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# Commercial Real Estate and the Economy— Outlook for 2020

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# Speakers



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# Learning objectives

1

Describe the current state of the main macroeconomic drivers of commercial real estate, the outlook and main risks for the year ahead

2

Recognize the current state of financial markets, including Federal Reserve policy, and the outlook for 2020.

3

Determine 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

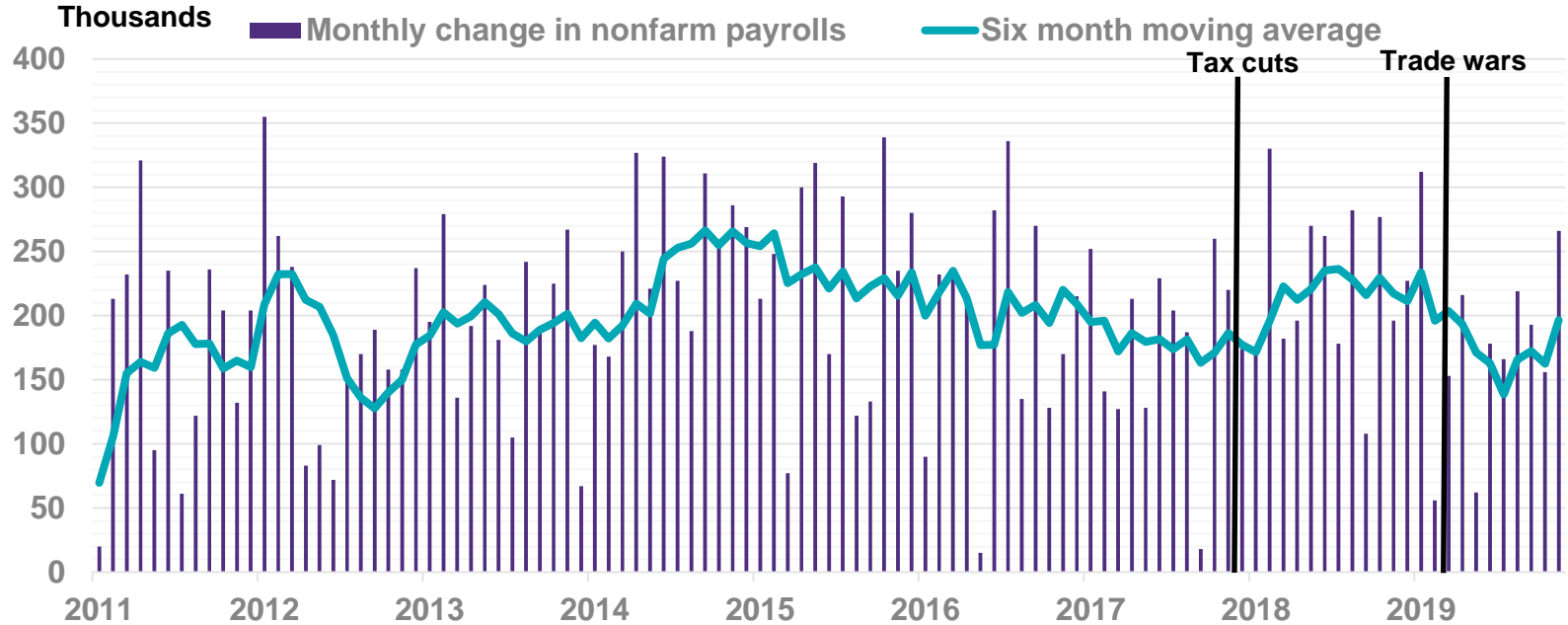
Risks and opportunities ahead

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# Macroeconomic conditions, outlook and risks



# Job growth slowed in 2019



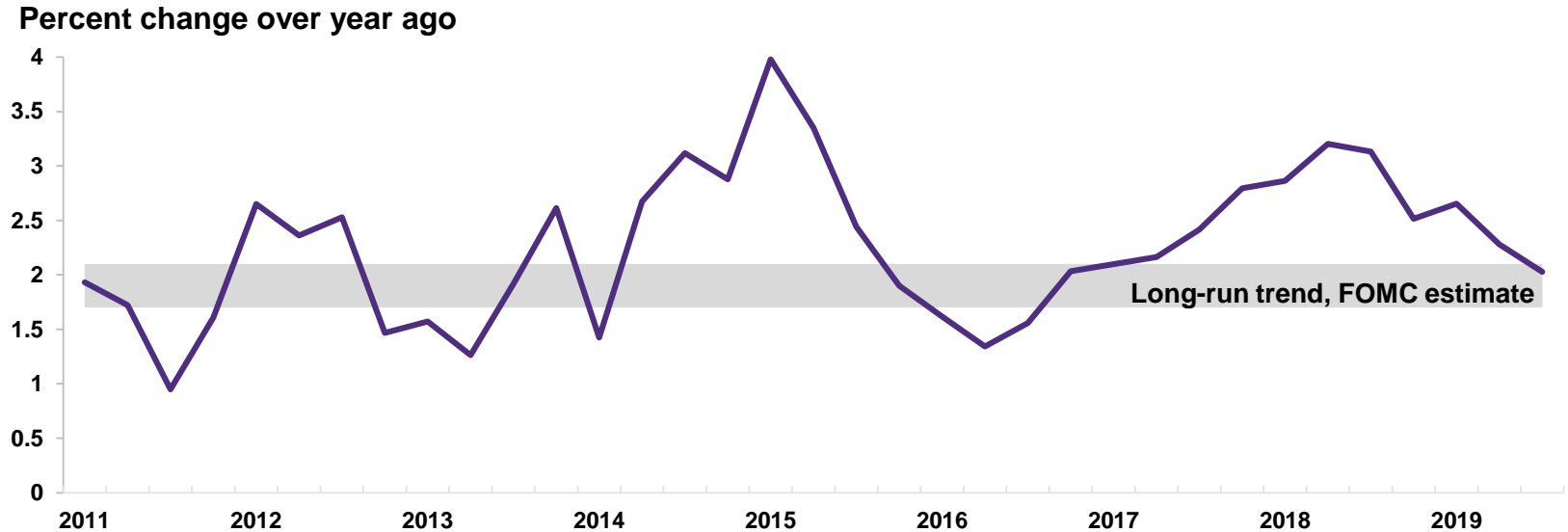
Source: BLS, Haver Analytics, Nareit

# Factory output fell in 2019



Source: Federal Reserve, Nareit

# GDP growth slowed in 2019... Back to trend



Source: BEA, Haver Analytics, Federal Reserve, 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*





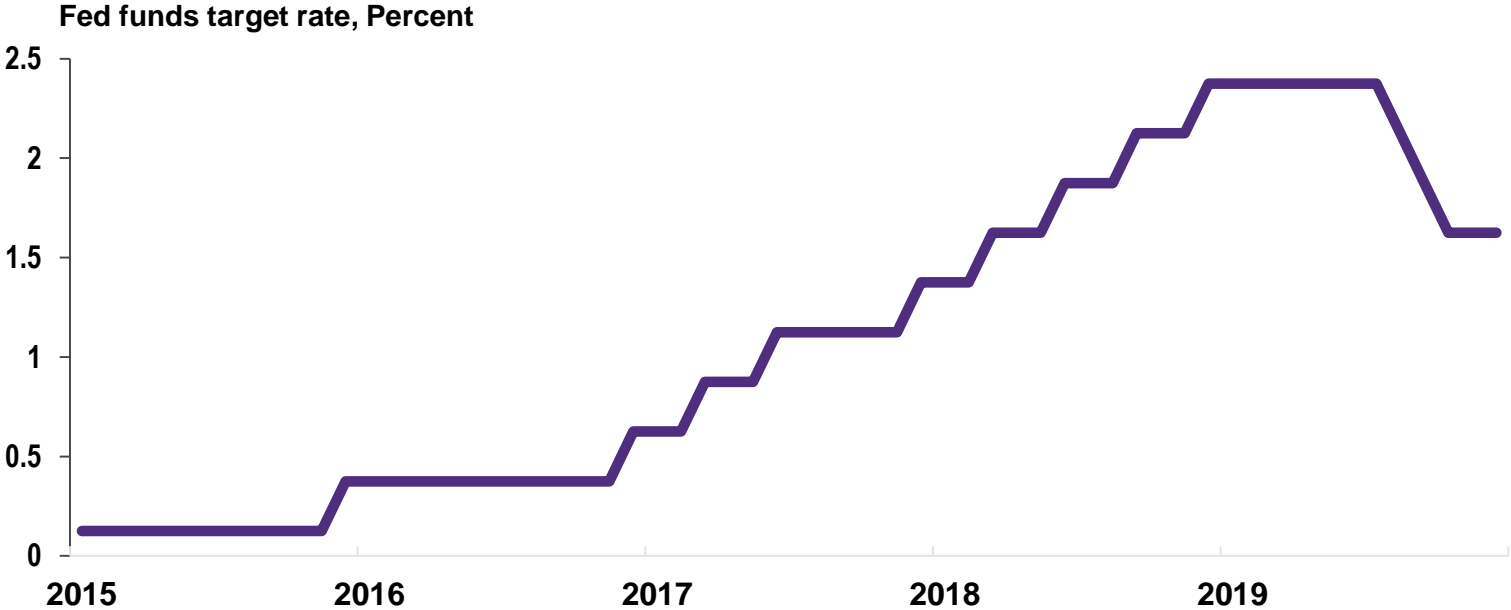
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# Financial market conditions, outlook and risks



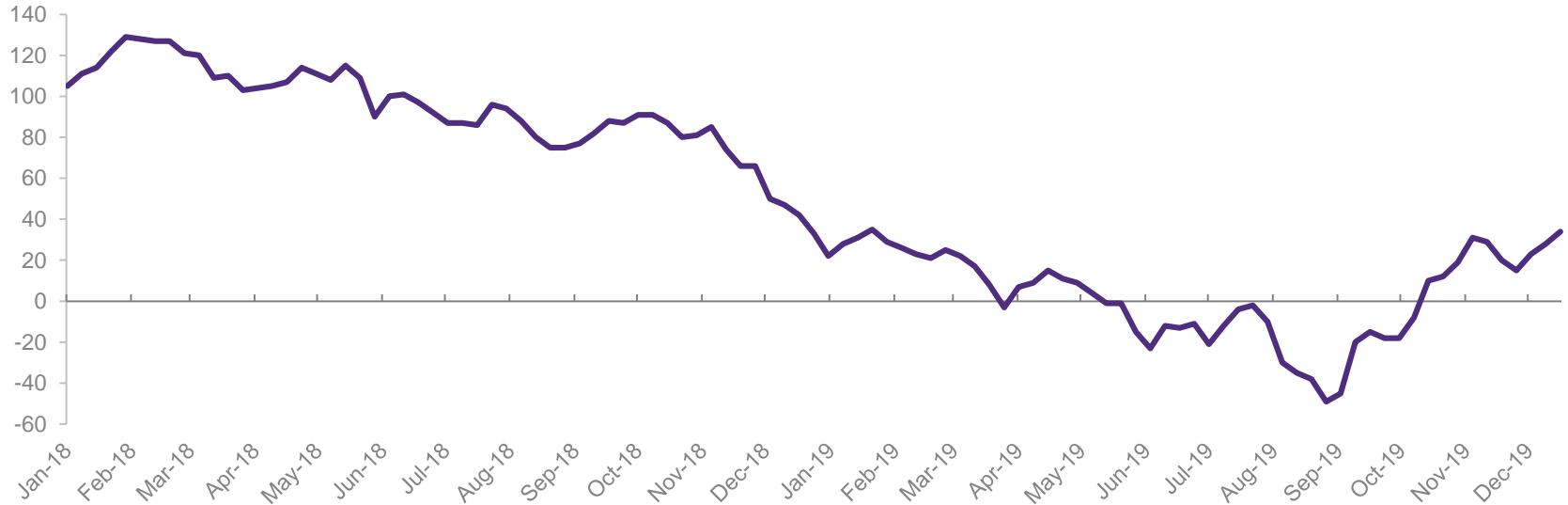
# The Fed reversed course in 2019



Source: Federal Reserve Board, Nareit

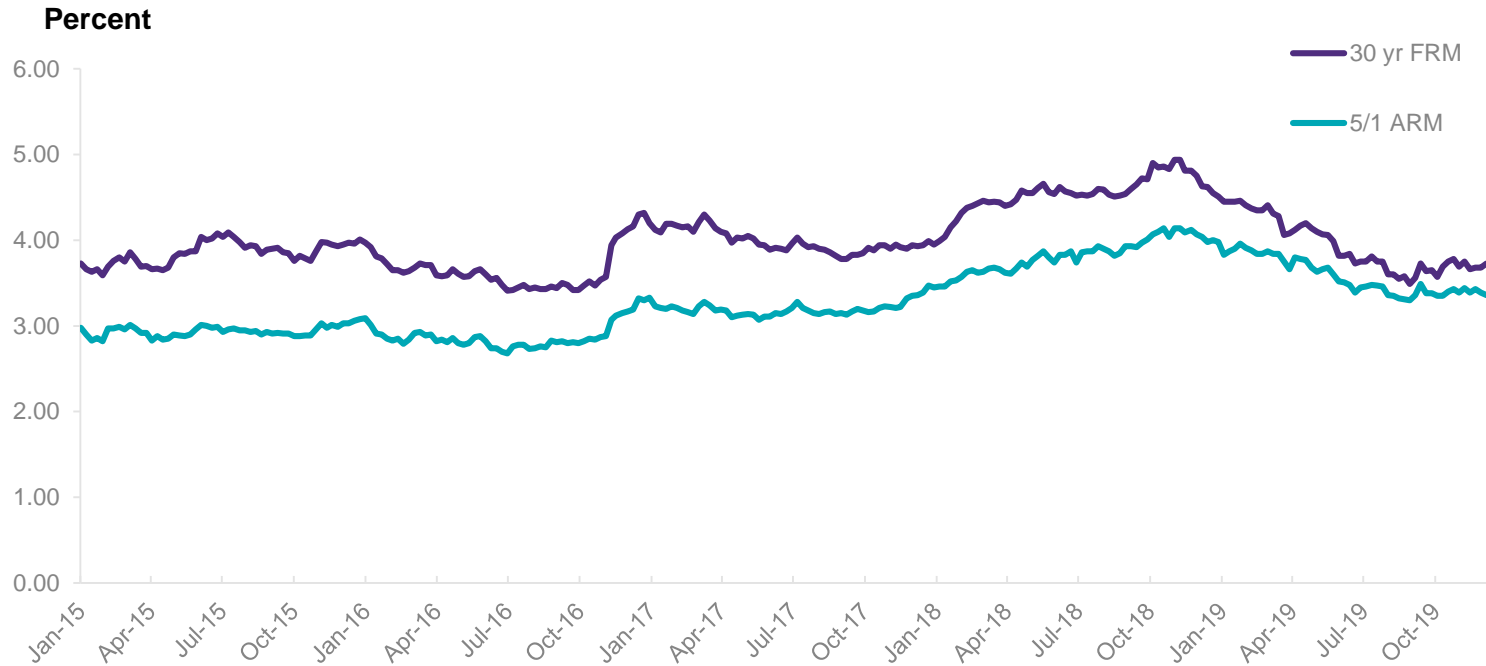
# The yield curve inverted... briefly

**10-year Treasury note less 3-month bills**  
**Basis points**



Source: Federal Reserve Board, Nareit

# Mortgage rates are low



Source: Freddie Mac, Nareit



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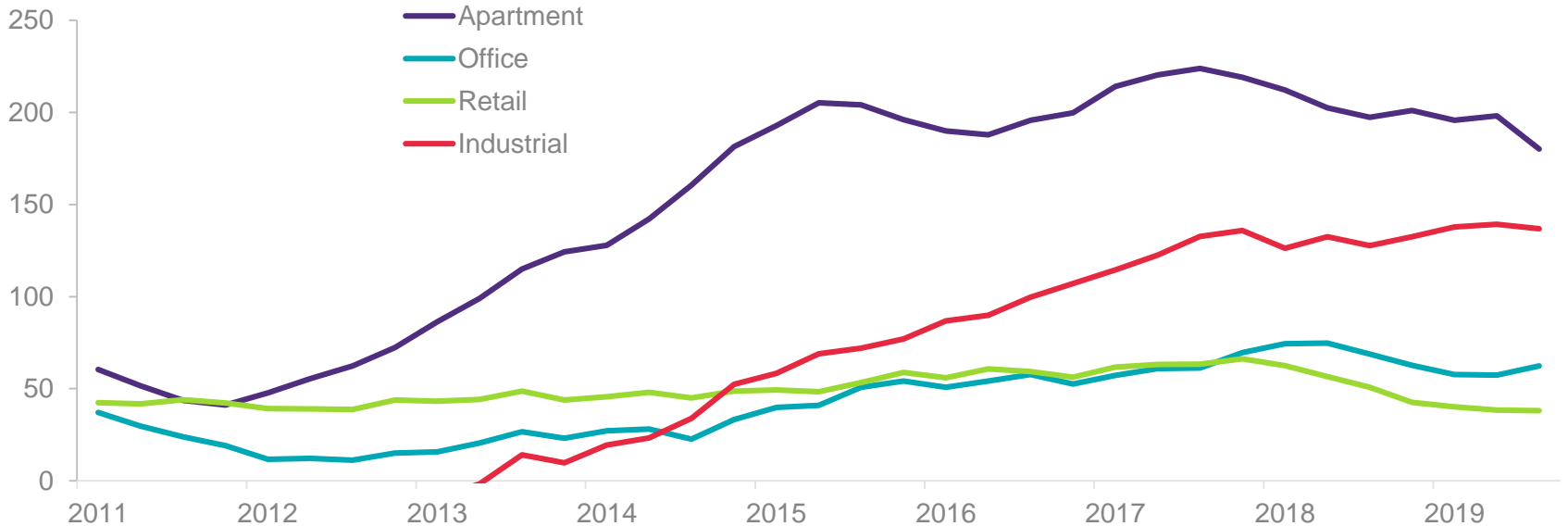
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# Fundamentals for commercial real estate



# Commercial construction is elevated

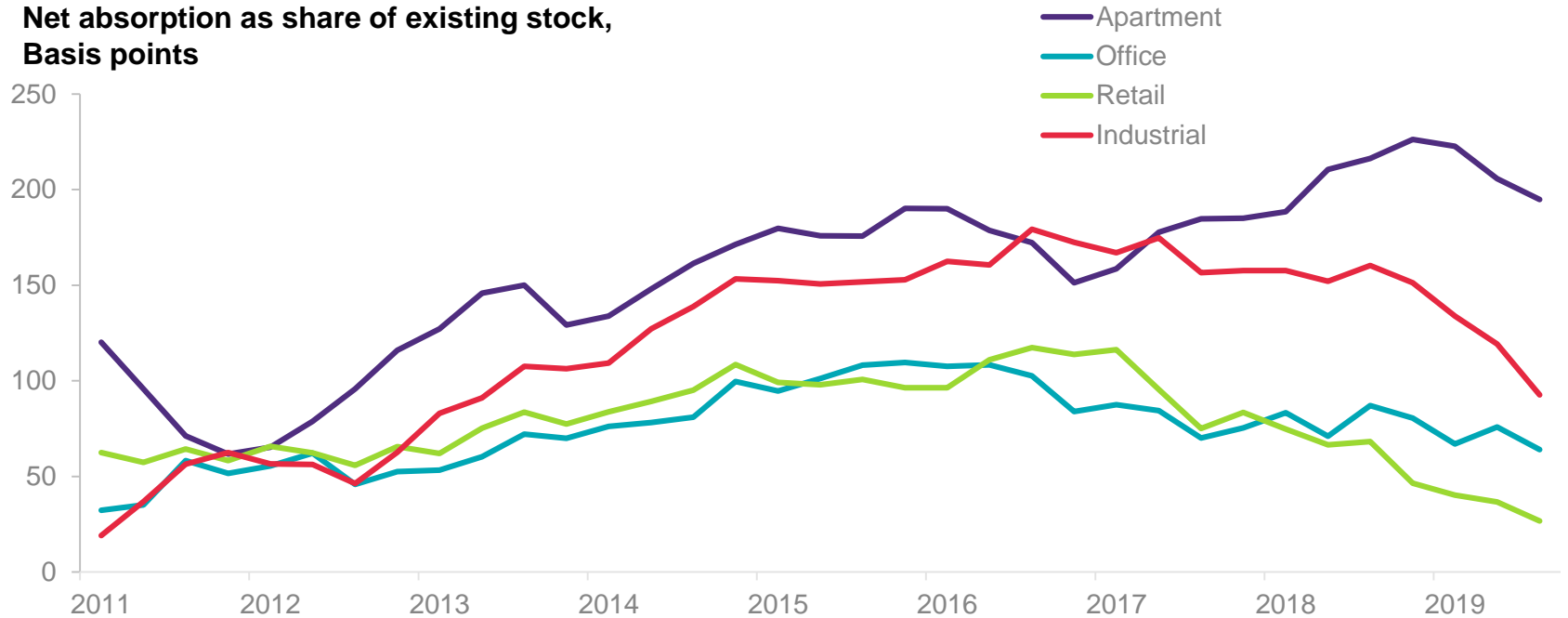
Completions as a share of existing stock, Basis points



Source: CoStar, Nareit

# Demand is also elevated

Net absorption as share of existing stock,  
Basis points

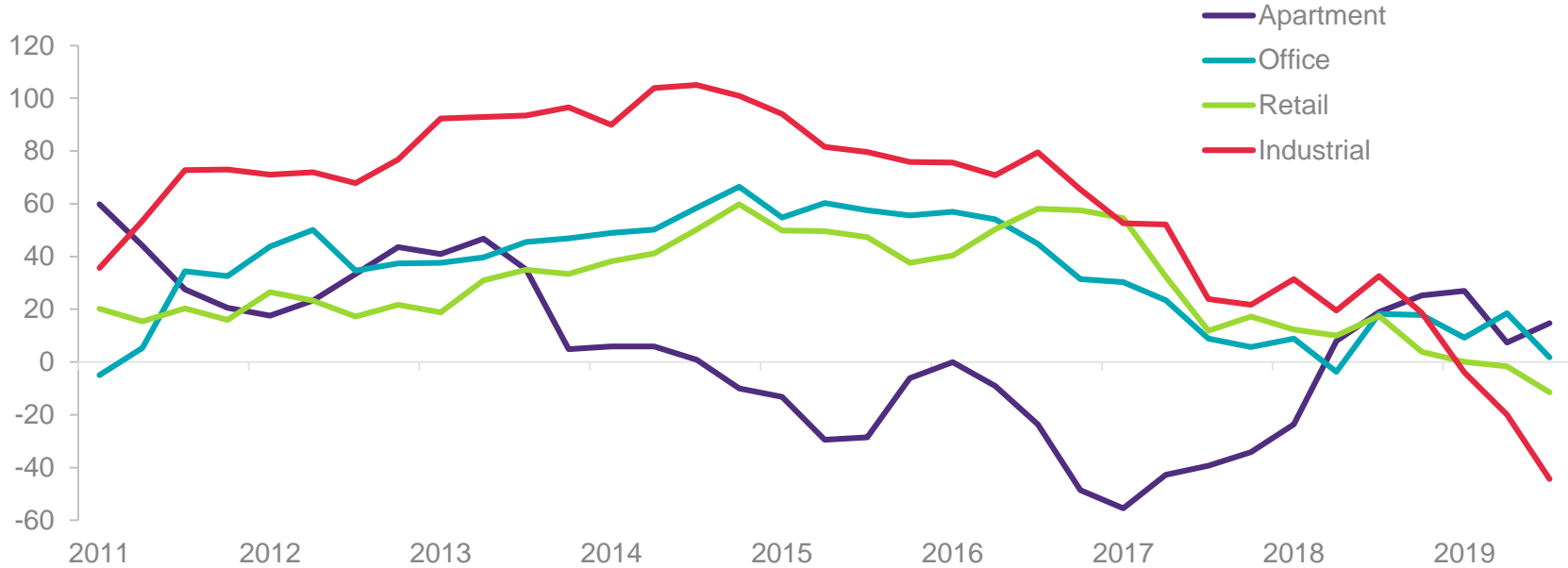


Source: CoStar, Nareit



# Supply and demand are balanced

Net absorption less completions as share of existing stock, Basis points



Source: CoStar, Nareit

# Most REITs report rising earnings

Percent of REITs with increasing FFO over a year ago



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



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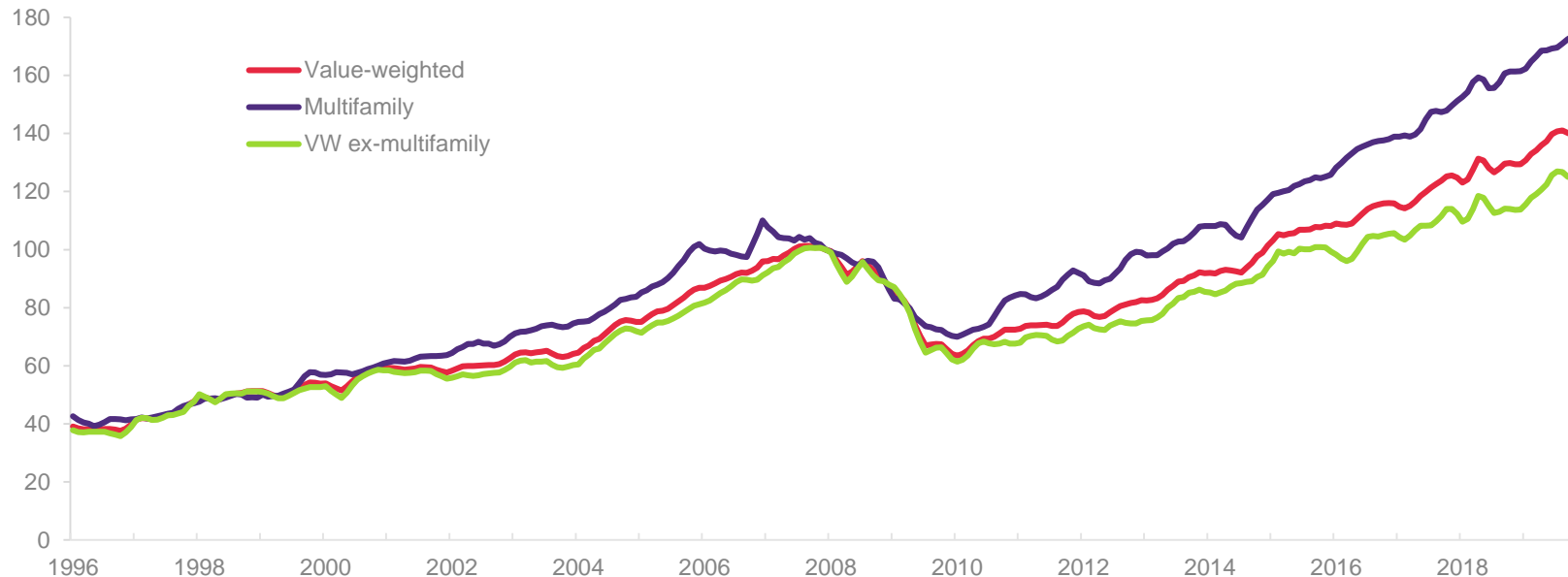
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# Risks and opportunities ahead



# Commercial property prices

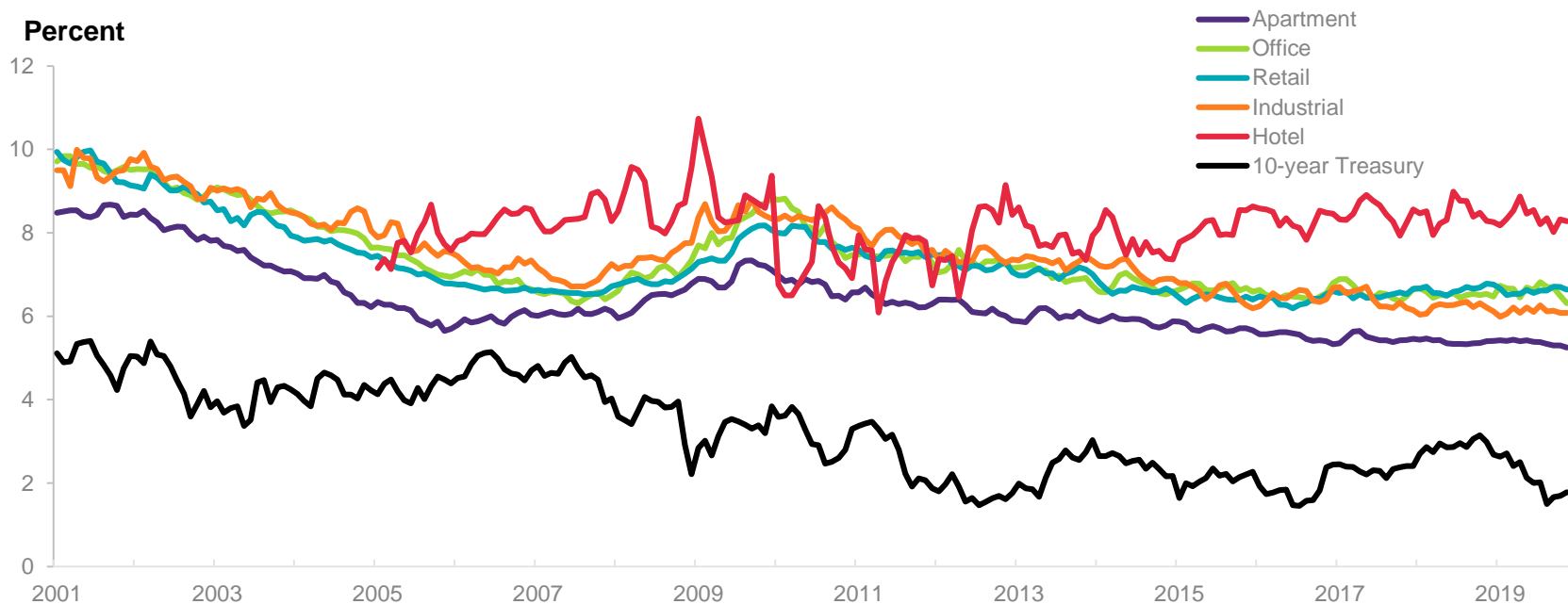
Index, Dec 2007 = 100



Valuations have moved steadily higher, especially for multifamily properties

Source: CoStar, Nareit

# Cap rates

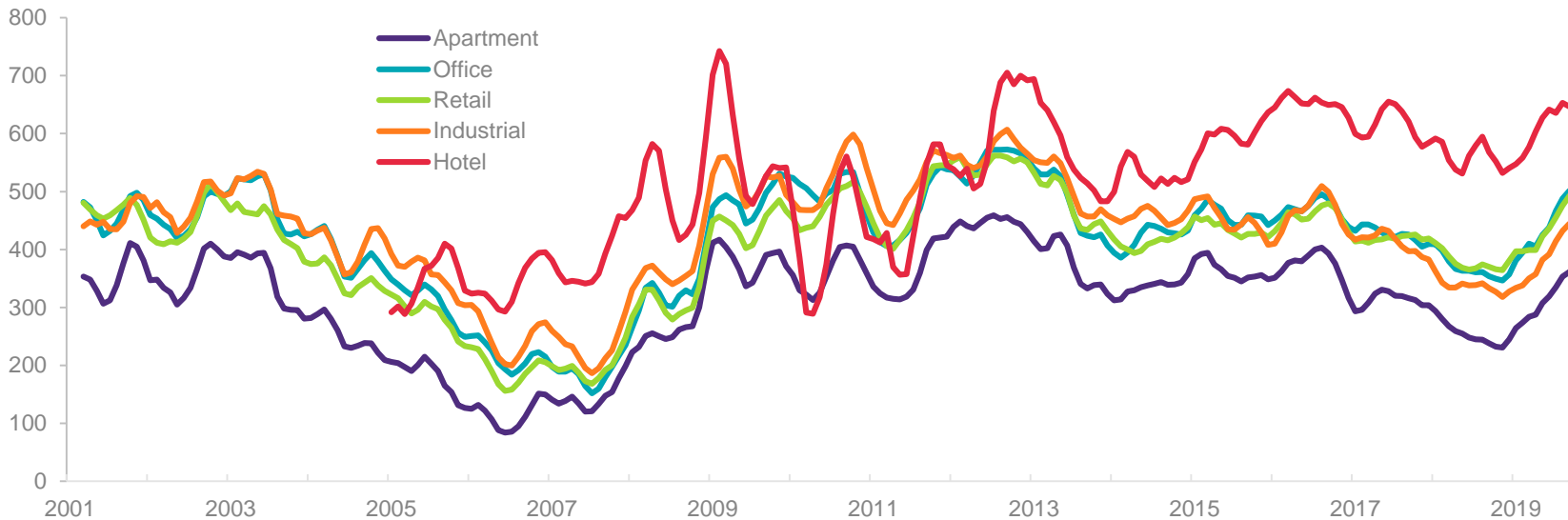


Cap rates continued to decline in 2019, to the lowest of the decade

Source: RCA, Bloomberg, Nareit

# Cap rate spreads to Treasury yields

Basis points

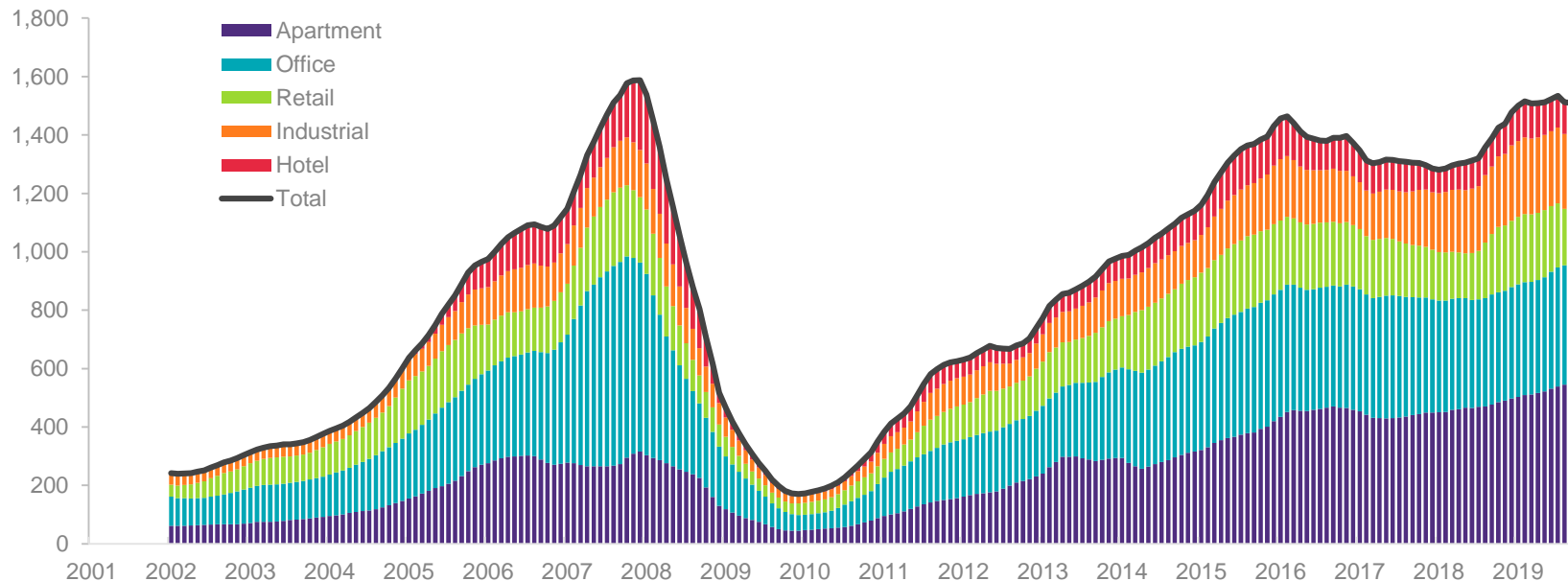


Low cap rates are normal in a low interest rate environment

Source: RCA, Bloomberg, Nareit

# Commercial property transactions

Billions of dollars, trailing 12 months



Source: RCA, Nareit



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# Tax hot topics – real estate





# Tax hot topics for real estate

## Final Regulations for Opportunity Zones have been released – 12/19/19

- 1231 gains are looked at "gross" not "net" – 180 day period starts on the day of the sale
- 180 Day investment period
  - For REIT and RIC's capital gain dividends, the 180 day period starts on the close of the shareholder's taxable year in which the capital gain dividend would otherwise be recognized
  - Installment sale flexibility of 180 day period - (i) date payment is received or (ii) last day of the year the eligible gain is recognized
  - Partnerships - Modified the election for choosing 180 day investment period for a partner's distributive share of eligible gains
- Carried interest capital gains are still considered not eligible investment
- Many more provisions!

# Tax hot topics for real estate

## President Sign extenders package 12/20/19

- What was missing was the long-awaited correction for qualified improvement property eligible for bonus or any other TCJA technical corrections
- Extends work opportunity credit and new markets tax credit

## Final 163j regulations are due soon!

# Any final questions?



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[Click here for the report: 2020 REIT Outlook from Nareit](#)

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