Park Madison Perspectives

Outlook 2019

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About Park Madison Partners

Park Madison Partners is a New York-based capital raising and advisory firm focused on the global real estate alternative investments industry. To date, the firm has participated in the placement of over $12 billion of private equity capital globally for a wide range of real estate vehicles and strategies.

Park Madison Partners was founded to offer clients capital raising and strategic consulting services with a high degree of customization, integrity and accountability. The firm provides a relationship-driven approach to structuring and marketing assignments and offers its clients access to global institutional investors. Our team comprises professionals with backgrounds across the buy-side and sell-side, and we leverage this experience to provide a thoughtful approach to global real estate markets.

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The year 2018 saw the normalization of many previously “abnormal” things. The US Federal Reserve normalized monetary policy. Public market volatility returned to historically “normal” levels. And nomophobia, the fear of being without one’s cell phone, became an accepted psychological disorder worthy of pharmacological intervention. We could keep going, but it’s time to leave other examples safely in the past and turn our focus to predicting what’s in store for 2019. Last year we did pretty well, and you can see a full analysis of last year’s results under the section titled “2018 Scorecard” at the end of this piece. But first, here are our top 10 predictions for 2019:

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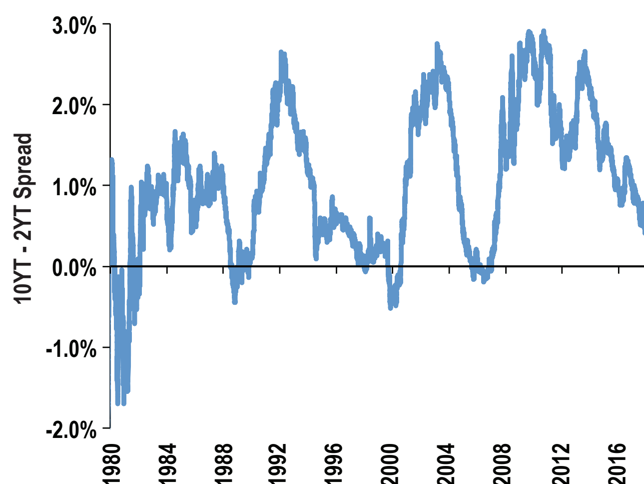
1 The Fed will proceed with caution on further rate hikes

After nearly a decade of accommodative monetary policy, in 2018 the US Federal Reserve finally moved to a more neutral footing. The Fed Funds Rate is now roughly in line with inflation, and in September 2018 the Fed removed longstanding language from its policy statement saying that monetary policy "remains accommodative." With GDP continuing to grow at a healthy clip, unemployment at historic lows, and wage growth accelerating, the Fed has plenty of ammunition to continue with further rate hikes in 2019.

While further rate hikes may be warranted in the face of such a strong US economy, there are several downside risks emerging that could cause the Fed to overshoot if they hike rates much further. The fiscal stimulus provided by tax cuts and government spending should fade in 2019. Tariffs and a strong dollar could make US exports less competitive. Rising interest rates are also beginning to negatively impact certain sectors of the US economy, such as construction and housing. These risks are showing up in the US Treasury yield curve, which has flattened further over the past year, with middle parts of the curve already inverting. Given the shape of the yield curve today, further rate hikes risk inverting the curve entirely, which could undermine market confidence.

A Subtle Message from Mr. Market – 10-year Minus 2-year Treasury Yield Spread, 1980-2018



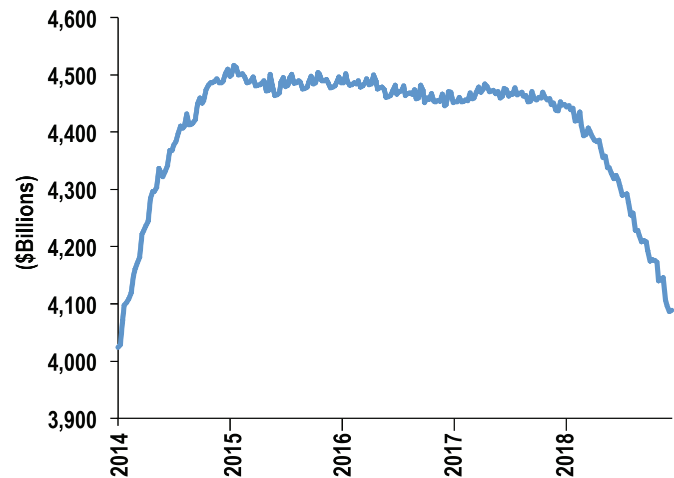
Source: FRED Economic Data

Perhaps the greatest risk underlying the Fed's current rate hike trajectory is its concurrence with the Fed's balance sheet reduction, or quantitative tightening ("QT"). After purchasing $3.5 trillion of bonds through quantitative easing ("QE") in the wake of the Global Financial Crisis, in 2017 the Fed started allowing those securities to mature and roll off its balance sheet. The Fed's balance sheet shed over $360 billion of assets in 2018, and is scheduled to shrink another $600 billion in 2019. Whereas QE allowed the Fed to create new money to pump into the economy and improve liquidity, QT does the opposite, actively destroying money and removing it from the economy. The likely impact is a reduction of liquidity, rising interest rates, and tightening financial conditions. So combined with gradual rate increases, the Fed appears to have rolled out a double-barreled cannon to keep inflation at bay.

Given that inflation has been relatively mild despite the strength of the economy, there is a good chance the Fed will take a pause on further rate hikes while it waits for more economic data. Several economists have been calling for

such a pause as a return to former Fed chair Janet Yellen's "wait and see" approach, but throughout 2018 current Fed chair Jerome Powell routinely dismissed such an idea. At a time when higher rates appeared to be tightening financial conditions and leading to higher market volatility, Powell defiantly proclaimed that interest rates were "far from neutral," leading many to believe that the Fed was on autopilot with rate hikes and almost certain to trigger a recession by 2020.

Draining the Punch Bowl – Federal Reserve Balance Sheet, 2014-2018

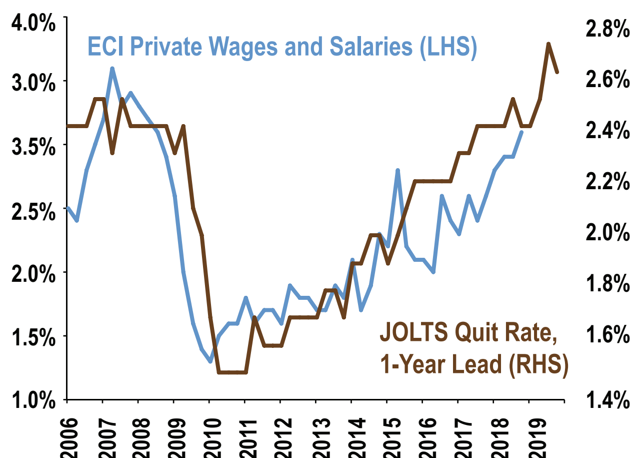


Source: FRED Economic Data

In November 2018, Powell seemed to blink in the face of increasing recession fears and admitted that at 2.25%, interest rates were close to neutral. History supports this conclusion: generally when a portion of the yield curve inverts, the Fed Funds Rate reaches a cyclical peak shortly thereafter, and the 2-5 year section of the curve has already inverted. As such, we expect no more than one or two additional rate hikes from the Fed next year. We also would not be surprised to see a reduction or halt to QT by the summer.

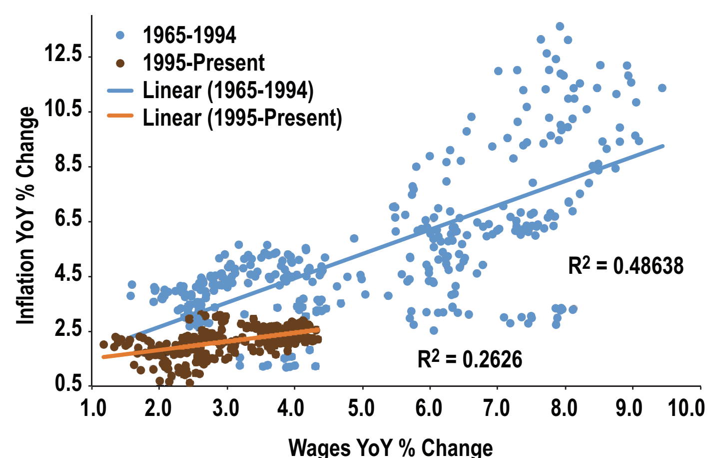
The primary risk to our view is if further acceleration in wage growth causes the Fed to push rates into more restrictive territory. Monetary policy theorists often cite a "cost-push" relationship between wage growth and inflation, whereby higher labor costs get passed on to consumers through price increases. In short, higher wage growth that is the result of labor market tightness rather than higher worker productivity is inflationary. While there has been much debate recently about whether such a causality exists in today's economy, accelerating wage growth may be enough to spook the Fed into continuing its current rate hike trajectory, even if other economic data suggests it should take a breather. This raises the risk that the Fed will overshoot and adopt a policy more restrictive than needed to contain inflation.

Wage Growth is Accelerating…
– Wage Growth vs Quit Rate, 2006-2018



Source: US Bureau of Labor Statistics

…But will Inflation Follow?
– Wage Growth vs Inflation, 1965-2018



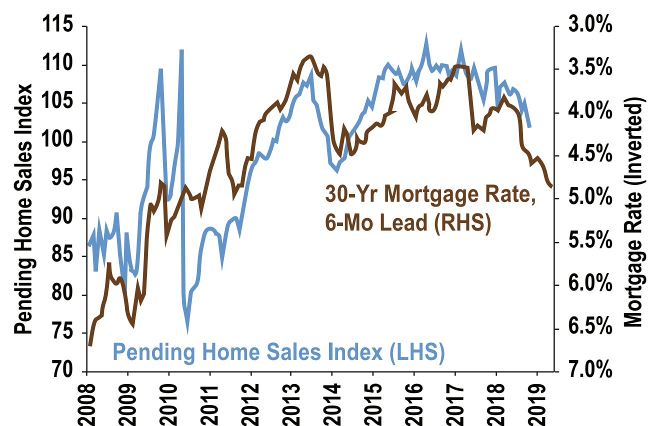
Source: FRED Economic Data

While we are certainly not monetary policy experts, we do believe in the collective wisdom of markets and will therefore be watching treasury yields very closely in the coming months for clues on Fed policy. If the yield curve flattens or inverts further, we will take it as a sign that the Fed has moved too far into restrictive territory and risks triggering an economic slowdown. Alternatively, a stable or steepening yield curve could mean that the Fed has successfully contained inflation without overly restricting growth, and that the current US expansion has further room to run. Either way, real estate investors would be wise to pay close attention to the Fed's language and next moves as additional economic data becomes available.

2 The US housing market will hit a soft patch

Despite a US economy that is firing on all cylinders, warning signs are growing that the US housing market will soon hit a soft patch. This seems counter to demand trends as household formation has accelerated to more than 2 million annually, and Millennials appear increasingly eager to buy their first homes; approximately one third of homebuyers today are under age 38. However, a potent combination of elevated home prices and rising mortgage rates appears to be hurting affordability, giving pause to many would-be buyers. Nearly all recent data on housing – from existing home sales to new housing starts to home price increases – suggest a cooling market.

Impact of Rising Rates – Pending Home Sales vs 30-Yr Mortgage Rate (6-Mo Lead), 2008-2018

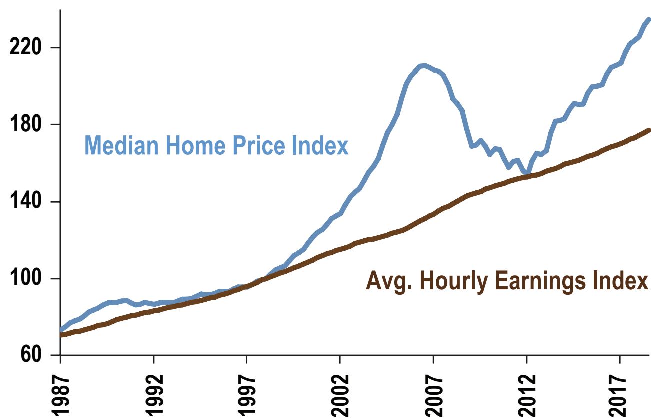


Source: FRED Economic Data

Many real estate veterans will balk at the notion that 4.5-5.0 percent for a fixed-rate 30-year mortgage could seem too high for some buyers, recalling the days when such loans were priced at 15% or higher. Nevertheless, there's a fairly broad consensus that housing affordability has become a national problem, and higher monthly mortgage payments certainly will not help. Half of Americans already spend more than 30% of their income on housing; approximately 12 million spend more than 50%. As such, going into 2019 the housing market looks stretched and vulnerable to a slowdown.

In higher-tax jurisdictions, the 2017 Tax Cuts and Jobs Act ("TCJA") is likely to magnify any housing market vulnerabilities. In particular, the TCJA's repeal of state and local income tax deductions will increase the tax burden on many upper-middle class earners in coastal states such as New York, New Jersey, Connecticut, Oregon, Washington, and California.

Affordability Problem – Median Home Price Index vs Average Hourly Earnings Index, 1987-2018



Source: FRED Economic Data

The TCJA's cap on the mortgage interest deduction also largely eliminates the tax savings previously provided by homeownership. These changes are already shifting buyer demand away from high-tax states in favor of lower-tax states. As such, any housing market slowdown is likely to be felt most in higher-tax jurisdictions.

Reassuringly, we believe any near-term housing market slowdown will be mild – more of a plateau than a dip – and that pent-up buyer demand from Millennials will ultimately prop up the housing market and avoid the type of correction we saw in 2006-2010. However, real estate investors should certainly watch the housing market closely for signs of further weakness. Comparing the US economy to the health of a human body, the housing market is much like the US economy's appendix: not necessary for survival and the patient could ultimately function without it, but an unhealthy one can quickly lead to serious risks and complications elsewhere. The US economy is much less reliant on the housing market today than it has been in the past. But housing is still an important sector with feedback loops to many others. Investors (and the Fed) should therefore be mindful of the risks a housing slowdown could pose to US growth in the years ahead.

3 US institutional investors will focus on affordable housing, industrial, and experiential retail

US real estate investment fundamentals remain healthy going into 2019, as the continued US economic expansion has supported end-user demand across property types. At the same time, the winds of change are blowing from multiple directions to gradually reshape real estate markets nationwide. Rising interest rates have pushed up borrowing costs and reduced liquidity in capital markets. Moderating GDP and employment growth may cause vacancies and cap rates to rise modestly in select property types and locations. Demographics and end-user preferences continue to shift, forcing landlords to reinvest in their properties in order to remain competitive. Technological innovation across value and supply chains is changing how real estate is owned and operated, as well as the functionality of individual assets. In this environment, investors and managers must adapt in order to stay ahead.

Rising interest rates are of particular concern. The current economic expansion was underwritten by easy monetary policy, including unprecedented balance sheet expansion by the Federal Reserve. It is not improbable that ten years of ultra-low interest rates created a systemic dependency on easy money throughout the US economy. As the easy money era comes to an end, certain sectors of the economy may have difficulty adjusting to the new reality. Real estate appears better prepared to withstand the pressures of rising interest rates than it did in the last cycle, as leverage ratios remain prudent. Still, spreads between debt costs and property yields are now at their lowest point since 2008, which could prove problematic for capital markets and transaction volumes.

While rising interest rates alone do not necessitate rising cap rates, a combination of rising rates with slower NOI growth certainly might. Real estate is something of a hybrid asset class with characteristics of both equity and fixed income, and a cap rate can therefore be viewed as both a measure of current income and an inverse NOI multiple. Higher growth should mean a higher multiple (lower cap rate), even if interest rates are rising. However, NOI growth already shows signs of slowing based on recent data from NCREIF, and may slow further as the fiscal boost from tax reform fades and monetary policy becomes more restrictive. As such, after several years of low and stable cap rates we expect cap rates across most property types to tick up modestly in 2019.

Despite these headwinds, other market trends could result in attractive investment opportunities in the years ahead. The continued rise of the US "knowledge economy" and the high-paying science, technology, engineering, and mathematics ("STEM") jobs it creates is reshaping cities across the country. Whereas the bulk of STEM jobs used to be concentrated in a few major markets on the coasts, smaller inland cities such as Charlotte, Nashville, Raleigh-Durham, Pittsburgh, Austin, Dallas, and Denver have emerged as innovation and technology hubs in their own right. The economic benefits to these markets are significant: studies have shown that every STEM job supports up to five additional jobs in other sectors of the economy. According to the Bureau of Labor Statistics, STEM jobs are projected to grow 73% faster than the broader job market through 2026, with median annual wages more than double the national average. We therefore expect to continue to see attractive real estate investment opportunities in markets with high and growing concentrations of STEM jobs.

Shifting demographics should also create opportunities across property types. As Millennials grow older and form families, they are increasingly relocating out of large urban centers into smaller cities and suburbs. While Millennials' attraction to suburban living is similar to their parents' generation – namely, more space at a more affordable price – there are certain elements of urban life that Millennials have grown to expect, such as mass transit, walkable neighborhoods, and a good mix of restaurants, retail, and entertainment. We believe such expectations will lead to a variety of value-add, adaptive re-use, and development opportunities, as real estate investors seek to capitalize on shifting consumer preferences.

OFFICE

The US office market looks healthy, with national vacancy rates at their lowest since 2001 and holding steady as new supply is aborbed. Job growth has been a major tailwind, with average US job gains of approximately 200,000 per month throughout 2018. Tech-focused industries have driven most leasing volume as STEM jobs outpace growth in other sectors. However, as the economy nears full employment and the available pool of labor shrinks, the wave of new office supply expected to come online in 2019 may be more difficult for the market to absorb.

An additional side effect of tight labor markets has been increasing competition for talent by large corporate tenants, where having high quality office space has become a key component in attracting and retaining employees. While this might result in higher rents for the best office buildings, it is also leading to elevated Tenant Improvement costs (TIs) in order to attract and retain tenants. As a result, office NOI margins have been challenged over the past year and appear likely to remain so for the foreseeable future.

Elevated TIs are also a symptom of structural obsolescence, which is a growing risk in the office market. New office supply is creating fierce competition for the highest quality tenants, as older buildings with antiquated structures lose out to newer buildings with modern systems and amenities. From an investor's perspective, these shifts should create more opportunities for value-add upgrades in office space, particularly renovation or redevelopment projects to modernize dilapidated office product. But while a favorable basis will likely be the key to success in these projects, certain incurable structural issues will mean that not all office buildings are worth saving. Given these uncertainties, real estate investors should be highly selective in pursuing office investments in 2019, favoring properties and projects with strong competitive attributes while avoiding less differentiated "commodity" assets.

Demolition Derby

In February 2018, J.P. Morgan announced its intention to demolish its corporate headquarters at 270 Park Avenue and build a new 1,400-foot tower in its place. At 52 stories and 2.4 million square feet, 270 Park will become the largest purposely demolished building in human history. Similar demolitions may soon follow. 270 Park Avenue was completed in the early 1960s and has been renovated several times since, and even achieved LEED-Platinum status in 2012. Nevertheless, J.P. Morgan ultimately determined that the tower's outdated infrastructure could no longer compete with the times (there's only so much new fiber-optic cable one can cram into the walls). Many other Manhattan office buildings that are more antiquated by comparison suddenly look like prime teardown candidates. We may be on the cusp of a gilded age for the demolition business.

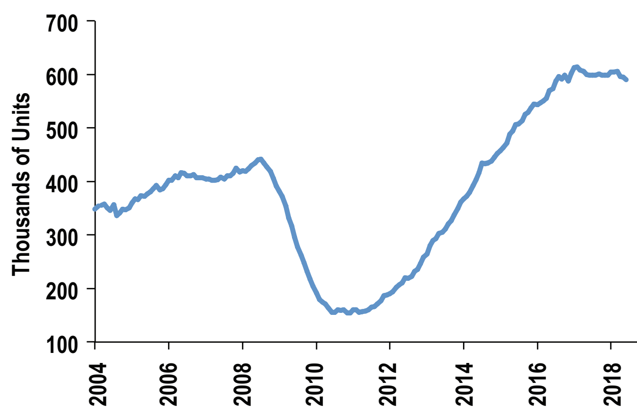
Out with the Old – 270 Park Avenue

MULTIFAMILY

Investors continue to favor multifamily due to the sector's steady returns and low volatility. After several years of elevated deliveries, new development appears to be reaching a cyclical peak. Despite concerns about this wave of new supply, multifamily fundamentals remain strong as vacancy stays low and rents continue to post modest gains.

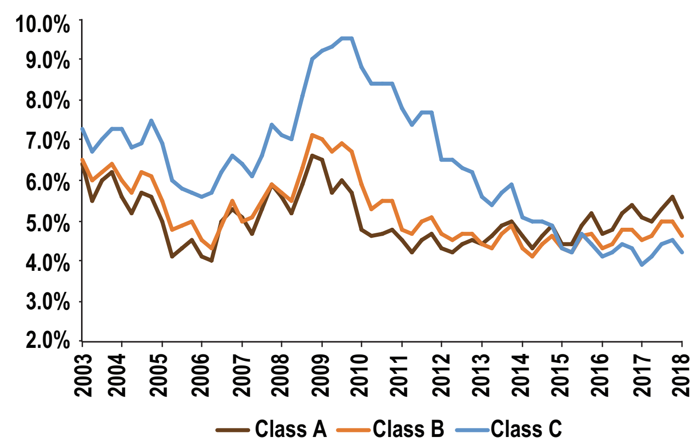
Multifamily is benefiting from a confluence of favorable demographic trends. At more than 60 million strong, Gen Z's march into adulthood brings a fresh new generation of potential renters into the market. Demand from Millennials also remains robust, as many continue to face barriers tocontin homeownership due to lack of affordability. Additionally, a growing subset of multifamily users are renters by choice, preferring the flexibility and freedom that renting entails. This has bolstered demand not only from young adults, but also seniors looking to downsize and simplify.

Elevated Supply…
– Multifamily Deliveries, 2004-2018



Source: FRED Economic Data

…Meets Robust Demand
– Multifamily Vacancies, 2004-2018

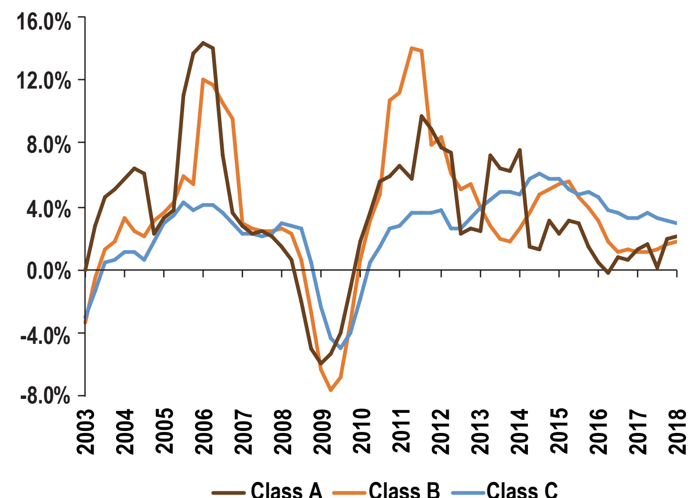


Source: CBRE, The Case for Workforce Housing, November 2018

Supported by strong fundamentals, we believe the most attractive multifamily investment opportunities today are linked to affordability. Much of the new multifamily supply has been high end product catering to a more affluent "renter by choice" tenant base. Meanwhile, low- and middle-income housing continues to be in tight supply amidst strong demand. As a result, Class B and C multifamily rent growth has outperformed in recent years and provides steady income growth over time.

A burgeoning new opportunity in affordable housing is co-living, which mimics dorm-style housing by trading individual living space for more robust common area amenities and other resident services. Early demand signs seem positive: co-living projects tend to lease

Steady Returns in Affordable Housing –
Multifamily Rent Growth, 2004-2018



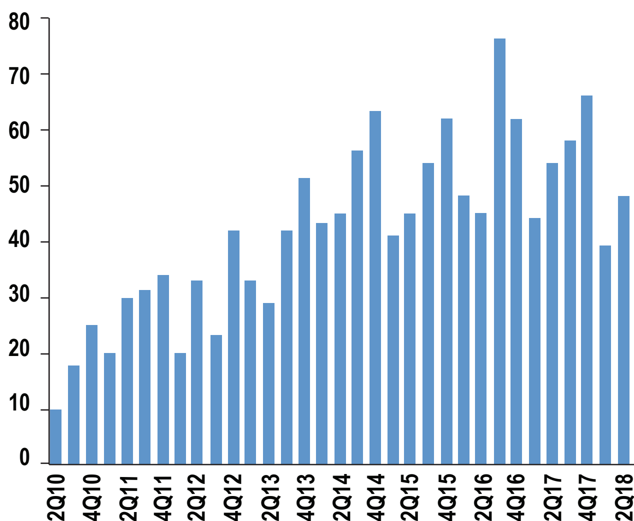
Source: CBRE, The Case for Workforce Housing, November 2018

up very quickly. Advances in technology have also made microunits of around 300 square feet more practical, with residents able to re-configure room furniture at the push of a button for daytime or nighttime use. We believe these trends in affordable multifamily will provide attractive opportunities for investors in the years ahead.

INDUSTRIAL

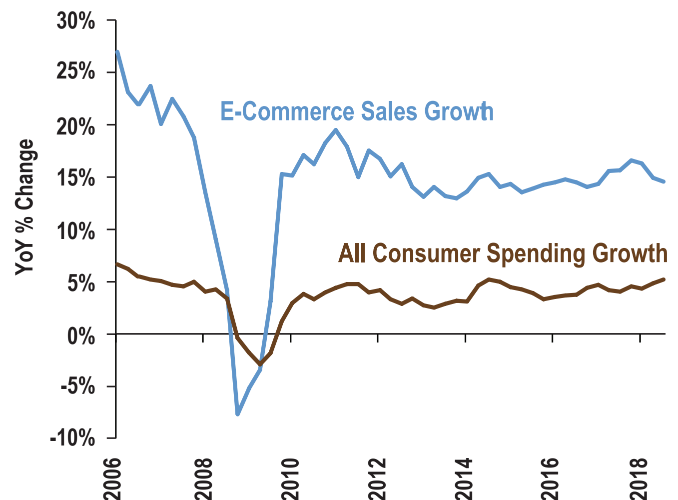
The industrial sector continues to fire on all cylinders, with record low vacancy and rents consistently setting new all-time highs. The sector has benefited from a combination of strong economic growth, expansion of e-commerce, and higher inventory stocks to meet next-day consumer demand. Despite a wave of new supply, the sector has enjoyed 33 consecutive quarters of positive net absorption. CBRE estimates that in Q3 2018 alone, 50 million square feet of new industrial product was delivered, and nearly all of it was absorbed almost as soon as it became available.

Build it and They Will Come – Industrial Net Absorptions, 2Q 2010 – 2Q 2018



Source: CBRE

Fortune Favors the Internet – E-Commerce Sales vs All Consumer Discretionary Spending, 2006-2018



Source: FRED Economic Data

Industrial real estate has benefited from the strength in the US economy, the buying power of the US consumer, and the pace of technological change through e-commerce and continues to be a safe long-term bet. E-commerce sales are growing at around 15 percent annually, far outpacing consumer discretionary spending growth overall. CBRE estimates that every $1 billion increase in online sales translates to an incremental 1.25 million square feet of industrial warehouse demand.

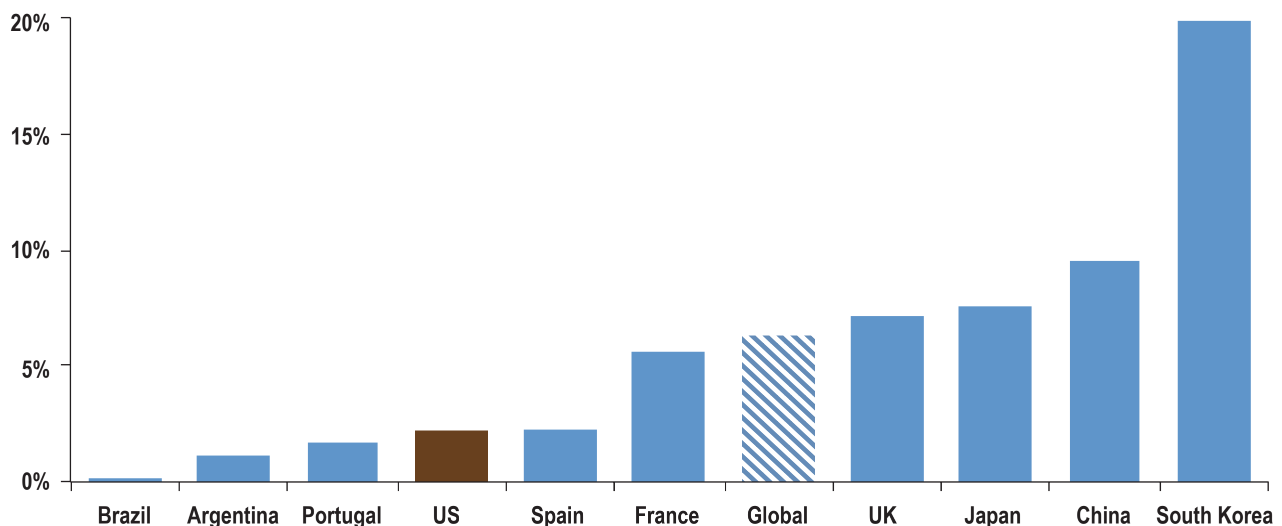
With the big box industrial market now picked over as capital has flooded into the sector, there are few opportunities remaining for value-add strategies, other than niche sectors such as multi-tenant light industrial and certain last-mile distribution facilities. Investors seeking new exposure to big box industrial real estate are therefore increasingly likely to pursue either core acquisitions or development. Given relatively short delivery times, the ability to deliver at yields 150-200 bps above market cap rates, and strong tenant demand, we believe well located industrial development offers one of the best risk-adjusted returns in real estate today.

RETAIL

Following the "Great Retail Apocalypse of 2017," it appears that news of the sector's demise has been much exaggerated. Of course, the retail landscape has changed drastically in recent years, producing both winners and losers. Notable losers in 2018 are Toys "R" Us and Sears, both of which filed for bankruptcy last year. The entire department store and big-box retailer business model appears challenged by e-commerce. Such stores' chief competitive advantage – namely, the convenience of having many types of products in the same location – is less effective when consumers can purchase almost anything online and have it shipped for free in 24-48 hours. There will be many more casualties as the transformation of retail through e-commerce continues.

Many retailers, however, continue to adapt and thrive in this new reality. Omni-channel retail, which combines online sales with a physical store presence, is the new norm across the majority of retail sectors. Brick and mortar stores today often serve as either showrooms or pick-up/return centers for online purchases. Online shopping is even starting to penetrate retail categories that were previously thought to be resistant to e-commerce, such as groceries, furniture, and jewelry. For example, approximately one quarter of Americans purchase at least some of their groceries online currently, and that number is expected to triple over the next three years; e-commerce already accounts for a much larger share of overall grocery sales in other developed nations. A successful retail strategy will therefore incorporate brick and mortar stores as the more personal, service-oriented piece of an omni-channel retail experience.

Grocery-Anchored Potential – 2018 Online Grocery Sales as a Percent of All Grocery Sales



Source: Kantar World Panel

For investors in retail real estate, the current pace of change presents a daunting landscape, but not one without opportunities. As consumer behaviors shift, re-tenanting of well-located but underperforming retail centers could improve NOI and yield attractive returns. Changing lease structures to accommodate more pop-up and seasonal retail concepts may also create a more dynamic shopping experience and lead to better consumer traffic. Some retail landlords are beginning to err towards shorter-term leases altogether in order to respond to shifting consumer tastes more quickly.

In the most antiquated retail centers, redevelopment or change of use could become more appealing as valuations fall further. Some of these properties can now be purchased at distressed prices, and potential changes of use include office, distribution, storage, or even schools. For many properties, such repurposing will be necessary as e-commerce reduces aggregate demand for physical retail stores.

It may be decades before we arrive at a “new normal” in retail, as the low-barrier-to-entry nature of e-commerce unleashes a constant cycle of new competitors, displaced incumbents, and rapid adjustments to changing consumer behavior and preferences. But change brings opportunity, and we have no doubt that brick and mortar retail will remain an integral component of mixed-use environments. We expect that skilled real estate operators with strong retail expertise and sector insights will find ways to profit from any interim disruptions.

4 Capital will pile into Opportunity Zone Funds

The Tax Cuts and Jobs Act (“TCJA”) contained many provisions that are likely to affect the real estate industry and influence investor behavior over the short and long-term. The repeal of the state and local income tax deduction and the pairing back of the mortgage interest deduction will raise the cost of living in high tax jurisdictions while increasing the competitiveness of lower tax jurisdictions. The lower corporate tax rate will also reduce the allure of low-income housing tax credits. But from a commercial real estate perspective, there seems to be no topic generating more buzz today than Opportunity Zones (“OZs”).

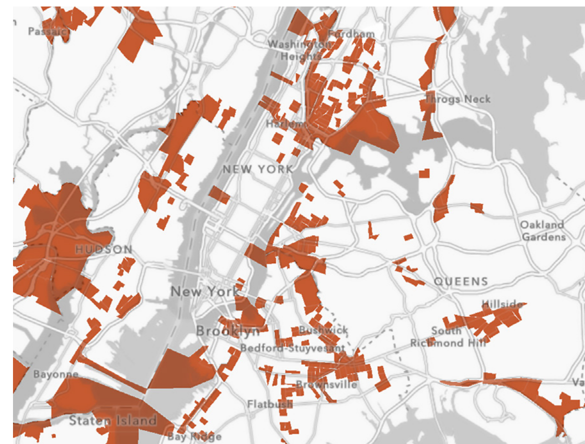
OZs were established to encourage long-term investment and development in low-income communities by allowing investors that have realized capital gains to reinvest those gains in a Qualified Opportunity Fund (“QOF”) within 180 days. The US Treasury estimates that American households and businesses hold more than $6 trillion of unrealized capital gains. A small fraction of that total would be enough to transform entire communities within OZs.

Climate Gentrification: A New Phenomenon

The real estate industry has discussed the implications of climate change on investment strategy for years, but without much discernible action. In recent years, however, the effects of climate change have become more obvious: erratic weather patterns have become commonplace, storms are more powerful, and sea level rise has accelerated to a noticeable 3 millimeters per year. As such, certain coastal markets are now seeing a phenomenon being dubbed “climate gentrification,” whereby previously less-desirable neighborhoods further inland at higher elevations are seeing an influx of new development and new residents, as both investors and end-users start to place a premium on areas less prone to coastal flooding. Today, this trend is most directly observable in Miami, but we would not be surprised to see it become more apparent in other coastal markets in the coming years.

In 2018, 8,700 OZs were established and no more will be added. The zones themselves are designated by census tracts and vary in size from several blocks in high density urban environments to vast rural areas spanning multiple towns. Several OZs include urban areas that are already attractive investment destinations even without a tax incentive. Manhattan, for instance, is home to 35 designated OZs. So while this program will encourage more investment, poorer and more rural communities may not see much benefit. Public policy implications notwithstanding, we believe QOFs will provide attractive investment options to taxable investors, and we expect a stampede of capital into QOFs throughout 2019.

New York City Metro Opportunity Zones



Source: Enterprise Community Investment, Inc.

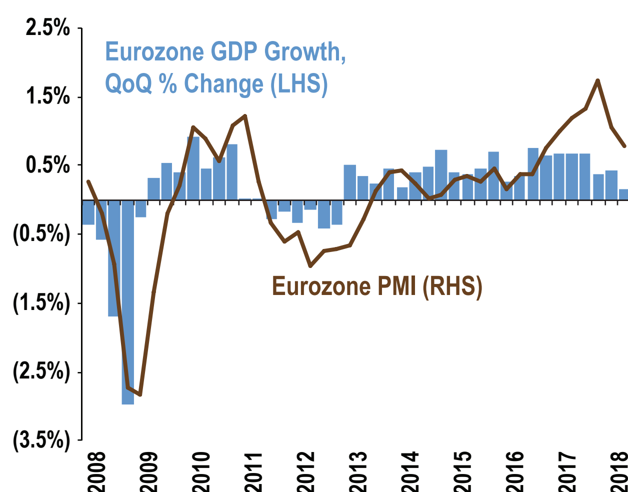
As QOF launches pick up pace, the volume of QOF offerings will make fund due diligence and selection more difficult. We have already seen a wide variety of QOF offerings, from targeted single project funds to more diversified strategies, and from both new and established managers. Amidst the rush, there is clearly a potential danger for less sophisticated high net worth investors to place short term tax considerations ahead of manager selection criteria. We have already heard of fundraising successes from managers with no track record, operating history, or even a full-time team. While the tax benefits may make a good deal better, they will not save a bad deal from underperforming. Capital loss – while a very effective way to reduce tax liability – is generally a suboptimal investment outcome. Nevertheless, we expect to see a notable uptick in “head scratcher” projects in 2019.

For more prudent investors, there should still be a wealth of QOFs sponsored by reputable managers to choose from. The largest investment management firms and private banks, with their access to a high net worth individual client base, appear best positioned to capture investor demand. We also expect that traditional investment managers and funds will capitalize on this opportunity by purchasing properties within OZs not for the tax benefit, but because they stand to benefit from a pending influx of QOF-sponsored new development.

5 Europe's bumpy recovery will continue despite challenges

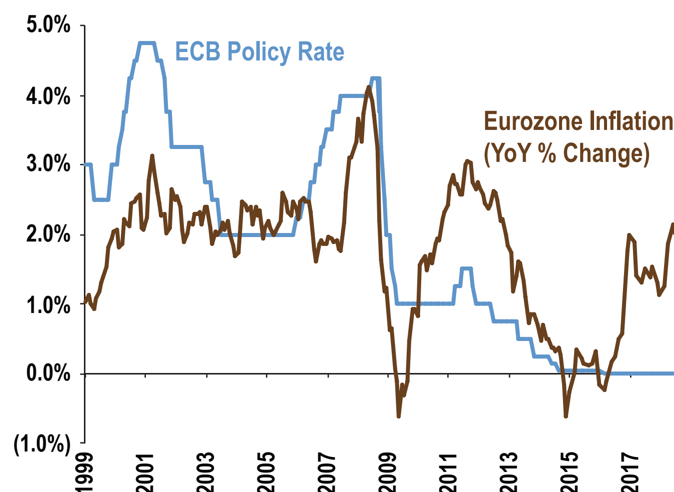
Amid consensus that Europe's economy was close to reaching "escape velocity," growth in 2018 mostly fell short of expectations. While the Eurozone has now posted positive GDP growth for 22 straight quarters, recent readings for consumer spending, business confidence, and manufacturing are all pointing to a deceleration in growth, while rising inflation has reduced expectations for further monetary stimulus from the ECB.

Cooling Off – Eurozone GDP Growth vs PMI, 2008-2018



Source: FRED Economic Data, Bloomberg

Doesn't Get Easier – Eurozone Inflation vs ECB Policy Rate, 1999-2018



Source: FRED Economic Data, Bloomberg

European real estate has nevertheless remained in favor, as low and negative interest rates draw more capital into the asset class in search of yield. Valuations of core assets in many cities are now at record highs, supported by strong end-user demand fundamentals and a lack of new supply. This makes acquisitions more difficult, while at the same time rising construction costs reduce the attraction of development and build-to-core strategies. Partially as a result of this, as well as a general broadening of Europe's economic recovery, many investors are now venturing beyond major markets like London, Berlin, and Frankfurt to cities along Europe's periphery, such as Lisbon, Madrid, Milan, and Dublin in search of higher returns.

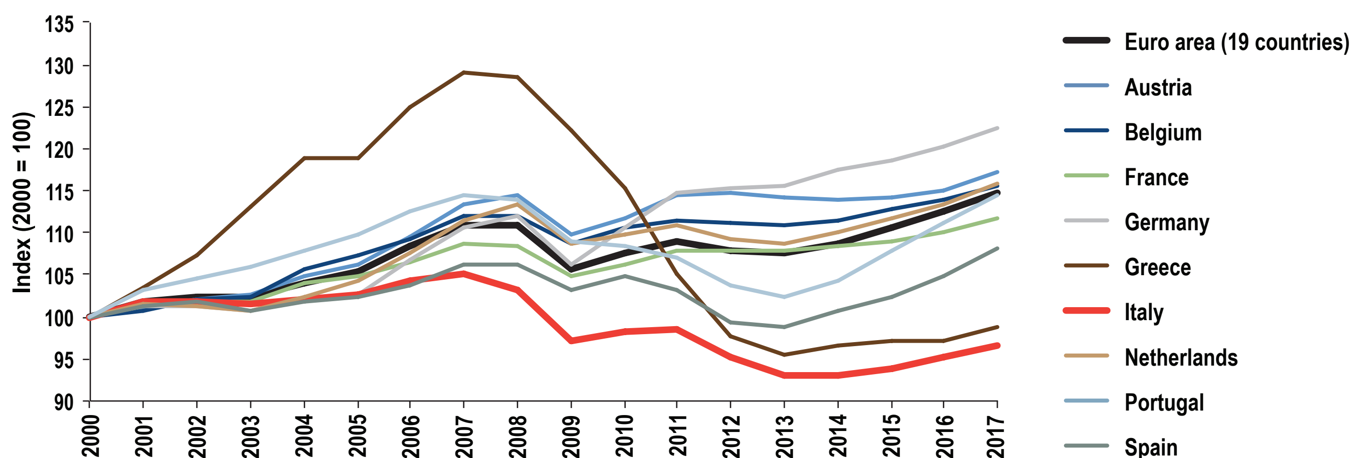
Political risk is, of course, the largest elephant in the room when investing in Europe, and 2019 is already shaping up to be a tumultuous year. The most obvious concern on investors' minds today is Brexit. British lawmakers have yet to agree on a Brexit plan, and bridging the political divisions on either side of the English Channel is proving difficult.

Despite best efforts to strike a deal, there appears to be little chance for compromise without major concessions from Britain. As such, British lawmakers will face difficult choices as the March 29 deadline looms closer. Until a resolution is within reach, we expect global capital flows into UK real estate will be more subdued.

Unfortunately the UK does not hold a monopoly on political risk: the Eurozone will also face several challenges in 2019. In Germany, Angela Merkel's grip on power looks increasingly untenable, and after 13 years at the head of Europe's largest economy we expect her to finally lose power. Her CDU/CSU party remains divided over immigration policy and is losing voters to the far-right AfD. Additionally, Merkel's governing coalition partner, the SPD, appears on the brink of collapse as a major political party. In many respects, Merkel has been the EU's steady hand through multiple crises, including both the GFC and the European sovereign debt crisis. Her fall would therefore inject additional uncertainty at a time when Europe is already grappling with several other near-term vulnerabilities.

Chief among Europe's vulnerabilities in 2019 – and the one we worry about even more than Brexit – is Italy's cooling relationship with the euro. Simply put, the average Italian voter has little reason to believe that euro membership has been good for Italy. Real per capita incomes have been consistently flat or falling throughout the 20 years since Italy joined the Eurozone. Ten years after the GFC, unemployment is still stuck around 10 percent versus a pre-crisis low of 5.8 percent. All told, only 39 percent of Italians believe EU membership is a good thing. While most Italians do not appear ready to abandon the euro, it's not difficult to imagine a recession or other economic crisis nudging Italian voters in that direction.

Porca miseria! – Eurozone Real GDP Per Capita by Country, 2000-2018



Source: Eurostat

While one can hope that cooler heads will prevail, cooler heads are not exactly in charge of Italy at the moment. The populist governing coalition between the anti-establishment Five Star Alliance and the far-right Northern League is full of Eurosceptics. Five Star has previously voiced support for a referendum to leave, while the League would prefer to see the Eurozone collapse from within. The government has clearly shown its willingness to defy EU rules, as demonstrated by its recent budget standoff. Bond market vigilantes may keep the government's most reckless impulses in check, but the unfortunate truth is that Europe's voters have grown tired of austerity. The disaffected populist sentiment in Italy is echoed by voters in other EU countries, including France and Germany. Until Europe

summons the political willpower to resolve its structural problems – particularly the inherent inefficiencies of a monetary union without the fiscal sort – political risk will remain an integral piece of the European investment fabric.

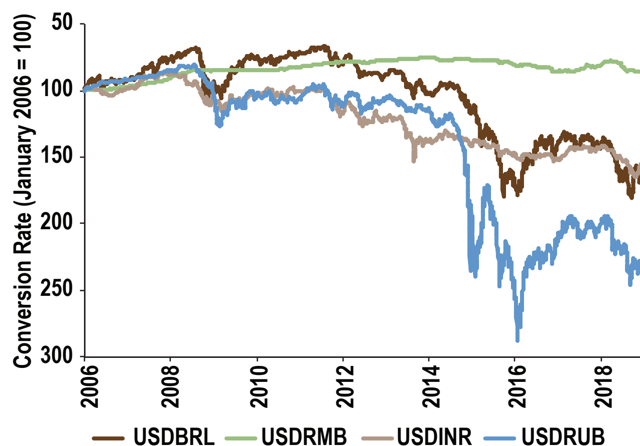
Despite these concerns, our base case scenario is still that Europe will muddle through 2019, and the bumpy recovery will continue amidst occasionally volatility. As such, we believe there will be attractive opportunities for real estate investors in Europe over the coming years. Industrial and logistics properties continue to benefit from strong demand as e-commerce growth continues to take an increasing share of European consumer retail spending. Europe's structural inefficiencies should continue to create varying fundamentals between different countries and markets, which will create relative value opportunities within select property sectors. Even the uncertainty from Brexit and other events could be beneficial for investors looking to gain exposure, as dislocations lead to potential buying opportunities. We therefore believe the current environment favors real estate managers with strong local insights and tenant relationships across a range of markets, with the ability to react quickly to changing market conditions.

6 Emerging markets will demonstrate economic resilience

Emerging markets had another challenging year in 2018, with pressure coming from tighter US monetary policy, trade wars, falling commodity prices, and slowing global growth. Currencies were also volatile, as investors have now come to expect. Despite these headwinds, there are several bright points in the data to suggest that emerging market economies have become more resilient against fluctuations in global capital markets. As a result, we believe certain emerging economies will present attractive long-term investment opportunities in 2019.

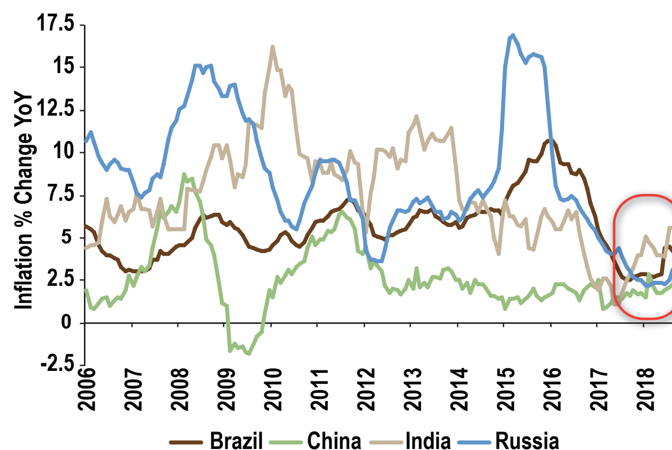
One of the most positive developments for emerging markets recently has been the relatively benign impact of tight US monetary policy. Recent rises in US interest rates have strengthened the American dollar against emerging market currencies and pulled capital out of their economies. The Fed's QT program is also removing dollars from the global financial system, the effects of which were likely to show up earliest in emerging markets with high levels of dollar-denominated debt. Historically, such a monetary shock might have led to a wave of corporate bankruptcies, sovereign debt defaults, and soaring inflation. But so far no such crisis has occurred. Currencies have fallen, but inflation has remained remarkably subdued. For the most part, sovereign and corporate balance sheets remain strong. Much of this strength is due to the fact that emerging markets are less dependent on external capital markets than they were in the past. Many now have their own pension funds and sophisticated banking systems. If the Federal Reserve halts rate hikes in 2019 as we expect, it could provide reassurance to global investors that EMs have successfully weathered the monetary storm and are poised for a rebound.

Currency Weakness… – US Dollar vs Select Emerging Market Currencies (Inverted Scale), 2006-2018



Source: Bloomberg

…But Benign Inflation – Inflation, Select Emerging Market Currencies, 2006-2018



Source: OECD

Emerging markets have historically all been painted with the same brush, but in recent years it has become clear that they must be assessed individually. The economic fundamentals of Brazil are very different than, say, India. Even regional assessments are faulty, as demonstrated by the diverse patchwork of economic health across Latin America today. Each market faces its own unique challenges and opportunities. Most global investors have faced challenges investing in real estate in emerging markets and some have retrenched, favoring emerging market exposure primarily through private equity and liquid market strategies. For those large enough to commit the staff and with a long-term view to withstand the currency volatility and illiquidity, global EM real estate investment will be concentrated on the largest EM economies, most notably Brazil, India and China. (We would include Russia, but unfortunately we believe Russia's lack of commitment to the rule of law currently disqualifies it from most private institutional capital flows.)

Brazil, India, and China all benefit from favorable demographics through population growth and a growing middle class, projecting long-term economic growth that is set to outpace developed markets. Brazil has really been through the wringer recently, engulfed by both political and economic turmoil. But the situation appears to have stabilized recently: economic growth has returned, the public markets have recovered, confidence is high, and the country's democratic institutions have proven remarkably resilient through the recent corruption scandal. India is home to the third largest tech startup ecosystem in the world and is proving to be an important hub for global innovation. China's real estate market may cool in 2019 as the trade war takes its toll. But over the long-term China is clearly an indispensable force in the global economy, and any short-term weakness will likely be viewed by investors as a buying opportunity.

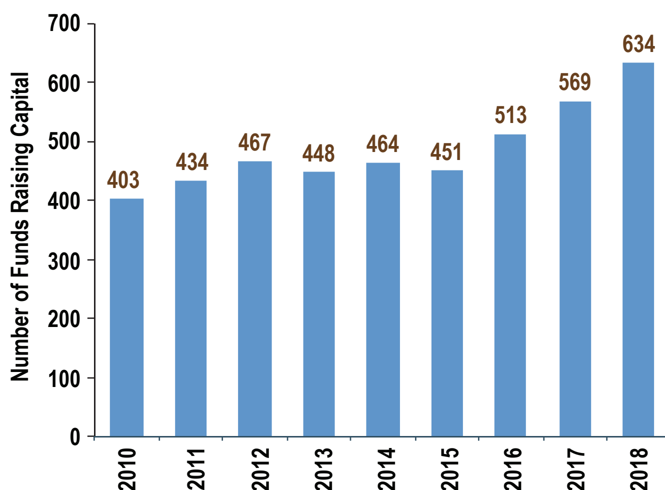
Long-term real estate fundamentals in these markets continue to support sectors that benefit from a growing middle class, such as workforce housing and retail. Distribution and logistics facilities should also see continued demand growth due to economic expansion, international trade, and increased consumer spending. Political and policy uncertainty will continue to be wild cards for investors in emerging markets, and currency volatility will be a challenge for investors translating returns back to the US dollar or other developed market currencies. While the ride will not be smooth, investors with long-term investment horizons will be rewarded as they continue to allocate capital to select emerging markets due to their superior growth potential and favorable risk-reward dynamics.

7 Private real estate capital will continue to be allocated primarily to the largest managers

Amidst public market volatility, institutional investors continue to view real estate as a defensive asset class with strong diversification benefits. Based on recent Preqin surveys, investor interest in real estate has increased considerably since 2017 across the risk spectrum. Institutional investors have enjoyed strong distributions in recent years as early cycle funds harvest and liquidate, and much of this capital is being reinvested into real estate. Average institutional target allocations to the asset class are now firmly above 10 percent.

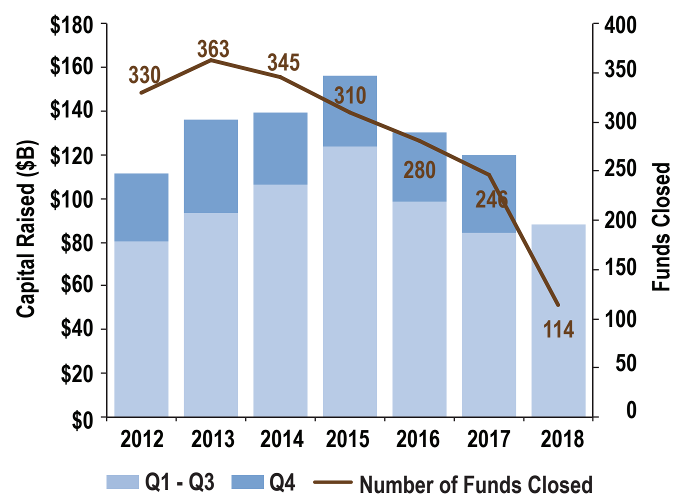
While capital flows are increasing to the real estate sector, the institutional management business is seeing more consolidation and fundraising competition. The largest managers are raising increasingly larger funds and taking a bigger share of the invested dollars, with at least 23 funds holding a final close of over $1 billion in 2018. To further emphasize the point, 2018 looks poised to mark the first annual increase in total capital raised since 2015, but with the lowest total number of funds raised since the GFC. Despite the challenge for new and smaller funds getting investor attention, the market is more crowded than ever: over 600 funds are currently reported to be in the market raising capital.

More Hungry Mouths…
– Funds in the Market, 2012-2018



Source: Preqin

…But Fewer Getting Fed
– Capital Raised and Funds Closed, 2012-2018



Source: PERE News

Competition for deals also remains fierce. As of Q3 2018, global real estate dry powder had reached an all-time high of $294 billion according to Preqin data, and partially due to this competition managers routinely report difficulty sourcing attractive investment opportunities. Recently, recapitalizations ("recaps") have grown in popularity as a way

for managers to avoid parting with irreplaceable assets, return equity to investors, or inject fresh capital for the next phase of a business plan. C6 Real Estate, a New York-based investment firm specializing in recaps and secondaries, estimates that recap volumes in 2018 are on pace to nearly double their 2017 total. Despite the complexity of these deals, the prospective investor pool for recaps has been growing as investors and managers seek to deploy capital. We expect recap volumes to grow further in the years ahead.

In a market this competitive, and where average real estate returns have been so strong, manager differentiation and specific competitive advantages will be key to fundraising success. More mature investor portfolios mean the bar tends to be higher for investors to add a new manager (or replace an existing one). One differentiator that is growing in importance is a manager's use of technology. Based on a recent survey by Deloitte, more than 80 percent of investors think that commercial real estate managers should prioritize the development of predictive analytics as part of their investment and asset management processes. Indeed, venture capital dollars have poured into the real estate sector recently, funding various fintech and proptech startups that seek to automate functions and processes across the real estate value chain. As industry adoption of these new technologies becomes more widespread, we believe investors will increasingly favor managers that are using these new technologies creatively in their real estate portfolios.

Another effect of industry competition has been an uptick in investment manager M&A transactions. As the real estate investment management business matures and enters "middle age," barriers to entry will increase and fortune will favor the incumbents. As such, for small and mid-size managers seeking to grow AUM, the path of least resistance may be to merge with a larger firm or to acquire smaller firms or teams in order to gain operating efficiencies. Retiring founders and principals should facilitate this – many of the most established investment managers are still in their first generation of ownership. We also believe that diversified asset managers that wish to enter the real estate space are more likely to acquire an existing manager rather than build their own. Valuations for recent transactions suggest that buyer demand is quite healthy. We expect additional investment manager M&A in 2019.

8 Blockchain securitizations will gain wider adoption in private market transactions

Blockchain is a powerful technology with potential applications across multiple industries. As a distributed ledger, blockchain creates the ability to accurately record direct peer-to-peer transactions in a secure, transparent, and efficient manner. So from a capital markets perspective, one of the most logical applications of blockchain technology is through the creation of smart contracts to securitize asset ownership interests. After a few key developments over the past year, 2019 could be a foundational year for blockchain-based private market transactions. We expect to see more regulatory guidance and a series of "firsts" on the deal front.

We believe the primary advantage of using blockchain in private market transactions is the additional liquidity it could bring to traditionally illiquid assets. The ownership interests of nearly any private asset – from companies to real estate to art – could be recorded and securitized digitally through smart contracts. These smart contracts could securely automate regulatory and contractual compliance or KYC checks, thereby making transferability more seamless. This would allow ownership interests to be fractionized and traded at will, with minimal involvement from intermediaries or financial institutions.

Consider, for example, the limited partnership interests in a closed-end private equity fund. Today, most fund documents strictly limit the transferability of interests without appropriate permissions from the general partner. A blockchain-based smart contract could streamline this process. Built in "logic" within the smart contract could verify investor domicile, type, AI/QP status, and other factors pertinent to a manager's KYC criteria. Assuming the prospective buyer of the LP interest meets all requirements, the sale/transfer could proceed and the ledger updated in real time to reflect the new owner. In this manner, not only do limited partners have more liquidity, but also a mechanism for price discovery in valuing their positions.

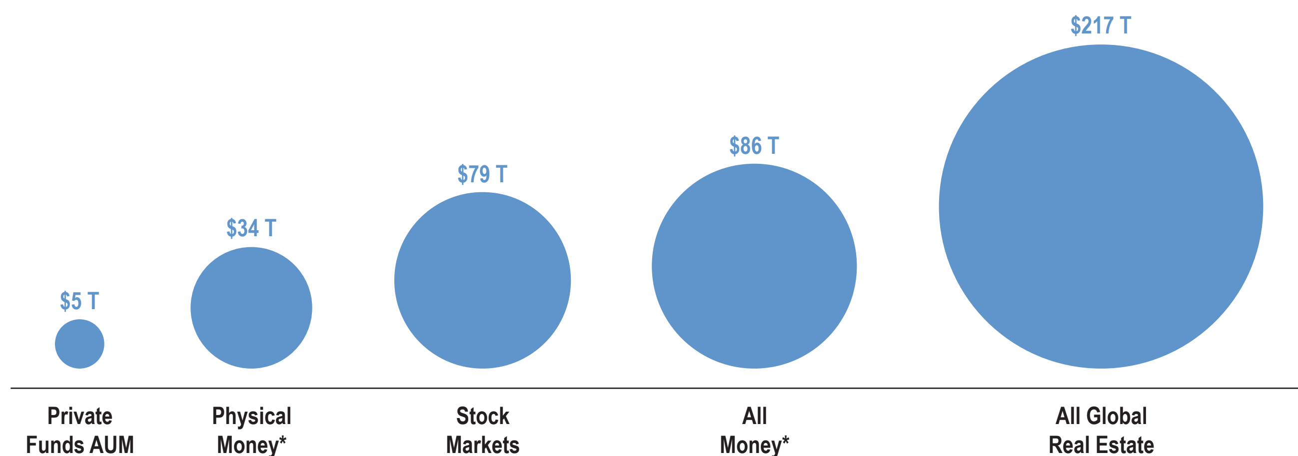
In the preceding scenario, there are clearly some potential drawbacks for a fund manager. For one, private investors are generally sourced through carefully formed relationships, and a new LP buying an interest represents a new partner with new objectives, concerns, and personalities. Additionally, the price discovery of blockchain-based trades could contradict the manager's stated NAV for the fund assets. So what benefit does a fund manager gain by allowing this?

We believe the answer lies in the fundraising implications. Currently, prospective fund investors typically conduct due diligence assuming a 10-year lock-up on their capital. This creates a lot of room for buyers' remorse, and as such investors tend to be highly selective in choosing fund managers. However, if investors knew they could freely trade their interests, the acceptance threshold for a new fund investment might become less stringent. For some investors, when weighing different investment options, and all else being equal, the option with better liquidity should win out

every time. This selection bias may result in forced industry adoption as investment managers compete for capital. We believe this will initially have more applicability to high net worth and retail investors, but in time will be of significant interest to the institutional market as the structures become more sophisticated.

In this sense, blockchain securitizations are more of an incremental adaptation within the current system of doing business, rather than a revolutionary change. But the effects of wider-spread adoption certainly have potential to be transformational. The market opportunity is vast, with private companies, funds, and real estate representing a more than $220 trillion market globally. By comparison, global currency markets total around $86 trillion and the global stock market is just under $79 trillion. Bringing added liquidity to private markets therefore has the potential to completely transform how global capital markets are operated and priced.

Perspective – Global Asset Class Sizes, 2017



Sources: PwC, Savills, CIA World Factbook, The World Bank
*Physical Money and All Money are based on the CIA World Factbook's definition of "narrow money" and "broad money," respectively. Physical Money includes total currency in circulation and demand deposits. All Money includes Physical Money plus savings deposits, credit union deposits, money market funds, and repurchase agreements.

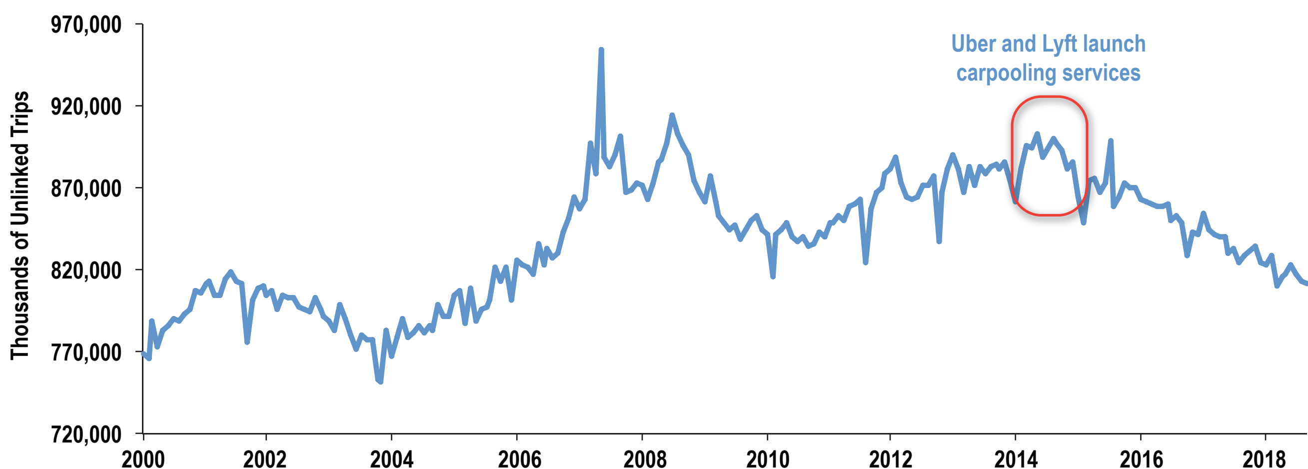
We believe 2019 will be the year that the trend towards blockchain securitizations begins to take shape. The SEC and FINRA so far appear supportive of various firms' efforts to expand blockchain securitization within the existing regulatory framework. Several banks are already testing the use of blockchain in credit default swaps, equity swaps, and other financial instruments. Blockchain securitization firm Harbor recently launched tokenized securities for use in real estate and other private assets, with the goal of streamlining compliance protocols and transferability. Other real estate assets and real estate funds are beginning to explore this space, and we believe widespread market adoption is no longer a matter of if, but when.

9 Ridesharing and autonomous vehicles will revolutionize the daily commute

The old adage states that real estate is about "location, location, location," and for decades good locations and access to mass transit have been closely intertwined. Properties closer to mass transit tend to command higher rents and higher valuations than their off-transit comparables. While this should remain true far into the future, new transportation technologies are gradually changing what is considered on- and off-transit. Over time, the combination of ridesharing and driverless vehicles will bring new connectivity to both urban and suburban areas with less access to existing public transit infrastructure, and the resulting transformation could bring many opportunities for real estate investors.

Ridesharing first emerged in the early 2010s with the advent of companies like Uber and Lyft. Since then, these services have brought greater connectivity both to areas that are near mass transit but not easily walkable, as well as to entire communities with no public transit options to speak of. Today there is hardly a city in the developed world not served by some form of ridesharing service. In addition to being a major convenience to visiting travelers, ridesharing has also served as a bridge for neighborhoods and communities that are less walkable relative to the nearest public transit options. dThis has the potential to increase the value of property and development sites in these areas, particularly if the existing roadways are relatively uncongested.

Going Off the Rails – Public Transportation Ridership, 2000-2018



Source: FRED Economic Data

Perhaps more transformational than expanding the reach of public transit, for increasing numbers of commuters it represents an outright substitute to crowded and uncomfortable subways and buses. According to data from the Federal Reserve, from 2004 to early 2015 public transit ridership steadily increased. However, with the introduction of Uber and Lyft's carpooling services in January 2015, this uptrend reversed and public transit ridership has been

declining ever since. The correlation seems to verify that many commuters are beginning to view carpooling services as a substitute to mass transit.

Of course, while the idea of carpooling may sound appealing to commuters looking for a substitute to public transit, it often gives heart palpitations to urban planners desperately looking for ways to reduce traffic congestion and urban sprawl. Indeed, in several major cities, roadways are already operating at or near full capacity, and the last thing they need is more commuters ditching public transit in favor of automobiles. That’s why we believe there is a significant market opportunity for crowdsourced bus routes in partnership with local municipalities.

Privately-owned fleets of buses using crowdsourced data to create ideal routes have already launched in New York, Boston, San Francisco, and Austin. Commuters typically submit route suggestions and travel times through a mobile app, and once a proposed route receives enough votes the route goes live. They are used for both daily commutes as well as for special events such as concerts. Vehicle sizes can range from 10-12 passenger shuttles to full-size buses depending on demand. Routes and vehicle sizes can shift and adjust based on changing commuter patterns.

Crowdsourced buses have the potential to revolutionize mass transit. Routes that previously may have been chosen by committees of bureaucrats after months or years of study and political haggling can now be formed almost instantly based on consumer preferences and a computer algorithm at little or no cost to taxpayers. Cities and communities that lack public transit currently could have it implemented virtually overnight by a private company.

Driverless vehicles will only accelerate this trend towards ridesharing and crowdsourced transit. Nearly every major US car manufacturer has announced plans to start producing driverless vehicles in the coming years. As more autonomous vehicles hit the road, their ability to communicate and coordinate with one another seems likely to reduce traffic congestion and increase commuter efficiency. The data collected on passengers will help to optimize vehicle deployment, routes, and service times. As a result, office and residential locations whose locations were previously considered inconvenient and undesirable may become more appealing.

Combined with the demographic shifts due to aging Millennials, the trends of greater connectivity and less need for parking may increase the density and investment appeal of suburban nodes near major cities. Additionally, urban neighborhoods that have appealing features today but are either off-transit or underserved by existing public transit may become more competitive. Real estate investors and developers able to anticipate these shifts stand to benefit.

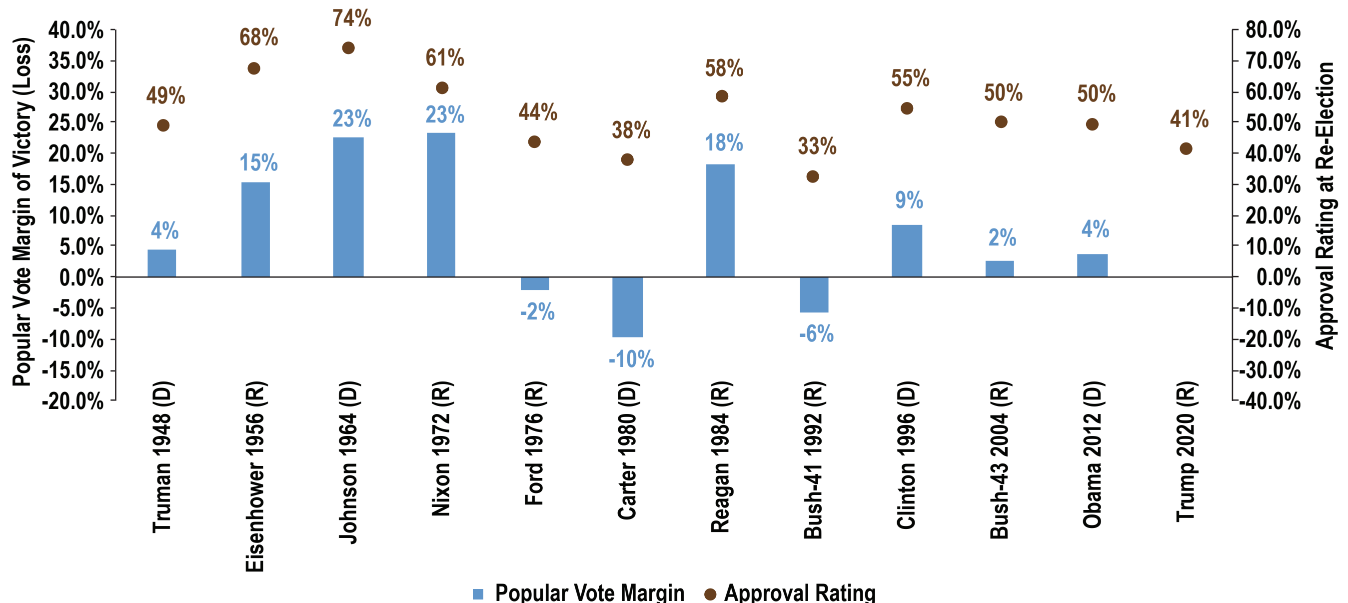
And last but not least…
Everyone will run for President

10

With the 2018 midterm elections behind us, it won't be long before the 2020 presidential election comes into focus. We expect a record number of candidates will declare their intention to run. President Trump's approval ratings appear to have a natural ceiling of around 44 percent, and no sitting US president has ever won re-election with an approval rating that low on election day. So the President appears beatable, making a potential matchup against him more enticing. Additionally, the Democratic primary is a completely open field with no clear standard bearer in waiting; it's no one's "turn" to be president this time. Given the Democratic Party's intense opposition to President Trump, the opportunity to be the one who takes him down will be too tempting a proposition for some to forego. We expect no less than 30 candidates will formally seek the Democratic Party's nomination.

President Trump's initial victory also established a new precedent that will factor more heavily in the 2020 race: one need not have held federal elected office – or even have any political experience at all – to seek the highest office in the land. For this reason, the 2020 field will likley be the most diverse in history, including senators, representatives, governors, mayors, bureaucrats, lawyers, businesspeople, coaches, athletes, actors, and other curiosities. The debates should be very interesting, if they can find a stage large enough to fit them all.

Tea Leaves – Presidential Approval Ratings vs Re-Election Margins, Post-War Era



Sources: Gallup, RealClearPolitics, The New York Times

Ultimately, we expect Democratic primary voters to gravitate around a safe, pragmatic choice with strong progressive bona fides, good retail political skills, and just enough edginess to please younger voters. Former Vice President Joe Biden almost fits the bill, but he lacks the “edgy” or “cool” factor that mobilizes the Democratic base. While predicting a primary winner this far in advance is a fool’s errand, we’re going to take a stab at it anyway and say Beto O’Rourke is the odds-on favorite to win the Democratic nomination. His close senate race against Ted Cruz earned him adulation from the left, as well as a nationwide grassroots donor network. He also already places in the top three in most primary polls. We have plenty of time to be proven wrong, but we believe the political winds are blowing in his favor.

As we watch the 2020 cycle take off, we remain wary of the lessons of 2016. Regardless of anyone’s feelings about the man, it’s safe to say that a healthy democracy does not elect Donald Trump as president. Nor does it propel an avowed socialist to within inches from a major party’s presidential nomination. Both of these decisions by American voters should be interpreted for what they are: howls of rage against the status quo, and a desire to try something new – perhaps anything – that might yield different results.

This is why the 2020 cycle matters to investors, and why we will be watching closely as the primaries start to take shape in 2019. With unemployment low and wage growth returning to pre-GFC highs, the populist tide in the US should gradually ebb and give rise to a more hopeful, optimistic electorate. Alternatively, a policy mistake from the Federal Reserve that triggers a recession would threaten the opposite. An angry electorate tends to act impulsively and unpredictably. Much of America’s strength lies in its democratic and economic institutions, and populist leaders have a way of challenging the integrity of institutions. But another American strength is the resilience, flexibility, and innovation of the US economy. No matter the situation in Washington politics, we remain optimistic that America’s economic growth engine will continue to deliver the kind of prosperity that makes it the envy of the world.

2018 Scorecard

In the spirit of staying honest with our readers, below we have provided a short "scorecard" on our 2018 Outlook. Each of our market calls is scored on a scale of 1 to 10, with 10 meaning "nailed it" and 1 meaning "not even close." We also include some brief commentary to explain why we scored ourselves the way we did. We admit that this is a highly subjective exercise, and we have absolutely no problem with that.

1. The Fed will continue to raise interest rates gradually

Score: 9/10

Heading into 2018, the US economy was firing on all cylinders, with high consumer and business confidence, a tight labor market, and accelerating GDP growth. Financial conditions were also exceptionally easy due to relatively accommodative monetary policy and low volatility. We thought this backdrop would give the Fed room to be hawkish and hike rates throughout 2018. We predicted at least three rate hikes in 2018 and we got four. We also said that QT carried risks to liquidity that may exacerbate the rate hike cycle. Amidst this uncertainty, we said the yield curve was at risk of inverting and that we would watch it closely for signs of whether growth had permanently shifted higher as a result of the tax cuts and deregulation or if it was a short-term boost. Towards the end of 2018, as growth began to decelerate, the Fed's stance appears to have caused the yield curve to invert partially. The only reason we did not score ourselves a perfect 10 on this one is because we called for "at least three" rate hikes, when we should have been bolder and called for four.

2. US tax reform will impact real estate prices across geographies and property types

Score: 10/10

We predicted that tax reform would benefit the office, retail, and industrial sectors by making businesses more profitable and stimulating investment and job growth. We also said that the residential market would be more of a mixed bag, with high-tax states potentially hurt by changes to tax deductions while low-tax states would benefit. The initial impacts seem to have played out as we expected. The US economy and the commercial real estate market both appear to have benefited from tax reform. Hiring and economic growth have both been much stronger in 2018 than most economists predicted, and that has brought positive benefits across real estate sectors. Additionally, migration patterns and housing price data suggest that low-tax states are benefiting, in part to the detriment of their higher-tax peers. While still too early to assess the long-term impacts of tax reform, we are content to give ourselves 10/10 on this one.

3. US commercial real estate performance will be widely mixed

Score: 10/10

We did pretty well with this one last year. We said multifamily would continue to benefit from favorable demographics, office would be mixed but ultimately should be near a cyclical peak, retail was challenged but the apocalyptic headlines were overblown, and that industrial would continue to be one of the strongest performers due to shifts in consumer preferences and supply chains. We also said that suburbs and smaller cities would start attracting more investment, driven by demand from Millennials forming families. All of these predictions have more or less played out as we expected, and for that we give ourselves 10/10.

4. Generation Z's impact will become more important to commercial real estate strategies

Score: 10/10

Gen Z is over 60 million strong, and we predicted that as they enter the workforce their preferences would impact commercial real estate strategies. Over the past year we've seen a notable uptick in real estate managers citing the preferences of "Gen Z and Millennials," as both are important and have similar preferences on property location, amenities, and design. Gen Z is still young and their impact on commercial real estate is still far outweighed by Millennials, but as this generation comes of age it is becoming clearer that their influence on real estate preferences is becoming more pronounced. As such, we give ourselves 10/10.

5. New technology will continue to transform the real estate and construction businesses

Score: 8/10

2018 seemed like a breakthrough year for real estate technological innovation, especially in proptech. More managers have started incorporating proptech into their investment processes, and real estate technology businesses are gaining investment and user support across the value chain. While a critical mass behind certain technologies is being formed, adoption has so far lagged the wave of venture capital investment into real estate technologies. We believe we are still only in the 2nd inning at best on proptech adoption, and so we grade ourselves 8/10 for being too early.

6. Europe's economic recovery will gain momentum

Score: 7/10

Our headline was a clear miss. Though GDP growth has remained positive in Europe, the recovery has lost momentum, with GDP growth decelerating, confidence declining, and Eurozone PMI declining from a high of 60.6 to 55. However, we got many of the details correct. We said the ECB would become less accommodative, and in 2018 it reduced its bond buying and has broadcasted its intention not to introduce further stimulus for the foreseeable future. We also said political risk would continue to present headwinds. Notably, we said that Germany's Angela Merkel looked vulnerable, and indeed she stepped down as party chairman and vowed that she would not seek another term as Chancellor. We also said that Italy's general elections seemed likely to produce an anti-Euro government. Nevertheless, we predicted that real estate would continue to do well, and it has. We feel good about our performance on this one, but handicap our score to 7/10 due to the missed call on the macroeconomy.

7. Sustainability will factor more prominently in real estate investment decisions

Score: 7/10

We did well on the headline with this one. Throughout 2018, we started to see more investors consider sustainability when making allocations to managers, and ESG questionnaires have become more common. Additionally, "climate resiliency" is becoming a more prominent theme in urban planning and development, as coastal cities seek to mitigate the long-term impacts from rising sea levels. However, we overestimated the reaction from insurance companies, investors, and end-users in the face of large natural disasters. Many have become more cautious, but to date there has not been a major inflection point in capital flows. We may still be proven correct over the long-term, but for now we have to settle for 7/10 on this one.

8. Farmland investment will gain wider appeal among institutional investors

Score: TBD

We cited many long-term trends as being fundamentally positive for farmland investment, such as population growth, shortages of cultivable land, and increased demand for protein products in the developing world. Given its positive outlook and diversification benefits, we predicted increasing investor interest in farmland in the years ahead. While these trends remain in effect, it's still too early to know whether we will be proven right or wrong on this one. As such, we choose to count our chickens at a later date.

9. Real estate private equity fundraising will remain competitive

Score: 10/10

We made several predictions here that turned out as we expected. We said that investors would continue to allocate new capital to real estate, and in 2018 average target allocations rose to well above 10 percent. We predicted that fundraising would remain competitive, with mature investor portfolios limiting allocations to new managers. Indeed, very few first-time funds were raised in 2018. We said that recaps would become more common as an alternative to selling irreplaceable real estate, and recap volumes roughly doubled in 2018. Finally, we predicted more M&A among mid-size investment managers, and 2018 saw the announcement of several high-profile transactions. Real estate private equity is our space after all, so we are very happy to report a 10/10 here.

10. Republicans will experience significant losses in the 2018 midterm elections

Score: 10/10

Perhaps this was an easy call, but we nailed it nonetheless. We said that a Democratic wave seemed all but assured in November given President Trump's low approval rating, and called for significant Republican losses at the federal, state, and local levels, including the House of Representatives flipping to Democratic control. Interestingly, we also said that despite the likely blue wave, the Senate map actually favored gains by Republicans. While we won't be quitting our day jobs to become political consultants anytime soon, we're happy to take our 10/10 on this one.

About Park Madison Partners

Park Madison Partners is a New York-based capital raising and advisory firm focused on the global real estate alternative investments industry. To date, the firm has participated in the placement of over $12 billion of real estate capital globally for a wide range of real estate vehicles and strategies. Park Madison Partners was founded to offer clients capital raising and strategic consulting services with a high degree of customization, integrity and accountability. The firm provides a relationship-driven approach to structuring and marketing assignments and offers its clients access to global institutional investors. Park Madison Partners is a member of SIPC-FINRA and is certified with the Women's Business Enterprise National Council.

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