PATTERSON
REAL ESTATE ADVISORY GROUP

CAPITAL VIEWS

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PATTERSON PERSPECTIVE

As another year draws to a close and a new year begins, it's always a good time to both reflect back and to think forward. For our firm, reflecting back on 2018 brings to mind many things, including time spent with all of the great colleagues in our company, adding Drew Barnette to open our Charlotte office, closing our 200th transaction as a firm, moving into our new Nashville office, and generating many new clients to add to our existing client base.

Looking into 2019, I think of the following:

- We are starting our 10th year as a firm – and I'm starting the 36th year of my career! It's never been a more interesting or exciting time to be in our industry, and I'm thankful to have this opportunity.

- I am amazed at how many great, smart, young clients we have that are doing very exciting things. There are too many to name them all, but these people are not only the next generation of our industry, they are setting a new path toward creative, interesting and meaningful real estate developments.

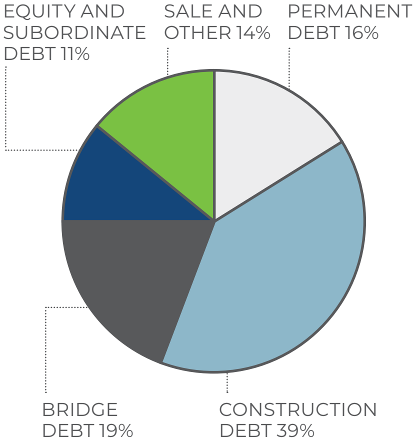
- Speaking of being creative – if you have a few moments read Bill Mealor's article later in this newsletter on the proliferation of the creative building asset class. It's astonishing what is happening, especially given that it's less than five years old in our part of the country.

- Good news for all of us – capital is still abundant across the spectrum of money. Further good news – it continues to be smart and disciplined, and we still don't see signs of projects being capitalized that we believe are "stretchy." That said, we are seeing a growing number of developers pushing projects that we believe are either too expensive or otherwise aren't supported by market trends and economics. As long as capital remains disciplined and steers clear of these transactions, we think we'll remain in good shape. But it's something to continue watching as we move into next year.

- Being in the Southeast is a blessing. We have offices not only in Atlanta but also in Charlotte, Charleston and Nashville. Across all of these markets, the inflow of people and new companies continues. This, as well as the diligence of capital in regard to financing smart, new development, has kept our property-level performance high across virtually all product types.

- If I had to give tips on what real estate owners and developers should look for next year, I'd start by saying look at anything in the industrial product class, especially if you can find something in-town, "last mile" oriented. We also see strong interest from tenants and users of real estate in older buildings that have been renovated as well as a growing trend of new ground-up development that is designed with a

PATTERSON 2018
CAPITAL PLACEMENT



more creative, open look and feel. A question worthy of a good debate is whether this interest is taking from or is in addition to tenants continuing to desire the more traditional architectural styles we see in most new construction. In the suburbs, something close to a suburban town center – whether office, residential or retail – would generate good interest from capital.

- While new construction continues at a strong pace, we think getting capital for new developments may become more difficult as the same providers of this potential new development capital are experiencing pricing pull-back as they are attempting to sell assets that they financed when construction started a few years earlier. When we say "pricing pull-back," we don't mean that recently-developed assets aren't achieving pricing that is profitable when they are taken to market, they just aren't achieving the profit levels they had hoped to achieve.

- In 2018 we remained very active in arranging traditional permanent debt, as well as bridge debt on existing assets. Good news for borrowers – permanent lenders continue to have strong appetites for well-performing real estate. And bridge lenders are becoming more aggressive seeking to place loans on value-add assets, including on assets still in their initial lease-up.

Finally, continuing a theme from our first newsletter this summer, I thought you'd enjoy a passage taken from John Donne's Devotions Upon Emergent Occasions and Several Steps in my Sickness, written in 1624 when Donne was suffering from a life-threatening disease. You'll recognize the first line, (apparently disputed by Paul Simon!) as well as the last and probably most famous (used by Hemingway in his 20th century masterpiece), which describes the Middle Age practice of ringing a bell to announce when someone has died. I think this poem sums up how we're all in this together.

No man is an island,
Entire of itself.
Each is a piece of the continent,
A part of the main.
If a clod be washed away by the sea,
Europe is the less.
As well as if a promontory were.
As well as if a manor of thine own
Or of thine friends' were.
Each man's death diminishes me,
For I am involved in mankind.
Therefore, send not to know
For whom the bell tolls,
It tolls for thee.

- John Donne

SELECT RECENT TRANSACTIONS

TYPE	STUDENT HOUSING DEVELOPMENT
LOCATION	DAYTONA, FL
PROJECT COST / VALUE	$26 MILLION
ASSIGNMENT	CONSTRUCTION DEBT

TYPE	MULTIFAMILY DEVELOPMENT
LOCATION	SAVANNAH, GA
PROJECT COST / VALUE	$88 MILLION
ASSIGNMENT	CONSTRUCTION DEBT

TYPE	STUDENT HOUSING DEVELOPMENT
LOCATION	ATLANTA, GA
PROJECT COST / VALUE	$48 MILLION
ASSIGNMENT	CONSTRUCTION DEBT

TYPE	OFFICE ACQUISITION
LOCATION	ATLANTA, GA
PROJECT COST / VALUE	$6 MILLION
ASSIGNMENT	BRIDGE DEBT

TYPE	OFFICE REFINANCE
LOCATION	ATLANTA, GA
PROJECT COST / VALUE	$54 MILLION
ASSIGNMENT	PERMANENT DEBT

TYPE	ADAPTIVE RE-USE DEVELOPMENT
LOCATION	NASHVILLE, TN
PROJECT COST / VALUE	$50 MILLION
ASSIGNMENT	CONSTRUCTION EQUITY

TYPE	MULTIFAMILY DEVELOPMENT
LOCATION	ATLANTA, GA
PROJECT COST / VALUE	$41 MILLION
ASSIGNMENT	CONSTRUCTION DEBT

TYPE	SENIOR HOUSING DEVELOPMENT
LOCATION	COLUMBIA, SC
PROJECT COST / VALUE	$44 MILLION
ASSIGNMENT	CONSTRUCTION EQUITY

Cigar Factory, Charleston, South Carolina

HOW TO DEFINE CREATIVE ASSETS

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Our firm has been fortunate to participate in the rapidly evolving phenomenon within commercial real estate known as creative development. Like others in the real estate industry, we aren't exactly sure how to define creative assets. We know they are cool, usually involve the adaptive reuse of older assets, target millennials, and generally embody principals of collaboration and social programming. However defined, the creative class assets have matured from an existence on the periphery of institutional acceptance in the Southeast to being a sought after asset class by institutions.

Our experience with creative office began four years ago when our firm took an assignment to capitalize the conversion of a portfolio of mid-twentieth century warehouses into creative office buildings. Candidly, we were a little surprised when a large, blue-chip firm emerged as the equity investor. We were amazed to learn only a few months after closing that several other major investors would have been interested in such a transaction. At that point, we realized the world was changing in terms of how office space will be used in the future (or is being used now).

It's easy to understand why this product type is attractive. Generally, these repurposed assets have tall ceilings, natural light, outdoor gathering spaces, a sense of authenticity, and a variety of floorplate sizes (sometimes very large, which fits well for some tenants; sometimes very small, which allows smaller tenants the opportunity to occupy most or even all of a floor). Design is generally very creative, with great attention paid to details. Owners pride themselves on community programming and spend significant effort curating the tenancy to create a complementary base of tenants along with a variety of food and beverage options, which creates an environment that is greater than the sum of its parts.

Now, four years after our first creative redevelopment, creative office development is a primary pursuit of both tenants and capital. Several notable leasing reports over the past year have indicated that adaptive reuse in Atlanta comprises less than 5% of the office inventory but accounts for roughly one-third of market absorption. As employers scramble to attract talent, many tenants prefer the open design, simplified parking, and unique vibe that comes with creative assets. This tenant demand trend is institutionalizing creative office. Large, institutional tenants are executing longer-term leases and bringing credit to the equation. That allows the developers to offer bigger tenant improvement packages to compete with more traditional, institutional buildings and capture rental rates that rival those of new construction projects or certainly traditional Class-A assets.

At the same time, capital is viewing this product as an asset class that is competitive to, yet differentiated from, traditional office buildings. Given the changing landscape and demographic profile of much of the tenant and target employee base, institutional capital is seeking larger exposure to this asset class with limited investment options. This is leading to more

> “FOR THE FIRST TIME, WE ARE SEEING NEW CONSTRUCTION OFFICE PRODUCT DESIGNED TO REPLICATE THE FEEL AND OPENNESS OF OLDER, REPURPOSED ASSETS.”

liquidity for larger assets or portfolios, something that has been largely absent for these assets in the Southeast until this cycle. Several recent trades have proven capital appetite and provided price discovery, causing more investors to seek out exposure to both development and stabilized opportunities. Like equity investors seeking a greater degree of exposure to this new asset class, construction lenders have gained a much higher degree of comfort with adaptive reuse redevelopments versus four years ago given that there are now several examples of institutional trades and acceptance in the life insurance debt market for permanent loans.

This tenant preference for open layouts with multiple communal areas where “the collision of ideas can occur” coincides with the great re-urbanization across the U.S. The opportunity to repurpose older buildings partly is made possible because large portions of the workforce prefer to live in the urban core, which is generally close to an older stock of forgotten buildings well suited for redevelopment; however, for the first time, we are seeing new construction office product designed to replicate the feel and openness of older, repurposed assets.

For developers, there are strong benefits to adaptive reuse. Usually, an older building can be re-purposed in much less time than it takes to build new construction and can be done at a substantial discount to replacement cost. Tenants like the quick delivery because they don’t have to prelease a building two years out. Developers must be cautious though as unforeseen conditions (what’s behind these walls?) can pose pitfalls. Developers may have to carry larger contingencies and be expert in environmental conditions to work with older buildings.

While Atlanta may have the highest concentration of adaptive reuse projects in the Southeast, the trend has caught on in other major markets such as Nashville, Tampa, and Charlotte. These markets are experiencing a surge in large institutional adaptive reuse projects. Nashville has several examples of existing adaptive reuse projects, and there are several projects in a variety of development stages or planning. Charlotte is experiencing the same surge of creative assets with projects like North Camp and Optimist Hall, and Tampa has unique projects like Armature Works. The trend also is firmly established in smaller markets like Charleston which has Cigar Factory, GARCo Mill and the Charleston Navy Yard.

While we believe this trend will continue and institutions will continue to seek exposure to creative asset classes, we have no reason to doubt that traditional office assets will continue to perform well despite competition from a new player.

Armour Yards, Atlanta, Georgia

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ATLANTA MARKET BRIEF

If you're reading this, you probably know how Patterson is structured. Our successes are team successes and our failures are shared as a team. Despite that, before delving too far into an annual business recap, we should celebrate some individual accomplishments:

We want to congratulate Alex Hill and Todd Flaman as they both were promoted very deservingly. Todd is now a Managing Director and Alex is a Director, both in the Atlanta office.

On the business front, Atlanta is a tremendous beneficiary of the strong regional demographic trends driving growth throughout the Southeast. While Nashville, Raleigh, and Charleston have grabbed several headlines, Atlanta has attracted corporate relocations and experienced strong population growth as the leading market in the Southeast. While the broader markets have experienced a significant amount of volatility at year end, we believe Atlanta and the southeastern real estate markets will continue to stand apart from others given job creation and population growth trends.

- Apartment development isn't dead. While concessions have become more prevalent, capital is still seeking multifamily opportunities that can be reasonably differentiated in strong locations. Our firm has had recent success working on differentiated urban projects and in suburban markets where municipalities might create a barrier to entry due to entitlement risk/availability and where cost basis can be lower.
- At the other end of the spectrum, we are seeing multifamily sales softening a bit. We are seeing some valuations that are less compelling to developers. The pricing gap is causing some developers to seek short term bridge financing in lieu of selling assets. Bridge capital has been very competitive around these transactions.
- Tenant demand in the office market seems to be rewarding buildings that have large block availabilities and new space (or recently repurposed). Midtown continues to separate itself as a tech corridor with strong capital attraction.
- As mentioned previously, projects that have a creative or loft theme have done well, and we believe capital will continue to seek out well-sized office assets that cater to these demand trends; however, there are several new buildings that have announced plans or actually broken ground. This recent supply increase may dilute capital interest until leasing proves out the concept.

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CHARLESTON MARKET BRIEF

Entering 2019, the Patterson Charleston office has been involved in almost a decade of dramatic change to the Low Country --- economic diversification followed by intense institutional investment and surging population and job growth have led to a very dynamic market place. Overall the positive trend continues as market fundamentals are strong, with the need to take a breath and absorb new construction in the hotel and multifamily sectors.

- With downtown multifamily rents cresting $3.00 PSF and hotel suites asking $2,000 a night, record pricing has brought record construction – is it too much? With 35 people a day moving to the market, and the CHS economy continuing to outpunch its weight class, the smart money believes in a long, strong run.
- East West Partners has delivered and mostly sold downtown Charleston first condominium project in almost a decade – check out the Gadsden, and grab a unit before it's too late!
- A victim of their own success? Mount Pleasant Town Council has effectively shut down development due to too many people moving to the area. The funny thing is that of the eight on the Town Council, only three are from Mount Pleasant....
- As Bill highlights in his article, authentic creative office space is an undeniable trend and with Charleston's history, it's a perfect fit! Pacific Box & Crate, Cigar Factory and GARCo are

just three great local projects – all perfect illustrations to a trend we're seeing across the Southeast.

As always, please use us as a resource, with offices from Nashville to Charleston and Charlotte and the mother ship in Atlanta, we offer a uniquely local perspective that represents the junction of the capital and local real estate markets. We stand by ready to help, and love to talk shop and share what we're seeing in the market.

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CHARLOTTE MARKET BRIEF

As we head into 2019 the Queen City is poised for another great year as many of Patterson's valued partners have embarked on transforming developments in the City. And while Charlotte hasn't received quite the same fanfare as some of its brethren Southeastern cities, our region's economic march ahead remains significant and continues to attract institutional capital at a record setting pace.

- 2018 marked an important institutional investment trend for the Queen City as the office price PSF record was seismically shattered with the sale of 615 Regions (formerly 615 S. College) to CBRE Global Investors. Designed and developed by Portman Holdings, a valued Patterson partner, 615 Regions sold for nearly $600 PSF, representing a PSF metric of almost double the historical high watermark and one of three Charlotte office investment sale transactions to crest $400 PSF in 2018.
- Charlotte based White Point Partners, and valued Patterson partner, is helping redefine the Charlotte landscape, and move forward the City's "food, trade and culture," with their adaptive-reuse project, Optimist Hall. Opening in 2019, the Project is anchored by Duke Energy's Innovation Center and will feature a 22,000 square-foot food hall.
- Long established as a major financial hub, Charlotte has benefitted from the robust economic engine of the financial services industry. As the City continues to expand and diversify its economic spine, much effort will be needed to reimagine our region's competitive advantages necessary to attract new and sustainable industry. To that end, Charlotte closed 2018 with an energizing boon as Honeywell announced their plan to relocate its global headquarters from New Jersey to Charlotte. With the newly formed Charlotte Regional Business Alliance, a merger formed between the Charlotte Chamber of Commerce and Charlotte Regional Partnership, it will be an exciting time in 2019 as the unified partnership furthers the City's economic advancement.
- The Stonewall corridor has emerged to rival the longtime Uptown epicenter of Trade & Tryon. The corridor is experiencing explosive development growth with more than 2.3 million square feet of office, 1,400 multifamily units and 800 hotel rooms either already developed or currently under construction. Duke Energy also recently announced their plans to begin development on a 39-story, 1 million square foot, tower directly across the street from the Duke Energy Center headquarters.

Thank you to all our partners who made 2018 great, and we hope to help make 2019 even better.

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NASHVILLE MARKET BRIEF

It's hard to argue against Nashville being the most active real estate market in the Southeast. And we expect this to continue in the coming years as Nashville matures into an even more active corporate market, adding to its already tremendous appeal to people who want to move to the city. We're pleased to play our part in Nashville's growth, including the following in 2018:

- In October, Patterson moved into its permanent office space in the new 615 Third building developed by The Mathews Companies. Our suite was purposefully designed and furnished to foster collaboration and serve as a gathering place for employees, clients, capital sources and other friends in the industry.

- Patterson hosted its inaugural capital markets symposium in October, with introductory comments by Janet Miller, Market Leader and CEO of Colliers, and Jan Freitag, Senior Vice President of Smith Travel Research. The featured panel included Barry Olson, Managing Director of Goldman Sachs; Travis Johnson, Managing Director of Debt Production with Principal Global Investors; Esko Korhonen, Managing Director of FCP; and Brad Barton, Managing Director of Commercial Real Estate for CIBC Bank.
- Patterson continued its investment in ULI, including helping to launch ULI Nashville NEXT, a new initiative focused on providing networking, growth, and other opportunities to mid-career professionals between the ages of 35 and 45. Patterson also contributed as a sponsor and participated on a local host subcommittee for the 2019 ULI Spring Meeting, which will take place in Nashville in April.
- As to the markets, multifamily supply and demand came back into equilibrium in 2018 after the historic level of new unit deliveries the last several years. Concessions decreased and with continued demand growth, new development activity is growing again. Office demand continues to outstrip supply and although there is a significant amount of new office space under construction and/or proposed, we believe the Nashville office market will remain strong. This is driven by several noteworthy corporate movements, including Amazon, Alliance Bernstein, Ernst & Young, and others. Hotels continue to perform well above national averages according to virtually every metric, however, that trend is expected to level off as the hotels currently under construction and/or proposed are delivered. Finally, construction lending is competitive again with spreads tightening and recourse requirements loosening. This is driven by banks competing to secure new loans as they experience significant payoffs of existing loans, and by the growing number of debt funds.

We are extremely grateful for all of our friends and relationships in Nashville, and look forward to continued growth in 2019 and the years to come.

Since our founding in 2010, Patterson has closed nearly 200 transactions totaling $4 billion in capital and $6 billion in overall project value with more than 80 clients

INTEGRITY + INGENUITY + INVESTMENT = SUCCESS

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