NATIONAL ISSUES Facing CRE Industry From NAIOP's Point of View

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NAIOP Serves more than 16,000 Members

Member of NAIOP since 1988
Welcome!

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Today’s remarks include…

- State of the CRE Industry
- NAIOP Today
  - Resources
  - Legislative agenda
  - Membership benefits
- Q & A
Real Estate’s Impact on the Economy
2014 -- How CRE Dev (new construction) contributed to U.S. Economy

- 363.6 million square feet built.
- 5.7 million jobs supported -- (2.8 million direct jobs – Architects, Brokers, Contractors, etc. and 2.9 million from operations.
- $747.3 billion added to GDP ($376.4 B from Dev & $370.9 B from operations)
- Provided space for 923,630 employees.
- Combined, commercial, residential, institutional and infrastructure development contributed:

$2.77 trillion – 16.5% of U.S. GDP
CRE Impact on U.S. Economy

Video
STATE OF THE INDUSTRY
State of the Industry

What Inning are we in ??
State of the Industry

When will return to robust economic conditions?? Today’s realities include ....

- Continued Global economic instability.
- U.S. political gridlock ...
  - Uncertainties in future tax code, program spending, regulations, etc.
  - U.S deficit/debt debate.
  - Mid-Term Election Impact.
- High under & unemployment – drag on economy.
- QE ending... impact on markets? – Interest rate increases – how quickly, how much?
“The “U-6,” which is the total unemployed, plus all marginally attached workers plus total employed part time for economic reasons, as a percent of all civilian labor force plus all marginally attached workers, remains doggedly high.” -- 7/3/14.

Doug Duncan -- Chief economist
Fannie Mae
U-6 Unemployment Nat’l Rate

Source: FRED
Total unemployed, plus all marginally attached workers, plus total employed part time because they can't find a full time job, as a percent of the civilian labor force plus all marginally attached workers.
U-6 rate – 2\textsuperscript{nd} Quarter 2014

National average: 12.9%

Oklahoma rate: 9.7%

One of the lowest in country!
State of the Industry

Quarter-to-Quarter Growth in Real GDP

Real GDP growth is measured at seasonally adjusted annual rates.

U.S. Bureau of Economic Analysis
STATE OF THE INDUSTRY

I THINK WE NEED A BIGGER BOAT.
State of the Industry

Less concern over rising interest rate environment...

1. Investors working this assumption into pro formas and adjusting return expectations.
2. Fed’s QE program targeted to end this Fall 2014?

Increased investment volumes and core cap rate pressure

3. Investors taking on more risk with value-add opportunities and non-core markets.

Debt capital available for core and non-core.

5. Life Co’s and US banks active.
6. CMBS continues to grow.
7. Equity remains abundant; foreign investors; pension funds; private equity/hedge funds; private local investors.
State of the Industry

1. Job growth and net absorption improving. Average national rents up 3.8% year-over-year. Average sf pp continues to drop.

2. Options will continue to diminish especially across commodity-rich and technology-rich locations and larger tenants will increasingly have to look at status-quo occupancy or spec construction.

3. Tenant leverage declining through 2015 with rent growth expected across the majority of markets.
State of the Industry

1. Scarcity growing for ‘big box’ bulk logistics & distribution space
   - Class A industrial space extremely limited.
   - Rent growth continues in most markets, up 4.6% year-over-year.
   - Speculative development continues in 2015.

2. Overall, a steady recovery...
   - Demand has increased due to e-commerce.
   - Large fulfillment centers under construction.
   - Next demand wave from “infill” warehouse due to support of near urban fulfillment centers.

3. Improving leading indicators...
   - Improving GDP forecasts.
   - Lean inventories.
   - Decreasing oil & transportation costs.
E-commerce is about convenience and brick and mortar is about experience.

1. Hot experience concepts include: fitness/health/spa, thrift stores, organic grocers, restaurants.
2. Now pure e-commerce players are seeking brick & mortar locations (ie. Amazon in NYC)
3. Open-air lifestyle centers replacing closed-in suburban malls.

Cross-channel focus.....

1. Order online, in-store pick up will increase.
2. More wireless displays, kiosks and in-store gadgetry.
3. Increased local ads via mobile apps.
NAIOP TODAY
Is the Leading Organization Dedicated to Representing and Advancing the Interests of Developers, Owners, Investors and Asset Managers in Industrial, Office and Mixed-Use Real Estate.
Mission

NAIOP represents commercial real estate developers, owners and investors of office, industrial, retail and mixed-use properties. It provides strong advocacy, education and business opportunities, and connects its members through a powerful North American network.
NAIOP 2014 VISION
VIDEO
NAIOP Today

- 16,700+ members
  - One-third of all new members are Developing Leaders (35 years of age and under)
- 51 strong North American chapters
- AMPIP partnership
AMPIP Partnership....

• AMPIP is the leading industrial organization in Mexico.

• The partnership with NAIOP extends member benefits to both organizations.
NAIOP BENEFITS
1. Educational Opportunities
   • Seminars, conferences, courses
   • On-demand programs
   • Industry research

2. Networking, business opportunities
   • Local
   • Regional
   • National

3. Legislative representation
   • Local
   • State
   • Federal
NAIOP is your partner for training and education – low cost, convenient learning opportunities.

- Online education courses focus on critical industry topics. Learn from the comfort of your home or office.

- Member-only access to industry research including Market Studies and Publications (including *NAIOP Commercial Real Estate Compensation Survey*).

- 2015 Industry-leading conferences….
  - **ECon** – March 5-6; Atlanta
  - **National Forums Symposium** -- April 12-14; San Francisco
  - **Icon** -- June 10-12; LA/Long Beach
  - **OCon** – June 23-24: Houston
  - **Development ’15** -- October 13-16; Toronto
2015 online course offerings include:

- Financial Analysis of Development Projects (January 8 – February 26)
- Leasing, Marketing and Negotiations (January 7 – March 4)
- Construction Management for Developers & Owners (March 12 – May 7)
- Essentials of Development Process (May 13 – July 15)
- Advanced Development Practices (August 5 – September 30)
- Advanced Real Estate Finance (October 21 – December 16)

www.naiop.org/thecenter
Two certificate programs:

The Center for Education offers the NAIOP Certificate of Advanced Study to industry professionals who wish to advance their career by pursuing a more rigorous path of continuing education. Whether you want to further your career on your current chosen path or gain a solid understanding of best practices in an entirely different segment of the industry, there's no better way to demonstrate your commitment to the commercial real estate industry and your own professional development than by earning a NAIOP Certificate of Advanced Study.

- **Certificate of Advanced Study in Real Estate Development**
- **Certificate of Advanced Study in Real Estate Finance**

www.naiop.org/thecenter
Networking Opportunities

- National Forums -- Are special interest groups for NAIOP members that provide them with an opportunity for exclusive networking and experience exchange with their peers.

- Capital Markets
- E-Commerce
- Trends in Real Estate Development
- Build-to-Suit Development
- Family Owned Business
- Industrial Development
- Marketing and Leasing
- Office Acquisitions
- Private Developers
- Deal & Investment Concepts
- Developing Leaders
- Medical & Life Sciences Development
- Urban Redevelopment
- Business Park Development
- Industrial Acquisitions
- Investment Management
- Mixed-Use Development
- Office Development
- Real Estate Law & Transaction
NAIOP LEGISLATIVE AGENDA
If you are not willing to be at the legislative table, be assured that you will be on the legislative menu!!
NAIOP Legislative Priorities

- Tax Extenders Legislation
  - 15-year Qualified Leasehold Improvement Depreciation
- Terrorism Risk Insurance Act (TRIA)
- Energy Efficiency Legislation
- Transportation Reauthorization
- EPA “Water of the U.S.”
Tax Extenders

Tenant Improvement Depreciation

• Allows depreciation of tenant improvements over 15 years instead of 39 years.
Tax Extenders Legislation

• Congressional tax reform efforts stalled last year, and the only tax legislation remaining on the agenda is passing a tax extenders bill.

• Senate Finance Committee Chairman Ron Wyden (D-OR) passed a tax extenders bill through his committee, which included our 15-year leasehold depreciation provisions.

• The House refuses to pass an extenders bill, instead passing legislation that would make permanent certain provisions (i.e. bonus depreciation) so as to have a bill to conference with the Senate in the fall or lame duck session of Congress.

• John Boehner has steadfastly stated that he will not keep Congress in session past December 11 of this year.
After terrorist attacks of 9/11, property insurance companies began to exclude coverage for acts of terrorism.

Terrorism Risk Insurance Act (TRIA) was passed to ensure availability of terrorism insurance and end economic disruption in commercial real estate markets.

Originally intended by Congress to be temporary, has been renewed twice.

Program expires at the end of 2014. Needs to be renewed to prevent market disruption.
On July 17th, the Senate overwhelmingly passed a TRIA reauthorization bill by a vote of 93-4. In contrast, Jeb Hensarling, who chairs the House Financial Services Committee, has refused to make changes to his reauthorization proposal to garner the necessary support for passage of a bill.

Hensarling has stated that it will take “months” to workout a compromise with moderate Republicans who oppose his proposed changes to TRIA.

With the loss of Majority Leader Eric Cantor in a Republican primary, House Republican leadership is wary of “rolling” Hensarling, a conservative leader, on TRIA.
Energy Efficiency

- S. 1392 and H.R. 1616
- Senators Shaheen (D-NH) and Portman (R-OH)
- Reps. McKinley (R-WV) and Welch (D-VT)

- Building codes must show a return on investment for upfront costs.
- Allows for input from affected parties, including the development community, to comment on efficiency targets before they are enacted.
- Zero-Net-Energy was omitted as the basis for setting new targets in building codes.
Transportation and Infrastructure

Congress recently passed and the President signed into law an $11 billion bill that would fund the transportation system until May of 2015.

- Federal gas tax of 18.4 cents was last increased in 1993.
- CBO projects a $172 billion shortfall of the highway trust fund over the next decade.
- New funding sources need to be identified to keep trust fund solvent.
The EPA and Army Corp released a draft rule in April expanding the definition of federal waters. EPA’s states that it will affect approximately 1,300 acres, 2 to 3 percent increase in the number of permits.

EPA has estimated that the total costs to the regulated community will be $162 to $278 million.

Of notable concern to NAIOP is an expanded definition of “tributary” which can include man-made ditches. Without clarifying language, it is possible that stormwater ditches could fall under the tributary definition.

NAIOP has been working with EPA’s Assistant Administrator of Water to address these concerns. The comment period has been extended until late November.
Membership
Networking Opportunities

- **Developing Leaders** –
  
  Is an exclusive program geared specifically for all CRE professionals age 35 and under. Your membership entitles you to participate in our extensive network, gain instant access to the latest industry news and enjoy unparalleled networking opportunities.
IN SUMMARY …

NAIOP members enjoy…

- Outstanding Networking Opportunities
- Leading Edge Industry Info + Research
- Comprehensive Legislative Representation
Thank You!

Q & A