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# The Divide between Strong Capital Flows and Economic Woes

## Commentary

At 2015 year-end, there were concerns that the US economy's recovery was losing some momentum. The drags on the economic outlook were fairly widespread, ranging from the disappointing employment figures to growing concerns over the global economic slowdown. The strengthening dollar also played into the equation by placing downward pressure on exports, which adversely impacted the manufacturing, agricultural, and transportation sectors.

There has also been ongoing concern over the volatility in the financial markets—a consequence of investors' anguish over mixed signals at home and from abroad. Compounding the concerns is the stock market's significant decline since the second quarter of 2015. Turmoil in the financial markets has led to a dramatic increase in spreads between ten-year Treasuries and high-yield and emerging-market bonds. The energy sector has been particularly hard hit, with a decline in prices placing debt-heavy companies in dire straits that may lead to bankruptcies or consolidations before the cycle plays out. Although there have been some recent indications of improvement, they may not be enough to offset the negative wealth effect from falling stock prices.

The good news is that there is little talk of a recession. Many economists, however, have lowered their growth expectations for 2016, including the Federal Reserve (the Fed), which may delay its planned interest rate increases. Indeed, the Fed may well consider whether conditions here warrant the same actions taken by its global counterparts to bolster their domestic economies.

On the real estate front, there is a divide between the economic environment and the real estate market, especially on the capital market side of the equation. In terms of real estate fundamentals, there has been improvement in the spatial side of the equation across most property types and markets. The office sector experienced positive net absorption at the highest level since 2006 due to modest job growth in office-using tenants and tempered construction. At a national level, retail market fundamentals have improved as tempered increases in supply and increased demand resulted in positive net absorption. There are a number of clouds hanging over the retail sector, however, as retailers respond to increasing competition and bottom-line pressure that place an emphasis on value.

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The industrial and logistics sectors have continued to expand and are experiencing improvement in market fundamentals at a national level. Despite a slowdown in the export sector, imports remain strong. The surge in online shopping and pressure on logistics and fulfillment have helped spur demand for warehouse facilities. The apartment market remains strong and is likely to continue so during the near term, but there are indicators that the sector is becoming overheated in some markets where supply may be outpacing demand.

On the capital side of the real estate market, the pace of investment activity has continued unabated in spite of some signs that the market is peaking. In January, transaction activity reached $44 billion, coming in at the second highest level for a January in over fifteen years. When coupled with the $73 billion in December transactions, this was the highest two-month total ever recorded. Although domestic and international investor demand for real estate continues to be strong, the market might be cooling off. For example, capitalization rates have flattened or bottomed out in a number of property sectors and markets. While the private NCREIF Property Index has continued to rack up double-digit returns, the historically low capitalization rates suggest there is little left in terms of price improvement in the absence of increases on the income side of the equation.

Despite the recent negative news, other signs suggest the economy may be able to weather the setbacks albeit with GDP growth likely to languish in the low 2% range.

On the public market front, the malaise that has affected the broader equity market has spilled over to REITs. Concerns over market fundamentals, increasing interest rates, and increased attention on risk also may have affected the industry. As history has demonstrated, spatial/capital/economic divides lead to cycles and corrections. We may be nearing that point on the commercial real estate front, although it is likely that there still are some added profits to be taken.

## The Economic Environment

### Economic Conditions

During the 2015 fourth quarter, US gross domestic product (GDP) rose at an annualized 0.7% rate. Consumer spending was positive but declined from the third quarter, while nonresidential investment, inventories, and net exports slipped into negative territory. Fixed investment also declined during the quarter, led by declines in the energy sector. Residential investment was fairly robust, increasing at an 8.2% annualized rate due, in large part, to a 29% increase in the multifamily sector followed by a 9.5% increase in the single-family sector.

The Fed's Beige Book reported modest growth and economic activity through December in nine of its twelve districts. The exceptions were Boston, which was fairly upbeat, and Kansas City and New York, which were relatively flat. Growth in consumer spending ranged from slight to moderate while automobile sales were mixed. The financial services segment continued its moderate pace. Manufacturing activity was generally weak with the exception of the motor vehicles and aerospace segments. Residential and commercial real estate markets were generally stronger, led by the multifamily and commercial real estate sectors. In most districts, consumer spending showed slight-to-moderate growth, although there were some signs of weakness and tourism activity was mixed across the country. The transportation services sector was mixed, with some districts reporting increases due to the surge in online shipments and others reporting declines due to weaknesses in exports.

The real estate market was fairly active across the country with the exception of Kansas City, which reported a decline in activity. In general, prices were up moderately as was residential construction activity. Multifamily construction experienced strong growth in a number of districts. On the other hand, nonresidential activity levels were more tempered, reporting modest-to-moderate gains with signs that nonresidential activity will continue to grow.

On the manufacturing front, activity levels were bifurcated, with an equal number of districts reporting declines and gains. In the banking and finance sector lending activity levels were somewhat improved, but the results were mixed. Credit conditions have improved, and there has been a decline in delinquencies except in the Dallas district, which reported increasing delinquencies for oil and gas companies. The agricultural sector was generally weak due to a combination of weather conditions and a decline in exports that contributed to falling prices. The energy sector continued to struggle due to additional declines in oil and gas prices. The situation was exacerbated by above-normal temperatures that caused an increase in inventories and a dramatic decline in oil and gas drilling. On the inflation front, pricing pressure was muted as falling energy and commodity prices put downward pressure on input prices for manufacturers.

In general, labor markets have improved across the country. In some districts, labor conditions were characterized as "tight or tightening," especially in the technology sector. Increases in wages were somewhat disappointing in many districts, although New York and San Francisco reported upward pressure on wages. Wage pressure differed by industry segment, with the greatest pressure for skilled workers in the construction, manufacturing, financial, professional, technology, and health care sectors.

**Economic and Business Indicators**

At the national level, economic indicators were somewhat mixed in January, with a number of signs that the economic recovery may be able to withstand some of the headwinds blowing in from offshore.

On a positive note, orders for durable goods rose to 4.9% in January, reversing a two-month slide and increasing to the highest level since March 2015. Since the numbers have been volatile, it is too early to tell whether order levels will hold up. On the other hand, a number of indicators suggested that the economy was losing steam. For example, the Conference Board Leading Economic Index declined over the past two months, with four of its ten indicators in negative territory. The ECRI Weekly Leading Index exhibited a similar pattern, and the declines have been consistent, continuing a pattern that began in December 2015. Industrial production increased in January, led by automobiles and utilities. Capacity utilization was relatively flat as it was during the second half of 2015. The Institute for Supply Chain Management (ISM) reported a decline in manufacturing that began in mid-2015 and continued to the end of the year, although there was a slight uptick in January. The ISM Nonmanufacturing Index exhibited a similar pattern, despite a brief rally early in the 2015 fourth quarter. Given these mixed-to-negative signals, it is understandable that the uncertain future of the economy has rattled Wall Street and affected consumer confidence.

Despite the recent negative news, other signs suggest the economy may be able to weather the setbacks albeit with GDP growth likely to languish in the low 2% range. The fate of the economy will be closely watched by the Fed, which is likely to postpone any interest rate increase until June or later. If the economy falters, the Fed has indicated it is willing to step in and use some of the tools other countries have already put in motion to bolster their economies. The latest *Wall Street Journal* survey of economists suggested the risk of recession has been increasing since fall 2015 and has climbed to 21%. At the same time, economists agree that there is more downside risk to their forecasts, which is likely to keep all parties on their toes.

On the business front, the Conference Board Measure of CEO Confidence came in at 45 points during the 2015 fourth quarter (a reading below 50 points indicates negative responses outweigh positive ones). This assessment covered both the present situation and the near-term outlook for the economy. Closer to home, CEO expectations for their own industries were up slightly although they remain tempered by the broader outlook. Turning offshore, CEO confidence levels were lower than for the United States, with widespread concerns over Europe, Japan, China, and Brazil.

Turning to small business, the National Federation of Independent Business (NFIB) optimism index slipped to 93.9 in January, but small business owners remained relatively resilient in the face of negative economic news, financial market volatility, and growing weakness offshore. With respect to questions surrounding the prospects for expansion, respondents' outlooks were tempered by concern over economic conditions (31%), followed by the political climate (13%), sales prospects (5%), and costs of expansion (5%). The outlook for general business conditions, however, fell even more than it did in December, as did the expectation for earnings. Part of this outlook was attributable to labor shortages, with 45% reporting few or no qualified applicants and 29% reporting unfilled positions. Small businesses are unlikely to contribute to inflation, with the net percent of respondents planning on raising prices falling to -4%. Credit did not seem to be an issue with small business owners because 50% said they were not looking for credit in the current economic environment.

**Employment**

The pace of hiring slowed during January, with employers adding 151,000 jobs—the lowest level since September and significantly below the 2015 average of 228,000 jobs. For the trailing twelve months, the US economy added 2.67 million jobs, which was the lowest annualized level since mid-2014. The poor start to the year was coupled with a downward revision of December 2015 employment figures. Some of the January softness was due to layoffs of seasonal workers and couriers hired to support home deliveries related to robust online holiday sales. Interestingly, the January employment growth included the addition of 58,000 retail jobs along with fewer layoffs. Also of note was the addition of 29,000 new manufacturing jobs in January.

The unemployment rate fell to 4.9% in January, which was the first sub-5% reading since the beginning of the recession in early 2008. It should be noted that the official concept of unemployment is determined by the number of jobless persons who are available to take a job and have actively sought work in the past four weeks. The labor force participation rate rose slightly to 62.7%, as potential employees rejoined the work force to take advantage of new job openings and increased wages. As the job market tightens, an increasing number of workers have decided to pursue greener pastures, leading to a surge in the quit rate, which was up 12.5% over the prior December. At the same time, the number of separations was up 3.5%, while the number of layoffs was down -6.8%. These trends are likely to continue if job growth gets back on track and companies begin competing for new talent to replace lost workers and ultimately to expand operations.

In regard to wages, the average hourly wage for private sector workers rose modestly in January to $25.39 per hour. This was the second-highest monthly increase since the recession and was up 2.5% on a year-over basis. It should be noted that some of the increase in average wages was attributable to the 4.6 million workers who were below or near their state's new minimum wage levels. However, this impact was likely muted since the $10 minimum wage is significantly lower than the average wages. There is also some concern that the raises were not distributed across the board with very modest increases for nonsupervisory workers, suggesting that managers were the bigger beneficiaries of improved wages.

While the current figures would suggest that the United States is approaching full employment, a deeper look into the unemployment figures presents a different picture. Insights into the broader unemployment situation can be gleaned by analyzing the six measures known as the "Alternative Measures of Labor Underutilization," which are published by the Bureau of Labor Statistics. These six alternative measures consider the civilian labor force in the following categories: U-1, persons unemployed 15 weeks or longer; U-2, job losers and persons who completed temporary jobs; U-3, total unemployed; U-4, total unemployed plus discouraged worker; U-5, total unemployed, plus discouraged workers, plus all other marginally attached workers; and U-6, total unemployed, plus all marginally attached workers, plus total employed part time for economic reasons. When looking at the U-6 category, which was the broadest definition of unemployment, the unemployment rate was 9.9% at the end of January, which was down from 12% in the prior year but still markedly above the official unemployment figures. At the same time, the U-1 measure, which analyzes those unemployed over fifteen weeks as a percent of the labor force, fell to 2% from 2.7% in the prior year. Thus, despite some improvement in labor conditions and signs of shortages of skilled labor, many potential employees have been left behind and are likely will have to wait for a more broad-based recovery before securing employment.

**Inflation and Interest Rates**

The core Consumer Price Index, net of food and energy, rose a modest 0.3% in January. This was below long-term historical standards but was in line with the Fed's target policy. The energy component continued to decline on a year-to-year basis, although not at the double-digit rates during 2015. Import prices fell 1.1% in January, matching the December decline and continuing decreases that began in July. The biggest import price declines were in the petroleum sector, although import prices were still down 2.9% after excluding petroleum. This situation is likely to continue as long as the global economy struggles for traction and the dollar remains strong. The Producer Price Index increased moderately in January, reversing the decline in December but still tempered and subject to downward pressure. Looking forward, it is likely that inflation will remain in check with few signs of any significant increases that could affect the overall economic environment.

The low inflationary environment and low interest rates have remained in lockstep, with few signs of change on the horizon. Indeed, despite the Fed's posturing for four interest rate increases in 2016, recent events suggest the Fed is likely to delay its next rate increase and may revisit its interest rate strategy. While it seemed clear in late 2015 that the Fed would deliver on its plan to raise rates, the mixed signals surrounding the economy have forced it to step back and reconsider. The Fed's angst is due to a number of issues on the domestic front. Of particular concern are the mixed signals it has received about the strength of the US economy, with the recent slowdown in job growth coming on the heels of a decline in unemployment rates. These domestic issues are further complicated by rising concerns over the global economy and how central banks will respond to challenges they face at home. Indeed, the Bank of Japan, the European Central Bank, and some European countries have adopted negative interest rate strategies. As a result, a number of commercial banks have tried to lower their reserves, creating a competitive environment where rates for interbank overnight loans have been driven down into negative territory. This has rippled through other interbank loans as well as business and consumer loans, placing downward pressure on rates. The low international rates have investors turning to other opportunities such as those in the United States. These activities have not been lost on the Fed, as noted in the mid-January statement to Congress by Federal Reserve Chair Janet Yellen who commented that the Fed was taking a look at pushing short-term interest rates into negative territory.

**Stock Market**

The stock market had a rocky ride during 2015, and it faces the risk of falling into bear market territory. This could create wealth effects that ripple into consumer spending and capital investment. The financial sector has struggled and it has placed a drag on the S&P 500, a pattern that has occurred in other countries as well. Low oil prices and concern over energy-related losses have also weighed down the financial sector. In addition, the dramatic decline in oil prices has put many energy companies at risk, with some 44% of investment-grade bonds trading at junk bond levels. This will make it much more difficult to issue new debt, which at a minimum is likely to be much more expensive than in the recent past. At a broader market level, the disappointing news for fourth-quarter corporate earnings elevated fears that the economic recovery could stumble. These concerns have affected a range of investors, including individual investors. As noted in the American Association of Individual Investors Sentiment Survey, 31.2% of respondents were bullish compared to the long-term average of 38.6%. On an eight-week moving average, the bullish rating through February 25, 2016, was 24.6% compared to 28.8% at 2015 year-end and 42% at the same point in 2015.

In the low interest rate environment, a number of companies have taken on more debt. As of the 2015 third quarter, nonfinancial companies had racked up $8 trillion in debt, a significant increase over the $6.6 trillion in 2012. In many cases, rather than using the funds to expand business operations, some $1.3 trillion of that capital was used to repurchase shares, which helped bolster stock prices. Unfortunately, companies may find it harder to pay down their debt if the slow-growth economy continues. In the end, the increase in debt may place a drag on growth opportunities that otherwise might be available when economic activity increases. This is especially true if interest rates rise and debt becomes more expensive.

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The turmoil in the stock market is likely to continue, with expectations playing a more important role as investors react to the Fed's posturing on interest rates. As might be expected, in this environment of rising uncertainty the bond market has been volatile, with yields fluctuating on the latest economic news. Similarly, mutual funds with significant exposure to financial stocks have also struggled.

**The Global Scene**

In December, net international capital flows to long-term US Treasuries were negative, reversing the gains in November. This was attributable to a sell-off of Treasury bonds and notes, a pattern that was also seen on the US equity front. The volatile pattern of net purchases during the second half of 2015 was a striking contrast to the first half when net purchases were on a strong upward trend, peaking at $105 billion in June. At the same time, US investors decreased their investments in foreign securities due, in part, to rising concern over the global slowdown and the increasing volatility of global markets. In terms of the trade deficit, the combination of a strong dollar and weak global economy held the December trade deficit around $43 billion, which was on par for the rest of the year.

The slowdown in the US economy and turmoil in the stock market have eroded confidence levels at a global level. Indeed, in mid-February Moody's Analytics global Survey of Business Confidence revealed a continuation of the pattern of confidence declines that began in August. The four-week moving average for global business confidence held at 28, compared to some 34 at the beginning of the year. The greatest declines were in the present conditions component, which was at the lowest level since the recession. On a positive note, the six-month expectations component has risen lately, although it remains below the levels recorded at the beginning of the year.

The outlook for consumer confidence is somewhat guarded, especially as election rhetoric begins to heat up and candidates start focusing on the economy and other issues that are important to consumers.

Over the past year, a number of central banks have increased easy-money policies in an attempt to bolster domestic growth. China has also been active on this front, but the results have been disappointing; this has led to a growing concern that China may move toward additional depreciation of the yuan. This risk has been amplified by the recent outflow of capital from China—pegged at around $100 billion a month.

Concern over the consequences of further efforts to devalue currencies was on the minds of finance ministers and central bankers at the February meeting in Shanghai of the Group of 20 (G-20) largest economies. The Organisation for Economic Co-operation and Development (OECD) has observed that many countries slowed their efforts related to structural reforms and investment spending at the same time as the benefits from stimulative policy were losing effectiveness. Going into the G-20 meeting it was anticipated that efforts would be extended to coordinate policies in response to growing market volatility and the widespread economic slowdown. However, in its official release after the two-day meeting, the G-20 indicated that all policy tools (i.e., monetary, fiscal, and structure) were on the table to strengthen economic growth and help stabilize the financial markets. At the same time, it reiterated the importance of honoring prior commitments to resist the temptation to use exchange rates to create a competitive advantage. Whether this truce will hold depends on how the global economy fairs as well as how countries deal with the pressure to make the sacrifices necessary to shore up their economies without creating negative externalities for the rest of the world.

### Consumer Confidence

The increasing volatility in the stock market, signs of a slowing economic recovery in the United States, and rising awareness of the weakness in the global economy have placed a drag on consumer confidence levels. Through February, the University of Michigan Index of Consumer Sentiment reported the continuation of modest declines, a pattern that started in late 2015. The sentiment decline was led by the expectations component at 81, while the present conditions component came in at 105.8, down from the prior two months but on par with mid-2015 figures. The Conference Board Consumer Confidence Index slipped in February, falling to 92, after peaking in September when the economic recovery looked like it was on a firmer foundation. As with the University of Michigan results, the most dramatic decline was in the expectations component, which came in at a two-year low. The decline in confidence levels coincided with a decline in purchasing plans, especially for homes and durable goods, which are more sensitive to expectations.

After two months of declines, consumer credit increased in December, with non-revolving credit leading the increase while revolving credit (e.g., credit cards) also increased. For the year as a whole, total household credit rose 3% in 2015, increasing to $336 billion. The largest increases were in the automobile industry, which accounted for almost a third of the expansion and rose 11% over the prior year. The quality of consumer credit remains relatively stable despite increasing debt levels, with delinquency rates and bankruptcies flat. According to the Fed, the financial obligations ratio for consumers has held fairly stable, with a slight increase in consumer debt offset by a decline in mortgage obligations.

On the positive side of the consumer balance sheet, median wages for part-time and full-time employees increased during the 2015 fourth quarter, a modest increase but still the highest year-over-year increase since 2008. While the increase in earnings is a positive sign, weakness in consumer expectations amid rising concerns over the economy have consumers adopting a wait-and-see attitude. This is especially true since gains have been somewhat volatile, as illustrated by the slight decline in confidence 2015 year-end. Indeed, on a rolling three-month basis, personal spending has steadily fallen since the end of the 2015 second quarter. In terms of sectors, durable and nondurable goods consumption both declined at the end of 2015, although services expenditures were up modestly led by recreation and food services and accommodations. The outlook for consumer confidence is somewhat guarded, especially as election rhetoric begins to heat up and candidates start focusing on the economy and other issues that are important to consumers.

**Retail Sales**

Many retailers faced a weak holiday season in 2015, which brought the year to a disappointing close. The US Census Bureau's advance estimate of retail and food services sales for January, adjusted for seasonal and holiday trading day differences, was $450 billion. This represented a slight increase from December and a 3.4% increase over the prior year. On a rolling three-month basis, retail sales were up 2.5% over the same period.

Several categories outperformed the overall retail sector, including sporting goods, hobby, book, and music stores, which were up over the prior year. Motor vehicles and parts sales declined from their strong performance at year-end but were still up 3.2% in January. Online retail sales continued to improve, rising 8.7% over the prior year. The upward trend in online retail sales has continued for several years despite periodic sales slumps. Due to the decline in oil prices, gasoline sales fell almost 10% over the prior year. At the same time department store sales declined 4.5% over the prior year, reflecting the challenges traditional retailers faced during the year.

The weak performance during the holidays has forced a number of retail executives to focus more attention on current operations as well as their online strategies. For example, Target has tried to rationalize its inventory levels with online orders. The strategy worked during the holiday season, with 30% of online orders picked up in stores and online sales increasing 34% in the 2015 fourth quarter, catapulting it over the $1 billion threshold for the quarter. This was the highest level in Target history and it pushed online sales to some 5% of total sales, which was another record. Target's success was attributable to a number of factors, including aggressive promotion and free shipping. While successful in bolstering online sales, the investment ate into margins and put downward pressure on earnings. Walmart continues to struggle with the same dilemma and recently announced that it laid off headquarters employees in the information systems division, following up on layoffs that were made in October. Walmart also closed more than 100 stores in the United States as it tries to protect market share and regain lost momentum. This situation is not isolated and punctuates the dilemma faced by traditional retailers pursuing market share while retaining an eye on shareholder value.

The National Retail Federation has predicted that retail sales—excluding automobiles, gas stations, and restaurants—will increase 3.1% for the year, which is slightly higher than the ten-year average and above inflation expectations. This forecast was based on several assumptions, including improvement in earnings, job creation, and consumer confidence levels. The outlook was bolstered by the addition of 58,000 retail jobs in January, or a year-over-year increase of 201,000 jobs. While these factors may hold, there are some downside risks that could put pressure on the forecast. For example, unless the stock market gets back on track the negative wealth effect to dampen retail sales. Even if the projections do hold, wealth effect could dampen retail sales, marking the fifth year of low- to mid-3% growth in retail sales.

**Housing Market**

Existing home sales eked out a small monthly gain in January but were up some 11% over January 2015 when sales languished. The gains were attributable to the single-family home sales, while condo and co-op sales declined 4.7%. For the year as a whole, the increase in sales exceeded prerecessionary levels, suggesting the market is continuing to recover. Sales slipped in January in the new-home side of the market, falling 9.2% from a strong December and 5.2% below the prior January. This may create some headwinds for the single-family market due to the build-up in the pipeline. Mortgage application rates declined in February, reflecting sensitivity to mortgage rates that carried over to refinance activity, which also slowed but still accounted for 61% of mortgage applications.

On the price front, the S&P/Case-Schiller National Home Price Index was relatively flat in the 2015 fourth quarter, with a 5.4% increase on a year-over basis. The price increases varied dramatically by market, with the booming San Francisco and Denver markets coming in slightly over 10%, and Chicago (2.4%) and Washington (1.7%) lagging the other markets in the ten-city composite index. Of these markets, Denver is the only one above its 2006 peak, with a 24% spread, and Boston and San Francisco on par. The markets at the bottom in terms of current-to-peak prices included Las Vegas (-38%), Miami (-26.6%), Chicago (-23%), Washington (-16%), and San Diego (-12.9%). In looking at these figures, it should be noted that the declines-to-peak prices are more a statement of the frenetic pace of appreciation in those markets leading up to the crash than of current or prospective weaknesses.

The sensitivity of home sales to a slight rise in mortgage rates may pose a challenge for the industry unless economic activity picks up and potential buyers benefit from wage increases.

The Federal Housing Finance Agency (FHFA) House Price Index (HPI) tells a similar tale. During the 2015 fourth quarter, housing prices rose 1.4% on a seasonally adjusted basis. This translated to the eighteenth consecutive increase in the purchase-only index. The increases in home prices were widespread, with gains in every state and in the District of Columbia. The top-five states included Nevada (12.7%), Colorado (10.9%), Idaho (10.7%), Washington (10.7%), and Oregon (10.6%).

Housing permits grew at a fairly steady pace during 2015, finishing the year at a seasonally adjusted, annualized rate of 1.2 million units. This pace slipped a bit in January, although it was up 13.5% on a year-over basis due to a weak start in 2015. Single-family permits slipped from the December figures, coming in at 720,000 annualized units, and multifamily permits eked out a slight increase over December, accounting for 442,000 units. In terms of private housing starts, January figures were 3.8% below December but up 1.8% from the prior January. The rate of private completions was 2% above December, and 8% above the prior January.

The continued decline in homeownership rates remains a concern for the single-family housing segment. The downward trend during 2015 put the homeownership rate at 63.7% compared to 66.2% five years ago. Vacancy rates also continued to trend downward, in part due to rental properties being absorbed by those leaving the ownership ranks. In this environment, the recent downturn in the National Association of Home Builders (NAHB) Housing Market Index is understandable. The index has trended downward since peaking in the 2015 third quarter when the economy was on firmer ground. The sensitivity of home sales to a slight rise in mortgage rates may pose a challenge for the industry unless economic activity picks up and potential buyers benefit from wage increases.

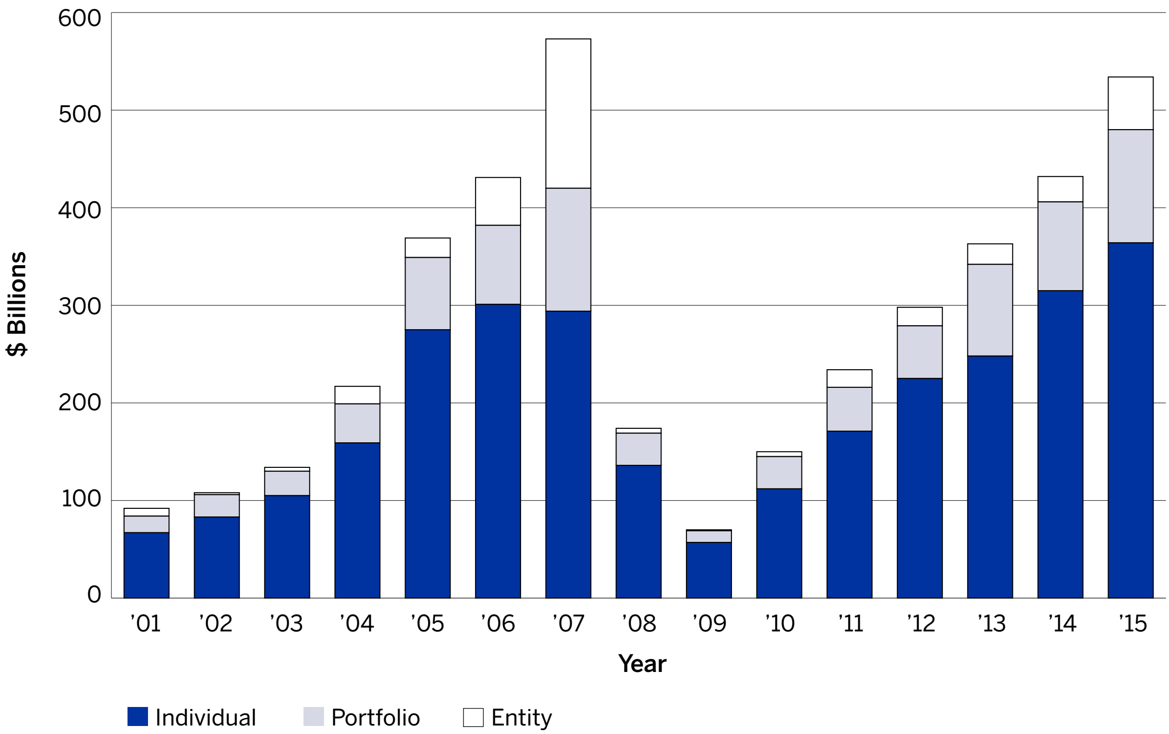
## Real Estate and Capital Markets

**Overview**

On the transaction front, the commercial real estate market was on fire during 2015, with Real Capital Analytics (RCA) reporting total transaction activity at the highest level since the record set in 2007. The strong performance included a 20% year-over-year increase in the fourth quarter and continued the dramatic upward pace since the industry bottomed during 2009. This pattern carried over to January, with $44.6 billion in transaction activity starting off the year at the highest pace in fifteen years (Exhibit 1).

For 2015 as a whole, about $533 billion in properties exchanged hands; some of this total can be attributed to the 12% increase in prices reported by Moody's/RCA CPPI. While this double-digit price growth was impressive, it was off the pace of the prior two years, suggesting that the market may be losing some upward momentum on the pricing front. This reading is consistent with the gradual slowing of capitalization rates as investors started holding the line despite continuing to chase assets. Price appreciation rates varied by market, with some of the markets

**Exhibit 1** Transactions by Type of Acquisition




Source: Real Capital Analytics, February 2016

hardest hit by the housing collapse (e.g., Orlando, Miami, Phoenix) racking up gains of more than 20% on a year-over basis.

In terms of total returns, the private NCREIF Property Index reported 13% annual returns for 2015, including 8% appreciation and 5% income returns. Despite the strong performance, total returns tapered off through the year after starting at 3.6%, quarterly, and slipping to 2.9% in the fourth quarter. This slippage was attributable to a 61 basis point decline in appreciation, which fell to 1.72% quarterly, and a 9 basis point decline in income, which fell to 1.2% quarterly, or 4.8% on an annualized basis. With respect to property types, the retail sector led all property types with 15.3% returns, followed closely by the industrial sector with 14.9% total returns. Hotel investments recorded 13.2% returns for 2015, with the highest income rate of all property types at 8.2% compared to 5% for the overall index. Office and apartment investments trailed the pack with 12.5% and 12% returns, respectively, and also had the lowest income returns of around 4.8% for the year.

The public side of the market did not experience the same performance as did the private side in 2015. The $850 billion FTSE NAREIT Equity REIT Index market racked up a disappointing 3.2% total return for the year. The index slipped even more during January, falling to -3.5% returns. Mortgage REITs had an even more challenging time, with the $49 billion industry falling -8.9% during 2015 and continuing that decline with -5.3% during January. During 2015, REITs raised some $59.3 billion in capital with 162 transactions. This was the slowest pace in four years, reflecting some of the challenges faced by the industry. The number of IPOs increased to 7, while capital raised fell to $1.4 billion compared to $4 billion the prior year. In terms of dollars raised, secondary equity issues were down slightly from the prior year while the number of transactions fell some 25%. Unsecured debt increased to $32 billion although the pace of issuances was down over the pace of the prior two years.

The accelerating influx of offshore investment has been one of the drivers of the record transaction levels in commercial real estate. During

2015, foreign investors accounted for $91.1 billion and 17% of total sales. This represented a 123% increase over the prior year and helped fuel the year-end surge in activity. The significant increase was attributable, in part, to foreign investors' focus on larger portfolio entity investments, accounting for 27% of such transactions. In terms of property types, foreign investors favored industrial assets, which accounted for 35% of total acquisitions, followed by office properties at 19%, hotels at 15%, apartments at 11%, and retail properties at 8%. With respect to regions, Asian capital sources dominated, followed by European, Canadian, and Middle Eastern. At the country level, Canada led other countries with some $28 billion in acquisitions, followed by Singapore, China, Norway, and the United Arab Emirates.

While there is much positive news for the office sector, there also are some headwinds that should be considered, including uncertainty over the optimal workspace for corporations as they try to rationalize space and strengthen employee recruitment, retention, and productivity.

The dramatic increase in foreign investment activity was followed by an impressive 40% increase in institutional/fund investment activity, which totaled $146 billion, a 19% increase in private acquisitions, and a 5% decline in public entity acquisitions. Institutional/fund investors accounted for 35% of portfolio transactions and were the leading buyers of apartment, office, and hotel portfolios. They also accounted for 35% of portfolio acquisitions.

A number of investor classes have moved into secondary and tertiary markets due to aggressive pricing in the major metro areas. For example, private investors accounted for 35% of major metro transactions, compared to 46% of secondary and 50% of tertiary market sales. On the other hand, institutional investors accounted for 28% of major metro transactions compared to 26% of transactions in secondary markets and 19% in tertiary markets.

In terms of property types, the apartment market was the most active with some $150 billion in transactions reported for 2015, which was a 32% increase over the prior year. The office market came in a close second at $146 billion in transactions although this is only up 16% over the prior year. The retail sector racked up $88 billion in sales, although the sales figures were relatively flat on a year-over basis. Industrial properties accounted for $77 billion in transactions, which was lower than the other core sectors but represented a 54% increase on a year-over basis. Hotel transactions came in at $49 billion, reflecting a 42% increase over the prior year.

**Office**

During 2015, office market fundamentals continued to improve as net absorption trended upward and hit the highest level since 2006. This improvement was led by hiring in the traditional office-user categories (professional and business services, financial industry, information services). Going forward, the turmoil surrounding the financial industry may place a damper on that sector, but overall prospects remain solid and are likely to stay in line with the broader economic recovery.

While job growth has helped, the real story behind improved office spatial fundamentals has been the lack of overbuilding in many markets. There have been increases in construction activity at the national level, but the activity has been concentrated in some key markets and has not rippled over to many other markets where deals still do not pencil out. In a number of markets, improved fundamentals have provided the opportunity for rent increases, with downtowns outperforming suburban markets. Indeed, in the top office markets tenants have shown renewed interest in urban locations, especially technology and professional service firms interested in accommodating the needs of employees who are drawn to urban locations. This trend was discussed in a recent *Wall Street Journal* article, "Casualty of Cities' Resurgence: The Suburban Offices Left Behind." This situation creates some opportunities for those able to figure out how to repurpose functionally and logistically obsolete properties.

While there is much positive news for the office sector, there also are some headwinds that should be considered, including uncertainty over the optimal workspace for corporations as they try to rationalize space and strengthen employee recruitment, retention, and productivity. At the

**Exhibit 2** Office Subindex of NCREIF Property Index, Q4 2015

| | Market Share | | | | Annual Returns* | | |
|---|---|---|---|---|---|---|---|
| **Subtype** | **Value ($ millions)** | **Share (%)** | **Number of Properties** | **Average Value ($)** | **Appreciation (%)** | **Income (%)** | **Total (%)** |
| **CBD** | 99,730 | 57 | 389 | 256.38 | 8.5 | 4.4 | 13.1 |
| **Suburban** | 75,137 | 43 | 991 | 75.82 | 6.0 | 5.4 | 11.6 |
| **Total** | 174,867 | 100 | 1380 | 126.72 | 7.4 | 4.8 | 12.5 |

*Total Weighted Average
Source: National Council of Real Estate Investment Fiduciaries, 1/25/16

same time, technological innovations continue to create a more nimble workforce and have opened the door for entrepreneurs to step into the market with temporary or flexible workspaces. An example of this is WeWork Companies, which boldly announced that it would soon grow from 52 to 1,000 locations with shared workspace. The startup has become something of a role model for office providers of the future. The company is expanding its lineup by moving into the residential arena, and it is part of a growing sector of flexible, incubator-type operators that may set a new standard for office users that ripples over to mainstream corporate tenants.

Going forward, new challenges and opportunities from the regulatory side may dramatically affect the nature of spatial market fundamentals in the office sector. These include the phasing in of FAS 13, the much-debated new lease standard of the Financial Accounting Standards Board (FASB), which was finally voted on in November. This ruling, which is in compliance with the actions of the International Accounting Standards Board (IASB), requires companies to include the value of lease obligations on their balance sheets for office and other property types. The final standards will be published in 2016, with phase-in starting in 2018 for public companies, and phase-in for private companies and organizations the following year. Early adoption will be encouraged once the final standard has been issued. While the objective is to create greater transparency for investors and other interested parties—and the proposal has been kicked around for over a decade—the impact of the reform will bear watching as companies decide how to react to the new ruling, and investors and lenders figure out how to respond to the new information.

From a capital market perspective, the office sector has been relatively healthy in terms of transaction volume and returns, and it remains a major component of the broader commercial industry. For example, offices were the largest property type in the NCREIF Property Index, with $174.9 billion invested in 1,380 properties for an average size of $73 million. During the 2015 fourth quarter, the office sector had a relatively disappointing performance of 2.6% total, which was down 72 basis points from the first quarter and trailed other property types. The quarterly figure contributed to 12.5% return for the year as a whole, which was the lowest among property types with the exception of apartments.

In terms of subtypes, there were significant differences between the composition and returns of central business district (CBD) and suburban office investments. For example, $99.7 billion was invested in CBD properties and the average value was $256 million. CBD properties had a 13% return in 2015, which was comprised of 8.5% appreciation and low 4.4% income. On the other hand, $75 billion was invested in suburban markets and the average value was $76 million. In terms of performance, suburban office properties lagged their CBD counterparts with a total return of 11.6% due to 247 basis points lower appreciation; this was partially offset by a 100 basis points premium in income returns (Exhibit 2). On the public front, office REITs accounted for 10% of the $851 billion NAREIT All Equity Index. The sector had a disappointing 2015, eking out slightly positive total returns and lagging the overall index. Through January, disappointment in the sector continued with -8.2% total returns.

The office sector was robust in 2015 in terms of transactions, with volume of $146 billion and a 16% increase over the prior year. In terms of subtypes, suburban properties experienced the greatest increase in volume and totaled $78.9 billion, which was a 26% increase on a year-over basis. Despite these increases for the 2015 as a whole, volume tapered off during the fourth quarter. This was followed in January by a 19% decline in transaction volume over the prior year. The biggest declines were in the suburban sector (25%), while CBD transactions fell 13% on a year-over basis. Despite the decline in transaction volume in January, average CBD prices rose to $415 per square foot, the highest monthly figure since mid-2008. On the suburban front, the average price rose moderately to $195 per square foot. In terms of capitalization rates, CBD properties traded at 5.9% compared to 7% for their suburban counterparts. The top 10% of cap-rate trades came in at 4% for CBD transactions and 5.5% for suburban offices.

**Retail**

At a national level, retail market fundamentals have improved as tempered increases in supply and increased demand resulted in positive net absorption. Although retail construction is increasing, it remains significantly below pre-recession levels. Consequently, vacancy rates have declined, and in some markets asking rents have gone up.

While this fairly sanguine outlook holds at the national level, there are significant differences in market fundamentals by market, submarket, and format. For example, in terms of formats, run-of-the-mill commodity space is languishing and is dealing with rising vacancies, while stronger retail formats are doing well. This situation has characterized the retail sector for some time and is likely to continue. This is especially true with the recent declines and turmoil in the stock markets and the negative wealth effect that has created.

To get additional insight into the retail sector, it is useful to look at what is happening on the tenant side of the equation. Notable retailers experienced declining sales during the holiday season, including Best Buy, Macy's, and the Gap. A number of retailers (e.g., Lowe's, TJ Maxx) have pointed out that increasing wage pressure due to tightening employment and the growth of minimum wage legislation will place a damper on earnings. The combination of disappointing performance in 2015, and the prospects for an increasingly competitive environment have a number of retailers looking at strategies to rationalize their traditional store portfolios. These include Kohl's, which announced the closure of eighteen stores, and Sears, which is shedding $300 million in assets. In addition to closing stores, retailers are exploring using a smaller footprint.

The plight affecting mainstream, middle-market retailers has spilled over to upscale retailers, many of whom several years ago appeared immune to the general malaise affecting the industry. A vivid example of the situation is Macy's, which reported 31% decline in holiday profits and a 4.3% drop in same-store sales. To address the situation, Macy's recently announced that it would lay off workers, close some forty stores, and continue exploring the value arena with its Backstage brand. Nordstrom has had a similar experience, with comparable same-store sales falling 3.2% during the holidays while sales at its off-price lines (e.g., Nordstrom Rack, HauteLook) increased 12% over the prior year. This experience was shared by Saks Fifth Avenue, which saw declining sales in the fourth quarter while sales rose for its discount brand, Saks OFF 5th.

The turmoil facing the retail industry was punctuated by a January 23, 2016, article in *The Wall Street Journal*, "Anchors Away: Malls Lose More Department Store Tenants." While the article addresses the plight of Macy's, Penney's, and Sears, it also notes that the problem is much more widespread. For example, About.com tracks planned store closings among retail chains, and it reports the following contractions: Office Depot/Office Max, 400 store closings; Barnes & Noble, 223 store closings; Children's Place, 200 store closings; Walgreens, 200 store closings; Aeropostale, 175 store closings; American Eagle Outfitters, 150 store closings; Finish Line, 150 store closings; Sports Authority, 140 store closings; Chico's, 120 store closings; and Pier One, 100 store closings. The impact of store closings has been uneven, with middle-market properties struggling but many prime properties able to turn the loss of a tenant into an opportunity to refine tenant mix. Unfortunately, the loss of anchor tenants is more likely to be damaging for shopping center owners. This has created an industry in adaptive reuse and repositioning of shopping centers, which will continue to be a growth sector although some of the solutions may not be palatable to current investors.

Despite some of the challenges the retail industry faces, real estate capital markets have not eschewed the sector. For example, the retail component of the NCREIF Property Index accounted for $110 billion or 23% of total market capitalization at the end of 2015. This included 1,138 individual properties at an average property size of $96 million. In terms of retail subtypes, superregional malls dominated market with $40 billion in assets accounting for 37% of total retail exposure. Neighborhood shopping centers accounted for 15% of retail investments, followed by regional shopping centers at 14%, community centers at 13%, fashion/specialty centers at 8%, and single-tenant properties accounting for 2% of the retail allocation. As might be expected, the average size of the 60 superregional shopping centers at $675 million was dramatically greater than other subtypes. The average size of regional centers was $255 million, followed by fashion/specialty centers at $119 million, power centers at $78 million, and the 465 neighborhood centers at $35 million. On the other hand, the single-tenant retail sector, which comprised only 2% of the retail sector had an average value of $28.8 billion for the 57 properties in the index.

In terms of performance, the retail component of NCREIF index led all property types, with 15.3% annualized returns for 2015. This strong performance was relatively widespread with regional and superregional malls leading the pack, followed by neighborhood centers, fashion/specialty centers, community centers, and power centers, all of which reported solid returns. Thus, the challenges in the retail industry have not dampened private investment performance. Although not on par with appraisal-based private returns, retail REITS had a relatively strong year in 2015 compared to other property types, coming in with 4.6% total returns. However, this performance did not hold up in January with slightly positive total returns. With respect to subtypes, freestanding retail properties led the sector with 5.9% total returns in 2015 and 7.6% returns during January. Shopping center REITs experienced 4.7% returns in 2015 before slipping to 3% in January.

On the transaction front, the retail sector remained active in 2015 with total transactions holding at around $88 billion. While transaction volume was somewhat flat, Moody's/RCA CPPI reported a 13% increase in prices over the prior year. Retail capitalization rates on reported transactions declined modestly to 6.4% for the 2015 fourth quarter. Malls came in even lower, with malls pushing 4.5% rates compared to 5.9% for the sector as a whole. The average price per square foot for retail property, excluding strip centers, was $274 with a slight downward trend during the year. During January, retail property sales volume fell 43% over the prior year, continuing the downward trend that began in mid-2015. At the same time, prices have held, suggesting investors are continuing to look at the sector.

The plight affecting mainstream, middle-market retailers has spilled over to upscale retailers, many of whom several years ago appeared immune to the general malaise affecting the industry.

**Industrial**

The industrial property sector faced an uphill battle during 2015 due to the global economic slowdown, the decline in energy, and a strong dollar that placed a drag on exports. Despite these factors, the industrial and logistics sectors have continued to expand and are experiencing improvement in market fundamentals at a national level. While the export sector has slowed, imports remain strong and have helped support increasing demand for warehouse facilities. The surge in online shopping and pressure on logistics and fulfillment have also helped spur demand for warehouse facilities and have created some demand for new product to address changing logistical models. During the fourth quarter, the industrial market continued its impressive string of expansion, with some 64 million square feet of net positive absorption reported by CBRE. At the same time, construction activity continued to increase, with 41 million square feet added—the highest annual level in over five years. The improvement in market fundamentals led to an increase in asking rents, which were up 3.4% on a year-over basis for the fourth quarter.

Turning attention to the capital side of the market, the industrial property sector accounted for $16 billion in the NCREIF index, which was invested in 3,081 properties for an average value of $22 million. With respect to industrial subtypes, the sector was dominated by warehouse properties, which accounted for 91% of the total industrial exposure, with a market capitalization of $60.8 billion and an average value of $22.8 million. In industrial subtypes, flex space properties came in a distant second, with a total of $3.9 billion and an average value of $14.5 million, followed by R&D properties with a total of $1.6 billion and an average value of $21 million.

The industrial sector returns reflect the strong demand for industrial assets. Warehouses led the industrial sector with 15.4% total returns, of which 9.6% came from appreciation. Flex space had the second highest total returns (12.7%), although income returns outperformed the warehouse sector by some 21 basis points. Industrial REITs, which accounted for only 5% of the NAREIT index, ended 2015 with 2.6% total returns and then fell off the pace with -6% total returns in January.

On the transaction front, the industrial sector experienced the strongest growth of major property types, with transactions in 2015 totaling $77 billion, which was up 54% on a year-over basis. This growth was fueled by portfolio and entity-level sales that accounted for roughly half of the total deal volume for the year. Offshore investors were a major player in the industrial arena, accounting for $27 billion and 35% of transaction volume. With respect to subtypes, warehouse investments dominated the sector with capitalization rates of 6.8% and average prices of $69 per square foot during the fourth quarter. This average pricing was fairly stable during the year and represented the highest average rate since data became available in 2000. On the other hand, flex properties, which are somewhat riskier than warehouses, traded for an average price of $110 per square foot with 6.5% capitalization rates. Unlike the office and retail sectors, flex space transaction volume held up in January, rising 29% over the prior year. As in 2015, activity was bolstered by portfolio and entity-level transactions; this is understandable considering the relatively small size of individual assets and the need for scale among institutional and offshore investors.

**Apartment**

The apartment market continued to garner much attention during 2015, with a number of players continuing to champion the sector. While apartment properties have a lot going for them, there are also some concerns over the pace of new construction in many markets. At a national level, vacancy rates have continued to decline, resulting in increased rents that have helped extend the feeding frenzy surrounding the property type. Marcus & Millichap report that national vacancy rates fell to 4.2% in 2015 but point out that additions to stock in 2016 are likely to put some upward pressure on vacancy rates. The good news is that the bulk of new construction is concentrated in the hotter markets. Also, investors have turned to secondary and tertiary markets in search of deals, which has helped broaden the base of construction activity. Despite these longer-term concerns and the risk of overbuilding, near-term apartment fundamentals are likely to remain strong.

On the capital market front, apartments remained the darling of investors although there are some signs that the sector may have peaked. On the private market front, apartment allocations have grown dramatically over the long term as to NCREIF market share. Indeed, as of 2015 year-end the sector accounted for $113 billion

**About the Author**

**James R. DeLisle, PhD,** is associate professor of real estate and director of the Lewis White Real Estate Center at the University of Missouri–Kansas City Bloch School of Management. His charge is to help build a preeminent real estate program that strikes a balance between academic rigor and state-of-the art industry practices. Drawing on this foundation, students are trained in critical thinking and the spirit of entrepreneurship necessary to take on the complex real estate problems that the next generation of industry leaders must be able to solve. He comes to the Bloch School from the University of Washington where he was Runstad Professor of Real Estate and director of the graduate real estate studies. DeLisle has spent almost half of his forty-year career in real estate as a professional with specializations in applied investment research and strategic portfolio management. Before returning to academia in 1999, he was an executive vice president and head of strategic planning for Lend Lease Real Estate Investments, a global company and the successor firm to Equitable Real Estate, where he founded the Investment Research Department. He has published widely in academic and professional journals. DeLisle received his BBA in real estate and MS in marketing from the University of Wisconsin. He received his PhD in real estate and urban land economics from the University of Wisconsin under his mentor, the late Dr. James A. Graaskamp, one of the leading academic proponents of applied real estate research. To increase industry connections, DeLisle has created a personal website, http://jrdelisle.com.

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**Exhibit 3** Apartment Subindex of NCREIF Property Index, Q4 2015

| | Market Share | | | | Annual Returns* | | |
|---|---|---|---|---|---|---|---|
| **Subtype** | **Value ($ millions)** | **Share (%)** | **Number of Properties** | **Average Value ($)** | **Appreciation (%)** | **Income (%)** | **Total (%)** |
| **Garden** | 35,049 | 31 | 635 | 55.20 | 8.8 | 5.5 | 14.6 |
| **High-Rise** | 67,954 | 60 | 705 | 96.39 | 6.1 | 4.4 | 10.6 |
| **Low-Rise** | 10,418 | 9 | 170 | 61.28 | 6.7 | 4.8 | 11.7 |
| **Total** | 113,421 | 100 | 1510 | 75.11 | 7.0 | 4.7 | 12.0 |

*Total Weighted Average
Source: National Council of Real Estate Investment Fiduciaries, 1/25/16

and 23% of the total index. This allocation was spread among 1,510 properties for an average size of $75 million. The high-rise sector was the dominant subtype property, with 60% of the total and 705 properties having an average value of $96.4 million. This compares to the garden apartment sector, which accounted for 31% of the apartment allocation and an average value of $55 million. With respect to returns, garden apartments led the sector with 14.6% returns, which was largely attributable to strong 8.8% appreciation that was 110 basis points higher than low-rise apartments and 170 basis points over the high-rise sector. The same pattern held for income returns, with garden apartments at 5.5% and high-rise apartments at 4.4%, reflecting aggressive pricing for urban projects (Exhibit 3). Apartment REITs accounted for 13% of the NAREIT index after leading all sectors in 2015 with total returns of 17%. This performance tapered off in January with -4.95% total returns.

With respect to transactions, apartments remained a preferred sector of investors, with sales of $150 billion for 2015. This was a 32% increase on a year-over basis and led all property types. Interestingly, individual transactions dominated the property type, with portfolio and entity-level transactions accounting for a lower market share than in the case of other property types. Apartment prices continued to rise, with Moody's/RCA CPPI reporting a 13% increase over the prior year. In terms of subtypes, garden apartments dominated the market during the year with a surge at year-end driving transactions to $98 billion compared to $51.6 billion for the mid-/high-rise sector. In terms of pricing, mid-/high-rise properties exhibited the most aggressive pricing with capitalization rates falling to 4.8% and a striking 3.3% for the top 10% band of cap rates. Capitalization rates for garden apartments were 6% overall compared to 4.3% for the top 10% of rates.

## Conclusion

As noted, the US economy has lost some momentum due to a combination of factors including disappointing employment figures, concerns over the global economy, fears over the strengthening dollar and its impact on exports, the collapse of the energy sector, declines and volatility in the stock market, turmoil in the financial markets, and mixed signals from the Federal Reserve. There appears to be something of a disconnect, however, between the economic environment and the real estate sector. In terms of real estate fundamentals, there has been some improvement in the spatial side of the equation across most property types and markets. But the real gap is on the capital side of the real estate market where the pace of investment activity has continued unabated in spite of some signs that the market may have become overheated.

At this point, the real estate capital markets might be cooling off and capitalization rates may have bottomed out. Nonetheless, investors remain enthusiastic, especially with the NCREIF Property Index continuing to rack up double-digit returns. Insights may be gleaned from the public markets as to whether values will hold up in the face of rising interest rates and yield requirements associated with fundamental and cyclical risks. As with the broader equity markets, REITs have had a challenging time, slipping into negative territory in January after 3.2% returns for 2015. Going forward, the economic, capital, and spatial sides of the market will come into alignment. Whether that is on the upside or downside, and the timing of such a correction, will be interesting to watch. Indeed, monitoring changing market conditions might provide a diversion from the election-year rhetoric that will dominate the airwaves for the balance of the year. Indeed, how the political battles play out may be the wild card that changes the outlook for the economy, capital, and real estate markets.

## Additional Resources

Internet resources for additional reading

**Bureau of Labor Statistics**

- Producer Price Indexes http://www.bls.gov/ppi/
- Local Area Unemployment Statistics http://www.bls.gov/lau/home.htm

**Conference Board**

- Business Cycle Indicators https://www.conference-board.org/data/bci.cfm

**Economic Cycle Research Institute (ECRI)**

- All Indexes https://www.businesscycle.com/ecri-reports-indexes/all-indexes#

**Federal Reserve**

- Chicago Fed National Activity Index (CNAI) https://www.chicagofed.org/publications/cfnai/index
- Federal Reserve Economic Data (FRED) https://research.stlouisfed.org/fred2/

**Institute for Supply Management (ISM)**

- Report on Business https://www.instituteforsupplymanagement.org/ISMReport/

**International Monetary Fund (IMF)** http://www.imf.org/external/index.htm

**National Association of Home Builders (NAHB)**

- Housing Indexes http://www.nahb.org/en/research/housing-economics/housing-indexes.aspx

**National Council of Real Estate Investment Fiduciaries (NCREIF)**

- Data and Products https://www.ncreif.org/data.aspx

**National Federation of Independent Business (NFIB)**

- Economic Trends http://www.nfib.com/surveys/small-business-economic-trends/

**University of Michigan**

- Survey of Consumers http://www.sca.isr.umich.edu/