Better than Any of Us Expected

Certain Areas of the Economy are Booming

MARKET PERSPECTIVE
JANUARY 2021

Ten months ago, after easing into what we thought would be a sixty-day event (remember?), we soon learned that it might not go as smoothly as we thought. The DOW plunged to 18,591 on March 23, restaurants closed, businesses sent employees home, and slowly the whole world shut down.

With that early outlook, and the realization in late spring that the pandemic would last well beyond the initial early projections, it would have been fair to have a very negative economic outlook.

Instead, pockets of the economy are red hot, and that's having a meaningful impact on parts of our commercial real estate markets. While restaurants, many small businesses, airlines, hotels, and other industries are fighting for their business lives, home values and home sales are setting new records. Last year in Charlotte, in-migration drove home values up 10% over 2019 (CBRE, 2021). A jump in home renovation projects last year caused lumber prices to double, with prices increasing 10% per week at the start of 2021. Low interest rates are fueling the residential mortgage business; both new-home sales and refinancing led to record mortgage volumes last year. This strong residential activity has kept cabinetmakers, countertop suppliers, HVAC vendors, and other industrial space users tied to the housing industry in growth mode, and as busy as ever.

At the same time that home sales are booming, consumer savings, which have historically hovered around 7% of income, skyrocketed up to 33% in April of 2020. By the end of the year, the rate had settled back to 13.6% (Statista, 2021). This shows that despite the hardships faced by many, there are still a lot of households with excess resources.

One wouldn't be faulted for asking, "After the year we just had, how can the DOW be at 31,000?" One money manager told me recently that "investors have lost their compass – they figure if the stock market has rebounded to, and now past pre-pandemic levels, nothing can hurt them – and as a result, they're careless and unconcerned." Yet the evidence is strong for a continuation of good economic times, at least for the middle and upper echelons of our workforce.

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This is especially true in the Carolinas, where corporate expansions and relocations continue to bring thousands of jobs to our metropolitan areas. The technology sector has fueled economic growth well beyond San Francisco and Boston, quietly evolving into the second-largest employer in both Charlotte and Raleigh, behind financial services and healthcare respectively (CBRE, 2021).

Carolinas job creation is happening on other fronts too. Real estate investment capital continues to flow aggressively into our industrial sector, which has produced


5200 W. PARAMOUNT / RALEIGH

stronger tenant demand during the pandemic than we saw in either of the two years prior, as many retailers aggressively position themselves for the continuing shift to e-commerce. As we've shared before, retailers realize that goods that traditionally sat in their stores will now sit in warehouses until purchased by consumers online. That positioning is well underway, and it's created a race to see who can get their distribution network in place first.

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PERIMETER 6 / RALEIGH

Another area that has experienced accelerated growth during the pandemic has been demand for life-science space. This sector was strong before the pandemic, but investment and tenant demand has surged since the pandemic began.

Life-science tenants – those in biotech, pharmaceuticals, medical device & equipment, and genomics – have been aggressively seeking to expand their offices and labs in many of the US's life-science centers. This industry tends to cluster in areas that are close to major research institutions. Historically, Boston, San Francisco, and San Diego have been the three largest life-science clusters in the US, but close behind is the Raleigh-Durham area, where Trinity Capital now has three life-science projects totaling 1.75mm SF.

Outside of trophy office sales, which are almost always in favor, domestic capital has slowed its pursuit of traditional office assets in 2020. Not so for foreign capital, which has continued its search for yield in the world's safest investment haven. Two of Trinity's largest office portfolio sales in 2020 were to buyers from Singapore, and many other international buyers that have been unable to find yield in gateway US cities have been turning to our Carolinas markets to place capital.

Traditional office-leasing activity, unlike some of the positive office-portfolio dispositions experienced in 2020, remains lethargic. Regional and national tenants are still working from home and will continue to do so until at least the fall of 2021, when presumably vaccines will have been offered to the majority, if not all the US population. Until then, we remain stuck in "wait and see" mode regarding office demand.

The world continues to turn, and economically speaking, it's better than many of us expected we'd find in month 10 of this pandemic. Although we're just in the third quarter of this unpleasant experience, the fourth quarter is in sight – and we hope that soon, the hardest-hit areas of the economy and the lower echelon of our workforce can finally get some relief, and the recovery will be widespread, across all businesses and asset classes. As always, time will tell. Happy New Year!

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TRINITY CAPITAL

REAL ESTATE INVESTMENT EXCELLENCE

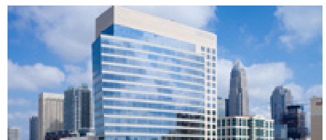
WHAT WE DO

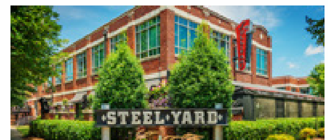
Acquire and develop office, industrial, and mixed-use real estate in the Southeast and Mid-Atlantic U.S. Since 2002, Trinity Capital has invested more than $3.1 billion in 21M SF. Sister company Trinity Partners' (trinity-partners.com) 175 employees in Charlotte, Raleigh, and Greenville (SC) provide sourcing, operating expertise, and accurate market data for Trinity Capital's underwriting of its investments.

WHY WE WIN

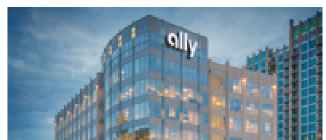
- CONTRARIAN INVESTING, AVOIDING THE FROTH
- IN-HOUSE OPERATING PLATFORM
- HANDS-ON VALUE CREATION
- DISCIPLINED UNDERWRITING, MODERATE LEVERAGE
- BUY OR DEVELOP THE BEST ASSETS
- QUICK REACTIONS TO CAPITAL MARKET FLOWS

NOTABLE INVESTMENTS/ DEVELOPMENTS

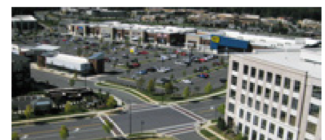

NASCAR PLAZA / CBD OFFICE



STEEL YARD / MIXED USE



ALLY CENTER / CBD OFFICE


PERIMETER WOODS / MIXED USE


PERIMETER PARK / SUBURBAN OFFICE

TORINGDON / SUBURBAN OFFICE


MCKESSON / INDUSTRIAL


SHOPTON RIDGE / INDUSTRIAL

INVESTMENT PERFORMANCE

FUND	YEARS INVESTED	GROSS IRR	NET IRR TO INVESTOR	TOTAL COST	% HARVESTED
Pre-Fund	2002-2005	44.24%	n/a	$127,548,000	100%
TCVF I	2005-2007	23.98%	18.64%	$32,140,000	100%
TCVF II	2008-2011	20.17%	13.14%	$254,549,000	100%
TCVF III	2012-2014	55.99%	28.00%	$208,110,828	99%
Post-Fund	2015-present	37.80%	29.45%	$2,437,000,000	60%
TOTALS:		**31.02%**	**21.63%**	**$3.0 B**	**N/A**

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