



A New Day for Commercial Real Estate

**Newmark Grubb
Knight Frank**

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AGENDA



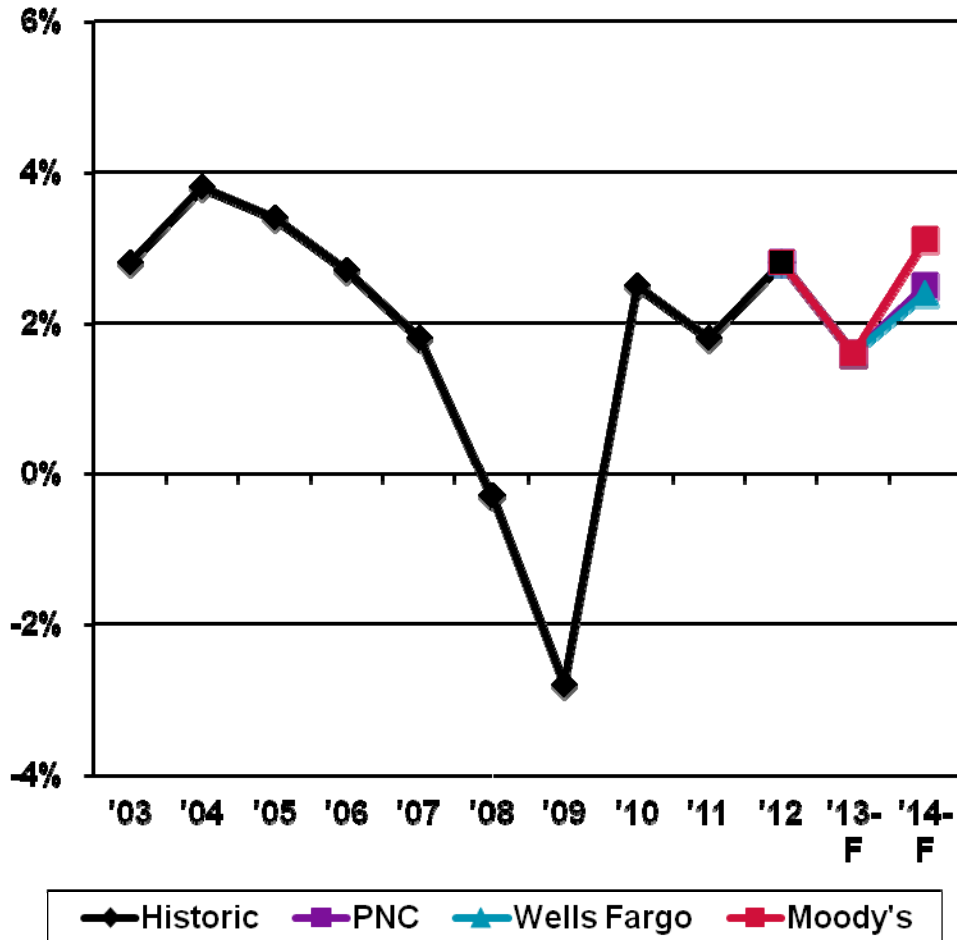
1. Economic Backdrop
2. Leasing Markets
3. Capital Markets
4. Why It's a New Day

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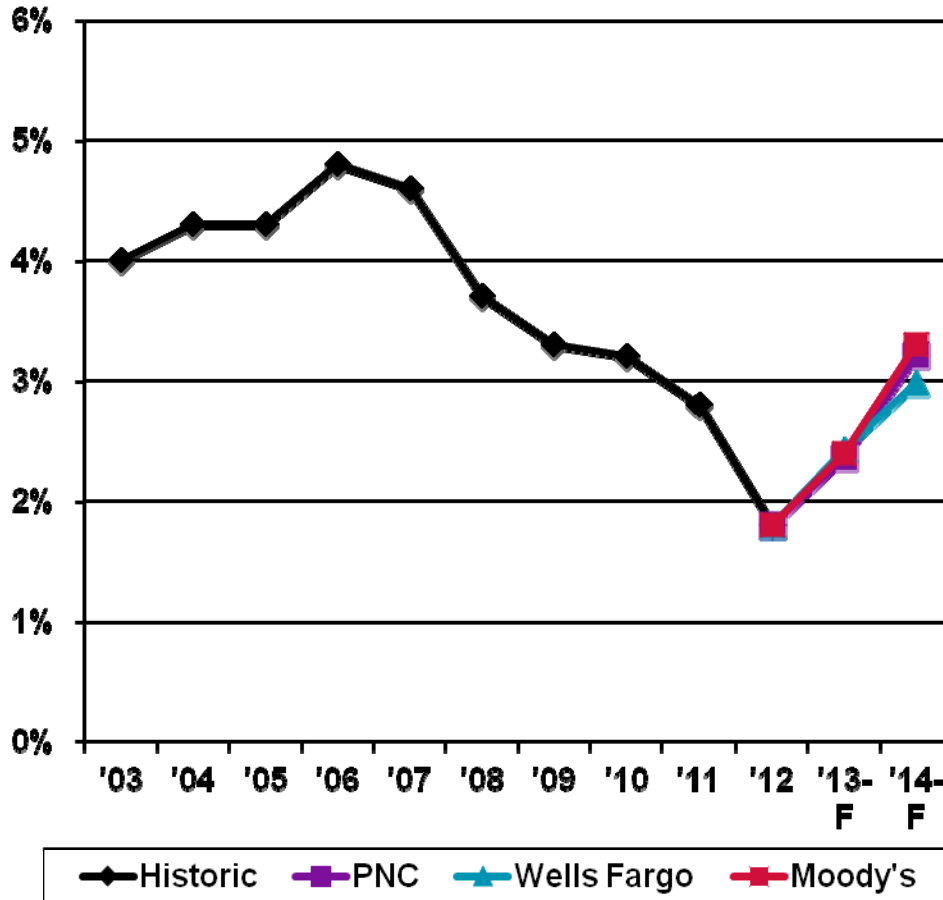
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GDP Restrained by Govt. Policy, Better in 2014



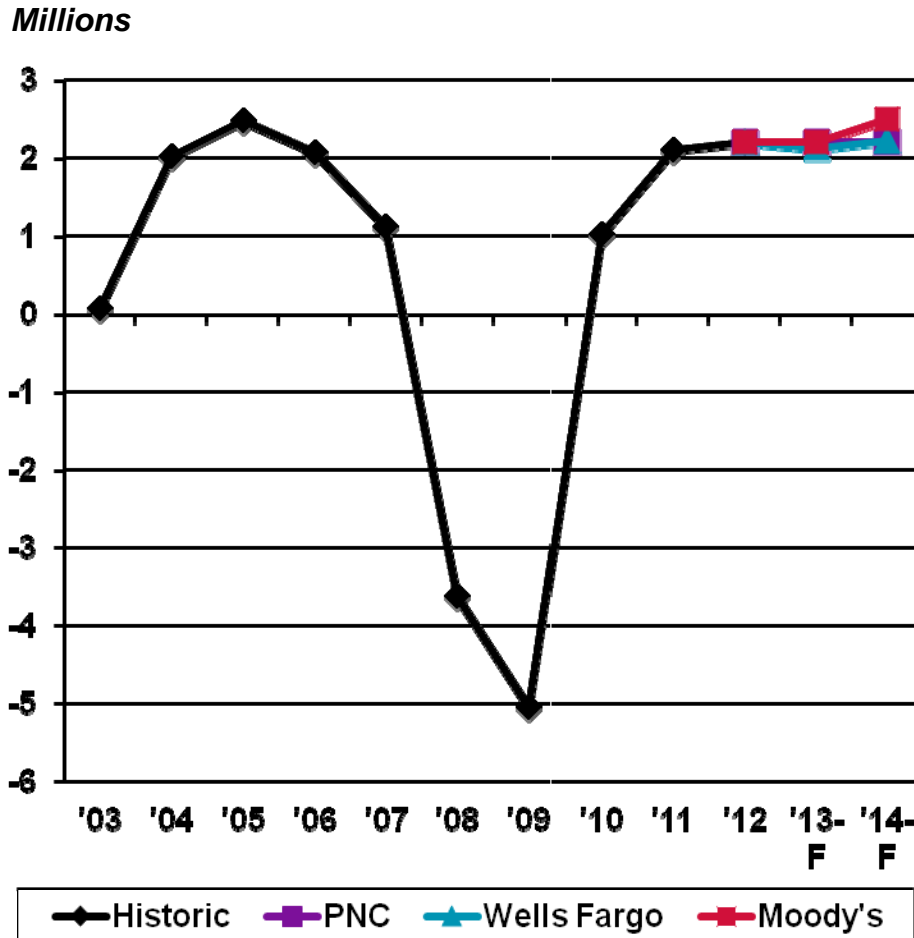
- ◆ Growth is back; we are in year 5 of recovery.
- ◆ GDP hit new peak in 2011-Q2, recovering economic output lost in recession.
- ◆ But growth remains disappointing by historic standards.
- ◆ Another year of substandard growth in 2013 as economy absorbs sequester-mandated spending cuts, tax increases & partial shutdown.
- ◆ Better outlook next year as tax effects fade and European recession winds down.

Interest Rates Will Rise



- ◆ Fed has engineered era of record-low interest rates.
- ◆ Three rounds of quantitative easing have inflated Fed's balance sheet above \$3 trillion, more than 3 times its pre-crisis level.
- ◆ Low rates benefit real estate & other interest-sensitive assets.
- ◆ Low rates have re-ignited the housing market, supporting consumer spending & demand for distribution centers.
- ◆ Rates are beginning to rise.
- ◆ 10-year yield should be around 4-1/2 to 5% in vigorous recovery cycle.

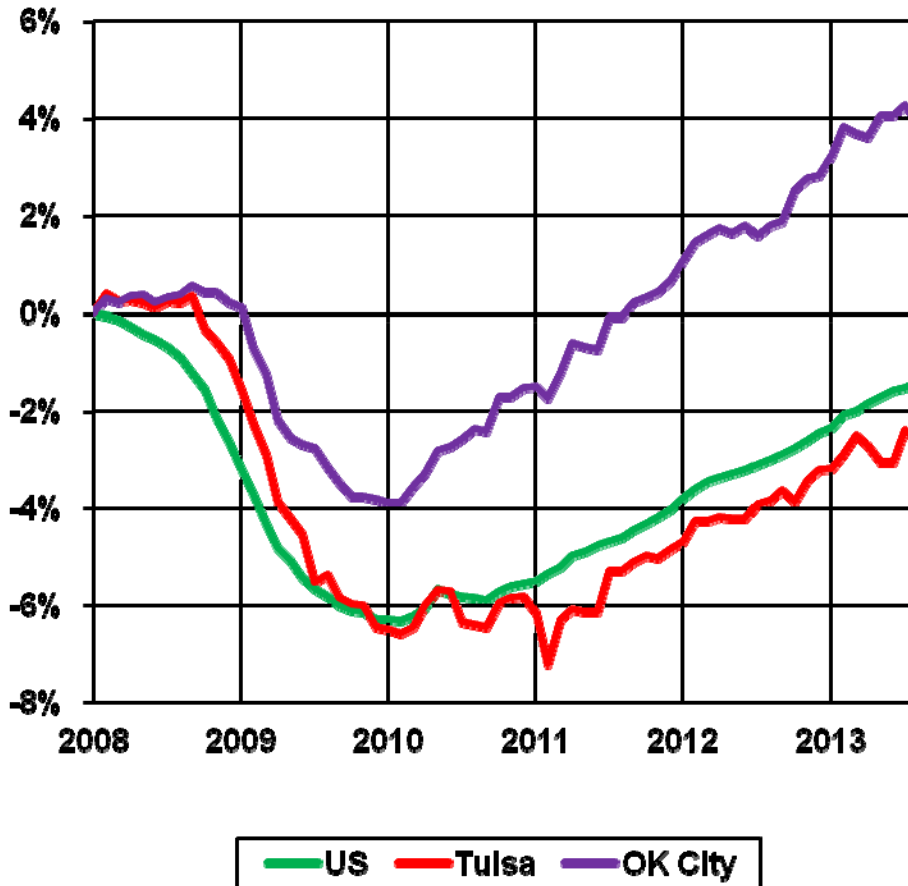
Job Growth Will Stay Moderate



- ◆ GDP hit new peak in 2011-Q2 but employment still 1.9M jobs shy of prior peak.
- ◆ Means that businesses have increased productivity (output per hour).
- ◆ Businesses hiring and spending cautiously with an eye toward maintaining healthy balance sheets and filling key positions with the “right” hires.
- ◆ Employment likely to hit new peak next year.
- ◆ Unemployment remains high overall but demand for skilled, educated workers also is high – mismatch of supply & demand.

Employment Change Since Start of Recession

Tulsa vs. OKC vs. U.S.



- ◆ Tulsa labor market following trajectory of U.S. recovery.
- ◆ Tulsa lost 33,500 jobs peak to trough, still down by 13,200.

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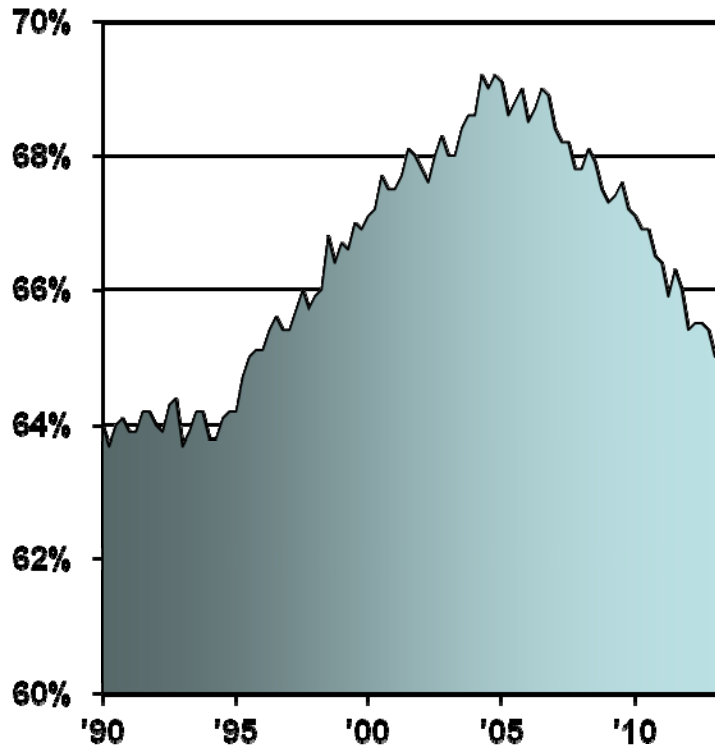
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Apartment Market

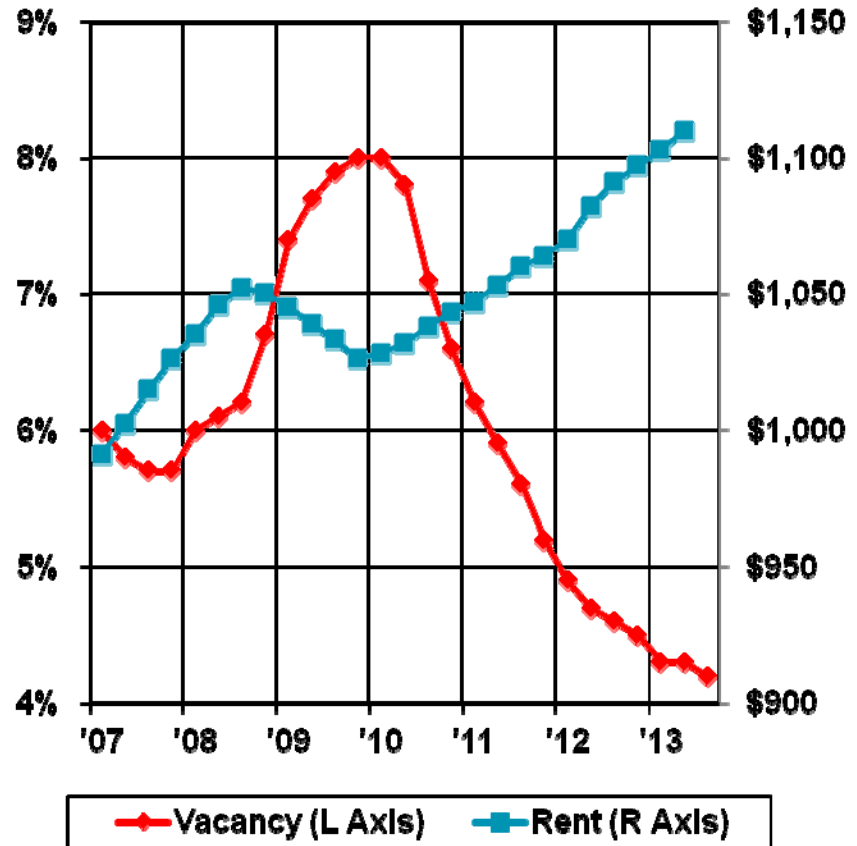
Vacancy at all-time low; rent up 8.2% from trough in '09q4



Homeownership Rate By Quarter, Seasonally Adjusted



Apartment Vacancy & Asking Rent

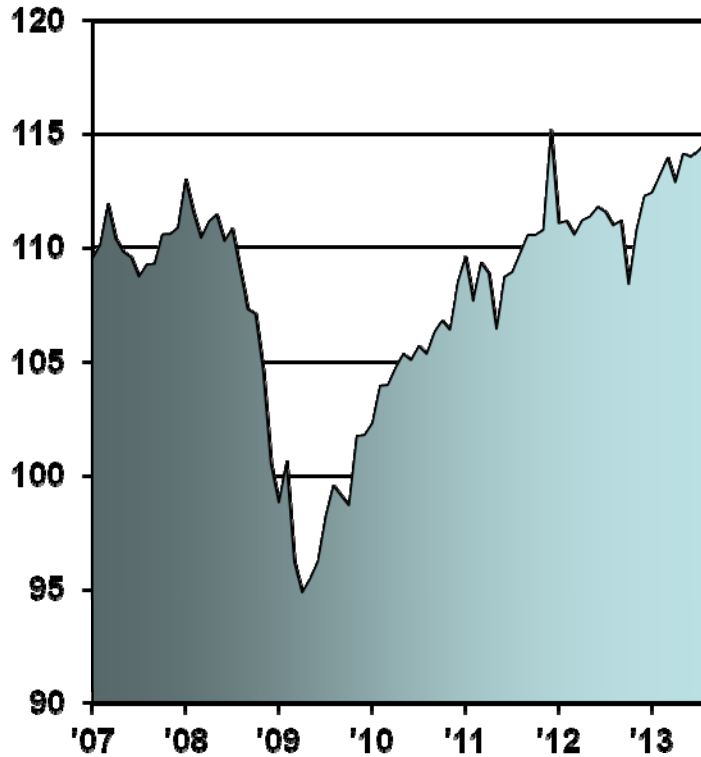


Industrial Market

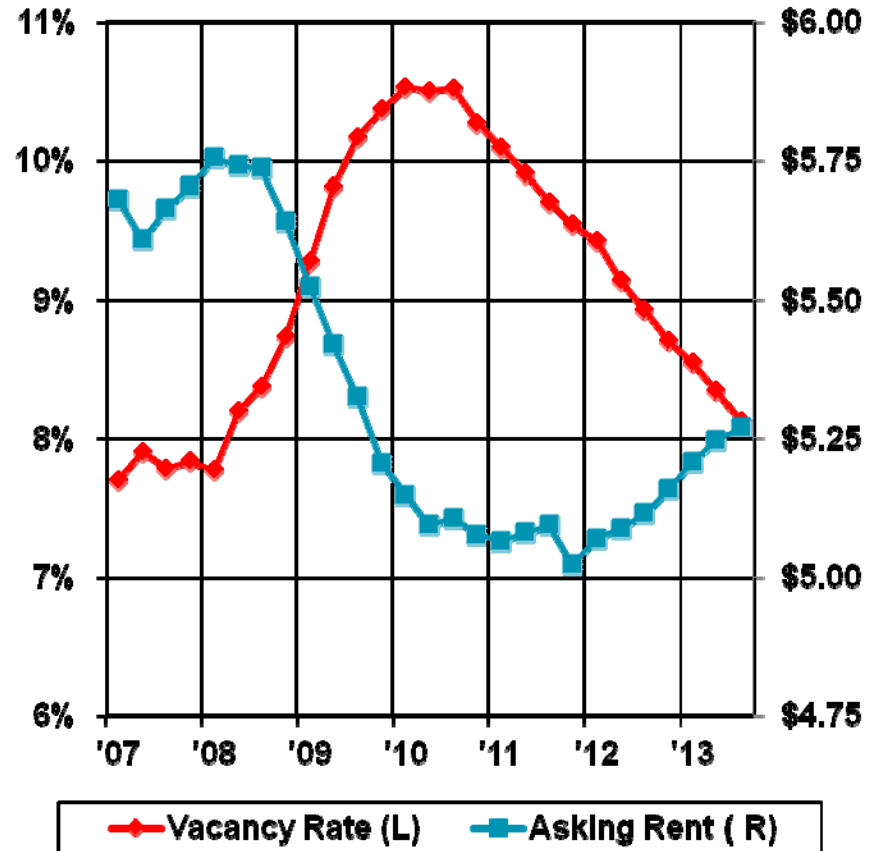
Vacancy near pre-recession low; rent up 4.9% from trough in '11q4



DOT Freight Index 2000 = 100



Industrial Vacancy & Asking Rent

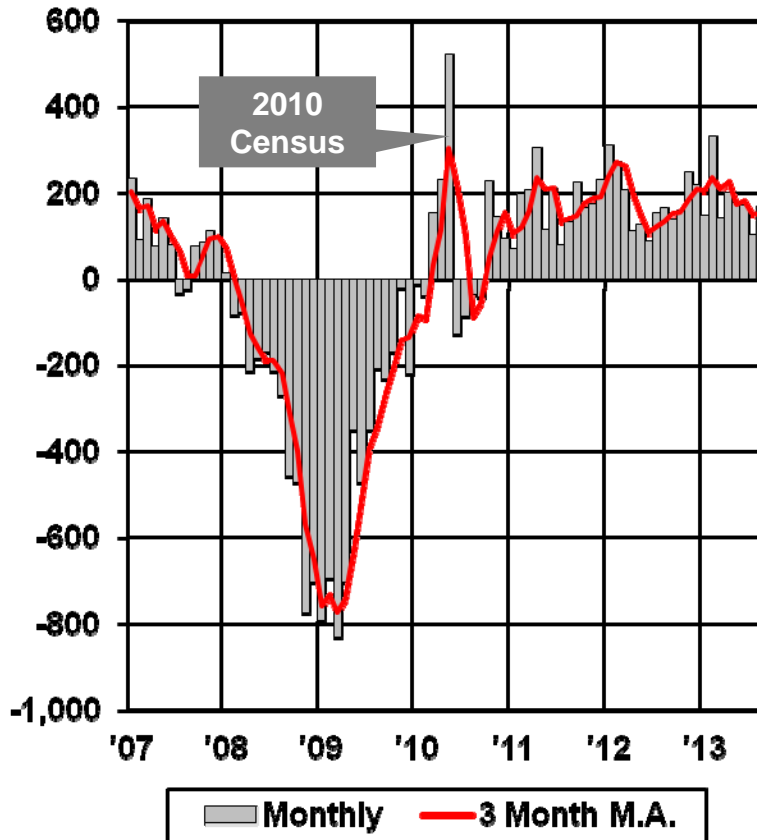


Office Market

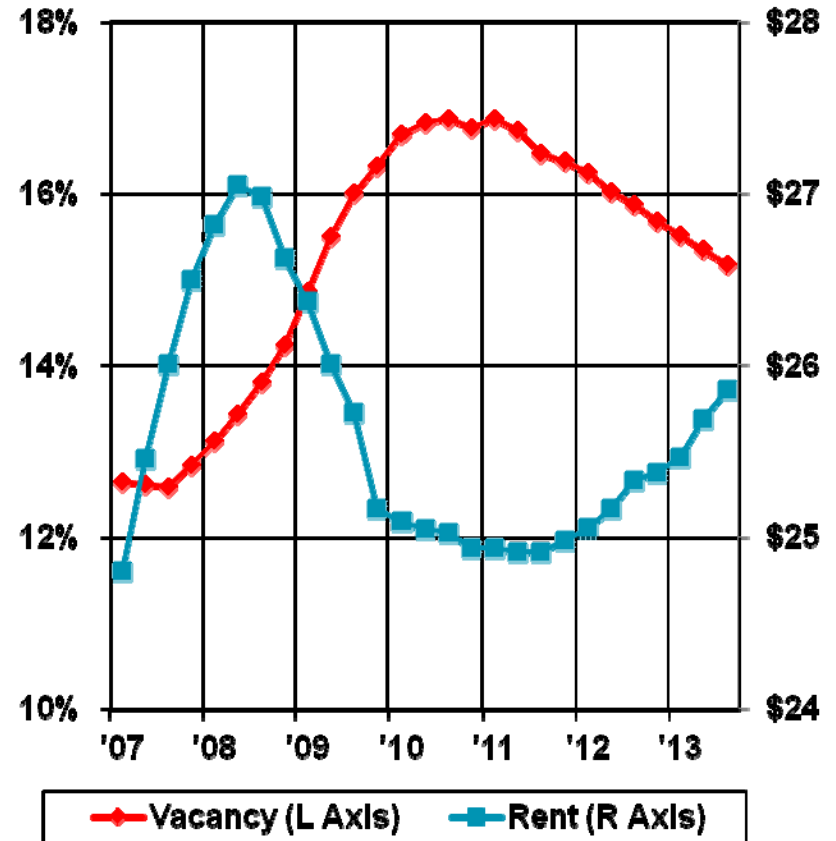
"Densification" restrains recovery; rents up 3.8% since '11q3 trough



Payroll Employment Monthly Change (thousands)



Office Vacancy & Asking Rent

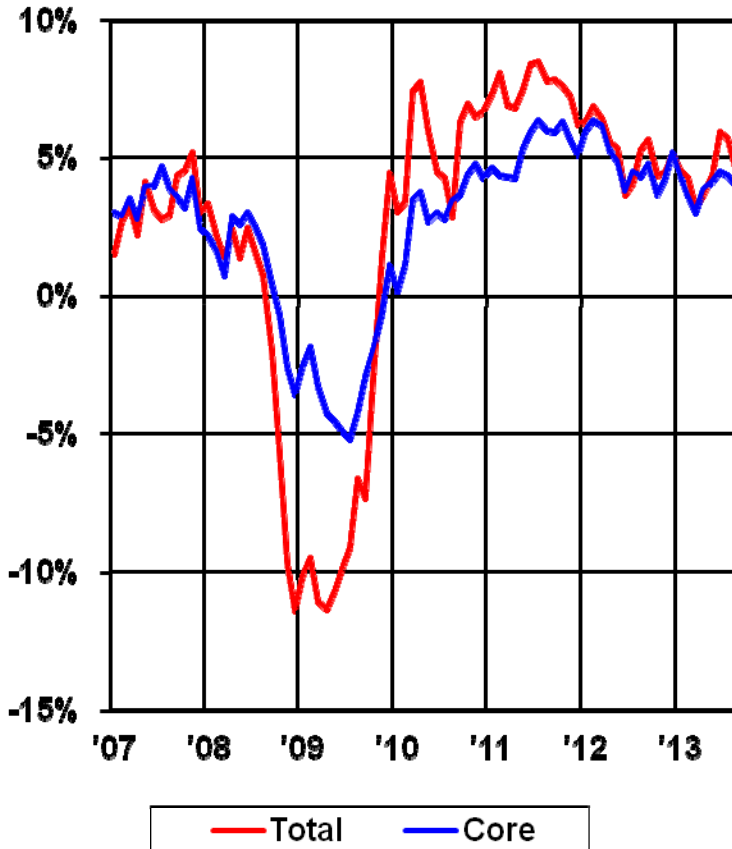


Retail Market

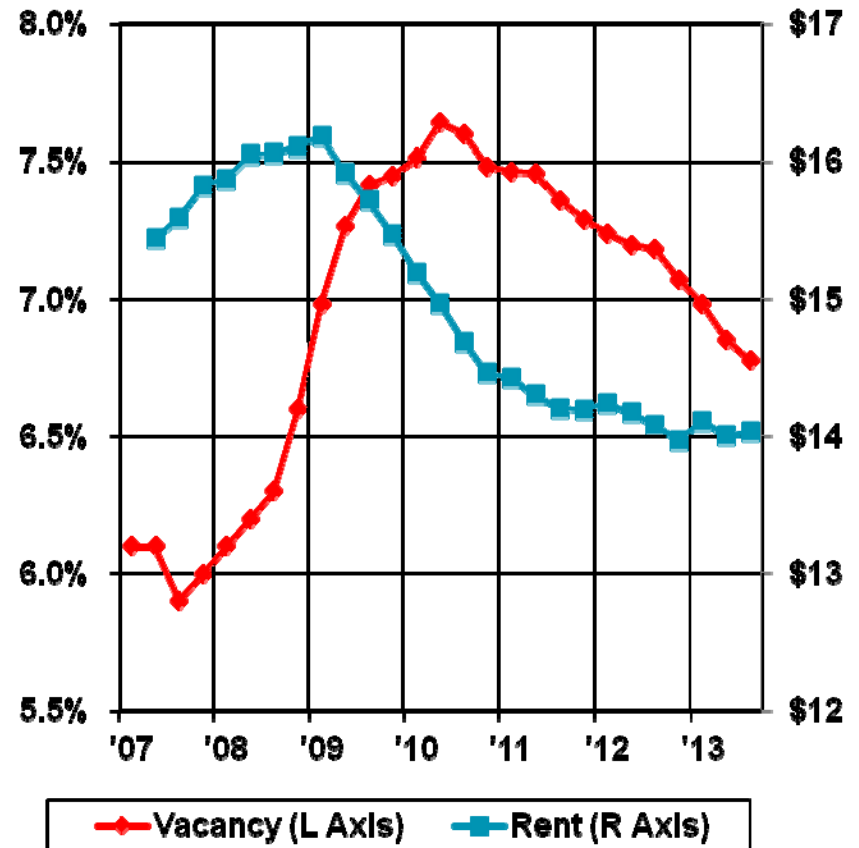
Vacancy & rents slow to recover; Class A assets doing much better



Monthly Retail Sales
% Change Year Over Year, SA



Retail Vacancy & Asking Rent



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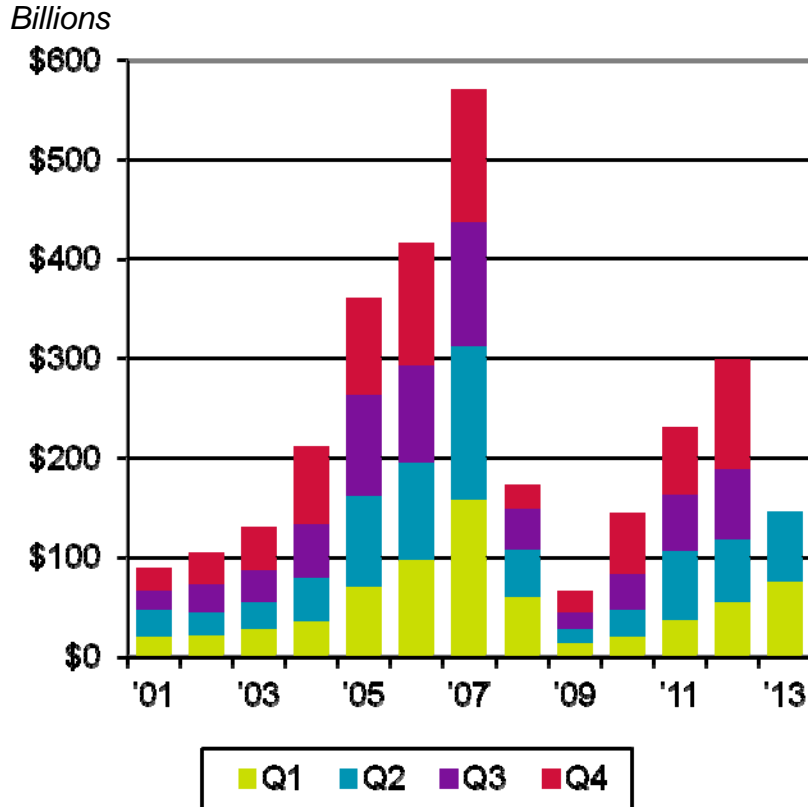


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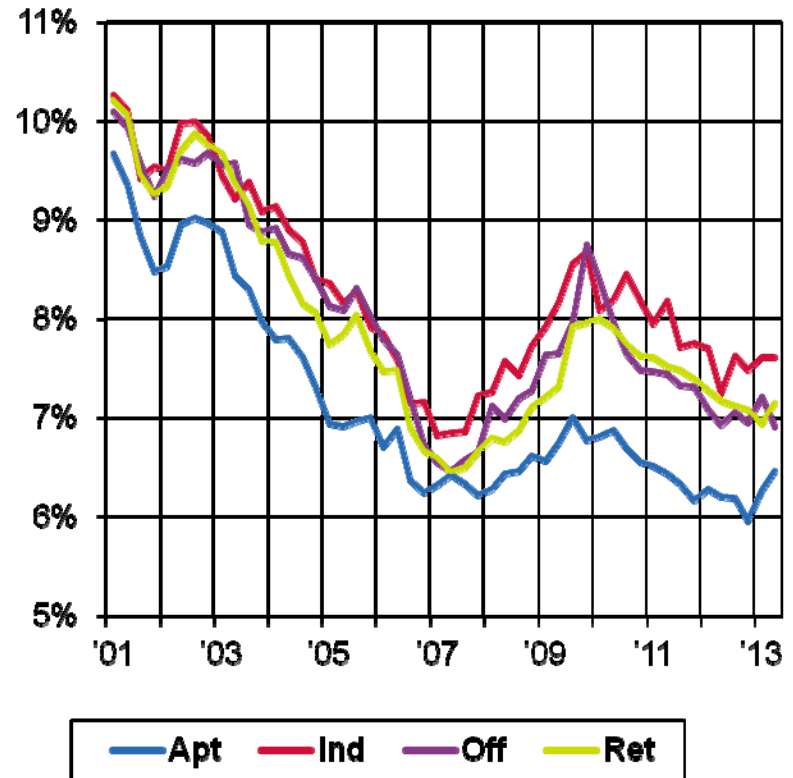
Sales Still Growing, Cap Rates Near Bottom



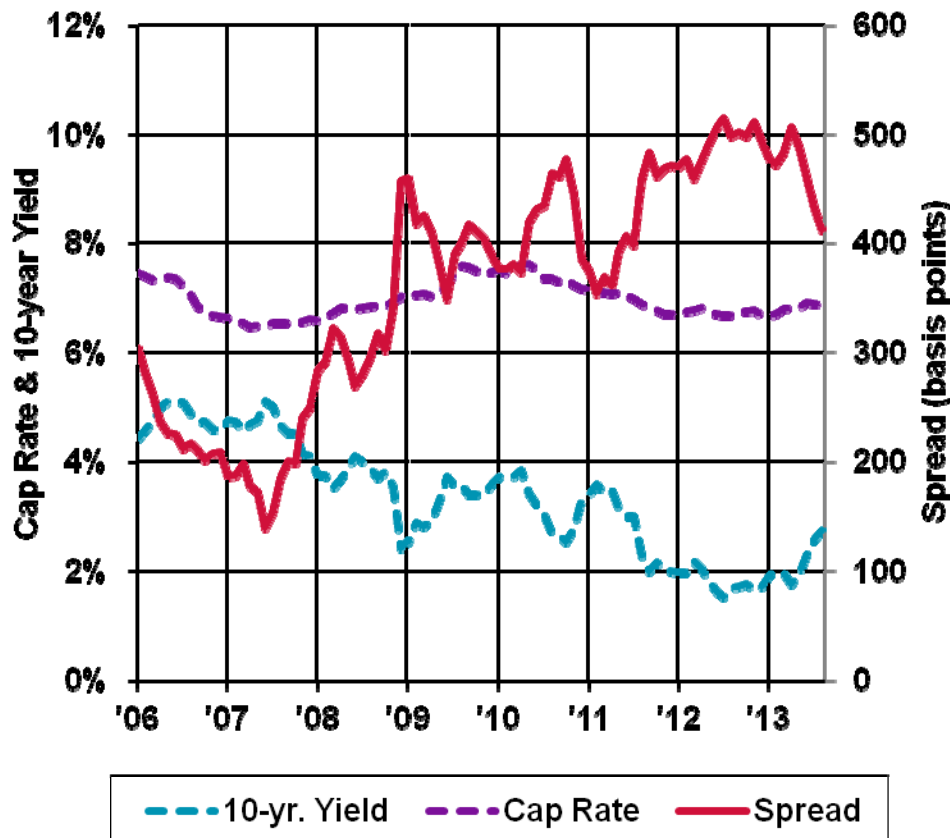
CRE Investment by Quarter
 +30% in 2012, +24% 1H 2013



Avg. Quarterly Cap Rates



Spread Still High by Historic Standards



- ◆ Rising interest rates will put upward pressure on cap rates.
- ◆ Recent jump in 10-year yields reduces spread with cap rates.
- ◆ Could still be some cushion for interest rates to rise with little effect on cap rates.
- ◆ Rising rates will have least impact on institutional & other all cash/low leverage buyers.
- ◆ Lots of debt & equity capital chasing CRE.

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Construction is Minimal

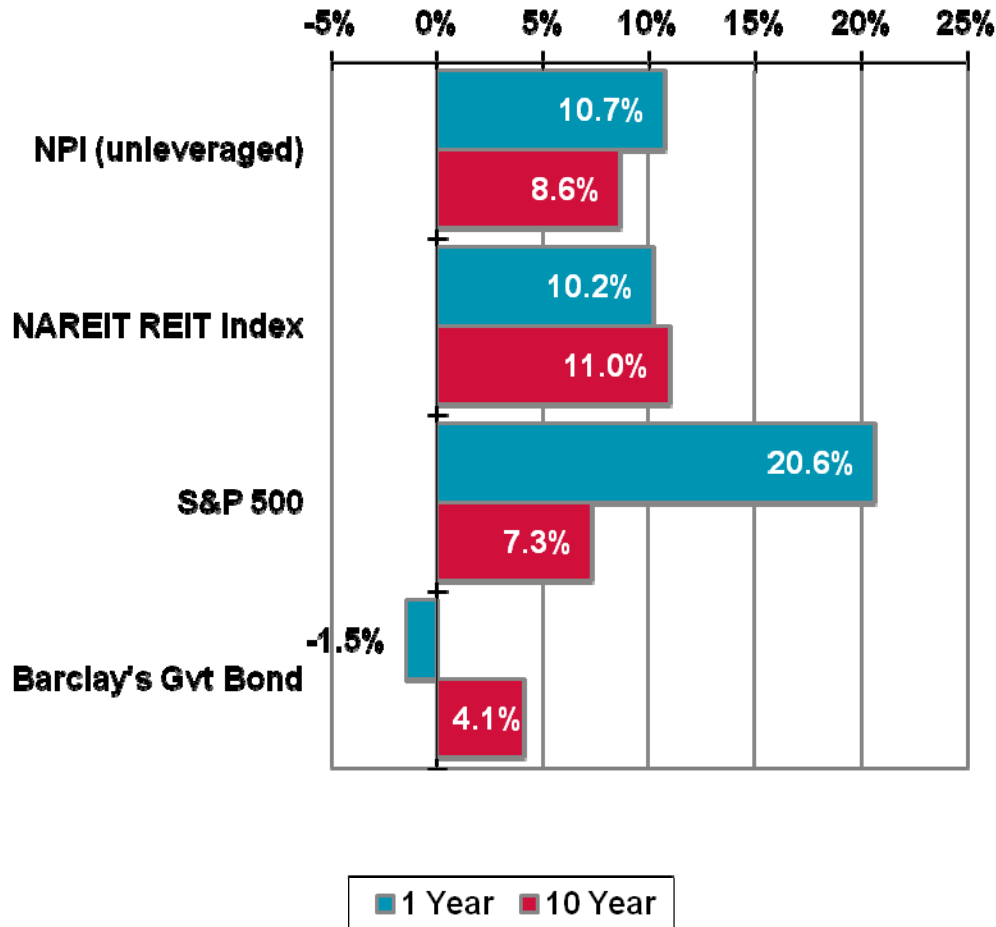


- Office construction = 54M SF, **53% below** pre-recession peak
- Industrial construction = 70M SF, **61% below** peak
- Retail construction = 37M SF, **80% below** peak
- Apartment permits +20% YTD thru Aug. but **less than 1/2** recent peak in 2005





CRE Returns Are Solid, Volatility Is Low

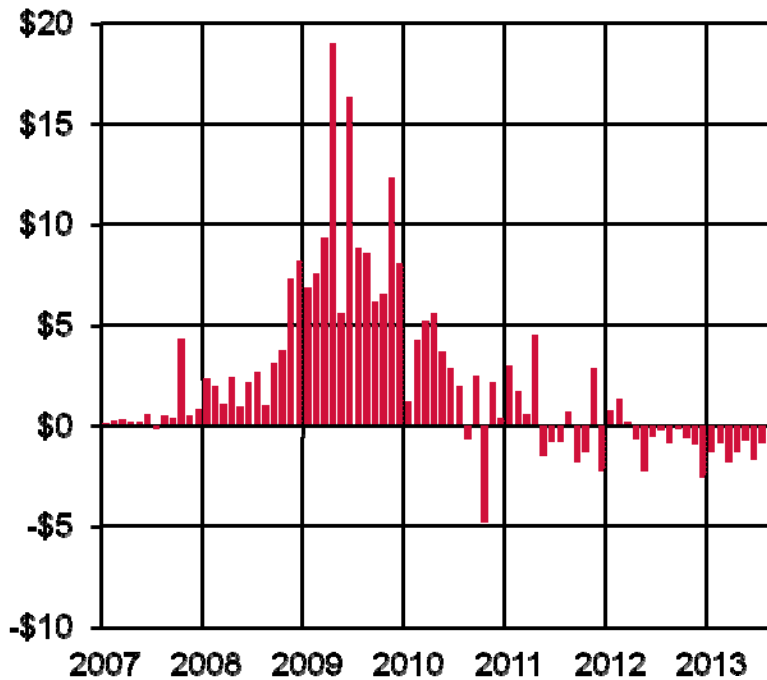


- ◆ CRE returns have been stellar for both listed funds and direct ownership with 10-year annual returns beating stocks & bonds.

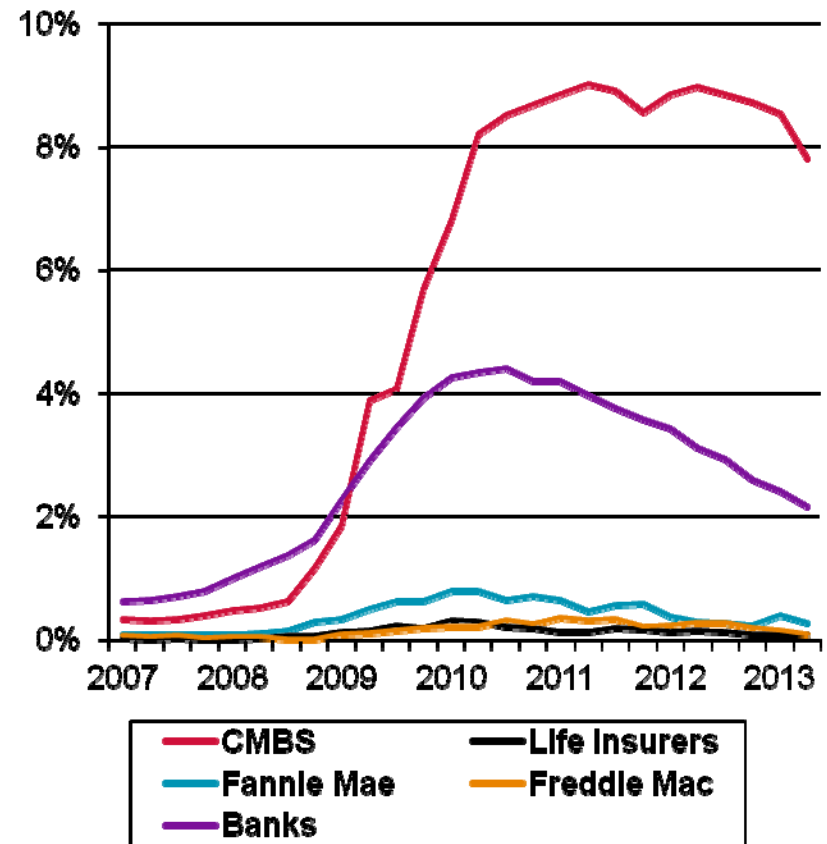
Distress Is Receding



Monthly Net Change to Inventory of Distressed Properties



Delinquency Rates Thru 2013-Q2

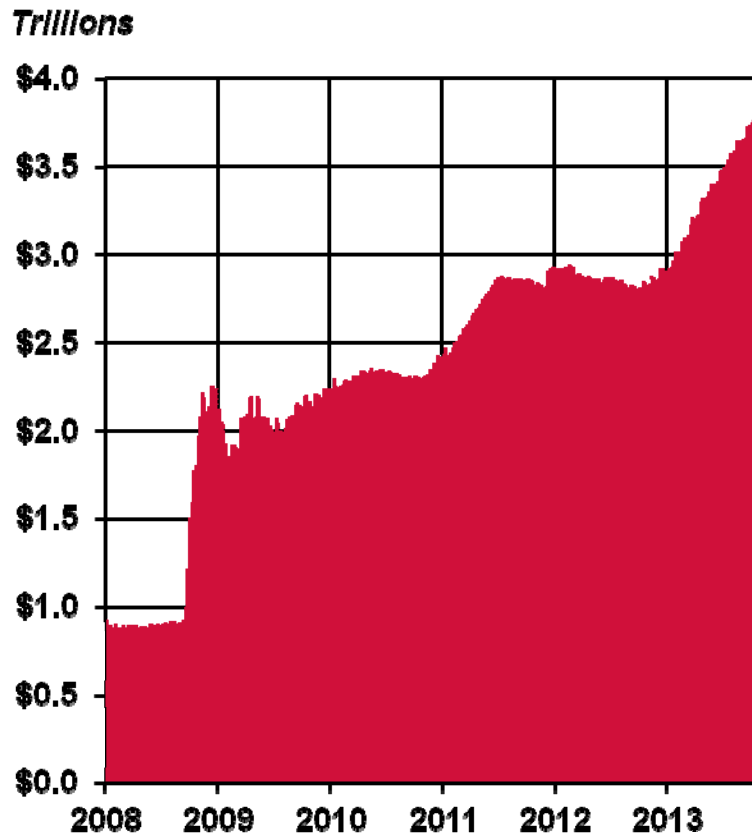


What Could Go Wrong?

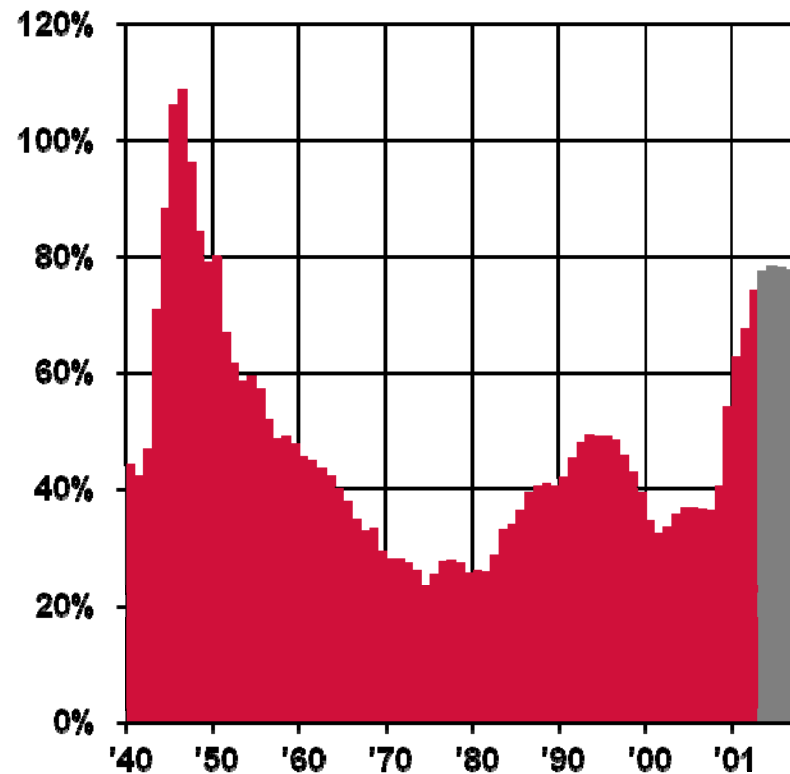
Unwinding QE, Long Term Budget Accord



Assets on Fed Balance Sheet



Public Debt as % of GDP



Q & A



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