

Welcome!

Mid-Year Economic Update: Tighten Belts and Suspenders?



Northern Nevada
CCIM Chapter



Collaboration



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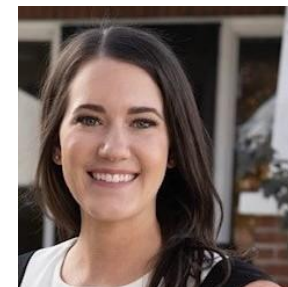
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CCIM Designees and
Candidates closed
transactions per year
(average)

67%

Of CCIM designees hold
senior titles

42%

More transactions annually
than typical brokerage
specialist

Today's Speaker



KC Conway

Red Shoe Economics | Chief Economist for the CCIM Institute



KC Conway, MAI, CCIM, CRE
(aka *The Red Shoe Economist*)

CCIM Northern Nevada Chapter
Wednesday August 23, 2023



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RedShoeEconomics.com

CCIM Northern Nevada Mid-Year Economic Update: “Belts & Suspenders,” and a CRE Toolbelt too (aka STICKUM) – stay to the end!



Forecasting the U.S. Economy when the
Federal Reserve deploys a
“Jump Rope Monetary Policy”
“We will need a Belt, Suspenders & a CRE-Toolbelt?”

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KC Conway, CCIM, CRE, MAI
CCIM Institute Chief Economist

Welcome to the FOMC's "Jump Rope" Monetary Policy

Do we get a Sept/Nov/December "JUMP" going forward?

The FOMC March 2022 to Aug 2023 BOFR/Rate Hikes Policy:

- Mar 2021 – Mar 2022: Run Around blindly kicking the Transitory ball
- May 2022 – Oct 2022: Jump, Jump, Jump, Jump, 50bps, 75bps, 75bps ...
- May 2023 – July 2023: **New Policy is Jump Rope!**

(Hike May, Skip June, Hike July, Skip Aug (no mtg), Sept Hike?)

Transitory, Transitory Longer, Forget we ever said Transitory, now let's do something about Inflation (find the ball) ...

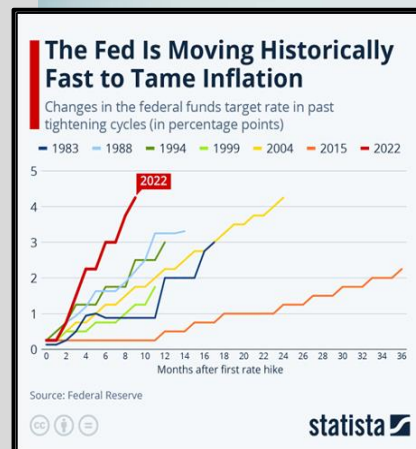
Mar 2021 to Mar 2022
Anybody see Inflation?



July 26 FOMC: "JUMP" and let's try
"Jump Rope" Monetary Policy

July 2023 "JUMP"

No Aug
Sept 20
No Oct
Nov 1
Dec 13



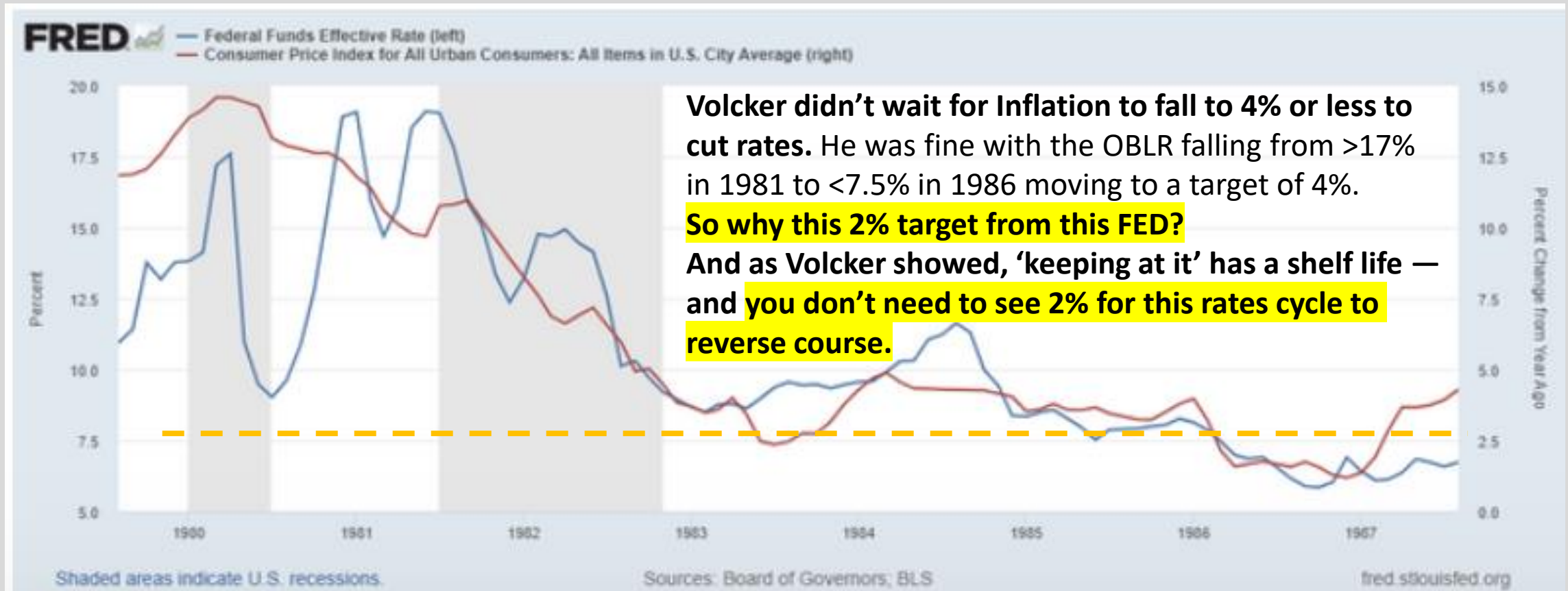
Q. What was Volcker's Target for Inflation in 1970s?
A. 4% (So why a 2% target?)

We were wrong on transitory, just hike/jump. OMG, anybody thinking about bank balance sheets? SVB Bank failure and FED's April 28, 2023 Forensic Report on SVB



Paul Volcker didn't wait for inflation to get back to 2% before pivoting

Published by Market Watch September 2022



<https://www.marketwatch.com/story/paul-volcker-didnt-wait-for-inflation-to-get-back-to-2-before-pivoting-11662732704>

The 2023 Forecasting Quote of the Year.

What was **INSIGHTFUL**, may **NO LONGER** be...

"Cognitive bias is a pernicious aspect of human thought that can make even the best among us unknowing victims," writes analyst [Christopher Robb](#) in [July Jobs Report Likely Bolsters Soft Landing Narrative](#).

"Wall Street is a 'tribe' in some ways, like any other industry or group. It has an orthodoxy on monetary policy and inflation that **has blinded many in finance and resulted in spurious conclusions.**

Properly navigating economic cycles is difficult in the first place - even more so when you throw in simultaneous demand and supply shocks of an intensity never experienced.

Accepting that many correlations that have traditionally provided insight may no longer be functional is essential to navigating today's markets."



SA Breaking Ne...
account@seekingalpha.com

What Kind of “New Insightful” Metrics?

“Destocking of Excess Inventory” by Maersk Shipping (proxy on Retail & Consumer)



Another indicator warning recession ahead - **Maersk shipping with 17% market share of global container activity sees container activity declining much more in 2H2023 as retailers not yet seeing destocking from excess inventory.**

COPENHAGEN, Aug 4 (Reuters) – Shipping group [A.P. Moller-Maersk](#) warned on Friday of a steeper decline in global demand for shipping containers by sea this year, prompted by muted economic growth and customers reducing inventories.

The company, one of the world’s biggest container shippers with a market share of around 17%, said it expects container volumes to fall by as much as 4%. It had previously forecast a decline of no more than 2.5%. Maersk transports goods for retailers and consumer companies such as Walmart, Nike and Unilever, and is seen as a barometer for global economic and corporate health.

CEO Vincent Clerc said he saw **no sign that the destocking which has curbed global trade activity would end this year. “We had expected customers to draw down inventories around the middle of the year, but so far we see no signs of that happening.** It may happen at the beginning of next year,” Clerc said at a media briefing. “Consequently, the uptick in volumes we had expected in the second half of the year has not occurred,” he said.

From **INTEREST RATES** to **BANKS** - **MOODY'S DOWNGRADES:**

What did Moody's see that the FED did NOT in its Bank Stress Tests?

Moody's Investors Service **cut its ratings on multiple small and mid-sized banks, and placed six larger lenders on review for downgrade to reflect** U.S. banking stresses including funding pressures, regulatory capital weaknesses and commercial real estate exposure.

"Many banks' Q2 results showed **growing profitability pressures that will reduce their ability to generate internal capital,**" Moody's said in a note. "This comes as a mild U.S. recession is on the horizon for early 2024 and asset quality looks set to decline."

U.S. banks' Q2 earnings **showed "material" increases in funding costs and profitability pressures related to the Federal Reserve's aggressive tightening.** "Higher interest rates continue to reduce the value of fixed rate securities and loans, and this risk is not captured well in bank regulation and can create liquidity risks," Moody's said.

Bank Stress Tests Released June 28, 2023 failed like SVB Bank

Big U.S. banks & the 2023 Fed's annual stress tests – 4.5% Capital Hurdle

The U.S. Federal Reserve is due to release the results of its annual bank health checks on **Wednesday, June 28**. Under the "stress test" exercise, the Fed tests banks' balance sheets against a hypothetical severe economic downturn, the elements of which change annually.

The results dictate how much capital banks need to be healthy and how much they can return to shareholders via share buybacks and dividends.

However, **years of practice have made banks more adept at the tests** and the Fed also has made the tests more transparent. **It ended much of the drama of the tests by scrapping the "pass-fail" model** and introducing a more nuanced, bank-specific capital regime.

The stress tests evaluate banks' capital adequacy, liquidity and risk management practices under adverse hypothetical scenarios such as a deep recession or a sharp decline in asset prices. **The test evaluates whether banks' capital ratio would remain above the minimum requirement of 4.5% during the hypothetical scenarios.**

Ally Financial Inc., Category IV
American Express Company, Category IV
Bank of America Corporation, Category I
The Bank of New York Mellon Corporation, Category IV
Barclays US LLC, Category III
BMO Financial Corp., Category IV
BNP Paribas USA, Inc., Category IV
Capital One Financial Corporation, Category III
The Charles Schwab Corporation, Category III
Citigroup Inc., Category I
Citizens Financial Group, Inc., Category IV
Credit Suisse Holdings (USA), Inc., Category III
DB USA Corporation, Category III
Discover Financial Services Category, IV
Fifth Third Bancorp, Category IV
The Goldman Sachs Group, Inc., Category I
HSBC North America Holdings Inc., Category IV
Huntington Bancshares Incorporated, Category IV
JPMorgan Chase & Co., Category I

KeyCorp, Category IV
M&T Bank Corporation, Category IV
Morgan Stanley, Category I
MUFG Americas Holdings Corporation, Category II
Northern Trust Corporation, Category II
The PNC Financial Services Group, Inc., Category IV
RBC US Group Holdings LLC, Category IV
Regions Financial Corporation, Category IV
Santander Holdings USA, Inc., Category IV
State Street Corporation, Category I
TD Group US Holdings LLC, Category III
Truist Financial Corporation, Category III
UBS Americas Holding LLC, Category III
U.S. Bancorp, Category III
Wells Fargo & Company, Category I

Bank Stress Tests: Reconcile “23 Pass” ratings with Overvalued CRE Loans

ATL Fed President: **“Banks preparing for real estate value plunge”**

Federal Reserve says 23 biggest banks weathered severe recession scenario in stress test.

All 23 of the U.S. banks included in the Federal Reserve’s annual [stress test](#) **weathered a severe recession scenario while continuing to lend to consumers and corporations, the regulator [said](#) Wednesday.**

The banks were able to maintain minimum capital levels, despite \$541 billion in projected losses for the group, while continuing to provide credit to the economy in the hypothetical recession, the Fed said in a [release](#).



Atlanta Fed President: **Banks preparing for real estate value plunge.**

"Metro Atlanta banks with **high exposure to commercial real estate will face more scrutiny from federal regulators in the coming months.**

The spotlight on lenders is growing brighter in the wake of the pandemic and the rise of hybrid work, events that have disrupted values in the nation's office property sector. **Many of those properties are overvalued, with [loans coming due](#). In Metro Atlanta, more than 100 commercial mortgage-backed securities loans with a total balance of \$3.5 billion are set to mature next year**, according to CMBS data provider Trepp LLC."

April 28, 2023

Re: Review of the Federal Reserve's Supervision and Regulation of Silicon Valley

MICHAEL S. BARR
VICE CHAIR FOR SUPERVISION

“SVB’s failure demonstrates that there are weaknesses in regulation and supervision that must be addressed.

Regulatory standards for SVB were too low, the supervision of SVB did not work with sufficient force and urgency, and contagion from the firm’s failure posed systemic consequences not contemplated by the Federal Reserve’s tailoring framework”

The four key takeaways of the report are:

1. Silicon Valley Bank’s board of directors and management failed to manage their risks.
2. **Supervisors did not fully appreciate the extent of the vulnerabilities as Silicon Valley Bank grew in size and complexity.**
3. **When supervisors did identify vulnerabilities, they did not take sufficient steps to ensure that Silicon Valley Bank fixed those problems quickly enough.**
4. The Board’s tailoring approach in response to the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) and a shift in the stance of supervisory policy impeded effective supervision by reducing standards, increasing complexity, and **promoting a less assertive supervisory approach.**

Stronger Regulatory Framework

It is appropriate to have stronger standards apply to a broader set of firms. As a result, we plan to revisit the tailoring framework, including to re-evaluate a range of rules for banks with \$100 billion or more in assets.


We need to evaluate how we supervise and regulate a bank’s management of interest rate risk. SVB did not appropriately manage its interest rate risk, and supervisors did not force the bank to fix these issues quickly enough.

In addition, we are also going to evaluate how we supervise and regulate liquidity risk, starting with the risks of uninsured deposits.

CDARS – No need for a SVB


The Largest U. S. Banks “Pass” Stress Tests, but also have the MOST “Unrealized Losses.” Nothing Learned from SVB

Four US Banking Giants Now Have \$205,000,000,000 in Unrealized Losses Sitting on Balance Sheets: Report



The four largest banks in the US now have a total of \$205 billion in unrealized losses on their balance sheets, according to a new report. **Bank of America, Wells Fargo, JPMorgan Chase and Citigroup have compiled the losses due to bad bets in the bond market,** reports the Financial Times, [citing](#) fresh data from the Federal Deposit Insurance Corporation (FDIC).

Bank of America is in the worst shape by a significant margin, with \$100 billion in unrealized losses on the books at the end of the first quarter. Wells Fargo and JPMorgan Chase both have \$40 billion in unrealized bond market losses, while Citigroup has \$25 billion in paper losses. Silicon Valley Bank is now the poster child representing the potential pitfalls of unrealized losses in the banking system.

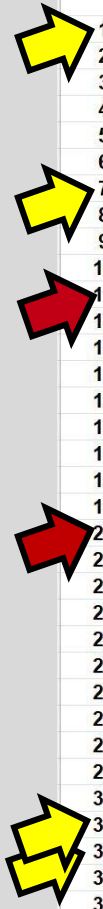


Despite the paper losses, the Federal Reserve says Bank of America and its peers fared well in a recent stress test on the banking system. The test, which simulated “severely adverse” conditions in U. S economy, found America’s top 23 banks would remain above their minimum capital requirements in a hypothetical recession, despite total projected losses of \$541 billion.

Obs	Bank Name	State	Total Assets	Uninsured Deposits
1	JPMORGAN CHASE BANK, NATIONAL ASSOCIATION	OH	3,201,942,000	1,057,867,000
2	BANK OF AMERICA, NATIONAL ASSOCIATION	NC	2,418,508,000	909,261,000
3	WELLS FARGO BANK, NATIONAL ASSOCIATION	SD	1,717,531,000	721,102,000
4	CITIBANK, N.A.	SD	1,766,752,000	598,195,000
5	U.S. BANK NATIONAL ASSOCIATION	OH	585,135,605	234,335,742
6	PNC BANK, NATIONAL ASSOCIATION	DE	552,307,127	200,038,825
7	TRUIST BANK	NC	546,228,000	189,579,000
8	BANK OF NEW YORK MELLON, THE	NY	324,646,000	175,097,000
9	GOLDMAN SACHS BANK USA	NY	486,967,000	167,986,000
10	CAPITAL ONE, NATIONAL ASSOCIATION	VA	453,313,240	158,743,077
11	SILICON VALLEY BANK	CA	209,026,000	151,592,000
12	STATE STREET BANK AND TRUST COMPANY	MA	298,020,000	148,917,000
13	FIRST REPUBLIC BANK	CA	212,638,872	119,470,758
14	TD BANK, N.A.	DE	386,799,237	111,009,056
15	HSBC BANK USA, NATIONAL ASSOCIATION	VA	162,436,537	94,150,714
16	CITIZENS BANK, NATIONAL ASSOCIATION	RI	226,401,591	88,882,682
17	BMO HARRIS BANK NATIONAL ASSOCIATION	IL	176,980,258	88,596,417
18	FIFTH THIRD BANK, NATIONAL ASSOCIATION	OH	206,289,179	88,345,349
19	HUNTINGTON NATIONAL BANK, THE	OH	182,325,674	84,586,841
20	SIGNATURE BANK	NY	110,363,650	79,458,961
21	MANUFACTURERS AND TRADERS TRUST COMPANY	NY	200,262,969	79,357,151
22	KEYBANK NATIONAL ASSOCIATION	OH	187,590,465	75,563,348
23	CHARLES SCHWAB BANK, SSB	TX	348,731,000	67,216,000
24	MORGAN STANLEY PRIVATE BANK, NATIONAL ASSOCIATION	NY	209,664,000	57,280,000
25	MORGAN STANLEY BANK, N.A.	UT	201,363,000	54,005,000
26	CITY NATIONAL BANK	CA	96,504,709	53,145,530
27	REGIONS BANK	AL	154,203,000	49,317,000
28	COMERICA BANK	TX	85,531,000	45,492,000
29	MUFG UNION BANK, NATIONAL ASSOCIATION	CA	104,445,496	43,739,502
30	NORTHERN TRUST COMPANY, THE	IL	154,522,864	41,851,771
31	ZIONS BANCORPORATION, NATIONAL ASSOCIATION	UT	89,544,919	37,633,835
32	BANK OF THE WEST	CA	91,580,361	36,642,906
33	EAST WEST BANK	CA	64,087,895	35,051,904
34	WESTERN ALLIANCE BANK	AZ	67,683,841	31,088,835
35	FIRST HORIZON BANK	TN	78,672,073	30,304,499
36	CIBC BANK USA	IL	50,933,929	29,985,744
37	FIRST-CITIZENS BANK & TRUST COMPANY	NC	109,180,139	29,133,533
38	BANCO POPULAR DE PUERTO RICO	PR	56,050,000	28,091,000
39	SANTANDER BANK, NATIONAL ASSOCIATION	DE	99,105,686	27,873,261
40	UBS BANK USA	UT	120,987,397	27,451,199
41	DEUTSCHE BANK TRUST COMPANY AMERICAS	NY	39,192,000	26,064,000
42	SYNOVUS BANK	GA	59,629,623	25,077,980
43	UMB BANK, NATIONAL ASSOCIATION	MO	38,279,055	24,657,778
44	FROST BANK	TX	52,953,767	23,839,797
45	WEBSTER BANK, NATIONAL ASSOCIATION	CT	71,166,370	22,546,130
46	AMERICAN EXPRESS NATIONAL BANK	UT	155,378,079	21,662,662
47	BOKF, NATIONAL ASSOCIATION	OK	47,596,192	21,284,601
48	FLAGSTAR BANK, NATIONAL ASSOCIATION	NY	90,036,656	19,561,195
49	CADENCE BANK	MS	48,668,073	19,431,472
50	BANKUNITED, NATIONAL ASSOCIATION	FL	36,897,184	19,197,800

Top US Banks with Uninsured Deposits: JP Morgan #1, but some notable SE banks rank high, (Truist, Regions) as do Mid-West Banks like Huntington & Key).

Note how quickly a Social Media rumor caused \$ to flee SVP and First Republic that could also occur at these banks with high "Uninsured Deposits."



In June, the WSJ published an article about the un-booked mark-to-market losses on banks' loan portfolios.

It attributed the problems of First Republic Bank to unbooked losses on its loan portfolio, which is heavily concentrated in residential mortgages. Because of rising interest rates, the market values of 30-year fixed rate residential mortgages originated prior to 2023 have declined significantly. At year-end, First Republic Bank reported \$22 billion in un-booked losses on its total loan portfolio, which exceeded its total equity of only \$17 billion.

What other bank loan portfolios are at risk from residential mortgages. Here is a list of 33 banks with more than \$10 billion in assets that have residential mortgages equal to more than 200% of total equity. This calculation does not include home equity lines of credit.

Seven banks have exposures exceeding 500% of equity, including First Republic Bank. (One of these is an S&L and one is an FSB, which are not "commercial banks.") Another three have exposures greater than 400%, and another eight have exposures greater than 300%.

Bank Deposit Flight is a Headwind – Banks will “Shrink-Size-It” vs. Biggie-Size-It

Community & Regional Banks are beating Large Banks for Deposits. Why? **Paying the Most!**

THE DAILY HODL
News and Insight for the Digital Economy

Bank deposit flight continues into August, and community banks cannot sustain paying more for deposits than big banks. This trend does not end well. Get ready for more pre-arranged bank mergers like PacWest as regulators want to side step the 485 bank failures saga from 2008-2011.

Note the following from Daily HODL:
"Deposits into smaller banks are rising simply because they are being forced to pay more for their customers.

The regionals are winning the deposit battle right now because they're willing to pay the most."

\$262,000,000,000 in Deposits Exits JPMorgan, Wells Fargo, BofA and Citi in One Year As Government Reveals Collapse of Another US Bank

JPMorgan Chase, Bank of America, Citigroup and Wells Fargo have lost \$262 billion due to deposit flight compared to the same period last year, [reports](#) Yahoo Finance.

AMERICAN BANKER.

Banks, usually hungry for growth, are now looking to shrink

Bankers that long focused on growth have a new goal: getting smaller. The goal isn't universal, as some banks still see opportunities, but much of the industry is slimming down.

[Bankers are tightening their underwriting.](#) They're cutting back or calling it quits on riskier or less profitable businesses. **And they're selling loans they no longer want**, which helps them shrink their balance sheets.

https://www.americanbanker.com/news/banks-usually-hungry-for-growth-are-now-looking-to-shrink?utm_source=newsletter&utm_medium=email&utm_campaign=V3_AB_Daily_2023%2B%27-%27%2B08072023&bt_ee=km%2B9FE3VkkqLa4kL10hKdbGStMkzDVOM%2BgSZSgiDRqDMSUmRHck29%2FKCLN6f8bv&bt_ts=1691410006659

Bank Competition from Credit Unions

Credit Unions are **Paying the Most on CD rates – CA Banks Complain!**

Best CD Rates of August 2023 (Up to 7.19% APY)

The best CD rate is **7.19% APY on an 7-month certificate** from [Alpena Alcona Area Credit Union](#)



Credit unions' expansion in California fuels bankers' ire

americanbanker.com • 4 min read

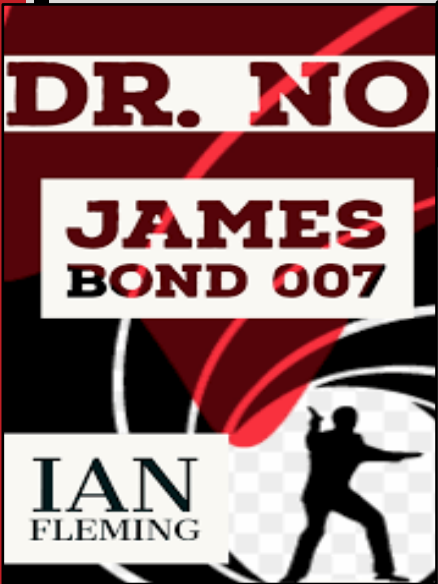
California banks complain about Credit Union growth. Maybe the real question should be: **Why are credit unions growing?** ←
It's a multi-part answer that is

1-part executing a better relationship experience,

1-part less onerous and costly regulatory oversight (credit Unions have an advantage)

1-part operating cost advantage favoring credit unions.

→ The Red-Shoe Economist is grateful we have credit unions, and that they are engaged to aid our CRE industry with credit at a time banks are being squeezed by their more onerous regulatory regime.



No Way are we nearing the end!

Water Crisis

Bank Failures

Fiscal Policy

No Consumer Confidence

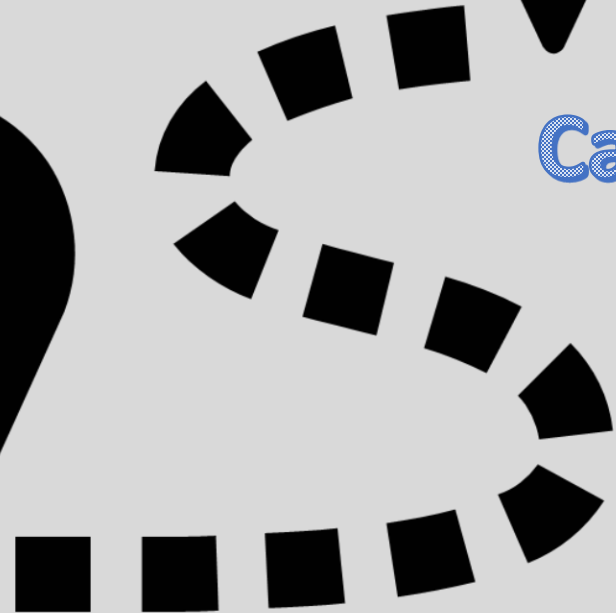
Personal Debt



GDP & Jobs



Capital Lock Down



CRE Valuation Decline

Western Water Drought - Colorado River Basin States

Where Housing is Drying Up!



Colorado River users, facing historic uncertainty, are set to meet in Las Vegas next month – The Nevada Independent

thenevadaindependent.com • 9 min read

[Colorado River users, facing historic uncertainty, are set to meet in Las Vegas next month – The Nevada Independent](http://thenevadaindependent.com)

Together, the many reservoirs that store water for Arizona, California, Nevada and Mexico, are 33 percent full. Lake Mead, held back by the Hoover Dam and the reservoir from which the **Las Vegas Valley draws 90 percent of its drinking water, is 28 percent full.** Upstream at another large reservoir, Lake Powell, low water has exposed submerged landscapes. It is 25 percent full.

Modeling by [federal water experts forecast](#) both Lake Mead and Lake Powell continuing to drop below critical levels. Without changes in water use, Lake Mead, over the next two years, could drop below the threshold triggering deeper water shortages. **And Lake Powell could drop below its minimum power pool, the point at which water is so low the dam cannot generate electricity.**

In June, U.S. Bureau of Reclamation Commissioner Camille Touton **called on all water users and all sectors on the Colorado River to come together with a plan that would cut a huge amount of water — about 2 million to 4 million acre-feet — as a measure to stabilize the two reservoirs (an acre-foot is enough water to roughly fill a football field to a depth of one foot).**

WEST WATER CRISIS GETS REAL “NO WATER FOR YOU”

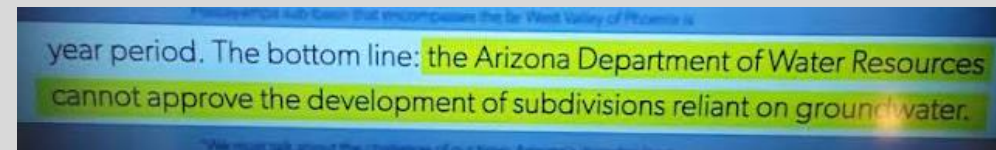
NO Water Permits To Be Issued to large Howard Hughes PUD



**Hughes Corp AZ
Housing Project
Halted**

**\$800 million land
& 100k Homes
halted**

**“No Water Permits for You”
100k Housing PUD (\$800 million land investment) halted!**



Drought: West Water Crisis Update

Colorado River deal forever changes the price of water in the West

For the first time in this drought-stricken center, **a new price for water in the West has been set – and it's 25 times higher than what farmers have paid for the last 75 years.**

Arizona, Nevada and California recently agreed to **reduce their water consumption from the Colorado River by 13% through 2026.** The federal government will pay their irrigation districts, Native American tribes and cities \$521 for each acre-foot of water they don't use.

This agreement is the start of the end of agriculture as we know it in the West, but not just agriculture. For every drop of water used, industries – from farms and ranches to data centers and power plants to ski resorts and golf courses – **must determine whether it pays more to use the water, or to avoid using it.**

With the price signal of water now reset to \$521 per acre-foot, the math for water users will change, starting with agriculture. Food generates more than \$50 billion annually across the lower Colorado River basin states, and **the industry rests on the foundation of \$20 water promised by the Bureau of Reclamation.**

With this new agreement, **every use of water must exceed the value of not using it.**

Take the most-grown crop in the Colorado River basin: alfalfa. This grass is exported worldwide and fed to livestock, mostly cows. Alfalfa sells for \$230 per ton in California. With 3 acre-feet of water, an acre of alfalfa will yield around 6 tons of product. So, at \$20 per acre-foot of water, a farmer would spend \$60 in water for \$1,380 of alfalfa, leaving plenty of money for labor and equipment and profit. **At \$521 per acre-foot of water, the farmer pays \$1,563 for water alone for that same \$1,380 in alfalfa, losing nearly \$200 per acre.**

The math for most other crops is not much better.



<https://calmatters.org/commentary/2023/06/colorado-river-deal-west-water/>

Water Beyond West:

Hidden Underground Lake in Center of the U.S. Threatening Farming

OGALLALA Aquifer:

A huge, hidden underground lake spreads throughout the center of the U.S., supporting farming across the Great Plains and providing drinking water for millions, but the ongoing drought is threatening to dry it up.

The Ogallala Aquifer is **one of the world's largest, lying beneath the U.S. states of South Dakota, Nebraska, Wyoming, Colorado, Kansas, Oklahoma, New Mexico and Texas.**

Use of the aquifer for agricultural purposes started shortly after World War II. It makes up about **30 percent of the groundwater used for irrigation in the U.S.,** while providing **drinking water to over 80 percent of the people living across the Great Plains.**

But the crucial water source is drying up. **The situation mirrors that of Lake Mead and Lake Powell,** the Colorado River reservoirs in the West, which are at dire risk of drying up as drought grips the region amid climate change.

Once it has gone, it would take over 6,000 years to replenish naturally through rainfall.



Nevada's ECO & CRE Future is all about WATER!

WaterStart - Adopt technology to Reduce Water Use vs. "Restricting Growth."

'An example to the Western US': Water conservation at forefront of Nevada's economic future

LAS VEGAS
REVIEW-JOURNAL

- ➔ **The driest state in the nation** is putting water consumption and conservation at the forefront of its economic development plans. The Governor's Office of Economic Development recently awarded **a \$1.5 million grant to Henderson-based nonprofit**
- ➔ **WaterStart to develop a set of conservation-minded incentives** that will be incorporated into the state's economic development portfolio — giving the Silver State another tool in the highly competitive field of attracting new and emerging businesses.

"We think we can develop an approach that is more proactive than just restricting growth. And we hope this approach will be an example to the rest of the Western U.S.," he said.

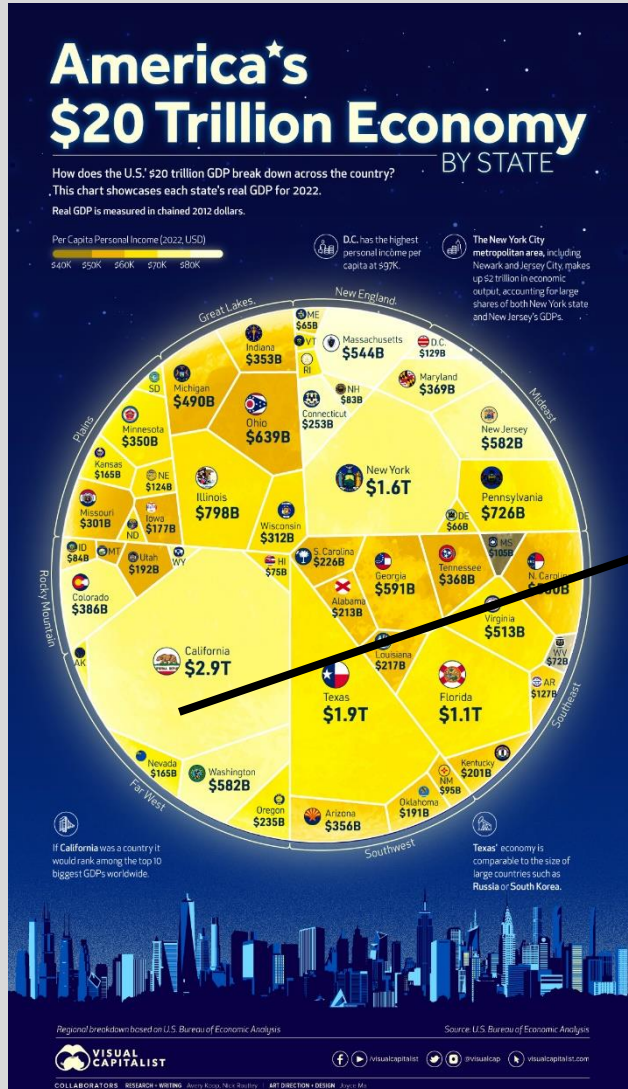
The concept would be similar to how other economic development incentive packages are handled in the state, but aimed at **encouraging businesses to adopt technologies that will reduce their water consumption.**

In Southern Nevada, **evaporative coolers are the second largest consumer of water behind only grass lawns**, according to the Southern Nevada Water Authority.

Nevada has what it considers seven "key" target industries that it is trying to attract to the state. Those are aerospace; health; information technology; manufacturing and logistics; mining; natural resource technologies; and gaming and tourism. **Some of the companies in those industries, such as data centers, tend to have hefty water footprints.** In other cases, businesses moving from areas where water is less of a concern may not even think about how much water they are using through cleaning, cooling or other daily operations, Allen ➔. **"What we're trying to figure out is can we find technologies to help those kind of industries adapt to how they operate in this region."**

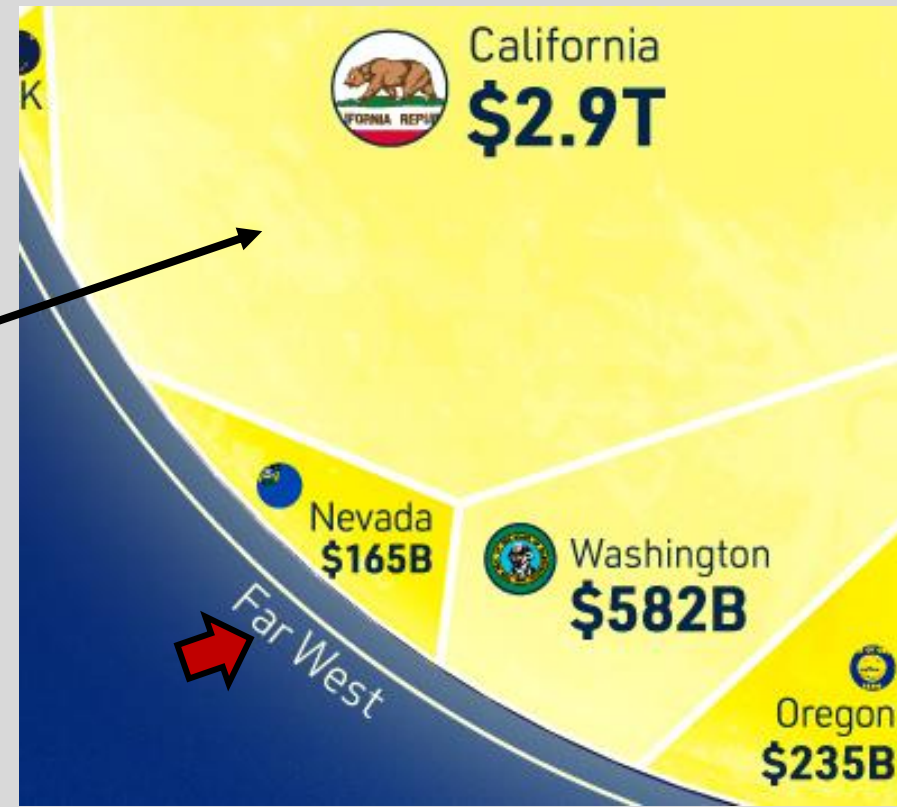
Visualizing the U.S. Economy by State

Nevada GDP Matters ... PLUS proximity to CA and Eco Outflow from CA to NV



Visualized: The U.S. \$20 Trillion Economy by State

Nevada GDP of \$165B is similar to Kansas & Utah, and 2X that of Idaho.



Rank	State	Real GDP (ch)
1	California	\$2.9 trillion
2	Texas	\$1.9 trillion
3	New York	\$1.6 trillion
4	Florida	\$1.1 trillion
5	Illinois	\$798 billion
6	Pennsylvania	\$726 billion
7	Ohio	\$639 billion
8	Georgia	\$591 billion
9	Washington	\$582 billion
T9	New Jersey	\$582 billion
	United States	\$20 trillion

Ranking of States with MOST Corp. HQs

Migration out of IL, CA, NY and CO is an OPPORTUNITY for #17 Nevada

Top Company Headquarters

This metric reflects the number of top company headquarters per million residents in each state. Top companies are pulled from Fortune magazine's list of the 1,000 top revenue-generating companies – known as the [Fortune 1000](#) – and population data is from the U.S. Census Bureau. The top company headquarters metric is one of many that factor into the overall [Best States rankings](#). See the Best States [methodology](#) for a detailed look at the data behind the analysis.



 **Delaware**

- #1 in Top Company Headquarters
- #18 in Best States Overall
- #16 in Economy
- #3 in Business Environment

 **Colorado**

- #10 in Top Company Headquarters
- #15 in Best States Overall
- #3 in Economy
- #5 in Business Environment

 **Tennessee**

- #18 in Top Company Headquarters
- #24 in Best States Overall
- #12 in Economy
- #19 in Business Environment

 **Illinois**

- #4 in Top Company Headquarters
- #36 in Best States Overall
- #39 in Economy
- #26 in Business Environment

 **California**

- #15 in Top Company Headquarters
- #33 in Best States Overall
- #29 in Economy
- #2 in Business Environment

 **Georgia**

- #19 in Top Company Headquarters
- #21 in Best States Overall
- #11 in Economy
- #13 in Business Environment

 **New York**

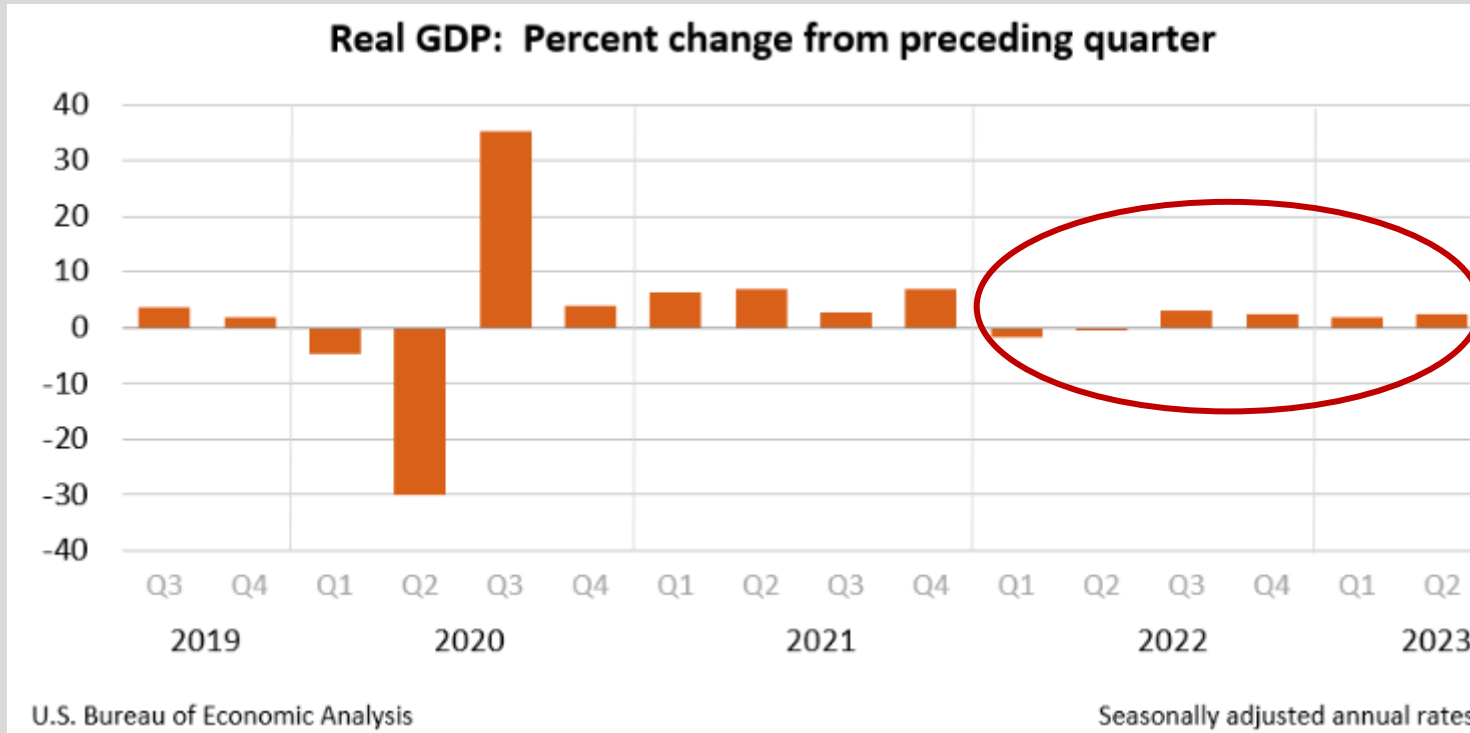
- #8 in Top Company Headquarters
- #20 in Best States Overall
- #45 in Economy
- #27 in Business Environment

 **Nevada**

- #17 in Top Company Headquarters
- #38 in Best States Overall
- #30 in Economy
- #10 in Business Environment

Note: NV has more Corp HQs than TN or GA with Coke, Delta, Cisco, Equifax, UPS, IHG Home Depot, FedEx, VW.

GDP: Why was it Negative 1H2022 and Positive 2%+ 1H2023?



Real gross domestic product (GDP) increased at an annual rate of 2.4 percent in the second quarter of 2023 (table 1), according to the "advance" estimate released by the Bureau of Economic Analysis. In the first quarter, real GDP increased 2.0 percent.

The increase in real GDP reflected increases in consumer spending, nonresidential fixed investment, state and local government spending, private inventory investment, and federal government spending that were partly offset by decreases in exports and residential fixed investment. Imports, which are a subtraction in the calculation of GDP

The increase in consumer spending reflected increases in both services and goods. Within services, the leading contributors to the increase were housing and utilities, health care, financial services and insurance, and transportation services. Within goods, the increase was led by recreational goods and vehicles as well as gasoline and other energy goods.

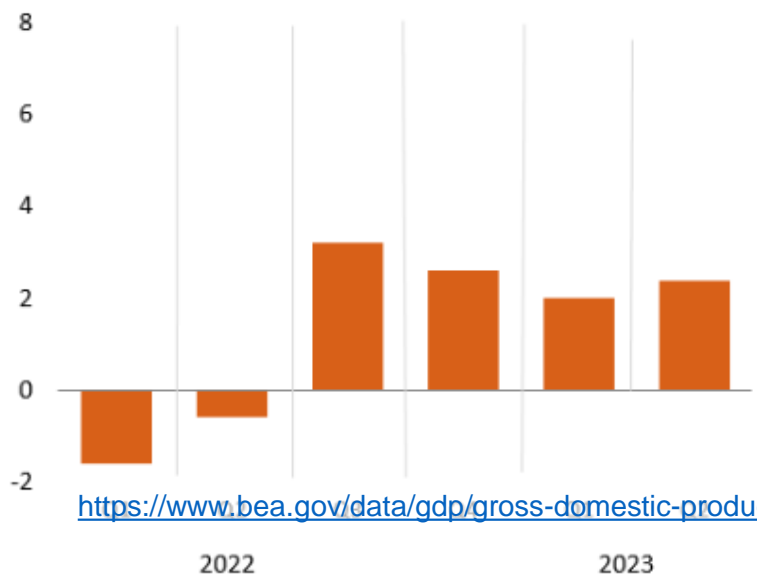
GDP: Understand what is Slowing (Consumer Spending)

Gross Domestic Product, Second Quarter 2023 (Advance Estimate)

Q2 2023 (Adv)	+2.4%
Q1 2023 (3rd)	+2.0%

Real gross domestic product (GDP) increased at an annual rate of 2.4 percent in the second quarter of 2023, according to the "advance" estimate. In the first quarter, real GDP increased 2.0 percent. The increase in the second quarter primarily reflected increases in consumer spending and business investment that were partly offset by a decrease in exports. Imports, which are a subtraction in the calculation of GDP,

Real GDP: Percent change from preceding quarter



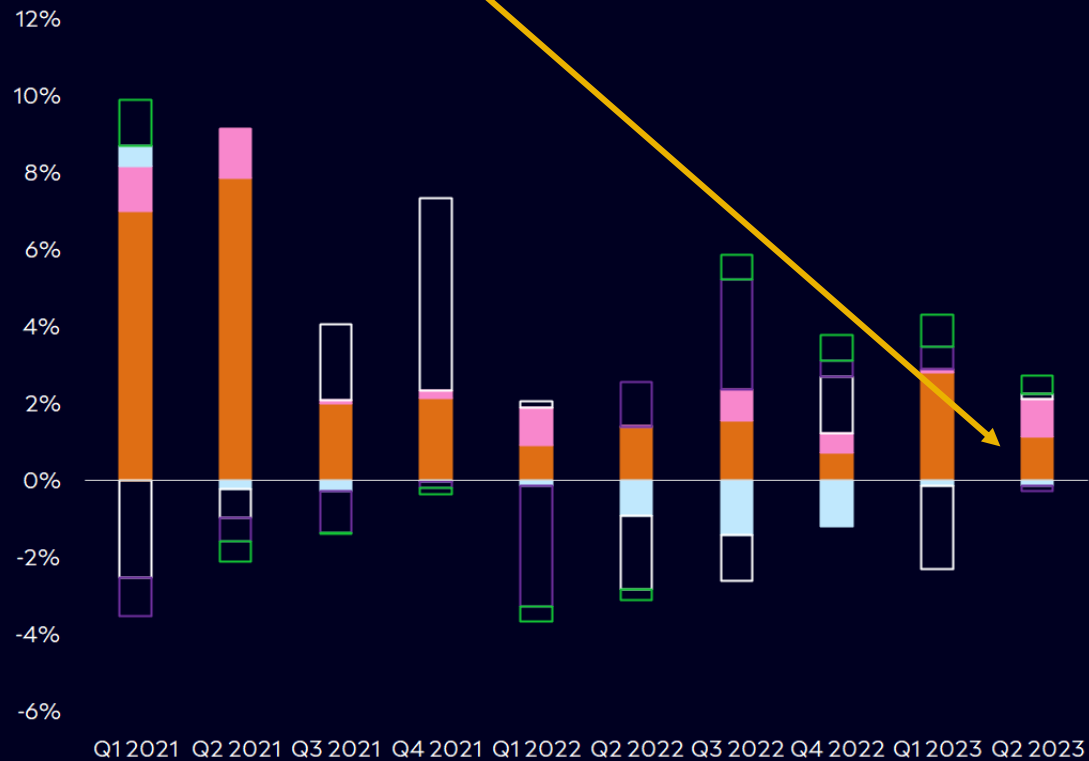
<https://www.bea.gov/data/gdp/gross-domestic-product>

U.S. Bureau of Economic Analysis

Seasonally adjusted annual rates

GDP breakdown by component

- Consumer Spending
- Residential investment
- Net exports
- Nonresidential Investment
- Change in inventories
- Government spending



Source: eToro, BEA

<https://www.bea.gov/news/2023/gross-domestic-product-second-quarter-2023-advance-estimate>

GDP Impact from Inflation, Recession, Household Debt: Tamed or Not?

Blackrock's recent Rollercoaster theory; US Household Debt Indicator

The U. S. economy is in for rollercoaster inflation and could be headed for an ultra-rare **'full employment recession,'** BlackRock says.



“Inflation, Recession and Market Volatility - **finally a solid piece connecting the dots and echoing what the Red-Shoe Economist has been warning since the beginning of 2023** and even pre-SVB bank failure. The Red Shoe Economist highly recommends reading this Business Insider article!”

INSIDER

- The economy is in for rollercoaster inflation that could hurt corporate profits, BlackRock strategists said.
- They pointed to conflicting inflation pressures in the US, with prices falling though wages are rising.
- Markets are in a new regime of volatility that could bring on a "full employment recession," they added.



<https://www.businessinsider.com/us-economy-outlook-rollercoaster-inflation-full-employment-recession-stocks-blackrock-2023-7?>

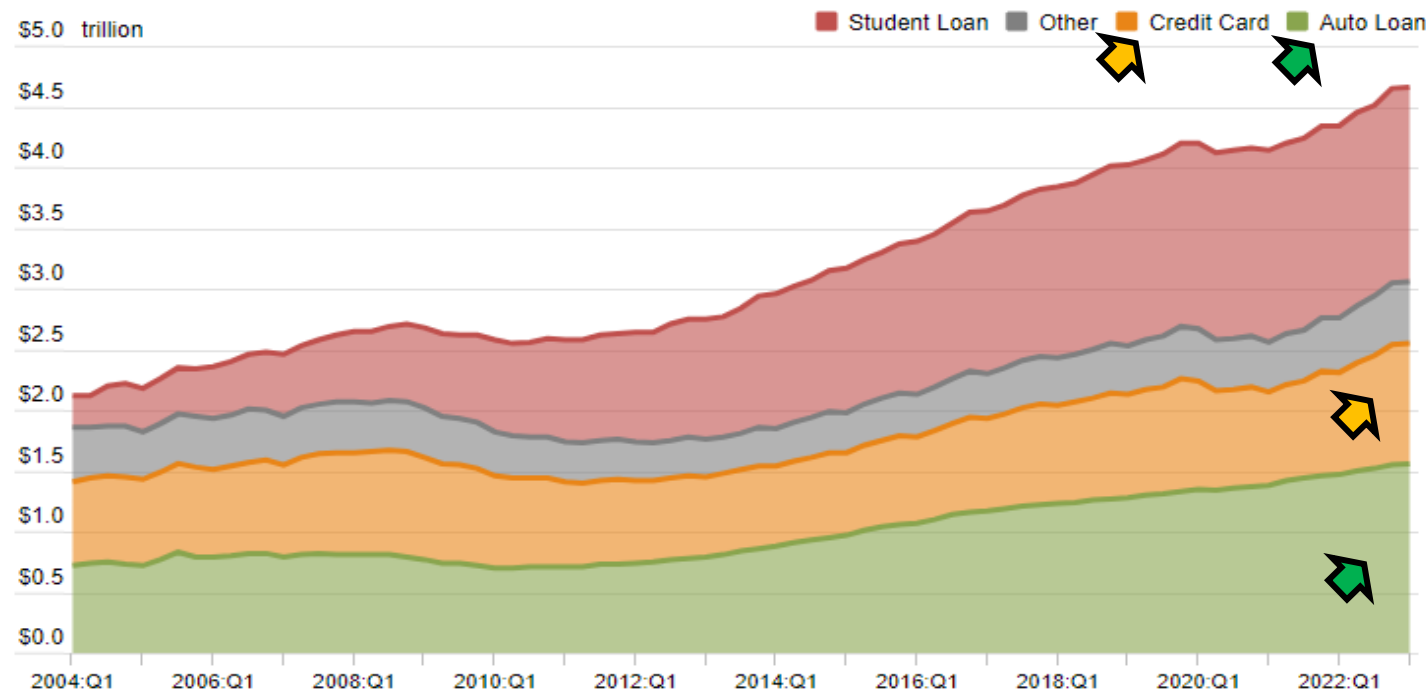
Household Debt: #1 Headwind

How do Households and Small Businesses with Variable Debt Financing function with high - and Going Higher Interest Rates?

Household Debt Rises on Higher Mortgage, Auto, Student Loan Balances

Total household debt rose by \$148 billion, or 0.9 percent, to \$17.05 trillion in the first quarter of 2023, according to the latest *Quarterly Report on Household Debt and Credit*. Mortgage balances climbed by \$121 billion and stood at \$12.04 trillion at the end of March. Auto loan and student loan balances also increased to \$1.56 trillion and \$1.60 trillion, respectively, and credit card balances are now at a record an exceed #1.0 trillion.

Non-Housing Debt Balance



Household Debt and Credit Developments as of Q1 2023

CATEGORY	QUARTERLY CHANGE * (BILLIONS \$)	ANNUAL CHANGE** (BILLIONS \$)	TOTAL AS OF Q1 2023 (TRILLIONS \$)
MORTGAGE DEBT	(+) \$121	(+) \$864	\$12.04
HOME EQUITY LINE OF CREDIT	(+) \$3	(+) \$22	\$0.34
STUDENT DEBT	(+) \$9	(+) \$14	\$1.60
AUTO DEBT	(+) \$10	(+) \$93	\$1.56
CREDIT CARD DEBT	(+) \$0	(+) \$145	\$0.99
OTHER	(+) \$5	(+) \$67	\$0.51
TOTAL DEBT	(+) \$148	(+) \$1205	\$17.05

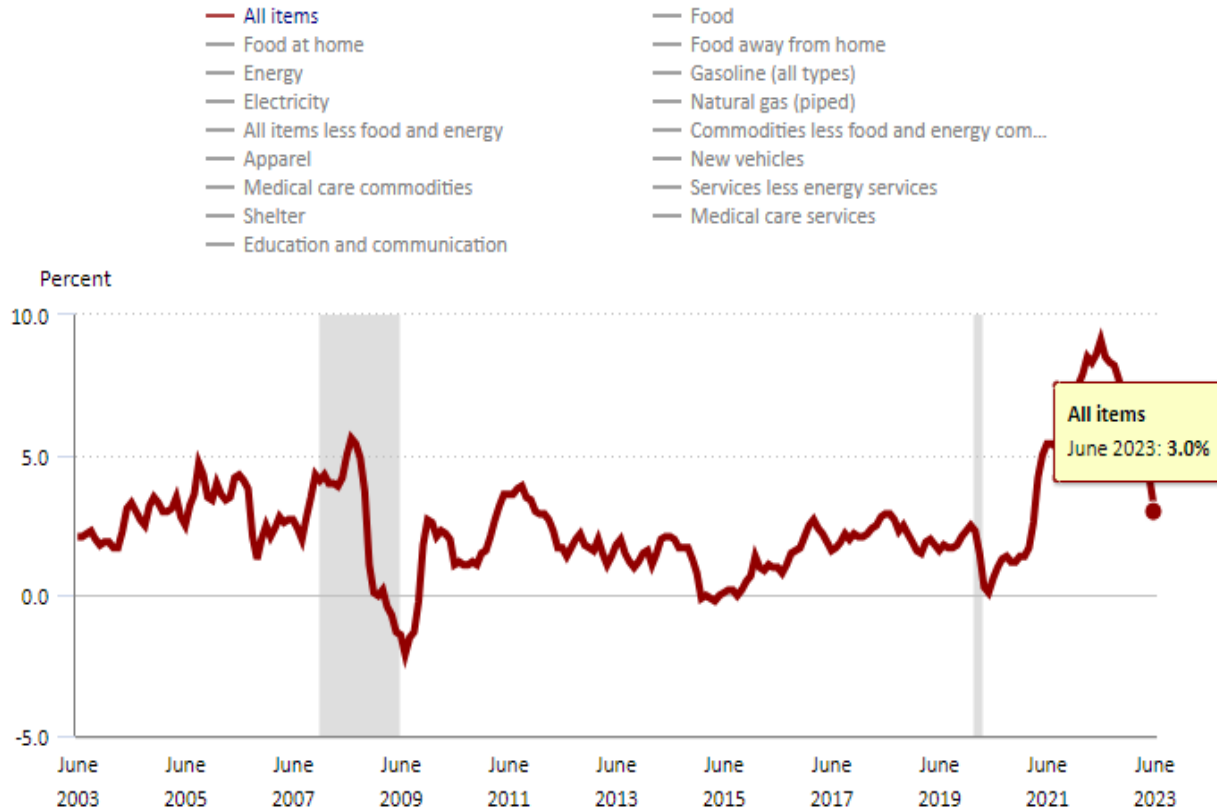
*Change from Q4 2022 to Q1 2023

** Change from Q1 2022 to Q1 2023

INFLATION: The Red Shoe Economist's “Super-Core” CPI (WFSS)

In June “All Items” reported at 3%, BUT Wages, Services, Shelter, Food are all running **+4.5 to +8%**

12-month percentage change, Consumer Price Index, selected categories, not seasonally adjusted



CPI Inflation Metric is Misleading.

Note the following regarding the 16 CPI Subcategories in the latest May CPI:

1. Only 5 of the 16 Subcategories were <3% “All-Items”
2. The June “Super-Core” Subcategories are all 5.7% to 7.8%
3. **8 of the 13 Subcategories >3%** (How does Gov. CPI calculate to 3%? Change in the weighting of Subcategories like Shelter!) What next, Food?
4. Note specifically the Inflation in Subcategories, like:
 - i) Food (+5.7%);
 - ii) Shelter (+7.8%); **July CPI +3.2% Aug 9th**
 - iii) Services (+6.2%);
 - iv) Electricity (+5.4%).
 - v) Wages (6% “Job-Stayers” & **12% “Job-Changers”**)

Until “Super-Core” Inflation is <4%, we have an Inflation problem.
Ask why 2% is the right target vs. Volcker’s 4% in 1970s?

Inflation August Update:

All Categories +3.2% with CORE +4.7%

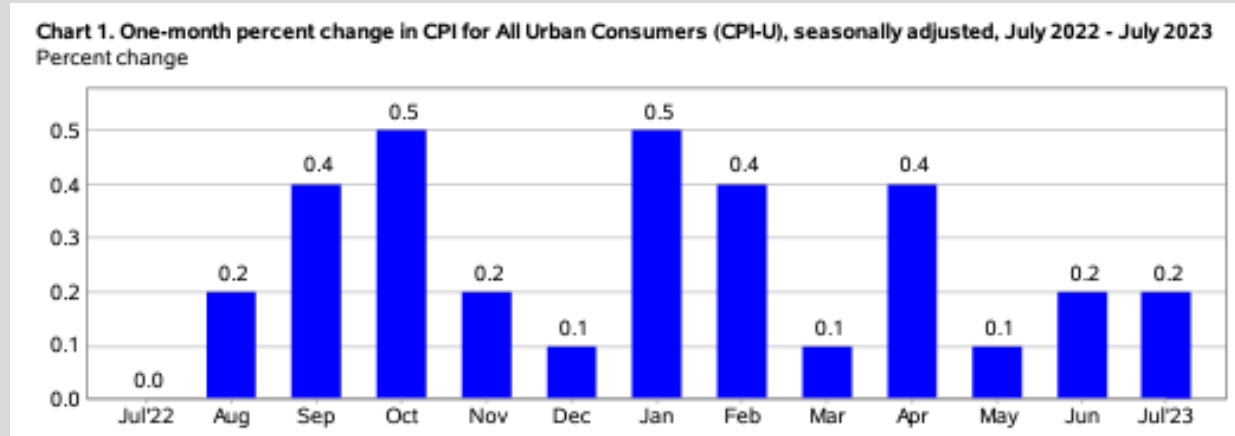
The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.2 percent in July on a seasonally adjusted basis, the same increase as in June, the U.S. Bureau of Labor Statistics reported today. Over the last 12 months, the all items index increased 3.2 percent before seasonal adjustment.

The all items index increased 3.2 percent for the 12 months ending July, slightly more than the 3.0 percent increase for the 12 months ending in June. The all items less food and energy index rose 4.7 percent over the last 12 months.

The index for shelter was by far the largest contributor to the monthly all items increase, accounting for over 90% of the increase, with the index for motor vehicle insurance also contributing. The food index increased 0.2 percent in July after increasing 0.1 percent the previous month. The index for food at home increased 0.3 percent over the month while the index for food away from home rose 0.2 percent in July.



<https://www.bls.gov/news.release/pdf/cpi.pdf>



INFLATION: Wages Still rising after a BIG SPIKE in May

12% Job-Changes Wage Inflation; +265k & 339k ADP/BLS Jobs in May



KC Conway, MAI, CRE, CCIM • You
Principal & Co-Founder at Red Shoe Economics
1d •

ADP Jobs report for May will not be liked by Fed or good for June FOMC mtg. plan for another rate hike.

The key points:

1. +265 jobs
2. +6% job “stayers” wage inflation
3. +12% job “changers” wage inflation
3. +12% job changers wage inflation

Just like in Jan 2022, the FOMC ignored this Inflation and did NO Rate Hike.

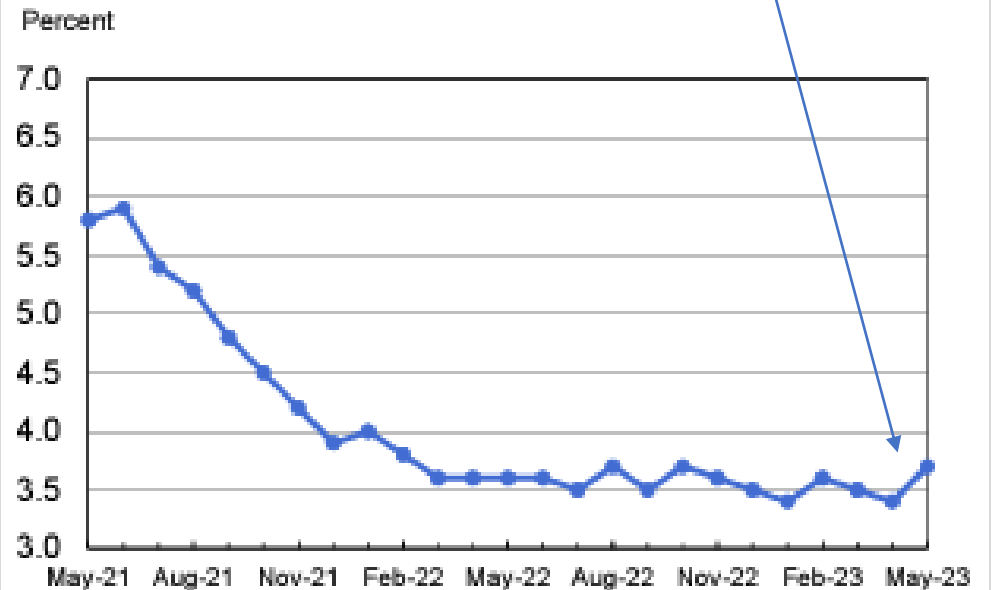
Wage Inflation is the stickiest.

And all this on heels of yesterday's JOLTS report with >10 million job openings again.

BLS Jobs Report for July <200k was just below the 200k expectations.

ADP, though, was >300k

Chart 1. Unemployment rate, seasonally adjusted, May 2021 – May 2023



<https://adpemploymentreport.com/>

Change by Establishment Size

Small

1-19 employees

↑
116,000

20-49 employees

↑
119,000

Mid-sized

50-249 employees

↑
112,000

250-499 employees

↑
28,000

Labor: Nevada and Reno-Sparks MSA

Total Labor Force UP YTD +1,100;

Unemployment 4.5% (above 3.5% National Average)

Reno, NV (Reno – Sparks, NV)

Data Series	Back Data	Jan 2023	Feb 2023	Mar 2023	Apr 2023	May 2023	June 2023
<u>Labor Force Data</u>							
Civilian Labor Force(1)		264.1	266.0	264.7	265.3	265.4	(P) 265.2
Employment(1)		252.2	254.1	253.1	254.6	254.4	(P) 253.3
Unemployment(1)		11.9	11.9	11.6	10.6	10.9	(P) 11.9
Unemployment Rate(2)		4.5	4.5	4.4	4.0	4.1	(P) 4.5
<u>Nonfarm Wage and Salary Employment</u>							
Total Nonfarm(3)		265.3	268.9	269.2	270.5	270.6	(P) 271.1
12-month % change		5.9	4.6	4.1	3.4	3.1	(P) 3.8

https://www.bls.gov/eag/eag.nv_reno_msa.htm

#1	Trade, Transportation, and Utilities(3)		58.8	58.3	58.2	58.0	58.4	(P) 58.9
#2	Leisure and Hospitality(3)		38.1	38.4	38.7	38.5	38.6	(P) 39.5
#3	Professional and Business Services(3)		34.4	34.5	34.2	34.9	34.7	(P) 35.2

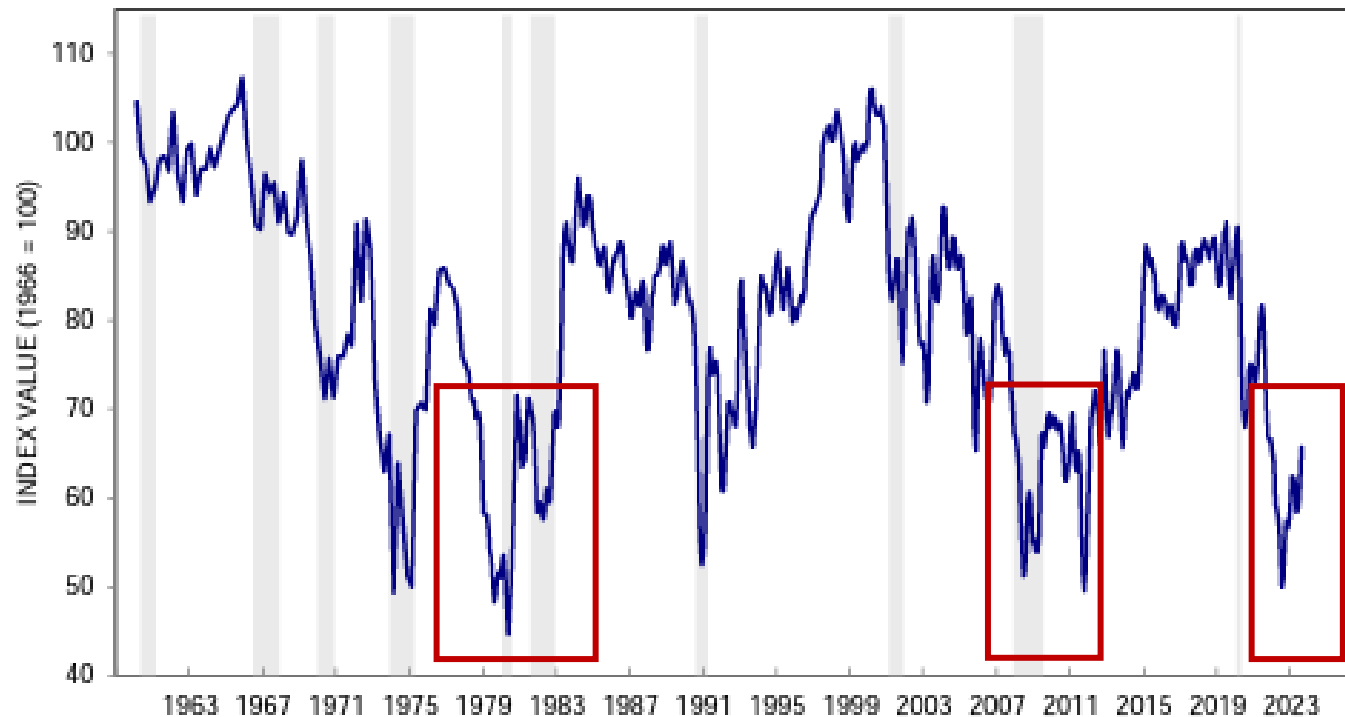
CONSUMER CONFIDENCE MEASURES:

Focus on Consumer Expectations and “W” pattern like 1978-1983 & 2007-2011

Record Household Debt affects Consumer; Mortgage Rates affect Housing, Small Biz debt is Variable rate



INDEX OF CONSUMER EXPECTATIONS



Preliminary Results for August 2023

	Aug 2023	Jul 2023	Aug 2022	M-M Change	Y-Y Change
Index of Consumer Sentiment	71.2	71.6	58.2	-0.6%	+22.3%
Current Economic Conditions	77.4	76.6	58.6	+1.0%	+32.1%
Index of Consumer Expectations	67.3	68.3	58.0	-1.5%	+16.0%

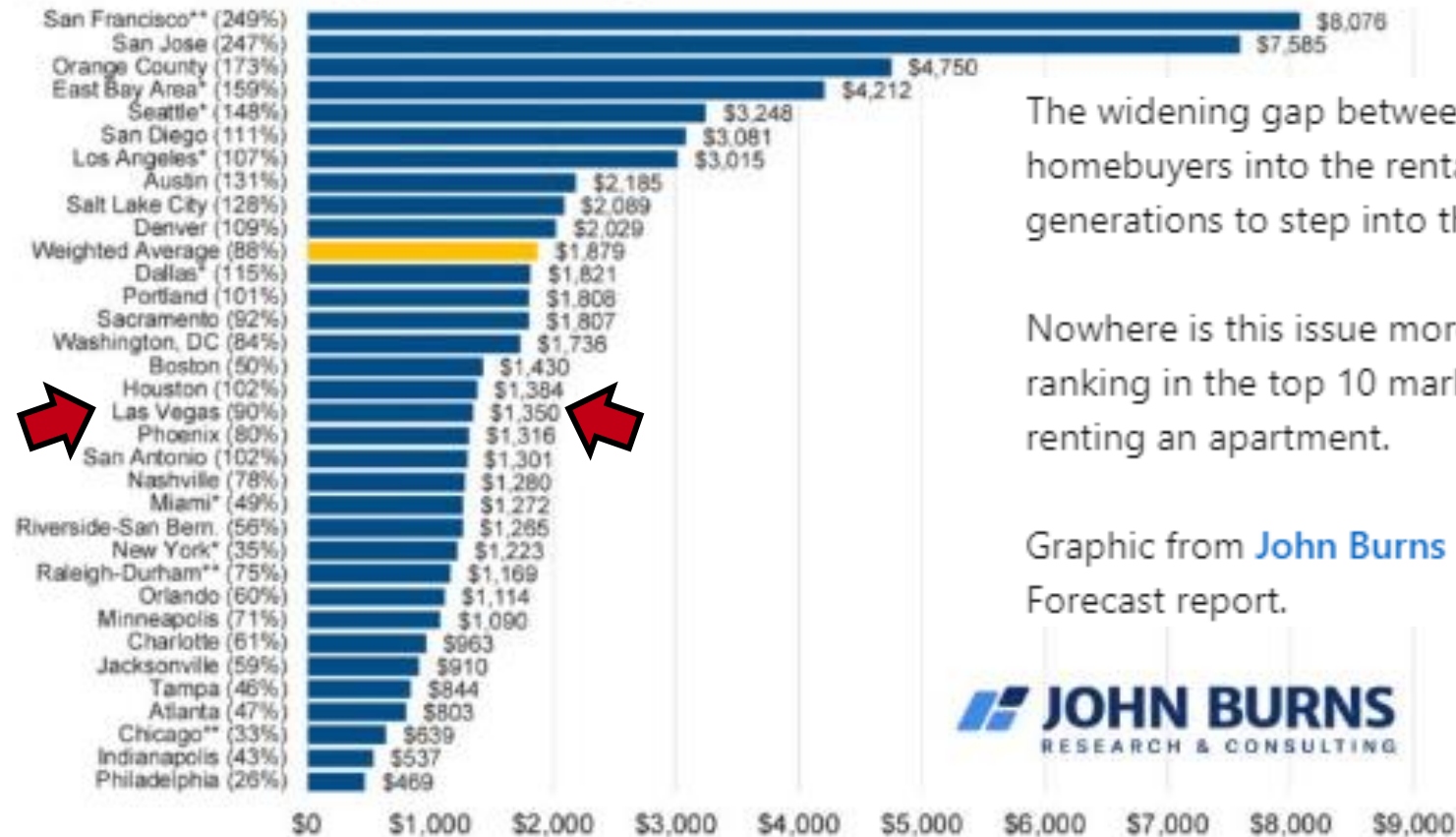
If Consumer Sentiment is up 22% YoY, why are Consumer expectations so low and in a **pattern similar to 1978-1983, 2007-2011**, and now again 2022-2023?

<http://www.sca.isr.umich.edu/files/chiceh.pdf>

HOUSING MARKET: Gap between *Cost to Own vs. Rent* worst in the West (*Las Vegas 90% more to Own*)

Housing Cost minus Burns Apartment Rent Index

(%) denotes homeownership premium versus renting



The widening gap between owning and renting continues to push potential homebuyers into the rental market, making it even tougher for younger generations to step into the realm of homeownership.

Nowhere is this issue more astute than in California, with 6 California markets ranking in the top 10 markets with the largest gap between owning a home and renting an apartment.

Graphic from [John Burns Research and Consulting's](#) Regional Analysis and Forecast report.



CRE LOSSES – A \$15 trillion Industry faces Déjà vu

Next item playing out – especially in CRE-Concentrated Banks & Office

CRE Is Dead. Long Live CRE

CRE has survived many crises in the past and it will overcome this one too.

By Joseph J. Ori | June 15, 2023 at 08:17 AM



<https://www.globest.com/2023/06/15/cre-is-dead-long-live-cre/>

CRE Concentrated Banks at most RISK (700+ Banks in Q1 had unrealized Losses => 50% of Capital).

The CRE industry in the U.S. is a large and diverse alternative asset sector valued at about \$15 trillion. The industry is very resilient and adaptable even though many pundits over the decades have called for its collapse and extinction. **Since the 1980s, the country has been through numerous recessions and real estate crashes as follows:**

- Recession and high interest rates of 1980 to 1982
- S&L, real estate, and oil crash from 1987 to 1992
- Recession of 1990 to 1992
- Dot.com crash of 2000
- Recession of 2001
- The Great Recession and real estate crash of 2007 to 2012
- Covid recession of 2020

Q1 Bank Earnings foretell 2H-2023
(700+ Banks in Q1 had unrealized Losses => 50% of Capital).



CRE LOSSES: Forward Looking Metrics suggest Caution!

Trepp – Best primary data at loan level –
DQT, Loans to Special-Servicer all Rising

Trepp Loans move to Special Servicers

The percentage of all **CMBS loans in the hands of special servicers rose 31 bp to 6.42%**, according to Trepp, marking the fifth consecutive monthly increase. **“Maturity defaults in the office sector are placing additional stress on special servicers as the appetite for refinancing wanes,”** said [Trepp, Inc.](#) analyst [Jack LaForge](#).

CMBS Delinquency Rate Nears 4% in June 2023; Office Delinquencies Increase Again

The Overall Numbers

The overall US CMBS delinquency rate jumped to 3.90%, an increase of 28 basis points for the month.

(The all time high on this basis was 10.34% registered in July 2012. The COVID-19 high was 10.32% in June 2020.)

- **The overall US CMBS delinquency rate is up 70 basis points year over year;**
- **Year to Date, the rate is up 86 basis points.**

CHART 2: DELINQUENCY RATE BY PROPERTYTYPE (% 30 DAYS +)

	JUN-23	MAY-23	APR-23	3 MO	6 MO	12 MO
Overall	3.90	3.62	3.09	3.09	3.04	3.20
Industrial	0.42	0.39	0.40	0.37	0.42	0.49
Lodging	5.35	4.25	4.23	4.41	4.40	5.94
Multifamily	1.59	1.46	1.82	1.91	2.17	1.03
Office	4.50	4.02	2.77	2.61	1.58	1.68
Retail	6.48	6.67	6.11	6.23	6.97	6.69

Source: Trepp

CRE LOSSES: Forward Looking Metrics suggest Caution!

Trepp – Best primary data at loan level –

What is the Loss when there is a Default – It's back to “Scary”

Loans Disposed with a Loss in the Last 12 Months: All Loans

Loss Month	Disposed Loan Count	Disposed Loan Amount	Losses Incurred	Loss Severity
July-22	7	149,926,998	76,286,617	50.88
August-22	16	310,031,294	205,571,667	66.31
September-22	13	211,908,463	64,843,819	30.60
October-22	15	339,255,249	154,209,777	45.46
November-22	10	262,931,830	116,017,555	44.12
December-22	10	181,475,451	131,514,171	72.47
January-23	16	183,720,438	75,750,837	41.23
February-23	12	226,917,996	129,140,914	56.91
March-23	10	83,872,439	38,108,611	45.44
April-23	15	217,773,330	94,230,996	43.27
May-23	3	10,912,295	7,641,690	70.03
June-23	9	115,816,993	40,679,139	35.12
12-Month	136	2,294,542,776	1,133,995,792	49.42

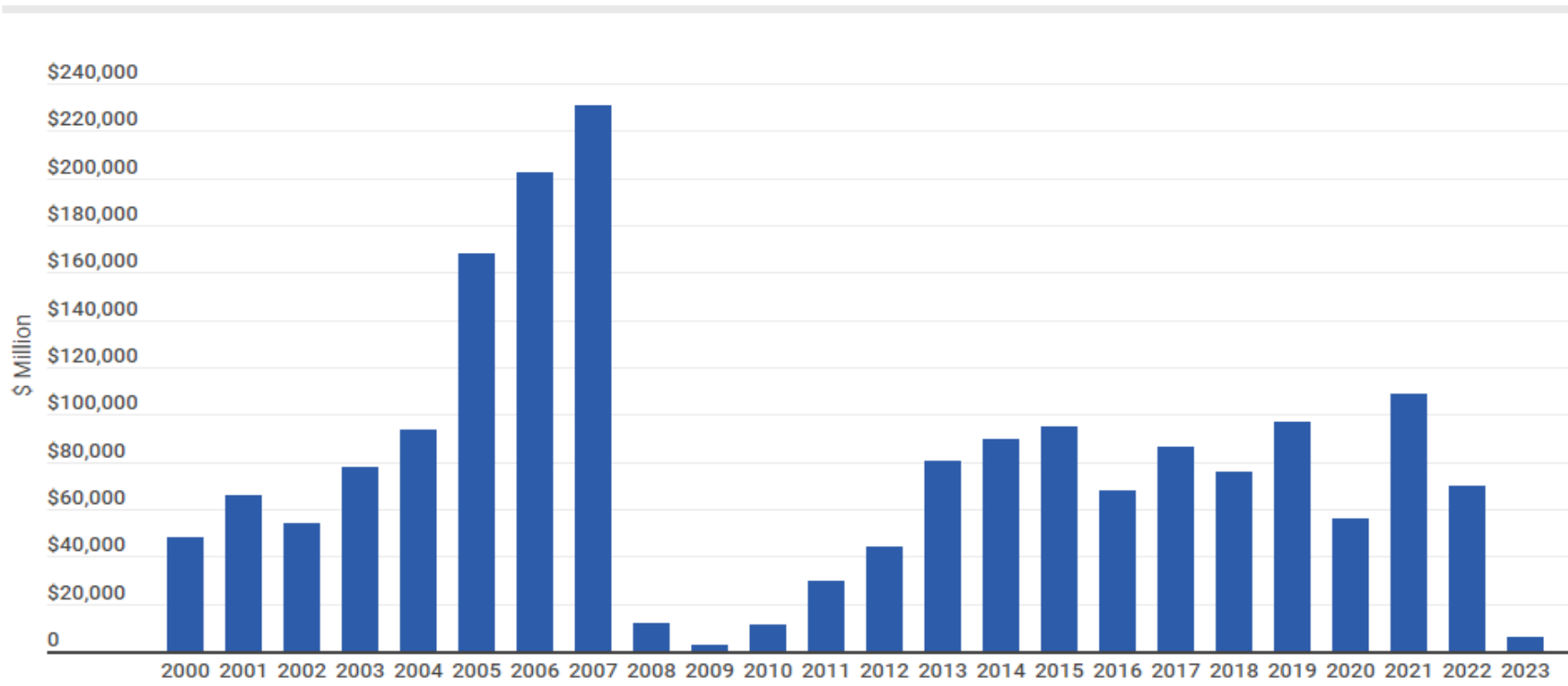
https://www.trepp.com/trepp-talk/cmbs-loan-loss-report-volume-loan-losses-spikes-june-2023?utm_campaign=TreppTalk%20Subscription&utm_medium=email&hsmsi=265363964&hsenc=p2ANqtz-9xq-KraHI2uwJefjLMPImBp0ZSyEsyd9jIJ7OVKXPHWutB7tAjZopK1MsxVX5JAGQXs0IOVHO7md8QiU9CRwmgxiCfjw&utm_content=265363964&utm_source=hs_email

SLOWING TRANSACTION ACTIVITY 1.0 - CMBS

The Debt Piece LTC – No Available Capital

CMBS Issuance During Q1 2023 Drops to Levels Not Seen Since 2012

CMBS Issuance



Domestic, private-label CMBS issuance during the first quarter of 2023 totaled a mere \$5.98 billion

– 12% less than the fourth quarter and **down more than 79% from the same period a year ago.**

The last time quarterly volume was as low was in 2012, following the Global Financial Crisis.

[CMBS Issuance During Q1 2023 Drops to Levels Not Seen Since 2012 \(trepp.com\)](https://www.trepp.com)

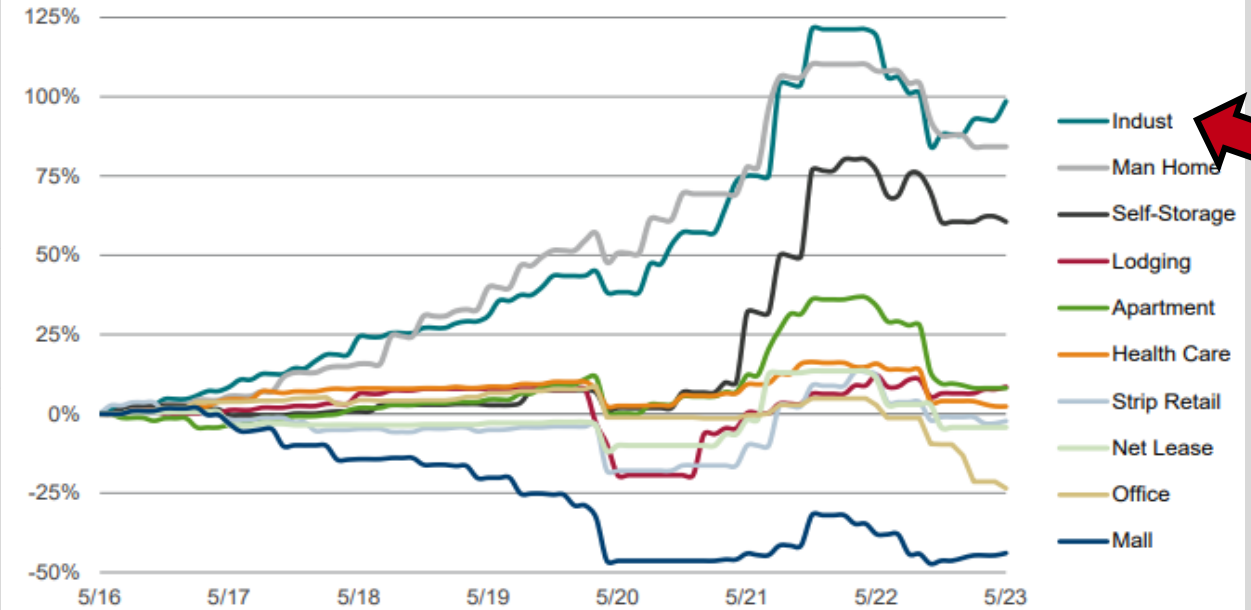
CRE VALUES – CPPI by likes of Green Street

“Opportunities parallel the Logistics Infrastructure & Workforce Shift (So, MW & Inland)”

Green Street CPPI®: Sector-Level Indexes

	Index Value	Change in Commercial Property Values		
		Past Month	Past 12 Mos	Recent Peak
All Property	131.4	0.1%	-14%	-15%
Core Sector	131.0	0.3%	-16%	-18%
Apartment	150.7	0.0%	-19%	-21%
Industrial	227.9	3.0%	-9%	-10%
Mall	80.5	1.3%	-10%	-18%
Office	82.9	-2.7%	-26%	-27%
Strip Retail	113.8	0.8%	-13%	-14%
Health Care	132.7	0.0%	-12%	-12%
Lodging	109.8	0.8%	-3%	-3%
Manufactured Home Park	283.8	0.0%	-11%	-12%
Net Lease	97.6	0.0%	-14%	-16%
Self-Storage	278.8	-1.0%	-9%	-11%

Cumulative Change in CPPI®: Past Seven Years



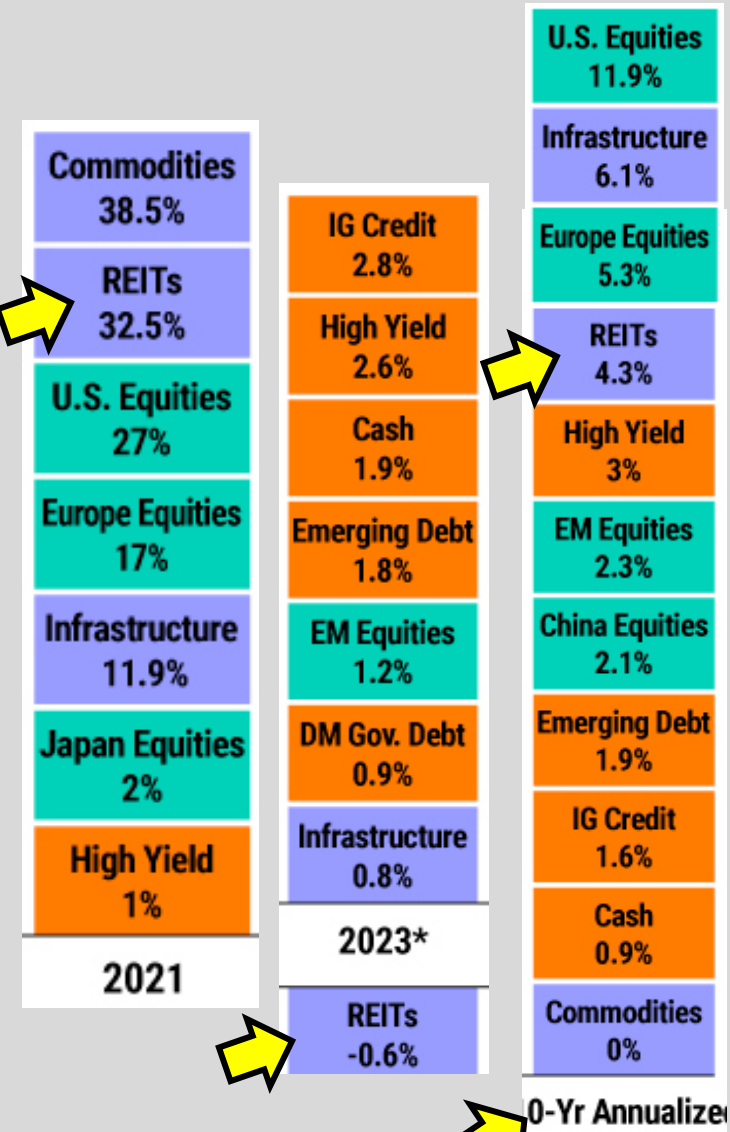
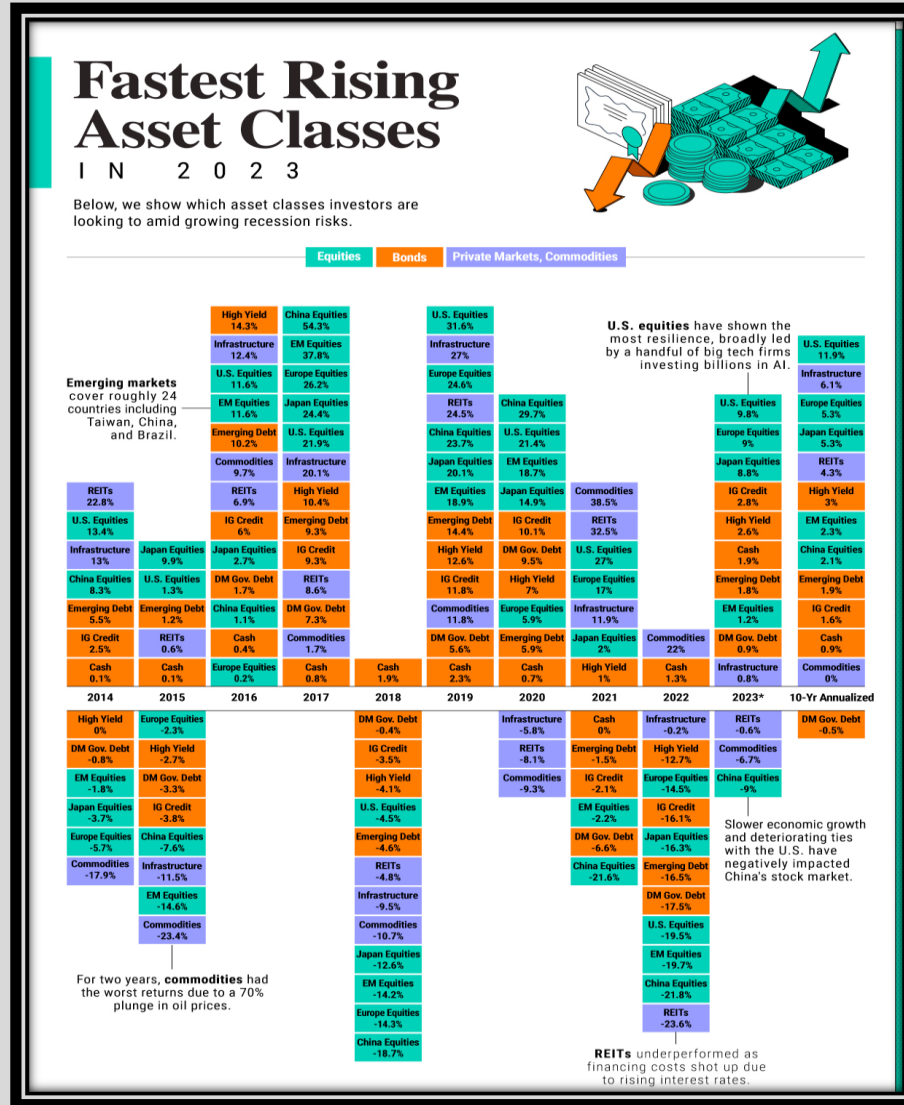
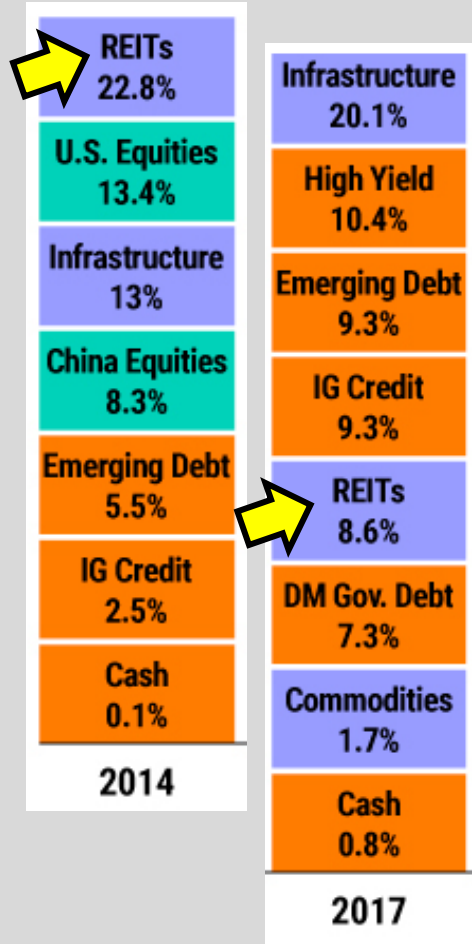
All Property: retail (20%), office (17.5%), apartment (15%), health care (15%), industrial (12.5%), lodging (7.5%), net lease (5%), self-storage (5%), manufactured home park (2.5%). Retail is mall (50%) & strip retail (50%).

Green Street’s May CPPI:

“The conclusion: even at a 15% aggregate discount to March 2022 prices, **CRE property prices are too expensive and likely to further fall in value.** The best relative values are ground lease, manufacturing housing, gaming, net lease, and industrial. **The worst: office and life science.**”

REITs and 2023 YTD Asset Class Performance

(Visual Capitalist June 2023 – Look at REITs 2014 & YTD 2023)



What's Working – Industrial still selling at 4% Cap Rates

Prologis Buys 70 Buildings for \$3.1 billion at a 4% Cap Rate & \$220/SF price

The Prologis logistics-property portfolio is getting bigger. The industrial real-estate giant is buying an array of warehouses owned by Blackstone for **\$3.1 billion**, the WSJ's Peter Grant reports, adding some **70 sites counting nearly 14 million square feet** in major markets across the U.S.

transaction adds to Prologis holdings that already make the real estate investment trust **the world's largest industrial property company** and a major force in the logistics sector. Investment heavyweight Blackstone also is a major investor in industrial real estate, with a global portfolio valued at \$175 billion, and is continuing to buy warehouses and distribution centers.

Demand for industrial space has been stronger in recent years than commercial office space thanks to the boom in e-commerce which has required an overhaul of supply chains. **Nearly 60% of the portfolio being acquired from Blackstone by Prologis are properties in cities or close to consumers.**



Q. Why did Blackstone sell assets it has been buying?

A. Need to meet Redemptions.

➡ Understand motivations in 2023!

Q. What is Working in Industrial?

A. eCommerce is Risk Averse & Going Smaller for 2023



Joint venture 1014 NP Venture LLC, owned by an affiliate of North Signal Capital LLC and a private family office, has executed four leases at 1014 Northpointe Industrial Boulevard in Hanahan, SC. The new tenants in the Class A facility are Concept Packaging, Bulldog Hiway Express, C&C Warehouse, and Bedra.

The 127,199-square-foot rentable area is now fully leased. The building includes tilt-up concrete construction, 32-foot clear height, ESFR sprinkler systems, and LED lighting.

“1014 Northpointe is a great example of the type of building most in demand right now in Charleston as well as other Southeast markets; Class-A; in-fill; catering to tenants in need of smaller spaces.”



Q. What is Working in Industrial?

A. SE & Gulf-Coast Ports

A. Note MetLife lender coming back into the market

EJF Capital LLC and joint venture partner North Signal Capital LLC closed a **permanent financing agreement with MetLife Investment Management** for RiverPort 4. JLL Capital Markets arranged the financing for the warehouse facility that is part of RiverPort Commerce Park, a **510-acre industrial park near Savannah, GA.**

Located less than **10 miles from the Port of Savannah**, the **building is in a Qualified Opportunity Zone** under the Tax Cuts and Jobs Act of 2017.

Completed in December 2022 and situated on 21 acres within RiverPort Commerce Park, **RiverPort 4 is a Class A, 208,168-square-foot distribution warehouse facility that is 100-percent leased to two tenants.**

The **site includes three more state-of-the-art distribution warehouses, RiverPort 5, 6, and 7, totaling 1.3 million square feet under construction.**



Q. What is NOT Working in Industrial?

A. ILPT Industrial REIT Q2 Earnings most foretelling from all of Q2

The one earnings call transcript I have read that is a "must read" for the Summer and this quarter is the ILPT Industrial REIT. It missed on top-line Revenue despite executing on all the fundamentals (leasing, rent increases, etc.)

So what happened?

Two things happened that more companies and CRE investors will confront in 2H2023 and which FOMC is not understanding are:

1. All the execution in leasing (99% occupied portfolio) and rents (20%-30% increases for renewals and new leasing) are offset by: a) increased debt service costs from a bad bet on a variable-rate CMBS loan; and b) increased expenses.

2. In other words, regardless of execution on the business basics, it's not enough to offset the effect from higher interest rates and inflation-driven expenses.

How does a business mitigate that going forward? Not many options unless it shrinks by selling assets to pay off the debt and then rebuild down the road when debt costs are back to half what they are today and after 11 Fed rate increases.

That won't happen for 2, 3 or more years.

There is a fundamental lesson here on the structure of one's capital stack and what happens in the night when debt costs soar. Many businesses and leveraged REITs and related CRE industry participants will face this reality over the next 4-8 quarters - and this is where the Red-Shoe Economist worries a recession emerges. Read this ILPT Earnings transcript if you only read one this Q2 Earnings period. It reveals a lot, even for an in-favor sector like industrial real estate.

MF CRE: Where is MF Absorption strongest.

The pace of multifamily transactions is roughly 70 percent slower in 2023.

Midyear MF update by Yardi - excellent assessment.

The most sobering headwind noted is as follows:

The capital markets, long the strength underpinning the multifamily market, are turning into an Achilles' heel," the report stated.

"Property fundamentals are strong, but the increase in capital costs has injected pricing uncertainty into the market and made it difficult to complete a transaction of any kind."

Further, **the pace of multifamily transactions is roughly 70 percent slower in 2023 than in recent years.** Only \$23 billion in sector sales were completed by mid-June, compared to \$194.7 billion in 2022 and \$226.5 billion completed in 2021, according to Yardi Matrix.

Lagging sales volumes have consequently impacted unit prices: The average price-per-unit for multifamily is down 15 percent through May 2023, falling from an average of \$210,000 in 2022 to \$181,000 in 2023.

Apartment Demand Leaders, 1H 2023

Rank	Market	Net Absorption (Units)
1	Houston, TX	6,877
2	Phoenix, AZ	6,635
3	Dallas/Fort Worth, TX	6,430
4	Chicago, IL	5,486
5	Charlotte, NC	5,257
6	Nashville, TN	5,163
7	Austin, TX	4,868
8	Atlanta, GA	4,704
9	Washington, DC	4,698
10	Orlando, FL	3,785
11	Denver, CO	3,711
12	Northern New Jersey	3,266
13	Raleigh/Durham, NC	2,826
14	Jacksonville, FL	2,724
15	Huntsville, AL	2,548

REALPAGE Source: RealPage Market Analytics

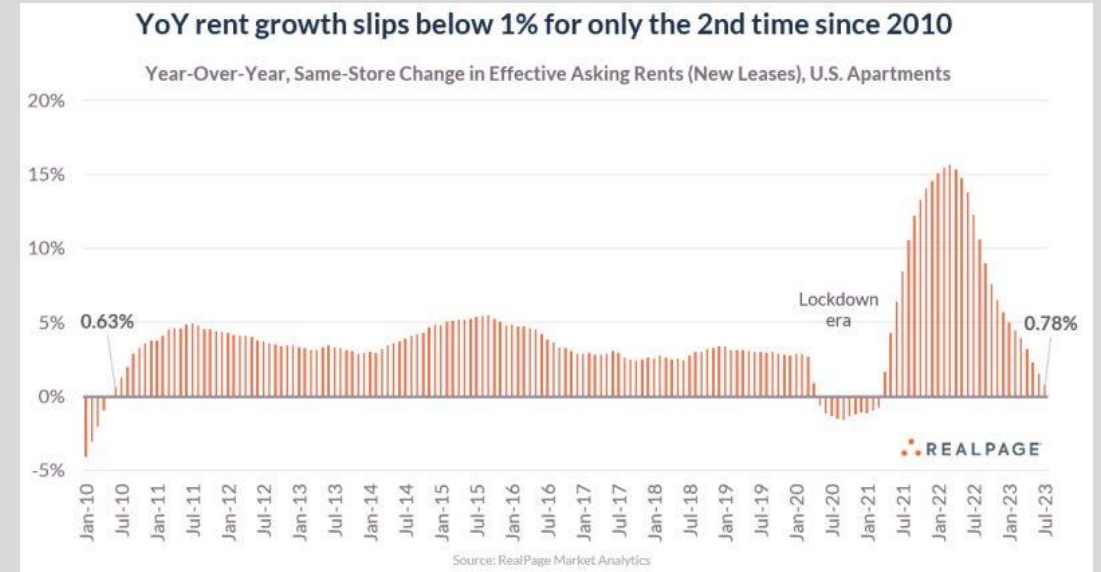
MF CRE: Rent Growth Slower, but Midwest Region the Exception

As anticipated, **asking rent growth continued to trend downward in July -- dropping below 1% for only the second time since the GFC** and setting up a potential drop into negative territory sometime in the next couple months. Why the rapid cooling? Unlike in past cycles, the slowdown has nothing to do with jobs or with demand. We continue to see strong job growth and low unemployment. We continue to see very healthy apartment demand. **But we're also seeing a multi-decade high in new supply. So supply is doing what it's supposed to do -- putting downward pressure on pricing.**

The 2 “notables” in latest RealPage MF report:

1) Year-over-year change in same-store effective asking rents measured just 0.78% in July. **Outside of the 2020 pandemic period, that marked the lowest figure since July 2010.**

2) **YoY rent growth tops 2% in only 15 of the nation's 50 largest metro areas. Of those 15, all but 3 are located in the Midwest** or Northeast regions. The three exceptions: Virginia Beach, San Diego and Miami. But even those are cooling fast -- especially Miami.



Source: RealPage

<https://www.linkedin.com/feed/update/urn:li:activity:7093219852684853248/>

OFFICE CRE:

A Must Read McKinsey Global Institute report on Office & Remote Work!



- **Hybrid work is here to stay.** As a result, office attendance has stabilized at 30 percent below pre-pandemic norms.
- **The ripple effects of hybrid work are substantial.** Untethered from their offices, residents have left urban cores and shifted their shopping elsewhere.
- **Demand for office and retail space in superstar cities will remain below pre-pandemic levels.** In a moderate scenario that we modeled, demand for office space is 13 percent lower in 2030 than it was in 2019 for the median city.
- **The rate of out-migration has now returned to its pre-pandemic trend, but our research suggests that few of the people who left will return and that urban shopping will not fully recover.**
- **This report is about real estate in superstar cities—roughly speaking, cities with a disproportionate share of the world's urban GDP and GDP growth.** We have borrowed the term and the concept from the 2018 MGI report Superstars.

OFFICE CRE: At least one “Greater Fool” out there.

CA Utility pays \$1,000/SF for its HQ Office while most Office selling for <\$300/SF

PG&E buys Oakland headquarters for up to \$900M

PG&E has moved past a century of fog in San Francisco with the purchase of its 29-story headquarters in Oakland. The expected cost: up to nearly \$900 million.

The investor-owned utility, after announcing its move in 2020 to the East Bay, bought its **910,000-square-foot** hub at 300 Lakeside Drive, the San Francisco Business Times reported. The seller was TMG Partners, based in San Francisco. When the utility, officially named Pacific Gas & Electric, announced its move to the East Bay, **it received an option to buy its new Lake Merritt home this year for \$892 million, or \$980 a square foot.**



KC Conway, MAI, CRE, CCIM • You

Principal & Co-Founder at Red Shoe Economics

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Broken California - It's public utility pays almost \$1,000 per square foot for its HQ office building when it could have bought any number of Class A SF buildings in loan default for >\$300 per SF.

PG&E is not a good steward of utility rate payers capital in this transaction.

This transaction may go down as dumbest of 2023 - and post Covid.

The price represents a windfall for TMG and the Oakland market. **For comparison, Wells Fargo recently sold a San Francisco office building for between \$120 and \$130 per square foot.**

Q: What IS Working in Retail?

A: Grocery

Look to the TOP 100 Retail List with Grocery (small store concepts) & Opti-Channel utilizing former BIG BOX locations.

Rank ▲	Company	2021 U.S. retail sales (billions)
1	Walmart	\$459.51
2	Amazon.com	\$217.79
3	Costco Wholesale	\$140.41
4	The Home Depot	\$140.06
5	The Kroger Co.	\$136.49
6	Walgreens Boots Alliance	\$108.34
7	Target	\$104.62
8	CVS Health Corporation	\$93.36
9	Lowe's Companies	\$87.73
10	Albertsons Companies	\$71.87



11	Apple Stores / iTunes	\$64.84
12	Royal Ahold Delhaize USA	\$53.66
13	Publix Super Markets	\$48.00
14	Best Buy	\$47.76
15	TJX Companies	\$38.08
16	Aldi	\$37.01
17	Dollar General	\$34.23
18	H.E. Butt Grocery	\$31.00
19	Dollar Tree	\$25.93
20	Ace Hardware	\$24.67

Q: What IS Working in Retail?

A: Tractor Supply

- Tractor Supply (TSCO), a rural lifestyle retailer, has shown **steady business performance through various economic cycles.**
- **TSCO is expanding its services, including pet services and garden centers,** and is remodeling its stores to give more space to higher productivity categories.
- The company currently **operates three concepts - Tractor Supply, Petsense by Tractor Supply, and Orscheln Farm and Home.**
- At the end of Q1 **operated 2,353 stores**, of which 2,164 were Tractor Supply or Orscheln Farm locations, and 189 were Petsense stores. Tractor Supply stores typically range from **15,000 to 20,000 square feet.**
- TSCO has a very **steady business, estimating that about 85% of sales comes from more staple categories,** while only about 15% is of a more discretionary nature. It's one of the largest sellers of animal feed in the country, which obviously is a nice replenishment business.



https://seekingalpha.com/article/4614755-tractor-supply-stock-a-resilient-retailer?mailingid=31962325&messageid=2800&serial=31962325.2048&utm_campaign=rta-stock-article&utm_medium=email&utm_source=seeking_alpha&utm_term=31962325.2048

Q: What is NOT Working Retail?

A: Theft / Shrinkage – The Mitigation Costs Will Impact Rent

The National Retail Federation says organized **retail crime is the main reason for retail “shrink”** — a mismatch between actual inventory and what is on the books — which reached **\$94.5 billion in 2021**, an increase of almost \$4 billion year over year.

Target chief financial officer Michael Fiddelke had said after its earnings in November 2022 that **shoplifting jumped about 50% year over and year**, resulting in over \$400 million in losses in the fiscal year.



A Quick Note on ESG:

Is ESG Out; Dying Off; Being Re-Defined and Designed?

➔ ESG has a PR problem.

The term — which refers to a company's environmental, social and governance strategy and investments — **has been all but officially stricken from corporate vernacular.**

Why it matters: **Just because the term 'ESG' has fallen out of favor, doesn't mean these initiatives are dying off.**

Corporate communicators and other business leaders have simply become more judicious about how and when to message about them.

By the numbers: ESG is perhaps the most glaringly absent term in this round of earnings transcripts.

"The number of S&P 500 companies citing 'ESG' on earnings calls has declined (quarter over quarter) in four of the past five quarters," according to a Fact Set study.

➔ **The term was cited by only 56 of the S&P 500 this quarter, down 24% (from 74 mentions) since last quarter and down roughly 64% (156 mentions) since its peak in Q4 of 2021.**

Corporate America is rebranding ESG

<https://www.axios.com/2023/08/10/rebranding-esg>



A Quick Note on Appraisal Changes coming Fall 2023

A new USPAP that could be a bank regulator's nightmare



The release of the newest edition of the Uniform Standards of Professional Appraisal Practice (USPAP) is right around the corner. October will be here sooner than any of us realize, so I want to give you a sneak peek of what to expect when the **new edition of USPAP is released October 2023.**

As you know by now, this **new edition of USPAP** **will not have an end date, only an effective date of January 1, 2024.** The Appraisal Standards Board (ASB) no longer plans to update USPAP on a **two-year cycle** but instead will focus on guidance for the marketplace. **USPAP will now be updated on an as-needed basis. Look to 12-year old IAG as a proxy for how that may work out.**

Because of this change, we will now publish the USPAP standards in a standalone book or digital version. **The guidance, which includes the Frequently Asked Questions, Advisory Opinions, and the Reference Manual will be in their own separate publication.**

This will give the ASB the flexibility to update the guidance, which happens on a more frequent basis, without leading to the publication of a new book of standards.

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The Red Shoe Economist's CRE Capital Outlook:

URBANLAND

Capital Markets Update: Real Estate Industry Braces for More Credit Tightening Ahead

By Beth Mattson-Teig
August 14, 2023

"The old saying about things getting worse before they get better could be in the cards for commercial real estate. The industry is feeling mounting pressure from higher rates and tighter liquidity—with more pain ahead.

"If we're peeling the onion back to see what's going to make us cry in the second half of the year—it's all capital," says [KC Conway](#), MAI, CRE, CCIM, real estate economist at Red Shoe Economics. Everyone is addicted to really low debt costs, and when the Fed took that away, it created a capital crisis, he adds.

In a market where there are still plenty of divergent opinions, Conway admittedly has a "glass half empty" view on the outlook for the commercial real estate market. However, challenges are coming from high costs of capital and tighter liquidity rather than asset performance. Although there are some obvious exceptions in the office sector, fundamentals for many owners are still solid, notes Conway. "The problem is capital, and because commercial real estate is so capital intensive, if you turn the spigot off, it doesn't take very long to have a really bad multi-car collision on the interstate," says Conway. "And that's what we've got."

The current cost of capital doesn't mirror the values that people have put on their assets or what they have paid for properties over the last few years. "It's getting harder to refinance out that existing debt." So, it has created a bit of a credit freeze, and on top of that there is a substantial lack of liquidity from the commercial banks."

Moody's Bank Downgrades infers the Fed Bank Stress Tests were telling the truth. And there is all kinds of liquidity risk here. Banks don't know if they have sticky deposits to fund construction loans. And they haven't recognized that CRE values for loans on their books are not worth at refinance what they thought they were when they underwrote them," says Conway.

Another challenge for the banks is that CMBS issuance is down, which makes it difficult for banks to move construction loans out to permanent financing. During the first half of the year, CMBS conduit volume is down nearly 80 percent behind last year, according to Trepp. If banks can't move loans off their books, it means they can't replenish the funds available to lend.

The Red Shoe Economist's Recession Outlook:

Maybe its not a “Soft-Landing” debate; **it's a “Rich-cession”**

We finally have proof of the ‘rich-cession.’ The number of millionaires fell the most since the Global Financial Crisis of 2008, UBS says

Overall, **the world lost \$11.3 trillion in household wealth last year**, a decline of 2.4%. Of all countries, the U.S. was hit the hardest with \$5.9 trillion in losses, a stark contrast to its \$15.9 trillion in gains in 2021. **Last year's declines in overall wealth were concentrated among the richest people in the**

wealthiest countries, the report says. Alongside the U.S., other countries that saw wealth decline were Japan, China, Canada, and Australia—all nations firmly ensconced at the top of the global economy.

The number of millionaires in the world fell by 3.5 million in 2022 to 59.4 million total. About 51% of the people who fell from millionaire status in 2022 were in the U.S.—a total of about 1.8 million.

However, the U.S. continues to lead the world in the number of millionaires with 22.7 million, accounting for 38.2% of the global total.

Even high-net-worth individuals—defined as households with assets over \$50 million—weren't spared.

Their global numbers **declined by 9% to approximately 22,500 total households, with the U.S. again leading with 81% of these declines.**

Conclusion: We need “Stickum” to survive this Cycle



What is “Stickum?”

“Stickum” is what you put on your plate to catch the French Toast at a Colorado Wrangler Breakfast.

CRE “Stickum” is your CCIM Education and Skills that enable you to catch what ever the market throws your way be it:

- NCNB (No Credit for Nobody);
- Higher Interest Rates for a LOOOONG Period;
- Remote work being to office values what eCommerce was to Big-Box Retail, etc.

You have “Stickum.” Go apply it!



No matter what your role in the commercial market is, meet the players, partners, and peers who can help you move your business to the next level at the C5 + CCIM Global Summit in Atlanta!

Join [NAR Commercial](#) and **The CCIM Institute** for a newly-imagined, immersive, productive commercial real estate experience with more deal-making, networking, and access to capital.

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KC Conway, CCIM, CRE, MAI

Professional Roles:

- **Chief Economist for CCIM Institute (since 2018)**
- **Co-Founder and Principal of Red Shoe Economics** – a research and consulting company serving the CRE industry
- **eXp Commercial** – Economic Advisor (since 2022)
- **FFIEC Instructor** (Federal Financial Institutions Exam Council) – Under FDIC, FFIEC provides Bank Regulatory Education
- **UMH (Manufactured Housing REIT)** – Board of Director member

Education & Professional Credentials:

- Emory University Business School – Graduated with Honors, 1985
- MAI Designation from the Appraisal Institute, 1989 (*achieved at 27 years old – 33 years experience with appraisals*).
- CRE - Counselor of Real Estate Designation, 2009
- Honorary CCIM Designee, 2019

Experience:

- 37 Years experience as an Appraiser, Bank Regulator, CRE Underwriter and Credit Officer, Economist, Investor, and Expert Witness (*has not lost an expert witness case in more than 26 years*).
- Specialize in Adaptive Reuse, Affordable Housing and Housing Economics, Manufactured Housing, Site Selection and Land Use, Rezoning, Economic Impact Studies, Capital Markets and CRE Finance, and Ports & Logistics
- Advisor to US Bank Regulatory Community (FDIC and Federal Reserve) Since 2005 - **Briefed former FED Chair Bernanke**
- Chief Senior Appraiser for Wells Fargo Bank, Legacy SouthTrust Bank, Legacy SunTrust Bank
- **Independent Director to Monmouth MREIC (50+ year old Industrial REIT Sold to ILPT February 2022)**
- Published in Numerous Periodicals, Real Estate Journals and social media including Wall Street Journal, NY Times, FreightWaves, Globe Street, BizNow, CIRE, Real Estate Issues, Realtors Connections, and Counselors of Real Estate Annual Top-10 CRE Issues
- Presented more than 1,000 individual talks to CRE Industry Groups including The Appraisal Institute, Am. Bankers Assoc., Am. Property Tax Counsel, Counselors of Real Estate, ICSC, MBA, NAHB, NAIOP, RMA, SIOR, CREW, and ULI
- **Specialty Areas Include: i) Adaptive Reuse; ii) Ports & Logistics/Supply-Chain; iii) Affordable Housing – specifically Manufactured Housing; iv) Property Tax Appeal; v) CRE Finance; vi) Expert Witness Appraisal/Valuation**



Upcoming Events



C5 Summit
Atlanta, GA

September 28 – 30, 2023



Brad Bonkowski Memorial
Scholarship Gala

November 17, 2023
5:30p

Visit www.NNevadaCCIM.com for details