



2020 REALTORS®
LEGISLATIVE MEETINGS

HOME FRONT

FIGHTING FOR THE
FUTURE OF REAL ESTATE

COMMERCIAL ECONOMIC ISSUES AND TRENDS FORUM

May 8, 2020 | 1 - 2 PM Central Time



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 NATIONAL
ASSOCIATION OF
REALTORS®



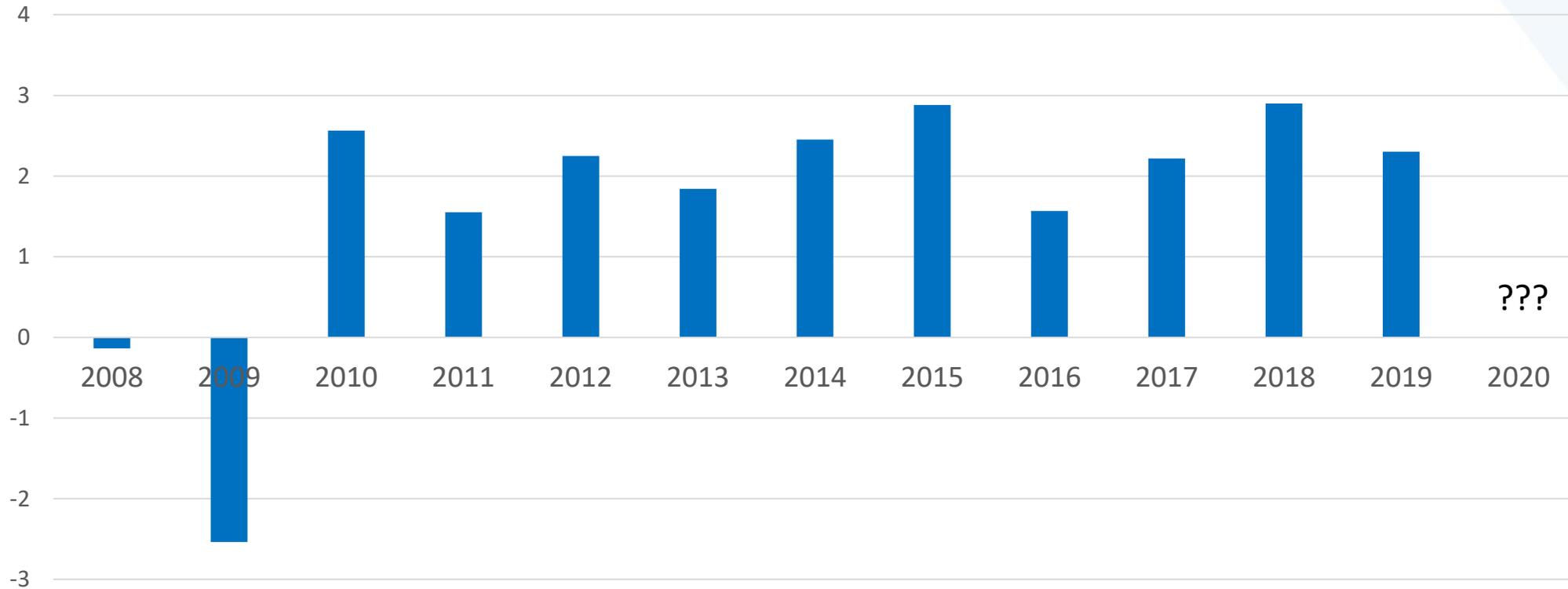
COMMERCIAL ECONOMIC ISSUES AND TRENDS FORUM
May 8, 2020 | 1- 2 PM Central Time

1:00 – 1:05 PM | 2020 Forum Chair Mike Vachani, MBA
Opening Remarks

1:05-1:40 PM | Lawrence Yun, PhD
Economic Outlook and Impact of Social Distancing on
Commercial Real Estate

1:40-2:00 PM | 2020 Forum Chair Mike Vachani
Q & A

GDP Collapse in 2020 after a decade of growth

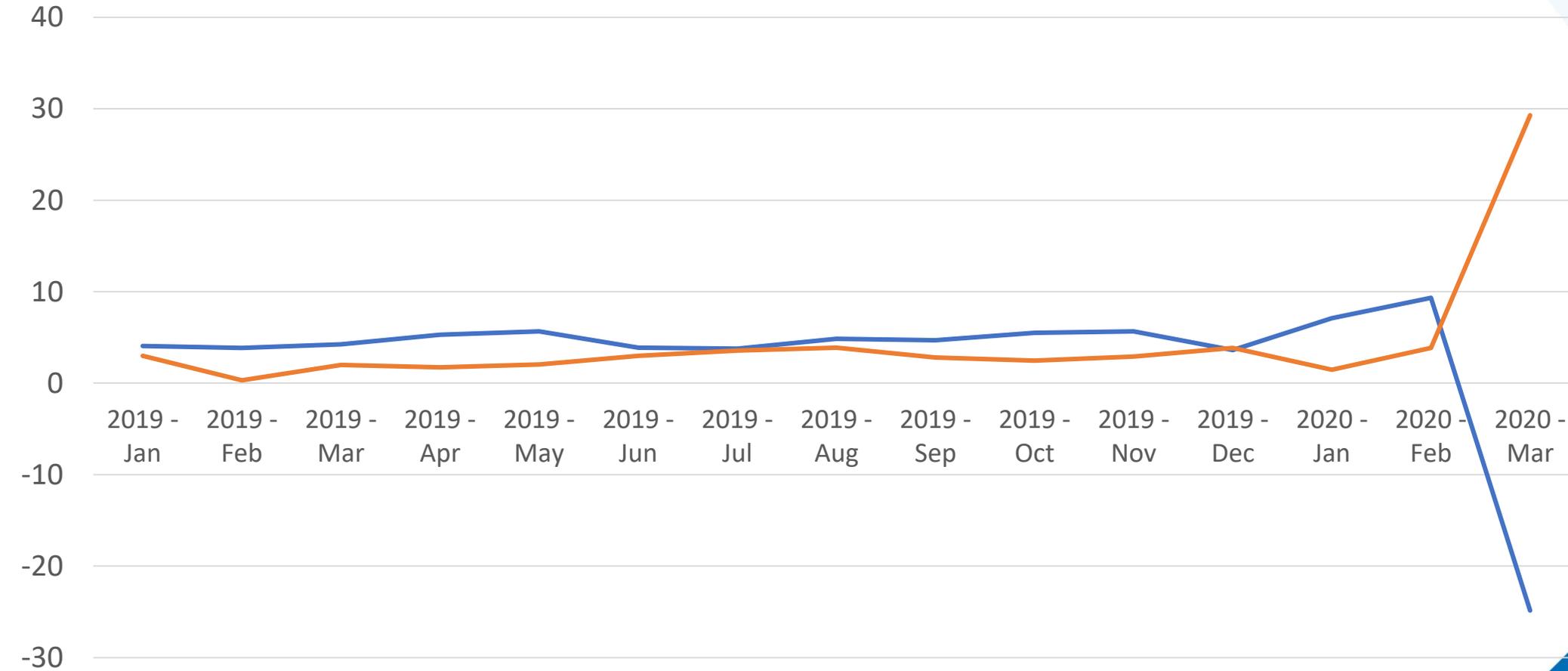


GDP Details in 2020 Q1

2020 Q1	% change annualized rate
GDP	-4.8%
Consumer Spending	-8%
Business Spending	-9%
Residential Investment (Home building, home sales, remodeling)	+21%
Commercial Structure Completion	-7%
Federal and State Government Spending on Investment	Modestly Positive
Personal Income	+2%
Personal Savings	+152%

Spending Growth at Grocery Shops versus Restaurants

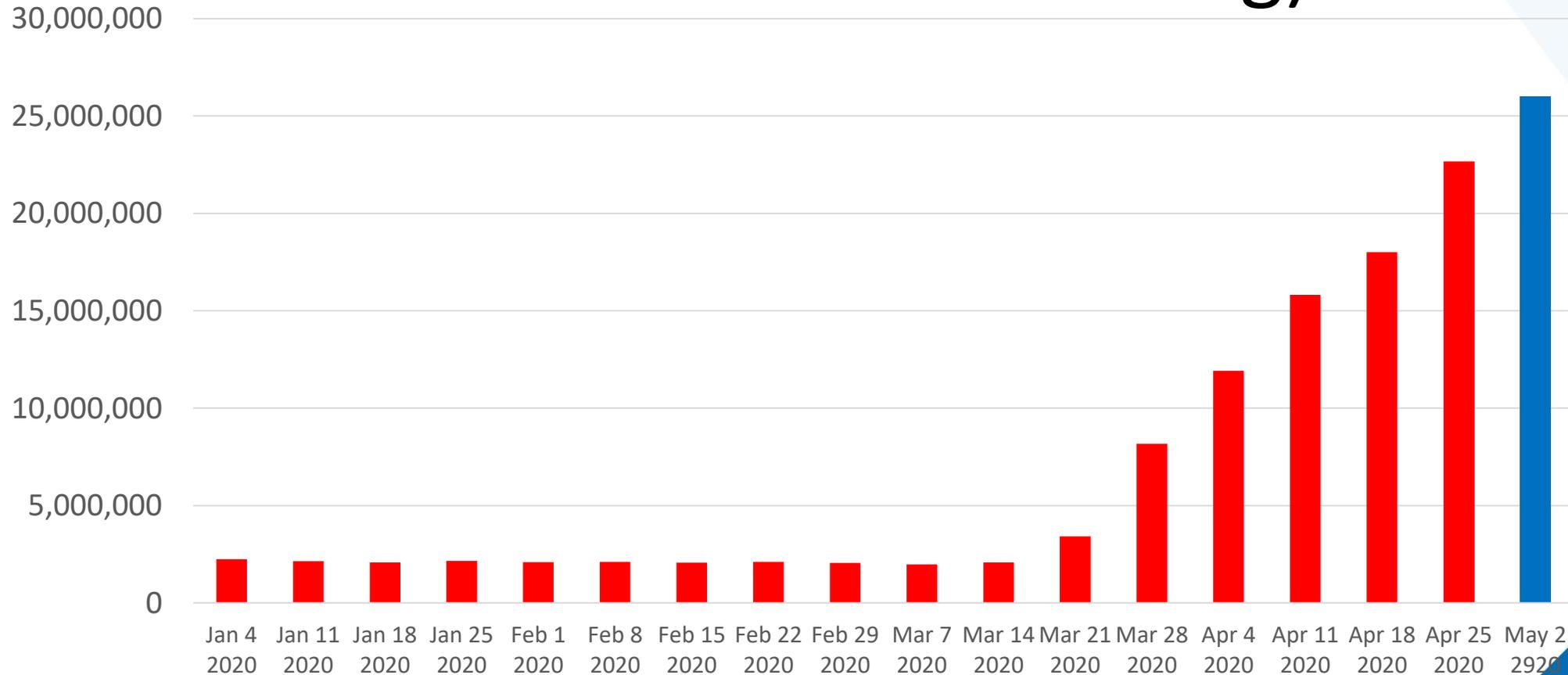
% change from one year ago



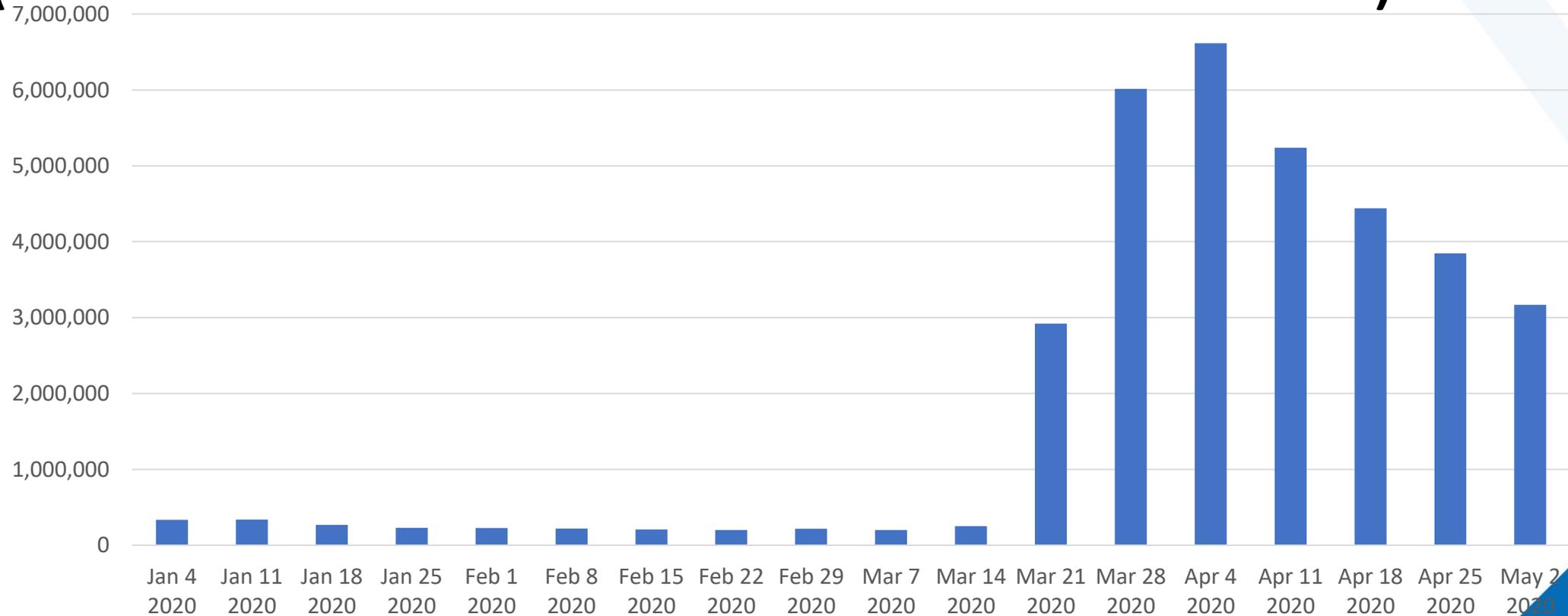
Consumer Retail Spending

	% change from one year ago to March
Building Material and Gardening	+10.4%
Clothing Stores	-52.5%
Sporting and Hobby Stores	-23.8%
Department Stores	-24.5%
Non-Store Purchase	+15.5%

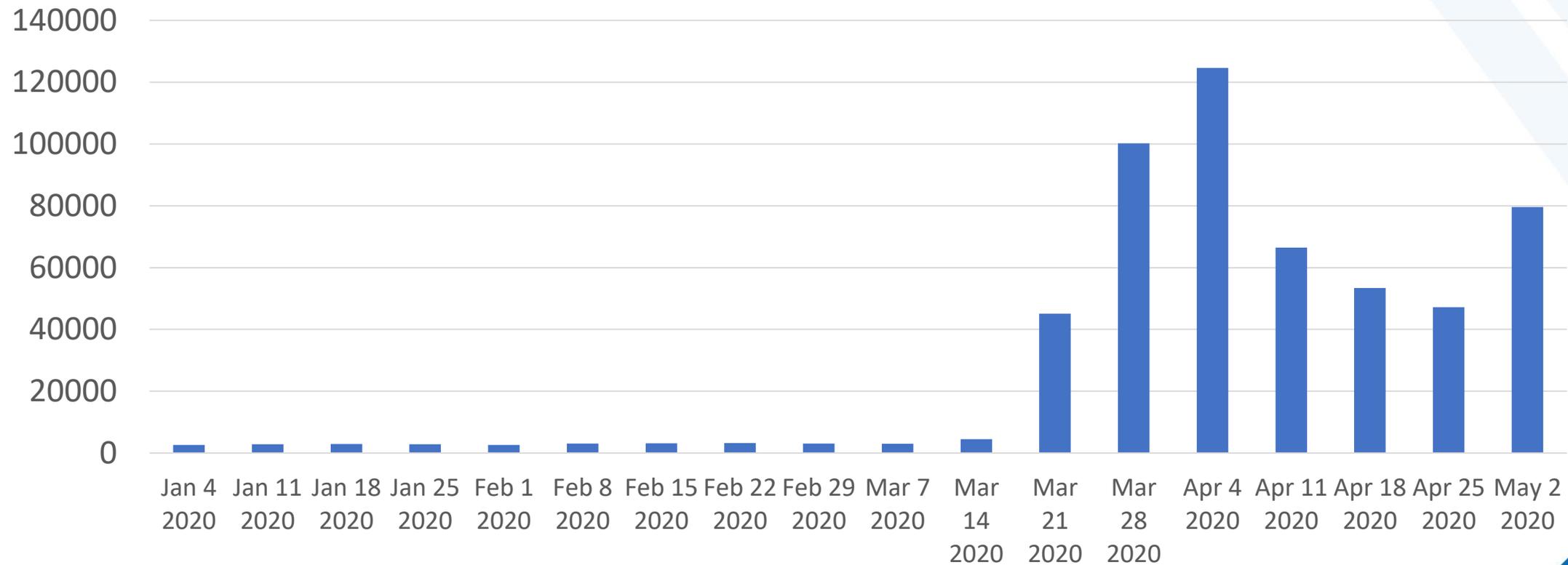
Total Cases: Unemployment Insurance Filers (26 million estimated due to data lag)



New Cases: Unemployment Insurance Filers: (33 million cumulative since Lockdown)



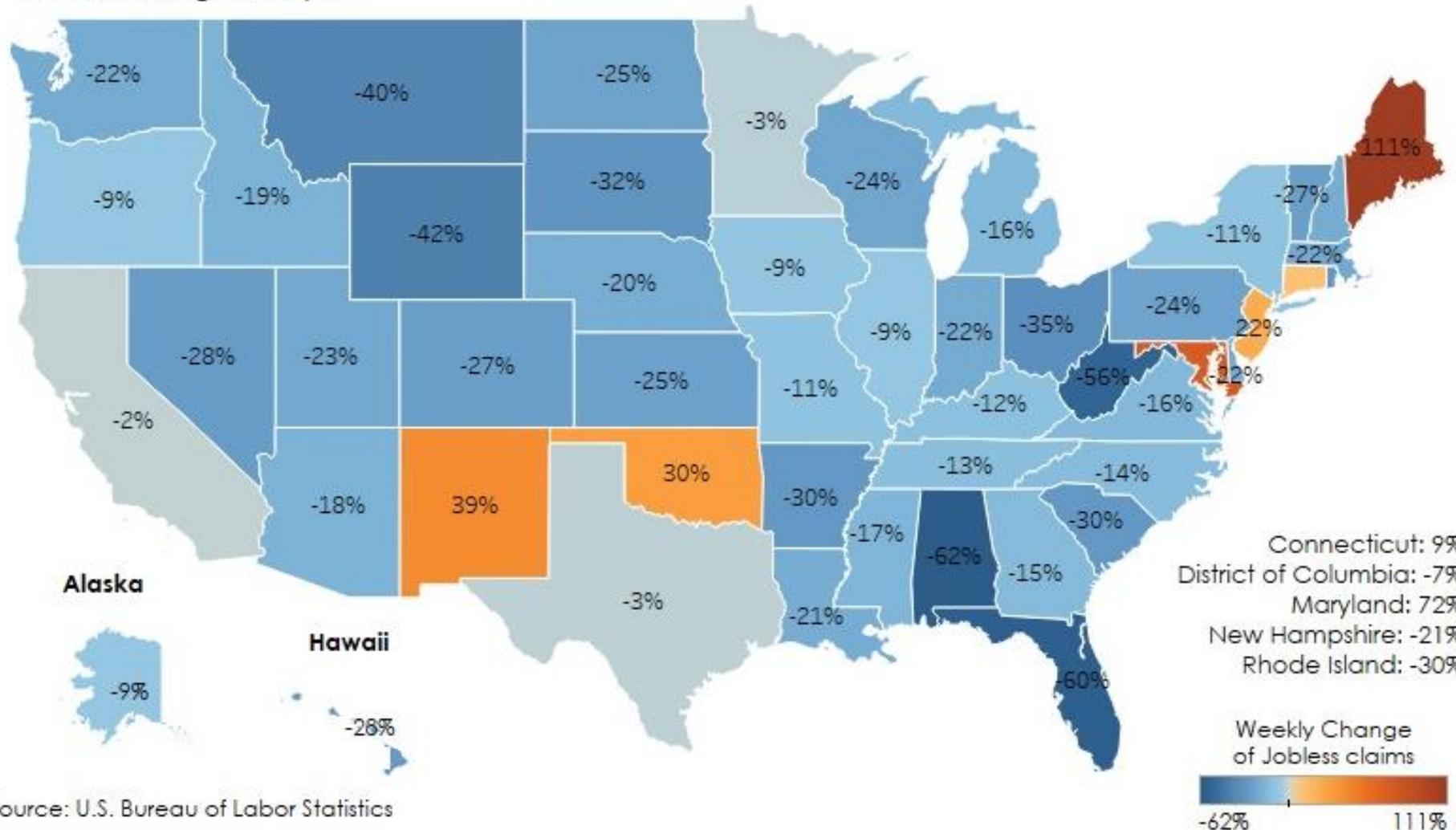
Maryland: New Cases Increased because of New Website for Independent Contractors



However, claims filed has fallen in the past two weeks, indicating furloughed/unemployed are getting back to work

Weekly Change of Jobless Claims

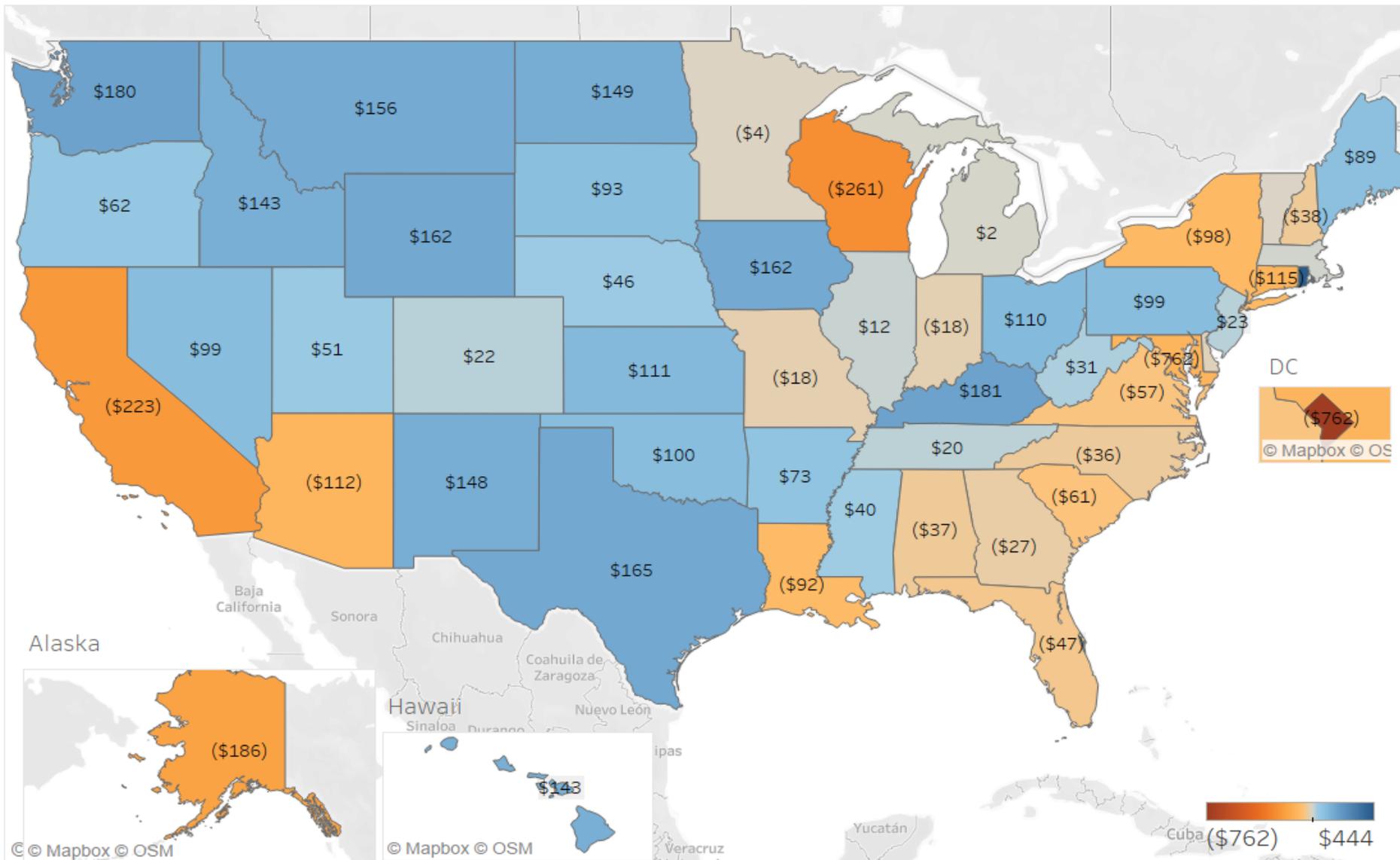
Week ending in May 2



Source: U.S. Bureau of Labor Statistics

Unemployment insurance benefits don't fully replace wages in some states

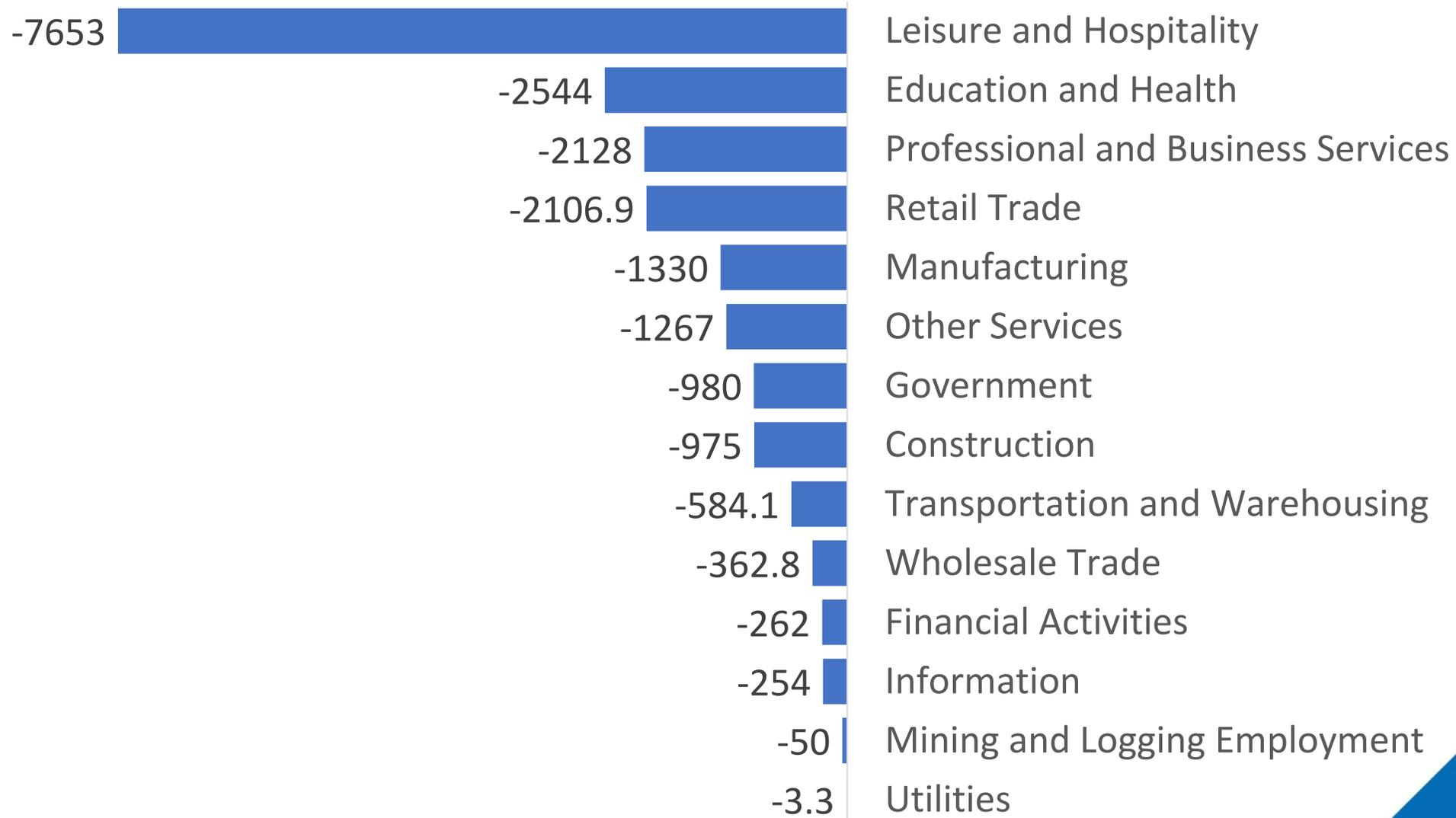
Wage Gap: State Unemployment Insurance +\$600 -Average Weekly Wage
(Orange areas: UI less than wages)



DC	(\$762)
WI	(\$261)
CA	(\$223)
AK	(\$186)
CT	(\$115)
MD	(\$115)
AZ	(\$112)
NY	(\$98)
LA	(\$92)
SC	(\$61)
VA	(\$57)
FL	(\$47)
NH	(\$38)
AL	(\$37)
NC	(\$36)
GA	(\$27)
MO	(\$18)
IN	(\$18)
DE	(\$11)
MN	(\$4)
VT	(\$2)
MI	(\$2)
MA	(\$6)
IL	(\$12)
TN	(\$20)
CO	(\$22)
NJ	(\$23)
WV	(\$31)
MS	(\$40)
NE	(\$46)
US	(\$47)
UT	(\$51)
OR	(\$62)
AR	(\$73)
ME	(\$89)
SD	(\$93)
PA	(\$99)
NV	(\$99)
OK	(\$100)
OH	(\$110)
KS	(\$111)
ID	(\$143)
HI	(\$143)
NM	(\$148)
ND	(\$149)
MT	(\$156)
IA	(\$162)
WY	(\$162)
TX	(\$165)
WA	(\$180)
KY	(\$181)
RI	(\$444)

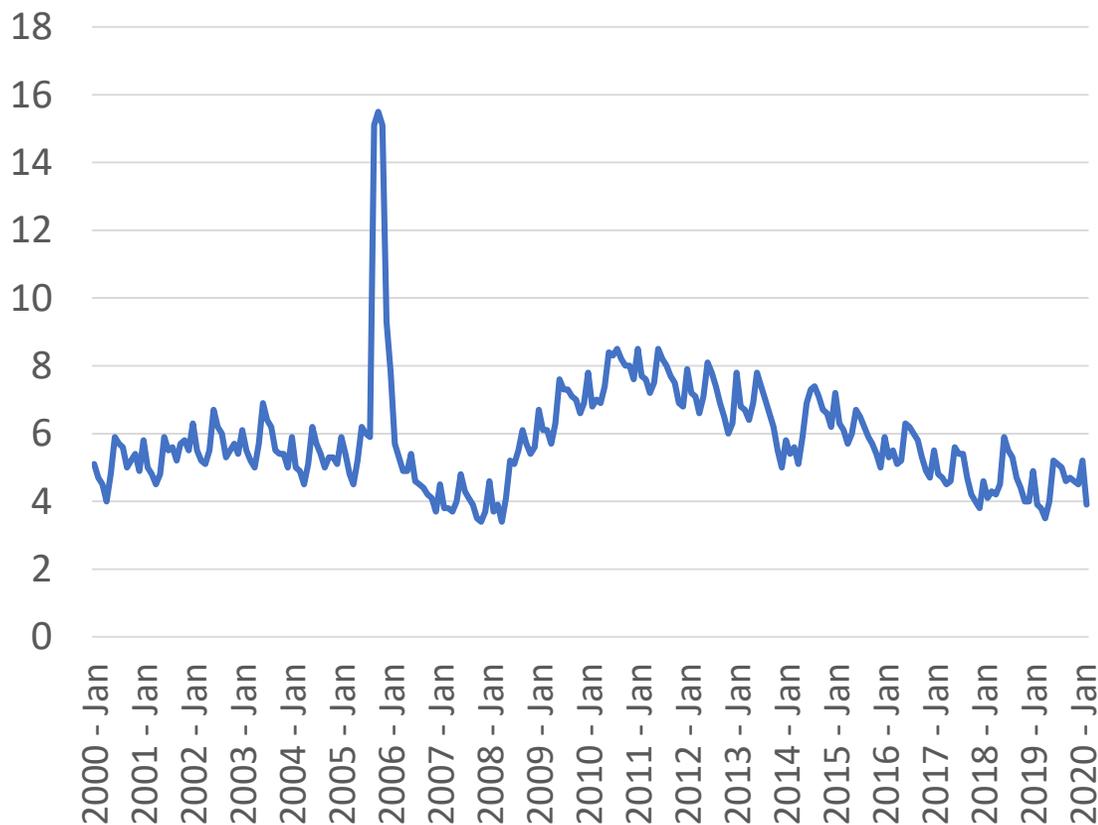
20.5 M jobs lost in April 2020; one in three jobs lost were in leisure/hospitality

Nonfarm Payroll Jobs Lost in April 2020 ('000)

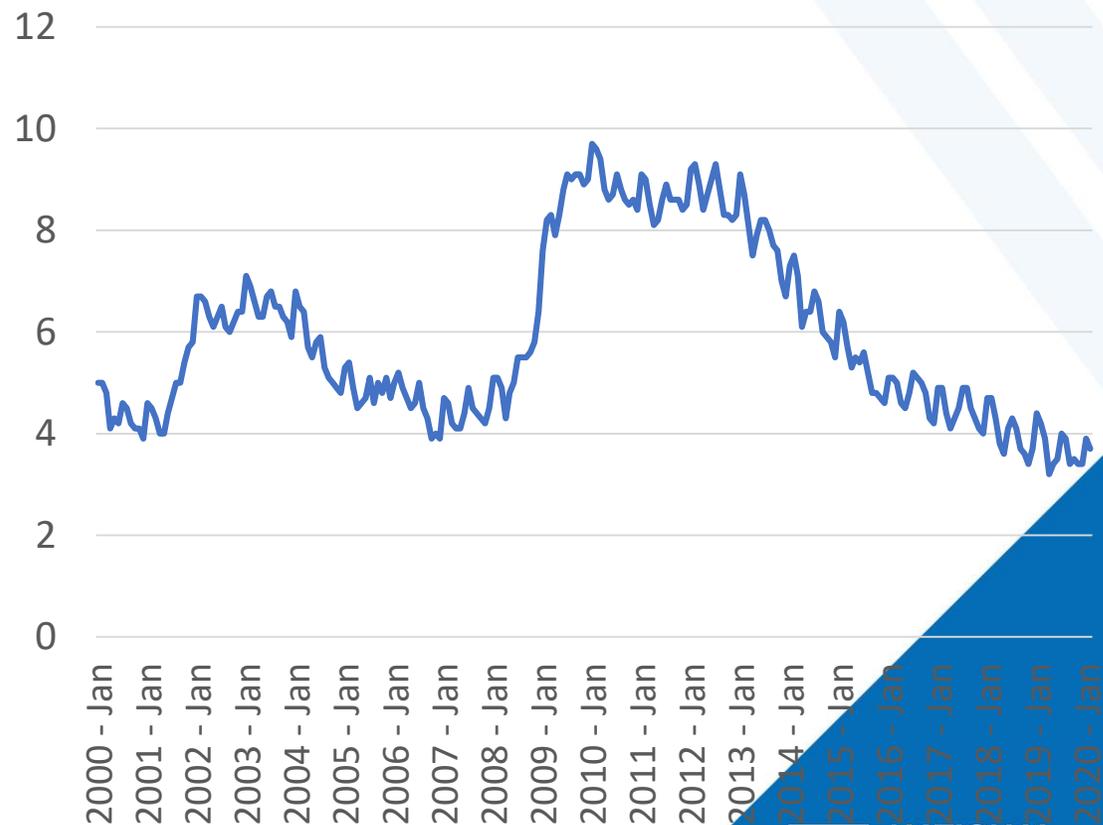


Local Disaster Events: Katrina and 9-11 Unemployment Rates

New Orleans



NYC Metro



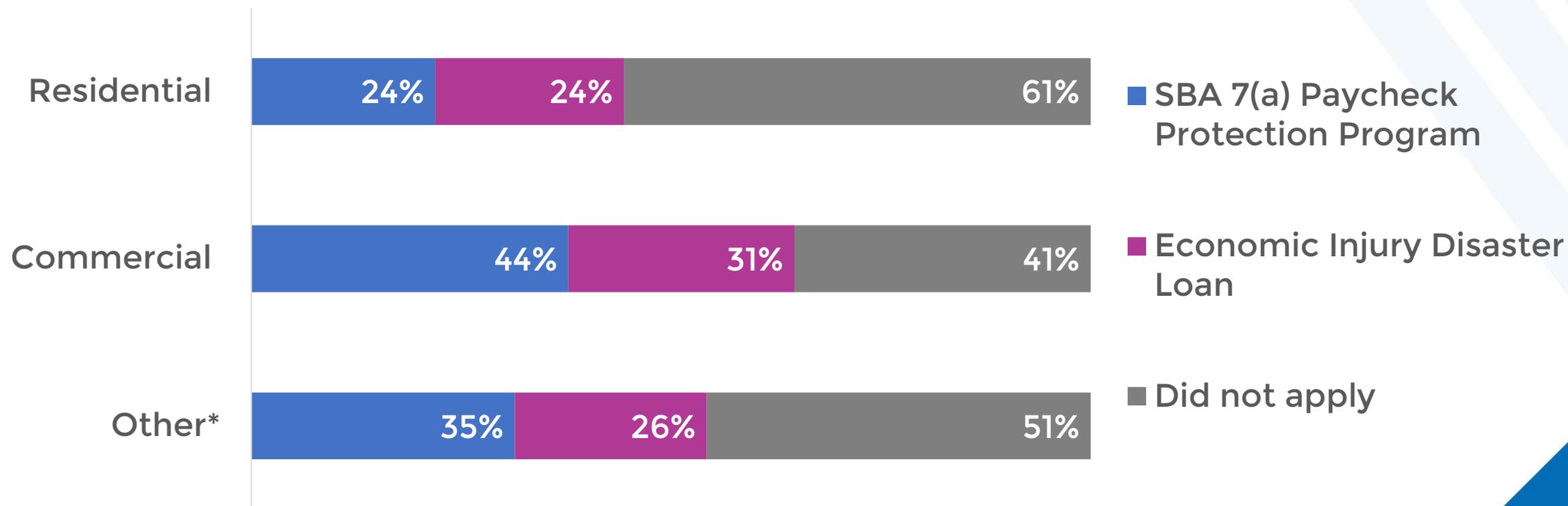
All-out monetary and fiscal policy to mitigate coronavirus impact

- \$2.2 trillion CARES Act Package and supplemental \$484 billion to assist furloughed or laid off workers through the **Pandemic Unemployment Assistance** program; provide forgivable loans under the **Payment Protection Plan** to small businesses if they retain employees; provide financial assistance through the **Economic Injury Disaster Loan** program
- **Mortgage forbearance** on federally backed loans (67% of residential mortgages and 47% of multifamily mortgages)
- Federal Open Market Committee reduced **federal funds rate to 0% to 0.25%** on March 15
- Federal Reserve Bank **reduced the discount window rates** by 150 basis points to 0.25% (rates it charges to lend to banks)

Source: NAR 2020 CARES Act Small Business Loans Survey

CARES Act PPP/EIDL small business loans to mitigate coronavirus impact

59% of commercial members have availed of SBA loans

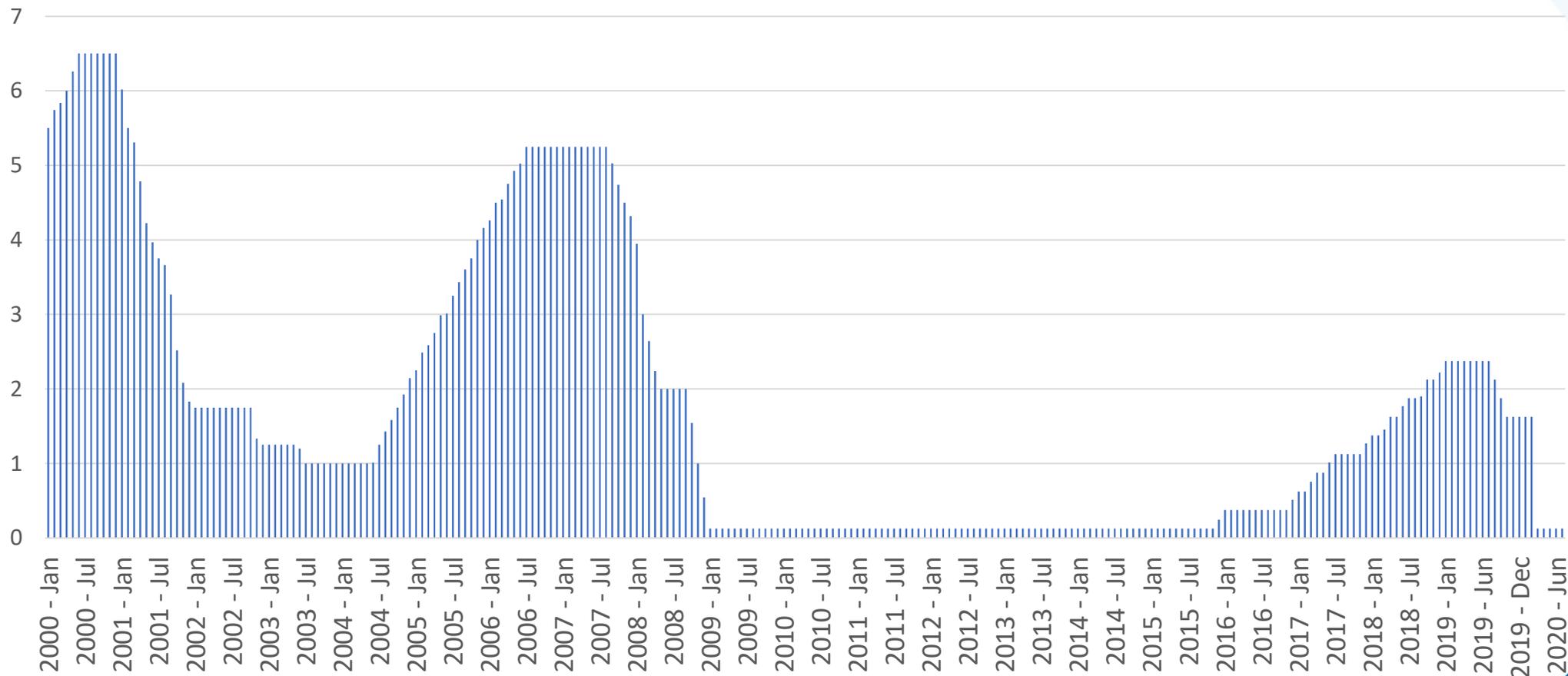


*Multiple responses allowed so percentages won't sum up to 100 percent. "Other" includes brokers/owners without sales activity, appraisers, property managers, consultants, developers.

Source: NAR 2020 CARES Act Small Business Loans Survey

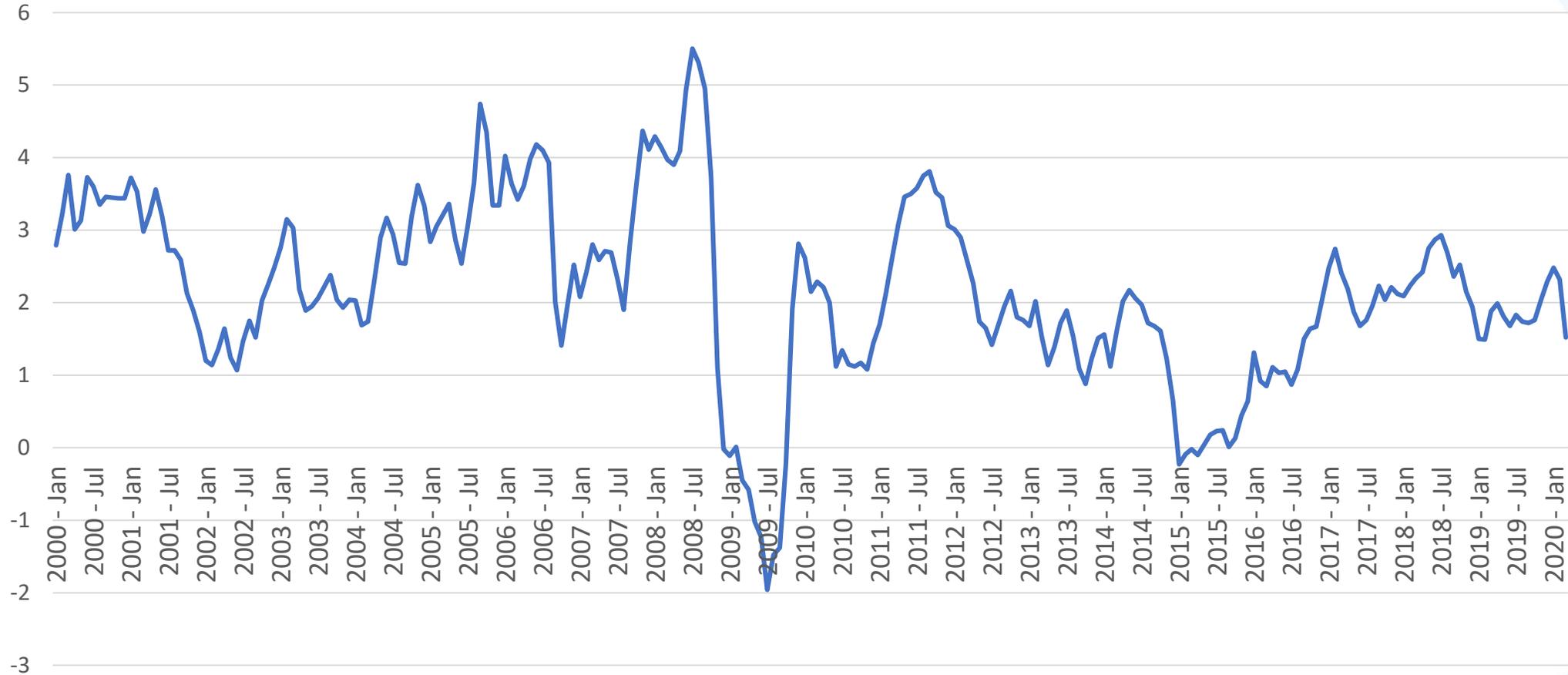
Federal Reserve All-In Quantitative Easing including buying Corporate Debts

Fed Funds Rate

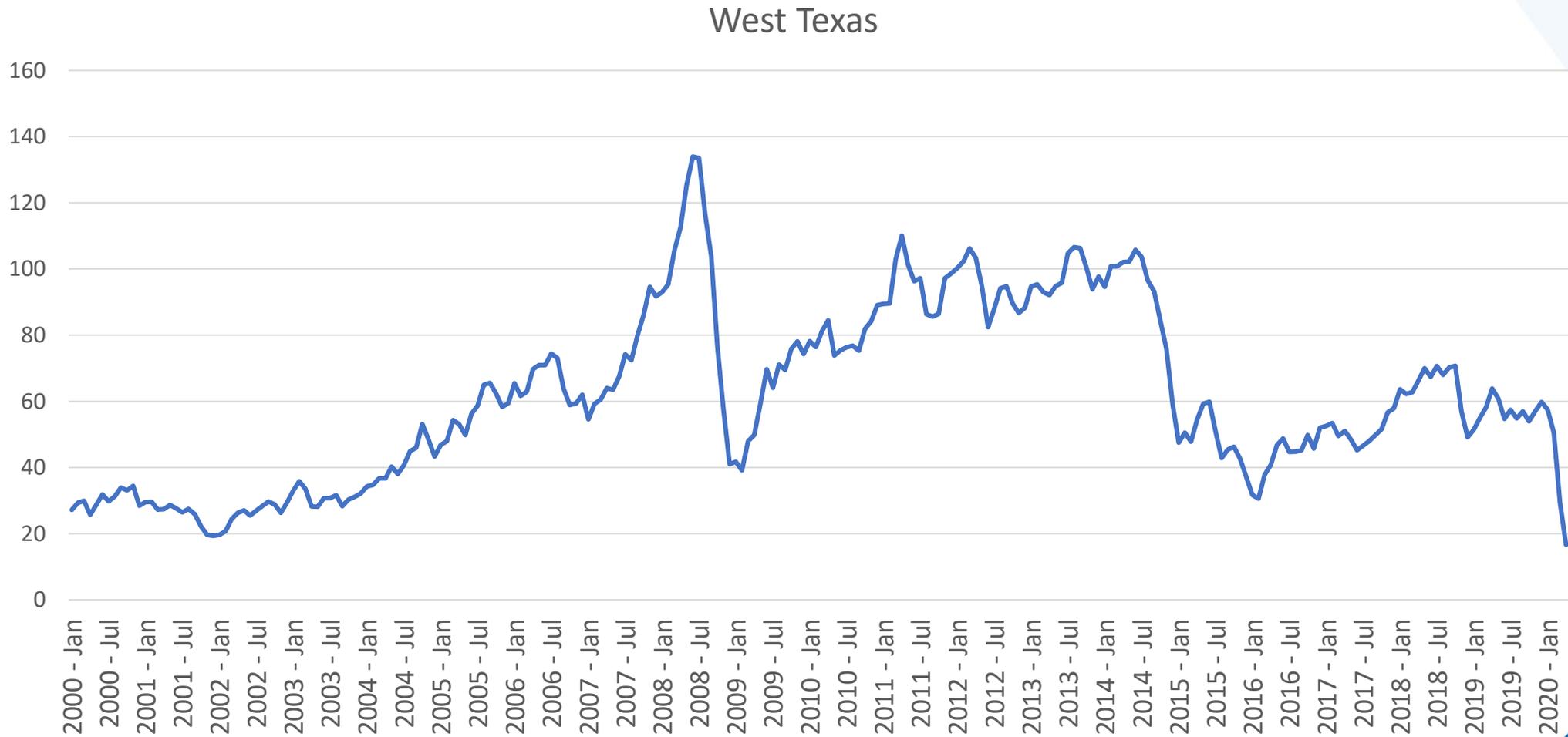


No Inflation ... No Worries for Now

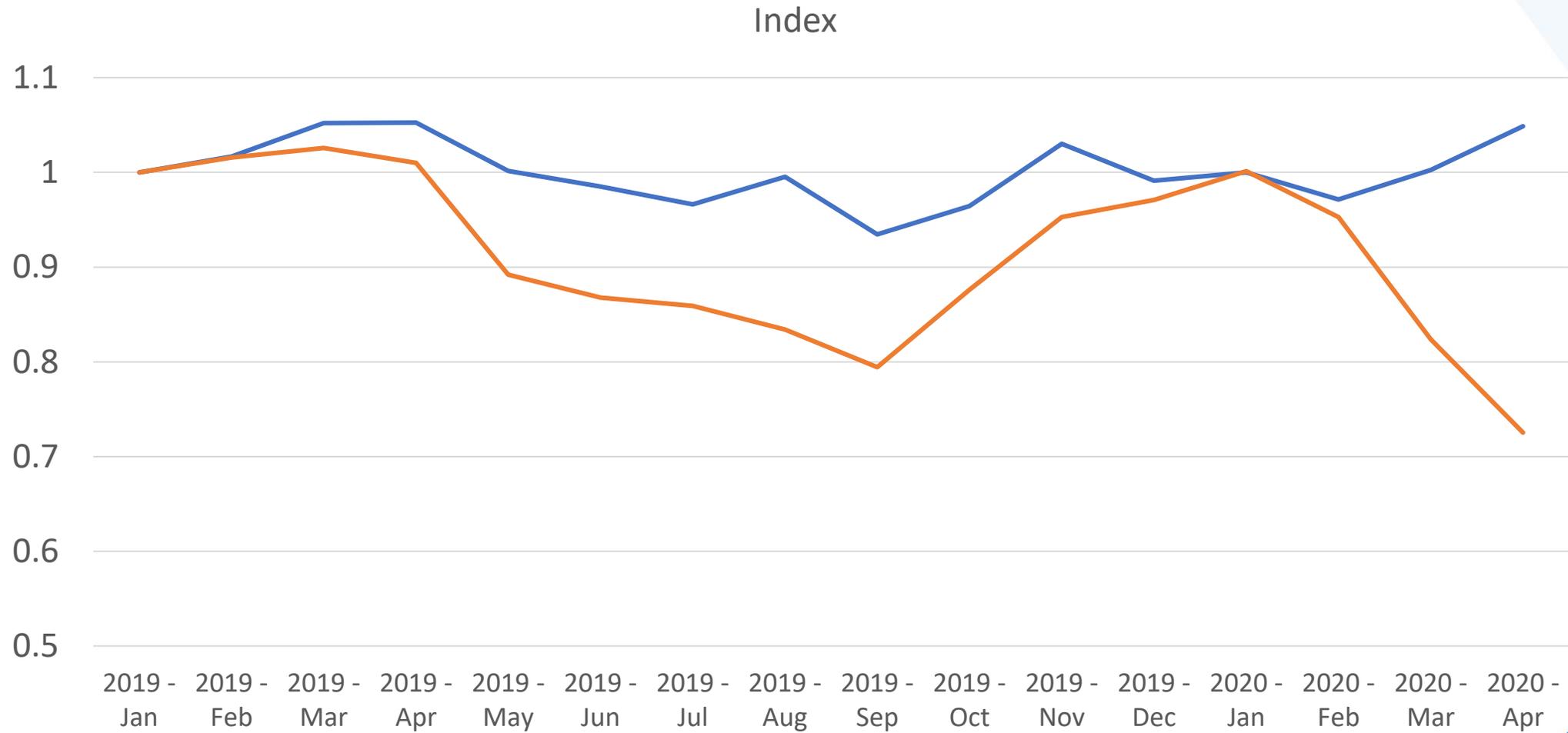
CPI Inflation



Oil Price Collapse ... Global Economic Collapse ... Russia and Saudi Oil War

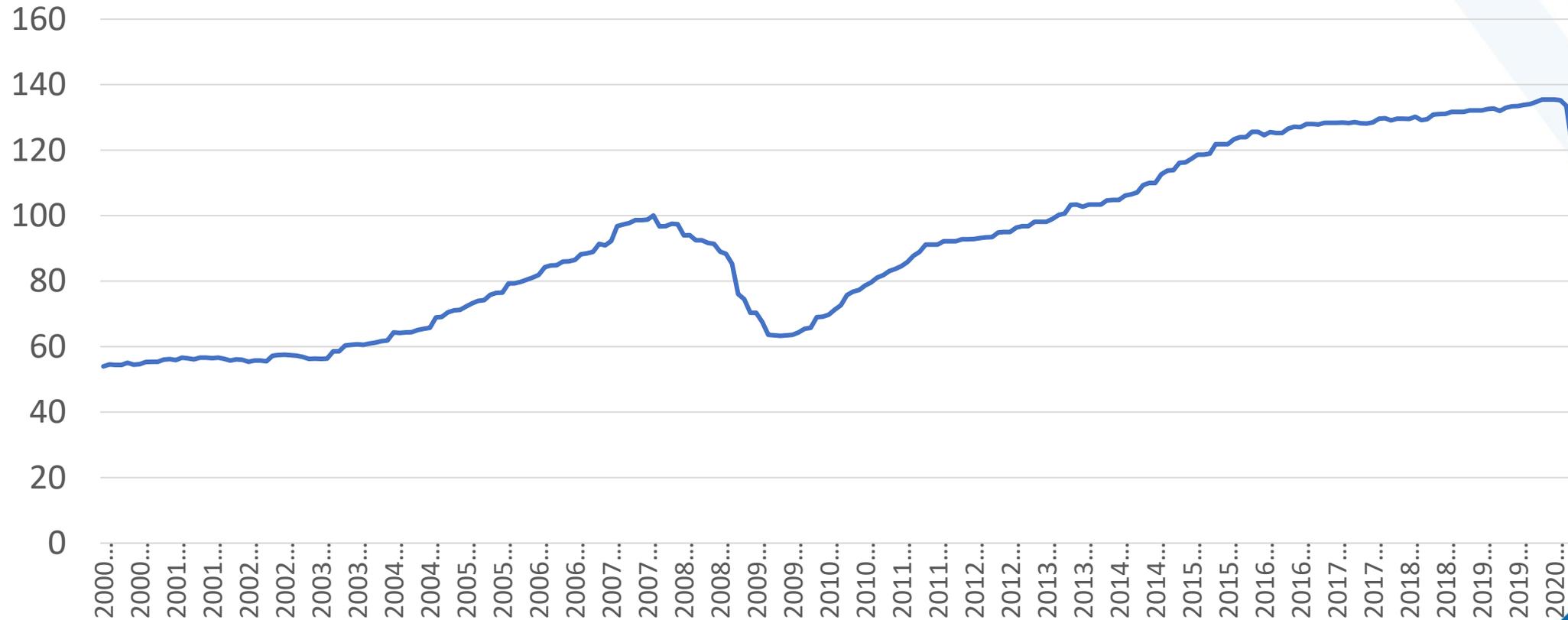


Beef Price Rising ... Cattle Price Falling



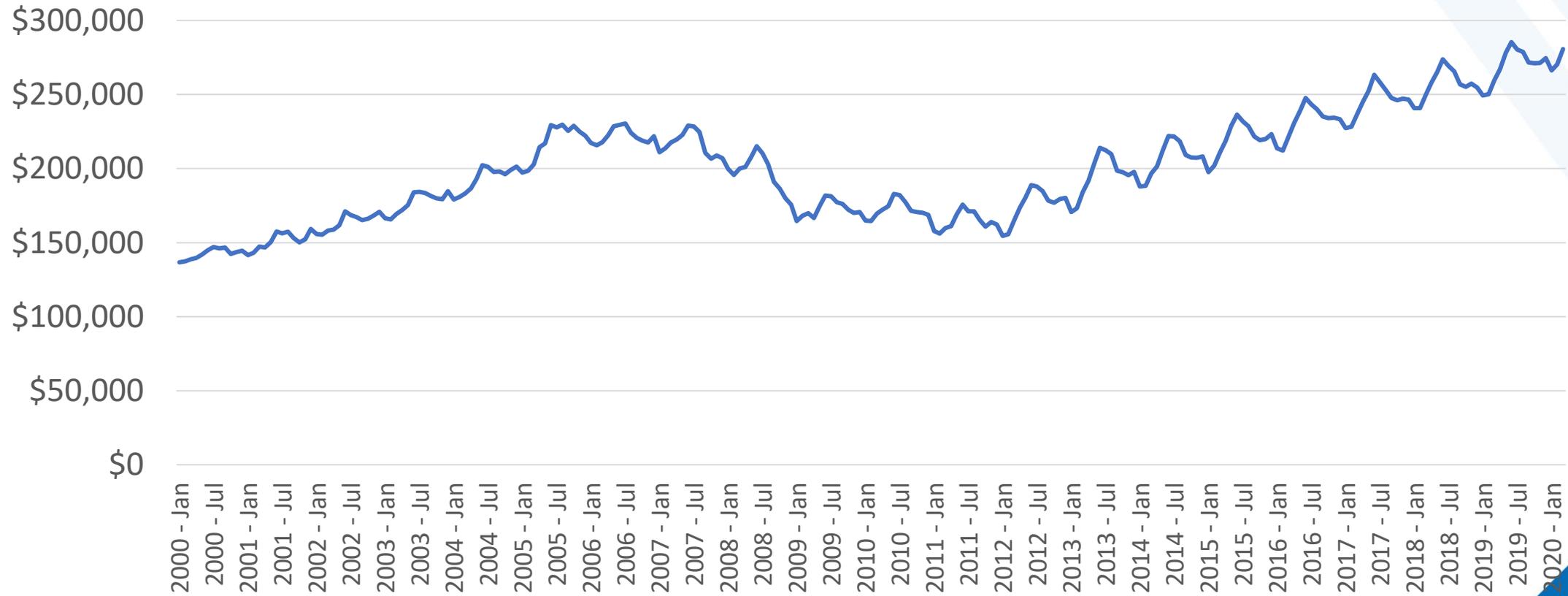
Commercial Property Price Index

Green Street Advisors

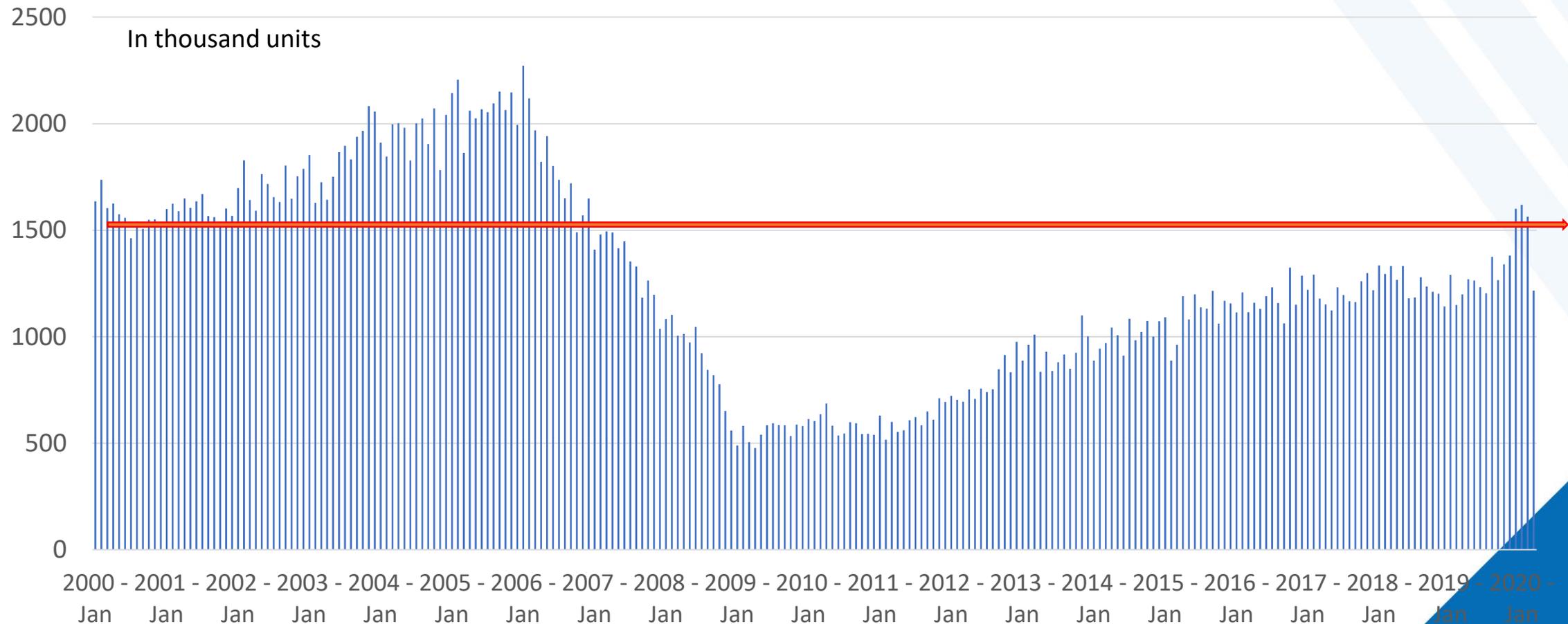


Home Price

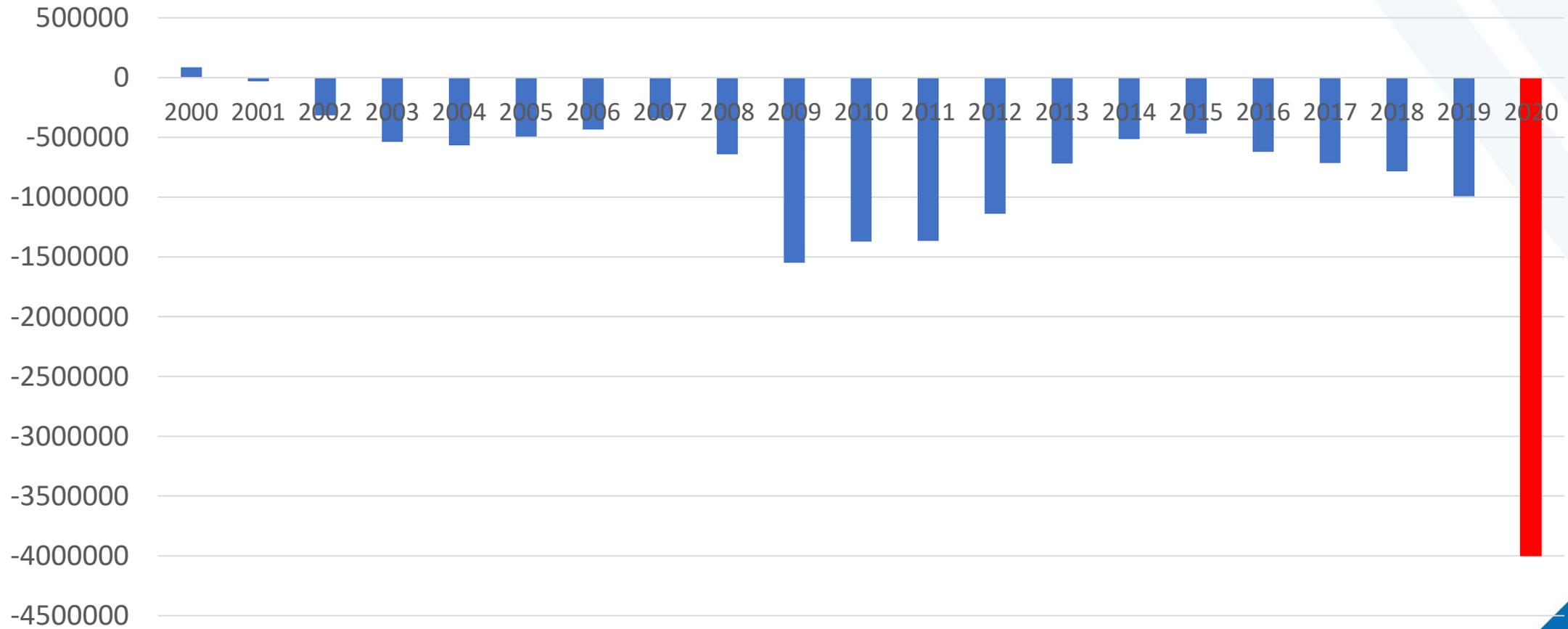
NAR Median Home Price ... 8% higher from a year ago



Housing Shortage ... Land Purchase and Development in the Suburbs in the Future



Federal Budget Deficit ... \$4 trillion in 2020



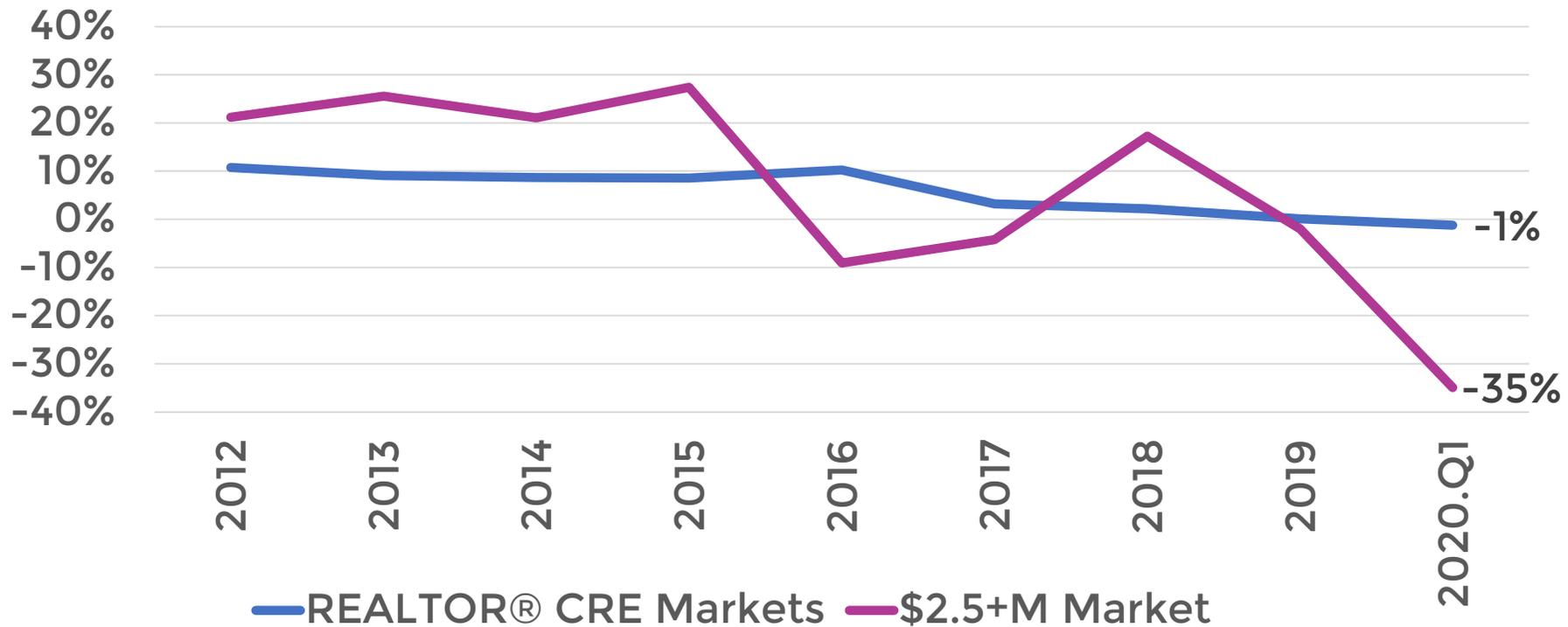


COMMERCIAL MARKET TRENDS

Sales transactions contracted in both small and large CRE markets in 2020 Q1

Less than \$2.5M market: -1%y/y; \$2.5M+ market: -35% y/y

Quarterly Sales Volume (Y/Y % Chg)

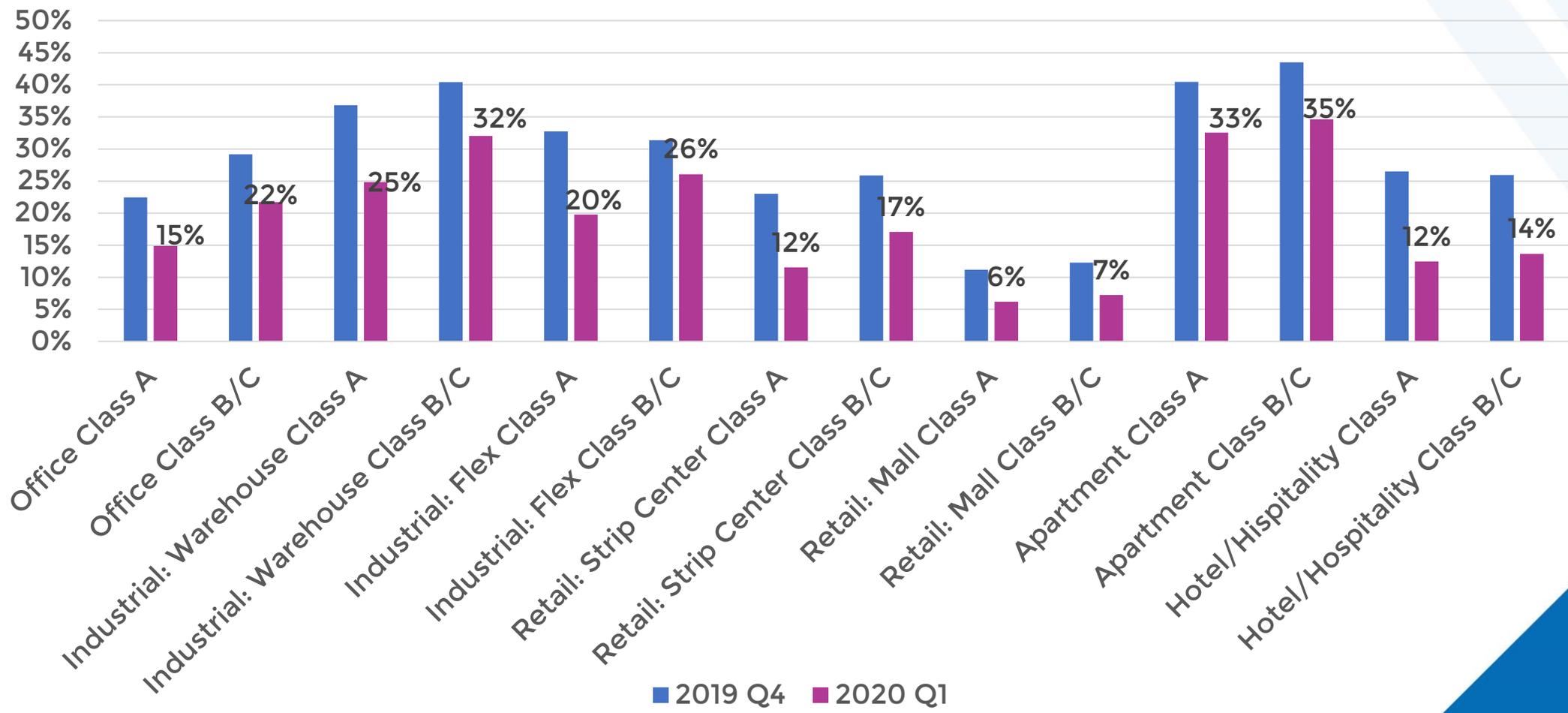


Sources: National Association of REALTORS®, Real Capital Analytics

Source: NAR Commercial Real Estate Quarterly Market Survey and Real Capital Analytics. Among Realtors®, the typical transactions is less than \$2.5 million ("small" commercial market) while RCA tracks \$2.5 M or over transactions ("large" commercial market).

Fewer respondents reported y/y sales gains in 2020 Q1 compared to 2019 Q4

Percent of Respondents Who Reported a Y/Y Increase in Dollar Sales Volume



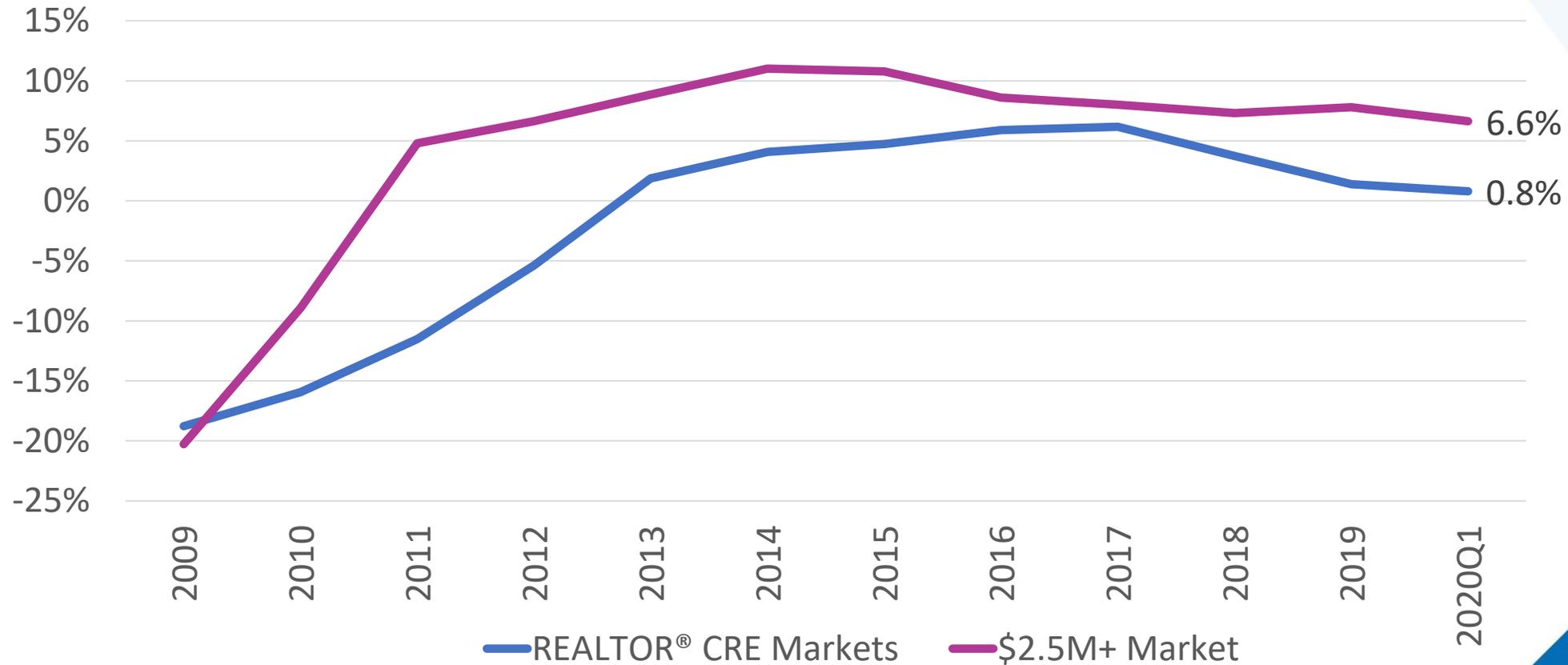
Source: NAR Commercial Real Estate Quarterly Market Survey; Realtor® typical transaction is less than \$2.5 M.



Commercial sales prices increased at a slower pace in 2020 Q1

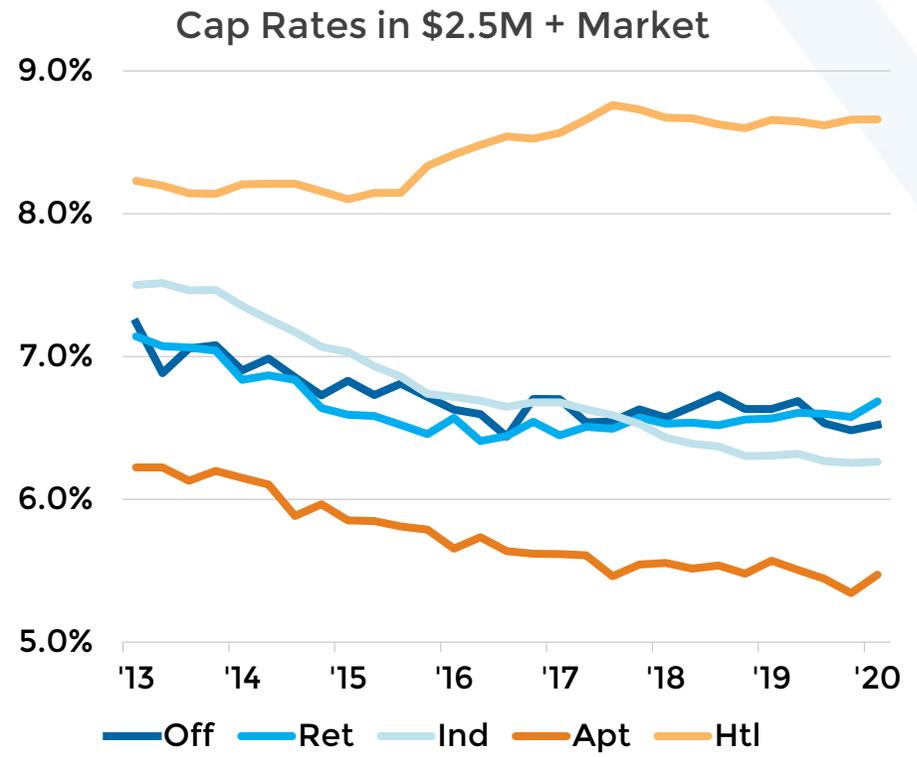
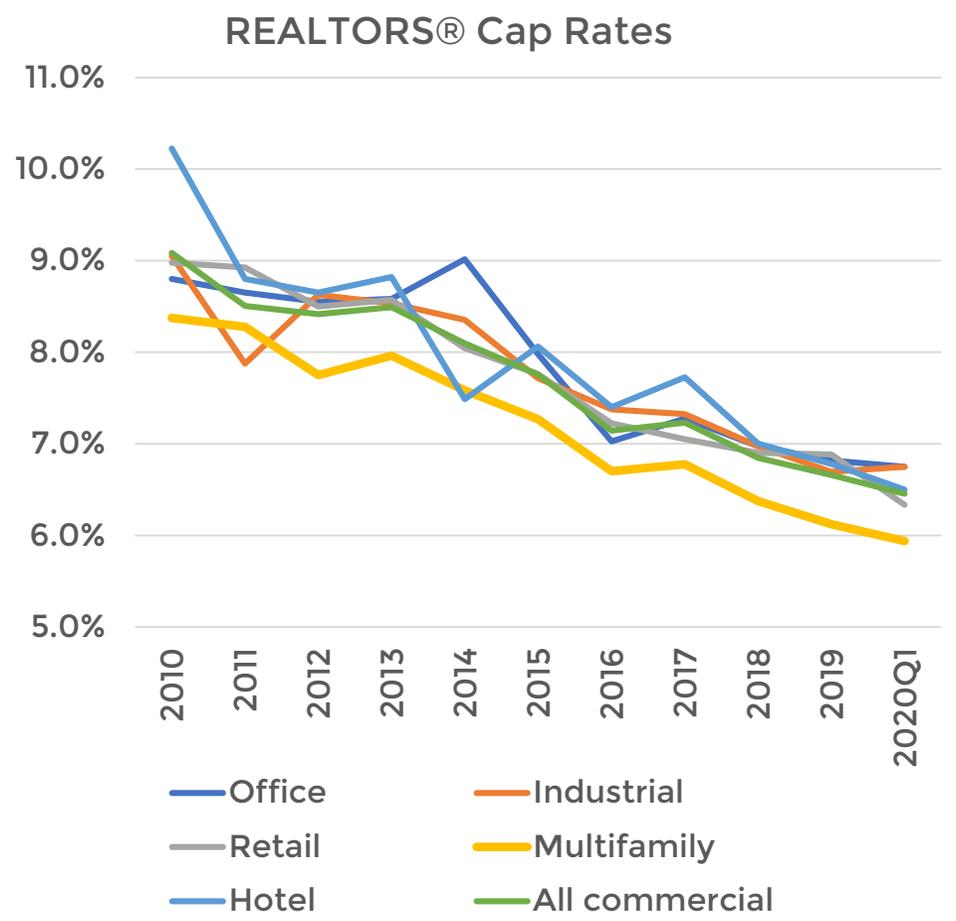
Less than \$2.5M market: 0.8%y/y; \$2.5M+ market: 6.6% y/y

Y/Y Change in Commercial Sales Prices



Source: NAR Commercial Real Estate Quarterly Market Survey and Real Capital Analytics. Among Realtors®, the typical transactions is less than \$2.5 million ("small" commercial market) while RCA tracks \$2.5 M or over transactions ("large" commercial market).

Cap rates compressed in small commercial market, but slightly rose in the large CRE market; large investors more risk-averse?

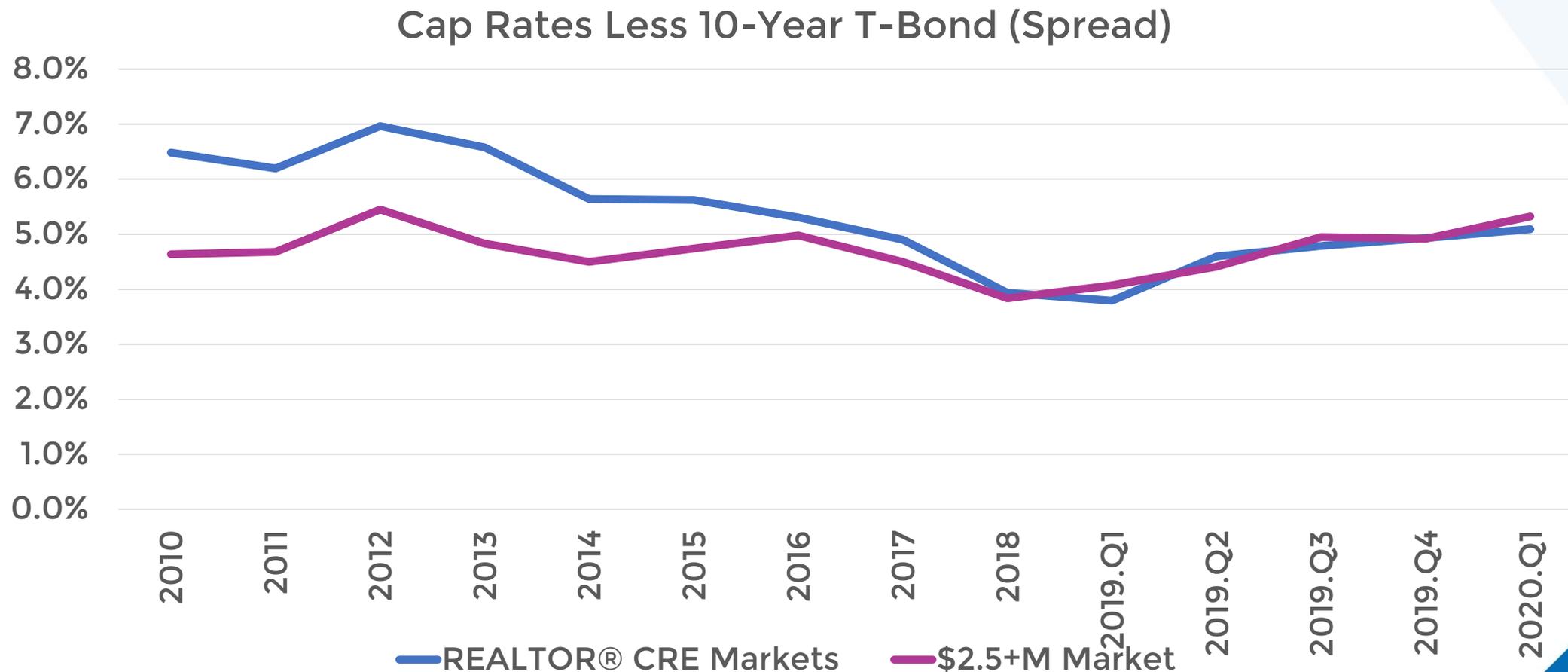


Source: NAR Commercial Real Estate Quarterly Market Survey and Real Capital Analytics. Among Realtors®, the typical transactions is less than \$2.5 million ("small" commercial market) while RCA tracks \$2.5 M or over transactions ("large" commercial market).



Investors more risk-averse, indicated by rising cap rate spreads since 2019

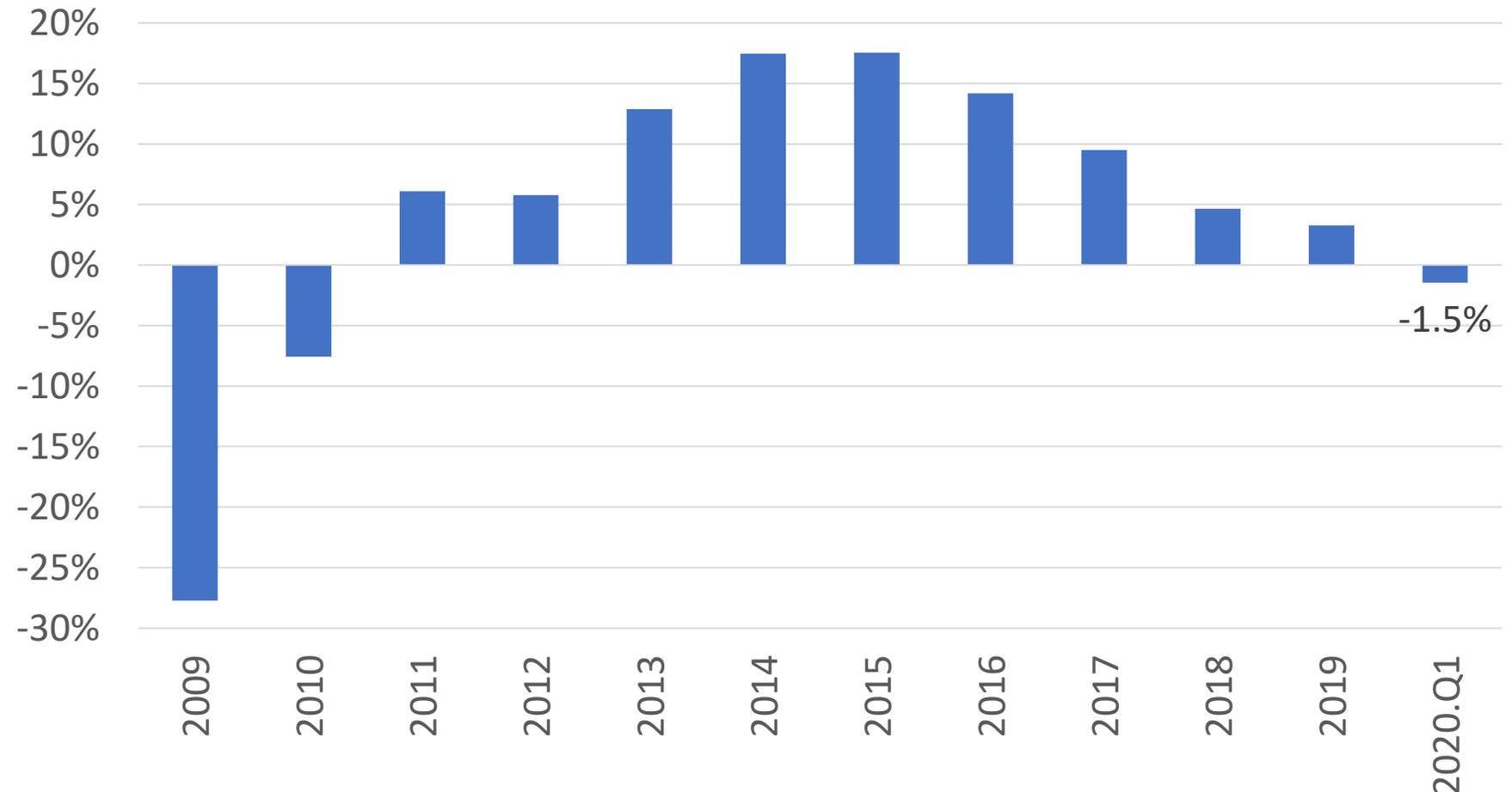
Less than \$2.5M market: 510 bp; \$2.5M + market: 530 bp (~ 400 bp in 2018)



Source: NAR Commercial Real Estate Quarterly Market Survey and Real Capital Analytics. Among Realtors®, the typical transactions is less than \$2.5 million (“small” commercial market) while RCA tracks \$2.5 M or over transactions (“large” commercial market).

Volume of new leases declined 2% in 2020 Q1 in small CRE market

REALTORS® Commercial Leasing Volume (YoY % Chg)

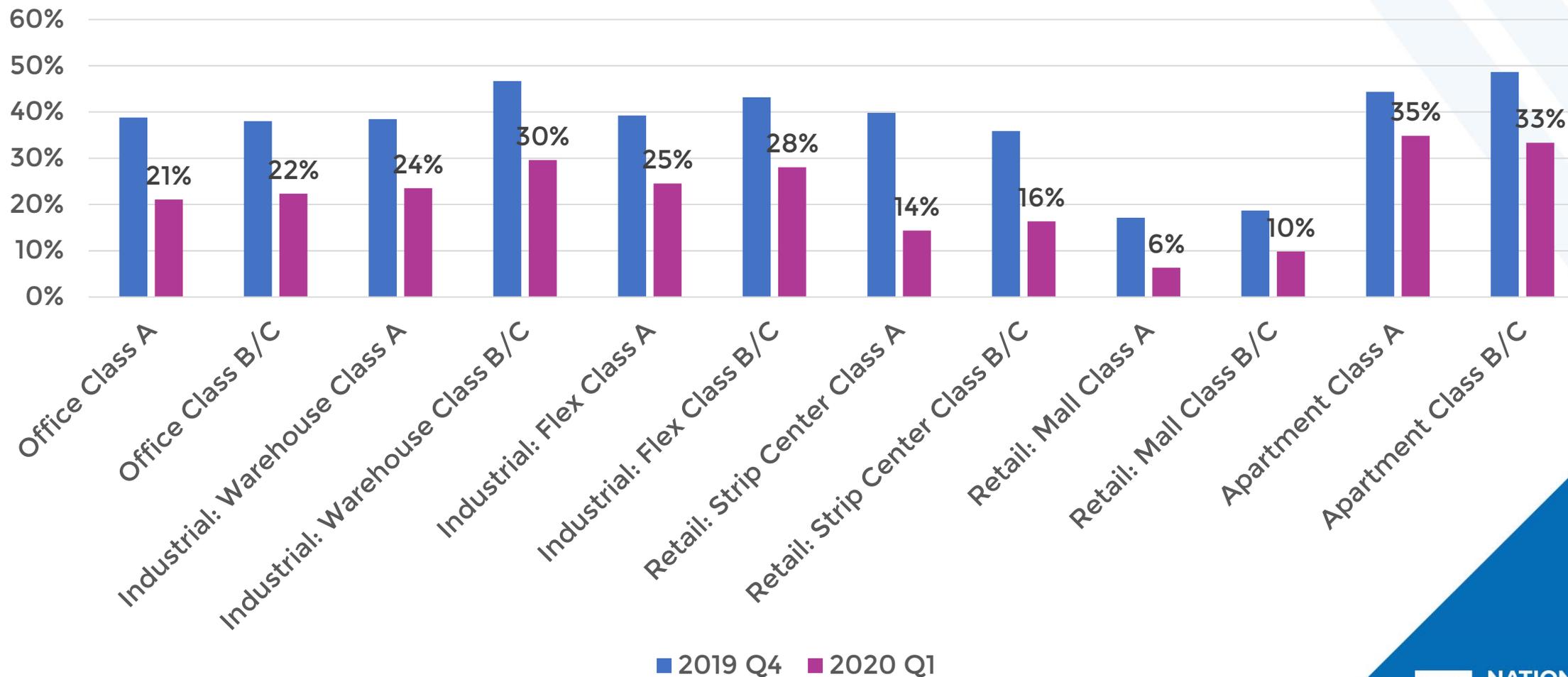


Source: NAR Commercial Real Estate Quarterly Market Survey and Real Capital Analytics. Among Realtors®, the typical transactions is less than \$2.5 million ("small" commercial market)



Fewer respondents reported y/y new leasing volume in 2020 Q1 vs. 2019 Q4

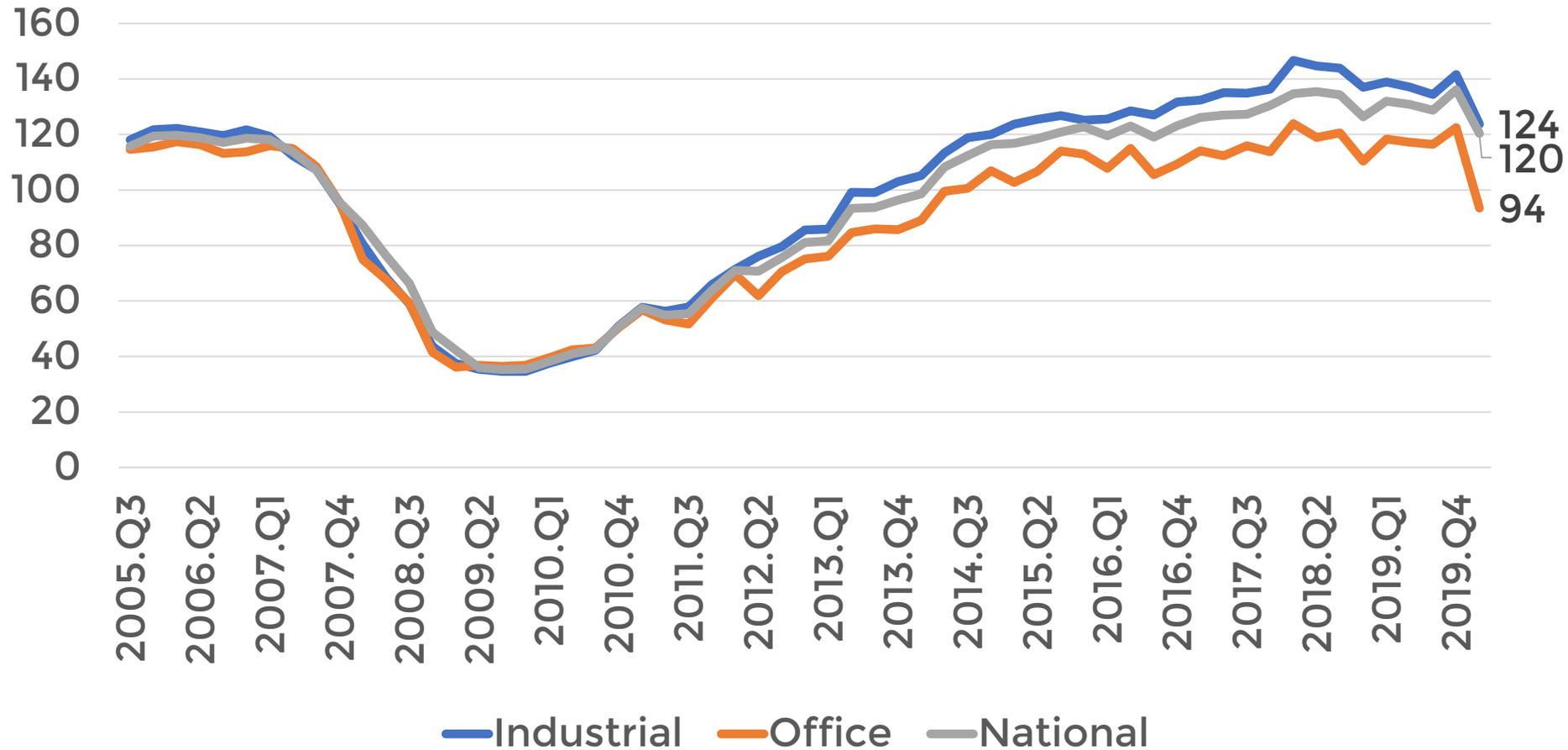
Percent of Respondents Who Reported a Y/Y Increase in Dollar Volume of New Leases



Source: NAR Commercial Real Estate Quarterly Market Survey and Real Capital Analytics. Among Realtors®, the typical transactions is less than \$2.5 million ("small" commercial market)

SIOR Commercial Index on office and industrial markets declined in 2020 Q1

SIOR Commercial Real Estate Index

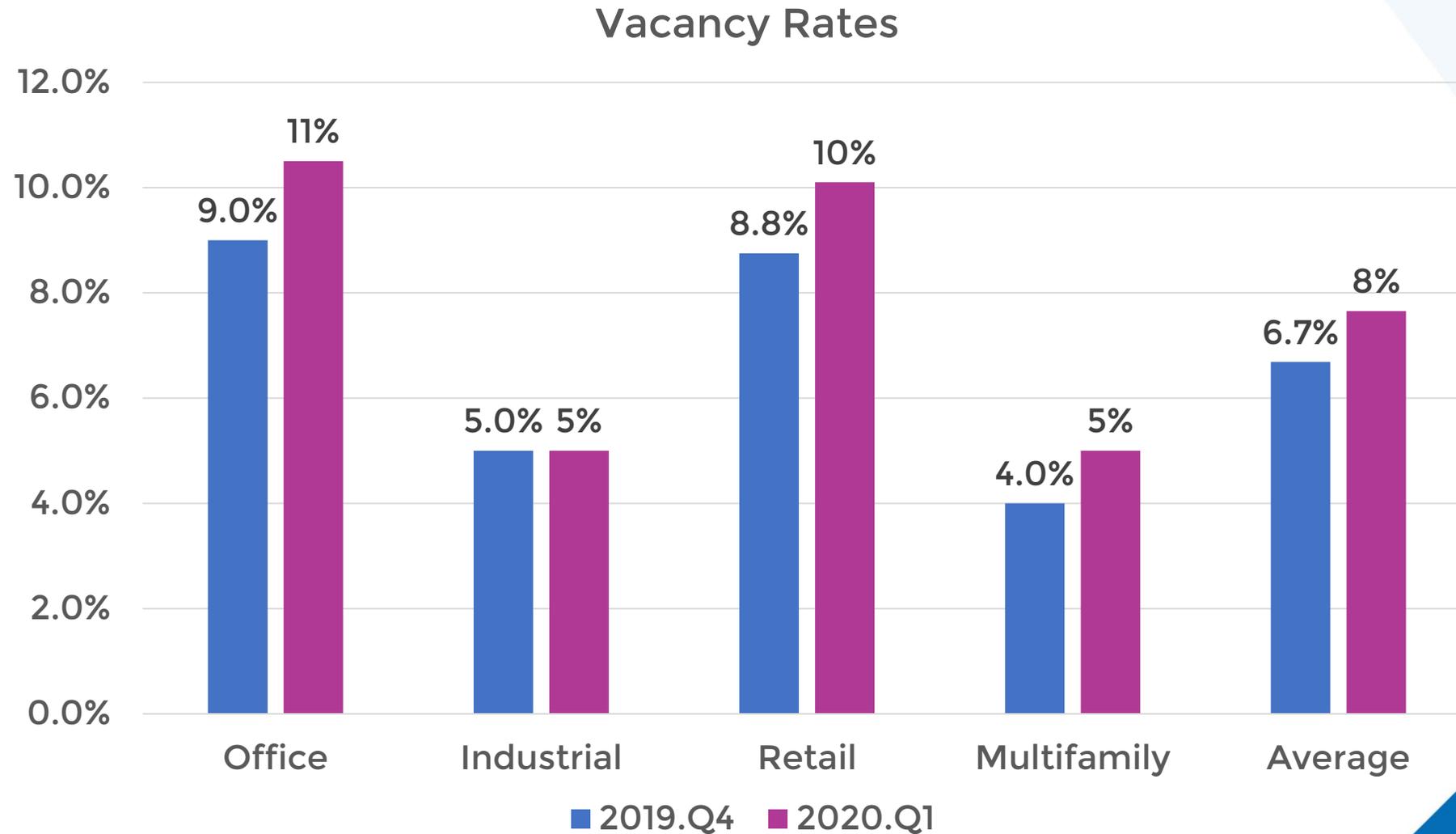


Source: SIOR Commercial Survey

Source: SIOR, NAR

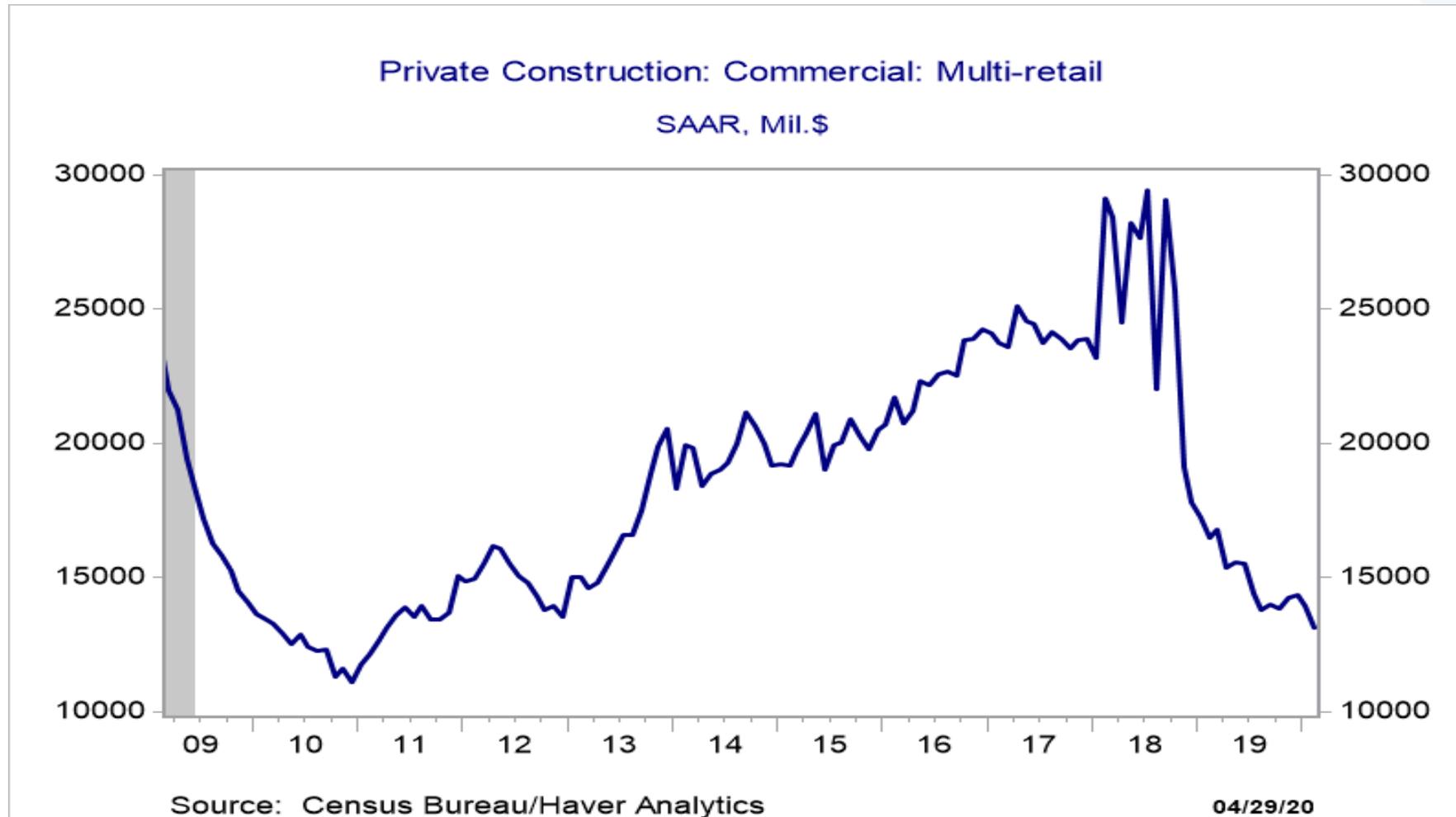


Vacancy rates rose in all property markets in 2020 Q1 compared to 2019 Q4

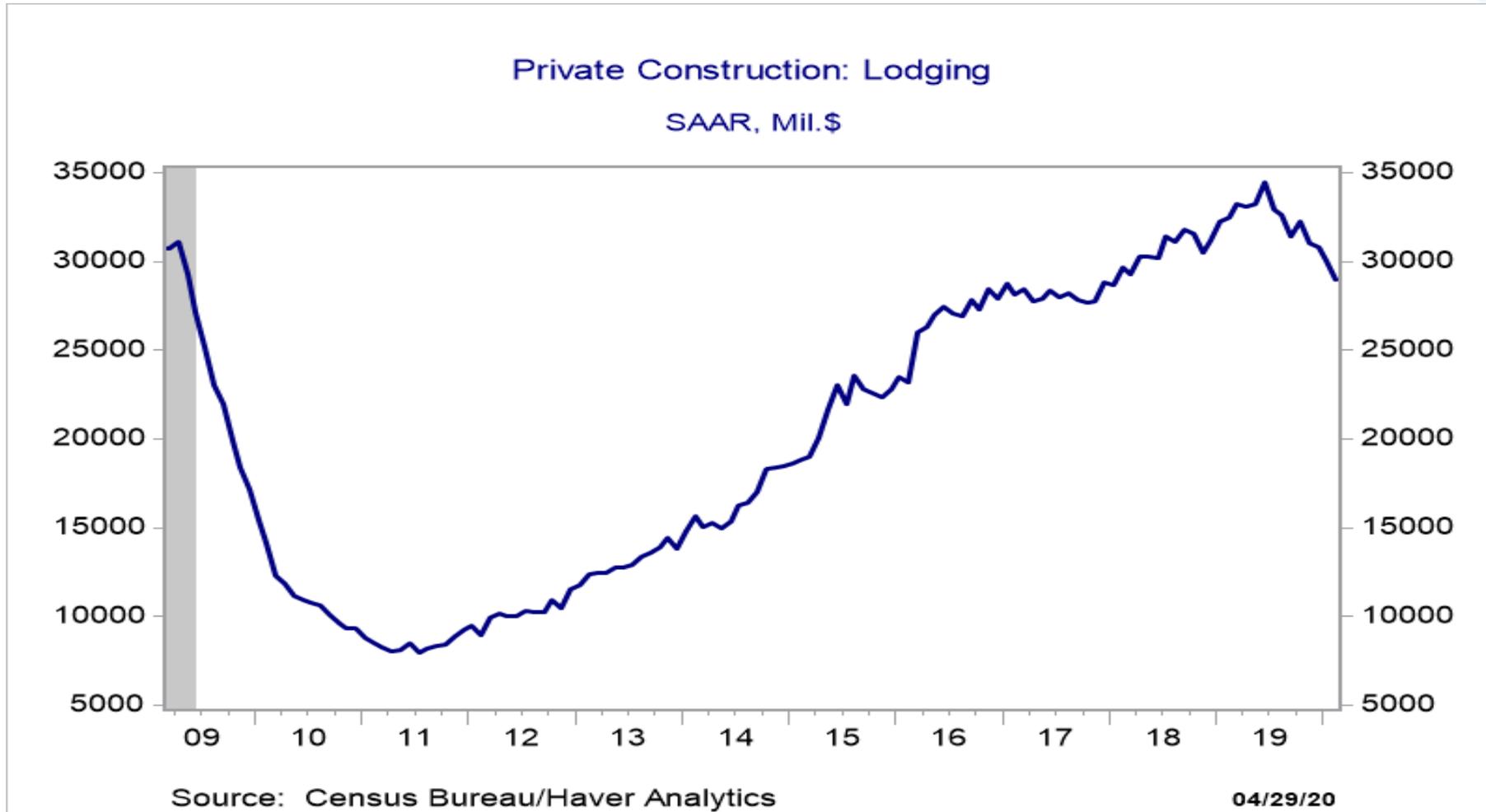


Source: NAR Commercial Real Estate Quarterly Market Survey

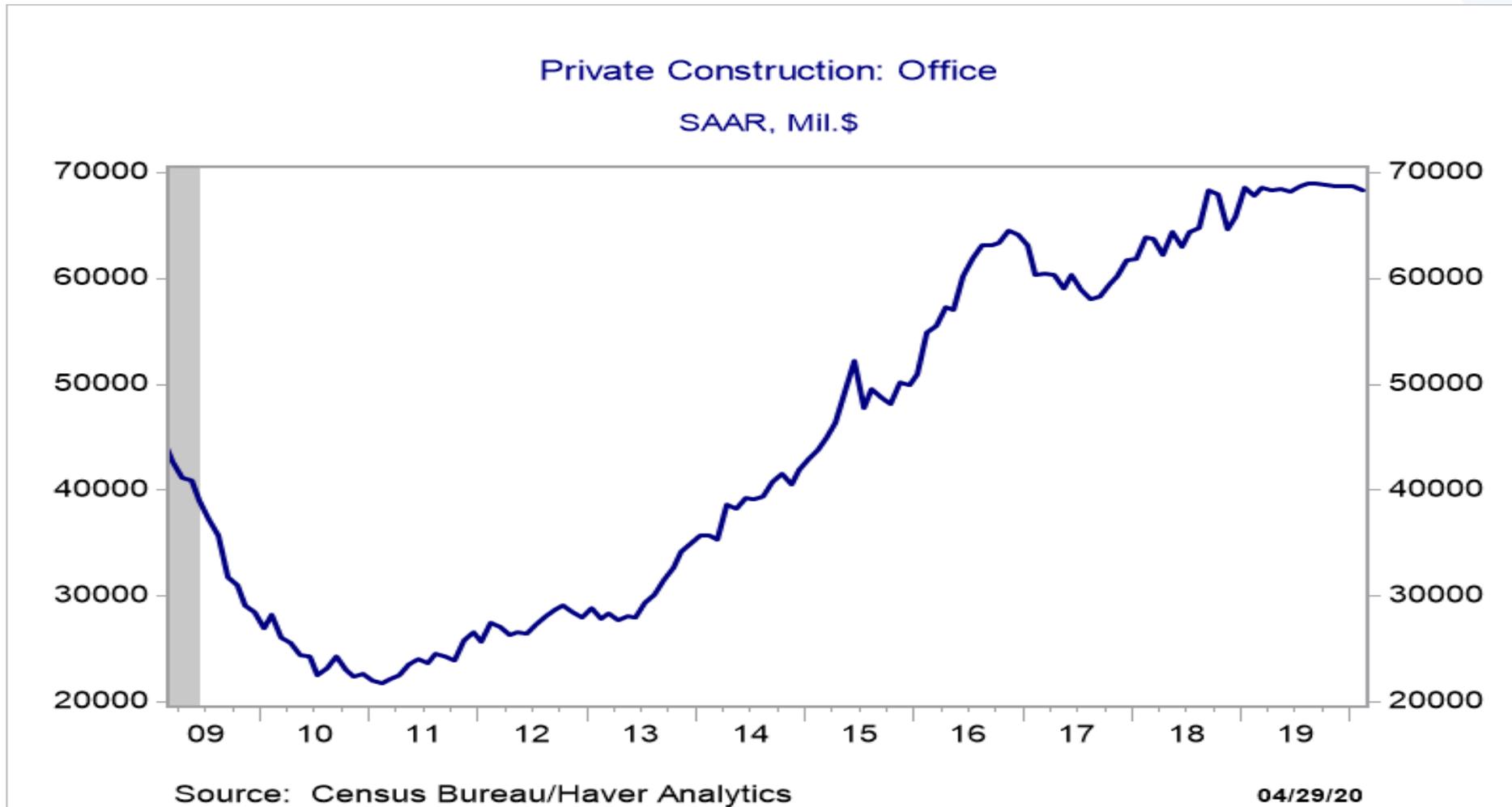
Steep decline in retail construction since 2018 through Feb 2020



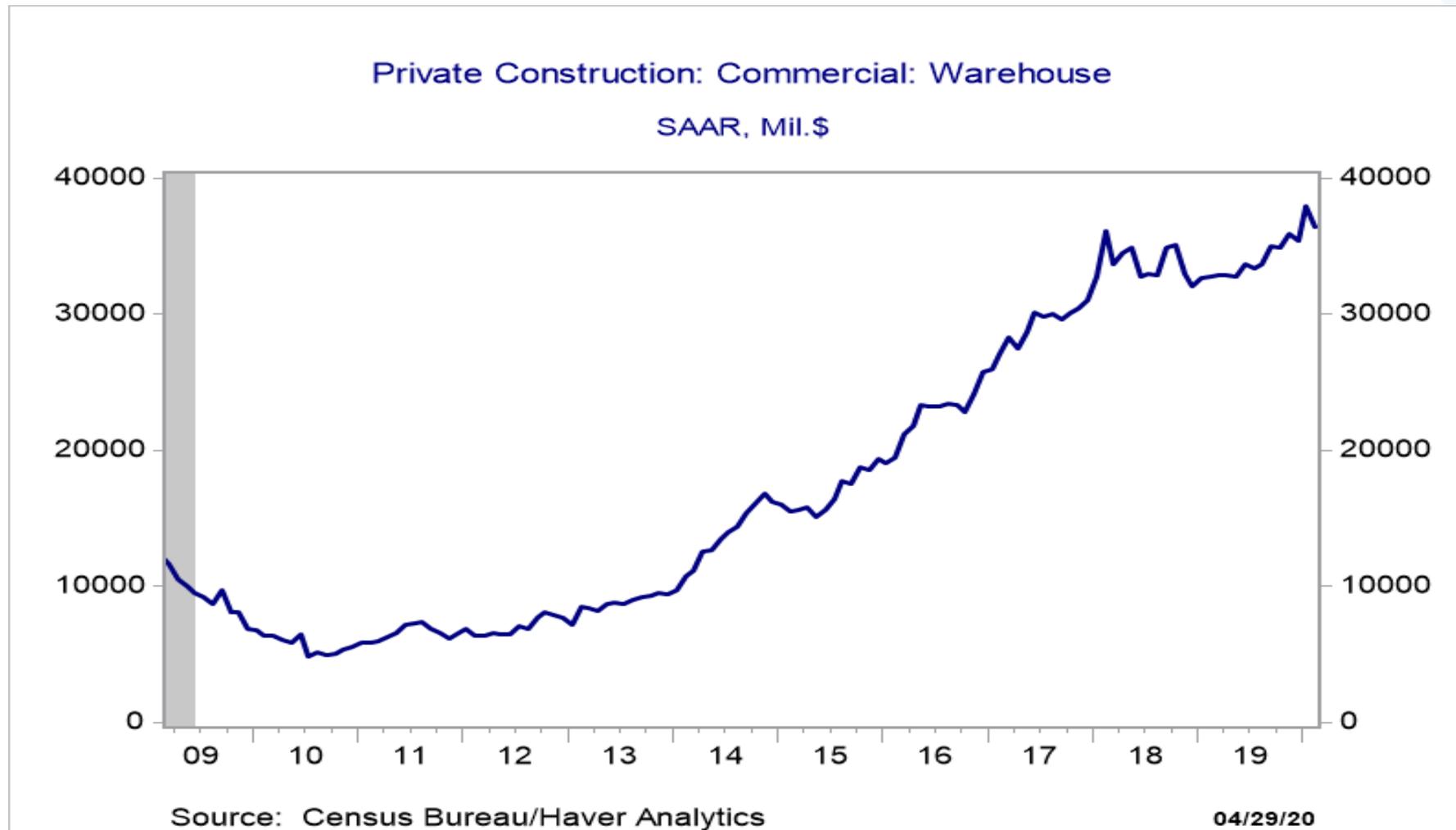
Downturn in lodging construction since 2019 through Feb 2020



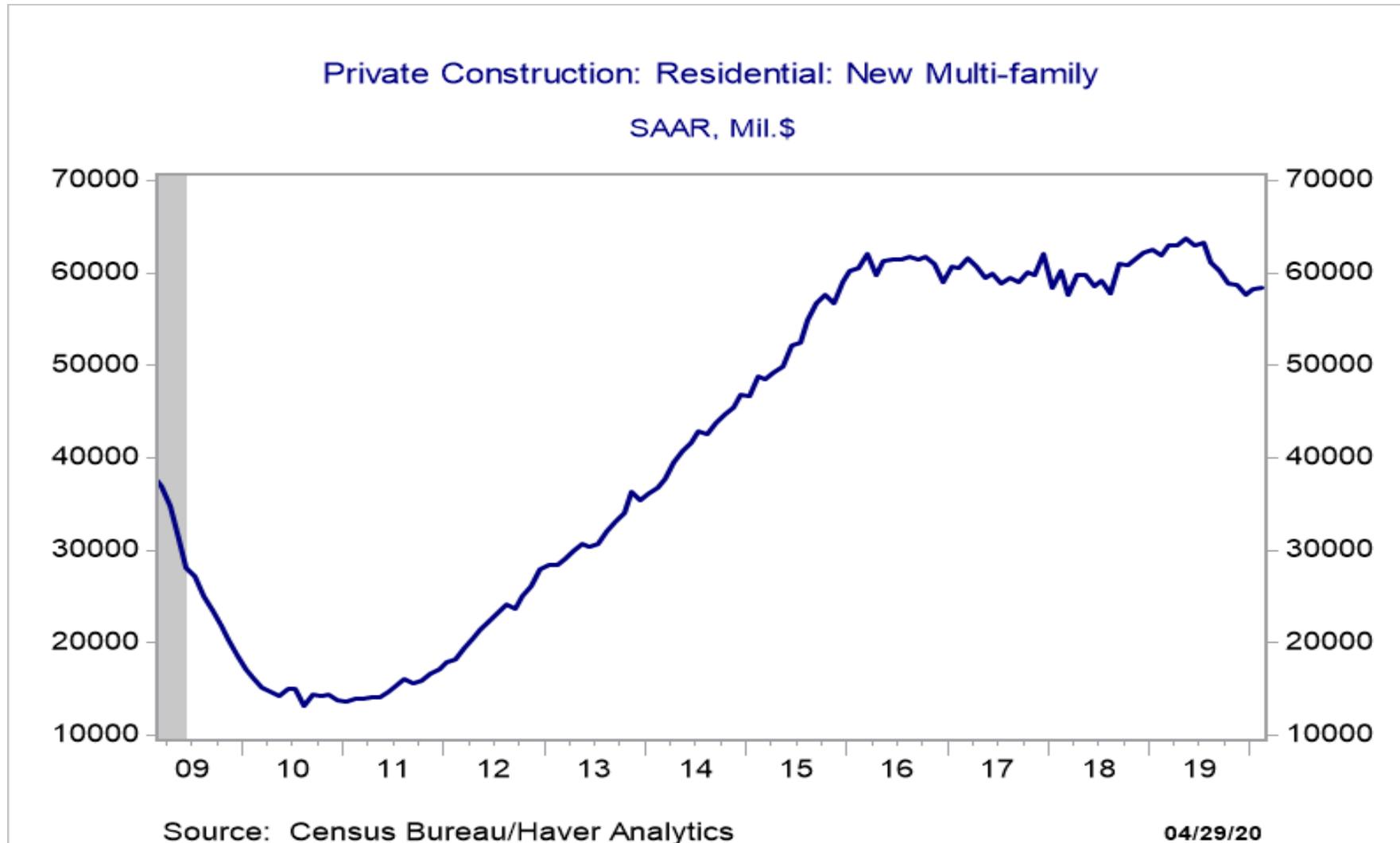
Flat office construction since 2018 through Feb 2020



But warehouse construction has been rising



Multi-family construction was picking up prior to the coronavirus pandemic





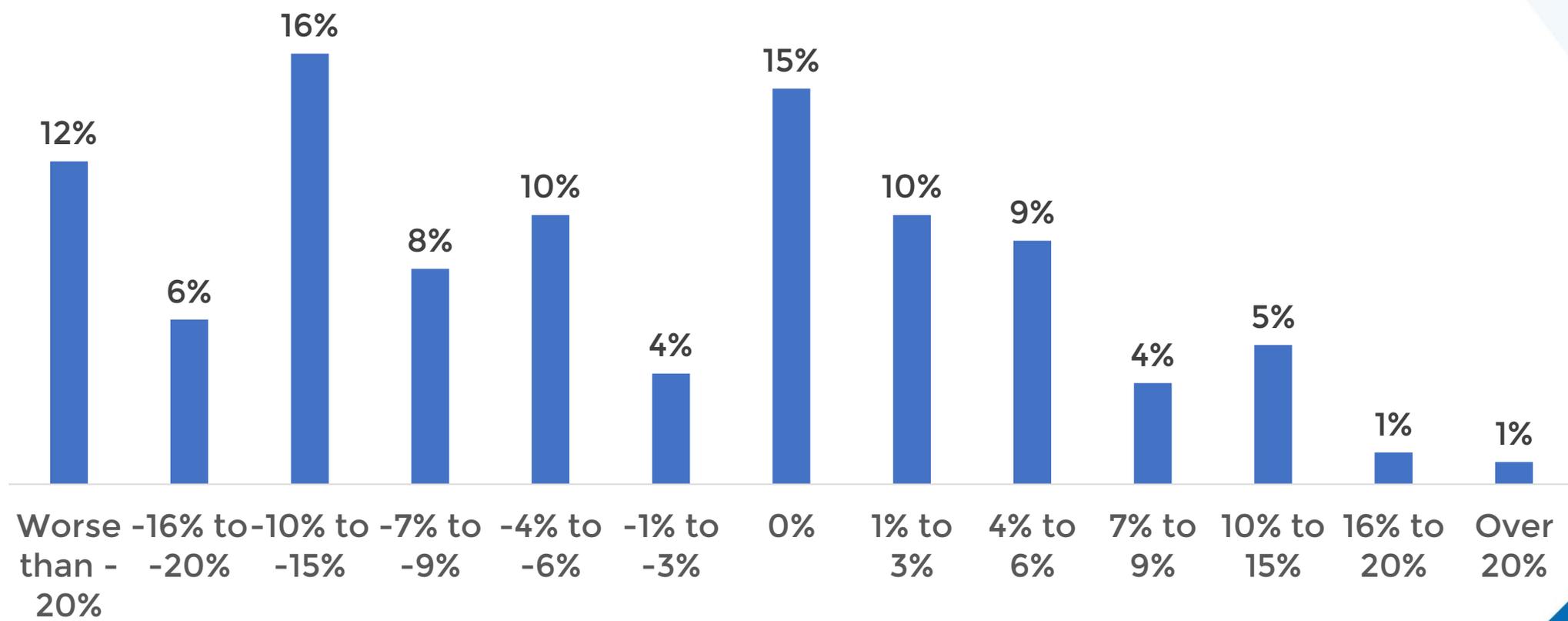
OUTLOOK 2020-2021

Forecast

	2019	2020 Forecast	2021 Forecast
GDP Growth	+2.3%	-4.5%	+3%
Job Gains	+2.2 million	- 4 million	+ 2 million
Commercial RE Prices	+7%	-10% to -13%	+1% to +3%

Realtors® expect 5% decline in commercial prices in next 12 months

Distribution of 1-Year Price Outlook



Demand for apartments and industrial properties expected to increase in 2020-2021



Apartment: higher unemployment, pandemic uncertainty will delay homebuying, increasing demand for multifamily properties



Industrial: on-line delivery due to social distancing and changes in habit will lead to more lead to higher demand for warehouses; because this is a bright sector, more construction expected in this sector



Office: some decline as businesses hire more cautiously, less demand for co-working; but expect a pickup in demand for financial services, insurance companies, legal offices, banks, software/tech companies as demand for legal, financial and technology services increase as businesses prepare for potential pandemics



Retail: social distancing and online shopping will continue to depress demand for brick and mortar stores; retail stores will be repurposed for other uses (e.g. fulfillment/distribution centers such as Target and BJ's).

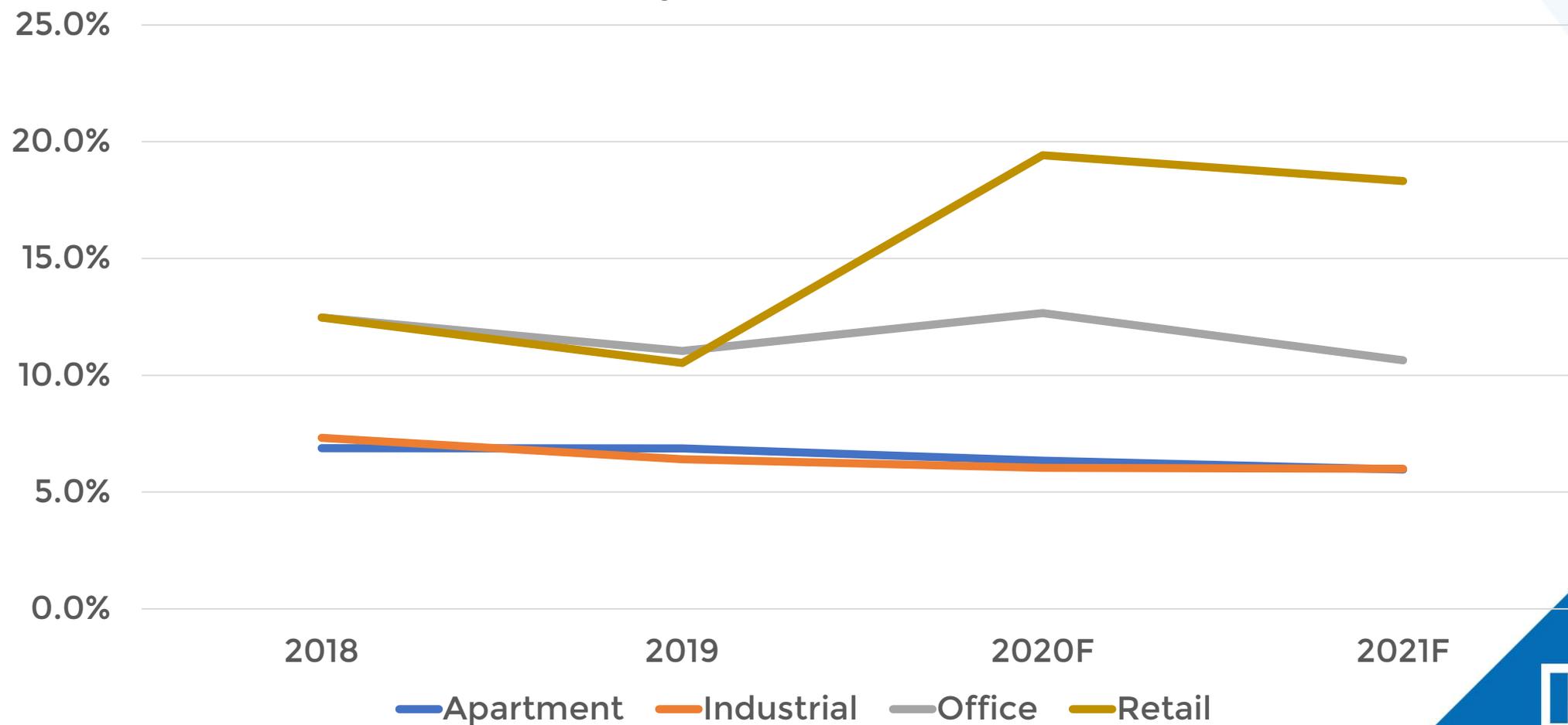
FTSE Nareit U.S. Real Estate Index Series

Index / Property Sector	Constituents	Market Cap (\$M)	Total Return (%)						
			Weekly						
			Mar-27	Apr-3	Apr-10	Apr-17	Apr-24	May-1	2020: YTD
Office	18	74,490	18.4	(8.6)	23.4	(5.5)	(6.0)	2.4	(26.0)
Industrial	13	108,846	20.9	(6.4)	22.1	(2.6)	(2.3)	(1.9)	(6.2)
Retail	32	90,424	12.8	(20.1)	35.6	(12.9)	(6.0)	14.6	(44.2)
Residential	21	145,158	17.8	(13.4)	26.5	(0.4)	(6.7)	1.0	(20.5)
Diversified	16	38,184	18.8	(15.5)	32.6	(7.1)	(6.2)	8.2	(34.3)
Lodging/Resorts	15	22,037	23.9	(18.0)	27.8	(5.9)	(2.8)	7.9	(49.6)
Health Care	17	80,181	22.9	(19.7)	41.1	(8.5)	(9.8)	5.3	(34.3)
Self Storage	5	48,462	16.0	0.1	8.3	(7.3)	(4.1)	(1.8)	(15.1)
Timber	4	18,831	14.3	(9.3)	31.8	(4.4)	(1.8)	(6.3)	(36.6)
Infrastructure	5	200,961	10.6	3.2	15.0	0.0	(3.3)	(4.2)	7.0
Data Centers	5	110,807	15.0	4.2	9.2	1.2	(0.1)	(2.4)	16.3
Specialty	11	32,246	22.4	(13.7)	26.4	(4.9)	(5.0)	5.9	(35.8)
Home Financing	23	26,708	12.4	(36.8)	50.5	(2.8)	(3.4)	4.5	(50.5)
Commercial Financing	14	13,321	25.7	(30.3)	58.4	(6.3)	(7.8)	11.8	(45.6)
<i>Memo: Russell 1000</i> ®			10.6	(2.5)	12.6	3.0	(1.2)	(0.0)	(12.3)

Source: FTSE, Nareit, FactSet.

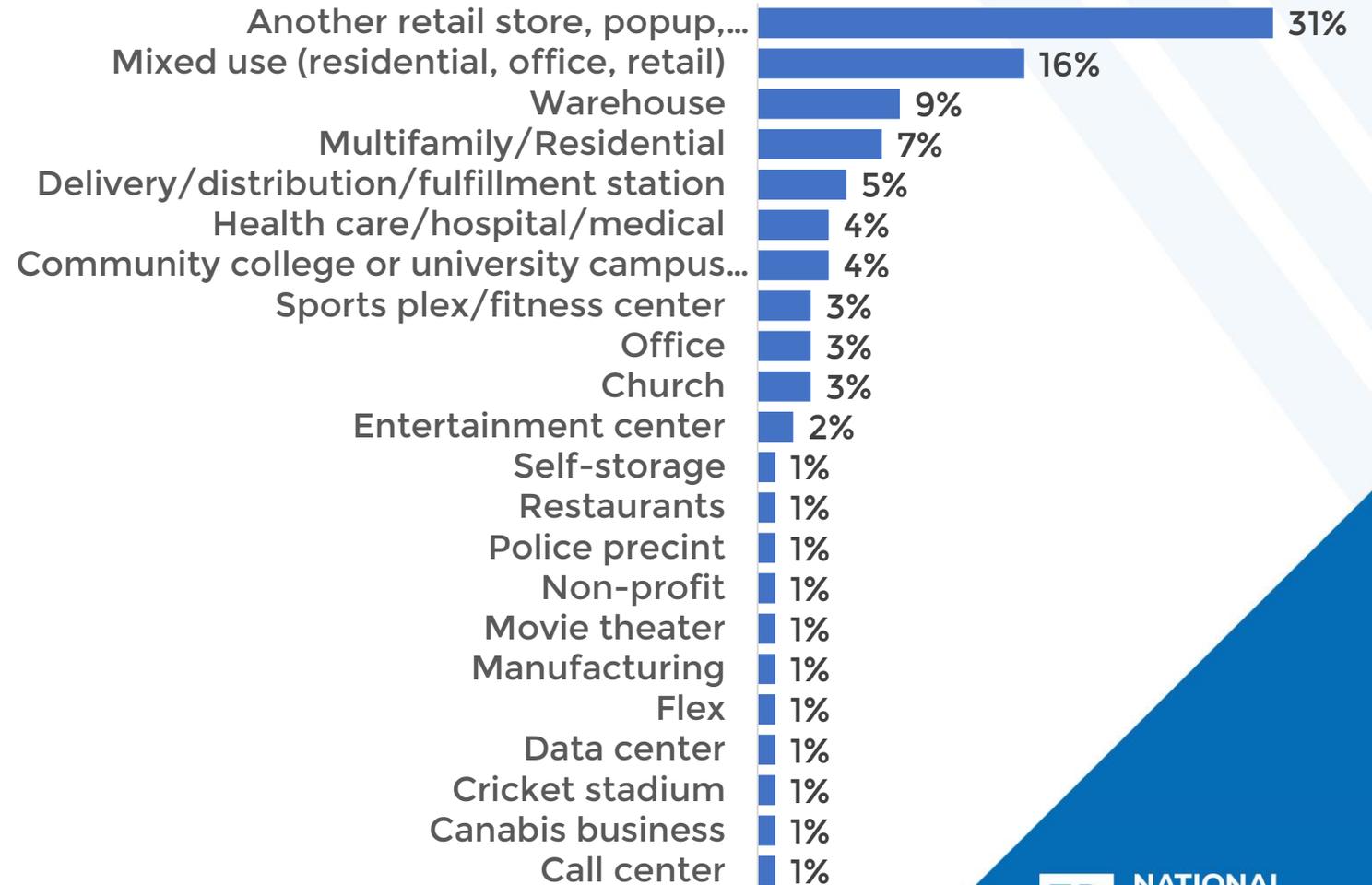
Higher vacancy rates in 2020: Retail (19%), Hotel (22%), Office (13%)
Lower vacancy rates in 2020: Apartment (6%), Industrial (6%)

Commercial Vacancy Rates Forecast 2020-2021



Vacant malls are being repurposed for mixed use development, warehouses, multifamily, fulfillment centers, health care centers, data centers, storage centers, a potentially as health armories.

Percentage distribution among 94 distinct cases



Source: NAR, Repurposing Vacant Retail Malls, May 2020

Empty Malls into Healthcare Armory?



Post-Pandemic Suburban Retail/Office



Virtual Office Meetings

More Remote Working

Parking Spaces, not public transit

Less Traffic near City Centers

THANK YOU



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