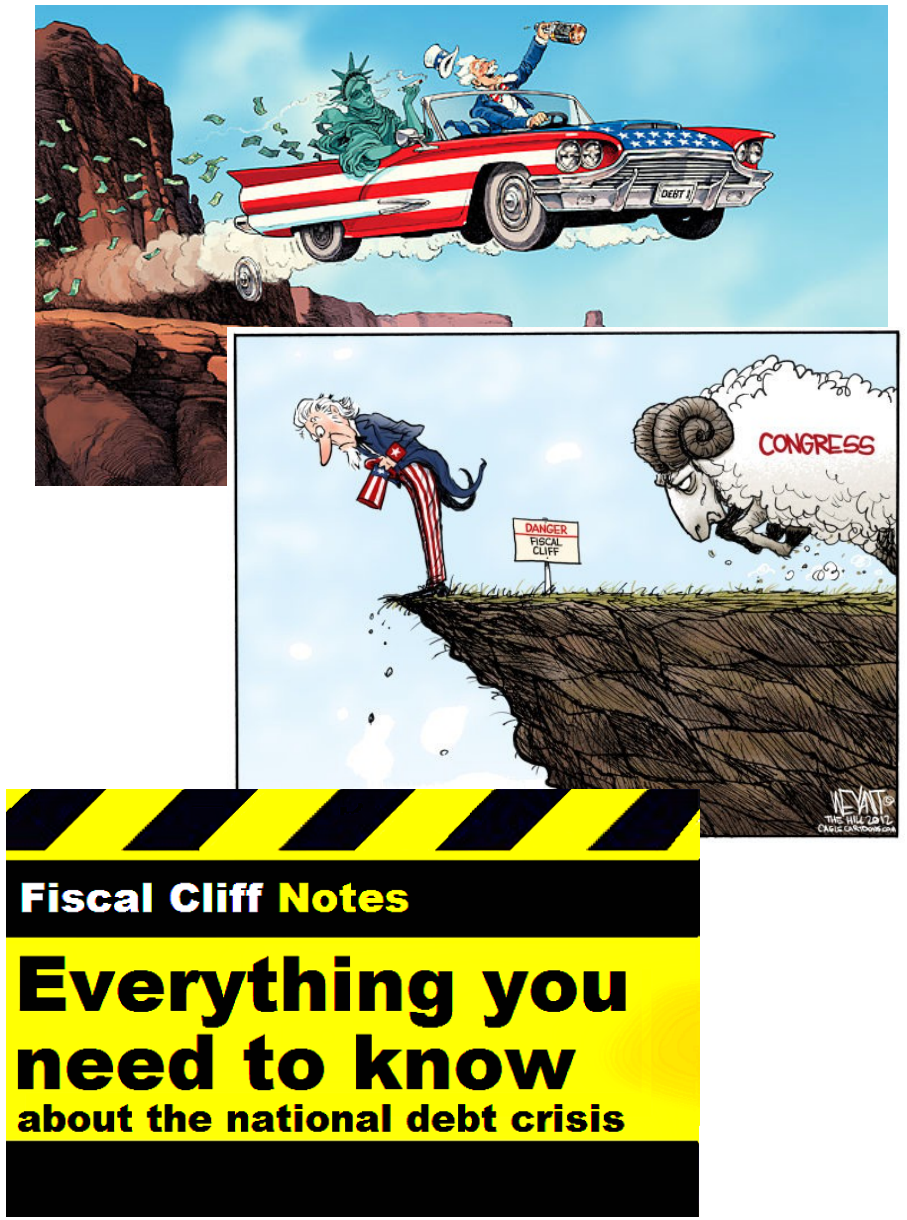
Beyond the "Cliff" Notes: America's Economy and Real Estate Markets 2013



A Presentation for
THE LOAN COMMITTEE
Ft. Lauderdale, FL
January 18, 2013
By Hugh F. Kelly, PhD, CRE
NYU Schack Real Estate Institute

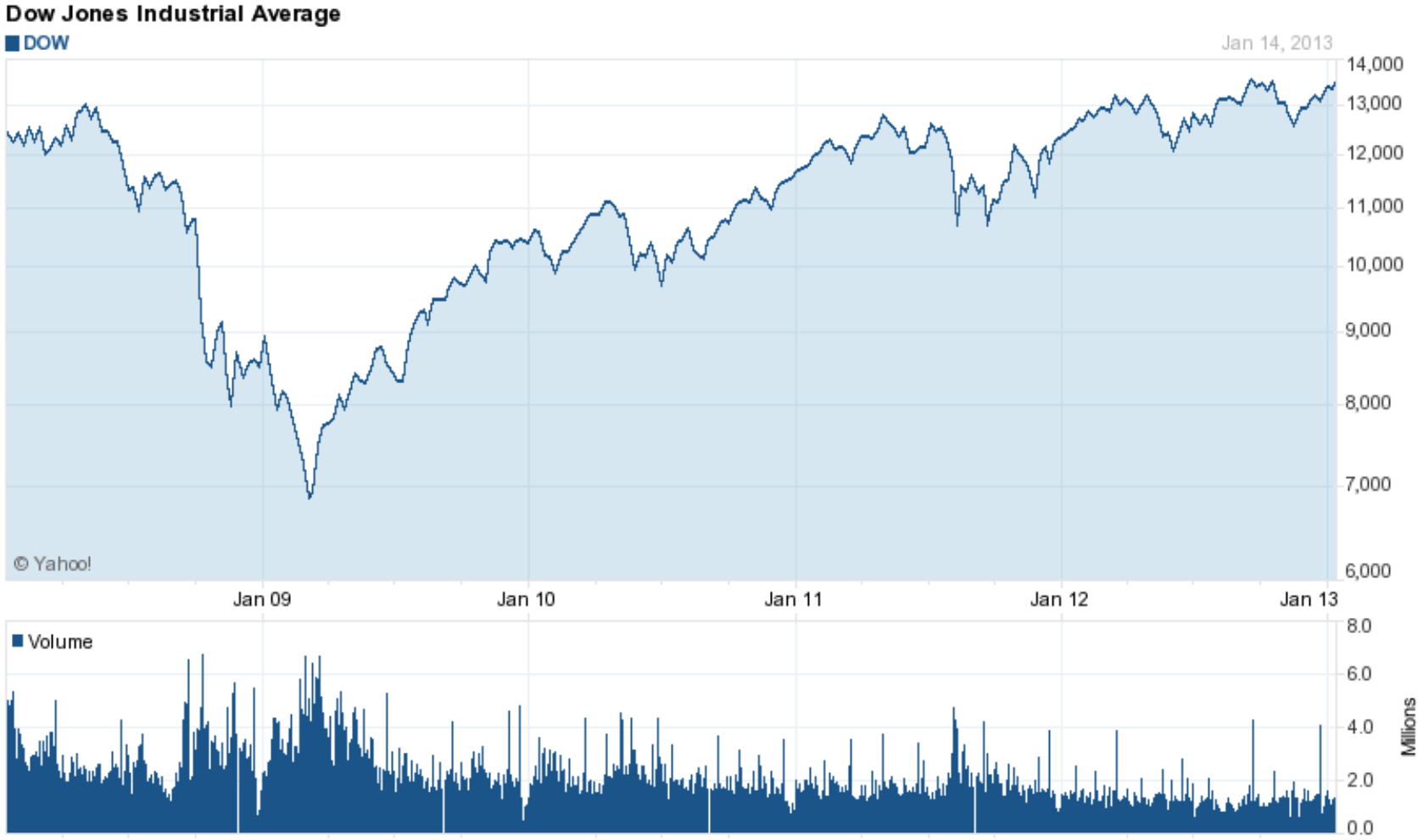
Copyright 2013 Hugh Kelly

Lots to Talk About

- **Risk – and getting paid for it!**
- **Capital Allocation**
- **Policy (and politics)**
- **Jobs**
- **Housing**
- **Commercial Real Estate Investing**

"We've considered every potential risk except the risks of avoiding all risks."

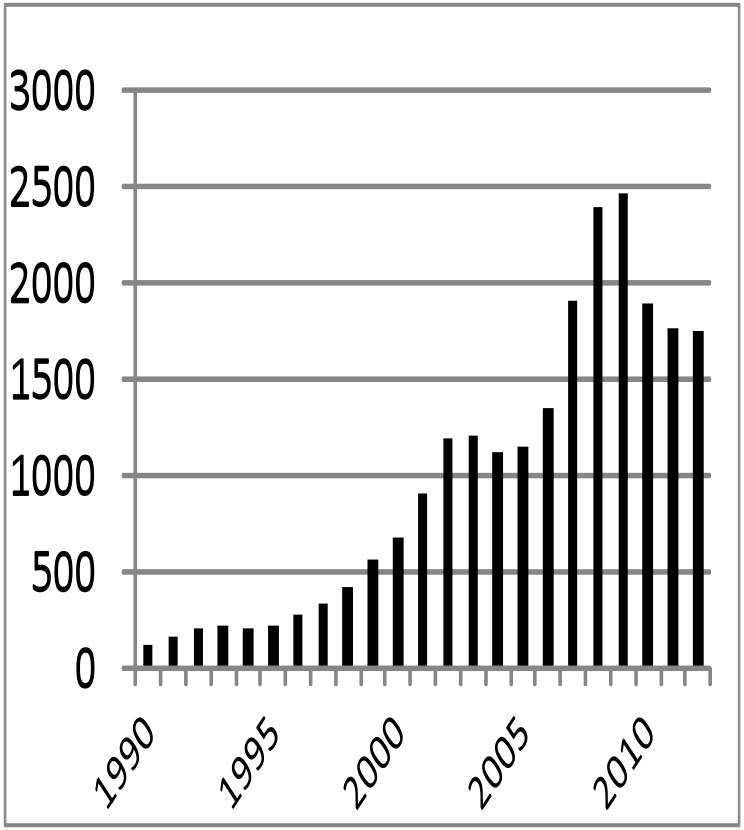
“Wealth Destruction” in Collapse: Wealth Generation since 2009

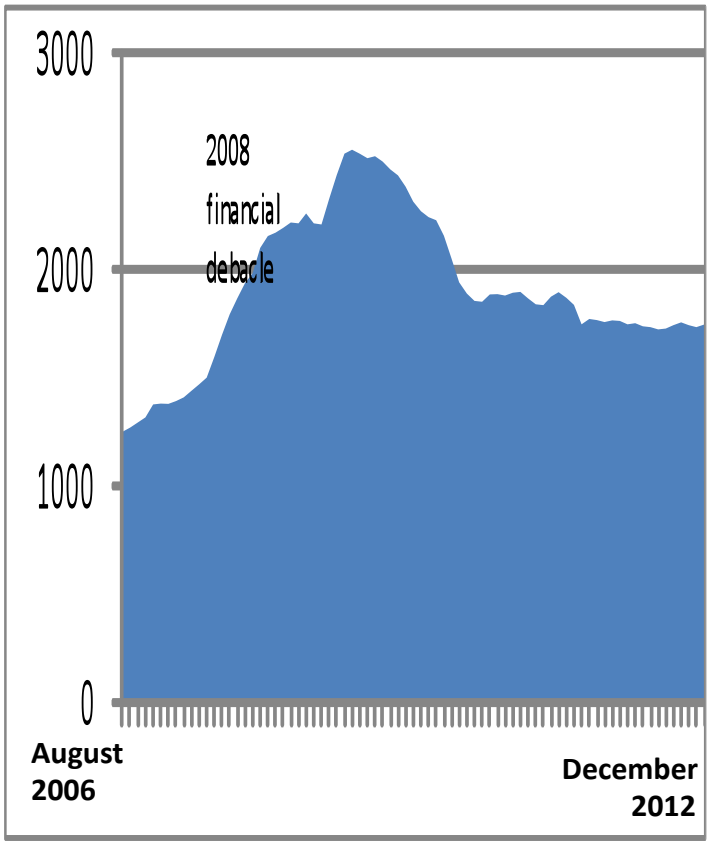


Where Has the Capital Gone?

Institutional Money Funds:

"Flight to Quality" slowly returning to Yield-Producing Assets

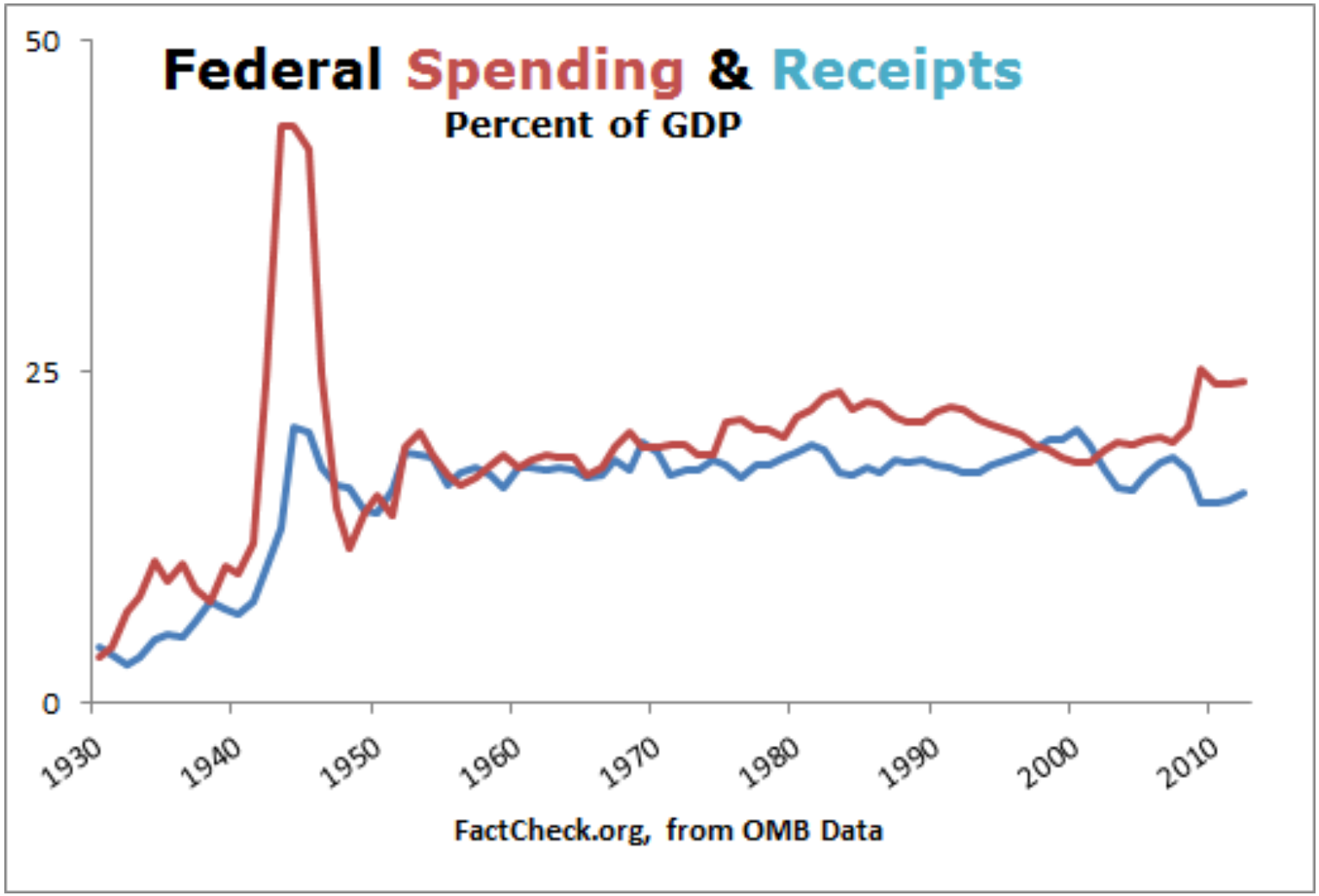




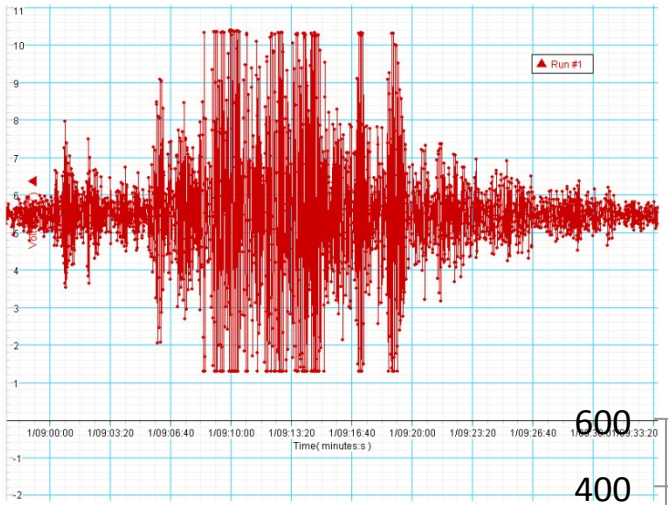
All Data in billions of dollars;

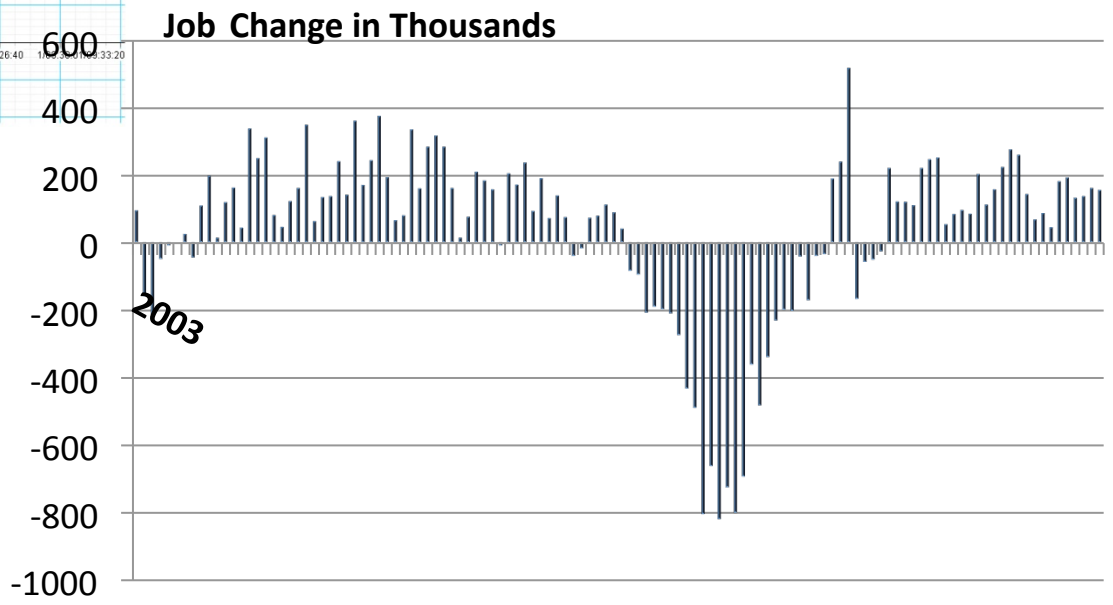
Source: Federal Reserve H. 6 Money Supply Reports (through 12/31/12)

“Mind the Gap”
... And Understand the “Scissors Principle”



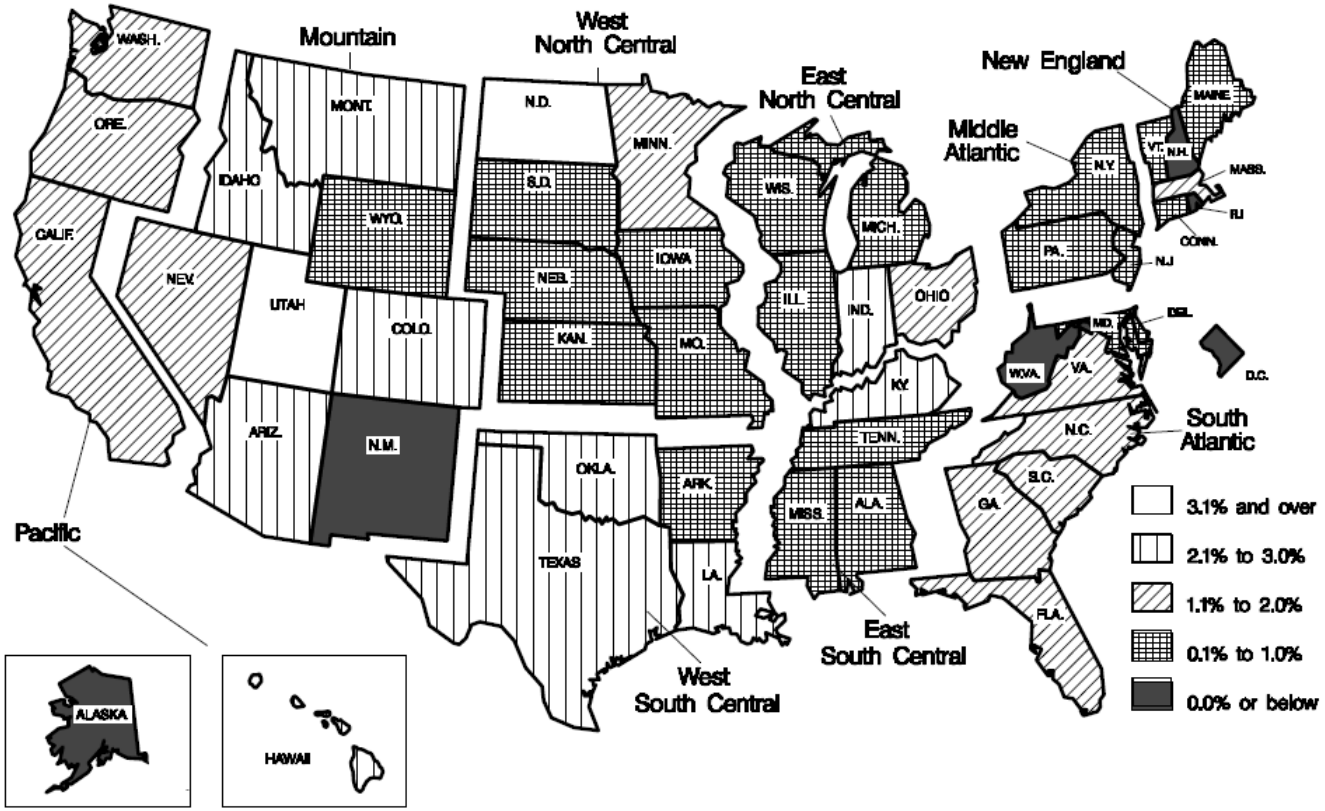
Big Shocks Engender Aftershocks





No Vivid Colors for Job Change

Chart 2. Percentage change in nonfarm employment by state, seasonally adjusted, November 2011 – November 2012

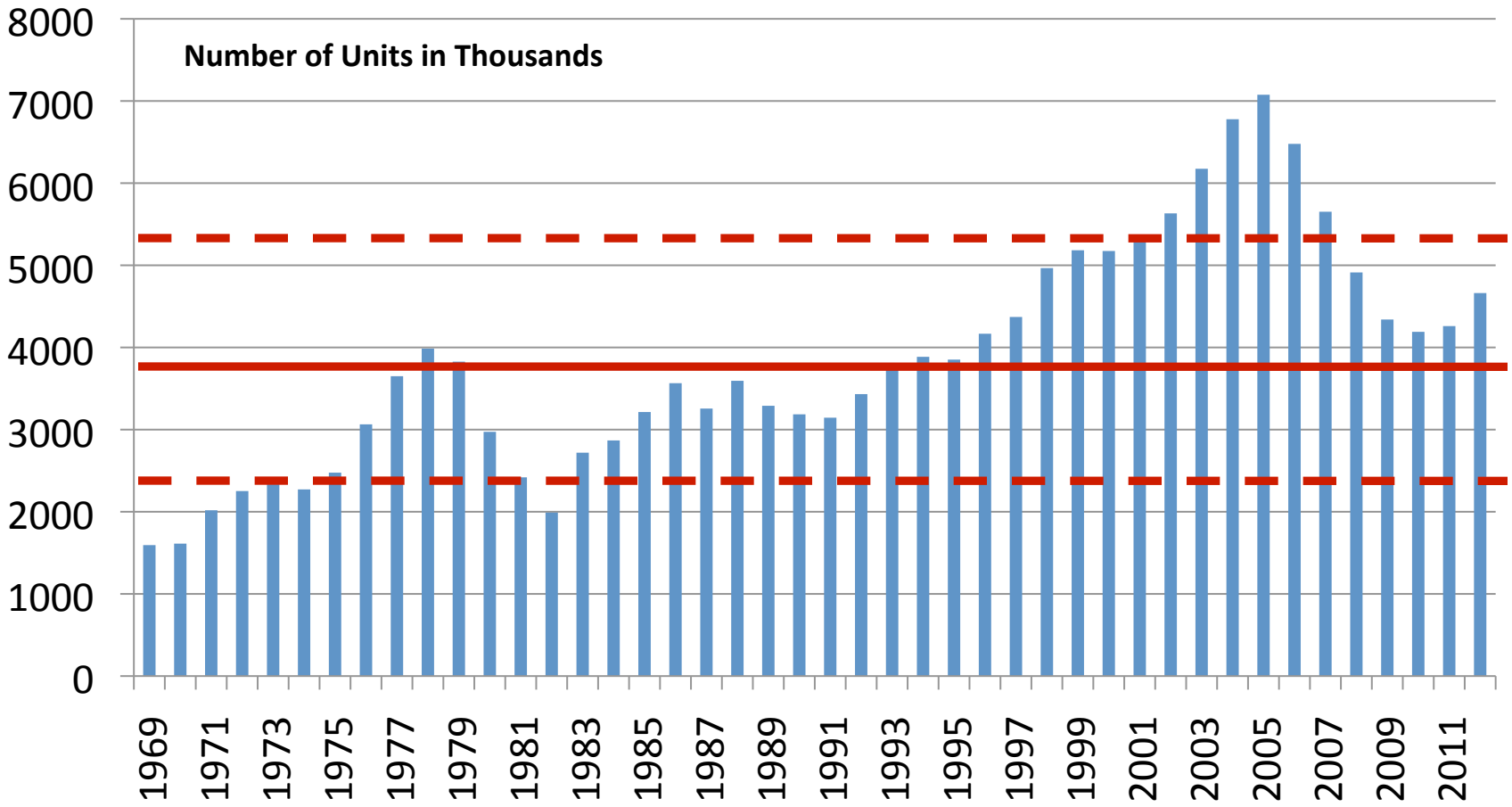


Housing Flipping from Drag to Push in 2013 Economy

- **Housing inventory "months supply" down to 4.9, lowest since crisis onset**
- **44% of sales in lower-mid price range ($100K - $250K) and 25% in upper-mid price ($250K - $500K)**
- **Existing Home Sales likely to drive above five million in 2013**
- **Both NAR and Case-Shiller data registering increasing prices**
- **Housing starts up 25% in 2012, and expected to rise another 25% based on permitting activity – STILL just two-thirds of 30-year average of 1.4 million units**
- **Conservatively, new hires in residential construction should be up 85,000 in 2013**
- **Multiplier effect of housing sector is significant for goods production, transportation, and retailing**

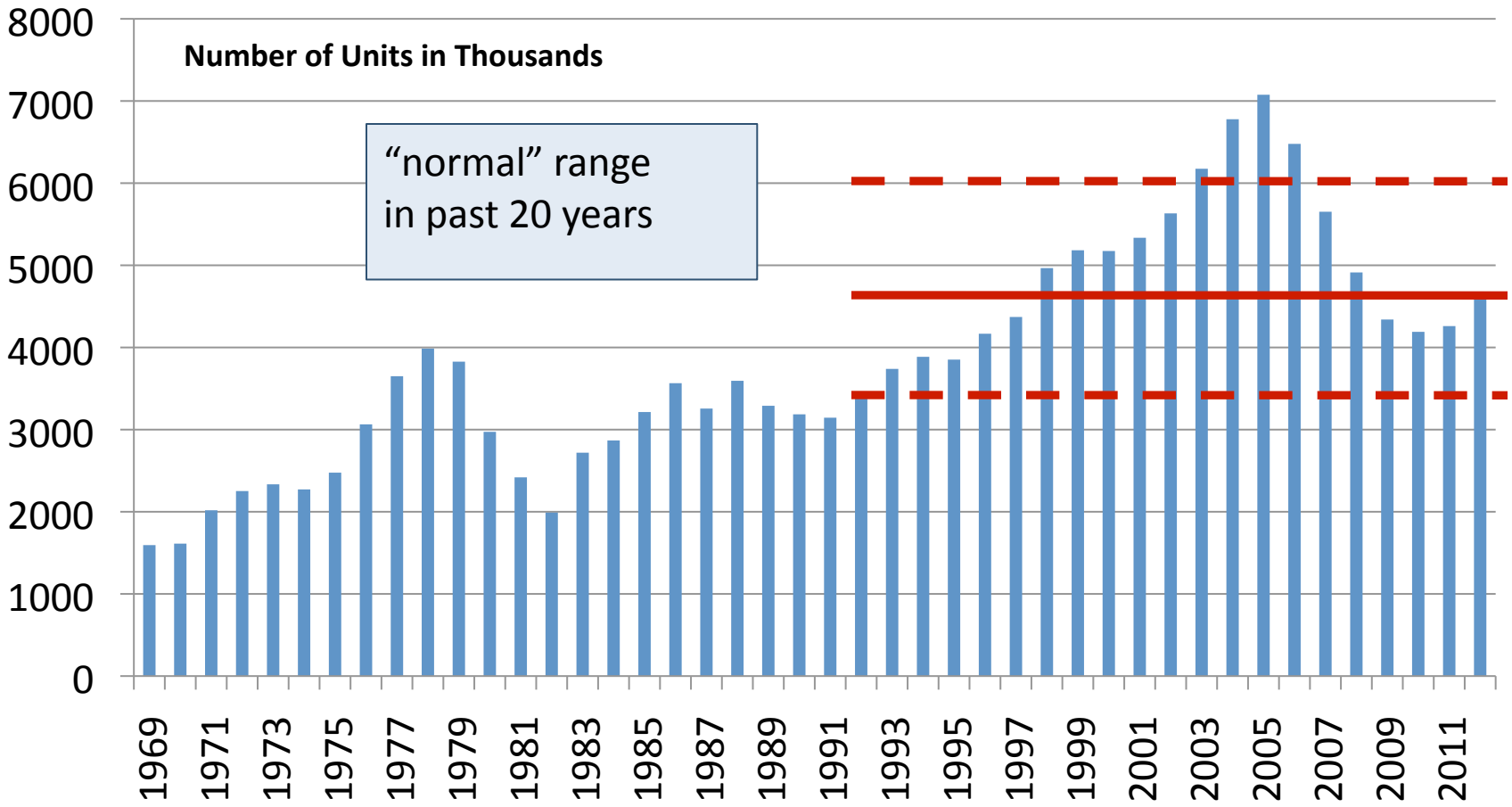
Existing Home Sales

Long Range Performance



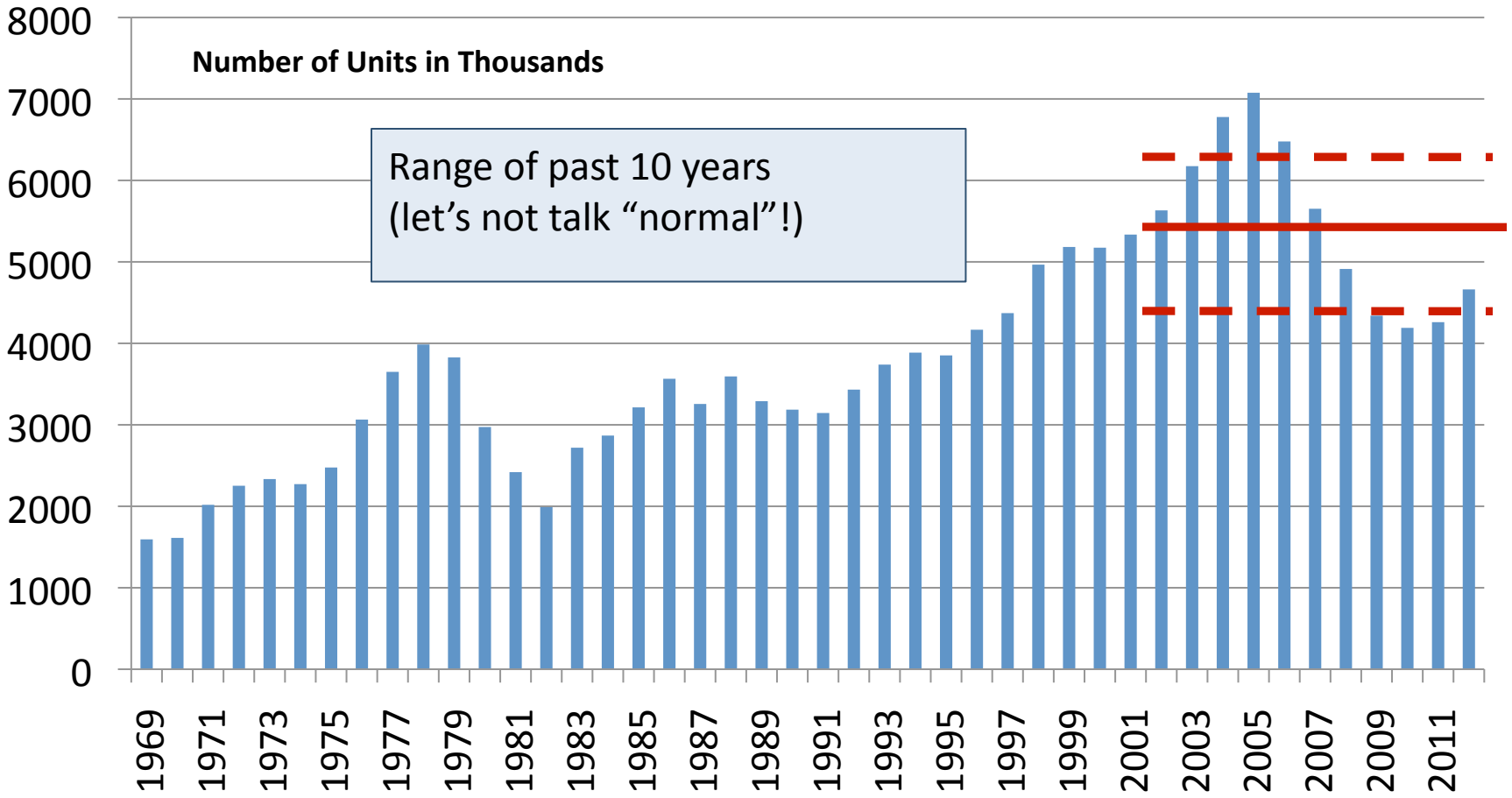
Existing Home Sales

Long Range Performance



Existing Home Sales

Long Range Performance

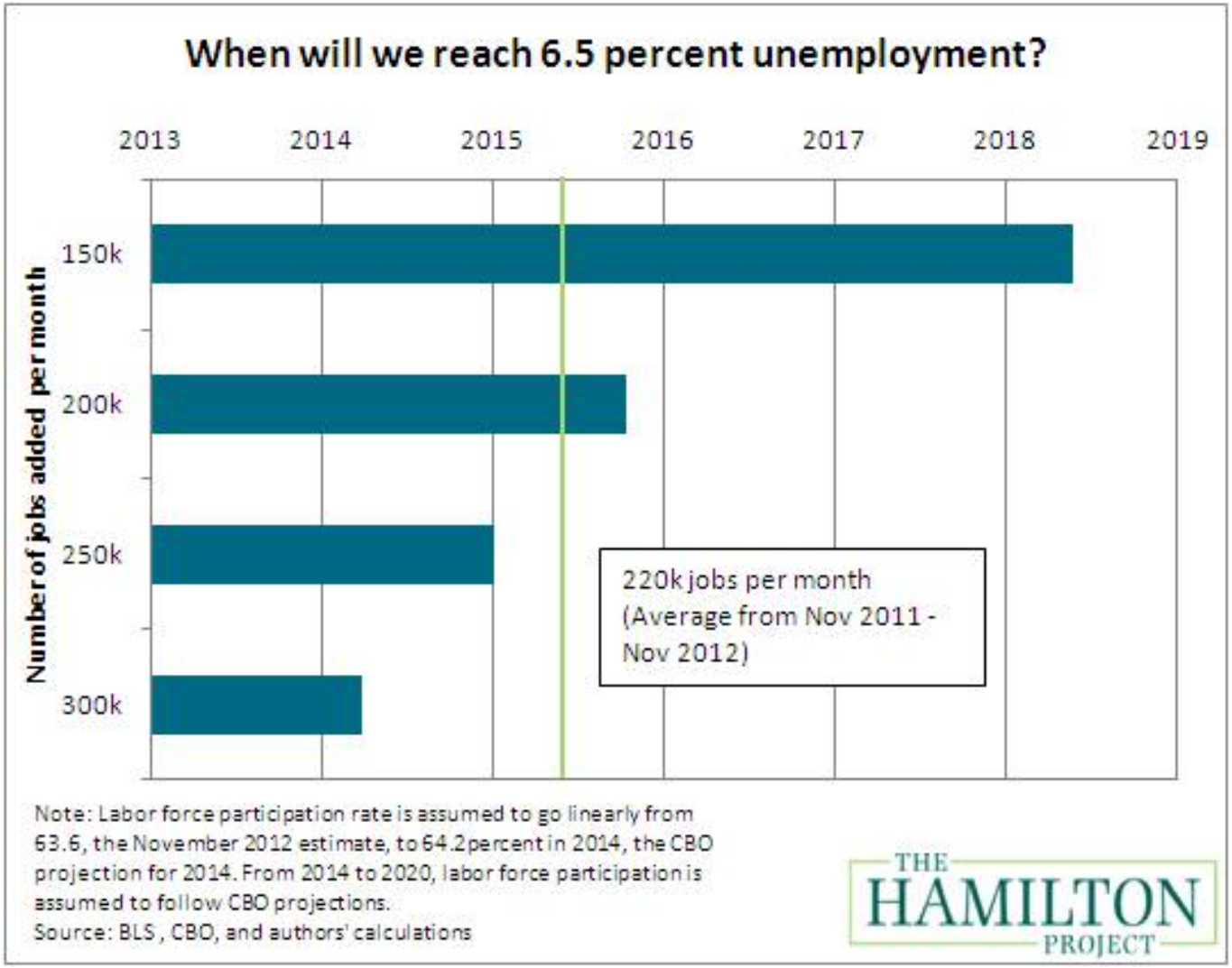


A Number to Keep in Mind: 6.5%

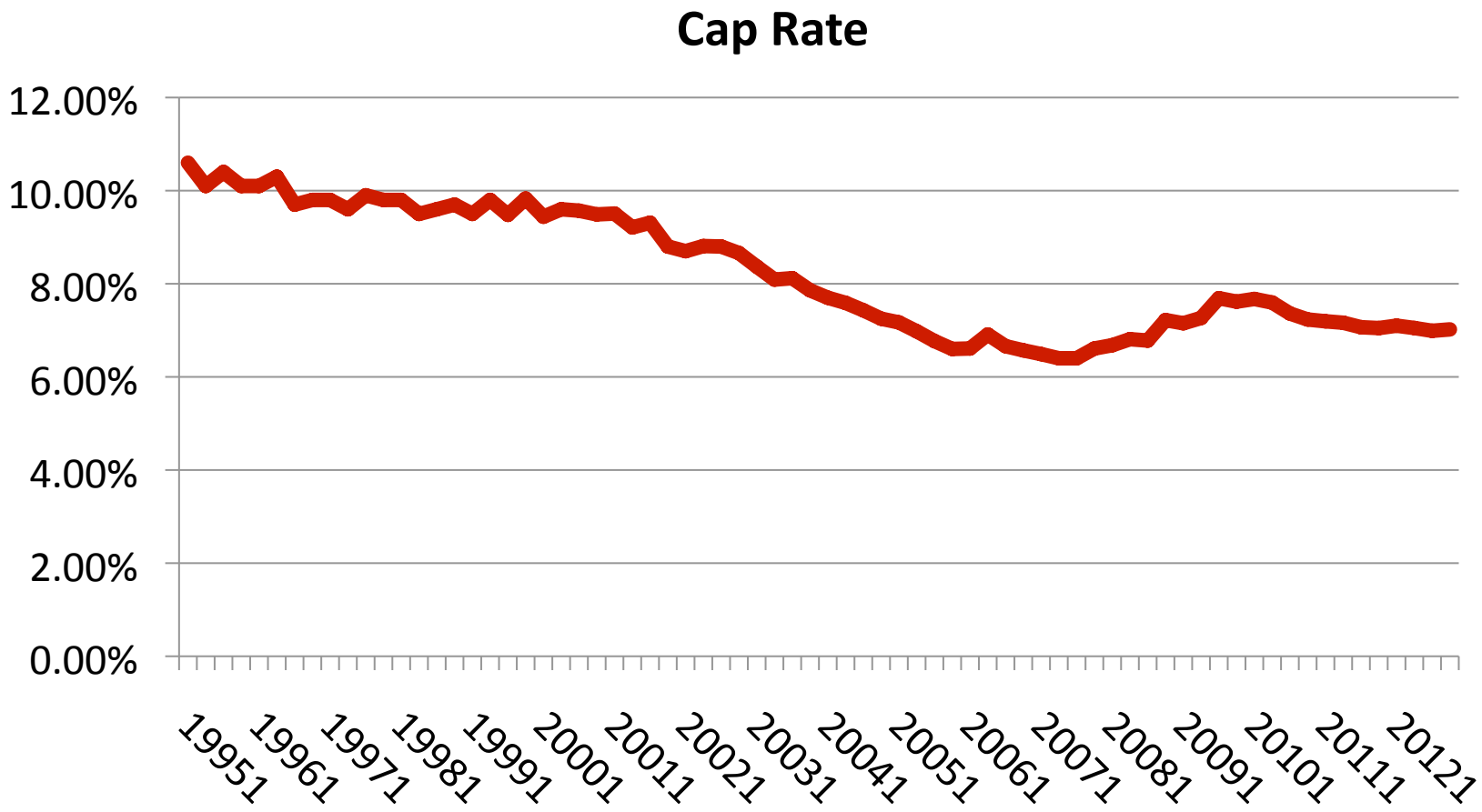
Chart 1. Unemployment rates by state, seasonally adjusted
November 2012

(U.S. rate = 7.7 percent)

Expect Easy Monetary Policy for Next Two Years – Even if Job Growth Accelerates

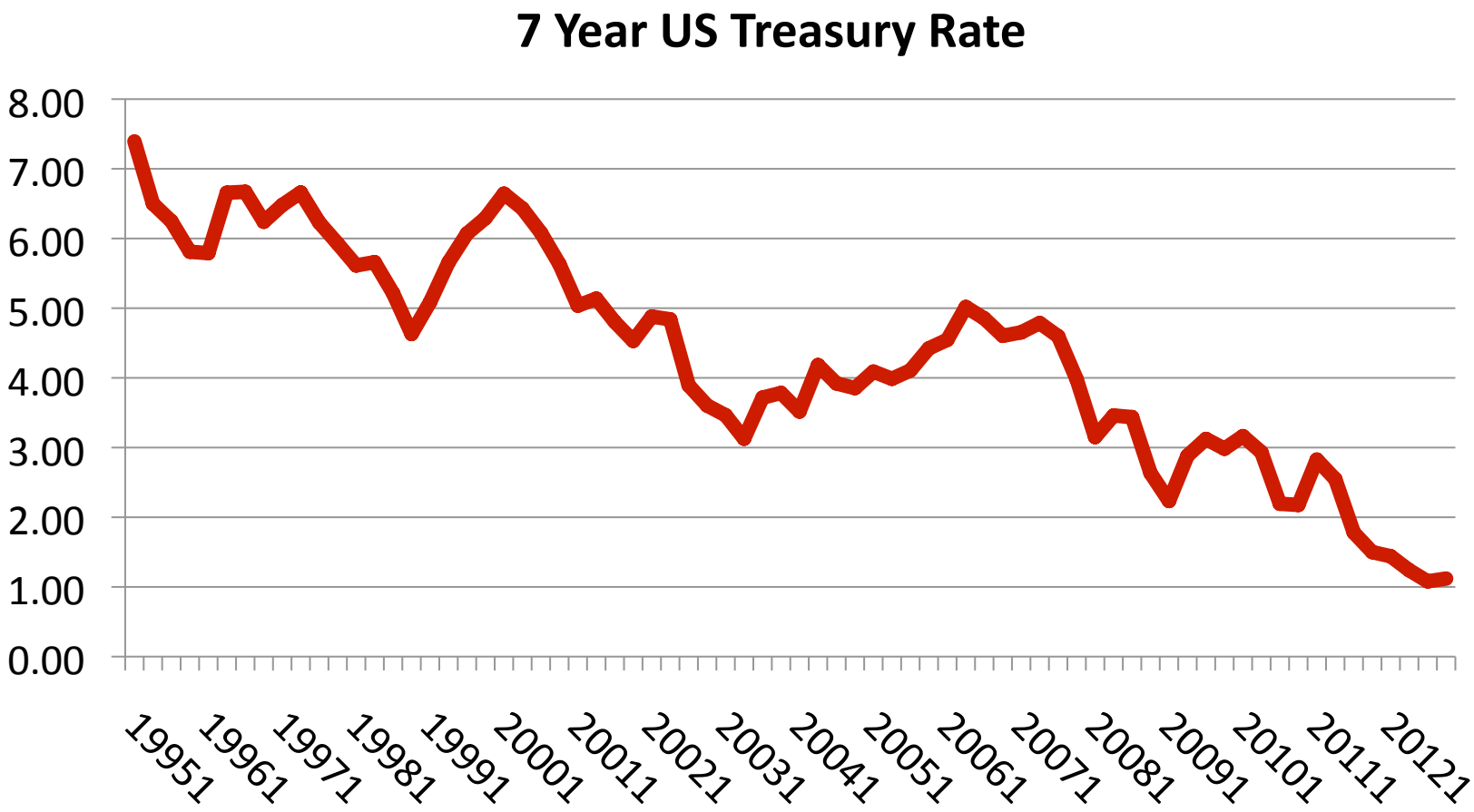


Should We Worry About Where Cap Rates Stand?



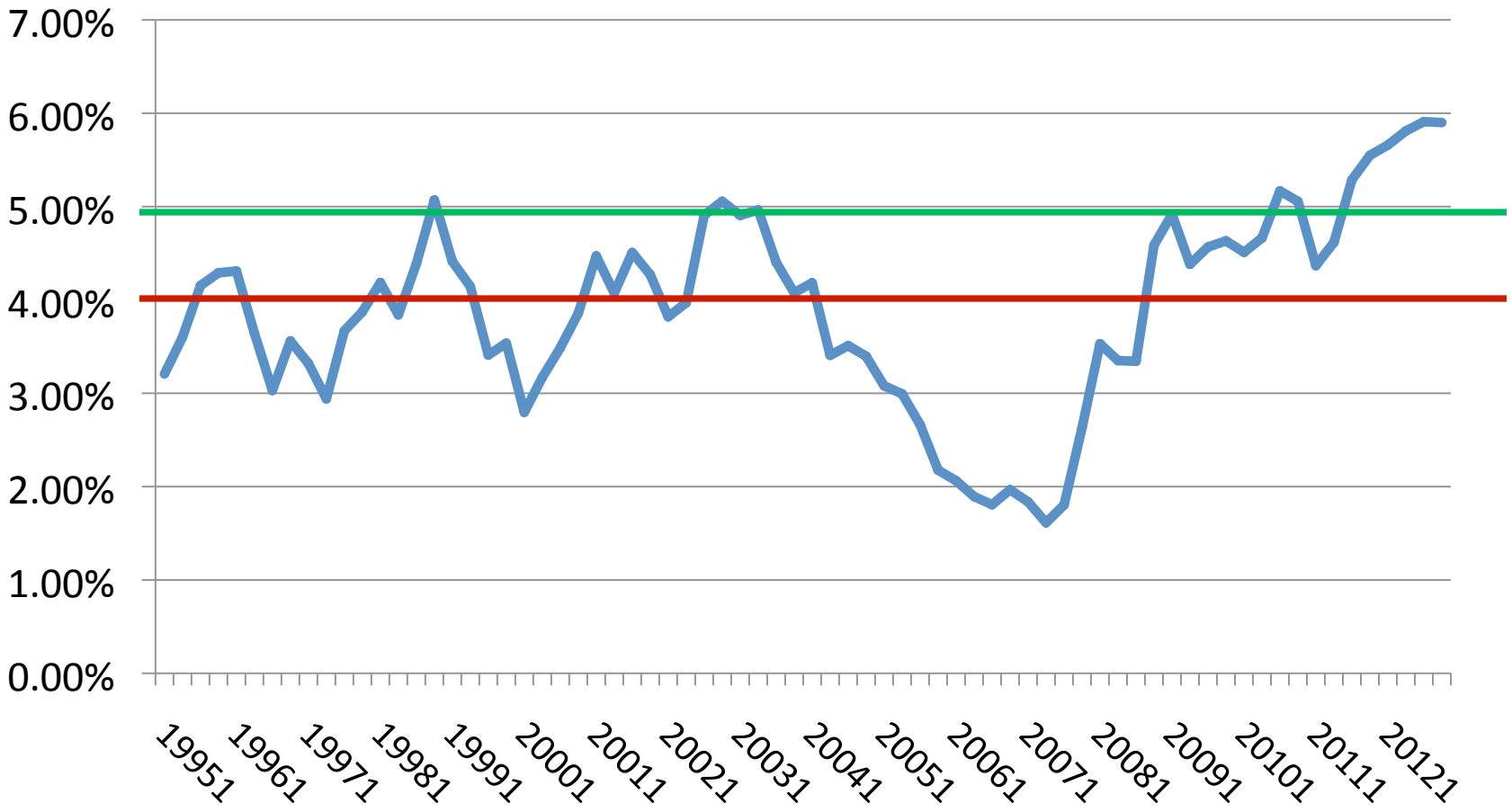
Sources: Investment Trends Quarterly (1995- 2001); Real Capital Analytics (2002 – present)

Secular Downward Trend in Interest Rates Since 1995



Source: Federal Reserve H15 reports

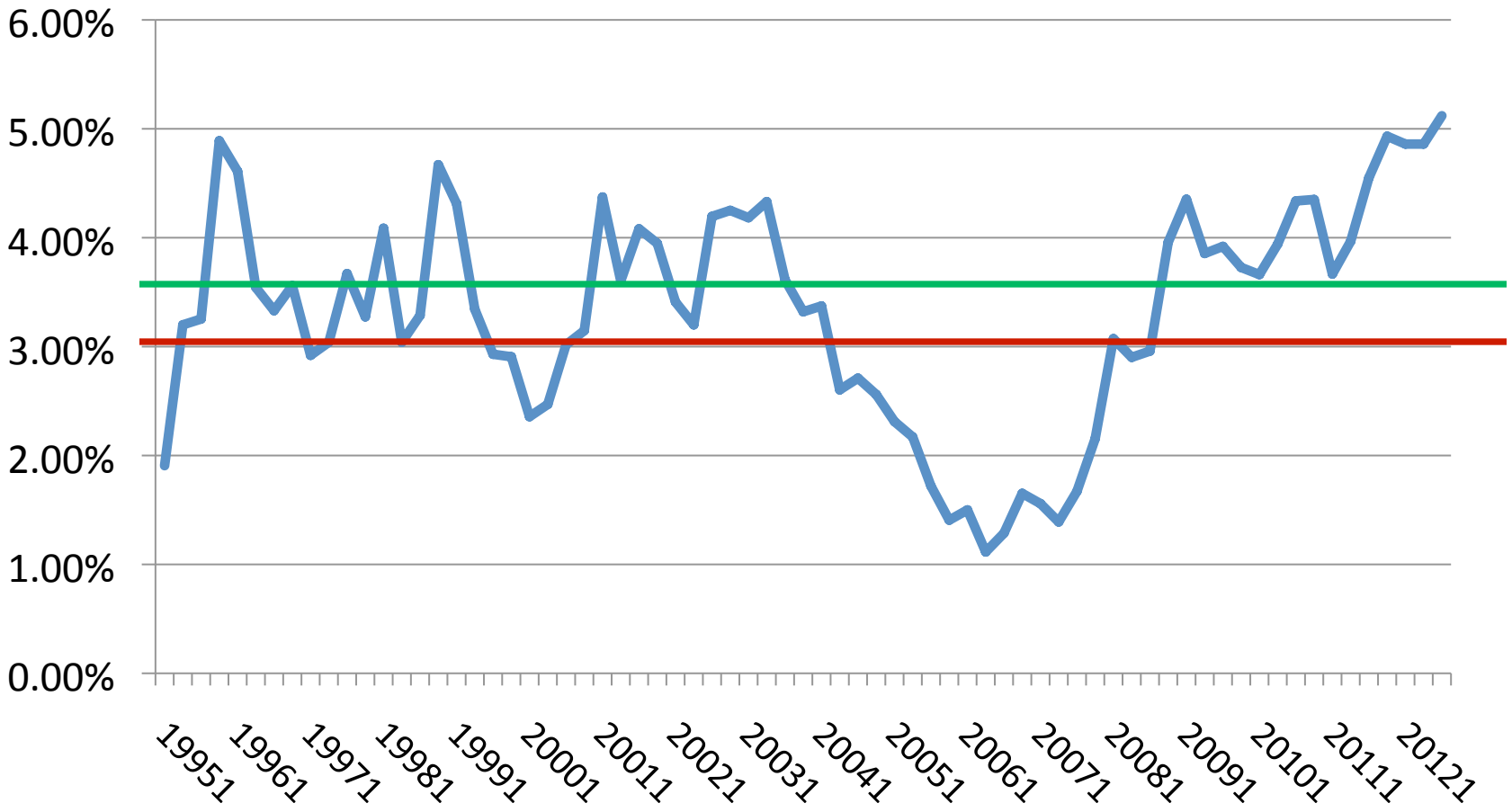
Risk Premium in Cap Rate



Source: Hugh Kelly for NPV Advisors

Risk Premium in Cap Rate

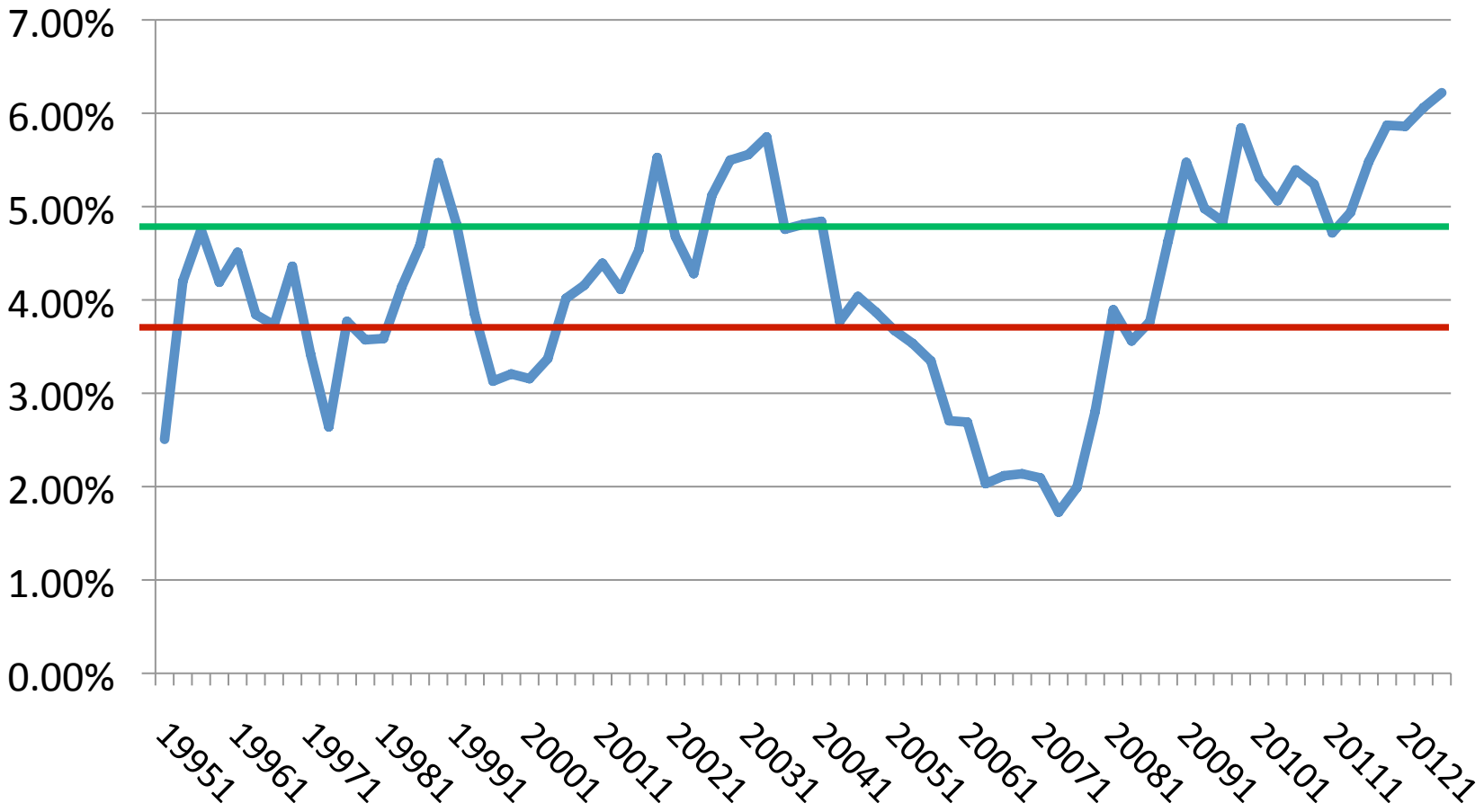
Multifamily



Source: Hugh Kelly for NPV Advisors

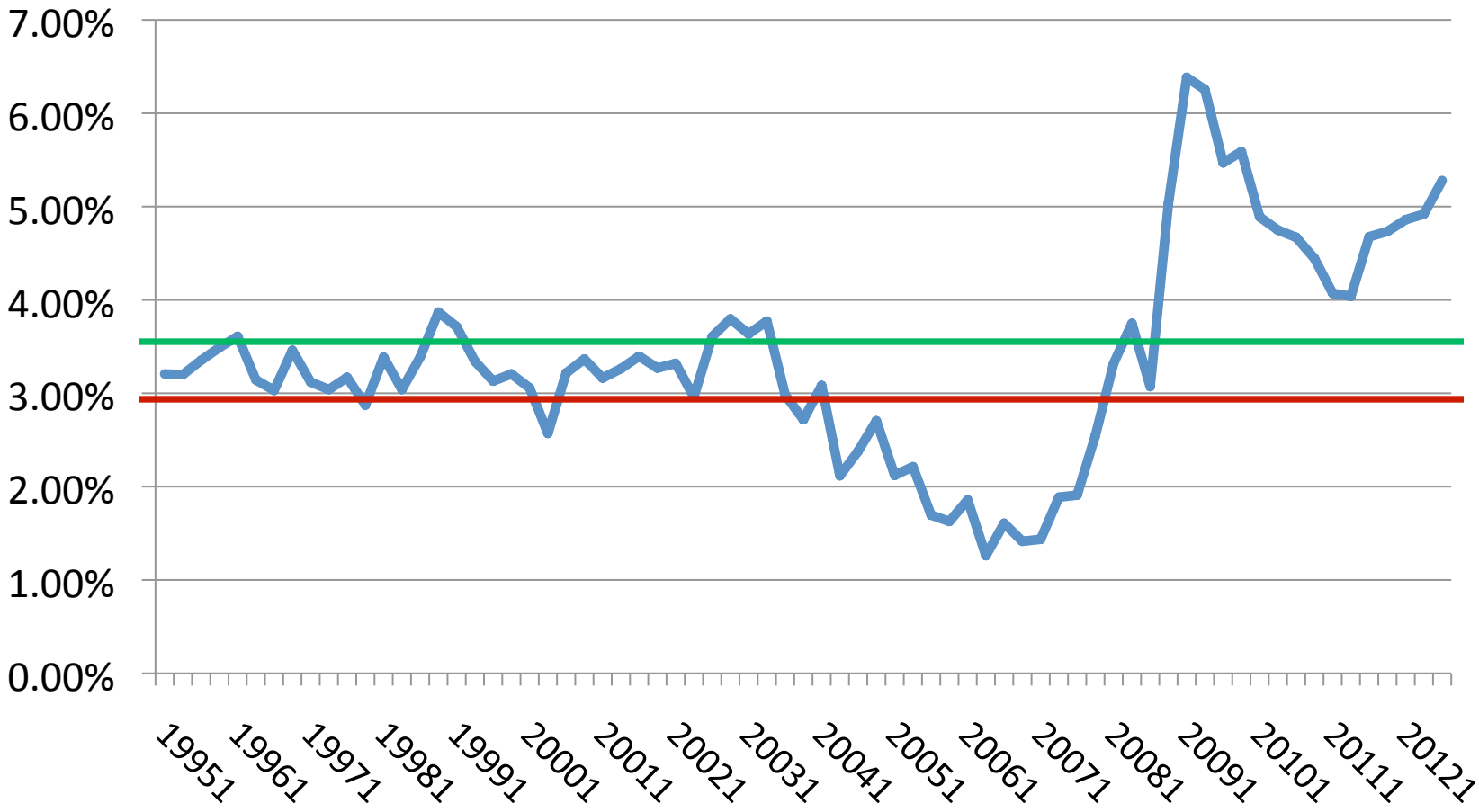
Risk Premium in Cap Rate

Office



Source: Hugh Kelly for NPV Advisors

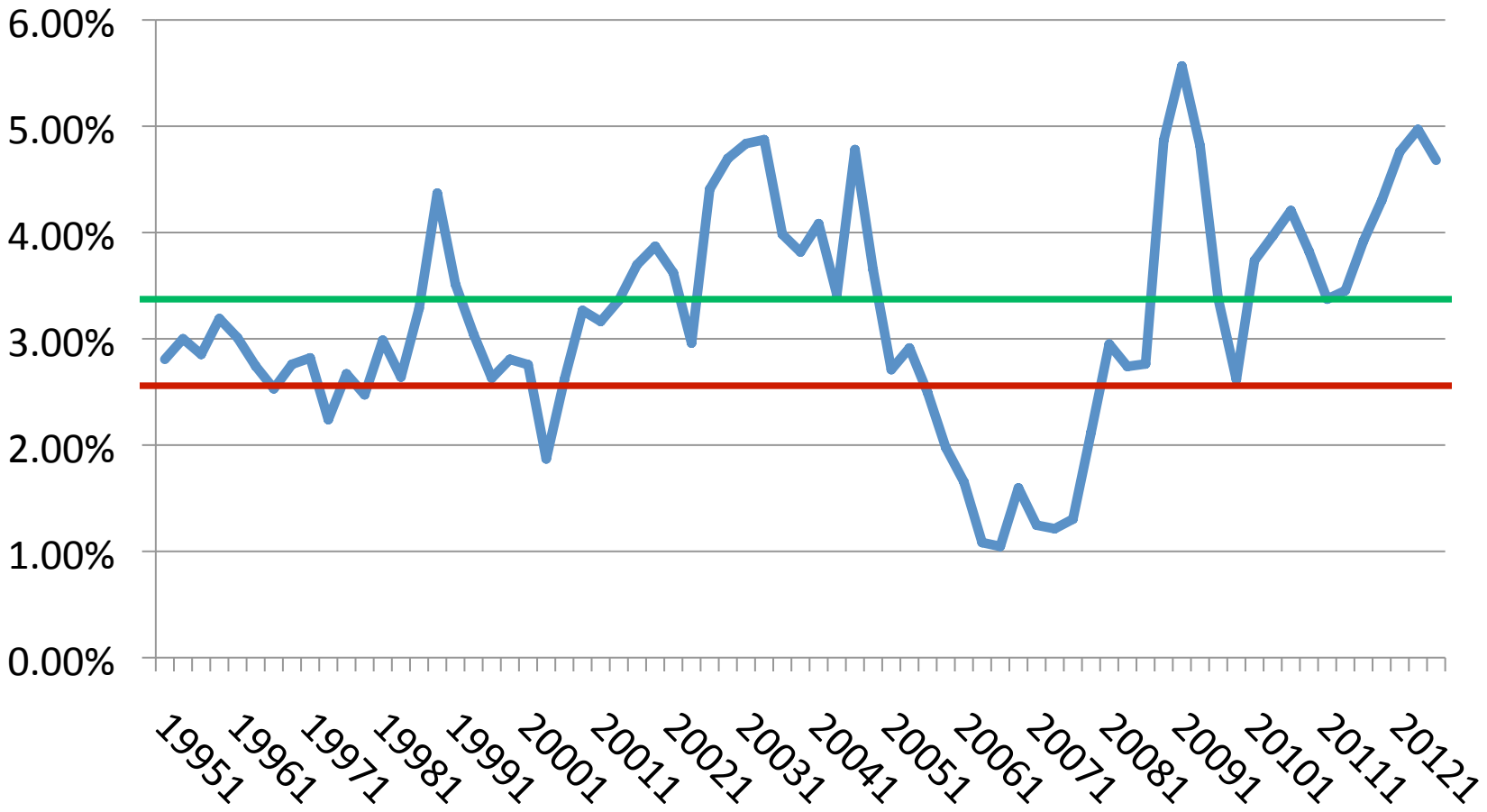
Risk Premium in Mortgage Rate



Source: Hugh Kelly for NPV Advisors

Risk Premium in Mortgage Rate

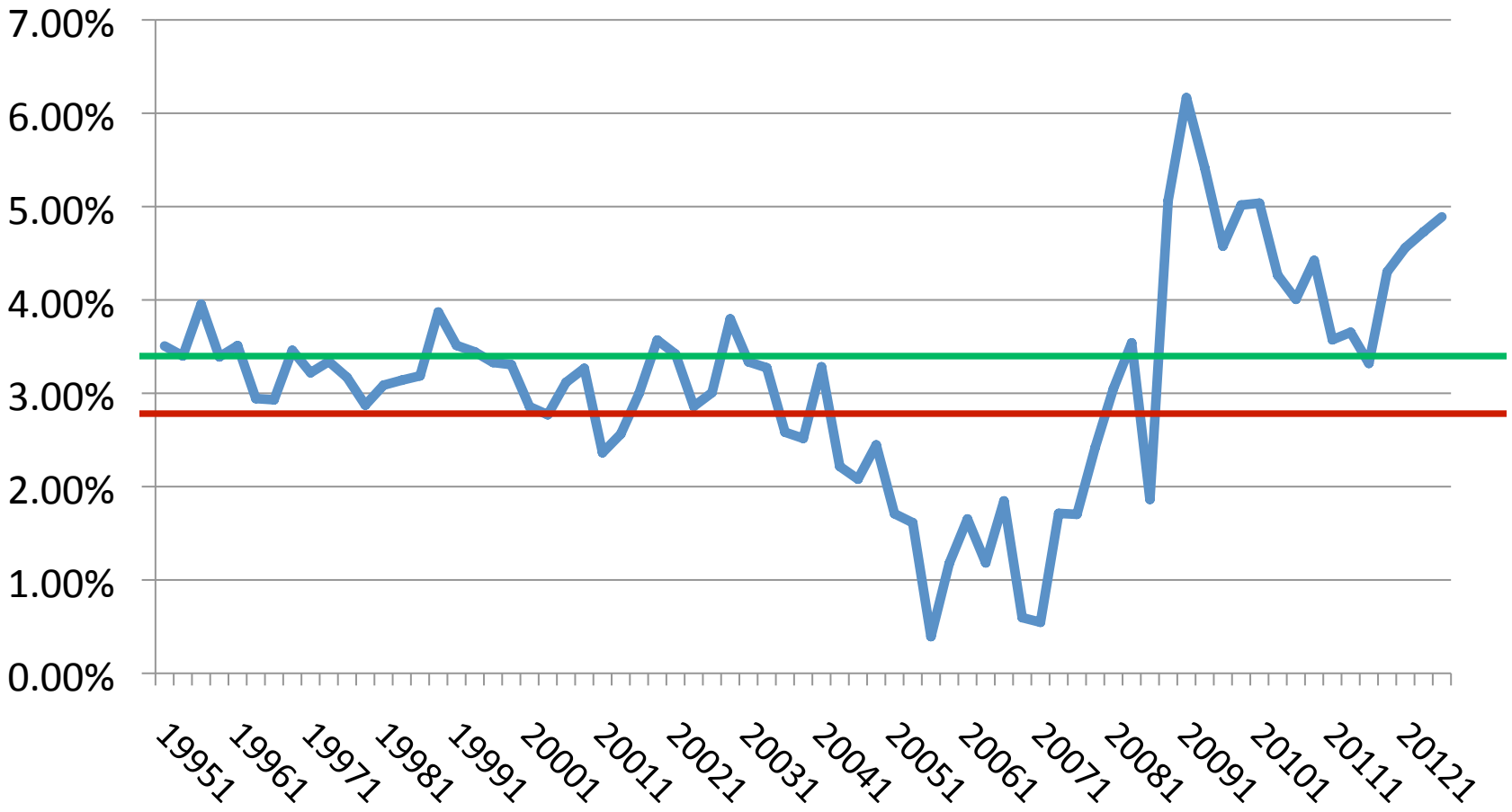
Multifamily



Source: Hugh Kelly for NPV Advisors

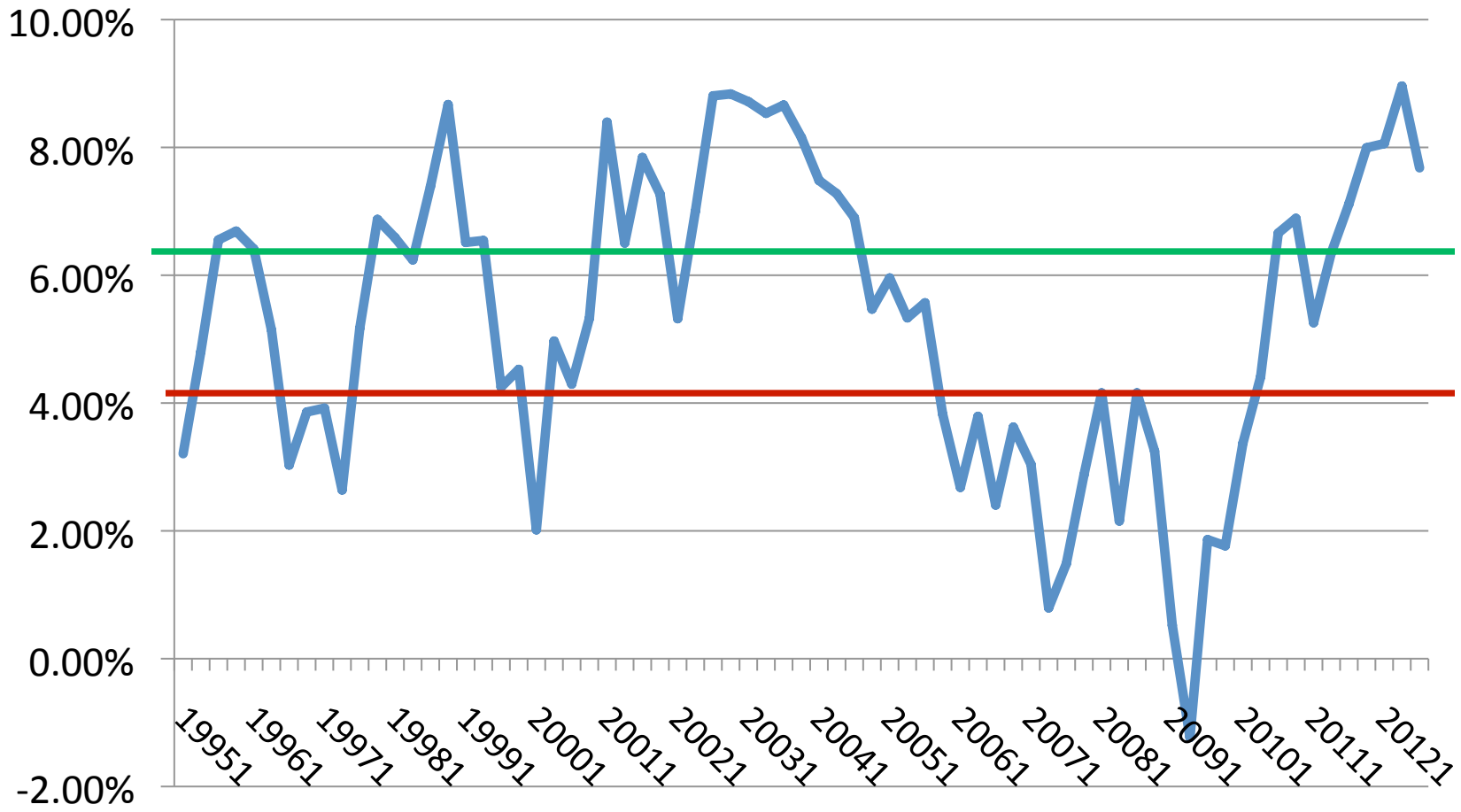
Risk Premium in Mortgage Rate

Office



Source: Hugh Kelly for NPV Advisors

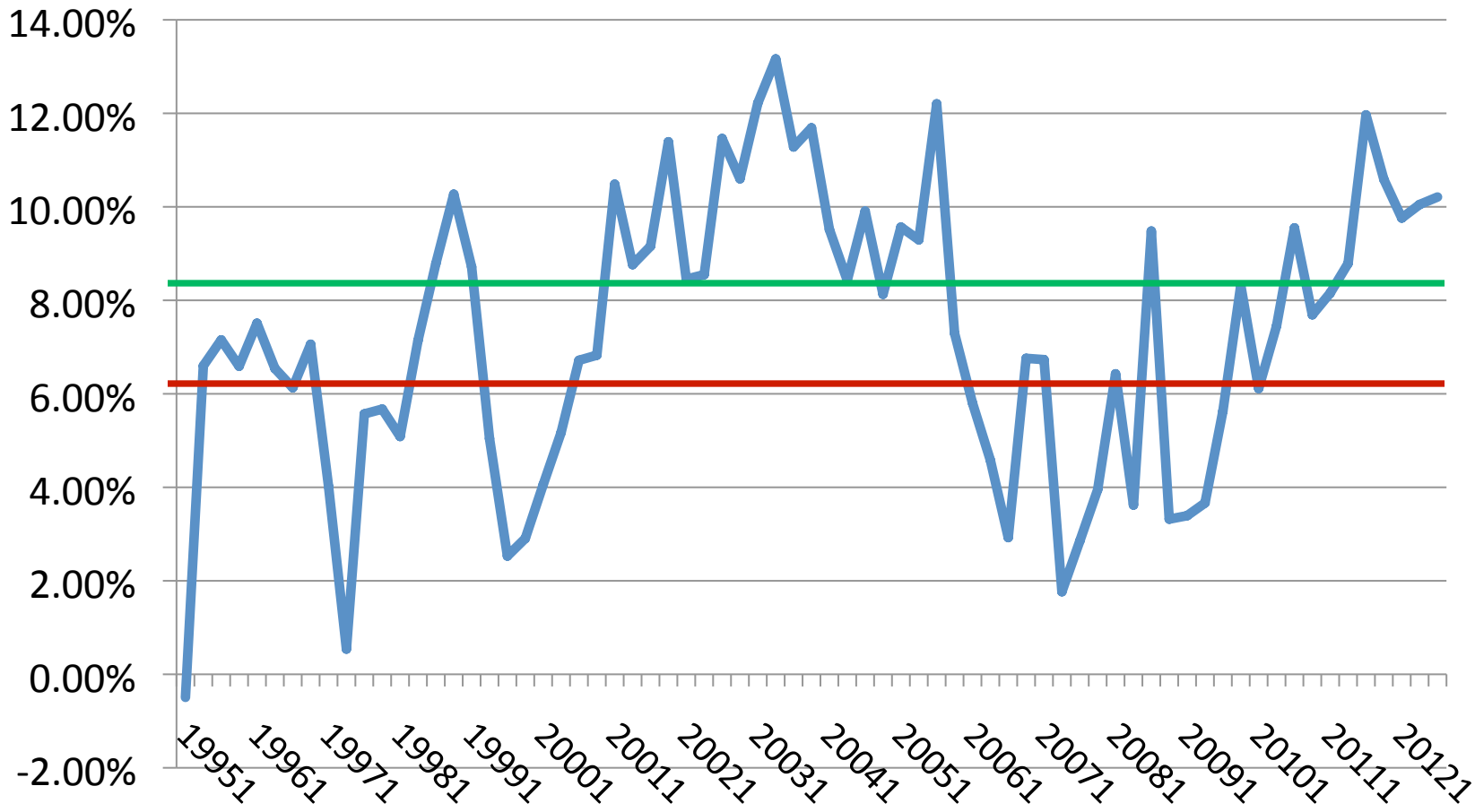
Risk Premium in Levered Equity Rate



Source: Hugh Kelly for NPV Advisors

Risk Premium in Levered Equity Rate

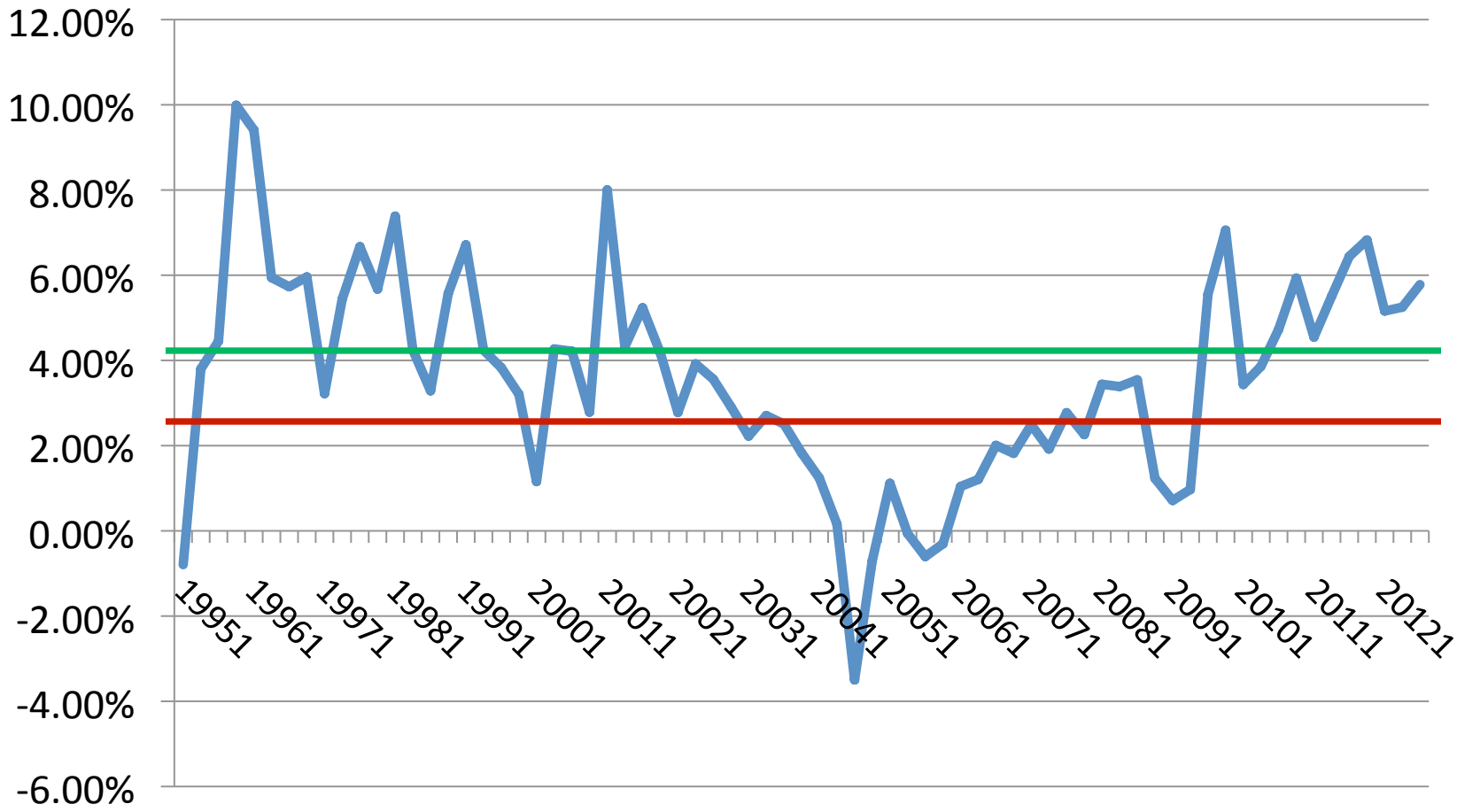
Office



Source: Hugh Kelly for NPV Advisors

Risk Premium in Levered Equity Rate

Multifamily



Source: Hugh Kelly for NPV Advisors

Boldly Go…

- Job creation in 2013: 2.16 million
- Unemployment Rate at year-end 2013: 6.9%
- 10-year Treasury @ 12/31/13: 2.25%
- DJIA: 14,100 at year-end
- Housing Starts in 2013: 950,000
- Existing Homes Sales: 5,150,000 with prices up 10%
- Commercial real estate sales volume: $300 billion (up 16%)

Check my math next year!