



# General Session

## Commercial Real Estate Demand Drivers - Value Creators



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*TerraCap Management*



# TEXPERS

STEVE HAGENBUCKLE



Commercial Real Estate  
Demand Drivers - Value  
Creators

# Overview

- **Background**
- **Volatility**
- **Institutional Investor Allocation**
- **Investor Sentiment - Social Media**
- **Private vs Public Investments**
- **Long Term Valuation vs Short Term Valuation**
- **Real Estate Value Influences**
- **Trends = Thesis/Strategy = Performance = Growth**

**Volatility  
Here To  
Stay?**

**U.S. POLITICS**

**TRADE WAR**

**NEGATIVE  
INTEREST RATES**

**TENSION IN  
MIDDLE EAST**

**GAMESTOP/  
SHORTING**

**CORONAVIRUS**

**HIGH FREQUENCY TRADING**

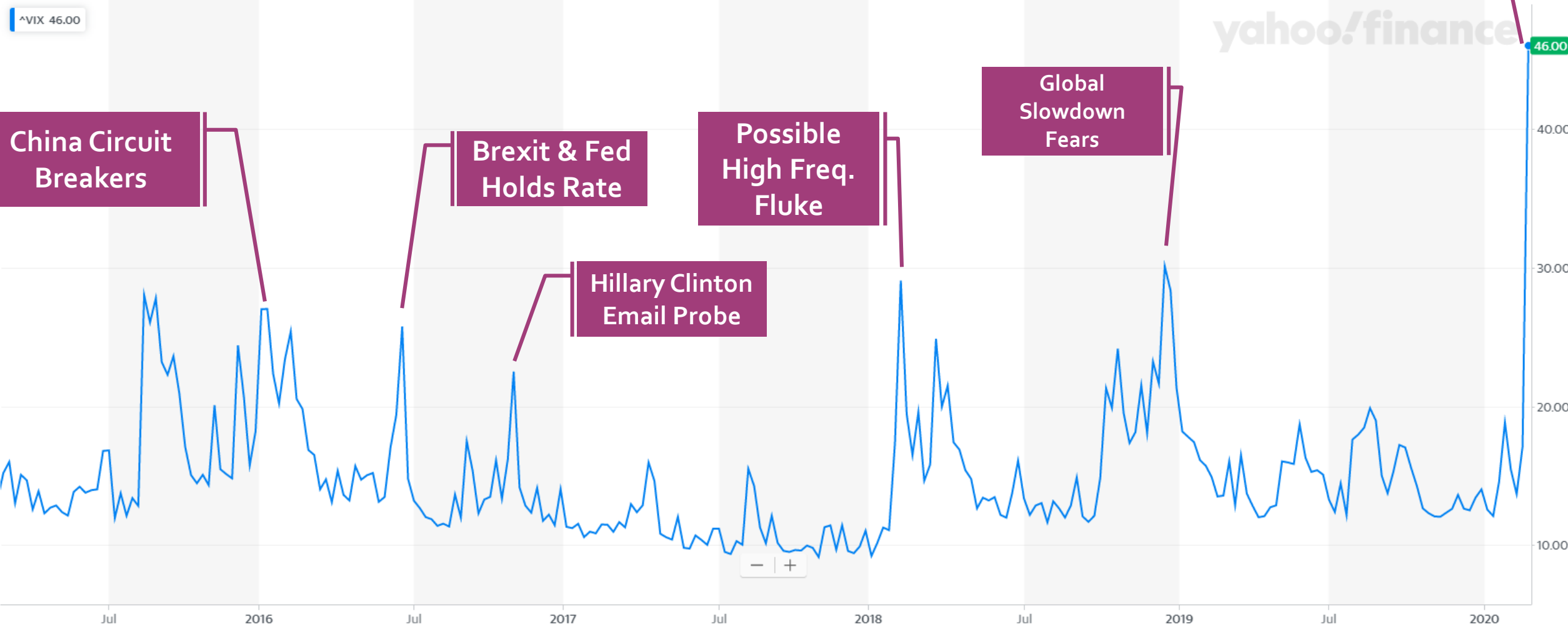
**TWITTER  
FEEDS**

**SUPPLY SHOCK**

**BREXIT**

**CBOE Volatility Index (^VIX)** ☆  
Chicago Options - Chicago Options Delayed Price. Currency in USD  
**46.03** +6.87 (+17.54%)  
As of 12:30PM EST. Market open.

Indicators Comparison Date Range 1D 5D 1M 3M 6M YTD 1Y 2Y **5Y** Max Interval 1W Line Draw



# Alternative Investments



Cryptocurrency



Timberlands



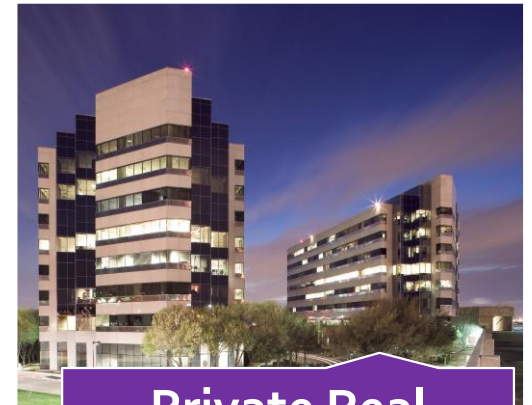
Infrastructure



Private Equity



Hedge Funds

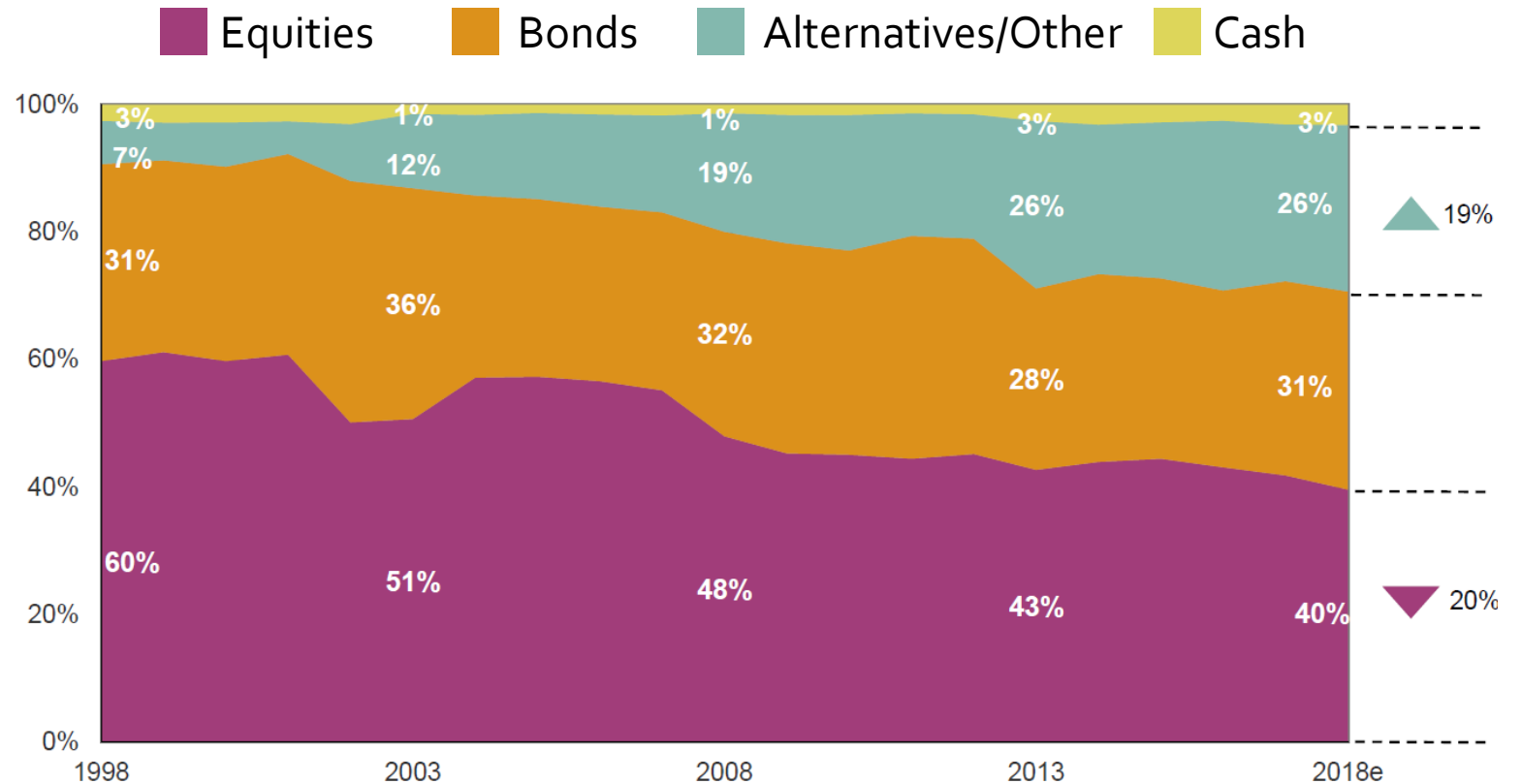


Private Real Estate

Equities  
Allocation  
reduced from  
60% to 40%

Alternatives  
increased from  
7% to 26%

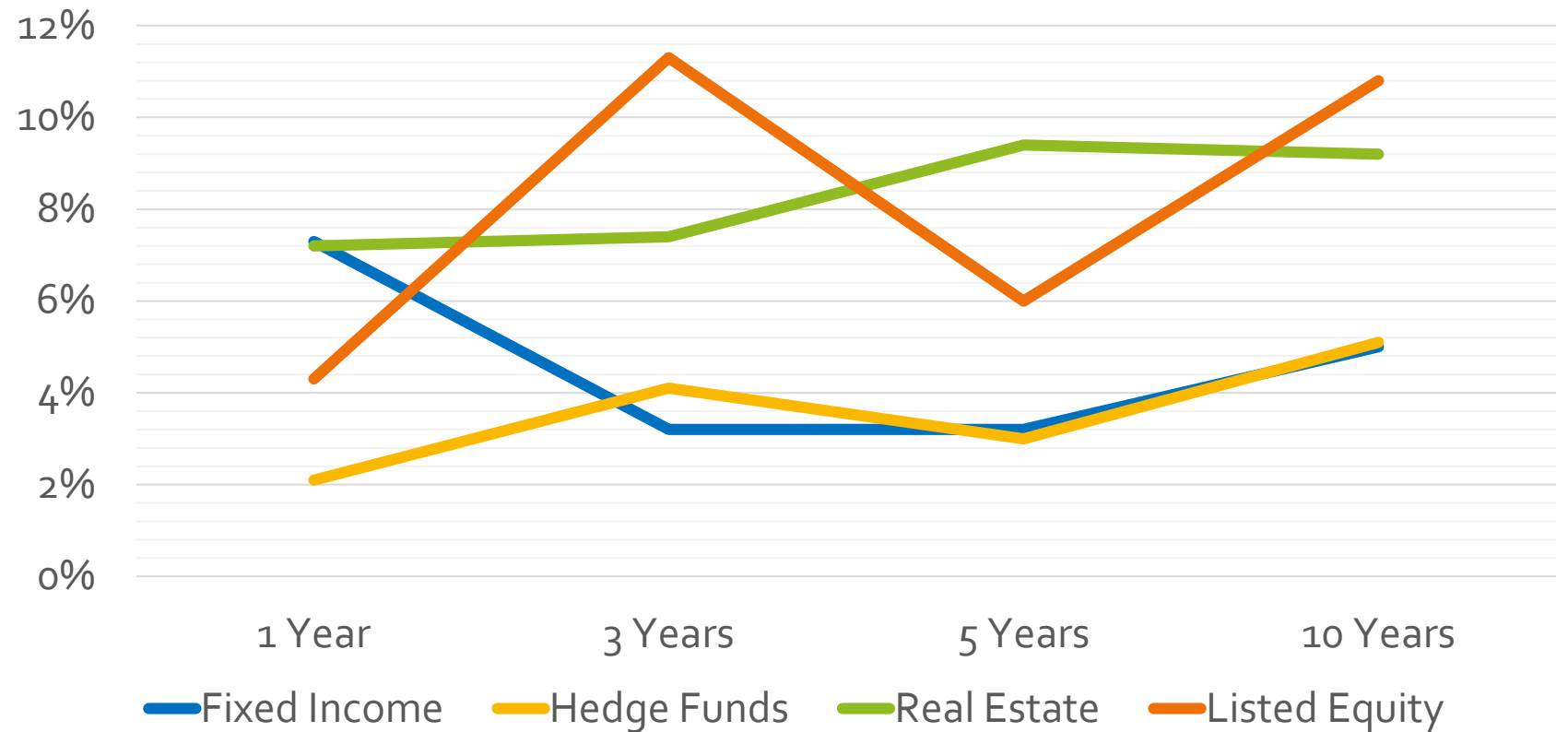
## Aggregate P7 asset allocation from 1998 to 2018



Source: Thinking Ahead Institute and secondary sources

Private Real Estate has provided stable, cash flows, diversification, and inflation hedge

## Median Public Pension Fund Net Returns by Asset Class (June 2019)



Source: 2020 Preqin Global Real Estate Report, Page 56, Figure 7.12

# Real Asset Value not Reflected in Public REIT Pricing

## Valuations of Physical Assets

- 🏢 Comparable Sales
- 🏢 Replacement Value
- 🏢 Income Approach

## Valuations of Public REITS

- 🏢 Largely influenced by Sentiment
- 🏢 Public Market Momentum
- 🏢 Value influenced by Public Information – Not Long Term Leases



# Unfair Exposure

February 28, 2020 4:00pm



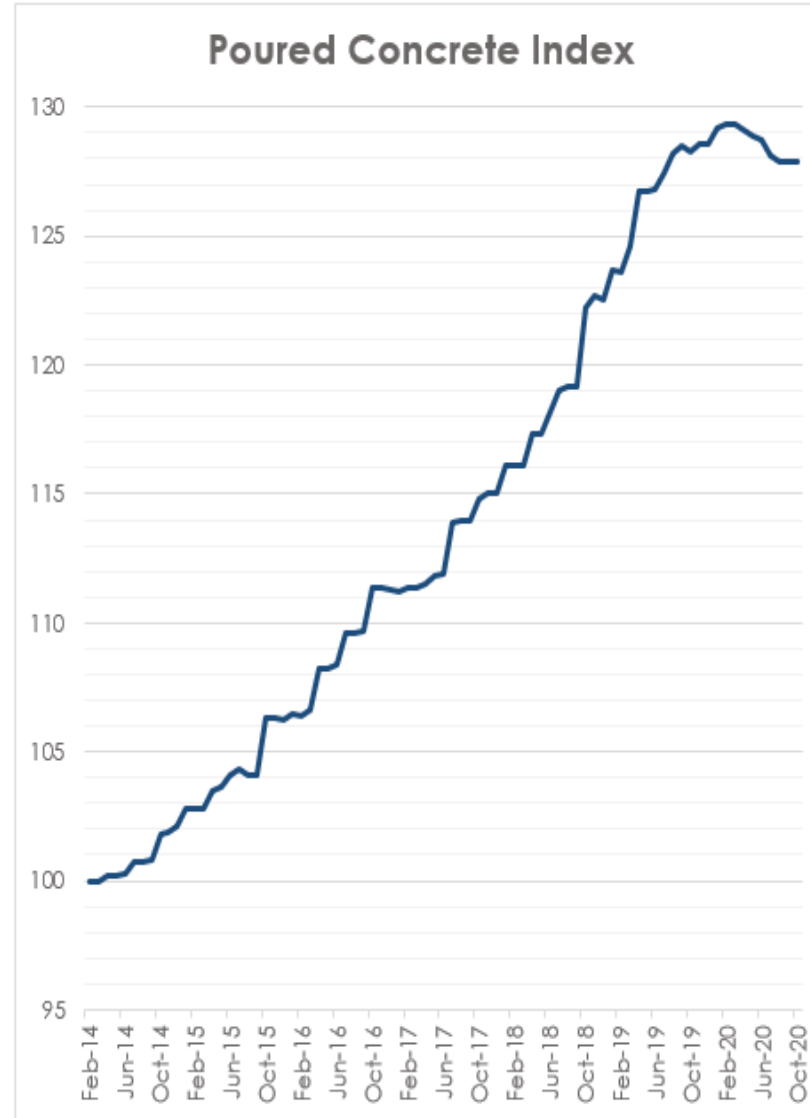
# Long Term Leases Backed by Contract Law

## 18. *Remedies.*

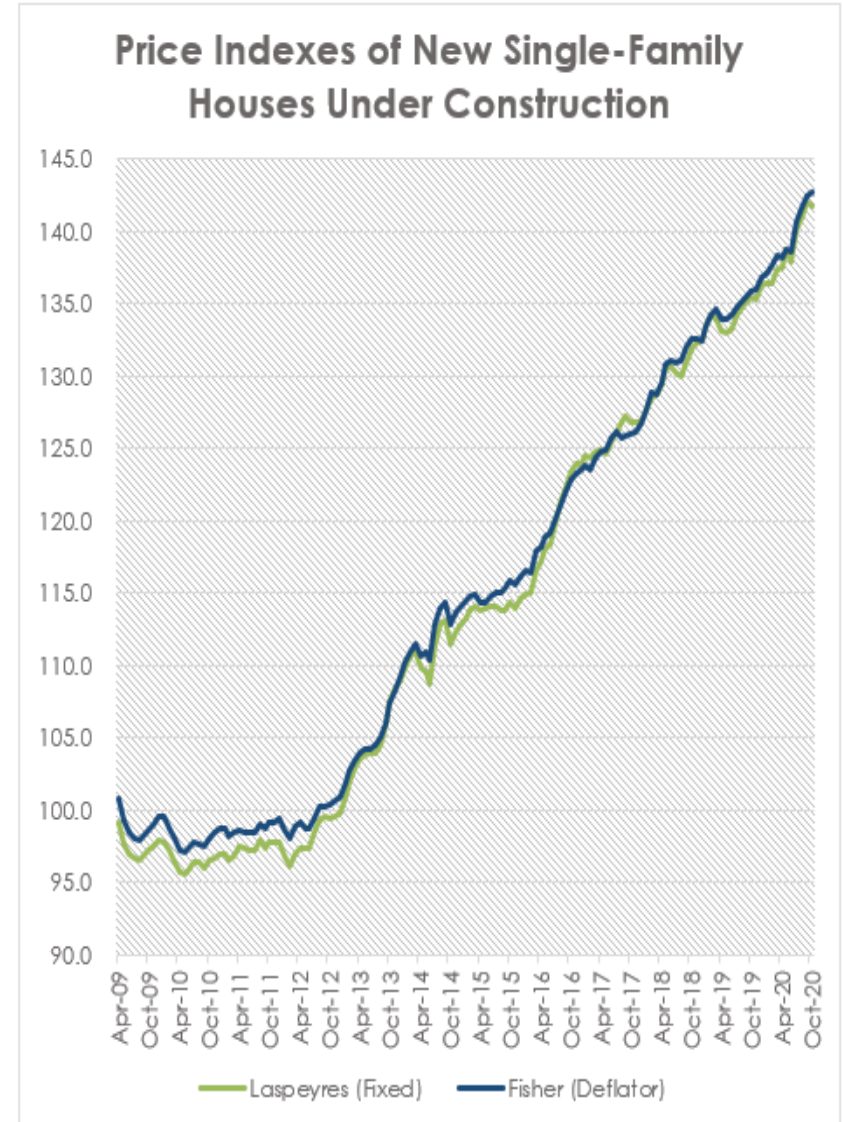
(a) Upon the occurrence of any one or more of the aforesaid Events of Default, or upon the occurrence of any other default or defaults by Tenant under this Lease, Landlord may, at Landlord's option, without any demand or notice whatsoever (except as expressly required in this Paragraph 18):

(i) Terminate this Lease, and Tenant shall remain liable for all Rent and all other obligations under this Lease arising up to the date of such termination; or

# Cost of Construction Continues to Climb



Source: U.S. Bureau of Labor Statistics, PPI - New nonresidential building construction, Poured concrete foundation and structure contractors, <https://data.bls.gov/timeseries/PCU236400236400224>



Source: Census Bureau, January 2005 – June 2018, <https://www.census.gov/construction/cpi/>

Rent Gap  
Holds Off  
Speculative  
Multi-Tenant  
Supply

## Comparable Office Space in Atlanta, GA

### New Construction



\$42/PSF

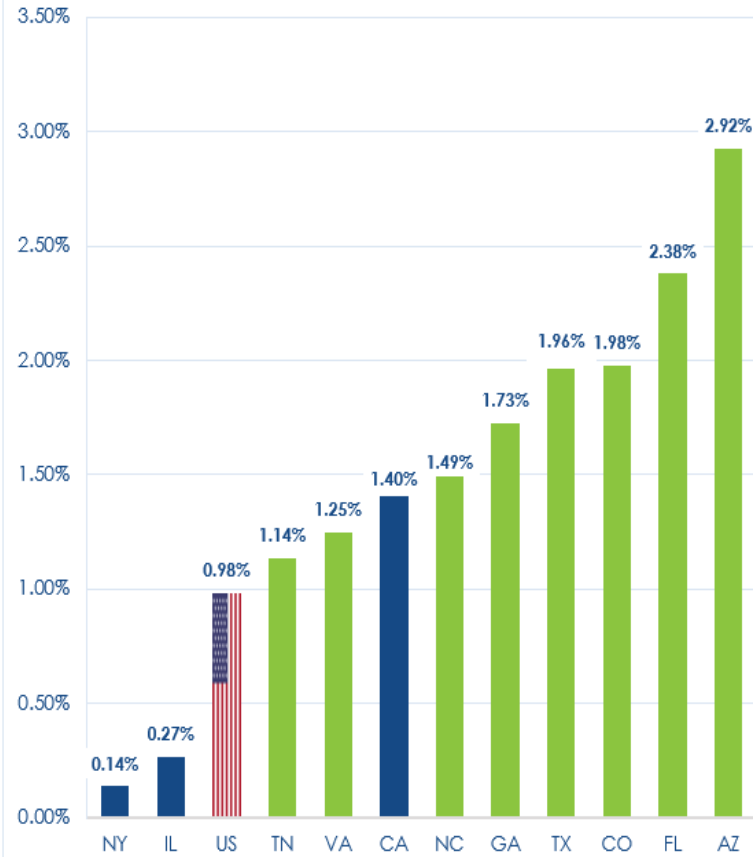
### Existing Supply



\$26/PSF

# Following Population

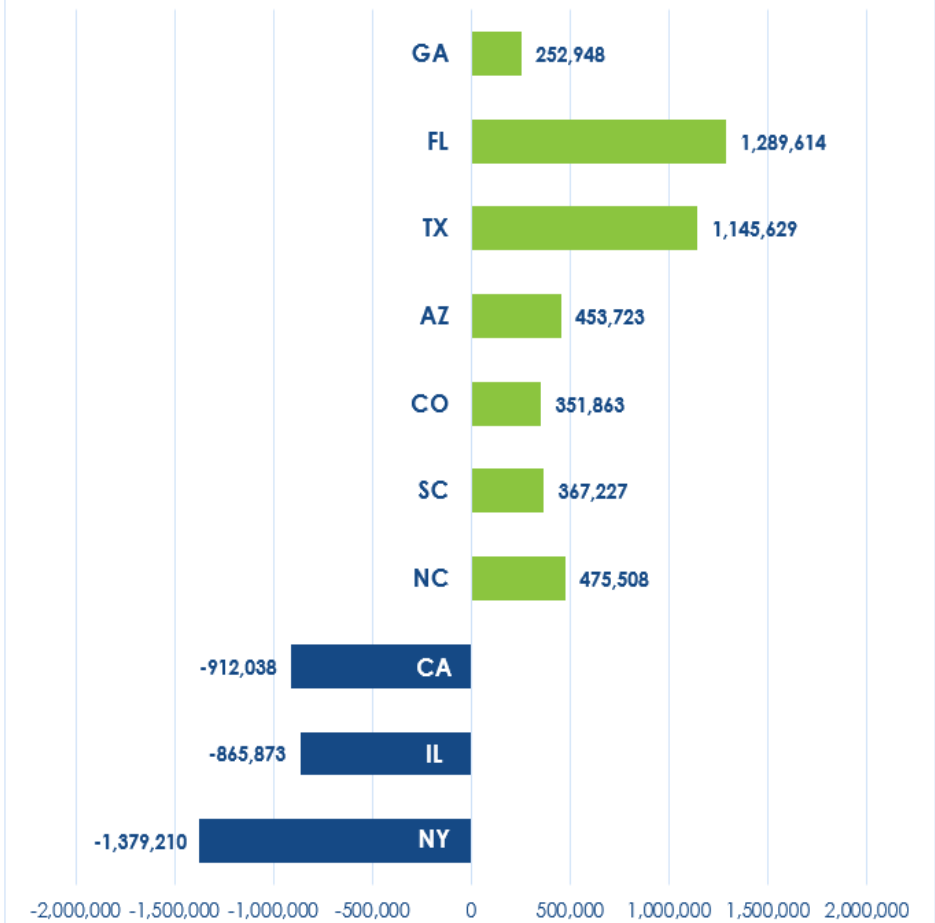
COMPOUND ANNUAL GROWTH RATE:1970  
- 2019



Source: Annual Estimates of the Resident Population for the United States, Regions, States, and Puerto Rico: April 1, 2010 to July 1, 2019 - U.S. Census Bureau; 1970 Census - Population, Advance Report: Final Population Counts  
<https://www.census.gov/library/publications/1971/dec/pc-v1.html>

■ TerraCap Areas of Focus shown in green

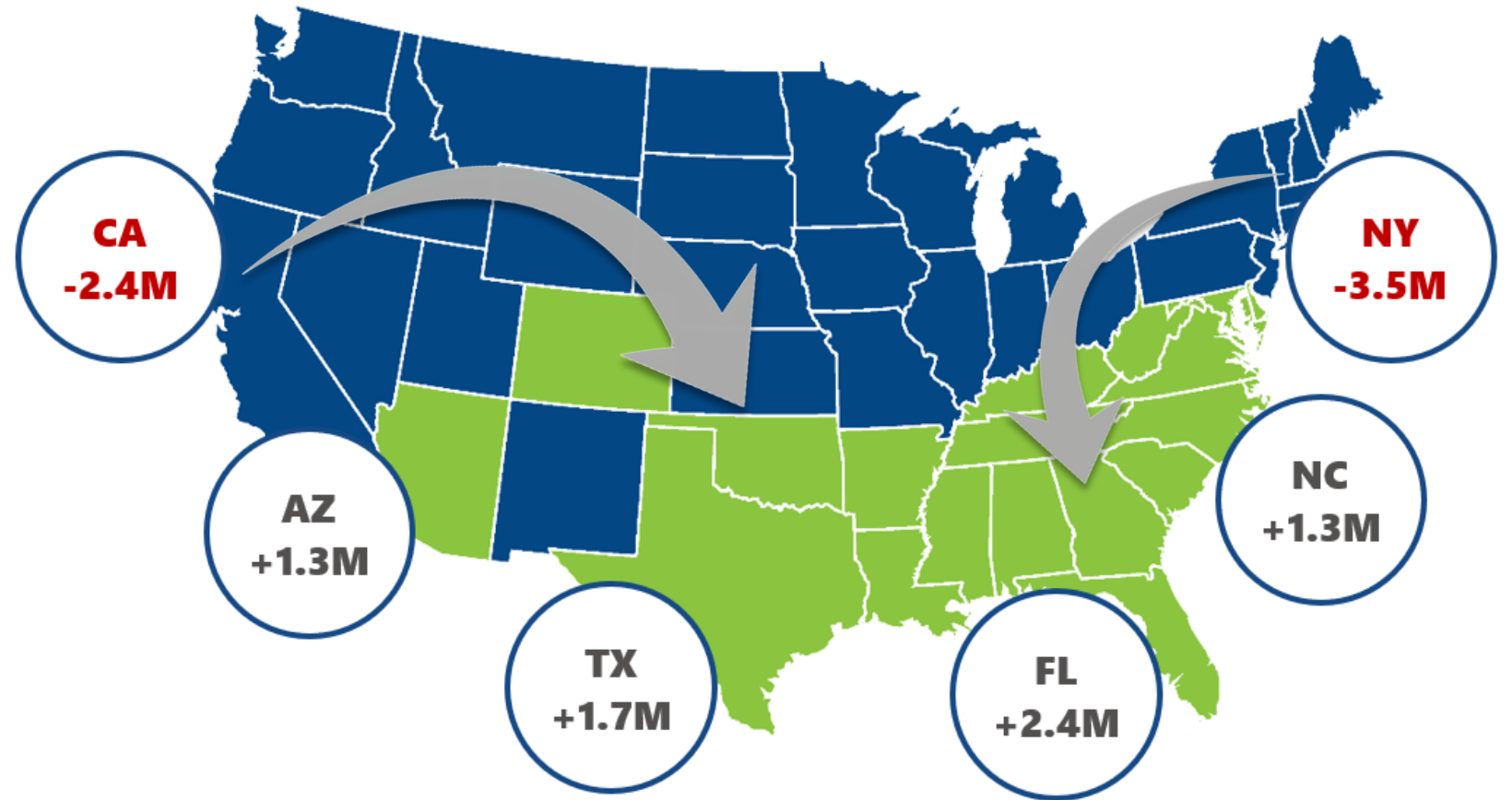
DOMESTIC MIGRATION BY STATE:  
2010 - 2019



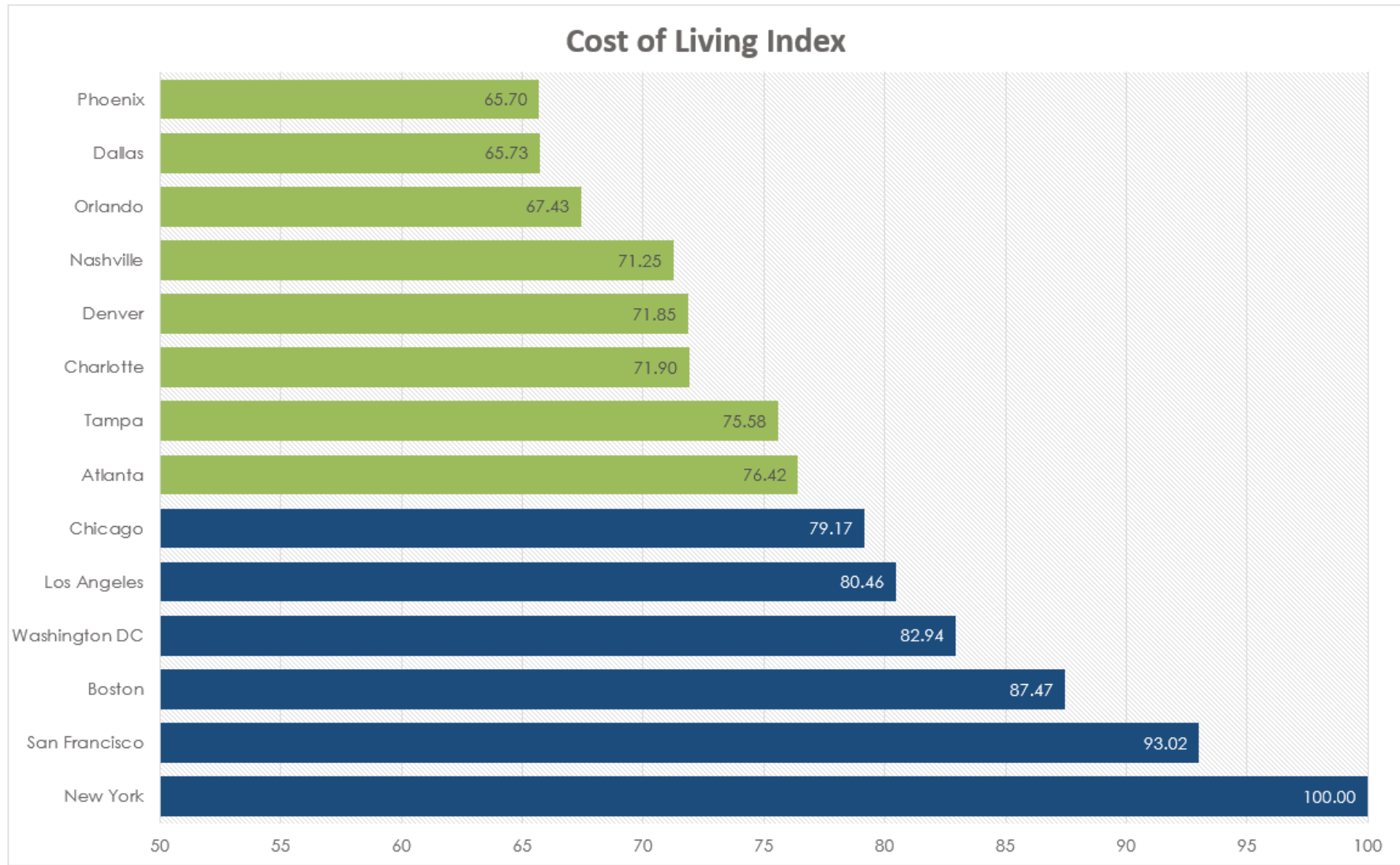
Source: Cumulative Estimates of the Components of Resident Population Change for the United States, Regions, States, and Puerto Rico: April 1, 2010 to July 1, 2019 - U.S. Census Bureau

■ TerraCap Areas of Focus shown in green

# Domestic Migration by State: 1995-2018



Domestic Migration by State: 1995-2018  
Source: U.S. Census Bureau, Dec. 2018 American Community Survey



Sources: 2009-2021 [Numbeo](https://www.numbeo.com/cost-of-living/region_rankings_current.jsp?region=021&displayColumn=0), [https://www.numbeo.com/cost-of-living/region\\_rankings\\_current.jsp?region=021&displayColumn=0](https://www.numbeo.com/cost-of-living/region_rankings_current.jsp?region=021&displayColumn=0)

Cost of Living Index - Businesses & People Seek Affordability

## CONTINUED EMPLOYMENT GROWTH IN SECONDARY MARKETS

Metropolitan Statistical Area	% ch EMPL 2018	% ch EMPL 2019	% ch EMPL 2020	Total Employment (000's)	Job Gains 2010-2019 (000's)	% ch 2010- 2019
Orlando-Kissimmee-Sanford, FL	3.7	3.3	<b>2.6</b>	1,341.3	343.9	25.6%
Phoenix-Mesa-Scottsdale, AZ	3.4	2.9	<b>2.3</b>	2,168.8	464.1	21.4%
Charlotte-Concord-Gastonia, NC-SC	2.4	2.4	<b>2.0</b>	1,241.6	272.6	22.0%
Dallas-Fort Worth-Arlington, TX	2.4	2.6	<b>2.0</b>	3,813.2	845.2	22.2%
Tampa-St. Petersburg-Clearwater, FL	2.4	1.7	<b>1.9</b>	1,380.9	266.1	19.3%
Atlanta-Sandy Springs-Roswell, GA	2.2	1.9	<b>1.8</b>	2,845.7	545.3	19.2%
Nashville-Davidson--Murfreesboro--Franklin, TN	3.1	2.0	<b>1.7</b>	1,034.3	260.3	25.2%
Denver-Aurora-Lakewood, CO	2.5	1.3	<b>1.7</b>	1,525.2	320.3	21.0%
San Francisco-Oakland-Hayward, CA	2.3	2.5	<b>1.5</b>	2,507.8	563.5	22.5%
Washington-Arlington-Alexandria, DC-VA-MD-WV	1.1	1.1	<b>1.4</b>	3,338.8	327.3	9.8%
Boston-Cambridge-Newton, MA-NH	1.1	1.0	<b>1.0</b>	2,802.2	368.5	13.2%
<b>National Average</b>	<b>1.3</b>	<b>1.2</b>	<b>0.9</b>			
Los Angeles-Long Beach-Anaheim, CA	1.6	1.0	<b>0.8</b>	6,246.2	917.5	14.7%
Chicago-Naperville-Elgin, IL-IN-WI	1.0	1.1	<b>0.7</b>	4,809.2	530.8	11.0%
New York-Newark-Jersey City, NY-NJ-PA	1.3	1.3	<b>0.7</b>	9,945.6	1280.7	12.9%

Sources: IHS Global Insight (USA) Inc., U.S. Metro Economies: GMP and Unemployment Report: 2018-2020 (2019), available at <https://www.usmayors.org/wp-content/uploads/2019/09/mer-2019-09.pdf>.

## STATES RECEIVING DOMESTIC MIGRATION ENJOY BENEFITS

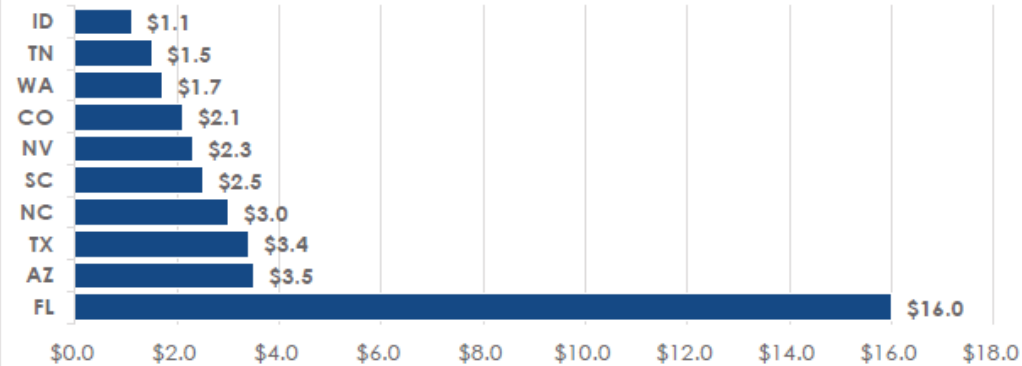
Progressive tax states lose people & income to flat and zero income tax states.

"The nation's seventeen flat and no income tax states won a net 1.9 million residents and \$120 billion in Adjusted Gross Income (AGI) from progressive tax states during the 2000-2018 period."

Zero Tax States	Flat Tax States
Florida	Colorado
Nevada	North Carolina
Washington	Utah
Tennessee	New Hampshire
Wyoming	Indiana
Texas	Michigan
South Dakota	Pennsylvania
Alaska	Massachusetts

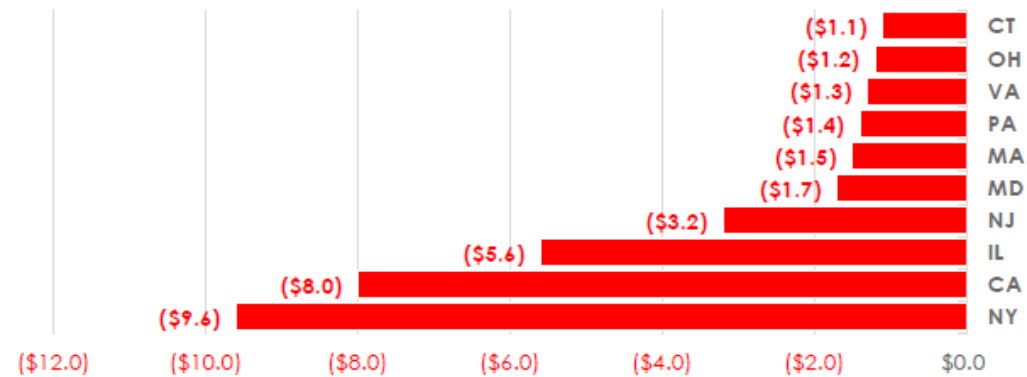
Source: <https://wirepoints.org/progressive-tax-states-lose-people-income-to-flat-and-no-income-tax-states-wirepoints/>

Ten States with Best Net Gain of Domestic Adjusted Gross Income 2018, (in billions)



Source: Internal Revenue Service – SOI migration data, <https://wirepoints.org/new-irs-data-reveals-winners-and-losers-of-wealth-migration-across-50-states-wirepoints-original/>

Ten States with Worst Net Gain of Domestic Adjusted Gross Income 2018, (in billions)



Source: Internal Revenue Service – SOI migration data, <https://wirepoints.org/new-irs-data-reveals-winners-and-losers-of-wealth-migration-across-50-states-wirepoints-original/>

# Defining Generations in 2020



24M

## The Silent Generation

Born 1928-1945

75-92 years old



69M

## Baby Boomers

Born 1946-1964

56-74 years old



65M

## Generation X

Born 1965-1980

40-55 years old



72M

## Millennials

Born 1981-1996

24-39 years old



86M

## Generation Z

Born 1997-Present

0-21 years old

# Millennials Return to Suburbs

5<sup>th</sup> Consecutive  
Year That Big  
Cities Saw  
Population of  
Young Adults  
Shrink.

Source: Adamy, Janet, "Millennials Continue Their Exodus From Big U.S. Cities",  
The Wall Street Journal, Sept. 26, 2019



## CITIES MILLENNIALS ARE LEAVING

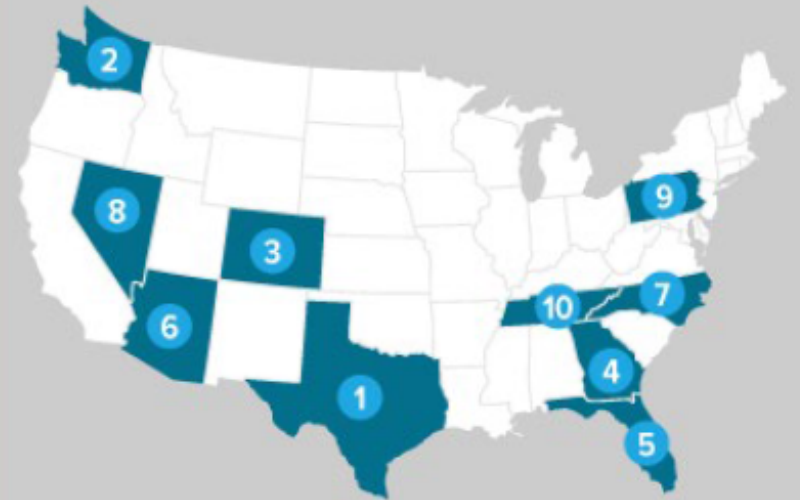
Rank	City	2018 Millennial Net Migration
1	New York, NY	-50,445
2	Chicago, IL	-7,939
3	Washington, DC	-5,346
4	St. Louis, MO	-4,866
5	Miami, FL	-3,632
6	Boulder, CO	-3,282
7	Ann Arbor, MI	-3,135
8	San Diego, CA	-3,005
9	Provo, UT	-2,802
10	New Orleans, LA	-2,415

smartasset

TOP 10

## States Where Millennials Are Moving

State	Net Migration
① TEXAS	53,558
② WASHINGTON	31,243
③ COLORADO	20,990
④ GEORGIA	14,925
⑤ FLORIDA	13,415
⑥ ARIZONA	12,464
⑦ NORTH CAROLINA	12,408
⑧ NEVADA	12,194
⑨ PENNSYLVANIA	9,939
⑩ TENNESSEE	9,684



Net migration data comes from the U.S. Census Bureau and is for 2018. It reflects the number of people between the ages of 25 and 39 moving into the state minus the number moving out of the state.

# Demand Drivers for Growth: Talent and Economic Diversity



**Atlanta**

- #1 World's Busiest Airport
- 6 Million Residents
- #2 Moving Destination
- 1.8% Job Growth in 2020
- +545k Jobs Since 2010



**Dallas**

- #1 MSA in Pop. Gains
- #3 in Corp. Relocations
- 2.0% Job Growth in 2020
- +845k Jobs Since 2010



**Orlando**

- #1 US Tourism Destination
- 2.6 Million Residents
- #4 Moving Destination
- 2.6% Job Growth in 2020
- +344k Jobs Since 2010



**Denver**

- 19% Pop. Growth - 2010
- #5 Moving Destination
- 2.2% Unemployment
- 1.7% Job Growth in 2020
- +320k Jobs Since 2010



**Tampa**

- 3.1 Million Residents
- #4 in Corp. Relocations
- #3 Moving Destination
- 1.9% Job Growth in 2020
- +266k Jobs Since 2010



**Charlotte**

- #5 Fastest Growing U.S. Cities
- 2.0% Job Growth in 2020
- +272k Jobs Since 2010

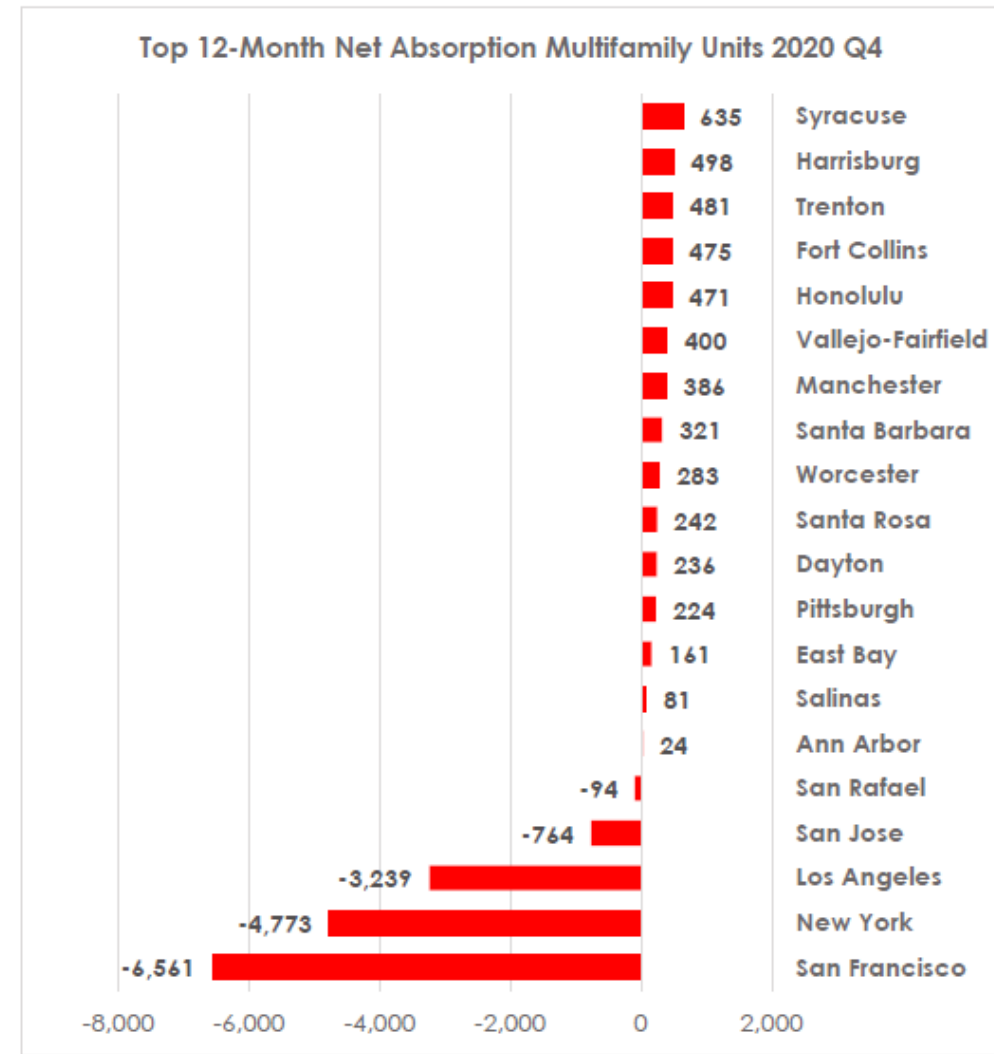
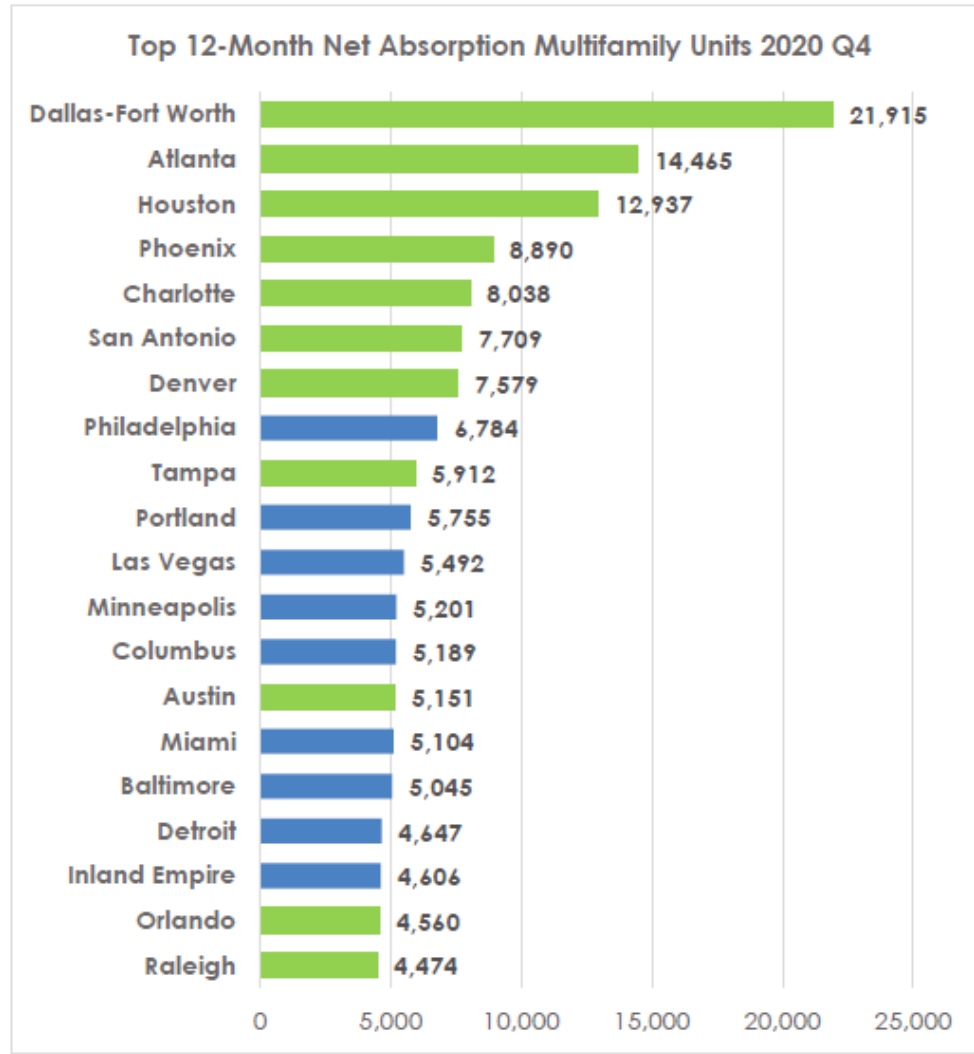


**Phoenix**

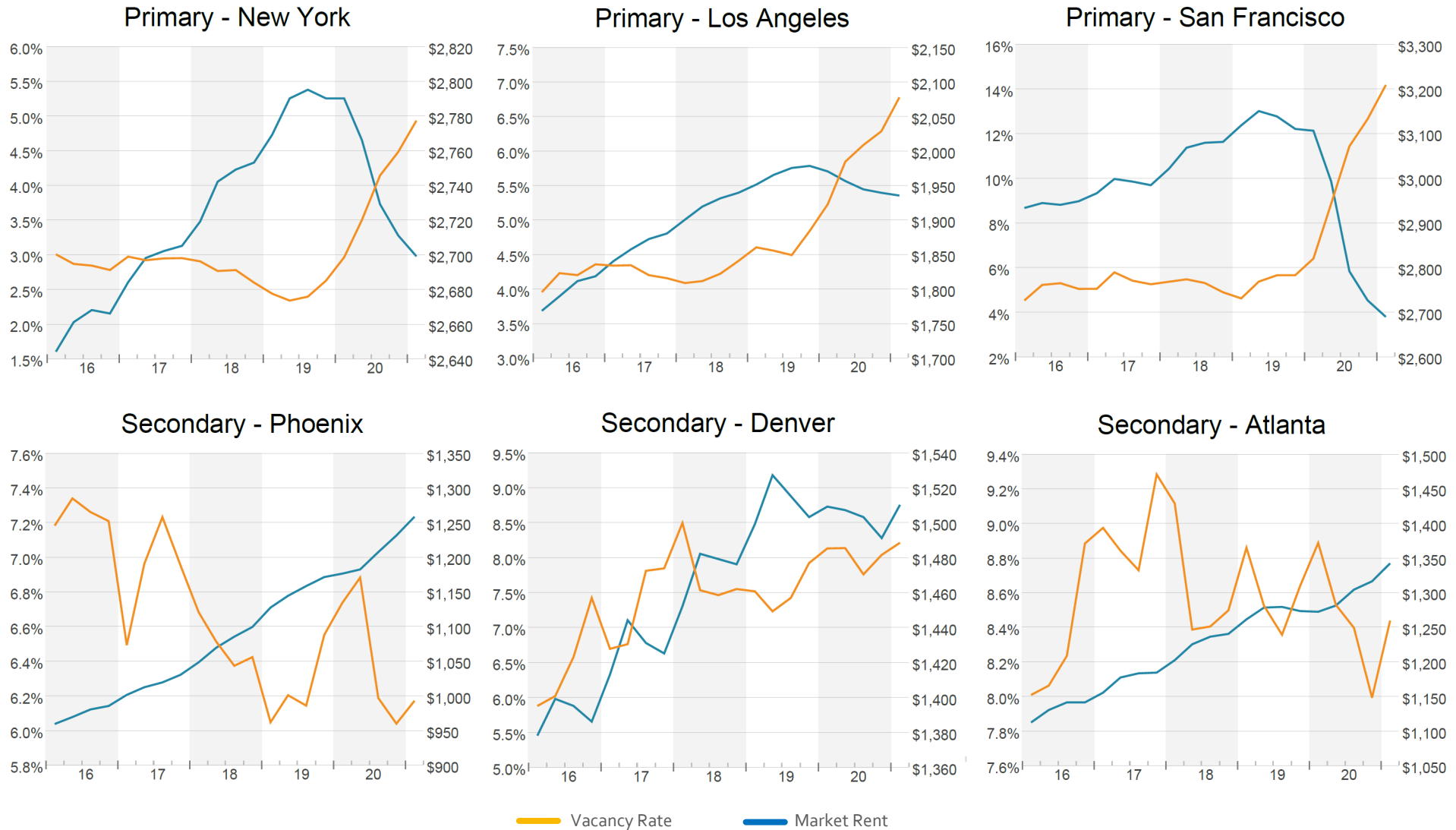
- 4<sup>th</sup> most populous U.S. City by 2020
- #1 Moving Destination
- 2.3% Job Growth in 2020
- +464k Jobs Since 2010

Sources: U.S. Census Bureau, Penske Truck Rental's list of Top Moving Destinations 2019, U.S. Department of Labor, Site Selector/Conway Projects Database, <https://www.globenewswire.com/news-release/2019/05/10/1821626/0/en/Orlando-Announces-Record-75-Million-Visitors-Solidifies-Ranking-as-No-1-U-S-Travel-Destination.html> Atlanta Airport Source: Airports Council International, <https://realestate.usnews.com/places/rankings/best-places-to-live>, IHS Global Insight (USA) Inc., U.S. Metro Economies: GMP and

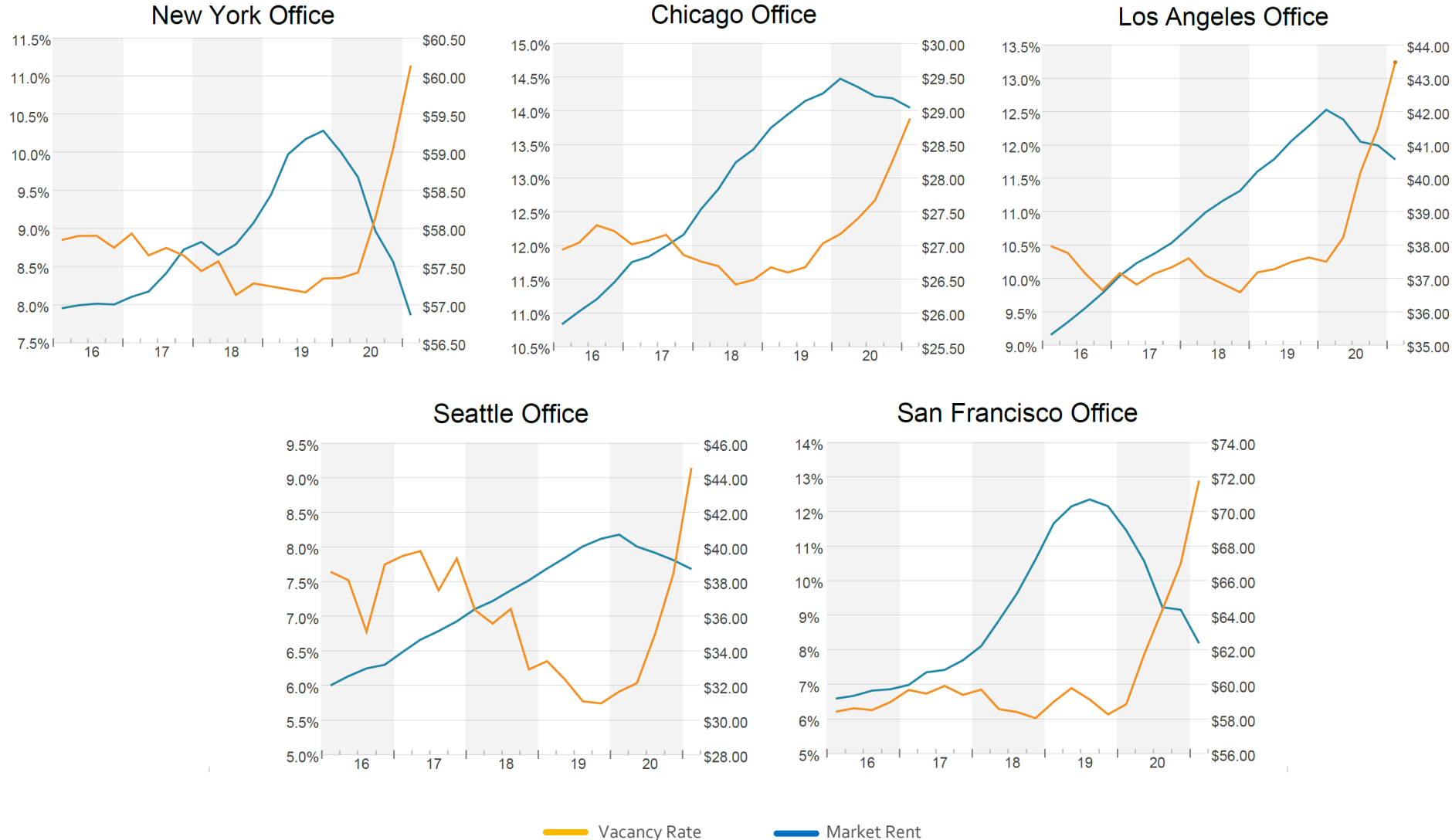
## RECENT MULTIFAMILY ABSORPTION BY CITY



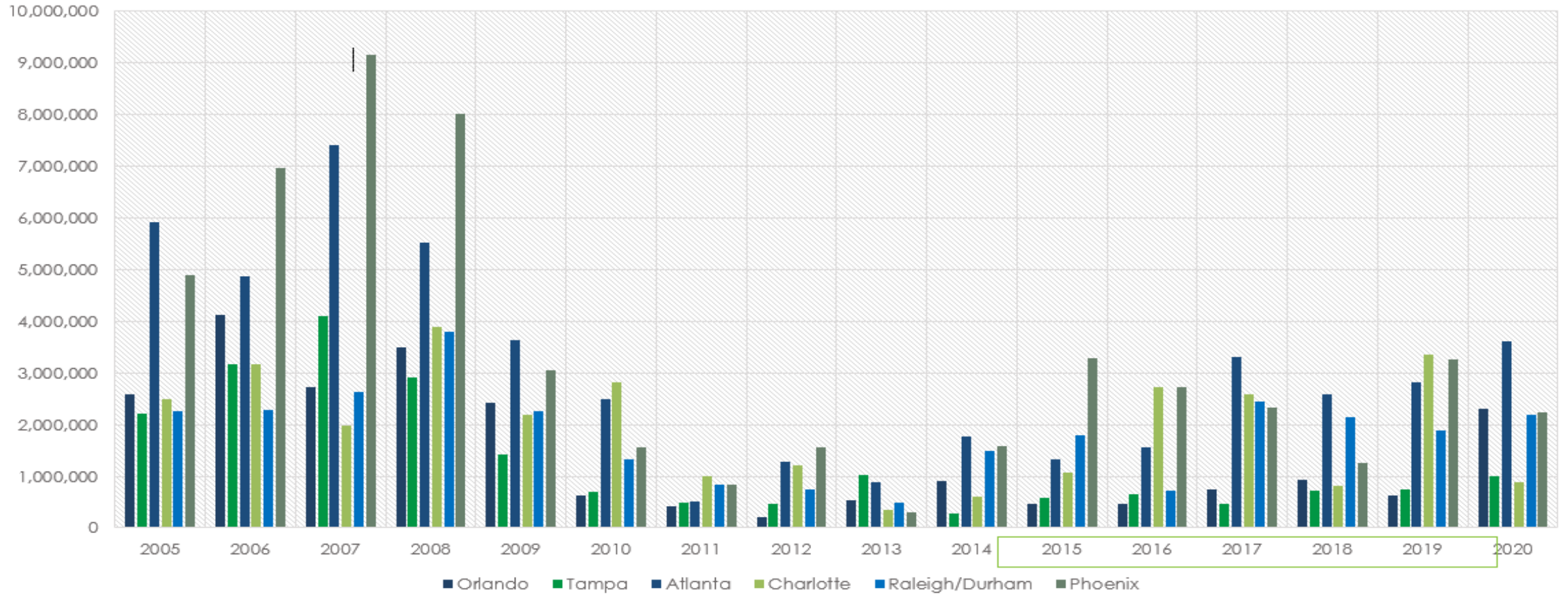
# Multifamily - Primary vs Secondary



# Primary Markets Show Rise in Vacancy



Square Feet of New Office Space Delivered to Market (2005-2020)



Source: CoStar Property®

11 years of limited new supply in select markets

# Capturing Opportunity

## Orlando & Phoenix



### Orlando International Business Center – Orlando, FL







Rentable Square Feet	195,619
Purchase Price	\$24,080,875 (\$123 <u>psf</u> )
Estimated Replacement Cost	\$43,160,000 (\$221 <u>psf</u> )
Acquisition Date	October 8, 2020
Acquisition Occupancy	88% (Market occ. 95%)
Acquisition NOI	\$1,616,496
In-Place Rents at Acquisition	\$11.47 <u>psf</u>
Newest Leases (Average of 5 leases)	\$15.10 <u>psf</u>
% Increase	31.6%



### Anchor Centre – Phoenix, AZ

Rentable Square Feet	333,014
Purchase Price	\$103,515,000 (\$311 <u>psf</u> )
Estimated Replacement Cost	\$152,850,000 (\$459 <u>psf</u> )
Acquisition Date	January 19, 2021
Acquisition Occupancy	93% (Market occ. 82%)
Acquisition NOI	\$6,706,208
Current In-Place Rents	\$30.41 <u>psf</u>
Newest Lease	\$37.50 <u>psf</u>
% Increase	23.3%

# Private U.S. Commercial Real Estate: A Mainstream Alternative - Inflation Hedge

-  Low correlation to other asset classes
-  Continued job, population growth, & corporate relo's are demand drivers in select markets - Offsets to Pandemic work-from-home effect
-  Increasing costs of new construction limit lender appetite for speculative development, creating reduction in new supply-elongating cycle
-  CRE can experience positive occupancy and rent growth in high demand markets only
-  Overpriced primary markets with stalled new supply see increased vacancies as older Millennials and others make exodus
-  Social issues, safety, pandemic, vertical living, public transportation, cost of living/taxation, & business friendly environments drive migration

# Questions?





# **Members Event (Name badge Required)**

**Zanzibar Rooftop, 7th Floor  
- Austin Marriott Downtown  
5-7 p.m.**