

**THE U.S. ECONOMY, COMMERCIAL REAL ESTATE
AND SELF STORAGE OUTLOOK:**

THE CASE FOR A COMPELLING INVESTMENT ALTERNATIVE

September 06, 2022

Marcus & Millichap

10-YEAR ECONOMIC LOOKBACK - 2012 TO TODAY

- **19.7 Million** Increase in Population
- **3.2 Million** Increase in Young Adult Population
- **10.4 Million** More Households
- **19.6 Million** More Jobs
- **500 bps** Decline of Unemployment Rate to 3.5%
- **7.5 Million** More Job Openings Than 2012 (11.2 Million)
- **43.7%** Increase in Inflation-Adjusted Core Retail Sales
- **\$9.0 Trillion** GDP Growth Since 2012 (Japan + UK Total)
- **10,000** Baby Boomers Turn 65 Every Day
- **12,000** Gen Zers Turn 21 Every Day

As of 2Q 2022; Jobs and core retail sales through July 2022

Young adult population includes 20- to 34-year-olds

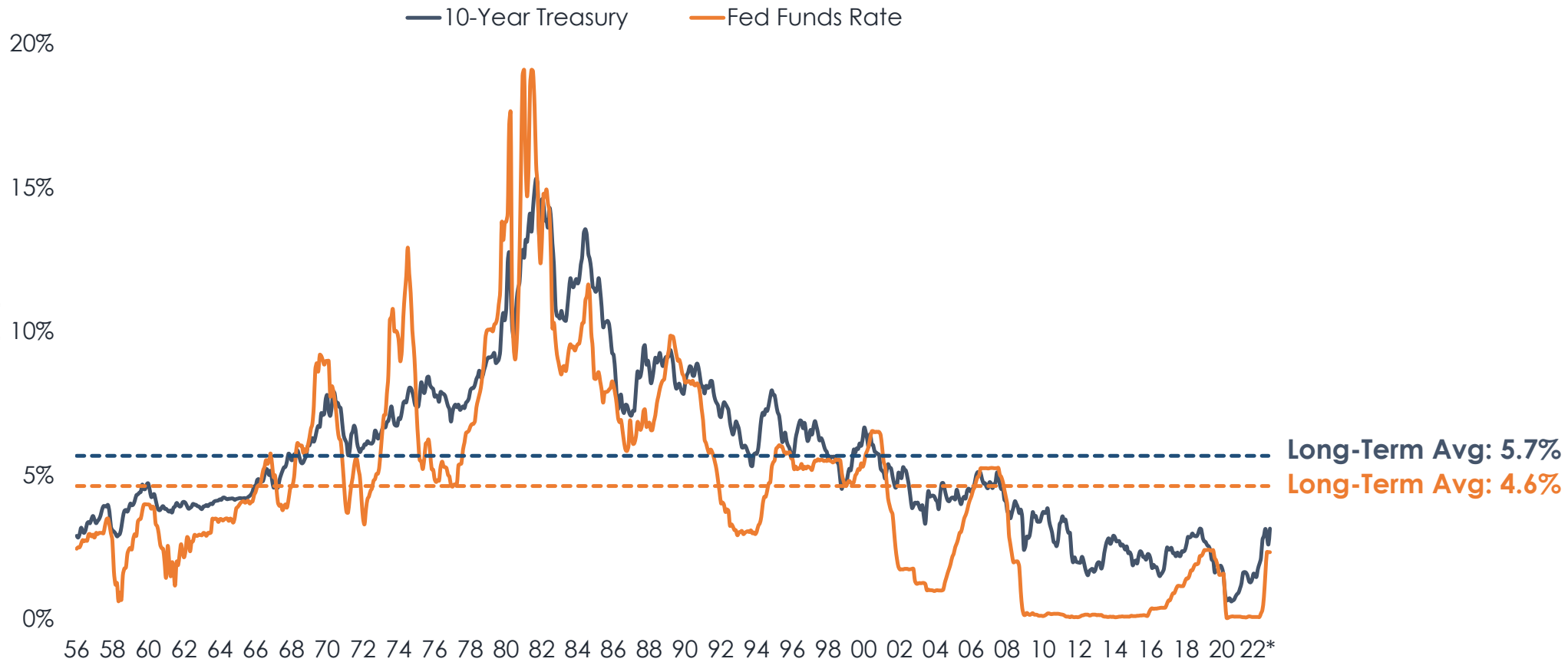
Adjusted for inflation using core PCE as of June 2022

Sources: Marcus & Millichap Research Services, U.S. Census Bureau, BLS, BEA, Federal Reserve Board

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MULTI-DECADE INTEREST RATE TREND STILL A POSITIVE PICTURE

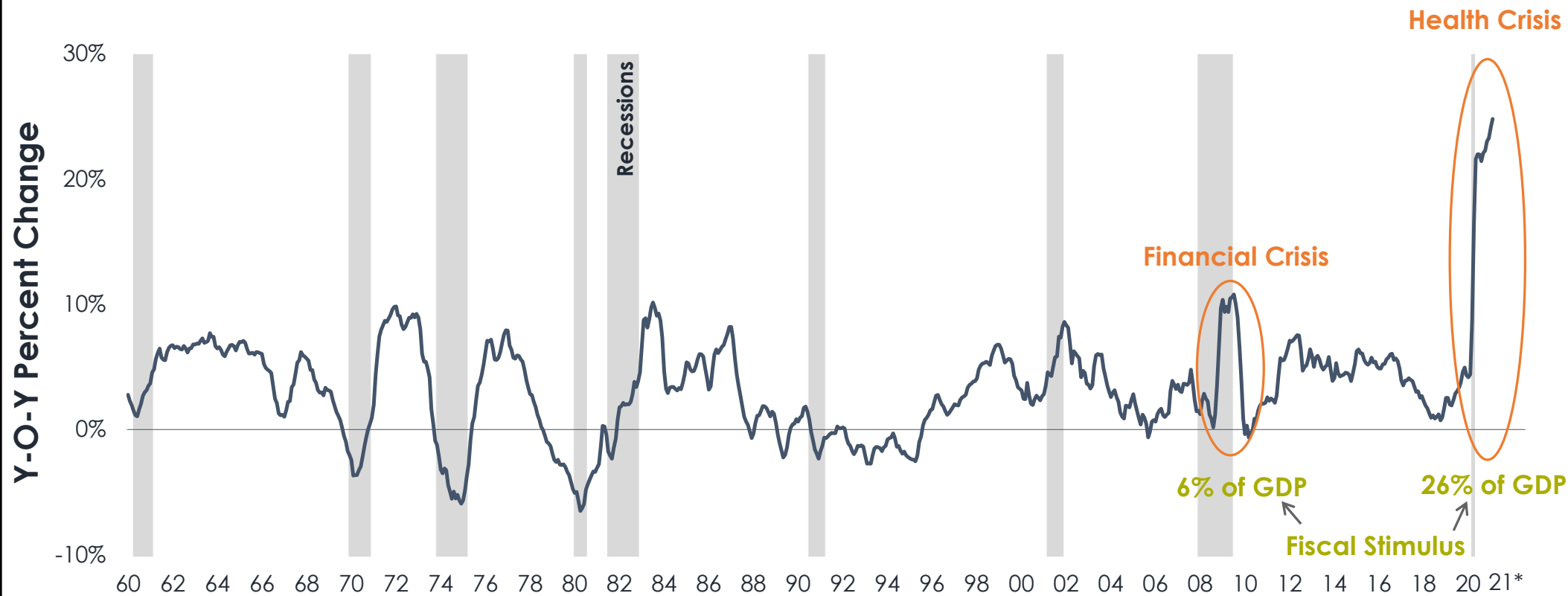
“WHAT’S THE PROBLEM?”



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* Through August 31
Sources: Marcus & Millichap Research Services, Federal Reserve

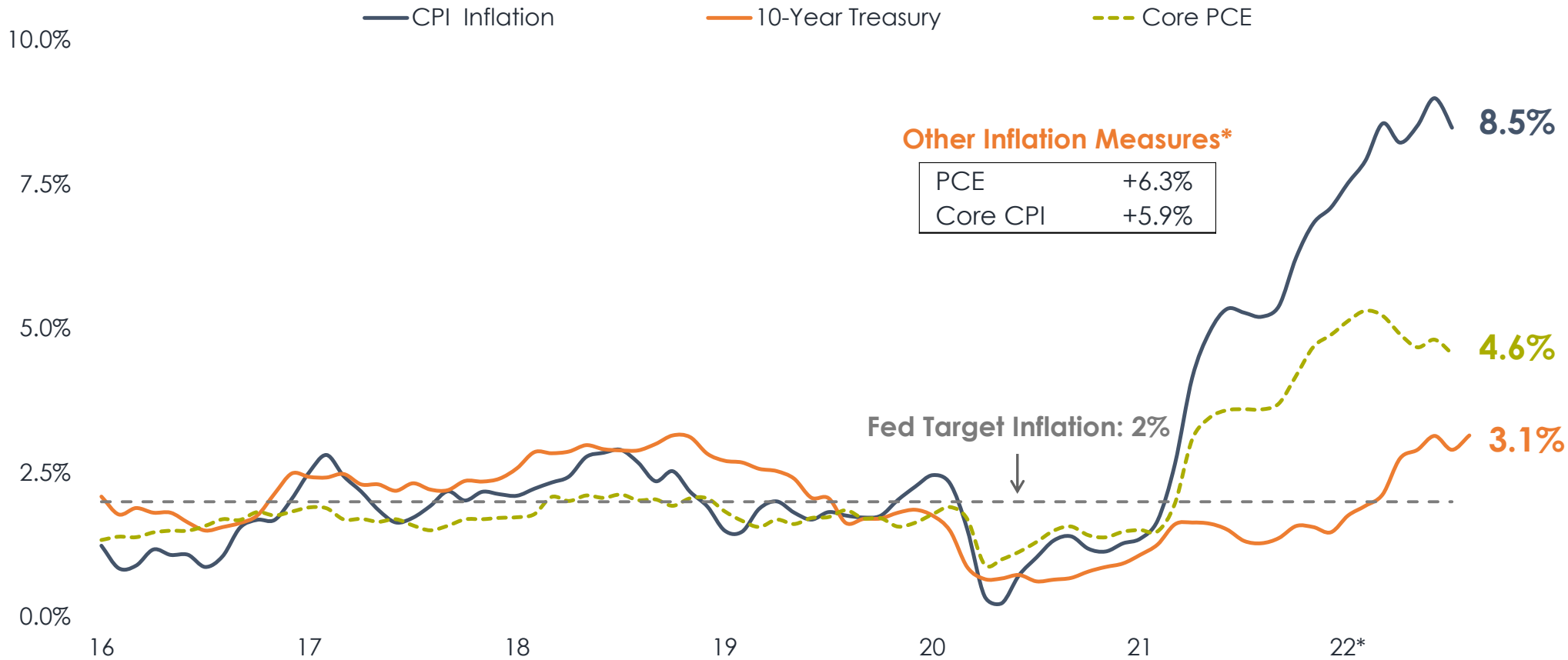
REAL MONEY SUPPLY (M2) INCREASE UNPRECEDENTED TO OFFSET THE PANDEMIC



* Through February 2021
 Real M2 includes inflation-adjusted cash, checking deposits, savings deposits, money market securities, mutual funds and other time deposits
 Sources: Marcus & Millichap Research Services, Federal Reserve

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INFLATION RATE NEAR 40-YEAR HIGH – A MAJOR CHALLENGE BUT BETTER THAN ALTERNATIVE

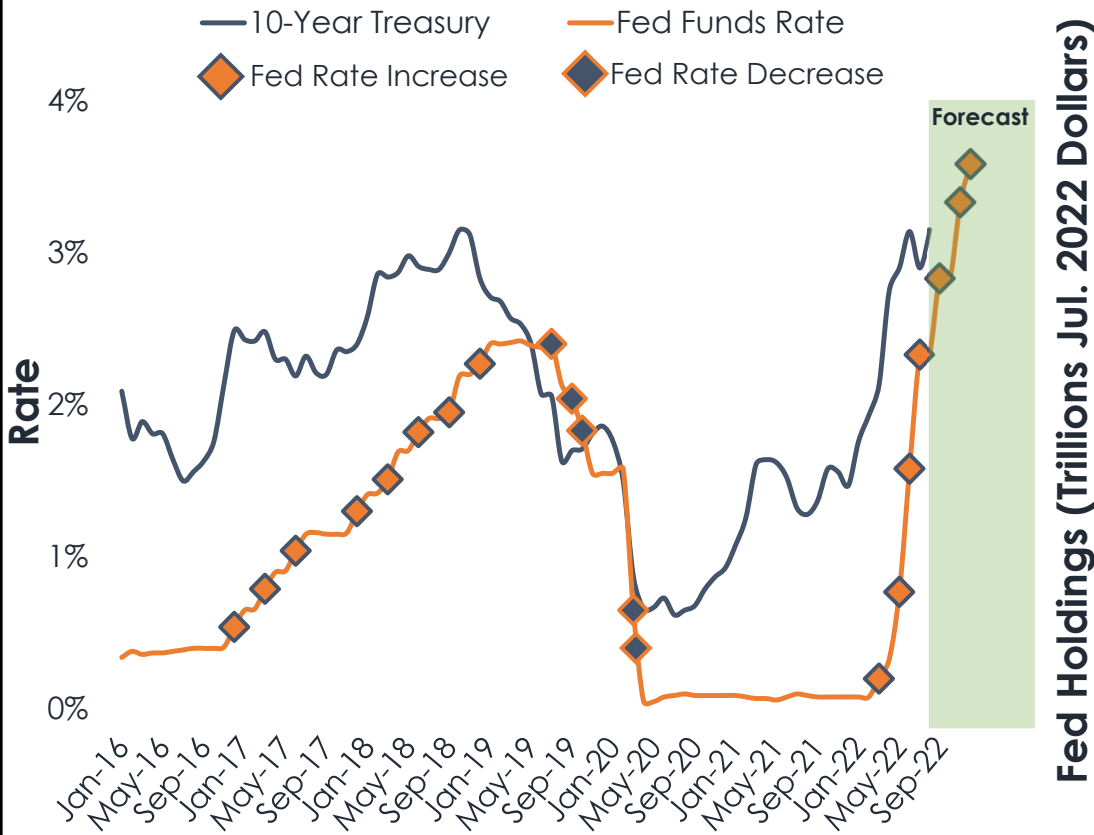


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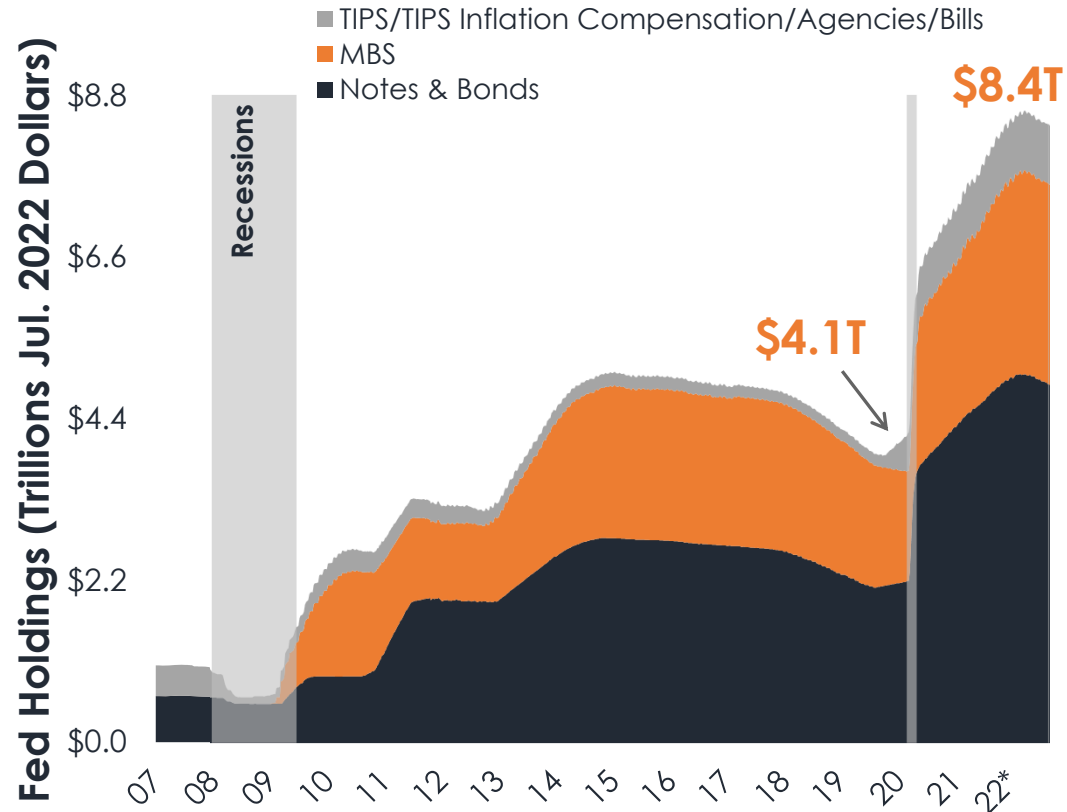
* Through July; 10-Year Treasury through August 31
Sources: Marcus & Millichap Research Services, Federal Reserve, BEA, BLS

FED HAS LITTLE OPTION BUT TO BE AGGRESSIVE – QUANTITATIVE TIGHTENING UNDER WAY

10-Year vs. Fed Fund Rate



Inflation Adjusted Fed Balance Sheet



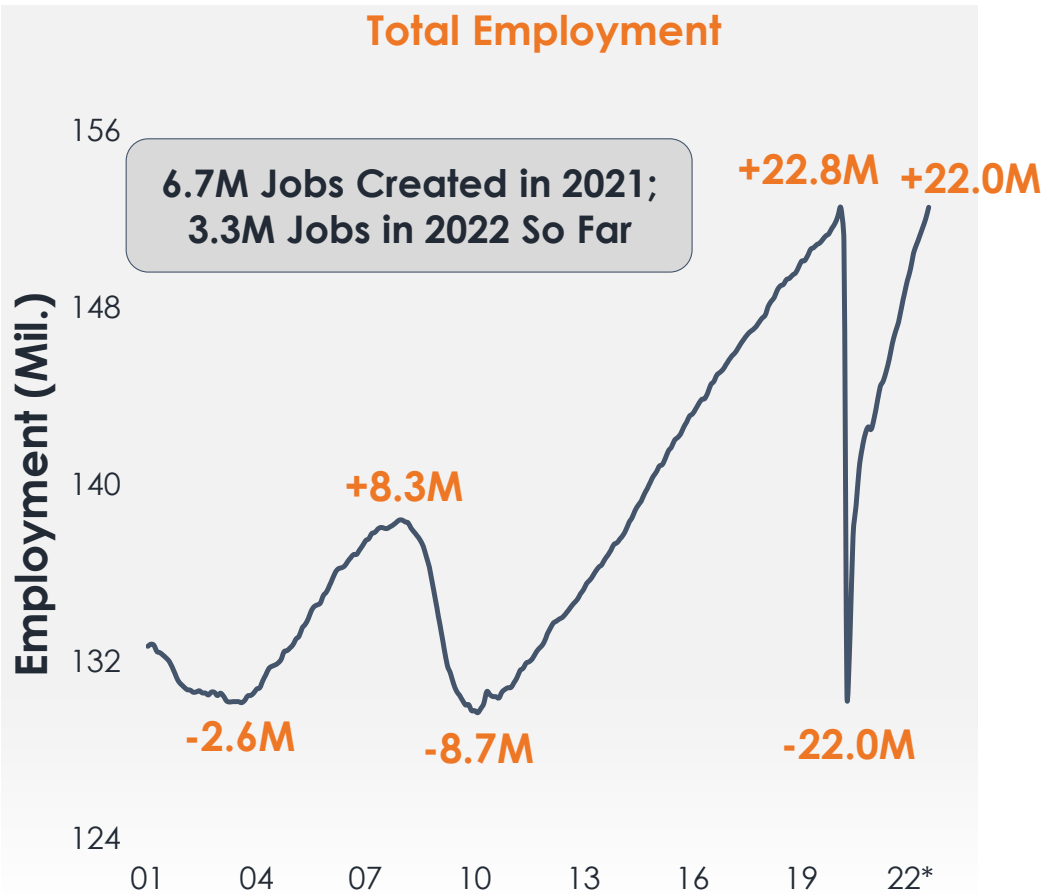
* Through August 31
 10-Year Treasury as of August 31, 2022
 Assumes two 50 bps and one 25 bps hikes at subsequent FOMC meetings
 Sources: Marcus & Millichap Research Services, Federal Reserve, BEA

A VERY “DIFFERENT” DOWNTURN:

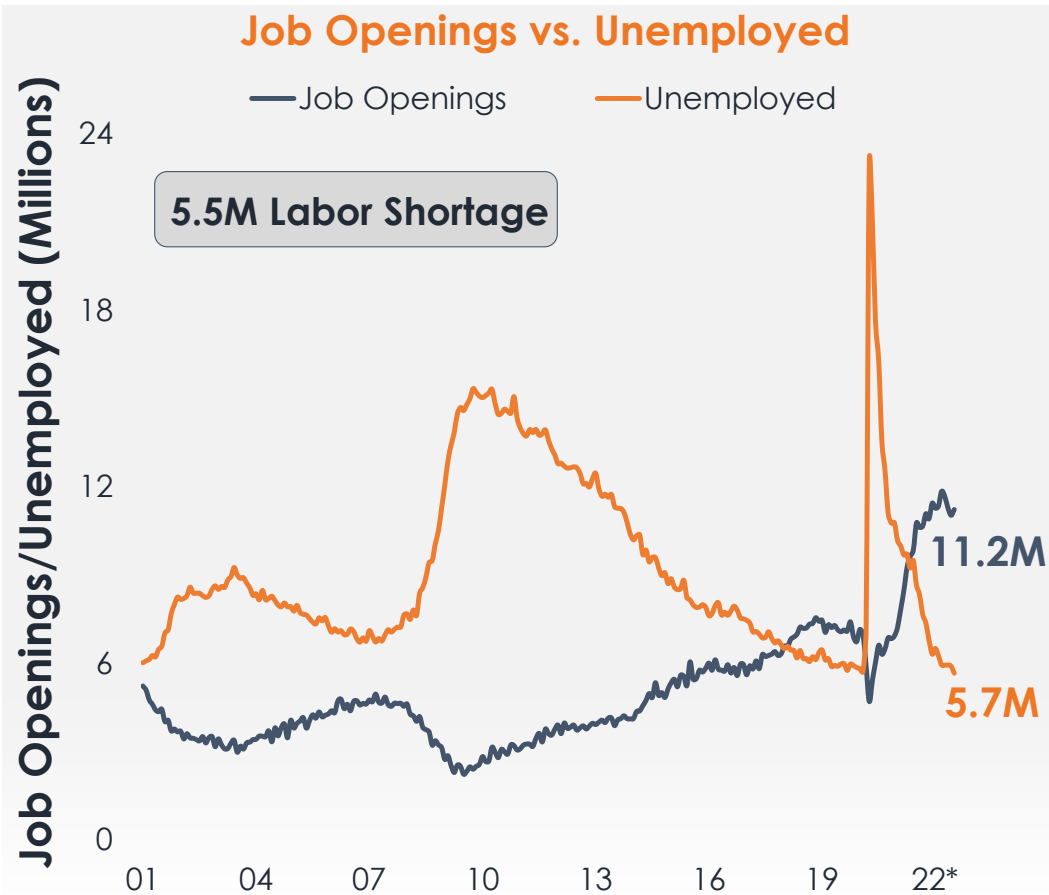
***A SELF-INDUCED RECESSION/PAUSE VS.
STRUCTURAL CRISIS OR BROKEN FUNDAMENTALS (2008-09)
DRIVERS OF A MODERATE DOWNTURN ... BUT GRADUAL PROGRESS***

U.S. EMPLOYMENT HAS RECOVERED ALL PANDEMIC LOSSES; STRONG DEMAND FOR WORKERS ENCOURAGING

Total Employment



Job Openings vs. Unemployed

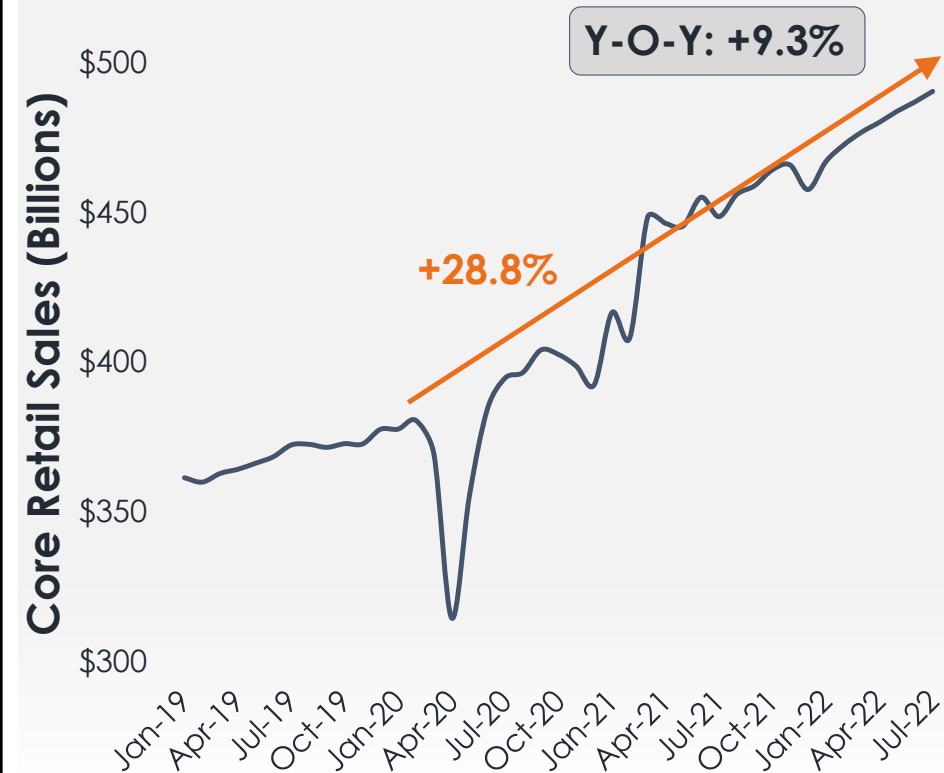


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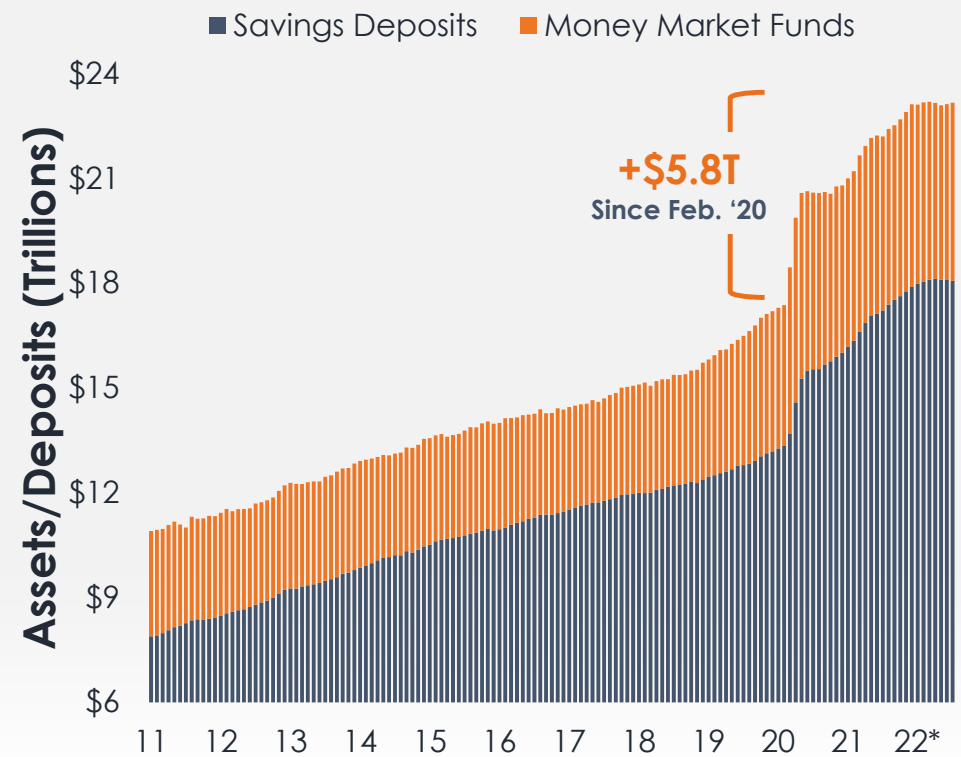
* Through July
Sources: Marcus & Millichap Research Services, BLS

CONSUMPTION STILL ON THE RISE; SAVINGS BOOST A MIX FACTOR - WILL DRIVE GROWTH, BUT ALSO INFLATIONARY PRESSURE

Core Retail Sales



U.S. Total Savings Deposits and Money Market Mutual Funds



* Through July

Core retail sales excludes auto and gasoline sales

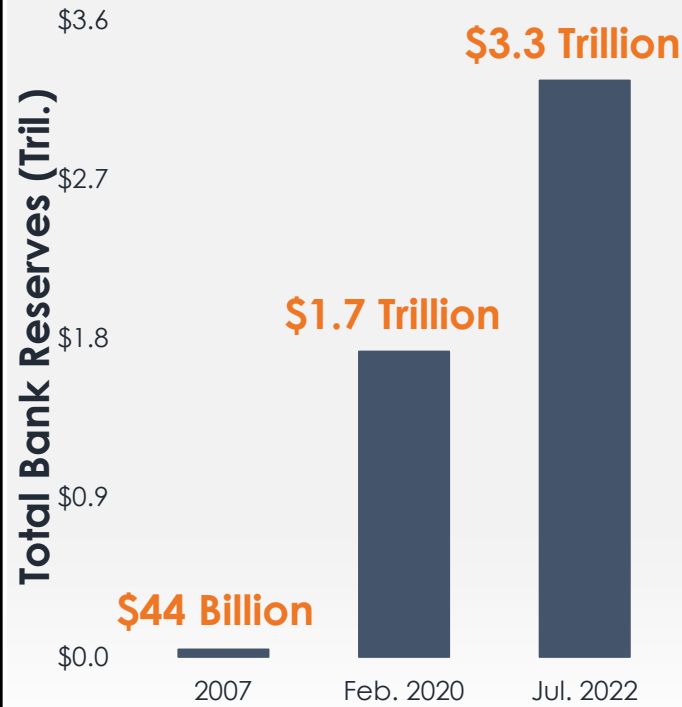
Includes investment in prime, government and tax-exempt funds for retail and institutional accounts

Sources: Marcus & Millichap Research Services, U.S. Census Bureau, Office of Financial Research, Board of Governors of the Federal Reserve System

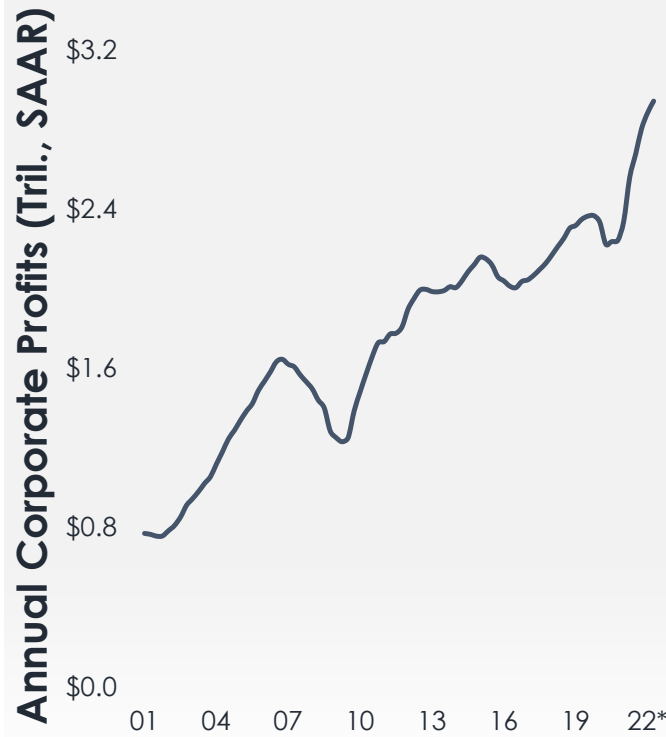
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PRE-PANDEMIC FINANCIAL FOUNDATION WAS SOLID – PERFORMING EVEN BETTER TODAY

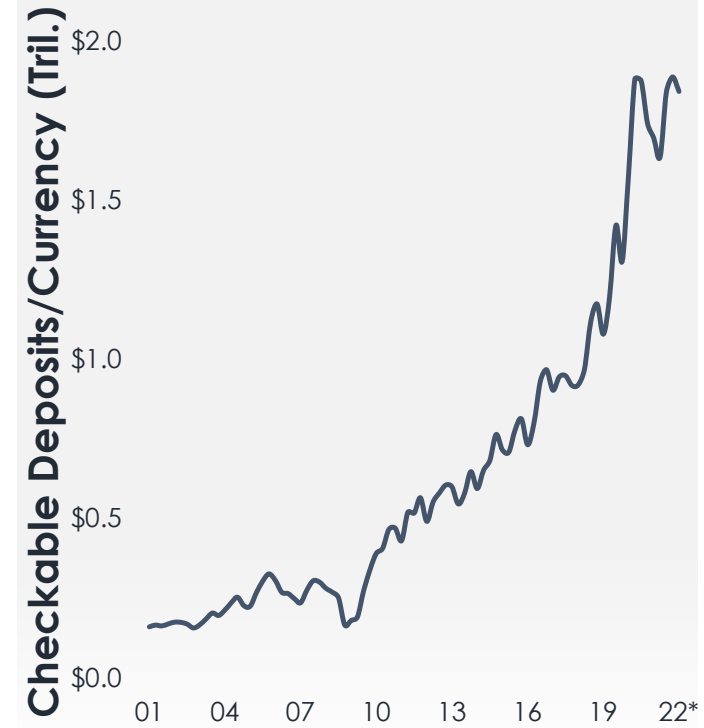
U.S. Bank Reserves



Corporate Profits**



Corporate Cash on Hand



* Corporate profits through 2Q; Cash on hand through 1Q

** Trailing 12-month average

Sources: Marcus & Millichap Research Services, BEA, Federal Reserve Bank of St. Louis, Federal Reserve Board

NATIONAL EMPLOYMENT RANK BY METRO Y-O-Y ABSOLUTE CHANGE THROUGH JULY 2022

Top 10 Metros	Absolute Change	Percent Change
Dallas-Fort Worth	276,800	7.2%
New York	266,100	6.2%
Chicago	194,200	4.3%
Houston	187,500	6.1%
Los Angeles	158,600	3.6%
Atlanta	148,200	5.2%
Philadelphia	127,400	4.5%
Boston	116,700	4.3%
Seattle-Tacoma	93,200	4.6%
Northern New Jersey	91,700	4.5%
U.S. Total	6,149,000	4.2%

Bottom 10 Metros	Absolute Change	Percent Change
Kansas City	3,000	0.3%
Cincinnati	5,900	0.5%
Milwaukee	6,800	0.8%
St. Louis	17,000	1.2%
Columbus	21,700	2.0%
Indianapolis	23,100	2.1%
West Palm Beach	25,300	3.9%
Cleveland	27,800	2.7%
Jacksonville	33,100	4.5%
Fort Lauderdale	37,200	4.4%
U.S. Total	6,149,000	4.2%

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Sources: Marcus & Millichap Research Services, BLS

FEDERAL RESERVE WALKING A TIGHTROPE “THERE WILL BE PAIN”



- ❖ Fed Raised Rates 75 BPS in June and July; Largest Increases Since 1994
- ❖ Overnight Rate Now at 2.25%-2.50%
- ❖ Another Increase Expected at September 21 Meeting
- ❖ Overnight Rate Likely in 3%-4% Range by Year-End
- ❖ Quantitative Tightening Started in June: \$47.5B; Now \$95B/Month in Sept. – Likely to Push Up 10-Year Rate
- ❖ Raising Rates Should Ease Inflationary Pressure... (In Theory)
- ❖ Raising Rates Too Much or Too Fast Can Trigger a Recession

MEDIAN HOME PRICE CHANGE FROM PRE-PANDEMIC PEAK

Top 10 Metros	2Q 2022 Median Home Price	Percent Change
Austin	\$574,100	70.3%
Phoenix	\$488,900	64.4%
Atlanta	\$377,000	58.4%
Salt Lake City	\$556,600	57.5%
Orange County	\$1,321,200	57.3%
Tampa	\$393,300	56.1%
Charlotte	\$408,800	53.4%
Inland Empire	\$588,000	53.0%
San Jose	\$1,949,800	51.7%
Las Vegas	\$470,600	50.9%
U.S. Average	\$402,300	43.7%

Bottom 10 Metros	2Q 2022 Median Home Price	Percent Change
Manhattan*	\$1,882,500	19.5%
Milwaukee	\$326,500	20.5%
St. Louis	\$239,800	26.7%
Minneapolis-St. Paul	\$373,600	27.2%
Baltimore	\$386,400	27.5%
Detroit	\$246,800	28.2%
Washington, D.C.	\$589,300	31.7%
Chicago	\$353,400	32.0%
Cleveland	\$215,300	32.0%
San Francisco	\$2,102,600	33.7%
U.S. Average	\$402,300	43.7%

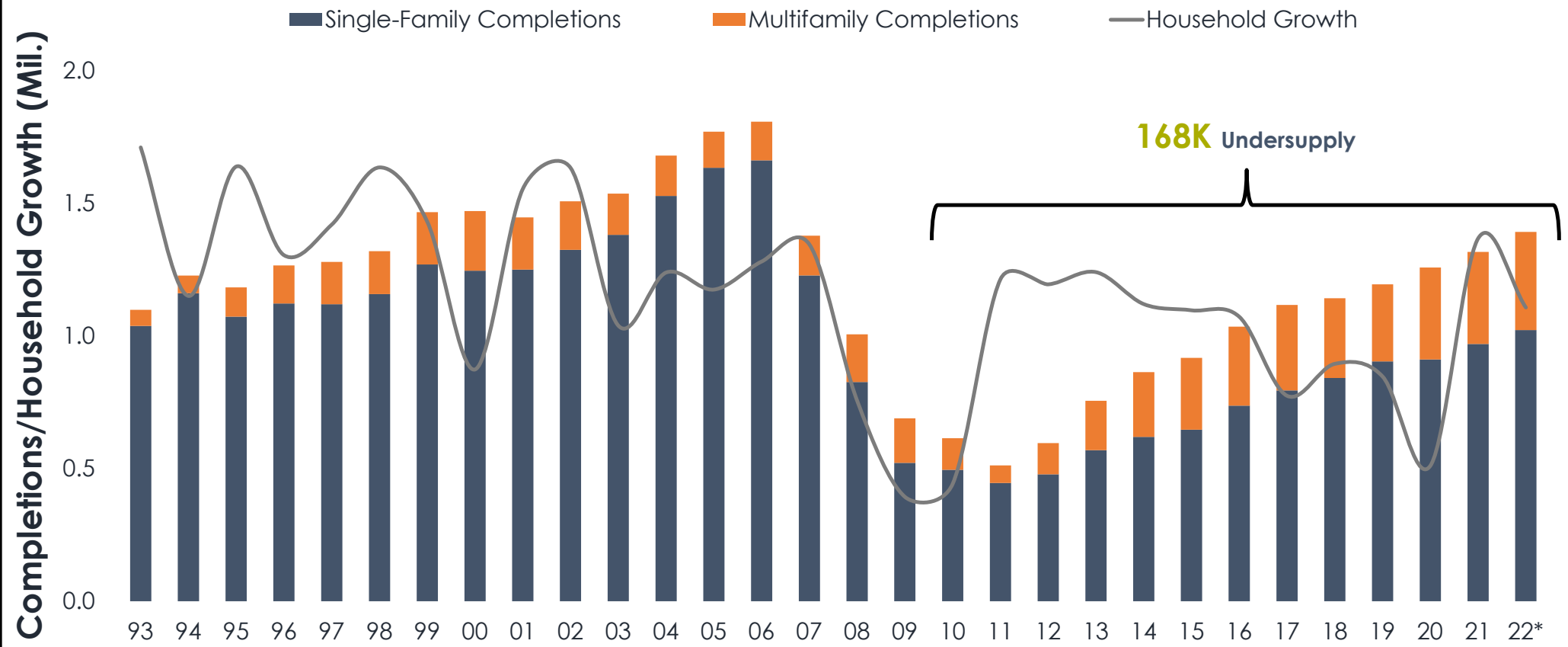
* Includes condominiums

Pre-pandemic period: 4Q 2019 to 2Q 2022

Sources: Marcus & Millichap Research Services, National Association of Realtors, Douglas Elliman Real Estate

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STRUCTURAL SHORTAGE OF HOUSING VERY DIFFERENT THAN 2008-09

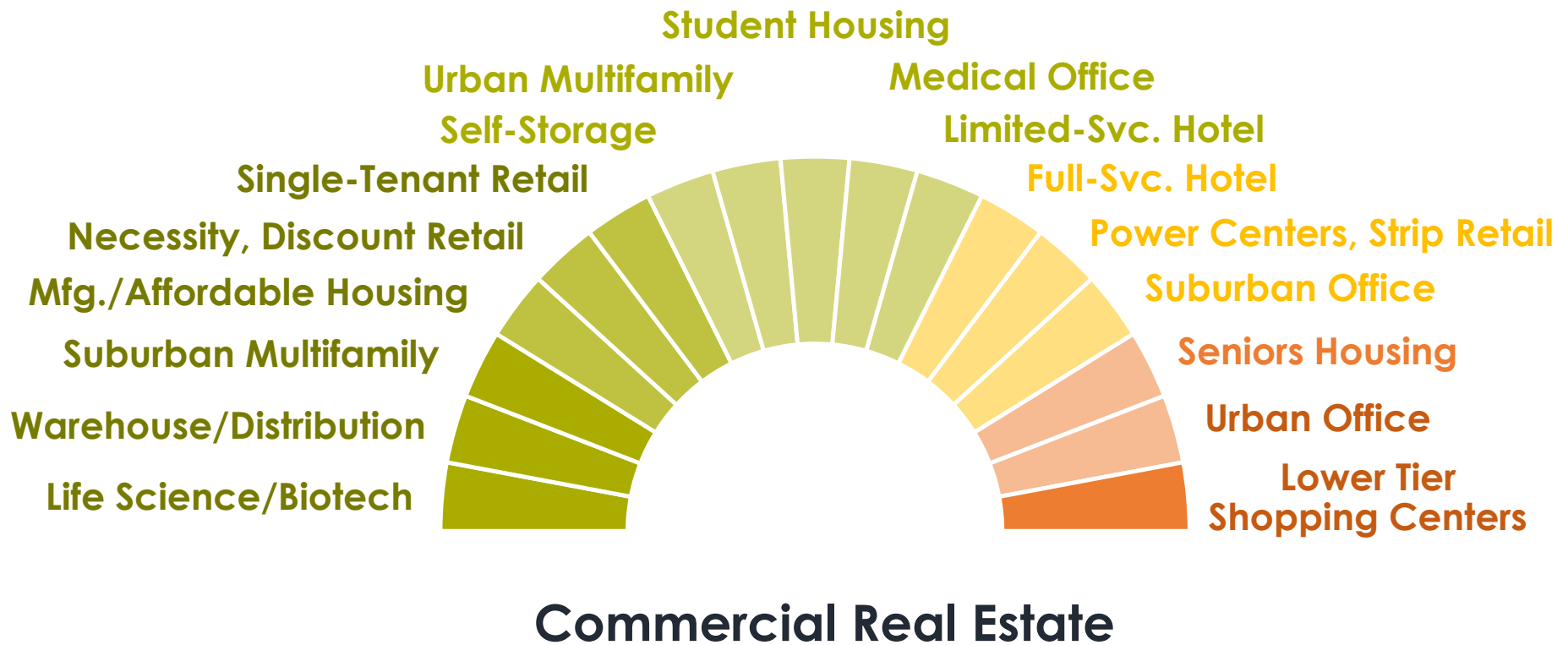


168K Undersupply

* Forecast
 Forecast using Moody's August 2022 baseline forecast
 Sources: Marcus & Millichap Research Services, U.S. Census Bureau, RealPage, Inc., Moody's Analytics

**COMMERCIAL REAL ESTATE AND SELF-STORAGE:
A COMPELLING ALTERNATIVE INVESTMENT
IN A GLOBAL MARKETPLACE**

RISK/REWARD LANDSCAPE SHIFTING – CRE PROVIDES FULL SPECTRUM PROPERTY PERFORMANCE, VALUATION, OUTLOOK WIDENING BY SEGMENT



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VACANCY RATE BY PROPERTY TYPE

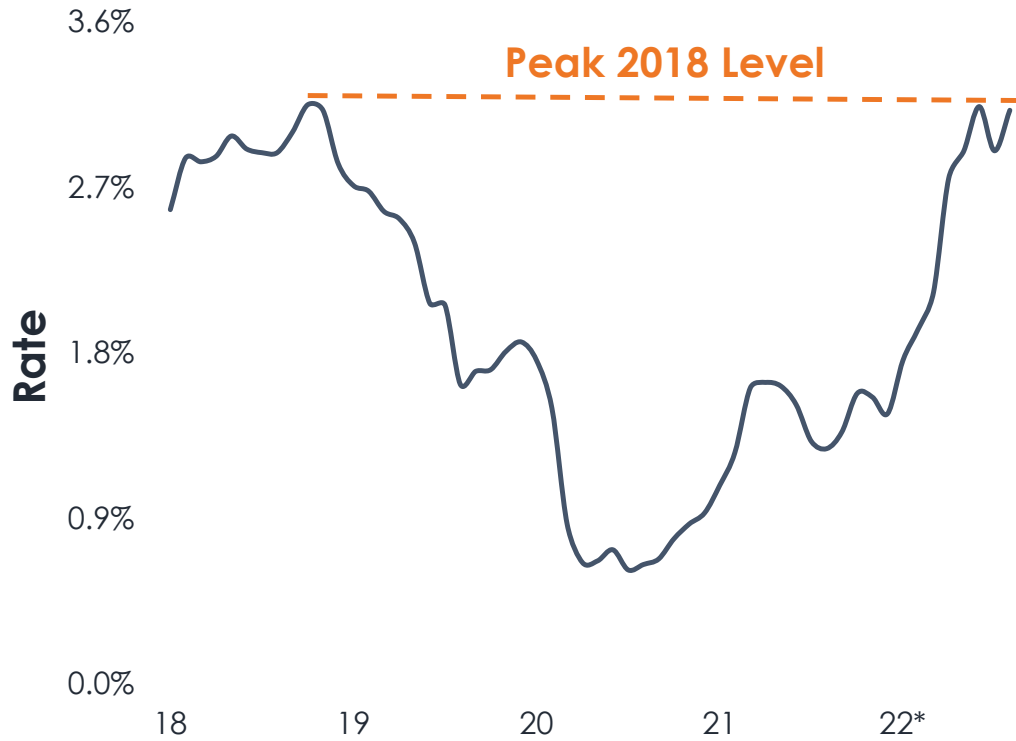


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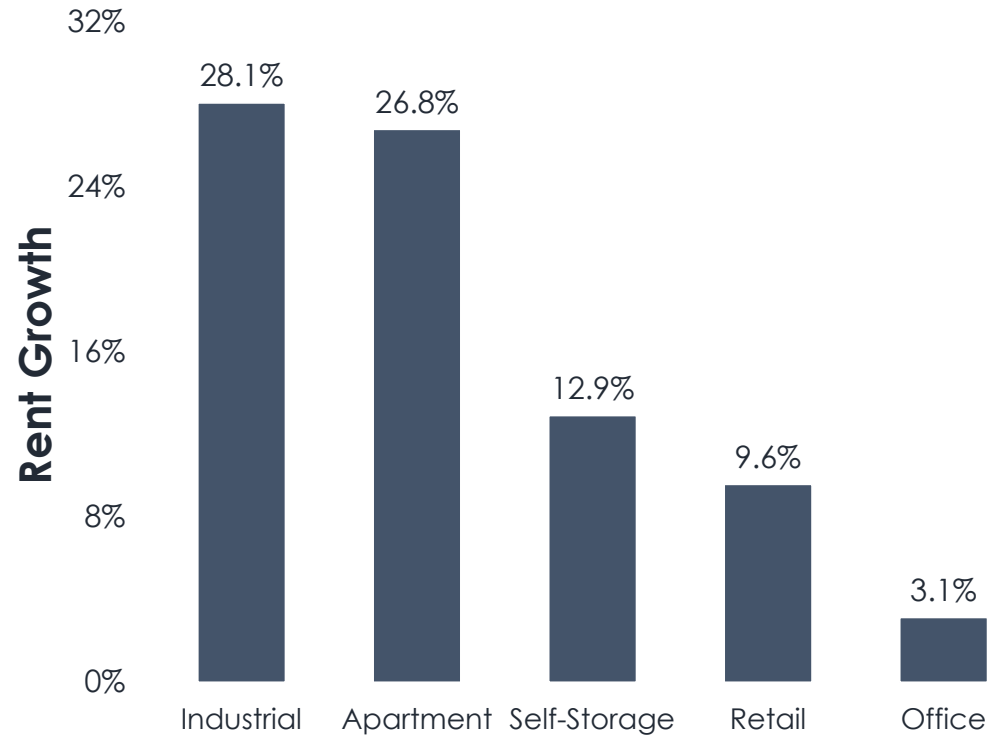
* Forecast
Sources: Marcus & Millichap Research Services, RealPage, Inc., CoStar Group, Inc., Radius+

INTEREST RATES AND RENT GROWTH BY PROPERTY TYPE

10-Year Treasury



Rent Growth: 2018 to 2Q 2022



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* Through August 31

Sources: Marcus & Millichap Research Services, Federal Reserve, CoStar Group, Inc., RealPage, Inc., Yardi Matrix