

STATE OF THE ECONOMY

NORTHEASTERN STRATEGIC ALLIANCE

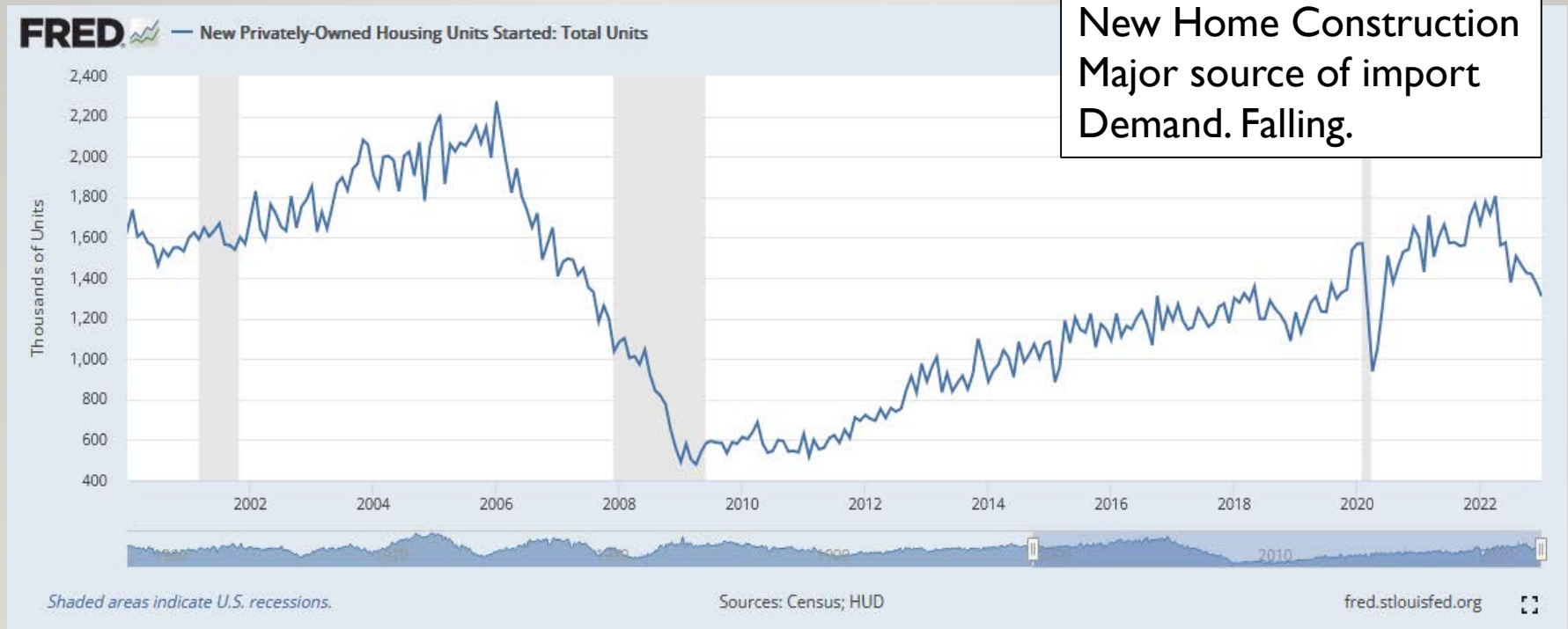
OCTOBER 19, 2023

ROBERT F. SALVINO, PH.D.

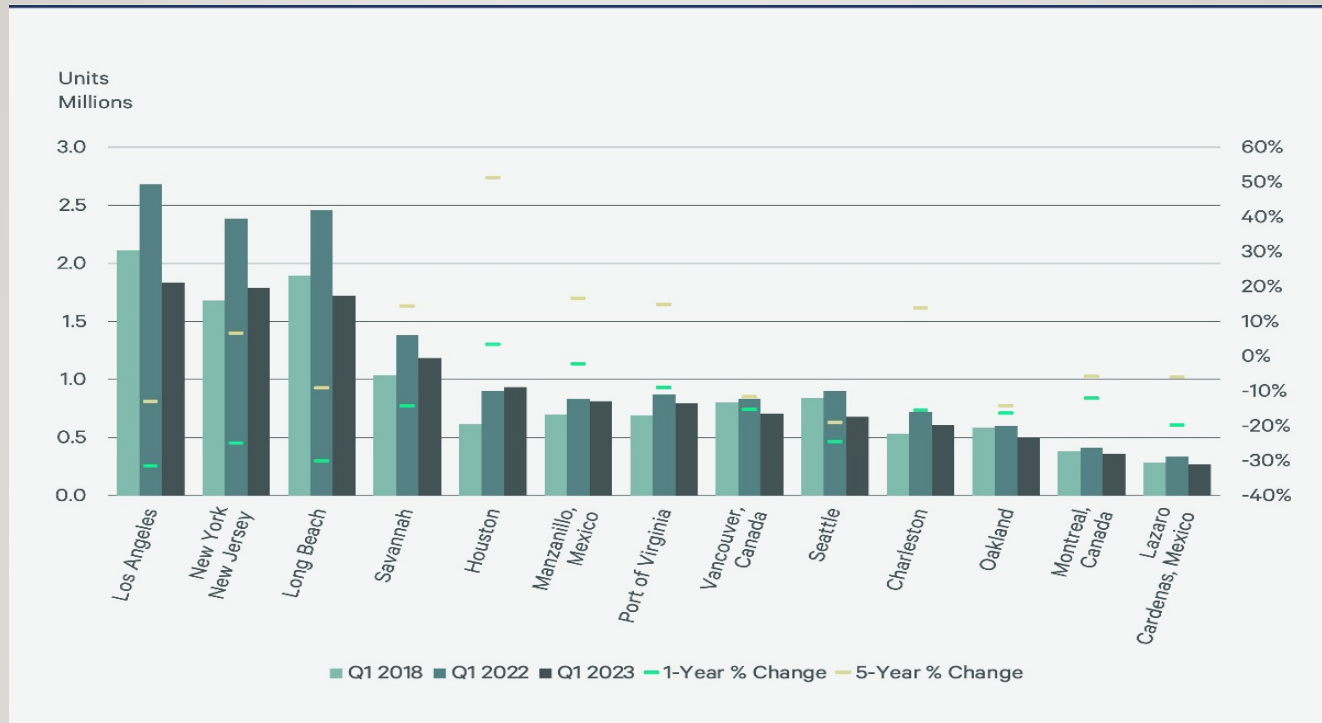
RECALL A YEAR AGO:

- Economy teetering on recession, but many argue a shorter, shallower one.
- Geopolitical risk is ever-present.
- Inflation is strong and will continue without a negative shock.
- Fed tightening not strong enough on its own.
- Hard assets, including real estate, a long-term hedge.
- What has changed in a year's time?
- Liquidity
- Interest rates
- Inflation-Deflation
- Market activity
- Fundamentals? No.

U.S. HOUSING STARTS

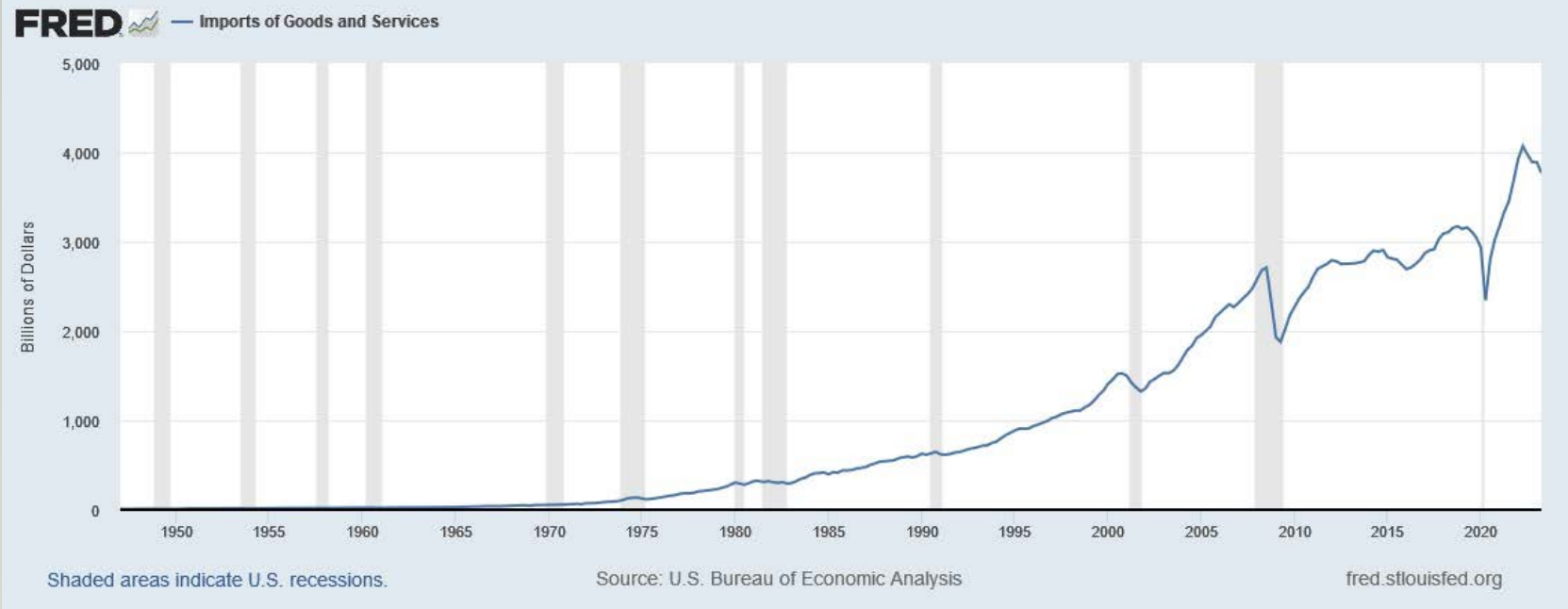


20% DROP IN MAJOR U.S. PORT CONTAINER VOLUME



Source: Various Port Authorities, CBRE Research, Q1 2023.

IMPORTS DOWN

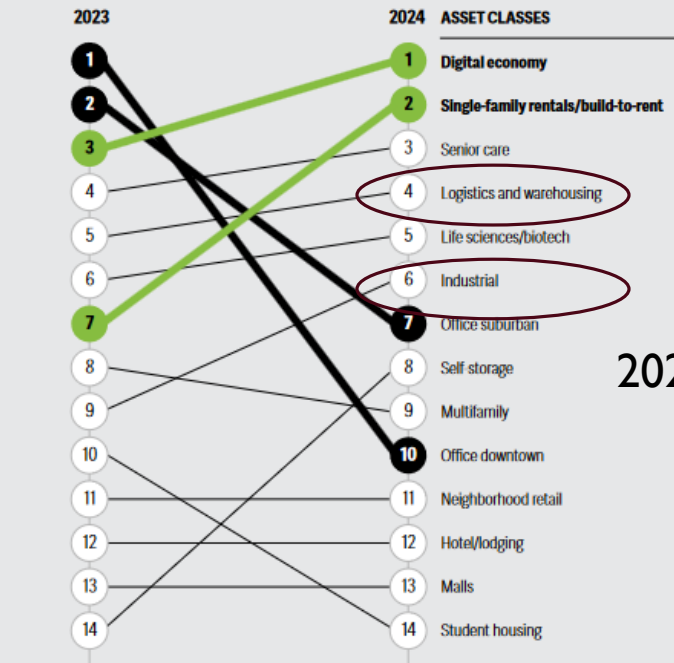


RETREAT TO STRUCTURAL SHIFT

Respondents prefer digital economy and single-family rental/build-to-rent properties

Which asset classes present the most attractive risk-adjusted opportunity for real estate owners and investors over the next 12 to 18 months?

Signs of Credit
Cycle Downturn

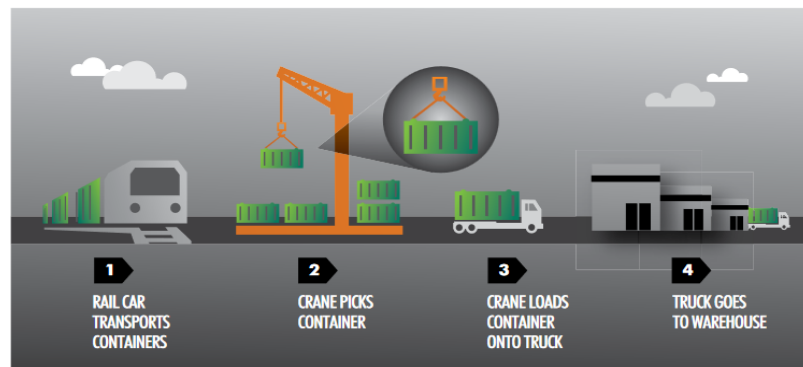


2023 picks didn't make sense.

Notes: Respondents could make multiple selections, results compared against prior year's 2023 Real Estate Outlook Survey responses.

Source: The Deloitte Center for Financial Services 2024 Real Estate Outlook Survey.

CLASS A CRE SPACE + LABOR POOL + PRO-TRADE POLICIES



Source: CBRE Research, 2016.

Intermodal freight transport involves an intermodal container or vehicle, using multiple modes of transportation (rail, ship and truck), without any handling of the freight itself when changing modes.

WHAT MAKES AN INLAND PORT?

As the name suggests, an inland port is a non-seaside hub where significant amounts of cargo are handled, warehoused and broken into smaller batches for further distribution. The inland port is often anchored by an intermodal rail facility but can also have an inland waterway, such as a river, along which cargo can be shipped.

While there are hundreds of intermodal facilities across the U.S., it's important to note that not all

of them are true inland ports. All inland ports meet two criteria:

- Direct connection to a major seaport via Class I rail;
- Major transportation infrastructure usually in the form of rail, but also interstate highway or inland waterway.

Beyond these two mandatory criteria, inland ports also share many, if not all, of the following characteristics:

- Access to large markets—at least 10 million people within a 300-mile radius;

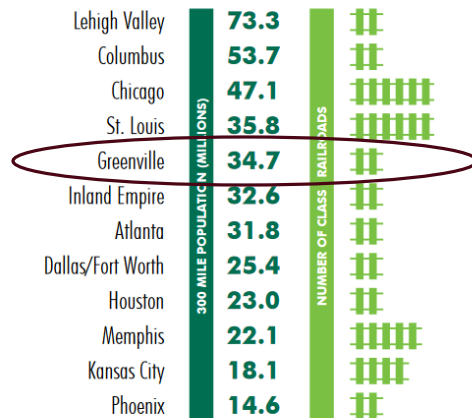
Plentiful industrial real estate inventories with an abundance of Class A warehouse and distribution space;

- Large and consistent labor pools;
- Local or state economic development policies that provide Free Trade Zones and tax incentives.

When all of these criteria are met, the number of major inland ports in the U.S. shrinks to 12 that stand out. Each of these are notable for their infrastructure, connection to major seaports and market reach.

LOOK TO LEADERS FOR COLLABORATION AND IDEAS

Figure 2: Major U.S. Inland Ports



Sources: U.S. Department of Transportation, 2016, and CBRE Research, 2016.

CASE STUDIES

The best way to understand how an inland port works in the supply chain is to look at examples that are thriving in the current environment. Three of them—Chicago, Greenville and St. Louis—each occupy a crucial spot in both the national and regional supply chains and are instrumental in the orderly movement of freight across the continent.

THE BIG ONE – CHICAGO

Chicago is the largest point of origin and termination for rail-to-truck intermodal shipments in the U.S. (known as an intermodal lift), with close to half of all shipments beginning or ending their journey in the region. Together, the region's 18 intermodal terminals moved 15.4 million TEUs in 2014 (the latest data available),

collectively ranking as the second busiest port behind Los Angeles and Long Beach. The majority of this massive volume of freight flows through the CenterPoint Intermodal Center (CIC), North America's largest intermodal terminal, spanning 6,500 acres in parts of Joliet and Elwood, Illinois—approximately 40 miles southwest of Chicago. The center currently provides more than 15 million sq. ft. of space to major distributors, manufacturers, retailers and third-party logistics operators and has absorbed an average of 1 million sq. ft. of space annually since opening in 2002. CIC is anchored by two Class I rail hubs: Union Pacific's 785-acre Joliet Intermodal Terminal and the 770-acre BNSF Logistics Park Chicago. Together, these two rail terminals handle more than 3 million TEUs annually and offer direct rail service to 80% of the major U.S. seaports in under three days and all 10 major seaports in five days.

NATION'S LARGEST INLAND PORT: CENTERPOINT 40 MILES SW OF CHICAGO



[Home](#) [Availabilities](#) [Park Map](#) [Amenities](#) [Intermodal Providers](#) [Drayage Savings](#) [Current Tenants](#) [Resources](#)

Centerpoint Intermodal Center – Joliet/Elwood

A ±6,400 AC master-planned intermodal development.

[View Park Video](#)

6,400
Acres

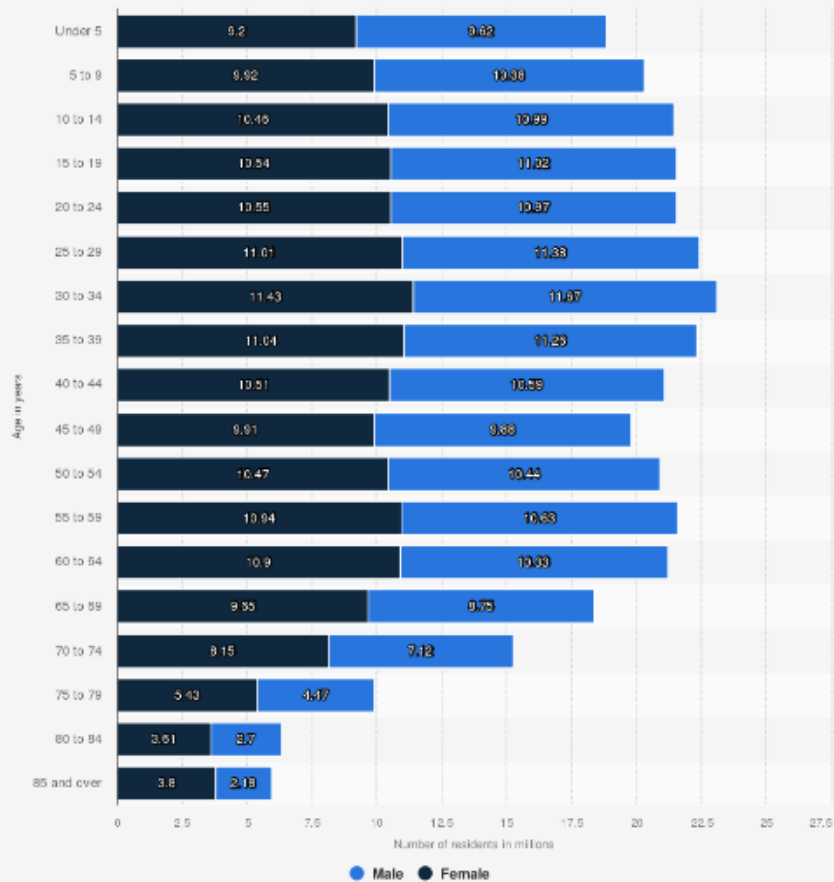
50+
Tenants

17M
SF Occupied

3M+
TEU's/Year



Resident population of the United States by sex and age as of July 1, 2021 (in millions)



Source
U.S. Census Bureau
80-Statista 2022

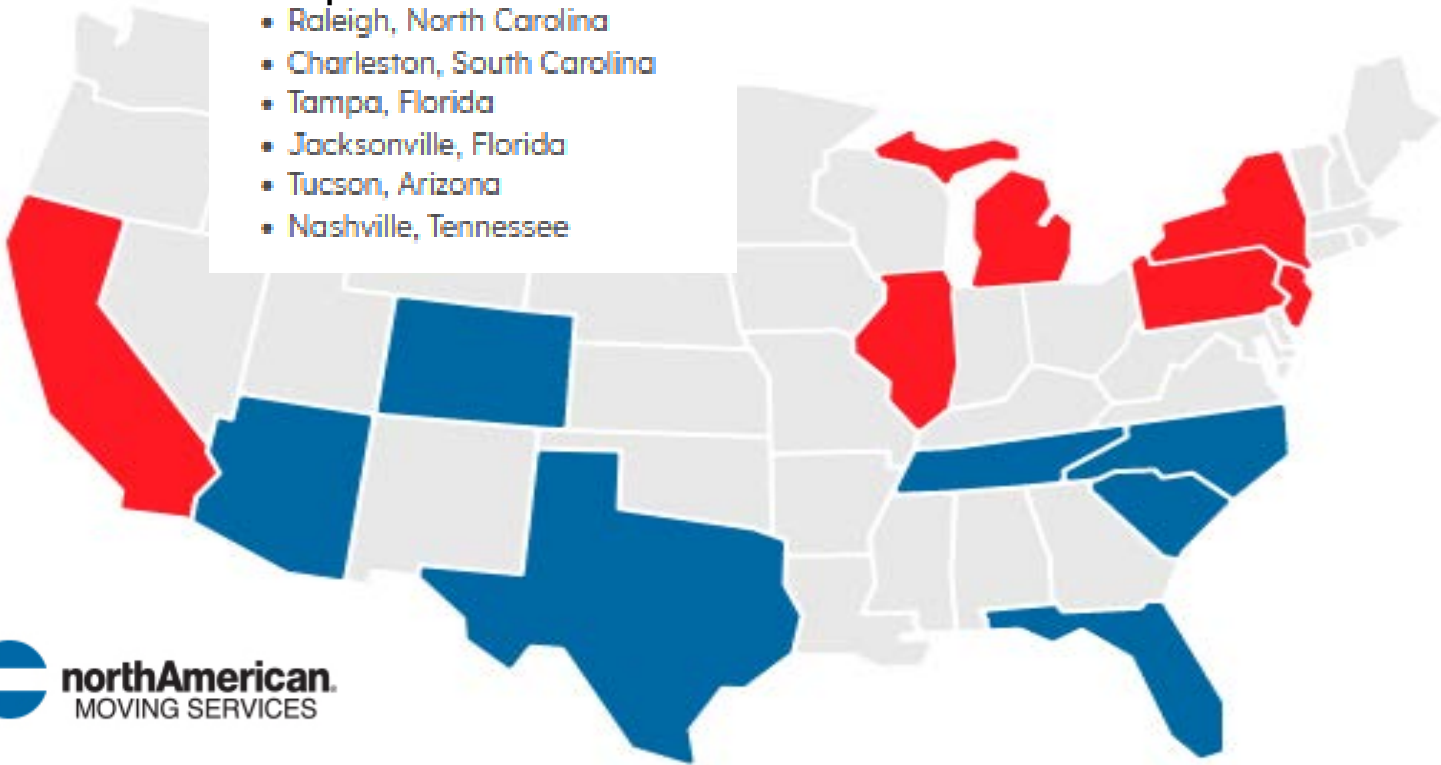
Additional information:
United States; As of July 1, 2021

- Aging population keeps growing.
- Sun-Belt grows as a result.
- Southern economies grow.
- Local public policy competition for economic development.

MOVING DATA 2021 NOT A POLITICAL MAP – BLUE IS IN-MOVES, RED IS OUT-MOVES

Top Cities in 2022

- Raleigh, North Carolina
- Charleston, South Carolina
- Tampa, Florida
- Jacksonville, Florida
- Tucson, Arizona
- Nashville, Tennessee



2022 AND 2021 TOP AND BOTTOM: INBOUND AND OUTBOUND STATES

Top Inbound States in 2022	
State	2022
South Carolina	68%
North Carolina	64%
Tennessee	64%
Arizona	57%
Florida	55%

Top Outbound States in 2022	
State	2022
Illinois	65%
California	63%
New Jersey	62%
Pennsylvania	60%
Michigan	59%

Top inbound states

2021

Top outbound states

South Carolina	66%
Idaho	65%
Tennessee	65%
North Carolina	62%
Florida	59%

Illinois	69%
California	66%
New Jersey	64%
Michigan	61%
New York	61%



LEISURE AND HOSPITALITY REAL ESTATE



- Again, Sunbelt lucky here.
- Hotels in beach destinations are the few positives.
- Golf has experienced a return – labor/leisure tradeoff.

PARADIGM SHIFT ALREADY UNDER WAY

- Suburbanization
- Migration to Sunbelt.
- Retirement of Boomers.
- E-commerce is the culture.
- Gen-Z educating more and joining workforce later.

FLIGHT TO QUALITY ... OF LIFE!

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Michael Gibson

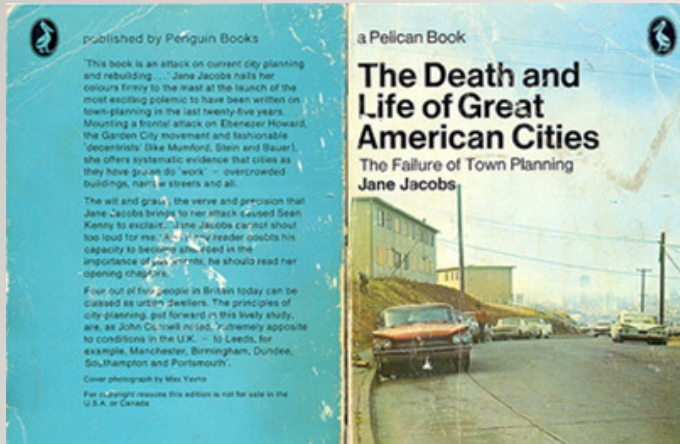
America's Havana

Thousands say *ciao* to San Francisco.



THE DEATH AND LIFE OF GREAT AMERICAN CITIES

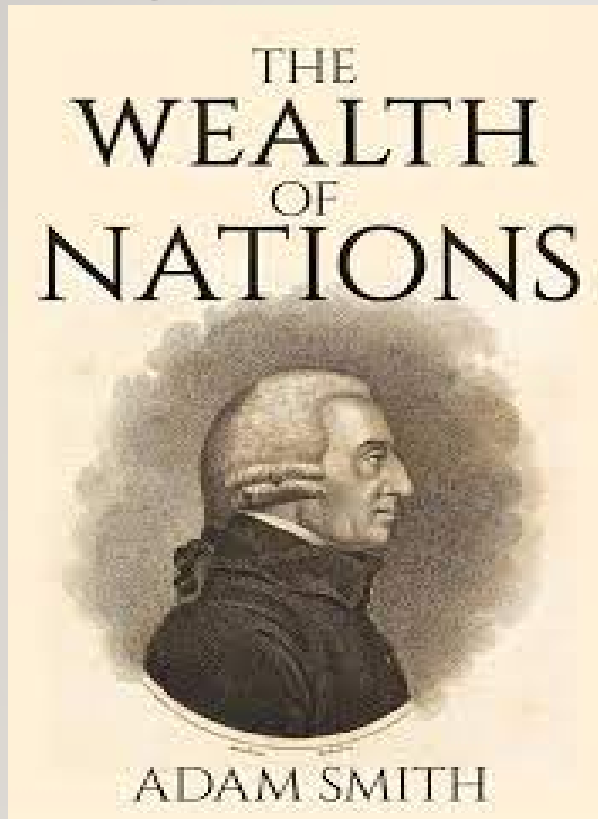
Hell on earth.



Heaven is a playground.



SO REQUIRES A SOVEREIGN PEOPLE



- “Little else is required to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things.”



FOLLOW THE MONEY

Housing status	Median net worth	Average net worth
Renter or other	\$6,300	\$95,600
Homeowner	\$255,000	\$1,102,100

Age group	Median net worth	Average net worth
Under 35 years old	\$13,900	\$76,300
35–44 years old	\$91,300	\$436,200
45–54 years old	\$168,600	\$833,200
55–64 years old	\$212,500	\$1,175,900
65–74	\$266,400	\$1,217,700
75 years or older	\$254,800	\$977,600

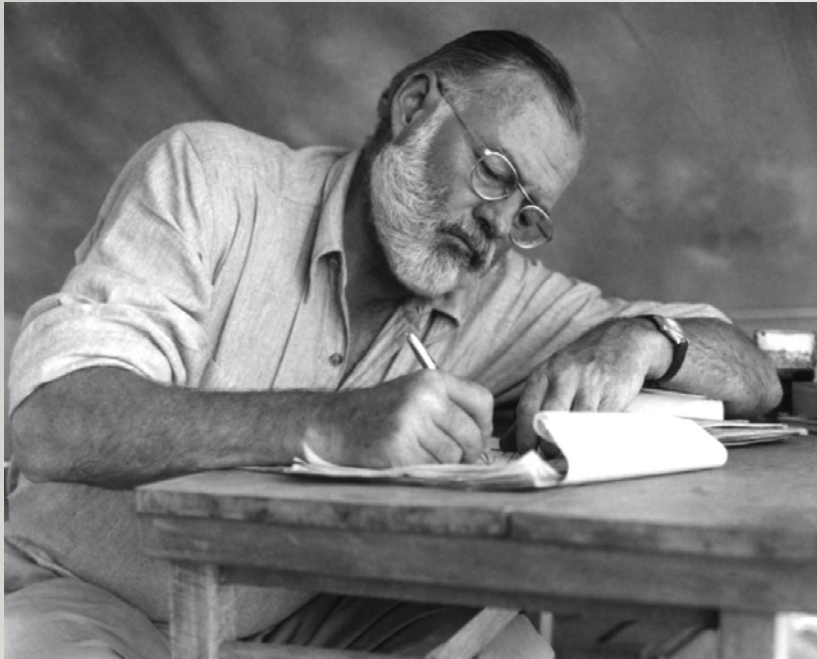
Source: Lexington Law; Federal Reserve

AND ALONG CAME COVID...

- Trade your money for something valuable...
 - Your Time!
 - It is a real transaction that few of us think about but subconsciously make every day.
 - We want a greater return.



LAWS OF SUPPLY AND DEMAND: THESE ARE NOT JUST THEORIES



"The first panacea for a mismanaged nation is inflation of the currency; the second is war. Both bring a temporary prosperity; both bring a permanent ruin. But both are the refuge of political and economic opportunists." - Ernest Hemingway (1899-1961)

Secondary Source: John Miltimore on Twitter for Foundation for Economic Education



MANIPULATING THE CREDIT CYCLE

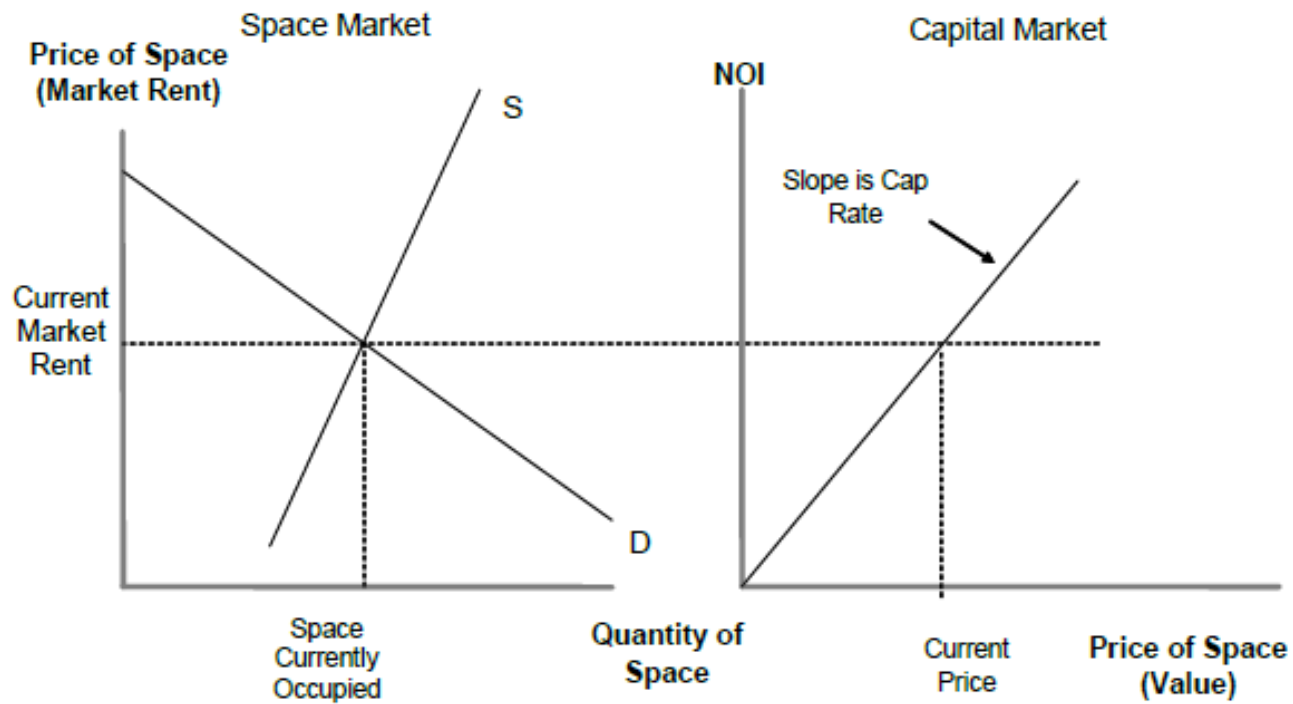


HAYEK VS KEYNES DEBATE ON SAVING AND INVESTMENT




IT'S CI 101

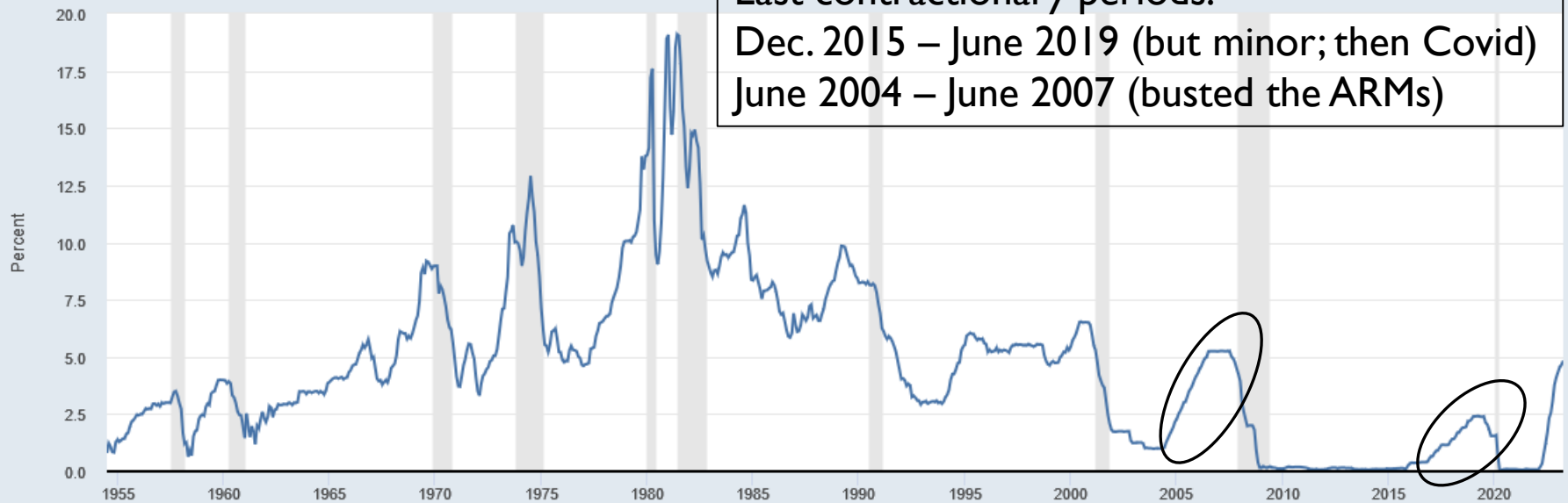
Figure 1.5 Interaction of the Space and Capital Markets





FEDERAL FUNDS RATE - HISTORICAL

FRED  Federal Funds Effective Rate



Last contractionary periods:
Dec. 2015 – June 2019 (but minor; then Covid)
June 2004 – June 2007 (busted the ARMs)

Shaded areas indicate U.S. recessions.

Source: Board of Governors of the Federal Reserve System (US)

fred.stlouisfed.org

CREDIT TIGHTENING EFFECT

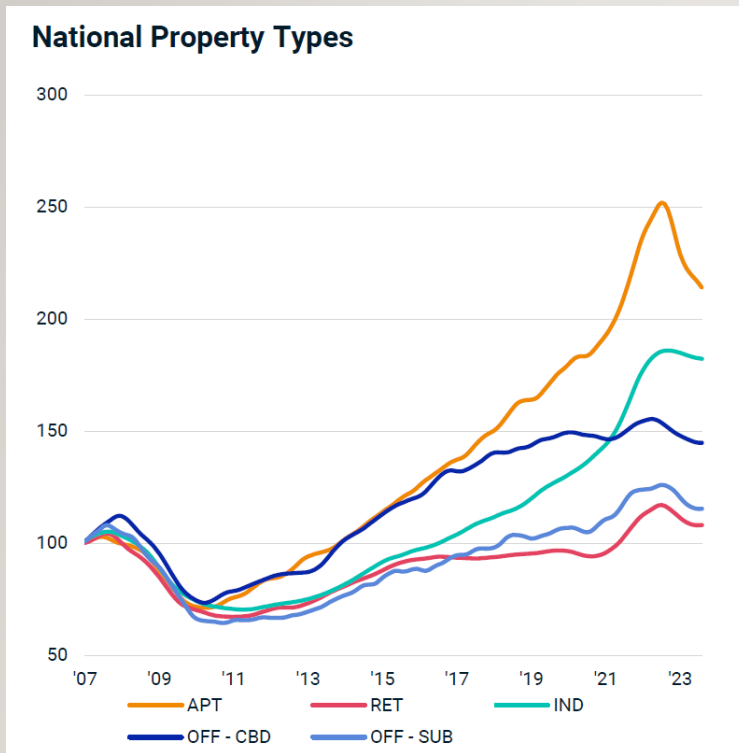




INFLATION: EXPECTATIONS VS. ACTUAL



RCA COMMERCIAL PROP. PRICE INDEX



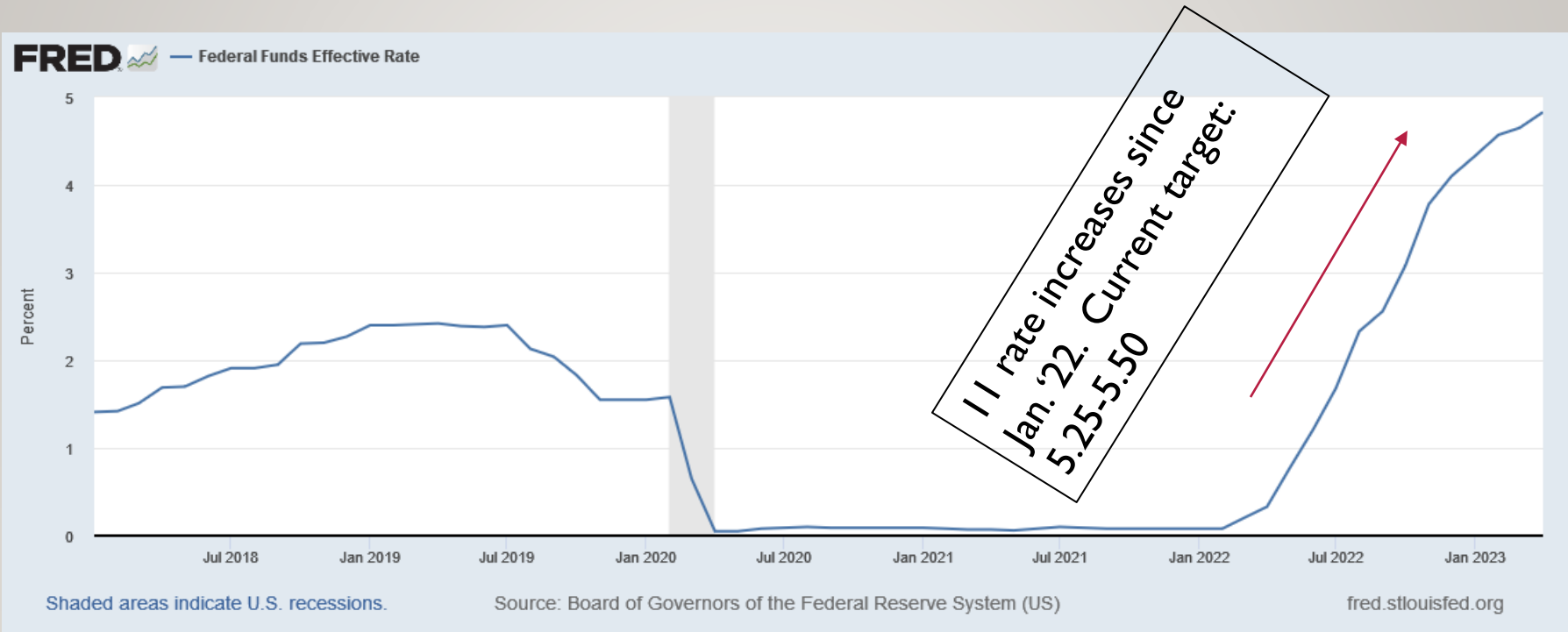
Change in RCA CPPI August 2023

	1-mth	3-mth	1-yr
Office	-0.1%	-0.7%	-8.3%
Office - CBD	0.0%	-0.5%	-5.2%
Office - Sub	0.1%	-0.4%	-8.4%
Industrial	-0.1%	-0.4%	-1.9%
Retail	0.1%	-0.2%	-7.4%
Commercial	0.3%	0.5%	-4.6%
Apartment	-0.8%	-2.3%	-14.9%
All Types	0.0%	-0.3%	-9.9%
6 Major Metros All Types	-0.3%	-1.1%	-8.3%
Non-Major Metros All Types	-0.2%	-0.8%	-10.1%

Source: MSCI, Inc.

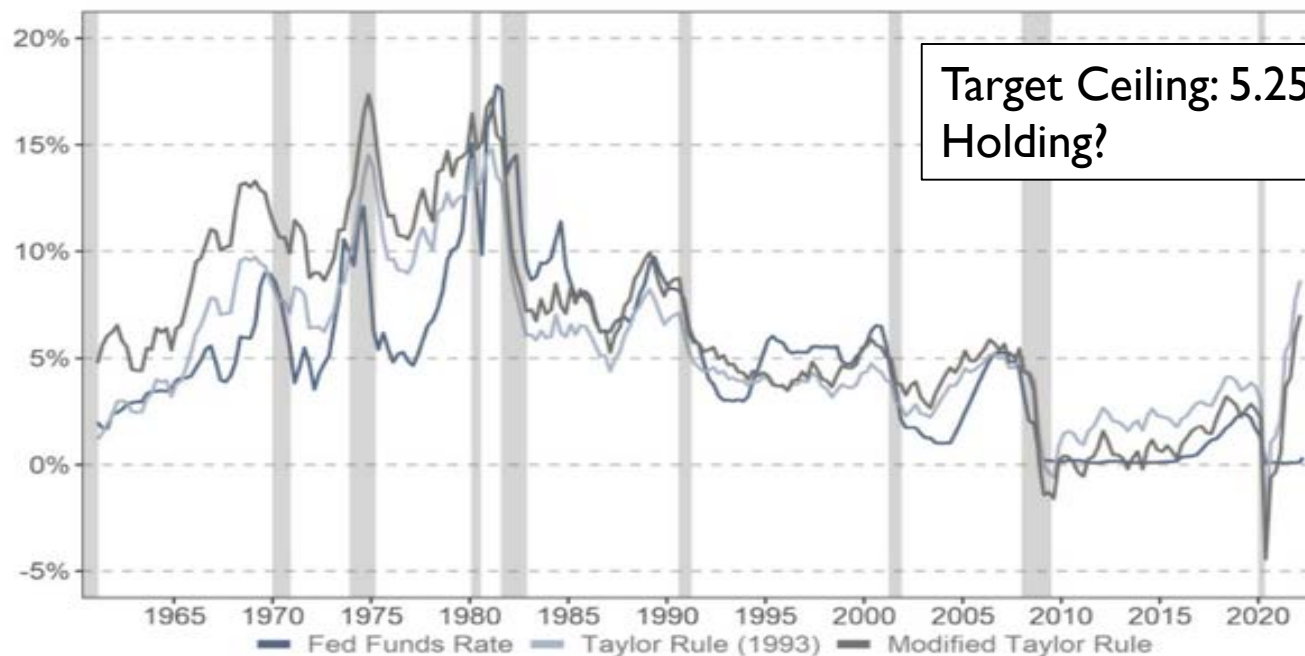


FED RATE TRAJECTORY STABLIZING



STUDY PREDICTED 7% FFR NEEDED TO FIGHT INFLATION

Chart 1. Taylor Rule Estimate and Actual Federal Funds Rate

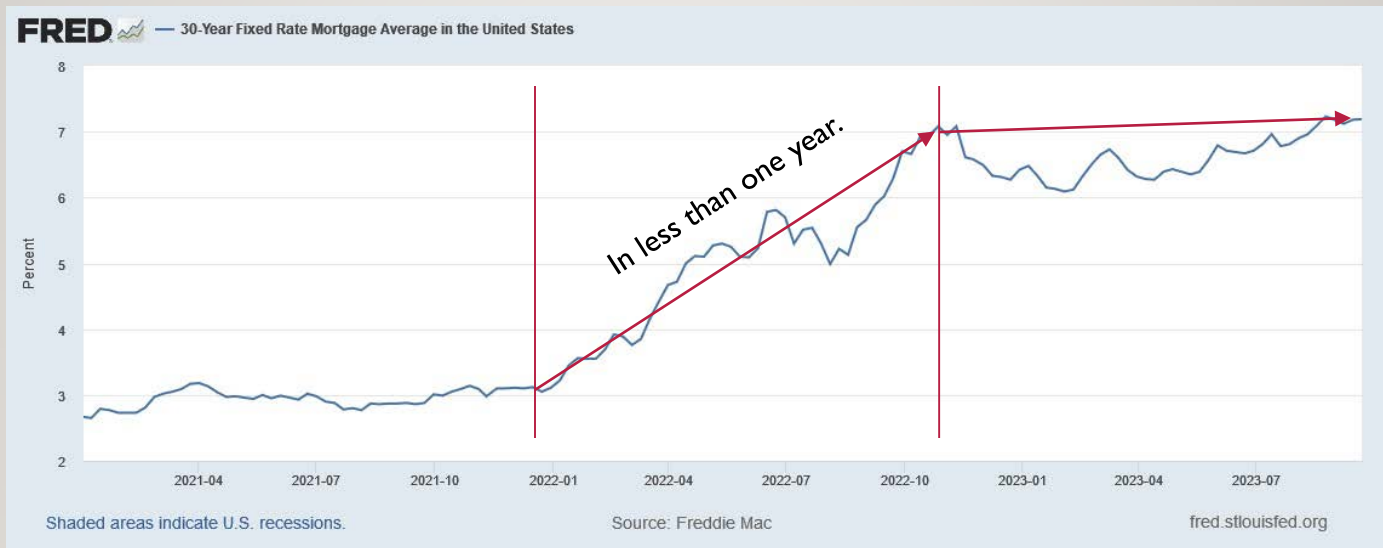


Source: Federal Reserve Bank of Atlanta, authors' calculations

Atlanta Federal Reserve Website - Stanford Paper, May 6th, 2022 - Taylor Rule

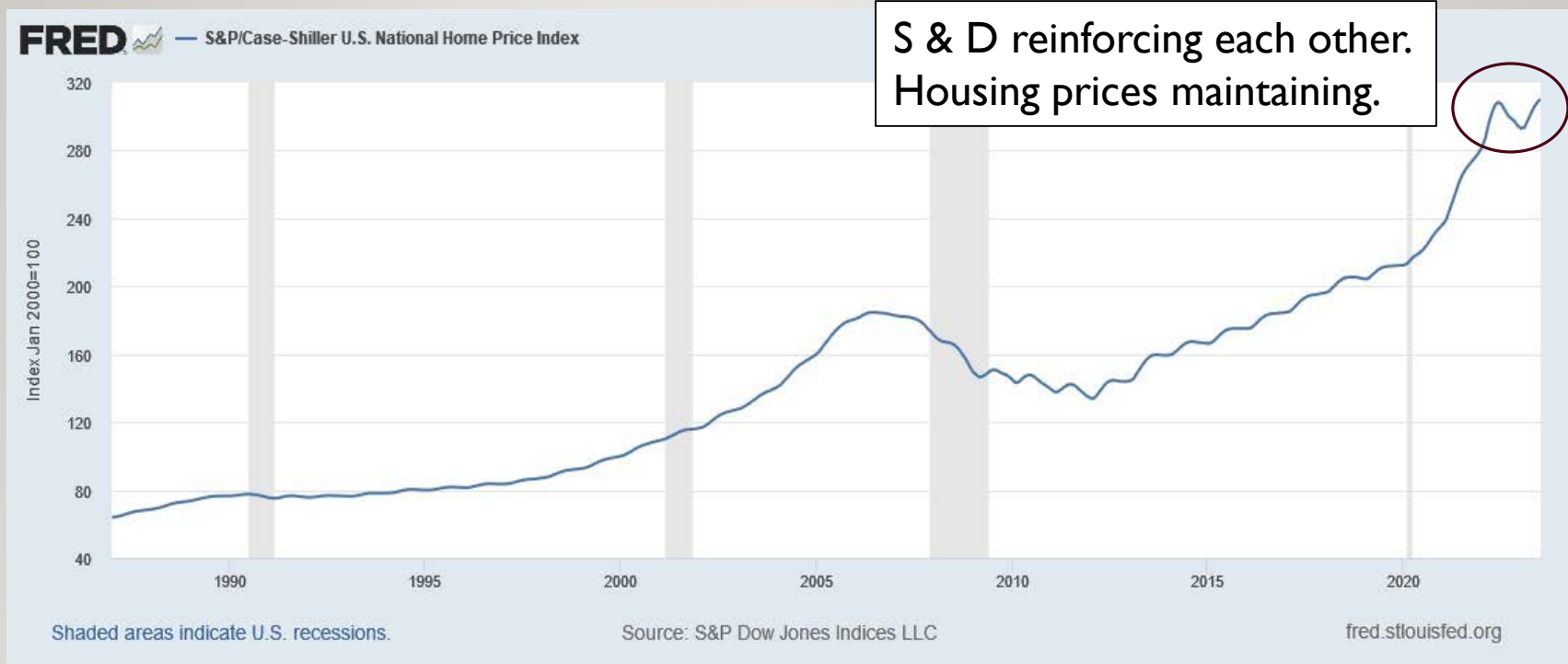
Courtesy of Paul Franke at Seeking Alpha

30-YEAR MORTGAGE RATES

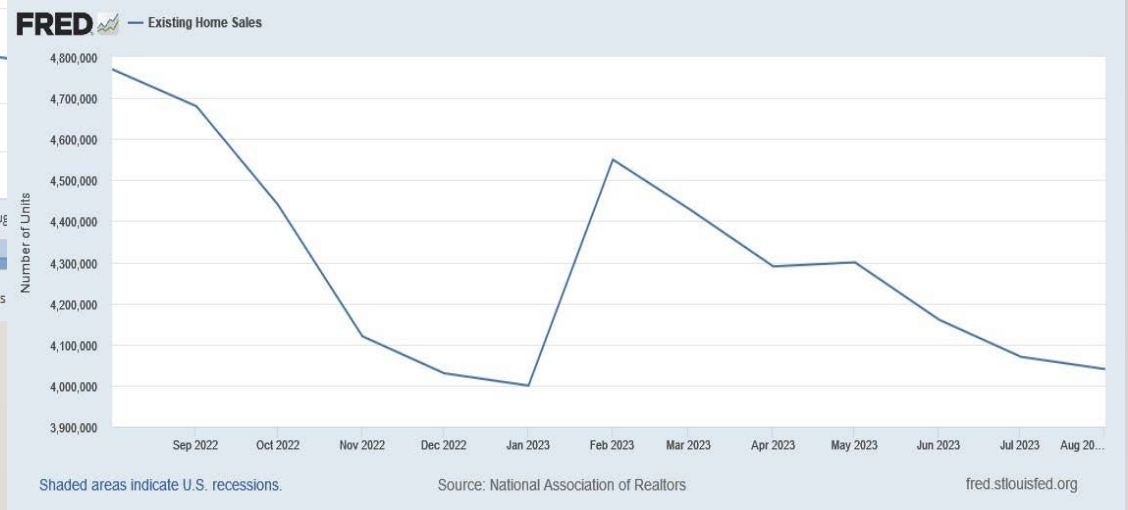
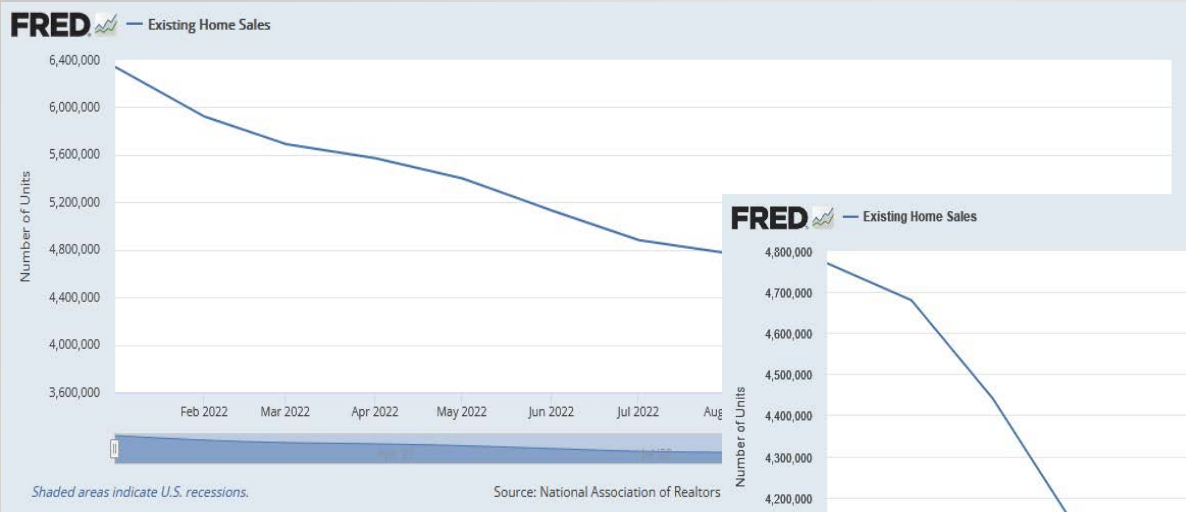


But what are the effects? Of + 49% on 30-Yr.; + 25% on 15-Yr.

U.S. HOME PRICES: S&P/CASE-SHILLER



U.S. EXISTING HOME SALES

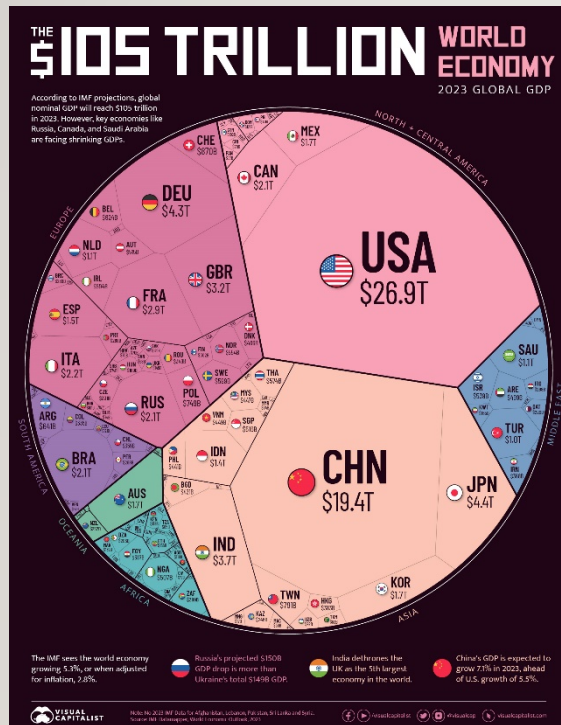


\$1 Trillion less in Sales Dollars at an Annual Pace.

CREDIT CYCLE AND ECONOMIC CYCLE: COUNTER-BALANCE

- From 2002 to 2006:
 - Massive speculation (house- and lot-flipping)
 - Loose underwriting (e.g. Countrywide)
 - Public policy was pushing home ownership harder (HOPE).
- Last three years:
 - Covid Shock to lifestyle and mass exodus (from high cost/low q.)
 - Technology adoption catapult! Sustaining exodus.
 - Retirees larger share of population. (29% 55+ in 2019; 22% in 2005)
 - 30 million more 55+ in 2019 than 2005

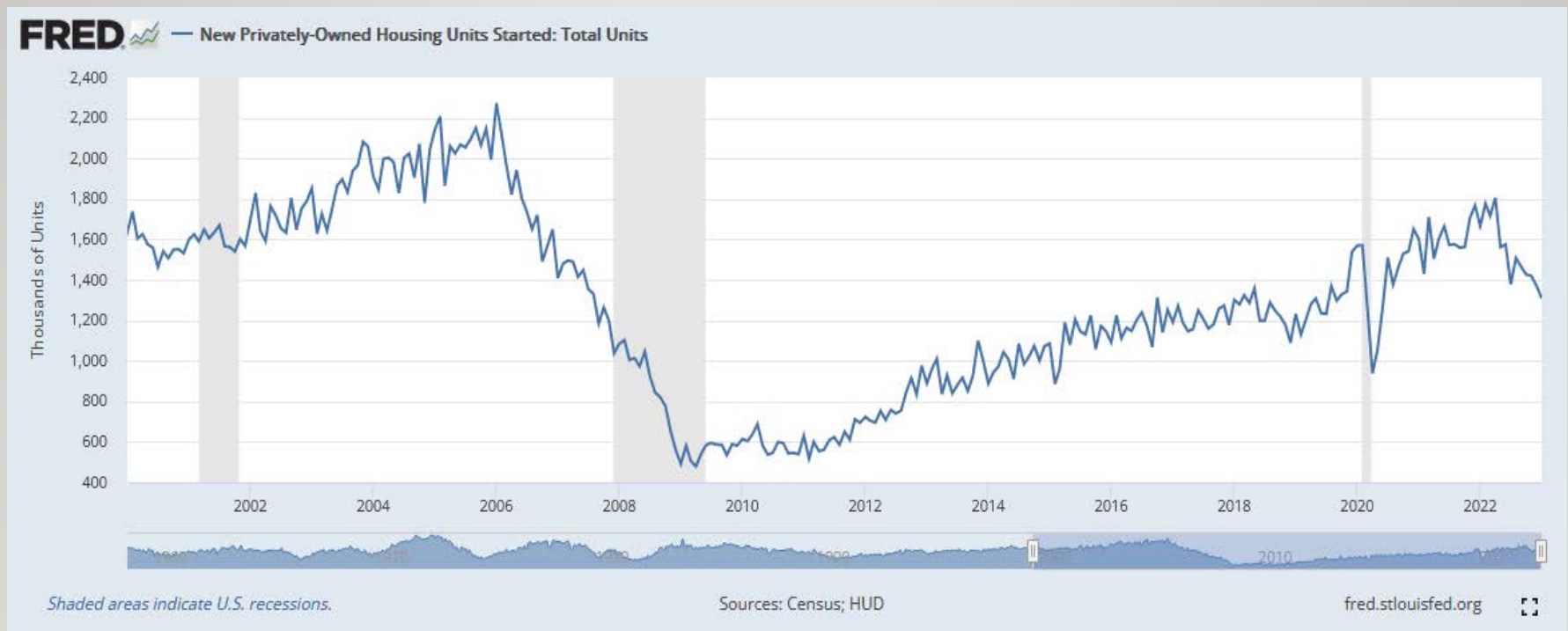
U.S. EXISTING HOME SALES RELATIVE TO GLOBAL ECONOMY



- That decline is almost 1% of the World's Economy.
- But the World's Economy is expected to grow 5.3% next year (IMF).



U.S. HOUSING STARTS



U.S. SINGLE FAMILY PERMITS

FRED — New Privately-Owned Housing Units Authorized in Permit-Issuing Places: Single-Family Units



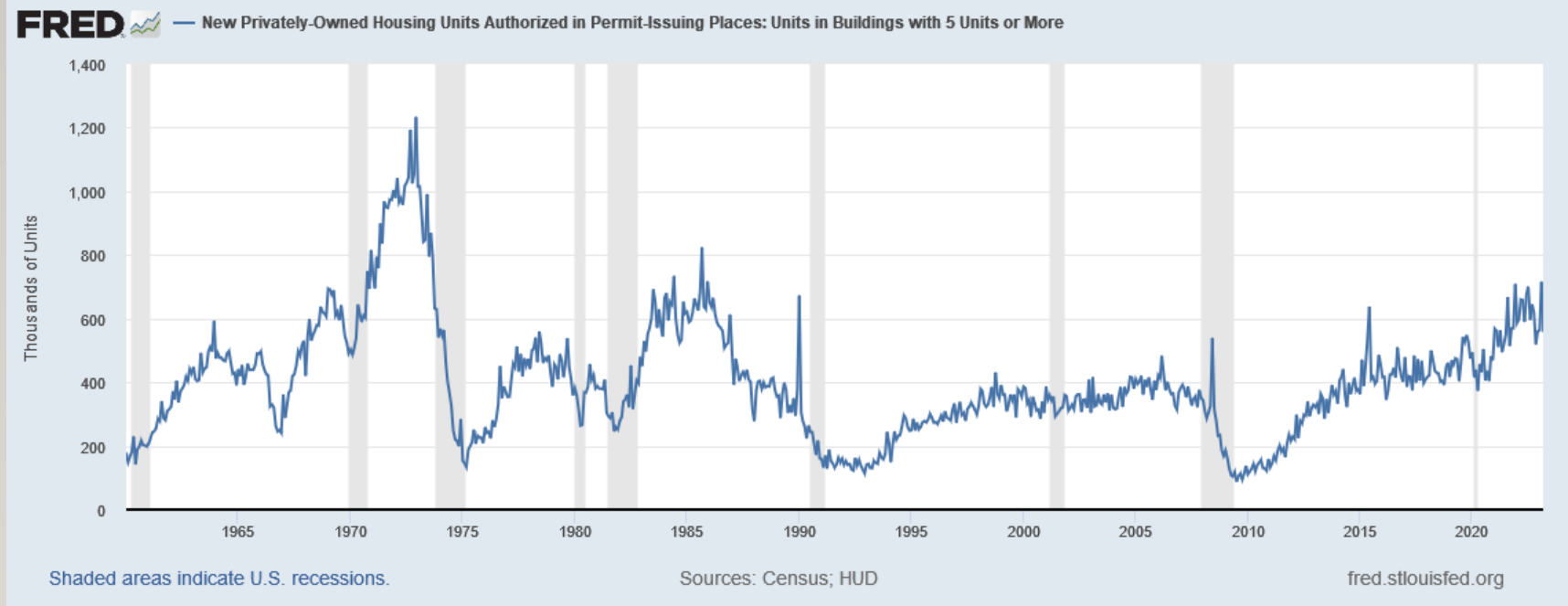
Shaded areas indicate U.S. recessions.

Sources: Census; HUD

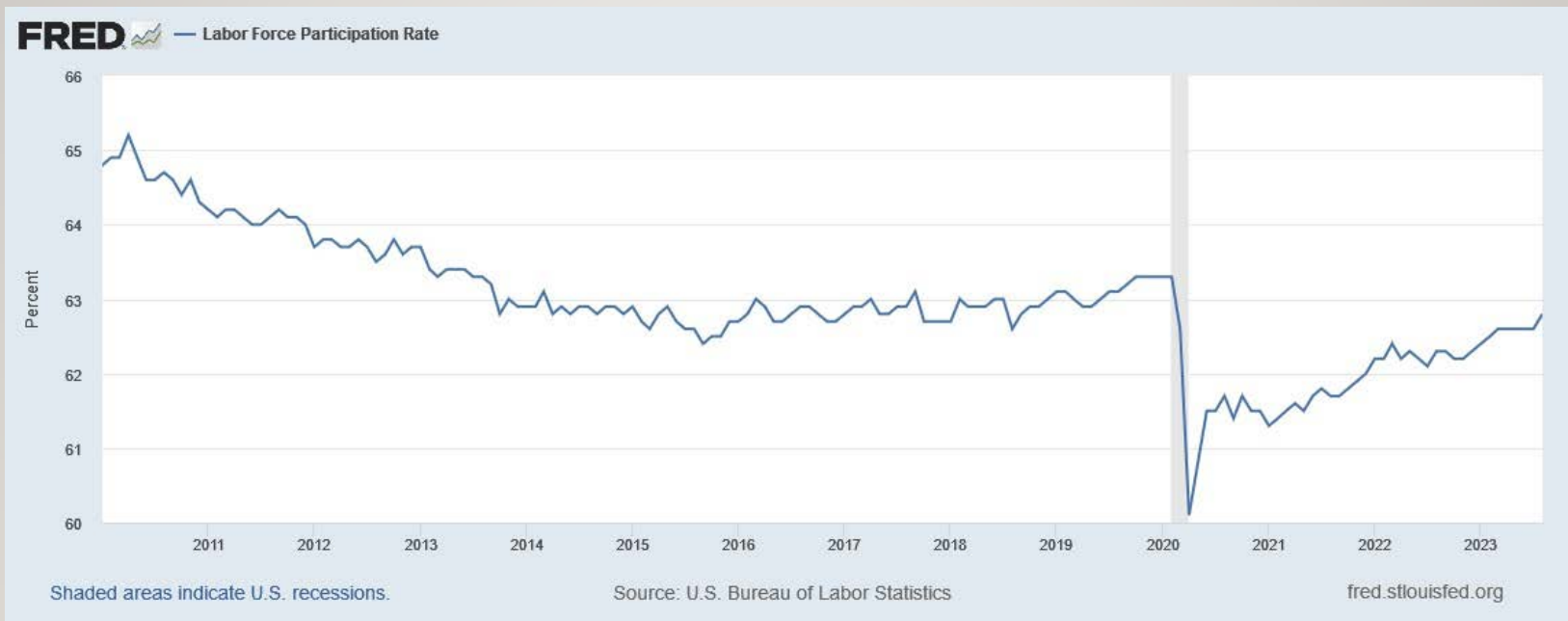
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U.S. MULTIFAMILY PERMITS (5+)

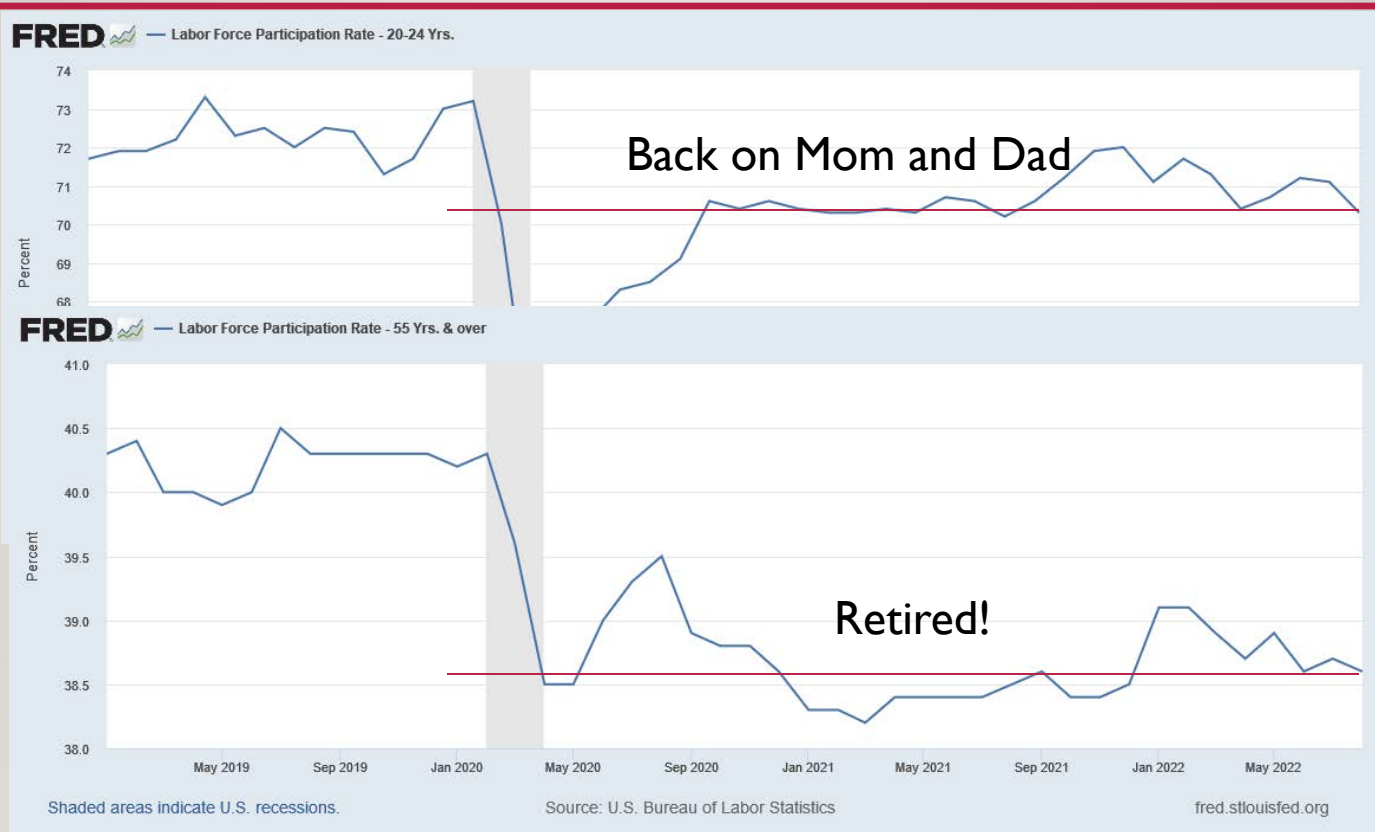


LABOR FORCE PARTICIPATION





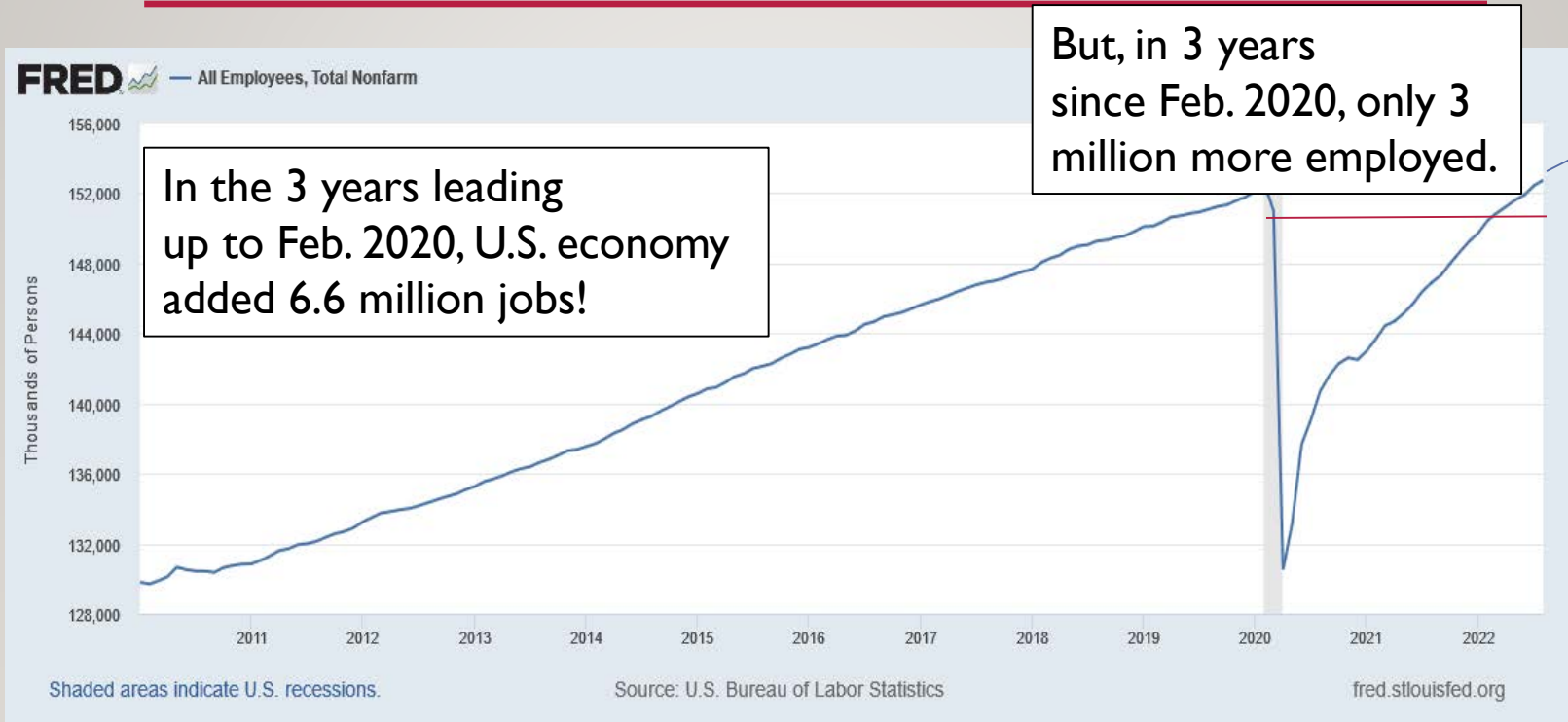
LFP 20-24 YR. OLDS AND 55+



THE PRIME WORKING AGE (25-54) ARE BACK TO WORK

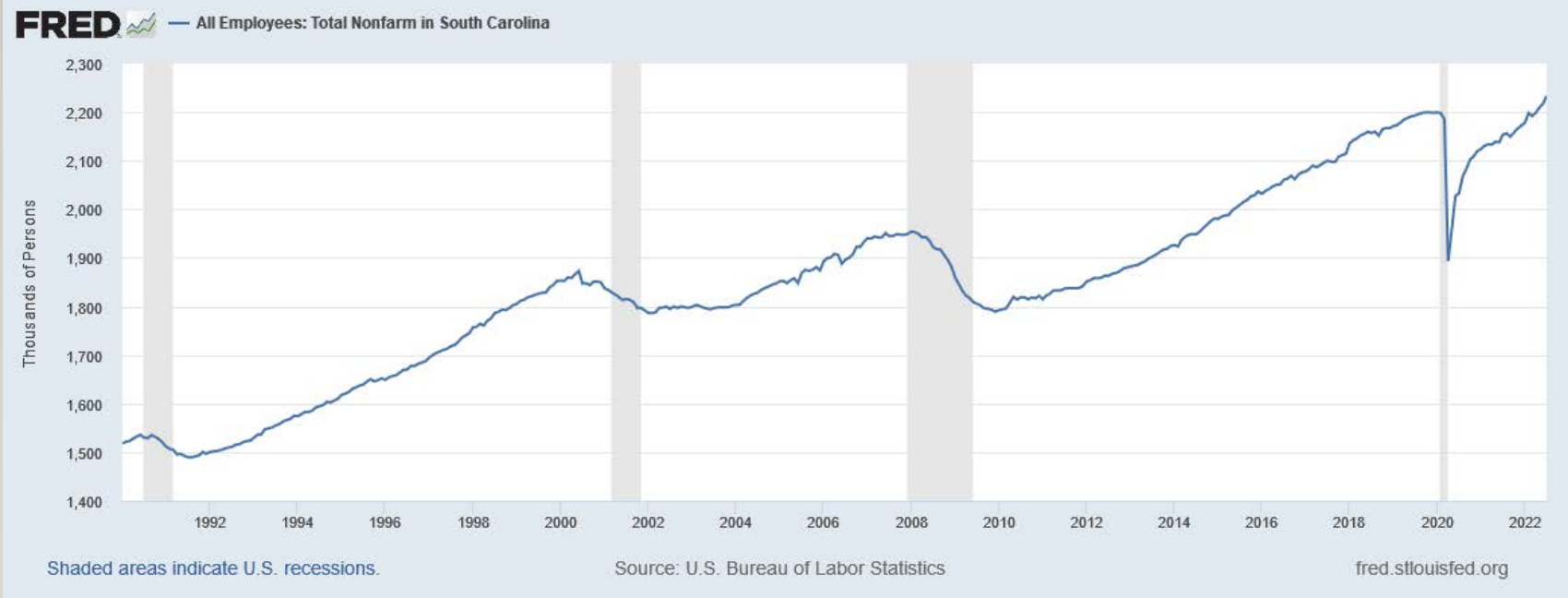


EMPLOYMENT LEVEL AND GROWTH



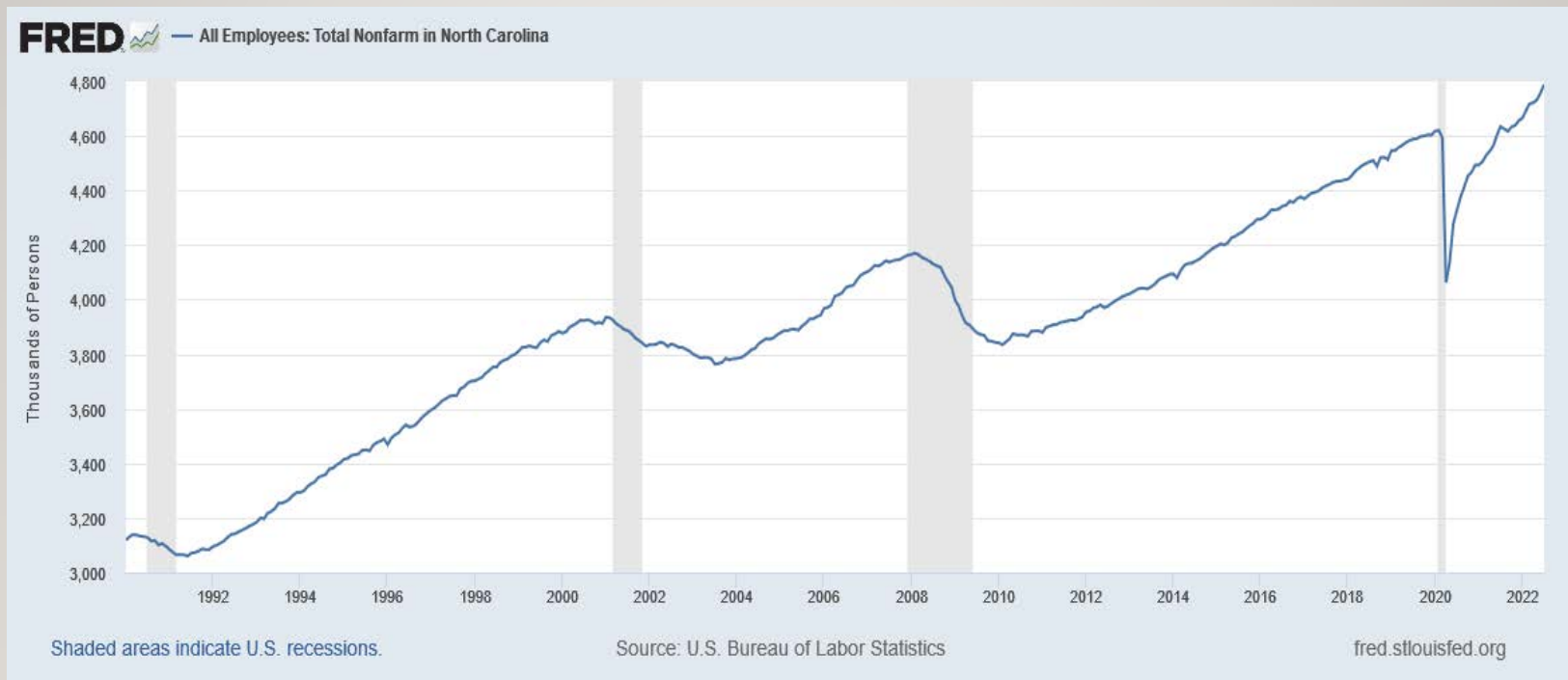


SC EMPLOYMENT





NC EMPLOYMENT





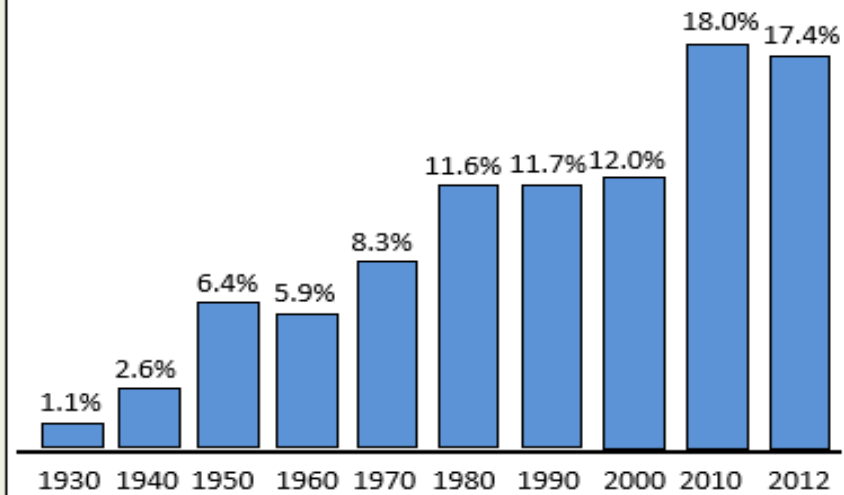
34.0%

The Growth of Government Transfer Payments

15th
edition
Gwartney, Stroup
Sobel, Macpherson

- **Transfer payments** tax income from some and transfer it to others.
- As is illustrated here, government transfer payments have grown rapidly since 1930.

Transfer Payments as a % of National Income



2021

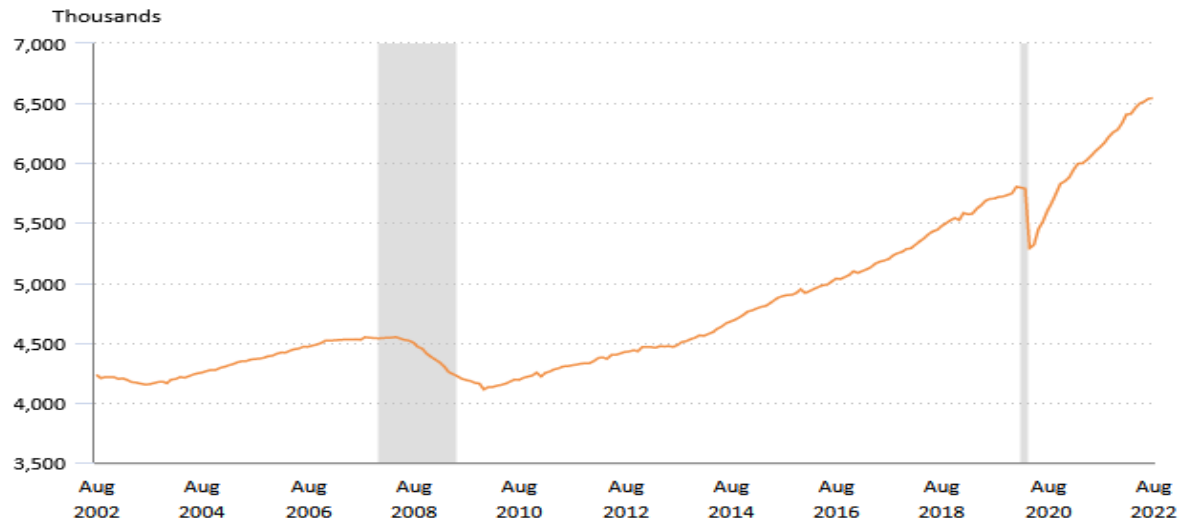


TRANSPORTATION AND WAREHOUSING: INCREASES TREND

Employment levels by industry, seasonally adjusted

Click and drag inside chart to change dates displayed

- Total nonfarm
- Total private
- Mining and logging
- Construction
- Manufacturing
- Wholesale trade
- Retail trade
- **Transportation and warehousing**
- Utilities
- Information
- Financial activities
- Professional and business services
- Education and health services
- Leisure and hospitality
- Other services
- Government
- Federal government
- State government
- Local government



Hover over chart to view data.

Note: Shaded areas represent recessions, as determined by the National Bureau of Economic Research.

Source: U.S. Bureau of Labor Statistics.



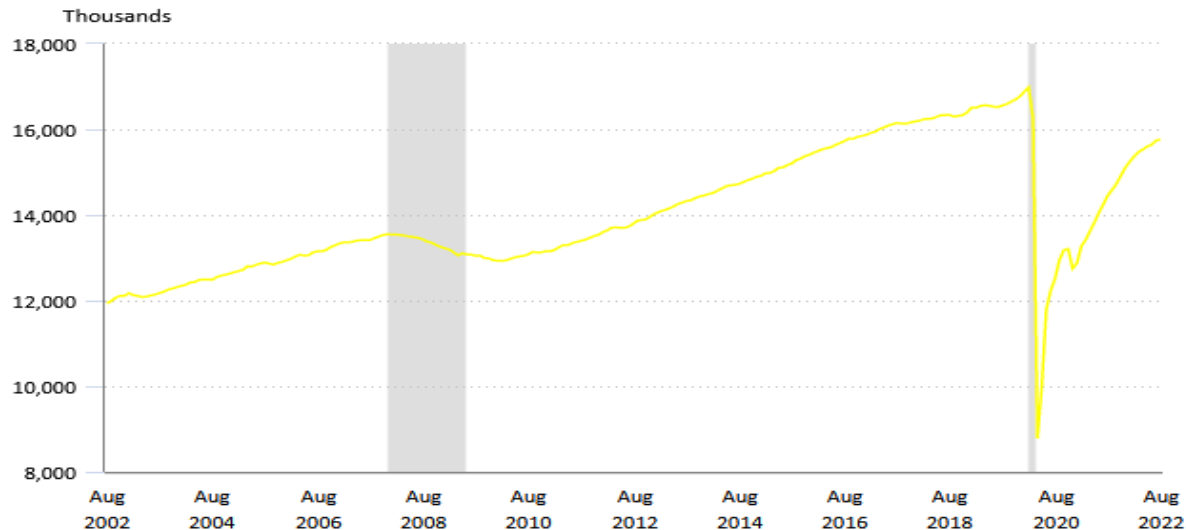


LEISURE AND HOSPITALITY: FALLING BEHIND

Employment levels by industry, seasonally adjusted

Click and drag inside chart to change dates displayed

- Total nonfarm
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- Construction
- Manufacturing
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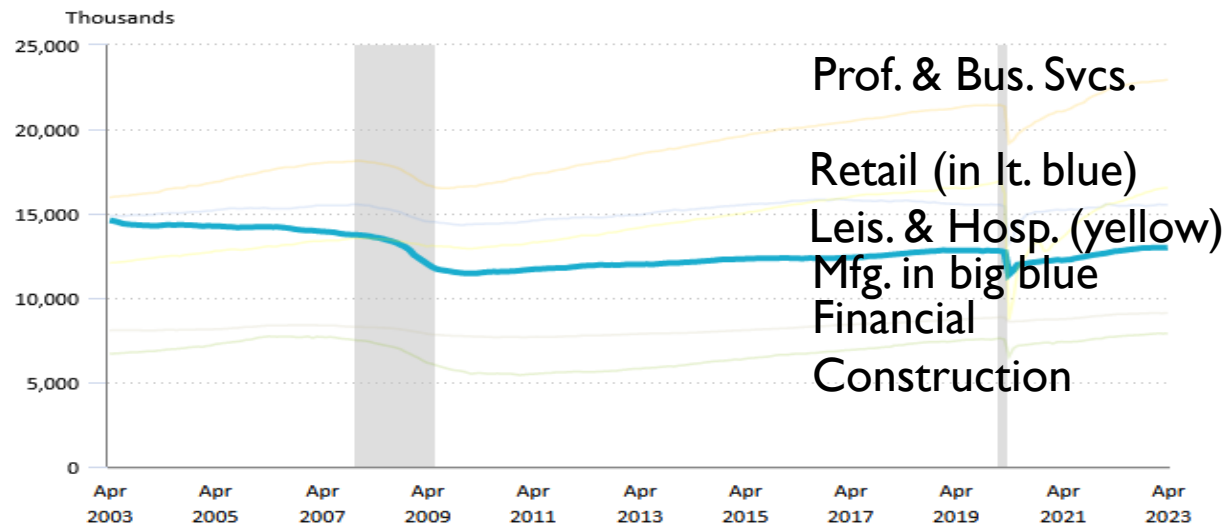


MULTIPLE SECTORS GLANCE

Employment levels by industry, seasonally adjusted

Click and drag inside chart to change dates displayed

- Total nonfarm
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- Wholesale trade
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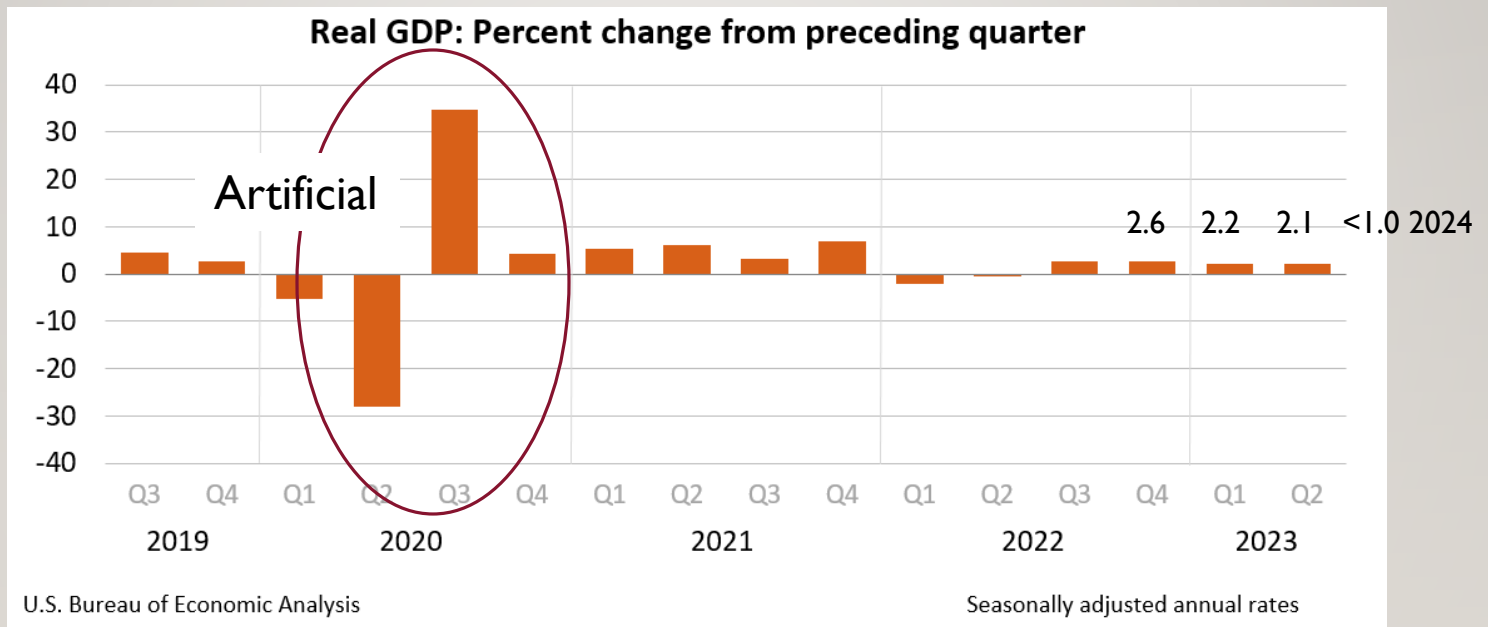
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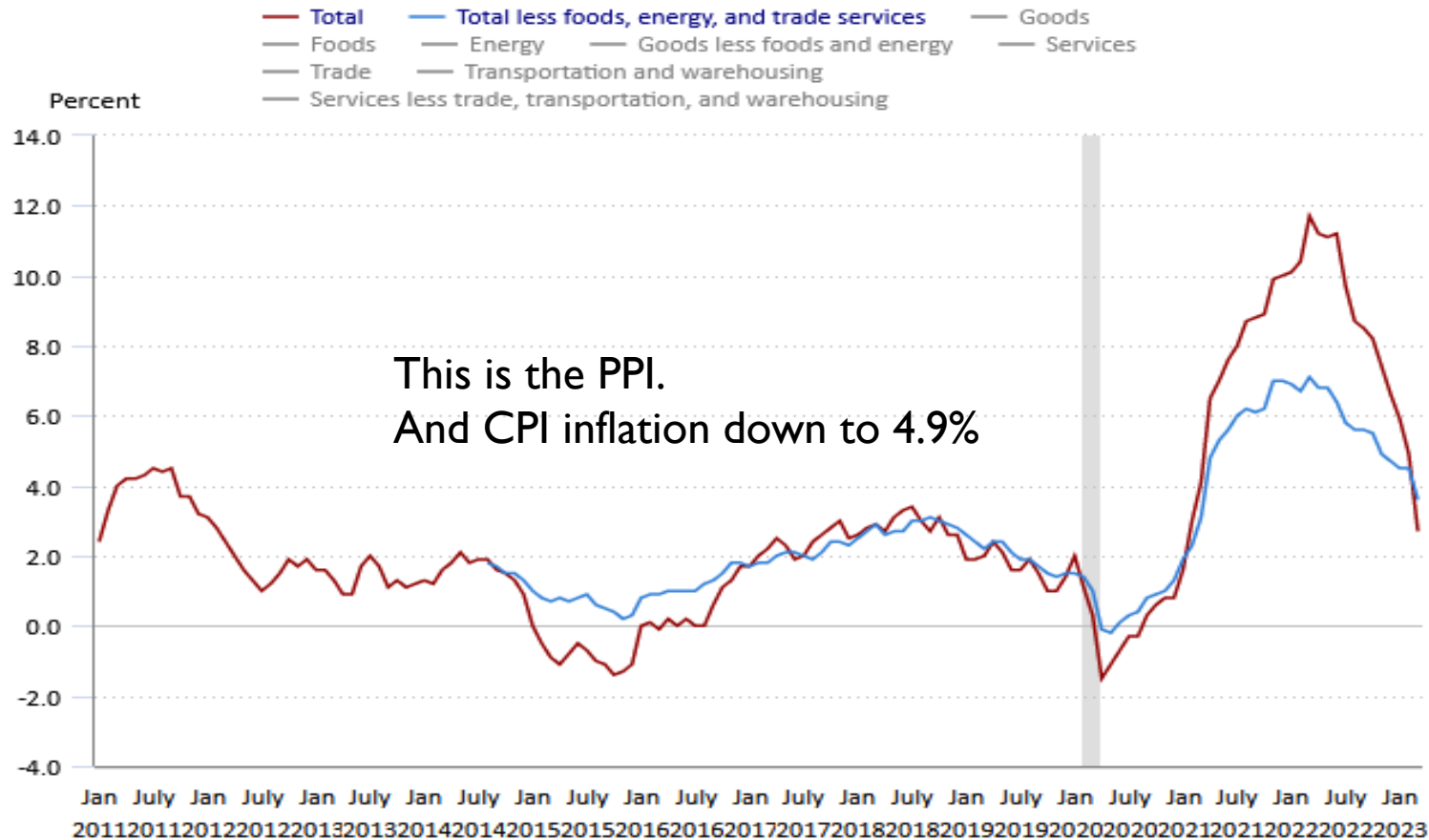


REAL GDP % CHANGE





PPI for final demand, 12-month percent change, not seasonally adjusted

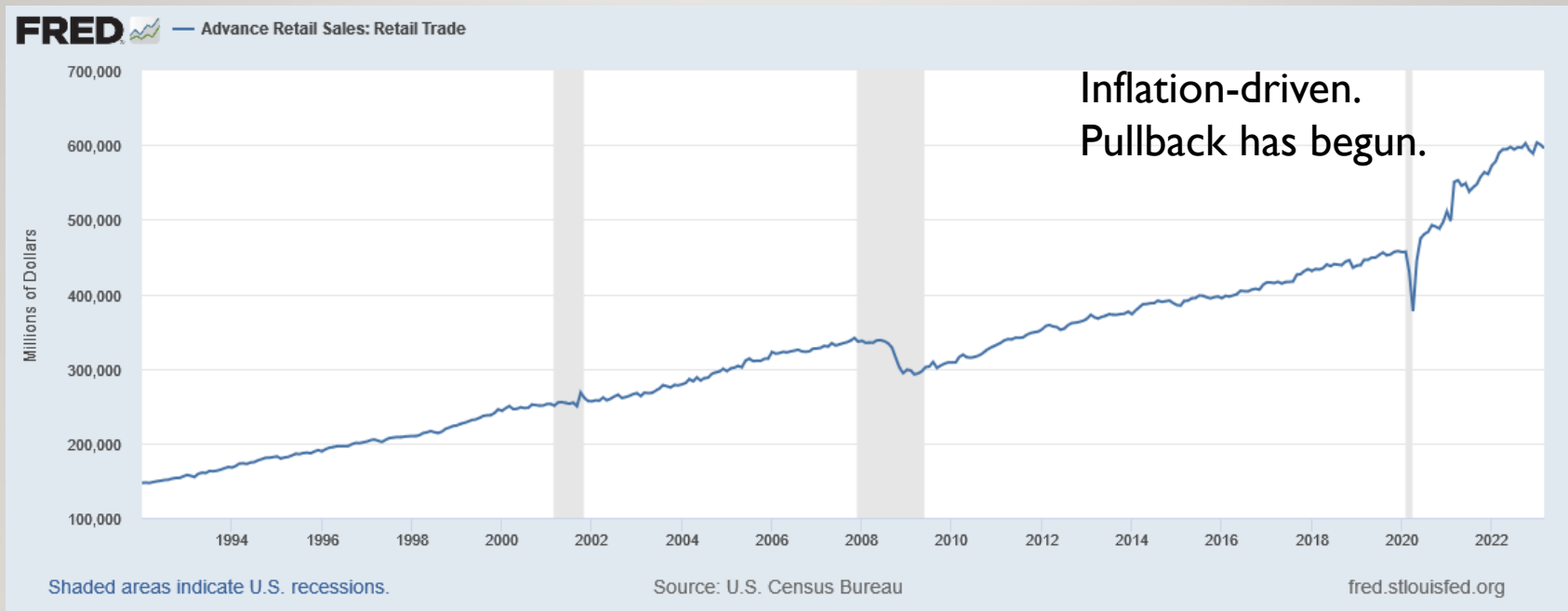


Hover over chart to view data.
Source: U.S. Bureau of Labor Statistics.
All data are subject to revision 4 months after originally published.





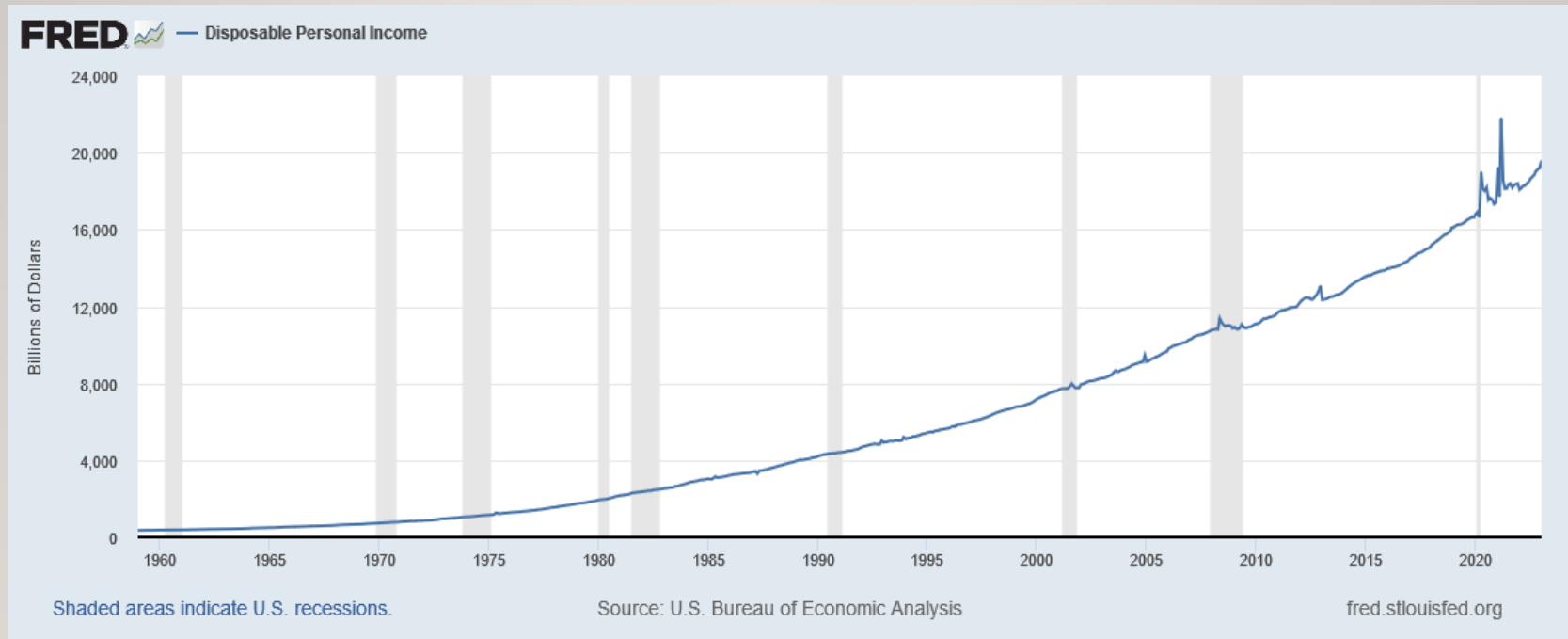
U.S. RETAIL SALES (\$MILLIONS/MONTH – SA)



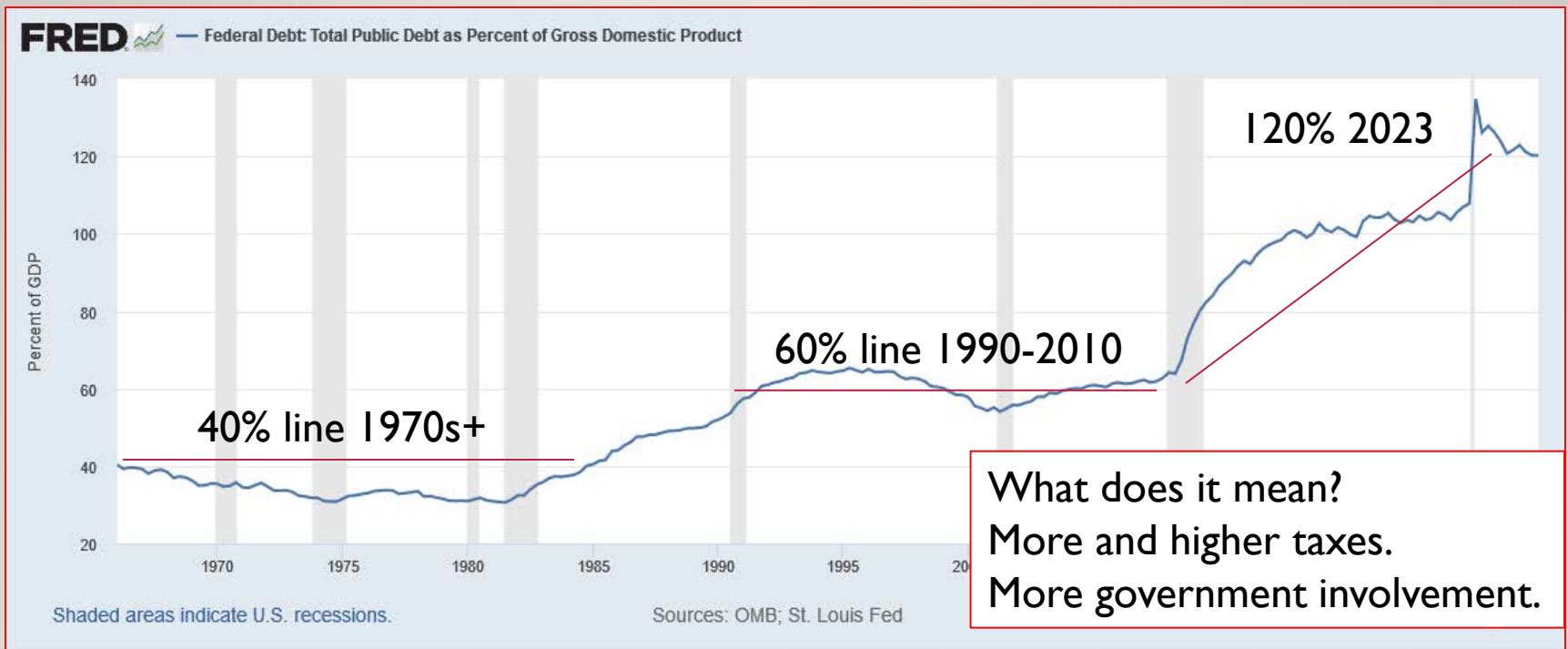
Source: U.S. Department of Commerce



U.S. DISPOSABLE PERSONAL INCOME



FEDERAL PUBLIC DEBT TO GDP



THANK YOU

- Economy teetering on recession, still.
- Geopolitical risk is still ever-present.
- Inflation is retreating.
- Fed rate policy stabilizing.
- Credit cycle downturn
 - except for low unemployment
 - and corporate profits maintaining.
 - and local government reserve funds healthy.