PATTERSON
REAL ESTATE ADVISORY GROUP

CAPITAL VIEWS

PATTERSON PERSPECTIVE
MIXED MESSAGES

LANCE PATTERSON, ***Chief Executive Officer***
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I had dinner with a friend one night late in January, a very prominent mixed-use developer. He had just returned to Atlanta from a conference where he was largely with retail developers and tenants. I asked him what the mood was at this conference, and he said, "Great, positive, retailers are doing well and expanding." I was pretty floored to hear this, as while I had been waiting for him to arrive, I was reading an article that came out that morning in the Wall Street Journal – the headline being "The US Consumer is Starting to Freak Out." This article was anything but positive and couldn't have left a more negative impression of the health and mindset of the US consumer. I mentioned this article to him, and he said, "Well that's why you shouldn't read that stuff. You should just focus on what's happening on the ground."

I've thought about my friend's comment a good bit recently, as I consider it to be full of wisdom. But I can't help to also go back to that WSJ article, which I consider to be full of reality.

Mixed messages for sure. Don't you feel like that sums up our world now? It makes it hard to figure things out.

For me, I believe the truth is somewhere in between. There's no question that our industry is going through a difficult time period – one from which we won't quickly emerge. We're in for a difficult year, and for some product classes, the challenges will last beyond 2023. But I also know that one can succeed and even thrive in a challenging environment – as evidenced by the fact that our firm started in January 2010, arguably at the bottom of the trough of the GFC.

I think it's important then for all of us to recognize the challenges – think about them, deal with them and move on to the opportunities. And what are those opportunities? From the perspective of what we believe commercial real estate capital will focus on now, our sense is the following:

- Low cost and/or workforce multi-family housing (return-on-cost using non-trended rents 6.25% +)
- Build-for-rent/single-family-for-rent in primary markets
- Non-traditional real estate such as IOS, manufactured housing, outdoor living, life sciences, etc.

> *"…One can succeed and even thrive in a challenging environment…"*

- Smaller-sized industrial buildings – it's difficult to finance "bombers"
- Rural area EB5 capital transactions
- Bridge loans on cash flowing assets and/or newly developed assets
- Office will need to be in uniquely strong markets or should be smaller, infill, creative
- Preferred equity is abundant, especially "gap" equity needed for non-stabilized multi-family

And our recommendations for how to best deal with your challenges:

- If capital is prepared to finance a project, move quickly to secure and close it. Waiting for the perfect or even the highly desired capital at the expense of what is available is unwise in this environment.
- Get rid of the "clutter" deals and focus on what can get done.
- Build conviction around investment ideas in light of market conditions and be prepared to move quickly. History shows that cycles move fast, and the window of opportunity can close quickly.
- Equity providers believe a slower beginning of the year provides time to meet with new prospects and to form new relationships. Think about whether it makes sense for you to take this potentially slower period to form new relationships with capital. You'll probably be glad that you did.

One challenge our firm is blessed not to have is a lack of great people working with us. On that point, I'd encourage you to read the Q&A article later in this newsletter with Barry Olson, who recently joined our company to open an office for us in Dallas. Barry and I have been close friends for 40 years, and I know his talent, wisdom, experience and capabilities will be a major asset for us and for our clients.

AND AGAIN, THE END

As regular readers know, I always end my opening article with a personal anecdote. It's been a while since I've written about my youngest son, but I think now's a good time to do so. Andrew, a captain in the USMC, is a member of MARSOC (Marine Special Operations Command), the Marine Corps' equivalent of the Navy SEALs. Andrew is able to tell me a good bit about the training they go through, and while I won't go into detail, I'll just say it's beyond intense. Like all other human beings, I am apt to suffer from emotional ups and downs. Fortunately, when I'm at my worst, I can think of Andrew and others like him who are dedicating their lives for the rest of us, facing challenges we'll never come close to in the world of commercial real estate.

No mixed message there.
Good luck to all in 2023!

2022 SELECT TRANSACTIONS

CLIENT	**TORO DEVELOPMENT COMPANY**
PROJECT	**REID FLATS**
MARKET	Atlanta, GA
TYPE	Multifamily Development
ASSIGNMENT	Construction Equity

CLIENT	**EXCAP**
PROJECT	**WENDOVER AT RIVER OAKS**
MARKET	Greensboro, NC
TYPE	Multifamily Acquisition
ASSIGNMENT	Bridge Debt and Equity

CLIENT	**MARINER GROUP REGENT PARTNERS**
PROJECT	**PILOT & PARK**
MARKET	Savannah, GA
TYPE	Multifamily Development
ASSIGNMENT	Construction Debt

CLIENT	**MIDDLE STREET PARTNERS**
PROJECT	**400 BISHOP STREET**
MARKET	Atlanta, GA
TYPE	Multifamily Development
ASSIGNMENT	Construction Debt and Equity

CLIENT	**TRINITY CAPITAL, ICONIC EQUITIES**
PROJECT	**JEDBURG LOGISTICS PARK**
MARKET	Charleston, SC
TYPE	Industrial Development
ASSIGNMENT	Construction Debt

CLIENT	**WHITE POINT PARTNERS**
PROJECT	**THE QUIN**
MARKET	Charleston, SC
TYPE	Office Recapitalization
ASSIGNMENT	Bridge Debt

CLIENT	**WECCO DEVELOPMENT**
	WEAVER CAPITAL PARTNERS
PROJECT	**STOREHOUSE 8 & 9**
MARKET	Charleston, SC
TYPE	Adaptive Reuse Development
ASSIGNMENT	Construction Debt

CLIENT	**ALBANY ROAD**
PROJECT	**CHALLENGER SOUTH I & II**
MARKET	Orlando, FL
TYPE	Flex Office Acquisition
ASSIGNMENT	Bridge Debt

CLIENT	**LINCOLN PROPERTY COMPANY**
	ANGELO GORDON
PROJECT	**117 SE PARKWAY**
MARKET	Nashville, TN
TYPE	Industrial Acquisition
ASSIGNMENT	Bridge Debt

CLIENT	**ATLANTA PROPERTY GROUP**
PROJECT	**KIRBY**
MARKET	Nashville, TN
TYPE	Industrial Acquisition
ASSIGNMENT	Bridge Debt

CLIENT	**CARTER**
PROJECT	**LAKE WIRE**
MARKET	Lakeland, FL
TYPE	Multifamily Development
ASSIGNMENT	Construction Debt and Equity

CLIENT	**CARTER**
PROJECT	**MT. ZION**
MARKET	Atlanta, GA
TYPE	Multifamily Development
ASSIGNMENT	Construction Debt

CLIENT	**MIDDLE STREET PARTNERS**
PROJECT	**430 MANUFACTURERS ROAD**
MARKET	Chattanooga, TN
TYPE	Multifamily Development
ASSIGNMENT	Construction Debt and Equity

CLIENT	**JPW DEVELOMPENT**
	INDIGO ROAD HOSPITALITY GROUP
PROJECT	**SNOWBIRD MOUNTAIN LODGE**
MARKET	Robbinsville, NC
TYPE	Hotel Acquisition
ASSIGNMENT	Bridge Debt and Equity

CLIENT	**COLLABORATIVE REAL ESTATE**
	GATEWAY VENTURES
PROJECT	**CENTERGY**
MARKET	Atlanta, GA
TYPE	Office Recapitalization
ASSIGNMENT	Permanent Debt

CLIENT	**MADISON CAPITAL GROUP**
PROJECT	**MADISON CENTURY FARMS**
MARKET	Nashville, TN
TYPE	Multifamily Development
ASSIGNMENT	Construction Debt

CLIENT	**PORTMAN RESIDENTIAL**
PROJECT	**SAVONA MILL**
MARKET	Charlotte, NC
TYPE	Multifamily Development
ASSIGNMENT	Construction Debt and Equity

CLIENT	**ALBANY ROAD**
PROJECT	**LAKE POINT COMMERCE CENTER**
MARKET	Orlando, FL
TYPE	Flex Office Acquisition
ASSIGNMENT	Bridge Debt

CLIENT	**VENTURES DEVELOPMENT GROUP**
	BATSON-COOK DEVELOPMENT COMPANY
PROJECT	**ST. AUGUSTINE SHIPYARDS**
MARKET	St. Augustine, FL
TYPE	Multifamily Development
ASSIGNMENT	Preferred Equity Placement

CLIENT	**TRACK WEST PARTNERS**
PROJECT	**400 BISHOP STREET**
MARKET	Atlanta, GA
TYPE	Multifamily Development Site
ASSIGNMENT	Sale

CLIENT	**INNOVATION WAY PARTNERS**
PROJECT	**INNOVATION WAY**
MARKET	Charleston, SC
TYPE	Office Redevelopment
ASSIGNMENT	Construction Debt

CLIENT	**MARINER GROUP**
PROJECT	**THE PRESERVE AT MARION LAKE**
MARKET	Savannah, GA
TYPE	Multifamily Development
ASSIGNMENT	Construction Debt

CLIENT	**MADISON CAPITAL GROUP**
PROJECT	**MADISON FOUNTAINS**
MARKET	Jacksonville, FL
TYPE	Multifamily Development
ASSIGNMENT	Construction Debt

CLIENT	**BROAD STREET INVESTMENTS**
PROJECT	**ENCLAVE**
MARKET	Atlanta, GA
TYPE	Multifamily Recapitalization
ASSIGNMENT	Bridge Debt

CLIENT	**ATLANTA PROPERTY GROUP**
	ANGELO GORDON
PROJECT	**KENNESAW PORTFOLIO**
MARKET	Atlanta, GA
TYPE	Industrial Acquisition
ASSIGNMENT	Bridge Debt

DALLAS MARKET SPOTLIGHT

BARRY OLSON, *Senior Managing Director*
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Suzanne Holman, Patterson's COO, sat down with Barry Olson, Patterson's Senior Managing Director in Dallas, for a Q&A discussion about the Metroplex.

What differentiates Dallas-Fort Worth from other major cities generally?

Dallas-Fort Worth (DFW) is leading the country in two enviable metrics: population growth and job creation. Despite the nation's apprehensive economic outlook, DFW is still expanding at a historic pace.

From 2010-2020, the DFW population grew to almost 7.7 million, representing a 20.4% increase over the ten-year span. DFW's high growth rate can be credited in large part to the entrepreneurial spirit of the people who live here, a trend that stretches back through its history. Dallas isn't located near a geographic feature like an ocean, a navigable river, or even near mountains. It therefore had no reason to be other than the spirit of its people.

DFW's high rate of in-migration population growth is led in part by job creation. In 2022, the region created 235,000 new jobs, leading the nation with a 6.4% over-the-year percentage increase in employment.

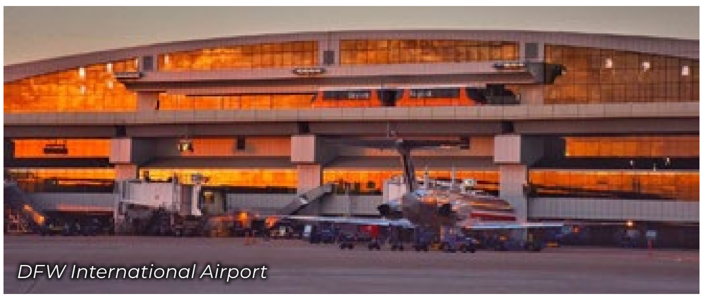
Metropolitan Statistical Area	2020 population	2010-2020 percent change
New York	19,124,359	1.1%
Los Angeles	13,109,903	2.1%
Chicago	9,406,638	-0.7%
Dallas - Fort Worth	**7,694,138**	**20.4%**
Houston	7,154,478	20.3%
Washington, D.C.	6,324,629	11.4%
Miami	6,173,008	10.6%
Philadelphia	6,107,908	2.3%
Atlanta	6,087,762	14.8%
Phoenix	5,059,909	20.4%

Source: Dallas Regional Chamber

Fun fact: if DFW was a state, it would rank in front of 46 other states in the job creation category. The DFW region benefits from being made up of a combination of cities with a pro-business approach. It is also located in a state with low tax rates and no personal state income tax.

Additionally, DFW offers a high quality of life with one of the lowest cost-of-living statistics among the country's major metros. Another primary driver of the region's growth is its economic diversification. No single employment classification accounts for over 22% of the local economy. This is somewhat borne out of the fact that DFW is home to 43 Fortune 1000 companies.

No description of DFW's past and future growth is complete without discussing the regional importance of the DFW International Airport. While the area has no conventional water port, it does have the airport, which has the good fortune of being in the center of the country. It is the world's second busiest airport in terms of passenger transit, and third busiest in terms of aircraft movement. It offers the largest number of nonstop destinations of any airport in the U.S. It literally is one of the few airports in the country where one can leave on a morning flight and make a lunch in NYC or a breakfast in LA.


DFW International Airport

While never say never, it's hard to see how DFW, with its somewhat self-perpetuating growth cycle, will not continue to be one of the nation's leaders in population growth and job creation going forward. In the event our leading economists are right, and we are headed into a recession in 2023, the hope is that these differentiating factors of DFW will provide for a softer landing than most.

How would you compare Dallas to Patterson's other high-growth cities in the Southeast: Atlanta, Charlotte, Charleston, Nashville and Tampa?

Patterson has a strong presence in four out of the five U.S. real estate markets designated by ULI and PwC's 2023 Emerging Trends report as the top markets to watch. The report placed Dallas second only to Nashville, followed by Atlanta and Tampa in third and fifth place, respectively. Clearly strong positive demographic trends are at work in all these markets. Last year marked the third consecutive year that North Texas ranked first amongst U.S. metropolitan areas for commercial property transactions. The largest transaction was the sale of the Trammell Crow Center for $615MM. Despite slowdowns within other large U.S. markets in 2022, North Texas sold over $42.5 billion in commercial property, far surpassing the $30.4 billion of second-ranked LA.

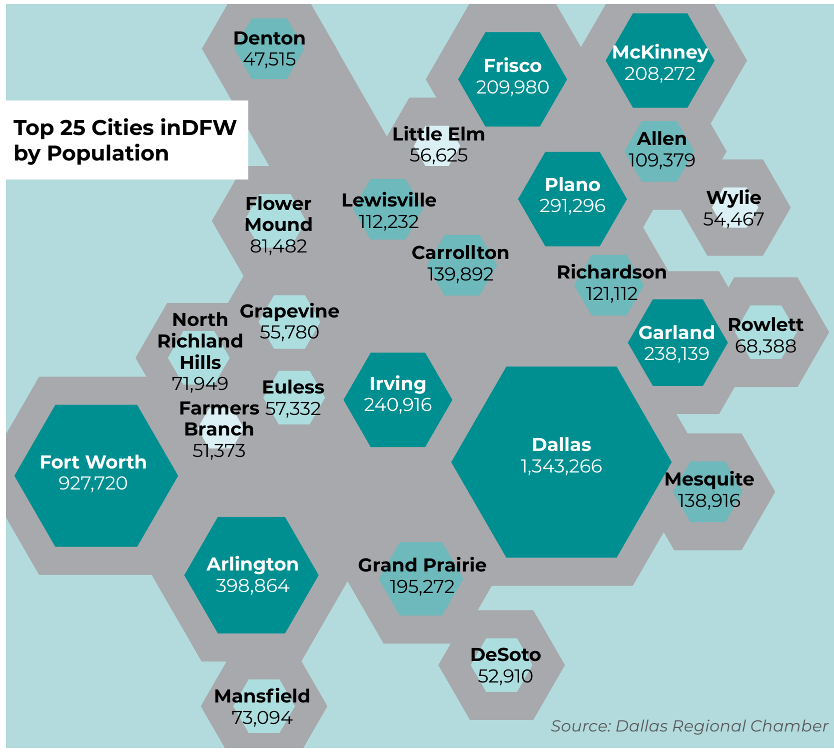

Trammell Crow Center

One stat that the area ranks second for nationally, and is sometimes cringe worthy, is overall new construction as measured by Dodge Data and Analytics. I say cringe worthy as I've been involved in commercial real estate in the area for four decades and remember all too well the cycles of recession and overbuilding. While I won't be one of those people that says, "Well this time is different," I do think it's instructive to look at the 60,000 multifamily units to be delivered in the area over the next two years. This level of building comes on the heels of several years of strong multifamily starts, but still only represents 4% of overall supply, which is barely above the historic trend line for the area. Furthermore, even with the strong historical starts number, the multifamily industry is healthy with a 95% occupancy rate.

How would you describe Dallas's commercial real estate community?

DFW has a robust real estate community. In recent polls, real estate investors rank it as the top U.S. market for prospects in 2023.

Historically, the local real estate market was led by Trammell Crow, Lincoln Property Company, and other companies headed by executives who broke off from those firms. Today, the community is much larger. International companies, new home-grown companies, and companies that have opened offices from other areas have moved to town to participate in and take advantage of the macro-economic conditions of the area. It certainly helps that the market has vibrant leadership provided by The Dallas Real Estate Council and ULI North Texas. These groups help facilitate connectivity within the real estate industry to share best practices and promote the industry as a whole.



How would you describe the other major Texas markets?

Other major Texas markets have enjoyed strong growth as well. The state added 650,000 jobs in 2022, more than any other state and double its historical average. Another fun fact is that U-Haul ranked Texas the number one growth state of 2022 based on the net gain of one-way U-Haul trucks arriving during the year. This is the second year in a row the state has earned that designation. Similar to Dallas, Texas was the largest-gaining state nationally in terms of population with about 50% of that growth fueled by domestic in-migration.

Last year, Houston was fourth in the country in commercial transaction volume, with $24B, while Austin was tenth at $14B. Plus, both cities were included on Dodge Data's top-building market lists. Last year, Austin had almost $8B in commercial and apartment construction starts, while Houston started close to $8.7B in new construction. Austin, like Dallas, is also in ULI's/PWC Emerging Trends for 2023 as a top five market in the US.

What do you envision when you think about how the city will grow and change over the next decade?

Dallas is the fourth largest metro in the US and is projected to overtake Chicago in the early 2030s to become the country's third largest metro. Over the last ten years, DFW has grown explosively. Its population now totals around 7.7 million people, with experts predicting it to increase to 11.2 million by 2045. Of course, housing and servicing this growth will result in a large need for additions to all major real estate product types.

Since DFW's growth is not constrained by natural barriers, there is an outlet to continue to build affordable housing further out from DFW's geographic center without necessarily creating a lower quality of life due to longer commute times. As illustrated in the graphic above, there are numerous cities in northern DFW seeing enormous growth that are more than an hour drive time to downtown Dallas, but most of the residents there have commutes of 30 minutes or less to reach their jobs. This is highlighted by the employment center in the Plano/Frisco markets with over 50 million square feet of office space.

In addition to short commute times, another element attracting residents to these areas is the master planning of housing developments, which provide ample parks and recreational space along with very good school districts.

How would you describe Patterson's unique value proposition in Dallas?

Patterson's unique, boutique business model promotes service to our clients through a collaborative team approach bringing to bear different expertise found across our company. We focus on building meaningful, collaborative partnerships with our clients as their advisors, providing them access to the experience and insight of our entire team.

While Patterson covers a wide array of deal types, our approach to construction financing by taking the time necessary to understand our client's vision before the land is even taken down to ultimately capitalizing the deal we think differentiates us. As discussed, DFW and the Texas market will need plenty of new development to keep up with the market growth. Patterson is therefore uniquely placed to meet the needs of clients within the dynamic markets of North Texas and the state as a whole.

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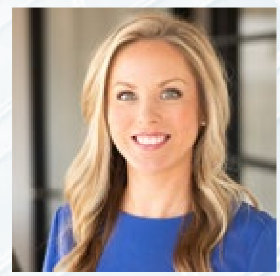

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