

## *Metrics Look Good, But Wild Cards Remain*

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LOS ANGELES—According to panelists in the opening session at RealShare L.A., we are in an environment where, “if not messed up,” we can expect a very slow steady expansion. But questions surrounding politics and wage stagnation remain on the horizon.



*Experts examined economic metrics during the “View from the Top” panel discussion.*

LOS ANGELES —“I am not sure where we are in the cycle. I do know that we have an environment which, if we don’t mess it up, can be a very slow, steady environment to expand in.” That is according to **Matt Galligan**, president of **CIT Real Estate Finance** at **RealShare Los Angeles**. Galligan, along with other “A View from the Top” panelists, began the full-day event by discussing some contradictory indicators.

**Jim MacLellan**, director of trade development at the **Port of Los Angeles**, said that last year, the port had a 3% increase in container traffic. However, he said that a better economic indicator, the value of the cargo, was down 5.7%. “This could be related to some weakness in the consumer market,” he said.

MacLellan added that 50% of the cargo that is handled at the Port is destined for California and close to two-thirds of that is destined for consumer goods. “We don’t see the pace of growth that we saw before the recession.”

**Jason Pendergist**, president of consumer and commercial banking at **Luther Burbank**, agreed that there are both good and bad things going on in the market. “We are at the top of the fifth inning, but depending on how the end of the year shakes out, we could be rushing into the eighth inning.”

According to Pendergist, “in looking at the anecdotal data, cap rates are at all time lows, there is still no shortage of value-add properties around the country and the US is still a great place to work and live.” In addition, he said, there is no shortage of foreign money coming in, and he doesn’t expect the influx will let up anytime soon.

While Pendergist said the US still has meaningful employment opportunities, there are concerns around real wages, he said. “Until we see some meaningful wage increases, we don’t see meaningful inflation.”

**Joaquin de Monet**, founder and managing principal of **Palisades Capital Realty Advisors LLC**, said that economic cycles don’t die of old age. “Just because we are in the ninth year, that doesn’t mean that 2018 is the year that the recession hits,” he said. “We should be decoupling the economy from the real estate opportunities... Real estate is a very attractive alternative and the US is a very attractive place to invest.”

Diving further into the metric discussion, Galligan said he first looks at unemployment and consumer confidence metrics. “Wages aren’t buying what they should. Employed people aren’t earning what they should.” The second metric he looks at is what is going on with interest rates.

For MacLellan, a key metric is the interest in distribution centers. “The strong growth of e-commerce is booming and from our point of view, we see buildings being constructed for the type of e-commerce that is going on.”

Pendergist looks at housing affordability. “Affordability is a primary driver we keep our eye on,” he told the RealShare audience. “New housing inventory is next to zero. It is pretty tough to build in the coastal market due to the shortage of land. The affordability index is shrinking rapidly which makes us a bit nervous as we think about what that means for potential homeownership.”

Pendergist wants to make sure that affordability index number stays positive. “One of the unique pieces we see on the west coast is port activity,” he said. “Real wealth is being created for those fortunate enough to own a home and invest in real estate. We see tremendous demand for industrial space (small mom and pop near the port, which is what we deal with). Most metrics look good, but some look bad like the stagnation of wages. The black swan for me is the election. It is a wild card.”