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

Source: Costar Group, Repeat-Sale Indices, August 2014.
. . . . however, the Midwest’s real estate price recovery continues to lag the rest of the nation . . . .

Source: Costar Group, Repeat-Sale Indices, August 2014.
as non-institutional properties come back strong . . .
in part because U.S. banks are lending on commercial real estate.

Source: Federal Reserve of St. Louis.
as banks ease up on lending standards
and transaction volumes recover to sustainable levels...
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**

Source: KPMG, 2014 Real Estate Industry Outlook Survey (surveys February-April 2014)
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).

Source: Federal Reserve of St. Louis.
... however, the U.S. is outperforming other economically advanced economies. ...
which bring us to jobs and the unemployment rate, which “look good,” however . . . .
the unemployment rate is not the whole story, labor force participation rates are a concern . . . .
.... unemployment is not an equally distributed ....
... on to net worth, which is highly concentrated ...
. . . . 39% of households have less than $25,000 in net worth . . . .

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

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

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

PEW RESEARCH CENTER
real compensation for production workers is stagnant.
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 . . . .

Source: *Economist* August 16th, p. 57.
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 . . . .
with the housing market prospects for the first-time homebuyer challenged.

. . . . 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)
“married couple” households are declining dramatically over time.

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