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

November 2015

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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.
Market Conditions

New Supply

Capital Markets

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Home Price Appreciation (YOY)

U.S. YOY = 6%

Source: CoreLogic
Home Price Appreciation
Peak to Current

Peak to Current
U.S. = -9.0%

Source: CoreLogic, Risk Analysis Unit/Federal Reserve Bank of Atlanta
Seriously Delinquent Mortgages

August 2015

Source: McDash Analytics, August 2015
Seriously Delinquent Mortgages (YOY)

One Year Percentage Point Change: August 2015

Source: McDash Analytics
U.S. Apartment Occupancy

National Average 95.1%

October 2015 Ann Occupancy
-96% Strong
-95% - 96% Above Average
-93% - 95% Average
-92% - 93% Fair
-<92% Poor

Source: AXIOMetrics, Risk Analysis Unit/Federal Reserve Bank of Atlanta
NE Apartment Occupancy

National Average 95.1%

Functionally Full Markets

Heightened Occupancy Rates often precipitate periods of decline

October 2015 Ann Occupancy

- 96% Strong
- 95% - 96% Above Average
- 93% - 95% Average
- 92% - 93% Fair
- <92% Poor

Source: AXIOMetrics, Risk Analysis Unit/Federal Reserve Bank of Atlanta
Softening Apartment Occupancy Rates can be attributed to the additional supply and off-peak leasing season.

Source: AXIOMetrics, Risk Analysis Unit/Federal Reserve Bank of Atlanta
U.S. Change in Occupancy YOY

October 2014 to October 2015
Percentage Change in Occupancy

Source: AXIOMetrics, Risk Analysis Unit/Federal Reserve Bank of Atlanta
Effective Rent Growth YOY

Source: AXIOMetrics, Risk Analysis Unit/Federal Reserve Bank of Atlanta
Effective Rent Growth YOY

U.S. Avg. 5%

Source: AXIOMetrics, Risk Analysis Unit/Federal Reserve Bank of Atlanta
A vast majority of the newly constructed Apartments have been in the Class A Segment

Source: AXIOMetrics, Risk Analysis Unit/Federal Reserve Bank of Atlanta
NE Multifamily Dynamics

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

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

Source: AXIOMetrics, Risk Analysis Unit/Federal Reserve Bank of Atlanta
Apartment Market Cycle 2Q 2015

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: Dr. Mueller, Risk Analysis Unit/Federal Reserve Bank of Atlanta
National CRE Vacancy Rates

Office: 13.4%
Retail: 11.3%
Warehouse: 9.6%
Multifamily: 4.6%

Data through 3Q15
Retail = Neighborhood, Community and Strip Centers

Source: AXIOMetrics, CBRE-EA, Risk Analysis Unit/Federal Reserve Bank of Atlanta
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: Dr. Mueller, Risk Analysis Unit/Federal Reserve Bank of Atlanta
Industrial 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

Financial Feasible New Construction Rents

Source: Mueller, 2015
Retail Market Cycle 2Q 2015

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: Dr. Mueller, Risk Analysis Unit/Federal Reserve Bank of Atlanta
Hotel 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
- Declining New Construction
- Increasing Vacancy

14-16; 1

Financial Feasible New Construction Rents

Source: Dr. Mueller, Risk Analysis Unit/Federal Reserve Bank of Atlanta
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*

- Apartments: 1.1% (1.6% Above Avg.)
- Hotel: 1.3% (33% Below Avg.)
- Industrial: 1.2% (18% Below Avg.)
- Office: 1.4% (48% Below Avg.)
- Retail: 1.2% (68% Below Avg.)

*Retail & Hotel Averages Based on 10 Years of Data

Source: CBRE-EA, Risk Analysis Unit/FRB Atlanta
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

Based on target completion date. Only includes new; does not include repositions, conversions, additions.
Source: FW Dodge, Risk Analysis Unit/FRB Atlanta
Office Densification

Source: CBRE Workplace Strategy, Risk Analysis Unit/Federal Reserve Bank of Atlanta
<table>
<thead>
<tr>
<th>City</th>
<th>3Q 2015</th>
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<tbody>
<tr>
<td>U.S.</td>
<td>15%</td>
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<tr>
<td>Atlanta</td>
<td>19%</td>
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<td>Boston</td>
<td>9%</td>
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<tr>
<td>Chicago</td>
<td>14%</td>
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<tr>
<td>Denver</td>
<td>9%</td>
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<td>Hartford</td>
<td>15%</td>
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<tr>
<td>L.A.</td>
<td>12%</td>
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<tr>
<td>Miami</td>
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<tr>
<td>San Francisco</td>
<td>22%</td>
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**Source:** RCA Analytics, Risk Analysis Unit/Federal Reserve Bank of Atlanta
Cap Rates by Property Type and Market Classification

Data: Q3 2015

Source: RCA Analytics, Risk Analysis Unit/FRB Atlanta
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

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

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
What makes a viable Commercial Real Estate Developer?

1. Competency – Geographic, Product Type & Operating
2. Capital Access – Equity & Debt
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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