

Real Estate Markets in a Tentative Economic Landscape

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National Association of REALTORS®

Bay Area Real Estate Council | Annual Economic Outlook
Tampa, FL | February 17, 2016



NATIONAL
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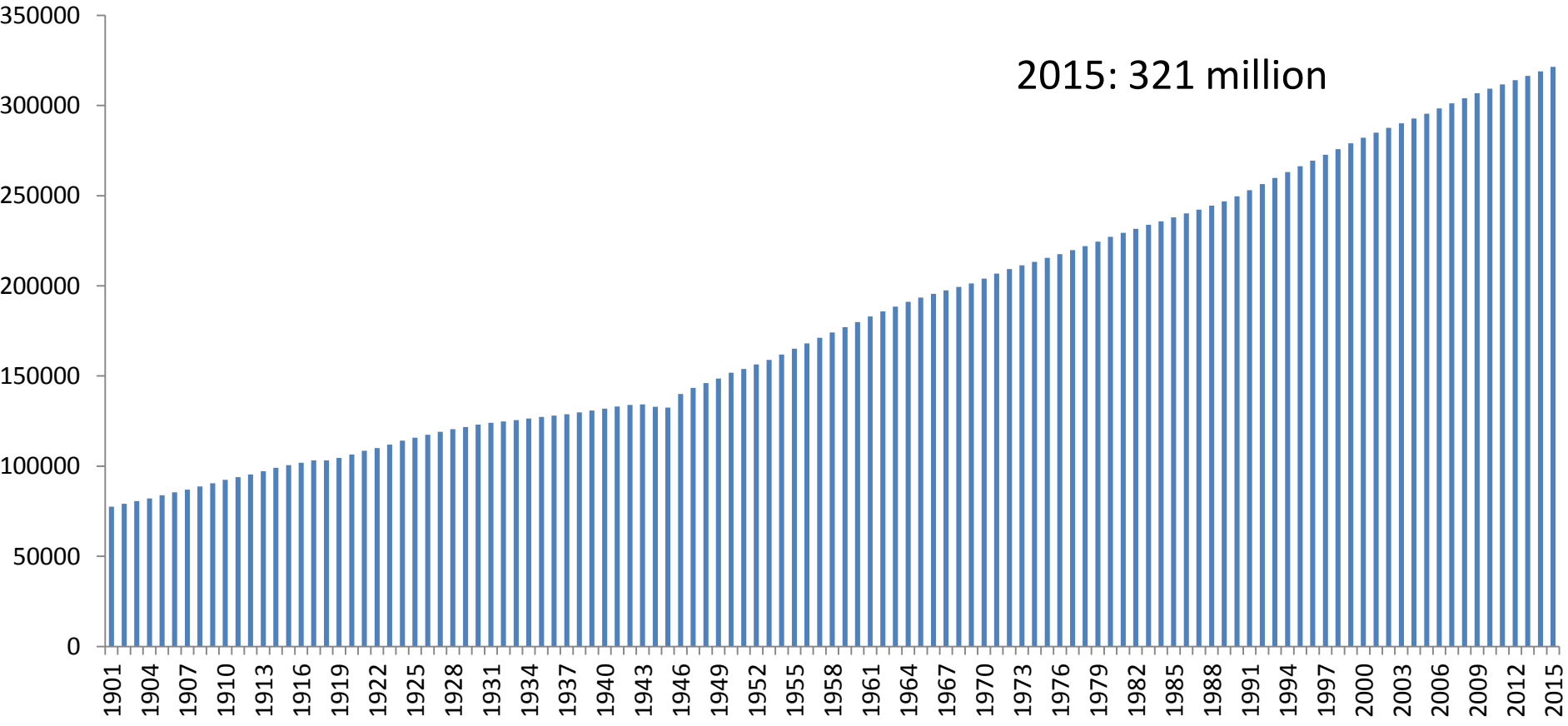
“There are two kinds of forecasters: those who don’t know, and those who don’t know they don’t know.”

— John Kenneth Galbraith

- U.S. Economy
 - Secular Stagnation?
 - The New Normal?
 - Centennial Transition
- Real Estate Markets
 - Residential Renewal
 - Commercial Ascent
 - Capital Trends
- Outlook

U.S. Population Grows by 26M in Last Decade

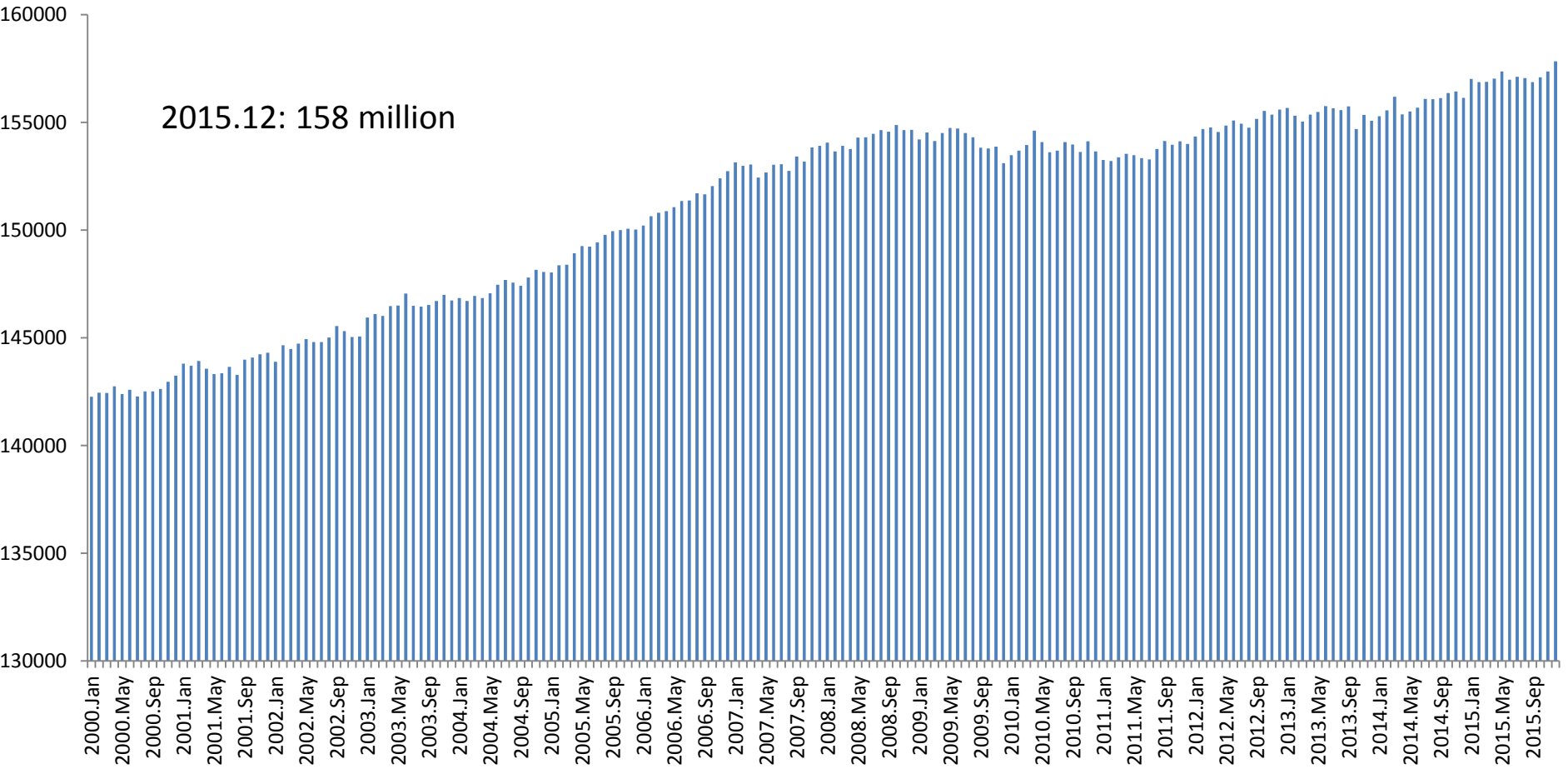
U.S. Estimate of Resident Population ('000)



2015: 321 million

U.S. Labor Force Grows by 8M in Last Decade

Civilian Labor Force: 16 Yr + (SA, '000s)



Source: BLS

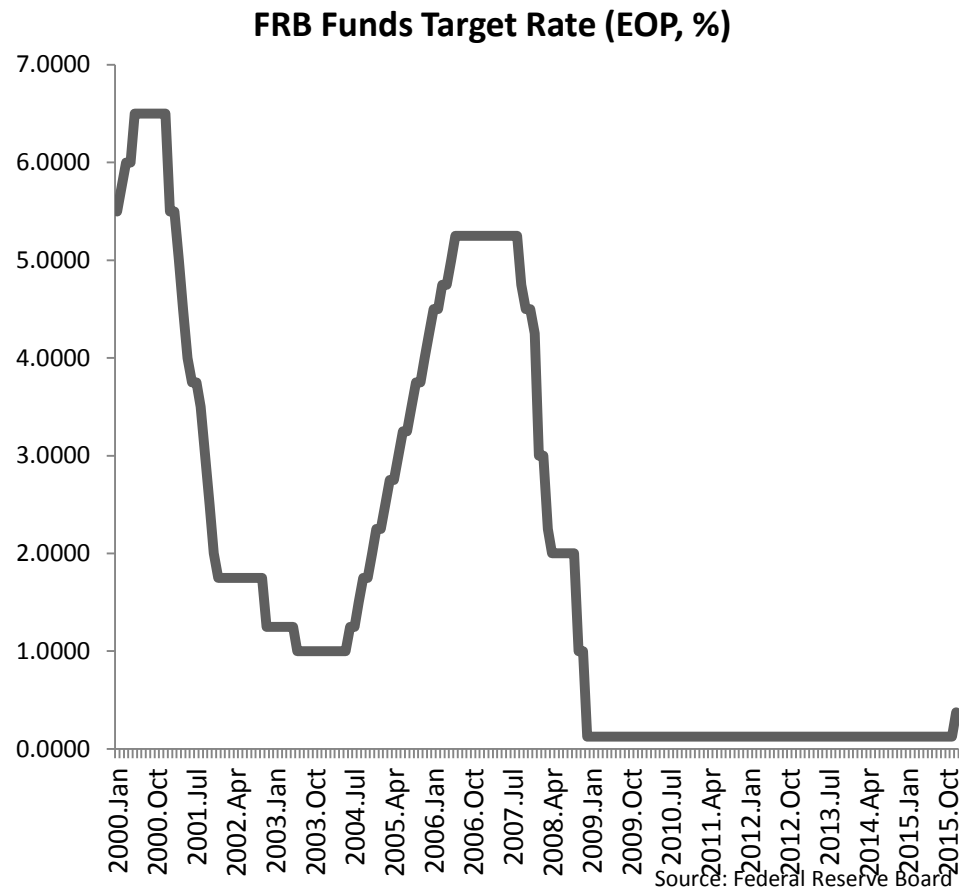
U.S. Economy

“Trickle-down theory - the less than elegant metaphor that if one feeds the horse enough oats, some will pass through to the road for the sparrows.”

— John Kenneth Galbraith

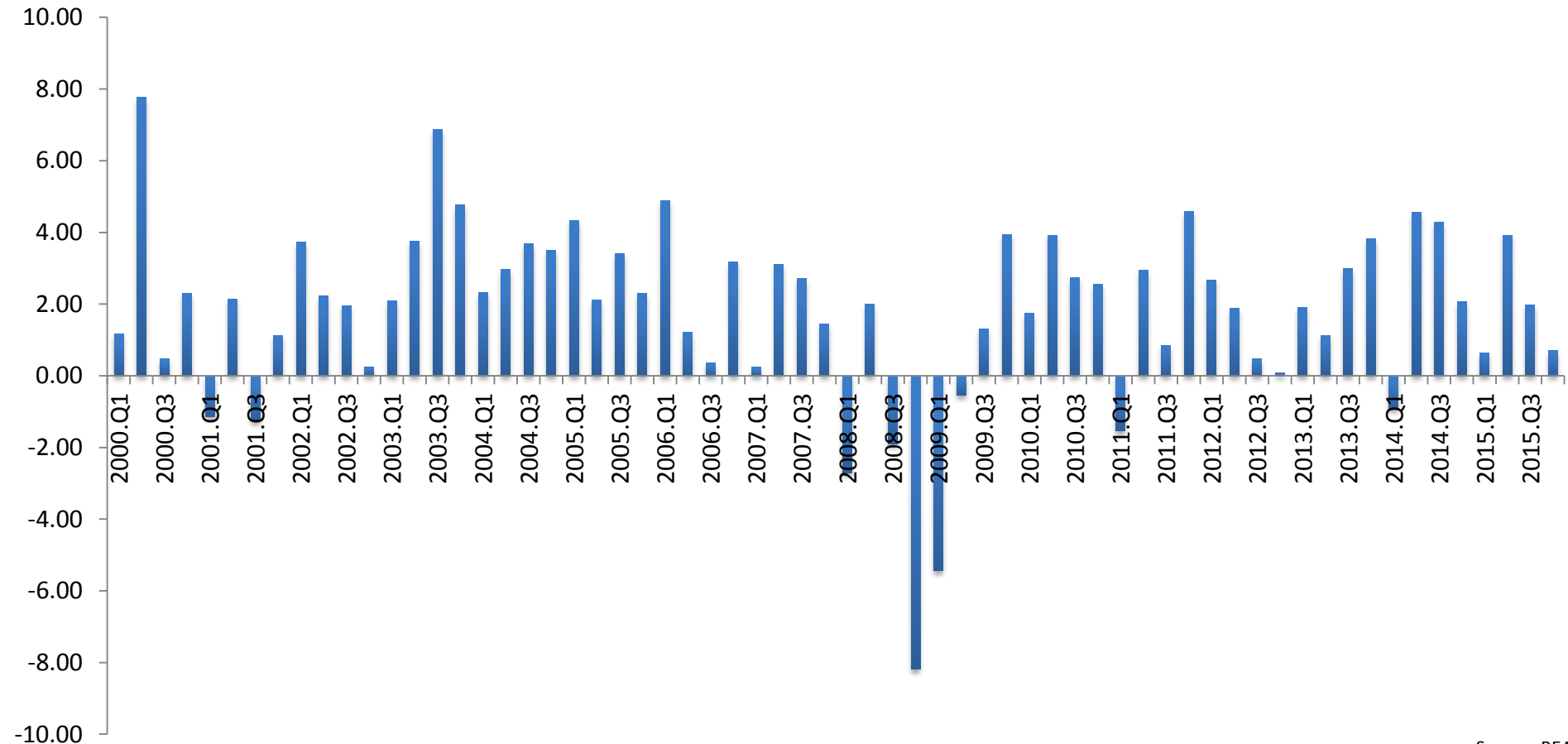
Monetary policy designed to bring economy out of Great Recession

- Quantitative easing / low cost of money designed to stabilize banks
- Stable bank balance sheets translate into lending
- Increased credit boosts consumer/business spending
- Consumer/business spending drives economic growth



Subpar GDP growth despite unprecedented monetary policy

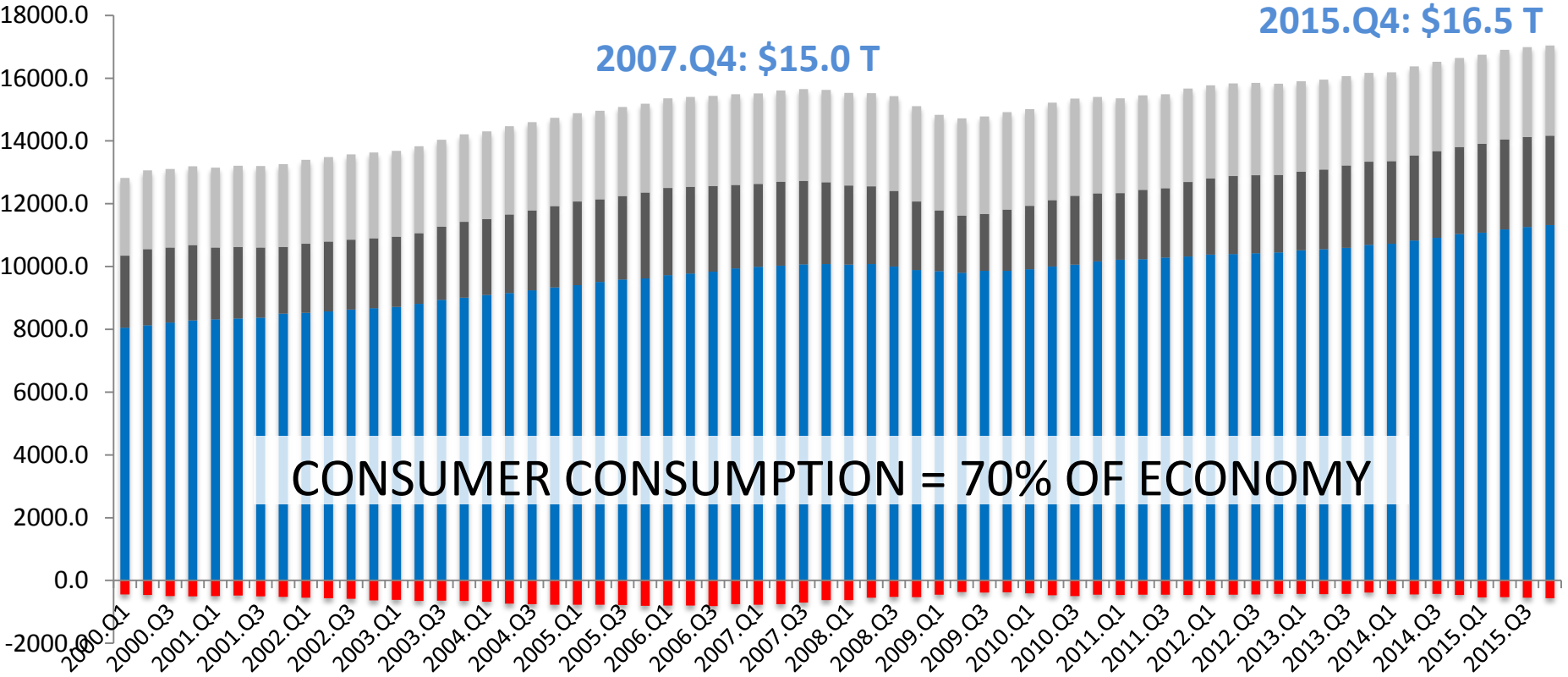
Real GDP (SAAR, Chn.2009\$) % Chg - Annual Rate



Consumers remain economic growth engine

Real GDP (SAAR, Bil.Chn.2009\$)

- Consumer Spending
- Investments
- Net Exports
- Government Spending

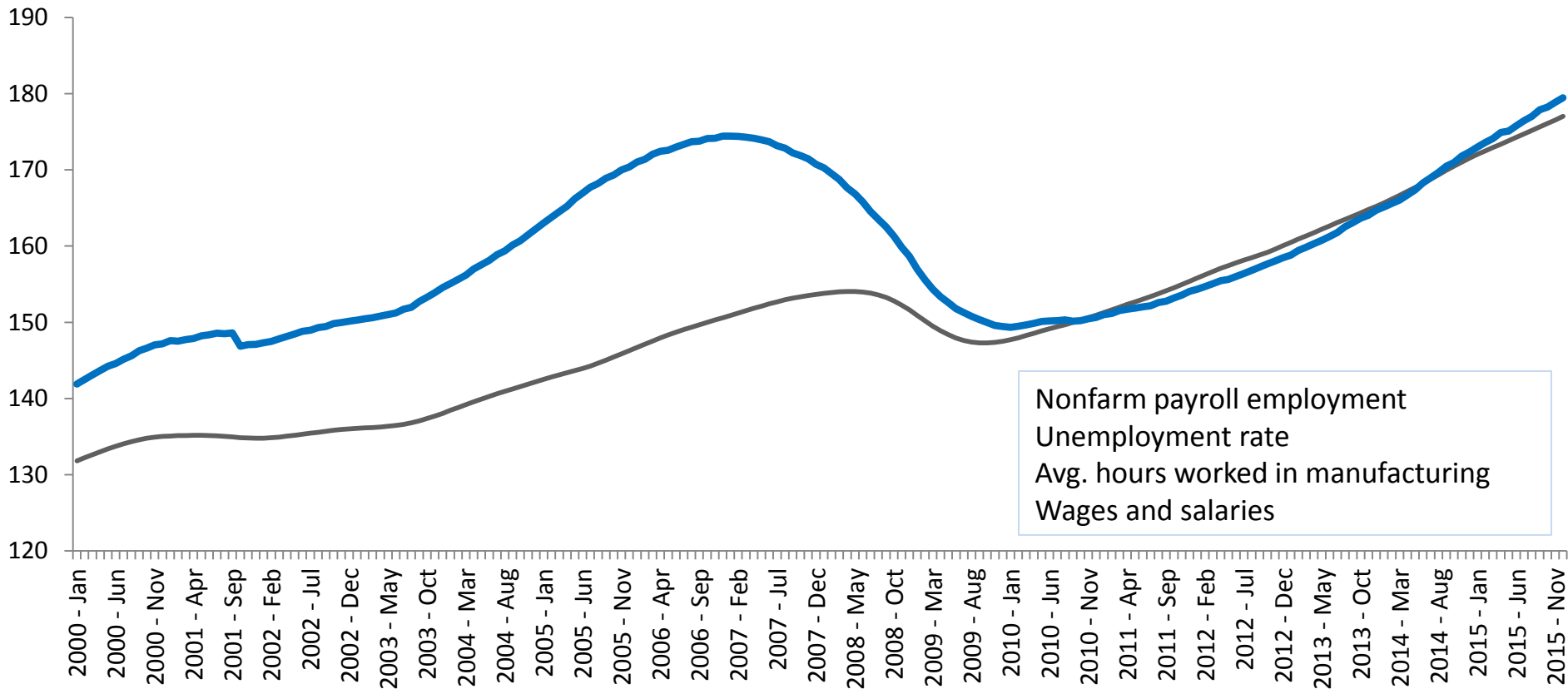


Source: BEA

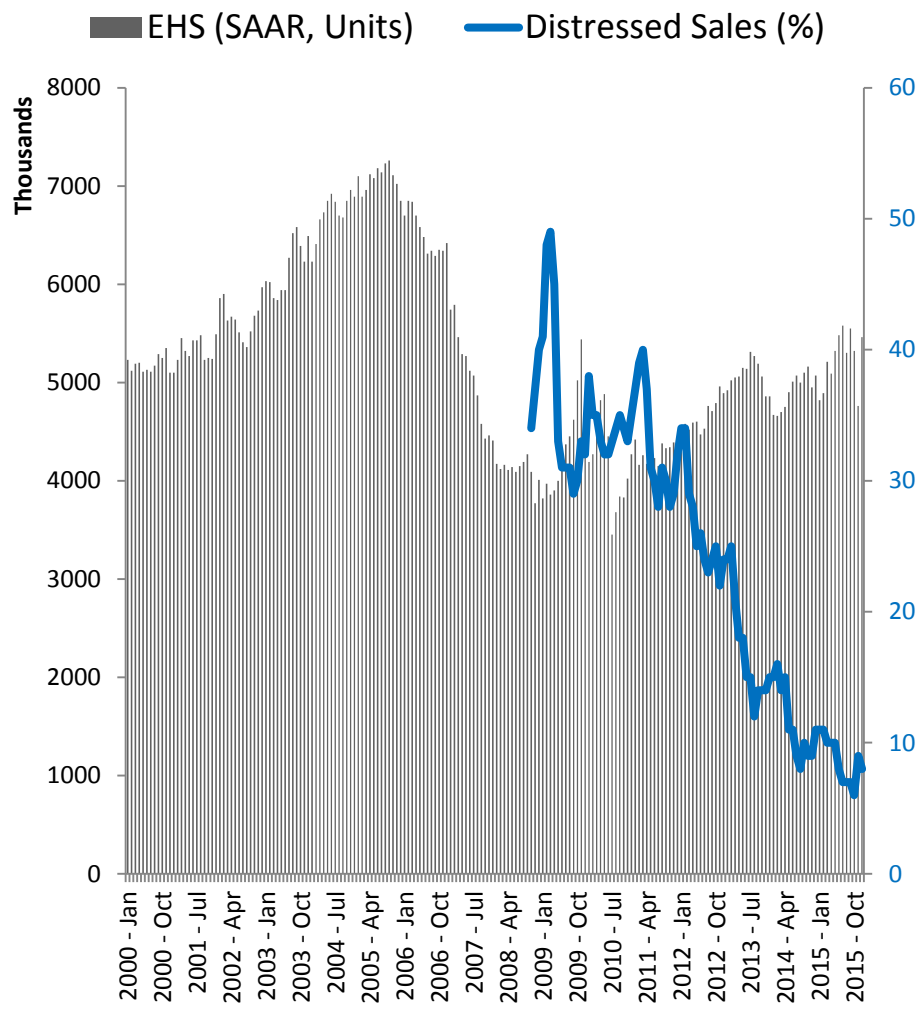
Florida outpaces U.S. economic activity

Philadelphia FRB: Coincident Economic Activity Index

— U.S. — Florida

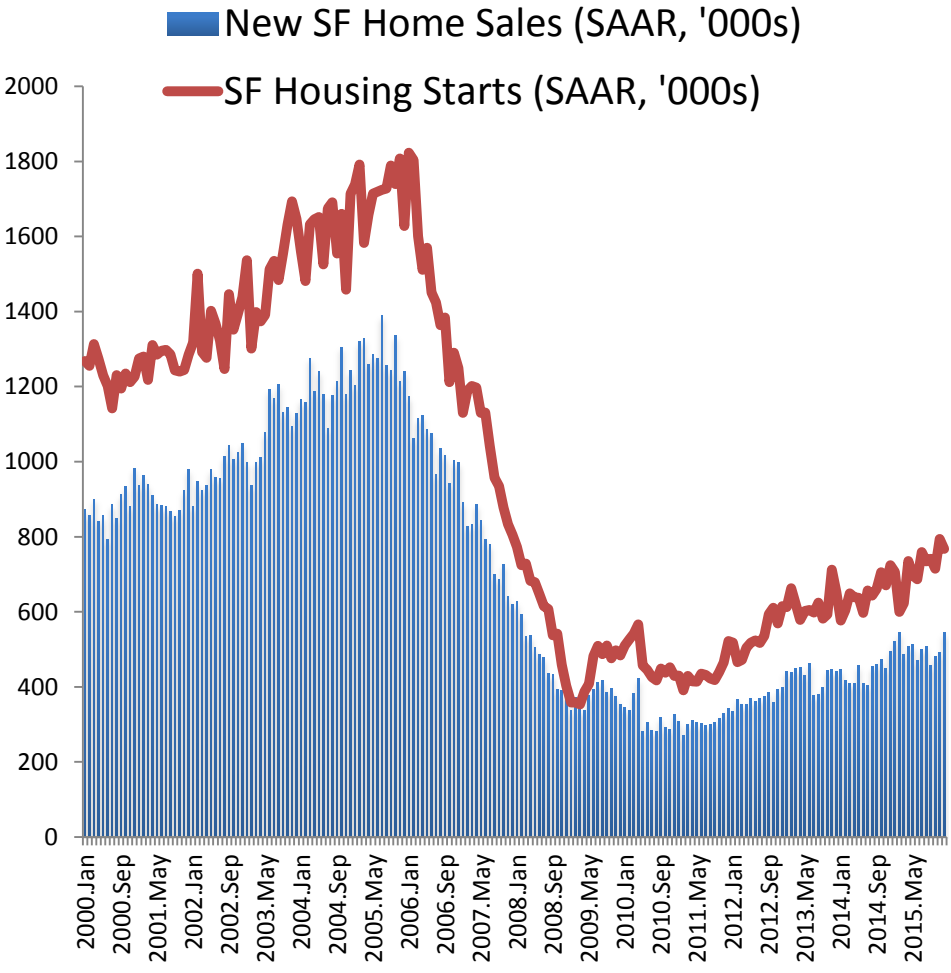


Housing recovery boosts economic activity

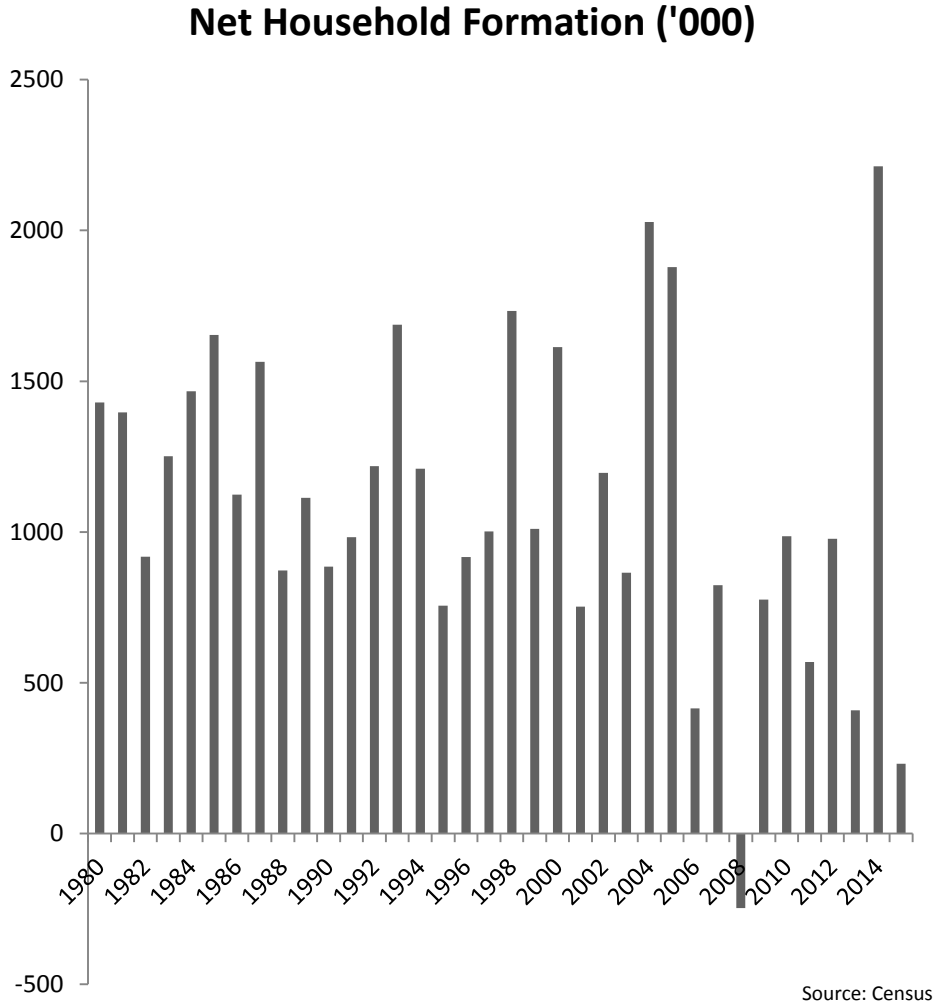


- Housing supply continues to hover below 6 - 7 month equilibrium
- Distressed properties decline: only 6% of total sales in 2015, down from high of 40% in 2008 and 2009

Housing supply does not keep pace with population



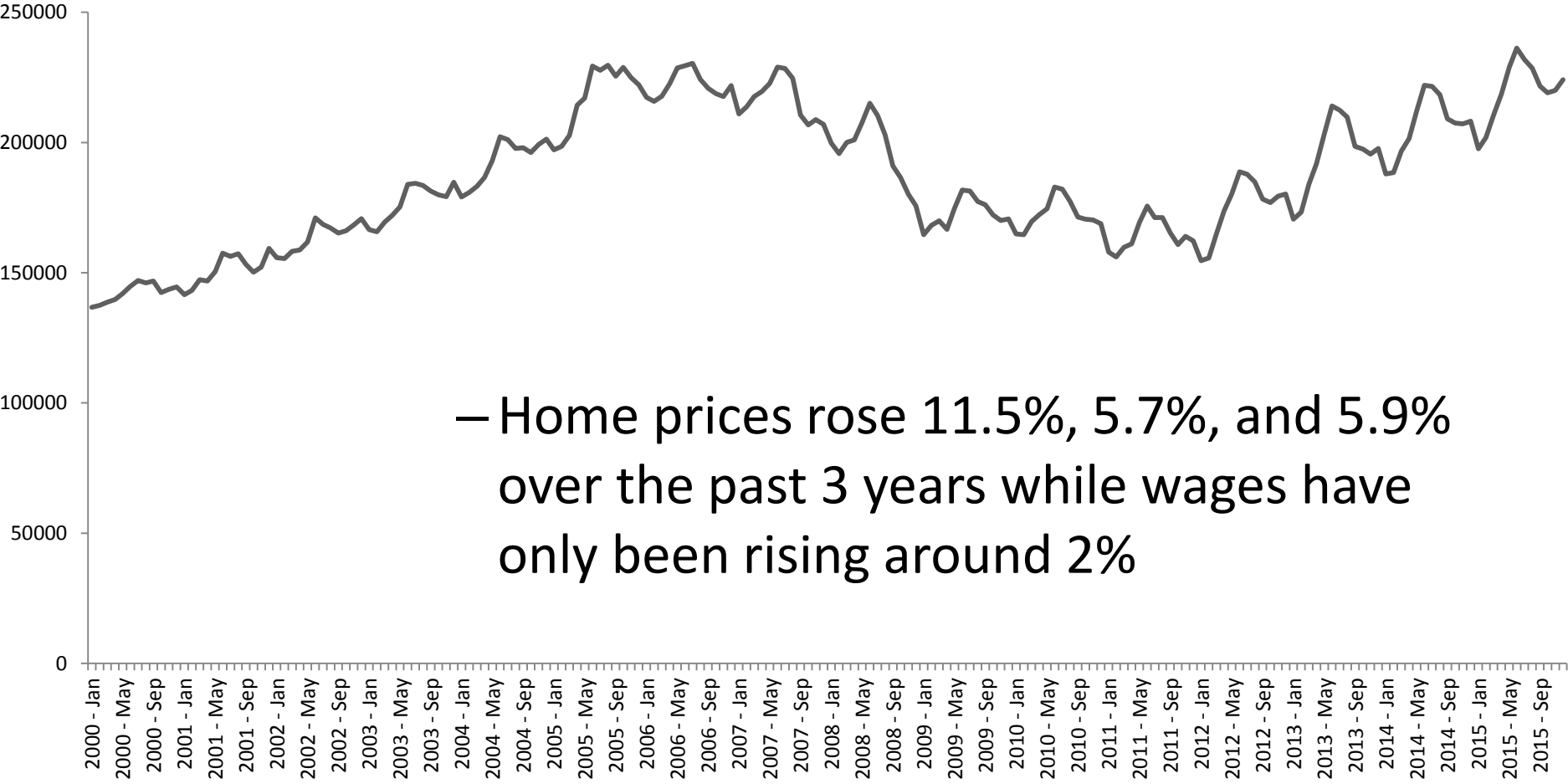
Source: Census Bureau



Source: Census

Shortage of inventory pushes home prices upward

EHS Median Sales Price (\$)

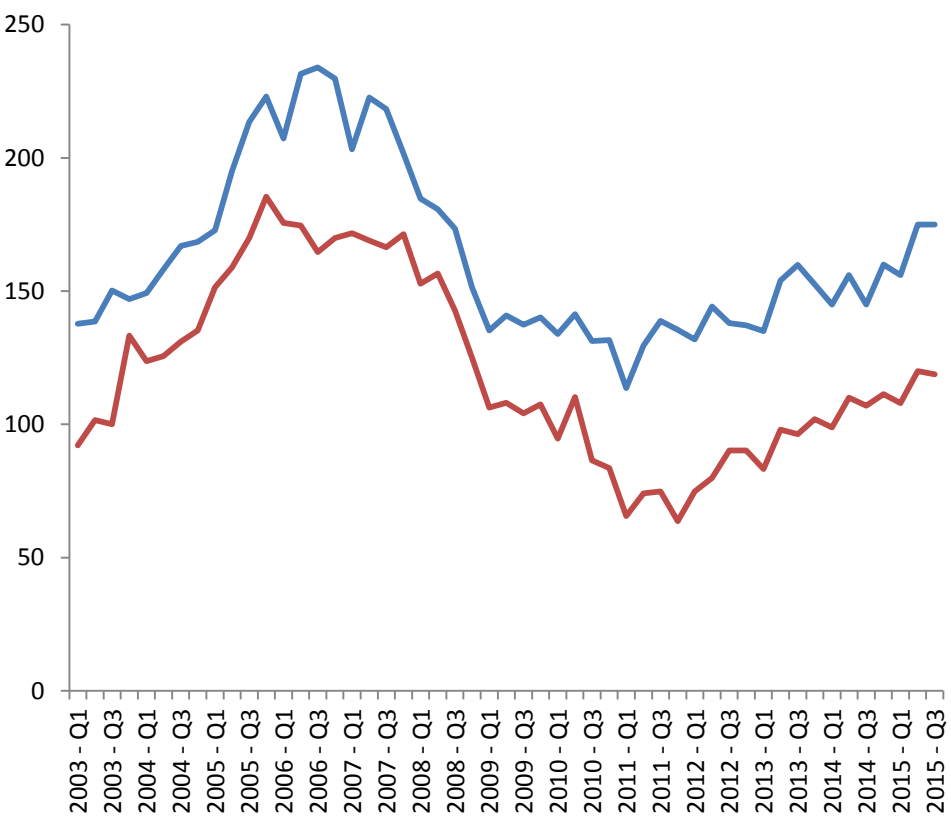


– Home prices rose 11.5%, 5.7%, and 5.9% over the past 3 years while wages have only been rising around 2%

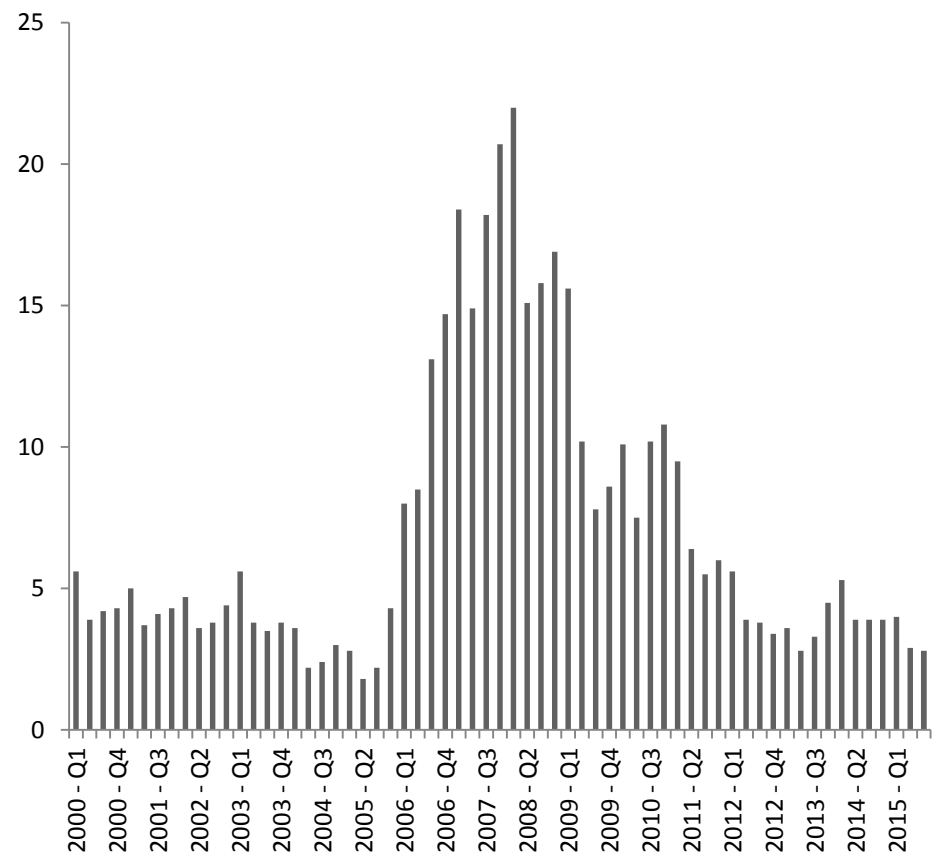
Tampa MSA Housing

Tampa-St Petersburg-Clearwater: Median Price (\$, '000)

— SF Home — Condo

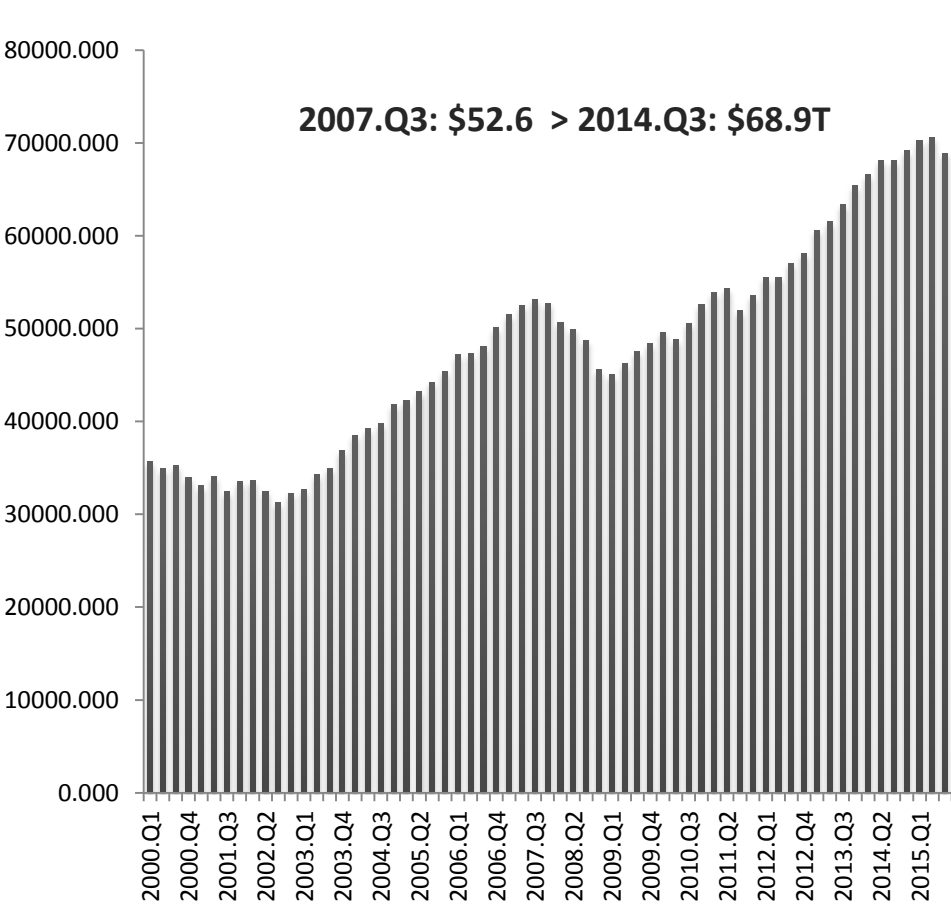


Tampa-St Petersburg-Clearwater: Months' Supply of Homes



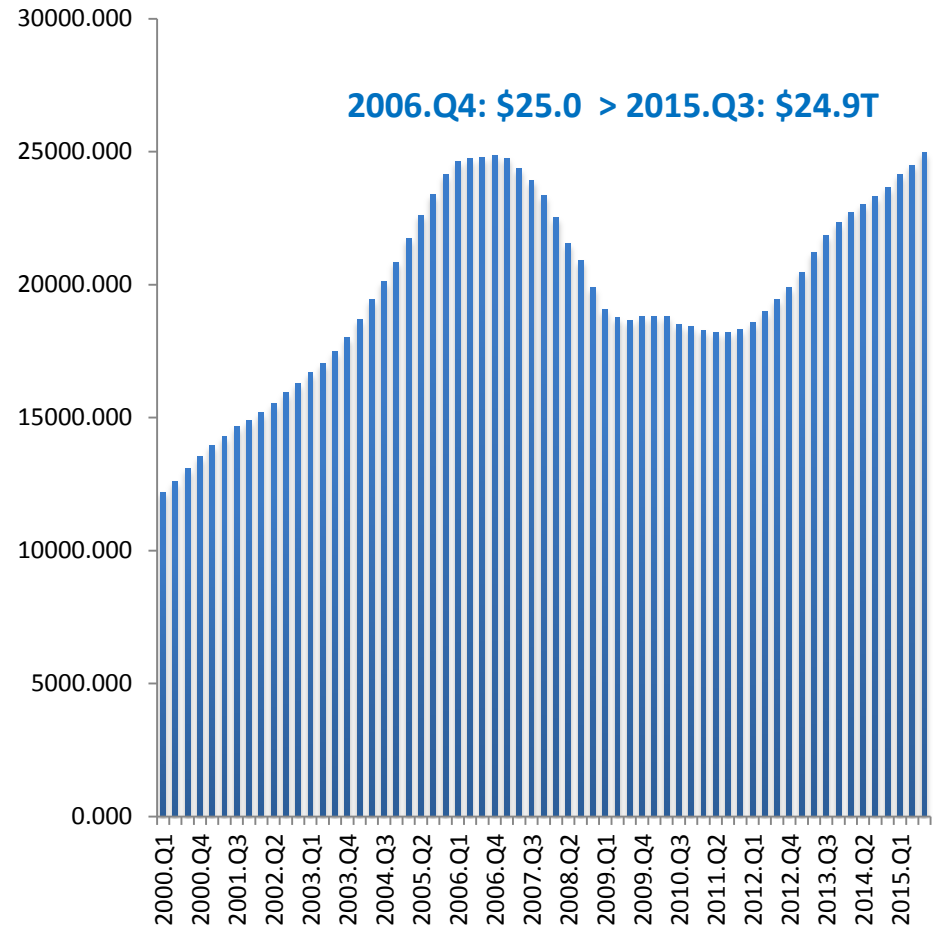
Capital holders ride growth wave

Households & Nonprofit Org: Total Financial Assets (NSA, Bil.\$)

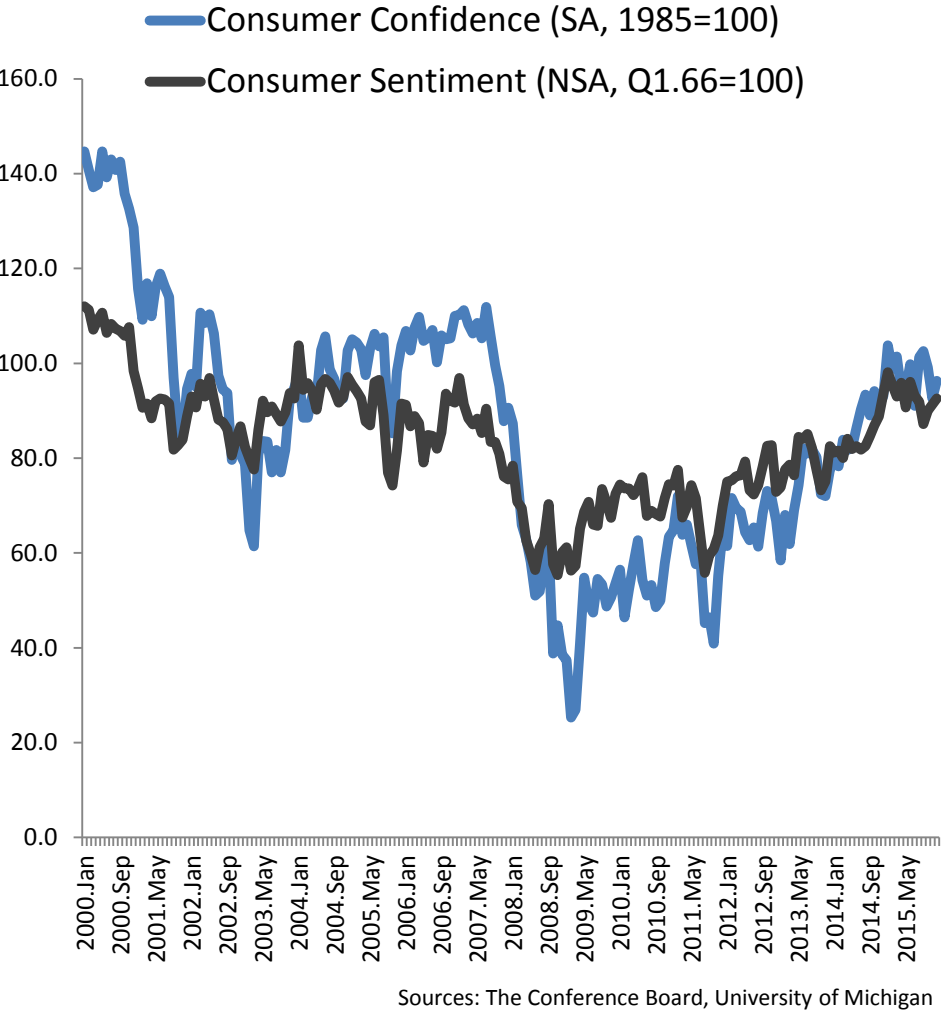
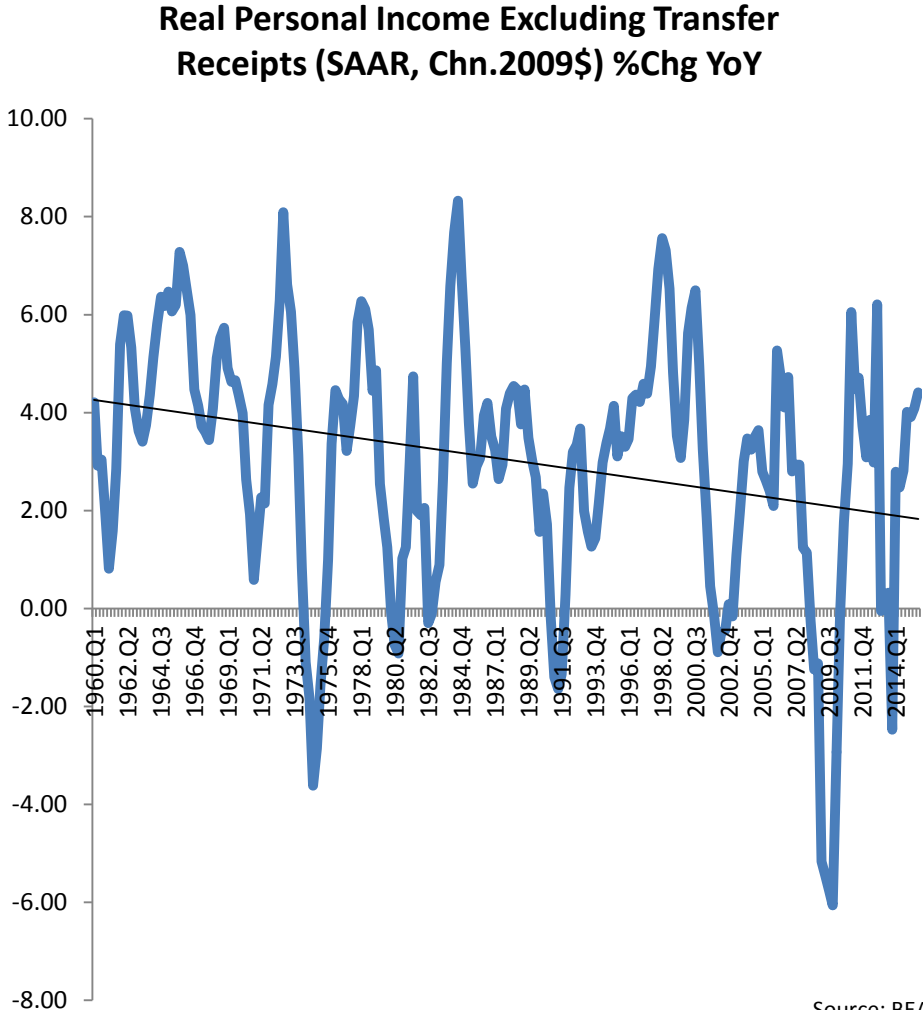


Source: Federal Reserve Board

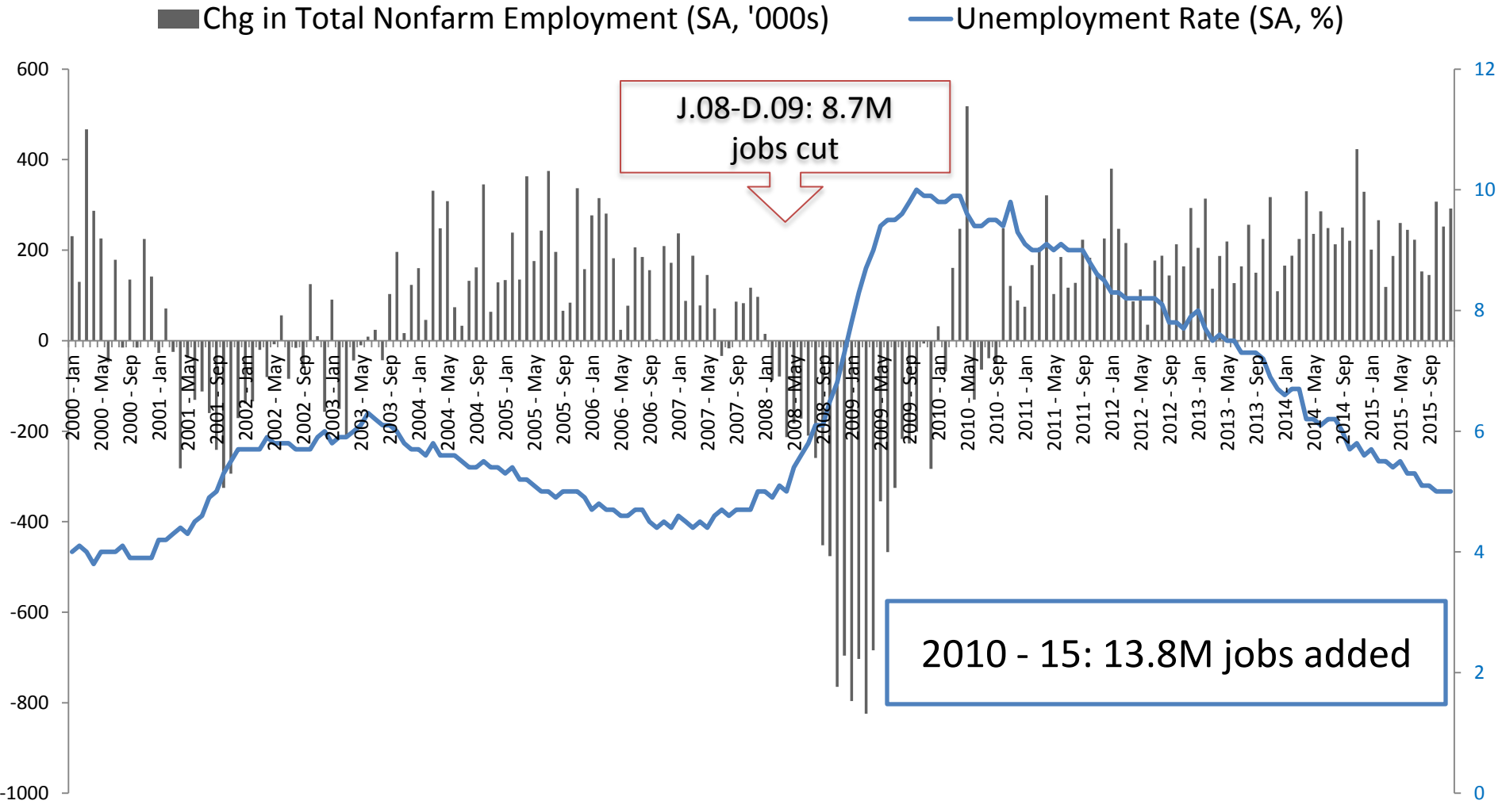
Households & Nonprofit Organizations: Total Real Estate Holdings (NSA, Bil.\$) FRB



Consumers without assets lag on low wages

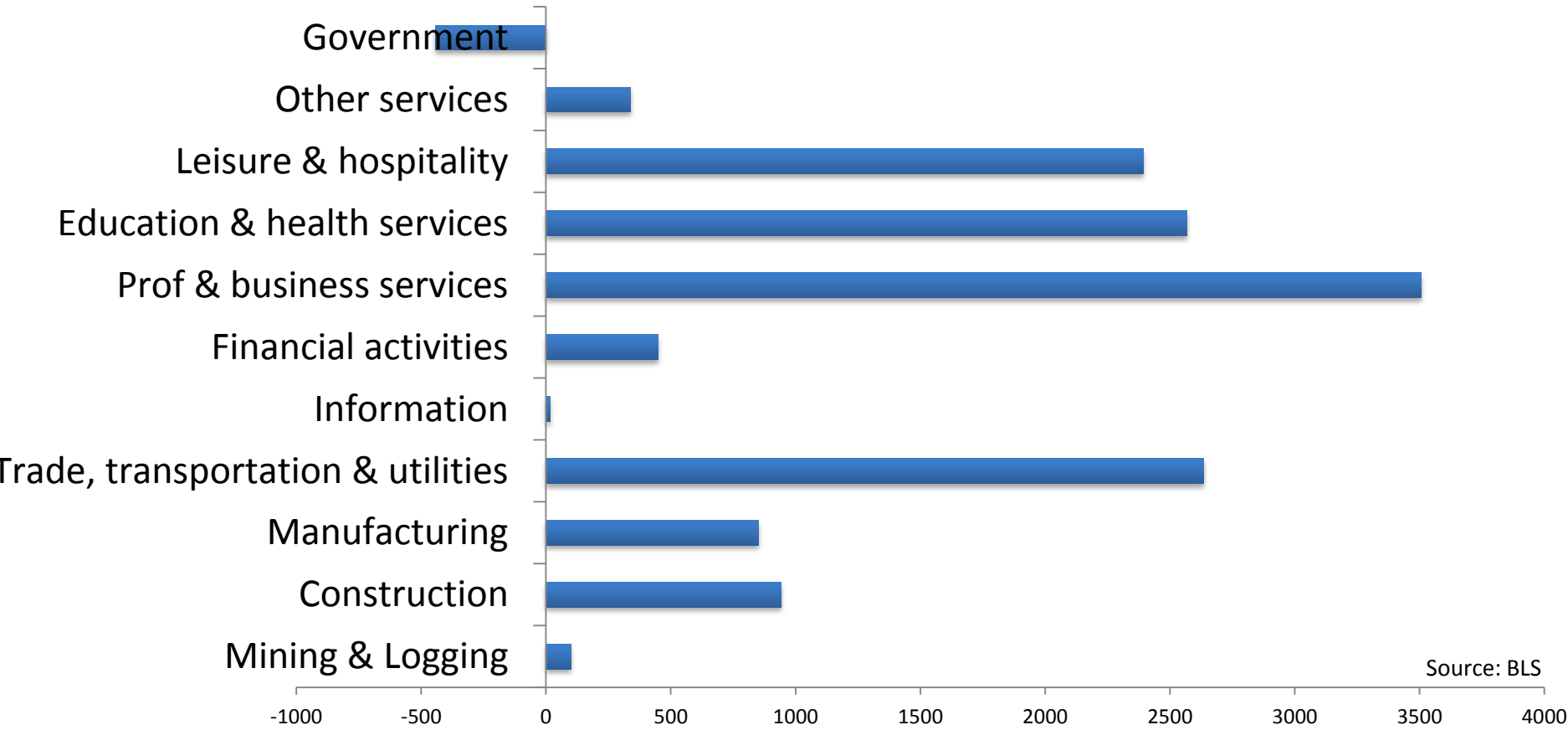


Employment maintains momentum...



...With service industries driving employment gains

2010-15: Payroll Employment Growth by Sector (SA, 000s)

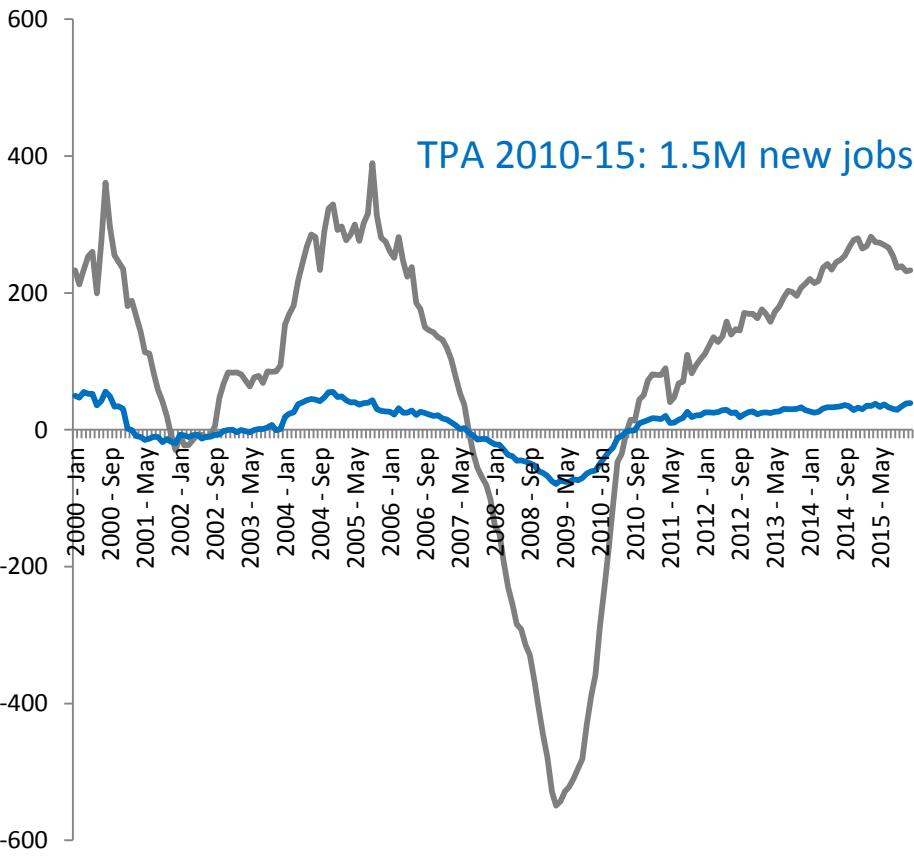


Source: BLS

Tampa MSA employment

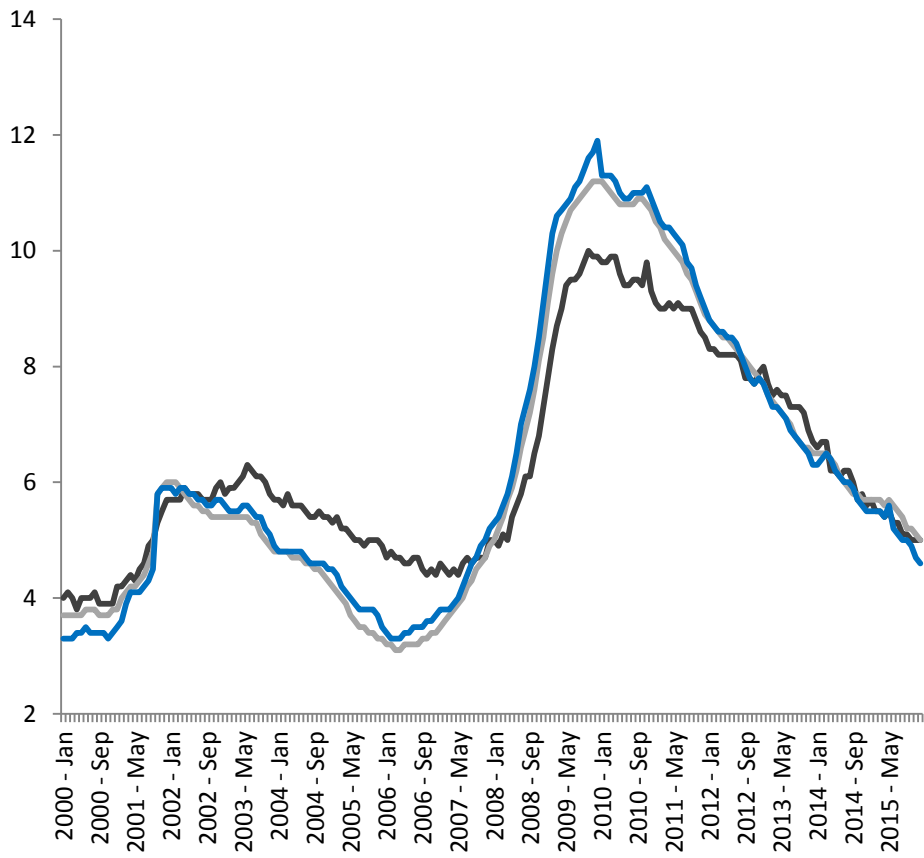
Payroll Employment YoY Chg (SA, '000)

— FL — Tampa MSA



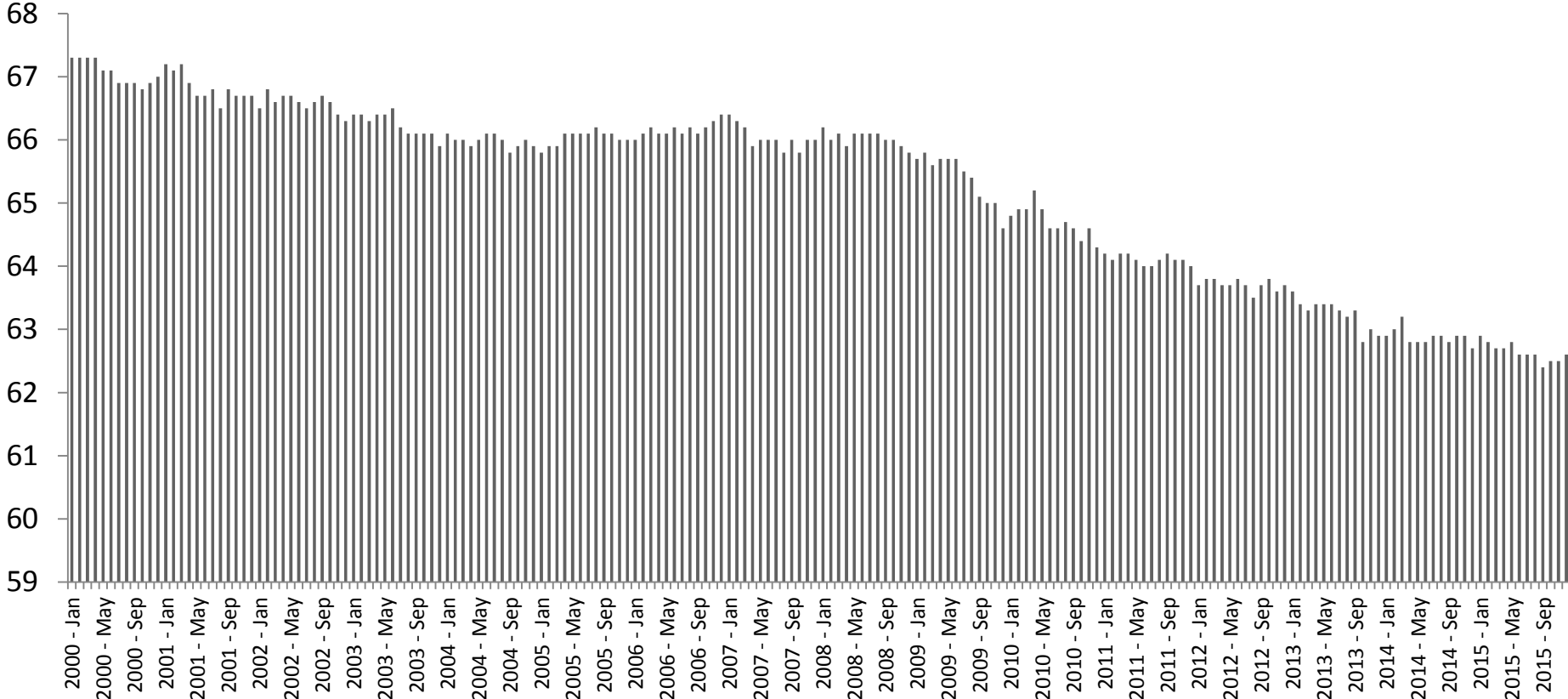
Unemployment Rate (%)

— U.S. — FL — Tampa MSA



Labor force participation returns to 1970s level

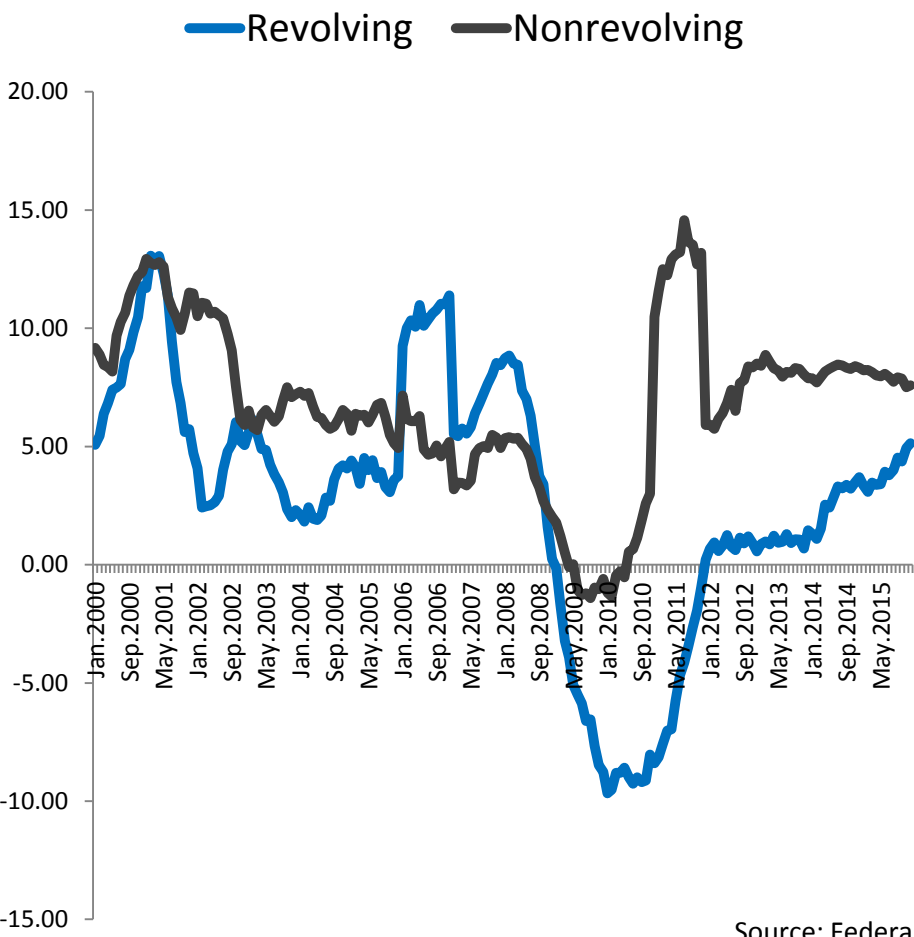
Labor Force Participation Rate (%)



Source: Bureau of Labor Statistics

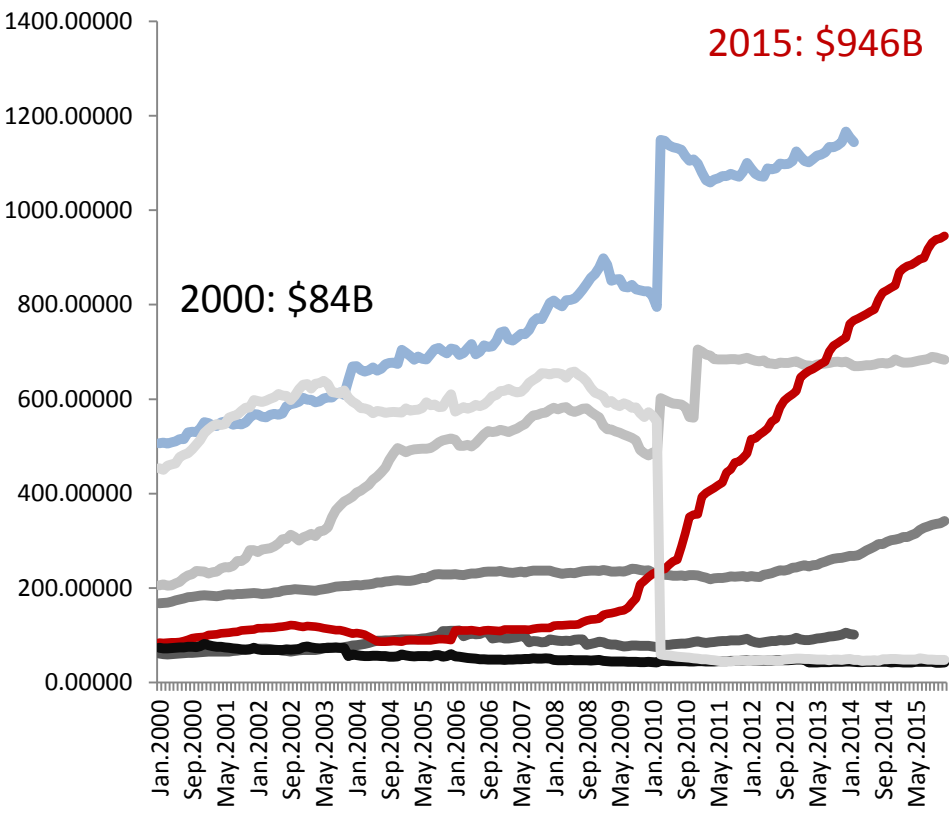
Consumer credit grows...as does student debt

Consumer Credit - YoY % Change (EOP, SA, Bil.\$)



Source: Federal

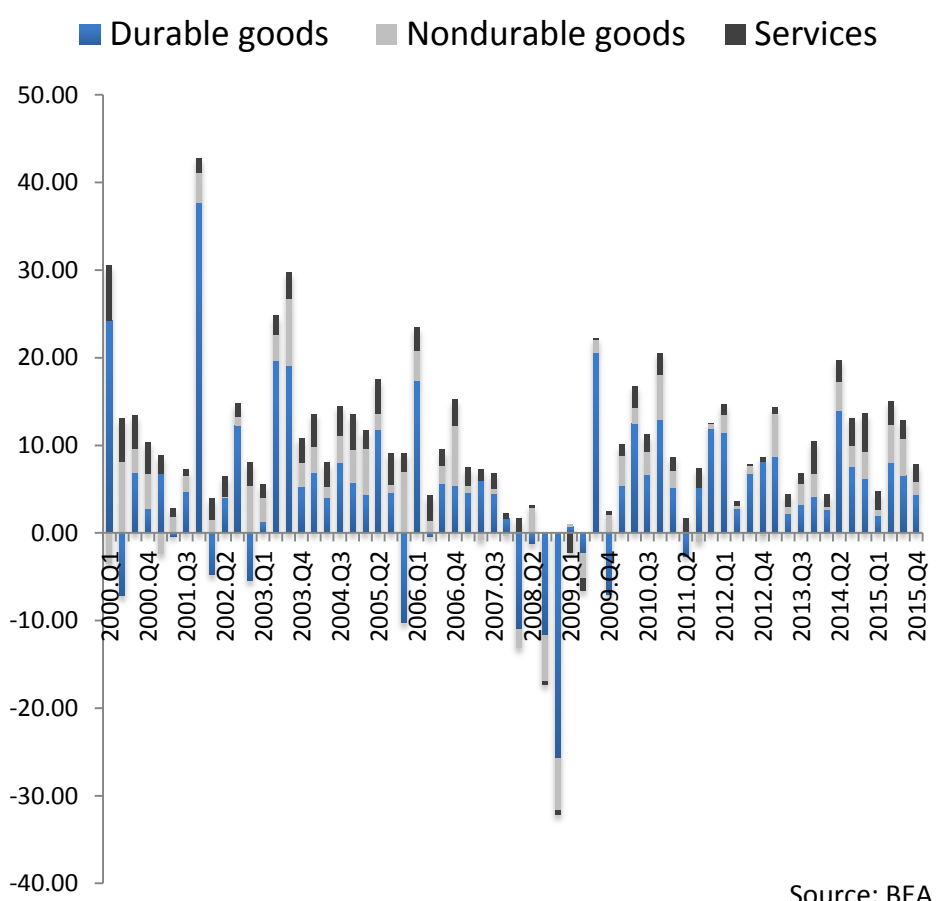
- Commercial Banks
- Finance Companies
- Federal Government
- Securitized Assets
- Savings Institutions
- Credit Unions
- Nonfinancial Businesses



Source: Federal Reserve Board

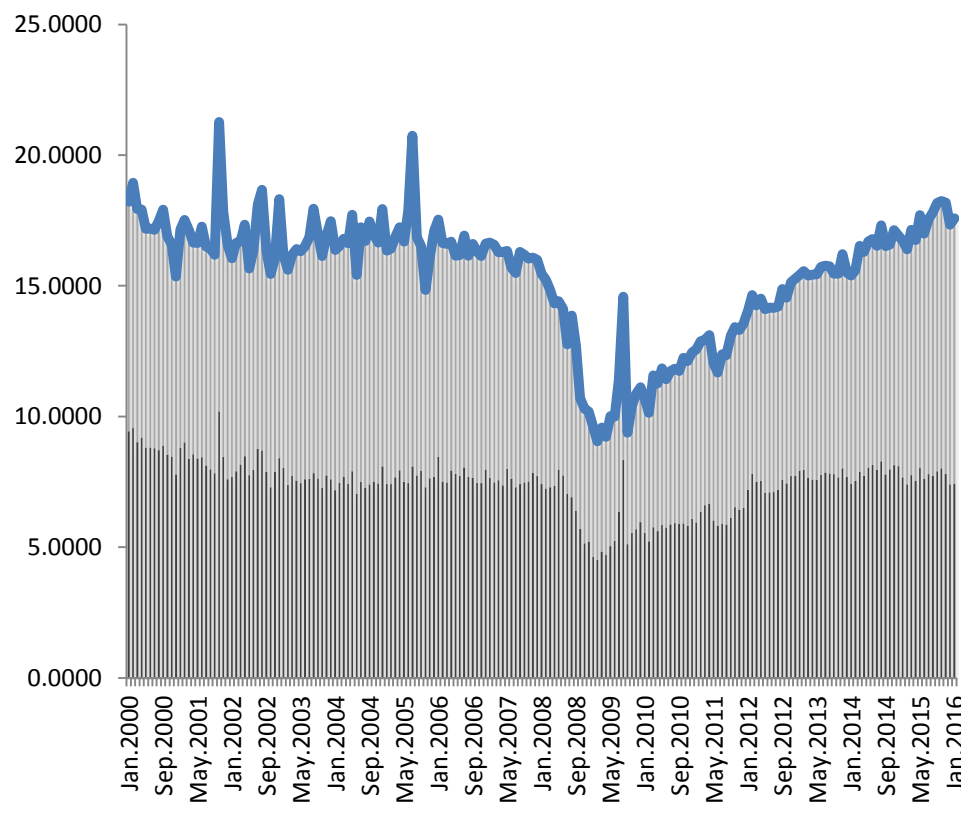
Consumer spending concentrated on durable goods

Personal Consumption (SAAR, Chn.2009\$) % Chg Annual Rate



Source: BEA

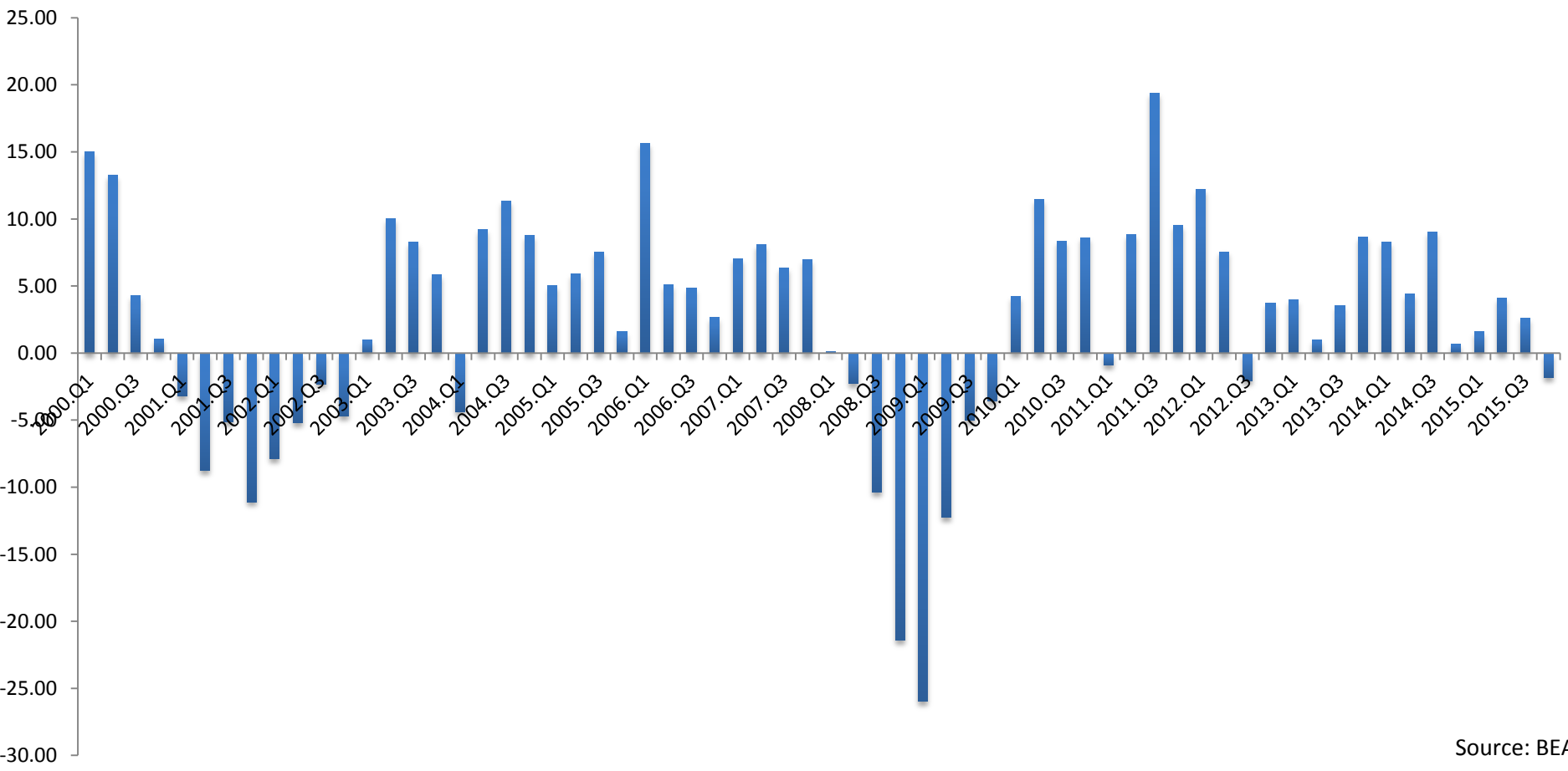
■ Total Light Truck Retail Sales [Imported+Domestic] (SAAR, Mil. Units)
 ■ Total Car Retail Sales [Imported+Domestic] (SAAR, Mil. Units)
 ■ Total Light Vehicle Retail Sales [Imported+Domestic] (SAAR, Mil. Units)



Source: Autodata

Business investments lose momentum...

Real Business Spending (SAAR, Chn2009\$) % Chg Annual Rate

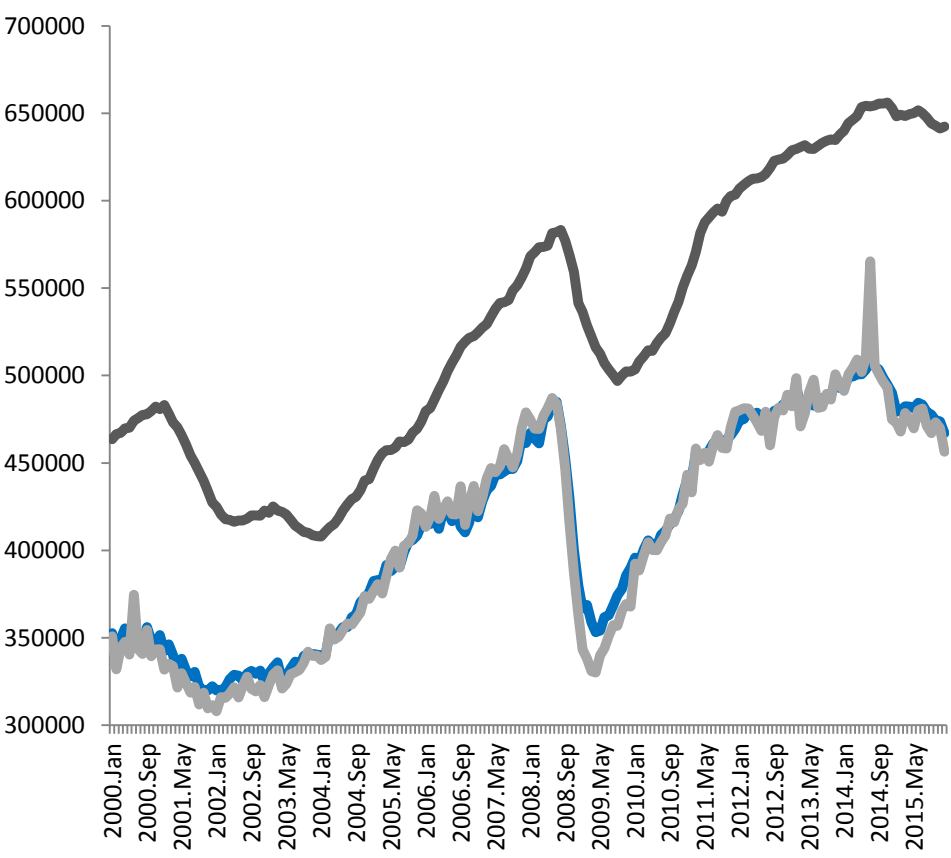


Source: BEA

...As activity throttles back...

Manufacturers' Activity (EOP, SA, Mil.\$)

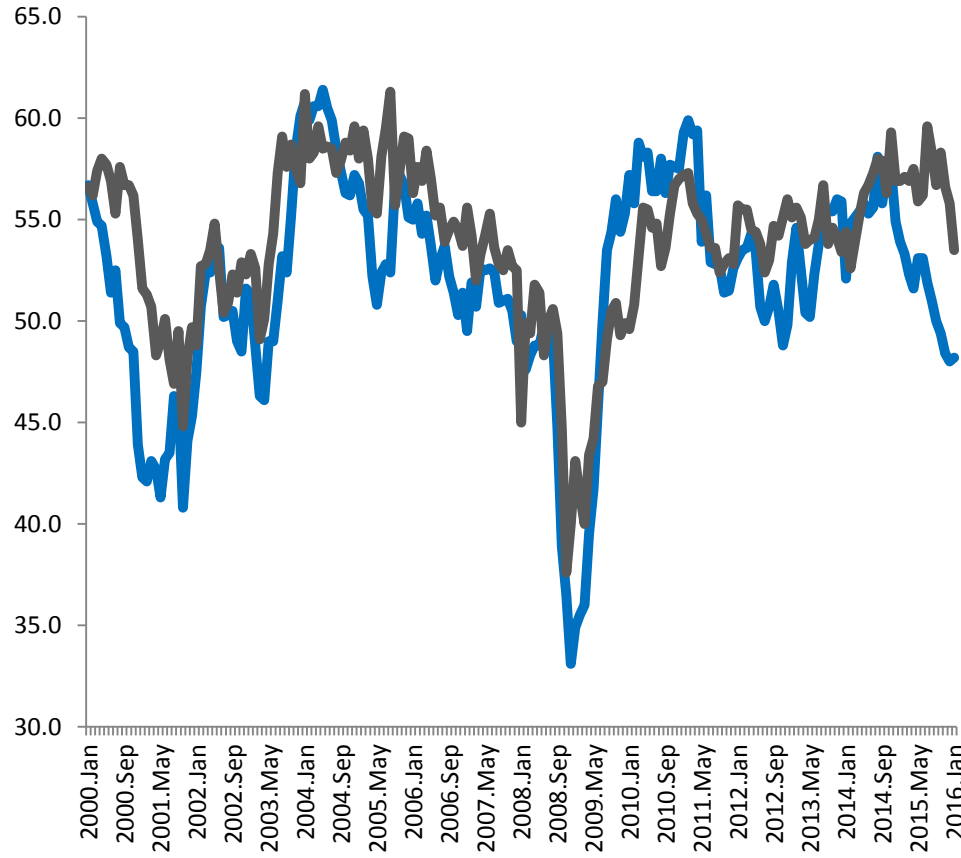
Shipments New orders Inventories



Source: Census Bureau

ISM Index (SA, 50+ Increasing)

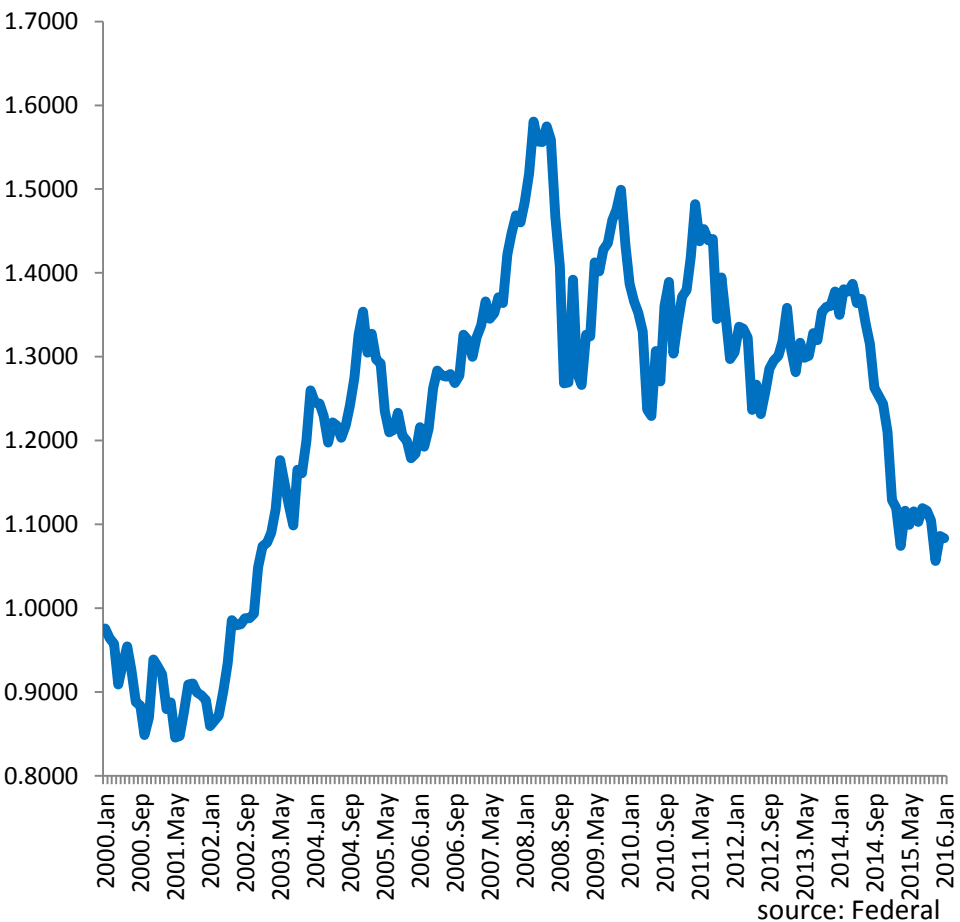
ISM Manufacturing ISM Nonmanufacturing



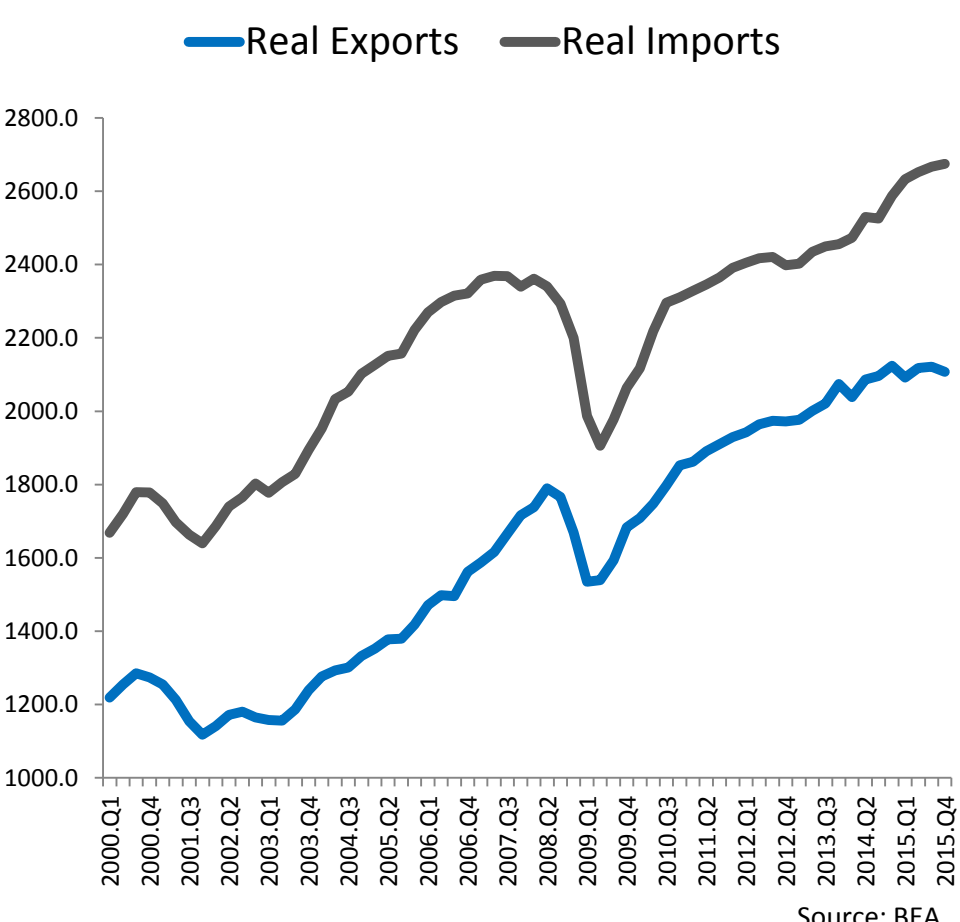
Source: Institute for

...And net exports feel the squeeze of a strong dollar

Exchange Rate: US\$/Euro (EOP)

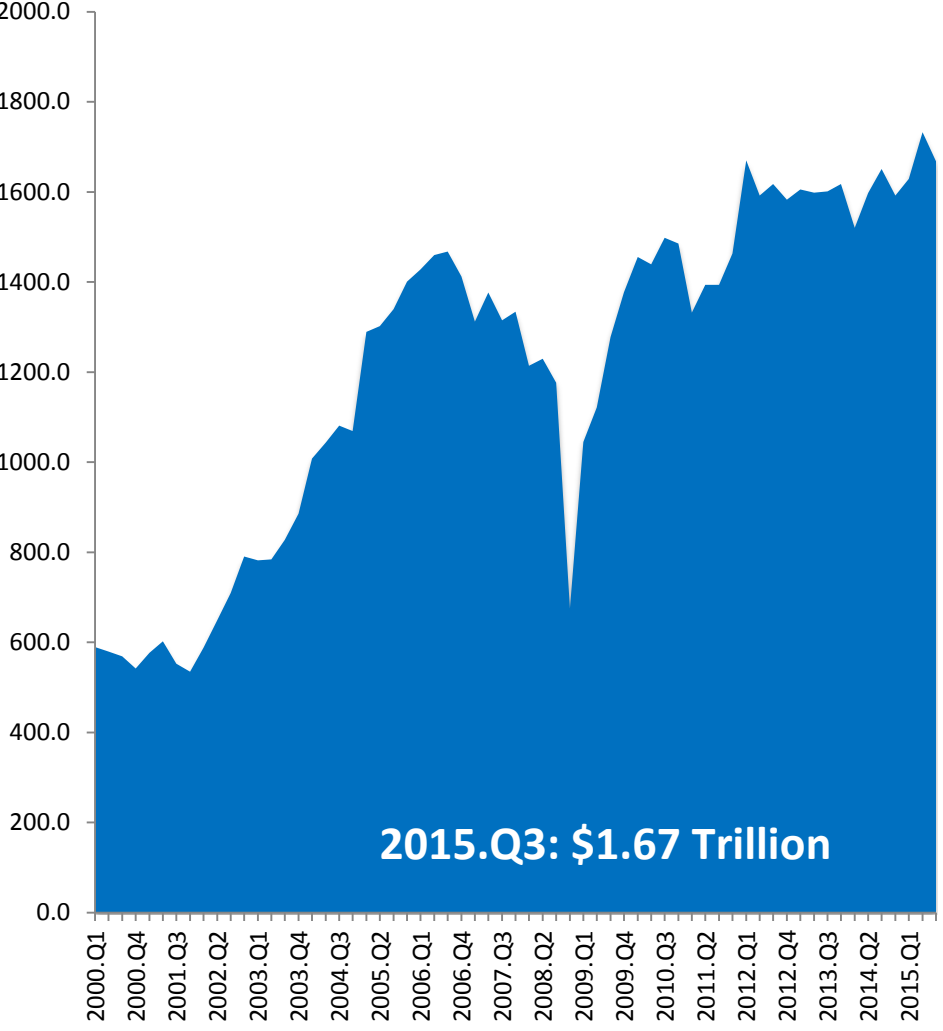


International Trade (SAAR, Bil.Chn.2009\$)



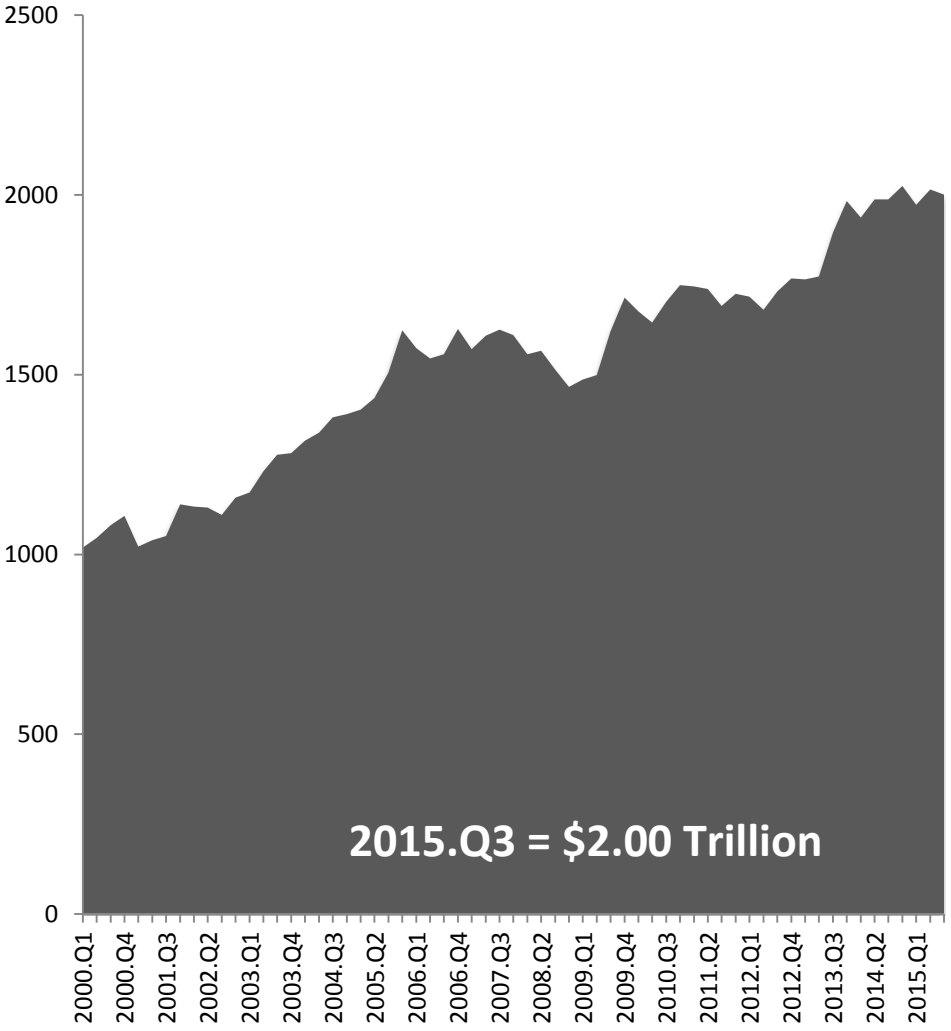
Corporate balance sheets remain healthy

Real Corporate Profits After Tax (SAAR, Bil.Chn.2009\$)



Source: BEA

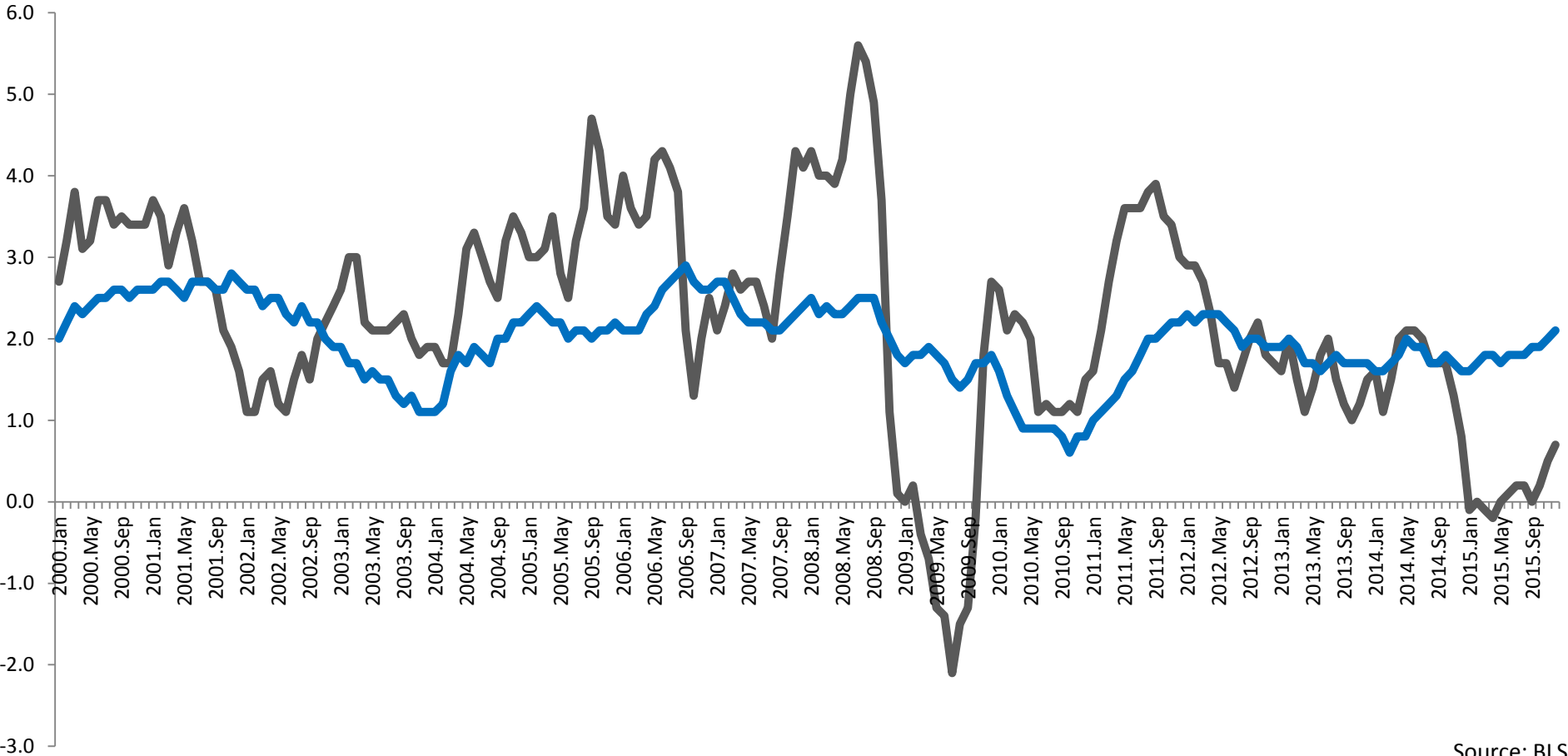
Corporate Cash/Cash Equivalent Holdings (NSA, Bil.\$)



Source: Federal

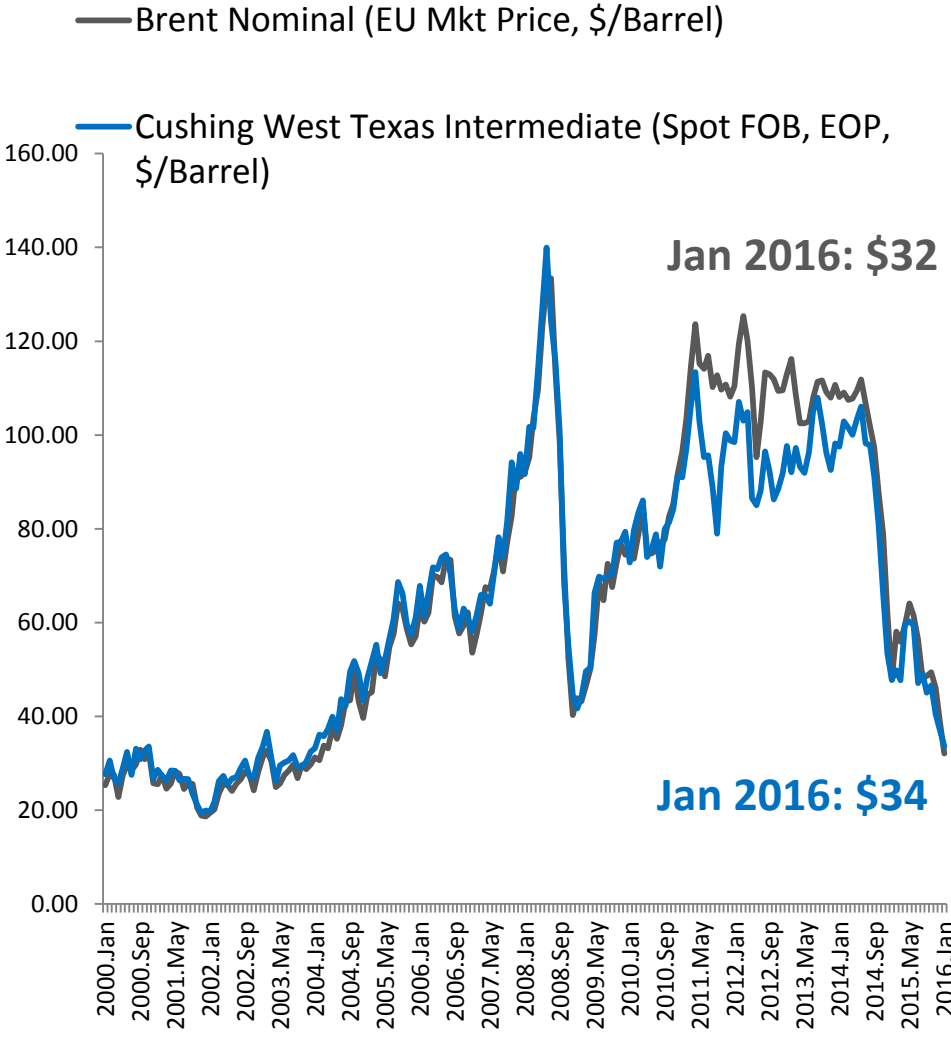
Inflation remains contained...

— Overall CPI — Core CPI (1982-84=100, %Chg YoY)

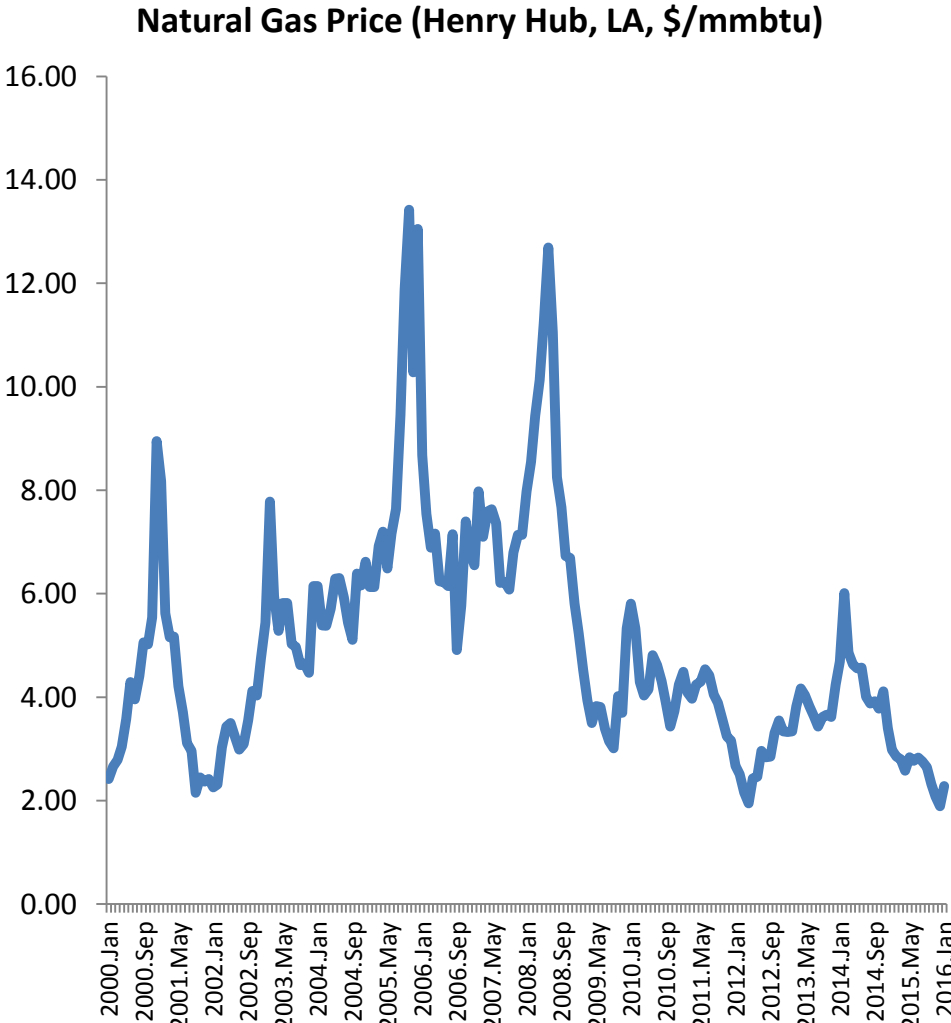


Source: BLS

...Aided by dropping oil/gas prices

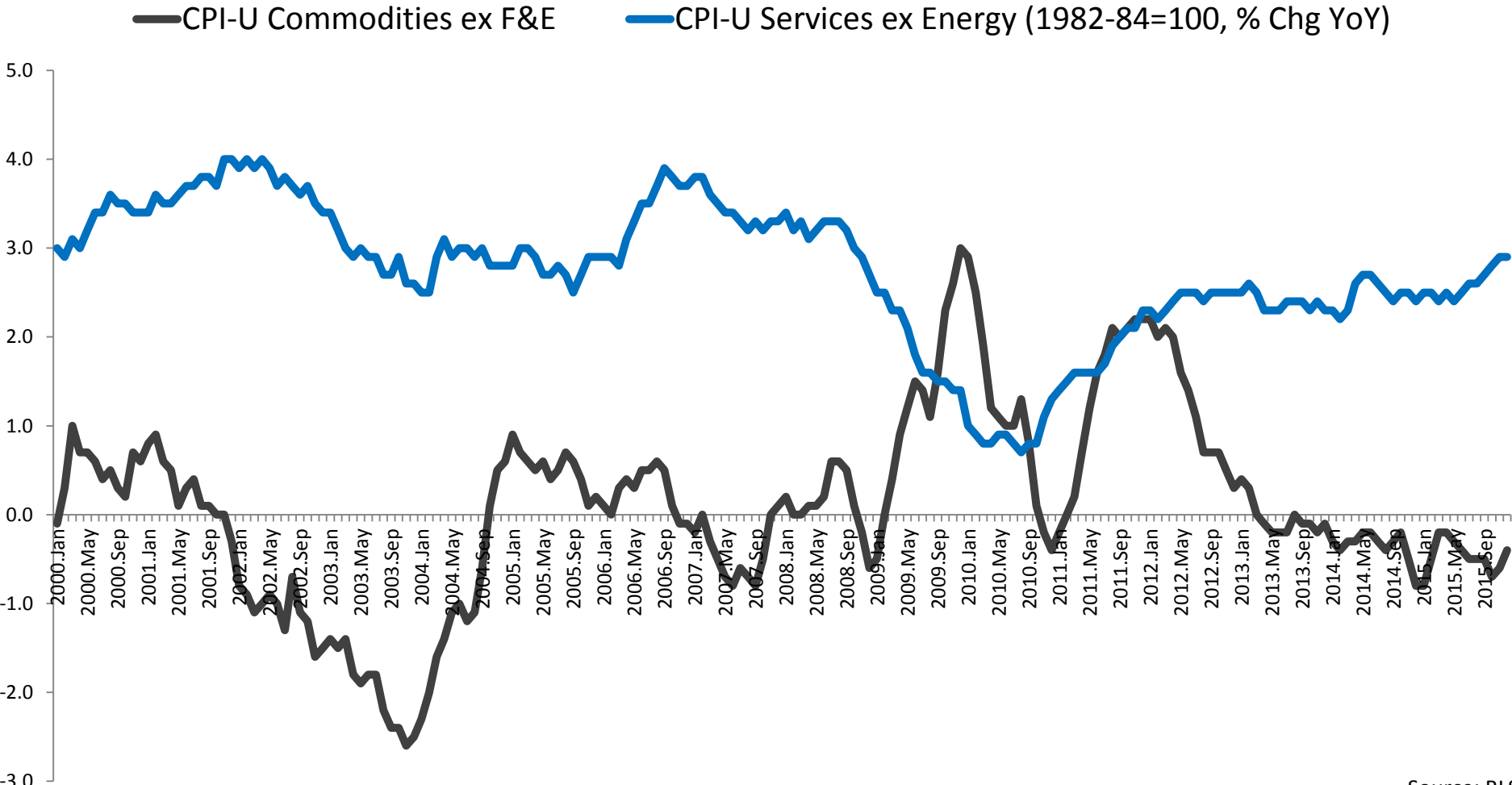


Source: EIA



Source: Wall Street

Rents and Owners' Equivalent Rent components of CPI rising at over 3.0%



Source: BLS

Economic outlook—moderately positive

JANUARY 2016

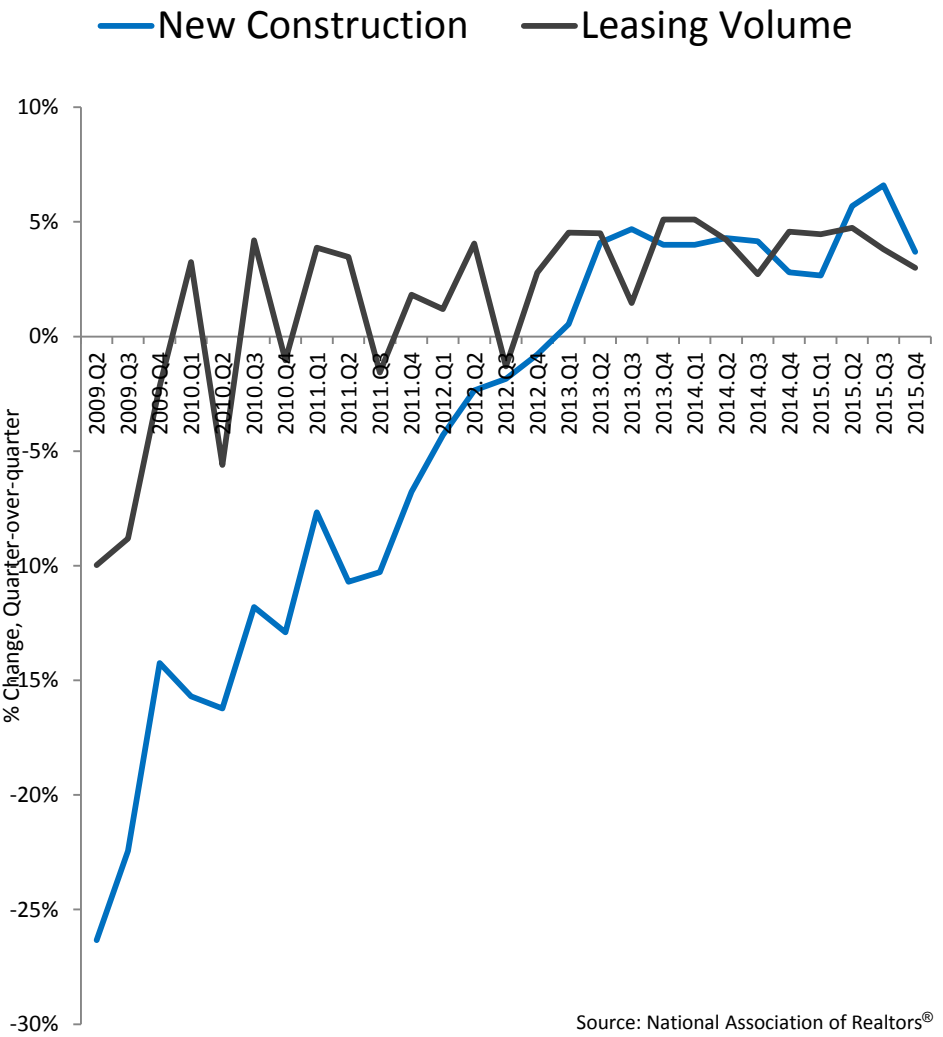
	2013	2014	2015	2016
<i>Annual Growth Rate, %</i>				
Real GDP	2.2	2.4	2.4	2.8
Nonfarm Payroll Employment	1.7	1.9	2.1	1.3
Consumer Prices	1.5	1.6	0.2	2.5
<i>Level</i>				
Consumer Confidence	73	87	98	96
<i>Percent</i>				
Unemployment	7.4	6.2	5.3	4.9
Fed Funds Rate	0.1	0.1	0.1	0.9
3-Month T-bill Rate	0.1	0.1	0.1	0.9
Corporate Aaa Bond Yield	4.3	4.2	3.9	4.4
10-Year Gov't Bond	2.6	2.5	2.1	2.6
30-Year Gov't Bond	3.4	3.3	2.8	3.5

Source: National Association of REALTORS®

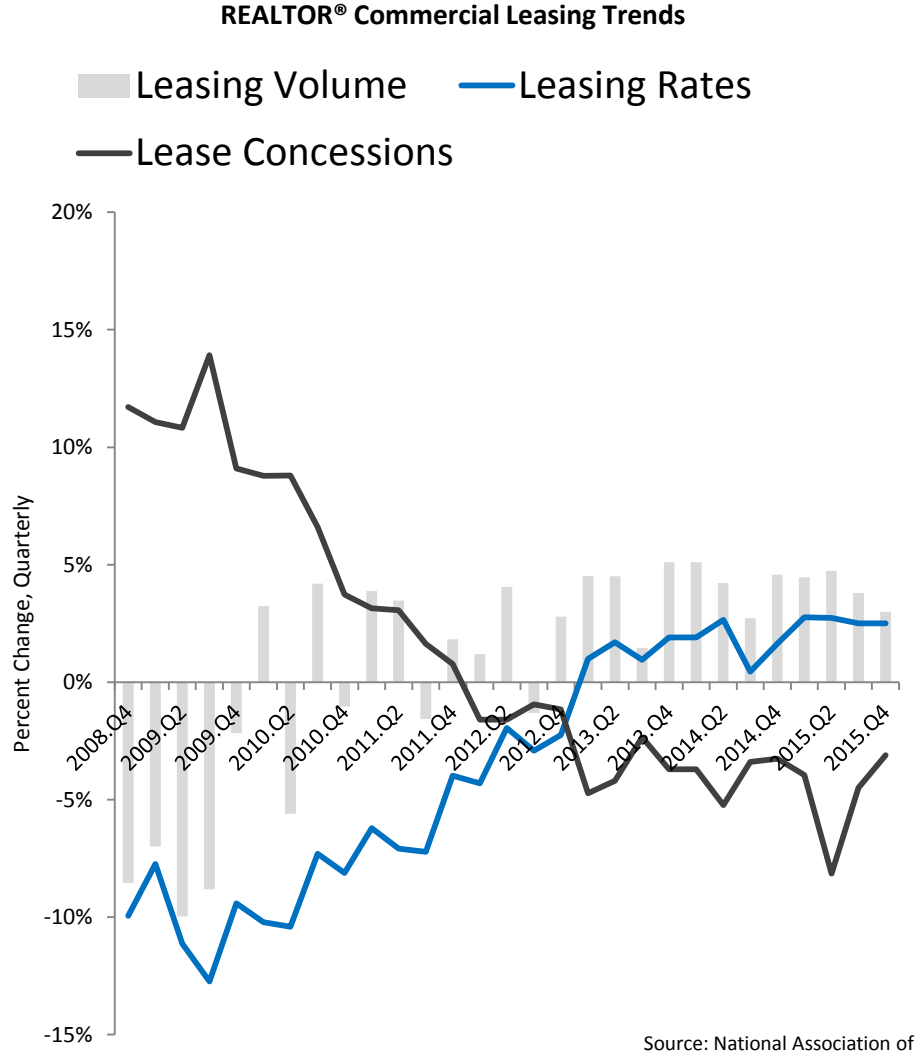


Commercial Real Estate Markets

CRE fundamentals in line with economy...



Source: National Association of Realtors®

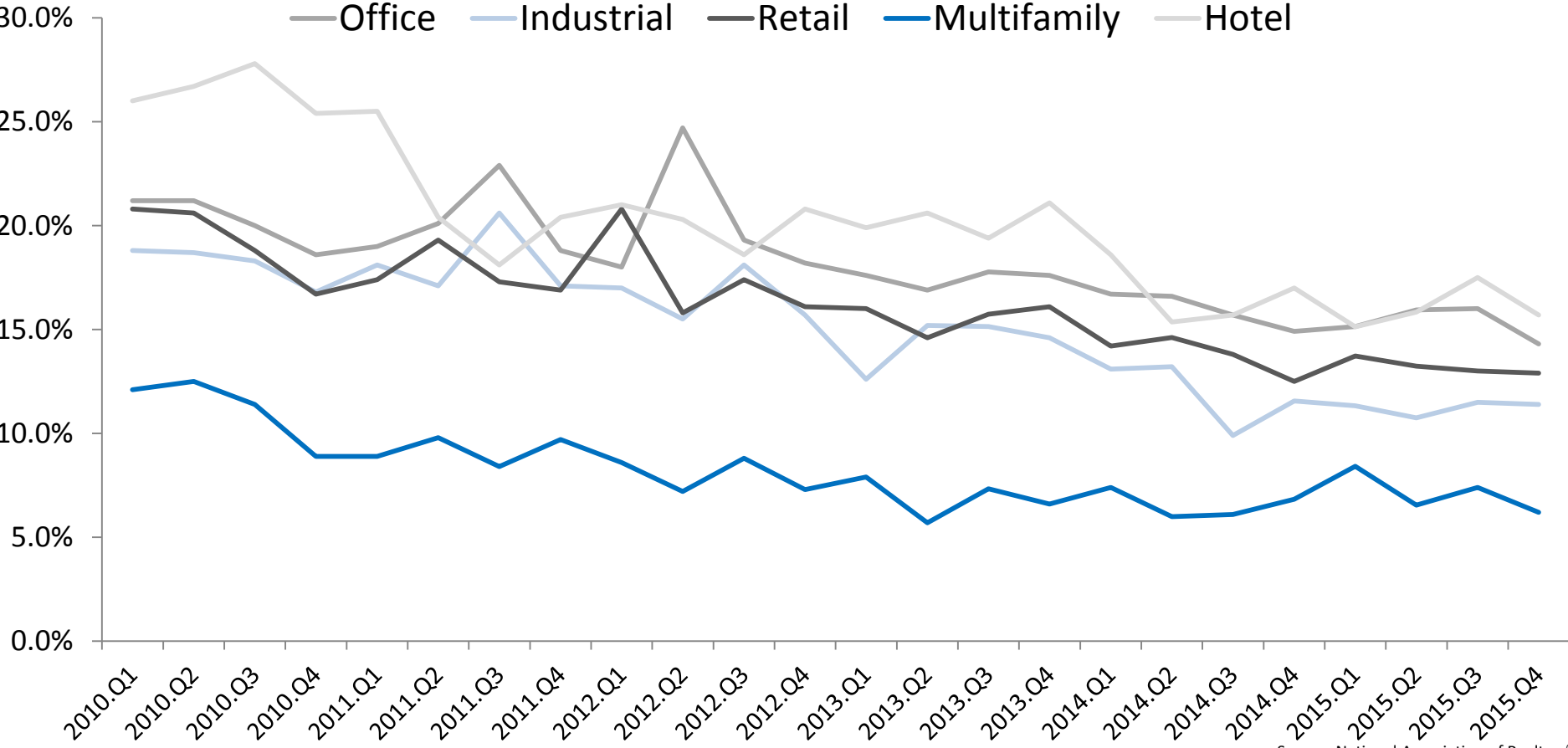


Source: National Association of Realtors®

...As rising demand leads to lower vacancies

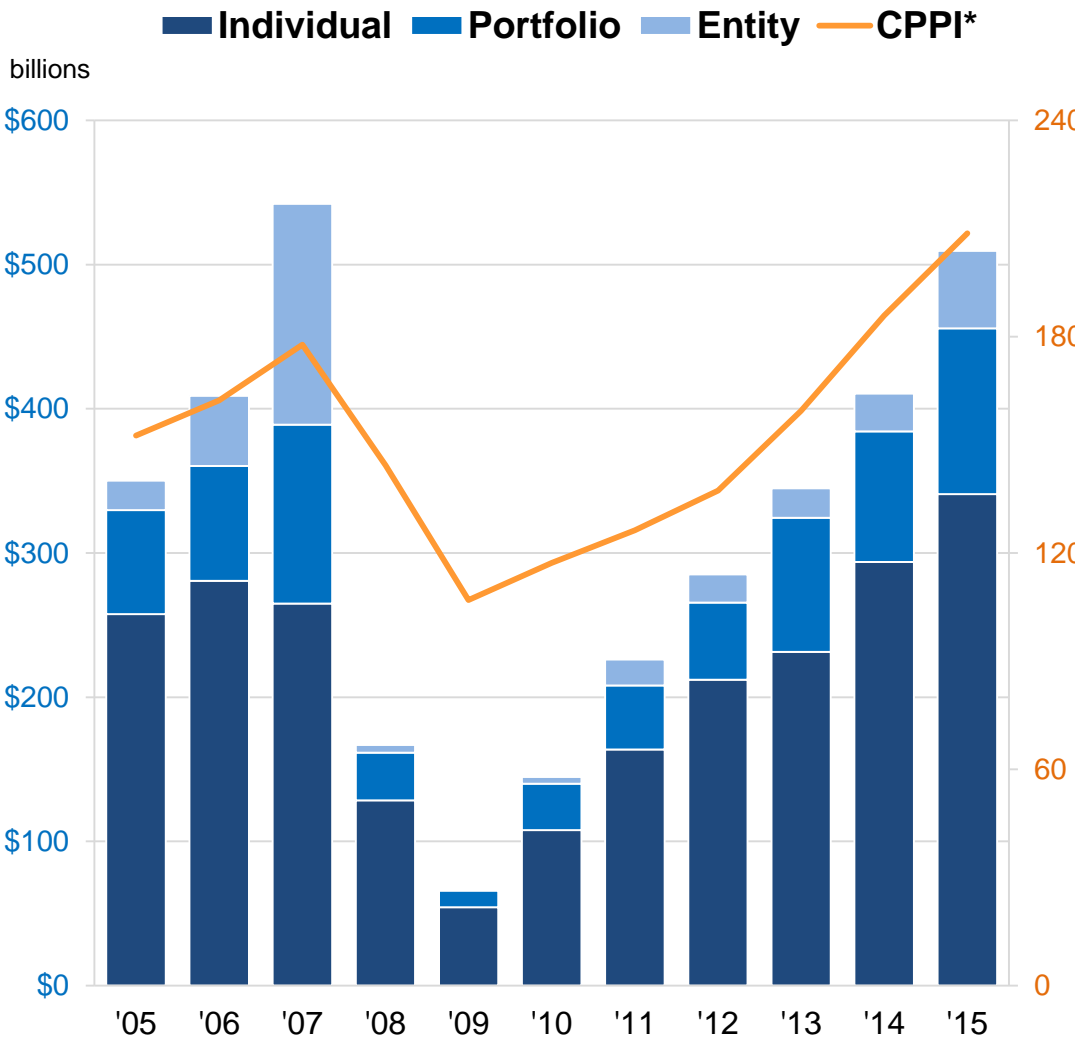
REALTORS® Commercial Vacancy Rates

— Office — Industrial — Retail — Multifamily — Hotel



Source: National Association of Realtors®

CRE investment sales close 2015 at \$504 B

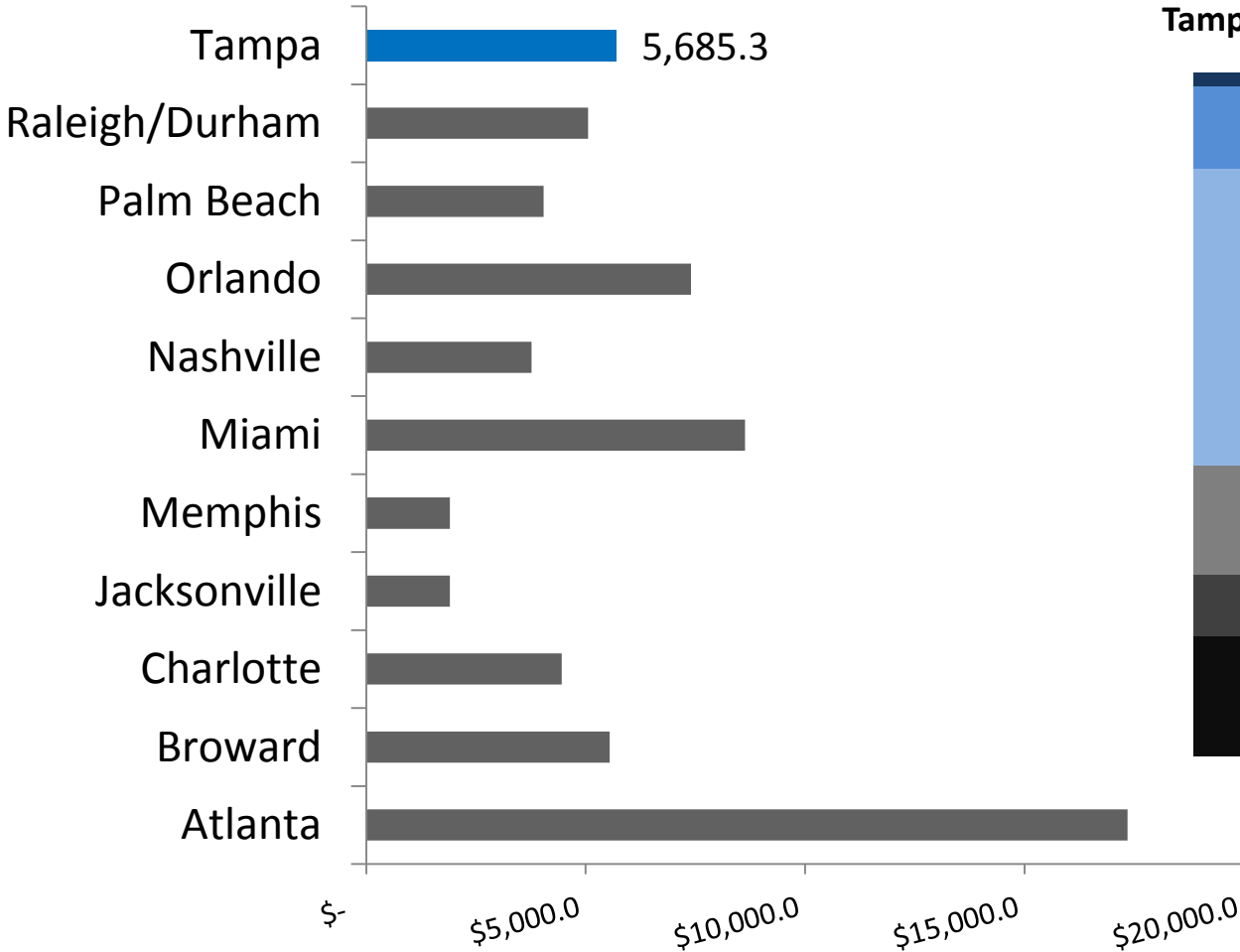


Source: Real Capital Analytics, Moody's/RCA CPPI

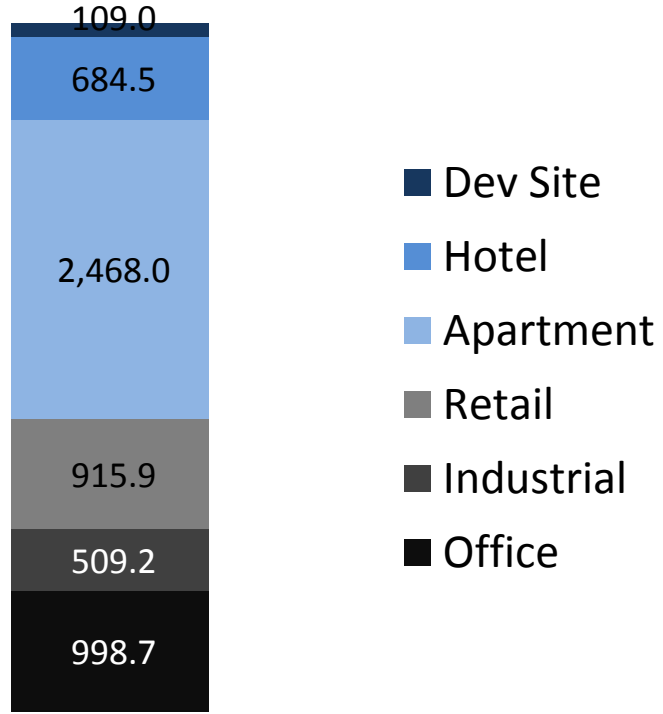
Market	2015 Sales Volume (\$M)	YOY Change
Manhattan	\$55,896	31%
Los Angeles	\$27,568	7%
Chicago	\$22,644	44%
Dallas	\$19,546	25%
Atlanta	\$16,921	23%
Boston	\$16,427	16%
Seattle	\$14,893	68%
San Francisco	\$14,259	-5%
San Jose	\$12,517	49%
Phoenix	\$12,126	54%
No NJ	\$11,934	69%
Houston	\$11,918	3%
NYC Boroughs	\$11,672	13%
DC VA burbs	\$11,490	121%
Orange Co	\$10,575	70%
Denver	\$10,542	20%
San Diego	\$9,661	41%
Austin	\$7,884	16%
Miami	\$7,764	30%
Inland Empire	\$7,534	58%
Orlando	\$7,086	68%
DC	\$6,967	2%
East Bay	\$6,494	12%
Portland	\$6,077	61%
Baltimore	\$5,767	71%
Philadelphia	\$5,623	9%
Tampa	\$5,576	20%
Broward	\$5,255	23%
Minneapolis	\$4,891	10%
Raleigh/Durham	\$4,864	26%
DC MD burbs	\$4,787	39%
Charlotte	\$4,364	-1%
Hawaii	\$4,288	-19%
Las Vegas	\$3,915	38%
Central CA	\$3,785	60%
Palm Beach	\$3,696	21%
San Antonio	\$3,609	21%
Nashville	\$3,578	11%
Sacramento	\$3,385	46%
Detroit	\$3,078	5%

Tampa CRE sales up 25% YoY in 2015

CRE Sales Volume: Southeast 2015 (\$M)



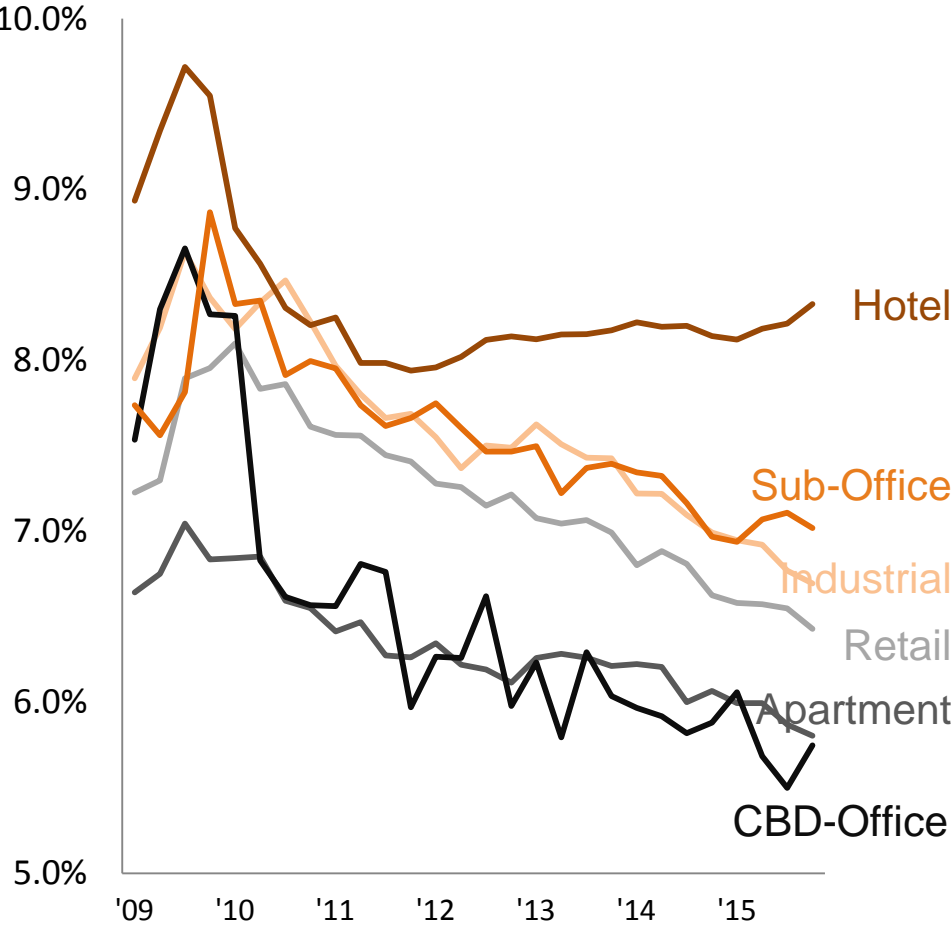
Tampa Sales by Property: 2015 (\$M)



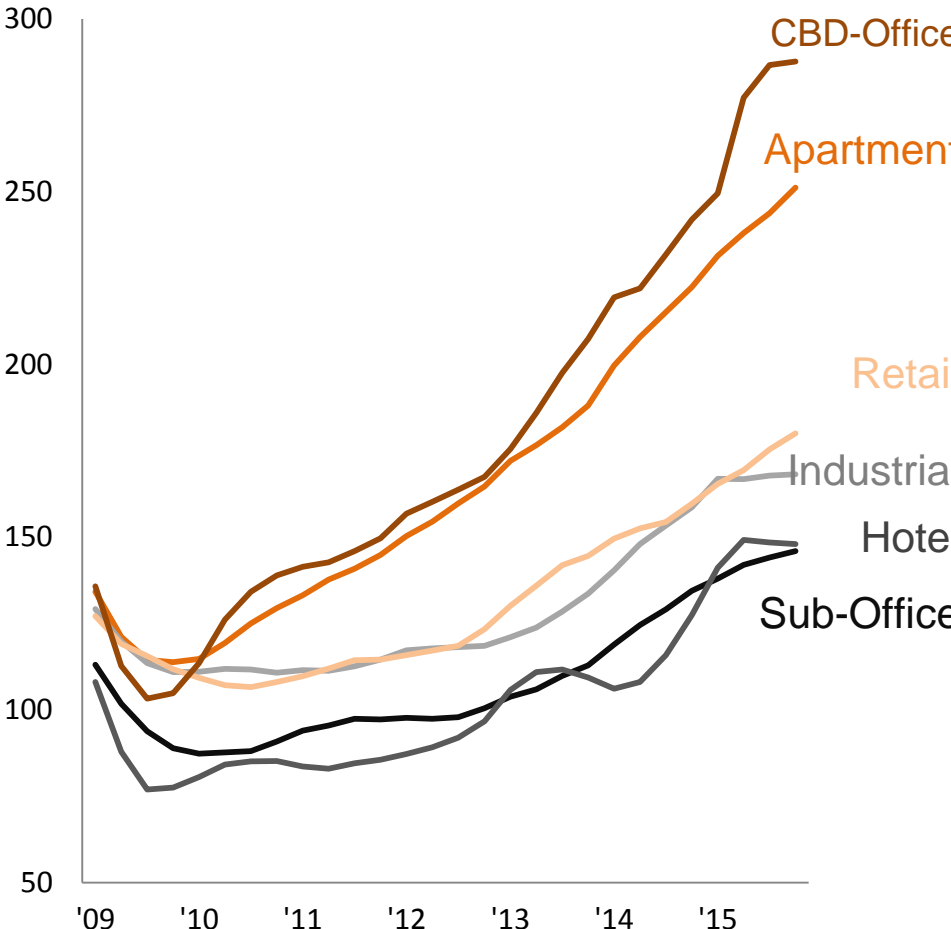
Source: Real Capital Analytics

Capital in search of yield drives prices

Capitalization Rates



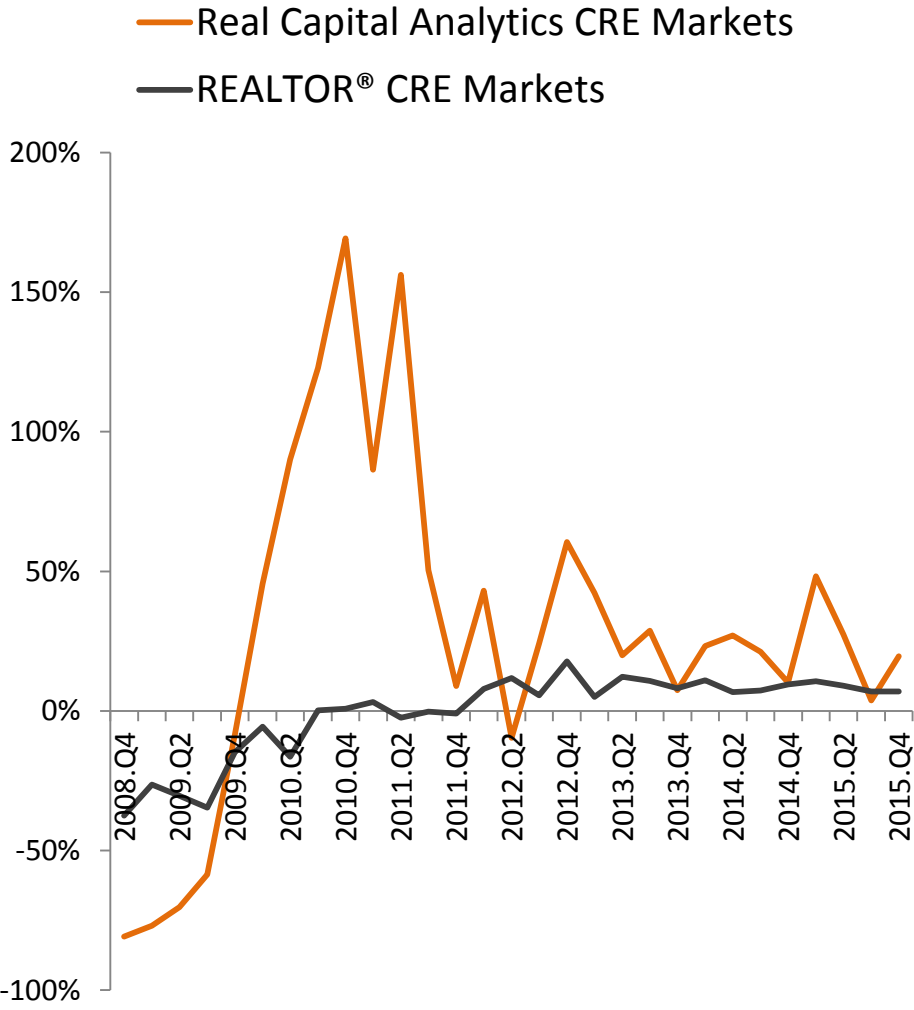
Commercial Property Price Index



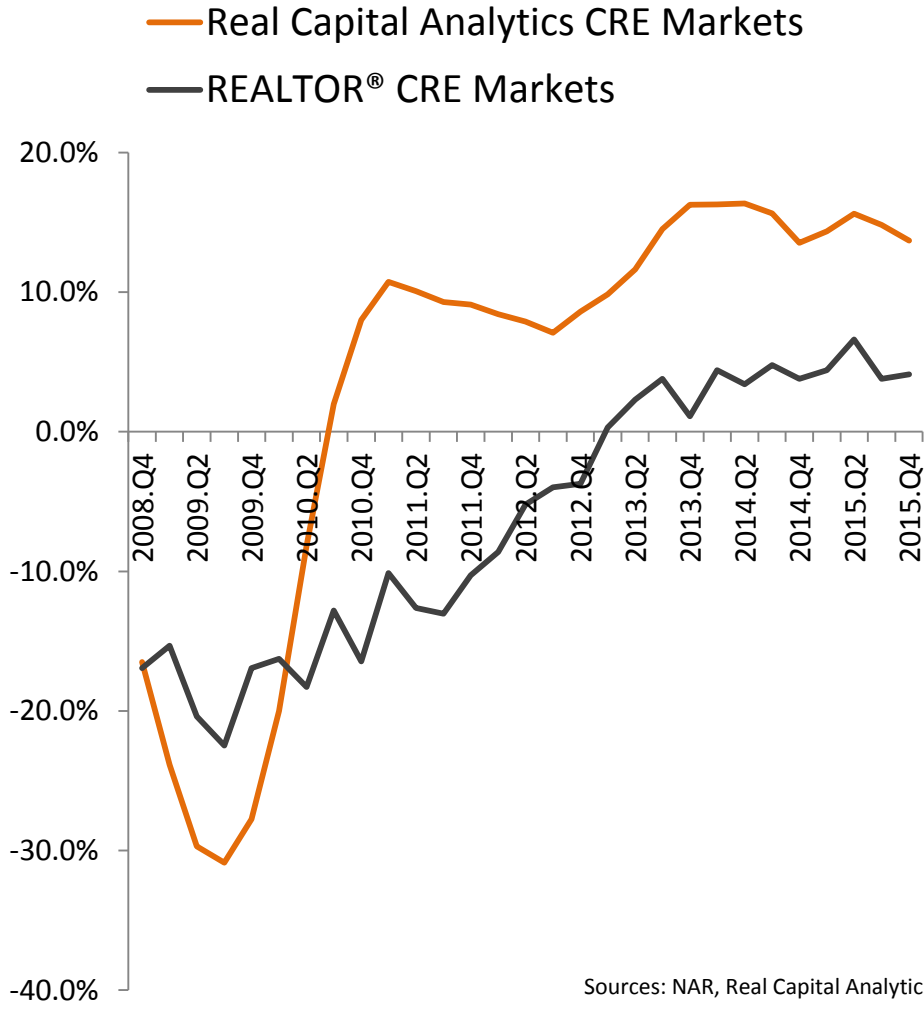
Source: Real Capital Analytics, Moody's/RCA CPPI

CRE remains a tale of two markets

Sales Volume (YoY % Chg)



Sales Prices (YoY % Chg)

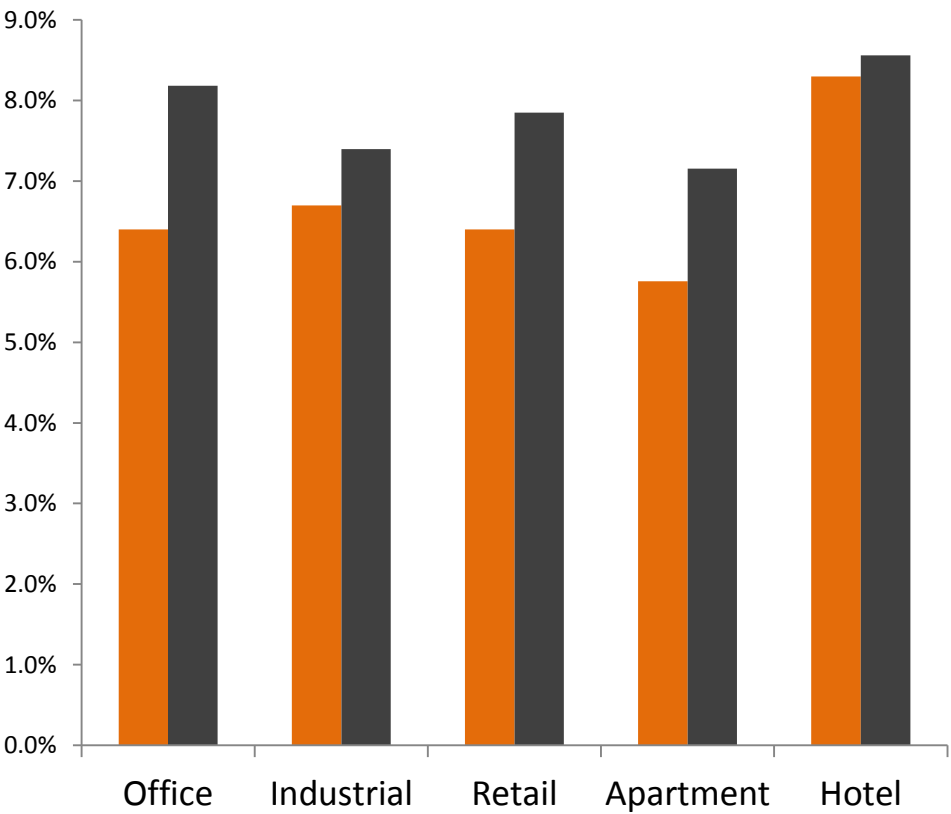


Sources: NAR, Real Capital Analytics

Smaller markets offer yield premium

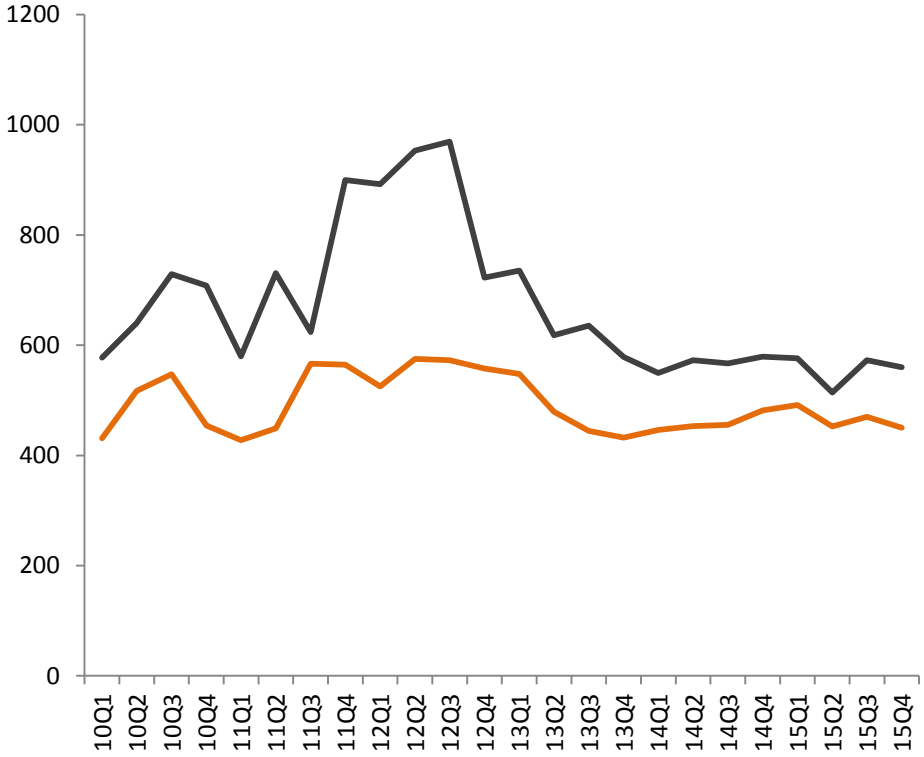
Cap Rates - 2015.Q4

RCA Markets REALTOR® Markets



CRE Spreads: Cap Rates to 10-Yr. T-Notes (bps)

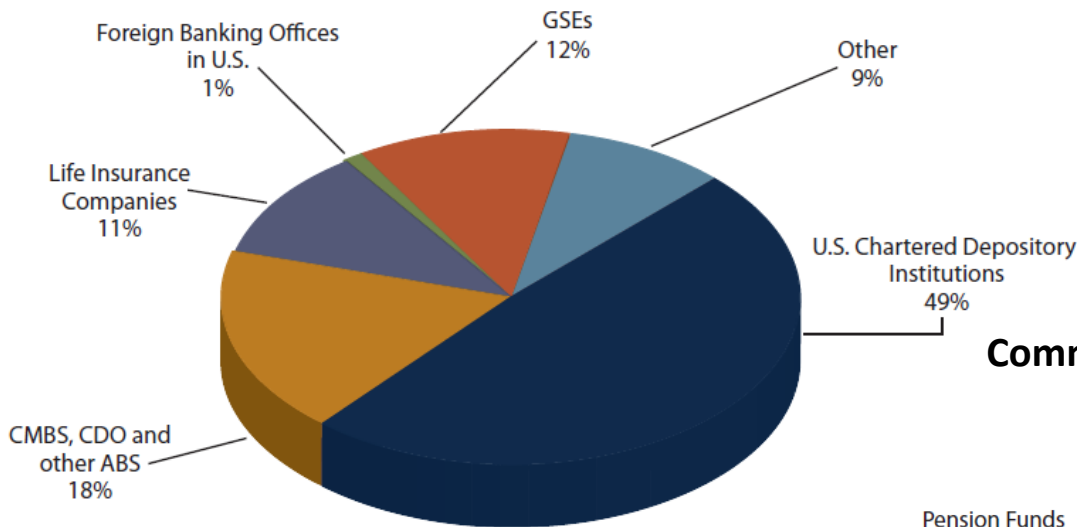
RCA Cap Rates REALTORS Cap Rates



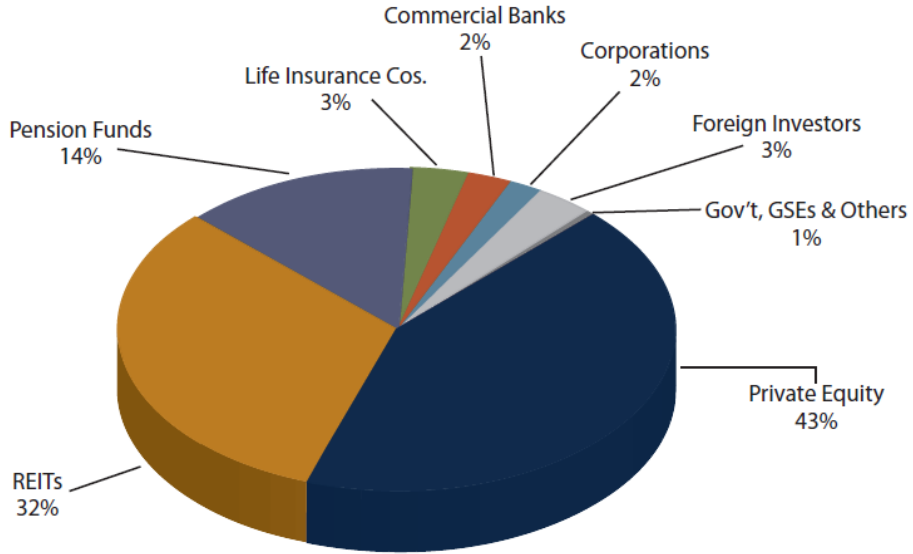
Sources: NAR, Real Capital Analytics

Capital markets flush with liquidity at high end

Commercial Real Estate Debt: \$3.54 Trillion



Commercial Real Estate Equity: \$2.64 Trillion

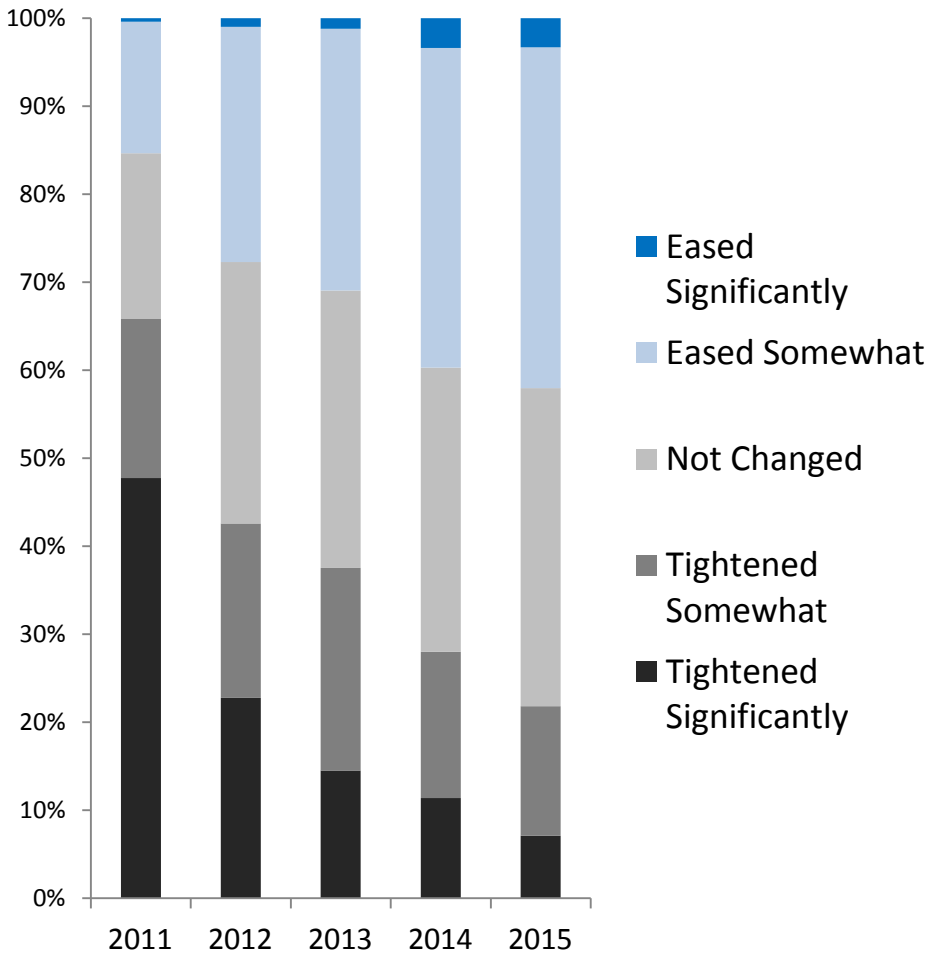


Source: Federal Reserve Flow of Funds, 3q 2015.

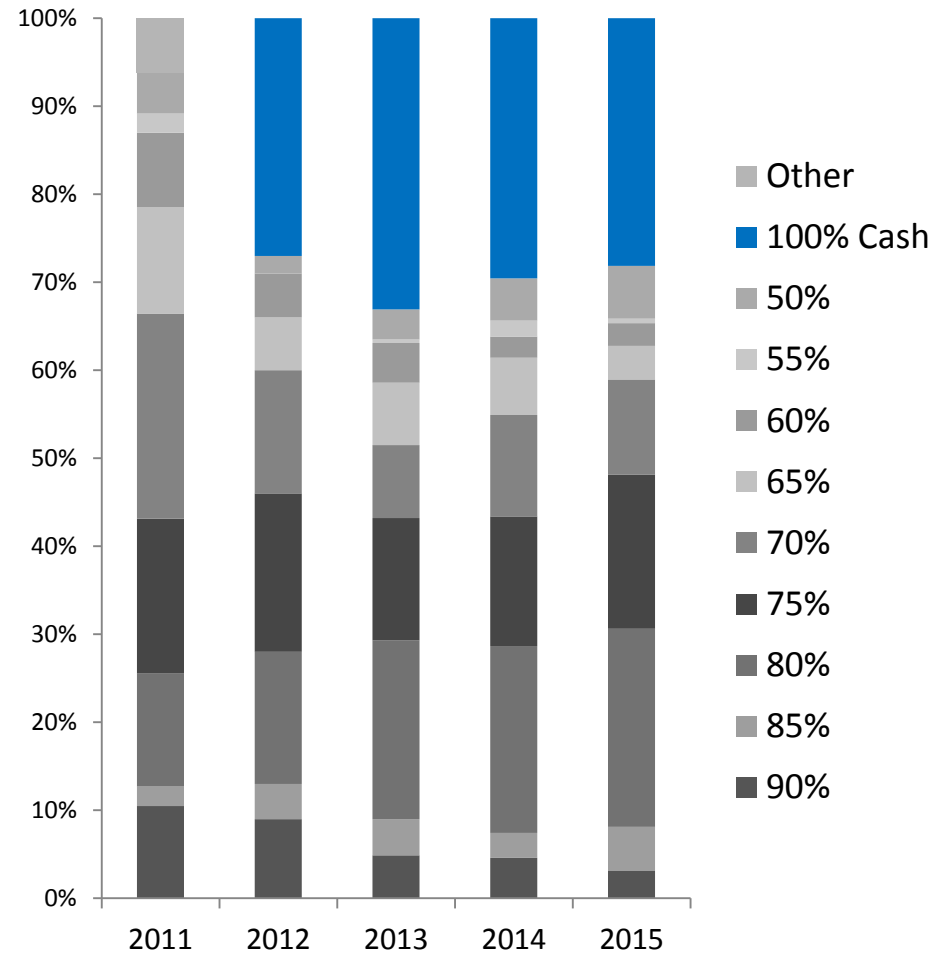
Source: Situs RERC Estimate based on NAREIT, PREA, AFIRE, Prequin, Real Capital Analytics, and NCREIF Data, 3q 2015.

Lending conditions improve...

Change in Lending Conditions over Past Year

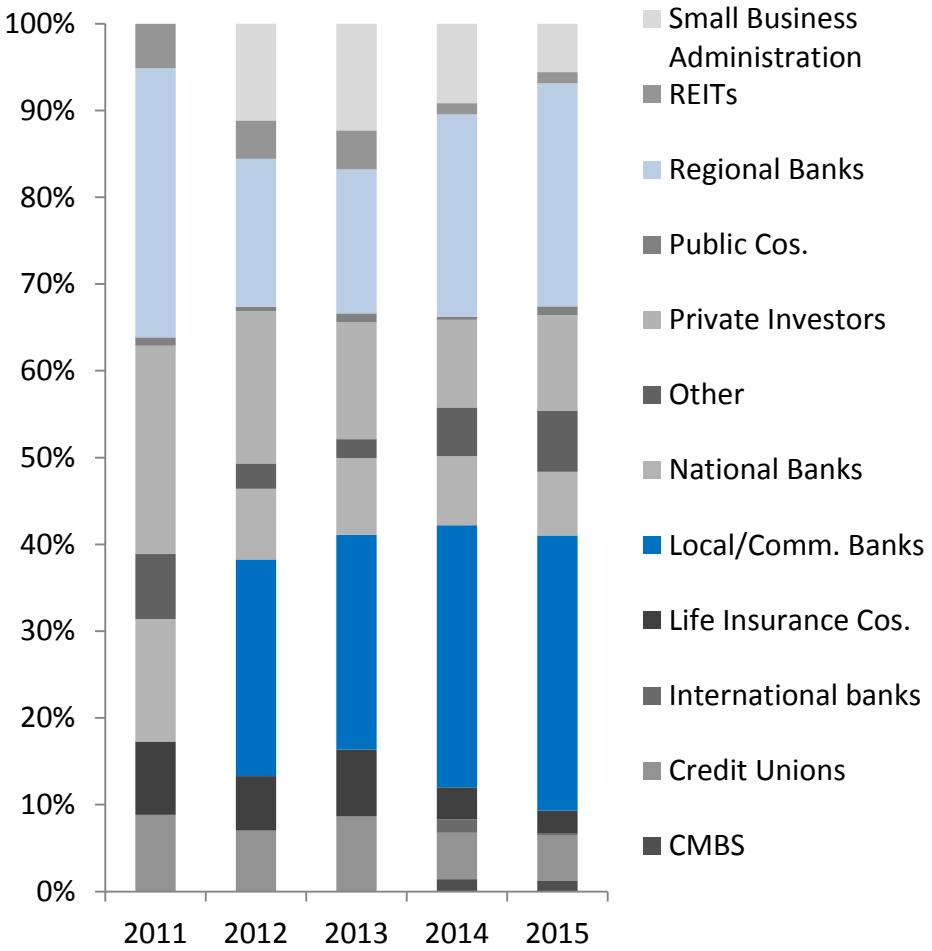


Average Loan-to-Value for CRE Transactions

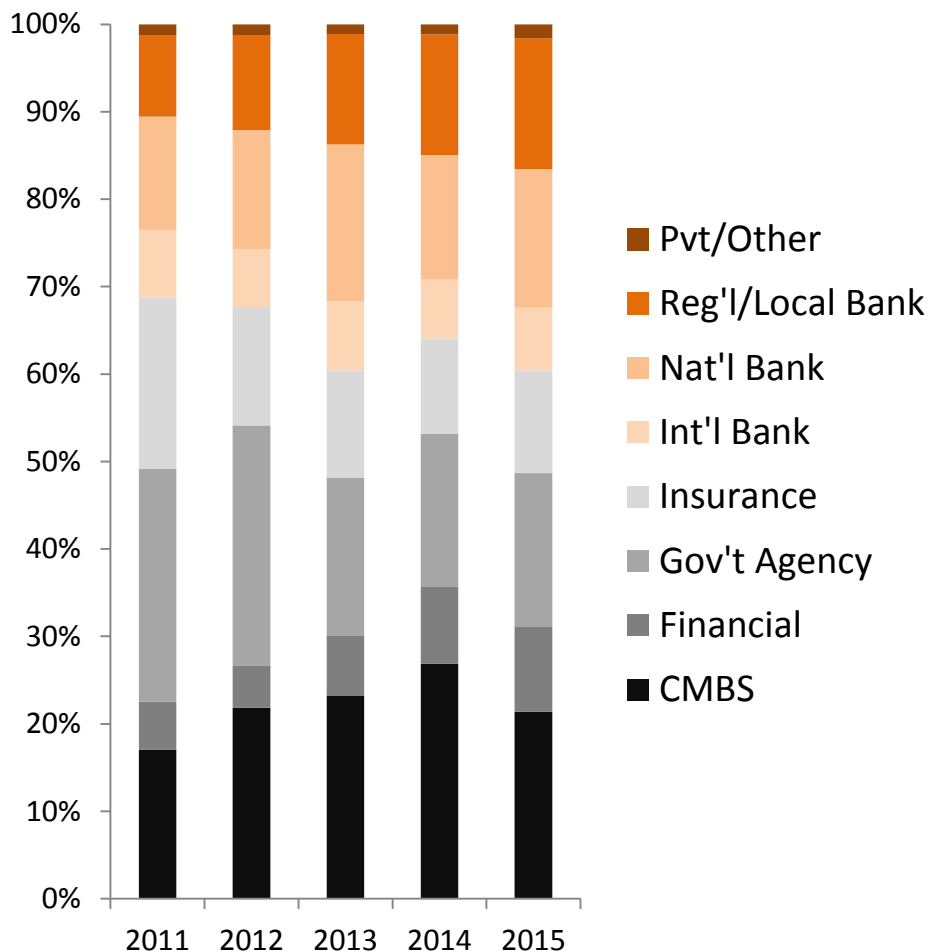


...But capital landscape remains bifurcated

REALTORS® - CRE Financing



Real Capital Analytics – CRE Financing



Commercial real estate outlook

Commercial Real Estate Vacancy Forecast (%)

	2015.Q2	2015.Q3	2015.Q4	2016.Q1	2016.Q2	2016.Q3	2016.Q4	2017.Q1	2014	2015	2016
Office	15.9	16.0	15.6	15.2	14.9	14.8	14.8	14.6	16.0	15.6	14.9
Industrial	10.8	11.5	11.1	10.9	10.5	10.1	9.7	9.5	12.0	11.2	10.3
Retail	13.2	13.0	12.6	12.2	11.8	11.6	11.3	11.0	13.8	13.1	11.7
Multifamily	6.6	7.4	6.1	7.0	6.9	7.1	7.3	8.3	6.6	7.1	7.1

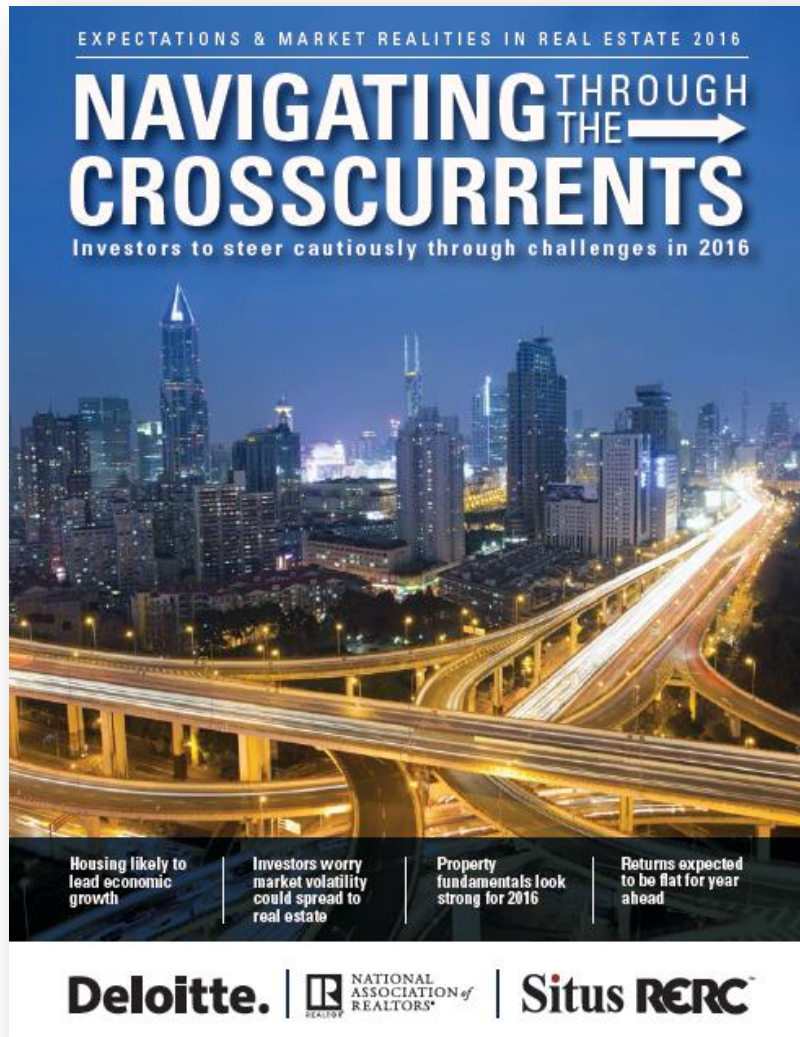
Source: National Association of REALTORS®

NAR Commercial Property Price Forecast

	2008	2009	2010	2011	2012	2013	2014	2015	2016
NCREIF	215.2	165.1	168.2	186.5	195.2	211.9	224.9	249.6	245.3
Green St. Advisors	86.1	63.5	74.4	87.1	92.2	99.4	106.7	118.0	116.0

Sources: NAR, NCREIF, Green Street Advisors, Real Capital Analytics

www.realtor.org/reports/expectations-and-market-realities-in-real-estate



- In-depth analyses:
 - Economy
 - Capital markets
 - Property markets
 - Office
 - Industrial
 - Retail
 - Apartment
 - Hotel
- Outlook scenarios

REALTOR.org/ research-and-statistics

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