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# CRE in the News

June 24, 2019



## *Off-Campus Student Housing Weakens*

- › A decline in college enrollment has also led to the demand for off-campus student housing to drop off
- › Rents and net cash flows are declining as well for the projects
- › Some experts believe that the population that goes to college could drop by 15% by 2029
- › Student Housing Properties financed by government-controlled companies showed a decline in revenue by 1.1% and a decline in cash flows by 4.6% in 2018
- › Big student housing developments, such as Park West at Texas A&M are reporting occupancy numbers as low as 54%

## *Walmart launching its own 'Amazon Prime'*

- › As e-commerce continues to heat up with Amazon promising one-day deliveries soon, Walmart and other retailers want to keep up
- › Target announced that they too are expanding to same-day delivery services
- › This will be a cost per month service for Walmart
- › Another push that e-commerce and all retailers trying to compete will need more and more space to be able to distribute their goods and services at such a quick turnaround
- › Walmart's e-commerce sales grew 37% in 1Q 2019, with no sign of slowing down

## *More Indicators Signal The Economy Is Headed in the Wrong Direction*

- › Monthly yield curve between three-month U.S. Treasury bills and 10-year Treasury notes inverted for the first time this economic cycle
  - Spread between the 2/5-year treasuries went negative in late 2018
- › Yield curve had inverted for a day at a time during March and April, but is now projected to remain inverted through June
  - The longer an inversion lasts, the more likely a recession is to follow
- › First time since mid-2007 for the inversion on 3-month paper
- › Inversion: yield on short-term bonds is greater than on long-term
- › Signals that investors have little confidence in the near-term economic outlook
  - Demand shifts to longer-term bonds, which puts downward pressure on LT yield requirement. Meanwhile lack of demand on short-term notes puts upward pressure on ST yield requirement. Inversion results.

## *Cannabis Giant Might Form REIT*

- › In looking for ways to raise capital for further growth, cannabis specialist Canopy Growth Corp. is considering creating a REIT in which to place its greenhouse assets
- › Pretty standard capitalization play: company sells its owned assets, leases them back, and uses profit realized from the sale to fund immediate expansion needs. The Henson special: pull that cash out now
- › For cannabis firms however, potentially more challenging given gray area surrounding legality
- › FDIC posture is more friendly toward banks that accept deposits from cannabis companies, though still a risk
- › In 2018, 78,000 acres of hemp were cultivated in 23 states, up from 26,000 acres in 2017 (2018 U.S. farm bill legalized hemp federally – states now following suit (i.e. Texas))
- › This year, Canopy agreed to acquire NY-based Acreage, which has former U.S. House Speaker John Boehner and former Canadian Prime Minister Mulroney on its board; Acreage has cultivation, processing, and dispensing agreements in 19 states

## *U.S. Cold Storage Demand Expected to Heat Up in Next Five Years*

- › Rising online grocery sales and the potential need to refrigerate massive quantities of meats and other fresh goods amid escalating trade tensions with China are expected to help turn cold storage into one of the nation's hottest industrial real estate sectors
- › Up to 50% growth projected in the next five years
- › Estimated 100M SF could be needed as online grocery sales rise – currently 214M SF footprint
- › Port cities expected to see most of this growth
- › The Food Marketing Institute and research firm Nielsen recently projected that the percentage of online grocery sales will rise to 13% by 2022, from where it is today at 3%.
- › National average vacancy is at 4%, down from 5.5% a year ago, and current asking rate of \$7.68 is up 5.2% from a year ago