



FEDERAL
RESERVE
BANK
of ATLANTA

2018 CRE: Trends & Emerging Risks

Presented By:

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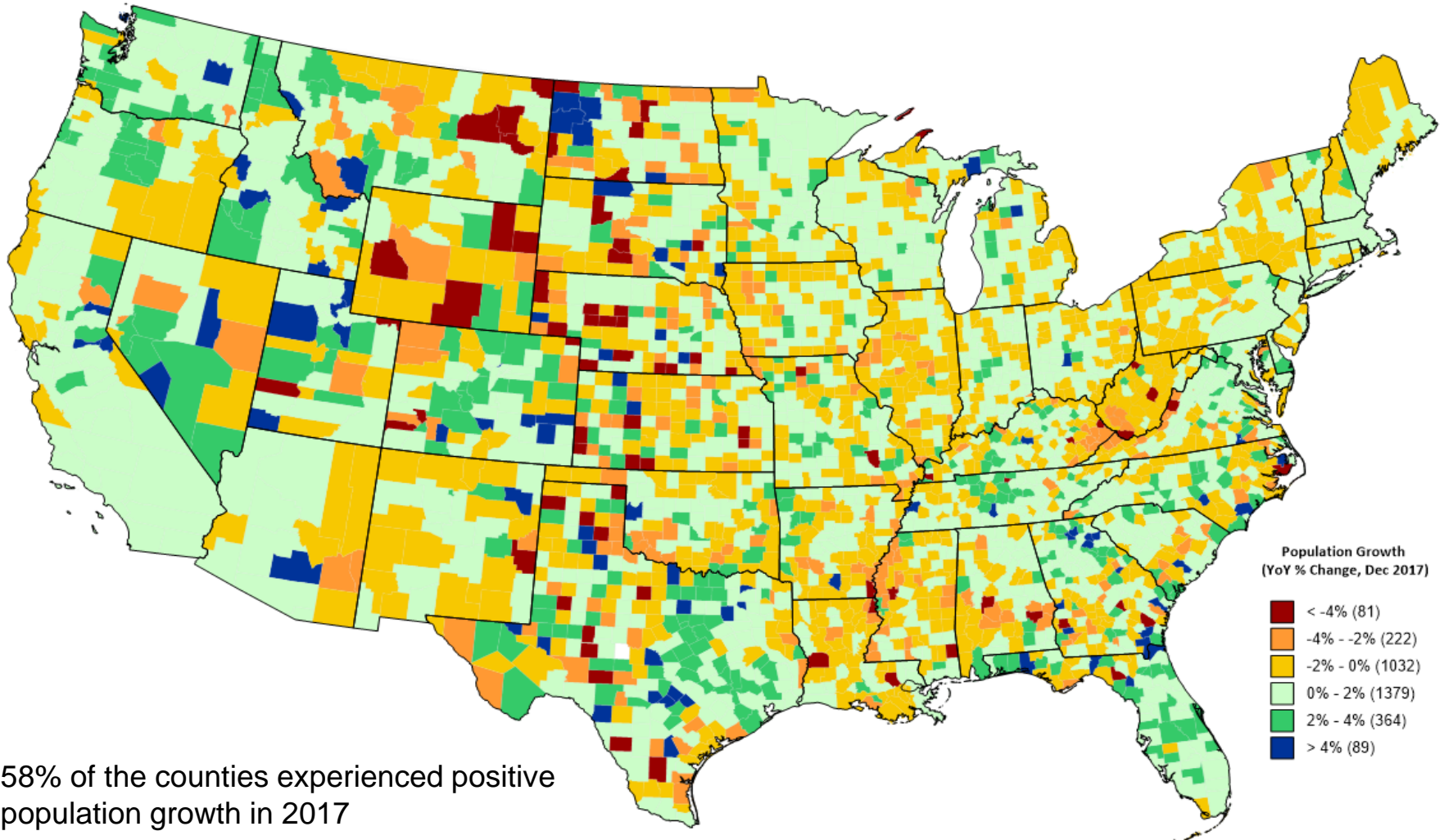
Subject Matter Expert – CRE

October 2018

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.

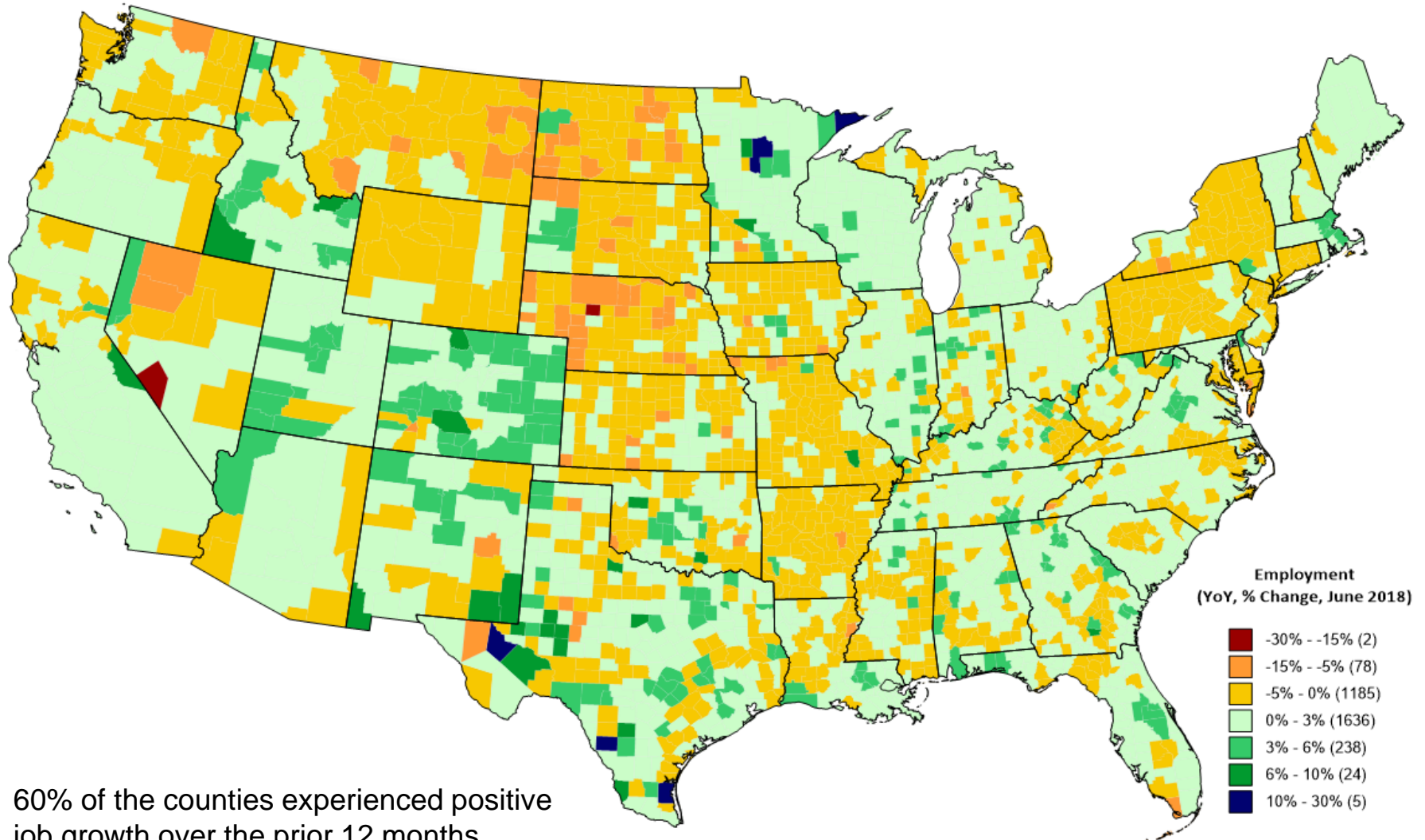
Population Growth By County

Year-over-year change – 2017

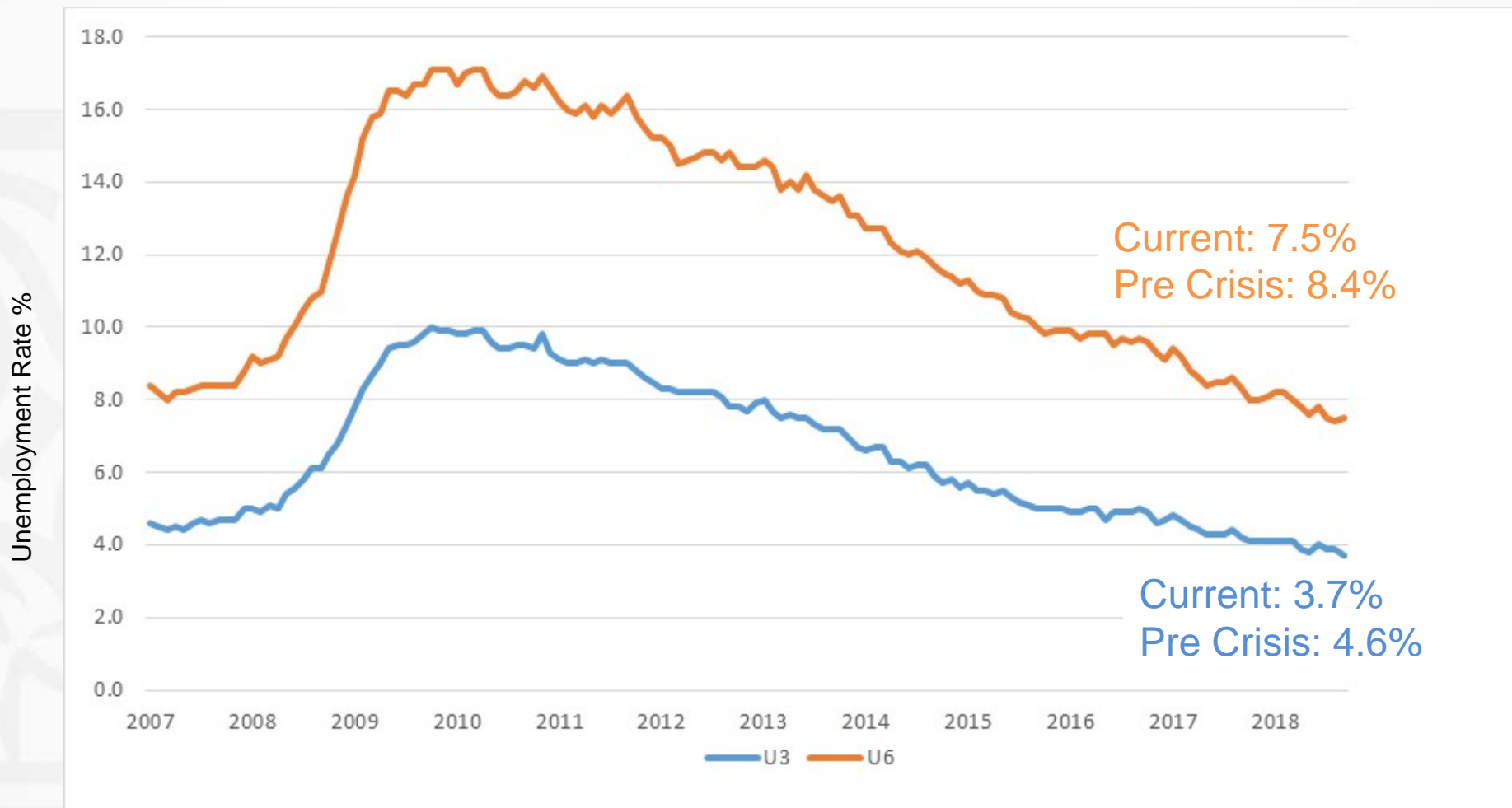


Job Growth By County

Year-over-year change – June 2018



UNEMPLOYMENT RATES

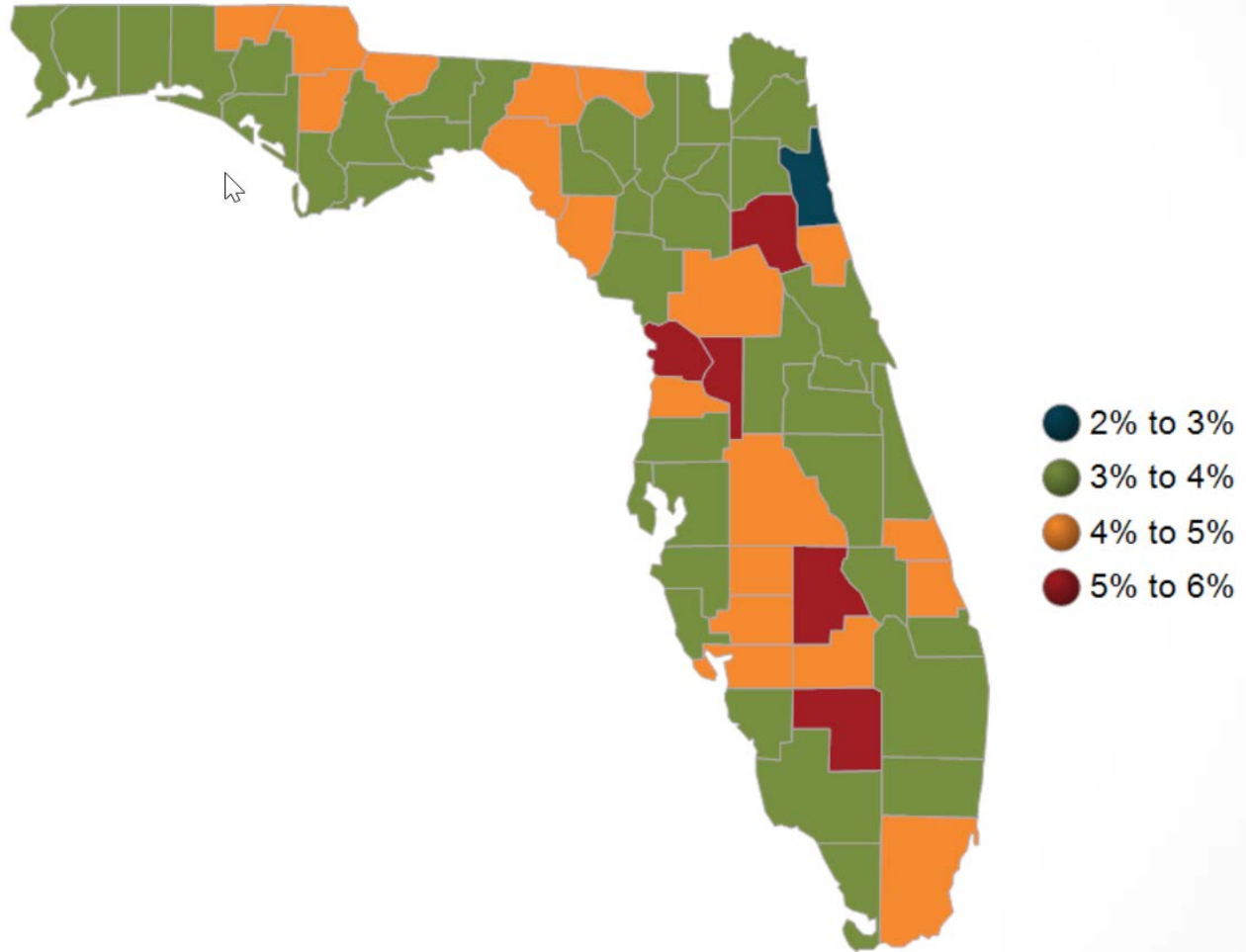


Data Through September 2018

Source: Bureau of Labor Statistics, STL FRB FRED

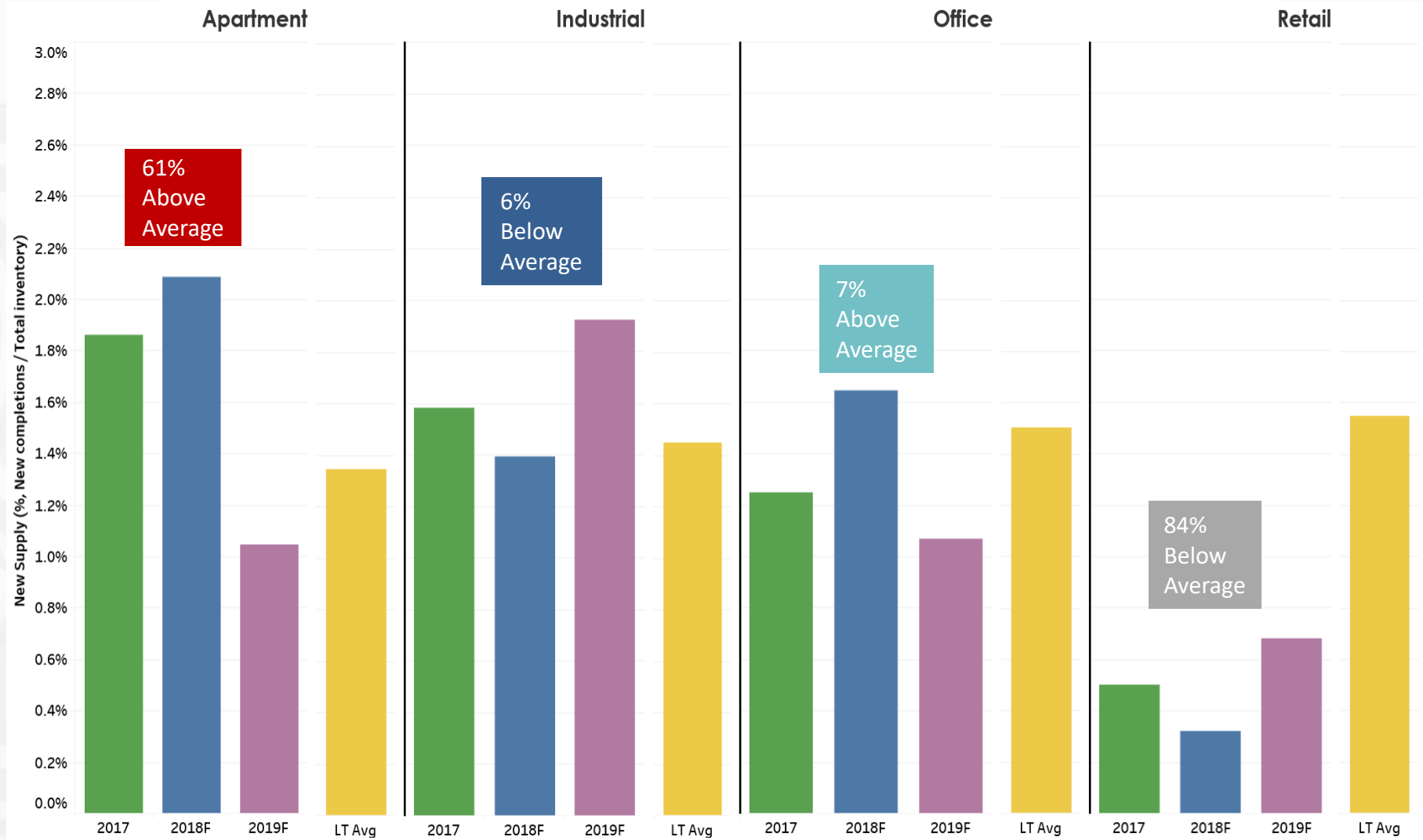
COUNTY UNEMPLOYMENT LEVELS

June 2018

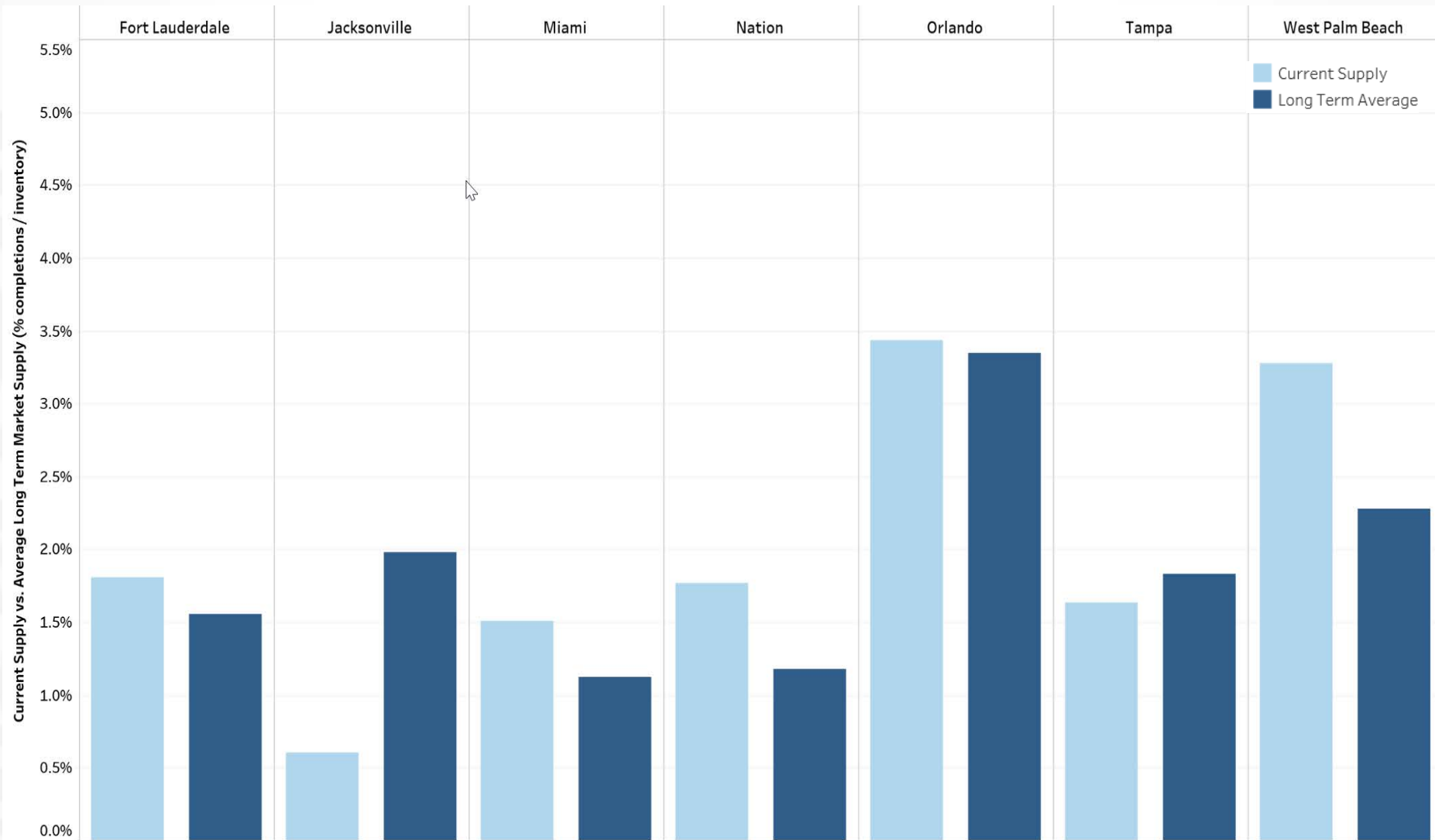


NATIONAL NEW SUPPLY VS. LONG-TERM AVERAGE

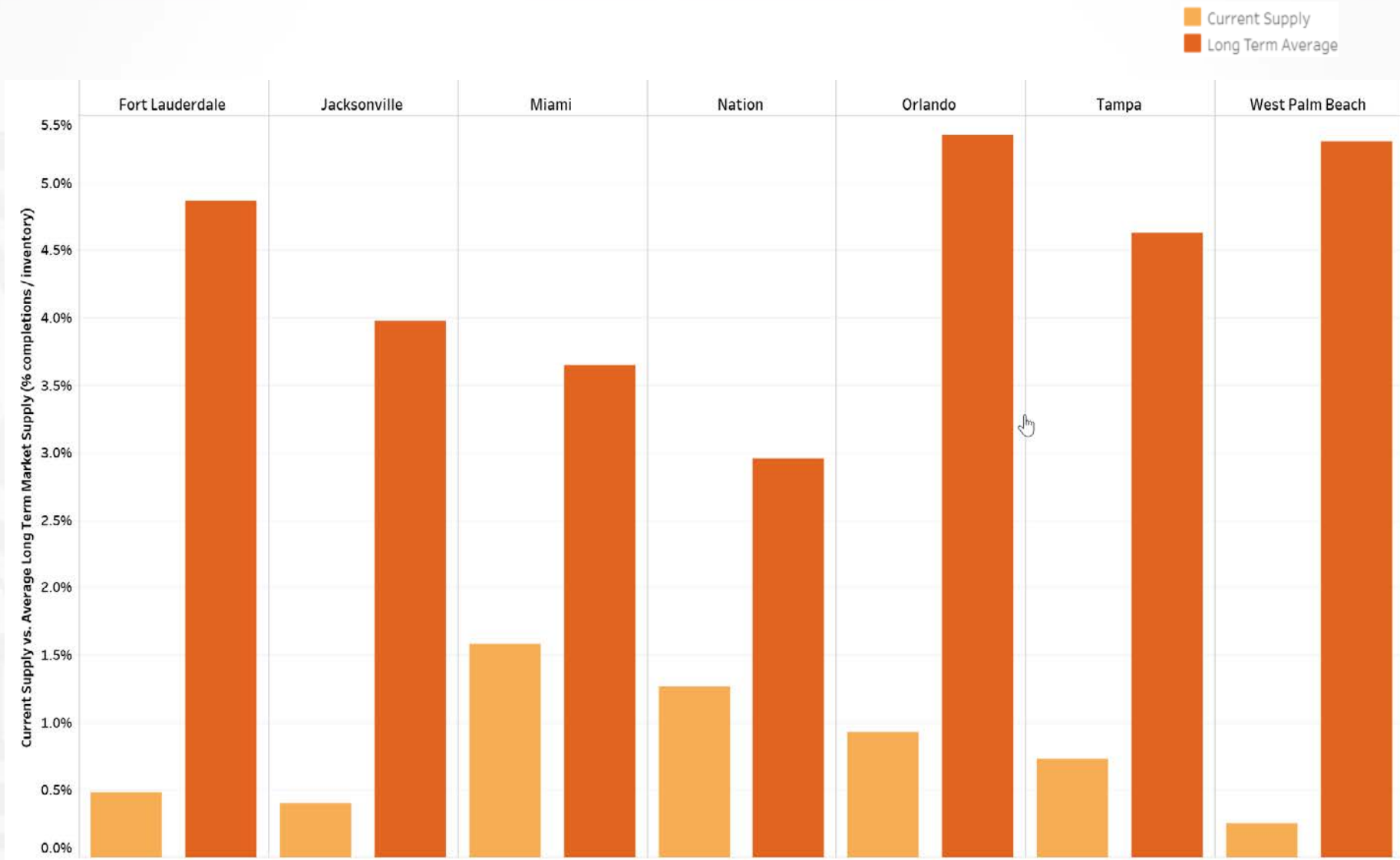
20-YEAR AVERAGES VS. 2017, 2018F, 2019F SUPPLY



APARTMENTS SUPPLY: CURRENT VS. LONG-TERM AVERAGE



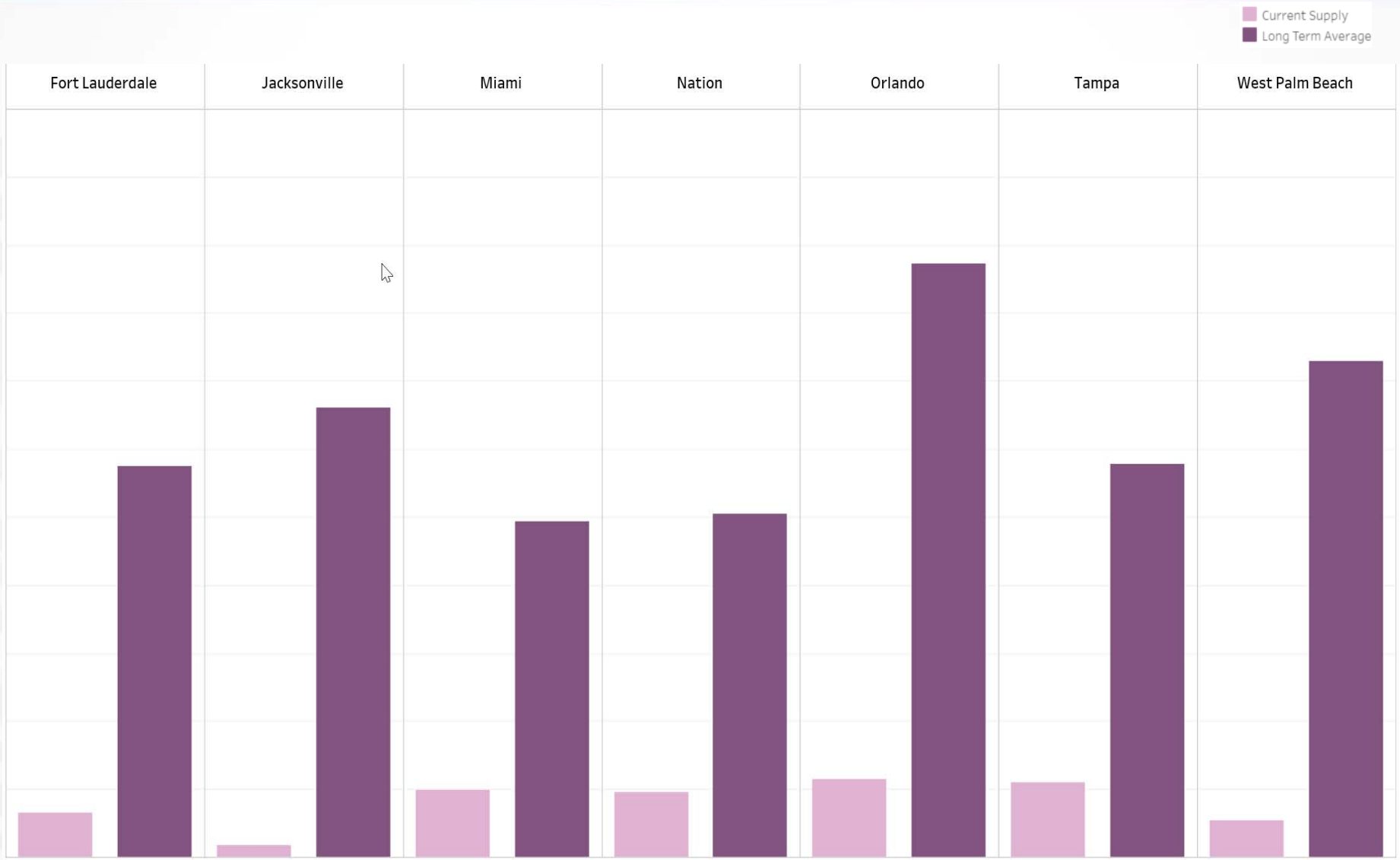
OFFICE SUPPLY: CURRENT VS. LONG-TERM AVERAGE



INDUSTRIAL CURRENT SUPPLY VS. LONG-TERM AVERAGE



RETAIL SUPPLY: CURRENT VS. LONG-TERM AVERAGE



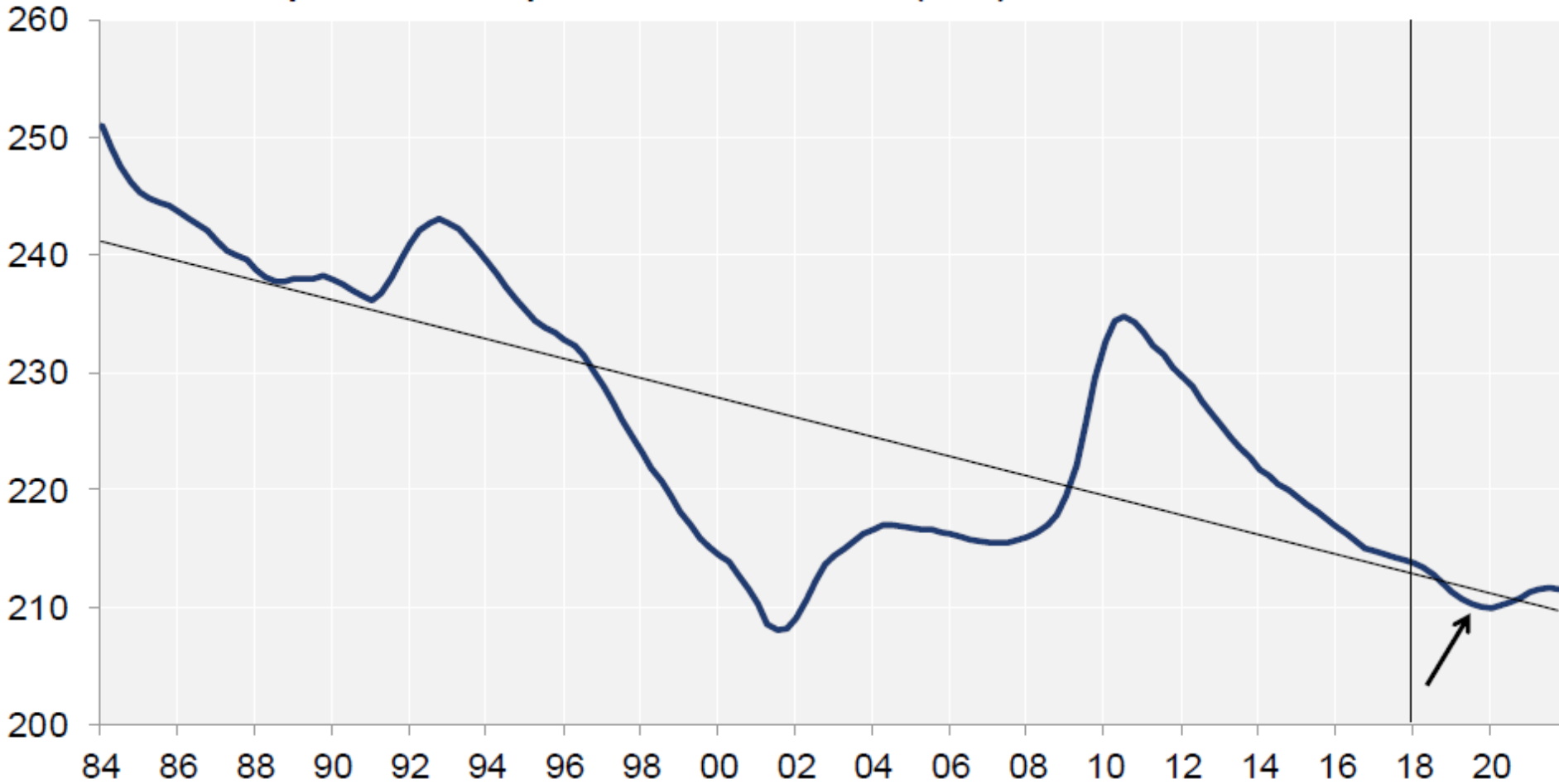
Current Supply
Long Term Average

OFFICE DENSIFICATION

As of 1Q 2018



Total Occupied Office Square Feet Per Worker (U.S.)

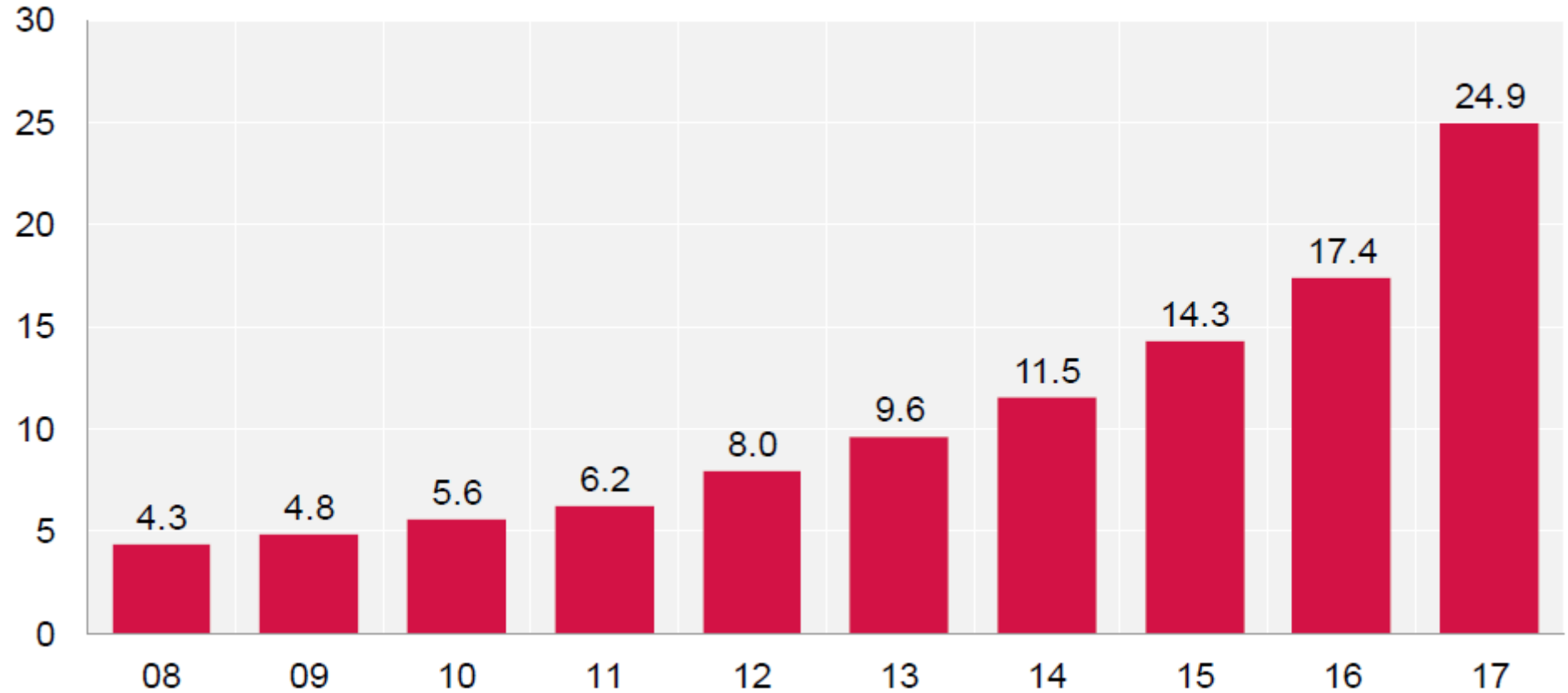


COWORKING GROWTH

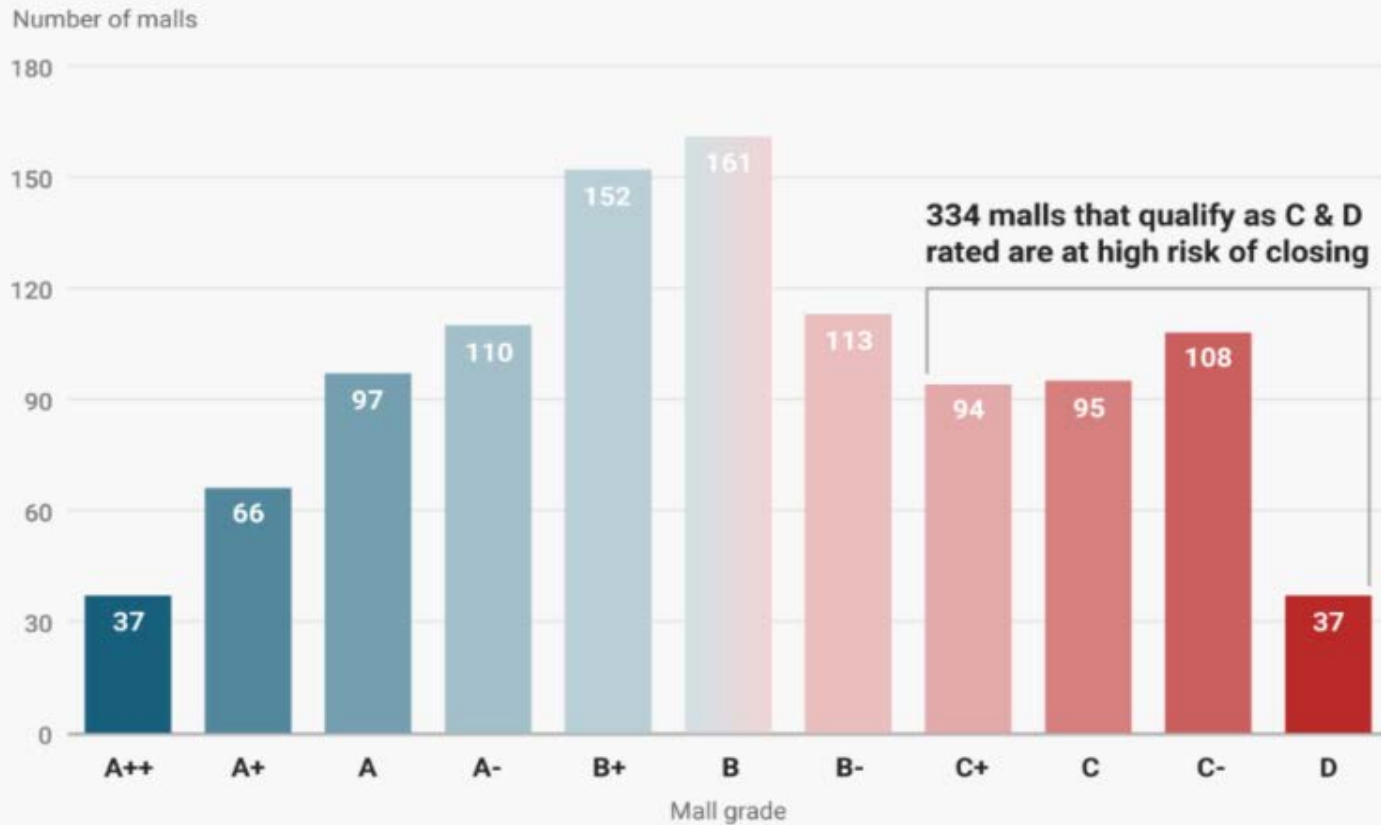
As of 2018



Millions SF Occupied By Coworking Tenants



MALLS ACROSS AMERICA ARE AT RISK OF CLOSING

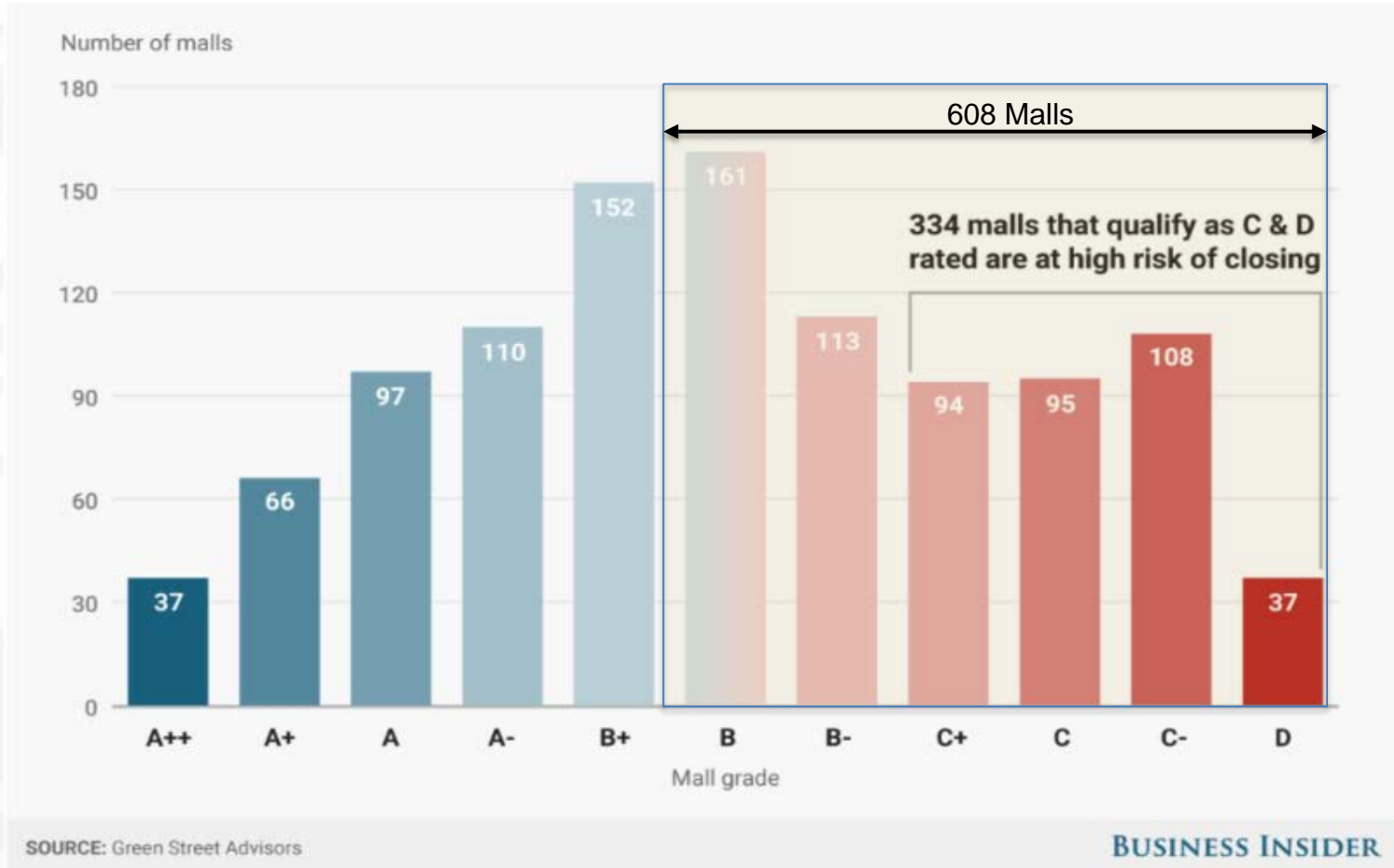


SOURCE: Green Street Advisors

BUSINESS INSIDER

INCREASING TARGETED RETAIL RISKS

Major retailers are evaluating store closures across a good portion the spectrum. Is the industry prepared if they begin closing stores at B-, B or even B+ locations?





Change is accelerating in the Grocery-Anchored segment.

A number of grocery chains are under pressure. A number of grocery chains are under pressure.

Walmart to expand delivery to markets serving 40% of the population by the end of 2018

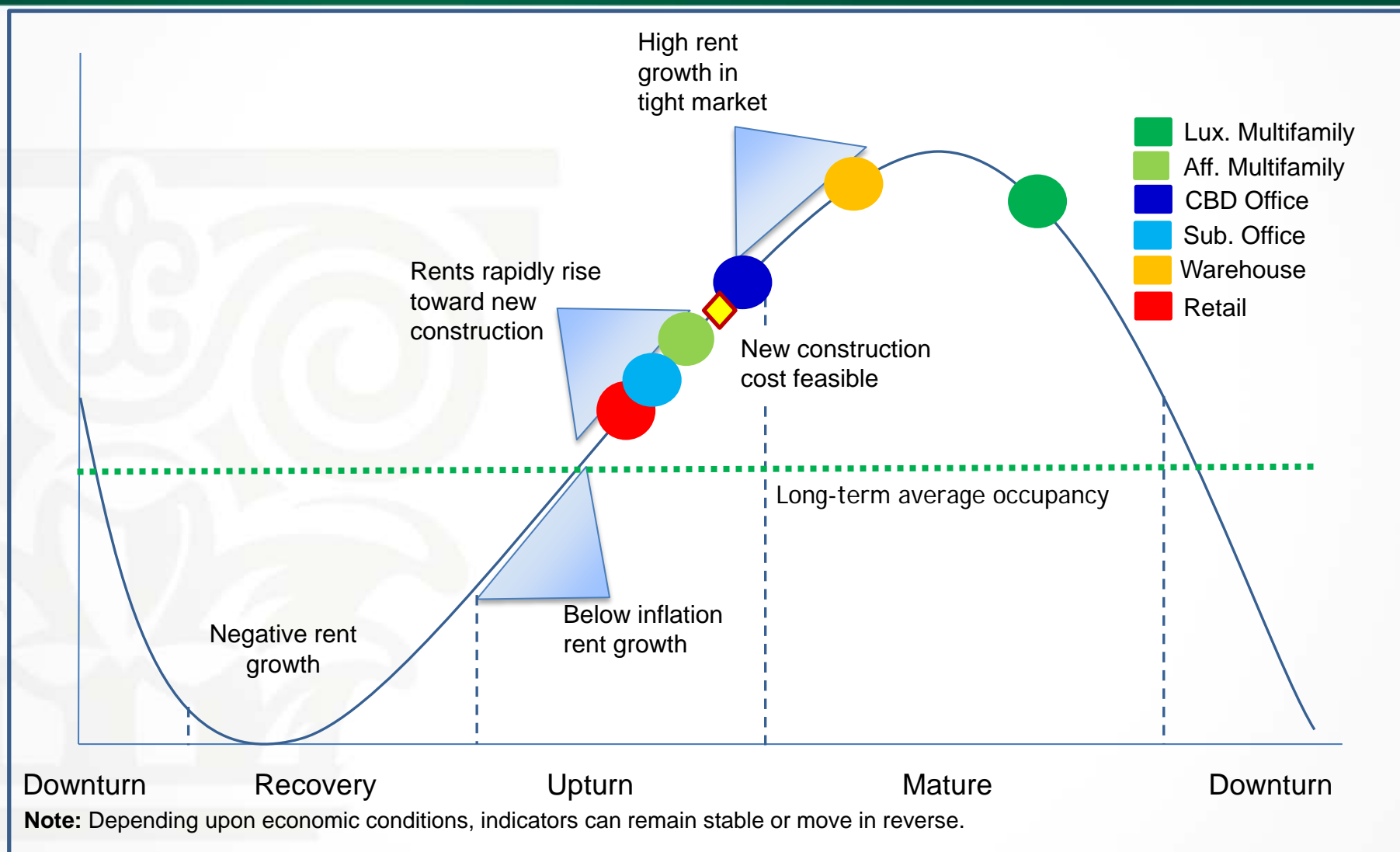
Amazon's purchase of Pillpack... prescriptions delivered to your front door.

Consumers demand home delivery....big implications for retailers...more consumer options, lower amount of impulse buys, declining margins in an already margin challenged business, etc.

THE \$0/HR BURGER MAKER



2018 OUTLOOK

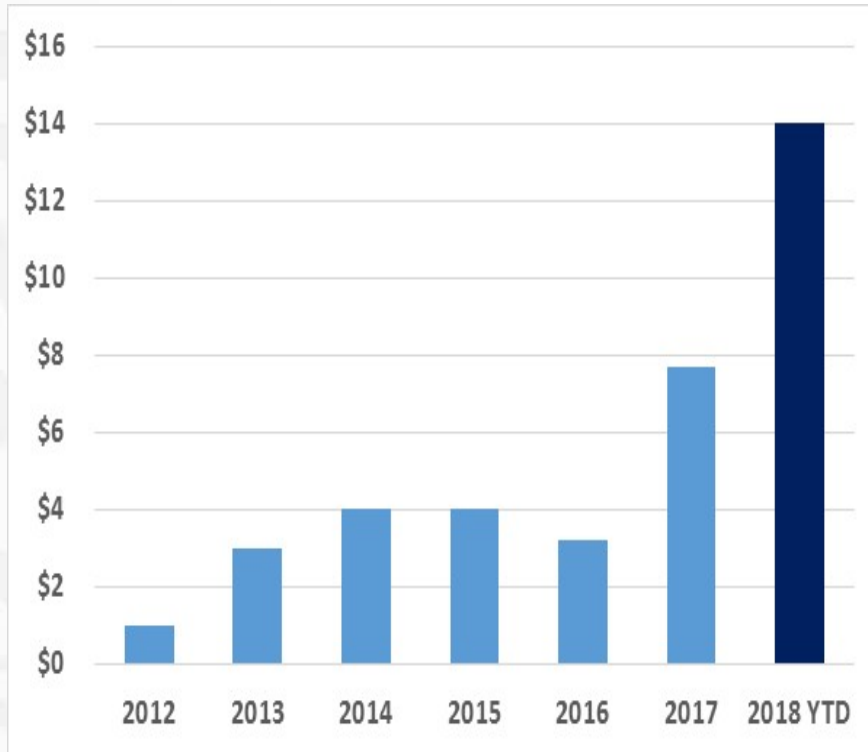


LENDING SENTIMENT

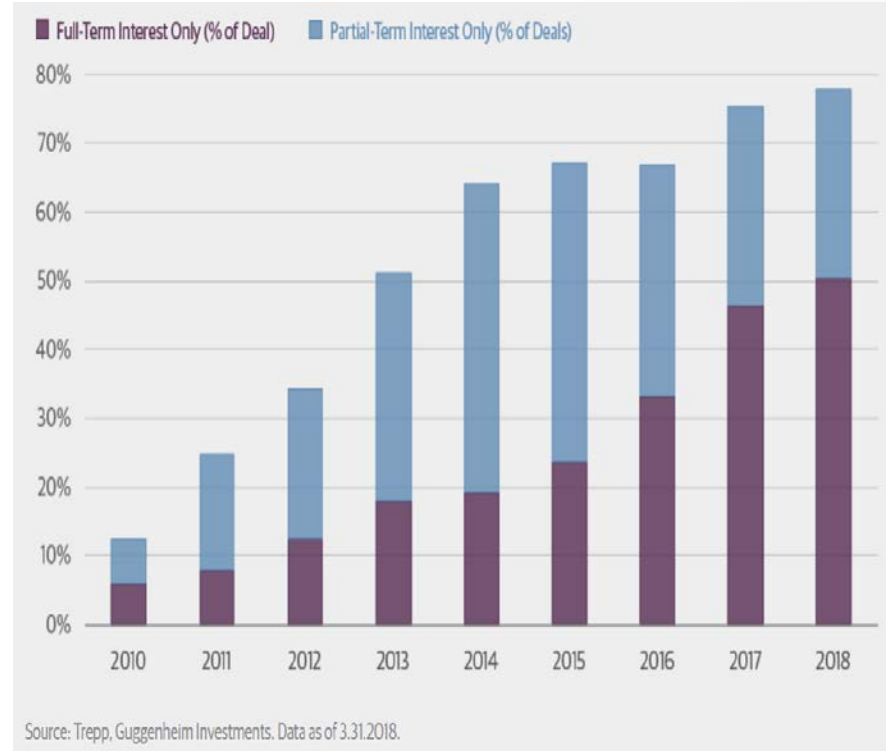


MORE BORROW FRIENDLY FINANCING?

CRE CLO Originations (\$, Billions)



CMBS Originations (% Interest-Only, Partial Interest-Only)



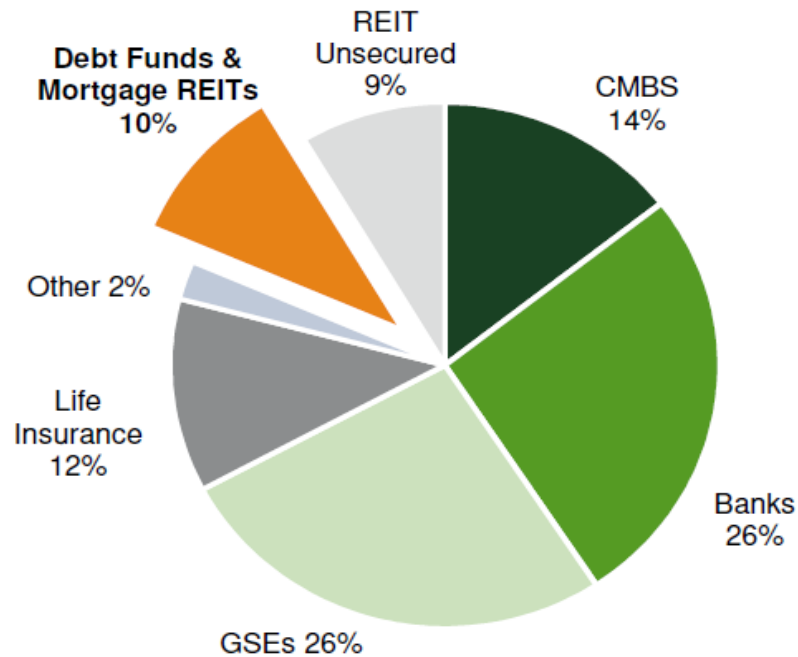
Data: Q2 2018; CMBS Q1 2018

Source: Kroll, Trepp, Guggenheim Investments

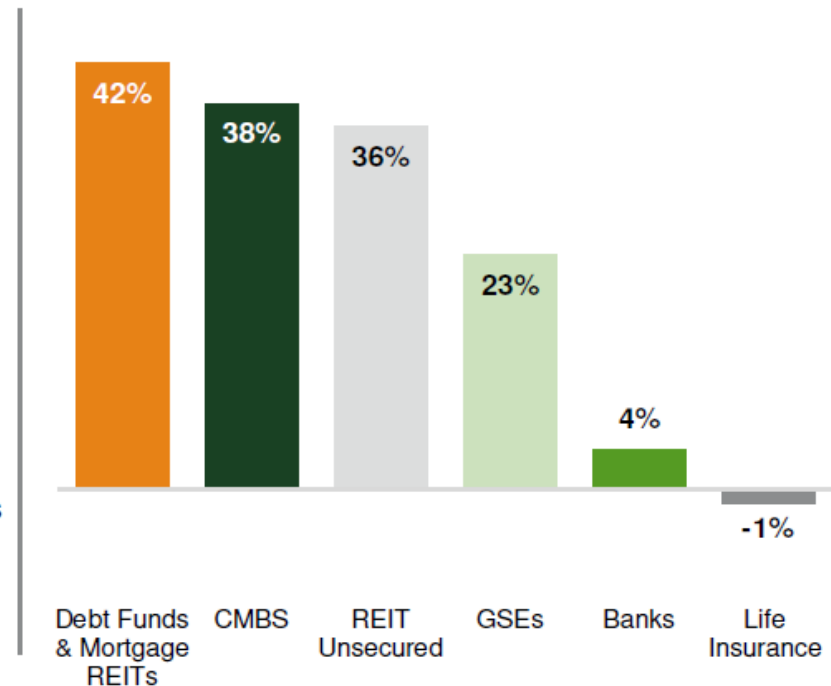
WHO IS LENDING?

Taking Share: Scant debt fund & mortgage REIT origination data exists. An amalgamation of third party data and conversations with market participants paints a picture of the approximate size of these nontraditional lenders within the context of last year's ~\$600 billion of total originations in the U.S. The recent rate of growth should continue in '18, bringing debt fund & mortgage REIT volume on par with life insurance companies.

U.S. Originations ('17)



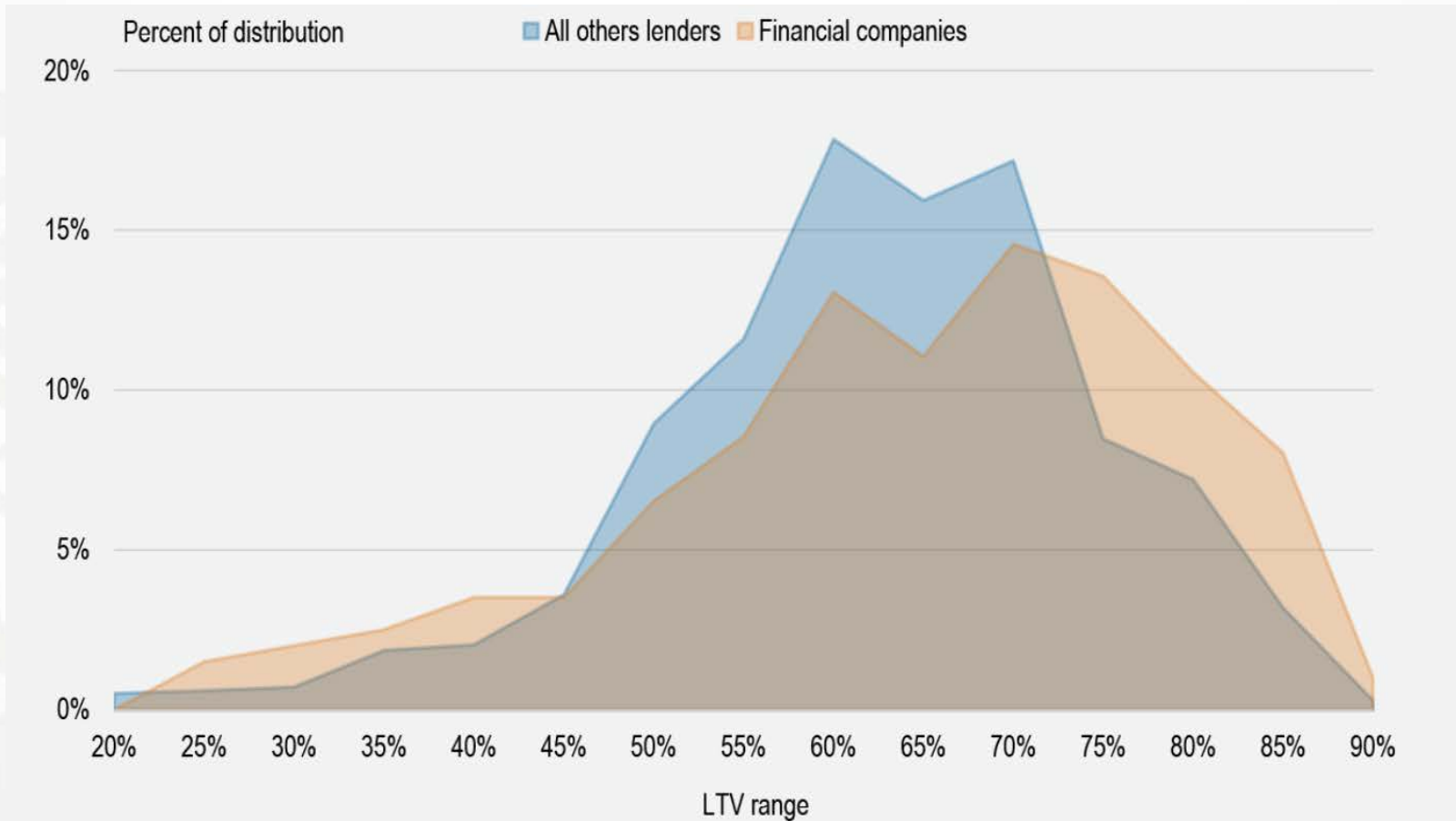
Growth ('17 vs. '16)



Source: Commercial Mortgage Alert, Mortgage Bankers Association, Preqin, Real Capital Analytics, company reports, Green Street Advisors

MORE LENDING RISK?

LTVs at Financial companies (non-banks) and other lenders (banks)



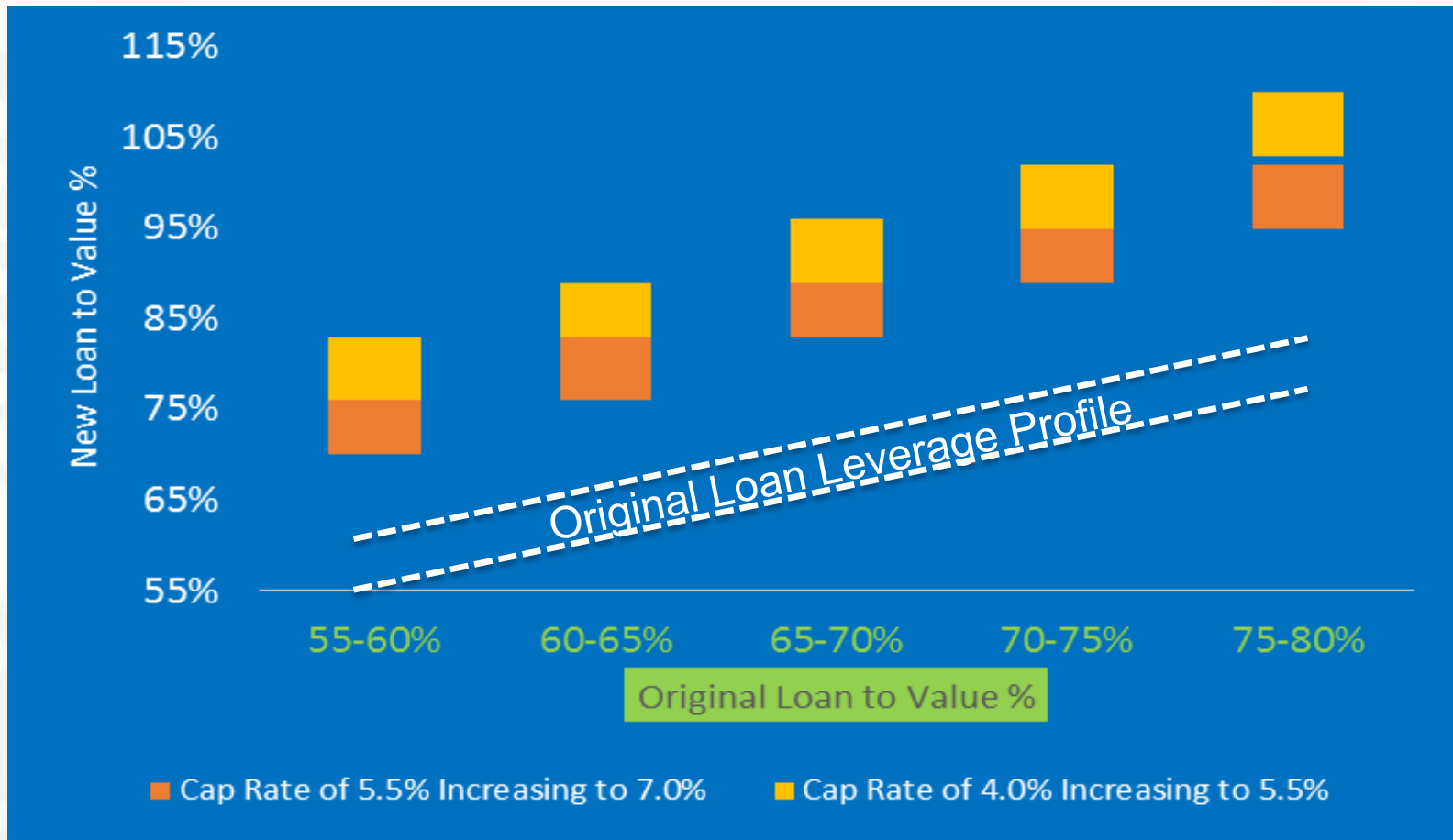
Includes: Office, Hotel, Industrial, Retail & Apartments; excludes renovation and construction loans

Data: Q1 2018

Source: Real Capital Analytics

CHANGES IN CAP RATES MAY IMPACT LEVERAGE LEVELS...

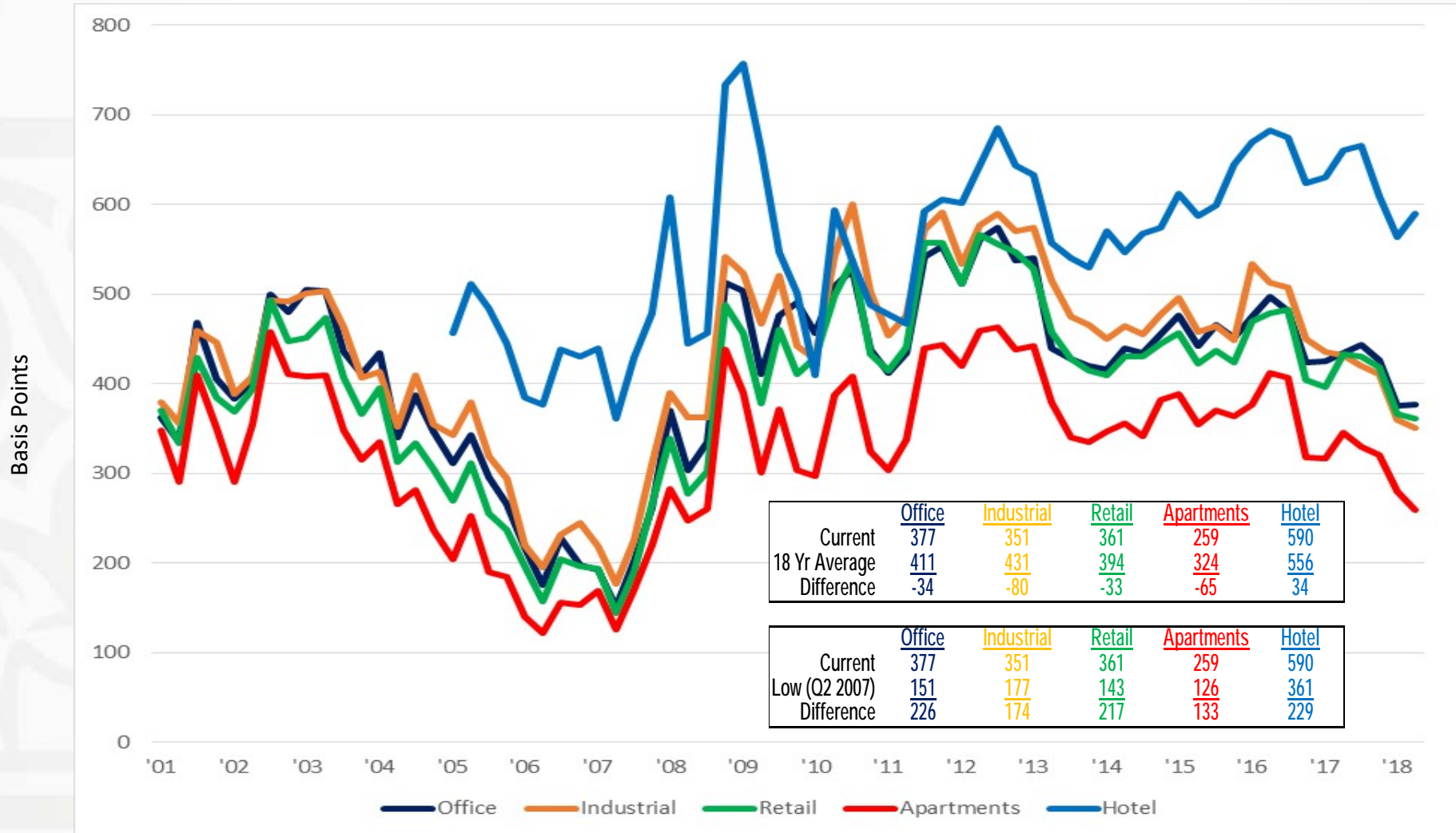
All else remaining equal, a 150 basis point increase in CRE Cap Rates moves the LTV upward notably in both scenarios.



The implications may be greater for smaller markets, CRE Cap Rates experience greater movements

IS CRE PRICING RISK INCREASING?

SPREAD ABOVE 10-YR TREASURY



10 Yr T Yield = 2.91%

Data through 2Q 2018

Source: Real Capital Analytics, Risk Analysis Unit/Federal Reserve Bank of Atlanta

CLOSING THOUGHTS:

- The U.S. economy is poised for continued growth
- CRE conditions are later in the lifecycle and more changes are occurring
- An accelerated rate of change may be the new normal in certain sectors
- Domestic capital markets appear steady, but dynamics are changing and risk is emerging in some traditional areas, as well as new.

QUESTIONS:

- Rising 10-Year Treasury yields?
- Recent survey: 2/3 of economists expect the next recession to begin in 2020???
- Overleverage?