



CBRE

POLITICS, ECONOMICS & U.S. COMMERCIAL REAL ESTATE

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ECONOMIST
MAY 2018



AMERICA TAKES ON CHINA



TRADE WARS LOOM



CHINA PRESSURES ASIA



RUSSIA MEDDLES



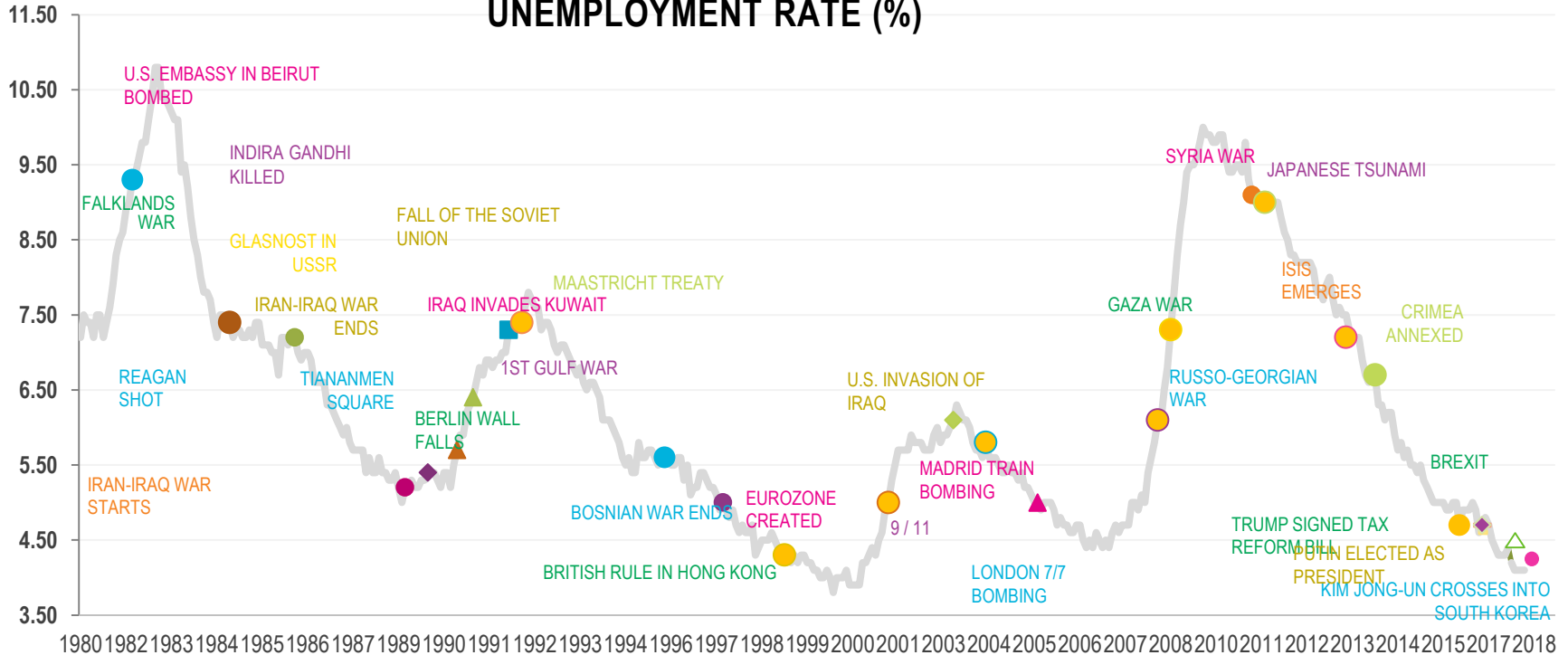
EUROPE DISUNITES




ONE STEP FORWARD...!

LET'S KEEP GEOPOLITICAL EVENTS IN PERSPECTIVE

G7 COUNTRIES, UNEMPLOYMENT RATE (%)



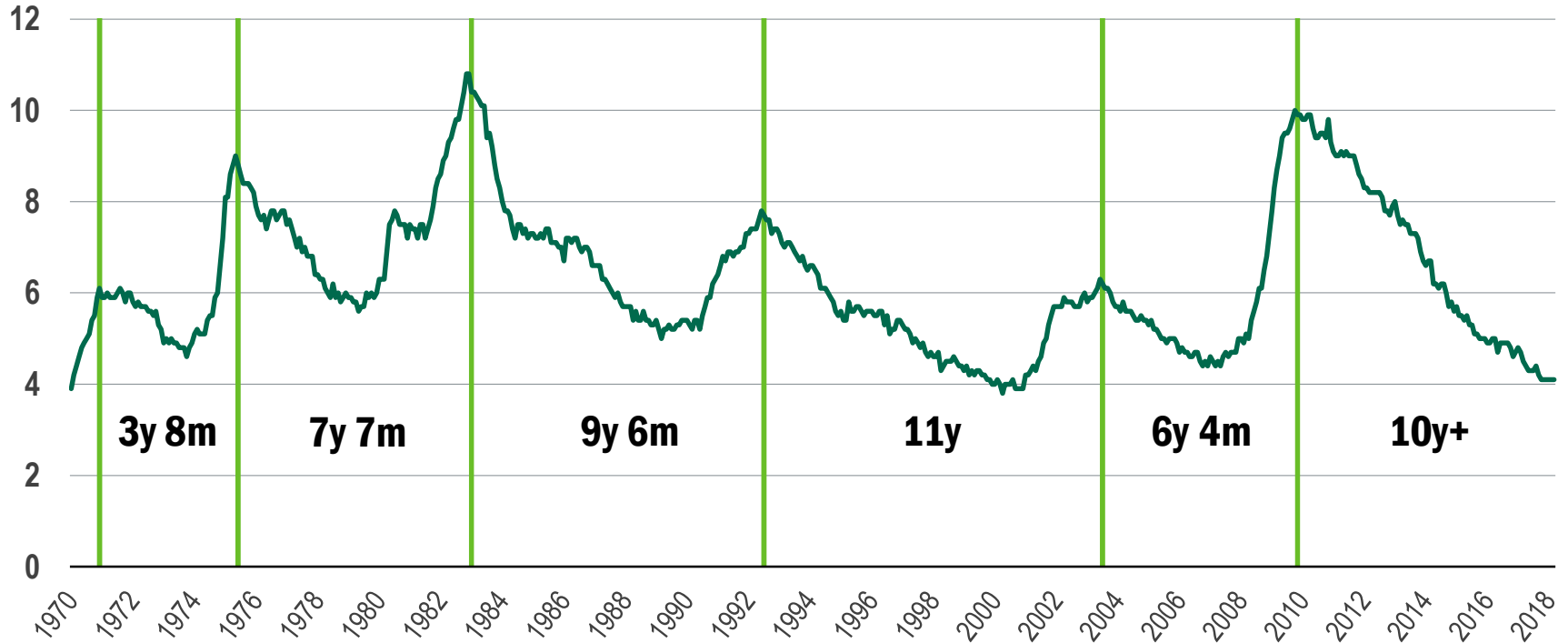
Source: CBRE Research, Macrobond, IMF, WEO.



**FOR REAL ESTATE
ONLY THE BUSINESS
CYCLE MATTERS**

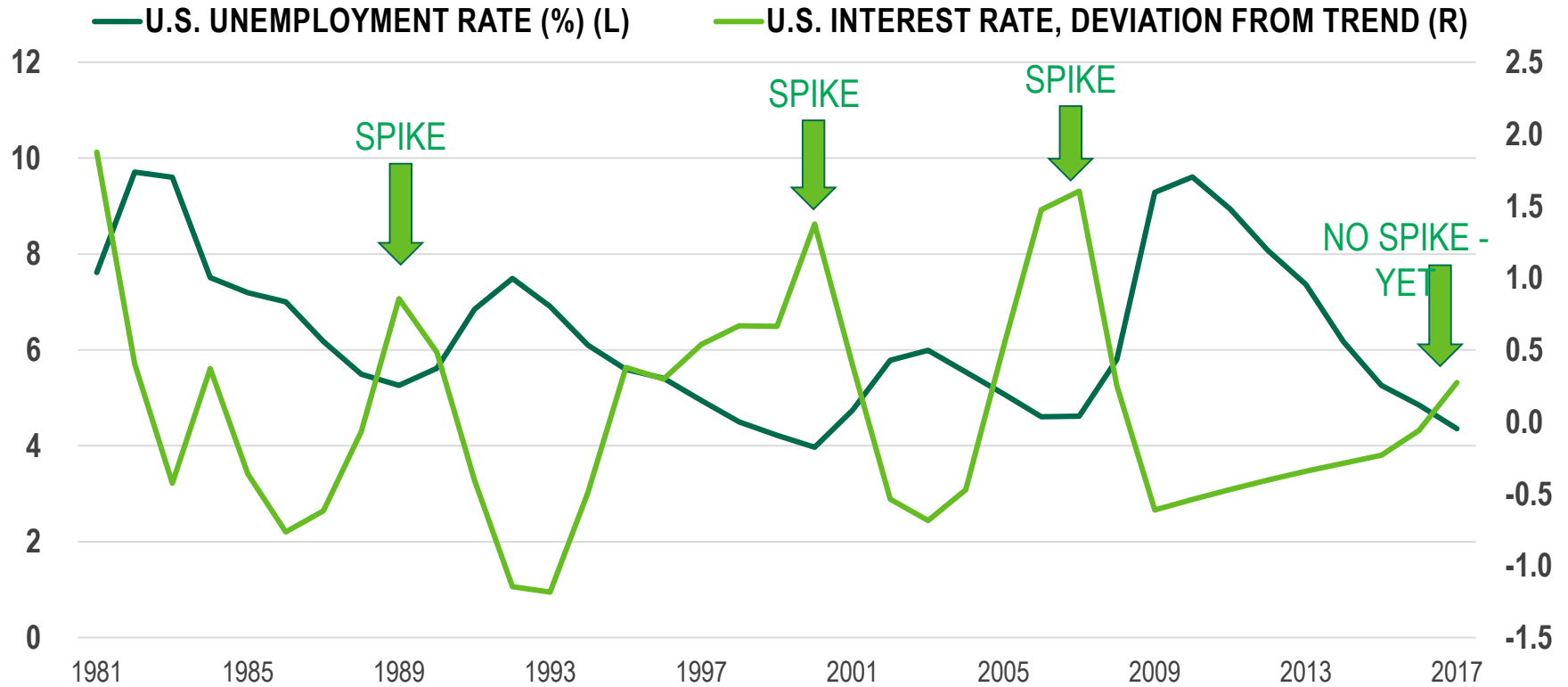
UNEMPLOYMENT: A GOOD, CLEAR CYCLICAL INDICATOR

U3 UNEMPLOYMENT (%)



Source: CBRE Econometric Advisors and Macrobond, CBRE Research.

INTEREST RATES BRING THE CYCLE TO AN END

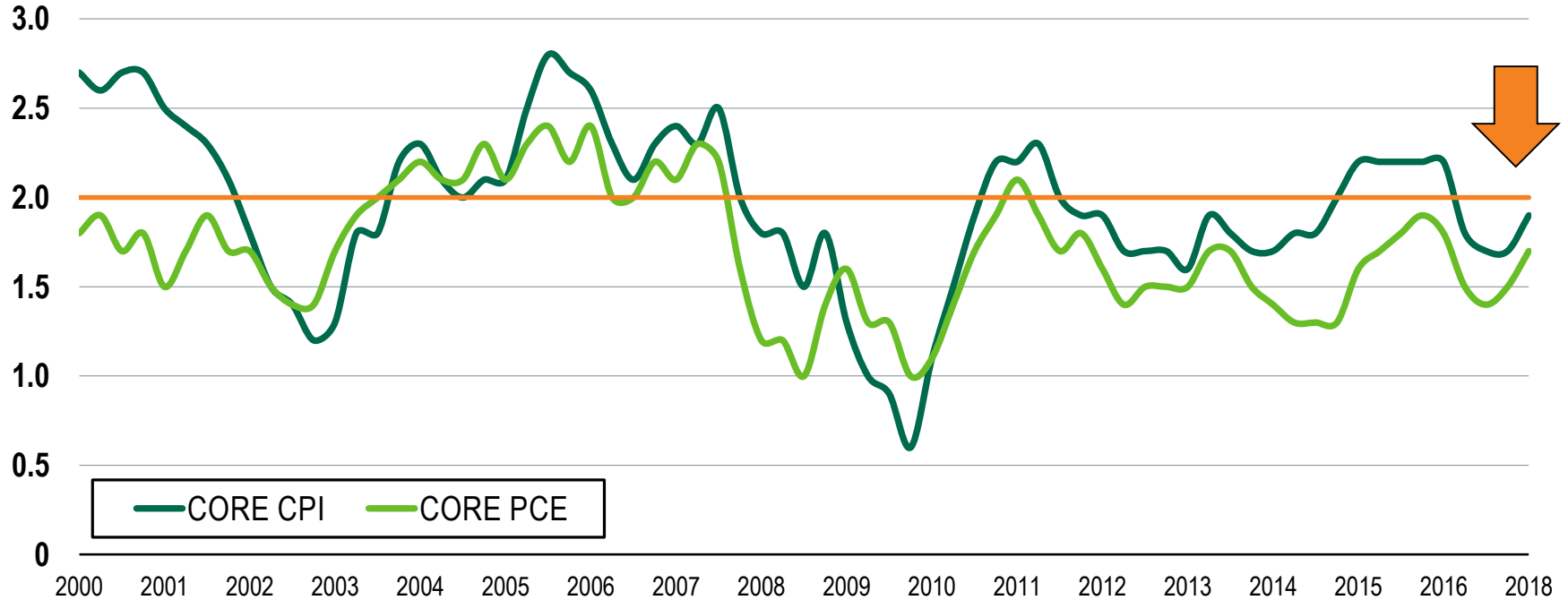


Source: CBRE Research, Macrobond, April 2018.



INFLATION REMAINS WEAK

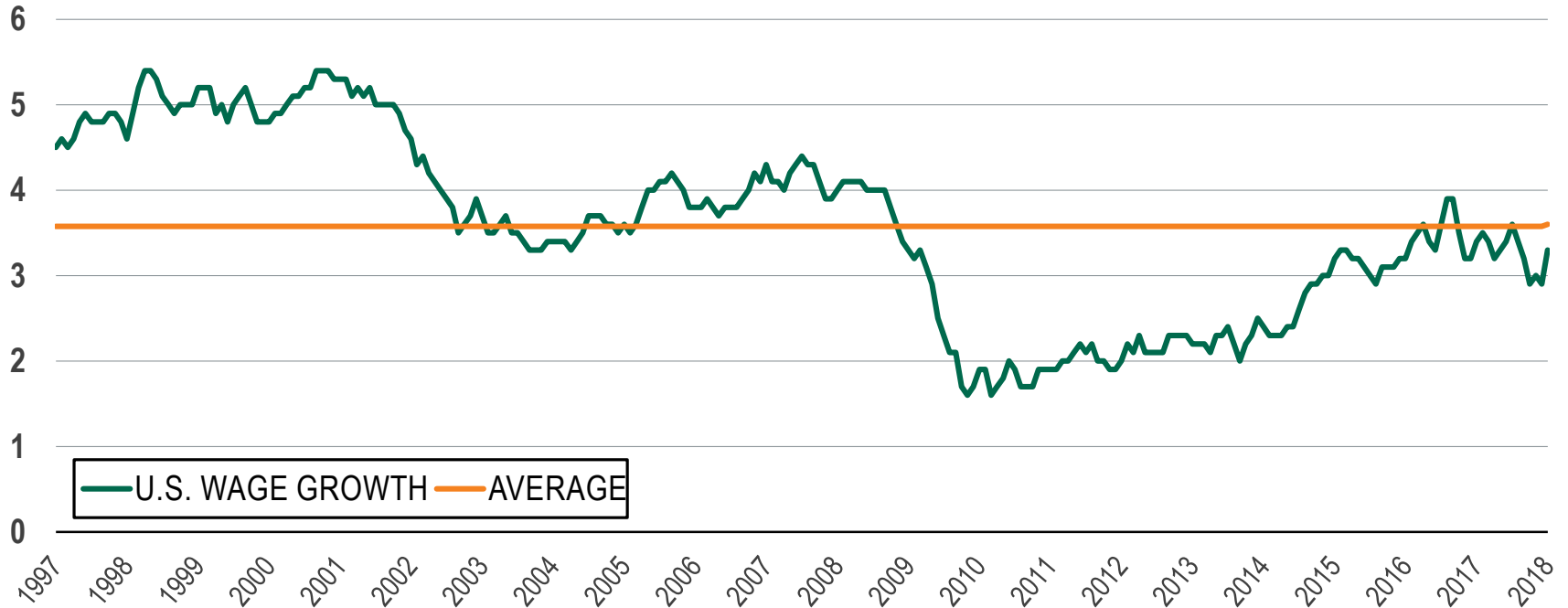
CORE CPI AND CORE PCE, (% Y/Y)



Source: Federal Reserve Economic Data and CBRE EA Research, May 2018.

AS WAGE GROWTH FAILS TO GAIN TRACTION

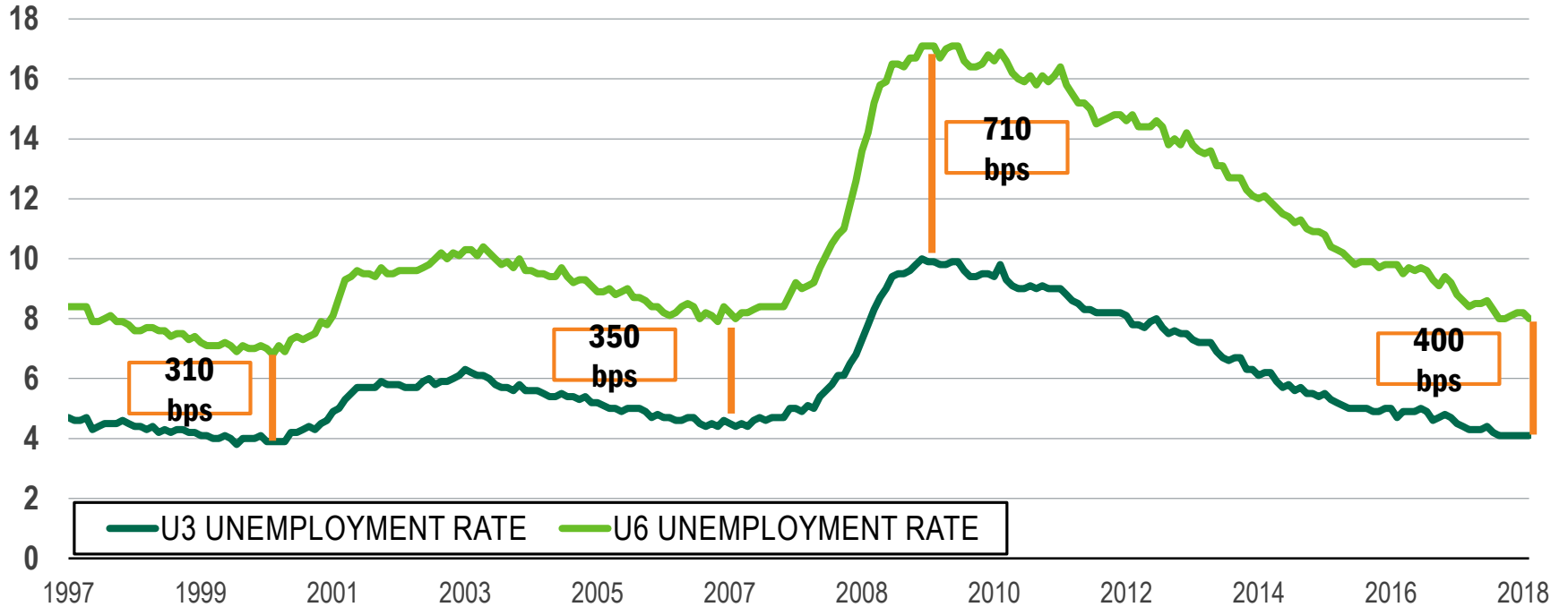
GROWTH RATE, (% Y/Y, 3MA)



Source: Current Population Survey, Bureau of Labor Statistics, and Federal Reserve Bank of Atlanta Calculations, May 2018.

WE'RE GETTING PAYBACK FROM THE GFC

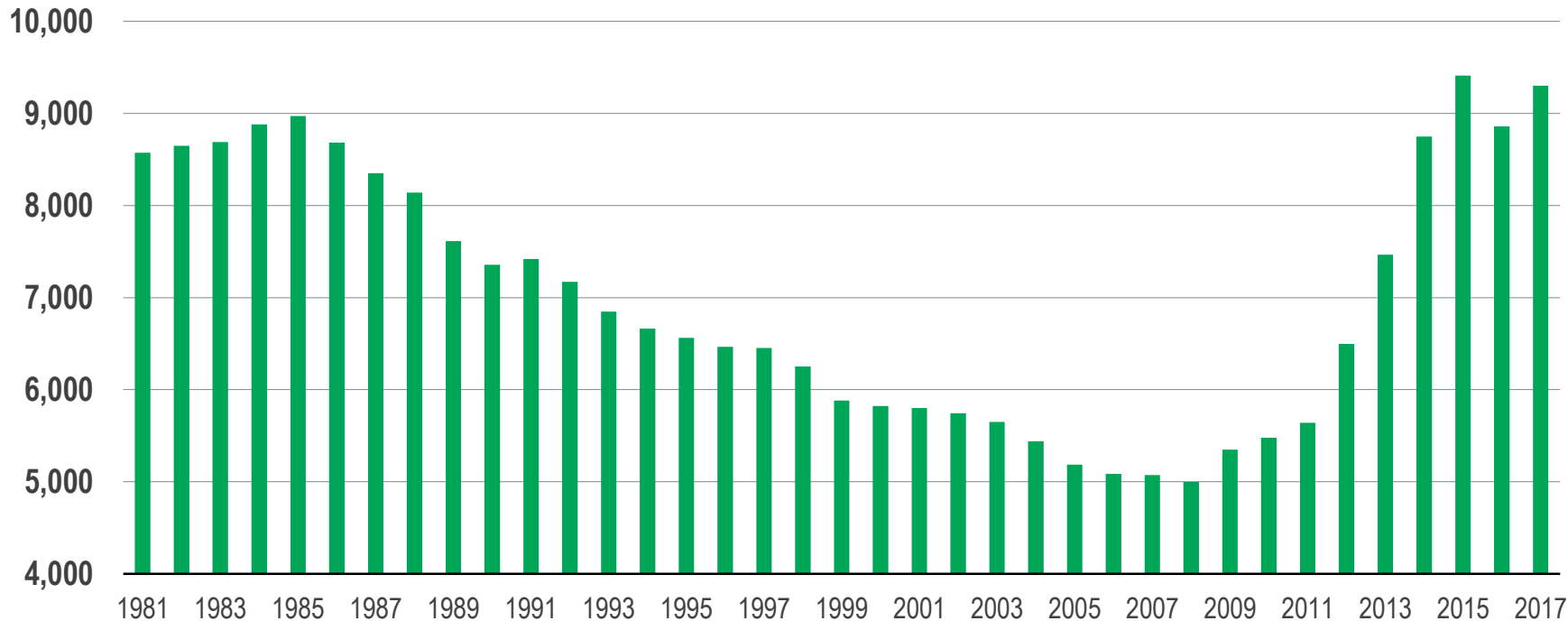
UNEMPLOYMENT RATE (%)



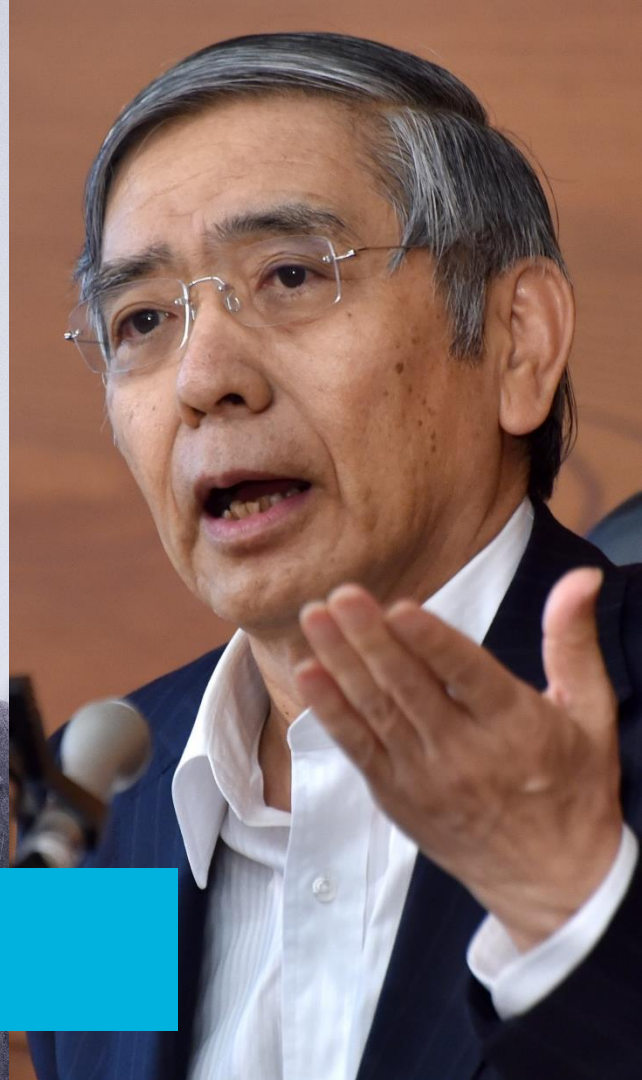
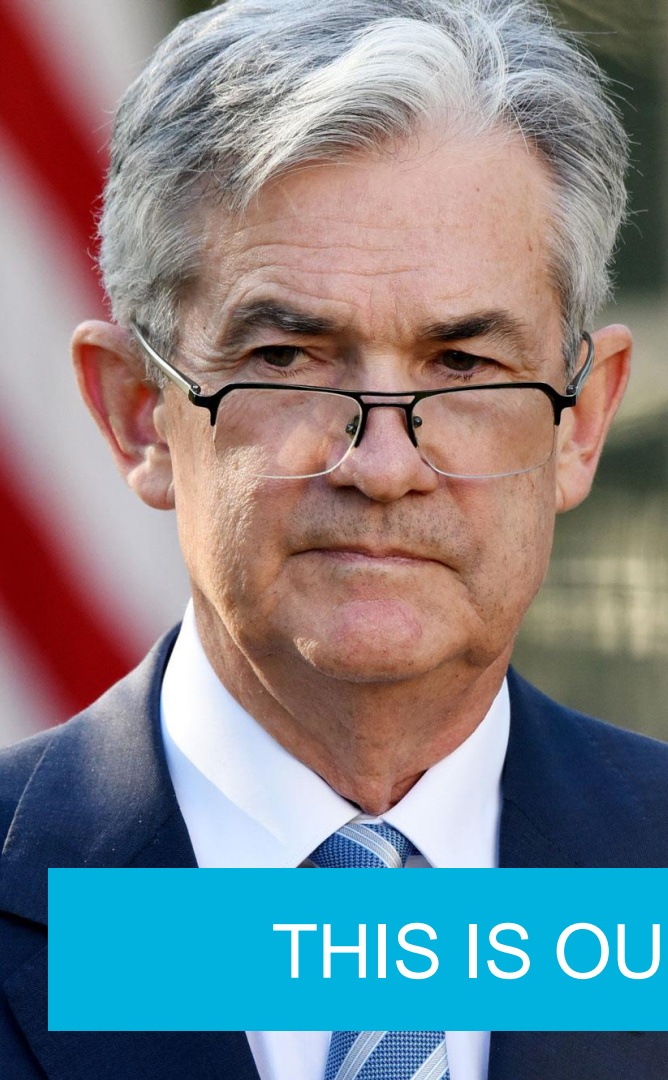
Source: Federal Reserve Bank of St. Louis, CBRE Econometric Advisors, April 2018.

U.S. OIL PRODUCTION IS A GAME CHANGER

THOUSANDS OF BARRELS PER DAY



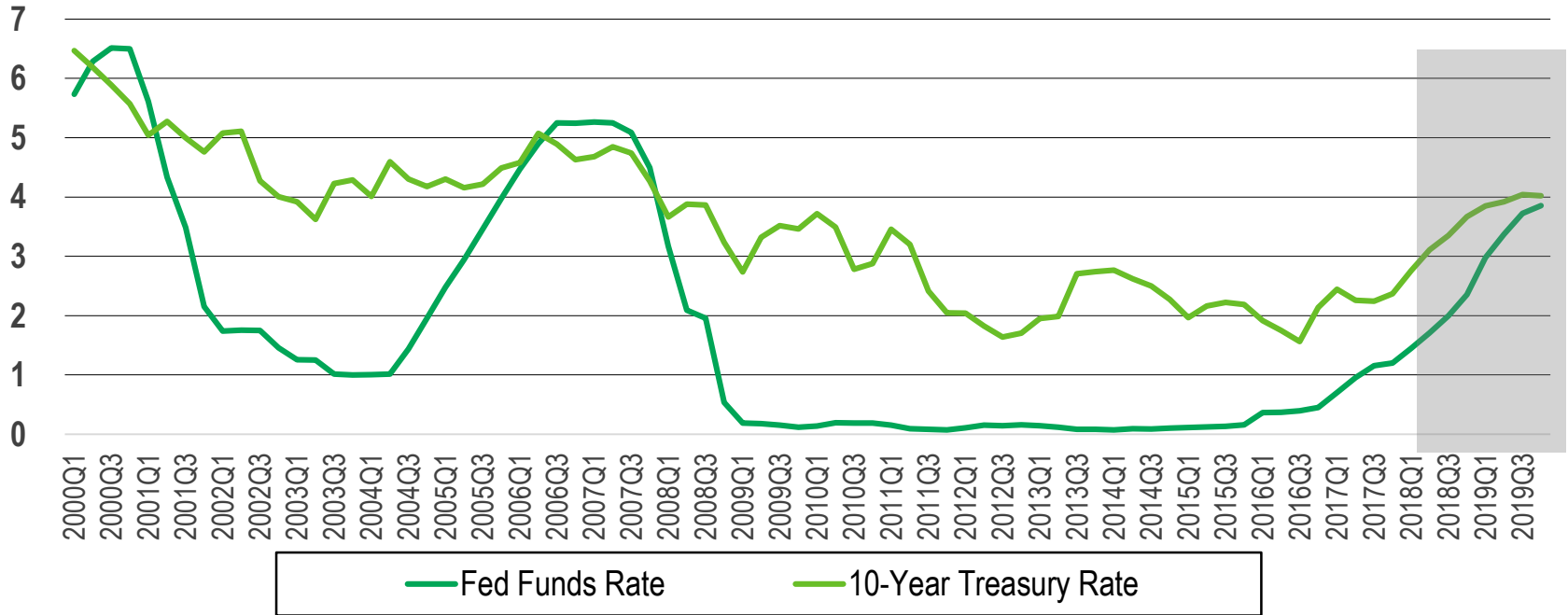
Source: U.S. Energy Information Administration (EIA); Moody's Analytics Forecasted, April 2018.



THIS IS OUR MAIN WORRY

INTEREST RATES ARE HEADED UP SLOWLY

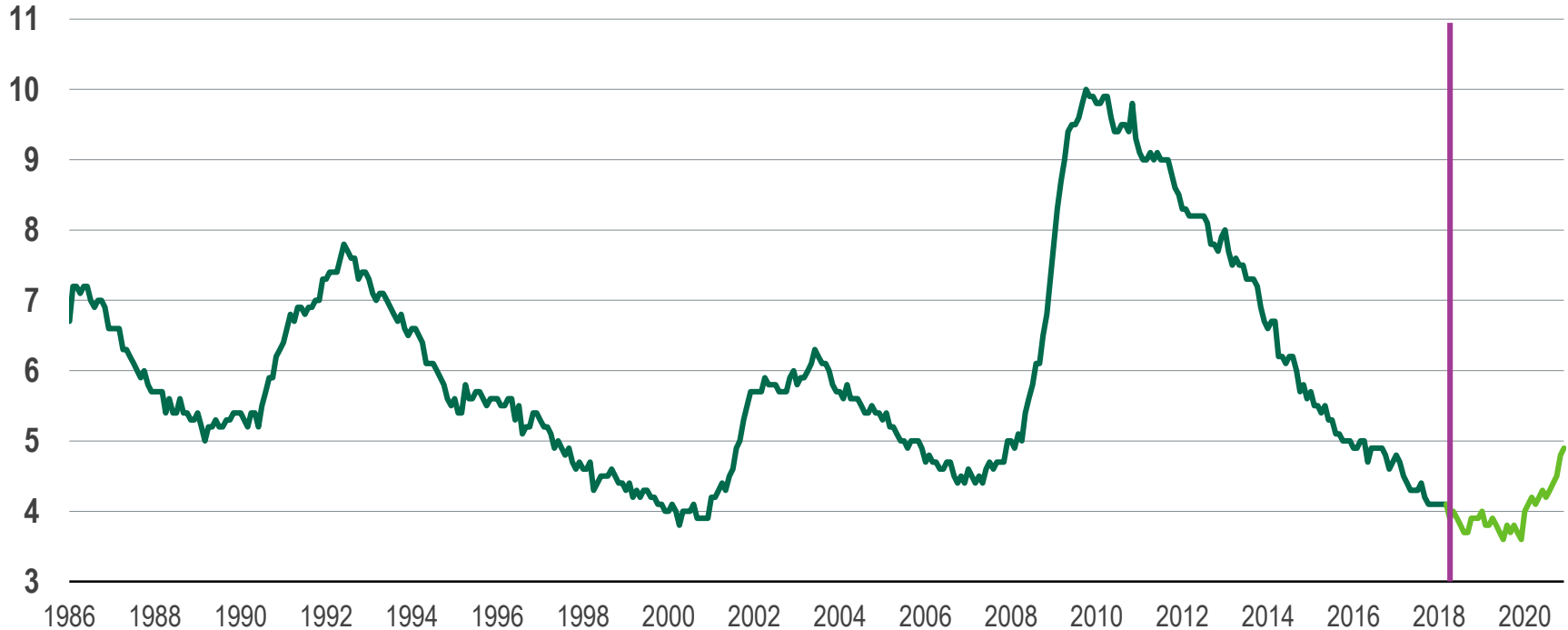
FED FUNDS RATE AND 10-YEAR TREASURY RATE (%)



Source: Moody's Analytics Forecasted and Macrobond, CBRE Research, Q1 2018.

SO AN EXTENDED CYCLE LOOKS LIKELY

UNEMPLOYMENT (%)

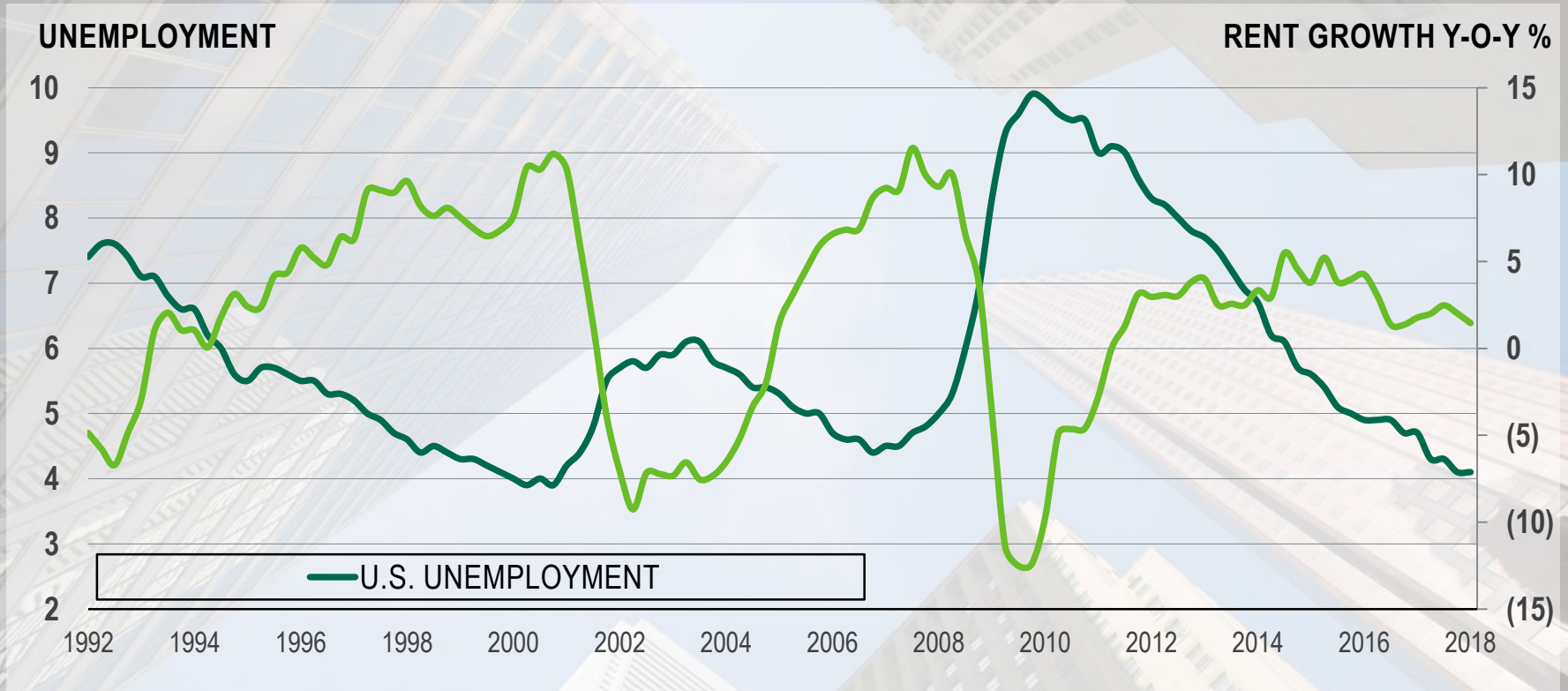


Source: CBRE Econometric Advisors and Macrobond, CBRE Research, Q1 2018.



WHERE DOES THIS LEAVE U.S. REAL ESTATE?

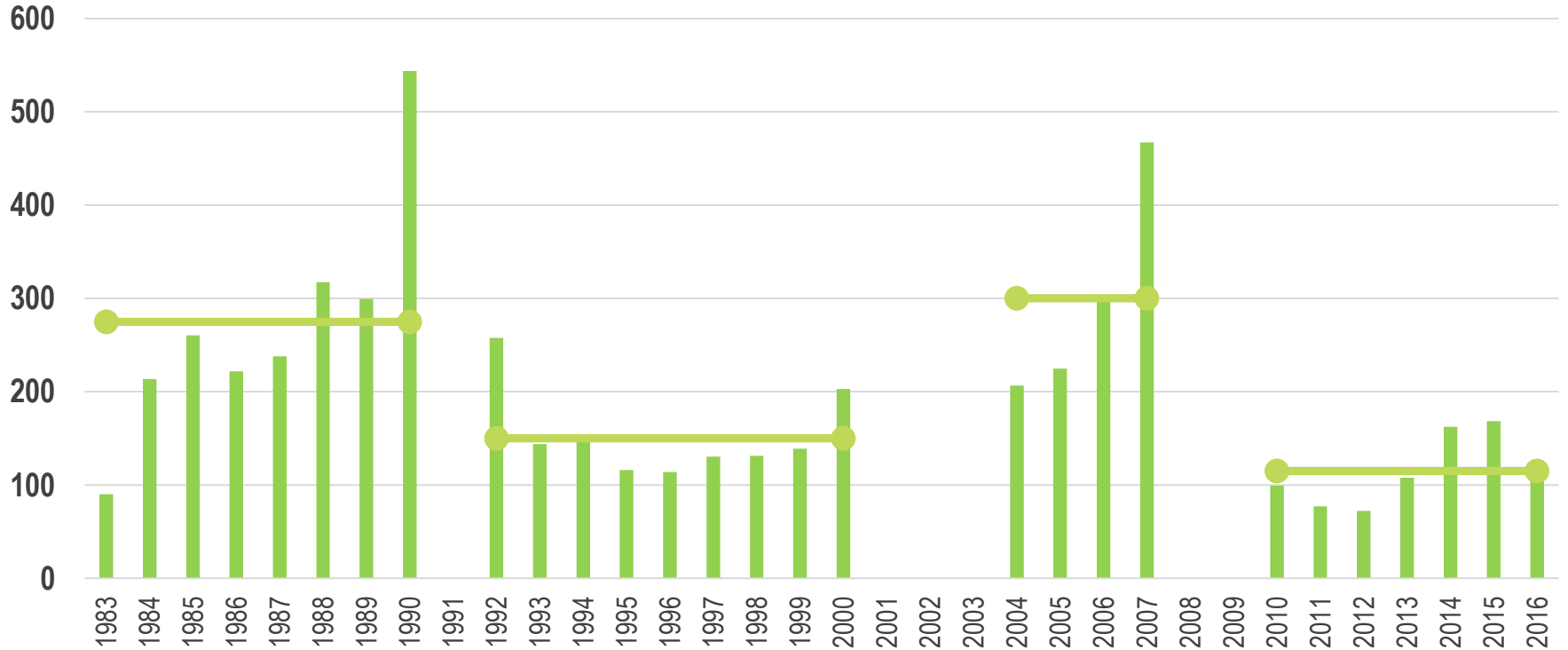
OFFICE CYCLE – WEAKER THAN NORMAL



Source: CBRE Econometric Advisors and Macrobond, May 2018.

HELD BACK BY INDUSTRY DISRUPTION

OFFICE SPACE ABSORPTION PER JOB ADDED (SF PER NEW JOB)

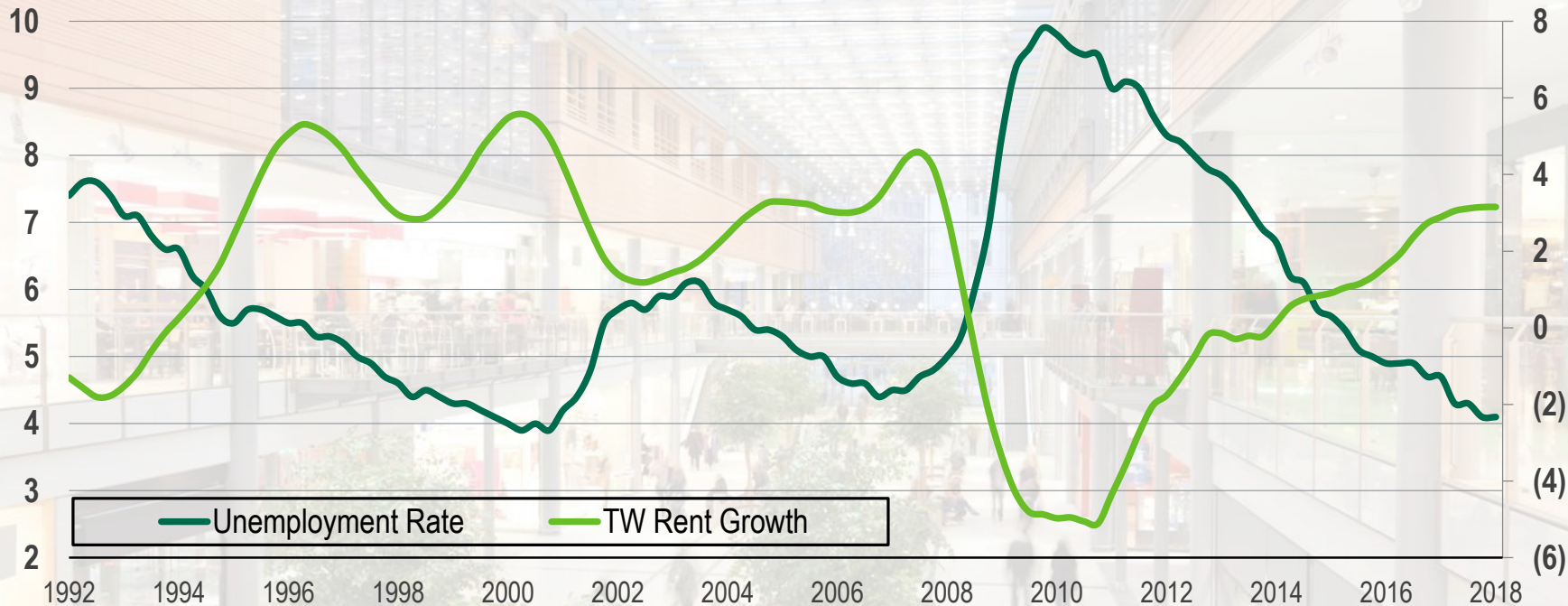


Source: CBRE Econometric Advisors and Macrobond, CBRE Research.

RETAIL CYCLE – SUBDUED

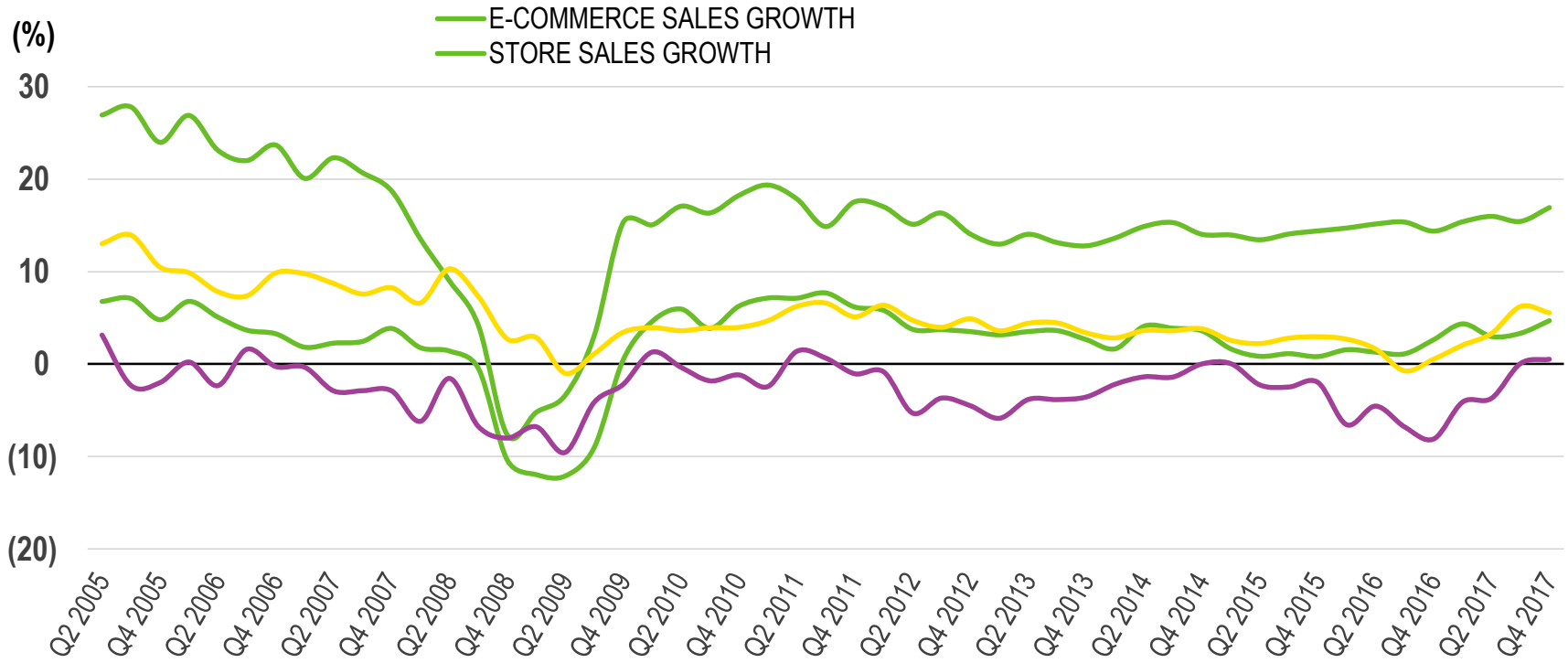
UNEMPLOYMENT RATE

RENT GROWTH Y-O-Y %



DUE TO GROWTH IN E-COMMERCE

E-COMMERCE: GROWTH VS. SHARE OF RETAIL SALES

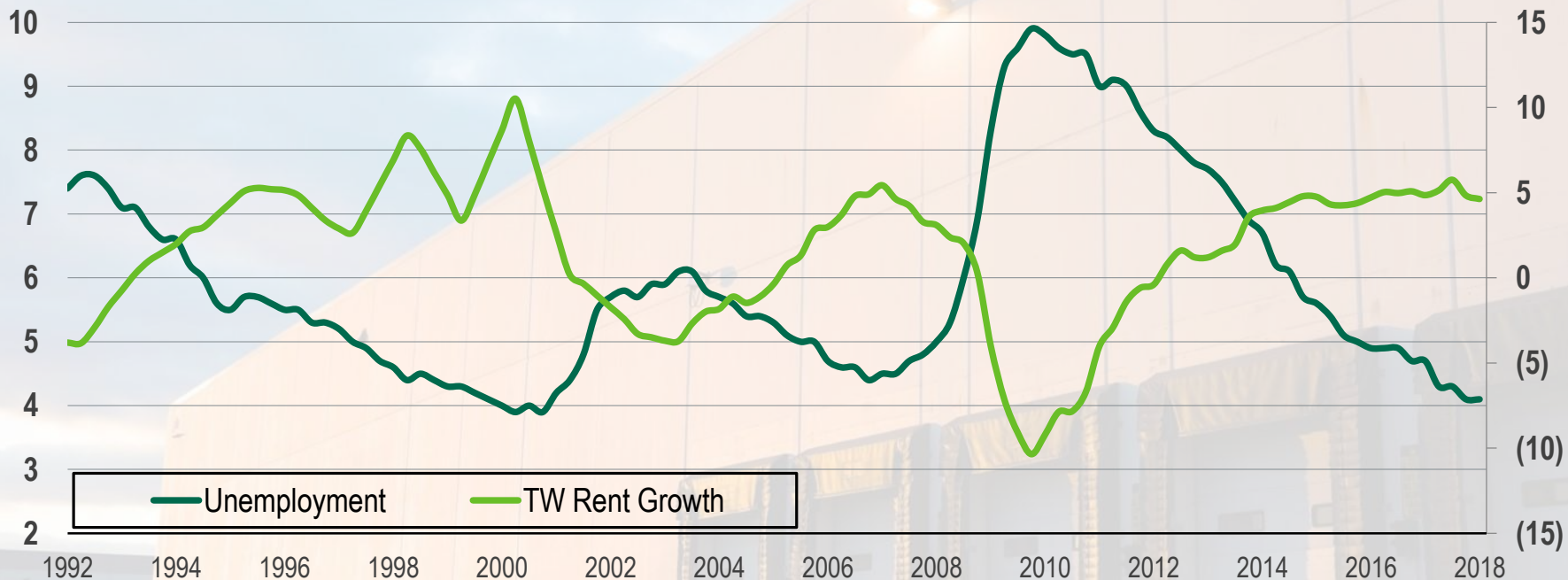


Source: Census Bureau, Q4 2017.

INDUSTRIAL CYCLE: BOOSTED BY E-COMMERCE

UNEMPLOYMENT RATE

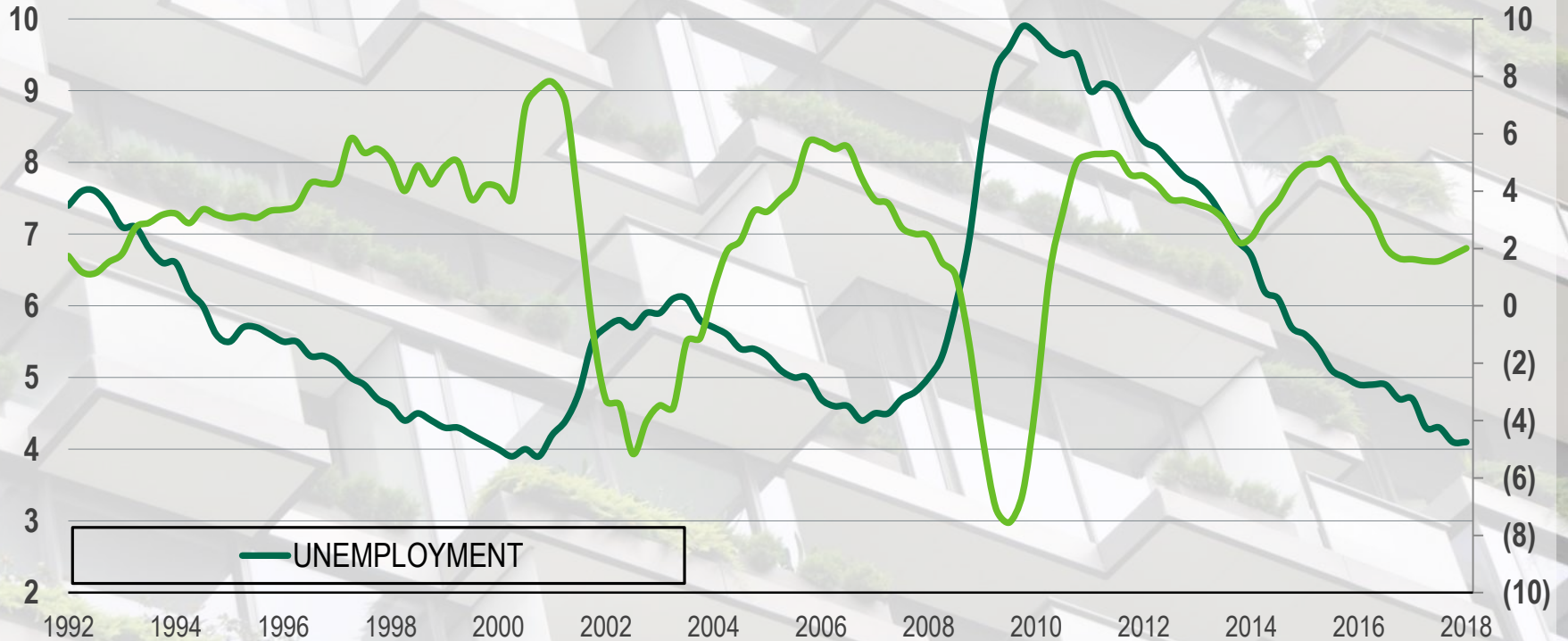
RENT GROWTH Y-O-Y %



MULTIFAMILY CYCLE - BOOSTED BY SOCIAL CHANGE

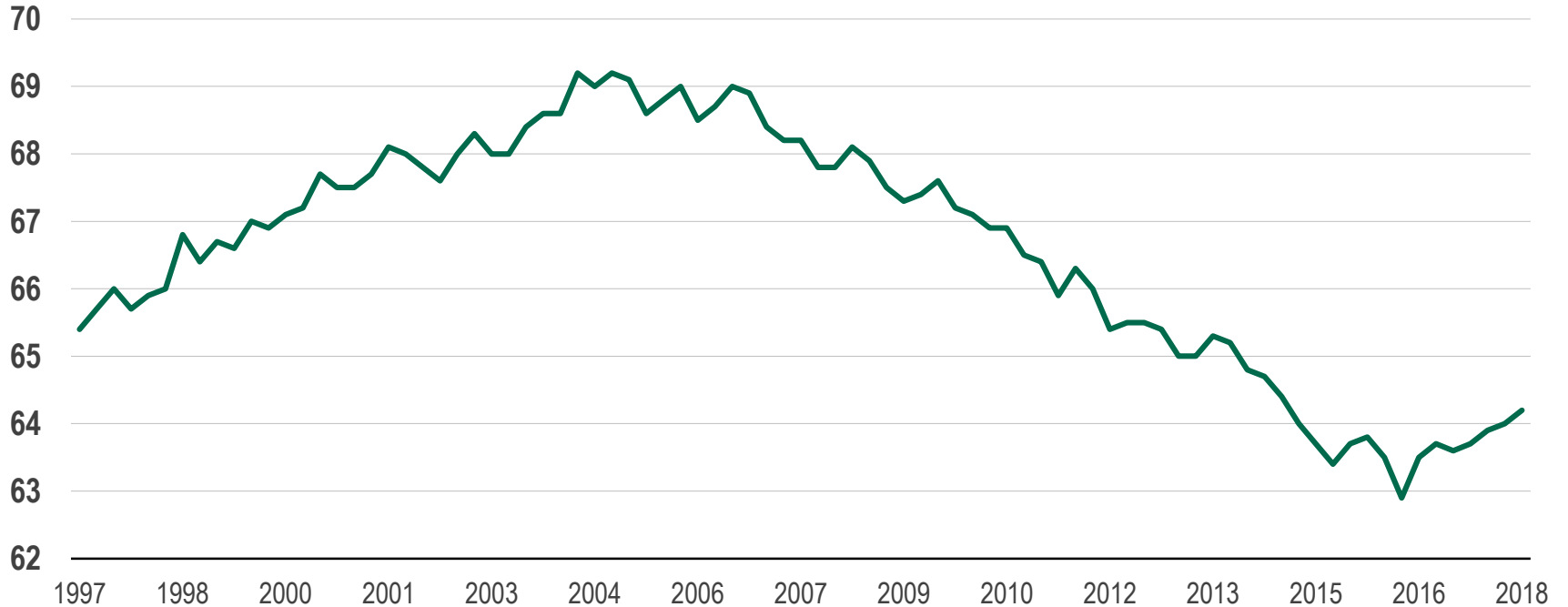
UNEMPLOYMENT RATE

RENT GROWTH Y-O-Y %



THE SHIFT FROM OWNERSHIP

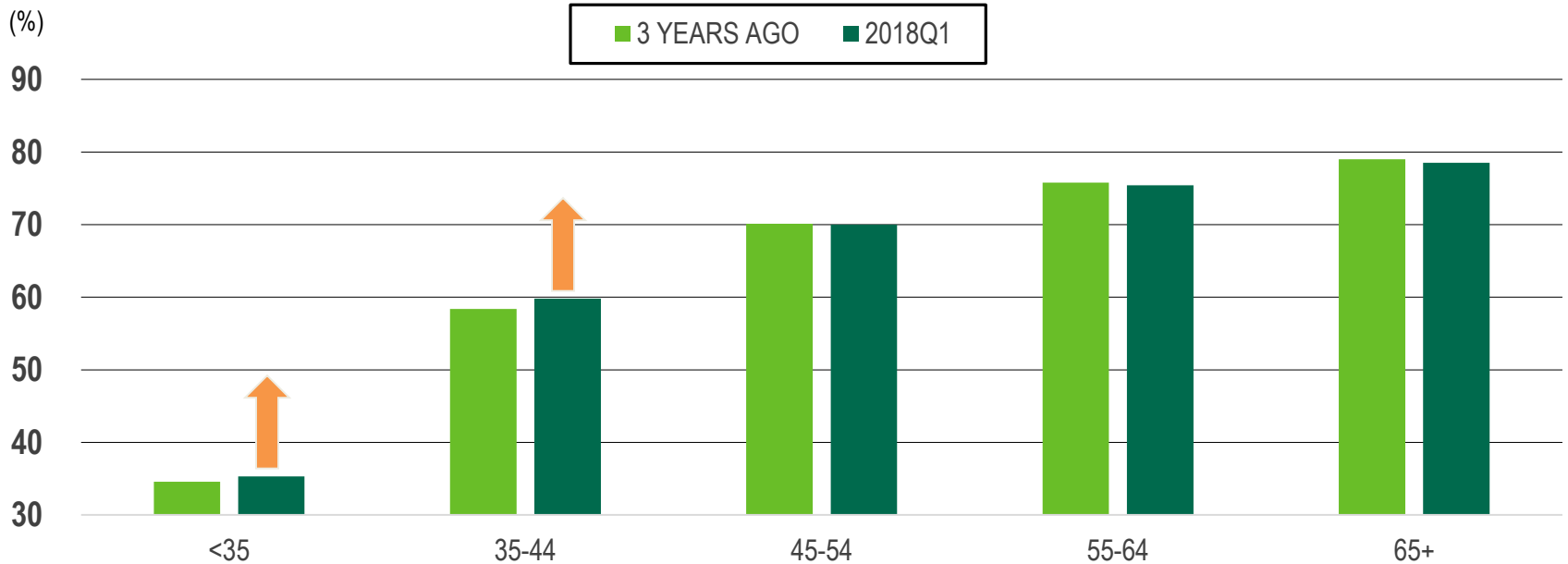
U.S. HOMEOWNERSHIP RATE (%)



Source: Federal Reserve Bank of St. Louis, CBRE EA, May 2018.

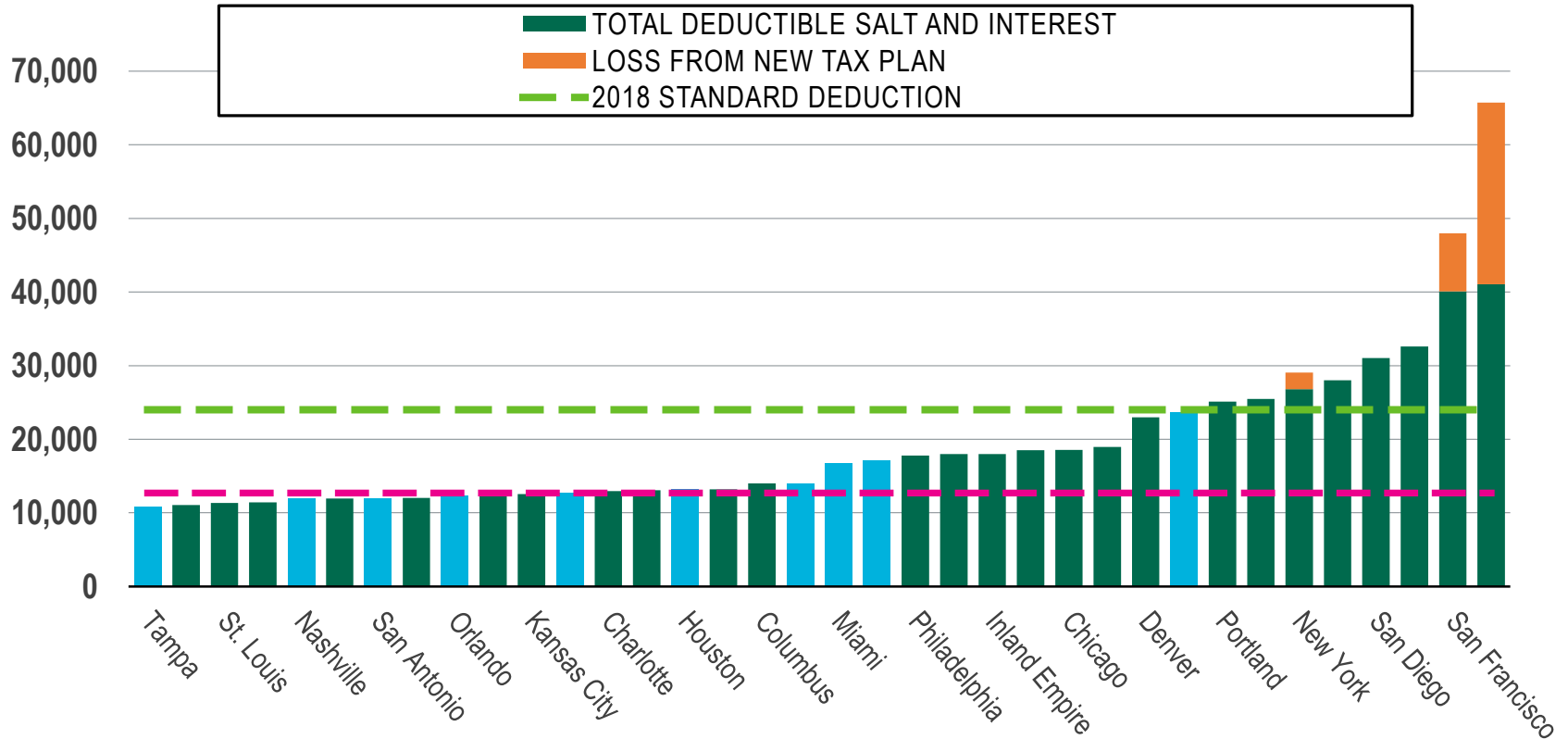
MILLENNIALS ARE BUYING

HOMEOWNERSHIP BY AGE GROUP AND INCOME



Source: U.S. Census Bureau, Current Population Survey/Housing Vacancy Survey, CBRE EA, May 2018.

TAX CHANGES MAY FAVOR MULTI FAMILY



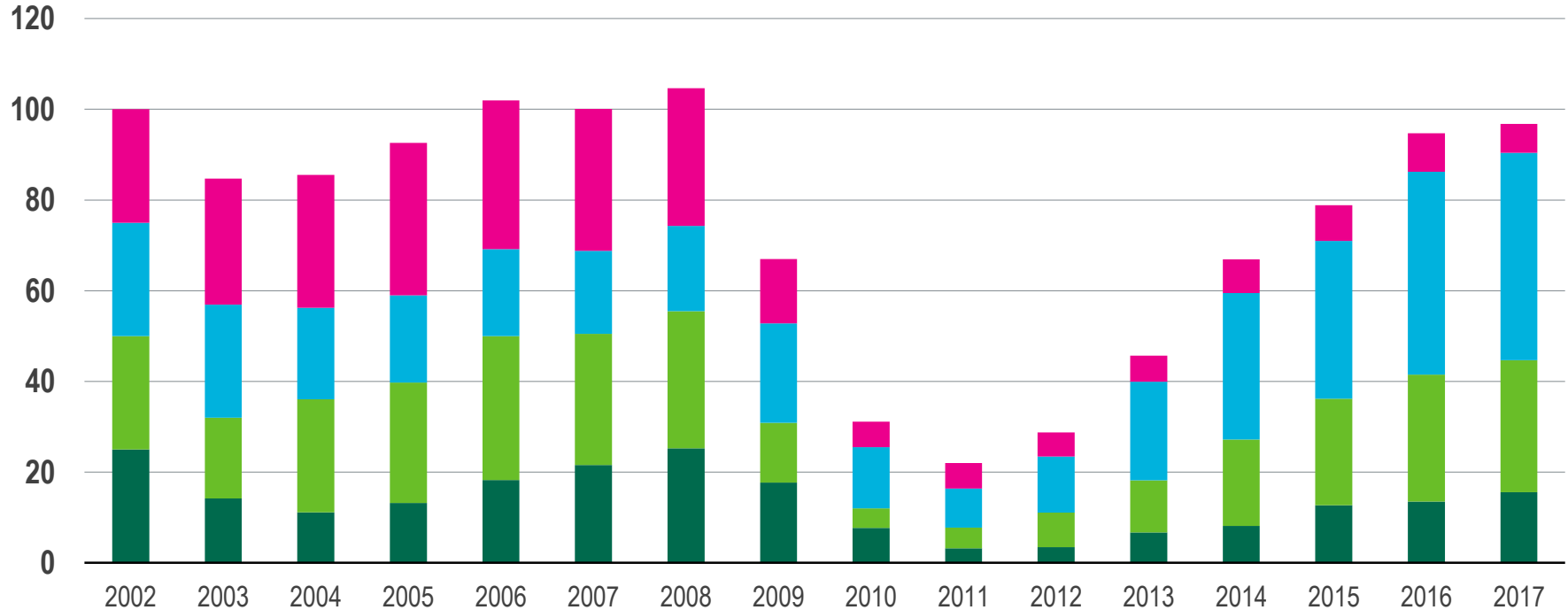
WHAT ABOUT NEW SUPPLY?



SUPPLY IS INCREASING, BUT NOT SO MUCH

COMPLETIONS INDEX (2002 = 100 TOTAL)

■ OFFICE ■ INDUSTRIAL ■ APARTMENT ■ RETAIL

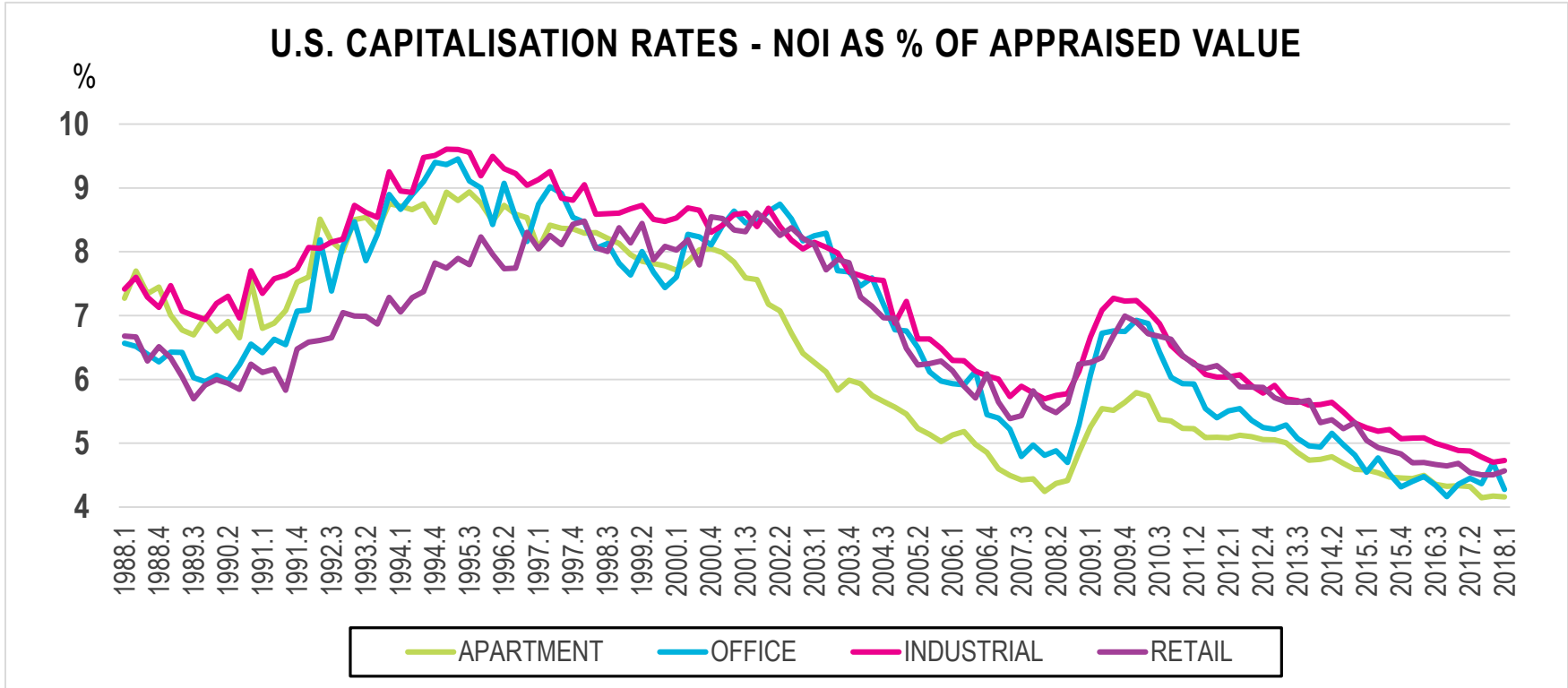


Source: CBRE Econometric Advisors, February 2018.

STILL RIDING THE WAVE OF CAPITAL



BUT CAP RATES HAVE HIT BOTTOM



Source: CBRE Research, NCREIF



CONCLUSIONS

- IGNORE GEOPOLITICS – IT LOOKS LIKE AN EXTENDED CYCLE
- COMMERCIAL REAL ESTATE IS BUOYANT
- SUPPLY IS BROADLY IN BALANCE WITH DEMAND
- INTEREST RATES ARE RISING AND WILL PEAK AT A LOWER LEVEL
- CAP RATES HAVE BOTTOMED
- CAPITAL MARKETS ACTIVITY IS STABLE FOR NOW