



MIAMI HERBERT  
BUSINESS SCHOOL

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CREW Luncheon: Four Seasons  
Brickell

Getting Beyond the Hype on  
Economic Indicators



# Anybody Recognize this Creature?

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- Or this quote?
- “Both optimists and pessimists contribute to society. The optimist invents the airplane, the pessimist the....”

So What  
Economic  
Topics are  
Getting the  
Most  
Attention?

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Economic Growth-Real GDP Growth

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INFLATION

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Unemployment Rate/Job Creation/Help Wanted

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People Moving to Florida

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Our Shortage of Affordable Housing

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There Are Some Things That Make Me Nervous...

**Real GDP**  
Growth  
Clocked in at a  
Post-War  
Record of 5.5%  
in 2021 and is  
Forecast to be  
4.5% in 2022

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Comparable to a “developing”  
nation!

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Definitely not sustainable

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No wonder people are spending  
money!

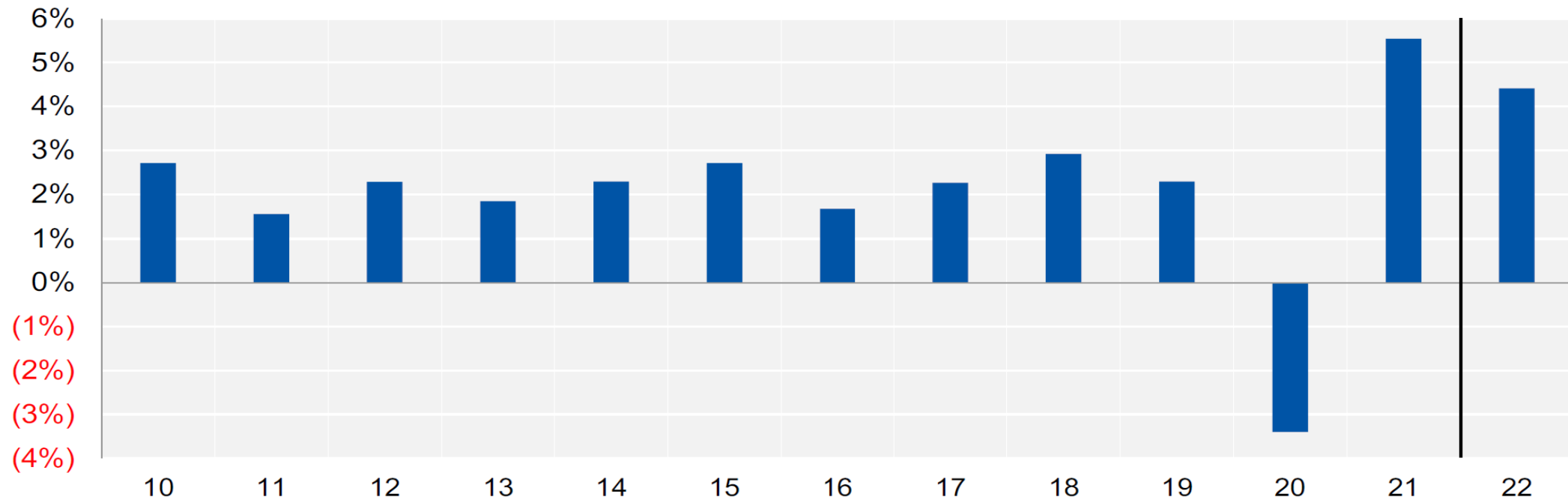
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Completely explainable if you  
look beyond the hype...

2010-2019 averaged 2.5%  
2020- 2022 average ?

Year-Over-Year Real GDP Growth

Real GDP Growth (Year-over-Year %)



# Inflation Measured by the CPI is at its highest rate since 1982

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- CPI grew by 7+% in 2021 according to recent estimates
- The inflation index for Personal Consumption Expenditures is a better measure
- It was at 4% in June 2021, 5.7% now
- PCE x F&E was 3.6% in June 2021, 4.7% now

Most  
Economists  
are Not all  
That  
Concerned  
About  
Inflation...

- The U.S. economy was evolving more towards a service-based economy pre-Covid
- The price of services is “sticky” upwards and downwards-Why?
- Covid resulted in lots of purchases of goods
- Prices of goods adjust upwards and downwards much more quickly

# I like two other Inflation measures:

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- Dallas Fed “Trimmed Mean” CPI
  - 180 consumption goods
  - Delete 60 lowest price increase and 60 highest price increases
  - 2% in June, 2.8% now
- Consistent with Cleveland Fed Inflationary Expectations Model
  - Expected Average Inflation Over the Next **Ten Years** = 1.78%
  - Based on Treasury Bond and Bond Futures Trading
  - Was 2% in August 2018, rising back to that level





# Wait a minute, isn't inflation good for CRE?

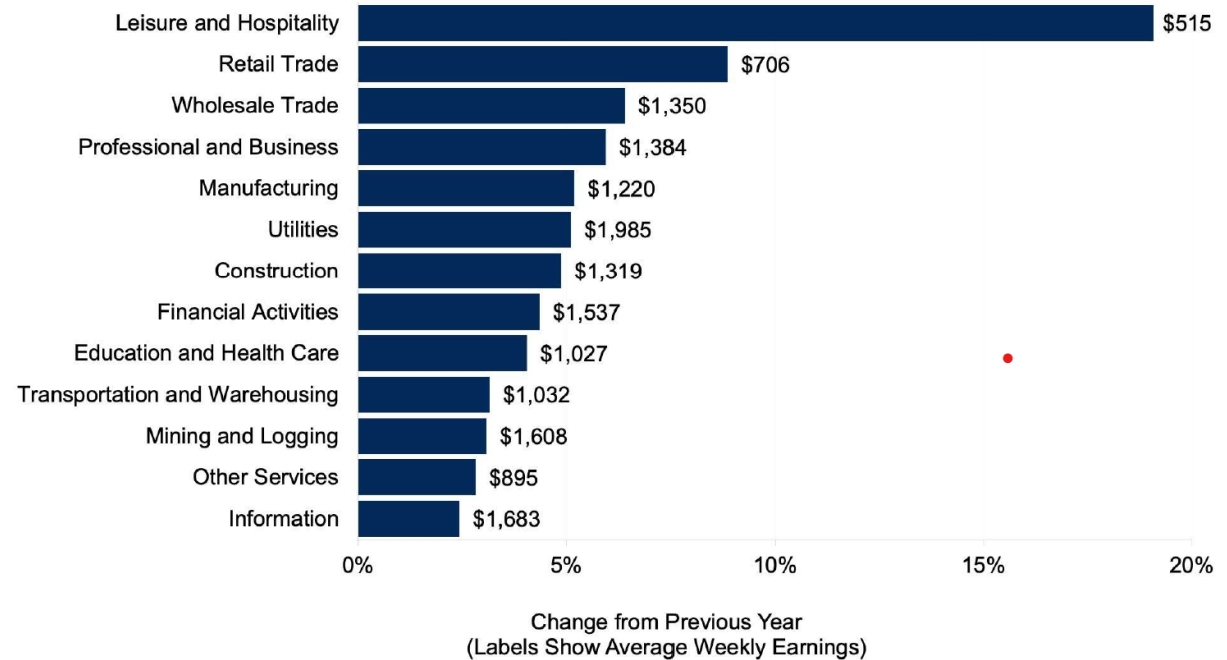
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- Greg Mackinnon, Director of Research for PREA
- “What Would Higher Inflation Mean for CRE?”
- Three effects:
  - $V = \text{NOI} / \text{Cap Rate}$
  - $\text{Cap Rate} = \text{Risk Free Rate} + \text{Risk Spread}$
- Inflation Raises NOI 😊
- Inflation Raises Risk Free Rate ☹️
- Inflation May Raise Risk Spread ☹️
- Empirically, 1978 – 2020, Apartment and Office do well
- Retail and Industrial don't..

# Unemployment: Where Have all the Workers Gone?

- Their wages are rising...
- But where are they?
  - Retired
  - Working Mothers with no Childcare when Schools Close
  - Vaccine Resisters
  - Independent Contractors
  - Immigrants

## Low-Wage Sectors See Strongest Earnings Growth



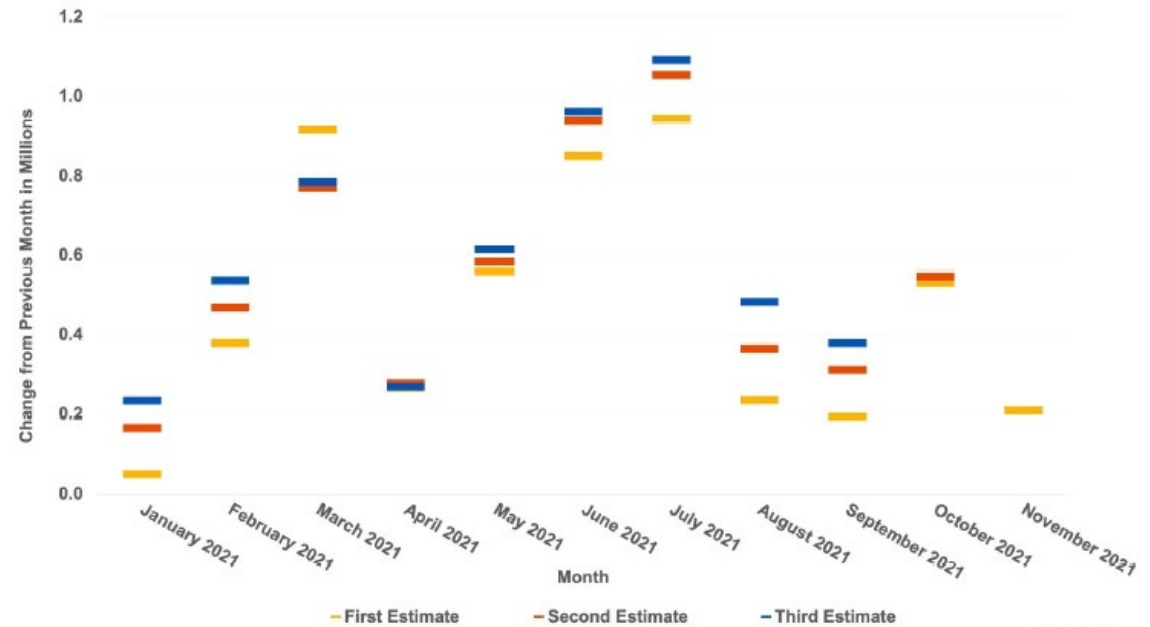
Source: Bureau of Labor Statistics, December 2021



And, the Jobs Reports are Seldom Accurate When First Released

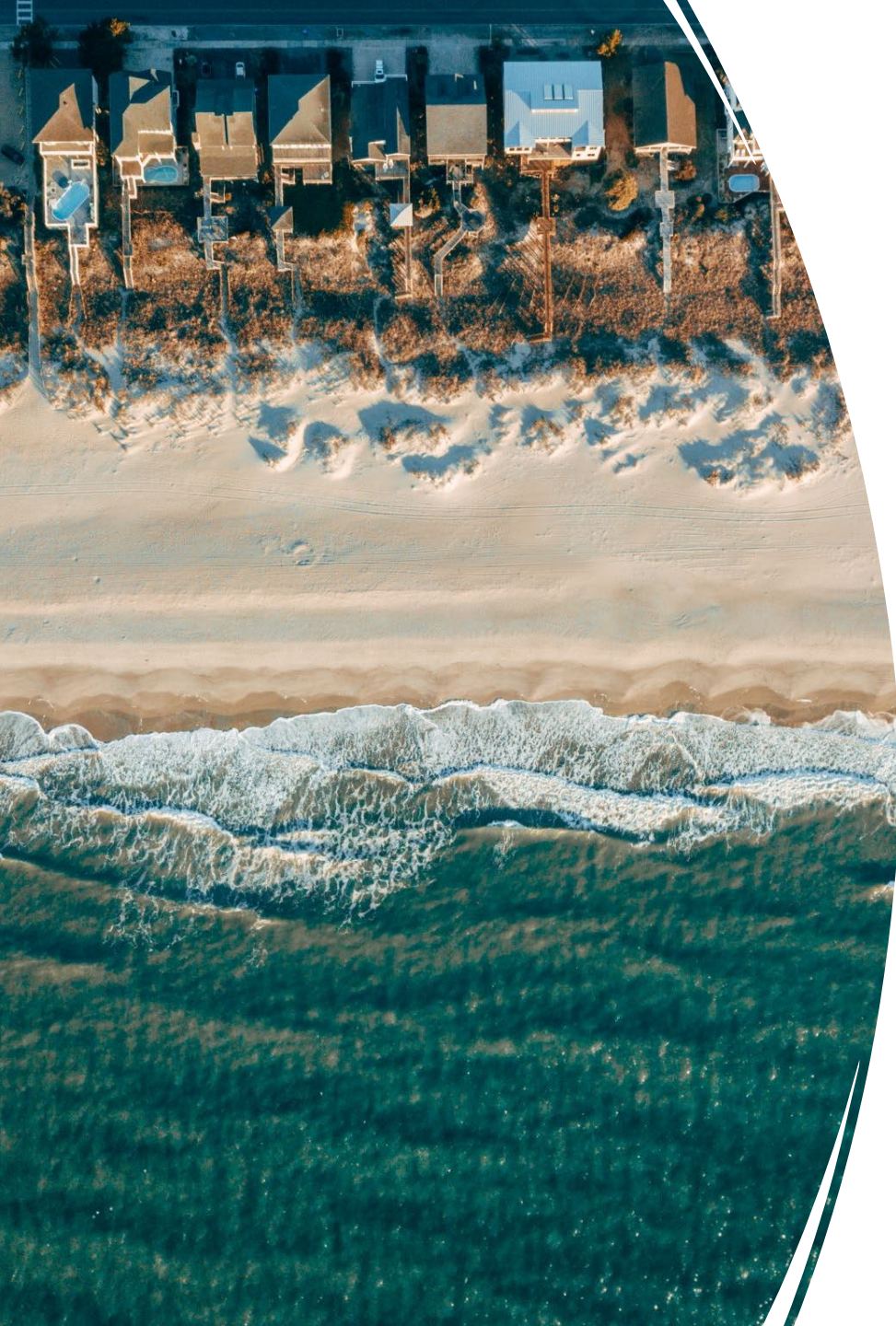
- Check out the typical direction of the revisions

### Revisions to Nonfarm Jobs Have Been Positive



Source: Bureau of Labor Statistics, November 2021





# Aren't Millions of People Moving to Florida?

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- In 2021 about 220,000 moved here (4,000 a week)
- Out of the people already living here about the same number died as were born
- The newcomers moved to:
  - Sumter County (+40%)
  - Osceola County (+40%)
  - St. John's County (35%)

# Then why don't we have any housing?

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- And why are rents rising so quickly and why are there bidding wars on “normal” houses?
- Single Family Rental is a permanent change
  - Theoretically:
    - Increases Labor Mobility
    - Allows People who Can't Afford Housing Access to Schools and Amenities
    - Improves Outcomes Healthwise and for Children
    - Improves Maintenance, Allows Upgrades
    - Decreased Crime Rates
- Blackstone is Actually Offering Lease/Purchase Option
  - They can save about 5% a year on Capex, offer some of that to tenants
  - Pre-emptive Marketing

The Blackstone logo is displayed in white serif font within a white rectangular border, centered on a black background.

# What Does Make Me Nervous...

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WALDORF ASTORIA MIAMI IS THE NEW HOTEL RESIDENTIAL TOWER BEING DEVELOPED IN DOWNTOWN MIAMI, WHICH WILL BECOME THE TALLEST BUILDING IN FLORIDA. DESIGNED BY THE WORLD FAMOUS ARCHITECT, CARLOS OTT.

Build it and they will come: Resi agents join the South Florida spec home development craze

- Commercial Real Estate's Value is "Value in Use"
  - Location
  - Quality of the Building's Design
  - Efficiency of the Building's Operations
- It is not a Good Sign when the developer or owner brags about as building as the "most expensive", or "the tallest"
- It is also not a good sign when people who are experts in one field think that makes them experts in a related field...