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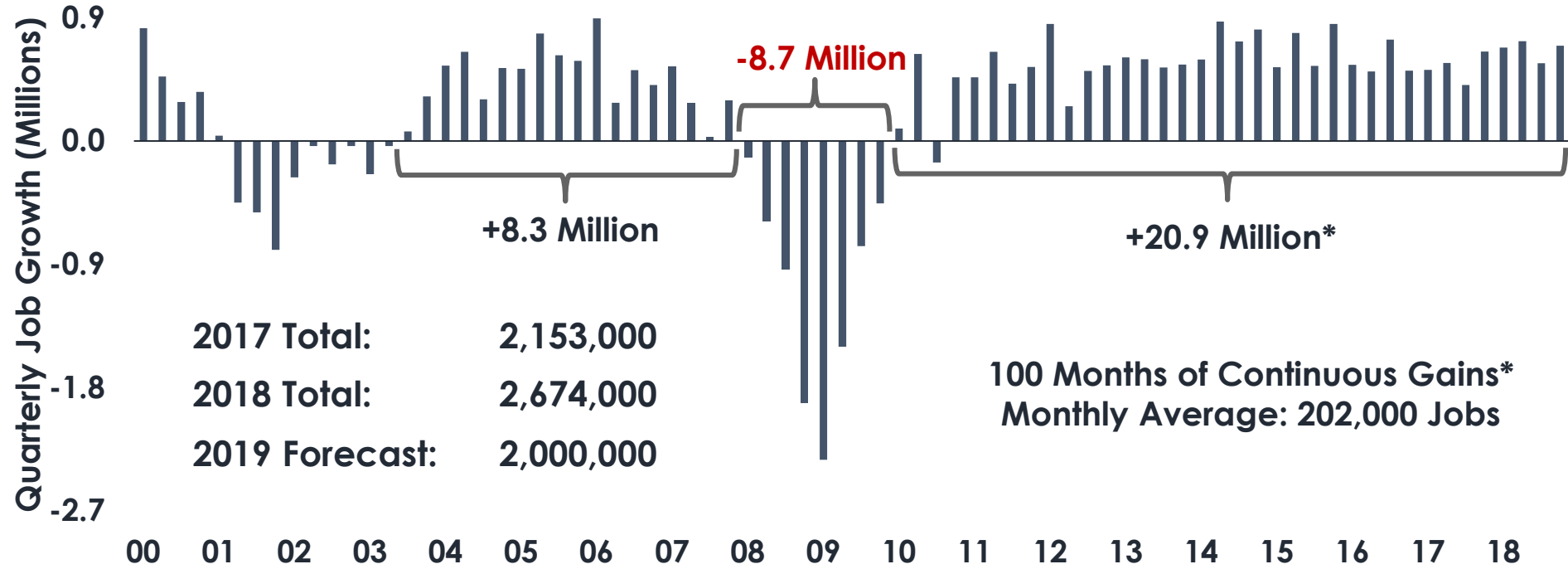
# **U.S. Commercial Real Estate Overview and Outlook**

Marcus & Millichap

# U.S. Economic Perspective Since 2007 – The Height of the Last Cycle

- ❖ **25.5 Million** Increase in Population Since 2007
- ❖ **10.6 Million** More Households Than 2007
- ❖ **12.2 Million** More Jobs Than 2007
- ❖ **100 bps** Decline of Unemployment Rate to 4.0%
- ❖ **3.2 Million** More Job Openings Than 2007 (7.3M)
- ❖ **\$6.2 Trillion** GDP Growth Since 2007 (2x UK Total)
- ❖ **170 bps** Decline in Inflation Rate (PCE) to 1.7%
- ❖ **140 bps** Decrease in 10-Yr. Treasury Yield to 2.7%

# Employment Growth Durable and Remarkably Stable



\* Through January 2019  
Sources: Marcus & Millichap Research Services, BLS

# National Employment Rank by Metro Y-O-Y Absolute Change Through December 2018

Top 10 Metros	Absolute Change	Percent Change
Dallas-Fort Worth	117,900	3.2%
Houston	111,100	3.6%
Phoenix	79,700	3.9%
Atlanta	69,900	2.5%
Seattle-Tacoma	67,200	3.3%
New York	67,100	1.5%
Chicago	59,000	1.3%
Los Angeles	55,500	1.2%
Philadelphia	54,400	1.9%
Washington, D.C.	54,300	1.6%
<b>U.S. Total</b>	<b>2,674,000</b>	<b>1.8%</b>

Bottom 10 Metros	Absolute Change	Percent Change
Orange County	-4,300	-0.3%
Milwaukee	6,400	0.7%
San Antonio	8,500	0.8%
Detroit	13,400	0.7%
Jacksonville	13,800	2.0%
Sacramento	15,900	1.6%
Kansas City	16,200	1.5%
Fort Lauderdale	16,500	2.0%
West Palm Beach	16,500	2.7%
St. Louis	18,700	1.4%
<b>U.S. Total</b>	<b>2,674,000</b>	<b>1.8%</b>

# Impact of Tax Reform

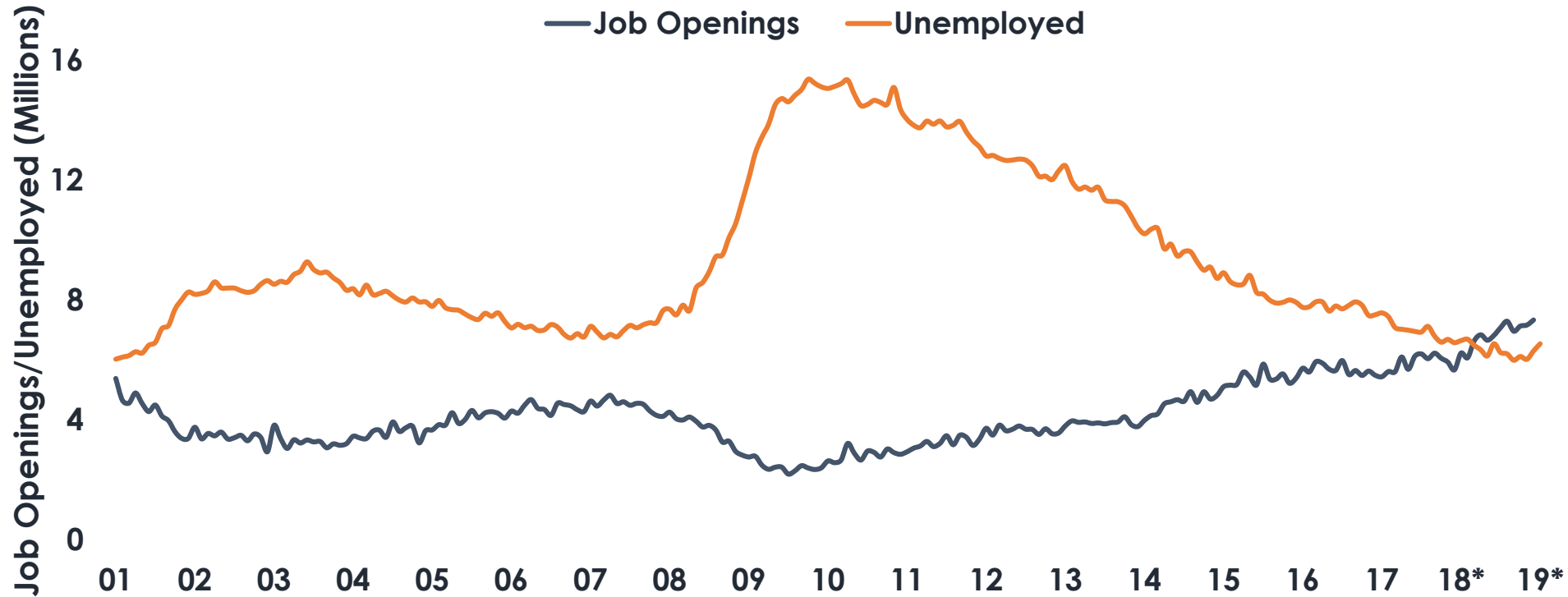
- ❖ Significant reduction of corporate and personal tax rate should spur investment and expansion = More Inflation Pressure
- ❖ Key tax provisions critical to commercial real estate retained
  - ❖ 1031 Exchange, Mortgage Interest Deduction, Depreciation
- ❖ Pass-through entity 20% deduction increases after tax yield, could boost market liquidity
- ❖ Reduced corporate taxes and accelerated depreciation could boost commercial real estate space demand
- ❖ Unfavorable for residential housing and high-tax states
- ❖ Opportunity Zone program has potential to bring influx of new investment capital to commercial real estate



# There Are Risks – Despite Favorable Economic Backdrop

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# U.S. Has More Job Openings Than People Seeking Work – Challenge of Skills Mismatch

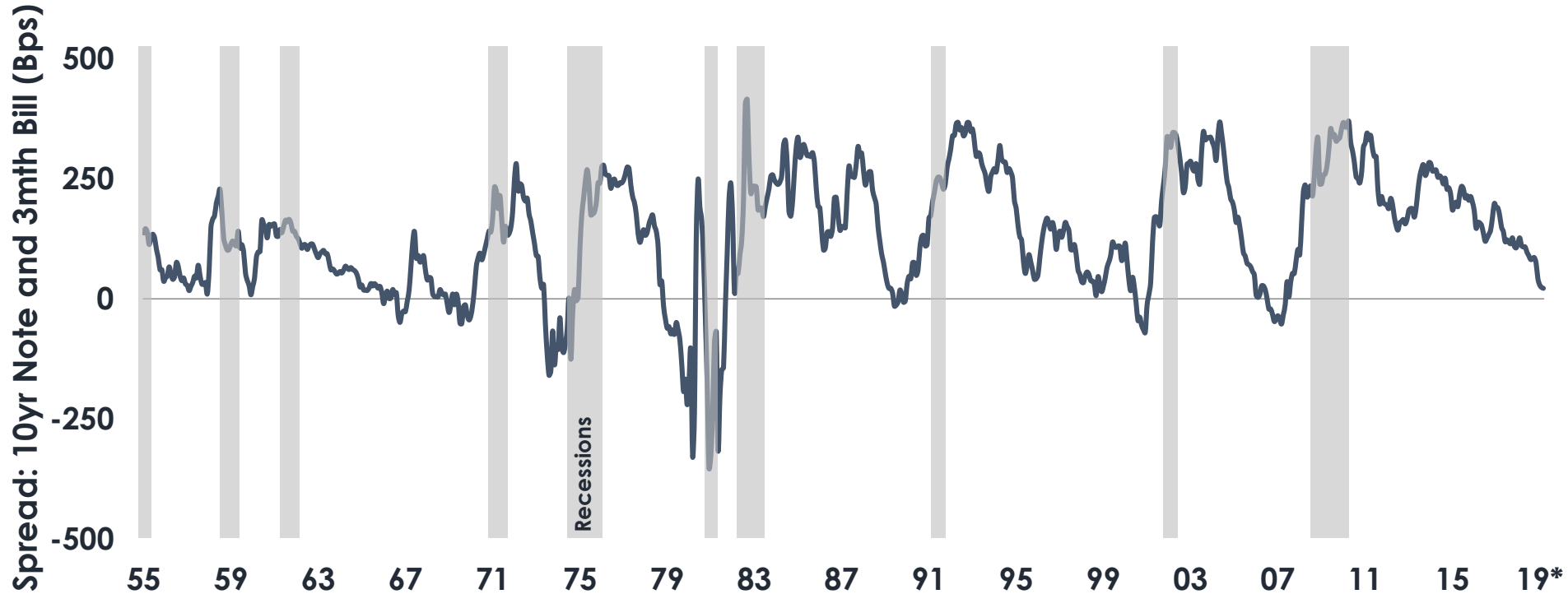


\* Unemployed through January 2019; job openings through December 2018

Sources: Marcus & Millichap Research Services, BLS

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# Long-Term Yield Spread – An Indication of Recession?



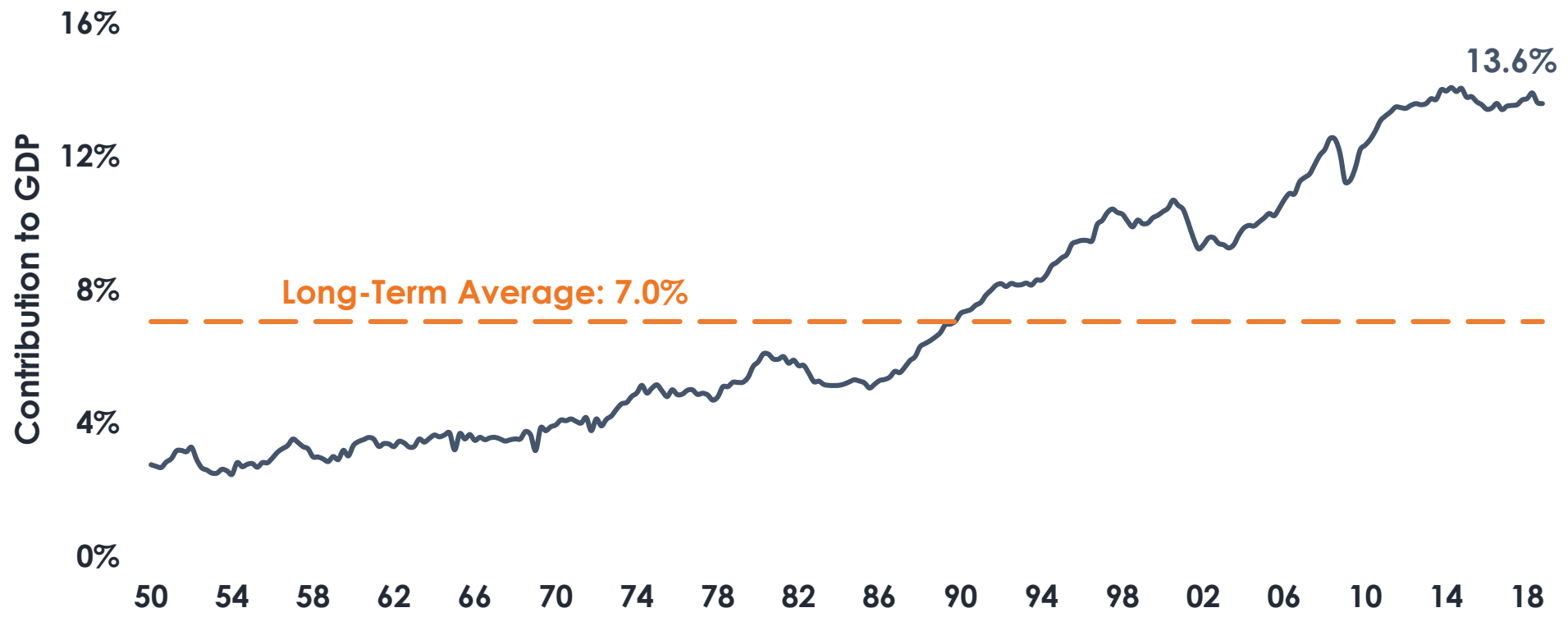
\* Through March 06

Sources: Marcus & Millichap Research Services, Federal Reserve

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# Exports: Major Force in the U.S. Economy As Measured by Contribution to GDP



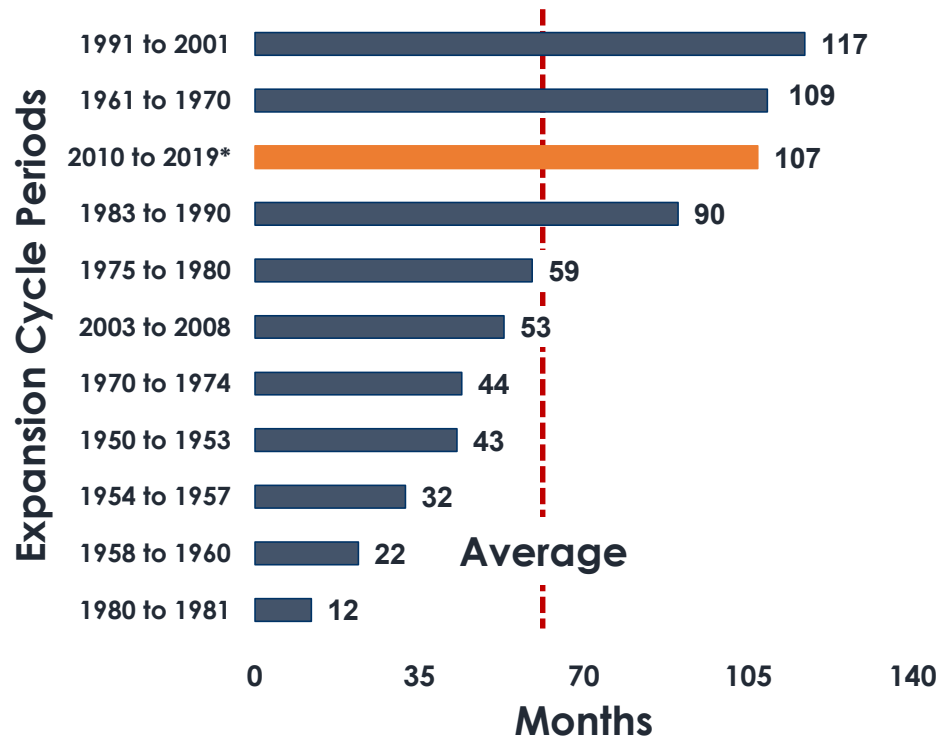


# Offsetting Strengths Hard to Ignore

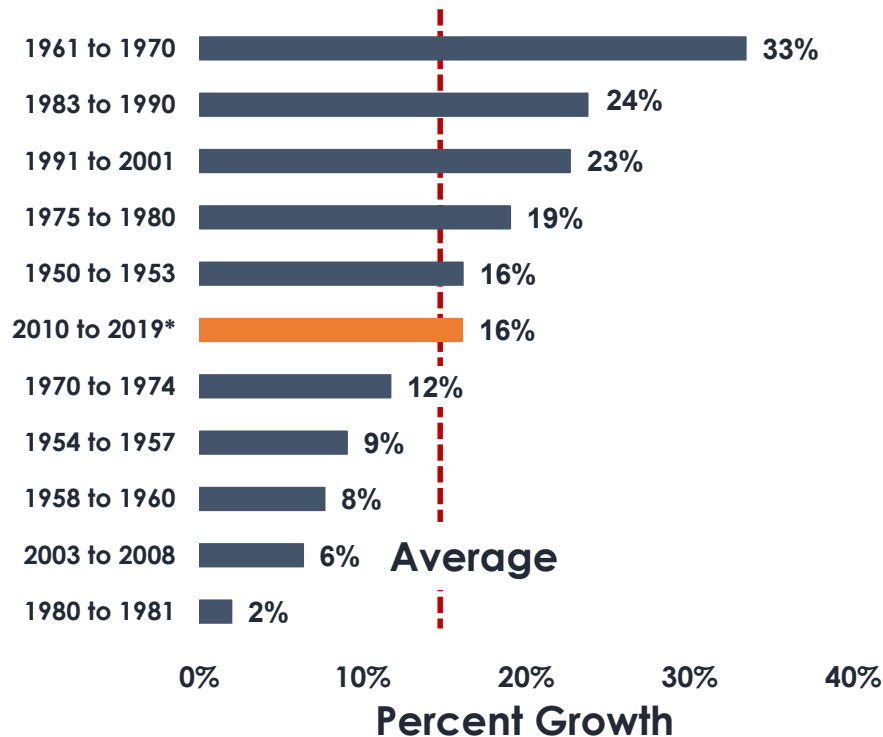
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# Current Employment Expansion Cycle Longer Than Average But Still not Record-Setting

## Expansion Cycle Duration



## Percent Job Growth

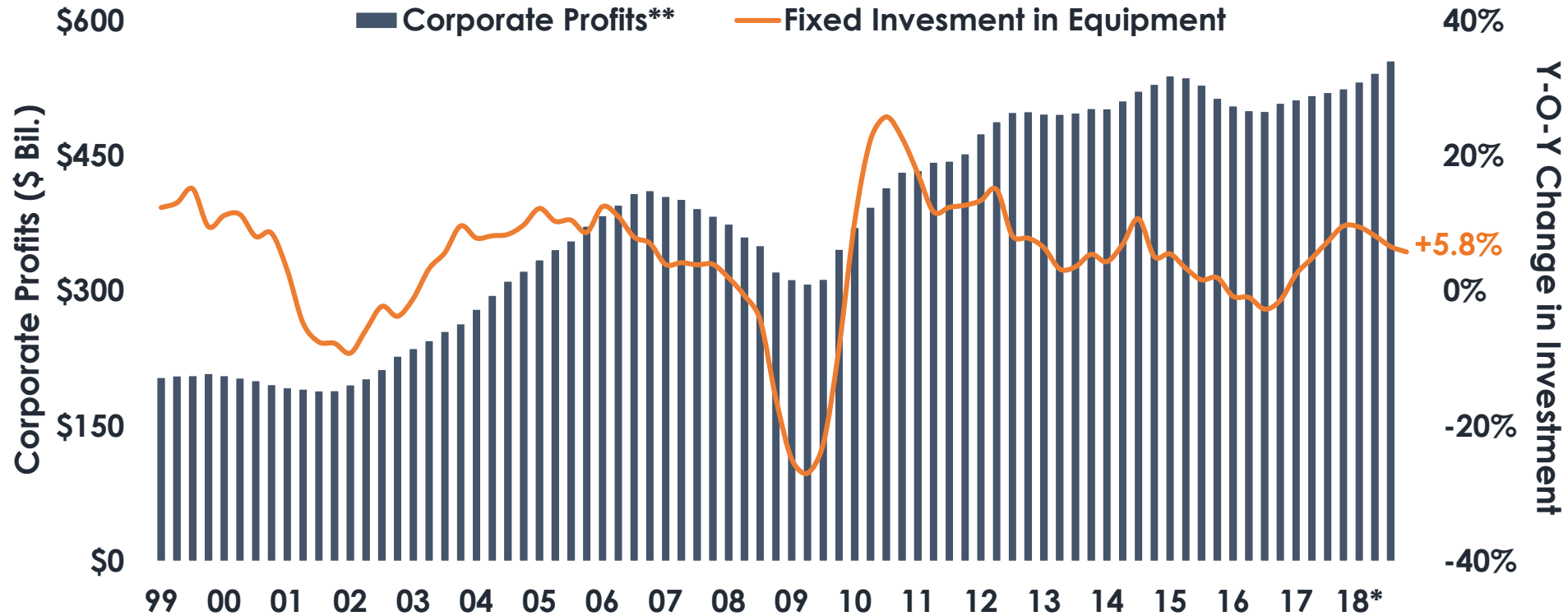


\* Through January

Sources: Marcus & Millichap Research Services, BLS

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# Corporate Profits Elevated Investment Growth Positive

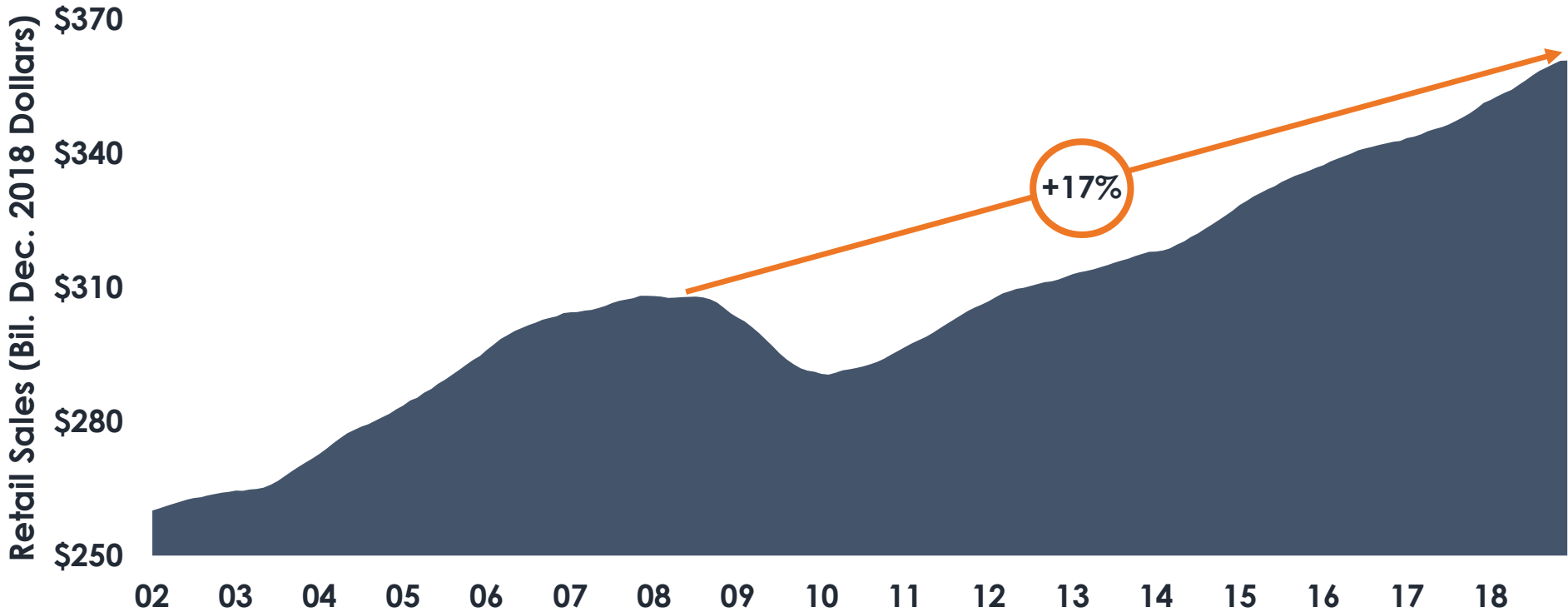


\* Corporate profits through 3Q; Fixed investment in equipment through 4Q

\*\* Trailing 12-month average

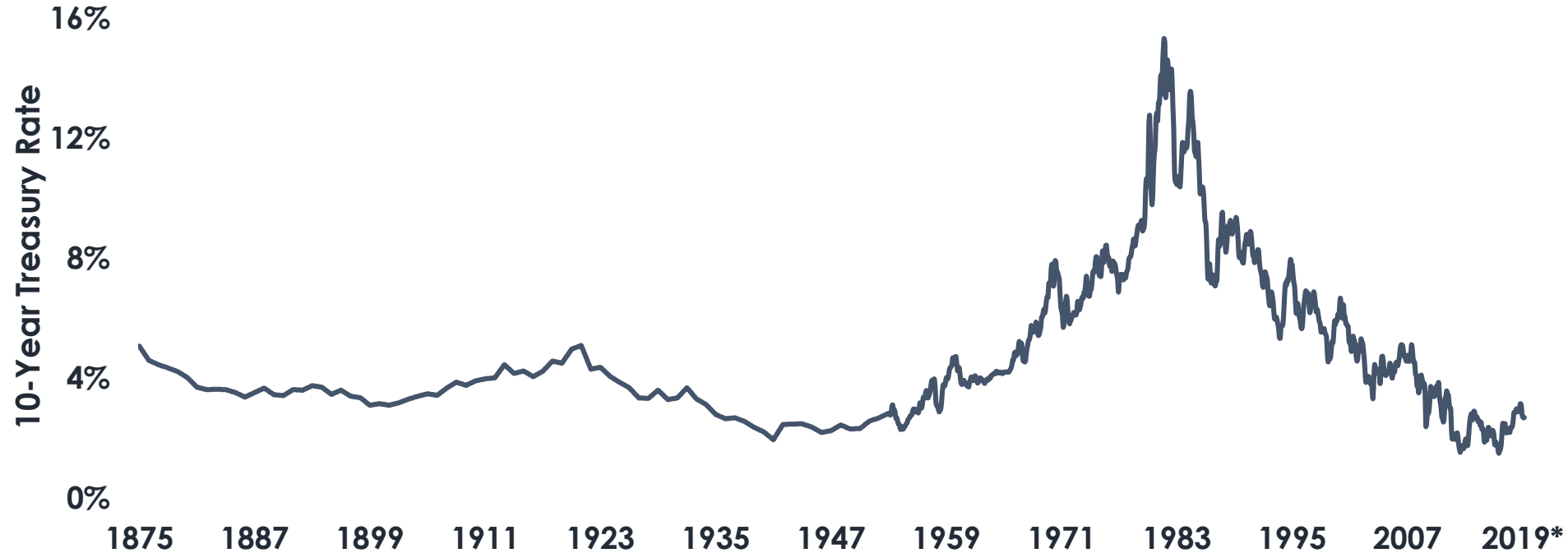
Sources: Marcus & Millichap Research Services, BEA

# U.S. Core Retail Sales Building Steady Momentum - Growth Supporting Economy



Trailing 12-month average; adjusted for inflation using core PCE  
Core retail sales excludes auto and gasoline sales  
Sources: Marcus & Millichap Research Services, U.S. Census Bureau, BEA

# Long-Term 10-Year Treasury Trends

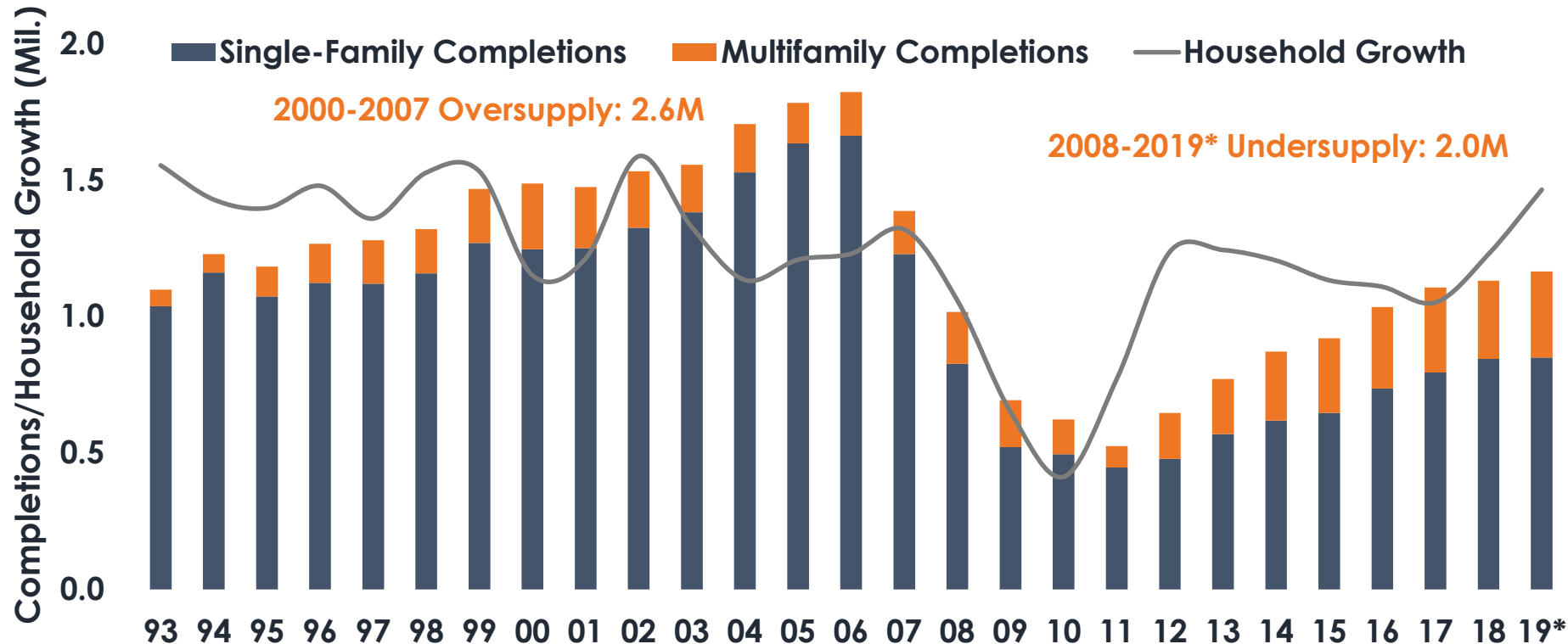


\* Through March 06

Sources: Marcus & Millichap Research Services, Federal Reserve

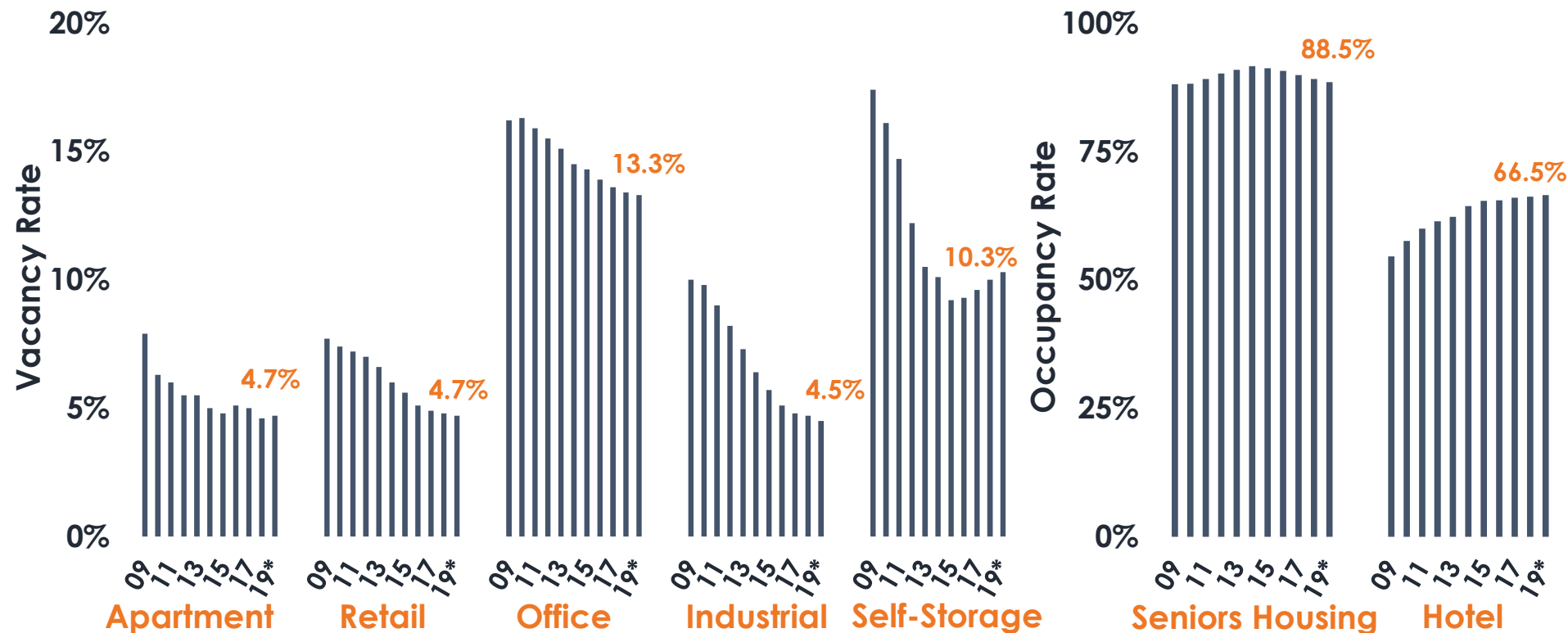
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# Housing Market Provides Solid Economic Support Due to Drop in New Construction



\* Forecast  
 Trailing 24-month average for household growth  
 Sources: Marcus & Millichap Research Services, U.S. Census Bureau, RealPage, Inc.

# U.S. Commercial Real Estate: Healthy Supply/Demand Despite 9th Year of Recovery



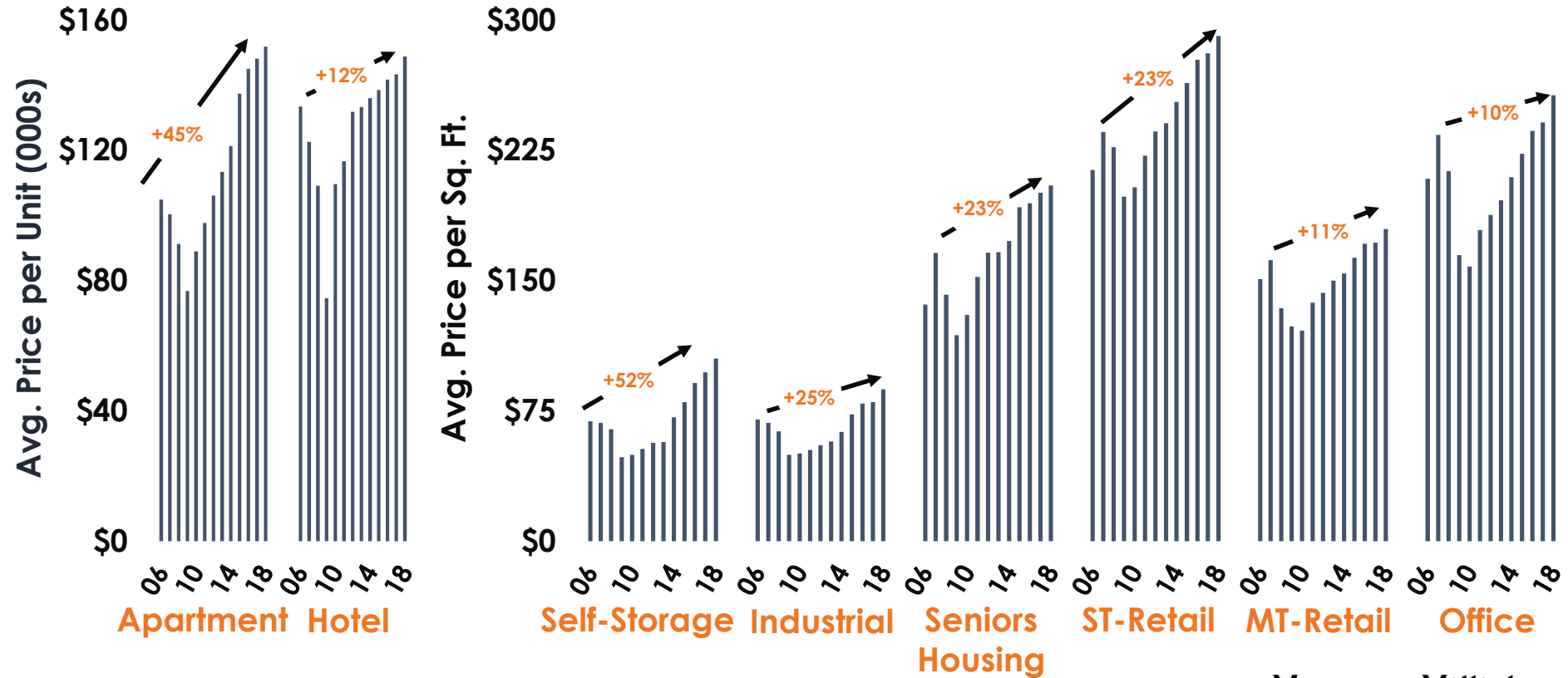
\* Forecast

Sources: Marcus & Millichap Research Services, RealPage, Inc., CoStar Group, Inc., STR, Inc., Union Realtime LLC, NIC MAP® Data Service

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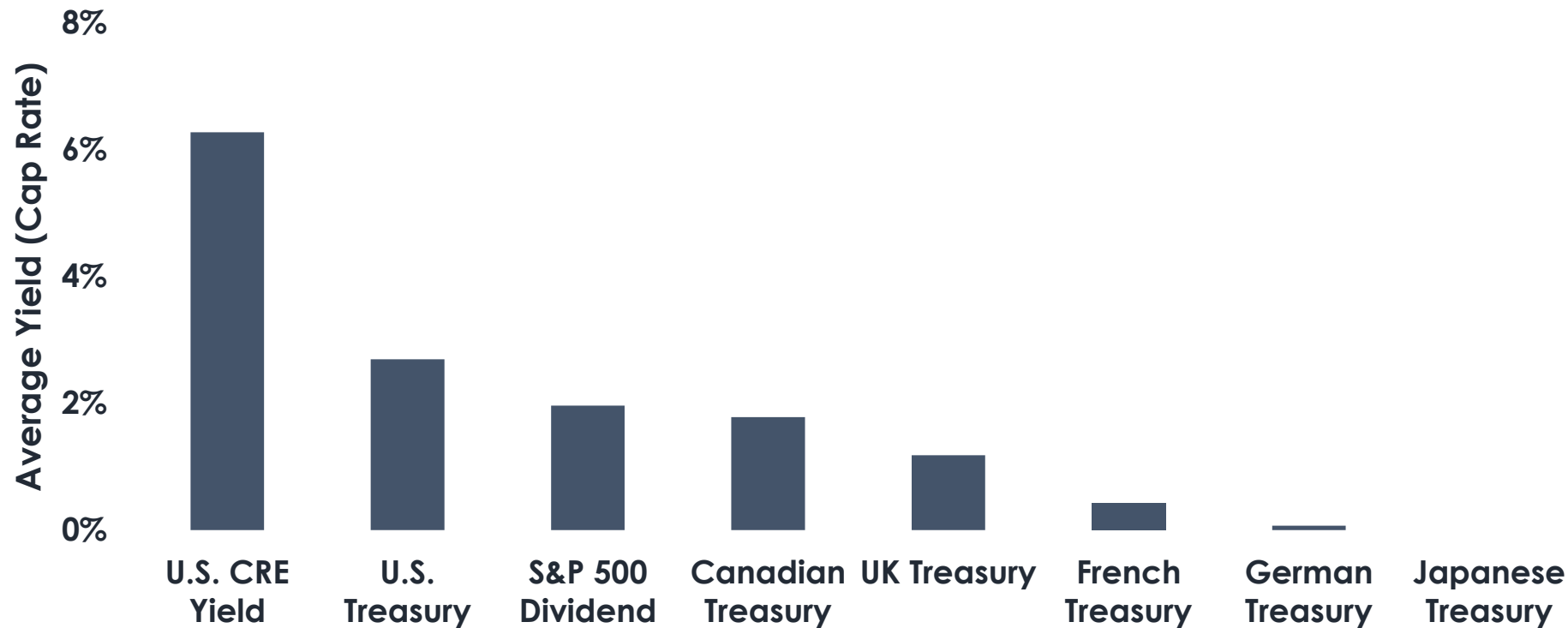


# U.S. Average Price Trends



Includes sales \$1 million and greater; \$2.5 million and greater for hotels; ST=Single Tenant; MT=Multi-Tenant  
 Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Real Capital Analytics

# U.S. Commercial Real Estate Offers Competitive Yields Compared to Alternatives



As of March 06, 2019

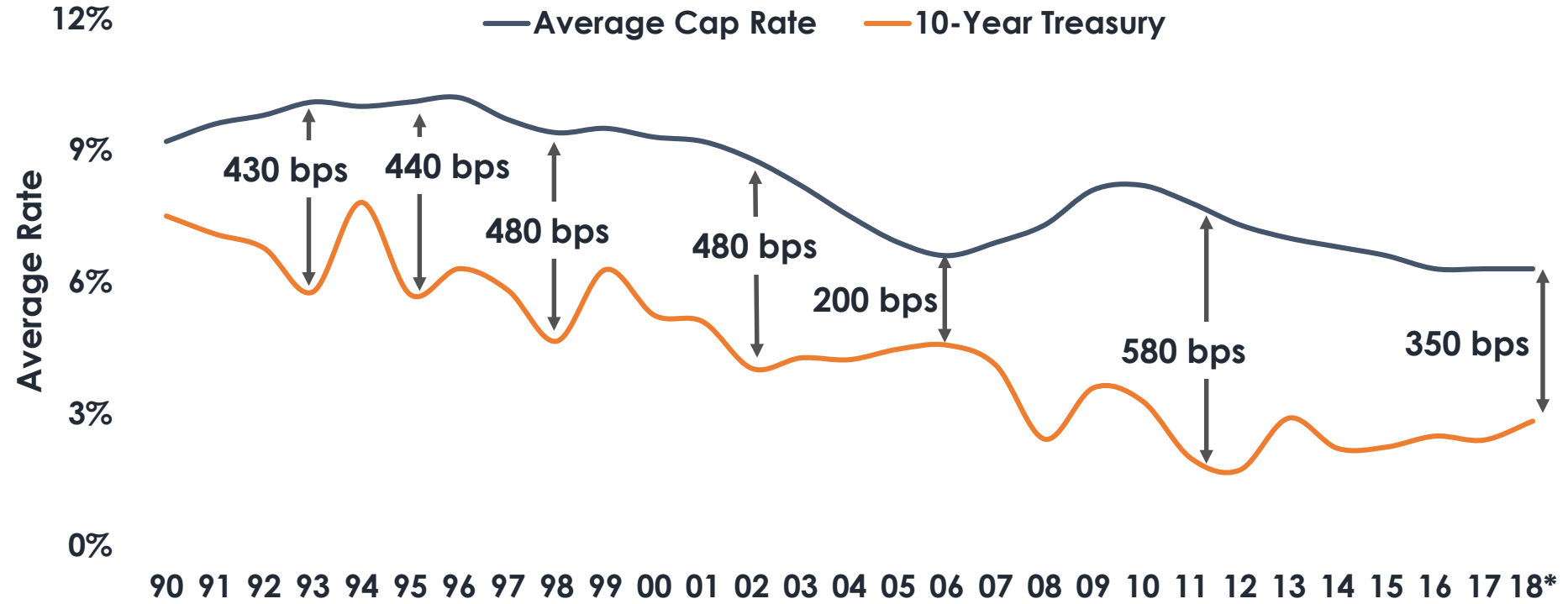
Treasury rates for 10-year treasuries

Apartment yield (cap rate) includes sales \$1 million and greater

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Real Capital Analytics, Standard & Poor's, Federal Reserve

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# Commercial Real Estate Avg. Yield vs 10-Year Treasury – Spread Indicates “Buy” Window



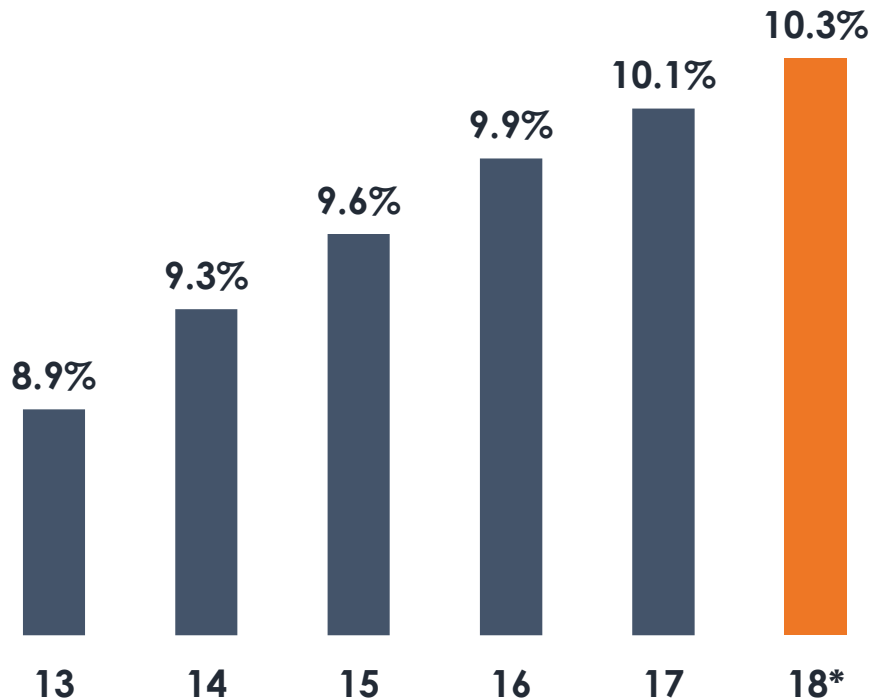
\* Through December

Includes apartment, retail, office, and industrial sales \$1 million and greater

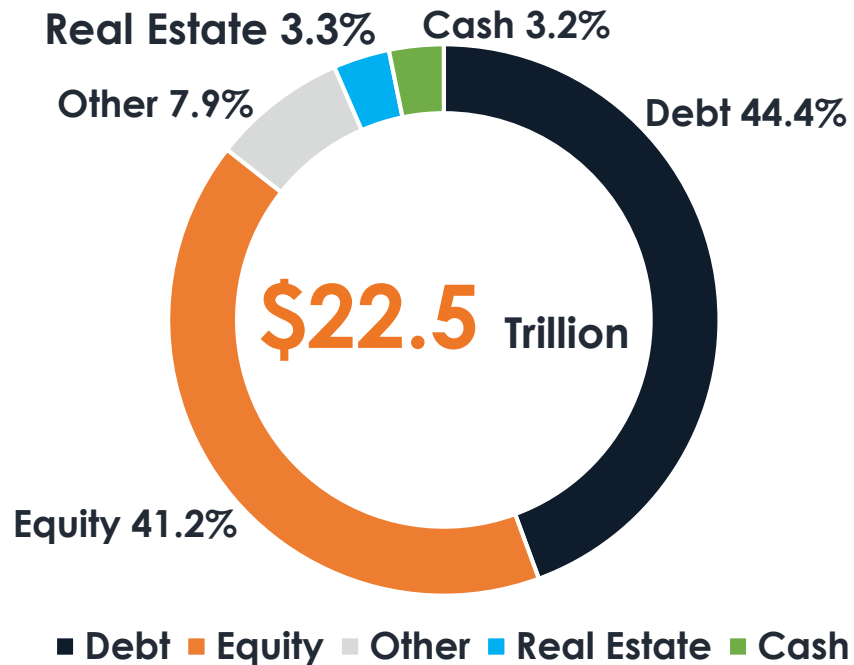
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Real Capital Analytics, Federal Reserve

# Real Estate Has Become Mainstream Investment Vehicle for Institutions, But Still Under-Allocated

## Institutional Target Allocations to Real Estate



## U.S. Pension Funds Asset Allocations\*\*



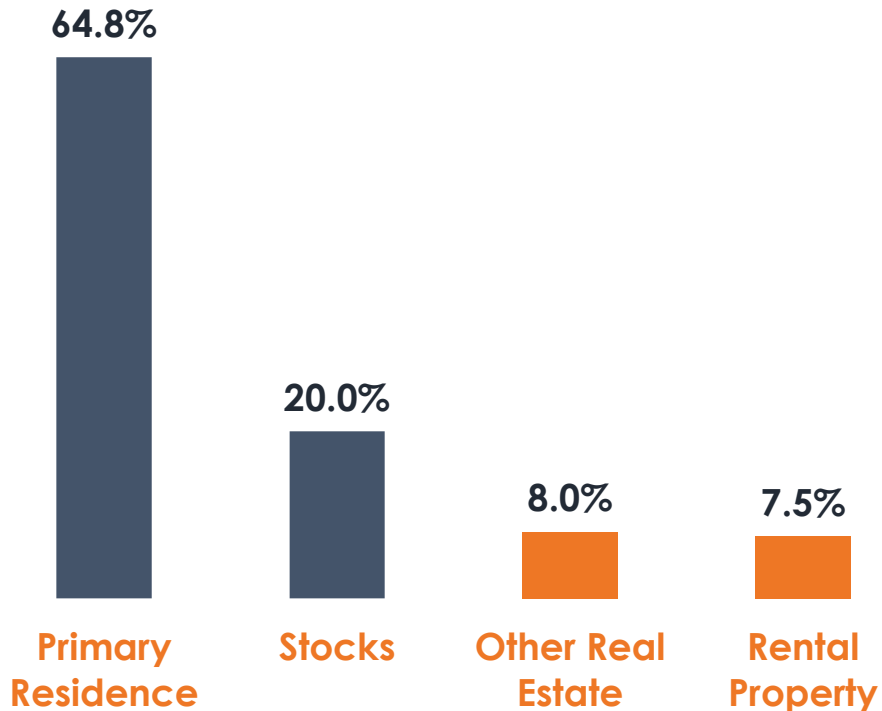
\* Estimate

\*\* As of 2016; allocations for Fortune 1000 pension plans; other category includes hedge funds, derivatives, and interest rate swaps; cash category includes cash equivalents and money market instruments; debt category includes insurance instruments

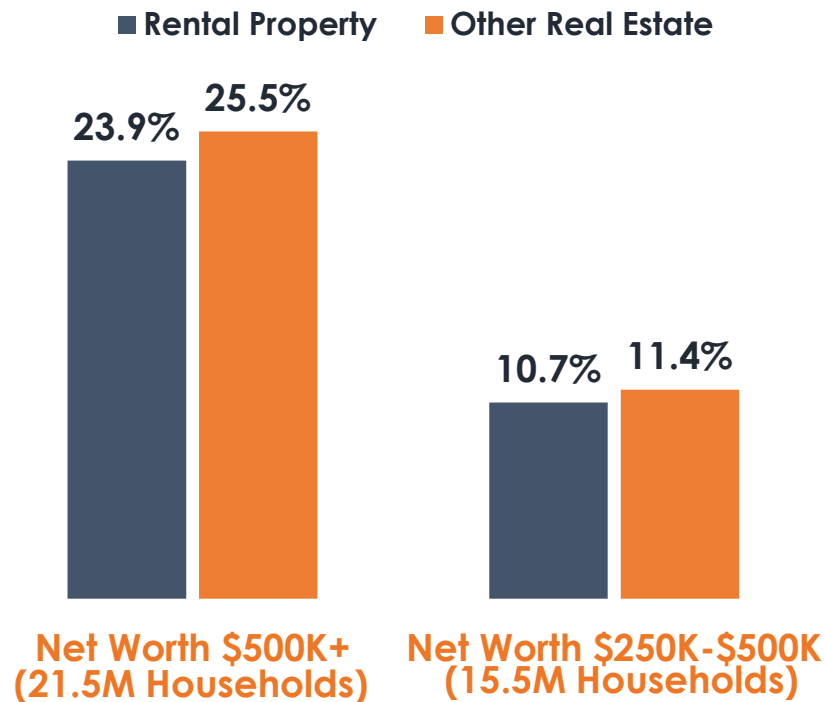
Sources: Marcus & Millichap Research Services, Cornell/Hodes Weill Allocations Monitor, Willis Towers Watson

# Real Estate Under-Allocated by Private Investors

## Percent of Households Holding Assets



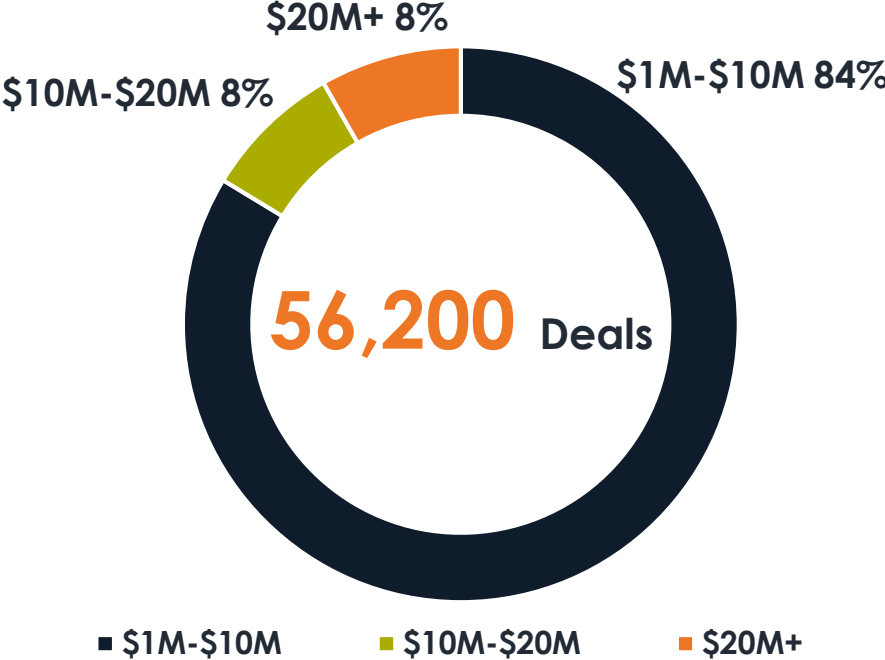
## High-Probability Target Market



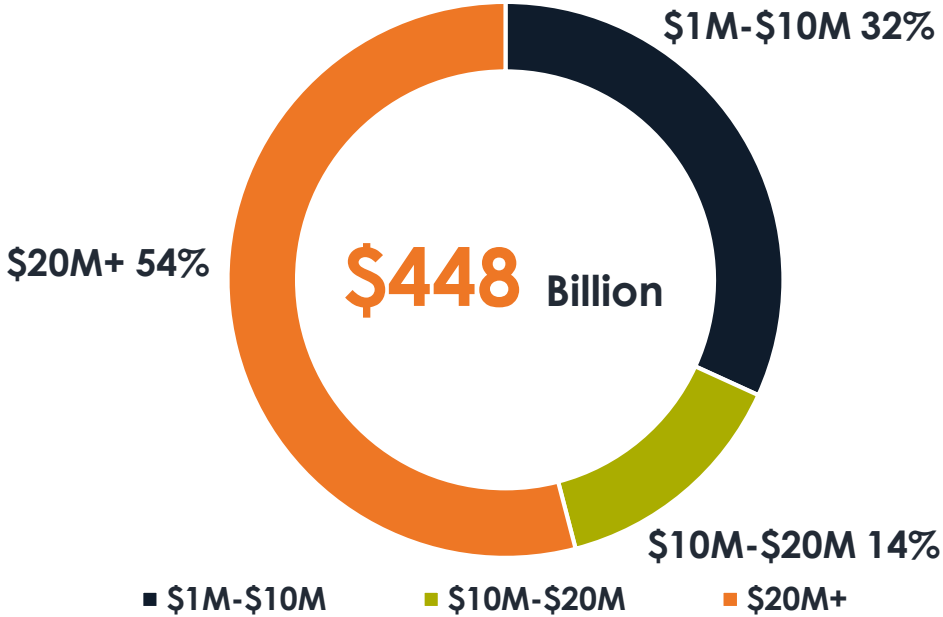
# Commercial Real Estate Sales by Price Tranche

## Move-Up Equity from Private Investors a Key Driver

Sales



Dollar Volume



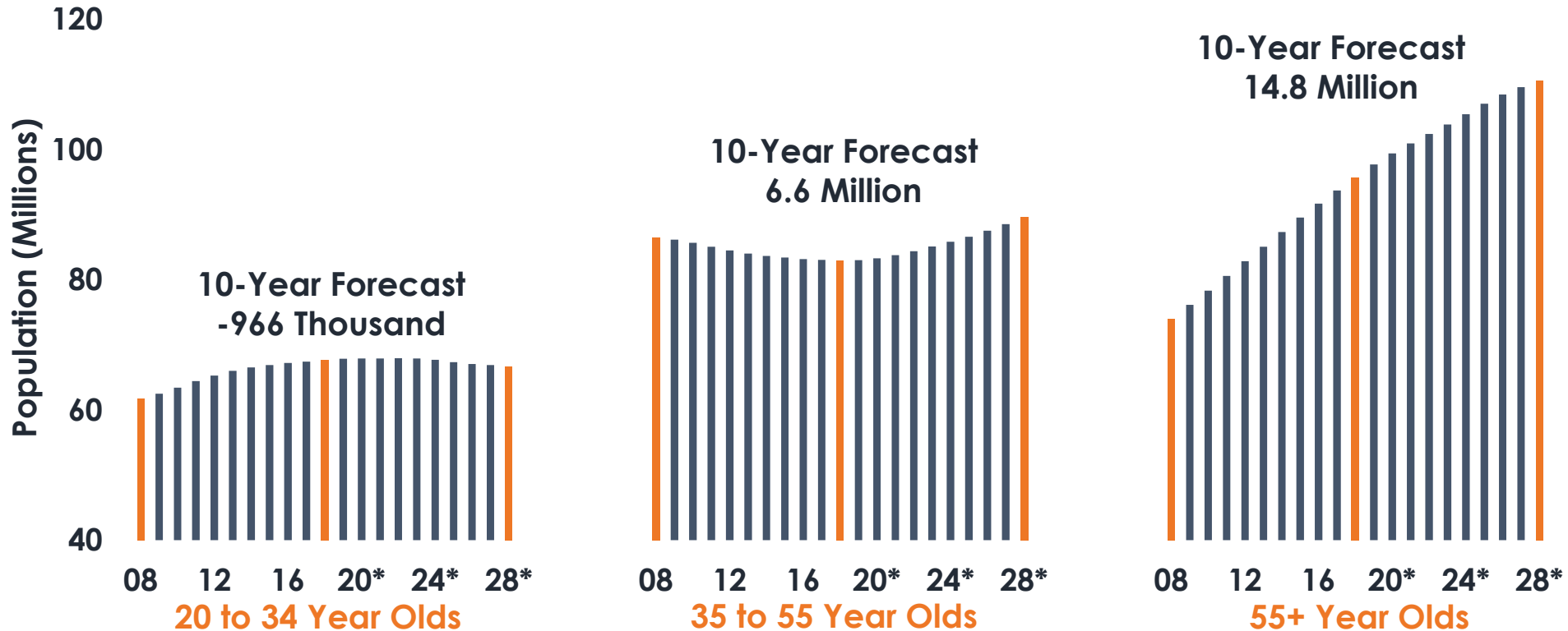
As of 2018  
Includes apartment, retail, office, and industrial sales \$1 million and greater  
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Real Capital Analytics



# Navigating the Zones: Pain vs. Opportunity A Time of Profound Change

Marcus & Millichap

# Demographic Trends Provide Triple-Wave of Opportunity



\* Forecast  
Sources: Marcus & Millichap Research Services, U.S. Census Bureau, Moody's Analytics

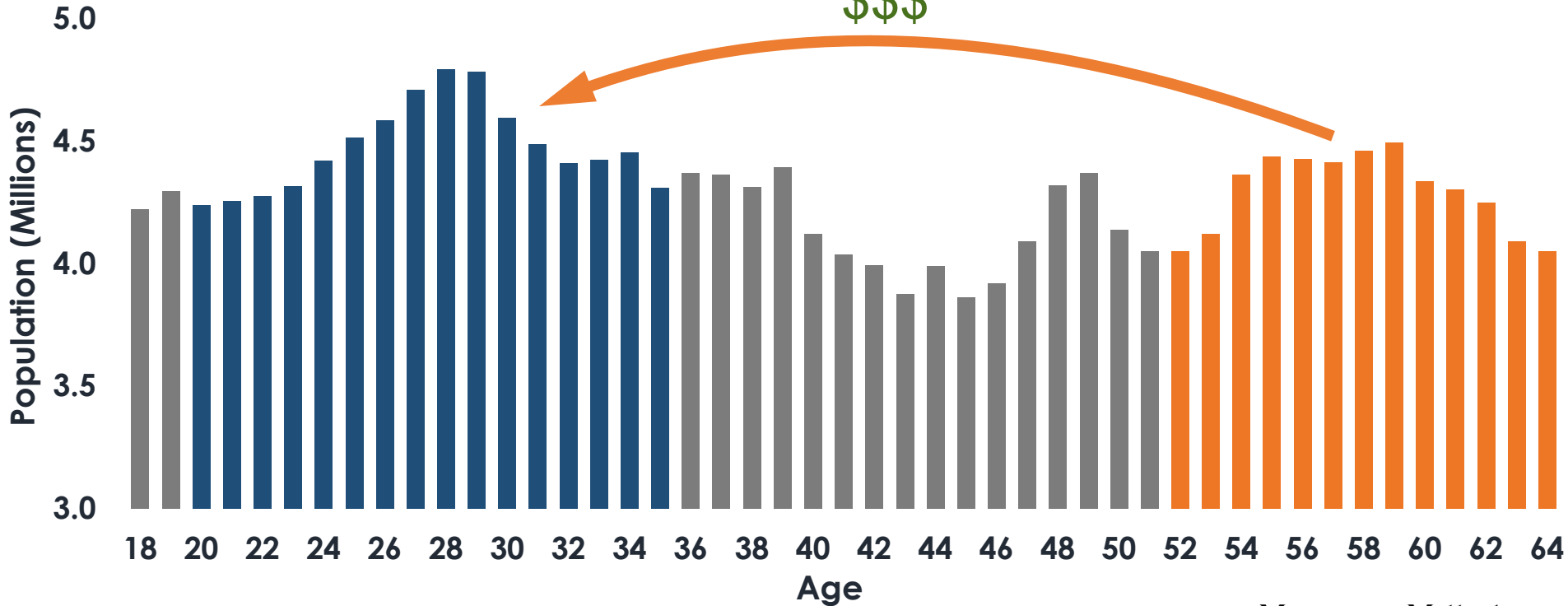


# Wealth Transfer, Quest For Yield = CRE Capital Flows

## U.S. 2019 Population by Age

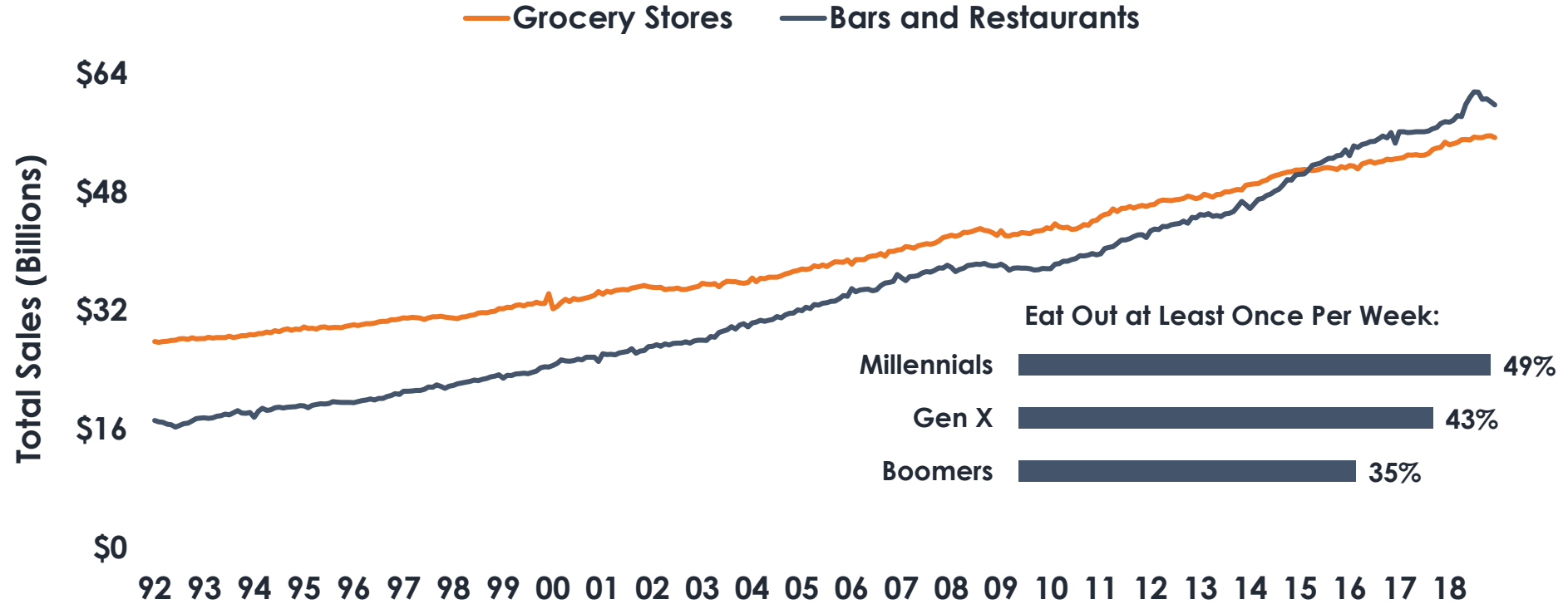
\$68+ Trillion Wealth Transfer Over the Next 25 Years

\$\$\$



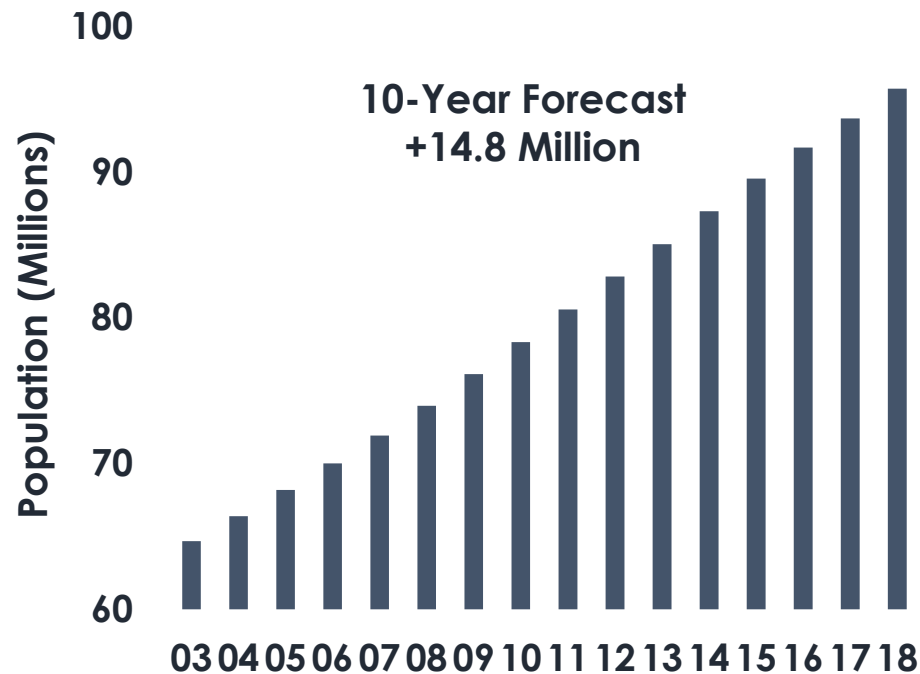
Marcus & Millichap

# Consumers Spend More on Dining Out Than on Groceries

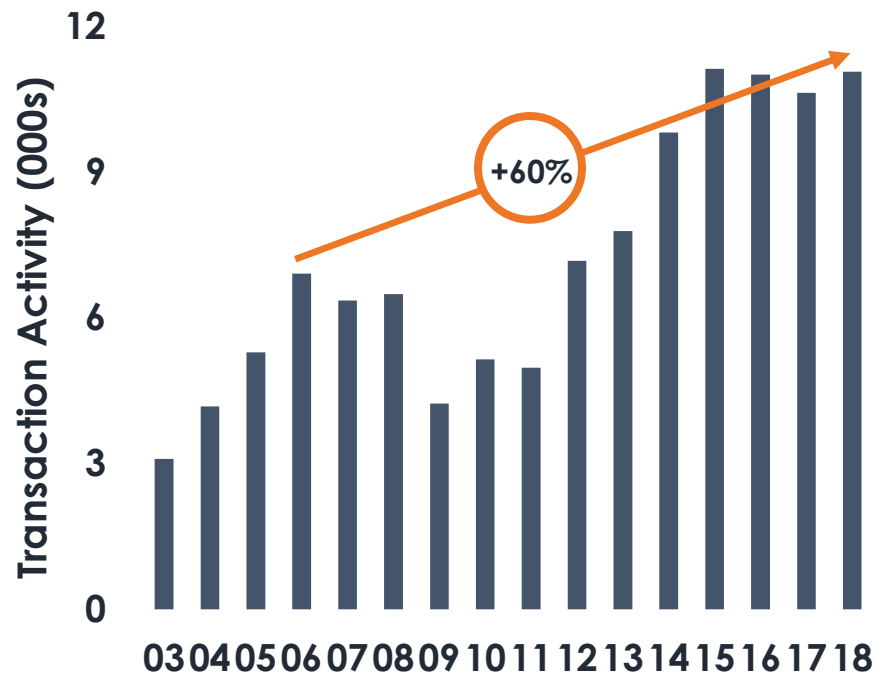


# Aging Baby Boomers Seeking Yield Boost CRE Investment - Single-Tenant Deals a Good Proxy

## 55+ Year Olds



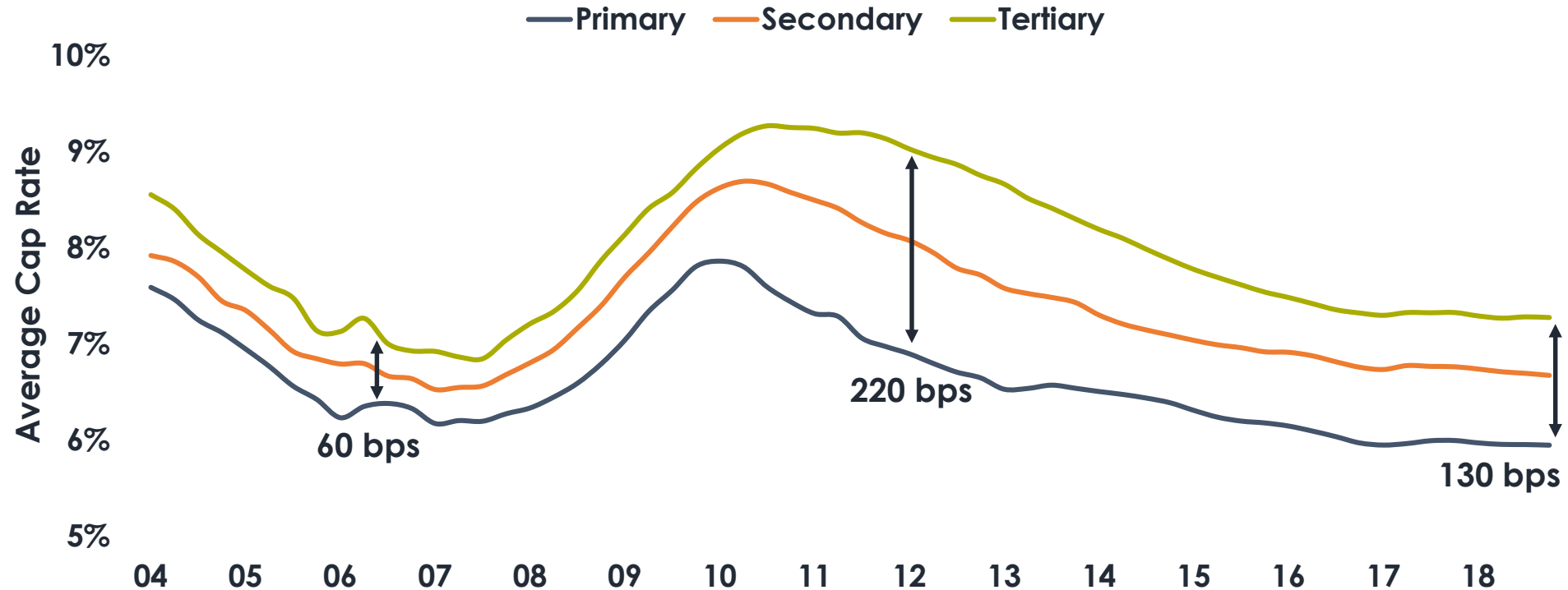
## Single-Tenant Transactions



Includes sales \$1 million and greater

Sources: Marcus & Millichap Research Services, U.S. Census Bureau, CoStar Group, Inc., Real Capital Analytics

# Commercial Real Estate Cap Rate Trends by Market Type





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