



## What the FED?

Economic Outlook addressing the “Elephant(s) in the Room.”

## Let’s Discuss the “Elephant(s) in the Room?”

- The Economy
- PA Economy – Slow Growth
- What the FED?
- CRE Conditions, Capital & Rates



K.C. Conway, MAI, CRE, CCIM

1-part Original **Red-Shoe** Economist”  
1-part Beagle-nomics



[KC@KCnomicsllc.com](mailto:KC@KCnomicsllc.com) or [KCMAICRE@gmail.com](mailto:KCMAICRE@gmail.com)

678-458-3477 (text is best)

# Disclaimer: Not in the fine print...

**2024 PA Realtors Industrial, Commercial & Investment Conference**  
**Hosted by PA, Harrisburg, Lebanon, York & Adams Counties Realtors**  
**Harrisburg, PA – Sheraton Hershey Hotel – May 30, 2024**

**K.C. Conway, MAI, CRE, CCIM**

[KC@KCnomicsllc.com](mailto:KC@KCnomicsllc.com) or [KCMAICRE@gmail.com](mailto:KCMAICRE@gmail.com)

**Charlie Beagle**  
**Salutes our Veterans**



This presentation reflects the analyses and opinions of the author, KC Conway, CCIM, CRE, MAI but not necessarily those of the **Pennsylvania, Greater-Harrisburg, Lancaster County, Lebanon County, York and Adams Counties Association of Realtors, Sponsors (PA Assoc. of Realtors, Moser Roofing, Barley Snyder Law), or UMH REIT.**

Neither the **Pennsylvania, Greater-Harrisburg, Lancaster County, Lebanon County, York and Adams Counties Association of Realtors, Sponsors (PA Assoc. of Realtors, Moser Roofing, Barley Snyder Law), or UMH REIT** make any representations or warranties about the accuracy or suitability of any information in this presentation. **The aforementioned do NOT guarantee, warrant, or endorse the advice or services of KCnomics LLC or KC Conway, CCIM, CRE, MAI.**

This presentation is provided solely for informational purposes of attendees. It is not intended to constitute legal, investment or financial advice or the rendering of legal, consulting, or other professional services of any kind.



**PRESENTING  
SPONSOR**

# Elephant-In-The-Room #1: Economy (GDP, Inflation, Earnings)



## What's the "Elephant(s) in the Room?"

- **Eco Gr.** - GDP, Inflation (CPI), Earnings, ULI Q1 2024 Economic & CRE Outlook
- **The Commercial Real Estate industry is now the second largest contributor to GDP.**
- CRE's importance to GDP is why the FOMC needs to get Interest Rates right!
- **Too much of the US economy is impacted by "Higher for Longer!"**

# How Big is CRE by Property Type & Bank Capital Implications

Industrial & MF have more SF than Retail (malls & Big-Box), **BUT Look at Values/SF**

**“Many banks** (especially CRE-Concentrated banks) **have a negative NIM that is inhibiting all aspects of CRE lending from construction loans to permanent CMBS** and GSE (Fannie and Freddie) multifamily loan originations. Essentially, banks are now facing CRE lending headwinds that go well beyond CRE concentration (100% and 300% of capital limits). **It’s a huge “not working” headwind for CRE as banks lack the profitability and a margin to lend into a now nearly \$21 trillion CRE market** (the equivalent of 1-year U.S. GDP).

Estimates of Commercial Property Value: 2021Q2

Sector	Square Footage (Millions)	Base Estimates	
		Price per Square Foot (\$)	Value (\$ Trillions)
Multifamily	16,383	\$235	\$3.8
Office	11,780	\$270	\$3.2
Retail	14,040	\$207	\$2.9
Health Care	2,705	\$864	\$2.3
Specialty, Sports and Other **	-	-	\$3.4
Hospitality	2,625	\$617	\$1.6
Industrial	21,698	\$106	\$2.4
Data Centers	-	-	\$0.2
Self-Storage	-	-	\$0.4
Towers	-	-	\$0.4
Total	69,231		20.7

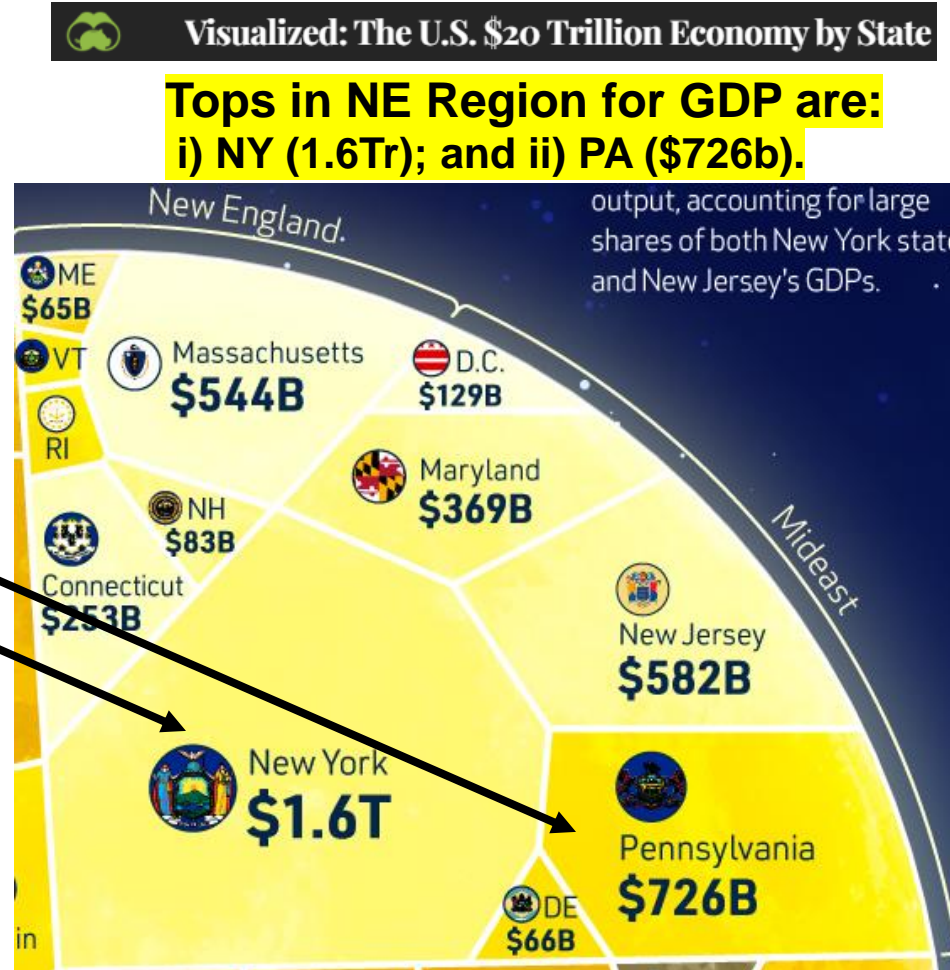
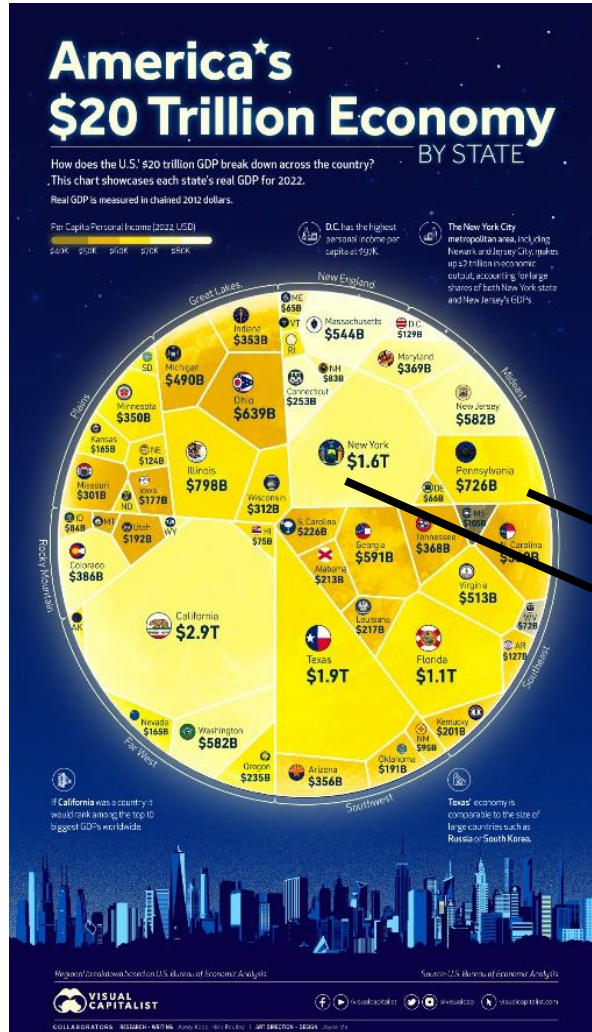
Source: Nareit; CoStar

Size of CRE Industry: <https://www.reit.com/data-research/research/nareit-research/estimating-size-commercial-real-estate-market-us-2021>



# GDP: It drives CRE Demand.

**State-Level GDP Matters ... Where US GDP is created = Where more CRE Demand**



PA GDP ranks 2<sup>nd</sup> in NE Region, & 6<sup>th</sup> overall in US behind CA, TX, NY, FL and IL.

<https://www.visualcapitalist.com/us-economy-by-state/>

# 2020 Census Population Update (Regions & States) relevant to PA.

Annual Estimates of the Resident Population for the United States, Regions, States, District of Columbia, and Puerto Rico: April 1, 2020 to July 1, 2023					
Geographic Area	April 1, 2020 Estimates Base	Population Estimate (as of July 1)			
		2020	2021	2022	2023
<b>United States</b>	331,464,948	331,526,933	332,048,977	333,271,411	334,914,895
<b>Northeast</b>	57,614,141	57,430,477	57,243,423	57,026,847	56,983,517
<b>Midwest</b>	68,987,296	68,969,794	68,850,246	68,783,028	68,909,283
<b>South</b>	126,268,529	126,465,281	127,353,282	128,702,030	130,125,290
<b>West</b>	78,594,982	78,661,381	78,602,026	78,759,506	78,896,805
Alabama	5,024,294	5,031,864	5,050,380	5,073,903	5,108,468
Arizona	7,157,902	7,186,683	7,272,487	7,365,684	7,431,344
California	39,538,212	39,503,200	39,145,060	39,040,616	38,965,193
Colorado	5,773,707	5,785,219	5,811,596	5,841,039	5,877,610
Florida	21,538,216	21,591,299	21,830,708	22,245,521	22,610,726
Georgia	10,713,771	10,732,390	10,790,385	10,913,150	11,029,227
Illinois	12,813,469	12,790,357	12,690,341	12,582,515	12,549,689
Indiana	6,785,442	6,789,098	6,813,798	6,832,274	6,862,199
Iowa	3,190,427	3,190,904	3,197,944	3,199,693	3,207,004
Kansas	2,937,835	2,938,124	2,937,946	2,936,716	2,940,546
Michigan	10,077,674	10,070,627	10,038,117	10,033,281	10,037,261
Minnesota	5,706,804	5,710,578	5,717,968	5,714,300	5,737,915
Missouri	6,154,889	6,154,426	6,170,393	6,177,168	6,196,156
New York	20,202,320	20,104,710	19,854,526	19,673,200	19,571,216
North Carolina	10,439,459	10,453,812	10,567,100	10,695,965	10,835,491
Ohio	11,799,331	11,798,292	11,765,227	11,759,697	11,785,935
Pennsylvania	13,002,788	12,995,477	13,013,614	12,972,091	12,961,683
South Carolina	5,118,422	5,132,151	5,193,848	5,282,955	5,373,555
Tennessee	6,910,786	6,926,091	6,963,709	7,048,976	7,126,489

68.9 million  
130.0 million  
78.9 million

# Why Monitoring Population Change Matters - Philadelphia

---

## Philadelphia could lose its spot as the 6th-biggest U.S. city, census data shows

The data shows that **Philadelphia lost 3.3% of its population**, dropping the city's overall population to about 1,550,542. Meanwhile, San Antonio's population now stands at 1,495,295, according to census estimates.

The data also shows **Philadelphia is not the only major city to see its population shrink. Nearly all its peer cities in the Northeast and Midwest saw losses, too** — some coming at much greater rates.

New York City saw a 6.2% decrease in population during the peak pandemic years, while population drops in **Boston and Baltimore also outpaced Philly's decline from 2020 to 2023**. Some West Coast cities also shrank more than Philly, including San Francisco, which lost 7.4% of its population, and San Jose, California.

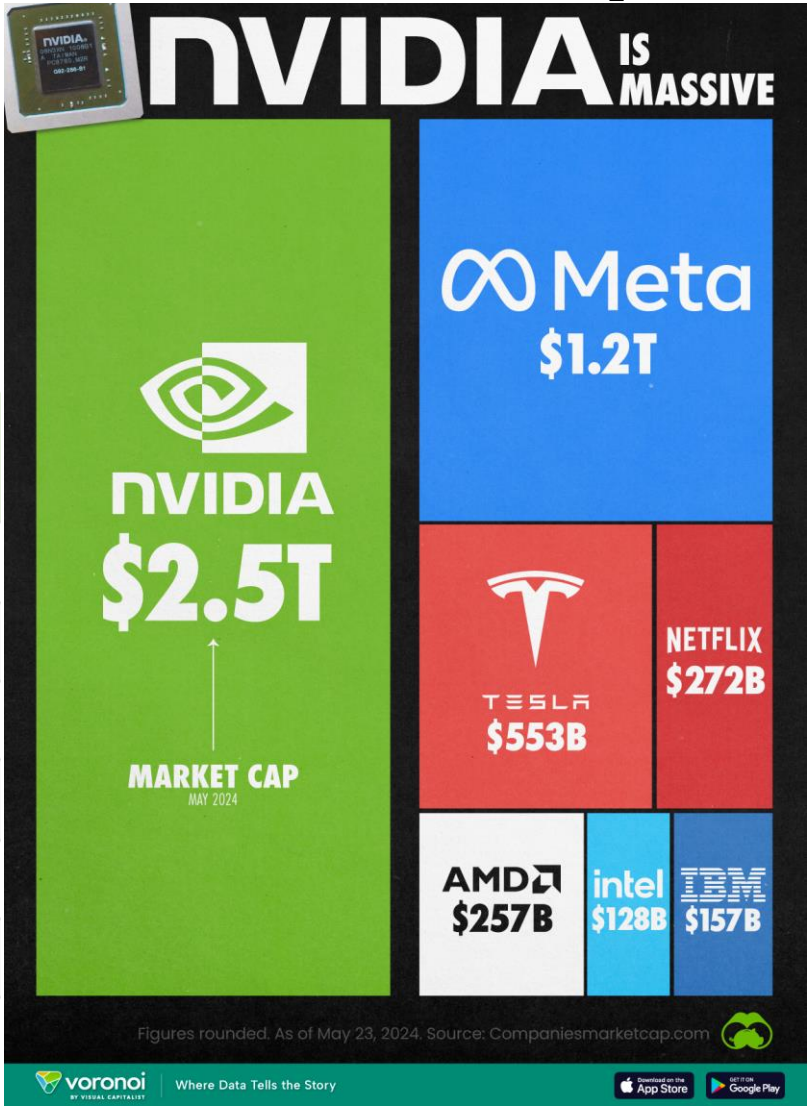
[Philly population drops, San Antonio could become 6th-biggest city – NBC10 Philadelphia \(nbcphiladelphia.com\)](https://www.nbcphiladelphia.com/news/philadelphia-news/philly-population-drops-san-antonio-could-become-6th-biggest-city-2023-10-10/)

# Nvidia is NOT the US Economy: Nvidia the world's third most valuable company

Nvidia is Worth More Than All of These Companies Combined

Below:

Company	Market Cap (as of May 23, 2024)
Nvidia	\$2.5T
Meta	\$1.2T
Tesla	\$553B
Netflix	\$272B
AMD	\$257B
Intel	\$128B





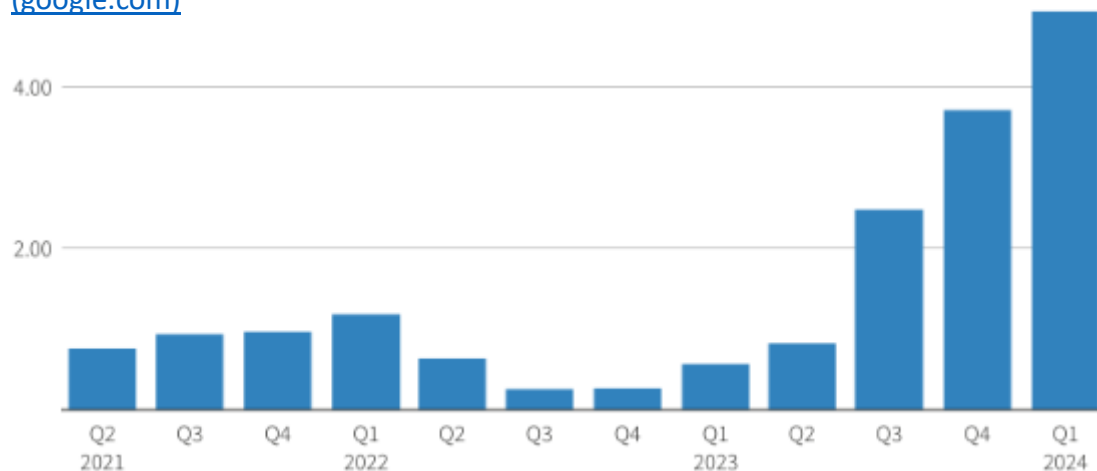
# Forecasting the Economy: Nvidia & Vix vs Eco Metrics

Nvidia stock price and the VIX (fear index) epitomize Greenspan's infamous "irrational exuberance" comment decades ago. **Beware of this market.** It is not rooted in good soil.

## NVIDIA earnings

The company, which trades as NVDA, reported \$5.98 earnings per share in the latest quarter.

[Presentation Material 2024 Nvidia triples and VIX falls below 12 Fwd: Nvidia aces Fed, tense Taiwan and UK poll - kcmaicre@gmail.com - Gmail \(google.com\)](#)



Nvidia's extraordinary boom on the scramble for artificial intelligence showed little sign of faltering and its stock - which now accounts for over 5% of the entire S&P500 capitalization

## CBOE Market Volatility Index

Index: VIX

[Compare](#)

12.52 USD ▼ -6.19 (-33.08%) past 5 years

May 28, 6:26 AM EDT · Market Closed



**The VIX – “Fear Index” is at lowest point in 5 years.** A reading >20 indicates “RISK.” It skyrocketed to >60 during COVID. Last time above 20 was Oct 2023. Think of the layered Eco risks since last Oct – Fed NOT cutting rates, GDP <2%, MidEast ...

# ULI Q1 Outlook: What the leading CRE Leaders are Forecasting



## ULI Real Estate Economic Forecast

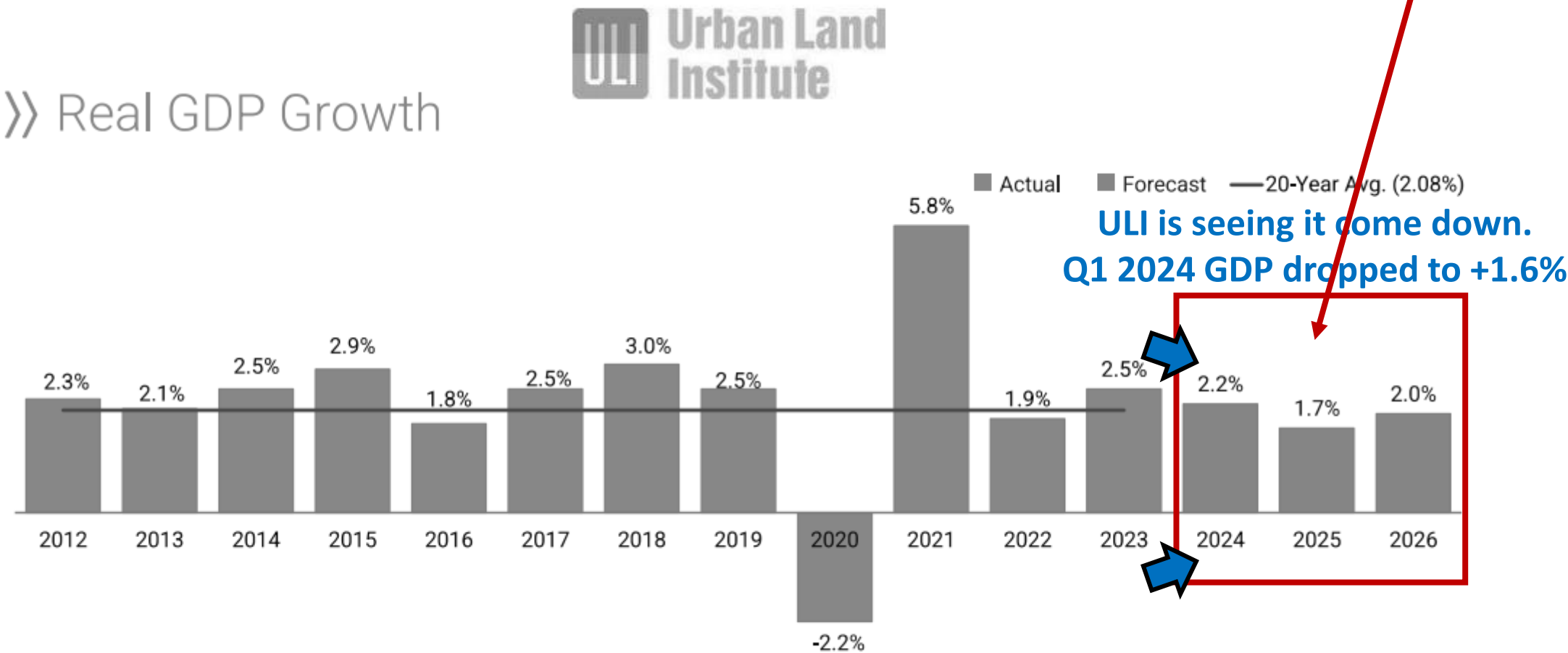
- Three-year forecast ('24 -'26) for 27 economic and real estate indicators.
- A consensus forecast based on the median of the forecasts of 39 economists/analysts at 34 leading real estate organizations.



## Firms That Participated in Economic Forecast

Organization	Lead Economist/Analyst
Harrison Street Real Estate Capital	Thomas Errath
Heitman	Maiko Adachi
	Jeffrey Bingham
	Jim Breen
KConomics LLC	KC Conway
Laposa Realty Advisors, LLC	Steven Laposa
LaSalle Investment Management	Richard Kleinman
Linneman Associates	Peter Linneman
Marcus & Millichap	John Chang
MetLife Investment Management	William Pattison
Moody's Analytics	Jeffrey Havsy
	Tom LaSalvia

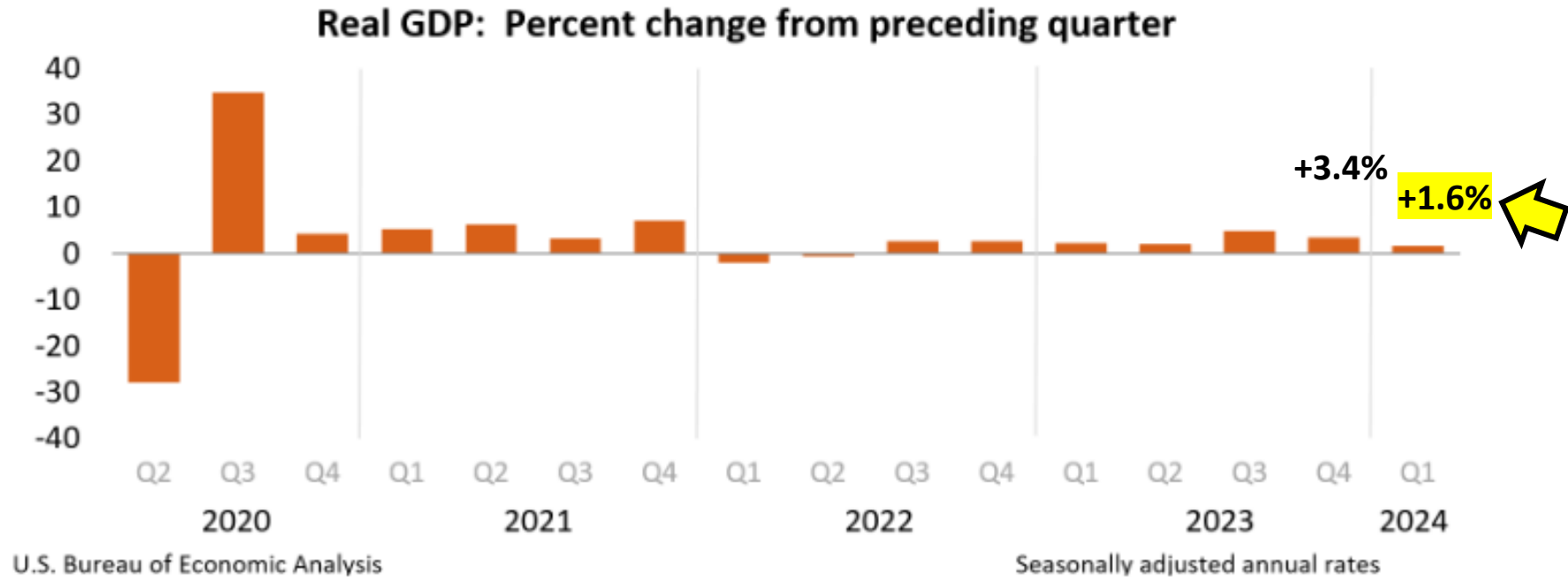
**GDP Outlook: ULI NOT seeing 3%+ GDP growth; try +1.7% to 2.2%**



Sources: 2004-2023, Bureau of Economic Analysis; 2024-2026, ULI Real Estate Economic Forecast.

# GDP Outlook: Latest GDP report in-line with ULI at +1.6%

Real gross domestic product (GDP) increased at an annual rate of **1.6 percent in the first quarter of 2024** (table 1), according to the "advance" estimate released by the Bureau of Economic Analysis. In the **fourth quarter of 2023, real GDP increased 3.4 percent.**

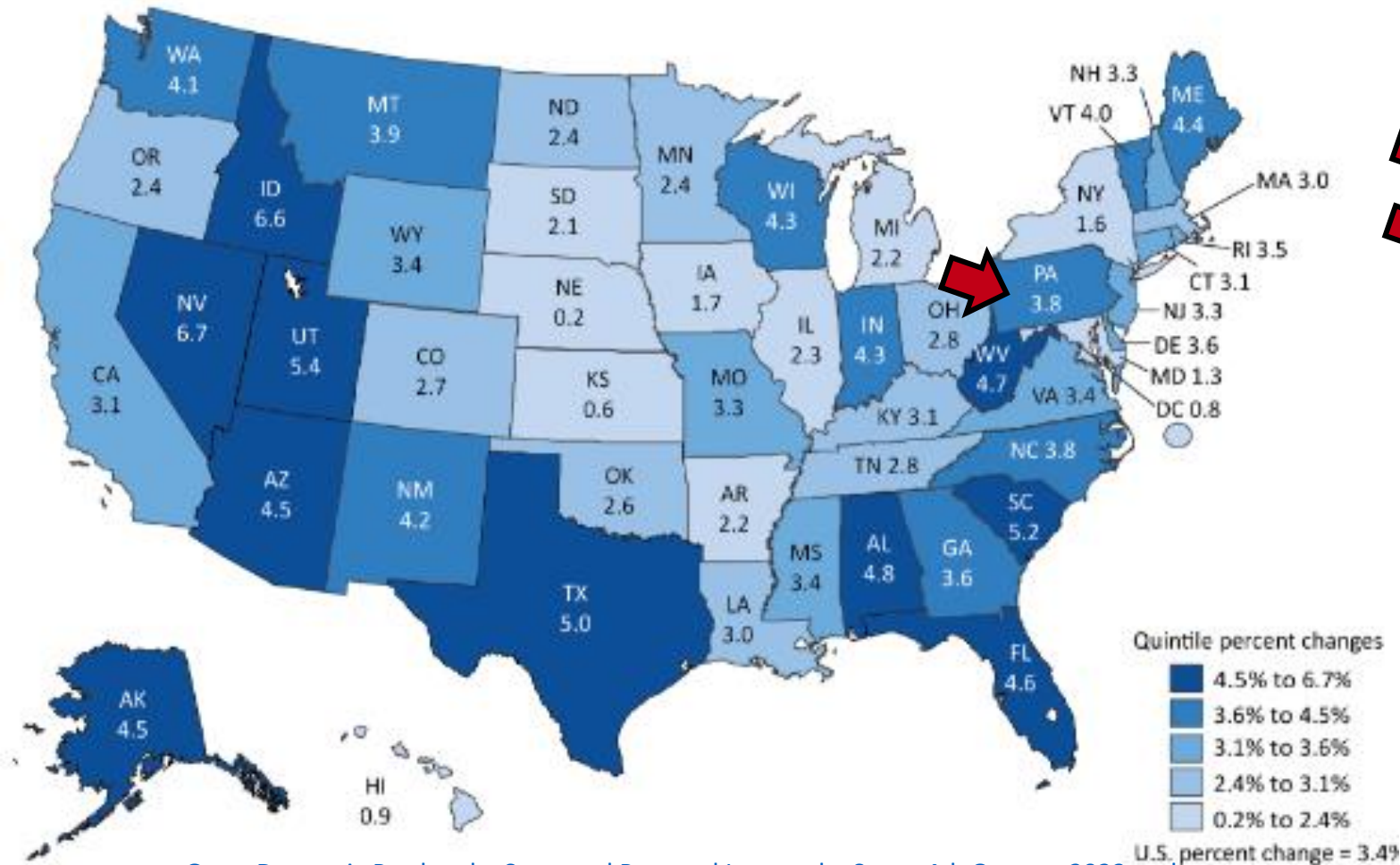


[Gross Domestic Product, First Quarter 2024 \(Advance Estimate\)](#) | [U.S. Bureau of Economic Analysis \(BEA\)](#)



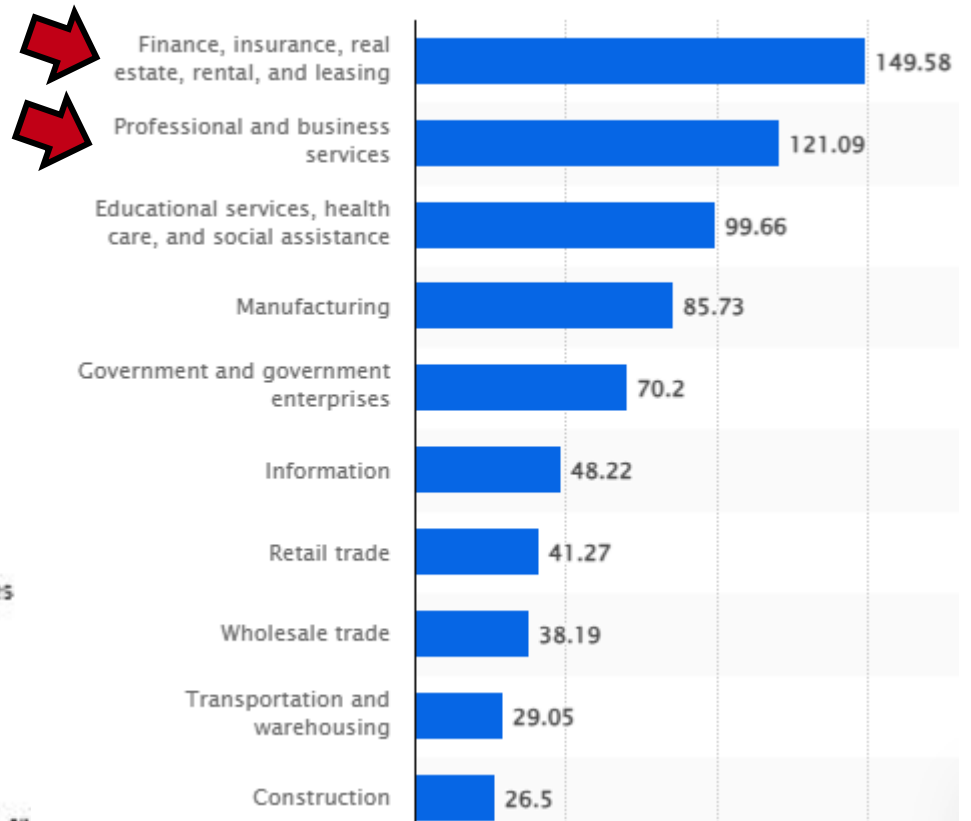
# PA GDP: Like US of 3.4% in CY 2023, PA is slowing in 2024

Real GDP: Percent Change at Annual Rate, 2023:Q3–2023:Q4



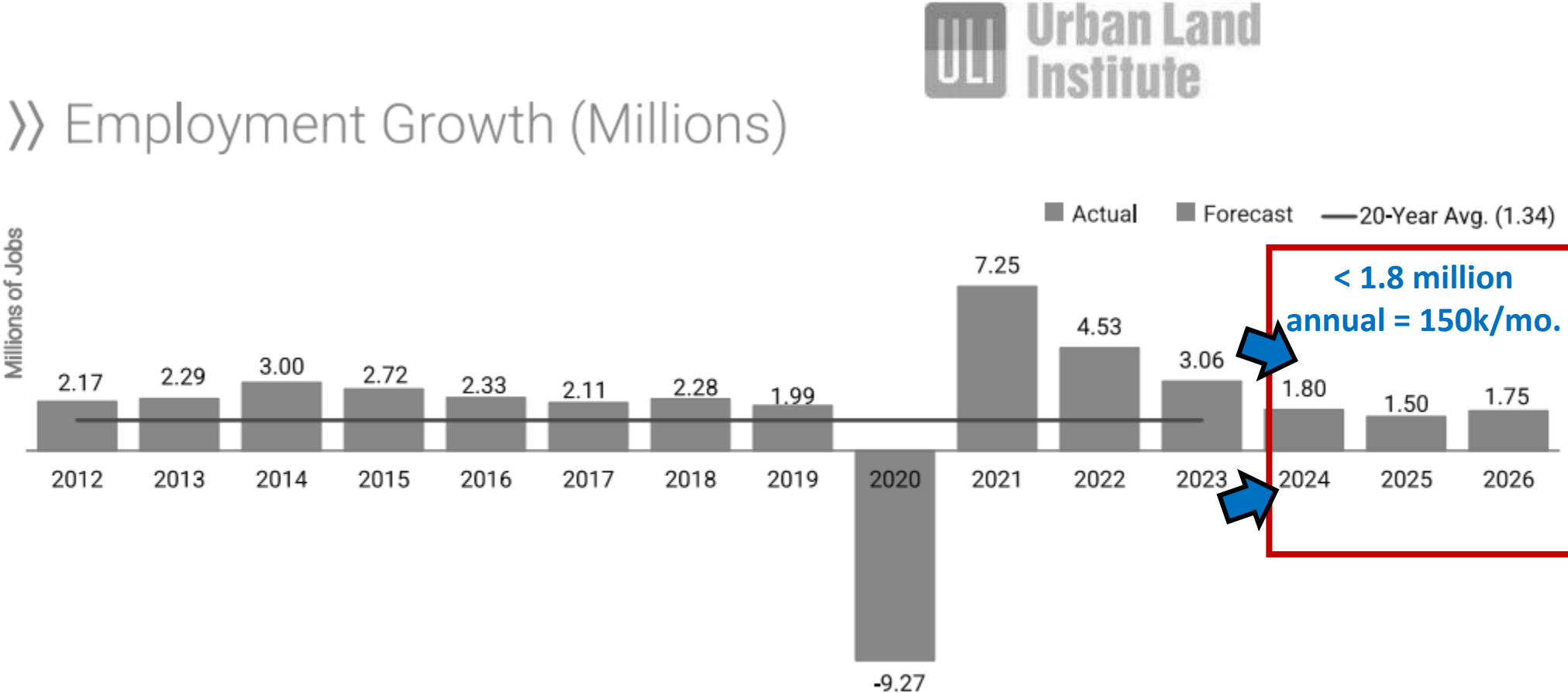
[Gross Domestic Product by State and Personal Income by State, 4th Quarter 2023 and Preliminary 2023 | U.S. Bureau of Economic Analysis \(BEA\)](#)

## PA GDP by Industry – Ranking CY 2023 Top 2 (FIRE & PBS) are weakening, like NE.



[GDP by industry Pennsylvania U.S. 2022 | Statista](#)

# **JOBS Outlook: ULI NOT seeing 200k+ continuing; try <200k/mo range**



Sources: 2004-2023, Bureau of Labor Statistics; 2024-2026, ULI Real Estate Economic Forecast.  
\*Indicated directions (↑ ↓ =) refer to the current forecast relative to the previous ULI Real Estate Economic Forecast. The previous ULI Real Estate Economic Forecast (released in October, 2023) projected 1.0M for 2024 and 1.8M for 2025.

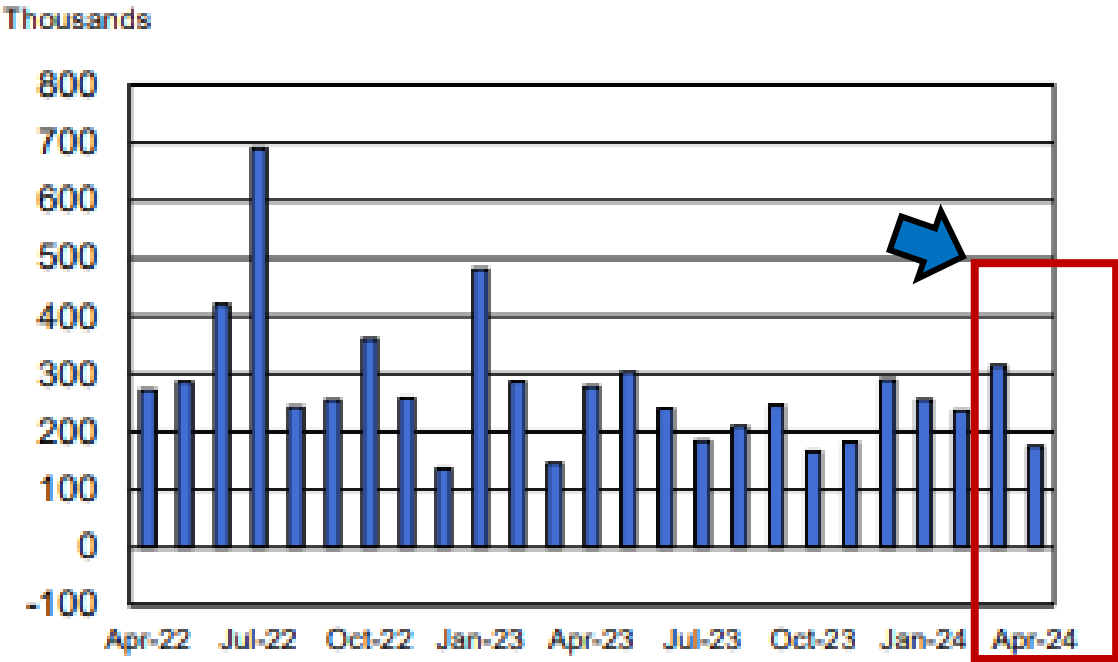
# JOB Outlook: ULI NOT seeing 200k+ continuing; Apr +175 vs Mar +315

ESTABLISHMENT DATA  
Summary table B. Establishment data, seasonally adjusted [The Employment Situation - April 2024 \(bls.gov\)](https://www.bls.gov/news.release/emp/suppl/tb02.pdf)

Category	Apr. 2023	Feb. 2024	Mar. 2024 <sup>P</sup>	Apr. 2024 <sup>P</sup>
<strong>EMPLOYMENT BY SELECTED INDUSTRY</strong> (Over-the-month change, in thousands)				
Total nonfarm.....	278	236	315	175
Total private.....	231	181	243	167
Goods-producing.....	33	15	39	14

Note:  
Only 14k “GOODS”  
Producing Jobs in Apr.

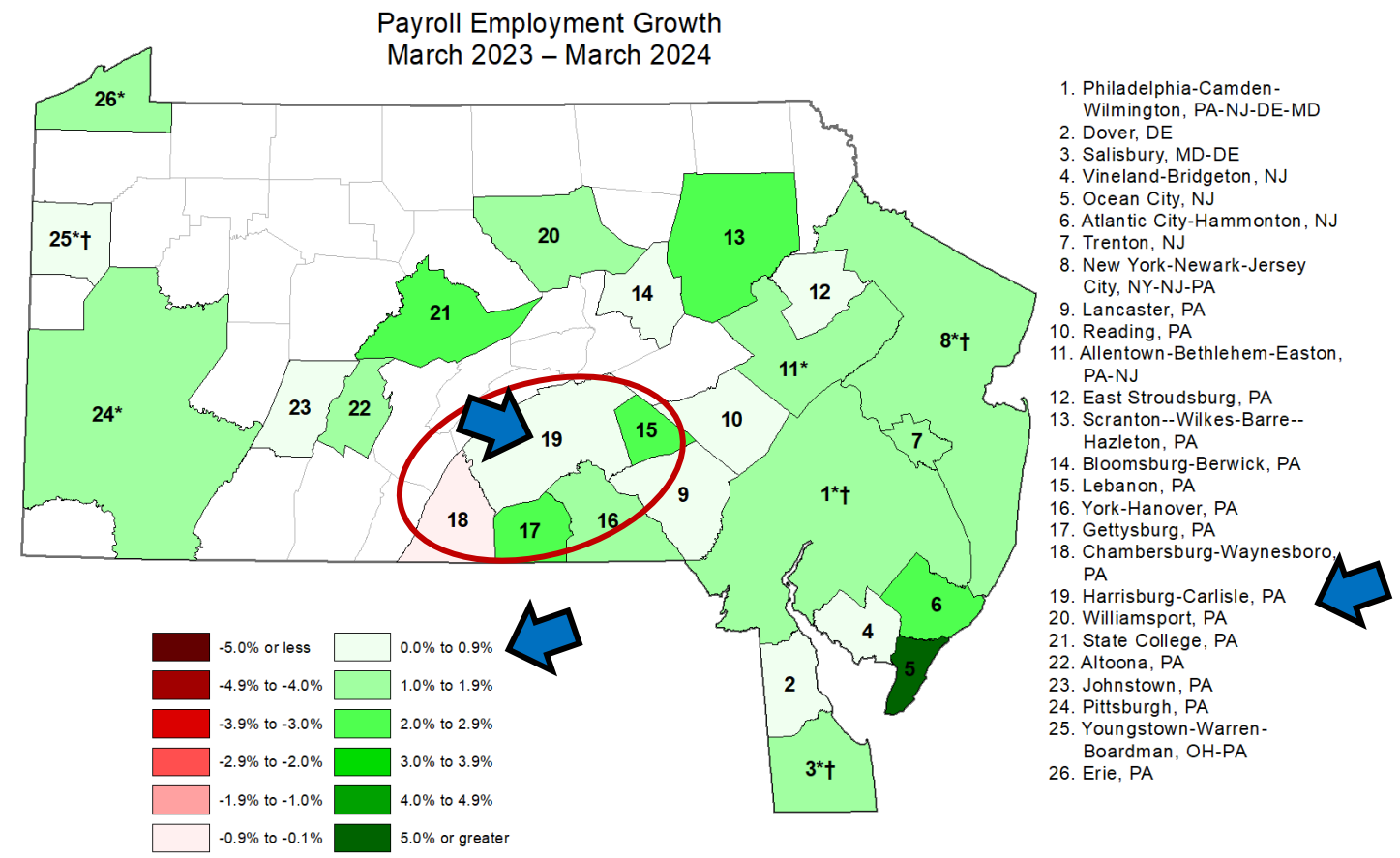
Chart 2. Nonfarm payroll employment over-the-month change, seasonally adjusted, April 2022 – April 2024



Job Gr. Fell <200k in April

# PA and Harrisburg Job Growth – “Slow but Steady.”

Harrisburg (19 on Map) <1% Job Gr Mar ‘23 to Apr ‘24; Lebanon (#15) >3%



Source: Bureau of Labor Statistics and Federal Reserve Bank of Philadelphia

\*Part or all of this MSA lies outside of the Third District.  
†Part of this MSA lies beyond the borders of the three-state region shown here.



# GDP by ABI: Construction Lending to Remain in Contraction for 2024

## ABI - Architects Billing Index: Lowest reading since Dec 2020

### ARCHITECTURE BILLING INDEX:

The Architecture Billings Index (ABI) is a leading economic indicator of construction activity. It is produced by the American Institute of Architects (AIA) and it reflects the approximate nine-to-twelve month lead time between architecture billings and construction spending.

The December 2023 AIA Architecture Billings Index (ABI) for the November period remained below 50 for the fourth consecutive month and suggests construction activity will remain constrained in 2024.

Firms in all regions reported a decline in billings.

Business conditions remain softest in the West, and for Firms specializing in multi-family residential

### Key ABI highlights for November include: 16

- Regional averages: Northeast (44.4); Midwest (49.0); South (46.7); West (39.5)
- Sector index breakdown: commercial/industrial (45.7); institutional (46.6); mixed practice (firms that do not have at least half of their billings in any one other category) (42.7); multifamily residential (42.1)
- Project inquiries index: 56.9
- Design contracts index: 48.1



BUSINESS INTELLIGENCE  
ABI November 2023: Business conditions remain soft at architecture firms

BUSINESS INTELLIGENCE  
ABI October 2023: Business conditions continue to soften at

BUSINESS INTELLIGENCE  
ABI September 2023: Firm billings decline sharply

BUSINESS INTELLIGENCE  
ABI January 2024: Business conditions remain soft at

# Inflation: Tamed or NOT? **SERVICES** Inflation is the Problem

Feb & Mar 2024 CPI +0.4% (+3.3% YOY) vs +0.3% Jan 2024. Where is the Inflation coming from (**SERVICES**)?

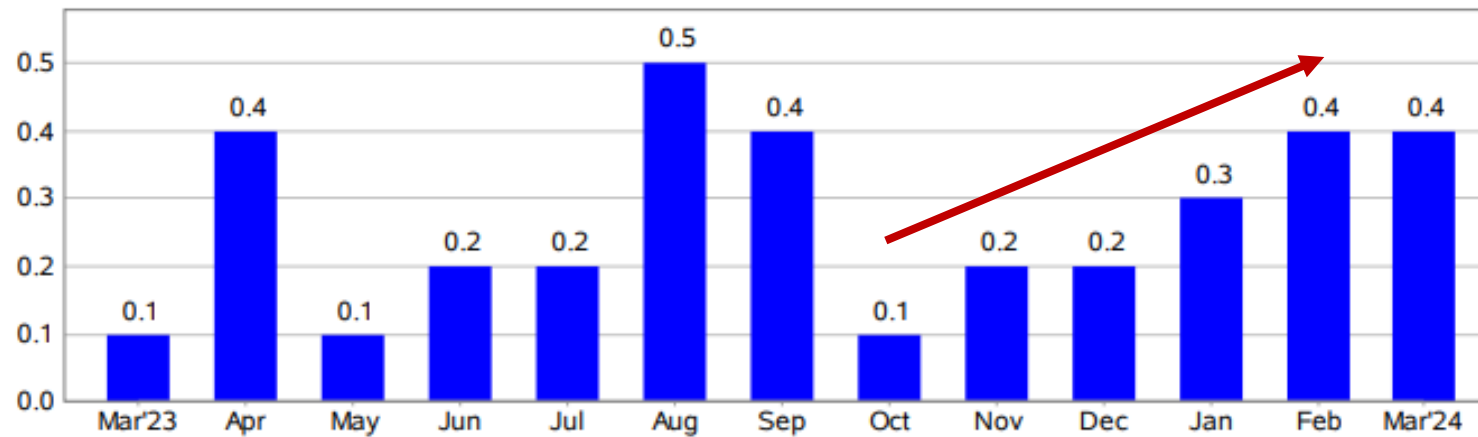


Where is Inflation relief coming from? “Goods” – CPI, *Super-Core*, *Sticky*, PCE, PPI all say INFLATION

(Housing,  
Food, Energy,  
Wages,  
Services)

(Super-Core  
less Housing)

Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, Mar. 2023 - Mar. 2024  
Percent change



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

	Jan. 2024	Un-adjusted 12-mos. ended Jan. 2024
All items.....	0.3	3.1
Food.....	0.4	2.6
Food at home.....	0.4	1.2
Food away from home <sup>1</sup> .....	0.5	5.1
Energy.....	-0.9	-4.6
Energy commodities.....	-3.2	-6.9
Gasoline (all types).....	-3.3	-6.4
Fuel oil.....	-4.5	-14.2
Energy services.....	1.4	-2.0
Electricity.....	1.2	3.8
Utility (piped) gas service.....	2.0	-17.8
All items less food and energy.....	0.4	3.9
Commodities less food and energy commodities.....	-0.3	-0.3
New vehicles.....	0.0	0.7
Used cars and trucks.....	-3.4	-3.5
Apparel.....	-0.7	0.1
Medical care commodities <sup>1</sup> .....	-0.6	3.0
Services less energy services.....	0.7	5.4
Shelter.....	0.6	6.0
Transportation services.....	1.0	9.5
Medical care services.....	0.7	0.6

# The Fed Reserve admits Inflation is still a Problem

## Fed Household Survey Finds That Inflation Remains a Challenge

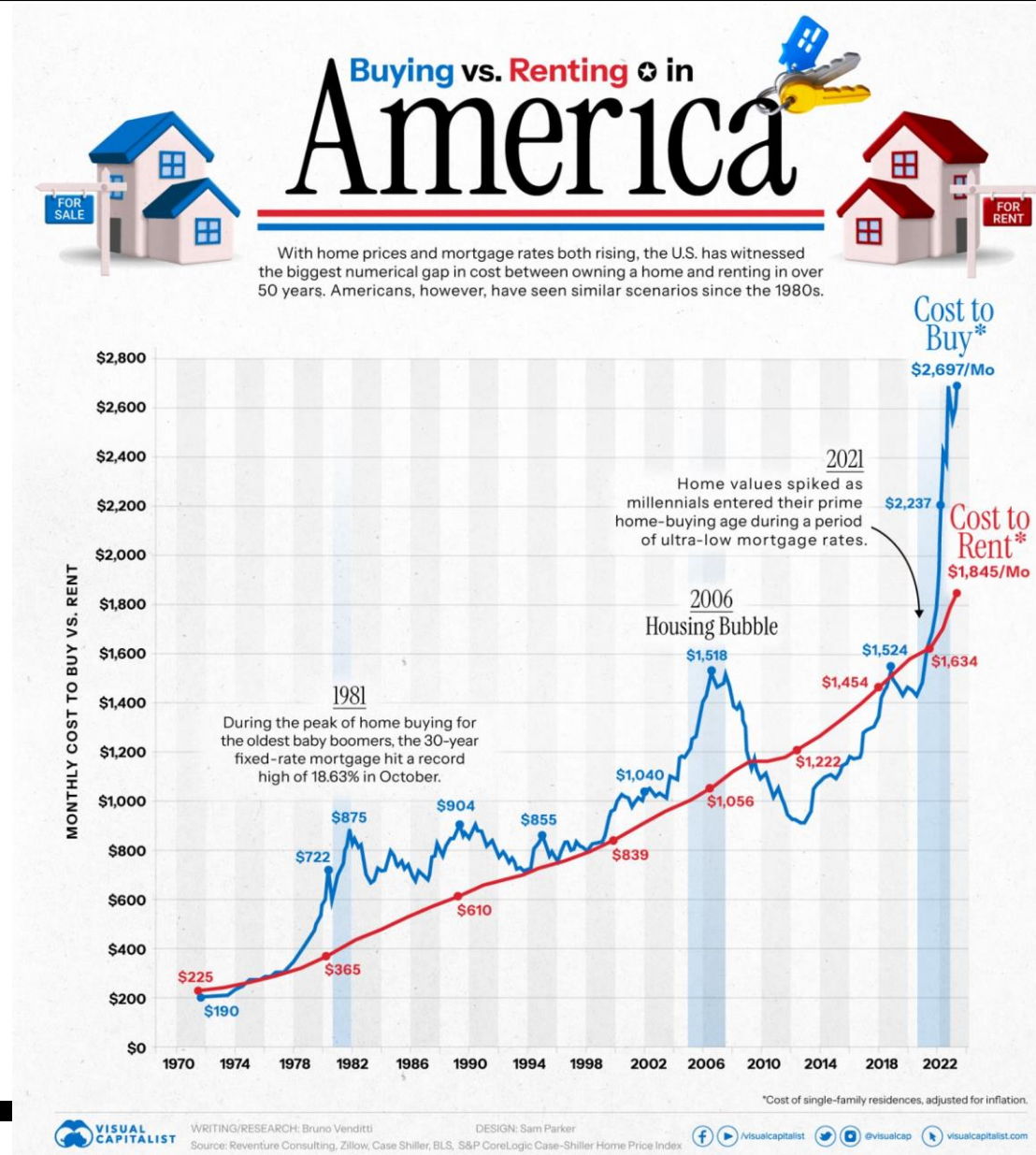
Households in 2023 report. Overall, the report shows that financial well-being was nearly unchanged from 2022.

The report draws from the Board's **11th annual Survey of Household Economics and Decisionmaking (SHED)**, which was fielded in October 2023. It analyzes topics including financial well-being, income, employment, expenses, banking and credit, housing, higher education and student loans, and retirement and investments.

Despite the moderating pace of inflation, **65% of adults said that changes in the prices they paid compared with the prior year had made their financial situation worse in 2023. That included 19% who said price changes made their financial situation much worse.**

[Fed Household Survey Finds That Inflation Remains a Challenge \(connectcre.com\)](https://connectcre.com)

# Housing Picture on Inflation: Rent or Buy Housing Costs are up!

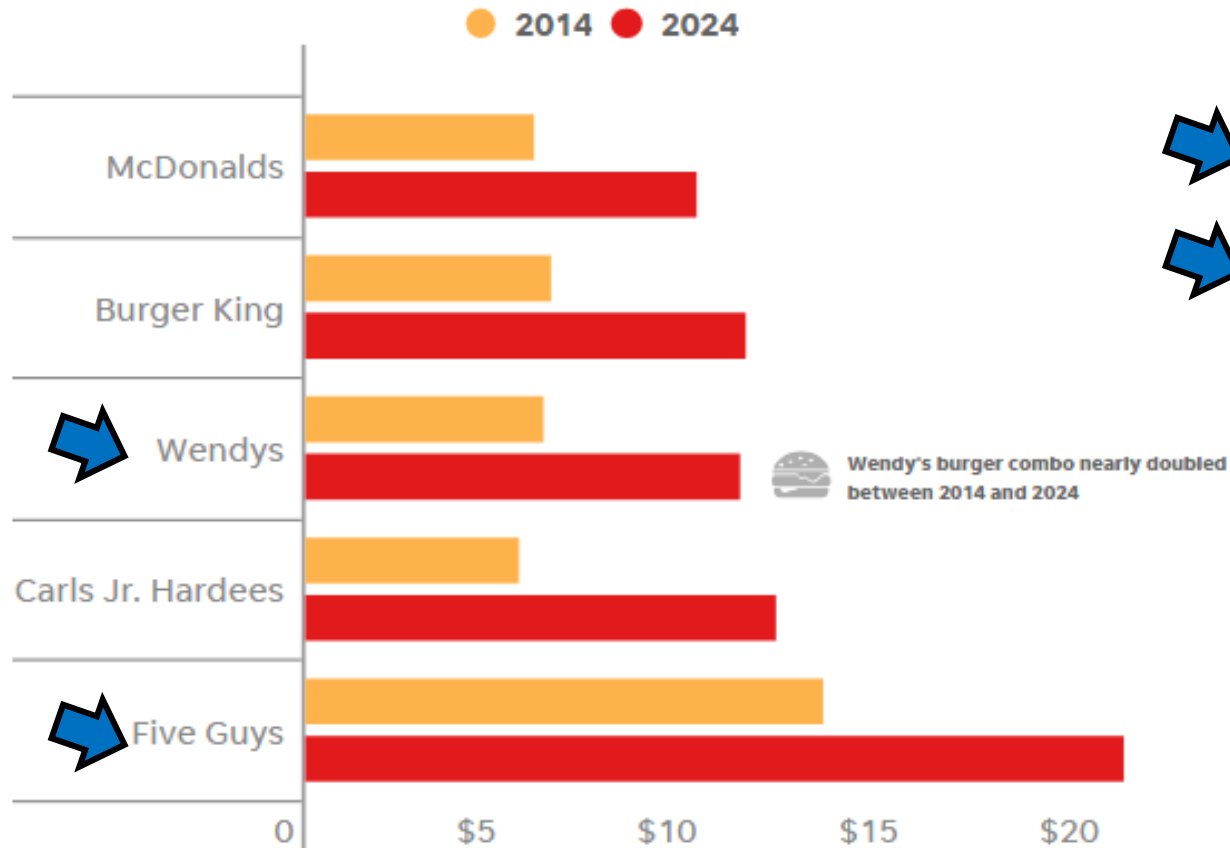




# Inflation - Fast Food Perspective

## Fast-food prices increase over past decade

Average price of combo meal by fast-food restaurant



Source: Average fast-food prices collected by USAT reporters, from 15+ cities

The Bureau of Labor Statistics' [latest reading](#) from [the so-called fast-food index](#) saw annual inflation for the sector come in at 4.8%.

The BLS also found that [prices](#) in "[limited-service restaurants](#)" increased by 47% since 2014.

Fast food has become a staple of the American diet meaning that price increases at the drive-thru can make a major impact.

Between 2013 and 2016 36.6% of adults [consumed fast food](#) on a given day, according to a 2018 CDC study. Market research company Drive Research reported in 2023 that 65% of respondents ate [fast food once a week](#).

# Inflation - Fast Food Responding: McDonald's, Burger King ...



## Burger King to launch \$5 value meal to outshine McDonald's

Restaurant Brands International's (NYSE:QSR) Burger King is bringing back its \$5 value meal, signaling an escalation in the burger wars.

**The return of value meals highlights the pressure U.S. fast food chains face to attract lower income consumers who have pulled back from eating out due to sticky inflation.**

Both Starbucks (SBUX) and McDonald's (MCD) have seen **a hit to their sales due to cautious consumer spending**, and have ramped up promotional offers to increase traffic to their stores.



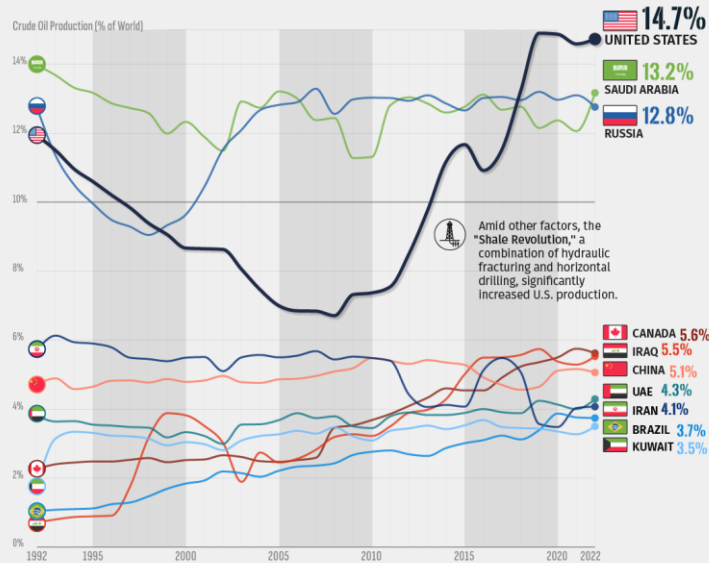
**Wendy's (WEN) too announced its \$3 breakfast meal deal earlier in the week.**

*Source: Seeking Alpha – May 23, 2024*

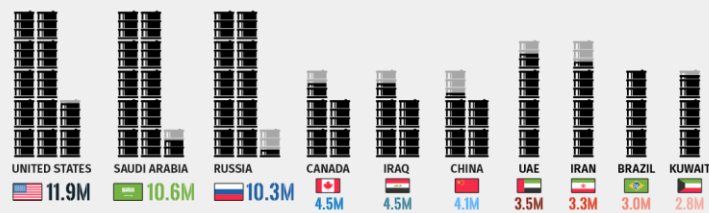
# Energy Matters in the Inflation Calculus & Mid-East turmoil

## THE RISE OF THE U.S. AS THE TOP CRUDE OIL PRODUCER

Over the last decade, the United States has established itself as the world's biggest producer of crude oil, leaving behind Saudi Arabia and Russia.



## DAILY CRUDE OIL PRODUCTION 2022 (BARRELS/DAY)



Crude oil including lease condensate. (barrels per day)

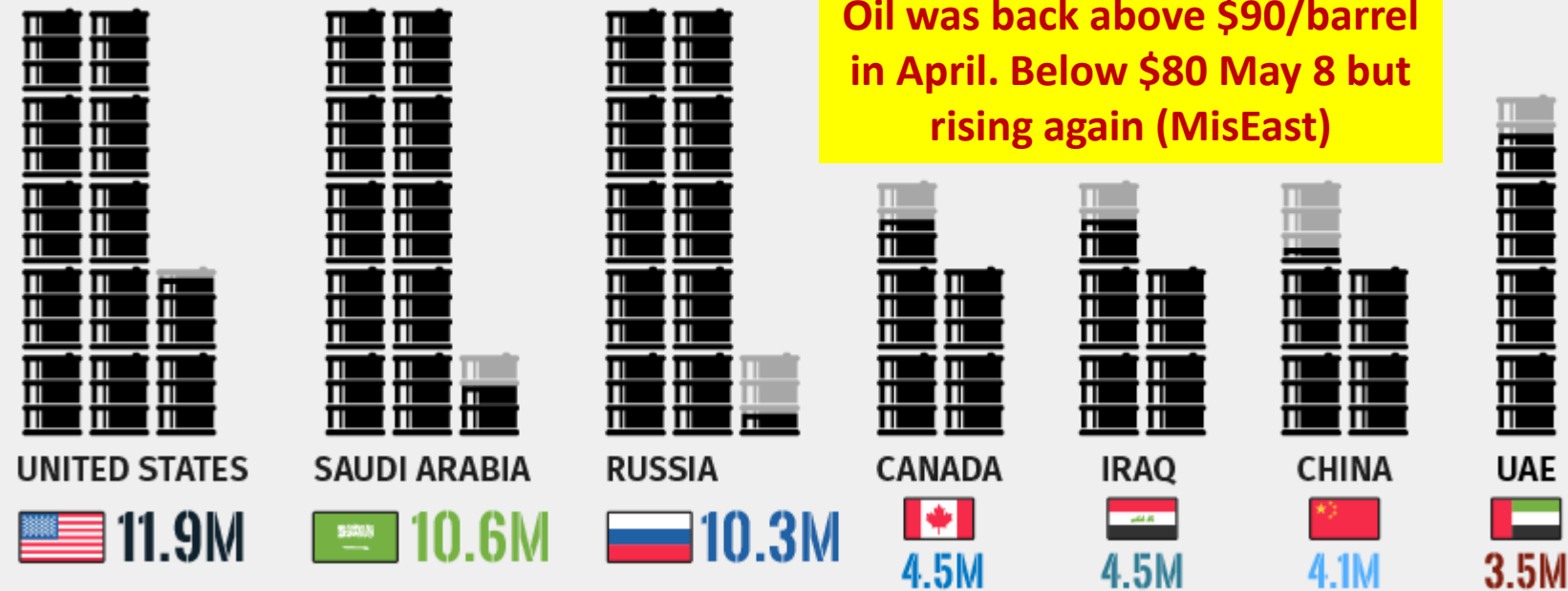
Source: U.S. Energy Information Administration (2023)

ELEMENTS

ELEMENTS.VISUALCAPITALIST.COM

Over the last decade, the United States has established itself as the world's top producer of crude oil, surpassing Saudi Arabia and Russia.

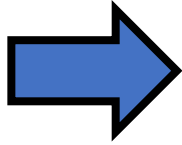
## DAILY CRUDE OIL PRODUCTION 2022 (BARRELS/DAY)



Oil was back above \$90/barrel in April. Below \$80 May 8 but rising again (MisEast)

[Visualizing the Rise of the U.S. as Top Crude Oil Producer \(visualcapitalist.com\)](https://visualcapitalist.com)

## Elephant-In-The-Room #3: **What the FED?**



**What's the "Elephant(s) in the Room?"**

- **The FOMC & Bank Supervision**



# The Federal Reserve & PA Banking – Bank Consolidation Ahead

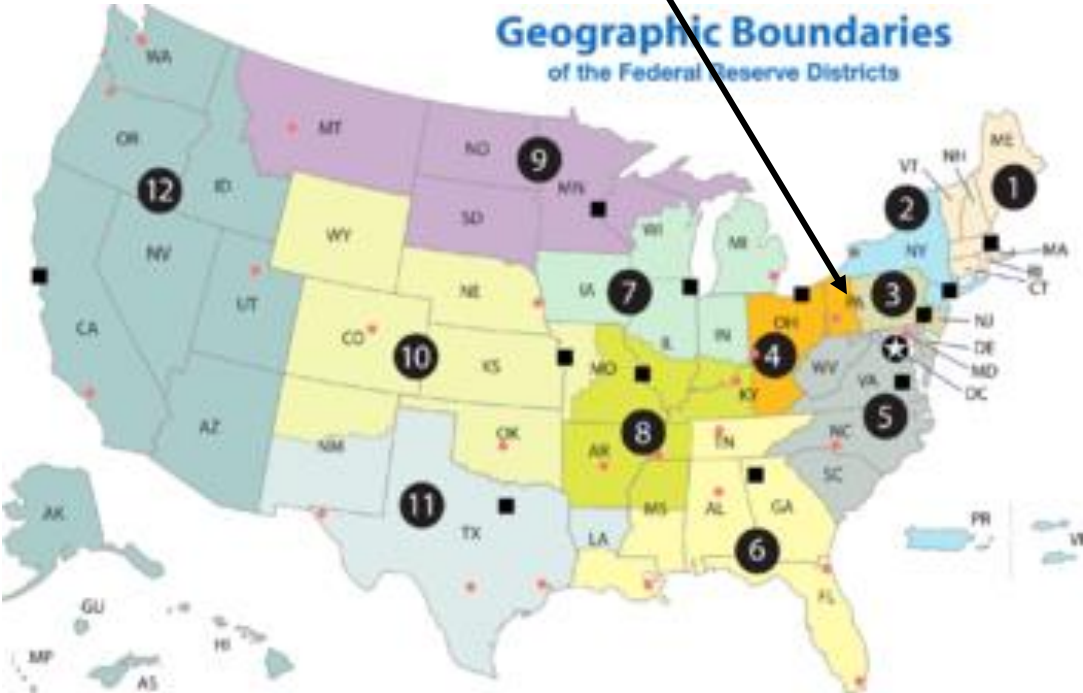


Summary Table of Bank Structure and Conditions

	Community Banking Organizations							Large Organizations		
	Nation			Tristate				Nation		
	\$ Bill	% Change From		\$ Bill	% Change From			\$ Bill	% Change From	
	23Q4	23Q3	22Q4	23Q4	23Q3	22Q4		23Q4	23Q3	22Q4
Total Assets	3,260.4	7.85	-3.54	205.1	2.13	3.33	Total Assets	18,103.9	3.73	1.00
Total Loans	2,251.1	8.04	2.45	151.9	3.11	4.98	Total Loans	8,786.6	1.89	1.30
C&I	324.9	8.67	-10.43	17.5	1.08	-6.59	C&I	2,005.2	-1.82	-1.25
Real Estate	1,687.6	7.82	6.57	121.2	4.94	6.88	Real Estate	3,655.1	0.56	1.56
Consumer	108.8	3.50	15.18	7.7	-19.11	1.57	Consumer	1,405.5	5.46	0.88
Total Deposits	2,715.4	6.11	-5.08	166.5	0.79	2.53	Total Deposits	14,267.8	5.75	-1.41
Ratios (in %)	23Q4	23Q3	22Q4	23Q4	23Q3	22Q4	Ratios (in %)	23Q4	23Q3	22Q4
Net Income/Avg Assets (ROA)	1.03	1.09	1.18	0.96	1.04	1.22	Net Income/Avg Assets (ROA)	1.07	1.24	1.04
Net Interest Inc/Avg Assets (NIM)	3.18	3.25	3.15	3.04	3.20	3.30	Net Interest Inc/Avg Assets (NIM)	2.76	2.83	2.43
Noninterest Inc/Avg Assets	0.76	0.76	0.80	0.88	0.85	0.91	Noninterest Inc/Avg Assets	1.27	1.27	1.20
Noninterest Exp/Avg Assets	2.50	2.47	2.33	2.58	2.58	2.52	Noninterest Exp/Avg Assets	2.36	2.22	2.11
Loans/Deposits	82.90	82.53	76.81	91.22	90.71	89.09	Loans/Deposits	61.58	62.16	59.94
Equity/Assets	9.87	9.36	9.09	10.21	9.77	9.84	Equity/Assets	9.76	9.73	9.54
Nonperforming Loans/Total Loans	0.63	0.59	0.53	1.07	1.06	1.98	Nonperforming Loans/Total Loans	0.86	0.82	0.72

## Federal Reserve District Banks:

Philadelphia FED doesn't cover all of PA – Cleveland FED covers Western PA



Third District of the Federal Reserve covers eastern and central Pennsylvania, the nine southern counties of New Jersey, and Delaware. Its geographical territory is the smallest in the system, and its population base is the second-smallest (next to the Federal Reserve Bank of Minneapolis). 25

# “What the FED?” Where did the Fed’s 2% Inflation Target come from?

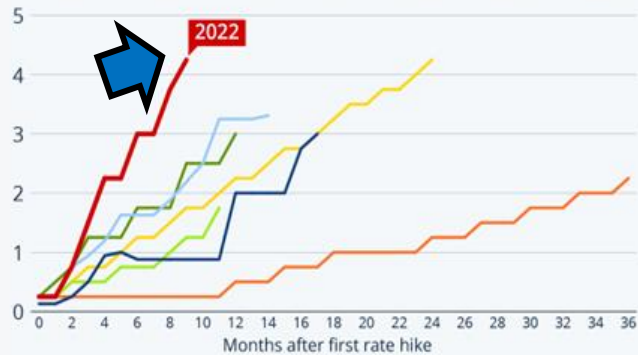
You will love the answer: **It’s 1-part BBQ-Sauce, 1-part New Zealand, & 1-part 2012 Ben Bernanke**



## The Fed Is Moving Historically Fast to Tame Inflation

Changes in the federal funds target rate in past tightening cycles (in percentage points)

— 1983 — 1988 — 1994 — 1999 — 2004 — 2015 — 2022



Source: Federal Reserve

statista

### FOMC Mtgs

- Nov 1  
Higher for Longer
- Dec 13  
Rate Cuts Ahead
- Jan 31  
“Not yet or as many”
- No FEB Mtg - SKIP  
Ground-Hog saw early Spring & more Growth
  - Mar 19-20 - CPI/Jobs Up
  - Apr 30-May 1 – No Cut – but Balance Sheet change
  - June 11-12 – No Cut

### Weekly Mailbag: The Federal Reserve Is Bad for the Economy

[Nomi Prins](#) | Nov 10, 2023 | [Inside Wall Street With Nomi Prins](#) |

**The Fed’s 2% target is totally arbitrary.**

It came from a random comment New Zealand’s finance minister made in a television interview in 1988.

**New Zealand became the first country to use a numeric inflation target. Other central banks played copycat. In 2012, then-Fed Chair Ben Bernanke made that 2% figure official.**

Now, the Fed considers 2% inflation as the most consistent metric to hit its dual mandate. If you’ll recall, that official mandate is to ensure maximum employment and price stability.

**The 2% target is based on the annual change in personal consumption expenditures, or the PCE price index.**

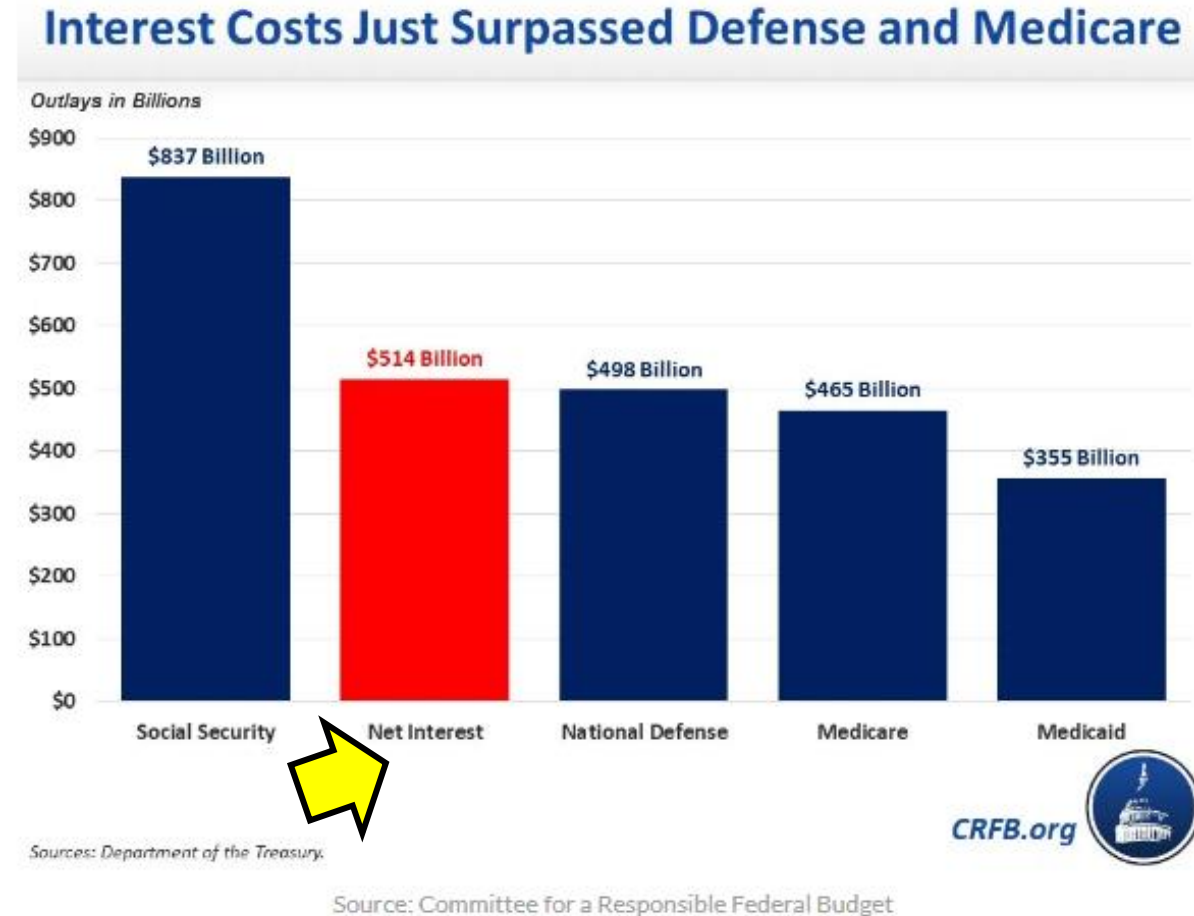
But that PCE figure doesn’t care how much a household makes and what it needs to survive.

What I’m getting at is that nothing good comes from the Fed’s obsession with 2% inflation.

[Weekly Mailbag: The Federal Reserve Is Bad for the Economy](#) | [Rogue Economics](#)

# US Deficit Spending, The FED & Interest Rates – **Unsustainable!**

US Debt 2024 - US Government Pays \$514,000,000,000 in Interest on National Debt in Seven Months, **Surpassing Defense and Medicare Costs:**



April 28, 2023

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

MICHAEL S. BARR  
VICE CHAIR FOR SUPERVISION

How are we to have confidence in a Central Bank with this kind of admission?

How can we forecast CRE Performance?

### 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

### The four key takeaways of the report are:

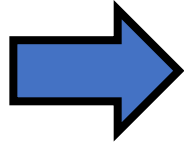
1. Silicon Valley Bank's board of directors and management failed to manage their risks.
2. **Supervisors did not fully appreciate the extent of the vulnerabilities as Silicon Valley Bank grew in size and complexity.**
3. **When supervisors did identify vulnerabilities, they did not take sufficient steps 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.**

**"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"**



# Elephant-In-The-Room #4: CRE Conditions, Interest Rates & Capital



**What's the "Elephant(s) in the Room?"**

- **Interest Rates, CRE Capital & CRE Conditions**

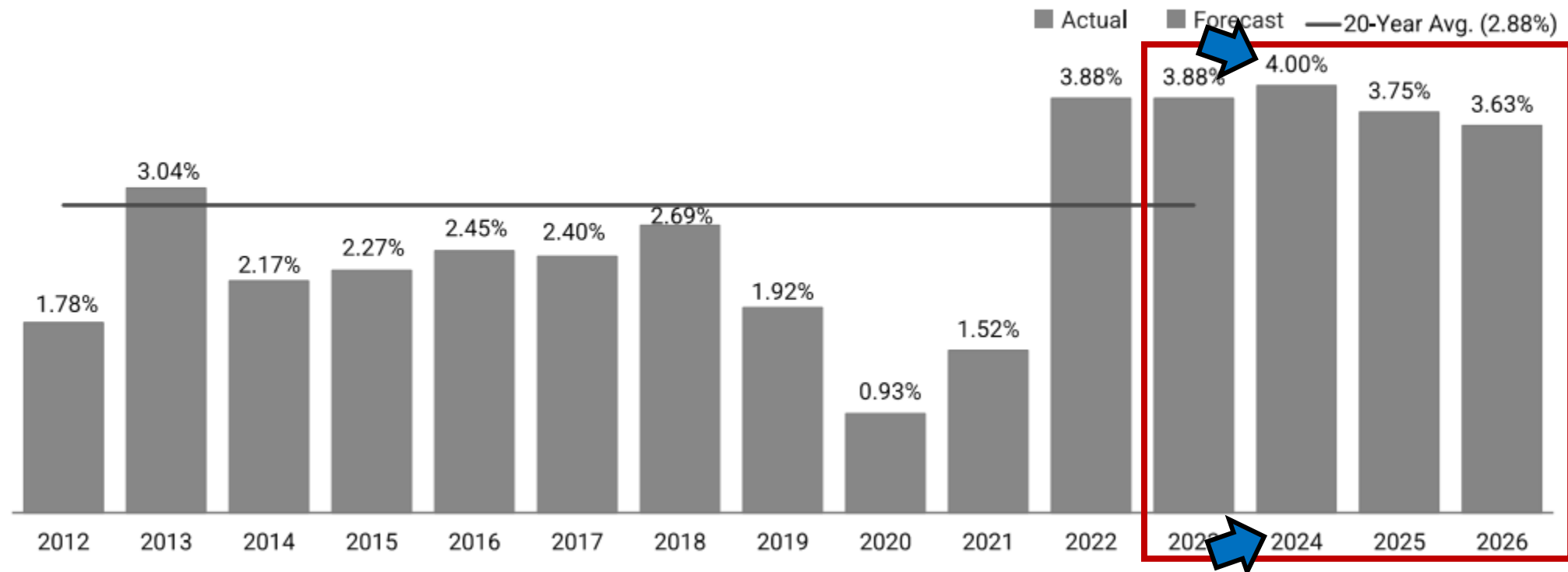


# 10-Yr Treasury: ULI optimistic drops <4% by 2025 – Watch SOFR

→ Ten-Year Treasury Rate



SOFR >5% - Constr. Loans



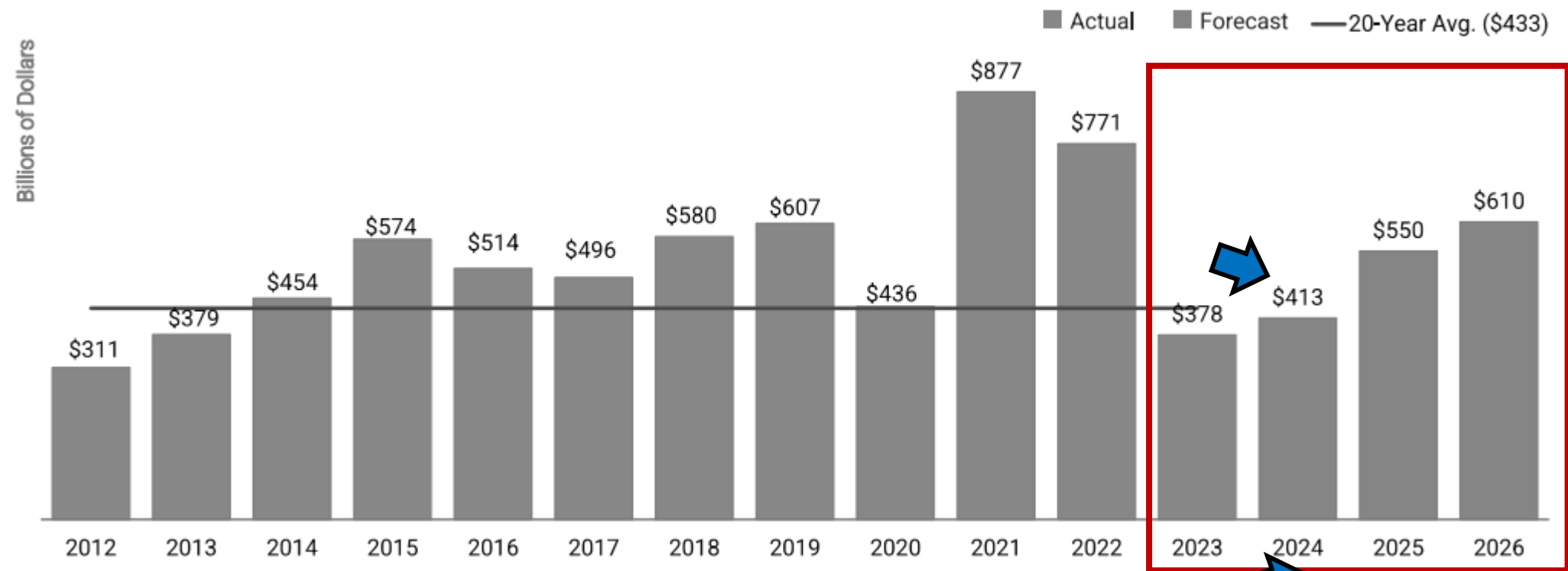
Sources: 2004-2023 (YE), U.S. Federal Reserve; 2024-2026 (YE), ULI Real Estate Economic Forecast.

\*Indicated directions (↑ ↓ =) refer to the current forecast relative to the previous ULI Real Estate Economic Forecast. The previous ULI Real Estate Economic Forecast (released in October, 2023) projected 4.00% for 2024 and 3.90% for 2025.

# CRE Transactions: It's on a “Wait Watchers” Diet as we “wait” on FED



## Commercial Real Estate Transaction Volume



Sources: 2004-2023, MSCI Real Assets; 2024-2026, ULI Real Estate Economic Forecast.  
\*Indicated directions (↑ ↓ =) refer to the current forecast relative to the previous ULI Real Estate Economic Forecast. The previous ULI Real Estate Economic Forecast (released in October, 2023) projected \$414B for 2024 and \$510B for 2025.

# CRE ReFi Challenge: \$2.2 Trillion to ReFi by end of 2027

## Built-in Extensions saved a lot of CRE in 2022 & 2023

THE WALL STREET JOURNAL.

The troubled commercial real estate market is bracing for a record amount of maturing loans, boosting the prospect of a surge in defaults as property owners are forced to refinance at higher rates.

**In 2023, \$541 billion in debt backed by office buildings, hotels, apartments and other types of commercial real estate came due, the highest amount ever for a single year, according to the data firm Trepp.**

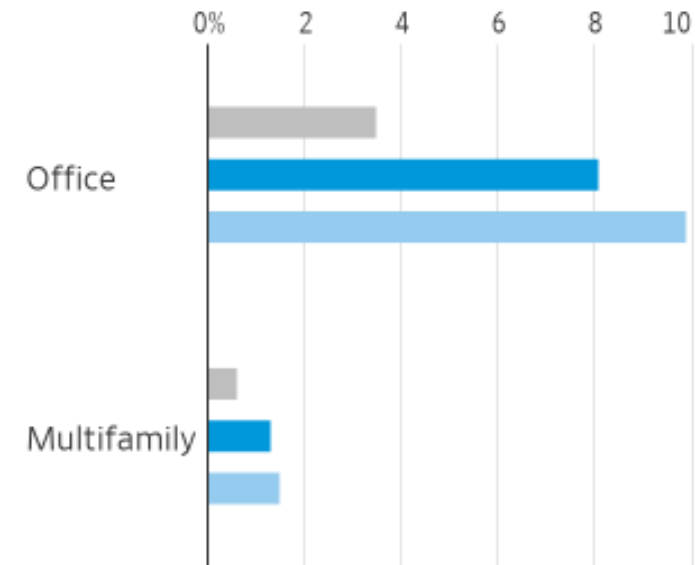
Commercial-debt maturities are expected to continue rising, with more than **\$2.2 trillion coming due between now and the end of 2027**, Trepp said.

Most of these loans have so far been repaid or extended. **In 2022 and 2023, many owners were able to exercise one- or two-year extensions built into their original loans.**

[The Bill Is Coming Due on a Record Amount of Commercial Real Estate Debt - WSJ](#)

U.S. commercial mortgage-backed securities  
loan delinquency

■ 2023 as of Nov. 30  
■ 2024 forecast  
■ 2025 forecast



Source: Fitch Ratings

# CMBS as a Proxy for Overall CRE Conditions:

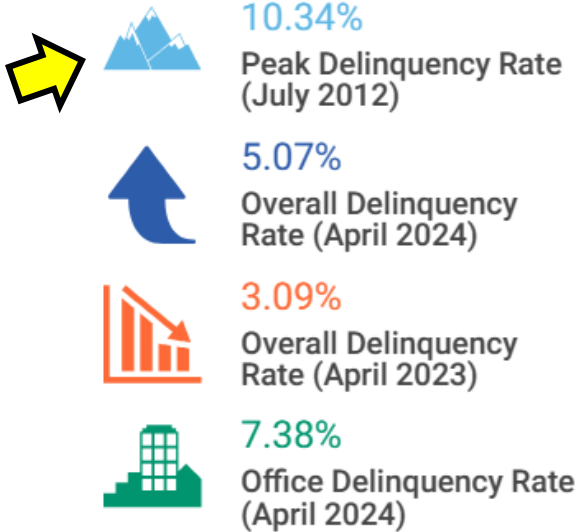
## CMBS Delinquency Rate Spikes in April to above 5%, First Time Since September 2021

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

	APR-24	MAR-24	FEB-24	3 MO	6 MO	12 MO
Overall	5.07	4.67	4.71	4.66	4.63	3.09
Industrial	0.44	0.47	0.43	0.40	2.56	0.40
Lodging	5.97	5.45	5.45	5.46	4.76	4.23
Multifamily	1.33	1.84	1.81	1.91	2.64	1.82
Office	7.38	6.58	6.63	6.30	5.75	2.77
Retail	5.94	5.56	6.03	6.27	6.55	6.11

Source: Trepp

### Delinquency Trends

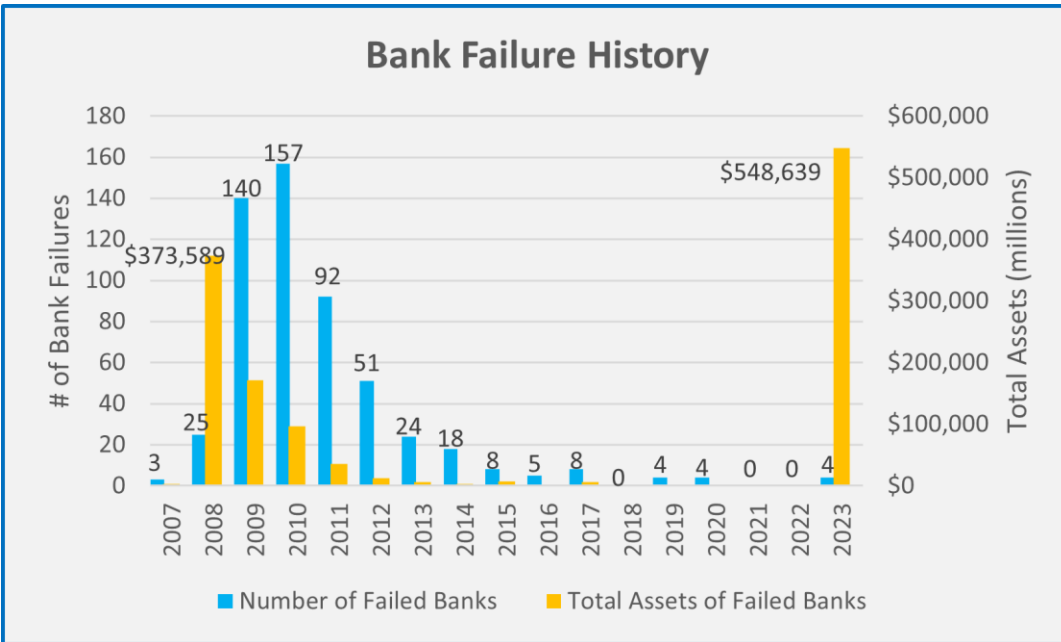


[Trepp Delinquency Report April 2024.pdf](#)

### Loans Disposed with a Loss in Last 12 Months:

#### All Loans

Loss Month	Disposed Loan Count	Disposed Loan Amount	Losses Incurred	Loss Severity
May-23	3	10,912,295	7,641,690	70.03
June-23	9	115,816,993	40,679,139	35.12
July-23	8	188,297,350	112,037,222	59.50
August-23	14	418,858,584	218,220,151	52.10
September-23	17	388,621,738	217,432,566	55.95
October-23	12	232,073,757	155,589,927	67.04
November-23	10	79,201,100	36,367,369	45.92
December-23	11	174,916,063	132,868,416	75.96
January-24	17	828,353,823	523,127,791	63.15
February-24	8	140,173,607	92,485,933	65.98
March-24	13	495,980,254	316,981,071	63.91
April-24	3	105,825,371	86,215,642	81.47
12-Month	125	3,179,030,934	1,939,646,917	61.01



## Texas Ratio

Developed at RBC Capital Markets, the Texas Ratio is a straightforward and effective way to determine the overall credit troubles experienced by financial institutions. It is determined by **comparing the total value of at risk loans to the total value of funds the bank has on hand to cover these loans..**

For example, a bank with \$65 million in at risk loans and \$72 million in cash on hand to cover those loans would have a Texas Ratio of \$65mm / \$72mm, which is 90.3%. This figure is approaching the 100% threshold, which is considered very risky.

### Best and Worst Banks and Credit Unions by Texas Ratio

In addition to our proprietary health rating system that assigns an overall letter grade to financial institutions based on a number of factors, we recognize that many visitors also want to see the raw Texas Ratio figures for each financial institution. Use the filter options below to access our database and search by best/worst, institution type (banks/CUs), state, and asset size.

Show the  in  in  with assets of

Bank or Credit Union	Headquarters	Texas Ratio	Assets
Republic Bank (Philadelphia, PA)	Philadelphia, PA	16.38%	\$5.87 billion
Meridian Bank	Paoli, PA	15.68%	\$2.25 billion
Ameriserv Financial Bank	Johnstown, PA	9.51%	\$1.38 billion
Orrstown Bank	Shippensburg, PA	8.17%	\$3.06 billion
1st Summit Bank	Johnstown, PA	7.66%	\$1.36 billion
Somerset Trust Company	Somerset, PA	6.33%	\$2.20 billion
ESSA Bank & Trust	Stroudsburg, PA	6.31%	\$2.22 billion
Citizens & Northern Bank	Wellsboro, PA	6.11%	\$2.50 billion
Northwest Bank (PA)	Warren, PA	5.89%	\$14.47 billion
Dollar Bank	Pittsburgh, PA	5.16%	\$11.50 billion
CNB Bank	Clearfield, PA	5.13%	\$5.73 billion
NexTier Bank	Kittanning, PA	5.05%	\$2.25 billion
Fulton Bank, National Association	Lancaster, PA	5.01%	\$27.43 billion

[Bank Financial Health Ratings, Trends and Texas Ratios](#) | [Check Your Bank \(depositaccounts.com\)](#)



CRE Conditions in Harrisburg:

NAI notes the Good, Slowing, and Ugly – but all better than NE & US metrics



MARKET REPORT

H2 2023 | Harrisburg Metro

**The Good.** Retail performed generally well in 2023 due to consumer spending and retail tenant demand for quality space (also true for office space). **Overall vacancy fell to 4.7%, well below the five-year average of 5.4%,** with only 124,000 SF in the Harrisburg Metro pipeline. This demand has pushed rental rates by 3.5% YOY to \$16.78/SF/YR on average.

**The Okay. Industrial demand slowed** in the national market due to economic and supply-chain issues, resulting in an increase of vacancy in our local market to 4.0%. Despite this slowing, **rent growth remains strong, increasing to \$7.98/SF/YR. 12-month net absorption totaled 1.7 million SF in 2023, compared to 4.8 million SF in 2022.** This slowing may continue into 2024 as only two (2) industrial buildings totaling 444,000 SF are under construction in the Harrisburg Metro.

**The Ugly.** At YE 2023, office vacancy is 7.9%, though still below the national average of 13.5%. Important to note, that **many office leases in our market are structured with a five (5) year term. A significant portion of the ‘shadow-vacancy’ we have discussed may come into the light in 2024, as those 5-year leases commenced pre-pandemic in 2019.** As lease terms expire, tenants are becoming more efficient and demanding higher-quality spaces in buildings with a focus on amenities

OFFICE	RETAIL	INDUSTRIAL
VACANCY RATE		
▼ 7.9%	▼ 4.7%	▲ 4.0%
RENT PER SF		
▼ \$18.26 /SF	▲ \$16.78 /SF	▲ \$7.98 /SF
SALE PRICE PER SF		
▼ \$114 /SF	▲ \$145 /SF	\$90 /SF
12 MO. NET ABSORPTION		
▲ 581K SF	▼ 163K SF	▼ 1.7M SF
BUILDINGS UNDER CONSTRUCTION		
6 191K SF	4 124K SF	2 444K SF

# CRE Conditions – Industrial Insights from Amazon

## NAI notes the Good, Slowing, and Ugly – but all better than NE & US metrics

Amazon so far this year has leased, bought or announced plans for more than 16 million square feet of new warehouse space in the U.S., according to Canadian supply-chain consulting firm **MWPVL International**. That adds to the company's existing footprint of roughly 413 million square feet of industrial real estate across North America as of Dec. 31



1. "Some of the new sites are massive facilities of more than 1 million square feet meant for storing large quantities of inventory, **while others are less than 100,000 square feet and used to stage packages for final delivery to customers.**

The company over the past year has overhauled the domestic shipping network that has been the backbone of its rapid growth in online commerce. **The highly centralized network that essentially treated its national distribution network as an enormous warehouse serving the entire country is giving way to nine regions designed to operate self-sufficiently. "**

2. "Some of the new sites are massive facilities of more than 1 million square feet meant for storing large quantities of inventory, **while others are less than 100,000 square feet and used to stage packages for final delivery to customers.**

The company over the past year has overhauled the domestic shipping network that has been the backbone of its rapid growth in online commerce. The highly centralized network that essentially treated its national distribution network as an enormous warehouse serving the entire country is giving way to nine regions designed to operate self-sufficiently.

# Small-Box Retail Apocalypse – Drug Stores, Branch Banks, Dollar Tree

## Walgreens Cut to Junk By Moody's

Walgreens downgraded two notches  
to second-highest junk rank

The Dow is weighted based on the share prices of its components, not on each company's overall market value. Walgreens joined the Dow in 2018, replacing industrial conglomerate General Electric. Since then, **the stock has lost about 65% of its value.**

Walgreens has appointed new top executives, **shuttered unprofitable stores** and unveiled the dividend cut in January as it deals with low consumer spending, a drop in COVID-19 product sales.

**Shares of Walgreens trade at a forward price-to-earnings ratio of 6.54, compared with 9 for larger rival CVS Health ([CVS.N](#)), [opens new tab](#).**

**A 6.54 PE translates to a 15% Cap Rate**

[Walgreens \(WBA\) Credit Rating Cut to Junk By Moody's on Healthcare Strategy Push - Bloomberg](#)

## "Small-Box" Apocalypse.

## Dollar Tree to Close 1,000 Stores in Bid to Shore Up Profits



[Dollar Tree \(DLTR\) to Close 1,000 Stores in Bid to Shore Up Profits - Bloomberg](#)

(Reuters) -Dollar Tree swung to a quarterly loss on Wednesday after **the retailer took an over \$1 billion goodwill impairment charge, as it plans to shut nearly 1,000 stores.**

The impairment charge translates to **\$1,000,000 per store or \$125/sf for average store size.**

[Dollar Tree posts quarterly loss, incurs over \\$1 billion in charges on store closure plans \(msn.com\)](#)



# Small-Box Retail Apocalypse – **Drug Stores to C-Stores** Adaptive Reuse

**This is the first Drugstore to C-Store - and add an upfront gas station - example I have seen.**

Getting all the financial and transaction details for you as **we have a Small-Box apocalypse upon us.**  
**A lot of these former drugstores and dollar stores will need innovative Adaptive Reuse options.**



**Q: What Is Impacting CRE as much as Higher Rates?**

**A: Rising Expenses (Property Insurance) eroding NOI**

**BISNOW**



**‘It Shut Down The Deal’: High Multifamily Insurance Rates Threaten Transactions, Strain Budgets**

[‘It Shut Down The Deal’: High Multifamily Insurance Rates Threaten Transactions, Strain Budgets \(bisnow.com\)](https://bisnow.com)

**Insurance prices are growing faster for multifamily than any other commercial real estate asset class, with national operators reporting a 26% rise in insurance costs on average from 2022 to 2023 and some being hit with 300% and 400% increases.**

The rise is most acute in catastrophe-prone regions, **especially Texas, Florida and Louisiana**. But multifamily owners and operators everywhere are feeling the **pain of high rates, limitations in coverage, hikes on deductibles and a shrinking private insurance market.**

That rapid ascent is expected to continue into 2024, and operators told Bisnow that **spiraling costs could kill deals, reduce returns on investments, force foreclosures and discourage investors** from even entering the multifamily space.



**Q: What is the next aspect of Real Estate impacted by Property Insurance?**

**A: HOAs and BBQ Grills on your deck!**



More and more homeowners associations in Colorado's mountain communities are rewriting their policies **to ban the use of gas grills by residents as insurance companies increasingly say they won't insure HOAs that allow residents to use gas grills on their decks or balconies.**

"It is going to impact tens of thousands of people who live in condo associations," said David Firmin, an attorney whose law firm represents some 2,500 HOAs, primarily in the mountains.

He says the move began six to nine months ago **as insurance companies began to look for ways to reduce their risks, especially in high fire zones** like Colorado's mountains. The insurance industry has been reacting in part to the Marshall Fire and the massive losses caused by the fire, along with the Maui fire.

**"The insurance is really driving this bus." They will either be required to remove gas grills or they will not get affordable insurance."**

The insurance industry estimates that on a national basis, outdoor grills cause about 6,000 fires and \$35 million in damage every year. Farmers Insurance estimates that grill fires cost the company \$32 million in losses since 2020.



[Ban on gas grills rolling through Colorado mountain HOAs: "These changes affect all of us" - CBS Colorado \(cbsnews.com\)](https://www.cbsnews.com/news/ban-on-gas-grills-rolling-through-colorado-mountain-hoas/)

# CONCLUSION & 2024 OUTLOOK



## CONCLUSION and 2024 STRATEGY:

The 2024 Economic and CRE Conditions Outlook may best be characterized by **Mark Twain**, who is famously known for his observation that: **“History doesn’t repeat, but it often rhymes.”** **In 2024, BETA remains and likely stays elevated**, but for different reasons.

## Watch your “BETA-Side” $\beta$

- ➡ ▪ **The FED’s “Rate Cuts Ahead” will go the way of Transitory Inflation thesis** (Longer and then Forget we ever said it). **No rate cuts in 1H 2024**. Energy is a big factor why Inflation has remained below 4%-5%.
- **US Deficit Spending and Record Household Debt underlie the biggest threats to the economy**, implications re: interest rates, and explain the rise of BRICS.
- ➡ ▪ **No Recession:**
- ➡ ▪ **CRE Conditions worsen in 2024: Loss Severity is >50%**; Banks won’t lend on CRE;
  - **Property Insurance is the most serious CRE Expense Risk** – It will worsen in 2024.
- **The Black-Swan events to monitor are** Middle-East, Suez & Panama Canals, **the FED not cutting rates, CRE ReFi worsening**, the **Nov 2024 elections**, and a **“Growth Stop”**
- ➡ ▪ **We are UNDERPRICING RISK** – Inflation, US Deficit Spending & rising interest costs to service our debt, Higher-for-Longer interest rates vs rate cuts, Bird Flu in cows, CRE value decline just in early innings, Banks NIM model broken, Mid-East, Nvidia Bubble and VIX <20 in this risk environment, etc

# KC Conway, CCIM, CRE, MAI

## Professional Roles:

- [Kcnomicsllc.com](http://Kcnomicsllc.com) – Founder and Owner (Q4 2023 to present) – Coined “BS/BBQ-Sauce,” Space-nomics & Beagle-nomics
- Chief Economist for CCIM Institute (Q4 2017 to Q4 2023)
- **Colliers Chief U.S. Economist (2010-2014)**
- **“The Original Red-Shoe Economist”** - Red Shoe Economics (Q1 2020 – Q3 2023)
- Instructor for FFIEC (Federal Financial Institutions Exam Council) – Housed at FDIC in DC, FFIEC provides Bank Regulatory Education
- Appraisal Foundation – Director, Board of Trustees CY 2022 (AF created by 1989 FIRREA legislation to oversee Appraisers)
- [UMH \(Manufactured Housing REIT\)](#) – Nominated to BOD pending Proxy Vote June 2022 succeeding MREIC sale to ILPT

## Education & Professional Credentials:

- Emory University Business School – Graduated with Honors 1985
- MAI Designation from the Appraisal Institute (1989 to Present)
- Counselor of Real Estate (CRE Designation) (2009 to Present)
- CCIM Member

## Experience:

- 35 years as an appraiser, bank regulator, CRE underwriter and credit officer, economist, investor, and expert witness
- **Specialize in Ports & Logistics**, Adaptive Reuse, Affordable Housing/Housing Economics, Manufactured Housing, Site Selection and Land Use Rezoning, Economic Impact Studies, Capital Markets and CRE Finance, Valuation for Expert Witness and Tax Appeals
- Advisor to Bank Regulatory Community (FDIC, Federal Reserve, etc.) since 2005. **Briefed former FED Chair Bernanke**
- Chief or Senior Appraiser for Wells Fargo Bank, legacy SouthTrust Bank, legacy SunTrust Bank
- **Independent Director to Legacy Monmouth MREIC** (50+ year old Industrial REIT **sold to ILPT February 2022**)
- Published in numerous periodicals and Real Estate Journals such as Real Estate Issues, Wall Street Journal, NY Times, FreightWaves, Globe Street, BizNow, Realtors Connections, and Counselors of Real Estate annual Top-10 CRE Issues
- Presented over 1,000 times in past 20 years to all major CRE Industry Groups including Appraisal Institute, Am. Bankers Assoc, Am. Property Tax Counsel, Counselors of Real Estate, ICSC (Retail), MBA, NAHB, NAIOP, RMA, CCIM, Cold Storage, SIOR, and ULI
- **Specialty areas include:** i) **Adaptive Reuse**; ii) **Ports & Logistics/Supply-Chain**; iii) Affordable Housing – especially Manufactured Housing; iv) Property Tax Appeal; v) CRE Finance; vi) **Expert Witness Appraisal/Valuation**



**Email:**

[KCMAICRE@gmail.com](mailto:KCMAICRE@gmail.com)

[KC@Kcnomicsllc.com](mailto:KC@Kcnomicsllc.com)

**Cell:**

**678-458-3477**