

Presented by Lane Gaddy  
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# Personal Background



- CEO of W Silver Recycling
  - 400+ employees, 11 locations from Calexico to McAllen
- Managing partner of various CRE ventures
  - Dense office products – El Paso, Las Cruces, Tucson
  - Hospitality, mixed use
  - Single tenant properties, 50+
  - Industrial development including Santa Teresa
- Technology enabled SAAS investment
  - Led by family member – Radian Capital





# Regional Perspective



- A lot of the business insight is contained has overlap across industries
  - W Silver is tied into construction and manufacturing activity
  - Manufacturing activity impacts hotel and restaurant revenue
  - Retail sales tied into same general growth and activity
  - New home construction starts tied into jobs in region
  - Etc...







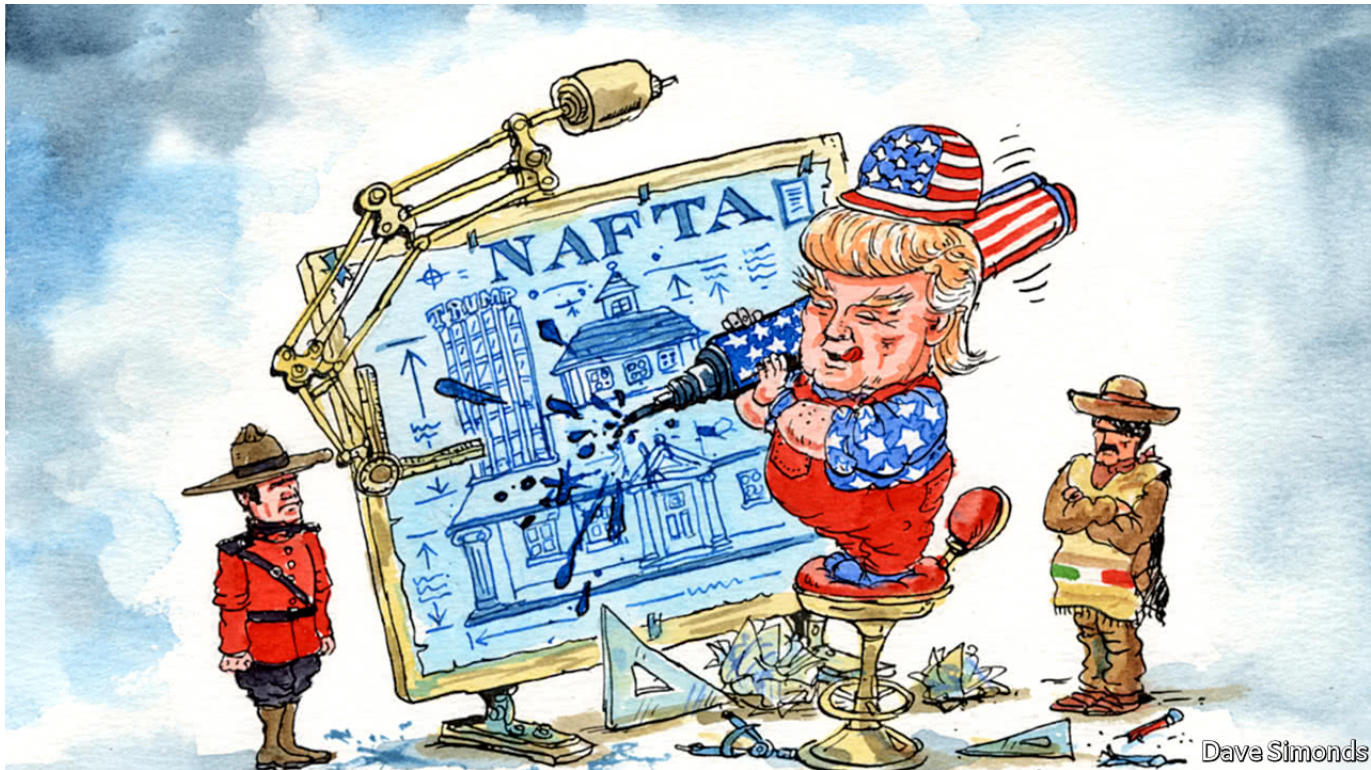
# The Big 6 Overview



- These issues are highlighted for specific reasons
- They are identified as being major drivers of regional health
- Outside of our control
- Will cause volatility
- All of them are very much interconnected
- Will identify and discuss effect on real estate



# NAFTA Negotiations





# NAFTA



- Conversations continue
- A soft deadline middle of May was missed
- Major points of contestation currently are:
  - A sunset clause of 5 years
  - Arbitration clauses
  - Rules of Origin by content
- US goal is to balance trade deficit and update for modern times, in theory

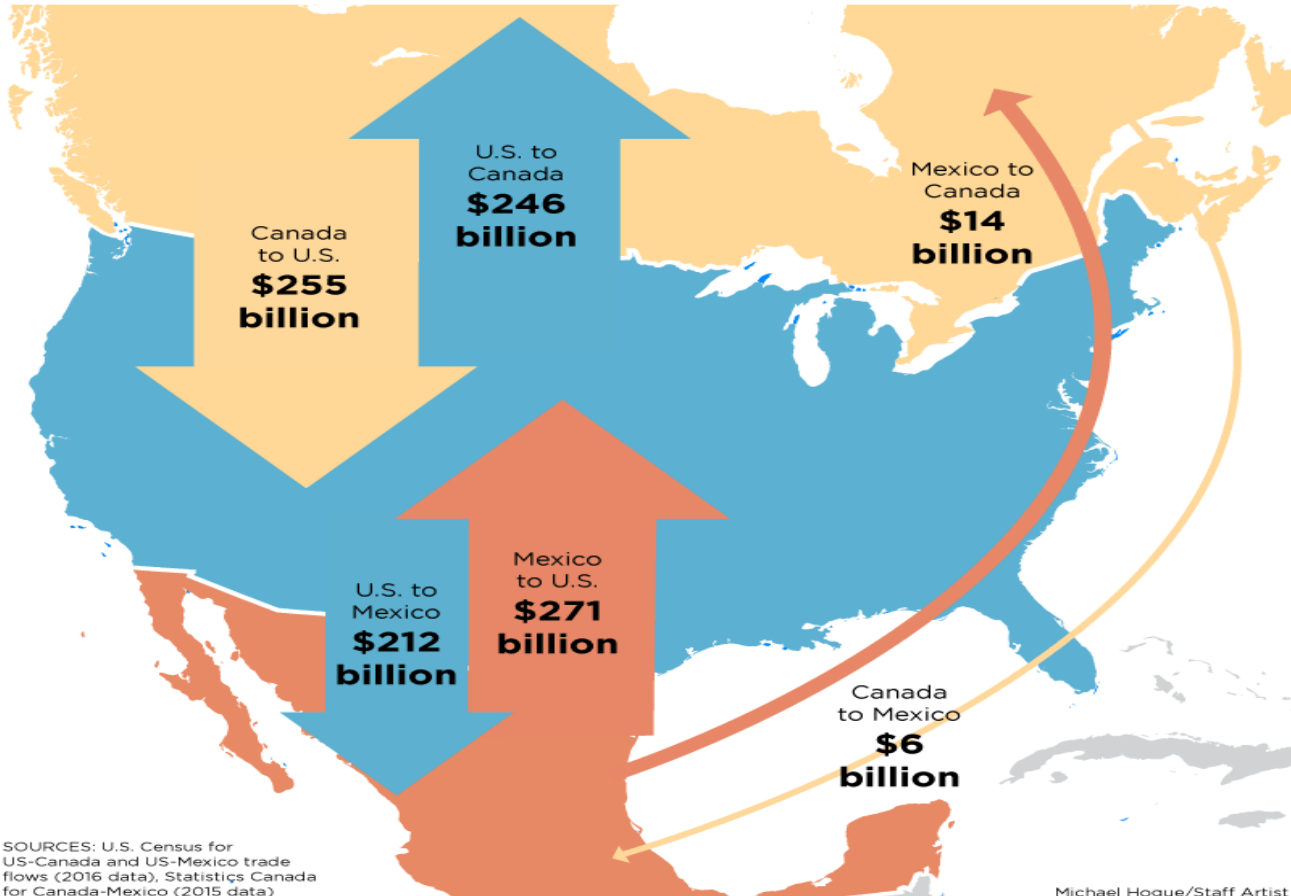




# NAFTA

## Flow of trade between NAFTA partners

Billions of dollars worth of goods move each day between the United States and its neighbors — far more than when NAFTA went into effect in 1994.

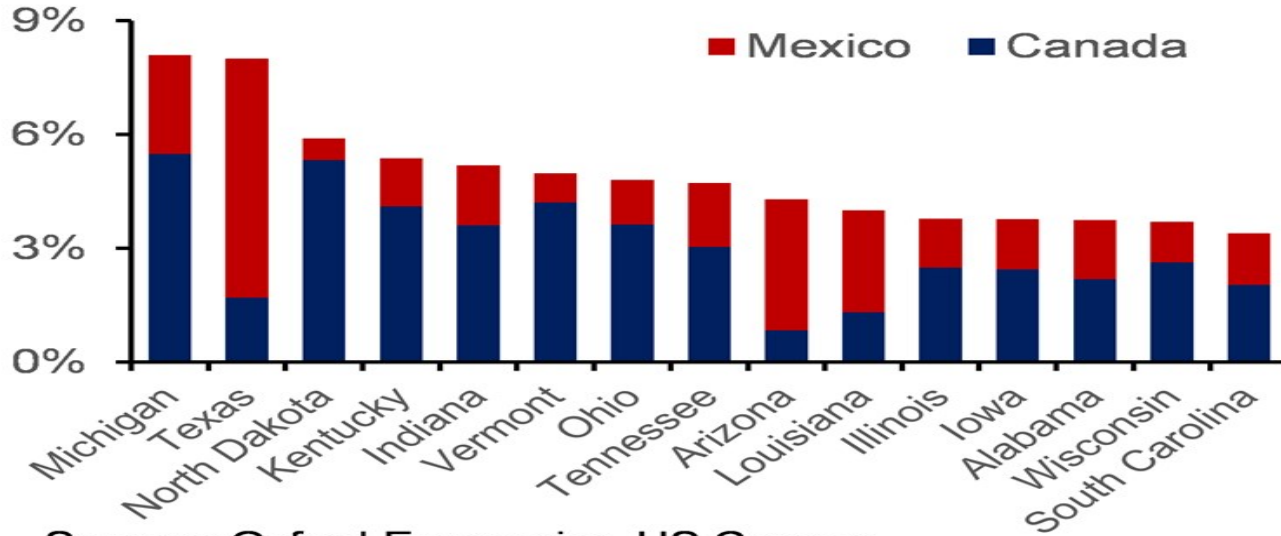






# NAFTA – Exports by state

**Exports to Canada and Mexico / State GDP**



Source : Oxford Economics, US Census

- A large disturbance in NAFTA would hit all sectors of CRE in the region



# SECTION 232



- US is using an obscure part of trade code governing national security threats to enforce economic policy





## 232 Contd



- 10% aluminum import tax
- 25% steel import tax
- Originally trading partners were granted exemptions until June 1<sup>st</sup>
  - Canada and Mexico until NAFTA negotiations resolved
  - EU and other partners granted extensions
  - All expired June 1st



# 232 Contd



- Major tax on consumers
- Unintended consequence of pushing jobs out of the US and in general back to SE Asia
- Inflationary effect
- Causing bumps in construction projects already, more to come



# Rising Interest Rates



- The era of rock bottom interest rates has come to an end
- Will slow borrowing in both residential and commercial projects
- Very large issue when 2014-2017 fixed rates will start to heavily reset around 2020 for CRE
- In conjunction with sticky cap rates, this is causing a massive bubble
- Accelerated due to large coastal 1031 exchanges, we have seen this show end before





# Changing Retail Patterns



- The speed of change in sectors has amplified the pace of winners and losers in the category
- Chasing cap rate deals has become much more difficult as credit tenants are now less consistent than they had been previously
  - Amazon effect
  - Changing demographic patterns
  - Yet cap rates have not moved much
- Retail is still being absorbed in most markets, for the moment
  - Change to entertainment, showroom, and other adaptation occurring





# Chinese Tariffs

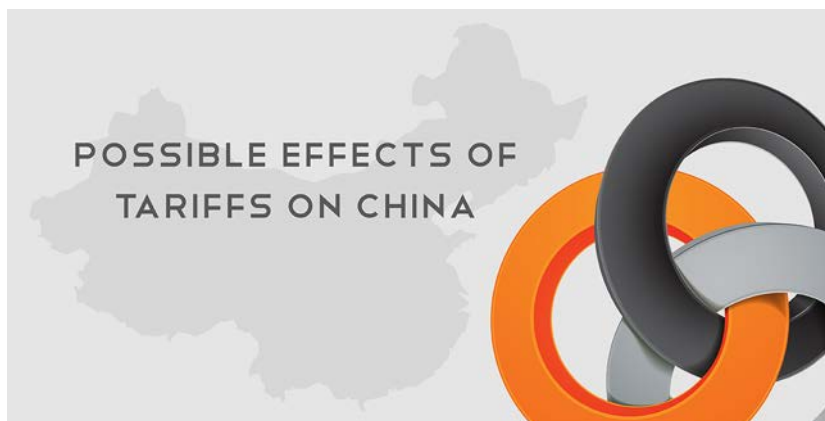


- A separate approach to addressing trade deficit imbalance and forced IP tech transfer by scattered tariffs





# Chinese Tariffs



Inevitable retaliation and escalation

Trade war underway

Creates major winners and losers

Amplifies volatility







# Regional Effect China Tariffs



- Farmers and manufacturers are the most prone to immediate impact
- Santa Teresa also could be exposed
  - Long Beach will most likely have a lot of excess capacity
    - Bad for Santa Teresa in most scenarios
- Inflationary effect as well



# Mexican Elections





# Mexican Elections



- AMLO and his party swept the Mexican elections
- Heavy socialist and anti-business rhetoric
- Has said he will undo oil reform, and ideally re-nationalize businesses to return to SOE's. However, this talk has slowed down since the election
- Has also said he does not see NAFTA being crucial for Mexico





# Additional Signs of Stress



- Inverted yield curve
- “Doctor Copper”
- Rising VIX
- Faltering equity markets
- Labor shortages
- Trucking capacity shortages
- Pent-up inflationary symptoms



- Most of these topics are very much intertwined
- There will certainly be a lot of volatility in the foreseeable future



- This cycle in the next downturn will appear to hurt the region more than the last downturn
  - Much more exposure than 2008
  
- All of these geopolitical events are bad for the borderland
  
- The most important things we can do in CRE are:
  - Keep leverage low, recommended 65% maximum on any project
  - Lock in as much long term money as able. Still some cheap money to be found for the moment
  - Respond quickly and maintain an awareness of a changing climate



