6th Annual

ECONOMIC & REAL ESTATE FORECAST SYMPOSIUM

Commercial Real Estate Update

October 11, 2016

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The views represented in these slides and in my remarks are my own and do not necessarily represent the views of the Federal Reserve Bank of Atlanta or the Federal Reserve Board of Governors.

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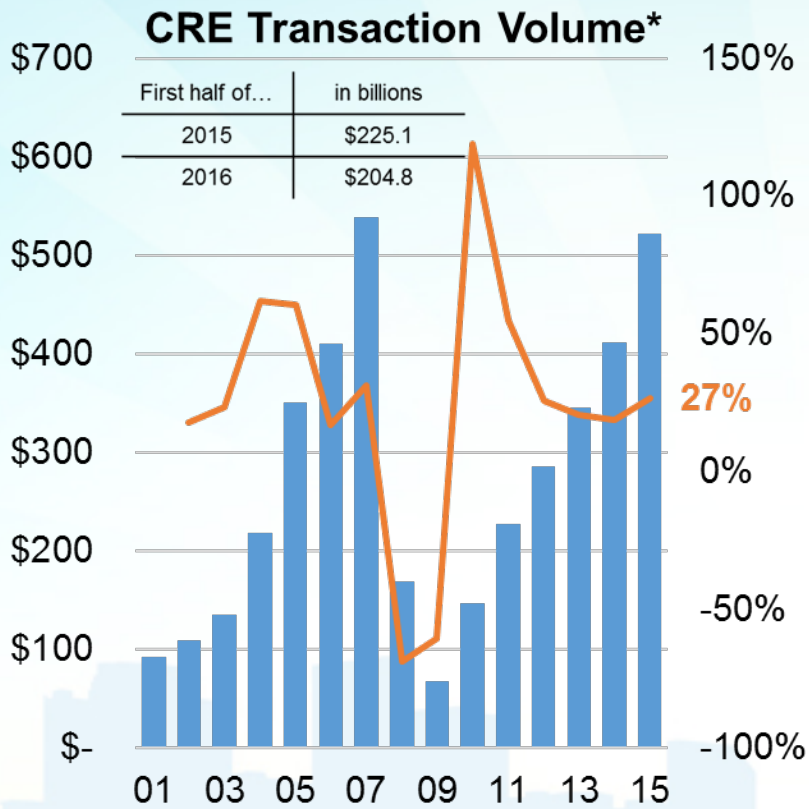
Economists Weigh In: Has U.S. CRE peaked?

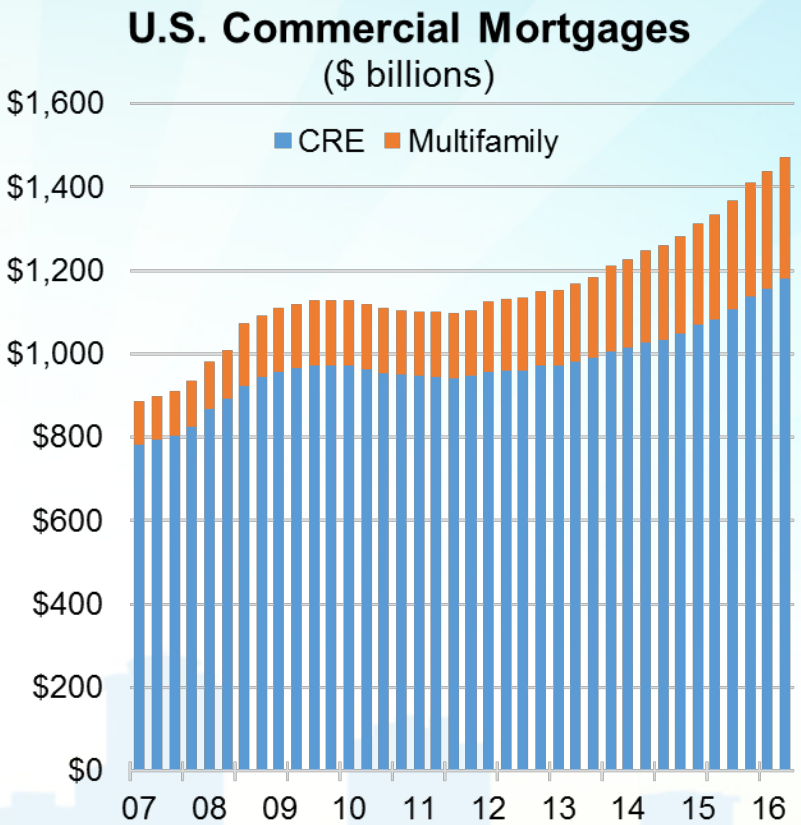
Excerpts from March 22, 2016 BizNow article:

- **Jamie Woodwell (MBA):** "…investment markets are running high, but domestic real estate remains a large, liquid and active market."
- **Jack Kern (Yardi):** "…it isn't that the commercial investment market has peaked, but that it has slowed in growth and will now adjust to a less aggressive posture."
- **Robert Bach (NGKF):** "…**debt markets will present a bigger challenge this year**…investors are **expecting prices to level out or soften**…operating incomes should continue to rise, helping to **cushion the stall in cap rates**."
- **Ray Torto (CBRE):** "I **do not expect prices to decline** after the recent run-up…economic demand is there for CRE as well as an abundance of capital…**transaction volume will take a breather**…I would describe the CRE investment market as at a plateau, moving to higher levels in the near future."
- **Ken McCarthy (CushWake):** "…fundamentals underlying the real estate market remain sound…**pricing and volumes may have temporarily slowed**…we believe this is a pause following a period of strong growth."
- **George Ratiu (NAR):** "A growing economy with a growing population drives demand for commercial space, which leads to increased cash flows…investments in U.S. commercial real estate should maintain momentum in 2016, barring any unforeseen shocks."

Bank lending returns with transaction activity



*includes office, industrial, retail, apartments, hotels
Source: Real Capital Analytics



Source: Bank Call Reports through 2q2016

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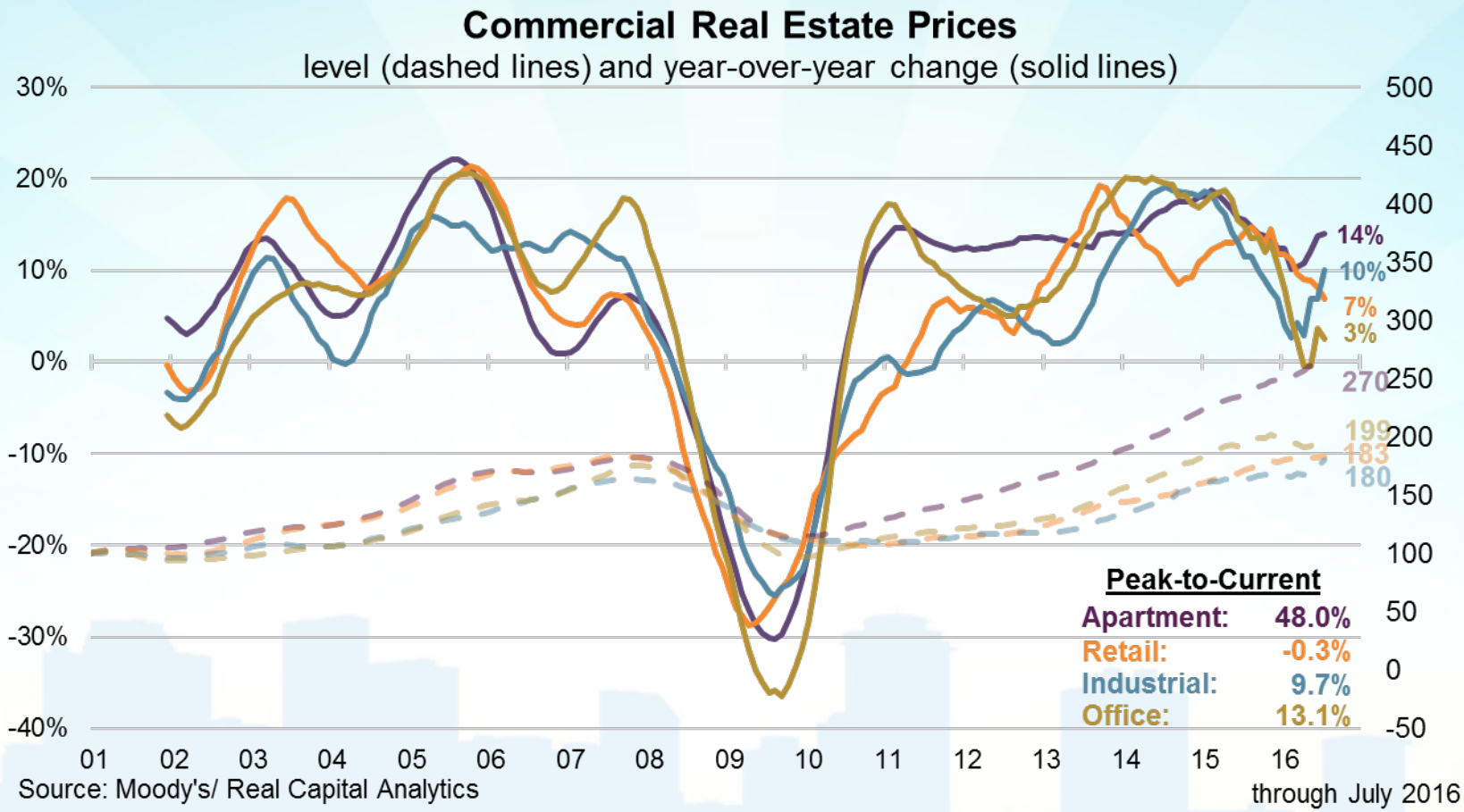
CRE prices have rebounded



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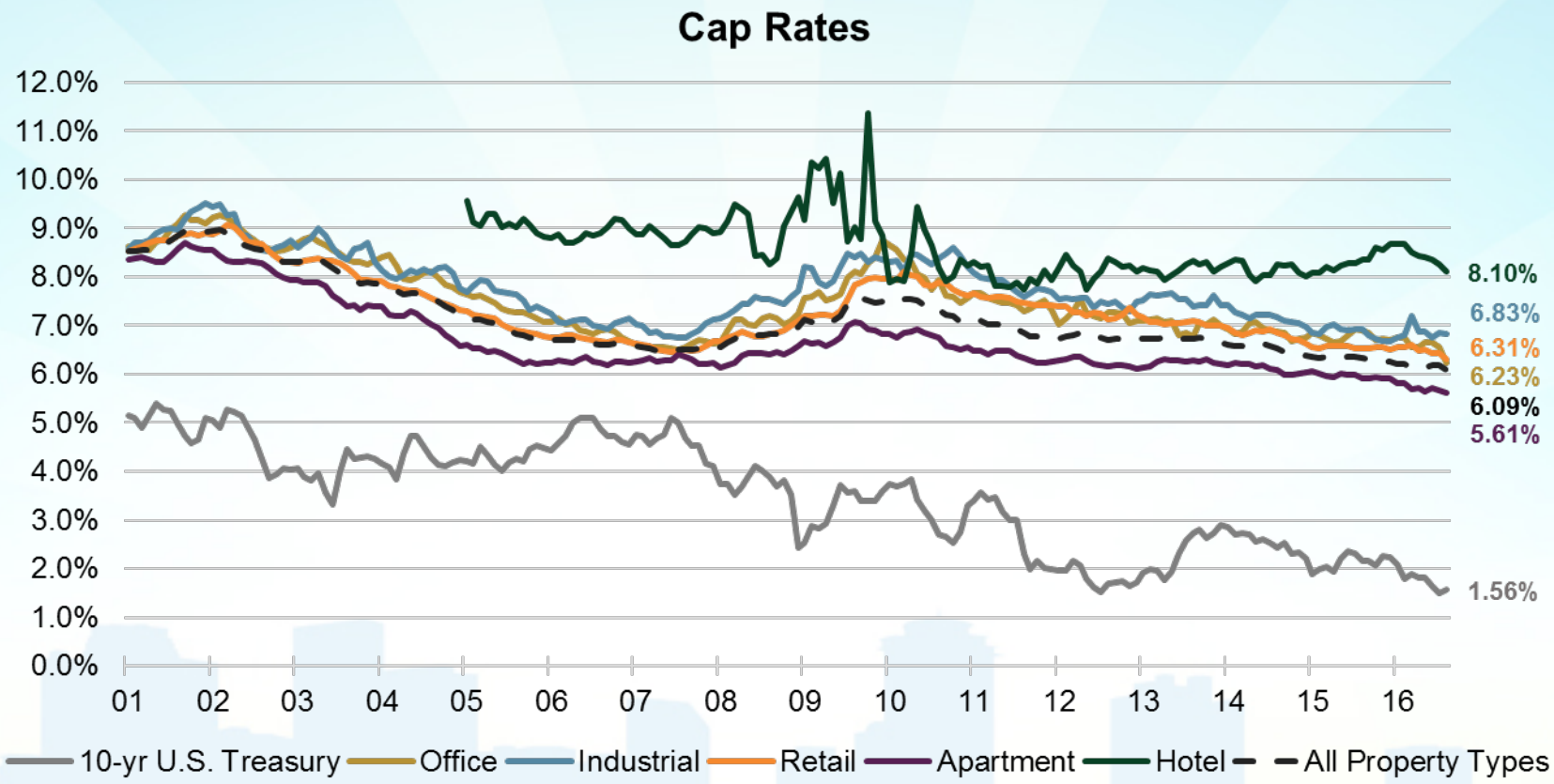
Cap rates have declined



Source: Real Capital Analytics

through August 2016

Record amounts of foreign capital attracted

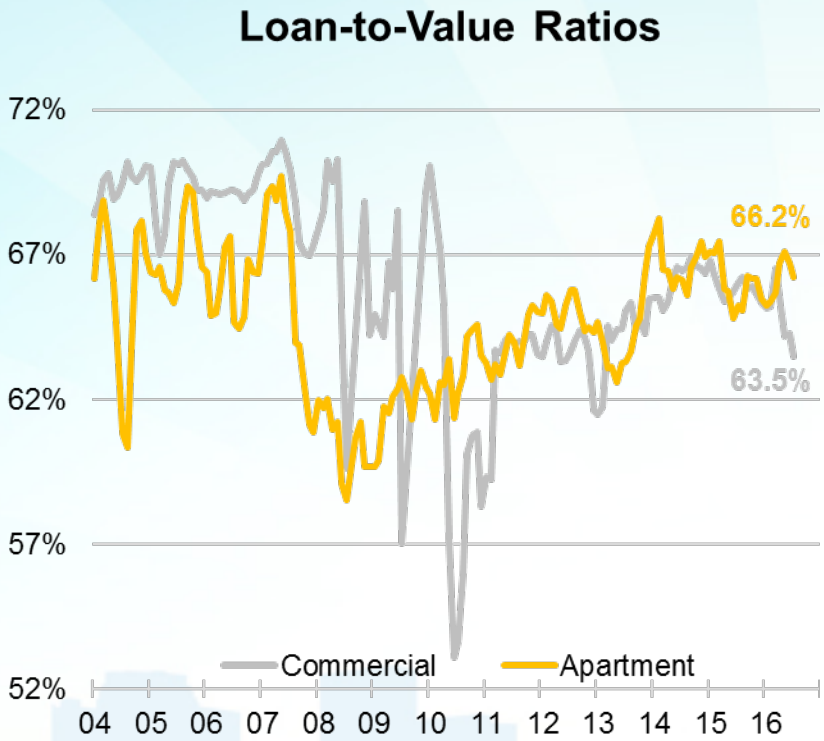
		2016,YTD	2015,YTD	2015	2014	2013	2012	2011
US	# of Deals	1,275	1,813	3,249	1,204	861	850	768
	Volume ($ Mil)	$55,060.8	$56,299.6	$95,067.4	$43,307.0	$31,947.7	$23,490.5	$20,466.4
Major Markets	# of Deals	318	510	883	306	266	281	221
	Volume ($ Mil)	$31,885.1	$28,757.1	$53,153.4	$25,544.9	$18,236.5	$13,384.6	$12,724.1
South Florida	# of Deals	48	98	143	40	41	41	45
	Volume ($ Mil)	$1,911.9	$2,826.0	$3,743.3	$1,515.6	$546.3	$928.7	$1,187.8
Atlanta	# of Deals	60	76	190	25	22	25	29
	Volume ($ Mil)	$1,173.1	$2,390.0	$3,915.3	$447.4	$732.2	$413.6	$416.2
New Orleans	# of Deals	-	-	-	2	-	-	-
	Volume ($ Mil)	-	-	-	$7.5	-	-	-
Baton Rouge	# of Deals	1	2	3	2	-	1	1
	Volume ($ Mil)	$46.0	$4.6	$7.9	$43.4	-	$30.4	$1.6
Other Markets (Louisiana)	# of Deals	3	1	3	1	1	1	3
	Volume ($ Mil)	$82.1	$3.2	$9	$4.8	$5.5	$8.2	$6.9
Alabama	# of Deals	8	6	6	5	6	5	6
	Volume ($ Mil)	$264.9	$26.3	$26.3	$58.1	$62.7	$64.3	$63.0

Reflects transactions closed + under contract. Based on properties / portfolios of $2.5 million or greater. Not all deals are included, such as entity-level transactions.

Source: Real Capital Analytics

through September 19, 2016

Has leverage returned?



Source: RCA Analytics

through July 2016

Notes: Commercial = office, industrial, retail, and hotel. All measures are calculated on a 3-month moving average and published on a one month lag.

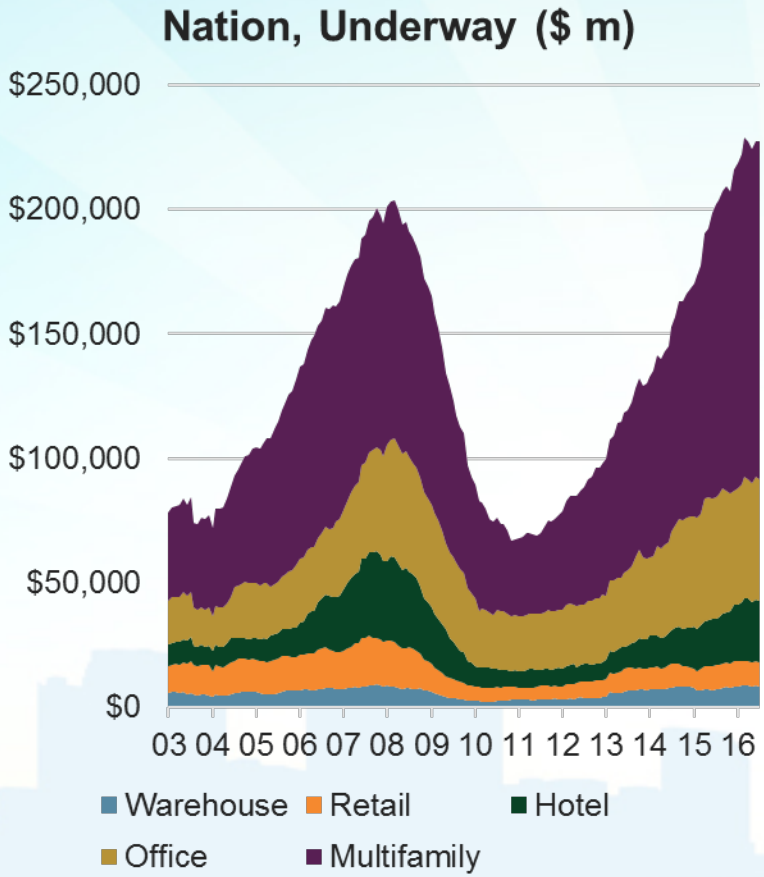
Apartment Lending Trends

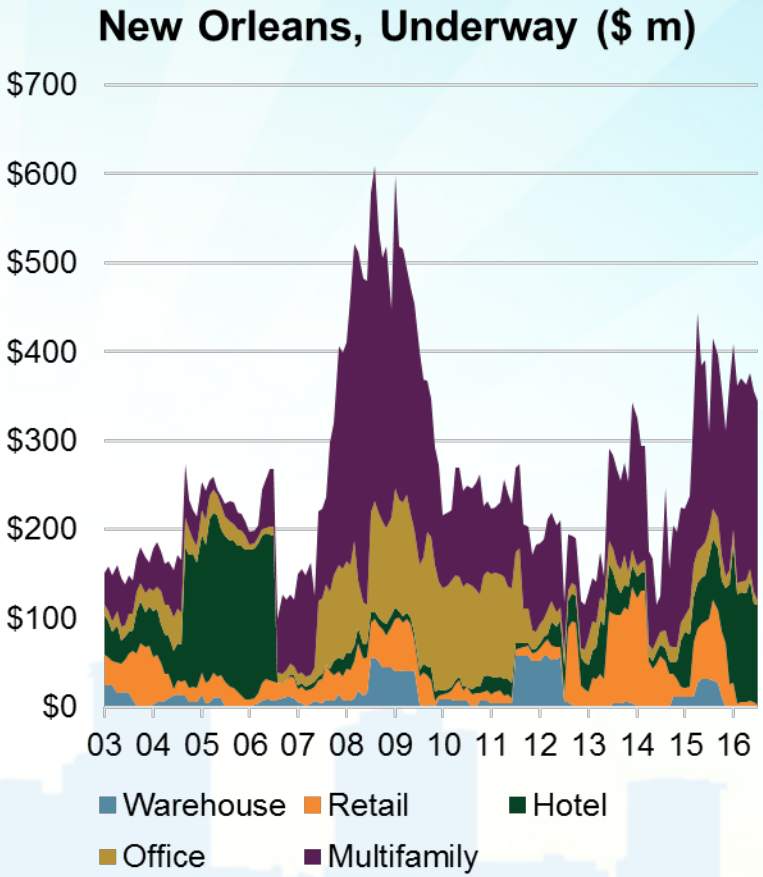
Balance	Implied Leverage
$1 - $5	67%
$5 - $10	67%
$10 - $25	71%
$25 - $50	70%
$50 +	64%

Source: Chandan Economics; based on Mortgage-Backed Sales and Refinancing

YTD 2016

Muted construction?

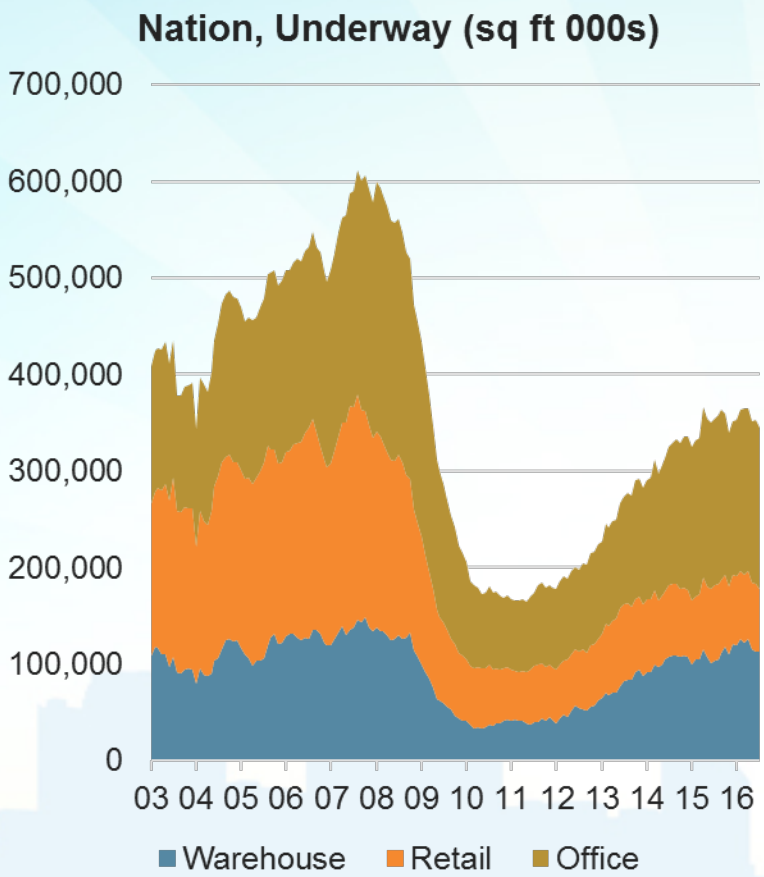


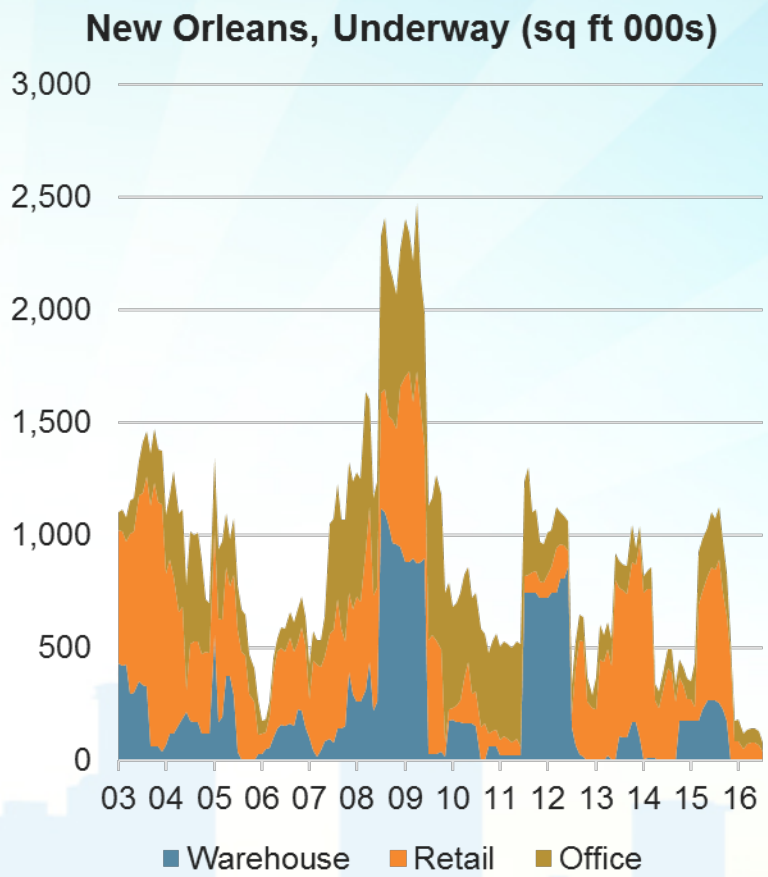


Source: CBRE-EA/Dodge Pipeline

through July 2016

Muted construction?





Source: CBRE-EA/Dodge Pipeline

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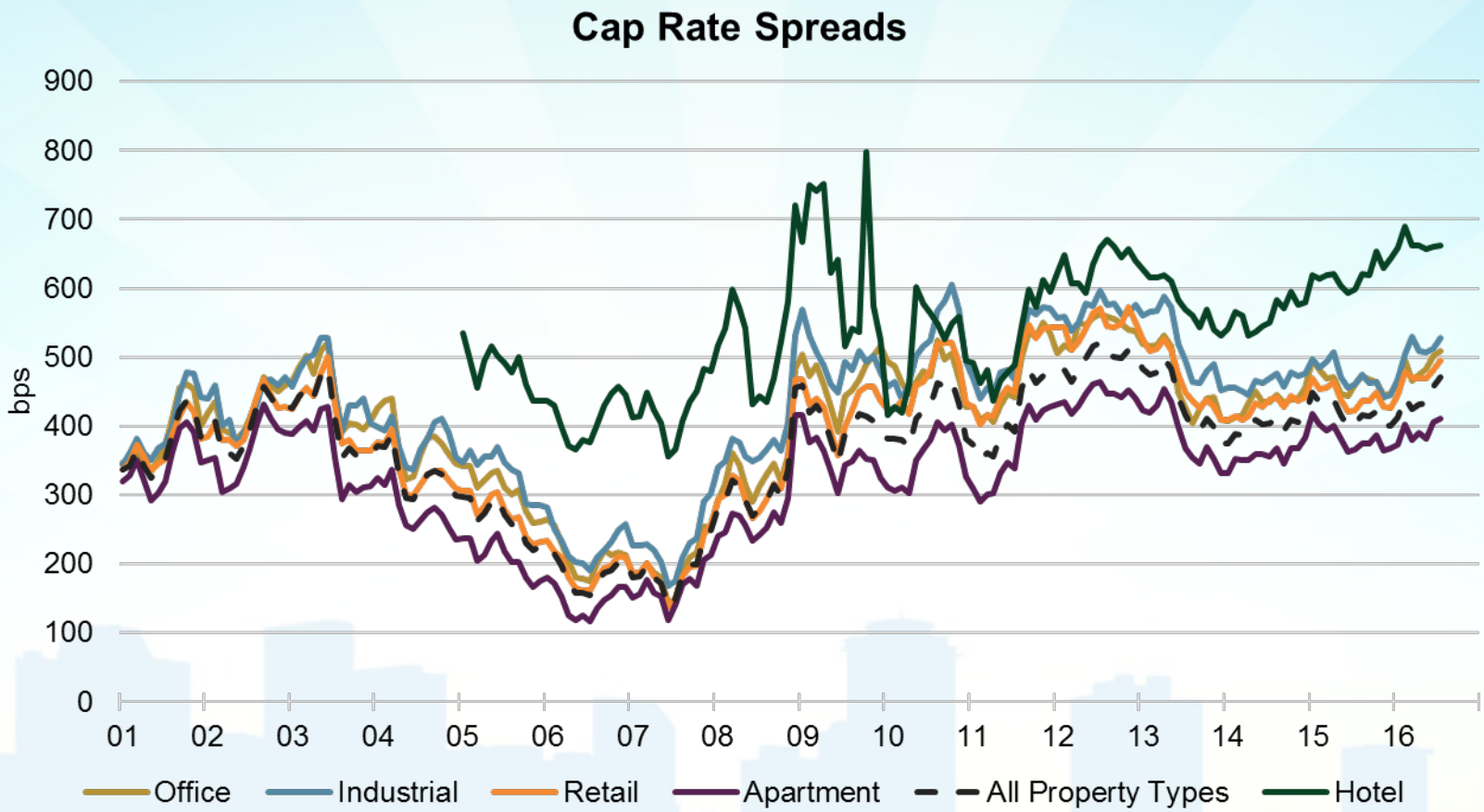
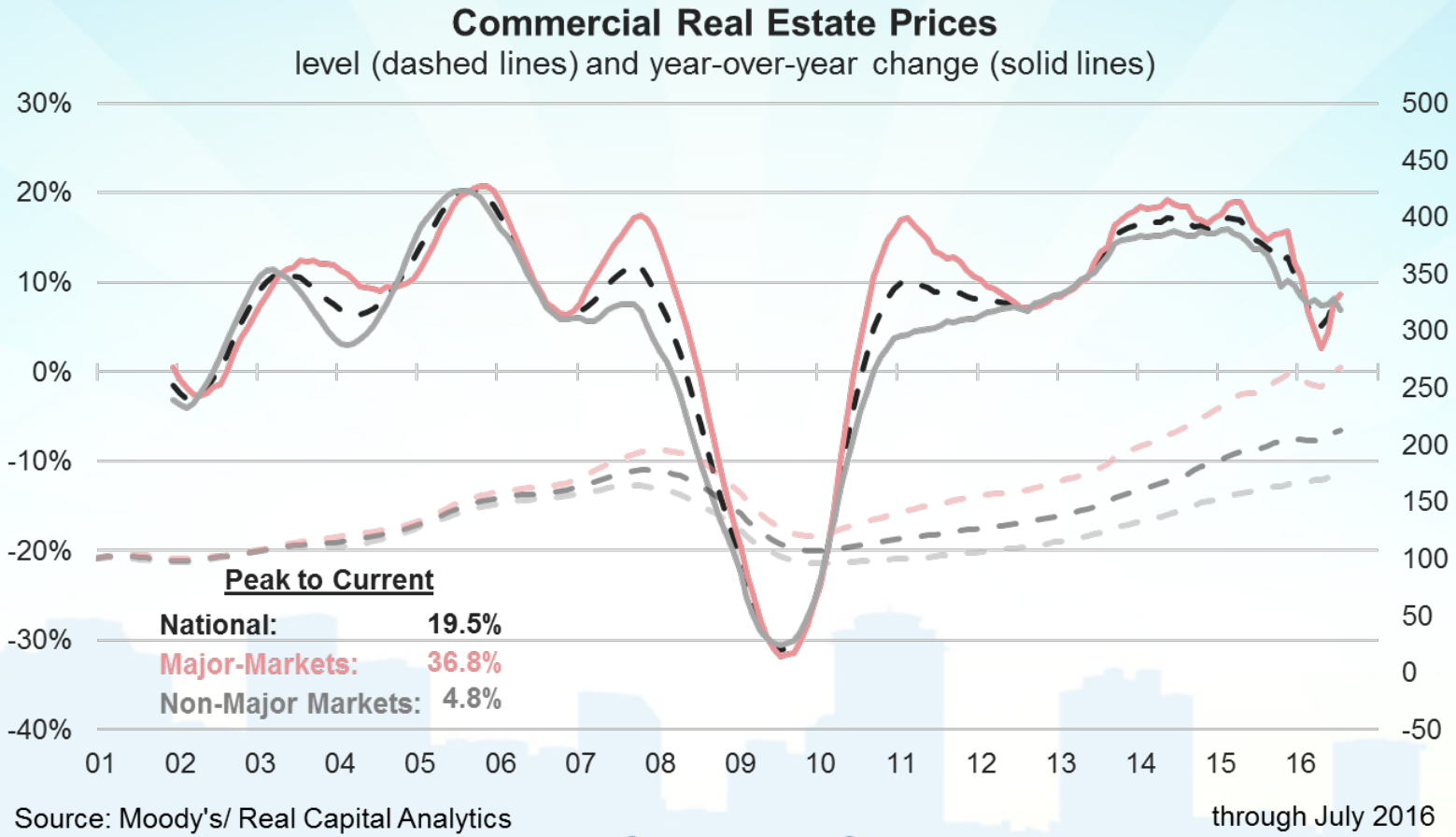
Cap rate spreads remain wide



Source: Real Capital Analytics

through August 2016

Activity mostly in major markets