



IS THE BULL BACK?

October 2013

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CBRE

GLOBAL RESEARCH AND CONSULTING



MULTI-HOUSING FEARS AND REALITIES

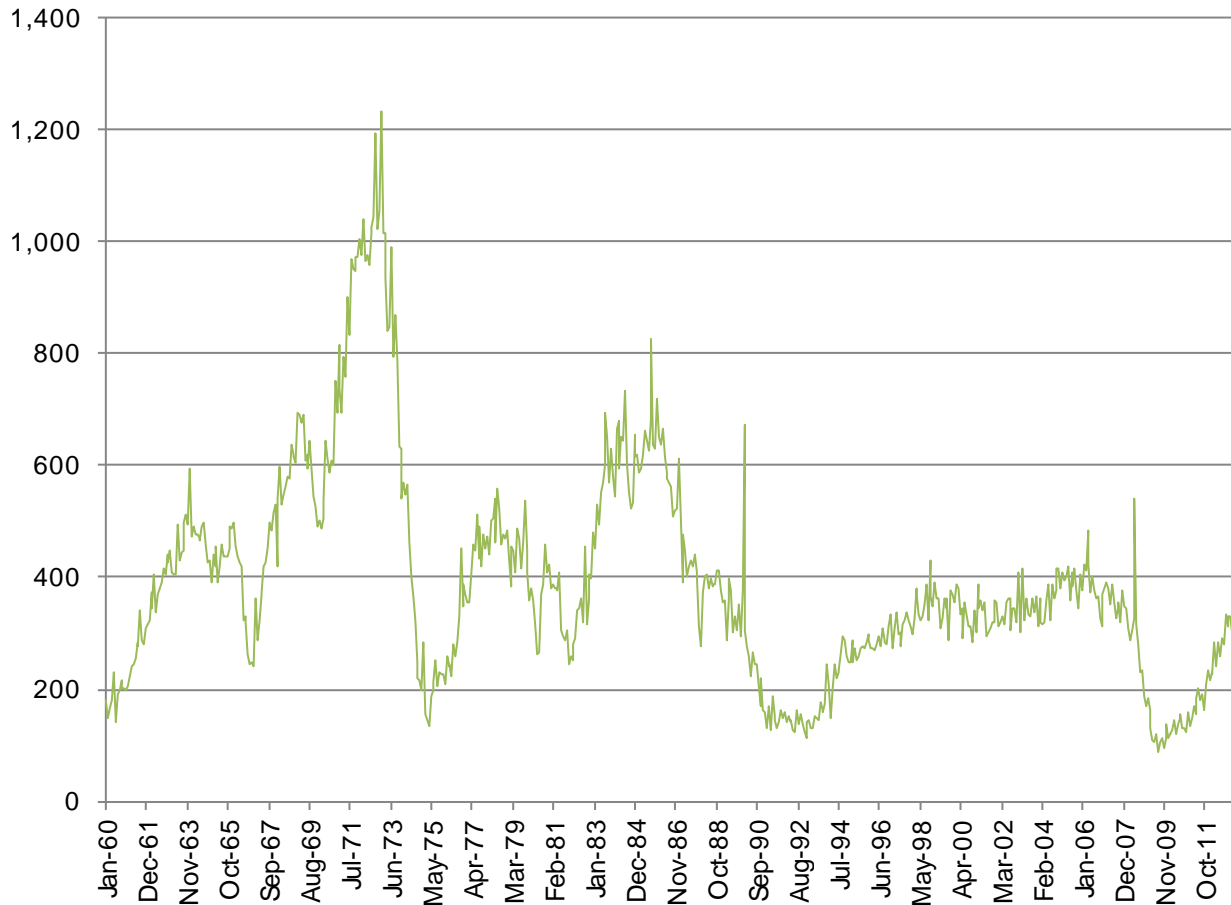


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MULTI-HOUSING PERMITS ON THE RISE

Units x 1,000 buildings with 5 or more units in structure



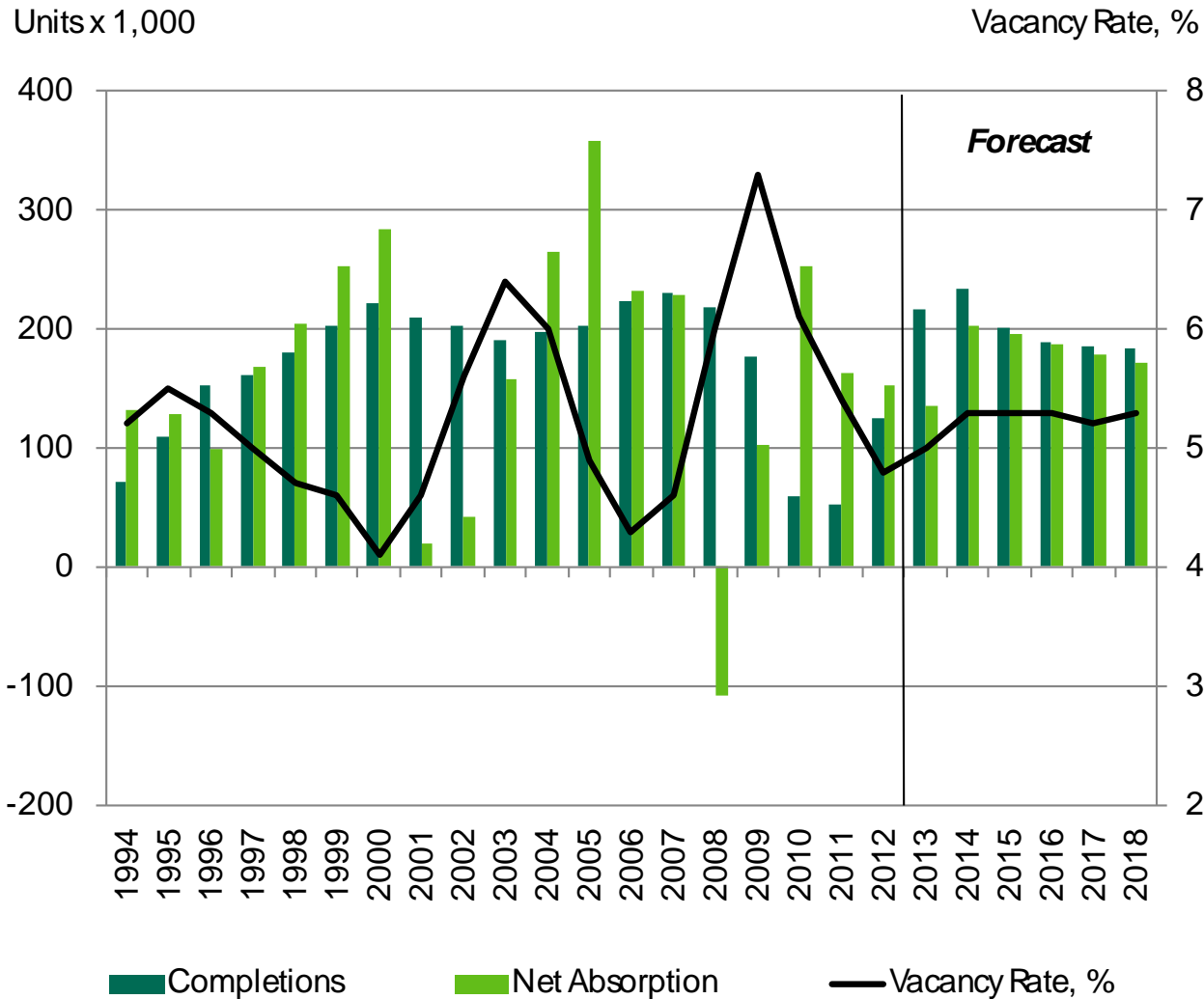
- The increase in the pace of permit issuance since 2009 has a number of investors jittery.
- Multi-housing supply is approaching the high levels seen in the last boom.
- The fear is that the trend continues well above the 400k annual pace.
- Annual pace for August was 268k, average for 2013 so far is roughly 305k.
- Do the financials and growth expectations support further expansion in permitting?

WHERE ARE WE WITH REPLACEMENT COSTS?

	Garden	Mid-Rise	High-Rise
Atlanta	2%	5%	4%
Austin	5%	5%	6%
Chicago	-5%	-2%	1%
Dallas	6%	9%	13%
DC	3%	22%	19%
Denver	-2%	-4%	-5%
Houston	14%	9%	1%
Los Angeles	9%	3%	5%
New York	N/A	N/A	-11%
SE Florida	19%	14%	4%
San Francisco	-2%	4%	3%
Seattle	18%	1%	14%

- Acquisition teams often highlight market rents lower than those needed to justify new construction.
- In key markets we identified benchmark property types with tightly defined geographies and characteristics.
- Asked local Investment Sales professionals for cost benchmarks for each asset type.
- Compared rent needed for construction in these benchmark locations against high quality market rents, generally built since 2007.
- Confirmed observations with Appraisal professionals to be sure results match with recent cost-approach valuations.
- Bottom line, some limited development makes sense today, not so as rates rise.

RENTAL DEMAND KEEPS VACANCY LOW



- Nationally, the supply of multi-housing units will continue to grow into 2014.
- Beyond 2014, land cost issues force the supply Pipeline to narrow.
- Job growth healthier than current conditions pushes rental demand up from levels seen since 2011.
- Vacancy rates will stabilize in the 5.2% range, about 10 bps lower than the long-run average.

FLORIDA MULTI-HOUSING OUTLOOK

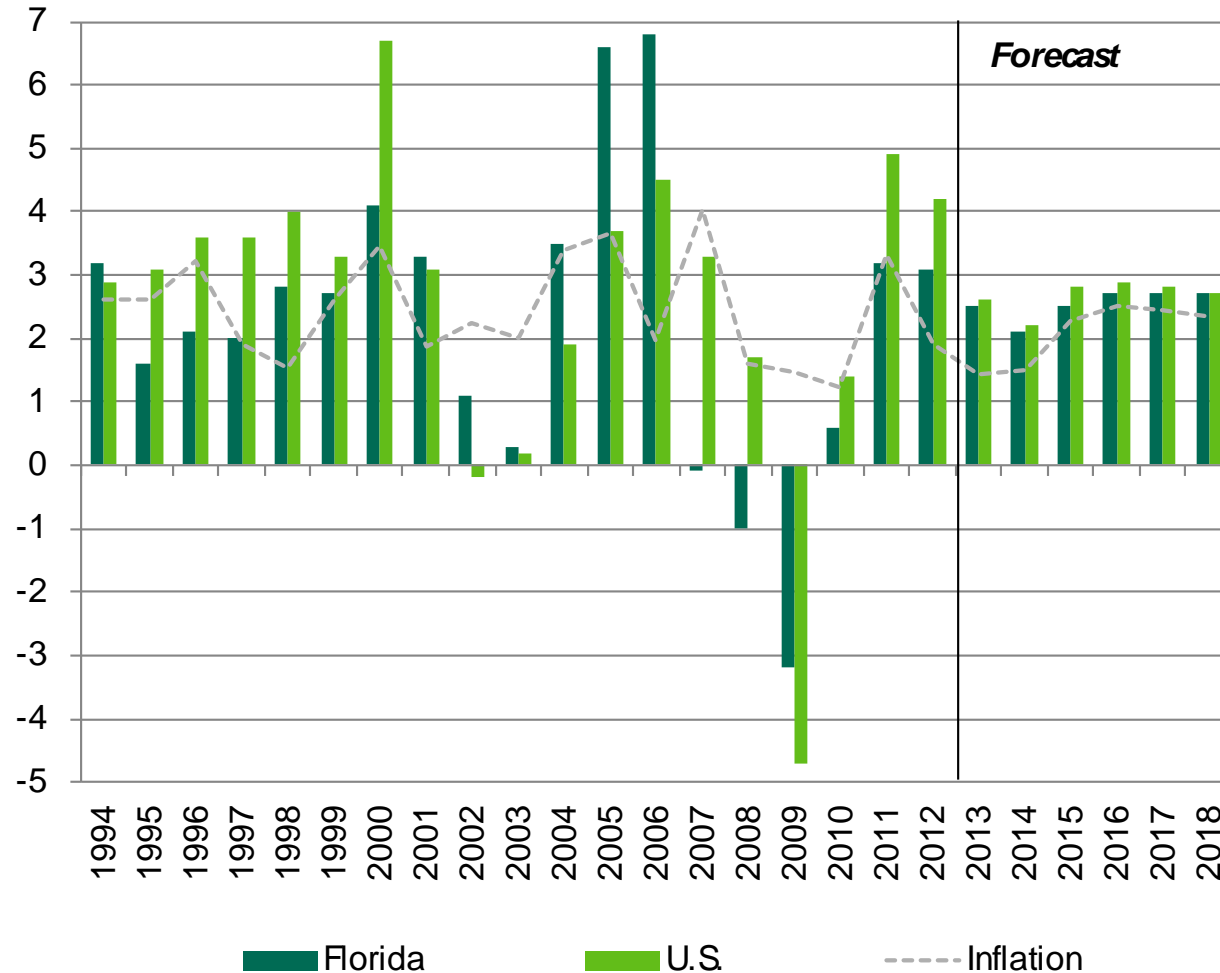


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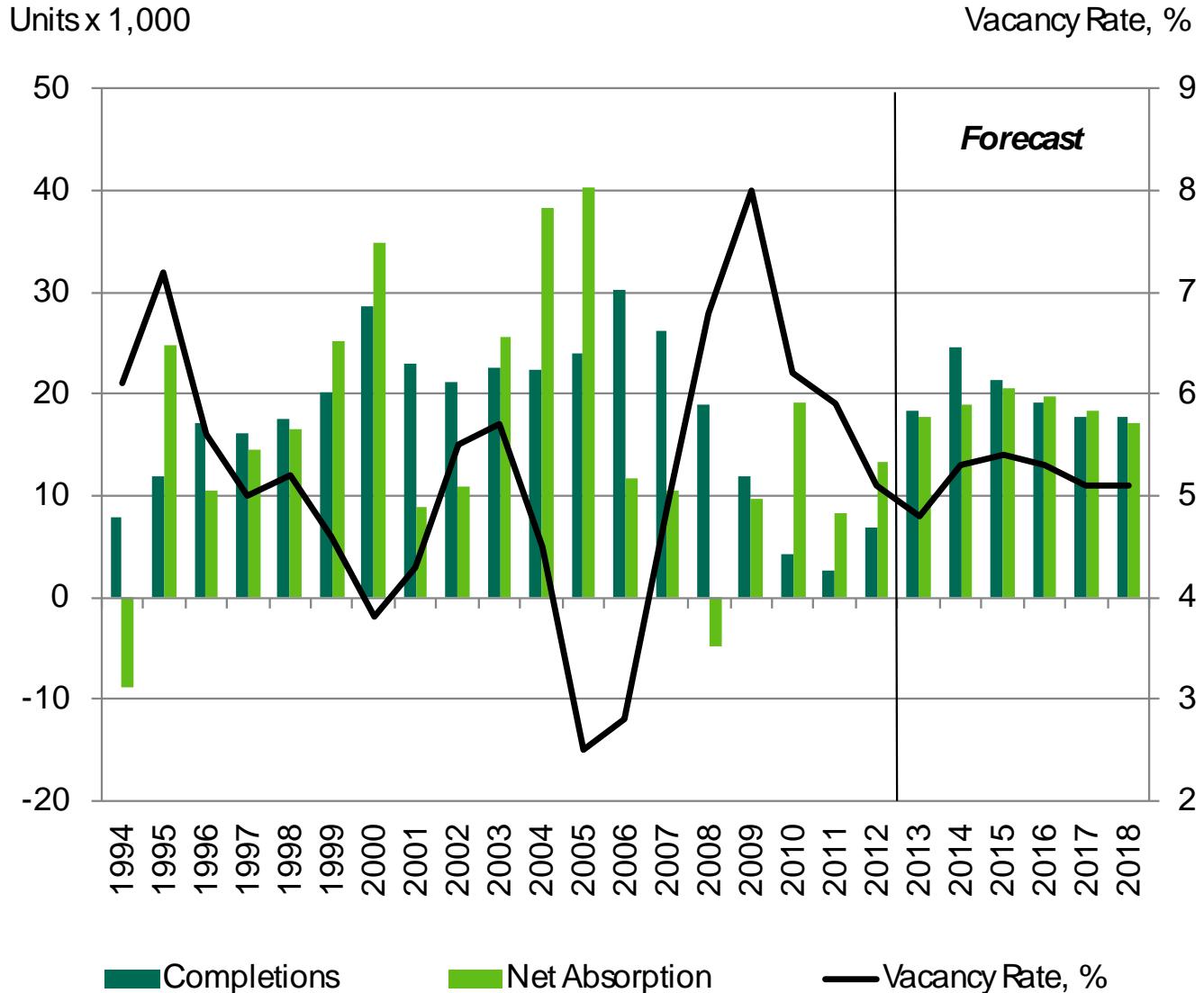
RENT TRANSITIONS FROM BOOM TO HEALTHY

Annual Percent Change

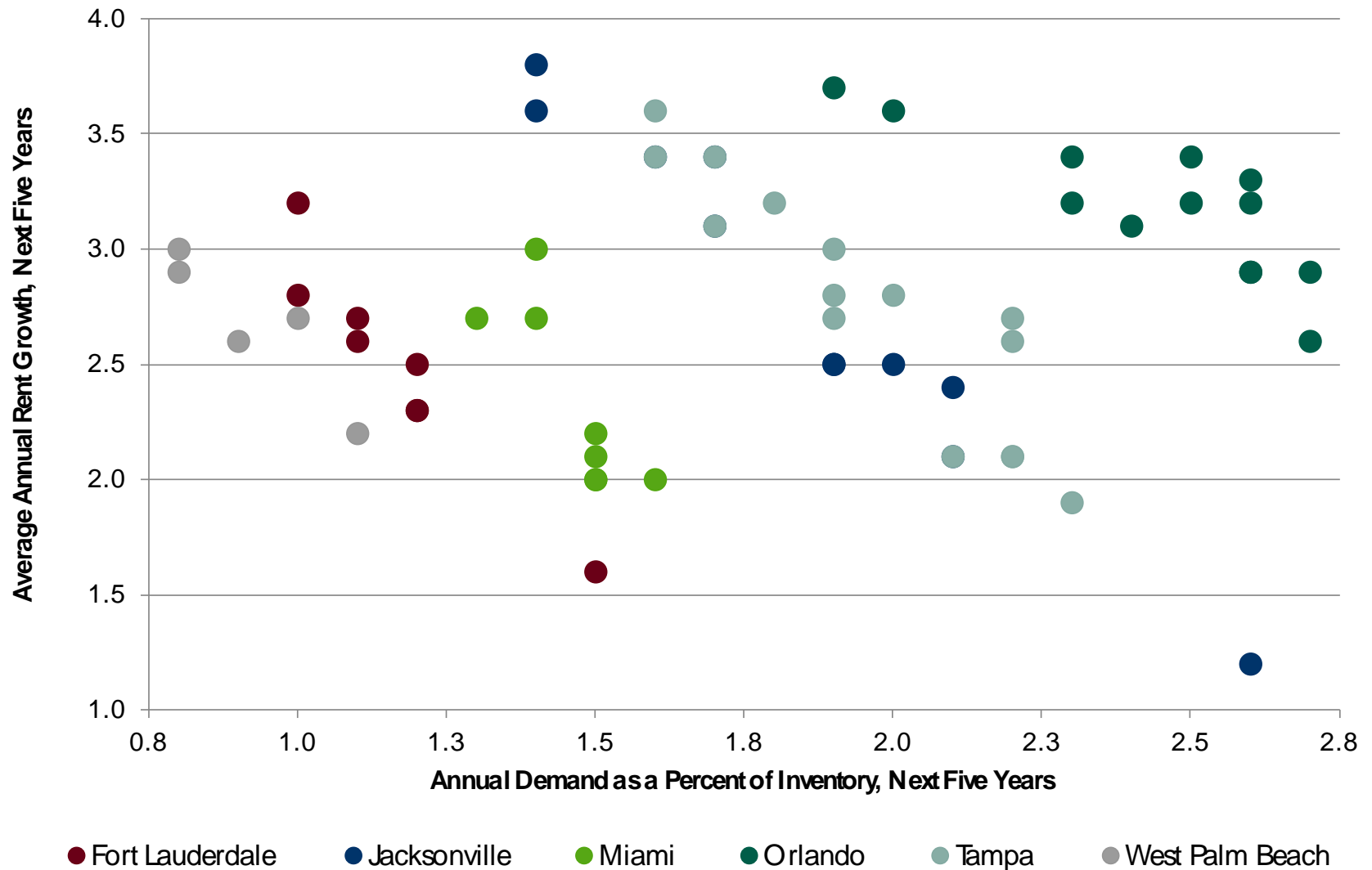


- Both nationally and in key Florida markets, multi-housing rents grew well above trend in 2011 and 2012.
- As supply comes back and vacancy pressures abate, ability to keep pushing rent increases on tenants fades.
- Through transition, rent growth stabilizes to 2.7% per year nationally and 2.5% in key Florida markets.
- Overall inflation by contrast stabilizes to 2.1% per year, so multi-housing income growth stays ahead of inflationary trend in U.S. and Florida.

SUPPLY IN CHECK FOR FLORIDA TOO



92% OF SUBMARKETS IN FL ABOVE INFLATION



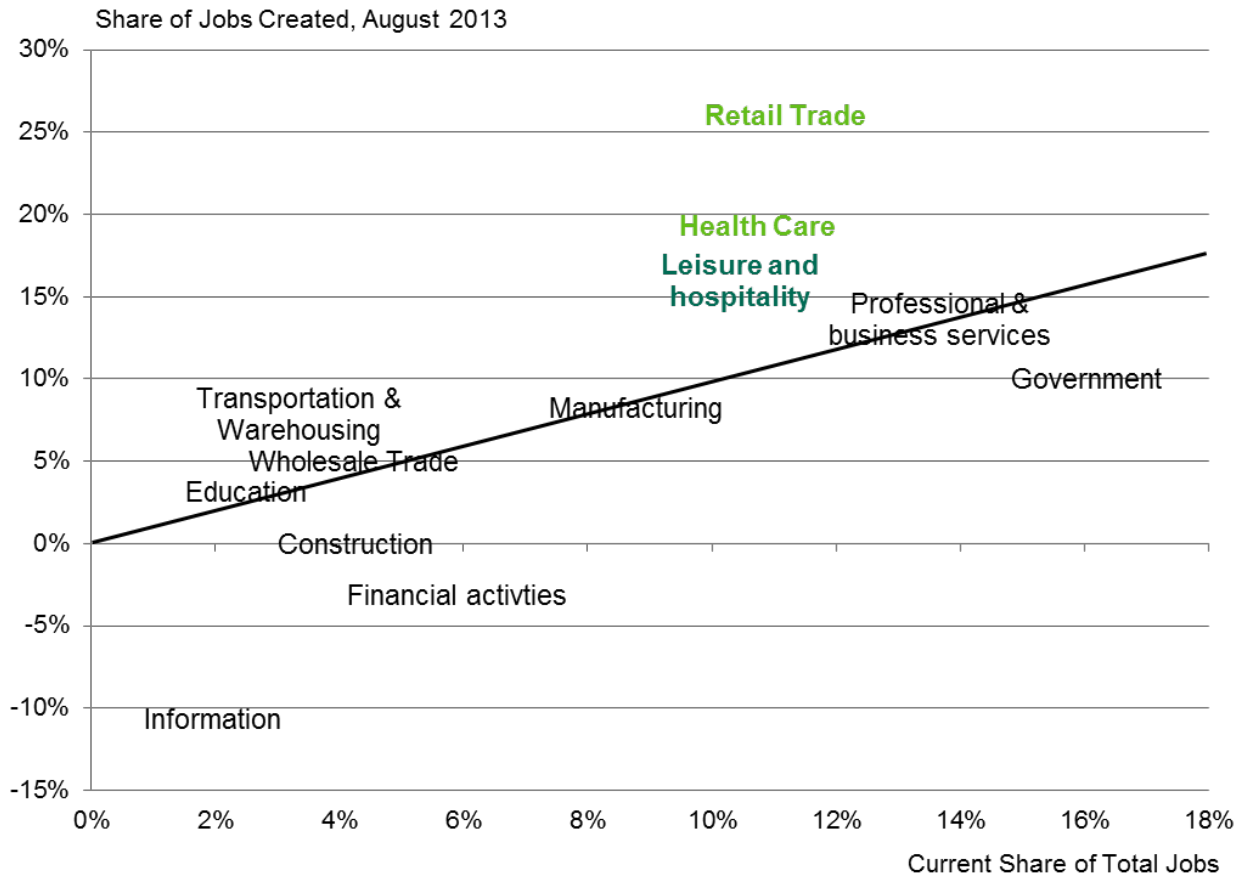
SUSTAINABLE ECONOMIC GROWTH

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GREATEST JOB MOMENTUM BY INDUSTRY



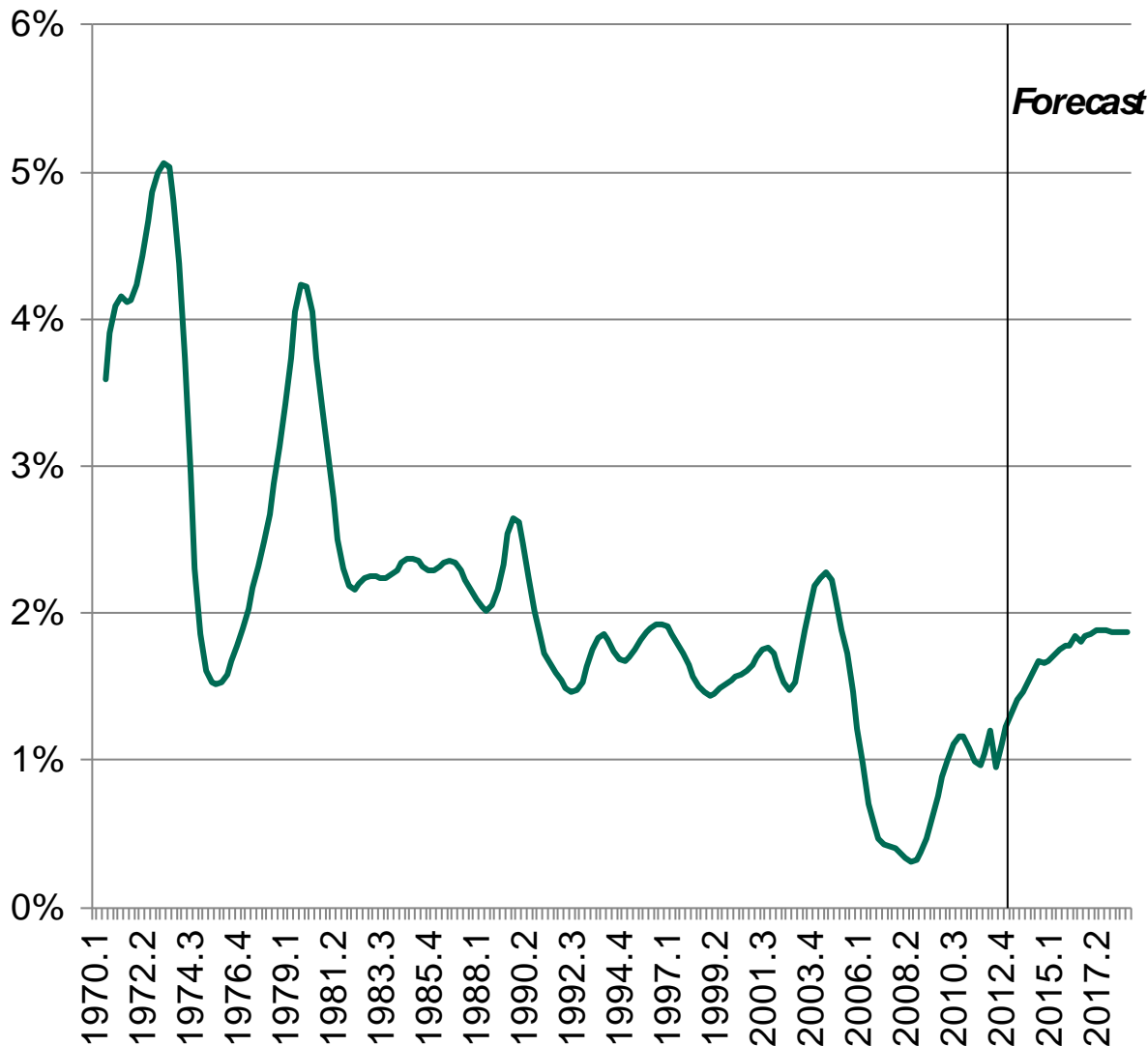
- Retail Trade, Health Care, and Leisure and hospitality, saw the greatest job growth relative to their share of total jobs.
- Information and Financial activities were the worst performing sectors of the month.
- Consistent low performance in the creation of government jobs has been a key factor to slumps in the employment situation.

INDUSTRIAL CONCENTRATIONS IN FLORIDA

	Florida	Major U.S. Metro Areas
Utilities	0.3%	0.4%
Construction	4.6%	4.3%
Wholesale Trade	4.5%	4.4%
Information	1.8%	2.2%
Other Services	4.2%	4.0%
Education and Health	15.0%	15.4%
Financial Activities	6.9%	6.3%
Government	13.5%	15.1%
Leisure and Hospitality	13.6%	10.5%
Manufacturing	4.2%	7.8%
Professional and Business Services	15.0%	15.1%
Mining	0.1%	0.3%
Retail Trade	13.4%	10.8%
Transportation and Warehousing	3.0%	3.3%

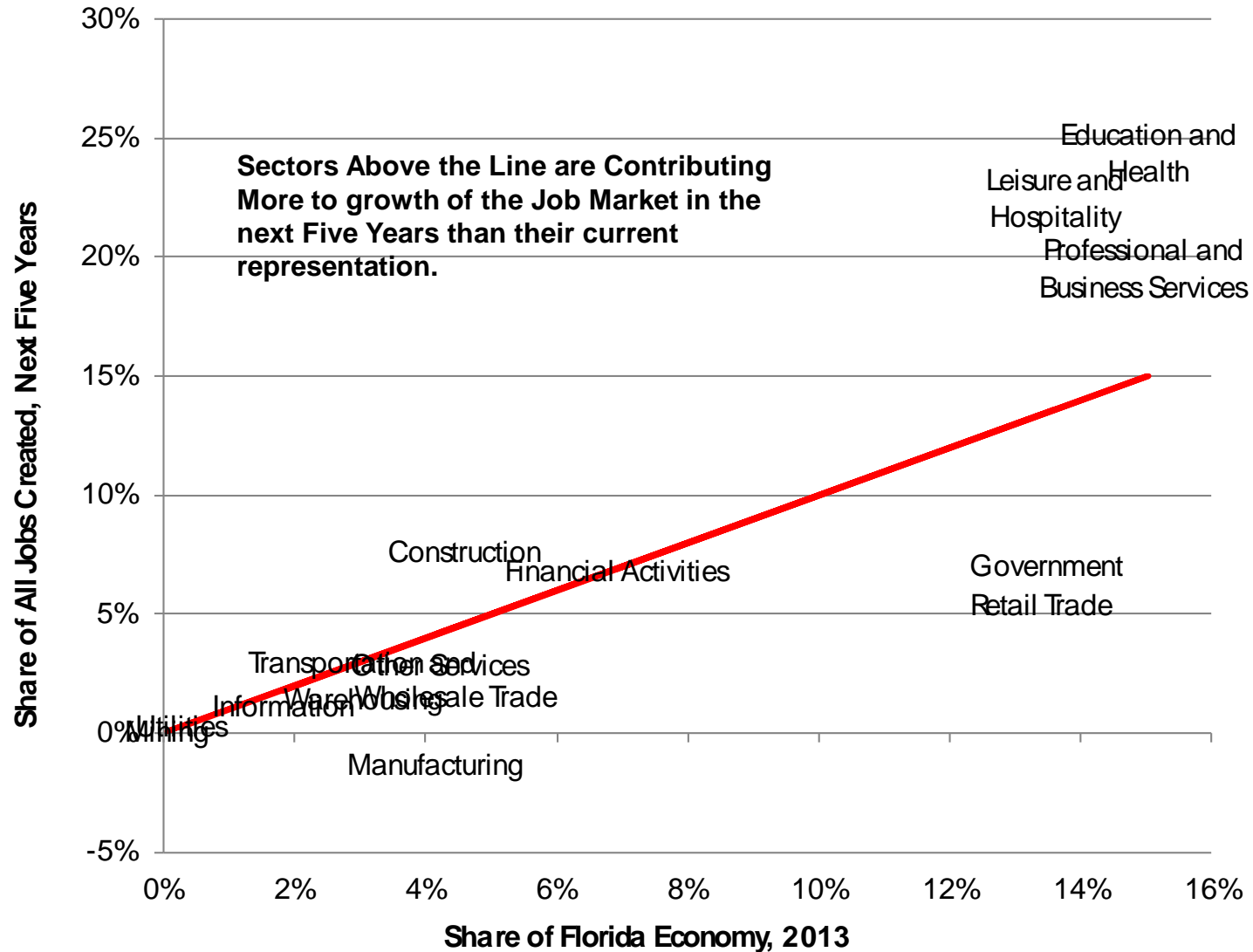
- Breaking down employment in sectors of the economy, Florida stands out on many.
- Much less manufacturing and government jobs than U.S. overall. *These are not growth sectors!*
- Outsized share of consumption-related sectors such as Retail Trade and Leisure and Hospitality.
- Not too much more exposure to the Construction sector than the U.S. overall, that will change.

NET MIGRATION IS BACK – *THIS IS THE BULL*

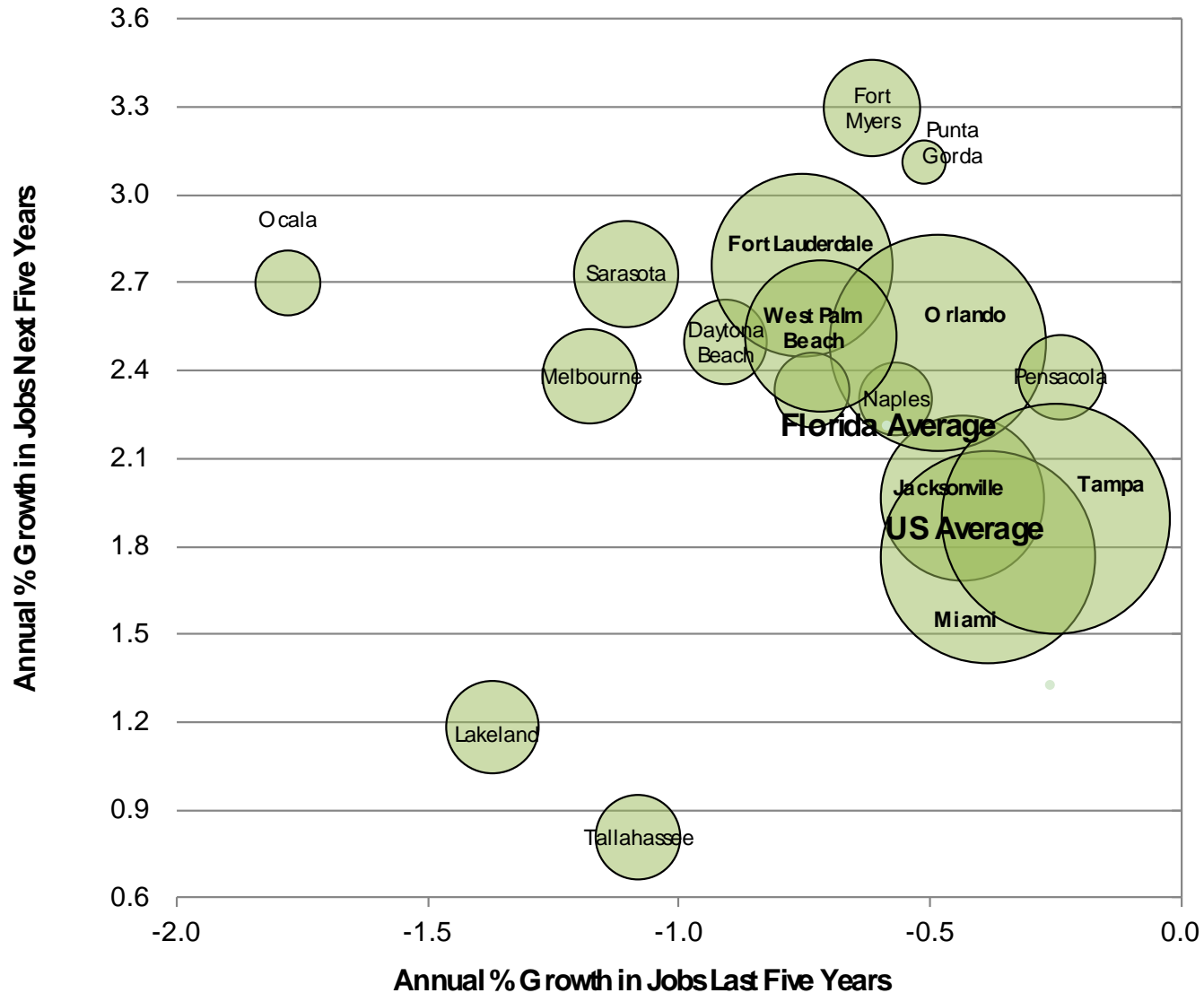


- Annual rate of net migration as a percent of current population is up from the lows of the recession and expected to grow.
- Net migration was just 0.3% of the current population in 2008, really limited overall population growth in Florida.
- Expect to see net migration closer to 2% rate by 2017.
- Overall population growth should be about the same as 1990s.

EMPLOYMENT SECTOR OUTLOOK FOR FLORIDA



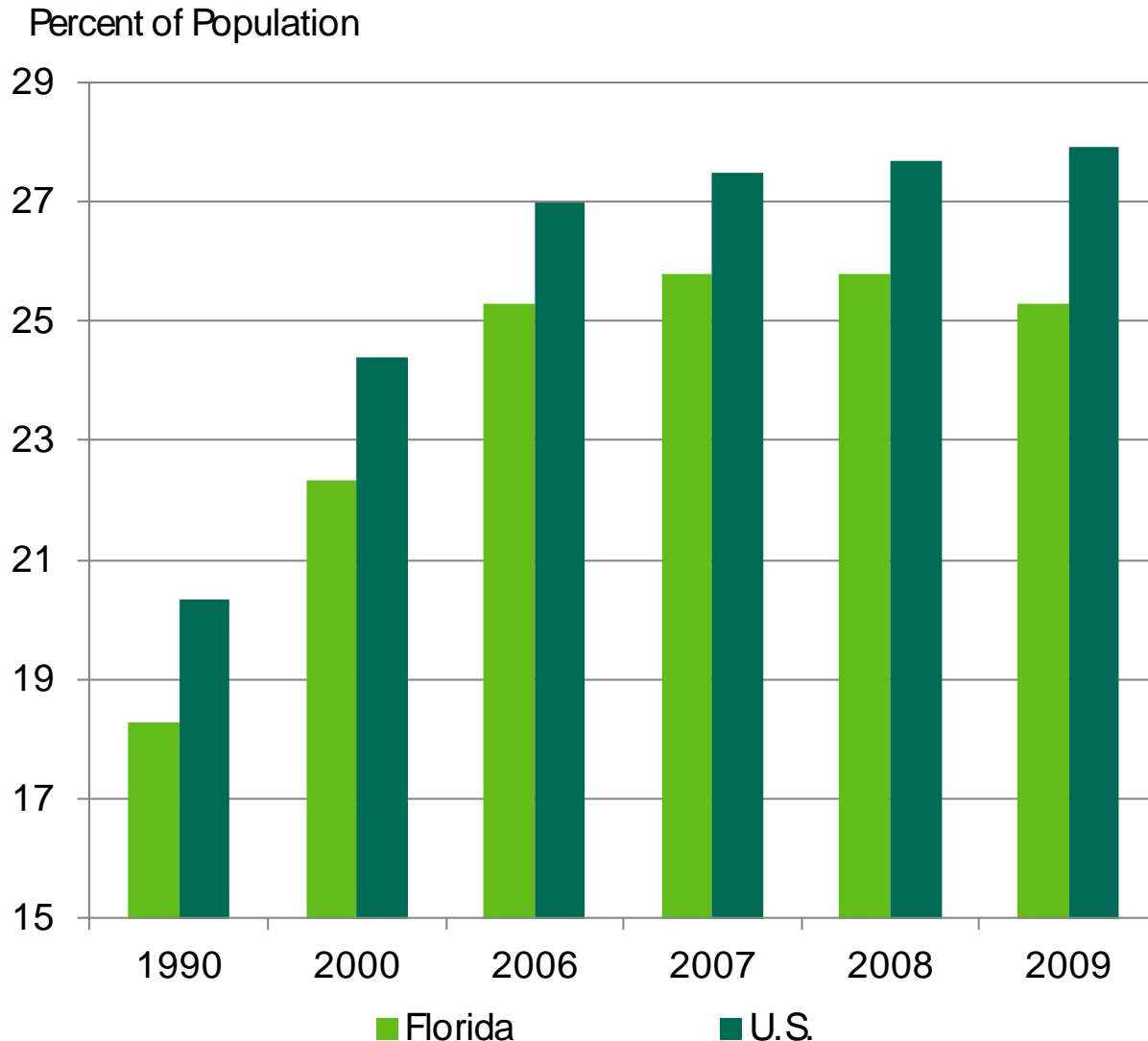
GROWTH LEADERS ACROSS FLORIDA MARKETS



MIDLING COMPETITIVE PERFORMANCE FOR FL

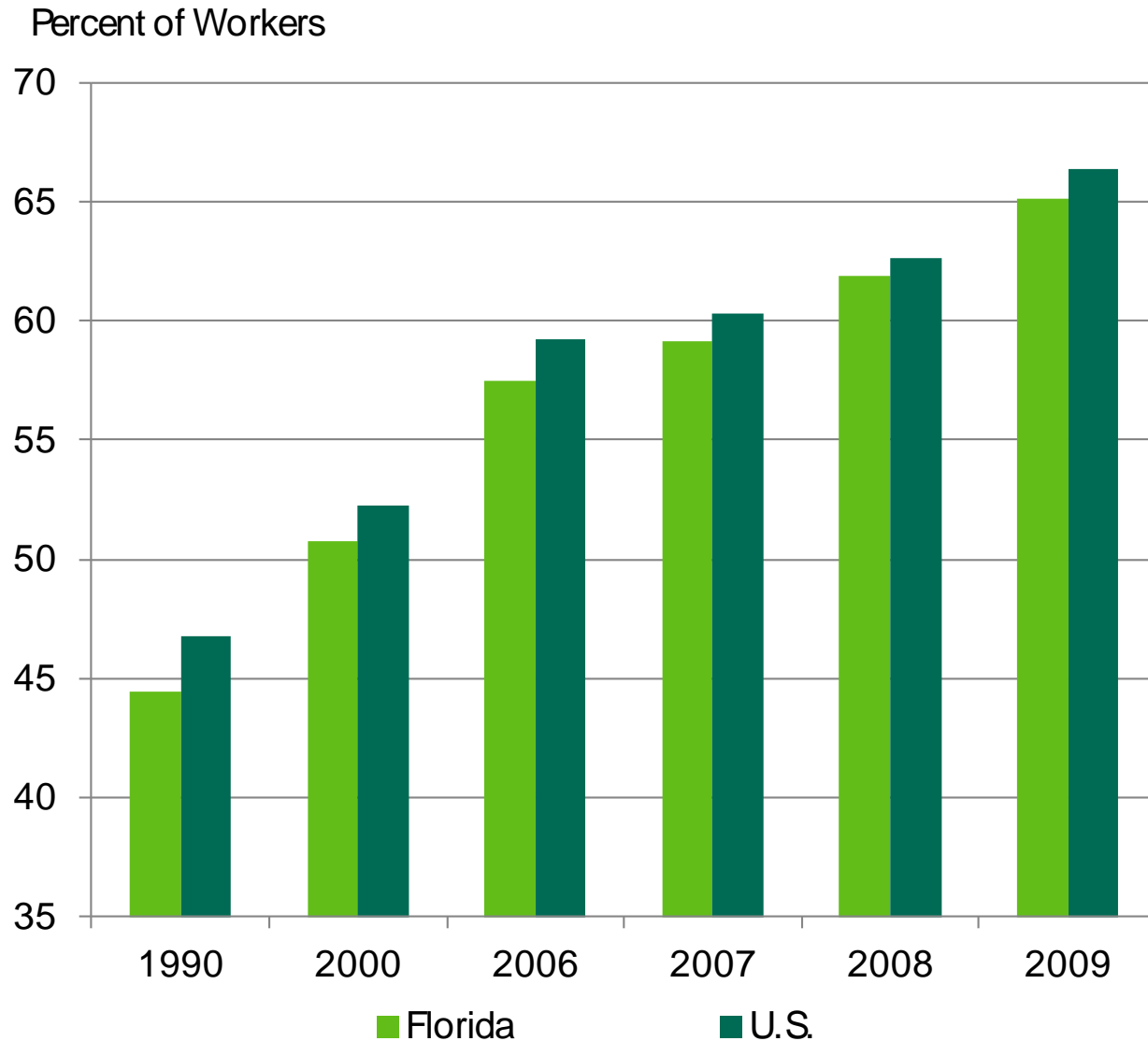
	Overall	Government and Fiscal Policy	Security	Infrastructure	Human Resources	Exposure to Technology Sector	Business Incubation	Openness to Trade	Environmental Policy
Massachusetts	1	33	3	33	1	1	12	8	28
North Dakota	2	28	36	1	6	14	3	36	2
Minnesota	3	39	2	9	3	3	13	35	7
South Dakota	4	14	24	6	10	37	1	49	1
Utah	5	11	6	25	8	12	4	22	34
Colorado	6	22	4	4	15	7	18	39	19
Texas	7	16	10	17	43	31	10	1	26
Washington	8	38	8	11	22	9	48	6	5
Virginia	9	7	13	28	18	16	14	29	18
Kansas	10	35	23	7	16	26	20	27	12
Nebraska	11	23	18	16	7	25	28	40	11
New Hampshire	12	19	27	49	5	10	29	14	15
Iowa	13	27	15	29	4	19	30	38	24
Alaska	14	6	21	18	29	47	45	11	14
Wyoming	15	45	14	5	20	44	8	47	4
Idaho	16	17	29	26	34	30	7	42	6
Delaware	17	12	42	30	25	28	5	7	46
Wisconsin	18	41	1	38	9	22	27	41	13
Vermont	19	37	31	50	2	4	41	21	9
Maryland	20	25	25	45	11	2	40	25	43
Montana	21	30	9	8	23	34	23	50	10
Oregon	22	20	32	20	26	18	44	32	8
Rhode Island	23	44	7	36	24	5	37	13	31
California	24	49	20	46	41	6	2	3	37
Florida	25	1	33	24	40	39	22	15	22

IS EDUCATIONAL ATTAINMENT A PROBLEM?

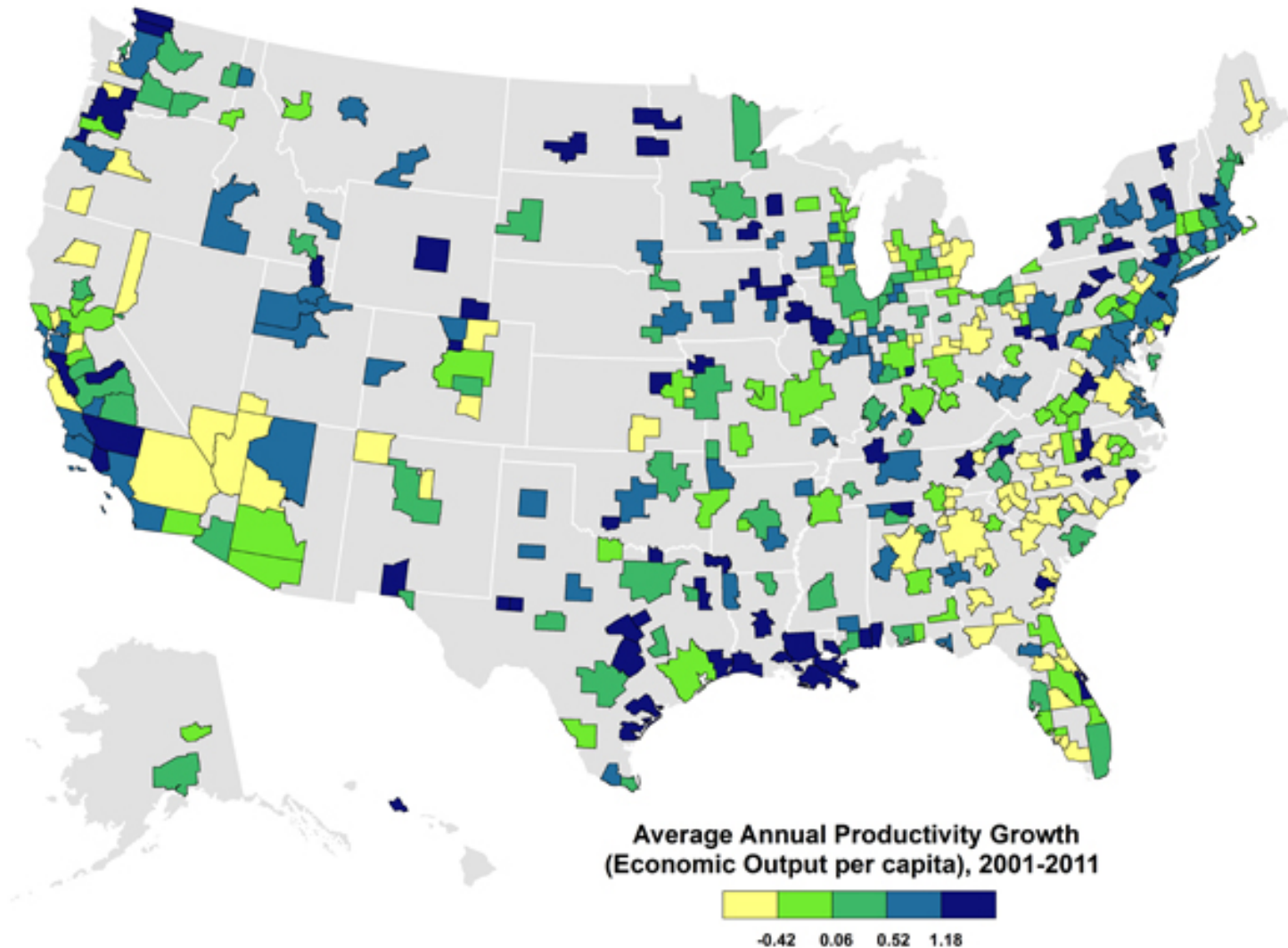


- The percentage of the population with a bachelor's degree or better in Florida stood at just over 25% in 2009
- Since 2007, the share of Florida population with a bachelor's degree or better has been falling.
- Highly productive, growing sectors of the economy need highly educated workers.
- Will firms migrate to and grow in Florida with this profile?

EDUCATED WORKFORCE IMPROVING IN FLORIDA



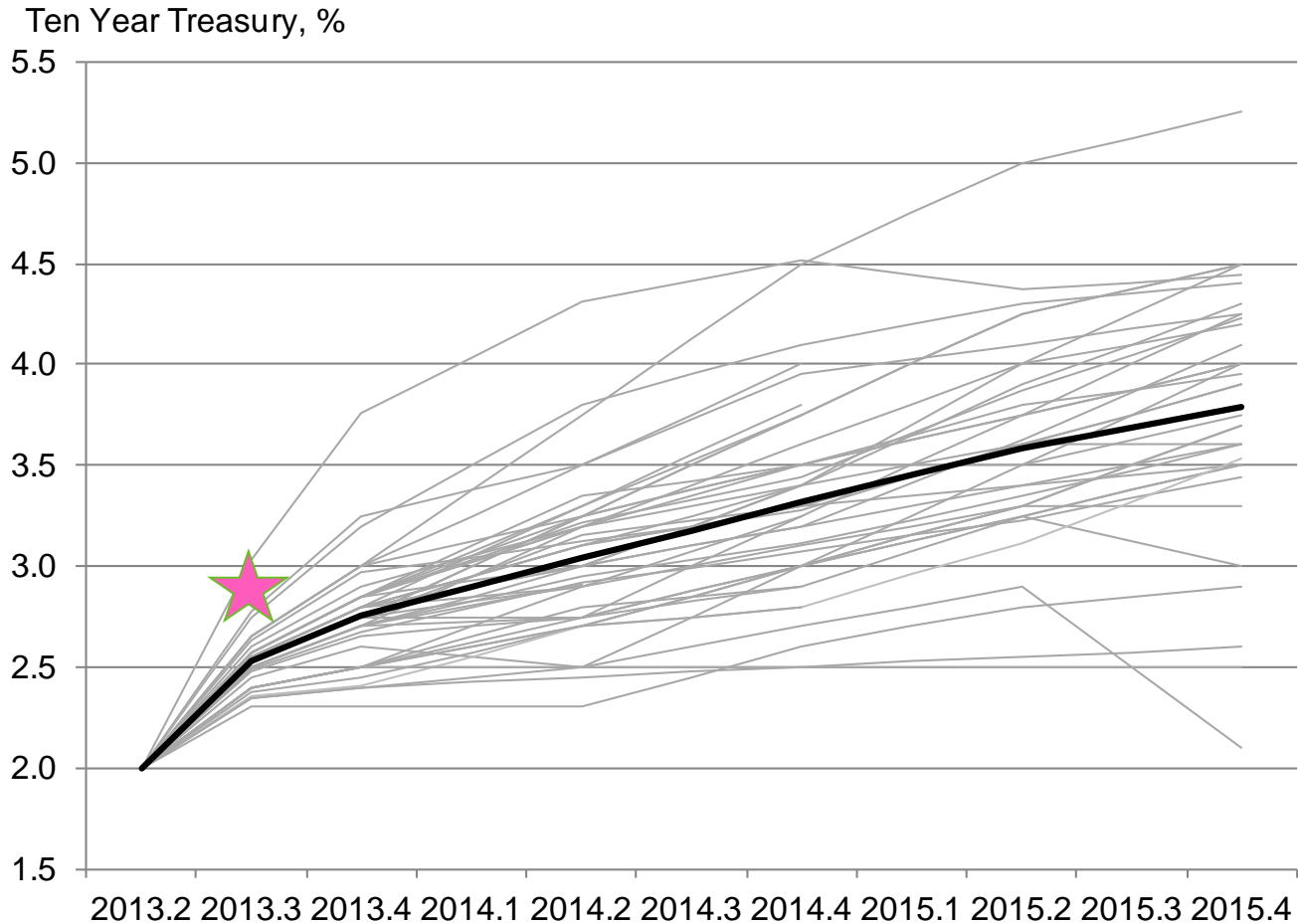
MIXED BAG ON PRODUCTIVITY ACROSS FLORIDA



INTEREST RATE UNCERTAINTY



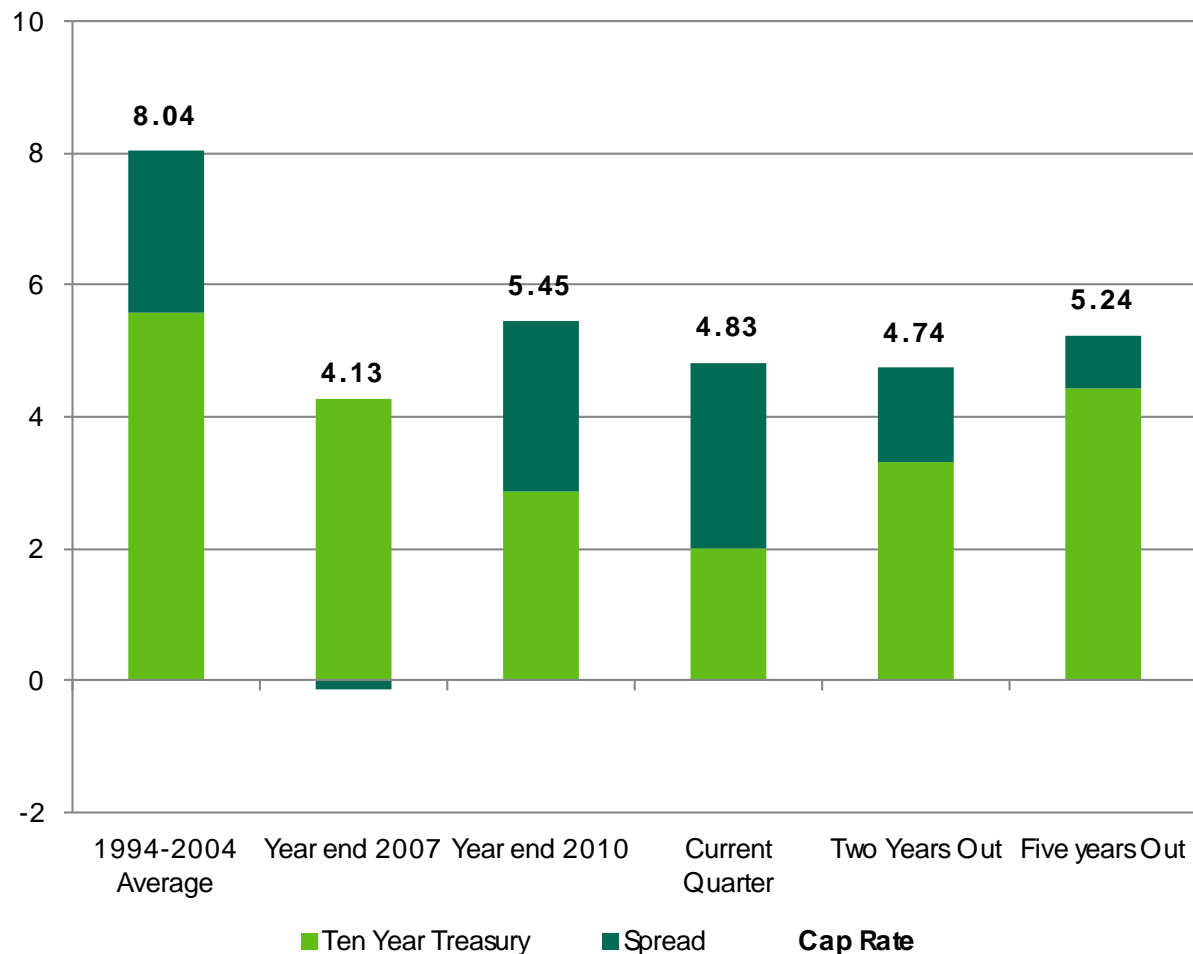
A RANGE OF OPINIONS ON INTEREST RATES



- Consensus survey of economists puts the ten year at hit 3.3% at the end of 2014.
- Already above consensus average for 2013.3
- A wide variety of outlooks between economists.
- One standard deviation around the 2014 outlook runs from 3.8% to 2.8%.

HOW HIGH WILL APARTMENT CAP RATES MOVE?

NCREIF Appraisal Cap Rate, %



- Longer term, we forecast interest rates will stabilize with the ten year near 4.5% to 4.75%
- Office cap rates for high quality product hit lows in the 4.8% range.
- If there is 283 bps of spread today, is a 7.3% to 7.6% cap rate in the future?
- As interest rates increase, the spread between cap rates and interest rates should narrow.
- Longer term this spread was 250 bps which would imply a 7.0% to 7.25% cap rate if we return to “normal” We forecast 5.2%, an 80 bps spread.

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Jim Costello joined CBRE in 1994 with economic and real estate research experience developed through work with government agencies in the Chicago area.

Jim manages the Investment Research group within the America's Research team. This group delivers investment opinions and insights to institutional investors with the aim of helping them develop a "house view".

Mr. Costello holds a BA in Political Science from the University of Chicago and a MA in Economics.

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