



**FORECAST 2017**

# Southern Nevada's Commercial Markets: *Looking for a Sign*

# Welcome

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# Southern Nevada's Commercial Markets: *Looking for a Sign*

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- Rick Smith, RDS Enterprises
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- Katrina Bruce, NAIOP Southern Nevada



**FORECAST 2017**

# Southern Nevada's Commercial Markets: *Looking for a Sign*

## **Keynote Address**

Dr. Mark G. Dotzour  
Real Estate Economist

The Economic Outlook for  
Commercial Real Estate

# Approaching the Redline



Dr. Mark G. Dotzour  
College Station, Texas  
[mdotzour@gmail.com](mailto:mdotzour@gmail.com)



# Redline

A set amount of RPMs which your engine can put out before you pretty much blow it up. This is usually where the numbers on your tachometer turn red.

-Urban Dictionary

# A Stronger Economy

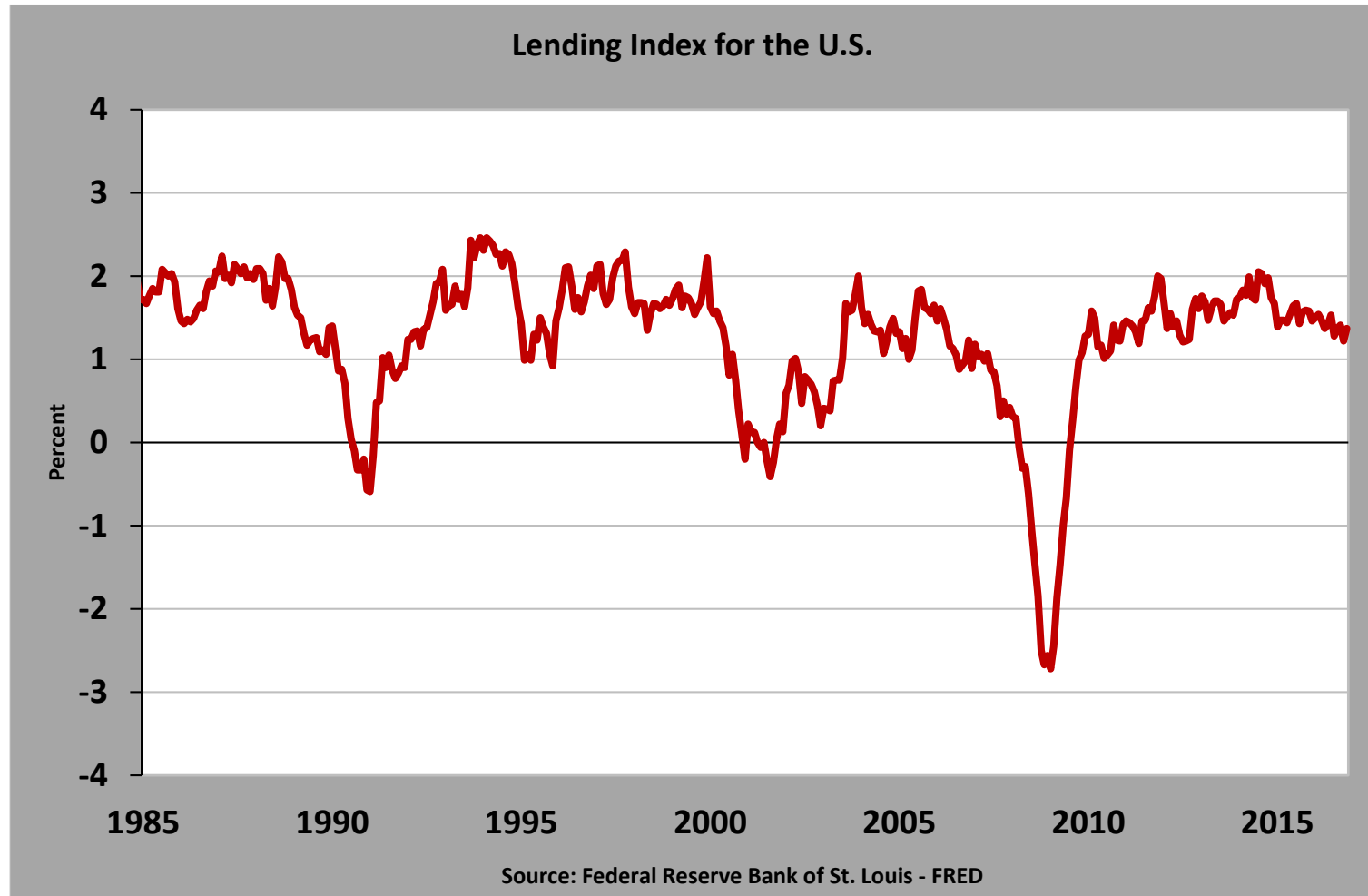
- Creates jobs
- Labor shortage
- Wage increases
- Higher inflation
- Higher interest rates

# Key Issues in 2017

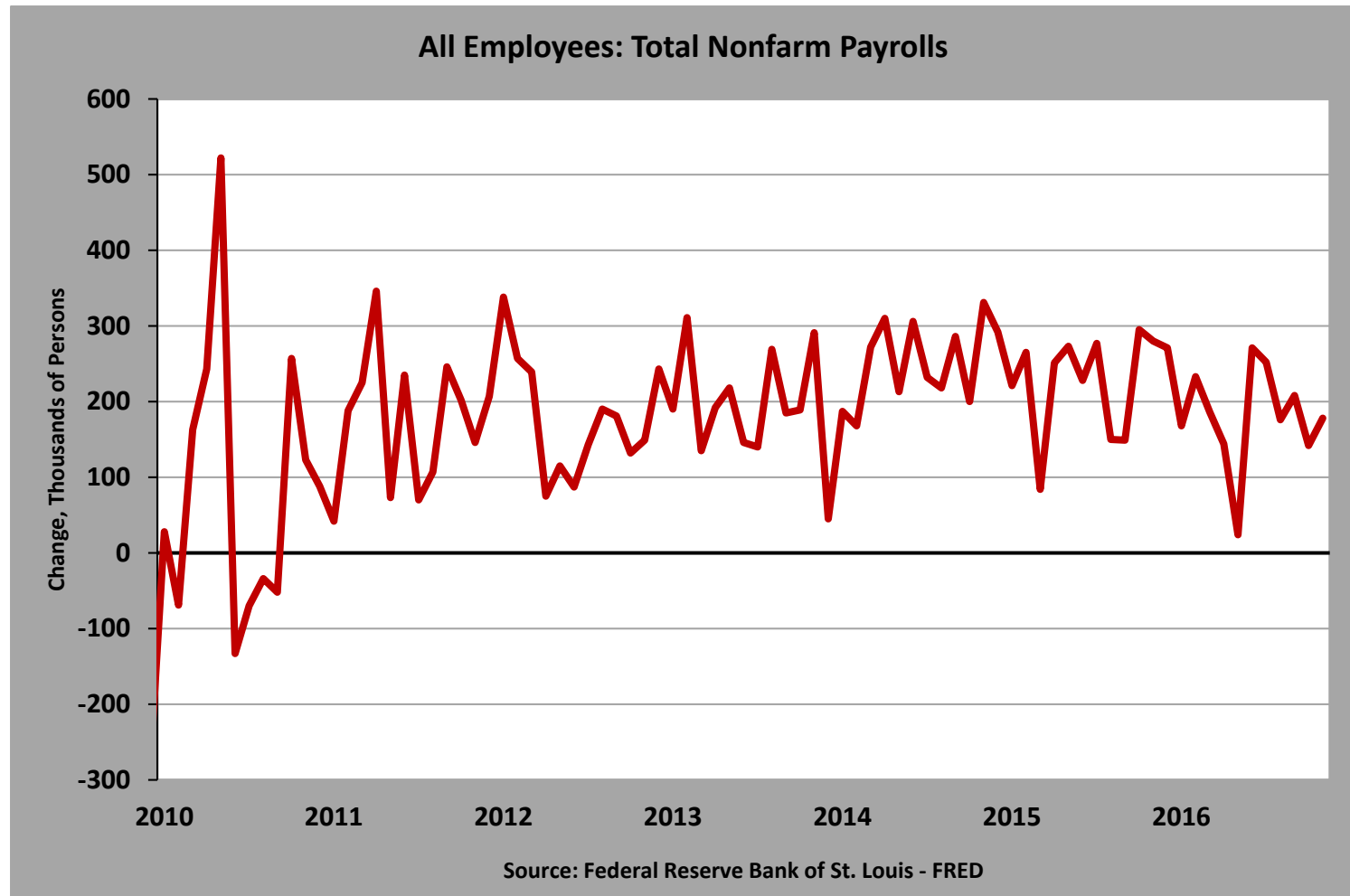
- Economy still has a lot of energy left
- Tax policy changes bullish for jobs and the market
- Reduced regulation good for many industries
- Infrastructure spending unlikely to happen
- Will immigration policy changes constrict labor supply?
- New global trade policies could raise cost of imports
- Fed wants to raise interest rates making dollar stronger
- Monetary policy in Europe and Japan keeps rates low
- Will labor shortage create wage inflation?
- Will inflation expectations increase interest rates?
- New bull market for single-family housing



# U.S. Leading Index of Economic Indicators

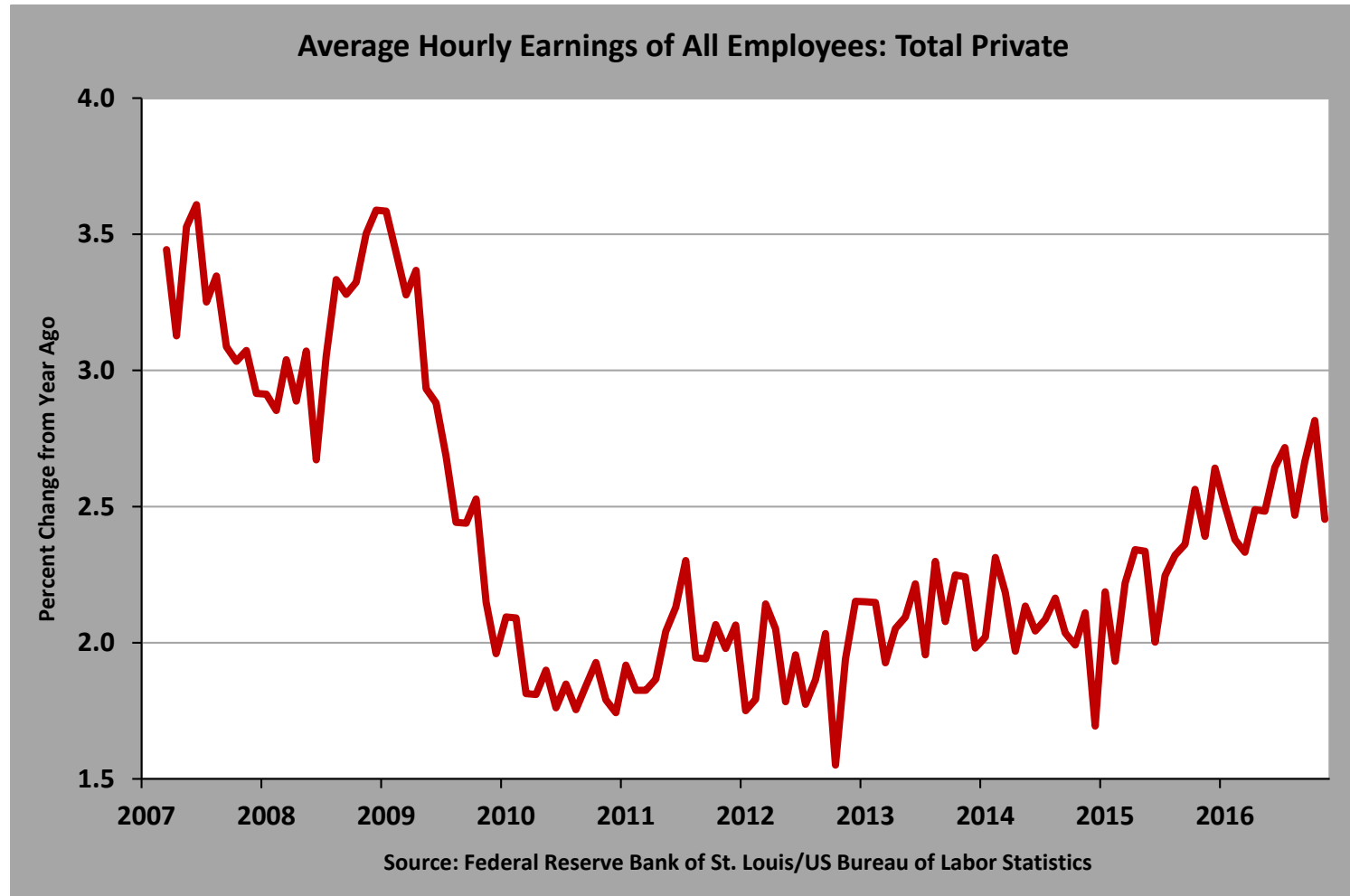


# New Jobs Created Each Month

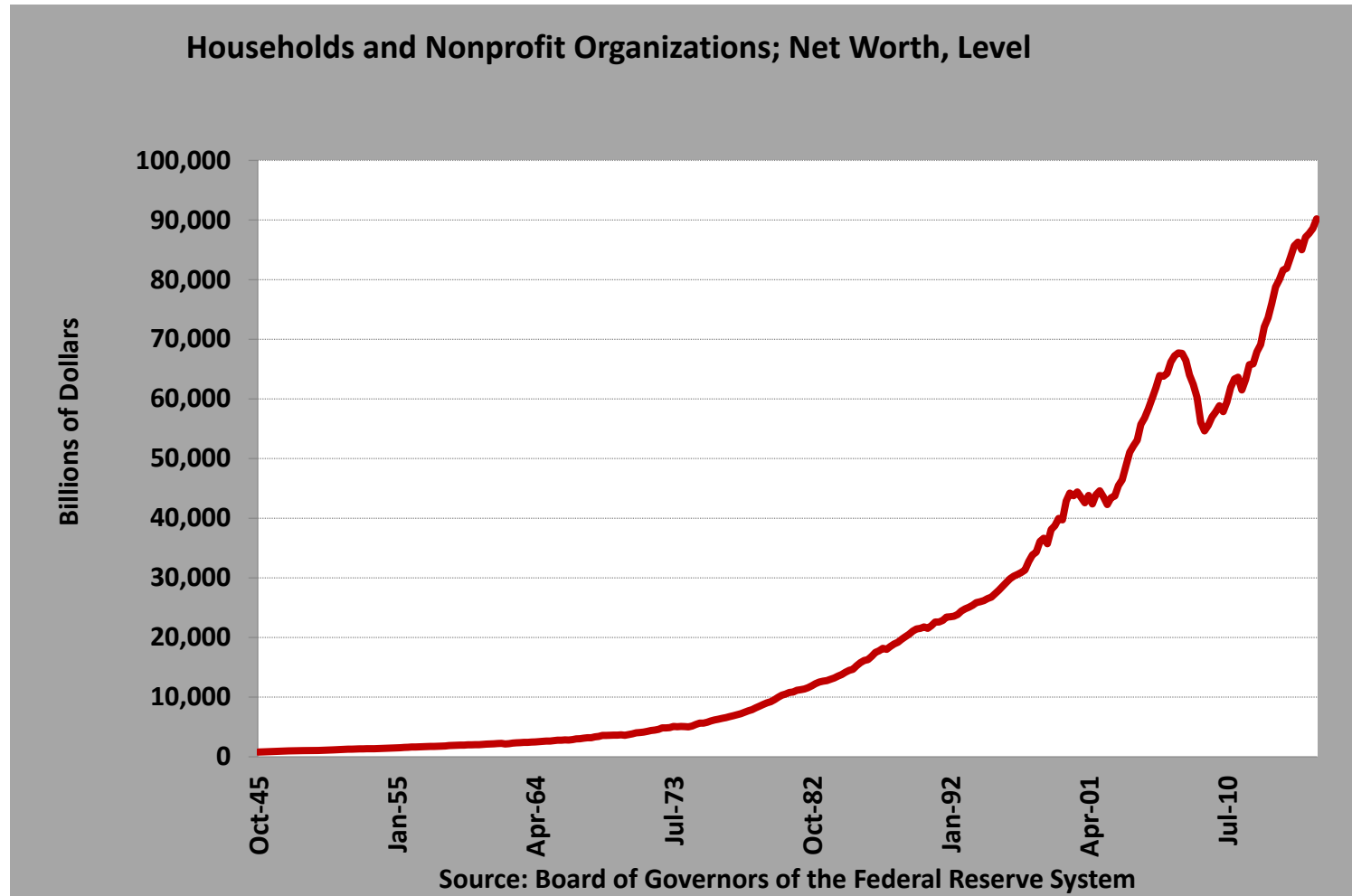


# Average Hourly Earnings

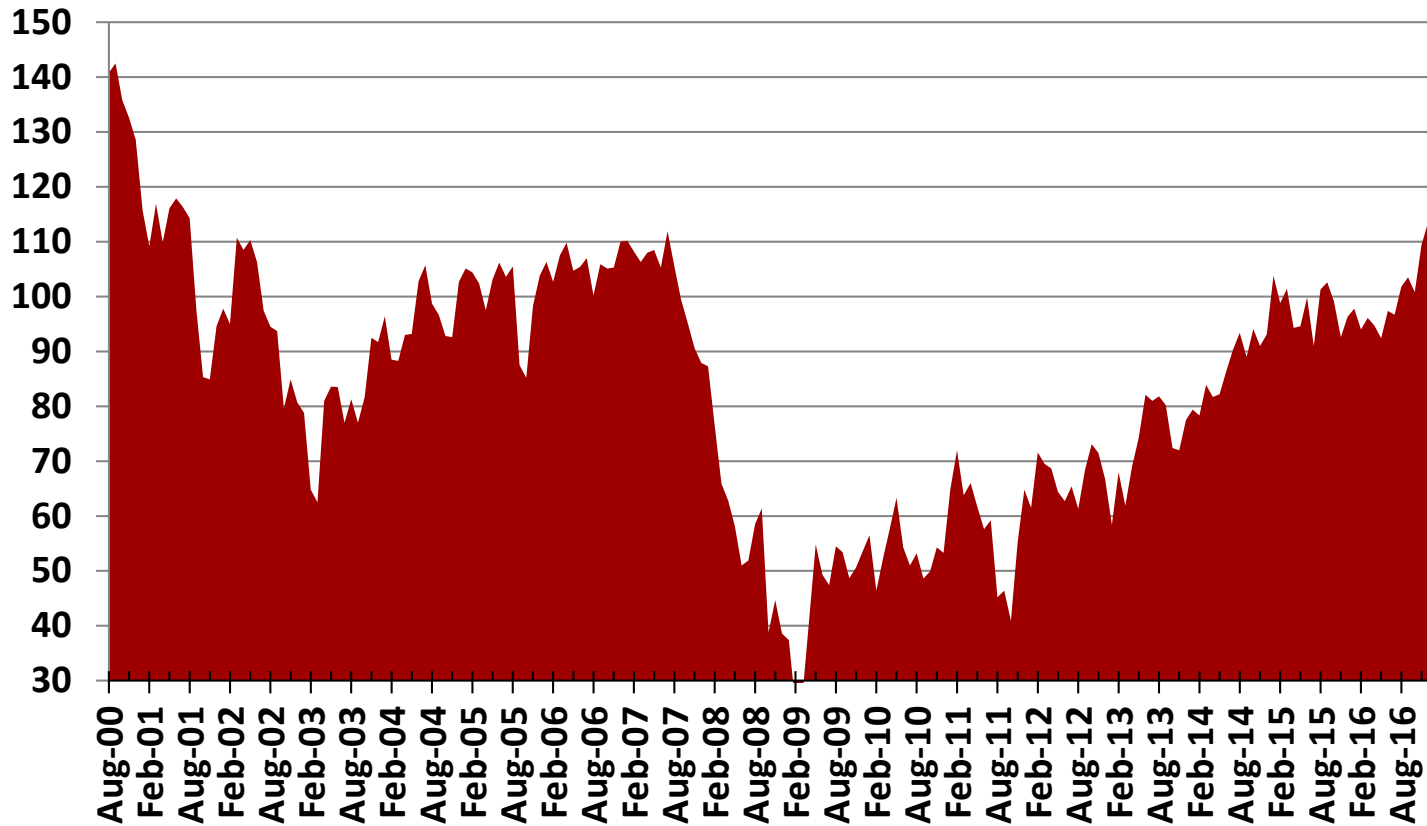
## Annual Rate of Change



# Household Net Worth Recovering After Stock Market Rally



# Consumer Confidence Index



Source: The Conference Board

# Small Business Outlook

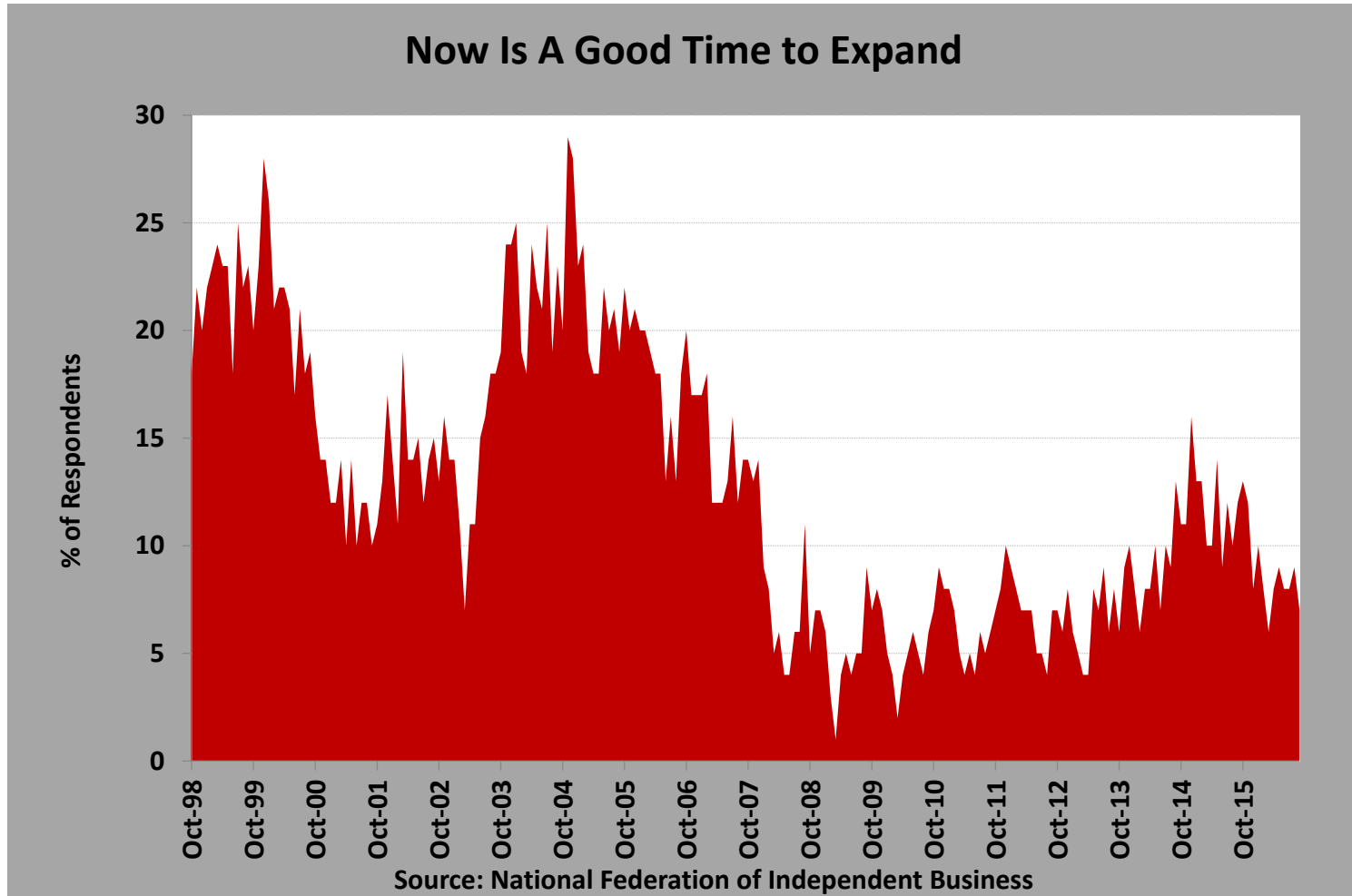
“Planning To Hire People In The Next 3 Months”



Source: National Federation of Independent Business

# Small Business Outlook

## “Now Is A Good Time To Expand”



# Corporate Hiring Plans

Next 6 Months

**Q4-16**   **Q3-16**   **Q2-16**   **Q1-16**

<b>More Jobs</b>	<b>35%</b>	<b>27%</b>	<b>29%</b>	<b>29%</b>
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<b>Less Jobs</b>	<b>30%</b>	<b>36%</b>	<b>35%</b>	<b>38%</b>
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Source: Business Roundtable



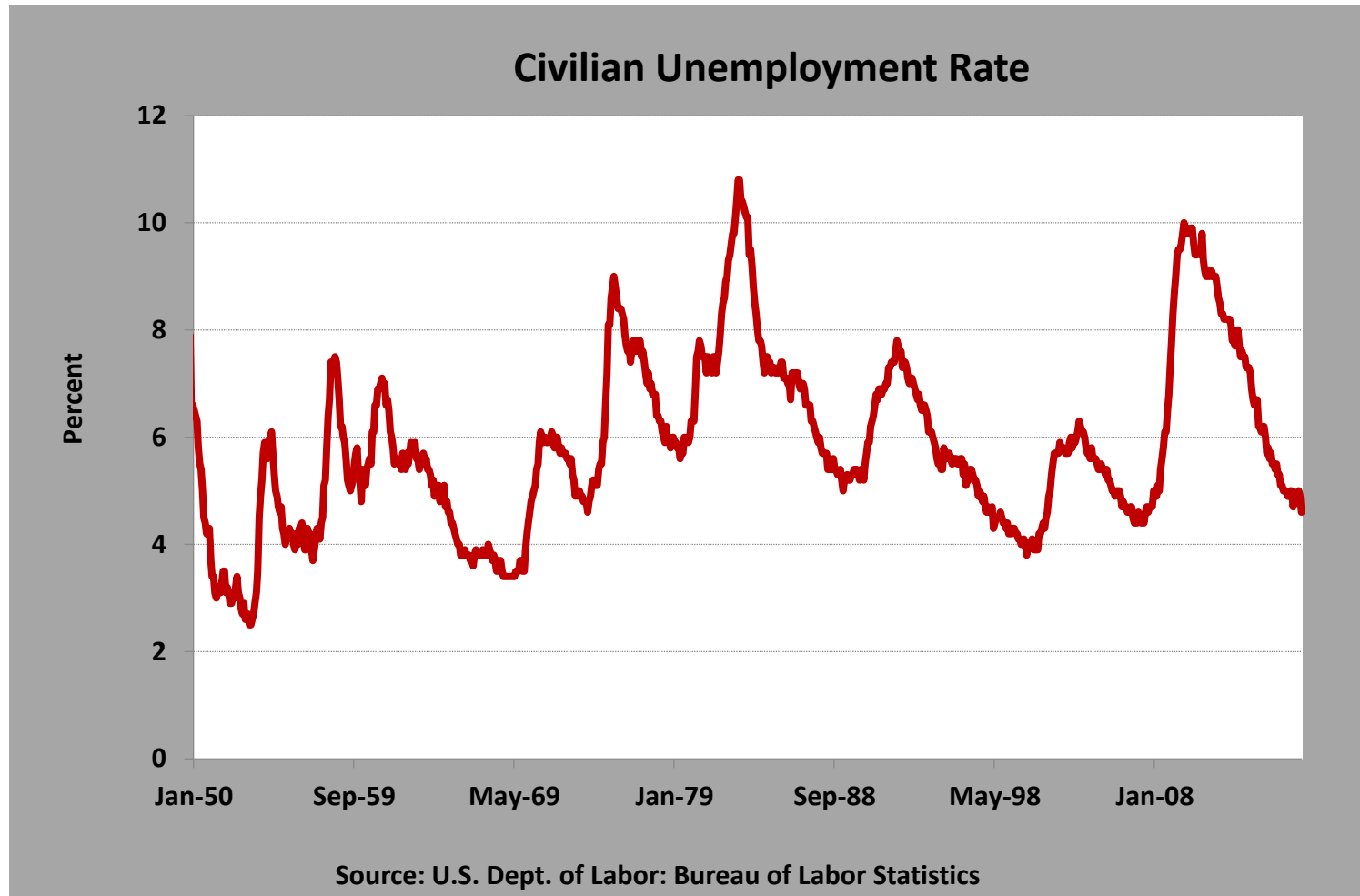
# Job Openings in America

## Looking for Workers

<b>Total Job Openings</b>	<b>5,534,000</b>
Construction	205,000
Manufacturing	322,000
Trade, Transportation, Utilities	1,048,000
Professional & Business Services	926,000
Education & Health Care	1,205,000
Leisure & Hospitality	700,000
Government	512,000

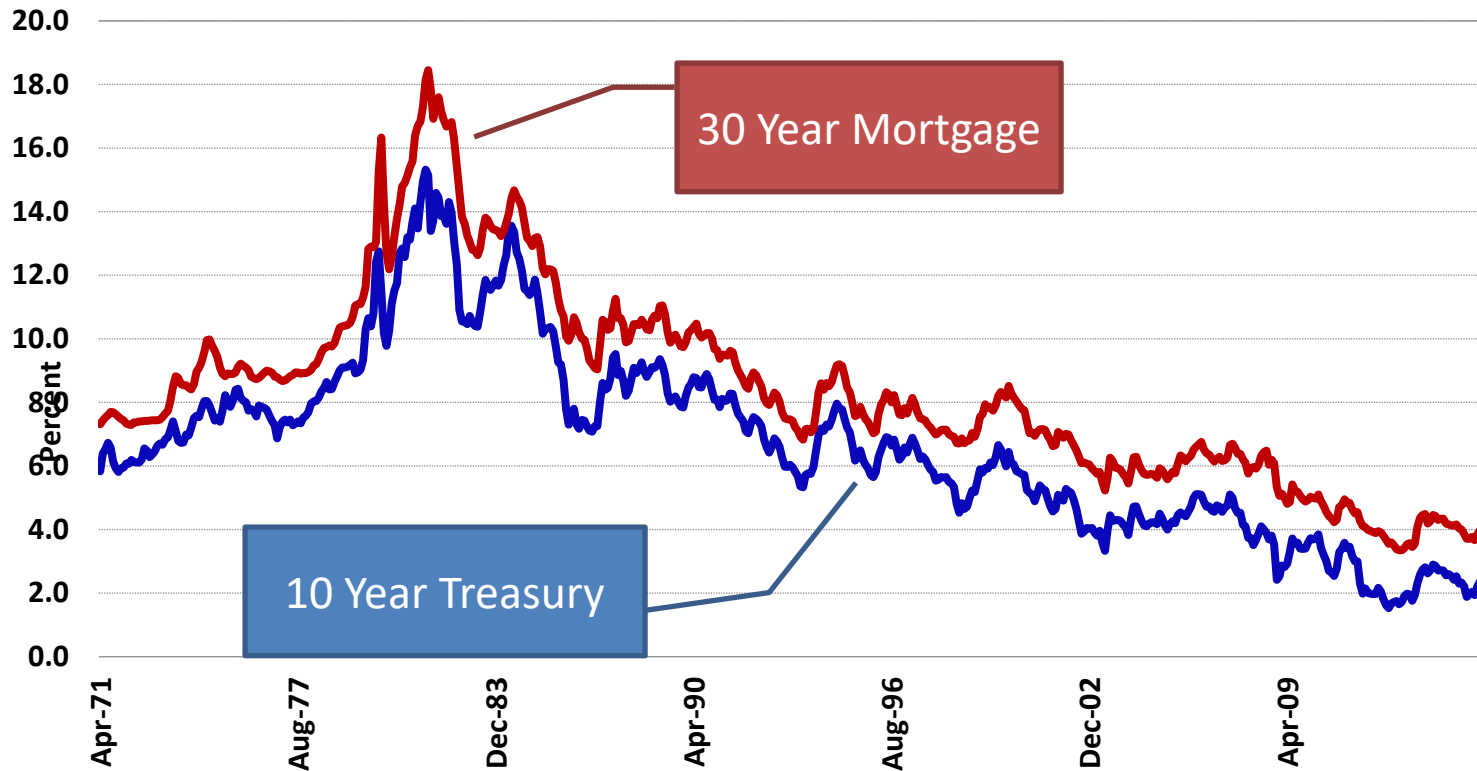
Source: Bureau of Labor Statistics  
BLS release on Dec. 7, 2016

# Civilian Unemployment Rate



# Interest Rates

# The 30-Year Mortgage and the 10-Year Treasury Bond

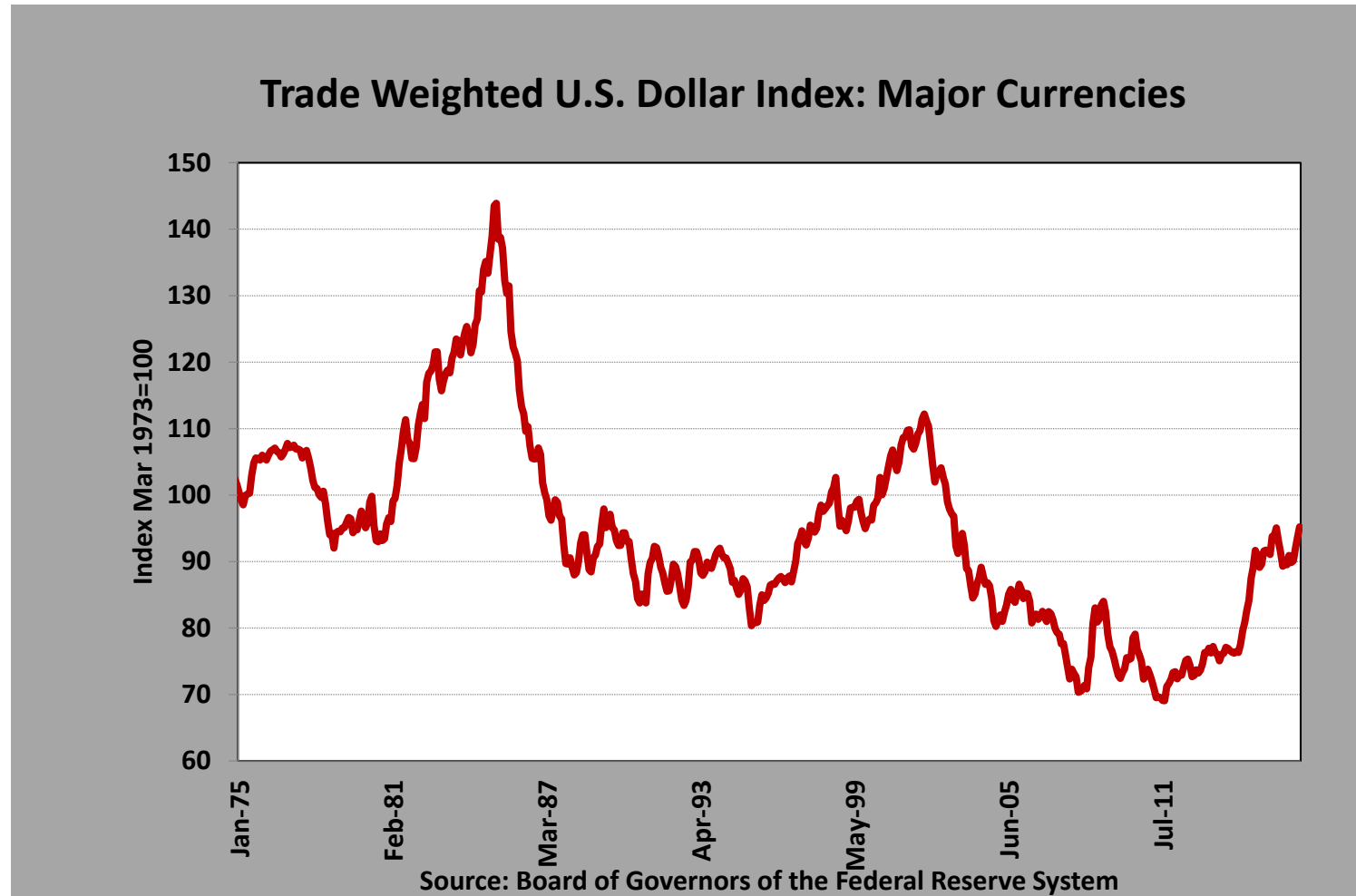


Source: Board of Governors of the Federal Reserve System/FRED

# What Can Keep Inflation in Check?

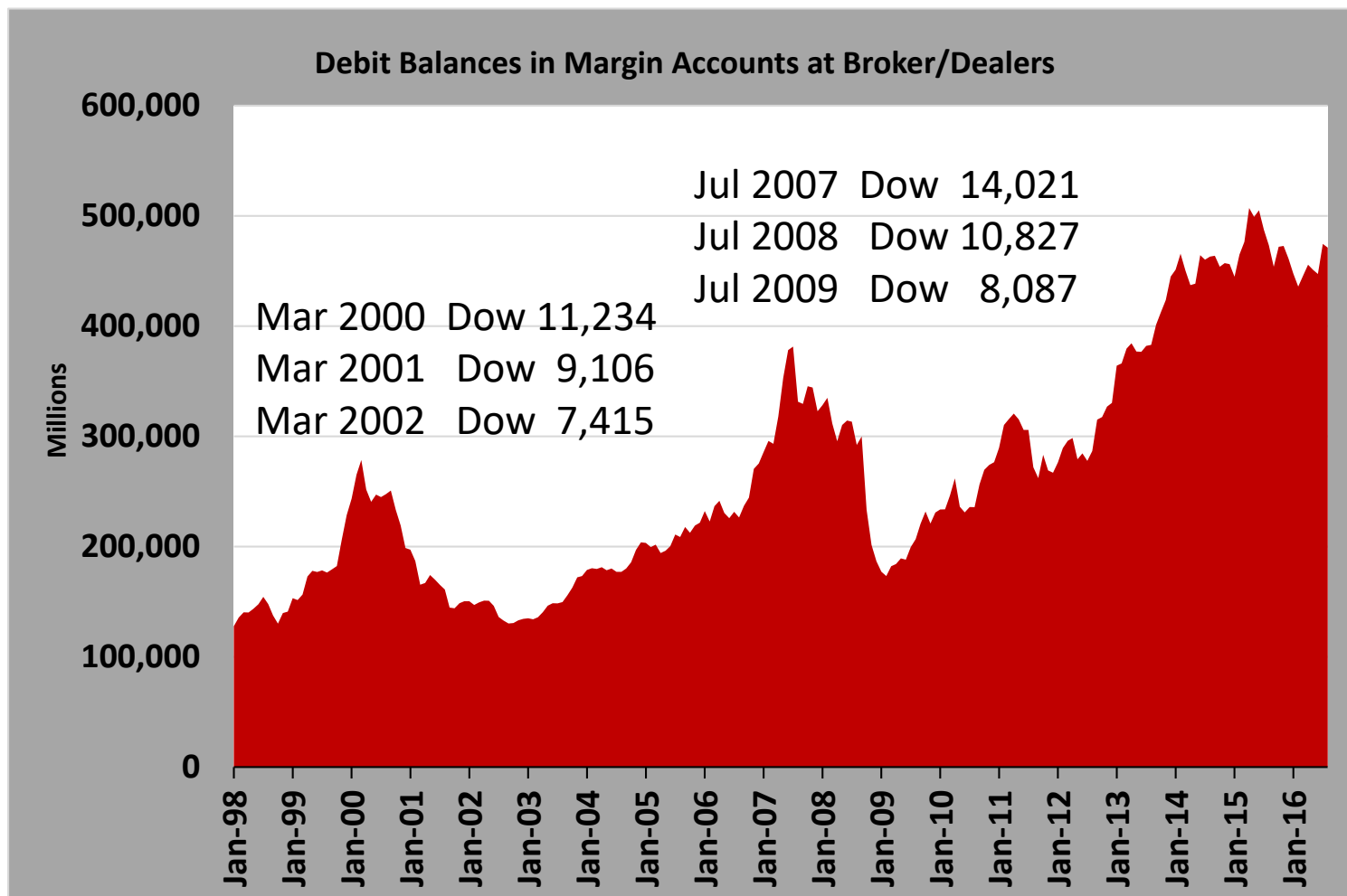


# Trade Weighted U.S. Dollar



# Margin Debt

## Debit Balances at Broker/Dealers



Source: Standard and Poor's

"All the News  
That's Fit to Print"

# The New York Times

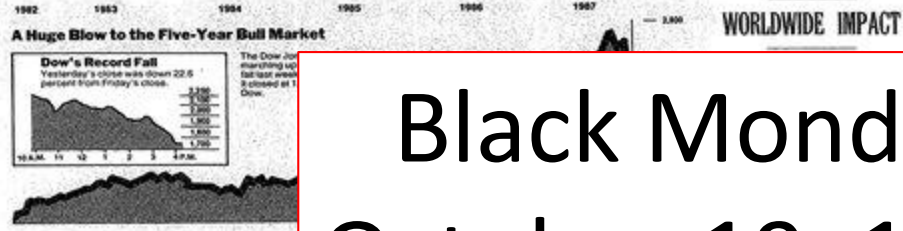
Late Edition  
New York Today: increasing clouds.  
High 62-67; Tonight: cloudy, breezy,  
showers likely. Low 51-57. Tomorrow:  
showers ending. High 58-65. Yesterday:  
High 68, low 48. Details on page B6.

VOL. CXXXVII... No. 47,298 Copyright © 1987 The New York Times NEW YORK, TUESDAY, OCTOBER 20, 1987 36 CENTS

## STOCKS PLUNGE 508 POINTS, A DROP OF 22.6%; 604 MILLION VOLUME NEARLY DOUBLES RECORD

**U.S. Ships Shell  
Iran Installation  
In Gulf Reprisal**  
**Offshore Target Topped  
a Base for Gunboats**

By STEVEN V. ROBERTS  
Source: The New York Times  
WASHINGTON, Oct. 18 — United States naval forces struck back at Iran today for attacks on American-registered vessels and other Persian Gulf shipping by shelling two connected offshore platforms that American officials said were a base for Iranian gunboats.  
A few hours later, a naval commando detachment boarded a third platform five miles away and destroyed radar and communications gear, destroying a base.



Does 1987 Equal 1929?

Black Monday  
October 19, 1987

NOVEMBER 2, 1987 \$2.00

# TIME THE CRASH

After a wild week  
on Wall Street,  
the world is different



## BLACK MONDAY

Monday, October 19, 1987. The New York Stock Exchange is in a shambles, in record time the Dow Jones has plummeted a whopping 500 points. Stock holders panic as orders and bids are doubled. Phone lines jam as the word of horror spreads throughout the nation. Black Monday has begun.

Explores the challenging question: How has all the excitement and drama of the real New York Stock Exchange, built up to five other investors, to test their own financial brains as you borrow up to five million dollars from the bank, invest the money as you choose in up to 20 real stocks currently trading on the Exchange. Evaluate personal daily reports, anticipate market trends, identify market patterns and place your orders.

Do you know what it takes to be a long-term successful investor?  
The only way to be sure is to experience BLACK MONDAY!

KEYPUNCH

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# DAILY NEWS

NEW YORK'S PICTURE NEWSPAPER Tuesday, October 20, 1987

## PANIC!

Dow plunges through floor — 508 pts.  
6 PAGES OF COMPLETE COVERAGE BEGIN ON PAGE 2

## BERNIE GETS 6 MONTHS

Five years probation on gun charge Story on page 5





# Rate Hikes Prior to Black Monday      October 19, 1987

September 1984      11.500 %  
December 1986      5.875 %      Lowering rates for two years

Jan 5, 1987      tiny increase to 6.00%  
Apr 30, 1987      half percent increase to 6.50%  
May 22, 1987      quarter percent increase to 6.75%  
Sept 4, 1987      half percent increase to 7.25%  
Sept 24, 1987      tiny increase to 7.3125%

**Oct 19, 1987      Black Monday:**  
**Dow falls 22.6% in one day**

# Black Monday    October 19, 1987

Rate hike regime lasted eight months.

Rate was increased five times.

Rate increased by a total of 1.50%

Then the stock market collapsed.

# Rate Cuts After Black Monday      October 19, 1987

**Oct 19, 1987**

**Black Monday:  
Dow falls 22.6% in one day**

Oct 20, 1987

Fed rate was still 7.3%

Nov 4, 1987

half percent decrease to 6.8%

Jan 28, 1988

small decrease to 6.6%

Feb 11, 1988

small decrease to 6.5%

Mar 30, 1988

quarter percent increase to 6.7%

Dec 31, 1988

nine more rate hikes to 8.7%

# Black Monday    October 19, 1987

Rate cut regime lasted four months.

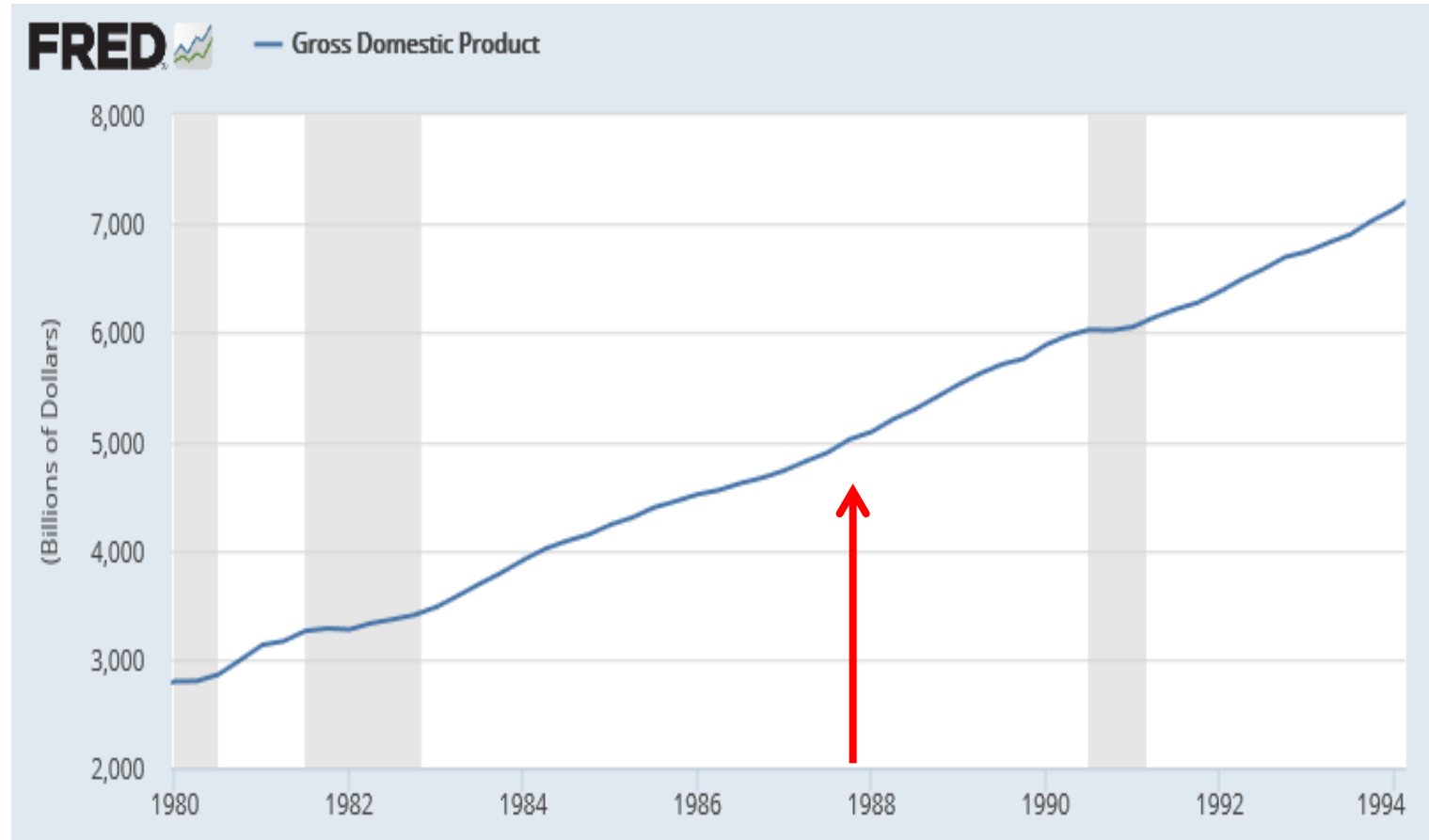
Rate was cut four times.

Rate was cut by a total of .80%

Rate increases resumed  
four months after the crash.

Dec 01, 1987 the more rate hikes to 6.75%

# Impact of Black Monday on the Economy



# What Can Keep Inflation in Check?



# Deflationary Impact of Strong Dollar

American cost to buy 4,000,000 yen Toyota

**FRED** Number of yen to get \$1



With yen at 77 to the dollar,  
car costs \$51,948

With the yen at 120 to the dollar,  
car costs \$33,333

# Investor Impact of Strong Dollar

Mexican cost to buy \$1 million building in U.S.

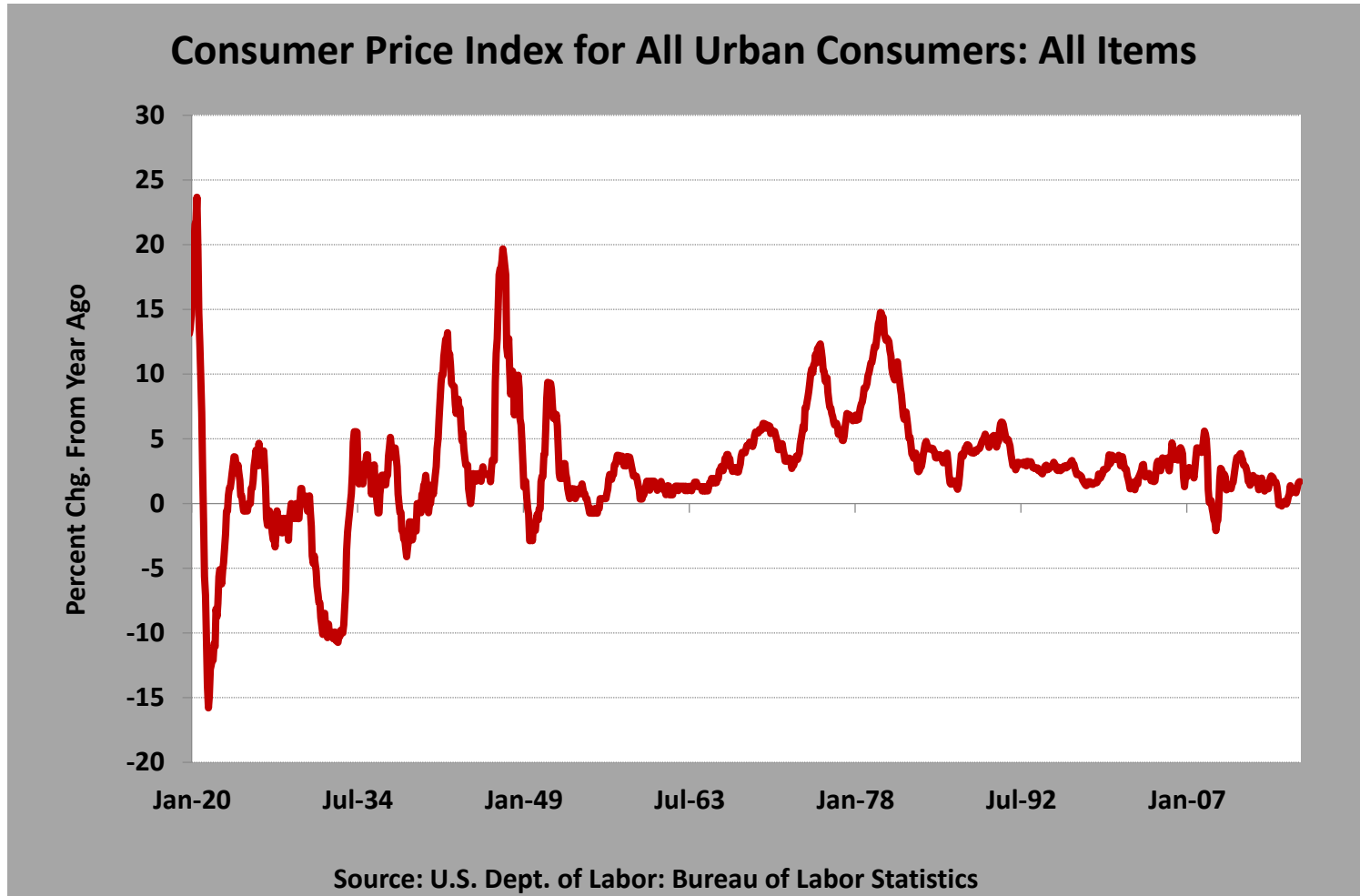


With peso at 12 to the dollar,  
building costs 12 million pesos

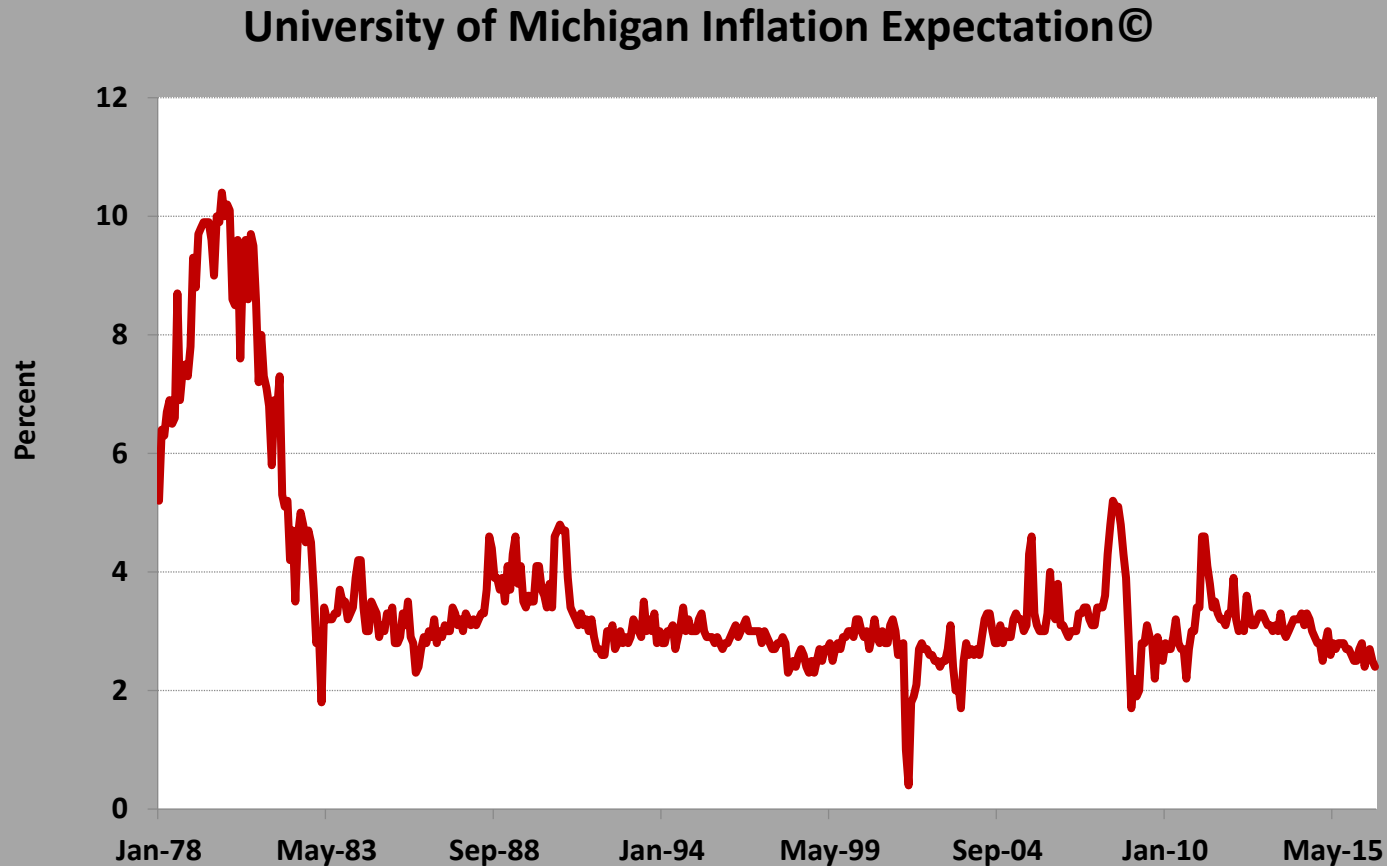
With the peso at 20 to the dollar,  
building costs 20 million pesos



# Inflation Rate



# University of Michigan Inflation Expectations Survey



Source: Thomson Reuters/University of Michigan

# CRE Continues to Shine

[MY ACCOUNT](#)[WHAT WE OFFER](#)[WHY TIAA](#)[SUPPORT](#)

## TIAA Real Estate Account QREARX

[Manage Portfolio](#)VARIABLE ANNUITY FUND [Prospectuses](#) [Fund Fact Sheet](#)

For principal risks, click on prospectus link.

Unit Value

\$382.00

AS OF CLOSE 01/13/2017

Day's Change

▲ 0.0110 (0.00%)

Portfolio Net Assets

\$24.30B

AS OF 12/31/2016

Estimated Annual Expenses ⓘ

0.89%

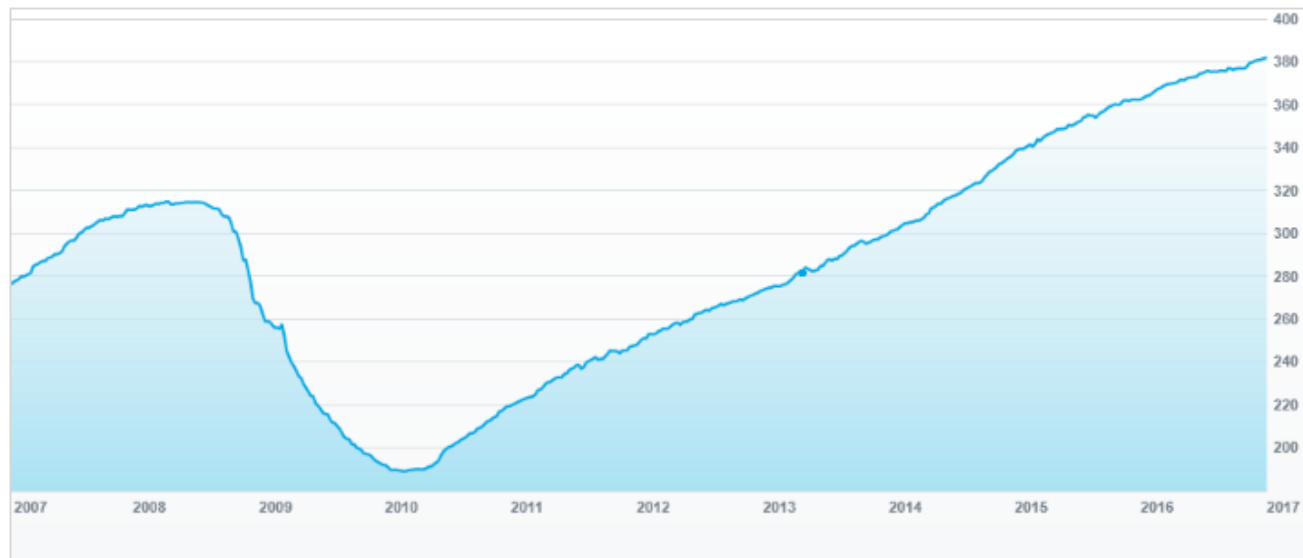
52 Week Range

\$362.2666 – \$382.0738

01/20/16 01/05/17

[Profile](#)[Performance](#)[Charting](#)[Portfolio](#)[Management Team](#)[1 Month](#)[3 Month](#)[6 Month](#)[1 Year](#)[3 Years](#)[5 Years](#)[10 Years](#)[CHART TYPE ▾](#)

Date: May 06, 2013 Close: 282.84





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## **National Outlook**

**Thomas J. Bisacchino**  
President and CEO  
NAIOP

# WELCOME

**Thomas J. Bisacchino**  
**President and CEO**  
**Herndon, VA**



# TODAY'S AGENDA

- **NAIOP Today**
- **CRE Industry Trends & Forecasts**
- **Political realities**
- **Legislative & Regulatory agenda**
- **Q & A**



# NAIOP Today

## Membership

### 2016 YEAR END NUMBERS

**18,473**  
members

**51**  
chapters

**4.11%**  
year-over-year growth

**19**  
university members

**4,189**  
new Developing Leader members

**650**  
National Forum Members



# MEMBER BUSINESSES ARE EXPANDING

➤ **NAIOP members have expanded far beyond office and industrial.**

**65 percent of members are also involved in:**

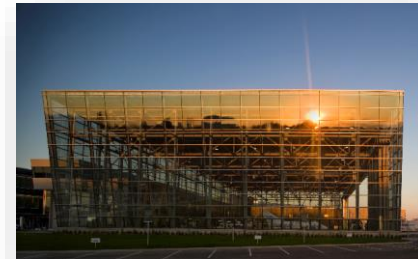
- Multifamily
- Mixed use
- Medical office
- Retail
- Senior living
- Student housing



# CRE Trends & Forecasts

- **OFFICE:** Slowing Absorption, New Supply Raise Caution as Momentum Seen Shifting from CBDs to Suburban, Second-Tier Metros.
- **INDUSTRIAL:** Despite Trade Uncertainty, E-Commerce Growth Expected to Further Boost Distribution Property Growth in 2017.
- **RETAIL:** Shopping Center Owners Brace for More Downsizing as Space Rationalization Still in Early Stages.
- **MULTIFAMILY:** While Experts Expect Apartment Market to Moderate in 2017, Don't Be Surprised if it Continues to Outperform.
- **CAPITAL MARKETS:** Borrowers Face Rising Debt Costs, Peaking Property Cycles.

- As millennials become the largest generation in the workplace, office designs and locations are rapidly changing.
- Annual net absorption reached **61.3 million sq.ft.** in 2015 – the highest level since 2006, but **declined to 39.8 million sq.ft.** in 2016.
- In 2016 **political uncertainty** impacted lease up decisions.
- Vacancy rates reached an **ten-year low**, at 12.9% in 2016 Q4.



# MARKET: INDUSTRIAL

- E-commerce build out of the “last mile” distribution chain is spurring industrial demand.
- **256.7 million sq.ft.** of positive net absorption in 2016, **4<sup>th</sup> year of 250 million+ absorption.**
- Past 4 years market absorbed over **1 billion sq. ft. of new space.**
- **179.2 million sq.ft.** of new supply added in 2016 – the strongest year since 2008.



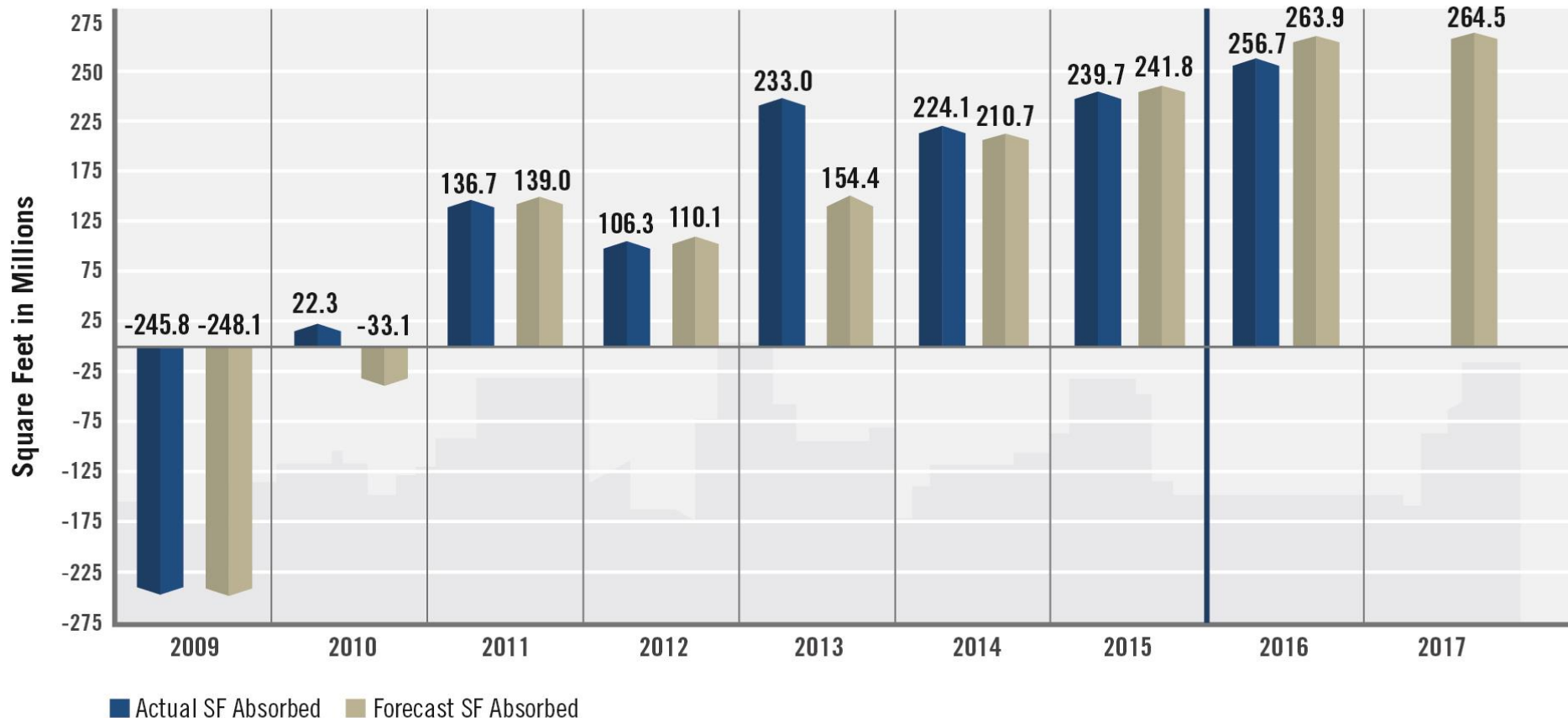
# MARKET: INDUSTRIAL

TABLE 2

## The NAIOP Industrial Space Demand Forecast U.S. Markets, Annual Net Absorption

### Actual and Forecast Square Feet

Third Quarter 2016



# TECHNOLOGY IS EVERYTHING

Technology is rapidly changing how and where we work, shop and play.

- **“The Internet of Me”** – the user is at the center of every digital experience.
- **“The Internet of Things”** – smart objects, devices and machines are online.
- **Resilience = nonstop business.** Employees want 24x7 access to processes, services, systems.



***CRE trends and issues currently being discussed  
by NAIOP members....***

- How long will the industrial property market stay “red hot?”
- Will the e-commerce juggernaut start to level out or will it continue to grow into the foreseeable future?
- How will falling oil prices impact CRE, particularly manufacturing and its return to North America?
- What’s the long term impact of suburban office vacancies falling in comparison to the CBDs.



## *CRE trends and issues currently being discussed by NAIOP members....*

- Are millennials beginning to migrate to the suburbs?
- What will be the impact of “shared office space” on office size, design, location?
- Is the next CRE downturn inevitable..... When and where will it begin, how deep will it be and how long will it last?
- As capital has shifted to 2<sup>nd</sup> and 3<sup>rd</sup> tier markets... What are the type's of projects attracting it?
- Is “big data” the next big thing for CRE?

# Political Realities

# The 2016 Elections

- One-party control of the White House, Senate and House of Representatives.
- Trump enters White House having overturned the existing political order, and beating the establishment of both Republican and Democratic parties. As a consequence, Trump enters office with an extraordinary amount of political capital.
- Six years of pent-up energy and frustration by House and Senate Republicans stymied by President Obama's threatened and actual vetoes.
- Republican leadership eager to pass ambitious agenda that will be enacted with a Republican President.
- Unclear as to political dynamics when White House and Republican leadership differ on goals (i.e. entitlement reform).

# Impact on Commercial Real Estate?

A time of extraordinary challenges and potentially great opportunities:

## Challenges:

- Tax reform legislation could inadvertently cause long-term damage to the industry and severe dislocation in real estate markets.
- Trade wars could lead to weaker economic performance.
- Increased deficits and worsening national debt could result in higher interest rates.

# Impact on Commercial Real Estate?

A time of extraordinary challenges and potentially great opportunities:

## **Opportunities:**

- Infrastructure spending lead to increased development opportunities.
- Rollback of excessive government regulation (i.e. expansion of the definition of wetlands by EPA “Waters of the U.S.” rule).

# **Legislative & Regulatory Agenda**

- Comprehensive Tax Reform
- New Infrastructure Initiatives
- Capital and Credit Issues
- Energy Legislation (Energy Efficiency Building Codes)
- Trade
- Immigration (EB-5 Legislation)

# Tax Reform Players





## Trump Tax Plan:

- In general, goals are to lower tax rates for business entities and broadening of the tax base by closing preferences.
- Will have to be reconciled with House GOP (Paul Ryan and Kevin Brady) “Blueprint” which lowers rates on corporations (20%), partnerships (25%).
- Issues we are tracking;
  - Carried interest.
  - Section 1031 like-kind exchanges.
  - Immediate expensing versus depreciation.
  - Deductibility of interest payments on business debt.

# NAIOP Goals on Tax Reform

- SPUR ECONOMIC GROWTH THAT IS FAIR TO CRE
- CAPITAL GAINS RATES LOWER THAN ORDINARY INCOME
- REALISTIC DEPRECIATION RULES
- MAINTAIN LIKE-KIND EXCHANGES
- KEEP CARRIED INTERESTS CAPITAL GAINS
- PROVIDE ADEQUATE TRANSITION RULES

- Trump plan: tax incentives that would leverage private investment, (public private partnership) eventually amounting to \$1 trillion over ten years.
- Economic advisors have implied they will rely on “repatriation of overseas profits” garnered through tax reform to fund increased infrastructure investment.
- Problems: probably limited to profit-making ventures, and would not help pay for maintenance of existing highways and infrastructure.
- Republican fiscal conservatives uneasy and could become opposition force to increased spending that is not paid for by budget cuts or other offsets.

- Additional Issues that Democrats may find controversial:
  - Increased use of public-private partnerships (P3s).
  - Greater flexibility for decision-making granted States, but more responsibility for local funding.
  - Relief from Davis-Bacon prevailing wage requirements.
- Labor shortage concerns.
- Impact -- Infrastructure initiative could slip into next year.

# Capital and Credit Issues

- During the campaign, candidate Trump criticized the financial reforms instituted under Dodd-Frank as an undue, “job-killing” burden on the banking industry;
- Promised to repeal Dodd-Frank.
- Issues affecting lending to commercial real estate will be surfaced:
  - “High Volatility Commercial Real Estate” (HVCRE) Loans.
  - Capital Requirements Imposed on Banks.
  - Risk retention issues affecting CMBS .



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# Southern Nevada's Commercial Markets: *Looking for a Sign*

## **Commercial Market Panel**

**Retail** – Brendan Keating, Logic Commercial Real Estate

**Office** – Michel Dunn, CCIM SIOR, Cushman Wakefield  
Commerce

**Industrial** – Garrett Toft, SIOR, CBRE

**Disposition/Acquisition** – Charles Moore, CBRE

**Land** – Curt Allsop, Newmark Grubb Knight Frank

**Moderator** – John Restrepo, RCG Economics LLC



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**stewart title®**



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# Southern Nevada's Commercial Markets: *Looking for a Sign*

## Thank You

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COMMERCIAL REAL ESTATE  
DEVELOPMENT ASSOCIATION

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