Tom McNearney, Transwestern Chief Investment Officer, examines economic data, news reports and industry trends to determine the near- and long-term impact on commercial real estate investment and development.

ECONOMIC SNAPSHOT

The economy has marched forward despite devastating fires in California’s wine country and three major hurricanes. While there has been a general inflation in asset prices of all kinds, the markets do not appear to be suffering from the irrational exuberance that has characterized the end of other expansions. In fact, investors are exhibiting worry, uncertainty and caution. As we approach full employment, it isn’t surprising to see job growth start to slow, even with a record 6.2 million job openings.

Thanks to this slow and steady expansion, October marked the nation’s 85th month of positive job formation, an unprecedented streak that spans more than seven years. The October initial jobs report surged to 261,000 new positions and revised the negative estimates for the previous month into positive territory, with 44,000 jobs filled in September despite setbacks in the wake of catastrophic hurricanes. Unemployment dropped to 4.1%, a level which, under traditional economic models, would trigger predictions of greater wage inflation than we are seeing today. Business investment, factory output, consumer and business sentiment, and corporate profits are nearing all-time highs, suggesting this expansion has runway beyond the holiday season.

20 FAST FACTS

1. The House Ways and Means Committee sent a bipartisan letter to Treasury Secretary Steven Mnuchin requesting withdrawal of an IRS provision that subjects a liquidating REIT to the Foreign Investment in Real Property Tax Act (FIRPTA). Thirty-two of 37 committee members signed the request, including 22 Republicans and 10 Democrats.

2. The National Retail Federation predicted that 2017 holiday retail sales would exceed 2016’s increase by 3.6% to 4%, outpacing the five-year average increase of 3.5% annual growth.

3. Transwestern’s national Broker Sentiment Survey concluded that the U.S. office and industrial markets will continue to perform well in 2018. Visit twurls.com/2018survey for the full report.

OFFICE INVESTMENT SALES INDICATORS

2018 OUTLOOK | TRANSWESTERN BROKER SENTIMENT

J O B C R E A T I O N

2009 – 2017

- 12 MONTH PERCENT CHANGE

- JOBS CREATED THROUGH OCTOBER EACH YEAR (MILLIONS)

- 2016

- 2017

Source: Labor Department, The Wall Street Journal

Today, 44% of Americans live within 20 miles of an Amazon warehouse, vs. 5% in 2015.

Gilead Sciences received FDA approval for chimeric antigen receptor T cell or CAR T personalized gene therapy to treat lymphoma.

The European Central Bank will begin dialing back stimulus in January 2018 to purchase €30B ($35B) of bonds monthly through the third quarter of 2018, down from €60B per month.
The Bank of England raised its benchmark interest rate from 0.25% to 0.50%, its first increase in 10 years.

S&P followed the lead of Moody’s and Fitch by downgrading China from AA- to A- due to continued loan growth increasing economic risks.

Target commercial real estate allocations in institutional portfolios average 10.1%, up 20 basis points from 2016 and up 120 basis points from 2013, according to the Hodes & Weill Allocations Monitor.

New issue CMBS AAA 10-year spreads over swaps have dropped to 75 basis points.

Debt funds have raised $127B since 2008, vs. $36.3B from 2000 to 2008, trying to fill the void left by traditional bank lenders.

Ford is targeting aggressive cost cutting to help fund development of electric and autonomous vehicles.

Visit twurls.com/avreport for Transwestern’s report on autonomous vehicles and real estate.

Self-storage will experience the largest negative impacts from autonomous vehicle technology due to excess residential garage space, Green Street Advisors predicts.

Three-fourths of households surveyed in August believe renting is cheaper than owning, up from 65% a year ago.

The Low-Income Housing Tax Credit program, which includes more than 22,000 units of affordable housing, reported 97.8% median physical occupancy; a 1.35 debt coverage ratio; net annual cash flow of more than $600 per unit; and a cumulative foreclosure rate of 0.71%.

Residential agrihoods, short for “agricultural neighborhoods,” are cropping up around the nation, aimed at farm-to-table-loving millennials.

Childbirth numbers, at 62 per 1,000 women in 2016, were the lowest on record. Teenage childbirth numbers were down to 20.3 per thousand women ages 16 to 19, a great improvement from nearly 50 per thousand in 2000.

Homeownership climbed to 63.9% in the third quarter, up from 63.7% in the second quarter and 63.5% a year earlier.

Cities submitting proposals to Amazon for HQ2 totaled 238. Using Amazon’s criteria, Anderson Economic Group identified the top five as New York, Chicago, Los Angeles, Boston and Atlanta.

Business investment increased 3.9% in the third quarter despite hurricanes.