



SummerStreetAdvisors

How Is the Mobile Economy Affecting
Real Estate Investment?

November 13, 2013

AGENDA

- Summer Street Advisors
- Where Do We Stand?
- Impacts of the Mobile Economy on Real Estate Investment Trends

Summer Street Advisors, LLC

- Loan and Real Estate Investment Advisory
 - Investment Analysis and Valuation
 - Risk and Opportunities Assessment
 - Portfolio Analytics and Risk Mitigation Strategies
- Transaction Due Diligence
 - Loan File Review, Document Abstracting, Site Inspections
 - CMBS – B Piece
- Bank & REIT Advisory
 - Bank Valuation
 - Forecasting Expected Loan Losses
 - REIT Private Market Value based on fundamental real estate analysis
- Asset and Portfolio Management
 - Loan and Real Estate Asset Management
 - Loan Resolution Strategies

Where Do We Stand (Facts)?

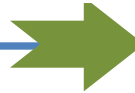
Market Environment

Early 90's Market Environment



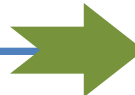
Today's Market

	1990's	Current Market
Macro: GDP	-1.75% ('91)	2.8% (Q3 '13)
Unemployment	6.3% (Q4 '91)	7.2% (September '13)
10 Yr. Treasury	7.9%/8.4% Ave/High ('91)	2.81%/3.01% (Ave/High) (Aug-Oct '13)



		Vacancy	Ave Annual Supply Growth '84-'89		Current Vacancy Q3 '13	Ave Annual Supply Growth '09 - Q3 '13
RE Industry:	Office	18.7%	5.5%	Office	16.9%	0.3%
U.S.	Multi-family	7.2%	3.2%	Multi-family	4.2%	1.0%
	Warehouse	10.7%	3.7%	Warehouse	6.6%	0.8%
	Retail	18.7%	3.1%	Retail	10.4%	0.4%

Source: REIS



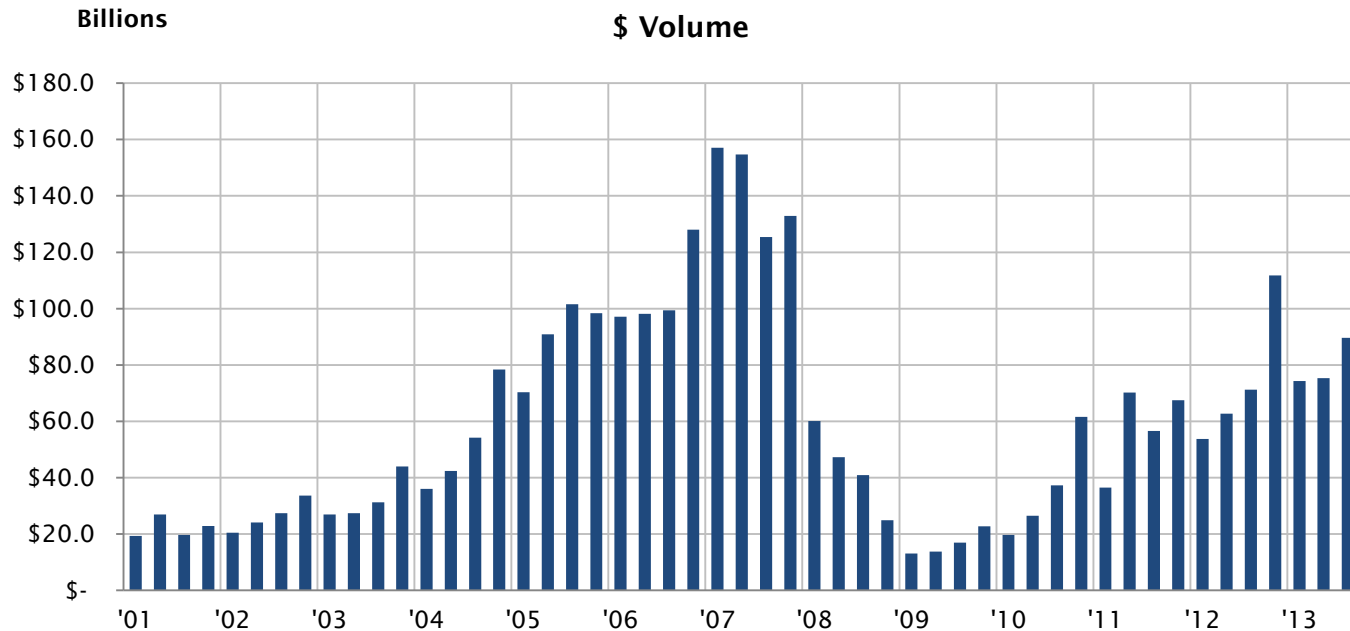
Real Estate Market Characteristics:

- Increased Supply
- Tax Law Changes
- Inflation, Interest Rates, Deregulation of Thrifts
- Competition among Lending Institutions
- Lax Lending Practices & Faulty Appraisals

- Residential real estate shows widespread improvement
- Commercial real estate remains mixed
- Loan demand increased slightly – residential refinance
- Availability of credit remains tight
- Consumer spending remains flat
- Uncertainty and Deleveraging continues

U.S. Transaction Volume Up – \$239B

26% increase in transaction volume YOY



Source: RCA

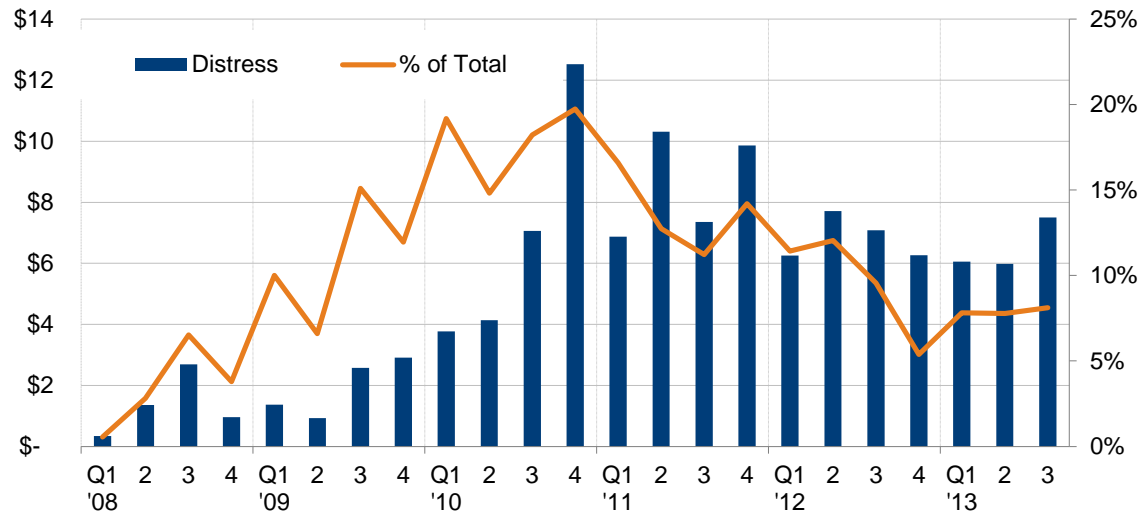
- U.S. recorded total transaction volume of \$239B for the first three quarters of 2013, a 26% increase from the prior year.
- Transaction activity by property class (first three quarters): multi-family - \$71.8B (-20%), office –\$63.9B (36%), retail - \$42.5 (104%), industrial - \$31.9B (70%), hotels - \$18.6B (14%) and land – \$10.6B (40%)

U.S. Distressed Assets Traded Down– \$19.5B

\$19.5B YTD - U.S. distressed assets traded

All Property Types

% of Sales Assoc. with Distress

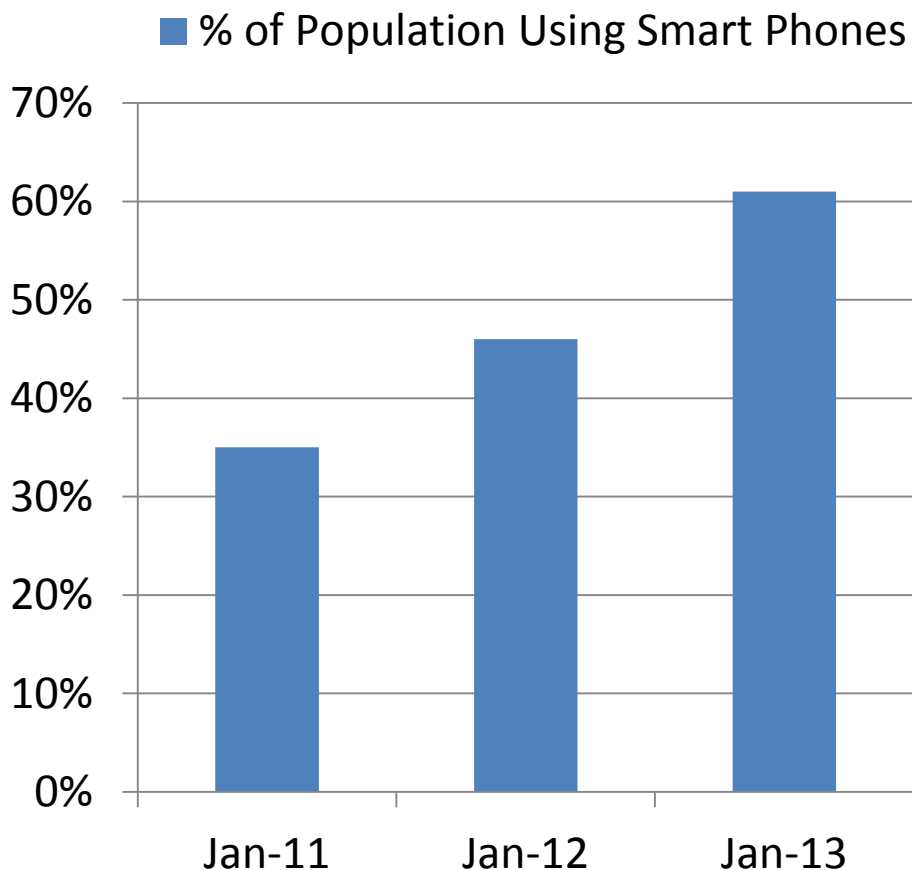


Source: RCA

- Total distress sales are down for the first three quarters of 2013 - \$19.5B vs. \$21.1B for the first three quarters of 2012. Distress as a percentage of total transaction activity is down for the 3rd quarter 2013 to 8% vs. 10% for the same period last year.
- Workout activity (loans resolved or restructured) stayed on par in the 3rd quarter with \$9.1B vs. \$9.3B for the prior quarter. New loan workout activity slowed to \$2.5B vs. \$3.9B in the prior quarter.

Impacts of the Mobile Economy on Real Estate Investment Trends

The Mobile Economy



Source: Pew Research

- Rapid rise of smartphones
- Internet and Social Networking
 - 245MM U.S. Internet users (78%)
 - 30 countries have higher percentages of internet users
 - 166MM US Facebook users (53%)
 - 17 countries have higher percentages of internet users
- Twitter - 163.5MM (75%) monthly mobile users access twitter using their mobile phones

Mobile taking over the Internet

- Feb 2013: Nearly 40% of internet usage comes from mobile devices
- As Millennials (Gen Y – 18-34 year of age) become more central to economy, this trend will continue
- 21% of students access the Internet solely through mobile devices, never using a laptop
- 74% of Gen Y workers have used smartphone for work compared to 37% of Baby Boomers

Gen Y (18-34)

- The largest segment of the workforce starting in 2015 (Bureau of Labor Statistics)
- Leapfrogging smaller Gen X cohort
- Baby Boomers reaching retirement age

Characteristics of Gen Y

- Prefer city living – near “the scene”
- Fewer car buyers, homeowners
- Putting off marriage and kids longer
- Prefer experiences to material items
- Place value on social responsibility and sustainability

The Tech Generation More Mobile than Previous Generation

- 24% say “Technology use” makes their generation unique, the #1 answer (Pew)
- 65% say losing their phone/computer would be worse than losing their car
- 66% would look up a store after learning their friend had checked in.
- 58% use Twitter “all the time”
- 38% of students try to check digital devices every 10 minutes
- 75% of teens send 20 texts a day, 50% send more than 50 and 33% send more than 100

Rethinking “Place”

- More time on mobile devices means less time interacting with surroundings
 - Shopping online, or using brick-and-mortar stores for “showcasing”
 - Less time spent in home or apartment, less storage space (no books, CDs, papers)
 - Less focus on privacy, more time spent in public
 - Ability to work in busy, noisy environments

Effects on Commercial Property

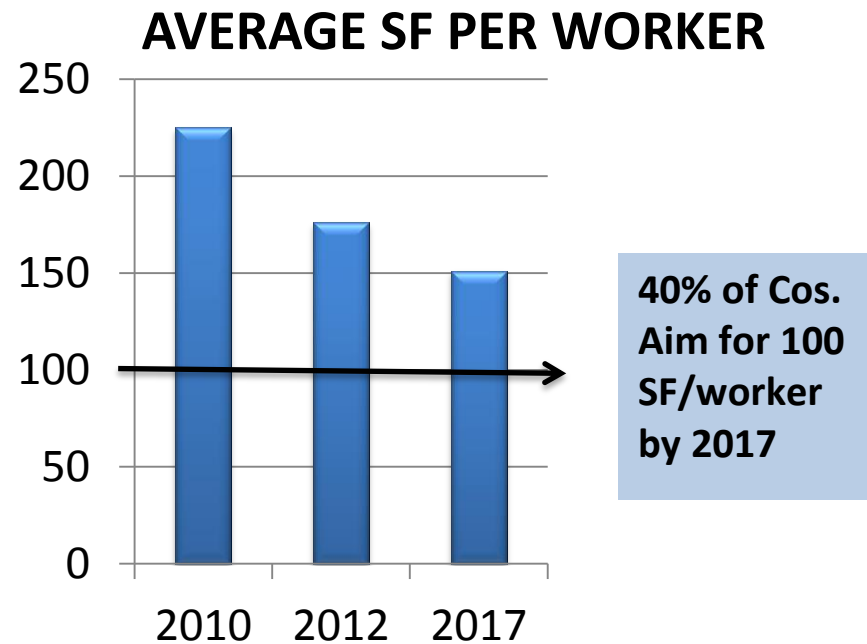
- All four core property types are potentially affected
 - Office – more desk-sharing and telecommuting, less space per worker
 - Retail – Chains are highly focused on multi-channel marketing strategies
 - Distribution – multi-channel retail trend extends to supply chain, resulting in new type of distribution center
 - Apartments – Young renters require high-speed Internet for gaming, need less space

General Impacts

- Apartments and distribution – Changes create new opportunities but pose no clear threat to existing property
- Office and retail - Risk of devaluation due to online and mobility alternatives
 - So far threats are incremental, not existential
 - Tech sector growth is a key jobs driver, fueling office demand

Office

- Space per employee is shrinking
 - Evolution over 20 years
 - Some shrinkage is aspirational, not actual
- Vacancy, absorption trends show no grave danger
- However, demand for new buildings lower than in the past

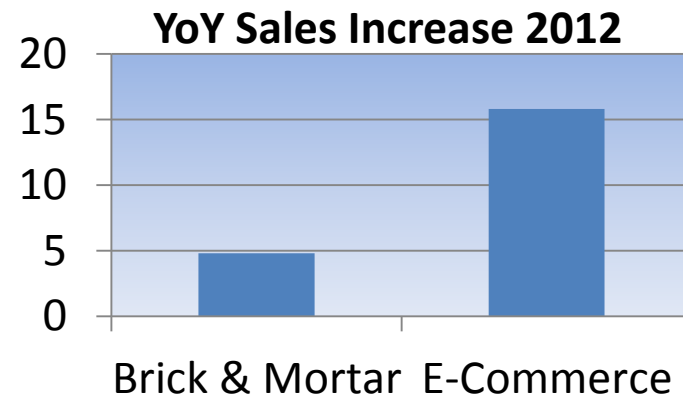


Source: CoreNet Global

Retail

Internet sales growing faster than store sales – but...

- E-commerce is just 5.8% of retail
- Stores sales growing faster in \$ volume
- Amazon is 1/3 of all Internet sales
- SEC request shows Wal-Mart, Target e-commerce is negligible compared to store sales



Distribution Centers

- Development focused on e-commerce and multi-channel (combining e-commercial and truck-to-store shipping)
 - More workers needed to pick, gift-wrap, pack e-commerce goods
 - Buildings more sustainable, comfortable
 - Higher parking ratios
 - 2-3 mezzanine levels to speed e-commerce fulfillment

Apartments

- Less space needed – studios and one-bedrooms more popular
- Gen Y staying in apartments longer
- Up-and-coming city neighborhoods are attractive
- Need retail, restaurant, entertainment and mass transit nearby
- Live-work-play concept increasingly more important
- Affordability is key attribute

Opportunities for RE Investors

- Finding the next hot neighborhood for redevelopment of office, residential, retail
- Conversion of older offices to mixed-use property to create live-work-play environments
- Emphasis on sustainability
- “Third place” destinations such as cafes, satellite offices
 - Retailers figuring out how to use interactive media to deepen customer relationships
 - Companies form space “exchanges” and providing more meeting space options, rather than shedding space entirely

Tech Sector Growth

- Main driver of job creation post-recession
 - Law, advertising, media are shrinking fields
- Tech jobs are concentrated in cities attractive to young college grads
 - Local investment in education, innovation, sustainability
- Cities with tech sector emphasis declined less during the recession and have come back stronger since

Conclusion

- RE investment anticipates job creation
- Jobs follow Gen Y living preferences
- Tech sector growth is fueling office demand
- Mobile technology threat to real estate is incremental, not existential