Economy & Commercial Real Estate: A 10-Year Anniversary

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Housing & Commercial Research | National Association of REALTORS®

Chicago Chapter of the Appraisal Institute| March 27, 2019 | Chicago, IL

TECHNOLOGY
Artificial intelligence
Autonomous vehicles
Sharing services
3D Printing
Biotech

INFRASTRUCTURE
Public roads
Transportation hubs

POLITICS
Presidential election
Congress
States / Cities

DEMOGRAPHICS
Gen X / Gen Y / Gen Z
Urban / Rural
Wealth disparity

CHANGE : **to undergo transformation, transition, or substitution**

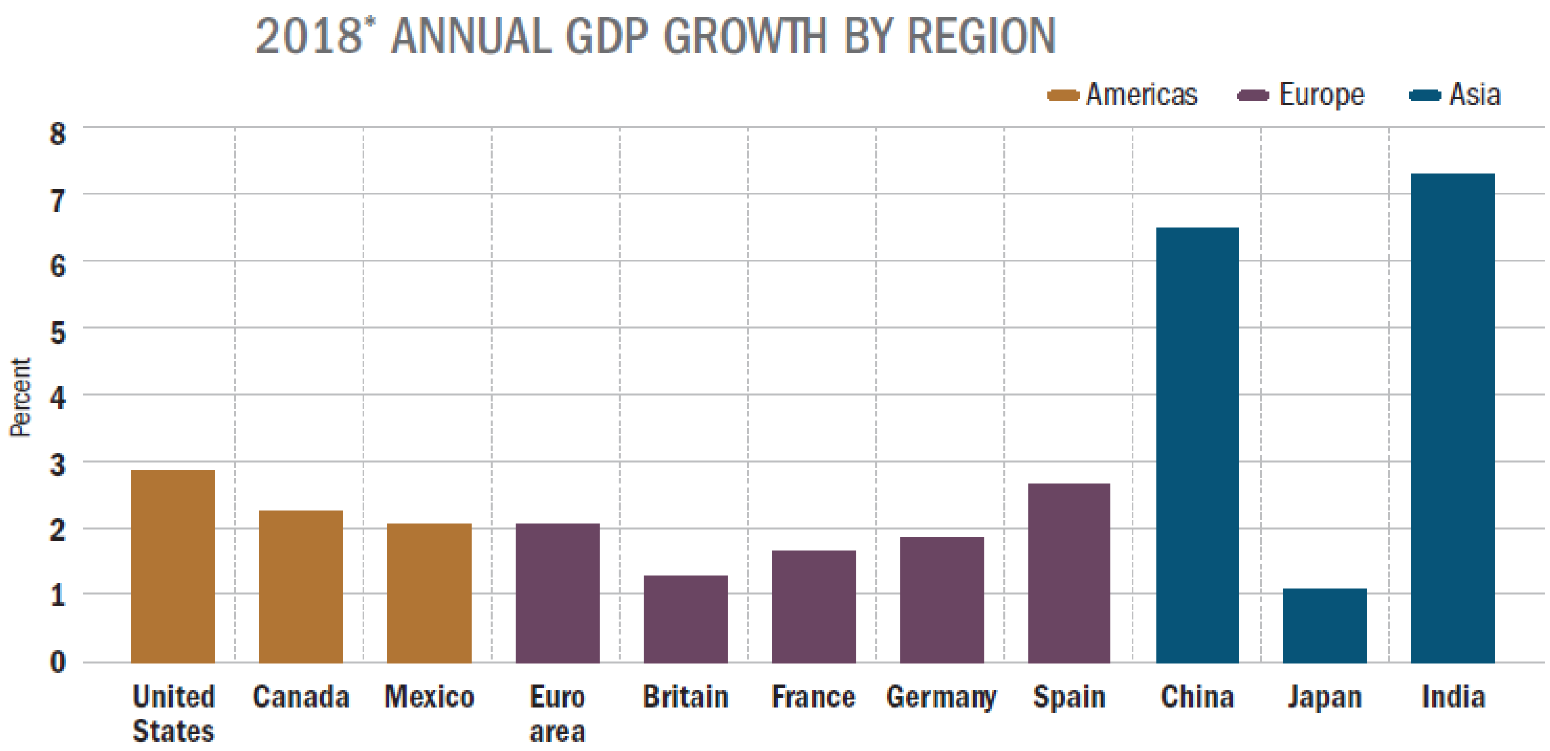
MONETARY/FISCAL
Funds target rate
Federal budget

FINANCE
Capital markets
Fintech
Crowdfunding

GLOBAL
Economic rebound
Brexit/Nationalism
Migration

SOCIAL
Wealth disparity
Cannabis legalization

Global economies continue expanding…as monetary policies diverge



Source *Forecast by Economist Intelligence Unit, based on Haver Analytics data.

Interest rates

United States	2.50%	China	4.35%
Canada	1.75%	Japan	-0.10%
Euro Area	0.00%		
Germany	0.00%	India	6.25%
United Kingdom	0.75%	Brazil	6.50%
France	0.00%	Russia	7.75%
Italy	0.00%	Mexico	8.25%
Spain	0.00%	Indonesia	6.00%
Sweden	-0.25%	Turkey	24.00%
Belgium	0.00%	Argentina	65.76%
Austria	0.00%	Venezuela	22.40%
Norway	1.00%		
Ireland	0.00%		
Denmark	-0.65%		
Finland	0.00%		
Portugal	0.00%		
Switzerland	-0.75%		

Source: Trading Economics

US economy moving toward a major milestone…

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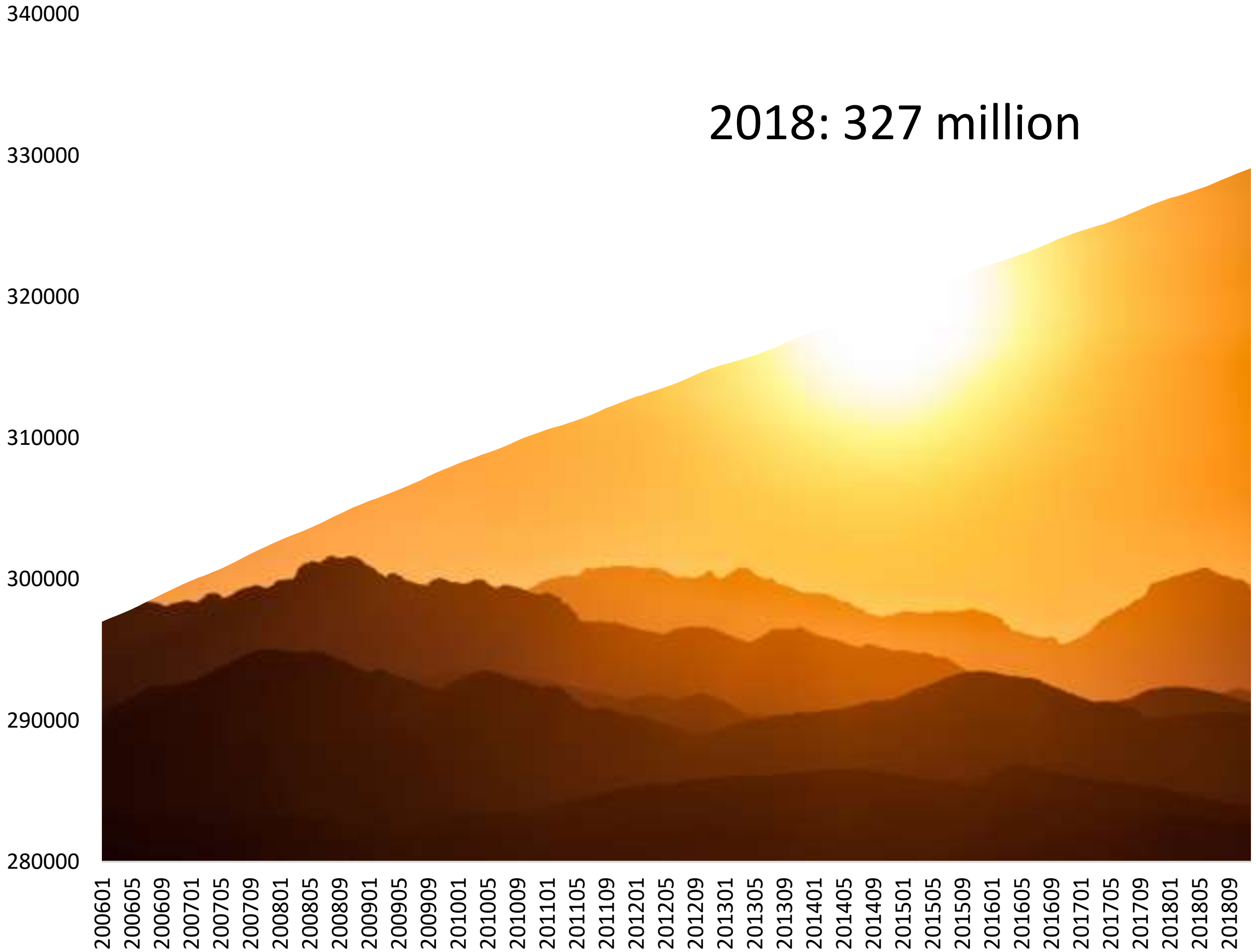
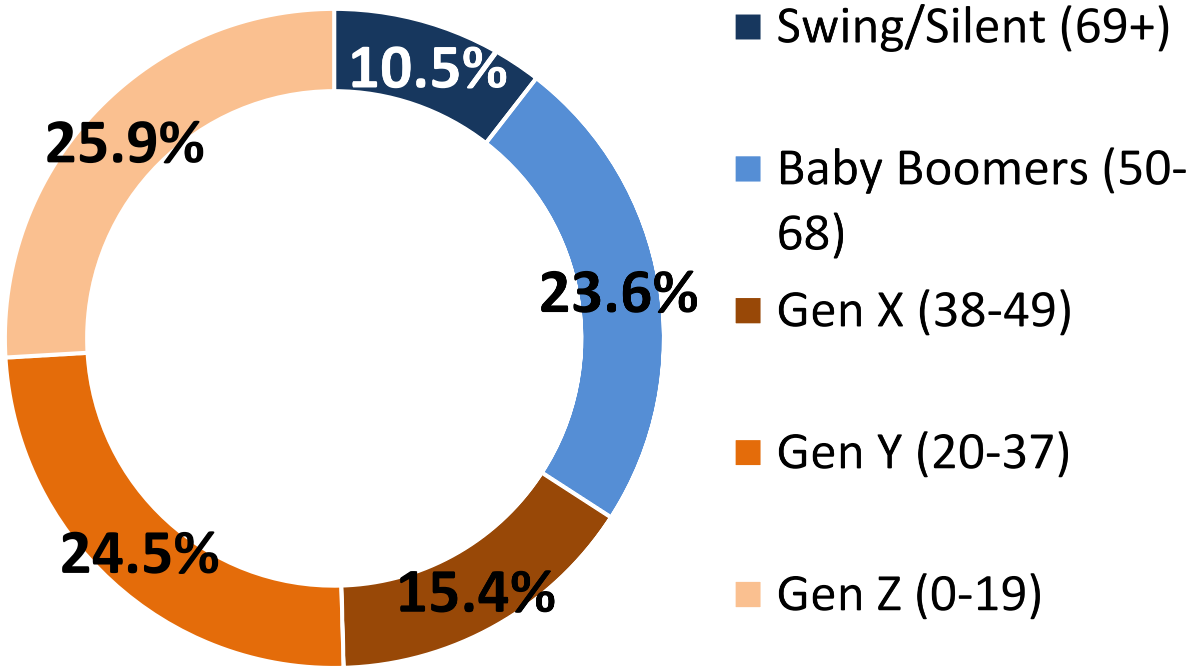
U.S. population up 8% in last decade… >60% of Americans < age of 50…

U.S. Estimate of Resident Population (000s)



Source: Census Bureau

2017 U.S. Population by Demographic Cohort



Source: Sparks & Honey

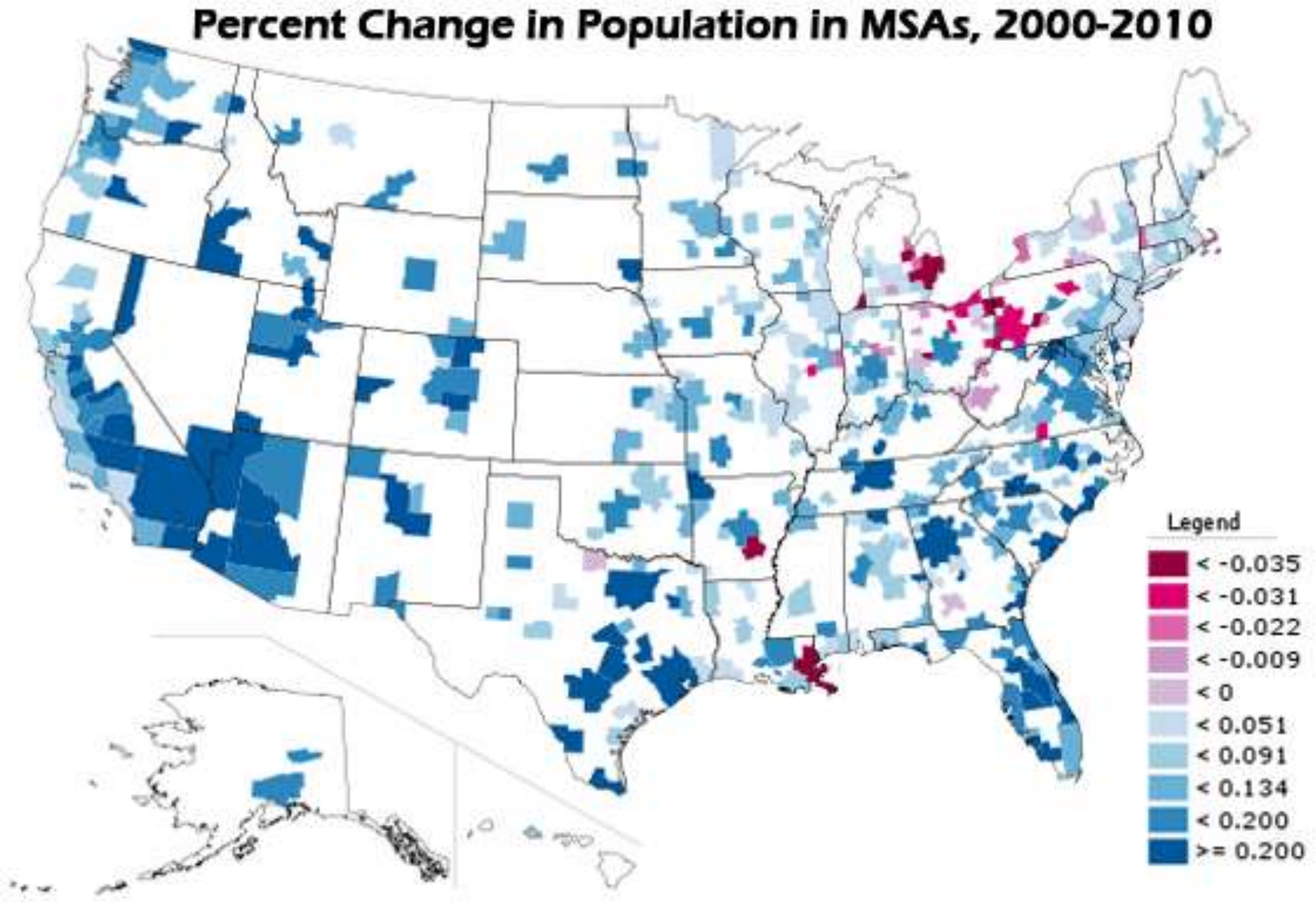
...< age of 50... Paging Gen X, Y, Z...

BUYING HOUSES?

RENT

BUYING CARS?

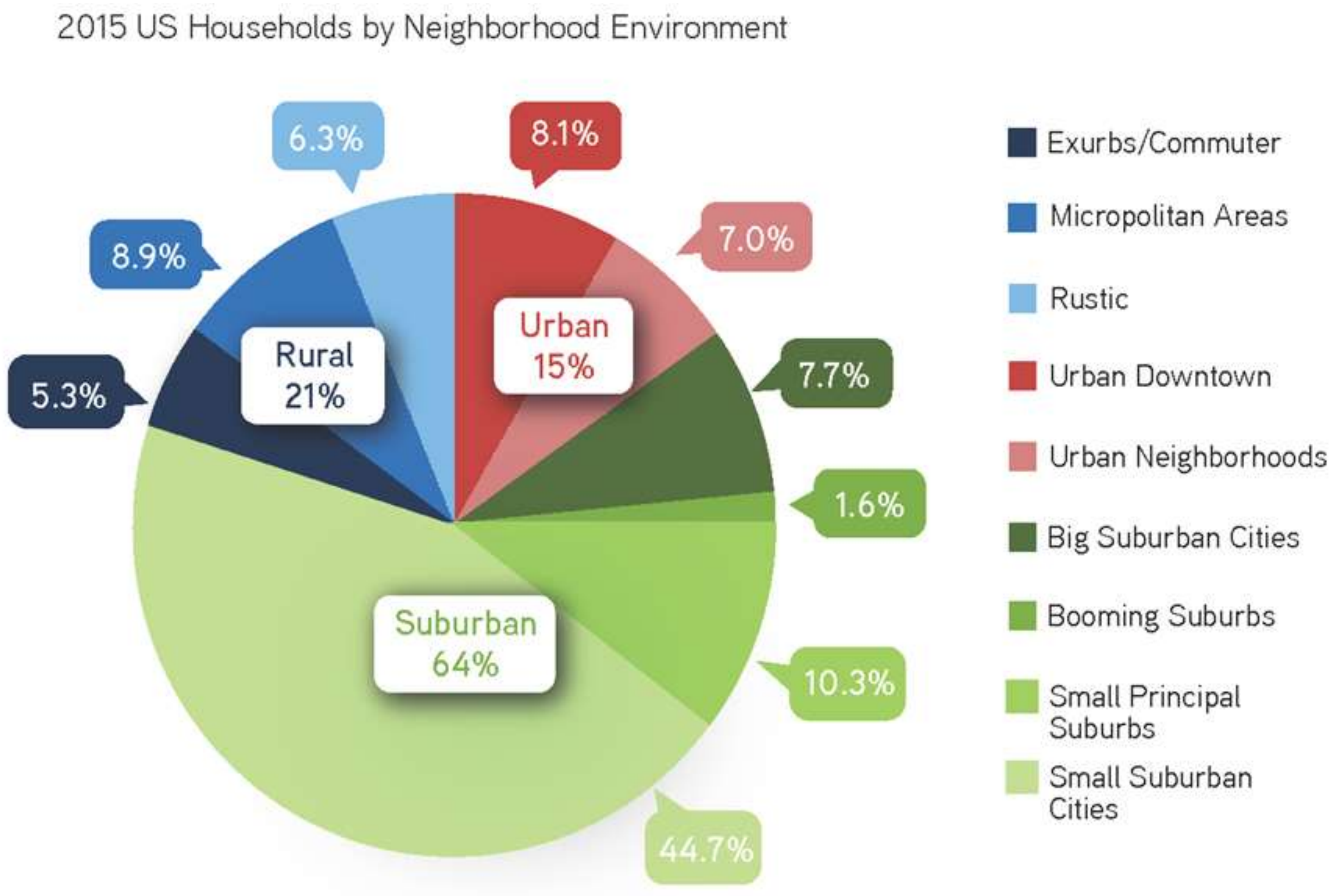
People concentrate in urban areas (MSAs)…



81%

US Population Living in Urban Areas

…MSA suburbs are dead … Long live the suburbs!



Source: John Burns Real Estate Consulting, LLC calculations of U.S. Census Bureau data

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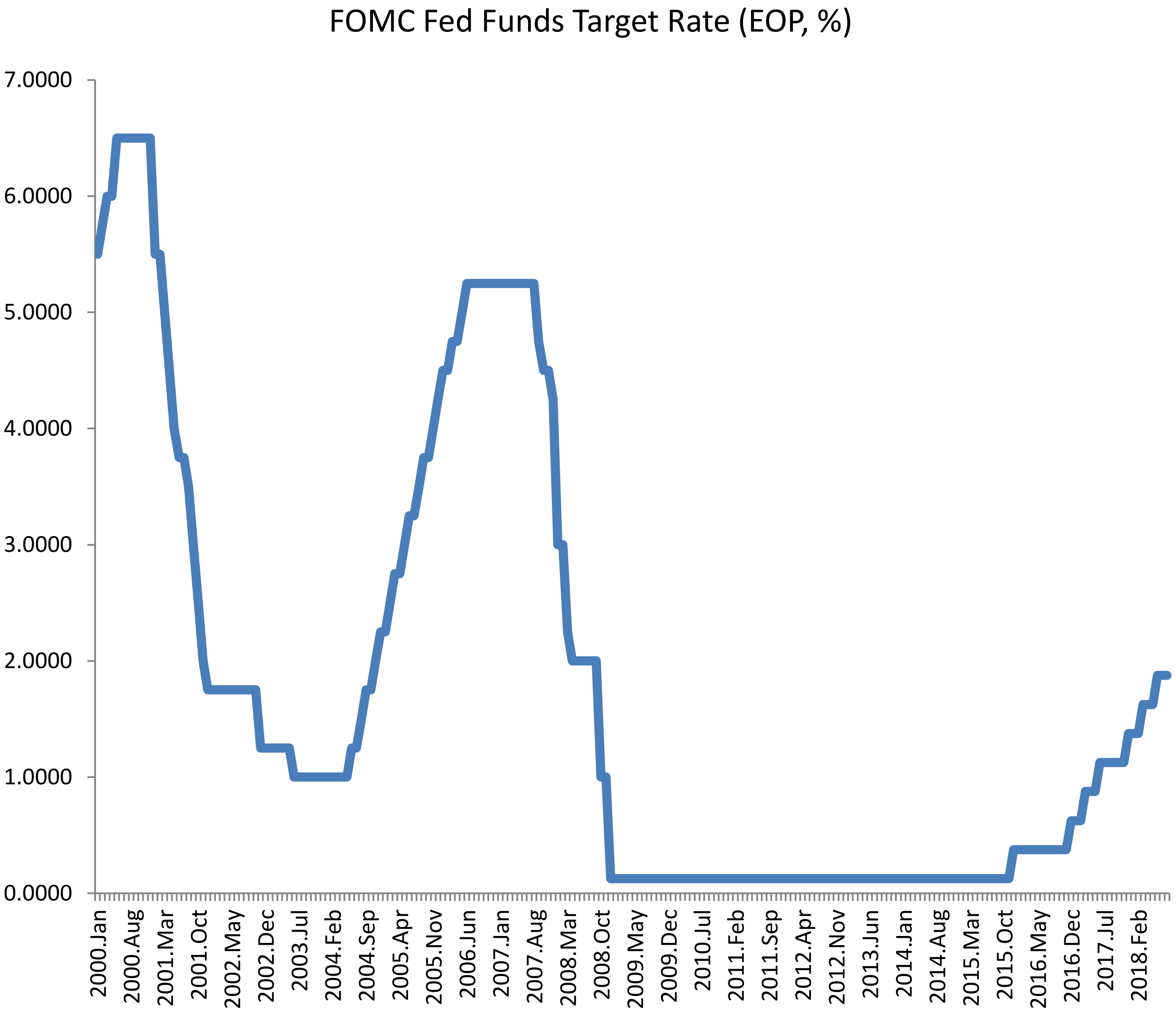
U.S. economy riding crest of monetary easing…and tax reform



Source: Federal Reserve Board

GDP = C + I + (Exp - Imp) + G

2018 GDP = +2.9%

2018 C = +2.6%

2018 Inv = +7.0%

2018 Exp = +3.9%

2018 Imp = +4.6%

2018 G = +1.5%

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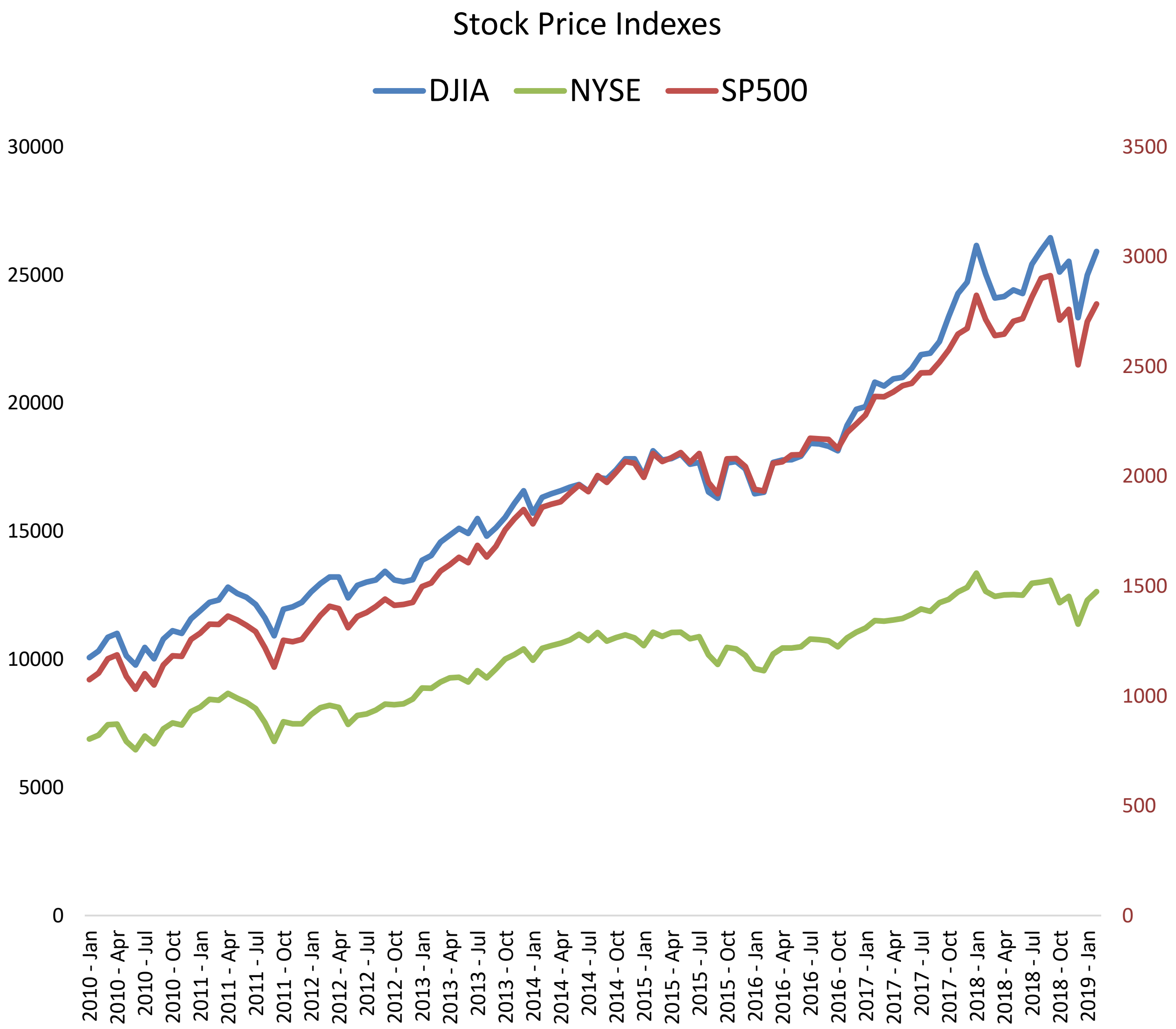
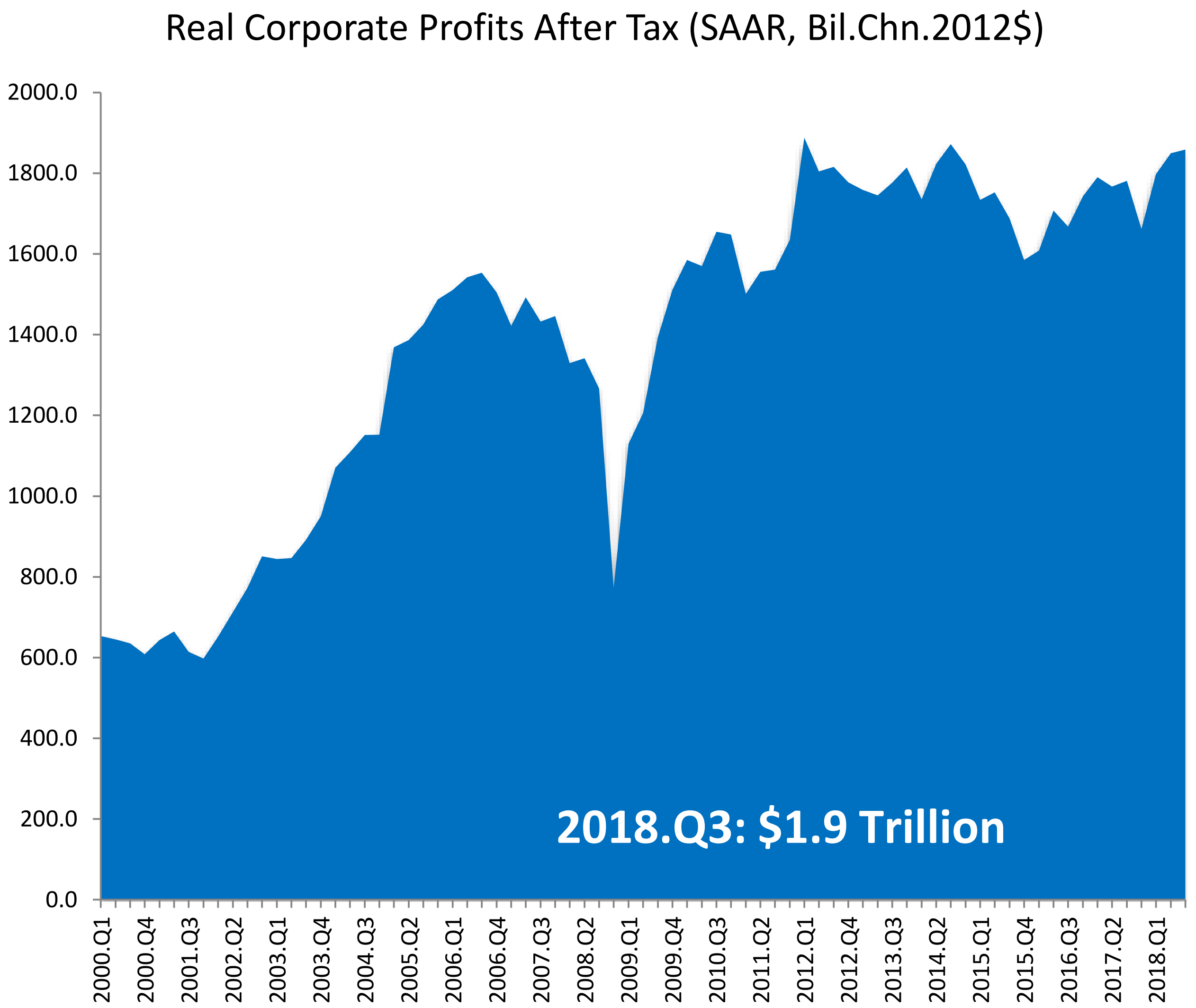
…while equity markets see-saw and corporate profits elevated





Source: BEA

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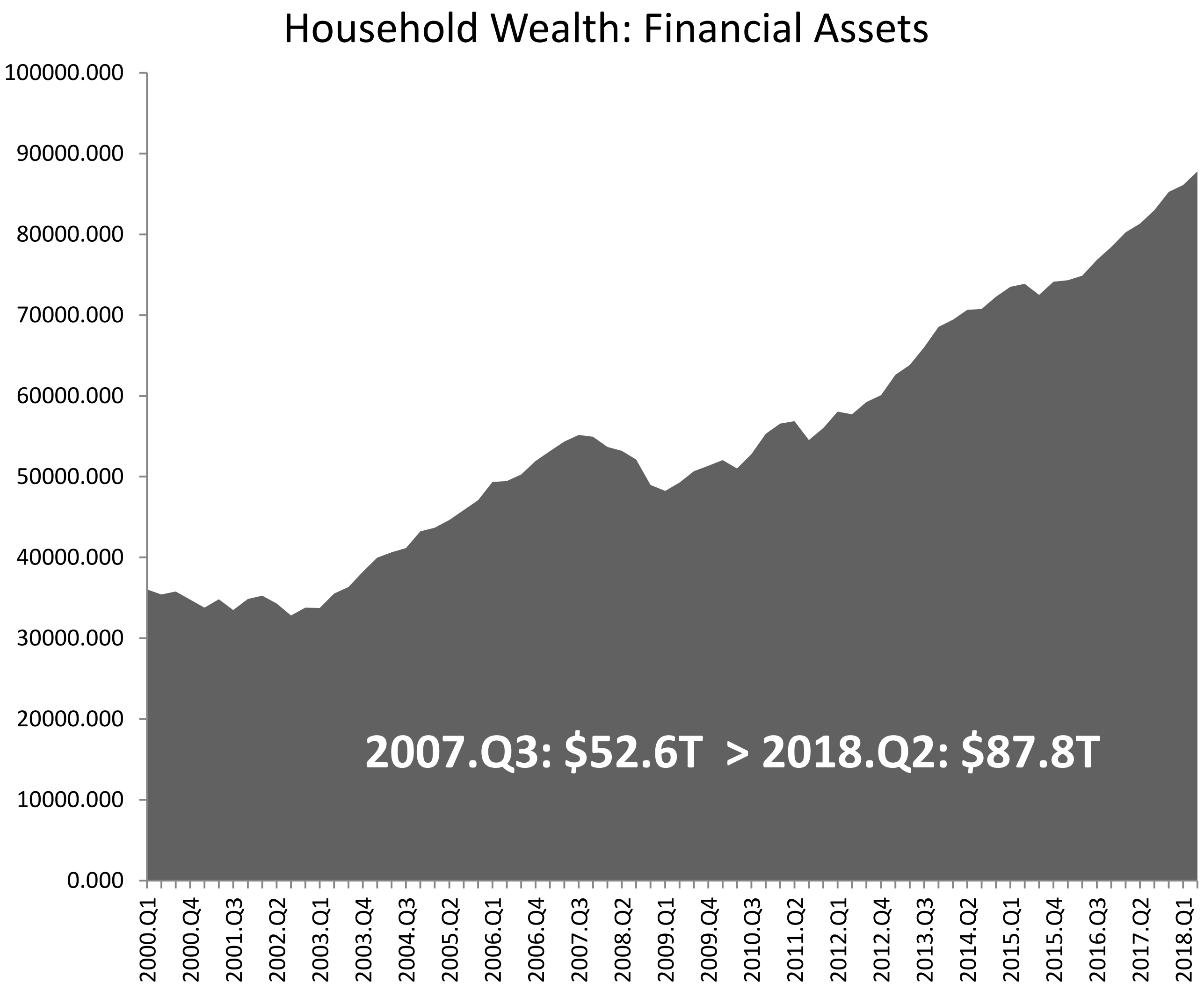
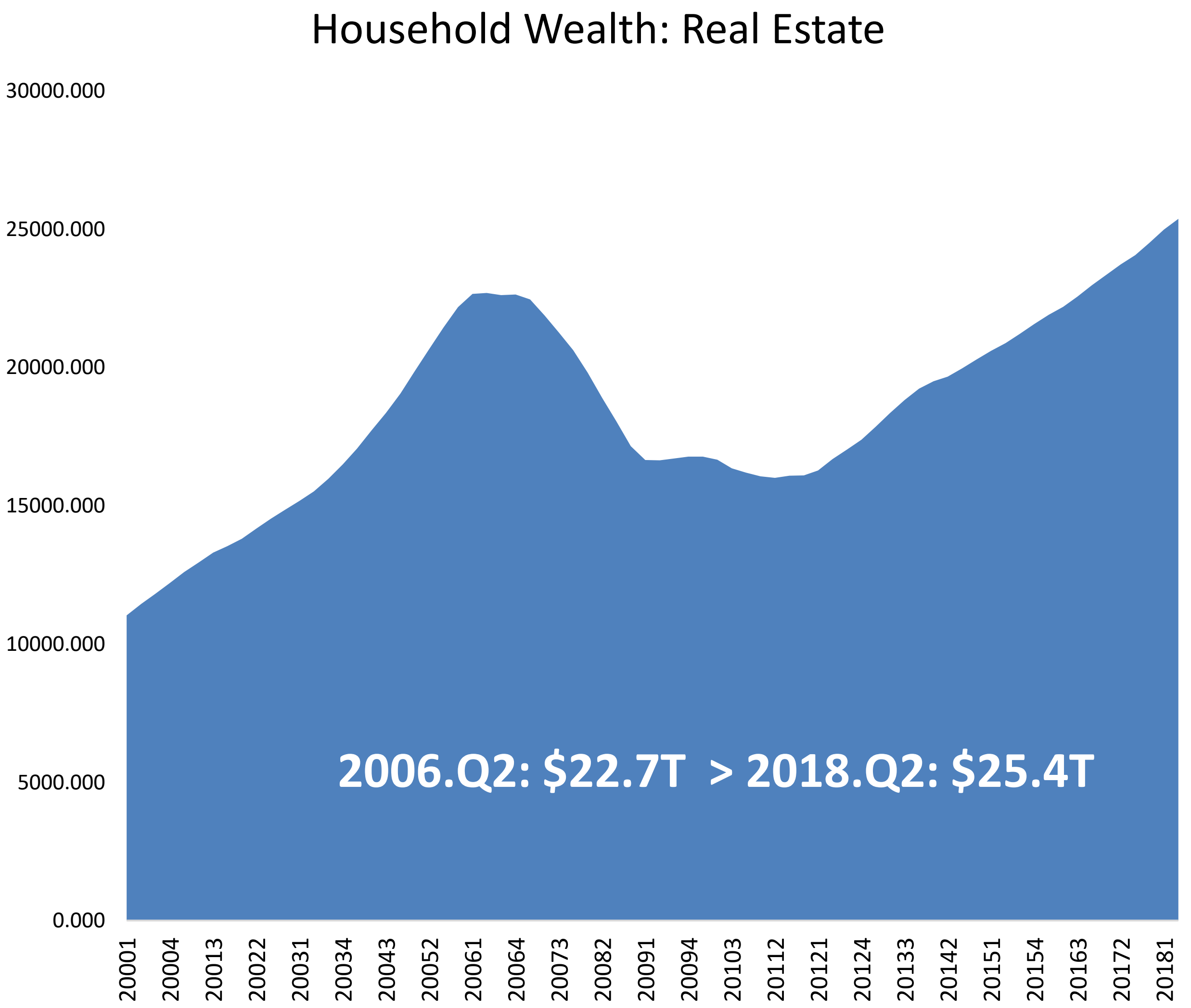
Upside: Household wealth up … for market participants



Source: Federal Reserve Board



Source: Federal Reserve Board

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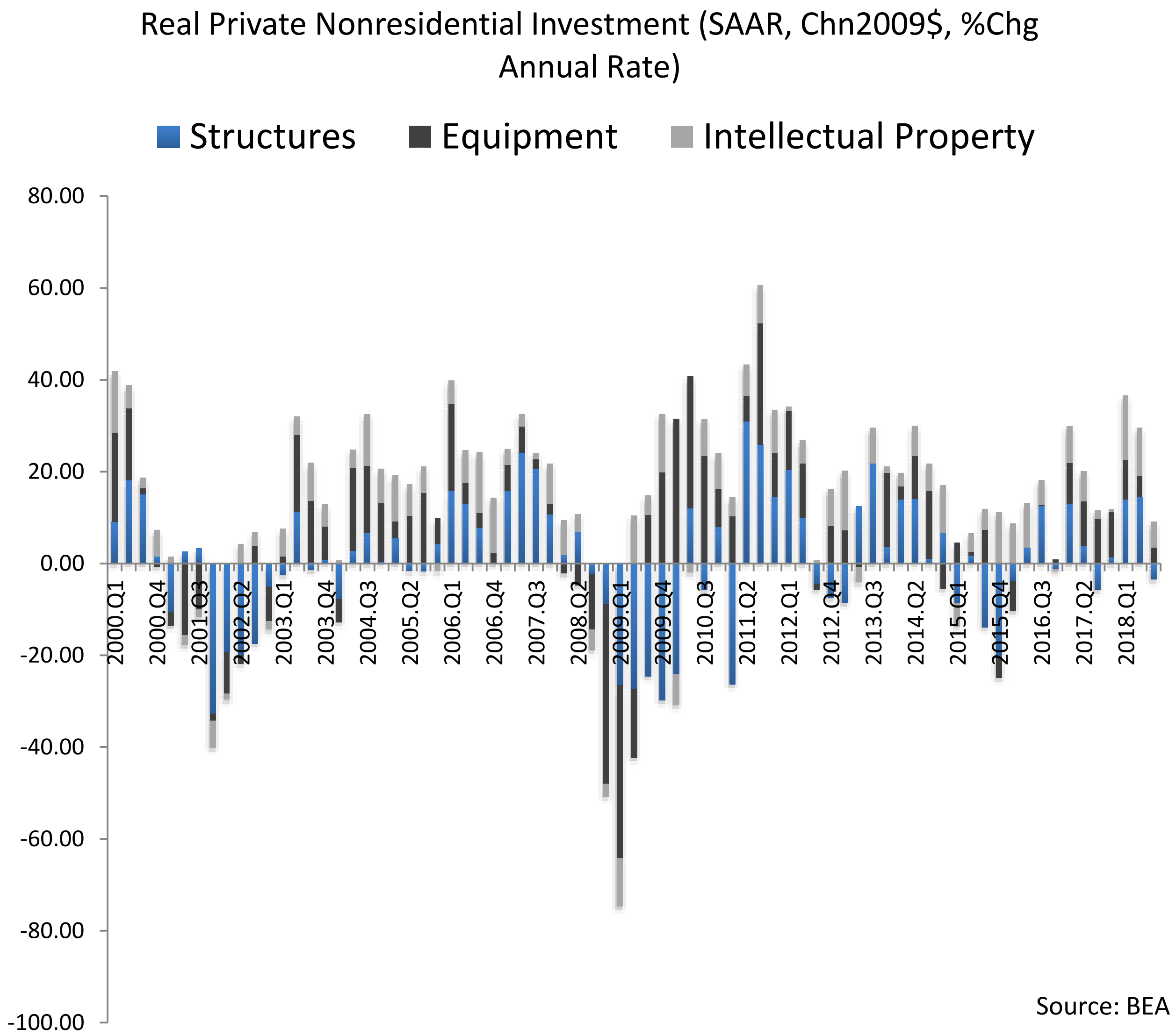
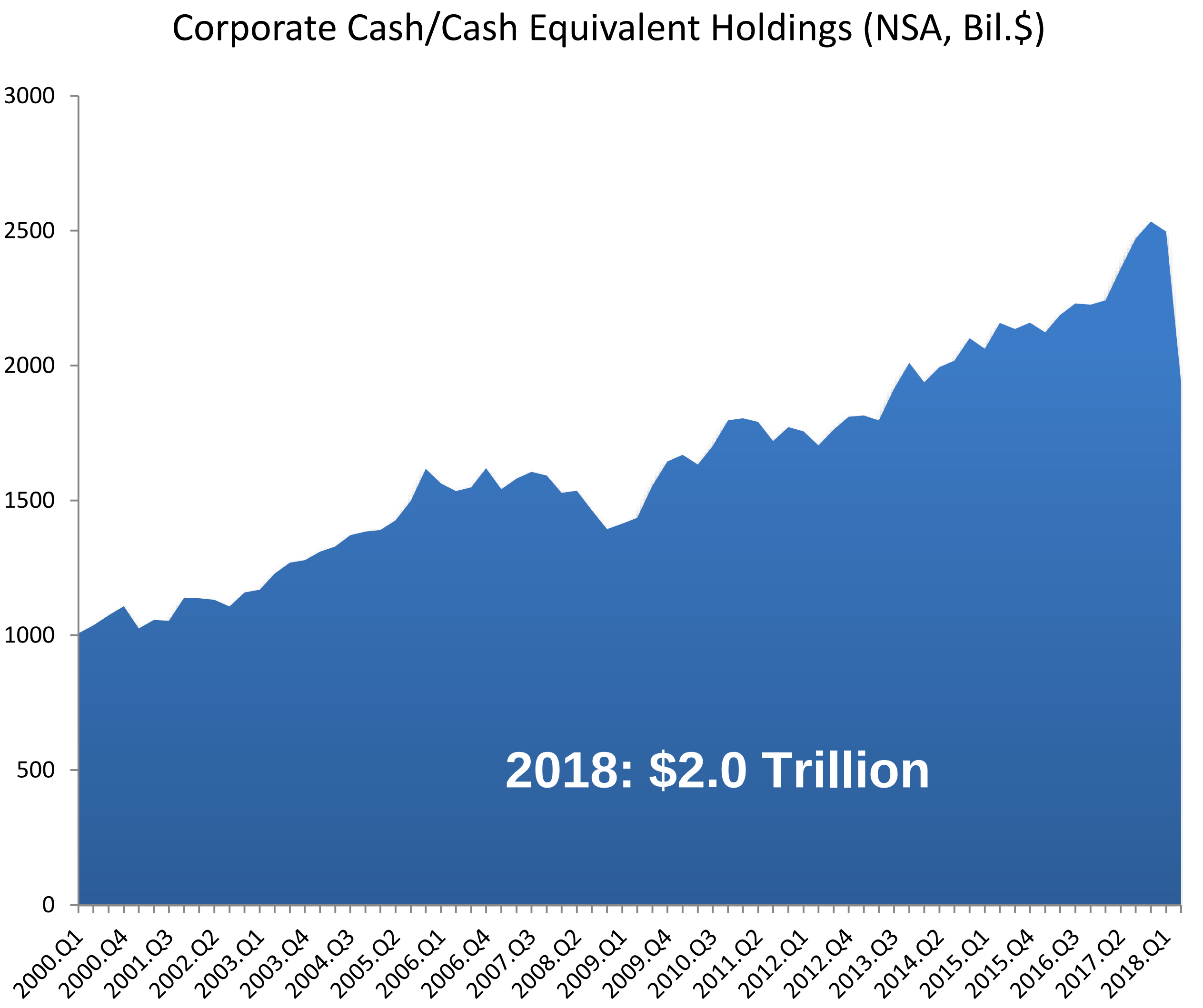
Companies increase investments…still cautiously…



Source: BEA



Source: Federal Reserve

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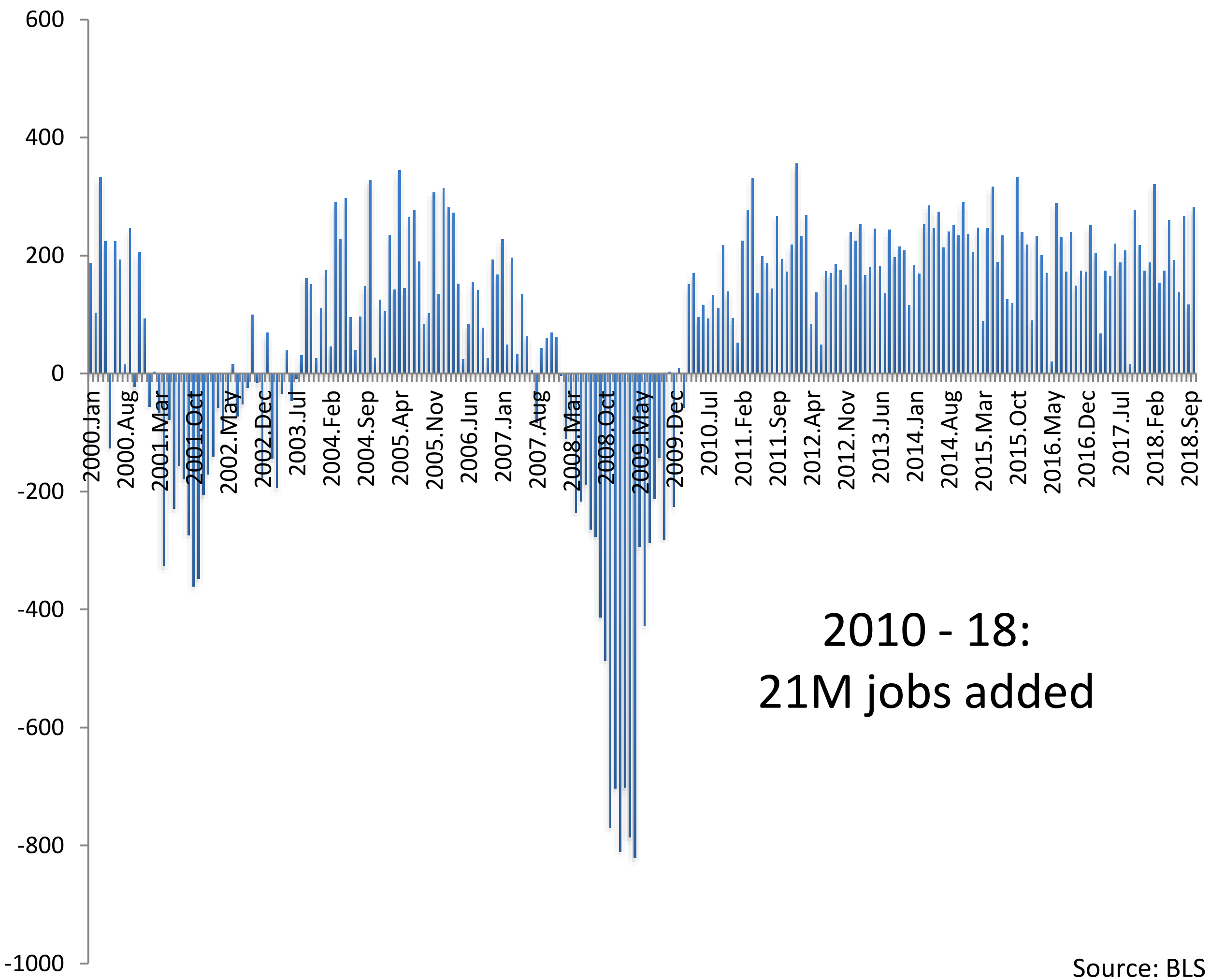
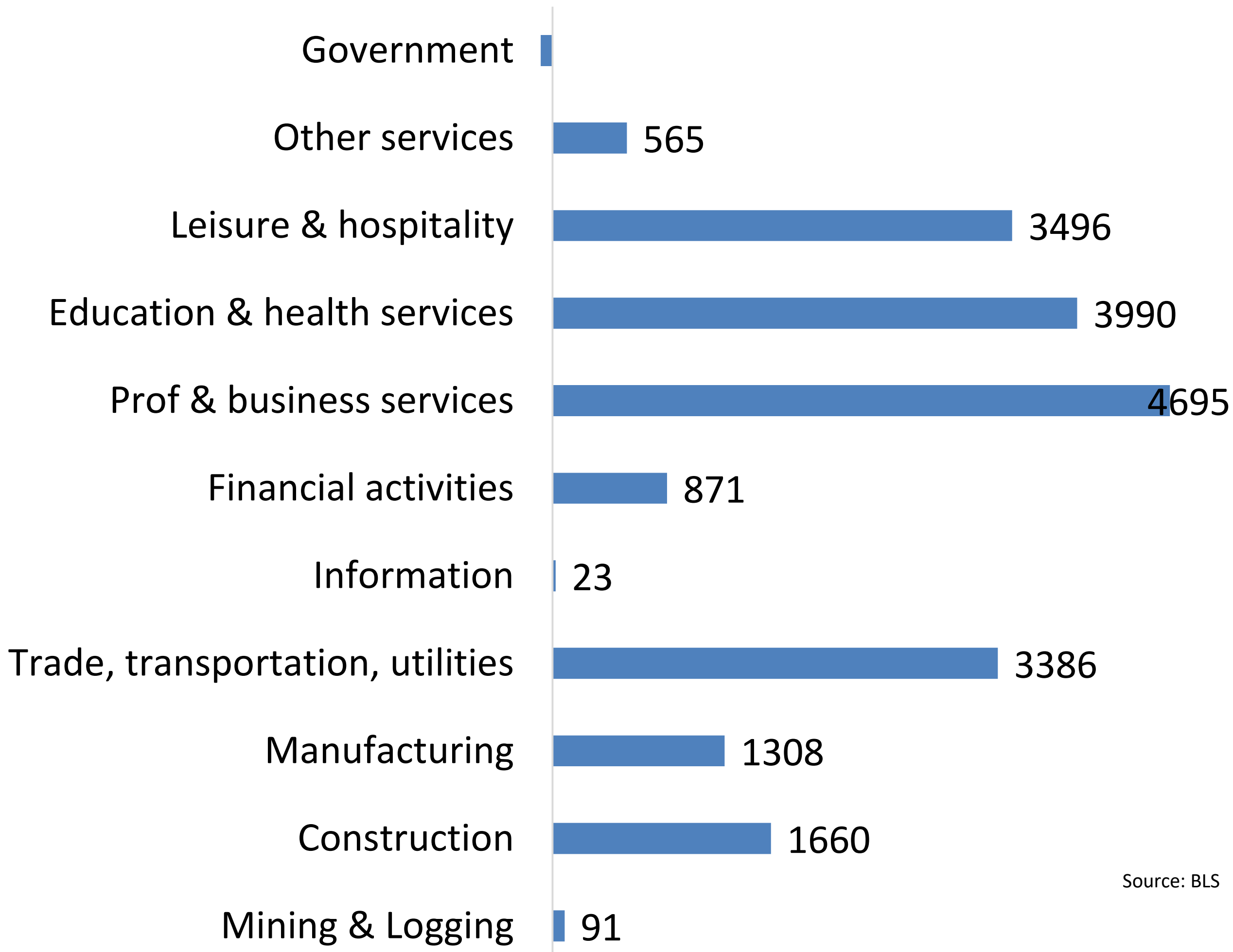
…driving employment gains across broad range of industries…

Change in Total Private Employment (SA, Thous)



Source: BLS

2010-18: Payroll Employment Growth by Sector (SA, 000s)



Source: BLS

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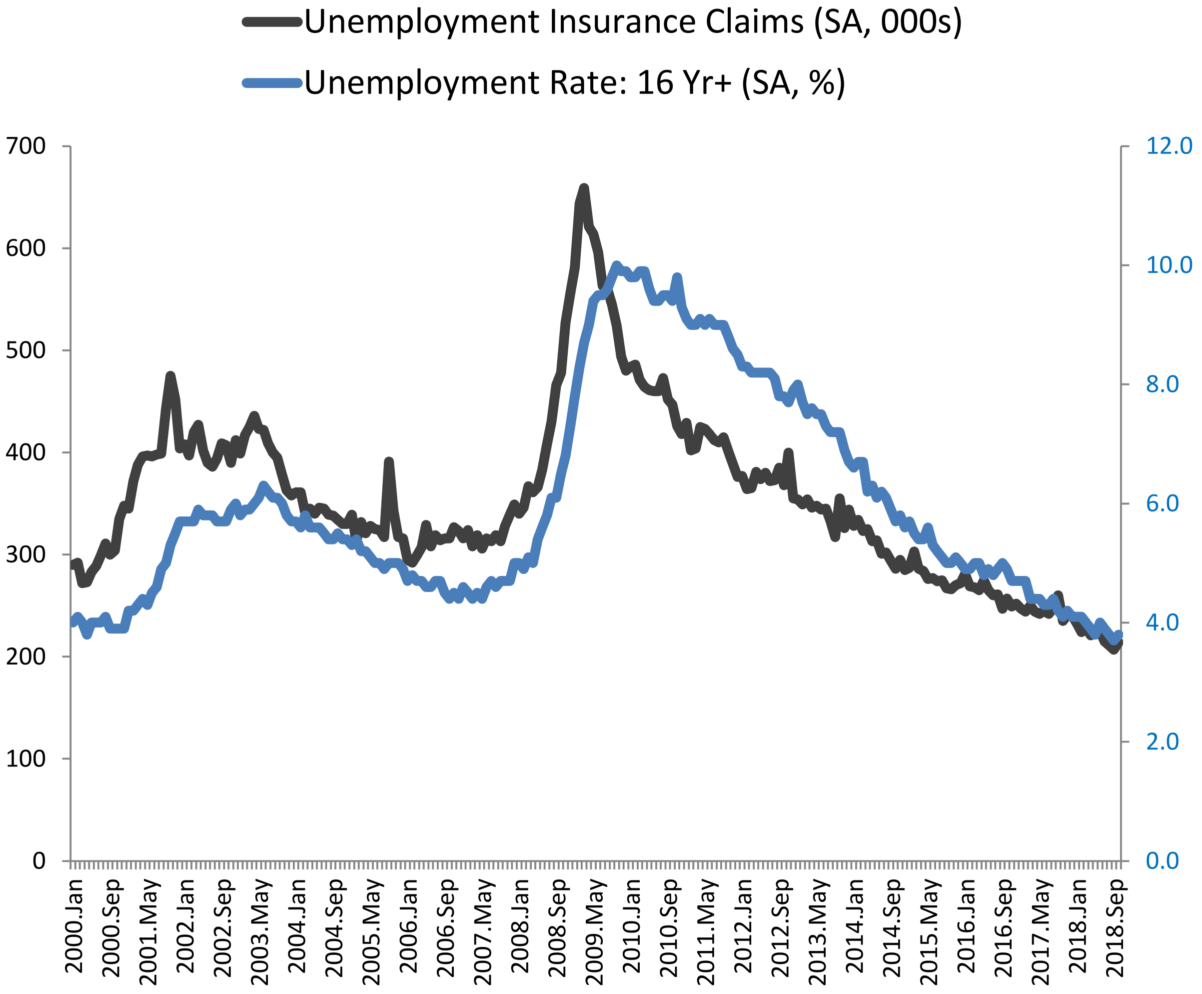
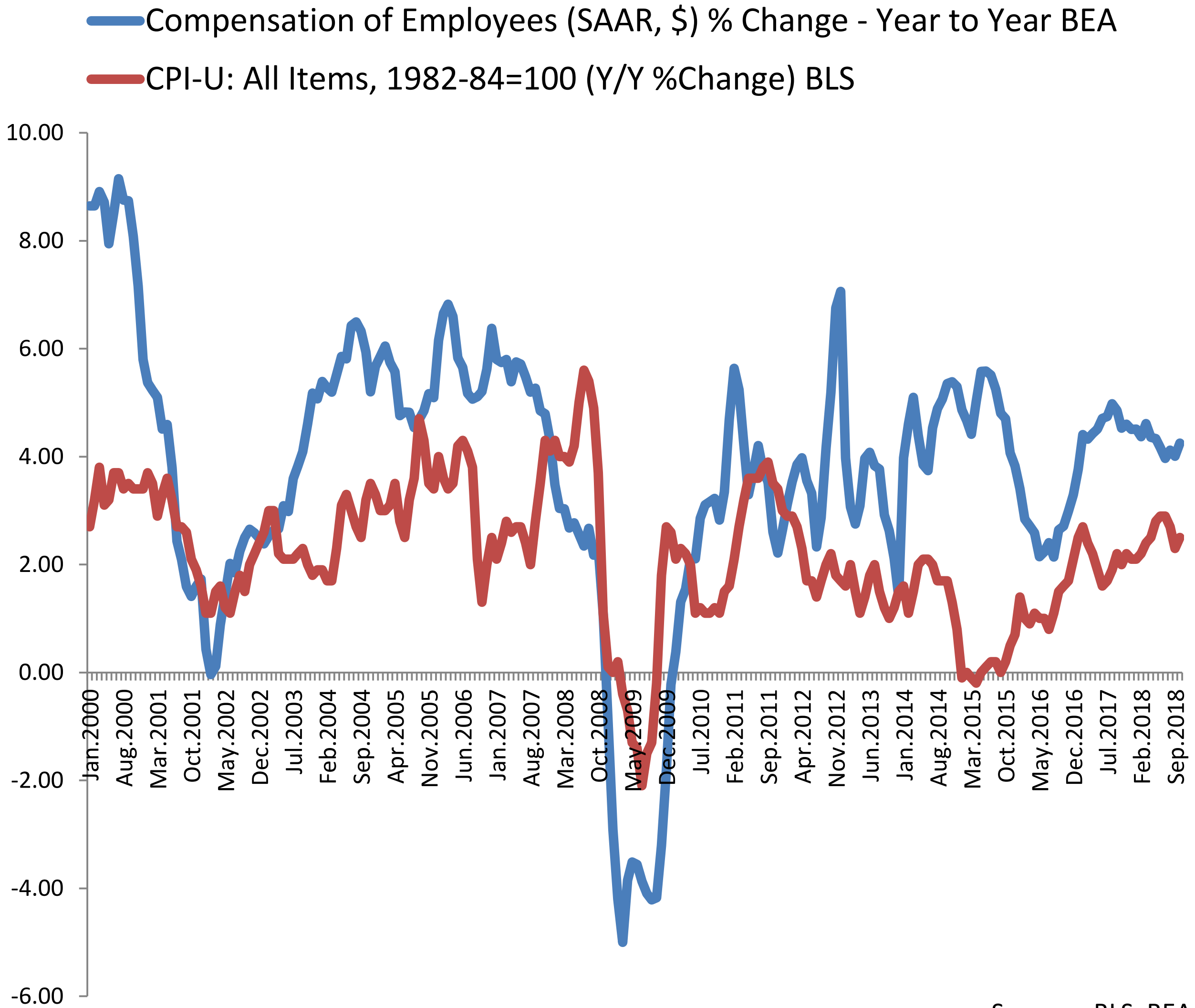
…leading unemployment to 3.8% and spurring wage growth at 3%+…



Sources: DoL, BLS



Sources: BLS, BEA

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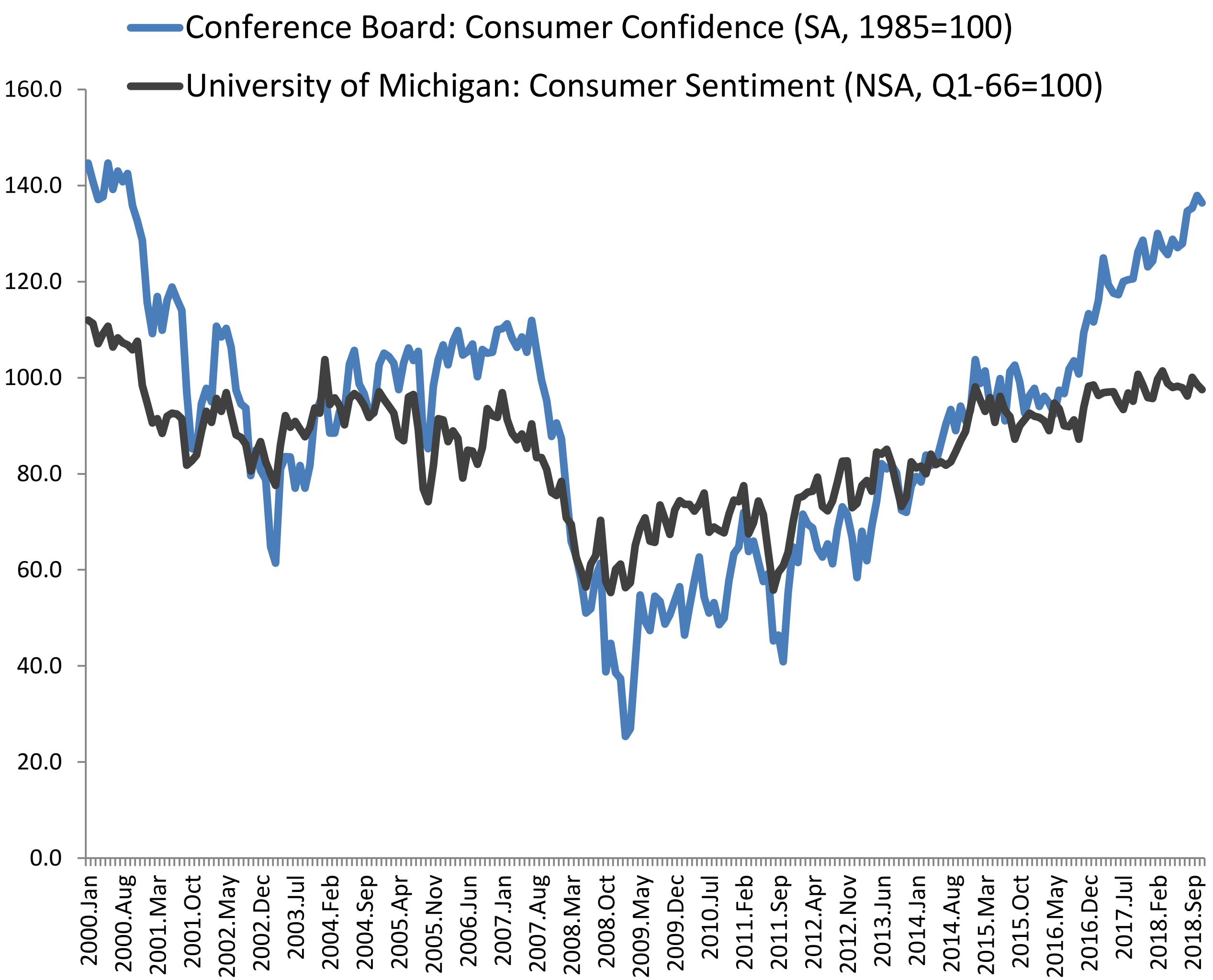
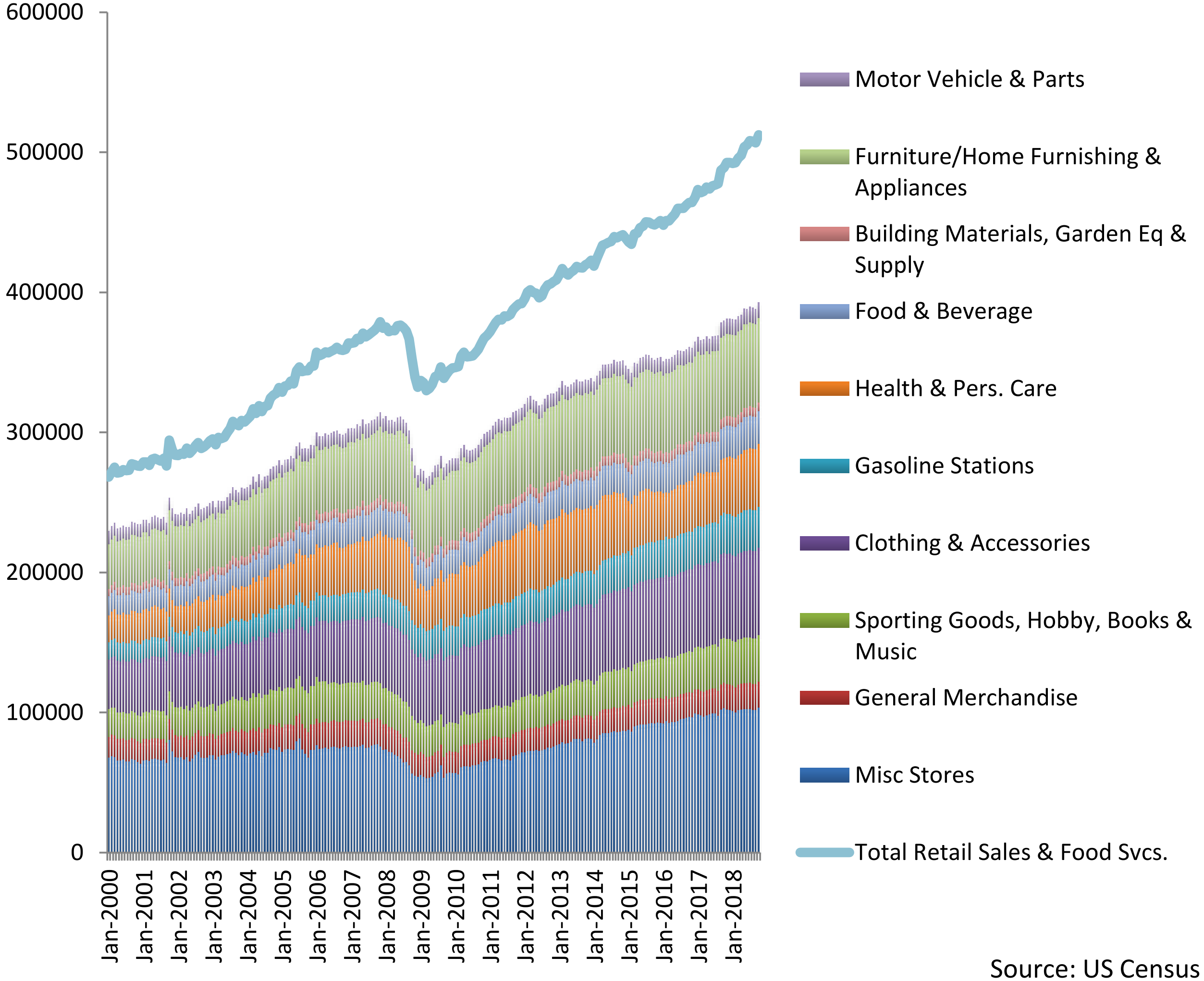
…boosting consumer confidence and spending



Sources: The Conference Board, University of Michigan



Source: US Census

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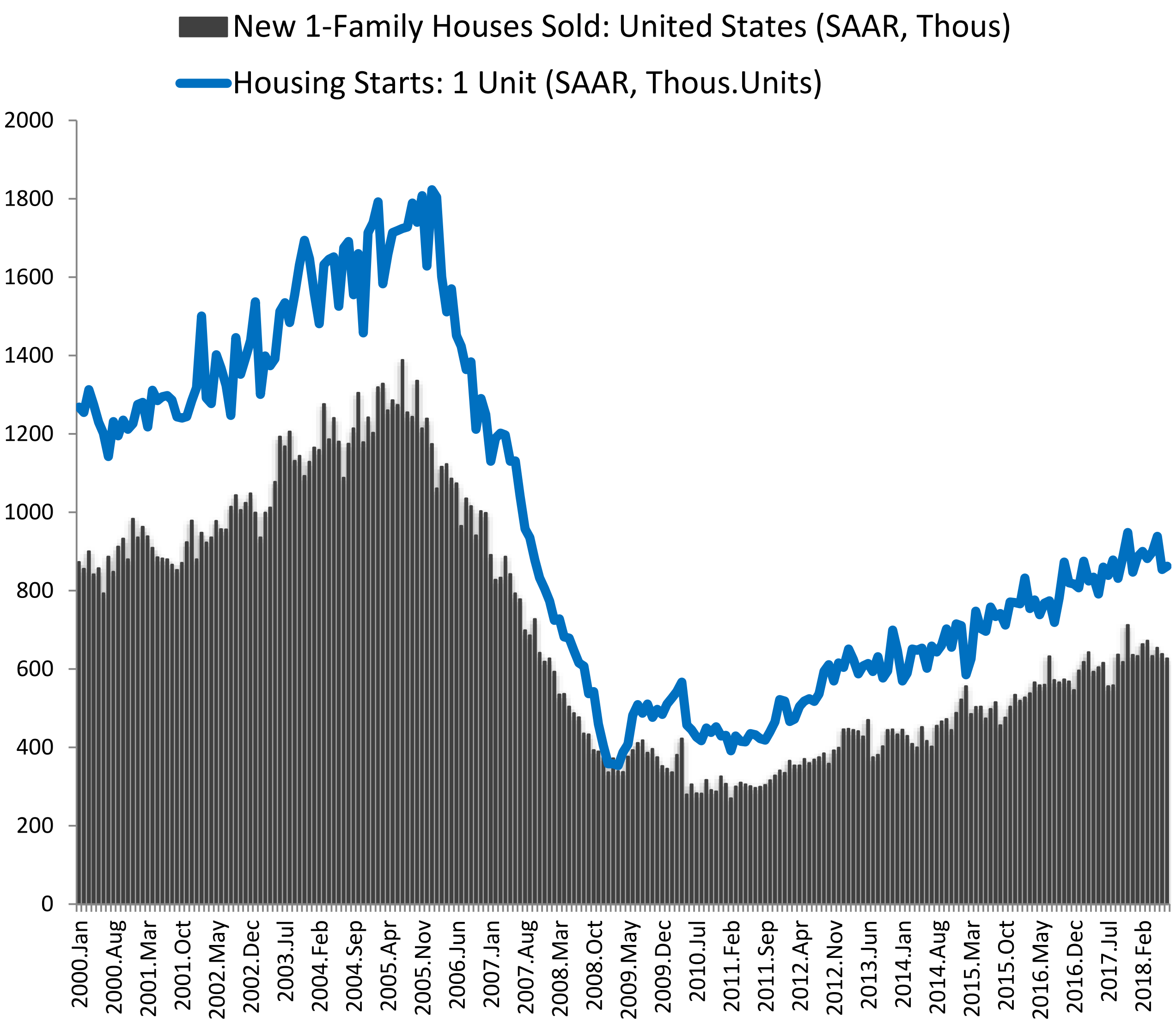
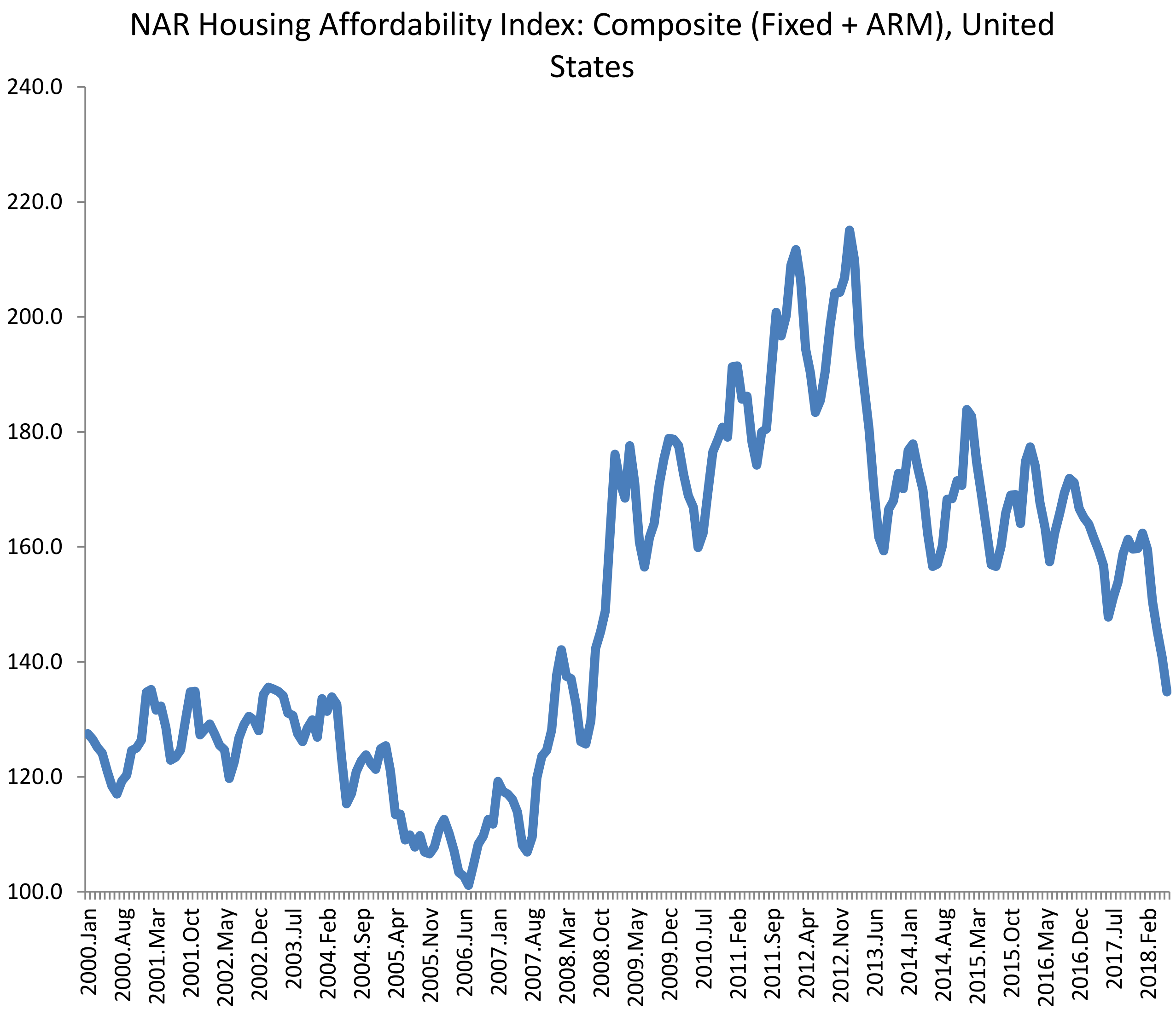
Choppy waters: undersupply of national housing squeezes affordability…



Source: Census Bureau



Source: National Association of REALTORS®

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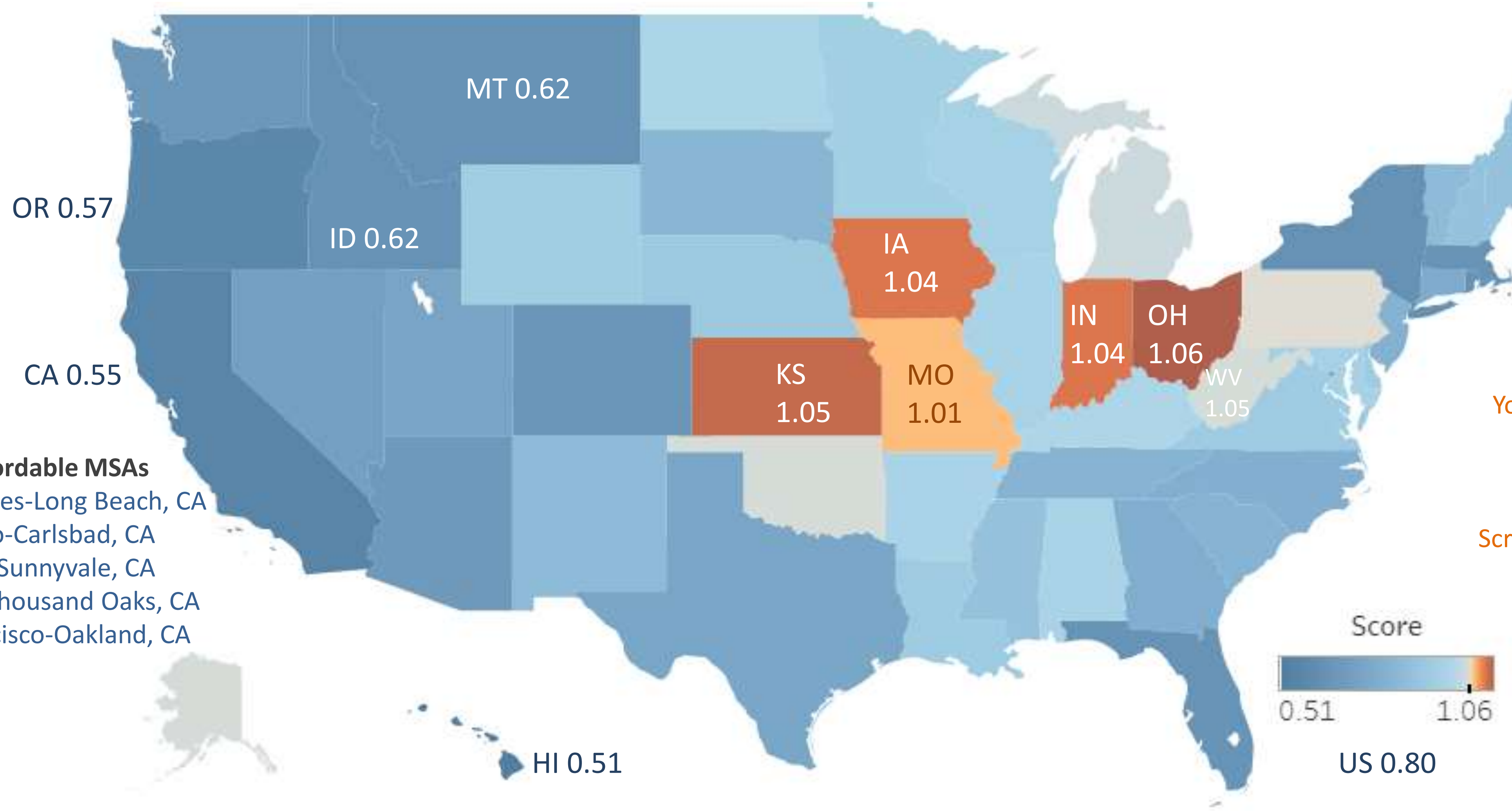
…in past 6 years home prices +47% vs. wages +16%...



Least affordable MSAs
Los Angeles-Long Beach, CA
San Diego-Carlsbad, CA
San Jose-Sunnyvale, CA
Oxnard-Thousand Oaks, CA
San Francisco-Oakland, CA

Most affordable MSAs
Youngstown-Warren, OH
Dayton, OH
Toledo, OH
Akron, OH
Scranton-Wilkes-Barre, PA

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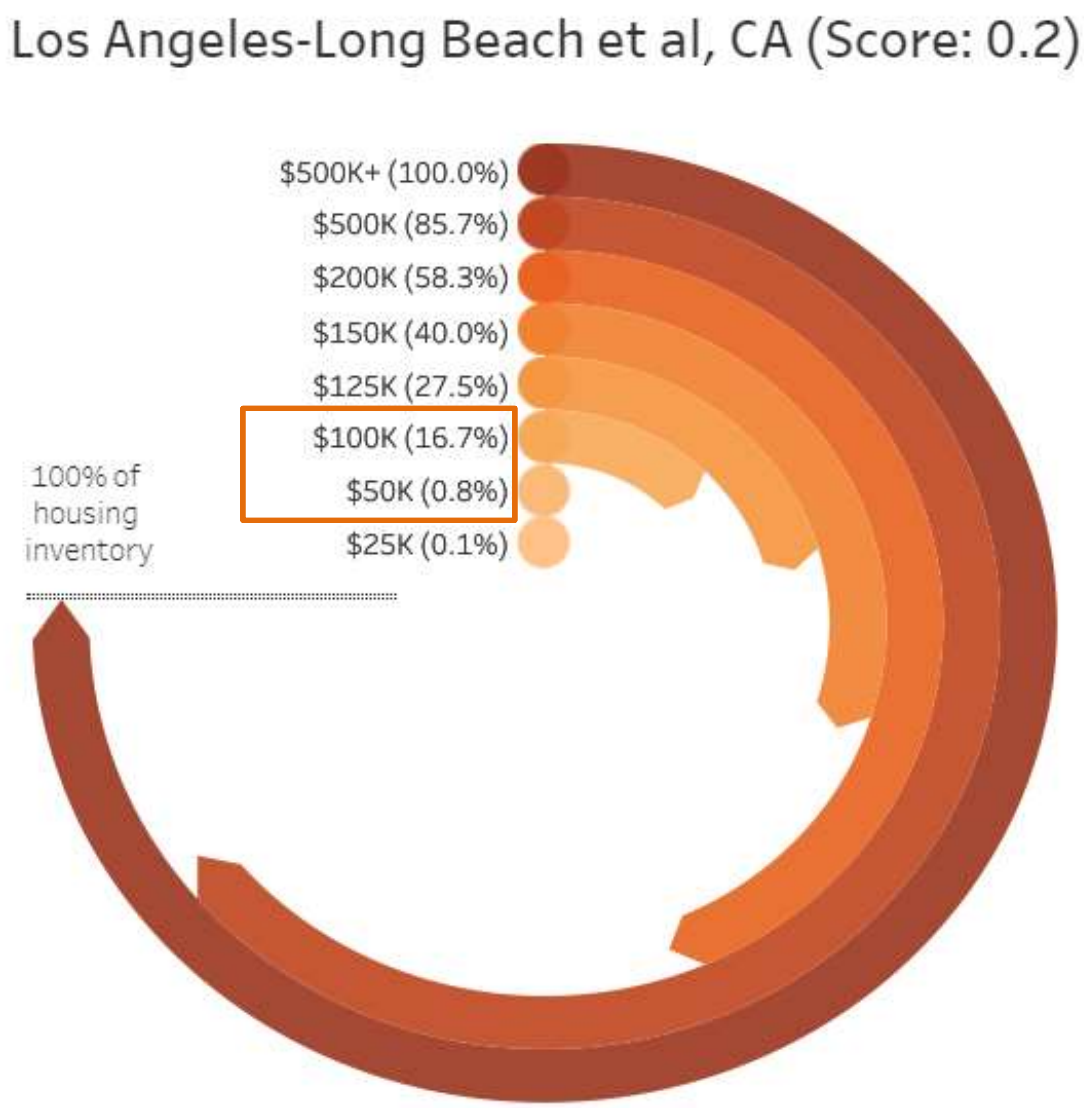
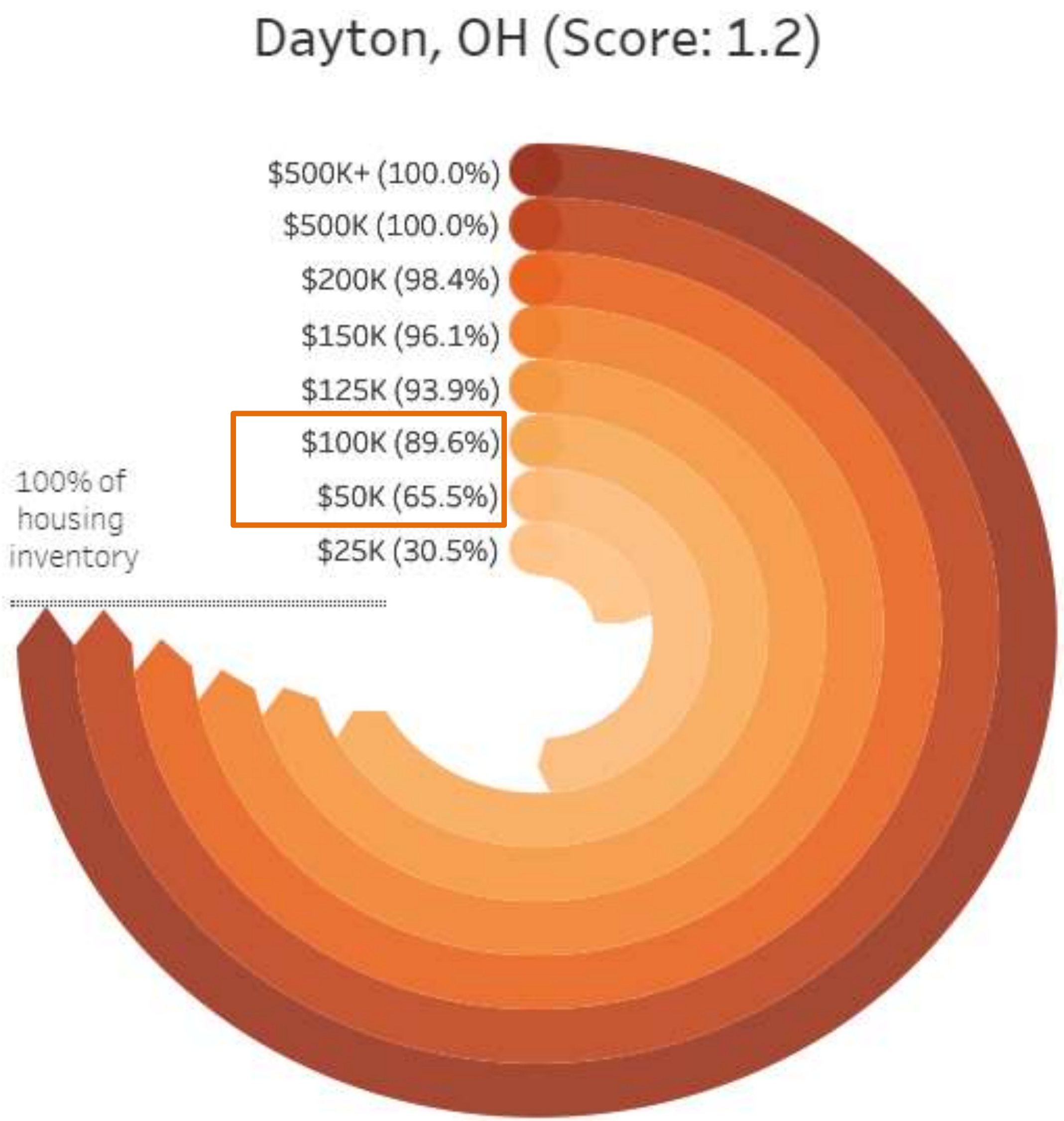
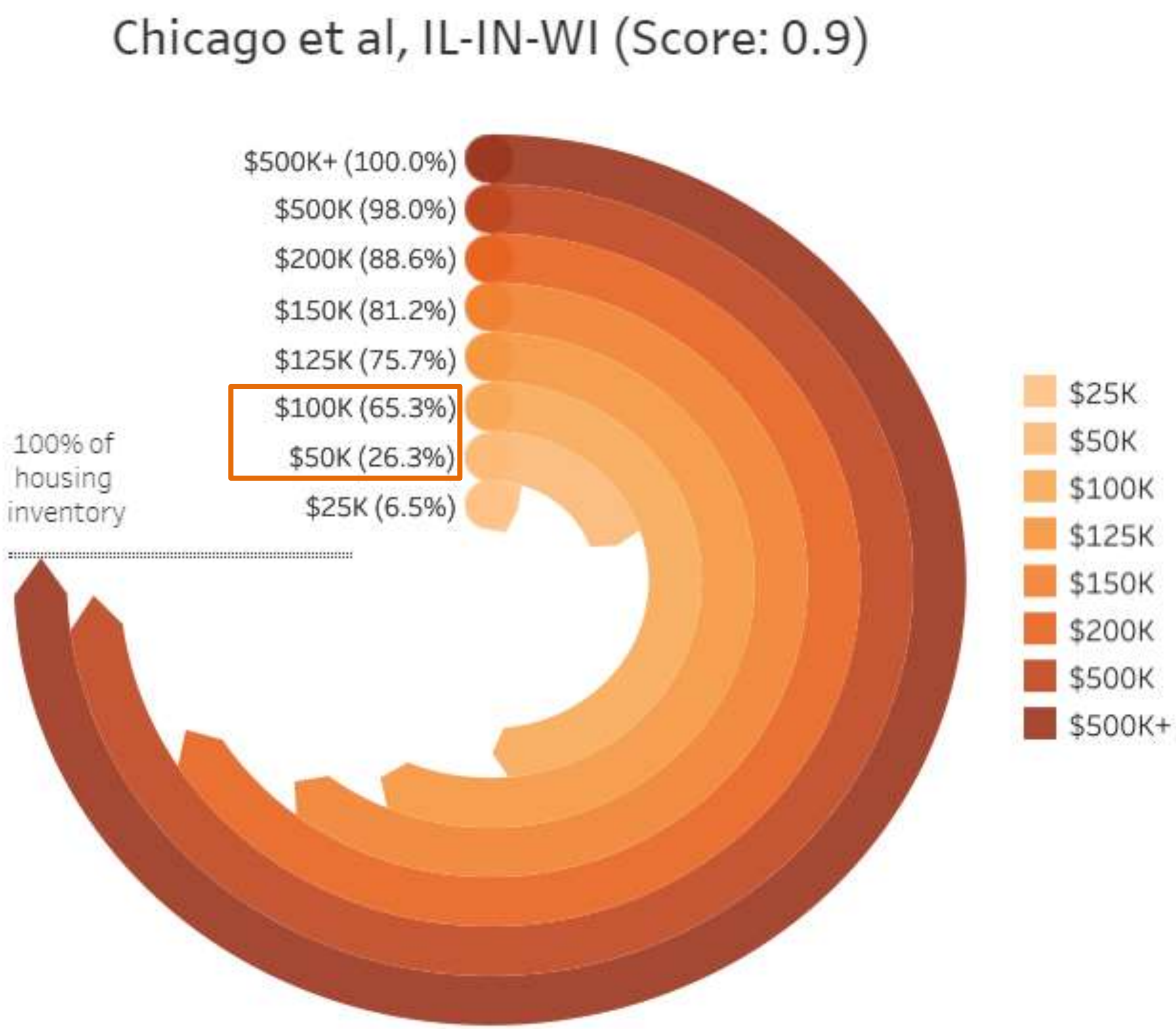
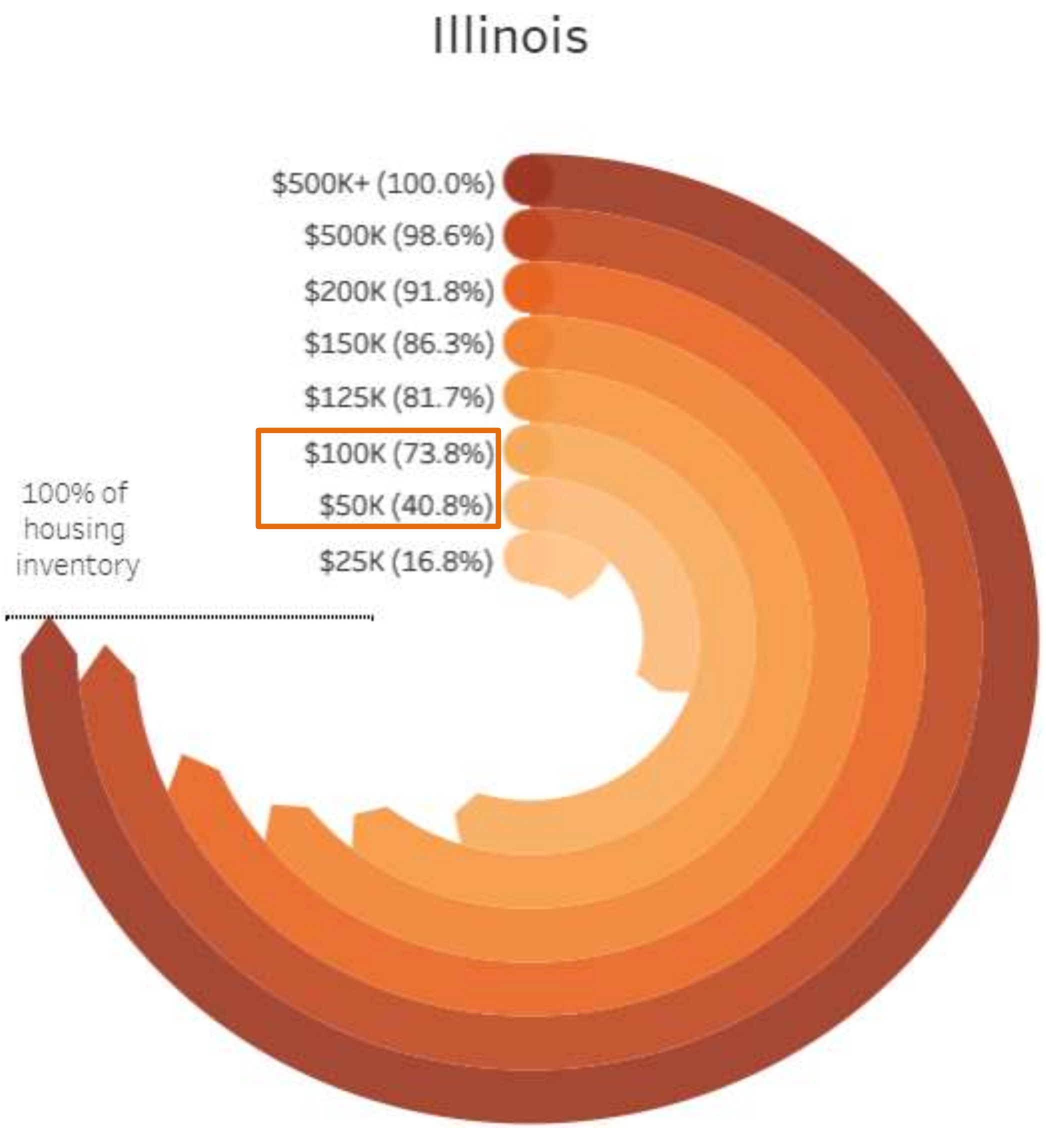
REALTORS® Affordability Distribution Curve



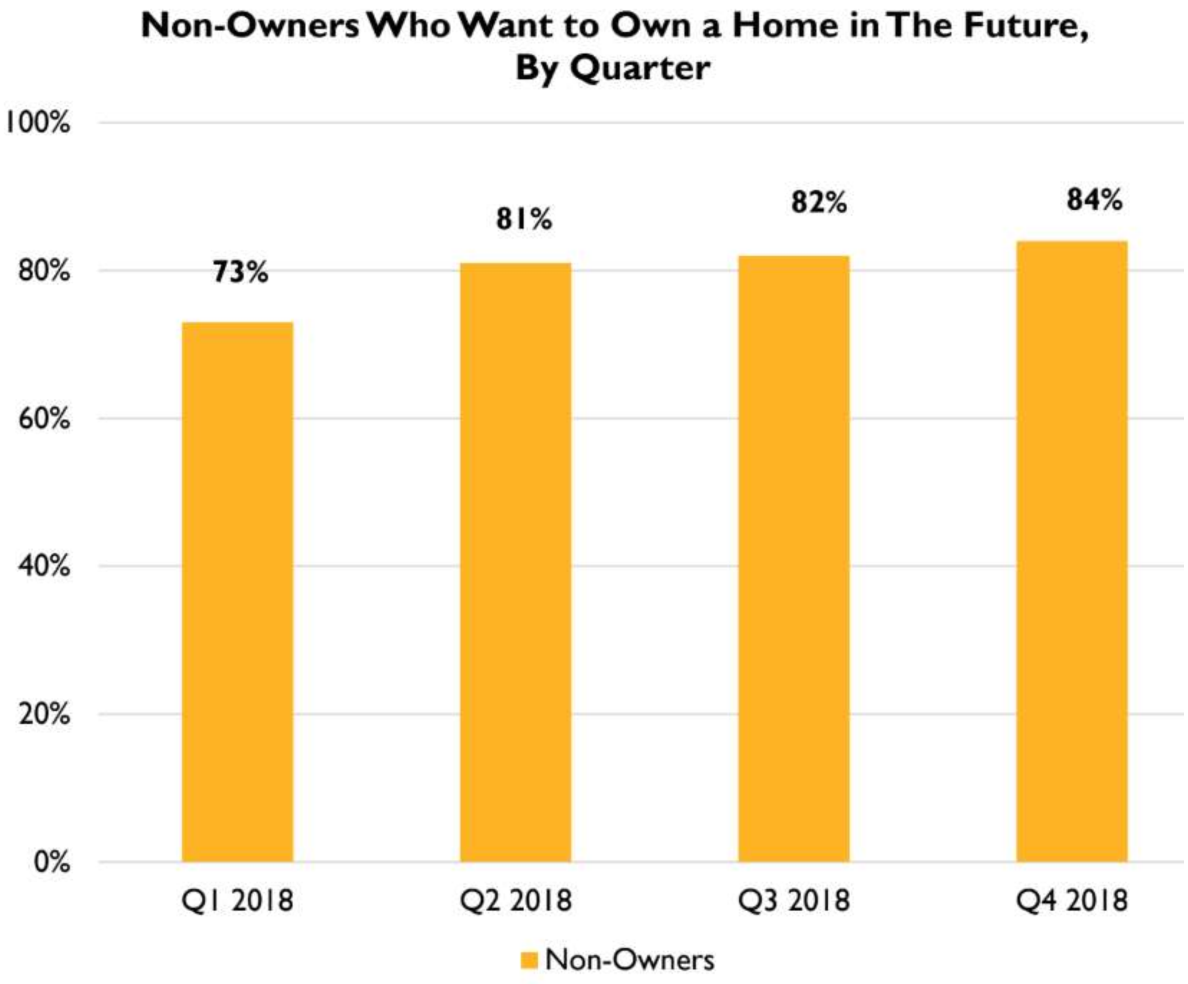


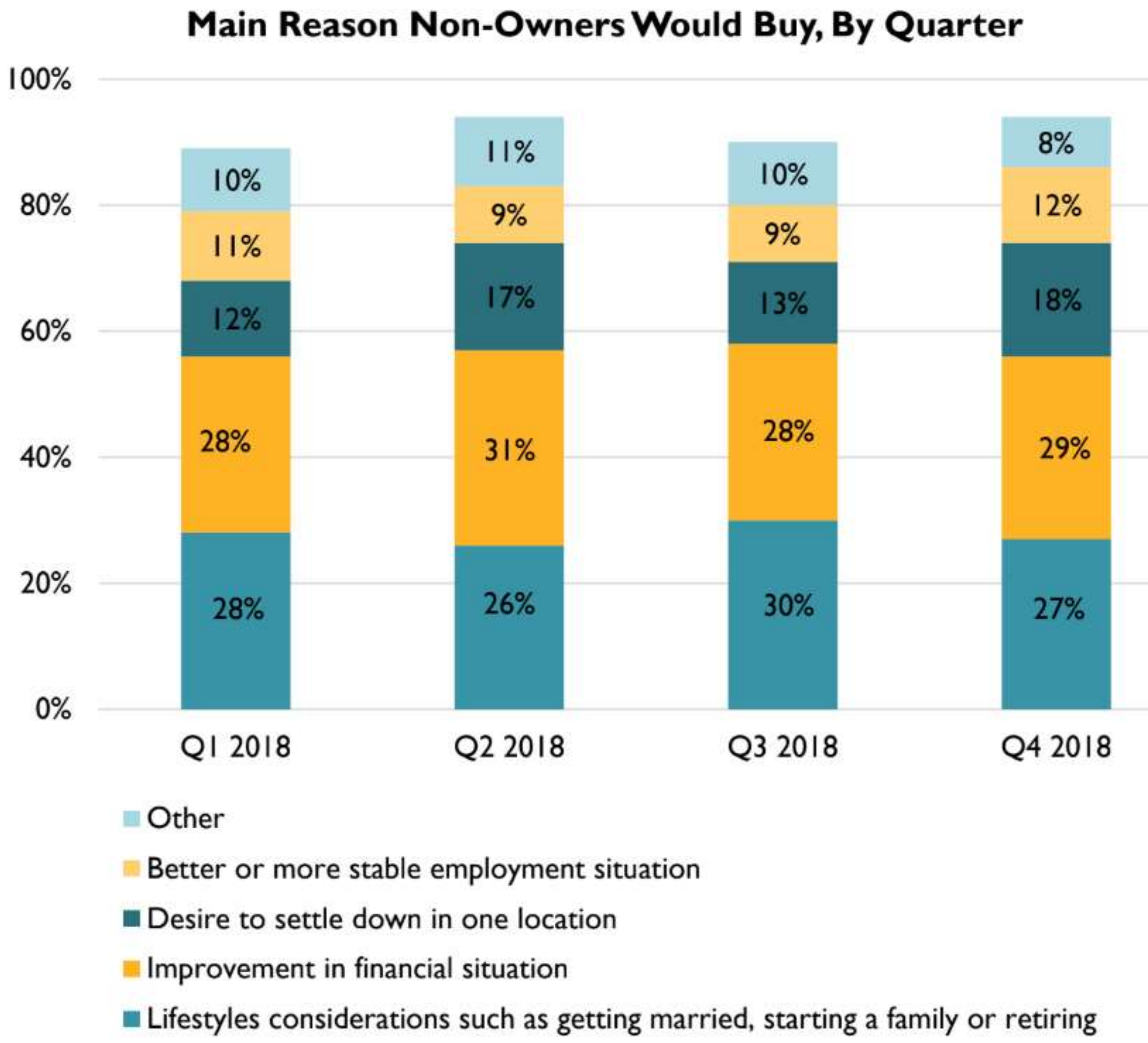
REALTORS® Affordability Distribution Curve





Consumers still want to own a home…despite affordability challenge





2019 NAR Aspiring Home Buyers Profile

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Commercial Real Estate Trends

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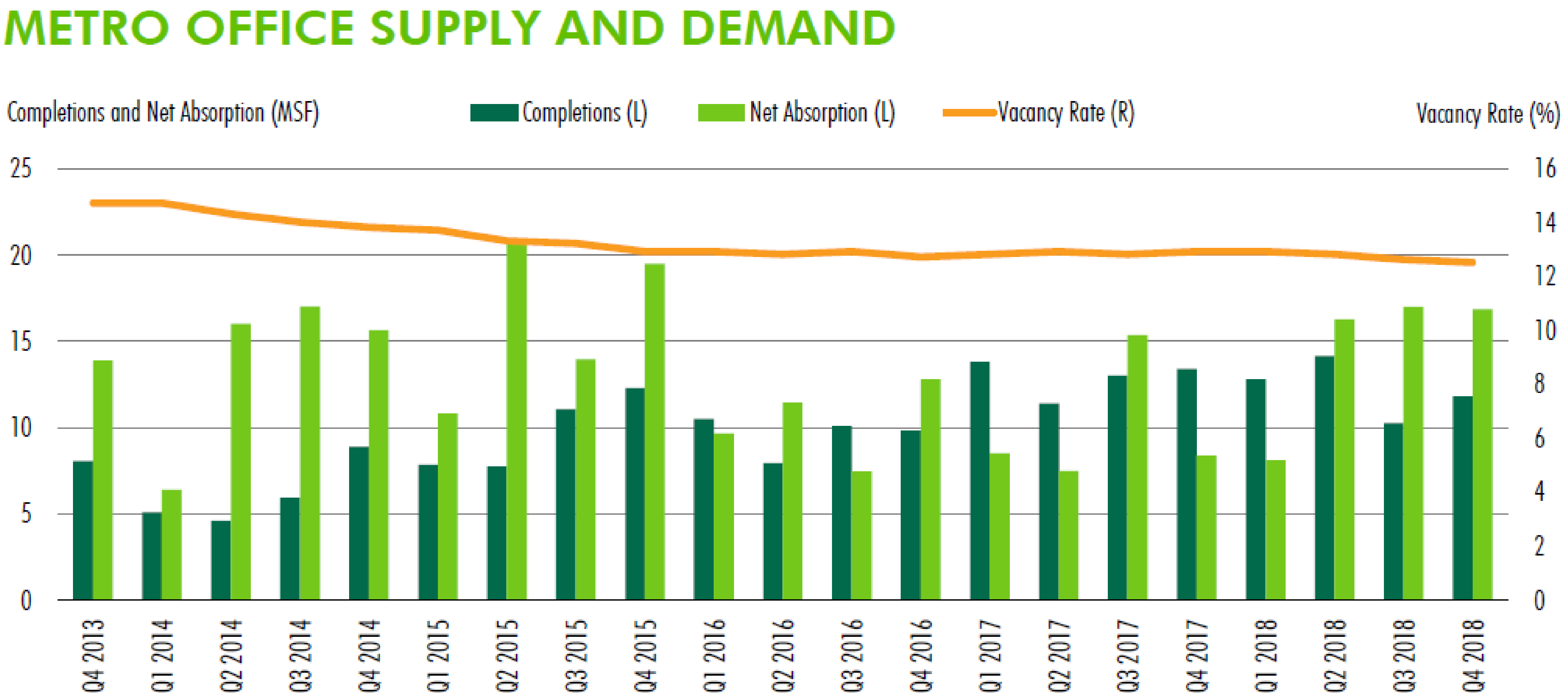
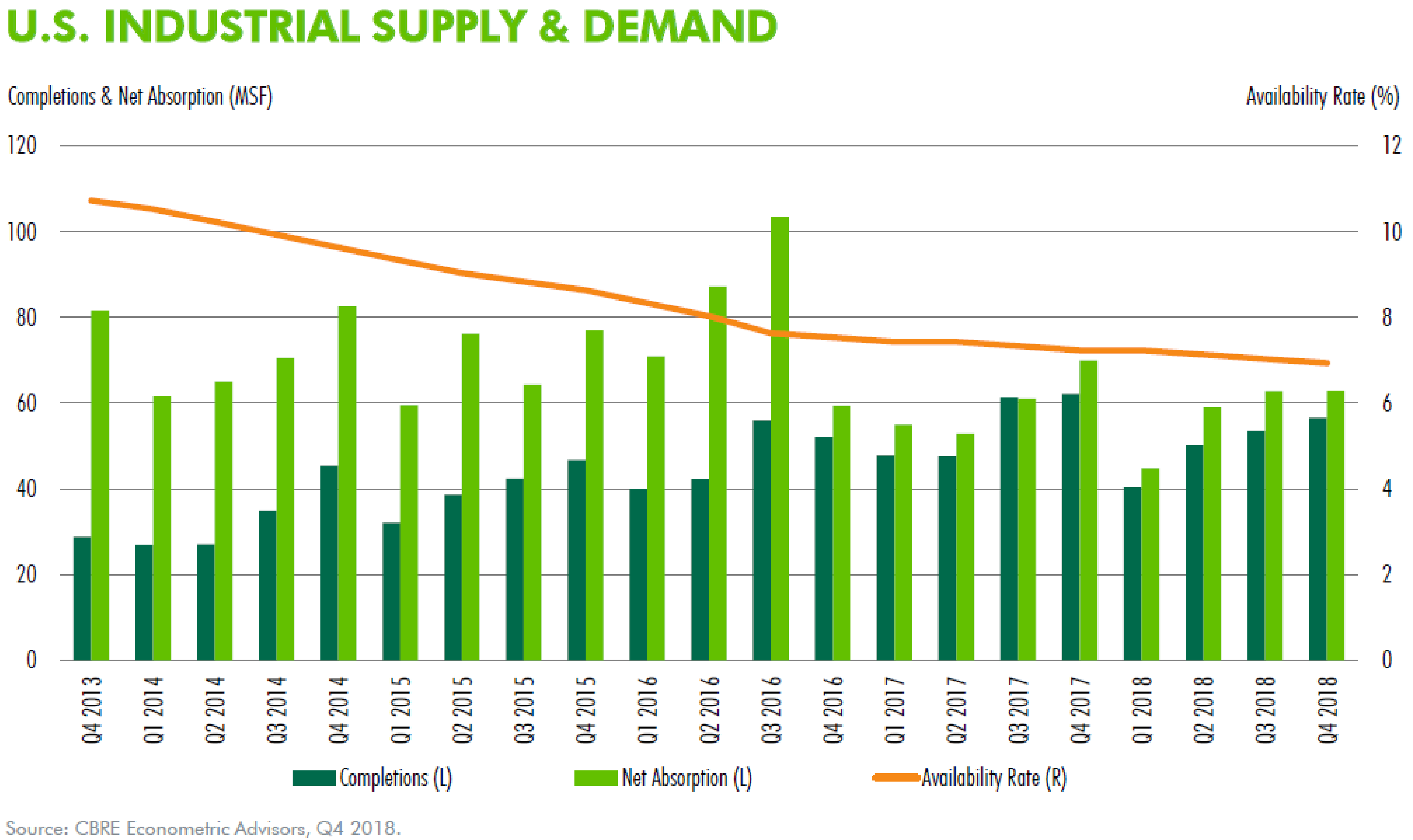
Office sector sees improved absorption



Source: CBRE Econometric Advisors, Q4 2018.

Industrial demand continues to outpace supply



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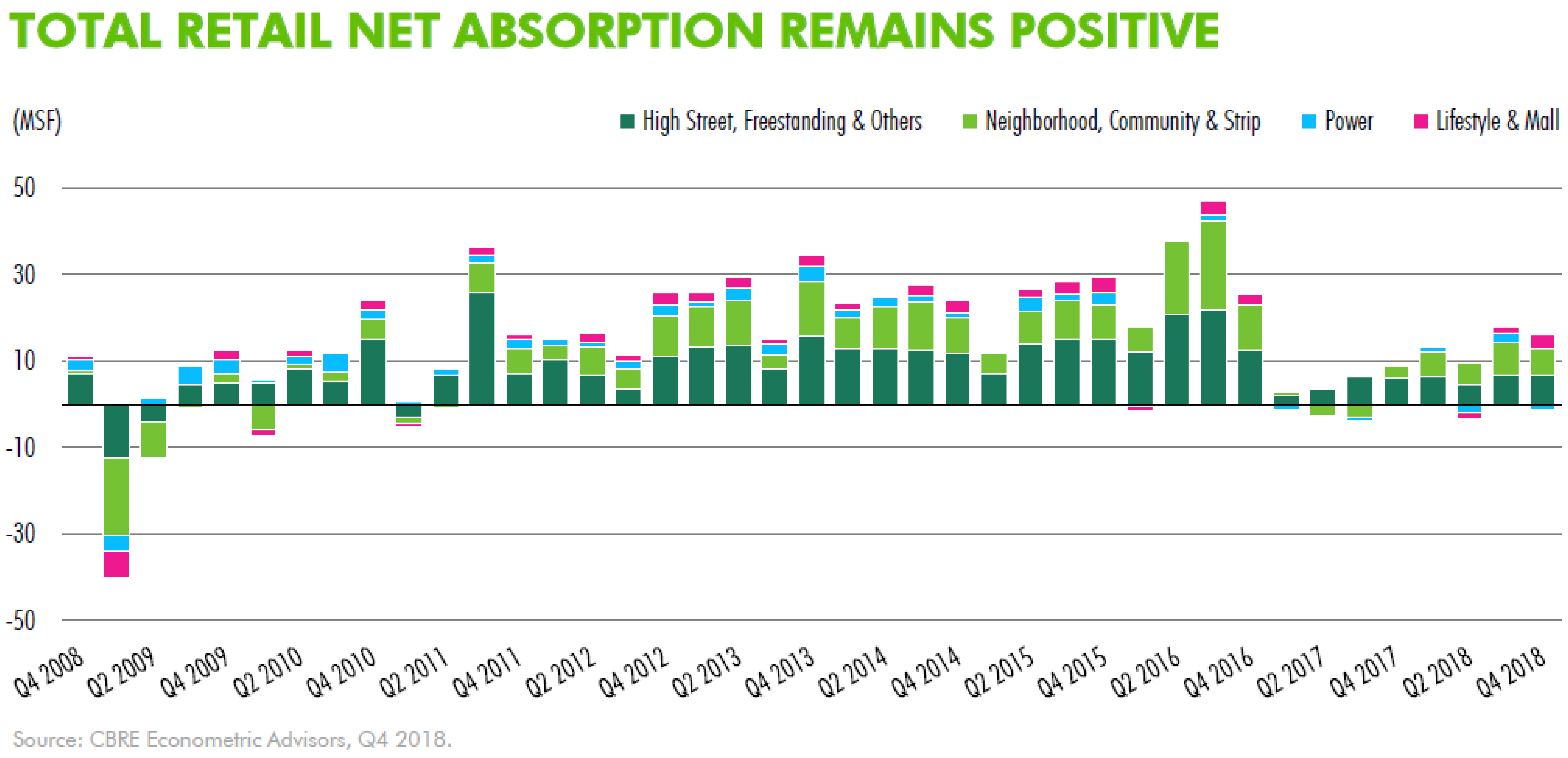
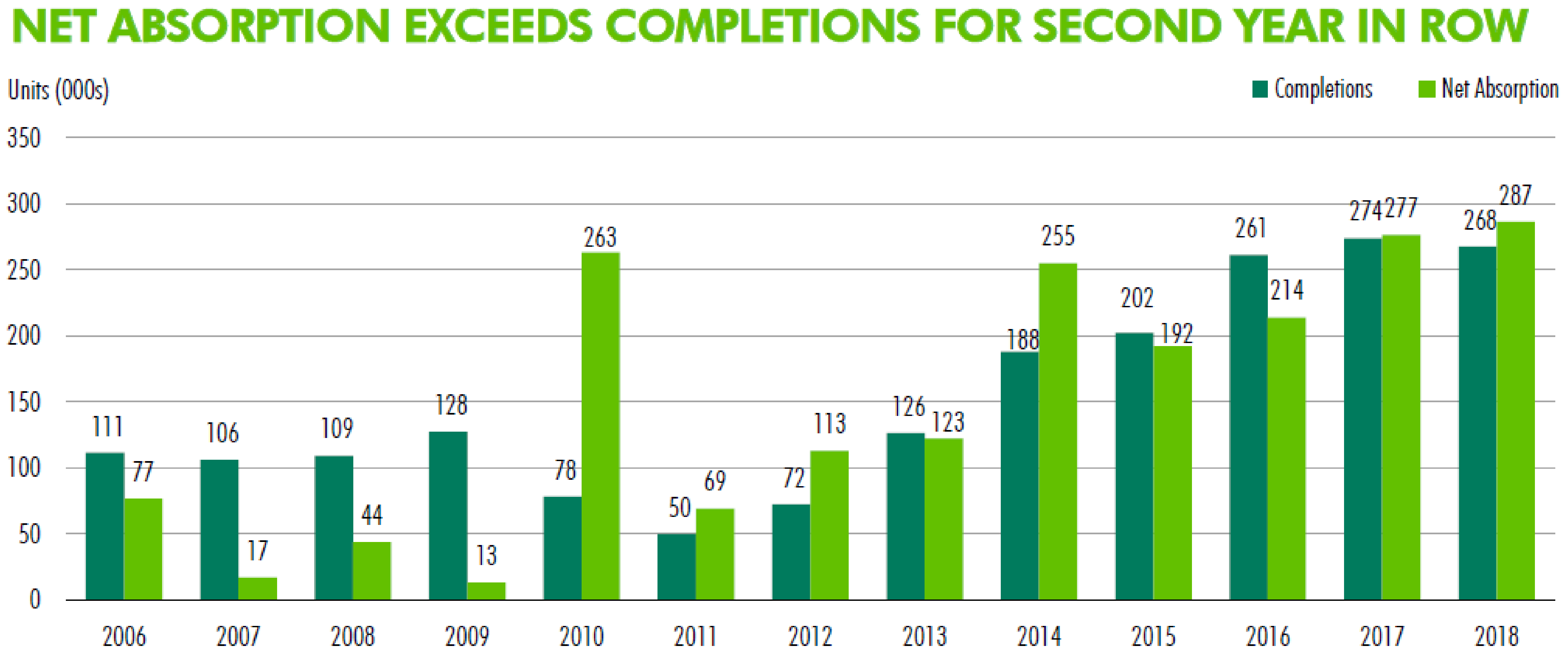
Retail fundamentals recover



Demographics drive multifamily fundamentals



Source: CBRE Econometric Advisors

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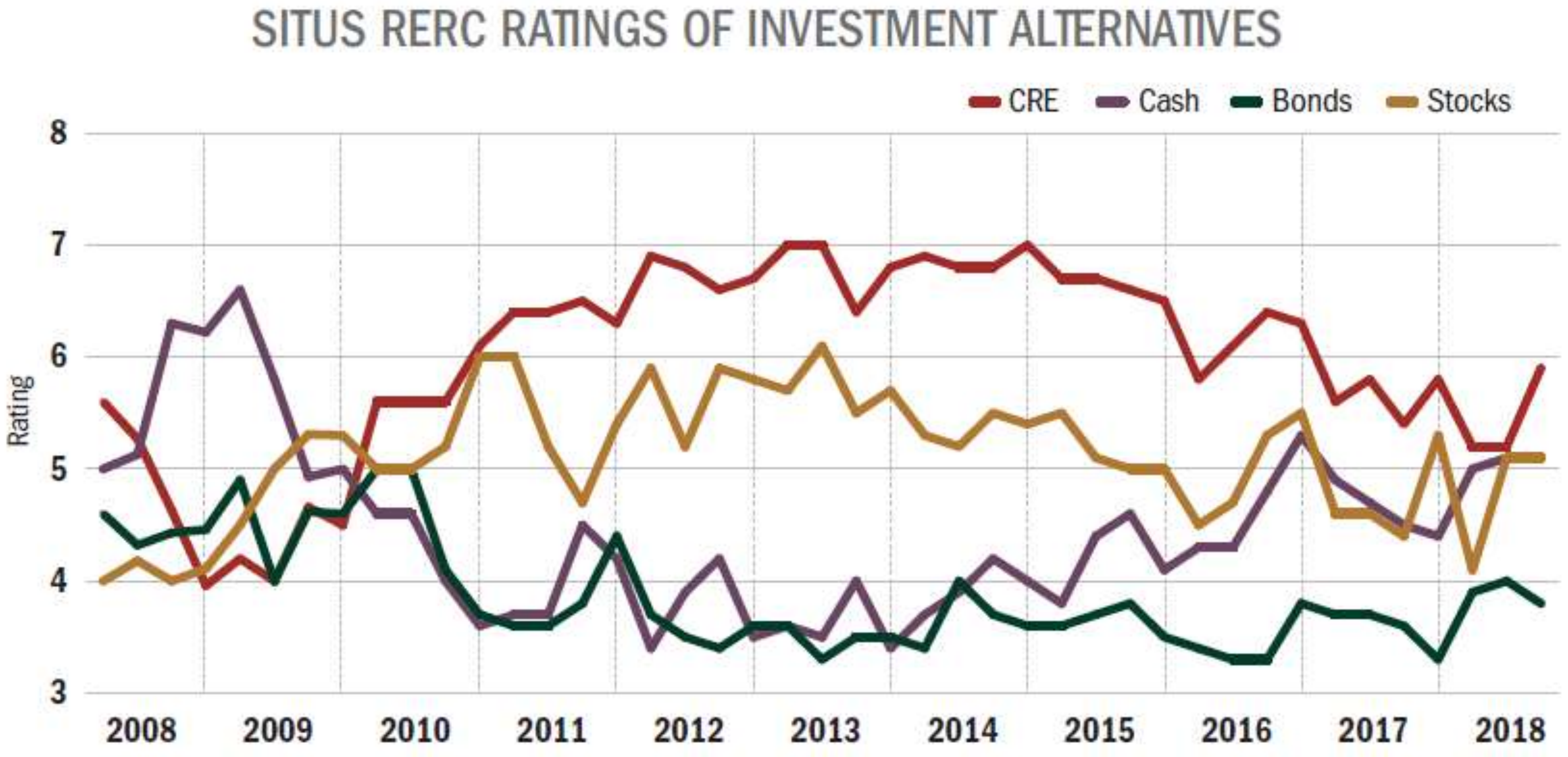
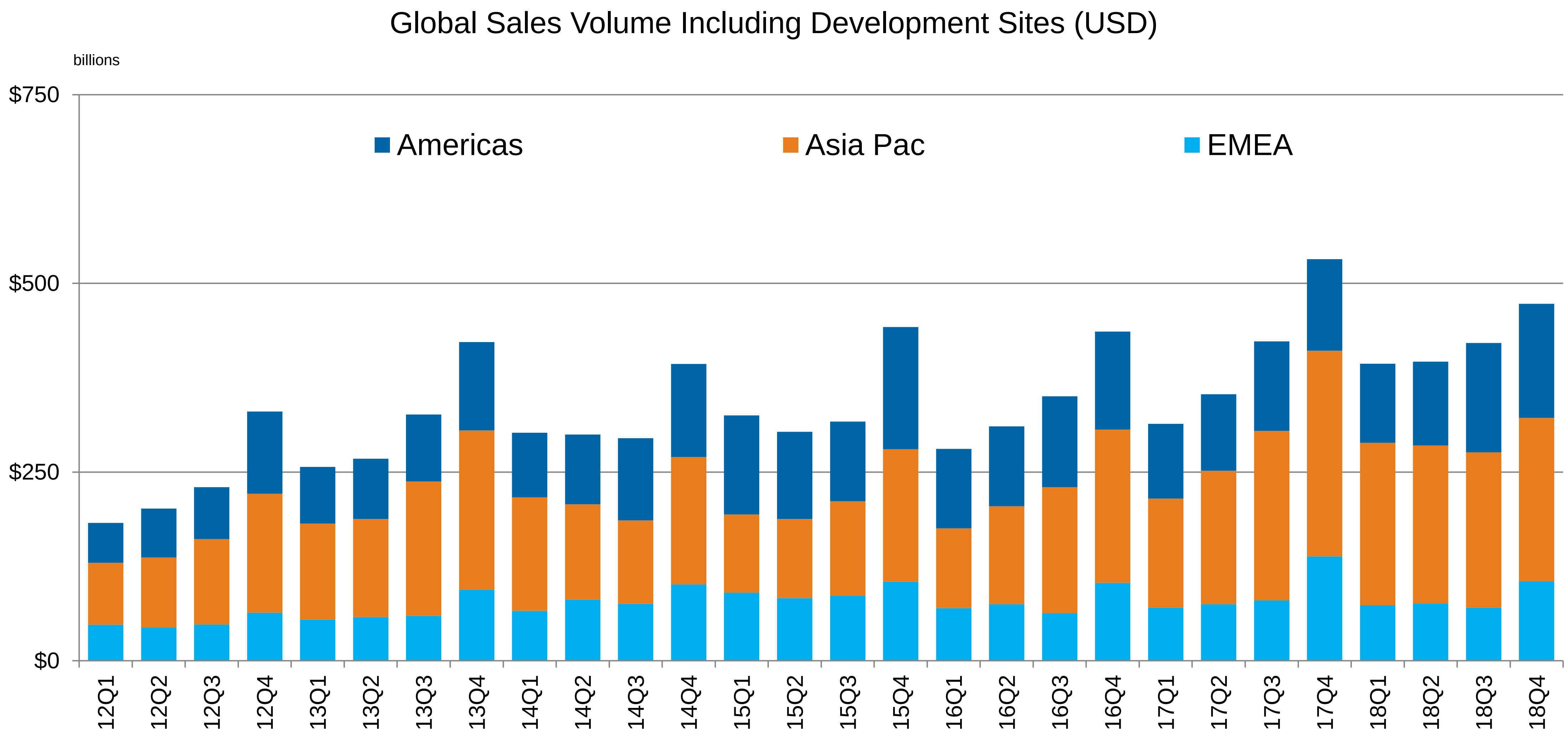
Positive cash flows & yields draw investors into real estate



Source Situs RERC, 3Q 2018.

Global CRE investment volume advances 4% YoY in 2018…



Source: Real Capital Analytics

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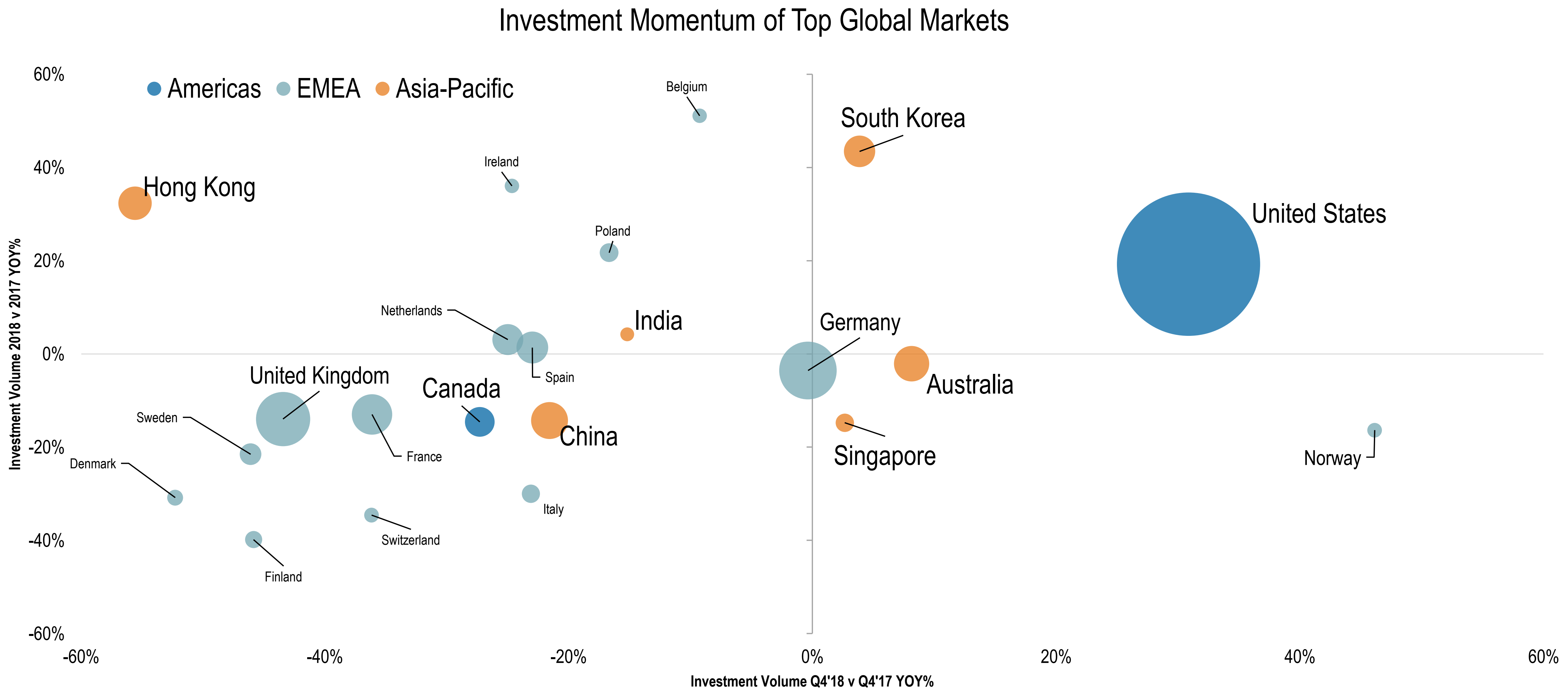
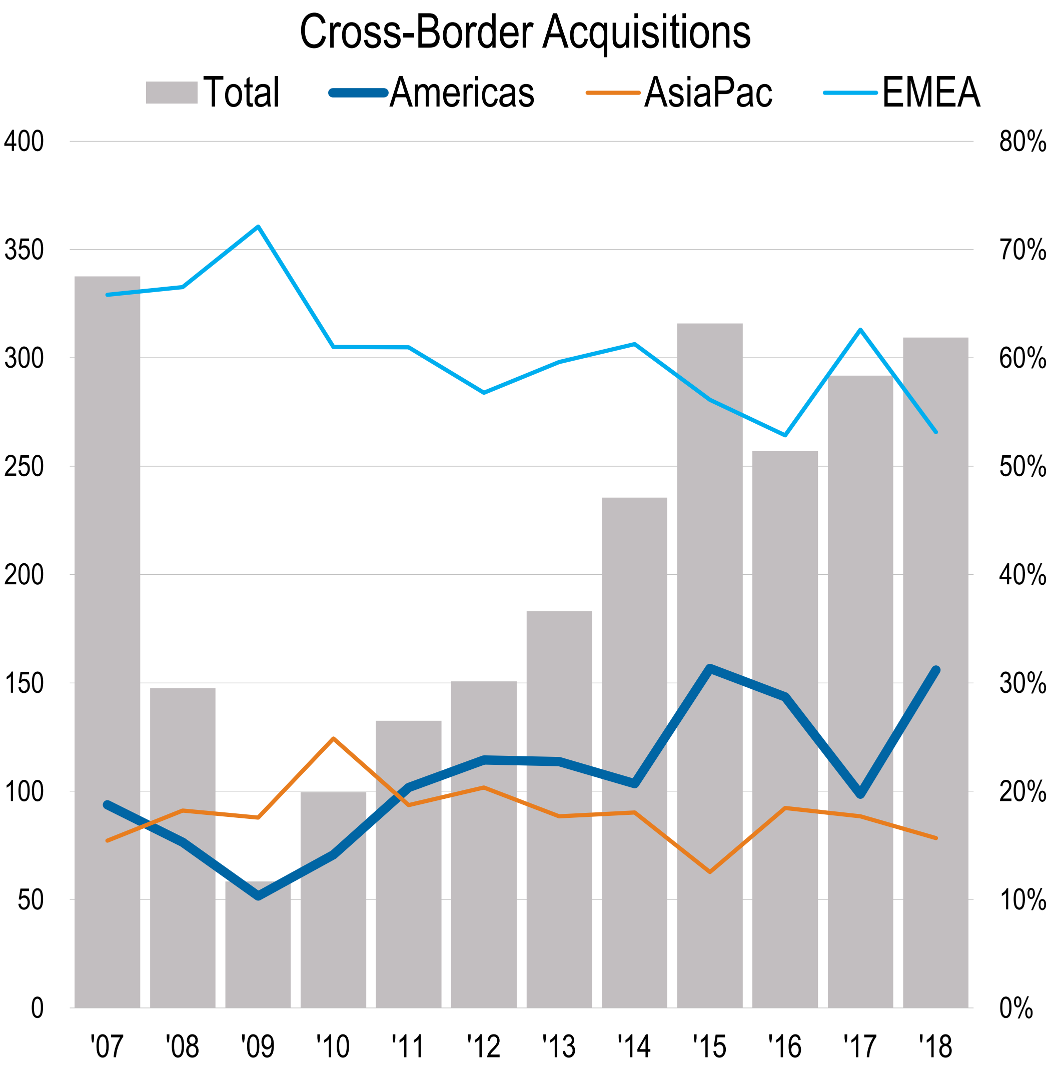
…driving strong cross-border inflows into US markets

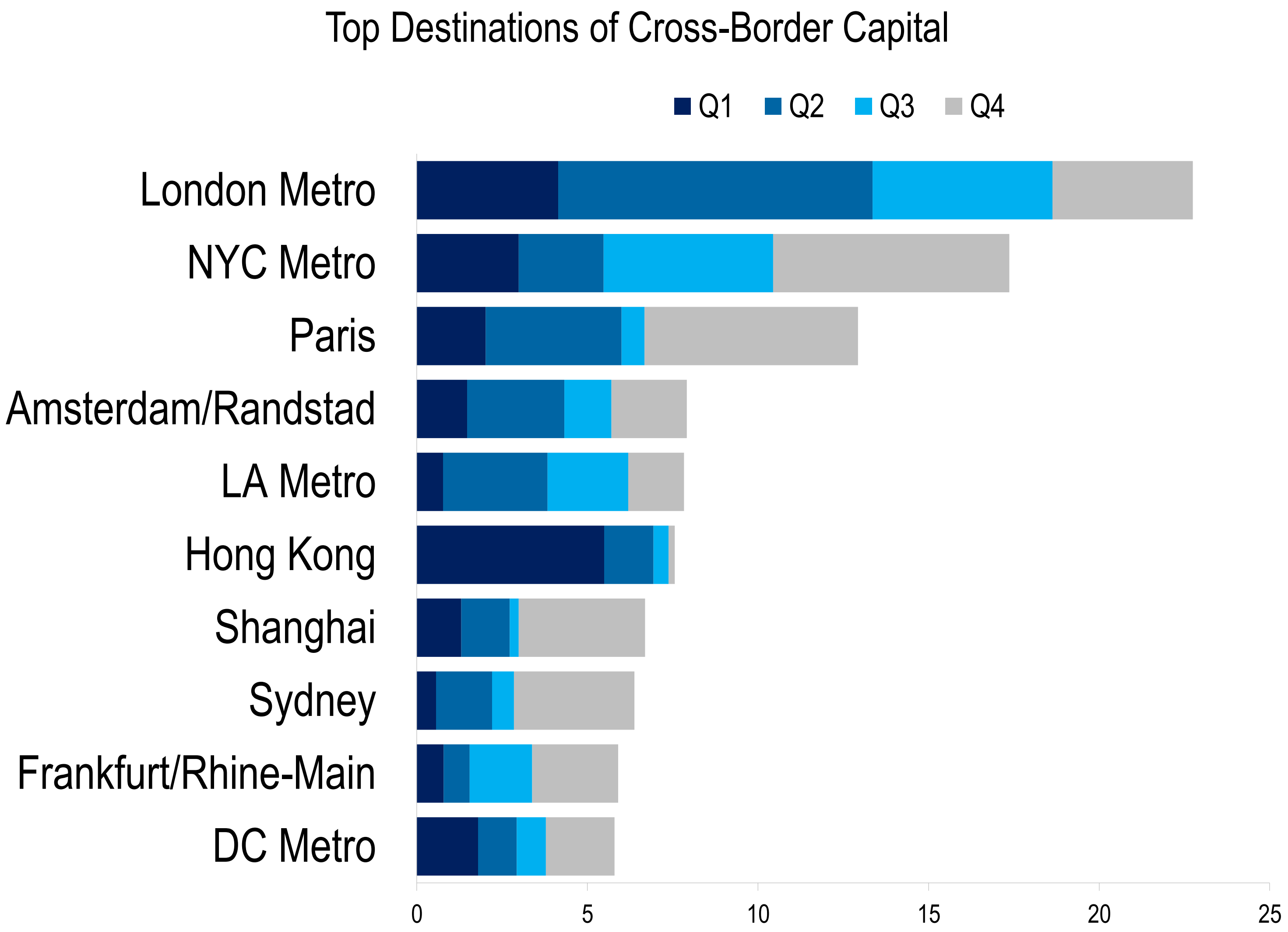


Source: Real Capital Analytics

…and benefiting US markets



Source: Real Capital Analytics



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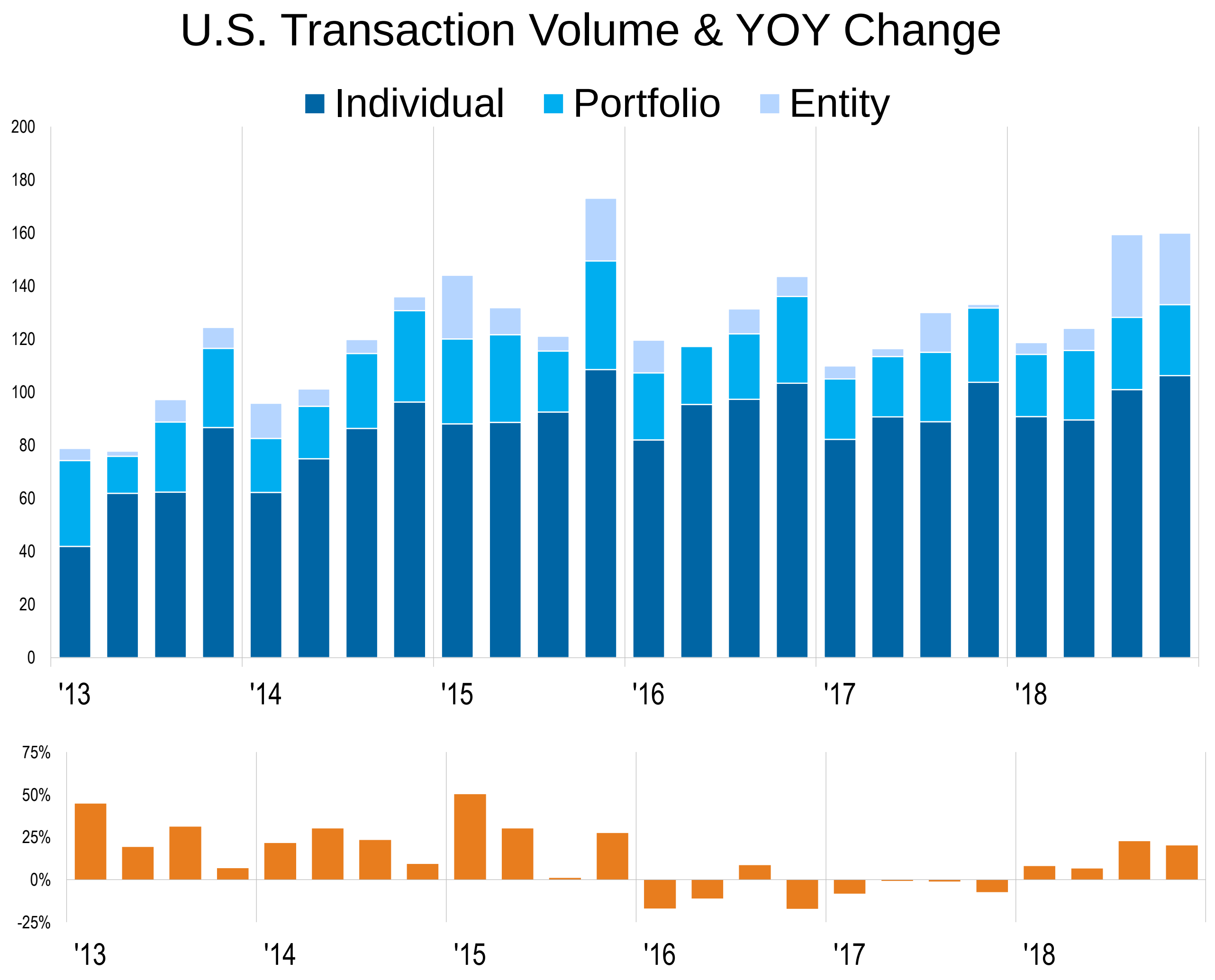
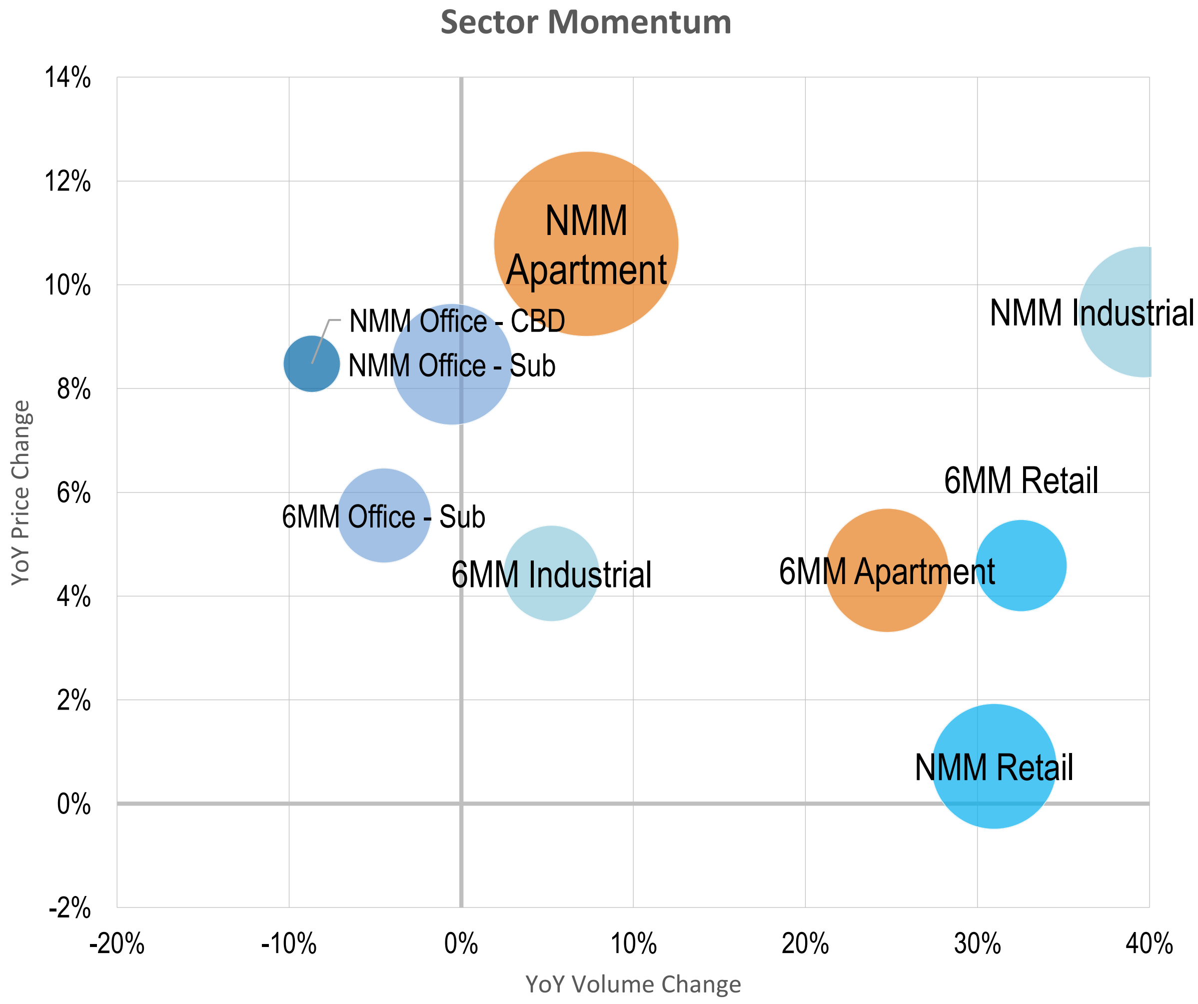
US CRE investments reach $562B, 3rd highest volume…



Source: Real Capital Analytics



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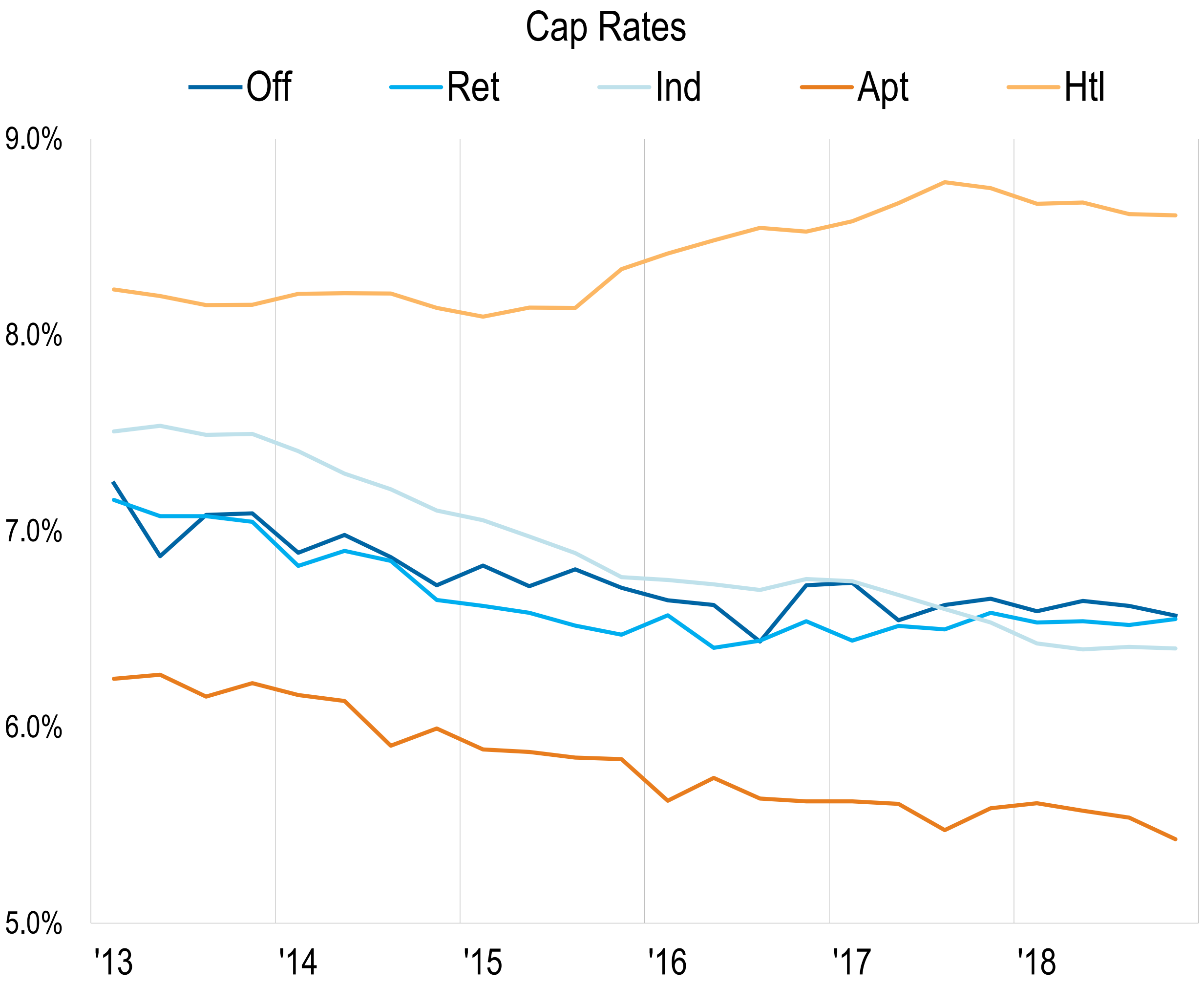
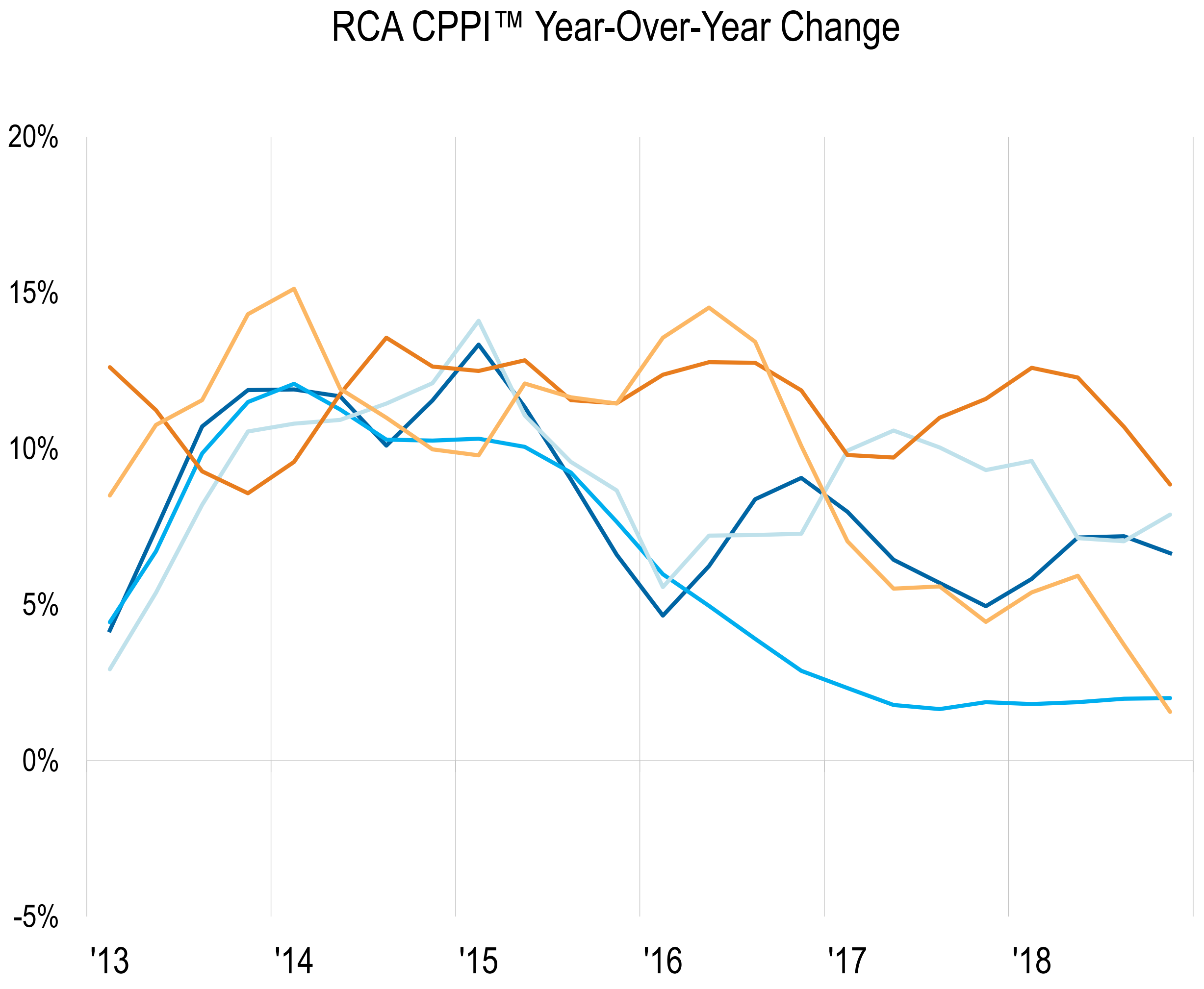
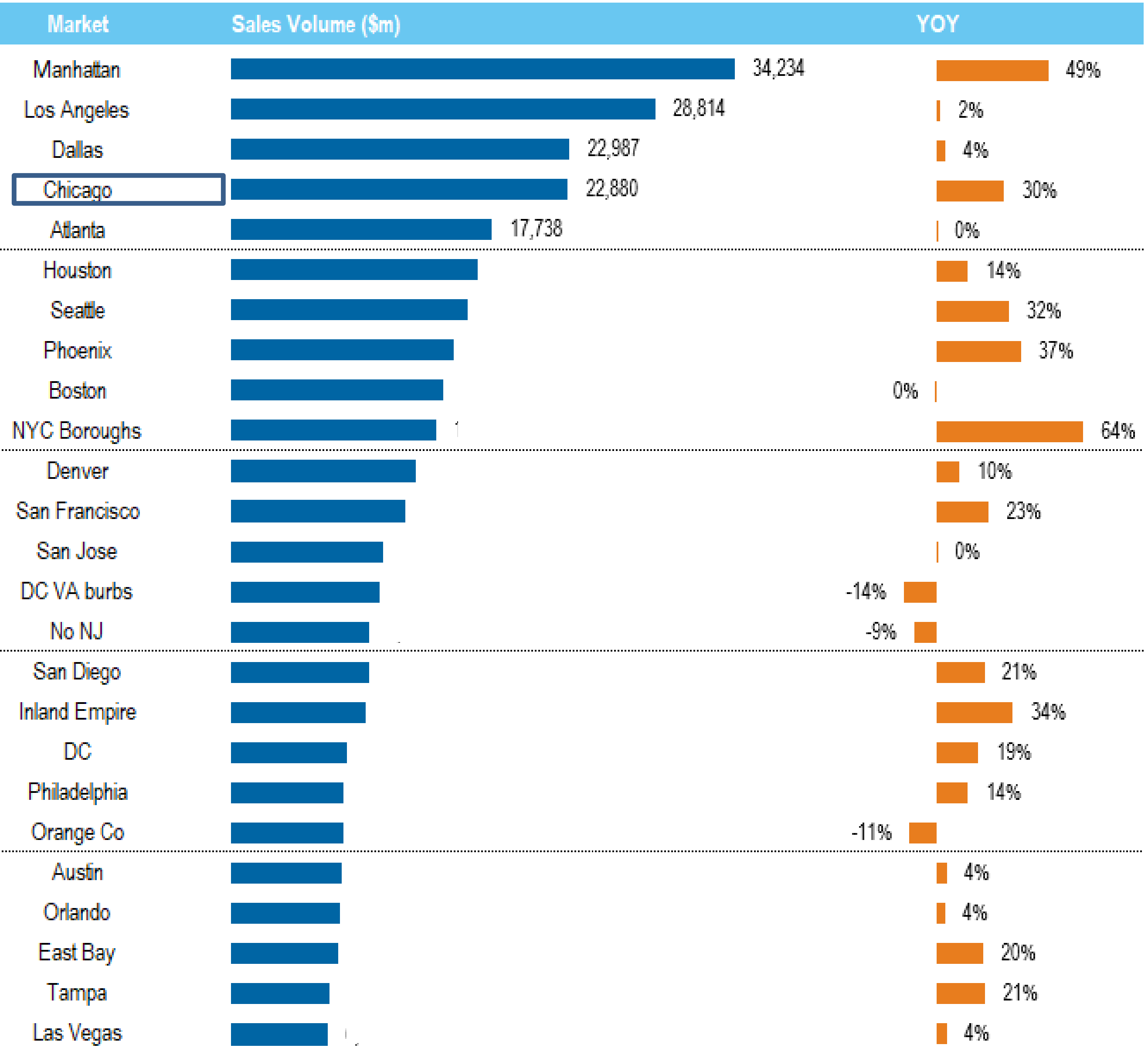
…as pricing moves sideways

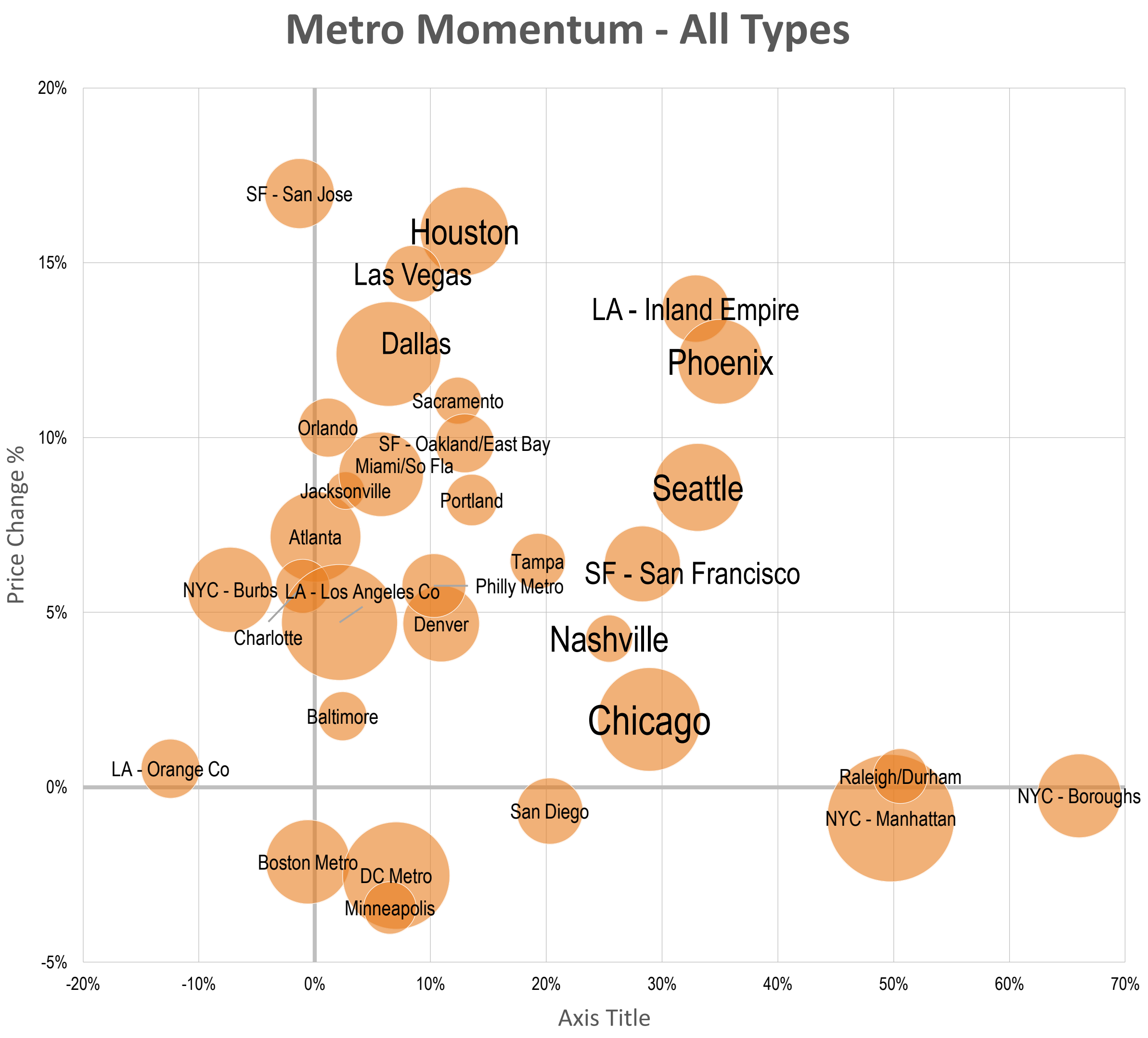




Source: Real Capital Analytics

Chicago CRE investments up 30% YoY in 2018, at $23B





Source: Real Capital Analytics

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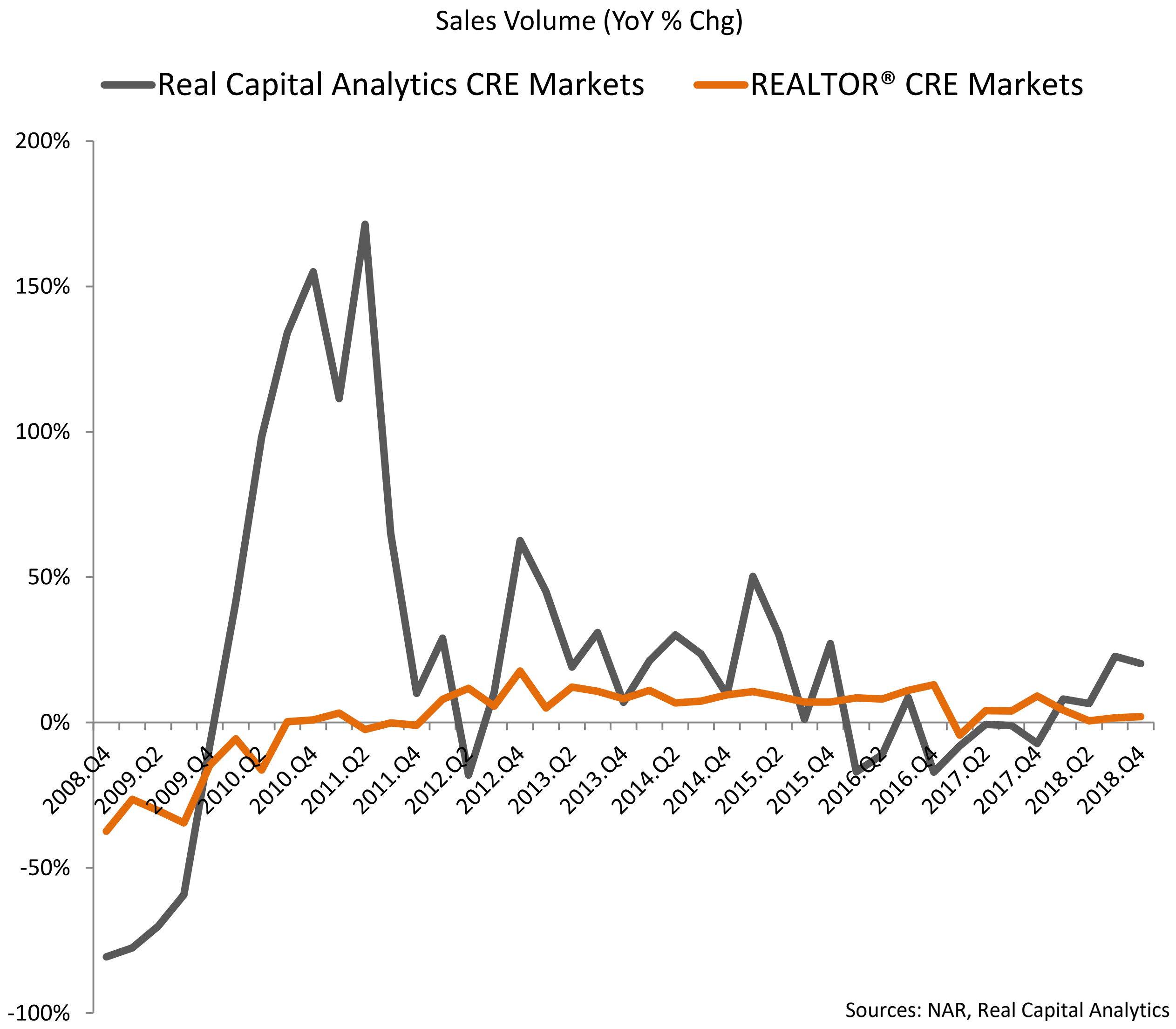
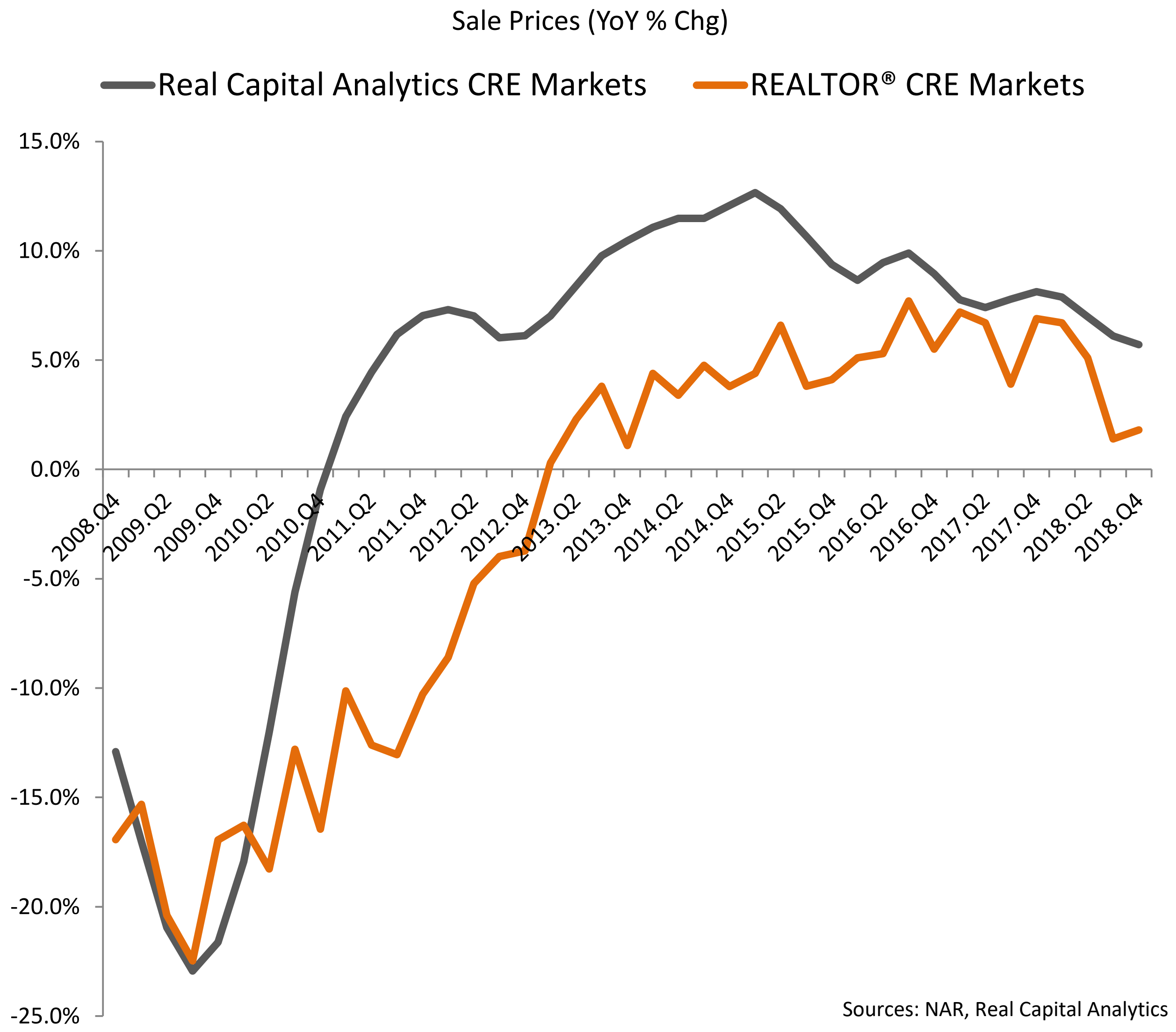
US CRE remains a tale of two markets…





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Inventory shortage impacts REALTORS® CRE markets…

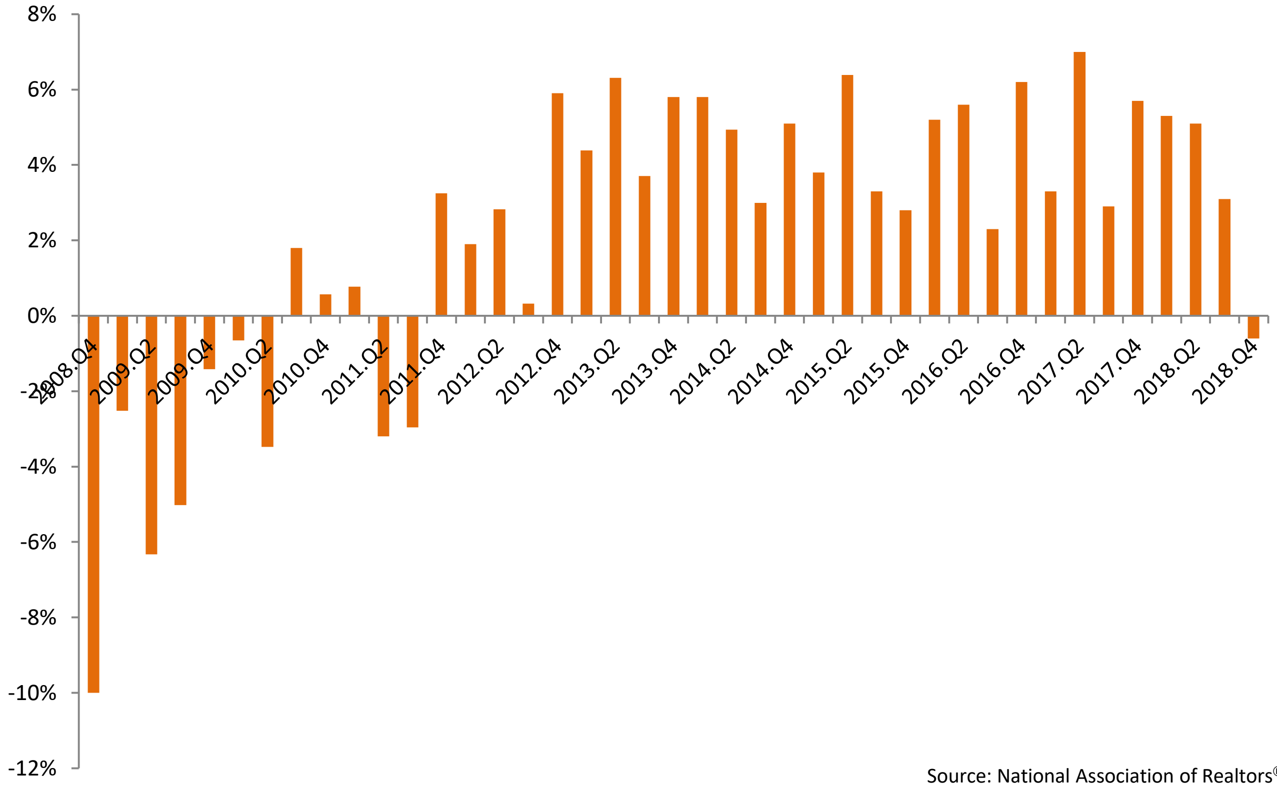
Q4.2018 Investment Volume

+2.3%

Q4.2018 Investment Prices

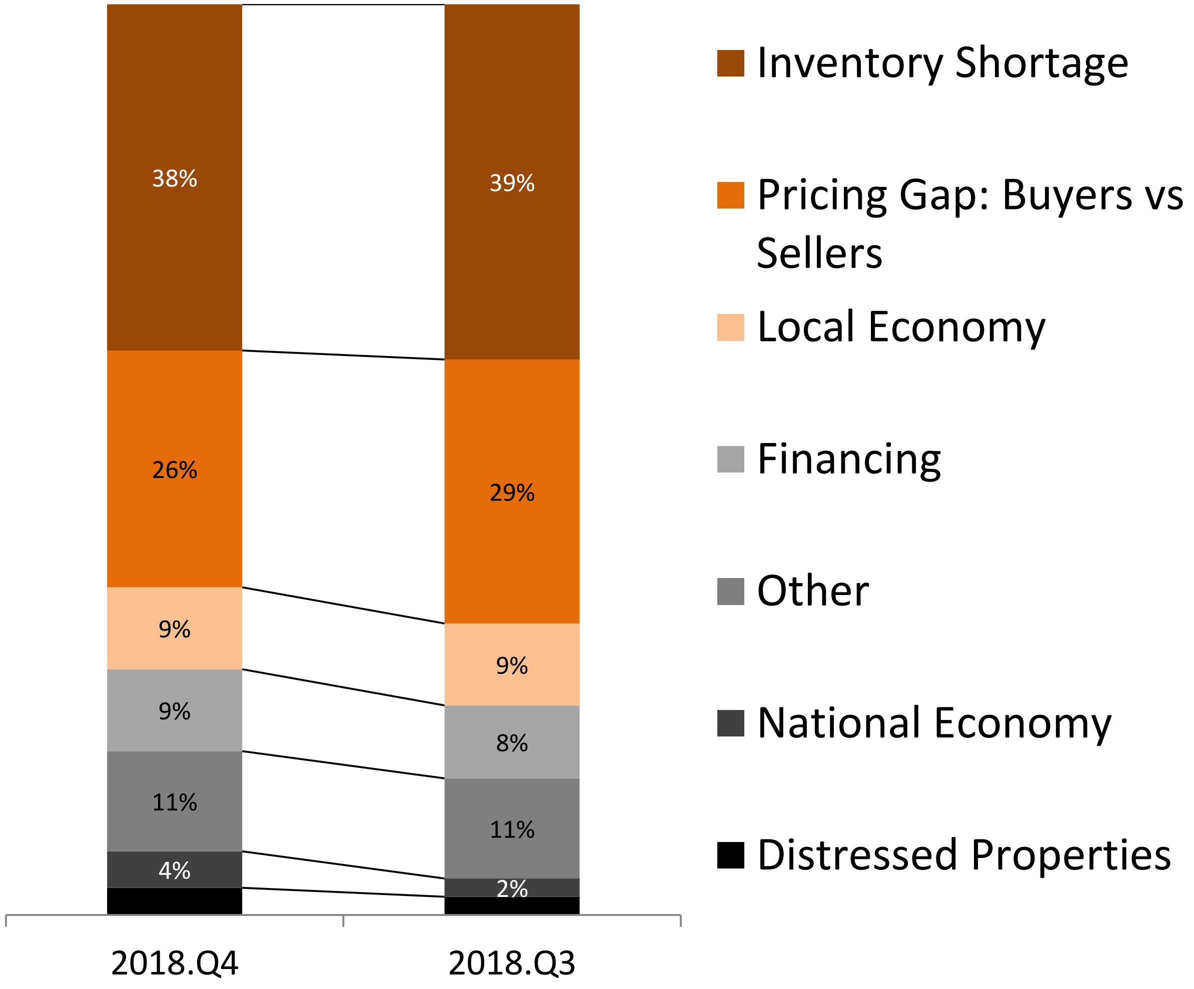
+1.8%

Direction of Business Opportunity (QoQ)



Source: National Association of Realtors®

REALTORS® Most Pressing Challenges



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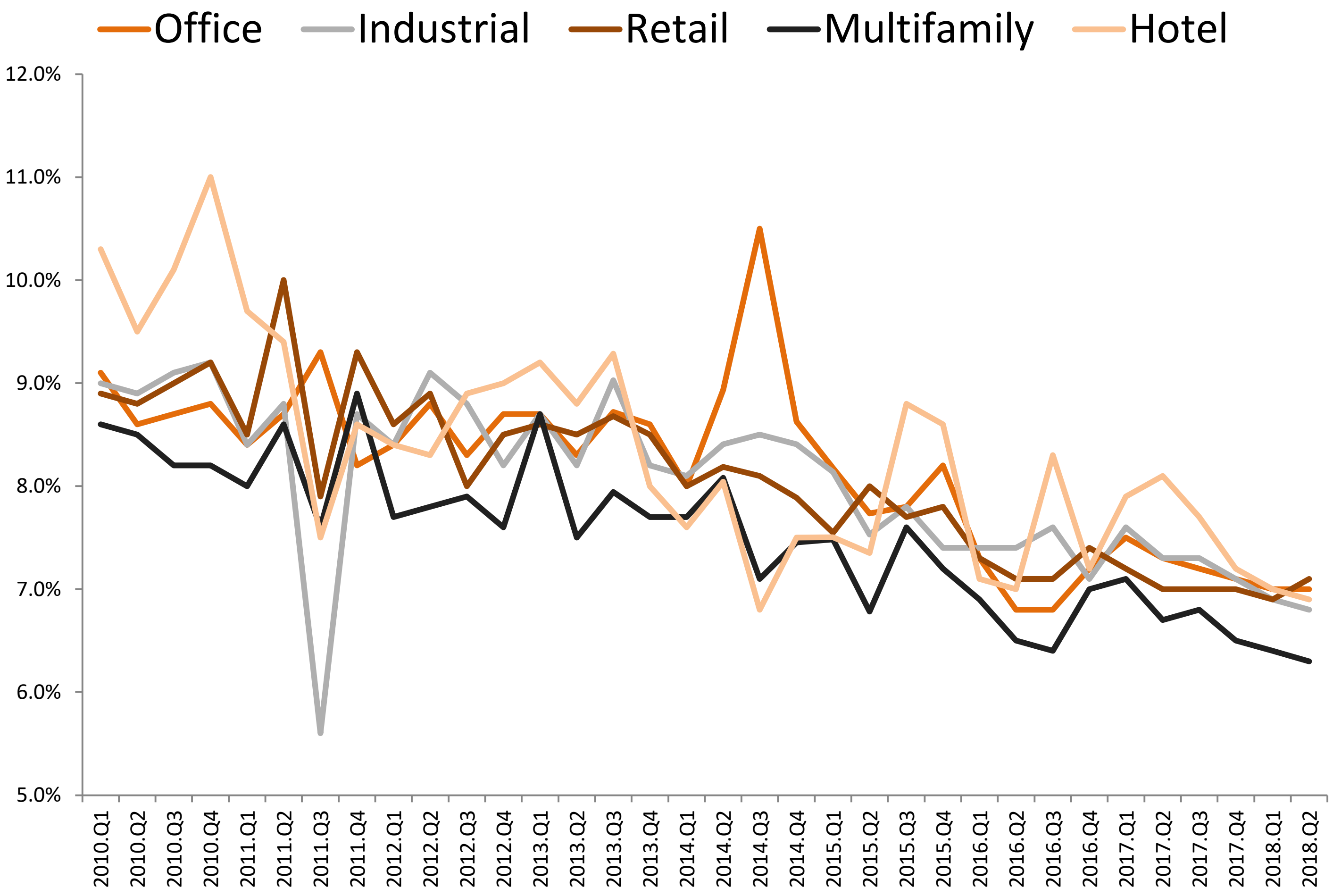
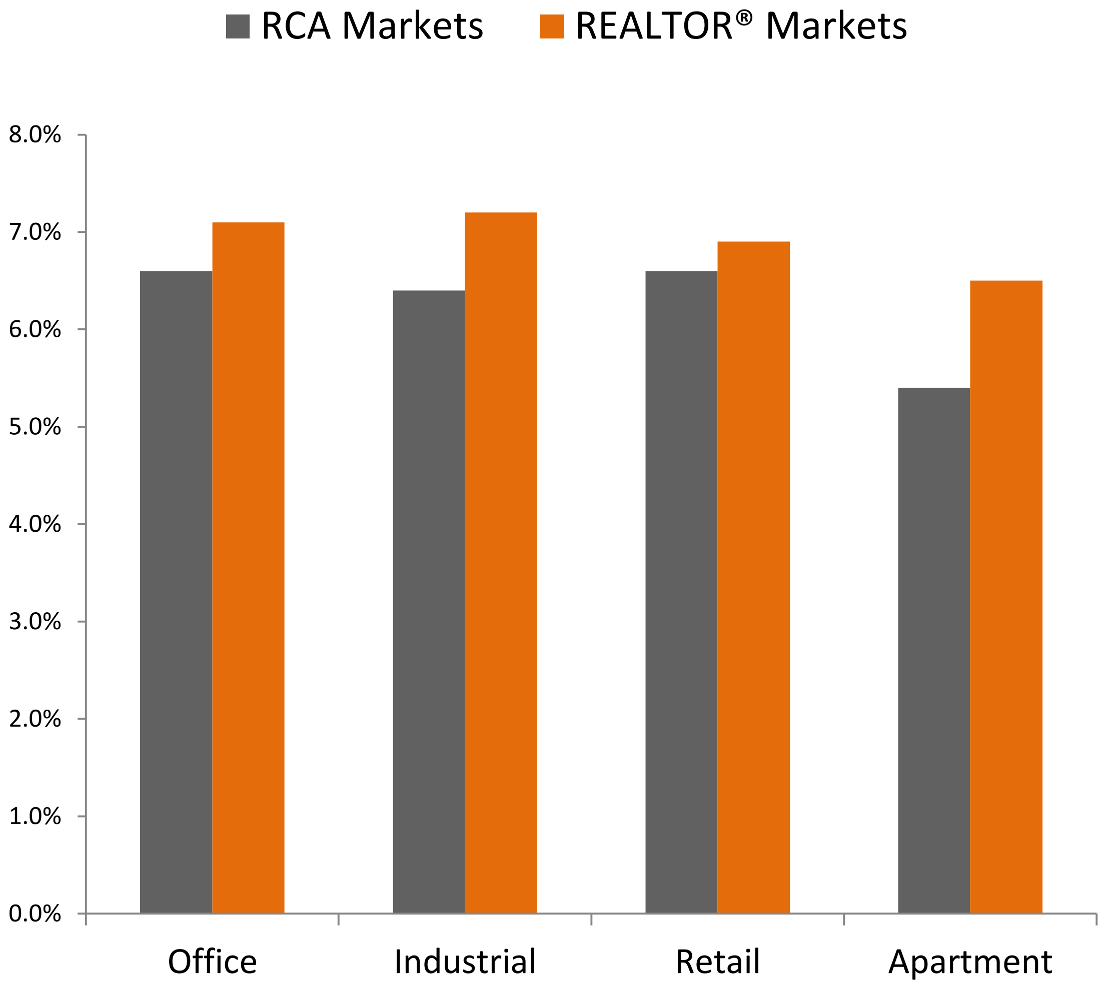
…even as higher yields in small cap markets drive deals

REALTORS® Commercial Capitalization Rates



Source: National Association of Realtors®

Cap Rates - 2018.Q4



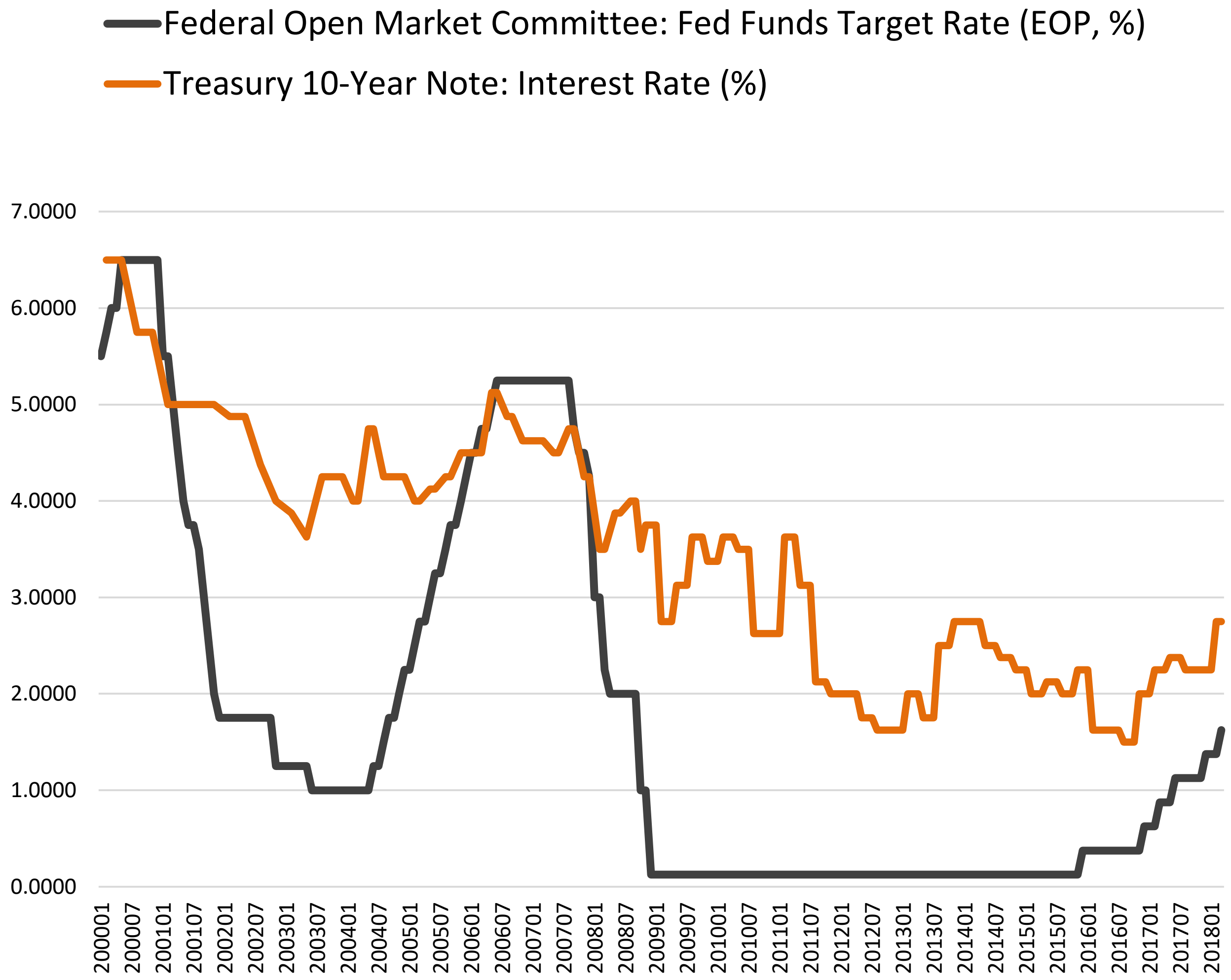
Sources: NAR, Real Capital Analytics

Economic outlook remains moderately optimistic…

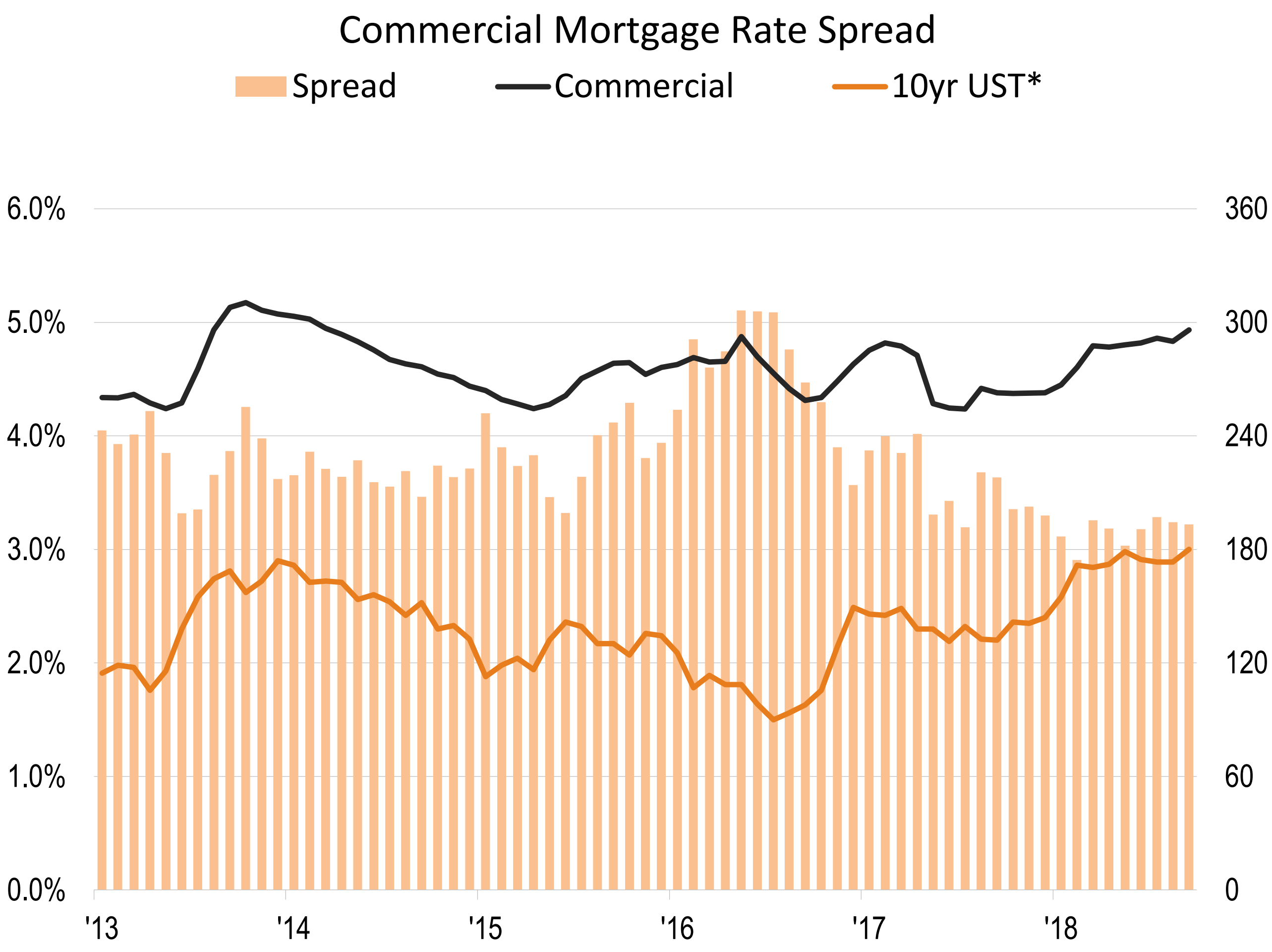
Exhibit 4.1: U.S. ECONOMIC OUTLOOK — March 2019					
	2016	2017	2018	2019	2020
Annual Growth Rate, %					
Real GDP	0.0	0.0	3.1	1.8	1.6
Nonfarm Payroll Employment	1.8	1.6	1.7	1.3	1.1
Consumer Prices	1.3	2.1	2.3	1.3	1.6
Level					
Consumer Confidence	100	121	127	130	122
Percent					
Unemployment	4.9	4.4	3.9	4.0	4.3
Fed Funds Rate	0.4	1.0	1.8	2.4	2.4
3-Month T-bill Rate	0.3	1.0	2.0	2.5	2.6
Prime Rate	3.5	4.1	4.9	5.4	5.4
10-Year Gov't Bond	1.8	2.3	2.9	2.8	2.9
30-Year Gov't Bond	2.6	2.9	3.1	3.1	3.3

Source: National Association of REALTORS®

…while rising interest rates expected to impact CRE spreads



Sources: Federal Reserve Board, Bureau of Public Debt



Source: Real Capital Analytics

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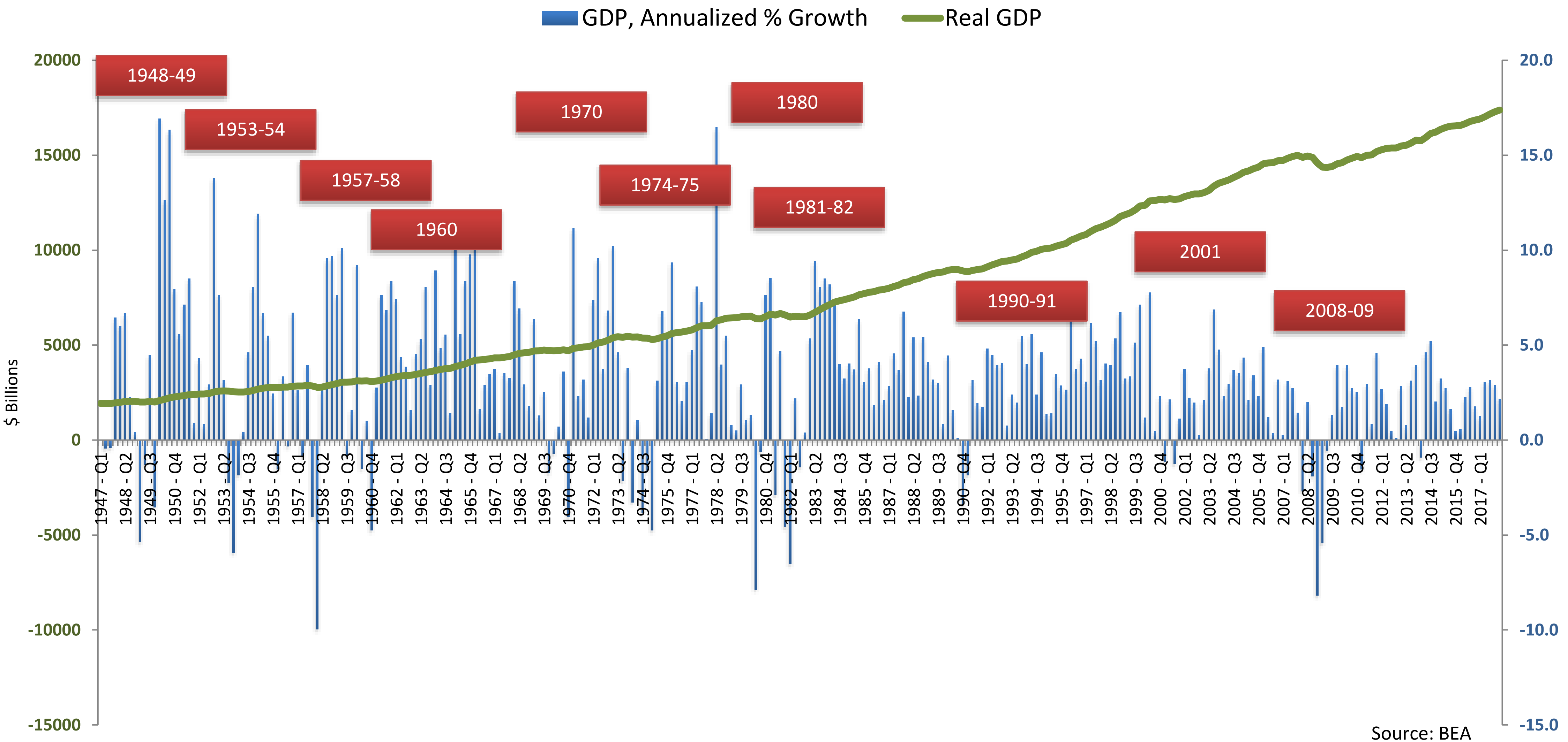
"About every ten years, we have the biggest crisis in 50 years."

- Paul Volcker (Chairman of the Federal Reserve: Aug. 1979 to Aug. 1987)



Source: BEA

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Longer term outlook…

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www.NAR.REALTOR/research-and-statistics

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