NATIONAL REAL ESTATE Investor®

10 Must Reads for the CRE Industry Today (August 17, 2016)

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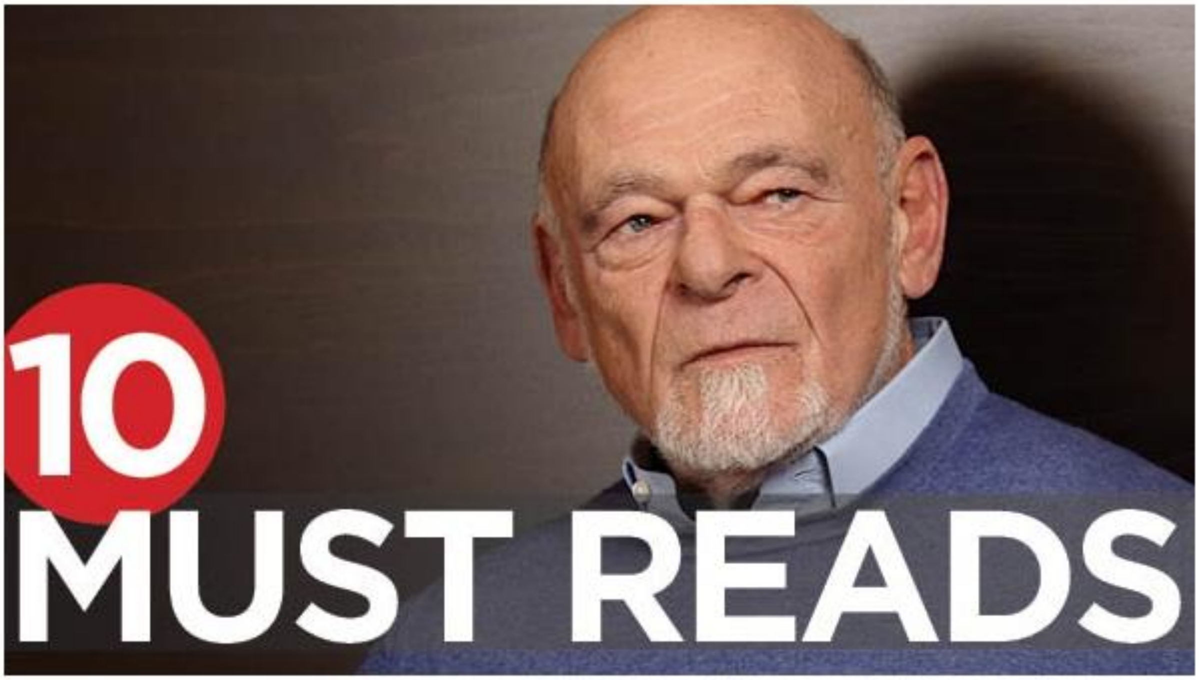

1. **S&P 500-beating REITs could return up to 13% in the next year** "Real estate investment trusts, or REITs, have outperformed the benchmark S&P 500 Index this year, as investors have sought out high yields at a time of historically low interest rates. But if you're worried about spending too much for REITs, most of whose dividend payments are backed by rents or leases, there are still good values if income is your main objective. The S&P 500 REIT subsector trades for 19.6 times weighted aggregate consensus FFO estimates for the next 12 months, according to FactSet. (REITs are valued according to funds from operations, or FFO, rather than earnings per share. FFO is a non-GAAP measure calculated by adding depreciation and amortization back to earnings, while subtracting gains from the sale of real estate. It is considered the best way of measuring a REIT's ability to pay dividends.)" (MarketWatch)
2. **Here's How Banks' Commercial Real Estate Exposure Stacks Up** "Commercial real estate has been growing and many banks are increasing their exposure to CRE. That's attracted the notice of regulators, which have warned about banks' concentration in CRE. Meanwhile some investors themselves are worried that the market could be approaching bubble territory, writes FBR & Co.'s Bob Ramsey, who takes a look at what banks have the most (and least) CRE exposure Tuesday. Ramsey writes that there's 'nothing inherently wrong with a bank that is focused on commercial real estate lending,' and growing regulation along with and falling CMBS issuance 'will provide opportunities for those that are able to continue to grow.' Nonetheless, some banks, especially those that have growth their concentration too quickly without building sufficient risk management, will most likely be hurt, and investors are right to wonder how much exposure individual banks have—as well as their track record." (*Barron's*)

3. **How Millennials Influence Office and Multifamily Design Trends** "Millennials are, officially, the largest living generation, according to the U.S. Census Bureau. Naturally, this fact influences all sides of the real estate market, particularly design. From office buildings to shops, everything is created to cater to the millennial, who puts comfort and time-efficiency above everything else. The first changes in design appeared in the office space sector. Generation Y members want more than just an open floor plan and large windows. Employers are interested in attracting young talent, so they adapt to market trends and raise the bet by adding original amenities. It all started as a cost-effective strategy. 'When the economy started to turn down and employers wanted to move into new office spaces, they were looking at the expense of building out the interior of these offices. With all of these walls and they were really trying to pack more employees into smaller spaces. What that naturally led to was fewer enclosed offices and more open workspaces,' Brad Capas, president of CapasGroup Realty Advisors, told *Commercial Property Executive*. It all evolved into an industry trend and then it became the norm. Now, it's more like a competition between employers and even developers. Even from early stages of development, particularly when talking about office towers, millennials influence certain features of the new structure, including upgraded internet service. Also, the support columns are positioned so that the open floor plans are not affected." (*Commercial Property Executive*)
4. **Sam Zell: NYC office market is being overbuilt** "Equity Residential founder Sam Zell says supply and demand in the office market have fallen out of sync, as developers race to add square footage tenants don't necessarily want or need. 'It was Confucius who said a builder will build when money is available. And demand, all the other factors, are always secondary,' Zell said, invoking a bit of Chinese philosophy on Bloomberg TV. But he said while he sees a lot of movement in the office space arena, he does not see a lot of growth. 'I continue to see users becoming more and more clever in how they need less space, and therefore less demand,' he noted. In New York, Zell said Related Companies and Oxford Properties Group's Hudson Yards mega-project will add 10 to 12 million square feet of office space. "I don't see 10 to 12 million square feet of demand," Zell said. (Meanwhile, tenants who are inking deals at Hudson Yards are leaving vacancies in Midtown, as *The Real Deal* recently noted.) As for other segments of the market — single-family homes, multi-family and hotels — the numbers tell a similar story, according to Zell." (*The Real Deal*)
5. **TIAA Unit Closes $1.2B Super-Regional Mall Fund** "After raising $1.25 billion from investors, TIAA Global Asset Management has successfully closed its T-C U.S. Super Regional Mall Fund LP, TIAA announced Monday. The U.S. SRM Fund reportedly has capital commitments from several domestic and foreign institutional investors and from TIAA's General Account. With leverage, these equity commitments will allow the fund to assemble a portfolio of approximately $2.5 billion. To date, the fund has invested roughly $685 million. One of the investments so far was the purchase in April 2015 of a 12.5 percent stake in Honolulu's Ala Moana Center, a TIAA spokesperson told *Commercial Property Executive*. With more than 280 tenants, the mall reportedly is one of the world's largest and most-productive shopping centers, with more than $1,350 in sales per square foot." (*Commercial Property Executive*)
6. **It has gotten so tough in the oil patch that people have stopped paying their mortgages** "There are just three states in the US where mortgage delinquency rates have increased from a year ago. They are all in the oil patch. North Dakota, Wyoming, and West Virginia — states heavily dependent on oil, gas, and coal mining — have all seen an increase in mortgage delinquencies in the past year, according to data from TransUnion. 'While the mortgage sector performs well, we continue to pay special attention to states impacted by the energy crisis,' said Joe Mellman, the vice president who leads TransUnion's mortgage line of business. 'States with economies heavily reliant on oil and energy are bucking the trend and experiencing higher delinquency rates.'" (*Business Insider*)
7. **Rent growth matches eight-year high as building boom doesn't keep up** "July rental growth matched an eight-year high, as an apartment-making boom still hasn't put a lid on costs. Rents rose 0.3% in July, the Labor Department reported Tuesday. They rose 3.8% in the 12 months ending July, matching the highest level since Jan. 2008. Rent has been on fire for several reasons. The housing crisis has dented demand for ownership, which has slumped to the lowest level since the 1960s." (*MarketWatch*)

8. **Chattanooga's Innovation District Beckons to Young Entrepreneurs** "From Boston to Seattle, cities across the country are vying to create technology hubs, spurring real estate developments to attract start-ups and young entrepreneurs. To the south, this smaller but thriving city is seeing returns on its effort to do the same. Chattanooga has leveraged its lightning-fast broadband connections to develop a tech scene in its recently designed innovation district, a 140-acre section of its compact central business district. At the district's core, the Edney Innovation Center draws young entrepreneurs who pace across the polished concrete floors and talk business from couches and beanbag chairs that give the 90,000-square-foot office building the feel of a college study hall. The Edney Center is a crucible for advancing their ideas. Purchased and renovated for $4.4 million by Talon Partners, a group of local developers, the 10-story building opened in October at Market and 11th Streets. It is seen by Chattanooga's civic leaders as the gateway to the city's commanding new business enterprise — using the six-year-old ultra-high-speed broadband network to attract and assist high-tech start-ups in becoming mature, homegrown companies. Tenants in the Edney Center include a nonprofit start-up incubator, a business developer for the technology sector and over a dozen entrepreneurial internet, information technology, design and app development companies that are owned and managed by young entrepreneurs." (*The New York Times*)
9. **CityView Closes Latest Multifamily Fund, Totaling $150M** "CityView, an investment management and development firm focused on urban multifamily projects in the western and southwestern United States, has closed its CityView Western Fund I L.P. The equity fund totals $150 million and will invest in multifamily housing in various markets. More specifically, CityView will task the fund to create new multifamily housing developments and renovating existing buildings."This fund as it enables us to build on our experience in the western and southwestern U.S., (putting) an additional $400 million to work as we take advantage of opportunities in supply-constrained markets," said Sean Burton, CEO of CityView. Burton also noted that these urban markets are experiencing strong population and job growth, making now a good time to bring new multifamily inventory to the market. "Much of this opportunity is due to the demand of Millennials, who are now entering their prime earning and spending years," he noted. "They are renting for longer, and they want apartments that put them close to jobs, shopping and entertainment."" (*MultiHousing News*)
10. **Time Equities acquires Utah Mall for $69.5 million** "In what it says is part of an expansion into the western United States, New York-based Time Equities Inc. (TEI) purchased the Newgate Mall in Ogden, Utah from General Growth Properties for $69.5 million. The 718,035-sq.-ft. mall is anchored by Burlington Coat Factory, Cinemark, Dillard's, and Sears. TEI reports it is 98% leased with approximately 100 tenants. Bath & Body Works, Kay Jewelers, Gymboree, and Victoria's Secret are among those on the roster. 'Time Equities Inc.'s national retail portfolio is in expansion mode and Newgate Mall serves as a wonderful addition to our unique portfolio of mall and outlet centers located throughout the U.S. and Canada,' said Ami Ziff, Director of National Retail for TEI. The majority of TEI's 80 retail centers reside in New York, though the company has properties in several states including Alabama, California, Florida, Michigan, South Carolina, and Washington." (*Chain Store Age*)