Choppy Waters After the Storm

Dr. Mark G. Dotzour
College Station, Texas

Choppy Waters Ahead

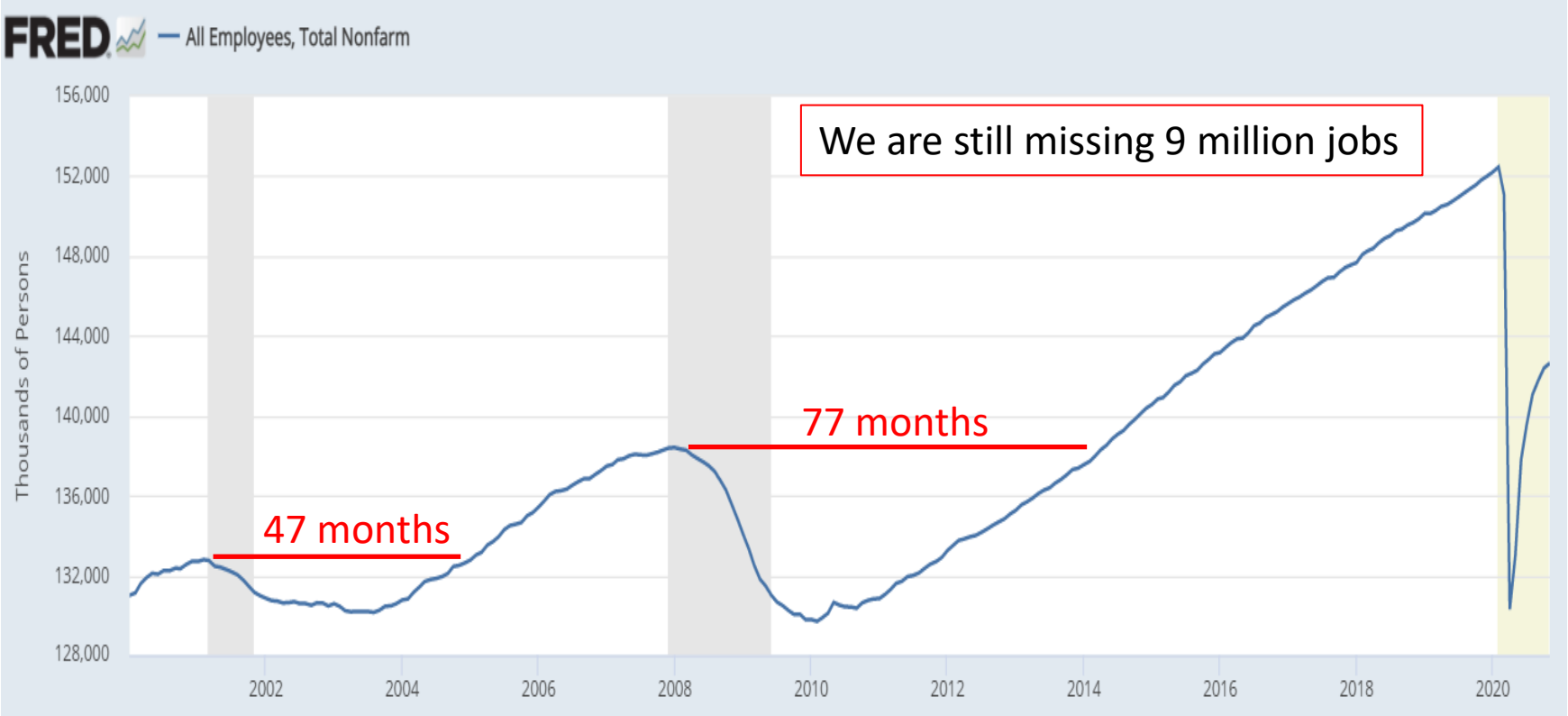
The supply chain just keeps getting worse.
Lots of experimentation with government programs.
A possible tax increase on real estate.
Significant inflation for the next year.
Enormous pent up demand.
Reduction in demand for “COVID-related" goods and services.
Lots of volatility ahead.
Stap on your seat belt, hold on tight and enjoy the ride!

Today's Topics

- The outlook for job growth
- The outlook for inflation
- How long will interest rates stay low?
- Are cap rates headed higher or lower?
- The 'Bernoulli Principle' on cap rates
- Why is CRE still a favored asset class?
- Tax reform impact on CRE
- The outlook for suburban and small town demand
- Is there a housing bubble?

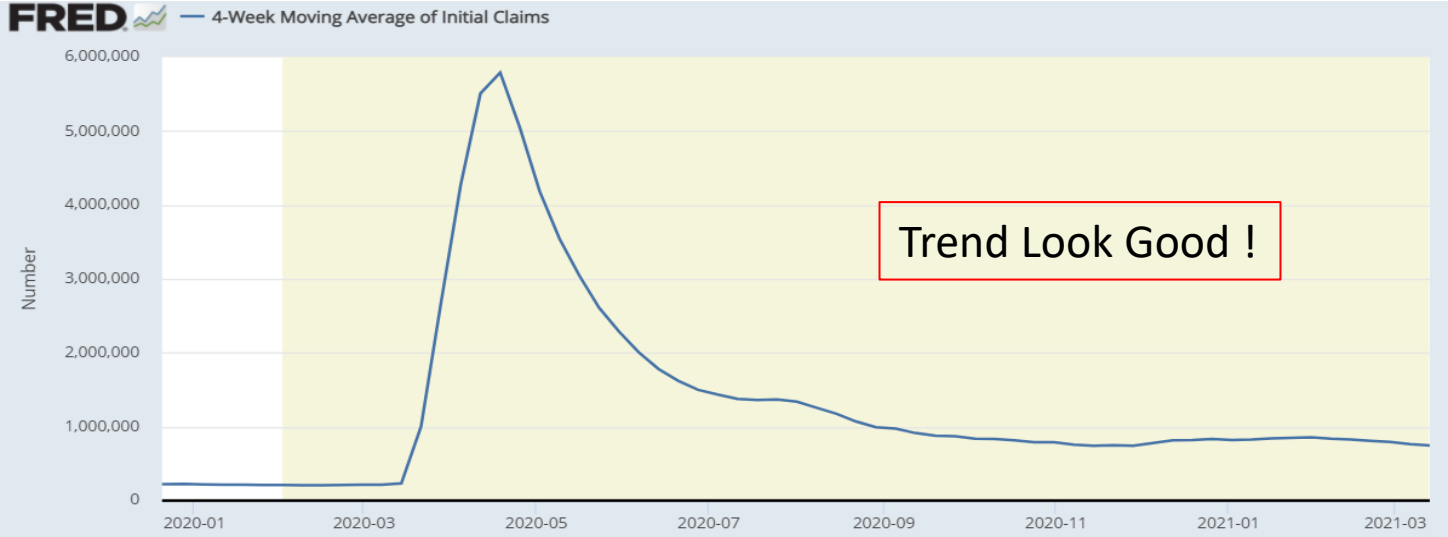
How Long to Recover Jobs?

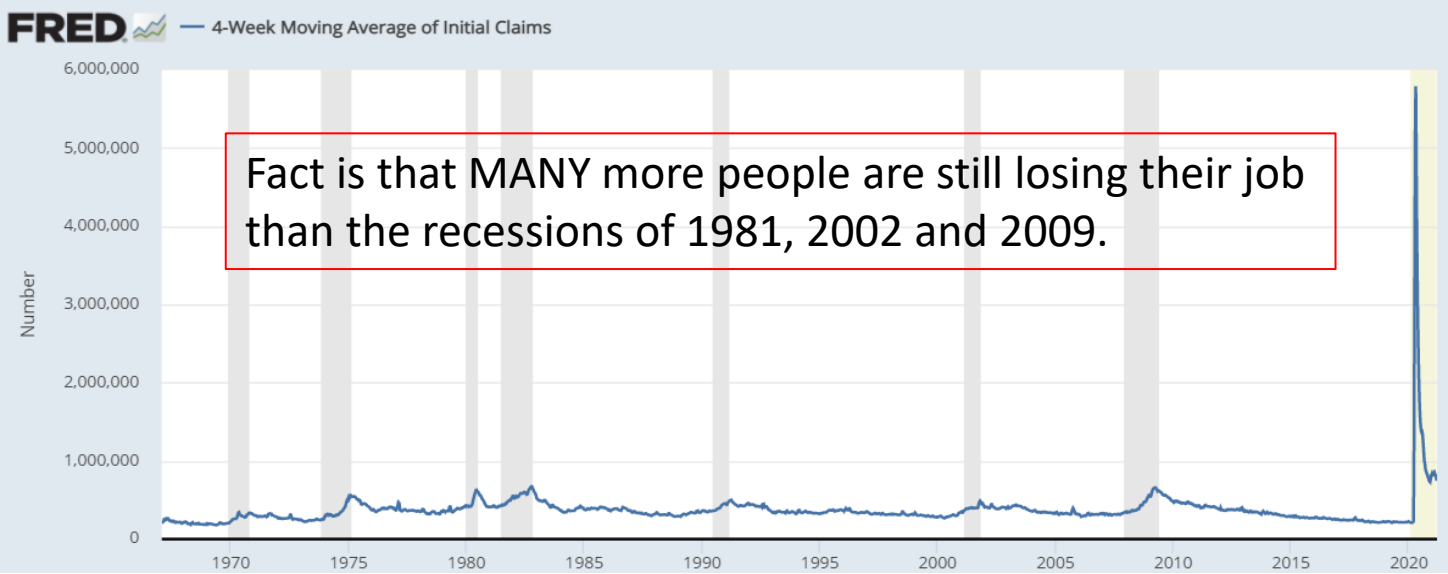
from 2001 to 2020



Source: Federal Reserve Bank of St. Louis

Initial Claims for Unemployment



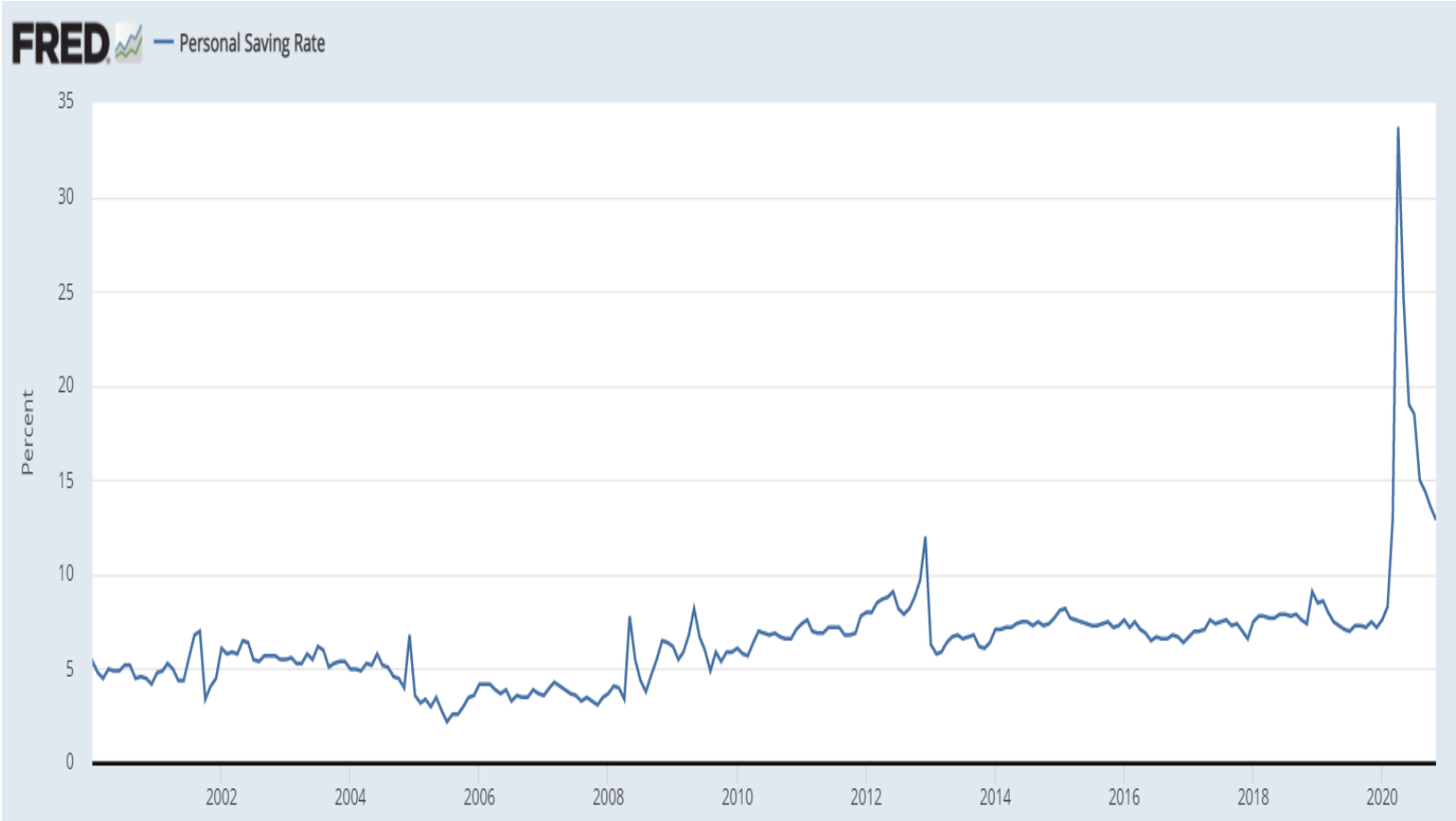


Employment Recovery

Still short 8.2 million jobs
Averaging 344,000 per month in 2021
Will take another 23 months to get back.

Source: Federal Reserve Bank of St. Louis

Americans Are Saving Heavily



Source: Federal Reserve Bank of St. Louis

Pent Up Demand Will Stir Temporary Inflation

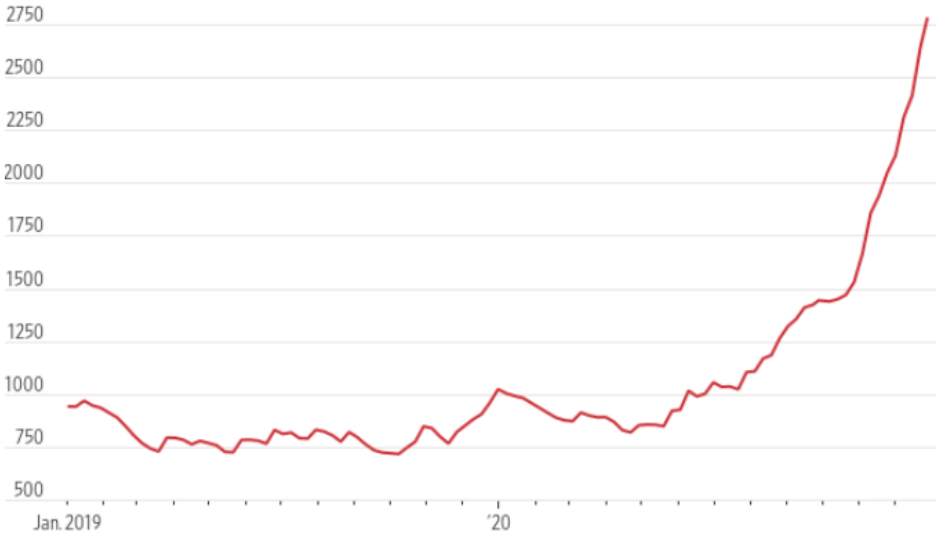
- Higher gasoline prices
- Higher rates for hotels
- Higher prices for airline tickets
- Higher college tuition and housing cost
- Higher prices in restaurants
- Cheaper US dollar makes all imports cost more

Shipping Costs are Skyrocketing

High Seas

The average cost of container shipping from Shanghai to other parts of the world surged to a record in December.

Shanghai Containerized Freight Index



Source: Wind Information

Two Paths to Inflation

Path Number One:

There is excess demand over a long period of years that creates sustained shortages

In the 1960's and 1970's, inflation was caused by:

a) Shortages of oil and gasoline

b) Domestic labor market that was heavily unionized

When Reagan broke the labor unions in 1982, that was the end of inflation.

In 2021, you can't have sustained inflation unless:

1) Print money continuously and make people spend it
2) Shut off all imports, or put on punitive tariffs
3) Shut off globalization and off-shoring
4) Communist revolution in China "purification" that closes the country

Path Number Two:

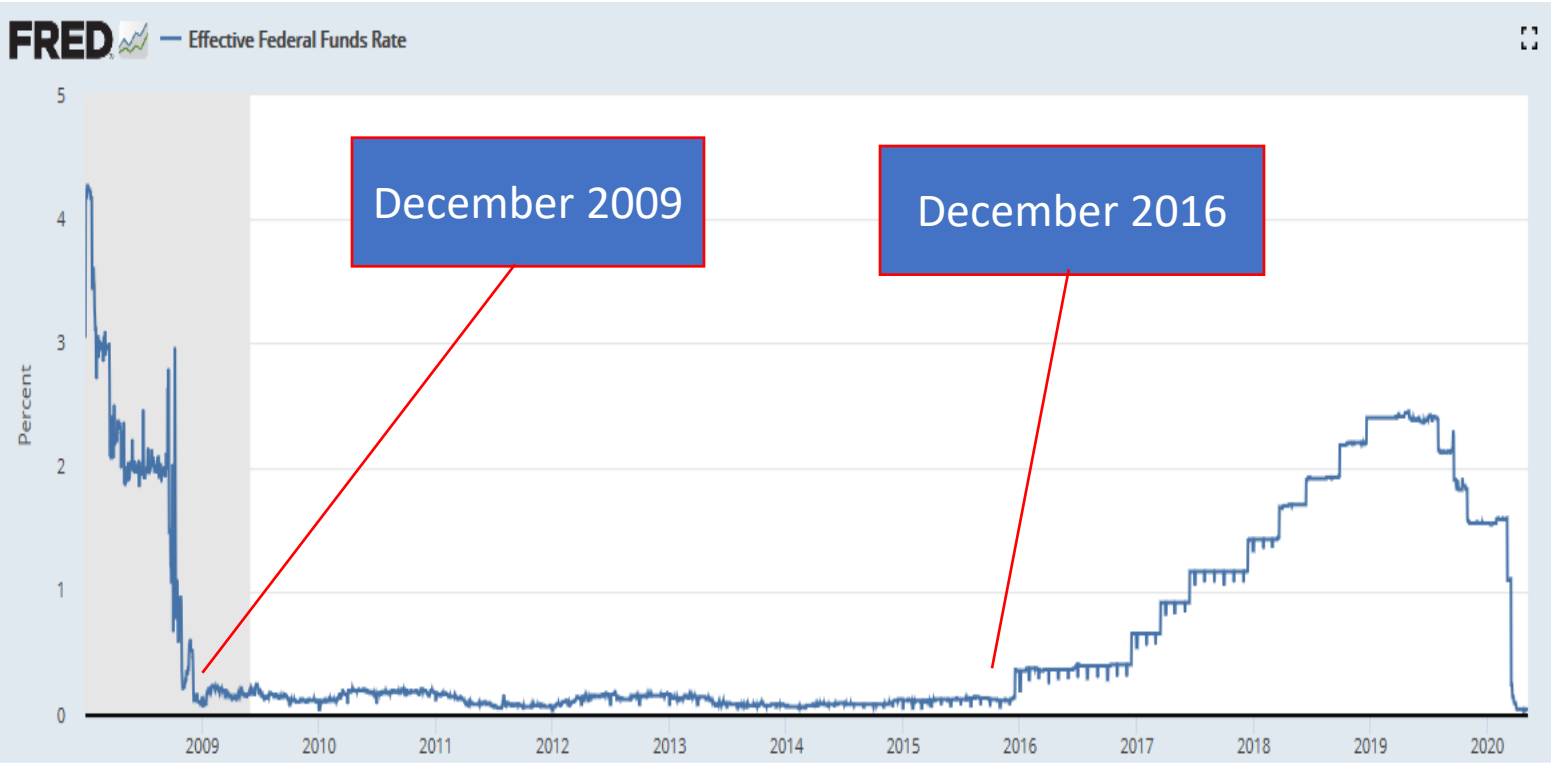
What happens when the “medicine” stops working?

Government announces new round of lower interest rates, more stimulus and huge deficit spending on infrastructure:

Stock market falls
Value of the dollar falls
People no longer want to own dollars
Gold and bitcoin prices skyrocket
People withdraw savings and buy hard assets
Money flows out of America to other countries
Prices of everything we buy skyrockets

Interest Rates Low for a Long Time

Fed Funds Rate Stayed at Zero for 7 Years



Source: St. Louis Federal Reserve

Fed Policy Explained by Powell

Powell said that the Fed would begin to slow the pace of its bond purchases “well before” raising interest rates.

The Fed has been buying at least $120 billion a month of Treasury debt and MBS since June 2020.

In December 2020, Powell said the economy must make ‘substantial further progress’ toward its goals of maximum employment and 2% inflation before it scales back bond purchases.

“We will taper asset purchases when we’ve made substantial further progress toward our goals.”

The Fed has said it would hold rates near zero until it sees the labor market return to full employment and inflation rise to 2% and is forecast to moderately exceed that level for some time.

Powell thinks it is highly unlikely the Fed would raise rates this year and noted most central bank officials see rates near zero through 2023.

Source: WSJ 4/15/21

Dry Powder
Private Equity Real Estate

But with North America-focused real estate dry powder standing at a record $204bn as of July 2020, capital should begin to flow back into the market as restrictions are eased.

Source: Prequin 7/10/20

More Money Piling Coming

THE PROPERTY REPORT

Blackstone Set to Lend With Full Coffer

Investment firm closes real-estate debt fund, taking in $8 billion and making it largest ever

By Peter Grant

Blackstone Group Inc. closed this month on the largest real-estate debt fund ever, giving the investment firm plenty of cash to lend to property investors looking to go shopping during the coronavirus pandemic.

One of the world's largest owners of commercial property, Blackstone began raising money for the fund in the spring of 2019 and the $8 billion it took in exceeded expectations, said Jonathan Pollack, global head of Blackstone Real Estate Debt Strategies. Fundraising got a boost after Covid-19, partly because interest rates fell, increasing the appeal of relatively high-yielding real estate debt.

"There's an expectation that there will be a greater opportunity in real estate debt than there has been," Mr. Pollack said in an interview.

The fund will make new loans and buy real-estate debt securities along with other investments. Blackstone's real-estate debt business has grown to $26 billion of property debt assets under management, up from $10 billion five years ago.

Overall, its global real-estate portfolio is valued at $329 billion.

Fundraising by private-equity firms has declined overall this year as the pandemic created enormous uncertainty and barriers to travel and other business practices especially in the early months. As of mid-September, private-equity funds had raised $81.5 billion compared with $142.9 billion during the same period last year, according to data firm Preqin.

But it is beginning to pick up. Other recent closings include a $950 million real-estate debt fund raised by **KKR** & Co. that is focusing on the most junior tranches of commercial mortgage-backed securities.

During the first few months of the pandemic "everybody regardless of lender class was assessing their own portfolio," said D. Michael Van Konynenburg, president of Eastdil Secured LLC. "Once people got to July they felt they understood where their own portfolios are and started to ramp up and look for new deals."

Much of the new capital raised is by firms planning to focus on distress properties. Billions of dollars of loans backed by malls and hotels are in default, according to data firm Trepp LLC.

At the same time, many of the traditional lenders, like originators of commercial mortgage-backed securities, have put on the brakes. That is increasing the rates borrowers are willing to pay to lenders still in the game.

"New capital invested expects to earn greater returns," said Mr. Pollack.

Blackstone's debt funds—which have historically returned about 10% annually to investors—tend to avoid riskier debt deals. Much of its business involves making first mortgages to some of the world's largest real-estate companies and investors.

For example, Blackstone might make a loan today to the buyer of a well-leased office building that was in contract to be sold before Covid-19 hit and the deal collapsed. "It's going to get done today in much more uncertain capital markets," Mr. Pollack said.

"Twelve months ago the guy buying the building would get 12 different term sheets from lenders of all stripes," he said. Today fewer lenders will be able to give the buyers the certainty they need that they can close the deal "and they'll pay more" for certainty, Mr. Pollack said.

Mr. Pollack said Blackstone's debt portfolio hasn't suffered many problems from loans it made before the pandemic.

He said that is partly because Blackstone's low risk loans are typically about 60% to 65% of the values of the properties.

"It also helps to be very selective about who you lend money to," Mr. Pollack said. He pointed out that Blackstone's borrowers have tended to be "well capitalized institutional investors that you would expect to hold on to [properties] through a period of dislocation."

Source: WSJ 9/23/20

Inflation in Construction Costs

AGC THE CONSTRUCTION ASSOCIATION

Data Digest

WWW.AGC.ORG

Supported by: AUTODESK CONSTRUCTION CLOUD

Vol. 21, No. 14 · April 5-9, 2021

PPI for costs outpaces bid prices again in March; ISM finds widespread supply shortages

The gap between input costs for construction and contractors' bid prices widened further in March. The producer price index (PPI) for nonresidential building construction—a measure of the price that contractors say they would charge to build a fixed set of buildings—increased 0.5% from February and 1.7% year-over-year (y/y) since March 2020, while the PPI for material and service inputs to new nonresidential construction jumped 2.7% and 12.4%, respectively, the Bureau of Labor Statistics (BLS) reported today. An index that measures the price of goods inputs to all construction soared 3.5% for the month and 12.9% y/y, the largest increases in the 35-year history of the series. AGC posted tables and charts showing PPIs relevant to construction. PPIs that contributed to the input increases include diesel fuel, which leaped 15% in March and 79% y/y; lumber and plywood, up 7.9% for the month and 63% y/y; copper and brass mill shapes, 8.5% and 44%, respectively; steel mill products, 18% and 40%; plastic construction products, 3.2% and 10%; aluminum mill shapes, 2.1% and 7.4%; gypsum products, 1.4% and 6.2%; architectural coatings, 1.9% and 5.3%; and insulation materials, 0.7% and 5.2%. In addition, numerous producers have quoted extended or uncertain delivery times and have imposed allocations (quotas) on quantities for customers. Readers are invited to email information about construction costs and supply-chain issues to ken.simonson@agc.org and to register for a webinar on "Soaring Material and Supply-Chain Costs and Delays: What to Expect, How to Cope," on Wednesday, April 14, 3:30-4:30 pm EDT, with Chief Economist Ken Simonson; ConsensusDocs Executive Director Brian Perlberg; and Dan Schnippert, Procurement Director, Marek. March PPIs and other recent information will be included in an update of the Construction Inflation Alert that AGC posted on March 26.

Bernoulli’s Principal with Cap Rates

CRE investment
before COVID:

-Office
-Multi-family
-Industrial
-Retail

CRE investment
after COVID:

-Industrial
-Multi-family
-Office
-Retail

Cap Rates Won’t Move in Tandem

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Features

Net Lease Cap Rates Hit Historic Lows

Strong demand for essential properties drives up pricing.

By **Les Shaver** | April 02, 2021 at 06:42 AM

In the first quarter, the single-tenant net lease sector reached historic lows for the retail and industrial sectors, according to new research from The Boulder Group.

In Q1, single-tenant retail cap rates compressed by nine basis points to 5.91%. Industrial cap rates fell four basis points to 6.71%, while office cap rates rose five basis points to 6.95%

For retail and industrial, the story of Q1 was strong demand with limited quality supply. “There is still this flight to safety,” Randy Blankstein, president of The Boulder Group, tells GlobeSt.com. “The stock market is all over the place, as is the bond market. One minute everyone thinks interest rates are going up substantially, and the next moment they pull back. With all this uncertainty, there’s still a flight to safety, and everyone is trying to grab a safe yield.”

While there was an overall 9% increase in properties on the market, Blankstein says a lack of high-quality assets with long-term leases in the net lease market remains. Many passive investors shifted their focus to essential business-related tenants.

Trending Stories

1. Where Apartment Rents Are and Are Not Rebounding
2. Blackstone Seeks Piece of CRE Distress
3. Expect Lumber Prices to Remain Volatile
4. Inside the Complex Capital Stack of Affordable Housing Deals
5. Apartment Rent Spreads Stay Negative But the Climate Improves

livestorm

Employees Slow to Return to the Office

KASTLE BACK TO WORK BAROMETER

Weekly Occupancy Report from Kastle Access Control System Data

2.8.21

BAROMETER THIS WEEK

23.8%

10 CITY AVERAGE OCCUPANCY

	Wed 1/27	Wed 2/3	% Change
Philadelphia metro	26.4%	23.6%	2.8% ▼
San Jose metro	14.2%	15.4%	1.2% ▲
New York metro	14.4%	13.3%	1.1% ▼
Austin metro	34.8%	34.0%	0.8% ▼
San Francisco metro			
Washington D.C. metro			
Dallas metro			
Chicago metro			
Average of 10			
Houston metro			
Los Angeles metro			

KASTLE BACK TO WORK BAROMETER

Weekly Occupancy Report from Kastle Access Control System Data

5.3.21

BAROMETER THIS WEEK

26.5%

10 CITY AVERAGE OCCUPANCY

	Wed 4/21	Wed 4/28	% Change
Austin metro	38.8%	40.2%	1.4% ▲
San Jose metro	17.4%	18.0%	0.6% ▲
San Francisco metro	14.2%	14.8%	0.6% ▲
Average of 10	26.1%	26.5%	0.5% ▲
Chicago metro	21.2%	21.6%	0.5% ▲
Houston metro	39.3%	39.7%	0.4% ▲
Philadelphia metro	26.6%	27.1%	0.4% ▲
New York metro	15.8%	16.2%	0.4% ▲
Washington D.C. metro	22.4%	22.8%	0.3% ▲
Los Angeles metro	23.6%	23.4%	0.2% ▼
Dallas metro	41.2%	41.2%	0.1% ▲

Kastle customers are in more than 2,600 buildings in 138 cities. The Barometer reflects swipes of Kastle access controls from the top 10 cities, averaged weekly. It summarizes recent weekday building access activity among our business partners, not a national statistical sample.

The Future of Capital Gains Tax

Capital-Gains Tax Plan Spurs Concerns

Biden proposal would end a rule that was cornerstone of estate planning for the wealthy

By Richard Rubin
And Rachel Louise Ensign

President Biden's American Families Plan would raise capital-gains taxes and end a rule that has been a cornerstone of estate planning for generations of wealthy Americans.

The change—increasing the top capital-gains rate to 43.4% from 23.8% and taxing assets as if sold when someone dies—would upend the tax strategies of the very richest households. Mr. Biden's plan would claw back some benefits Congress gave to slightly less wealthy multimillionaires who have been spared from the estate tax but now could face capital-gains taxes at death.

Today, people who own assets that boomed in value—**Apple** Inc. stock, the family beach house, a three-generation manufacturing company—don't pay capital-gains taxes unless they sell. Under the Biden proposal, those unrealized gains would trigger taxes upon the owner's death, minus a $1 million per-person exemption.

More than two-thirds of all U.S. families have some unrealized capital gains, according to the Federal Reserve, but most would be covered by the $1 million exemption. For families in the top 10%, with a median net worth of $2.6 million, median unrealized gains are $519,000.

The plan likely will change as it moves through Congress, and some Senate Democrats are already balking. Rep. Cindy Axne (D., Iowa) is concerned about the impact on family-owned farms and is working with other lawmakers from rural areas to seek an exemption for them. Republicans say tax increases would kill jobs and slow the economic recovery.

Meanwhile, wealthy people and their advisers are rethinking strategies and investments. Financial adviser Ken Van Leeuwen said he received more fearful calls from clients about the tax-law changes in the past week than ever. Mr. Van Leeuwen's Princeton, N.J., firm caters to people with net worth between $5 million and $25 million. Many are concerned their children will pay taxes on inherited second homes.

The Biden proposal would blow up several longstanding tax concepts: That capital gains deserve a lower tax rate than wages and that people can inherit old assets without paying capital-gains taxes. Democrats and their allies say those features of the tax system are unfairly tilted to the very wealthy.

"It's one of the biggest, most inefficient and hardest-to-justify tax breaks that exists in the code," said Chye-Ching Huang, executive director of New York University's Tax Law Center. "There's just a tiny, tiny sliver of people that have that kind of gain. It's just so unusual."

COURTNEY SILVER

Courtney Silver of Ketchie Inc., a family-owned machine shop.

Under the current system, the top capital-gains tax rate is 23.8%, compared with 40.8% on wages, with state taxes on top of both. Congress created the lower rate as an incentive to invest and a way to prevent the tax code from discouraging asset sales. It is a rough adjustment for inflation and a way to limit taxes on income taxed at the corporate level.

Heirs have to pay such taxes only when they sell and only on the gain since the prior owner's death. The provision is known as the tax-free step-up in basis and has been part of the tax code since the Revenue Act of 1921. It saves taxpayers more than $40 billion a year, according to the congressional Joint Committee on Taxation; the Biden proposal would take back some of that.

The step-up in basis is separate from the estate tax, which is based on net worth at death, not just appreciated gains. It has an $11.7 million per-person exemption. Opponents of Mr. Biden's plan warn of steep combined rates on people hit by both taxes.

The problem, Democrats say, is that significant amounts of income escape the income tax entirely, because people can buy assets, borrow against them for living expenses and die without paying income taxes on the gain. For very wealthy investors or billionaire founders of companies who take small salaries as their stock grows, it can make the income tax effectively optional.

"If you're elderly and own highly appreciated assets, God forbid you should sell them while you're alive," said Lawrence Zelenak, a Duke University law professor.

Under the Biden plan, except for charitable bequests, death is treated like a sale, with a $1 million per-person exemption. That would be a lifetime exemption on bequests of gifts, and it would be portable between spouses for a total of $2 million. He would keep existing exclusions for gain on a principal residence of $250,000 for individuals and $500,000 for married couples.

Now, someone who paid $2 million for a business and dies when it is worth $12 million would pay no capital-gains taxes. And if that is his only asset, he would owe no estate taxes. Under the Biden plan, he would pay taxes on $9 million—the $10 million gain minus the $1 million exemption—with a top marginal tax rate of 43.4%. Assets held in retirement accounts generally aren't affected.

The capital-gains rate change and taxation at death work together. Without the change to the basis rules, the 43.4% tax rate would lose money for the government because it would encourage people to hold assets that they would otherwise sell.

Taxes on the appreciation of certain family businesses would be due only upon sale or when they are no longer family-owned and operated. Mr. Biden would also allow a 15-year fixed-rate payment plan for the taxes tied to some other illiquid assets.

Manufacturers and farmers, who tend to be more asset-rich and cash-poor, are watching closely for those details, concerned they might have to sell illiquid businesses to pay the taxes.

Courtney Silver, president of Ketchie Inc., a family-owned, 25-employee machine shop in Concord, N.C., that started in 1947, said she was concerned about the potential impact.

"I really can't imagine being hit with that decision of that potential tax implication," said Ms. Silver, 40 years old, who took over the business when her husband, Bobby Ketchie, died in 2014. "That to me is really hard to wrap my head around."

It could be challenging for asset owners to figure out their tax basis, which is what they paid for the property and invested in it. That complexity is part of what doomed a similar proposal in the late 1970s, which Congress passed, then delayed, then repealed.

Wealthy Americans with over $100 million in assets are already turning to a range of techniques to minimize the hit from steeper taxes on their wealth, and many have already shifted further into tax-advantaged assets, said Mike Kosnitzky, co-head of the private wealth practice at law firm Pillsbury Winthrop Shaw Pittman LLP.

Source: WSJ 4/30/21

The Future of the 1031 Exchange

New Proposal Takes Aim at Real-Estate Tax Loophole

By Will Parker

President Biden's new economic plan would eliminate a tax break for many real-estate owners that has enabled them to defer paying capital gains on property sales.

Closing that tax loophole, which has existed since 1921, is part of his $1.9 trillion spending package for new social programs. The current law allows investors to defer paying tax on real-estate gains if they reinvest the proceeds in other properties within six months of the sale.

The deals are known as 1031 exchanges, named for the section in the U.S. tax code. The Biden proposal would abolish 1031 exchanges on real-estate profits of more than $500,000.

In theory, capital-gains tax from these deals eventually gets paid. But on the advice of estate planners, many real-estate investors continue to buy and sell properties this way until they die, passing the capital gains on to their heirs tax-free at death. Mr. Biden seeks to close the death loophole, too, by taxing capital gains on inherited assets.

A congressional tax committee estimated that the 1031 tax break would save property investors more than $41 billion between 2020 and 2024.

In the plan released by the White House on Wednesday, the Biden administration argued the real-estate loophole is one of many on the books that disproportionately allow the very wealthy to avoid taxation. "Without these changes, billions in capital income would continue to escape taxation entirely," the administration said.

Mr. Biden's proposal would also raise the top rate paid on capital gains and dividends to 39.6% from 20%, and it would increase taxes that hedge funds pay on carried interest.

Real-estate investors say the 1031 tax treatment encourages businesses to expand, creating jobs and pumping more money into the economy, especially during times of lower overall economic activity, such as recessions.

Most 1031 deals are done by individuals, rather than by corporations, according to a report from the Congressional Joint Committee on Taxation. They have been popular with wealthy investors who have pooled money to buy small apartment buildings, motels or other types of less expensive commercial real estate.

$500k

Plan would abolish exchanges on profits above this level

They are also favored by privately held commercial real-estate firms. Publicly traded real-estate investment trusts, or REITs, have less need for the exchanges because they enjoy other tax benefits.

Dozens of organizations have registered to lobby the federal government against repealing 1031 exchanges, according to Senate lobbying disclosures, including the American Farm Bureau Federation, the National Association of Realtors and the Asian American Hotel Owners Association. A cottage industry of brokers and advisers also exists to facilitate these niche transactions.

The tax treatment also applies to residential sales, enabling home sellers to defer capital gains by reinvesting sales proceeds in a home other than their primary residence. The Biden proposal would continue to allow 1031 exchanges of less than $500,000, meaning many homeowners and smaller investors could still take advantage.

Originally, the exchanges applied to other forms of personal property, such as artwork or machinery. Those property types were eliminated by Congress and President Donald Trump in 2017.

Source: WSJ 4/29/21

Cap Gains and 1031

- Getting rid of cap gains tax will reduce number of transactions
- Getting rid of the 1031 Exchange will reduce number of transactions
- Sellers can refinance or use a ground lease to raise funds.
- Buying interest would still be strong.
- It will be harder to find sellers.
- For some buyers, getting rid of cap gains and 1031 could reduce their bid prices by 20%

The Urban Vibe is in Jeopardy

San Francisco Chronicle

Rampant shoplifting leads to another Walgreens closing in S.F.

Phil Matier | Oct. 18, 2020 | Updated: Oct. 19, 2020 11:24 a.m.

Source: San Francisco Chronicle 10/18/20

Newsweek

Federal Judge Allows 21 Businesses to Sue Seattle Over Harms Caused by CHOP

Daniel Villarreal • 1 hr ago

On Friday, a federal district court judge allowed a lawsuit brought by 21 businesses against the city of Seattle to proceed, despite the city's attempt to have it dismissed.

© David Ryder/Getty A federal judge allowed 21 businesses to sue the city of Seattle for allowing the existence of the "Capitol Hill Occupied Protest" from June 7 to July 1, 2020. The business owners said the city helped create the area, effectively harming their abilities to continue operating. This June 14, 2020 image shows the entrance to the CHOP zone.

The lawsuit accuses the city of harming local business owners by allowing the existence of

Source: Newsweek 10/17/2020

Washington Examiner

Reported antifa rioters smash windows and vandalize businesses in downtown Portland over Biden's immigration policies

Michael Lee - Yesterday 9:30 AM

Like 23

"When these people come through, and we've lost an entire day of business which means that's impacting my team member's wages. This has been going on for nine months," said Jim Rice, who owns Fields Bar and Grill in downtown Portland. "Where are our resources? When do we get enough resources to finally go after and fix this?"

Source: Washington Examiner 2/28/21

Newsweek

Portland Mayor Ted Wheeler Says Residents Are 'Sick and Tired' of Destruction Occurring During Protests

Alexandra Garrett · 22 hrs ago

Portland Mayor Ted Wheeler said Monday that the city's residents are frustrated with the ongoing destruction that's happening during protests in the area.

Source: Newsweek 3/17/21

Movement Away From Urban Areas

Renters Flock to Suburbia, Upending an Urbanization Trend

BY PETER GRANT

Apartment rents are rising in suburban markets across the U.S. as city dwellers look for bigger spaces in smaller towns.

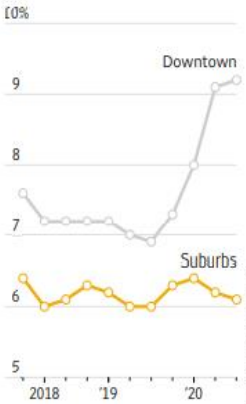
Many of suburbia's new tenants say that this year's shift to a work-at-home model removed a longstanding barrier to living in these neighborhoods, namely a sometimes aggravating commute to a downtown city office building.

Suburban homes also offer more room and outdoor space for the dollar. These towns' more-limited cultural and culinary attractions matter less when many city museums, shops, bars and restaurants have closed or are operating at partial capacity.

Even with the U.S. economy in recession, apartment rents in the suburban markets of Sacramento, Norfolk, Va., and the Inland Empire of Southern California rose 3.2% to 4.6% at the end of the third quarter compared with March, according to data firm CoStar Group Inc.

"They're markets that are close enough to cities like San Francisco, Los Angeles and Washington, D.C., that allow people to be close enough to go into the office if they really needed to, but far enough to save," said John Affleck, CoStar's vice president in charge of market analytics.

U.S. rental apartment vacancy rates



Source: CoStar Group

CAMDEN PROPERTY TRUST

Many real-estate analysts suggest the shift to the suburbs could continue. A community near Houston.

Home sales in the suburbs are also strong; prices at the end of June were 3.3% higher than a year earlier, according to Zillow Group Inc.

Meanwhile, rents in central business districts in popular cities have been tumbling. San Francisco, where these rents are down 17% since the March peak, has been hardest hit, CoStar said. These district rents are down 9.2% in Boston and between 5% and 6% in New York, Los Angeles and Philadelphia.

Overall, central-business-district rents are falling about 1% a month, CoStar said.

The flight to suburbia reverses a trend toward urbanization that gained momentum in the decade before the pandemic. Hundreds of thousands of millennials and empty-nesters flocked to the activities and energy of cities, driving up rents and stoking hundreds of new apartment developments as more people chose to live near where they worked.

Now, many real-estate analysts suggest the shift to the suburbs could continue. Work from home remains widespread, and prices in the suburbs still look relatively cheap. Even with recent rent reductions in urban markets, upscale city apartments still command a premium of up to $2,000 a month over surrounding areas, according to landlords and brokers.

"In downtown Houston, rent is probably $2,600 to $2,700 per month for a two-bedroom apartment. If you go 10 miles to the west it's $1,500," said Ric Campo, chief executive of Houston-based **Camden Property Trust**, which owns 60,000 apartments in that city and 13 other regions.

Suburban rents are also rising for apartments that target the middle class paying less than $2,000 a month. Demand has increased as people worry about job security, but there has been little new supply because most recent development has focused on higher end units and urban markets.

In the Boston area, interest has been strong for working class communities like Lawrence and Lowell, Mr. Affleck said. "They've been starved of new supply," he said.

Many renters leaving the city for the suburbs are young couples that have put off getting married and having children and now want space to start a family. Some landlords say they are also seeing less doubling up during this recession than previous downturns because of concerns about contagion.

These renters are saying: " 'If I'm going to work from home, I want to be by myself,' " Mr. Campo said. " 'I don't want to have a roommate and worry about their contacts.' "

Landlords point out that even before the pandemic, renters were starting to move out of higher cost markets like New York City and San Francisco to places like Austin and Denver, where they could get more space for their money.

"We've continued to see those patterns, but now they're at a higher clip," said Bob Faith, founder and chief executive of Greystar Real Estate Partners LLC in Charleston, S.C., the country's largest multifamily landlord, with 693,000 units owned and managed globally.

Source: WSJ 10/14/2020

The Black Swan Event

China invades Taiwan
Japan, Korea and US Respond

The whole Pacific supply chain is disrupted, creating supply shortages, price spikes and production cuts all over the world.

Honda Plans U.S. Shutdown

By Sean McLain

TOKYO—**Honda Motor** Co. said it would halt production at most of its U.S. and Canadian car factories next week because of supply-chain issues, including port backlogs that have delayed the delivery of parts.

The Japanese car maker said a combination of the port issues, a shortage of semiconductors, pandemic-related problems and fallout from severe winter weather across the central U.S. led to the decision.

The shutdown is set to start at most of Honda's five auto plants in the U.S. and Canada on March 22 and last a week, the company said, without specifying which plants would halt production.

The decision highlights the stress on the car industry since the coronavirus pandemic upended the global supply chain. A sharp bounceback from the initial slowdown in the spring of 2020 has left companies scrambling to react. Jammed ports in Los Angeles and Long Beach, Calif., are particularly a problem for Asian car makers that import parts used in their U.S. factories.

Honda said the duration of the shutdown could change depending on parts supply. Workers will continue to be paid to perform other tasks at the plants, it said.

WSJ 3/17/21

The Hottest Single-Family Market Since 2006

Fed Policy to Lower Mortgage Rates is Working Again
Supply can’t keep up with demand
Prices will continue to escalate

Lumber is more than twice the typical price for this time of year. Granite, insulation, concrete blocks and brick prices are at records.

Rising Costs Add to Home Prices

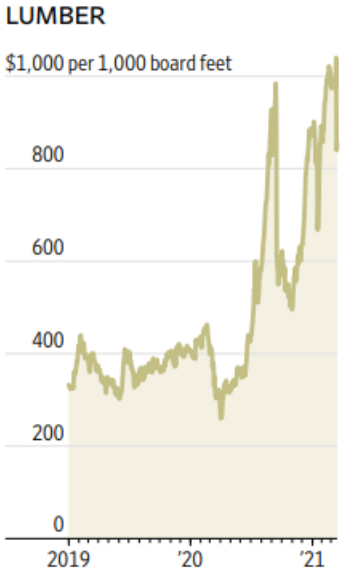
By Ryan Dezember
And Marco Quiroz-Gutierrez

Prices are surging for the raw materials used to build American homes.

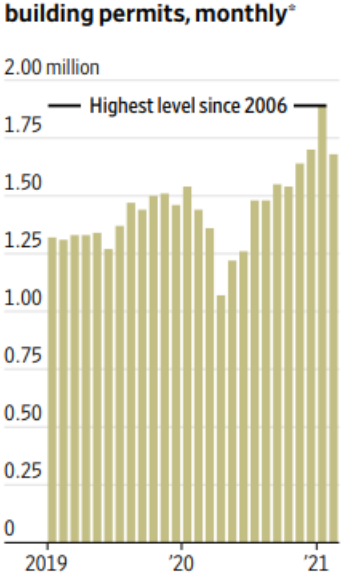
Lumber, one of the biggest costs in home-building after land and labor, has never been more expensive and is more than twice the typical price for this time of year. Crude oil, a starting point for paint, drain pipe, roof shingles and flooring, has shot up more than 80% since October. Copper, which carries water and electricity throughout houses, costs about a third more than it did in the autumn.

Prices for granite, insulation, concrete blocks and common brick have all pushed to records in 2021, according to the Bureau of Labor Statistic's producer-price index, which measures the change in prices that producers receive for their output. Drywall and ceramic tiles are short of records but have also climbed.

Front-month futures prices



Housing units authorized by building permits, monthly*



Sources: FactSet (futures prices); U.S. Census Bureau via St. Louis Fed (units)

*Seasonally adjusted annual rate; Data as of February

Paintmaker **Sherwin-Williams** Co. and flooring manufacturer **Mohawk Industries** Inc. as well as builders **D.R. Horton** Inc. and **Hovnanian Enterprises** Inc. have been raising prices to pass along higher costs. They can thank historically low borrowing costs, federal stimulus payments and a hunt for yield that has sent investors barreling into the home-rental business.

"Whoever the home buyers are, they have been able to pay for it," said Todd Tomalak, who tracks building products for John Burns Real Estate Consulting.

American Homes 4 Rent,

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Source: WSJ 3/18/21

Is There a Housing Bubble?

<u>I see intense demand for SF houses due to</u>:

- relentless increase in population
- a shortage of construction that has gone on for 12 years now
- a massive increase in investor demand for SF houses
  a whole generation that is tired of living in apartments and being single
- a global realization that you can no longer retire with a portfolio of bonds
- an investment asset that you can get 70% leverage with a 3.5% mortgage
- an underlying fear that investors have about runaway inflation

<u>In my opinion</u>,

- bubbles form from unsustainable borrowing to purchase an asset
- I don't see any crazy mortgage lending schemes.
- borrowers are scrutinized before mortgages are made.
- even the millions that are behind are their mortgage payments are unlikely to get foreclosed because of growing equity in their home.

Higher Inflation Could Cause Mortgage Rates to Trend Higher

- There is always a latent fear of huge government deficits and growing federal debt
- The natural pressure will be for investors to anticipate inflation and expect higher rates.
- *BUT…. the Fed will not allow mortgage rates to increase enough to stifle the housing market*

The ECB Just Flinched

ECB to Speed Up Bond Purchases

By Tom Fairless

FRANKFURT—The European Central Bank plans to step up efforts to contain borrowing costs that have surged amid brighter prospects for the U.S. economy and a relaxed stance from the Federal Reserve, aiming to shore up the flagging eurozone economy.

A sluggish rollout of Covid-19 vaccines in continental Europe has triggered a return of social restrictions that are delaying the region's recovery from last year's historic downturn, even as a $1.9 trillion fiscal stimulus looks set to turbocharge U.S. economic growth.

The divergence in near-term economic prospects between the U.S. and eurozone has made policy making more difficult for the ECB than for the Federal Reserve, which signaled recently that it wouldn't seek to stem a rise in Treasury yields. That stance has rippled around the world, pushing up borrowing costs in both developed and developing countries.

At a news conference on Thursday, President Christine Lagarde said the ECB would seek to counter a recent increase in bond yields, part of which she said reflected higher growth expectations in the U.S. rather than a recovery in Europe. Very high debt levels in some European countries—particularly in the south, where debt is more than 150% of gross domestic product—leave the eurozone especially vulnerable to rising borrowing costs.

To contain yields, the ECB plans to significantly accelerate purchases under a 1.85 trillion euro bond-buying program, equivalent to $2.2 trillion, unveiled a year ago. That program aims to purchase government debt with the goal of keeping down yields. "We are moving into action as early as [Friday]," Ms. Lagarde said. The ECB also left its key interest rate unchanged at minus 0.5%.

The ECB's move surprised investors and ricocheted through financial markets, pushing down European bond yields. That takes pressure off embattled European governments like Italy's,

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◆ EU approves J&J's single-shot vaccine..... A6

Source: WSJ 3/12/21