Committee

• Ed Coulson, Lied Institute for Real Estate Studies, UNLV
• Marcus Conklin, Lied Institute for Real Estate Studies, UNLV
• Kyle Nagy, CommCap Advisors
• John Restrepo, RCG Economics
• Rick Smith, RDS Enterprises
• Betty Campbell, Lied Institute for Real Estate Studies, UNLV
• Katrina Bruce, NAIOP Southern Nevada
Keynote Address

Dr. Mark G. Dotzour
Real Estate Economist

The Economic Outlook for Commercial Real Estate
Approaching the Redline

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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

Lending Index for the U.S.

Source: Federal Reserve Bank of St. Louis - FRED
New Jobs Created Each Month

All Employees: Total Nonfarm Payrolls

Source: Federal Reserve Bank of St. Louis - FRED
Average Hourly Earnings
Annual Rate of Change

Household Net Worth Recovering After Stock Market Rally

Source: Board of Governors of the Federal Reserve System
Consumer Confidence Index

Source: The Conference Board
Small Business Outlook

“Planning To Hire People In The Next 3 Months”

Planning to Hire People in the Next Three Months

Source: National Federation of Independent Business
Small Business Outlook

“Now Is A Good Time To Expand”

Source: National Federation of Independent Business
## Corporate Hiring Plans

Next 6 Months

<table>
<thead>
<tr>
<th></th>
<th>Q4-16</th>
<th>Q3-16</th>
<th>Q2-16</th>
<th>Q1-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>More Jobs</td>
<td>35%</td>
<td>27%</td>
<td>29%</td>
<td>29%</td>
</tr>
<tr>
<td>Less Jobs</td>
<td>30%</td>
<td>36%</td>
<td>35%</td>
<td>38%</td>
</tr>
</tbody>
</table>

Source: Business Roundtable
# Job Openings in America

Looking for Workers

<table>
<thead>
<tr>
<th>Category</th>
<th>Openings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Job Openings</td>
<td>5,534,000</td>
</tr>
<tr>
<td>Construction</td>
<td>205,000</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>322,000</td>
</tr>
<tr>
<td>Trade, Transportation, Utilities</td>
<td>1,048,000</td>
</tr>
<tr>
<td>Professional &amp; Business Services</td>
<td>926,000</td>
</tr>
<tr>
<td>Education &amp; Health Care</td>
<td>1,205,000</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>700,000</td>
</tr>
<tr>
<td>Government</td>
<td>512,000</td>
</tr>
</tbody>
</table>

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 Index: Major Currencies

Index Mar 1973=100

Source: Board of Governors of the Federal Reserve System
Margin Debt
Debit Balances at Broker/Dealers

Source: Standard and Poor's
Black Monday
October 19, 1987
Rate Hikes Prior to Black Monday October 19, 1987

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

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 31, 1988 nine more rate hikes to 8.7%
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

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

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

Consumer Price Index for All Urban Consumers: All Items

CRE Continues to Shine
National Outlook

Thomas J. Bisacquino
President and CEO
NAIOP
WELCOME

Thomas J. Bisacquino
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

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members</td>
<td>18,473</td>
</tr>
<tr>
<td>Chapters</td>
<td>51</td>
</tr>
<tr>
<td>Year-over-year Growth</td>
<td>4.11%</td>
</tr>
<tr>
<td>University Members</td>
<td>19</td>
</tr>
<tr>
<td>New Developing Leader Members</td>
<td>4,189</td>
</tr>
<tr>
<td>National Forum Members</td>
<td>650</td>
</tr>
</tbody>
</table>
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
2017 CRE Outlook

- **OFFICE**: Slowing Absorption, New Supply Raise Caution as Momentum Seen Shifting from CBDs to Suburban, Second-Tier Metros.


- **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, **4th 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.
TABLE 2
The NAIOP Industrial Space Demand Forecast
U.S. Markets, Annual Net Absorption

Actual and Forecast Square Feet

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual SF Absorbed</th>
<th>Forecast SF Absorbed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>-245.8</td>
<td>-248.1</td>
</tr>
<tr>
<td>2010</td>
<td>22.3</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>136.7</td>
<td>139.0</td>
</tr>
<tr>
<td>2012</td>
<td>106.3</td>
<td>110.1</td>
</tr>
<tr>
<td>2013</td>
<td>233.0</td>
<td>154.4</td>
</tr>
<tr>
<td>2014</td>
<td>224.1</td>
<td>210.7</td>
</tr>
<tr>
<td>2015</td>
<td>239.7</td>
<td>241.8</td>
</tr>
<tr>
<td>2016</td>
<td>256.7</td>
<td>263.9</td>
</tr>
<tr>
<td>2017</td>
<td>264.5</td>
<td></td>
</tr>
</tbody>
</table>

Third Quarter 2016
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 2nd and 3rd 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
NAIOP’s Focus for 2017

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

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
Infrastructure

• 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.
Infrastructure

• 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.
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.
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
Southern Nevada's Commercial Markets: Looking for a Sign

BANK of NEVADA

CBRE

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