

# Real Estate Forecast 2020



maloney  
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and the

# BEAT GOES ON

STEWART

**stewart**

Ted C. Jones, PhD  
Chief Economist  
Stewart Title

An Economic Outlook on What Changes,  
What Stays the Same and What's to Come

**Millennials  
Begin  
Turning  
40  
This  
Year**

**40**

Recorded by *SONNY* and *CHER* on Atco Records

# THE BEAT GOES ON

Words and Music by *SONNY BONO*



**1967 – An  
Economic  
Forecast for  
2020**

**The beat goes on, the beat goes on  
Drums keep pounding a rhythm to the brain  
La de da de de, la de da de da**

**Sonny & Cher**

**Charleston was once the rage, uh huh  
History has turned the page, uh huh  
The mini skirts, the current thing, uh huh  
Teenybopper is our newborn king, uh huh**

**Sonny & Cher**

**The grocery store's the super mart, uh huh  
Little girls still break their hearts, uh huh  
And men still keep on marching off to war  
Electrically they keep a baseball score**

**Sonny & Cher**

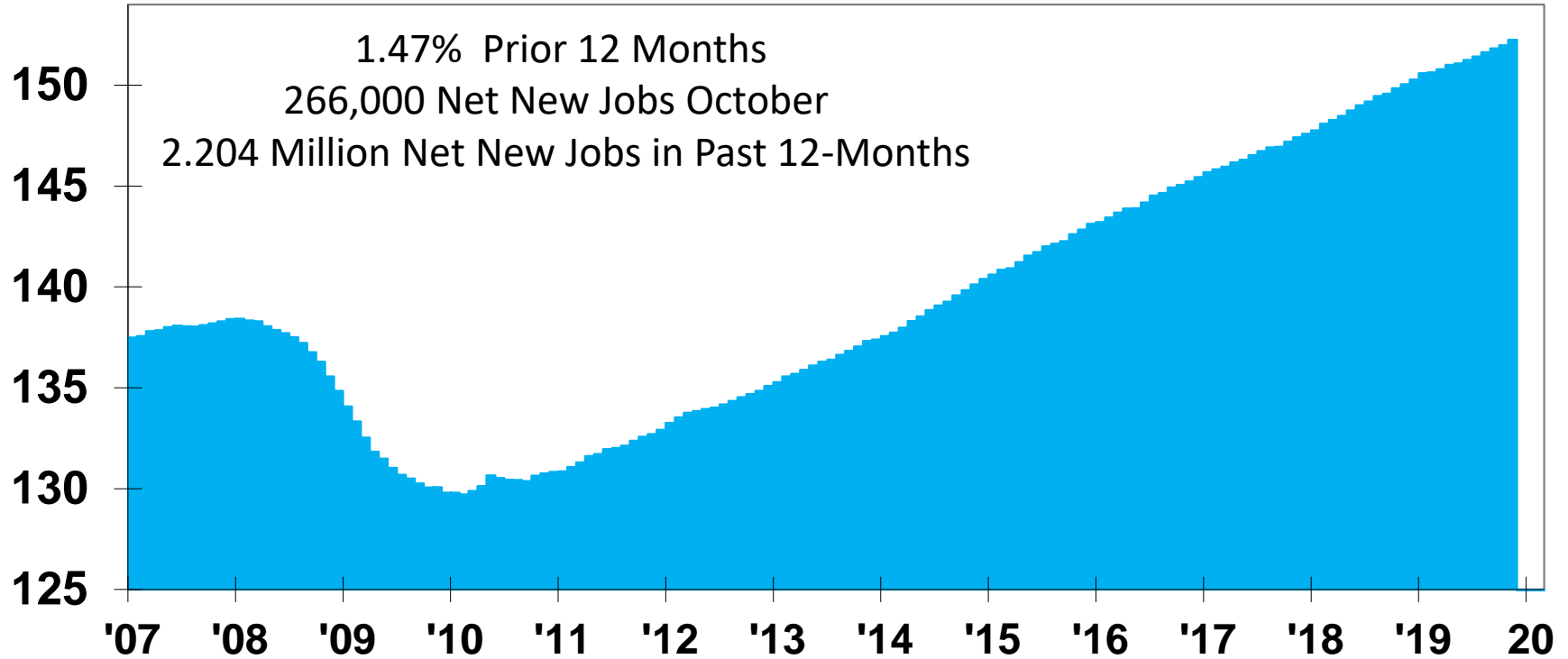
2020



# U.S. Jobs

More Jobs Than Anytime  
In History

Jobs (Millions) *Seasonally Adjusted*



# Compound Annual Job Growth Rate

**1.47%**

**November 2019**

**1.31%**

**Past 40-Years**

**12.2%**

**Better  
Than  
Average**

# U.S. Supersector Job Growth Analysis -- November 2019

Not Seasonally Adjusted

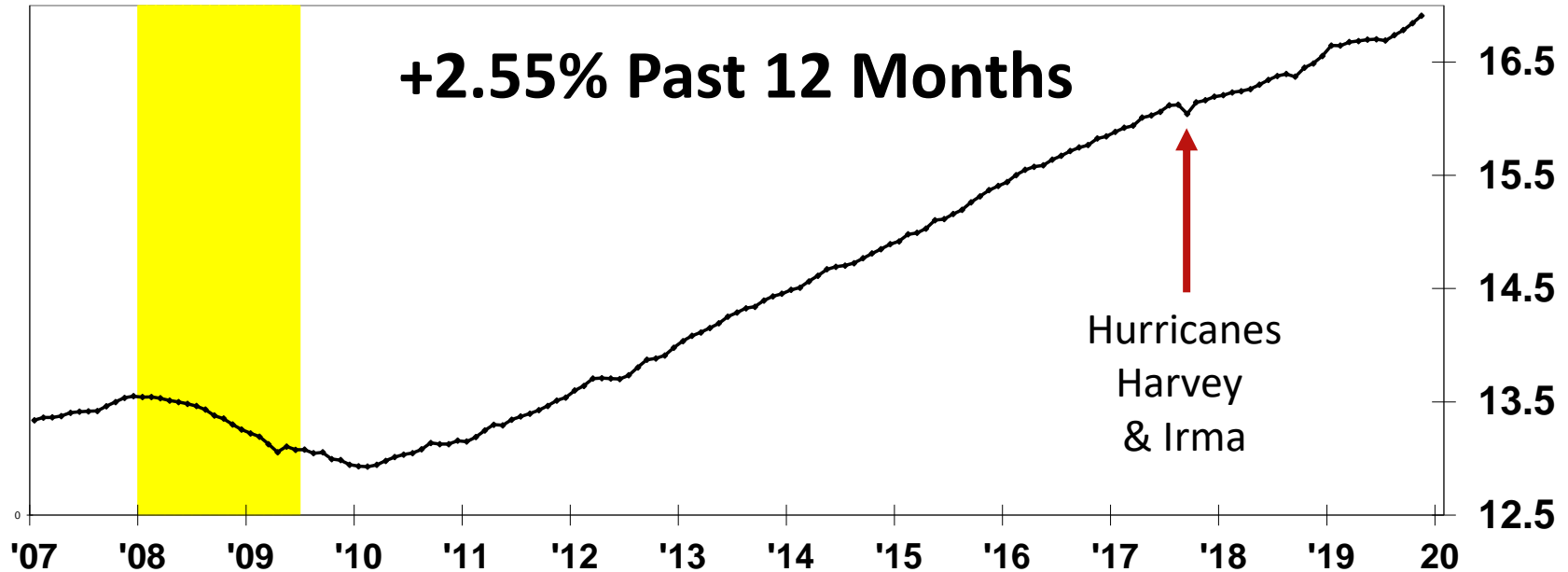
Employment Supersector	Total Jobs Thousands Nov 2019	Percent of All Jobs		12-Months		5 Years	
		Today	5-Years Ago	Net New Jobs Thousands	Percent Change	Net New Jobs Thousands	Percent Change
Total	153,624.0	100.0%	100.0%	2,249.0	1.5%	12,293.0	8.7%
Mining & Logging	747.0	0.5%	0.6%	(4.0)	-0.5%	(157.0)	-17.4%
<b><i>Mining &amp; Logging + Construction</i></b>	<b><i>8,349.0</i></b>	<b><i>5.4%</i></b>	<b><i>5.1%</i></b>	<b><i>141.0</i></b>	<b><i>1.7%</i></b>	<b><i>1,080.0</i></b>	<b><i>14.9%</i></b>
Construction	7,602.0	4.9%	4.5%	145.0	1.9%	1,237.0	19.4%
Manufacturing	12,862.0	8.4%	8.7%	79.0	0.6%	579.0	4.7%
Trade-Transport-Utilities	28,500.0	18.6%	19.1%	113.0	0.4%	1,460.0	5.4%
Information	2,865.0	1.9%	1.9%	11.0	0.4%	117.0	4.3%
Financial Activities	8,728.0	5.7%	5.7%	119.0	1.4%	694.0	8.6%
Professional and Business Service	21,869.0	14.2%	13.8%	425.0	2.0%	2,372.0	12.2%
Education and Health Services	24,784.0	16.1%	15.5%	695.0	2.9%	2,911.0	13.3%
Leisure & Hospitality	16,601.0	10.8%	10.3%	419.0	2.6%	2,014.0	13.8%
Other	5,942.0	3.9%	3.9%	83.0	1.4%	363.0	6.5%
Government	23,124.0	15.1%	15.9%	164.0	0.7%	703.0	3.1%

# U.S. Leisure & Hospitality Jobs

The Blood Pressure Test of the U.S. Economy

Millions of Jobs  
Seasonally-Adjusted

 Recession



“The flattening and [inverted yield curve](#) has been an accurate predictor of economic recessions. A yield curve inversion along the 2-year and 10-year spread has come before the last seven recessions.”

**ACCURATE?**

*MarketWatch*

# Yield Curve Inversion May 1998

Recession Started?

**Stock  
Market  
Performance  
Following  
Inverted  
Yield  
Curve**

	1 year	2 years	3 years
8/17/1978	3.06%	19.64%	24.88%
8/20/1980	5.59%	-8.69%	32.49%
12/9/1988	25.87%	18.31%	36.54%
5/26/1998	19.26%	25.96%	16.81%
12/30/2005	13.62%	18.44%	-28.65%
Average	13.48%	14.73%	16.41%

**61.5%**

**Percent of  
Workers  
Confident in  
Finding a New  
Job if  
They Lost Their  
Current One**

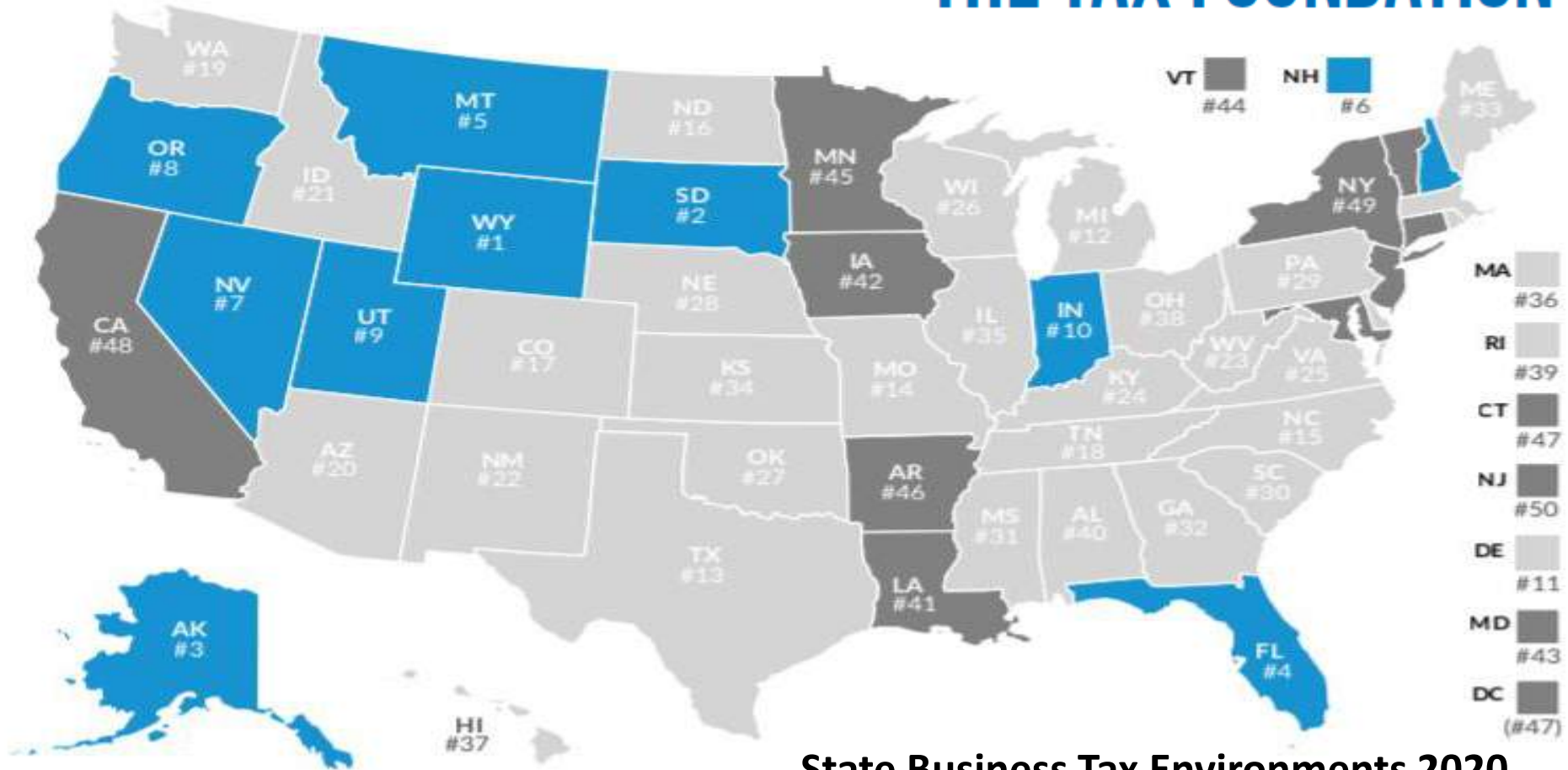
FEDERAL RESERVE BANK *of* NEW YORK



## State Job Growth -- 12 Months Ending November 2019

Utah	3.23%	South Carolina	1.48%	Illinois	0.66%
Texas	2.67%	Delaware	1.47%	Mississippi	0.65%
Idaho	2.66%	South Dakota	1.38%	North Dakota	0.65%
Nevada	2.62%	Nebraska	1.36%	Alaska	0.49%
Washington	2.52%	Massachusetts	1.33%	Hawaii	0.47%
Florida	2.45%	Missouri	1.28%	Louisiana	0.45%
Arizona	2.42%	Arkansas	1.25%	Michigan	0.41%
Alabama	2.38%	Kentucky	1.23%	Ohio	0.37%
Rhode Island	2.16%	New York	1.20%	Indiana	0.36%
Colorado	2.08%	Montana	1.19%	Iowa	0.31%
North Carolina	2.03%	Kansas	1.18%	Connecticut	0.23%
New Mexico	1.93%	Maryland	1.00%	Wisconsin	0.22%
Oregon	1.91%	Virginia	1.00%	Minnesota	0.17%
California	1.86%	Maine	0.83%	West Virginia	0.11%
Tennessee	1.51%	New Jersey	0.82%	Vermont	-0.13%
Georgia	1.51%	Pennsylvania	0.80%	Oklahoma	-0.25%
Dist of Columbia	1.49%	New Hampshire	0.78%	Wyoming	-0.28%

# THE TAX FOUNDATION



State Business Tax Environments 2020

1	New Jersey	68.5%
2	Illinois	66.5%
3	New York	63.1%
4	Connecticut	63.0%
5	Kansas	58.5%
6	Ohio	57.8%
7	California	56.9%
7	Michigan	56.9%
9	North Dakota	55.2%
10	Iowa	55.0%

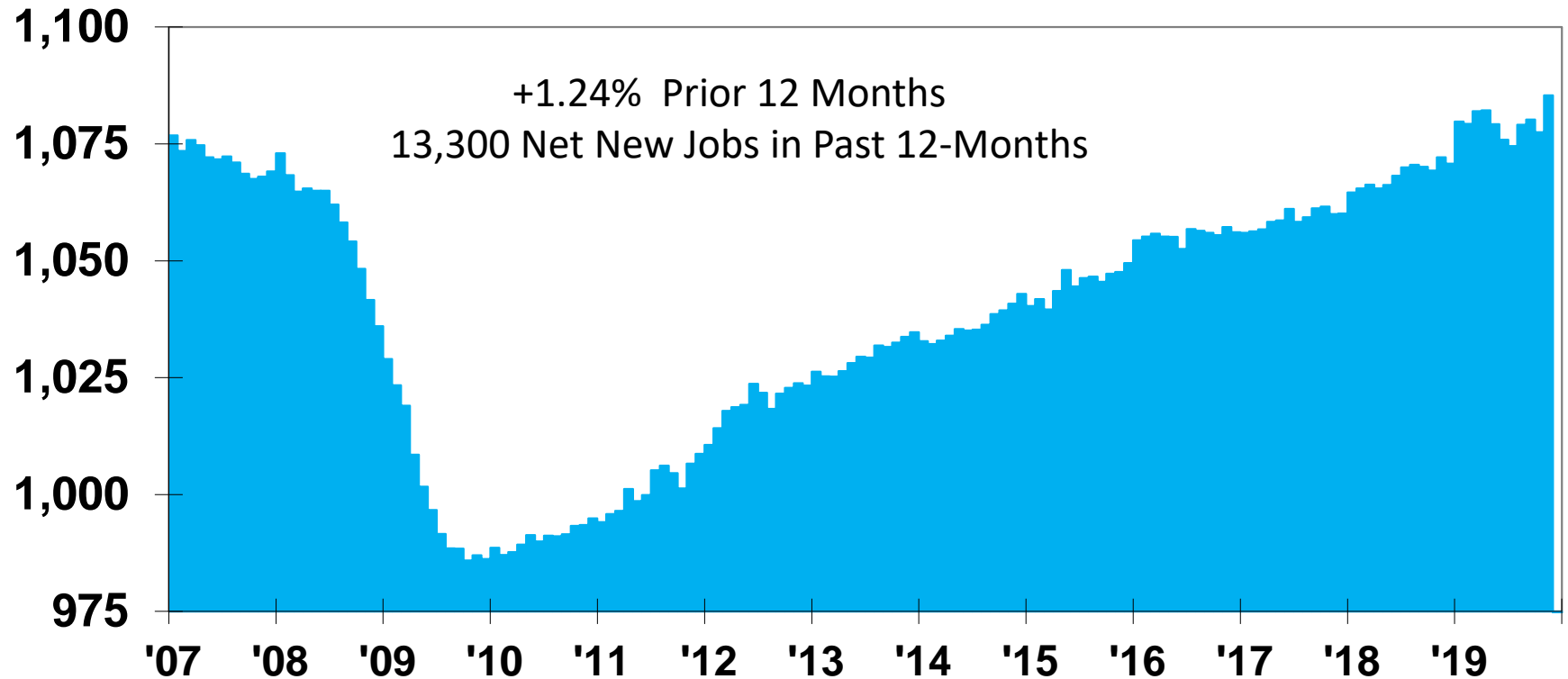
## States With the Most People Leaving

Percent of Van Rentals Leaving the State



# Cleveland-Elyria Jobs

Jobs (Thousands) *Seasonally Adjusted*



# U.S. Vs Cleveland-Elyria MSA Supersector Employment Analysis

## Not Seasonally Adjusted

Employment Supersector	Percent of All Jobs		12-Month Job Growth	
	Cleveland	U.S.	Cleveland	U.S.
<i>Mining &amp; Logging + Construction</i>	<i>3.7%</i>	<i>5.4%</i>	<i>-1.7%</i>	<i>1.7%</i>
Manufacturing	11.4%	8.4%	1.4%	0.6%
Trade-Transport-Utilities	16.8%	18.6%	-2.1%	0.4%
Information	1.2%	1.9%	-1.5%	0.4%
Financial Activities	6.1%	5.7%	-1.3%	1.4%
Professional and Business Service	15.3%	14.2%	5.7%	2.0%
Education and Health Services	19.4%	16.1%	2.6%	2.9%
Leisure & Hospitality	9.6%	10.8%	2.3%	2.6%
Other	3.7%	3.9%	2.3%	1.4%
Government	12.7%	15.1%	0.0%	0.7%

# Unemployment Rate

November 2019

**3.5%**

U.S.

**4.2%**

Ohio

**4.1%**

Cleveland

**2.3%**

**Q4 2019 Forecast  
Atlanta Federal Reserve**

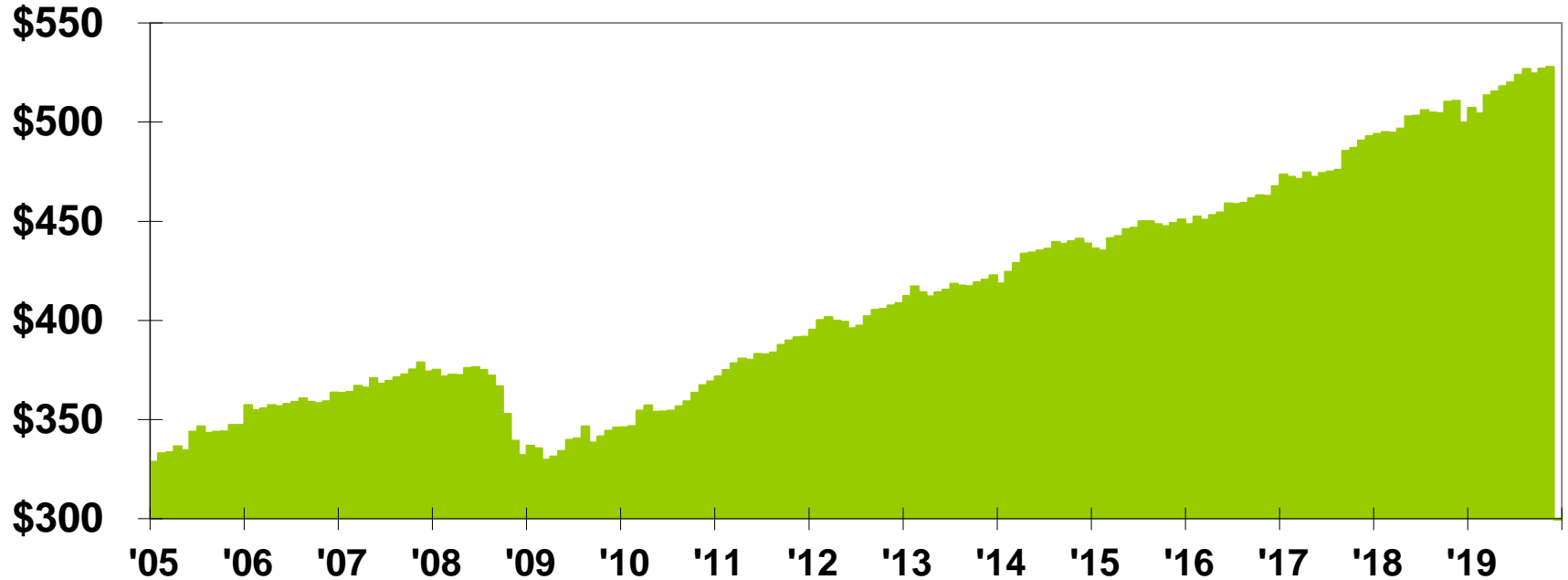
# Retail Sales Say No Recession

Retail sales (which make up approximately 68% of GDP) were up 3.35% in November 2019 Vs November 2018



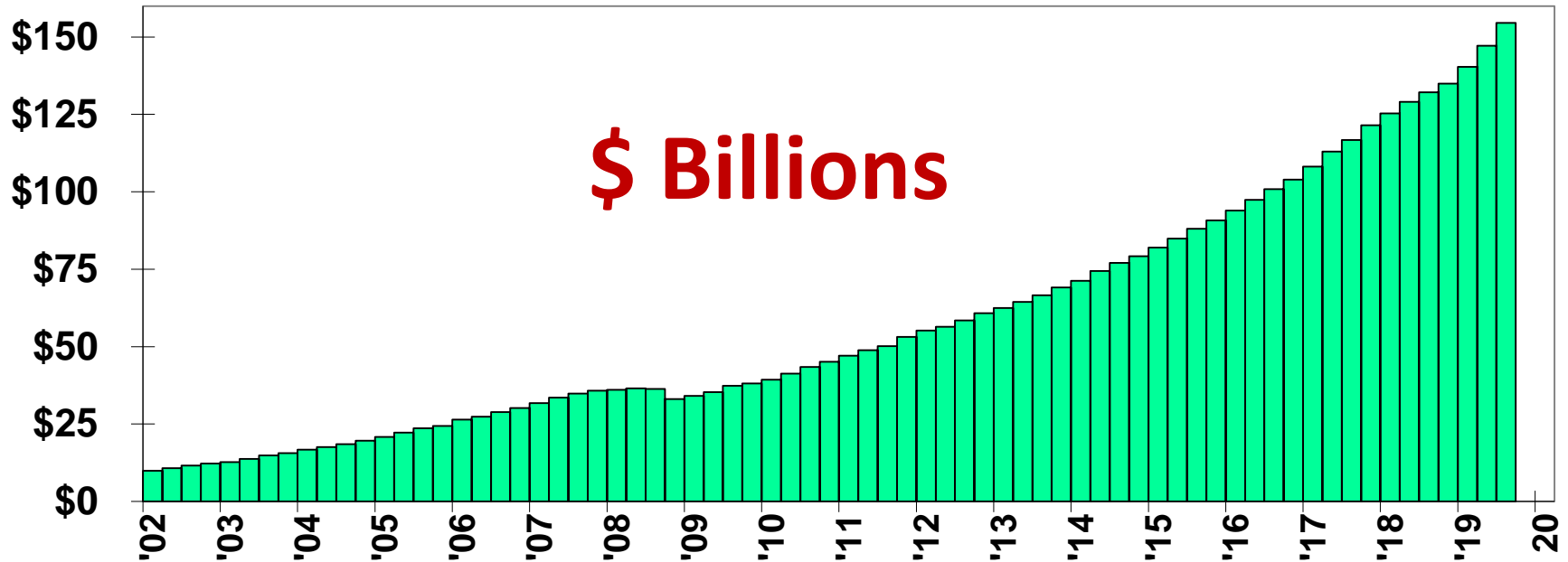
# U.S. Real Retail & Food Service Sales

*\$ Billions – Seasonally Adjusted*



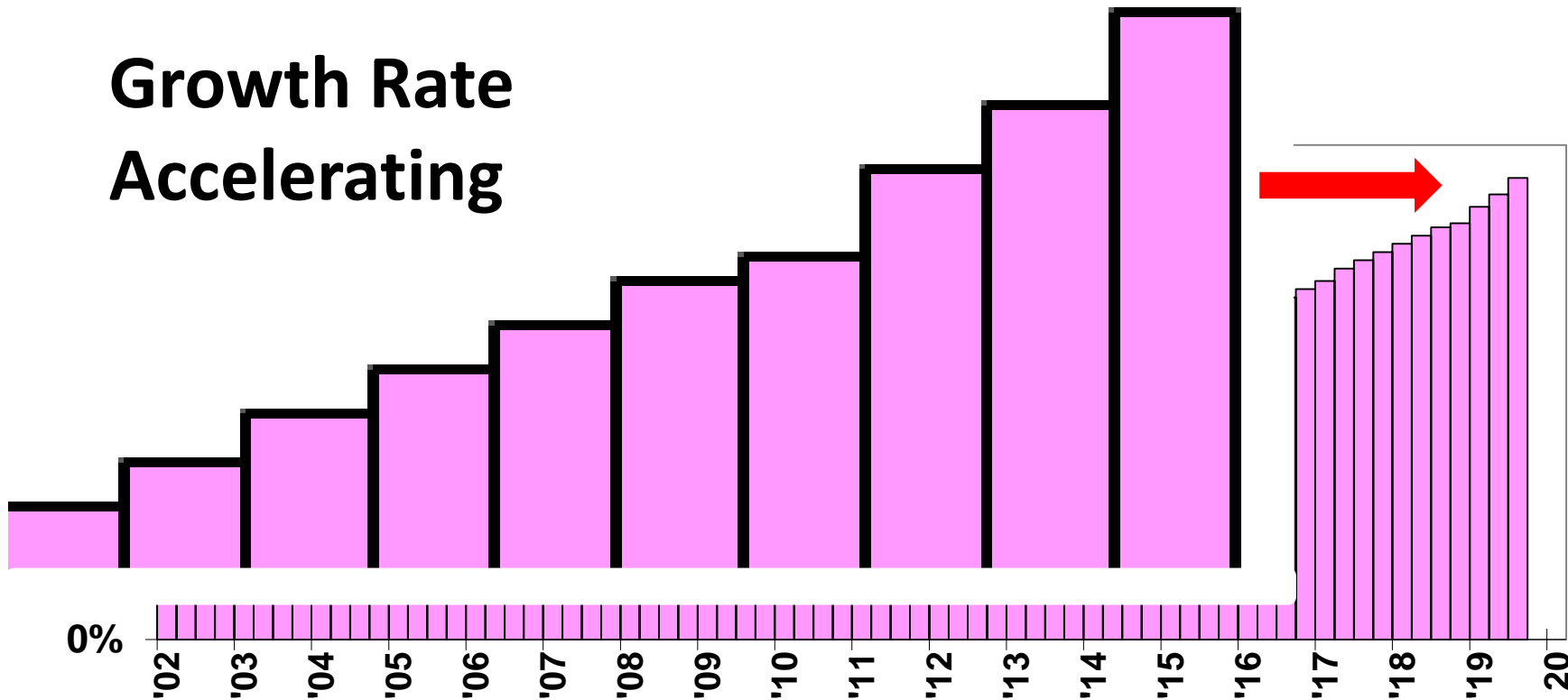
# E-Commerce Sales - Quarterly

\$ Billions – *Seasonally Adjusted*



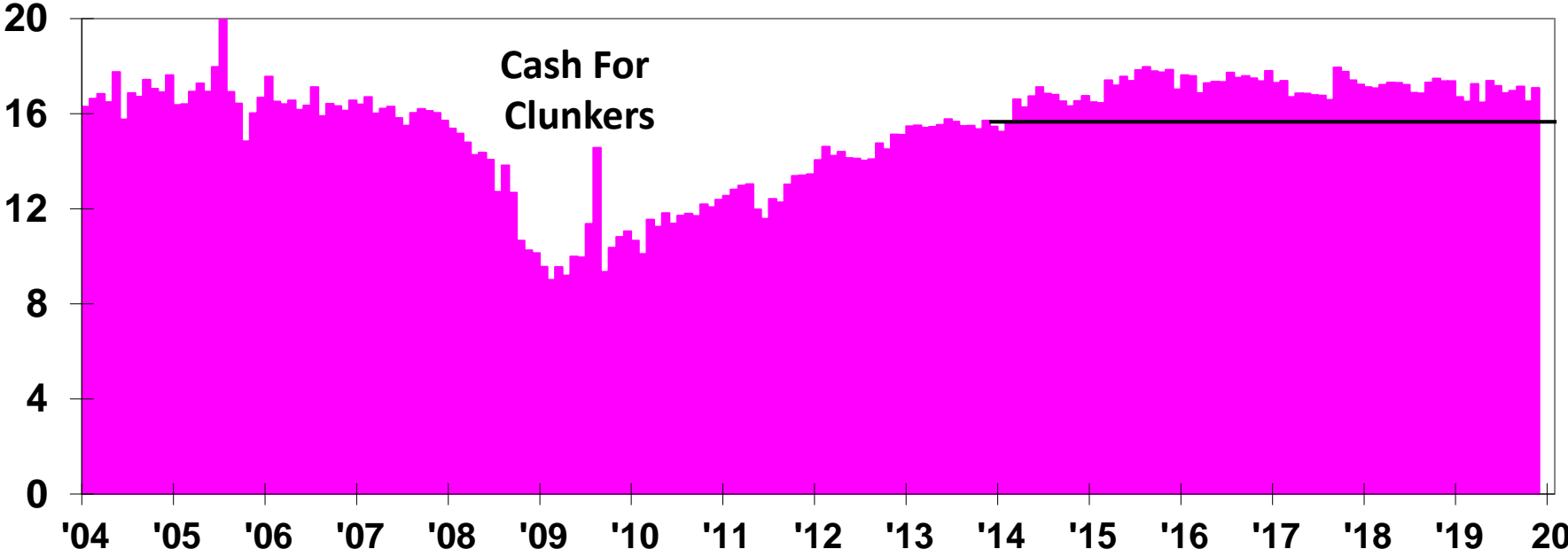
# E-Commerce Sales - Quarterly

**Growth Rate  
Accelerating**



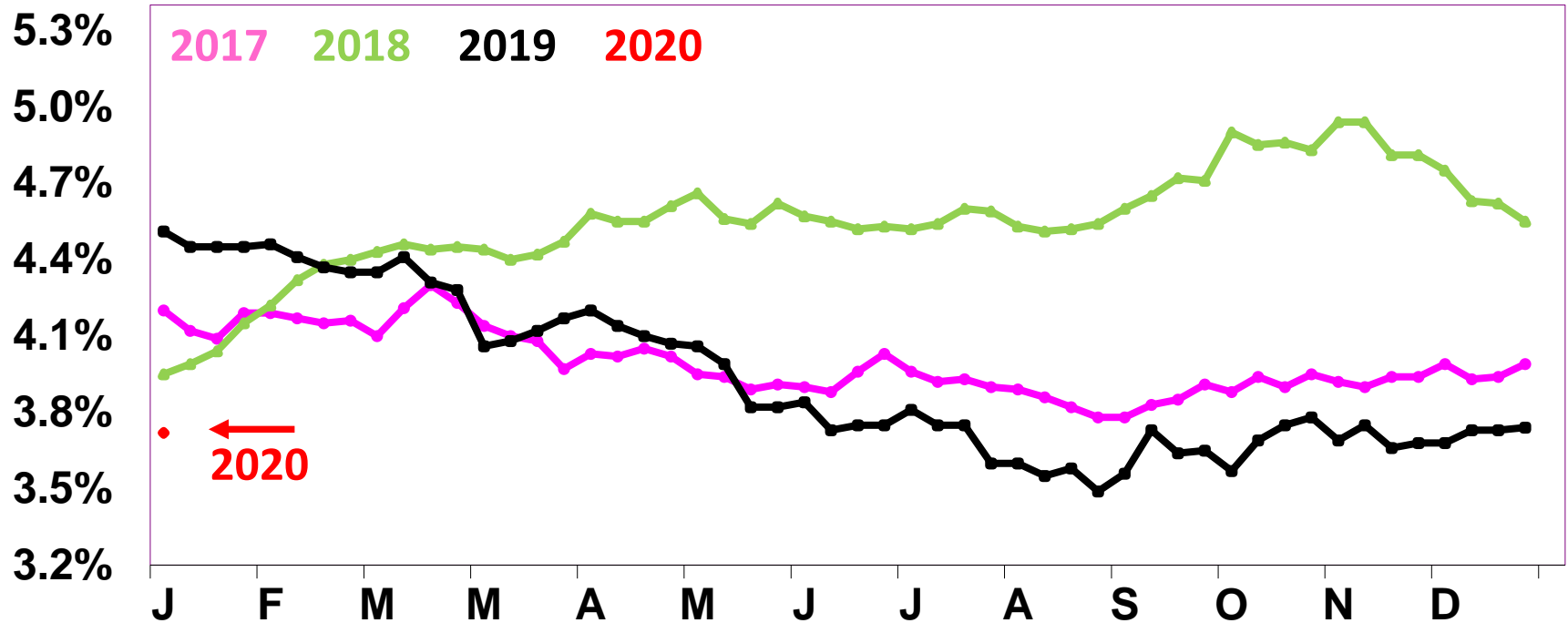
# Light Weight Vehicle Sales

Millions – *Seasonally Adjusted Annual Rate*



# 30-Year Conventional Residential Mortgage Rates

Percent



# 30-Year Fixed-Rate Forecast

## December

<b>Year</b>	<b>Fannie</b>	<b>Freddie</b>	<b>MBA</b>	<b>Average</b>
<b>2019</b>	3.9%	3.9%	3.7%	3.83%
<b>2020</b>	3.6%	3.8%	3.7%	3.70%
<b>2021</b>	3.6%	3.8%	3.8%	3.73%
<b>2022</b>			4.1%	4.10%

**1.5**

**Million  
Net New  
Households**

**1.2**

**Million  
Net New  
Dwellings**



Existing-Home Sales Descend 1.7% in November



# November U.S. Housing Sales

**2019      404,000**

**2018      406,000**

Down 0.5 Percent



# U.S. Existing Home Sales – November 2019

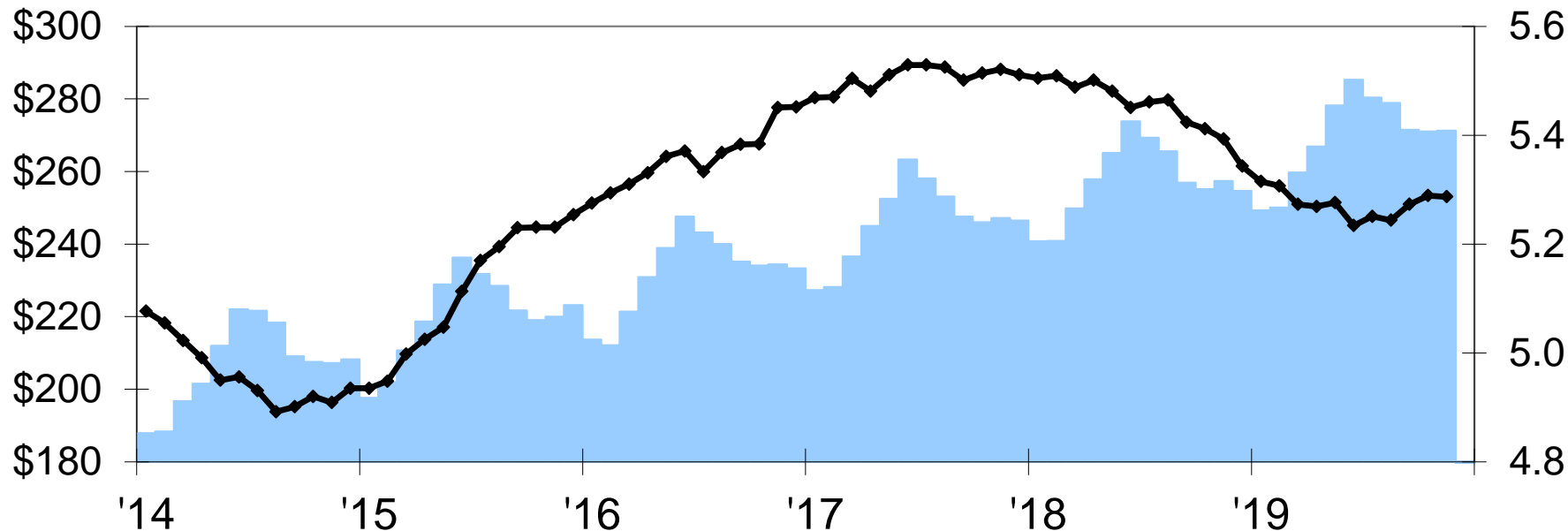
- Up 2.7 percent SAAR basis Vs 1 year ago
- Up 0.2 percent SAAR 2018 to November 2019
- Down 1.7 percent SAAR basis Vs October 2019
- Down 1.1 percent on a trailing TTM basis
- Down 0.5 percent comparing the actual monthly sales YOY
- Down 1.1 percent YTD, not seasonally adjusted

# U.S. Existing Home Sales & Median Prices

## Sales - Trailing 12 Months

Median Price \$ Thousands

Home Sales 12-Months Millions



Median Price

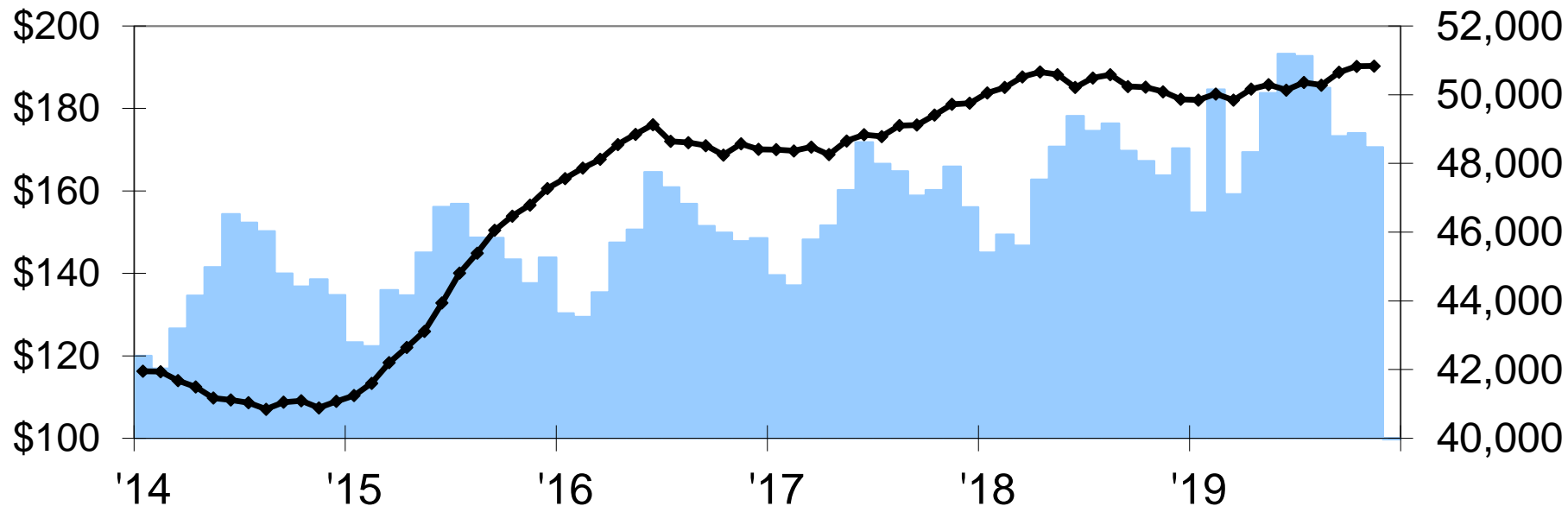
Homes Sales

# Cleveland Region Home Sales & Median Prices

Sales Trailing 12 Months

Median Price \$ Thousands

Home Sales 12-Months

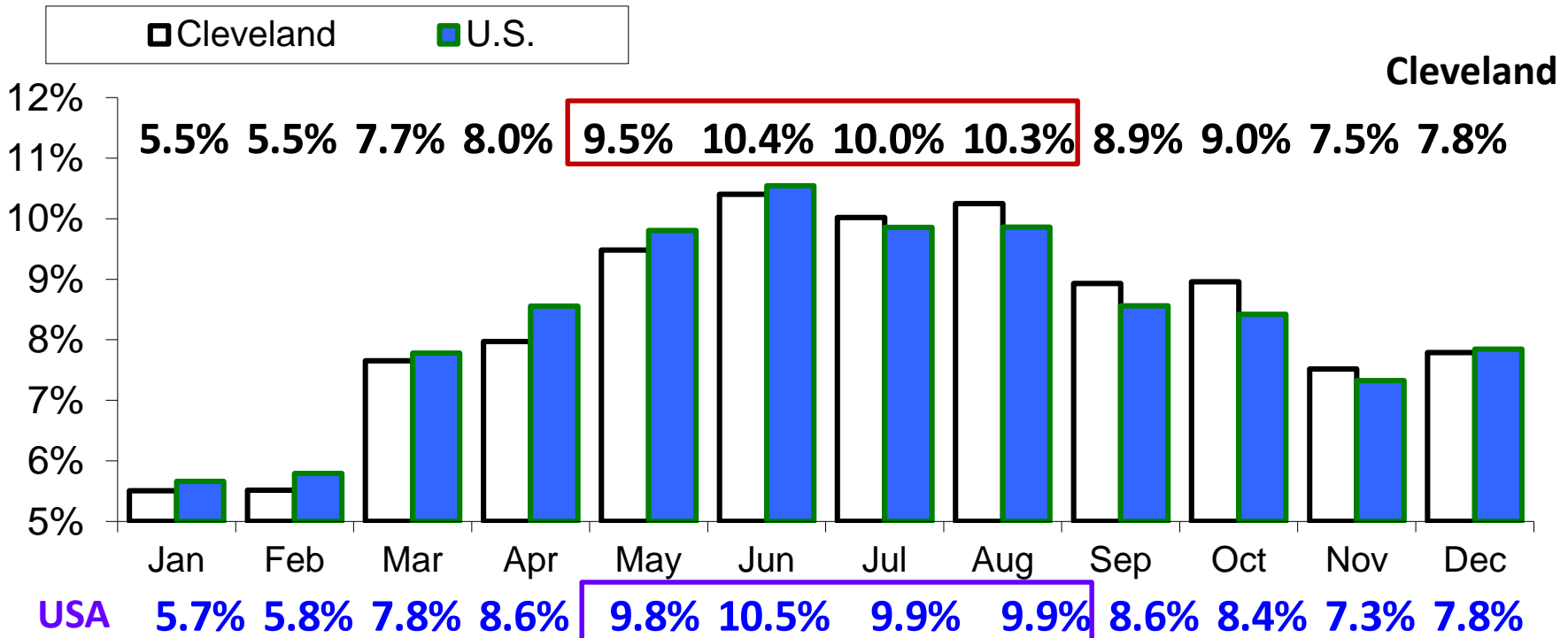


Median Price

Homes Sales

# Existing Home Sales Seasonality

Monthly Percentage of Annual Home Sales – 2013 - 2018



# Jobs & Residential Dwelling Unit Permits

## Cleveland-Elyria

Year	Net New Jobs	Dwelling Unit Permits	Jobs Per New Dwelling
2013	11,400	2,780	4.10
2014	8,200	2,926	2.80
2015	6,600	2,938	2.25
2016	6,600	3,053	2.16
2017	4,000	3,227	1.24
2018	10,700	2,981	3.59
<b>Total</b>	<b>47,500</b>	<b>17,905</b>	<b>2.65</b>

**Normal  
Is  
1.25 to 1.50  
Net New  
Jobs Per  
New  
Dwelling**

# Cleveland Residential Dwelling Unit Permits & Jobs

Latest 12-Months

Residential Building Permits 2,945

Net New Jobs 13,300

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**Jobs Per New Dwelling 4.52**

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Average Rent \$1,106

Year-Over-Year Change 4%

Average Apartment Size- Sq Ft 801

**Apartment Mix**

\$501 - \$700 24%

\$701 - \$1,000 33%

\$1,001 - \$1,500 20%

\$1,501 - \$2,000 14%

> \$2,000 7%

Owner Occupied 49%

Renter Occupied 50%

**Cleveland  
Apartment  
Metrics**

RENTCafé®



## Conventional - 20% Down

Average Rent	\$	1,106
Rate		3.64%
Term		30 Years
Median Price	\$	278,700
Less 20% Down		(55,740)
Loan Amount	\$	222,960
Monthly Payment		(1,019)
Residual	\$	87

## Conventional Loan

**Monthly  
Rental  
Payment  
Applied  
to Home  
Purchase**

**1 in Every 8 Occupied  
Residential Dwellings  
Will Hit the Market  
From 2017-2027  
As Boomers Pass Away**

**9**

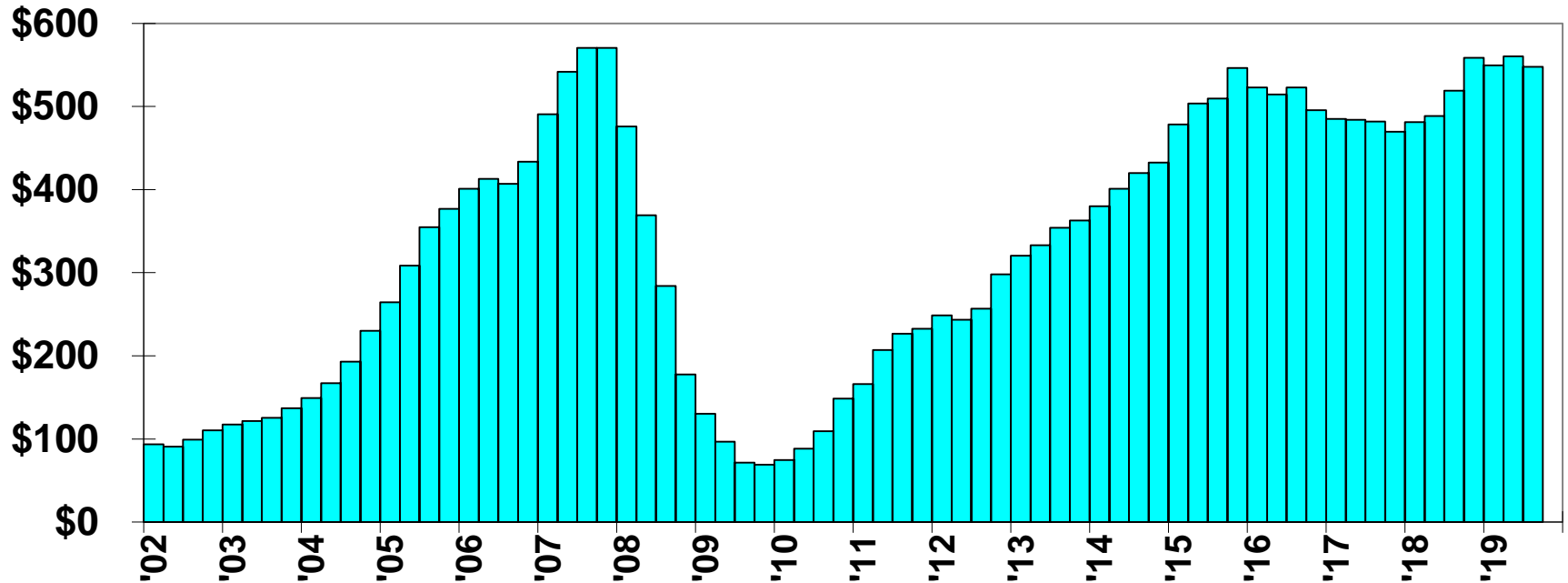
**Million  
Homes**

**THE WALL STREET JOURNAL.**

# U.S. Commercial Real Estate Sales Volume

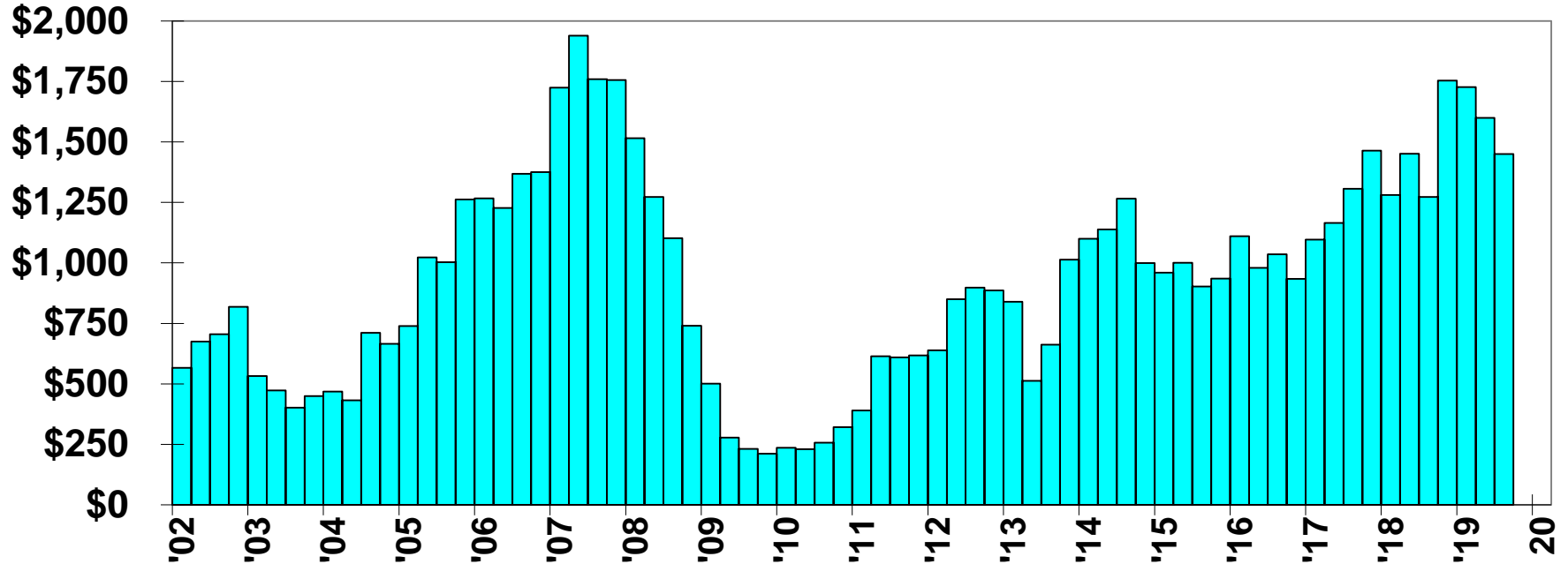
\$ Billions – *Trailing 12 Months*

**+6.0% Year-Over-Year**



# Cleveland Commercial Real Estate Sales Volume

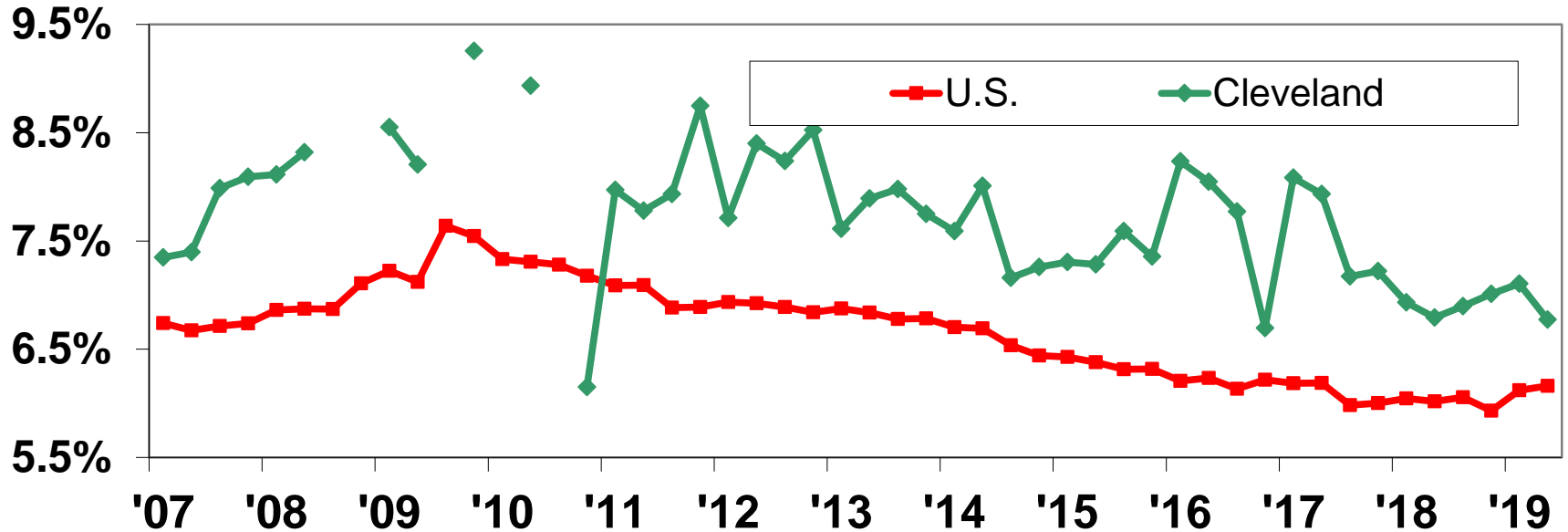
\$ Millions – *Trailing 12 Months*



# U.S. Vs Cleveland Real Estate Cap Rates

Percent

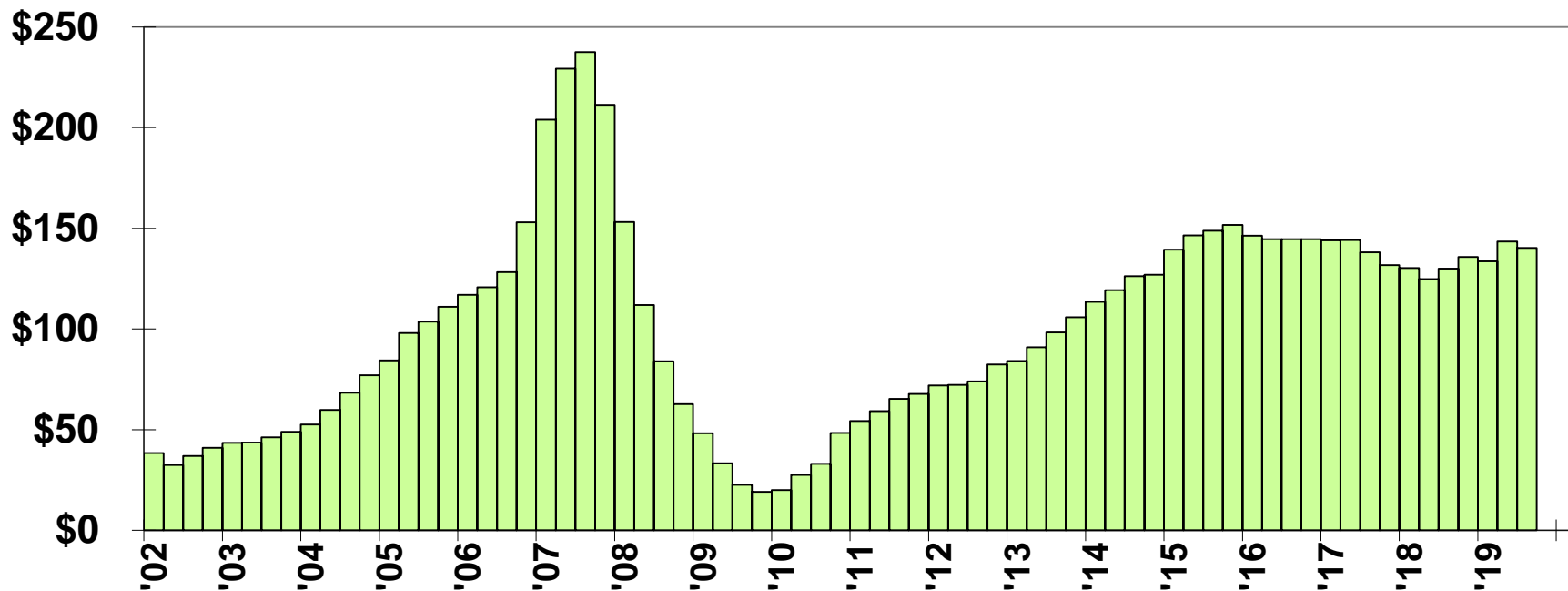
Property and Portfolio Sales \$2.5 Million and Up



# U.S. Office Real Estate Sales Volume

\$ Billions – *Trailing 12 Months*

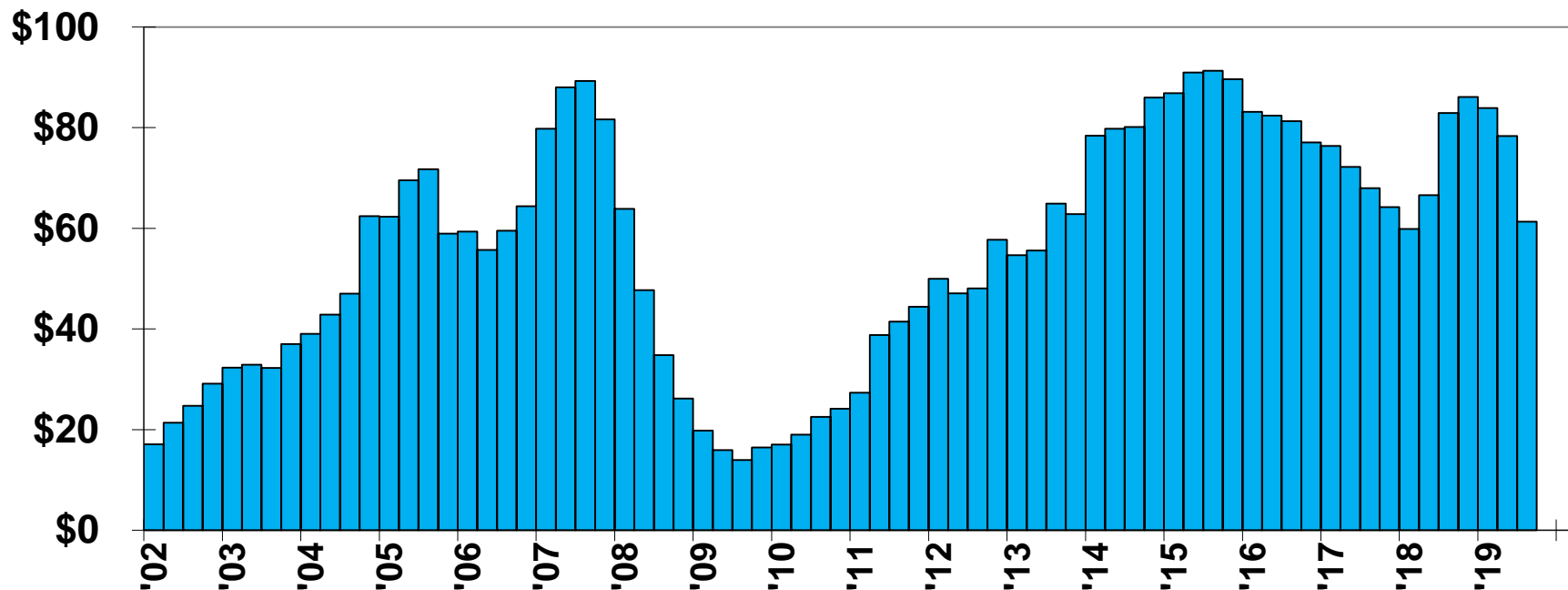
**+7.9% Year-Over-Year**



# U.S. Retail Real Estate Sales Volume

\$ Billions – *Trailing 12 Months*

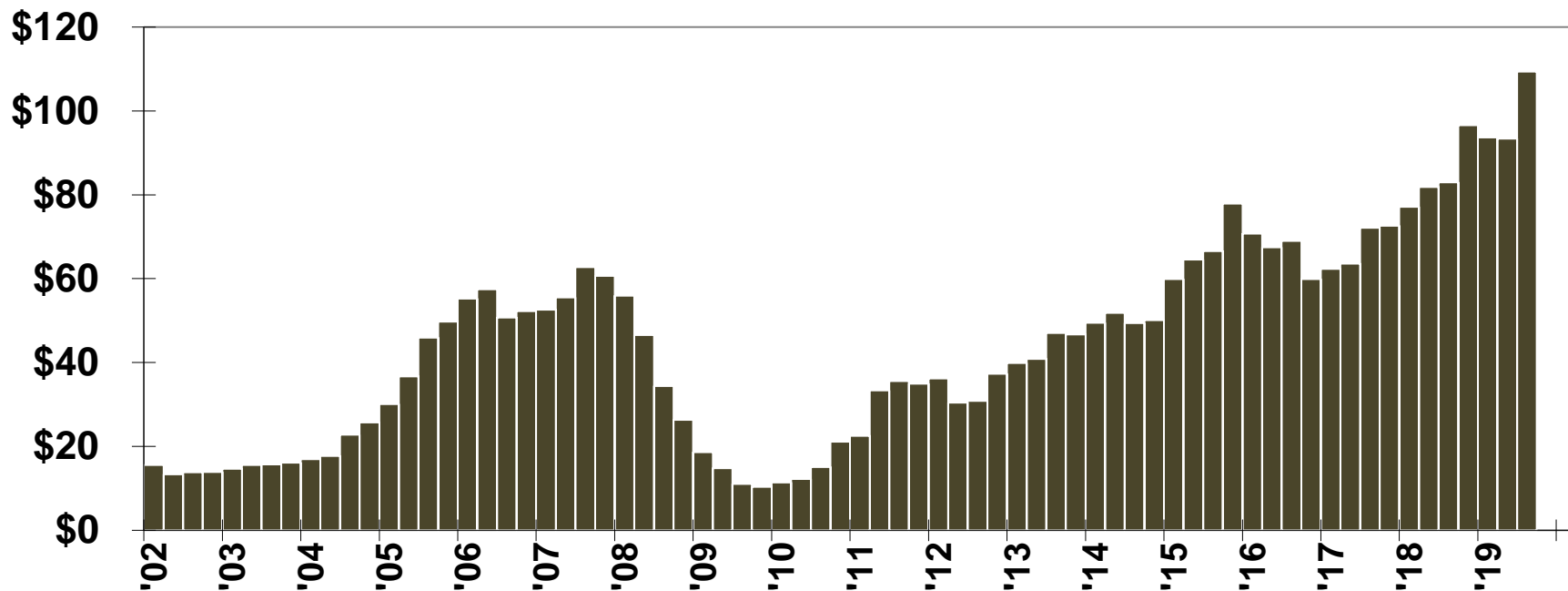
**-26.0% Year-Over-Year**



# U.S. Industrial Real Estate Sales Volume

\$ Billions – *Trailing 12 Months*

**+31.8% Year-Over-Year**

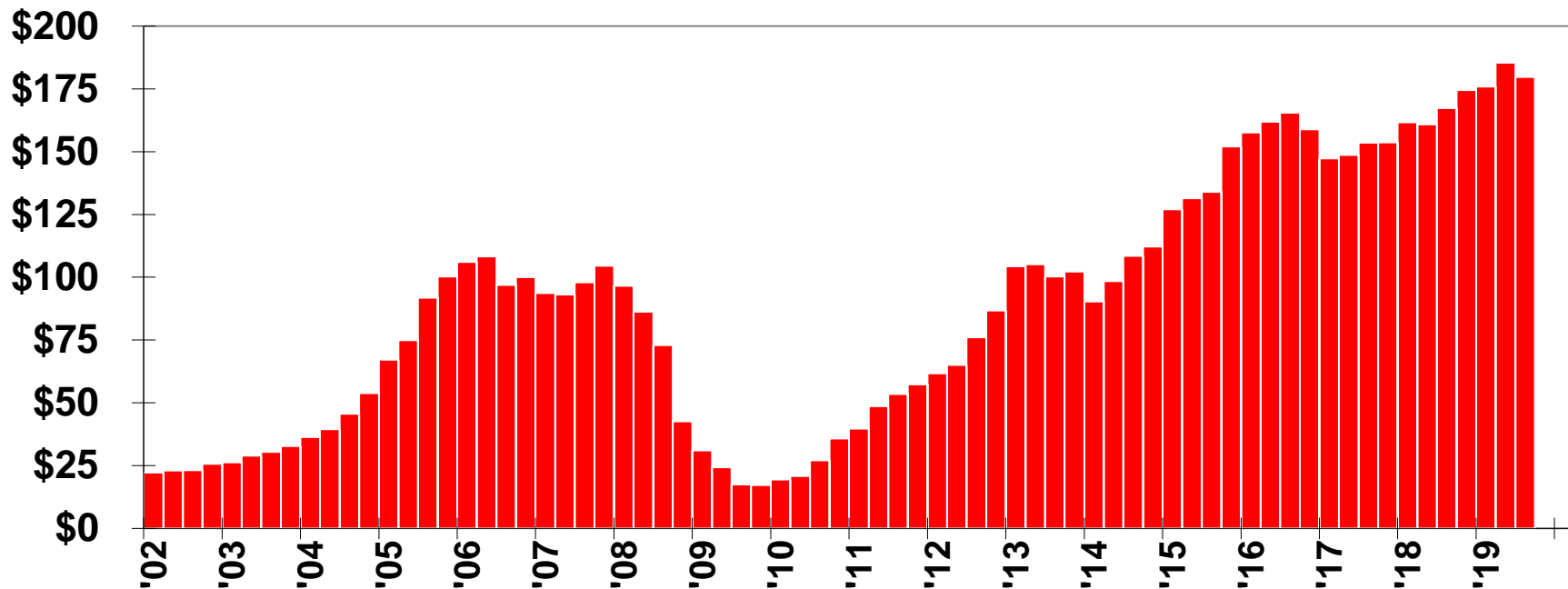




# U.S. Apartment Real Estate Sales Volume

\$ Billions – *Trailing 12 Months*

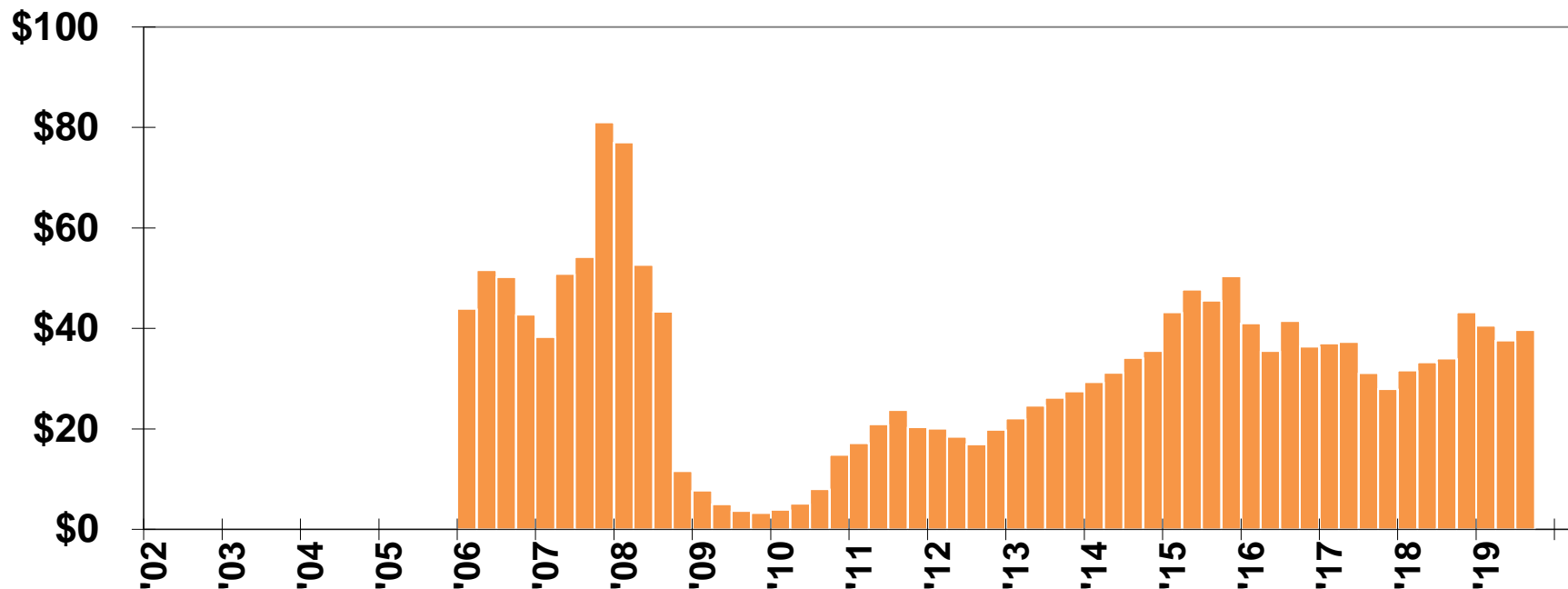
**+7.5% Year-Over-Year**



# U.S. Hotel Real Estate Sales Volume

\$ Billions – *Trailing 12 Months*

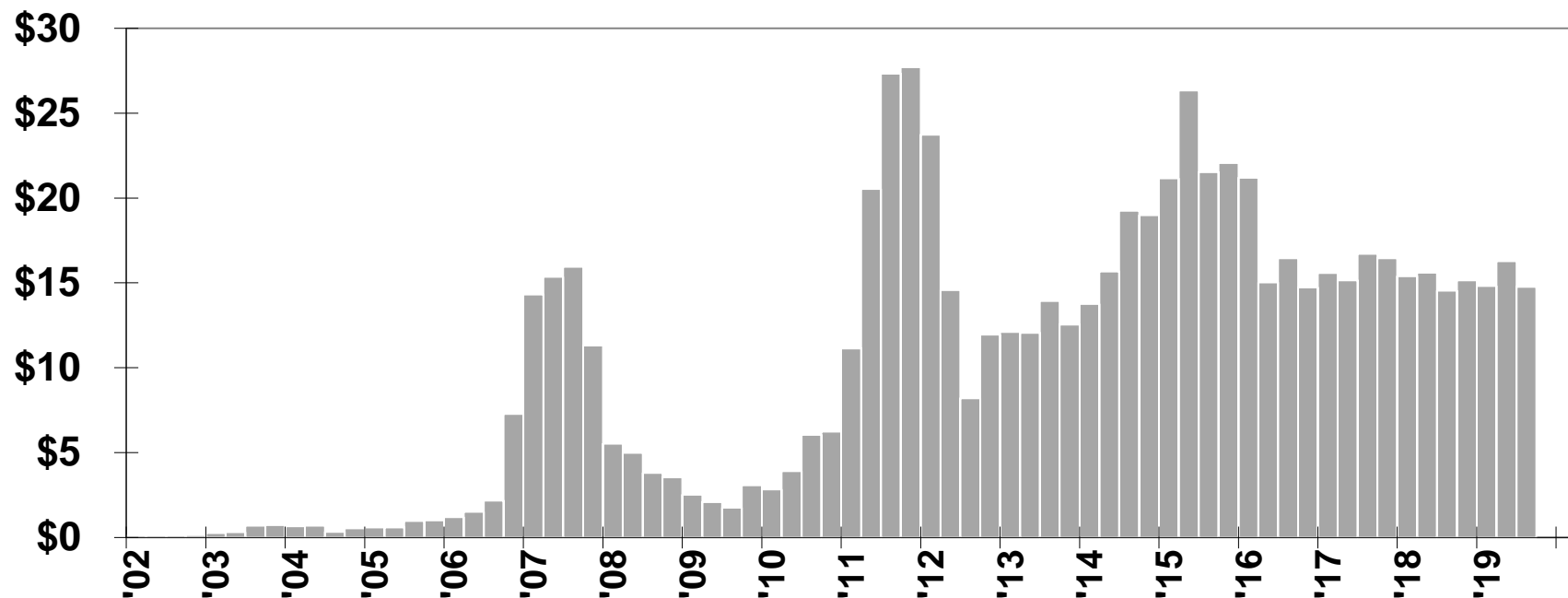
**+16.8% Year-Over-Year**



# U.S. Seniors Housing Real Estate Sales Volume

\$ Billions – *Trailing 12 Months*

**+1.5% Year-Over-Year**



# Cap Rates

Q3 2019

REAL CAPITAL ANALYTICS

6.21  
%

All

6.71  
%

Office

6.68  
%

Retail

6.10  
%

Industrial

5.35  
%

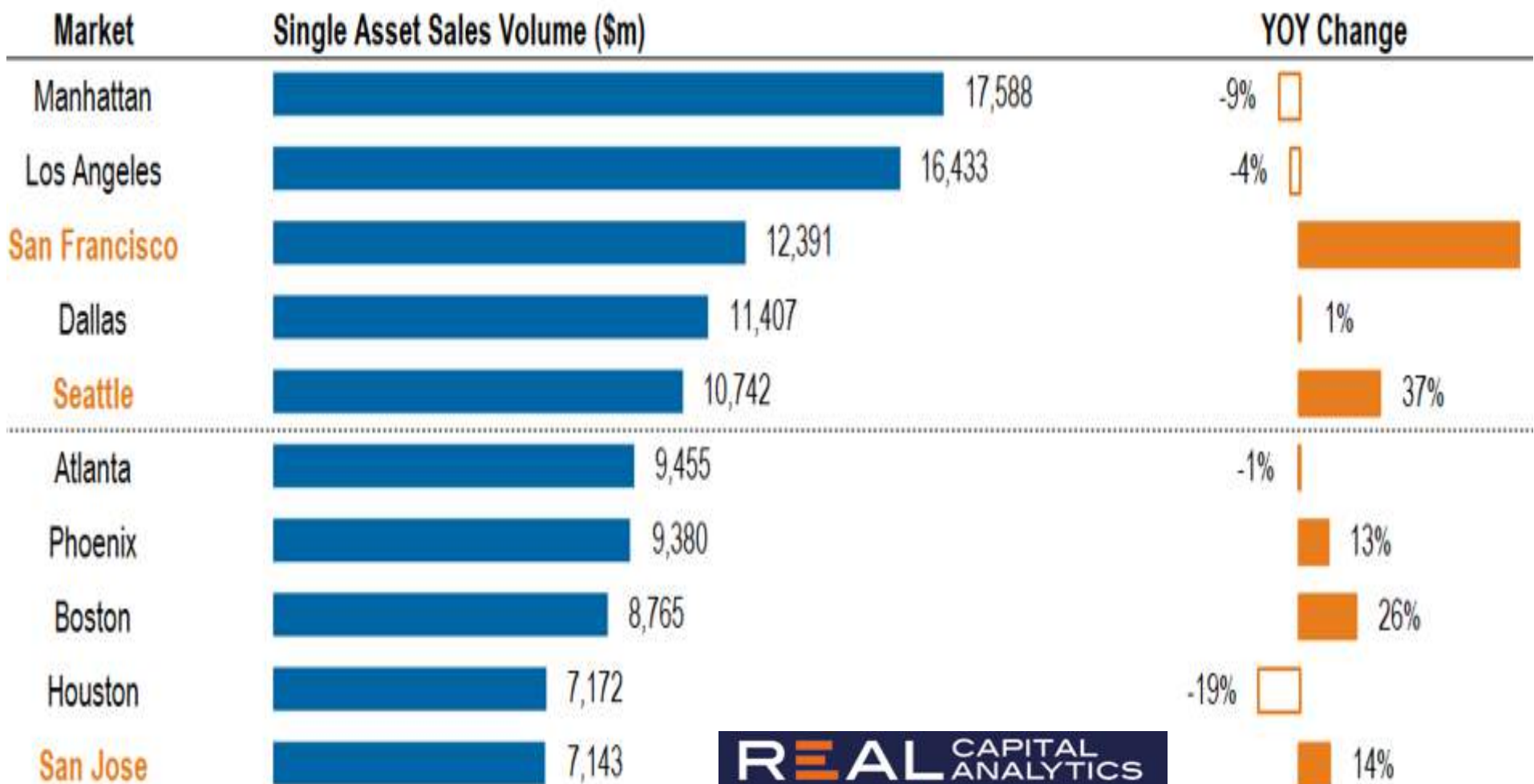
Apartments

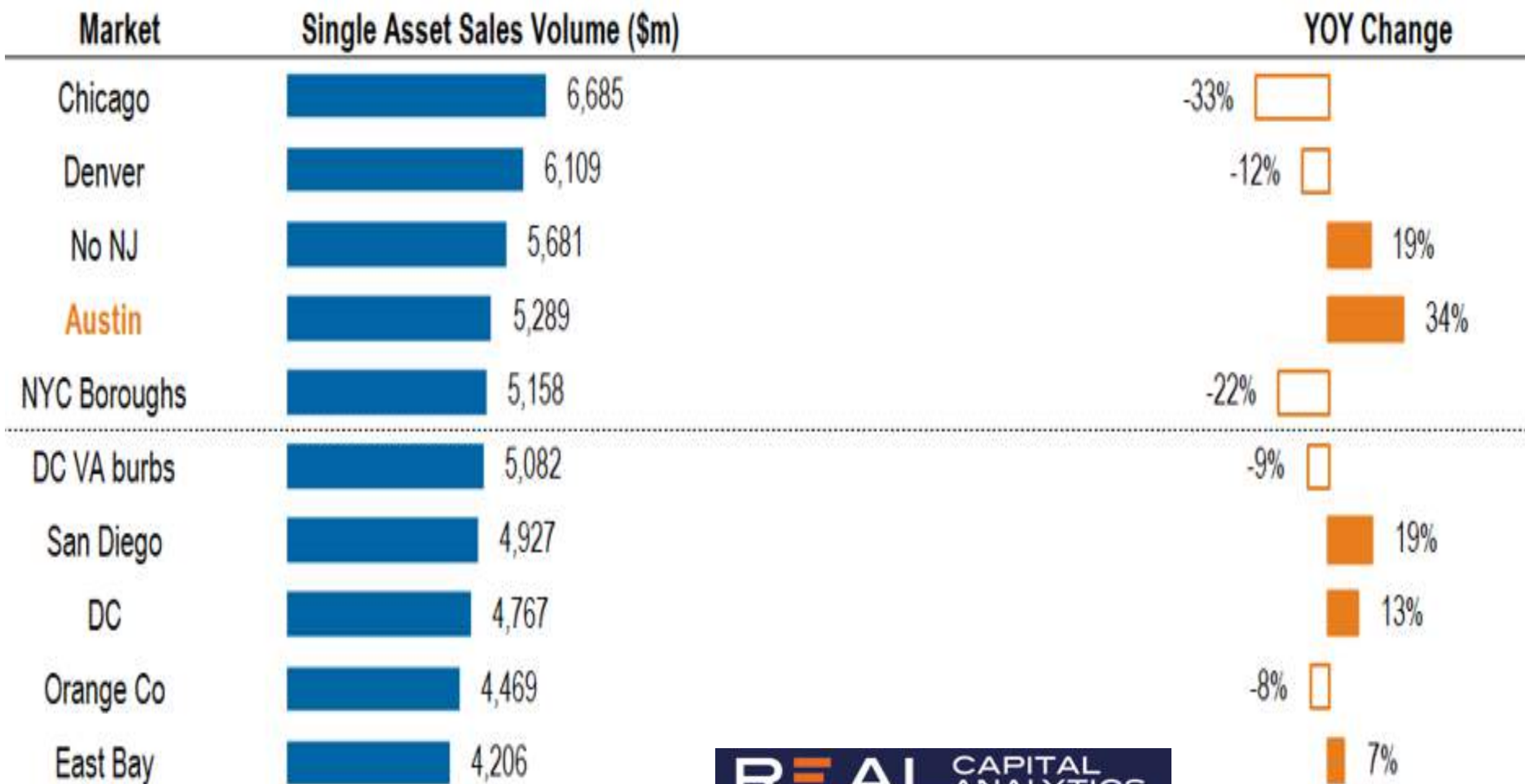
8.53  
%

Hotels

7.76  
%

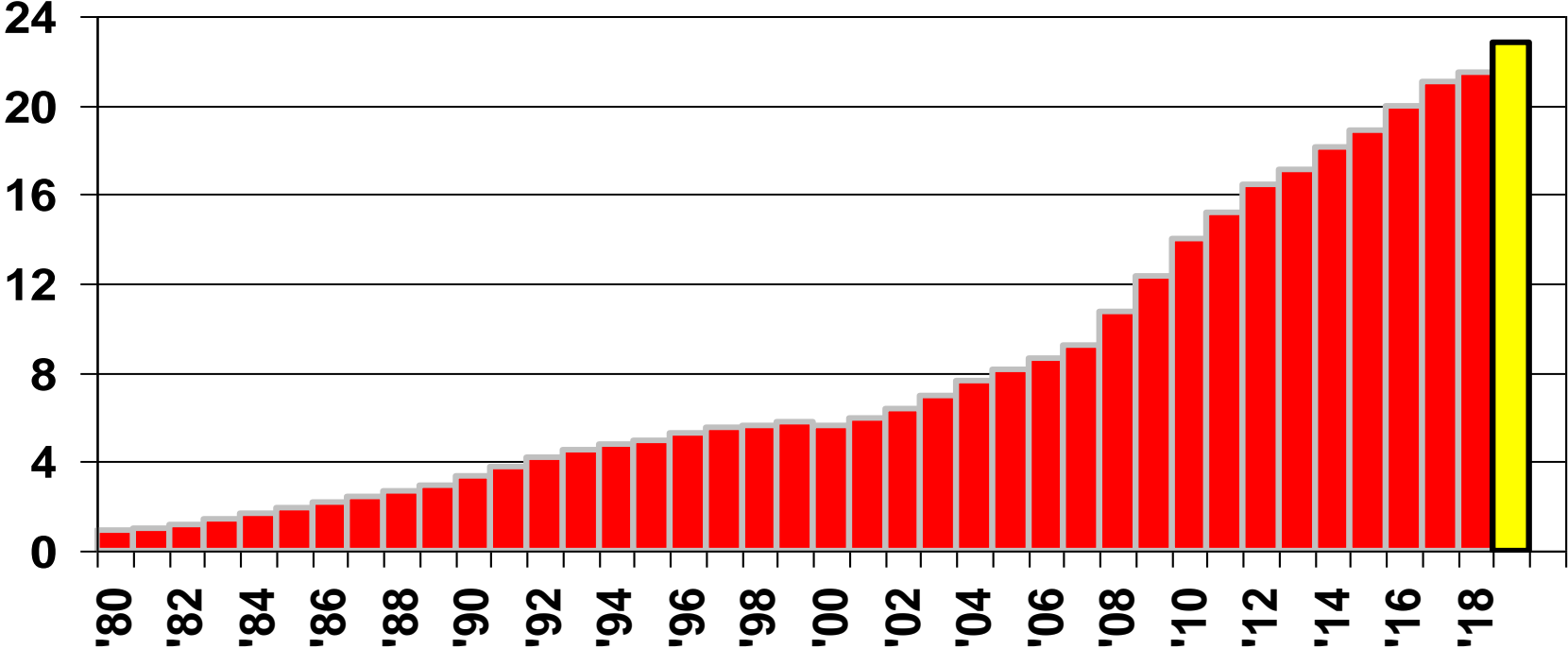
Seniors





# Federal Debt – Total Public Debt

\$ Trillions



# Federal Debt Interest Payments

+30.0% March 2017 Vs 2016

+10.7% March 2018 Vs 2017

+15.5% March 2019 Vs 2018

**+56.2% in 36 Months**

*Debt Up 16.3%*



# Oil Prices

West Texas Intermediate Crude

 Recession

\$ Per Barrel  
Monthly Average



# U.S. energy consumption by source, 2018



**biomass** 5.1%  
*renewable*  
heating, electricity, transportation



**petroleum** 36.5%  
*nonrenewable*  
transportation, manufacturing



**hydropower** 2.5%  
*renewable*  
electricity



**natural gas** 30.6%  
*nonrenewable*  
heating, manufacturing, electricity



**geothermal** 0.2%  
*renewable*  
heating, electricity



**coal** 13.1%  
*nonrenewable*  
electricity, manufacturing



**wind** 2.5%  
*renewable*  
electricity

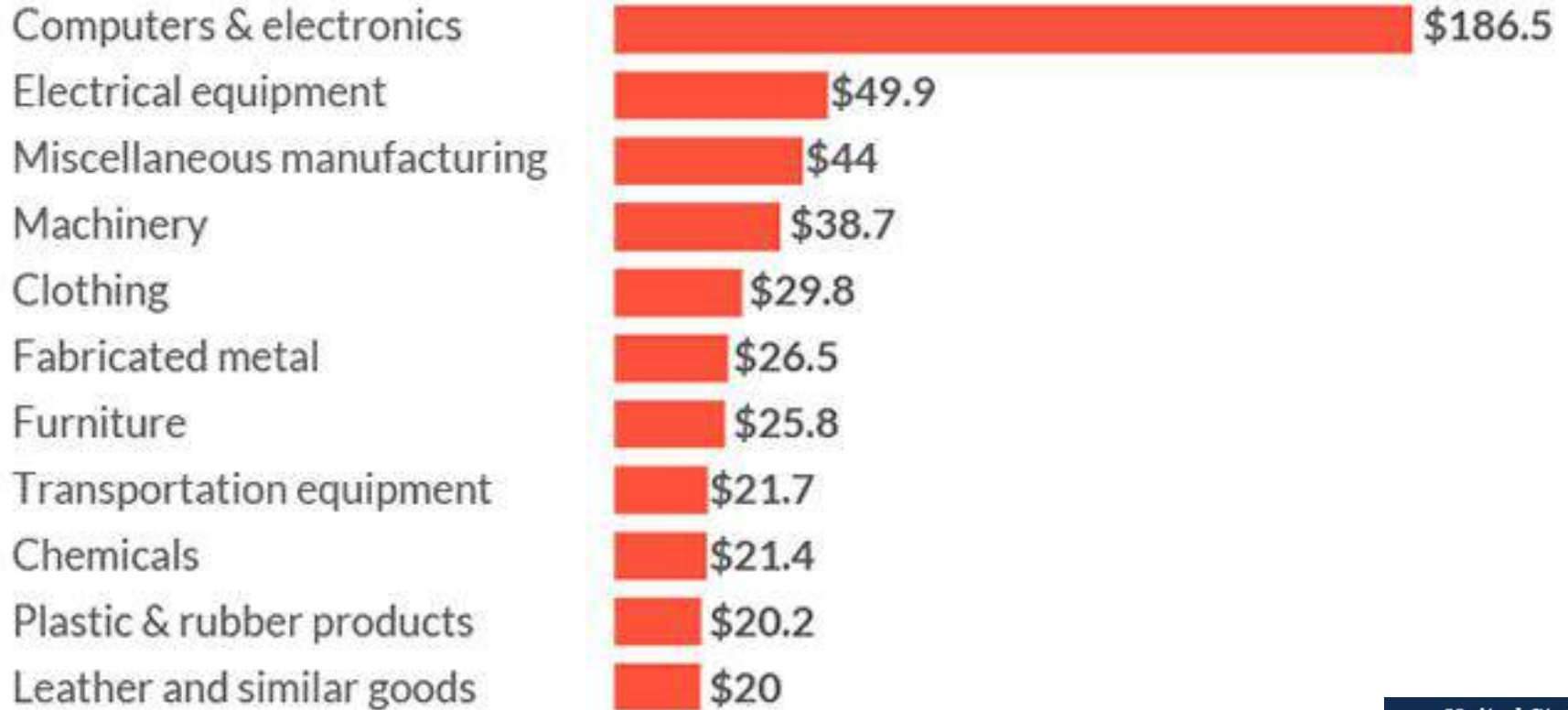


**uranium** 8.3%  
*nonrenewable*  
electricity



**solar & other** 0.9%  
*renewable*  
light, heating, electricity

# What the U.S. Bought from China in 2018 \$US Billions



# What China Bought from the U.S. in 2018 \$US Billions



## China Trade

\$US Billions

**\$539.0 Imported**

**\$120.3 Exported**

**\$418.7 Deficit**

# **China-U.S. Tariffs – April 9, 2019**

**25.0% Tariff Paid on U.S. Cars in China**

**2.5% Tariff Paid on Chinese Cars in U.S.**



# 2020 Economic Outlook

stewart

**Good Economy** *just so average*

**Growing Jobs & Wages** *best wage growth in 10 years*

**Stable & Low Interest Rates** *no place but up*

**Rising Home Prices** *albeit at a Lower Pace*

**Cheap (But Profitable) Energy** *fuels the economy*

**Manufacturing Comeback** *no college or debt required*

stewart



DrTCJ

<http://blog.stewart.com>

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Stewart Blog

Cybersecurity



# Real Estate Forecast 2020



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