Servion National Lending Conference

October 2, 2019

irr®

2019

COMMERCIAL
REAL ESTATE
TRENDS REPORT

About IRR

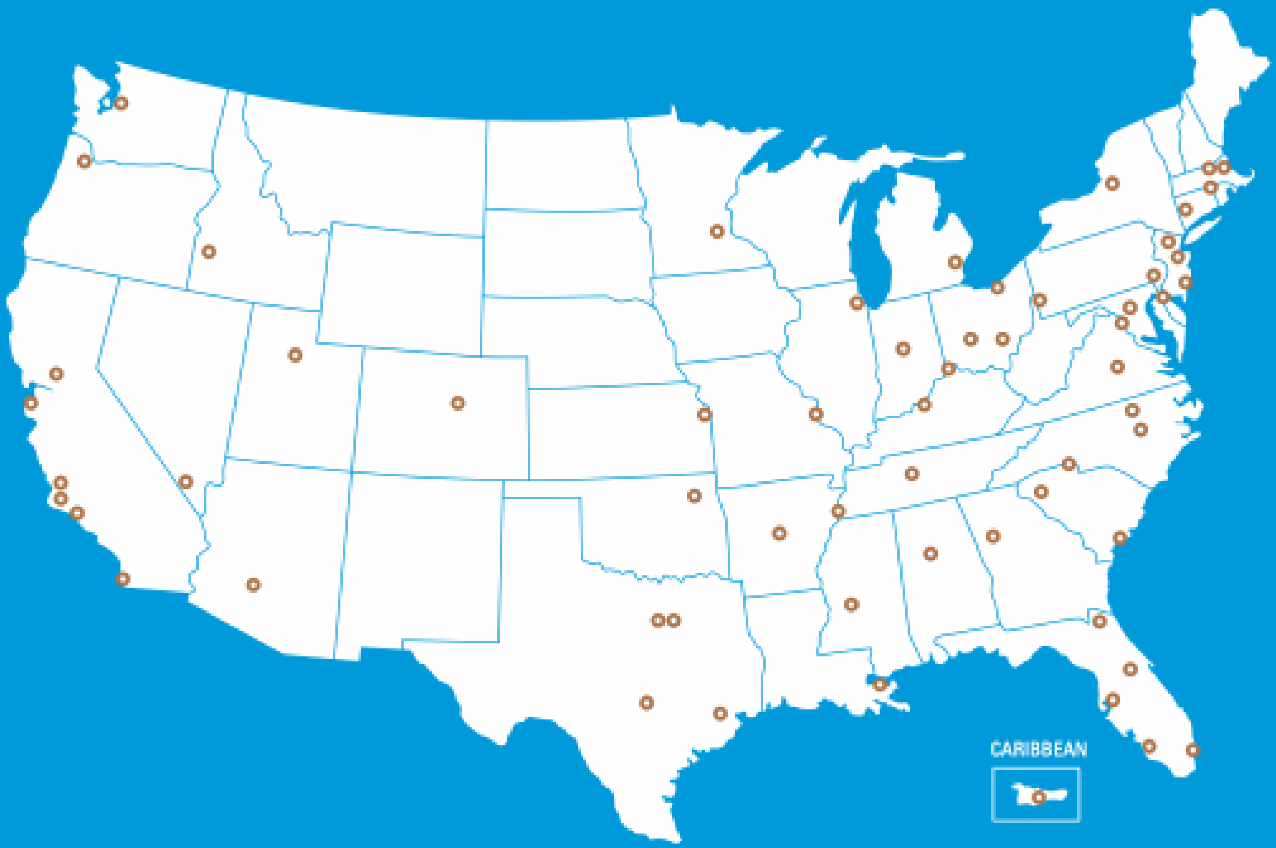
Integra Realty Resources (IRR)
is the largest independent commercial real estate market research, valuation and counseling firm in North America.

IRR's services include:

- Property Valuation
- Real Estate Counseling
- Specialty Expertise
- Portfolio Valuation
- Feasibility Studies
- Litigation Support & Expert Witness Services

IRR Office Locations

Comprehensive Commercial Real Estate
Market Research, Valuation and Advisory Services



50+
U.S. Offices

600+
Professional Staff

170+
MAI-Designated Professionals

20+
Years Serving U.S. Markets

CRE TRENDS

National Real Estate

2018 National Themes

- The 2017 tax cut legislation, coupled with $779 billion in Federal deficit spending, caused the economy to roar forward in mid-2018. However, that short-term bump didn't have much pass-through into wages or business fixed-investment. The consensus has growth flattening to 2.6% in 2019.
- New housing starts are down, with a tightening of labor, lumber and land pushing a ripple effect into an already-softening market.
- Capital markets are giving off mixed signals. While there is an abundance of investment capital, indices show heightened risk, sending investors into riskier territory.
- Employment conditions are drastically shifting, where technology is married to labor insufficiency. The job gains enjoyed during recovery may slow, and trendlines require eagle-eyed focus as we move through 2019.
- Most signs point to market sensitivity, demanding a defensive strategy.

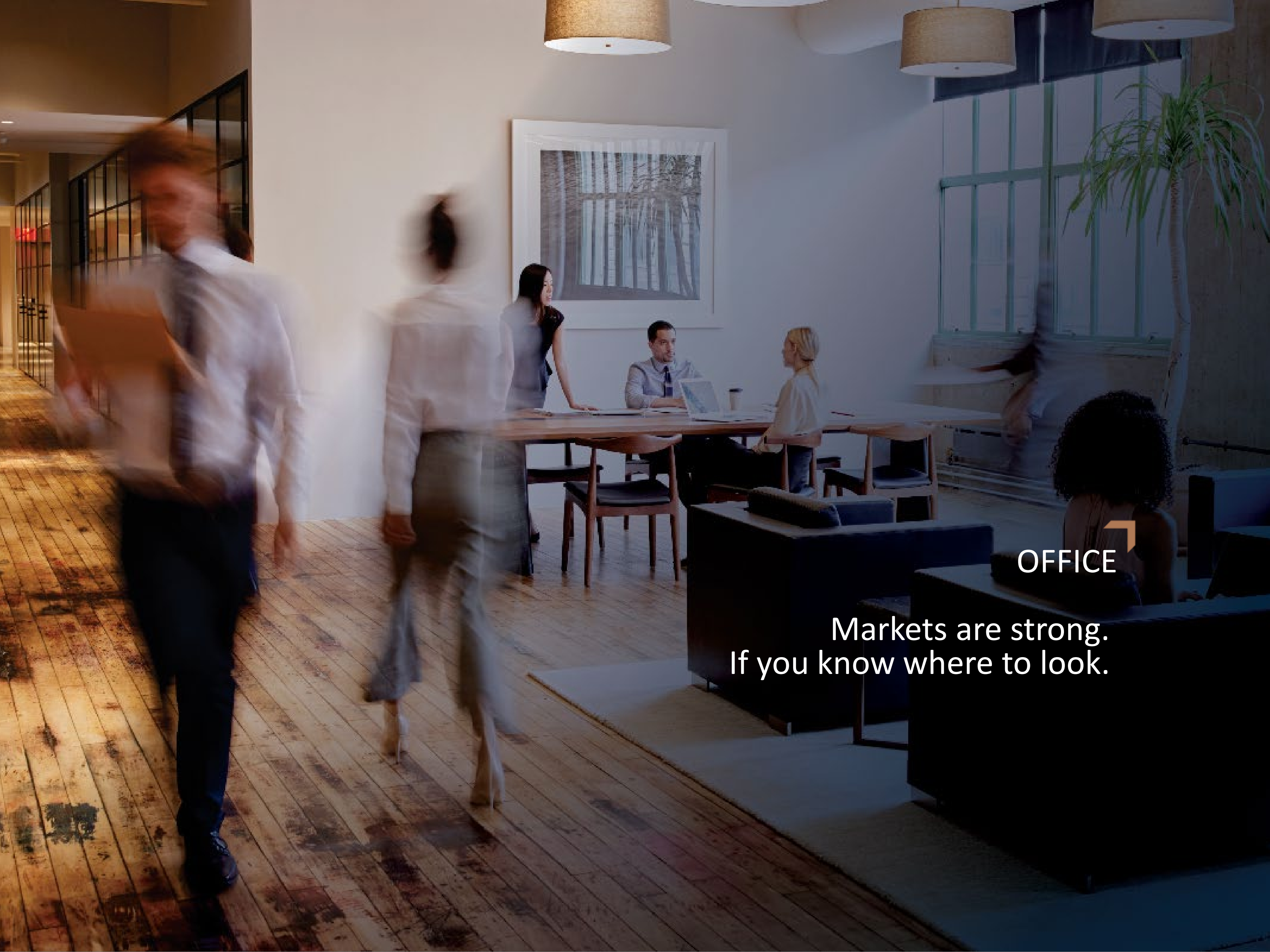
ECONOMY
2019

No thing
is a sure thing:
why “caution”
is our watchword

GDP

Soared in Q2 and Q3, but could flatten to 2.6% in 2019

Actual: 3.2% 1st Qtr, 2.0% 2nd Qtr



OFFICE

Markets are strong.
If you know where to look.

Office Market Overview

> Occupancy reported at the highest level since the Great Recession, rents are rising up to 3% annually, and income is best in the West.

> National broker reports have absorption up, vacancy down, and construction robust.

> Both CBD and suburban markets are being categorized as either in recession or in Hypersupply.

Market Rankings / Transaction Sales

Bulls (Top 10)

2018 Rank	City	YOY Change	Total 4Q17-3Q18	Vol. Rank*
1	Minneapolis	137.3%	$2,514.5 M	15
2	Nashville	118.3%	$1,023.3 M	27
3	Raleigh/Durham	112.6%	$2,056.8 M	19
4	Denver	71.4%	$2,968.9 M	13
5	Phoenix	54.9%	$3,668.0 M	12
6	Jacksonville	49.7%	$445.2 M	42
7	Manhattan	41.8%	$18,592.1 M	1
8	Chicago	40.6%	$6,006.4 M	4
9	Las Vegas	38.2%	$900.3 M	30
10	Broward	37.6%	$885.5 M	31

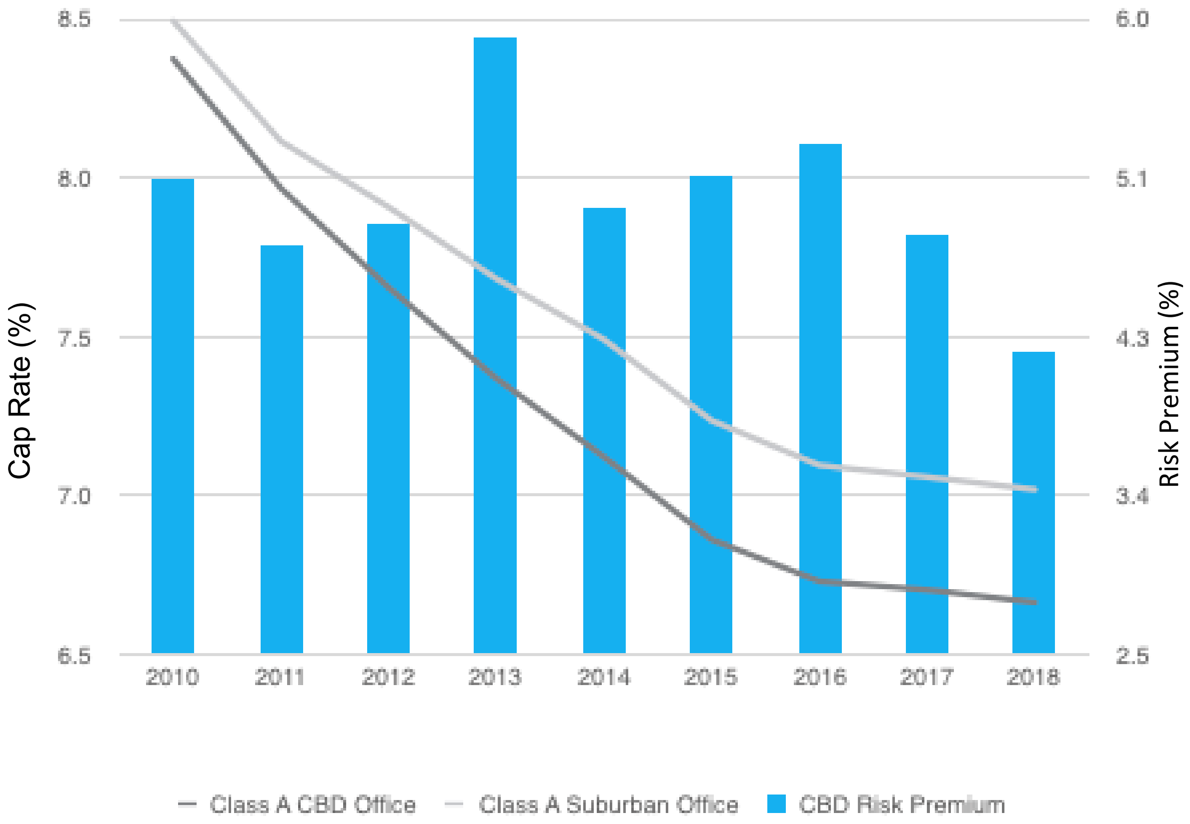
Bears (Bottom 10)

2018 Rank	City	YOY Change	Total 4Q17-3Q18	Vol. Rank*
43	San Francisco	-41.0%	$4,118.2 M	10
44	Boston	-43.8%	$5,019.6 M	6
45	Tampa	-44.0%	$779.5 M	32
46	Cleveland	-44.5%	$260.6 M	49
47	Charlotte	-45.2%	$1,292.5 M	24
48	Cincinnati	-47.2%	$292.4 M	48
49	Salt Lake City	-49.8%	$354.6 M	45
50	Hartford	-50.7%	$78.9 M	52
51	Kansas City	-51.5%	$428.4 M	43
52	Memphis	-62.9%	$111.9 M	51

* Volume Ranking is based on the overall transaction volume among 52 markets nationally

Countervailing trends could be discerned in office deal volume and capital flows during 2019.
The Q4 2017 – Q3 2018 aggregate investment totaled $129.7 B, down 6.1% YOY.

Class A Office Capitalization Rate Trends



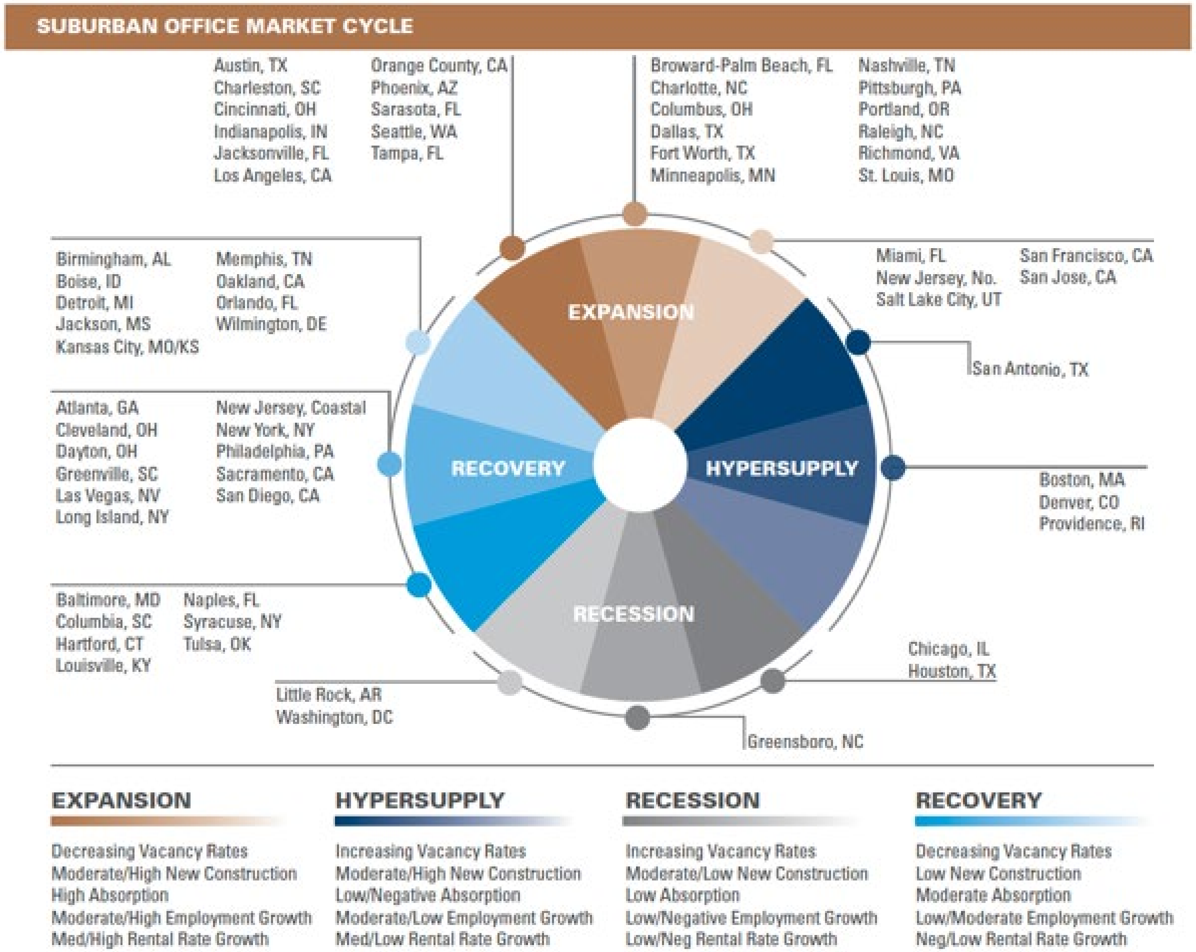
- Office cap rates underwent minimal change over the past year, increasing up 2 bps in 2018.
- IRR’s 2019 outlook calls for a higher percentage of markets to experience cap rate increases.

Office Regional Rates Comparisons

REGIONAL RATES COMPARISON – OFFICE	CAP RATE	DISCOUNT RATE	MARKET RENT ($/UNIT)	VACANCY RATE	4Q '17 - 4Q '18 CAP RATE
SOUTH REGION					
CBD Class A	6.70%	8.02%	$28.29	13.82%	▲ 2 bps
CBD Class B	7.64%	8.92%	$20.95	15.88%	▲ 2 bps
Suburban Class A	7.09%	8.40%	$25.33	13.42%	▼ - 4 bps
Suburban Class B	7.92%	9.12%	$19.18	14.90%	▼ - 3 bps
EAST REGION					
CBD Class A	6.56%	7.76%	$38.48	12.17%	▲ 3 bps
CBD Class B	7.53%	8.60%	$28.41	15.01%	▼ - 8 bps
Suburban Class A	7.12%	8.18%	$27.83	15.48%	▼ - 1 bps
Suburban Class B	8.04%	9.10%	$21.65	16.09%	▼ - 4 bps
CENTRAL REGION					
CBD Class A	7.89%	9.14%	$23.74	15.17%	▼ - 7 bps
CBD Class B	8.57%	9.64%	$17.85	16.26%	▼ - 2 bps
Suburban Class A	7.70%	8.84%	$23.48	15.42%	▲ 5 bps
Suburban Class B	8.50%	9.57%	$17.42	17.15%	▲ 2 bps
WEST REGION					
CBD CLASS A	5.81%	7.57%	$40.44	13.50%	▼ - 2 bps
CBD CLASS B	6.45%	8.05%	$30.77	14.88%	▼ - 4 bps
SUBURBAN CLASS A	6.23%	7.88%	$36.15	14.51%	▼ - 8 bps
SUBURBAN CLASS B	6.84%	8.50%	$27.42	15.94%	▼ - 3 bps
NATIONAL AVERAGES/SPREADS					
CBD Class A	6.68%	8.07%	$32.26	13.67%	▲ 0 bps
CBD Class B	7.51%	8.79%	$24.11	15.55%	▼ - 2 bps
Suburban Class A	7.01%	8.32%	$27.89	14.42%	▼ - 3 bps
Suburban Class B	7.81%	9.06%	$21.18	15.76%	▼ -2 bps

- National CBD Class A and B cap rates are 6.7% and 7.5% respectively; National Suburban Class A and B cap rates are 7% and 7.8% respectively.
- The Suburban Office market cycle condition is roughly the same as the CBD Office market.
- The Chicago and Washington, DC suburban office markets are now reported to be in Recession.

Suburban Office Market Cycle



- More CBD Office markets are gravitating towards Hypersupply conditions.
- The conditions are worse in the East Region, where 50% of markets are in Recovery, while Boston and Providence are exhibiting Hypersupply conditions.
- Market rents growth in 2019 is forecasted to be more muted in 2019 than the year prior and expected to grow highest amongst CBD Class A properties, at a rate of 2.1%.

2019 Office Outlook

Stable

Cap rates largely stable in 2018, and has remained the case in 2019.

#1

Property Income Growth ranked as #1 factor likely to impact institutional real estate cap rates.

60%

Values are anticipated to increase about 2% in 60% of markets.

CBD Office Construction Outlook

Tier 1 Markets
(pop. > 3M)

1. Seattle, WA
2. Detroit, MI
3. San Francisco, CA
4. Los Angeles, CA
5. Atlanta, GA

Tier 2 Markets
(pop. < 3M)

1. San Antonio, TX
2. Nashville, TN
3. Long Island, NY
4. Denver, CO
5. Raleigh, NC

Construction Outlook for Top Markets as Percentage of Inventory

MULTIFAMILY

In a mostly healthy market, affordability is still the key

Multifamily Market Overview

> Any uncertainty about the seismic shift in the homeownership balance that happened a decade ago can now be put to rest.

> More capital has been allocated to the Multifamily sector than any other property type in each year of this real estate cycle.

> The key lesson: one size does not fit all.

Market Rankings / Transaction Sales

Bulls (Top 10)

2018 Rank	City	YOY Change	Total 4Q17-3Q18	Vol. Rank*
1	Cleveland	223.4%	$317.6 M	51
2	Columbus	76.8%	$988.3 M	39
3	Memphis	57.4%	$620.0 M	44
4	East Bay	55.4%	$2,253.1 M	21
5	Houston	51.5%	$7,024.2 M	5
6	Raleigh/Durham	50.8%	$2,577.6 M	15
7	Philadelphia	46.8%	$2,419.4 M	16
8	Indianapolis	39.7%	$876.5 M	40
9	Orlando	35.4%	$4,098.0 M	12
10	Sacramento	33.8%	$1,507.1 M	30

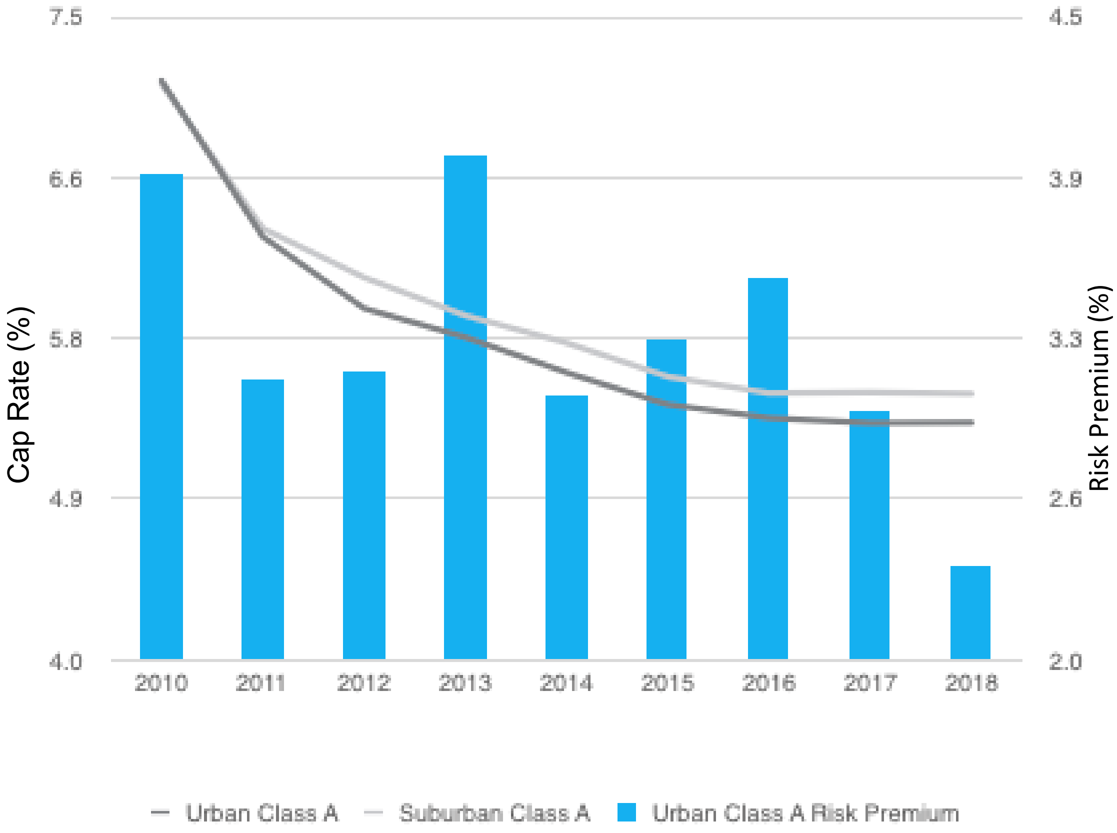
Bears (Bottom 10)

2018 Rank	City	YOY Change	Total 4Q17-3Q18	Vol. Rank*
43	Dallas	-13.6%	$9,212.3 M	1
44	San Jose	-13.7%	$1,438.5 M	32
45	No NJ	-15.6%	$2,350.2 M	17
46	Las Vegas	-16.7%	$2,268.5 M	20
47	Portland	-23.0%	$1,947.2 M	24
48	Boston	-24.7%	$2,350.0 M	18
49	San Diego	-27.9%	$1,938.4 M	25
50	Broward	-32.2%	$1,038.9 M	38
51	Kansas City	-37.1%	$740.3 M	42
52	Long Island	-75.9%	$136.7 M	52

* Volume Ranking is based on the overall transaction volume among 52 markets nationally

In the 12 months ending Q3 2018, transaction volume was $167 billion, up YOY by 8.6%, with all major regions of the country seeing transaction volume rise.

Class A Multifamily
Capitalization Rate Trends



- Integra's Viewpoint research indicates cap rate expansion in the second half of 2018, after bottoming-out in 2Q 2018.
- Up from 24% in 2018, now 35% of markets call for an increase in cap rates of up to 25 bps through 2019.

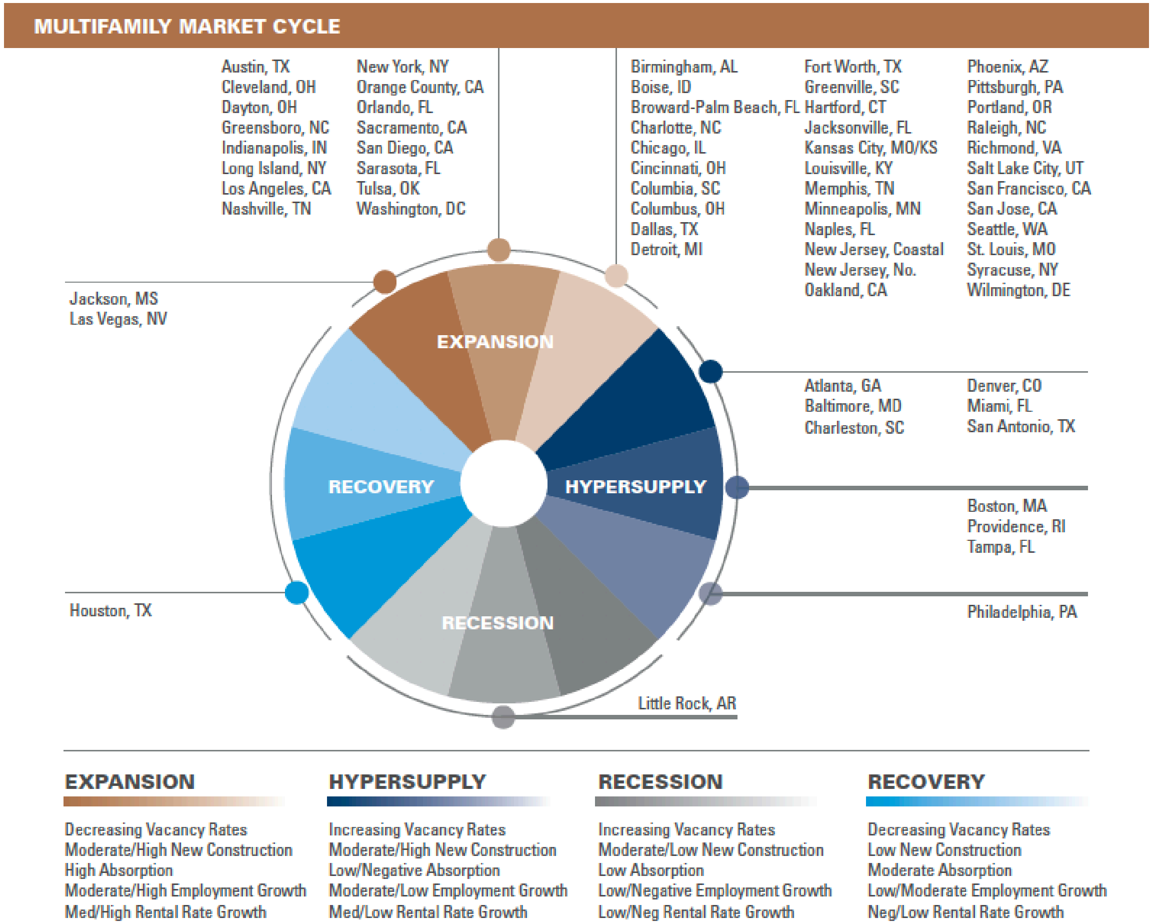
Multifamily Regional Rates Comparisons

REGIONAL RATES COMPARISON - MULTIFAMILY

	CAP RATE	DISCOUNT RATE	MARKET RENT ($/UNIT)	VACANCY RATE	4Q17 – 4Q18 CAP RATE (BPS)
SOUTH REGION					
Urban Class A	5.39%	7.04%	$1,605	8.02%	▼ -1
Urban Class B	6.23%	7.70%	$997	5.60%	▼ -4
Suburban Class A	5.54%	7.21%	$1,250	6.00%	▼ -8
Suburban Class B	6.48%	7.92%	$880	4.60%	▼ -2
EAST REGION					
Urban Class A	5.33%	6.79%	$2,241	6.65%	▲ 14
Urban Class B	6.28%	7.58%	$1,436	4.26%	▲ 0
Suburban Class A	5.70%	7.20%	$1,669	5.13%	▲ 27
Suburban Class B	6.60%	7.78%	$1,204	3.51%	▲ 5
CENTRAL REGION					
Urban Class A	5.97%	7.26%	$1,613	9.80%	▼ -2
Urban Class B	6.83%	8.08%	$876	5.27%	▼ -2
Suburban Class A	6.01%	7.35%	$1,156	5.16%	▼ -2
Suburban Class B	6.85%	8.10%	$784	3.46%	▼ -2
WEST REGION					
Urban Class A	4.52%	6.63%	$2,326	7.35%	▲ 0
Urban Class B	5.12%	7.27%	$1,455	4.06%	▼ -4
Suburban Class A	4.71%	6.82%	$1,953	5.00%	▲ 0
Suburban Class B	5.34%	7.43%	$1,402	3.23%	▲ 0
NATIONAL AVERAGES/SPREADS					
Urban Class A	5.30%	6.94%	$1,896	7.91%	▲ 2
Urban Class B	6.11%	7.65%	$1,169	4.93%	▼ -3
Suburban Class A	5.47%	7.14%	$1,470	5.47%	▲ 2
Suburban Class B	6.32%	7.81%	$1,046	3.89%	▲ 0

- Only 60% of Multifamily markets predict cap rates to be stable through 2019.
- Urban Class A cap rates are 5.3%, Urban Class B rates are 6.1%, Suburban Class A rates are 5.5%, and Suburban Class B rates are 6.3%.
- On average, markets are calling for slightly lower market rent growth, nationally a 2.25% increase in market rents in 2019 is expected.

Multifamily Market Cycle



- More CBD Office markets are gravitating towards Hypersupply conditions.
- The conditions are worse in the East Region, where 50% of markets are in Recovery, while Boston and Providence are exhibiting Hypersupply conditions.
- Market rents growth in 2019 is forecasted to be more muted in 2019 than the year prior and expected to grow highest amongst CBD Class A properties, at a rate of 2.1%

2019 Multifamily Outlook

Apartment markets are healthy and well-aligned with investor sentiment. However, expected weakening of the U.S. economy and employment trends are the challenges to watch.

83%

83% of markets are in expansion, and only Little Rock, AR is in recession.

8.6%

Capital investment totaled $167B, up 8.6% YOY, with all major regions of the country seeing transaction volume rise.

35%

Up from 24% in 2018, now 35% of markets call for an increase in cap rates of up to 25 bps through 2019.

Multifamily Construction Outlook

Tier 1 Markets (pop. > 3M)

1. Seattle, WA
2. Miami, FL
3. Tampa, FL
4. New York, NY
5. Minneapolis, MN

Tier 2 Markets (pop. < 3M)

1. Orlando, FL
2. Charleston, SC
3. Salt Lake City, UT
4. Charlotte, NC
5. Denver, CO

Construction Outlook for Top Markets as Percentage of Inventory

RETAIL

Growing despite an e-commerce world

Retail Market Overview

> Retailers continue to be disrupted by ecommerce, along with shifting demographics and spending habits.

> There is evidence that millennials are beginning to return to bricks and mortar stores, if the brand also has a strong online presence.

> Net lease retail is in very strong demand, both by consumers and by investors. Cap rates continue to compress for “internet-resistant” branded stores.

Market Rankings / Transaction Sales

Bulls (Top 10)

2018 Rank	City	YOY Change	Total 4Q17-3Q18	Vol. Rank*
1	San Jose	238.3%	$1,020.0 M	20
2	Baltimore	236.5%	$885.3 M	25
3	Manhattan	84.5%	$3,640.2 M	2
4	Los Angeles	83.0%	$6,302.1 M	1
5	San Diego	83.0%	$1,846.7 M	10
6	No NJ	69.4%	$1,936.5 M	9
7	Dallas	65.1%	$3,091.7 M	4
8	Houston	62.7%	$2,616.8 M	5
9	Salt Lake City	59.0%	$445.7 M	41
10	Cleveland	46.7%	$369.5 M	45

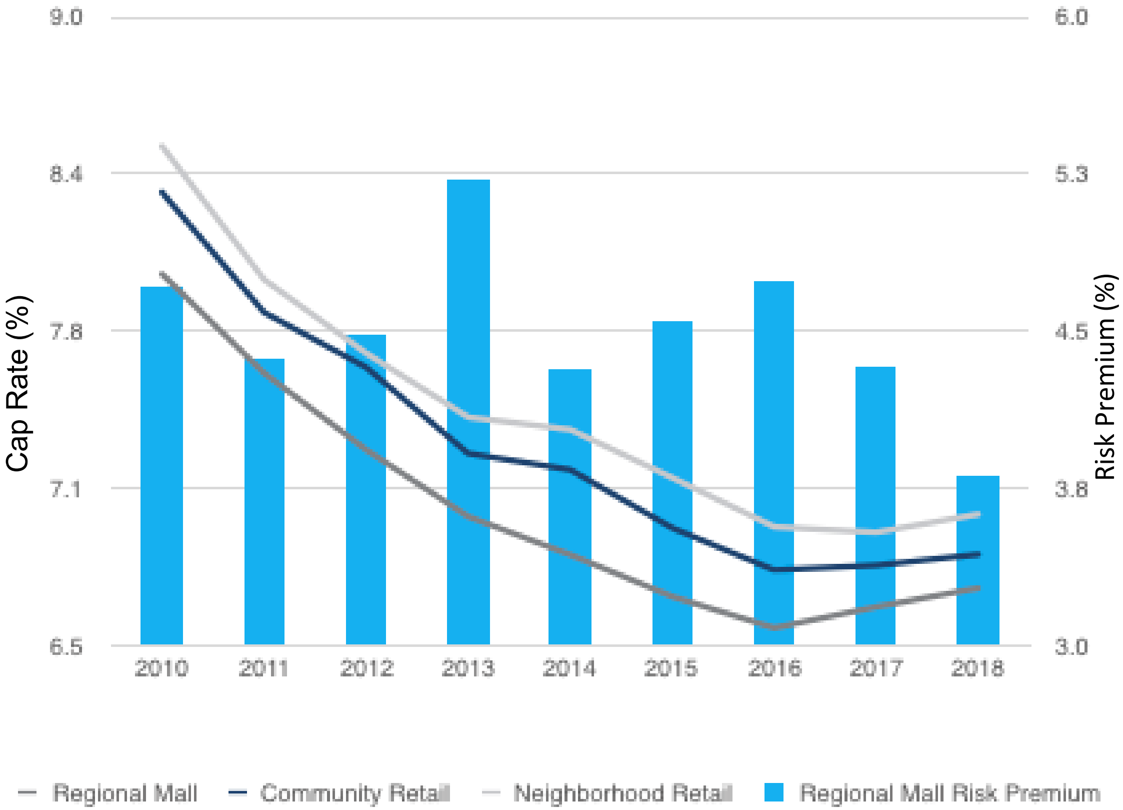
Bears (Bottom 10)

2018 Rank	City	YOY Change	Total 4Q17-3Q18	Vol. Rank*
43	Detroit	-22.1%	$626.1 M	31
44	Columbus	-23.4%	$248.3 M	50
45	Philadelphia	-25.6%	$745.7 M	28
46	East Bay	-29.4%	$536.3 M	32
47	Broward	-34.8%	$922.1 M	23
48	Memphis	-38.0%	$133.7 M	52
49	Kansas City	-39.1%	$288.5 M	48
50	Las Vegas	-45.5%	$1,383.8 M	12
51	San Francisco	-45.7%	$944.3 M	22
52	Austin	-46.1%	$498.4 M	34

* Volume Ranking is based on the overall transaction volume among 52 markets nationally

Retail transactions for 2018 will likely bump up above $75 billion, a decrease of 17.5% from the year before.

Retail Capitalization Rate Trends



- Cap rates have been trending moderately upward since volume peaked. Averages in Q4 are 7.04% for neighborhood centers, 6.88% for community centers and 6.80% for regional malls.

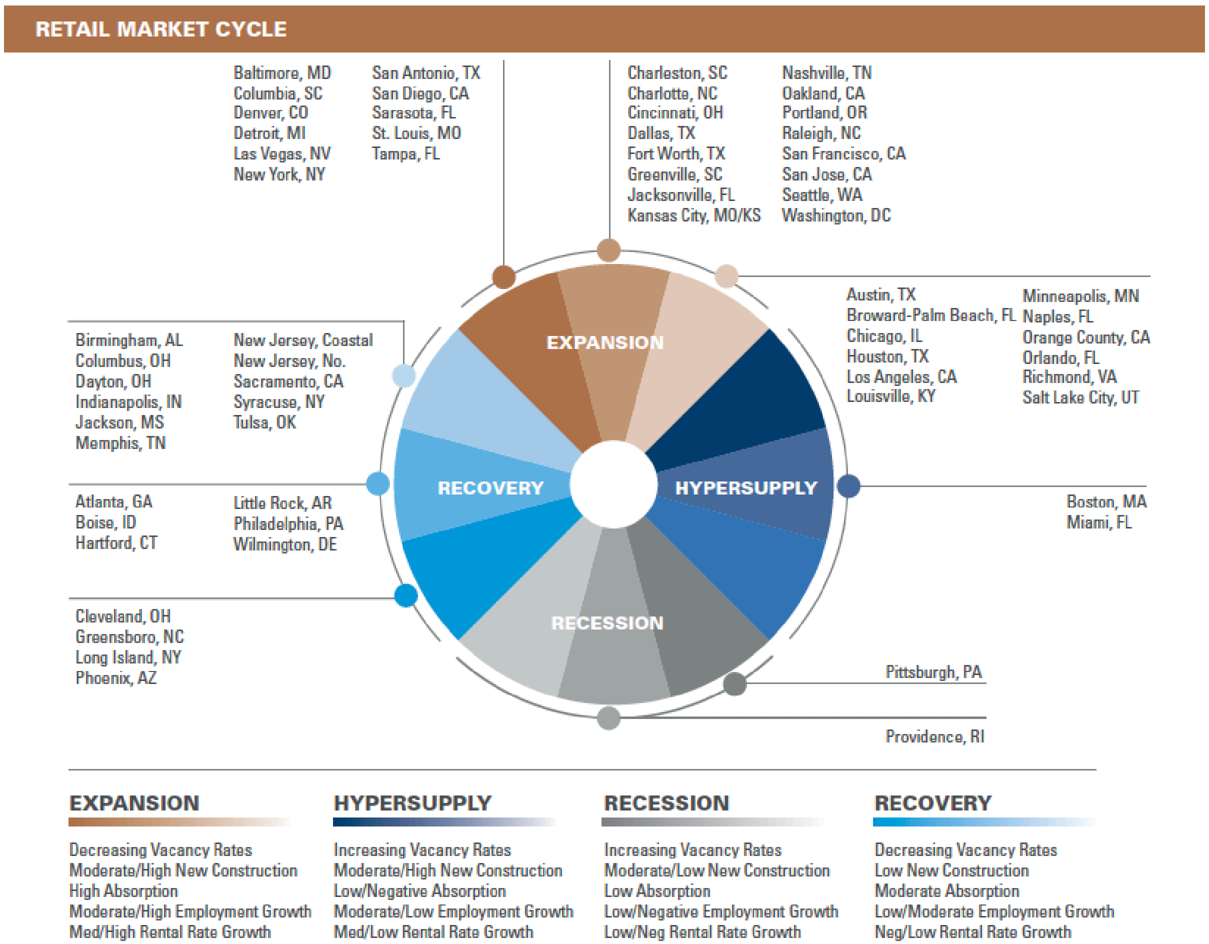
Retail Regional Rates Comparisons

REGIONAL RATES COMPARISON - RETAIL

	CAP RATE	DISCOUNT RATE	MARKET RENT ($/UNIT)	VACANCY RATE	4Q '17 - 4Q '18 CAP RATE D
SOUTH REGION					
Community Retail	7.07%	8.31%	$18.20	8.93%	▲ 7 bps
Neighborhood Retail	7.11%	8.34%	$16.44	9.39%	▲ 2 bps
Regional Mall	7.24%	8.34%	$26.55	7.07%	▲ 33 bps
EAST REGION					
Community Retail	6.91%	7.97%	$25.28	8.12%	▲ 20 bps
Neighborhood Retail	7.05%	8.15%	$23.71	7.88%	▲ 28 bps
Regional Mall	6.58%	7.80%	$37.52	6.54%	▲ 11 bps
CENTRAL REGION					
Community Retail	7.42%	8.40%	$17.08	10.87%	▲ 1 bps
Neighborhood Retail	7.84%	8.66%	$15.97	10.47%	▲ 9 bps
Regional Mall	6.91%	7.95%	$24.64	6.52%	▲ 2 bps
WEST REGION					
Community Retail	6.09%	7.66%	$29.24	6.97%	▼ - 7 bps
Neighborhood Retail	6.28%	7.82%	$25.31	7.20%	▼ - 2 bps
Regional Mall	6.10%	7.67%	$31.44	6.07%	▼ - 12 bps
NATIONAL AVERAGES/SPREADS					
Community Retail	6.88%	8.11%	$21.86	8.67%	▲ 6 bps
Neighborhood Retail	7.04%	8.24%	$19.78	8.79%	▲ 8 bps
Regional Mall	6.80%	8.01%	$29.38	6.65%	▲ 13 bps

- Markets are at or near equilibrium, with community centers leading the way (65.6% in balance) and neighborhood retail markets slightly weaker (59.4% in balance)

Retail Market Cycle



- 38 markets are in the expansion phase while 21 are in recovery.
- Top Markets (ranked by YOY transaction growth rate):
  1) San Jose, CA;
  2) Baltimore, MD;
  3) Manhattan;
  4) Los Angeles, CA;
  5) San Diego, CA.

2019 Retail Outlook

$75B

For all of 2018, volume may have seen a bump above $75 billion.

+4%

Markets are expecting to see an increase in rents.

San Francisco > up 4%
Houston > up 3.75%
Long Island > up 3%

21

21 markets are listed as being in Recovery, while 38 are in Expansion phase. Only 2 markets, Pittsburgh and Providence, are considered to be mired in recession.

Retail Construction Outlook

Tier 1 Markets (pop. > 3M)

1. Ft. Worth, TX
2. Houston, TX
3. Tampa, FL
4. Miami, FL
5. New York, NY

Tier 2 Markets (pop. < 3M)

1. Las Vegas, NV
2. San Jose, CA
3. Nashville, TN
4. Columbia, SC
5. Boise, ID

Construction Outlook for Top Markets as Percentage of Inventory

INDUSTRIAL

Enthusiasm is well placed

Industrial Market Overview

> Warehousing, distribution, logistics and R&D/Flex properties fuel the 70% of GDP generated by personal consumption expenditures. This makes the enthusiasm surrounding this sector well placed.

> Industrials are the essential organs of the e-commerce revolution, the very embodiment of 21st century globalization and economic disruption.

Market Rankings / Transaction Sales

Bulls (Top 10)

2018 Rank	City	YOY Change	Total 4Q17-3Q18	Vol. Rank*
1	Richmond/Norfolk	182.7%	$630.0 M	34
2	San Francisco	123.9%	$1,147.6 M	21
3	Austin	88.5%	$721.2 M	31
4	Columbus	76.6%	$1,390.7 M	18
5	Minneapolis	76.5%	$1,141.6 M	22
6	Salt Lake City	71.4%	$617.1 M	36
7	Memphis	71.0%	$739.8 M	30
8	Phoenix	67.6%	$2,094.0 M	8
9	Orlando	60.0%	$916.0 M	26
10	Jacksonville	59.4%	$493.2 M	40

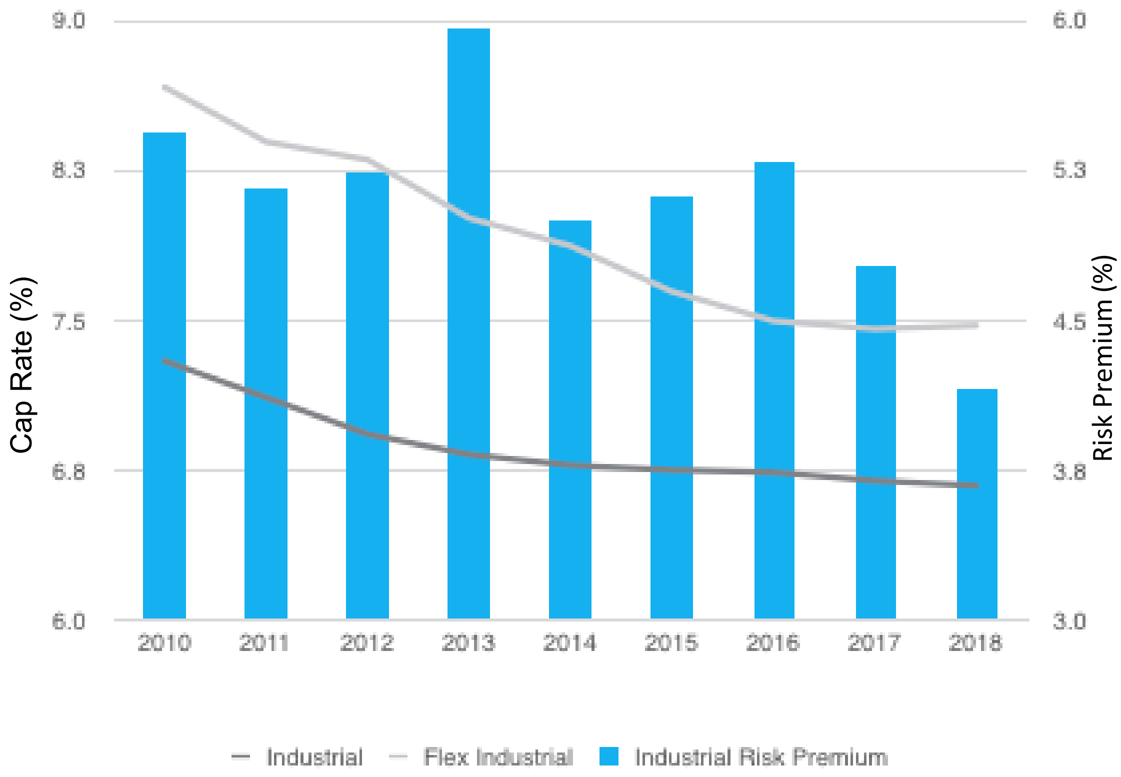
Bears (Bottom 10)

2018 Rank	City	YOY Change	Total 4Q17-3Q18	Vol. Rank*
43	San Jose	-32.6%	$2,070.4 M	9
44	Palm Beach	-32.7%	$175.6 M	46
45	St Louis	-33.1%	$535.8 M	38
46	San Antonio	-42.5%	$271.1 M	45
47	Las Vegas	-43.1%	$965.4 M	24
48	Raleigh/Durham	-44.3%	$304.1 M	44
49	Birmingham (AL)	-45.5%	$48.9 M	52
50	Stamford	-54.0%	$90.6 M	50
51	DC	-59.3%	$1,594.5 M	15
52	Westchester	-87.1%	$167.8 M	47

* Volume Ranking is based on the overall transaction volume among 52 markets nationally

From Q3 2017 to Q3 2018, all regions of the country posted gains. Transaction volume was up 13.9% ($82.9 billion) YOY, on pace to set a record for this property type.

Industrial Capitalization Rate Trends



- Industrial cap rates were virtually identical to the year prior at 6.68% on average in 2018. However, there is a wide gap between the top markets of Seattle and Orange County (4.5%) and such markets as Dayton and Little Rock (8.9%) and Providence (9.3%).
- R&D/Flex cap rates are higher on average, at 7.5% nationally.

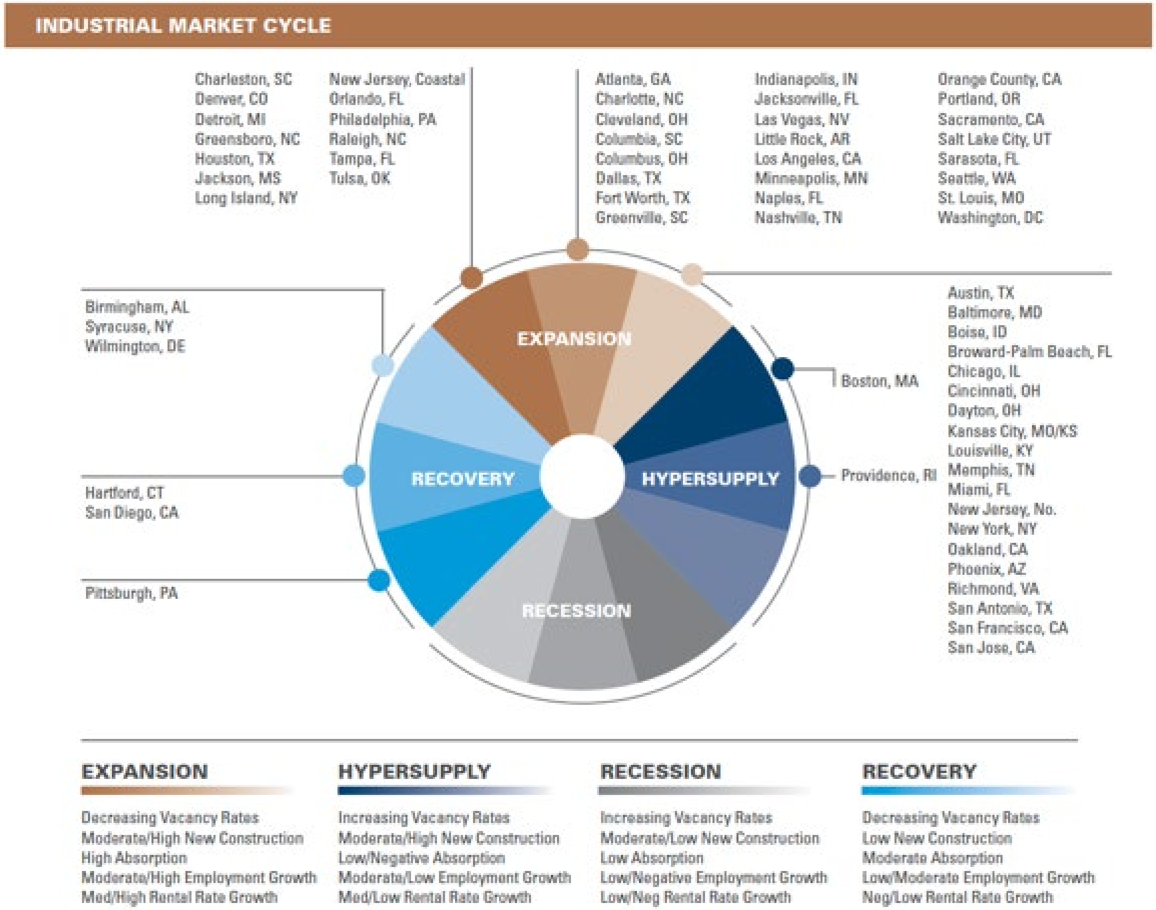
Industrial Regional Rates Comparisons

REGIONAL RATES COMPARISON - INDUSTRIAL

	CAP RATE	DISCOUNT RATE	MARKET RENT ($/UNIT)	VACANCY RATE	4Q '17 - 4Q '18 CAP RATE D
SOUTH REGION					
Flex Industrial	7.78%	8.66%	$9.18	7.54%	▲ 7 bps
Industrial	6.94%	8.03%	$5.28	6.93%	▼ - 5 bps
EAST REGION					
Flex Industrial	7.58%	8.63%	$10.43	9.27%	▲ 18 bps
Industrial	6.67%	7.92%	$6.70	7.43%	▲ 20 bps
CENTRAL REGION					
Flex Industrial	8.01%	8.96%	$7.83	8.98%	▲ 0 bps
Industrial	7.18%	8.24%	$4.44	6.92%	▼ - 12 bps
WEST REGION					
Flex Industrial	6.52%	7.89%	$12.97	8.09%	▼ - 5 bps
Industrial	5.82%	7.14%	$7.87	5.66%	▼ - 8 bps
NATIONAL AVERAGES/SPREADS					
Flex Industrial	7.50%	8.54%	$10.03	8.26%	▲ 6 bps
Industrial	6.68%	7.85%	$5.99	6.75%	▲ - 1 bps

- Industrial cap rates range from a low in Seattle and Orange County (4.5%) and Los Angeles (4.8%), and such markets as Dayton and Little Rock (8.8%) and Providence (9.3%) with thin investment and exceptionally high required yields.
- R&D/Flex cap rates are higher on average. As with warehouses, the upper tier of markets have significantly more compressed cap rates.

Industrial Market Cycle



- Nearly every U.S. metro market is in "Expansion" phase. The exception is in the East, where only 54% are rated in Expansion
- Few markets in the South (Birmingham) and the West (San Diego) are rated in Recovery. Boston and Providence have tipped into Hypersupply.

2018 Industrial Outlook

$82.9B

2018 was a record-setting year, with more than $82.9 billion in deals.

88%

Look for value increases in 88% of markets, but keep watch on disruption from a tightening tariff policy, and possibly turbulent 2019 economy.

5%

Four markets are expecting 5% market rent growth: Las Vegas, Northern New Jersey, Houston and Cleveland.

Industrial Construction Outlook

Tier 1 Markets
(pop. > 3M)

1. New Jersey, No.
2. Tampa, FL
3. Miami, FL
4. Atlanta, GA
5. Dallas, TX

Tier 2 Markets
(pop. < 3M)

1. San Antonio, TX
2. Charleston, SC
3. Jacksonville, FL
4. Las Vegas, NV
5. Jackson, MS

Construction Outlook for Top Markets as Percentage of Inventory

HOSPITALITY

Tech and trends make a more nimble hotelier

Hospitality Market Overview

> All key drivers have pushed demand growth. It's believed this trend will continue.

> Operators are focusing on what Millennials want: experience, authenticity, service/value and product/design.

> Top Markets

(Ranked YOY Transaction Growth Rate)

1) Portland
2) Palm Beach
3) San Antonio
4) Phoenix
5) Las Vegas, NV

Market Rankings / Transaction Sales

Bulls (Top 10)

2018 Rank	City	YOY Change	Total 4Q17-3Q18	Vol. Rank*
1	Portland	706.2%	$260.5 M	30
2	Palm Beach	493.6%	$199.2 M	34
3	San Antonio	352.3%	$733.3 M	7
4	Phoenix	301.6%	$1,812.1 M	2
5	Las Vegas	292.0%	$490.5 M	14
6	Indianapolis	161.4%	$349.8 M	23
7	Denver	138.2%	$641.7 M	10
8	Boston	127.7%	$1,051.5 M	6
9	Nashville	85.6%	$256.0 M	31
10	Salt Lake City	72.2%	$201.4 M	33

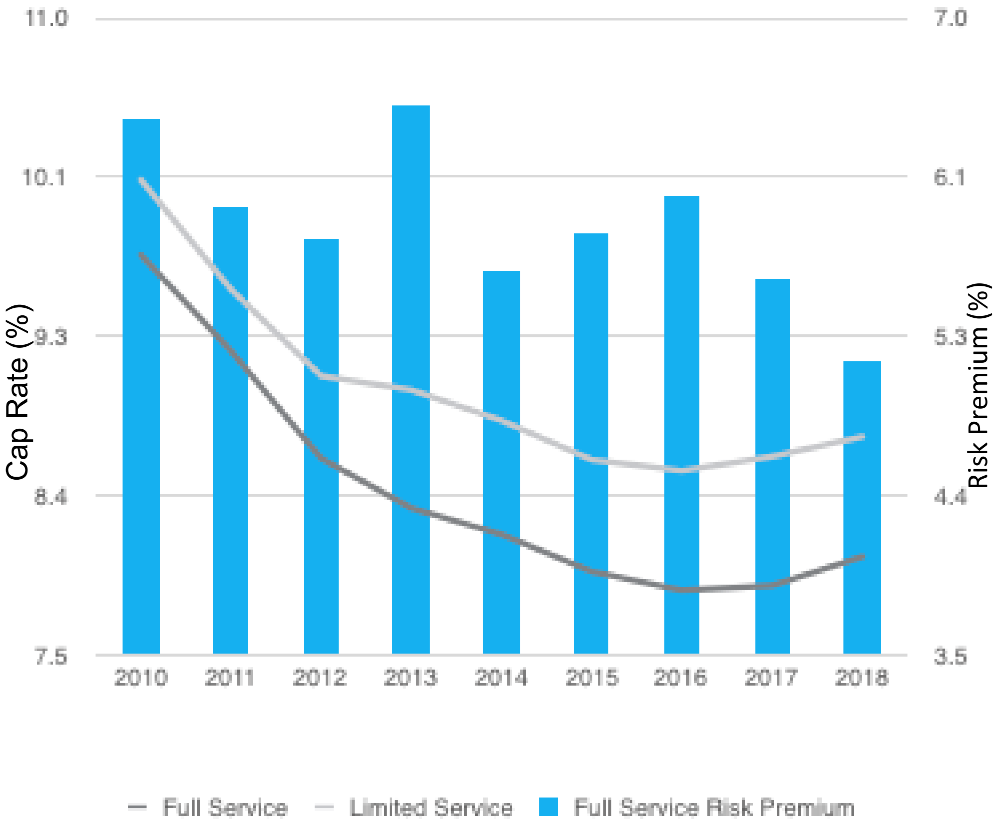
Bears (Bottom 10)

2018 Rank	City	YOY Change	Total 4Q17-3Q18	Vol. Rank*
43	Stamford	-38.1%	$30.0 M	50
44	Orange Co	-40.3%	$276.8 M	26
45	Westchester	-48.4%	$23.9 M	51
46	Columbus	-51.9%	$72.7 M	47
47	Jacksonville	-54.2%	$132.1 M	41
48	Los Angeles	-59.4%	$689.8 M	8
49	Birmingham (AL)	-73.8%	$32.8 M	49
50	Charlotte	-75.1%	$148.0 M	39
51	East Bay	-75.1%	$76.3 M	46
52	Hartford	-92.7%	$8.0 M	52

* Volume Ranking is based on the overall transaction volume among 52 markets nationally

Hospitality transaction volume reached $32.9B through Q3’18. All regions sustained an increase over the year prior.

Hospitality Capitalization Rate Trends



- For 2019, 60.6% of markets expect to see cap rates remain constant. A higher percentage of markets tracked, expect cap rates to increase gradually (between 1 – 25 BPS) over the next 12 mths.
- Supply and demand supplant property income growth as the #1 factor likely to impact institutional real estate cap rates in 2019.

2018 Hospitality Outlook

81.3%

81.3% of markets entered 2019 in the expansion phase, with the highest growth forecast for independent segments (+2.5%) followed by midscale, upper midscale and midscale.

619,000

As of June 619,000 hotel rooms were under contract in the U.S., an increase of 6.1% since October 2017.

66.2%

2018 saw all-time highs for 12-month averages in occupancy (66.2%), ADR ($128.27) and RevPAR ($84.98)

Current Average Cap Rates Across IRR Offices

			Averages
Class A	Going In Capitalization Rates (%)	CBD Office	6.68
		Suburban Office	7.01
		Industrial	6.63
		Flex Industrial	7.42
		Urban Multifamily	5.30
		Suburban Multifamily	5.48
		Regional Mall Retail	6.93
		Community Retail Center	6.96
		Neighborhood Retail	7.09
Class B	Going In Capitalization Rates (%)	CBD Office	7.53
		Suburban Office	7.79
		Urban Multifamily	6.11
		Suburban Multifamily	6.31

Current Average Discount Rates Across IRR Offices

			Averages
Class A	Discount Rates (%)	CBD Office	8.05
		Suburban Office	8.29
		Industrial	7.85
		Flex Industrial	8.49
		Urban Multifamily	6.92
		Suburban Multifamily	7.13
		Regional Mall Retail	8.08
		Community Retail Center	8.17
		Neighborhood Retail	8.25
Class B	Discount Rates (%)	CBD Office	8.77
		Suburban Office	9.03
		Urban Multifamily	7.63
		Suburban Multifamily	7.80

Current Average Reversion Rates Across IRR Offices

Integra Realty Resources

			Averages	Spread
Class A	Reversion Rates (%)	CBD Office	7.30	0.62
		Suburban Office	7.66	0.65
		Industrial	7.21	0.58
		Flex Industrial	7.94	0.52
		Urban Multifamily	5.90	0.60
		Suburban Multifamily	6.12	0.65
		Regional Mall Retail	7.46	0.53
		Community Retail Center	7.51	0.55
		Neighborhood Retail	7.63	0.54
Class B	Reversion Rates (%)	CBD Office	8.10	0.57
		Suburban Office	8.34	0.55
		Urban Multifamily	6.70	0.59
		Suburban Multifamily	6.85	0.54

SPECIALTY REPORTS

No stone unturned. No opportunity unexplored. Diversification is smart, and watching trends is smarter. Most property segments have something to offer—if you know where to look.

2019 Specialty Property Themes

Marijuana Real Estate	Healthcare & Senior Housing	Auto Dealerships	Caribbean Hospitality
The industry's validation and evolution will continue with new markets and opportunities, and a swell in employment.	The population aged 85+ is the largest consumer in Senior Housing and the demo is forecasted to grow at an annual rate of just under 3% through 2055. Demand is increasing for the foreseeable future.	Franchises are priced at near-record levels, but the market is sensitive to wider trends. Tesla's direct-to-consumer model may disrupt the traditional dealership model.	Some markets are expanding, while those who were hit by the 2017 hurricanes are still suffering low inventory.

The IRR Difference

Local Expertise…Nationally

- Each office is supervised by an MAI-designated senior professional who has, on average, more than 25 years of experience in their local markets

Unbiased Excellence

- IRR is independent, and dedicated specifically to valuation and consulting
- Signature Content
- In-depth reports
- Proprietary, state-of-the-art database
- Standardized analytics and reporting

First-Class Service

- Outstanding ratings from clients
- High number of referrals

Role of the Appraiser – Is It Being Challenged?

Residential – Yes, technology will continue to be utilized for many transactions that previously required an appraisal. The new threshold increase from $250,000 to $400,000, effective January 1, 2020, will reduce appraisal demand in most parts of the country.

Role of the Appraiser – Is It Being Challenged?

Commercial – More issues involved

- Technology has reduced the time required to perform a typical appraisal; 2-3 weeks is now normal.
- Thirty years ago, appraisers controlled the majority of sales data. That is no longer the case, so confirmation of transactions and analysis of data are the differentiators.

Role of the Appraiser – Is It Being Challenged?

Commercial – More issues involved

Appraisal Process Breakdown 1990 vs. 2020		
	1990	2020
Gather	20%	15%
Format	20%	5%
Analyze	20%	60%
Reformat	20%	5%
Write/Publish	20%	15%
Total	100%	100%

Role of the Appraiser – Is It Being Challenged?

Commercial – More issues involved

- Third Party Inspections – A New Frontier
- One IRR office is already using 3rd party inspectors for providing Evaluations.
- The same office has contracted with trained , licensed inspectors in remote locations to perform site inspections, while the analysis is done and the report is produced at a “major” location.

Role of the Appraiser – Is It Being Challenged?

Commercial – More issues involved

- New $1,000,000 Threshold for Certified Appraisals
- This can't help but reduce demand somewhat for "full" appraisals, but requests for Evaluations seem likely to increase.

Role of the Appraiser – Is It Being Challenged?

Commercial – More issues involved

My Prediction

- Consolidation of appraisal firms will continue
- More mergers of firms to share costs/overhead.
- Expansion of services offered-business valuation and M&E valuation will appear in traditionally real-estate only firms.

Types of Appraisal Today

Report Types

- Appraisal Report
- Restricted Appraisal Report
- Oral Reports

USPAP did not change, but clarified and offered guidance for these reports

Types of Appraisal Today

Values Developed

- Fee Simple – no lease in place
    - Most owner-occupied
- Leased Fee – Subject to terms of leases
- Leasehold – Typically involves ground leases, can also involve major sublease situations
- Personal Property and Intangible Value can also be elements of these values

Changes Coming in USPAP 2020-21

Additional Intended Users for Restricted Reports

- The Board adopted revisions to permit additional intended users besides the client for Restricted Appraisal Reports, as long as the other intended users are named in the report (i.e., not merely identified "by type"). The second adopted change for Restricted Appraisal Reports is a simplification of warning language that will no longer include a reference to the appraiser's workfile.

Changes Coming in USPAP 2020-21

Additional Intended Users for Restricted Reports

- The appraiser is obligated to identify additional intended users by name only in a Restricted Appraisal Report.
- If identification by name, in an Appraisal Report, is not appropriate or practical, the appraiser may identify an intended user by type.
- Revisions to Advisory Opinion 36

Changes Coming in USPAP 2020-21

New Advisory Opinion 38

- Outlines the content required for both an Appraisal Report and a Restricted Appraisal Report.
- (iii) clearly and conspicuously state a restriction that limits use of the report to the client and the named intended user(s).
- (iv) clearly and conspicuously warn that the report may not contain supporting rationale for the all of the opinions and conclusions set forth in the report.

Changes Coming in USPAP 2020-21

New Advisory Opinion 38

- Comment: An appraiser must maintain a workfile that includes sufficient information to indicate that the appraiser complied with the requirements of STANDARD 1 and for the appraiser to produce an Appraisal Report.
- *In other words, the appraisal development process is the same for both types of reports; but the Restricted Report has fewer reporting requirements.*

Questions?

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