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State of the Economy – Real Estate

National Real Estate Market Overview

- The four main sectors of Commercial Real Estate are: Multi-Family, Office, Retail and Industrial
- The national Multi-Family market continues to benefit from the ongoing housing shortage
  - An increase in demand resulted in a lower vacancy rate and higher rent growth in Q1, Q2 and Q3
  - However, rising rental rates stalled demand towards the end of 2022 despite ongoing job creation and healthy consumer balance sheets
  - The cloudy outlook of our economy, along with high rents, drove many young adults to move back in with family, friends, etc.
  - After a strong period, the rental sector seems to be heading towards a more normalized stage in 2023
- The Office sector is facing some pressure with current tenants looking to save money and improve efficiency
  - Class A office space should perform well as the demand for quality continues to rise, with higher rents and lower vacancy rates
  - Second generation space will struggle to rent, with the increase in demolitions and conversions being a popular alternative
  - Sublease space is at an all time high, but not every tenant finds that a desirable option
  - Landlords are struggling with rising costs of capital and the costs of getting a deal done

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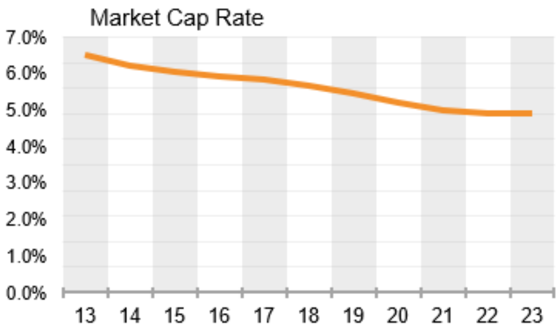
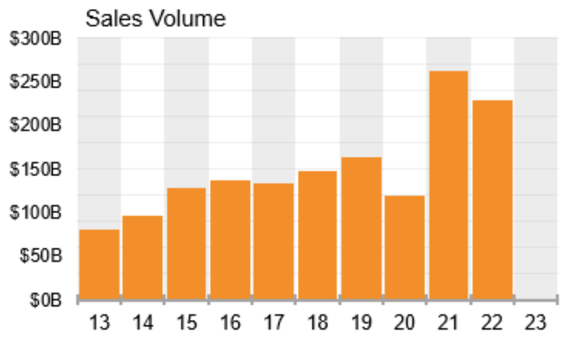
National Real Estate Market Overview Cont.

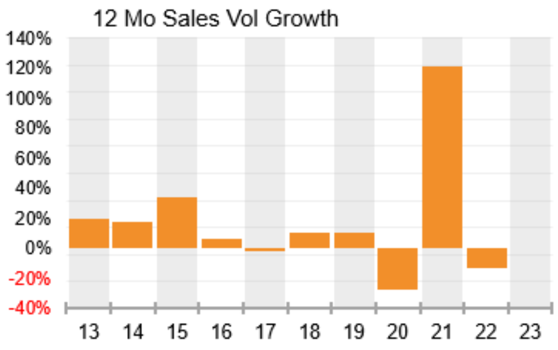
- The Retail market continues to perform despite the challenges many consumers are facing
  - In 2022, retail recovered at a much quicker rate than many anticipated, and it enters 2023 in good position
  - Bankruptcies and store closures have decreased, while consumer spending has returned to physical locations
  - Foot traffic will be a key factor in performance. Foot traffic numbers for suburban shopping centers are trending towards pre-pandemic levels, while urban centers are getting fewer and fewer customers by the quarter. This reflects the increased preferability of people continuing to work from home
- Industrial should continue to sustain its strong position in 2023
  - Even with the signs of an incoming recession, the demand for Industrial space remains resilient
  - The national vacancy rate is expected to remain comfortably below its long-term average
  - The 2023 rent growth should slow down from 2022's rapid pace
  - Roughly 20% of projects under construction are larger than 500,000 SF
  - New developments will provide some relief to markets with vacancy rates less than 1%, however, consistent low vacancy numbers will push many tenants to secondary markets with more availability

National Real Estate Market Overview

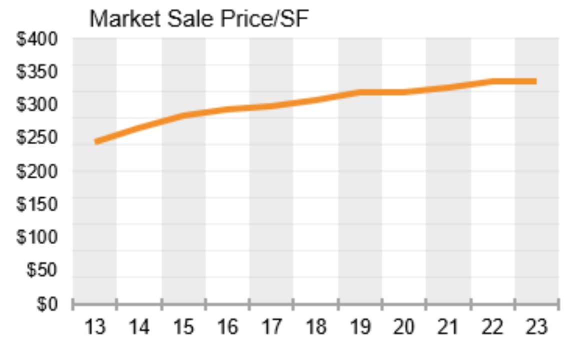
Multi-Family

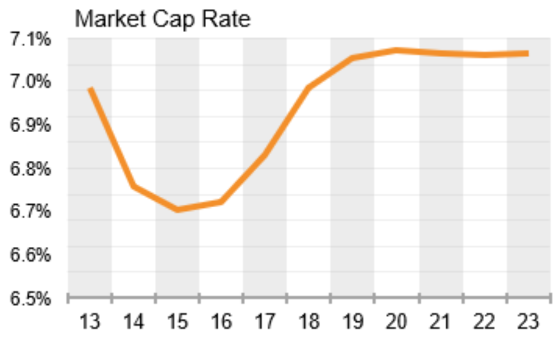


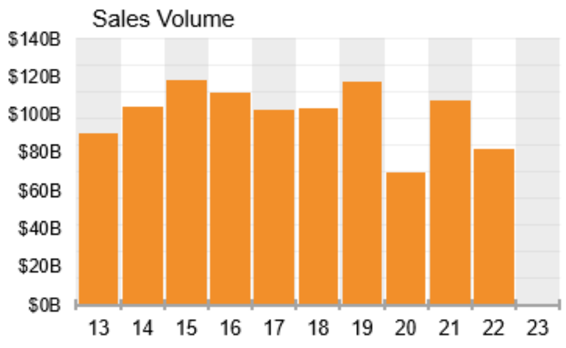


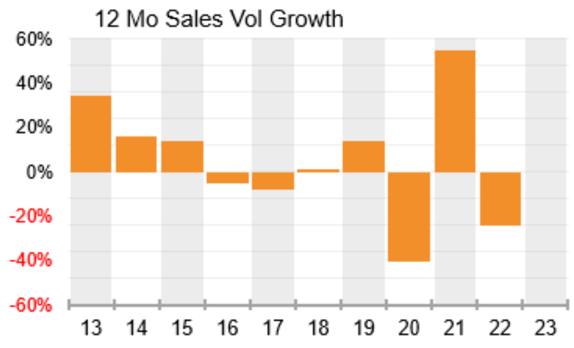


Office



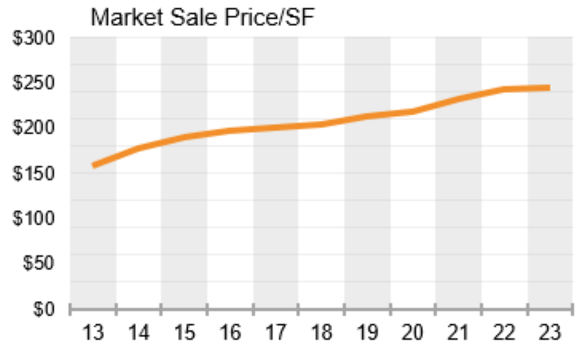


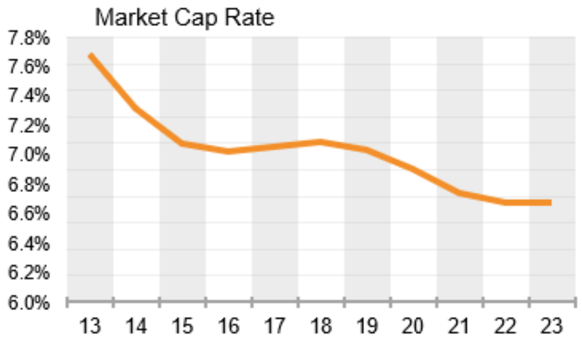


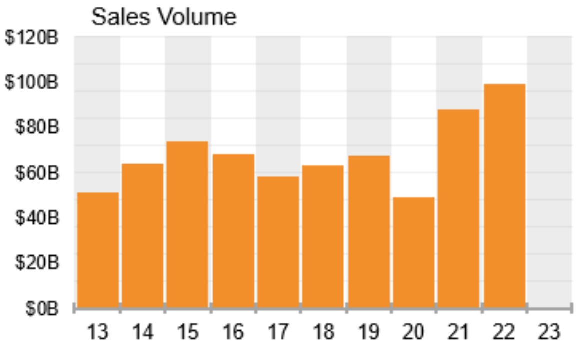


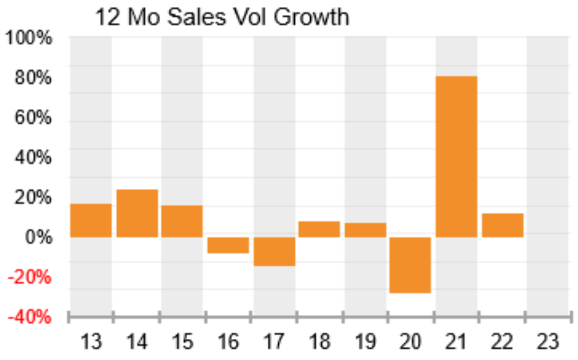
National Real Estate Market Overview

Retail

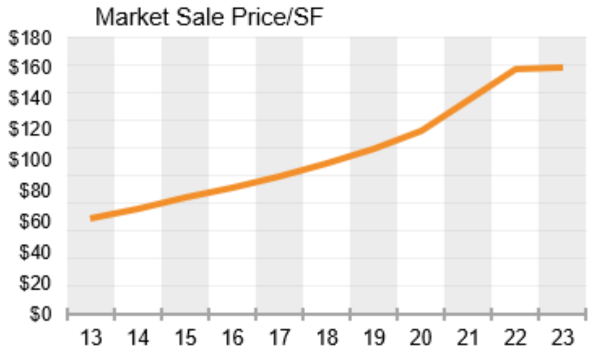


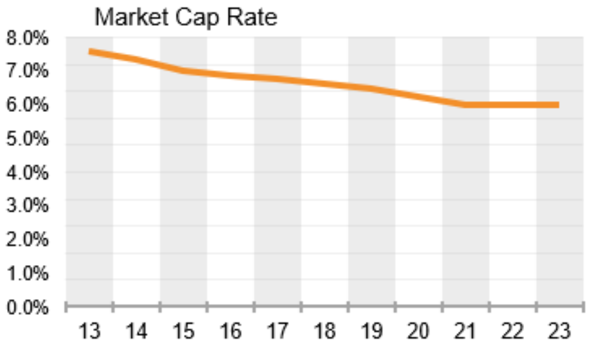


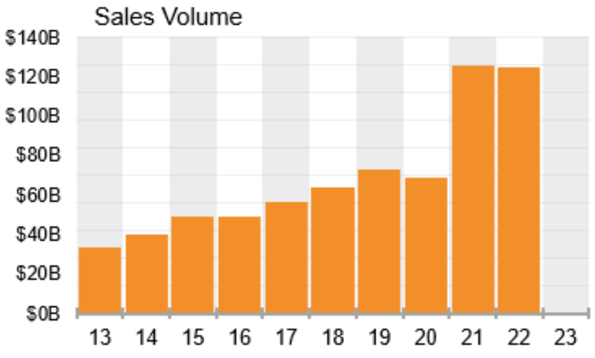


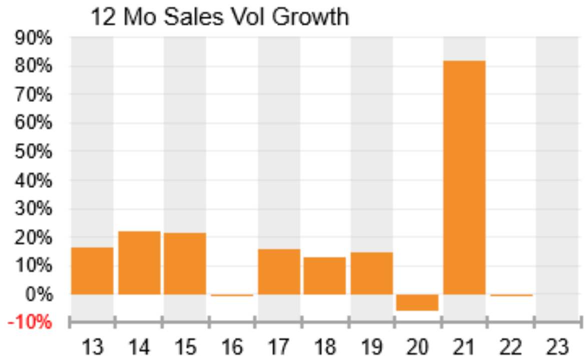


Industrial









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Local Market Overview

- Multi-Family
- Office
- Retail
- Industrial

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Multi-Family

- Apartment rents in the Pensacola market are rising at about a 2% annual rate during the first quarter of 2023, and have risen 6.7% over the past three years
- There are currently around 1,400 units in the process of being developed, in addition to the 2,300 units that have been delivered over the past three years
- The vacancy rate is trending upward over the past four quarters and is sitting at 10.7% as of 2023Q1, which is moderately above the 10-year average
- Pensacola is a midsized Multi-Family market where the transaction activity checked in at 12 market rate deals in the past year, which is below the average compared to similar markets
- Investors seemed to have taken a step back from their typical level of activity over the past four quarters
- In the past year, nearly $347 million worth of multifamily assets were sold in this market
- Market pricing currently sits at about $180,000/door. This price has risen by more than 10% and is a large discount compared to the average price in the United States
- The market cap rate has decreased since last year and it is the lowest that has been seen in this market in the past five years, but it's still higher than the U.S. average yield

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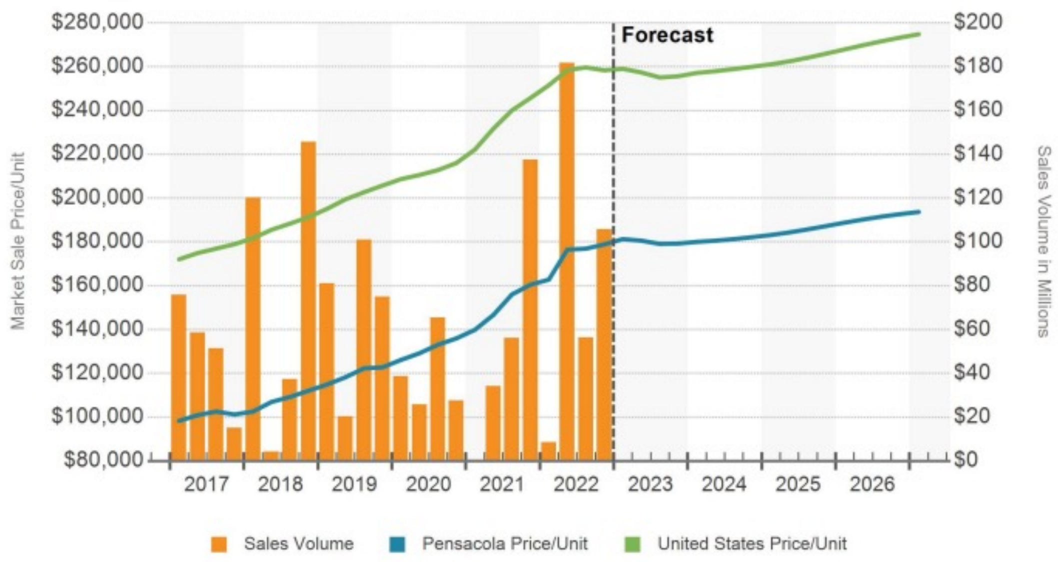
Multi-Family

KEY INDICATORS

Current Quarter	Units	Vacancy Rate	Asking Rent	Effective Rent	Absorption Units	Delivered Units	Under Constr Units
4 & 5 Star	5,098	13.1%	$1,641	$1,626	(15)	0	875
3 Star	8,597	8.9%	$1,458	$1,451	69	240	572
1 & 2 Star	4,309	11.4%	$1,044	$1,032	(13)	0	0
Market	**18,004**	**10.7%**	**$1,437**	**$1,426**	**41**	**240**	**1,447**

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	2.2%	8.3%	10.7%	13.7%	2008 Q4	4.2%	2020 Q3
Absorption Units	487	257	553	956	2018 Q1	(345)	2007 Q3
Delivered Units	959	298	644	1,628	2022 Q2	0	2020 Q2
Demolished Units	0	4	7	76	2014 Q2	0	2022 Q4
Asking Rent Growth (YOY)	1.7%	2.3%	2.0%	12.6%	2021 Q4	-3.6%	2009 Q4
Effective Rent Growth (YOY)	1.3%	2.4%	1.9%	12.5%	2021 Q4	-3.5%	2009 Q4
Sales Volume	$352M	$122.8M	N/A	$384.1M	2022 Q3	$0	2008 Q4

SALES VOLUME & MARKET SALE PRICE PER UNIT



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Office

- Office rents in the Pensacola market are rising at about a 3% annual rate as of 2023Q1, and posted an average annual gain of 3.7% over the past three years
- Around 780,000 square feet of office space has been delivered in the past few years and there is roughly 170,000 square feet of space currently underway. An inventory expansion of about 5% annually
- Vacancies in this market are below the 10-year average and have been consistently below 3% over the past year
- Being a midsized office market, Pensacola had 86 office sales close over the past 12 months. This marked a bit of a drop off in Office deals relative to activity in the past five years
- Annual sales volume averaged $93.4 million over the past five years and Pensacola saw $90.5 million worth of Office assets sold in the past year
- Market pricing, pulled from all Office property types, sits at around $145/SF. This is seen as an improvement from the previous calendar year
- The cap rate has declined since the last year and currently sits at 8.4%. This is comparatively higher than the average Office cap rate across the United States

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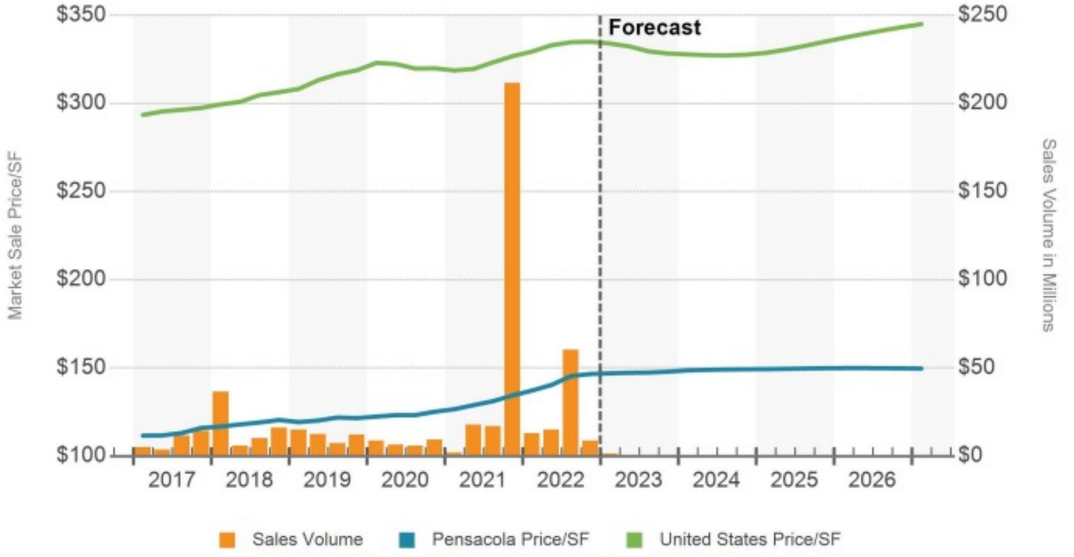
Office

KEY INDICATORS

Current Quarter	RBA	Vacancy Rate	Market Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
4 & 5 Star	1,117,581	0.8%	$28.95	7.0%	8,484	6,600	81,456
3 Star	7,485,244	3.2%	$25.93	3.6%	(22,054)	0	85,000
1 & 2 Star	8,097,001	3.5%	$19.59	4.2%	(61,914)	0	0
Market	**16,699,826**	**3.2%**	**$23.10**	**4.1%**	**(75,484)**	**6,600**	**166,456**

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	0.5%	5.7%	3.6%	9.0%	2011 Q1	1.7%	2022 Q3
Net Absorption SF	(64.7K)	204,872	19,643	924,094	2020 Q4	(121,347)	2015 Q4
Deliveries SF	35K	189,286	70,980	755,074	2021 Q1	0	2022 Q2
Rent Growth	2.9%	1.4%	0.9%	8.3%	2015 Q3	-10.7%	2011 Q4
Sales Volume	$94.6M	$47M	N/A	$299.6M	2022 Q3	$7.5M	2010 Q1

SALES VOLUME & MARKET SALE PRICE PER SF



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Retail

- Retail rents in this market rose at an annual rate of 4.6% during the past four quarters
- There has been roughly 570,000 SF of space delivered in the past three years, with 18,000 SF currently in the works. The expansion rate is around 2% entering 2023Q1
- Vacancy rates are right in line with the 10-year average and have stayed at about 3% over the past couple of years
- 230 retail transactions took place in the past year, which is in the upper echelon of performers compared to similar midsized markets
- In the past 12 months, $311 million worth of Retail assets were sold. General Retail was the catalyst in this valuation, accounting for $192 million of Pensacola sales
- The $/SF sits at around $146 entering 2023, which is an improvement from this time last year
- The market cap rate has dropped slightly from the previous year and is situated at 7.3%. This is the lowest it has been in the past five years
- Pensacola has consistently had a lower market cap rate compared to the rest of the country

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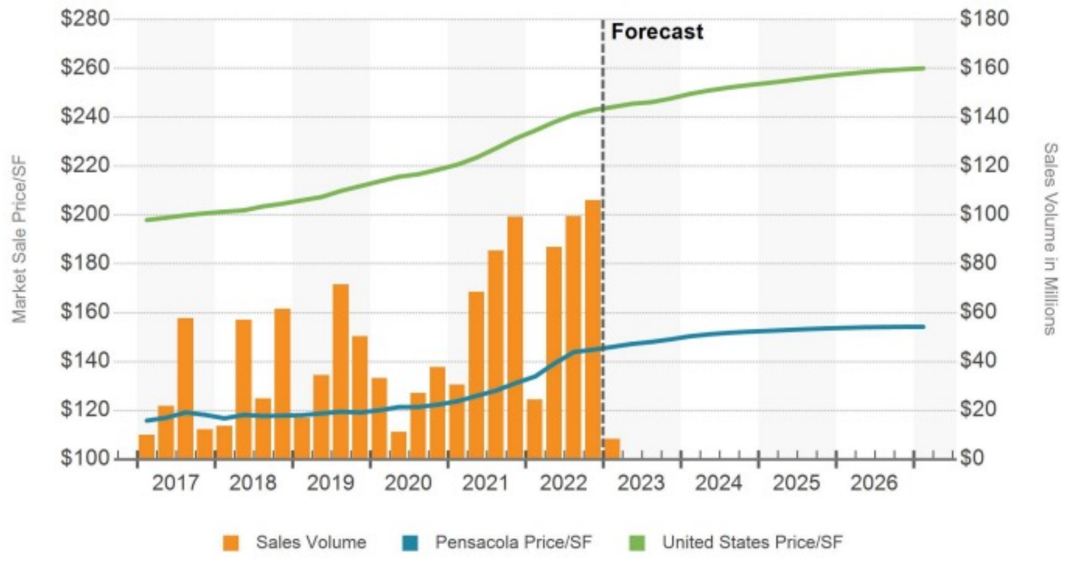
Retail

KEY INDICATORS

Current Quarter	RBA	Vacancy Rate	Market Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
Malls	1,771,019	1.0%	$20.10	1.3%	(420)	0	0
Power Center	0	-	-	-	0	0	0
Neighborhood Center	7,477,520	7.0%	$16.10	6.9%	(512)	0	0
Strip Center	1,998,345	4.9%	$15.46	6.3%	(8,759)	0	0
General Retail	20,297,482	1.7%	$15.51	1.9%	(1,896)	36,284	17,500
Other	50,000	0%	$19.27	0%	0	0	0
Market	**31,594,366**	**3.1%**	**$15.91**	**3.3%**	**(11,587)**	**36,284**	**17,500**

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	0.3%	4.4%	3.2%	6.6%	2011 Q1	2.5%	2022 Q2
Net Absorption SF	196K	227,793	147,833	748,226	2008 Q3	(288,272)	2009 Q3
Deliveries SF	311K	209,103	226,378	788,294	2008 Q1	27,715	2011 Q1
Rent Growth	4.6%	1.1%	1.8%	5.7%	2022 Q3	-4.2%	2009 Q4
Sales Volume	$313M	$122.7M	N/A	$316.8M	2022 Q4	$17.7M	2010 Q2

SALES VOLUME & MARKET SALE PRICE PER SF



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Industrial

- Industrial rents are sitting at an annual growth rate of 11% and have posted an average annual gain of just under 9% over the past three years
- Roughly 110,000 square feet of Industrial space has been delivered to the Pensacola market in the last 24 to 36 months
- Vacancy rates were below the 10-year average and have been under 3% for the past several quarters
- Pensacola is identified as a tertiary market (smaller metro area) with one of the smaller Industrial footprints in the country. However, 43 sales closed in the last 12 months which is better than similar markets
- Those deals resulted in the fewest number of Industrial properties to trade hands in the area over the past five years
- Over the past year, around $54 million of Industrial assets were sold. Logistics facilities drove recent sales volume, accounting for $42 million in transactions
- Industrial assets in this region are going for around $77/SF, rising over 10% from the previous year
- The market cap rate is only a few basis points lower than last year’s number and is generally higher in this market compared to the rest of the U.S.

Industrial

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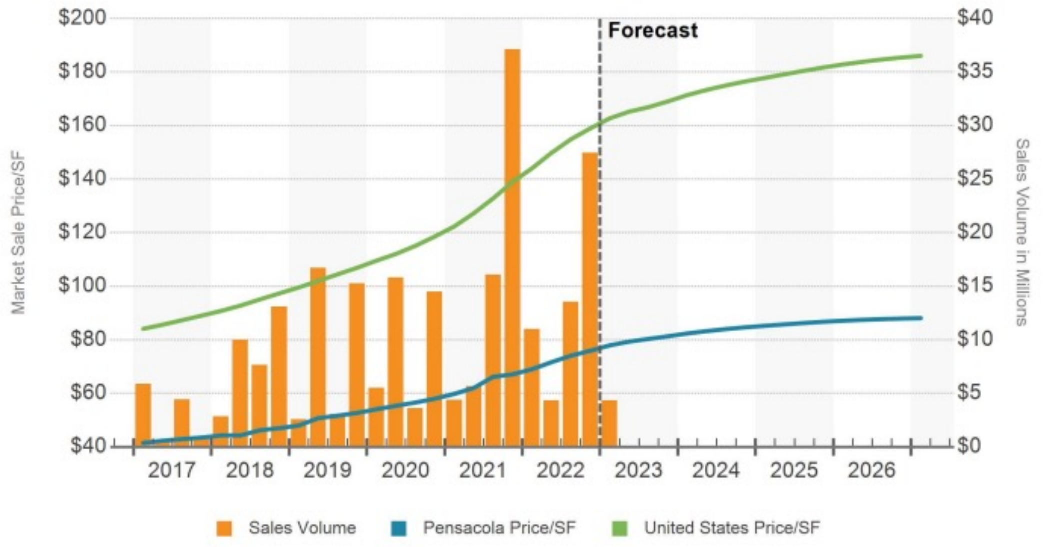
KEY INDICATORS

Current Quarter	RBA	Vacancy Rate	Market Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
Logistics	11,890,787	3.7%	$8	3.8%	(55,088)	0	0
Specialized Industrial	5,426,615	0.4%	$8.68	0.6%	(7,400)	0	0
Flex	1,788,162	1.4%	$11.63	2.2%	(10,759)	0	0
Market	**19,105,564**	**2.6%**	**$8.53**	**2.7%**	**(73,247)**	**0**	**0**

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	0.3%	6.0%	3.4%	12.5%	2011 Q1	1.9%	2022 Q3
Net Absorption SF	(60.1K)	104,060	(82,438)	762,607	2012 Q1	(732,444)	2009 Q4
Deliveries SF	0	59,531	11,887	276,339	2008 Q2	0	2022 Q4
Rent Growth	11.1%	3.0%	4.3%	12.6%	2022 Q3	-3.9%	2009 Q4
Sales Volume	$54M	$22.1M	N/A	$69.8M	2022 Q1	$3.6M	2010 Q2

SALES VOLUME & MARKET SALE PRICE PER SF



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Forward Looking Thoughts

- Investors seeking a hedge against inflation, should take advantage of the opportunity to purchase properties with high cash flows. Inflation increases the value of owned properties, which benefits real estate investors
- As construction costs continue to rise, new developments may not become profitable. Value-Add investments are now becoming a priority
- Across the CRE market, asset conversion is becoming more popular. Office properties to apartments has been the alternative of choice in larger markets. Reconfiguring retail assets to medical office buildings might be next
- The rise of e-commerce has led to a greater need for manufacturing and warehouse space. This should cause a continuing boom for the Industrial and warehouse sector throughout 2023
- Rising mortgage rates and other housing affordability challenges are helping to keep apartment demand and rents high

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