Commercial Real Estate and the Economy—Outlook for 2019

Thursday, January 24, 2019
1:30-2:30 pm ET

Please disable pop-up blocking software before viewing this webcast

Speakers

Calvin Schnure
SVP,
Research & Economic Analysis
Nareit

Greg Ross
National Industry Managing Partner
Construction, Real Estate & Hospitality Practice
Grant Thornton LLP

Lorraine White
National Tax Leader,
Construction, Real Estate & Hospitality Practice
Grant Thornton LLP

Learning objectives

1. Analyze the current state of the main macroeconomic drivers of commercial real estate, the outlook and primary risks for the year ahead.
2. Define the current state of financial markets, including Federal Reserve policy, and the outlook for 2019.
3. Cite knowledge of the main fundamentals for commercial real estate markets and the outlook for the year ahead.
4. Identify key risks and opportunities in commercial real estate.

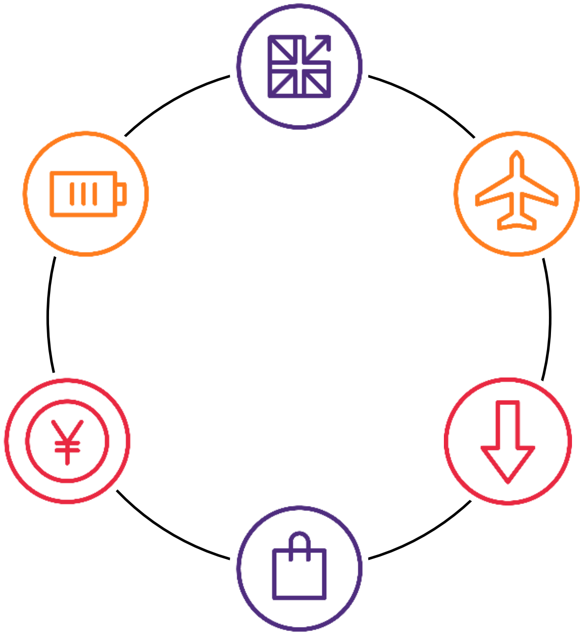
Agenda

1. Macroeconomic conditions, outlook and risks.
2. Financial market conditions, outlook and risks.
3. Fundamentals for commercial real estate.
4. Risks and opportunities ahead.

Grant Thornton

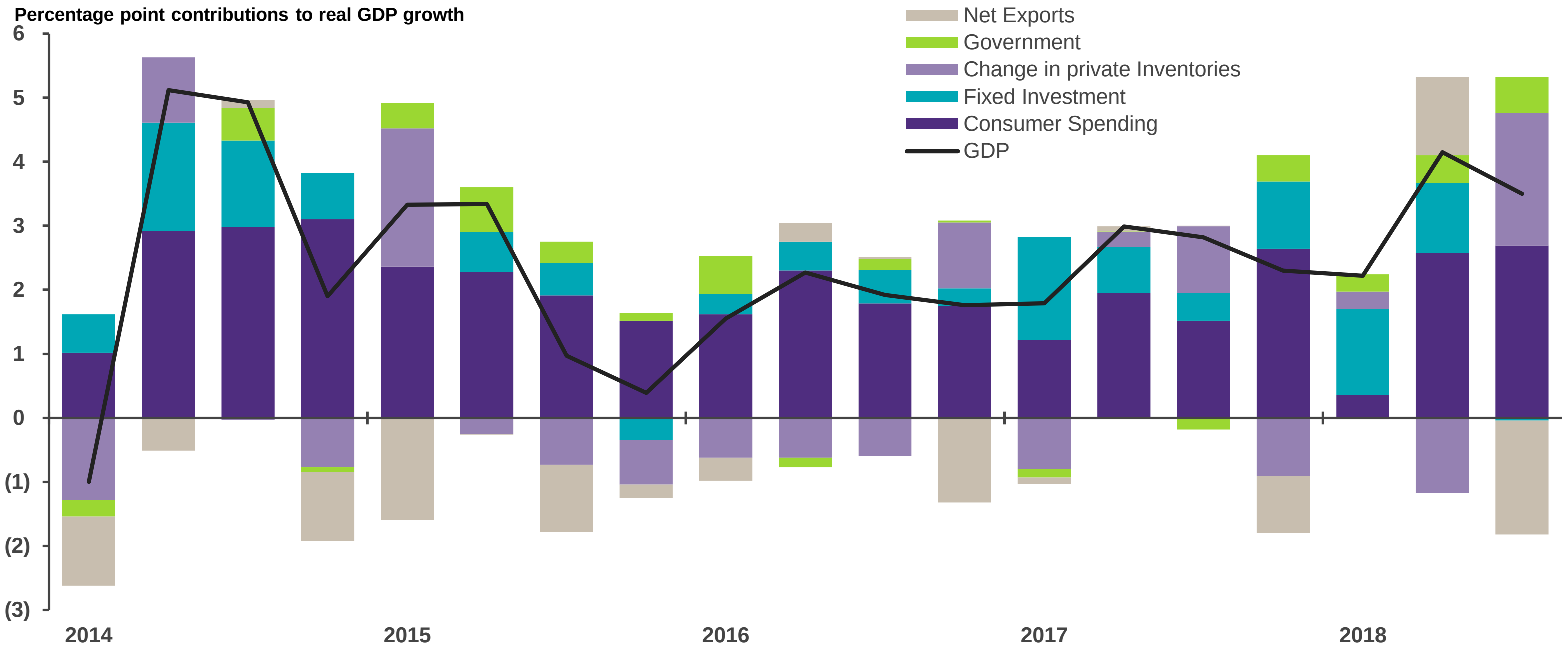
Nareit.

Macroeconomic conditions, outlook and risks



GDP Growth Stays Above Trend

Consumer and business spending remain robust



Source: BEA, Haver Analytics, Nareit

Grant Thornton

Nareit

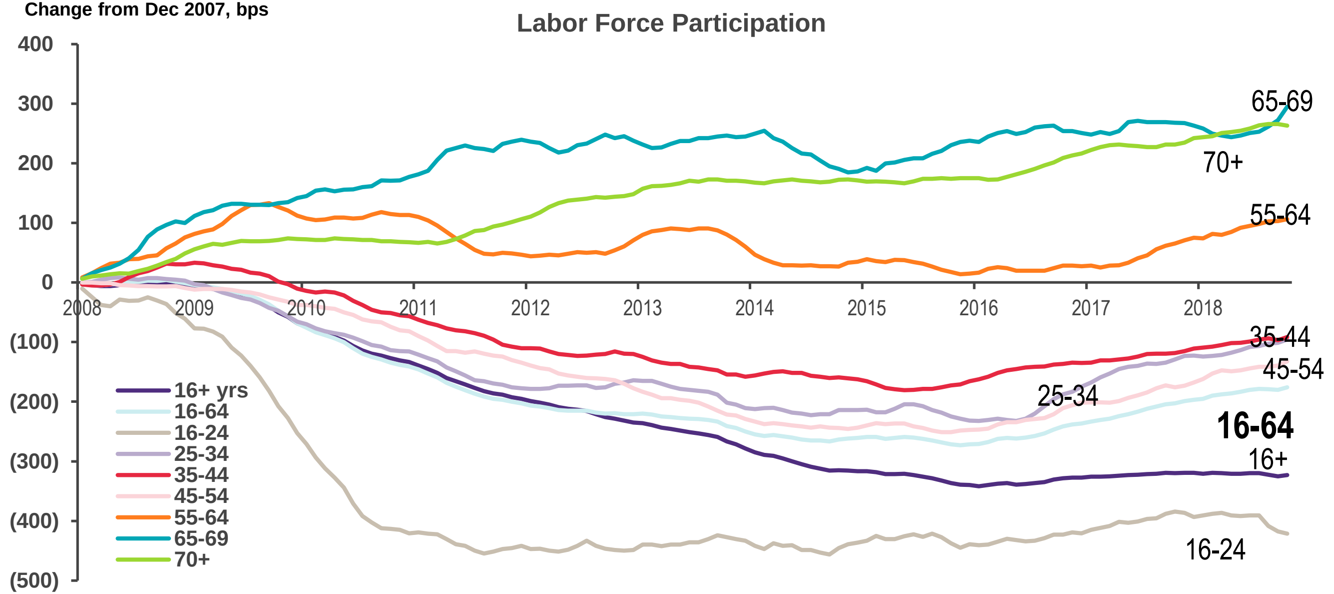
How Long Can This Expansion Go On?

Several analysts have the baseball inning moving from the 9th inning to the 8th and even 7th, while clocks move backward.

“Think a fifth set at Wimbledon without a tie break.” --Pimco

The Job Market Has Room To Run

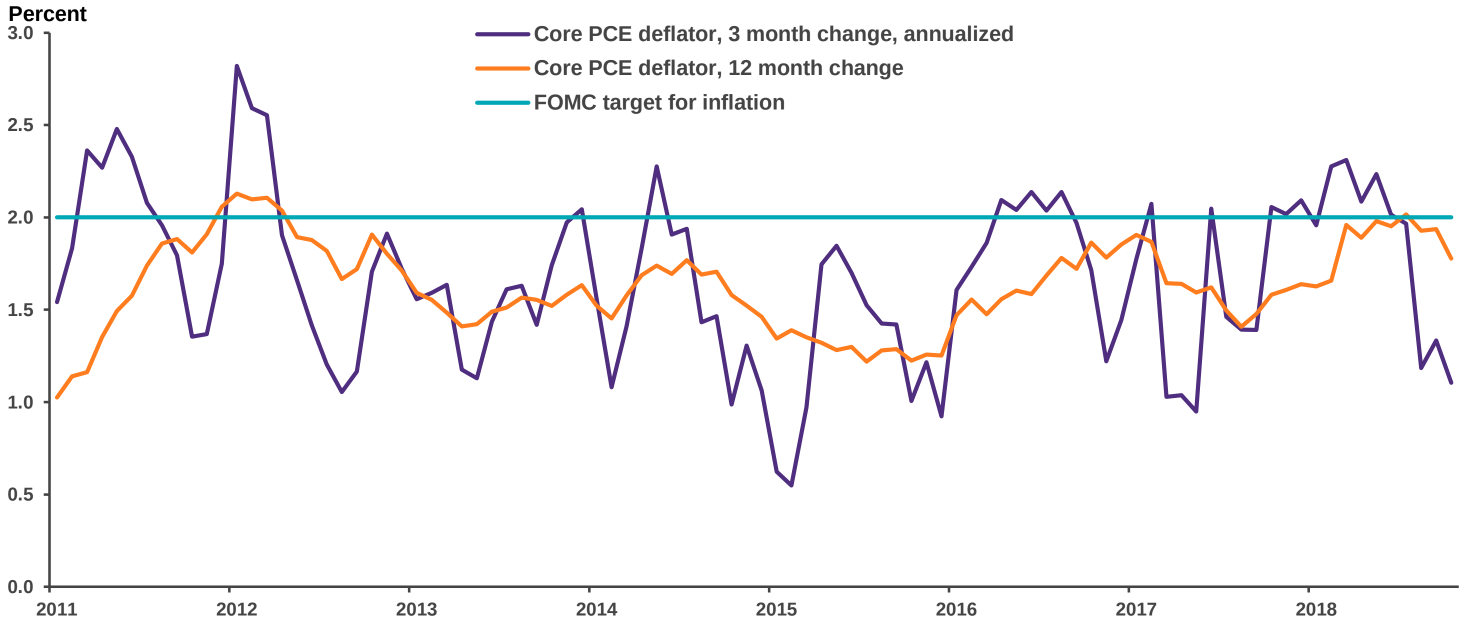
The economy is not running out of workers, as low labor force participation rates hide slack



Source: BLS, Haver Analytics, Nareit

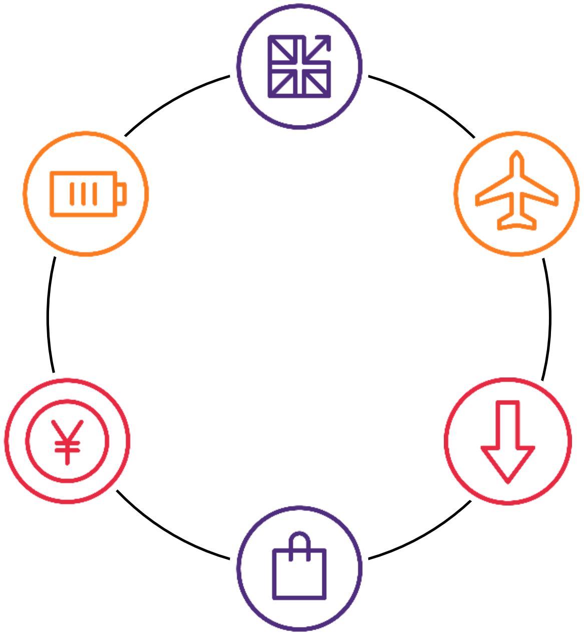
Inflation—Not Too Hot

The Fed's preferred inflation measure has moved back below the 2 percent target



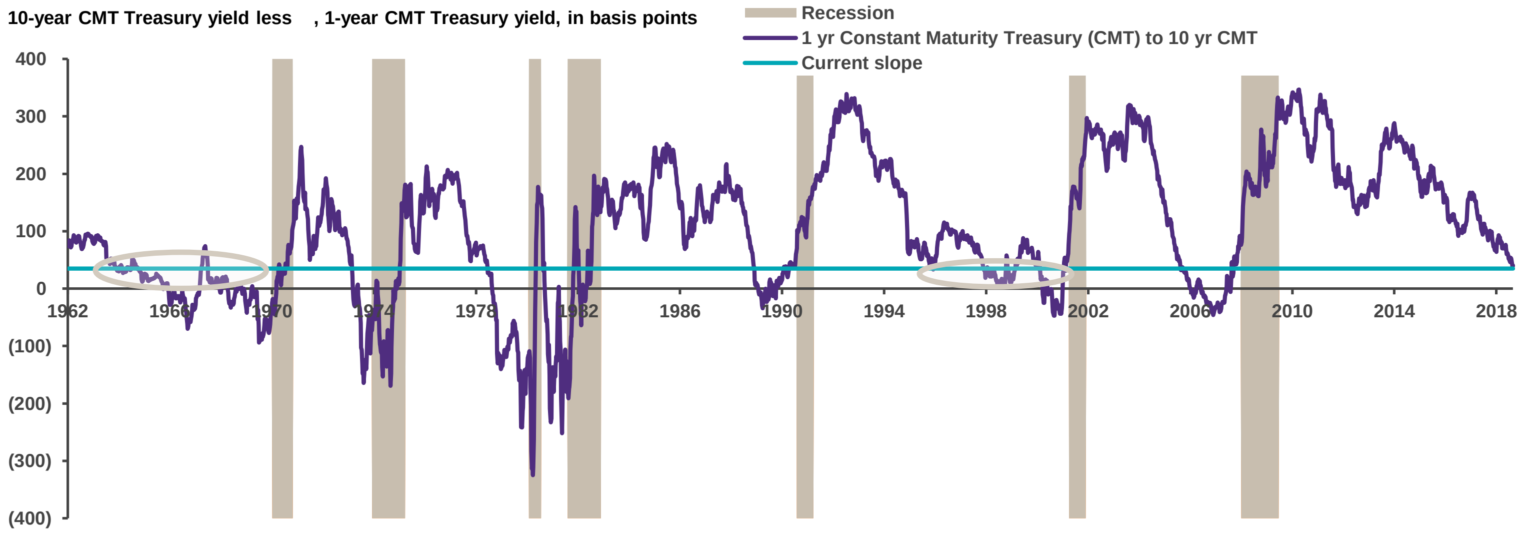
Source: Bureau of Economic Analysis, Bloomberg, Haver Analytics, Nareit

Financial market conditions, outlook and risks



Treasury Yield Curve—We've Seen This Before

During two periods of sustained growth in a low-inflation environment (1963-1969, 1995-1999), the yield curve was consistently flatter than it is today



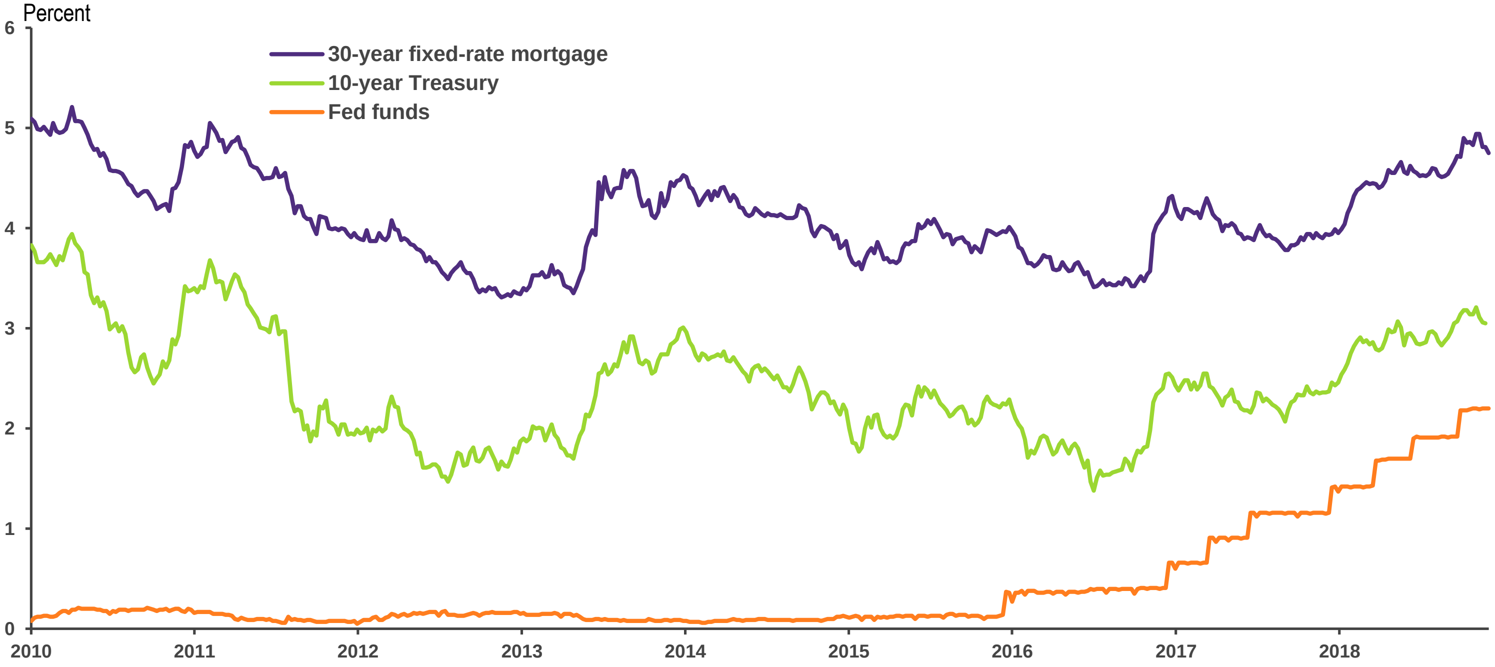
Source: Federal Reserve Board, Nareit

Grant Thornton

Nareit

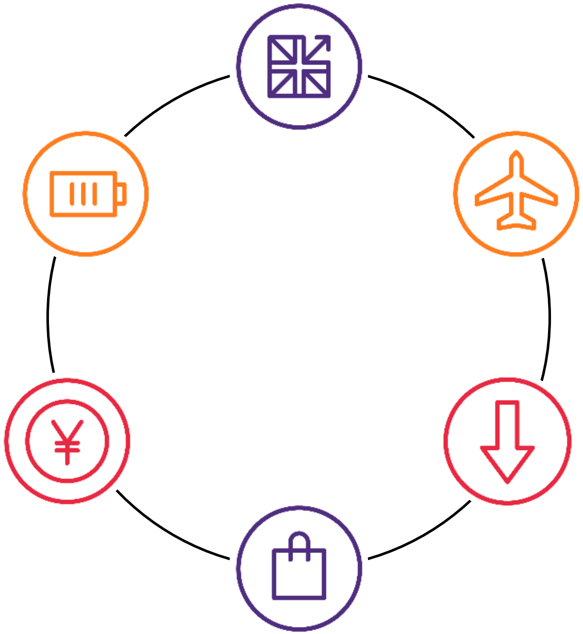
Interest Rates Are Moving Up

Mortgage rates are the highest since February 2011



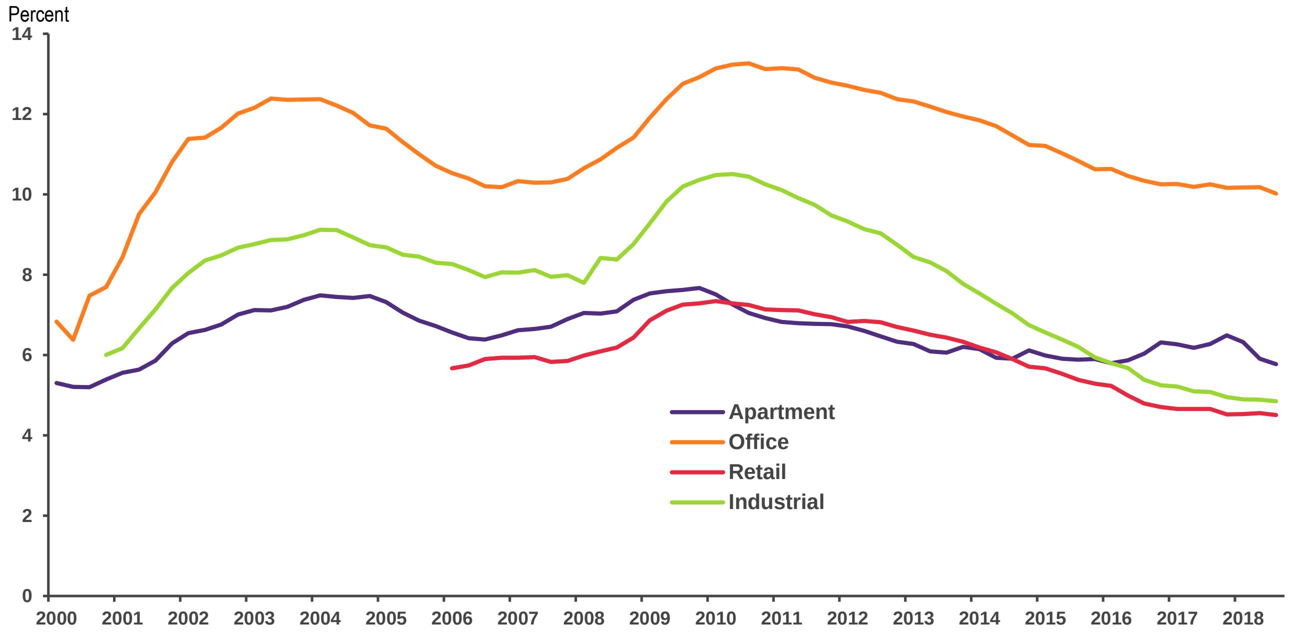
Source: Federal Reserve, Freddie Mac, Haver Analytics, Nareit

Fundamentals for commercial real estate



Vacancy Rates

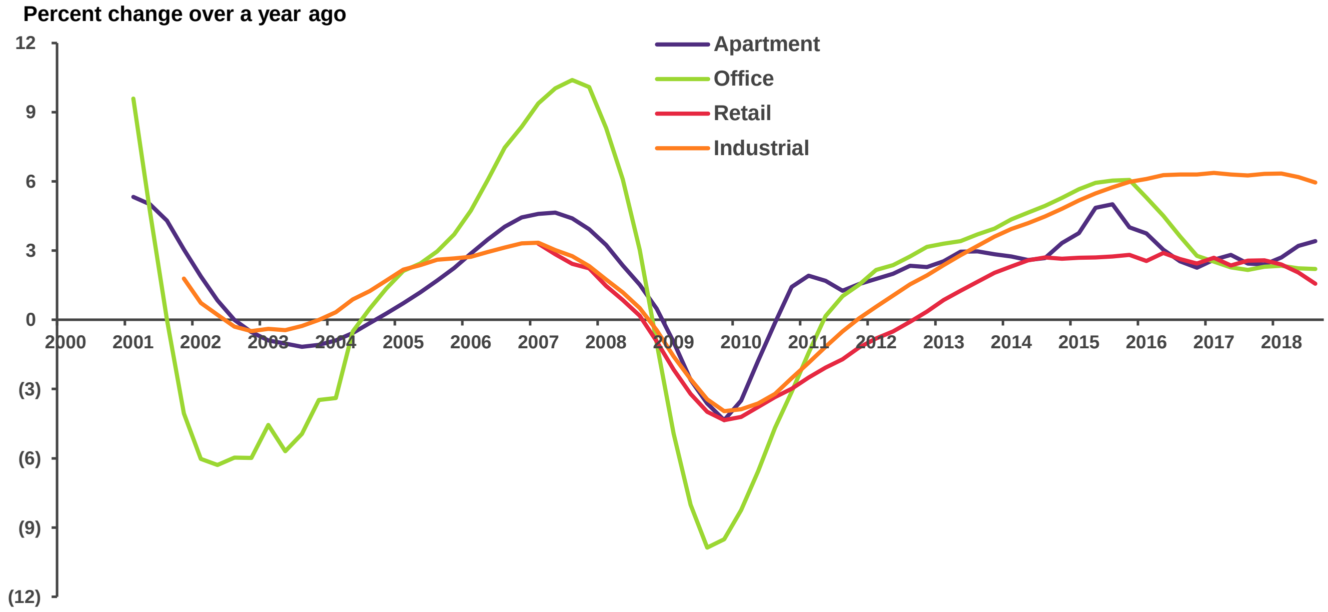
Vacancy rates have moved to new lows for the cycle



Source: CoStar, Nareit

Rent Growth

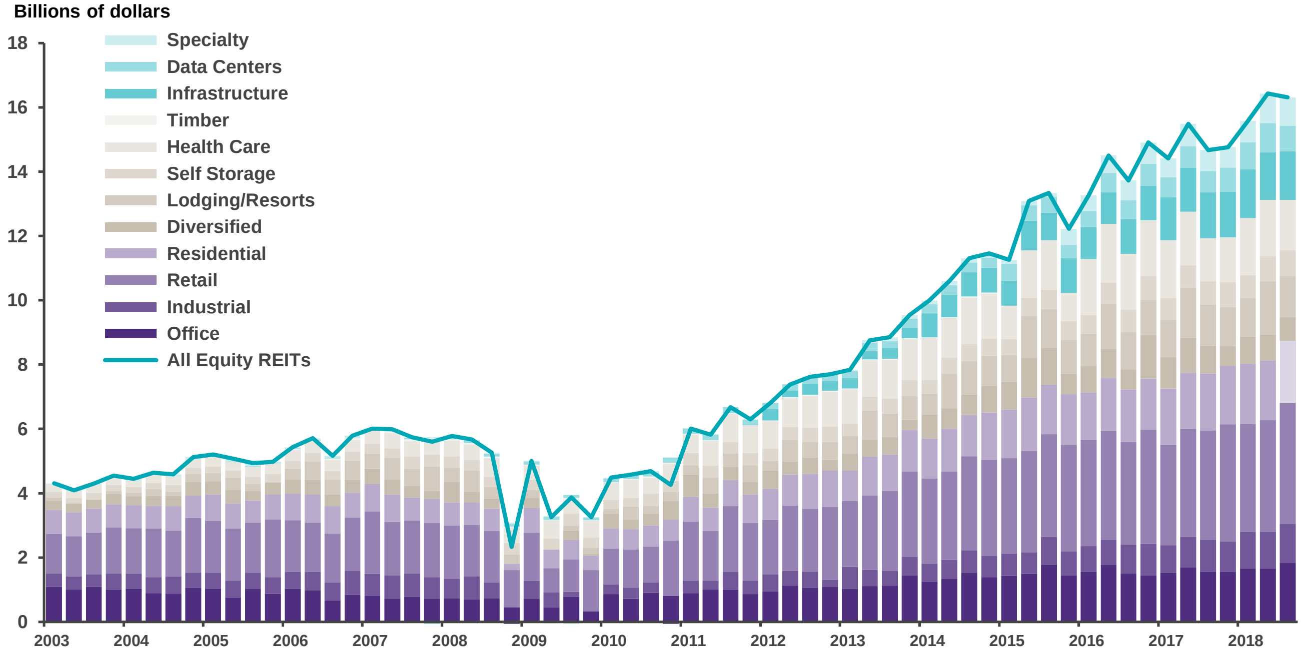
Rent growth has slowed among retail and office markets. Apartment rents picked up in mid-2018, and industrial rents are still rising rapidly



Source: CoStar, Nareit

REIT Funds from Operations

Earnings of all listed U.S. equity REITs rose 11.1 percent over year ago, to $16.3 billion



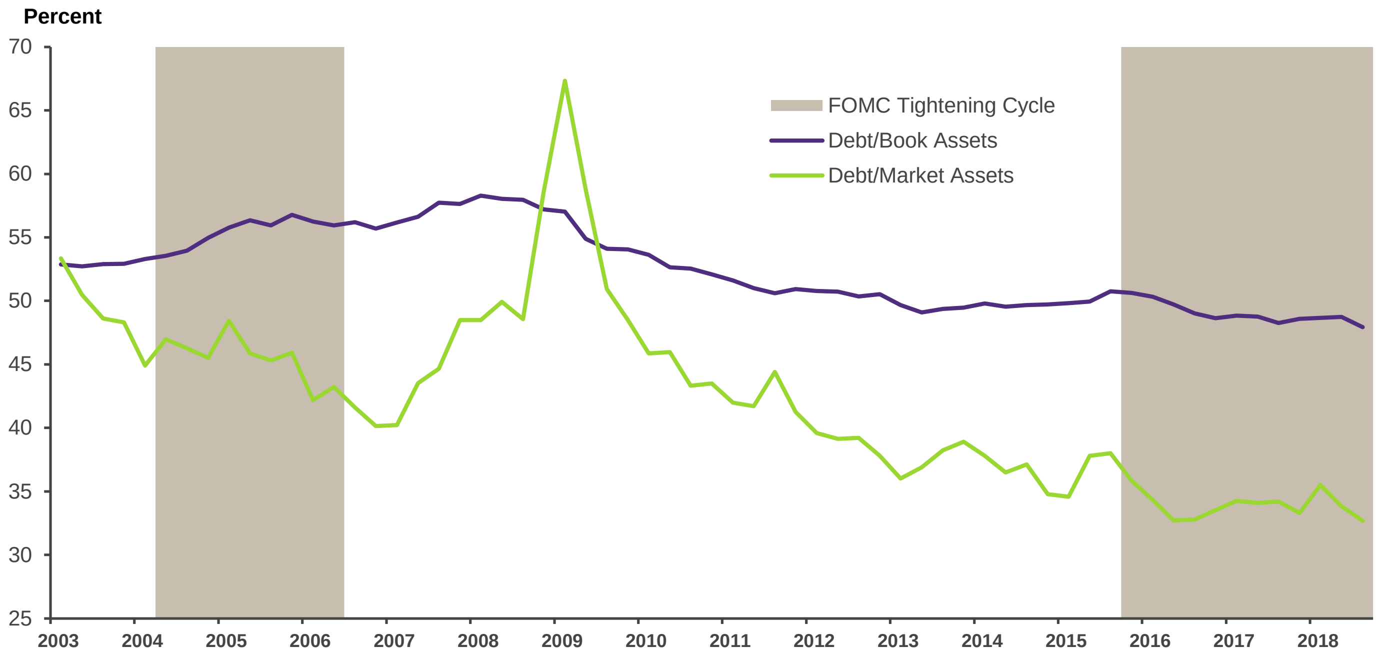
Source: S&P Global Market Intelligence, Nareit T-Tracker®

Grant Thornton

Nareit

REIT Debt to Total Assets

Leverage ratios of REITs are the lowest in decade



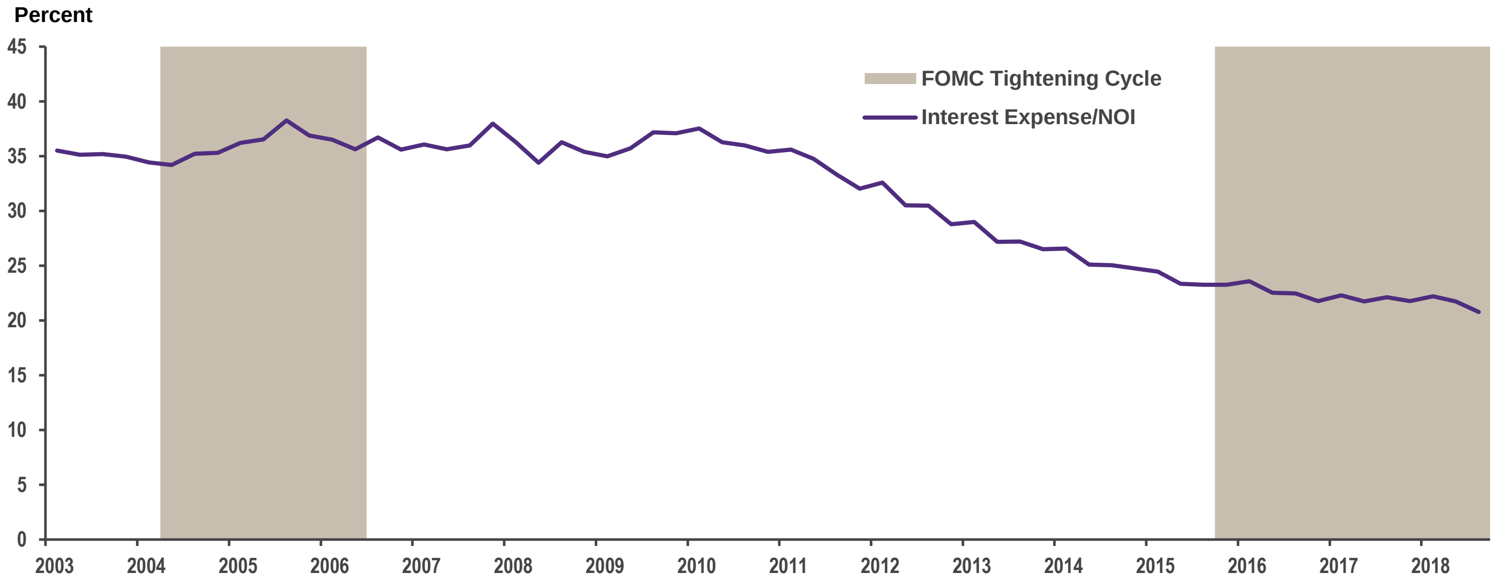
Source: S&P Global Market Intelligence, Nareit T-Tracker®

Grant Thornton

Nareit

REIT Interest Expense to Net Operating Income

REIT interest rate exposures are at a record low

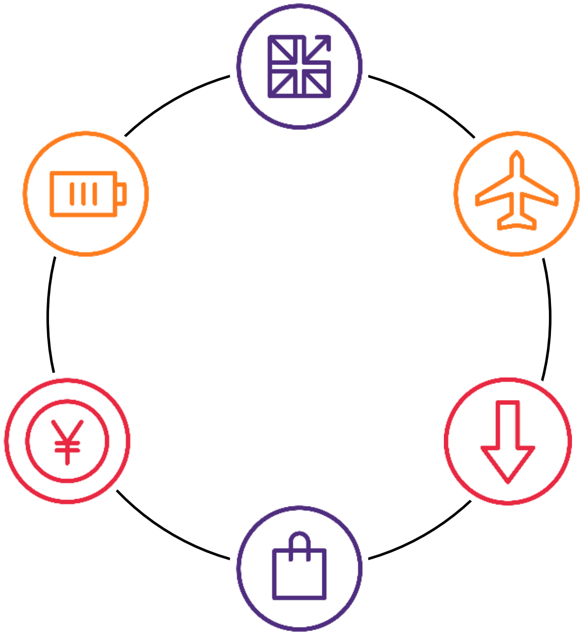


Source: S&P Global Market Intelligence, Nareit T-Tracker®

Grant Thornton

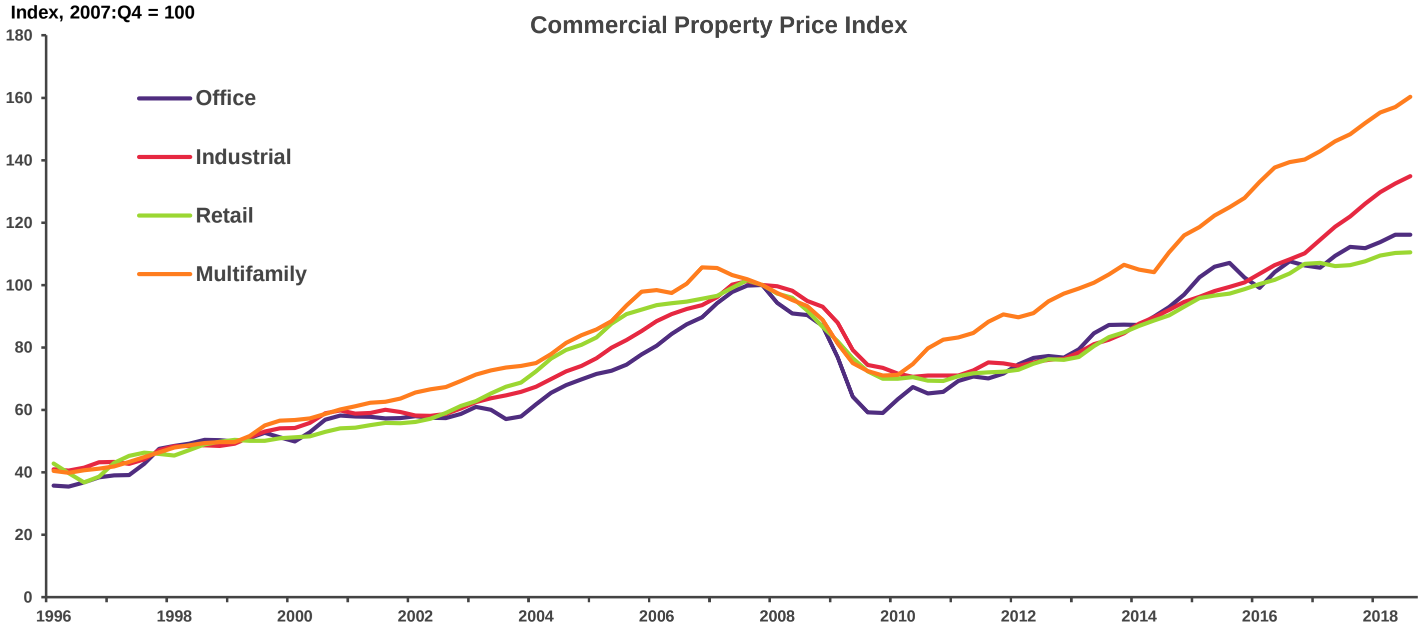
Nareit

Risks and opportunities ahead



Commercial Property Prices

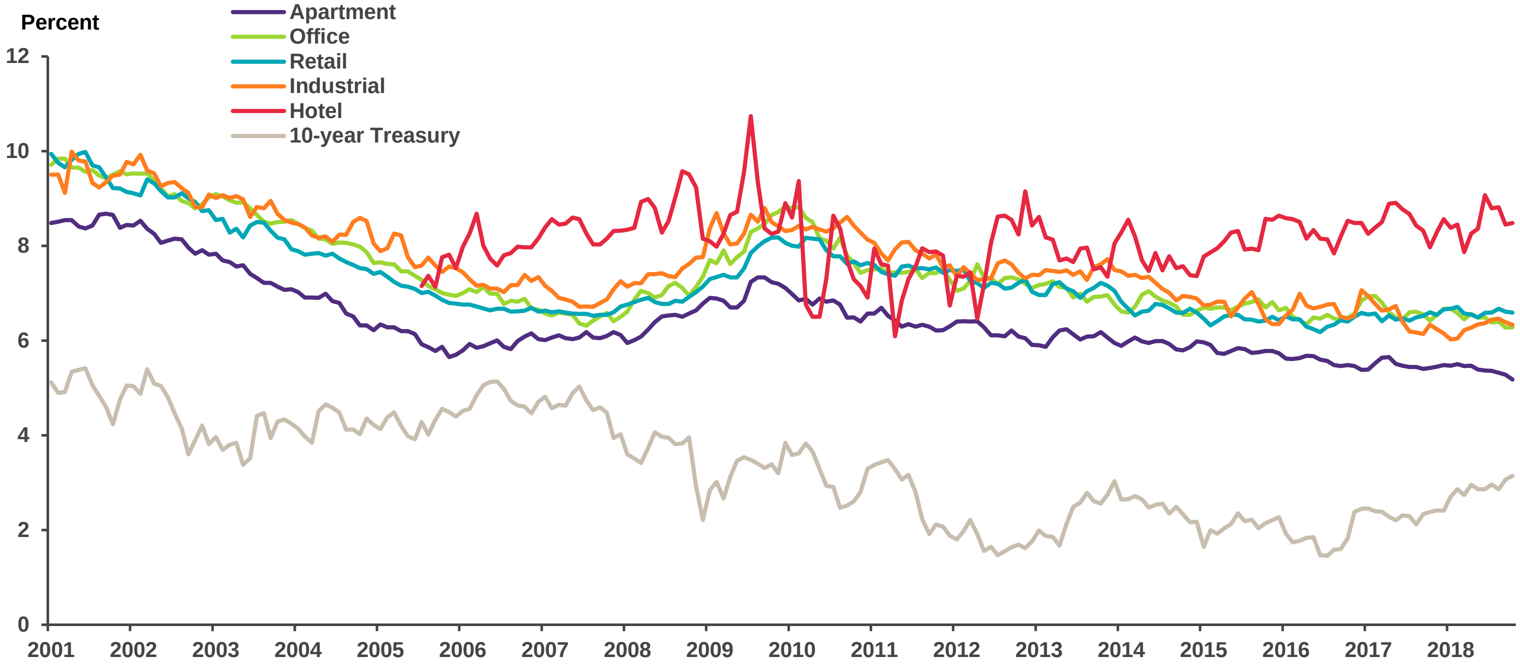
Valuations have moved steadily higher, especially for multifamily and industrial properties



Source: CoStar, Nareit

Cap Rates

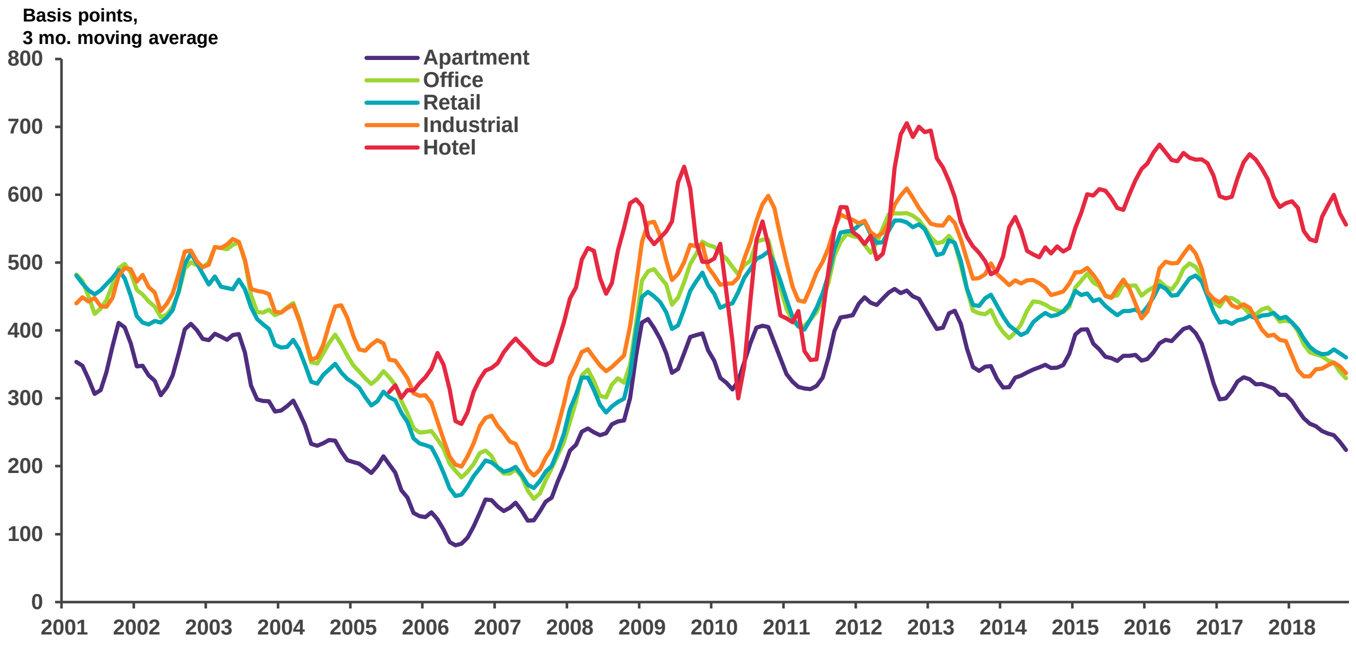
Cap rates continued to decline in 2018, even as Treasury yields rose



Source: RCA, Bloomberg, Nareit

Cap Rate Spreads

Cap rate spreads to Treasuries have narrowed to the middle of the range seen a decade ago



Source: RCA, Bloomberg, Nareit

Grant Thornton

Nareit

Tax Reform and the Impact to REITs

- REITs more attractive in the market due to the new 20% Pass-through Deduction on ordinary dividends (199A)
  - No W-2 or tax basis limitations
  - Capital Gain dividends
- REITs are defined as a real property trade or business which avails REITs to elect out of the 163(j) business interest expense limitation
- 21% corporate tax rate for those REITs that distribute only 90% of their taxable income or for REITs that choose to retain capital gains
- Taxation of Government Grants under Section 118 for contributions received after 12/22/17 with grandfathering exclusion applying for a pre-existing approved master development plan

Speakers

Calvin Schnure

SVP,

Research & Economic Analysis, Nareit

Contact:

T 202.739.9434

E cschnure@nareit.com | reit.com

Click here for the report:

REIT Outlook and Top Issues to Watch for in 2019

Greg Ross

National Managing Partner,

Construction, Real Estate &

Hospitality, Audit

Grant Thornton LLP

Contact:

T 704.632.6817

E Greg.Ross@us.gt.com

Lorraine White

National Tax Leader,

Construction, Real Estate &

Hospitality

Grant Thornton LLP

Contact:

T 215.814.1728

E Lorraine.White@us.gt.com

Disclaimer

This Grant Thornton LLP presentation is not a comprehensive analysis of the subject matters covered and may include proposed guidance that is subject to change before it is issued in final form. All relevant facts and circumstances, including the pertinent authoritative literature, need to be considered to arrive at conclusions that comply with matters addressed in this presentation. The views and interpretations expressed in the presentation are those of the presenters and the presentation is not intended to provide accounting or other advice or guidance with respect to the matters covered.

For additional information on matters covered in this presentation, contact your Grant Thornton LLP adviser.

Disclaimer

* *

IRS Circular 230 disclosure: To ensure compliance with requirements imposed by the U.S. Internal Revenue Service, we inform you that any U.S. federal tax advice contained in this PowerPoint is not intended or written to be used, and cannot be used, for the purpose of (a) avoiding penalties under the U.S. Internal Revenue Code or (b) promoting, marketing or recommending to another party any transaction or matter addressed herein.

* *

The foregoing slides and any materials accompanying them are educational materials prepared by Grant Thornton LLP and are not intended as advice directed at any particular party or to a client-specific fact pattern. The information contained in this presentation provides background information about certain legal and accounting issues and should not be regarded as rendering legal or accounting advice to any person or entity. As such, the information is not privileged and does not create an attorney-client relationship or accountant-client relationship with you. You should not act, or refrain from acting, based upon any information so provided. In addition, the information contained in this presentation is not specific to any particular case or situation and may not reflect the most current legal developments, verdicts or settlements.

You may contact us or an independent tax advisor to discuss the potential application of these issues to your particular situation. In the event that you have questions about and want to seek legal or professional advice concerning your particular situation in light of the matters discussed in the presentation, please contact us so that we can discuss the necessary steps to form a professional-client relationship if that is warranted. Nothing herein shall be construed as imposing a limitation on any person from disclosing the tax treatment or tax structure of any matter addressed herein.

Thank you for attending

www.grantthornton.com

twitter.com/GrantThorntonUS

linkd.in/GrantThorntonUS

Visit us online.
For questions regarding your CPE certificate, contact
CPEEvents@us.gt.com

Grant Thornton