

Approaching the Redline



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Redline



A set amount of RPMs which your engine can put out before you pretty much blow it up. This is usually where the numbers on your tachometer turn red.

-Urban Dictionary

The Economy in 2006



The Economy in 2008



The Economy in 2009



A Stronger Economy

- Creates jobs
- Labor shortage
- Wage increases
- Higher inflation
- Higher interest rates



Job Openings in America

Looking for Workers

Total Job Openings	6,163,000
Construction	225,000
Manufacturing	388,000
Trade, Transportation, Utilities	1,040,000
Professional & Business Services	1,208,000
Education & Health Care	1,222,000
Leisure & Hospitality	819,000
Government	575,000

Source: Bureau of Labor Statistics
BLS release on Aug. 8, 2017



Key Issues in 2017: **Economic Strength**

- Fed wants to raise the Fed Funds rate to “normalize” interest rates.
- Keep in mind that cap rates and CRE financing rates are largely determined by the 10-year treasury rate, which the Fed has no control over.

The Neutral Rate of Interest

“It is very difficult to know where that so-called neutral rate is. But we probably will know it when we are there because we will observe a certain degree of balance, which we had not perceived before, which would suggest that we are somewhere very close to where that is.”

Alan Greenspan, Financial Advisor News, June 9, 2005

“Research suggests that the neutral real rate is probably somewhere in a 1.5 percent to 3.5 percent range. That probably takes us to a neutral nominal range of around 3.5 percent to 5.5% at this point.”

Janet Yellen, The International Economy Magazine (Spring 2005)

"All the News
That's Fit to Print"

The New York Times

Late Edition
New York Today, increasing clouds.
High 62-65. Tonight, cloudy, breezy,
showers likely. Low 51-53. Tomorrow,
showers ending. High 58-63. Yesterday:
High 66, low 48. Details on page 8A.

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30 CENTS

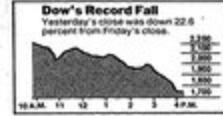
STOCKS PLUNGE 508 POINTS, A DROP OF 22.6%; 604 MILLION VOLUME NEARLY DOUBLES RECORD

U.S. Ships Shell Iran Installation In Gulf Reprisal

Offshore Target Termed a Base for Gunboats

By STEVEN V. ROBERTS
Special to The New York Times
WASHINGTON, Oct. 19 — United States naval forces struck back at Iran today for attacks on American-registered vessels and other Persian Gulf shipping by shelling two connected offshore platforms that American officials said were a base for Iranian gunboats.
A few hours later, a naval commando detachment boarded a third platform five miles away and destroyed radar and communications equipment.

A Huge Blow to the Five-Year Bull Market



Dow's Record Fall
Yesterday's close was down 22.6 percent from Friday's close.

The Dow Jones industrial average fell last week and closed at 1,987.

Does 1987 Equal 1929?

WORLDWIDE IMPACT

chip indicator 127.3 points below the level at which it started the year. With Friday's plunge of 28.25 points, the Dow has fallen more than 26 percent in the last two sessions.
Unprecedented Trading
Yesterday's frenzied trading on the nation's stock exchanges lifted volume to a record 1.6 billion shares.





Key Issues in 2017: **Economic Strength**

- Economy still has a lot of energy left
- Oil and gas industries are rebounding
- Single-family demand is increasing, but supply is constrained, costs are increasing and student debt is a growing problem

Student Loans a Big Problem

“Analysis of 1000 colleges and trade schools showed that at least half of the students had defaulted or failed to pay down at least \$1 on their debt within the past seven years.”

“Repayment rates are getting worse.”



Key Issues in 2017: **Fiscal Policy**

- Reduced regulation good for many industries
- Tax reform bullish for jobs, but unlikely to happen
- Infrastructure spending unlikely to happen either
- Can't pay for tax cuts or bridges without a border adjustment or getting rid of loopholes

"A CLASSIC OF ITS GENRE...REVOLVING...ILLUMINATING...
ENTERTAINING." — WASHINGTON POST BOOK WORLD

SHOWDOWN AT



GUCCI GULCH

LAWMAKERS, LOBBYISTS, AND
THE UNLIKELY TRIUMPH OF
TAX REFORM

JEFFREY H. BIRNBAUM

INTRODUCTION BY ALBERT R. HUNT

AND ALAN S. MURRAY

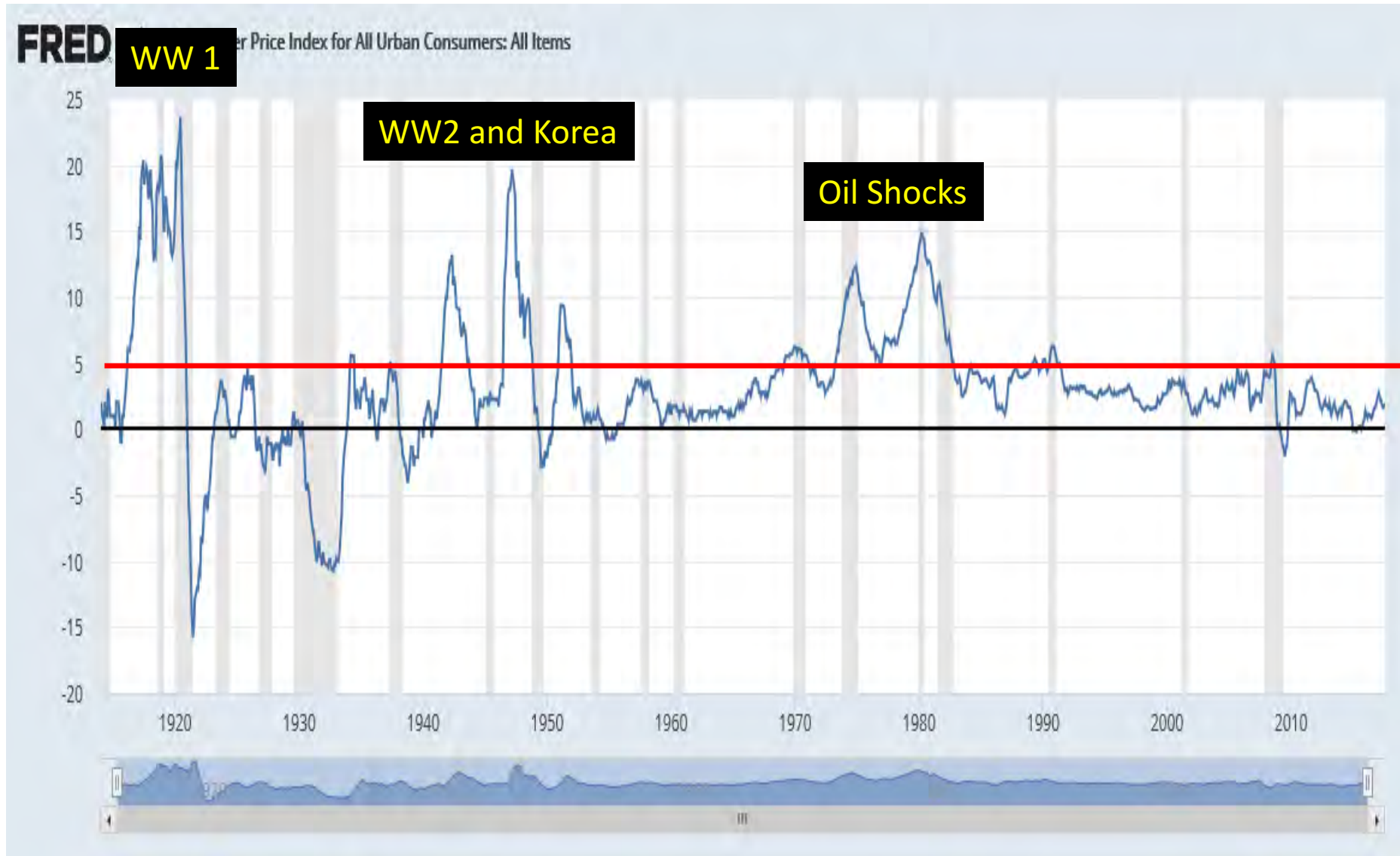
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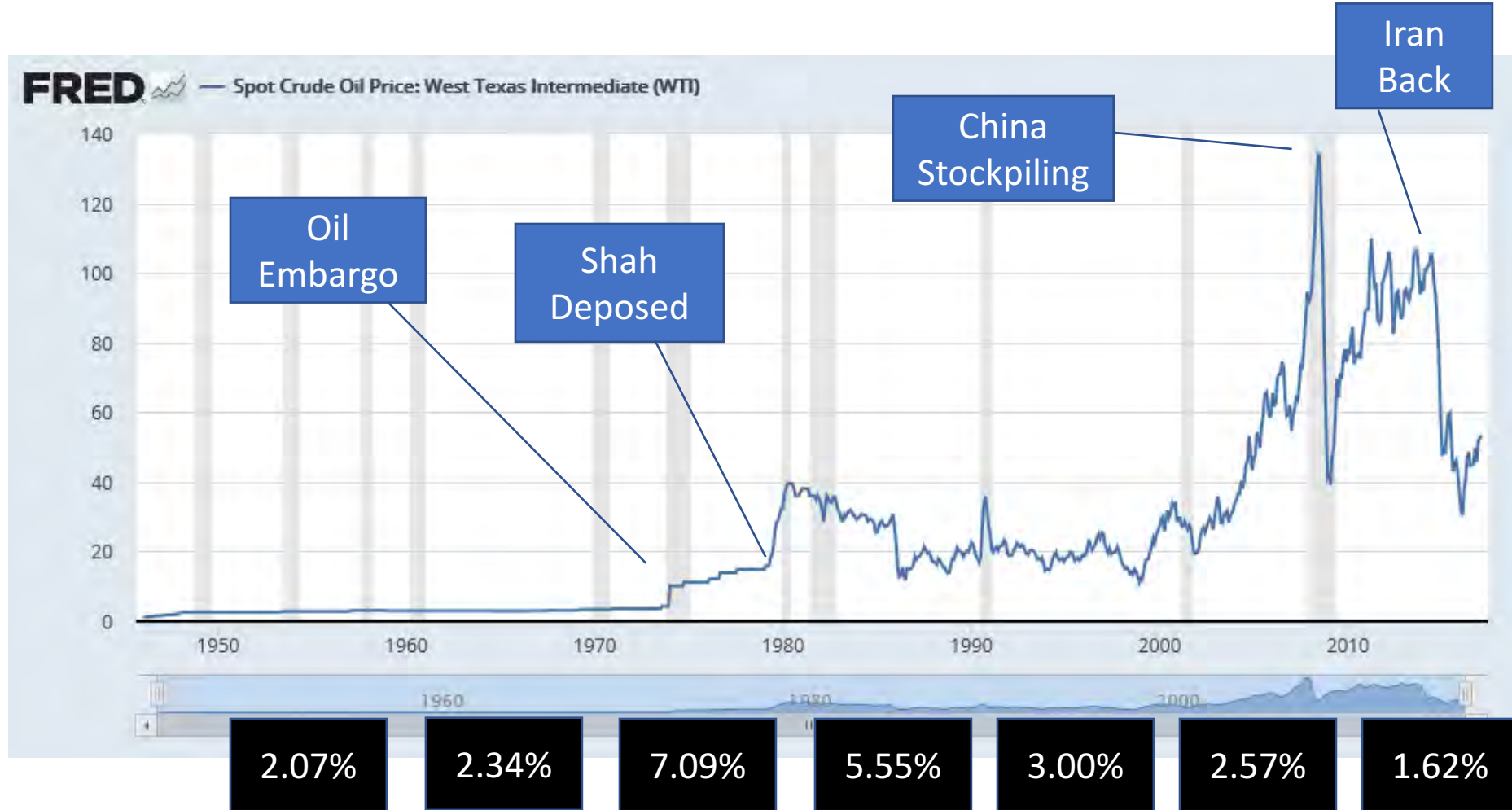
Key Issues in 2017: **Interest Rates**

- Labor shortage could create wage inflation
- Stronger US dollar will make all imports cheaper and offset inflation
- Slower apartment rent growth will reduce inflation pressure
- 10-Year Treasury and cap rates unlikely to increase very much in 2017

CPI Inflation Since 1914

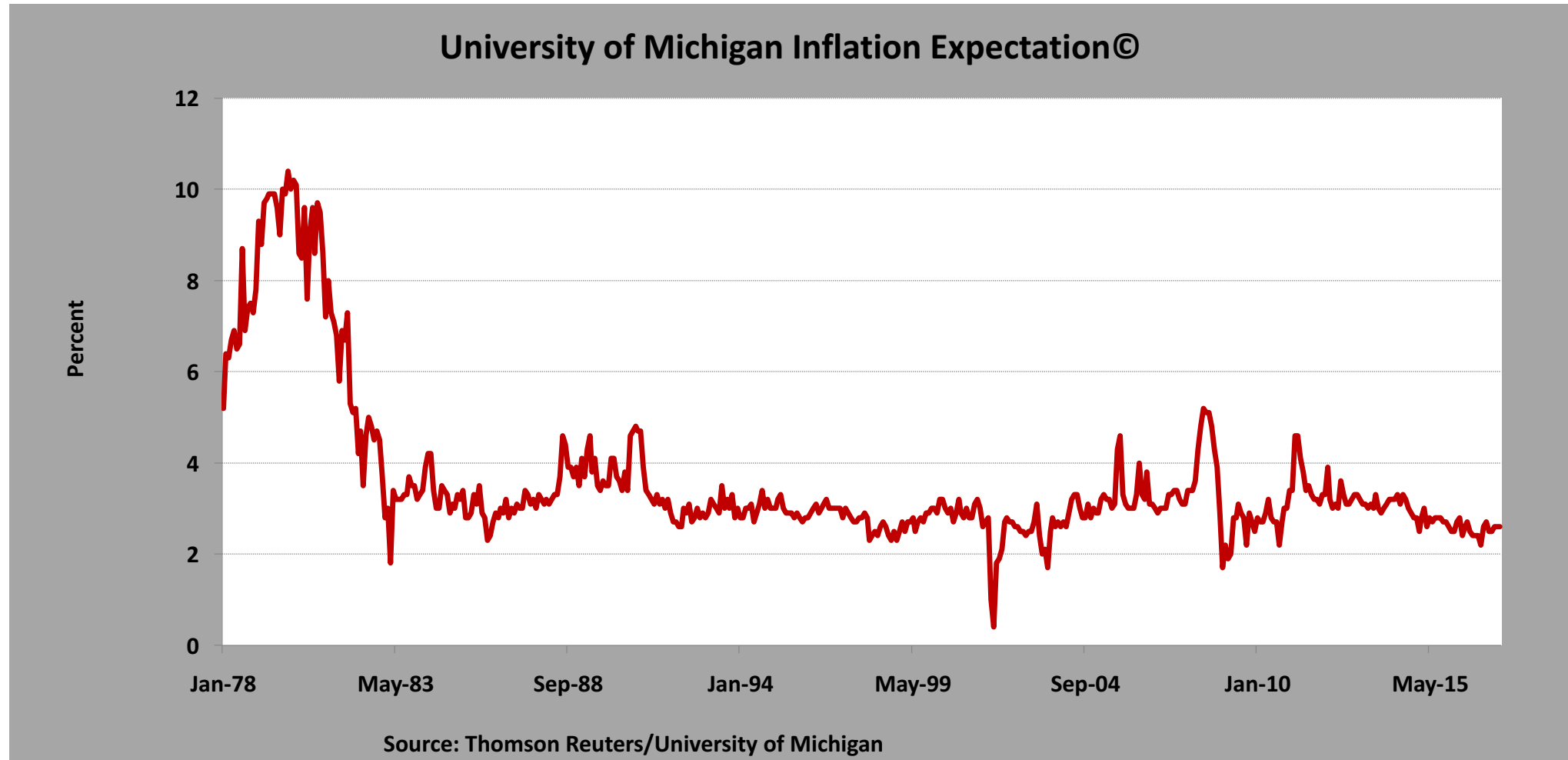


Oil Prices and Inflation

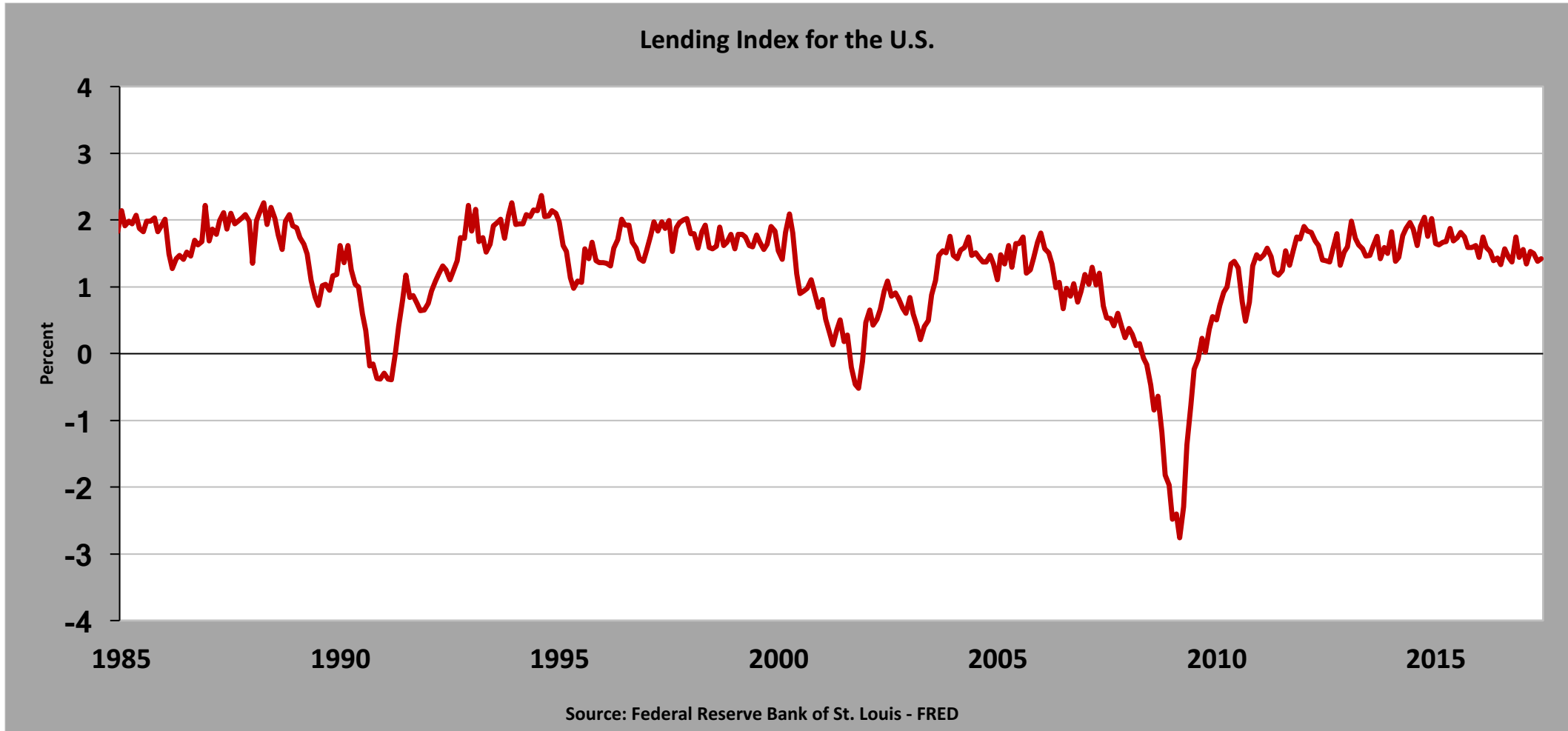


Inflation Rate by Decade

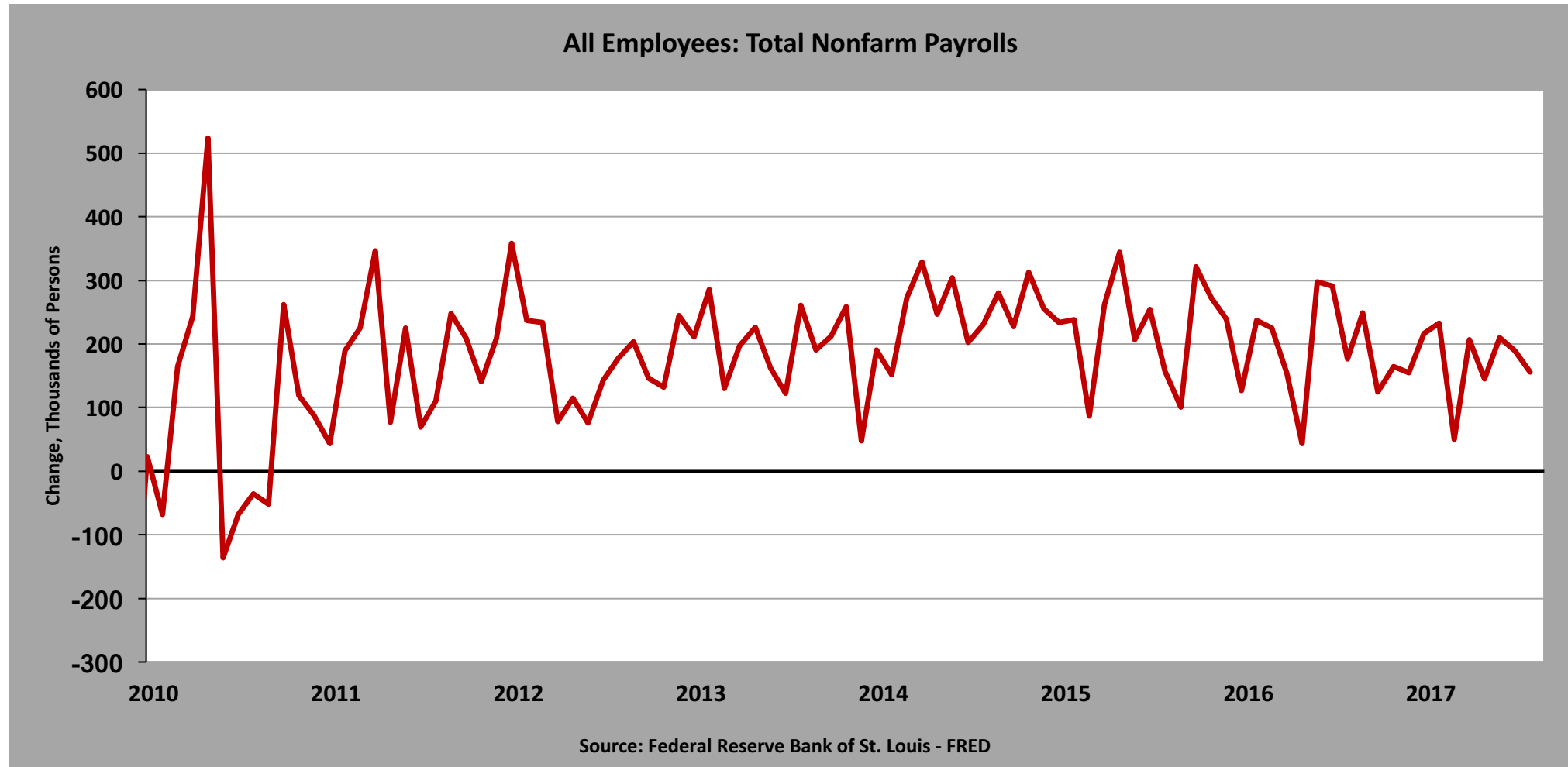
Inflation Expectation Survey



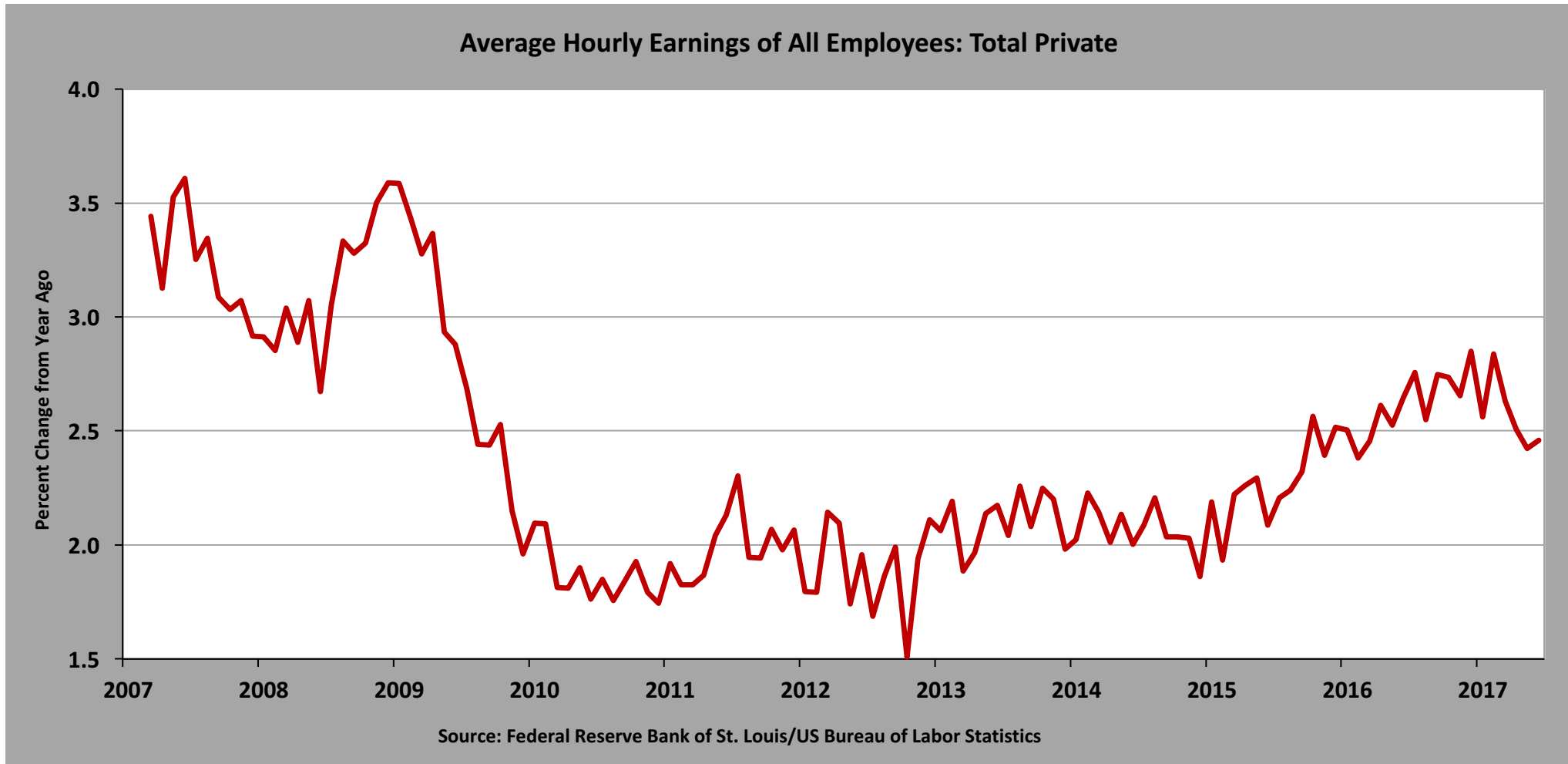
U.S. Leading Index of Economic Indicators



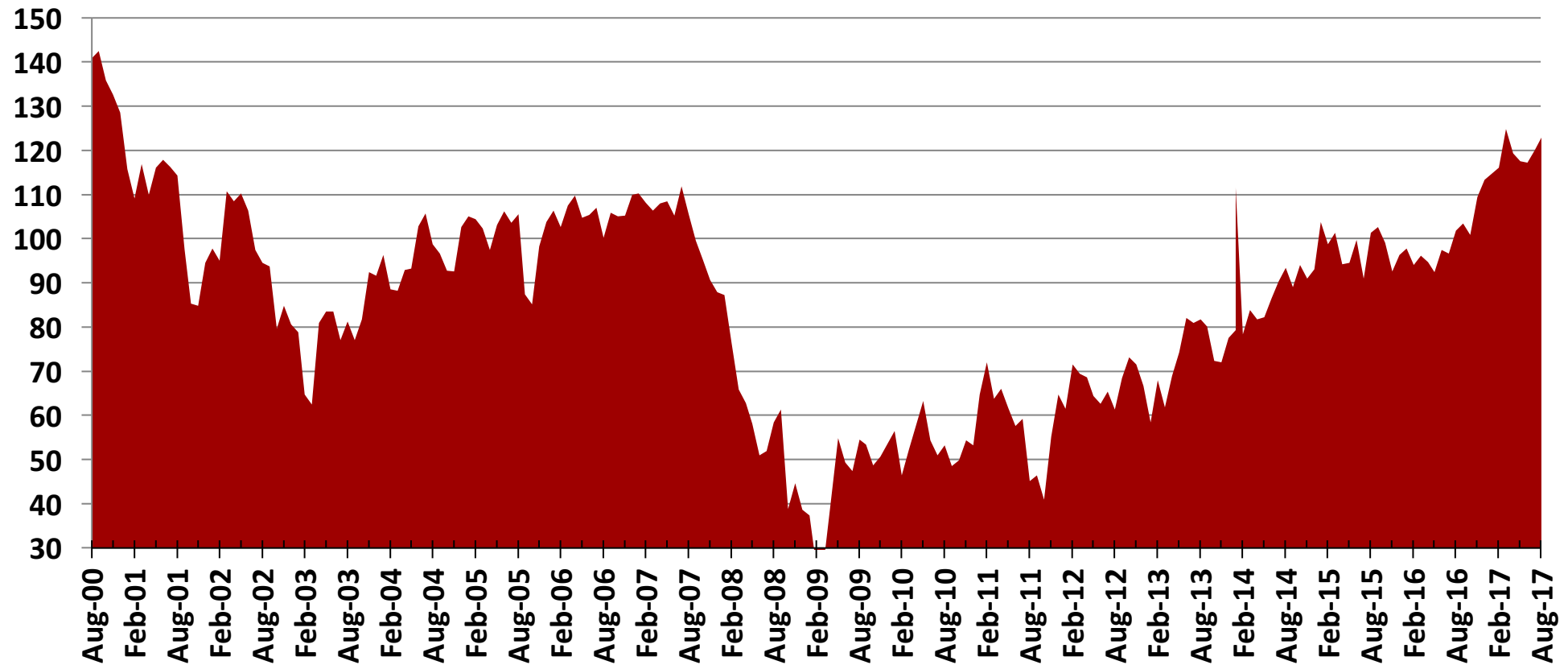
Monthly Increase in Jobs



Rate of Growth in Average Hourly Earnings of All Employees



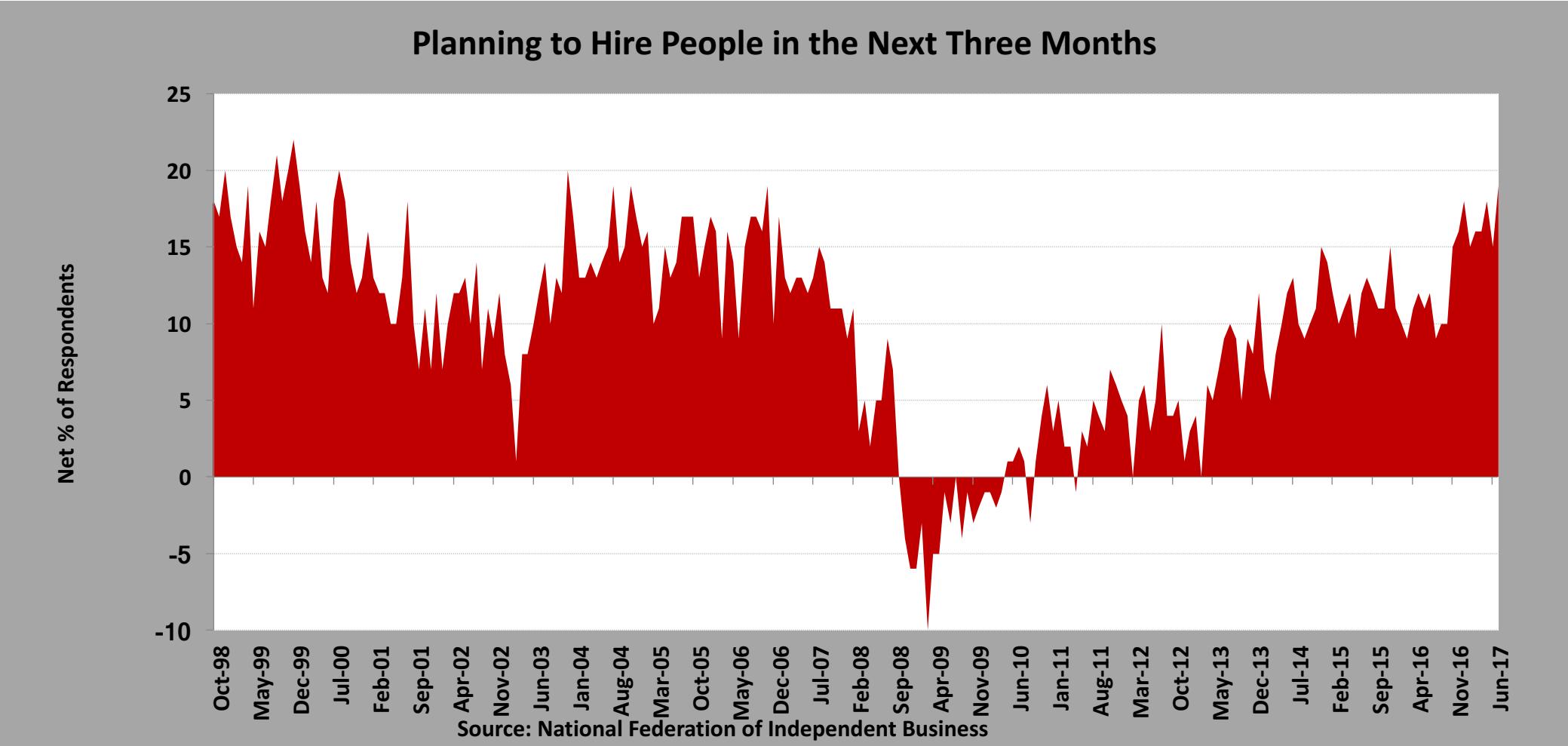
Consumer Confidence Index



Source: The Conference Board

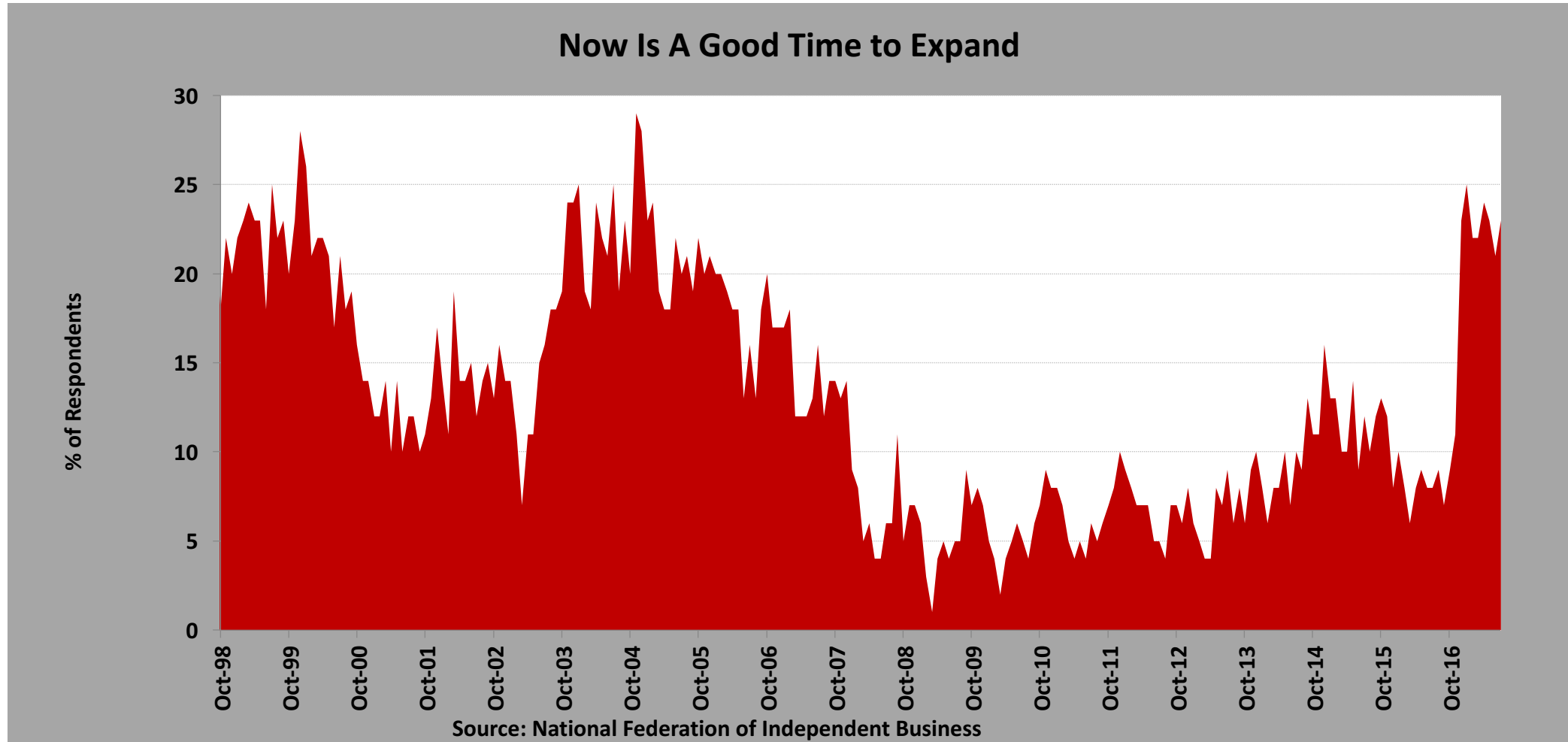
Small Business

“Planning To Hire People In Next Three Months”



Small Business

“Now Is A Good Time To Expand”



Large Corporate Hiring Plans:

Next 6 Months

Q2-17 Q1-17 Q4-16 Q3-16

More Jobs **36%** **41%** **35%** **27%**

Less Jobs **16%** **18%** **30%** **36%**

Source: Business Roundtable

New Private RE Funds Raised in Second Quarter of 2017

\$29 billion in closed-in private RE funds closed in 2Q17.

\$13.00 billion for N. America

\$15.60 billion for Europe

\$.74 billion for rest of the world

74% was for opportunistic and value add

New Private RE Funds Raised in Second Quarter of 2017

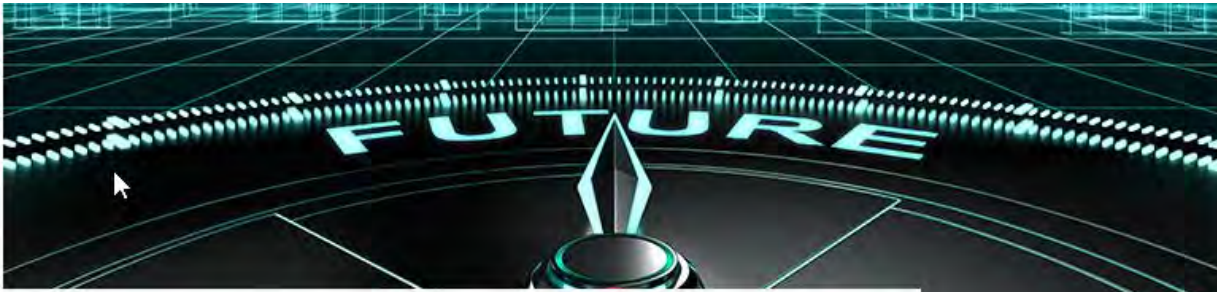
A record 557 funds are in the market raising money at the end of June, 2017.

They are targeting \$177 billion in capital commitments.

Private Real Estate Investment

\$247 billion in “dry powder” at the end of March, 2017.

95% of funds expect to maintain or increase their allocation to real estate



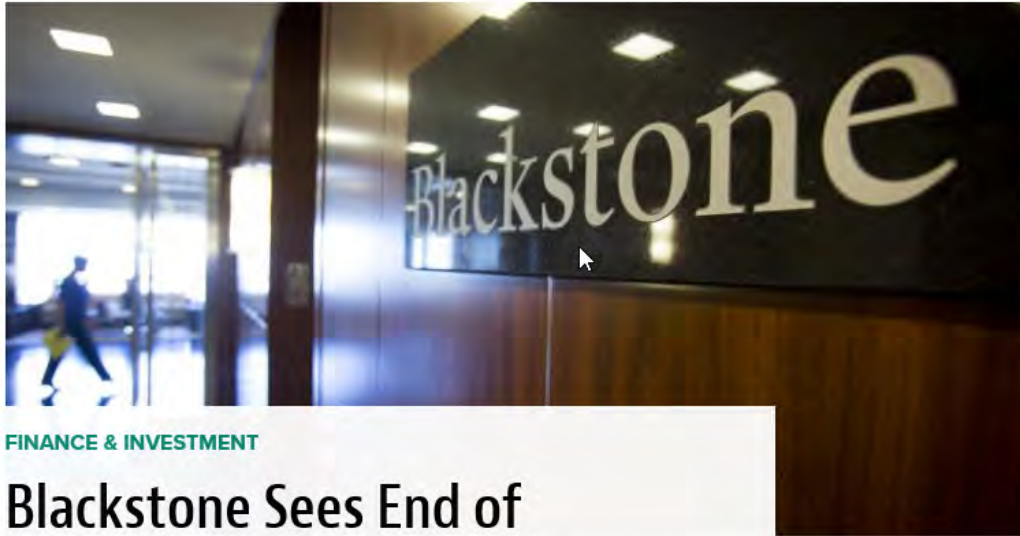
FINANCE & INVESTMENT

How Real Estate Investors are Navigating a "Fully Priced" Market

Investment sales in the first four months of 2017 were down 17% from the same period in 2016.

They still see multifamily as strong.... HNWIs will stay in multifamily... They do like triple net lease (NNN) investments so are looking at retail and office NNN assets. Industrial single-tenant net lease is also popular with them, but demand for multifamily seems strongest.

Source: NREI 6/1/2017



Source: Bloomberg 5/16/17

FINANCE & INVESTMENT

Blackstone Sees End of Property's 'Great Run' as Returns Fade

Bloomberg) — Blackstone Group LP, the world's biggest private equity fund, told investors to dial back their expectations for property returns as the “great run” of the past five years becomes harder to replicate.

Lee Kok Sun, GIC's managing director and chief investment officer for real estate, told the Singapore forum that about 7 percent of GIC's portfolio had been in real estate, less than the targeted allocation of 9 percent to 13 percent.

As a “disciplined investor,” GIC sold some assets that increased in value. But selling properties while trying to raise the allocation was like running “faster and faster” on a treadmill, he told the Asia Pacific Real Estate Association event.

Private Real Estate Investment

Large Institutions That Invest in Real Estate

- Public Pension Plans (CalPERS)
- Insurance Companies (Sun Life)
- Asset Managers
- Private Pensions
- Sovereign Wealth Funds (Norway)
- Banks

Private Real Estate Investment

Large Institutions That Invest in Real Estate

- Stocks
- Bonds
- Alternative Investments
 - Private Equity
 - Private Debt
 - Hedge Funds
 - Real Estate 5-12% allocation
 - Infrastructure
 - Natural Resources

The Energy War Continues



OPEC Breakeven Prices

to Balance Their Budgets

\$107	Bahrain
\$ 96	Saudi Arabia
\$ 93	Algeria
\$ 76	Iraq
\$ 70	Iran
\$ 58	Qatar
\$ 52	Kuwait

Source: IMF and WSJ 1/20/16

Nobody Knows How Low

2014

Oct 3 Drops below \$90 after Saudi price cut

Oct 13 Kuwait oil minister says “natural floor for prices at \$76 to \$77

Oct17 Saudi prince says Arabia needs \$80 to \$90

Nobody Knows How Low

Nov7 “At \$70 there will be panic in OPEC.”

-OPEC official

Nov7 “Were prices to fall below \$70, there will be action from OPEC.”

Nov7 OPEC doesn't expect price to fall below \$75

Dec4 Saudis say oil could stabilize at around \$60,
a price they believe they could withstand

Jan6,2015

WTI trades at \$48

Nobody Knows How Low

2015

Apr 17 “The relentless increase in US oil output appears to be at an end.” WTI at \$56

May 6 WTI oil price goes above \$60.

June Iran and the Ayatollah are new business partners

August Oil price falls below \$40

\$65 is a “Fair Price”

OPEC president Mohammed bin Saleh al-Sada said a minimum price of \$65 a barrel is “badly needed at the moment.” He cautioned that the security of future supplies is at risk because of the price slump that has squeezed oil producers since 2014.

Source: Associated Press 5/24/16

Middle East Budget Strains



The Saudi Binladin Group is the largest construction company in the Persian Gulf region. They haven't paid subcontractors and suppliers for months. The Saudi government is delaying payment for completed projects.

WSJ 3/26/16



Middle East Budget Strains

Thousands of Indian workers in Saudi Arabia haven't been paid for months, prompting India's government to hand out food to hungry workers.

Assisting 10,000 Indian workers who New Delhi says are without a job, pay and food. Some workers for Saudi Oger report they haven't been paid in seven months.

Saudi Garage Sale

Saudi Arabia King wants to list 5 percent of Aramco, at a valuation of around \$2 trillion. Lowest estimate from bankers is \$400 billion.

Hopes to raise \$100 billion in IPO in late 2018, and use the money to diversify the Saudi economy.

“There is so much emphasis in the higher levels and lower levels within the kingdom that this I.P.O. will take place,” he said. “Their vision is to make Saudi Aramco like Exxon Mobil, but much bigger.”