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Global Outlook

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In this Report:

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Real Estate Déjà vu

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Economic changes (growth and decline) have an impact on real estate supply and demand.

Environmental concerns (climate change/Covid) have an impact on real estate supply and demand.

Governmental policies (taxation gains/interest rates) have an impact on real estate supply and demand.

Demographics (Boomers, Millennials, Gen Z) have an impact on real estate supply and demand.

It does not matter if real estate is positioned in 1930, 1980, or 2030 the influencers of value remain constant. The only thing that changes is the reason, such as a volcano eruption, or tax law change, or Supreme Court decisions, or a variety of combined factors. What impacted real estate value in the past is essentially the same as what impacts real estate value now and tomorrow.

Do you remember Sears, Roebuck & Co, and the Sears Catalogue vis a vis 1895? Sears was the original Amazon with the mail order merchandise that arrived at your door over 100 years ago. Amazon is really no more than the Sears Catalogue on steroids. And thanks to UPS, Fed Ex, and USPS the steroids work to create a global super business hulk. Throw in Wi-Fi and the internet as value accelerators (*Good to Great by James C. Collins*) and you have a domination. Sears eventually became a Real Estate Holding Company – and Amazon, as they transition from tenant to owner, will also be a major player in real estate. The influence on Sears and Amazon real estate is the same as they both acquired significant real estate footprints to support their shopping experience and distribution systems. But why did Sears fail? Sears "*reason"* for failure will be debated, but it is primarily because they stopped investing in themselves. They did not try to stay current, but rather rest on their laurels. IBM mostly failed because they laughed at the personal computer. Kodak failed because they laughed at digital cameras.

Real estate owners and investors cannot get complacent, or you risk the fate of failure, or worse, slow stagnation.

That businesses and real estate are universally connected at the hip is a given and both must evolve by staying current, relevant, and aware of market shifts. These shifts are sometimes small fissures and sometimes they are tectonic cracks.

When we look to the past in our real estate, single asset, or portfolio, we say with hindsight "*I wished I had sold, or not sold*". When we look to the present, we castigate our decisions to hold or sell. As we look to the future we are guessing, but hopefully with some sound analytics on past and present performance.

Let's look over the real estate landscape.

Office supply is either over or under, and demand is either high or low - depending on location. High quality of life markets predicated by education systems, transportation linkages, finance, and technology careers (I did not say jobs), affordable housing with abundant open space/parks are the tectonic shifts that are here to stay. Urban v., Suburban is no longer relevant, but the ability to have quality of life in any location with connectivity is paramount. And the new office may also just be the extra room in your home.

Retail has morphed into real estate stew of shopping, entertainment, distribution, health care and medical services. Old model of sticks and bricks is now water and wine (be flexible and fun).

Industrial growth is directly related to the Heartbeat Real Estate. As more efficient and faster connections are made industrial serves (distribution, logistics, and warehousing) are the new steel mills and coal factories of the early 1900's. Google really is just an industrial complex that warehouses and distributes information linkages rather than traditional industrial requirements for streets and raw material. Virtual network v. Actual network.

Multi-Family was caught in the tornado and landed in Oz. But at some point, when Dorothy clicks her heels, you have to go home to reality. Rainbows created by non-evictions, liberal unemployment benefits, and millennial social lifestyles will temper as more housing is built and transitions to ownership occur.

Real Estate Cycles are more like Real Estate Circles – eventually we end up where we began with a sense of Déjà Vu

> "There will be lots of people who discover that their job doesn't come back when the economy recovers. In that regard, recession and rebound isn't the right way to look at it because it assumes that you're going back to the way it was before That's not what's going to happen here.
>
> Emerging Trends in RE 2021

> "The year 2021 looks set to be the first of a new cycle, in which rental growth rather than yield shift is the key determinant of real estate value movement. "
>
> *PGIM – Trends 2021*

Heartbeat Real Estate

Have you risked your fear of heights and traveled to the observation deck of any high-rise project and looked across the horizon? It could be the Roppongi in Tokyo, Empire State building in New York, or Shanghai Tower in Shanghai. There is a rhythm across the landscape with high rise development clusters, then low rise development sprawl. Almost in a regular pattern as if the entire city was hooked up to a heart monitor. There at each rising density of development is a transportation hub with a subway stop burrowing below, or a metro station for thousands of commuters, tourists and the lost entering and exiting. Development opportunities have long been part of this convergence where transportation lines meet. From the ancient times at Ports of Call, along the stagecoach stops, rail lines, or freeway connectors. Real Estate pulses along transit orientations. While part of our social psyche to intuitively know where to shop, dine, or be entertained - the advancement of real estate opportunities have entered a new paradigm because mass transit is now mainstream, for nearly all demographics. The opportunity along these transit hubs are being heralded to:

- Reduced parking requirements;
- Higher density allowances,
- Diversified mixed uses;
- Live work proximity;
- Reduced carbon footprint;
- Revitalization stimulus.

As COVID redraws the landscape of development the renewed direction and movement of people using public transportation takes on a new priority. The factors driving this repositioning are the advantages uncovered by COVID in 2020 – freeways were actually freeways and not linear parking lots, there was quality of life in suburbia, recreation actually did re-create a new priority, and friends and family took priority over 9 to 5. The tool that has been at our disposal for centuries has a renewed life that allows the transient hubs to balance our new real estate needs.

In this case, movement creates opportunity and value. The world's busiest metro systems:

- Seoul, South Korea – 2.9 billion riderships per year;
- Shanghai, China – 2.8 billion riderships per year;
- Tokyo, Japan – 2.7 billion riderships per year;
- Moscow, Russia – 2.54 billion riderships per year;
- Guangzhou, China – 2.4 billion riderships per year.

Along the real estate pathways countries and cities are creating infrastructure that will benefit all modes of real estate. You will see pedestrian corridors and open space increase, train stations creating new financial hubs and public squares, high density projects adjacent to train hubs and within the *last mile,* increased bicycle pathways, increased charging stations, and service retail amenities to provide for the masses.

What was unique for Grand Central, or Paddington Square can be on every Main Street .

CRE companies had generally strong financials at the start of the pandemic and debt markets remaining sufficiently liquid. Yet, troubled loans are rising; banks, fearing delinquencies, are tightening lending standards. In several sectors, rent collections have remained healthy, but largely because of higher tenant incentives and leasing concessions. Along with evolving financial landscape, the pandemic has resulted in tectonic shifts in the way people live, work and play, which has put unique pressures on certain property sectors.

Deloitte Insights - 2021

Highlights: UK and Canada

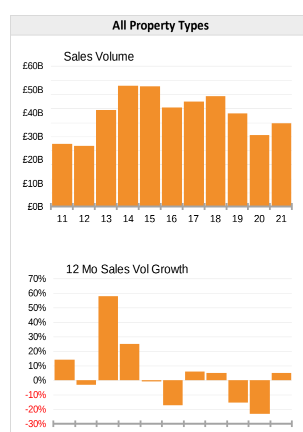
The markets in both Canada and UK have been mixed depending on property type. Please note 2020 is excluded from trending due to COVID impacts. A summary follows:

UK

Office: YTD 2021 Average of £458 per SF with a 7.76% increase from 2019. Capitalization rates have held steady at 6.6%.

Retail: YTD 2021 Average of £186 per SF with a 15.45% decrease from 2019. Capitalization rates avg.7.4%.

Industrial: YTD 2021 Average of £117 per SF with a 46.25% increase from 2019. Capitalization rates avg.6.0%.

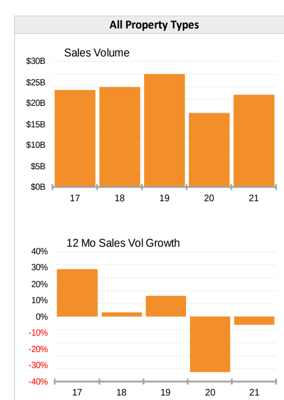


Canada

Office: YTD 2021 Average of $352 per SF with a 9.97% decrease from 2019. Capitalization rates avg. 4.8%.

Retail: YTD 2021 Average of $383 per SF with a 2.05% decrease from 2019. Capitalization rates avg. 4.3%.

Industrial: YTD 2021 Average of $198 per SF with a 13.79% increase from 2019. Capitalization rates avg. 4.5%.



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As a Founding Partner and President of International Realty Valuation, Inc., Lance W. Doré manages the operations of the firm. He is actively engaged in a myriad of valuation assignments involving a wide variety of properties, with special expertise in the valuation of energy facilities, conservation land, open space/ ranches, and litigation support to public and private clients.

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About IRV, Inc.

International Realty Valuation, Inc. (IRV) is a global network of independent and highly competent professionals committed to providing expert financial reporting, forensics, consultation, and valuation services for both tangible and intangible assets to the most discerning of public and private clients. With a number of affiliate firms in several countries, our team has cumulative cutting-edge knowledge of global and regional markets, as well as international standards and requirements. This enables us to complete a wide variety of assignment, including valuation of large portfolios with multiple locations, in a thorough, objective, timely, and cost-effective manner. We serve major national, regional and international banks, lenders, developers, investors, governmental agencies, public and private companies.