Commercial Real Estate: Steady As It Goes?

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The views and opinions expressed are those of the presenter and are not necessarily those of the Federal Reserve Bank of Atlanta or the Board of Governors of the Federal Reserve System.
Agenda

1. Economy
2. Commercial Real Estate Fundamentals
3. Commercial Real Estate Finance
CONTRIBUTIONS TO REAL GDP GROWTH

Source: BEA, Risk Analysis Unit/Federal Reserve Bank of Atlanta
UNEMPLOYMENT RATES

Current: As of 10/2016

Source: Bureau of Labor Statistics, STL FRB FRED
Household Job Growth, April 2016
(%, yoy)

- 30% - 15% (5)
- 15% - 5% (48)
- 5% - 0% (486)
0% - 3% (1587)
3% - 6% (864)
6% - 10% (108)
10% - 45% (11)

Source: Bureau of Labor Statistics (Household Survey)
Areas that should thrive on low energy prices

36% of the counties experienced negative job growth over the prior 12 months
SERIOUSLY DELINQUENT MORTGAGES
YEAR-OVER-YEAR CHANGE, HOME MORTGAGES 90+ PAST DUE
AS OF 3Q2016

Source: McDash Analytics
Total Auto Loan Delinquencies
Change in the Last 12 Months

Source: FRBNY Consumer Credit Panel (2016Q3 data)
TOTAL AUTO LOAN DELINQUENCIES
AS OF 3Q2016

Source: FRBNY Consumer Credit Panel (2016Q3 data)
Total Auto Loan Delinquencies
Source: FRBNY Consumer Credit Panel

2016Q3

2010Q1
Economic Expansions

The longer the cycle lasts, the more risk that generally enters the marketplace

Source: National Bureau of Economic Research, Risk Analysis Unit/Federal Reserve Bank of Atlanta
NATIONAL CRE VACANCY RATES

Source: AXIOMetrics, CBRE-EA, Risk Analysis Unit/Federal Reserve Bank of Atlanta
NEW CONSTRUCTION AS A PERCENT OF STOCK

May 2016 New Construction
As a Percent of Stock (ACS 2014 5+ units)

Source: AXIOMetrics; Risk Analysis Unit/FRB Atlanta
Is CRE Overbuilding?
Variance from Long-Term Average

Source: CBRE-EA/AXIOMetrics/FRB Atlanta Risk Analysis Unit.
Why CRE?
Technology disruptors are impacting the industry

CRE is generally one of the last sectors to embrace technology.
Office densification is having a slow but significant impact.
Consumers buying habits continue to shifted by E-Commerce & Virtual Reality.

Source: Amazon, Google, Dailydigi.com, various
CRE National Lifecycle

- Market, product type, location all impact performance. Specific markets and product types may be at different stages.

Source: AXIOMetrics, CBRE-EA, REIS, Mueller, Risk Analysis Unit/Federal Reserve Bank of Atlanta
Foreign Investment in US CRE
Continent of Origin (Billions of US $)

4Q Rolling Sum
Q3 Data as of 11/1/2016

Source: Real Capital Analytics/FRB Atlanta Risk Analysis Unit.
• In six of the last eight quarters, a net number of respondents reported tightening underwriting standards on multifamily loans.
• After a noteworthy slowdown in 2016Q1; Net Loan Demand appears to be improving in C&D and Nonfarm NonRes

Source: Federal Reserve; Risk Analysis Unit/FRB Atlanta
Major Markets: Boston, Chicago, Los Angeles, New York City, San Francisco, Washington D.C.

Source: RCA Analytics, Risk Analysis Unit/Federal Reserve Bank of Atlanta
NON-MAJOR MARKET CRE PRICE INDICES

Source: RCA Analytics, Risk Analysis Unit/Federal Reserve Bank of Atlanta
Commercial Real Estate Prices
Price Growth Rates

1 Year Price Growth is slowing in both Major and Non-Major Markets

RCA Major Markets
- 1 Year: 2%
- 3 Year: 10%
- 5 Year: 7%
- LT Average: 5%

RCA Non-Majors Markets
- 1 Year: 5%
- 3 Year: 7%
- 5 Year: 7%
- LT Average: 5%

Major Markets: Bos, Chi, LA, NYC, SF, Wash DC
*RCA indices based on Property Sales > $2.5mm
Source: Real Capital Analytics/FRB Atlanta Risk Analysis Unit.
Commercial Real Estate Prices
Major vs. Non-Major Markets (Cumulative)

*on Property Sales > $2.5mm

Source: Real Capital Analytics/FRB Atlanta Risk Analysis Unit.
- Slowing for the Apartment Sector and sporadic Hotel markets

- Declining vacancy combined with limited near-term new supply appears to indicate continued robust rent growth on the horizon for the Office and Industrial Sectors.

- The amounts of future new supply in some asset classes may be impacted by the evolution of technology and the changing uses of CRE. Greater space efficiency may translate to less need for new supply in certain sectors.

- As conditions improve, and in some cases deteriorate, more risk will continue to enter the marketplace.

- Future refinancing risk continues to grow as some property sectors underperform and others experience outperforming dynamics.