COMMERCIAL ECONOMIC ISSUES & TRENDS FORUM

THE AMAZON HQ2 STORY AND COMMERCIAL MARKET OUTLOOK FOR 2019

FORUM GUEST SPEAKERS

BRIAN BALL
SECRETARY OF COMMERCE AND TRADE, STATE OF VIRGNIA

LAWRENCE YUN, PhD
CHIEF ECONOMIST, SENIOR VICE PRESIDENT, RESEARCH, NAR

DATE

THURSDAY, MAY 16

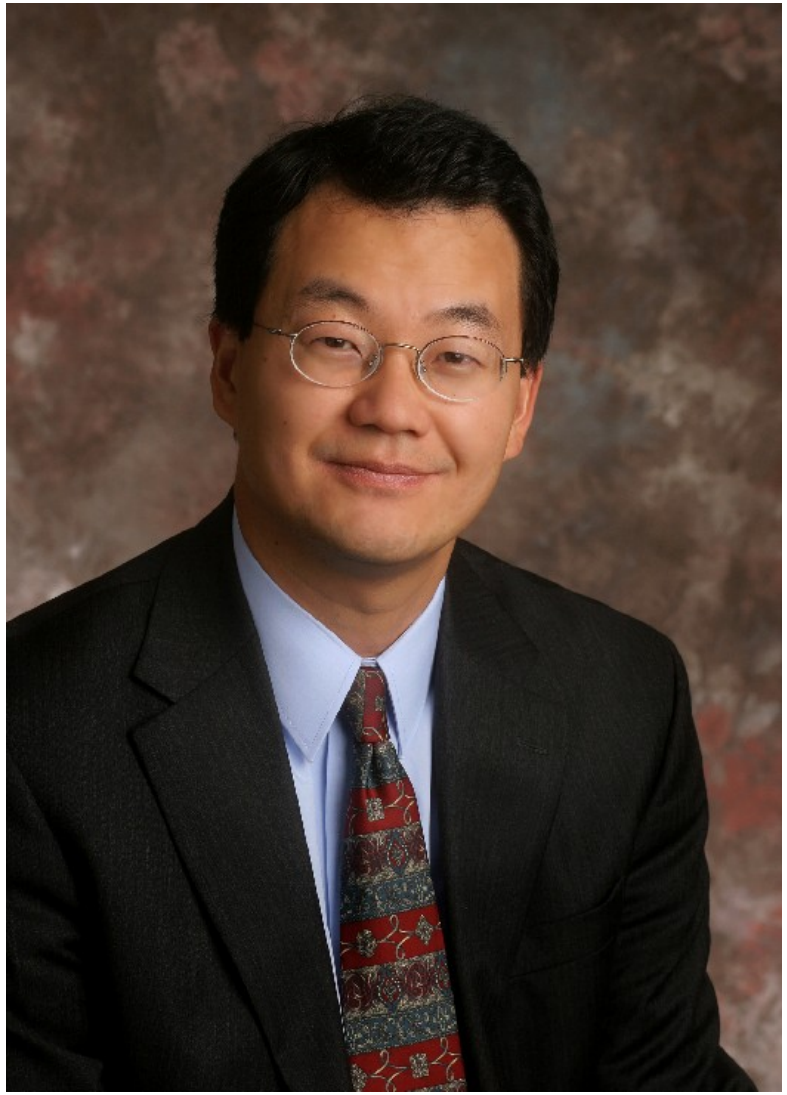
TIME

1:00 PM - 3:00 PM

OMNI SHOREHAM LOCATION:

DIPLOMAT ROOM

Lawrence Yun, PhD
NAR Chief Economist, SVP of Research



- Oversees research activity for the association, creates NAR's economic forecasts, and provides commentary on real estate market trends for its 1.3 million REALTOR® members.

- Participates in many economic forecasting panels such as the Blue Chip Council and the Harvard University Industrial Economist Council;

- Is a frequent speaker at real estate conferences throughout the United States; appears regularly on financial news outlets such as CSPAN's Washington Journal; is a regular guest columnist on the Forbes website.

- Ph.D. in economics from the University of Maryland at College Park; B.S. in mechanical engineering from Purdue University

THAT'S WHO WE REALTOR®

REALTORS® LEGISLATIVE MEETINGS & TRADE EXPO

MAY 13-18, 2019
WASHINGTON, DC

REALTOR® NATIONAL ASSOCIATION of REALTORS®

★REALTORS®★ LEGISLATIVE MEETINGS & TRADE EXPO
WASHINGTON, DC • May 13-18, 2019

Economic and Commercial Trends & Outlook: Opportunities and Challenges Ahead

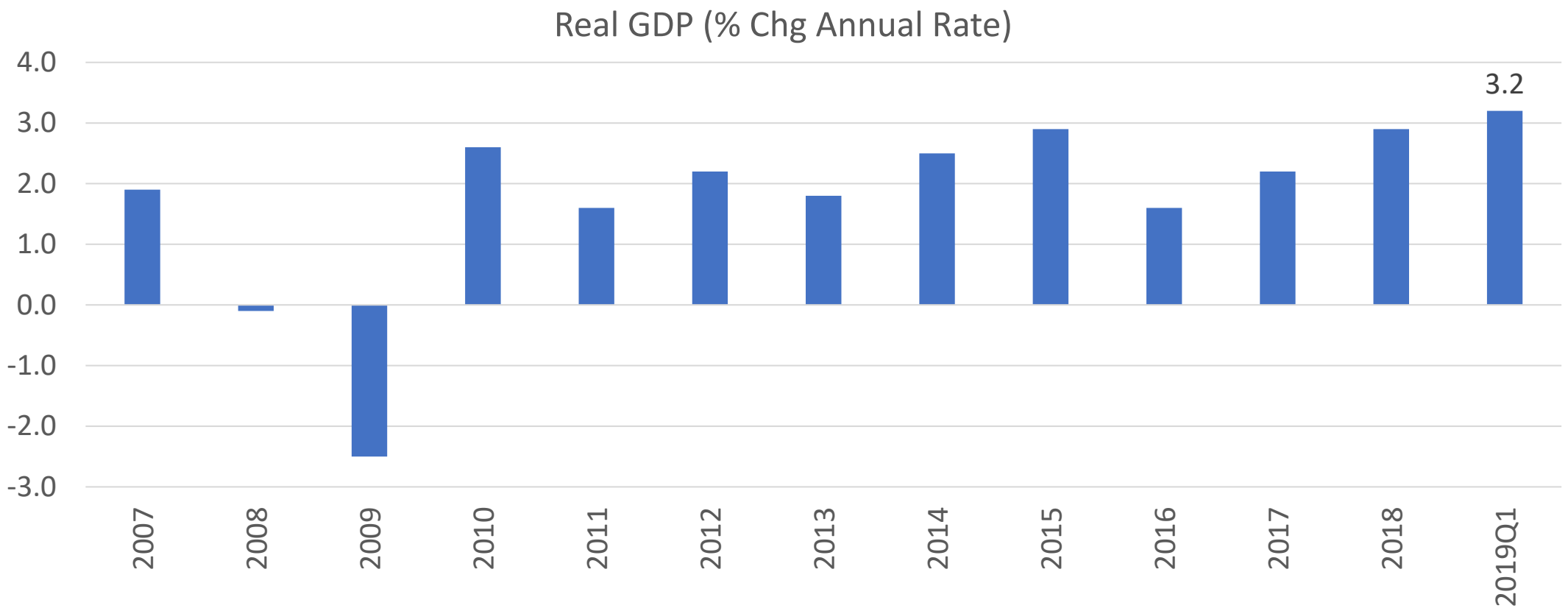
Lawrence Yun, PhD

Chief Economist, National Association of REALTORS®

REALTORS® Legislative Meetings and Trade Exposition

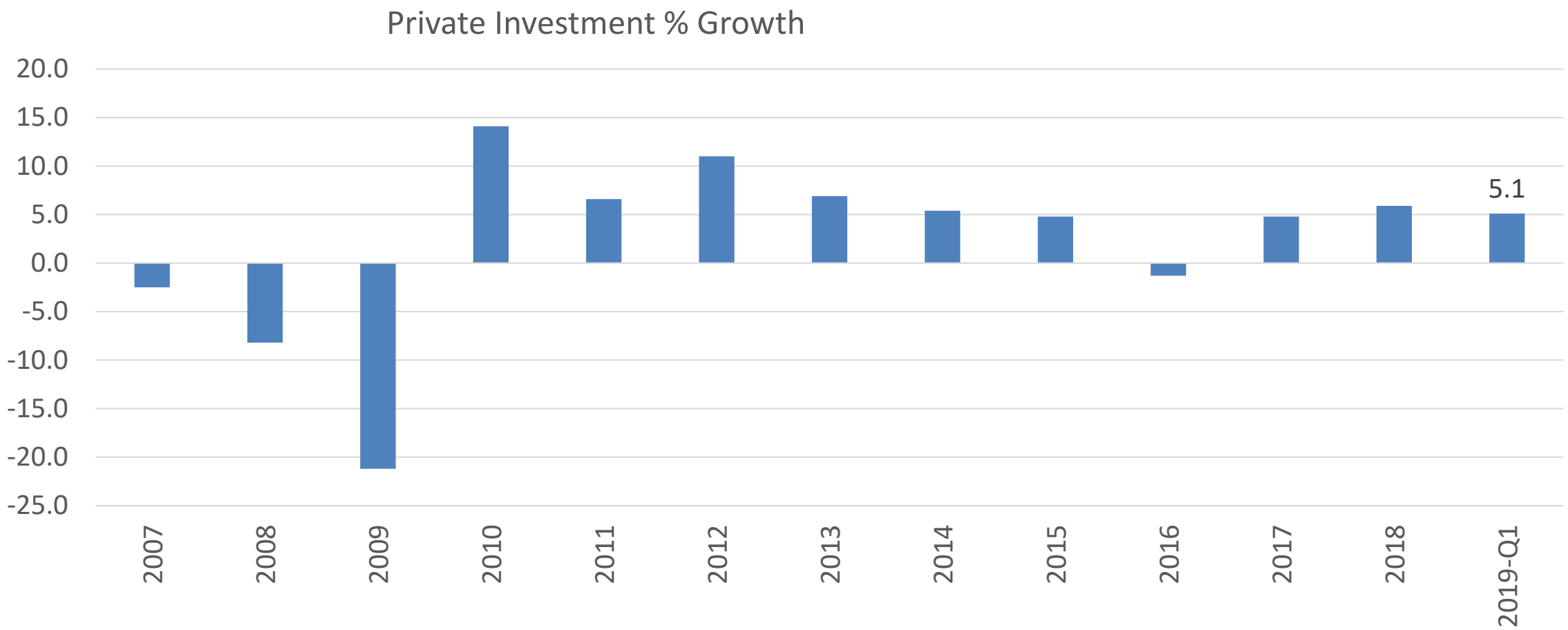
May 16, 2019 1:00 PM–3:00 PM Omni Shoreham, Diplomat Ballroom, Main Floor

10 Years of Sustained Economic Growth

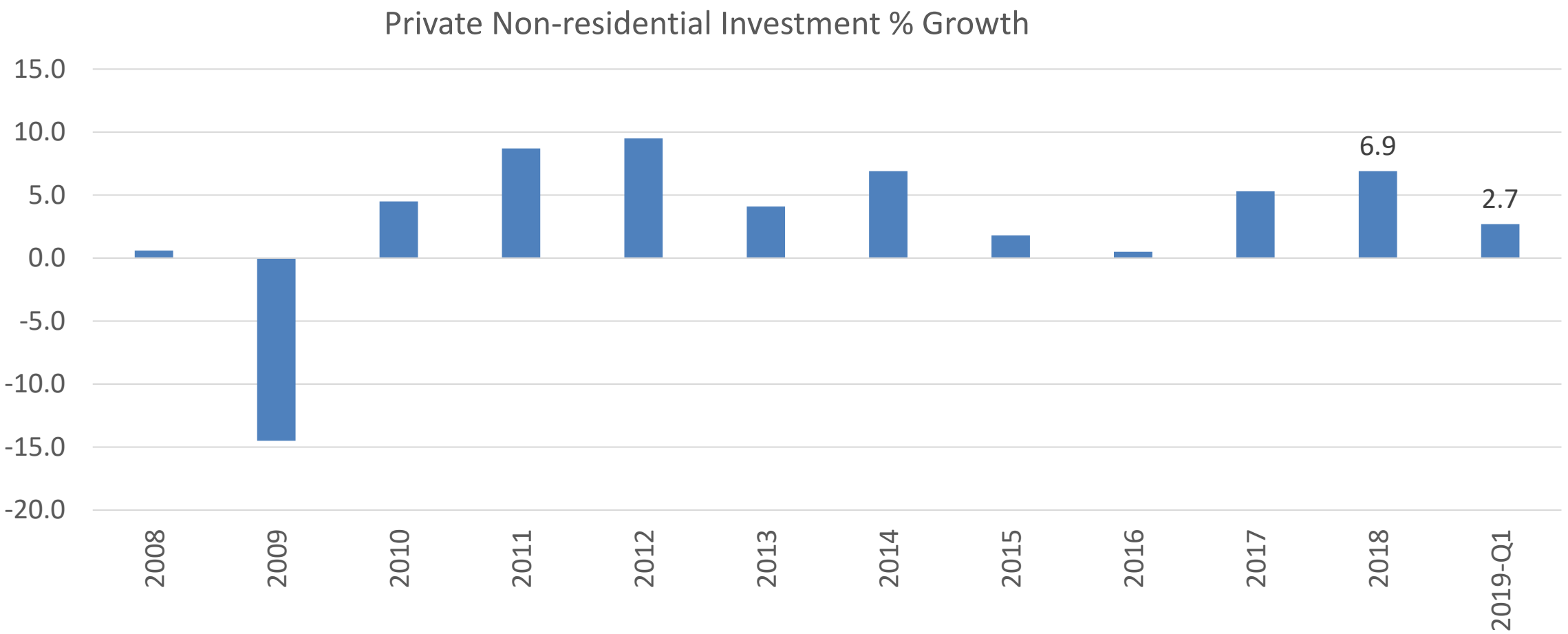


Source: BEA

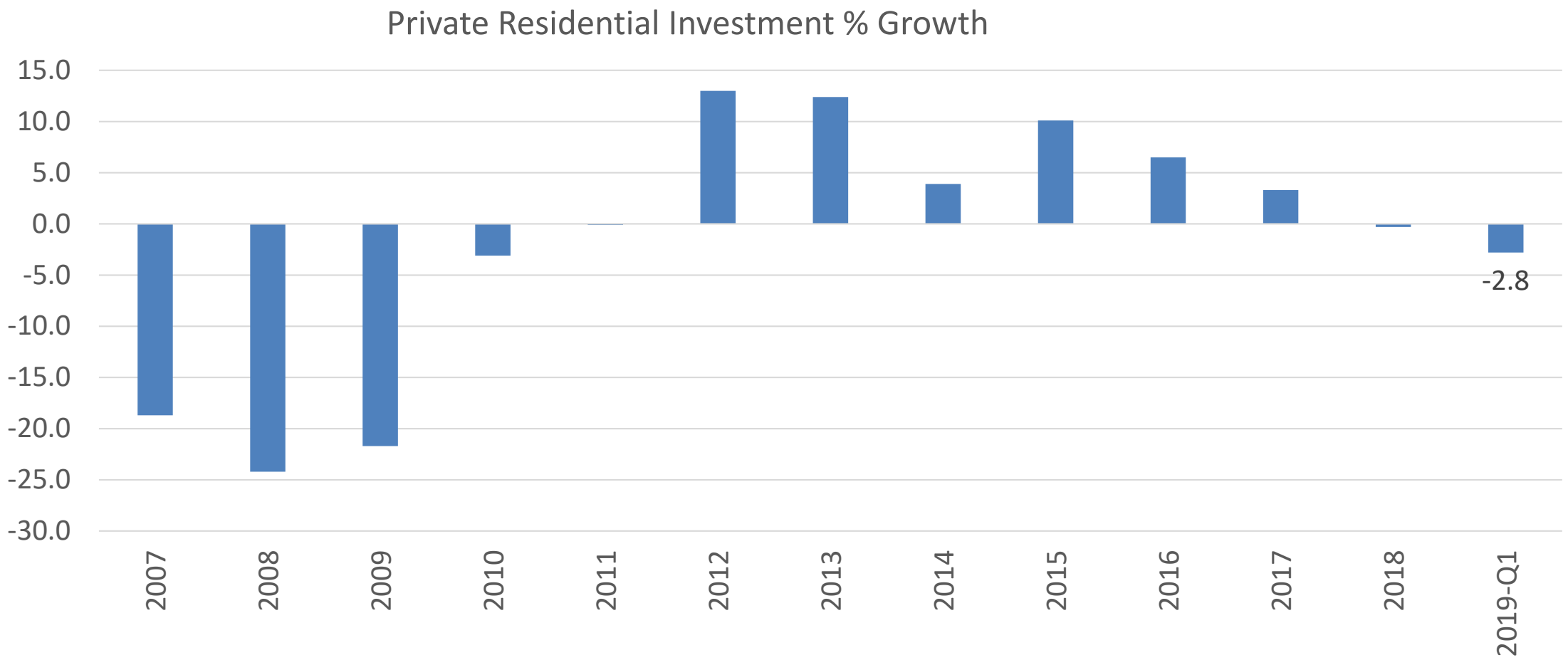
Rebound in Investment Spending Since 2017



Non-residential Investment Spiked in 2018

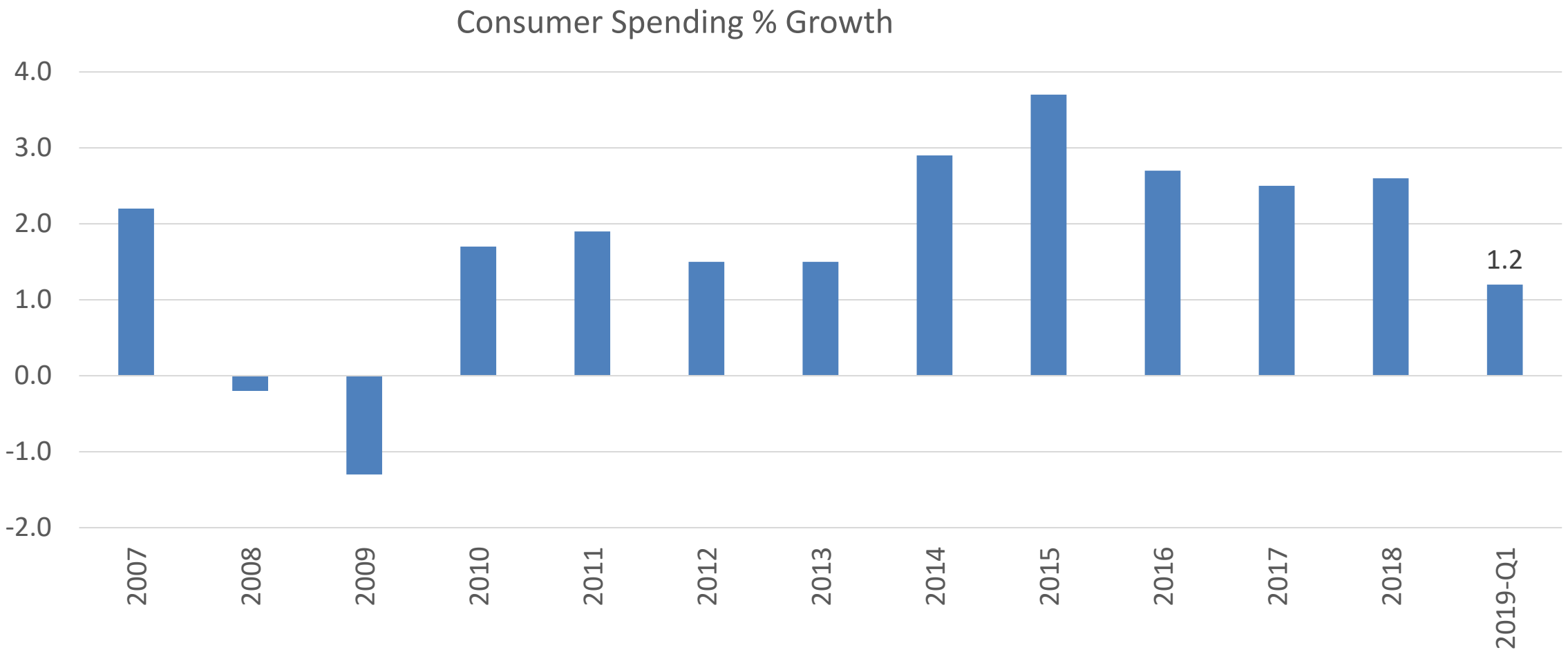


..While Residential Investment Contracted

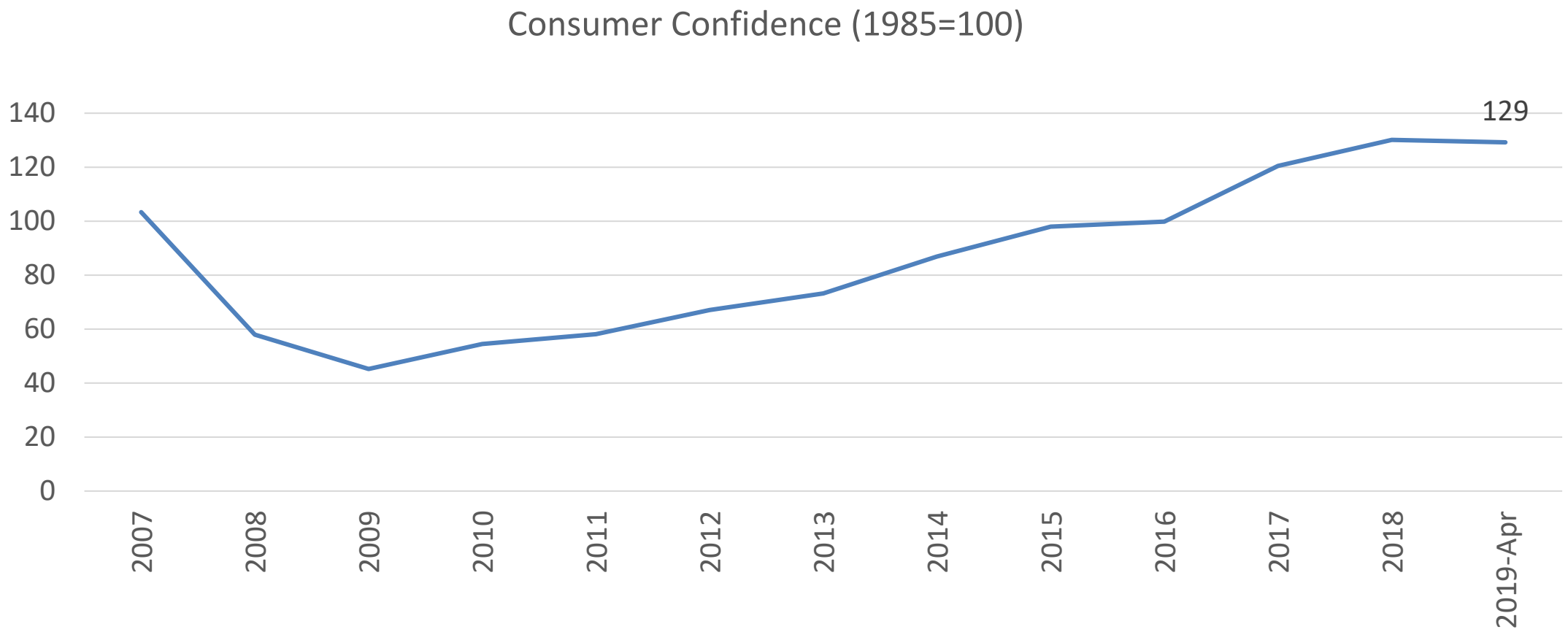


Slowdown in Consumer Spending?

(less spending on food services, gasoline/fuel, furniture/other durables)

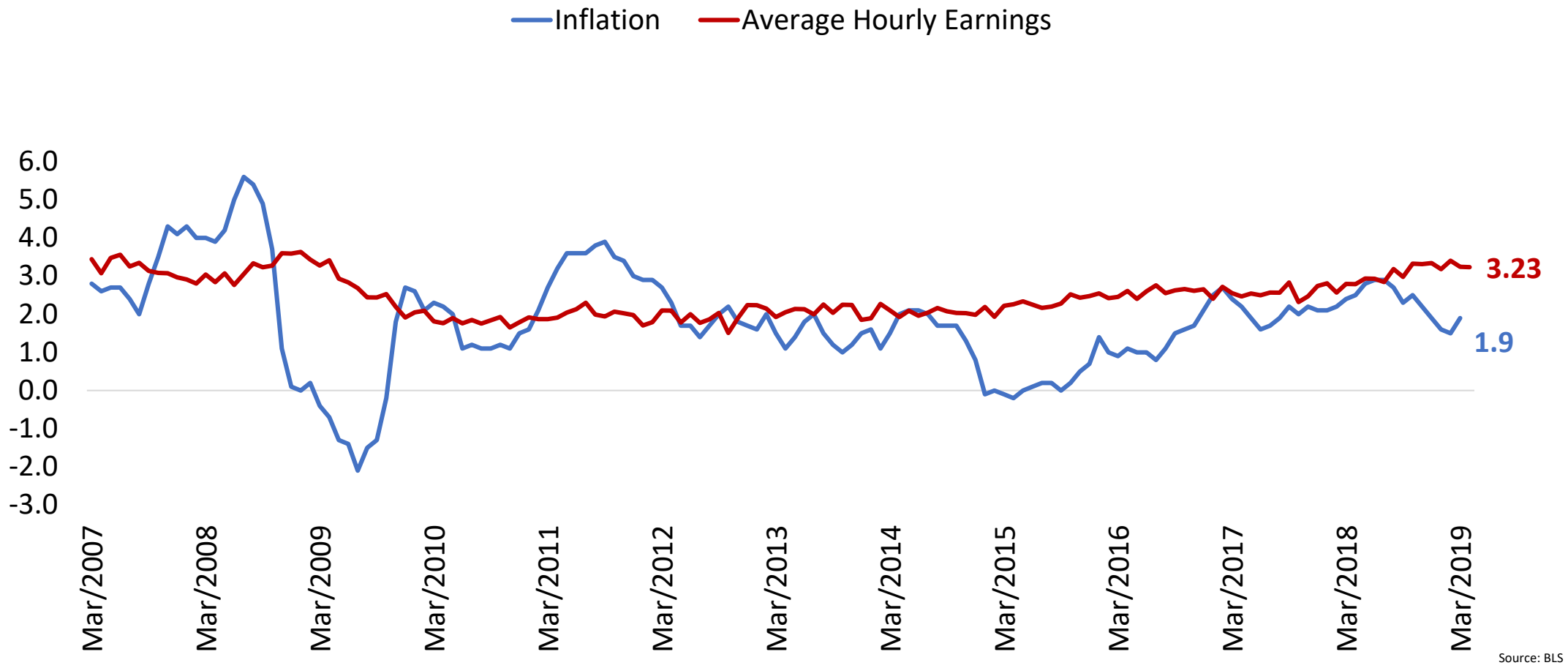


Consumer Confidence Remains Stable

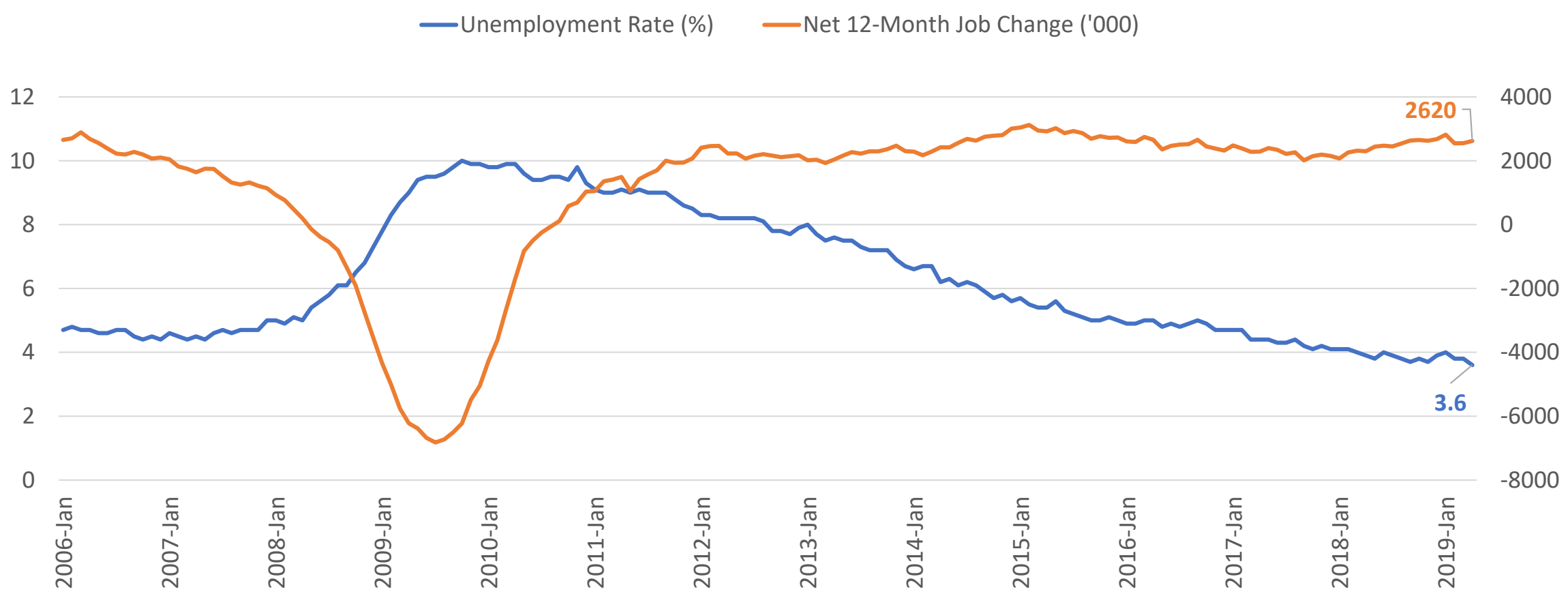


Source: Conference Board

Wages are Rising and Outpacing Inflation

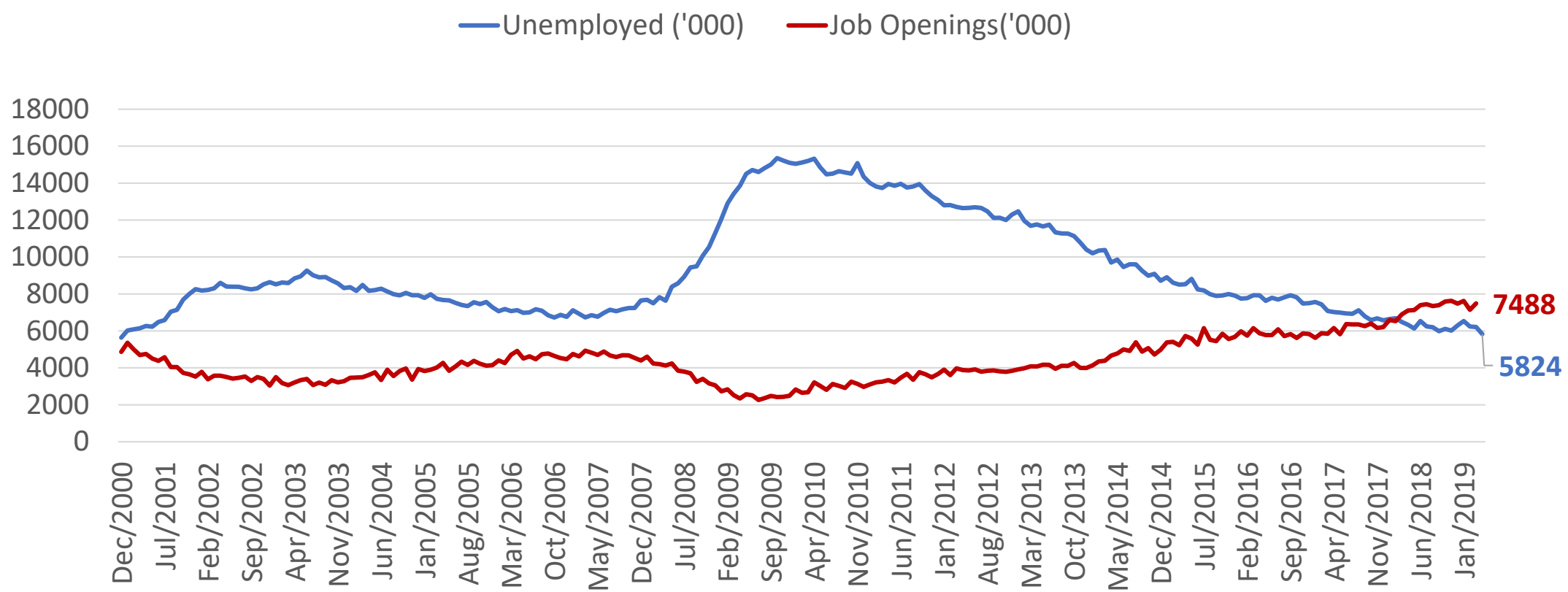


Record Low Unemployment Rate Since ’53; Strong Job Market: 2+M Jobs/Year Since 2012



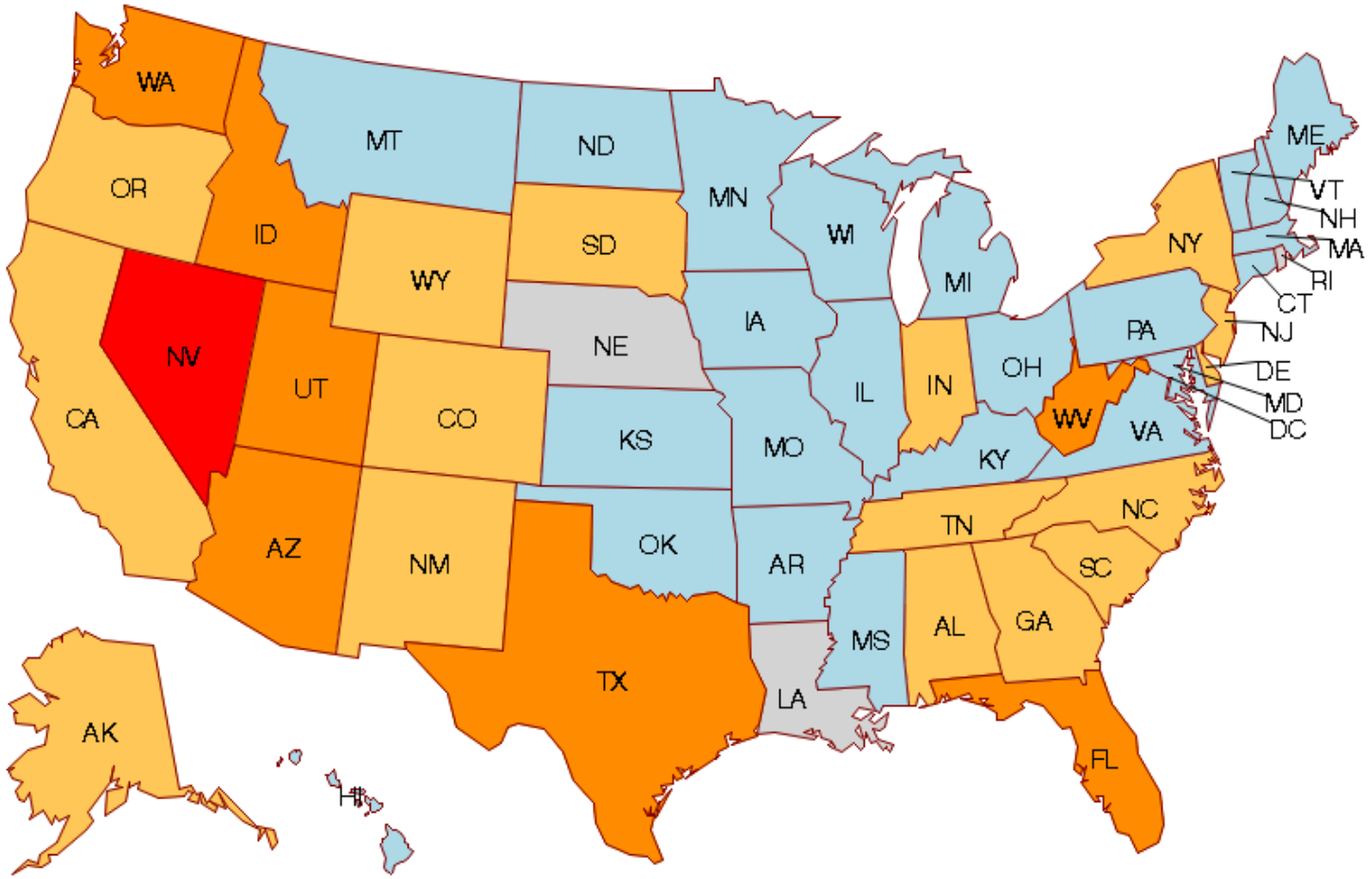
Source: BLS

1.6 Million More Job Openings Than Unemployed



Strong Employment Growth in West and South

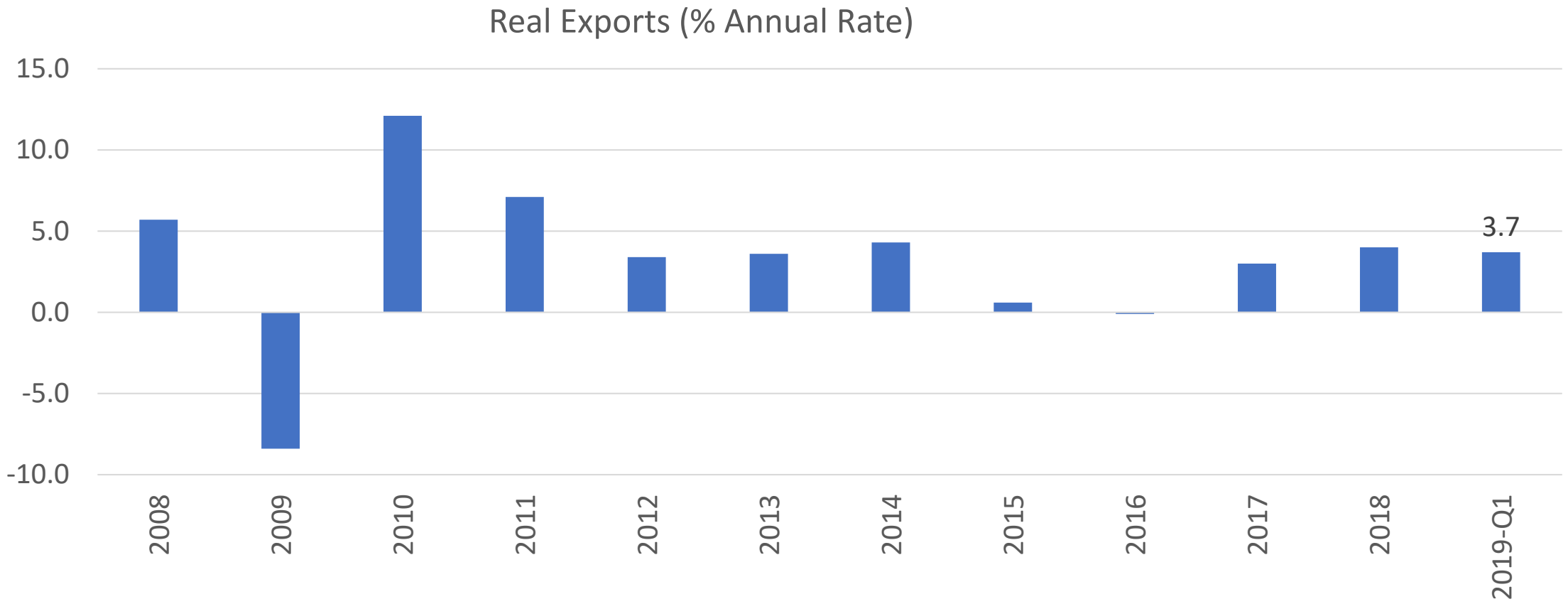
(Y/Y Employment Growth in March 2019)



Change in Employment in March 2019 from One Year Ago

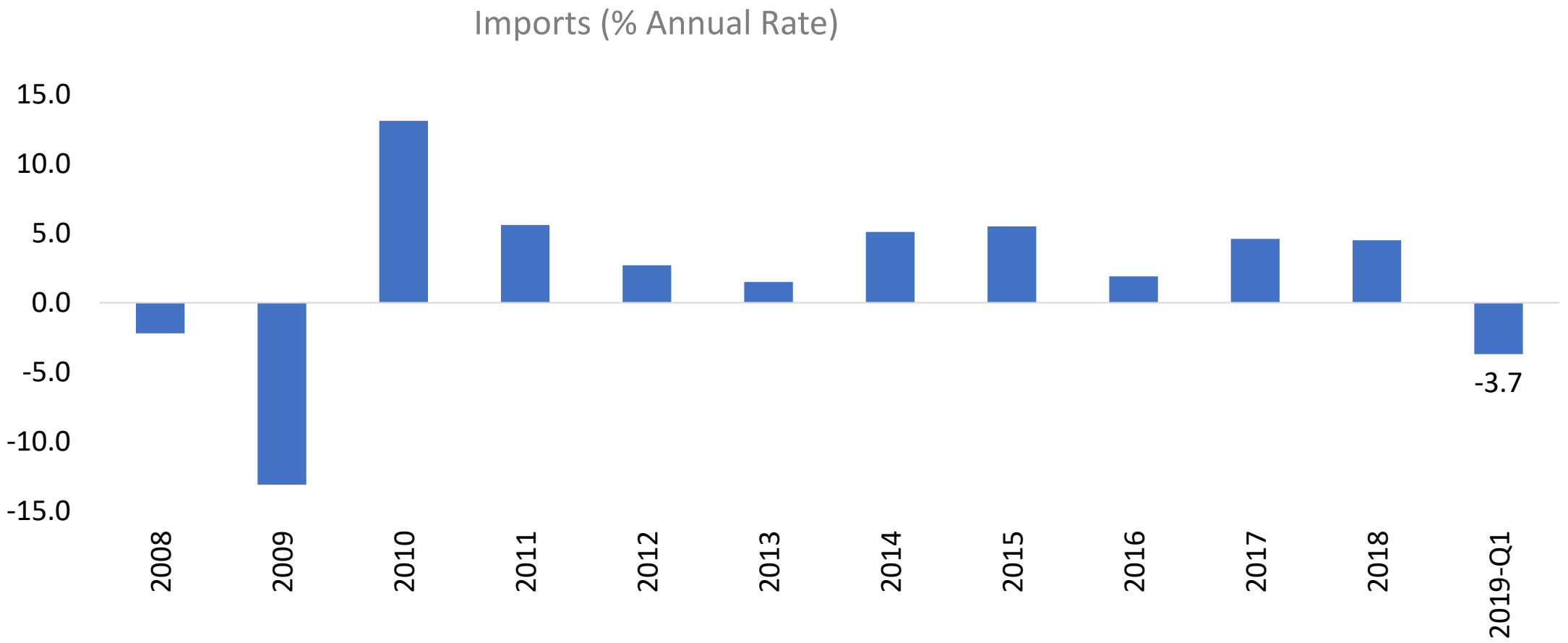
Less than 0% | 0% to 1% | 1+% to 2% | 2+% to 3% | 3+% to 3.2%

Strong Export Growth Since 2017
(led by minerals/fuels, chemicals, food, machinery/transport equipment)



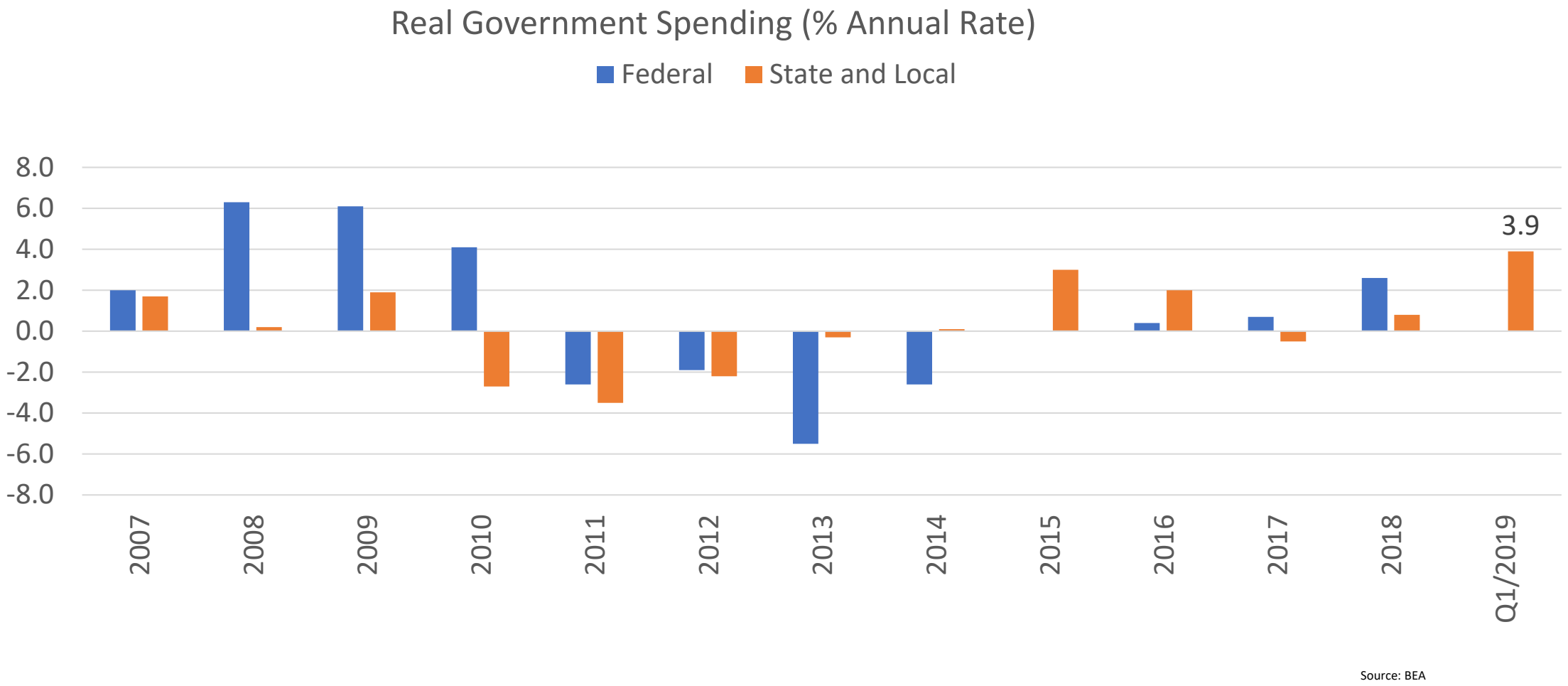
Source: BEA

Imports Fell in 2019 Q1-- Tariff Wars?
(decline in imports of minerals/fuels and manufactured items)



Source: BEA, SAAR, Bil.Chn.2009$

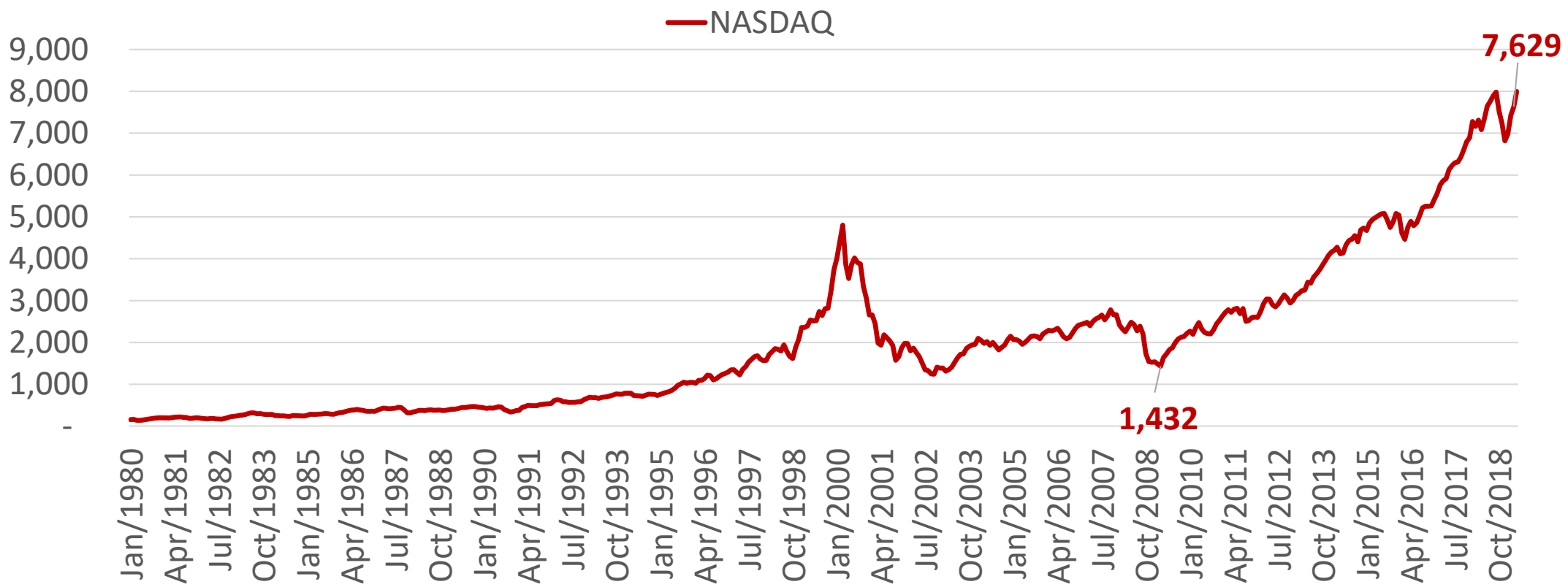
Recovery in State/Local Government Spending



Source: BEA

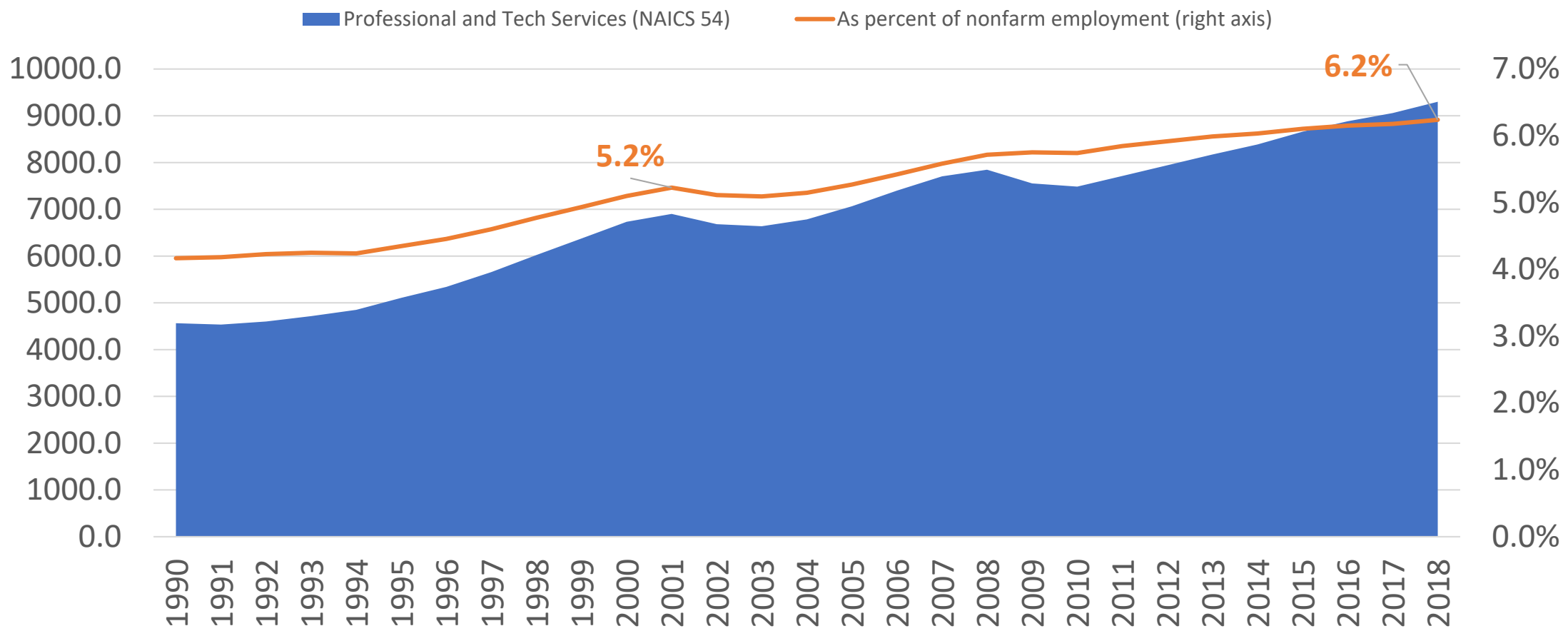
Stock market prices soaring back towards historic high

5-fold increase in NASDAQ Index from March 2009–April 2019



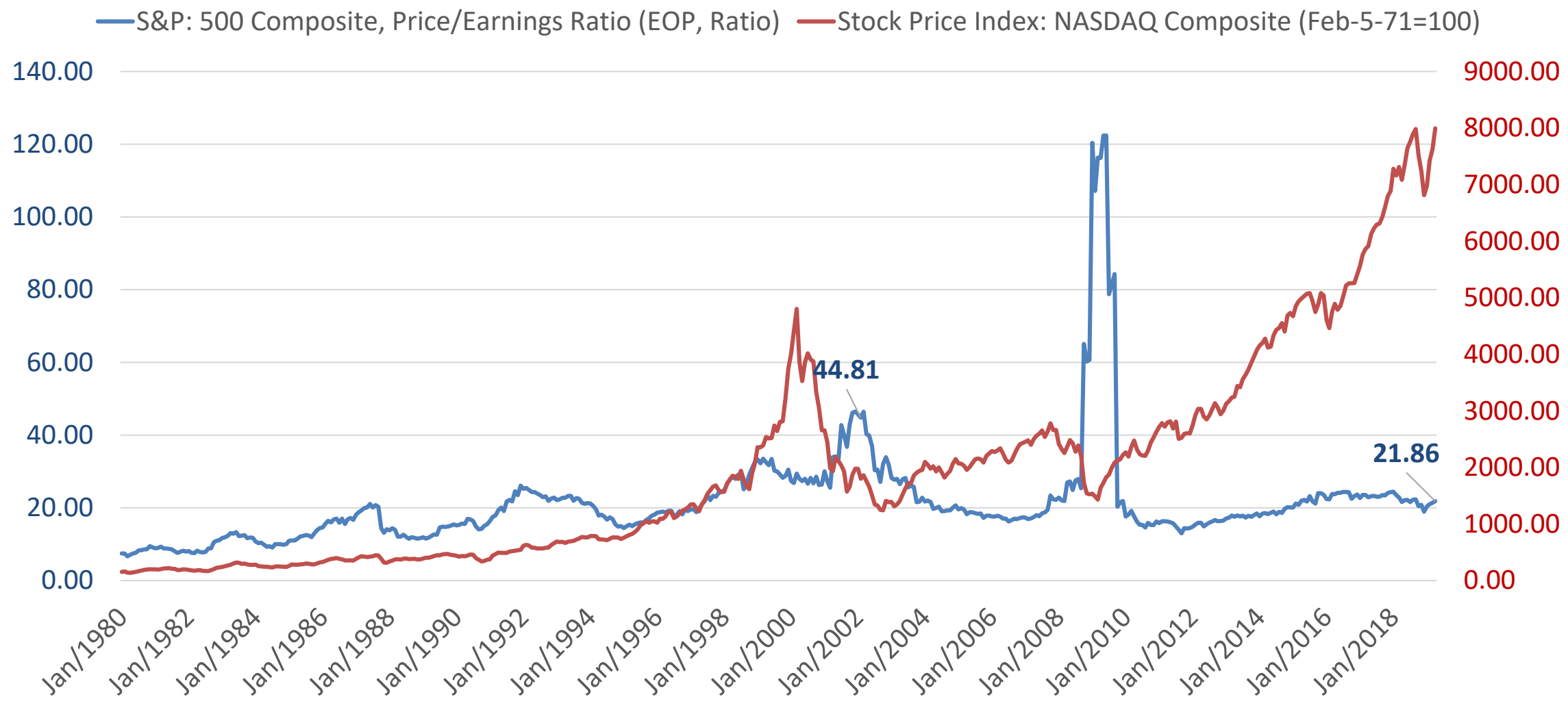
Share of tech* workers to total employment above dot-com level

9.3 M (6.2% of payroll employment) in 2018 vs. 6.7 M (5.2%)



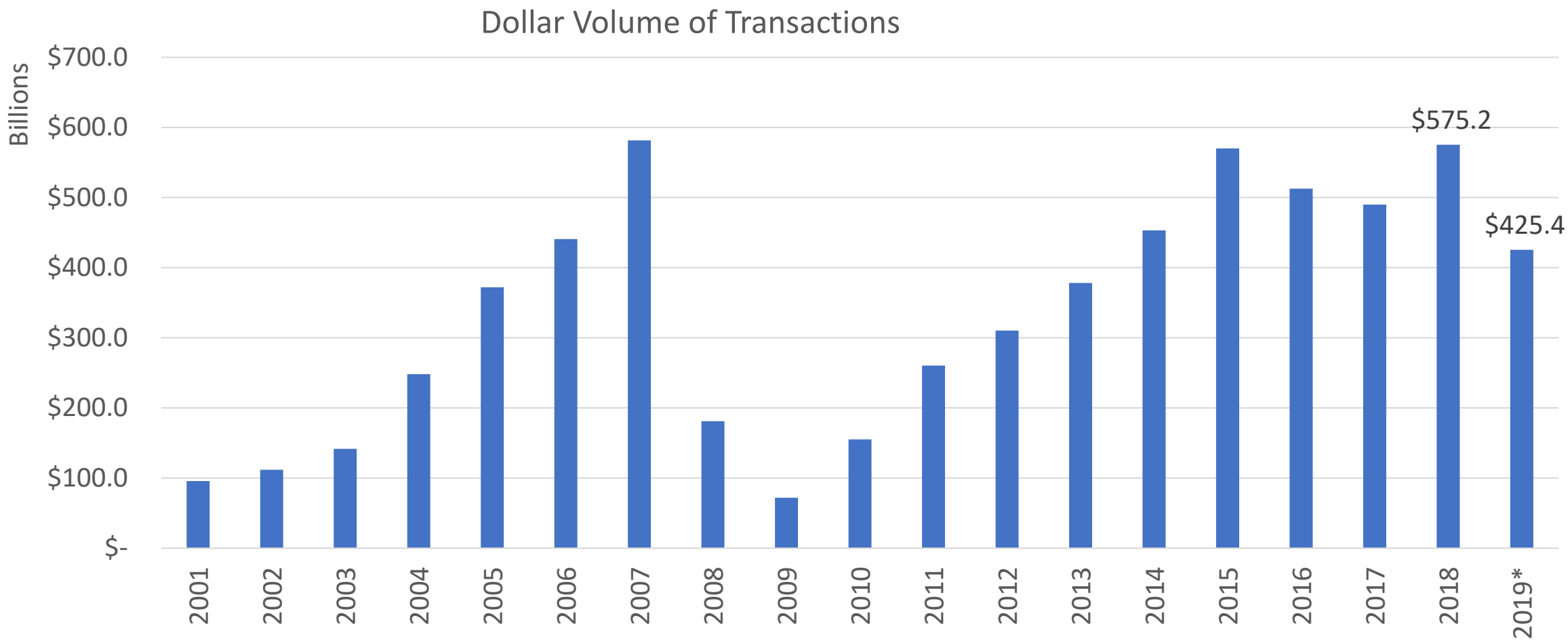
*Professional and technical services workers (NAICS 54). Source: BLS Payroll Employment Survey

But P/E Ratios Lower than During Dot-com



Commercial Real Estate Trends

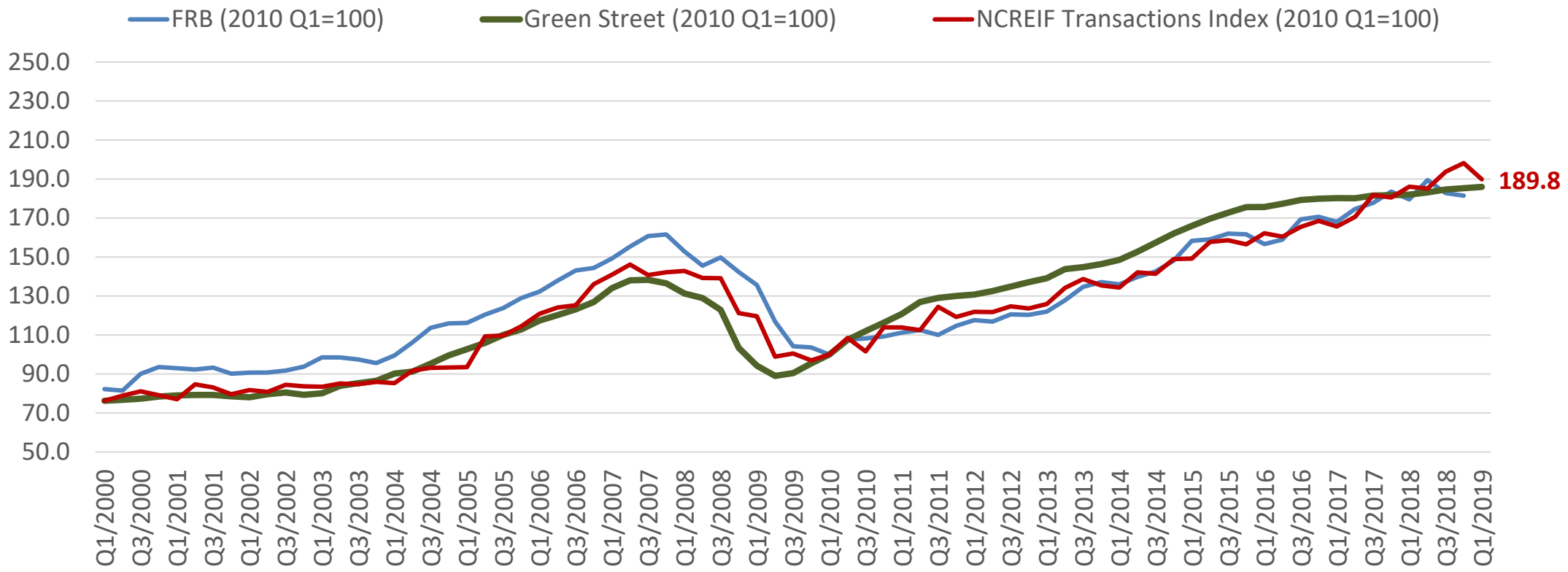
2019 a Good Year for $2.5M+ Market, But Slowdown in 2019 Q1



*For $2.5M and above. 2019 figure is annualized figure based on 2019 Q1 of $106.35Bn

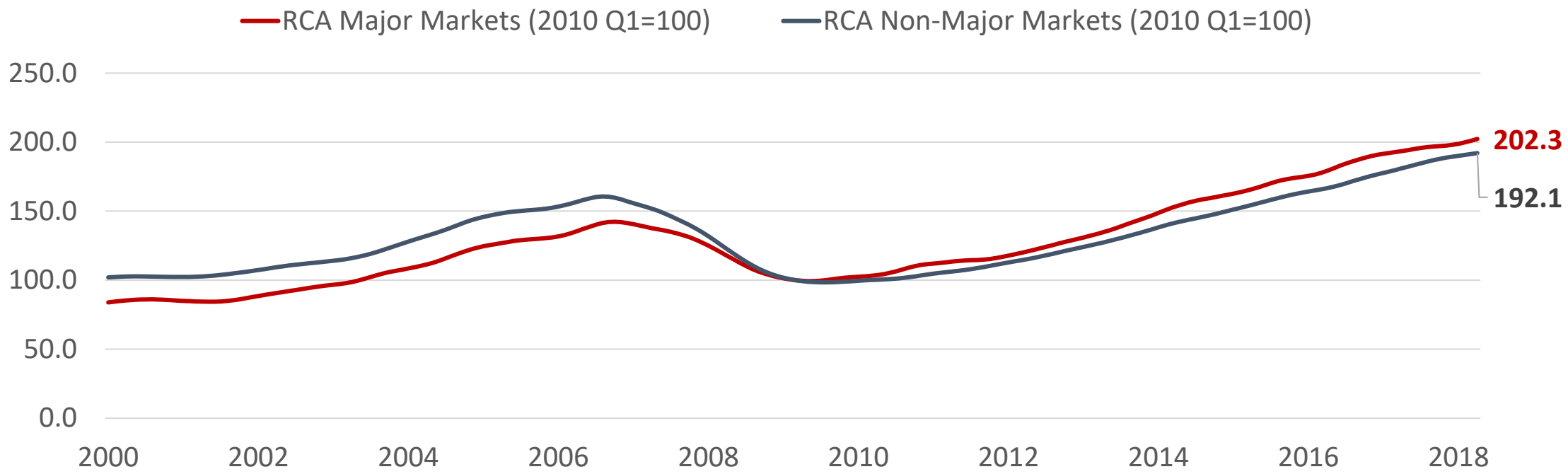
Source: Real Capital Analytics

Commercial Prices Still Trending Up
(90% gain since 2010 Q1 based on NCREIF)



Source: Federal Reserve Board, Green Street, NCREIF

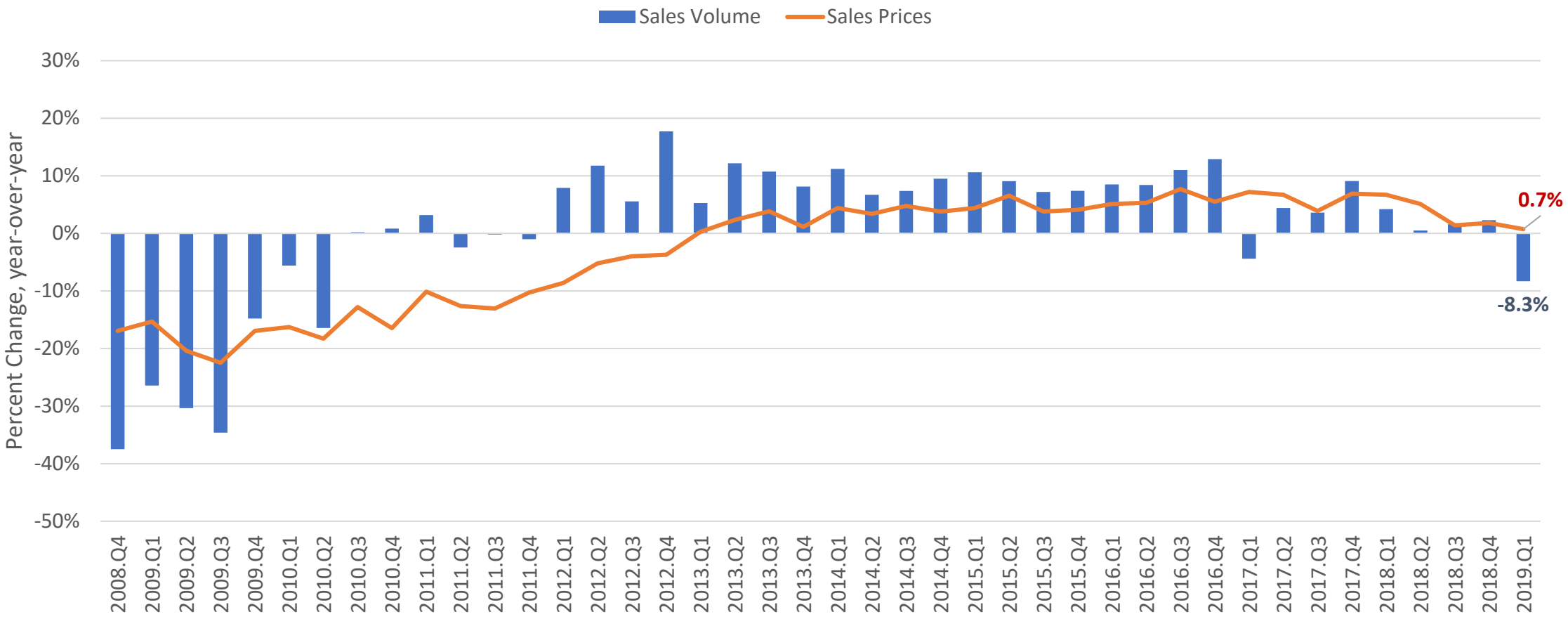
Property Prices Growing in Major and Non-Major Metros*
(Up 102% in six major markets and 92 percent in non-major markets since 2010 Q1)



Real Capital Analytics defines six major markets as New York, Boston, Washington DC, Chicago, Los Angeles, and San Francisco.
These are rebased indices so they are comparable to rebased indices of NCREIF, Green Street ,and FRB with base year of 2010 Q1 (=100).

Source: Real Capital Analytics Commercial Real Estate Price Indices

Small-cap* Market: Slowing Sales Volume and Prices

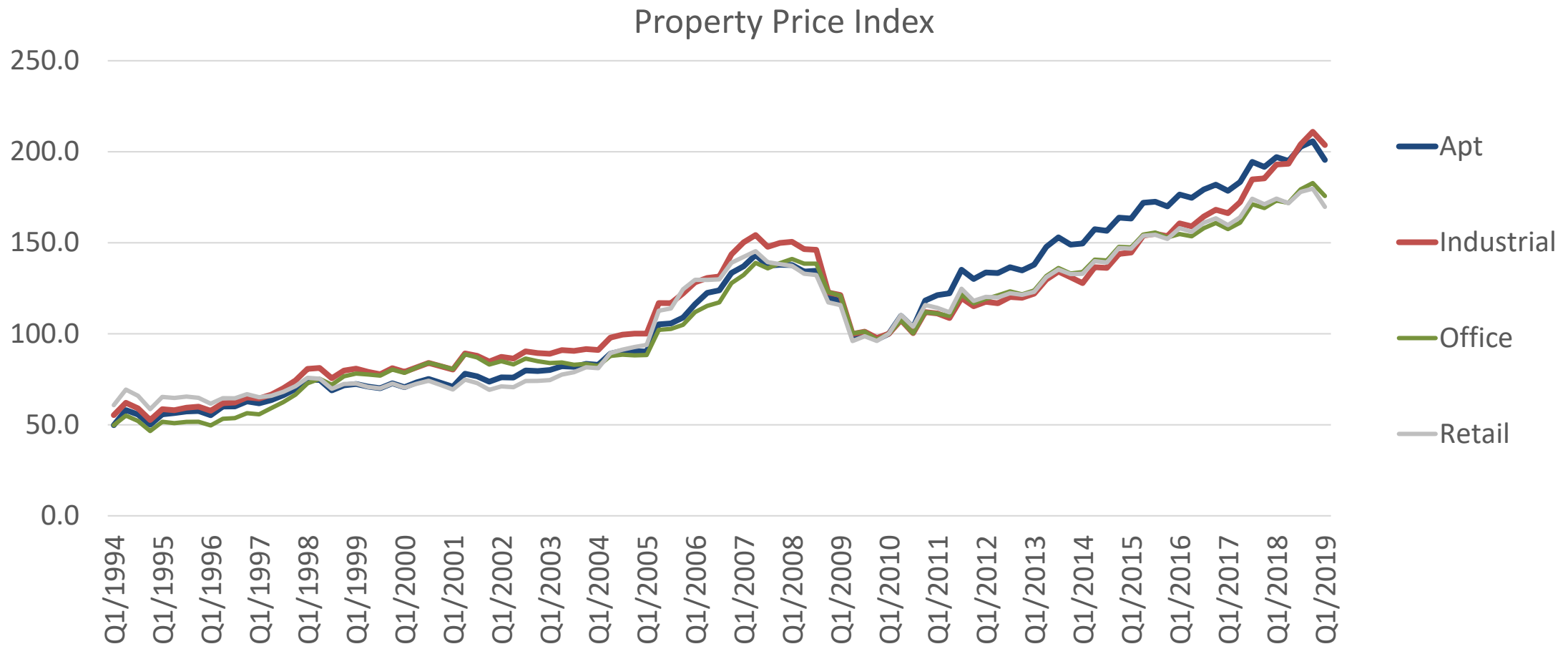


Source: NAR CRE Quarterly Market Survey

*Typically less than $2.5 million transaction among commercial REALTORS®

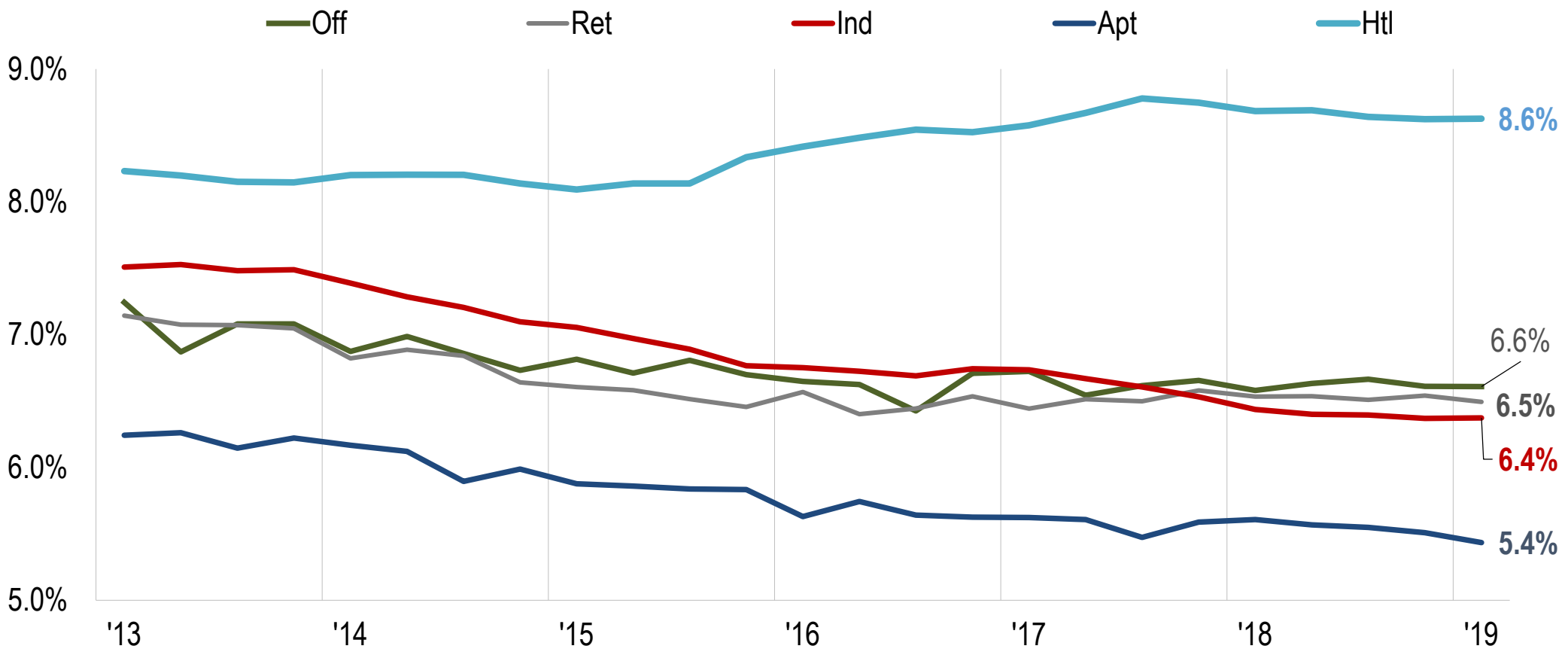
Apartment and Industrial: Best Asset Classes

(NCREIF Index- Industrial up 103.7% and apartment 96% since 2009 Q1)



Source: Real Capital Analytics Commercial Real Estate Price Indices

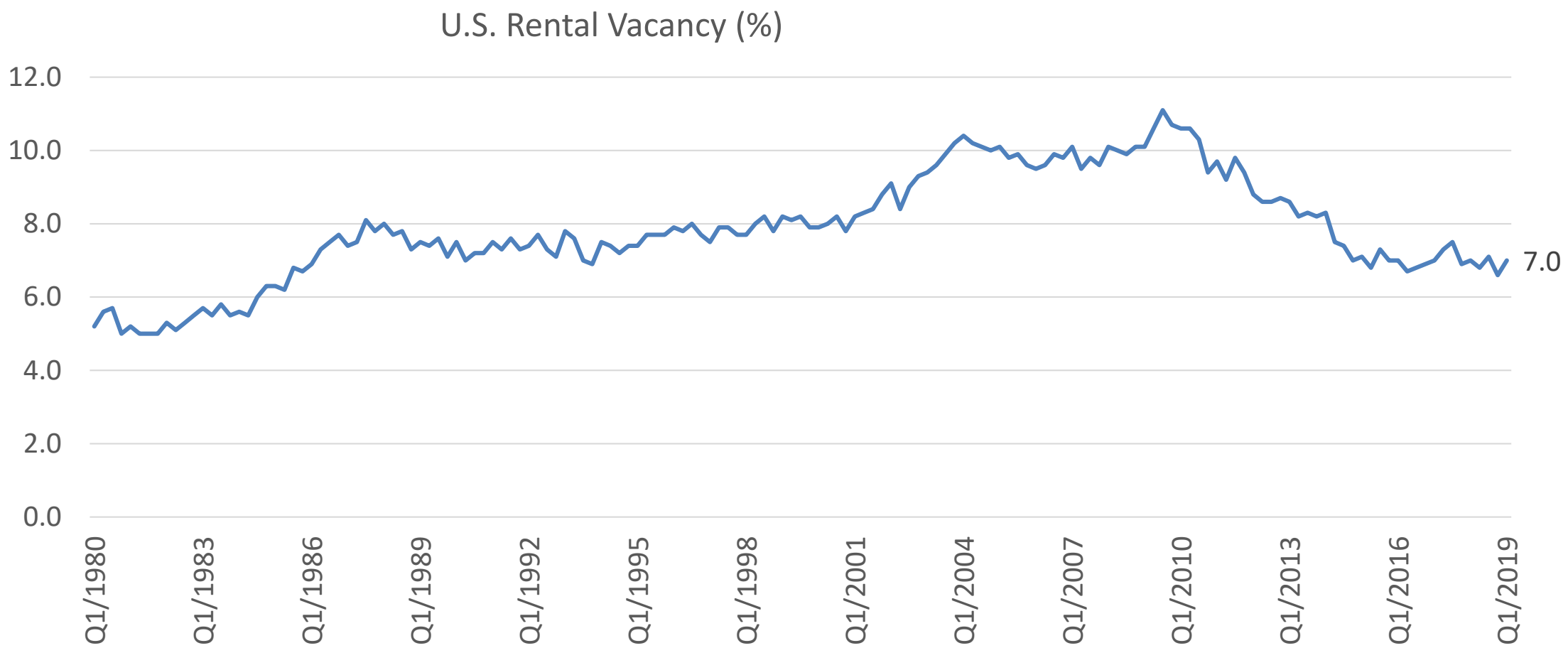
Cap Rates Falling for all Property Types
(as of 2019 Q1; $2.5 M + Transactions)



Source: Real Capital Analytics Commercial Real Estate Price Indices

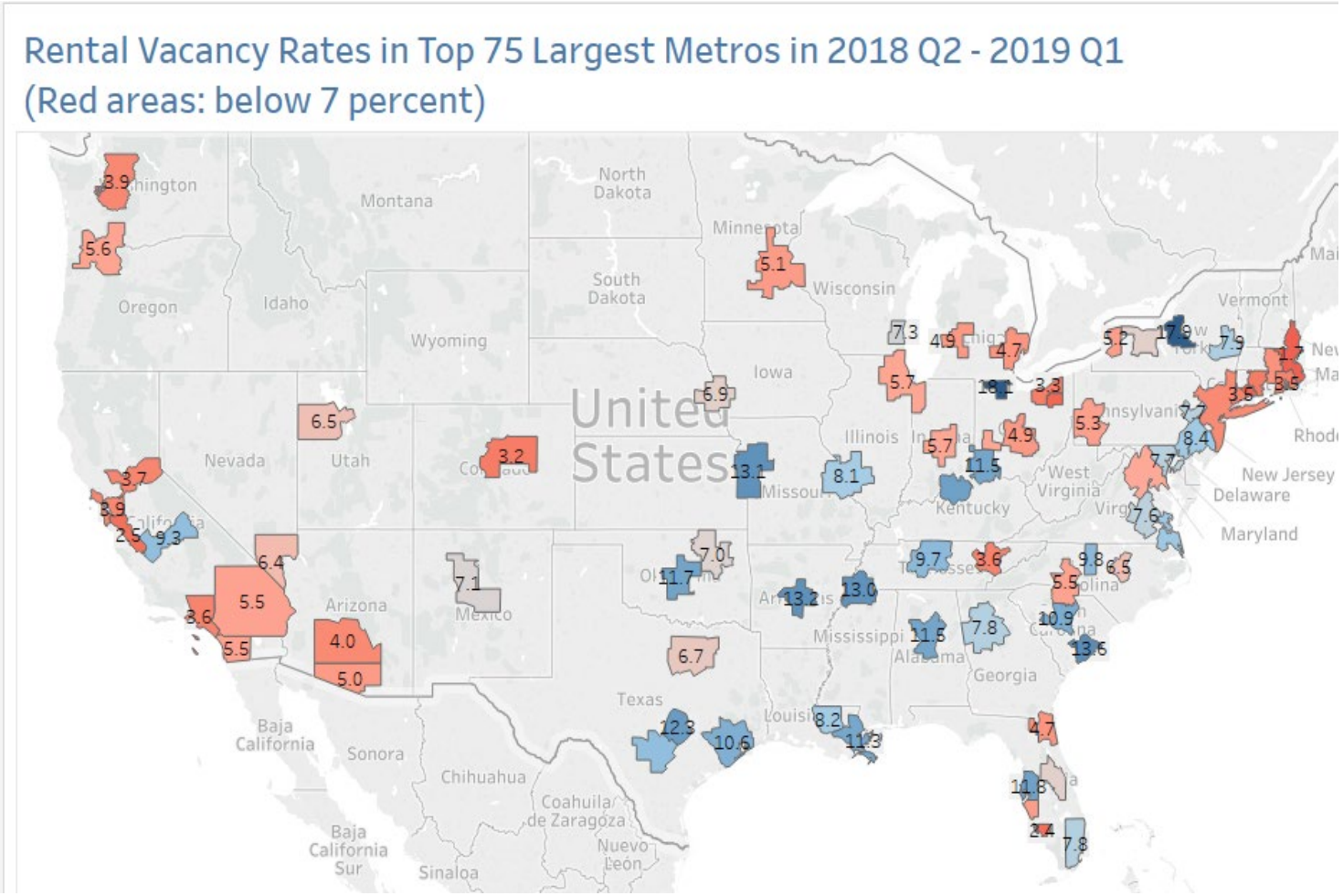
Multi-family Market Vacancy Rates Flat Since 2016

(Apartment Vacancy Rates at 7% in 2019 Q1)



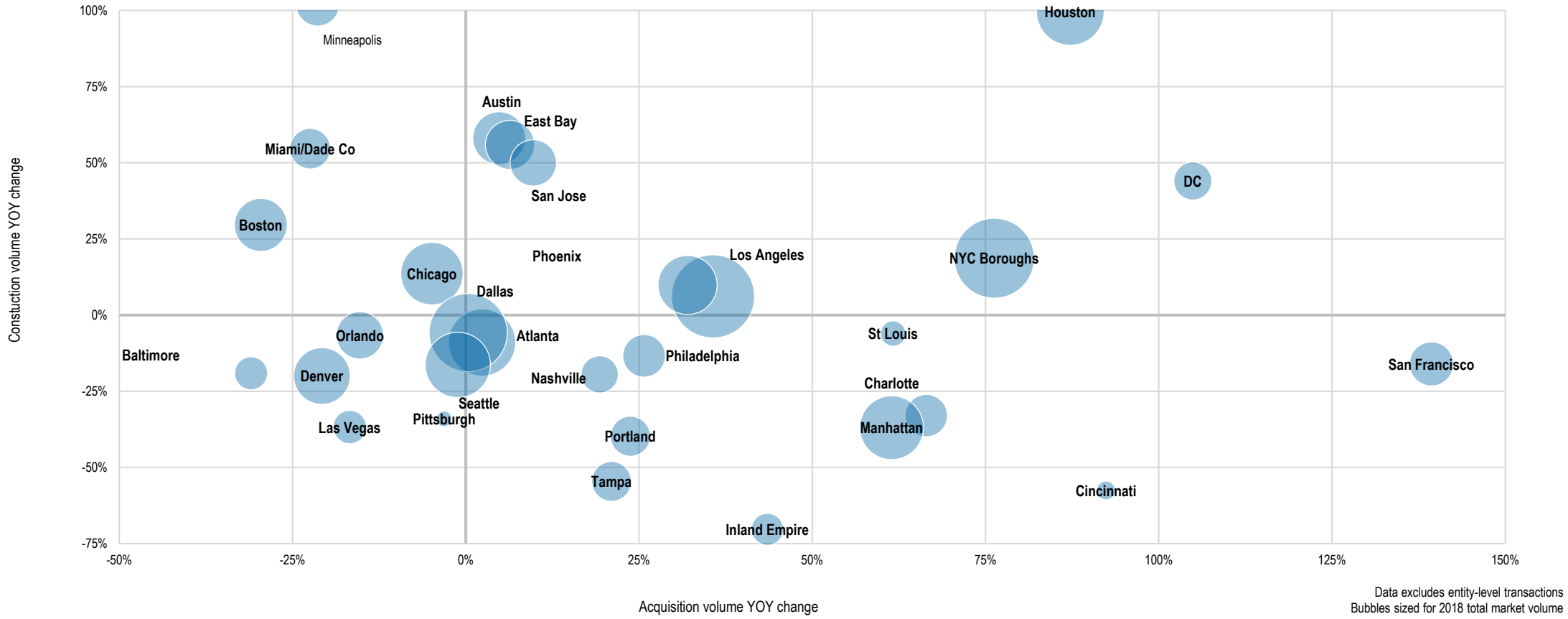
Source: U.S. Census Bureau

But Low Vacancy Rates in Many Metros



Metros with Lowest Vacancy Rate Metros in Past 4 Quarters Ended 2019 Q1		
Metro Area	2019 Q1 - 2018 Q2	2018 Q1 - 2017 Q2
United States	6.9	7.2
Worcester, MA-CT	2.7	4.0
Boston-Cambridge-Newton, MA-NH	2.9	4.7
Akron, OH	3.3	3.5
Denver-Aurora-Lakewood, CO	3.4	6.0
San Jose-Sunnyvale-Santa Clara, CA	3.6	3.4
Cape Coral-Fort Myers, FL	3.7	7.1
Fresno, CA	3.7	2.3
Los Angeles-Long Beach-Anaheim, CA	3.8	4.3
Hartford-West Hartford-East Hartford, CT	4.1	5.4
Providence-Warwick, RI-MA	4.2	4.9
Portland-Vancouver-Hillsboro, OR-WA	4.3	4.8
Minneapolis-St. Paul-Bloomington, MN-WI	4.5	3.9
New York-Newark-Jersey City, NY-NJ-PA	4.5	4.4
Sacramento-Roseville-Arden-Arcade, CA	4.5	5.5
Tucson, AZ	4.6	5.8
Seattle-Tacoma-Bellevue, WA	4.6	4.1
San Diego-Carlsbad, CA	4.7	4.2
New Haven-Milford, CT	4.8	6.0

Apartment Construction Activity

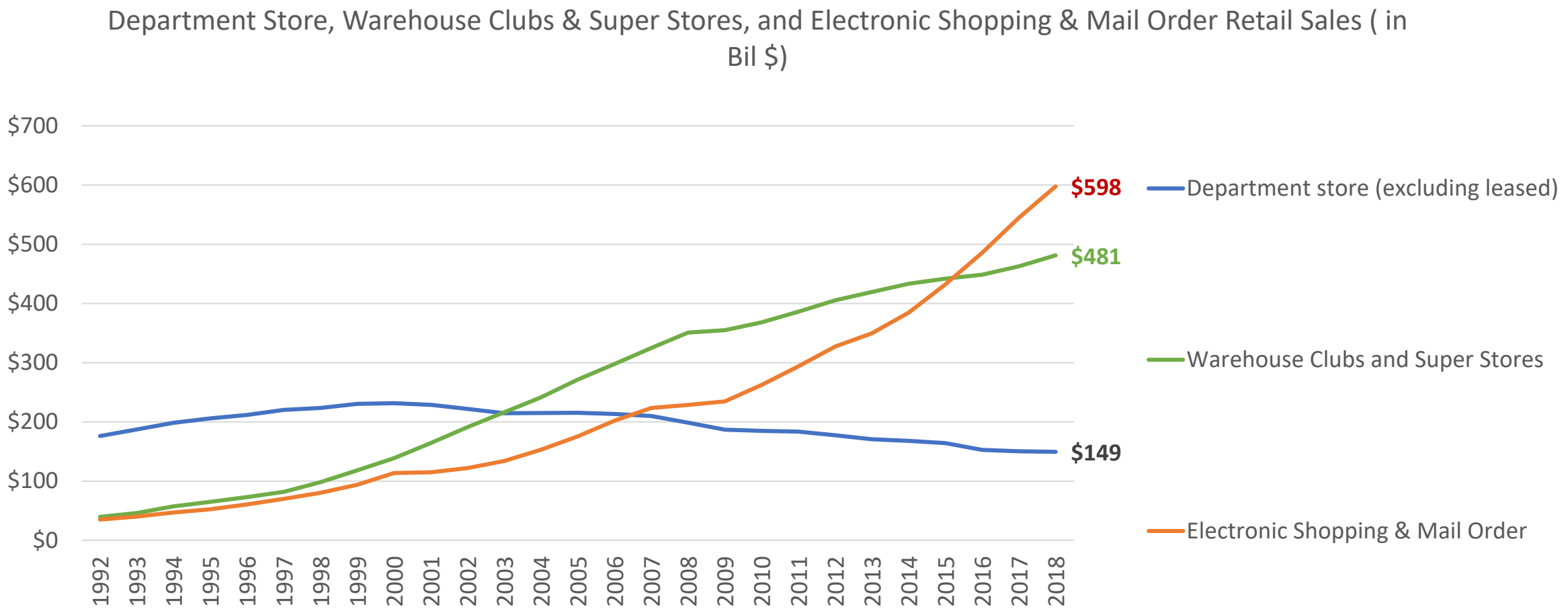


Source: Real Capital Analytics

E-Shopping & Mail Order Rise to 13% of Retail Sales

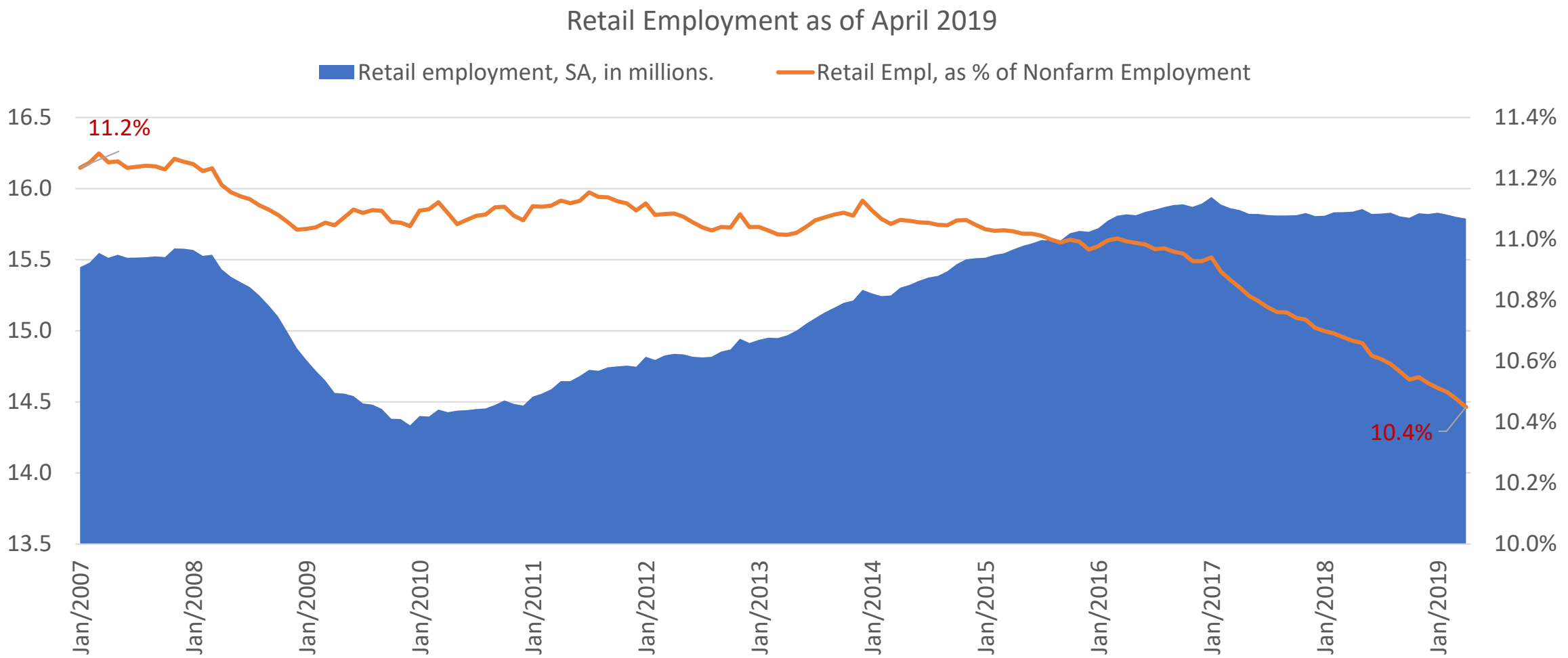
Source: US Census Bureau

Warehouse Clubs Fighting to Compete with E-Commerce



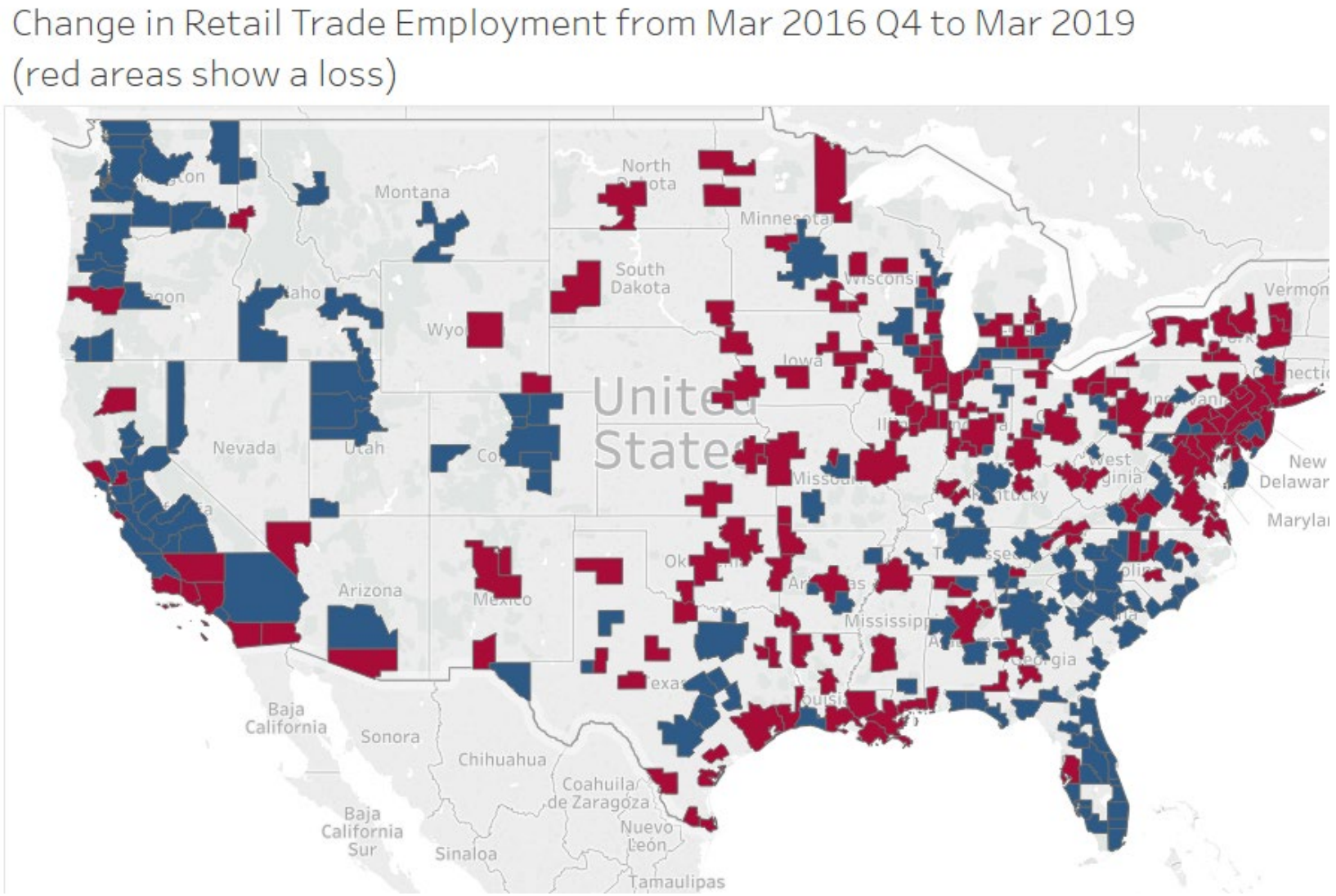
Source: US Census Bureau

150,000 Retail Jobs Lost Since January 2017 as of April 2019



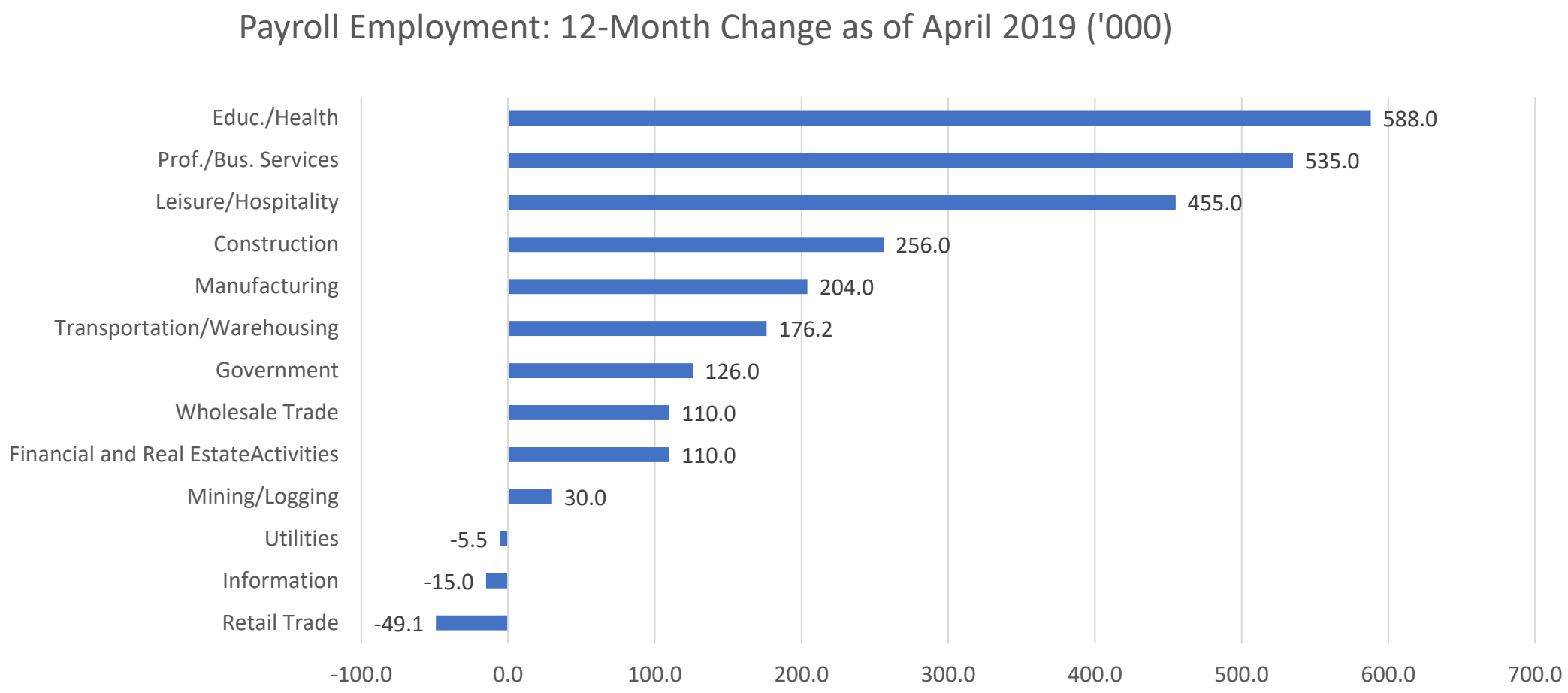
Source: US Census Bureau

But Retail Trade is Still Creating Jobs in Many Metros
(blue-colored areas)



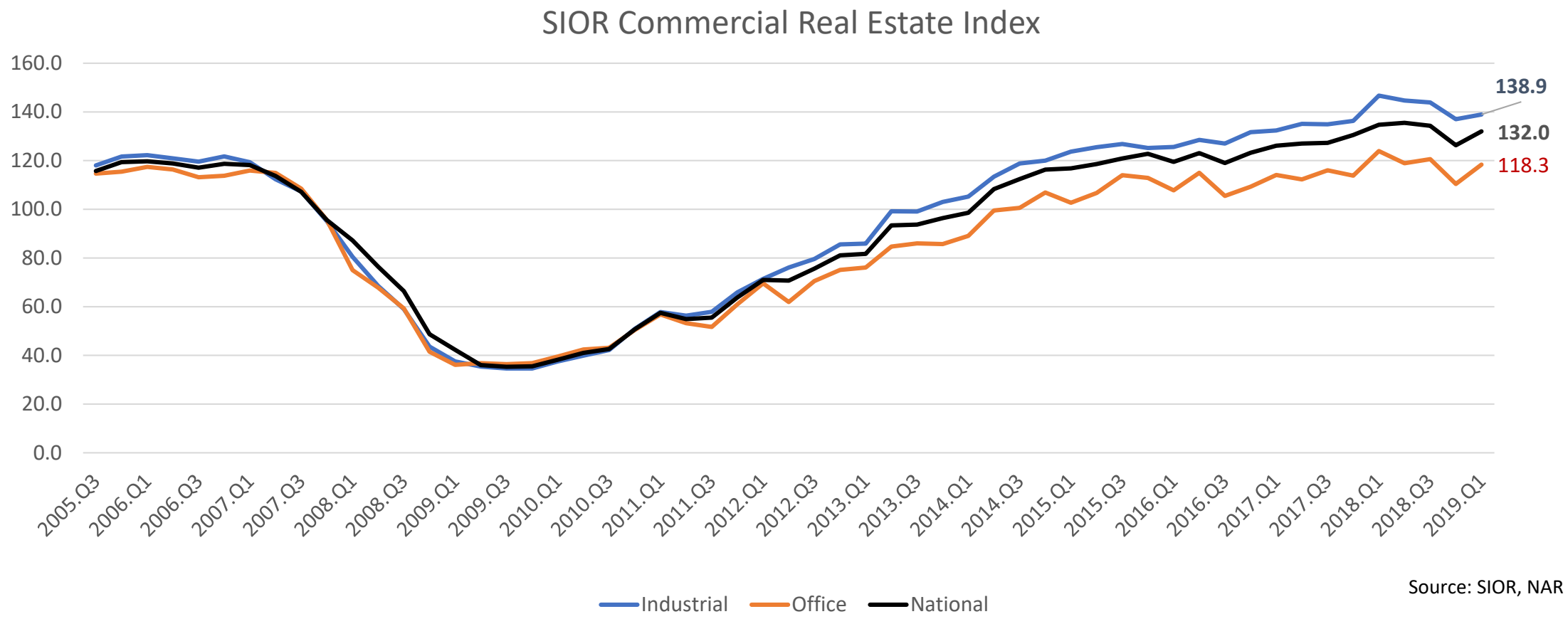
Msa	
Seattle-Tacoma-Bellevue WA	19.30
Dallas-Fort Worth-Arlington TX	13.20
Atlanta-Sandy Springs-Roswell GA	9.60
Jacksonville FL	8.90
Phoenix-Mesa-Scottsdale AZ	7.10
Orlando-Kissimmee-Sanford FL	6.10
Provo-Orem UT	4.90
New York City NY	4.70
Nashville-Davidson-Murfreesboro-Franklin..	4.60
Austin-Round Rock TX	3.80
Riverside-San Bernardino-Ontario CA	3.70
Charleston-North Charleston SC	3.30
North Port-Sarasota-Bradenton FL	3.10
Lakeland-Winter Haven FL	3.10
Miami-Fort Lauderdale-West Palm Beach FL	3.10
Boise City ID	3.00
Sacramento-Roseville-Arden-Arcade CA	2.70
Denver-Aurora-Lakewood CO	2.40
Salt Lake City UT	2.40
Raleigh NC	2.30
Myrtle Beach-Conway-North Myrtle Beach ..	2.20
Cape Coral-Fort Myers FL	2.20
Deltona-Daytona Beach-Ormond Beach FL	2.10
Portland-Vancouver-Hillsboro OR-WA	2.10
Charlotte-Concord-Gastonia NC-SC	1.90

Job Loss in Retail Sector Offset by Job Gains in Logistics (Transportation/Warehousing)



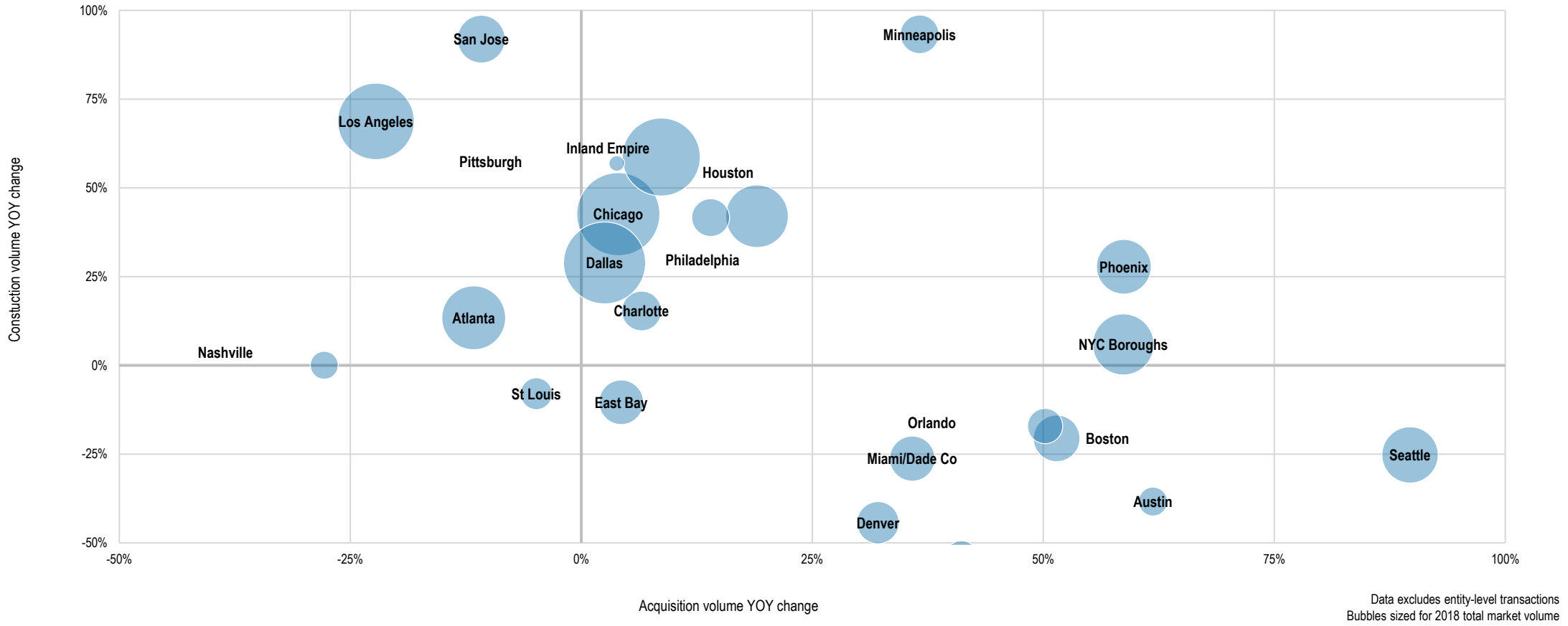
Source: BLS

SIOR Members Reported Stronger Conditions in Industrial and Office Market from One Year Ago



Source: SIOR, NAR

Industrial Construction Activity
(as of 2019 Q1)



Source: Real Capital Analytics

Office Construction Activity
(as of 2019 Q1)

Source: Real Capital Analytics

Commercial Economic Issues and Trends Forum

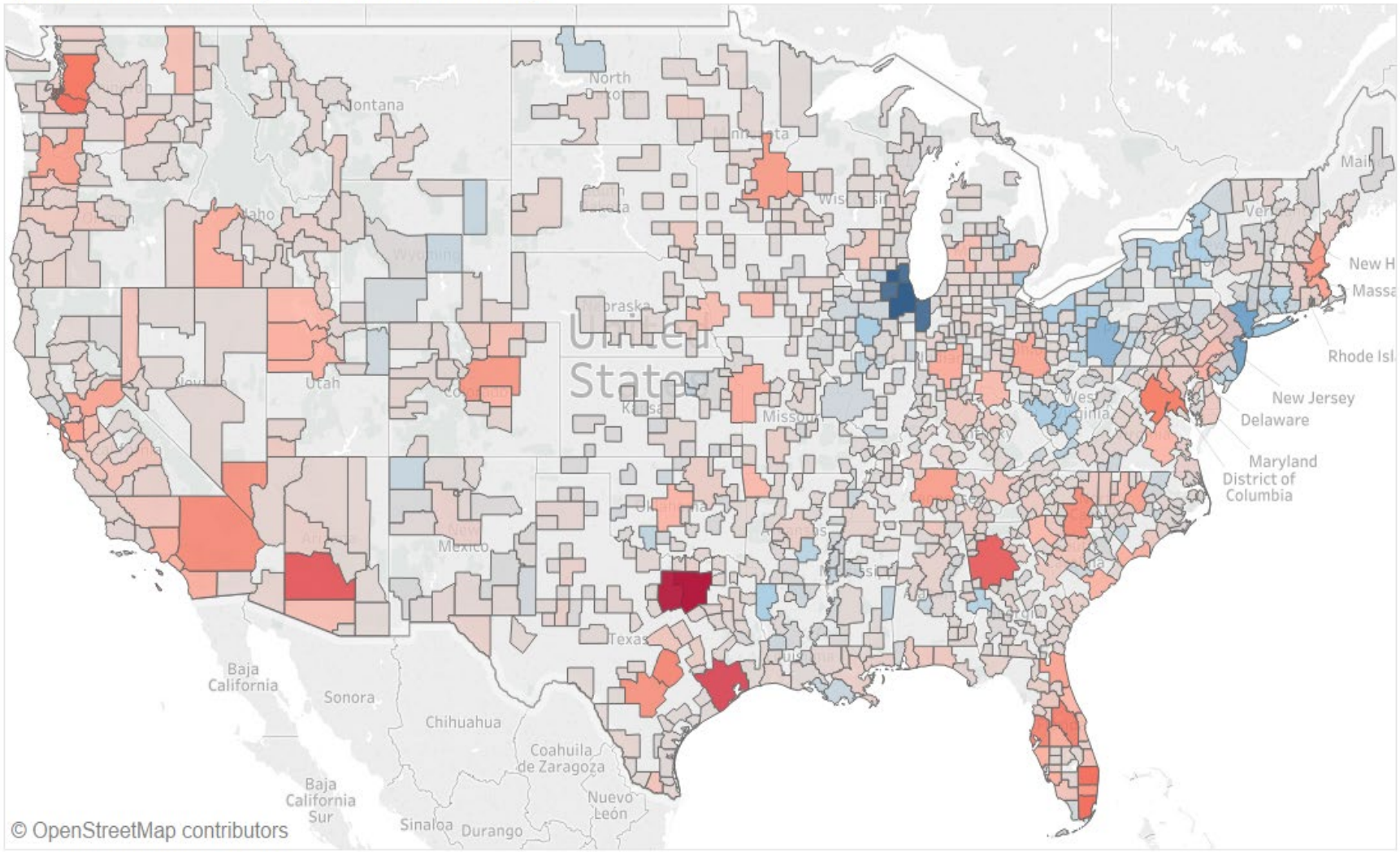
Outlook for 2019-2020

NAR's U.S. Economic Outlook: No Recession
(as of May 2019)

	2017	2018	2019	2020
GDP Growth	2.2	2.9	2.5	2.0
Unemployment rate	4.4	3.9	4.0	4.1
30-yr mortgage rate	4.0	4.5	4.3	4.6
Housing Starts ('000)	1,203	1,250	1,266	1,400
Single-family	849	876	910	1,010
Multi-family	354	374	356	390

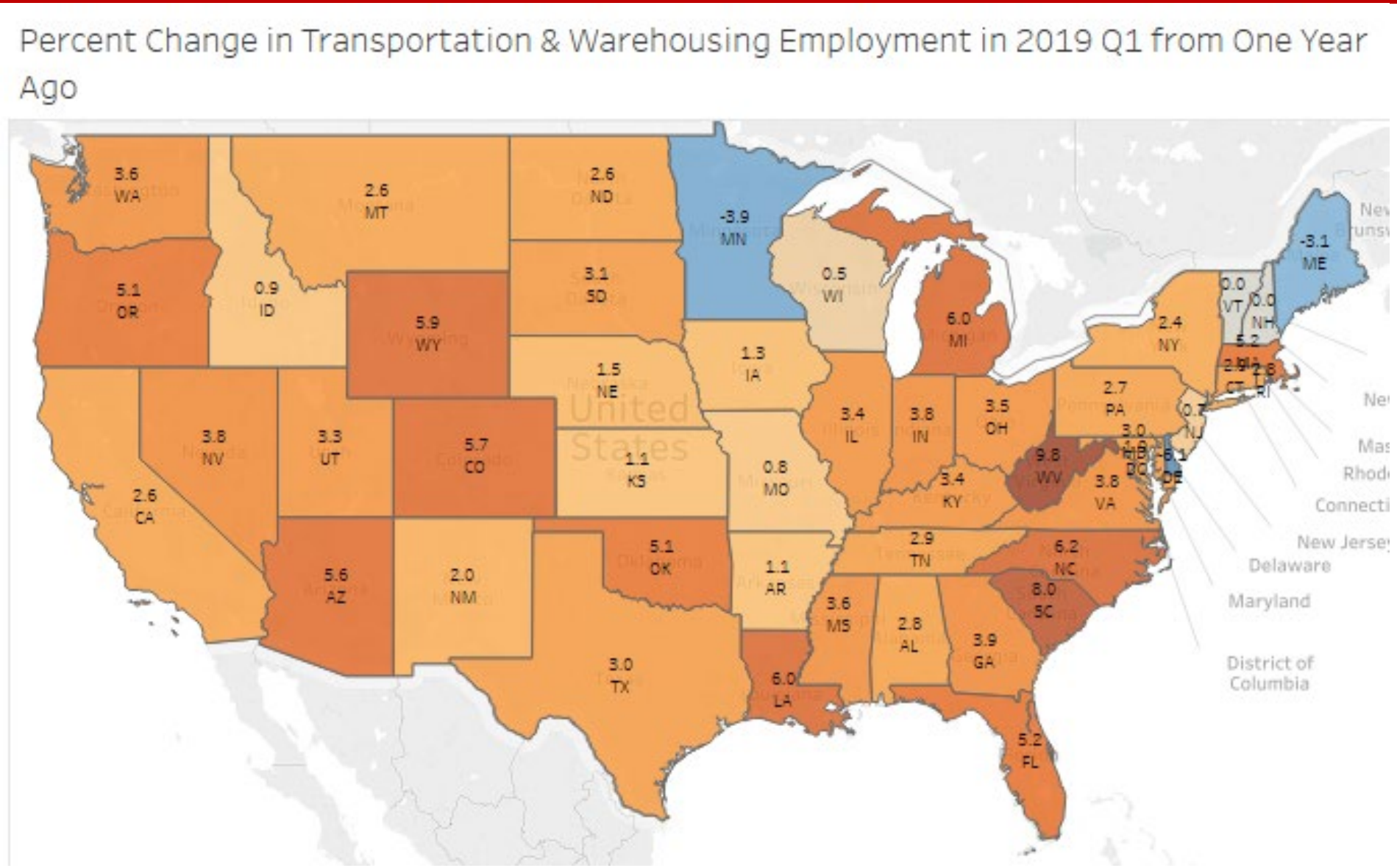
Bright Outlook for Metros with Rising Population

Percent change in population in 2018 compared to 2015
(Blue areas had a population decline).



Dallas-Fort Worth-Arlington, TX MSA	430.4
Houston-The Woodlands-Sugar Land, TX ..	320.8
Phoenix-Mesa-Scottsdale, AZ MSA	276.8
Atlanta-Sandy Springs-Roswell, GA MSA	261.7
Seattle-Tacoma-Bellevue, WA MSA	201.0
Miami-Fort Lauderdale-West Palm Beach,..	200.5
Orlando-Kissimmee-Sanford, FL MSA	185.4
Tampa-St. Petersburg-Clearwater, FL MSA	173.4
Washington-Arlington-Alexandria, DC-VA..	167.5
Austin-Round Rock, TX MSA	165.7
Riverside-San Bernardino-Ontario, CA MSA	157.1
Charlotte-Concord-Gastonia, NC-SC MSA	146.8
San Antonio-New Braunfels, TX MSA	137.4
Fort Worth-Arlington, TX MetDiv	134.8
Las Vegas-Henderson-Paradise, NV MSA	133.5
Denver-Aurora-Lakewood, CO MSA	118.9
Minneapolis-St. Paul-Bloomington, MN-..	109.7
Nashville-Davidson-Murfreesboro-Frankli..	101.6
Portland-Vancouver-Hillsboro, OR-WA M..	96.4
Boston-Cambridge-Newton, MA-NH MSA	95.6
Raleigh, NC MSA	91.3
Jacksonville, FL MSA	90.0
Sacramento-Roseville-Arden-Arcade, CA ..	81.1
San Francisco-Oakland-Hayward, CA MSA	79.9
Columbus, OH MSA	79.0

E-Commerce Will Boost Demand for Logistics (transport & warehousing)



Trend: Melding of Brick and Mortar and E-Commerce

amazon.com

www.freelogodesign.org

WHOLE FOODS MARKET

TARGET

SHIPT

DOORDASH

Uber Eats

Online food ordering company

Peapod

Walmart Delivery

Same-Day Grocery Delivery from Walmart

Walmart Grocery

ALDI

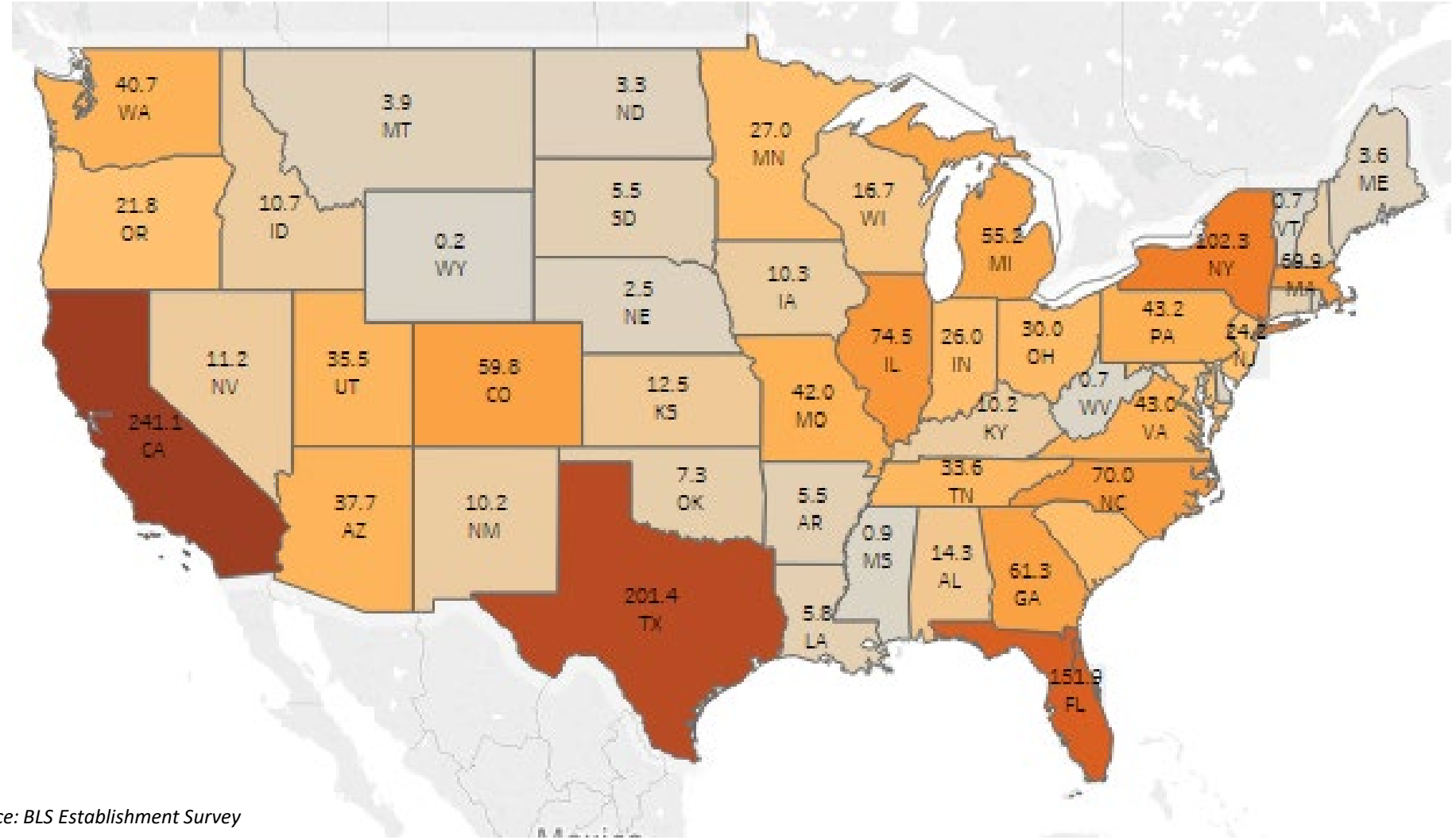
Powered by instacart

Groceries delivered in as little as 1 hour

Enter zip code to shop your local store

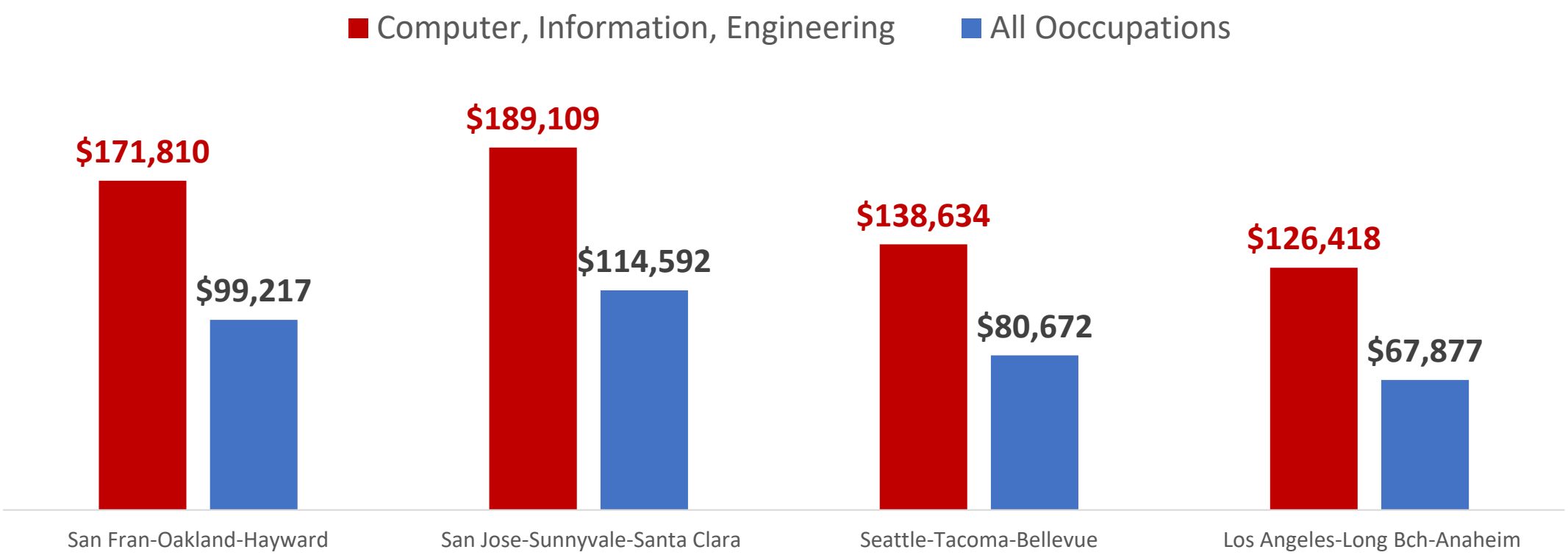
CA, TX, FL, NY, IL, MA, NC are top tech* job gainers

Net change in tech jobs during 2012 Q1 – 2019 Q1 ('000)



*NAICS Code 54. Source: BLS Establishment Survey

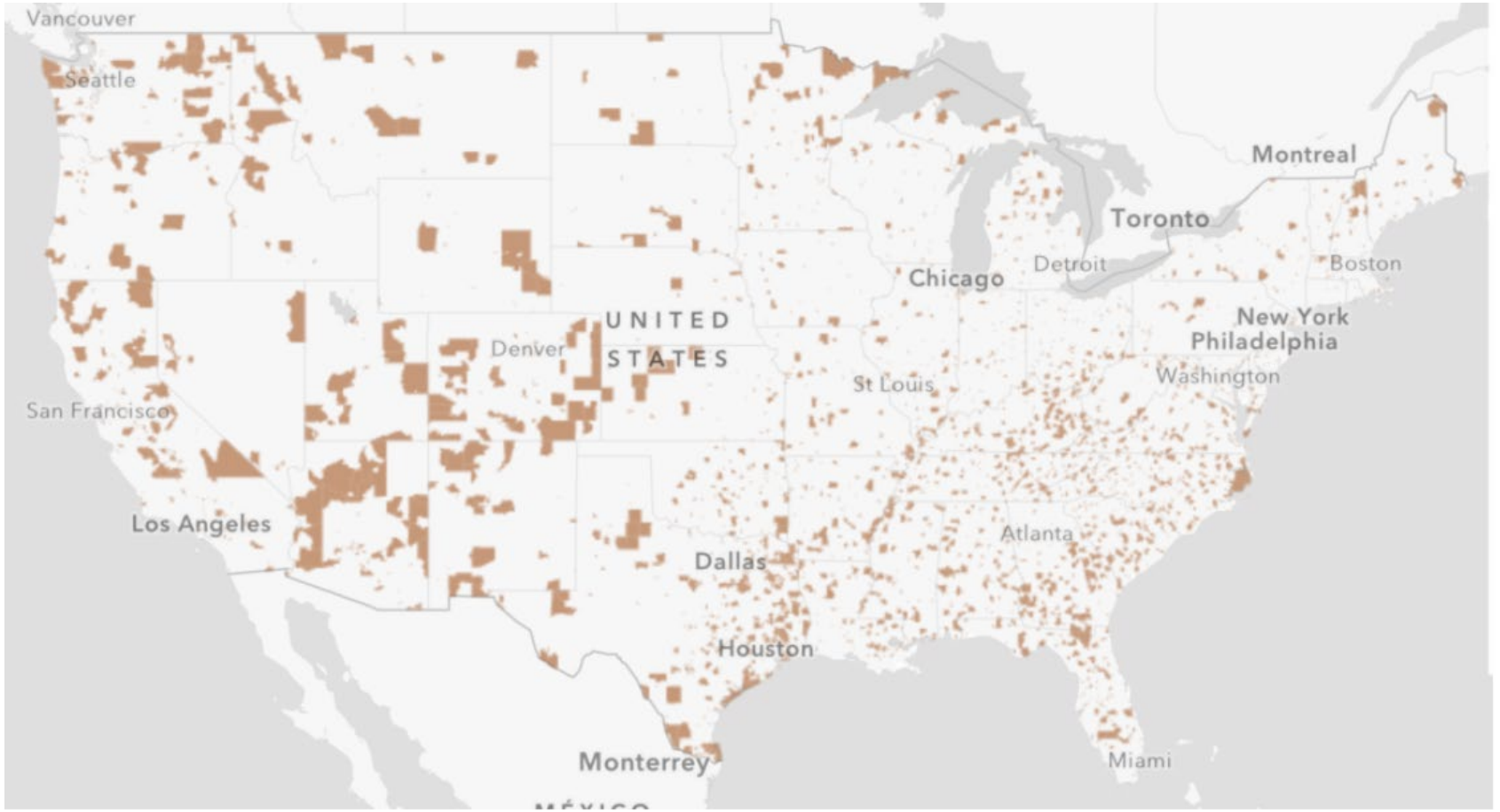
Higher median income among tech* workers



**Tech workers included here are those in computer, information, and engineering occupations. Source: NAR tabulation of US Census Bureau 2017 ACS PUMS*

Commercial Investment Opportunities in O-Zones

(8,764 Designated O-Zones: home to 31 Million)



Source: Economic Innovation Group

Commercial REALTORS© Biggest Opportunities
(2019 Q1 NAR CRE Quarterly Market Survey)

- Opportunity Zones and reduced capital gains
- Housing: affordable multi-family, senior housing and health care, student housing
- Small affordable Class A/B garden offices and retail
- Speculative (pre-built) industrial, warehouse
- Vacant building purchases/redevelopment/re-purposing
- Influx of foreign capital
- Robust local market and national economy

Commercial REALTORS© Biggest Challenges
(2019 Q1 NAR CRE Quarterly Market Survey)

- Lack of inventory
- Cost of construction
- Construction over-regulation
- Housing impact fees
- Effect of e-commerce on retail
- Weak tenant financials
- Lack of reliable property information
- Local economic conditions and national conditions

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