

January 9, 2014

The Fifth Year, Improving Basics and Grand Experiments

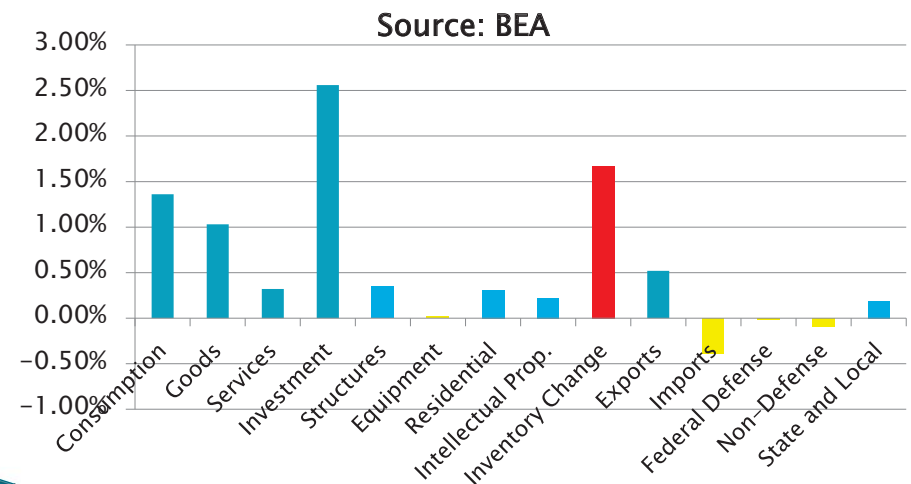
HFO Investment Real Estate
January 9, 2014
John W. Mitchell

- ▶ Happy Group in 2013
- ▶ The Party is NOT Over
- ▶ Almost as Long as the Average Postwar Recovery
- ▶ Broad Based Growth
- ▶ Low Inflation Rate like Japan
- ▶ Monetary Policy Shift Underway
- ▶ Brookings Metro Monitor Portland 9th in Most Recent Release

Revised Real GDP Commerce Department (SAAR,%)

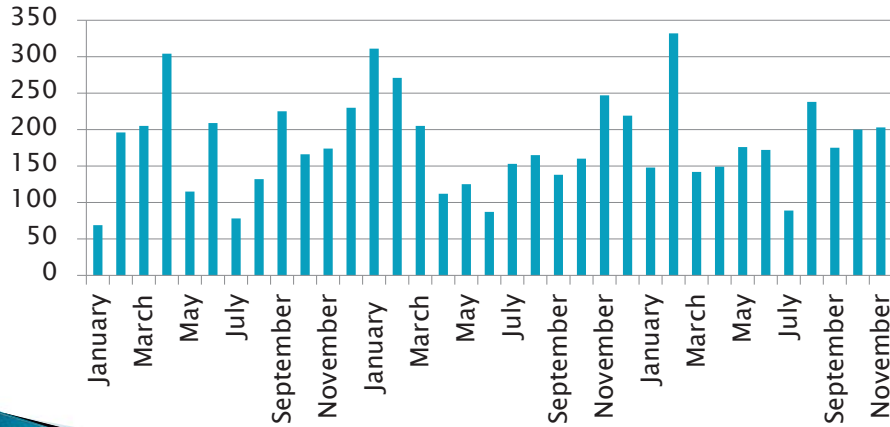
	Q4 12	Q1 13	Q2 13	Q3 13
GDP	.1	1.1	2.5	4.1
Consumption	1.7	2.3	1.8	2
Equipment	8.9	1.6	3.3	.2
Intellectual Property	5.7	3.7	-1.5	5.8
Non-Res Structures	17.6	-25.7	17.6	13.4
Residential	19.8	12.5	14.2	10.3
Federal	-13.9	-8.4	-1.6	-1.5
State and Local	-1	-1.3	.4	1.7
Exports	1.1	-1.3	8	3.9
Imports	-3.1	.6	6.9	2.4

Contributions to GDP Growth Q3 2013

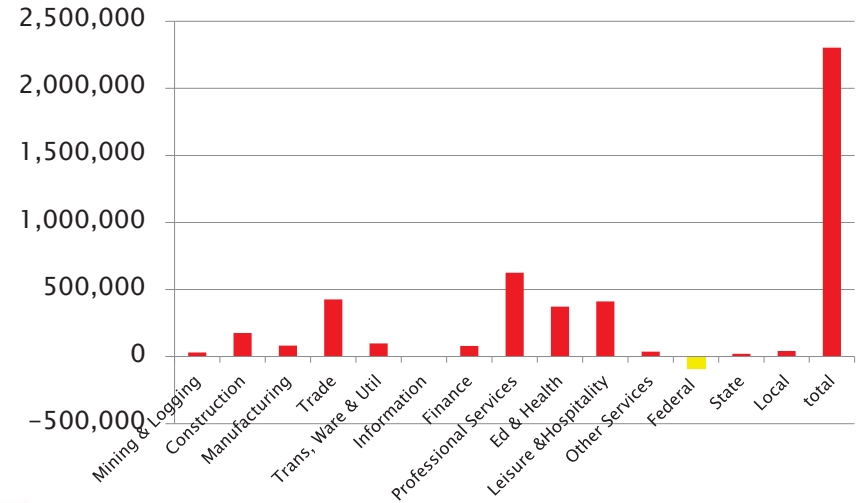


2011-13 Nonfarm Payroll Employment Change(,000 SA) Average 195,000 Per Month in Year to November

Source: BLS

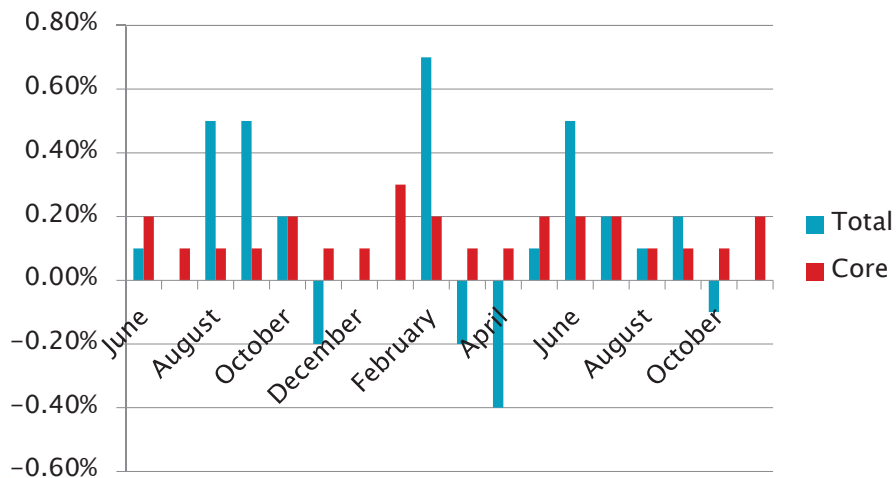


Annual Job Change November, 2012- November, 2013 (1.7%)

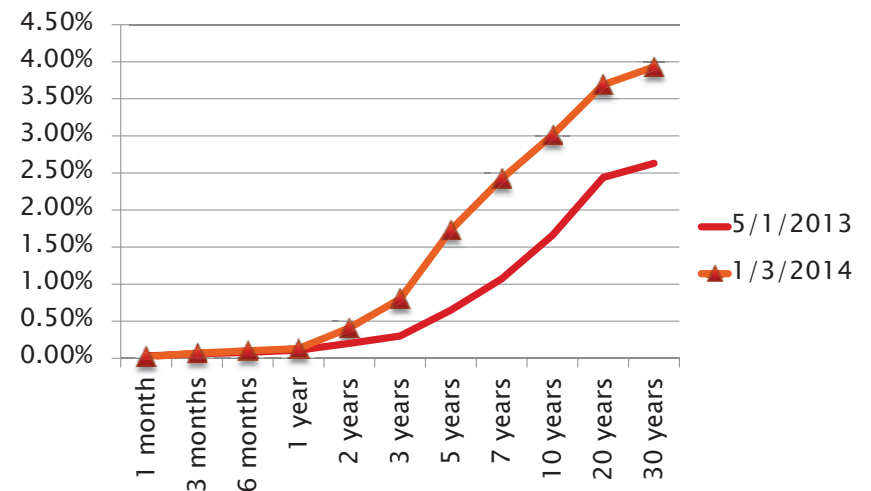


Inflation November, 2012 to November, 2013 Total 1.2%, Core 1.7%

Source: BLS



Interest Rates Source: US Treasury



Prospects

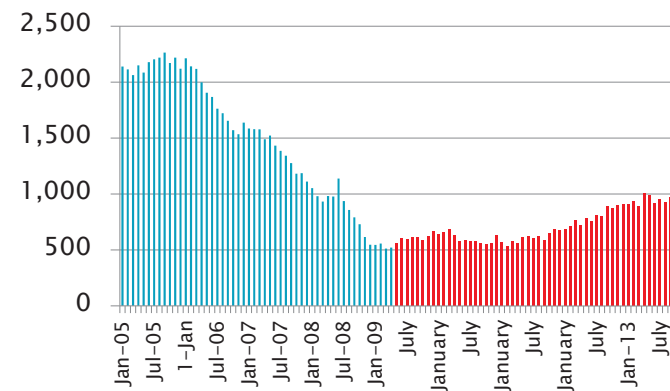
- ▶ Zero Short Term Rates Since December 2008
- ▶ Long Rates Bounced after May 22nd Bernanke Speech
- ▶ No Taper in September
- ▶ Default Theatre in October
- ▶ Embarked on Tapering This Month
- ▶ Mortgage Rates were 3.35% in Early May and 4.48% on week ending December 27th

- ▶ Consensus Moving from 1.7% in 2013 to 2.5% in 2014
- ▶ IMF Similar
- ▶ Fed 2013 GDP 2.2–2.3% and 2.8–3.2% in 2014
- ▶ Inflation Staying Below 2% Through 2014
- ▶ Federal Funds Rate Target 0–.25% until 2015 or Beyond
- ▶ Wait Until Next Year Once More!

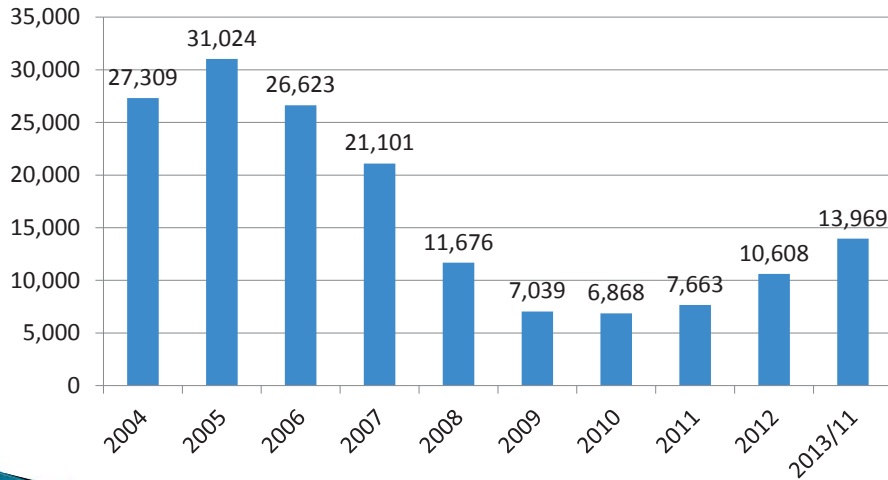
What is Different?

- ▶ Diminishing Fiscal Drag
- ▶ Housing Rebound
- ▶ Net Worth Recovery
- ▶ Balance Sheet Strength
- ▶ World Economy Stronger
- ▶ No Replay of October or 2011
- ▶ State and Local Improved Financial Picture
- ▶ Shifting Monetary Policy

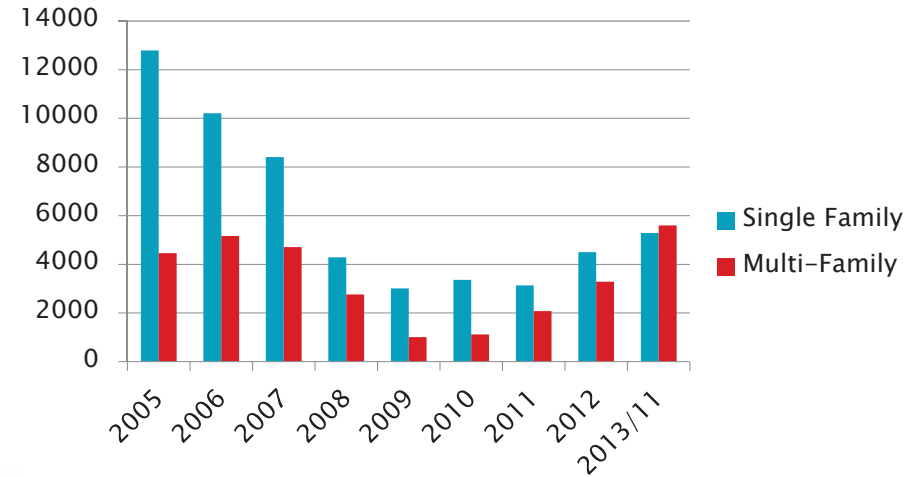
Residential Permits (SAAR) Census Bureau 2005–2013
Up 19.2% to November 2013



Residential Permits 2004 to 2013 Oregon (To November up 34.8%) Source: Census

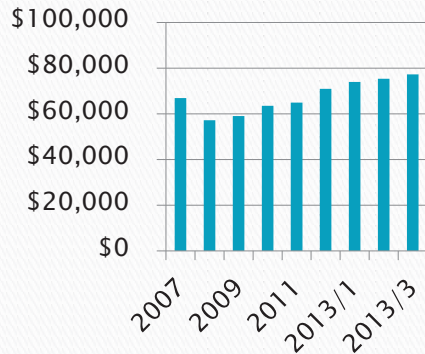


Portland Residential Permits Census Bureau



Net Worth of Households and Non-Profits

Source: Fed

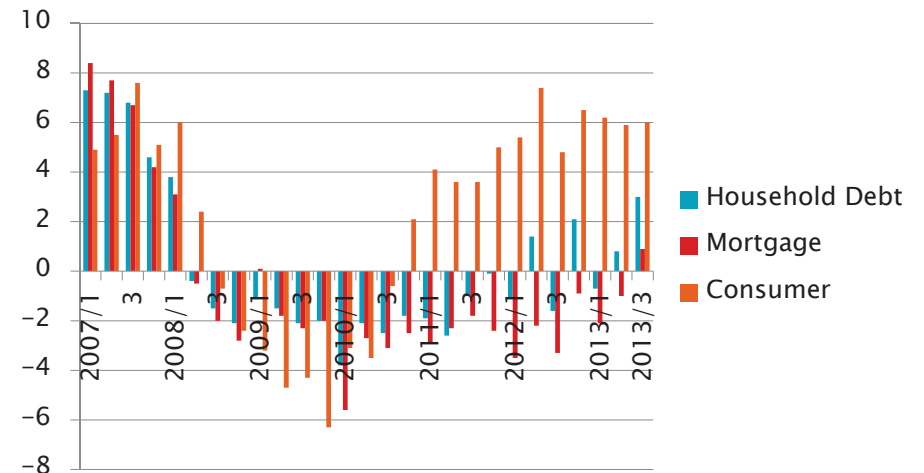


- ▶ As of Q3 adjusted for inflation and household numbers about 98.2% of Wealth Loss Recovered
- ▶ Q1 07 to Q1 09 Per Household Net Worth Real down 26.1%

(Billions) \$77.3 Trillion
in Q3

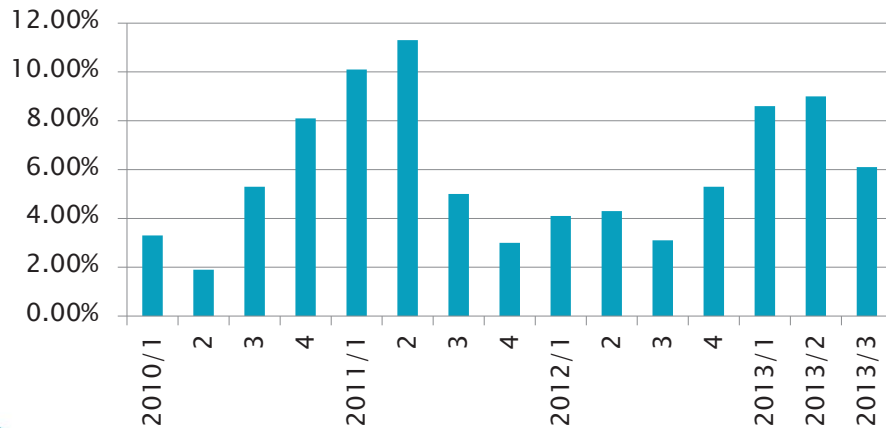
Center for Household
Financial Stability Q3

Debt Growth at SA Annual Rates Source: Fed



Year Over Year Change in State Tax Revenues

Source: Rockefeller Institute



Fiscal Policy

- ▶ Deficit Estimates Falling–Short Term
- ▶ January 20123 Cliff–Payroll Tax Holiday Over, New Medicare Taxes, Some Tax Cuts Expired, Deduction Phase Out, Sequester Delayed and Implemented–
- ▶ Budget Control Act of 2011–If ‘Super Committee’ failed cuts to Discretionary Spending
- ▶ Lets Make a Deal! Murray/Ryan Package–Relaxes Sequester, Misc. Fees, Contributions, No Debt Ceiling Change

Monetary Policy

- ▶ Fed 2008–2013– Prevent Collapse, Support Upturn–Massive Liquidity Injections–Fed Funds Rate at 0–.25%, Long Term Asset Purchases to Hold Down Long Term Rates, Side Effect on Currency, Helped Boost Financial Asset Prices
- ▶ Balance Sheet end of 2013 held \$3.8 Trillion
- ▶ Two Aspects of Policy– Short Term Rates and Purchases the QE–Until This Month \$85 Billion Per Month–\$45B Treasuries and \$40B Mortgage Backed
- ▶ Low Rates as Long as unemployment above 6.5% and Inflation Expectations Out 2 Years Less than 2.5%–Since December 2012

Monetary Policy

- ▶ Tapering– January \$40 B Treasuries and \$35 B Mortgage Backed
- ▶ December Statement: “likely will be appropriate to maintain current target range for the federal funds rate well past the time that the unemployment rate declines below 6.5 percent.”
- ▶ How will long rates move?
- ▶ Independence
- ▶ \$2.43 Trillion in Excess Reserves in Banking System
- ▶ William McChesney Martin 1951–1970 Fed Chair
- ▶ How will this go down ?

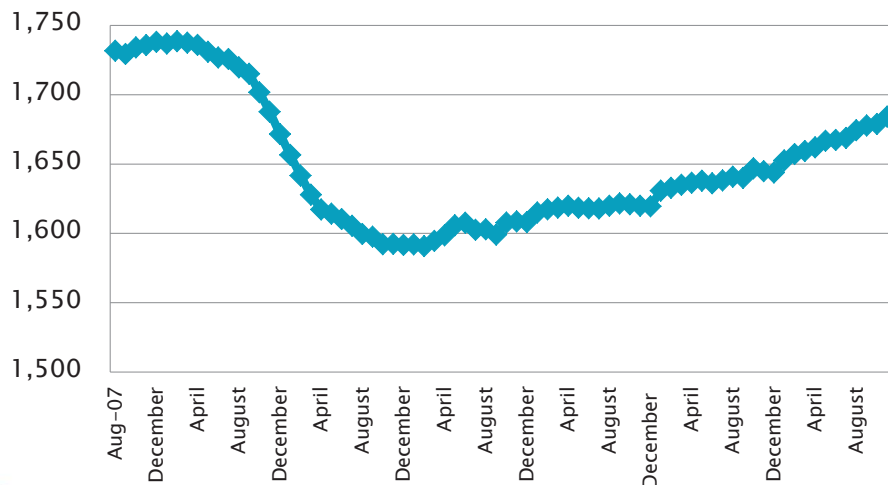
Job Growth Update November 2013 Data— Year over Year Change—49 States Up

- ▶ **North Dakota 1**
- ▶ Texas 2
- ▶ Florida 3
- ▶ Idaho 4
- ▶ Georgia 5
- ▶ **Oregon 6**
- ▶ Utah 7
- ▶ Indiana 8
- ▶ Delaware 9
- ▶ Colorado 10
- ▶ Arizona 11
- ▶ Nevada 12
- ▶ South Carolina 13
- ▶ Missouri 14
- ▶ New Jersey 15
- ▶ Mississippi 16
- ▶ Massachusetts 17
- ▶ California 18
- ▶ South Dakota 19
- ▶ Michigan 20
- ▶ Kansas 21
- ▶ Minnesota 22
- ▶ New York 23
- ▶ Tennessee 24
- ▶ North Carolina 25
- ▶ Wisconsin 26
- ▶ Washington 27
- ▶ Maryland 28
- ▶ Montana 36
- ▶ Connecticut 37
- ▶ Pennsylvania 45
- ▶ Ohio 46
- ▶ Kentucky 47
- ▶ New Mexico 48
- ▶ Alabama 49
- ▶ **Alaska 50**

Recent Oregon Data

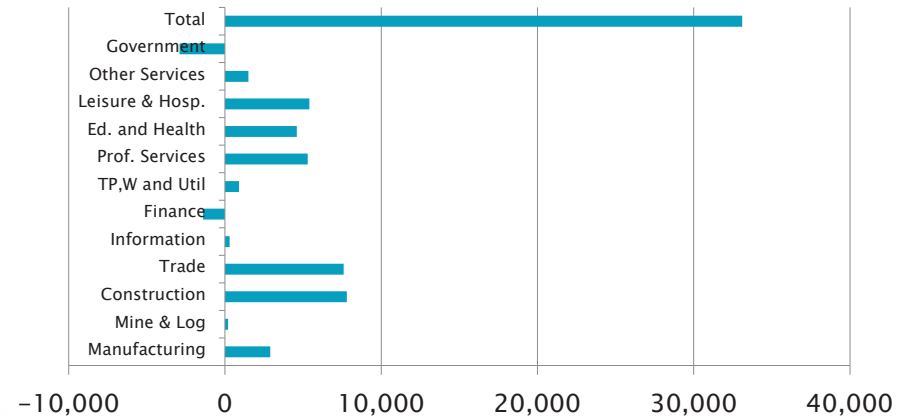
- ▶ Case Shiller Portland House Prices up 12.7% to October
- ▶ Underwater Homeowners CoreLogic 8.2%
- ▶ Personal Income Q3 Oregon 1.1% same as US
- ▶ Oregon Population Growth .78% 2012–13 US was .72%

Oregon Wage and Salary Employment (,000–SAAR)
Employment Department



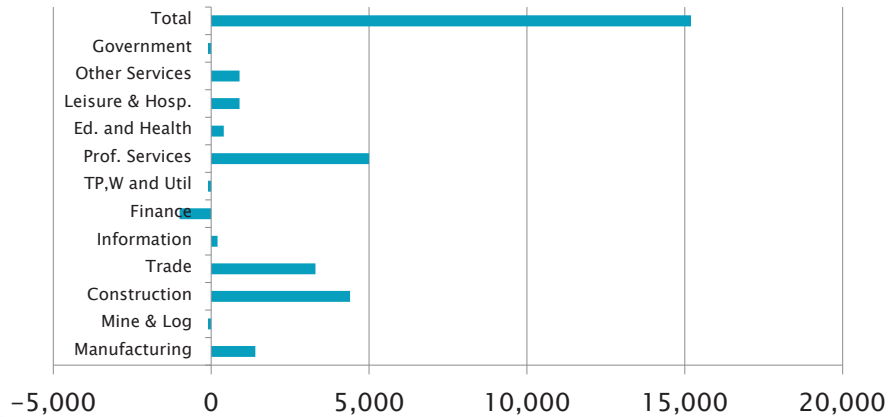
Oregon Job Growth Year to
November, 2013 (2%)

Source: Employment Dept.



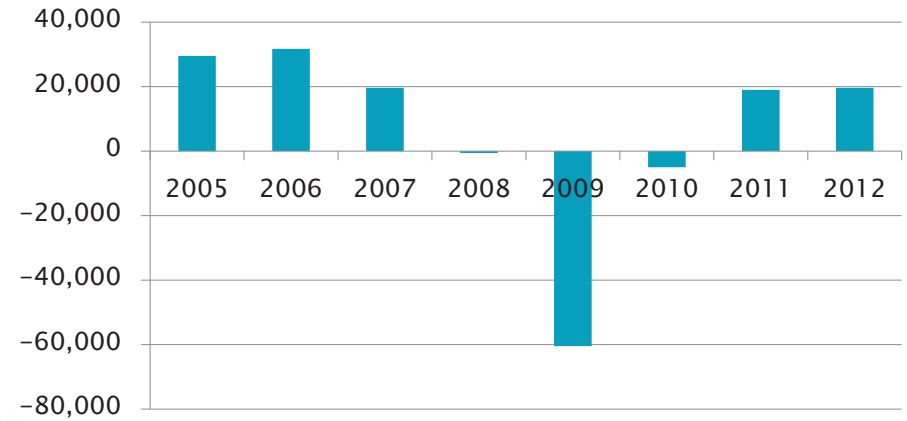
Portland Job Growth Year to November, 2013 (1.5%)

Source: Employment Dept.



Annual Change in Portland Wage and Salary Employment

Source: Employment Department



The Environment

- ▶ Population Growth Slightly Faster than National Average
- ▶ Rising Employment
- ▶ Tighter Mortgage Lending Environment than the Boom, but Easing for Commercial Real Estate
- ▶ Rising Household Formation
- ▶ Aging Population
- ▶ ACA and Housing

Affordable Care Act

- ▶ Part Time/Full Time
- ▶ Entrepreneurial Activity
- ▶ The Mandate and the Young ?
- ▶ Rules Changed Daily?
- ▶ Is Having Insurance the same as Having Care?
- ▶ New Shopping Experience ?
- ▶ A Giant IT Project
- ▶ The Supply Response ?
- ▶ Cost Containment?
- ▶ What Will The System Look Like When it is Done?

Concluding Thoughts

- ▶ 2014–Less Fiscal Restraint, Better Balance Sheets, Falling Energy Prices, State and Local Health, Global Help, Housing Upturn : Ingredients Falling Into Place

