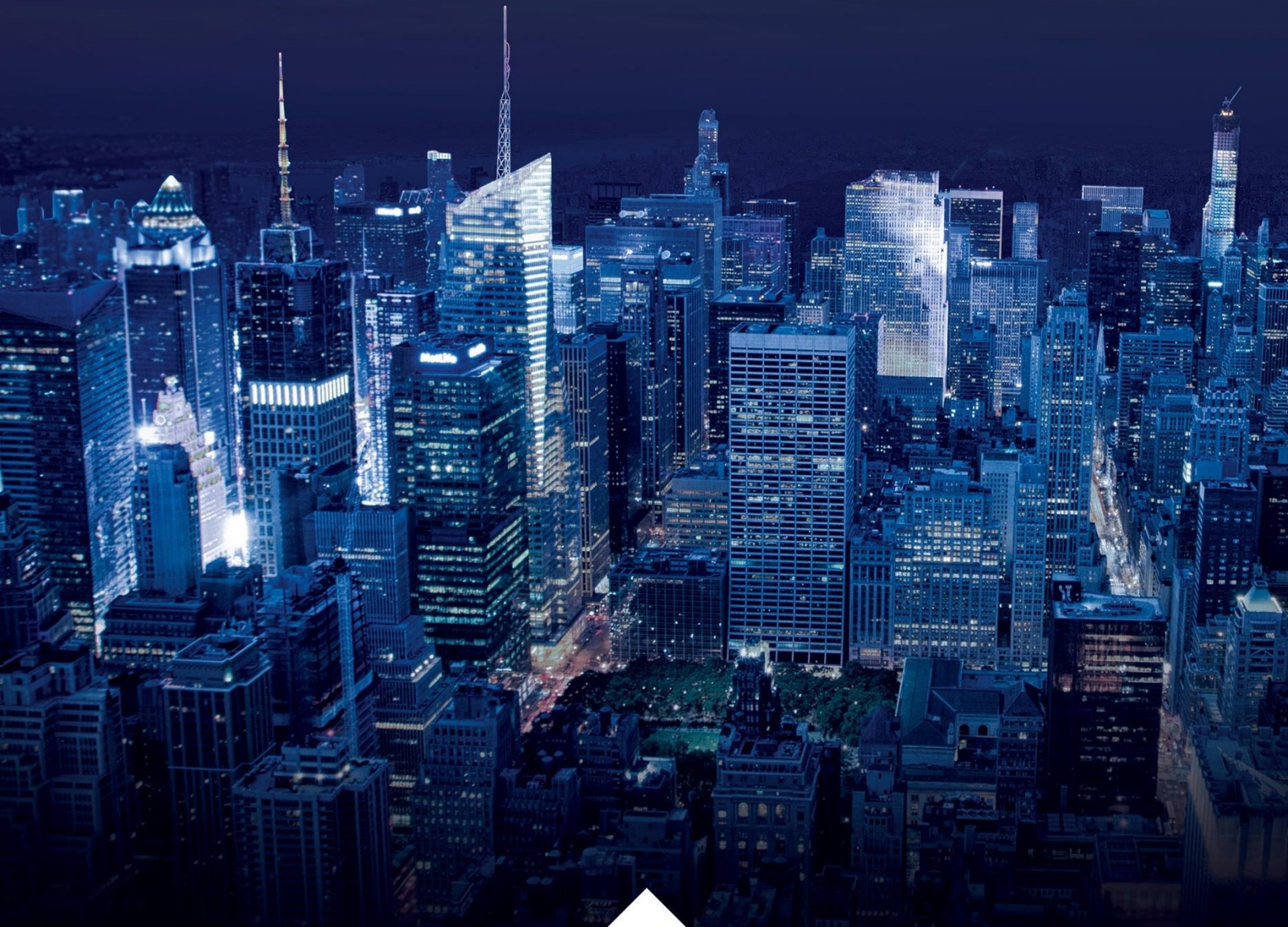




# X 2017 YEAR IN REVIEW



## TEN-X RESEARCH

Ten-X Research, led by Chief Economist and industry veteran, Peter Muoio, Ph.D. is based in New York. The group focuses primarily on custom analysis and business development support services, as well as industry-leading data science and predictive modeling initiatives.

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*As the year draws to a close, the Ten-X Research team likes to look back at the major themes that affected the US economy and real estate markets. This piece will be later accompanied by our 2018 predictions post, where we try to look forward and provide real estate investors with key items to keep an eye on in the coming year.*

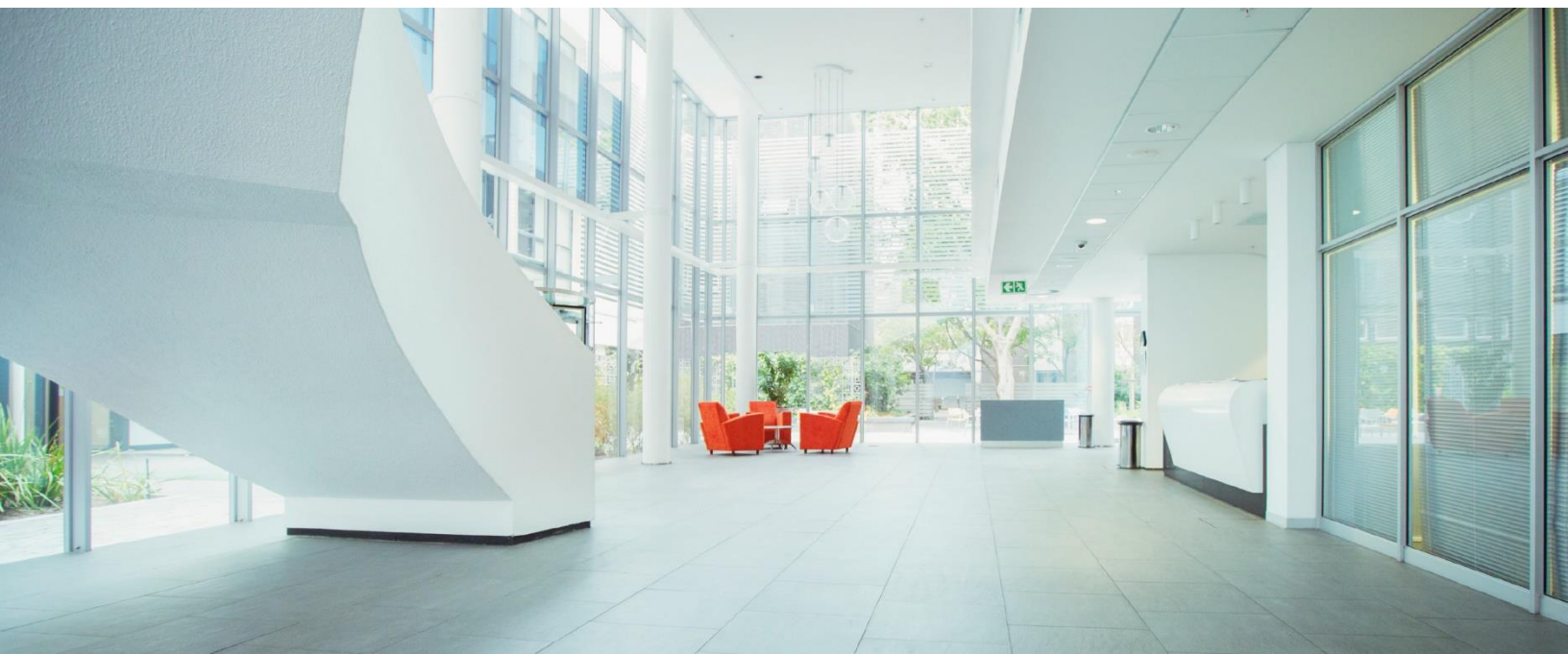
**E-Retail Domination:** After years of percolating, and Ten-X Research calling attention to it, 2017 was the year e-retail dominated the headlines and commercial real estate. Retailers are dropping like flies as e-commerce platforms outcompete them. This is destroying retail absorption, raising vacancies and stunting rents, nationally. Not even previous retail power corridors such as NYC's 5<sup>th</sup> Avenue are immune.

**Policy Uncertainty:** With the election of a new administration, and a Republican majority in both houses of Congress, the potential for massive shifts in legislation presented itself for the first time in several years. This created uncertainty among investors in certain property types, hampering transactions and prices. While much ado was made about a potential healthcare overhaul, and its potential impact on the medical office and retail sector, it appears tax reform will be the opening salvo from this scenario. We discuss what we believe the effects of the tax bill will be in our 2018 Predictions Post.

**Mind the Gap:** One of the key themes that developed over the course of the year was a pricing expectations gap between buyers and sellers. Sellers expected continued appreciation as the cycle persisted, while buyers pointed to increased uncertainty over policy, the duration of the economic cycle and tepid fundamentals. Coupled with the jolt higher in interest rates heading into the year, this gap caused transaction volume to decline from the year before and is still in place.

**Everybody's Cranes Go Up...:** On the fundamentals side, one of the trends we have noticed this cycle is that some metros have seen slow, meandering growth, while others have seen explosive growth and gains in CRE fundamentals. What emerged this year is developers are now honing in on these high growth markets, and the increased completion rate is now stunting further gains in NOI. Additionally, the rise in supply makes these high-beta markets more vulnerable when the cycle does eventually shift.

**Steady as She Goes:** The Federal Reserve under Chair Janet Yellen continued its gentle normalization of monetary policy this year. The Fed raised rates three times this year following last December's increase, and in addition began the very gradual process of balance sheet normalization, laying out the plan to reduce its holdings in MBS and Treasuries. So far, this has been achieved with no disruption to capital markets.





**Natural Disasters:** Unfortunately, one of the biggest headline makers was Mother Nature as Hurricanes battered Texas, Florida and Puerto Rico and wildfires raged in Northern and Southern California. The flooding in Texas boosted multifamily demand, as many neighborhoods were totally destroyed. Puerto Rico is seeing mass emigration, and much of the island is still without electricity. Central Florida, especially the Orlando area, is a key destination for these emigres. California, which is still in the process of trying to curtail the blazes in the southern part of the state, will have to rebuild much as well.

**Housing (Lack of) Inventory:** One of the stories that dominated the residential market was the continued erosion in housing inventories to multi-decade lows. Despite price appreciation, sellers are not emerging and home construction remains relatively low. The lack of inventory is constraining sales near their current level and exacerbating price gains, and in some markets unaffordability.

**NYC Apartment:** We have been warning about the heavy supply pipeline the New York City apartment market faces and the potential for historically high vacancies and stunted rent growth. Investors should have paid heed, as vacancies rose to 4.8% on a seasonally adjusted basis according to Reis in the third quarter. This marked an increase of 100 bps from the quarter prior and 160 bps from a year ago. The rise in availability has resulted in rent growth of less than 1% year over year as of the third quarter, and it had been negative in each of the prior three quarters.

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