Q1 2022

Volume 3, Issue 1

SPERRY NEWS YOU CAN USE

MEXICO CITY, MEXICO

A Word From Our Chairman

I Must Believe It Before I Can See It

In 2015 I came up with the name Sperry Commercial Global Affiliates. We were one office in Irvine with a vision to grow Nationally and Internationally. Today we have 57 U.S affiliate offices in 19 states coast to coast. In the first quarter of this year, we will open our second office in Mexico, with plans for 3 more offices Internationally this year. Onward and upward!

I learned many years ago that you must really believe in your vision first before you attempt to execute your plan. To get where we are today and where we are going, it takes belief, vision, a good plan, but most of all teamwork with great and extraordinary people to make it happen. We have all that here at SperryCGA. Not only do we have an amazing executive team, but we have terrific Franchisees who have helped make all this happen. In spite of the worst black swan event since 2008, both Corporate and our Franchises have managed to push their offices through COVID-19 and have expanded their teams and offices to better serve our clients and their needs. I want to thank not just our executive team and Franchisees, but also our many clients who we serve for hanging in there for the past two years since the shut down on March 19, 2020. Hopefully that is now in the rear view mirror for good.

We look forward to further National and Global expansion here in 2022, and we will continue to expand our service line to better serve you, the client.

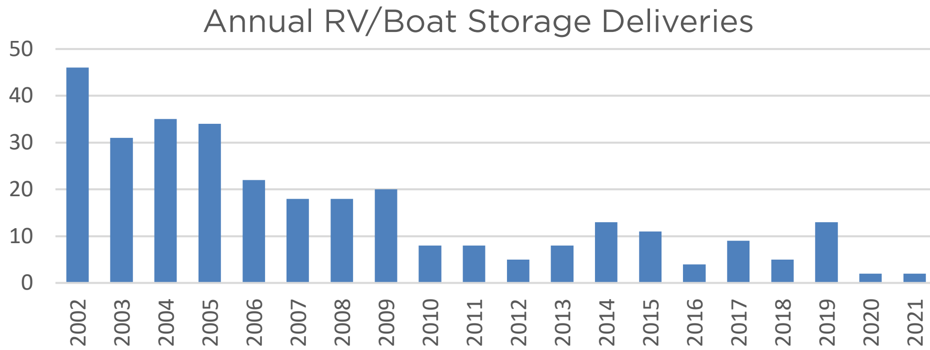
NEWS INSIDE THIS ISSUE:

SPERRY COMMERCIAL GLOBAL AFFILIATES℠

POST-PANDEMIC RECREATION TRENDS BOOST NICHE RV/BOAT EXCLUSIVE STORAGE

by: PAUL FIORILLA
DIRECTOR OF RESEARCH
YARDI MATRIX

Americans' increasing use of recreational vehicles and boats – in part compounded by the pandemic – is expanding demand for storage facilities that exclusively target that market.



Source: Yardi Matrix

Sales and usage of RVs and boats hit new highs in 2021 as Americans looked for ways to travel and recreate while avoiding crowds. The need to store these vehicles served to increase demand for RV/Boat exclusive storage facilities, which are typically on large plots of land to facilitate storage of large objects. The growth in the segment prompted Yardi Matrix to create a database of Boat/RV exclusive storage facilities as a supplement to its database of self storage properties, which is the largest in the U.S.

Yardi's database encompasses 786 completed RV/Boat exclusive storage properties in the U.S. with 6,850 acres of space and another 35 facilities that are in the development pipeline. Metros with the largest amount of RV/Boat storage include Denver, San Francisco, Dallas, Houston, and Phoenix. These metros have large populations and are within proximity to parks and campgrounds, RV rental facilities, waterways, and large populations.

Although it remains relatively small compared to other niche segments of commercial real estate, the industry registered record-high capital flow in 2021, a sign that investors are increasingly taking notice. Some $157.7 million of RV/Boat exclusive facilities were sold in 2021, almost triple the previous annual high.

RV AND BOAT USAGE ON THE RISE

Data from industry trade groups demonstrates the growth in ownership and usage of RVs and boats. RV wholesale shipments reached a record 600,240 in 2021, up 39.5% over the 430,412 units shipped in 2020 and surpassing the prior record set in 2017 of 504,599 shipments, according to the Recreational Vehicle Industry Association (RVIA).

An RVIA study found RV ownership has increased over 62% over the last 20 years with a record 11.2 million RV-owning households, split almost equally between those over and under the age of 55. There has been significant growth among 18-to-34-year-olds, who now make up 22 percent of the market.

Some 9.6 million households say they intend to buy an RV within the next five years.

Nearly a third of the respondents in the RVIA study (31%) are "first-time owners," underscoring the growth of the industry in the past decade. Ownership is spread widely across age levels, genders, household income and education. RV usage has traditionally been thought to be concentrated in older Americans, but an increasing number of Millennials and Gen-Z Americans are participating. The survey found 84% of 18-to-34-year-olds planning to buy another RV, with a 78% preferring to buy a new model.

Likewise, the acquisition and use of boats is growing. According to the National Marine Manufacturers Association (NMMA), new powerboat

retail unit sales are expected to surpass 300,000 units for the second consecutive year in 2021. Sales in 2021 were expected to be down slightly from 2020, the previous record high, but were 7 percent above the 5-year average. The NMMA projects 2022 sales to surpass 2021 totals by as much as 3 percent.

Consumer interest and demand for boating is rising as Americans seek out accessible outdoor and leisure activities, as travel continues to be impacted by COVID-19. "The pandemic created shifts in how Americans prioritize their time, and boating is an activity they're doing with family and friends to escape from stresses on land, all while creating fun and adventure," NMMA president Frank Hugelmeyer said.

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PANDEMIC EXACERBATED TRENDS

Americans have long had a love affair with RVs and boats, and the RV/Boat exclusive storage segment has been around for decades. But, like many other developments involving work and migration, the pandemic has created behavioral changes and exacerbated some existing trends.

Foremost among the reasons is the desire to travel and have recreational experiences without crowds. Over the last two years many Americans avoided airplanes and other forms of public transportation in favor of ground travel. RVs provide the ability to go places and see things without crowded transportation or hotels.

Another driver of the growth in RV and boat sales is the healthy balance sheets of households as people stopped spending while sheltered in place and collected stimulus checks from the federal government. Gross household savings climbed by several trillion dollars in 2020 and 2021, giving people the wherewithal to buy big-ticket goods. Rising home prices also helped provide significant nest eggs for downsizing empty-nesters and retirees, long the prime demographic for RVs, who sold homes and used the windfall to buy smaller homes, sometimes paired with recreational vehicles for vacations.

Younger Americans also got into the act. The pandemic helped stoke a growing appreciation for recreation and travel to rural settings. What's more, some found that they could work from remote locations, which means they can live in RVs and work, not just use them for travel. "This is indicative of the changing attitudes towards remote work and the ability for more people to be able to work from a destination more frequently than traditional vacation days afforded in the past," the RVIA says.

Yet another development advantageous to RV/Boat exclusive storage demand is the growth in Airbnb-type online apps, which enable RV owners to rent vehicles that are parked in storage facilities. The RVIA notes that median annual usage of RVs is 25 days a year, which means that many vehicles are in storage the vast majority of the year. Renting stored vehicles can generate significant income for owners.

"I would give a thousand furlongs of sea for an acre of barren ground."

- William Shakespeare

Market	RV/Boat Storage Total Acreage
Denver	596.6
San Francisco	420.4
Dallas	345.7
Houston	302.9
Phoenix	299.3
Inland Empire	246.5
Los Angeles	202.3
Atlanta	198.0
Sacramento	184.2
Charleston	183.4
Orlando	172.3
San Antonio	99.4
Seattle	92.9
Portland	81.5
Tampa	80.7

YARDI'S PROPERTY DATABASE

Boat/RV exclusive storage facilities have different characteristics than traditional self storage properties. They cover more territory, given the need to store large vehicles, so Yardi tracks them by acreage. Many Boat/RV exclusive facilities have canopies and structures for storage, but not all do. Some facilities house both RVs and boats, but others do one or the other. It depends to some degree on location. Facilities on waterways naturally cater more to boats.

Storage facilities that cater to RVs tend to be located on the outskirts of metro areas, in part because the amount of space needed would not be cost-effective in areas where land costs are high. Also, RV users like to pick up their vehicles on their way to their destinations so they can avoid crowded suburban roadways. Some properties have facilities that allow RV owners to live on site.

Yardi's national database of Boat/RV exclusive storage facilities cover 786 properties with 6,850 acres of land. Newer facilities generally have more structures and amenities. Deliveries of Boat/RV exclusive properties were highest in the 2000s decade. Some 224 properties in the Matrix database were delivered between 2002 and 2009, and only 88 have been delivered since 2010.

The decline in new supply can partly be attributed to the lack of financing available in the wake of the global financial crisis. Between 2012 and 2017, financing activity for RV/Boat exclusive facilities averaged $55 million per year, according to Matrix. Since then, however, an average of $147 million has been financed, including roughly $200 million per year in 2020 and 2021. Property sales totaled $157.7 million, well above the record $55.8 million in 2017, per Matrix.

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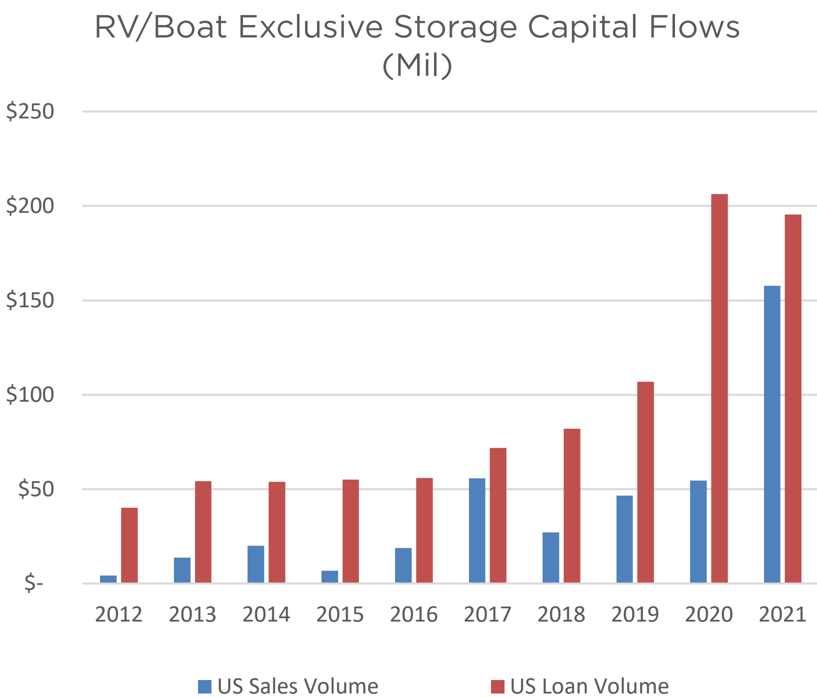
Yardi's database finds that Denver leads all metros in RV/Boat exclusive storage in acreage with 596.8, followed by San Francisco (420.4), Dallas (345.7), Houston (302.9) and Phoenix (299.3). Denver also leads with 47 properties, followed by Houston (45), San Francisco (39), Inland Empire (36), and Los Angeles (35).



Source: Yardi Matrix

GROWING NICHE SECTOR

Recreational vehicles and boats are a durable part of the American experience, and economic and social trends indicate that is likely to intensify in coming years. As sales of RVs and boats grow, the demand to store the vehicles is likely to grow. Traditional self storage facilities have limited space and amenities to store RVs and boats, which means that demand for RV/Boat exclusive facilities will likely grow as RV and boat sales rise.

Growth of RV/Boat exclusive facilities might be constrained by the cost of land, the amount of acreage needed to house vehicles and the fact that the facilities are geared toward specific objects as opposed to general usage. At the same time, though, the growing demand from RV and boat sales combined with the limited amount of supply means the segment's fundamentals should remain healthy, even in volatile economic times.

This article has been reprinted courtesy of Yardi Matrix

BUILD-TO-RENT BONANZA: DEVELOPERS INVESTING BILLIONS INTO HYBRID MODEL TAKING HOUSING INDUSTRY BY STORM

by: ANGELA GONZALES
SENIOR REPORTER,
PHOENIX BUSINESS JOURNAL

With more than 5,000 existing units and more than 6,900 more units under construction in metro Phoenix, the wildly popular build-to-rent sector is continuing to explode in Arizona and is now building momentum across the nation.

With 32 build-to-rent communities already in place across the Valley, there are another 34 projects under construction, according to research Colliers International conducted exclusively for The Phoenix Business Journal.

These unique units are growing in popularity, commanding average monthly rental rates of $1,990 at a time when occupancy is at 96.8%, according to Colliers International research.

Exactly what is this product that is gaining so much attention by renters, homebuilders and investors?

This unique hybrid model pairs the luxuries of single-family detached homes with their own backyards built into a community rich with amenities, including resort-style pools, clubhouses, dog parks, barbecue pits and other amenities.

And as home prices continue to soar in metro Phoenix, these rental communities are gaining traction.

The Business Journal hosted a virtual residential real estate panel last October, focusing on two homebuilders at the forefront of this trend and two builders who are somewhat new to the game, but come loaded with capital, land and big growth plans.

Combined, they have plans to build billions of dollars of projects in Arizona and across the country.

"There's an incredible demand for build-to-rent product," said Josh Hartmann, CEO of Phoenix-based NexMetro Communities, one of the first companies to introduce this unique hybrid model to the world. "People are renting more and more. It's becoming a lifestyle choice."

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On the other hand, Walton Global Holdings LLC entered the market earlier last year.

LAND CONSTRAINTS

While it may sound like the Scottsdale-based developer might be a little late to the game, Walton Global Holdings comes with 80,000 acres in its pocket — at a time when many builders are scrambling to find affordable land.

Paul Megler, executive vice president of Walton Global Holdings, said there's more demand for housing than homebuilders can handle, which means it's a good time to add this product to the mix.

Also somewhat new to the market is Scottsdale-based Empire Group of Cos., which has $2 billion of build-to-rent projects in its pipeline.

"We are definitely seeing residents who get into our communities and have such favorable response to their space and the community and what they experience within the community that I think we're seeing rental rates that are anywhere from 10 to 15% higher than a standard apartment complex, because people are willing to pay for that, said Sherri Koshiol, land development senior project manager for Empire Group.

"They're willing to pay for a backyard, for a space for their pets, for not having somebody on every side, above and below them. So as it relates to that customer experience, they are willing to pay a little bit more. There are people who are making the choice to live in these communities because it offers them the flexibility to come and go."

LONG RUNWAY

Because these rental units are horizontal — not stacked on top of each other like traditional apartments — they take more land, said Todd Wood, CEO of Mesa-based Christopher Todd Communities, which has set the standard for many homebuilders in terms of doggy doors, smart homes and rich amenities.

With such huge demand for this type of rental unit, Koshiol said production isn't going to catch up for five to 10 years to that demand.

"So we definitely have a lot of runway in front of us and want to take advantage of the opportunities working within what's available," she said.

That said, all four of the panelists are eyeing additional markets across the country.

Even so, land prices keep going up, making it more competitive for developers to find good deals

"It's gotten more difficult, although I wouldn't say it's any different than anywhere else in the country," Hartmann said. "We're putting land in escrow in Austin, and I would argue that's one of the more difficult (areas); Vegas is very difficult right now. So it's definitely a challenge."

Buying land can be tricky, Wood said.

"You just have to have your disciplines," he said. "This is the time when people make mistakes and start buying land that doesn't really work, but they just have to feed the machine. And so, we're being patient. That's really our strategy. And we're taking some of our teams and focusing on new markets where there's less competition."

NOT IN MY BACKYARD

But not all municipalities are embracing the build-to-rent sector.

Much like the traditional apartment developers have experienced pushback from homeowners who don't want apartments built in their own backyards, developers of the build-to-rent product also have felt that same sting.

"The real problem these days is NIMBYism," Hartmann said. "I mean, I've seen more projects, even in Phoenix, of this style of product get voted down at zoning hearings because the neighborhoods are against it. And why are they against it? They don't want renters or we're going to create traffic, or X, Y, Z, right?"

Feeling the wrath of these homeowners, jurisdictions are torn between offering needed housing units and angry homeowners.

"I've seen where it's the underlying zoning is multifamily and they're still getting voted down," Hartmann said. "So I think there's a real challenge in Phoenix and in other markets today where there's just a 'We don't want rentals, period. We don't care whether it's build-to-rent or traditional multifamily apartments.'

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People don't want it. And they don't really realize that there's a housing shortage and their kids or their parents need housing.“

Closer look

(Click on the chart below to enlarge)

The four build-to-rent panelists shared their portfolios and plans for future development.

	Christopher Todd Communities	Walton Global Holdings LLC	Empire Group of Cos.	NexMetro Communities
Communities open in metro Phoenix	8	0	2	23
Communities open in other states	0	0	0	8
Communities planned in metro Phoenix	4-6 communities per year	1 project under initial planning; several others under review	17	2-4 in 2022 (currently)
Communities planned in other states	4-6 communities per year	19	12	10
Communities under construction in metro Phoenix	4	0	5	8
Communities under construction in other states	1 in Texas has been announced by Taylor Morrison	0	0	13
Units open in metro Phoenix	1,668	0	392	3,284
Units open in other states	0	0	0	846
Units planned in metro Phoenix	as per the market	~150 with additional communities under review	5,300+	212
Units planned in other states	as per the market	~3,000 with additional communities under review	5,000+	2,088
Units under construction in metro Phoenix	845	0	1,129	2,000
Units under construction in other states	142	0	0	1,777

It's an educational process, Wood said.

"It's very difficult for them to get their arms around it when it's new — anything new," Wood said.

Megler said Walton Global won't have this type of issue with neighbors because the company's land holdings are its own master-planned communities, where new homes will be built alongside these build-to-rent communities.

"We're going to go in side-by-side with a for-sale homebuilder and the for-sale homebuilder knows what our plans are," Megler said. "And we're going to develop the land together and then we're going to build the houses. So we don't have that neighbor issue within our own community because we're starting the community fresh in all these different locations.“

STRONG DEMAND

Despite the challenges of introducing a new type of product to the world, Koshiol said she sees a really long runway and the company is riding those tailwinds.

"Or sometimes Richard Felker (founder of Empire Group) will say, 'We're riding the jet stream,' actually because of how this market is," Koshiol said. "So yeah, we continue to see opportunities. We are in escrow on several projects and looking forward to how we can integrate into those communities."

Megler feels it will take two to three years just to back-fill and get enough rooftops built to meet demand. Demand remains strong in the near term," he said.

"That said, other homebuilders are looking to enter the market to grab a piece of the growing pie.

"Everybody wants to get in, but to actually go out and execute, you've got to have those people that can build and buy and develop and actually finish the product and then go in and do the management," Wood said. "And it's very, very difficult to get into this space. Everybody wants in, but to execute and do it correctly, it's very difficult.“

Angela Gonzalez
Senior Reporter
Phoenix Business Journal

This article has been reprinted courtesy of the Phoenix Business Journal

SPERRYCGA AFFILIATE ATTENDS MIPM IN FRANCE

Pictured from left to right: Kristian Syson, IREP; John Samuels, IREP; Kamran Abbas, IREP; Larry Eu, SperryCGA-Easerich Commercial

“SperryCGA - Easerich Commercial Real Estate participated in MIPIM 2022 as an exhibitor in the USA pavilion. MIPIM is the world’s largest commercial real estate conference, expo and networking event and took place from March 15th to 18th this year in Cannes, France. According to MIPIM, this year’s event was expected to see 26,800 attendees from around the world and 142 exhibiting companies. SperryCGA - Easerich Commercial is represented by Larry Eu, CCIM and Lien Ma, CCIM and sought out Investments in CRE in the USA and data center projects.”

Current Rates
AS OF 3/15/2022 (10:30 AM EST)

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Sperry RE Capital is a commercial real estate finance company that specializes in debt and equity for real estate transactions. The team has over 100 years combined experience in real estate finance, real estate development, accounting, and commercial brokerage. Sperry RE Capital provides capital market solutions to our client's commercial real estate needs. The rates provided here are for informational use only.

For specific quotes, contact your local office today.

Current Index Rates

5-Year Treasury	2.09%
7-Year-Treasury	2.15%
10-Year Treasury	2.14%
30-Day Avg. SOFR	0.05%
10-Year Swap	2.22%

Fannie Mae-Conventional

Term	LTV	DSCR	Spread	Rate
15-Year	65%	1.35x	205-245	4.20%-4.60%
12-Year	65%	1.35x	190-230	4.05%-4.45%
10-Year	55%	1.55x	155-195	3.70%-4.10%
10-Year	65%	1.35x	175-215	3.90%-4.30%
10-Year	80%	1.25x	200-240	4.15%-4.55%
7-Year	55%	1.55x	155-195	3.70%-4.10%
7-Year	65%	1.35x	175-215	3.90%-4.30%
7-Year	80%	1.25x	200-240	4.15%-4.55%
10-Year ARM	75%	1.00x	300-320	3.05%-3.25%

15-year floor and 10-year index floor is 1.00%; 7-year index floor is 0.80%

Construction Loan Financing

Construction Loans- Please Call Agent

Commercial

Life Companies

Term	Amortization	LTV	Spread	Rate
5-Year	25-30	65%-75%	170-210	3.80%-4.20%
10-Year	25-30	50%-65%	150-170	3.65%-3.85%
10-Year	25-30	65%-75%	175-210	3.90%-4.25%
15-Year	25-30	65%-75%	175-210	3.90%-4.25%
15-20 Year Fully Amortizing		65%-75%	175-210	3.90%-4.25%

Most life company lenders have floors of 2.75% and above. CALL FOR RATES.

CMBS

Term	Amortization	LTV	Spread	Rate
5-Year	30	65%-75%	330-370	5.40%-5.80%
10-Year	30	65%-75%	215-255	4.30%-4.70%

FHA-221(D) 4 Construction/Permanent

Term	Amortization	LTV	DSCR	Rate
40	40	85%	1.176x	3.85%

Before MIP of 0.25% to 0.65%

Life Companies

Term	Amortization	LTV	Spread	Rate
5-Year	25-30	65%-75%	160-200	3.70%-4.10%
10-Year	25-30	50%-65%	140-170	3.55%-3.85%
10-Year	25-30	65%-75%	160-200	3.75%-4.15%
15-Year	25-30	65%-75%	160-200	3.75%-4.15%
15-20 YR	Fully Amortizing	65%-75%	160-200	3.75%-4.15%

Most life company lenders have floors of 2.65% and above. CALL FOR RATES.

Multifamily

Freddie Mac-Conventional

Term	LTV	DSCR	Spread	Rate
15-Year	65%	1.35x	195-225	4.10%-4.40%
12-Year	65%	1.35x	195-225	4.10%-4.40%
10-Year	55%	1.55x	170-200	3.85%-4.15%
10-Year	65%	1.35x	185-215	4.00%-4.30%
10-Year	80%	1.25x	205-235	4.20%-4.50%
7-Year	55%	1.55x	180-210	3.95%-4.25%
7-Year	65%	1.35x	195-225	4.10%-4.40%
7-Year	80%	1.25x	215-245	4.30%-4.60%
10-Year ARM	80%	1.25x	275-300	2.80%-3.05%

Minimum index floor of 0.50% for all fixed-rate terms

CMBS

Term	Amortization	LTV	Spread	Rate
5-Year	30	65%-75%	325-360	5.35%-5.70%
10-Year	30	65%-75%	210-250	4.25%-4.65%

Rates are general in nature and are informational use only. Rates are subject to change at anytime and the information provided is not a commitment to lend. For specific quotes based on your property, contact a Sperry RE Capital representative or the person who sent you this newsletter.

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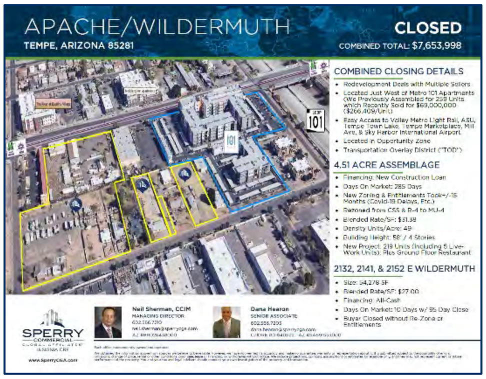

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TAMPA

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ORLAND
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ST. LOUIS, MO

CRAIGSHIRE
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AURORA, CO

PIONEER HILLS

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Q1 2022

Volume 3, Issue 1

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3621 FOOTHILL BLVD
GLENDALE, CA

1,740 SF BUILDING
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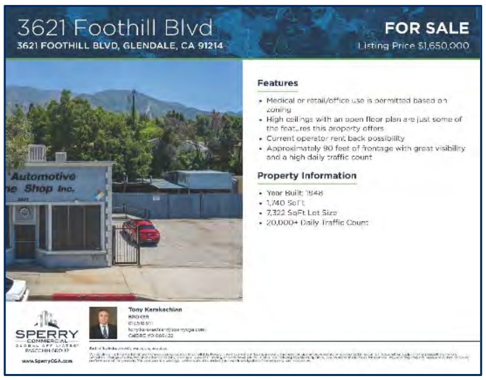
FOR SALE



9036 CENTER STREET
MOKELUMNE HILL, CA

VACANT
RESTAURANT

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FOR SALE

16655 HIGHWAY 175
COBB, CA

COBB VILLAGE INN

$950,000
FOR SALE

400 LEGENDS TERRACE DR
EUREKA, MO

LEGENDS TERRACE
APARTMENTS

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FOR SALE

797 W GUADALUPE ROAD
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MARZOCCHI AUTO

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COTTAGE HOME STREET
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RIVER'S EDGE
6.92 ACRES

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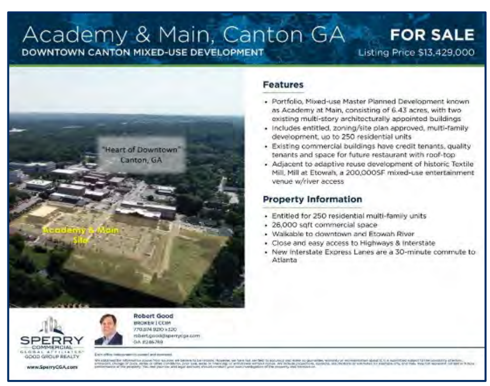

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FOR SALE

SPOTLIGHT ON:

MEXICO CITY, MEXICO

by: MANUEL PELÁEZ
SPERRYCGA MEXICO CITY – IREP

Mexico City is the capital and largest city in Mexico, as well as the most populous city in North America, and is one of the country's 32 federal entities. It is also one of the most important cultural and financial centers in the world. Located in the Valley of Mexico, a large valley in the high plateaus in the center of Mexico, it sites at an altitude of 7,350 ft.

Greater Mexico City is formed by Mexico City, 60 municipalities from the State of Mexico, and one from the State of Hidalgo. Greater Mexico City is the largest metropolitan area in Mexico, and the highest population density. As of 2020, 21,804,515 people live in this urban agglomeration, of which 9,209,944 live in Mexico City.

Mexico City is one of the most important economic hubs in Latin America. The City proper produces 15.8% of the country's gross domestic product. Mexico City has a GDP of $160 billion, ranking it as the eighth richest city in the world and the richest in Latin America. Mexico City alone would rank as the 30th largest economy in the world, and is the greatest contributor to the country's industrial GDP (15.8%) as well as the greatest contributor to the country's GDP in the service sector (25.3%).

The top twelve percent of GDP per capita holders in the city had a mean disposable income of $120,000. The high spending power of Mexico City inhabitants makes the city attractive for companies offering prestige and luxury goods.

Mexico City is the center of a manufacturing belt that stretches from Guadalajara in the west to Veracruz on the Gulf of Mexico in the east. Manufactured goods include textiles, chemicals and pharmaceuticals, electrical and electronic items, steel, and transportation equipment. In addition, a variety of foodstuffs and light consumer goods are produced.

The City plays a dominant role in Mexico's banking and finance industries. It is home to Banco de México (federal reserve bank), the Bolsa (stock exchange), and every major banking institution in the country. All major financial services, including insurance companies, are headquartered here.

Mexico City hosts 276 universities, including UNAM, one of the largest in the world with its 356,530 students and 353 graduate programs recognized internationally. It also has one of the most advanced research systems in Latin America, which produces over one-fifth of the patents registered in the country and 62% of all research, development, and innovation activities.

The Department of Communications has been involved in several major projects to bring a vastly improved public transportation system to Mexico City, with more than 384 subway trains that operate over 12 lines. The City also offers 13,000 free public WiFi spots to assist the increasingly tech-savvy population with their growing business and communications needs. Its airport is the busiest in Latin America, with more than 54 daily direct international destinations, 25 of which are to the U.S., 3 to Canada, 9 to Europe, 9 to South America and 8 to Central America.

One of our main focuses as the SperryCGA Mexico City office is the business and referrals we can conduct with the U.S. market. Many large companies are interested in leasing or buying an office building or industrial warehouse. Happily, we can meet your clients' expectations if they are looking to do business here.

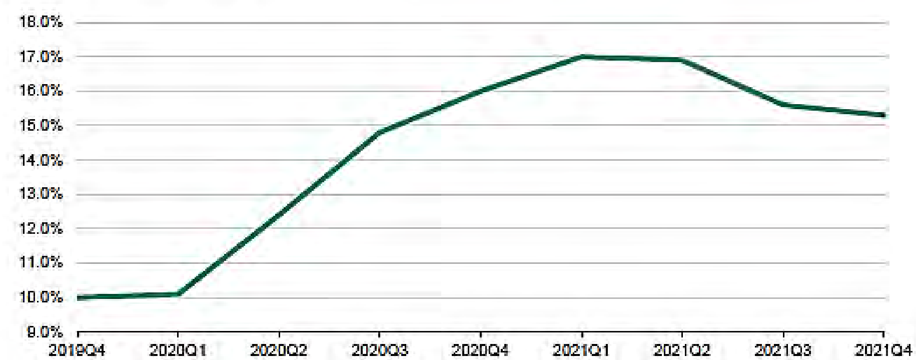
Q4 2021: SENIOR HOUSING QUARTERLY VIEW

by: LU CHEN
SENIOR ECONOMIST
MOODY'S ANALYTICS

DEMAND STEADIED AND RECOVERY FIRMED UP

Since the onset of the COVID-19 pandemic crisis, vacancy of overall senior housing market has steadily climbed up by 690 bps from 10.1% in Q1 2020 to 17% in Q2 2021. But thanks to the COVID vaccine and the rising vaccination rate among senior residents and their staffs, vacancy rate has since been trending down for 3 consecutive quarters, and finished 2021 at a pandemic low of 15.3%. Even though the vacancy level is still much higher than its pre-pandemic 5-year average of 9%, a decline of 70-bps year-over-year (YoY) marked a solid step forward on the path to recovery. A 130-bps drop in vacancy in Q3 and another 30-bps drop in Q4 indicate the market recovery is firming up, which is supported by solid demands across all four care facility types.

Figure 1 Aggregate Vacancy Rate



Source: Moody's Analytics CRE

Independent living, memory care, assisted living, and skilled nursing facilities all recorded vacancy drops in the 4th quarter which ranged from 20 to 90 basis points. Independent living facilities were leading the recovery with the most vacancy decline in Q2 and Q3 of 2021. As the supply picked up, the vacancy rate stabilized in Q4 with the least change, but it still remained the lowest amongst all 4 subsectors at 14.3%. Skilled nursing facilities continued to rank the second-lowest with a 15% vacancy rate for the year. Assisted living facilities extended its steady recovery with a 40 bps vacancy decline in Q4. Memory care facilities were under the most pressure during the pandemic due to its requirement for more specialized living design and trained staff. It lagged the other three subsectors with the highest level and the steepest increase of the vacancy rate since the pandemic started. After ticking up 900 bps in a year, the vacancy rate has since come down from its peak of 20.2% in Q1 2021 to 17.9% in Q4. Memory care facilities have had an extraordinary 4th quarter with the most vacancy decline among all four subsectors.

Extending its growth trend, rent in Q4 grew between 0.2% to 0.3% across all four subsectors. These quarter-over-quarter (QoQ) growth rates were stronger than they were in the same period in 2020, but remained relatively mild compared to Q1, because most senior housing properties schedule their rent changes at the beginning of the year. YoY data suggests the rent growth accelerated in Q4 2021 across all four care types. The assisted living sector, with a YoY growth rate edging up from 1.9% in Q3 to 2.1% in Q4, remained the subsector with the fastest rent growth. The memory care sector also accelerated its YoY rent growth from 1.4% in Q3 to 1.6% in Q4. Skilled nursing and independent living facilities both had a 10 bps uptick in rent growth, but the marginal increase for independent living facilities was much smaller than the 30-bps increase it enjoyed in Q3.

Looking back at senior housing's demand recovery for the whole year, net absorption first established its positive trend back in Q2, accelerated in Q3, and then stabilized in Q4 with over 7,000 units across all care types and nationally. Even though demand in senior housing is usually weaker towards the year-end , we recorded the strongest figure in the 4^{th} year-end quarter of 2021 as compared to the past decade. Total net absorption for the senior housing sector in 2021 exceeded its pre-pandemic five-year average of 19,000 units, and ranked as 2nd best in our 10-years of tracking history just behind 2019. Net absorption for all four care types also went above their respective levels in Q4 2019. Specifically, 4th quarter demand for skilled nursing, memory care, and independent living facilities all reached historic year-end highs. The skilled nursing subsector stood out with a net absorption rate that is 49% higher than its previous peak in 2013. the memory care subsector recorded 17% more units than its previous high in 2017. Vacancy change, YoY rent growth and 4^{th} quarter net absorption rates all suggested the need-based move-ins boosted overall senior housing market recovery at the end of 2021.

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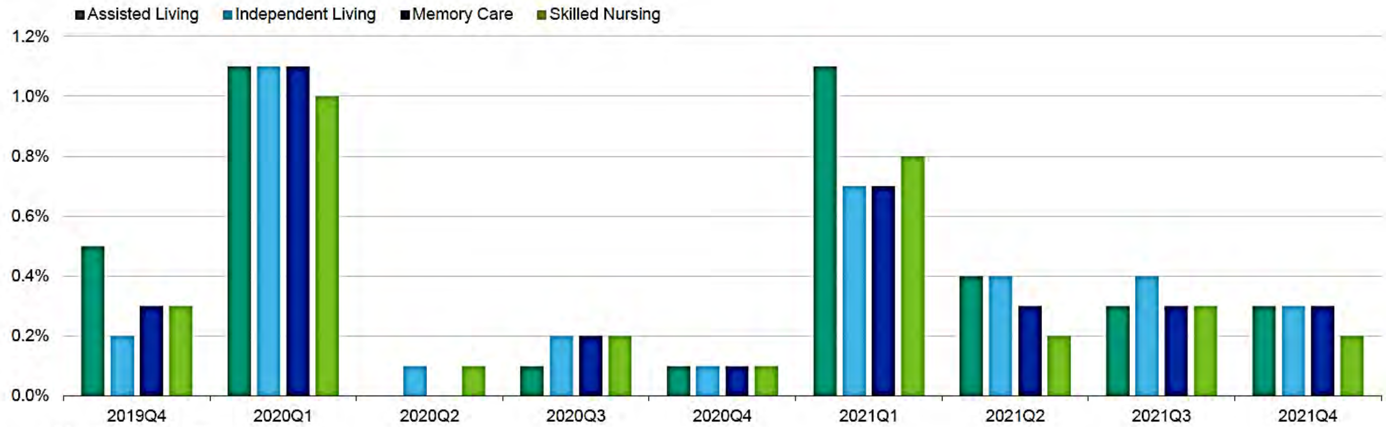
Figure 2 Subsector Rent Growth Rates



Source: Moody's Analytics CRE

Meanwhile, the construction pipeline tightened as a direct result of increased investor caution around senior housing, mostly due to weakness in the sector fundamentals, labor shortages, and supply chain disruptions. With total completions down 38% from a year ago, annual new units/beds added for 2021 were at their lowest since 2014. Among the new construction for the year, 57% represented independent care facilities, 39% were assisted living facilities, 2.7% were memory care facilities, and 1.2% were skilled nursing facilities. Of the total 1,975 new senior housing units which came online in Q4 2021, 84% of them were constructed as independent care facilities and 16% were assisted living facilities.

METRO-LEVEL INSIGHTS

Out of the 145 metros that Moody's Analytics REIS tracks in the senior housing sector, one hundred and seven had declining vacancy rates ranging from 10-bps to 330-bps. Seventeen metro areas had at least a 100-bps drop in vacancy and 2 of them declined more than 200-bps, all because of strengthened demand and insignificant inventory growth. Albany (NY), with vacancy down 20-bps in Q4, joined Worcester (MA) to tease a below 10% vacancy mark. There were 26 metros with an increasing vacancy rate in Q4 compared to just 3 back in Q3. Among these metros, Rockford (IL), York (PA), and Portland (ME) had more than a 100-bps increase in vacancy as a direct result of more move-outs than move-ins across all care types.

Despite the struggles in certain metros, the nation is seeing steady demand and recovery in the overall senior housing sector.

OUTLOOK

COVID case counts, ongoing staffing shortage, and supply chain disruptions remain important factors that continue to drive the short-term supply and demand in the senior housing sector. Two years into the pandemic, improved infection and safety protocols are resuscitating demand in the senior housing sector, while the Great Resignation and high material costs are weighing on the inventory growth. According to the American Health Care Association/National Center for Assisted Living, long term care residents and staff have been among the hardest hit by the pandemic. Chronic government underfunding coupled with workforce recruitment challenges were exacerbated by the global crisis. The number of long term care facilities forced to limit admissions or close altogether because of staffing shortages and financial concerns continues to grow. While many fundamental factors of senior housing are currently in flux, as long as the vaccines continue to effectively reduce symptoms of future variants, we expect the performance matrix to show slow but steady improvement through 2022.

Lu Chen
Senior Economist
Moody's Analytics

This article has been reprinted courtesy of Moody's Analytics

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