2021 MARKET OUTLOOK

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WELCOME TO THE ROARING 20’S

• Recent Trends and 2020 Recap
• Political and Economic Outlook – some positive signals
• Capital Market – sustained investor demand
• Real Estate Fundamentals – mixed conditions
SLOW RETURN TO OFFICE & THE SKIES

Unique Office Entry % of Pre-COVID Average

TSA Checkpoint Travel Numbers

REITS RECOVERED AS VACCINE ANNOUNCED

Performance 2020

- S&P 500: 18%
- US Treasury: 8%
- Data Centers: 21%
- Self Storage: 13%
- Industrial: 12%
- Single Family Homes: 6%
- Manufactured Homes: -2%
- Equity REITs: -5%
- Healthcare: -10%
- Apartments: -15%
- Office: -18%
- Lodging Resort: -24%
- Retail: -25%
- Malls: -37%

Performance 4Q 2020

- S&P 500: 12%
- US Treasury: -1%
- Data Centers: -4%
- Self Storage: 7%
- Industrial: 3%
- Single Family Homes: 8%
- Manufactured Homes: 7%
- Equity REITs: 8%
- Healthcare: 16%
- Apartments: 15%
- Office: 17%
- Lodging Resort: 51%
- Retail: 23%
- Malls: 36%

BOND MARKET SIGNALING BETTER GROWTH

Treasury Bond Yield Curve Steepening....

…..Suggests Recession Risks Fading

Source: McCombs Real Estate Center, Bond Yield Curves from the U.S. Treasury. Yield curves shown for the last day of the month with the exception of the January curve which reflects yields at the close on January 22, 2021.
### GLOBAL GDP GROWTH – OUTLOOK

Expect a strong recovery in 2021

<table>
<thead>
<tr>
<th>Country</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>-3.6</td>
<td>-5.5</td>
<td>3.8</td>
<td>5.1</td>
</tr>
<tr>
<td>Canada</td>
<td>1.7</td>
<td>1.3</td>
<td>3.0</td>
<td>5.1</td>
</tr>
<tr>
<td>Eurozone</td>
<td>-7.3</td>
<td>-9.3</td>
<td>4.5</td>
<td>5.4</td>
</tr>
<tr>
<td>France</td>
<td>1.5</td>
<td>0.6</td>
<td>5.3</td>
<td>6.1</td>
</tr>
<tr>
<td>Germany</td>
<td>-5.6</td>
<td>1.3</td>
<td>4.7</td>
<td>5.3</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>11.3</td>
<td>-11.3</td>
<td>6.4</td>
<td>6.1</td>
</tr>
<tr>
<td>China</td>
<td>1.7</td>
<td>0.7</td>
<td>8.5</td>
<td>5.0</td>
</tr>
<tr>
<td>Japan</td>
<td>-5.4</td>
<td>2.8</td>
<td>2.5</td>
<td>2.0</td>
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<tr>
<td>South Korea</td>
<td>-1.0</td>
<td>2.9</td>
<td>2.9</td>
<td>3.2</td>
</tr>
</tbody>
</table>

Source: UT McCombs Real Estate Center, Bloomberg, IHS Markit Data as of November 20, 2020
GROWTH DRIVES REAL ESTATE RETURNS

Expect better performance in 2021

# POLICY SHIFTS – SHARP DIFFERENCES

## Economy
- Lowered corporate taxes 35% to 21%
- Replaced SALT with $10,000 cap
- Increase corporate taxes to 28%
- $2-$3 trillion for “Build Back Better”

## Trade
- Unilateral agreements & tariffs
- Multilateral agreements, protect intellectual property

## Climate
- Expanded fossil fuels & lowered deficit
- Withdrew from Paris Climate agreement
- Reduce carbon with infrastructure
- Recommit to Paris Climate accords

## Foreign Policy
- Exited Iran nuclear agreement
- NATO questions, success in Middle East
- Supports U.S. global leadership & NATO
- May seek to revive Iran agreement

Source: McCombs Real Estate Center, DWS, Politico and Candidate websites.
A MODEL OF THE ECONOMY - POSITIVE STIMULUS EXPECTED FROM THE “INPUTS”

**Inputs**
- Interest Rates
- Gov't Spending
- Tax Policies
- Trade Policies
- Demographics

**Outputs**
- GDP Growth
- Inflation
- Savings
- US Dollar
- Productivity

Source: McCombs Real Estate Center, Presenter's opinion
HOUSEHOLDS MOSTLY IN GREAT SHAPE

Savings rate soars despite high unemployment

Household finances currently in sound shape

Source: McCombs Real Estate Center, Bloomberg, Federal Reserve Bank of St. Louis, October 2020
BUSINESS INVESTMENT RECOVERING

Source: McCombs Real Estate Center, Bureau of Economic Analysis, Bloomberg, Federal Reserve Bank of St. Louis.
JOBS: TIME REQUIRED TO REACH PRE-COVID LEVELS +/-2Q2022 – 3Q2023

Source: UT McCombs Real Estate Center, Bureau of Labor Statistics. Data as of November 30, 2020. Estimates of the downside and expected case are the author’s opinion and subject to change.
INFLATION EXPECTATIONS REMAIN LOW

Source: McCombs Real Estate Center, Bloomberg, Bureau of Economic Analysis. Data as of 4Q2020. Fed’s target is presenter’s interpretation of current Federal Reserve policy and is subject to change.
CITIES RANKED BY CURRENT UNEMPLOYMENT

Source: UT McCombs Real Estate Center, Bureau of Labor Statistics. Data as of November 30, 2020

[Bar chart showing the unemployment rates for various cities with data for February 2020 and the increase in unemployment from March to April 2020.]

- Los Angeles: 20.8% (Feb-20), Increase = 10.6%
- New York: 17.0% (Feb-20), Increase = 9.5%
- Houston: 14.3% (Feb-20), Increase = 8.9%
- Riverside: 15.1% (Feb-20), Increase = 7.9%
- Orlando: 13.4% (Feb-20), Increase = 7.7%
- Miami: 15.2% (Feb-20), Increase = 7.4%
- Phoenix: 12.5% (Feb-20), Increase = 7.3%
- Dallas: 12.6% (Feb-20), Increase = 7.1%
- Chicago: 17.3% (Feb-20), Increase = 6.8%
- Oakland: 14.2% (Feb-20), Increase = 6.7%
- US: 15.2% (Feb-20), Increase = 12.3%
- San Diego: 14.7% (Feb-20), Increase = 6.4%
- Denver: 15.2% (Feb-20), Increase = 6.4%
- Orange County: 14.7% (Feb-20), Increase = 5.9%
- Austin: 12.2% (Feb-20), Increase = 5.9%
- Boston: 13.2% (Feb-20), Increase = 5.9%
- Charlotte: 14.2% (Feb-20), Increase = 5.9%
- Portland: 12.7% (Feb-20), Increase = 9.8%
- Washington DC: 9.8% (Feb-20), Increase = 5.6%
- Atlanta: 12.1% (Feb-20), Increase = 5.4%
- San Francisco: 12.0% (Feb-20), Increase = 5.1%
- San Jose: 5.1% (Feb-20), Increase = 5.1%
- Seattle: 3.0% (Feb-20), Increase = 3.9%
- Minneapolis: 3.1% (Feb-20), Increase = 3.9%
MOBILITY – STATE MIGRATION 2009-2019

Source: McCombs Real Estate Center, data compiled from the American Community Survey reflecting the “state-to-state” migration flows for each year from 2009-2019 and reflects the sum of out-migration less in-migration.
LOWER TAXES MAY SUPPORT MIGRATION

2020 U-HAUL MIGRATION PATTERNS


In-migration markets are those where it costs more to bring a U-Haul vehicle into that city than take one out implying more people are moving in than leaving.
Past evidence implies private real estate delivers a total return of 6%-7% over the next 3 to 5 years.

Source: UT McCombs Real Estate Center, NCREIF NPI, Federal Reserve (FRED database) for 10-Year Treasury Yield. Data as of September 30, 2020
10 YEAR FORECASTS BY ASSET CLASS
EQUITY AND REAL ESTATE LEADS

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Forecast 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation</td>
<td>2.0%</td>
</tr>
<tr>
<td>Cash</td>
<td>1.1%</td>
</tr>
<tr>
<td>U.S. Gov. Bonds</td>
<td>0.3%</td>
</tr>
<tr>
<td>Inflation-Linked TIPS</td>
<td>2.0%</td>
</tr>
<tr>
<td>Investment Grade Bonds</td>
<td>1.8%</td>
</tr>
<tr>
<td>High Yield Debt</td>
<td>5.0%</td>
</tr>
<tr>
<td>Emerging Market Debt</td>
<td>5.2%</td>
</tr>
<tr>
<td>US Equities</td>
<td>6.0%</td>
</tr>
<tr>
<td>Emerging Market Equities</td>
<td>7.4%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>5.9%</td>
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<tr>
<td>Infra Equity</td>
<td>7.0%</td>
</tr>
<tr>
<td>Global PE</td>
<td>9.1%</td>
</tr>
</tbody>
</table>

Sources: UT McCombs Real Estate Center, Aon, Meketa Investment Group, BlackRock, DWS, Invesco, Horizon Actuaries, Northern Trust, JP Morgan. Data reflect averages from multiple providers as of mid-year 2020.
REAL ESTATE DEBT COSTS ARE LOW

Investor Demand Driving Bond Yields Lower

Lower Yield Premium for Real Estate Debt

Source: UT McCombs Real Estate Center, Bloomberg. Data as of December 30, 2020
TRANSACTION VOLUME DOWN, CAP RATES STABLE

Transaction Volume ($ Billion)

Cap Rates 2019 vs. 2020

Source: McCombs Real Estate Center, Real Capital Analytics, data as of December 2020
SUSTAINED INVESTOR DEMAND FOR REAL ESTATE

Target allocations to real estate as a % of investors overall portfolio

WFH + LOW MORTGAGE RATES = HIGH DEMAND FOR SINGLE FAMILY HOUSING

Source: UT McCombs Real Estate Center, Bloomberg. Data as of September 30, 2020 for the left panel regarding homeownership and housing vacancy rates. Data as of November 30, 2020 for the right panel reflecting new home sales and months of supply.
RESULTING IN COST PRESSURES IN RESIDENTIAL CONSTRUCTION

Construction Materials Price Indices
- Lumber 214%
- Coil Steel 91%
- Copper 58%
- Wire & Cable 10%
- Cement 0%

Construction Employment
- Residential
- Nonresidential

Construction employment from the Bureau of Labor Statistics
## CONSTRUCTION SPENDING CONSENSUS FORECAST VARIES WIDELY

<table>
<thead>
<tr>
<th>Spending Put In Place (billions of $)</th>
<th>2019</th>
<th>% Change</th>
<th>2020</th>
<th>2021</th>
<th>Variance +/-</th>
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</thead>
<tbody>
<tr>
<td>Nonresidential Total</td>
<td>455.6</td>
<td>-8.1</td>
<td>-4.8</td>
<td>3.7</td>
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<tr>
<td>Commercial Total</td>
<td>198.2</td>
<td>-11.6</td>
<td>-8.4</td>
<td>7.2</td>
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<tr>
<td>Office</td>
<td>79.2</td>
<td>-11.1</td>
<td>-7.6</td>
<td>7.2</td>
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<tr>
<td>Retail &amp; Other Commercial</td>
<td>85.4</td>
<td>-7.7</td>
<td>-7.2</td>
<td>6.9</td>
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<tr>
<td>Hotel</td>
<td>33.6</td>
<td>-0.7</td>
<td>-16.5</td>
<td>19.4</td>
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<tr>
<td>Industrial Total</td>
<td>74.3</td>
<td>-8.3</td>
<td>-3.3</td>
<td>8.4</td>
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<tr>
<td>Institutional Total</td>
<td>183.2</td>
<td>-4.5</td>
<td>-1.7</td>
<td>3.4</td>
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<tr>
<td>Health</td>
<td>44.2</td>
<td>2.4</td>
<td>3.2</td>
<td>7.4</td>
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<tr>
<td>Education</td>
<td>98.0</td>
<td>-6.6</td>
<td>-1.0</td>
<td>4.1</td>
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<tr>
<td>Religious</td>
<td>2.9</td>
<td>-9.9</td>
<td>-5.9</td>
<td>5.3</td>
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<tr>
<td>Public Safety</td>
<td>10.2</td>
<td>15.6</td>
<td>2.5</td>
<td>4.1</td>
<td></td>
</tr>
<tr>
<td>Amusement &amp; Recreation</td>
<td>27.8</td>
<td>-13.0</td>
<td>-11.9</td>
<td>9.8</td>
<td></td>
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<tr>
<td>Private Residential Fixed</td>
<td>827.0</td>
<td>8.0</td>
<td>5.0</td>
<td>3.5</td>
<td></td>
</tr>
</tbody>
</table>

Source: UT McCombs Real Estate Center using data from the AIA Consensus Forecast as of July 2020. 2019 spending figures represent estimates by FW Dodge. The forecast are computed as an average provided by Dodge Data, IHS Economics, Moody's Analytics, FMI, ConstructConnect, Associated Builders and Contractors, Wells Fargo Securities, Markstein Advisors.
MULTIFAMILY OUTLOOK

Source: McCombs Real Estate Center, CBRE. Data as of Nov. 30, 2020.
Garden Apartments Total Returns Exceed High Rise Total Returns 3Q2010 – 3Q2020

Rents Growing Faster Than Wages Creates Opportunities for the “Missing Middle”

Source: McCombs Real Estate Center, Real estate returns from NCREIF as of 3Q2020. * New York and San Francisco returns compared to US NCREIF garden apartment average as a “garden apartment” index is not available. **Orange County and San Diego returns reflect total returns from 3Q2009-3Q2020 which is the length of data available. All other indices reflect the last 10 years. Annual wage and residential rent from St. Louis Federal Reserve “FRED” database as of 4Q2019.
APARTMENT – EXPECTED VACANCY

Source: McCombs Real Estate Center, CoStar as of November 2020
INDUSTRIAL OUTLOOK

Source: McCombs Real Estate Center, CBRE. Data as of Nov. 30, 2020.
INDUSTRIAL – TREND FROM STORAGE TO FULFILLMENT CONTINUES

- Fulfilment depends on volume, velocity and choice
- Higher e-commerce demand to drive automation
- AI to increase efficiency of supply chains
- New warehouse types could emerge

Source: McCombs Real Estate Center, NAIOP Research Foundation, October 30, 2020 as produced by Steve Weikal and James Robert Scott from MIT.
INDUSTRIAL – EXPECTED VACANCY

Source: McCombs Real Estate Center, CoStar as of November 2020
FUTURE OF WORK – OFFICE DEMAND

Post-COVID, majority of respondents indicate working remotely 1 – 3 days per week. If so, daily office population could decline 15%, but space/worker could increase.

Source: McCombs Real Estate Center, EY-ULI survey, 555 respondents, August-September 2020
OFFICE – EXPECTED VACANCY

Source: McCombs Real Estate Center, CoStar as of November 2020
NEIGHBORHOOD RETAIL OUTLOOK

Source: McCombs Real Estate Center, CBRE. Data as of Nov. 30, 2020.
RETAIL – EXPECTED VACANCY

Source: McCombs Real Estate Center, CoStar as of November 2020
TEXAS CITIES - VACANCY RATES

Source: McCombs Real Estate Center, CBRE. Data as of Nov. 30, 2020.