Capital Markets Panel – Building AL’s Future depends on Capital

Moderator: KC Conway

Panelists: Steve Clikas, Protective Life VP Investments; Chad Hagwood, Hunt Real Estate Capital Senior Managing Director; Cynthia Stanford, Regions Bank.
Capital Markets Panel- Q1: What don’t we NOT know about your Org?

- Chad Hagwood
  Hunt R.E. Capital
  Now a subsidiary of ORIX USA
- Nationwide Lender
- Specializing in MF
- But does all types CRE
- LeaponLine proprietary Cloud-based Loan Ap & Processing portal
- ACRE supporter and Trustee extraordinaire!

https://huntrealestatecapital.com/

- Steve Clikas
  Protective Life
  It’s parent is Dai-ichi Life (3rd largest Japanese Insurer)
- AL HQ & Nationwide Lender
- $3.0 to $50.0 million
- 75% LTV / 1.20+ DSCR
- Long-term lender but can do Short-term for stabilized properties
- Not afraid of Retail
- Knows Ind’l & Port of Mobile
  https://www.protective.com/
  https://www.dai-ichi-life.co.jp/

- Cynthia Stanford
  Regions Bank
- AL HQ & Nationwide Lender
- A top-25 U.S> Bank with >$125 billion in assets.
- All CRE Property types but like MF
- Jan 17, 2020 Q4 Earnings
  John Turner, President and CEO. “Adjusted revenue grew 2 percent, the adjusted efficiency ratio improved 130 basis points to 58.1%, and in Q4 Regions generated the highest pre-tax pre-provision income in a decade.”
- It’s all about efficiency – Fin Industry impact on office space and bank branches. “committed to reducing our total square footage by 2.1 million square feet plans to consolidate 100 branches.”
Q2 - “Pitcher Influences”

I opened this morning with mine.

What are the items most Influencing CRE Capital in 2020?

- The Economy – how much longer?
- CRE Conditions – all but Retail look good?
- CRE Values – Fully priced?
- CRE Concentration in Banks
- CRE lending efficiency & tech to cut cost
- LIBOR Transition – SOFR replacement
- 10-Yr Treasury & Yield Curve anxst?

The FED, Monetary Policy, Inverted Yield Curve

Black Swan events like Corona Virus

Corp. Earnings – “Self-Inflicted” like Boeing, Under Armour, Facebook, etc.

Trade Deals: China/USMCA

Trade & Logistics: USMCA, China, UK Independence

Political Divide - 2020 Elections/Impeachment

Transportation – Air, Rail, Ports, Rebuild AL

CRE Capital – LIBOR Transition, Fed & 10-Yr Tr

U.S. Debt and Global QE (FY 21 >$1.0 Tr / Debt Clock)

Construction Costs – Labor, Materials + Taxes & Insur

Lease Accounting ANSI ASC 842 now Jan 1, 2021

BOEING – Largest U.S. Exporter

ESG – Env. Social Governance

Zebras vs Unicorns – Salesforce, Goldman & Starbucks from WES/Davos & Q4 Earnings

World Games 2021

U.S. Debt and Global QE (FY 21 >$1.0 Tr / Debt Clock)

NFIB Small Bus. Optimism (39 > 100)

REIT Returns – All about Yield

CPPI (Green Street & RCA)
Q3a: CRE Finance – What’s not to like? **Anything you see of concern?**
CRE Credit Metrics like Loan DQT are as Good as they Get!

**GRAPH 1:** Percentage of CMBS Marked as 30+ Days Delinquent

**CHART 2:** Delinquency Rate by Property Type (% 30 Days+)

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Nov-19</th>
<th>Oct-19</th>
<th>Sep-19</th>
<th>3 Mo.</th>
<th>6 Mo.</th>
<th>12 Mo.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial</td>
<td>3.33</td>
<td>3.11</td>
<td>3.02</td>
<td>2.87</td>
<td>2.88</td>
<td>2.82</td>
</tr>
<tr>
<td>Lodging</td>
<td>1.52</td>
<td>1.49</td>
<td>1.47</td>
<td>1.54</td>
<td>1.54</td>
<td>1.42</td>
</tr>
<tr>
<td>Multifamily</td>
<td>2.01</td>
<td>2.07</td>
<td>2.43</td>
<td>2.39</td>
<td>2.16</td>
<td>2.04</td>
</tr>
<tr>
<td>Office</td>
<td>1.97</td>
<td>2.50</td>
<td>2.61</td>
<td>2.83</td>
<td>2.98</td>
<td>3.83</td>
</tr>
<tr>
<td>Retail</td>
<td>4.36</td>
<td>4.20</td>
<td>4.15</td>
<td>4.07</td>
<td>4.29</td>
<td>5.30</td>
</tr>
</tbody>
</table>

Source: Trepp

- Life Cos.: 3bps
- GSEs: 4bps (Fannie) 6bps (Freddie)
- Banks: 45bps
- CMBS: 247bps (lowest on record)
Q3b: The Good & Not-so-Good about Banks & CRE 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.
Texas slips one spot to No. 2, while Southeast states entice DIY movers yet again


California ranked 49th, and Illinois was 50th for the fourth time in five years, pacing the out-migration states with the largest net losses of U-Haul trucks crossing their borders.

Growth States are calculated by the net gain of one-way U-Haul trucks entering a state versus leaving that state during a calendar year. Migration trends data is compiled from more than 2 million one-way U-Haul truck-sharing transactions that occur annually.

Alabama was the biggest year-over-year climber in the rankings, surging 36 spots to No. 6

Q4b: **AL-nomics: AL economy looks good – What AL MSAs impress you?**

### NEW AL Economy for New Decade

- From 12% Unempl. to 2.7% (Dec ’19) versus 3.5% U.S. (20% higher than AL)
- Employed Persons: 2,205,000 (record)
- AL Job Growth Rate > U.S. Job Gr. Rate +2.2% Vs + 1.4% (AL was 50% > U.S.)
- More Employed = More Building AL Future
  - 83,971 more working Dec ‘19 Vs Dec ’18
  - 46,300 Net New Jobs in AL CY 2019
- Facebook Data Ct. in Huntsville - Largest in No.Am (8 years to build)
- Toyota Plant + Vendors = 24,000 jobs

Q5a: Property Type Performance – Green Street & RCA’s 2019 CPPIs

Just do (NIKE) MF & Ind’l and go slow all others?

https://www.greenstreetadvisors.com/insights/CPPI

Key Attributes of Green Street’s Commercial Property Price Index

- **Institutional Quality**: The index is based on Green Street’s frequently updated estimates of price appreciation of the property portfolios owned by the REITs in its U.S. coverage universe. It is driven by the NAV models maintained by the research team, which, in turn, are driven primarily by changes in market cap rates and NOI growth prospects. Since REITs own high-quality properties, the index measures the value of institutional-quality commercial real estate.

- **Timeliness**: Other indices, based on either closed transactions or formal appraisals, reflect market prices from several months earlier. Also, the Green Street index value for a given month is released within days of month-end, whereas other indices have a sizable lag.

Ind’l #1 in 2019 up 12.1%

Commercial property prices increased 7.8% in December from a year earlier, closing out 2019 with a sixth consecutive month of accelerating growth. The U.S. National All-Property Index rose 0.7% in December from a month prior.

While industrial prices have had a good run over the last few years, the multifamily sector had the strongest price growth this decade. Apartment sector prices increased a cumulative 163%, far ahead of any other property type. For 2019, the apartment index gained 9.6%, nearly back to the double-digit gains seen in 2018.

MF #1 past Decade +163%

Affordable Housing
WIN Jan 15 Retail Store Closings: On the heels of a record 9,300 retail store closings in 2019, the new year has started off with announcements of >2,000 more announced closings.

<table>
<thead>
<tr>
<th>Store Name</th>
<th>Number of Closures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pier 1 Imports</td>
<td>450</td>
</tr>
<tr>
<td>Chico's</td>
<td>250</td>
</tr>
<tr>
<td>Gap Inc.</td>
<td>230</td>
</tr>
<tr>
<td>Walgreens</td>
<td>200</td>
</tr>
<tr>
<td>Forever 21</td>
<td>178</td>
</tr>
<tr>
<td>Sears</td>
<td>51</td>
</tr>
<tr>
<td>Kmart</td>
<td>45</td>
</tr>
<tr>
<td>Macy's</td>
<td>30</td>
</tr>
<tr>
<td>Destination Maternity</td>
<td>156</td>
</tr>
<tr>
<td>Papyrus</td>
<td>254</td>
</tr>
<tr>
<td>Bed Bath and Beyond</td>
<td>60</td>
</tr>
<tr>
<td>The Children’s Place</td>
<td>144</td>
</tr>
</tbody>
</table>

Retail Openings Vs Closings Score:

- Yes – More Store Openings than Store Closings in 2020
  BUT ...
- Openings are small & Discount. They DON’T fill up vacant Big-Box or Dept. Stores at Malls
- The Forecast is for 75,000 more store closings by 2025

Q5b: Property Types
What about Retail and AdRu?
Q6 – **What didn’t we talk about that we need to before ending our discussion?**

1) **Cannabis** – 2/3rds of the states have it part or all the way. What next? Are Cap Rates Higher?

2) **LIBOR Transition** - Big on Not a Big deal in 2021? Will there will be a solution? Why we should care?

3) **Property Tax** - Store Closings bring it into focus, but it is much bigger. **AL Dept of Labor and LIHTC**

4) **Overbuilding risk** – especially MF – **Is 400k new units Goldi Locks or too much?**

5) **Changing Nature of Real Estate** – Retail e-Volution from Store Closings / Co-working office / **Adaptive Reuse** (Store Closings, Branch Banks, Auto Dealerships / 4-Rent Subdivisions / etc.

6) **Lease Accounting now Jan 1, 2021** - or CRE Software like ARGUS

7) **Asset Management** – **Changing Lease Structures (Office in particular)? Drone Defense? Parking**

8) **Automation & Tech in our Industry** – Capital Costs and impact on Property IRRs?

9) **ESG – The “E” piece at the Property Level.** Is it unlike what we went through with “Green Bldgs and LEED Certification?” In CA, NY and DC there are mandatory ESG/Energy efficiency codes. **Will they impact capital allocations and how do you forecast IRRs on an investment with such ESG unknowns?** Or add an item not on this list.
Q7 – **Predictions:** What is your “CRE Capital” prediction?  
Thank You
Chad, Steve & Cynthia

• Collectively, you represent a big piece of the pie needed to finance AL Future!

• Global in Reach

• Diverse capital in terms of property type and $ amount