

Commercial Real Estate Outlook

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Annual Conference of National Association of REALTORS®
Chicago, IL

November 3, 2017

Tax Reform

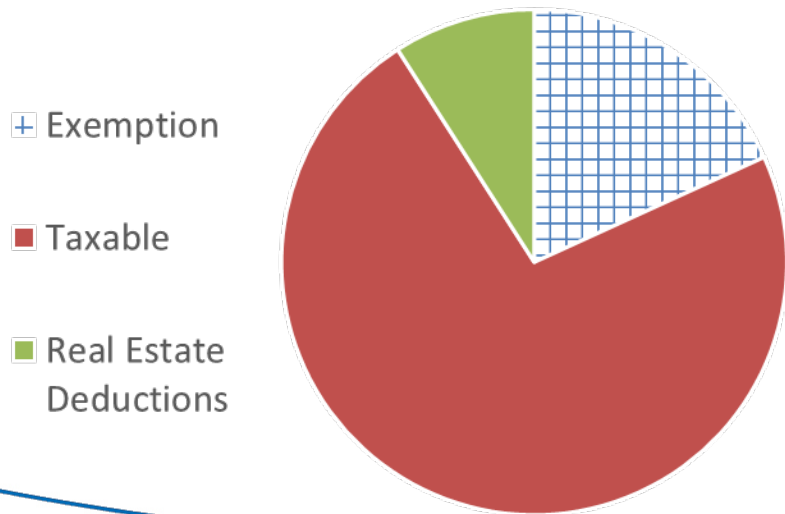
- Mortgage interest deduction?
- Property tax deduction?
- Personal Exemption?
- 1031 Exchange?

- Not the Same as 1986 Reform ... removed “passive losses” for non real estate professional

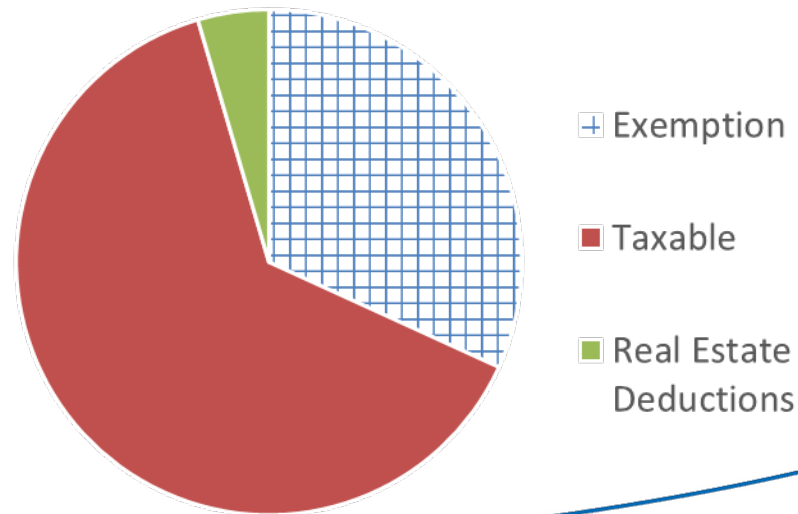
Taxable Income after Deductions

(Figures are for illustrative purpose only)

Taxable Income with
Same Standard Deduction

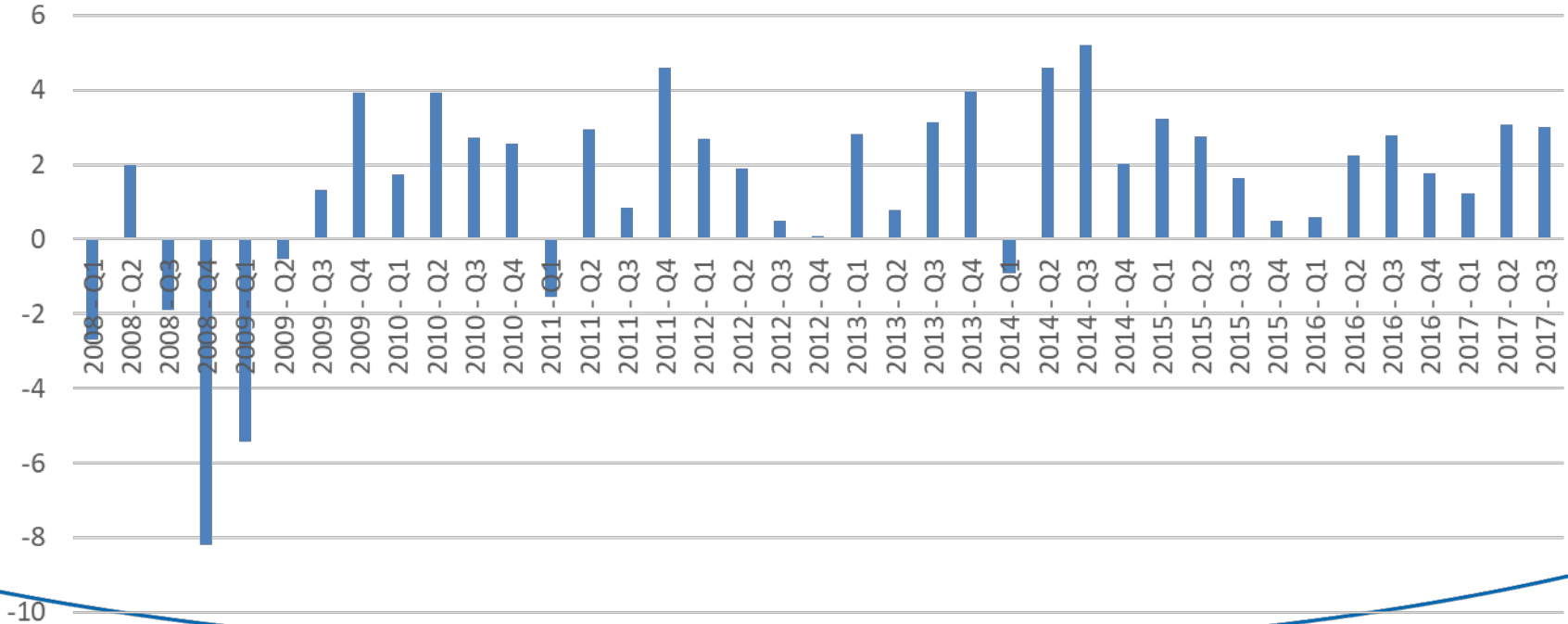


Taxable Income with
Higher Standard Deduction

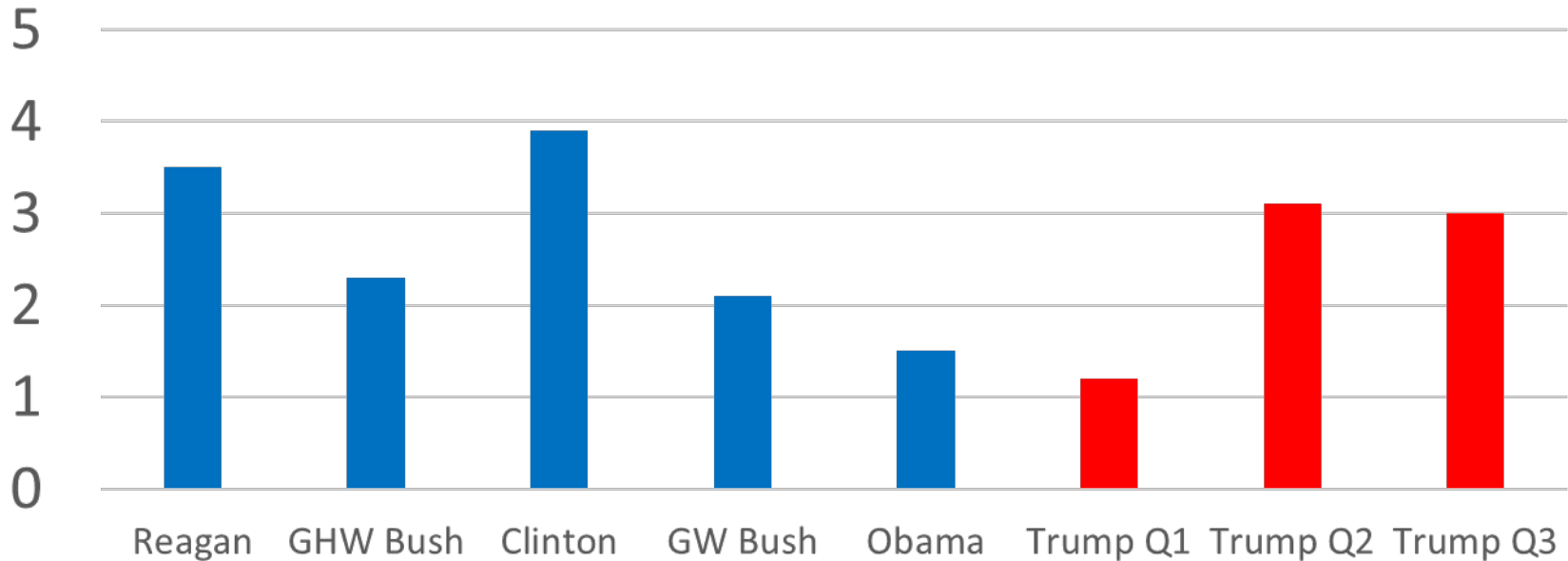


GDP Growth Rate

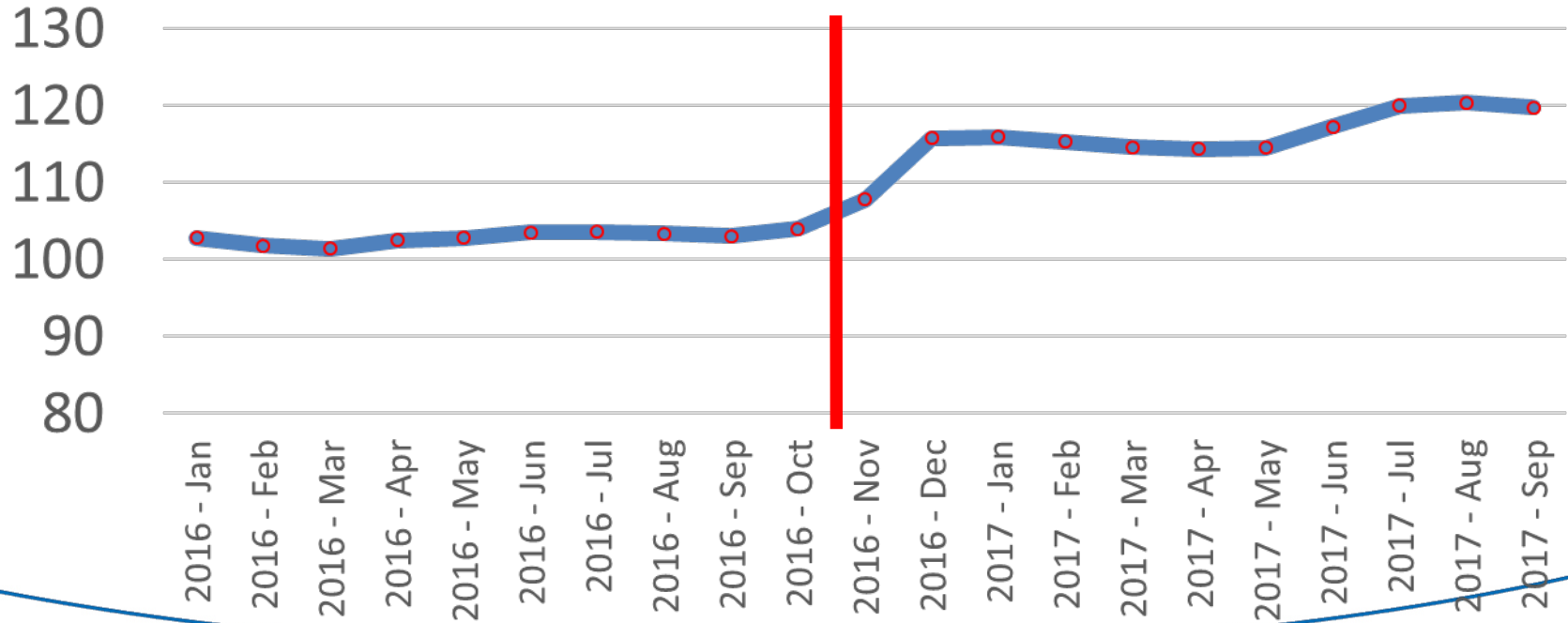
3% in Q2 and Q3



Presidential GDP Growth Rates

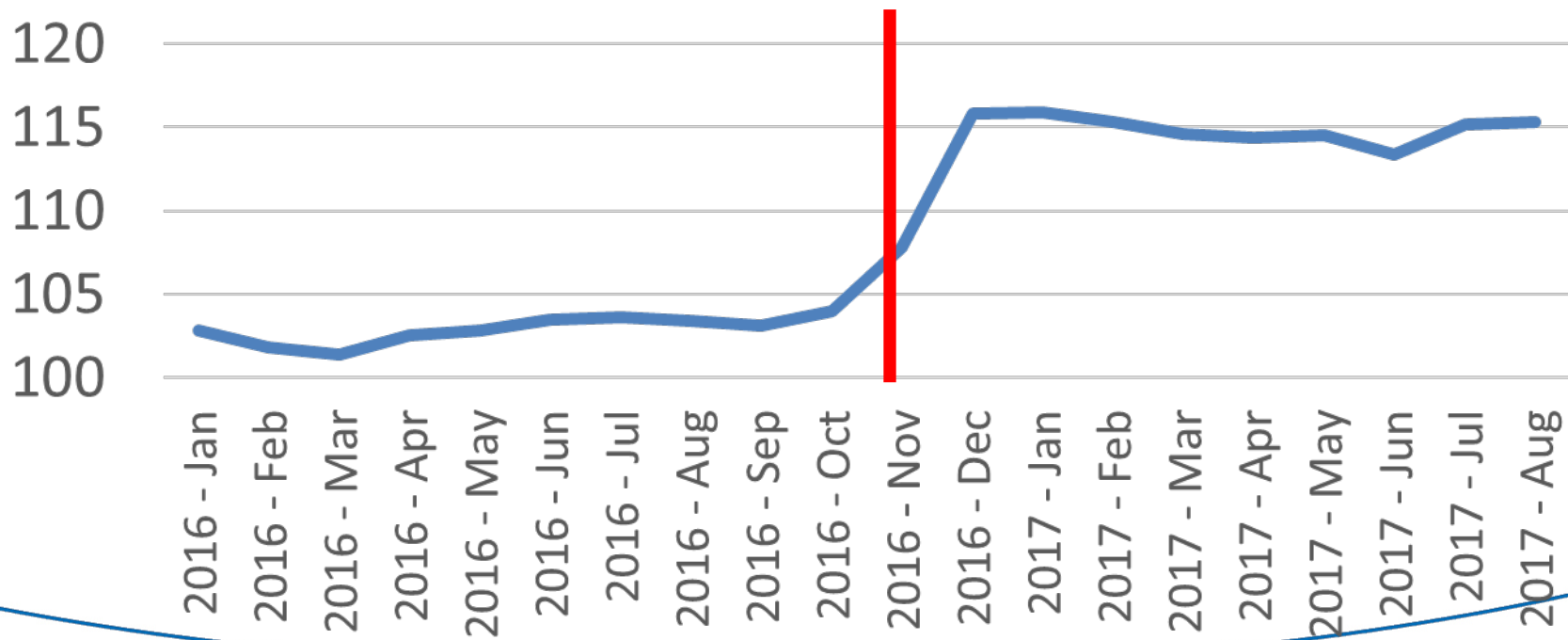


Animal Spirit Revival of Consumers? Consumer Confidence Index

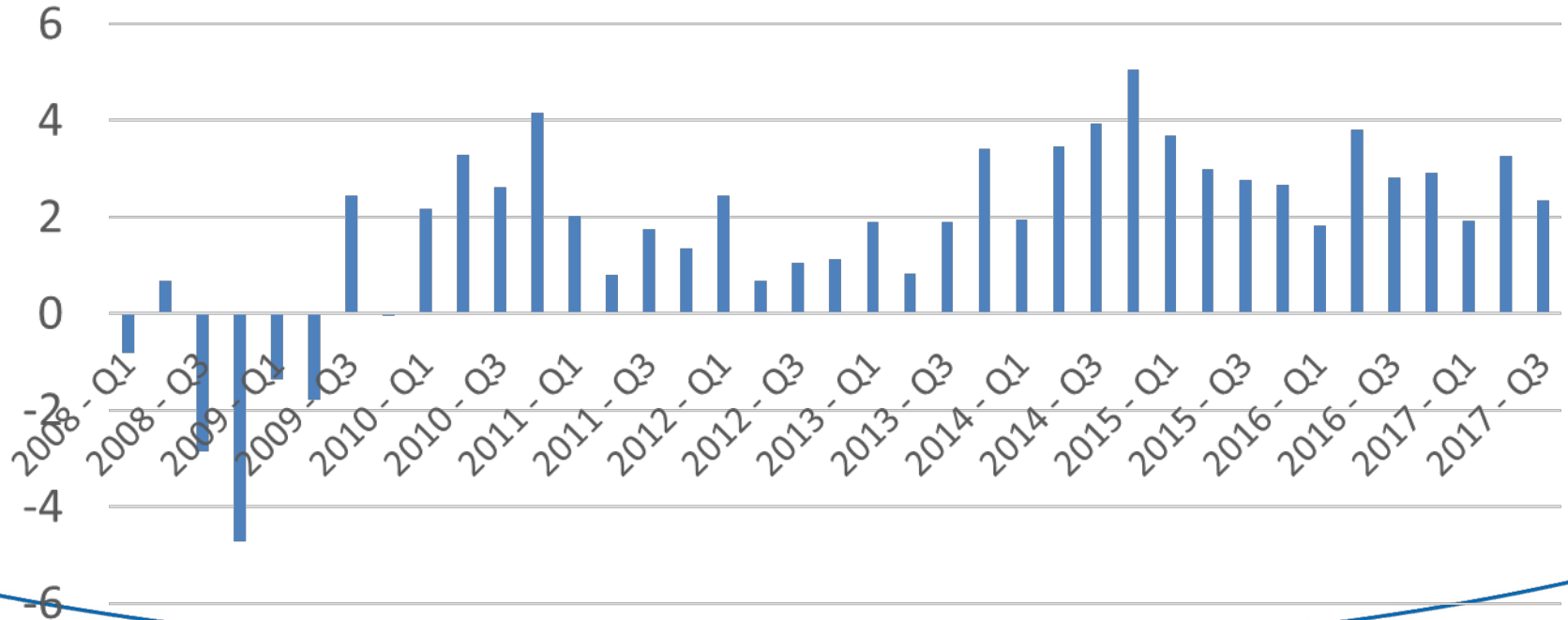


Animal Spirit Revival of Businesses?

Small Business Optimism Index

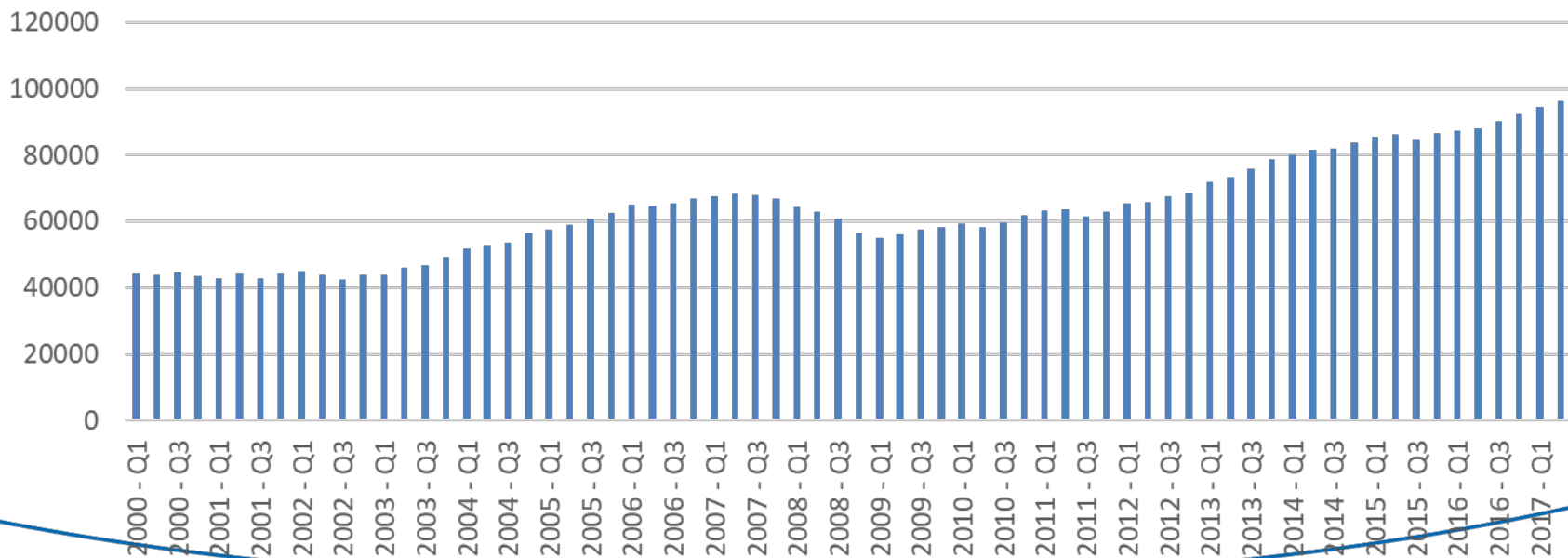


Personal Consumption Growth Rate

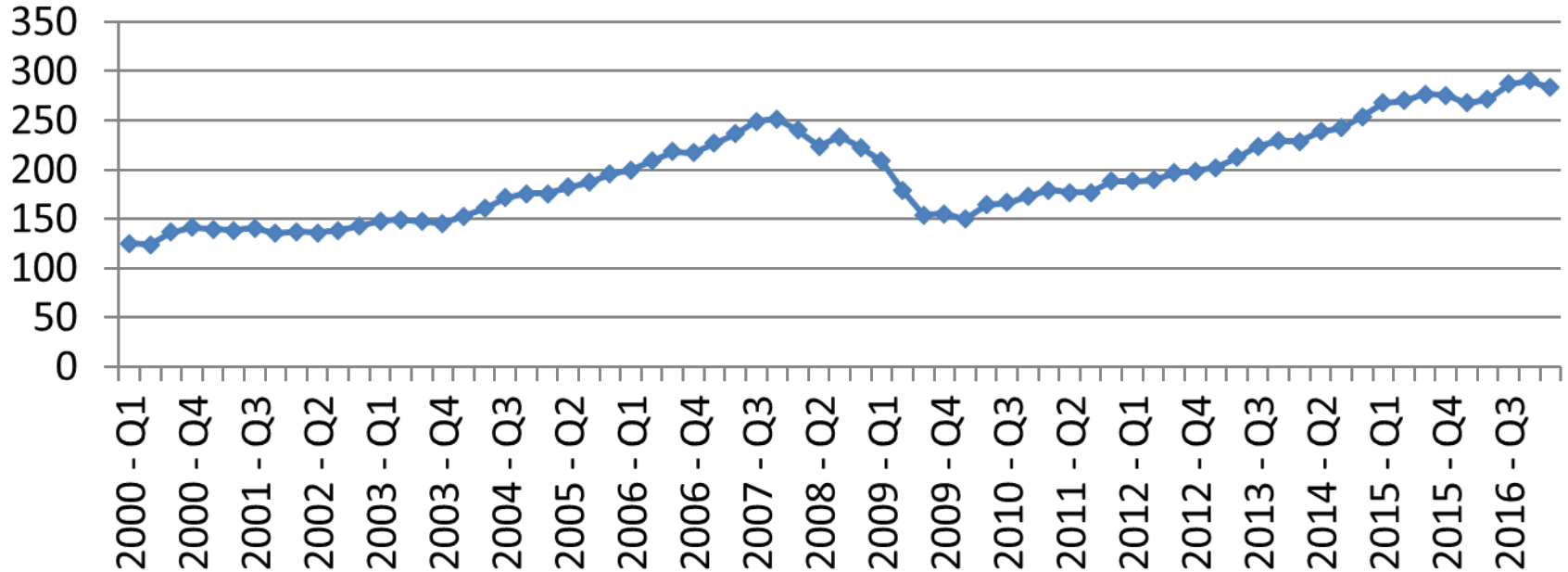


Total Net Worth in the Country: Nearly Doubled in 7 years

\$ million

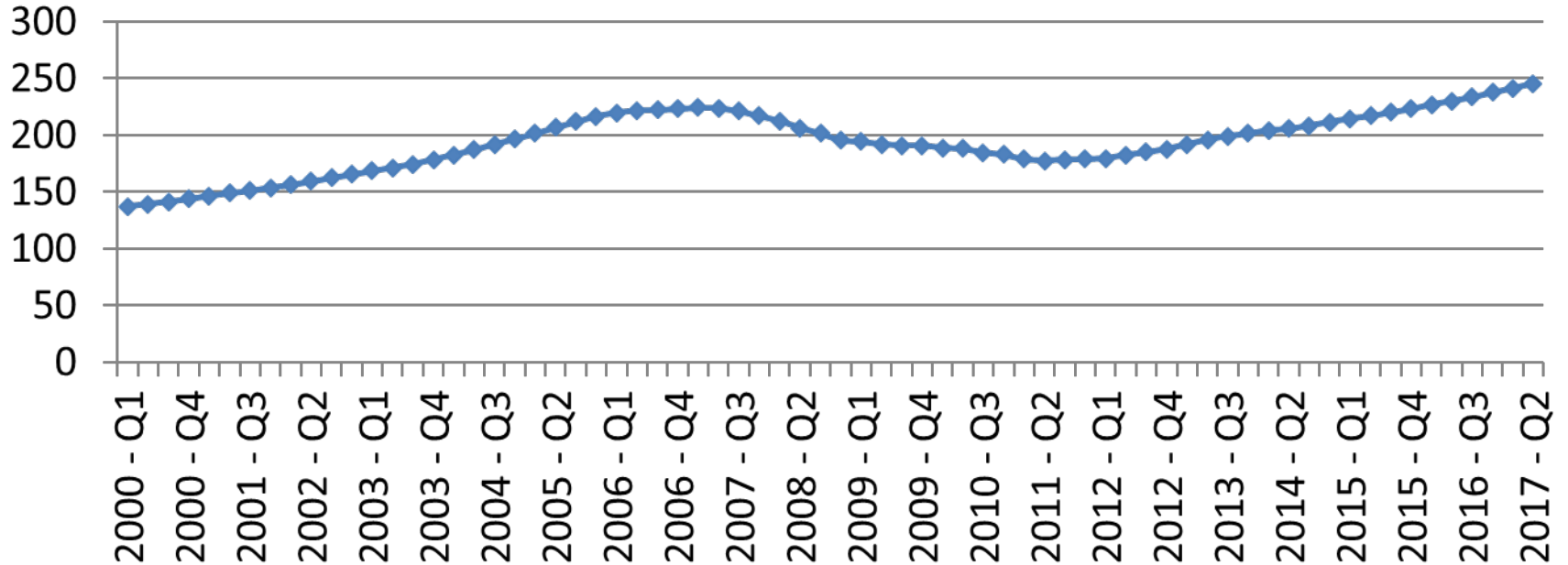


Commercial Property Price (90% gain in 7 years)



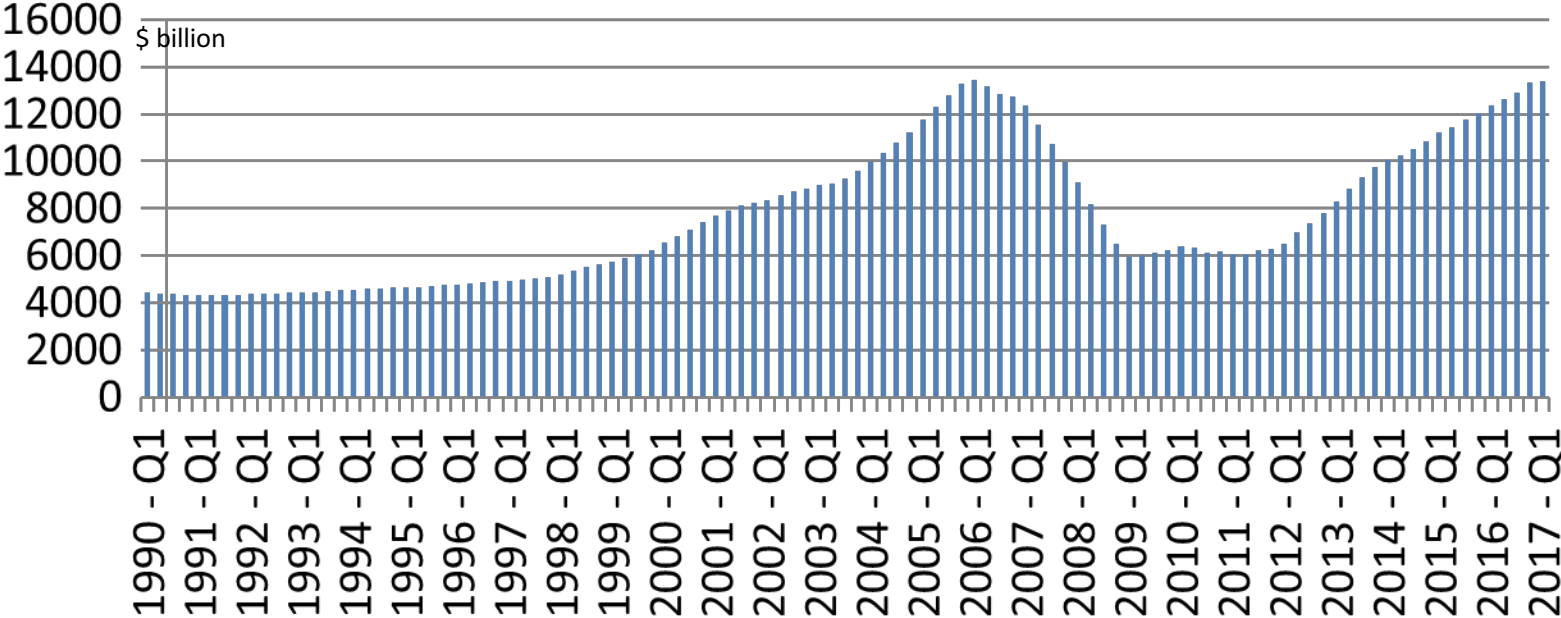
Source: Federal Reserve

Residential Property Price (38% gain in 7 years)

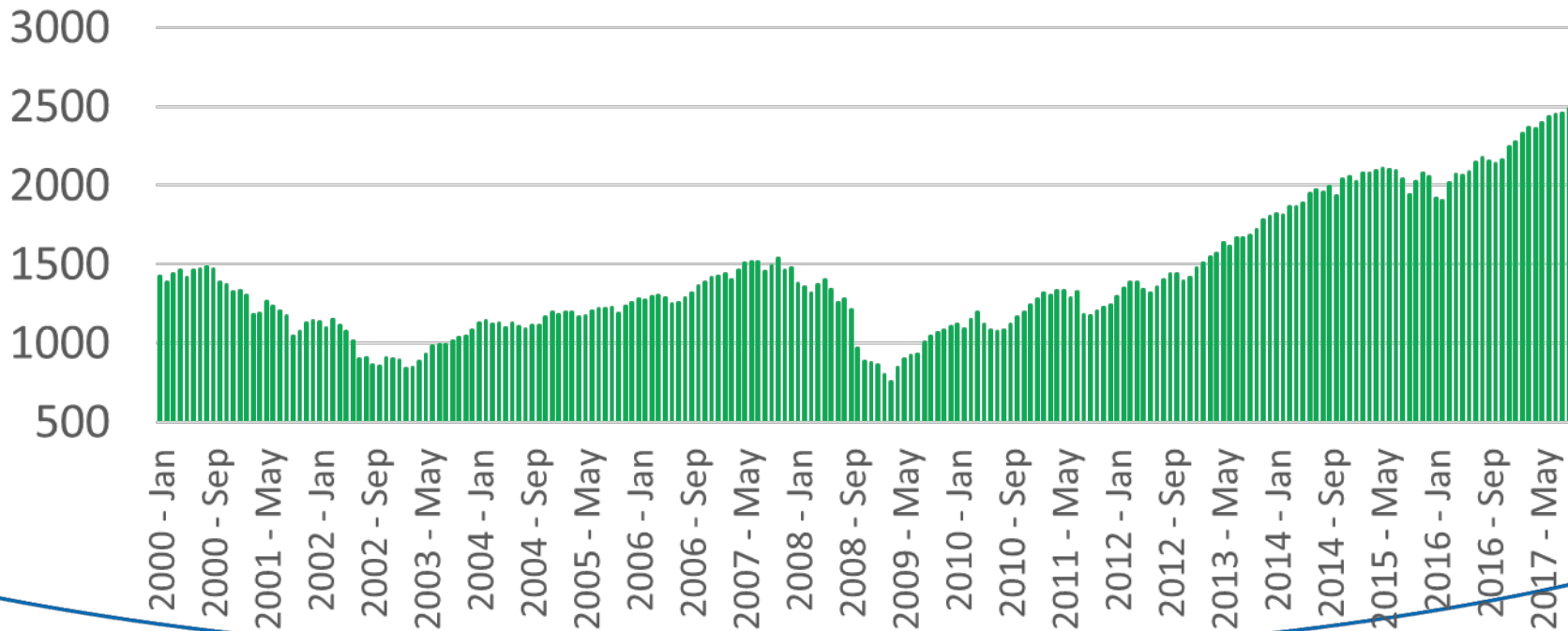


Source: Federal Reserve

Homeowners Equity in Real Estate from 1990

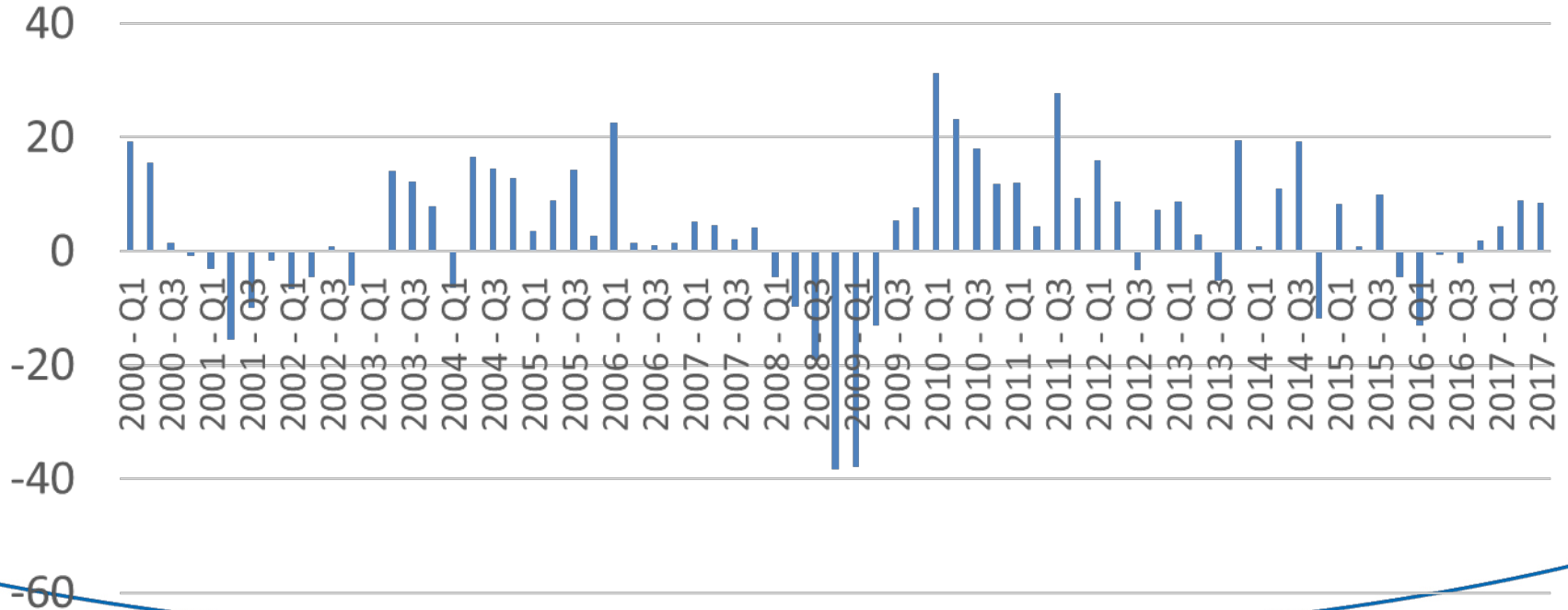


Stock Market: S&P 500 Index (Nearly Tripled from Lows in 2008)



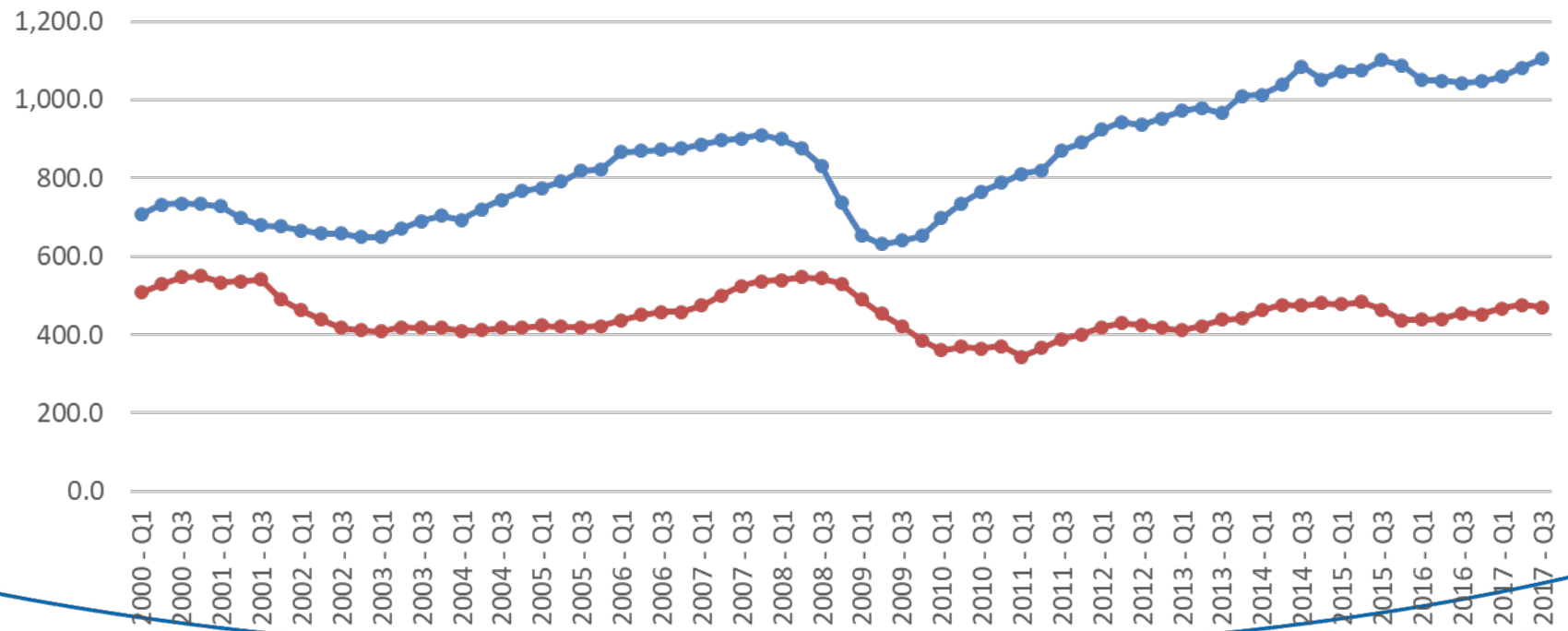
Business Spending Growth Rate

(Non-residential fixed investment)



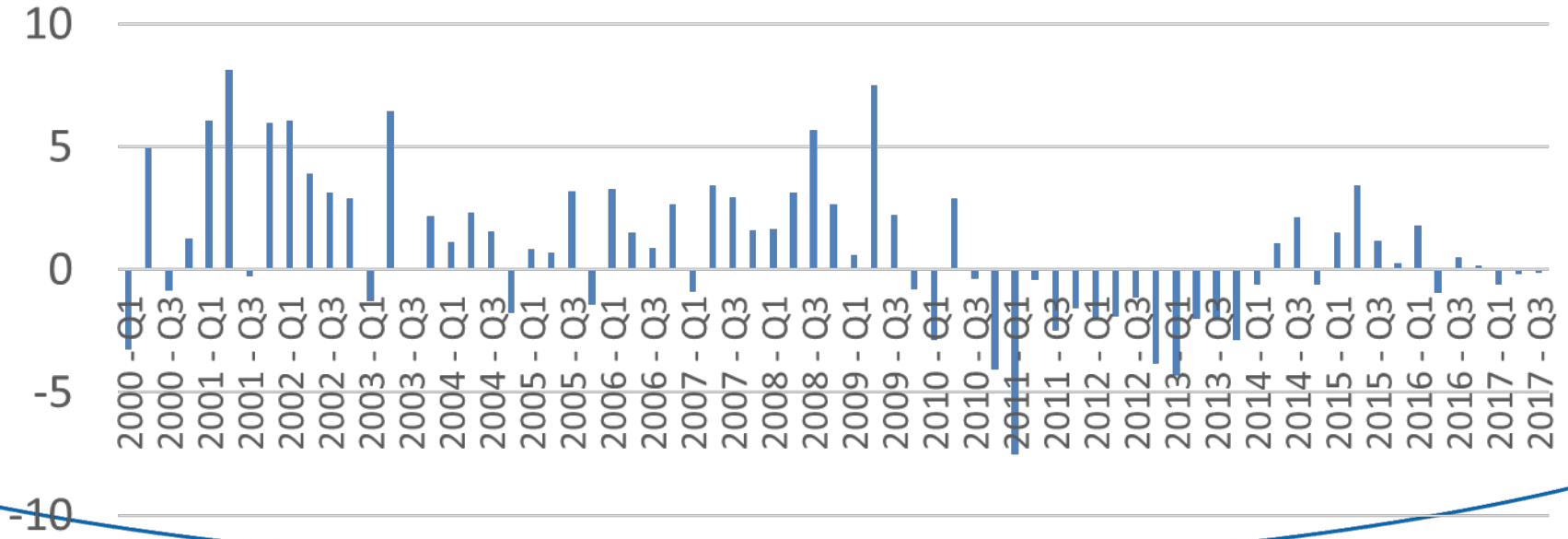
Business Investment Spending

Spending for Structure lagging behind Equipment (\$ billion)

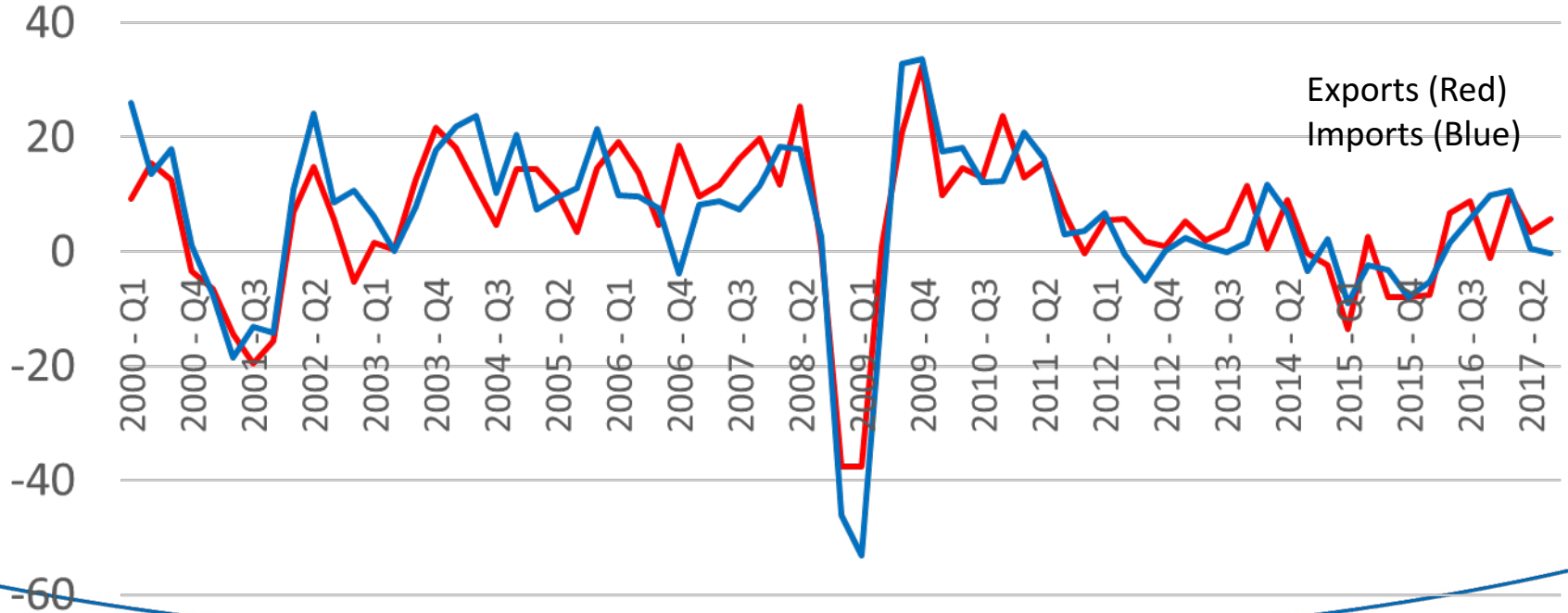


Government Spending Growth Rate

% change from a year ago

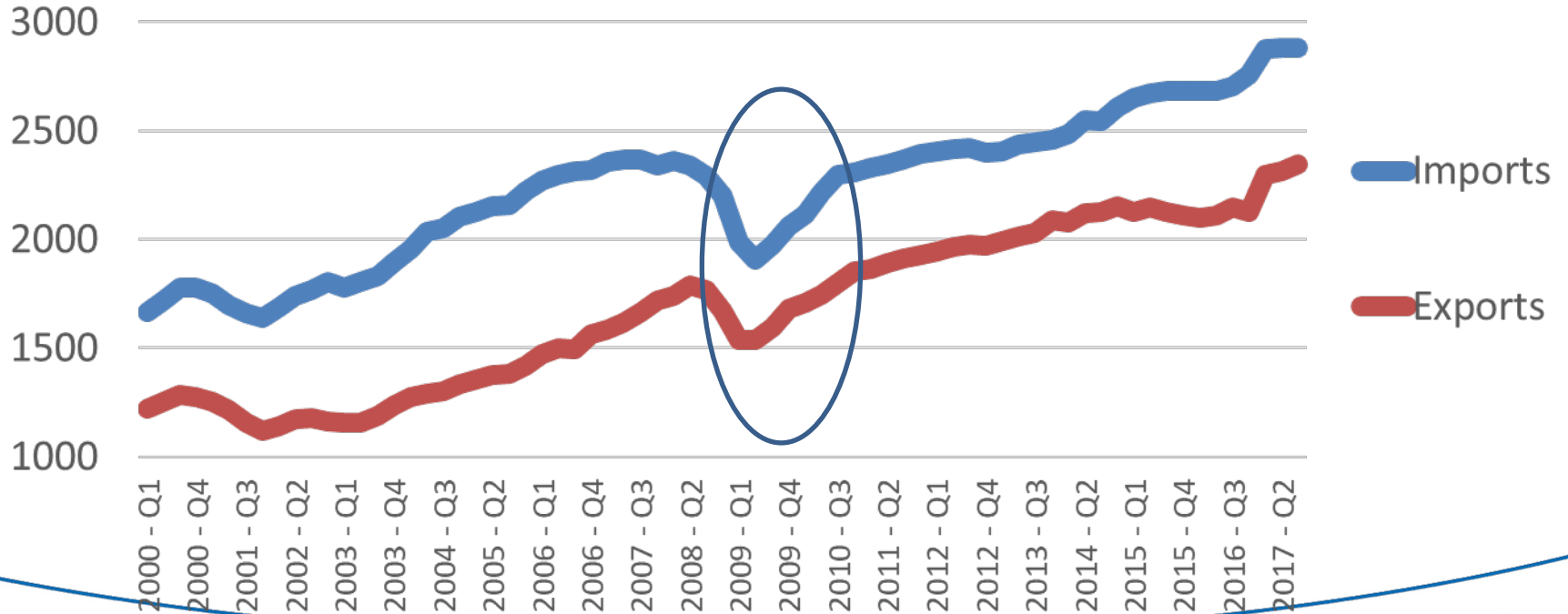


Export and Import Growth Rates



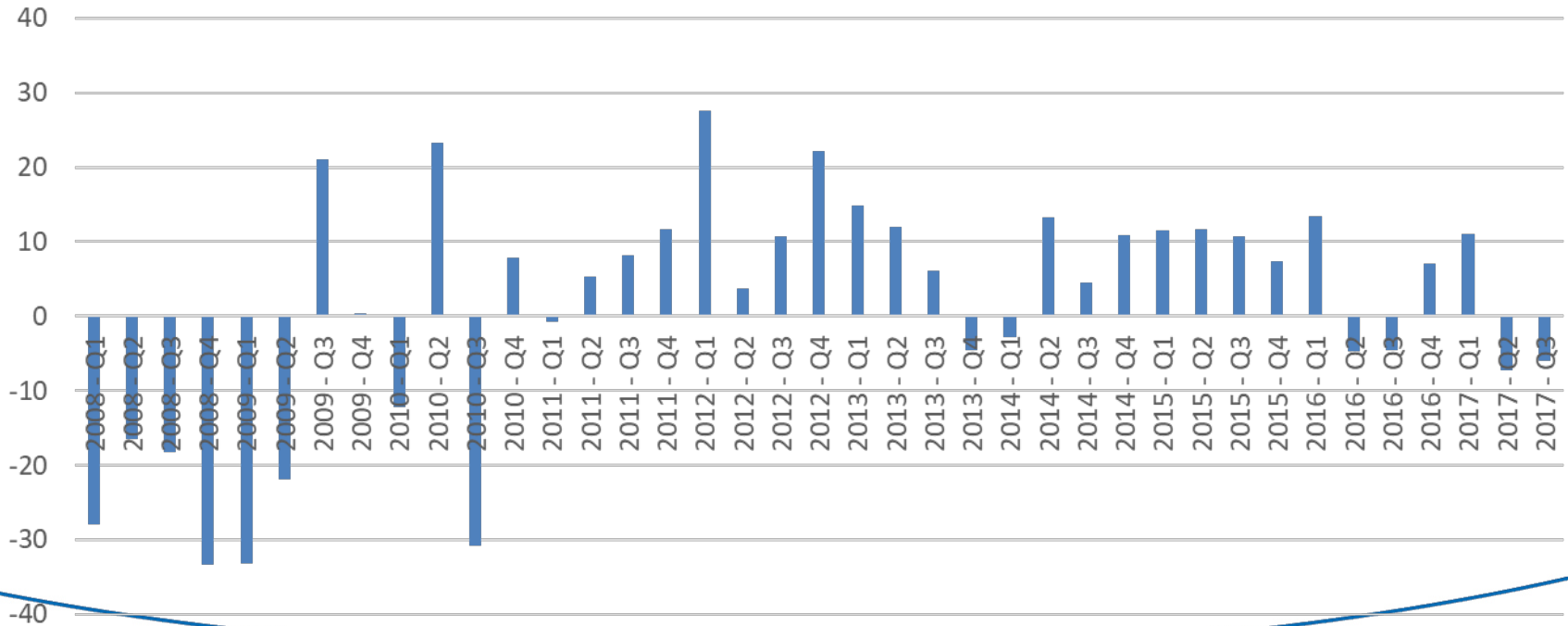
Exports and Imports

(Levels in \$billion)



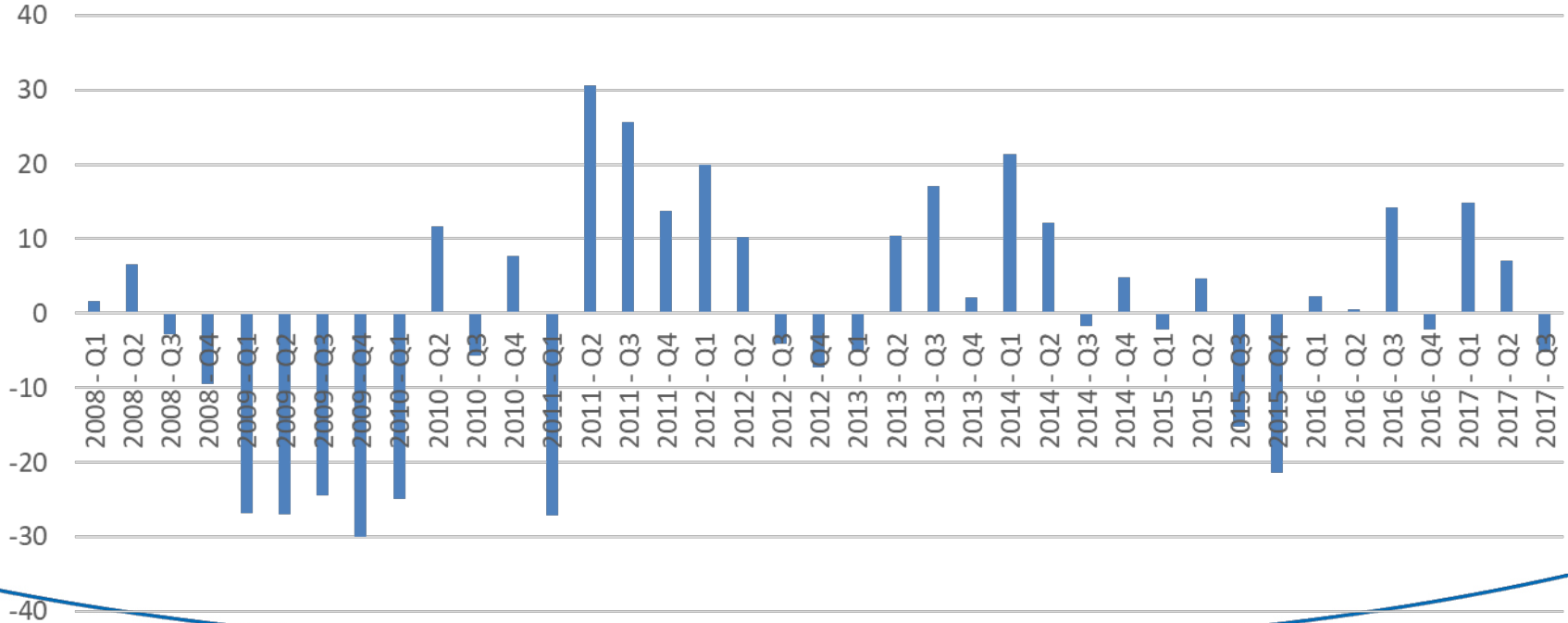
Residential Real Estate Investment Growth Rate

Negative in Q2 and Q3



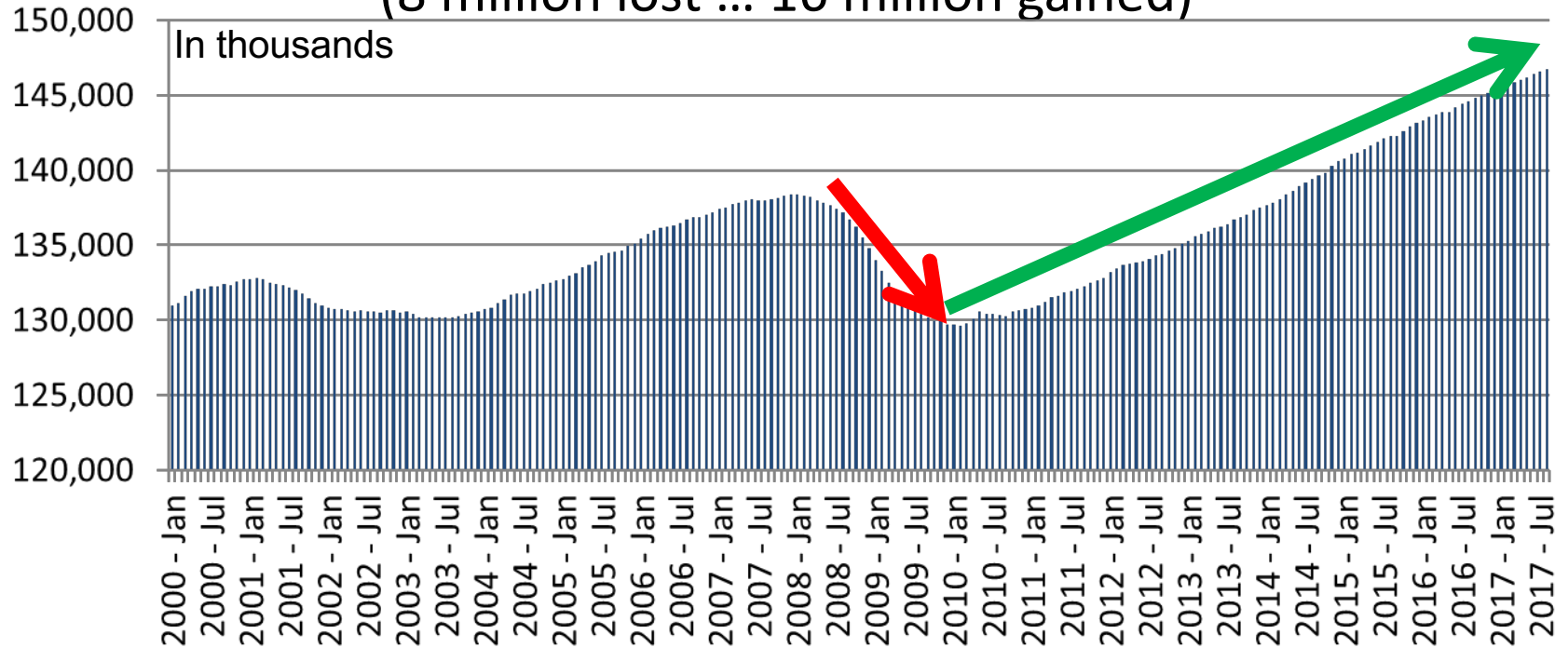
Commercial Real Estate Investment Growth Rate

Volatile and Negative in Q3

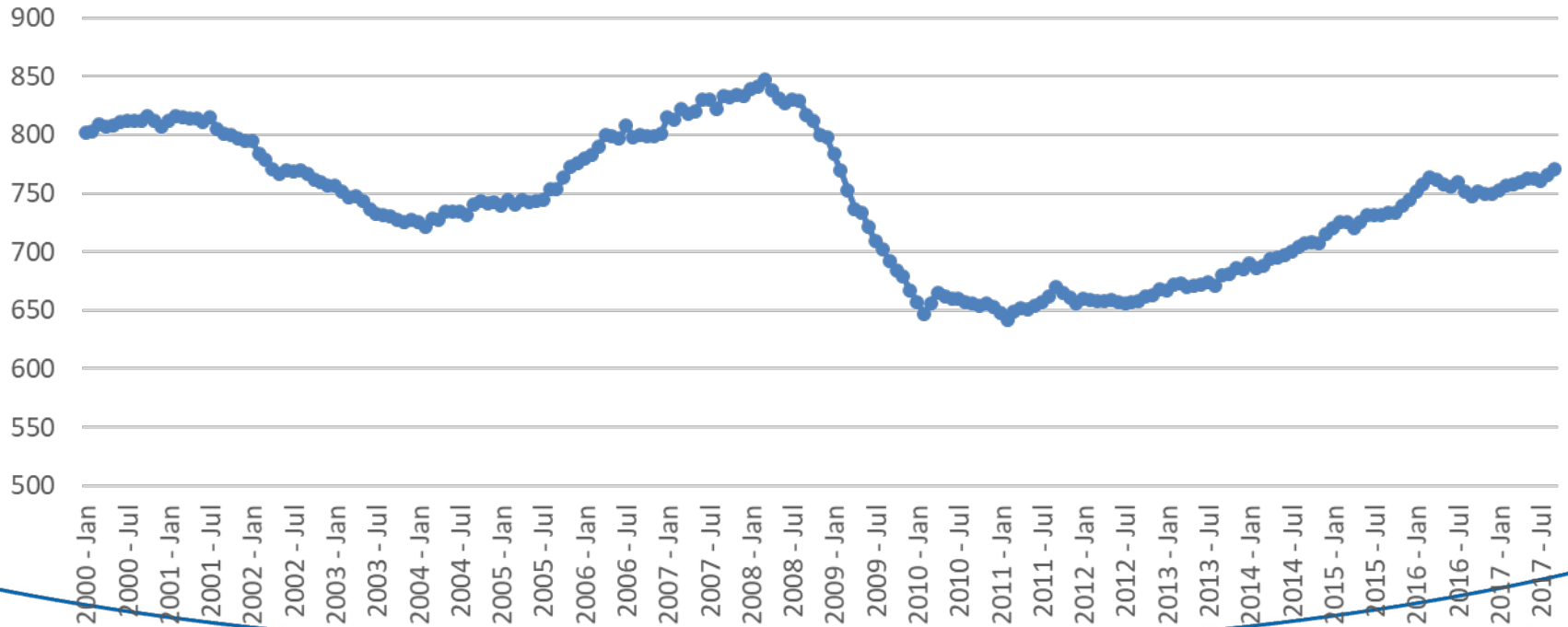


Steady Job Creations

(8 million lost ... 16 million gained)



Commercial RE Construction Workers

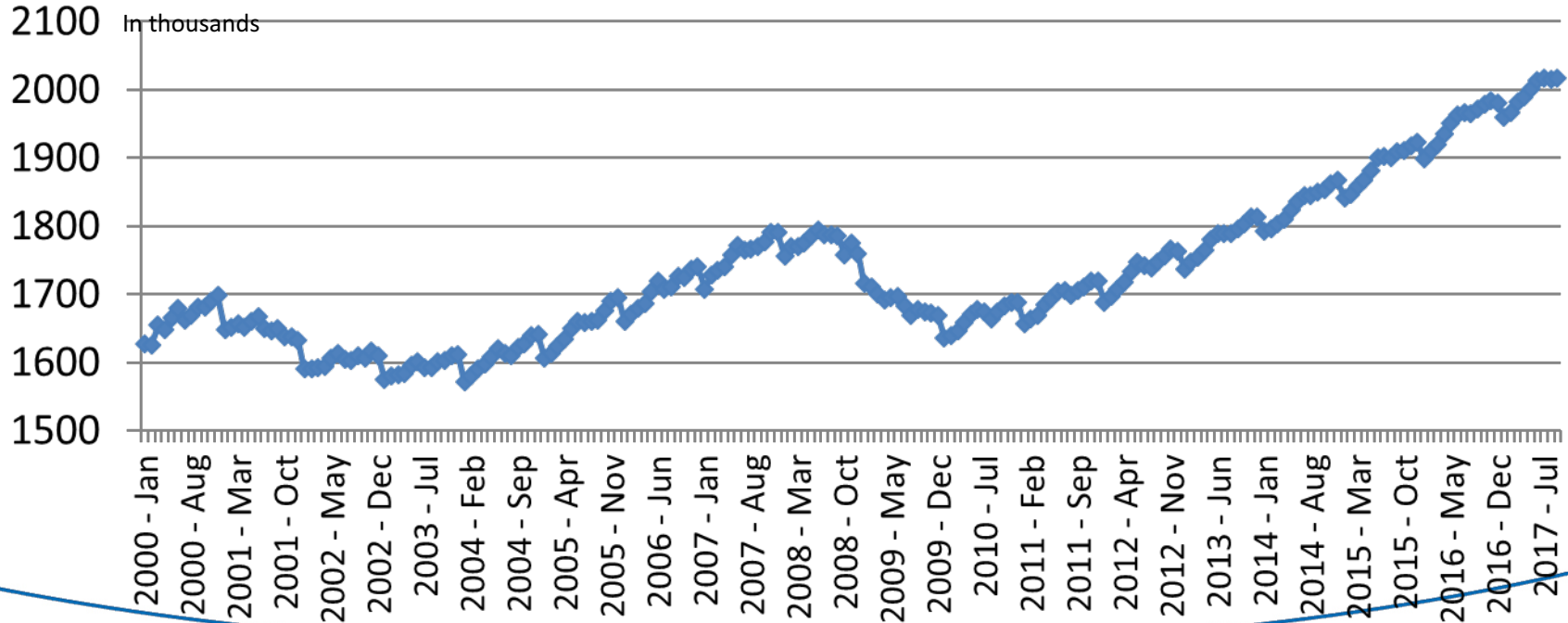


Hurricane Impact

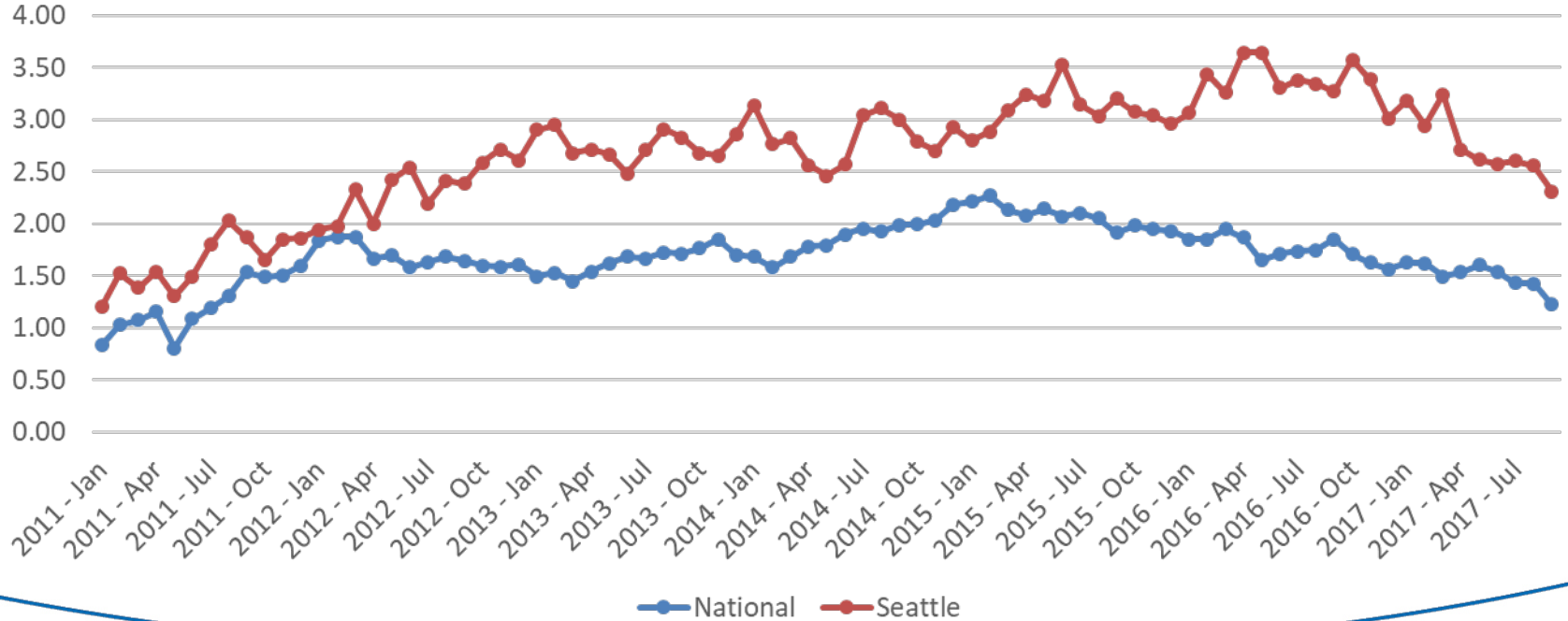
- Houston
 - 10,000 homes uninhabitable
 - 50,000 homes major damage
- Florida
 - 70,000 homes major damage
- Puerto Rico and U.S. Virgin Islands
 - Too many damage

Total Jobs in Seattle

(19% growth vs 11% nationwide from 2000)



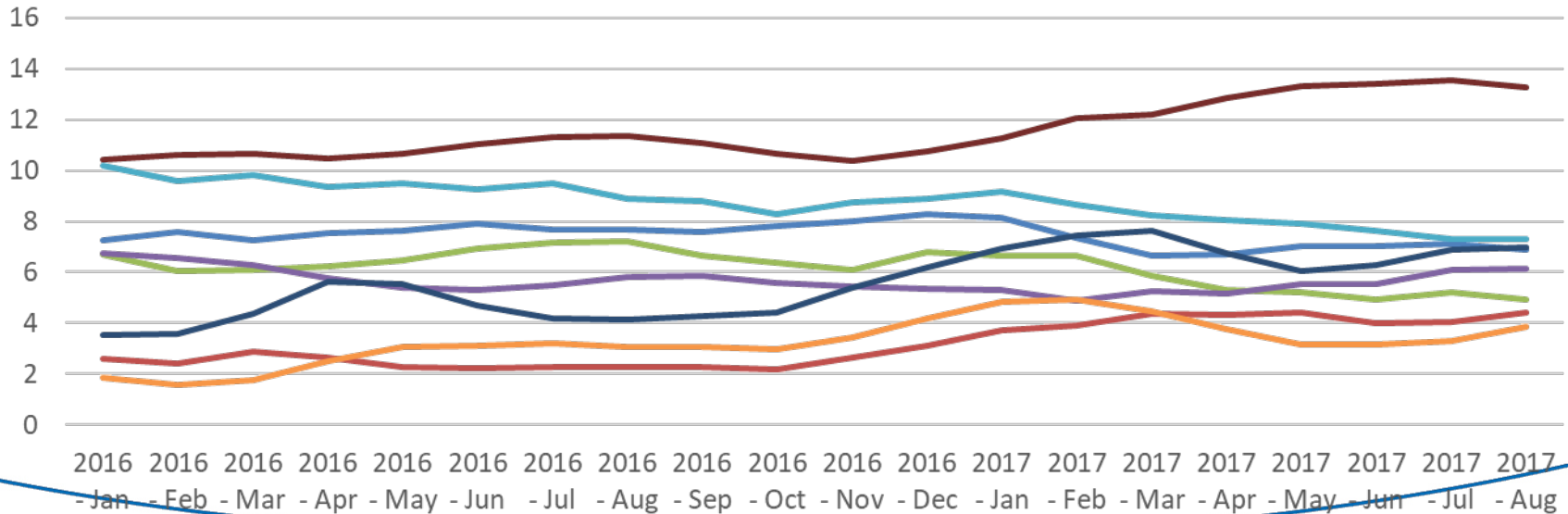
Job Growth Rate Seattle vs. National



Home Price Appreciations

(Case-Shiller Constant Quality Index)

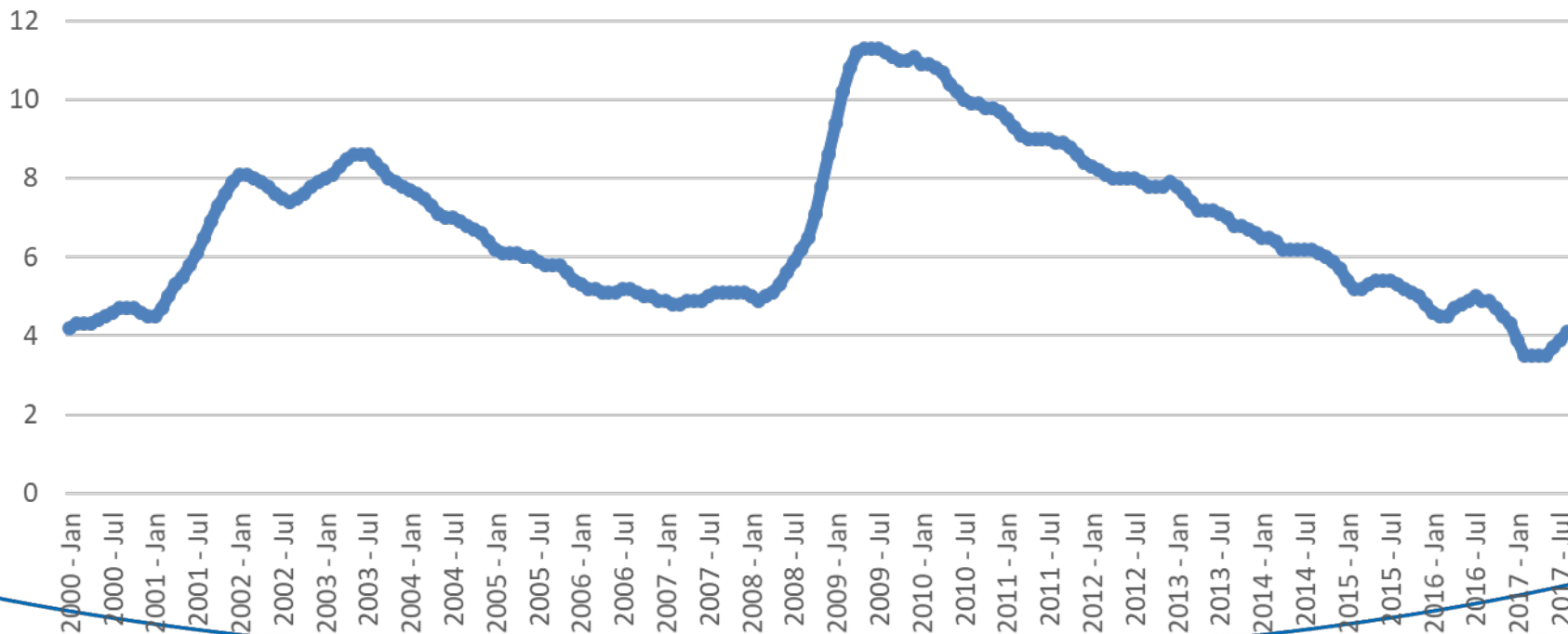
Seattle Celebration



Who will get Amazon HQ2?

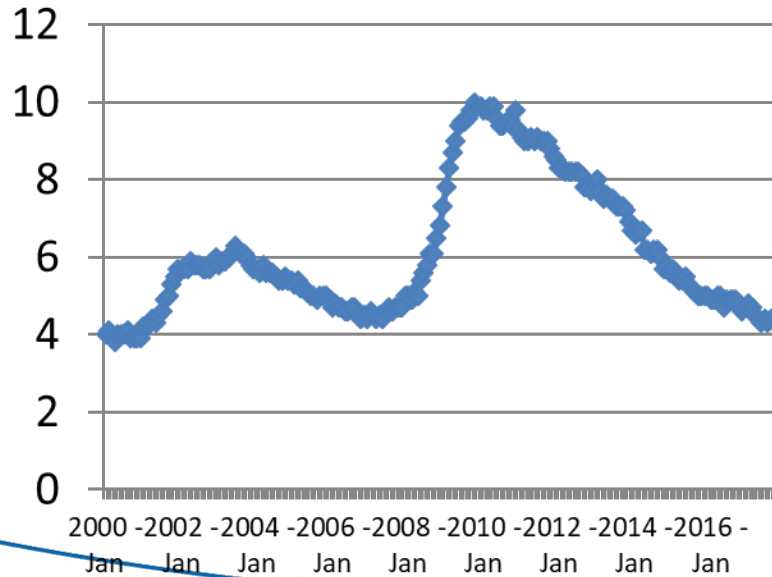
- Washington DC, Boston, Raleigh-Durham, Dallas, Nashville
- What was San Jose like before becoming Silicon Valley?
- Other Company Expansions
 - Charleston, Mobile, Savannah?
- No Matter
 - Direct winners will be \$100,000 salary workers
 - Indirect winners will be property owners
 - Indirect losers will be renters
 - For all ... Massive traffic jam
- “Slow Moving” Real Estate Prices compared to Stock/Bond Prices

Unemployment Rate in Portland, OR From Worst to Near Best

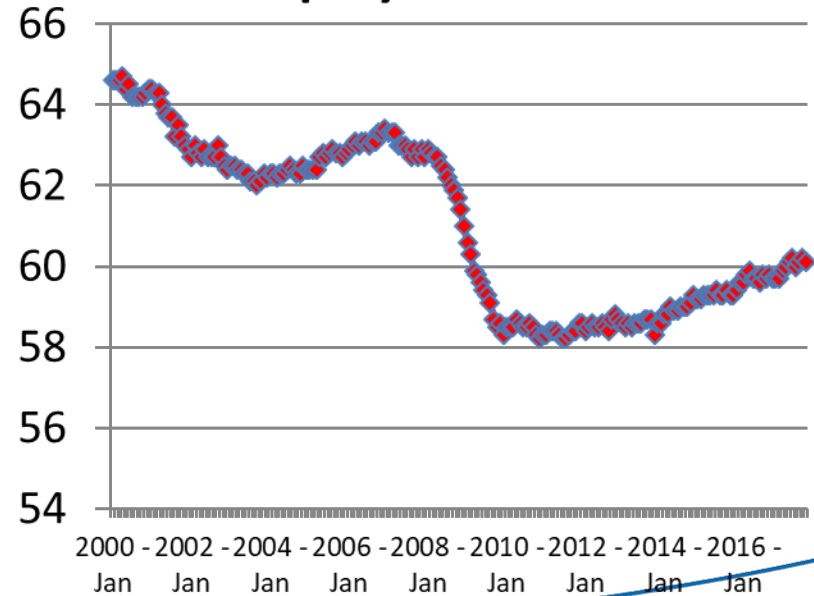


Unemployment Rate vs. Employment Rate

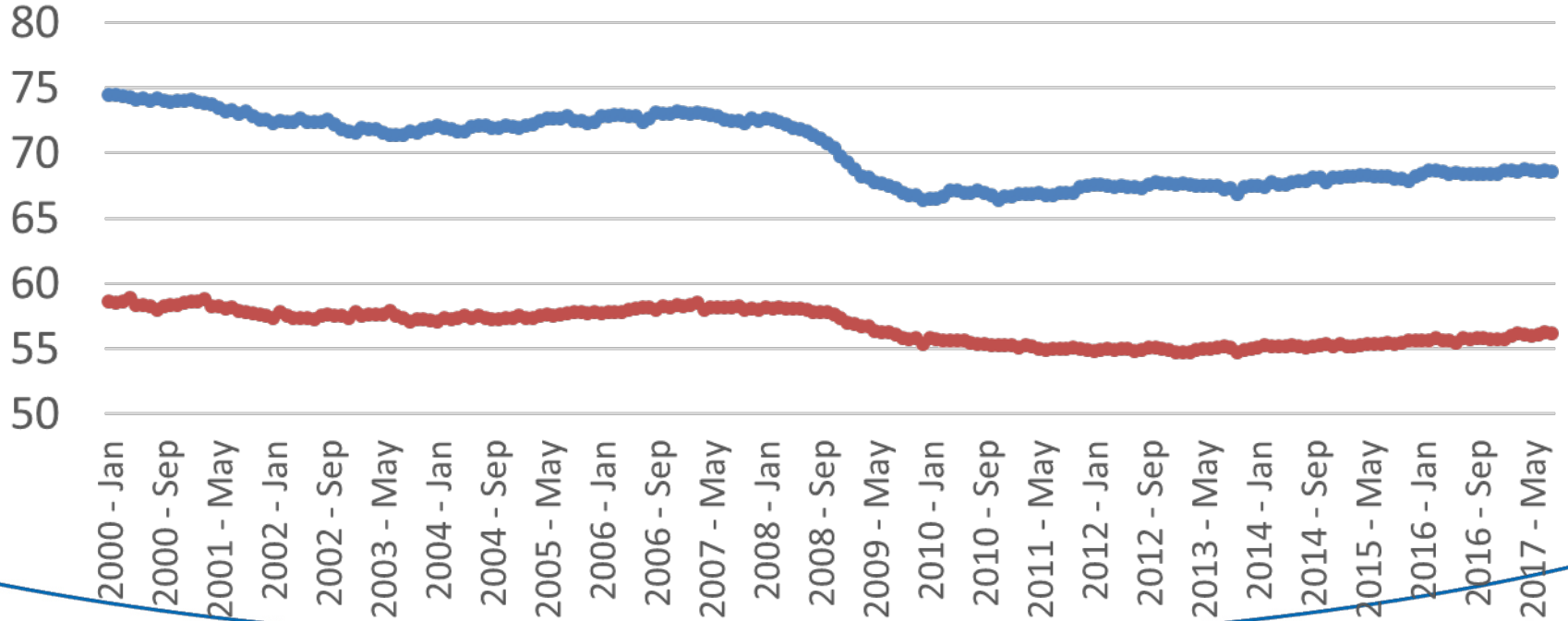
Unemployment Rate



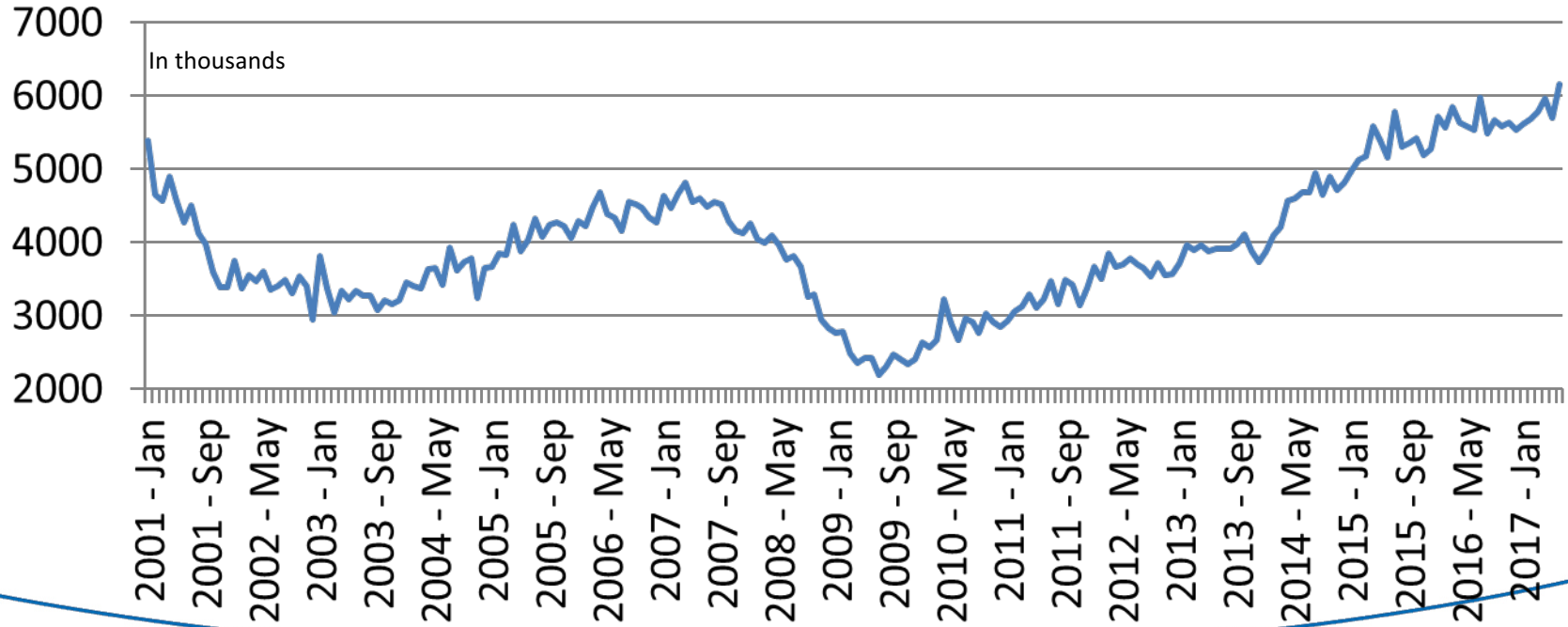
Employment Rate



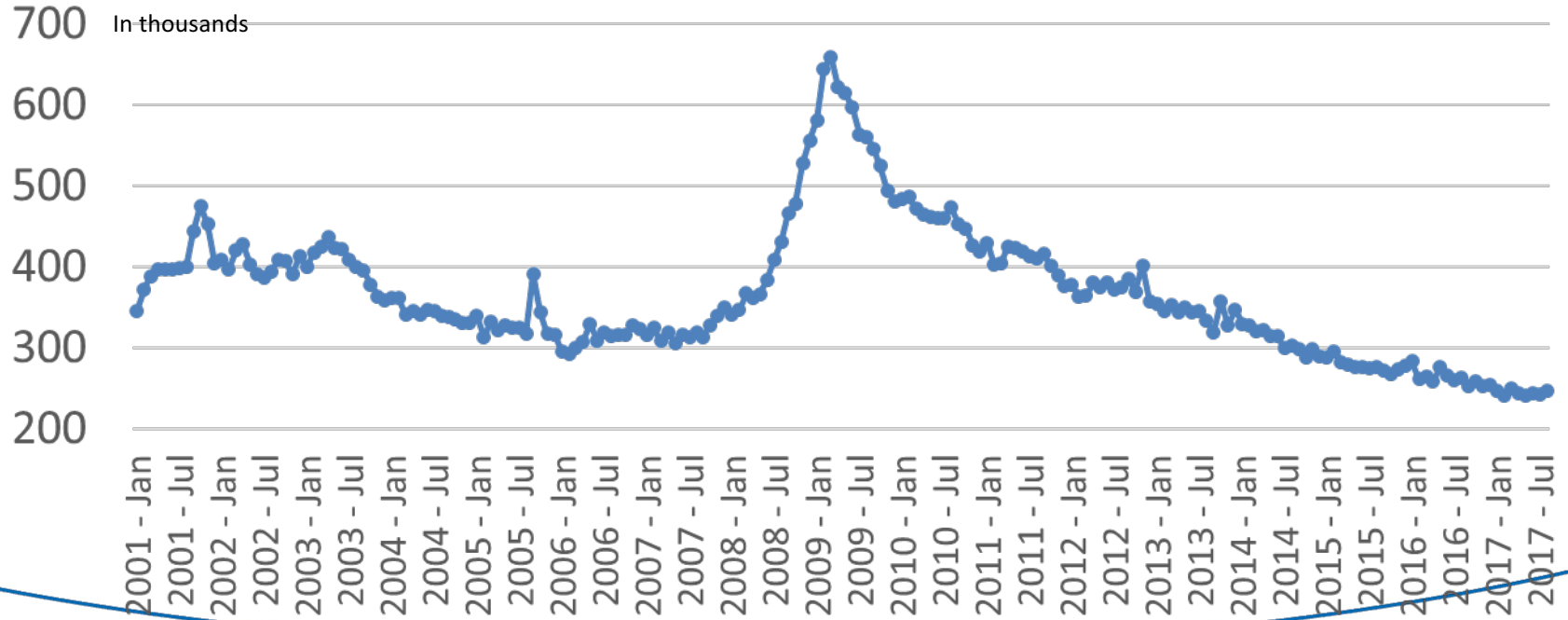
Employment Rate: Men vs Women



Total Job Openings

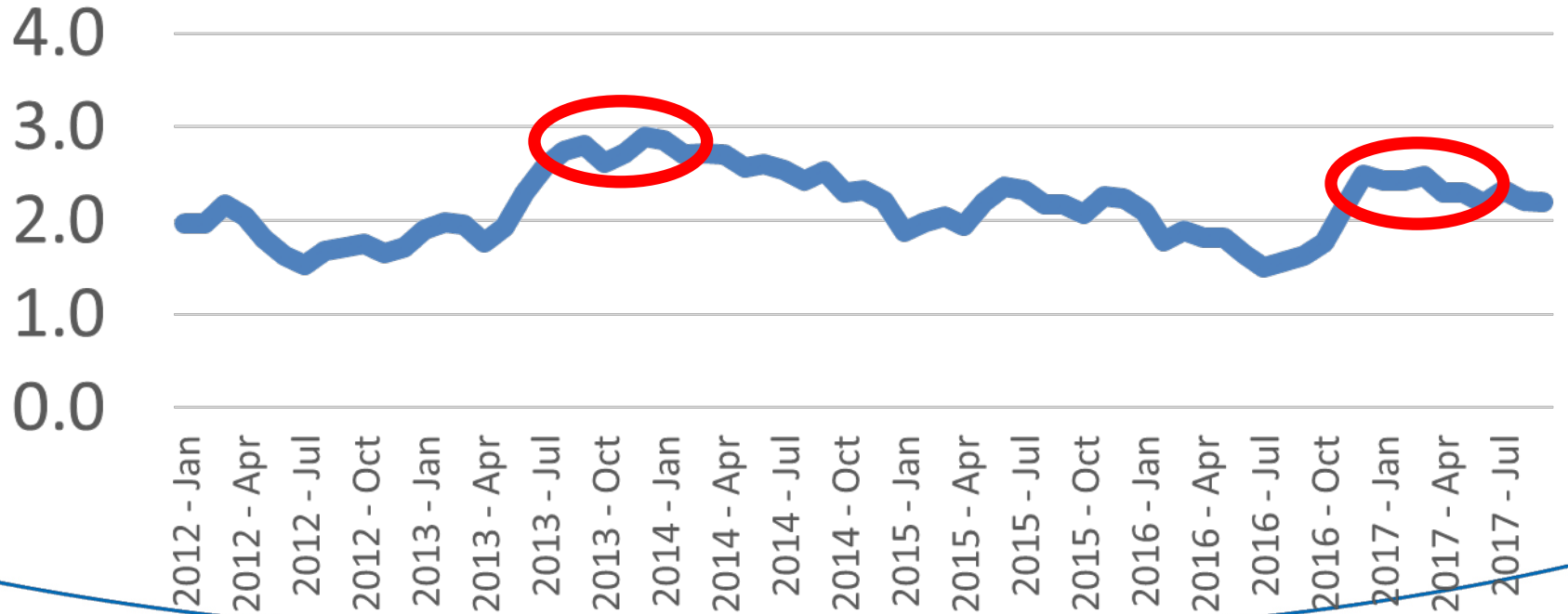


Weekly Initial Unemployment Insurance Filings



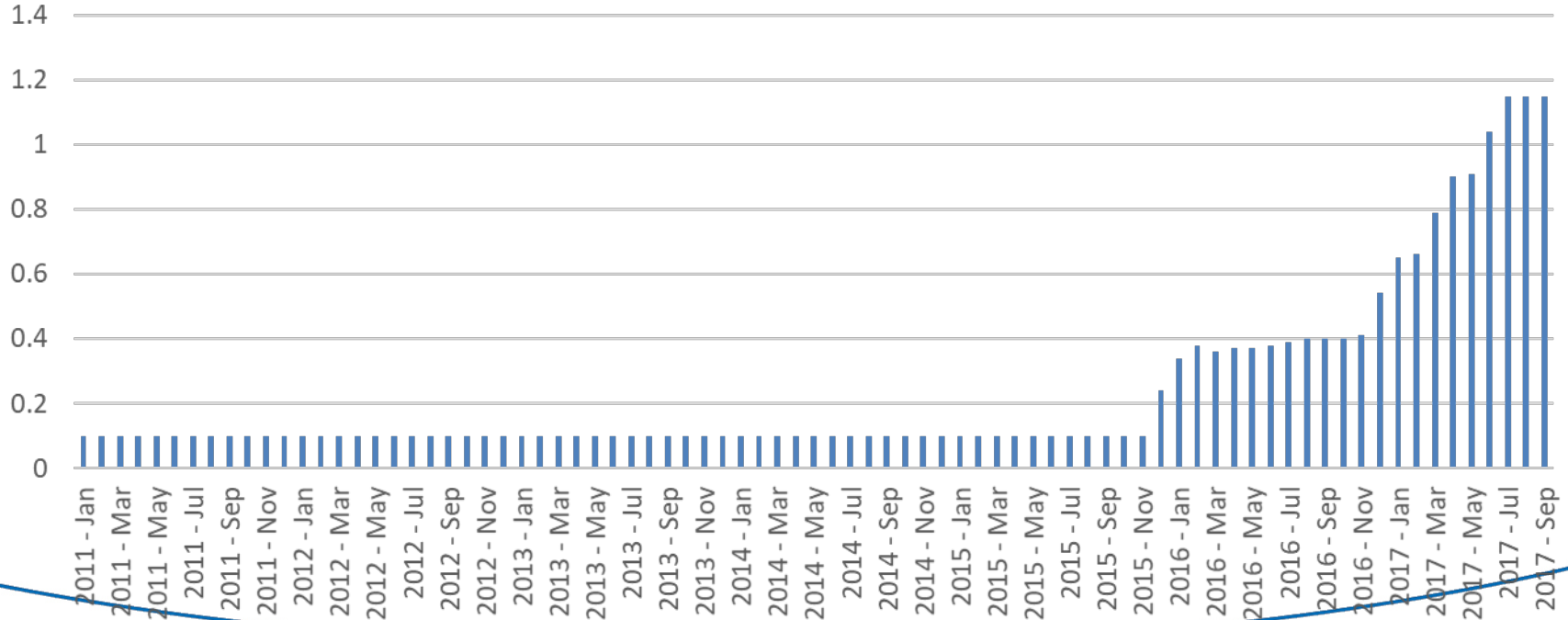
10-year Treasury Yield

Taper Tantrum and Trump Election



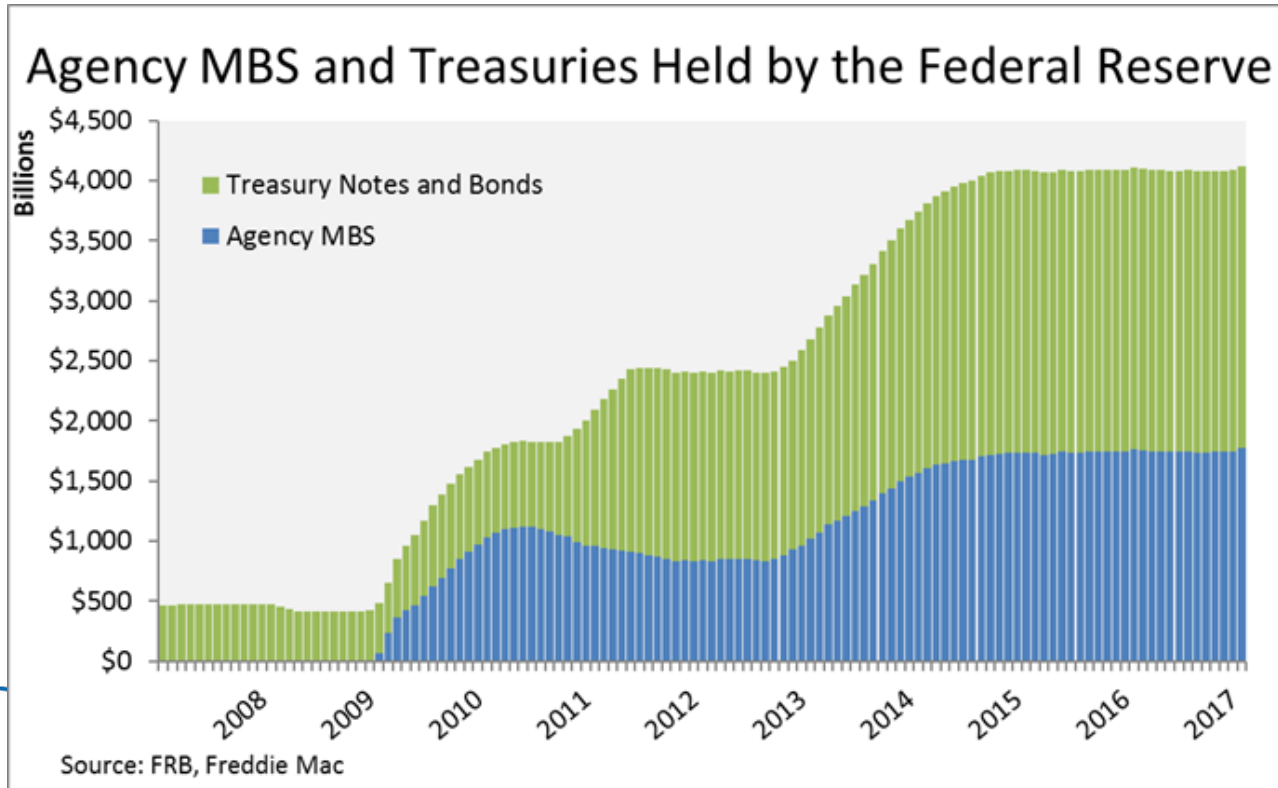
Tightening Monetary Policy

Fed Funds Rate



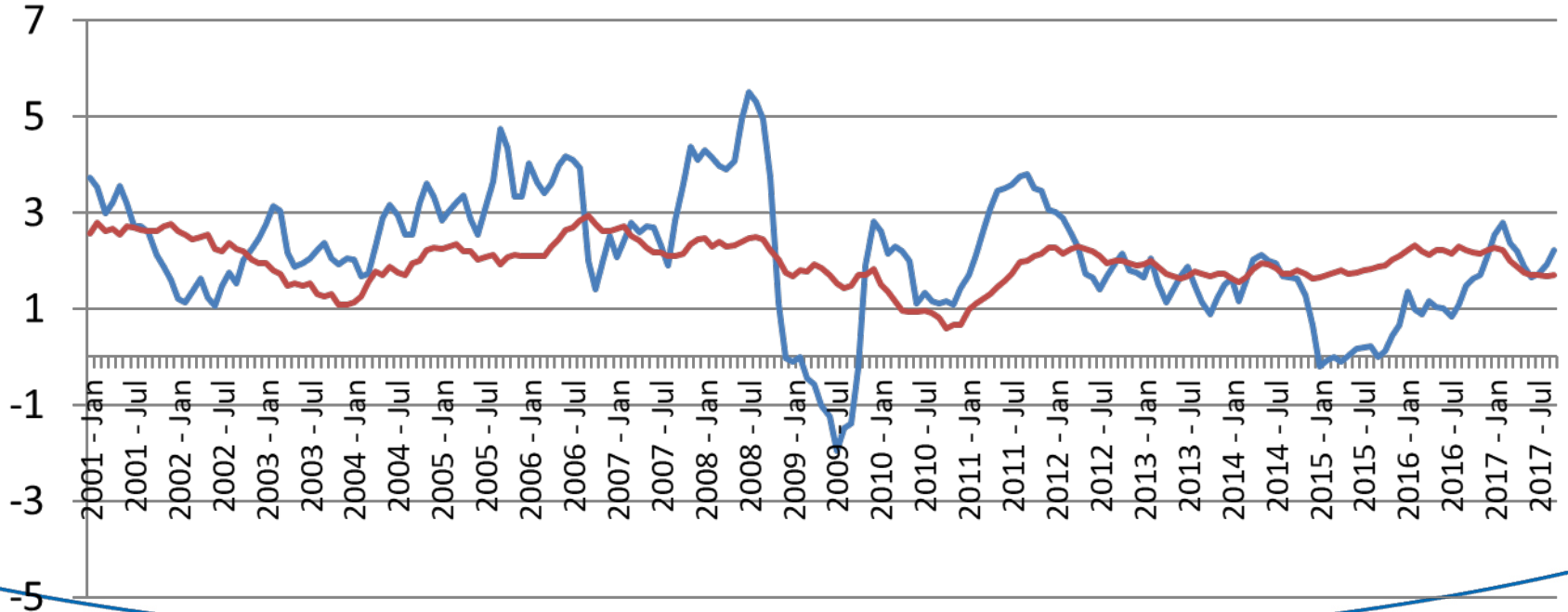
Federal Reserve Balance Sheet

Pace and Impact of Unwinding? Slow but Uncertain

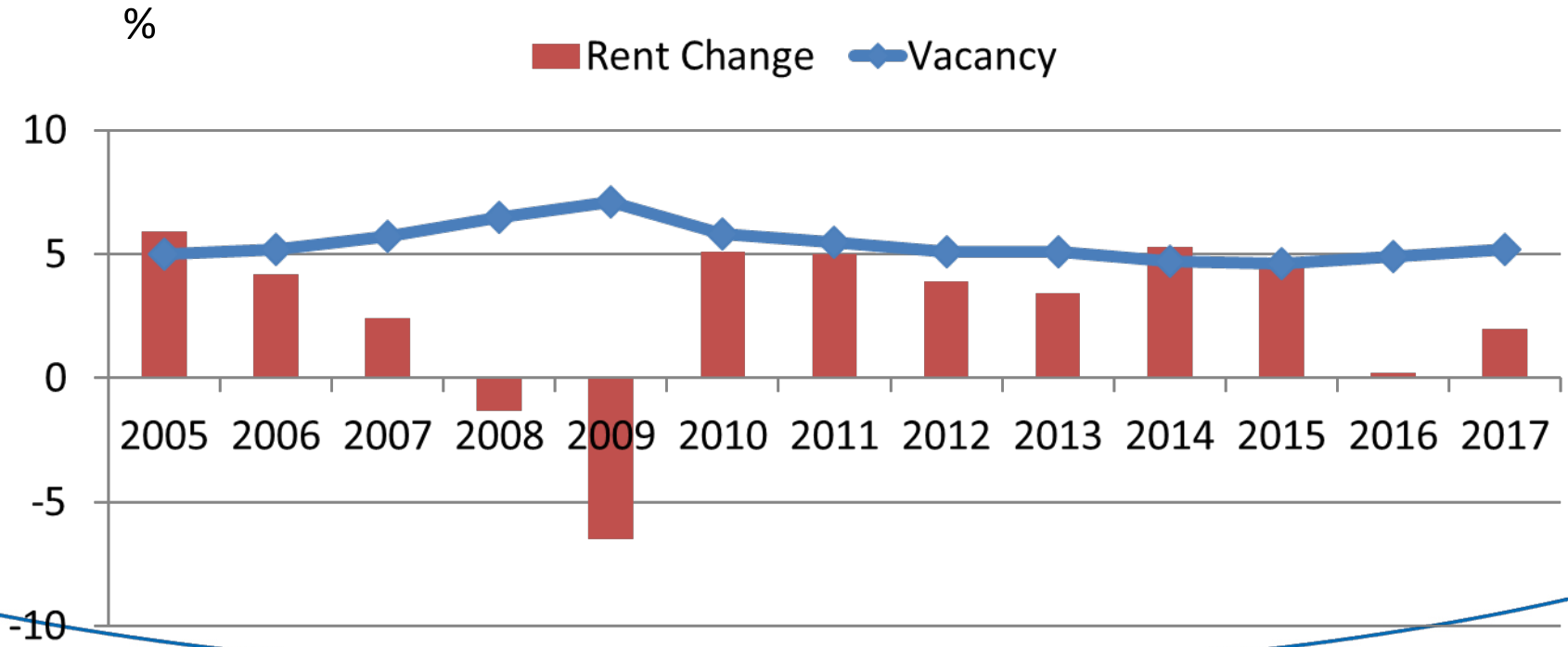


CPI Inflation: No Worries Yet

(Overall and Core)

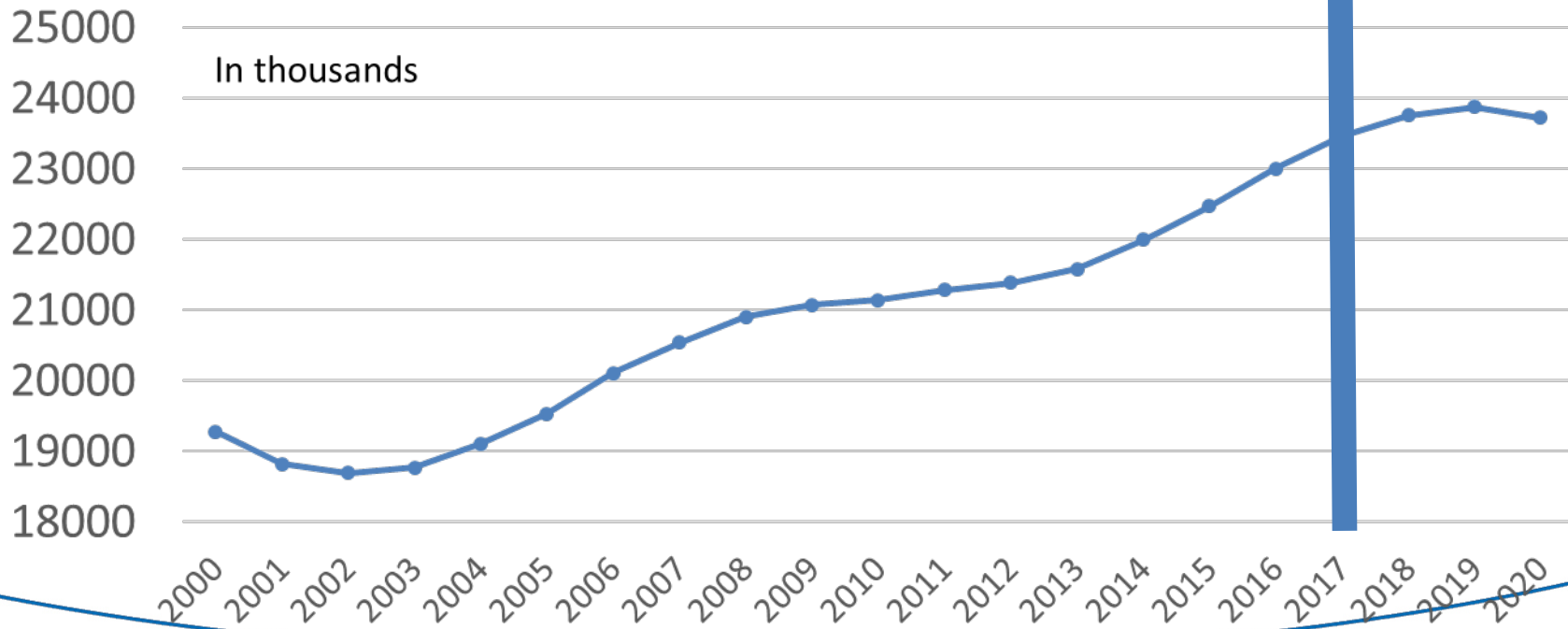


Apartment



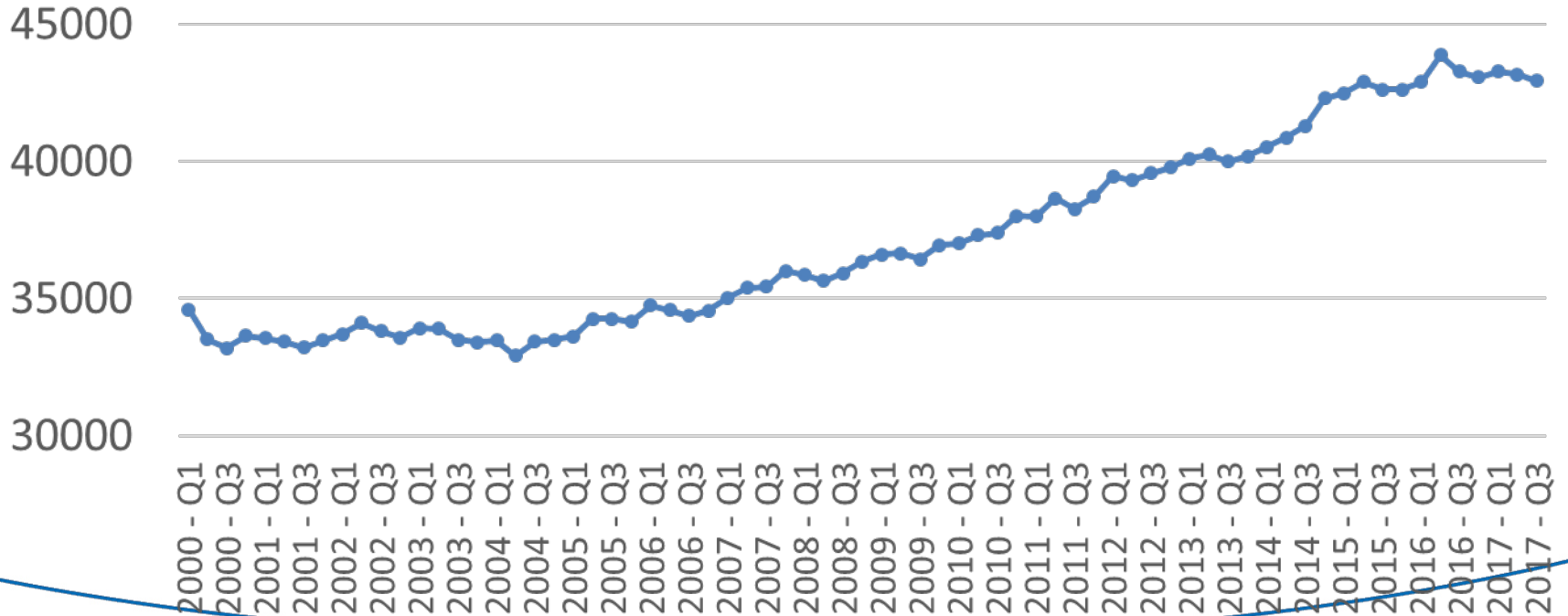
Source: CBRE via ULI

Post-College Likely Renters (Age 25 to 29)



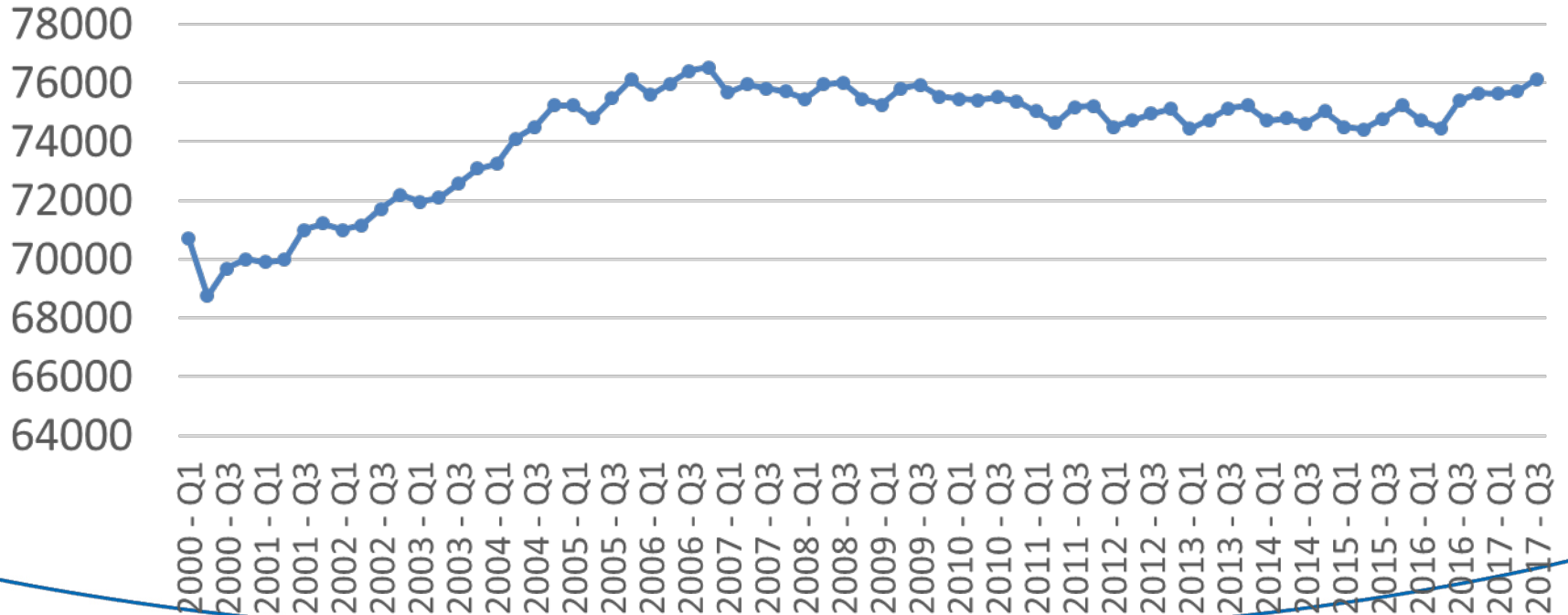
Renting Households

(in thousands)



Home-owning Households

(in thousands)



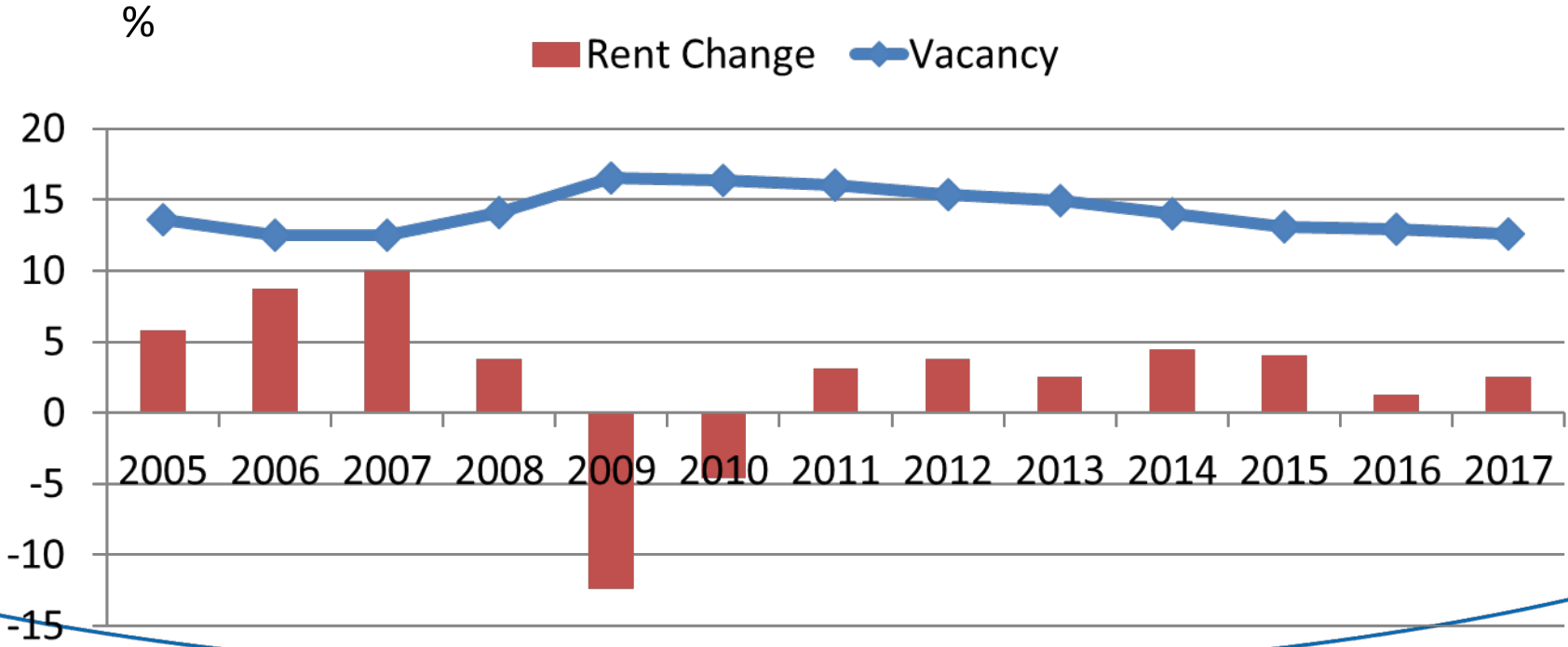


2017 Edition!

>> Respond to the
Tax Reform Call to Action

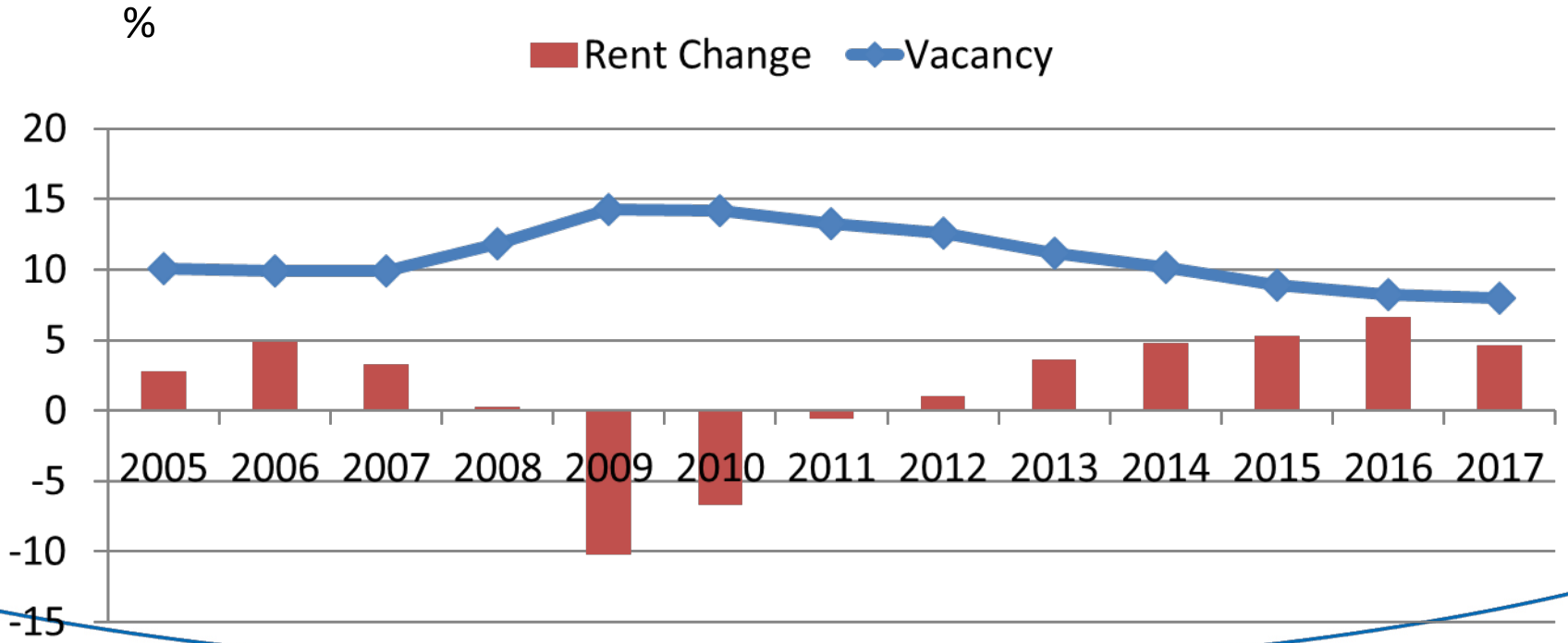
Receive **2017 Profile of Home Buyers and Sellers** — Download >>

Office



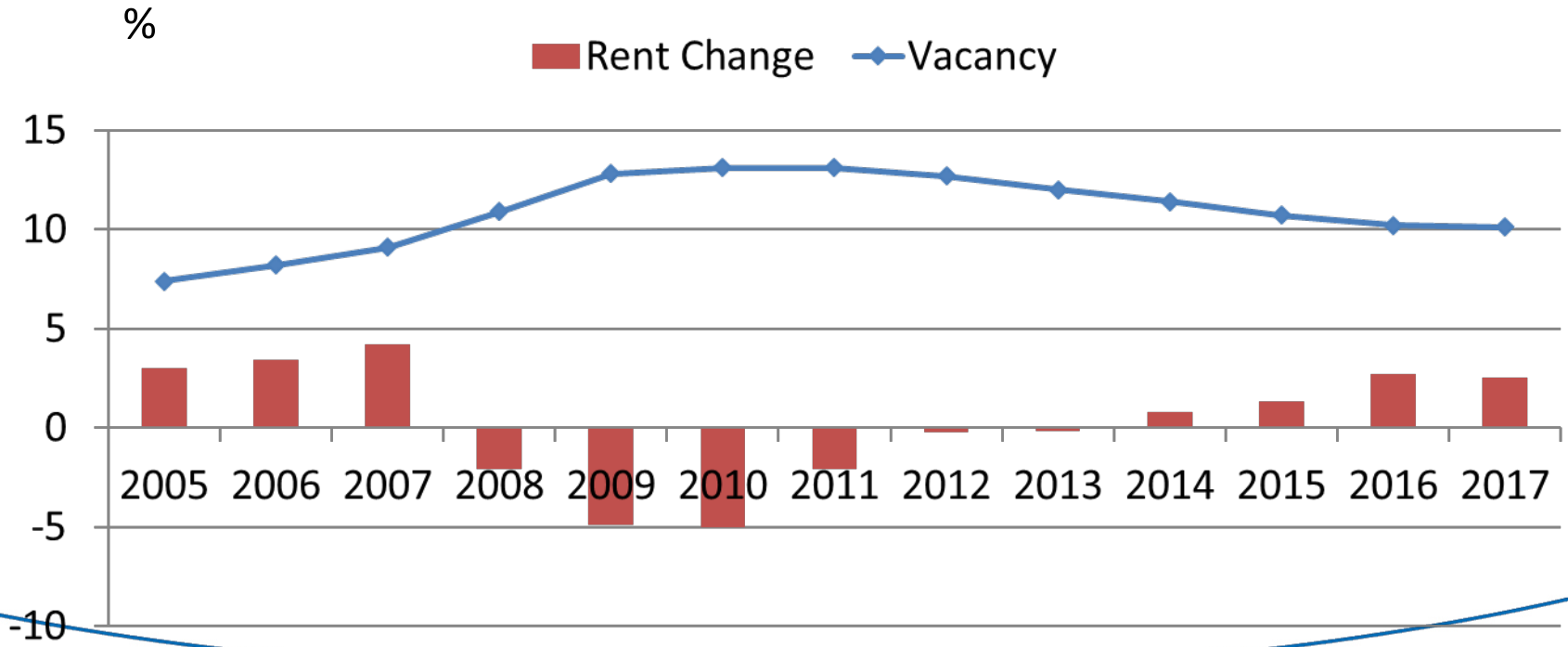
Source: CBRE via ULI

Industrial-Warehouse



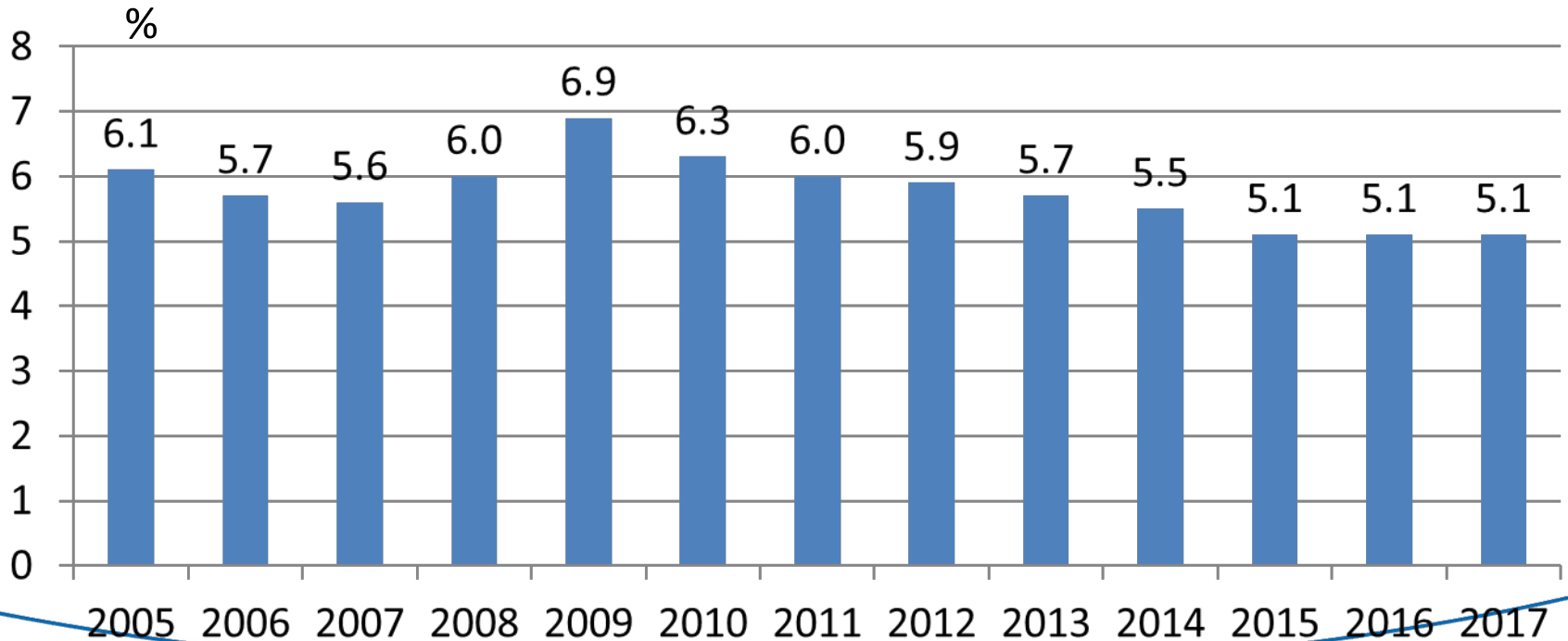
Source: CBRE via ULI

Retail



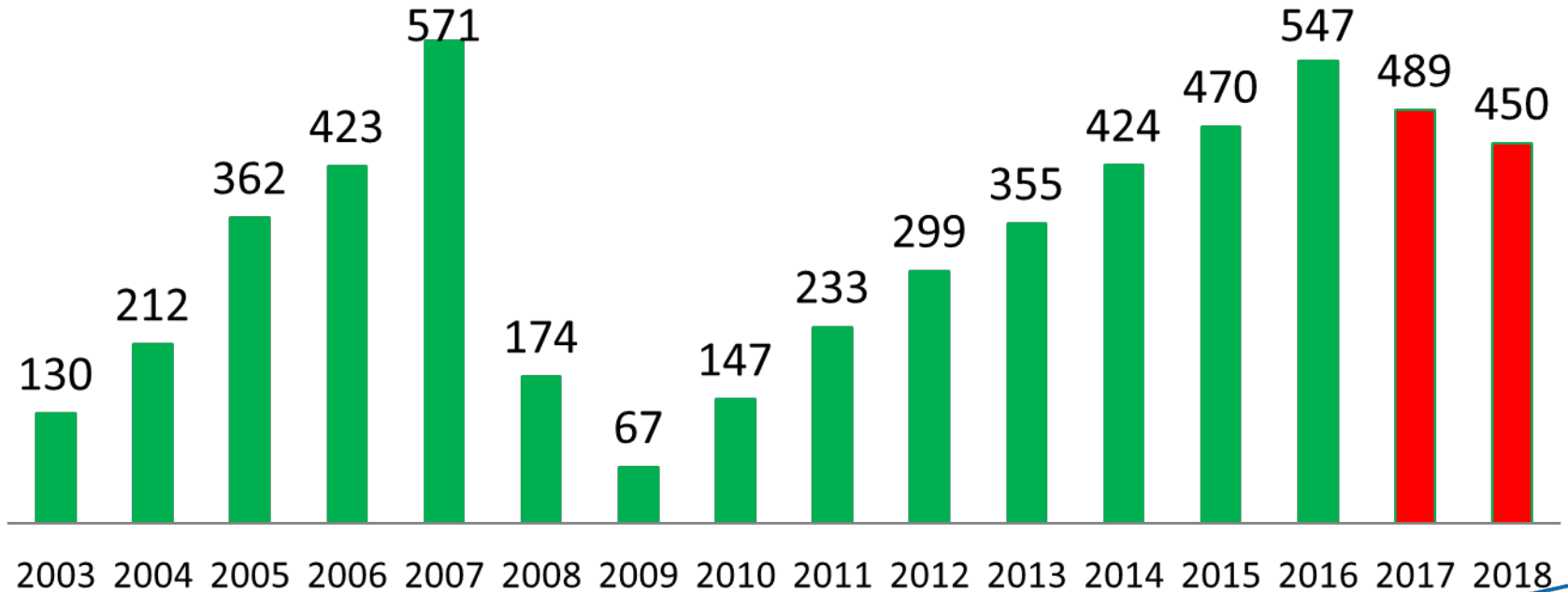
Source: CBRE via ULI

NCREIF Cap Rates – Likely Already Hit Cyclical Low



Commercial Investment Sales of Large Properties

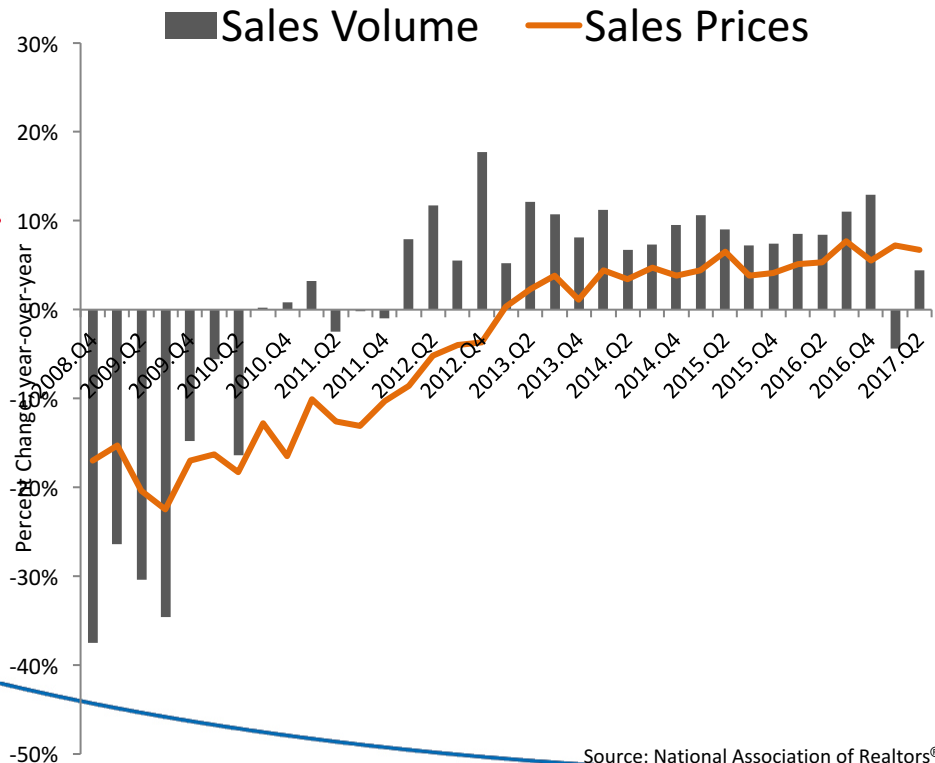
(Properties valued at \$2.5 million and over)



Big Cap and Small Cap

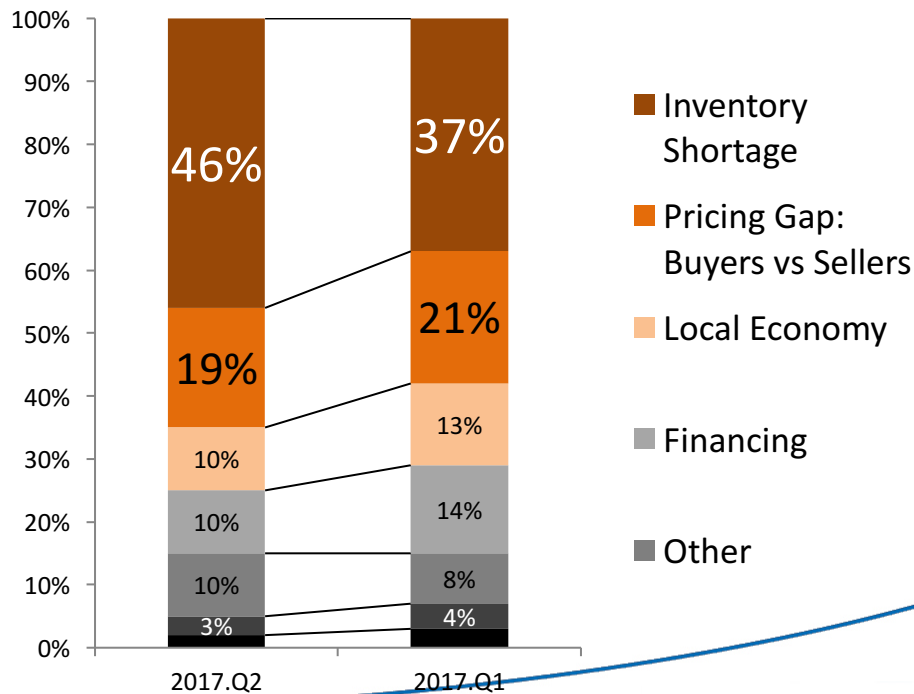
- Real Capital Analytics
 - \$2.5 million and over transactions
- REALTOR Activity
 - Mostly around \$500,000 to \$1 million transactions

REALTORS® CRE sales rebound 4.4% in Q2.2017

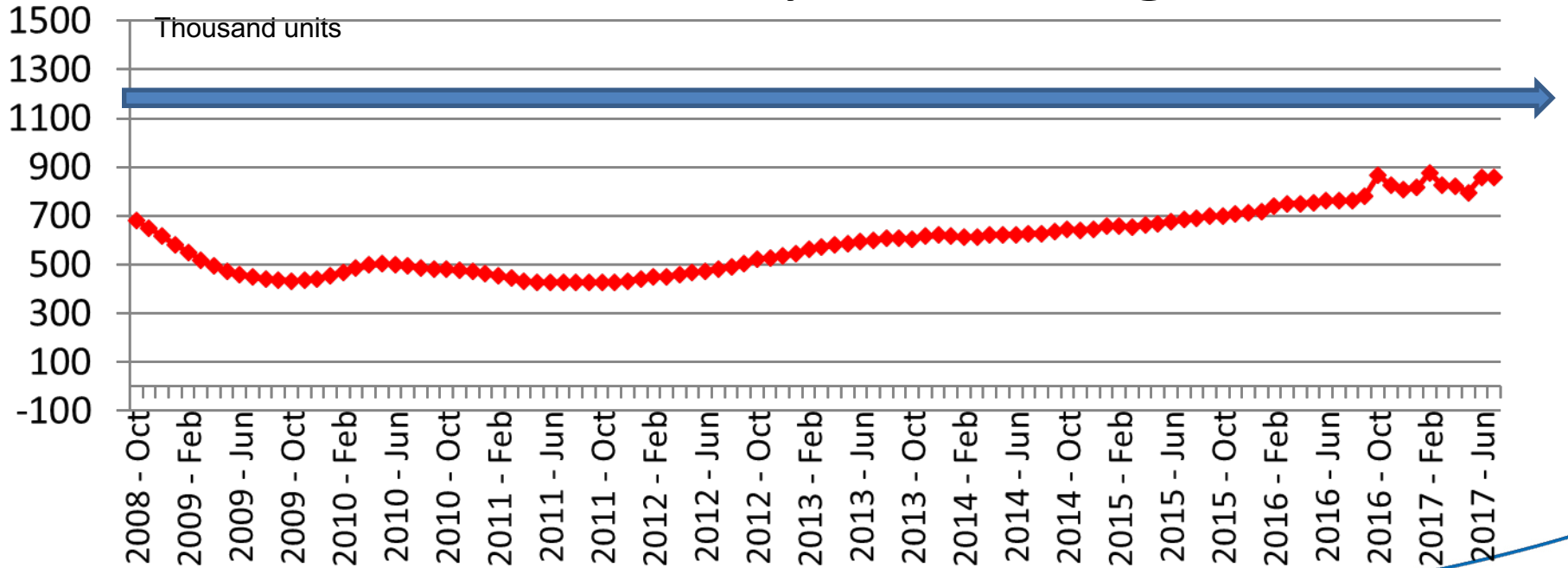


Source: National Association of Realtors®

REALTORS® Most Pressing Challenges



Single-family Housing Starts ... Well Below 50-year Average



Forecast

Economic Forecast

	2015	2016	2017 Forecast	2018 Forecast
GDP Growth	2.9%	1.5%	2.2%	2.7%
Job Growth	+2.6 million	+2.0 million	+1.8 million	+2.4 million
CPI Inflation	0.3%	1.3%	2.0%	2.5%

Commercial Real Estate Forecast 2017-2018

	Vacancy	Rent
Apartment	Rising 50 basis points	Rising Slowly 3% per year
Office	Stable	2.5% per year
Industrial	Stable	4% per year
Retail	Stable	2% per year

Rising Cap Rates and Commercial Real Estate Prices

- Steady prices in mid-tier markets
- Modest price correction in big cities and trophy properties
 - (3% to 7% drop in 2018 after 90% increase)
- Fewer transactions as buyers and sellers face-off without budging on price (5% to 10% decline in unit sales)