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EXCELLENCE IN COMMERCIAL REAL ESTATE

# What is CCIM Institute?

- **Global:**
  - 13,500 members, more than
  - 58 chapters throughout the world
  - 30 countries,
  - CCIM educates and connects the world's leading CRE experts





# What is CCIM Institute?

- **In Russia**
  - Began in 1991
  - 462 Professionals have taken CCIM classes
  - 195 current CCIM Designees



# What is CCIM Institute?



**13,500**  
CCIM  
members |  
**55** local  
chapters  
**30** countries  
worldwide |  
**60** CCIM  
members in  
Russia



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# Networking

**260 Annual Events around the world**

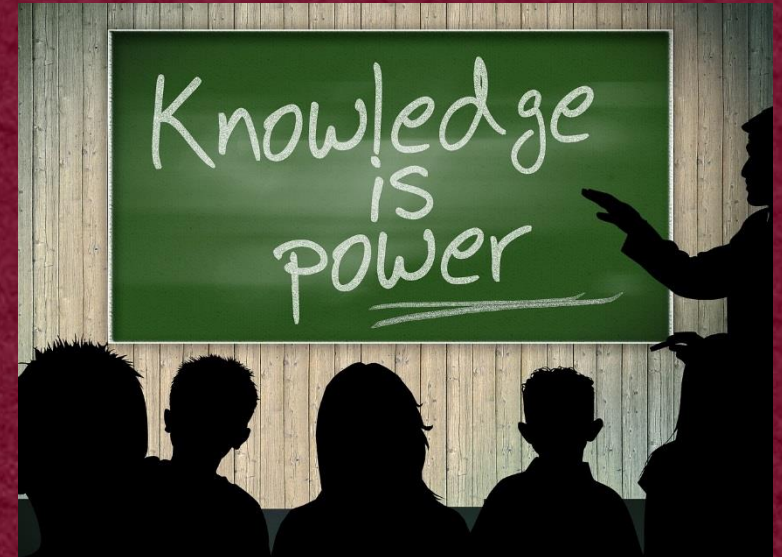
- Business Meetings
- Market Forecasts
- Social Events
- Charitable Activities





# What is CCIM Institute?

- **The Gold Standard:**
  - Less than one percent of all commercial real estate practitioners hold the CCIM designation
- **Diverse Membership:**
  - Attorneys
  - Chartered Accountants
  - Appraisers
  - Lenders





# WHY INTERNATIONAL EDUCATION?

- **Apply standardization of methods for real estate analysis**
- Facilitate cross-border transactions
- Expand educational opportunities
- Global brand recognition



# The World Today

....."The Global Language of Commercial Real Estate"

*Alexander Sharapov, MIPIM 2017*

*President, Becar Asset Management Group*

*Vice President, Russian Guild of Property  
Managers and Developers*

**This is a market primed for the expertise of a CCIM.**





# WHERE IS CCIM TEACHING?

Russia	
Poland	Egypt
Canada	Mexico
Ghana	Turkey
South Korea	China
Japan	Taiwan



# To Earn the CCIM Designation:

- Negotiations course
- Ethics Course
- 160 Classroom Hours
- Two course electives
- Proven transactions performance







## New Courses

- Development
- Partnership Profit Splits
- Industrial Distribution
- Leasing Accounting Standards
- IRR Calculation



## Come Join Us

- Enhance Your Education
- Enhance Your Expertise
- Enhance your Leadership Position
- Become and Active Member of Real Estate's Most Respected Global Network

Become a CCIM!





# Join Us in Toronto

**CCIM Institute's Global Conference, Oct. 14-18, 2017 at the Westin Harbour Castle:**

- Interactive sessions with industry experts and top CRE firms
- Networking events with CCIMs from around the globe
- Decisions that will shape the future of CCIM Institute

# ***PROESTATE 2017***

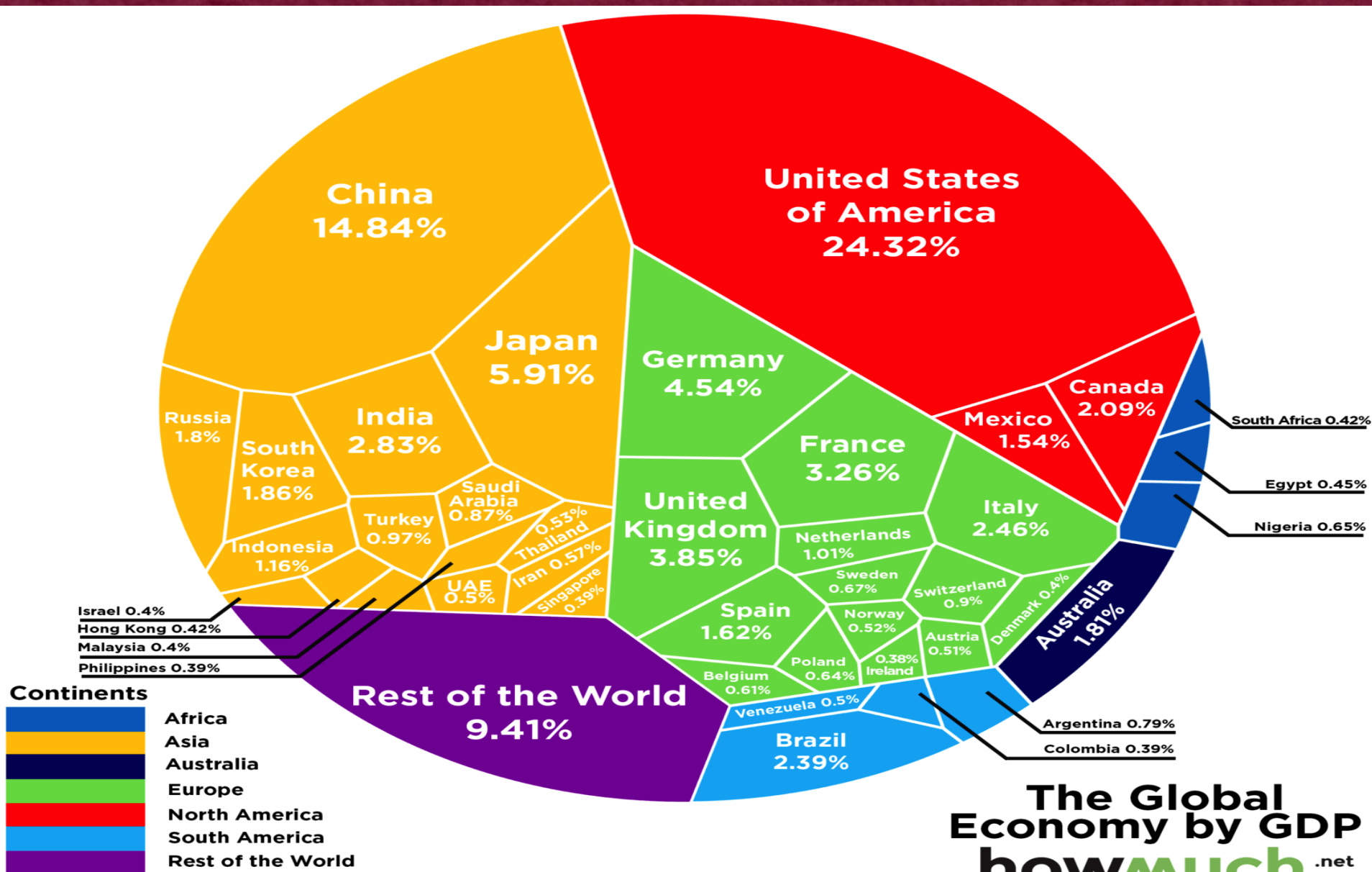
## **Real Estate Outlook & Opportunities**

**Robin L. Webb, CCIM, CPM**  
**2017 International CCIM Institute President**



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Sources: World Development Indicators database, World Bank, 1 February 2017

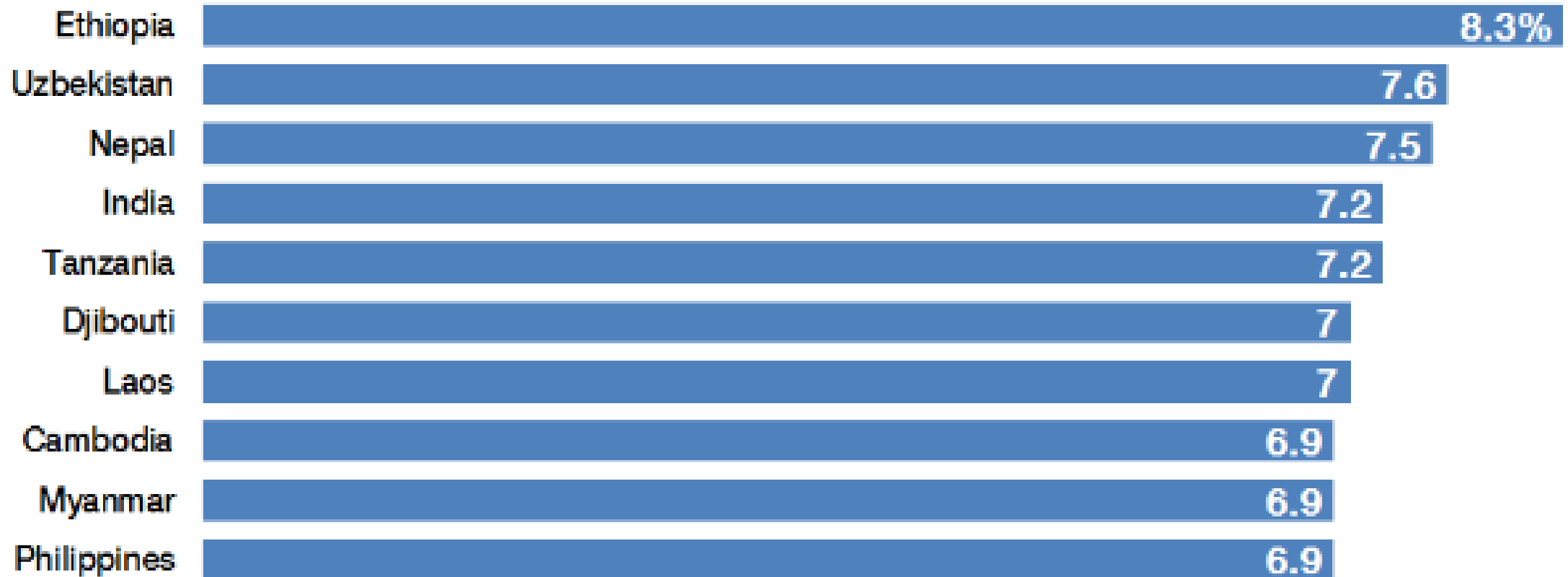
**The Global  
Economy by GDP**  
**howmuch**.net

**CCIM** 50 YEARS  
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# The world's fastest growing economies

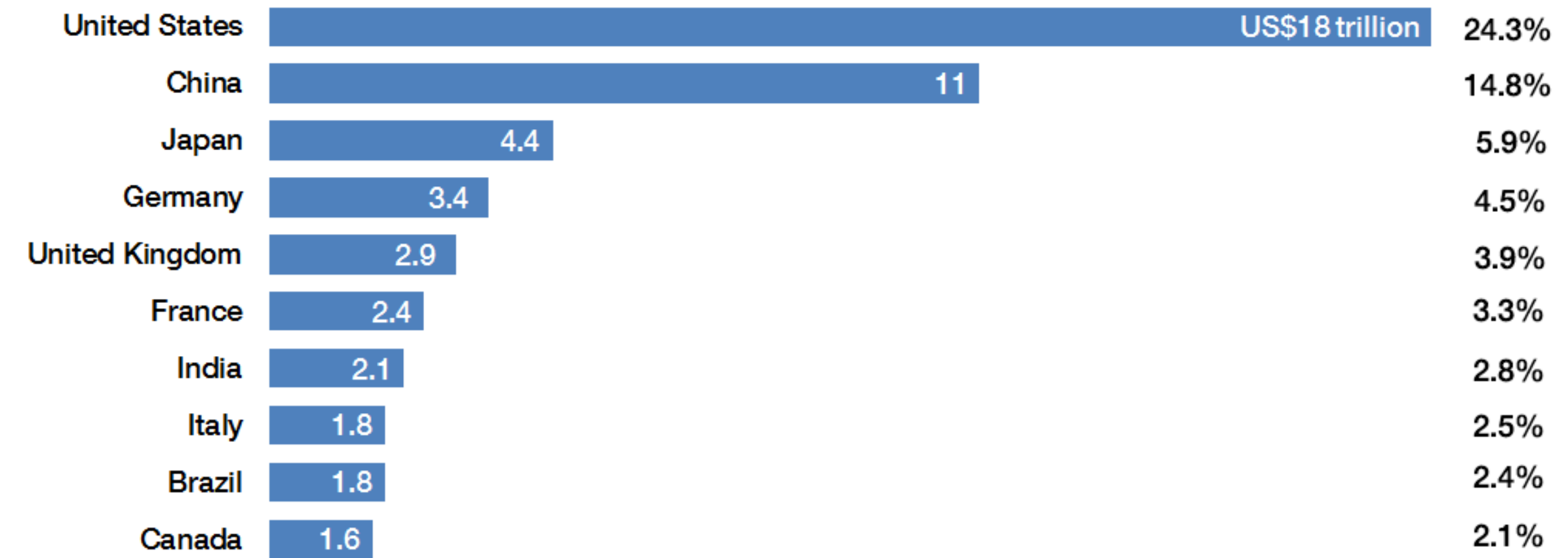
Forecast GDP growth, 2017





# The world's biggest economies

GDP in current USD and share of global total, latest World Bank data, 2015



Source: World Bank and Visual Capitalist



## SUMMARY OF U.S. ECONOMY

**U.S. growth expected to continue at +/-2-2.5% for years**

- **Positive GDP growth factors**
  - **Promise of lower taxes, reduced regulation, keeps consumers and businesses confident**
  - **Possibility of repatriating internationally corporate retained earnings**
- **Negative GDP growth factors**
  - **Disruptive international events creating volatility**
  - **Limited immigration**
  - **Continued erosion of middle-class jobs from automation**
  - **Lack of productivity growth from the service sector**

Source: NAI Global, Global Economic Briefing, June 15, 2017



## SUMMARY OF U.S. ECONOMY

- **U.S. job market is tight:**
  - **4.3% unemployment rate is lowest in 16 years**
  - **High probability of increased wages**
  - **80 months of month-over-month job growth limits the candidate pool**
  - **15.7 million jobs is the largest job growth in a U.S. expansion**
  - **Commercial mortgage rates up 50-75 basis points.**

Source: NAI Global, Global Economic Briefing, June 15, 2017





# Commercial Real Estate Returns

**Unlevered NCREIF NPI 7 year rolling holding period returns or total returns averaged 7.9% and 5.7% after inflation**

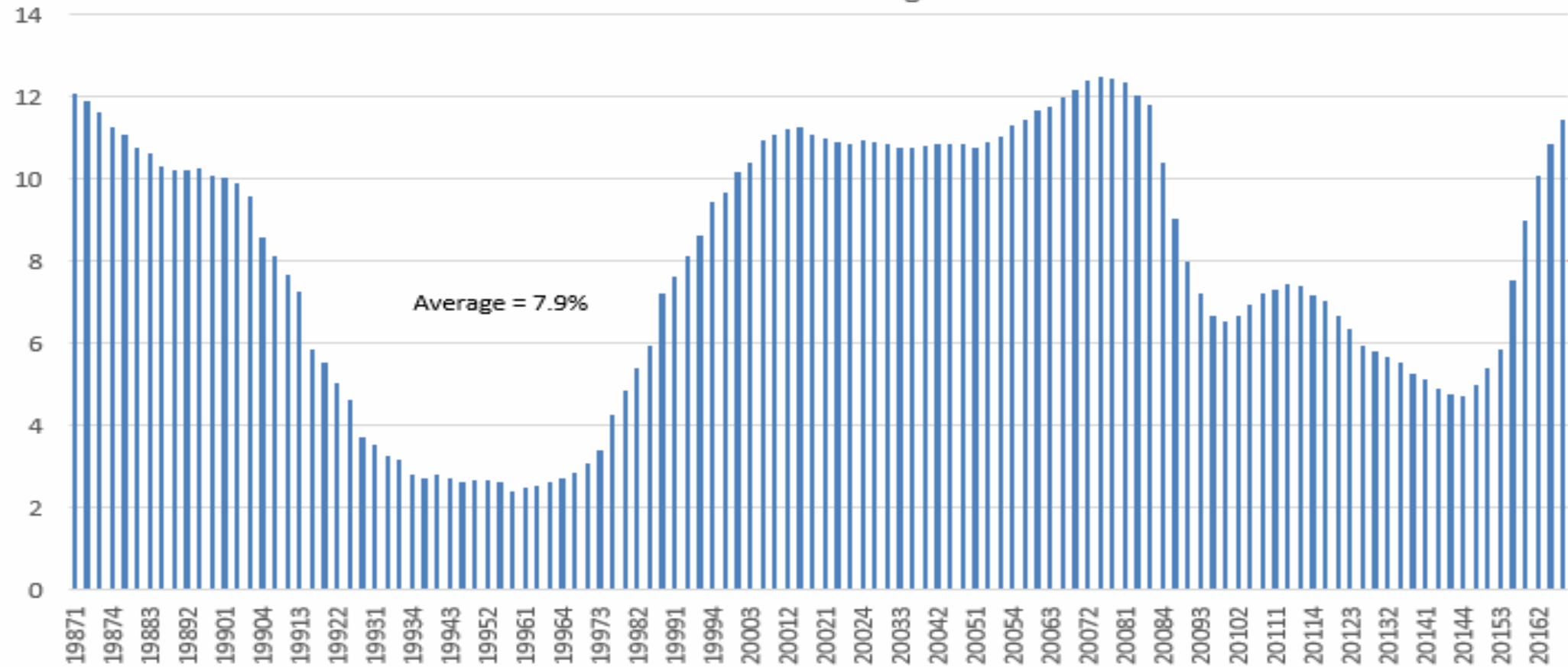
**Seven Year Holding Period for the NCREIF NPI Series, 1987-2016**

Property Type	Mean Return	Standard Deviaiton	Sharpe Ratio
All	7.9%	3.6%	0.62
Apartment	9.1%	2.8%	1.21
Industrial	8.3%	3.8%	0.7
Office	7.0%	4.8%	0.28
Retail	8.7%	3.5%	0.85
Hotel	8.6%	4.4%	0.67

Source: NCREIF, Marquette University, and the University of San Diego, from NAI Global, Global Economic Briefing, June 15, 2017

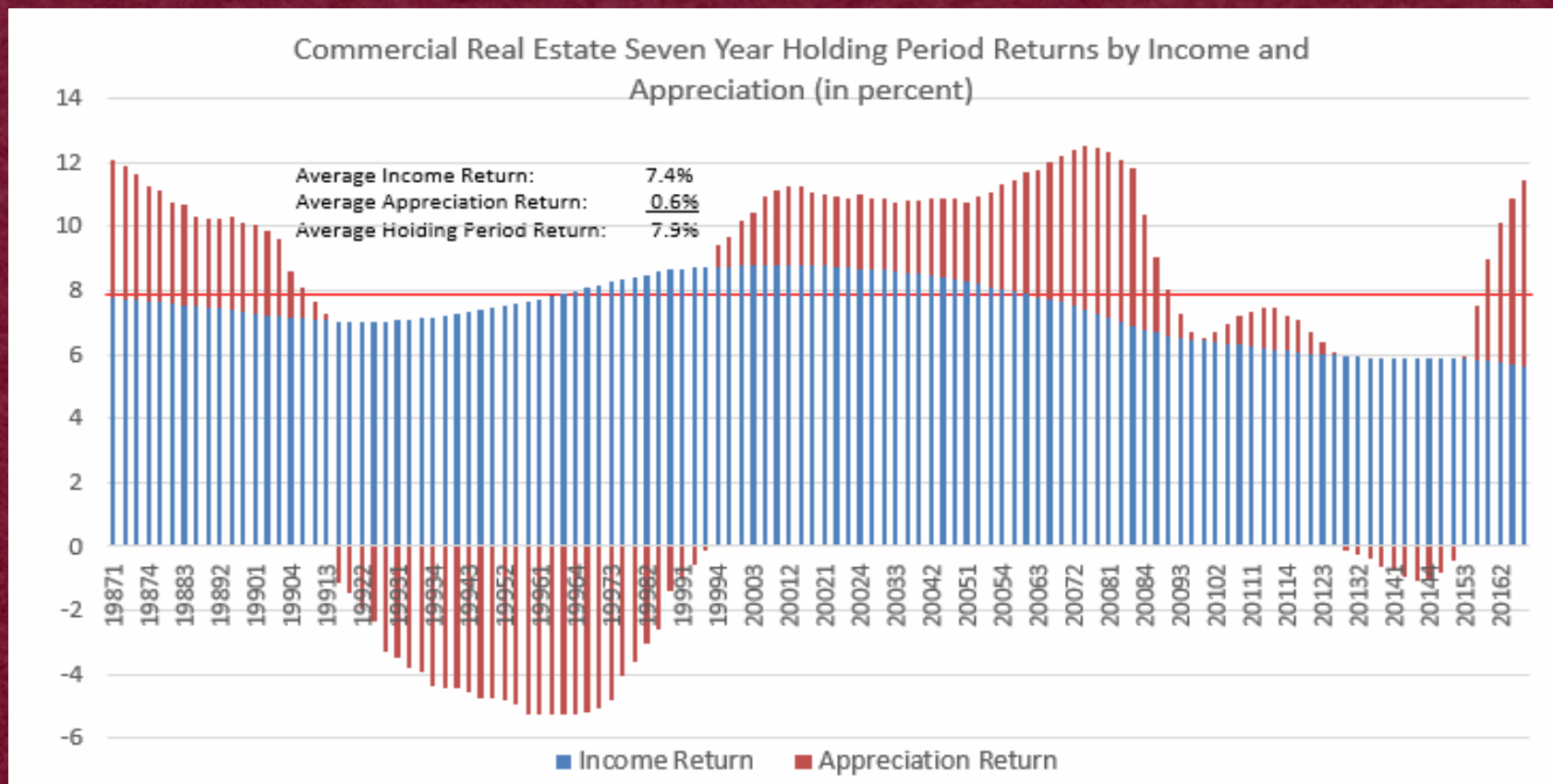


## Commercial Real Estate Seven Year Holding Period Returns



Source: Federal Reserve Economic Data, NCREIF, and Marquette University, from NAI Global, Global Economic Briefing, June 15, 2017

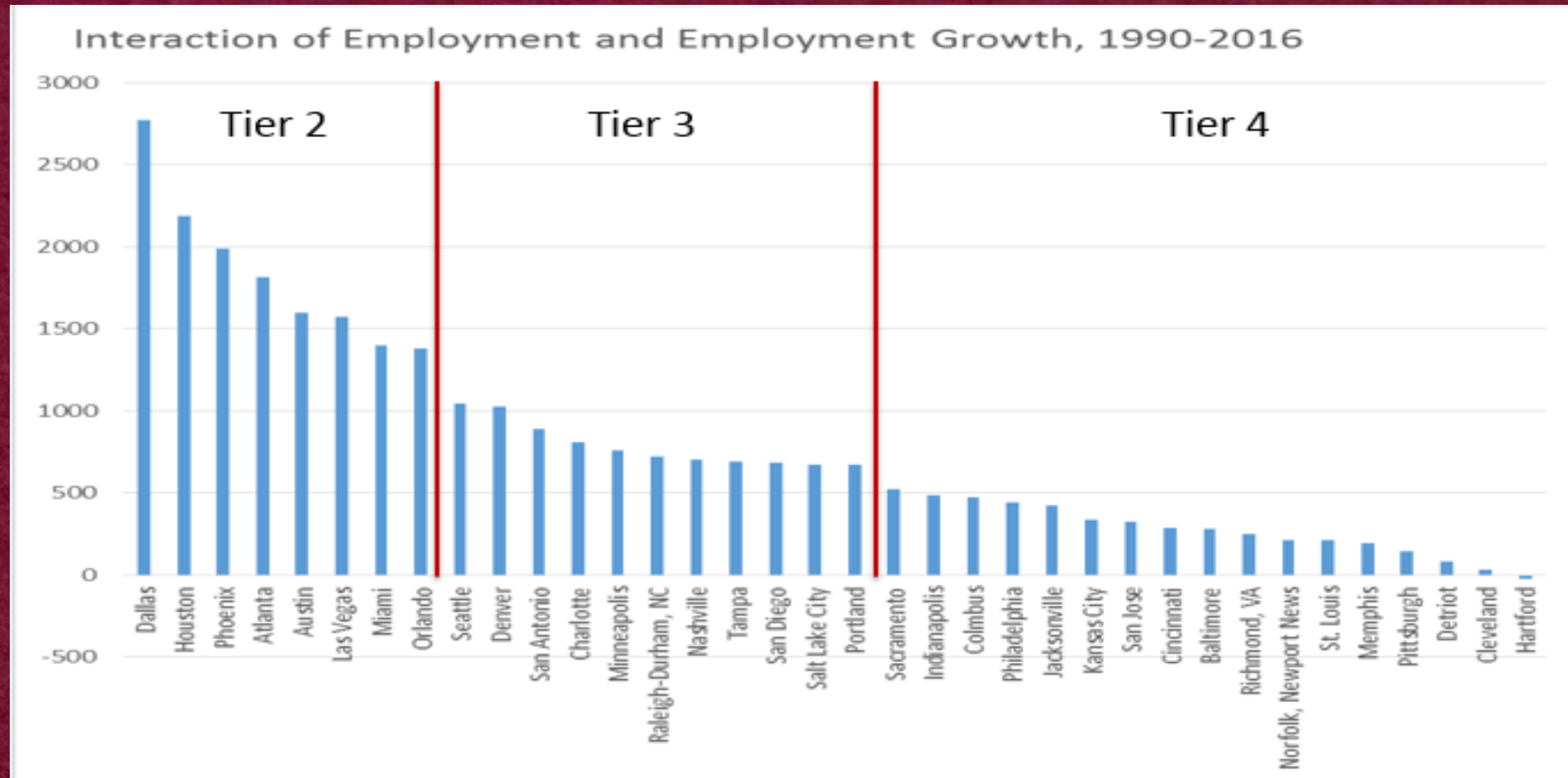
# Holding Period Returns were Dominated by Income Returns During a Period of Falling Cap Rates



Source: Federal Reserve Economic Data, NCREIF, and Marquette University, from NAI Global, Global Economic Briefing, June 15, 2017



# How Market Size (liquidity) and Market Growth Impact Investment Returns



Source: Department of Labor Current Labor Statistics, Marquette University and the University of San Diego, from NAI Global, Global Economic Briefing, June 15, 2017

## Tiers 1 and 3 Perform Best as Investors Seek Safety in Tier 1 Markets and Growth Potential in Tier 3 Markets

### Seven Year Holding Period Returns by City Tier (1987-2016)

Seven Year Holding Period Returns	Tier 1	Tier 2	Tier 3	Tier 4
Apartments	9.63	8.70	9.62	8.91
Industrial	8.54	7.51	8.74	7.80
Office	7.75	6.07	6.43	5.76
Retail	9.14	8.61	9.00	8.54

Source: Department of Labor Current Labor Statistics, Marquette University and the University of San Diego, from NAI Global, Global Economic Briefing, June 15, 2017





Price \$2 Million (US)

Rent: \$150,000 NNN

Escalations: 2.5%

Cap Rate: 7.5%

Hold: 5 Years

Sale Cap: 7%

IRR: 10.79%



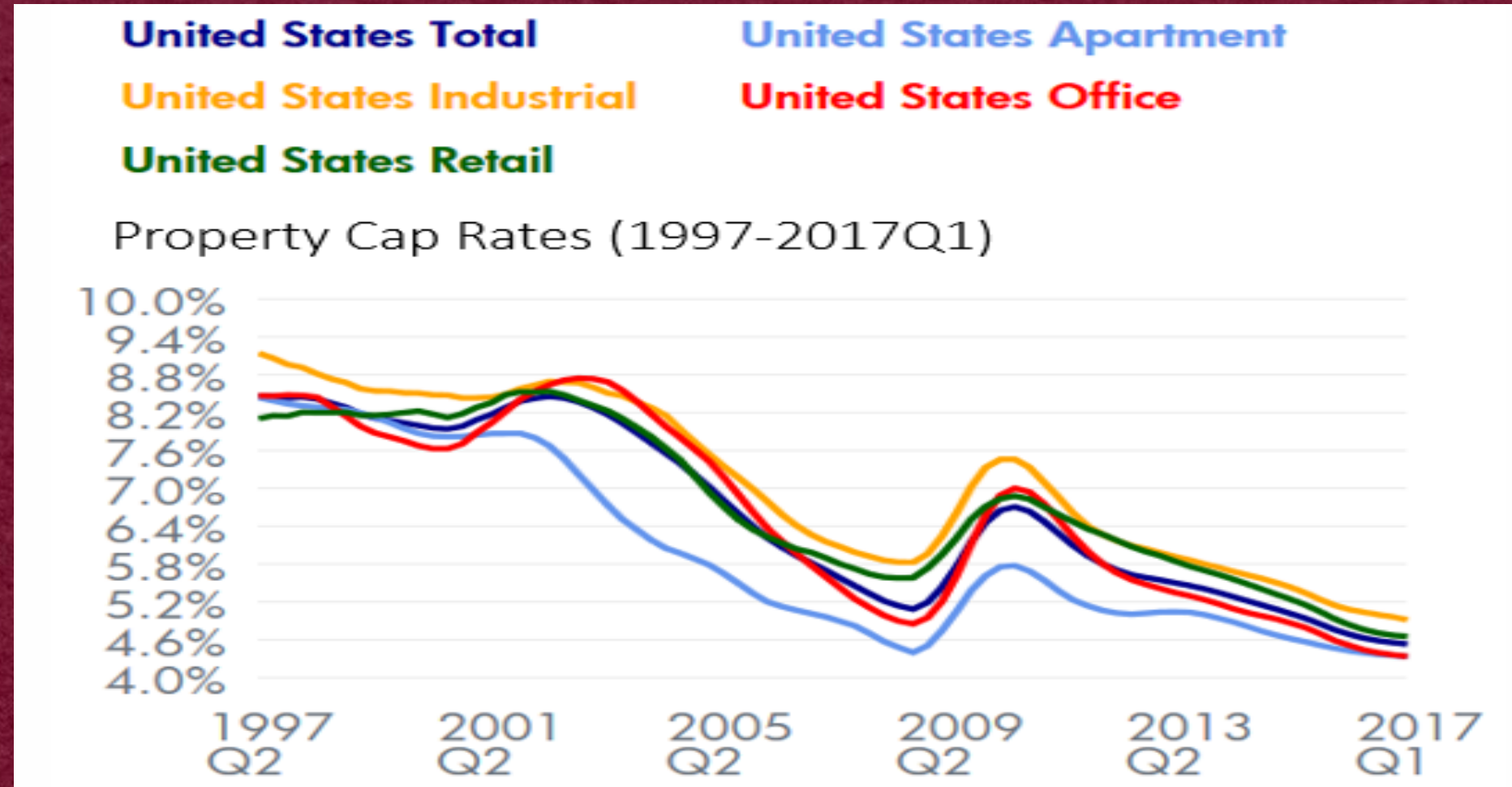
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# Capitalization Rates

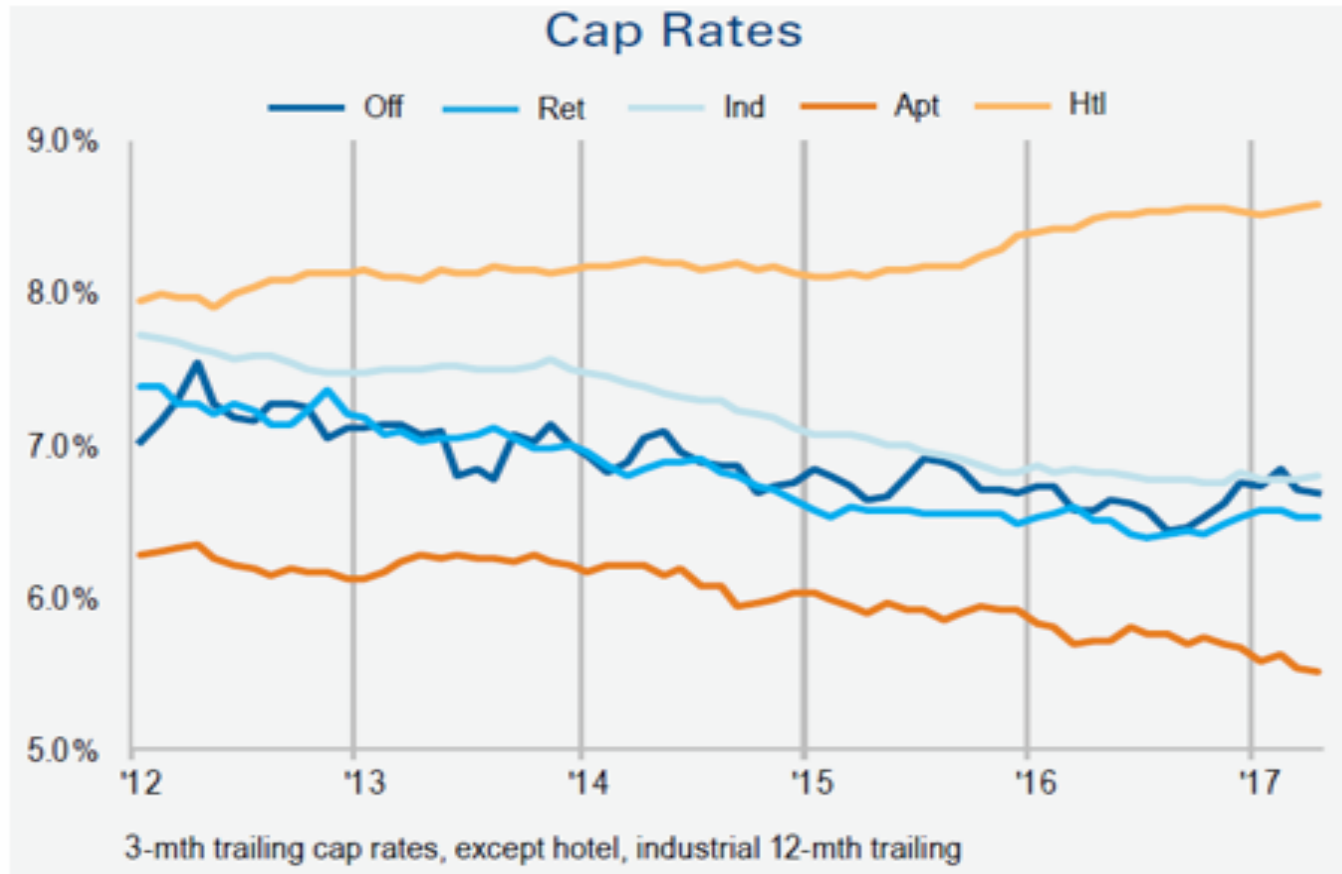


## NCREIF NPI Implied Cap Rates



Source: NCREIF, from NAI Global, Global Economic Briefing, June 15, 2017

## Real Capital Analytics Data (transactions > \$2.5 million) Reveal Similar Trends



Source: Real Capital Analytics, from NAI Global, Global Economic Briefing, June 15, 2017



# Property Holding Period Returns and Cap Rates Have Provided Inflation Adjusted and Risk-Adjusted Returns

## Positive attributes of real estate investment returns and cap rates

- 7.9% average 7 year holding period returns match pension obligations
- 7%+ of the return comes from property income
- Property income maintains little volatility
- Even at current low cap rates, real estate returns are appropriate relative to other investment vehicles



# Property Holding Period Returns and Cap Rates Have Provided Inflation-Adjusted and Risk-Adjusted Returns

## Negative attributes of real estate investment returns and cap rates

- Cap rates have migrated to or near all time lows
- Cap rates compressed over the last 2 decades with little property appreciation

## What to expect

- Cap rates to stabilize and expand slightly (25 basis points) over the year



# Capital Flows

## U.S. Real Estate Transactions

Commercial Real Estate Transaction Volume		
	April 2017 Year-to-Date Volume (in billions)	April 2017 Year-to-Date, YOY Change
All Property	22.8	-17%
Apartment	9.4	-26%
Industrial	2.5	-7%
Office	6	-7%
Retail	2.9	-17%
Hotel	1.4	-21%

Source: Real Capital Analytics and Marquette University, from NAI Global, Global Economic Briefing, June 15, 2017



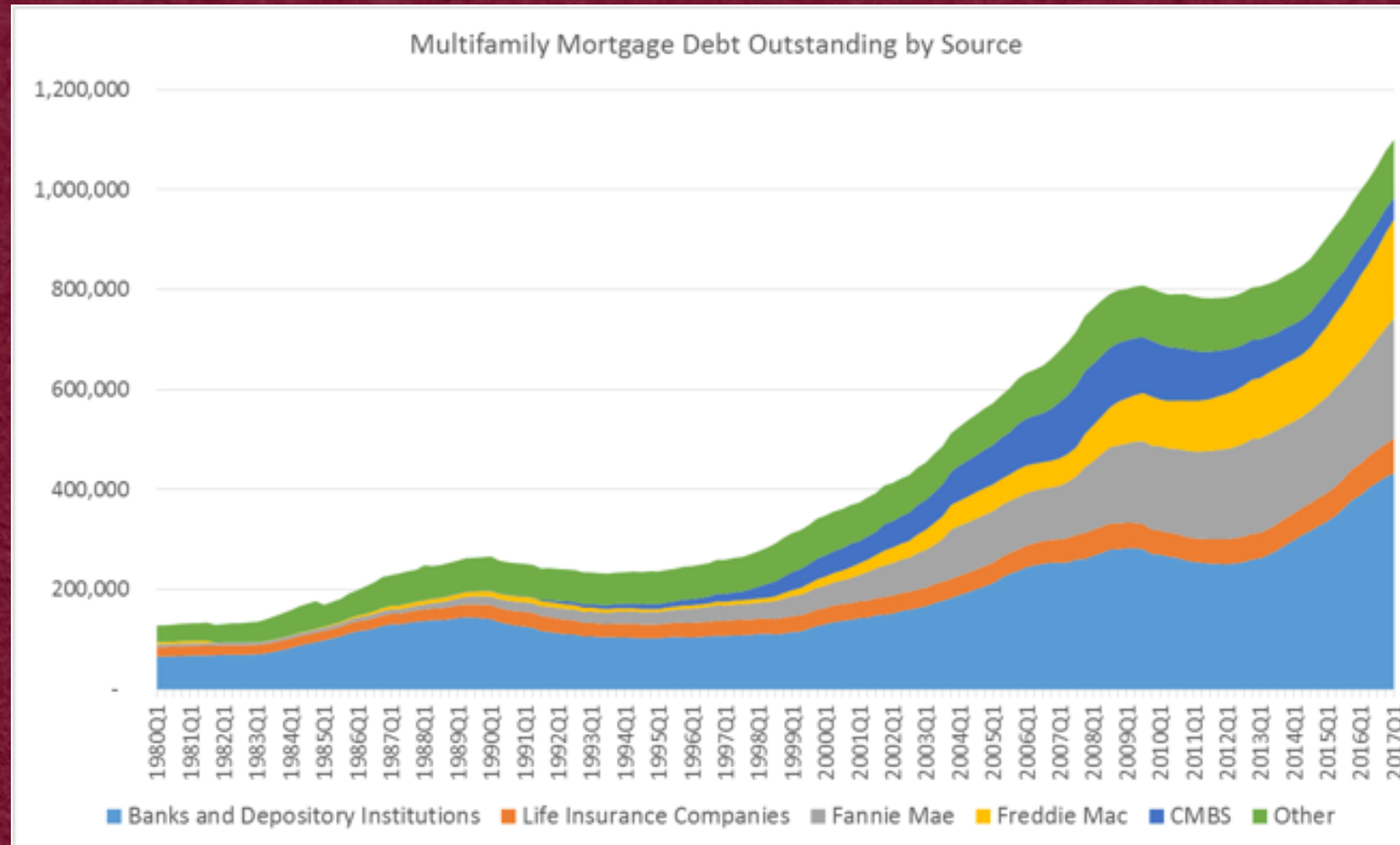
# CalPERS, the Largest U.S. Pension Fund Leads in Increasing Its Allocation to Commercial Real Estate

CALPERS' Allocation to Equity Real Estate			
Year	Real Estate Allocation (in billions)	Assets Under Management (in billions)	Percent Allocation to Equity Real Estate
2002	\$13	\$143	9.3%
2004	\$11	\$133	8.3%
2006	\$11	\$164	6.9%
2008	\$20	\$205	9.8%
2010	\$22	\$199	11.0%
2012	\$23	\$212	10.9%
2014	\$24	\$232	10.1%
2016	\$31	\$293	10.6%
2017+			13.0%

Note: CalPERS is reducing its discount rate from 7.5% in 2016 to 7.0% over a number of years

Source: 2002-2016 Comprehensive Financial Report: CalPERS, IPE Real Estate, April 12, 2017, from NAI Global, Global Economic Briefing, June 15, 2017

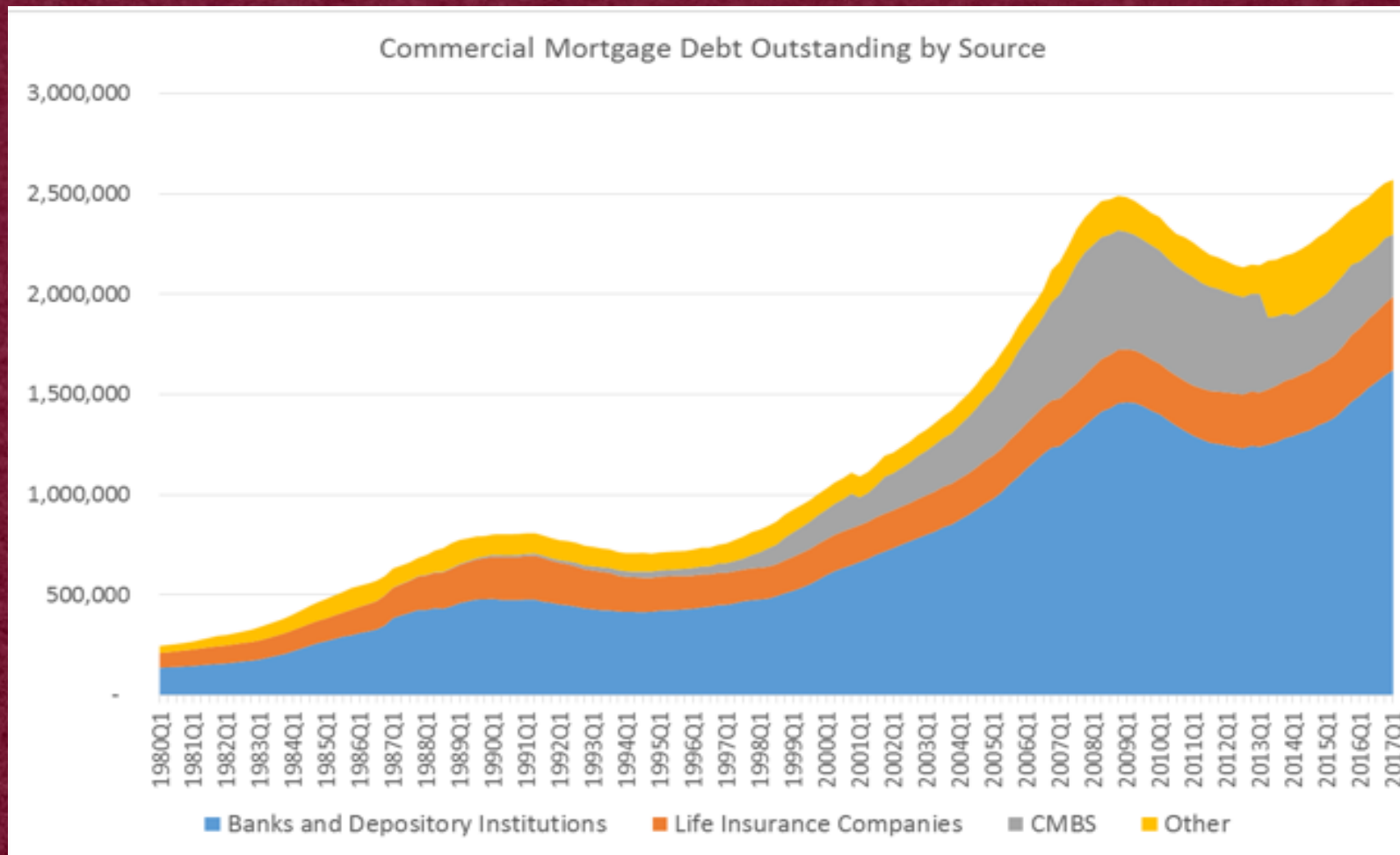
## Multifamily Debt Capital Flows from Banks and Agencies (Fannie and Freddie) Have Increased



Source: Board of Governors of the Federal Reserve System and Marquette University, from NAI Global, Global Economic Briefing, June 15, 2017



## Banks Have Also Increased Lending as CMBS Mortgage Debt Outstanding Declines



Source: Board of Governors of the Federal Reserve System and Marquette University, from NAI Global, Global Economic Briefing, June 15, 2017



## Transaction and Debt Volumes Summary

### **Positive attributes of transaction and debt volumes**

- Transaction volume is moderating, were running close to bubble levels
- Equity sources are on the sidelines, waiting to invest
- Real estate is a good investment due to its cash flow attributes
- Bank and CMBS lenders seem to have broken the pro-cyclical cycle of the past



# Transaction and Debt Volumes Summary

## Negative attributes of transactions and debt volumes

- Apartment debt levels are high, but may be needed to accommodate more renters

## What to expect

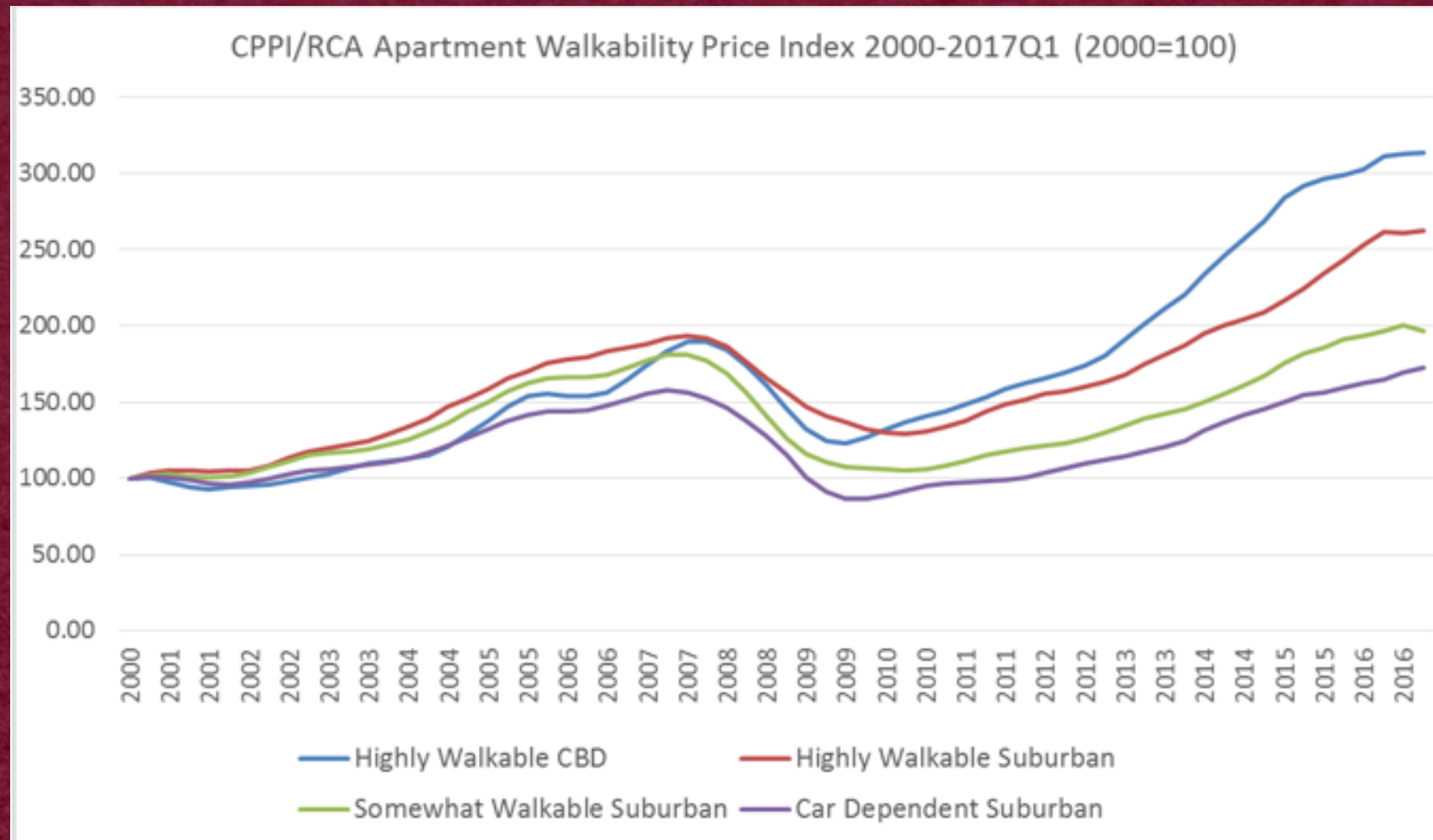
- Appropriate levels of debt and equity in the market
- Debt and equity managing investment risk
- Investment bubble concerns are abating



# The Space Markets

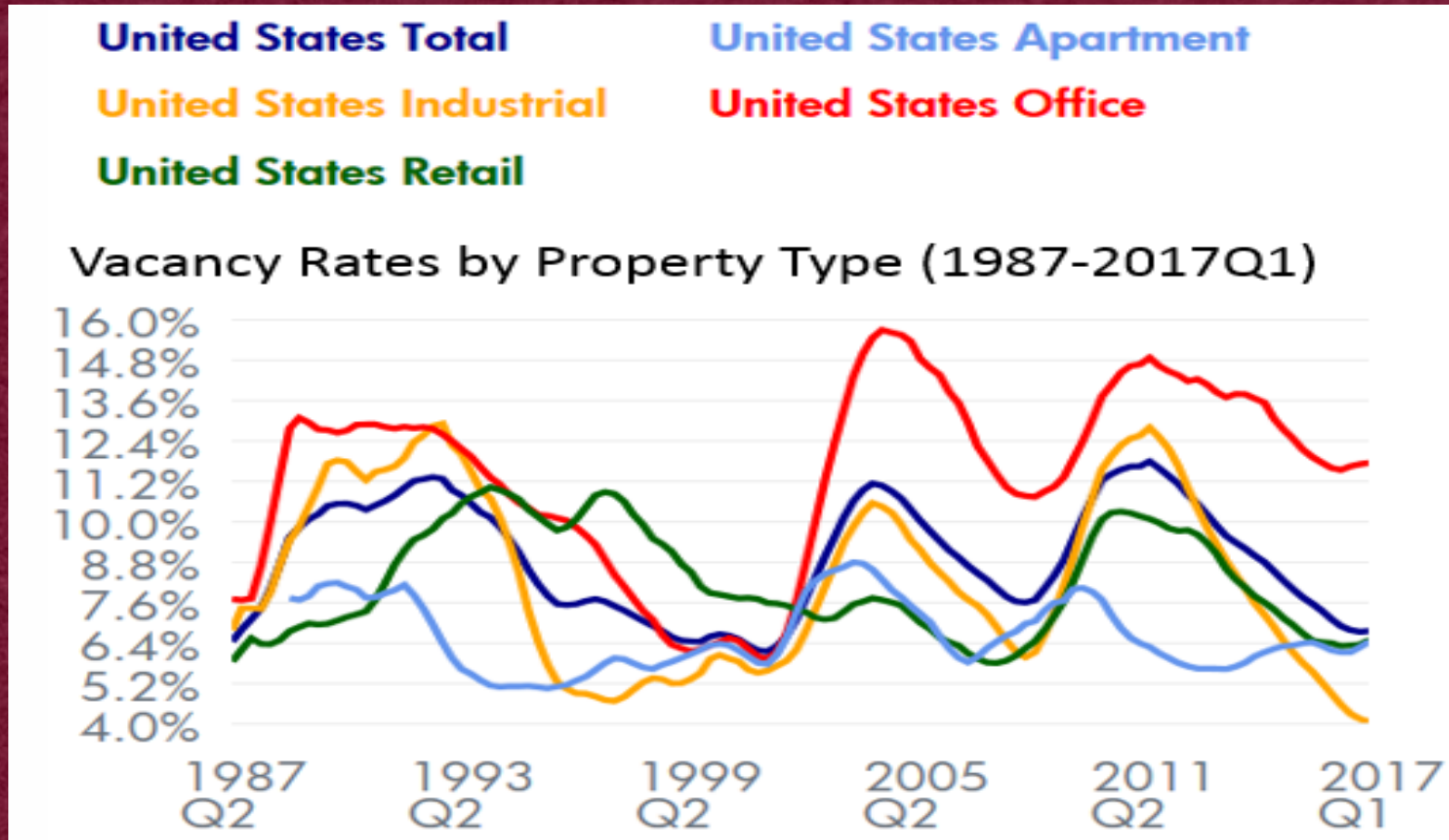


## Walkability and Infill Development Outperform Other Criteria



Source: Real Capital Analytics and Marquette University, from NAI Global, Global Economic Briefing, June 15, 2017

## Vacancy Rates Are Low and Stabilizing, Office Excepted



Source: NCREIF, from NAI Global, Global Economic Briefing, June 15, 2017



# Property Income Growth Is Solidly Outpacing Inflation Across All Property Types



Source: NCREIF, from NAI Global, Global Economic Briefing, June 15, 2017



# Overview

## Economy

- GDP will be fed by consumer and business confidence maintaining a +/- 2.5% for the coming years
- Pool of talented employees is shrinking, pushing wage inflation past 3%
- Interest rates will be pushed higher by inflation and a repricing of risk raising commercial mortgage rate 50-75 basis point later in 2017 and into 2018

Source: NAI Global, Global Economic Briefing, June 15, 2017





# Conclusions About USA Real Estate

## Commercial Real Estate

- Property cap rates will stabilize and expand by 25 basis points later in 2017 and into 2018
- Real estate holding period returns and cash flows/cash flow growth will remain strong
- Commercial real estate lenders do not look to be the pro-cyclical players of past cycles, keeping supply in check
- Commercial property demand will continue to grow with the slow growth economy

Source: NAI Global, Global Economic Briefing, June 15, 2017





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