term
Life Science	●	↑
Single Family Rental / BTR	●	↑
Manufactured Housing	●	↑
Data Centers	●	↑
Self Storage	●	↑
Studios	●	↑
Cold Storage	●	↑
Medical Office	●	↑

Self Storage: Supply and Demand Trends



Sources: Marcus & Millichap Research Services, Radius+, Yardi Matrix

*Trailing 12 months through second quarter

Median Sold Price of Existing Single-Family Homes

Southern California	Nov-21	Oct-21	Nov-20	Sep-19	Price YTY% Chg 2020-2021	Price Percent Chg 2019-2021	Sales MTM% Chg	Sales YTY% Chg
Los Angeles	\$769,500	\$848,970	\$673,310	\$663,110	14.3%	16.0%	-9.1%	1.8%
Orange	\$1,150,000	\$1,120,000	\$930,000	\$830,000	23.7%	38.6%	-7.7%	-12.7%
Riverside	\$586,900	\$580,000	\$490,000	\$429,450	19.8%	36.7%	-1.8%	-6.8%
San Bernardino	\$440,000	\$445,000	\$380,250	\$315,000	15.7%	39.7%	-4.9%	0.5%
San Diego	\$847,750	\$850,000	\$740,000	\$636,750	14.6%	33.1%	-6.1%	-6.6%
Ventura	\$858,500	\$830,000	\$760,000	\$659,250	13.0%	30.2%	3.5%	-1.0%

Source: California Association of Realtors, November 2021

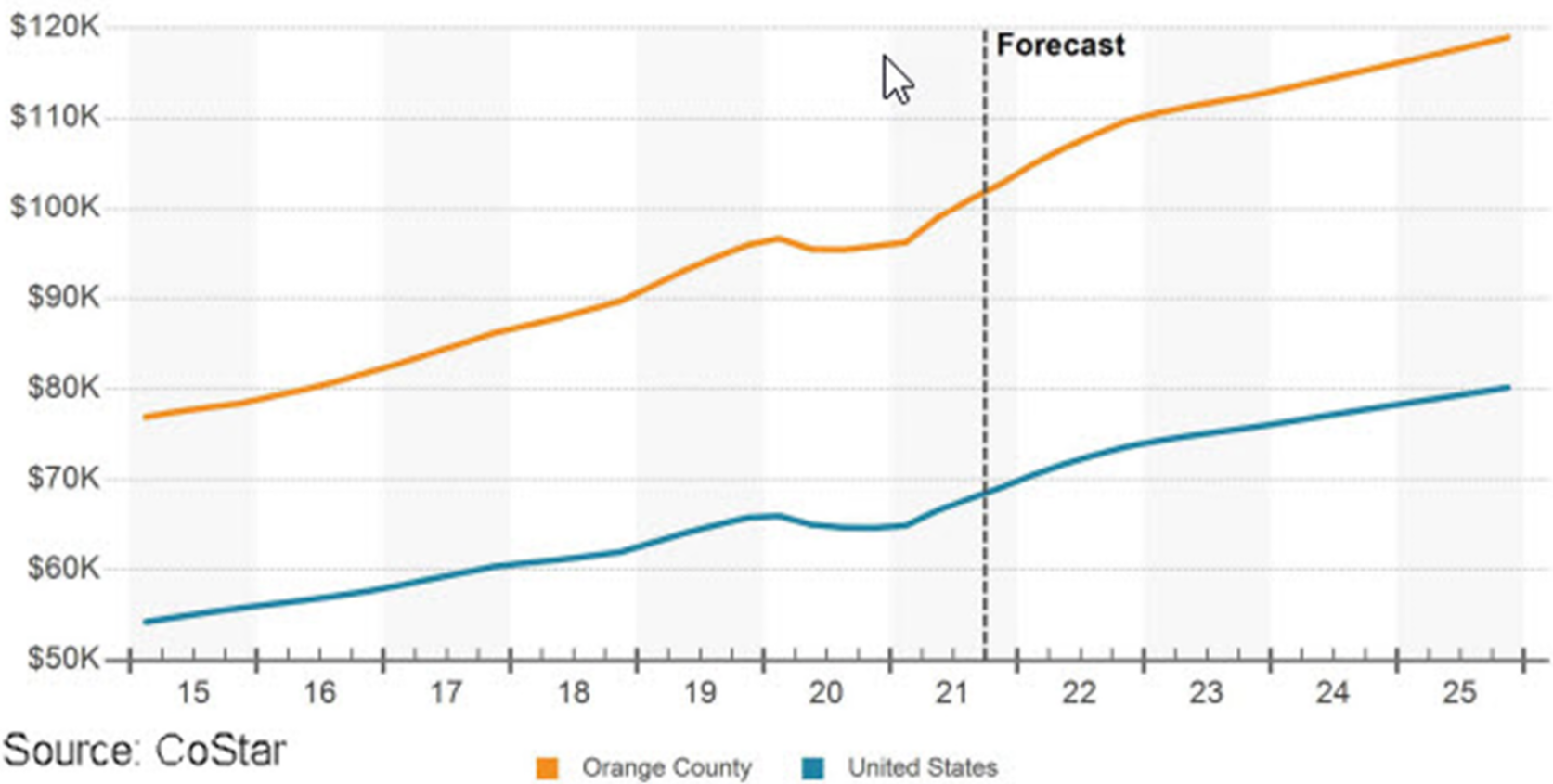
Single-Family Residences – California Months of Inventory



Source: California Association of Realtors, Analysis by Beacon Economics

Orange County Median Household Income

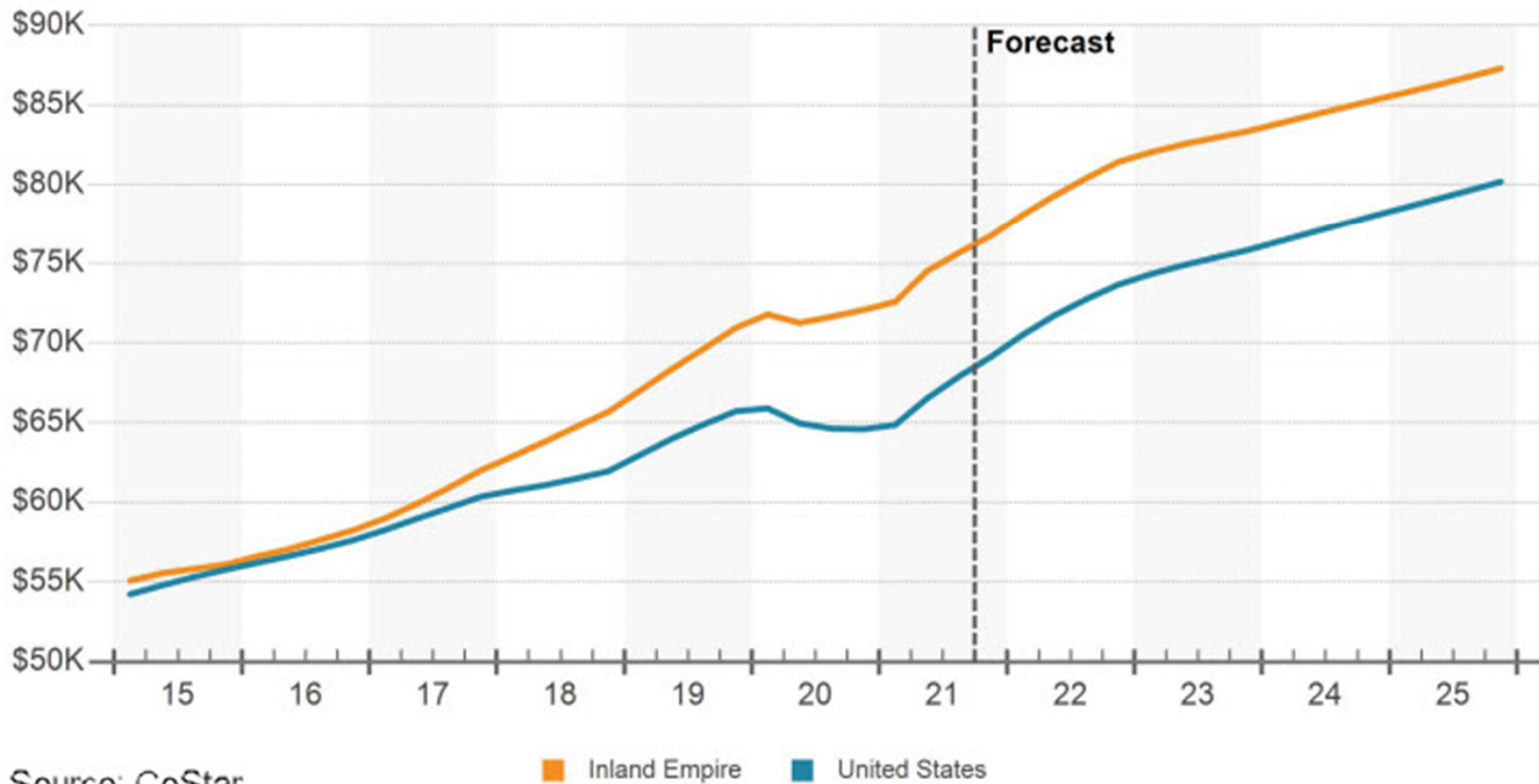
MEDIAN HOUSEHOLD INCOME



Source: CoStar

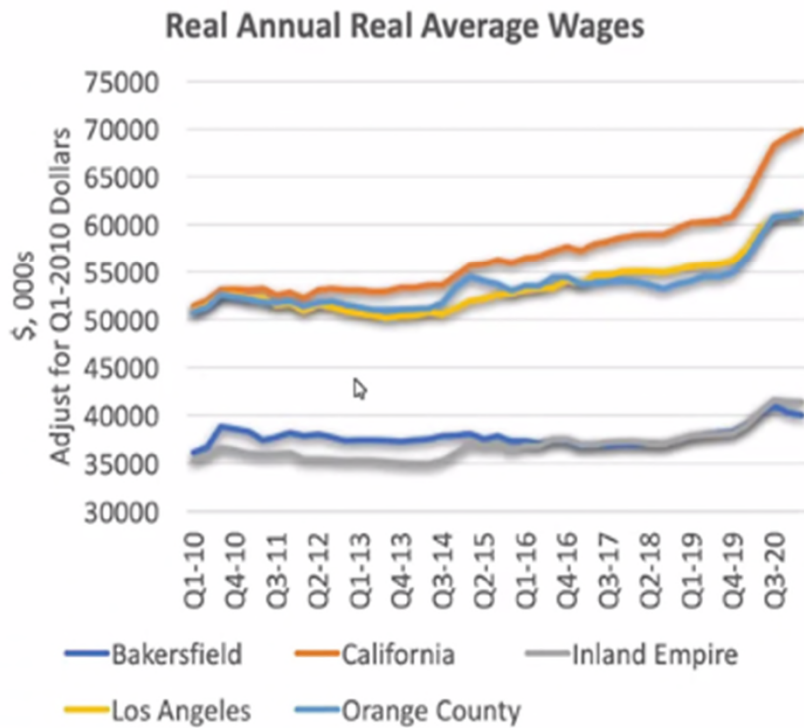
Inland Empire Median Household Income

MEDIAN HOUSEHOLD INCOME



Source: CoStar

Wage Comparisons – California vs. Inland Empire



Educational Attainment	California	Inland Empire	Difference
High School Diploma	25,949	26,554	2%
Less than High School	33,494	32,977	-2%
Some College or Associate's Degree	41,090	40,344	-2%
Bachelor's Degree	65,078	53,082	-23%
Graduate/Professional Degree	92,334	76,716	-20%

What Does the Future Hold?



Taxes Are Going Up - Mostly

- **Federal Taxes likely are going up:**
 - Higher Capital Gains -- ✗
 - Higher Corporate Taxes -- ✗
 - Higher Individual Taxes -- ✗
 - Elimination of Carried Interest and/or 1031's -- ?
 - Estate Tax Changes -- ?
 - SALT Changes -- ?

Over the Next 18 to 24 Months

- **Inflation Fully Emerges and/or Bond Market Cannot Absorb All Deficit Spending**
- **Which Leads To Rate Increases**
- **While Higher Taxes Phase In**
- **And Exhausted Stimulus Moderates Consumer Spending**

Real Estate Over the Next Two Years

- Availability of surplus capital supports upward price trends in most sectors
- Concern of inflation keeps/brings investors into real estate
- Limited land availability, costly materials and labor, and difficult permitting processes limit new development
- Orange County remains highly desirable for housing, employment, and recreation
- Slow rise in interest rates leads to stabilization of cap rates with possible increases
- Price levels of favored categories rise based on rising rents
- Housing prices continue to rise but at moderated rates

For More Information, and a
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