

MSP INVESTMENT SERVICES GROUP: MARKET TRENDS



ON THE BRIGHT SIDE:



NO MORE POLITICAL ELECTION ADDS!



PHIZER/BIONTECH HAS 90% EFFECTIVE VACCINE!



UNEMPLOYMENT DOWN TO 6% BY EOY 2021!



ROCK BOTTOM INTEREST RATES AT 0.9%!

1031 EXCHANGES

Joe Biden has proposed phasing out 1031 exchanges for investors making over \$400,000 annually. Elimination of the 1031 exchange rule would reduce real estate transaction velocity and severely reduce the aggregate dollars spent on capital improvement projects.

WHY IT MATTERS:

Lower incentives to trade will put upward pressure on cap rates. Fewer capital improvement projects will have a negative effect on the functional and aesthetic quality of communities.

1031 EXCHANGES CURRENTLY ACCOUNT FOR:

6%

TOTAL REAL ESTATE TRADE VOLUME

\$2-\$4 B

DEFERRED TAXES EACH YEAR

CAPITAL GAINS TAX

JOE BIDEN'S PROPOSED TAX PLAN



Increase tax revenues by asking those making more than \$1 million to pay the same rate on investment income as their wages.

39.6%

NEW TOP BRACKET INCOME TAX

If the capital gains tax matched this rate, it would effectively double from its current rate of 23.8%.

Note: Joe Biden's tax plan can only pass if the republican party loses its majority in the Senate, which they hold by 6 seats.

WHY IT MATTERS:



Higher capital gains tax would reduce incentives to trade, putting upward pressure on cap rates.

COVID-19 PANDEMIC

Hopes are soaring after new news that Pfizer/BioNTech's vaccine was 90% effective in protecting people from transmission of the virus in global trials. Stocks rallied for most sectors that have been hardest hit by the pandemic, including airlines, hotels and REITs. Segments of the market that were considered COVID-19 safe havens, including gold and companies that have benefited from stay-at-home mandates, came under selling pressure.

WHY IT MATTERS:

A return to strict Covid-19 mandates will only exacerbate the trend to expanded industrial and e-commerce demand. As of Q2 2020 e-commerce made up 16.1% of retail sales.

90%

EFFECTIVE VACCINE TRIAL

In protecting people from transmission of the virus. -Pfizer/BioNTech

12.3%

AVG INCREASE OF REIT STOCKS

The day the vaccine was announced.

0.93%

10 YEAR TREASURY YIELD

Highest level since March 2020 creating **optimism about economic growth.**

OPPORTUNITY ZONES

The program created by Trump, which offers capital-gains tax breaks to developers who invest in one of more than 8,700 designated areas has drawn criticism for benefiting deep-pocketed developers without enriching the targeted communities.

HOW IT WORKS:



Invest in one of more than 8,700 designated OZ areas.



Hold investment for 7+ years & only 85% of gains are subject to tax.



Hold investment for 10+ years & any new gains are tax-free.

WHY IT MATTERS:

In response, Biden has proposed reform to the program by requiring recipients of the tax breaks to make public disclosures of their investments and the impact on local residents in terms of housing affordability, poverty and job creation.

MSP INVESTMENT SERVICES GROUP: ECONOMIC TRENDS



FISCAL POLICY

With **interest rates at rock bottom**, Federal Reserve officials have stated that the unemployment rate could fall



below 6%
UNEMPLOYMENT
RATE BY YE 2021

Contingent on \$1 trillion in fiscal stimulus.

WHY IT MATTERS:

Fiscal stimulus resulting in low unemployment would help real estate portfolio retain their value by reducing tenant credit uncertainty, thus increasing trade velocity.

- Conversely, a lack of meaningful fiscal policy work would have a cascading negative effect on the economy at large, and thus real estate.
- The industrial product type is somewhat removed from this effect as a higher portion of industrial tenants have been able to remain in business through Covid-19. **This decreased exposure to Covid-19 regulation will result in a higher investor preference for this product, putting downward pressure on cap rates.**

INTEREST RATES

THE FED HAS DROPPED INTEREST RATES TO

0.9%

(October 2020)

THE FED HAS COMMITTED TO KEEPING RATES

near 0%

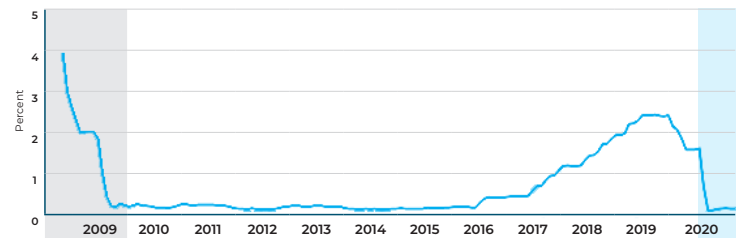
FOR AT LEAST 3 YEARS!
or until inflation reaches 2%

WHY IT MATTERS:

Low interest rates put downward pressure on cap rates, which is compounded by the long-term commitment to low rates by the Fed.

EFFECTIVE FEDERAL FUNDS RATE

U.S. recessions are shaded, the most recent end date is undecided.



Source: Board of Governors of the Federal Reserve System

GDP

GDP growth indicates the overall health of the economy.

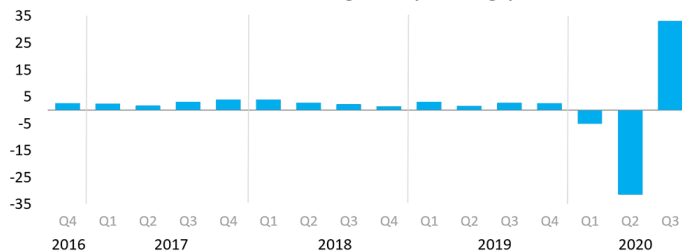
REAL GDP GROWTH HAS REBOUNDED IN Q3 FROM ITS Q2 LOW!

2%-3%

HEALTHY GDP
GROWTH RATES

Keep in mind: percentage changes can be misleading. A 33% decrease followed by a 33% increase would leave you 11% down.

Real GDP: Percent change from preceding quarter



U.S. Bureau of Economic Analysis

Seasonally adjusted at annual rates

WHY IT MATTERS:

A return to stable GDP growth would put downward pressure on cap rates.

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