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The State of New England CRE Is Risk Returning to the CRE Equation?

November 2015

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Federal Reserve Bank of Atlanta

Disclaimer: These views are those of the presenter and not necessarily those of the Federal Reserve Bank of Atlanta, Federal Reserve Bank of Boston, or the Federal Reserve Board.

Agenda

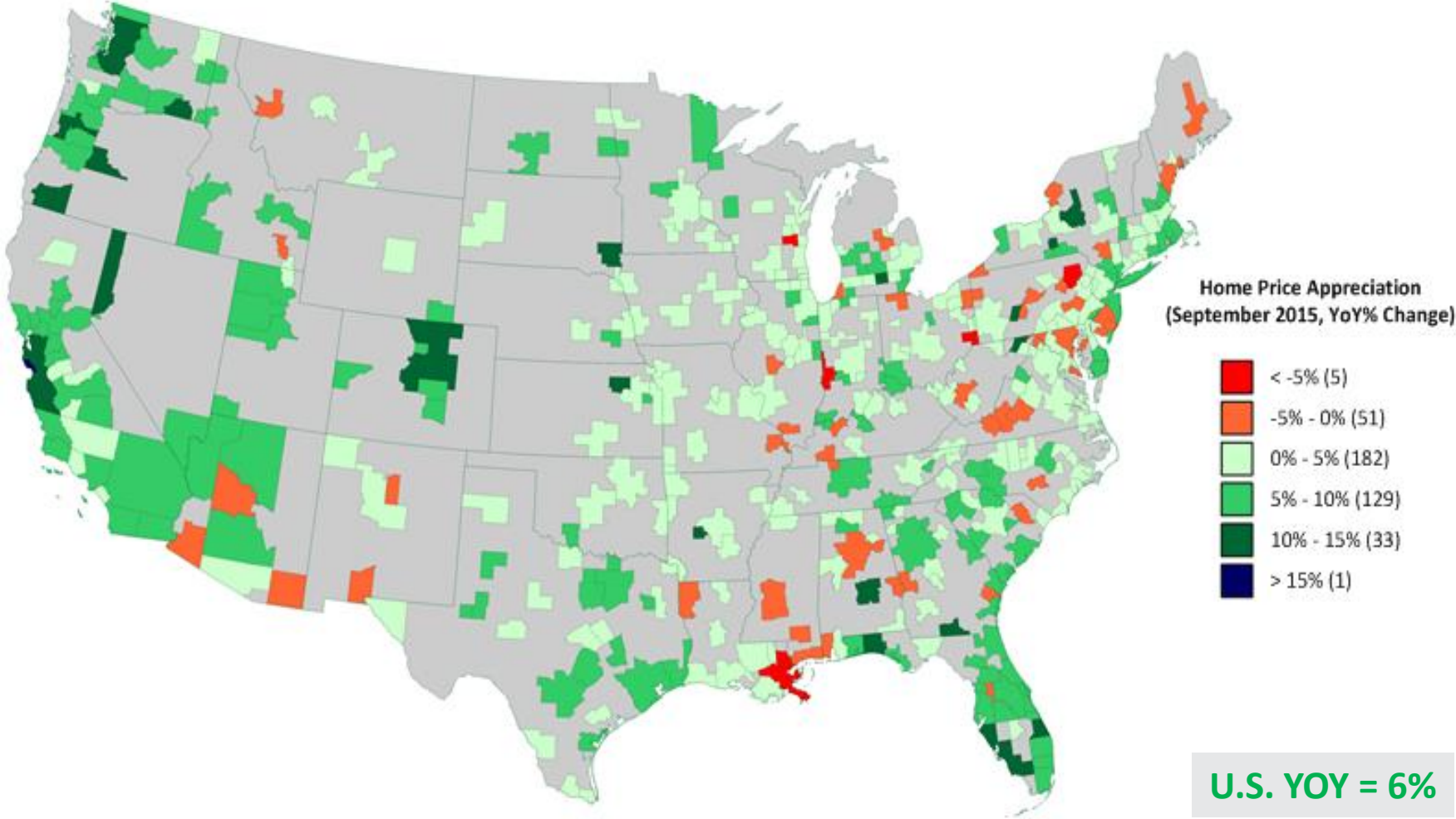
Market Conditions

New Supply

Capital Markets

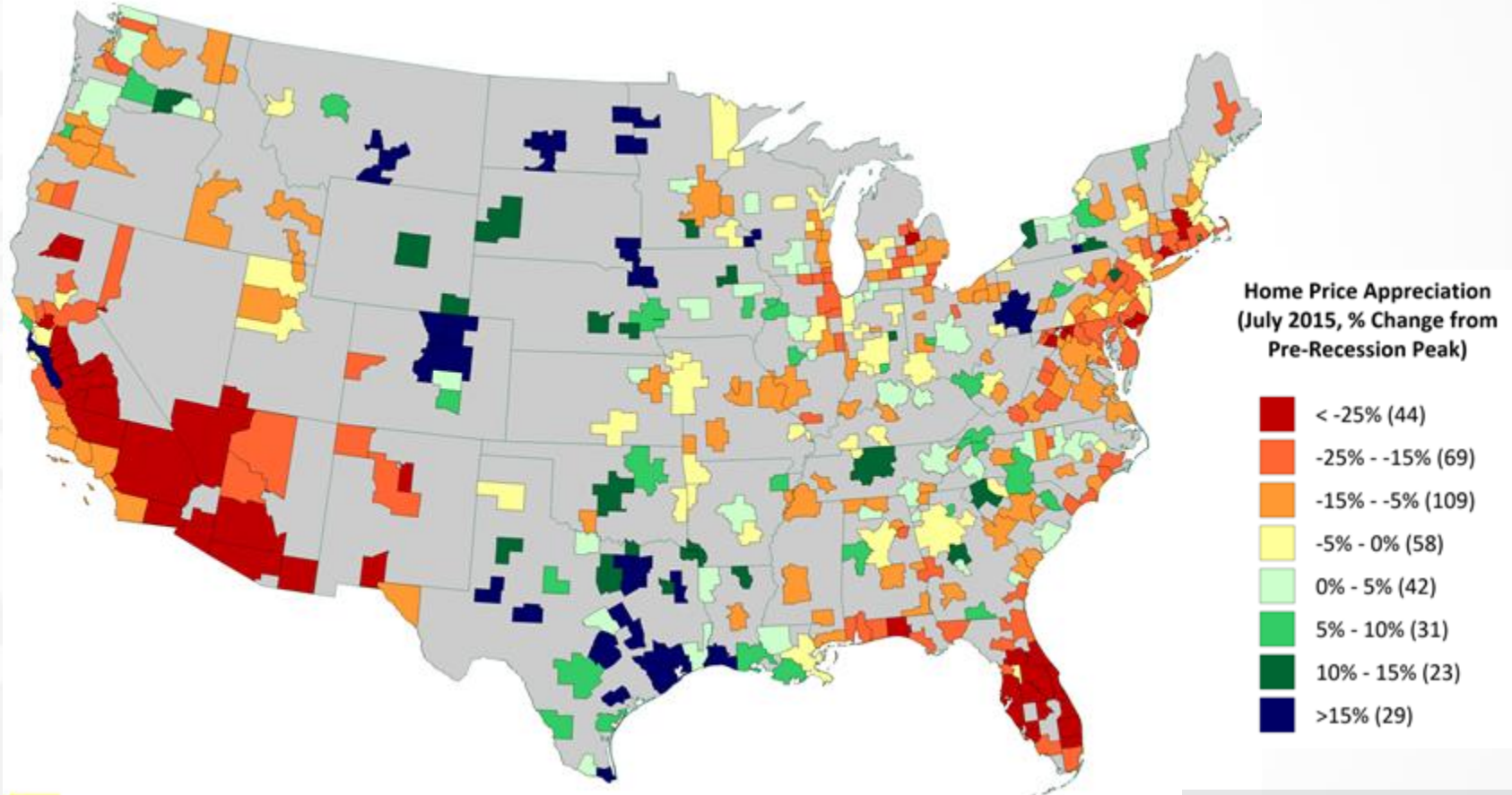
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Home Price Appreciation (YOY)



Home Price Appreciation

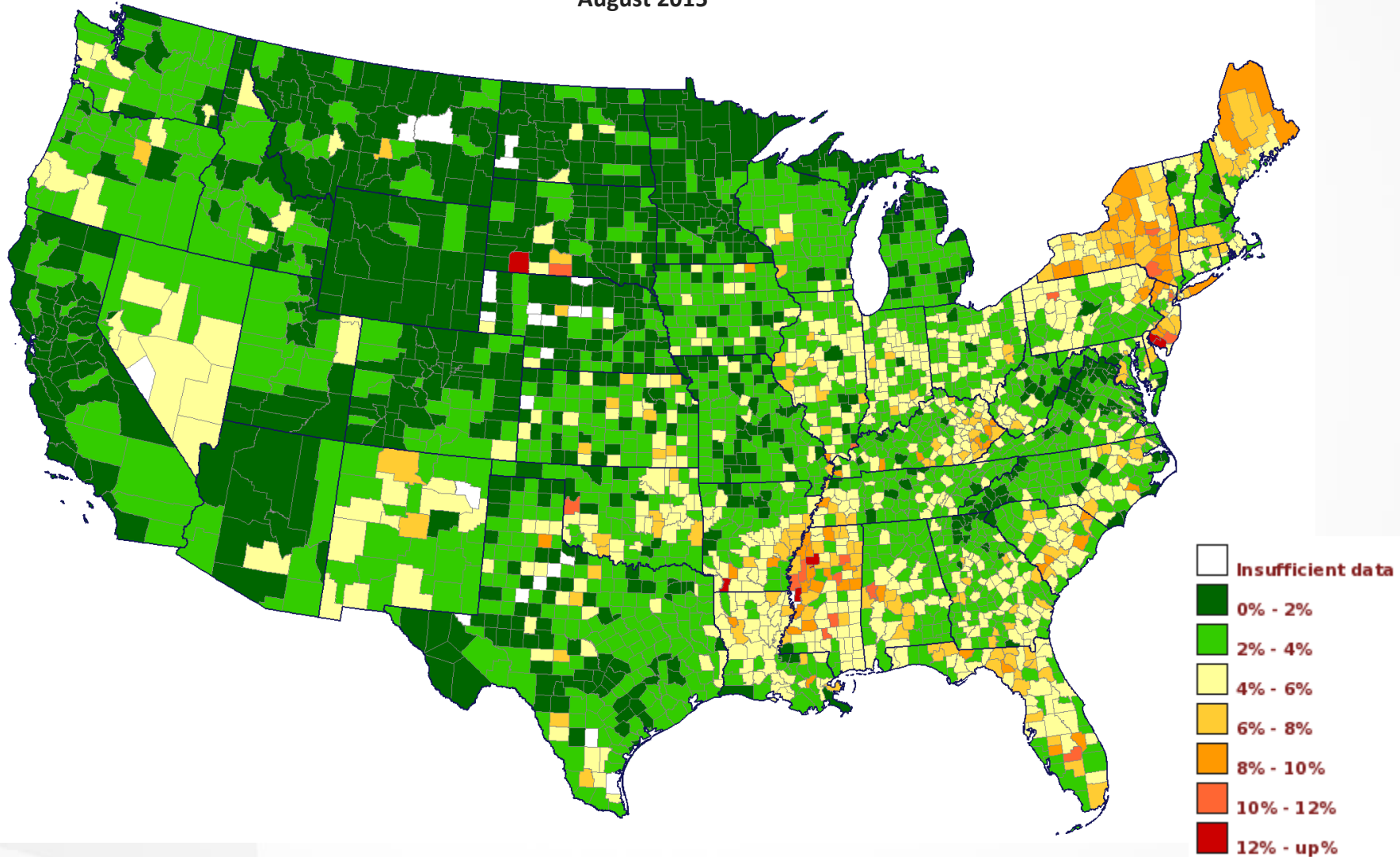
Peak to Current



**Peak-to-Current
U.S. = -9.0%**

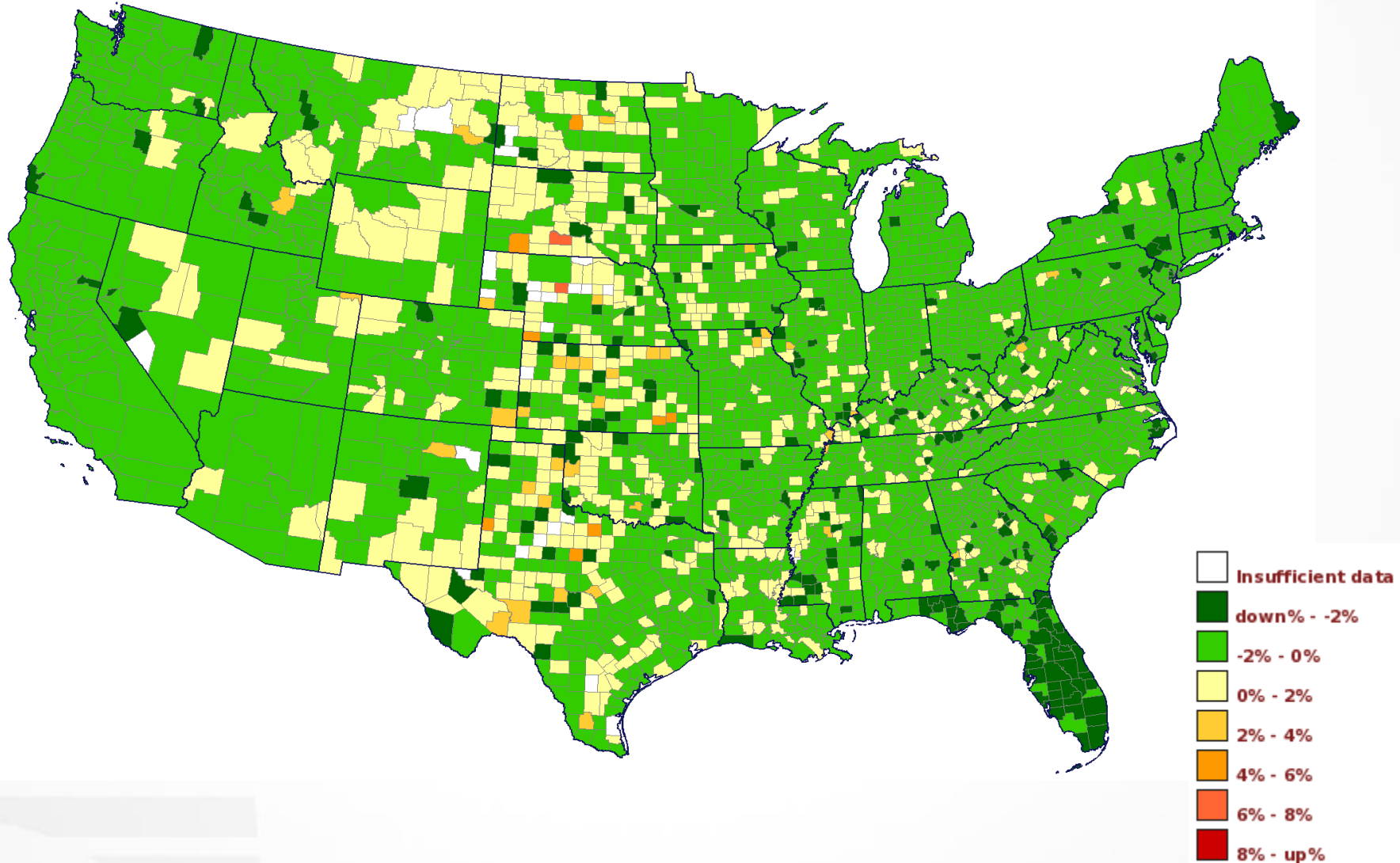
Seriously Delinquent Mortgages

August 2015

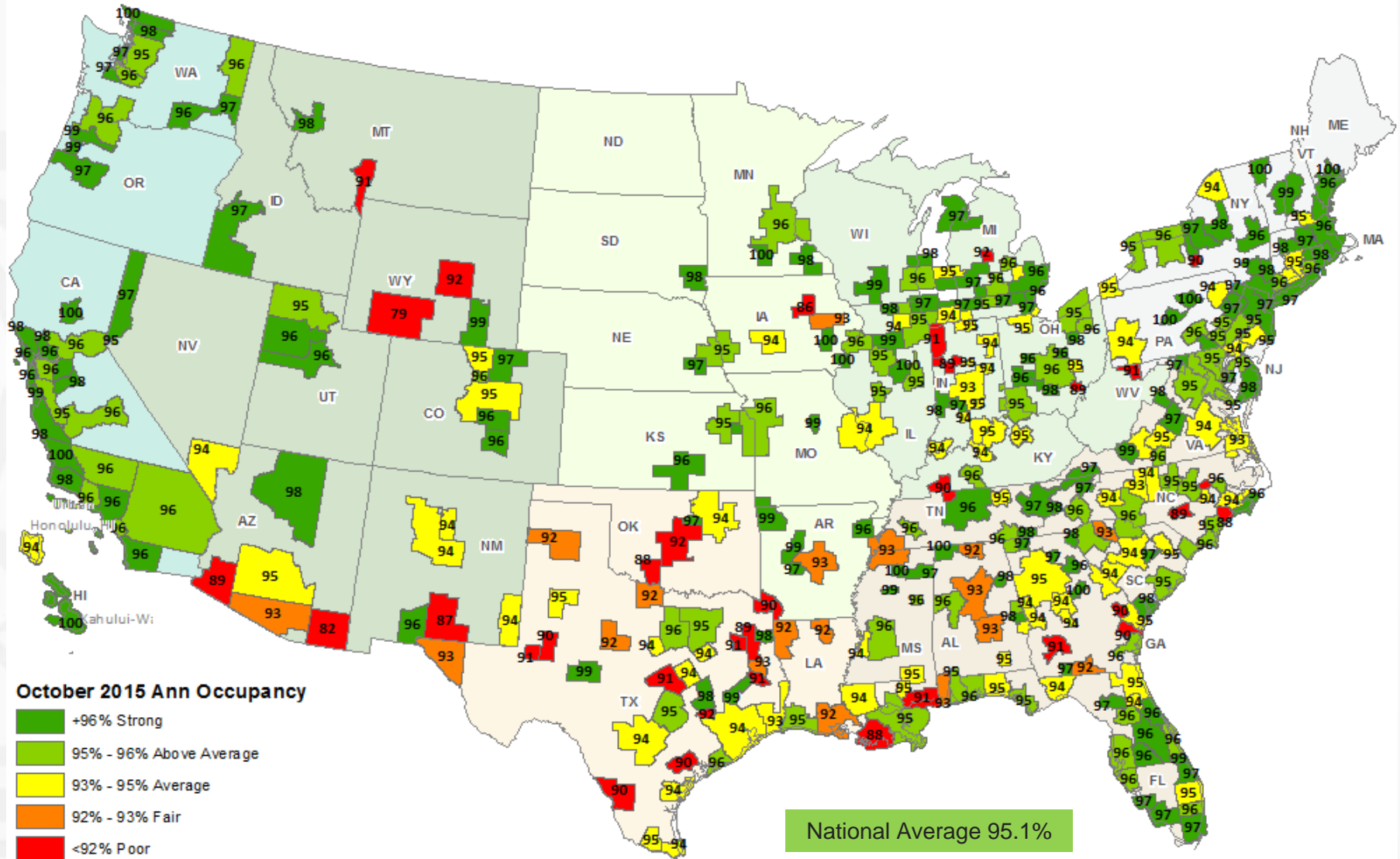


Seriously Delinquent Mortgages (YOY)

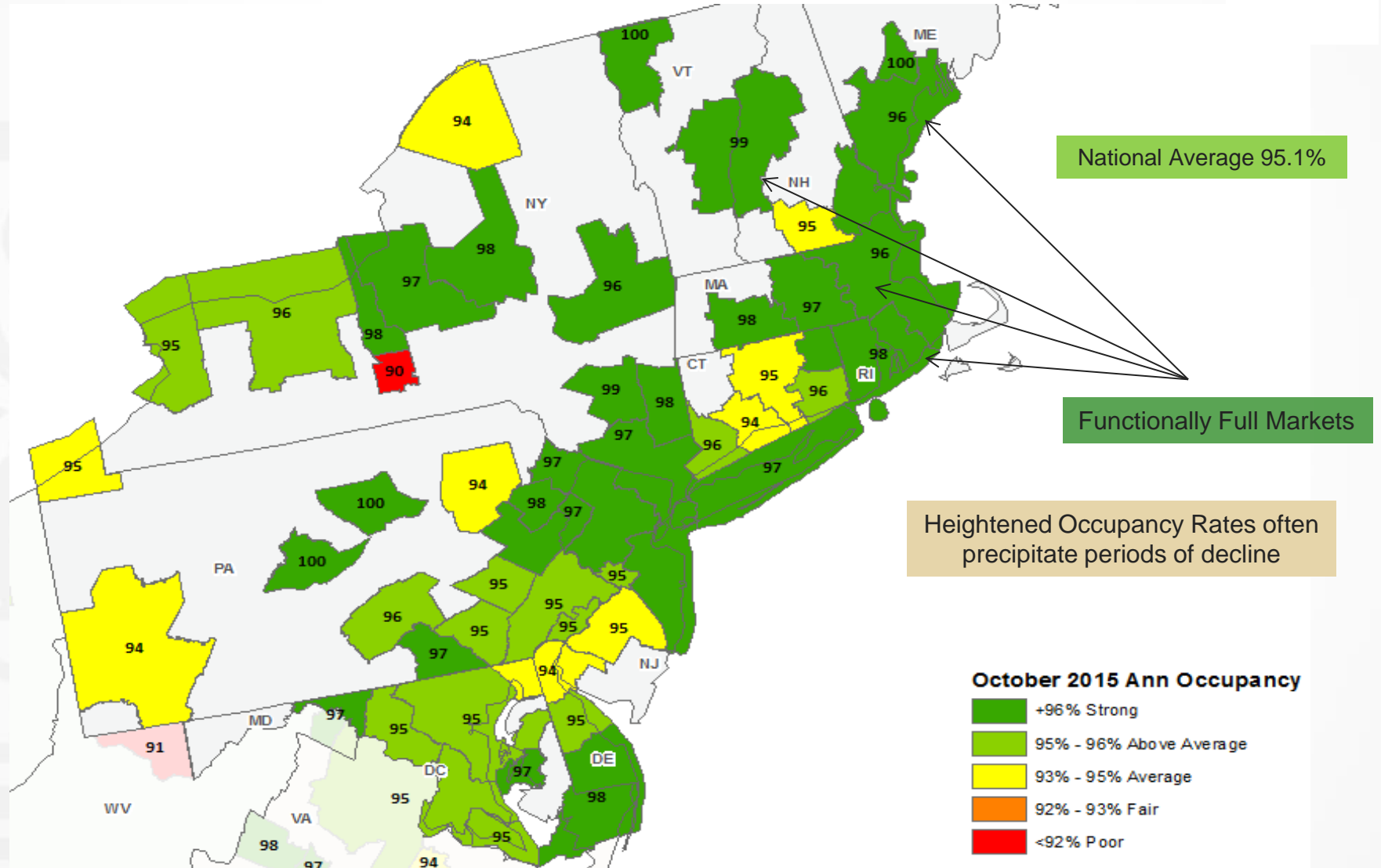
One Year Percentage Point Change: August 2015



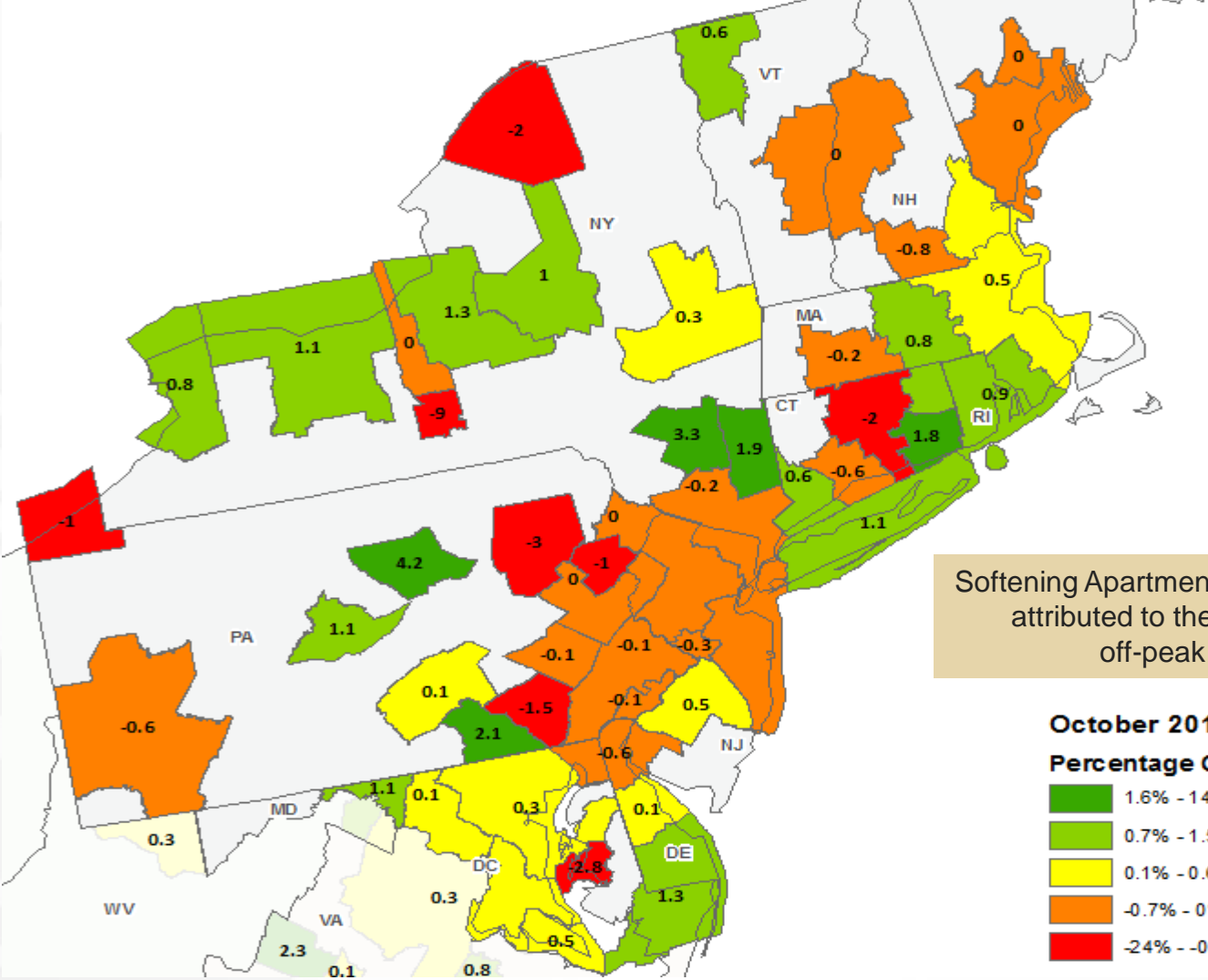
U.S. Apartment Occupancy



NE Apartment Occupancy



Change in Occupancy YOY

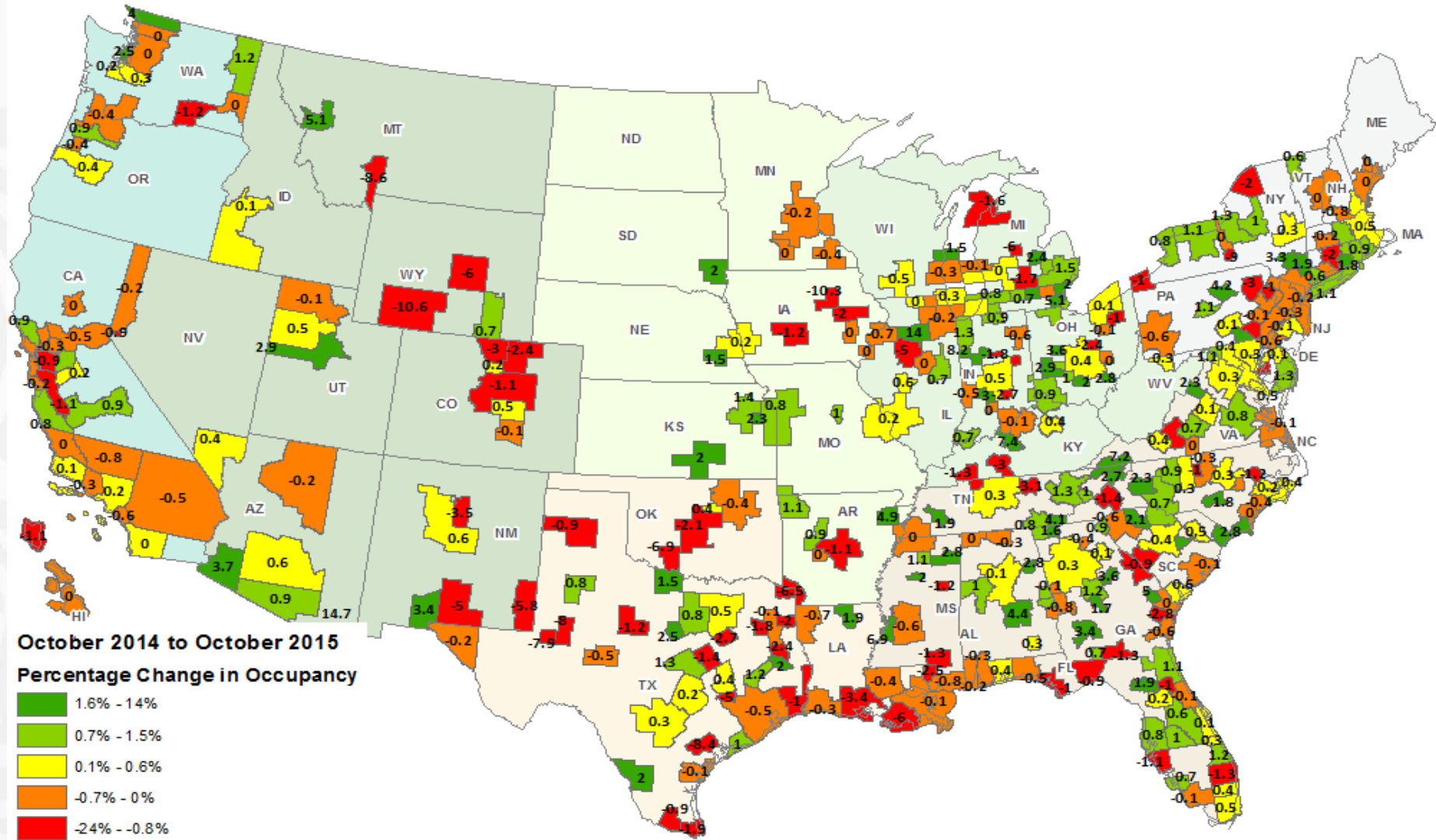


Softening Apartment Occupancy Rates can be attributed to the additional supply and off-peak leasing season

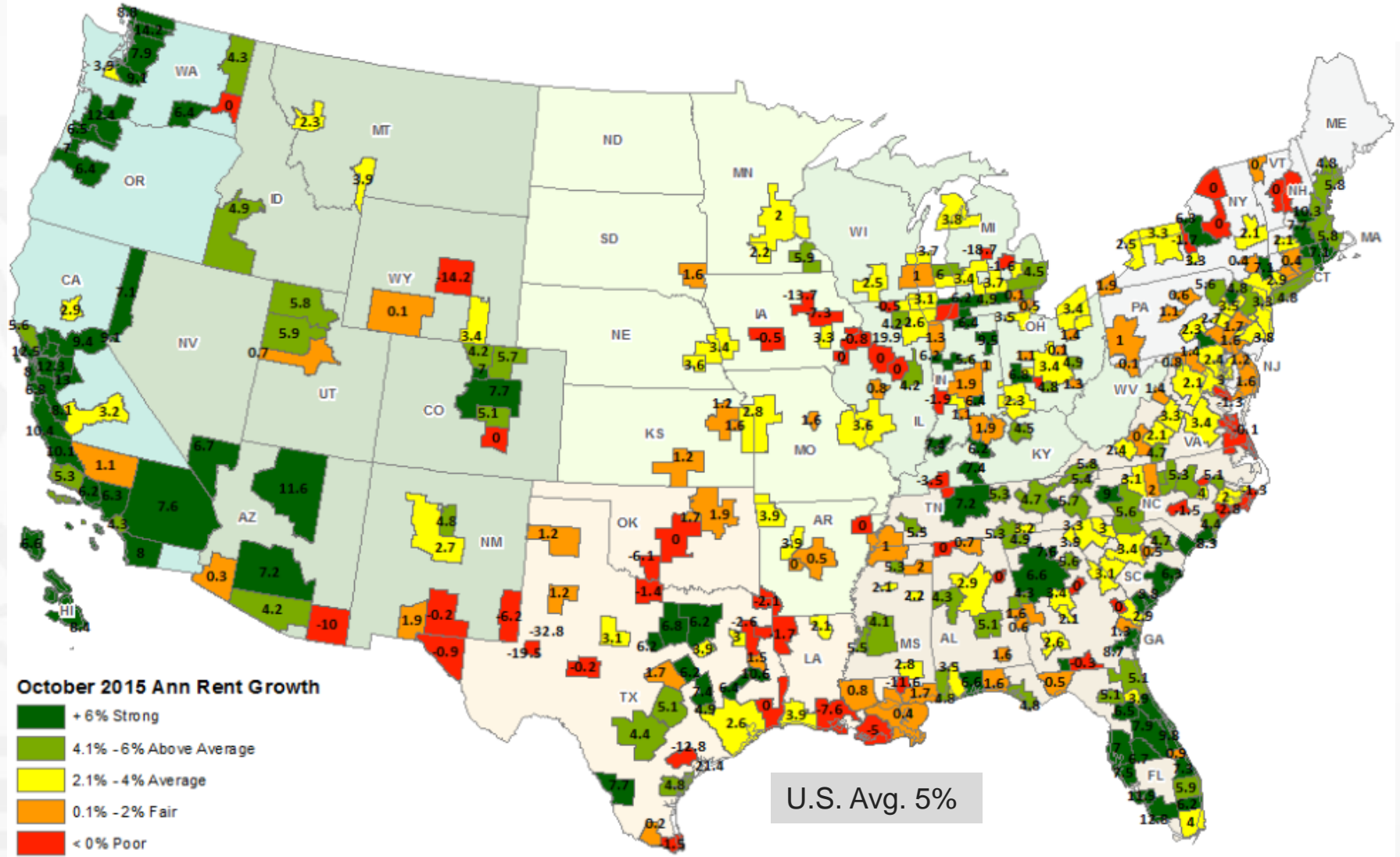
**October 2014 to October 2015
Percentage Change in Occupancy**

- 1.6% - 14%
- 0.7% - 1.5%
- 0.1% - 0.6%
- 0.7% - 0%
- 2.4% - -0.8%

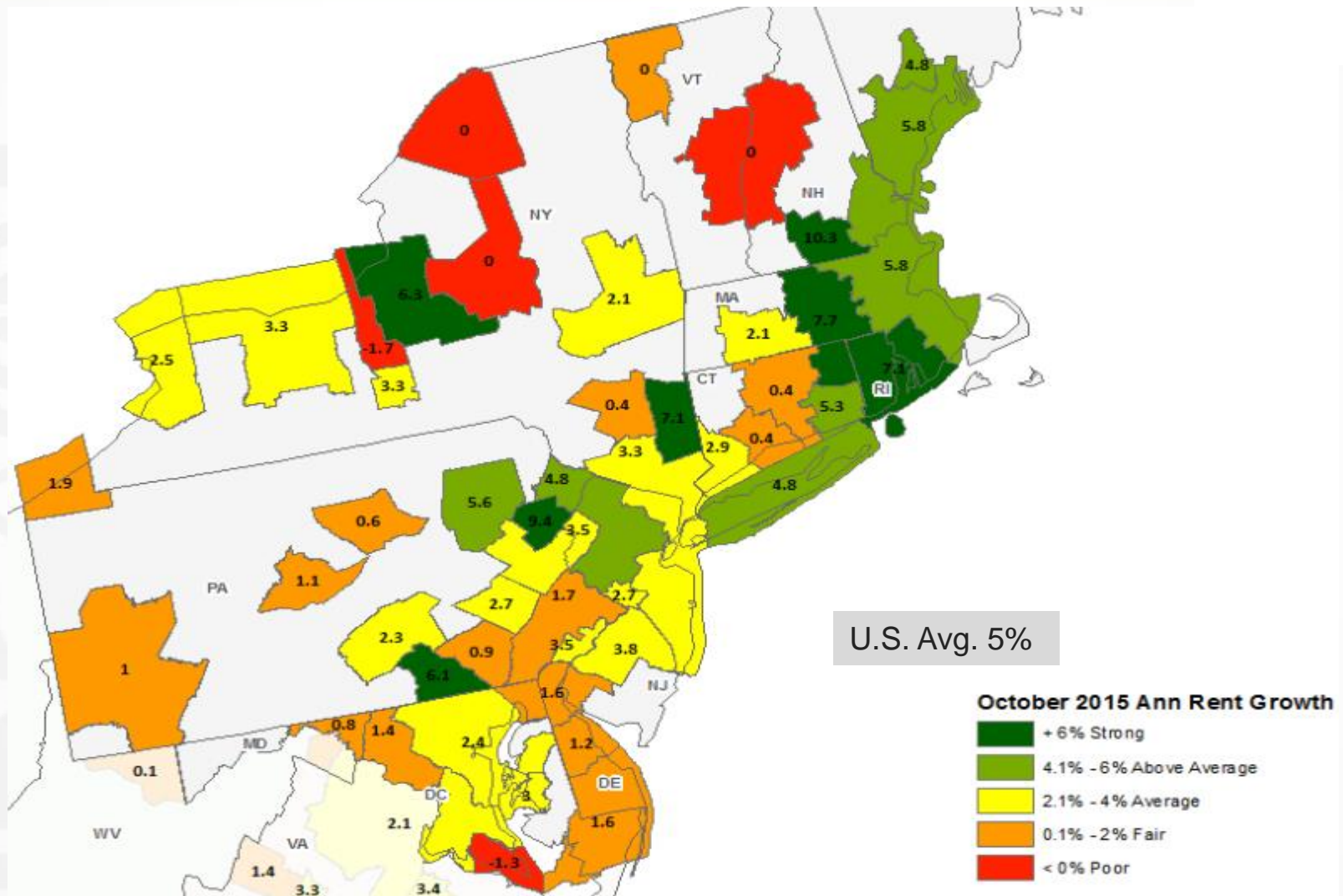
U.S. Change in Occupancy YOY



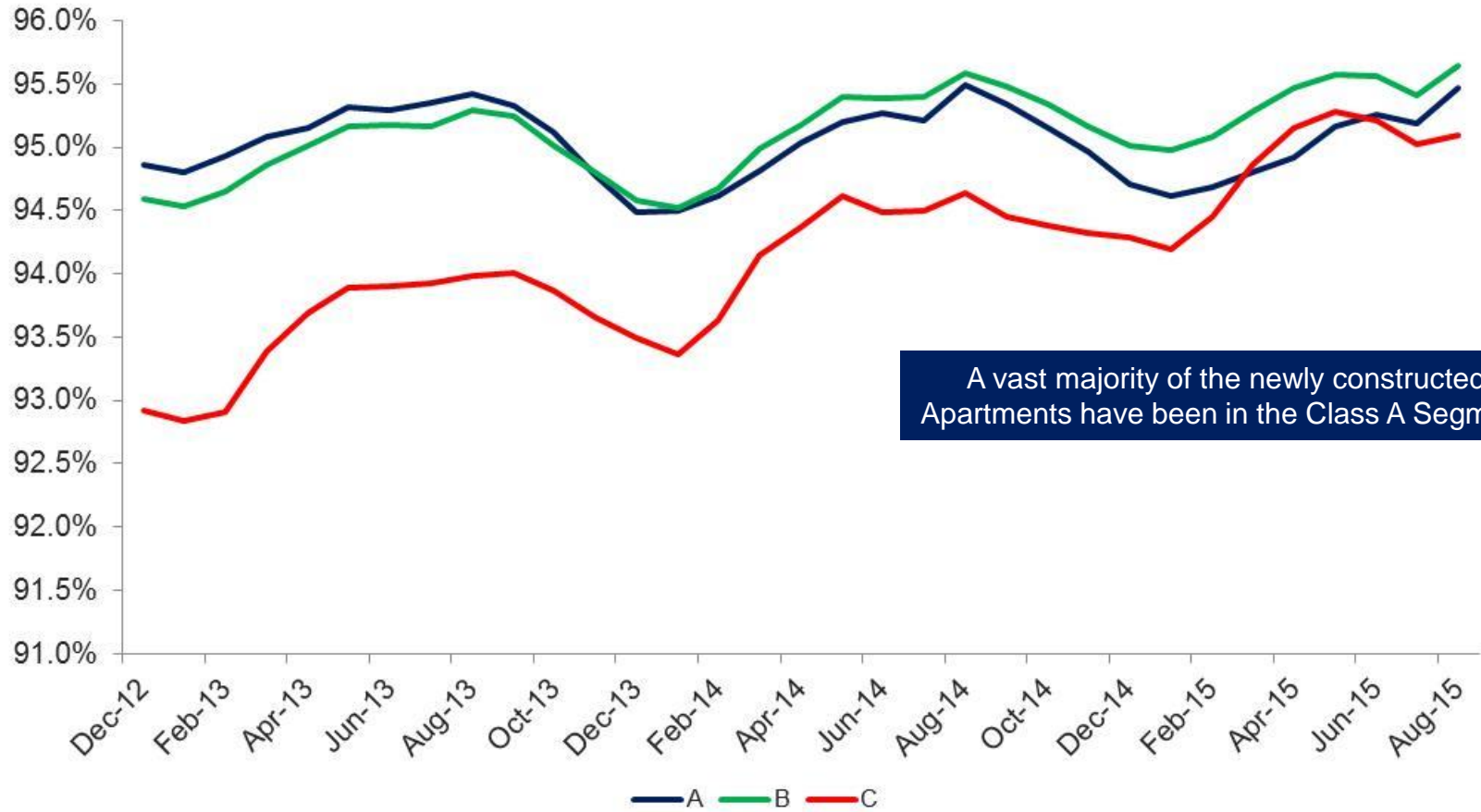
Effective Rent Growth YOY



Effective Rent Growth YOY



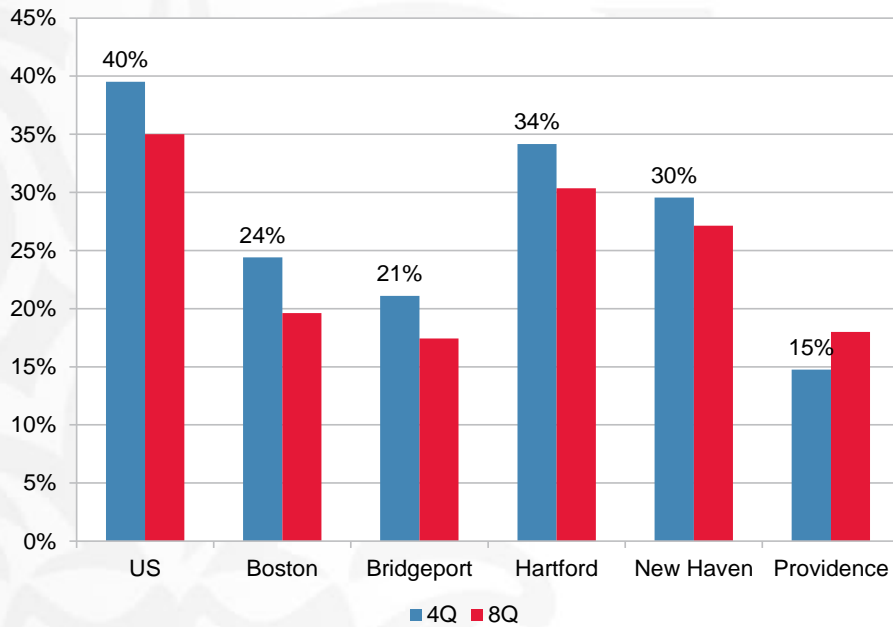
Apartment Occupancy by Class



A vast majority of the newly constructed Apartments have been in the Class A Segment

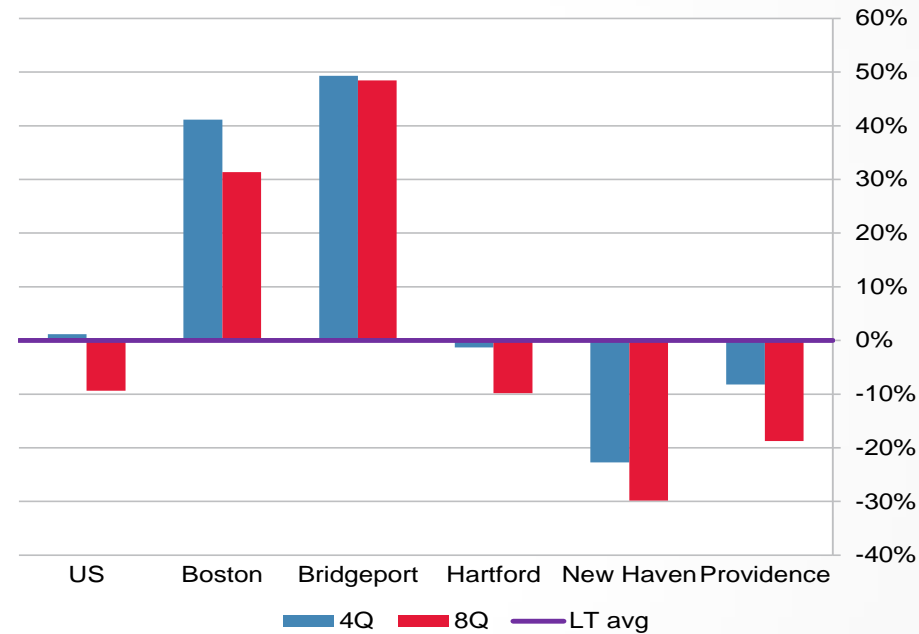
NE Multifamily Dynamics

Occupancy Rates



Multifamily Occupancy rates are 15% to 40% above their long-term averages

New Supply



New Supply is notably above the long-term averages in Boston and Bridgeport.

Rate of supply in the last 4Q is accelerating Beyond or toward its long-term average in all markets

Apartment Market Cycle 2Q 2015

Market Characteristics

1-6

- No New Construction
- Declining Vacancy
- Neg. Early Cycle Rent Growth

6-8

- Rapidly Rising Rents
- Declining Vacancy

8-11

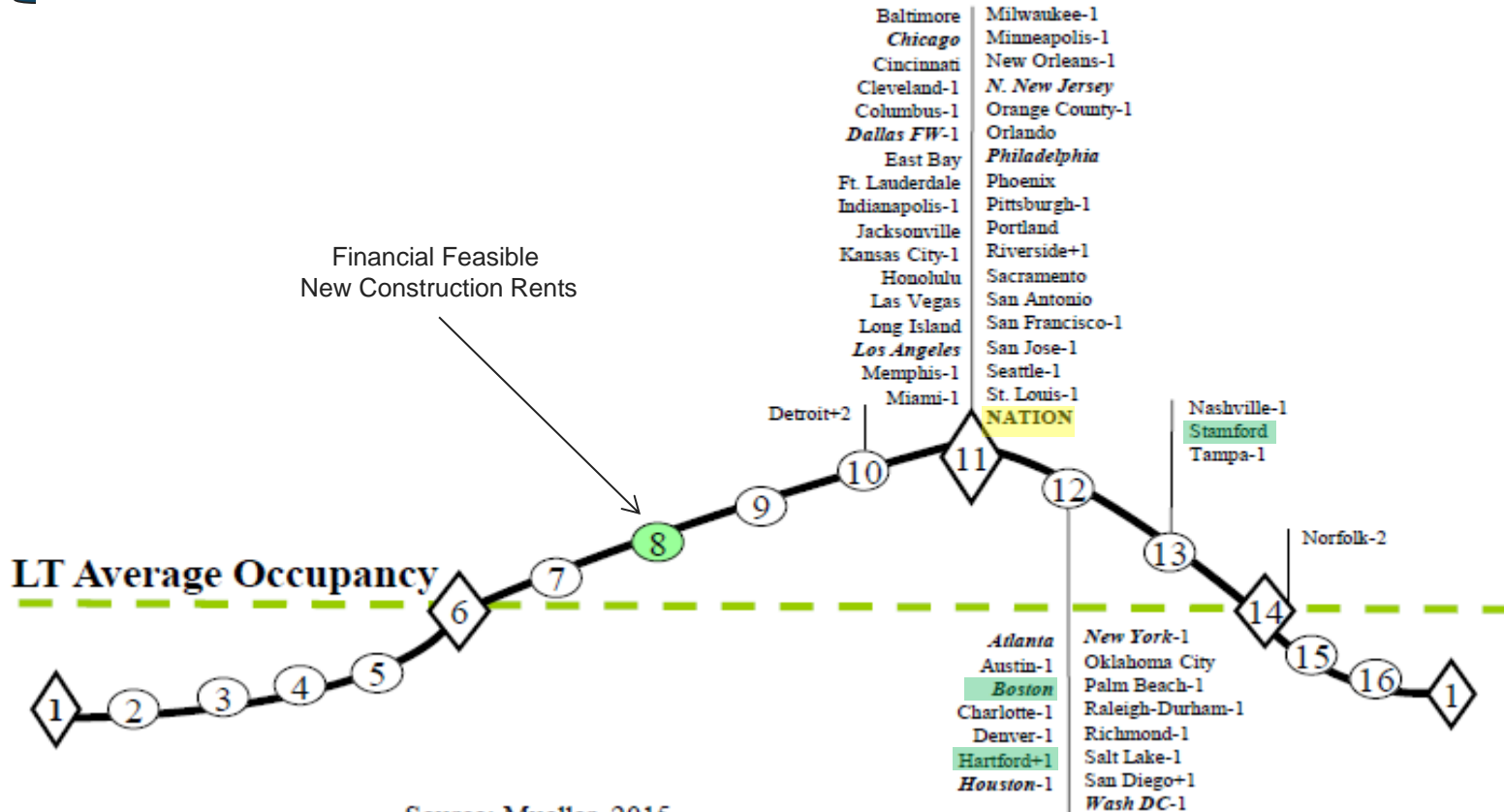
- New Construction
- High Rent Growth
- Declining Vacancy

11-14

- New Construction
- Increasing Vacancy
- Rent Growth Modest

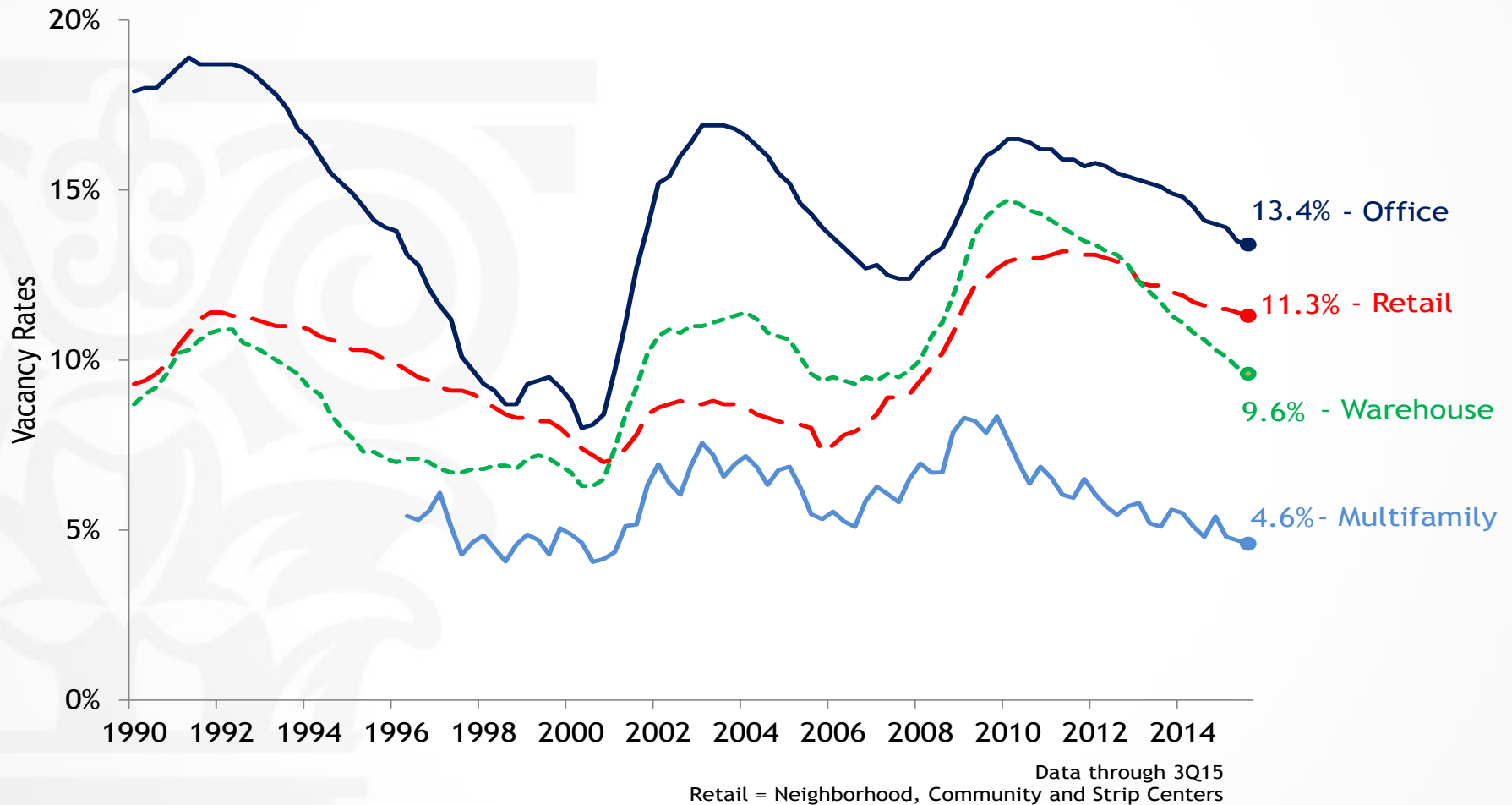
14-16; 1

- Declining New Construction
- Increasing Vacancy



Source: Mueller, 2015

National CRE Vacancy Rates



Office Market Cycle 2Q 2015

Market Characteristics

1-6

- No New Construction
- Declining Vacancy
- Neg. Early Cycle Rent Growth

6-8

- Rapidly Rising Rents
- Declining Vacancy

8-11

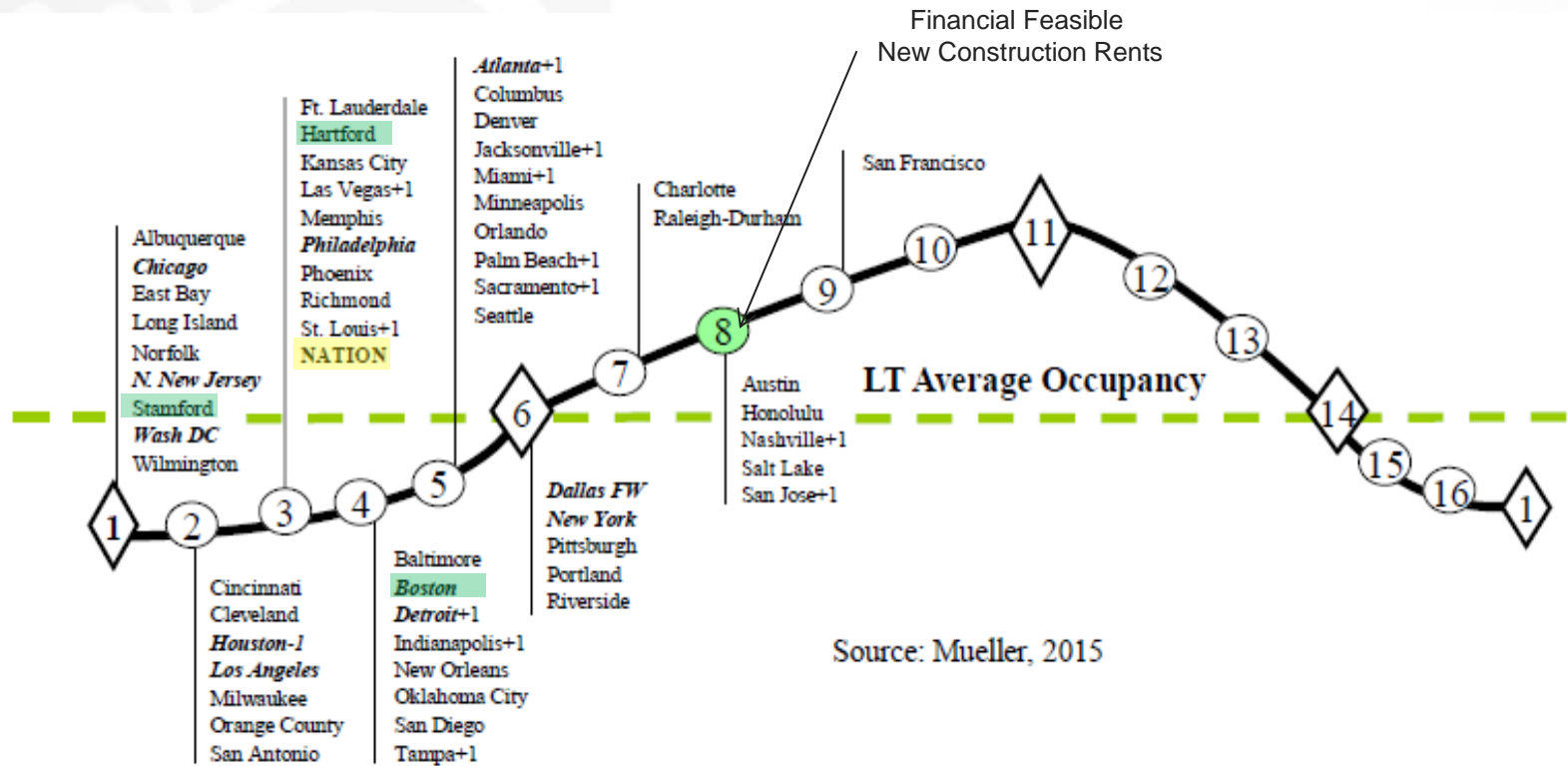
- New Construction
- High Rent Growth
- Declining Vacancy

11-14

- New Construction
- Increasing Vacancy
- Rent Growth Modest

14-16; 1

- Declining New Construction
- Increasing Vacancy

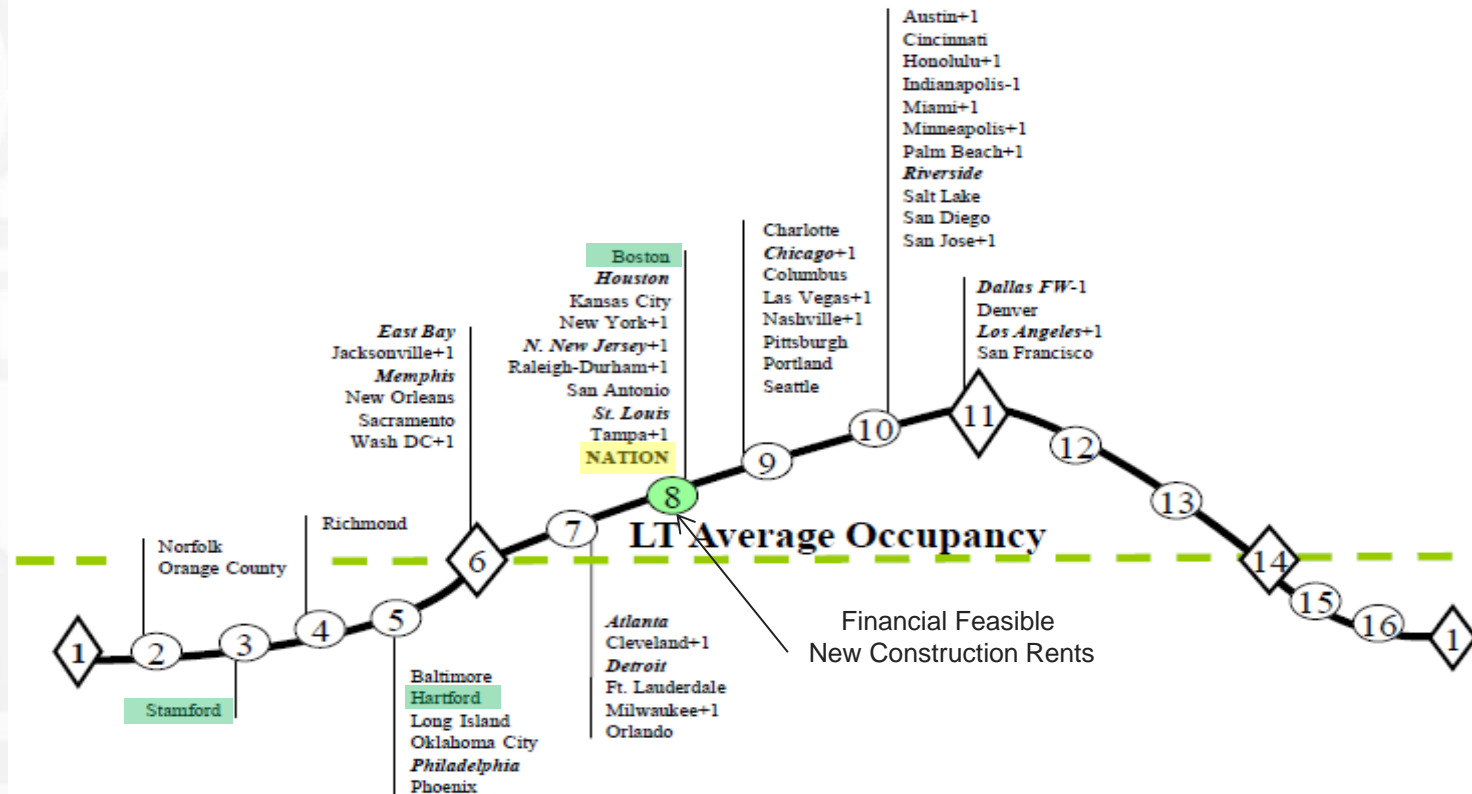


Source: Mueller, 2015

Industrial Market Cycle 2Q 2015

Market Characteristics

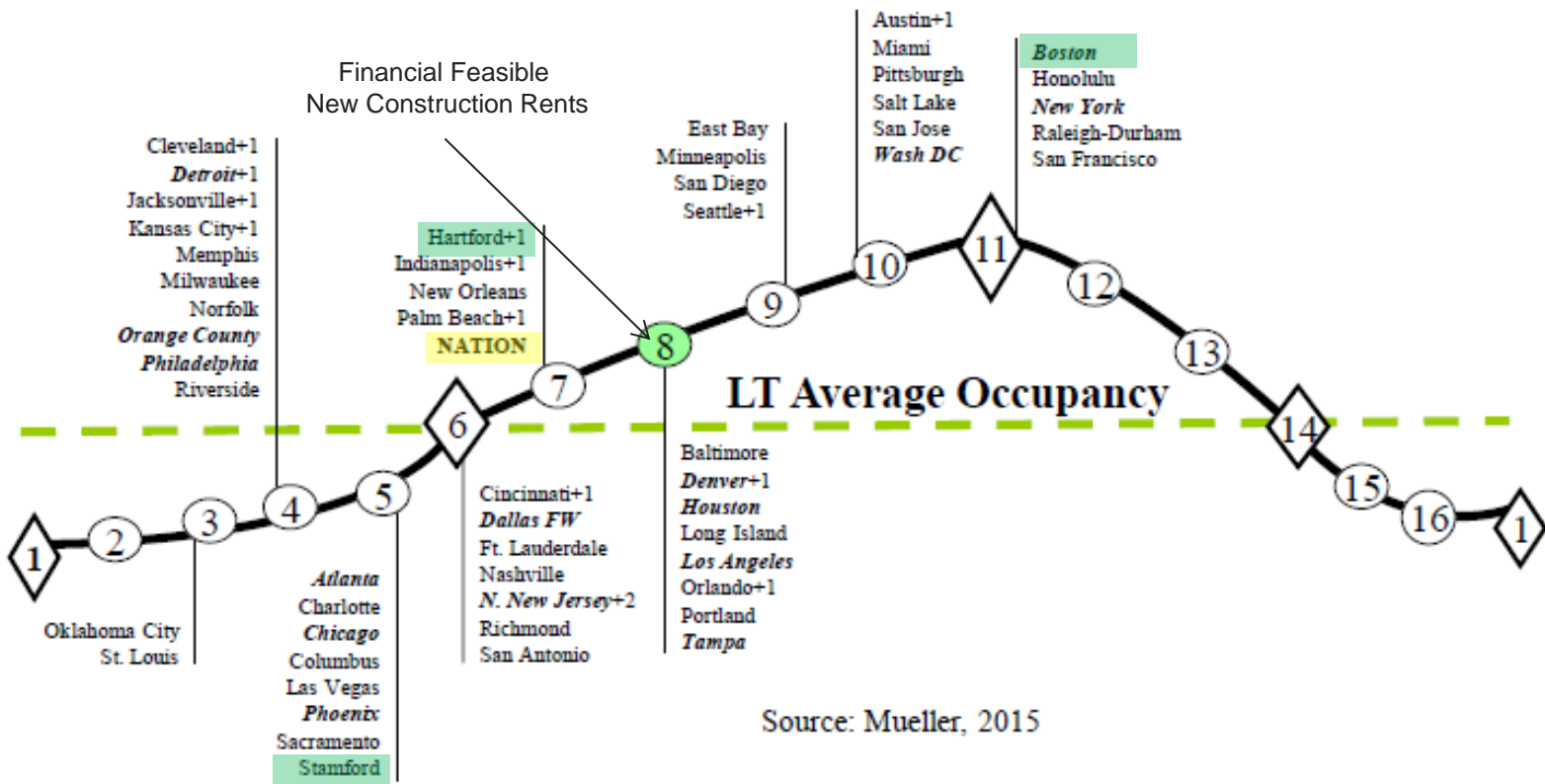
1-6	6-8	8-11	11-14	14-16; 1
-No New Construction -Declining Vacancy -Neg. Early Cycle Rent Growth	-Rapidly Rising Rents -Declining Vacancy	-New Construction -High Rent Growth -Declining Vacancy	-New Construction -Increasing Vacancy -Rent Growth Modest	-Declining New Construction -Increasing Vacancy



Retail Market Cycle 2Q 2015

Market Characteristics

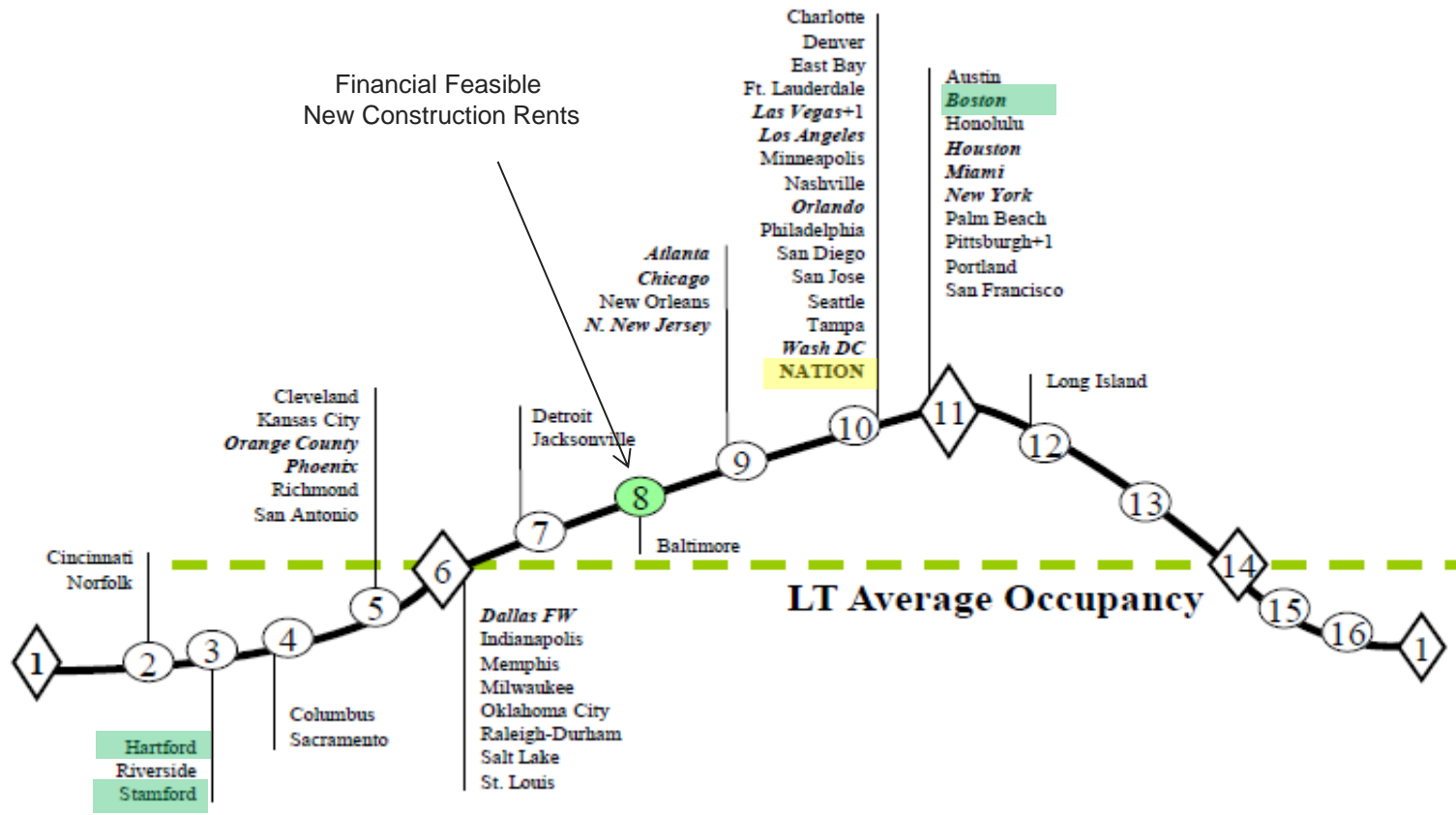
1-6	6-8	8-11	11-14	14-16; 1
<ul style="list-style-type: none"> -No New Construction -Declining Vacancy -Neg. Early Cycle Rent Growth 	<ul style="list-style-type: none"> -Rapidly Rising Rents -Declining Vacancy 	<ul style="list-style-type: none"> -New Construction -High Rent Growth -Declining Vacancy 	<ul style="list-style-type: none"> -New Construction -Increasing Vacancy -Rent Growth Modest 	<ul style="list-style-type: none"> -Declining New Construction -Increasing Vacancy



Hotel Market Cycle 2Q 2015

Market Characteristics

1-6	6-8	8-11	11-14	14-16; 1
-No New Construction -Declining Vacancy -Neg. Early Cycle Rent Growth	-Rapidly Rising Rents -Declining Vacancy	-New Construction -High Rent Growth -Declining Vacancy	-New Construction -Increasing Vacancy -Rent Growth Modest	-Declining New Construction -Increasing Vacancy



Source: Mueller, 2015

Discussion

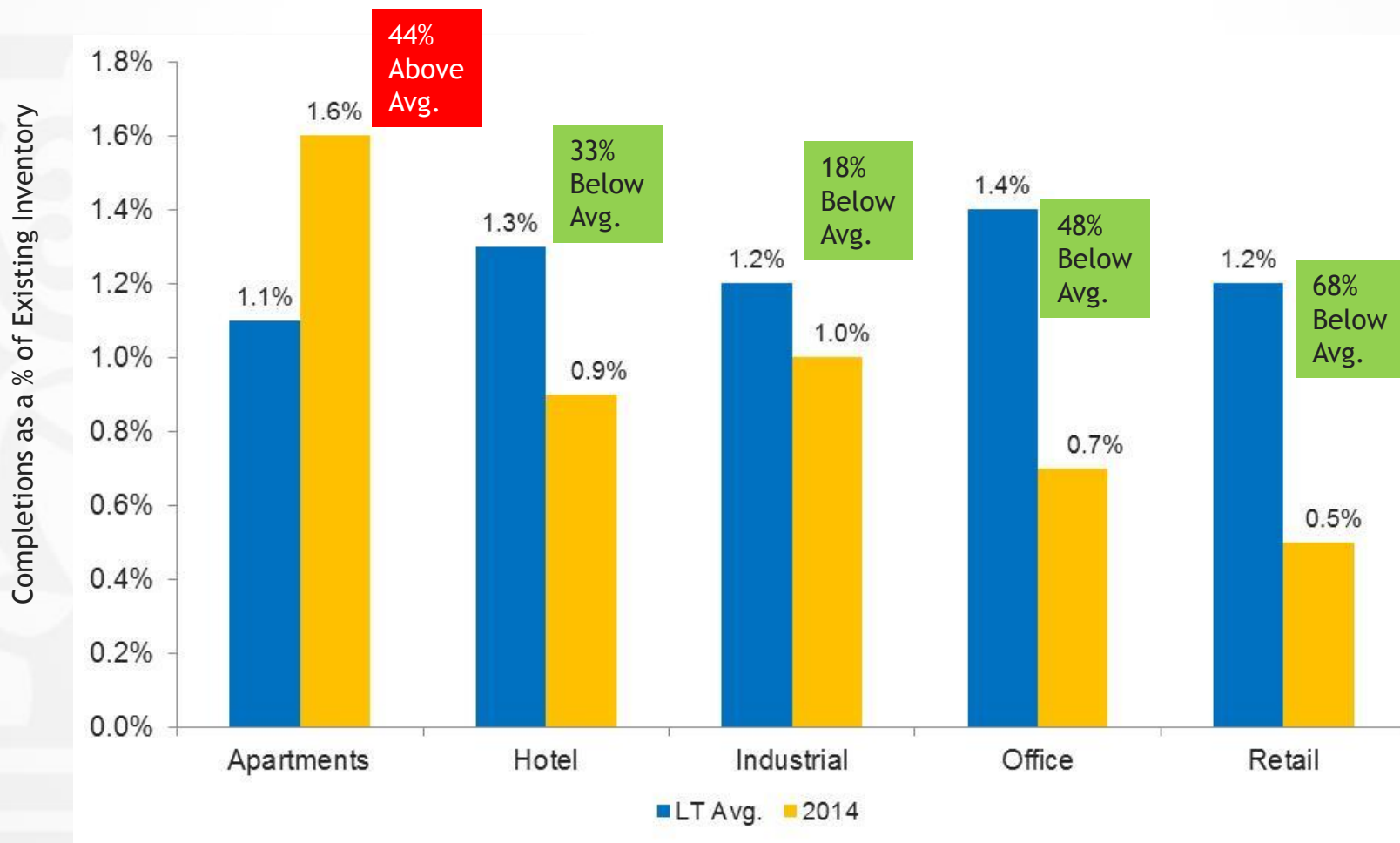
What market conditions are prevalent in your area?

Are there conditions that are atypical?

Is there particular data that we have not discussed that you would find informative?

National New Supply vs. Longer Term Average

Supply vs. 15-Year Averages*

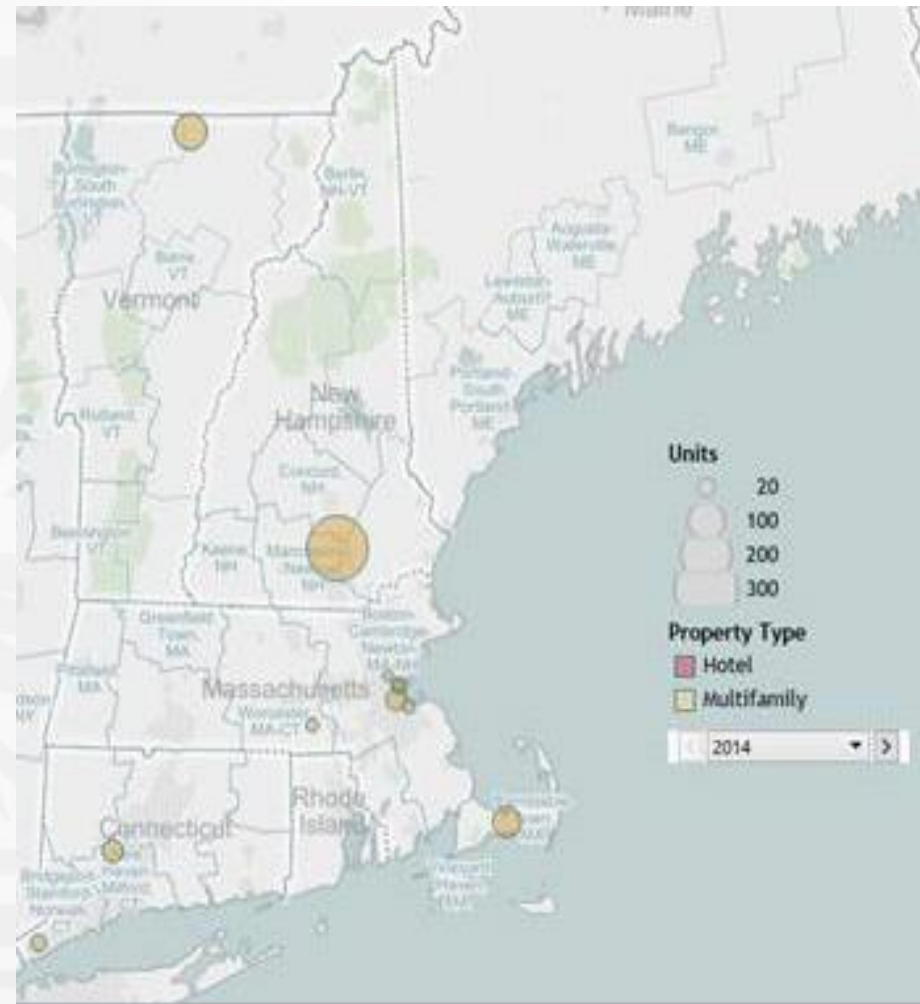


*Retail & Hotel Averages Based on 10 Years of Data

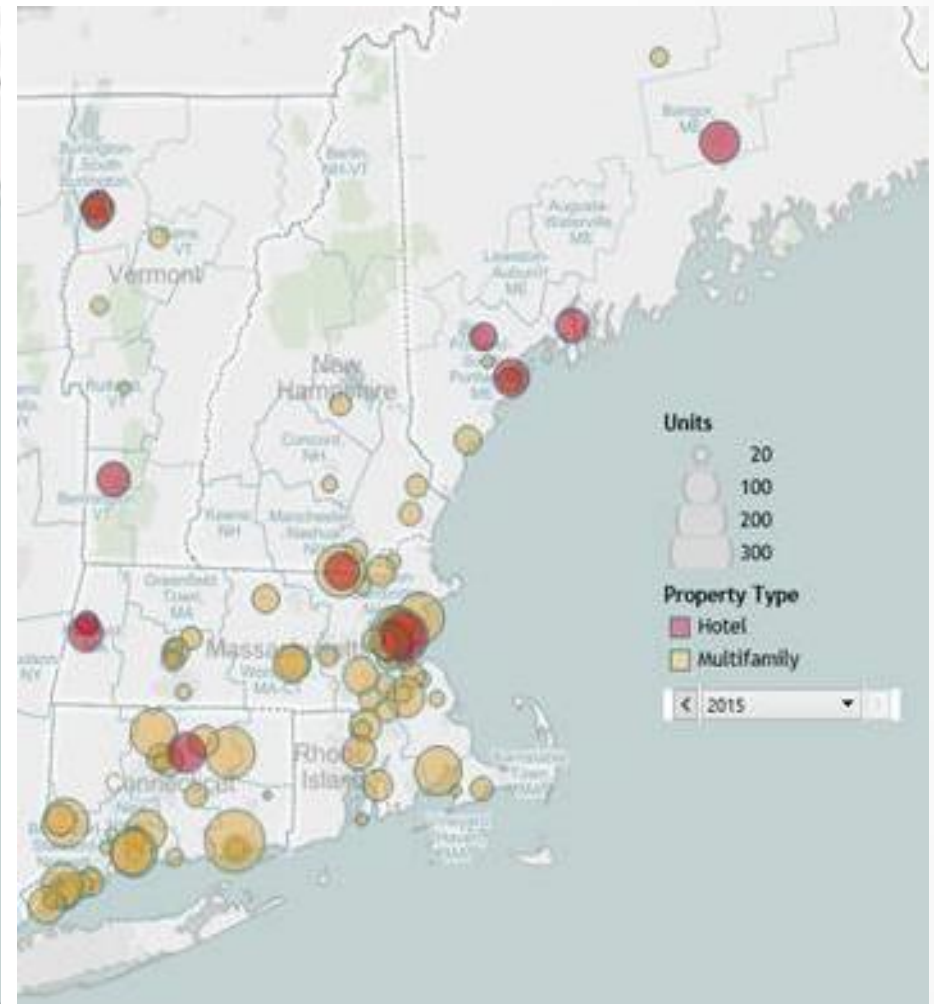
New Commercial Project Completions

Multifamily and Hotel

2014



2015 YTD



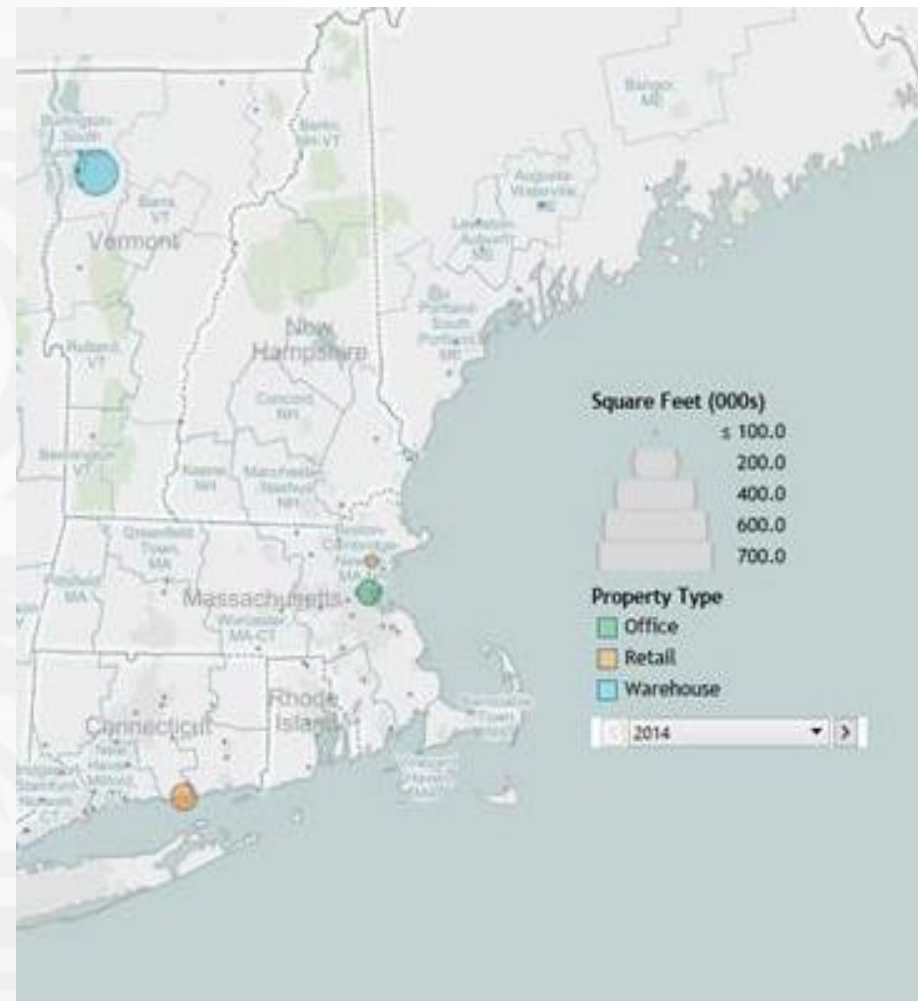
Based on target completion date. Only includes new; does not include repositions, conversions, additions.

Source: FW Dodge, Risk Analysis Unit/FRB Atlanta

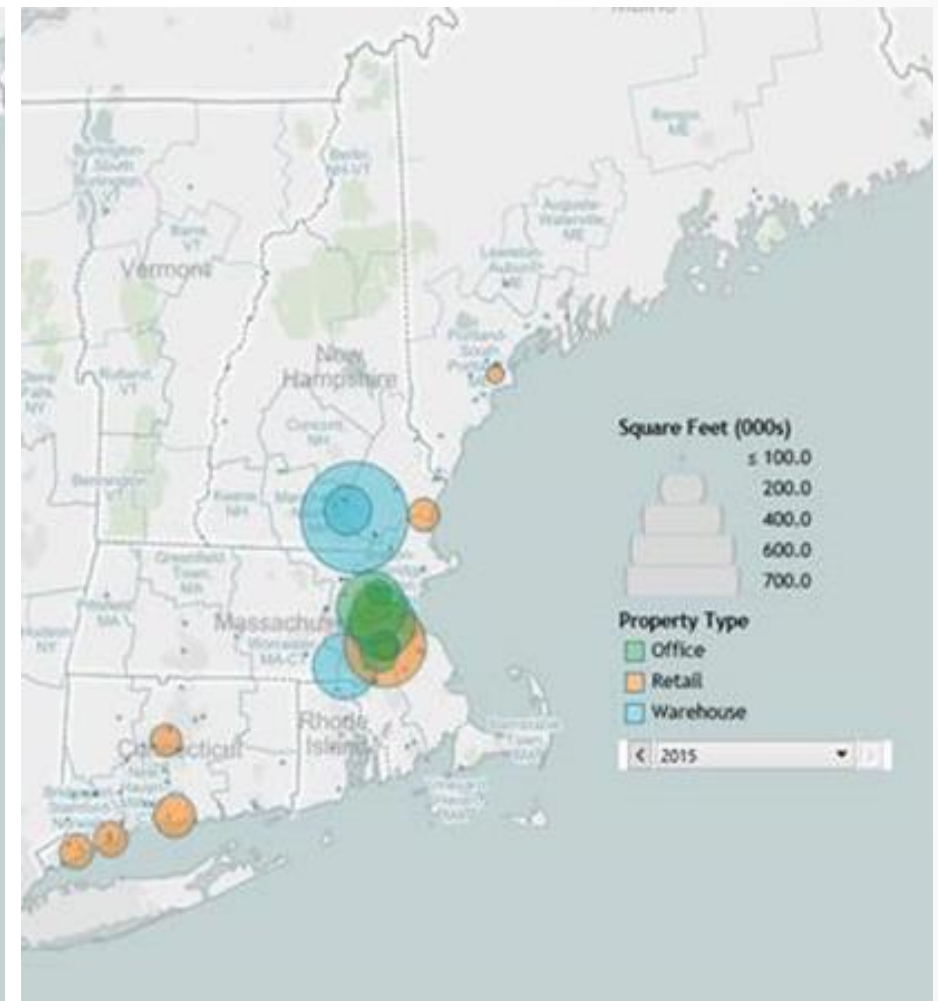
New Commercial Project Completions

Office, Industrial and Retail

2014



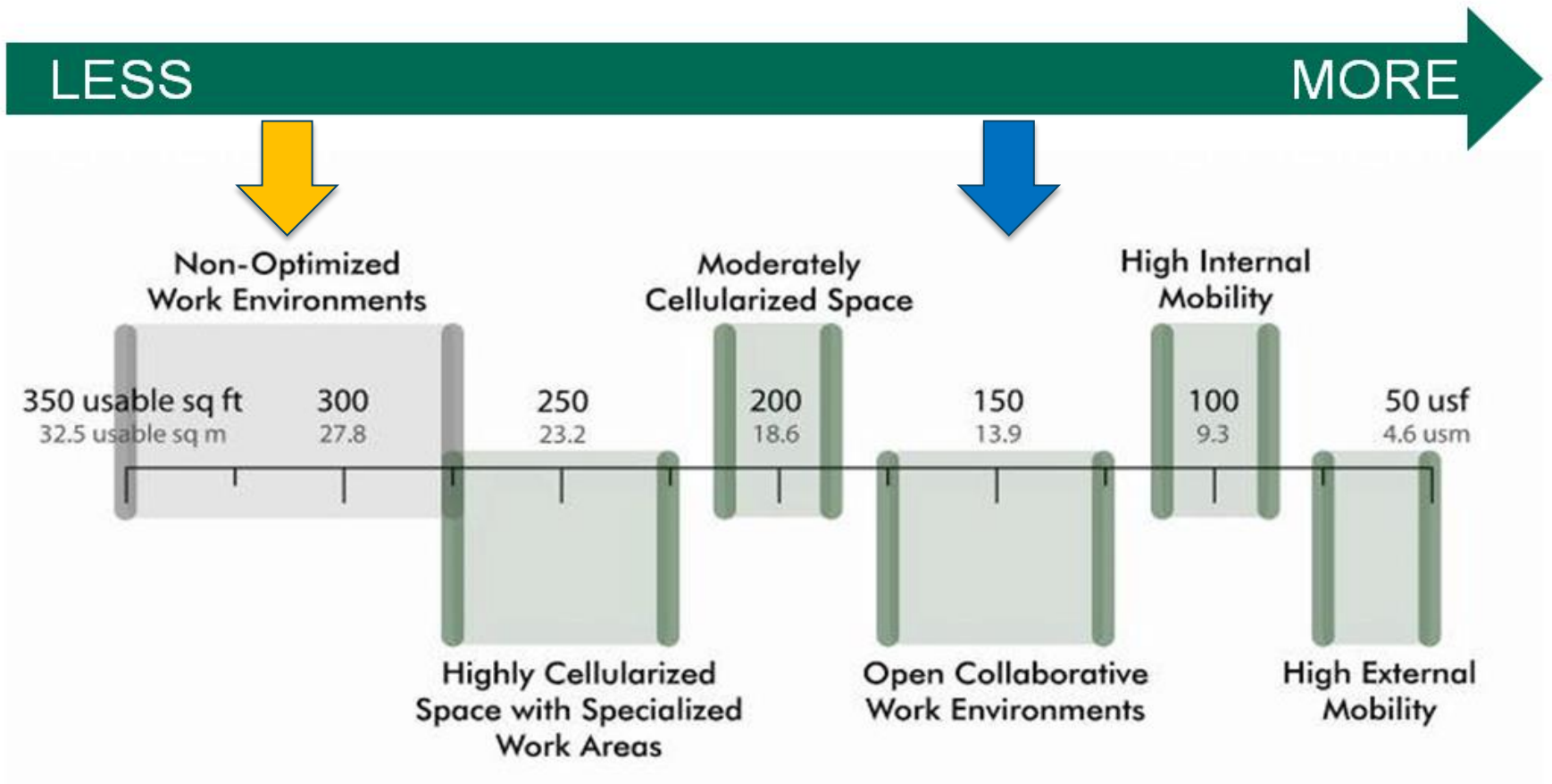
2015 YTD



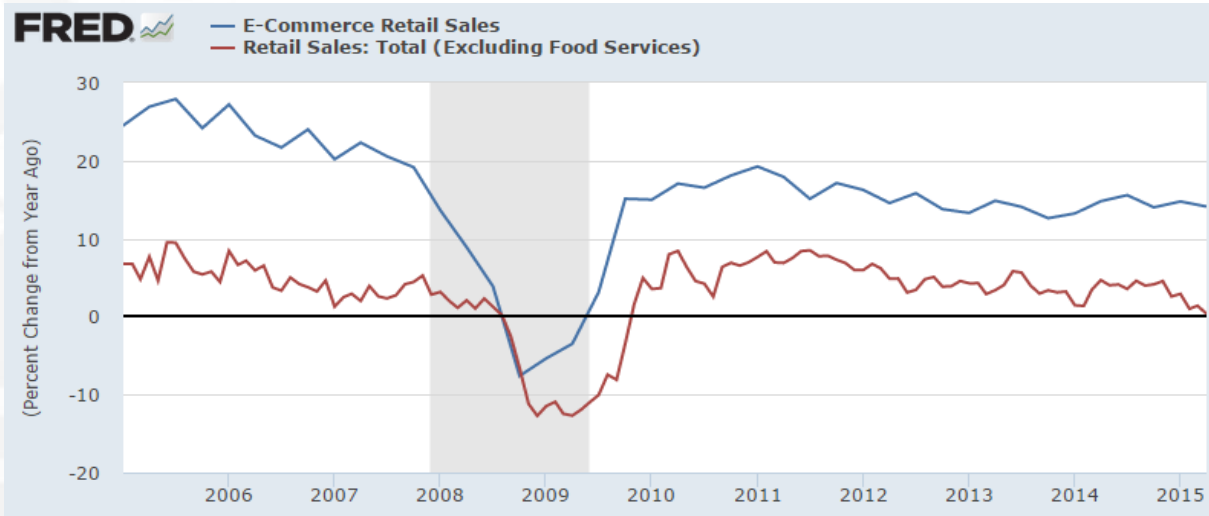
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Source: FW Dodge, Risk Analysis Unit/FRB Atlanta

Office Densification

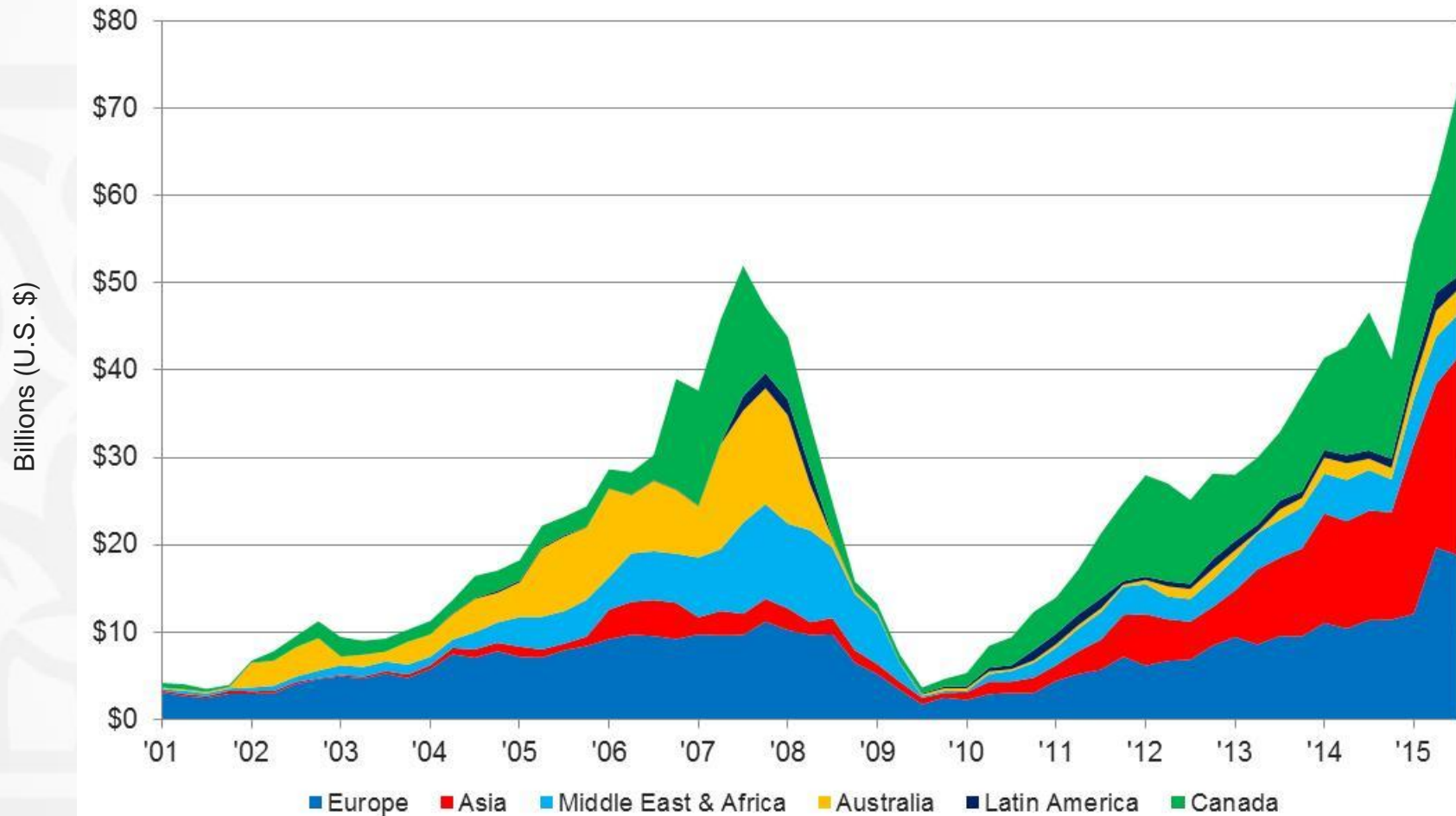


Retail Disruptors



Source: STL FRB

Foreign Capital Invested in U.S. CRE



Data: Q3 2015

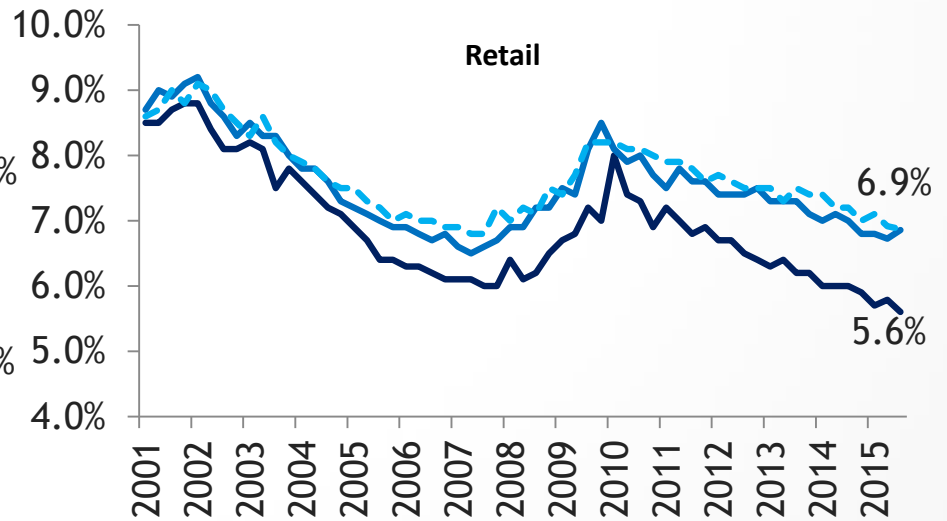
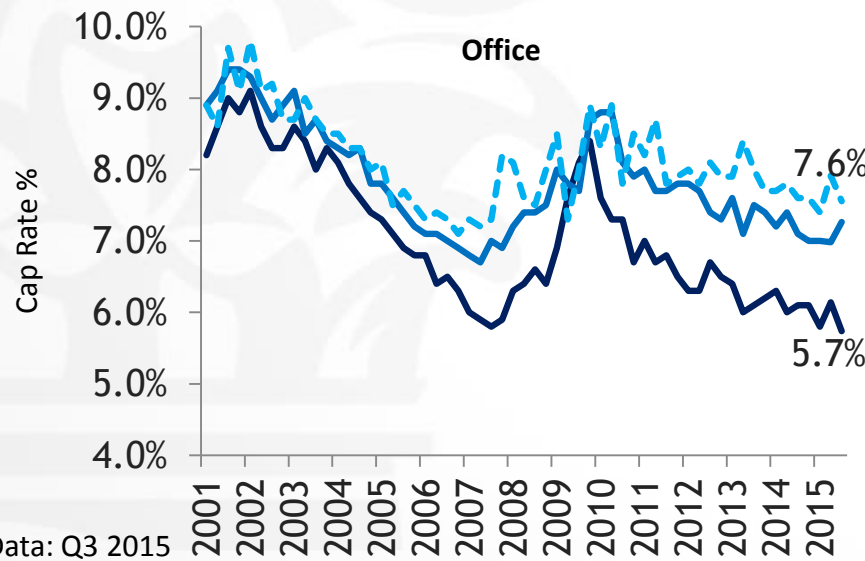
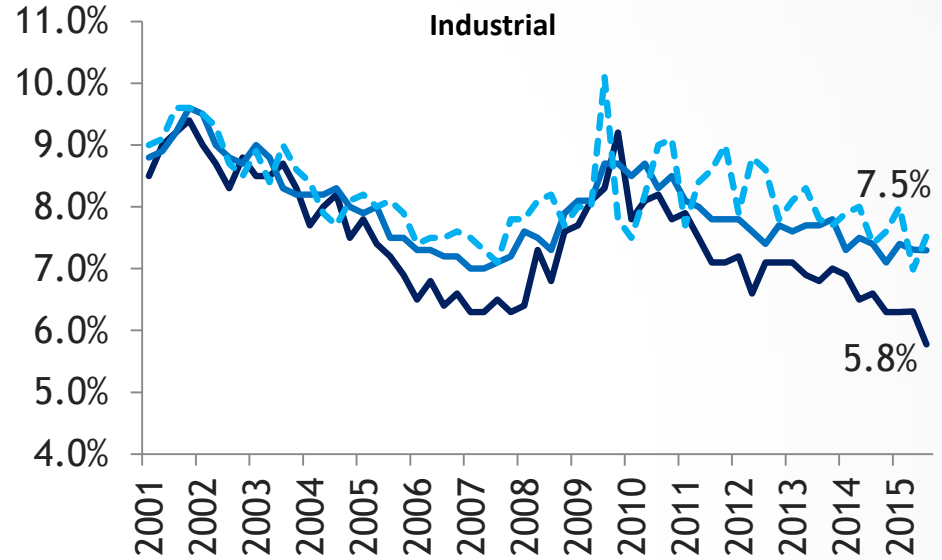
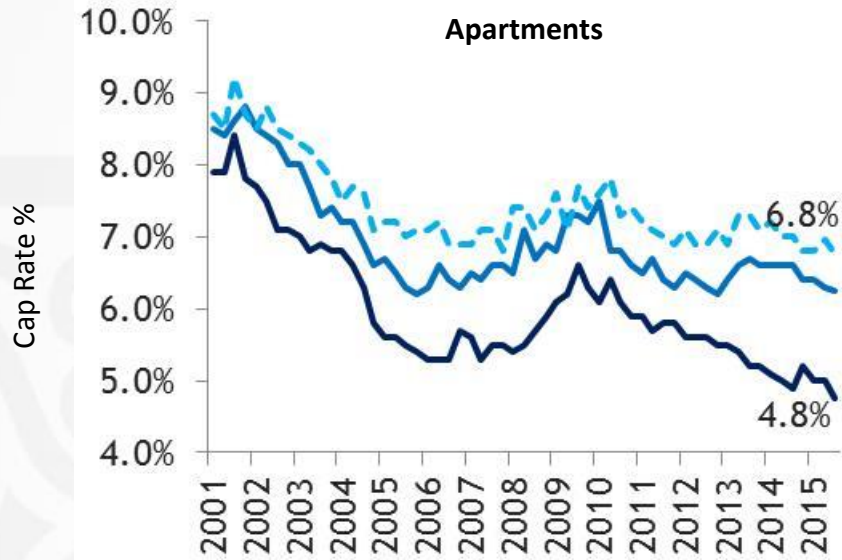
Source: RCA Analytics, Risk Analysis Unit/Federal Reserve Bank of Atlanta

Foreign Capital Invested in U.S. CRE

Foreign Purchases as a Percent of the Local Market

	<u>3Q 2015</u>
U.S.	15%
Atlanta	19%
Boston	9%
Chicago	14%
Denver	9%
Hartford	15%
Houston	15%
L.A.	12%
Miami	21%
Memphis	22%
NY, Manhattan	24%
Nashville	6%
Orlando	9%
Philadelphia	4%
Portland	20%
Raleigh	21%
Seattle	16%
St. Louis	2%
San Francisco	22%

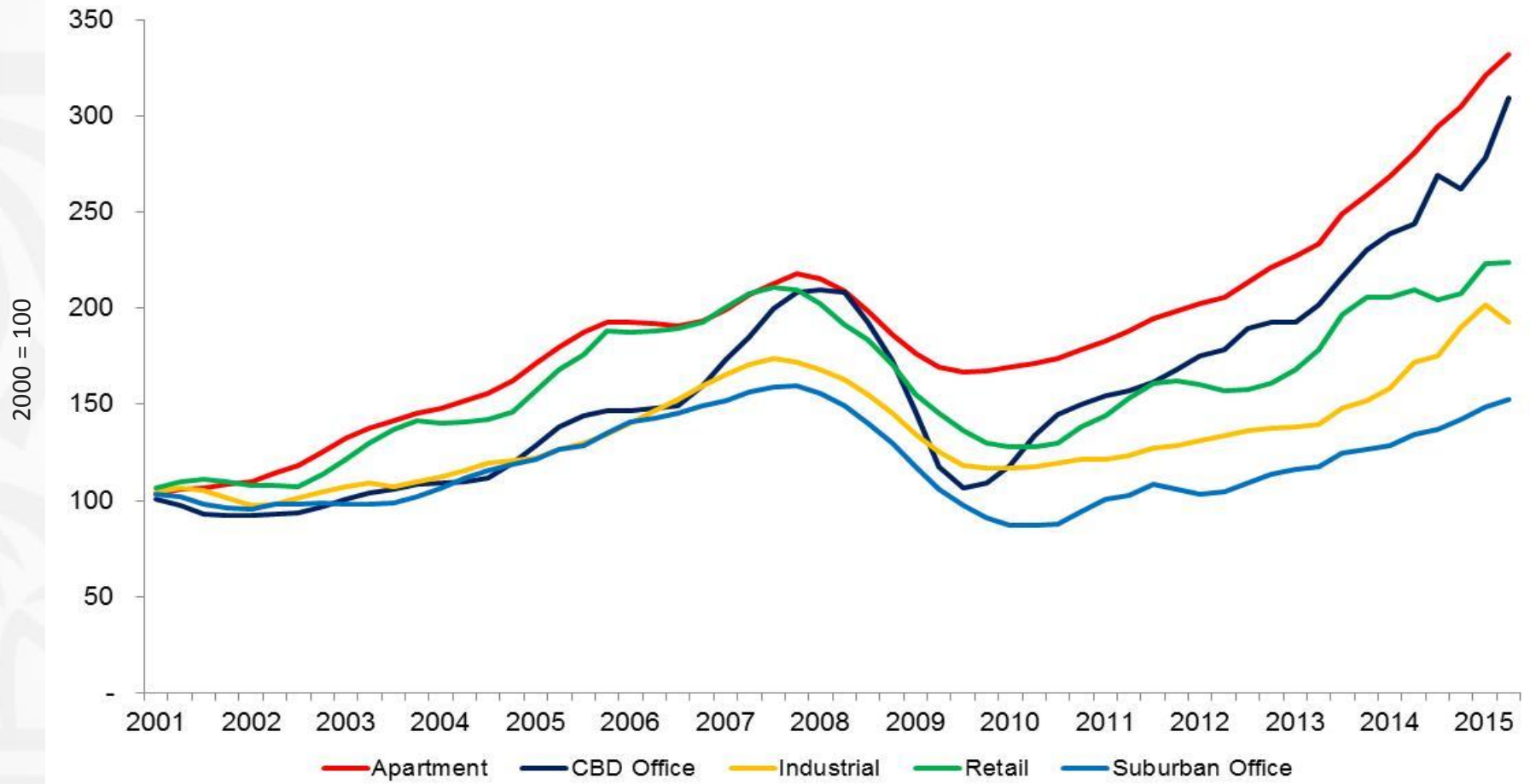
Cap Rates by Property Type and Market Classification



Data: Q3 2015

— Major — Secondary - - - Tertiary

Major Market CRE Price Indices Q2 2015

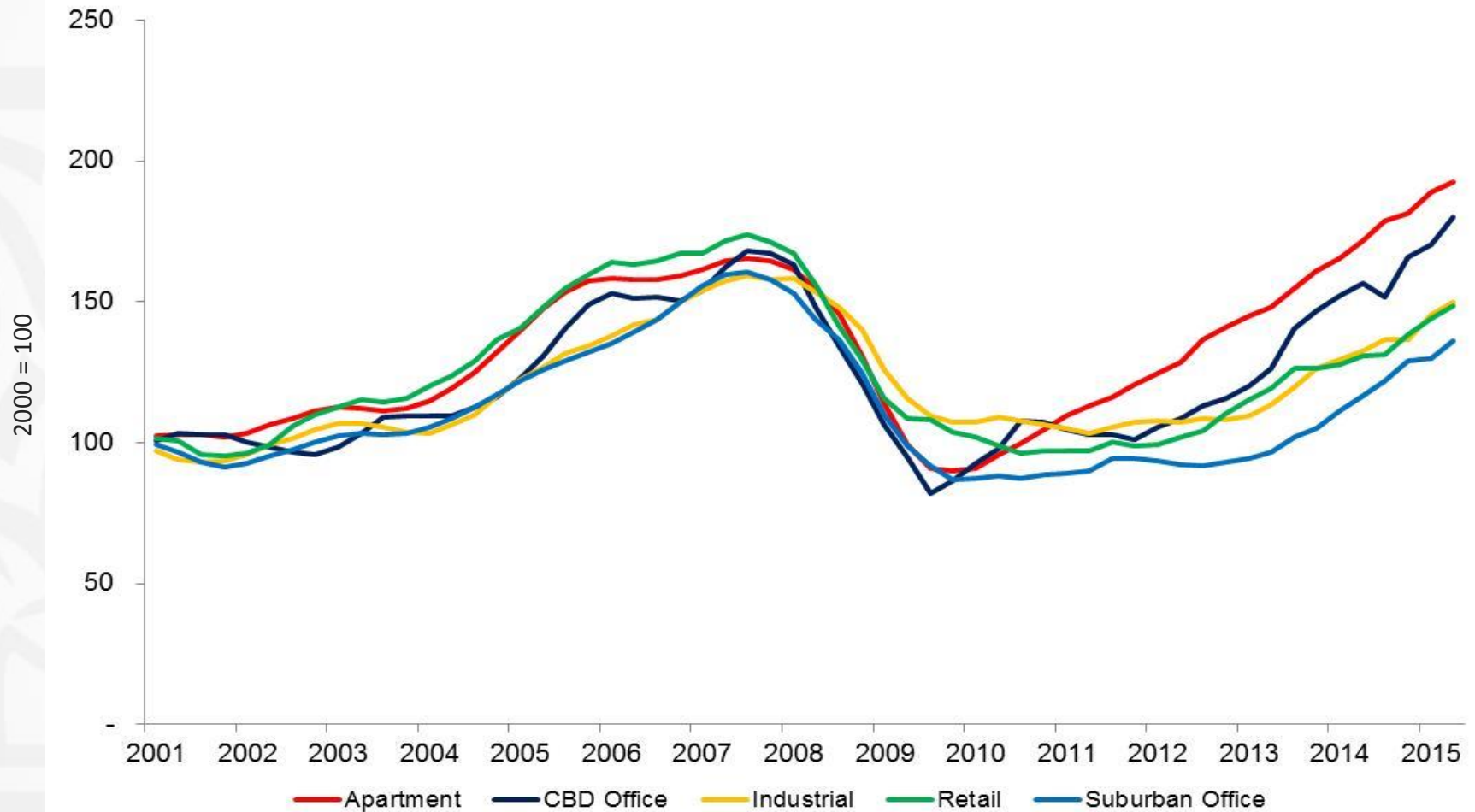


Data: Q2 2015

Major Markets: Boston, Chicago, Los Angeles, New York City, San Francisco, Washington D.C.

Source: RCA Analytics, Risk Analysis Unit/Federal Reserve Bank of Atlanta

Non-Major Market CRE Price Indices Q2 2015



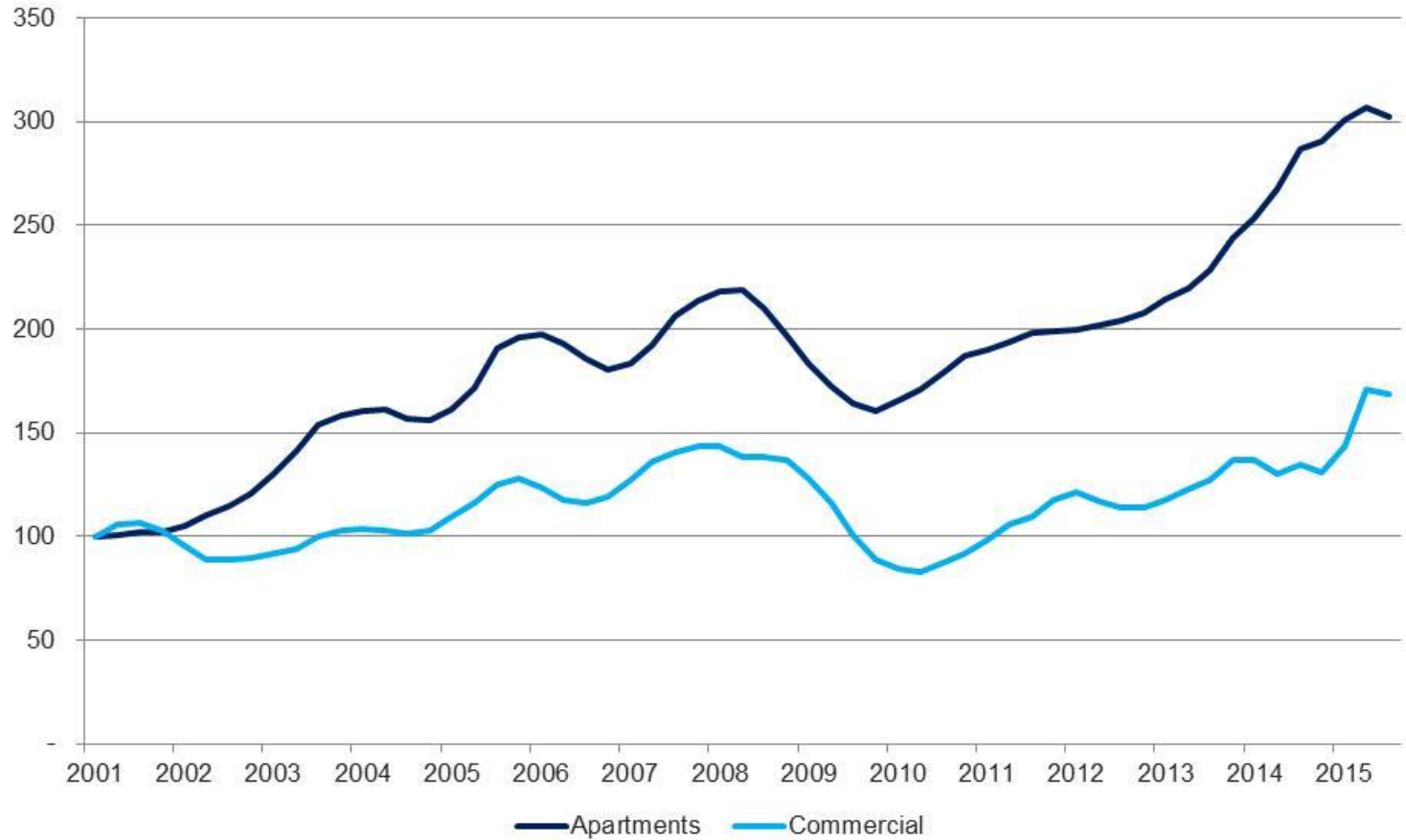
Data: Q2 2015

Non-Major Markets: All Markets Except the Majors (Boston, Chicago, Los Angeles, New York City, San Francisco, Washington D.C.)

Source: RCA Analytics, Risk Analysis Unit/Federal Reserve Bank of Atlanta

Boston CRE Price Indices Q2 2015

2000 = 100



Data: Q2 2015

Source: RCA Analytics, Risk Analysis Unit/Federal Reserve Bank of Atlanta

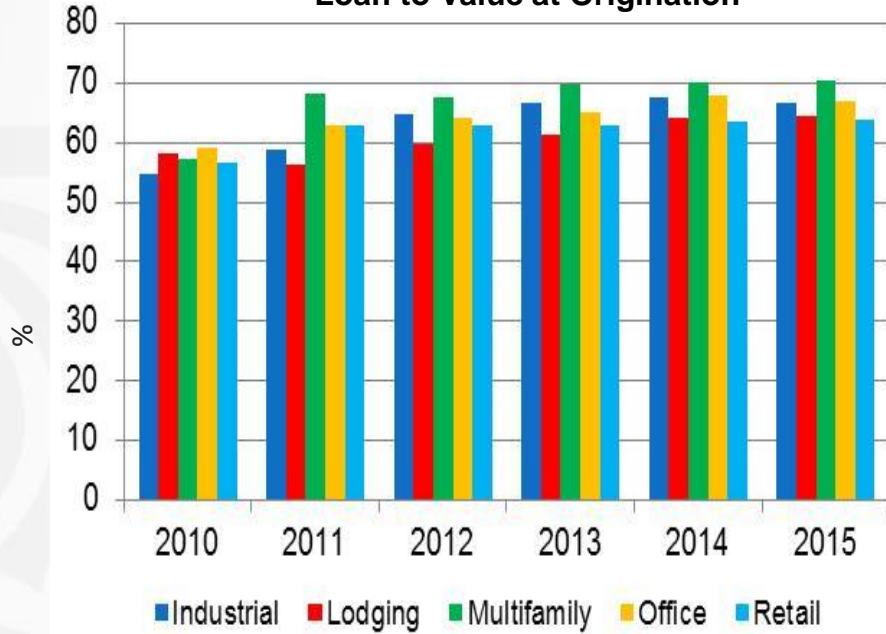
Discussion

Are foreign buyers making an impact on CRE values in your market?

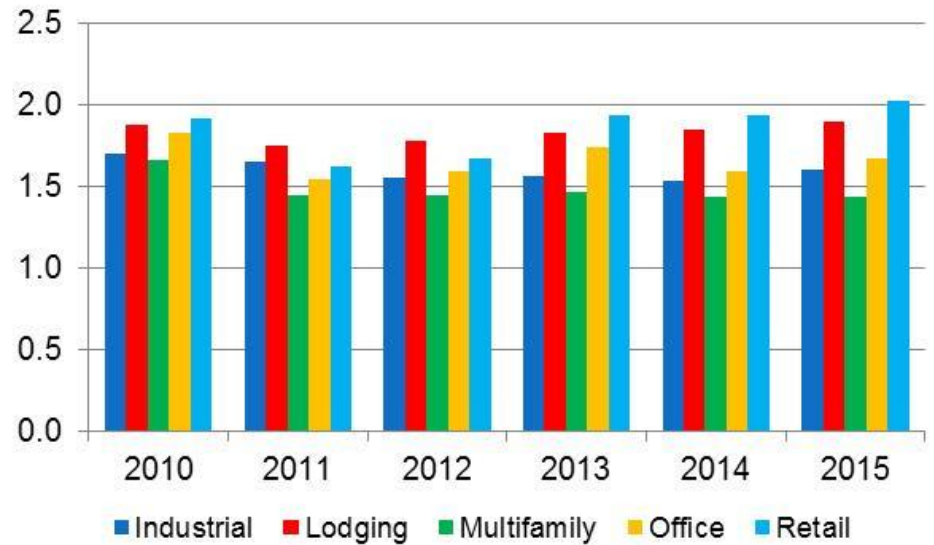


CMBS Lending Metrics

Loan to Value at Origination



Debt Service Coverage Ratios at Origination



Non-Major Markets: All Markets Except the Majors (Boston, Chicago, Los Angeles, New York City, San Francisco, Washington D.C.)

Source: TREPP, Risk Analysis Unit/Federal Reserve Bank of Atlanta

Discussion

What makes a viable Commercial Real Estate Developer?

1. Competency – Geographic, Product Type & Operating
2. Capital Access – Equity & Debt
3. Industry Relationships – Trades, Finance, Regulatory, & Professional
4. Specialization – Uniqueness and Creativity
5. Risk – Assessment, Tolerance & Mitigation
6. Intangibles
 - Integrity
 - Attitude
 - Problem solving

Conclusions:

- Risk continues to reemerge in the CRE space
 - Sustainability of Apartment fundamentals
 - Robust Occupancy, Eff. Rent Growth and supply dynamics
 - Greater lending
 - Hotel fundamentals
 - Strong Occupancy and ADR Growth
 - The rate of new supply is increasing
 - Industrial, Office & Retail
 - Rate of improvement is mixed
 - Technology is playing a bigger role in the evolution of these sectors
- Foreign investment in U.S. CRE is at extraordinary levels and rising.

Upcoming Themes:

- High and increasing construction costs has limited the financial feasibility of new construction (rising land costs also contributing).
- Declining vacancy combined with limited near-term supply appears to indicate continued rent growth on the horizon

Thank you



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