

Yeskey Real Estate Consulting & Investments



## “Crazy Times... New Rules”

September 12, 2016

“Keeping Clients & Investors Ahead of the Market”

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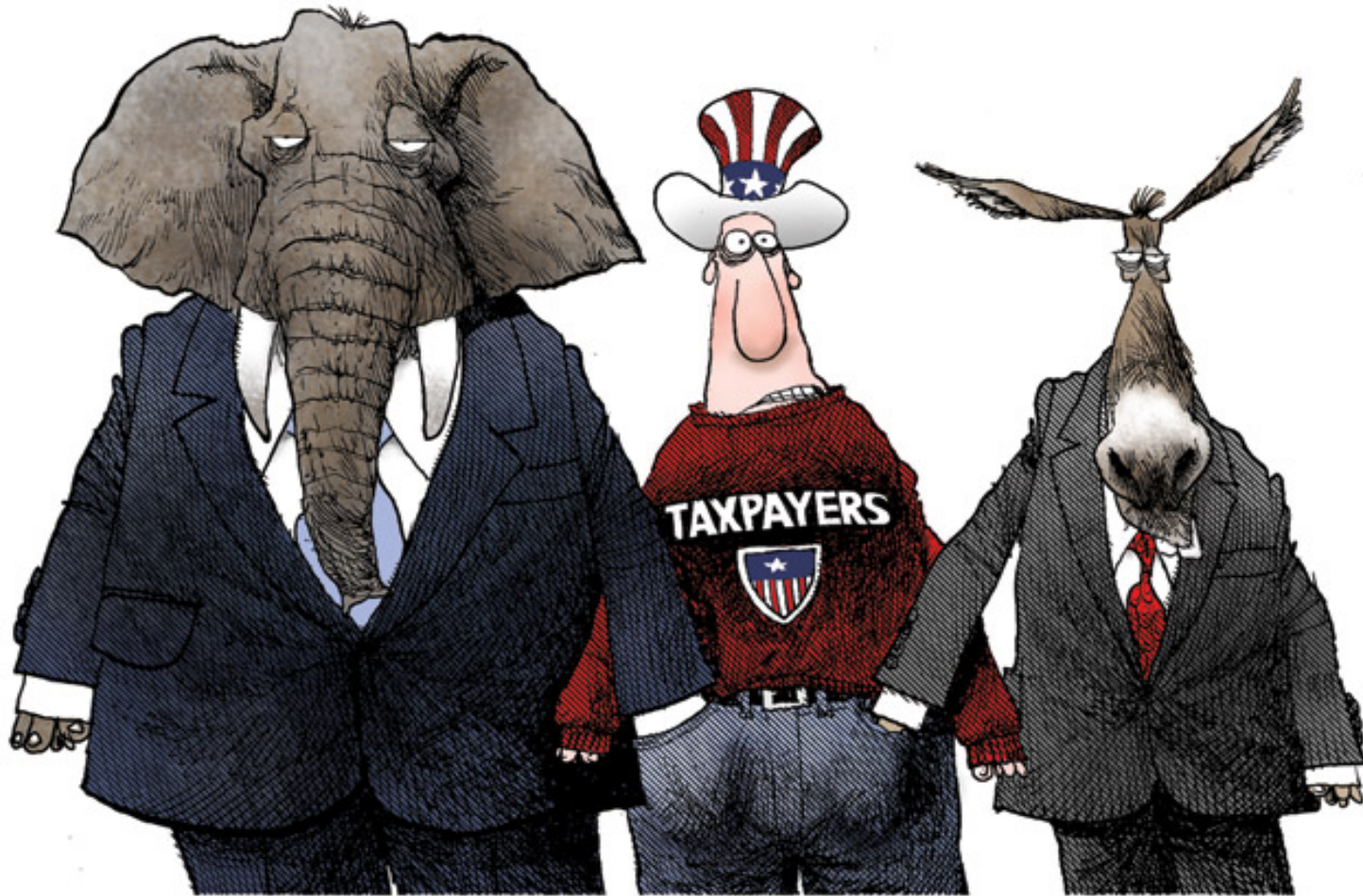
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**SACK**



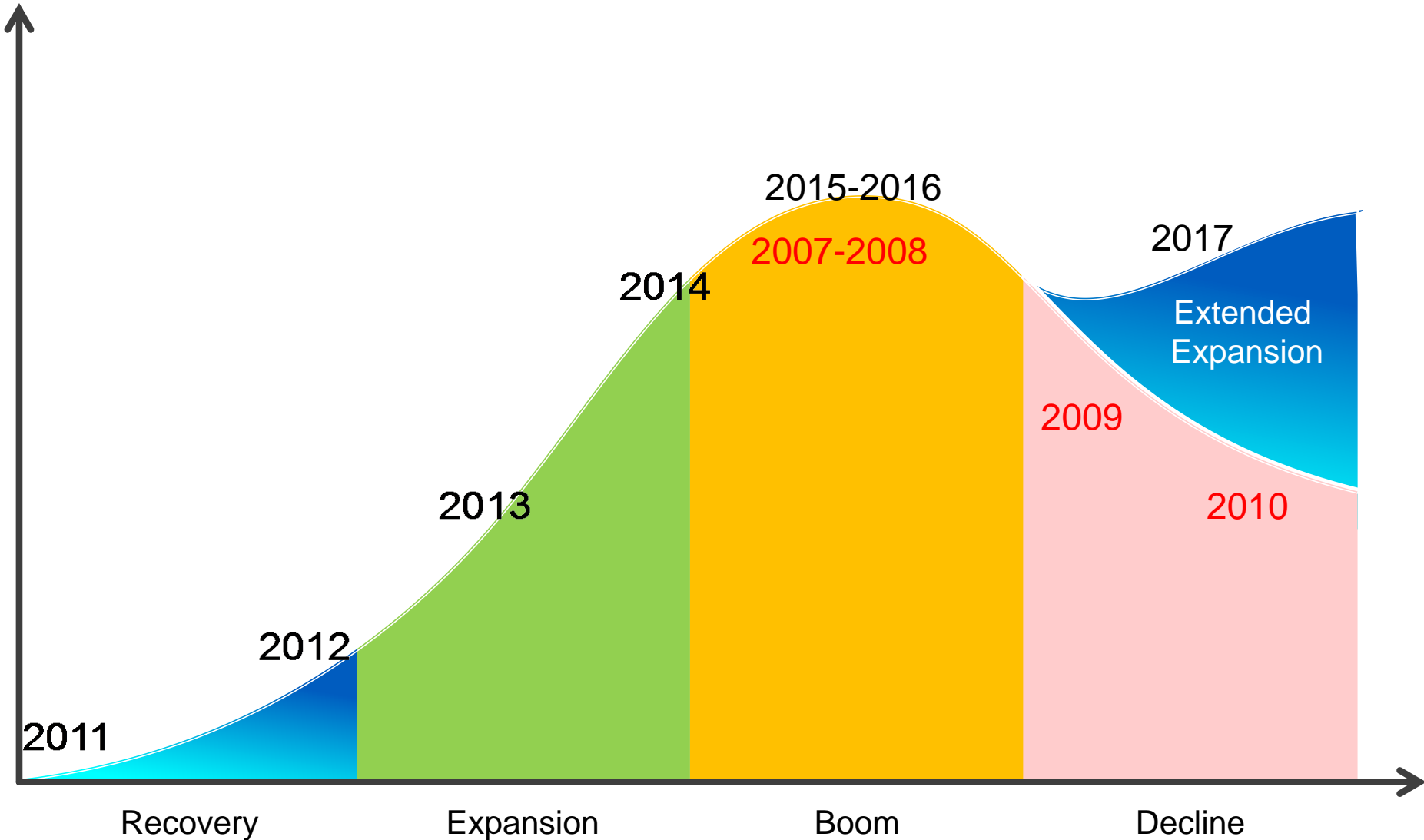
# Myths

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“We are headed into a major recession”

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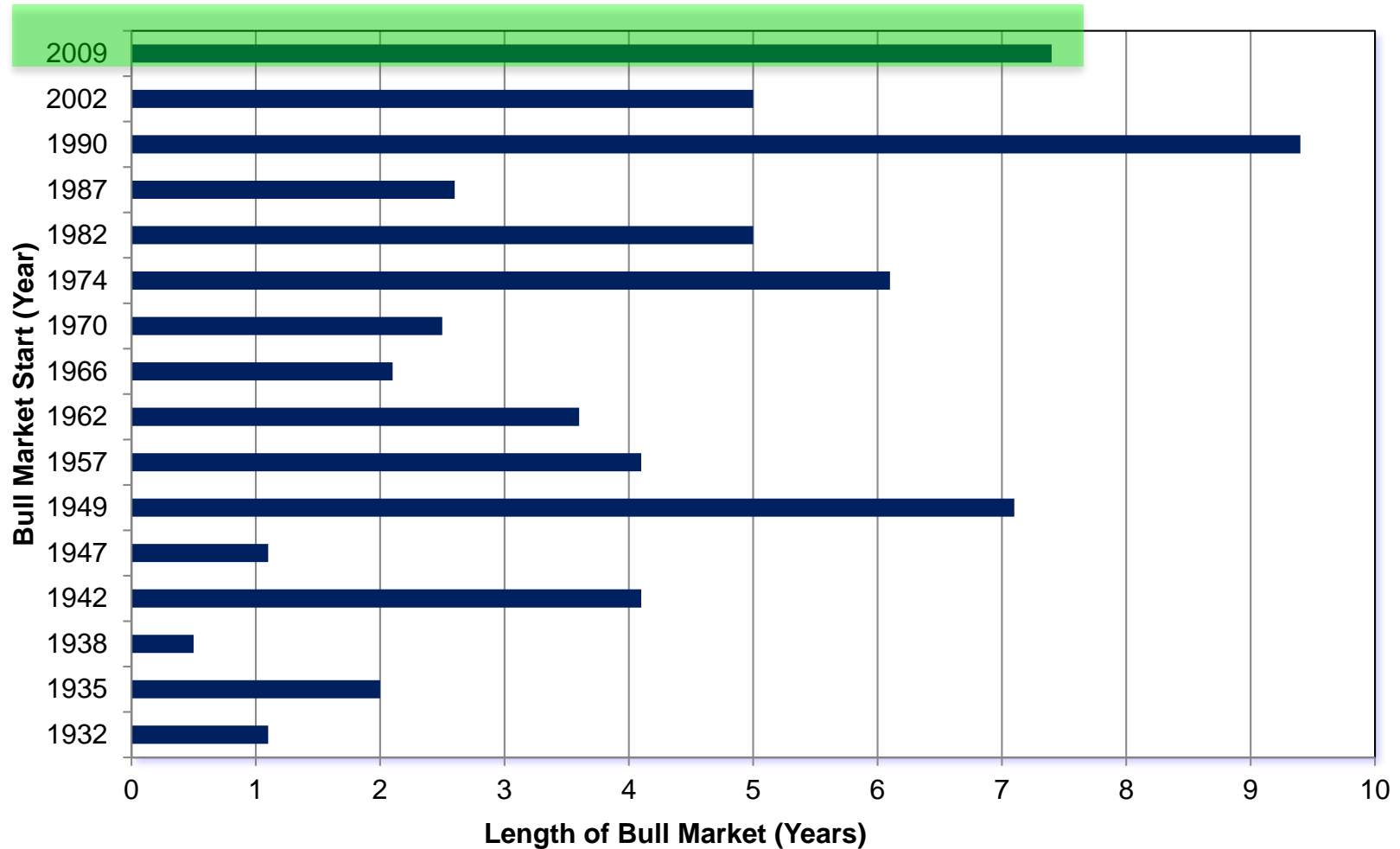
# 7<sup>th</sup> Year Recovery



Source: Yeskey Real Estate

# Bull Market Duration

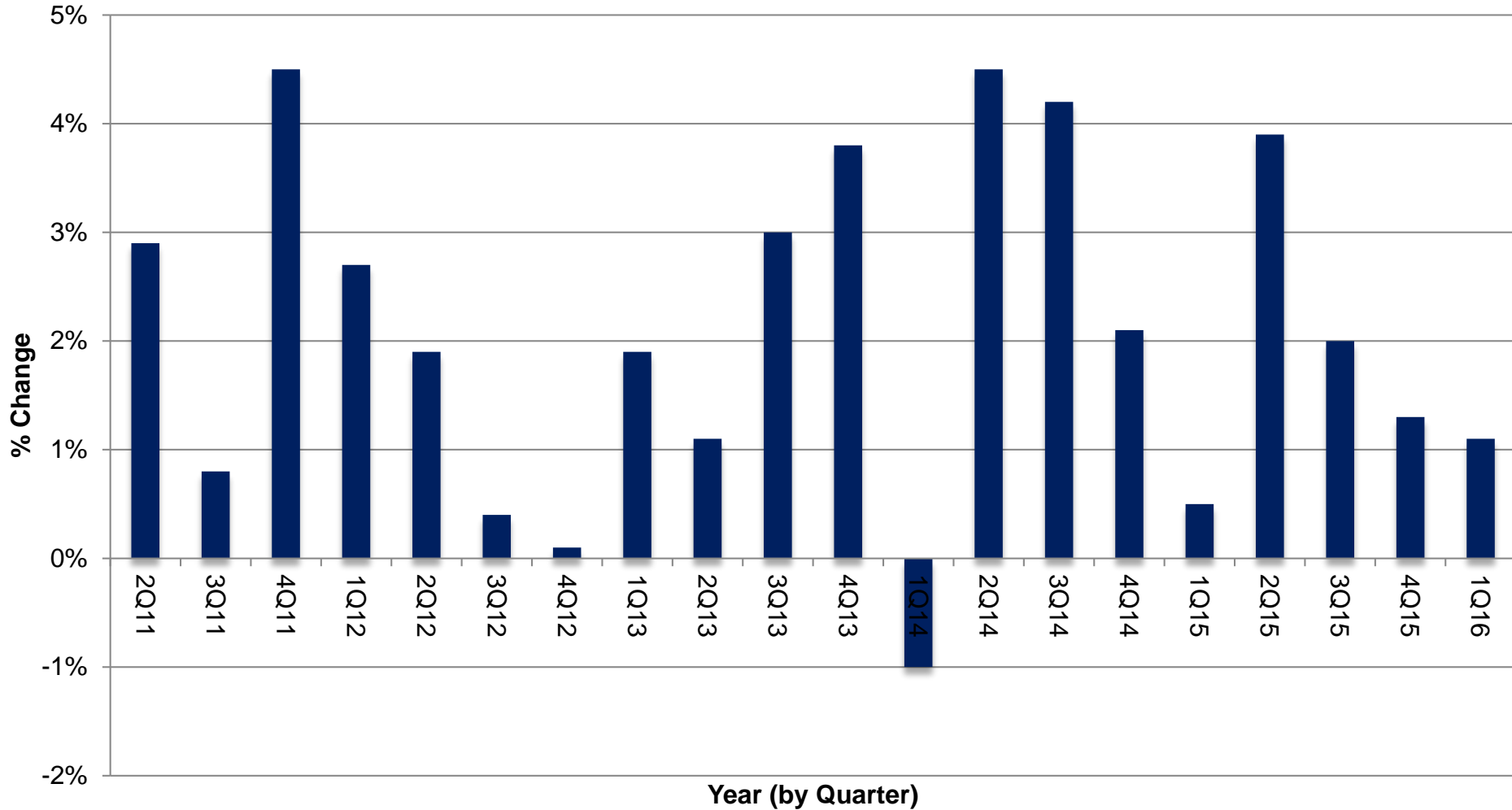
Time From Market Bottom to Bull Market Peak (S&P 500)





# Gross Domestic Product

## GDP % Change Quarter-over-Quarter



Source: Bureau of Economic Analysis, US Department of Commerce

## Myths

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“Stocks are for  
Appreciation; Bonds are for  
Fixed Income”

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# Comparative Returns

	12/31/13	12/31/15	2/19/16	9/1/16
Nikkei 225 (JP)	56.72%	9.1%	-16.1%	-11.3%
NASDAQ Composite	38.32%	5.7%	-10.0%	+4.1%
Russell 2000	37.00%	-5.7%	-11.1%	+9.2%
S&P 500	29.60%	-.7%	-6.2%	+6.2%
DJIA (US)	26.50%	-2.2%	-5.9%	+5.6%
DAX (DE)	25.48%	9.6%	-12.9%	-1.4%
FTSE100 (UK)	14.43%	-4.9%	-4.7%	+8.6%
Hang Seng (HK)	2.87%	-7.2%	-12.0%	+4.8%
Barclays Aggregate Bond	-4.19%	.55%	+	+5.9%
Gold 1oz Spot	-27.33%	-10.44%	+2.16%	+23.26%
Crude Oil \$ per barrel	-----	-30.47%	-41.12%	+20.68%
Property Index	-----	+12-15%	+	+7.0-10%



# S&P Sector Results

	12/4/2015	2/5/2016	9/1/16
<b>S&amp;P 500</b>	+3.53%	-7.85%	+6.2%
1. Consumer Discretionary	+9.68%	-10.84%	+4.0%
2. Consumer Staples	+5.39%	-2.22%	+10.0%
3. Energy	-18.16%	-7.42%	+16.0%
4. Financial	+2.62%	-11.54%	+6.0%
5. Healthcare	+6.49%	-12.27%	± 1.0%
6. Industrial	-1.06%	-6.95%	+12.0%
7. Information Technology	+9.22%	-10.99%	+10.0%
8. Materials	-5.87%	-7.19%	+16.0%
REITS/Real Estate	+1.16%	-5.34%	+14.0%
9. Telecommunications	+3.34%	+0.65%	+14.0%
10. Utilities	-7.77%	+7.11%	+16.0%

# 2015-2016 REIT Results

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	2015	1/31/2016	9/1/16
All Equity REITs	+2.88%	-3.52%	+18%
Mortgage REITs	-8.88%	-5.25%	+18%
Industrial	+2.64%	-6.09%	+33%
Office	+.29%	-8.16%	+17%
Retail	+4.56%	+.15%	+22%
Residential	+17.07%	-4.88%	+7%
Lodging/Resorts	-24.42%	-9.65%	+14%
Health Care	-7.25%	-4.45%	+23%
Self Storage	+40.65%	+2.66%	-2%

## Myths

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“Interest Rates/Inflation are going back to traditional levels”

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## Myths

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“CRE always overbuilds and becomes overvalued”

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# CRE Fundamentals

	National Vacancy		National Effective Rents		National Asking Rents
<b>Multifamily</b>					
2010	8%	↑	\$975	↑	\$1025
2016 (2Q)	4.5%	↑	\$1200	↑	\$1250
<b>Office</b>					
2010	18%	↑	\$22	↑	\$27
2016 (2Q)	16%	↑	\$25	↑	\$31
<b>Industrial</b>					
2010	11%	↑	-		\$5
2016 (2Q)	6%	↑	-		\$6.50
<b>Retail</b>					
2010	11%	↑	\$16.50	↑	\$19
2016 (2Q)	10%	↑	\$17.50	↑	\$21
<b>Hospitality</b>					
2010	56% (OCC)	↑	\$96 (ADR)	↑	\$56 (RevPar)
2016 (2Q)	70% (OCC)	↑	\$125 (ADR)	↑	\$86

# CRE Fundamentals

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New York City; Unemployment = 4.4%

		2 <sup>nd</sup> Quarter 2015	2 <sup>nd</sup> Quarter 2016	
Office	Vacancy	10.1%	9.9%	↑
	Rent/sq.ft.	\$68	\$72	↑
	Absorption (sq.ft)	+2.9m	-1.9m	→

# CRE Fundamentals

Long Island; Unemployment = 3.8%

		Nassau	Suffolk	Long Island
<b>Office</b> 2 <sup>nd</sup> Quarter 2016	Vacancy	9.5%	9.1%	9.3%
	Rent/sq.ft.	\$29.83	\$23.45	\$26.48
	Absorption (sq.ft)	-14.5k	+113k	98.7k

<b>Industrial</b> 2 <sup>nd</sup> Quarter 2016	Vacancy	4.7%	2.8%	3.4%
	Rent/sq.ft.	\$11	\$8.76	\$10
	Absorption (sq.ft)	-90k	+305k	-

## Myths

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- “Presidential elections determine everything”
  - “We can shrink government involvement/spending”
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# Elections

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<b>White House President</b>	<b>Republican</b>	<b>+7%</b>	<b>41 Years</b>
	<b>Democrat</b>	<b>+15%</b>	<b>48 Years</b>
<b>Divided Parties</b>	<ul style="list-style-type: none"><li>• <b>Republican President</b></li><li>• <b>Republican Congress</b></li></ul>	<b>+2%</b>	<b>12 Years</b>
	<ul style="list-style-type: none"><li>• <b>Democratic President</b></li><li>• <b>Split Congress</b></li></ul>	<b>+16%</b>	
	<ul style="list-style-type: none"><li>• <b>Republican President</b></li><li>• <b>Democratic Congress</b></li></ul>	<b>+9%</b>	<b>22 Years</b>
	<ul style="list-style-type: none"><li>• <b>Democratic President</b></li><li>• <b>Democratic Congress</b></li></ul>	<b>+14%</b>	<b>34 Years</b>



# Elections

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<b>Pre-Election Years</b>	<b>+17%</b>	<b>...2015 = +/- 1% (?)</b>
<b>Election Years</b>	<b>+11%</b>	<b>...2008 = -37%</b> <b>...2016 = +/-5%</b>
<b>Post Election/1<sup>st</sup> year Mid Term Year Election</b>	<b>+9%</b>	

**Depends more on the stage of the economy  
not election only**

•#1 Issue

Government Intervention

•#1 Myth

Economic Forecasts

# Overview

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# “Crazy Times...New Rules”

• Economy	No Recession Close
• Stocks	Historically Overvalued
• Bonds	Low Yield; Devaluation
• Alternatives	Increasing Allocations

- CRE

The Stable Investment

- REITs

Wall Street “Sweet Spot”

- Housing

Rising Consumer Driving GDP

## New Rules

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- Increasing Government Intervention
    - FRB/All Central Banks/Regulations
    - “Country Capitalism”/“State Capitalism”
  - Low GDP Growth and CAPEX
  - High Dividends/NOI and Equity
  - Changing Asset Allocation/Models
  - Shifting Economic Indicators
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# Top Issues: 2016 – Consumers, Earnings and Recession Fears

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## Good

- Strong Employment
- Solid USA Economy esp. Consumer
- Rebounding Residential
- Balanced CRE

**MAIN STREET**

## Bad

- Declining Corporate Earnings/CAPEX
- Narrow Market Breadth/Correction
- Shaky Global Growth
- Election Results

**WALL STREET**

## Ugly

- Confusing Central Bank(s) Actions
- Nervous Capital Markets esp. Debt /EM Credit/ USA Stocks
- Fears of Recession
- Terrorism/Black Swams

**GLOBE**

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# Top Real Estate Issues: 2016

...Stable, Steady, but Slowing Returns

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## Good

- Resilient GDP Drivers
- Minimal Overbuilding
- Very Attractive Investments Investors
- Rebounding Residential
- Favorite of Wall Street

## Bad

- Late Cycle GDP
- Strong, but “Flattening” Absorption
- Unknown Tax and Regulatory Reform
- More regulation on Bank/Non Bank Lending
- Affordability Issues

## Ugly

- Unclear Government Interventions
  - Potential Debt Issues
    - Maturities
    - CMBS
    - Interest Rates
  - Recession
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# Summary - Top Ten CRE Issues 2016-2017

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1. Domestic Economy – Continued Growth?
  2. Global Economy – Return to Growth?
  3. Global Capital Flows – More Trade and Transparency?
  4. Capital Markets (USA) – Reactions to Stock/Bond Markets?
  5. Capital Flows Into Alternatives- Continuation of Abundant Flows?
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6. CRE Arena – Pre-Bust or Continued Growth?
  7. CRE Fundamentals – Demand Continues to Grow?
  8. Government Intervention – Are Regulations “Watered Down?”
  9. Tax Reform – Any Changes Coming Due to Elections?
  10. CRE Debt/Equity – Do Good Times Continue?
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# Scorecard

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“Hits”	“Misses”	“Avoids”
<ul style="list-style-type: none"><li>• Economy</li></ul>	<ul style="list-style-type: none"><li>• Global Economy</li></ul>	<ul style="list-style-type: none"><li>• Stocks (mid 2014-2016)</li></ul>
<ul style="list-style-type: none"><li>• Interest Rates/Bonds</li></ul>	<ul style="list-style-type: none"><li>• Stocks – Summer</li></ul>	<ul style="list-style-type: none"><li>• High Yield Bonds</li></ul>
<ul style="list-style-type: none"><li>• Residential</li></ul>	<ul style="list-style-type: none"><li>• Energy / Oil</li></ul>	<ul style="list-style-type: none"><li>• Emerging Markets, esp. China</li></ul>
<ul style="list-style-type: none"><li>• CRE / Rentals</li></ul>	<ul style="list-style-type: none"><li>• Small Caps</li></ul>	<ul style="list-style-type: none"><li>• High End/Luxury Real Estate</li></ul>
<ul style="list-style-type: none"><li>• Buy Dips/Stocks</li></ul>	<ul style="list-style-type: none"><li>• Europe</li></ul>	<ul style="list-style-type: none"><li>• Japan</li></ul>



Dennis P. Yeskey

Yeskey Consulting (Yc) and Investments (Yi)

Mr. Yeskey is the Founder and Managing Partner for two firms: Yeskey Consulting (Yc) and Yeskey Investments (Yi). Yc is a unique company formed 7 years ago after Dennis's retirement from Deloitte as the Senior National Partner in charge of Real Estate Capital Markets, and after over 40 years in the business world. Yc accepts a limited number of consulting and research assignments which are mostly focused on developing new business strategies, debt restructurings and operational improvements. Mr. Yeskey is also the Managing Partner of Yi which involves managing a family office and a series of private investments, along with developing new research boutique operation. He is well known for his re-structuring skills.

While at Deloitte, Mr. Yeskey was recognized as the senior leader and game changer of Deloitte's Real Estate, Financial Services and Capital Markets Practices both domestically and globally. Initially, recruited by Deloitte's Chairman to head the NYC office's real estate services practice, he successfully restructured the practice and achieved an annual growth exceeding 25% with a staff of over 250 professionals. Promoted to the Group Managing Partner at Deloitte, he led a practice of over 1000 professionals focused on the real estate, investment management, private equity, hedge fund and insurance industries. He served on the New York Executive Committee, the firm's National and Global Financial Services Practices and directed the financial services marketing and eminence building activities.

Before joining Deloitte, he was a partner and practice leader at Kenneth Leventhal and Co. from 1987-1995 where he initiated a new practice focused on institutional real estate, specifically, insurance based real estate. He is a long time member and Governor of ULI, as well as being active on the Real Estate Round Table. He is a frequent speaker at numerous real estate industry events and author of industry publications. He received his MBA from Columbia University Business School along with an MS and BS from the Swanson School of Engineering at the University of Pittsburgh.

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