

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





Key Issues in 2017: Economic Strength

- Economy still has a lot of energy left
- Fed wants to raise interest rates making dollar stronger
- Oil and gas industries are rebounding



Key Issues in 2017: Economic Strength

- New bull market for single-family housing

Pew Survey on Housing December, 2016

“A solid majority (72%) of renters say they would like to buy a home in the future.”

Source: Pew Research Center December 15, 2016
In a Recovering Market, Homeownership Rates.....

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.”

Source: WSJ 1/19/17



Key Issues in 2017: Fiscal Policy

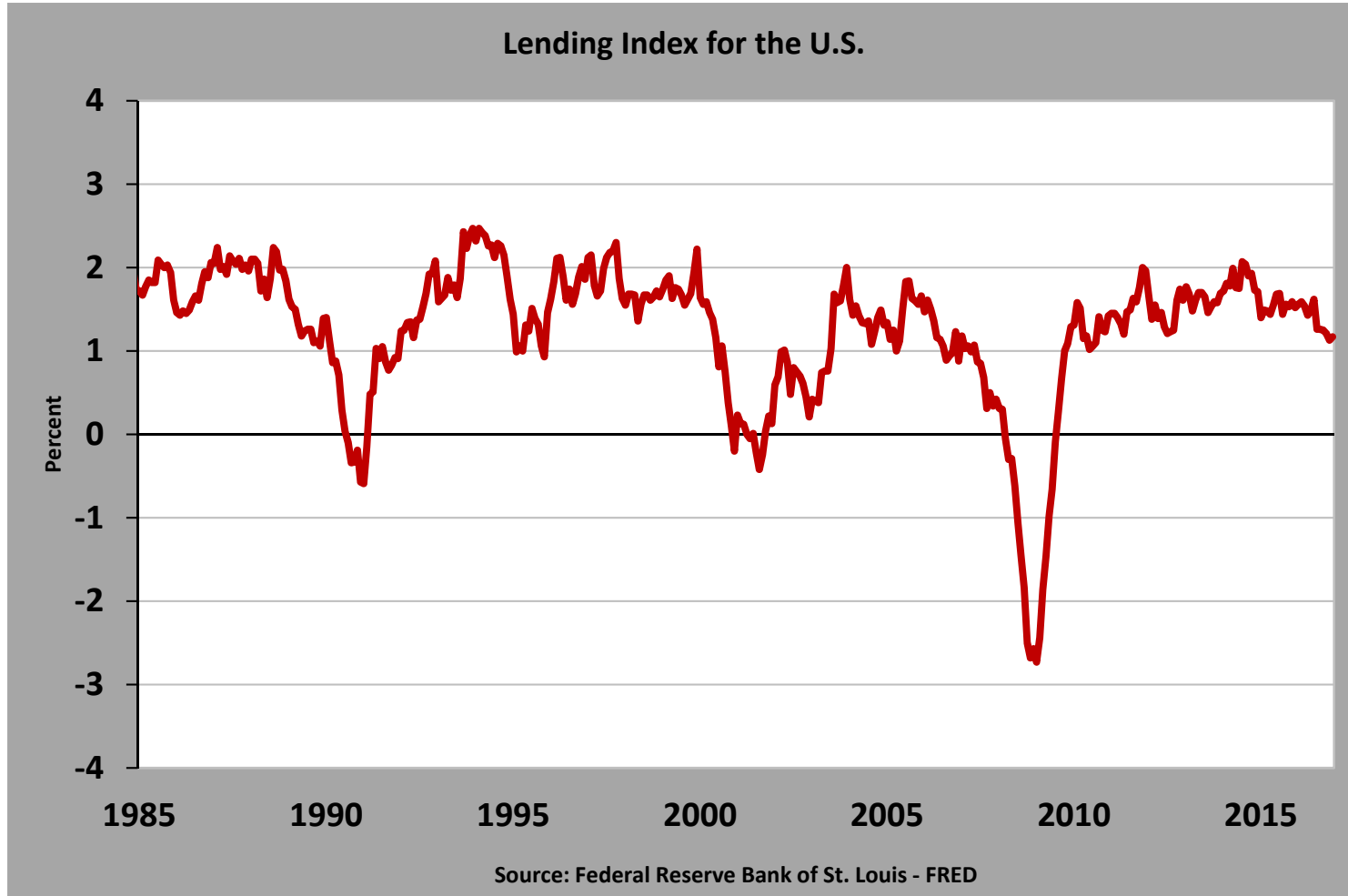
- Reduced regulation good for many industries
- Tax reform bullish for jobs, but unlikely to happen
- Infrastructure spending unlikely to happen either
- Can't pay for tax cuts or bridges without a border adjustment or getting rid of loopholes



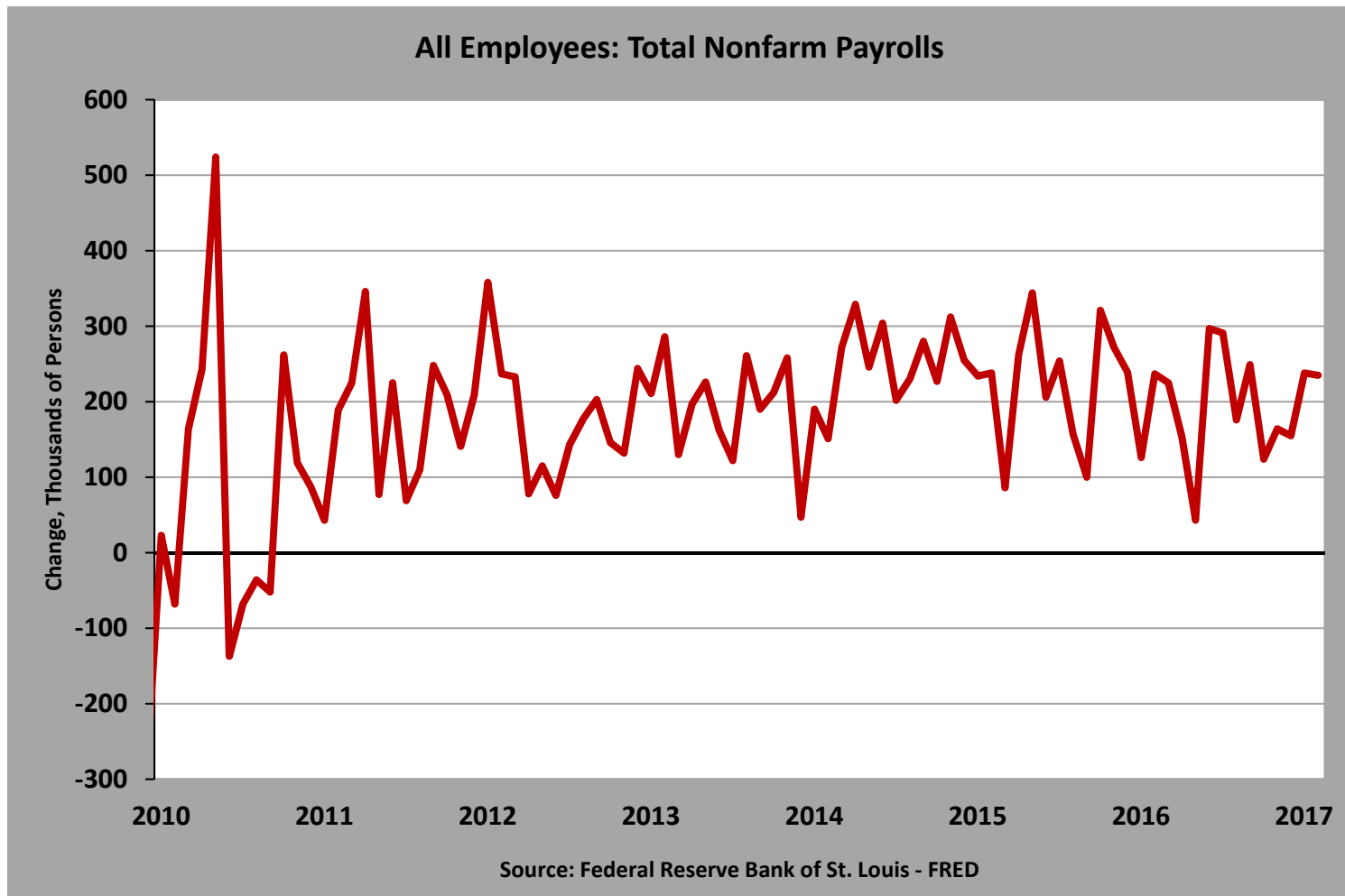
Key Issues in 2017: Interest Rates

- 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

U.S. Leading Index of Economic Indicators

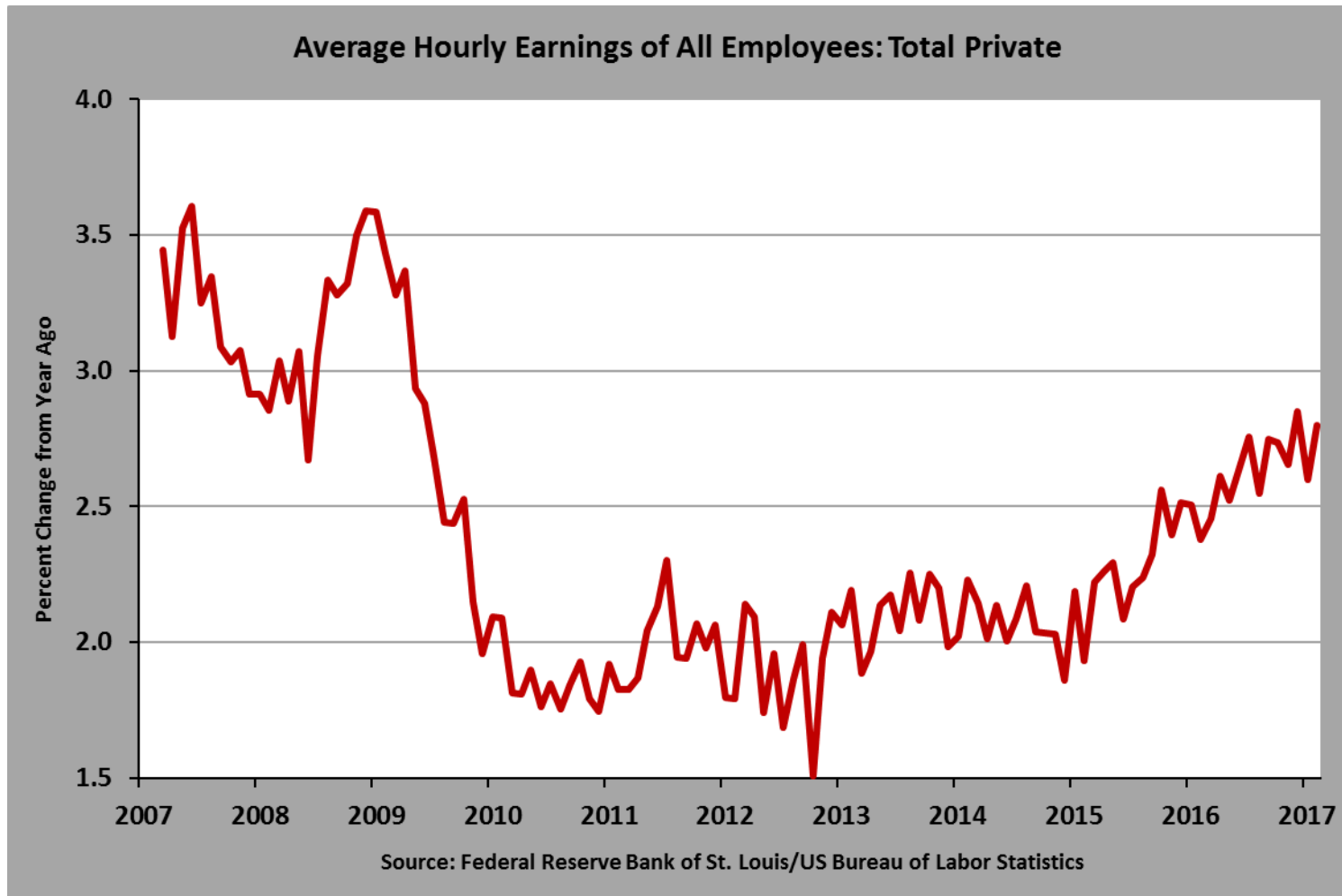


New Jobs Created Each Month

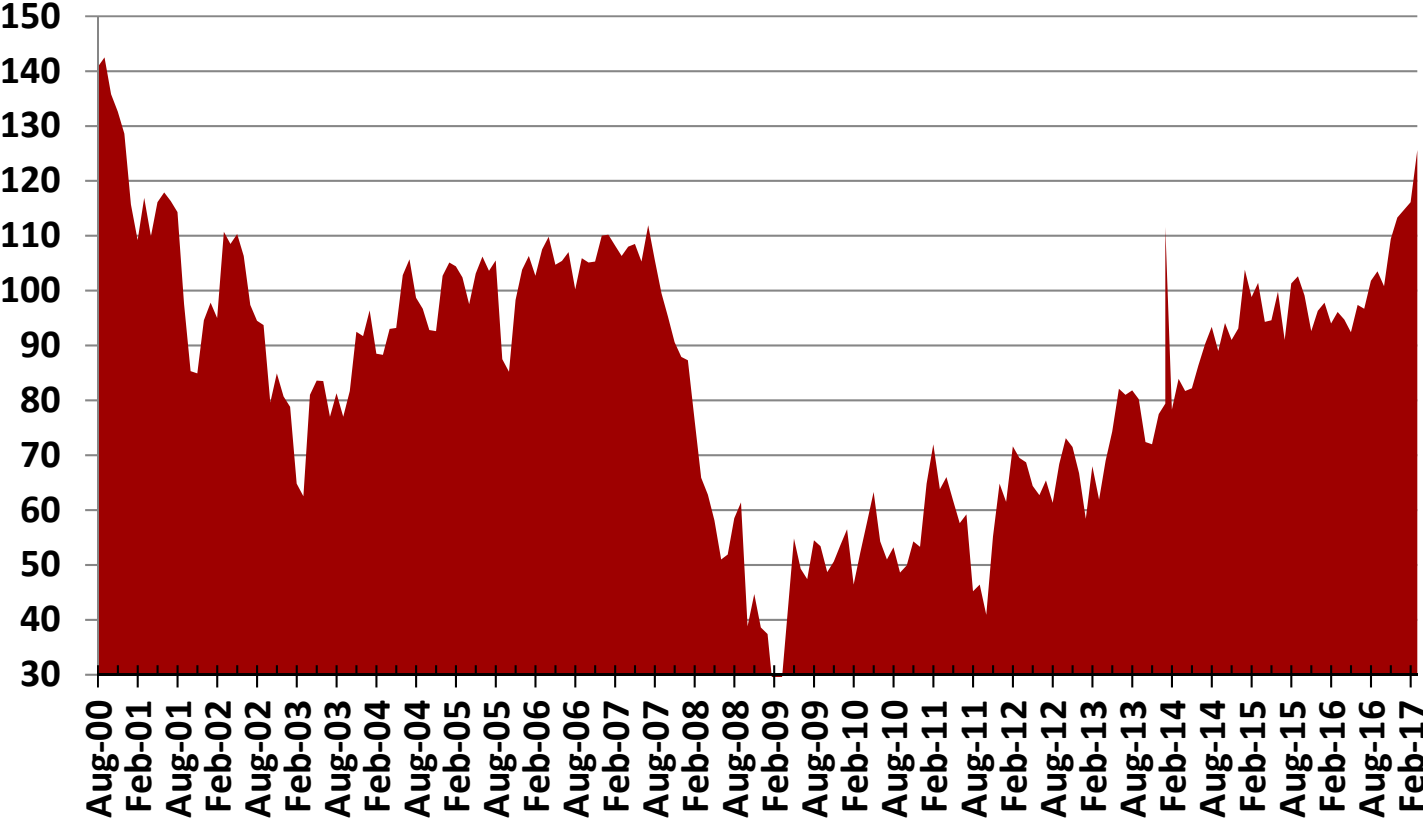


Average Hourly Earnings

Annual Rate of Change



Consumer Confidence Index



Source: The Conference Board

Small Business Outlook

“Planning To Hire People In The Next 3 Months”



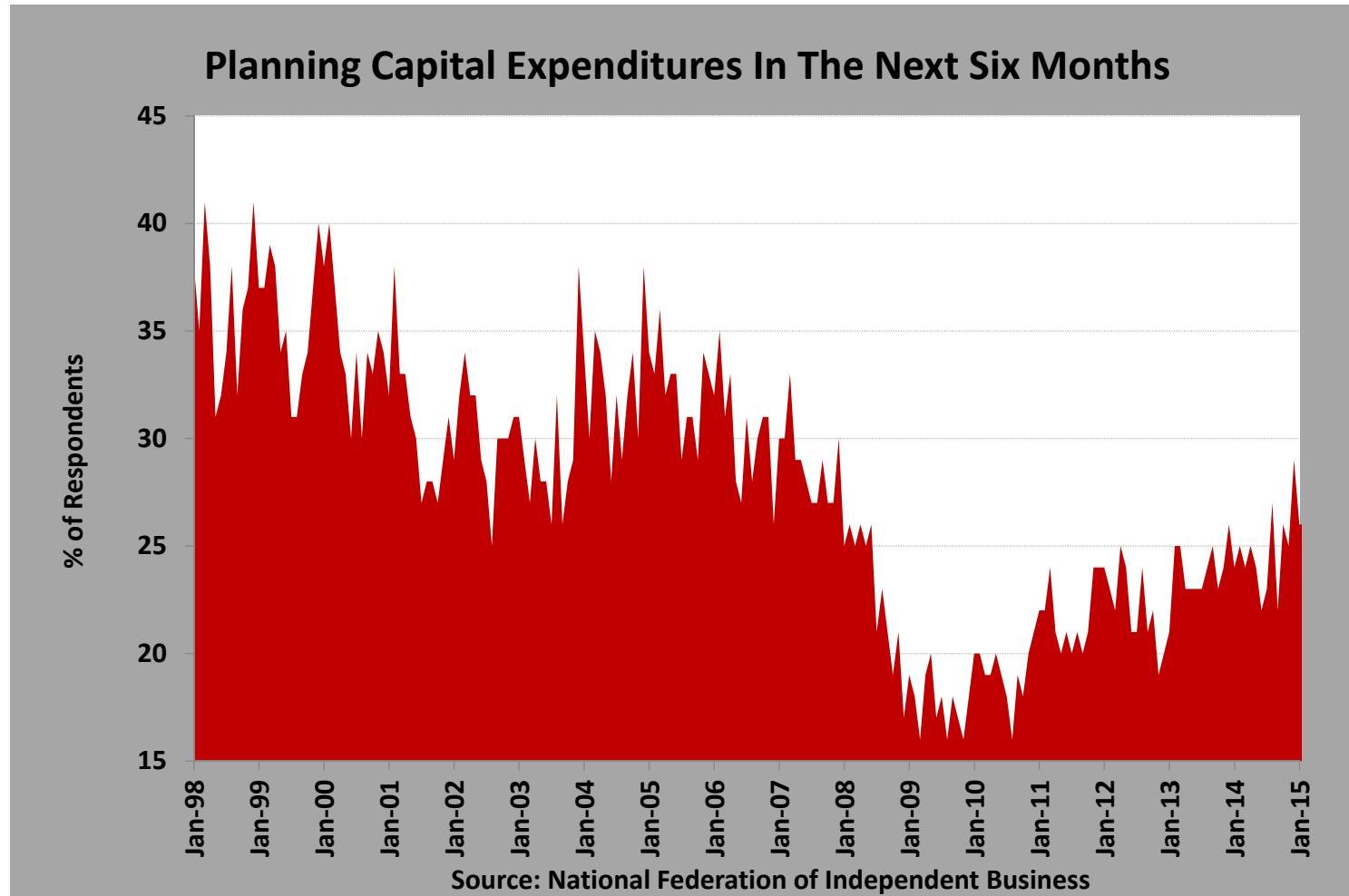
Corporate Hiring Plans: Next 6 Months

	<u>Q1-17</u>	<u>Q4-16</u>	<u>Q3-16</u>	<u>Q2-16</u>
More Jobs	41%	35%	27%	29%
Less Jobs	18%	30%	36%	35%

Source: Business Roundtable

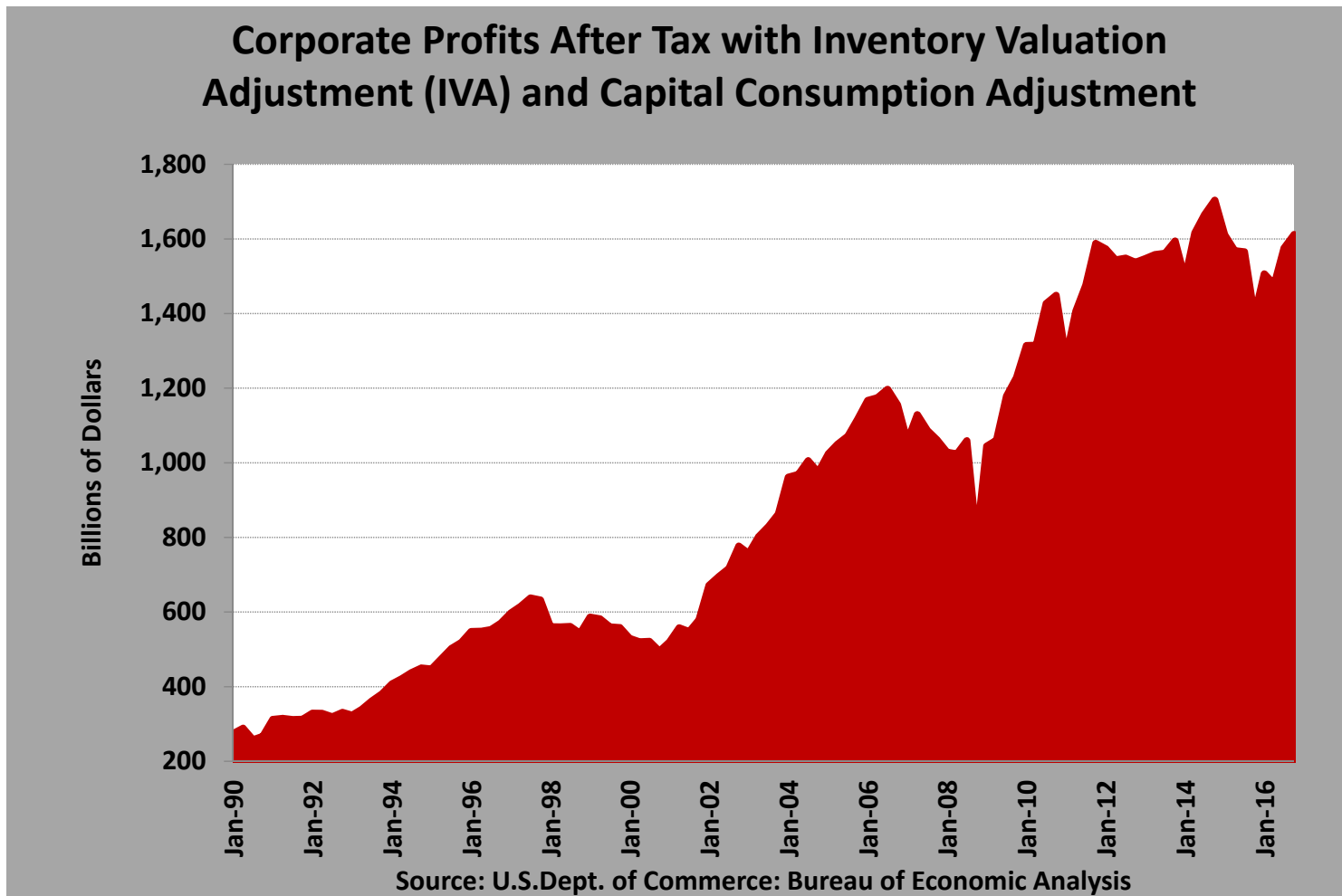
Small Business Outlook

“Planning Capital Expenditures In The Next Six Months”



Corporate Profits

(With Inventory Valuation Adjustment & Capital Consumption Adjustment)



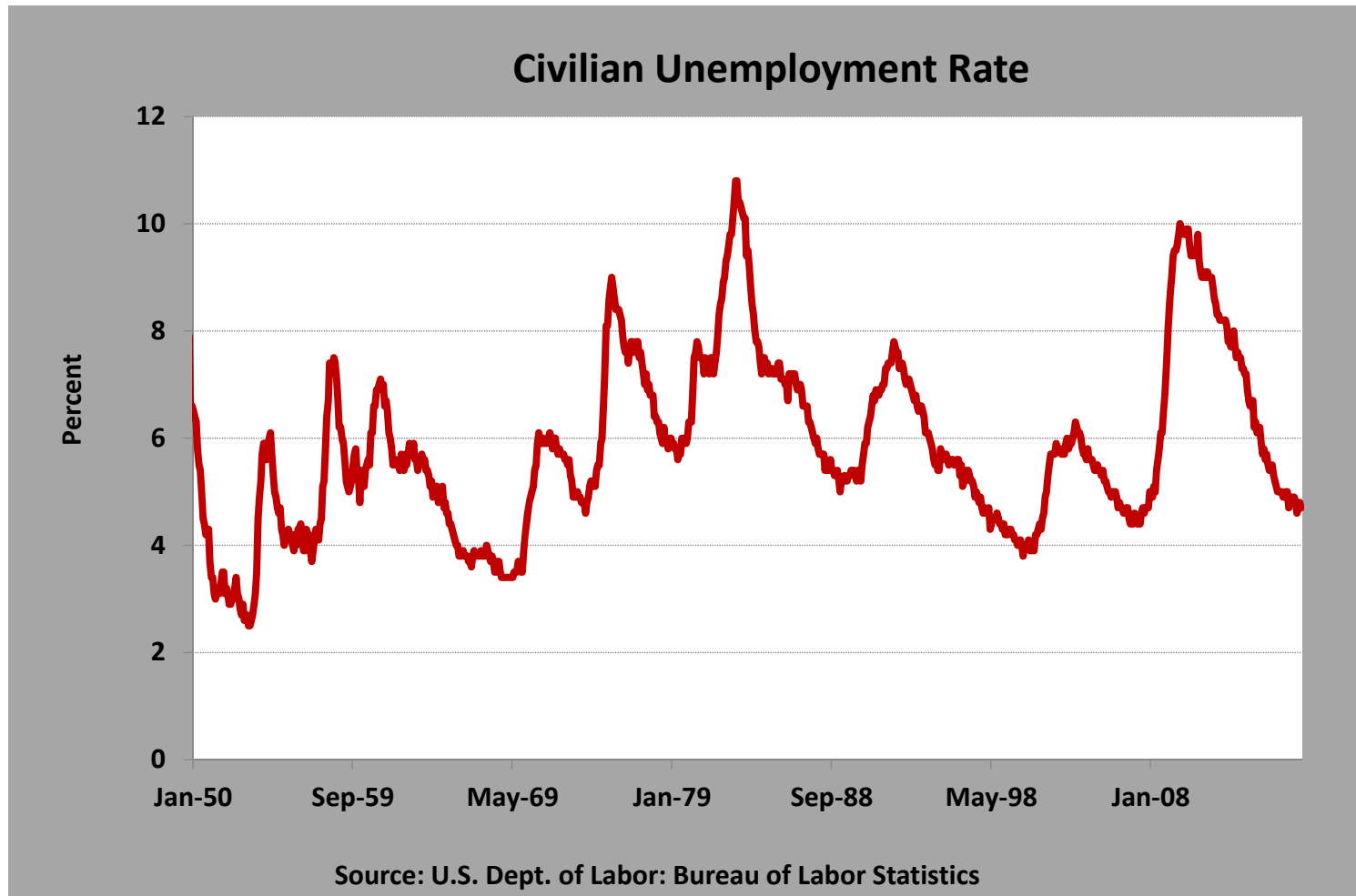
Job Openings in America

Looking for Workers

Total Job Openings	5,626,000
Construction	147,000
Manufacturing	364,000
Trade, Transportation, Utilities	967,000
Professional & Business Services	1,125,000
Education & Health Care	1,135,000
Leisure & Hospitality	708,000
Government	452,000

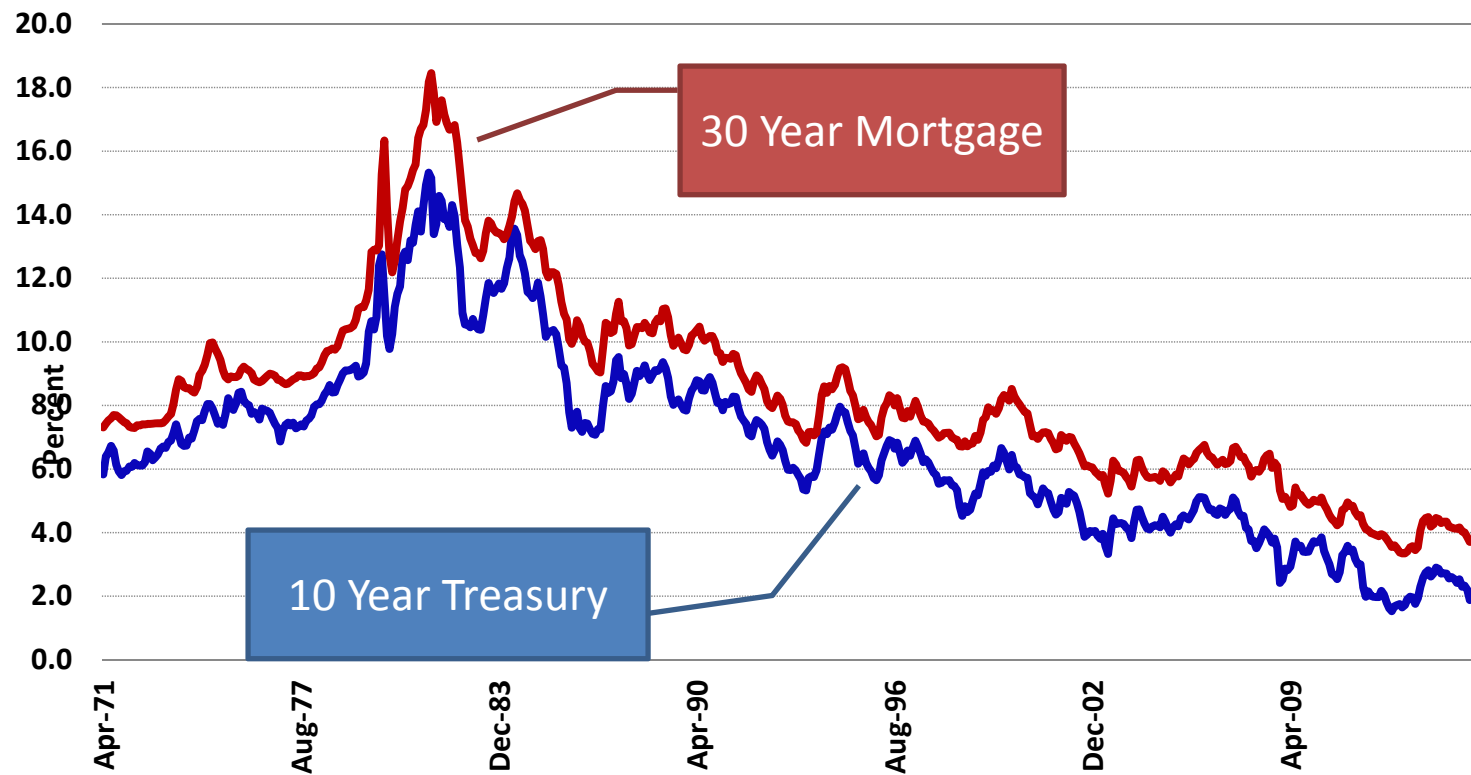
Source: Bureau of Labor Statistics
BLS release on Mar. 16, 2017

Civilian Unemployment Rate



Interest Rates

The 30-Year Mortgage and the 10-Year Treasury Bond



Source: Board of Governors of the Federal Reserve System/FRED

What Can Keep Inflation in Check?



Trade Weighted U.S. Dollar

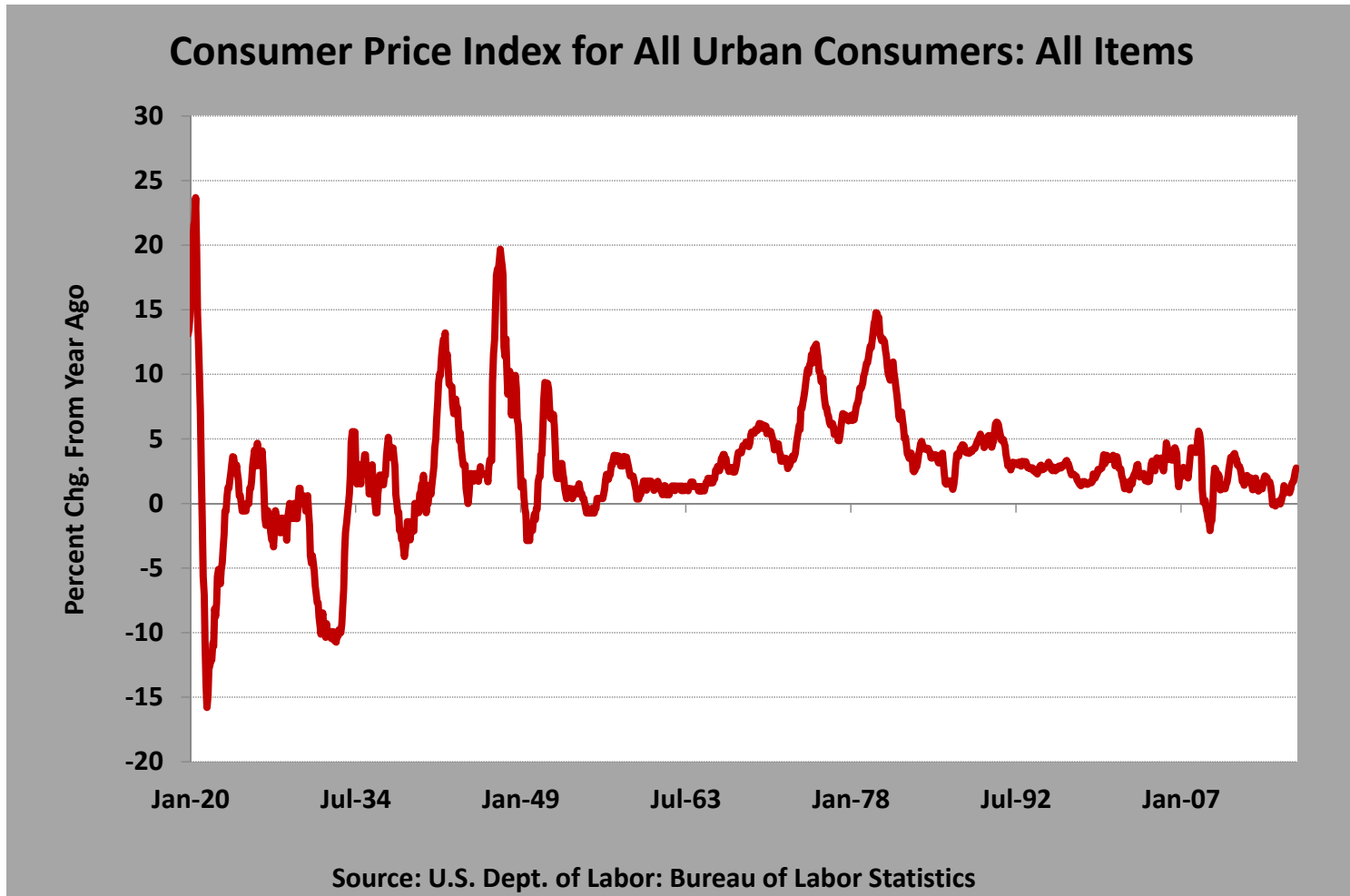


Trade Weighted U.S. Dollar Index: Major Currencies

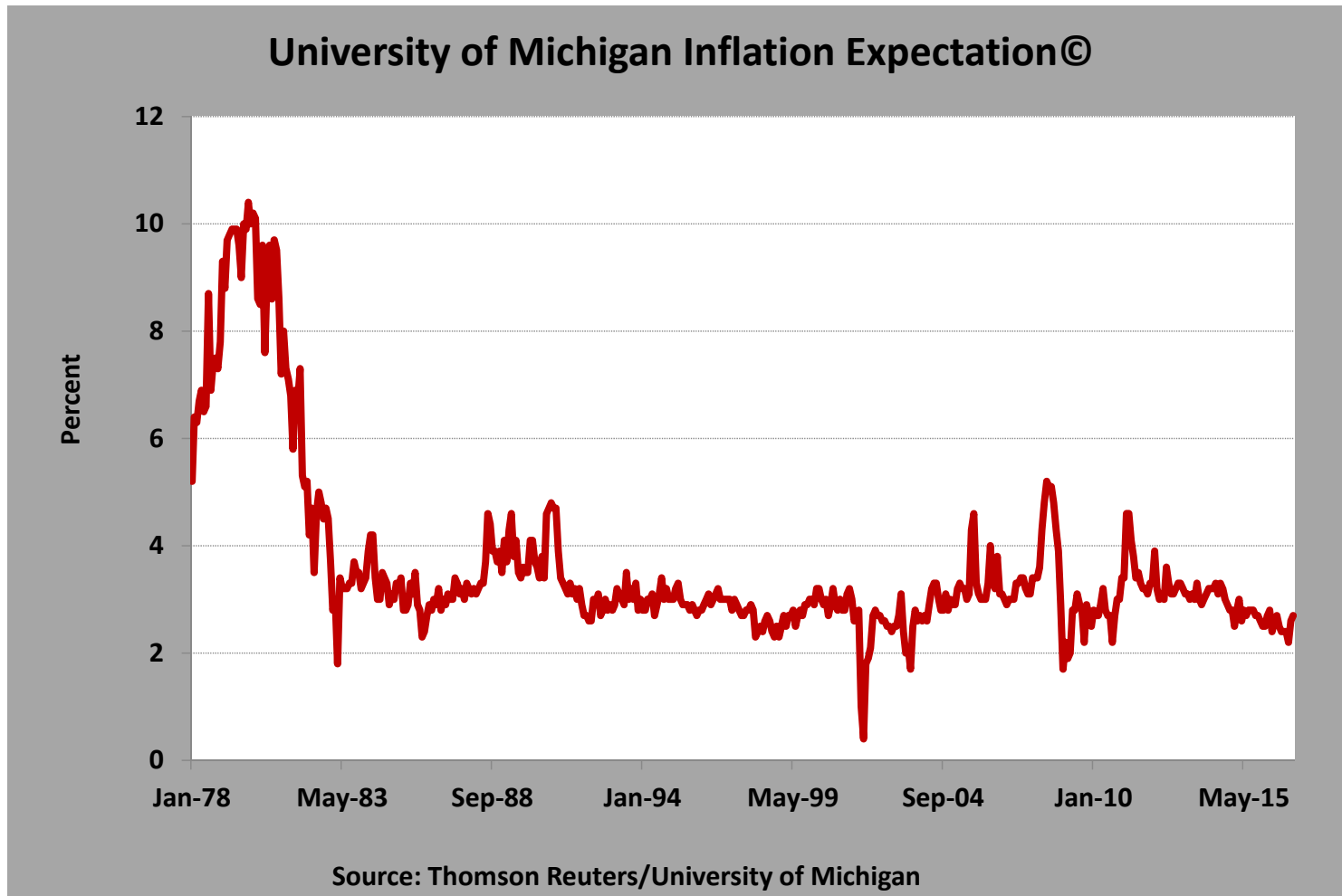


Source: Board of Governors of the Federal Reserve System

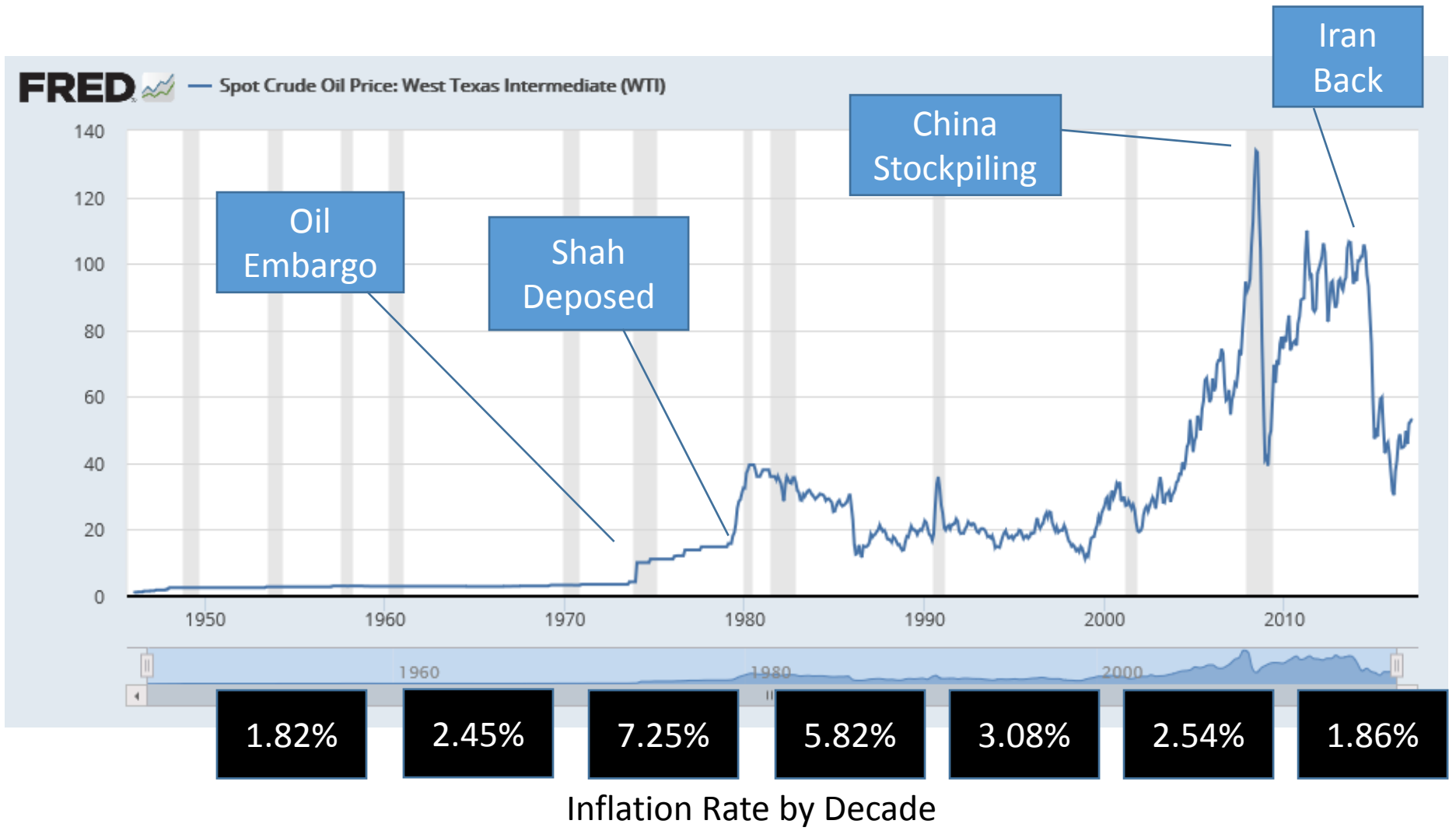
Inflation Rate



University of Michigan Inflation Expectation

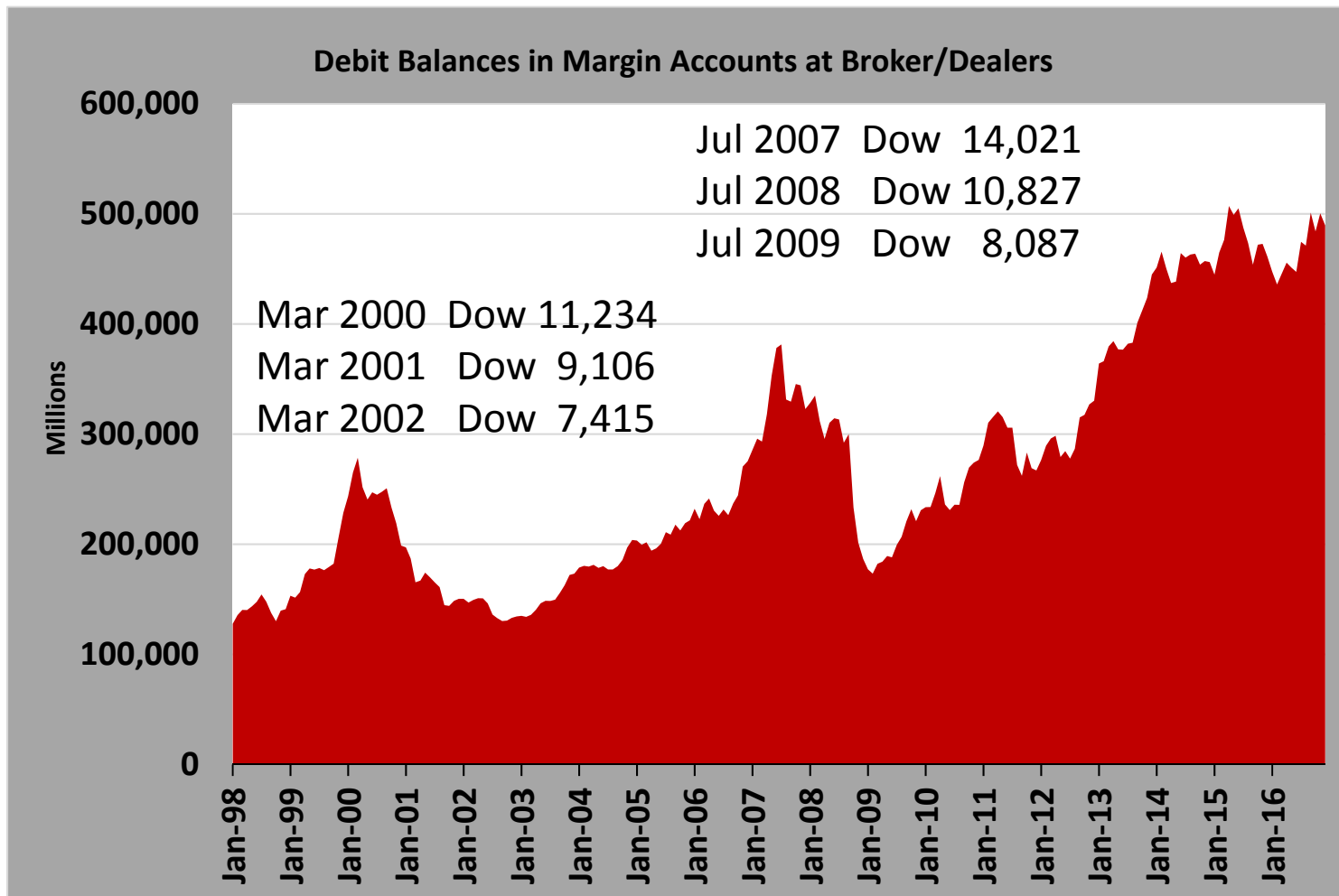


WTI Spot Crude Price



Margin Debt

Debit Balances at Broker/Dealers



Source: Standard and Poor's

Hedge Fund Difficulties

“Hedge funds have performed poorly compared with the stock and bond markets since 2009, a losing streak that has led pension funds, endowments and other institutional investors to withdraw their money.”

Super-star Eric Mindich is closing his \$7 billion hedge fund after losing 9% in 2016, compared to a 12% gain in the S&P 500. They received requests for withdrawal of \$400 million in the first quarter.

Source: WSJ 3/24/2017

The Investment Climate

- U.S. college endowments lost 1.9 percent for the year ended June 30, 2016.
- In the prior 12 months, they saw an average gain of 2.4 percent.
- The 10-year average fell to 5 percent.
- This is well below the median 7.4 percent return they expect to earn over time.

Poor performance was attributed to international equities, energy and natural resources, commodities and hedge funds. Hedge funds were among the worst performers with a 4 percent loss.

Source: Bloomberg 1/30/2017

The Investment Climate

Best performers for endowments:

Private equity real estate with 7.1 percent return

Private equity investments with 4.5 percent return

Fixed income bonds with 3.6 percent return.

Source: Bloomberg 1/30/2017

CRE Value Trends

CRE prices hit cyclical peak in November 2007.
CRE prices hit cyclical trough in January 2010.

Price decline from 2007 peak to 2010 trough

All	Apt	Ret	Ind	CBD Office
40%	37%	39%	32%	45%

Price increase from 2010 trough to Dec 31, 2016

All	Apt	Ret	Ind	CBD Office
105%	142%	62%	69%	175%

Price increase from 2007 peak to Dec 31, 2016

All	Apt	Ret	Ind	CBD Office
23%	52%	-1%	14%	50%

Source: Moody's/Real Capital Analytics CPPI

CRE Value Trends

Price increase from Dec 31, 2000 through to Dec 31, 2016

All properties	117%
Apartments	176%
CBD Office	86%
Industrial	85%
Retail	80%

Source: Real Capital Analytics

Foreign CRE Investment in America

Two year period 2015 and 2016

1.	New York City	\$37.7 billion
2.	Los Angeles	\$12.4
3.	San Francisco	\$ 9.9
4.	DC Metro	\$ 9.7
5.	Chicago	\$ 7.1
6.	Boston	\$ 6.2
7.	Dallas	\$ 5.7
8.	Miami	\$ 3.7
9.	Phoenix	\$ 3.6
10.	Houston	\$ 2.3
11.	Austin	\$ 2.2

Source: Real Capital Analytics