

# January 19, 2021 Chapter Meeting Keynote Speaker

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# What Next? The Post-COVID Economy & Real Estate Market Forecast

# The Covid recession . . . .

Most recessions begin with rising interest rates/financial market stress undercutting demand for goods and services, driving up unemployment, which further crimps demand.

The Covid recession began with a natural disaster, like a hurricane, which interrupts the supply of and demand for goods and services. When a natural disaster ends, a V-shaped recovery ensues.

For the Covid recession, there was a partial V-shaped recovery in the third quarter as lockdowns were lifted. However, the pandemic is not under control.

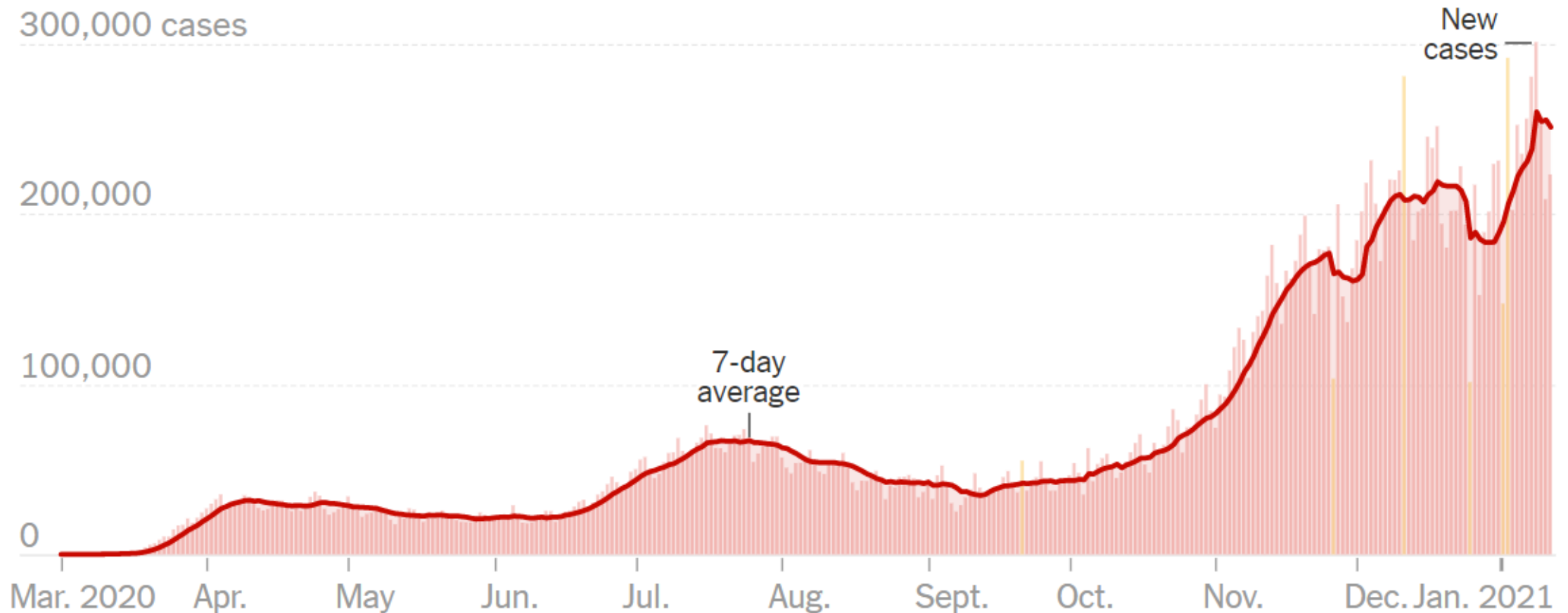
Federal stimulus amplifies a V-shaped recovery

In recovery, investors price in higher interest rates. The Fed short-circuited that process promising that interest rates will stay near zero until inflation reaches 2% and unemployment falls to pre-pandemic levels.

As restrictions are lifted and confidence builds, consumer and capital spending will robustly return.

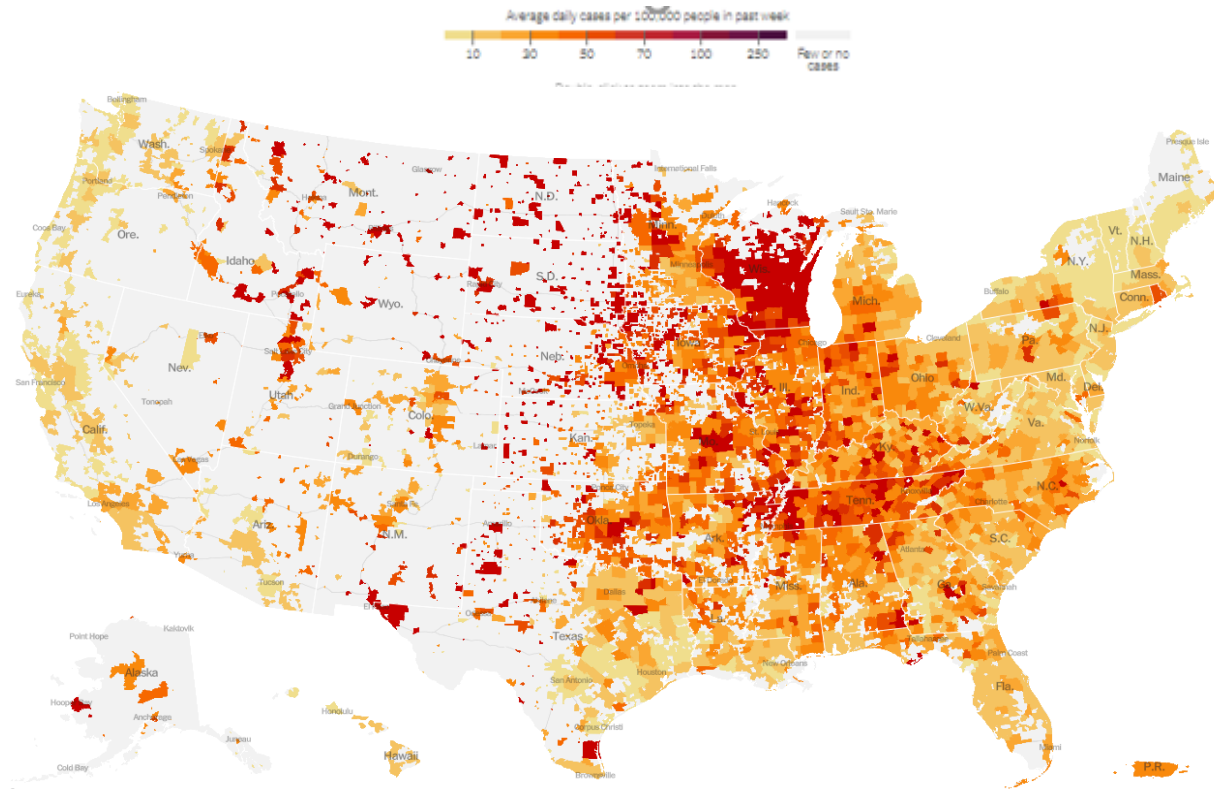
. . . . Corona virus cases are peaking . . . .

## New Daily Corona Virus Cases in the United States

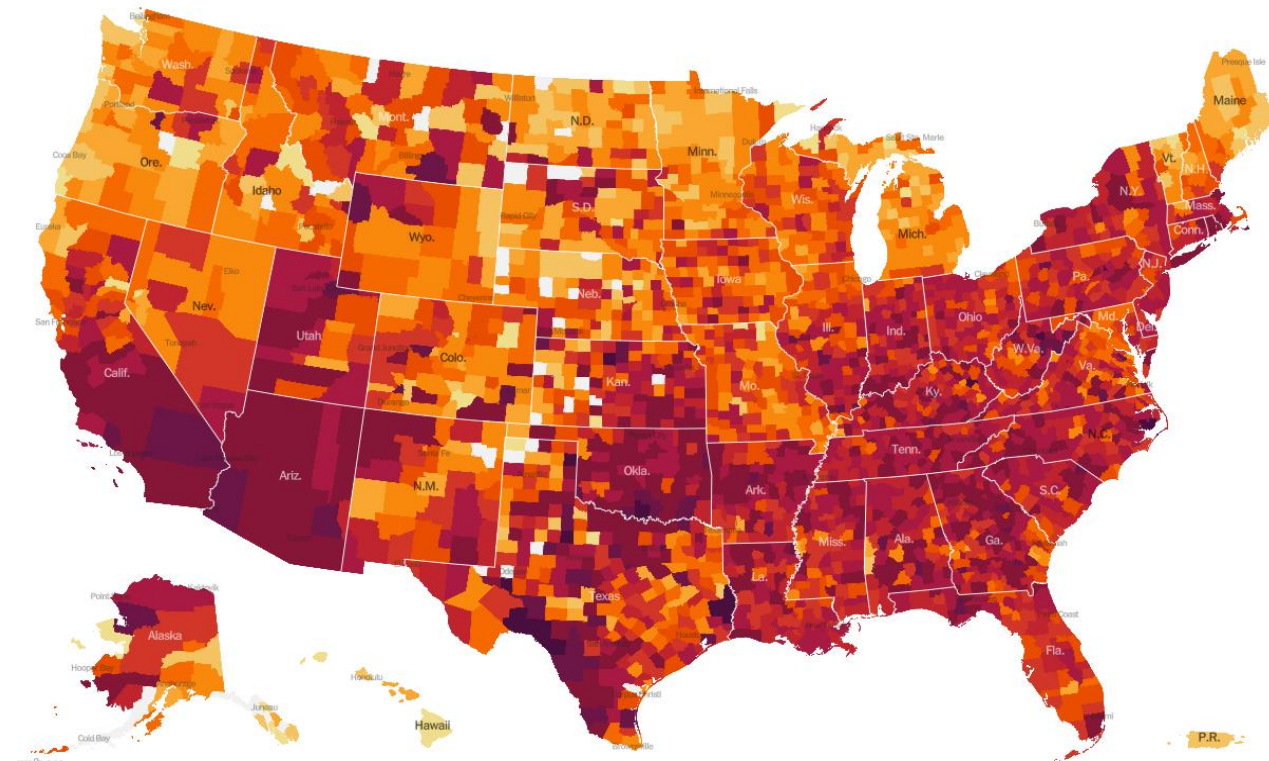


. . . . with cases spreading throughout the U.S. (red = high). . . .

New Daily Corona Virus Cases October 25, 2020



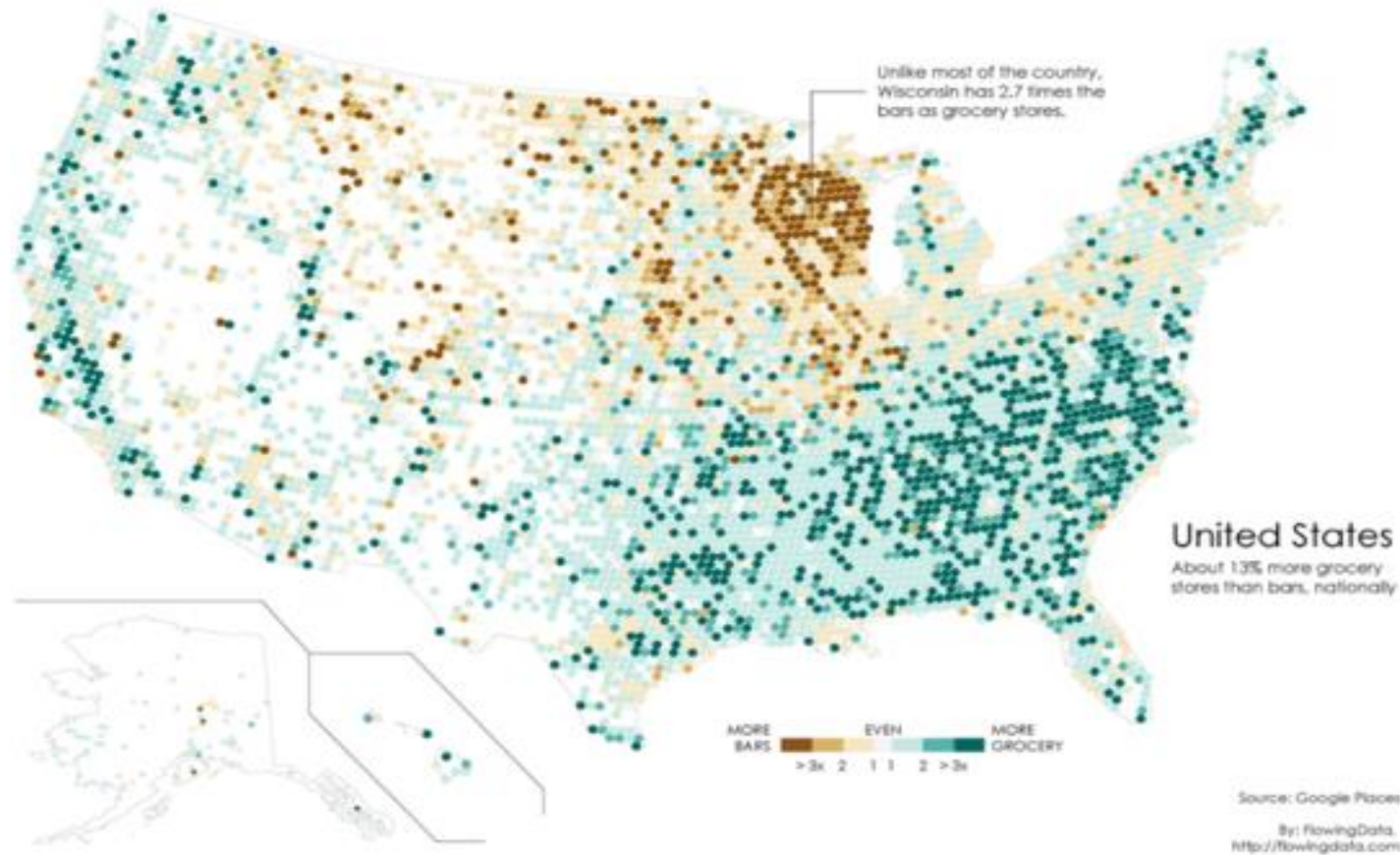
New Daily Corona Virus Cases January 12, 2021



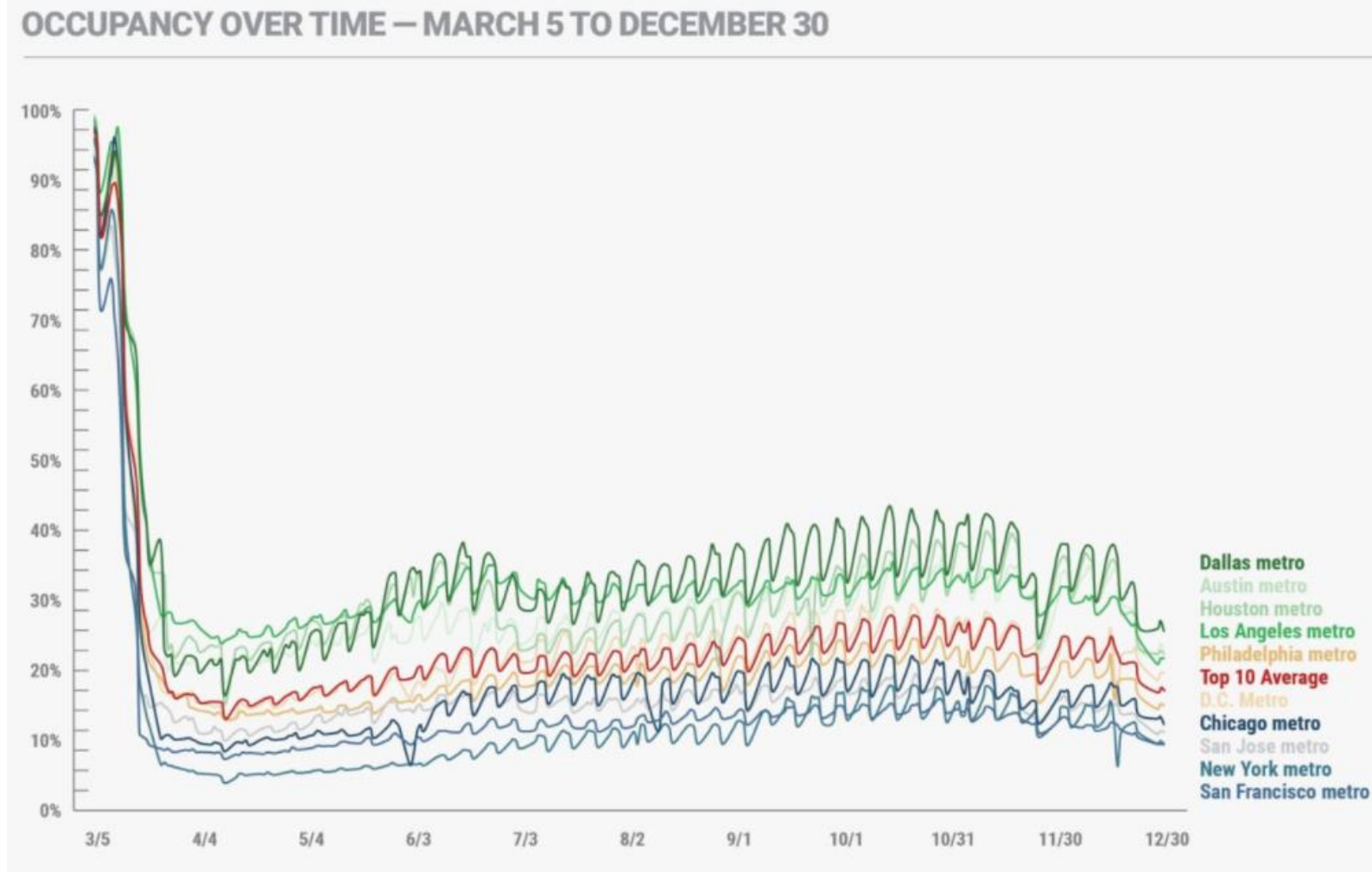


... Covid relief or Covid super-spreader???

## The Ratio of Bars-to-Grocery Stores in the U.S.



. . . . slowing the move back to work in the office.



# Does presidential administration impact GDP?

Real Economic Growth by Presidential Party Affiliation					
Presidential Administration	Affiliation	Term	Period (years)	GDP Growth (CAGR)	GDP Growth Lagged 1-Year
Kennedy/Johnson	Democrat	1961-1968	8	5.2%	4.4%
Nixon/Ford	Republican	1969-1976	8	2.7%	3.2%
Carter	Democrat	1977-1980	4	3.4%	1.8%
Reagan/Bush	Republican	1981-1992	12	3.0%	3.1%
Clinton	Democrat	1993-2000	8	3.8%	3.5%
Bush	Republican	2001-2008	8	1.7%	1.8%
Obama	Democrat	2009-2016	8	2.2%	2.3%
Trump	Republican	2017-2000	4	1.0%	0.9%
Republication Average				2.1%	2.3%
Republication Average w/o Trump				2.5%	<b>2.8%</b>
Democrat Average				3.7%	<b>3.0%</b>



# Back to Basics

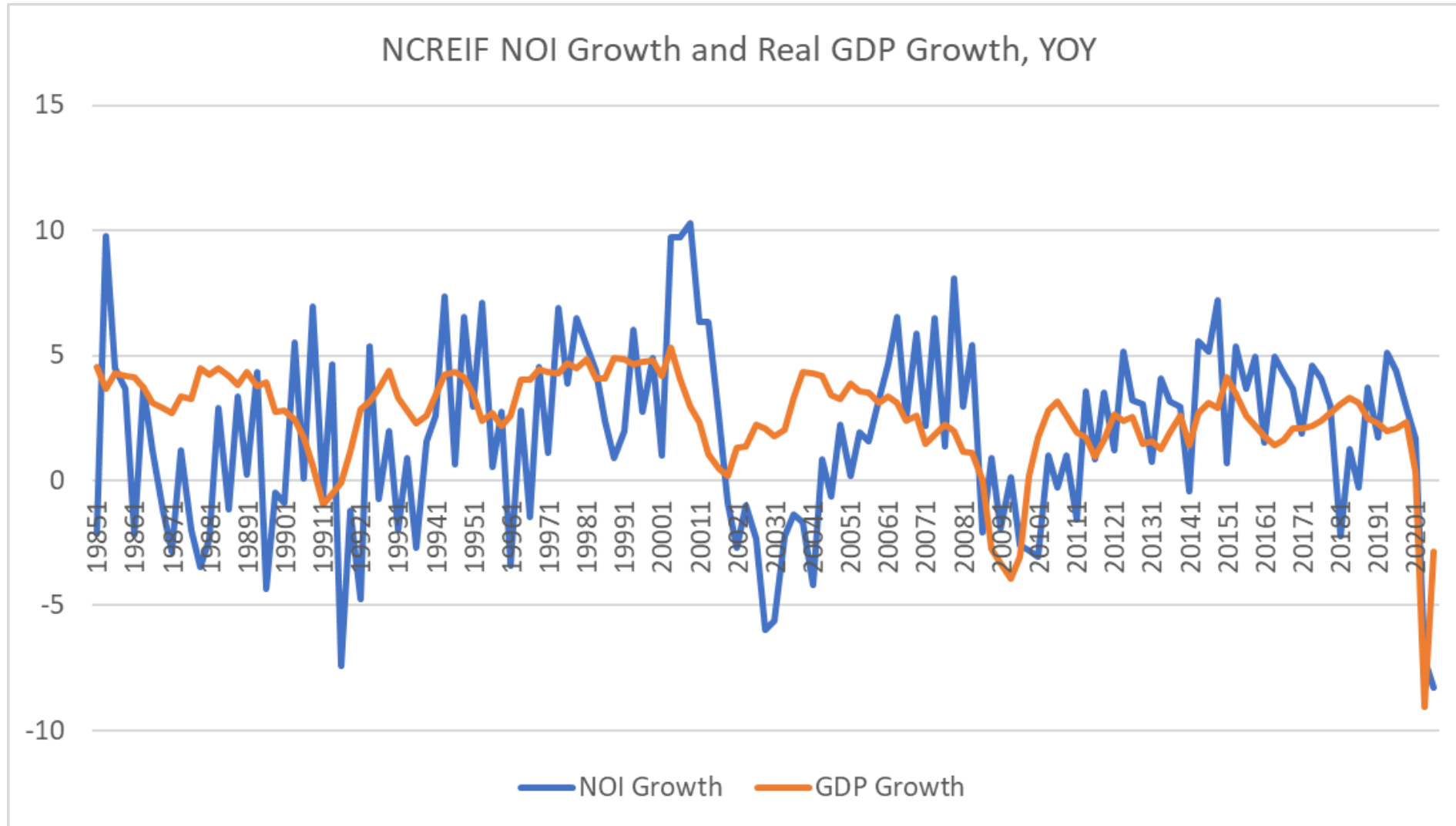
Value = NOI/Cap Rate

Value = RE Property Markets/RE Capital Markets

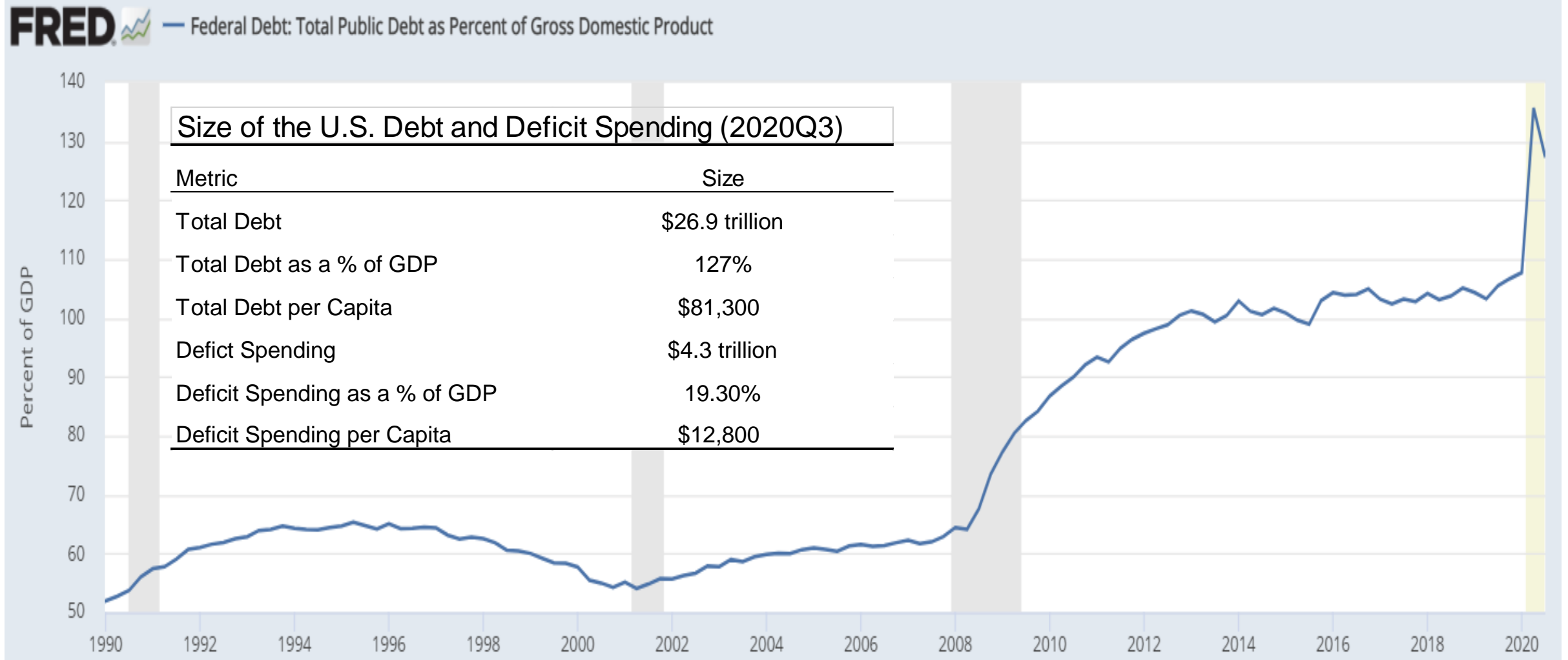
Value = Fiscal Stimulus/Monetary Stimulus

# Fiscal Stimulus – Impacts on Income, Employment/Business, and Consumption

# Why fiscal stimulus is important, it impacts and leads NOI . . . .

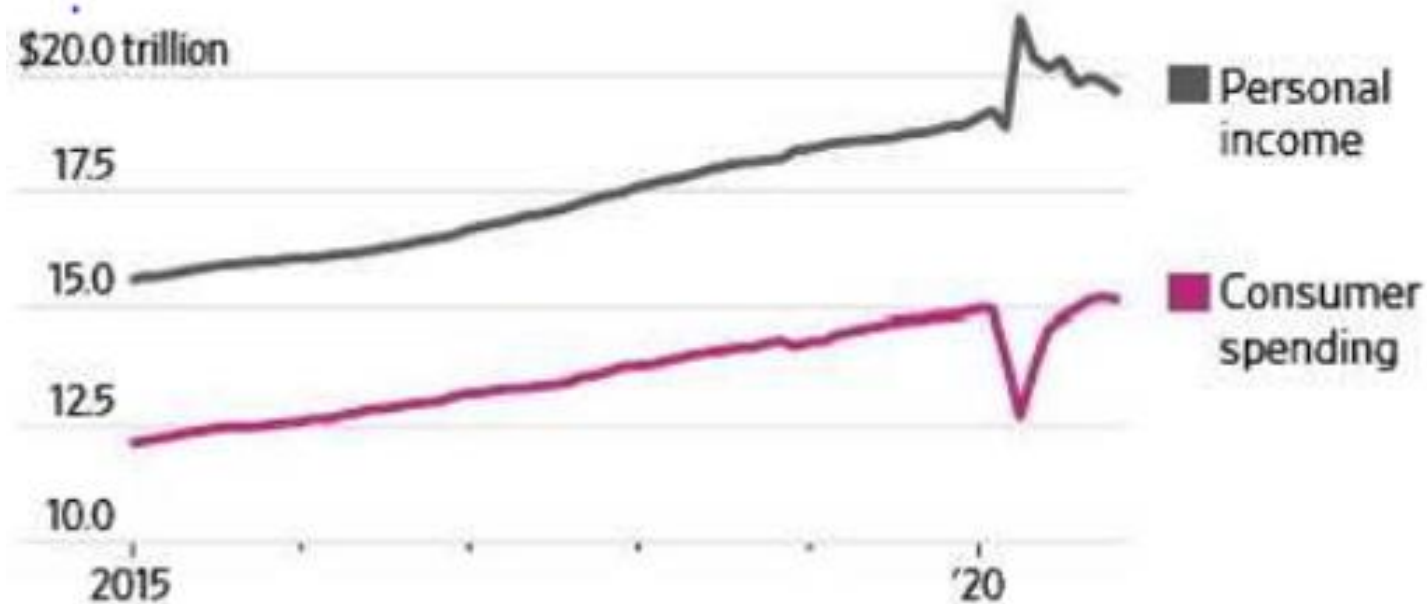


. . . . 2020 saw significant deficit spending and Covid relief . . . .

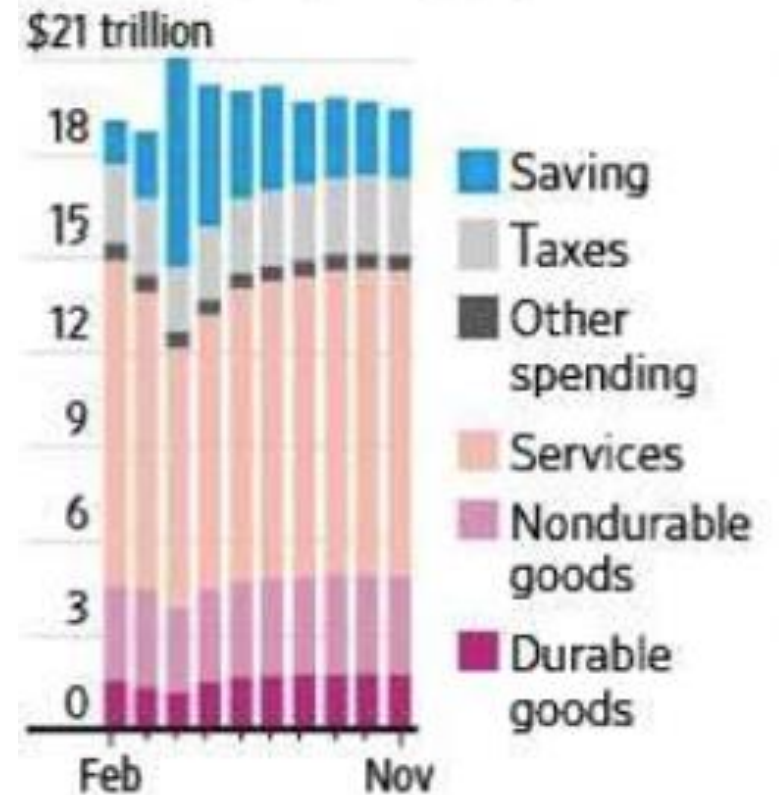


. . . . fiscal stimulus boosted personal income and revived consumer spending . . .

**Consumer spending and personal income**

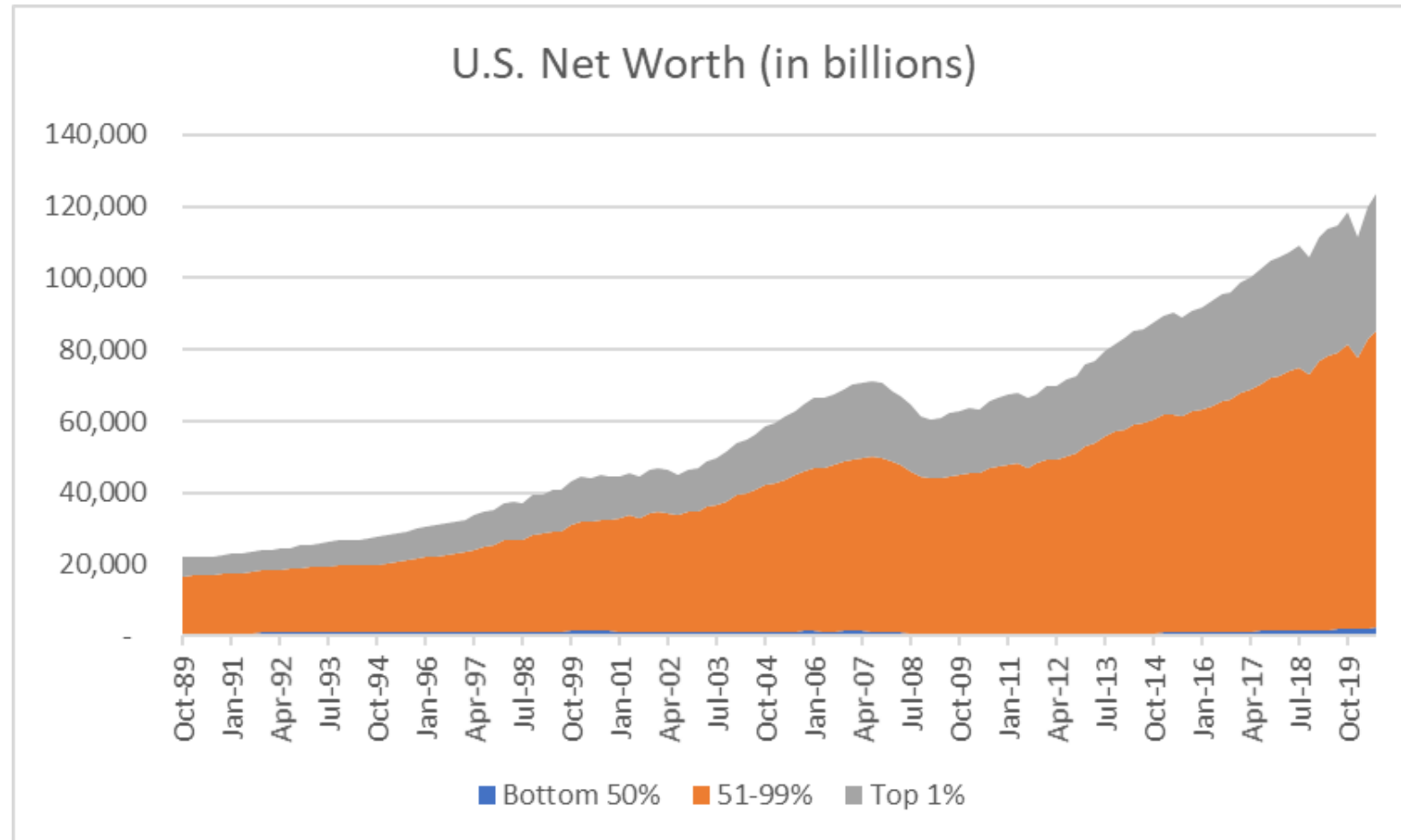
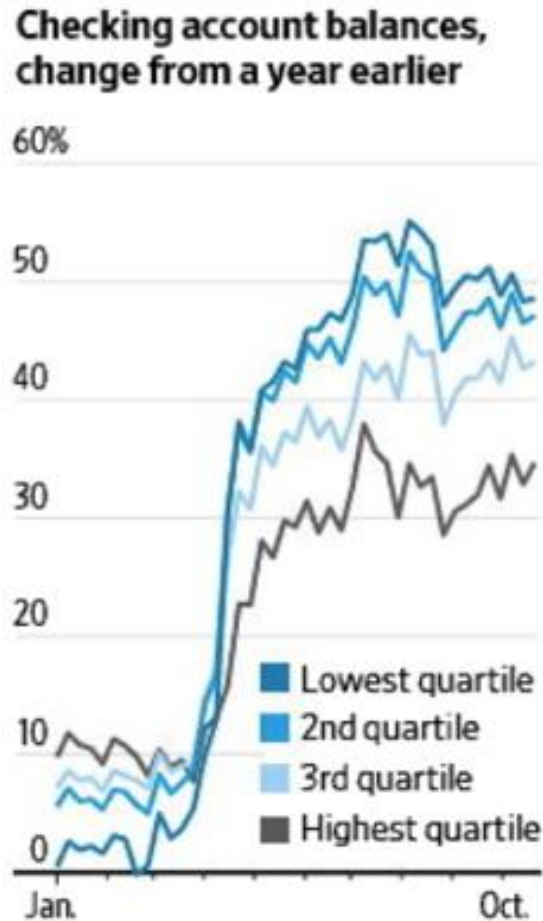


**Spending, by category**





. . . . stimulus savings positively impacted checking account balances across income levels however wealth is unevenly distributed.

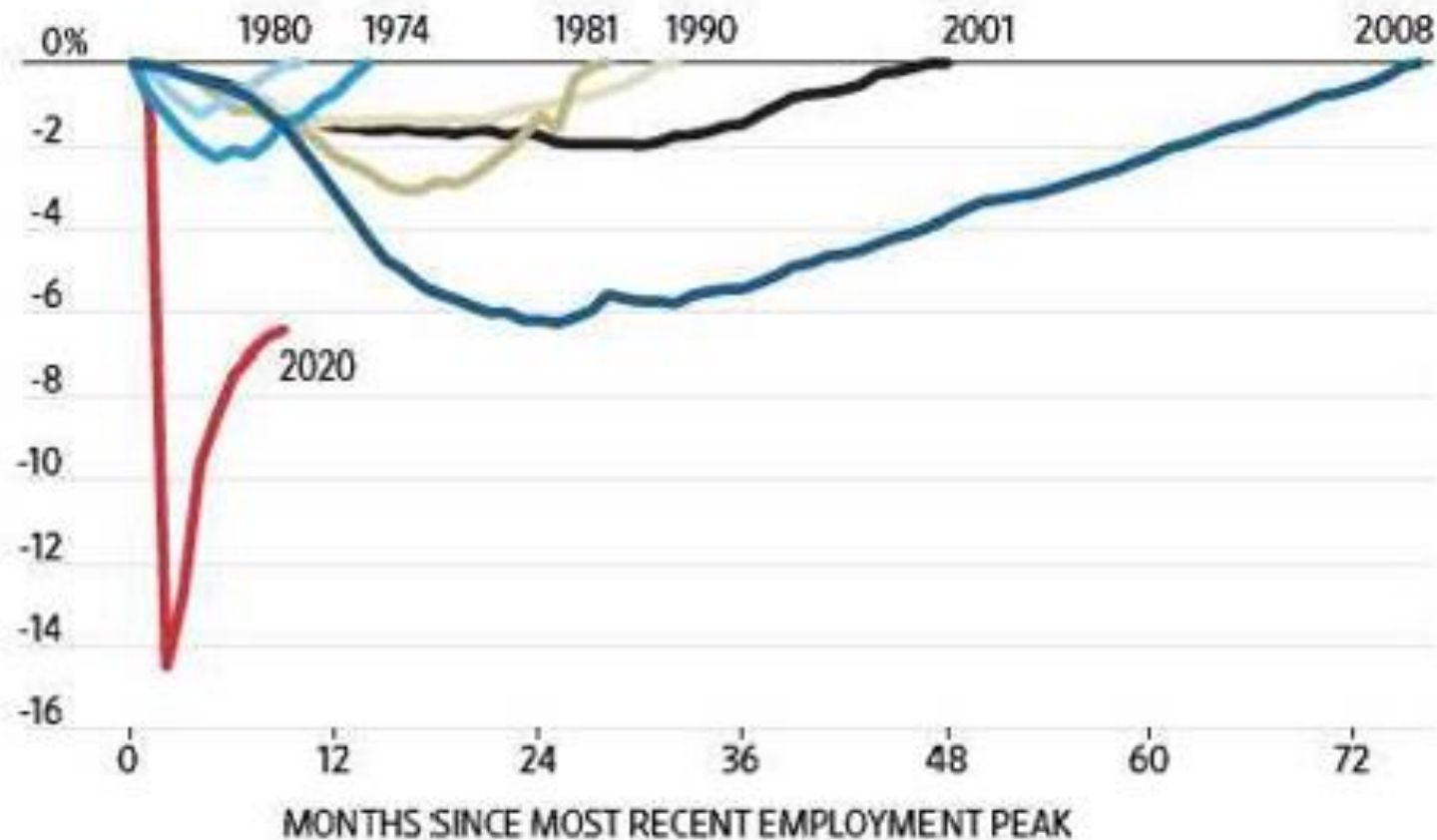


# Fiscal Stimulus – Employment Impacts

The path back to full employment, what shape will it take . . . .

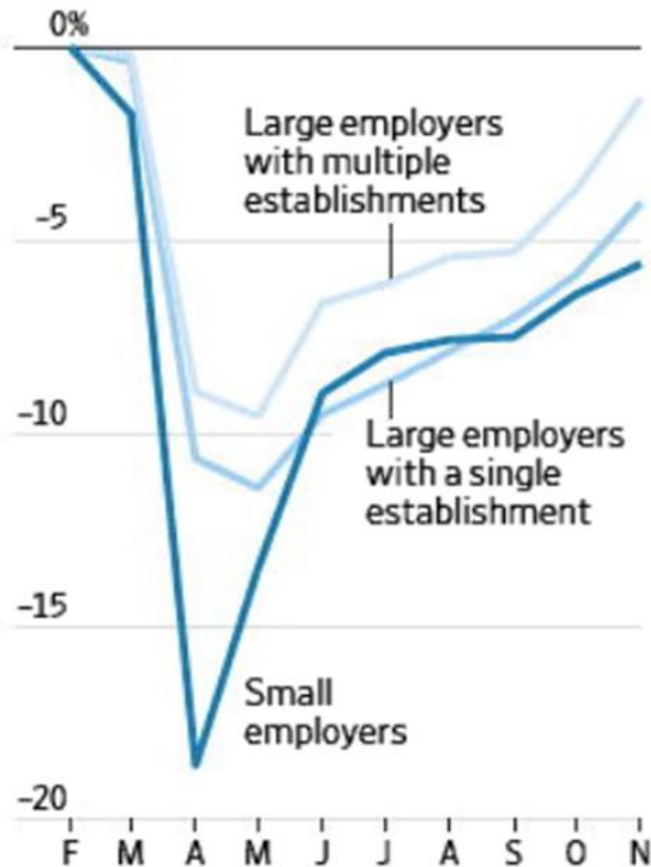
## Payroll Employment

Percentage change in payroll employment relative to pre-recession peak

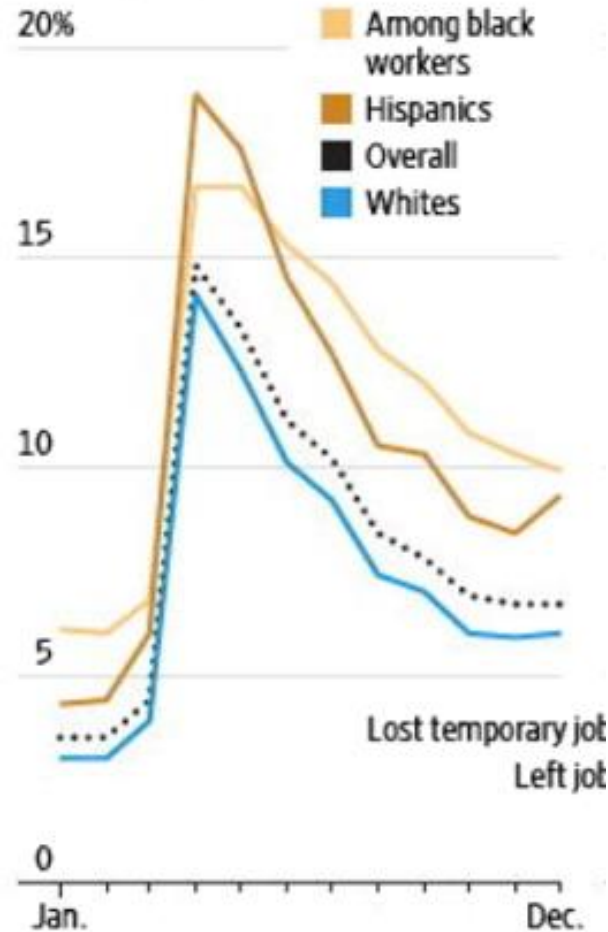


... the uneven impact of the Covid recession on employment ...

**U.S. employment change from February, by employer size**



**Unemployment rate**



**Unemployed, by reason**



. . . . the uneven impact of the Covid recession echoed. . . .

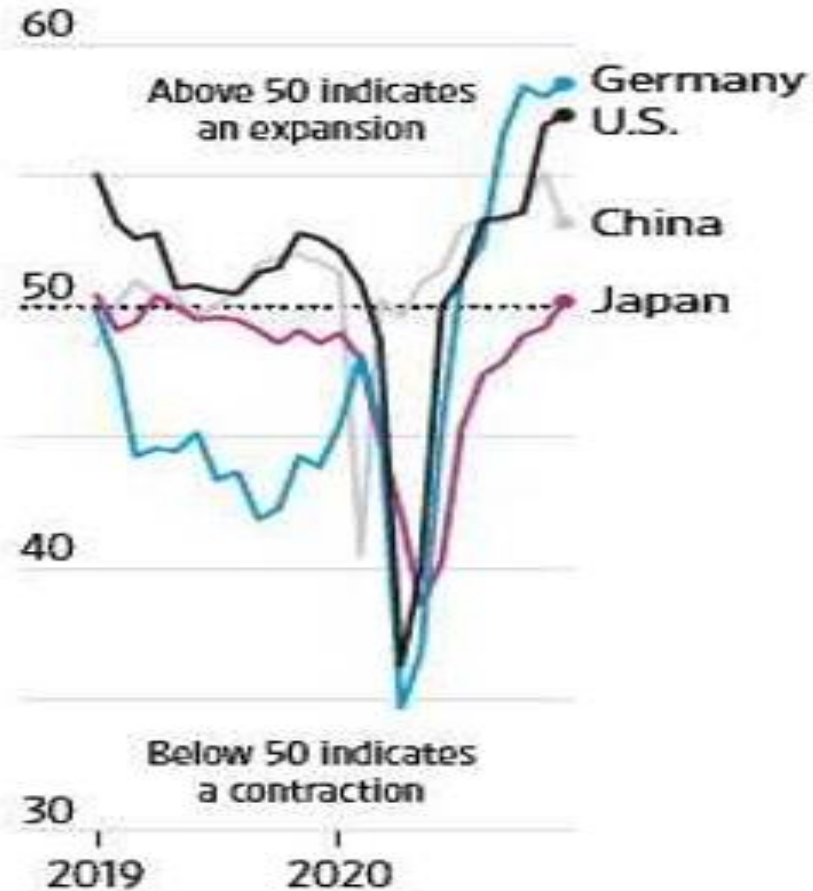
### Covid Employment Impact

Sector	Feb-20	Nov-20	Change	Percent Change
Total Non-Farm Jobs	152,463	142,764	-9,699	-6.4%
Leisure and Hospitality	16,808	13,457	-3,351	-19.9%
Other Services	5,941	5,510	-431	-7.3%
Government	22,745	21,446	-1,299	-5.7%
Education and Health Services	24,586	23,323	-1,263	-5.1%
Professiona/Business Services	21,550	20,531	-1,019	-4.7%
Manufacturing and Utilities	13,398	12,809	-589	-4.4%
Construciton and Mining	8,353	7,988	-365	-4.4%
Retail and Wholesale	21,606	20,799	-807	-3.7%
Financial Activites and Information	11,739	11,358	-381	-3.2%
Transportation and Warehousing	5,678	5,542	-136	-2.4%



. . . . manufacturers are bullish.

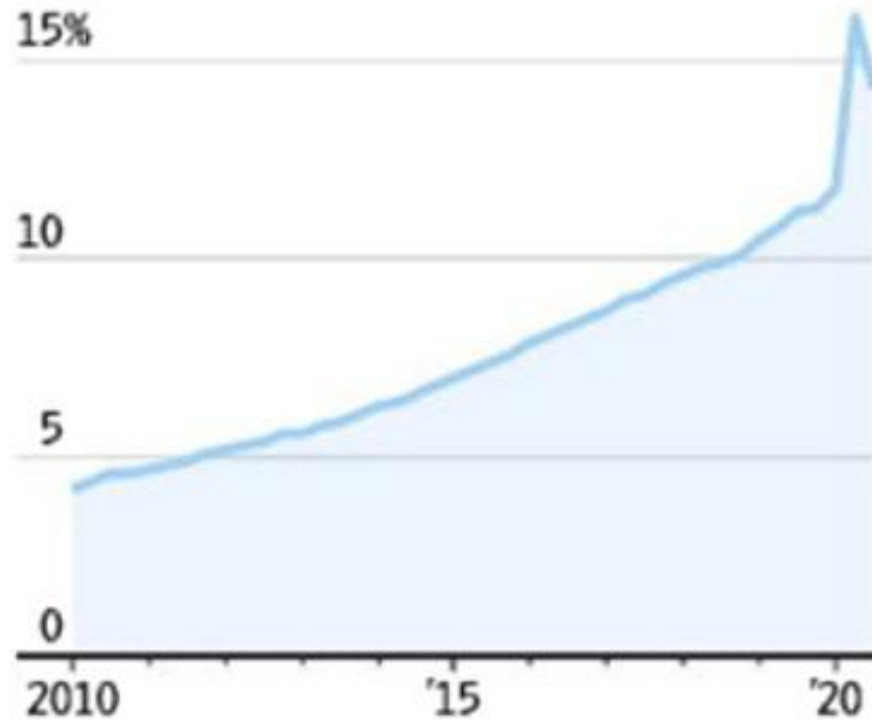
### Purchasing managers indexes for manufacturing



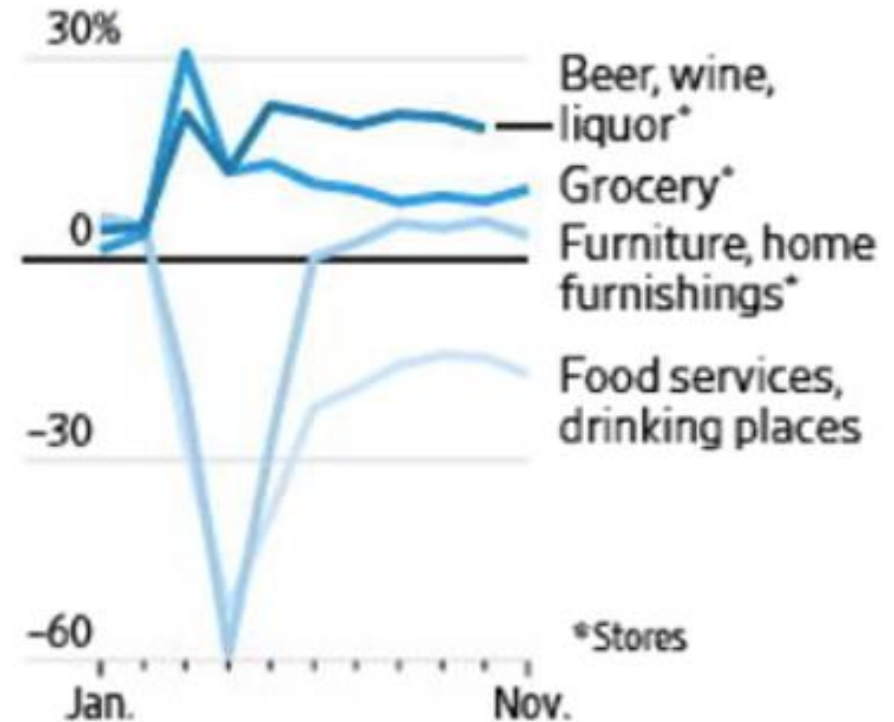
# Fiscal Stimulus – Consumer Spending Impacts

# Places of retail activity shifted during Covid. . . .

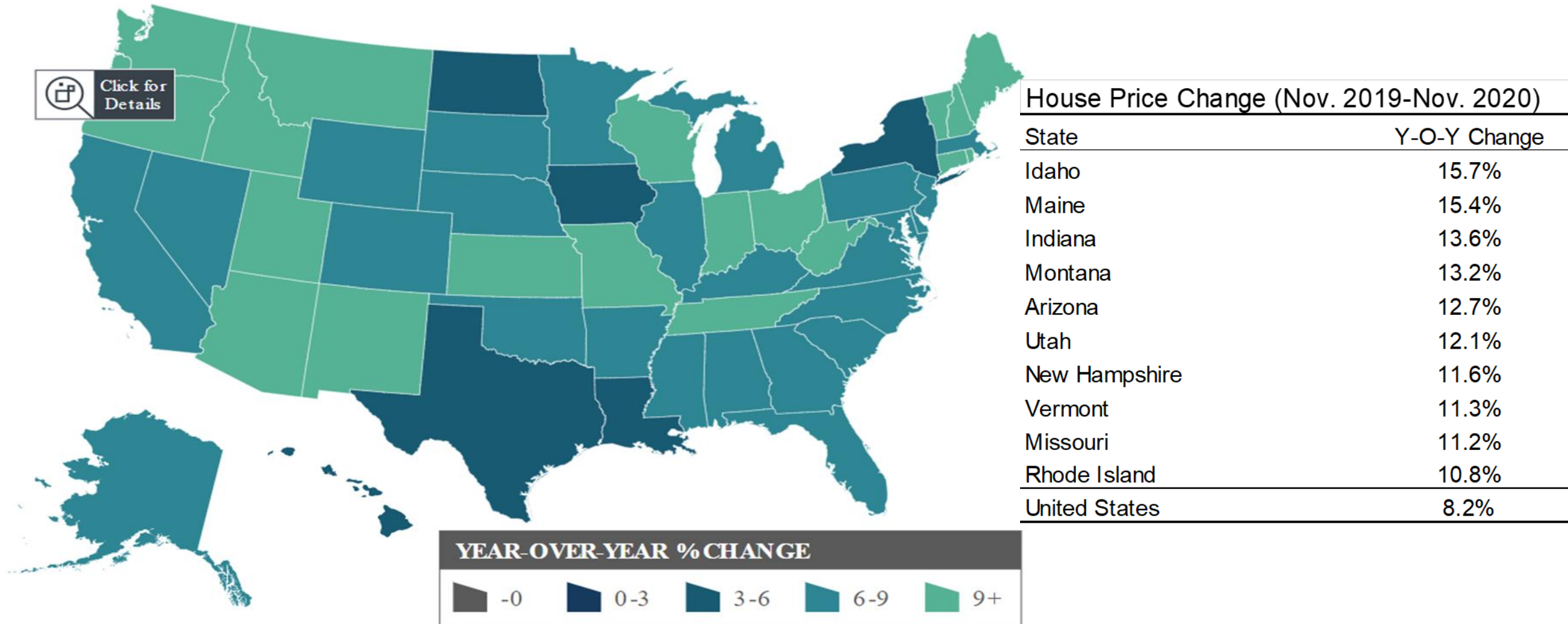
**E-commerce as a share of U.S. retail sales**  
Seasonally adjusted



**Select U.S. retail sales, change from a year earlier**  
Seasonally adjusted



. . . . with strong demand for single-family homes – but note where. . . .



(tangent alert!) . . . but do not rule out the return to the city.

Cities are places of consumption:

- Where we are entertained – sports, theatre, music
- Where a diversity of food is offered
- Where people find a partner

Cities are places of production and innovation:

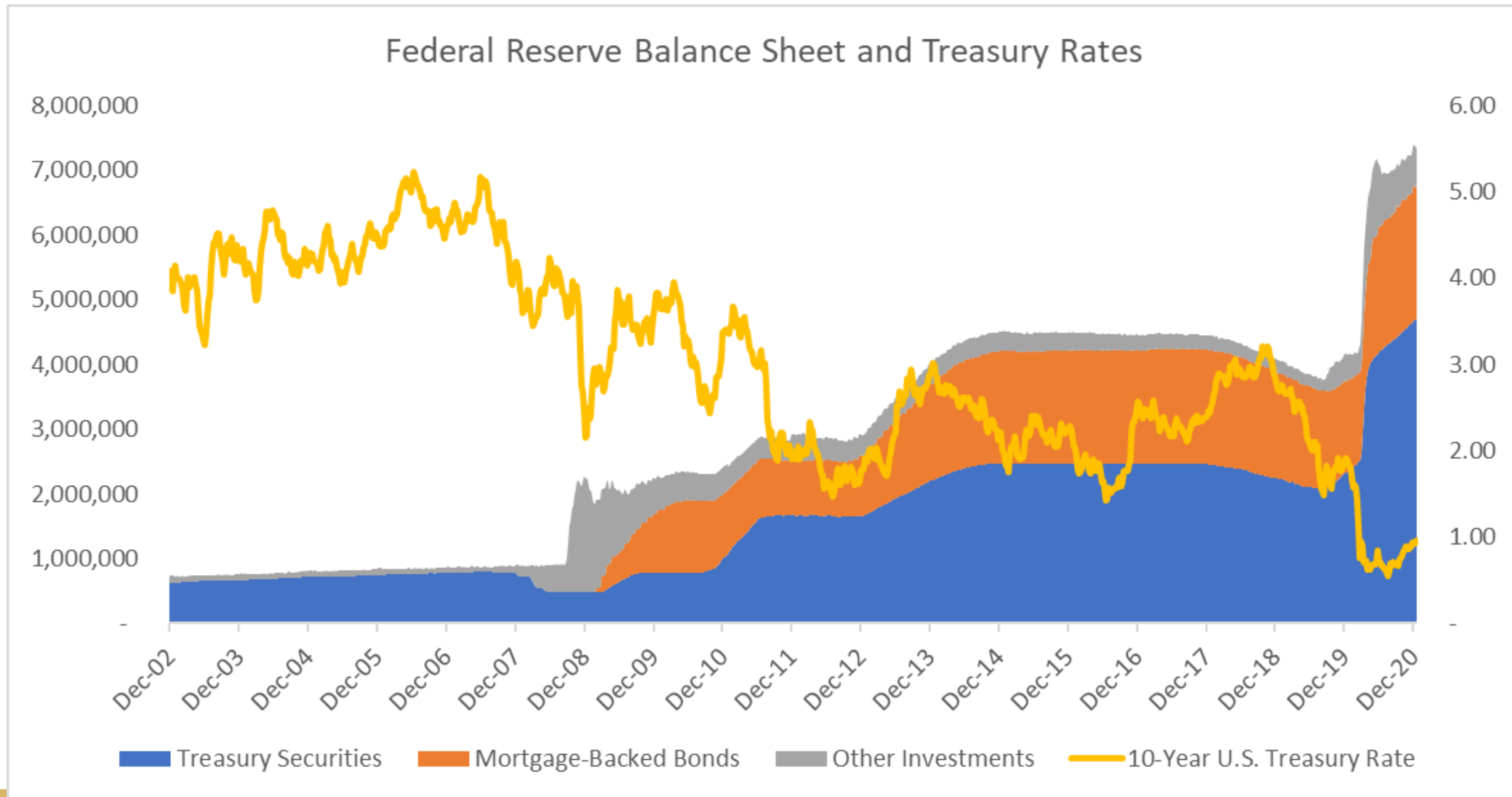
- Where residents of U.S. cities of over one million are 50% more productive than smaller MSAs
- Where firms cluster to seek top-notch talent
- Where employees seek top-notch firms
- Where firms innovate (think Amazon's HQ2, 238 submissions, and 54 states and territories)

The richness of face-to-face experiences and interactions in cities can not be replaced by technology.

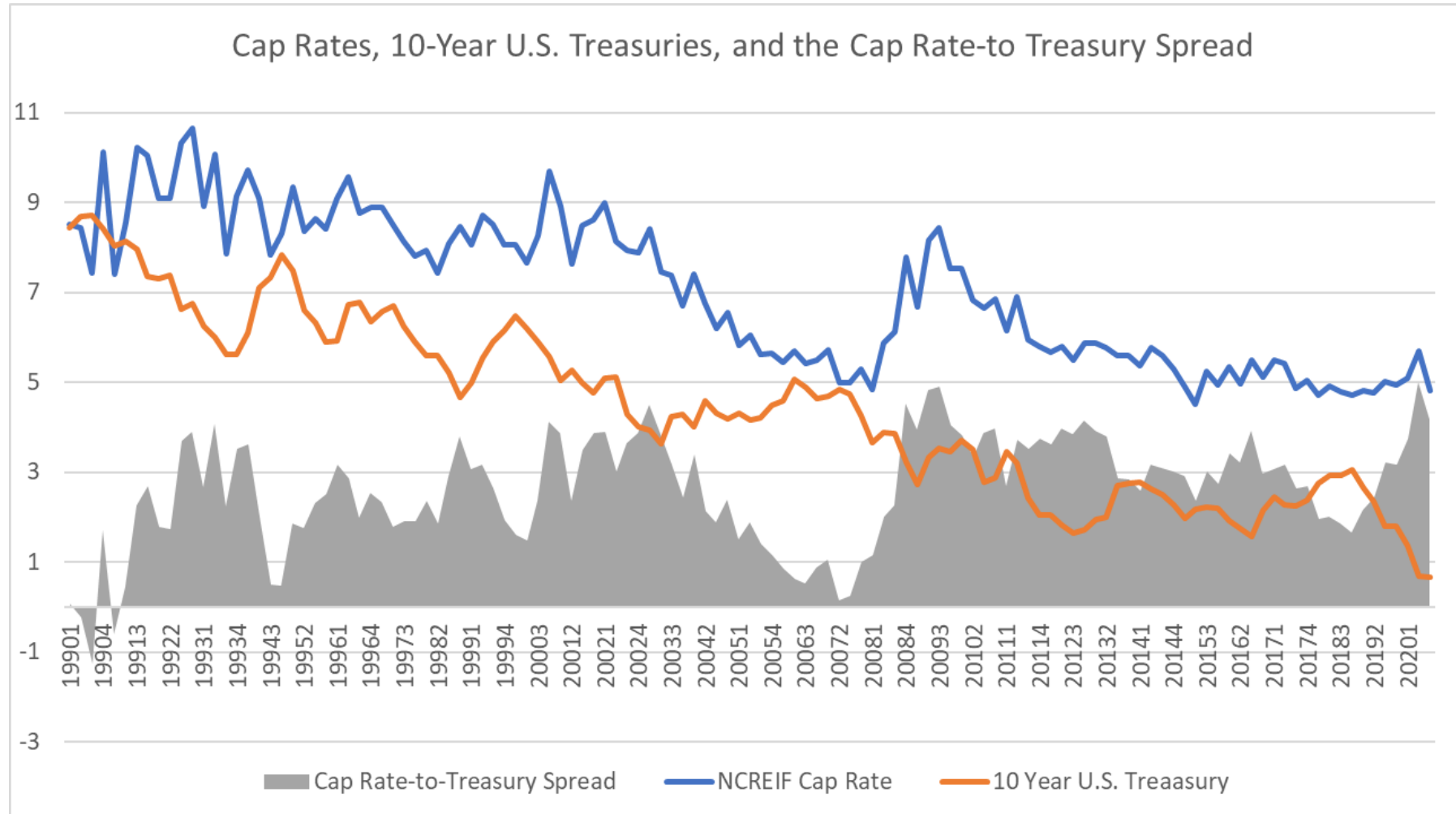


# Monetary Stimulus

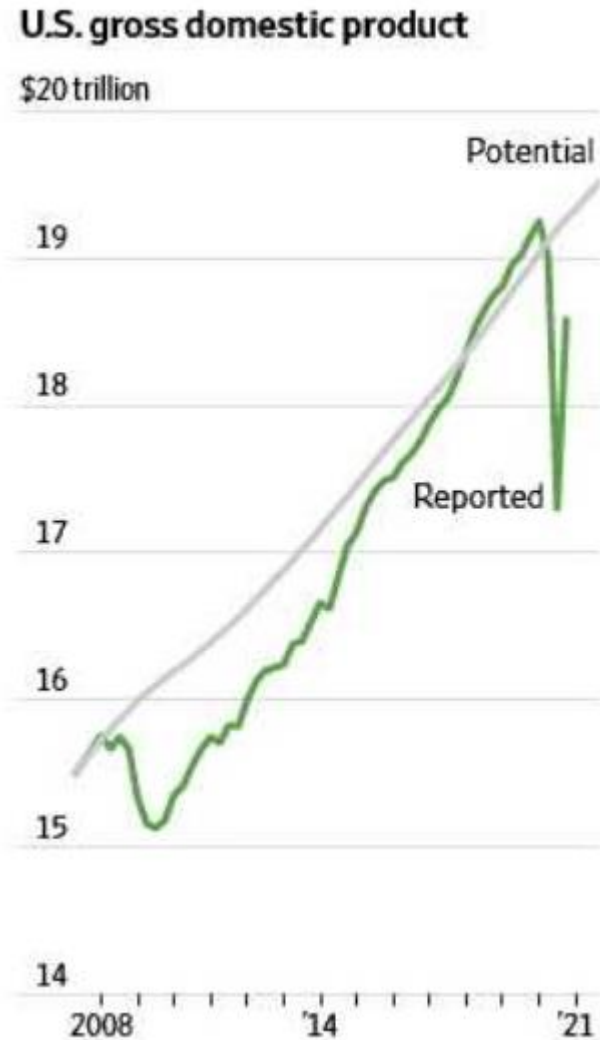
# Monetary stimulus *can* impact on long-term Treasury rates . . . .



. . . . and long-term U.S. Treasury rates impact cap rates. . . .



... the Federal Reserve's summary of economic projections.



Variable	Median <sup>1</sup>				
	2020	2021	2022	2023	Longer run
Change in real GDP	-2.4	4.2	3.2	2.4	1.8
September projection	-3.7	4.0	3.0	2.5	1.9
Unemployment rate	6.7	5.0	4.2	3.7	4.1
September projection	7.6	5.5	4.6	4.0	4.1
PCE inflation	1.2	1.8	1.9	2.0	2.0
September projection	1.2	1.7	1.8	2.0	2.0
Core PCE inflation <sup>4</sup>	1.4	1.8	1.9	2.0	
September projection	1.5	1.7	1.8	2.0	
Memo: Projected appropriate policy path					
Federal funds rate	0.1	0.1	0.1	0.1	2.5
September projection	0.1	0.1	0.1	0.1	2.5

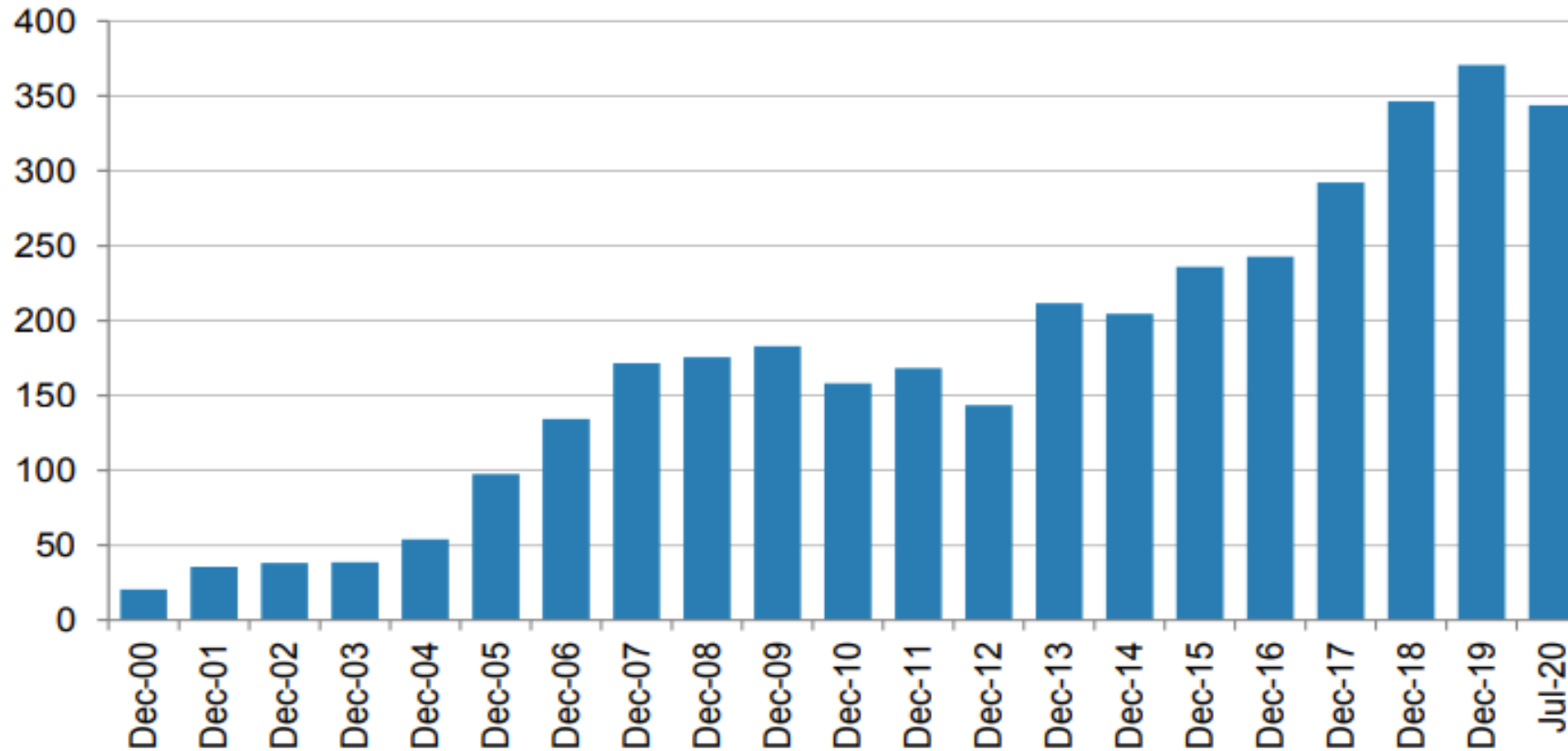
# Capital Markets – Equity and Debt



# Equity capital awaits opportunity. . . .

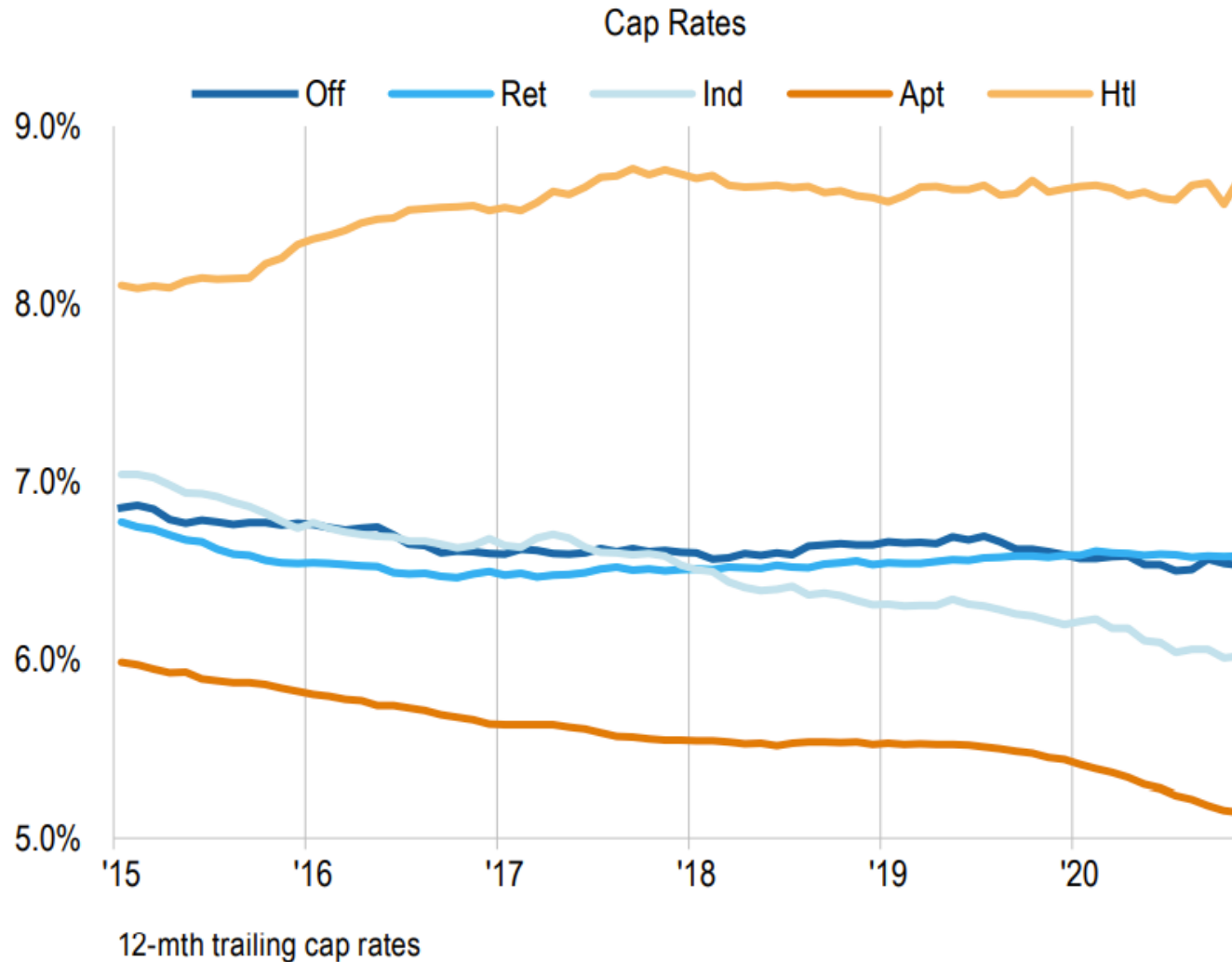
Closed-End Private Real Estate Dry Powder (\$bn)

Total Dry Powder (in \$bn)

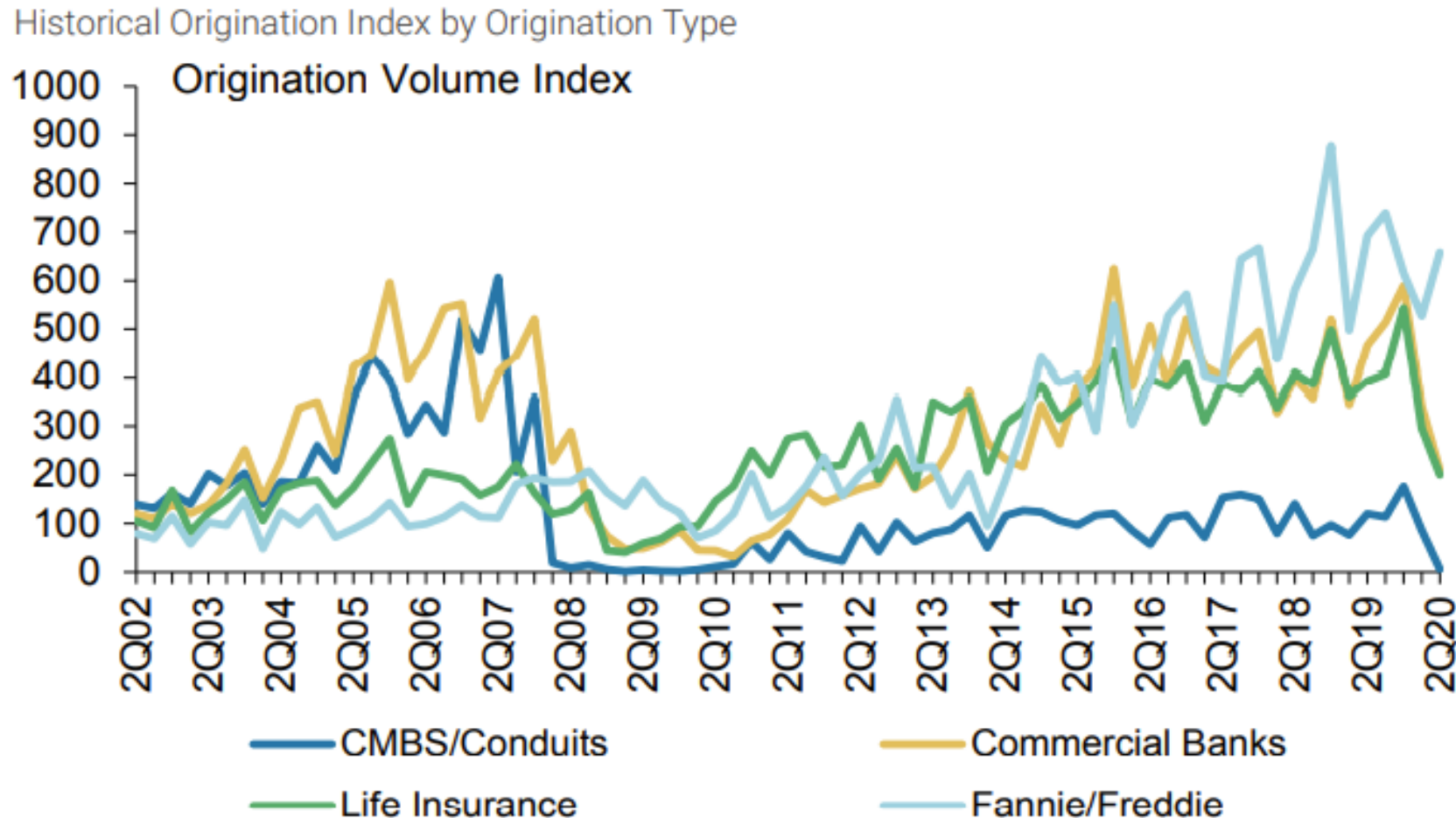


Source: Preqin Real Estate Online, Morgan Stanley Research

. . . . cap rates are following different paths by property type. . . .

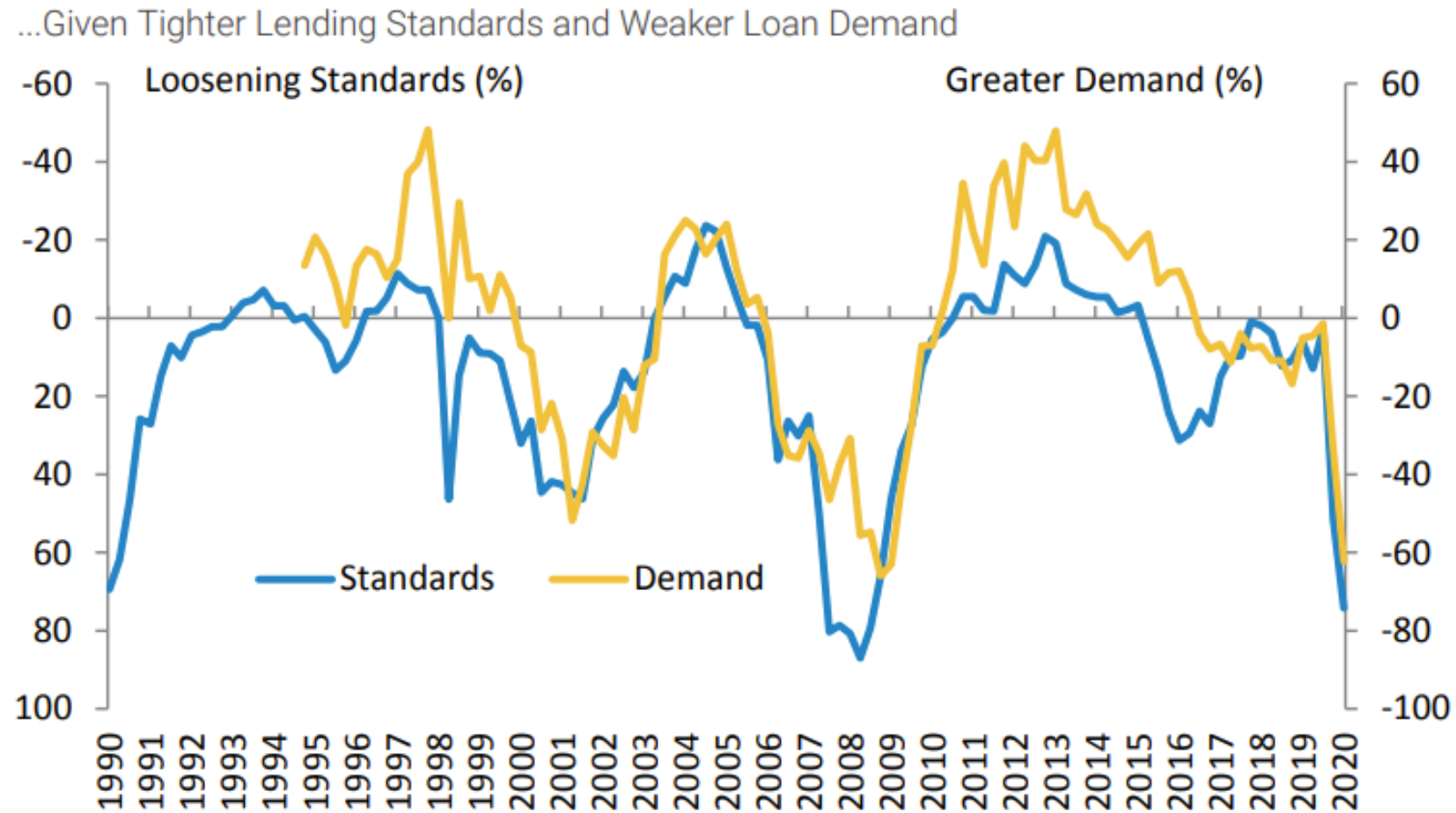


Net new origination volumes (other than Freddie and Fannie) are falling . . . .



Source: MBA Survey of Commercial/Multifamily Originations, Morgan Stanley Research

... as bank lending standards are tighten and fewer loans are demanded ...

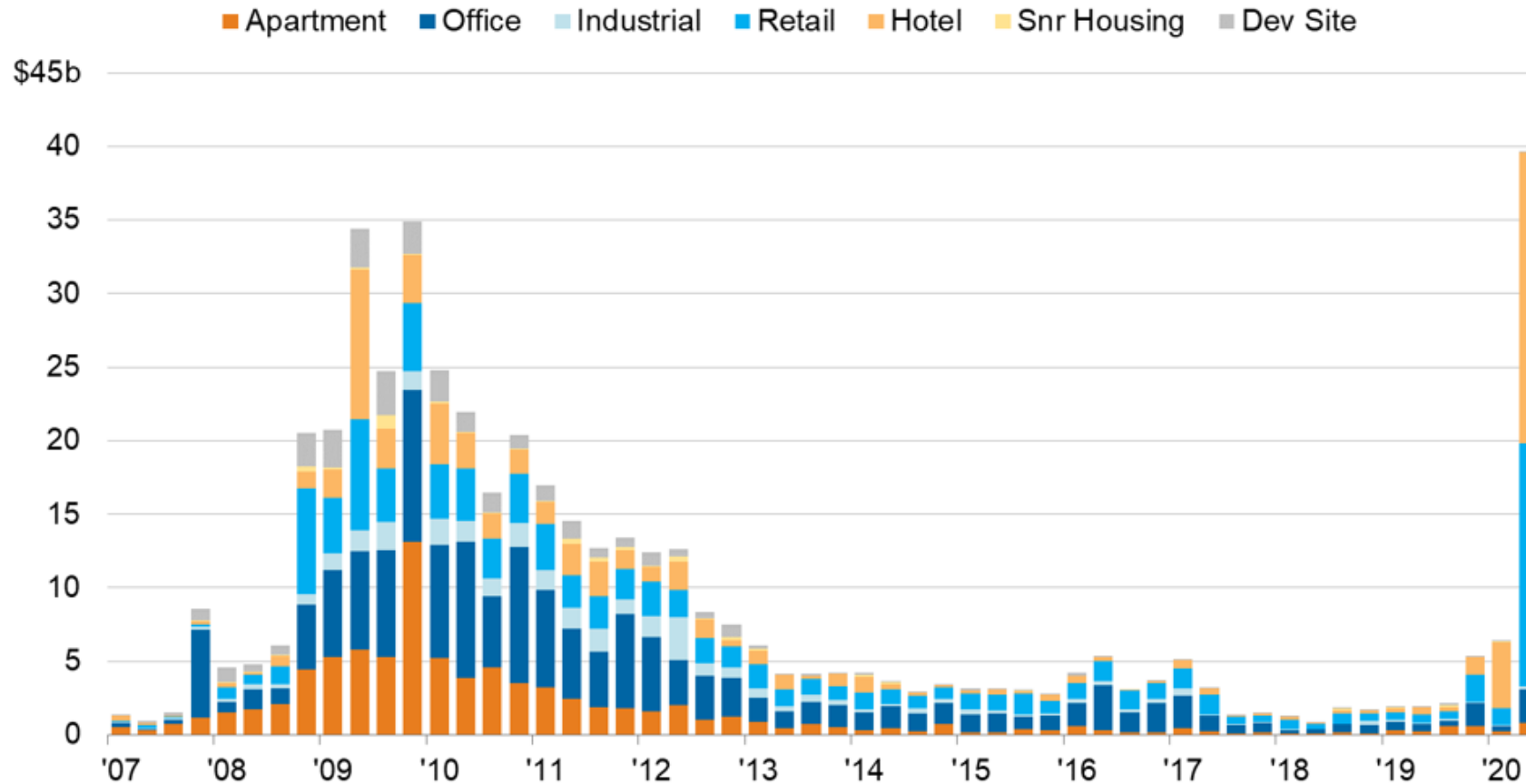


Source: Senior Loan Office Opinion Survey, Morgan Stanley Research

. . . . and risk of loss increases – for some property types.

## NEWLY TROUBLED LOANS BY PROPERTY SECTOR

This overhang of troubled hotel and retail loans will lead to distressed sales for these sectors.



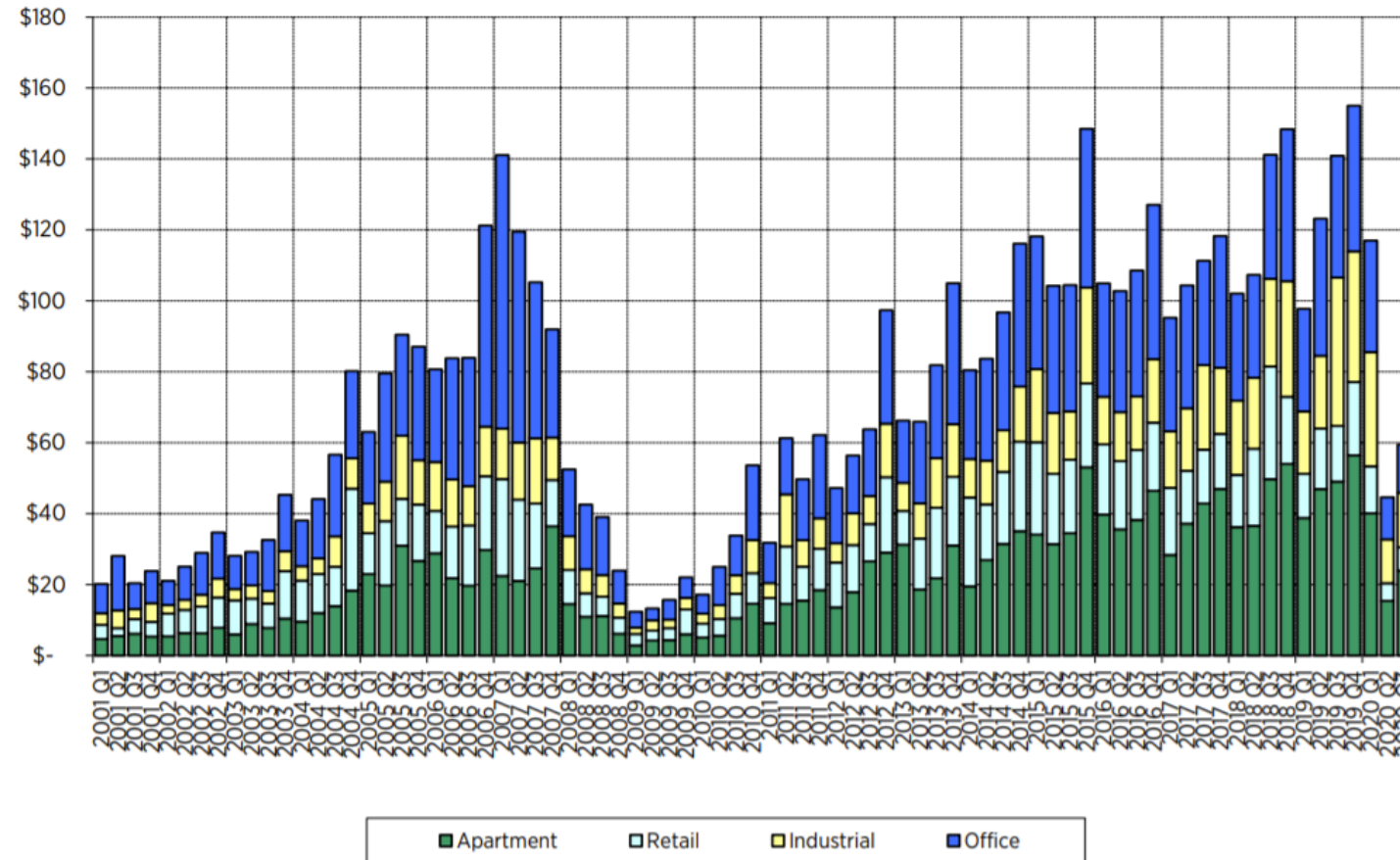
# Property Markets



# Transaction volume is down 57% YOY. . . .

## QUARTERLY SALES OF LARGER (\$2.5 MILLION+) COMMERCIAL/MULTIFAMILY PROPERTIES

Billions of dollars, Properties and portfolios \$2.5 million and greater

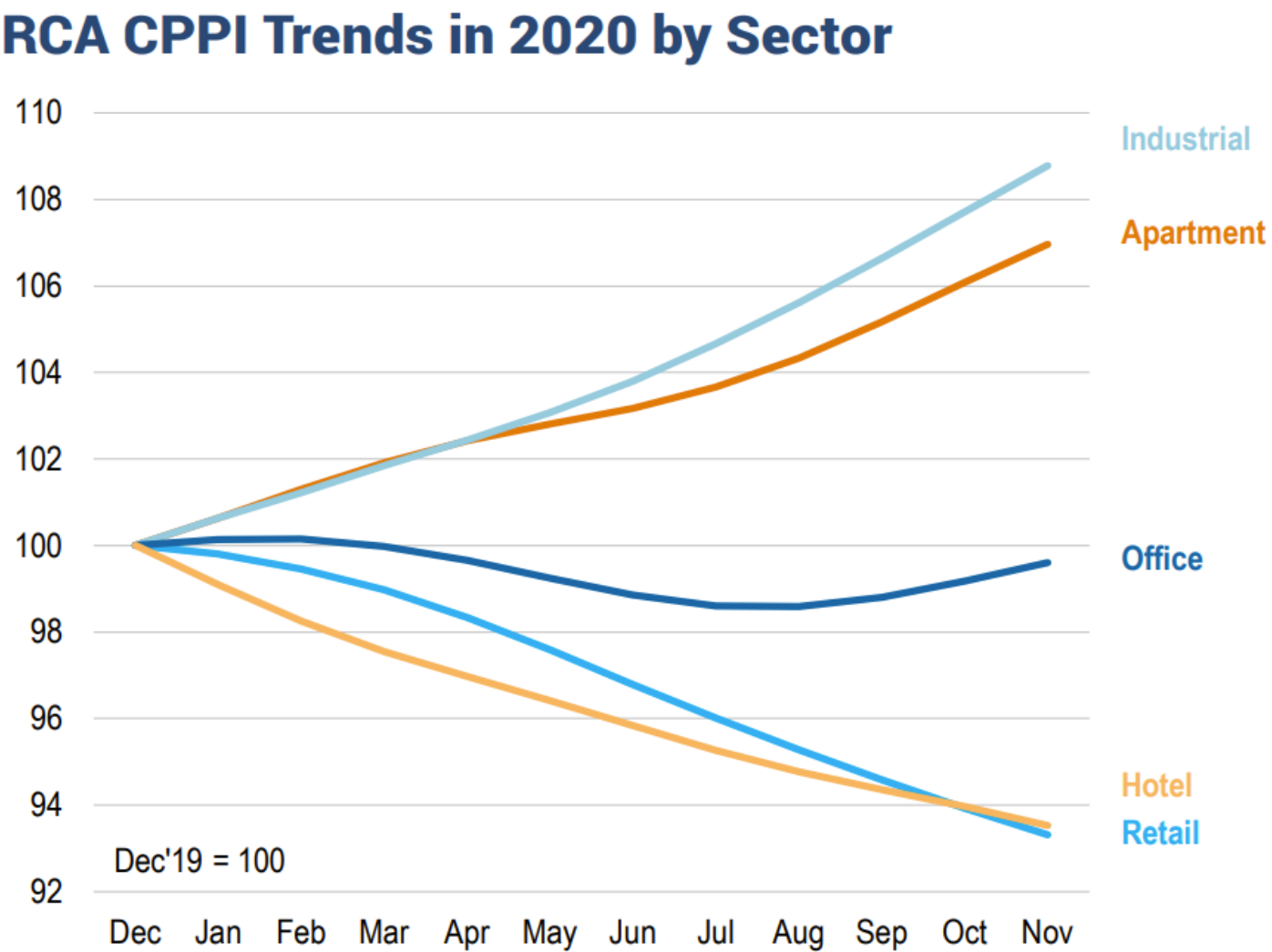


. . . .transaction volume follows sector-level GDP growth . . . .

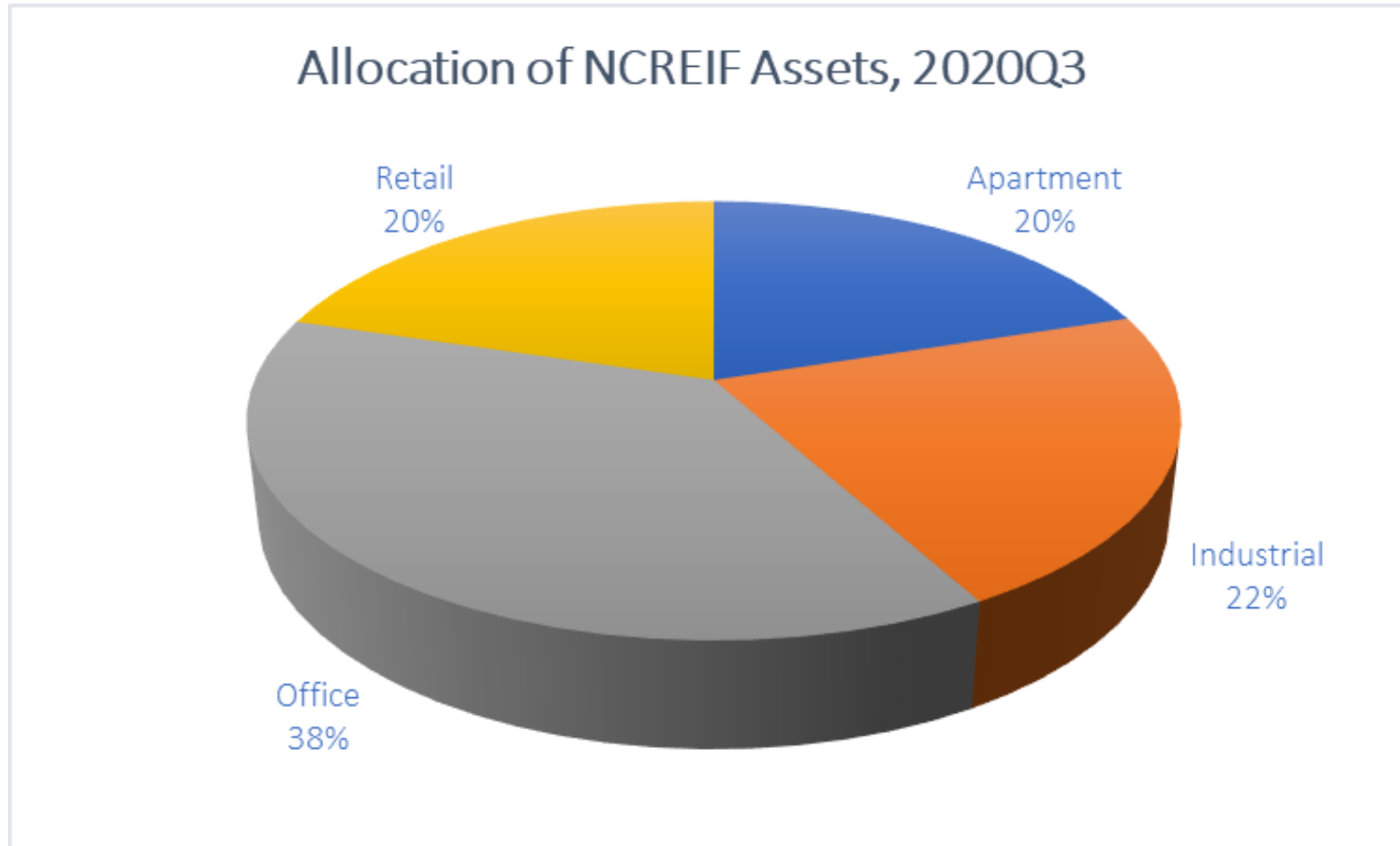
## Property Type Transaction Volume

Property Type	YTD Volume (\$billion)	Nov. 2020 YOY Change
Apartment	105.2	-38%
Industrial	94.5	-38%
Office	68.5	-73%
Retail	29.4	-73%
Hotel	9.8	-79%

. . . . with the property-types following a K-shaped recovery – which way will office go. . . .

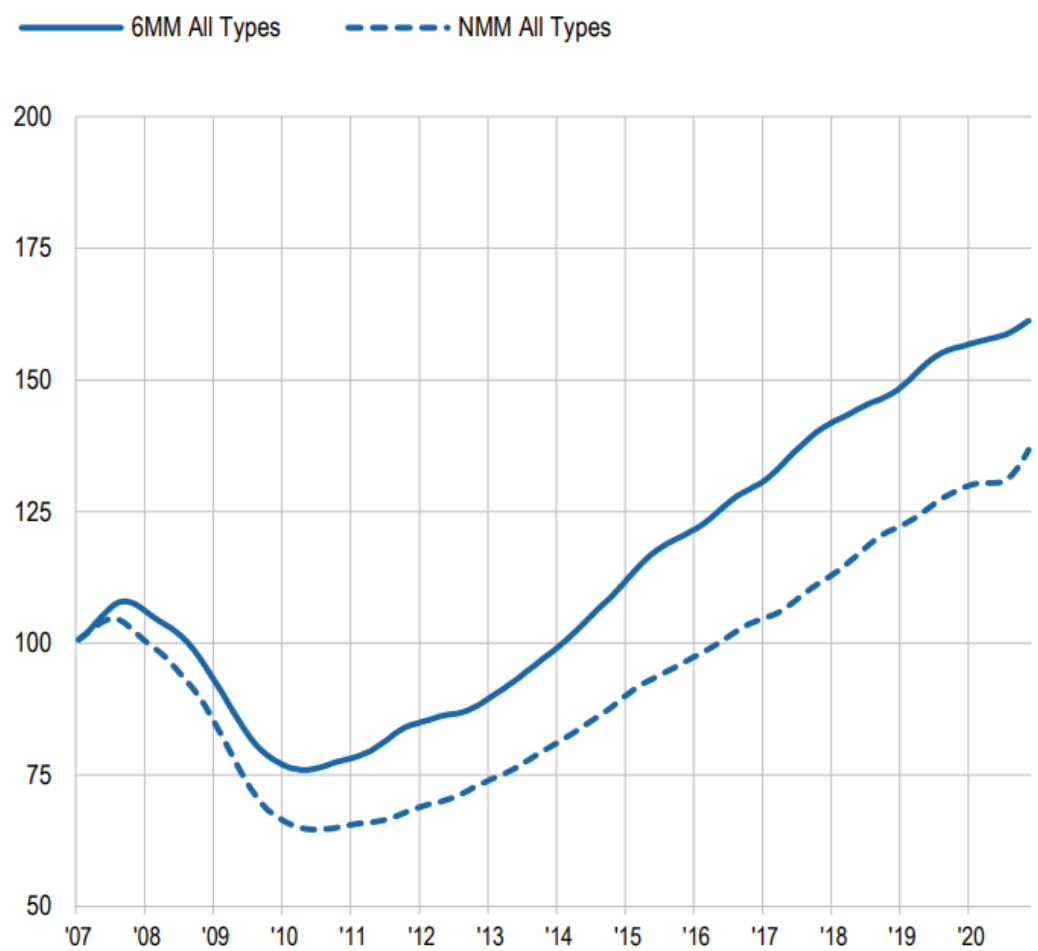


. . . . with concern about office fundamentals around work from home and an over allocation to office, expect weak investor demand for the property type. . . .



. . . . smaller metro commercial property markets are outperforming. . . .

## Major Metros vs Non-Major Metros



### RCA Commercial Property Price Index

	1-Month	3-Month	1-Year	3-Year	5-Year
6 Major Metros	0.5%	1.3%	3.1%	14.5%	33.6%
Non-Major Metros	1.4%	3.7%	5.8%	22.2%	41.6%

# Summary and trends for 2021

1. The Covid recession is not driven by the same factors as a financial recession
  - A. Capital markets are not the driver of the downturn and are largely healthy
  - B. Should be a V-shaped downturn (think 9-11 impacts) but Covid comes with a tail
  - C. Identify and separate cyclical behaviors from structural shifts
2. GDP/job growth will struggle in 2021Q1-Q2, but pent-up demand will jump start 2021Q3-Q4
  - A. Travel, restaurant, and related services will be slow to return
  - B. Many firms and households have ready capital to spend/invest
  - C. Many firms lost capacity, we wary of inflation hot spots
  - D. Do not write-off large metropolitan areas
3. Expect a K-shaped real estate property and capital market recovery
  - A. Capital will flow to industrial and apartment assets keeping cap rates and returns low
  - B. Opportunities will be found in hospitality – timing matters
  - C. Consider next space users and exit strategy purchasers for office and retail



It was a solid 5 days. Here's to 2022!



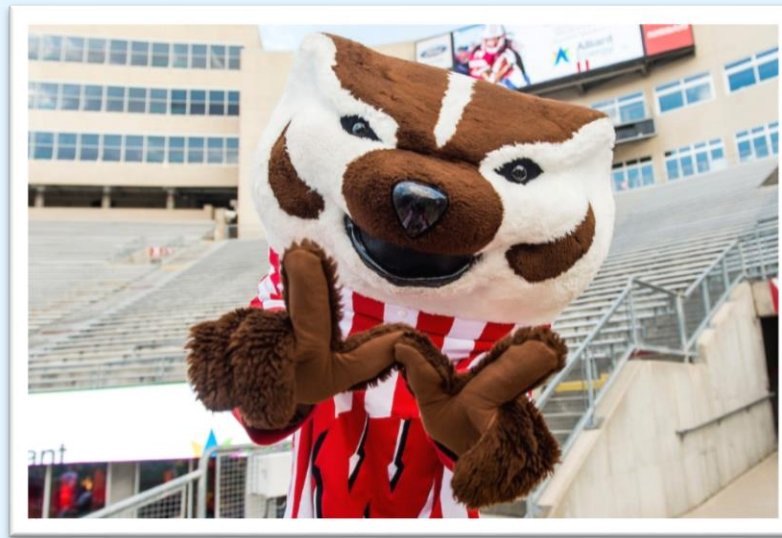
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