

20 FAST FACTS FOR THE BIG PICTURE

the BRIEFING

SEPTEMBER 2018

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

U.S. economic fundamentals have strengthened despite trade fears, more than a half-dozen interest rate hikes and an early end to synchronized global growth. The combined stimulus of repatriated corporate cash and \$1.5T from recent tax changes is driving job creation, higher wages, more hours worked and increased disposable income for many Americans, particularly after tax.

Record household wealth of \$101T is almost seven times disposable income and spending lifted July retail sales 6.4% from a year ago. Factory output rose 2.8% year-over-year in July and corporate profits surged 16.1% for the same period; banks reported record profit of \$60.2B in the second quarter.

With weekly jobless claims near a 49-year low and 3.9% unemployment, job openings reached a record 6.94M in July, outnumbering job seekers by 650,000. The Bureau of Labor Statistics expects the workforce to grow only 0.6 percent annually through 2026, and many economists deem labor the No. 1 concern in sustaining economic growth.

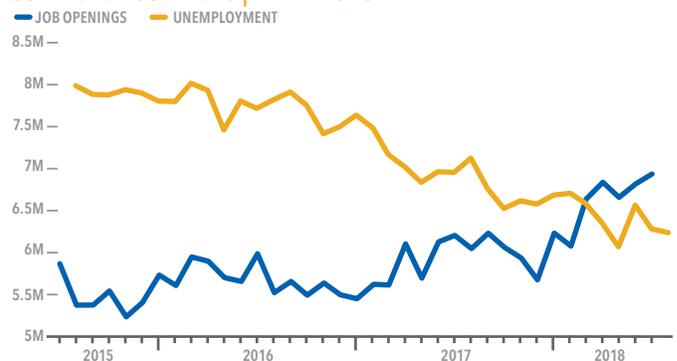
Commercial real estate fundamentals remain reasonably positive with construction across most metros balanced with absorption. Transwestern credits job growth for largely propelling the national office market's 18.8M square feet of absorption and a 3.4% rent increase in the second quarter. In the industrial sector, brisk absorption is keeping vacancy low, with an uptick in consumer spending fueling demand and record-high ocean freight volumes entering U.S. ports. Debt and equity markets remain strong and continue to favor sellers.

20 FAST FACTS

- 1 Private equity firms have more than \$249B of dry powder, underscoring continued health in the commercial real estate capital markets.
- 2 Barring emerging market, trade or economic meltdowns, September and December rate hikes by the Federal Reserve appear certain. Once rates are in the Fed's neutral zone of 2.75% to 3.00%, subsequent rate actions will be more data-dependent.
- 3 The European Central Bank expects to wind down its \$2.9B bond-buying program by year end but hold its benchmark rate at -0.4% through summer 2019; Bank of Japan plans to continue its 0.0% 10-year yield target indefinitely.
- 4 About 17M of Generation Z's 67M members are adults entering the workforce.
- 5 Annualized GDP growth jumped to 4.2% in the second quarter, almost double the 2.2% pace set in the first three months of the year.
- 6 Despite growing revenues, WeWork is not yet profitable. Moody's announced it will discontinue rating WeWork's debt because it lacks information to gauge its creditworthiness.

JOBS OUTNUMBER JOBSEEKERS

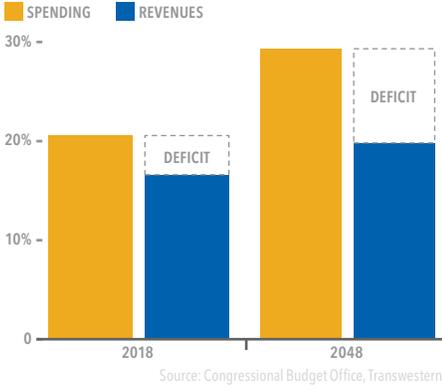
JULY 2015 – JULY 2018 | IN MILLIONS



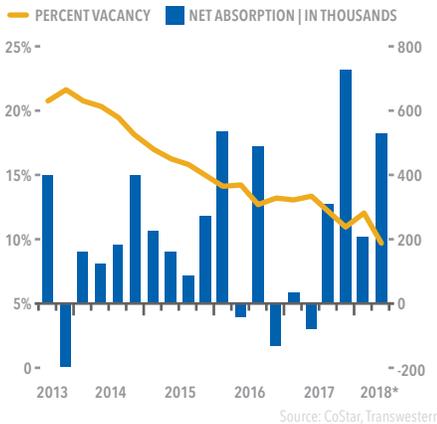
Source: U.S. Department of the Treasury, Transwestern

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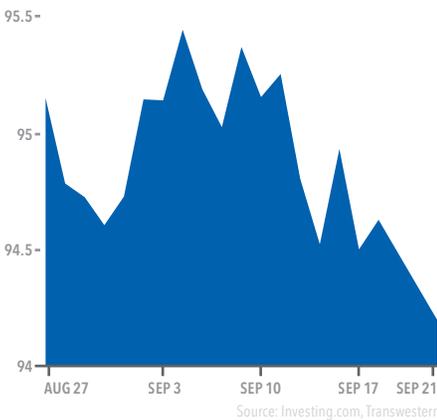
FEDERAL BUDGET EXTENDED BASELINE PERCENTAGE OF GROSS DOMESTIC PRODUCT



NET ABSORPTION & VACANCY SAN FRANCISCO BAY AREA BIOTECH



U.S. DOLLAR INDEX AUG 27, 2018 - SEPT 21, 2018



- 7** Retail sales rose nationwide in the second quarter; Target reported existing store sales rose 6.5% and Macy's enjoyed a 1.2% sales gain.
- 8** Transwestern expects demand for medical office space to outstrip available inventory in several markets by year-end 2019, driving some providers to alternatives such as converted retail or conventional office properties. Read more here: twurls.com/med-office
- 9** Amid discussions concerning several U.S. trade agreements, the trade deficit increased to \$337.9B for the first seven months of the year, up \$22B from a year earlier and the highest level in a decade.
- 10** The typical home price has increased 48% from the cyclical low six years ago while the average wage has risen 14%, according to the S&P CoreLogic Case Shiller Home Price Indices.
- 11** The budget deficit widened 24.8% to \$895B in the first 11 months of fiscal 2018 with a 7% increase in outlays and a 1% revenue gain, largely due to tax reforms, which requires an estimated 63% increase over second-half 2017 borrowing by the U.S. Treasury to service the deficit.
- 12** The St. Louis Fed found 60% of jobs in its district could face automation in the next 20 years.
- 13** Auto sales dropped 3.7% in July after a near-record pace in the first six months of the year. Proposed Trump tariffs could add \$6,000 to some car prices, dragging down sales and profits.
- 14** Blackstone continues to dominate the non-traded REIT sector, raising \$772M in the second quarter or 66% of the \$1.17B the sector raised.
- 15** Invesco Real Estate gave KKR a \$500M credit facility for up to 75% loan-to-value on acquisitions of core-plus and value-add apartments and industrial properties, *Commercial Mortgage Alert* reported.
- 16** The Inception Cos. is launching Inception REIT, the first cannabis REIT sponsored by a major investment firm, providing real estate debt and equity capital to medicinal and adult-use cannabis businesses.
- 17** The number of visas issued to allow permanent migration to the U.S. is on pace to drop 12% in the first two years of the Trump presidency (through Sept. 30), the *Washington Post* found.
- 18** In July, the U.S. hotel market posted its 101st consecutive month of year-over-year growth in revenue per available room.
- 19** The currencies of Turkey and Argentina have fallen 50% against the dollar this year and Turkey has raised its interest rate to 24%.
- 20** The Dow Jones Transportation Average is up 8.5% in 2018 and climbed to its 11th record close of the year in September; Dow theory says transportation stocks are a barometer for the economy.