

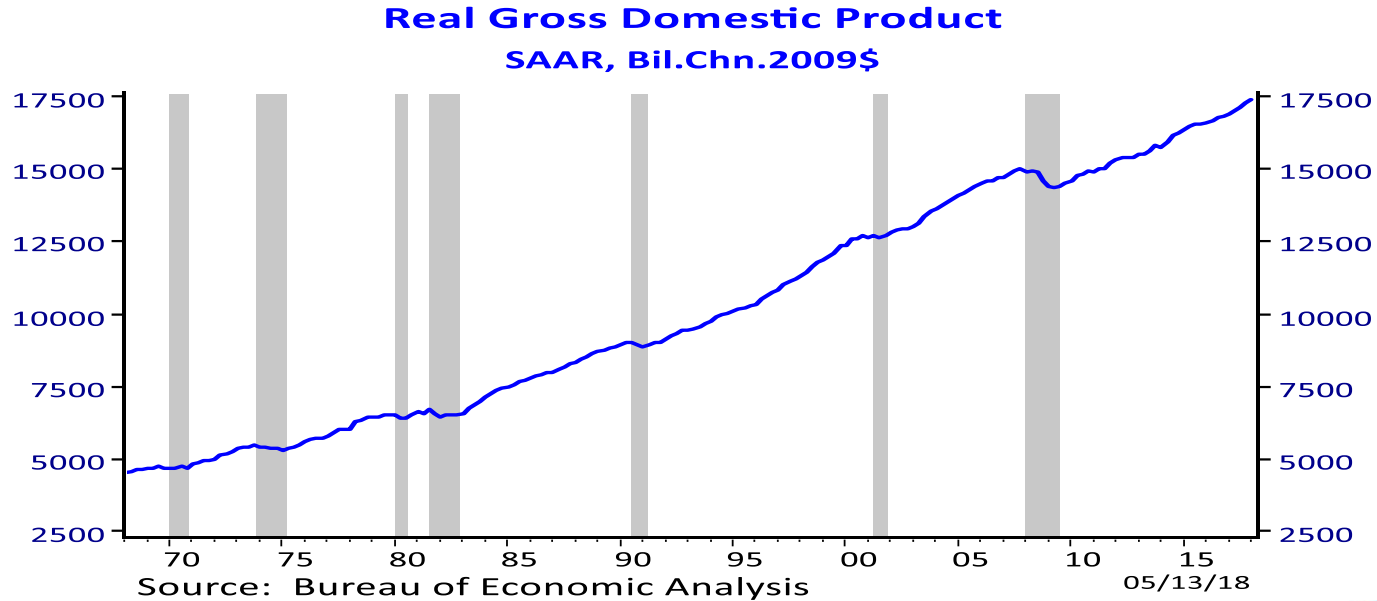
Economic & Real Estate Outlook

By Lawrence Yun, Ph.D.
Chief Economist, National Association of REALTORS®

Presentations at NAR Legislative Meetings
Washington, DC

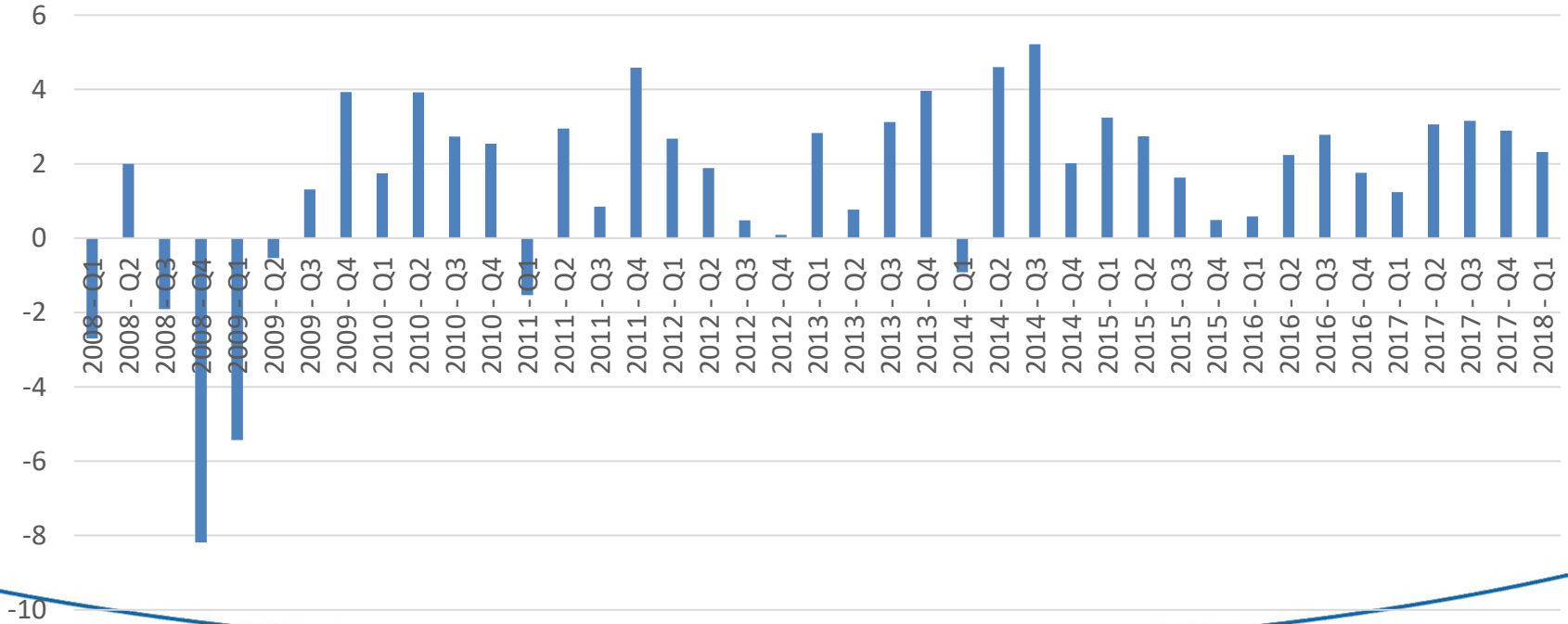
May 17, 2018

Very Long Economic Expansion

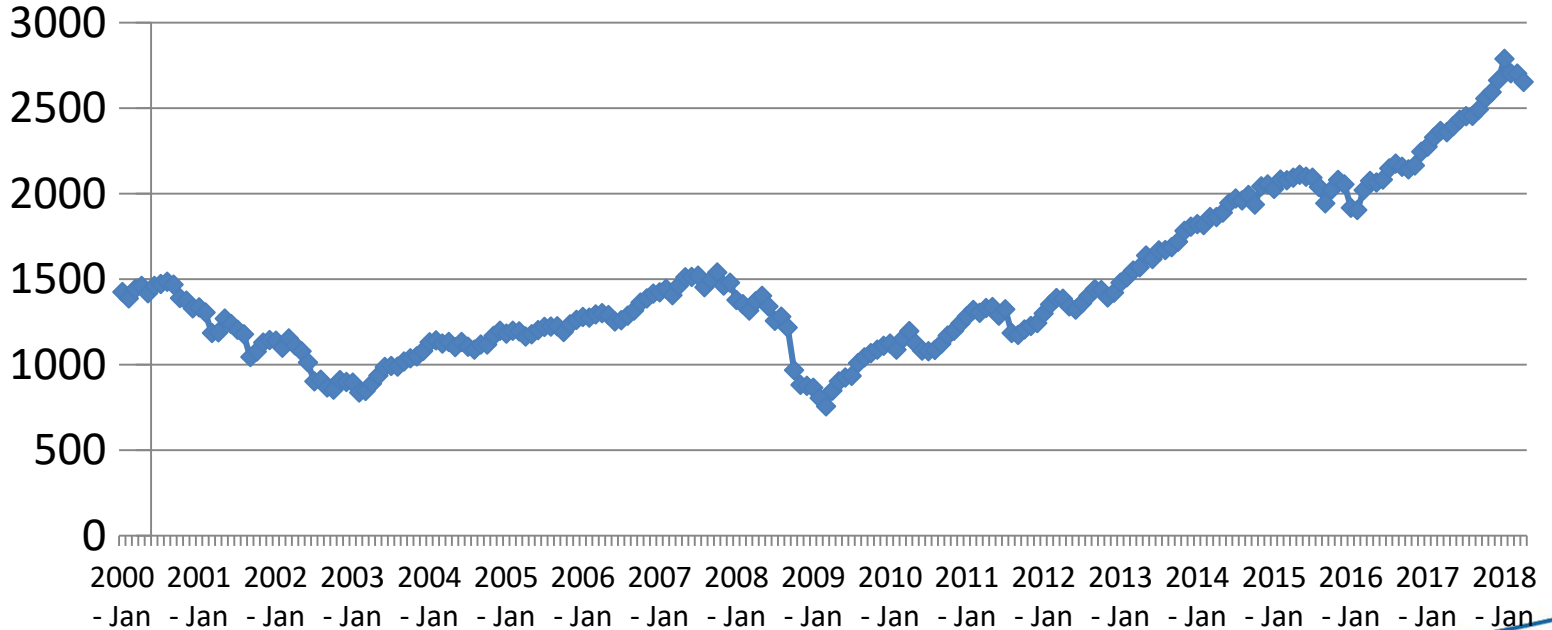


GDP Growth Rate

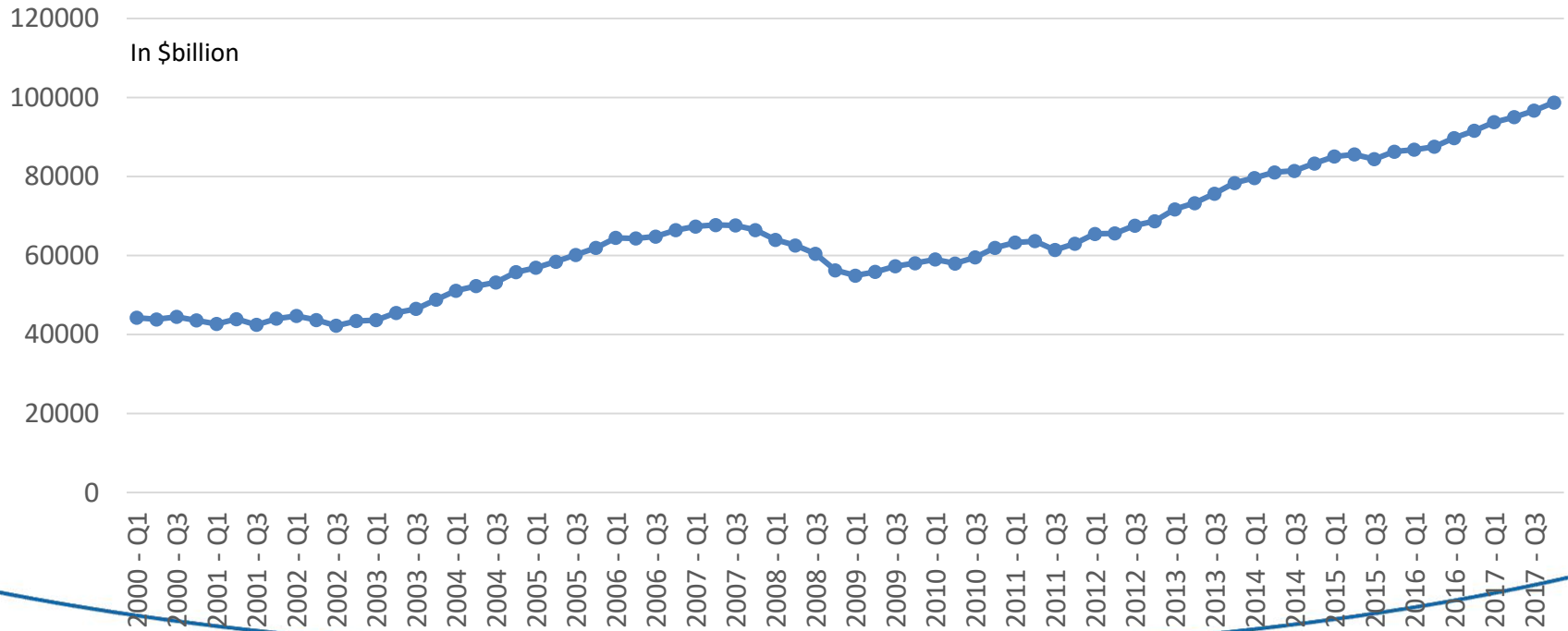
3% in Q2 and Q3 (and Q4)



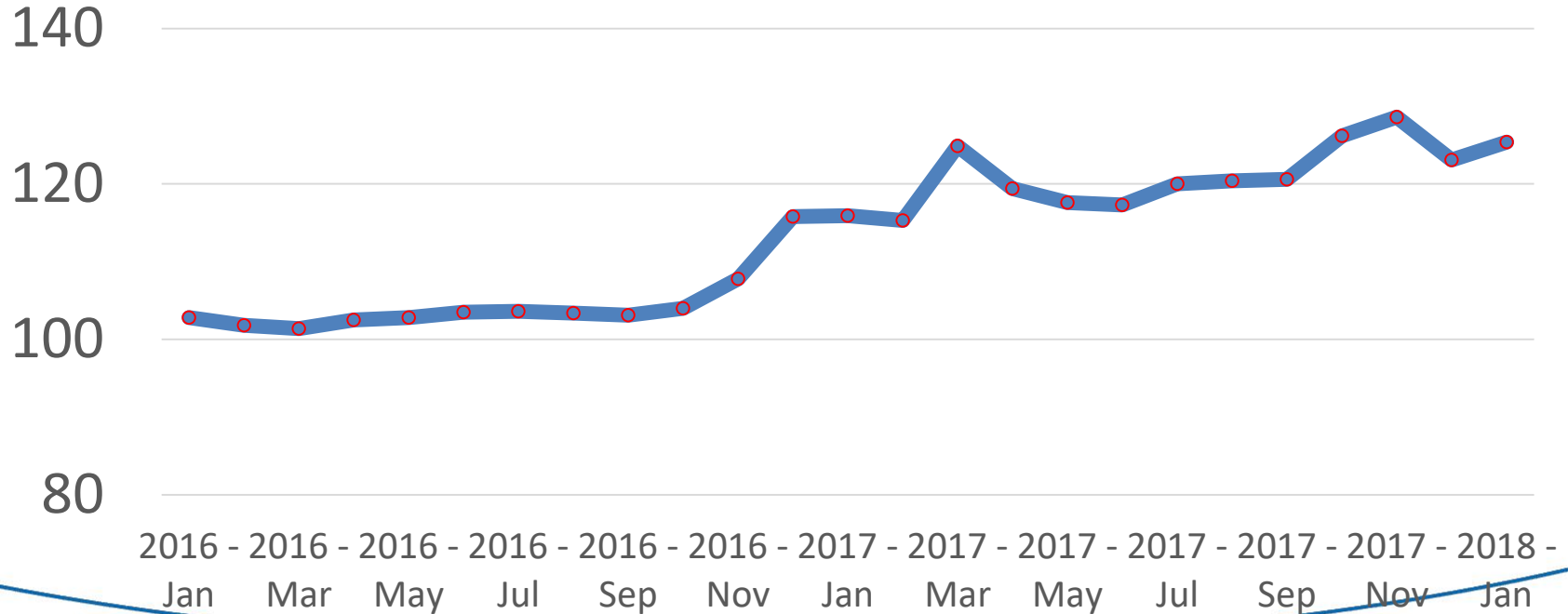
Stock Market: S&P 500



Record High Wealth

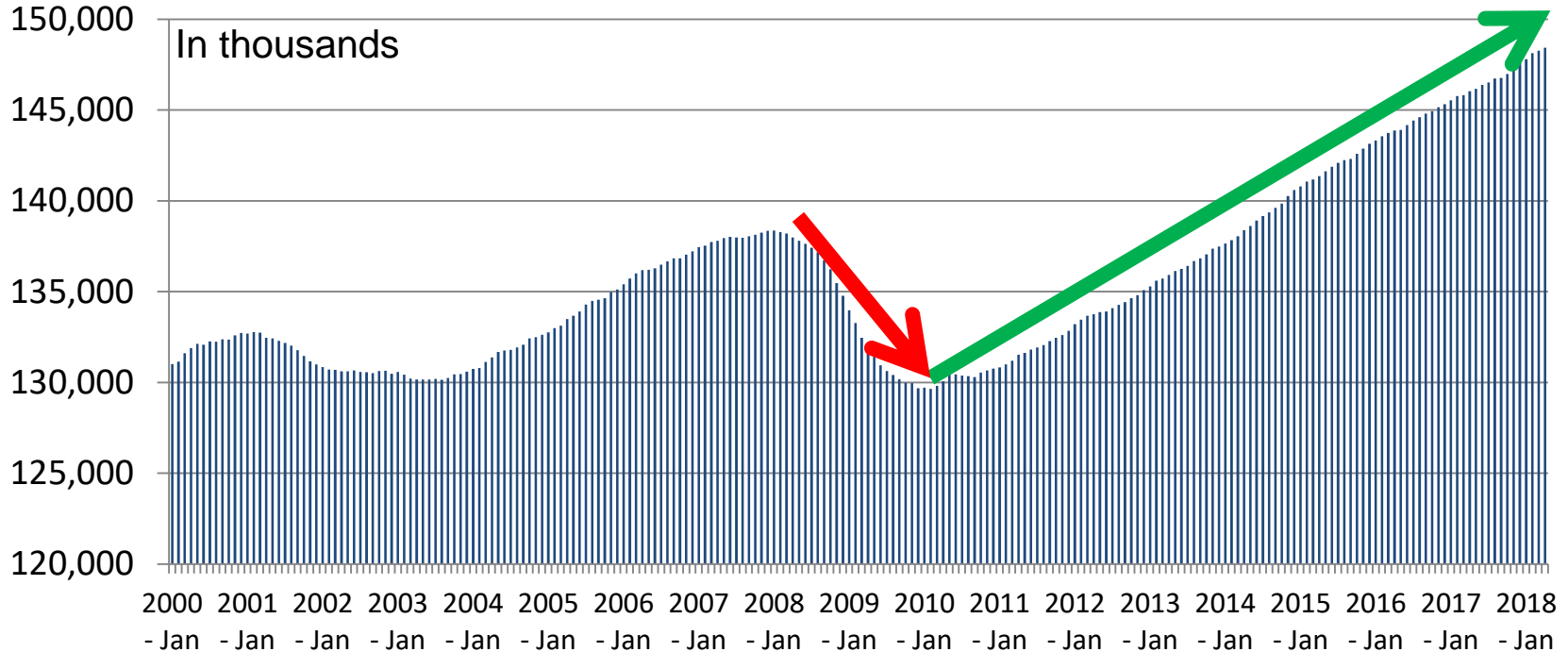


Animal Spirit Revival of Consumers? Consumer Confidence Index

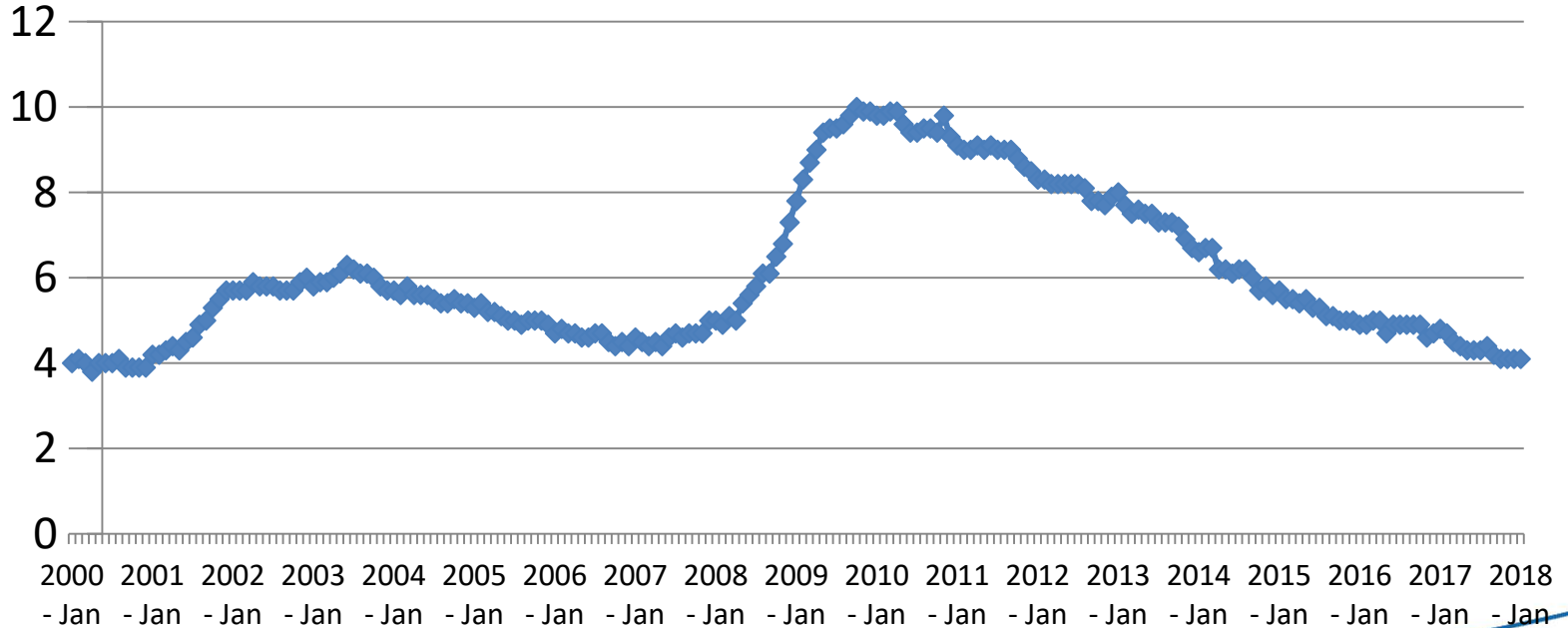


Job Gains for 90 straight months

(18 million gained from 2010)

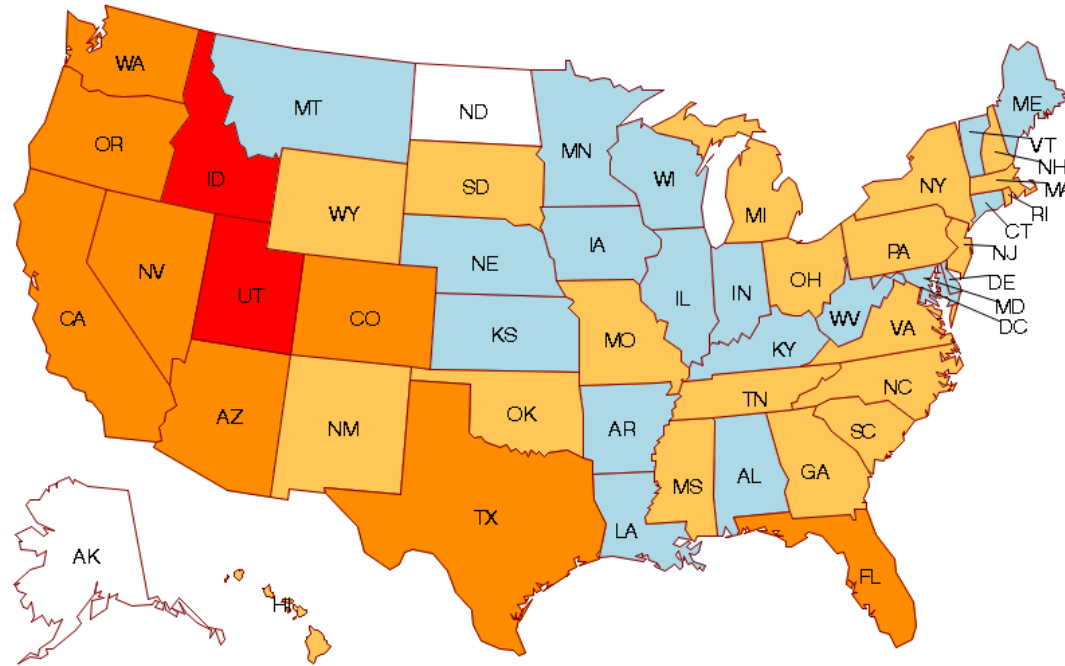


Low Unemployment Rate

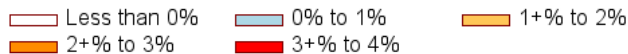


Recent Employment Growth

(March 2017 to March 2018)

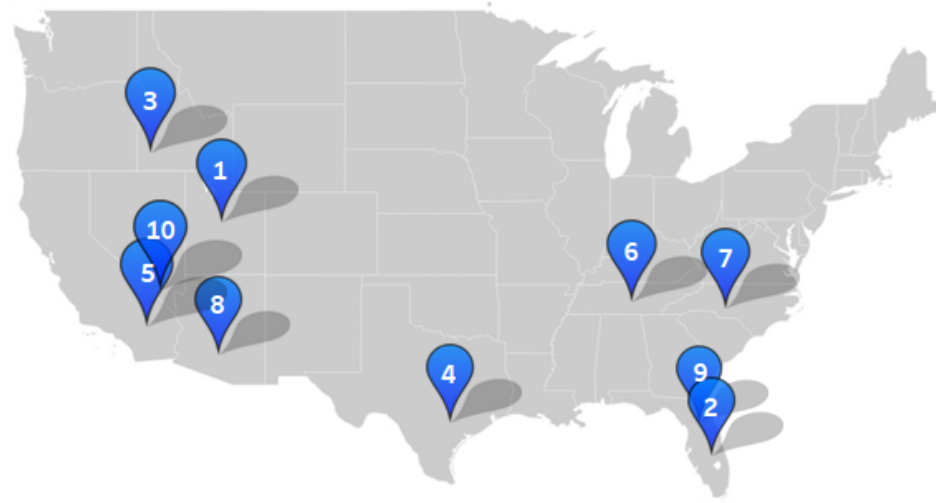


Change in Employment in March 2018 from One Year Ago



The Strongest Job Markets

in the last three years



	Job growth (3 years)	Jobs (3 years)
1. Provo-Orem, UT	15.8%	+35,000
2. Orlando-Kissimmee et al., FL	12.7%	+144,700
3. Boise City, ID	12.3%	+35,200
4. Austin-Round Rock, TX	11.6%	+110,300
5. Riverside-San Bernadino et al., CA	11.4%	+151,900
6. Nashville-Davidson et al., TN	10.6%	+95,400
7. Charlotte-Concord et al., NC-SC	10.1%	+110,200
8. Phoenix-Mesa et al., AZ	10.0%	+190,800
9. Jacksonville, FL	9.9%	+63,200
10. Las Vegas-Henderson et al., NV	9.7%	+88,000

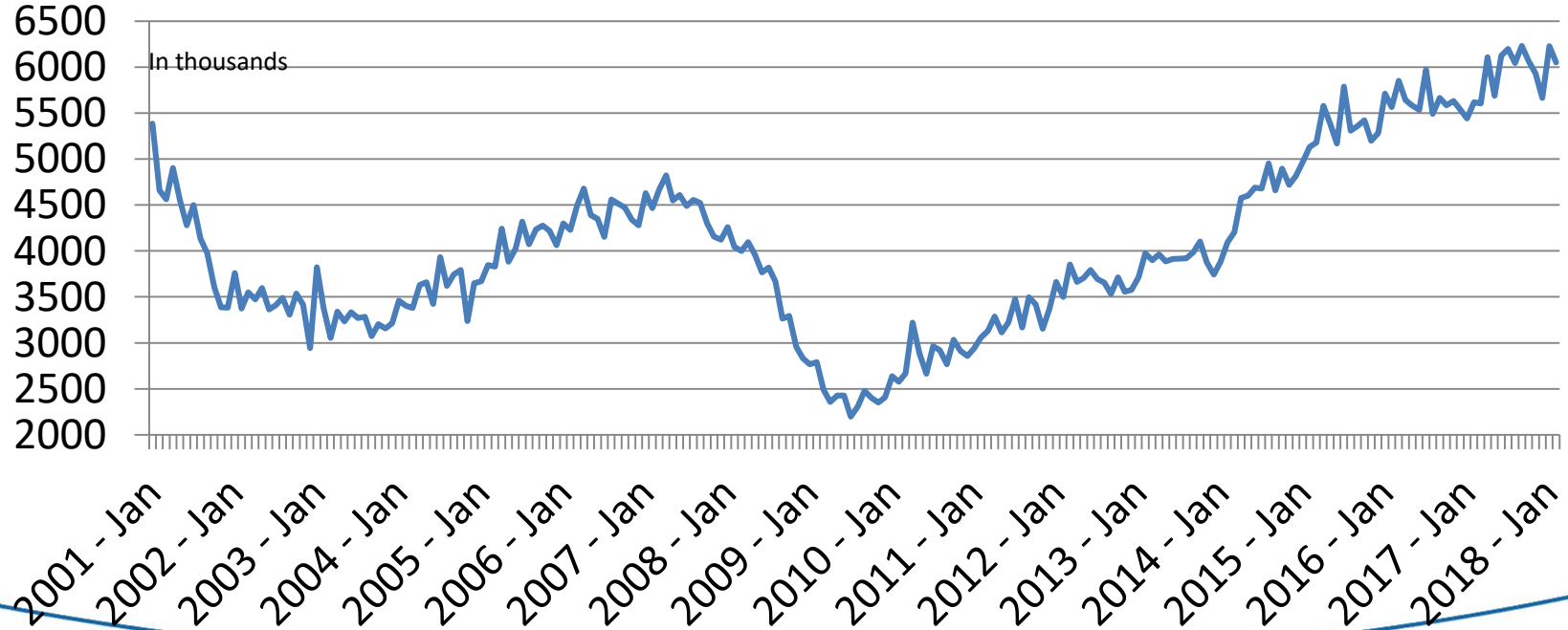
Source: U.S. Bureau of Labor Statistics.

Oil Price – Bouncing Off Lows

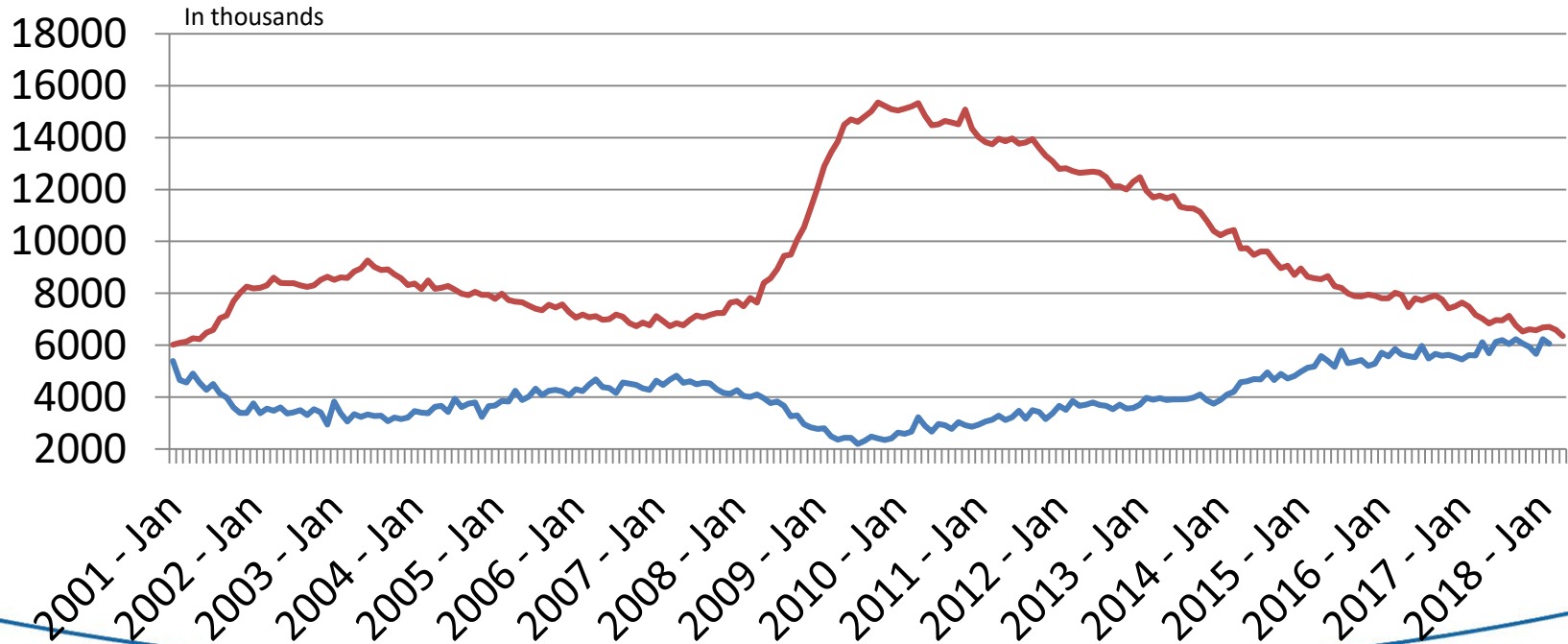
West Texas Intermediate



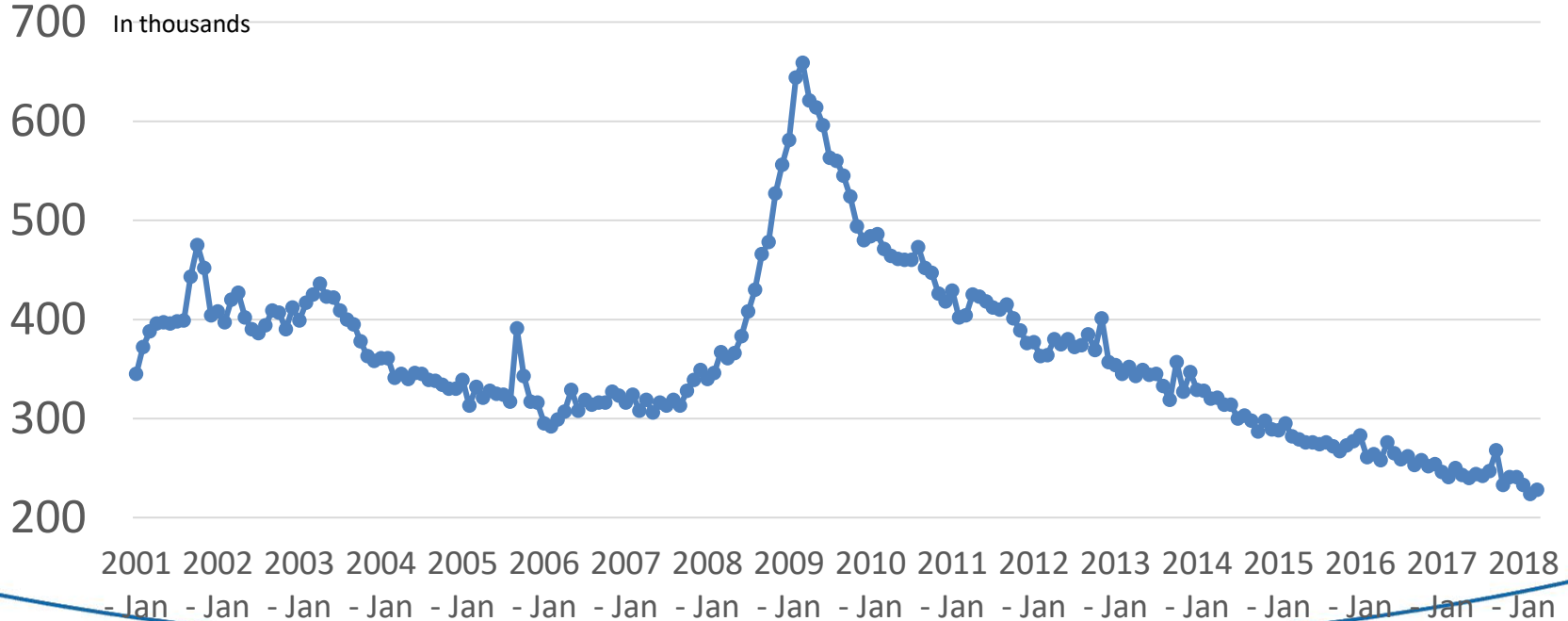
Total Job Openings



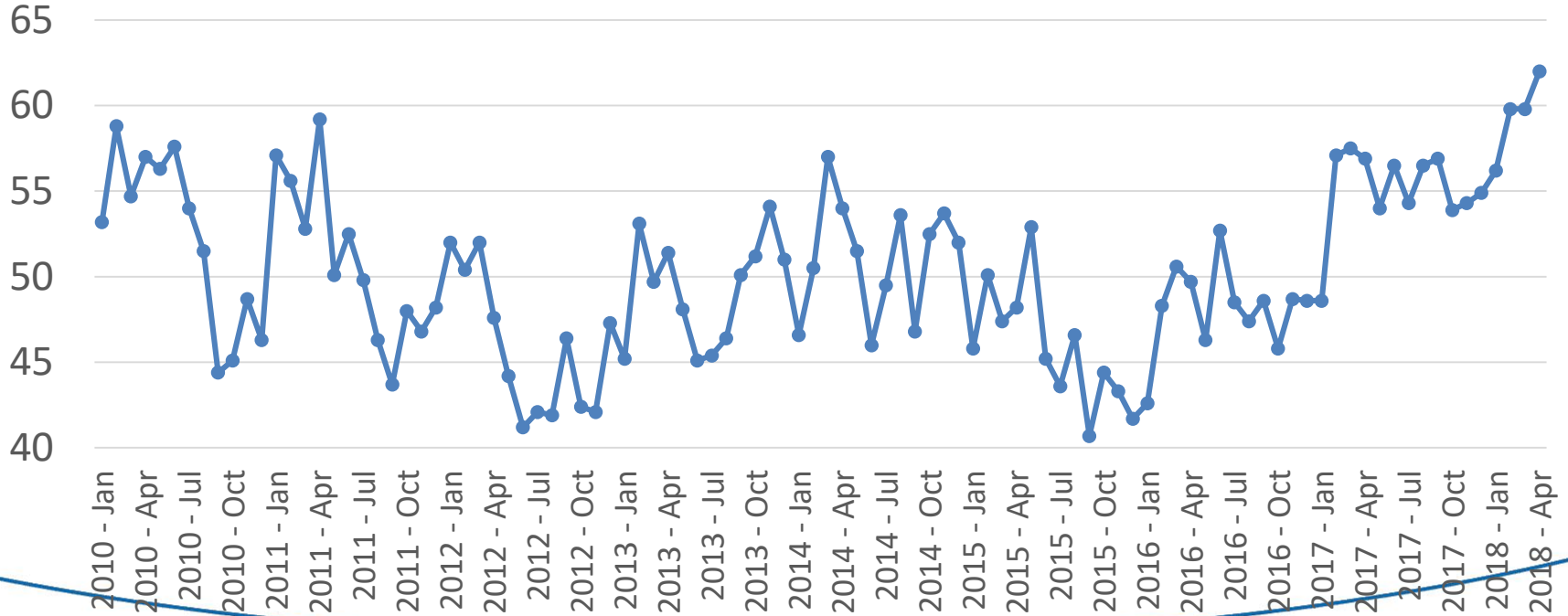
Job Openings = Job Seekers



Weekly Initial Unemployment Insurance Filings



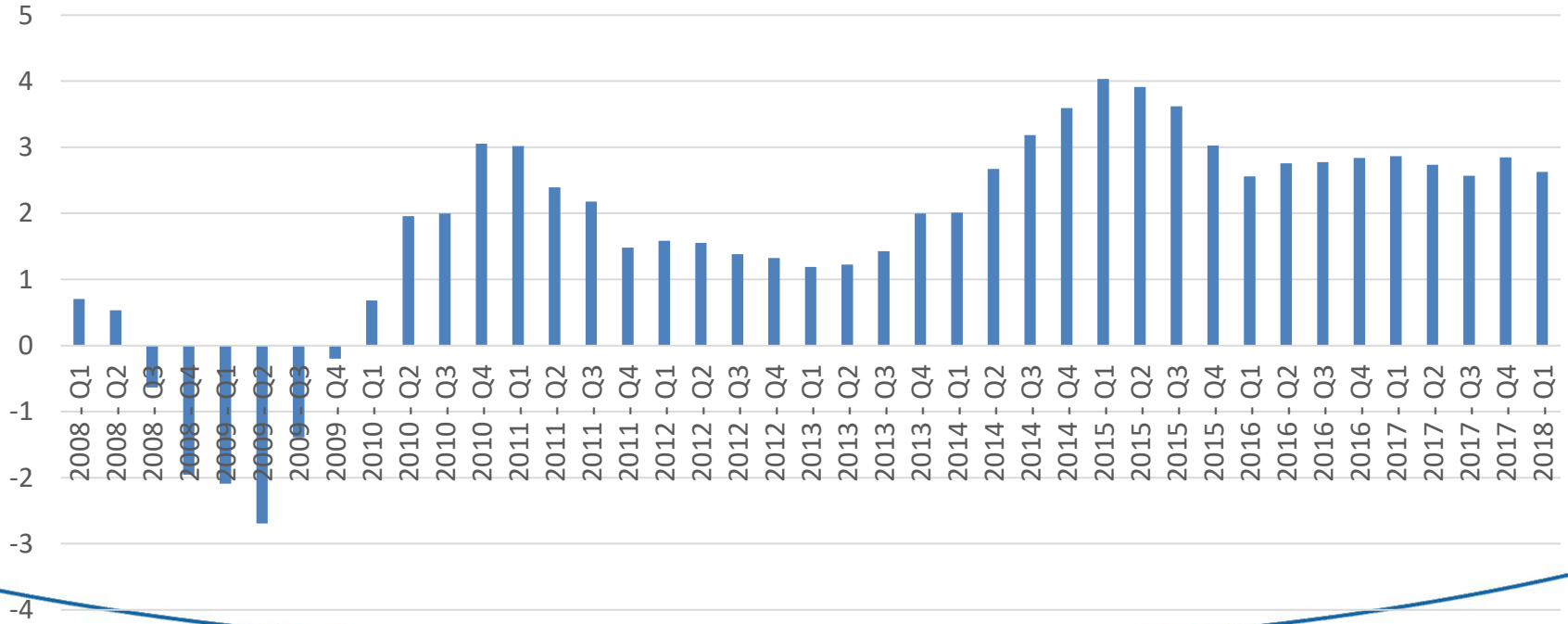
Backlog of Orders: Breaking Higher



Source: ISM Institute

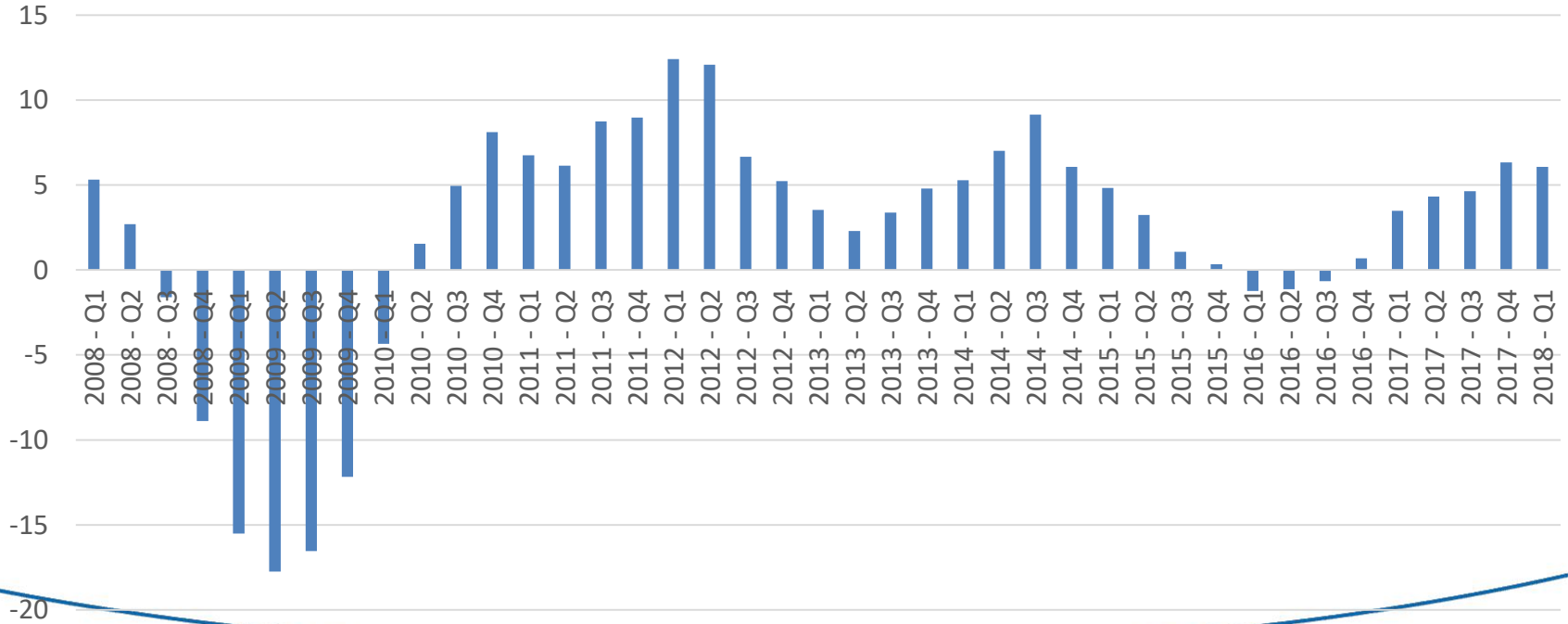
Consumer Spending Growth

(year over year % growth after inflation)



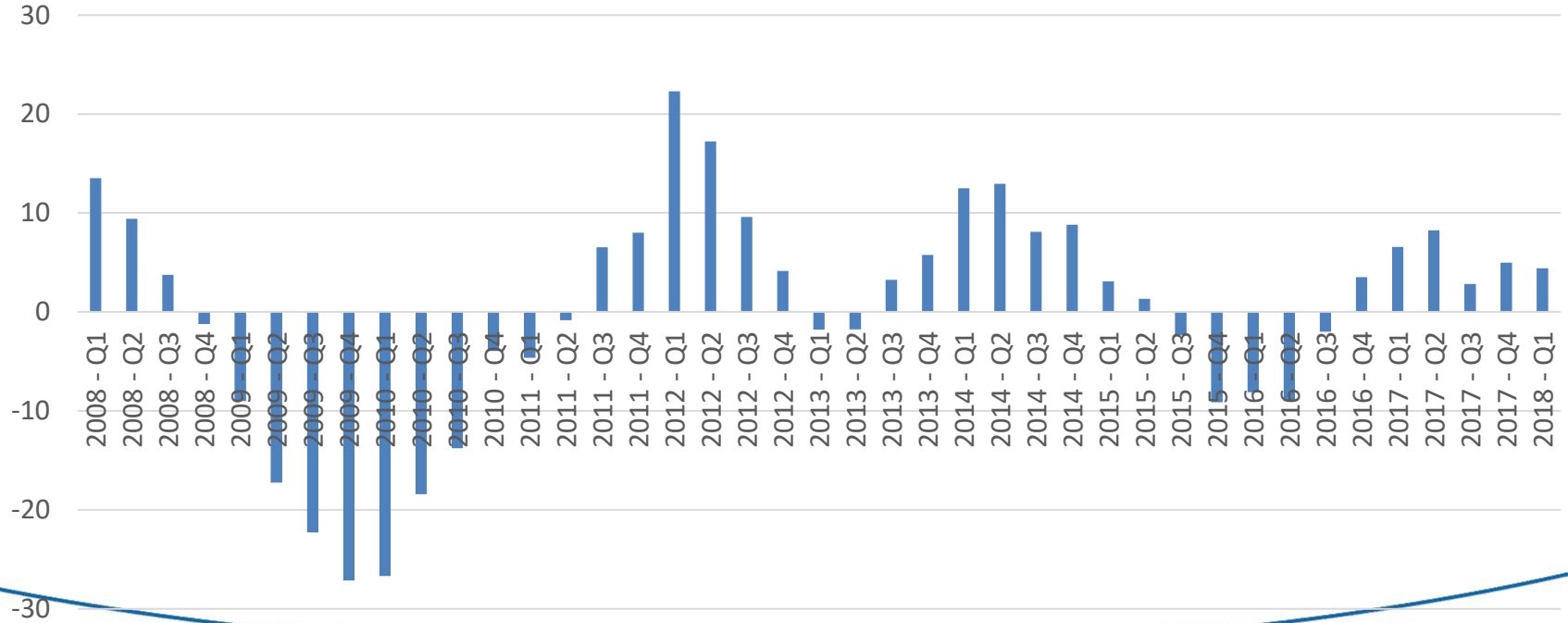
Business Spending Growth

(Non-Residential Fixed Investment, year over year % growth after inflation)



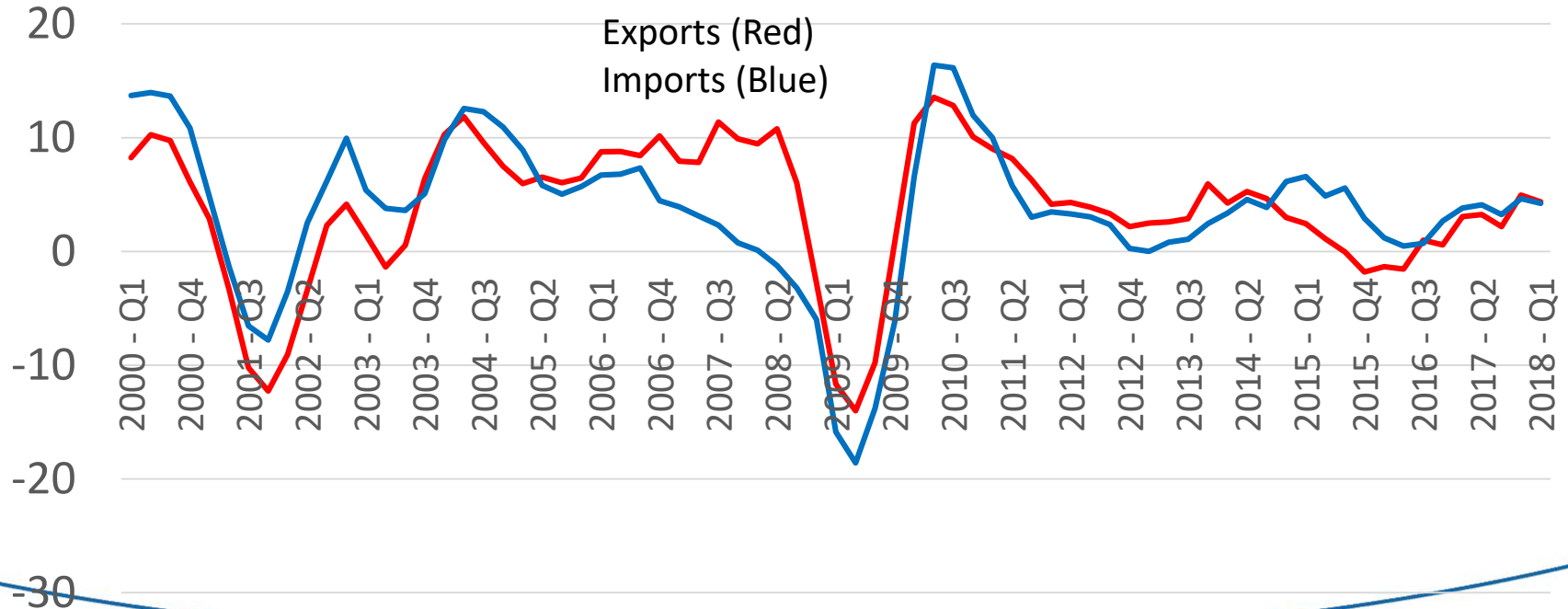
Commercial Construction Spending Growth

(year over year % growth after inflation)



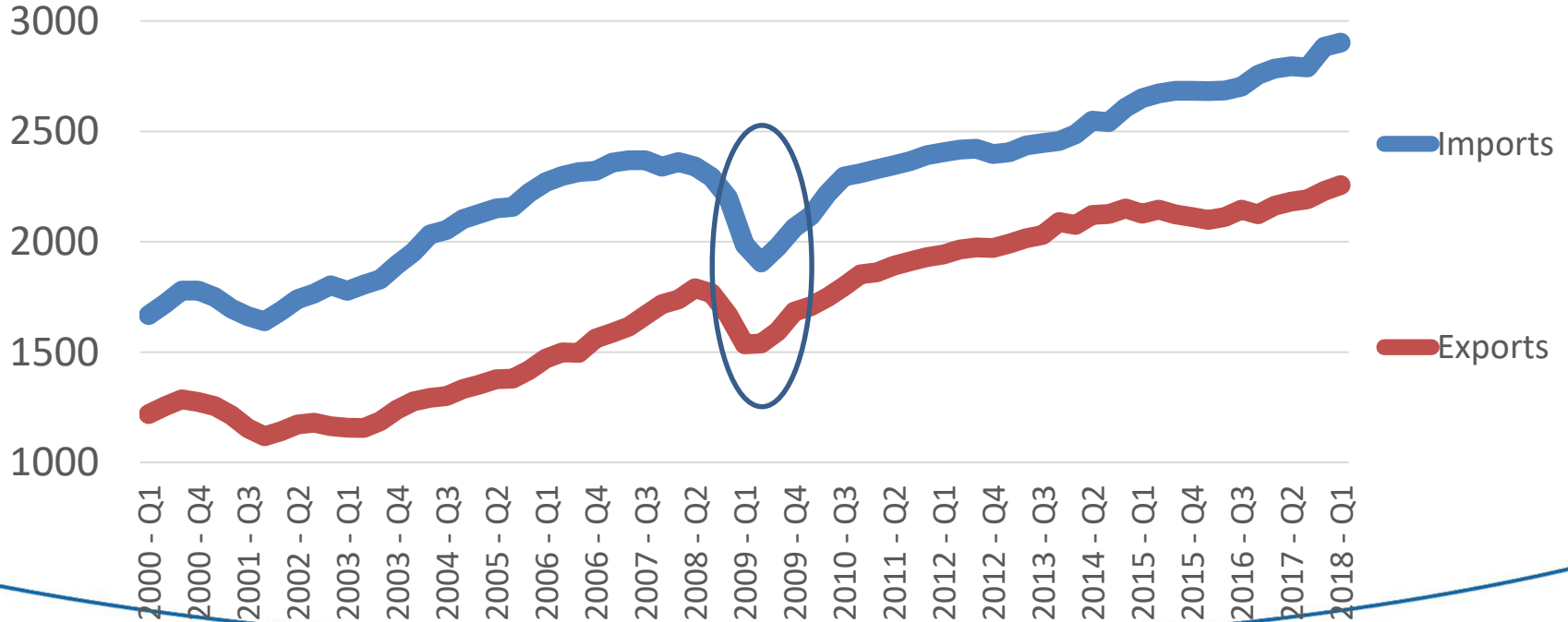
Export and Import Growth Rates

(year over year % growth after inflation)



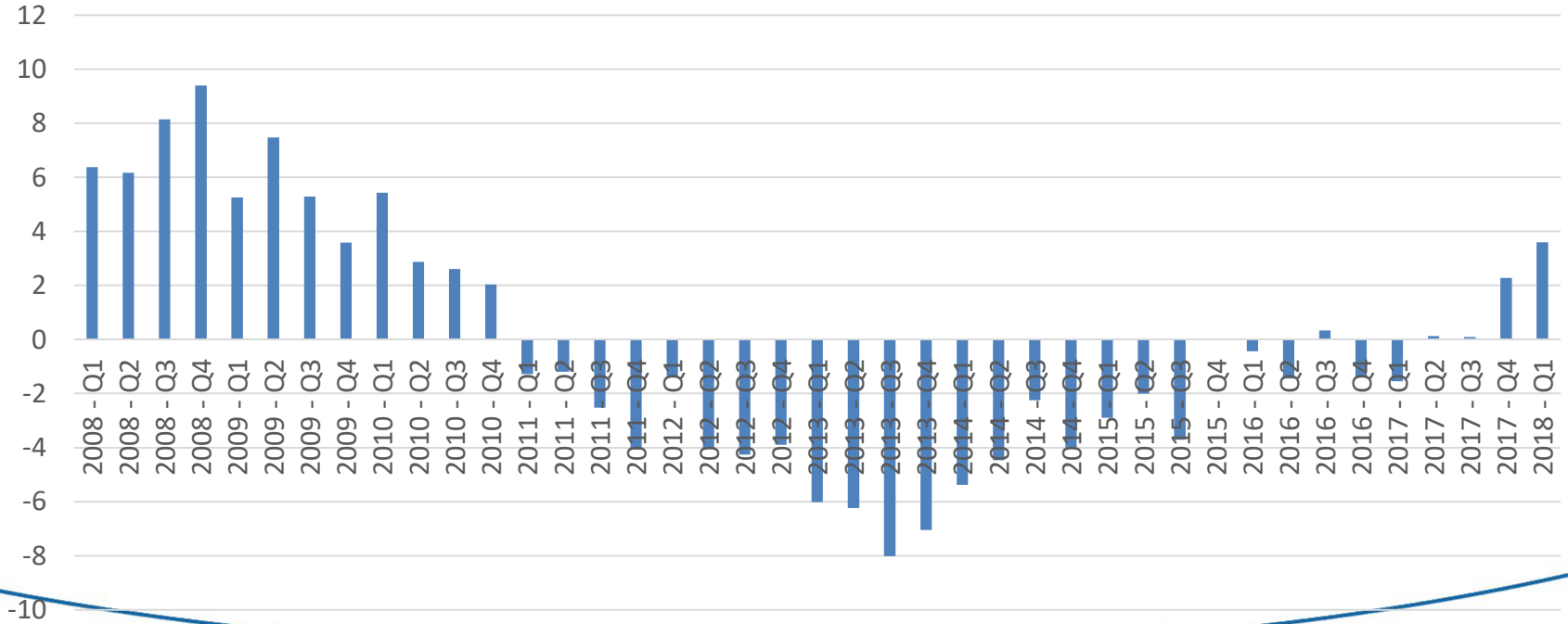
Exports and Imports

(in \$ billion 2009 Prices)



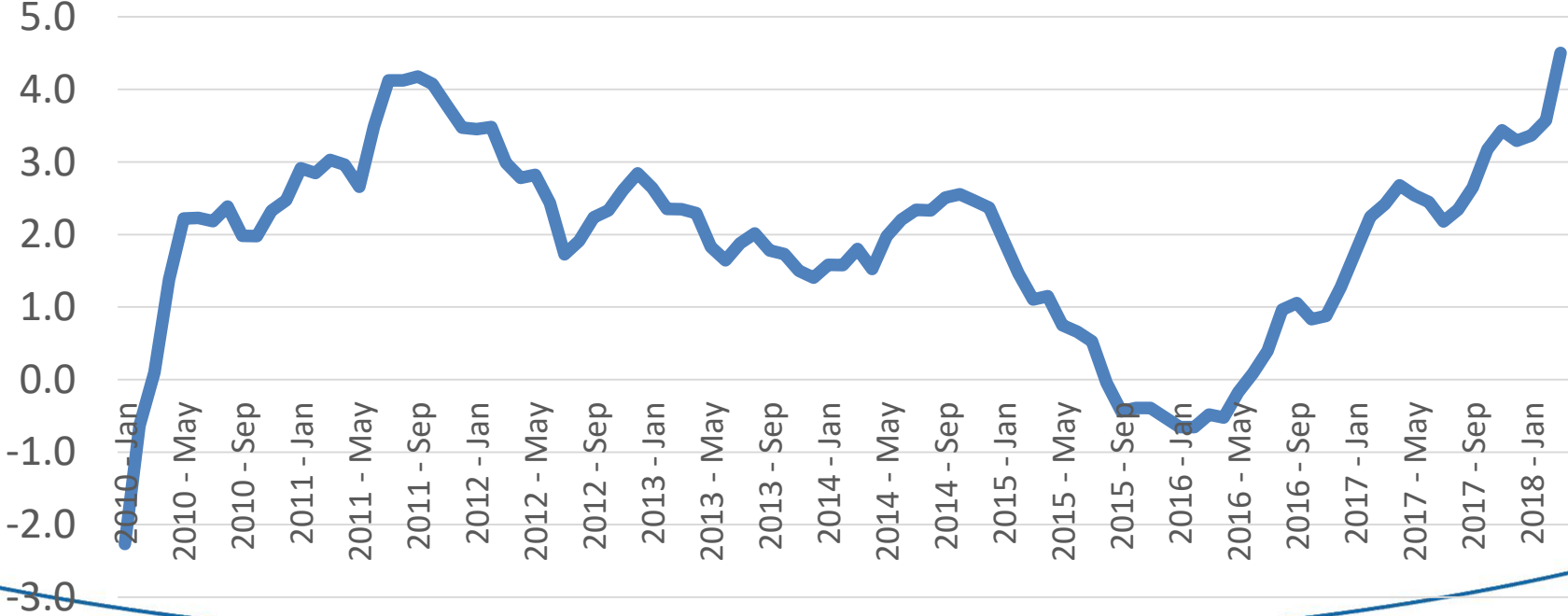
National Defense Spending Growth

(year over year % growth after inflation)

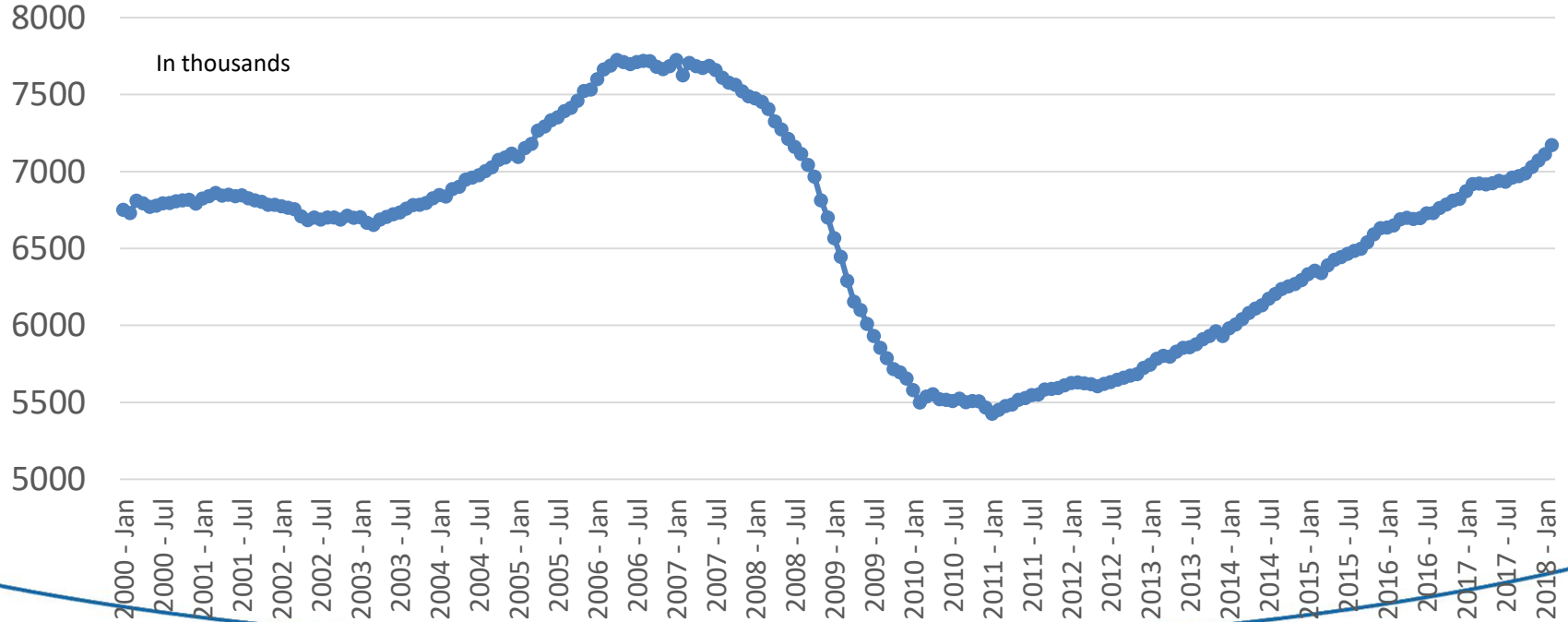


Producer Prices on Materials for Construction

(year over year % growth)

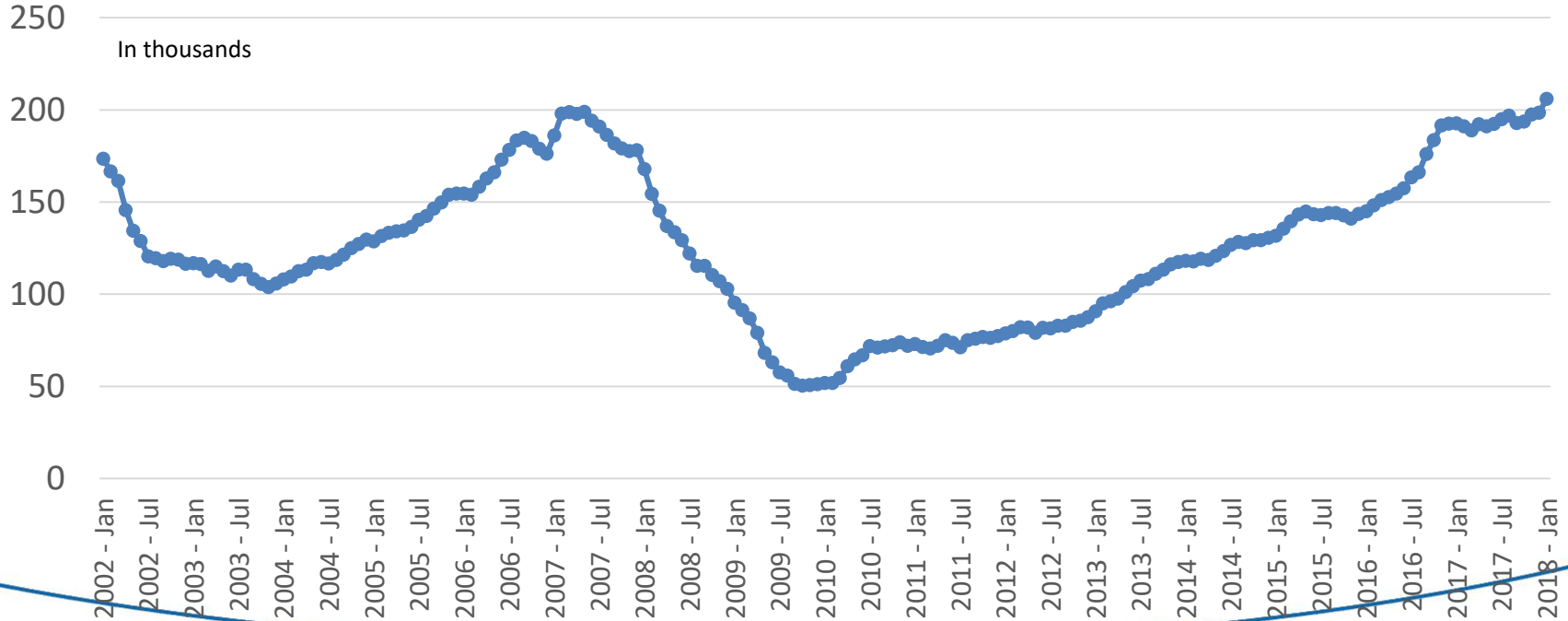


Construction Workers



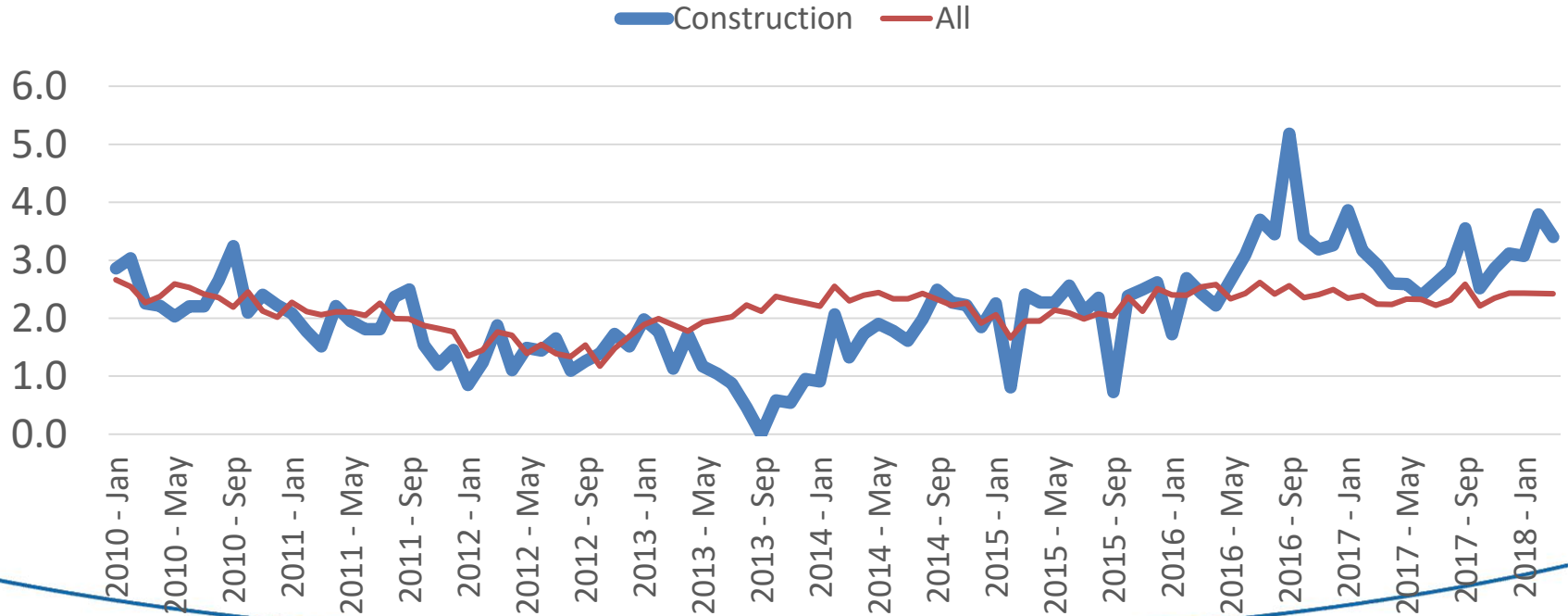
Construction Job Openings

(12-month moving average)



Construction Job Wage Increase

(year over year % growth)



US CRE fundamentals on upswing...

OFFICE



- Office demand strong, due to rising employment
- Mobile workforce; increased telecommuting
- Flexible space layouts
- Moderate supply leads to 13% vacancy

RETAIL



- Department stores lose ground
- Malls close/redevelop
- Small/discount grocery stores heat up: Aldi
- Amazon moves into grocery space with Whole Foods
- Completions remain low
- Rents experience solid growth

INDUSTRIAL



- Increased trade & rising e-commerce place industrial sector on hot streak
- “Last mile” distribution + Intermodal logistics
- Panama Canal; East coast ports
- Net absorption remains strong
- Net rent growth reaches record

APARTMENT



- Mixed-use urban development; live/work/play
- Class A supply; small floorplans; amenities
- Demand remains robust; 12-mo net absorption: 230,000 units
- 12-mo Completions: 260,000 units
- Vacancy moves up to 5%; moderates rent growth (2.0% YoY in Q1.18)

Retail Sales

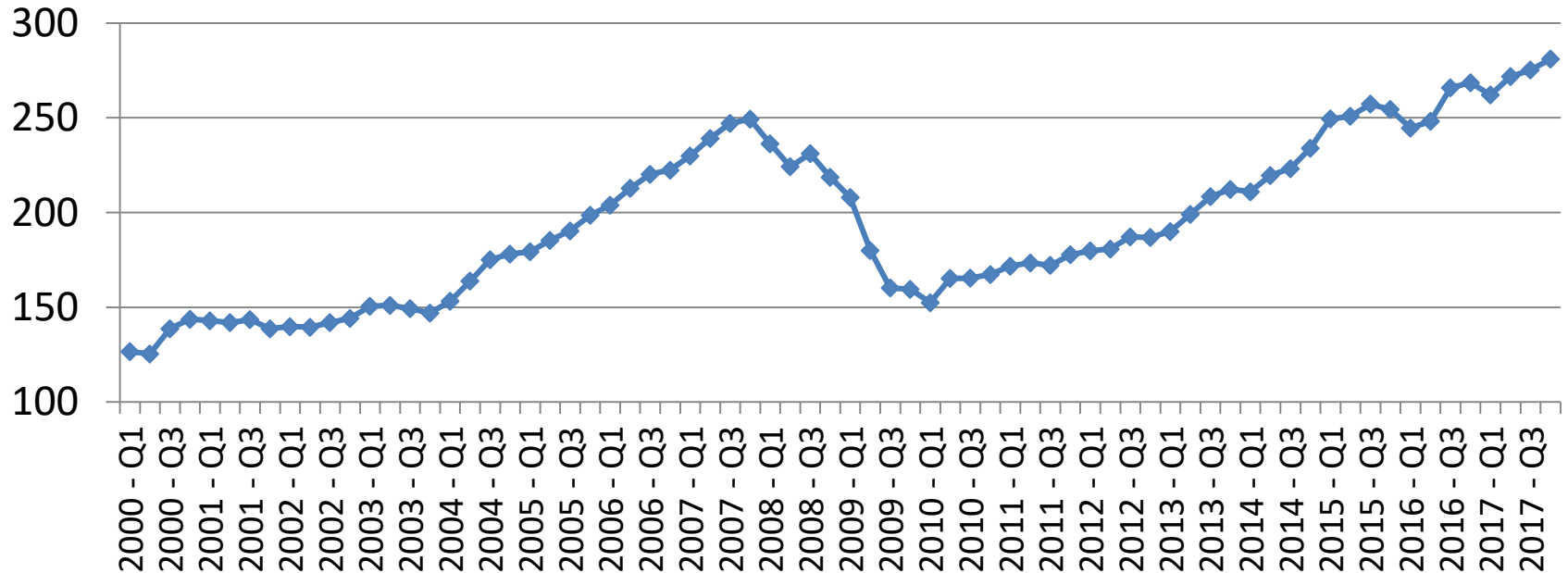


E-commerce Retail Sales

(Growing 4 times as fast as traditional retail sales)

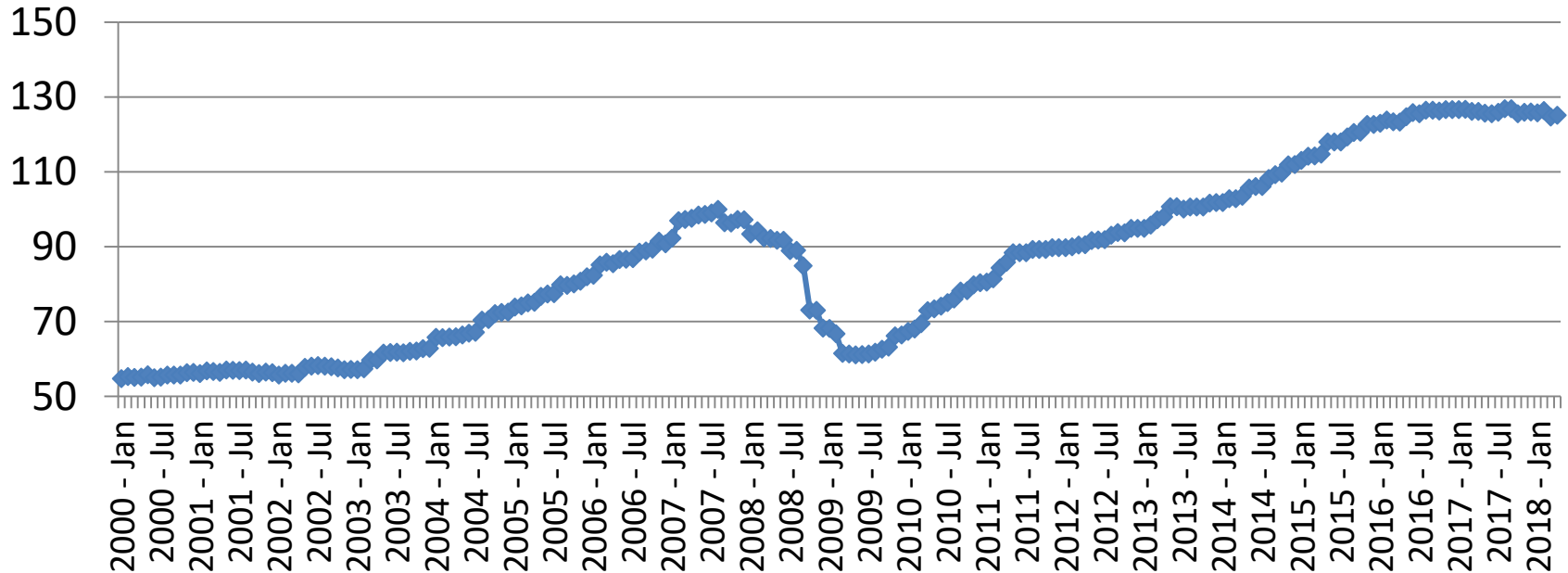


Commercial Property Price – New Highs (85% gain in 7 years)



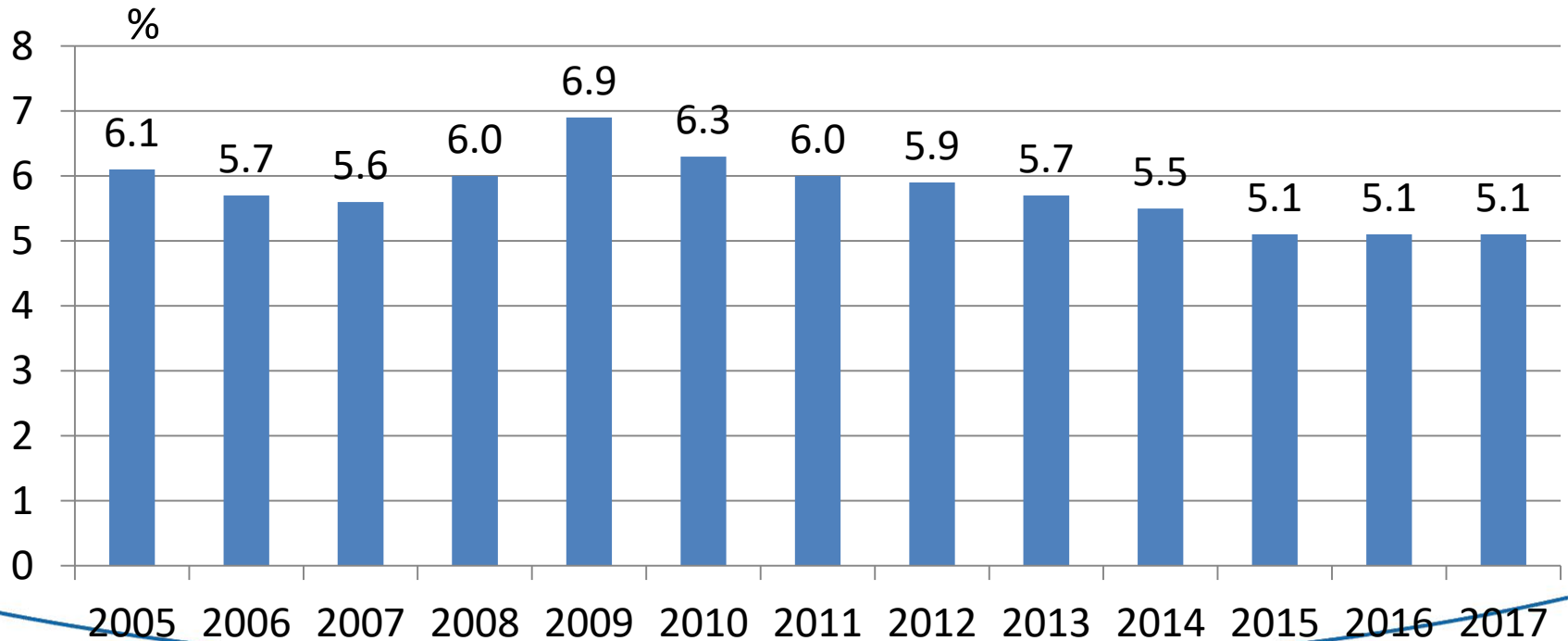
Source: Federal Reserve

Commercial Appraisal Price – Topping Off (More Than Doubled in 7 years)



Source: Federal Reserve

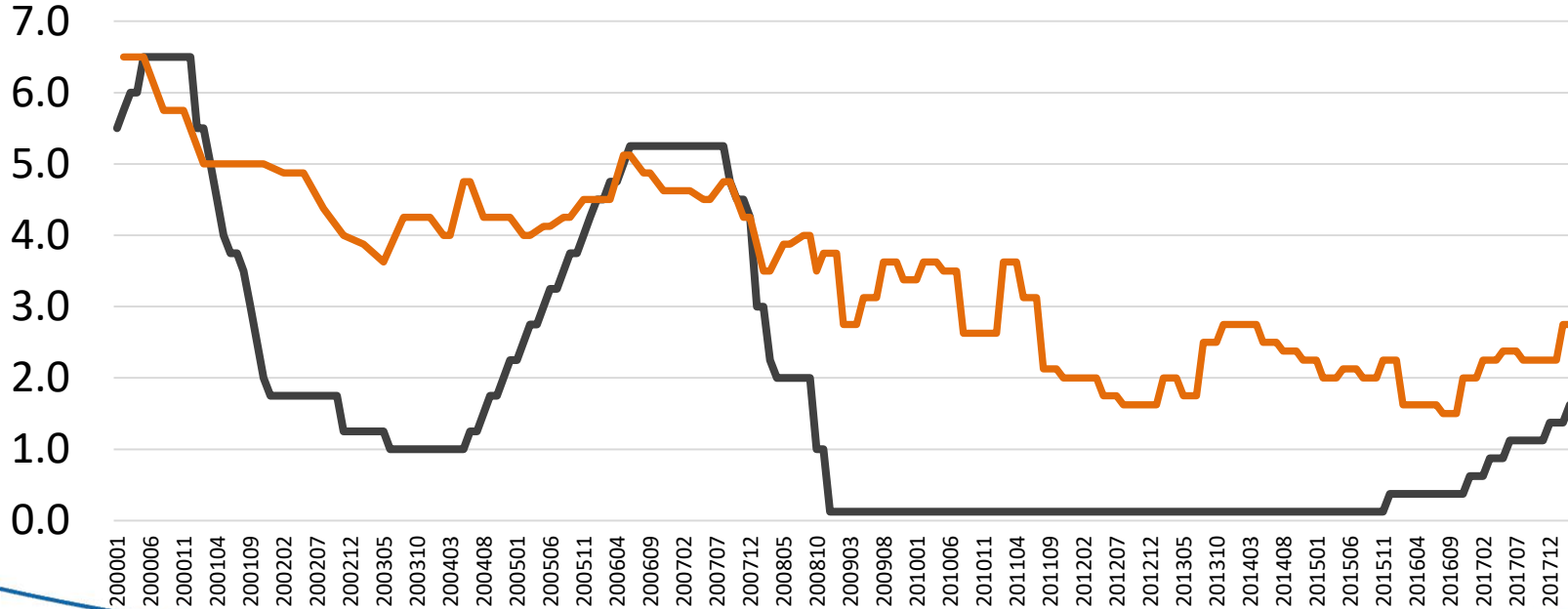
NCREIF Cap Rates – Likely Already Hit Cyclical Low



Fed Rate Hikes and 10-Year Treasury Yield

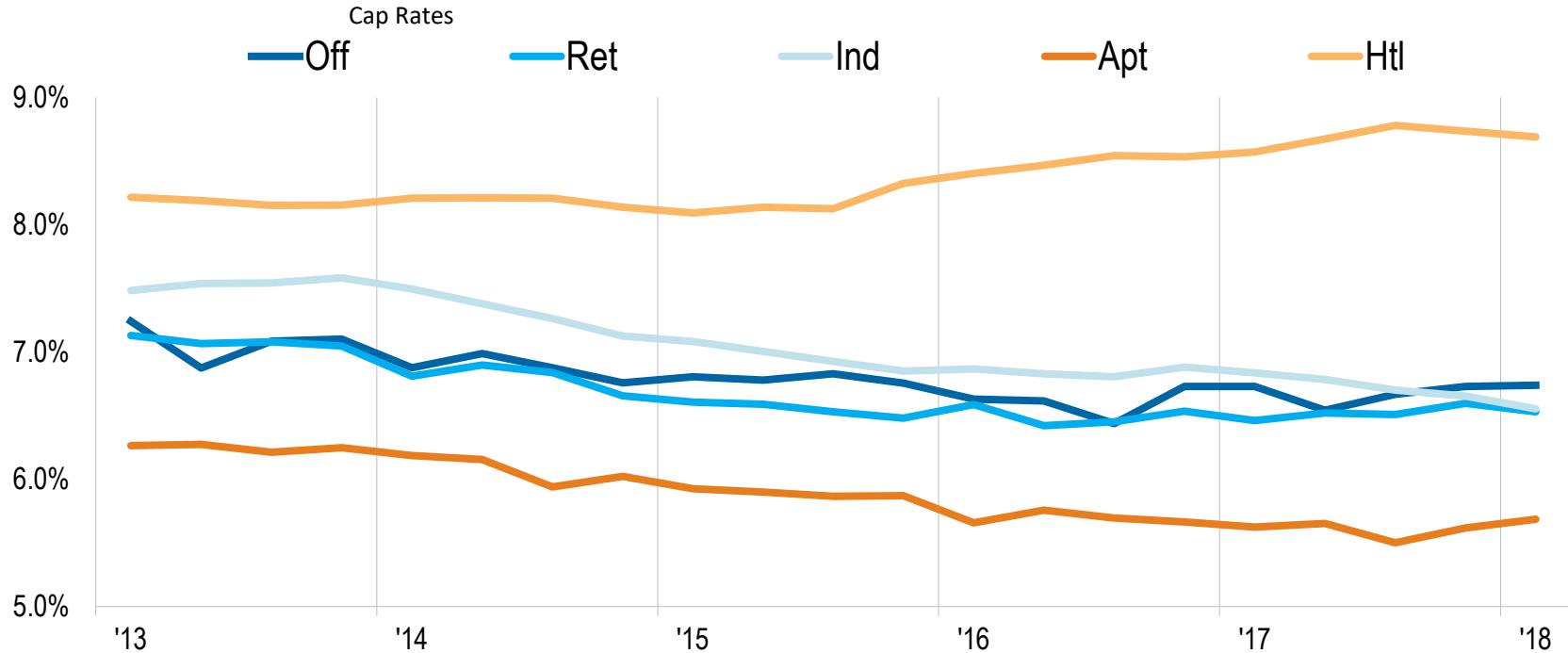
— Federal Open Market Committee: Fed Funds Target Rate (EOP, %)

— Treasury 10-Year Note: Interest Rate (%)



Sources: Federal Reserve Board, Bureau of Public Debt

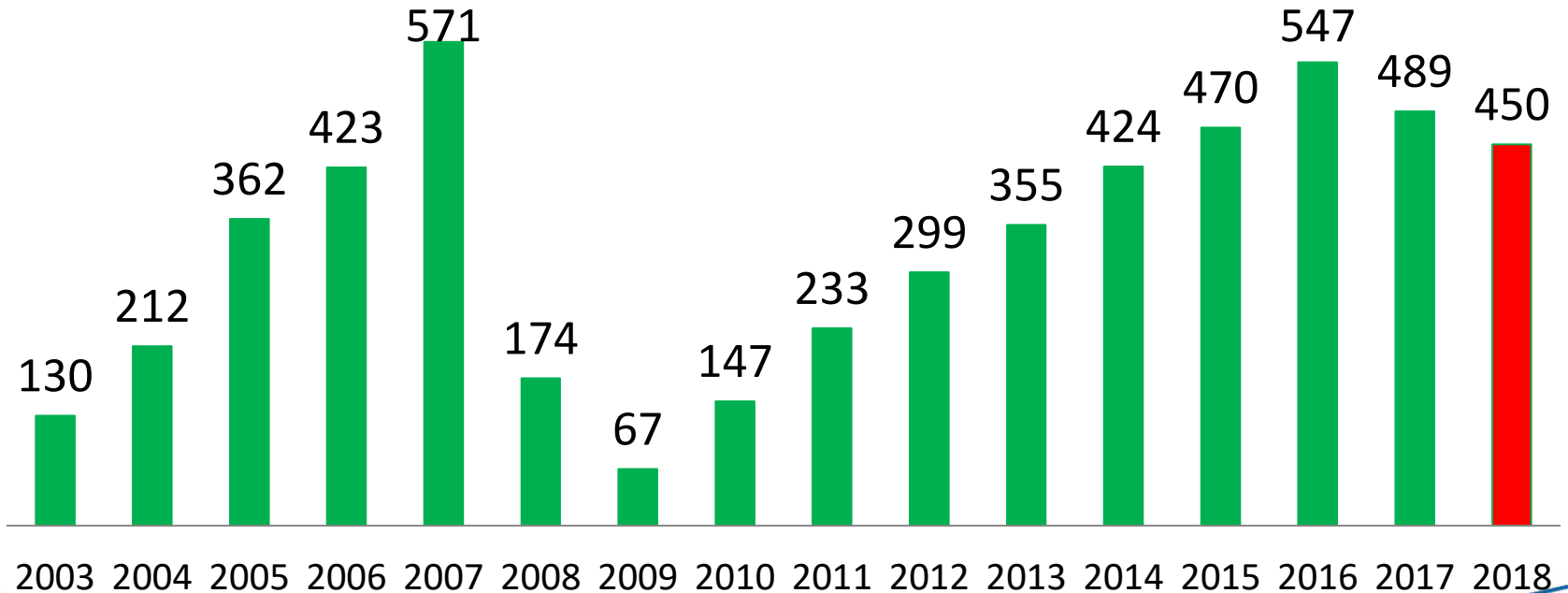
Low Cap Rates ... Except in Hotel



Source: Real Capital Analytics

Commercial Investment Sales of Large Properties

(Properties valued at \$2.5 million and over)



REALTORS® CRE sales advance in 2017...

Q4.2017 Percentage of REALTORS®
Who Closed a Sale Transaction

75%

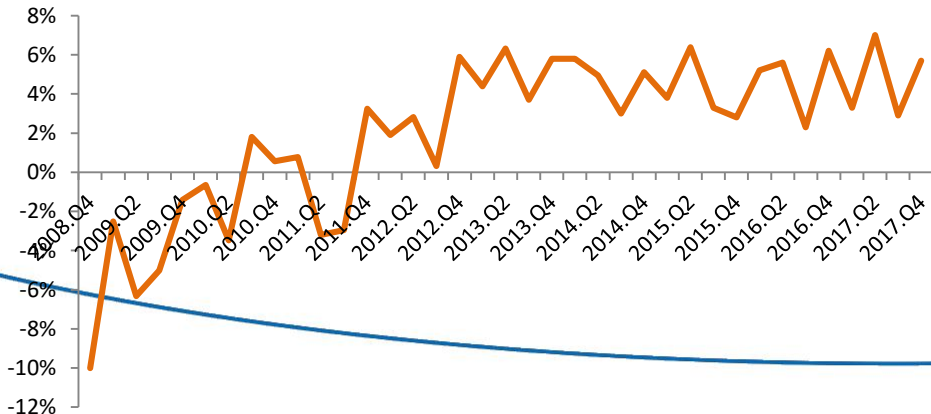
Q4.2017 Investment
Volume

+9.1%

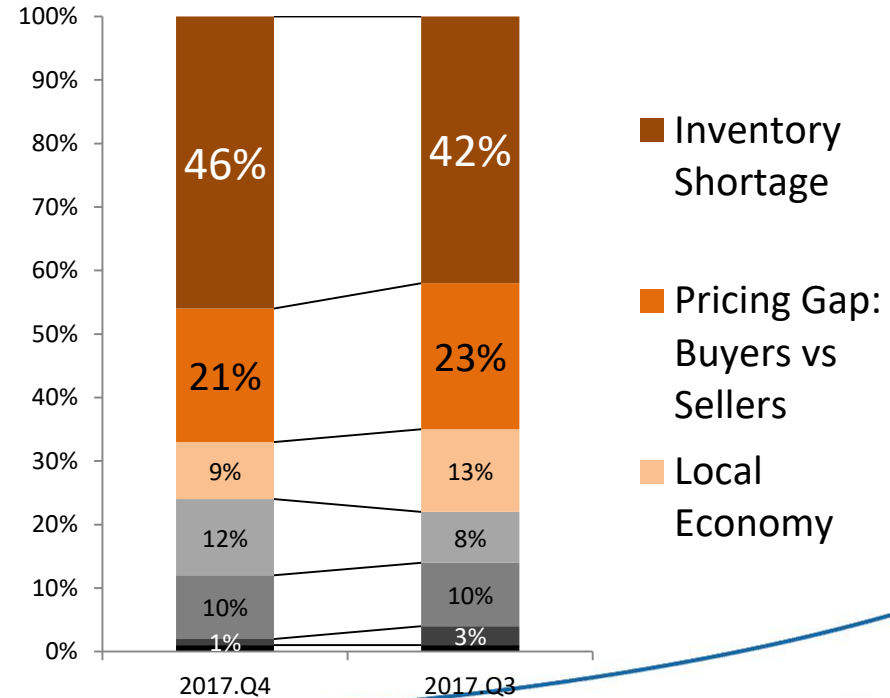
Q4.2017 Investment
Prices

+6.9%

Direction of Business Opportunity (QoQ)

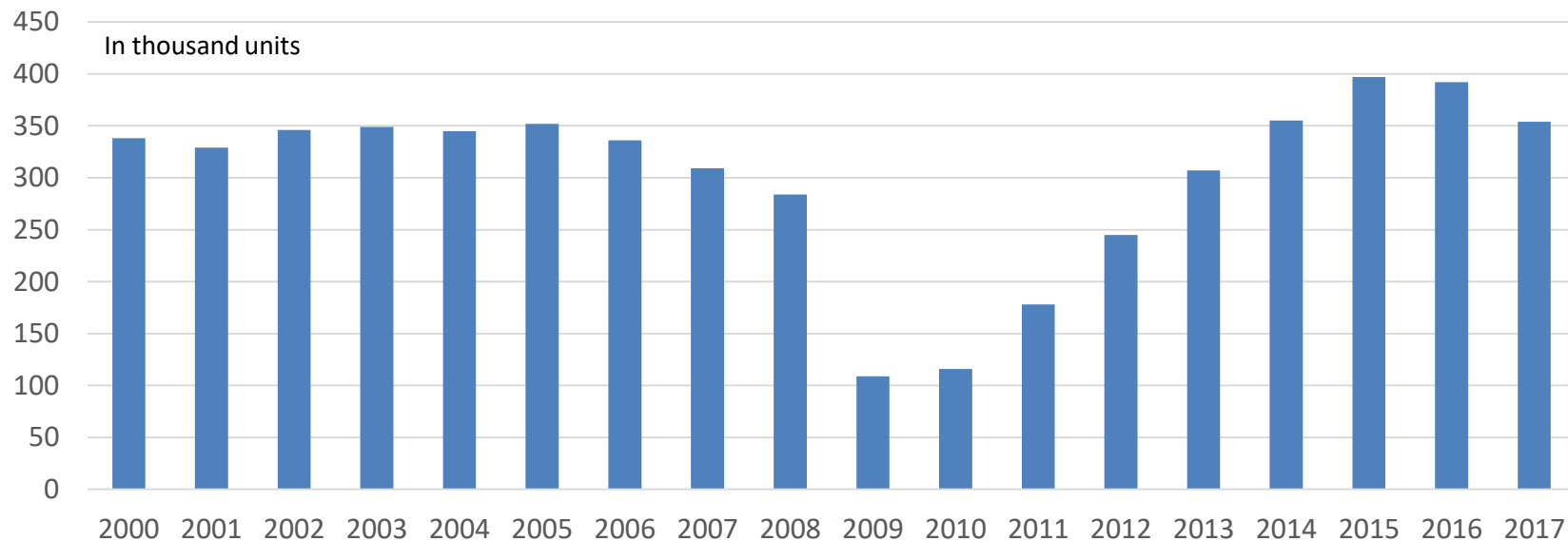


REALTORS® Most Pressing Challenges



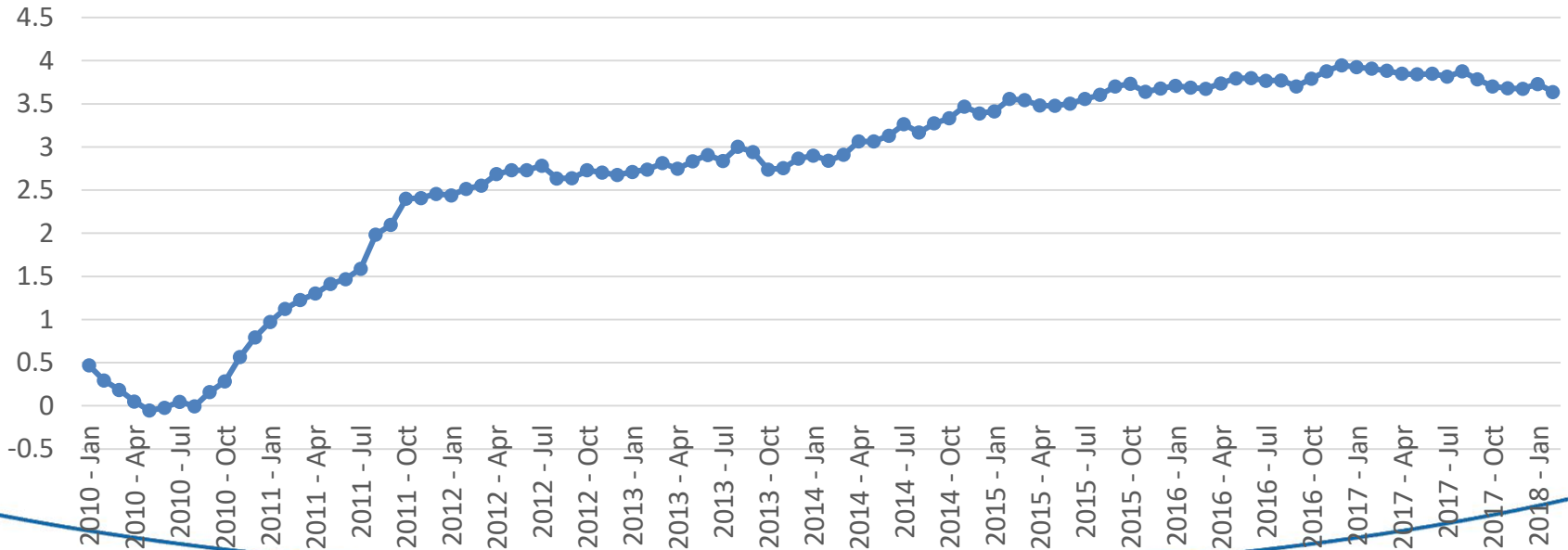
Source: National Association of Realtors®

Multifamily Housing Starts

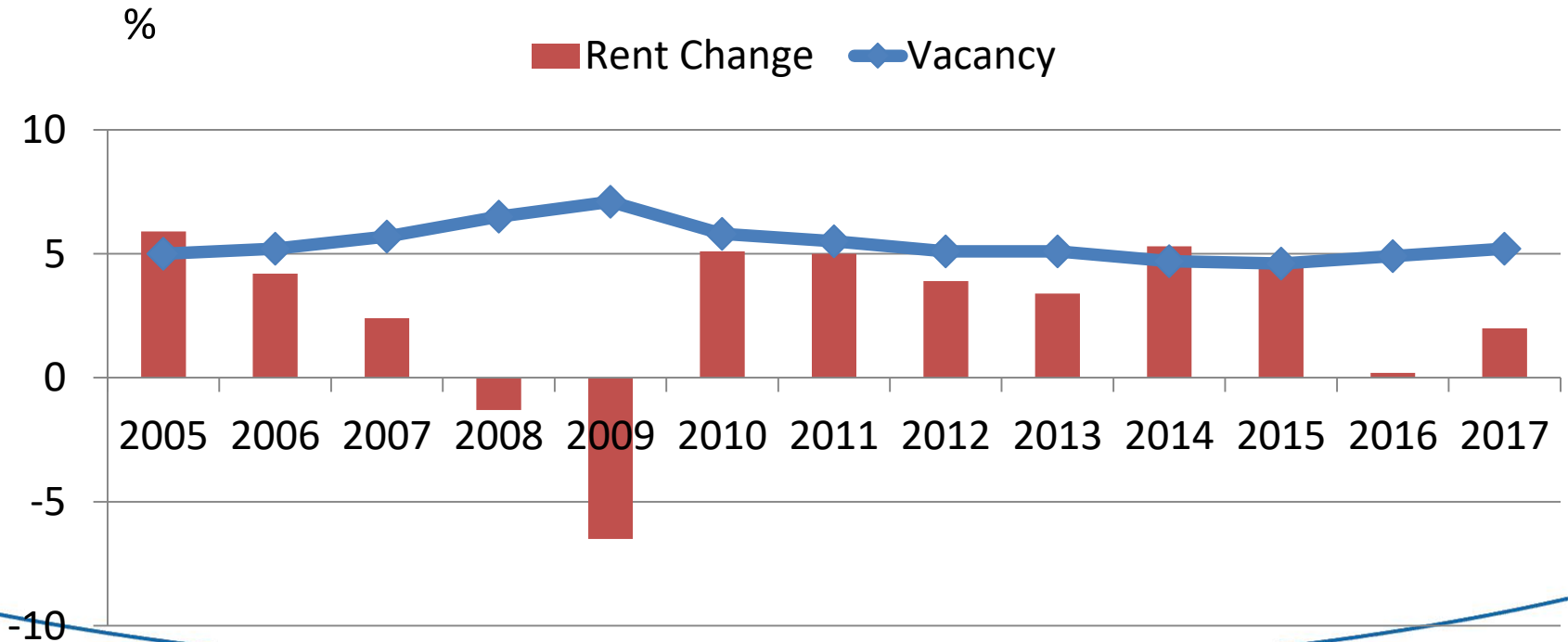


Rent Growth Topping Off?

% change from one year ago

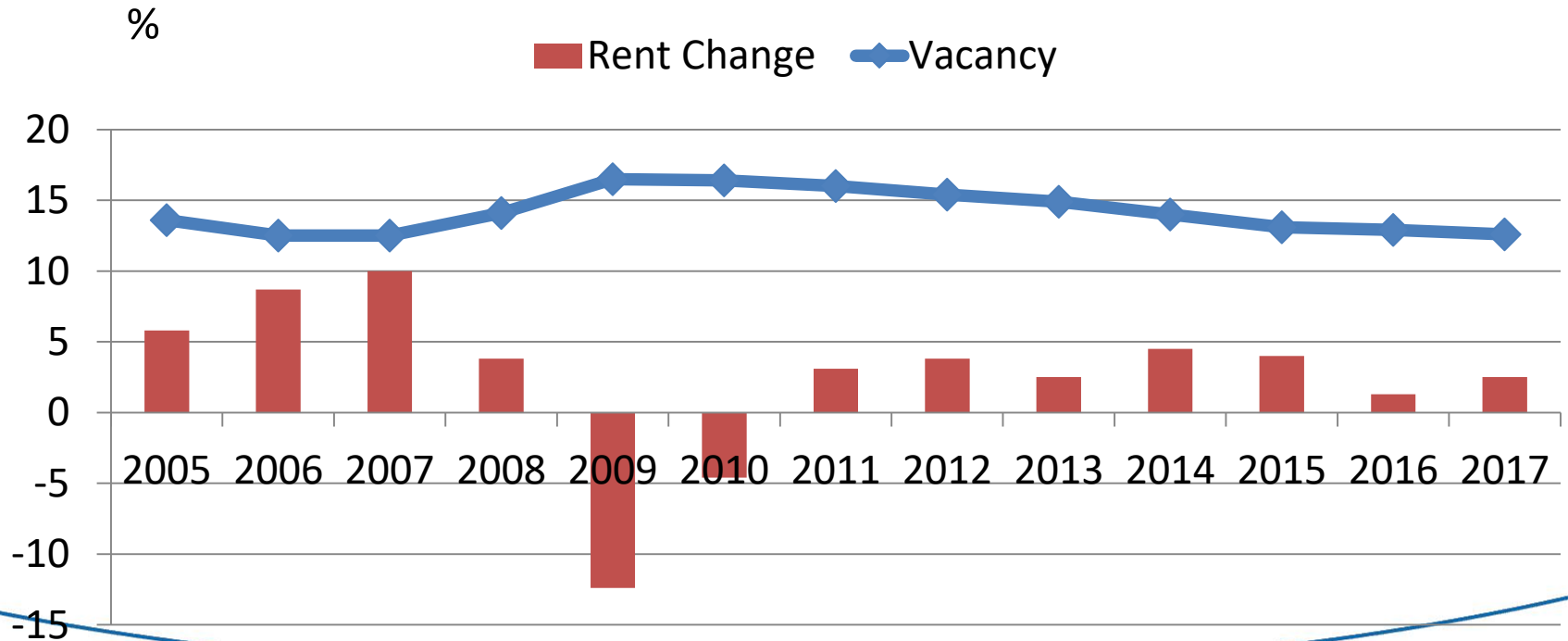


Apartment Vacancy To Rise



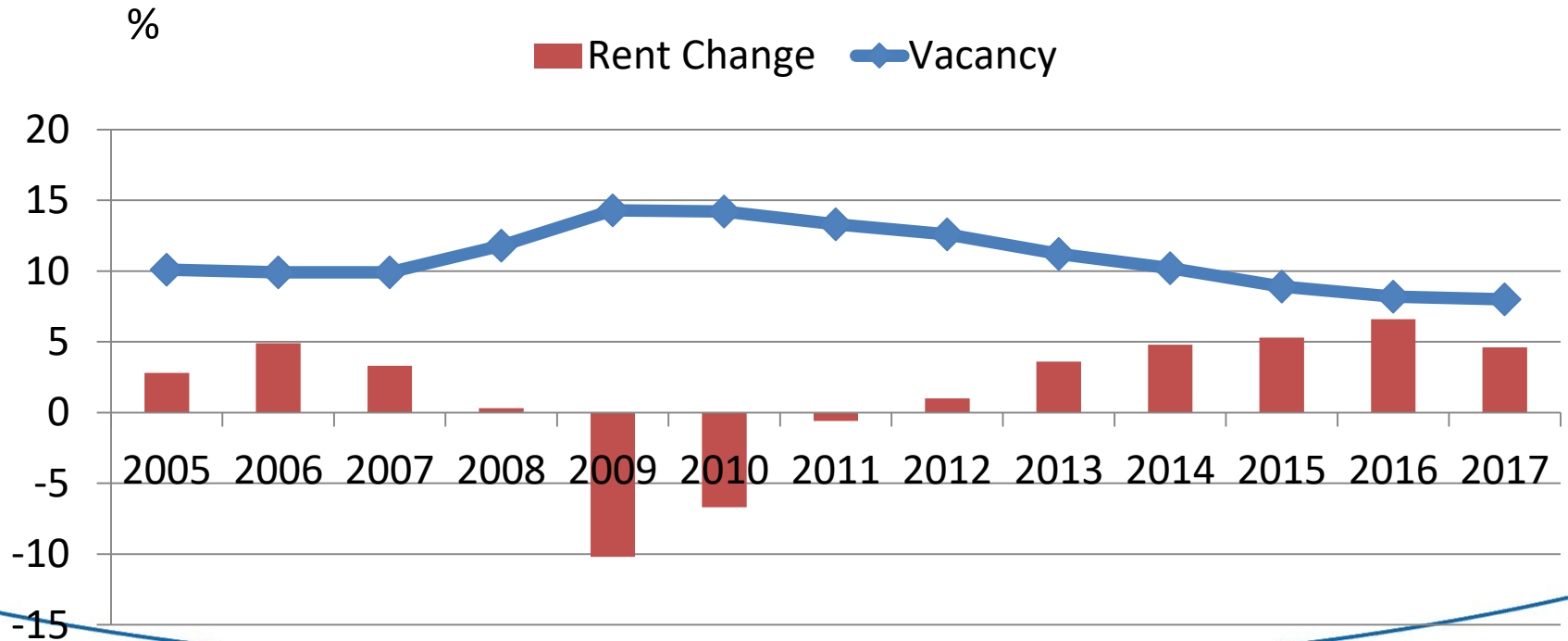
Source: CBRE via ULI

Office Vacancy To Fall



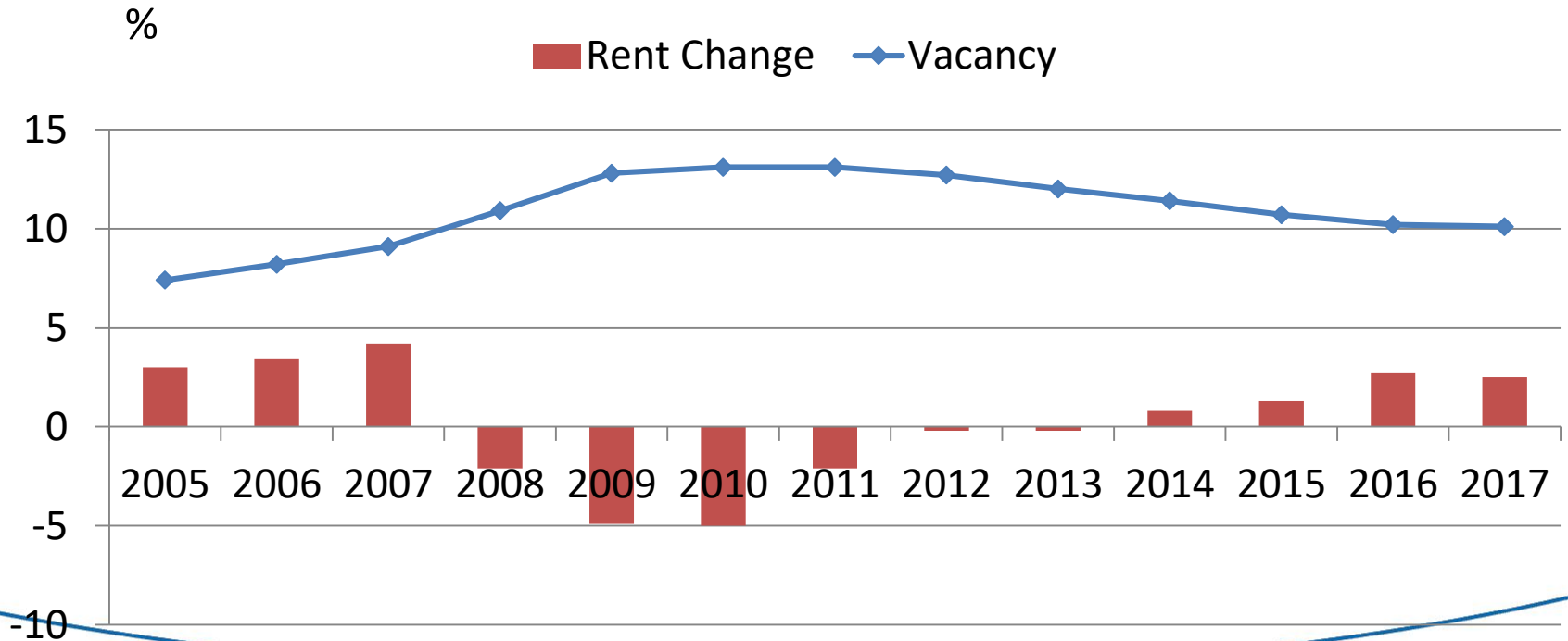
Source: CBRE via ULI

Industrial-Warehouse to Fall



Source: CBRE via ULI

Retail to Hold Steady



Source: CBRE via ULI

Forecast

OLD Economic Forecast

	2015	2016	2017 Forecast	2018 Forecast
GDP Growth	2.6%	1.5%	2.1%	2.5%
Job Growth	+2.6 million	+2.0 million	+2.1 million	+2.4 million
CPI Inflation	0.3%	1.2%	2.5%	2.5%

OLD Commercial Real Estate Forecast for 2017

	Vacancy	Rent
Apartment	Rising 50 to 80 basis points	Rising Slowly 3% per year
Office	Stable	2.5% per year
Industrial	Stable	4% per year
Retail	Stable	2% per year

New Economic Forecast

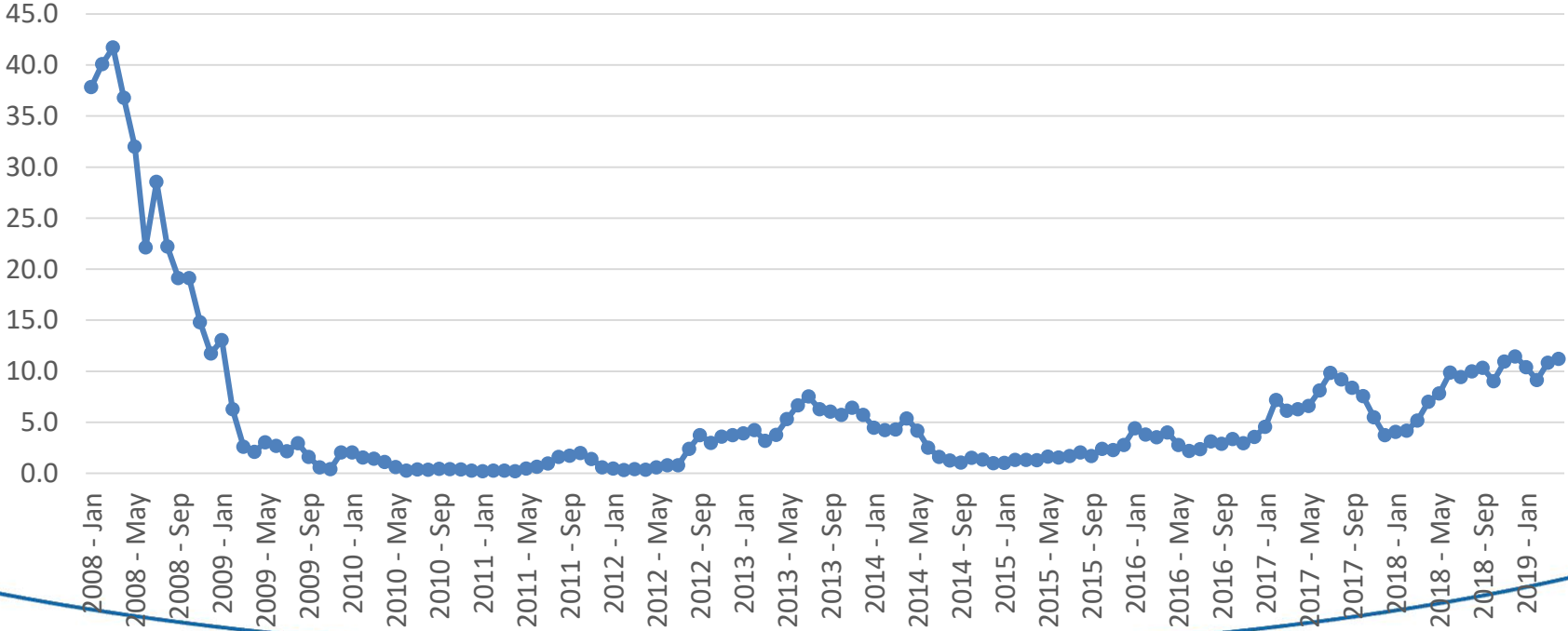
U.S. ECONOMIC OUTLOOK — May 2018

	2016	2017	2018	2019
<i>Annual Growth Rate, %</i>				
Real GDP	1.5	2.3	2.7	2.8
Nonfarm Payroll Employment	1.8	1.4	1.6	1.6
Consumer Prices Level	1.3	2.1	2.9	2.8
Consumer Confidence	100	120	127	129
<i>Percent</i>				
Unemployment	4.9	4.4	4.0	4.0
Fed Funds Rate	0.4	1.0	1.8	2.4
3-Month T-bill Rate	0.3	1.0	1.9	2.5
Prime Rate	3.5	4.1	5.0	5.6
10-Year Gov't Bond	1.8	2.3	3.1	3.5
30-Year Gov't Bond	2.6	2.9	3.3	3.8

Source: National Association of REALTORS®

Probability of Recession

(NY Fed: based on interest rate spread)



Thank You !