

Thirteenth Annual REIA/DePaul Summit

Cyclical vs structural changes in the real estate market

**Implications for where the real estate market is heading in 2017
and beyond and the challenges/opportunities ahead**

September 21, 2017

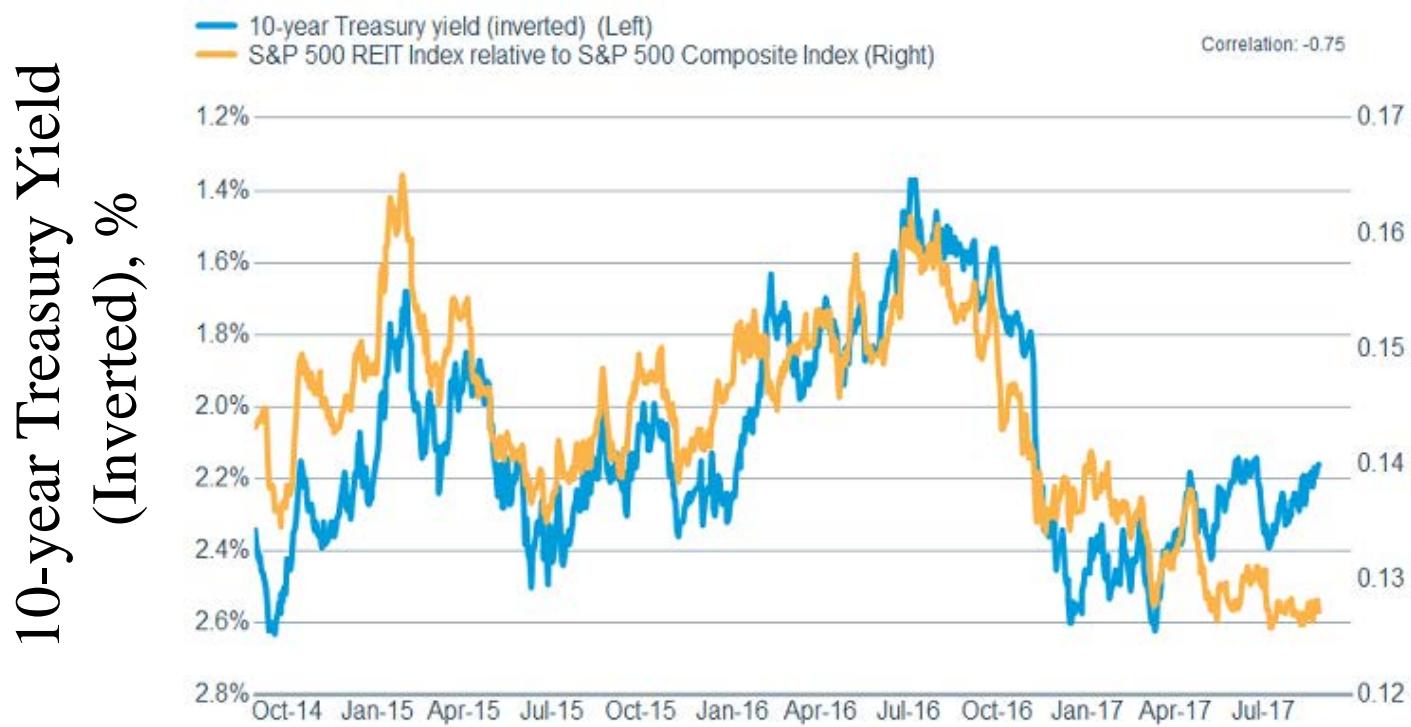
**James D. Shilling
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In the Near Term

Higher interest rates could mean trouble for real estate values



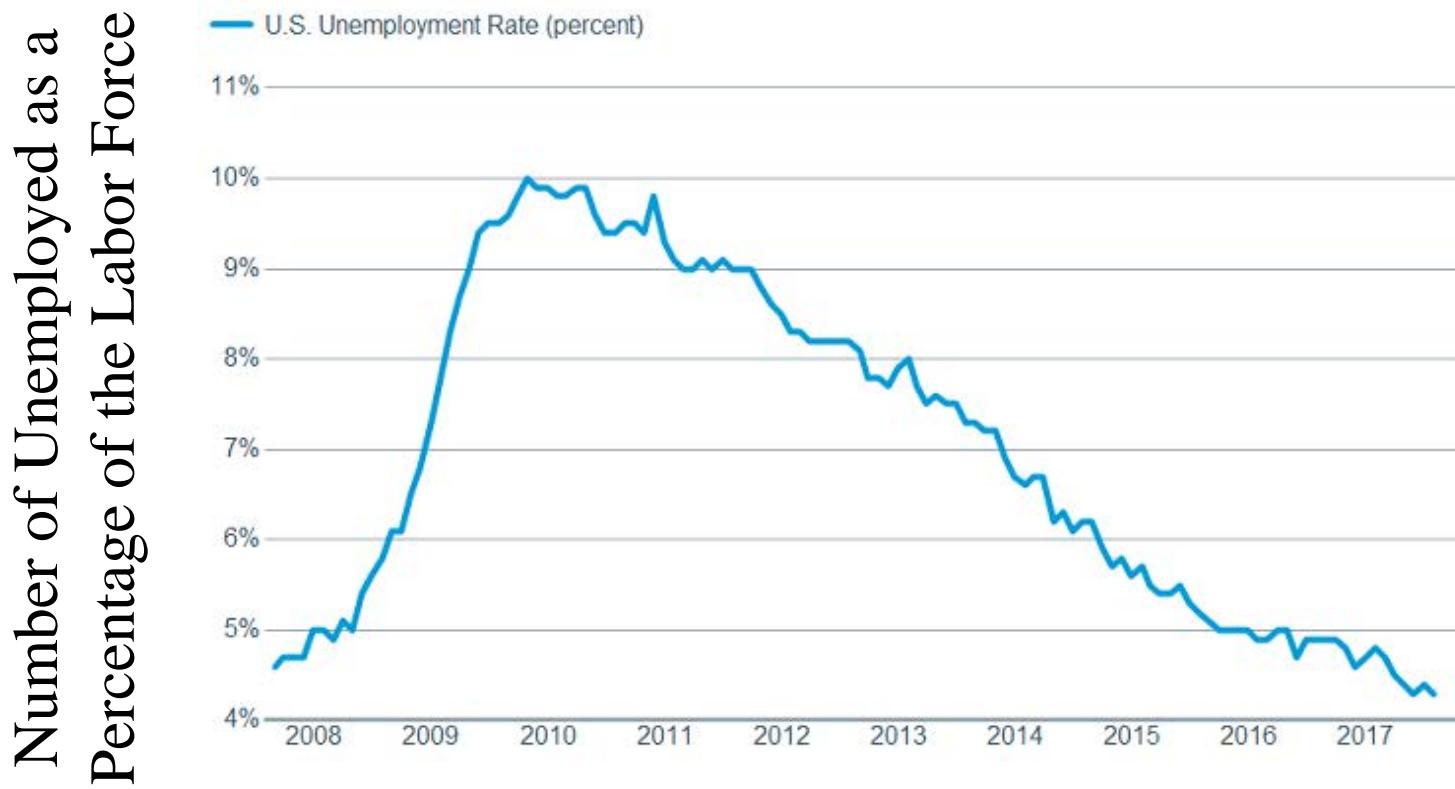
S&P 500 REIT Index relative to
S&P 500 Composite Index

Source: Bloomberg, Standard & Poors

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In the Near Term

Low unemployment could contribute to higher interest rates

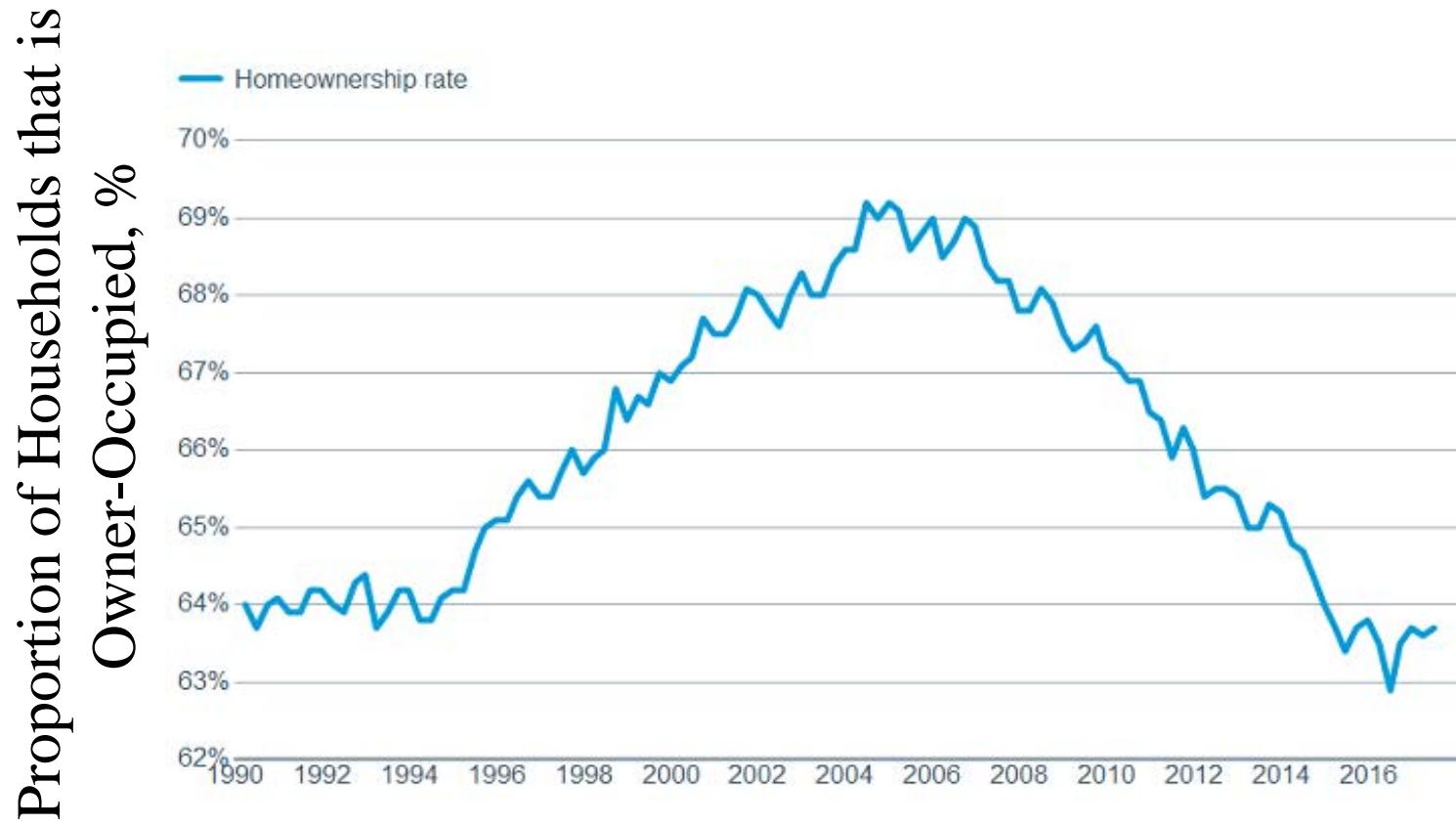


Source: US Bureau of Labor Statistics

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In the Near Term

The homeownership rate could move higher

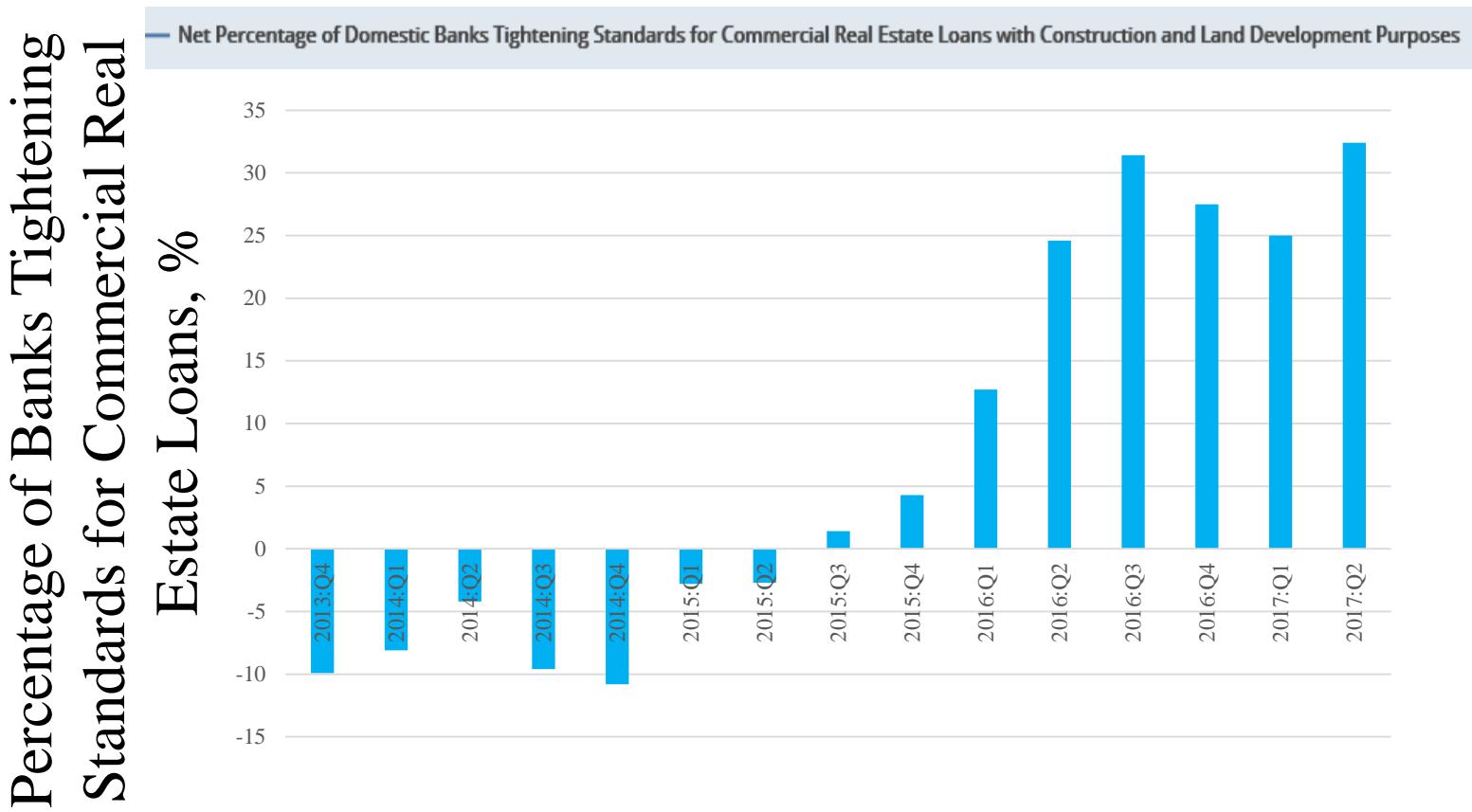


Source: US Census Bureau

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In the Near Term

Lending standards have been getting tighter



Source: Board of Governors, Federal Reserve System

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Forces Shaping the Outlook in 2017 and Beyond

The income inequality challenge: rising income gaps in the US as well as in advanced countries

Changes in standards of living in the United States since 1946

Income group	Pre-tax income growth		Post-tax income growth	
	1980-2014	1946-1980	1980-2014	1946-1980
Full Population	61%	95%	61%	95%
Bottom 50%	1%	102%	21%	130%
Middle 40%	42%	105%	49%	98%
Top 10%	121%	79%	113%	69%
Top 1%	205%	47%	194%	58%
Top 0.1%	321%	54%	299%	104%
Top 0.01%	454%	75%	424%	201%
Top 0.001%	636%	57%	617%	163%

Source: Piketty, Saez, and Zucman (2016)

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Forces Shaping the Outlook in 2017 and Beyond

More upheaval in retail sector is likely



Source: Bloomberg, Standard & Poors

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Four Key Takeaways

Global economic growth in 2017 and beyond will slow (mainly due to ageing) and will be increasingly driven by innovation and investment skills.

Major shifts in the retail sector will likely continue as the sector “stammers” towards long-term recovery (including a trend toward experiential retail, a shift to “Omni Channel,” a trend toward new fulfillment models and new distribution methods, and the repositioning of a number of centers as retailers shutter physical stores and/or go out of business altogether).

Rising income gaps in advanced countries will create a strong demand for “workforce” housing.

Investors need to be prepared for a shifting debt market. Bank lending standards have been getting tighter. Most insurance companies have a mechanism that slows down lending as allocations are reached. Such constraints are likely to cause a rise in non-bank lenders.
