Financial Markets and Commercial Real Estate

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Greer Advisors, LLC
www.GreerAdvisors.com

January 26, 2023
Appraisal Institute - Southern California Chapter

Goals of Presentation

- Data / Information

- Market Drivers

- Real Estate Capital Markets

- Risk Indicators

- COVID-19 Impacts

- Conclusions & Forecast

Note: PPT Deck will be posted to www.GreerAdvisors.com

Most information is updated via Newsletter, sign up on web site.

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▪Data / Information

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Data / Information

Who do you trust?
Weaponizing of News
Weaponizing of FBI
Weaponizing of DOJ
Weaponizing of IRS/Other Agencies

I trust nothing today!

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https://layoffstracker.com/

Global   🇺🇸 United States

🇺🇸 US - January
This Month

| 78224 Employees | 131 Companies |

🇺🇸 US - December
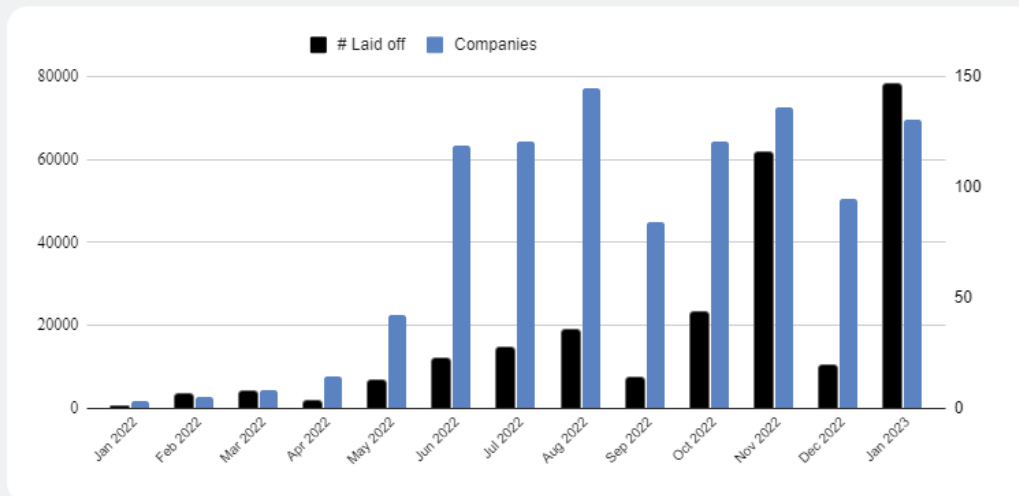Last Month

| 10271 Employees | 95 Companies |

🇺🇸 US - 2022- 2023
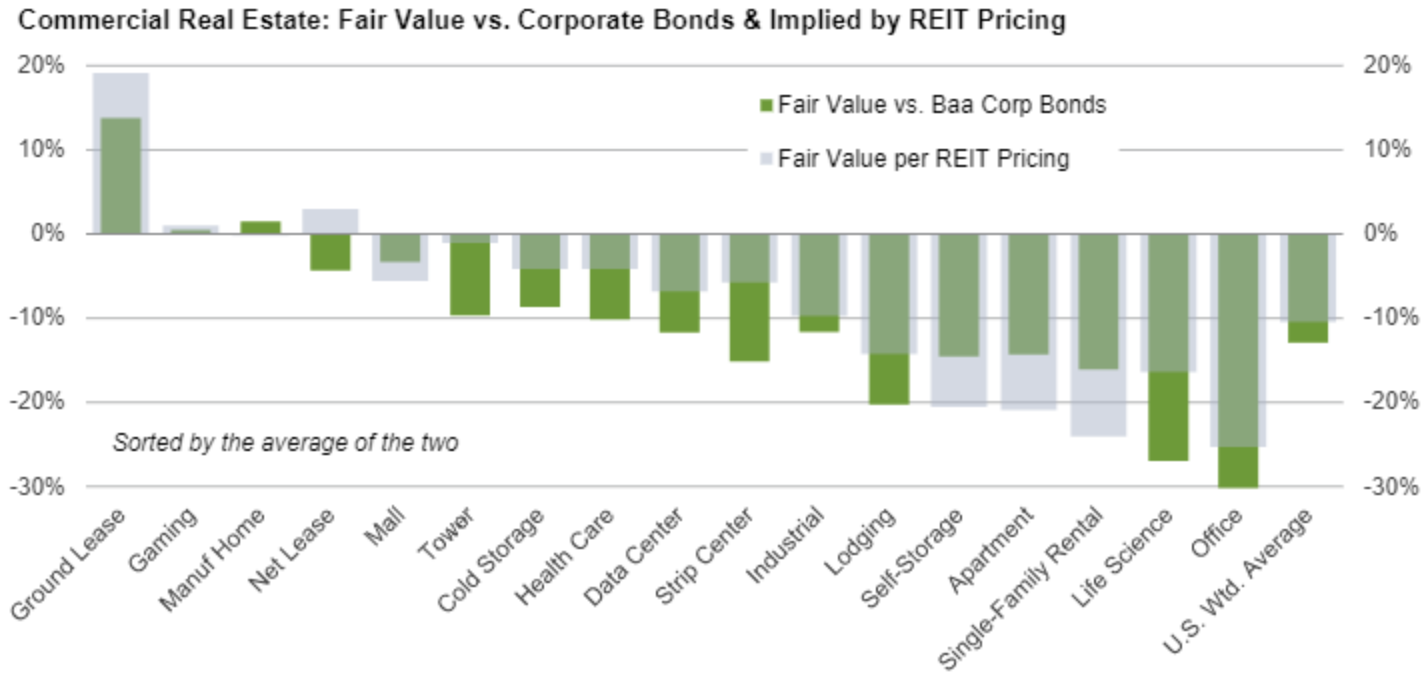Jan 2022 ~ Current

| 71443 Employees | 502 Companies |

🇺🇸 US - Month over Month
Jan 2021 - Present

🇺🇸 US - Layoffs by size
Jan 2021 - Present

	Spin	0 ▾
1	Amazon	28000
2	Microsoft	13700
3	Google	12000
4	Meta	11151
5	Twitter	9302
6	Salesforce	9090
7	Goldman Sachs	6225
8	HP	6000
9	Cisco	4165
10	Peloton	4100

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GreenStreet 1/4/2023

Commercial Real Estate: Fair Value vs. Corporate Bonds & Implied by REIT Pricing

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▪Market Drivers

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Supply / Demand vs. Financing

Supply / Demand – Impacts Rent & Vacancy less on Value

- Most Demand ties to Jobs – Drives Vacancy (1), Rents (2)
  - Office – FIRE Employment, Portion of Service Employment
  - Retail – Household (HH) Formations, Income Growth
  - Industrial – Manufacturing & Distribution (Logistics)
  - Multifamily – HH Formations, non-Top 25% of HH Income
  - Hotel – Corporate Travel – Office & Industrial Employment

Financing DRIVES VALUE! Low Interest = High Value

- Availability
- Rate and Term
- Leverage
- Recourse
- International Investment **

Currency wars / restrictions, trade wars, FRB Rate Hikes, Global Turmoil, e.g., U.S. v China v Russia, Global perception of America (Afghanistan, Ukraine, Global Trade, etc.)

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www.USDebtClock.org 20230126 6:08 am
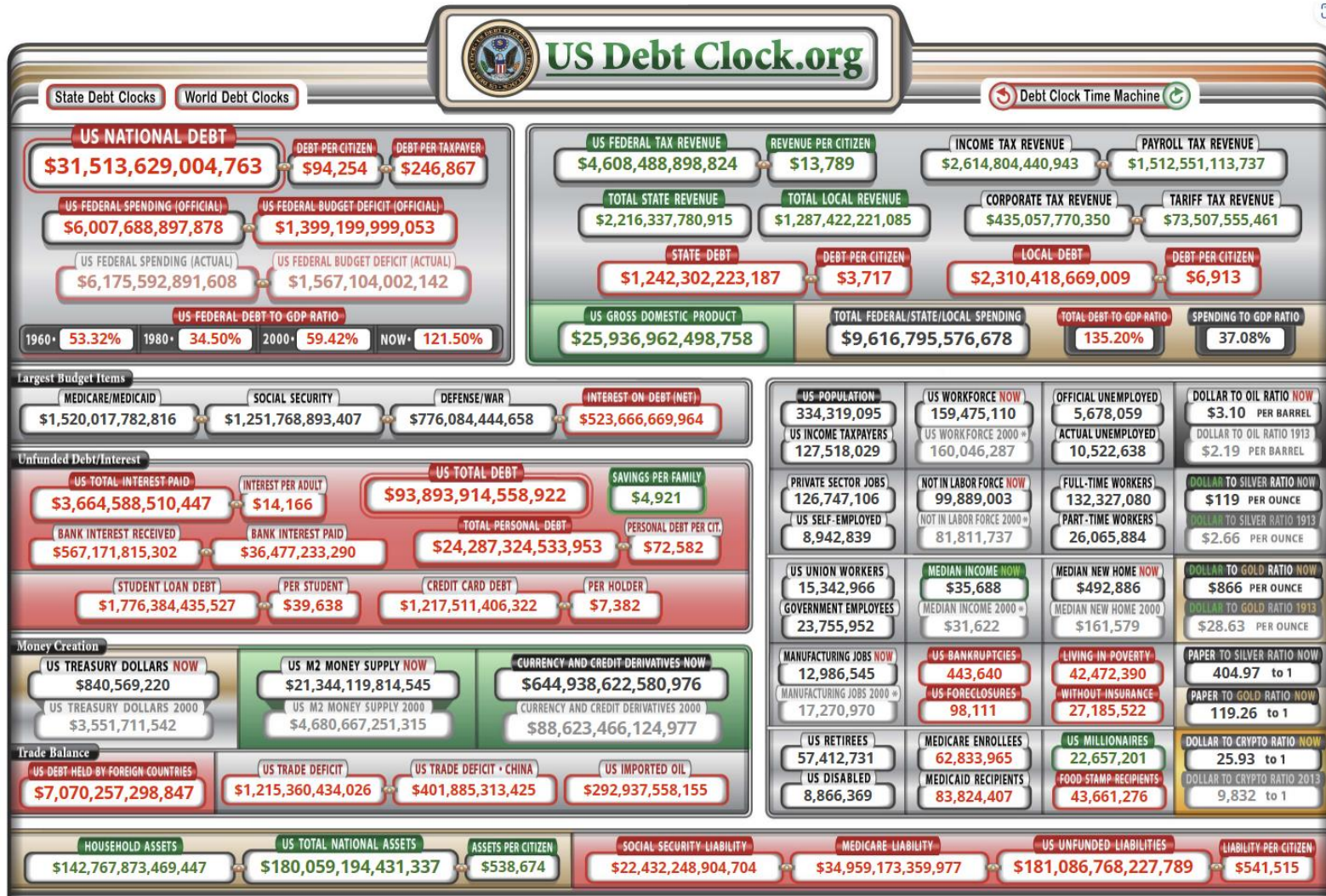
1980 = Ronald Regan, Paul Volker, and Arthur Laffer (Laffer Curve) – Debt: GDP 15.71% 2001

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Interest Rates – Long Term View 2008+

Fed Slows Rate Hikes But Signals More to Come

Upper limit of the U.S. federal funds target rate range*

■ Recession

4.5%

* dotted lines indicate median projections of the midpoint of the appropriate target range for the federal funds rate at the end of the specified calendar year
Source: U.S. Federal Reserve

statista

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Key Economic Indicators

Normally, Unemployment Rate and Employment Ratio go here.

Due to COVID, high rate of layoffs, and the number of people who left the work force (e.g. retired earlier than planned) the Unemployment numbers are no longer reliable.

Employment Ratio, aka Employment Population Ratio = Employed persons 16 years and over, divided by the population.

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Inflation - https://www.usinflationcalculator.com/ 1/26/2023

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ave
2023	Avail. Feb. 14												
2022	7.5	7.9	8.5	8.3	8.6	9.1	8.5	8.3	8.2	7.7	7.1	6.5	8.0
2021	1.4	1.7	2.6	4.2	5.0	5.4	5.4	5.3	5.4	6.2	6.8	7.0	4.7
2020	2.5	2.3	1.5	0.3	0.1	0.6	1.0	1.3	1.4	1.2	1.2	1.4	1.2
2019	1.6	1.5	1.9	2.0	1.8	1.6	1.8	1.7	1.7	1.8	2.1	2.3	1.8
2018	2.1	2.2	2.4	2.5	2.8	2.9	2.9	2.7	2.3	2.5	2.2	1.9	2.4
2017	2.5	2.7	2.4	2.2	1.9	1.6	1.7	1.9	2.2	2.0	2.2	2.1	2.1
2016	1.4	1.0	0.9	1.1	1.0	1.0	0.8	1.1	1.5	1.6	1.7	2.1	1.3
2015	-0.1	0.0	-0.1	-0.2	0.0	0.1	0.2	0.2	0.0	0.2	0.5	0.7	0.1
2014	1.6	1.1	1.5	2.0	2.1	2.1	2.0	1.7	1.7	1.7	1.3	0.8	1.6
2013	1.6	2.0	1.5	1.1	1.4	1.8	2.0	1.5	1.2	1.0	1.2	1.5	1.5
2012	2.9	2.9	2.7	2.3	1.7	1.7	1.4	1.7	2.0	2.2	1.8	1.7	2.1

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WTI Oil Prices Down a bit, 1/23/2023

U.S. uses West Texas Intermediate Crude Oil, which is a much higher grade of crude than that used by many other countries.

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Key Conclusions

Government bond yields reach a record high since the new administration took over.

Omnibus $1.7 Trillion, 4,155 pages, 7,000+ bills.

Runaway spending.

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▪Real Estate Capital Markets

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REIT Performance Issue

Nareit Real estate working for you

January 24, 2023

Date	US Treasury 10-Year Note[1]	Standard & Poors		Dow Jones Industrials	Russell 2000 Total Return Indexes			Nasdaq Composite	FTSE Nareit All REITs	
		S&P 500	Utilities		2000	Growth	Value		Total	Price
				Annual Percentage Change						
2019	-0.78	31.49	26.35	25.34	25.52	28.48	22.39	36.69	28.07	22.95
2020	-1.04	18.40	0.48	9.72	19.96	34.63	4.63	44.92	-5.86	-9.38
2021	0.57	28.71	17.67	20.95	14.82	2.83	28.27	22.18	39.88	35.57
2022	2.43	-18.11	1.57	-6.86	-20.44	-26.36	-14.48	-32.54	-25.10	-27.87
2023	-0.43	4.71	-1.29	1.86	7.11	7.73	6.48	8.32	7.00	6.92
				Monthly Percentage Change (Including Current Month to Date)						
Oct-22	0.24	8.10	2.05	14.07	11.01	9.49	12.59	3.94	3.86	3.67
Nov-22	-0.41	5.59	7.02	6.04	2.34	1.63	3.06	4.51	6.02	5.86
Dec-22	0.17	-5.76	-0.53	-4.09	-6.49	-6.42	-6.56	-8.67	-5.09	-5.84
Jan-23	-0.43	4.71	-1.29	1.86	7.11	7.73	6.48	8.32	7.00	6.92
				Weekly Percentage Change (Including Current Week to Date)						
6-Jan-23	-0.30	1.47	0.70	1.50	1.81	1.38	2.24	1.01	2.29	2.25
13-Jan-23	-0.08	2.71	0.45	2.01	5.27	6.01	4.52	4.83	4.36	4.33
20-Jan-23	-0.04	-0.65	-2.93	-2.66	-1.04	-0.98	-1.10	0.55	-0.45	-0.46
24-Jan-23	-0.01	1.12	0.53	1.07	0.98	1.22	0.74	1.74	0.69	0.69
				Latest Daily Percentage Change						
24-Jan-23	-0.06	-0.07	0.49	0.31	-0.27	-0.35	-0.19	-0.26	0.30	0.30

Source: FTSE™, Factset, Nareit®.

Notes:

[1] Ten-year Treasury Note yield changes in percentage points.

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REIT Dividend Yields

Property Sector/Subsector	Number of REITs	Dividend Yield	Price Return 24-Jan-23	Total Returns				Compound Annual Total Returns (%)			
				24-Jan-23	MTD	QTD	YTD	1-Year	3-Year	5-Year	10-year
FTSE Nareit All Equity REITs	147	3.73	0.34	0.34	6.81	6.81	6.81	-12.05	1.43	6.41	7.33
FTSE Nareit Equity REITs	140	3.88	0.43	0.43	7.53	7.53	7.53	-11.75	1.38	5.93	6.86
Industrial	12	2.68	0.15	0.15	11.29	11.29	11.29	-11.42	10.84	16.22	14.99
Office	19	5.18	-0.66	-0.66	6.20	6.20	6.20	-29.86	-13.33	-5.09	1.16
Retail	33	4.77	0.28	0.28	5.07	5.07	5.07	-2.34	1.01	2.57	3.29
Shopping Centers	18	4.18	0.44	0.44	4.06	4.06	4.06	-3.61	2.95	4.57	3.91
Regional Malls	3	5.67	0.40	0.40	7.26	7.26	7.26	-9.78	0.96	-2.99	0.46
Free Standing	12	4.75	0.08	0.08	4.69	4.69	4.69	4.69	0.02	9.34	7.62
Residential	20	3.28	1.53	1.53	5.97	5.97	5.97	-21.10	-0.26	7.67	8.83
Apartments	15	3.67	1.73	1.73	5.58	5.58	5.58	-23.04	-1.31	6.33	7.52
Manufactured Homes	3	2.43	0.87	0.87	5.31	5.31	5.31	-14.46	0.45	12.52	16.82
Single Family Homes	2	2.56	1.42	1.42	8.36	8.36	8.36	-18.98	4.69	9.96	-
Diversified	11	5.81	0.26	0.26	7.79	7.79	7.79	-1.41	-3.82	1.11	3.30
Lodging/Resorts	14	2.83	0.51	0.51	11.19	11.19	11.19	-2.77	-2.94	-4.06	3.08
Health Care	15	4.89	-0.09	-0.09	11.65	11.65	11.65	-12.25	-4.64	4.69	3.54
Self Storage	5	3.50	0.83	0.83	5.01	5.01	5.01	-14.97	14.13	13.99	12.89
Timber	3	2.59	-0.73	-0.73	4.16	4.16	4.16	-10.18	5.94	1.58	4.10
Infrastructure	4	3.10	0.05	0.05	3.52	3.52	3.52	-13.87	0.79	10.19	11.82
Data Centers	2	2.62	0.25	0.25	8.85	8.85	8.85	-10.60	4.99	8.75	-
Specialty	9	4.91	0.37	0.37	4.81	4.81	4.81	17.00	9.18	10.71	-
FTSE Nareit Mortgage REITs	34	12.02	-0.64	-0.64	11.49	11.49	11.49	-13.97	-9.24	-1.33	2.63
Home Financing	19	13.53	-0.46	-0.46	11.59	11.59	11.59	-14.11	-11.66	-3.84	0.69
Commercial Financing	15	9.68	-0.91	-0.91	11.35	11.35	11.35	-13.83	-4.63	4.11	7.65

Source: FTSE™, Factset, Nareit®.

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REIT Bond Issuance – Continued Growth

REITs are perceived as Investment Grade. Direct Real Estate is NOT.

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CMBS Delinquencies – Trepp – 1/5/2023

Month-Over-Month Delinquency Rates by Major Property Type
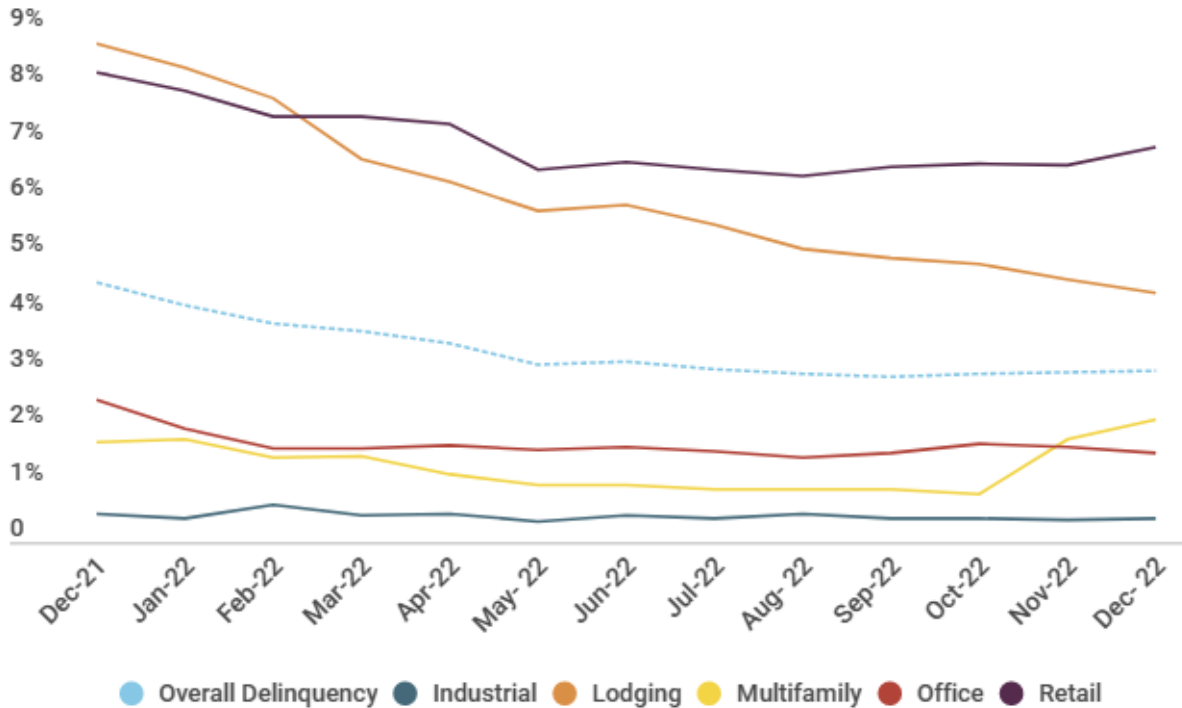
Delinquency Trends

10.34%
Peak Delinquency Rate (July 2012)

3.04%
Overall Delinquency Rate (December 2022)

4.57%
Overall Delinquency Rate (December 2021)

1.58%
Office Delinquency Rate (December 2022)

Legend: Overall Delinquency · Industrial · Lodging · Multifamily · Office · Retail

Trepp

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■Conclusions & Forecast

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Conclusions and Forecast - Office

- Overall Office Demand (Square Footage) is still changing. Some companies want employees back in the office. Others (focused on expenses) continue to promote telecommuting. The two issues will largely offset each other from a total SF perspective, but the office configuration will COMPLETELY change. Bullpens will be gone. Distancing will change everything. Space will require complete reconfiguration; hence, value per SF will continue to fall, then rebound as new space meets new configuration requirements.

- Design teams (e.g. entertainment, engineering, some types of manufacturing) will need face to face interaction. Number crunchers (accountants, appraisers, certain engineers) will be sent to work from home.

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Conclusions and Forecast - Industrial

- Logistics space continues to experience relative increased demand as home delivery, online shopping, etc. become the new Norm.

- Manufacturing space continues to require reconfiguration based on human involvement and new distancing requirements.

- Warehousing continues to see nominal change, with the exception that more companies are moving to the Amazon model (i.e., home delivery). Amazon itself continues to improve its model and is reducing warehouse requirements as it streamlines inventory management and product offerings.

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Conclusions and Forecast – Overall CRE

- With the rates hikes over the past year+, changes in value will vary from 100+ percent loss in value to increased values. Government guaranteed Net-leased properties with significant term remaining on the lease might increase in value due to tenor and terms.

- Hotels, restaurants, ground-leases, theme parks, movie theaters, etc. will face the largest declines.

- Averages no longer matter. Losses/gains will be largely based on property-type and specific characteristics of a specific property.

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Conclusions and Forecast - Retail

- Retail has forever changed. On-line shopping, home delivery, etc. will continue to increase. Stores with multiple delivery outlets (e.g. online, in person, curbside, etc.) will survive the best. Those with In-Person as their only option will not.

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Conclusions and Forecast - Restaurants

- Restaurants that survived COVID are improving; however, home delivery, Uber Eats, chain-branded delivery, outdoor dining, etc. will continue to be factors for success. Uber Eats and other delivery sources have filled needs. In store dining remains well below that of years ago. The few restaurants that are up, are merely up because their competition folded.

- Ground-leased restaurants will almost certainly die.

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Conclusions and Forecast - Hotels

- As noted last year, many of the Group Meeting / Conference hotel stays (aka Room Nights of Demand) have lost significant demand due to Zoom, Doxy, WebEx, and other meeting-based web platforms.

- The destination resorts (including gambling, skiing, etc.) that survived should continue to survive, assuming they do not have calls on loan terms (maturity).

- Room night demand segmentation analysis is IMPORTANT, as is ADR segmentation. Leisure is less rate sensitive compared to Group Meeting or Conventions.

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Questions / Answers

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