



# The Long-Term Drivers for Value Creation in U.S. Real Estate

Presentation by Steve Hagenbuckle: Founder and Managing Partner of TerraCap Management, LLC

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## Today's Topics

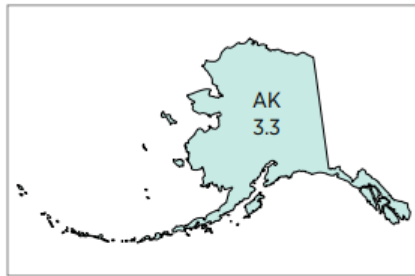
- Migratory Trends
- Cost of New Construction
- Core Markets Struggle
- People & Businesses Seek Affordability
- Residential Real Estate Outlook
- Case Studies
- Challenges Going Forward

## Data Driven

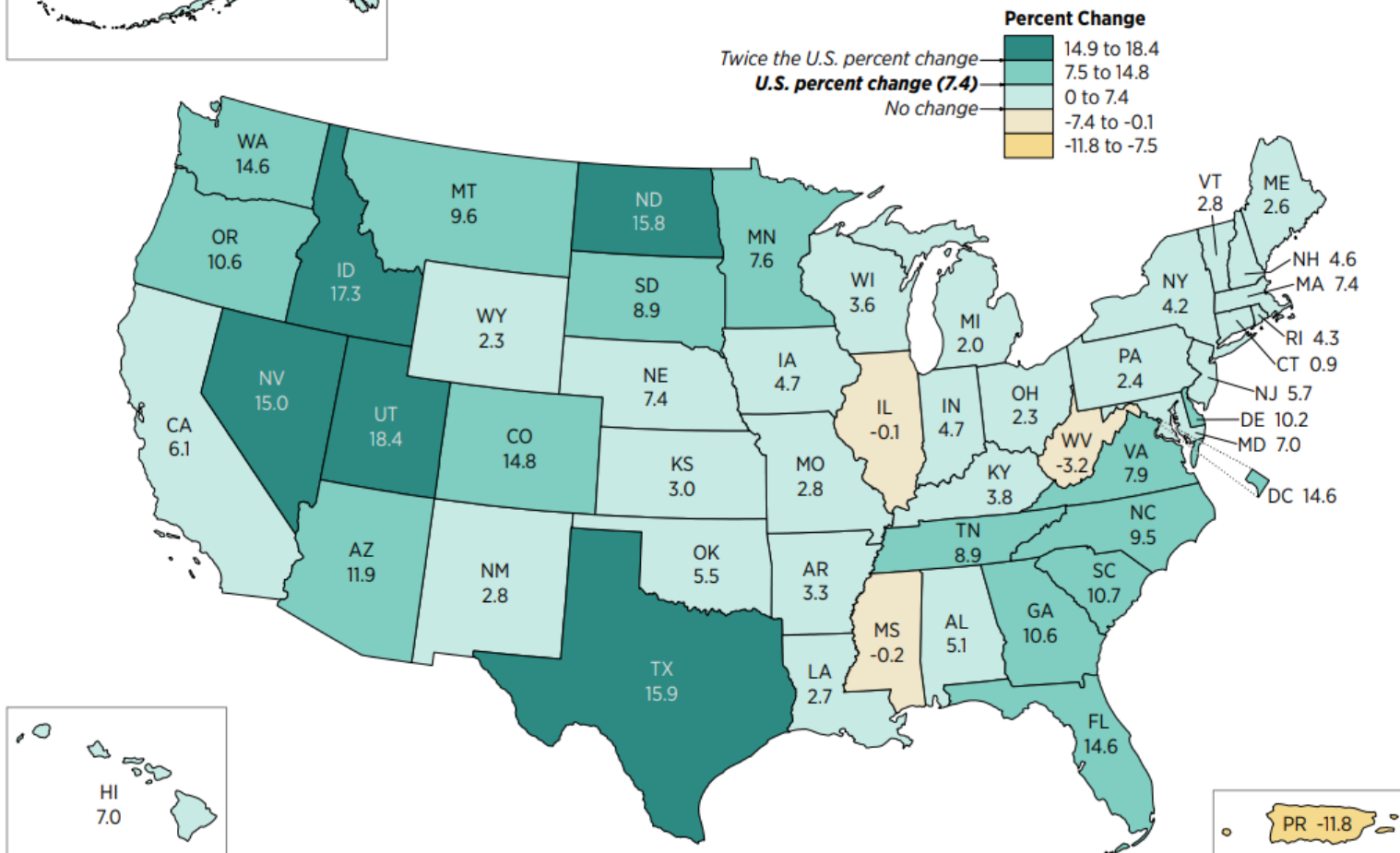
- Tale of Multiple Cities
  - Invest where there is growth & constant demand
  - Avoid flat to no-growth markets
- Demand Drivers for Real Estate
  - Employment growth
  - Population growth
  - Corporate relocations
  - Financial strength of state/submarket
  - Cost of living/taxes
- Without consistent demand drivers, you cannot increase rental rates and net operating income
- Accelerated patterns of out migration from core gateway markets like NYC, Boston, LA, San Francisco, NJ & Chicago to the Southeast, TX, AZ & CO

# MIGRATORY TRENDS

# Population Growth Occurs in Low-Cost & Business-Friendly States

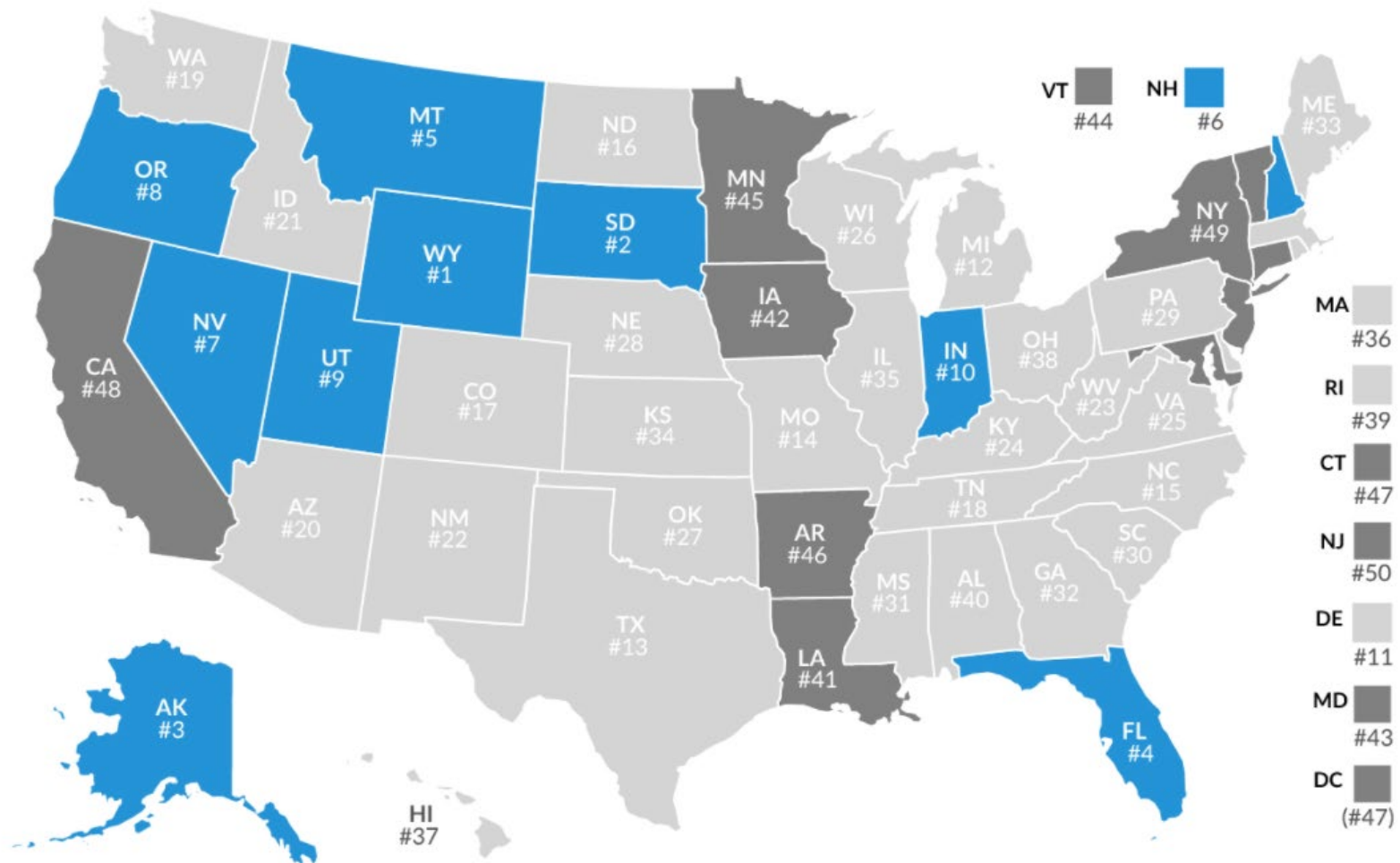


## Percent Change in Population: 2010 to 2020





Source: 2020 US Census

## 2020 State Business Tax Climate Index



Note: A rank of 1 is best, 50 is worst. D.C.'s score and rank do not affect other states. The report shows tax systems as of July 1, 2019 (the beginning of Fiscal Year 2020). Source: Tax Foundation.

 10 Best Business Tax Climates  
 10 Worst Business Tax Climates

Source: Tax Foundation



## Demand Markets Creating Value



**Atlanta**

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



**Dallas**

7.8 Million Residents  
2.0% Job Growth in 2020  
+845k Jobs Since 2010  
#1 MSA in Pop. Gains  
#2 in Corp. Relocations



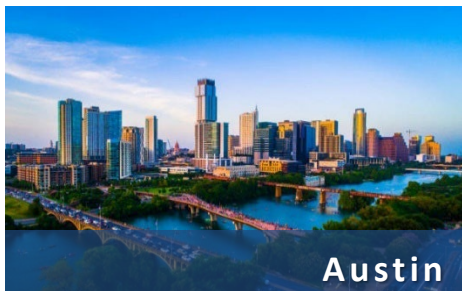
**Orlando**

2.7 Million Residents  
2.6% Job Growth in 2020  
+344k Jobs Since 2010  
#7 Moving Destination



**Denver**

3 Million Residents  
1.7% Job Growth in 2020  
+320k Jobs Since 2010  
#3 Moving Destination



**Austin**

2.3 Million Residents  
2.7% Job Growth in 2020  
+296k Jobs Since 2010  
#4 Moving Destination  
#6 in Corp. Relocations



**Tampa**

3.2 Million Residents  
1.9% Job Growth in 2020  
+266k Jobs Since 2010  
#10 Moving Destination



**Charlotte**

2.7 Million Residents  
2.0% Job Growth in 2020  
+272k Jobs Since 2010



**Phoenix**

4.9 Million Residents  
2.3% Job Growth in 2020  
+464k Jobs Since 2010  
#2 Moving Destination

Sources: U.S. Census Bureau, Penske Truck Rental's list of Top Moving Destinations 2020, U.S. Department of Labor, Site Selector/Conway Projects Database; Atlanta Airport Source: Airports Council International, IHS Global Insight (USA) Inc., U.S. Metro Economies: GMP and Employment Report: 2018-2020 (2019), available at <https://www.usmayors.org/wp-content/uploads/2019/09/mer-2019-09.pdf>.

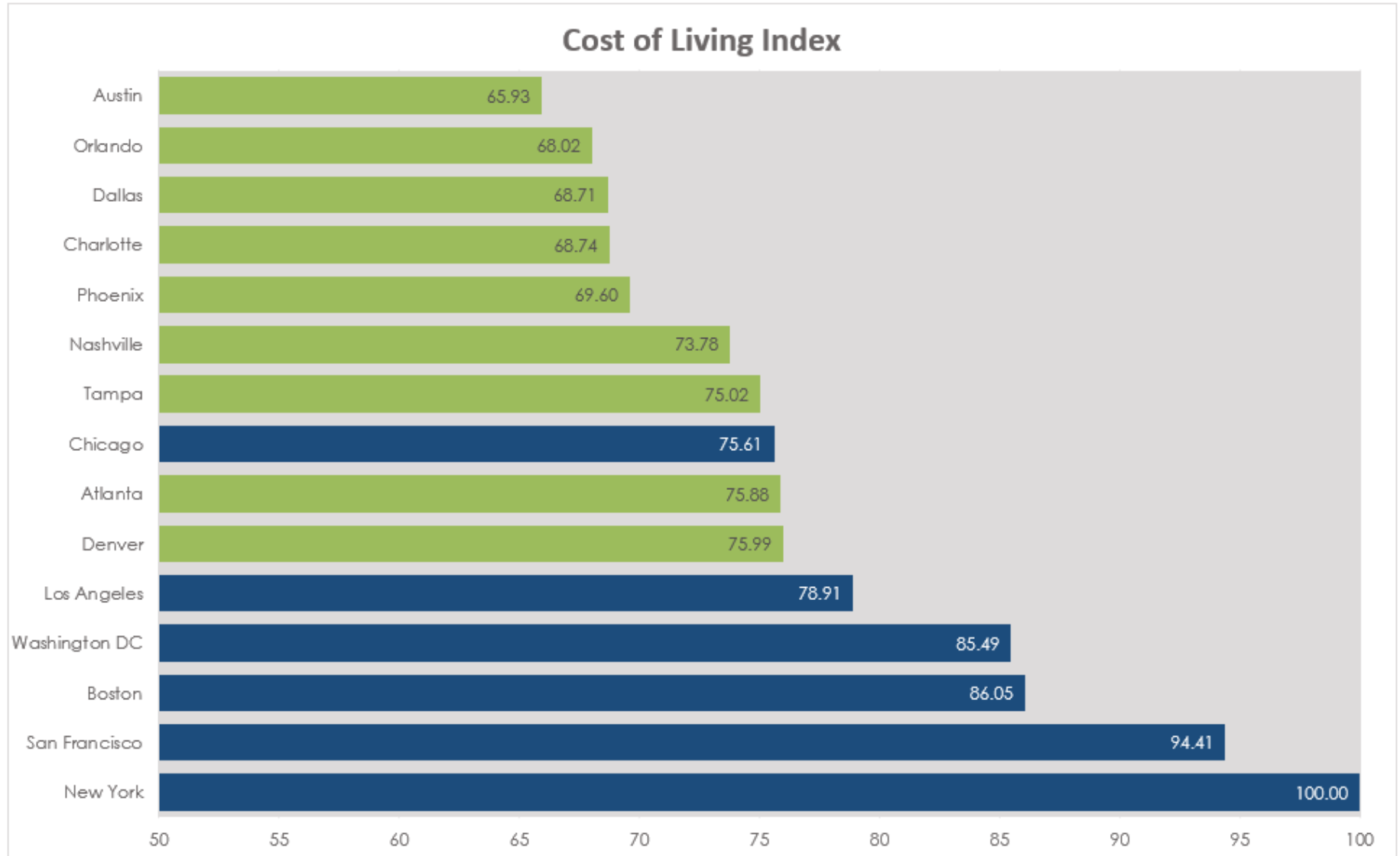
## Continued Employment Growth in Secondary Markets

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 Employment Report: 2018-2020 (2019), available at <https://www.usmayors.org/wp-content/uploads/2019/09/mer-2019-09.pdf>.



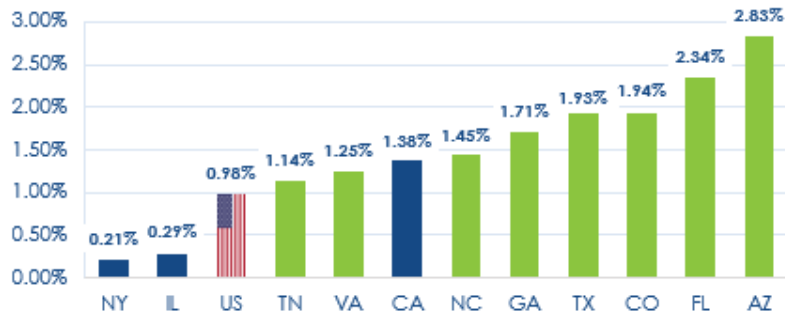
## Cost of Living



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)

## Population Growth Rates

COMPOUND ANNUAL GROWTH RATE:  
1970 - 2021



Source: Annual Estimates of the Resident Population for the United States, Regions, States, and Puerto Rico: April 1, 2010 to July 1, 2020 - U.S. Census Bureau; 1970 Census - Population, Advance Report: Final Population Counts

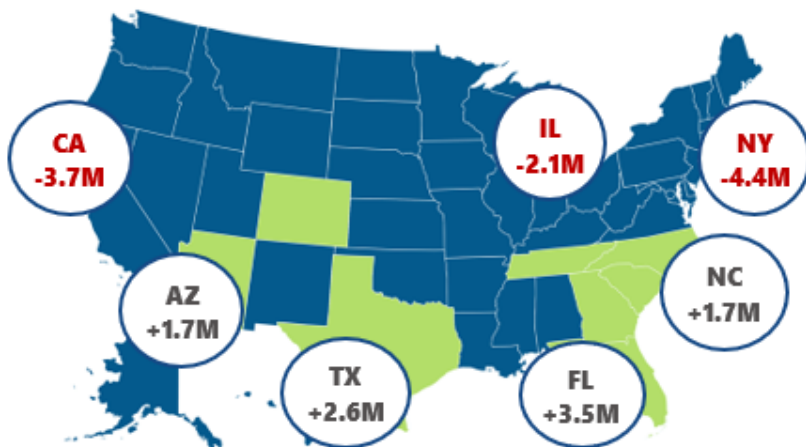
<https://www.census.gov/library/publications/1971/dec/pc-v1.html>

Source: Apportionment Population and Number of Representatives by State: 2020 Census  
<https://www.census.gov/data/tables/2020/dec/2020-apportionment-data.html>

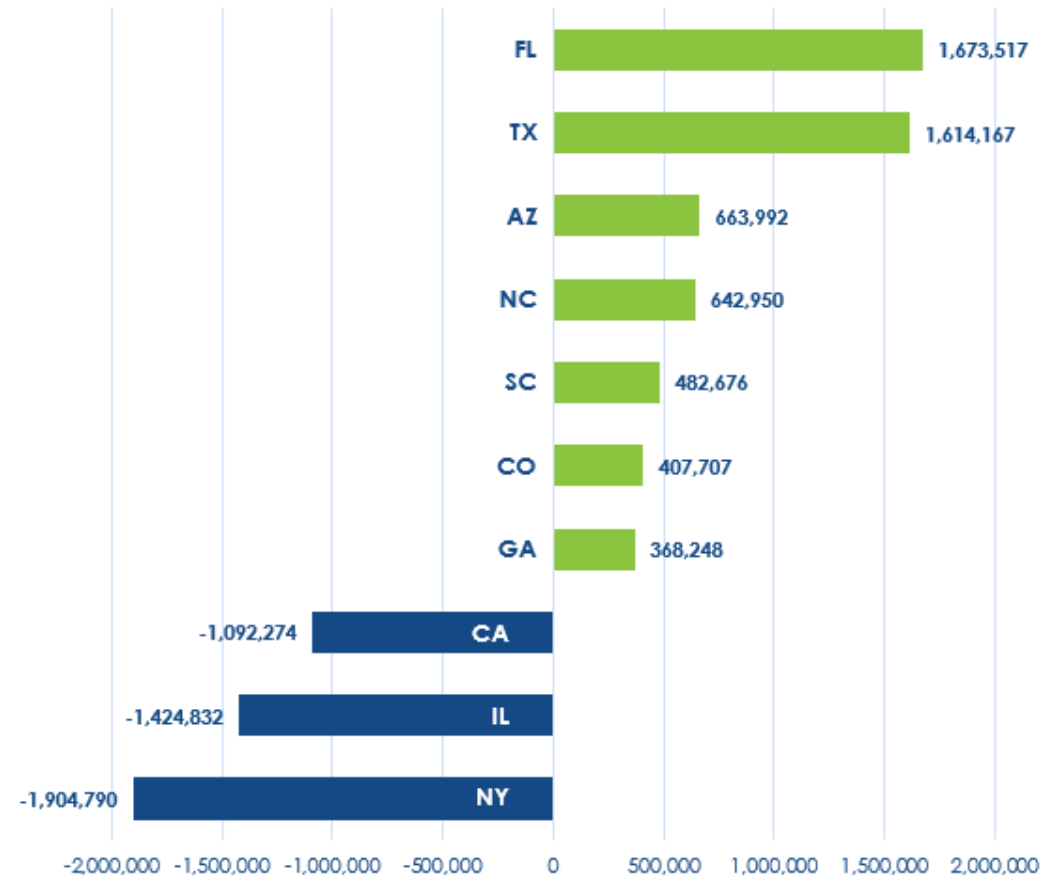
■ TerraCap Areas of Focus shown in green

Domestic Migration by State: 1995-2021

Source: U.S. Census Bureau



DOMESTIC MIGRATION BY STATE:  
2010 - 2021



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, 2020 - U.S. Census Bureau  
Annual and Cumulative Estimates of Resident Population Change for the United States, Regions, States, District of Columbia, and Puerto Rico and Region and State Rankings: April 1, 2020 to July 1, 2021 - U.S. Census Bureau

■ TerraCap Areas of Focus shown in green

## States Receiving Domestic Migration Enjoy Benefits

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

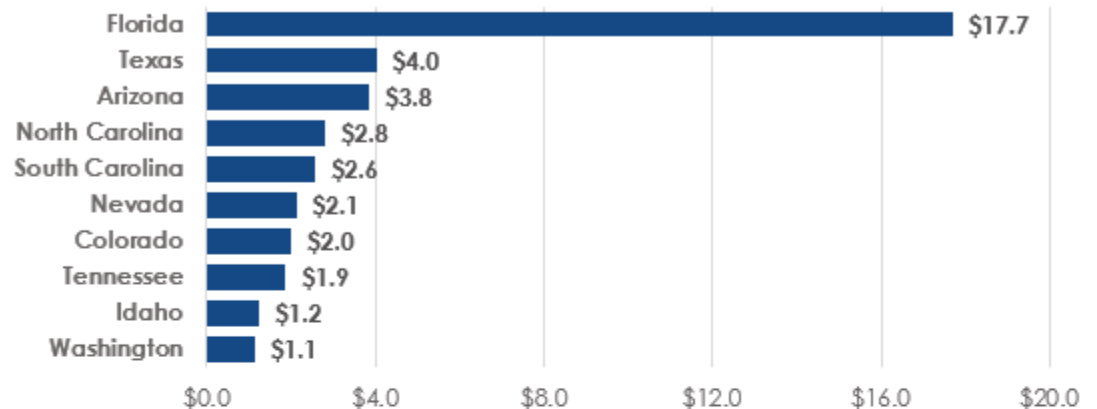
The nation's eighteen flat and no income tax states won \$139 billion in Adjusted Gross Income (AGI) during the 2011-2019 period.

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
	Illinois
	Kentucky

Source: Individual Income Tax Returns: Gross Migration for Selected Income Items by State, U.S. Census Bureau

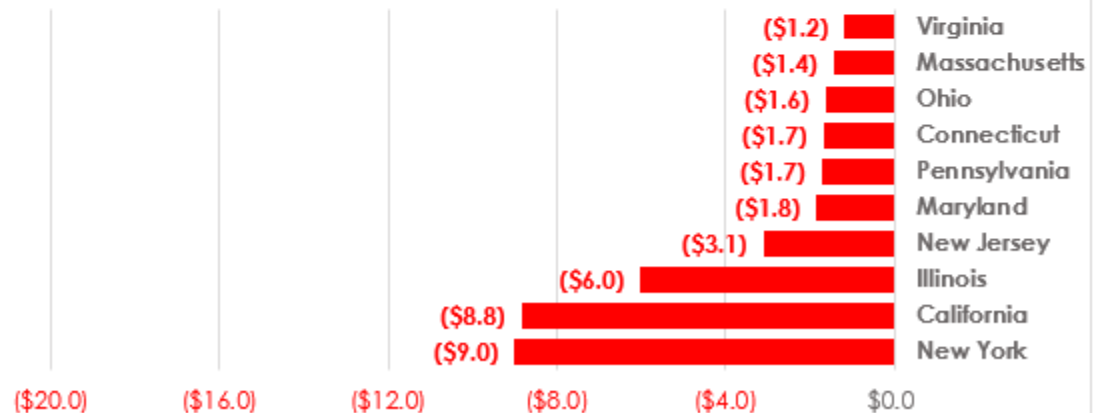
<https://www.irs.gov/statistics/soi-tax-stats-migration-data>

**Ten States with Best Net Gain of Domestic Adjusted Gross Income 2019 (in billions)**



Source: Internal Revenue Service – SOI migration data

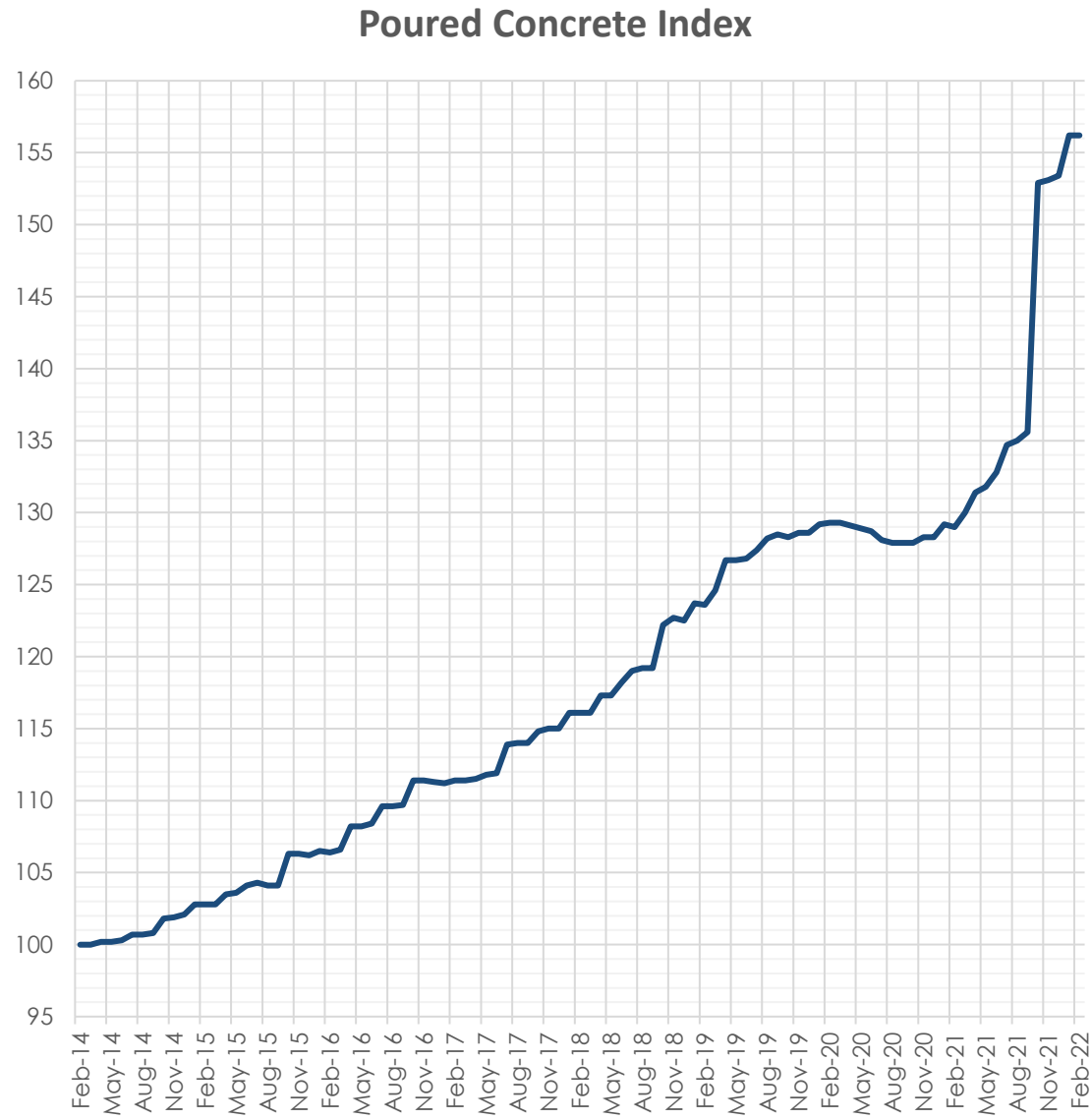
**Ten States with Worst Net Gain of Domestic Adjusted Gross Income 2019 (in billions)**



Source: Internal Revenue Service – SOI migration data

# COST OF NEW CONSTRUCTION

# Rising Cost of Construction



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

# CORE MARKETS STRUGGLE



## Covid-19 Severely Impacts New York & Other Core Markets

- National economy has regained nearly all jobs lost during pandemic
- New York City has only regained 35% of jobs lost in 2020
- It is estimated NYC jobs won't recover to pre-pandemic levels until 2025
- NYC avoided drastic spending cuts & tax increases due to \$22B in federal aid
- For first time in history, none of NYC's zip codes were among the 20 most expensive in the US
  - Upper West Side dropped from #22 to #93 in 2021

Source: New York Times, CoStar, Business Insider, & Property Shark

# PEOPLE & BUSINESS SEEK AFFORDABLE LOCATIONS

## The Formula for an Attractive Place to Live

- Companies and individuals are seeking:
  - Low corporate taxes
  - Fewer regulations
  - Flat or no state personal income tax
  - Affordable housing
  - A high quality of life
  - Top-tier universities
  - A talented workforce
  - Safety

## In-Migration & Relocations to Texas

- One out of ten Fortune 500 companies headquartered in Texas
  - Texas ranks #3 in the US for home of Fortune 500 companies
- Texas was the #1 destination for businesses to relocate in 2020
  - Relocations included Tesla, Hewlett Packard, Oracle, and CBRE – all relocating from California to Texas
- Since January 2018, California to Texas relocations exceeded 107 companies – nearly 5X the number from any other state
- Texas had the fastest growing state economy in the US in 2020 due to its business-friendly policies
- Between 2010-2019, the Dallas MSA added over 845K new jobs – exceeding today's population of the City of Boston

## In-Migration & Relocations to Georgia

- Population increased by 1M people from 2010 to 2020
  - 9.7M to 10.7M people
- Governor's office projects growth of 1.2M people by 2030
- Google, Facebook, Microsoft, and Cisco all recently announced large expansions in the Atlanta area
- Film industry is rapidly growing in Georgia – over \$4B spent by film and TV production in the 2021 fiscal year
- Superior transportation advantages – Atlanta airport, Port of Savannah, and extensive rail system to support commerce
- Port of Savannah is fastest growing port in US – currently 4th largest
  - Efficiency of this port will lead to continued future growth

Source: Georgia Governor's Office of Planning and Budget, US Census Bureau, Rivian, & Variety

## Info/Comparison

- Port City Industrial Rents
  - Orange County, CA: \$15.21 PSF
  - North New Jersey: \$12.58 PSF
  - Houston, TX: \$6.11 PSF
  - Savannah, GA: \$5.37 PSF
- Rail Access
- Number of Truck Driver Turns
- Population served: 70% of the US Population is east of the Mississippi
- Port Wait Time



## In-Migration & Relocations to Phoenix

- Substantial in-migration from the West Coast
- Between 2014-2018, Phoenix benefited from in-migration of 305K residents from California, 73K from Washington, and 47K from Oregon
  - The 425K residents gained from those three states over four years is roughly equivalent to the total population of Miami, Minneapolis, or Raleigh
  - 69K people move from California to Phoenix each year – nearly 190 people per day

Source: Greater Phoenix Economic Council & Phoenix Business Journal

## In-Migration to Lower-Cost Regions Will Continue

- Arizona, Texas, Colorado, Florida, and the Atlantic Southeast are examples of geographic areas that are benefitting from in-migration from gateway markets
  - The constant theme is that the states with significant in-migration are lower-cost, lower-tax, business-friendly states that offer a high quality of life and ample job opportunities
- In 2020, for the first time in over 100 years, California's population declined by over 182K people
  - For 30+ years, more people have left California than have moved in
  - Historically, international immigration has offset the domestic migration
- California is a bellwether of what will continue to occur in high-cost core markets

**People and companies are migrating towards affordability**

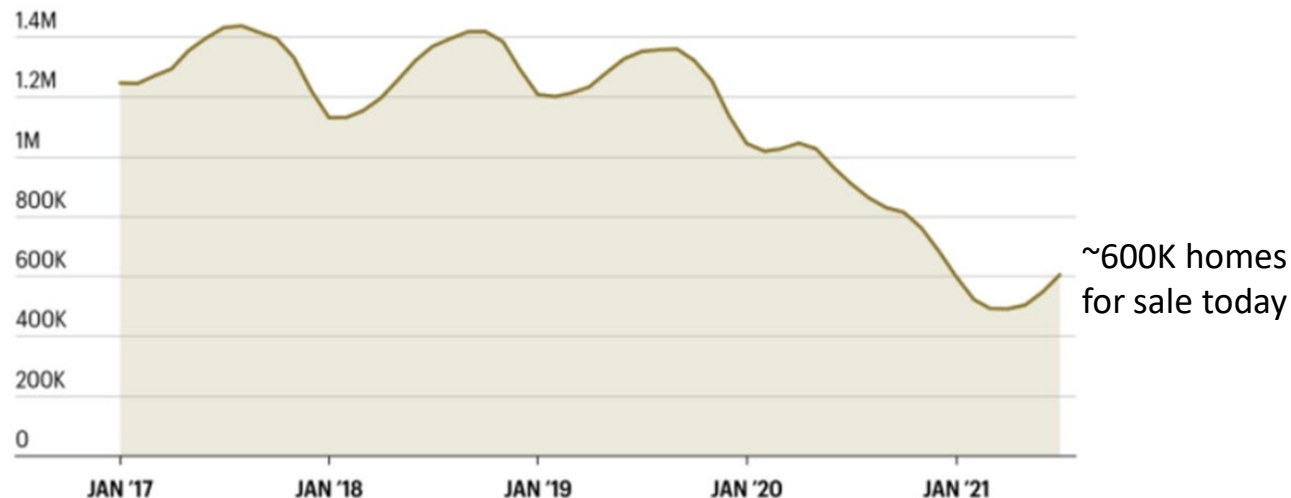
# RESIDENTIAL REAL ESTATE OUTLOOK

## Housing Market Inventory at Historic Lows

- Limited inventory and historically low mortgage rates have pushed home prices to record highs and made purchasing a home unattainable to many Americans
  - Job growth, wage growth, and household formations have increased the demand for all housing, including apartments

### The hot housing market has depleted inventory

Homes listed for sale on realtor.com



Source: Fortune

## Multifamily Development is Primarily Class-A

- Due to the high cost of new development, multifamily product delivered in recent years has been primarily Class-A product
  - Class-A multifamily units developed since 2015: ~2,000,000
  - Class-B multifamily units developed since 2015: ~315,000
- New supply has been primarily Class-A product with premium rents; this has pushed more renters to search for affordable alternatives
- Class-B properties have seen significant demand from inbound traditional workforce housing renters and from individuals priced out of Class-A properties

**The development of primarily Class-A product has created an affordability crisis that pressures traditional workforce housing renter**

## A Tale of Multiple Cities

- At the start of Covid-19, rents declined in New York, Boston, Chicago, San Francisco, and Los Angeles
- Rents increased in Atlanta, Dallas, Phoenix, and Tampa at the same time
- Multifamily rents in secondary growth markets continue to outpace core markets
  - New York City year-over-year rent growth as of August 2021 was 4.5%
  - Tampa year-over-year rent growth as of August 2021 was 25.0%

**YoY inflation was 7% as of December 2021.**

**Markets with rent growth below inflation had a negative real return for investors.**



# CASE STUDIES

## Versol Residences – Bonita Springs, FL



## Versol Residences – Bonita Springs, FL

- # Units: 240
- Acquisition Date: June 2021
- Acquisition Price: \$70.4M (\$293K per unit)
- Avg. In-Place Rents at Acquisition: \$1,647
- Avg. of Most Recent Leases: \$2,549
- % Rent Increase: 54.8%



## Bridgewater Residences – Orlando, FL



## Bridgewater Residences – Orlando, FL

- # Units: 344
- Acquisition Date: January 2021
- Acquisition Price: \$52.5M (\$153K per unit)
- Avg. In-Place Rents at Acquisition: \$1,117
- Avg. of Most Recent Leases: \$1,481
- % Rent Increase: 32.7%



## Anchor Centre – Phoenix, AZ (2201 E. Camelback Road)





## Anchor Centre – Phoenix, AZ (2201 E. Camelback Road)



## Anchor Centre – Phoenix, AZ (2201 E. Camelback Road)

- Rentable Square Feet: 333,000
- Acquisition Date: January 2021
- Acquisition Price: \$103.5M (\$311 PSF)
- Avg. In-Place Rents at Acquisition: \$30.67 PSF
- Avg. of Most Recent Leases: \$38.33 PSF
- % Rent Increase: 25.0%

# CHALLENGES GOING FORWARD

## Challenges Facing Real Estate Development & Increasing Housing Costs

- Rising land costs
- Inflation impacting raw materials costs
- Shortage of materials due to supply chain constraints
- Labor shortages causing construction delays
- Increasing government regulations adding unnecessary expenses

## Recap of Today's Topics

- Migratory Trends
- Cost of New Construction
- Core Markets Struggle
- People & Businesses Seek Affordability
- Case Studies
- Challenges Going Forward

QUESTIONS?

## CONTACT INFORMATION

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