

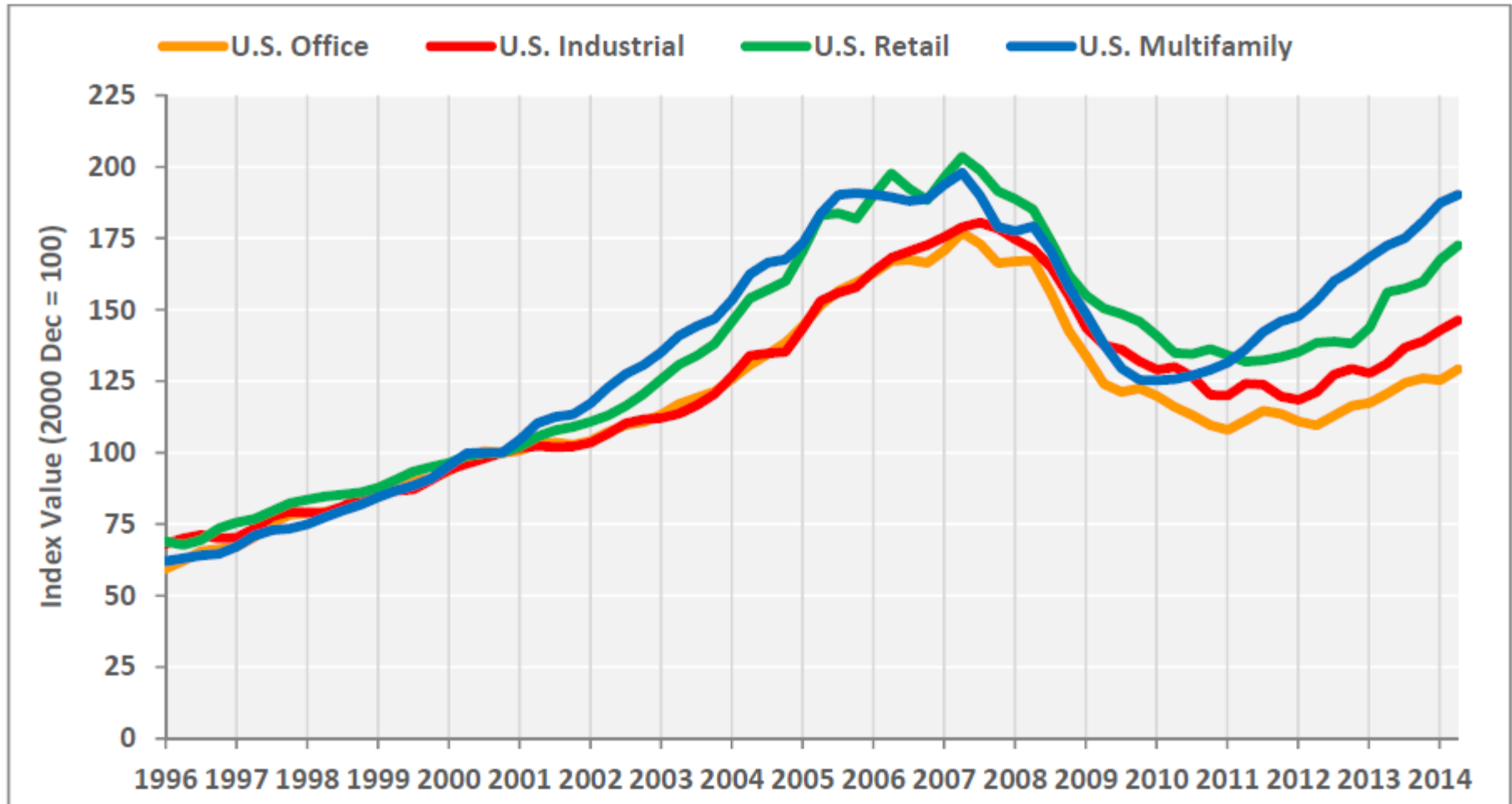
Center For Real Estate Strategies Conference Economic Update

**Presented by: Mark J. Eppli
Interim Keyes Dean and Bell Chair in Real Estate
Marquette University**

September 11, 2014

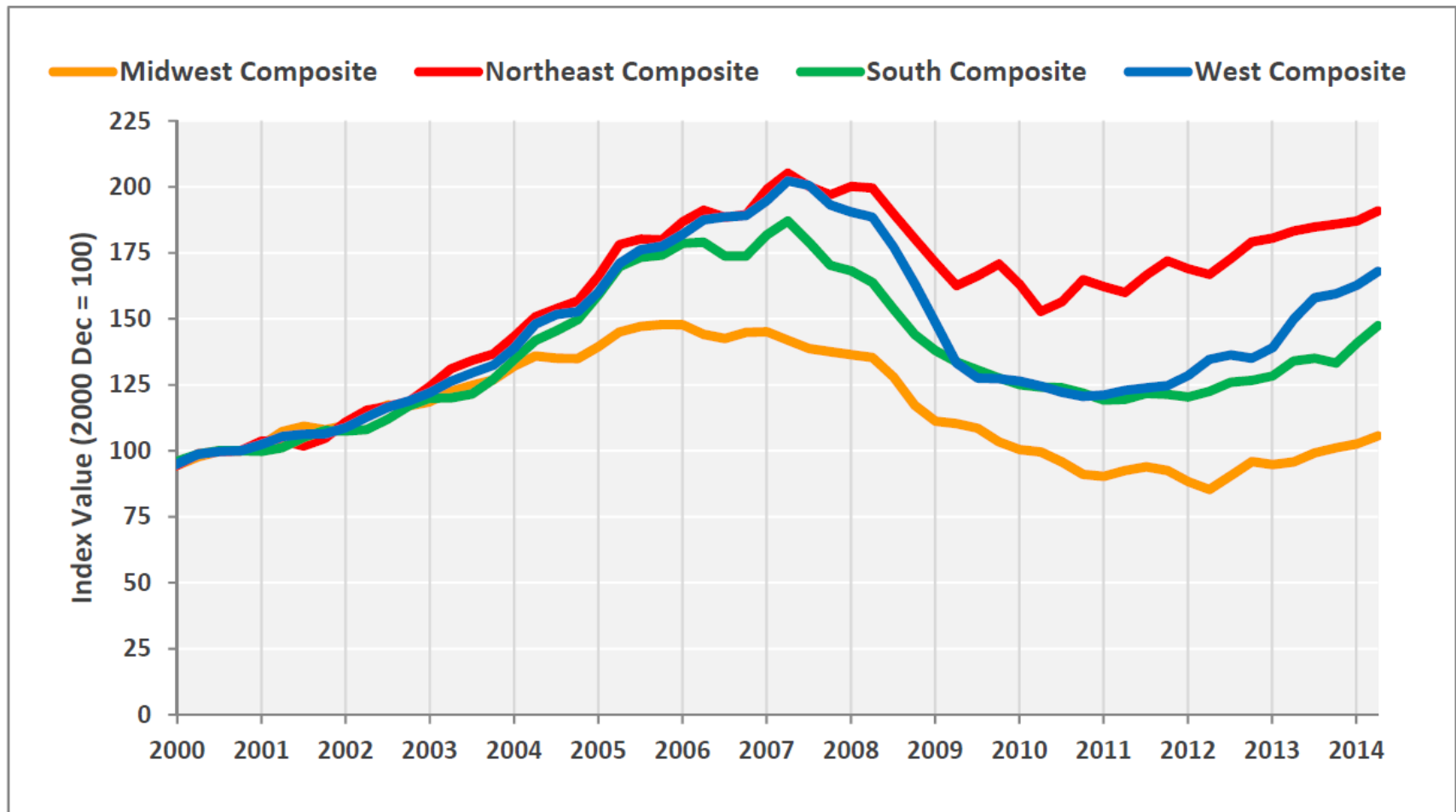
U.S. property markets are recovering as predicted last year. . . .

U.S. Primary Property Type Quarterly Indices - Equal Weighted, Data through June of 2014



. . . . however, the Midwest's real estate price recovery continues to lag the rest of the nation

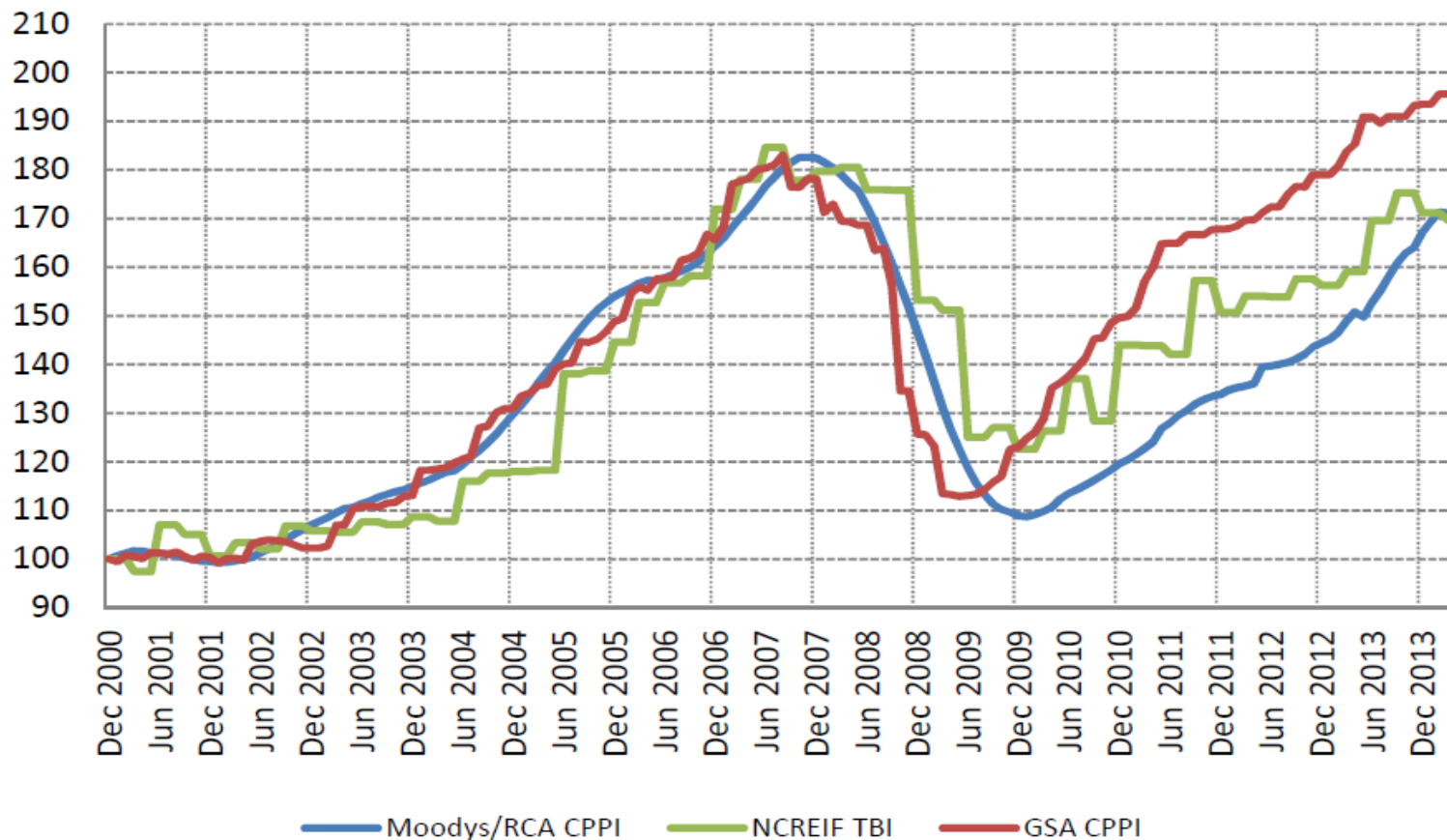
U.S. Regional Type Quarterly Indices - Equal Weighted, Data through June of 2014



... as non-institutional properties come back strong ...

Re-Indexed Values of the Moody's/RCA CPPI,
NCREIF Transaction Based Index, and Green Street Advisors CPPI

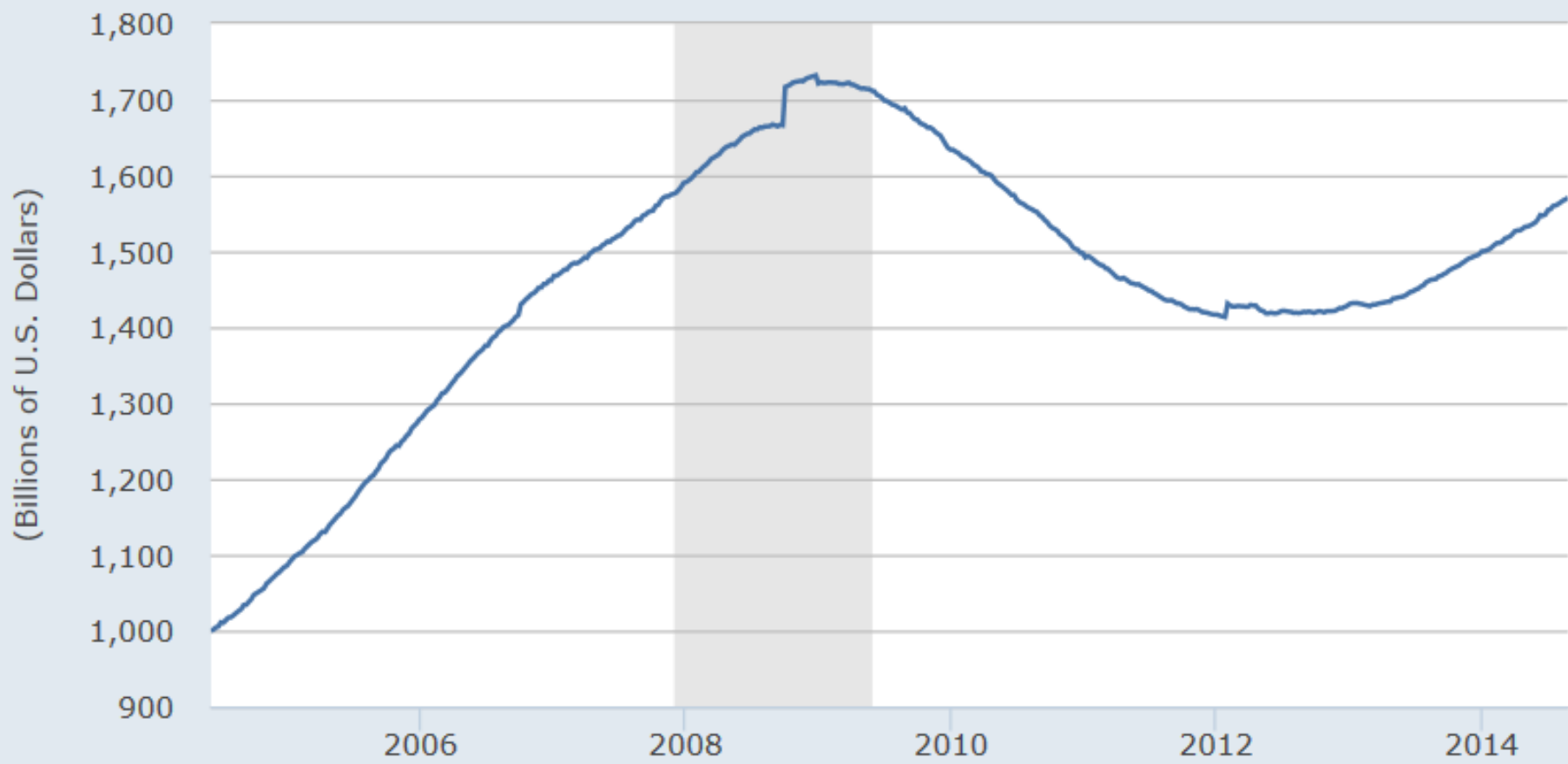
December 2000 = 100



... in part because U.S. banks are lending on commercial real estate ...

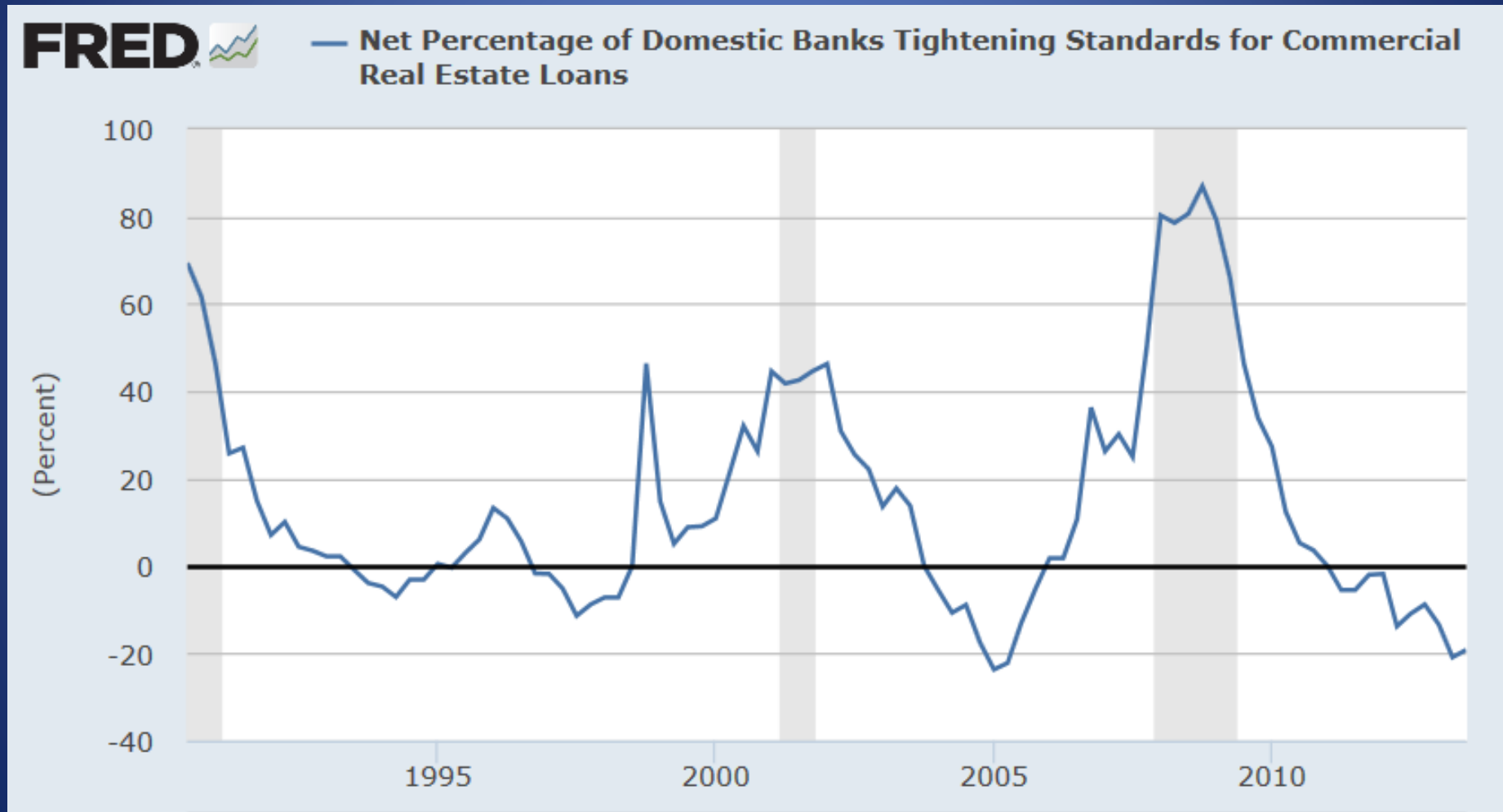


— Real Estate Loans: Commercial Real Estate Loans, All Commercial Banks



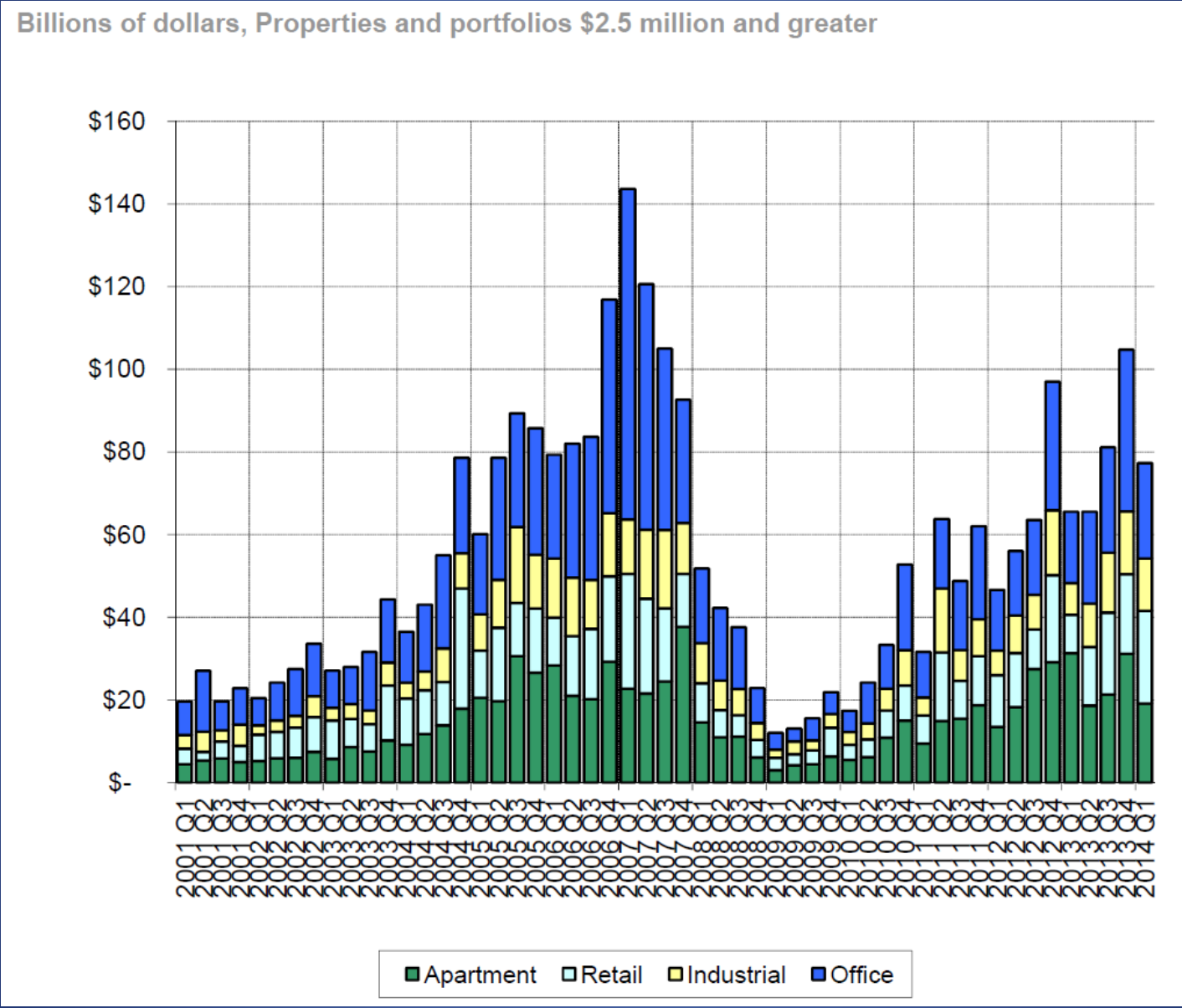
Source: Federal Reserve of St. Louis.

... as banks ease up on lending standards ...



Source: Federal Reserve of St. Louis.

...and transaction volumes recover to sustainable levels ...



Source: Mortgage Bankers Quarterly Databook and Real Capital Analytics, 2014Q1.

. . . . the takeaways being (as highlighted in KPMG's 2014 CRE survey:

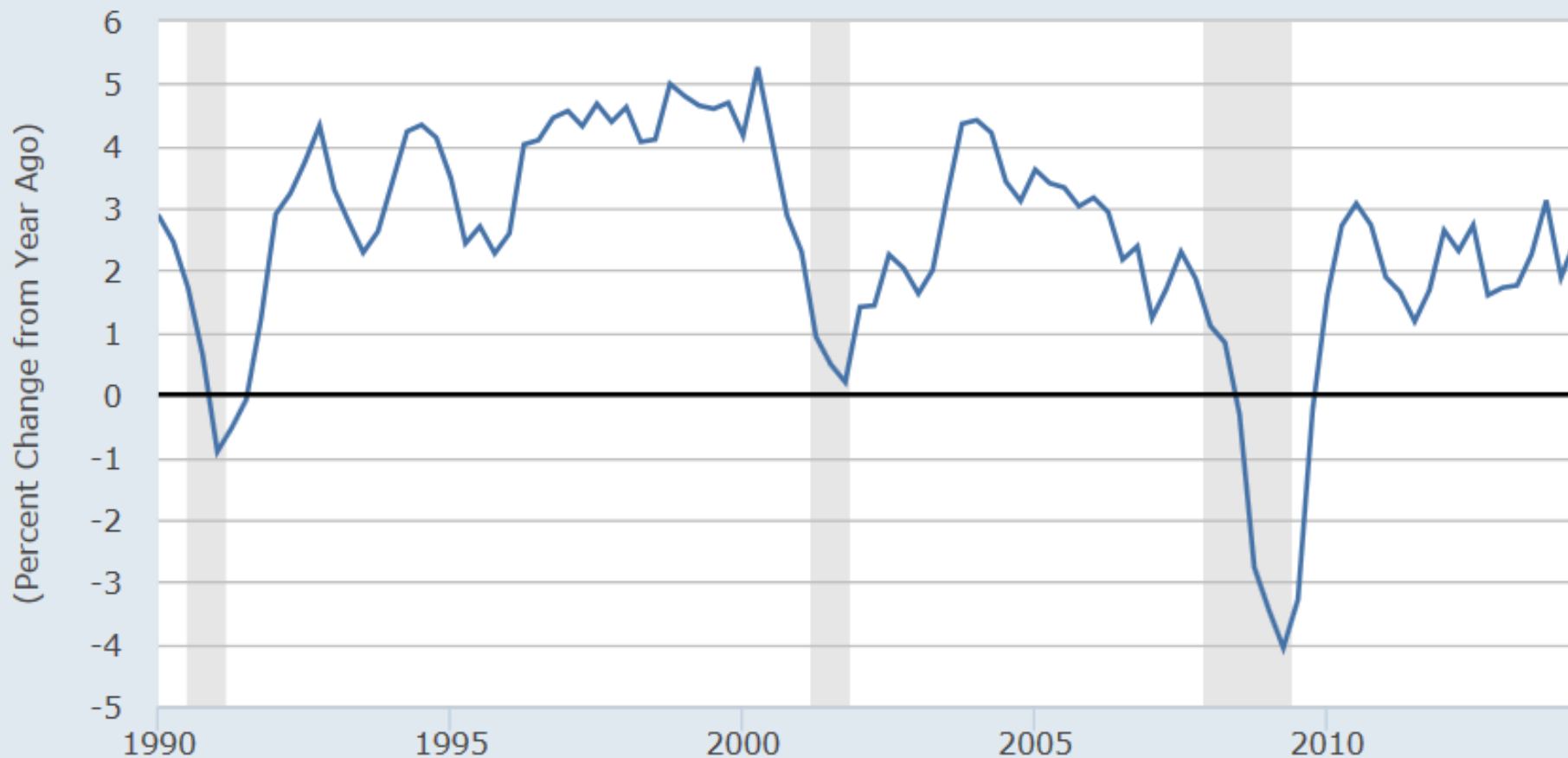
- ***Significant shift away from Class A in primary markets***
 - To distressed properties, A properties in secondary markets, and B/C class properties
- ***Investors are turning to new markets in search of yield***
 - Midwest third best market with a 15 point jump in investor interest
- ***Multifamily continues to shine***

GDP, Jobs, Wealth, and Income

The U.S. has maintained historically weak GDP growth in the 2000s at 1.83%, versus 3.25% for the period 1980-2000 (year-over-year growth). . . .

FRED 

— Real Gross Domestic Product



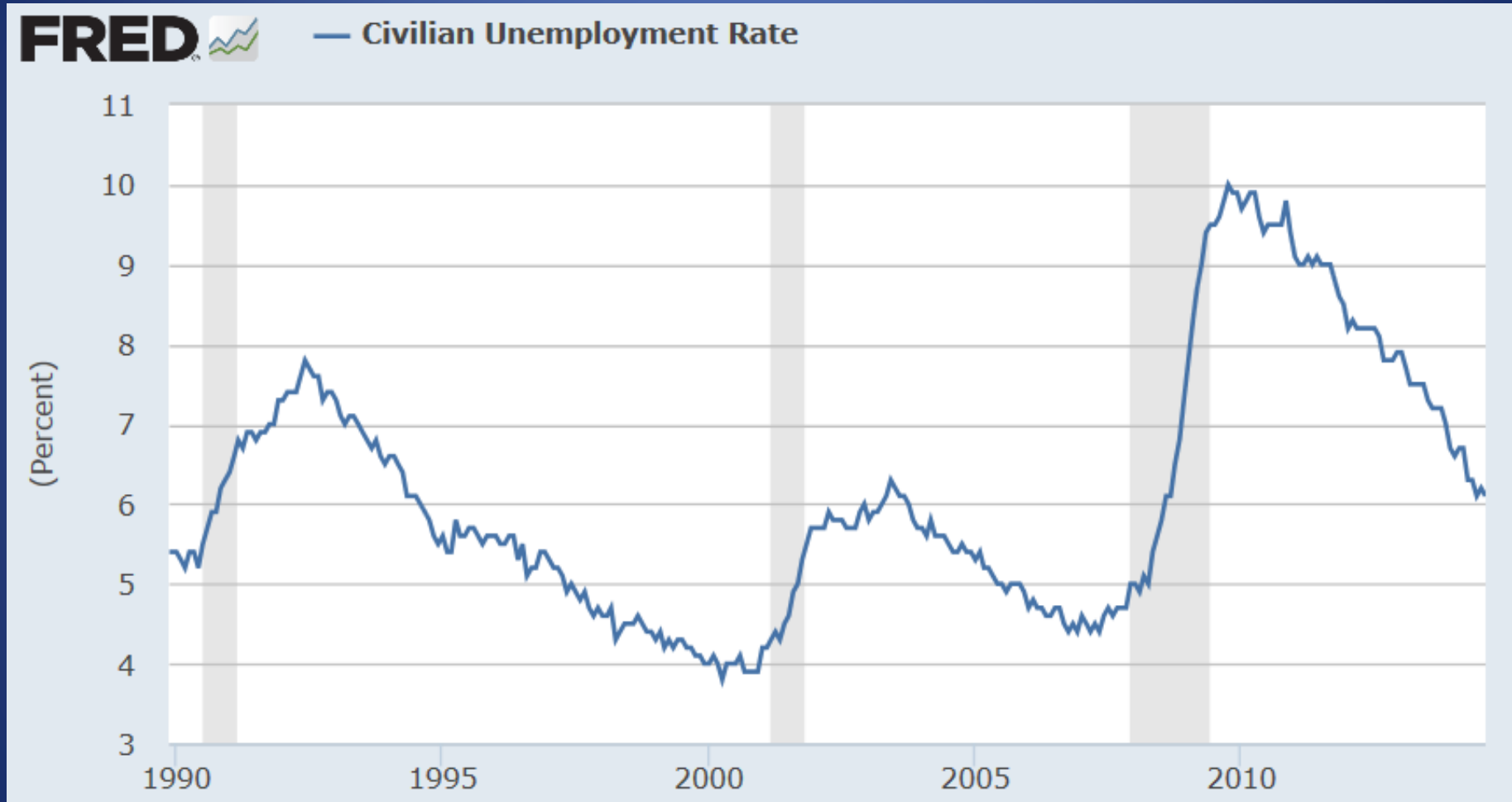
Source: Federal Reserve of St. Louis.

... however, the U.S. is outperforming other economically advanced economies ...



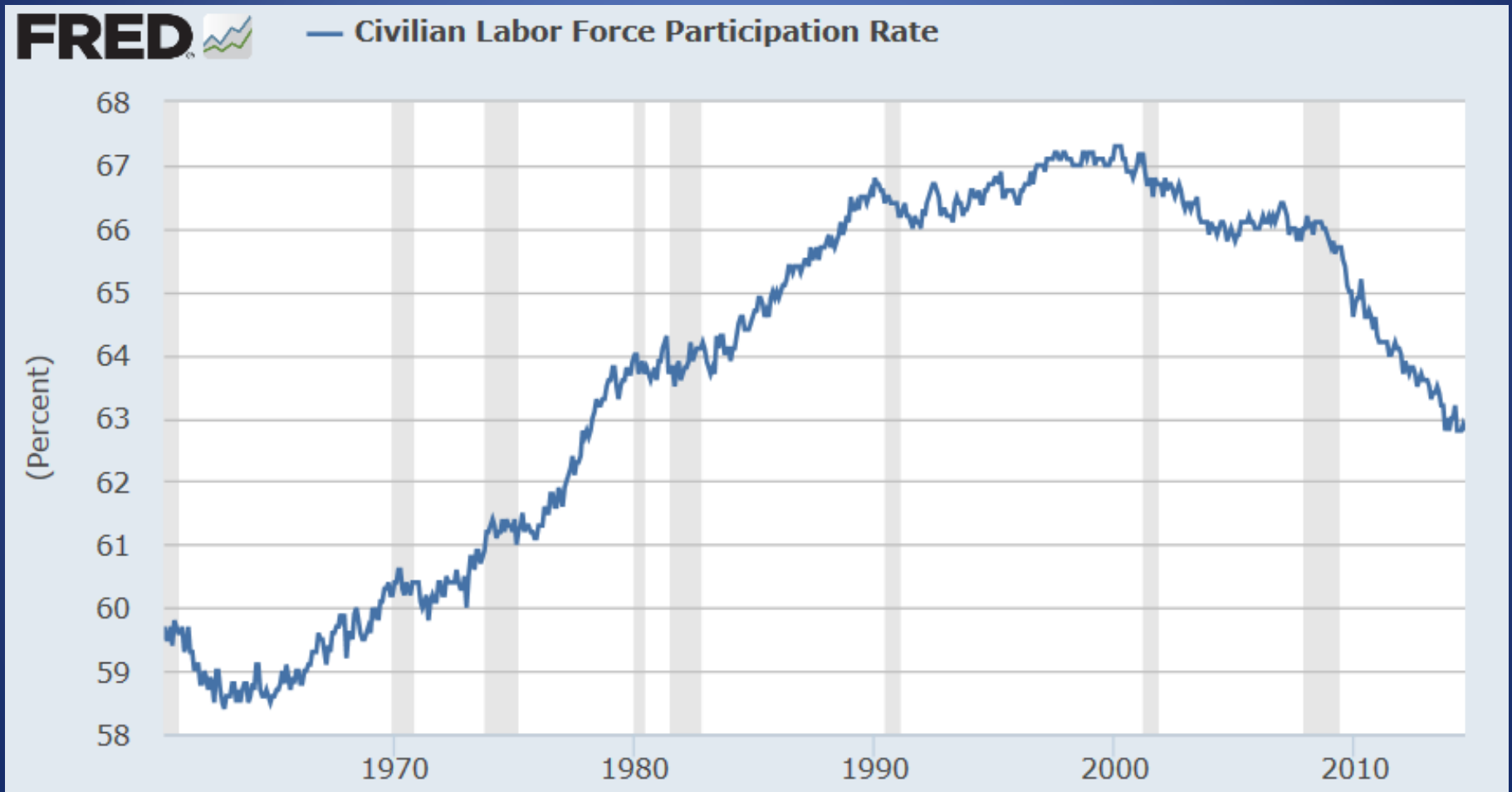
Source: *Economist* August 23, 2014, p12.

. . . . which bring us to jobs and the unemployment rate, which “look good,” however



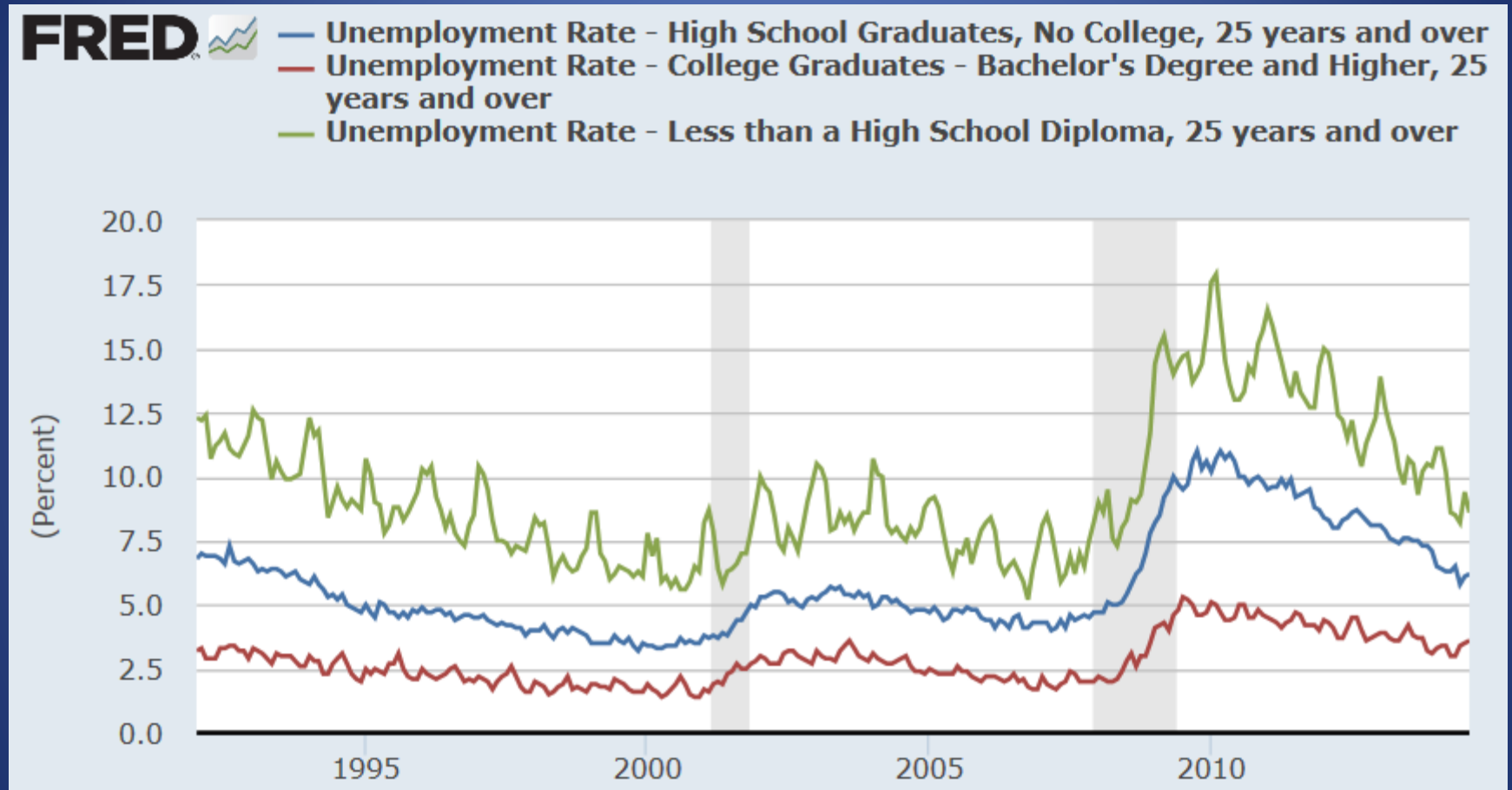
Source: St. Louis Federal Reserve.

. . . . the unemployment rate is not the whole story, labor force participation rates are a concern



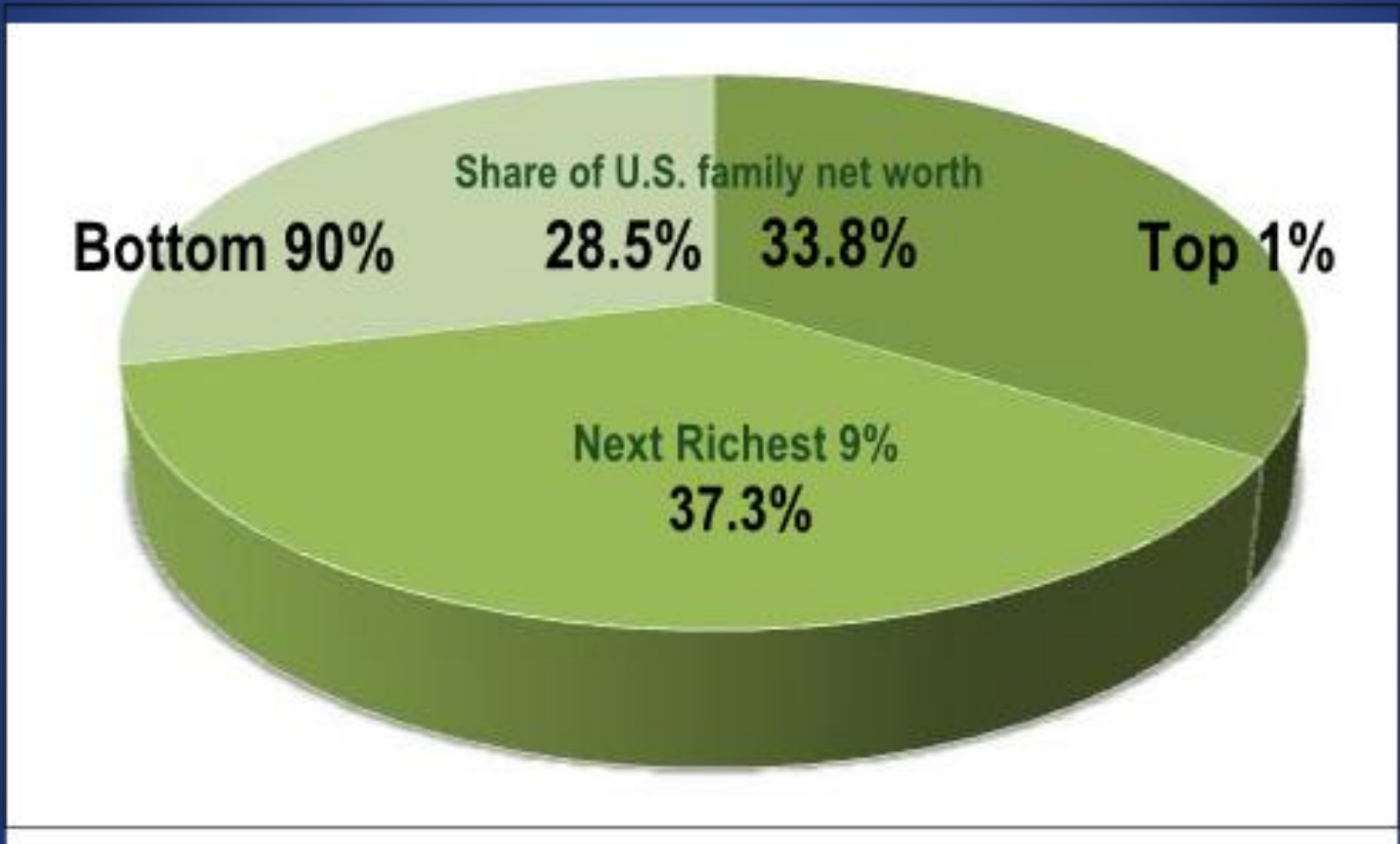
Source: St. Louis Federal Reserve

. . . . unemployment is not an equally distributed



Source: St. Louis Federal Reserve

. . . . on to net worth, which is highly concentrated



Source: Marty Hart-Landsberg, Lewis and Clark University.

. . . . 39% of households have less than \$25,000
in net worth

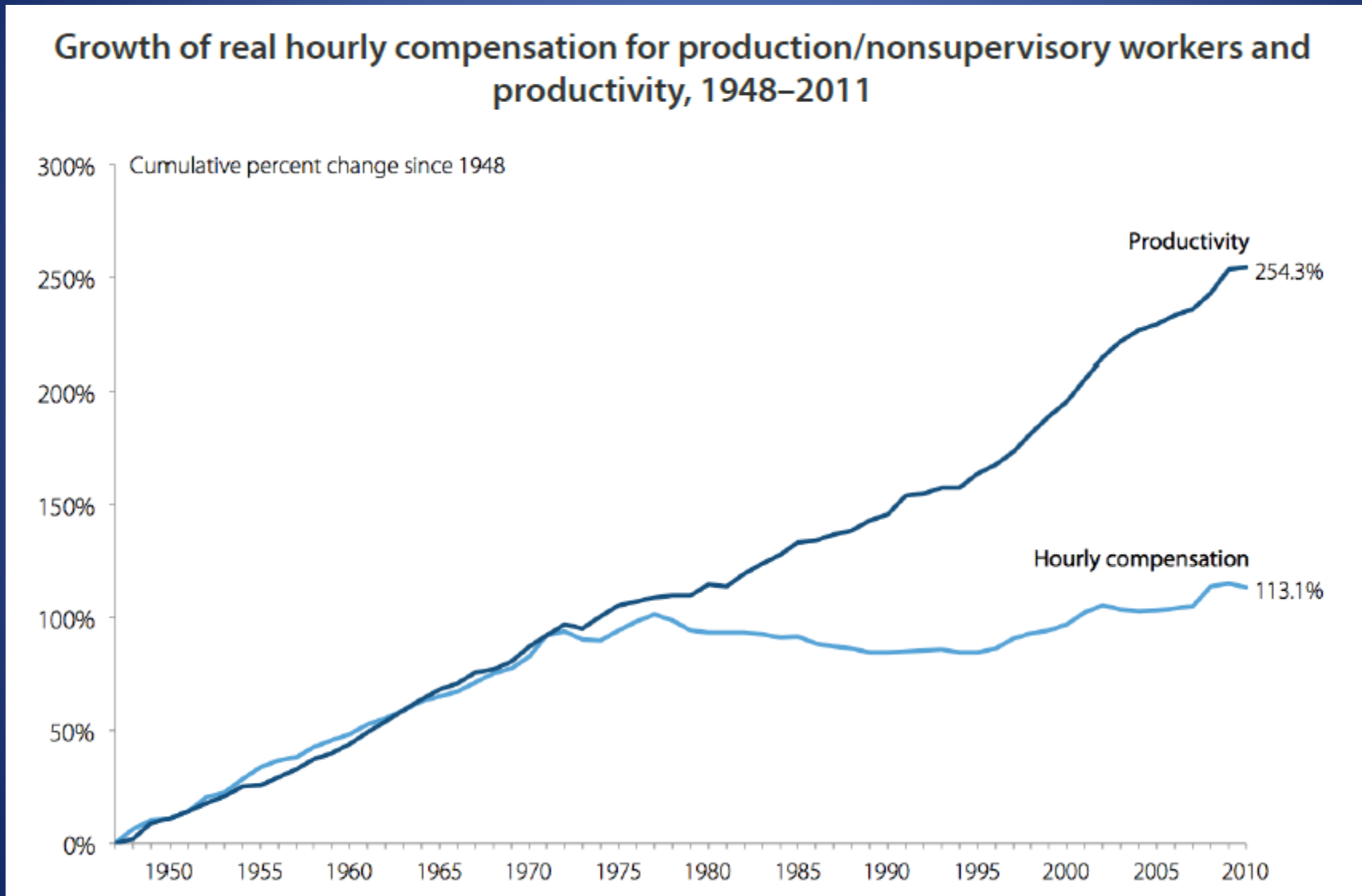
Mean Net Worth by Household Net Worth Category, 2009 and 2011

	% of 2011 households	Mean net worth (in 2011 dollars)		
		2009	2011	% change 2009 to 2011
All	100%	\$297,729	\$338,950	+14%
Net worth group				
Negative or zero	18%	-\$34,777	-\$35,472	-2%
\$1 to \$4,999	9%	\$2,016	\$1,899	-6%
\$5,000 to \$9,999	5%	\$7,433	\$7,248	-2%
\$10,000 to \$24,999	7%	\$17,342	\$16,586	-4%
\$25,000 to \$49,999	7%	\$38,740	\$36,878	-5%
\$50,000 to \$99,999	10%	\$77,028	\$73,099	-5%
\$100,000 to \$249,999	18%	\$173,100	\$164,345	-5%
\$250,000 to \$499,999	13%	\$370,148	\$354,668	-4%
\$500,000 and over	13%	\$1,585,441	\$1,920,956	+21%

Source: Pew Research Center tabulations of Survey of Income and Program Participation wealth data.

PEW RESEARCH CENTER

... real compensation for production workers is stagnant. ...



Source: Lawrence Mishel, Economic Policy Institute, April 26, 2012.

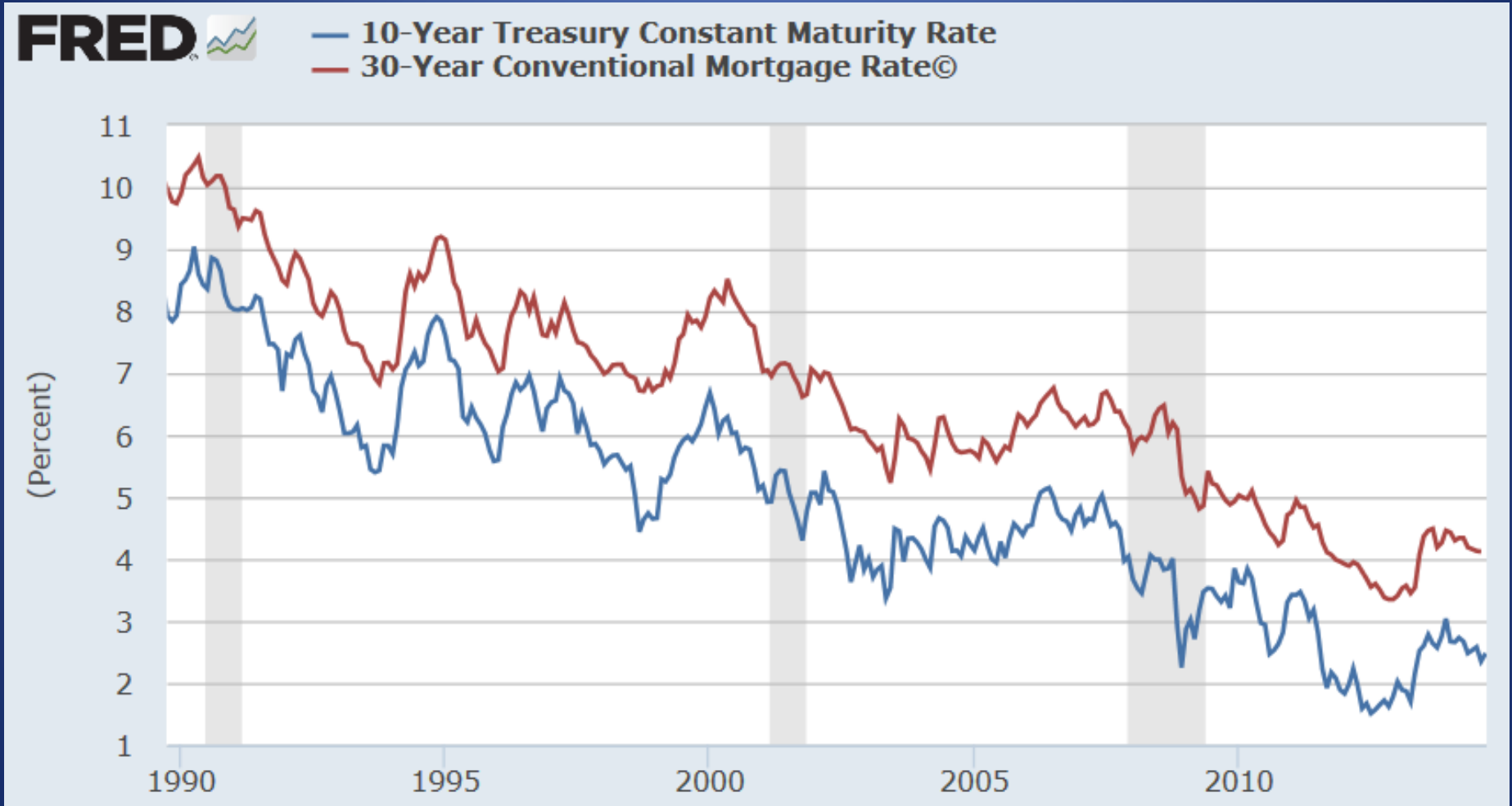
GDP and employment take-aways:

- Unemployment rate declines overstate the health of the jobs market;
- High school graduates struggle to find family-supporting job;
- 39% of households have a net worth of less than \$25,000;
- Real compensation has stagnated;

Which limits GDP growth to 2.5-3.0%.

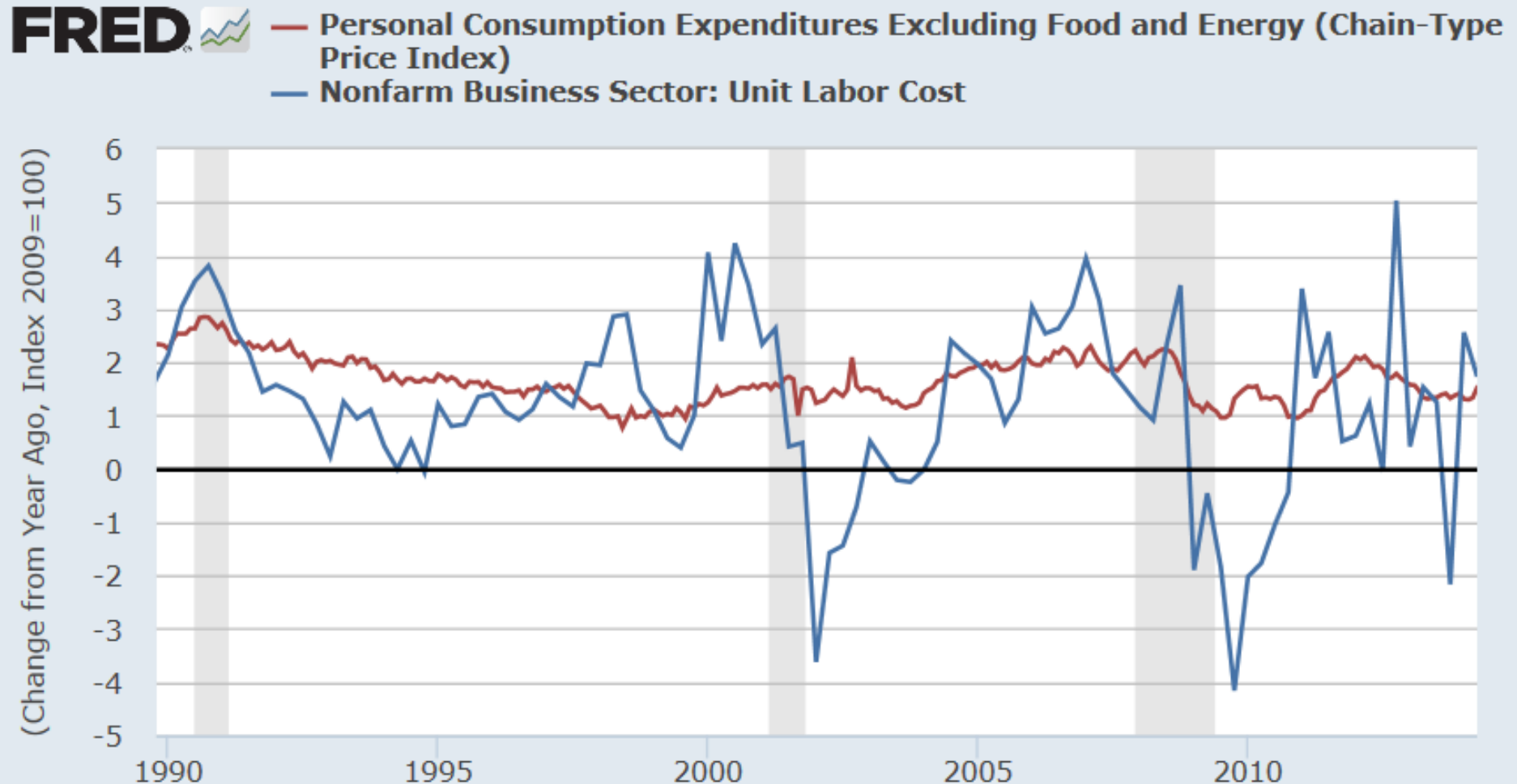
Interest Rates and Inflation

Mortgage interest rates remain low



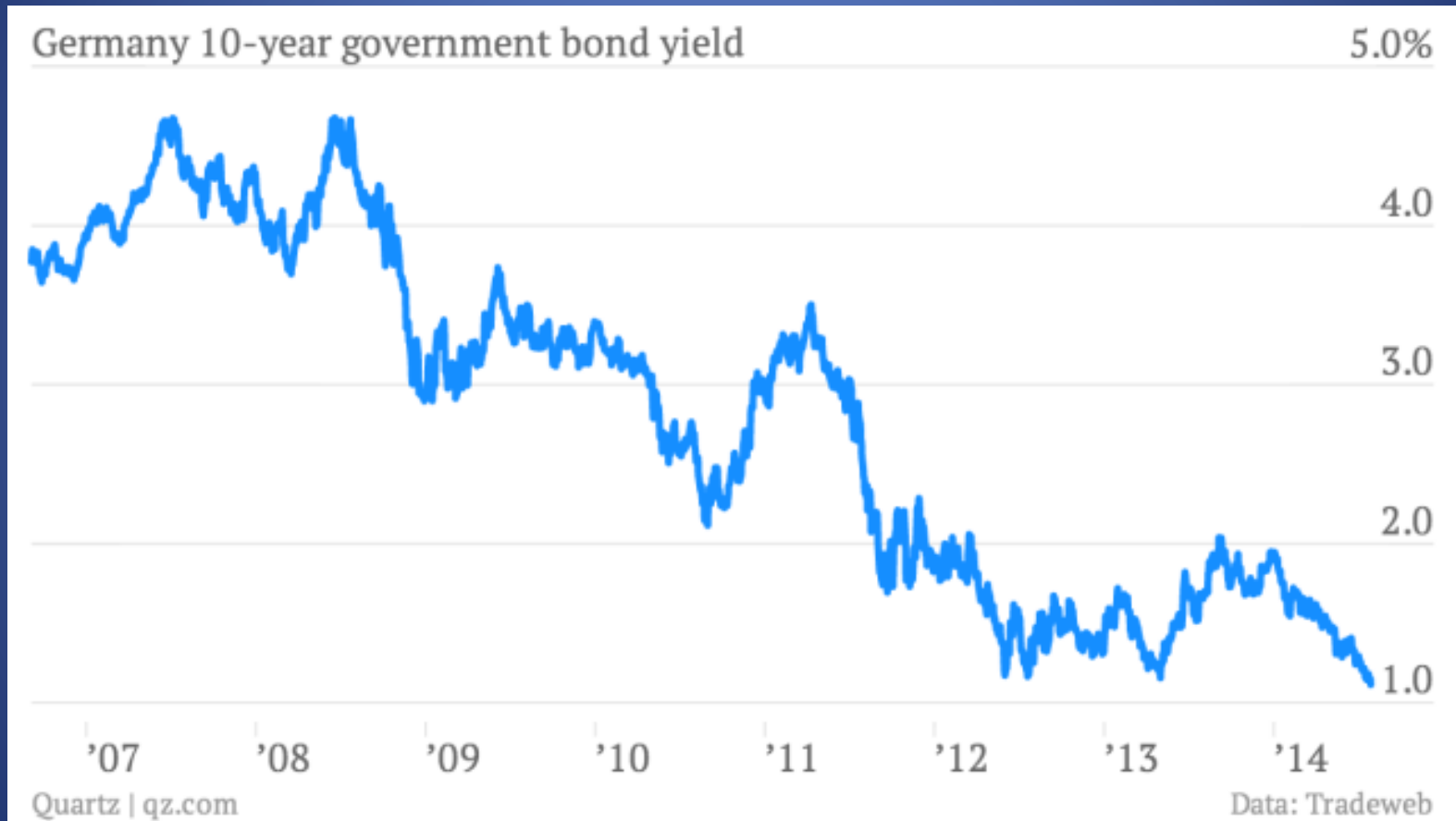
Source: St. Louis Federal Reserve

... due to low inflation, which averaged 1.88% over the past 20 years ...



Source: Federal Reserve of St. Louis.

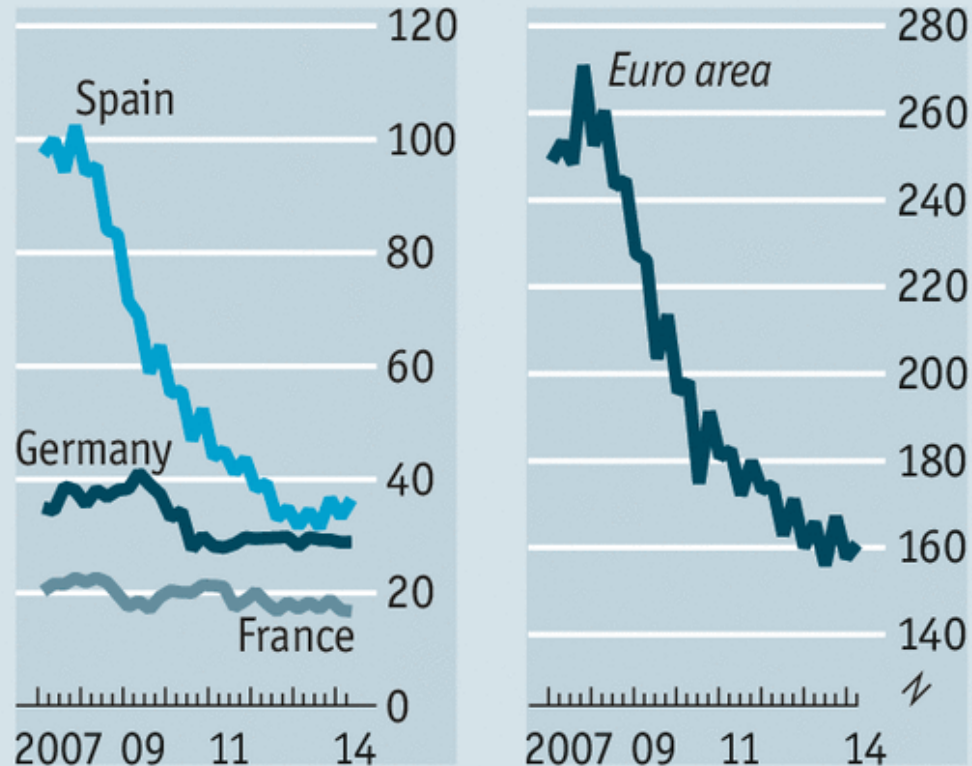
. . . . Germany (the Eurozone) hit all-time interest rate lows, keeping global rates low



... as Eurozone bank loan demand continues to fall ...

Lending needs mending

New bank loans to non-financial firms \leq €1m, €bn



Source: European Central Bank

Interest rate and inflation take-aways:

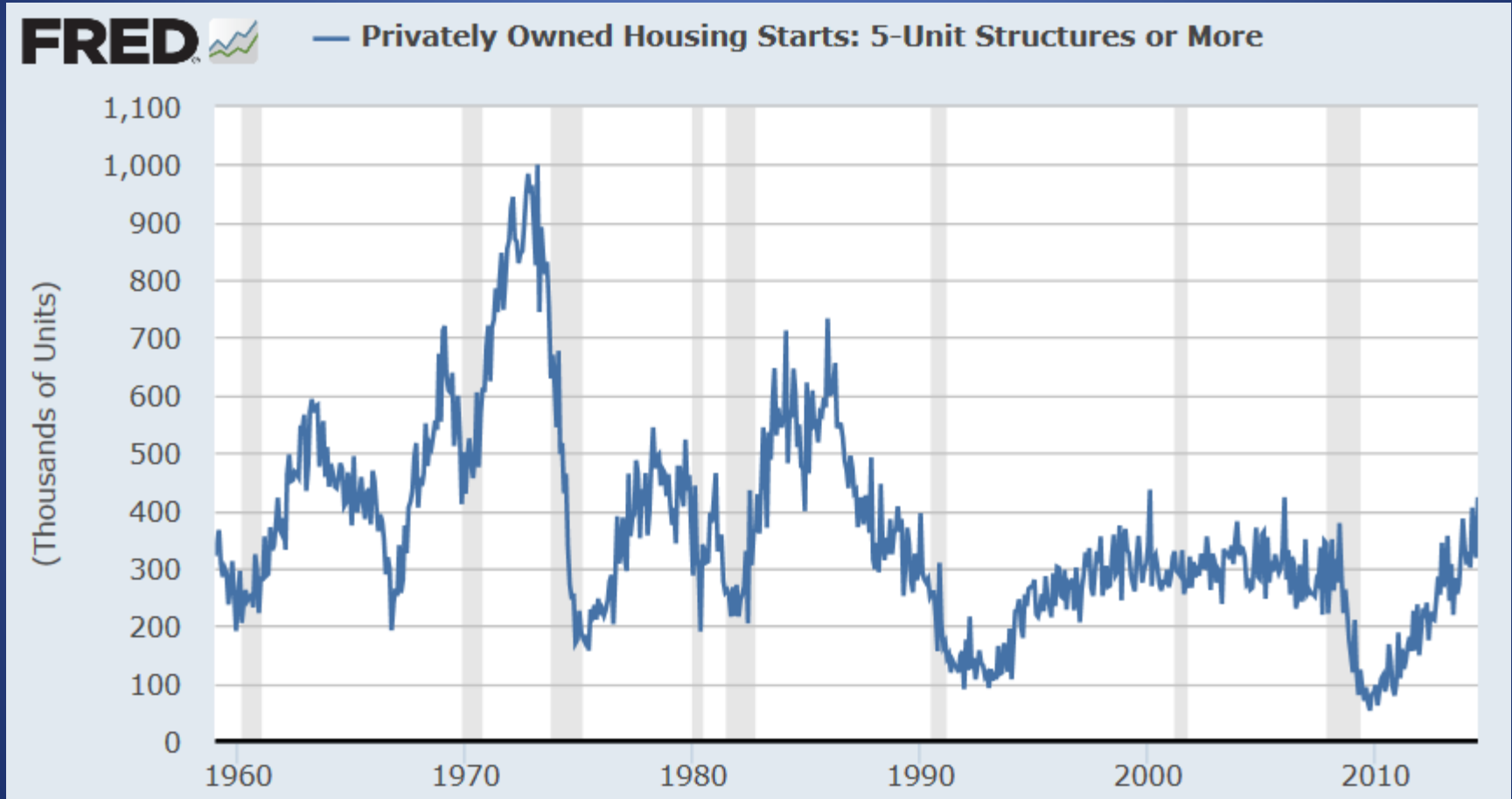
Given the:

- Generally slack labor markets
- Weak global demand for money, and
- Uncertain U.S. economic growth

10-Year US Treasuries rate should remain range bound in the +/-2.50-3.00% through the summer of 2015, after that, watch for tightening.

Spotlight on Multifamily

Multifamily starts averaged 360,000 since 1956, a level we are now reaching (is that a concern?)

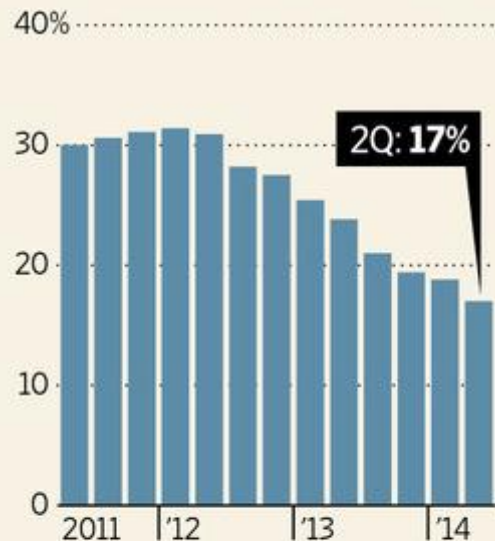


Source: Federal Reserve of St. Louis.

. . . . and homeownership still a challenging investment proposition for many

Getting Above Water

Fewer borrowers owe more than their homes are worth. Percentage of homes underwater in the U.S.



Note: Includes only homes that have a mortgage. Based on estimated home values.

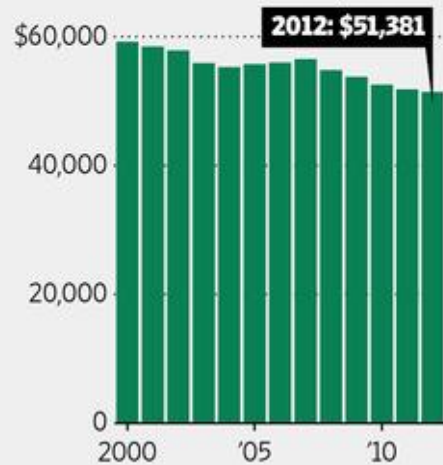
Source: Zillow The Wall Street Journal

..... with the housing market prospects for the first-time homebuyer challenged. . . .

Housing Headwinds

Incomes in the primary age group for first-time buyers have fallen...

Median income for people ages 25 to 34 in 2012 dollars



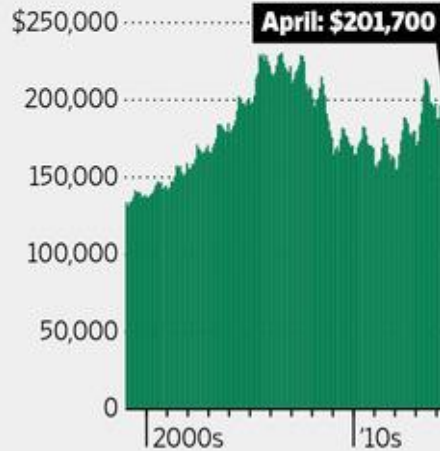
...as mortgage standards have tightened...

Average credit scores for Federal Housing Administration-backed mortgages



...and home prices have steadily climbed since the crash...

Median price of existing-home sales



...leading to a decline in the share of first-time buyers.

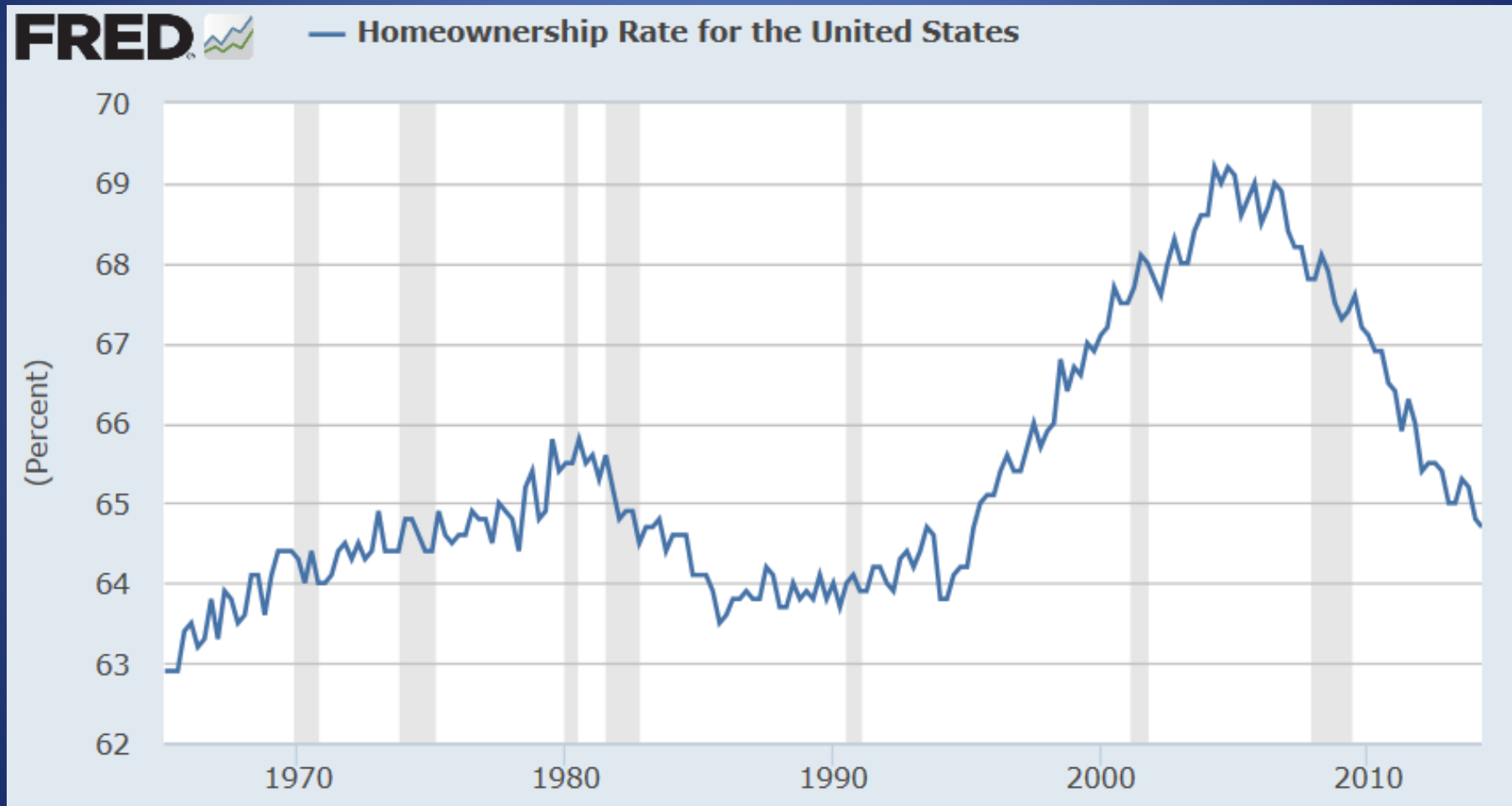
First-time buyers' share of existing-home sales



Sources: National Association of Realtors (first-time buyers, price); Census Bureau (income); Dept. of Housing and Urban Development (FICO score)

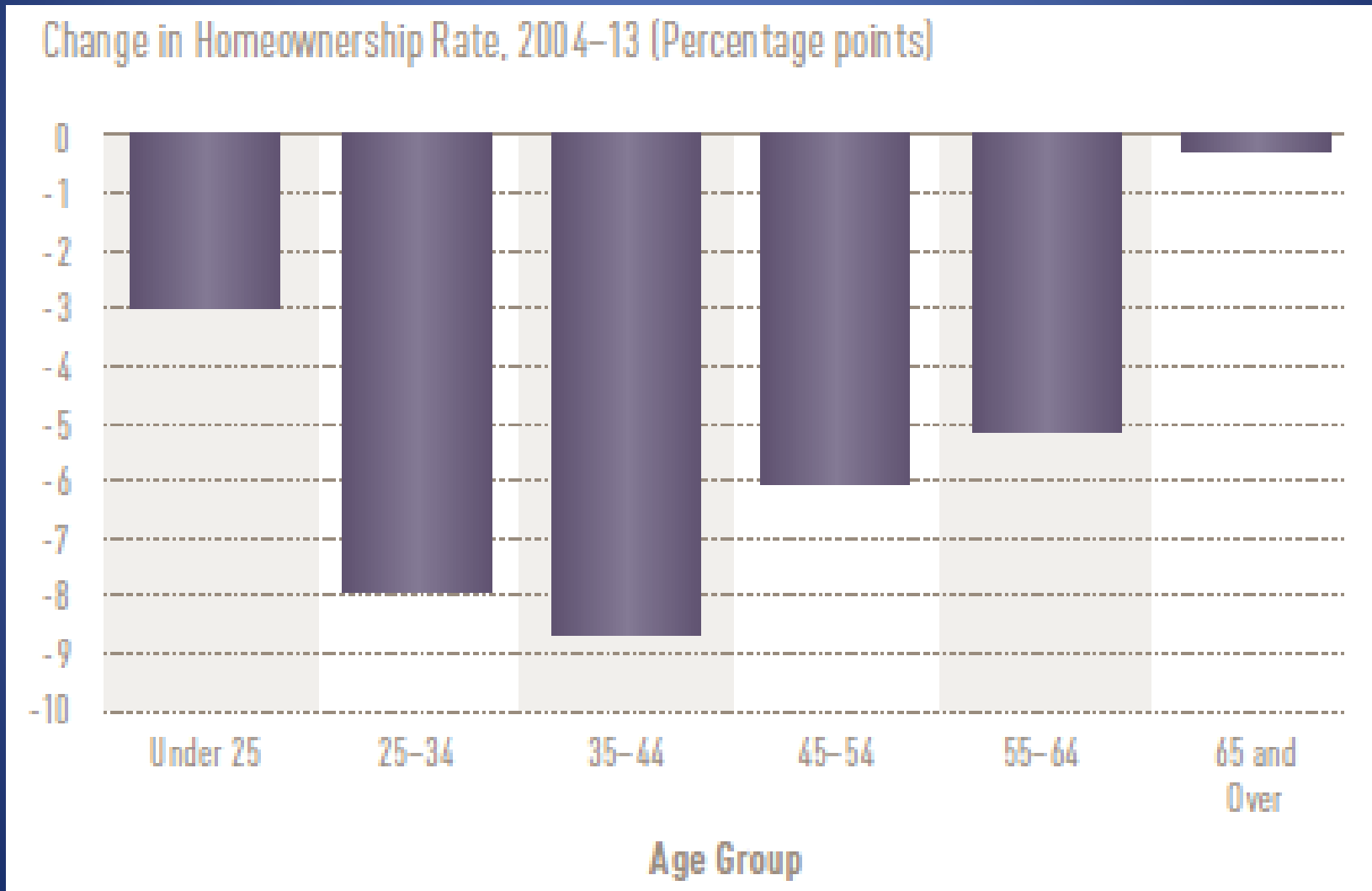
The Wall Street Journal

. . . . pushing homeownership rates to pre-bubble levels, and creating demand for apartments



Source: Federal Reserve of St. Louis.

... homeownership rates are falling across all age cohorts, increasing apartment demand. ...



.... and the average college graduate with the average student loan debt is straddled with \$366 per month .

...

(assumes a 6% rate, 10 year term)



\$1.2 trillion

Total amount of U.S. student-loan debt as of March, up from \$400 billion in March 2004

70%

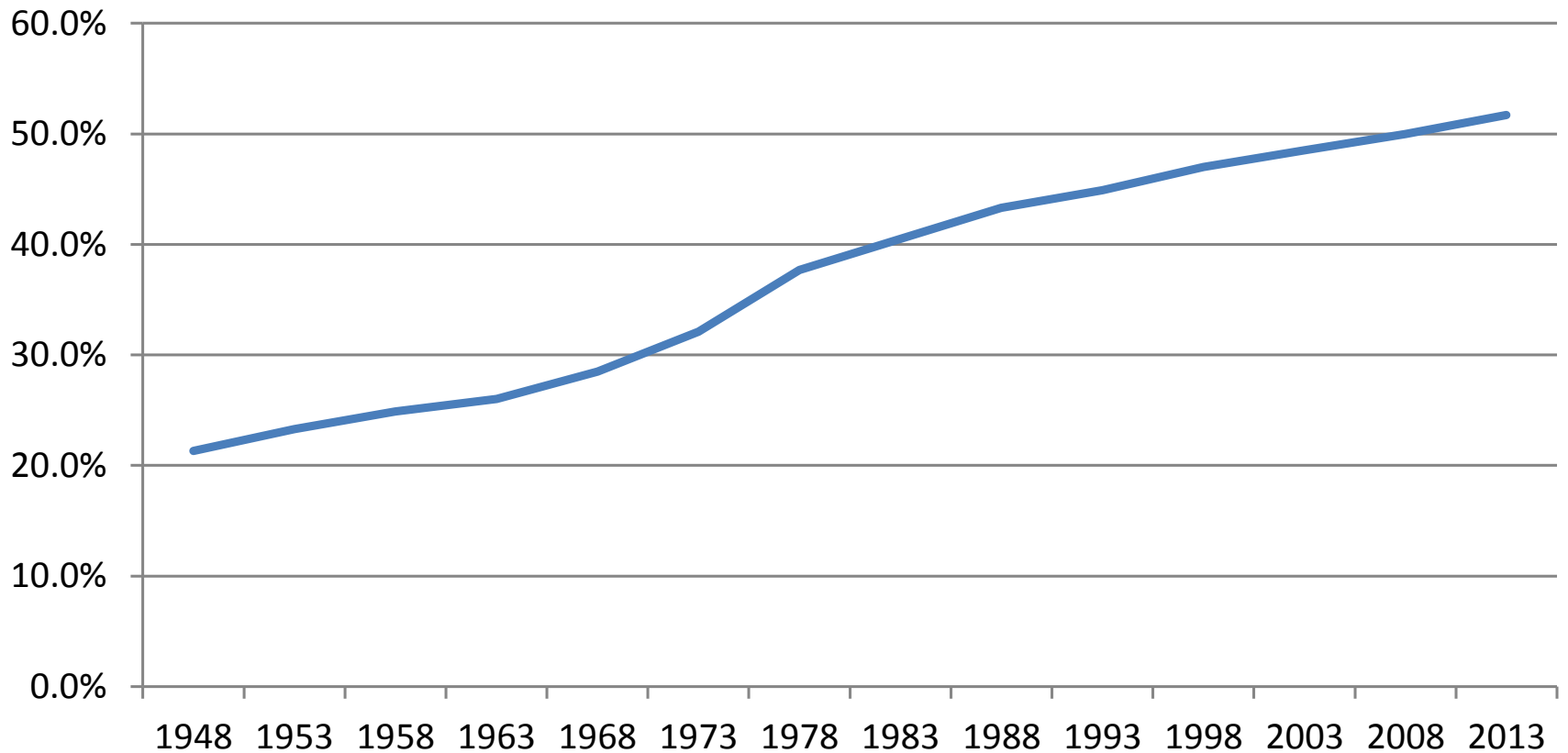
Percentage of undergraduates in the class of 2014 with student loans, up from 64% in 2004

\$33,000

Average loan amount for undergraduates in the class of 2014, up from \$18,600 in 2004

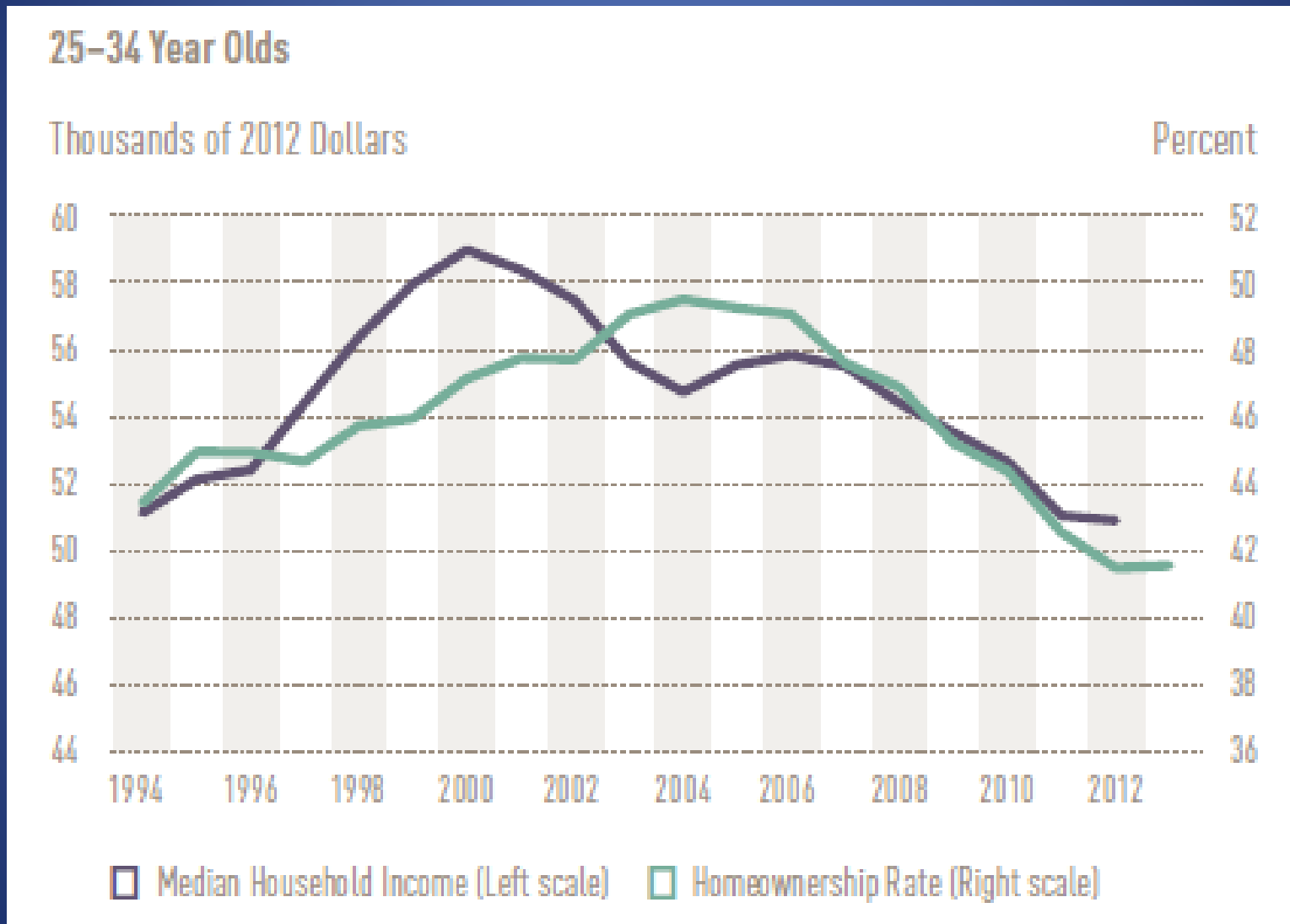
... "married couple" households are declining dramatically over time. ...

Percent "Other Family" and "Non-Family" Households



Source: Census and Marquette University.

... lower incomes also reduces the likelihood of homeownership ...

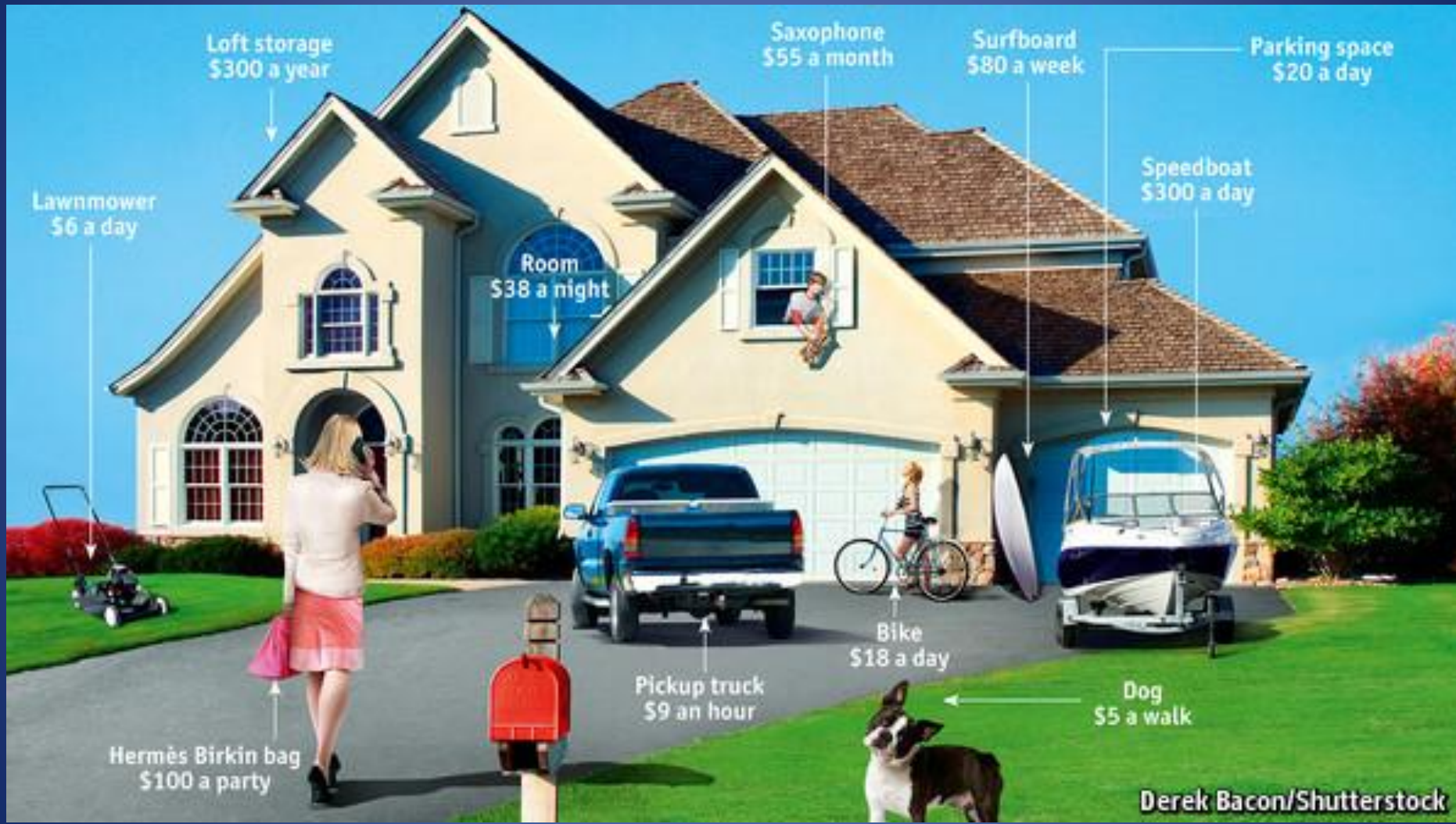


Multifamily Market take-aways:

- There are numerous homeownership headwinds;
- The high school graduates continues to struggle with employment and real wage growth;
- College graduates face of growing student loan payments;
- The “investment benefits” of homeownership are being questioned;
- We may be in the initial stages of an experiential society as opposed to an ownership society

Yielding a continued strong multifamily market.

The “renter society” or “sharing economy” or “collaborative consumption” or “Netflix Economy”



Source: *Economist*, March 9, 2013