



CAPITAL VIEWS



PATTERSON PERSPECTIVE

I AM THANKFUL TO BE AN AMERICAN

LANCE PATTERSON, *Chief Executive Officer*

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I spent my junior year of college at a university in what at the time was West Germany, in a city called Erlangen, slightly north of Nuremberg in the southern German state of Bavaria. This was from late summer 1981 to early summer 1982. As you might guess, I took advantage of every opportunity I had to travel, covering most of Europe and even going to Egypt and Israel while I was there. Memories are etched in my mind, as clear as if I was just there yesterday. Rich and unforgettable experiences and multiple things learned – but the one memory that has shaped my life more than any other was the eight hours I spent in what at that time was the city of East Berlin in the country of East Germany.

Older readers of this newsletter, and younger readers who know their history, will remember that East Germany was a vassal state of the Soviet Union, behind the Iron Curtain, a communist country where everything was controlled by the state. Although I visited multiple Soviet states during my year in Germany, my short time in East Berlin stands out. It was a late November day and typical of Germany, the weather was cold, gray, cloudy, and rainy. I was visiting West Berlin for about a week, and to get to East Berlin, the most common way was via the subway, not Checkpoint Charlie. The subway only had one stop in East Berlin. When I came out of the station, like every other visitor, I had to surrender my passport to the East German officials. We were all required to exchange 25 West German Marks for 25 worthless East German Marks that we could use, or not, while we were there. We were

required to be back at the subway station by 5:00 p.m., where we could reclaim our passports and take the subway back to West Berlin.

The weather accentuated the mood that was otherwise firmly set by the place itself. There were East German soldiers everywhere, fully armed with machine guns. They were watching me for sure but also watching normal East German citizens. Grocery store shelves – pretty barren. Bookstores – full of communist propaganda. Restaurants – infrequently found and with meager menus if you did find one. Museums heralded the triumphs of the Soviet Union in World War II, the richness of communism, and the decadence of capitalism. As dramatic as all of this was to a young man from mid-Missouri, it paled compared to viewing the “no go zone” inside of East Berlin that led to the Berlin Wall, on the other side of which was West Berlin.

Envision you are in East Berlin, and you approach a barbed wire fence where every 50 or so yards there is a several story tall guard tower, manned by soldiers with submachineguns. Immediately on the other side of the barbed wire fence was an area maybe 40 or 50 yards wide that was covered in buried land mines. After the mines there were cross-shaped steel structures that were buried deep into the ground, there to stop tanks from rolling into East Berlin from West Berlin. Then there was another narrow area that led to the Berlin Wall itself, a 12-foot-tall structure that ran almost 100 miles, encircling

West Berlin. The public reason the Soviets and East Germans stated for the existence of the Wall was to keep the West from invading – but everyone knew the real reason for the existence of the Berlin Wall was to keep East German citizens from escaping. Many tried, and over 100 were either blown up by the landmines or were shot and killed by East German border guards trying to do so.

In case you have trouble envisioning this, here's a picture. Note the buildings on the West Berlin side of the wall. And while it's probably hard to see, if you were in West Berlin you could walk up to the wall and touch it, write on it, etc. That's why when the wall finally came down in late 1989, it was covered on the western side in graffiti.



You may wonder why in a newsletter supposedly about commercial real estate finance, you're instead getting a personal anecdote and a history lesson. Fair enough. But for me, the connection is real and timely. Timely, as we've just celebrated the 249th anniversary of our nation's independence, a nation that was instrumental in ending the tyranny of systems that seek to control individual

freedoms. And real, because it is these freedoms that allow us to do commercial real estate finance or whatever else it is that we want to do, including loudly criticizing the very system that provides us these freedoms. I think it's especially important to reflect on this as we approach what has already been and is likely to continue to be a contentious election period. Remember, there is nothing more important than our freedoms. I will always be thankful for mine and immensely proud to be an American.

AND NOW – A LITTLE BIT ABOUT THE COMMERCIAL REAL ESTATE MARKETS

At the beginning of 2024, there was a hope and I think a consensus belief in our industry that by this time of the year, we would have had at least one and possibly more interest rate cuts by the Federal Reserve. There was a further hope that rental rates would rebound, and we'd see some level of growth. Not the high percentages that we saw a couple of years ago but at least something. We, like most others in our industry, felt that these two things would lead to a recovery of sorts in transactional activity.

As of July 2024, we've seen no rate cuts, and rental growth has been unimpressive. Yet despite these two important items not happening, deal activity level is noticeably better than in 2023. I believe this is mainly because capital providers, including banks, have decided that they have to get back to lending and investing. This doesn't mean that our markets are functioning in a normal fashion, or that we don't still have major issues, or that capital is willing to do anything. Instead, it remains very difficult to get projects financed, and I believe it will remain difficult into next year. I am though optimistic of the trajectory.

We're also hearing more commentary from a few senior-level people in our industry about pending bank failures. In the view of these individuals, there are immense unrealized losses in the commercial real estate portfolios of banks, mainly smaller and mid-sized ones, and beginning this fall we'll see "one to two failures per week" and/or "500 to 1,000 bank failures by the end of 2025." While I acknowledge there are problems in the existing portfolios of lenders, I think these comments are substantially overblown. We heard similar comments early last year – remember the "debt maturity tsunami" of 2023 and 2024 that was going to bring down the banking industry? That did not happen, and over the past few months, more and more banks have started lending again. All of that said, I wouldn't be surprised if we see some bank failures, but I'm confident that our system is strong enough to handle what might occur.

I'll end with this. To all our friends in this great industry, thank you for your friendship to our firm. I can't think of another business that is as familial or one where personal relationships matter nearly as much as they do in commercial real estate. I wish you all a great second half of 2024!



Since inception, Patterson has closed 485 transactions encompassing over \$11.0 billion in capital placement.

RECENT TRANSACTIONS



CLIENT	POPE & LAND
PROJECT	CUMBERLAND CENTER I
MARKET	Atlanta, GA
TYPE	Office (195,000 sf)
ASSIGNMENT	Bridge Debt



CLIENT	MCNEAL DEVELOPMENT / THE MACALLAN GROUP
PROJECT	PEEPLER VALLEY
MARKET	Cartersville, GA
TYPE	Build-for-Rent Townhomes (97 units)
ASSIGNMENT	Development Equity



CLIENT	TRUX
PROJECT	TRUX PARKING SITES
MARKET	Various
TYPE	Parking and IOS
ASSIGNMENT	Acquisition Debt & Equity



CLIENT	HOLDER PROPERTIES / EAST WEST PARTNERS
PROJECT	DWELLINGS AT NOWELL CREEK
MARKET	Charleston, SC
TYPE	Build-for-Rent (50 units)
ASSIGNMENT	Construction Debt & Equity



CLIENT	MADISON CAPITAL GROUP
PROJECT	GARTEN
MARKET	Charlotte, NC
TYPE	Apartments (320 units)
ASSIGNMENT	Construction Debt



CLIENT	ICM
PROJECT	CAMPBELL CREEK PAVILION
MARKET	Dallas, TX
TYPE	Office (318,000 sf)
ASSIGNMENT	Bridge Debt



CLIENT	TWO CAPITAL
PROJECT	AVA GAINESVILLE
MARKET	Gainesville, GA
TYPE	Build-for-Rent (217 units)
ASSIGNMENT	Construction Debt



CLIENT	EAST WEST PARTNERS
PROJECT	DANIEL ISLAND PHASE III, TOWNHOMES
MARKET	Daniel Island, SC
TYPE	Condominiums (11 units)
ASSIGNMENT	Construction Debt



CLIENT	TURNBULL DEVELOPMENT
PROJECT	RESIDENCES AT SAWMILL
MARKET	Summerville, SC
TYPE	Mixed-use (365 units)
ASSIGNMENT	Development Equity



CLIENT	EAST WEST PARTNERS
PROJECT	DANIEL ISLAND PHASE III CONDOS
MARKET	Daniel Island, SC
TYPE	Condominiums (36 units)
ASSIGNMENT	Construction Debt



CLIENT MADISON CAPITAL GROUP
PROJECT MADISON BONITA
MARKET Bonita Springs, FL
TYPE Apartments (252 units)
ASSIGNMENT Construction Debt & Preferred Equity



CLIENT LEGACY SOUTH
PROJECT OPERATING COMPANY INVESTMENT
MARKET Nashville, TN
TYPE Investment
ASSIGNMENT Equity



CLIENT FLOURNOY DEVELOPMENT GROUP
PROJECT THE HIGHLANDS
MARKET Knoxville, TN
TYPE Build-for-Rent (120 units)
ASSIGNMENT Preferred Equity



CLIENT POPE & LAND
PROJECT 100 MIDTOWN
MARKET Atlanta, GA
TYPE Student Housing (118 units/ 330 beds)
ASSIGNMENT JV Acquisition Equity



CLIENT ALLEN MORRIS COMPANY
PROJECT 1060 DONALD LEE HOLLOWELL
MARKET Atlanta, GA
TYPE Land (15.5 acres)
ASSIGNMENT Bridge Debt



CLIENT THE LEAVEN GROUP
PROJECT GA SQUARE MALL
MARKET Athens, GA
TYPE Land (77.0 acres/ 822,500 sf)
ASSIGNMENT Advisory



CLIENT	ALBANY ROAD
PROJECT	41 FANT ROAD
MARKET	Madison, TN
TYPE	IOS (4.01 acres)
ASSIGNMENT	Acquisition Debt



CLIENT	RAIL GAUGE
PROJECT	THE SINCLAIR AT PALM POINTE
MARKET	Fort Myers, FL
TYPE	Apartments (265 units)
ASSIGNMENT	Construction Debt & Equity



Patterson represents commercial real estate owners and developers seeking to invest in real estate opportunities or navigate a challenging economic environment. Our primary focus is helping clients across all property types access investors at all levels of the capital stack, matching the specific need with the appropriate capital providers.

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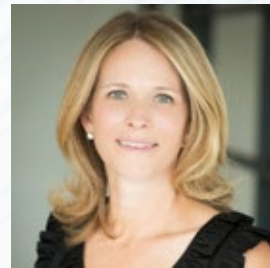
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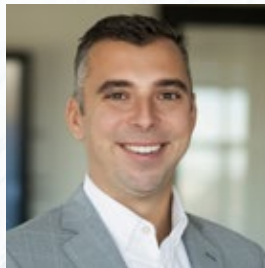
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