

Webinar

ULI Real Estate Economic Forecast in Real Time Experts Share Their Expectations for 22 23 and 24

Date: November 09, 2022

00:02:48 --> 00:02:53: OK. Welcome to the 22nd semiannual ULI real estate economic

00:02:53 --> 00:02:58: forecast. It is our finishing our 11th year. I'm Anita

00:02:58 --> 00:03:02: Kramer, I I'm with the ULI Center for real estate

00:03:02 --> 00:03:04: economics and capital markets.

00:03:05 --> 00:03:08: And I'll be hosting the results portion of this webinar.

00:03:09 --> 00:03:10: So starting off with some background.

00:03:12 --> 00:03:17: The forecast is a three-year forecast to the end of

00:03:17 --> 00:03:19: 2223 and 24.

00:03:19 --> 00:03:24: 43 economists and analysts participated from 37 leading real

estate

00:03:24 --> 00:03:29: organizations, and they provided forecasts of 27 economic

and real

00:03:29 --> 00:03:34: estate indicators. We report the median of their forecasts.

Today's

00:03:34 --> 00:03:39: results are from the most recent survey, finished just four

00:03:39 --> 00:03:40: weeks ago.

00:03:40 --> 00:03:42: There are three parts to today's webinar.

00:03:43 --> 00:03:46: 1st, I'll go through some of the results, then we'll

00:03:46 --> 00:03:50: pull you, the audience on your reaction to the results

00:03:50 --> 00:03:53: and from there we'll move right into the panel discussion.

00:03:54 --> 00:03:58: So first I want to introduce our stellar moderator and

00:03:58 --> 00:04:02: panelist. They are all survey participants and they will be

00:04:02 --> 00:04:06: live for the panel discussion right after the results

presentation.

00:04:07 --> 00:04:12: Bill Maher will moderate. He's director, strategy and research

at

00:04:12 --> 00:04:17: RCL Co Fund advisors. Page Mueller has many managing

director

00:04:17 --> 00:04:21: at IJAN 10, I didn't, I didn't, 10 advisors. Will

00:04:21 --> 00:04:26: Patterson is head of research and strategy at MetLife Investment

00:04:26 --> 00:04:31: Management and Sabrina Anger is managing Director, head of research

00:04:31 --> 00:04:35: and Strategy at American Realty Advisors.

00:04:36 --> 00:04:38: So turning to the results.

00:04:38 --> 00:04:41: And I'm going to take myself off the off the

00:04:41 --> 00:04:44: video so you can see the sides better.

00:04:45 --> 00:04:48: And uh first a quick tour of through what all

00:04:48 --> 00:04:51: the chart shows. So the green bars are 12 years

00:04:51 --> 00:04:55: of recent history. The red horizontal line brings in more

00:04:55 --> 00:04:58: years, showing a 20 year average. The blue bars are

00:04:59 --> 00:05:02: three forecast years and are the three forecast years. And

00:05:02 --> 00:05:06: just reminder that the charts that we present today plus

00:05:06 --> 00:05:10: others are available for download after the webinar.

00:05:11 --> 00:05:15: So starting off with some broad economic indicators, with the

00:05:15 --> 00:05:19: first up being GDP, GDP bounced back quickly in 21

00:05:19 --> 00:05:23: from the pandemic induced contraction in 20, rising 5.7%, which

00:05:23 --> 00:05:28: is almost three times higher than that long-term average. So

00:05:28 --> 00:05:30: take a look at that horizontal bar.

00:05:31 --> 00:05:35: Growth is forecast to slow to below the long term

00:05:35 --> 00:05:39: average in 22 to 1.5% and further decline to minimal

00:05:39 --> 00:05:42: growth in 23 and 24. Growth is expected to reverse

00:05:43 --> 00:05:47: direction, strengthening to 2.1% bringing it back up above the

00:05:47 --> 00:05:52: long-term average and approaching the average annual growth in the

00:05:52 --> 00:05:54: pre pandemic decade.

00:05:54 --> 00:05:59: Moving on to employment, annual job growth stage staged a

00:05:59 --> 00:06:03: significant but not complete recovery in 21 with 6.7 million

00:06:03 --> 00:06:07: jobs after the loss of 9.3 million jobs and 20

00:06:07 --> 00:06:11: full recovery of those lost jobs plus some new growth

00:06:11 --> 00:06:15: is expected in 22 with an additional 4.3 million jobs.

00:06:15 --> 00:06:18: Growth is expected to continue, but at much lower.

00:06:18 --> 00:06:19: Levels.

00:06:19 --> 00:06:24: With point 6 million jobs and 23 below the long-term

00:06:24 --> 00:06:28: average back above the long term average in 24 with

00:06:28 --> 00:06:32: 1.5 million jobs. Still those number of jobs in 24

00:06:32 --> 00:06:36: is lower than almost all years in the pre pandemic

00:06:36 --> 00:06:37: decade.

00:06:38 --> 00:06:39: And next is employment.

00:06:40 --> 00:06:44: The employment rate is expected to be 3.7% at the

00:06:45 --> 00:06:49: end of 22, amongst the lowest rates in the last

00:06:49 --> 00:06:53: two decades and then loosening a bit to over 4%
00:06:53 --> 00:06:53: in.
00:06:54 --> 00:06:57: So next is so 5-6 is unemployment.
00:06:58 --> 00:07:02: And and then listening a bit over 4% in 23
00:07:02 --> 00:07:07: and and 24 still remaining below the long-term average.
00:07:08 --> 00:07:14: So turning to inflation, interest rates and cap rates, inflation
00:07:14 --> 00:07:18: as measured by the consumer price index was 7% in
00:07:18 --> 00:07:22: 21, more than three times higher than the 20 year
00:07:22 --> 00:07:27: average. Again that red light red line, the forecast for
00:07:27 --> 00:07:31: 22 is for the inflation rate to notch up further
00:07:31 --> 00:07:35: to 7.5% and begin moderating 23 to 4% and then
00:07:35 --> 00:07:38: further decline to 2.6% in 24.
00:07:38 --> 00:07:44: Ending the forecast period just above the long-term average.
Moving
00:07:44 --> 00:07:48: on to interest rates, after particularly low rates in 20
00:07:49 --> 00:07:53: and 21, the 20, the 10 year treasury is expected
00:07:53 --> 00:07:56: to rise by 236 basis points by the end of
00:07:56 --> 00:08:01: 22 to almost 3.9%, then moderate over the next two
00:08:01 --> 00:08:05: years but remain above the long term average. Ending the
00:08:06 --> 00:08:08: forecast period at 3.23%.
Moving on to cap rates, the nacre if cap rate
00:08:09 --> 00:08:12: capitalization rate for institutional quality investments has
00:08:12 --> 00:08:18: steadily declined for
00:08:18 --> 00:08:22: 12 years, including the two pandemic years and was up
00:08:22 --> 00:08:24: 4% at the end of 21.
00:08:25 --> 00:08:30: Cap rates are expected to remain unchanged in 22 at
00:08:30 --> 00:08:33: 4%, move up by 50 basis points in 23 to
00:08:33 --> 00:08:38: 4.5% and again remain unchanged at that rate in 24.
00:08:39 --> 00:08:46: Turning to transactions and prices, transaction volume
reached an historic
00:08:46 --> 00:08:51: high of \$855 billion in 21, almost double the pandemic
00:08:51 --> 00:08:57: low in in 20. Transaction transaction volume is expected to
00:08:57 --> 00:09:02: moderate to \$600 billion in 22 similar to the volume
00:09:02 --> 00:09:06: of the Pre pandemic year in 19 and remain at
00:09:06 --> 00:09:09: 600 billion in 23 transaction.
00:09:09 --> 00:09:13: Volume is expected to strengthen in 24 to 750 billion
00:09:13 --> 00:09:18: which would, if we reach that level, exceed annual volumes
00:09:18 --> 00:09:20: in any pre pandemic year.
Moving on to price group price growth was 19.2% in
00:09:21 --> 00:09:25: 21, almost triple the price growth in each of the
00:09:25 --> 00:09:29: five previous years. Growth in these years in those years
00:09:29 --> 00:09:34: were already above the long term average. Price growth in
00:09:34 --> 00:09:38: 22 is expected to moderate substantially to 5.5%, but remain
00:09:39 --> 00:09:43:

00:09:44 --> 00:09:48: above the long term average, dip below the long-term average

00:09:48 --> 00:09:52: in 23 and then back up to the 5% range

00:09:52 --> 00:09:52: in 24.

00:09:53 --> 00:09:58: And finally turning to sectors, the industrial sector and availability

00:09:58 --> 00:10:02: of the four major sectors, the industrial sector had experienced

00:10:02 --> 00:10:06: the biggest drop in availability rates in the pre pandemic

00:10:06 --> 00:10:10: decade, ending up just under 6% in 18. That trend

00:10:10 --> 00:10:13: started to reverse and notch up to just over 6%

00:10:13 --> 00:10:17: in 19, but that new direction barely took hold in

00:10:17 --> 00:10:21: 20, the first pandemic year with barely an uptick before

00:10:21 --> 00:10:23: once again continuing to decline.

00:10:23 --> 00:10:26: In 21 to 4.7%.

00:10:27 --> 00:10:31: The forecast is for all three years to remain tight,

00:10:32 --> 00:10:36: plateauing at 4%, four point, 7% and 22 the notching

00:10:36 --> 00:10:39: up to just 5.3% by 24.

00:10:40 --> 00:10:45: And going on to rental rate change, industrial rental rate

00:10:45 --> 00:10:48: growth in the last nine years has been for the

00:10:48 --> 00:10:54: most part substantially above the long-term average and reached A2

00:10:54 --> 00:10:58: decade high of 6.8% in 21. Rent growth is expected

00:10:58 --> 00:11:01: to move up further in 22 to 8.8% and continue

00:11:01 --> 00:11:05: at elevated but moderating rates in 23 and 24, ending

00:11:05 --> 00:11:09: up at 4% at the end of the forecast period

00:11:09 --> 00:11:11: and looking at returns.

00:11:11 --> 00:11:16: With those fundamentals and a creep, industrial total returns in

00:11:16 --> 00:11:20: 22 are forecast to be a strong almost 19% after

00:11:20 --> 00:11:23: even stronger returns of almost double that in.

00:11:24 --> 00:11:28: In 21, returns are forecast to moderate in 23 to

00:11:28 --> 00:11:33: below the long-term average and remain below in 24 other

00:11:33 --> 00:11:38: with some some movement upwards in that last year.

00:11:39 --> 00:11:44: Turning to the apartment sector and vacancies, apartments have been

00:11:44 --> 00:11:48: have been performing well for quite some time, reaching a

00:11:48 --> 00:11:52: pre pandemic low vacancy rate of 4.1% in 19. Vacancy

00:11:52 --> 00:11:56: rates slid up a bit during the first pandemic year

00:11:56 --> 00:12:00: to 4.7%, but then in 21 rates not only reversed

00:12:00 --> 00:12:04: direction but dropped by almost 1/2 to 2.6%. They can

00:12:04 --> 00:12:08: see rates are expected to remain quite tight even with.

00:12:09 --> 00:12:13: Pushing up over the forecast period to 3.7% by the

00:12:13 --> 00:12:15: end, by the end of 24.

00:12:16 --> 00:12:20: Going on to rental rate change, growth had decelerated and

00:12:20 --> 00:12:24: for the four years prior to the pandemic, but still

00:12:24 --> 00:12:28: averaged a strong 2.4% a year. Rents then declined in

00:12:28 --> 00:12:32: 20 before rebounding in 21 with a 13.4% growth rate.

00:12:33 --> 00:12:37: Rent growth in 22 is expected to remain elevated but

00:12:37 --> 00:12:43: moderated at 7.7% growth is then expected to moderate substantially

00:12:43 --> 00:12:48: but remain strong relative to the long term average at

00:12:48 --> 00:12:51: 3.6% and 3% in 23 and 24 and going to

00:12:52 --> 00:12:56: returns make reef apartment total and returns in 22 are

00:12:57 --> 00:13:01: expected to be strong at 10% even though down from

00:13:01 --> 00:13:03: from almost 20% in 21.

00:13:03 --> 00:13:08: Returns are forecast to further moderate in 23 to below

00:13:08 --> 00:13:12: the long-term average and remain below in 24, although with

00:13:12 --> 00:13:14: some movement upwards.

00:13:15 --> 00:13:17: Turning to the retail sector.

00:13:17 --> 00:13:21: Retail availability rates were 8% in 21, the lowest post

00:13:21 --> 00:13:25: Great Recession rate for the sector and these are these

00:13:25 --> 00:13:28: are neighborhood and community centers, not malls.

00:13:29 --> 00:13:34: Availability rates are expected to further tighten in 22 to

00:13:34 --> 00:13:38: 7.7% and and plateau there in 23 and 24. Moving

00:13:38 --> 00:13:43: to rental rate change, rent growth strengthened in 21 to

00:13:43 --> 00:13:48: 1.9% after four years, more moderate but still above long

00:13:48 --> 00:13:54: term average growth rates. The forecast indicates continued increase in

00:13:54 --> 00:13:58: rent growth in the first year to 2%, a retreat

00:13:59 --> 00:13:59: in 23.

00:13:59 --> 00:14:03: Of those still above the long term average and then

00:14:03 --> 00:14:05: the return to stronger growth of 1.8% in 24.

00:14:07 --> 00:14:12: And looking at total annual returns, retail returns are

00:14:12 --> 00:14:15: expected

00:14:15 --> 00:14:19: to be 5% and 22, up from 21 returns but

00:14:20 --> 00:14:23: still below the long-term average. Retail returns are expected

00:14:23 --> 00:14:27: to

00:14:27 --> 00:14:28: dip in 23 and strengthen again in 24 to 6%.

00:14:29 --> 00:14:32: That 6%, if it happened would be the strongest returns

00:14:32 --> 00:14:33: in eight years.

00:14:34 --> 00:14:38: OK. I'm just gonna take one more minute touch on

00:14:38 --> 00:14:43: the office sector.

00:14:38 --> 00:14:43: Similar to the retail sector, the office vacancy rate 19

00:14:38 --> 00:14:43: was the lowest post Great Recession, but unlike retail vacancy

00:14:43 --> 00:14:48: rate increased substantially in 20 and 21 to 16.6% during
00:14:48 --> 00:14:52: the forecast period. Rates are expected to rise more
moderately
00:14:53 --> 00:14:55: and stay elevated averaging 17.4%.
00:14:56 --> 00:15:01: And looking at rental rate change, the minimal changes in
00:15:01 --> 00:15:05: rental rates in the first two pandemic years averaged -,
00:15:05 --> 00:15:06: .3%.
00:15:06 --> 00:15:11: Growth over the three forecast years is expected to average
00:15:11 --> 00:15:15: a positive .3% with minimal changes in the first two
00:15:15 --> 00:15:19: years and some strengthening in 24 with a growth rate
00:15:19 --> 00:15:19: of 1.1%.
00:15:20 --> 00:15:24: And moving on to returns. Office returns are expected to
00:15:24 --> 00:15:28: be 2% and 22, significantly down from returns in 21.
00:15:29 --> 00:15:33: Office total returns are forecast to turn negative in 23,
00:15:33 --> 00:15:37: but shows some improvement in 24 at 4/4 point, 1%
00:15:37 --> 00:15:41: remaining below returns of the four years prior to the
00:15:41 --> 00:15:46: pandemic and wrapping up actually one more sector
wrapping up
00:15:46 --> 00:15:51: with the single family housing sector over the last decade.
00:15:51 --> 00:15:57: Single family housing starts experience consistent annual
growth with starts
00:15:57 --> 00:16:01: in 21, almost double those in 2012. Housing starts are
00:16:01 --> 00:16:05: expected to reverse direction in 22 and be down almost
00:16:05 --> 00:16:09: 30% from the peak by 23. Housing starts will start
00:16:09 --> 00:16:13: to recover in 24, approaching but not yet back to
00:16:13 --> 00:16:17: the long-term average. So let's go to the next, the
00:16:17 --> 00:16:20: next one. OK, so in summary before we get to
00:16:20 --> 00:16:21: the pole.
00:16:21 --> 00:16:25: The results generally show positive but slower growth in the
00:16:25 --> 00:16:28: near term, a dip in the second year and a
00:16:28 --> 00:16:31: return to stronger growth in 24, although the extent and
00:16:32 --> 00:16:35: timing of that differs among sectors. And all this takes
00:16:35 --> 00:16:40: place with uncertainties that are being introduced by the
economic
00:16:40 --> 00:16:41: considerations.
00:16:42 --> 00:16:47: So the question to you, the audience is this forecast
00:16:47 --> 00:16:53: 2 optimistic just right, not optimistic enough. And with that,
00:16:53 --> 00:16:57: I guess we've launched the poll and I'll turn it
00:16:57 --> 00:17:02: over to Bill and to the to report the results
00:17:02 --> 00:17:06: and start the discussion with the panel.
00:17:10 --> 00:17:13: Great. Thanks, Anita. That was great. As someone who's
been
00:17:14 --> 00:17:17: involved in this survey for since the beginning, it's really

00:17:17 --> 00:17:20: great to see how popular it's become and and how
00:17:20 --> 00:17:24: how we have this consistent results across many years. I
00:17:24 --> 00:17:28: do notice we have over 1000 people participating today. So
00:17:28 --> 00:17:31: that's probably a record and neither can let us know
00:17:31 --> 00:17:32: if that's the case.
00:17:33 --> 00:17:36: So we have a great panel. I'm going to jump
00:17:36 --> 00:17:39: right into it. I'm going to talk. I'm going to
00:17:39 --> 00:17:42: cover 3 areas, first, the economy and then capital markets
00:17:42 --> 00:17:45: and then the property markets. And I will be trying
00:17:45 --> 00:17:48: to monitor your questions, if you have any and and
00:17:48 --> 00:17:51: try and fit those in. But we we have a
00:17:51 --> 00:17:53: lot of questions already on the in the.
00:17:55 --> 00:17:57: In the can. So we'll try to get to those
00:17:57 --> 00:18:01: as well. So just starting starting with sort of following
00:18:01 --> 00:18:04: up with what Anita just asked everyone.
00:18:05 --> 00:18:09: Ask the panel. Do you think that the survey results,
00:18:09 --> 00:18:13: broadly speaking, are optimistic, too optimistic, just right or
not
00:18:13 --> 00:18:17: optimistic enough? And was there anything that stood out to
00:18:17 --> 00:18:20: you in terms of either being too positive or too
00:18:20 --> 00:18:23: negative? So Sabrina, start with you and you might be
00:18:23 --> 00:18:25: on mute now you're not right?
00:18:26 --> 00:18:27: I would.
00:18:27 --> 00:18:29: Say likely too positive.
00:18:29 --> 00:18:33: In general, specifically as it relates to the relative outlook
00:18:33 --> 00:18:36: for strength in the macro economy, so even though it's
00:18:36 --> 00:18:40: only been essentially 4 weeks since the survey closed, I
00:18:40 --> 00:18:43: know on our side, we're monitoring a lot of high
00:18:43 --> 00:18:46: frequency data points in real time every week. And we're
00:18:46 --> 00:18:50: already seeing how meaningful a deceleration we're already
in and
00:18:50 --> 00:18:53: we don't think we're done yet. So I think on
00:18:53 --> 00:18:55: the macro side might be too optimistic here.
00:18:58 --> 00:18:59: About will.
00:19:00 --> 00:19:04: Yeah. So the the GDP forecast I think seems reasonable.
00:19:04 --> 00:19:07: The unemployment rate at around I think 4 1/2% feels
00:19:07 --> 00:19:09: a little low to me. I I would expect given
00:19:10 --> 00:19:13: that low level of GDP forecast that unemployment would
probably
00:19:14 --> 00:19:16: rise to something closer to 6%. So I'm a little
00:19:16 --> 00:19:20: more negative from that perspective. And then just in terms
00:19:20 --> 00:19:21: of the.
00:19:21 --> 00:19:24: Um, returns which I know we're gonna get into. The

00:19:24 --> 00:19:28: industrial returns seemed also seemed a little high again given

00:19:28 --> 00:19:30: that low GDP forecast which which I agree with.

00:19:32 --> 00:19:33: And page.

00:19:36 --> 00:19:39: The thing that really stuck out to me was just

00:19:39 --> 00:19:43: the difference between what's happening in the rate markets and

00:19:43 --> 00:19:47: the expectations for the private markets and the reef markets.

00:19:47 --> 00:19:50: They're down a good 25% this year and reading and

00:19:50 --> 00:19:53: yields are up a good 150 basis points. We've got,

00:19:53 --> 00:19:57: you know, 10 year treasuries up 250 basis points and

00:19:57 --> 00:20:00: it's just really not reflected on the private side. You

00:20:00 --> 00:20:04: in the US rate markets tend to in general, especially

00:20:04 --> 00:20:06: in big corrections, lead the private.

00:20:06 --> 00:20:09: Market Spice 6 to 12 months and you know and

00:20:09 --> 00:20:13: we're seeing return forecasts in the next couple years 8

00:20:13 --> 00:20:15: to 10%. It just seems to me like there's a

00:20:15 --> 00:20:19: big disconnect there of what we're seeing in current pricing

00:20:19 --> 00:20:23: in the public markets and what the expectations are for

00:20:23 --> 00:20:25: the private markets the next couple years.

00:20:28 --> 00:20:31: OK, great. Well let's, let's, let's dig in a little

00:20:32 --> 00:20:34: bit to the the GDP number, the the .5% GDP

00:20:35 --> 00:20:38: for next year 2023. You know just curious what you

00:20:38 --> 00:20:42: think about that and and does that imply a recession

00:20:42 --> 00:20:45: and as you look at that number and or do

00:20:45 --> 00:20:48: you think there will be a recession in 2023 start

00:20:48 --> 00:20:49: with will?

00:20:50 --> 00:20:53: Uh, I think that level of GDP growth probably does

00:20:53 --> 00:20:57: imply a recession. It's possible that the growth figures will

00:20:57 --> 00:21:01: skirt just the right way and and the Council that

00:21:01 --> 00:21:05: defines recessions will ultimately determine there's not one. But it

00:21:05 --> 00:21:08: seems more likely than not that that that implies a

00:21:08 --> 00:21:12: recession if that's the calendar year GDP growth. And, and

00:21:12 --> 00:21:15: I tend to agree with that, my base case view

00:21:15 --> 00:21:18: is that the US economy either has entered or will

00:21:18 --> 00:21:20: enter a technical recession.

00:21:20 --> 00:21:21: During 2023.

00:21:24 --> 00:21:25: Page.

00:21:27 --> 00:21:30: Yeah, I just add, if we look at the indicators,

00:21:30 --> 00:21:34: there are some concerns coming up. So you know the

00:21:34 --> 00:21:37: yield curve certainly flattening.

00:21:38 --> 00:21:42: You know particularly coming up on the on the short
00:21:42 --> 00:21:45: end of it but 10 year to three month treasury
00:21:45 --> 00:21:49: difference of .3% is is quite concerning and tanking quickly
00:21:49 --> 00:21:53: and although every recession is different that's that's one of
00:21:53 --> 00:21:57: those indicators that very often seems to hold up across
00:21:57 --> 00:22:01: different types of recessions. So something I would watch.
The
00:22:01 --> 00:22:06: other thing that's a little concerning is those personal
consumption
00:22:06 --> 00:22:08: expenditures which are 70% of GDP.
00:22:08 --> 00:22:11: Have been holding up the 1st 3/4. I do have
00:22:11 --> 00:22:15: concerns about whether they can continue to hold up and
00:22:15 --> 00:22:19: and the things that give me pause are are real
00:22:19 --> 00:22:23: disposable income has been falling all year long and
particularly
00:22:23 --> 00:22:27: earlier in the year when inflation was really spiking. But
00:22:27 --> 00:22:31: we're still, I'm seeing that fall. So IE our incomes
00:22:31 --> 00:22:36: aren't keeping up with inflation and we've really run through
00:22:36 --> 00:22:38: those Umm, those federal government.
00:22:38 --> 00:22:42: Um, subsidies. So they really spiked savings rates. Our
savings
00:22:42 --> 00:22:46: are coming down really quickly. We're at some of the
00:22:46 --> 00:22:49: lowest savings rates we've had in a very long time
00:22:49 --> 00:22:52: right now. So we're running through savings to hold up
00:22:52 --> 00:22:56: that employment and trusting and certainly lots of very public
00:22:56 --> 00:23:00: layoff announcements the last couple months. I'm, I'm not
finding
00:23:00 --> 00:23:03: it showing up in the data yet, but anecdotally a
00:23:03 --> 00:23:06: lot of that happening. So I'm not sure how much
00:23:06 --> 00:23:08: of you know how much of the job.
00:23:09 --> 00:23:12: The market is going to really help us on that
00:23:12 --> 00:23:14: issue in the next few years. And then if you
00:23:15 --> 00:23:18: look at more like the month over month retail sales
00:23:18 --> 00:23:21: data, we're seeing weakness now both in jobs and in
00:23:21 --> 00:23:26: retail sales associated particularly with goods that you might
want
00:23:26 --> 00:23:30: to take out financing for. So autos, big appliances,
electronics,
00:23:30 --> 00:23:33: those sort of things are starting. We can and of
00:23:33 --> 00:23:37: course the housing market is really slowing. So all things
00:23:37 --> 00:23:39: I'd be worried about.
00:23:39 --> 00:23:41: You know, looking at GDP in the next year.
00:23:42 --> 00:23:42: OK.
00:23:43 --> 00:23:46: And Sabrina, recession or no recession next year?

00:23:47 --> 00:23:50: Yeah. I think I'm in the camp of technical recession
 00:23:50 --> 00:23:52: in the first half of 2023 and sort of tagging
 00:23:52 --> 00:23:55: on to to what Paige was alluding to with some
 00:23:55 --> 00:23:58: cracks beginning to show on the consumer side. One of
 00:23:58 --> 00:24:01: the things that we've been tracking all year that's becoming
 00:24:01 --> 00:24:04: concerning relative to the growth outlook is the amount of
 00:24:04 --> 00:24:07: spending that seems to be fueled by credit cards and
 00:24:07 --> 00:24:10: in a rising interest rate environment and we, you know,
 00:24:10 --> 00:24:14: add the prospect of higher relative unemployment, it
 becomes harder
 00:24:14 --> 00:24:17: to pay off those debts that are then carrying higher
 00:24:17 --> 00:24:18: interest rates, so.
 00:24:18 --> 00:24:21: The cracks are certainly beginning to show on the consumer
 00:24:22 --> 00:24:25: side and I think it's it's almost unavoidable that we
 00:24:25 --> 00:24:28: get into a position in the first half of the
 00:24:28 --> 00:24:32: year where growth goes from being essentially anemic which
 is
 00:24:32 --> 00:24:34: what we've seen year to date and some of the
 00:24:34 --> 00:24:37: one off data in the quarterly GDP numbers to to
 00:24:38 --> 00:24:41: technical recession. You know if we even look at the
 00:24:41 --> 00:24:44: Q3 GDP on the surface it was nominally positive but
 00:24:44 --> 00:24:48: when we dig into the domestic demand drivers those were
 00:24:48 --> 00:24:49: much, much weaker.
 00:24:49 --> 00:24:53: And the positive growth was associated with you know
 potentially
 00:24:53 --> 00:24:56: one off government spending on things like the war in
 00:24:56 --> 00:25:00: Ukraine, exports of oil and petroleum products, things like
 that.
 00:25:00 --> 00:25:04: So when you look at the domestic demand picture, not
 00:25:04 --> 00:25:04: as rosy.
 00:25:06 --> 00:25:09: So a .5% positive growth for next year kind of
 00:25:09 --> 00:25:13: applies a short and and shallow recession. Does anybody
 think
 00:25:13 --> 00:25:16: it will be a long and and and deep recession?
 00:25:16 --> 00:25:18: Is that on anyone's radar screen?
 00:25:22 --> 00:25:25: I think it's possible, but recessions are always very hard
 00:25:25 --> 00:25:28: to forecast. So you know my, as I mentioned my
 00:25:28 --> 00:25:31: base case view is we're entering or or will shortly
 00:25:31 --> 00:25:34: enter our recession, but that might be kind of a,
 00:25:34 --> 00:25:38: you know, 60% probability or it's very hard to have
 00:25:38 --> 00:25:40: high conviction as to if we're in or or are
 00:25:40 --> 00:25:43: entering a recession. So I I don't think I have
 00:25:43 --> 00:25:46: a good answer for you Bill as to how deep

00:25:46 --> 00:25:47: it may or may not be.

00:25:49 --> 00:25:52: Well, we know what the consensus is. Sorry, something to

00:25:52 --> 00:25:52: say.

00:25:52 --> 00:25:55: I would say the one thing that gives me some

00:25:55 --> 00:25:58: optimism that we don't want to get into some horribly

00:25:58 --> 00:26:02: deep and prolonged contraction is the relative state of unemployment.

00:26:02 --> 00:26:05: So yes, unemployment is going to likely increase. I think

00:26:05 --> 00:26:08: that is a relatively desirable outcome from the Fed. That's

00:26:08 --> 00:26:11: one of the few levers on the demand side that

00:26:11 --> 00:26:14: they can influence. But we're starting from a very, very

00:26:14 --> 00:26:18: tight position such that it may prevent deeper economic scarring.

00:26:18 --> 00:26:19: So that might be a.

00:26:19 --> 00:26:19: Pop.

00:26:19 --> 00:26:21: That's silver lining, if you will.

00:26:22 --> 00:26:26: Let's keep going with unemployment and jobs and and I'll

00:26:26 --> 00:26:29: sort of turn back to will who thought that the

00:26:29 --> 00:26:33: unemployment rate looked a little optimistic. You know the

00:26:33 --> 00:26:36: the

00:26:33 --> 00:26:36: forecast for next year is 4.5% yet yet we have

00:26:36 --> 00:26:39: job growth at the 600,000 and you know can those

00:26:39 --> 00:26:43: is one of those numbers not right it sounds like

00:26:43 --> 00:26:46: you don't believe that the 4.5 but does that imply

00:26:46 --> 00:26:49: job losses and you know and and and you know

00:26:49 --> 00:26:52: which is a much worse case for real estate.

00:26:52 --> 00:26:55: And still look you know low positive growth.

00:26:57 --> 00:26:59: I I think if we certainly the the level of

00:27:00 --> 00:27:03: job growth that's occurring now would you know be high

00:27:03 --> 00:27:07: enough to maintain a relatively low unemployment rate or at

00:27:07 --> 00:27:10: least that'd be my expectation. If we enter a recession

00:27:10 --> 00:27:13: then I would expect job growth to slow below the

00:27:13 --> 00:27:15: level that it is today.

00:27:17 --> 00:27:20: The 4 1/2% figure is a little higher than today,

00:27:20 --> 00:27:24: but just given the nature of recessions, I think we

00:27:24 --> 00:27:27: should expect it to grow above that level. One reason

00:27:27 --> 00:27:31: for optimism in terms of just the unemployment rate is

00:27:31 --> 00:27:34: the demographic picture today. If we think about the 2008

00:27:34 --> 00:27:38: downturn that that was a point in time when baby

00:27:38 --> 00:27:42: boomers were in their prime working age years and

00:27:42 --> 00:27:45: millennials

00:27:42 --> 00:27:45: were entering the workforce and that contributed to 9 or

00:27:45 --> 00:27:47: or around 10% headline.

00:27:47 --> 00:27:51: And employment and and the so-called jobless recovery from 2010

00:27:51 --> 00:27:55: through 2015 or so today, that picture is very different

00:27:55 --> 00:27:58: with millennials in the workforce. But the smaller Gen Z

00:27:58 --> 00:28:02: group kind of filling in and baby boomers are retiring

00:28:02 --> 00:28:06: pretty quickly. So that's the reason to think unemployment could

00:28:06 --> 00:28:09: remain low or in other words, if the recession does

00:28:09 --> 00:28:12: end up being deep or or severe as you're kind

00:28:12 --> 00:28:16: of asking before, we probably will only see something like

00:28:16 --> 00:28:17: a 7% or maybe 7.

00:28:17 --> 00:28:20: And 1/2 percent unemployment rate, as opposed to that 9

00:28:20 --> 00:28:22: to 10% level during the global financial crisis.

00:28:24 --> 00:28:27: That's a lot higher than the the the consensus so

00:28:27 --> 00:28:30: so Sabrina and or Paige what do you think about

00:28:31 --> 00:28:34: a employment unemployment rate and will we have you know

00:28:34 --> 00:28:38: 600,000 jobs is is pretty good too in 2023 is

00:28:38 --> 00:28:40: you think that's too optimistic.

00:28:41 --> 00:28:45: I actually think that the 4.5% unemployment consensus by year

00:28:45 --> 00:28:48: in 23 may be here too pessimistic or rather to

00:28:48 --> 00:28:52: put it another way to accelerated. I actually have our

00:28:52 --> 00:28:56: base cases for unemployment to be higher at the end

00:28:56 --> 00:28:59: of 2024 than 23. So do you think that there's

00:28:59 --> 00:29:03: a bit of a lagged relationship given our expectation for

00:29:03 --> 00:29:06: how we think this recession will play out, you know,

00:29:06 --> 00:29:10: and I think if the prospect for the latter half

00:29:10 --> 00:29:12: of next year is a more fragile.

00:29:12 --> 00:29:15: Recovery. So maybe it is a shorter technical recession, but

00:29:16 --> 00:29:18: the rate of growth coming out of that is still

00:29:18 --> 00:29:22: anemic. We're in a fragile situation where the pace of

00:29:22 --> 00:29:25: hiring, the pace of job retention may continue to be

00:29:25 --> 00:29:28: weak leading into 2024. So I actually think I would

00:29:28 --> 00:29:32: have the numbers slightly reversed in that order. You know,

00:29:32 --> 00:29:35: the reality is there's still almost 11 million job openings

00:29:35 --> 00:29:38: at present and so even if a third of those

00:29:38 --> 00:29:41: aren't real or disappear, we'd still have, you know, ??

00:29:41 --> 00:29:42: 7,000,000.

00:29:42 --> 00:29:45: Jobs to fill and right now there are 6.1 million

00:29:45 --> 00:29:49: people unemployed, so there can definitely be skills are location

00:29:49 --> 00:29:54: mismatch. But the 4.5% unemployment insinuates

approximately the same number
of unemployed as that reduce job number, which again I
think keeps the increases more gradual. So actually think it
may be too pessimistic for next year.
I think we're.
Kind of splitting hairs a bit if it's under.
4 / 4 It's still really low.
After under 5, you're really low and the implications of
that are actually pretty significant. First of all, when you
look at it by industry, the BLS awhile ago for
Council that one of our biggest needs coming up over
the next three years are going to be low cost
healthcare workers. We're already seeing problems in that
sector right
now if we don't have immigration as well alluded to
our demographic.
There is really slowing. So you cannot expect the same
amount of demand you had over the last 10 years
over the next 10 years. The demographics are not supporting
it. Our political environment is not supporting it. If we
don't have immigration coming in, we're going to have major
problems of not having enough people in certain sectors,
particularly
in the healthcare sector. So I would be watching things
like that. The other thing that's really more applicable to
real estate is, is your local market, right and so
that.
Is really varying as usual by by market. One of
the things that's really surprised me recently though is I've
seen now full reports come out we have all this
talk about everyone moving from high cost metro areas to
low cost metro areas. But if you look at the
most recent BLS employment data, the big metros are
hanging
in there both in terms of number of jobs and
even markets like Chicago which has gotten a really big,
you know, bad rap the last years, is running an
employment growth of over 4%, which is.
You know, not what you hear like off the street
on markets like that. So it's interesting to see those
big markets holding up both in terms of percentage growth
and in terms of number of employees where they, you
know they clearly dominate just because of their size. So,

00:31:53 --> 00:31:56: so that's been a little interesting to see that you

00:31:56 --> 00:31:56: know.

00:31:57 --> 00:32:00: Over the decades, we keep saying, you know, people are

00:32:00 --> 00:32:02: moving out of these markets, they're moving and it just,

00:32:02 --> 00:32:05: it doesn't happen. So it's it's kind of interesting to

00:32:05 --> 00:32:06: be watching that right now as well.

00:32:07 --> 00:32:12: Interesting, interesting. Let's let's look at capital markets. So

00:32:12 --> 00:32:16: one

00:32:16 --> 00:32:19: of the forecasts that jumped out to me was that

00:32:19 --> 00:32:22: inflation is going to come down to 2.6% this is

00:32:22 --> 00:32:25: in 2024 and and then the the 10 year treasuries

00:32:25 --> 00:32:29: down to 3.2% and I think that would be great

00:32:29 --> 00:32:33: for real estate both both you know low inflation and

00:32:33 --> 00:32:34: and lower borrowing costs. But is that is that reasonable

00:32:34 --> 00:32:36: to expect?

00:32:36 --> 00:32:38: Anyone wants to start?

00:32:38 --> 00:32:41: I can start. If you look at the month over

00:32:41 --> 00:32:44: month data, so we had a big pop back in

00:32:44 --> 00:32:47: May, June where we were running well into double digit

00:32:47 --> 00:32:50: inflation numbers. But if we look at the month over

00:32:50 --> 00:32:54: month numbers, we're running at 2% inflation over the last

00:32:54 --> 00:32:57: three, three months. So it's come way off. It's sticking

00:32:57 --> 00:33:01: high because we tend to report inflation on year over

00:33:01 --> 00:33:03: year and we had a big pop earlier in the

00:33:03 --> 00:33:07: year. So from that perspective is actually not looking so

00:33:07 --> 00:33:10: bad and certainly what we would hope to see.

00:33:10 --> 00:33:13: Is it coming down and reacting to the the Federal

00:33:13 --> 00:33:16: Reserve actions and you know the sticky parts are energy

00:33:16 --> 00:33:19: and food. I think they're going to continue to be

00:33:19 --> 00:33:23: a little sticky just giving the global geopolitical environment

00:33:23 --> 00:33:23: right

00:33:23 --> 00:33:23: now.

00:33:23 --> 00:33:25: Energy is we could spend the whole hour talking about

00:33:25 --> 00:33:28: energy, so many changes coming up in the energy market

00:33:28 --> 00:33:31: and and I'll just say that's you know, our worst

00:33:31 --> 00:33:35: computer right now it's up 20% year over year. But

00:33:35 --> 00:33:38: over the next, you know, 15 to to 20 years,

00:33:38 --> 00:33:40: energy really has an opportunity to be a deflationary

00:33:40 --> 00:33:45: opportunity

00:33:45 --> 00:33:48: for real estate investors. And so really start to get

00:33:48 --> 00:33:51: to know your grid, the grids are so different from

00:33:51 --> 00:33:54: state to state and there's lots of focus on energy

00:33:54 --> 00:33:55: conservation.

00:33:55 --> 00:33:57: Right now and so before you go out and spend
00:33:57 --> 00:34:00: millions of dollars putting solar up on your roof, I
00:34:00 --> 00:34:02: would really get to understand your grid and what your
00:34:02 --> 00:34:05: relationship is to grid because it is so different from
00:34:05 --> 00:34:05: state to state.
00:34:08 --> 00:34:09: Maybe we could.
00:34:10 --> 00:34:14: Follow up with the the the interest rate issue which
00:34:14 --> 00:34:15: is again 3 point.
00:34:16 --> 00:34:17: Uh.
00:34:18 --> 00:34:20: 3.2% for the 10 year and I think we'd all
00:34:20 --> 00:34:24: agree that would be much better place to be than
00:34:24 --> 00:34:27: the, you know, low force we are today. Sabrina and
00:34:27 --> 00:34:30: will. What do you think about that and sort of
00:34:30 --> 00:34:33: the impact on and it kind of gets to that
00:34:33 --> 00:34:34: question of.
00:34:34 --> 00:34:38: Public market pricing versus private market pricing in that
the,
00:34:38 --> 00:34:41: you know maybe maybe the, the, the public markets are
00:34:41 --> 00:34:45: overreacting based on high interest rates where if they are
00:34:45 --> 00:34:47: going to come down in a few years that you
00:34:47 --> 00:34:50: know that may be good, maybe mean the values aren't
00:34:50 --> 00:34:53: as challenged as they as they might might seem.
00:34:55 --> 00:34:58: Yeah, I think you know our sort of assumption has
00:34:58 --> 00:35:01: been that we reached sort of the peak terminal rate
00:35:01 --> 00:35:05: and we actually don't stay there for very long, right.
00:35:05 --> 00:35:08: We're sort of looking at this fragile economic backdrop. We
00:35:08 --> 00:35:13: have demographic challenges to growth and so you know,
effectively
00:35:13 --> 00:35:16: assuming a 2.6% annual inflation, you know in 2024, it's
00:35:16 --> 00:35:20: still above this data target, but definitely a much more
00:35:20 --> 00:35:24: comfortable place than where we've been recently answered
that plus
00:35:24 --> 00:35:26: the 10 year settling around 3%.
00:35:26 --> 00:35:29: You know, lends a little more cushion to the Fed
00:35:29 --> 00:35:31: than what we had had coming into the pandemic. So
00:35:31 --> 00:35:34: those two numbers feel relatively compatible to me.
00:35:37 --> 00:35:40: Yeah, I I think that level of 10 year Treasury
00:35:40 --> 00:35:44: decline seems realistic. I think it's 4.1 or maybe 4.2
00:35:44 --> 00:35:48: today. So that is quite a bit of decline but.
00:35:50 --> 00:35:52: You know I guess if I I think, I think
00:35:52 --> 00:35:55: I'm learning that or we're all learning maybe I'm the
00:35:55 --> 00:35:57: slightly more -. 1 on the panel. So I I
00:35:57 --> 00:36:00: think that that decline in in treasury rates does seem

00:36:00 --> 00:36:03: realistic or or it could even go a little below

00:36:03 --> 00:36:06: that point. Just one caveat and the way you phrased

00:36:06 --> 00:36:09: the question Bill, I think that for real estate investors

00:36:09 --> 00:36:12: we certainly like low rates. I think we actually also

00:36:12 --> 00:36:15: like high inflation at least for buy and buy and

00:36:15 --> 00:36:18: hold investors that the developers don't like the high inflation

00:36:18 --> 00:36:19: but for.

00:36:19 --> 00:36:23: Core investors, I think the higher inflationary environment has

00:36:23 --> 00:36:26: been

00:36:26 --> 00:36:28: positive or has contributed to higher returns. So I guess

00:36:28 --> 00:36:31: it depends where in the capital stack or what your

00:36:31 --> 00:36:33: investment strategy is in terms of which which version of

00:36:33 --> 00:36:36: the economic world you're rooting for.

00:36:36 --> 00:36:37: That's true. That's complicated. Valuations are complicated.

00:36:37 --> 00:36:43: All right. So the Anita showed the transaction volume

00:36:43 --> 00:36:48: forecast

00:36:48 --> 00:36:54: and the numbers were 600 million this year and next

00:36:54 --> 00:36:59: year and and then 750,000,000, sorry, a billion, I should

00:36:59 --> 00:37:05: say 750 billion in 2024. And MSI is reporting that

00:37:05 --> 00:37:07: there's already been \$571 billion of transactions so far this

00:37:07 --> 00:37:10: year. So this the the 2022.

00:37:10 --> 00:37:13: Number looks looks pretty safe but.

00:37:13 --> 00:37:17: You know, what do you think about the out years

00:37:17 --> 00:37:20: the next two years is, are our transaction volumes you

00:37:20 --> 00:37:23: know going to be equal to this year or is

00:37:23 --> 00:37:24: there a slowdown that maybe is this isn't picking up

00:37:24 --> 00:37:28: all the way?

00:37:28 --> 00:37:29: Sabrina.

00:37:29 --> 00:37:34: Yeah. We're definitely already seeing a slowdown in deal

00:37:34 --> 00:37:37: flow

00:37:37 --> 00:37:39: relative to the pace of what we saw earlier this

00:37:39 --> 00:37:43: year. I think it's realistic to assume we see a

00:37:43 --> 00:37:46: similar dynamic next year, but chronologically in reverse

00:37:46 --> 00:37:50: where first

00:37:50 --> 00:37:53: part of the year that's really where the dearth of

00:37:53 --> 00:37:57: activity is concentrated as again, we sort of reached that

00:37:57 --> 00:38:00: terminal Fed funds rate, maybe we're in this technical

00:38:00 --> 00:38:03: recession

00:38:03 --> 00:38:06: era and then a relative unleashing in the latter half

00:38:06 --> 00:38:09: of the year as again, we've sort of hit the

00:38:09 --> 00:38:12: apex of that.

00:38:12 --> 00:38:15: That upward trajectory and the growth picture for better or

00:38:15 --> 00:38:18: for worse is a little bit clearer. So I think

00:38:06 --> 00:38:10: assuming higher relative activity in 2024 also seems to jive
00:38:10 --> 00:38:12: with our, you know, sort of House view. You know
00:38:12 --> 00:38:16: those that have been sidelined by peak relative borrowing costs
00:38:16 --> 00:38:19: this year and next maybe inclined to come back into
00:38:19 --> 00:38:22: the fray particularly if they have pressure to deploy. So
00:38:22 --> 00:38:25: those closed end funds that have you know terminal dates
00:38:25 --> 00:38:29: coming up, they they feel that they're on the backside
00:38:29 --> 00:38:30: of the rate mountain in 2020.
00:38:30 --> 00:38:33: Morning. And start to unleash some of that capital. So
00:38:33 --> 00:38:35: I think that feels sort of right.
00:38:38 --> 00:38:42: I completely, completely agree and I think the consensus
view
00:38:42 --> 00:38:45: from the survey seems seems right. The one just caveat
00:38:45 --> 00:38:48: is the office sector is where I think the liquidity
00:38:48 --> 00:38:51: is dropping the fastest. If we look at the Q3
00:38:51 --> 00:38:55: numbers as reported by MSCI, it was actually pretty strong.
00:38:55 --> 00:38:59: A lot of the office trades that occurred were probably
00:38:59 --> 00:39:02: negotiated in the first half of the year and and
00:39:02 --> 00:39:06: maybe even before interest rates really started moving in
June.
00:39:06 --> 00:39:08: But that's the sector where I would.
00:39:08 --> 00:39:11: Expect transactions to remain low for a number of quarters
00:39:11 --> 00:39:14: due to the the bid ask spread between buyers and
00:39:14 --> 00:39:16: sellers still being pretty high today.
00:39:21 --> 00:39:21: Right.
00:39:22 --> 00:39:26: All right, so let's look at the the Ncreif property
00:39:26 --> 00:39:31: index forecast and the. The and the Anita showed all
00:39:31 --> 00:39:35: the components but the the overall number is 3.8% for
00:39:35 --> 00:39:37: total returns for 2020.
00:39:38 --> 00:39:42: For three and then 7% in 2024, so the income
00:39:43 --> 00:39:48: yields currently about 4%. So that then applies sort of
00:39:48 --> 00:39:53: flat appreciation next year and then you know 3%
appreciation
00:39:54 --> 00:39:56: in 2024, so you know.
00:39:57 --> 00:40:00: As downturns go, that's not too bad. So things you
00:40:00 --> 00:40:02: know return stay positive. Is that do you? Do you
00:40:03 --> 00:40:05: all agree with that? Don't start with page.
00:40:09 --> 00:40:12: Yeah, this is what I brought up at the beginning
00:40:12 --> 00:40:14: of the of the of the call. So I it
00:40:14 --> 00:40:18: seems highly optimistic. It's certainly not in line with what
00:40:18 --> 00:40:21: the public markets are telling us and you know if
00:40:21 --> 00:40:22: you take lever.

00:40:24 --> 00:40:27: You know leverage properties and you you're running 300 basis

00:40:27 --> 00:40:31: points increase in interest rates. So what we're seeing are

00:40:31 --> 00:40:34: these you know bid ask spreads as as well mentioned

00:40:34 --> 00:40:37: happening right now. So we can go for a while

00:40:37 --> 00:40:40: and just not sell things Umm, but you know at

00:40:40 --> 00:40:43: some point do those cap rates start to adjust you

00:40:43 --> 00:40:47: know we'll see what happens, but it it seems optimistic

00:40:47 --> 00:40:50: you've got to make up for this somehow with growth

00:40:50 --> 00:40:52: and so we're certainly seeing you know.

00:40:53 --> 00:40:56: Cholesterol is still getting rent growth, et cetera, but we

00:40:56 --> 00:40:59: have some construction cycles coming up in those property markets

00:41:00 --> 00:41:02: that do have a lot of demand. So we're hitting

00:41:02 --> 00:41:02: a very.

00:41:04 --> 00:41:06: You know, precarious part of the cycle for this.

00:41:08 --> 00:41:14: And Sabrina and William, you probably contribute to the the

00:41:14 --> 00:41:17: the Priya survey on this on on so.

00:41:18 --> 00:41:20: And that is out of these numbers compared to what

00:41:20 --> 00:41:21: you think what you you're coming up with?

00:41:23 --> 00:41:26: Yeah, I I must I guess I played the the

00:41:26 --> 00:41:30: contrarian to well because I'm maybe the perpetual optimist here,

00:41:30 --> 00:41:33: but I think this is actually a little more bearish

00:41:33 --> 00:41:36: than our our most recent submission to the pre survey

00:41:36 --> 00:41:40: for example. You know I do think given where fundamentals

00:41:40 --> 00:41:43: stand today compared to past downturns, we are in a

00:41:43 --> 00:41:47: much more insulated position again particularly in the sectors that

00:41:47 --> 00:41:50: we favor and that we believe in. So you know

00:41:50 --> 00:41:53: industrial I believe every market is essentially.

00:41:53 --> 00:41:57: You know well below its long term average vacancy even

00:41:57 --> 00:42:00: it's rolling five year average vacancy that feels like a

00:42:00 --> 00:42:03: great position to be in. You know we think multifamily

00:42:03 --> 00:42:06: and and for rent residential is bolstered in a higher

00:42:06 --> 00:42:10: interest rate environment. And so with those fundamentals you know

00:42:10 --> 00:42:13: coupled with again this view that 2023 may be a

00:42:13 --> 00:42:16: tale of you know two separate parts of the year

00:42:16 --> 00:42:19: where the first half is virtually the little activity in

00:42:19 --> 00:42:23: the second-half is more of an unleashing actually think that

00:42:23 --> 00:42:24: the 2023 numbers.

00:42:24 --> 00:42:28: Could be modestly higher than what the consensus is

suggesting.

00:42:28 --> 00:42:30: And and then again 2024 we have a lot of

00:42:30 --> 00:42:33: capital pressure, right. So I think I think there is

00:42:33 --> 00:42:36: an argument to be had that we we could definitely

00:42:36 --> 00:42:37: see this achieve.

00:42:40 --> 00:42:43: I I think well, you know since we are forecasting

00:42:43 --> 00:42:47: day reef, Nate Reef does have a pretty high concentration

00:42:47 --> 00:42:50: of traditional office properties, not so, not life science, not

00:42:50 --> 00:42:54: creative office but kind of commodity office buildings and those

00:42:54 --> 00:42:58: are probably where value pressures could be the strongest and

00:42:58 --> 00:42:58: so.

00:43:00 --> 00:43:03: For that reason partially that's why uh you know my

00:43:03 --> 00:43:05: submission for Priya and and when we did the the

00:43:06 --> 00:43:08: UI submission was a little bit lower on on total

00:43:08 --> 00:43:11: rate of return. I think the unknown or or the

00:43:11 --> 00:43:14: both the upside and the downside risk is just where

00:43:14 --> 00:43:17: inflation goes and that's incredibly hard to predict. It's a

00:43:17 --> 00:43:20: bit like predicting I think you know what will the

00:43:20 --> 00:43:22: S&P 500 be in a year. It's just a it's

00:43:22 --> 00:43:26: it's it's it's not well understood by economists the Federal

00:43:26 --> 00:43:29: Reserve has said they don't have a great working model of.

00:43:29 --> 00:43:29: Inflation and that's their kind of core mandate is to

00:43:29 --> 00:43:32: keep inflation under control. So if if you're on team

00:43:32 --> 00:43:35: transitory or you think inflation is going to fall to

00:43:35 --> 00:43:38: the kind of three percent, 2% level by the end

00:43:38 --> 00:43:41: of the year, then I think those returns will probably

00:43:41 --> 00:43:44: be somewhere around where the survey suggests or lower. If

00:43:44 --> 00:43:47: you think the kind of 6, seven, 8% range will

00:43:47 --> 00:43:49: persist throughout the year, then that's where there could be

00:43:49 --> 00:43:53: upside risk where returns could be a little higher or

00:43:53 --> 00:43:56: at least that's that's how I'm thinking about it. But.

00:43:56 --> 00:43:59: As mentioned, these are very difficult things to forecast.

00:43:59 --> 00:44:02: Keeps keeps it interesting. Let's see I'm going to I'm

00:44:02 --> 00:44:05: going to shift to to property markets now and let's

00:44:05 --> 00:44:08: start with industrial and and is indeed a pointed out

00:44:08 --> 00:44:12: it's the it's still the star of the show go

00:44:12 --> 00:44:16: you know historically and going forward a little bit of

00:44:16 --> 00:44:19: a a slowdown so the 23 and 24 forecast we

00:44:19 --> 00:44:23: have unleveraged returns averaging almost 9% rent growth

00:44:23 --> 00:44:26: at 4

00:44:26 --> 00:44:30:

00:44:31 --> 00:44:33: 1/2% on average and the availability.

00:44:33 --> 00:44:36: Rate rate will peak at 5.3% and at at in

00:44:36 --> 00:44:40: 2024. You know when I first started in in real

00:44:40 --> 00:44:44: estate that the thought that industrial could ever have a

00:44:44 --> 00:44:47: available rate as low as 5.3% was was you know

00:44:47 --> 00:44:51: impossible to think about. So just trying to just get

00:44:51 --> 00:44:56: everyone else opinion is is everything roses for industrial or

00:44:56 --> 00:44:59: or do you have any concerns and I'll start with

00:45:00 --> 00:45:03: you will I think you you had some thoughts about.

00:45:04 --> 00:45:05: Some of the tenants.

00:45:06 --> 00:45:09: Yeah. So, so I agree with what Sabrina said about

00:45:09 --> 00:45:13: occupancy probably remaining high, rent growth will probably remain positive.

00:45:13 --> 00:45:17: However, if we look at how most investors are underwriting

00:45:17 --> 00:45:21: industrial and even how appraisers are applying that the mark

00:45:21 --> 00:45:24: to markets which which reflects what investors are doing. The

00:45:24 --> 00:45:28: assumptions have gotten pretty aggressive in that space over the

00:45:28 --> 00:45:31: last five years and especially even over the last one

00:45:31 --> 00:45:34: or two years where the the kind of long-term 3%

00:45:34 --> 00:45:36: growth rate in market rents.

00:45:36 --> 00:45:40: Is no longer the standard assumption it's it's something higher

00:45:40 --> 00:45:44: than that. So even if occupancy remains strong and market

00:45:44 --> 00:45:47: rents grow 3 or 4% next year that may cause

00:45:47 --> 00:45:51: value declines because underwriters were expecting more like 9 or

00:45:51 --> 00:45:55: 10% growth next year. That's that's not been uncommon in

00:45:55 --> 00:45:58: in in appraisals and at least in the initial years

00:45:58 --> 00:46:02: and and in how investors are underwriting and then just

00:46:02 --> 00:46:05: the the rise in interest rates that's occurred I think

00:46:05 --> 00:46:07: will pressure the industrial sector.

00:46:07 --> 00:46:10: And the low cap rate sectors maybe a little bit

00:46:10 --> 00:46:13: more than than the higher cap rate sectors. So I

00:46:13 --> 00:46:17: think returns and industrial are likely to remain positive next

00:46:17 --> 00:46:20: year, but just not quite as positive as the survey

00:46:20 --> 00:46:21: suggests.

00:46:23 --> 00:46:25: Page helping you cover.

00:46:26 --> 00:46:27: Yeah, so.

00:46:27 --> 00:46:28: I.

00:46:29 --> 00:46:33: You know, construction is always the problem for industrial

00:46:33 --> 00:46:33: and
00:46:36 --> 00:46:36: so.
00:46:37 --> 00:46:43: COVID.
00:46:43 --> 00:46:45: Created this odd anomaly where our online sales just jumped
00:46:46 --> 00:46:49: by a crazy amount. But.
00:46:49 --> 00:46:54: The ecommerce sales as a percent of total real sales
00:46:55 --> 00:46:58: have been falling for the last two years very consistently.
00:46:58 --> 00:47:01: And and still well above where they would have been
00:47:02 --> 00:47:05: if they were trendy. We we had a really just.
00:47:05 --> 00:47:09: Flat trend line going until now, I don't say flat,
00:47:09 --> 00:47:12: but a very consistent straight line trend kind itself COVID
00:47:12 --> 00:47:16: hit. So COVID hits our online sales go through the
00:47:17 --> 00:47:20: roof are industrial absorption basically double s over the past
00:47:20 --> 00:47:23: years compared to long term trends and now our
00:47:24 --> 00:47:27: construction
00:47:27 --> 00:47:31: has also you know basically doubled. So now in a
00:47:31 --> 00:47:33: situation where we're kind of adjusting people are kind of
00:47:33 --> 00:47:36: going back out again they're kind of liking to get
00:47:37 --> 00:47:40: out of their house and go back out.
00:47:40 --> 00:47:44: Again and um are and those ecommerce sales?
00:47:44 --> 00:47:47: You know, on our trend line, they should be another
00:47:47 --> 00:47:49: 150 basis points lower than they are right now compared
00:47:50 --> 00:47:52: to total retail sales. So do they keep falling in
00:47:52 --> 00:47:55: the next year? I don't know, maybe they do. And
00:47:55 --> 00:47:55: if so, do we continue at this crazy high pace
00:47:57 --> 00:48:00: that we've been at over the last couple of years
00:48:00 --> 00:48:01: or?
00:48:01 --> 00:48:05: Does our construction start to outpace demand because?
00:48:05 --> 00:48:08: Because.
00:48:08 --> 00:48:12: Compared to the trans before COVID, our construction right
00:48:12 --> 00:48:15: now
00:48:15 --> 00:48:19: as far as what's under construction is about AA normal
00:48:19 --> 00:48:22: absorption pace. So we'll see where it all comes out.
00:48:22 --> 00:48:25: But I think there's a chance in the upcoming year,
00:48:25 --> 00:48:26: particularly if we do have a recession that you know,
00:48:29 --> 00:48:31: industrial tends to go up not least. And so I
00:48:32 --> 00:48:35: think we could have a little adjustment in the next
00:48:35 --> 00:48:38: year.
00:48:38 --> 00:48:42: Great. And Sabrina.
00:48:42 --> 00:48:46: Yeah, I think you know our assumptions have been that
we, you know, always assumed that the pace of occupier
demand was going to moderate, whether it was by virtue
of a technical recession or just a modernizing moderation of

00:48:46 --> 00:48:49: the sort of frenzied pace that we've seen over the

00:48:49 --> 00:48:52: last 24 months. And we've been very conservative in our

00:48:52 --> 00:48:56: assumptions and our underwriting as a result of that. You

00:48:56 --> 00:48:59: know, I do think for us on the ecommerce side,

00:48:59 --> 00:49:02: even conservatively, you know, if you're applying 1/2.

00:49:02 --> 00:49:06: Pre pandemic compound average growth rate. So if you take

00:49:06 --> 00:49:10: the 2010 through 2019 annualized average growth in

00:49:10 --> 00:49:14: ecommerce relative

00:49:14 --> 00:49:17: to total retail sales and sort of apply that, that

00:49:17 --> 00:49:21: would insinuate you, you could still reach a level or

00:49:21 --> 00:49:24: ecommerce sales or you know over a trillion dollars by

00:49:24 --> 00:49:25: 2025. And so the relationship holds, you know that could

00:49:25 --> 00:49:30: create approximately 315,000,000 square feet of additional

00:49:30 --> 00:49:32: demand essentially between

00:49:32 --> 00:49:33: the end of last year and 2025, so.

00:49:33 --> 00:49:36: You know as Paige alluded to these things tend to

00:49:36 --> 00:49:39: go up empty compared to other property types. But the

00:49:39 --> 00:49:43: the development pipeline and the timeline to deliver these

00:49:43 --> 00:49:46: things,

00:49:46 --> 00:49:49: the spigot can be turned off much quicker than if

00:49:49 --> 00:49:53: you're saying that in the middle of a multi year

00:49:53 --> 00:49:57: you know office development project. So in you know every

00:49:57 --> 00:50:00: year when we go to forecast our market level fundamentals

00:50:00 --> 00:50:03: for every year that I've been in the industry there's

00:50:03 --> 00:50:03: been an assumption that supply is going to get out

00:50:03 --> 00:50:07: of.

00:50:07 --> 00:50:10: Out of demand for industrial, you know it hasn't happened

00:50:10 --> 00:50:13: in 15 years. And so you know I suppose we're

00:50:13 --> 00:50:16: overdue for that to occur at some point, but does

00:50:16 --> 00:50:18: does still feel relatively insulated on a relative basis when

00:50:18 --> 00:50:20: we look across the sectors.

00:50:20 --> 00:50:23: Well OK. So so the the flip side of industrial

00:50:23 --> 00:50:26: would be retail and and the the forecast looks at

00:50:26 --> 00:50:31: neighborhood and and community centers grocery anchored

00:50:31 --> 00:50:32: to guest basically.

00:50:32 --> 00:50:36: So little different than some of the ecommerce related

00:50:36 --> 00:50:40: although

00:50:40 --> 00:50:43: ecommerce is certainly making inroads. But just looking at

00:50:43 --> 00:50:44: the

00:50:44 --> 00:50:47: at the the the retail forecast and I was noticing

00:50:47 --> 00:50:50: that the the vacancy rate for or the you know

00:50:50 --> 00:50:51: the vacancy rate yeah for for those centers is is

00:50:51 --> 00:50:55: flat at 7%.

00:50:51 --> 00:50:54: For all years which which relatively speaking is kind of

00:50:54 --> 00:50:58: the best performance. There's no increase in in in vacancy

00:50:58 --> 00:51:00: at all. You know it's and and sort of goes

00:51:01 --> 00:51:03: against the sort of the what you hear in the

00:51:03 --> 00:51:06: press is the retails that you know a lot of

00:51:06 --> 00:51:10: risk and so so our grocery anchored centers or neighborhood

00:51:10 --> 00:51:13: centers are are they so really insulated and and and

00:51:13 --> 00:51:16: maybe even you know recession proof that that we can

00:51:16 --> 00:51:17: take from this.

00:51:23 --> 00:51:25: Go ahead, Sabrina, was just going to say I.

00:51:25 --> 00:51:28: Think part of that is a function of the fact

00:51:28 --> 00:51:32: that retail really took its lumps well in advance of

00:51:32 --> 00:51:35: the pandemic. So if you look in the period between

00:51:35 --> 00:51:39: 2010 and 2019, more than 400 domestic retailers announced

00:51:40 --> 00:51:43: bankruptcies.

00:51:43 --> 00:51:46: Some of those got, you know, revived, but there were

00:51:46 --> 00:51:50: a ton of closures leading into the pandemic and the

00:51:50 --> 00:51:52: pace of retailer bankruptcies actually slowed both in 2021

00:51:52 --> 00:51:55: and

00:51:55 --> 00:51:59: year to date 2022, so.

00:51:59 --> 00:52:02: In a sense, the absolute weakest were thinned from the

00:52:02 --> 00:52:06: herd in advance of the pandemic pain and now leading

00:52:06 --> 00:52:09: into what could be a technical recession. So I do

00:52:09 --> 00:52:10: think you have a stable relative fundamental profile, albeit

00:52:10 --> 00:52:11: one

00:52:11 --> 00:52:14: that is accompanied with a relatively anemic level of rank

00:52:14 --> 00:52:18: growth, right, so.

00:52:18 --> 00:52:21: Just.

00:52:21 --> 00:52:24: Feel insulated because you need these necessities, but.

00:52:24 --> 00:52:27: You know I don't think that we're going to see

00:52:27 --> 00:52:28: this huge inflow of of capital chasing retail and the

00:52:28 --> 00:52:30: best necessity and grocery anchored centers rarely trade so.

00:52:30 --> 00:52:33: Page you're going.

00:52:33 --> 00:52:36: I just add that we have a big definition question

00:52:36 --> 00:52:39: around retail and first of all the national numbers are

00:52:39 --> 00:52:42: are meaningless for retail and so are the market level.

00:52:42 --> 00:52:45: I mean it's so specific to a space on a

00:52:45 --> 00:52:48: street, preferably a corner with good visibility but but we

00:52:48 --> 00:52:51: have a I think we now have a definition of

00:52:51 --> 00:52:54: what retail is, is it medical office, is it education,

00:52:54 --> 00:52:57: is it sorting center or is it a ecommerce distribution.

00:52:57 --> 00:53:00: It's becoming all these things that it didn't used to

00:52:57 --> 00:53:00: be that may create occupancy in these buildings.

00:53:01 --> 00:53:05: But there are certainly huge value implications to who those
00:53:05 --> 00:53:09: tenants are and what they're doing and how they create
00:53:09 --> 00:53:14: value for their surrounding tenants. So that that's really
becoming
00:53:14 --> 00:53:17: a big part of that market. The other thing I'd
00:53:17 --> 00:53:18: add is.
00:53:18 --> 00:53:22: You know, regionally we do have markets that are adding
00:53:22 --> 00:53:27: big population bases. So you know, Dallas, Houston, over
500,000
00:53:27 --> 00:53:31: people added to those markets just in the past year,
00:53:31 --> 00:53:35: New York, 500,000, Austin and Atlanta and another 400,000
people
00:53:35 --> 00:53:40: in those markets. When you're adding that much population,
even
00:53:40 --> 00:53:45: though those are big markets and they're big geographic
distributions,
00:53:45 --> 00:53:49: there's probably housing that's going in along with those.
00:53:49 --> 00:53:53: Those sorts of population growth numbers and if there's
housing
00:53:53 --> 00:53:56: going on, there's probably a need for some sort of
00:53:56 --> 00:54:01: retail whether it's service space or grocery based. And
grocery
00:54:01 --> 00:54:04: has been competitive for decades now and by but I
00:54:04 --> 00:54:07: think there is a need locally and there's not a
00:54:07 --> 00:54:11: ton of construction going on on retail and unlike some
00:54:11 --> 00:54:14: of the other property types. So as Sabrina said, this
00:54:14 --> 00:54:18: is a, this is a property type that started adjusting
00:54:18 --> 00:54:20: well before COVID and it's morphing into.
00:54:20 --> 00:54:24: Different things, but each of which has very different value
00:54:24 --> 00:54:28: indications for those properties. So it's kind of an interesting
00:54:28 --> 00:54:31: and certainly of all the properties the most local and
00:54:31 --> 00:54:32: property specific.
00:54:33 --> 00:54:35: I think you're saying that you know well located real
00:54:35 --> 00:54:38: estate with a lot of parking and visibility. You know
00:54:38 --> 00:54:40: it's going to, it's going to find a way to
00:54:40 --> 00:54:40: do OK.
00:54:41 --> 00:54:42: There you go.
00:54:43 --> 00:54:44: Well, any thoughts?
00:54:45 --> 00:54:48: I agree this is the most difficult sector to forecast
00:54:48 --> 00:54:51: in a way because it's there's so many components and
00:54:51 --> 00:54:54: at the national level it is kind of meaningless. It's
00:54:54 --> 00:54:57: really a good way of putting it page. Part of
00:54:57 --> 00:55:00: it too is what we're forecasting is the nacre if
00:55:00 --> 00:55:04: retail, you know performance and that has actually shifted

quite

00:55:04 --> 00:55:06: a bit over the last five to 10 years. I

00:55:06 --> 00:55:10: I participate in the Ncreif Research Committee that thinks about

00:55:10 --> 00:55:13: these definitions and how we should subcategorize the the areas

00:55:14 --> 00:55:15: of retail and it's been a.

00:55:15 --> 00:55:19: A difficult task because there's been just so much change

00:55:19 --> 00:55:22: there and and even just trying to figure out how

00:55:22 --> 00:55:25: to categorize it correctly is is hard. So maybe I'll

00:55:25 --> 00:55:29: dodge your question directly bill and just emphasize that the

00:55:29 --> 00:55:32: vacancy rate today is near an all time low level

00:55:32 --> 00:55:34: in neighborhood community centers.

00:55:35 --> 00:55:39: Lifestyle centers, power centers, that's something that I don't think

00:55:39 --> 00:55:41: a lot of people were expecting a year or two

00:55:41 --> 00:55:44: ago. And that's because retailers have been doing well, they've

00:55:44 --> 00:55:47: been signing leases and it's very difficult to say where

00:55:47 --> 00:55:49: it's where it is going forward. So that's the part

00:55:49 --> 00:55:50: I'm gonna, I'm gonna dodge.

00:55:52 --> 00:55:55: Well, the the yields are higher than go ahead pace.

00:55:55 --> 00:55:58: I would just add, I think retail is the property

00:55:58 --> 00:56:00: type that we have the worst data on as far

00:56:00 --> 00:56:02: as the major property types. But it's just you look

00:56:02 --> 00:56:05: at the vacancy rates and I can go out and

00:56:05 --> 00:56:06: drive on market and go.

00:56:07 --> 00:56:10: I've seen a lot more vacancies than what is showing

00:56:10 --> 00:56:13: up in the numbers and the rents are horrible as

00:56:13 --> 00:56:16: far as the data that comes in. So I, you

00:56:16 --> 00:56:18: know, I think there's, there's a.

00:56:19 --> 00:56:22: Grain of salt with that data that gets produced on

00:56:22 --> 00:56:26: retail, Umm. But you know you're right, you're right Bill.

00:56:26 --> 00:56:29: And and Sabrina's great point that the, you know, the

00:56:29 --> 00:56:32: really good stuff doesn't sent tend to trade as well

00:56:33 --> 00:56:35: and it and it tends to stay occupied.

00:56:36 --> 00:56:39: But we'll have to talk to the data providers about

00:56:39 --> 00:56:41: getting better, better data.

00:56:42 --> 00:56:46: OK. All right. Let's, let's, let's talk about the single

00:56:46 --> 00:56:48: family market on there. Probably a lot of people on

00:56:49 --> 00:56:51: the call then involved in that business.

00:56:52 --> 00:56:56: So the the four, you know obviously it's been on

00:56:56 --> 00:57:00: a tear with with very low interest rates that sort

00:57:00 --> 00:57:04: of come to an abrupt stop with mortgage rates
00:57:04 --> 00:57:05: up around 7%.
00:57:06 --> 00:57:11: So, so the forecast is for 950,000 homes this year
00:57:11 --> 00:57:15: down from 1.1 million last year and and 800,000 in
00:57:15 --> 00:57:19: in 2023. And then you know how housing prices are
00:57:19 --> 00:57:23: predicted to fall by 2% next year and then rise
00:57:24 --> 00:57:28: by 3% you know again way below what they've where
00:57:28 --> 00:57:32: they've been the last since COVID and and prior.
00:57:35 --> 00:57:38: What do you all think about the the single family
00:57:39 --> 00:57:42: market and and and is is this the right are
00:57:42 --> 00:57:46: these forecasts in the in the ballpark I guess in
00:57:46 --> 00:57:46: your view?
00:57:50 --> 00:57:53: Yeah. Could you kick us off? You know, historically higher
00:57:53 --> 00:57:56: relative interest rates have had a much more adverse effect
00:57:56 --> 00:57:59: on the price of an average home than what the
00:57:59 --> 00:58:02: consensus is suggesting and what may happen this time
00:58:02 --> 00:58:04: around
00:58:02 --> 00:58:04: and really the elements of play today?
00:58:05 --> 00:58:05: I think.
00:58:05 --> 00:58:09: That we maybe aren't incorporating or isn't getting as much
00:58:09 --> 00:58:14: acknowledgement is just inventory. So sellers that don't need
00:58:14 --> 00:58:18: to
00:58:14 --> 00:58:18: sell right now may feel inclined to wait and a
00:58:18 --> 00:58:20: lot of those would be sellers.
00:58:20 --> 00:58:23: Are locked in at interest rates that are half or
00:58:23 --> 00:58:25: less of what today's going rate is. So you know
00:58:25 --> 00:58:28: if they're locked in at a low rate and don't
00:58:28 --> 00:58:30: need to sell, they'll just wait it out. And so
00:58:30 --> 00:58:33: while we are going to see price cuts for those
00:58:33 --> 00:58:36: homes that do transact relative to sort of post pandemic
00:58:36 --> 00:58:39: peak values at an aggregate level, again we're sort of
00:58:39 --> 00:58:43: talking nationally and page keeps reminding us thoughtfully
00:58:43 --> 00:58:46: that we
00:58:43 --> 00:58:46: need to bring this back to the local market level.
00:58:46 --> 00:58:49: This will vary materially market to market, but at an
00:58:49 --> 00:58:50: aggregate level I do think that.
00:58:51 --> 00:58:55: The price declines will be relatively benign because of that
00:58:55 --> 00:58:56: inventory shortage and.
00:58:57 --> 00:59:01: I saw a really interesting statistic that despite the relatively
00:59:01 --> 00:59:05: dramatic increase in rates here to date, the National
00:59:05 --> 00:59:08: Association
00:59:05 --> 00:59:08: of Realtors just posted that the median sales price in
00:59:08 --> 00:59:11: September was still up almost 8 1/2% year over year.

00:59:12 --> 00:59:15: So obviously we'll get to see in October when that
00:59:15 --> 00:59:19: data gets finalized what's happening there. But I think
inventory
00:59:19 --> 00:59:21: is really the key to whether this comes to pass
00:59:22 --> 00:59:23: as the consensus predicts.
00:59:26 --> 00:59:30: I I agree with the construction figures. I think actually
00:59:30 --> 00:59:33: home prices it's it's very difficult to to forecast some
00:59:33 --> 00:59:37: of the methodology items or or there's there's a lot
00:59:37 --> 00:59:40: of ways to measure home prices but prices are usually
00:59:40 --> 00:59:43: pretty sticky moving down. So I I can happily say
00:59:43 --> 00:59:47: after being a little more negative on everything else I'm
00:59:47 --> 00:59:50: actually a little more optimistic about where home prices are
00:59:50 --> 00:59:52: going than than the survey is.
00:59:53 --> 00:59:55: At least for at least for 2023.
00:59:59 --> 01:00:01: I just add you know mortgage rates are up by
01:00:01 --> 01:00:04: you know 30 year mortgage rates are up by almost
01:00:04 --> 01:00:07: 400 basis points year over year that's a you know
01:00:07 --> 01:00:10: if you want to keep your mortgage payment the same
01:00:10 --> 01:00:13: that's about a 19% decline in your home price. It's
01:00:13 --> 01:00:16: certainly not showing up in the numbers right now but
01:00:16 --> 01:00:19: until those rates come off a bit there's you know
01:00:19 --> 01:00:22: you're either going to have a slowdown in sales or
01:00:22 --> 01:00:24: there's got to be some sort of adjustment in price
01:00:24 --> 01:00:27: more than what's showing up right now and and you
01:00:27 --> 01:00:29: know and and again it's.
01:00:29 --> 01:00:29: Um.
01:00:30 --> 01:00:33: You know, on your meeting home price, it's a \$4000
01:00:33 --> 01:00:38: increase in payments per year and that's significant when
you're,
01:00:38 --> 01:00:41: you know if your median income is about 70,000. So
01:00:41 --> 01:00:42: it's not.
01:00:43 --> 01:00:46: It's not something that's insignificant as far as you know
01:00:46 --> 01:00:49: how that might start to price unless the rates come
01:00:49 --> 01:00:50: off fairly soon.
01:00:53 --> 01:00:57: Here's another interesting thing is that the hurricane in
Florida
01:00:57 --> 01:01:00: and I think we're getting running out of time, but
01:01:00 --> 01:01:04: the hurricane in Florida is about some really interesting
things.
01:01:04 --> 01:01:08: That area had a huge number of institutional owners down
01:01:08 --> 01:01:11: there. It's a market that has a significant insurance problem
01:01:11 --> 01:01:15: before even this hurricane hit and the availability of insurance
01:01:15 --> 01:01:19: and the ability of institutional owners to self insure brings

01:01:19 --> 01:01:22: up a lot of questions about the viability of.

01:01:22 --> 01:01:26: Owning versus renting homes, particularly in those supermarkets. So it's

01:01:26 --> 01:01:28: just gonna be really interesting to see how that all

01:01:28 --> 01:01:30: plays out over the next year.

01:01:31 --> 01:01:34: Well, we're going to go over a minute or two

01:01:34 --> 01:01:37: and and just sort of touch on one other property

01:01:37 --> 01:01:41: type which is single family rental. It wasn't in the

01:01:41 --> 01:01:44: in the survey but certainly getting a lot of attention

01:01:44 --> 01:01:48: from home builders, from investors, from renters is, is that

01:01:48 --> 01:01:51: does that follow the same trajectory as, as, as As

01:01:51 --> 01:01:55: for sale single family and I Sabrina I think you've

01:01:55 --> 01:01:58: been looking in this sector, so I'll start with you.

01:01:59 --> 01:02:03: Made an early call on focusing specifically on purpose built

01:02:03 --> 01:02:06: single family rentals and we've been actively investing in that

01:02:06 --> 01:02:09: area through you know early COVID and post COVID. And

01:02:09 --> 01:02:12: it effectively you know serves as a bridge between the

01:02:12 --> 01:02:16: traditional multifamily product that a lot of institutions are used

01:02:16 --> 01:02:19: to having in their portfolio and this for sale housing

01:02:19 --> 01:02:21: that we're talking about. And it's really you know a

01:02:21 --> 01:02:25: great sort of tweener for households that either have been

01:02:25 --> 01:02:27: priced out of the market whether it's by virtue of

01:02:27 --> 01:02:30: the home price appreciation or no higher interest rates.

01:02:31 --> 01:02:34: Or just those you know that need the flexibility or

01:02:34 --> 01:02:37: want the flexibility of renting. But they're right sort of

01:02:37 --> 01:02:40: a life stage where they need more bedrooms, a backyard

01:02:40 --> 01:02:42: for their dog, their kids, work from home what have

01:02:43 --> 01:02:45: you. And so we always look at it you know

01:02:45 --> 01:02:48: potential investments through the lens of rent versus own. So

01:02:48 --> 01:02:51: we want to ensure that any of our offerings are

01:02:51 --> 01:02:54: catering to what the local market wants first and foremost

01:02:54 --> 01:02:57: and is offered at a price point that is comparable

01:02:57 --> 01:02:59: to light quality product on the for sale side and

01:02:59 --> 01:03:00: so a softening on the.

01:03:01 --> 01:03:03: On the 4 sale side, unfortunately for would be buyers

01:03:04 --> 01:03:07: doesn't really check the scales right now because higher interest

01:03:07 --> 01:03:07: rates.

01:03:09 --> 01:03:12: For the make up for lower absolute purchase prices, so

01:03:12 --> 01:03:16: you know we we've done some quick math and obviously

01:03:16 --> 01:03:19: a 2% increase in interest rates increases the monthly real

01:03:19 --> 01:03:23: feel of ownership 20%. And as Paige alluded to we've

01:03:23 --> 01:03:26: seen the 30 year fixed rate mortgage you know increased
 01:03:26 --> 01:03:30: 400 basis points year to date. So unless home values
 01:03:30 --> 01:03:32: are going to adjust 40 to 50% to make up
 01:03:32 --> 01:03:35: that delta on the monthly which is not our base
 01:03:35 --> 01:03:39: case by any means because of this inventory issue that
 01:03:39 --> 01:03:40: that I alluded to.
 01:03:40 --> 01:03:43: You know it creates more potential renters for purpose built
 01:03:43 --> 01:03:47: single family products because they're already in the mindset
 that
 01:03:47 --> 01:03:50: that's the the product type they want to be in
 01:03:50 --> 01:03:53: and it just gives them sort of a landing ground
 01:03:53 --> 01:03:55: for a few years or rates hopefully come down and
 01:03:55 --> 01:03:58: and maybe they can enter the for sale market. But
 01:03:58 --> 01:04:02: it's it's really a compelling sort of investment perspective from
 01:04:02 --> 01:04:02: our view.
 01:04:06 --> 01:04:09: Yeah, I agree with, I agree with that.
 01:04:10 --> 01:04:14: The long term outlook for single family rentals is fairly
 01:04:14 --> 01:04:18: positive. It's that the millennial generation, which is pretty
 large,
 01:04:18 --> 01:04:21: is now in their 30s and that's the age at
 01:04:21 --> 01:04:25: which they often will move from apartments to single family
 01:04:25 --> 01:04:28: homes. And I became more of a believer in the
 01:04:28 --> 01:04:31: SFR thesis four or five years ago when looking at
 01:04:31 --> 01:04:36: census data, American Community Survey data, and just
 seeing how
 01:04:36 --> 01:04:39: many people there likely are in that group who can't
 01:04:39 --> 01:04:40: really afford them.
 01:04:40 --> 01:04:44: You missed your upfront costs of.
 01:04:45 --> 01:04:48: And therefore, there's a pretty strong demand thesis, I think
 01:04:48 --> 01:04:50: that will last through the end of this decade in
 01:04:51 --> 01:04:51: the SFR space.
 01:04:54 --> 01:04:57: Well, I think we we have used up our time.
 01:04:57 --> 01:05:00: So thank you everyone. Thank you for the panel. Anita,
 01:05:00 --> 01:05:03: are are you going to take over and give the
 01:05:03 --> 01:05:04: closing remarks I think.
 01:05:06 --> 01:05:09: I'm bringing myself back on video. It works.
 01:05:11 --> 01:05:15: I don't know, having trouble doing that. Here I am.
 01:05:15 --> 01:05:18: OK. So thank you very much Bill and Sabrina and
 01:05:18 --> 01:05:24: Paige and well for the incredible robust and insightful
 discussion.
 01:05:24 --> 01:05:28: And thank you for the audience for joining us and
 01:05:28 --> 01:05:32: your great questions. And I wanted to say again that
 01:05:32 --> 01:05:36: the charts that we presented today and others are will

01:05:36 --> 01:05:42: be available shortly on knowledge Finder and at uli.org/economicforecast.
01:05:42 --> 01:05:46: And the recording of this webinar will be available within
01:05:46 --> 01:05:48: a few days. And to mention also that our next
01:05:49 --> 01:05:52: semi annual survey will be out in April and we
01:05:52 --> 01:05:54: hope you join us then as well.
01:05:55 --> 01:05:55: Thank you so much.

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