COMMERCIAL REAL ESTATE TRENDS REPORT

An Integra Realty Resources Publication

VIEWPOINT 2023

ABOUT VIEWPOINT

Integra Realty Resources (IRR) is one of the largest independent commercial real estate valuation and consulting firms in North America, with over 161 MAI-designated members of the Appraisal Institute among over 600 professionals based in our more than 50 offices throughout the United States and the Caribbean. Founded in 1999, the firm specializes in real estate appraisals, feasibility and market studies, expert testimony, and related property consulting services across all local and national markets. Our valuation and counseling services span all commercial property types and locations, from individual properties to large portfolio assignments. For more information, visit www.irr.com.

ABOUT IRR

For over 20 years, Integra Realty Resources, Inc. (IRR) has grown to become one of North America's largest independent CRE market research, valuation, and counseling firms. Our clients tell us that our 600+ professionals in 50+ offices deliver extraordinary insight, unbiased advice, and excellent service. In 2022, IRR valued over $140 billion in real estate assets across more than 60 metro markets comprising over 31,500 assignments.

Every IRR office is supervised by one of our more than 161 MAl-designated professionals, industry leaders who have over 25 years, on average, of experience in their local markets. Having more MAI-designated experts than any other firm is just one testament to the high levels of training and experience which we put at our clients' disposal: as of January 2022, IRR's senior management team also includes: 14 FRICS; 9 MRICS; 16 CREs; 25 SRAs; 16 CCIMs; 6 ASAs.

These designations from the most prestigious real estate organizations in the world mean that from a culture of quality and ongoing professional development, we can offer unparalleled expertise in appraisals, feasibility and market studies, expert testimony, and related property consulting services across all local and national markets. IRR stands ready to serve you with unmatched Local Expertise...Nationally.

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CEO'S LETTER

Welcome to the 30th edition of IRR Viewpoint, Integra's annual forecast of conditions affecting the U.S. commercial real estate market as we close out 2022.

As we head into the closing days of December 2022, there appears to be both guarded optimism and extreme pessimism—not always in equal measure—around the state of the real estate market. In order to provide relevant forecasts, one would do well to understand the current market temperament; what are the market's perceptions and expectations? This is perhaps the most important question to ask in today's environment.

On the one hand, we have the extreme doomsday outlook. There are countless influential business professionals legitimately commenting weekly across multiple media channels, declaring we could be entering another worldwide financial crisis. Notable economists are openly questioning the leadership of the Federal Reserve Bank's ability to control inflation. The rising debt crisis worldwide, reflected in the price of oil, food and commodity price-shocks, resounded all year. Central banks across the globe are struggling to grapple with their economic reality. It would not be hyperbole to say that negative recession news has reached maximum volume.

The major meltdown of the FTX crypto exchange was a significant negative milestone heading into the fourth quarter of2022. While the speculation surrounding fraudulent activity focuses more clearly on its probability, the impact on the entire market was dramatic. This speculation is leading to a reevaluation of the diligence process for equity at a time when equity was already reacting to higher risk-free rates throughout the year. The result was widespread layoffs across most major tech employers during most of the third quarter of 2022, and layoffs are spreading across other service industries. Elon Musk has become the poster boy (or whipping boy) of good/bad bosses, as he struggles to extricate himself from a multi-billion-dollar tech investment that he knew was poorly managed from the start. Following the Thanksgiving holiday, and within days of one another, Blackstone and Starwood both suspended redemptions in their real estate funds.

So, what say the optimists? Even the most optimistic are advocating for a shallow recession. It's not a wildly popular position, maybe slightly less gloomy than outright worldwide financial meltdown. But even the guarded optimist in all of us has to admit that 2021 was an exuberant year, and 2022 ended stronger than most expected. In fact, I wrote in my opening letter in last year's Viewpoint that we were going to have to decide as a society to take our foot off the accelerator, or the Federal Reserve was going to hit the brakes for us.

What we are now experiencing is a re-pricing of equity because the cure for inflation is draining the market of capital. Equity positions in real estate that are forced to act, via refinancing or sale in the coming year, will be punished with fewer buyers and deeper discounts, either relative to their 2021 price, or 2021 price expectations. The true optimist realizes that patient equity will be rewarded with price rebounds over a longer time horizon, and abundant equity will enjoy strong returns by buying right in 2023-2024, or by exhibiting patience if the right buy conditions do not materialize.

As we navigate the year ahead, Integra Realty Resources and its team of nearly 600 valuation advisors throughout the U.S. and Caribbean will continue to closely monitor the market. In order to best serve our clients, it's important for us to understand and articulate changes occurring in the mindset of buyers and sellers, investors and financiers, and other market makers. Our clients count on us for our independence, which affords us the opportunity to provide unbiased advice.

At the moment, sentiment can best be characterized by a combination of fear and uncertainty. The silver lining is that while imprudent capital may be destroyed in the wake of uncertainty in the short-term, there will be many new opportunities that will arise from this dislocation.
If there is anything I've learned after decades in business, it is that Mark Twain was a true genius only rivaled by the Oracle of Omaha, Mr. Warren Buffett. Twain was right when he said, "I am an old man and have known a great many troubles, but most of them have never happened." We are very likely to over-correct in this period of fear and uncertainty.

And Warren Buffet was right when he explained his investment thesis: "We simply attempt to be fearful when others are greedy, and to be greedy only when others are fearful."

We hope you enjoy the perspective of this year's Viewpoint; that it informs your business thesis, and that we can continue to be trusted advisors to the real estate community at large.

Here's to a courageous 2023!

Anthony M. Graziano, MAI, CRE
CEO of Integra Realty Resources, Inc.

ECONOMIC TRENDS

The medieval philosopher Moses Maimonides titled one of his major works The Guide for the Perplexed. This is as apt a theme as any for those pondering the economic and real estate market outlook for 2023. Roiled by ongoing military and public health crises, American tribalism continues unabated and is institutionalized in a divided Congress. Mixed signals seem tilted toward a U.S. recession, as they are in other major economies in Europe and Asia. As much as ever, details matter and so Viewpoint 2023 looks to data specifics to sort things out in a perplexed era.

THE ECONOMY

An era of uncertainty

To use a technical term, the performance of the US economy over the past year has been 'meh.' Real estate, business in general, and grassroots households have been buffeted by shifting headwinds and tailwinds so strong that progress has been hard to come by, if indeed any advance has been made at all. As we turn into 2023, the outlook is for more of the same.

The swirling winds are like a cyclonic vortex. That is to say, the differing directions are related in a pattern developing over time. For one example, the positive impacts of household spending (with personal consumption expenditures up $275 billion year-over-year as of third quarter 2022) cannot be divorced from the residual effects of the 2020 and 2021 Covid-19 stimulus programs, and their contribution to consumer price inflation. Similarly, the remarkable year-over-year increase in jobs (a twelve-month net change of approximately 5 million as of November) has brought total employment above pre-pandemic levels. But the resulting 3.7% unemployment rate has meant an increase in the Employment Cost Index – a measure of labor inflation – to the highest level in the 21st century.

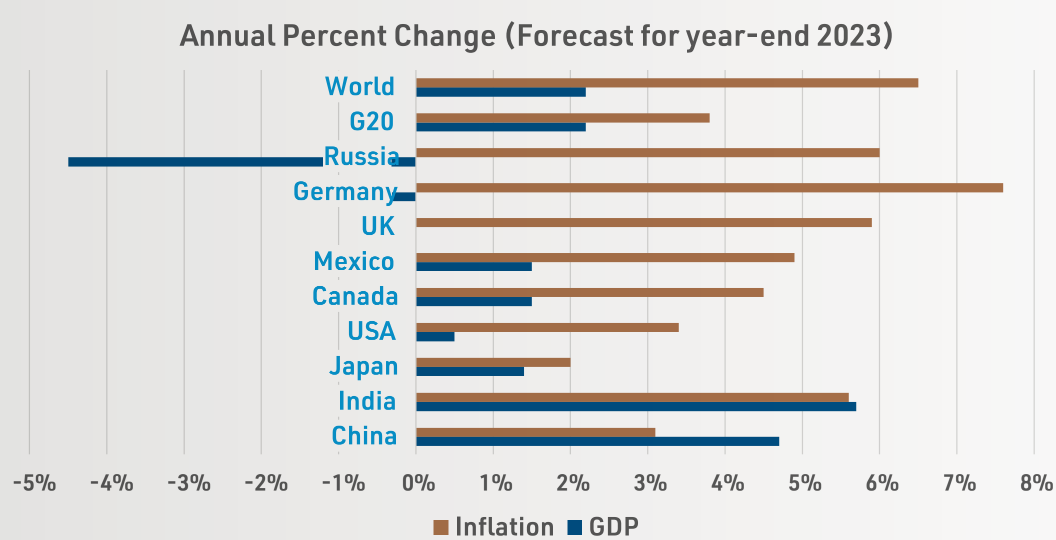
The Pushmi-Pullyu pattern is not restricted to the United States, certainly. Although pandemic fatigue is a feature of contemporary American society, Covid-19 is hardly in the rearview mirror as 2023 begins. Globally, there have been 631 million cases of the Coronavirus (as of November 1, 2022) with 6.59 million deaths according to the World Health Organization. Approximately 350,000 new cases are being reported daily, with over 1,500 reported deaths each day. With the virus continually mutating, the public health emergency remains a potent economic factor both here and abroad.

> ... Globalization is still a major force in the U.S. economy, and our challenges mirror those of other nations around the world.

Since Russia's invasion of Ukraine in February 2022, military hostilities have been layered onto the economy as a negative disrupting factor. From energy, to food, to global supply chains, the impact of war is acting as a drag on the global economy and on the United States as the world's largest market. Keeping the international context in mind is sometimes difficult for Americans, whose attention is frequently limited by our own borders. But globalization is still a major force in the US economy, and our challenges mirror those of other nations around the world. Thus, as the accompanying graphs shows, we are no better (or worse) than 'middle of the pack' when it comes to the outlook for real GDP growth and price inflation – not keeping up with the G20 averages, but not so much at risk as Russia, Germany, and the United Kingdom.

We delve into greater detail in the following sections of *Viewpoint.*

USA is "Middle of the Pack" in 2023 Forecast



EMPLOYMENT

Slow expansion over the long haul

As 2022 winds down and 2023 takes the stage, real estate professionals can be excused if they find the interpretation of the jobs numbers flowing from the Bureau of Labor Statistics perplexing. That might be a mild description, in fact. The October monthly report seemed encouraging, with the addition of 261,000 workers to the employment rolls. That brought the number of Americans at work to 153.3 million, completing the rebound from the COVID-19 jobs plunge. With 5.3 million new jobs in the twelve months ending in October 2022, the net change in jobs recently has been the strongest in the past fifty years (or more).

However, there are several brow-wrinkling labor statistics to contemplate for real estate decision-makers. The first and foremost – and one very much on the mind of the financial markets – is that the Fed considers a strong labor market inflationary in the present economic context. When the central bank says that it will fight inflation 'as long as it takes,' that translates into tight monetary policy 'until the job numbers soften and wage growth weakens.' That would be politically incorrect to say out loud, but it is surely the Fed's intent. So robust job growth is currently viewed – in monetarist terms – as a problem, not as a success. It does put us in mind of the old Reagan maxim about the business cycle: A recession is when your neighbor loses his job; a depression is when you lose yours.

That inflationary effect can be seen in the 2022 Employment Cost Index, which has risen more that a full percent each quarter (through September). Since 2001, the average ECI increase has been just 0.7 percent and hasn't been this high since the beginning of this century. That's a number the Fed watches closely, and its position seems to be 'if it takes a recession to bring it under control, so be it.' For real estate – and business generally – a recession is hardly a consummation devoutly to be wished.

Late 2022 figures are already showing deceleration in the labor market, although it reflects slow growth rather than contraction. Already the year-over-year job gains have throttled back from the 6.0 to 6.7 million rate that was registered from November 2021 to July 2022. The unemployment rate – still very low at 3.7% in October – has edged up from 3.5 in the summer months.

The deceleration in the aggregates is reflecting a broad-based trend in the hiring rate. Each month, the BLS publishes its JOLTS report (one of the great bureaucratic acronyms, standing for the Jobs Opening and Labor Turnover Survey), allowing us to observe hiring, involuntary job separations, quits, and employment opportunities across the economy. The hiring rate calculates the percentage of new jobs (by sector and in total) compared to the number of jobs for each category. What is notable in the most recent data (published in November 2022), is that the hiring rate has declined in total jobs, and in each of the major industry categories.

The implications for commercial real estate are a dramatic easing of demand across the major property types. The office-concentrated FIRE and Professional/Business Services are a case in point. Where hires in Finance and Insurance were 226,000 in September 2021, they were down 34% to 149,000 a year later. The comparable figures for Professional and Business Services marked a slide of 12%, from 1,241,000 to 1,097,000. While jobs were still being added, the trendline has been easing significantly.

> There are several brow-wrinkling labor statistics to contemplate for real estate decision-makers.

Leisure and hospitality, which includes the hotel sector and restaurants, has been enjoying the best hire rates of these major sectors. This reflects a comeback from the pandemic-induced shutdowns of 2020 and 2021, but even here we see the pace of new hires coming down from 7.8% a year ago to 6.8% in the most recent tally.

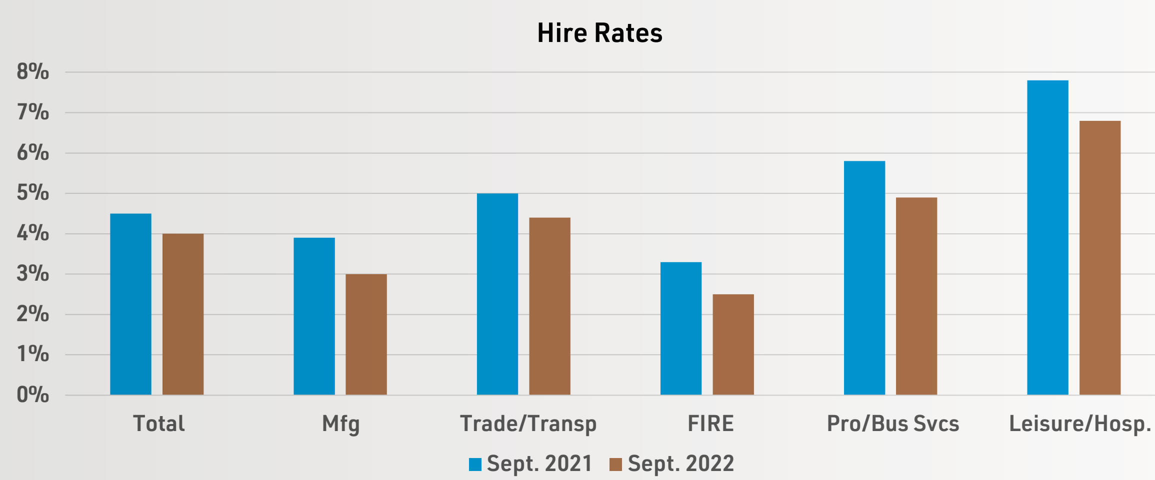
The complex trade and transportation sector counts workers in both traditional retailing and in e-commerce. As households feel the squeeze of inflation, rising credit card interest rates, and even more onerous terms on home mortgages and home equity lines, the consumption patterns undergirding the trade and transportation sectors are being strained. In September, the Conference Board's Consumer Confidence Index weakened notably. The Board's measure of the present situation plummeted from 150.2 to 138.9 in just a month's time. More ominously, the Index of consumer expectations – already low in August – retreated to 78.1 in September. The Board's commentary called expectations 'dismal' and statistically associated with an anticipated recession. The retreat in hiring across wholesale and retail trade, transportation, and warehousing is consonant with such consumer sentiments.

The Conference Board's October economic forecast projects unemployment rising to 4.4% in 2023, and flat real GDP growth, with a risk to the downside. The Fed's forecast jobless rate for 2023 is also 4.4%, and the Fed sees that persisting in 2024. Over the longer haul (to 2031), the Bureau of Labor Statistics projects a decade-long employment growth rate of 0.5% annually. Meager population growth, a low labor force participation rate, and wide variation in industries is accounting for slow job expansion over the longer haul. The three categories with the largest job additions are expected to be healthcare/social assistance, leisure and hospitality, and professional/business services. Shrinkage is anticipated in manufacturing, retail, and federal government jobs.

> Late 2022 figures are already showing deceleration in the labor market...

All in all, on the jobs front, real estate is looking at a fairly somber outlook into the next year or two.

New Hires Slowing Across County Sectors



HOUSING

Expect a slow year ahead

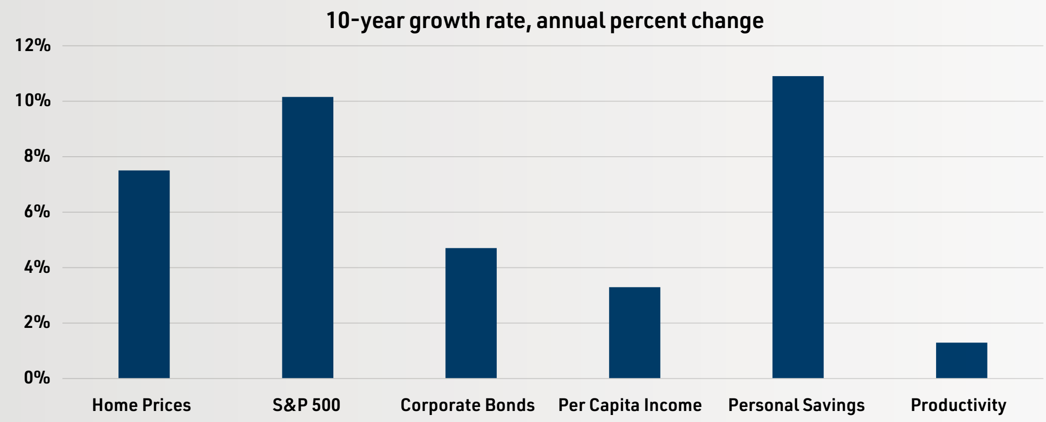
For all the justifiable attention on consumer price inflation, there has been another key element of inflation that is not often mentioned by name: asset price inflation. After the Global Financial Crisis asset prices soared far out of proportion to basic economic factors such as incomes, productivity, and savings. (The personal savings rate jumped significantly during the pandemic, as households received cash support from Covid-19 relief legislation.)

Housing is now facing a reversal, with substantive economic implications. The August 30, 2022 release of the S&P Global/Case-Shiller Home Price Index reported a one-year price increase of about 18% for US residences. Over five years the annual price change averaged 9.9%, and over ten years just under 8%. Thus, housing inflation has registered a multiple of consumer price inflation for more than a decade, spurred by historically low home mortgage rates.

> Housing is now facing a reversal, with substantive economic implications.

While home prices remain elevated, the National Association of Realtors reported that Existing Home Sales in August 2022 were down 19.9% from the same month in 2021. NAR's Affordability Index, meanwhile, slipped from 146.5 in July 2021 to 102.2 in July 2022, as household incomes failed to keep pace with home prices. Even with the lag associated with mortgage rate inelasticity, Fed policy is having measurable effects on residential asset pricing.

Asset Prices Soared in Past Decade, Well Beyond Incomes and Productivity



Going forward into 2023, the ripples of housing deflation are likely to spread broadly across the economy. For most U.S. households, the primary residence is the single most important repository of wealth. As housing prices have risen, so too has home equity with refinancing both attractive and easy. The numbers are staggering. According to Federal Reserve data, home equity hit a stunning $29 trillion as of mid-2022.

Many households tap this store of wealth by Home Equity Lines of Credit (HELOCs). In this way, asset price inflation contributes to consumer price inflation by bolstering spending power. But HELOCs are among the debt instruments most sensitive to rate changes by the Fed. New borrowing is likely to be scaled back. But, even more, HELOC rates are typically adjustable, and so borrowers with existing lines of credit will be paying more in interest every month – eroding spending power. This is one way a slowing housing market acts as a drag on the economy as a whole.

> Going forward into 2023, the ripples of housing deflation are likely to spread broadly across the economy.

Homebuilders are already feeling the effects.

NAR's median home price stood at $413,800 in June 2022. By September, that figure had dropped to $384,800, a decline of 7% in a single quarter. Faced with such a drop, builders decelerated production from 1.8 million units in April 2022 to 1.4 million units in September, which is where new starts are expected to remain for the coming year.

With rising mortgage rates expect to persist, and the potential for a recession rising, the vital housing sector is unlikely to be energizing the U.S. economy over the first several quarters of 2023.

INTEREST RATES

Rates will jump, but where will they land?

The price of money pervades economic decision-making. Indeed, just about every page of this issue of Viewpoint 2023 reflects the ramifications of changing interest rates. So it is worthwhile to reflect on some of the major effects expected in the year ahead, and even beyond.

We can start with the Yield Curve, as seen in the accompanying graph. Economists monitor the relationship between the market rates for short-term Treasury bills, and longer-term Treasury notes and bonds. This curve is normally 'upwardly sloping,' meaning that long rates are typically higher than short rates. This makes sense because there is a higher price for committing your funds far into the future. That price reflects both the uncertainty of the future and the liquidity premium for tying up capital over time. Those who invest in Treasuries are, in fact, lending money to the Federal Government.

But in 2022 the Yield Curve 'inverted.' That means that the market is demanding higher yields for shorter Treasuries (one-year: 4.77%; three year: 4.55%) than for 7-year (4.22%) and 10-year bonds (4.14%). Inverted yield curves have an excellent record at being a harbinger of upcoming recessions. It should be plainly said that the yield curve inversion right now (data is as of November 8) is a modest one, and if an economic contraction is indicated, the suggestion is that a downturn would be mild and relatively brief.

> Only in the case of another global catastrophe... would rates return to the level persisting for the past decade or so.

That said, interest rate risk for private-market assets – including residential and commercial real estate – has features beyond yields in the Treasury space. Indeed, we see some worrisome elements in the cost of capital for such private market assets. Economists have a fancy word, 'inelasticity,' for the propensity of market interest rates to be 'sticky,' or to change with a lag to Treasuries and to adjust only partially to moves in the risk-free Treasury rate.

A year ago both Treasury rates and market interest rates were anomalously low. We had become comfortable – too comfortable – about that. The enormous disruption of the Global Financial Crisis had set monetary policy in position to stimulate a much-needed recovery, and to provide critical capital to financial institutions. And just as the economy became healthy enough to withdraw such supports, the Covid-19 pandemic hit and the Fed needed to return its policy rates back toward the 'zero bound'.

The data points are well known to most observers. But the psychology may not be so well understood. As we contemplate the interest rate environment going into 2023, the key issues are not only the degree to which interest rates will rise but the level we should anticipate on the other side of the Fed's anti-inflation strategy.

In other words, where will rates settle in 2024 or 2025, if inflation can be reduced to the Fed's targeted 2% - 2.5% range?

The answer, in all probability, is NOT back at the pre-pandemic level. Only in the case of another global catastrophe – economic, political, environmental, or public health – would rates return to the level persisting for the past decade or so. That's not a 'normal', new or otherwise, to be expected.

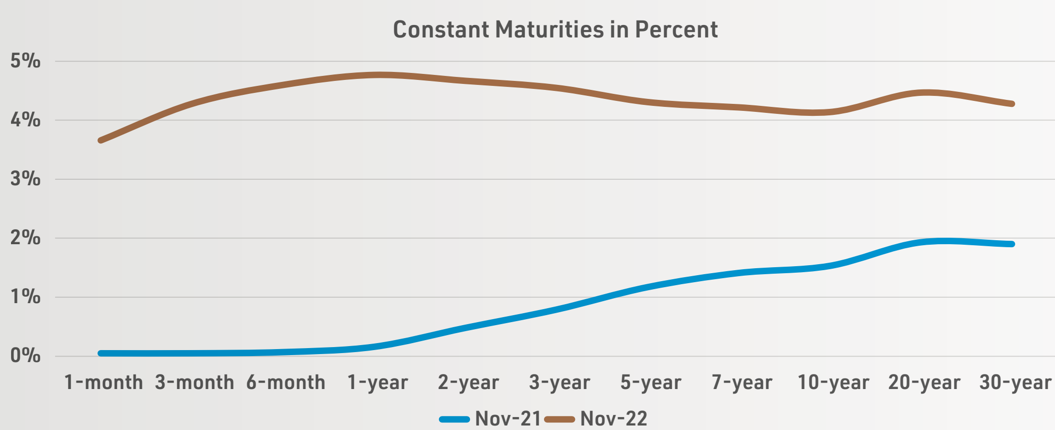
Crudely, in a sustainable inflationary world, Treasury notes should yield a premium of a percent or so above consumer inflation – or roughly 3.0% to 3.5%. Private market rates should require a further premium of 250 – 400 basis points, depending on the risk profile of the assets. For well-underwritten home mortgages, that suggests rates above 6% through the middle of this decade. For commercial properties with reasonable leverage, this would imply cap rates centering on 7% - 7.5%, depending on location and property type.

It is safe to say that such a cost of funds has not yet been fully translated into prices of either homes or income-producing properties. But slowing transaction volumes and the beginning of a price adjustment are being felt as 2022 winds down, and it would be surprising if pricing declines do not become commonplace in 2023.

The enormous disruption of the Global Financial Crisis had set monetary policy in position to stimulate a much-needed recovery...

There will certainly be a range spreading around the average cap rates in the years ahead. For commercial property, much will depend upon property quality, its occupancy profile, and the vitality of the local economic base. For real estate, the 'average' or 'median' is rarely the statistic upon which an asset is transacted. But the average is not irrelevant, and the property markets are exposed to an uncomfortable period ahead, even if the Fed's regime of tightening rates runs its course over the coming 12 months or so.

Yield Curve Shift
Steep Slope Turns to Inversion in a Year



CAPITAL MARKETS

Tough year, but reasons for optimism

The year 2022 will not be one remembered fondly by capital market participants. As of mid-November, all the major equity indexes had been hammered year-to-date. The Dow Jones Industrial Average was down 7.1%, the S&P 500, saw a 16.2% decline, and the tech-heavy NASDAQ had hemorrhaged 27.6%. Bonds, whose value moves inversely with interest rates, fared no better. The S&P Aggregate Bond Index had slumped 13.6%. The US Treasury Index was down 11.7%, and US Corporate Bonds had retreated 16.6%. Not a pretty picture for anyone.

Real estate was not spared, but a closer look reveals some reason for greater optimism going into 2023.

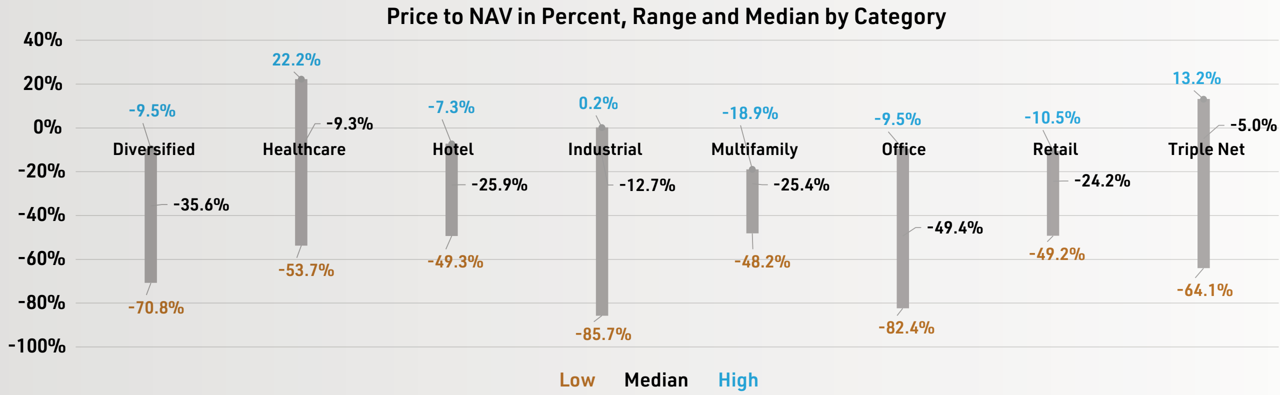
> As of mid-November, all the major equity indexes had been hammered year-to-date.

Take REITs, to begin. The publicly traded real estate investment trusts are typically not great performers in mid-to-late business cycles. If the signals about recession are correct, we are seeing a fairly normal pattern in REIT stock pricing. Indeed, REITs are down about 21% year-to-date, consonant with the equities markets generally. The positive correlation of REIT prices to the broader stock market is, in fact, one of the reasons that REITs do not function as a portfolio diversifier as well as direct property investments. Analysts have noted, though, that the publicly traded companies overperform in early business cycle recoveries. That's a reason why REITs are considered a harbinger of changes in the property markets themselves.

There is more to be learned from the details, too. For one thing, size matters. Small-cap REITs are being driven downward more severely than larger-cap firms. Not only does this reflect the depth of the asset base – potentially indicating greater cushion against further shocks – but also the presence of higher quality in the assets themselves. In difficult times, investors often demonstrate a 'flight to quality' propensity.

Next, there are defensive attributes to be considered. High inflation creates an exposure to rising operating expenses. This is mitigated by net leasing, and REITs specializing in

REIT Price/NAV Discounts Vary Widely
And May Point to Asset Value Opportunities



triple-net-leased assets are finding their ratio of stock price to net asset value (NAV) stronger as we turn into 2023. Also showing 'defensive' strength against a looming recession are REITs holding assets such as self-storage facilities or retail stores catering to value-conscious shoppers.

A third and perhaps less obvious metric is the degree of NAV discount across the REIT universe. It has long been argued that the public markets integrate all available information into stock prices, and that somehow the values at which REITs are trading are somehow more 'correct' than the unobserved values of the assets they hold. There is plenty of reason to question that assertion. The very volatility of daily stock pricing should prompt some skepticism about its putative correctness; after all, not only the real property assets themselves, but management characteristics, financial structure, and competitive strength hardly find themselves subject to substantive change on a day-to-day basis.

> Although still somewhat elevated, both delinquency rates and entry into special servicing have come down from their pandemic peaks.

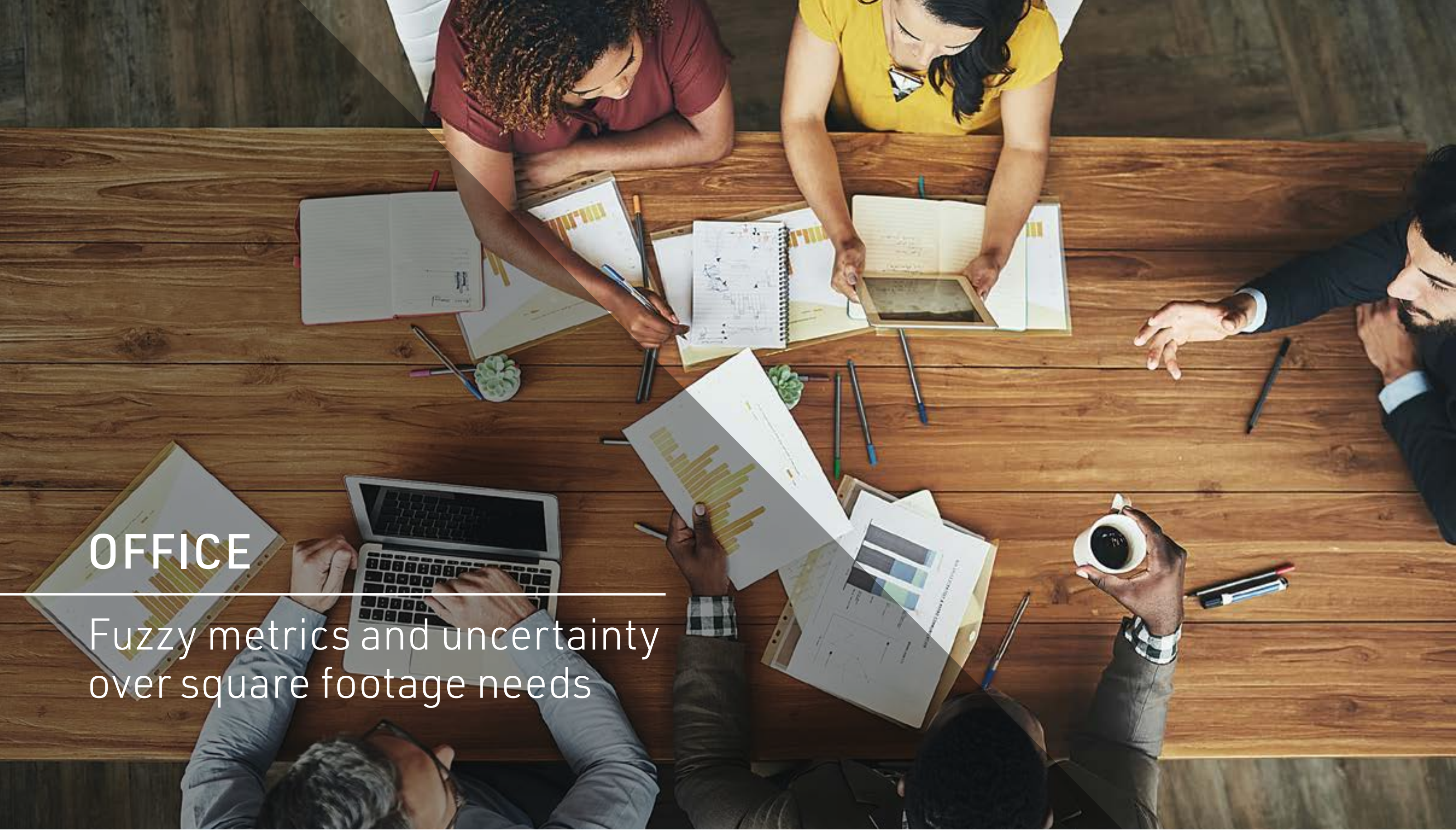
But perhaps a steep discount of stock price to NAV can be looked at another way. REITs with the highest disparity of stock valuation to real asset value may reflect property holdings with the best competitive outlook as operating real estate. If that's the case, the high asset values of the properties themselves could be more important information than the daily swinging stock prices, a better clue to future value of the heavily discounted REITs than a mere acceptance of the conventional theory of stock pricing might yield.

On the debt side of the public real estate capital market, principally CMBS, close examination also bears fruit. Despite evidence of ample capital availability, CMBS issuers have understandably turned cautious during 2022. Through the first nine months of the year, new issuance was down more than one-third with 99 deals, compared with the same period in 2021. The dollar volume was off only 10%, however, to $90.6 billion, indicating that the average issuance size was up 21% year-over-year. As with REIT equities, it appears that size matters in times of uncertainty. And, of course, rising interest rates are headwinds for CMBS and account for the decline in the number of deals and the total dollar volume of product being brought to market.

Although still somewhat elevated, both delinquency rates and entry into special servicing have come down from their pandemic peaks. That is good news, and distress in the CMBS market is nowhere near the levels of the Global Financial Crisis. That doesn't mean the outlook is totally rosy, though. The implied cap rates for properties in recent CMBS issues is still in the 4% - 4.5% range, according to analysts at Trepp. That is unsustainable if we are looking at Treasury rates already north of 4%, and trending higher. As discussed in our section on Interest Rates, a profound reassessment of debt underwriting assumptions should be anticipated in 2023 and beyond.

PROPERTY REPORTS

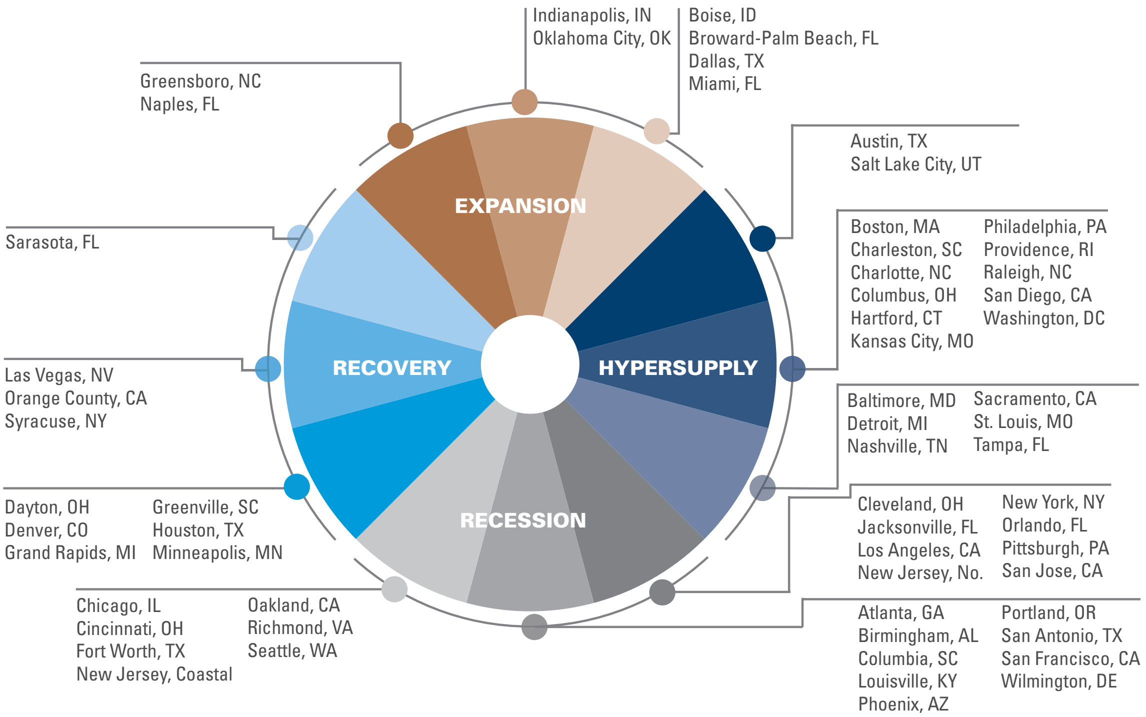
2023 is set to bring a wide range of opportunities across the commercial real estate industry. The hospitality sector is bouncing back from a devastating decline, industrial construction is booming, office properties are seeing fluctuating occupancy and vacancy levels, retail performance is varied, and the multifamily market is at a turning point. Dive into the risks and rewards associated with each major property sector and gain insight into the best investment prospects for the year.



OFFICE

Fuzzy metrics and uncertainty over square footage needs

OFFICE MARKET CYCLE



EXPANSION

Decreasing Vacancy Rates
Moderate/High New Construction
High Absorption
Moderate/High Employment Growth
Med/High Rental Rate Growth

HYPERSUPPLY

Increasing Vacancy Rates
Moderate/High New Construction
Low/Negative Absorption
Moderate/Low Employment Growth
Med/Low Rental Rate Growth

RECESSION

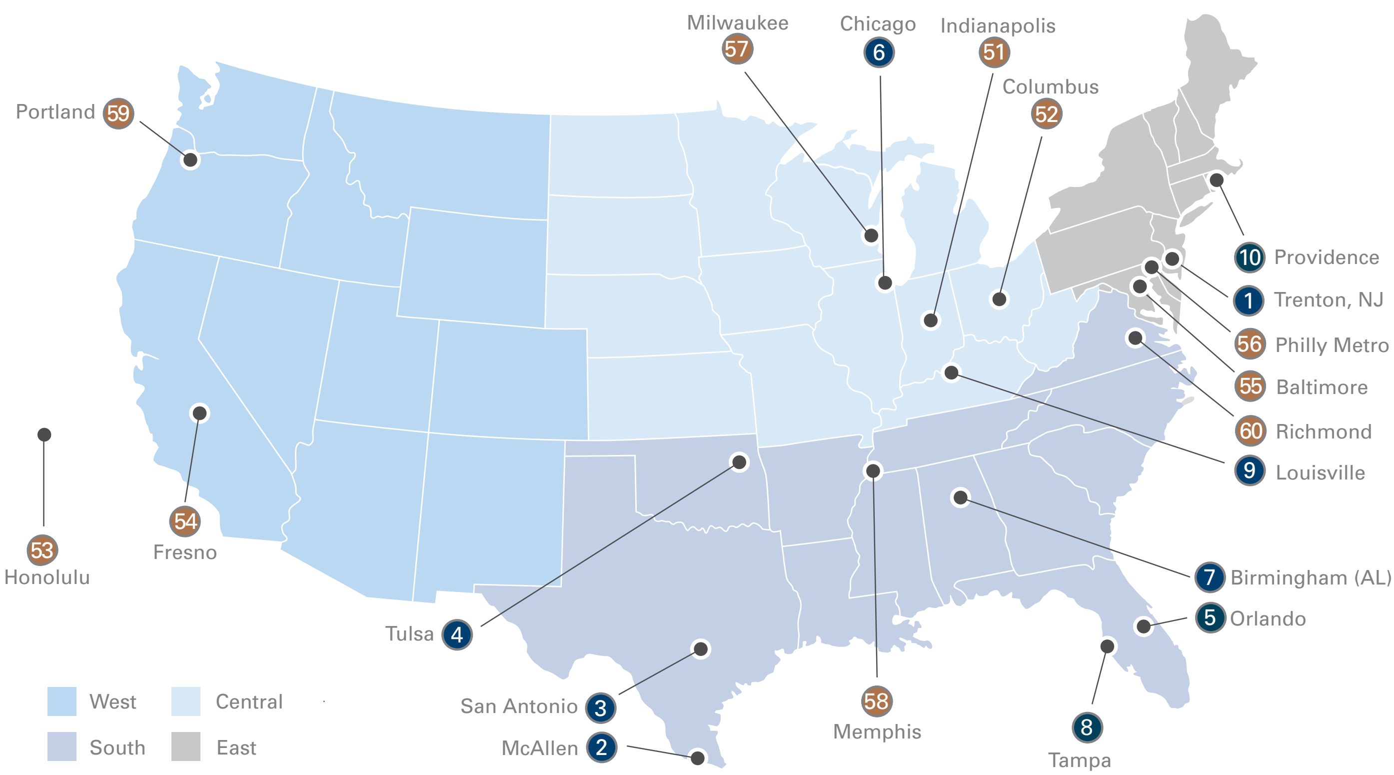
Increasing Vacancy Rates
Moderate/Low New Construction
Low Absorption
Low/Negative Employment Growth
Low/Neg Rental Rate Growth

RECOVERY

Decreasing Vacancy Rates
Low New Construction
Moderate Absorption
Low/Moderate Employment Growth
Neg/Low Rental Rate Growth

In an era where "normal" is tough to come by, market professionals have a great opportunity to be selective across the range of possible deals.

TOP MARKETS BY OFFICE TRANSACTION VOLUME BASED ON YOY PERCENTAGE CHANGE



Bulls (Top 10)

2022 Rank	City	YOY Change	Total 4Q21-3Q22	Vol. Rank*
1	Trenton, NJ	325.6%	$698 M	31
2	McAllen	193.3%	$44 M	60
3	San Antonio	159.0%	$1,287 M	20
4	Tulsa	144.6%	$296 M	45
5	Orlando	123.8%	$1,213 M	22
6	Chicago	121.1%	$4,900 M	9
7	Birmingham (AL)	120.1%	$416 M	37
8	Tampa	115.7%	$1,251 M	21
9	Louisville	98.6%	$286 M	47
10	Providence	94.0%	$289 M	46

Bears (Bottom 10)

2022 Rank	City	YOY Change	Total 4Q21-3Q22	Vol. Rank*
51	Indianapolis	-26.7%	$503 M	35
52	Columbus	-28.7%	$316 M	43
53	Honolulu	-29.1%	$234 M	52
54	Fresno	-30.2%	$127 M	55
55	Baltimore	-34.9%	$709 M	30
56	Philly Metro	-39.1%	$1,659 M	18
57	Milwaukee	-43.0%	$389 M	39
58	Memphis	-48.9%	$180 M	53
59	Portland	-50.5%	$527 M	34
60	Richmond	-53.3%	$412 M	38

* Volume Ranking is based on the overall transaction volume among 60 markets nationally

Maybe it's the iconic dominance of the skyline. Maybe it's the result of the secular shift of the economy from manufacturing to "knowledge work." Maybe it's just the fact that it's the type of real estate the industry itself inhabits or that this one property type represents over $2.5 trillion in investment value.

More probably, it's the combination of all these factors and more. But it's clear that what goes on in the office sector of the commercial property industry garners an inordinate amount of attention in both the business press and the general press. For reasons of its physical presence, economic contribution, evolving utility, and store of wealth, offices are clearly worthy of a deep statistical investigation and well-considered interpretive review, this year especially.

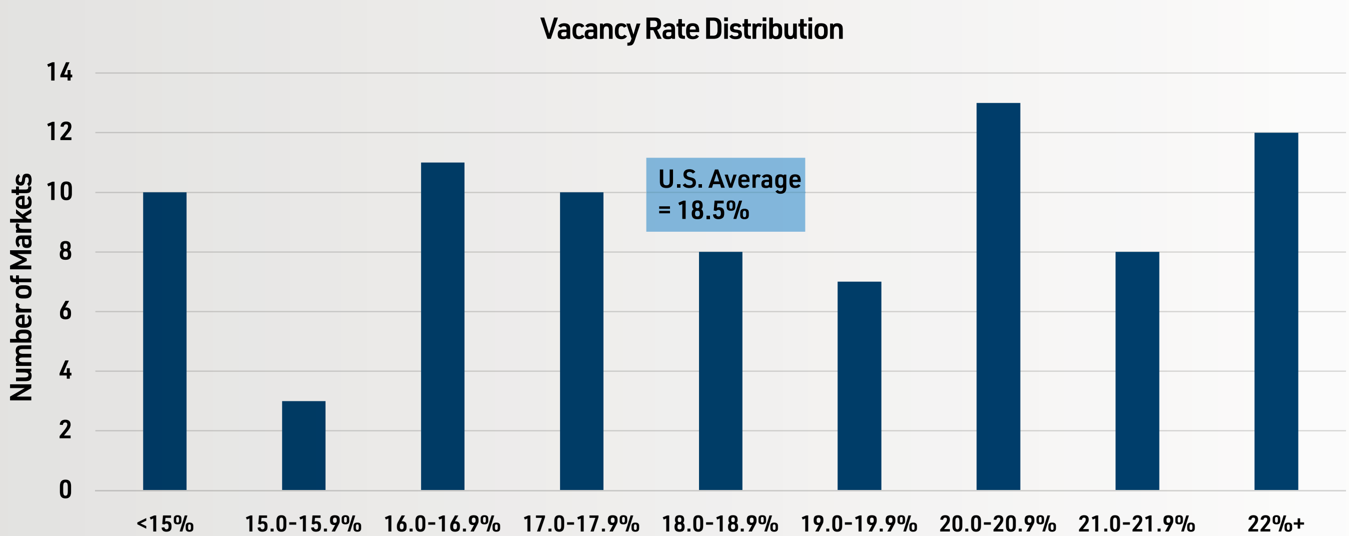
The disruptive effect of the Covid-19 pandemic has elevated the idea of "return to work" to prime consideration for the office markets. Most of the Integra professionals note the conflicting objectives of corporate managements, which generally seek to encourage employees to resume in-person work, and their staffs who, having adjusted to remote activities, have strong preferences for the hybrid work model, minimizing commuting time and maximizing flexibility.

The traditional metrics of occupancy turn fuzzy when employees only come into the office part of the time. Discussions of "how much space is really needed" quickly become subject to broad generalizations. For one thing, vacancy rates have trended upward since the onset of the pandemic, net absorption has run in negative territory, and sublease space has flooded the markets. At the level of national averages, the situation is often described as dire.

> ...offices are clearly worthy of a deep statistical investigation and well-considered interpretive review, this year especially.

Averages and national sums, however, may not be the best way to look at the numbers. If we deconstruct the vacancy data, we detect some important peculiarities. Conventional statistics often expect data to be distributed along a bell-shaped curve, known to analysts as a "normal distribution." But as shown in the accompanying graph, instead of peaking around the average vacancy rate of 18.5% (according to Moody's Analytics), occupancy across the country runs the gamut with large numbers of markets having extremely high or low rates compared to the average.

Office Vacancy Data Again Shows "Real Estate in Not Normal"



And the pattern is asymmetrical, rather than smoothly balanced. As is so often the case, local conditions are vastly more important than national trends for real estate.

Integra's Market Cycle chart underscores how metro areas around the country range widely from what might be considered the norm in this era – probably best termed "late pandemic" rather than "post-pandemic."

The introduction of Prop Tech tools to measure office utilization in ways other than traditional occupancy, absorption, and asking and effective rents, has brought attention to the 'swipes' of workers as they enter and leave their offices. Perhaps the most publicized of these metrics over the past year or two has been the Kastle Systems "Back to Work Barometer," which has been indicating that offices it monitors in large markets are only 50% full – or even less – regardless of what traditional vacancy rates might indicate.

REGIONAL RATES COMPARISON – OFFICE

	CAP RATE	DISCOUNT RATE	MARKET RENT ($/SF)	VACANCY RATE	4Q '21- 4Q '22 CAP RATE △
SOUTH REGION					
CBD Class A	6.85%	8.30%	$27.70	18.60%	▲ 13 bps
Suburban Class A	7.13%	8.49%			▲ 4 bps
CBD Class B	7.51%	8.97%	$20.15	20.85%	▼ 11 bps
Suburban Class B	7.72%	9.06%			▲ 10 bps
EAST REGION					
CBD Class A	7.11%	8.20%	$38.60	15.22%	▼ 50 bps
Suburban Class A	7.57%	8.65%			▼ 11 bps
CBD Class B	7.80%	9.86%	$27.54	17.69%	▼ 68 bps
Suburban Class B	8.39%	9.27%			0 bps
CENTRAL REGION					
CBD Class A	8.08%	9.31%	$25.12	19.20%	▲ 8 bps
Suburban Class A	7.85%	9.02%			▼ 4 bps
CBD Class B	8.88%	9.90%	$18.45	22.15%	▲ 17 bps
Suburban Class B	8.63%	9.63%			▼ 2 bps
WEST REGION					
CBD Class A	6.15%	7.71%	$40.33	17.00%	▲ 17 bps
Suburban Class A	6.39%	7.91%			▲ 14 bps
CBD Class B	6.67%	8.15%	$28.95	20.12%	▲ 19 bps
Suburban Class B	6.93%	8.29%			▲ 18 bps
NATIONAL AVERAGES/SPREADS					
CBD Class A	7.00%	8.36%	$32.22	17.73%	▲ 3 bps
Suburban Class A	7.18%	8.49%			▲ 3 bps
CBD Class B	7.66%	8.96%	$23.15	20.35%	▲ 2 bps
Suburban Class B	7.84%	9.03%			▲ 9 bps

That's an alarming statistic, if it can be believed. But real estate professionals have been pushing back on its accuracy and reliability for a few important reasons. First, it's not a representative sample of the marketplace, but a report on just those properties using the data provider's tracking system. Second, many of the largest property owners report significantly different estimates of space utilization and counter with evidence that leasing activity belies the story that tenants are bogged down with acres of unused space. And, the published estimates on the Back to Work Barometer represent conditions in just ten of the scores of office markets across the country.

This is not to replace troubling statistics with naïve happy talk. Softening values in the office sector are being tallied in many regions of the country. While leases-in-place provide office owners with reasonably reliable levels of income, virtually no region of the country has seen office buildings appreciate in value to any significant degree in the 12 months ending September 2022. If our discussion of economic and capital market conditions in previous sections of Viewpoint 2023 is even approximately correct, further softening of office values should be expected in the year ahead.

History teaches that as markets soften, as they do cyclically, the phenomenon of a "flight to quality" is a recurrent adaptation. Today this is not only happening because of the ability for space users to select superior facilities at a time when rental spreads are narrow, although that is true. Flight to quality is also a way to address employees' concerns about returning to the office. If an employer can offer workers attractive workspaces, that is a benefit in employee recruiting and retention in a competitive labor market.

As the regional rates comparison table nicely illustrates, all the current metrics favor Class A offices over Class B buildings: rents are higher, vacancy is lower, and cap rates are more favorable. In those few areas where cap rates have recently declined, it is likely that trend will reverse in 2023. Moreover, the rate of rent growth in the Class A markets is outstripping lease prices for Class B assets. In an era where "normal" is tough to come by, market professionals have a great opportunity to be selective across the range of possible deals.

MULTIFAMILY

Great climate, but red flags flying

The obligatory caveat states: Past Performance may not guarantee future results. Multifamily properties approach 2023 with concerns about an inflection point where the stellar results enjoyed in recent years come back to earth. If the economy generally faces an uncertain future – hard landing or soft? – the apartment sector presents investors with a similar dilemma.

Many markets are reveling in the gains in multifamily market conditions. This year's Market Cycle Chart tells the story vividly. Only 10 markets are categorized as being in recession or hyper supply, versus 51 markets in recovery or expansion.

Notably, none of the often-cited rationales for market strength or weakness explains the patterns of performance. Large cities (New York, Los Angeles, Chicago) are joined by smaller ones (Boise, Providence, Kansas City) in the group of improving apartment markets. Southern cities (Nashville, Jacksonville, San Diego) are in the cluster of expansion markets, but so are markets in the northern tier (Cleveland, Philadelphia, Seattle). Sprawling metros like Atlanta and Dallas score well, but so do more traditional urban core cities like Boston and San Francisco.

More negatively, what would explain the hyper supply rating shared by Houston and Minneapolis? Or the recession being simultaneously observed in Birmingham and in northern New Jersey?

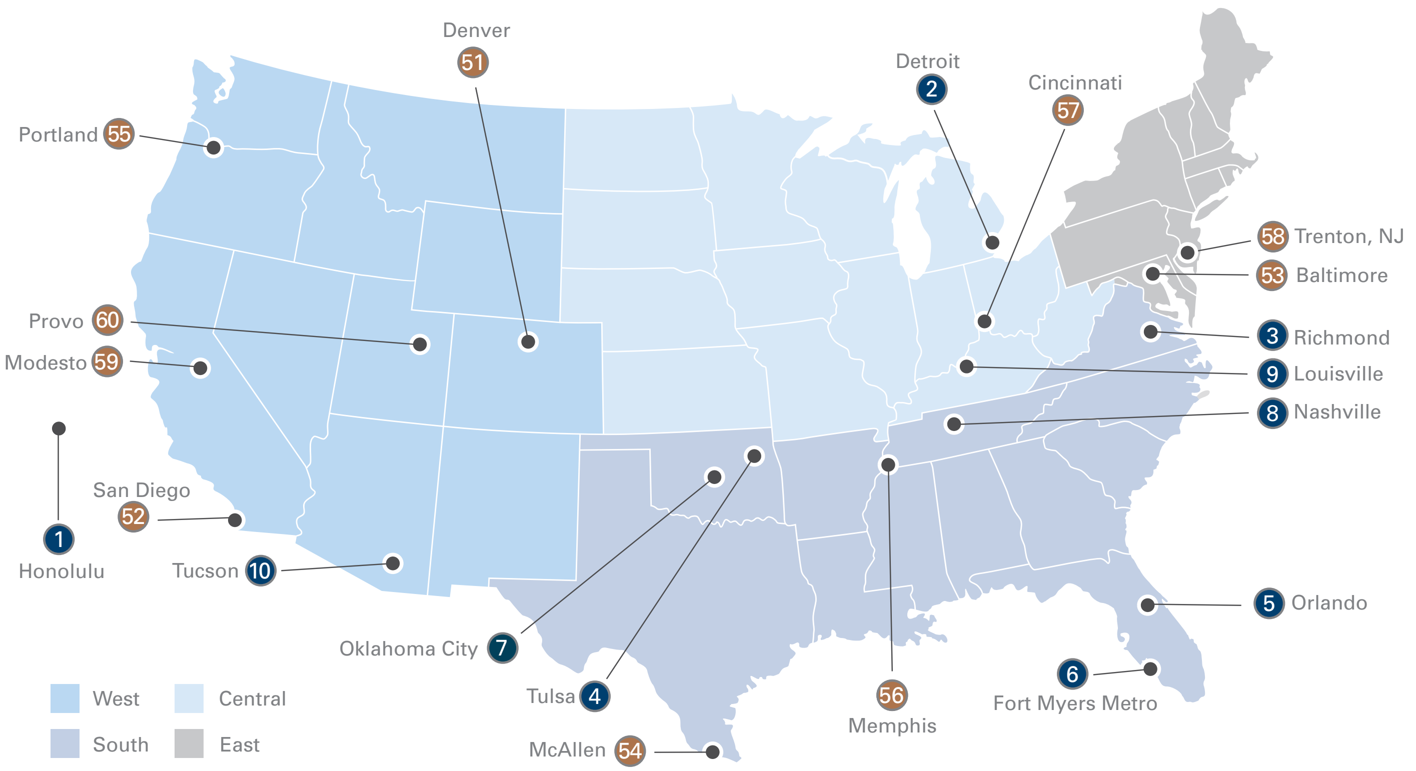
Perhaps the safest thing to say is that multifamily is facing a time of flux, but its starting point as we turn into 2023 is rather enviable.

> The obligatory caveat states: Past Performance may not guarantee future results.

To some degree, apartments need to be considered in the broader context of the ownership housing market. As discussed earlier in Viewpoint 2023, the soaring cost of single-family homes inflated by historically low mortgage rates has squeezed affordability for millions of potential homebuyers. This theoretically shifts demand into the rental market, which accounts for 35% of U.S. households. Rising mortgage rates raise the bar of comparison for the rent vs. own choice, and has been encouraging a surge in multifamily rents.

Moody's Analytics calculates that the average rent increase, nationwide, from third quarter 2021 to third quarter 2022 was a stunning 10.4%. But, as the graph showing the distribution of rent growth by market suggests, there are very few "average" markets in the country. Only seven markets show rent gains approximating ten percent: Columbus, Denver, Indianapolis, Orlando, San Francisco, San Jose, and Tampa. Twenty-four markets register rent increases between 7% and 10%, while only 15 markets see apartment rents up between 11% and 14%. Taking the extremes into account (<7% or >14%), the asymmetry becomes even more dramatic. The takeaway? A slowdown in this sector is already underway, and a further decline in momentum is probable in 2023.

TOP MARKETS BY MULTIFAMILY TRANSACTION VOLUME BASED ON YOY PERCENTAGE CHANGE



Bulls (Top 10)

2022 Rank	City	YOY Change	Total 4Q21-3Q22	Vol. Rank*
1	Honolulu	763.0%	$794 M	48
2	Detroit	280.5%	$2,386 M	33
3	Richmond	226.6%	$2,544 M	30
4	Tulsa	200.6%	$995 M	47
5	Orlando	176.1%	$11,620 M	9
6	Fort Myers Metro	139.6%	$2,295 M	35
7	Oklahoma City	138.4%	$1,783 M	40
8	Nashville	135.1%	$7,659 M	15
9	Louisville	132.4%	$1,792 M	39
10	Tucson	112.7%	$2,335 M	34

Bears (Bottom 10)

2022 Rank	City	YOY Change	Total 4Q21-3Q22	Vol. Rank*
51	Denver	15.1%	$9,435 M	10
52	San Diego	7.7%	$4,719 M	23
53	Baltimore	3.2%	$3,456 M	25
54	McAllen	0.8%	$132 M	59
55	Portland	-4.4%	$3,202 M	27
56	Memphis	-8.0%	$1,046 M	46
57	Cincinnati	-17.3%	$479 M	54
58	Trenton, NJ	-28.4%	$290 M	56
59	Modesto	-47.9%	$136 M	58
60	Provo	-66.3%	$103 M	60

* Volume Ranking is based on the overall transaction volume among 60 markets nationally

What has changed? Let's start with the unusual surge of migration that was triggered in the early months of the pandemic. That adjustment has run its course, but many in the real estate community extrapolated its pace into a sustained trendline. Now that some seriously impacted markets – especially Manhattan – have seen a return of renters (Moody's data shows a 3.5% vacancy rate and a 19.6% rental growth rate for New York), the "flight to Florida (or the Hamptons, or to the Carolinas)" expectations have moderated.

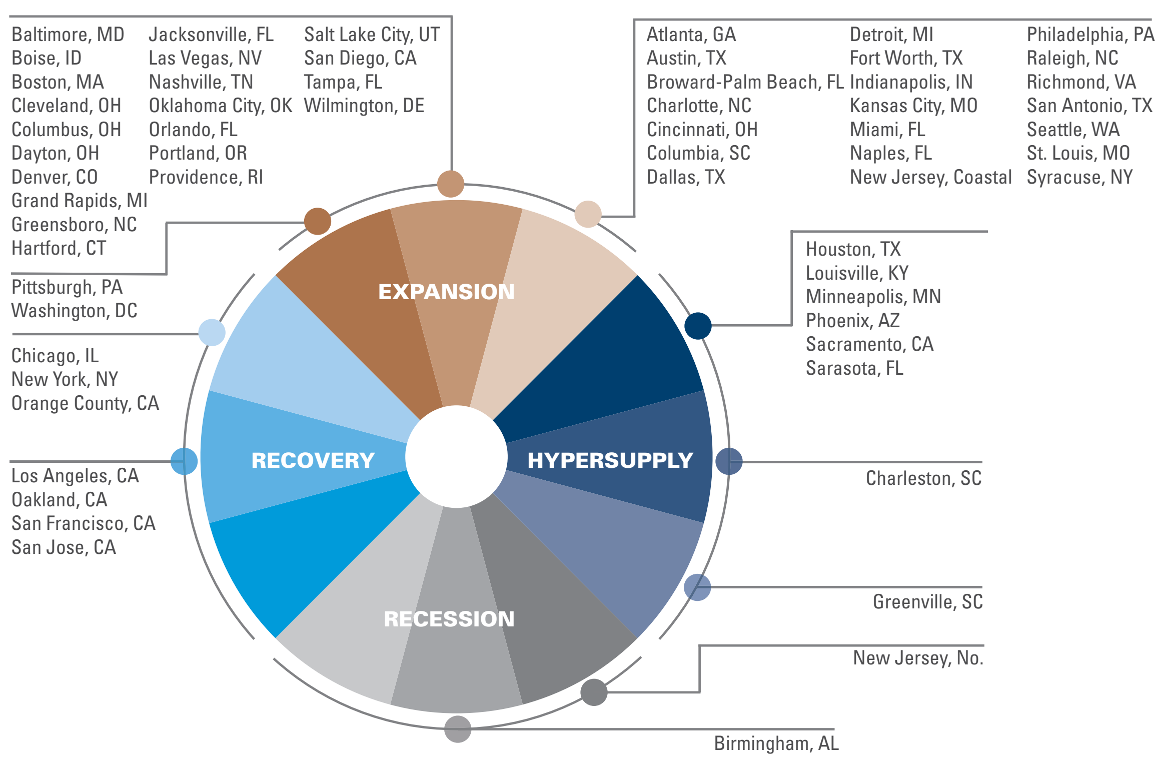
Then, too, there is the issue of new supply. Suburb-dominated metros with ample land at their perimeters have enjoyed robust new construction. Through early 2022, demand for both single-family homes and rental apartments grew nicely apace with development. Inflation and rising interest rates have decoupled late 2022 demand (and likely 2023 demand) from the housing construction pipeline, though.

CBRE construction analysts are pegging the growth in construction cost at year-end 2022 as 14.1%, with other experts from Skanska, Lend Lease, and CORFAC confirming double-digit cost acceleration. Supply chain disruptions (not over yet, as witness the impacts of the late 2022 China shutdown and continued effects of the war in Ukraine), as well as a construction labor shortage now moving into its second decade are the primary villains on the cost side.

> Suburb-dominated metros with ample land at their perimeters have enjoyed robust new construction.

As for demand, simply put, there is little good news for new housing in a potential recession and decelerating employment statistics. Layered atop this are some generational statistics worth contemplating. The Census

MULTIFAMILY MARKET CYCLE



EXPANSION

Decreasing Vacancy Rates
Moderate/High New Construction
High Absorption
Moderate/High Employment Growth
Med/High Rental Rate Growth

HYPERSUPPLY

Increasing Vacancy Rates
Moderate/High New Construction
Low/Negative Absorption
Moderate/Low Employment Growth
Med/Low Rental Rate Growth

RECESSION

Increasing Vacancy Rates
Moderate/Low New Construction
Low Absorption
Low/Negative Employment Growth
Low/Neg Rental Rate Growth

RECOVERY

Decreasing Vacancy Rates
Low New Construction
Moderate Absorption
Low/Moderate Employment Growth
Neg/Low Rental Rate Growth

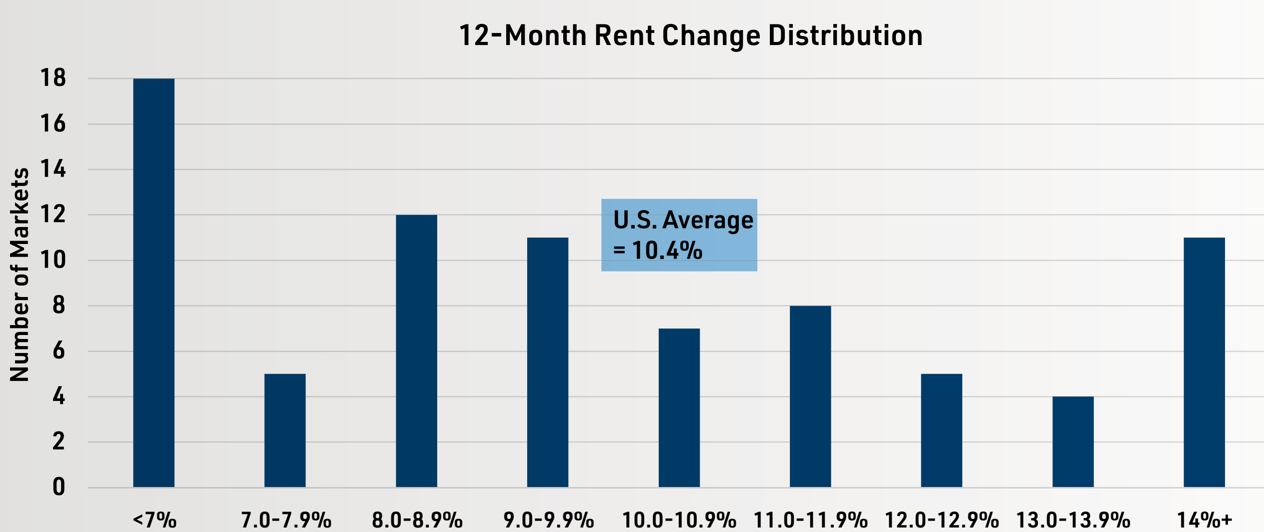
Bureau reports that 58% of young adults (aged 18 to 24) are living with their parents. Moreover, according to analysis from Pew Research, 25% of those aged 25 to 35 reside in multigenerational households, mostly with their parents. Here is one place where the economic impact of student debt intersects with the vitality of real estate demand – to the industry's detriment.

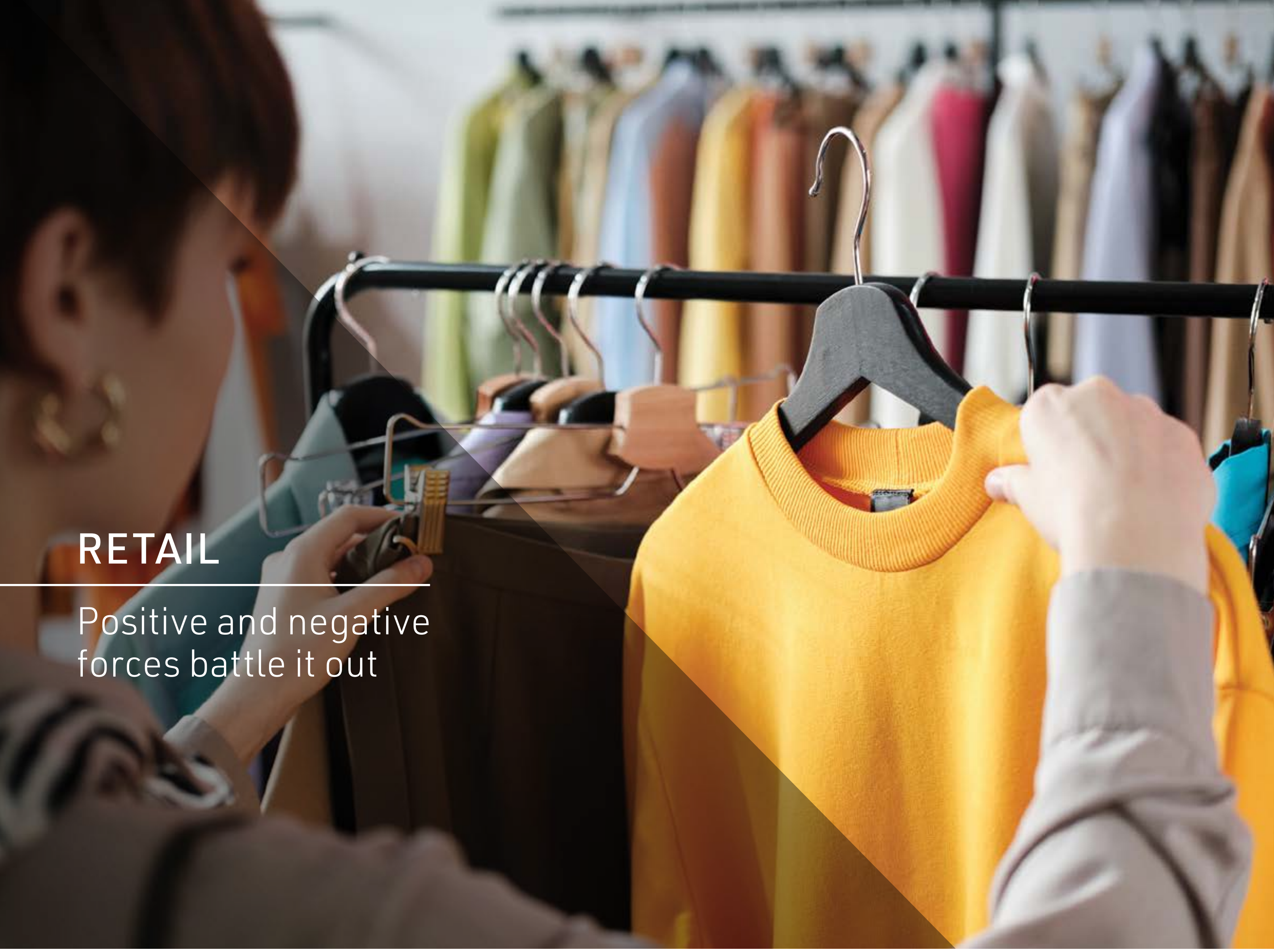
Taking such factors into consideration, cap rates for apartment properties in the fourth quarter 2022 seem to face an inevitable rise – with negative effects on transaction flows and prices in 2023. Not only do we see multifamily cap rates ranging between 4.4% and 6.8%, which are very compressed when compared with the risk-free Treasury rates, but the adjustment year-over-year in cap rates – ranging from zero basis points to an increase of just 24 bps – is simply too inelastic: a sign that the "past performance" disclaimer has not yet been taken to heart in the apartment investment community.

REGIONAL RATES COMPARISON - MULTIFAMILY

	CAP RATE	DISCOUNT RATE	MARKET RENT ($/SF)	VACANCY RATE	4Q '21 - 4Q '22 CAP RATE △
SOUTH REGION					
Urban Class A	4.65%	6.25%	$1,613.21	5.29%	0 bps
Suburban Class A	4.88%	6.36%			▼ 3 bps
Urban Class B	5.46%	7.08%	$1,104.50	4.02%	▼ 5 bps
Suburban Class B	5.60%	7.10%			▼ 14 bps
EAST REGION					
Urban Class A	5.24%	6.38%	$2,249.80	6.59%	▼ 24 bps
Suburban Class A	5.36%	6.48%			▼ 17 bps
Urban Class B	6.83%	7.08%	$1,521.50	2.77%	▼ 22bps
Suburban Class B	5.91%	7.07%			▼ 13 bps
CENTRAL REGION					
Urban Class A	5.28%	7.12%	$1,521.18	5.55%	▼ 15 bps
Suburban Class A	5.23%	7.02%			▼ 16 bps
Urban Class B	6.19%	7.79%	$967.36	3.33%	▼ 5 bps
Suburban Class B	6.00%	7.67%			▼ 17 bps
WEST REGION					
Urban Class A	4.42%	6.27%	$2,481.92	5.36%	▲ 4 bps
Suburban Class A	4.61%	6.46%			▼ 11 bps
Urban Class B	4.87%	6.75%	$1,708.77	3.08%	0 bps
Suburban Class B	5.02%	6.95%			▼ 9 bps
NATIONAL AVERAGES/SPREADS					
Urban Class A	4.85%	6.46%	$1,900.22	5.58%	▼ 5 bps
Suburban Class A	4.98%	6.54%			▼ 9 bps
Urban Class B	5.56%	7.16%	$1,285.83	3.46%	▼ 6 bps
Suburban Class B	5.60%	7.17%			▼ 12 bps

Multifamily Rents Growing at Double-Digit Pace – Sort of...





RETAIL

Positive and negative forces battle it out

Is the wheel finally turning for the retail property sector? The answer is the classic two-handed economist's response: It depends.

On the one hand, this year's Retail Market Cycle Chart shows 38 of 61 markets in recovery or expansion versus 23 in hyper supply or recession mode. This suggests positive rotation in the sector.

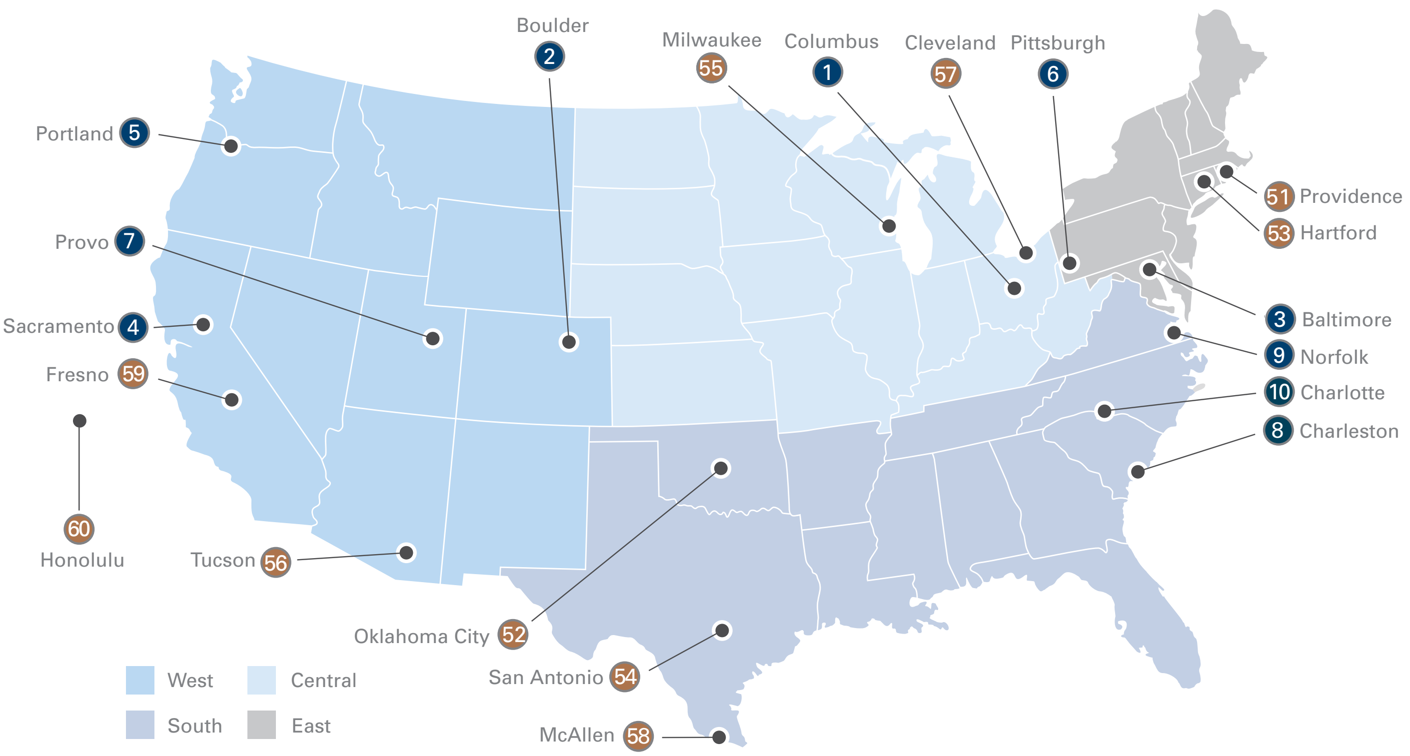
On the other hand, as the sector's regional rates comparison indicates, the pace of change since the end of 2021 is ploddingly slow. Cap rates, market rents, and vacancy rates have moved, for the most part, less than 30 basis points (a basis point being a hundredth of a percent), suggesting stagnation rather than advance.

As in other property types, national averages mask significant local disparities in performance. Integra's local professionals in Austin, for instance, observe that strong population growth, limited new construction, and tight occupancy have developers and investors looking forward to several solid years ahead. Seattle, like some other metros, is seeing a differential between its submarkets, with suburban areas rebounding while CBD stores suffer from pandemic-related declines in foot traffic. Meanwhile, Minneapolis reports a return to brick-and-mortar retail centers in 2022, even as online retail continues to expand.

Conditions remain challenging in other significant markets. Both coastal and northern New Jersey still struggle with vacancies and recurrent tenant losses, affecting transaction pricing negatively. Suburban New Jersey is, of course, one of the wealthiest areas of the country but is still not immune to recession. The same is true of Silicon Valley, which has been hammered by a downturn in the tech sector, leading to layoffs in key corporations in the Bay Area. Even in a solid growth market like Salt Lake City, rising interest rates are affecting demand and upward-moving cap rates are softening prices, leading to pressures on retail sector performance.

Inflation brings mixed effects to the retail property sector. As the price of goods rises, stores capture a benefit in higher nominal dollar volume per square foot of leased space. And, counterintuitively perhaps, inflation accelerates the propensity to spend now if consumers foresee the price of a purchase only being more expensive in the months ahead. That also means that inflation discourages savings, as the rate of return on savings fails to keep up with the erosion of buying power. There is a downside, though, because inflation eats away at the household budget by increasing expenses across the board. The cost of housing, transportation, personal services and credit card interest erodes the amount of disposable personal income available for shopping in store (or online).

TOP MARKETS BY RETAIL TRANSACTION VOLUME BASED ON YOY PERCENTAGE CHANGE



Bulls (Top 10)

2022 Rank	City	YOY Change	Total 4Q21-3Q22	Vol. Rank*
1	Columbus	348.6%	$646 M	29
2	Boulder	325.0%	$85 M	59
3	Baltimore	257.7%	$1,066 M	25
4	Sacramento	237.0%	$1,695 M	15
5	Portland	234.6%	$900 M	26
6	Pittsburgh	231.5%	$411 M	39
7	Provo	229.1%	$181 M	53
8	Charleston	218.5%	$430 M	37
9	Norfolk	183.2%	$538 M	34
10	Charlotte	159.0%	$1,303 M	18

Bears (Bottom 10)

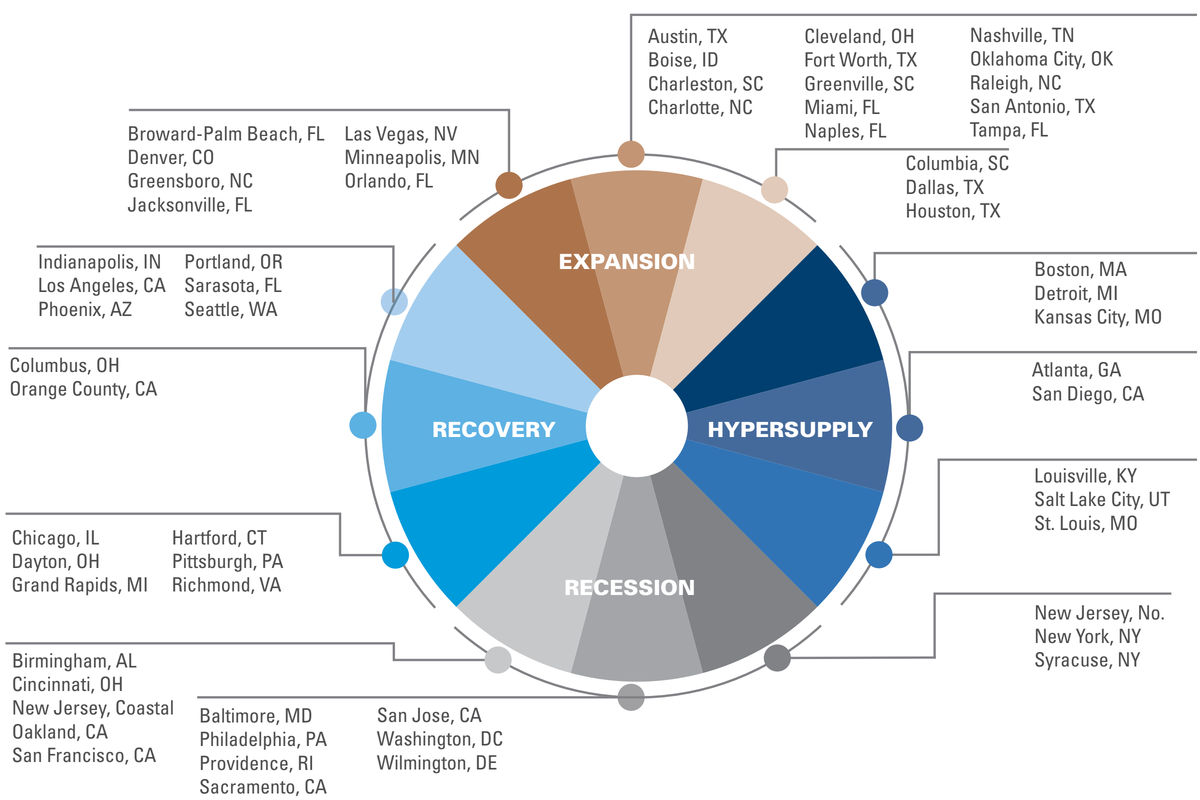
2022 Rank	City	YOY Change	Total 4Q21-3Q22	Vol. Rank*
51	Providence	0.3%	$364 M	42
52	Oklahoma City	-1.9%	$158 M	55
53	Hartford	-2.2%	$221 M	50
54	San Antonio	-3.5%	$612 M	30
55	Milwaukee	-14.6%	$334 M	43
56	Tucson	-16.6%	$321 M	45
57	Cleveland	-16.9%	$334 M	43
58	McAllen	-21.8%	$154 M	56
59	Fresno	-31.3%	$154 M	56
60	Honolulu	-67.3%	$105 M	58

* Volume Ranking is based on the overall transaction volume among 60 markets nationally

Inflation is an often-overlooked factor in the sharp drop in the personal savings rate since the peaks in early 2020 and early 2021. The pandemic cash infusions in the CARES Act of 2020 and the American Rescue Plan of 2021 spiked personal savings to almost $5 trillion and $4 trillion respectively, in an effort to keep businesses and families afloat as the economy contracted. Those funds supported discretionary spending in ecommerce and, to some extent, in-store spending through 2022. Even as late as the 2022 holiday sales period, such funds were being drawn down to buttress consumption. But that trend is already flattening, as savings are now beneath pre-pandemic levels.

Retail sales, excluding automobiles and parts but including sales of gasoline, are approximately $6 trillion on an annual basis. This includes both sales in brick-and-mortar facilities and non-store sales, including mail order and e-commerce. Such non-store sales account for about 19 percent of (non-auto) retail spending, so retail real estate captures more than 80 percent of such consumption. A lot of that spending goes quite literally into what Americans consume: Eating and drinking places take a 16 percent slice of the pie, while supermarkets, grocery stores, and other food and beverage retailers have another 14 percent share. This goes a long way toward explaining why shopping centers that are either grocery-anchored or have strong food-service tenancy are strongly favored by those investing in community and neighborhood shopping centers.

RETAIL MARKET CYCLE



EXPANSION

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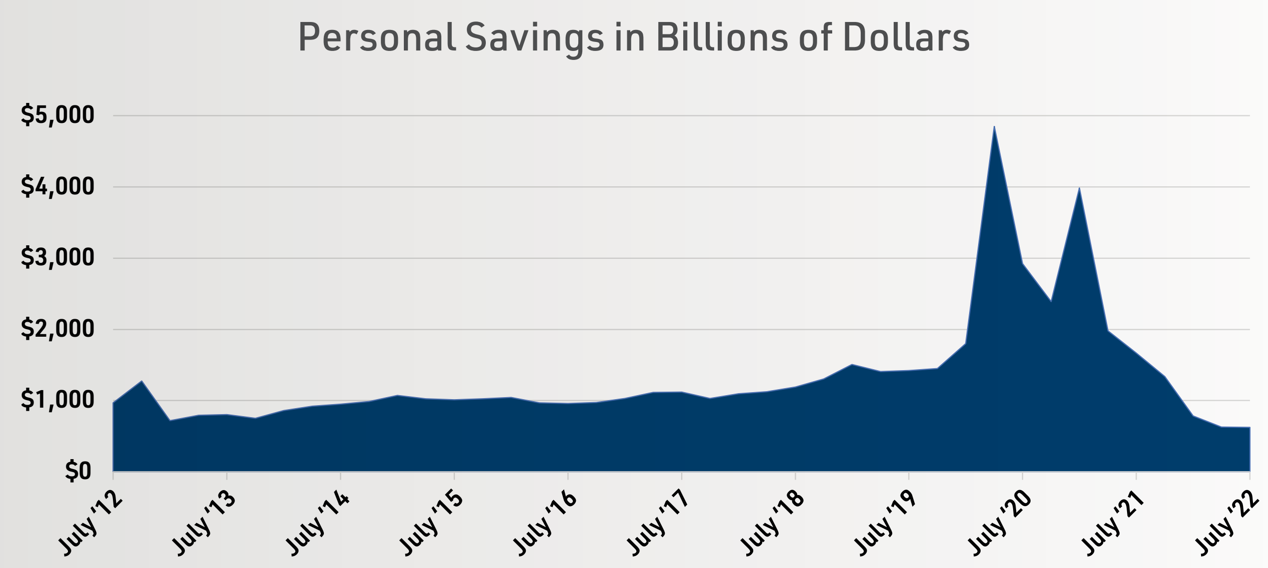


Malls seem to be bottoming out, and this might be taken as a positive sign too. At root we see the decades-long weeding out process of the weakest malls as being sufficiently advanced that the remaining regional and super-regional malls have well-established competitive positions and operating strengths. Most have deep-pocket ownership that can carry through an expected moderate recession in 2023. And there is the tremendous land value represented at the sites of these large malls, some of which has already been captured in adaptive reuse for many Class B or lower assets.

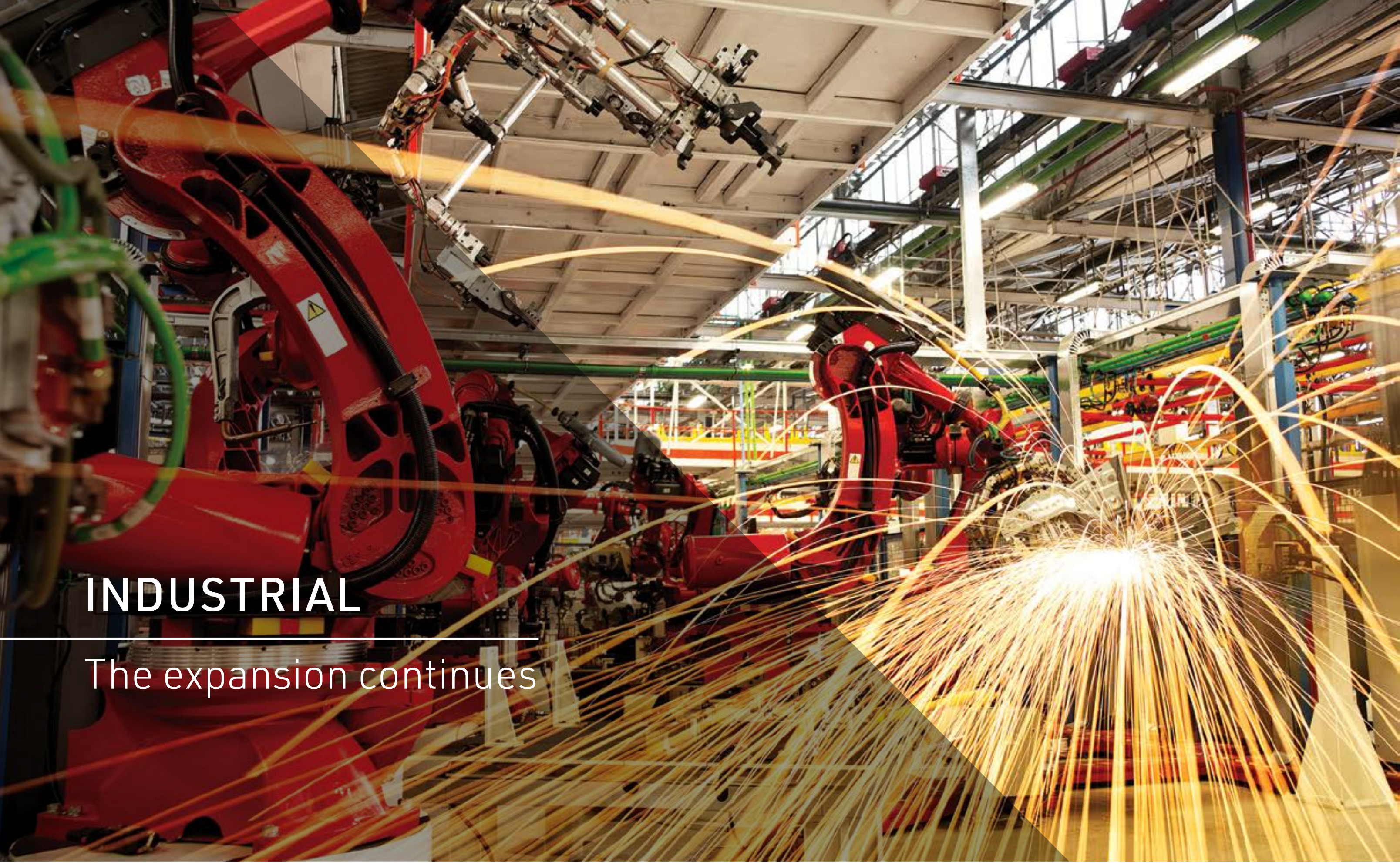
So, both positive and negative forces are at work in the retail property sector. For the time being, the challenges this type of real estate faces aren't diminishing. Macroeconomic conditions are presenting a cyclical risk; this is well-captured in the decline in the University of Michigan Consumer Sentiment Index, which has dropped into the 50-60 range, where 100 is set to 1966 conditions. For a recent comparison, this index stood at 100 before the onset of the pandemic.

If 2023 looks to be a grind in this sector, at least veterans in the retail property market have plenty of experience in dealing with difficult circumstances. They are unlikely to panic in the near-term future.

A review of capitalization rates and performance metrics for the retail sector indicate that a significant repricing already occurred during and after the pandemic. Having taken its medicine early, the retail landscape is ahead in the price normalization curve having had a two-year head start without major run-ups in 2021.

REGIONAL RATES COMPARISON - RETAIL

	CAP RATE	DISCOUNT RATE	MARKET RENT ($/SF)	VACANCY RATE	4Q '21 - 4Q '22 CAP RATE △
SOUTH REGION					
Community Retail	6.91%	8.27%	$18.72	10.38%	▼ 5 bps
Neighborhood Retail	6.78%	8.16%	$17.07	11.32%	▼ 5 bps
EAST REGION					
Community Retail	7.06%	8.31%	$23.00	10.88%	▼ 14 bps
Neighborhood Retail	7.25%	9.58%	$21.25	9.71%	▼ 28 bps
CENTRAL REGION					
Community Retail	7.68%	8.58%	$17.13	11.94%	▲ 28 bps
Neighborhood Retail	7.90%	8.75%	$15.43	12.55%	▲ 24 bps
WEST REGION					
Community Retail	6.29%	7.93%	$30.15	7.98%	▲ 6 bps
Neighborhood Retail	6.38%	8.05%	$26.20	8.38%	▲ 18 bps
NATIONAL AVERAGES/ SPREADS					
Community Retail	6.95%	8.26%	$21.70	10.21%	▲ 3 bps
Neighborhood Retail	7.00%	8.34%	$19.49	10.63%	▲ 3 bps



INDUSTRIAL

The expansion continues

No matter which metrics you consider, industrial properties are riding high atop a cresting wave. According to NCREIF performance results, industrial hit a stunning one-year mark for appreciation in the third quarter of 2022, at 30.6%. Moody's Analytics reports vacancy in the sector dropping below 4%, as 46 of the 47 markets it tracks posted positive net absorption, in excess of a million square feet of absorption in the third quarter alone for 30 metros. Spurred by soaring demand, new construction is reaching a new pinnacle of nearly 700 million square feet, according to Newmark Knight Frank's analysis.

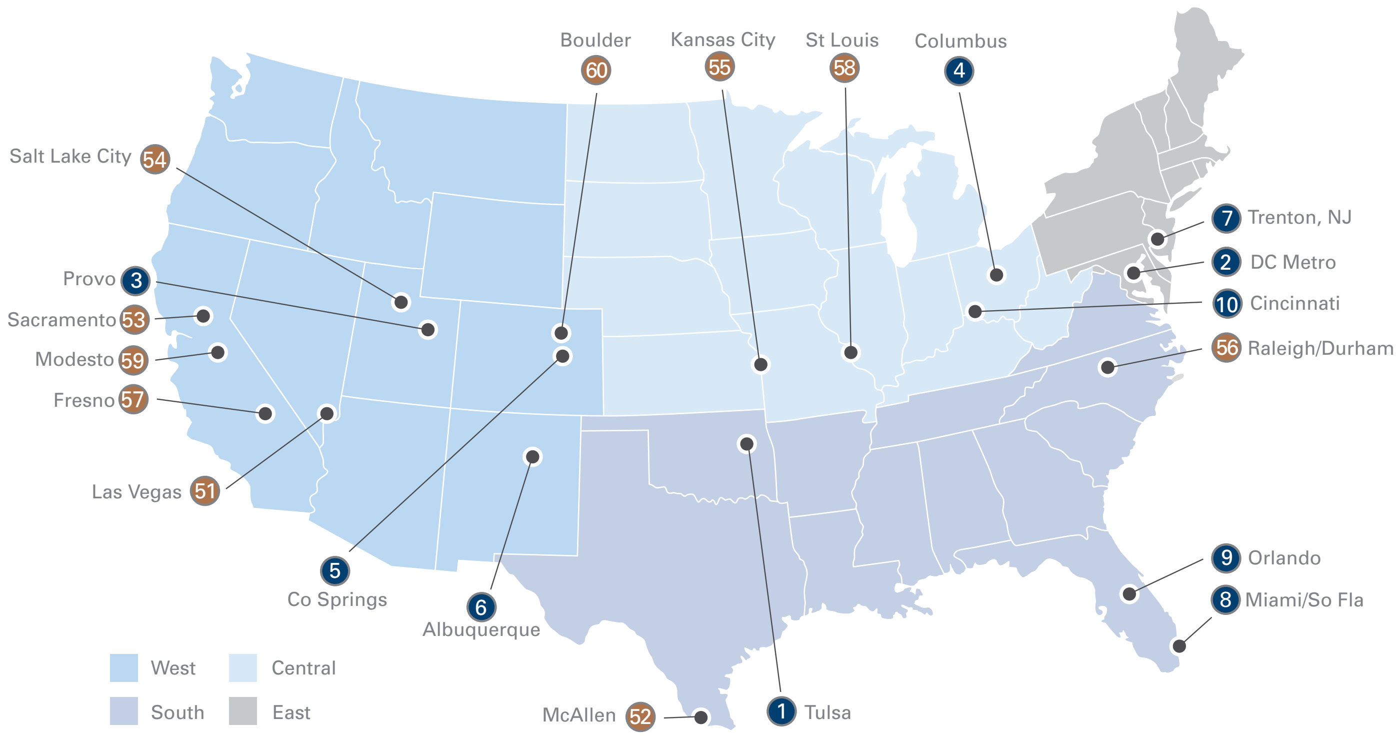
While Integra's reading of the market may be somewhat less ebullient, we still recognize unmistakable strength. We find industrial rents up nearly 9% year-over-year, with vacancy down to nearly 4% for warehouse/distribution properties, although flex space is somewhat higher at 5.88%. Both sub-sectors have found occupancy tightening significantly as 2022 comes to a close.

Diving deeper into the data, it is remarkable to see the rental acceleration on both coasts. Certainly, it is highly unusual to find changes in market rent in the 40%-60% range as we do this year in both the East and West regions, a factor that may go a long way toward explaining the value appreciation recorded by NCREIF. More than that, analysts at Newmark have estimated that the share of import volume has shifted dramatically since 2007, with West Coast ports dropping from a 58.4% of total volume to 48.3%. The East and Gulf Coasts have surged ahead, from a 41.6% share to 51.7%. As displayed in our regional rates comparison table for industrial, the South and Central regions are lagging in rent growth and occupancy in comparison to port-related warehousing demand.

Even if some subsidence occurs, there is plenty of energy propelling the industrial real estate sector into mid-decade.

It will be no surprise, therefore, that Integra's industrial Market Cycle Chart for 2023 skews heavily positive, with 50 of 61 markets rated in the expansion phase. This should be a good thing going forward, for it's improbable that this property type will see its wave cresting even far into the future. Even if some subsidence occurs, there is plenty of energy propelling the industrial real estate sector into mid-decade. A look at the Federal Reserve's report on industrial production shows U.S. output in late 2022 at its highest point this century.

TOP MARKETS BY INDUSTRIAL TRANSACTION VOLUME BASED ON YOY PERCENTAGE CHANGE



Bulls (Top 10)

2022 Rank	City	YOY Change	Total 4Q21-3Q22	Vol. Rank*
1	Tulsa	152.2%	$169 M	56
2	DC Metro	138.9%	$5,411 M	8
3	Provo	109.0%	$347 M	50
4	Columbus	108.7%	$2,335 M	18
5	Co Springs	102.7%	$300 M	51
6	Albuquerque	101.8%	$115 M	59
7	Trenton, NJ	94.4%	$278 M	52
8	Miami/So Fla	79.2%	$5,124 M	9
9	Orlando	78.4%	$1,770 M	22
10	Cincinnati	76.2%	$1,399 M	28

Bears (Bottom 10)

2022 Rank	City	YOY Change	Total 4Q21-3Q22	Vol. Rank*
51	Las Vegas	-5.8%	$1,976 M	21
52	McAllen	-6.3%	$60 M	60
53	Sacramento	-9.0%	$1,120 M	33
54	Salt Lake City	-9.2%	$1,316 M	30
55	Kansas City	-12.9%	$1,093 M	34
56	Raleigh/Durham	-13.9%	$1,311 M	31
57	Fresno	-19.9%	$141 M	58
58	St Louis	-22.1%	$1,431 M	27
59	Modesto	-38.0%	$526 M	45
60	Boulder	-38.0%	$403 M	47

* Volume Ranking is based on the overall transaction volume among 60 markets nationally

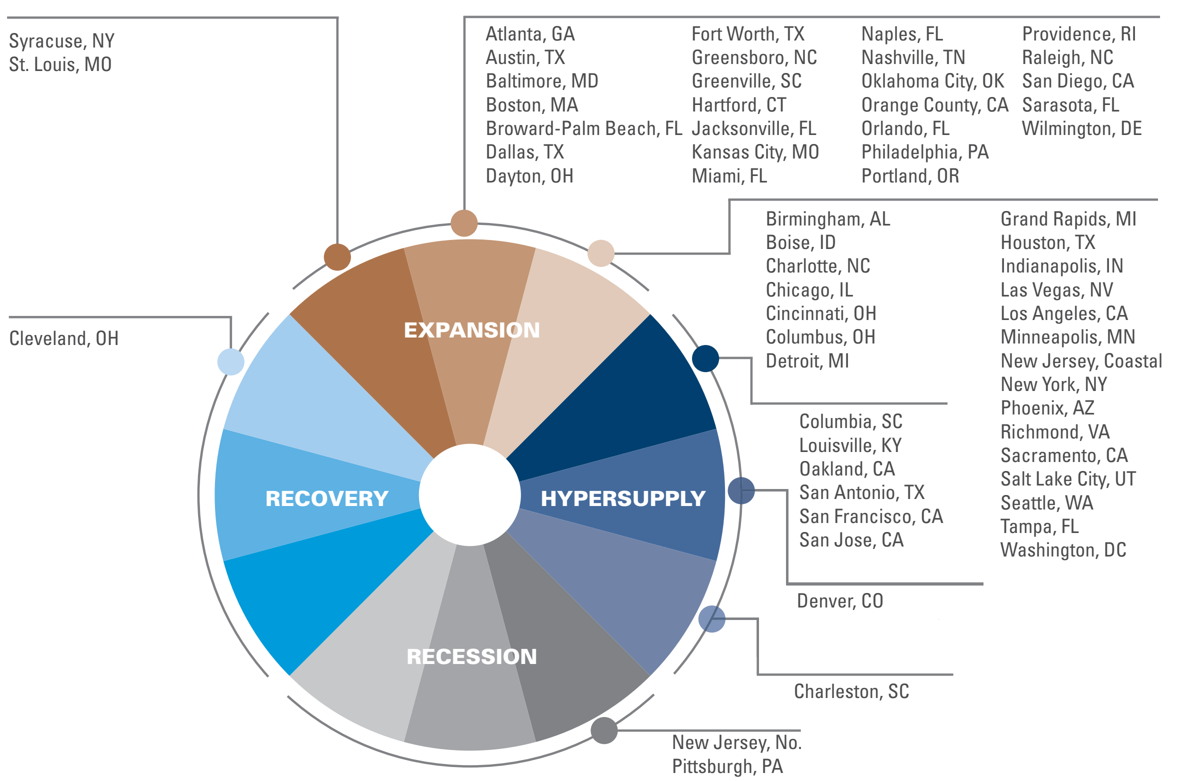
Our local professionals frequently cited both economic resilience and innovation as drivers of optimism for industrial properties, both distribution and R&D/Flex. The ramping up of electric vehicle production, the re-shoring of computer chip manufacturing, and the pandemic-accelerated growth of the bio-tech sector are among factors cited for strength in markets as diverse as Phoenix, Grand Rapids, and Syracuse. In addition to ports, regional distribution hubs from Dallas to Columbus, Harrisburg to the Inland Empire are enjoying vigorous throughput across the logistics chain.

This is not to say that risks are being ignored. News reports that Amazon, a key driver of industrial market demand, will be laying off between 10,000 and 20,000 workers is a harbinger of a potential sea change in the sector. In the tech sector, HP, Cisco, and Intel are looking at downsizing strategies, as are fossil fuel companies Phillips 66 and Chesapeake Energy. Corporate America is taking seriously the potential for a recession and seeking to get ahead of the cycle. Tellingly, the transportation, warehousing, and utilities tally of job separations in October 2022 was 294,000, up 16.2% year-over-year, according to the Bureau of Labor Statistics JOLTS report. The property markets will undoubtedly be feeling the effects in the year or two ahead.

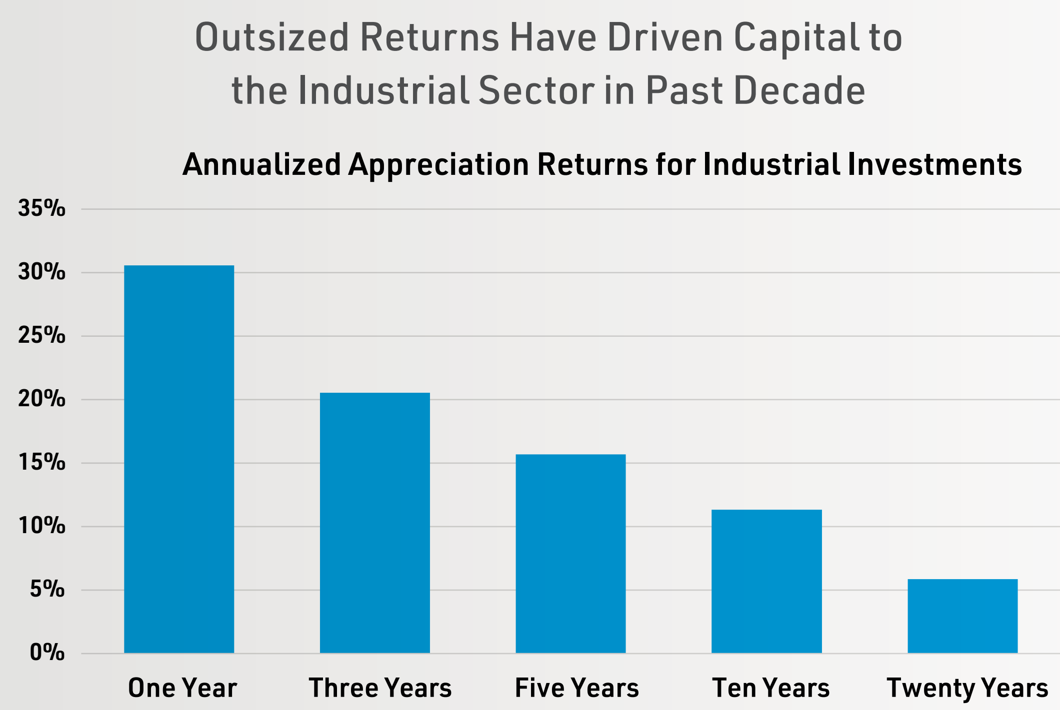
Inflation, however, might not prove quite the headwind for industrial assets, as for the economy generally. The long-term, net-lease structure typical of this property type provides some protection against the corrosive effects of broad-based price changes, at least as far as operating expenses are concerned. And, as construction costs rise, so too does the base value of new products entering the market – one factor in the upward push in rents recently.

> Spurred by soaring demand, new construction is reaching a new pinnacle...

INDUSTRIAL MARKET CYCLE



EXPANSION	HYPERSUPPLY	RECESSION	RECOVERY
Decreasing Vacancy Rates	Increasing Vacancy Rates	Increasing Vacancy Rates	Decreasing Vacancy Rates
Moderate/High New Construction	Moderate/High New Construction	Moderate/Low New Construction	Low New Construction
High Absorption	Low/Negative Absorption	Low Absorption	Moderate Absorption
Moderate/High Employment Growth	Moderate/Low Employment Growth	Low/Negative Employment Growth	Low/Moderate Employment Growth
Med/High Rental Rate Growth	Med/Low Rental Rate Growth	Low/Neg Rental Rate Growth	Neg/Low Rental Rate Growth



No property type is immune to the shifts in the capital markets, and industrial real estate assets actually have more exposure than some other real estate property types. That is because, as Integra's Viewpoint 2023 survey shows, cap rates for industrial properties are lower than for other commercial property types (office, retail, hotel), with only multifamily more richly priced relative to current income. Thus, risk premiums are very skinny now and likely to become even thinner as the Fed continues to attack inflation in 2023. Indeed, as the REIT Price to NAV chart in our Capital Markets discussion indicates, the spread on industrial REIT market valuation is especially wide, reflecting public market concern about the sector.

If we are seeing a cresting wave as 2022 comes toward shore in 2023, perhaps some surf-side analogies may be pertinent. At the top of waves it is not unusual to find considerable froth, and it may be that this property type is seeing some frothiness as it climaxes. And while surfers love to mount the gnarly breakers, it is only the most skillful who can successfully 'shoot the curl' – or navigate the swells. For less experienced or adaptive dudes, the result can be a wipeout.

Expect some of both outcomes in 2023. Surf's up!

REGIONAL RATES COMPARISON - INDUSTRIAL

	CAP RATE	DISCOUNT RATE	MARKET RENT ($/SF)	VACANCY RATE	4Q '21 - 4Q '22 CAP RATE △
SOUTH REGION					
Flex Industrial	6.50%	7.87%	$10.12	5.80%	▼ 26 bps
Industrial	5.87%	7.26%	$6.10	4.50%	▼ 18 bps
EAST REGION					
Flex Industrial	6.29%	7.40%	$11.66	6.46%	▼ 31 bps
Industrial	6.04%	7.21%	$8.02	3.42%	▼ 25 bps
CENTRAL REGION					
Flex Industrial	7.48%	8.56%	$8.23	6.40%	▼ 10 bps
Industrial	6.67%	7.90%	$4.97	4.37%	▼ 12 bps
WEST REGION					
Flex Industrial	5.73%	7.14%	$14.87	5.31%	▲ 2 bps
Industrial	5.13%	6.63%	$8.95	3.43%	▼ 4 bps
NATIONAL AVERAGES/ SPREADS					
Flex Industrial	6.48%	7.75%	$11.16	5.88%	▼ 17 bps
Industrial	5.89%	7.23%	$6.86	4.05%	▼ 14 bps

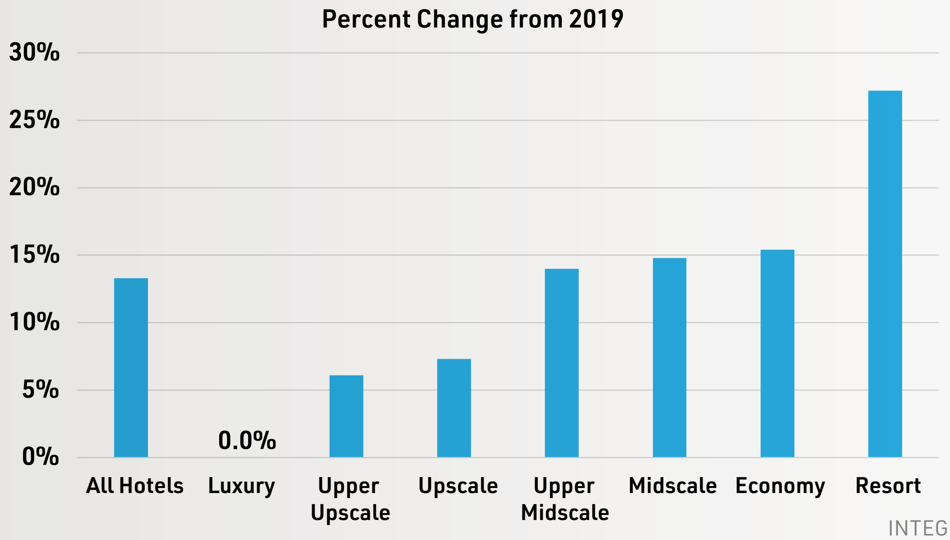
HOSPITALITY

Clouds on the horizon

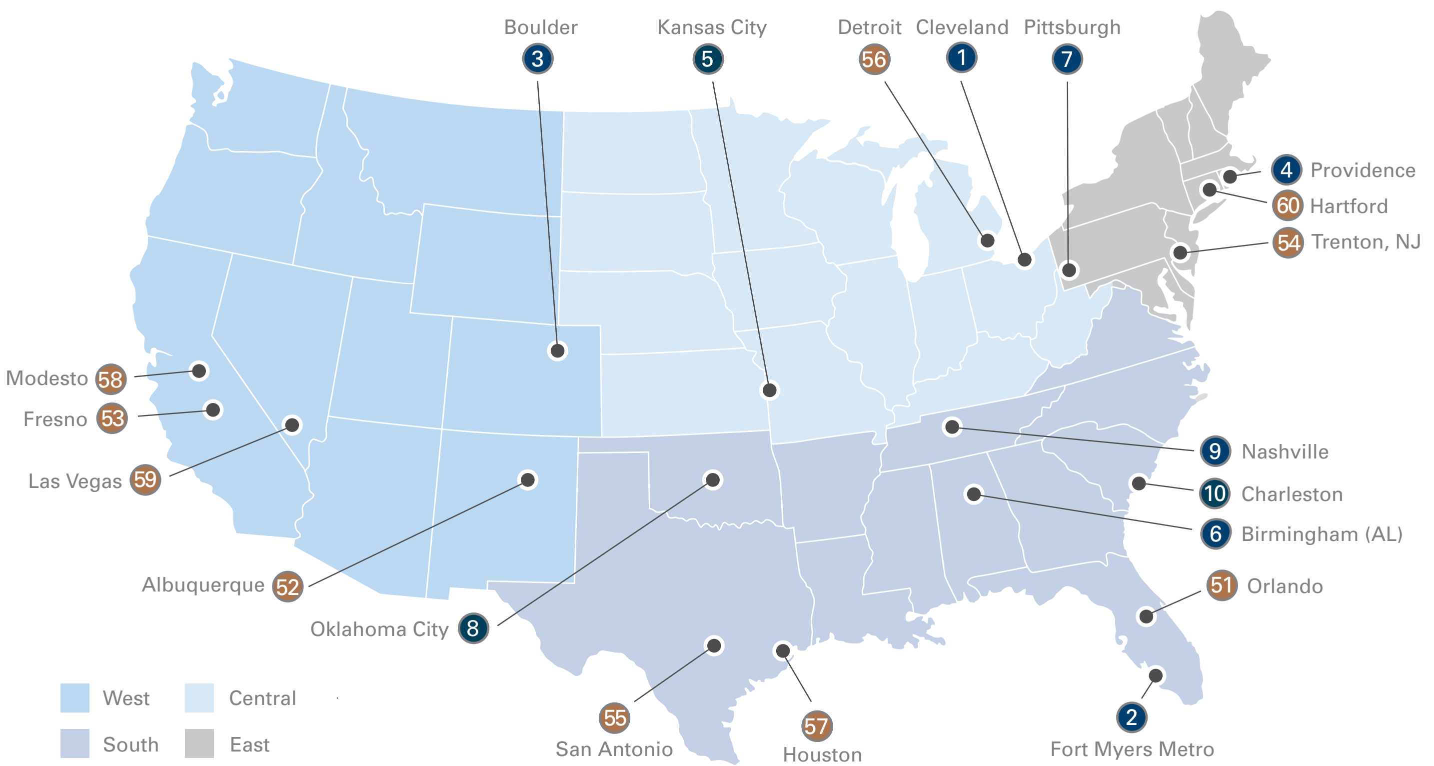
Hotels are the most volatile of all the major property types. Revenue must be refreshed night-by-night, without the benefit of longer leases typical of other income-producing real estate. Hotels require active management with specialized skills, typically having more day-to-day business decision-making than in the office, retail, industrial, and multifamily sectors. Although most property types feature some degree of stratification, hotels have long institutionalized brand distinction along price categories even for properties sharing a common corporate ownership.

The COVID-19 pandemic was a catastrophe for the hotel sector, but the steepness of decline positioned it for a strong statistical rebound in 2022. The key metric of RevPAR (revenue per available room) was up 13.3% at the end of the third quarter, when compared with 2019 levels. As shown in the accompanying graph, the growth in RevPAR strengthens as price categories become more affordable.

Hotels Have Pushed RevPAR Above Pre-Pandemic Levels



TOP MARKETS BY HOSPITALITY TRANSACTION VOLUME BASED ON YOY PERCENTAGE CHANGE



Bulls (Top 10)

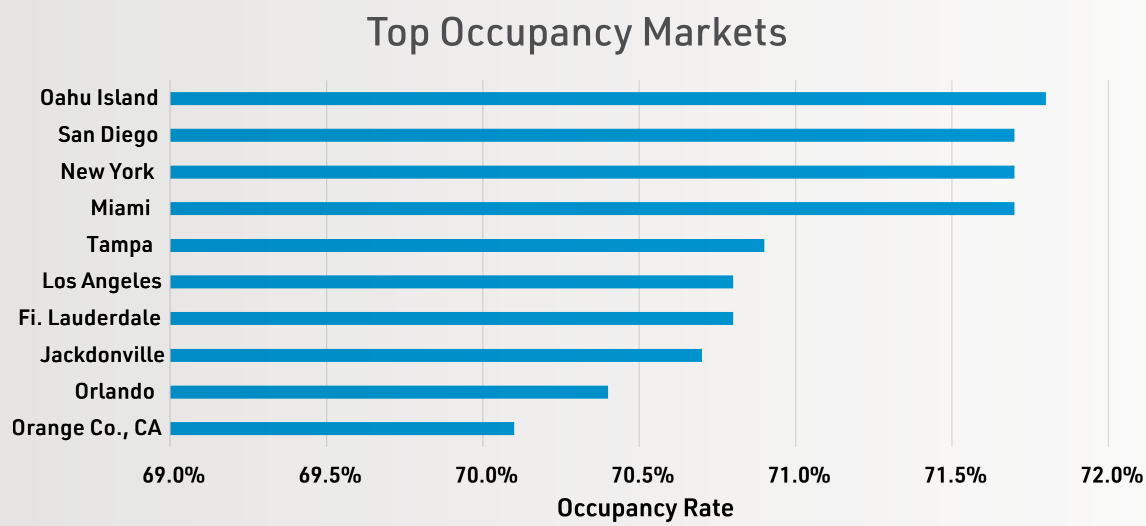
2022 Rank	City	YOY Change	Total 4Q21-3Q22	Vol. Rank*
1	Cleveland	476.9%	$150 M	37
2	Fort Myers Metro	421.6%	$991 M	13
3	Boulder	353.3%	$68 M	49
4	Providence	318.5%	$226 M	32
5	Kansas City	273.3%	$280 M	29
6	Birmingham (AL)	225.6%	$127 M	40
7	Pittsburgh	214.9%	$318 M	26
8	Oklahoma City	203.9%	$155 M	36
9	Nashville	190.4%	$1,243 M	10
10	Charleston	167.7%	$431 M	23

Bears (Bottom 10)

2022 Rank	City	YOY Change	Total 4Q21-3Q22	Vol. Rank*
51	Orlando	-33.5%	$805 M	17
52	Albuquerque	-35.6%	$29 M	58
53	Fresno	-36.7%	$31 M	56
54	Trenton, NJ	-45.5%	$12 M	60
55	San Antonio	-46.0%	$315 M	28
56	Detroit	-59.2%	$97 M	43
57	Houston	-59.6%	$355 M	25
58	Modesto	-65.7%	$37 M	53
59	Las Vegas	-75.4%	$158 M	35
60	Hartford	-84.5%	$15 M	59

* Volume Ranking is based on the overall transaction volume among 60 markets nationally

As of the summer of 2022, travel demand had returned in such strength that it was stressing airline capacity.



Here is one place where management decisions played a huge role. Savvy hoteliers knew that demand was a function of lock-down policies and health concerns, not merely price. Therefore, the more expensive chains held the line on room rates, realizing that demand would return. In more mass-market facilities, though, lowering rates to stimulate occupancy made some sense. With travel patterns resuming in 2022, hotel guests shopping by price would still see midscale and economy brands as "more affordable," even if daily rates adjusted upward from 2019 levels. Most markets have experienced an increase in ADR and a flattening of occupancy in 2022.

> The COVID-19 pandemic was a catastrophe for the hotel sector, but the steepness of decline positioned it for a strong statistical rebound in 2022.

Resorts, which had seen a nearly 60% drop in RevPAR during the pandemic, have now begun to recapture some lost ground, although they still should see further upward movement if travel remains on its upward path in 2023.

As of the summer of 2022, travel demand had returned in such strength that it was stressing airline capacity. Airfares are up more than 40% this year, and are projected to rise further. Meanwhile, despite a much-discussed rise in prices at the gas pump peaking in June, prices as of November 2022 were up just 7.7% year-over-year. Nearly 55 million Americans were estimated to travel for Thanksgiving, over 49 million by car, according to AAA.

Regardless of this year's surge, the outlook remains a bit iffy. Recessions and inflation are generally not good for the travel industry, as it is dependent upon discretionary spending. Much depends upon the degree that households and businesses alike find their budgets impacted by macroeconomic forces. Despite the psychology of pent-up demand, travel is one of the first spending options to be sacrificed in a slowdown.

By location, which markets are advantaged in terms of sustained high occupancy as we turn from 2022 to 2023? Major Florida and Southern California areas are registering occupancy rates above 70%. New York City, its much-publicized difficulties notwithstanding, not only posts a third-ranked 71.8% occupancy but leads the nation in year-over-year ADR and RevPAR growth, according to STR/CoStar data. The renewed strength of the resorts sector has catapulted Hawaii's Oahu market to the top of the occupancy chart.

The top markets, of course, are a very selective sample and not fully representative of the industry. On the whole, occupancy across the country averaged just 64%, with the 25 largest markets slightly better at 67.3%, but still shy of the occupancy in the top ten areas. On the revenue side, California's Bay Area (San Francisco, San Jose, and Oakland) is lagging the U.S. norm. The same is true for the corridor including Philadelphia, Baltimore, and Washington D.C. Even New Orleans is finding its hotel revenue down about 20% compared with its pre-pandemic volume.

International factors also contribute to softer demand. The very high US dollar is making it expensive for cross-border travelers. China's internal issues (including COVID and softening growth) and the war in Ukraine are also choking off potential travel demand from abroad. The probability that the U.K. is already in recession further squeezed travel flow.

If urban markets seem troubled, hotels in car-dependent rural areas are more so. Many locations popular with vacationing middle-income families are struggling with occupancies between 50% and 60%. Such spots include the New Jersey Shore, Michigan and Wisconsin's northern reaches, the Ozarks in southern Missouri and northern Arkansas, and the coastal areas of the Carolinas.

> Savvy hoteliers knew that demand was a function of lock-down policies and health concerns, not merely price.

All things considered, then, it is hardly surprising to see new hotel development in a cyclical lull. The surge of new product in the middle of the last decade left many markets with excess capacity. Furthermore, the costs of building new hotels has shot up due to sharp increases in labor and material inputs. Add to this the jump in the cost of financing in a tighter interest rate environment, and it is likely that we will see little in the way of added room count in most markets through 2025.

The snapshot version of risk-reward in the hotel sector is suggested by cap rates. With the exception of the luxury stratum of the market (with about a 6% cap rate average), rates reflect significant income volatility – in the 7.5% to 9.0% range. Historically, this may look attractive. But, remember the Fed! The risk premium for hotels has been compressing. The implication may not be declining values, but a significant contraction in transaction volume as investors seek safer harbors in 2023.

2023

INVESTOR RATES TABLE

INTEGRA REALTY RESOURCES CAPITALIZATION RATES
DISCOUNT RATES AND REVERSION RATES

2023

INVESTOR RATES TABLE

INTEGRA REALTY RESOURCES CAPITALIZATION RATES DISCOUNT RATES AND REVERSION RATES

GOING IN CAPITALIZATION RATES (%)

Region	Market	Class A: CBD Office	Class A: Suburban Office	Class A: Industrial	Class A: Flex Industrial	Class A: Urban Multifamily	Class A: Suburban Multifamily	Class A: Regional Mall Retail	Class A: Community Retail Center	Class A: Neighborhood Retail	Class B: CBD Office	Class B: Suburban Office	Class B: Urban Multifamily	Class B: Suburban Multifamily
EAST REGION	BALTIMORE, MD	7.50	8.00	5.50	5.25	5.50	6.00	9.00	7.50	7.75	9.00	9.25	7.00	6.50
	BOSTON, MA	5.75	6.25	6.00	6.75	4.25	4.25	7.25	6.50	7.00	6.25	6.75	5.25	5.50
	HARTFORD, CT	8.25	8.50	7.25	7.50	5.25	5.25	9.00	7.50	7.75	8.50	8.75	6.25	6.25
	NEW JERSEY, COASTAL		7.25	5.25	6.00	5.50	5.50	7.50	7.25	7.50		7.75	5.75	5.75
	NEW JERSEY, NO	6.00	6.50	4.50	5.50	4.50	4.75	7.50	7.00	6.25	7.25	7.75	5.00	5.25
	NEW YORK, NY	5.00		4.25	5.25	4.00			4.75	4.75	5.25		4.25	
	PHILADELPHIA, PA	7.50	7.50	6.00	6.50	5.50	5.25	7.50	7.00	7.25	7.75	9.00	6.25	6.00
	PITTSBURGH, PA	8.00	7.50	6.25	6.75	5.85	6.25	8.75	8.25	8.00	9.00	8.75	6.25	6.25
	PROVIDENCE, RI	8.00	8.25	7.00	6.75	5.50	5.75	9.00	7.50	7.75	8.25	8.50	6.00	6.25
	SYRACUSE, NY	8.00	8.00	9.25	8.75	5.50	5.25	8.50	8.00	9.00	9.00	9.00	6.00	5.75
	WASHINGTON, DC	6.50	7.50	5.00	4.75	5.00	5.25	6.75	6.25	6.50	7.50	8.25	5.25	5.50
	WILMINGTON, DE	7.75	8.00	6.25	5.75	6.50	5.50	7.75	7.25	7.50	8.00	8.50	6.75	6.00
SOUTH REGION	ATLANTA, GA	5.25	6.75	4.50	6.50	4.00	4.50	6.25	6.50	7.00	5.75	7.25	4.50	5.00
	AUSTIN, TX	6.50	6.75	6.00	6.50	4.75	4.75	6.75	7.00	6.50	7.00	8.00	5.00	5.00
	BIRMINGHAM, AL	7.50	7.50	6.00	7.00	5.25	5.25	7.75	7.75	6.75	7.75	7.75	6.25	6.25
	BROWARD-PALM BEACH, FL	6.50	7.00	6.00	6.25	4.75	5.00	5.75	5.75	6.00	7.00	7.75	5.50	6.00
	CHARLESTON, SC	6.75	7.50	7.25	7.50	3.75	4.00	8.25	7.50	7.75	7.25	8.00	4.75	5.75
	CHARLOTTE, NC	5.00	5.50	4.50	5.00	4.50	4.75	7.25	6.75	6.50	6.50	7.25	5.75	6.00
	COLUMBIA, SC	7.00	7.00	5.50	6.75	5.00	5.25	7.75	7.50	7.25	7.50	7.50	6.00	6.25
	DALLAS, TX	6.25	6.50	5.50	6.00	4.00	4.50	8.00	6.25	6.25	7.25	7.50	5.00	5.50
	FORT WORTH, TX	7.00	6.75	6.25	6.75	5.25	6.00	6.50	6.60	6.90	7.25	7.00	5.75	6.50
	GREENSBORO, NC	7.50	7.75	5.00	6.00	5.25	5.25	8.00	7.00	6.75	8.50	8.75	7.00	7.25
	GREENVILLE, SC	6.75	7.25	5.00	6.75	5.00	5.25	7.50	7.50	6.50	7.50	7.50	5.50	5.50
	HOUSTON, TX	7.10	7.30	6.40	7.10	5.60	5.60	7.60	7.00	6.30	8.00	8.10	6.30	6.30
	JACKSONVILLE, FL	9.00	8.75	4.50	6.00	4.25	4.25		7.25	6.75	9.50	9.50		4.50
	MIAMI, FL	5.75	6.25	5.25	5.25	4.75	5.00	5.75	5.25	5.50	6.50	7.25	5.50	6.00
	NAPLES, FL		7.00	6.50	6.50		4.10	6.25	6.25	6.50		7.25		4.75
	NASHVILLE, TN	7.00	7.00	6.50	6.00	4.50	5.50	8.75	7.50	7.50	8.00	8.00	5.00	5.50
	OKLAHOMA CITY, OK	7.00	7.25	7.25	7.50	4.75	5.50		7.00	7.25	7.50	7.75	5.00	5.75
	ORLANDO, FL	9.00	8.75	4.50	6.00	4.25	4.25		7.25	6.75	9.50	9.50		4.50
	RALEIGH, NC	6.00	6.50	5.50	5.50	4.50	4.75	7.25	7.00	7.00	6.50	7.00	5.25	5.50
	RICHMOND, VA	6.75	7.25	5.50	7.00	4.75	5.00	7.50	7.50	7.50	8.00	7.75	6.00	5.75
	SAN ANTONIO, TX	7.00	7.25	6.75	6.75	4.75	4.75	7.50	7.00	6.75	7.25	7.50	5.25	5.25
	SARASOTA, FL		7.00	7.50	7.50		4.90	7.00	7.00	7.00		7.00		5.25
	TAMPA, FL	7.25	7.50	7.25	7.50	4.00	4.25		6.89	6.97	7.50	7.25	4.50	4.75
CENTRAL REGION	CHICAGO, IL	5.75	7.75	4.75	8.25	4.75	5.00	7.00	7.50	8.00	6.50	8.75	5.50	5.75
	CINCINNATI, OH	8.25	8.00	7.25	7.75	5.25	5.25	8.75	8.25	8.00	9.00	8.50	6.00	6.00
	CLEVELAND, OH	8.00	8.00	7.00	7.50	6.00	6.25	8.30	7.95	7.80	9.25	9.25	8.00	7.50
	COLUMBUS, OH	8.00	8.25	6.00	7.00	3.90	4.00	8.25	7.75	7.50	8.75	8.75	4.50	4.50
	DAYTON, OH	9.75	8.50	7.50	8.25	6.50	7.25	9.75	8.75	8.75	10.25	9.00	8.00	7.25
	DETROIT, MI	8.25	8.00	7.75	7.50	5.00	4.50	8.00	8.00	8.50	8.75	8.50	5.50	5.00
	GRAND RAPIDS, MI	7.25	8.00	8.00	7.75	4.25	4.25	7.50	7.75	8.25	7.75	8.50	4.50	4.50
	INDIANAPOLIS, IN	8.00	7.75	5.50	7.00	5.00	5.00	6.25	6.50	6.75	8.50	8.25	5.25	5.50
	KANSAS CITY, MO	7.75	7.75	7.25	8.00	6.00	6.00	7.25	7.50	8.00	8.50	8.50	7.50	7.00
	LOUISVILLE, KY	9.00	7.50	6.50	7.00	6.00	4.80		7.75	7.95	10.00	8.50	7.50	6.00
	MINNEAPOLIS, MN	7.75	7.25	5.00	6.00	5.00	5.00	6.75	6.75	7.25	9.00	8.50	5.50	5.50
	ST. LOUIS, MO	9.25	7.50	7.50	7.75	5.75	5.50	7.75	7.75	8.00	10.25	8.50	7.00	7.50
WEST REGION	BOISE, ID	6.25	6.50	6.00	6.00	4.50	5.00	6.25	6.50	6.75	6.50	6.75	5.00	5.50
	DENVER, CO	6.50	6.50	6.00	6.50	4.00	4.00	7.00	7.00	6.00	7.00	7.00	4.50	4.50
	LAS VEGAS, NV	6.50	7.25	4.75	5.25	4.50	4.50	7.50	6.75	7.00	7.00	7.25	5.00	5.00
	LOS ANGELES, CA	5.50	5.75	4.00	4.25	3.50	4.50	5.25	5.25	5.50	5.75	5.75	3.75	4.75
	OAKLAND, CA	6.50	6.50	4.75	6.00	4.50	5.00	6.75	6.50	6.75	7.00	7.25	5.00	5.50
	ORANGE COUNTY, CA		6.00	4.25	4.75		3.50	6.50	5.50	5.00		6.25		3.75
	PHOENIX, AZ	6.50	6.50	4.25	5.25	4.00	4.00	5.50	7.00	7.50	7.00	7.50	4.50	4.50
	PORTLAND, OR	6.25	6.50	5.75	6.75	4.75	5.75		6.50	6.25	7.00	7.00	6.00	6.50
	SACRAMENTO, CA	7.00	7.50	6.50	6.75	6.00	6.25	6.75	6.75	7.00	7.75	8.25	6.25	6.75
	SALT LAKE CITY, UT	6.00	6.50	5.00	5.50	4.50	4.50	7.50	6.00	6.50	6.50	7.00	4.75	4.75
	SAN DIEGO, CA	6.25	6.25	5.25	5.25	4.50	4.50	6.75	6.00	6.00	6.50	6.50	4.75	4.75
	SAN FRANCISCO, CA	5.75	6.00	5.25	5.50	4.25	4.25	6.00	5.75	6.00	6.00	6.75	4.50	4.50
	SAN JOSE, CA	5.75	5.75	5.50	6.00	4.00	4.00	6.00	5.75	6.00	6.25	6.75	4.50	4.50
	SEATTLE, WA	5.25	6.00	4.50	7.00	4.50	4.75	5.75	6.75	7.00	6.50	7.00	4.75	5.00
	AVERAGES	7.00	7.18	5.89	6.48	4.85	4.98	7.31	6.95	7.00	7.66	7.84	5.56	5.60

DISCOUNT RATES (%)

Region	Market	Class A: CBD Office	Class A: Suburban Office	Class A: Industrial	Class A: Flex Industrial	Class A: Urban Multifamily	Class A: Suburban Multifamily	Class A: Regional Mall Retail	Class A: Community Retail Center	Class A: Neighborhood Retail	Class B: CBD Office	Class B: Suburban Office	Class B: Urban Multifamily	Class B: Suburban Multifamily
EAST REGION	BALTIMORE, MD	9.25	9.25	6.50	6.25	7.00	7.50	10.50	8.75	8.75	10.00	10.25	8.50	7.75
	BOSTON, MA	6.75	7.25	7.00	7.75	5.25	5.25	8.25	7.50	8.00	7.25	7.75	6.25	6.50
	HARTFORD, CT	9.25	9.50	8.50	8.75	6.25	5.50	9.50	8.75	9.00	9.75	9.75	7.25	6.50
	NEW JERSEY, COASTAL		8.60	6.50	7.25	7.00	7.00	8.50	8.50	8.50		9.00	7.50	7.50
	NEW JERSEY, NO	7.00	7.50	6.50	7.00	5.50	5.75	8.25	7.50	8.00	7.75	8.00	6.25	6.50
	NEW YORK, NY	6.25		6.25	6.75	5.25			6.00	6.00	7.00		5.75	
	PHILADELPHIA, PA	8.25	8.50	7.25	7.75	7.00	6.75	8.75	8.25	8.75	8.50	8.75	7.75	7.50
	PITTSBURGH, PA	8.50	8.00	7.50	8.00	6.25	6.50	10.25	9.75	9.50	9.50	9.25	6.50	6.75
	PROVIDENCE, RI	9.25	9.50	8.25	8.00	6.50	6.75	9.50	8.75	9.00	9.50	9.75	7.00	7.25
	SYRACUSE, NY	9.00	9.00	9.50	8.50	6.50	6.25	10.00	9.50	10.50	10.00	10.00	7.00	6.75
	WASHINGTON, DC	8.00	9.00	5.25	5.50	6.25	6.50	8.25	7.75	8.00	9.00	9.75	6.50	6.75
	WILMINGTON, DE	8.75	9.00	7.50	7.25	7.75	7.50	9.25	8.75	9.00	9.25	9.75	8.75	8.00
SOUTH REGION	ATLANTA, GA	7.25	8.75	6.00	8.00	6.00	6.50	8.25	8.50	9.00	7.75	9.25	6.50	7.00
	AUSTIN, TX	8.00	8.50	7.50	8.00	6.50	6.50	8.75	8.50	8.00	9.00	9.25	6.75	6.75
	BIRMINGHAM, AL	8.50	8.50	7.25	8.25	6.75	6.75	9.00	9.00	8.00	8.75	8.75	7.75	7.75
	BROWARD-PALM BEACH, FL	7.75	8.50	7.25	7.25	6.50	6.50	7.50	7.50	7.75	8.50	9.00	7.00	7.50
	CHARLESTON, SC	7.75	8.00	8.50	8.75	6.50	7.00	9.75	9.00	9.25	8.25	8.50	6.75	7.25
	CHARLOTTE, NC	6.50	7.25	6.50	7.00	5.75	6.00	9.00	8.25	8.00	8.75	9.50	8.00	8.50
	COLUMBIA, SC	8.50	8.50	7.00	8.50	6.75	7.00	9.25	9.50	9.00	8.75	9.00	7.00	7.25
	DALLAS, TX	7.75	8.00	7.00	7.50	5.00	5.50	9.50	7.75	7.75	8.25	8.50	6.00	6.50
	FORT WORTH, TX	8.00	7.75	7.25	7.50	7.00	7.00	7.25	7.25	8.25	8.25	8.00	7.75	7.50
	GREENSBORO, NC	9.50	9.75	7.00	8.00	7.25	7.25	10.00	8.75	9.00	10.50	10.75	9.25	9.50
	GREENVILLE, SC	8.50	8.50	7.00	8.25	7.00	7.25	9.25	9.50	8.25	8.75	9.00	7.50	7.50
	HOUSTON, TX	8.70	8.80	8.20	8.60	6.90	6.90	8.60	8.10	7.40	9.70	9.80	8.00	8.00
	JACKSONVILLE, FL	10.00	9.75	5.75	7.25	5.75	5.50		8.25	7.75	10.50	10.00		6.00
	MIAMI, FL	7.50	8.00	7.50	7.50	6.50	6.50	7.50	7.50	7.50	8.25	9.00	7.00	7.50
	NAPLES, FL		8.00	7.50	7.50		5.10	7.25	7.25	7.50		8.25		5.75
	NASHVILLE, TN	8.00	8.00	7.50	7.00	5.50	6.50	9.25	8.25	8.25	9.00	9.00	6.00	6.50
	OKLAHOMA CITY, OK	8.50	8.75	8.75	9.00	6.25	7.00		8.25	8.50	9.00	9.25	6.50	7.25
	ORLANDO, FL	10.00	9.75	5.75	7.25	5.75	5.50		8.25	7.75	10.50	10.00		6.25
	RALEIGH, NC	7.50	8.00	6.50	6.50	6.25	6.75	8.25	8.00	8.00	8.00	8.50	7.25	7.50
	RICHMOND, VA	8.00	8.50	6.75	8.25	6.25	6.50	9.00	9.00	9.00	9.25	9.00	7.50	7.25
	SAN ANTONIO, TX	8.50	8.75	7.50	8.00	5.00	5.00	8.25	7.75	7.50	8.75	9.00	5.50	5.50
	SARASOTA, FL		8.00	8.50	8.50		5.50	8.00	8.00	8.00		8.00		6.00
	TAMPA, FL	9.50	9.00	8.50	8.75	6.00	6.25		8.20	8.25	10.00	9.00	6.50	6.75
CENTRAL REGION	CHICAGO, IL	7.25	9.00	5.75	8.50	5.75	6.25	8.00	8.25	8.50	7.75	9.25	6.25	6.75
	CINCINNATI, OH	9.25	9.00	8.25	8.75	6.25	6.25	9.75	9.25	9.00	10.00	9.50	7.00	7.00
	CLEVELAND, OH	9.00	9.00	8.00	8.50	8.00	8.00	8.80	8.50	8.30	10.00	10.00	9.00	9.00
	COLUMBUS, OH	9.25	9.25	7.50	8.50	6.90	7.00	9.25	8.75	8.50	9.75	9.75	7.50	7.50
	DAYTON, OH	11.50	9.50	8.50	9.00	8.50	8.00	11.75	9.50	9.50	11.50	10.00	9.25	8.75
	DETROIT, MI	9.25	9.00	8.75	8.50	7.00	6.50	9.00	9.00	9.50	8.75	9.25	7.50	7.00
	GRAND RAPIDS, MI	8.50	9.00	9.25	9.00	6.25	6.25	8.50	8.75	9.25	9.00	9.50	6.50	6.50
	INDIANAPOLIS, IN	9.50	9.25	6.50	8.00	8.00	8.00	7.25	7.50	7.75	10.00	9.75	8.00	8.00
	KANSAS CITY, MO	9.75	9.75	8.75	9.50	7.00	7.00	8.50	8.75	9.25	10.50	10.50	8.50	8.00
	LOUISVILLE, KY	10.00	9.00	8.00	8.25	8.00	7.25		9.00	9.00	11.00	10.00	9.00	8.50
	MINNEAPOLIS, MN	8.25	8.00	7.00	7.50	7.00	7.00	7.50	7.00	7.50	9.25	8.50	7.50	7.50
	ST. LOUIS, MO	10.25	8.50	8.50	8.75	6.75	6.75	8.75	8.75	9.00	11.25	9.50	8.00	7.50
WEST REGION	BOISE, ID	7.75	8.00	7.75	7.75	6.50	7.00	8.25	8.50	8.75	8.00	8.25	7.00	7.50
	DENVER, CO	8.00	8.00	6.00	7.00	6.50	6.50	8.50	8.50	8.00	8.50	8.50	6.50	6.50
	LAS VEGAS, NV	8.50	9.25	7.00	7.50	7.25	7.25	8.00	8.00	8.25	9.00	9.25	7.75	7.75
	LOS ANGELES, CA	7.50	7.75	5.75	6.00	5.25	6.25	7.00	7.00	7.25	7.75	7.75	5.50	6.50
	OAKLAND, CA	7.75	7.75	6.00	7.25	6.50	7.00	8.25	8.00	8.25	8.25	8.50	7.00	7.50
	ORANGE COUNTY, CA		7.50	6.00	6.25		5.50	8.50	8.00	8.00		7.25		5.75
	PHOENIX, AZ	7.50	7.50	5.25	6.25	5.00	5.00	6.50	8.00	8.50	8.00	8.00	7.00	7.00
	PORTLAND, OR	7.50	8.00	7.00	7.75	6.25	7.00		8.00	7.75	8.00	8.00	7.00	7.75
	SACRAMENTO, CA	9.00	9.50	8.00	8.25	7.50	7.75	8.75	8.75	9.00	9.75	10.25	7.75	8.25
	SALT LAKE CITY, UT	7.50	7.75	7.00	7.00	6.00	6.00	8.50	8.00	8.00	8.00	8.00	6.25	6.25
	SAN DIEGO, CA	8.25	8.25	7.25	7.25	6.00	6.00	8.75	8.00	8.00	8.50	8.50	6.25	6.25
	SAN FRANCISCO, CA	7.00	7.25	6.50	6.75	6.25	6.25	7.50	7.25	7.50	7.25	8.00	6.50	6.50
	SAN JOSE, CA	7.00	7.00	6.75	7.25	6.00	6.00	7.50	7.25	7.50	7.50	8.00	6.50	6.50
	SEATTLE, WA	7.00	7.25	6.50	7.75	6.50	7.00	8.00	7.75	8.00	7.50	7.75	6.75	7.25
	AVERAGES	8.36	8.49	7.23	7.75	6.46	6.54	8.62	8.26	8.34	8.96	9.03	7.16	7.17

REVERSION RATES (%)

Region	Market	Class A: CBD Office	Class A: Suburban Office	Class A: Industrial	Class A: Flex Industrial	Class A: Urban Multifamily	Class A: Suburban Multifamily	Class A: Regional Mall Retail	Class A: Community Retail Center	Class A: Neighborhood Retail	Class B: CBD Office	Class B: Suburban Office	Class B: Urban Multifamily	Class B: Suburban Multifamily
EAST REGION	BALTIMORE, MD	8.00	8.50	5.75	5.50	6.00	6.75	10.00	8.50	8.50	9.50	9.75	7.50	7.50
	BOSTON, MA	6.00	6.50	6.35	7.00	4.50	4.50	8.25	6.75	7.00	6.25	6.75	5.50	5.75
	HARTFORD, CT	8.00	8.25	7.75	8.00	5.50	5.50	9.25	8.75	9.00	8.25	8.50	6.50	6.50
	NEW JERSEY, COASTAL		7.85	6.00	6.75	6.25	6.50	7.95	7.95	8.15		8.25	6.75	6.75
	NEW JERSEY, NO	6.50	7.00	5.00	6.25	5.00	5.25	7.75	6.75	7.25	7.50	8.00	5.50	5.75
	NEW YORK, NY	5.75		5.00	6.00	4.50			5.25	5.25	6.50		4.75	
	PHILADELPHIA, PA	8.50	8.50	6.50	7.00	6.00	5.75	8.00	7.50	8.50	8.75	9.00	6.75	6.50
	PITTSBURGH, PA	8.25	7.75	8.25	8.75	8.50	8.50	9.00	8.50	8.25	9.25	9.00	9.00	9.00
	PROVIDENCE, RI	8.00	8.25	7.25	6.75	5.75	6.00	9.25	8.75	9.00	8.25	8.50	6.25	6.50
	SYRACUSE, NY	9.00	9.00	9.50	8.50	6.00	5.75	9.00	8.50	10.00	10.00	10.00	6.50	6.25
	WASHINGTON, DC	7.50	8.50	5.25	5.50	5.50	5.50	7.75	7.25	7.50	8.50	9.25	5.75	6.00
	WILMINGTON, DE	8.75	9.00	7.00	6.50	7.25	6.50	8.25	9.00	9.00	9.50	9.50	7.75	7.00
SOUTH REGION	ATLANTA, GA	6.25	7.75	5.25	7.25	5.00	5.50	7.25	7.50	8.00	6.75	8.25	5.50	6.00
	AUSTIN, TX	7.00	8.25	6.50	7.00	5.25	5.25	7.25	7.50	7.00	7.50	8.50	5.50	5.50
	BIRMINGHAM, AL	8.00	8.00	6.50	7.50	5.75	5.75	8.25	8.25	7.25	8.25	8.25	6.75	6.75
	BROWARD-PALM BEACH, FL	6.50	7.00	6.50	7.00	5.25	5.50	6.50	7.00	7.00	7.00	8.00	6.00	6.50
	CHARLESTON, SC	7.25	8.00	7.50	7.75	4.25	4.50	8.75	8.00	8.25	7.75	8.50	5.25	6.25
	CHARLOTTE, NC	5.75	6.25	6.00	6.50	5.25	5.00	8.00	7.50	7.25	8.50	9.00	6.50	6.75
	COLUMBIA, SC	7.75	7.75	6.50	7.75	6.25	6.50	9.00	9.00	8.50	8.25	8.25	7.25	7.50
	DALLAS, TX	6.50	7.00	5.75	6.25	5.00	5.50	8.50	6.75	6.75	7.00	8.25	6.00	6.50
	FORT WORTH, TX	7.50	7.25	6.75	7.25	5.50	6.00	6.75	6.75	7.25	7.75	7.50	5.75	6.25
	GREENSBORO, NC	8.00	8.75	5.75	6.75	6.00	6.00	8.75	7.50	7.25	9.00	9.75	8.00	8.25
	GREENVILLE, SC	7.75	8.00	6.00	7.75	6.00	6.00	9.00	9.00	7.75	8.25	8.25	6.25	6.50
	HOUSTON, TX	7.70	7.80	6.90	7.60	5.70	5.70	8.10	7.40	6.70	8.60	8.70	6.80	6.80
	JACKSONVILLE, FL	9.50	9.25	5.00	5.00	4.75	4.50		7.50	7.00	10.00	10.00		4.50
	MIAMI, FL	6.25	6.50	6.00	6.00	5.25	5.50	6.50	7.00	7.00	6.50	7.50	6.00	6.50
	NAPLES, FL		7.50	7.00	7.00		4.60	6.75	6.75	7.00		7.75		5.25
	NASHVILLE, TN	7.50	7.50	7.00	6.50	5.00	6.00	8.75	7.75	7.75	8.50	8.50	5.50	6.00
	OKLAHOMA CITY, OK	7.50	7.75	7.75	8.00	5.25	6.00		7.50	7.75	8.00	8.25	5.50	6.25
	ORLANDO, FL	9.50	9.25	5.00	5.00	4.75	4.50		7.50	7.00	10.00	10.00		5.00
	RALEIGH, NC	6.50	7.00	6.00	6.00	5.00	5.25	7.50	7.25	7.25	7.00	7.50	5.75	6.00
	RICHMOND, VA	7.25	7.75	6.00	7.50	5.25	5.50	8.00	8.00	8.00	8.50	8.25	6.50	6.25
	SAN ANTONIO, TX	7.50	7.75	7.25	7.50	5.75	5.75	8.00	7.50	7.25	7.75	8.00	6.25	6.25
	SARASOTA, FL		7.25	8.00	8.00		5.50	7.50	7.50	7.50		7.25		5.75
	TAMPA, FL	9.00	8.50	8.00	8.00	4.50	4.75		7.46	7.57	9.50	8.50	5.00	5.25
CENTRAL REGION	CHICAGO, IL	6.50	8.50	5.25	8.25	5.25	5.50	7.00	7.50	8.00	7.50	9.00	5.75	6.00
	CINCINNATI, OH	8.75	8.50	7.75	8.25	5.75	5.75	9.25	8.75	8.50	9.50	9.00	6.50	6.50
	CLEVELAND, OH	8.50	8.50	8.00	8.50	7.00	7.00	9.30	8.95	8.80	9.50	9.50	8.00	8.00
	COLUMBUS, OH	8.50	8.75	6.75	7.75	4.40	4.50	8.75	8.25	8.00	9.25	9.25	5.00	5.00
	DAYTON, OH	11.00	9.00	9.00	9.50	8.25	7.25	10.00	9.75	9.75	11.50	9.75	8.75	8.50
	DETROIT, MI	8.75	8.50	8.25	8.00	5.50	5.00	8.50	8.50	9.00	9.00	9.00	6.00	5.50
	GRAND RAPIDS, MI	7.75	8.50	8.25	8.00	5.25	5.25	7.75	8.25	8.75	8.25	9.00	5.50	5.50
	INDIANAPOLIS, IN	8.50	8.25	6.00	7.50	7.00	7.00	6.75	7.00	7.25	9.00	8.75	7.00	7.00
	KANSAS CITY, MO	8.25	8.25	7.75	8.50	6.00	6.00	7.75	8.00	8.50	9.00	9.00	7.00	7.00
	LOUISVILLE, KY	9.00	8.00	7.00	7.50	6.75	5.50		8.45	8.25	10.00	9.00	8.25	6.75
	MINNEAPOLIS, MN	8.25	7.75	5.50	6.50	5.25	5.25	7.25	7.25	7.75	9.50	9.00	5.75	5.75
	ST. LOUIS, MO	9.50	8.00	7.75	8.00	6.00	5.75	8.00	8.00	8.25	10.50	8.75	7.25	7.00
WEST REGION	BOISE, ID	6.75	7.00	6.50	6.50	5.00	5.50	6.75	7.00	7.25	7.00	7.25	5.50	6.00
	DENVER, CO	7.50	7.50	6.50	8.00	4.50	4.50	8.00	8.00	8.00	8.00	8.00	5.00	5.00
	LAS VEGAS, NV	7.00	7.75	5.50	6.00	5.00	5.00	7.60	7.25	7.00	7.50	7.75	5.25	5.25
	LOS ANGELES, CA	6.00	6.25	4.50	4.75	4.00	5.00	5.75	5.75	6.00	6.25	6.25	4.25	5.25
	OAKLAND, CA	7.00	7.00	5.25	6.50	5.00	5.50	7.25	7.00	7.25	7.50	7.75	5.50	6.00
	ORANGE COUNTY, CA		6.25	5.25	5.75		5.00	7.75	7.00	6.50		6.75		5.00
	PHOENIX, AZ	7.00	7.00	5.75	6.75	5.50	5.50	6.00	7.50	8.00	7.50	7.50	6.00	6.00
	PORTLAND, OR	7.00	7.00	6.50	7.25	5.75	6.25		7.50	7.50	7.50	7.50	6.50	7.25
	SACRAMENTO, CA	8.00	8.50	7.25	7.50	6.75	7.00	7.75	7.75	8.00	8.75	9.25	7.00	7.50
	SALT LAKE CITY, UT	6.50	7.00	5.50	5.50	5.00	5.00	8.00	6.50	7.00	7.00	7.50	5.25	5.25
	SAN DIEGO, CA	6.75	6.75	5.75	5.75	5.00	5.00	7.25	6.50	6.50	7.00	7.00	5.25	5.25
	SAN FRANCISCO, CA	6.25	6.50	5.75	6.00	4.75	4.75	6.50	6.25	6.50	6.50	7.25	5.00	5.00
	SAN JOSE, CA	6.25	6.25	6.00	6.50	4.50	4.50	6.50	6.25	6.50	6.75	7.25	5.00	5.00
	SEATTLE, WA	6.25	6.50	6.25	7.50	5.25	5.75	7.25	7.25	7.50	6.75	7.25	5.50	6.00
	AVERAGES	7.58	7.74	6.52	7.04	5.51	5.59	7.89	7.60	7.68	8.23	8.37	6.18	6.24

NOTES:

1. CAPITALIZATION, DISCOUNT, AND REVERSION RATES DATA IS BASED ON IRR'S 4Q '22 VIEWPOINT SURVEY.

SOURCE: INTEGRA REALTY RESOURCES, INC.

SPECIALTY REPORTS

Specialty property groups offer unique investment opportunities for portfolio diversification and potential stable, predictable income streams. Let's take a closer look at Healthcare & Senior Housing, Manufactured Housing, Build-to-Rent, and Golf Courses.

HEALTHCARE & SENIOR HOUSING

Time for a long-term perspective

Pandemic Influence

The COVID-19 pandemic has significantly impacted the U.S. healthcare and senior housing (HSH) industries. Early on, government restrictions limited business activity, while later, people became more cautious about seeking services and choosing communal living. This combination resulted in lower admissions and operating revenues. The pandemic also changed the labor market, making early retirement more appealing and reducing the availability of labor. This contributed to an imbalance in the supply and demand for nursing labor, leading to a spike in labor costs. Federal and state relief funds helped many facilities survive the downturn.

Operating Performance

While the pandemic is not yet over, the level of fear experienced in the earlier stages has subsided and HSH utilization and revenue are generally returning to pre-pandemic levels. Per NIC MAP data, senior housing (Independent Living, Assisted Living, and Memory Care) occupancy rates declined from around 87.3% at the beginning of the pandemic to around 78.2% in 1Q2021 (worst quarter) but have since increased to 82.9% in 3Q2022. For nursing facilities (SNFs), occupancy rates started declining from around 86% at the beginning of the pandemic to around 73.7% in 1Q2021 and have since increased to 79% in 3Q2022.

Private-pay rates for senior housing and nursing facilities have grown modestly, but nursing facilities have only reached an annualized growth rate of 2.8% in 3Q2022. HSH operating costs remain high relative to revenues, depressing NOI margins. Most SNFs dependent on Medicaid reimbursement have been impacted by the pandemic. A high number of nursing home closures occurred in 2022 and those lacking census counts to operate efficiently will remain weak performers and risk closure. Higher wage costs continue to depress NOI margins, while higher interest rates will also put pressure on SNF values.

> With NOI growth uncertain, values seem poised to decline.

Construction Activity

Construction costs increased substantially during the pandemic. High construction costs, a more cautious lending market, and operators focusing on operations slowed new HSH development activity from pre-pandemic levels. As of 3Q2022, the senior housing new construction rate of increase in units is near an annualized rate of 5 percent. New construction in the SNF sector is much more limited.

Interest Rates

Interest rates have risen precipitously in mid to late 2022 as the Federal Reserve fights inflation more aggressively. Higher interest rates create an expectation of rising overall capitalization rates (OARs). But it's not easy to determine if the interest rate spike has increased OARs – and the level of increase -- because NOIs, in many cases, are below stabilized level. And at this point, it's not certain what the stabilized level will be, since the degree to which labor cost controls can be achieved is uncertain.

Values

Investor sentiment for senior housing has tapered rather mildly given the backdrop of high inflation, rising interest rates, and staffing issues that are complicating operations and reducing NOI margins. The uncertainty has contributed to sales activity; 2021 and 2022 were strong years. OARs for the most select properties remain low. OARs generally are still relatively low by long-term standards, although they are presumed to be marginally higher than they were before interest rates started rising, and probably moving upward somewhat as borrowing costs increase. With NOI growth uncertain, values seem poised to decline.

> A high number of nursing home closures occurred in 2022 and those lacking census counts to operate efficiently will remain weak performers and risk closure.

Conclusion

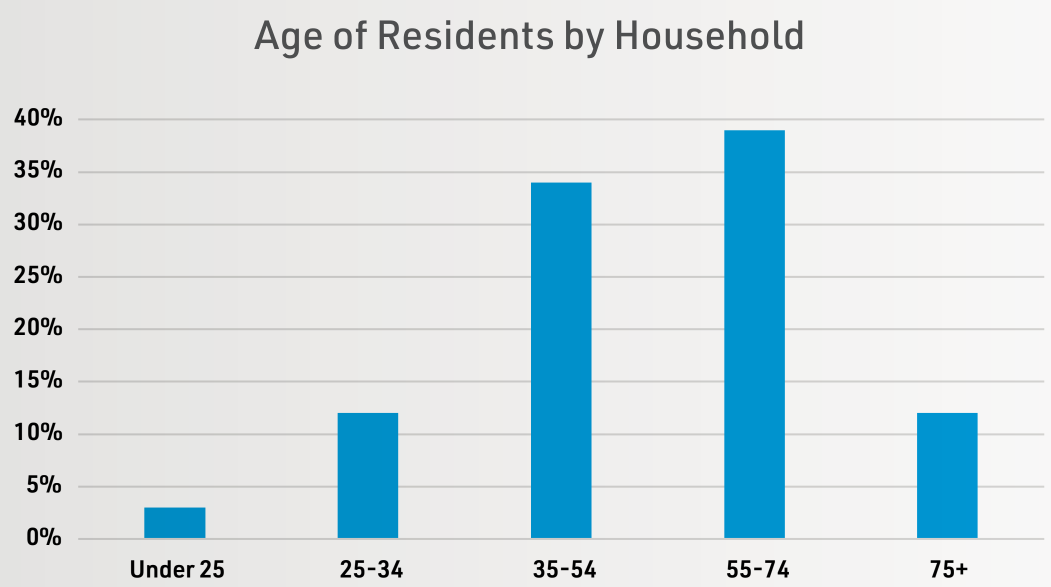
The HSH industry has experienced a great deal of tumult since the pandemic began. Labor shortage issues and a jump in interest rates induced by high inflation are still at play and continue to muddy the water. Valuations have held up better than expected, but now seem poised to give up some of their strength. With weaker operating performance, prospective buyers have been compelled to evaluate acquisition opportunities from a longer-term perspective.

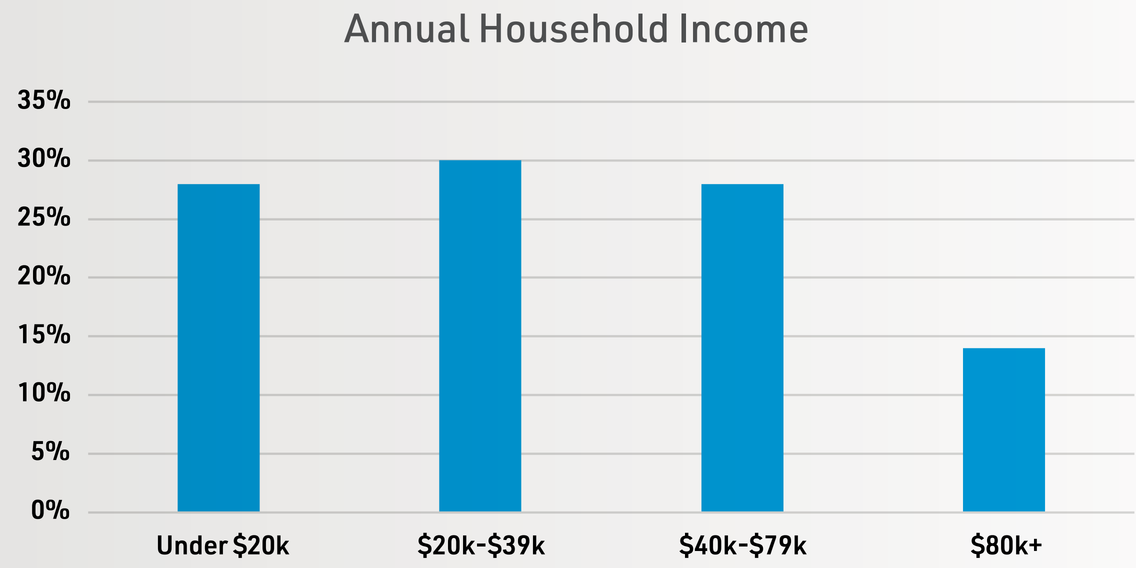
MANUFACTURED HOUSING

Growing demand in a critical market

Industry Overview

The need for affordable housing has never been greater, and today's manufactured homes can deliver high quality and performance at prices that are up to 50% less per square foot than traditional site-built homes. These savings allow more Americans to own their own homes, even in the face of an increasing housing affordability gap. Manufactured homes are constructed offsite in a factory using standard building materials and assembly line techniques, which reduces many of the problems encountered during traditional construction, such as weather and unskilled labor. This controlled environment and efficient process also allows for greater economies of scale and negotiated savings on materials, products, and appliances that are passed on to the homebuyer. Today's manufactured homes have evolved to offer a variety of architectural styles, exterior finishes, and interior features, as well as increased energy efficiency. These technological and design advances, along with a focus on affordability, are why more people are turning to manufactured housing to meet their needs and budget.





Highlights

Manufactured housing is responding to a rising demand from consumers seeking affordable options, and investors are taking notice. The industry is experiencing an influx of buyers interested in manufactured home communities, leading to an increase in the much-needed development of new stock. Occupancy rates have risen, reaching 93.8%, and sales velocity has also increased. Rents have been on the rise, averaging nearly $580 per month, and are up 4% from last year. The Southwest region has the highest rent levels at $932 per month, while the Great Plains region has the most affordable lot rents at $417 per month.

Outlook

With an aging demographic, demand for manufactured homes will remain high from retirees looking to downsize. Additionally, as interest rates have risen and median home prices have skyrocketed in 2022, families have been priced out of competing property types such as condominiums and single-family homes. Price is key to prospective renters and buyers, who are beginning to realize manufactured housing is the most affordable type of home ownership in the United States.

Investors are recognizing the potential in the manufactured housing sector due to the strong investment fundamentals and the need for affordable housing options. Previously, the industry was dominated by smaller family operations with higher vacancy and poor-quality communities, creating opportunity for investors to purchase new manufactured homes and improve property to increase occupancy and revenue. The low supply of manufactured housing for sale, combined with the sector's ability to keep operating expenses low, creates strong demand from an investment perspective. The industry outlook is positive, with occupancy and site rents expected to continue to climb in 2023.

Manufactured Housing Facts

22 million people live in manufactured homes in the U.S.

9% of new single-family home starts

$108,000 average new home price

76% of new manufactured homes titled as personal property

Manufactured Home Avg. price per SF - $72.21

4.3 million home sites in the U.S.

51% of new manufactured homes are placed in communities

4.2% average annual pad rent increase

BUILD-TO-RENT

A trend fueled by the pandemic and interest rates

The multifamily market has seen significant growth in recent years, and with that growth has come a change in the communities themselves, including the advent of the build-to-rent (BTR) option. The BTR style is typically defined as detached, smaller single-family residential or attached townhouse-style units in gated communities.

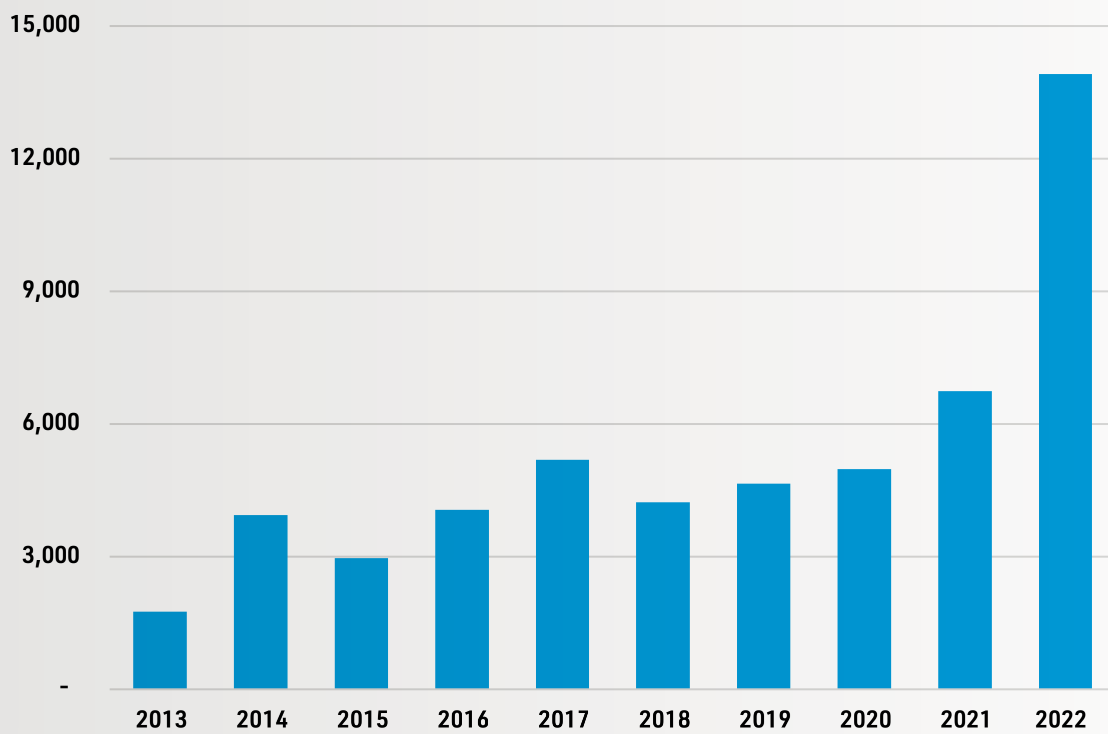
It is common for BTR units to have attached or detached garages, although this is not necessary for a community to be considered BTR.

The rise in popularity of the BTR community can be attributed to a variety of factors. The COVID-19 pandemic has led to many people working from home, giving them more freedom in terms of where they work and leading to a greater emphasis on the quality of their living spaces. The BTR style offers renters the benefits of an apartment community while still providing the privacy of a single-family residence.

> As millennials grow into life stages that require the space and benefits provided by single-family homes, demand for BTR communities significantly increases.

Furthermore, rising market prices and competition, along with low interest rates and out-of-state investors, have priced many first-time home buyers out of the housing market. This has led to many would-be home buyers becoming disheartened renters, and the BTR industry provides these individuals with a desirable alternative. As millennials grow into life stages that require the space and benefits provided by single-family homes, demand for BTR communities significantly increases. The following chart indicates the rate of single-family rental construction on a national level.

Build-to-Rent Homes Under Construction in U.S. Markets



The BTR style has proven to be attractive to both renters and investors. BTR communities in the Phoenix market have a higher occupancy rate and average rent compared to traditional multifamily properties. Rents have also increased more than normal, with single-family rents in 2022 up 12.6%, the largest increase in 17 years. There has also been a record level of development of BTR units, with a total of 7,724 units completed in 2021 and another 13,981 on the way this year.

The rise in interest rates has also forced more people into renting, making it the only option for many households. According to the Mortgage Bankers Association, the average interest rate for a 30-year mortgage, with a balance of $647,200 or less, was 7.06% as of October 2022. This has led to a larger group of developers becoming involved in the BTR industry and more investors looking to BTR communities as a source of revenue.

Overall, the BTR community offers a desirable alternative to traditional multifamily properties and is expected to continue to see growth in the coming years.

> The BTR style has proven to be attractive to both renters and investors.

GOLF INDUSTRY

A rising tide lifts the industry

The years 2020 and 2021 saw marked improvement in golf industry fundamentals. According to Golf Datatech, golf rounds played, the industry's benchmark of choice, increased by 13.2% in 2020 over the prior year, and again by 5.5% in 2021 over 2020 levels. To put this in perspective, 2021 saw 529 million rounds played; the average over the prior nine years was 460 million rounds.

So, the question on everyone's mind entering 2022 was, were the prior two years a short-term blip or could the industry sustain the momentum? Preliminary indications are indicative: Through October 2022, rounds played are down by only 2.4% compared to the same period last year. This is actually very strong performance, given that adverse weather negatively affected golf play during the spring months.

Membership clubs have also benefitted from the rising tide. Membership clubs have seen growth, with many reaching their capacity and having waitlists for new members. This is supported by National Golf Foundation (NGF) data that showed the volume of rounds played at private clubs in 2021 was 18% higher than the average over the previous five years.

> The NGF reported that 66% of public courses and 80% of private clubs reported their financial health as good or excellent.

Thus, the net effect of the recent trend is that the overall financial health of both public and private courses is very good. To wit, the NGF reported in a November 2022 survey of course operators that 66% of public courses and 80% of private clubs reported their financial health as good/excellent.

Thus, it is evident that the industry has sustained its momentum. But there have been additional benefits from the increase in demand. Public courses have been able to increase green fees, with less reliance on green fee discounts. Likewise, membership clubs have been able to increase membership dues and fees, with no concurrent decline in their membership levels.

In summation, the golf industry is seeing positive developments, with rounds played increasing and revenue rising, thanks to increased green fees and membership dues. While there are still challenges, such as rising interest rates, the industry's future is looking bright, thanks to off-course growth and alternative golf-centric outlets

"Many clubs reached their membership capacities, with waitlists to join.

For an in-depth look into these specialty property types, plus an exclusive look at the Caribbean hospitality market, visit www.IRR.com/research to download your free digital copy of these supplemental special reports.

ECONOMIC TRENDS

Written By: Hugh F. Kelly, PhD, CRE

USA is "Middle of the Pack" in 2023 Economic Forecast
Source: OECD and IMG Forecasts as of Third Quarter 2022

New Hires Slowing Across Industry Sectors
Source: BLS JOLTS Report (Nov. 1, 2022)

Assets Prices Soared in Past Decade
Source: Standard & Poors (Home Prices, S&P 500 Index, Corporate Bond Index); St. Louis Fed FRED database (income, savings, productivity) from government sources

Yield Curve Shirt: Steep Slope Turns to Inversion in a Year
Source: Federal Reserve System, H.15 Reports

REIT Price/NAV Discounts Vary Widely
Source: S&P Global Market Intelligence

PROPERTY REPORTS

OFFICE

Office Market Cycle
Source: Integra Realty Resources

Top Markets by Office Transaction Volume Based on YOY Percentage Change
Source: Real Capital Analytics

Office Vacancy Data Again Shows "Real Estate in Not Normal"
Source: Moody's Analytics, Third Quarter 2022 Office First Glance

Regional Rates Comparison
Source: Integra Realty Resources

MULTIFAMILY

Top Markets by Multifamily Transaction Volume Based on YOY Percentage Change
Source: Real Capital Analytics

Multifamily Market Cycle
Source: Integra Realty Resources

Multifamily Rents Growing at Double-Digit Pace—Sort of
Source: Moody's Analytics, Third Quarter 2022 Apartments First Glance Report

Regional Rates Comparison
Source: Integra Realty Resources

RETAIL

Top Markets by Retail Transaction Volume Based on YOY Percentage Change
Source: Real Capital Analytics

Retail Market Cycle
Source: Integra Realty Resources

Personal Savings in Billions of Dollars
Source: BEA National Income and Products Accounts; Quarterly Data at Seasonally Adjusted Annual Rate

Regional Rates Comparison
Source: Integra Realty Resources

INDUSTRIAL

Top Markets by Industrial Transaction Volume Based on YOY Percentage Change
Source: Real Capital Analytics

Industrial Market Cycle
Source: Integra Realty Resources

Outsized Returns Have Driven Capital to the Industrial Sector in Past Decade
Source: NCREIF Third Quarter 2022 Performance Report

Regional Rates Comparison
Source: Integra Realty Resources

HOSPITALITY

Hotels Have Pushed RevPAR Above Pre-Pandemic Levels
Source: CBRE Hotels; Kalibri Labs Data as of September 2022

Top Markets by Hospitality Transaction Volume Based on YOY Percentage Change
Source: Real Capital Analytics

Top Occupancy Markets
Source: CoStar

SPECIALTY REPORTS

HEALTHCARE & SENIOR HOUSING

Written By: Victor D. Cremeens, MAI, Managing Director, IRR-Healthcare & Senior Housing

MANUFACTURED HOUSING COMMUNITIES

Written By: Kyle Door, Senior Analyst, IRR-Grand Rapids

Age of Residents by Household
Source: Manufactured Housing Institute

Annual Household Income
Source: Manufactured Housing Institute

BUILD TO RENT

Written By: Jason Beakley, Senior Analyst, IRR-Phoenix

Build-to-Rent Homes Under Construction in U.S. Markets
Source: RentCafe Analysis of Yardi Matrix Data

GOLF COURSES

Written By: Cary Lannin, Director, IRR-Chicago

COVER PHOTO

Dallas, TX

INTEGRA REALTY RESOURCES

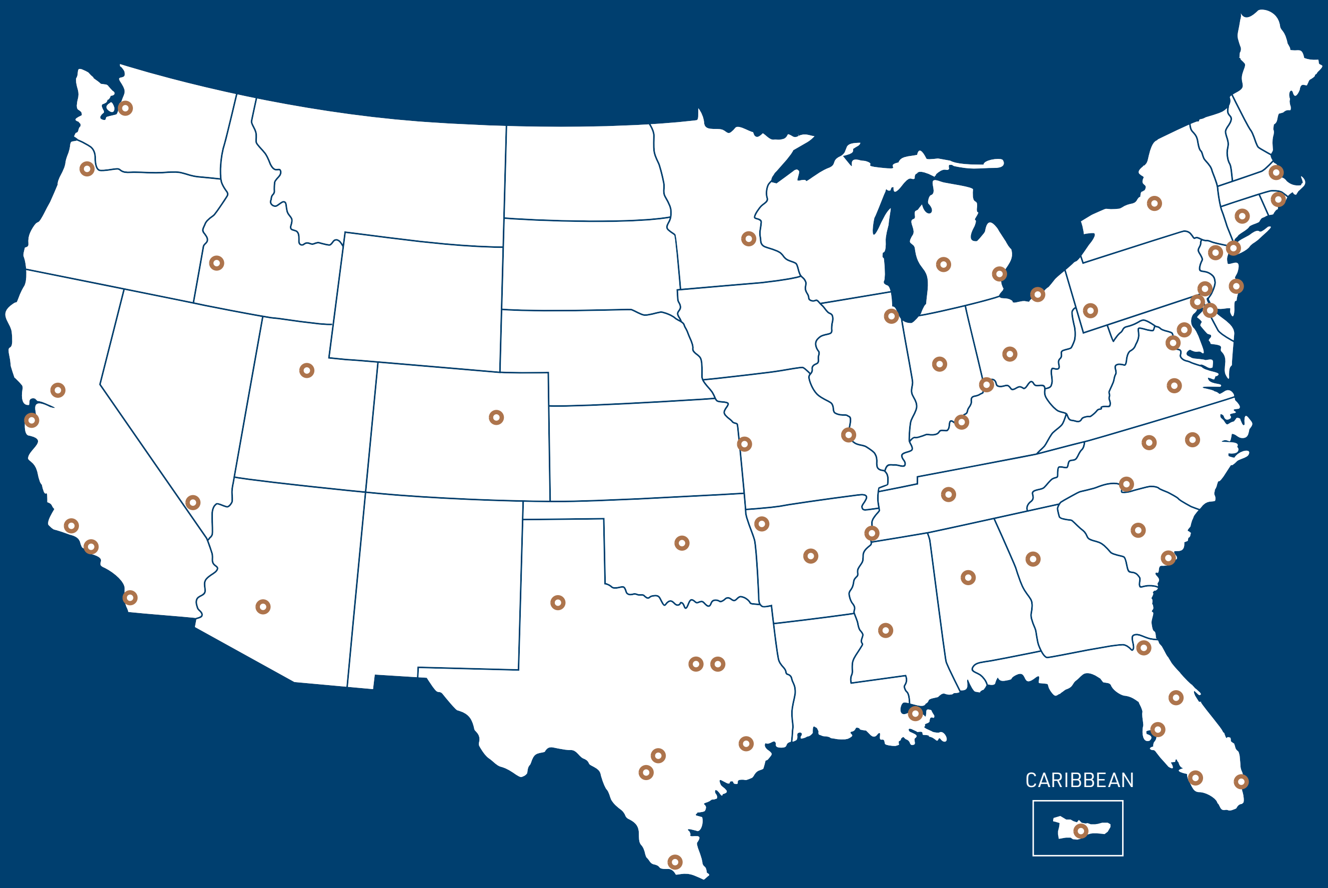
LOCAL EXPERTISE. NATIONALLY.

50+
Offices

600+
Professional Staff

20+
Years Serving US Markets

161+
MAI-Designated Professionals



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