



REALTORS™ International Congress
2022-2023 Briefing Forecast
November 8, 2022
Anthony M. Graziano, CRE



National Economic Overview

BLS national unemployment rate spiked to 13% (May 2020); back to comfortable 5.9% (June 2021); 3.9% (Dec 2021); 3.5% (Oct 2022)

VERY TIGHT SERVICE LABOR MARKET

Florida's unemployment rate was lower at 5% (June 2021), 4.4% (Dec 2021); 2.5% (Oct 2022)

Florida and Texas remain fastest growing in-migration states; COVID-19 accelerated this trend. NC, TN, ID, AZ also seeing gains nationally.

Commercial bank lending activity strongest in 2021.

Q1 to Q3 – Commercial lending volume down 40%+

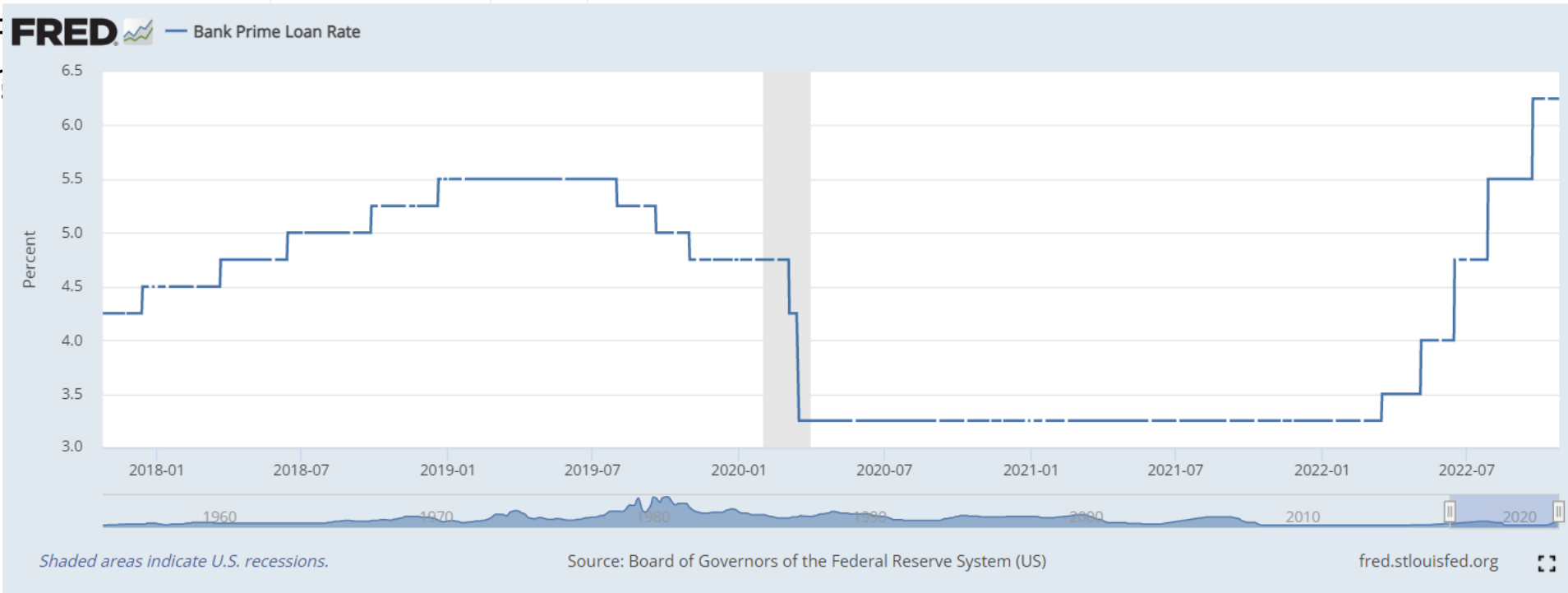
Residential activity completely reversed since May 2022 – likely negative 10%-15% value changes in past 3 months; more to come.

High End still holding up

National Economic Overview



- Fed F
long



how



National Economic Overview

Headline Panic has set in over the past 90 days

- Impact of vicious and critical mid-term national election; coupled with Florida gubernatorial election.
- Completely incoherent national economic policies, coupled with world energy shortage, East versus West ideological conflicts, and the “supply-chain” spectre.
- Inflation we knew was happening seems to have accelerated with each successive interest rate hike. Labor market statistics must be lagging because there are a LOT of people who lost jobs in the past 90 days.
- Fed continues to signal inflation constraint as the priority; successive hikes expected in November and again in early 2023.
- Q3-2022; two successive quarters of negative GDP growth. Recession gets redefined.
- Stock market has been battered; The 60/40 split is underperforming breaking a 100 year streak; consumer confidence is weakening, housing market is reeling. Jeff Bezos tells us to “buckle up” and Jaime Dimon warns of impending doom.
- October 26, 2022 – The Yield Curve officially inverted; a critical signal of recession.
- The U.S. Dollar is at an all-time high against international currencies, excluding Russia/China from the world economy. It doesn’t matter, the rest of the world is worse-off than we are. See England Financial Collapse (Oct 15, 2022)

There are only 5 basic questions remaining.

- When will we say the recession start(ed)?
- Will the recession be shallow or deep?
- How long will it last?
- How will this affect U.S. asset base (borrowers, depositors, wealth management, real estate)?
- What opportunities exist in the current market to lean-in and keep the recession shallow?

Key Strategic Recession Strategies

Be in Markets where
people want to be.

Get downstream of
the wealth transfer
(Gen X) – be in strong
retirement markets

Be business friendly.

Blend and Extend

Don't follow the herd
– earn marketshare

Commercial Overview

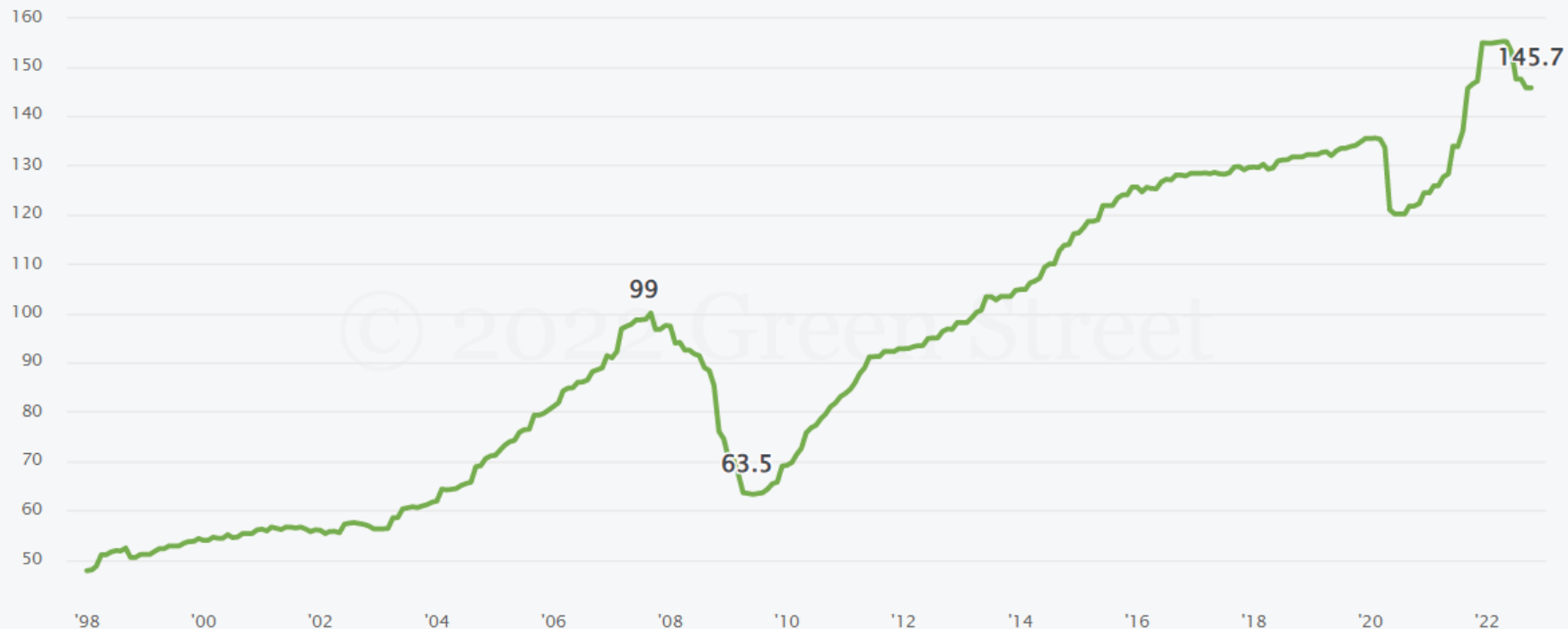


Green Street Commercial Property Price Index[®]

Indexed to 100 in August 2007

[DOWNLOAD CPPI[®] REPORT](#)

[DOWNLOAD CPPI[®] DATA](#)



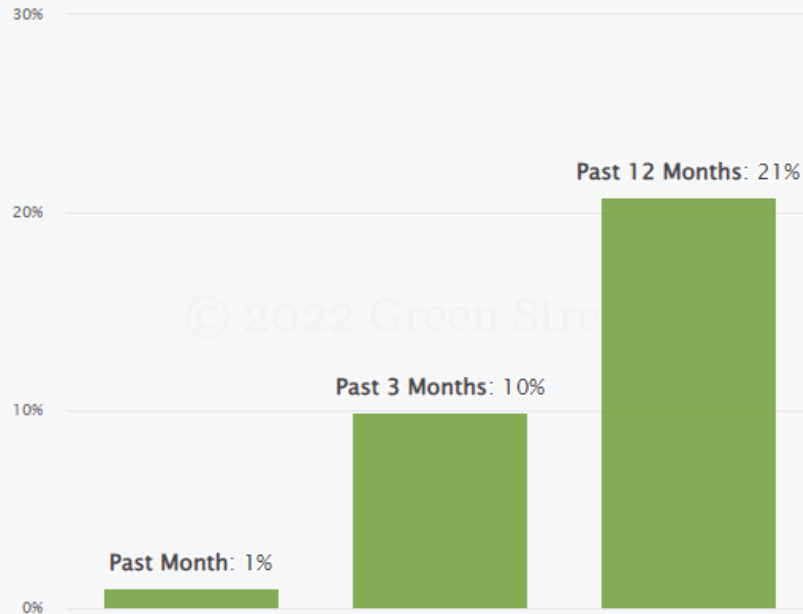
All Property CPPI[®] weights: retail (20%), office (17.5%), apartment (15%), health care (15%), industrial (10%), lodging (7.5%), net lease (5%), self-storage (5%), manufactured home park (2.5%), and student housing (2.5%). Retail is mall (50%) and strip retail

Commercial Overview



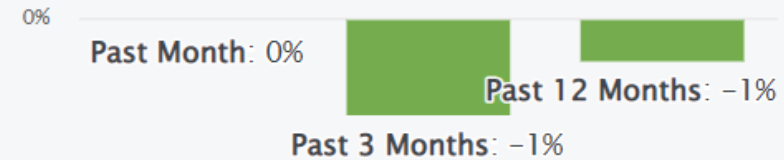
Change in Commercial Property Values

Amount property values have increased over this period
February 4, 2022

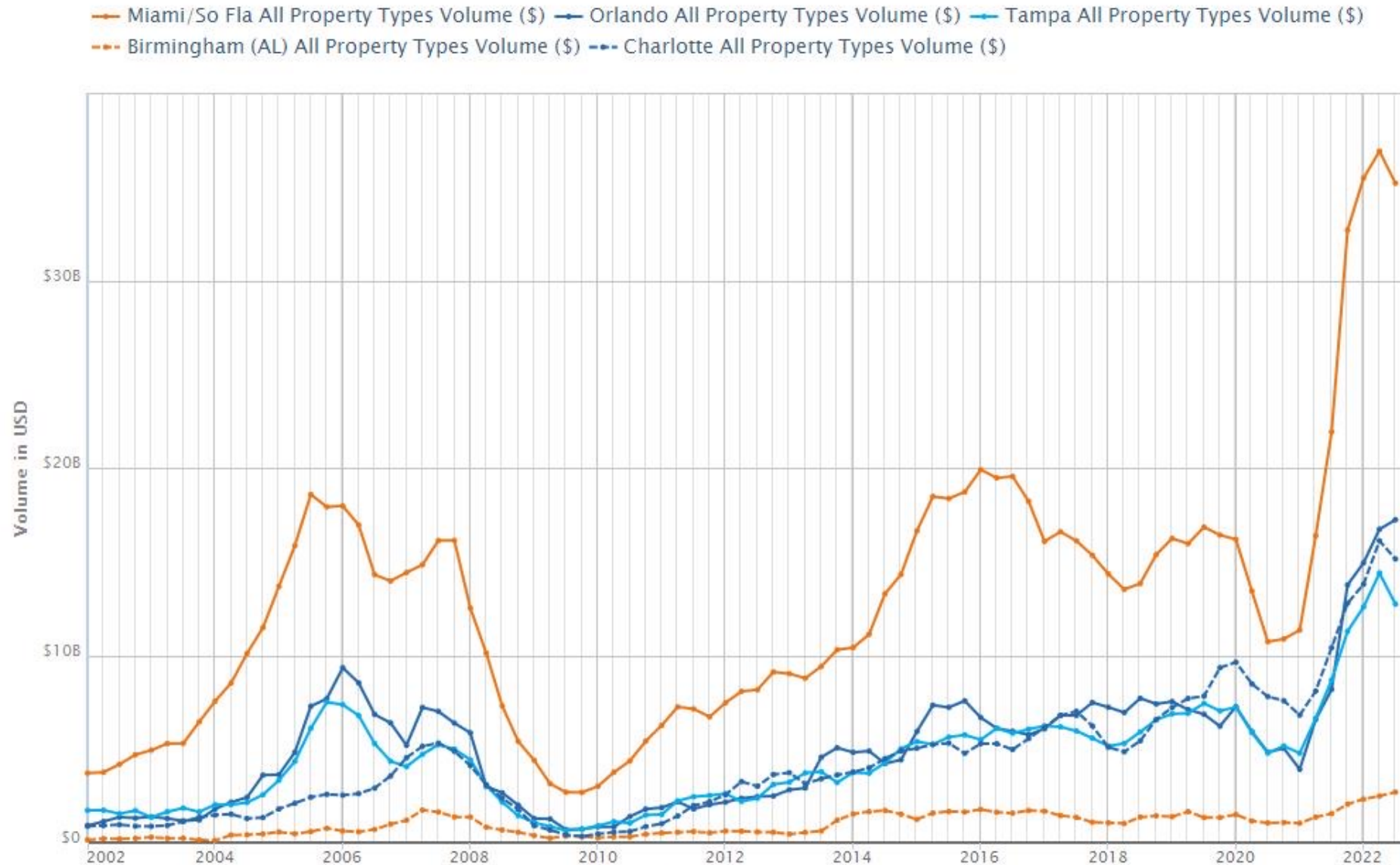


Change in Commercial Property Values

Amount property values have increased over this period
October 6, 2022



Commercial Property Volume

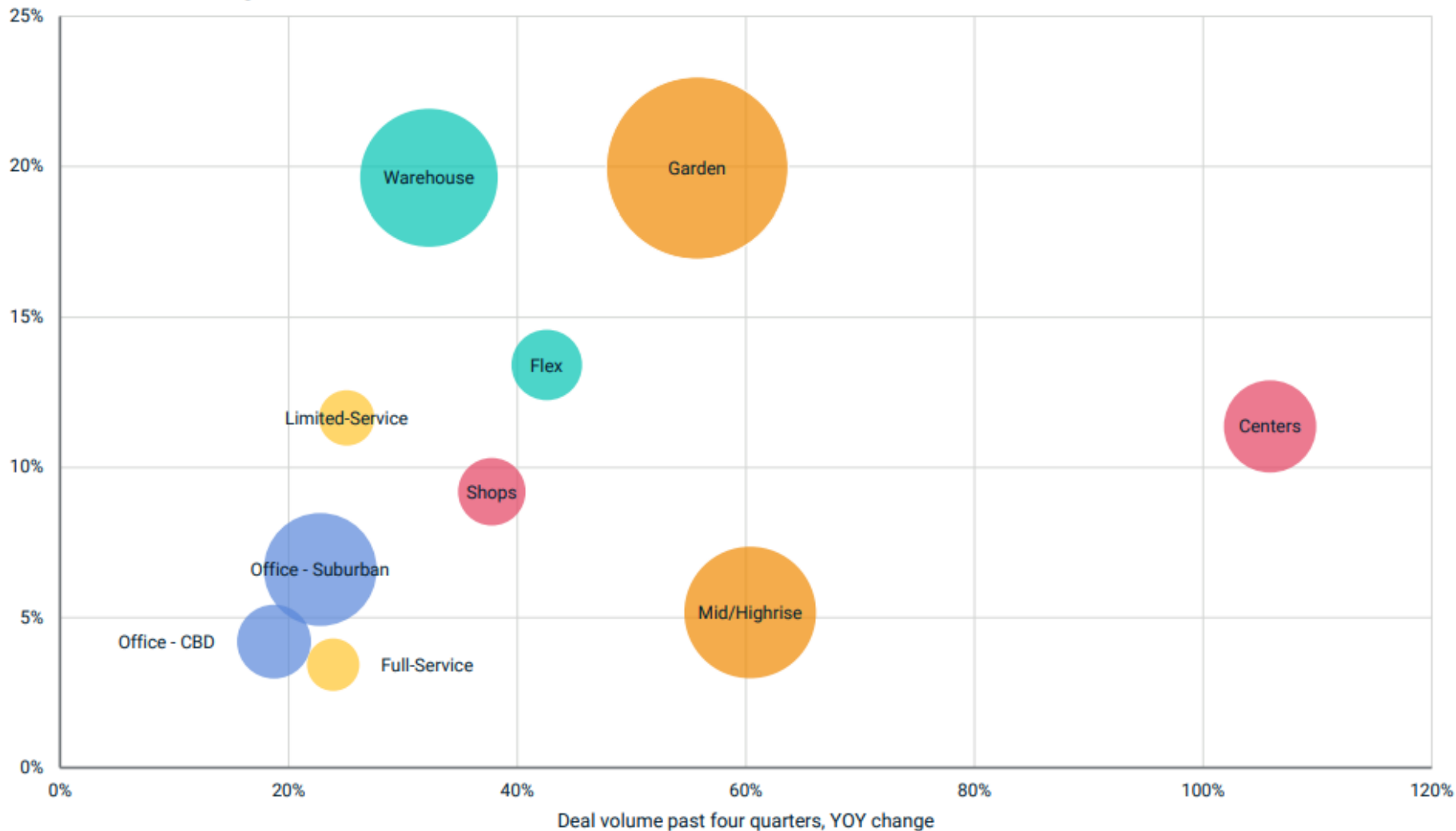


Commercial Overview

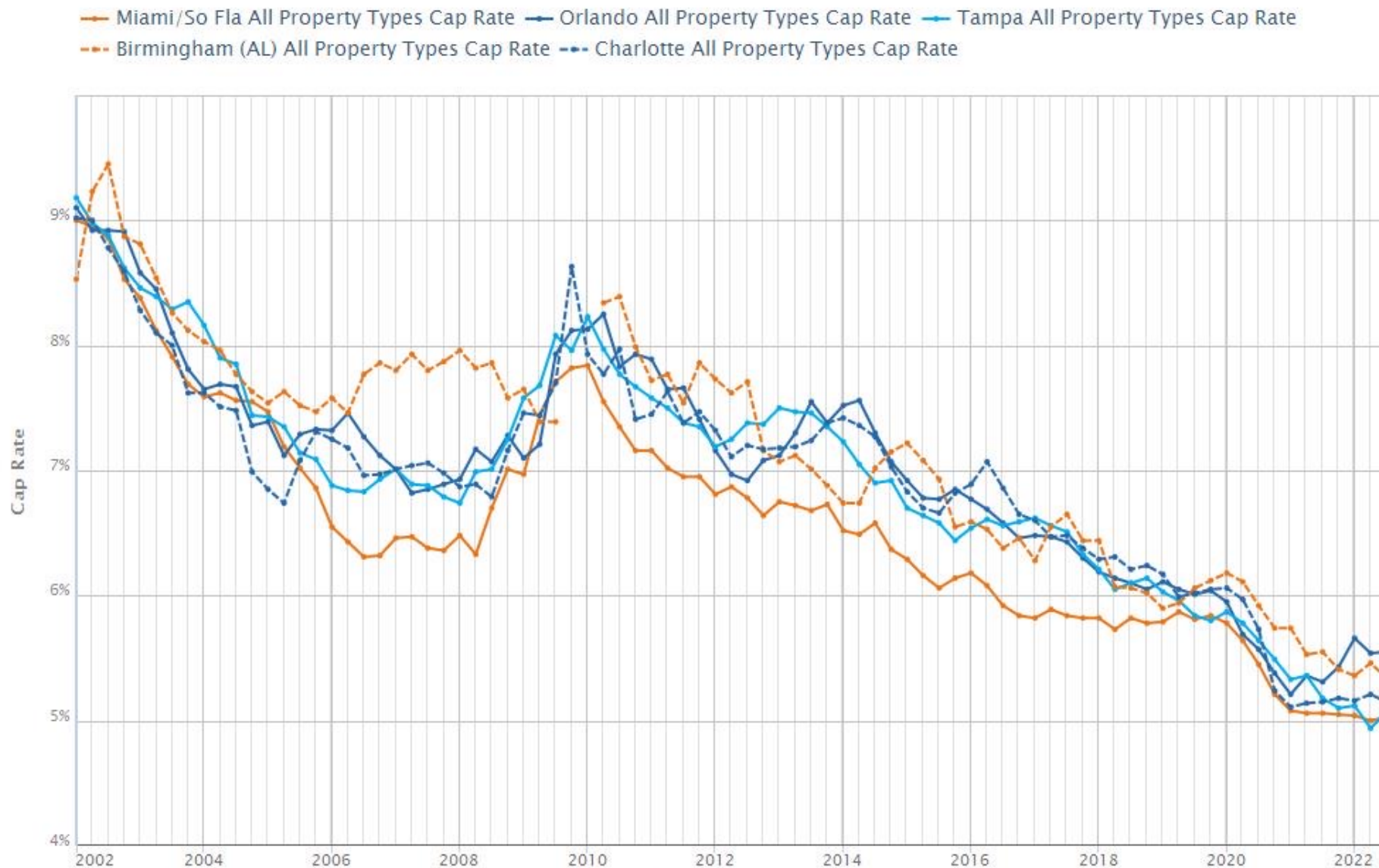


Investment Momentum

RCA CPPI Q3'22, YOY change



Commercial Overview

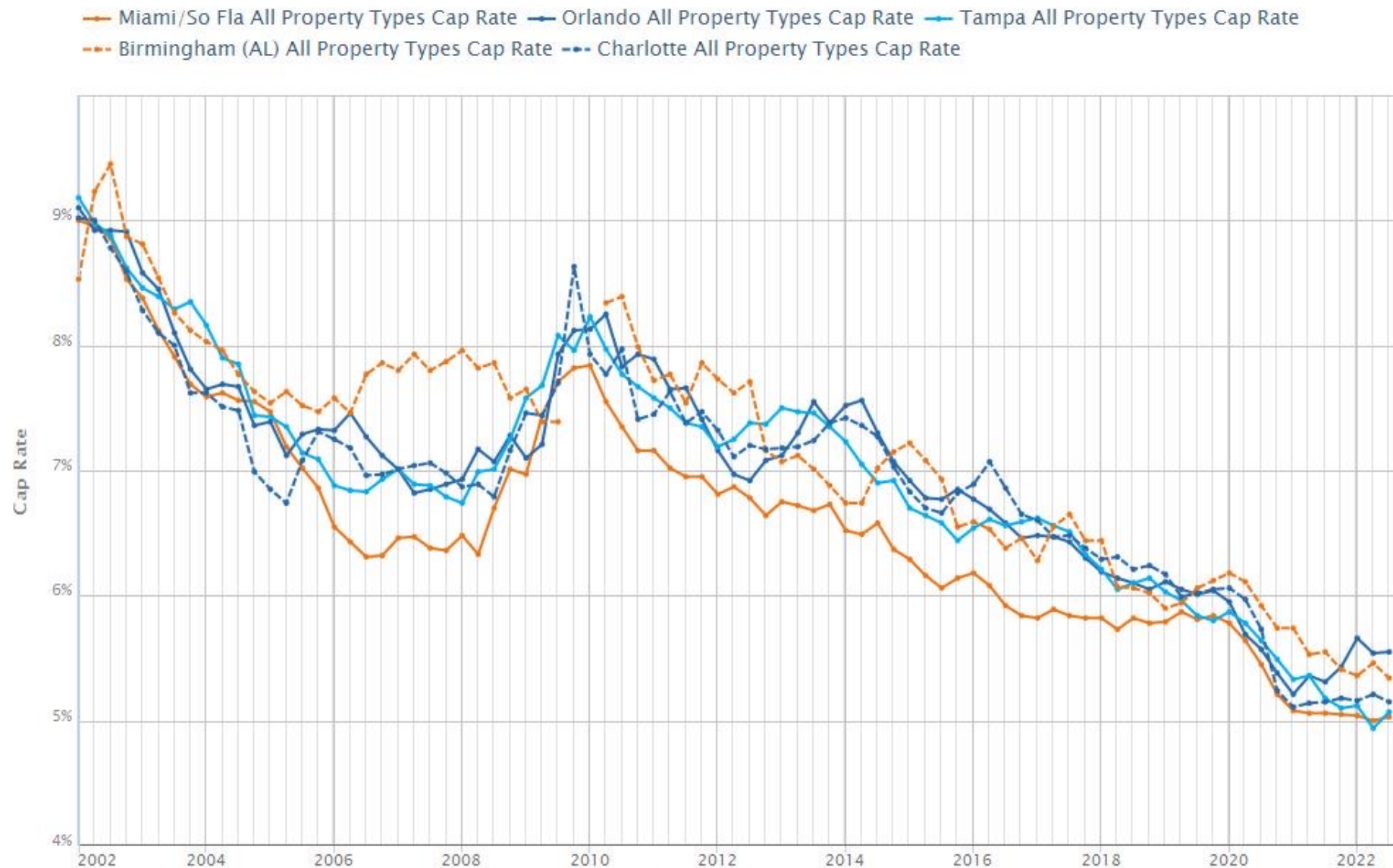


Institutional Perspective



- Trying to determine valuation strategies absent “current” transaction evidence.
- Disconnect between internal valuation (quarterly) and transaction activity (nominal)
- Still trying to make the case for “strategic” core property cap rates, but Negative Leverage is now the line in the sand. This will force cap rate expansion in coming 9-12 months. Just starting now.
- Insurance companies getting very active on long-term lending
- Lack of evidence of transactions leaves probability that mid-year 2022 values have receded? How much depends upon NOI story – growth, collections, durability of income stream.
- Migrating geographically to inbound, low-tax states and core markets on size.
- CMBS is on life support.
- Dispositions will be selective. No evident distress in market. NCREIF 80% Hold Strategy will stabilize the market, but volume will be way down.
- NCREIF index showing (2) quarterly contractions of 3%+/- (total 6% down) since Q1.

The Case for a Shallow Recession

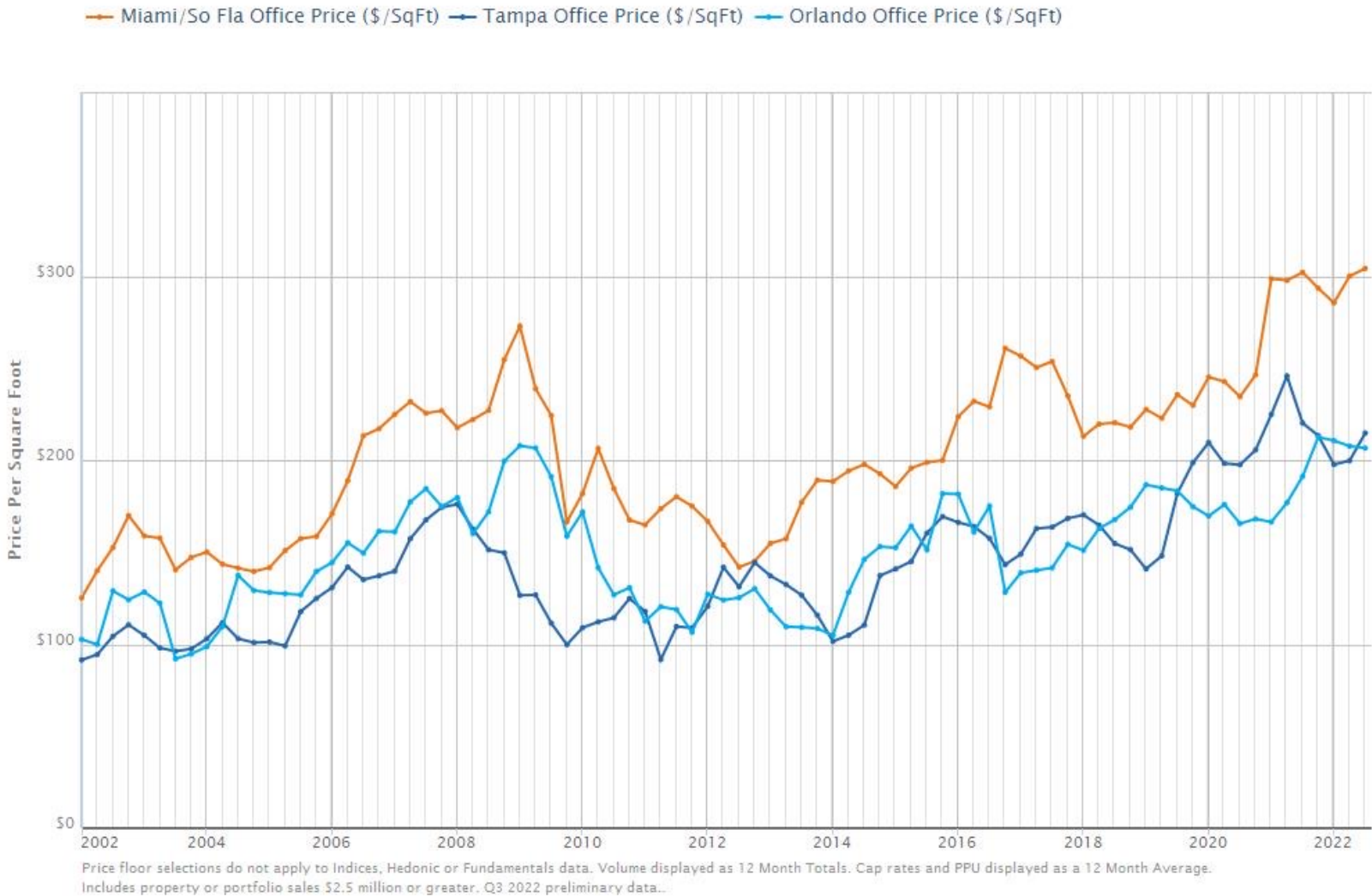


The Case for a Shallow Recession

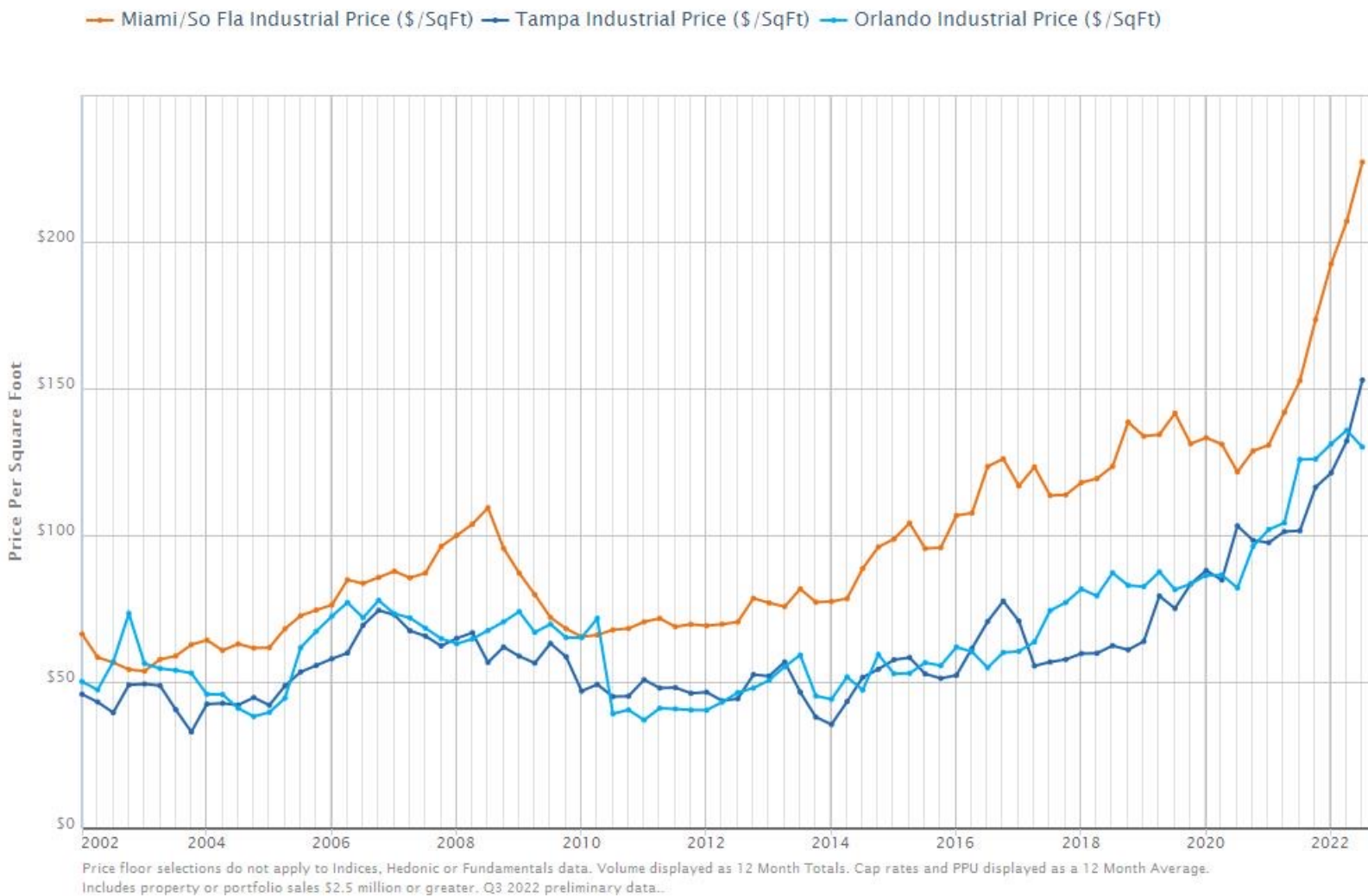


- Job market remains under-supplied; we are beyond full employment. Following November, revised unemployment rates will be revised upward...from 2.5%.
- Cap rates are going to expand; likely 25 – 50 bp per quarter until we add a cumulative 1.5%+ from par. Spreads on Treasuries should still be benchmarked to the 10-Year.
- Inflation will abate after the Fed has broken the economy (Q1 – 2023?) but will take the entire year to measure. Pray we have the political courage to let it play out.
- Seniors/Retirees just got a 9% raise...so far.
- Industrial slowed its trajectory; but supply-chain re-tooling will continue.
- Housing demand will falter; new construction will slow. Generally – construction will slow...but this is a good thing for pricing. Hurricane Ian changed the landscape for Florida contractors (and general employment) for the good. Florida was already well-positioned.
- Values can re-price 15%-20% downward; and still represent reasonable strength against 2017-2018 values. Replacement costs rising – and inflation provides cover for NOI growth.
- Shallow recessions are generally shorter (12-16 mo.) versus 24+ months.

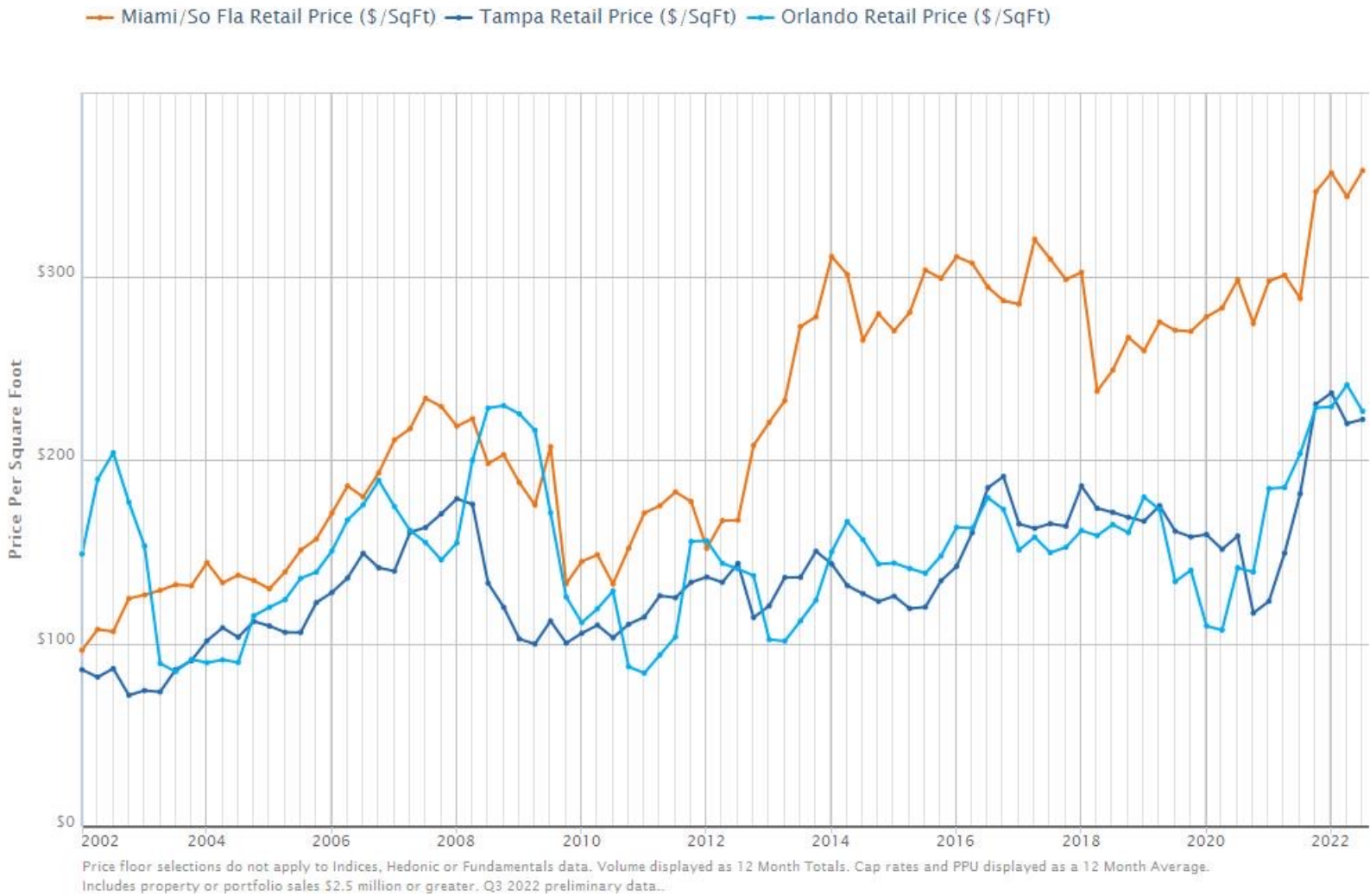
Be Counter-Cyclical - Office



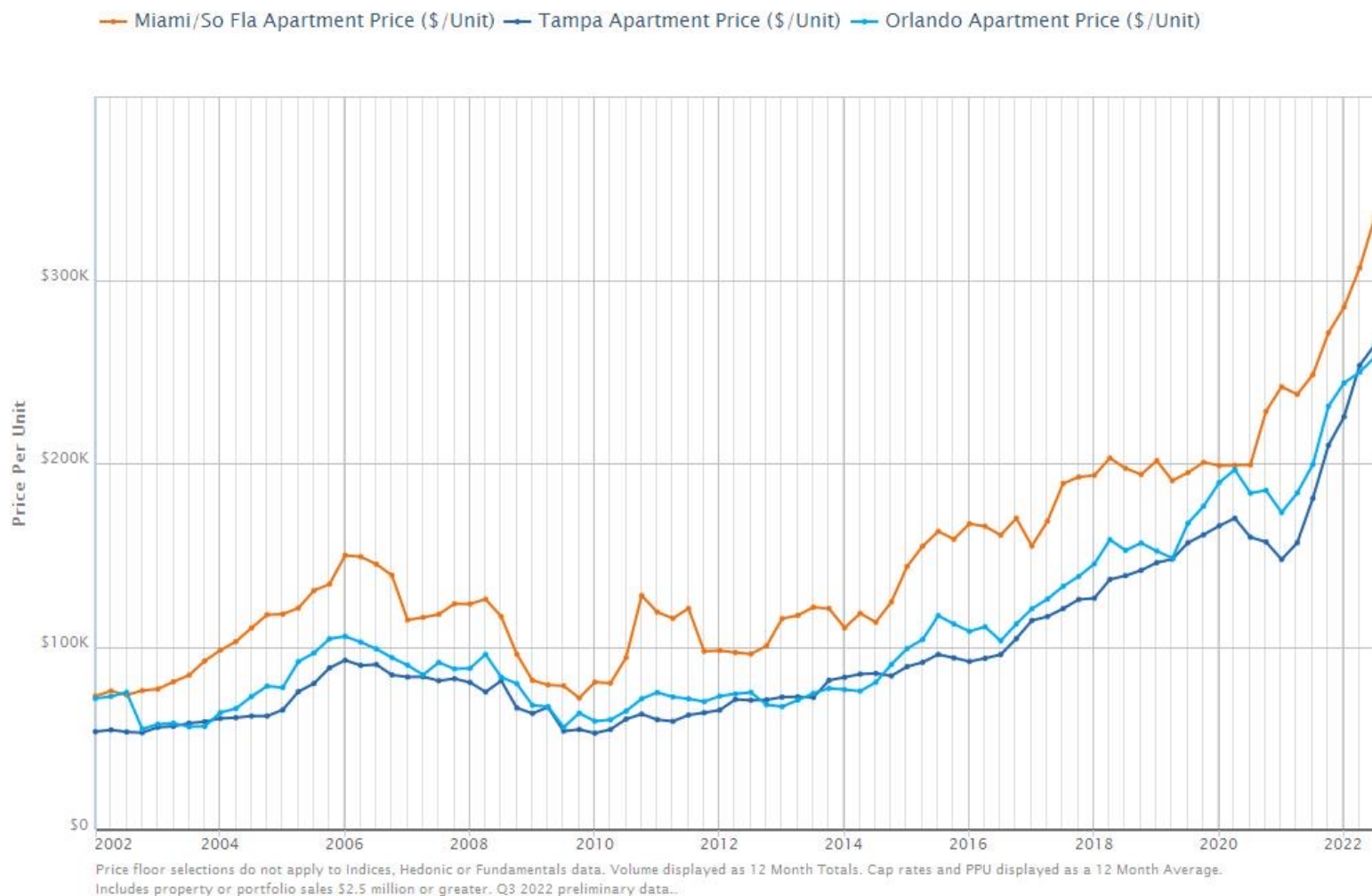
Be Counter-Cyclical - Industrial



Be Counter-Cyclical - Retail



Be Counter-Cyclical - Apartment



Be Counter-Cyclical - Hotels



Lead – don't follow



- Office is not dead!
- Construction will be “pencils down” (except Southwest FL)
- Remote work will still influence destination/resort demand. Hotels have legs.. Business travel now back to 70%
- Industrial and Apartment have the longest to fall. Weaker consumer spending / weakening housing market work against the “safe bet”
- Less competition in office/retail/hotel space. Pricing will be more lucrative.
- Still opportunities in MF and Industrial – but prove the NOI Story (watch growth)
- Understand the businesses behind the real estate (part of NOI durability); enhance questioning around retention and turnover.
- Deeper penetration into secondary markets; potential southeastern state targets. North Carolina right now OVERHEATING on demand in Charlotte / Raleigh; pushing into outlying areas.

Definition of Peace:



- That quiet moment when everyone is reloading their guns....
- “Most of the things I ever worried about never came true.” - Mark Twain

- IRR Viewpoint
- IRR Datapoint TM
- CoStar Information Services
- Builder Online | MetroStudy
- CBRE | JLL | Marcus Millichap Market Reports
- TREPP | IRR Database
- CNN Finance/public data

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