



NAIOP
COMMERCIAL REAL ESTATE
DEVELOPMENT ASSOCIATION
WASHINGTON STATE CHAPTER

FEBRUARY BREAKFAST PROGRAM
**CAPITAL MARKETS
FORECAST 2017**

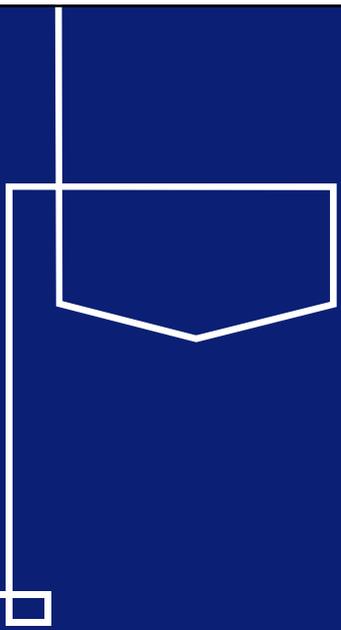
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**Commercial Real Estate
Banking**

James Payne
Senior Vice President, Seattle Market Manager



usbank

Agenda

1. Banking Industry Overall
2. Current Topics in CRE Banking
3. U.S. Bank Commercial Real Estate

Been a good last 7 months

- KBW Bank Index (BKX) – consists of 24 banking stocks and is widely served as the benchmark for the banking sector.
 - **Up 52% since end of June 2016**



Source: Bloomberg.com on 2/8/17

More Good Times For Banking

- Strong Q4 Earnings
- Record Stock Prices
- Expect Rising Interest Rates
- Possible Banking Regulation (Dodd-Frank) Reform

“Outstanding performance in 2016 with record net income, EPS, and Revenue...”

“...Well positioned to grow and deliver to our shareholders in 2017”

“Q4 Earnings were a strong end to another record year...”

Hot Topic within CRE banking

- High Volatility Commercial Real Estate (HVCRE) – is your construction loan classified as HVCRE or Not?

Generally two primary items for consideration:

- 1) Minimum Cash Equity contributed by Borrower \geq 15% of “As - Completed” Appraised Value.
- Does not include appreciated land value
- 2) Borrower internally generated capital must stay within the Project/Borrower.

Item #2 is generally the grey area with little guidance from the regulators.
When is the loan considered “permanent” ? When are Borrower Distributions allowed, if any ?

If HVCRE loan =  costs for both the Bank and Borrower

CRE Industry: Do we need to worry?

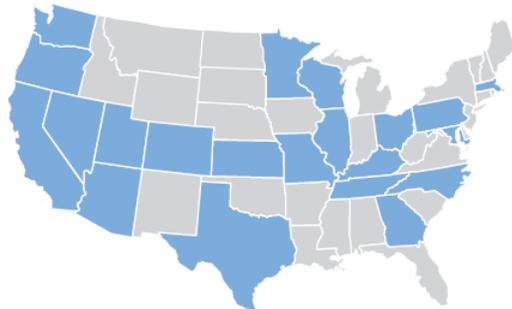
- Are we in the later stage of the current real estate cycle?
- Construction delays coupled with rising costs and labor shortage
- Multi-Family
 - Supply concerns
 - Most projects are luxury with a high-price point
 - Still have rent growth but it is slowing
 - Concessions starting
- Where is the retail market going? The “Haves” vs. The “Have-Not's”
- Will some of the concerning national trends show up here in Seattle?



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U.S. Bank – Commercial Real Estate

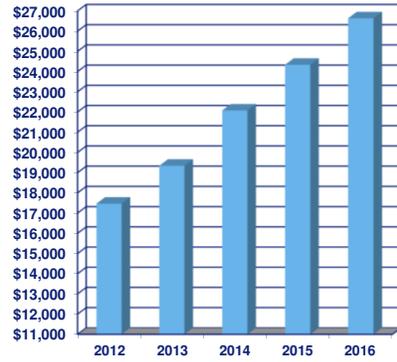
- Approx. 400 CRE professionals in 29 CRE offices
- 31% Multi-Family, 21% Office, 16% Lodging, 13% Retail, 5% Industrial, 14% Other
- Areas of Focus: Lending, Capital Markets, Deposit & Treasury Management



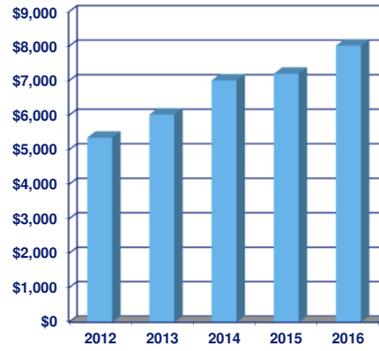
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U.S. Bank – Commercial Real Estate

CRE Loan Growth
In Millions



CRE Deposit Growth
In Millions



U.S. Bank – Commercial Real Estate



Lincoln Square Expansion (Bellevue)



Residence Inn (Downtown Seattle)



929 Office Tower (Bellevue)



Vive Apartments (Ballard)

OFFICE & INDUSTRIAL CAPITAL MARKETS



Dean Rostovsky, Director

| March 2017

WWW.CLARIONPARTNERS.COM

FOR ONE WITH INSTITUTIONAL ONLY. NOT FOR ONE WITH THE INVESTING PUBLIC.

2016 Themes – Office

Continuation of yield starvation

Lack of core fund/ODCE buyers for office

Greater participation by other types of buyers

- Private
- Foreign
- REITs

Pricing of high quality...strong!

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2017 Themes

Rate rise...continuation?... impacts?

Presumed extension of economic/real estate cycle

Election (presumed) economic positives

- Tax policy, infrastructure spending, deregulation

Election (presumed) negatives

- Trade and labor

Real estate fundamentals strong

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Los Angeles Office – Investment Sales

Colorado Center



233 Wilshire Blvd.



1299 Ocean Ave.



The Bluffs at Playa Vista

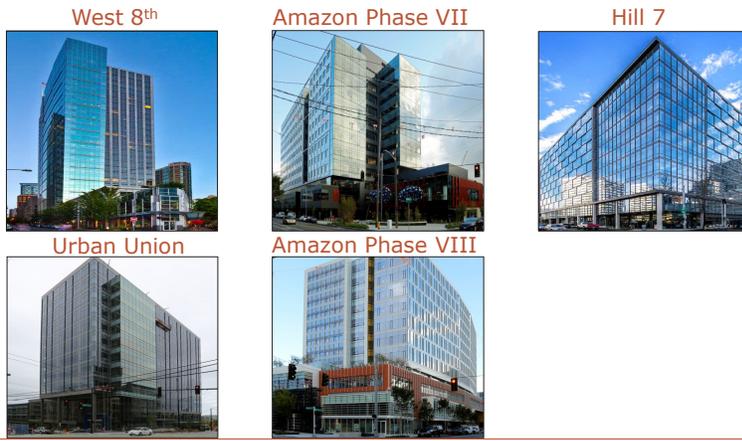


The Spruce Goose Hangar



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Seattle Office – Investment Sales



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US: Strongest Industrial Recovery in History

Key drivers: e-commerce, consumer spending, international trade, improving home construction and sales

A logistics chain overhaul in progress: urbanization and growing consumer desire for faster home delivery

2016 net absorption: new supply = 1.4 : 1

Supply pipeline growing, new construction concentrated in top-performing markets

Functional/locational obsolescence → a significant driver for new development

U.S. INDUSTRIAL FUNDAMENTALS

	2013	2014	2015	2016
Availability Rate (LTA=10.3%)	10.8%	9.8%	8.9%	8.2%
Absorption % of Stock	2.0%	1.9%	1.9%	1.9%
Supply % of Stock	0.6%	1.0%	1.2%	1.3%
Rent Growth	3.6%	4.8%	5.3%	6.6%

Source: CBRE-EA, NCREIF, Clarion Partners Investment Research, Q4 2016 (rent data estimated as of Q3)
Note: Past performance is not indicative of future performance. LTA = long-term average.

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Los Angeles County Industrial Fundamentals

As of Q4 2016

- 939 million sf
- 3.9 million sf absorption
- 1.1% vacant
- 4.7 million under construction
- Strong rent trend

The Brickyard



Source: CBRE Research

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Greater Seattle Industrial Fundamentals

As of Q4 2016

- 267 million sf
- 4 million sf absorption
- 2.6% vacant
- 4.7 million under construction
- Strong rent trend

Kent Valley Industrial Portfolio



Source: Colliers

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The CBRE logo is displayed in white, bold, uppercase letters in the top left corner of a dark green, abstract geometric background.

SEATTLE INVESTMENT MARKET OFFICE & INDUSTRIAL

FEBRUARY 15, 2017

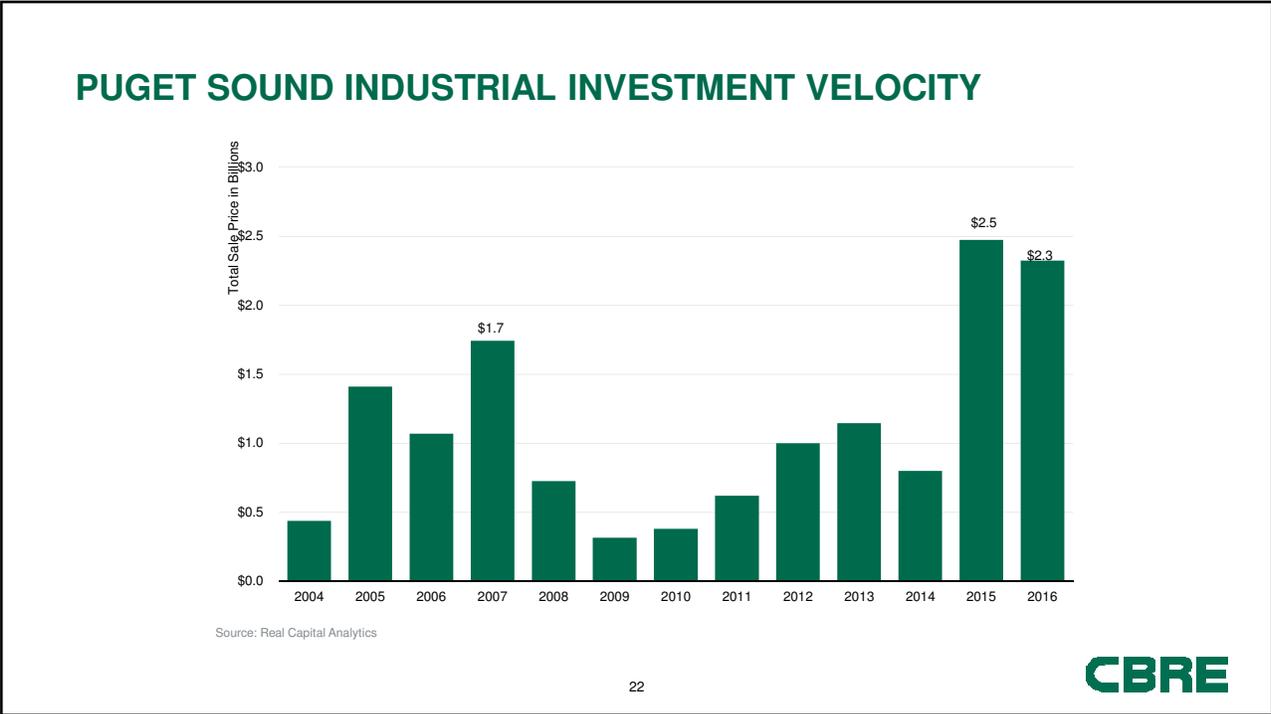
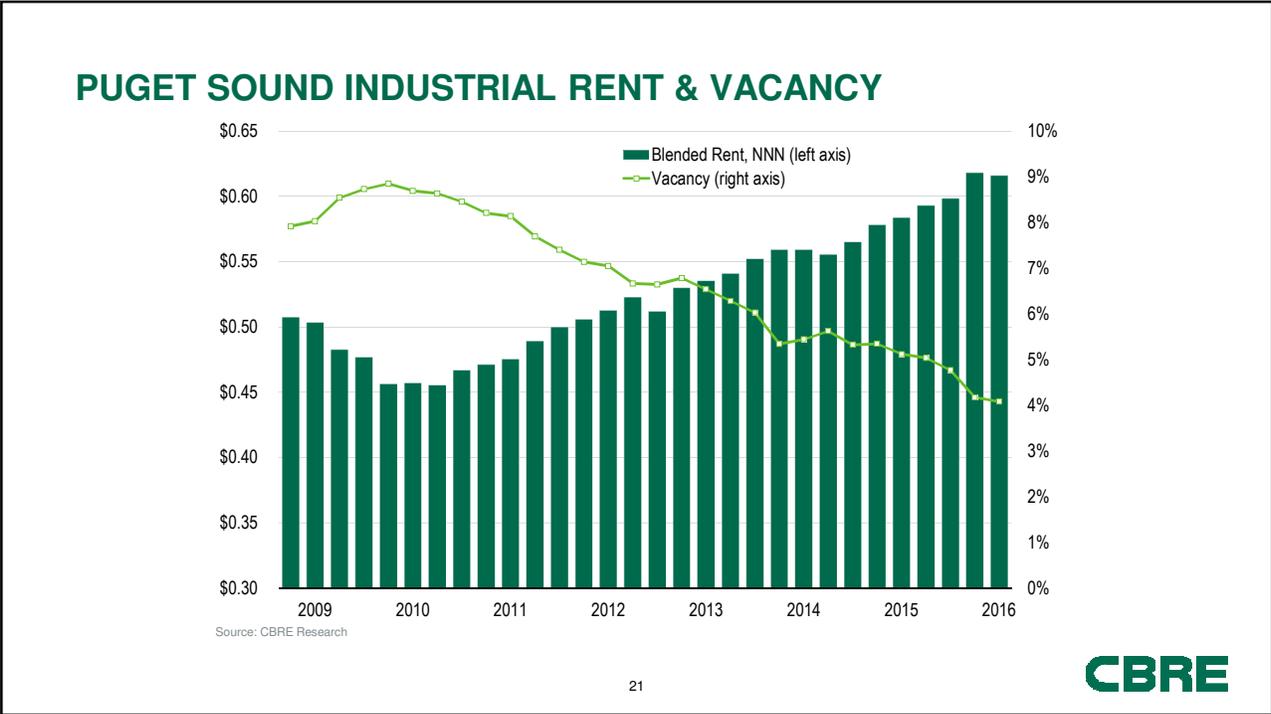
KEY INVESTMENT THEMES: SEATTLE INDUSTRIAL & OFFICE

INDUSTRIAL

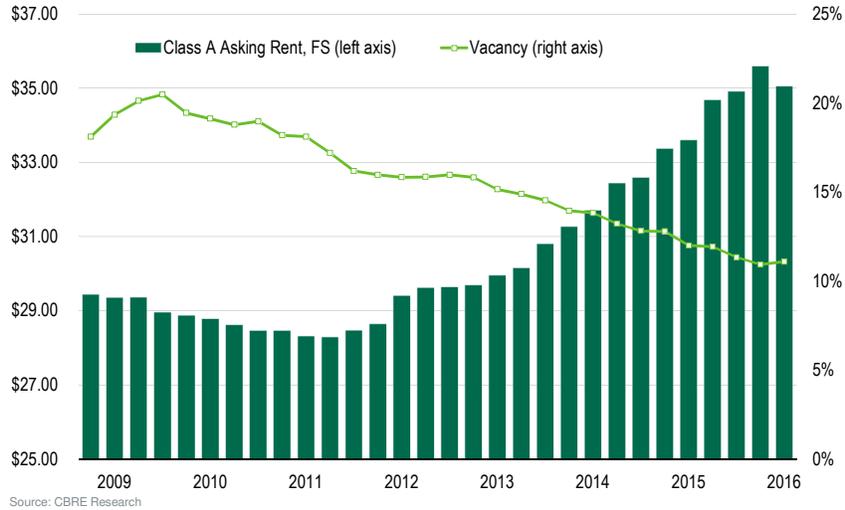
- RECORD SALE VOLUMES
- RECORD LOW VACANCY RATES
- DEMAND > SUPPLY
- INVESTORS STRETCHING TO SMALLER TRANSACTIONS

OFFICE

- NEAR RECORD SALE VOLUMES
- STRONG FUNDAMENTALS
- CHANGE IN BUYER PROFILE
- DISPARITY IN CBD VS SUBURBAN
- STRANDED TRANSACTIONS



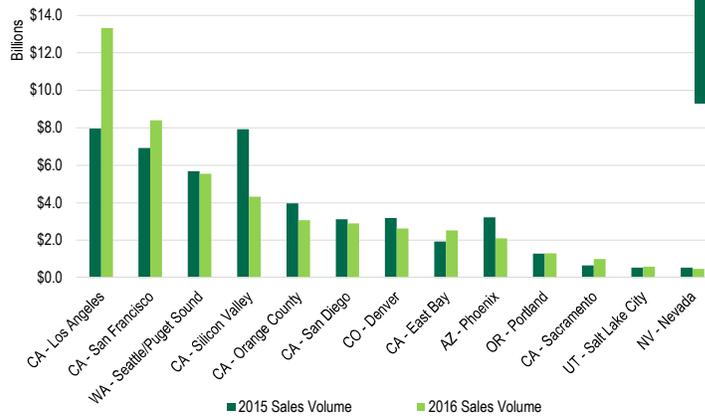
PUGET SOUND OFFICE RENT & VACANCY



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TRANSACTION VOLUME COMPARISON OFFICE PRODUCT

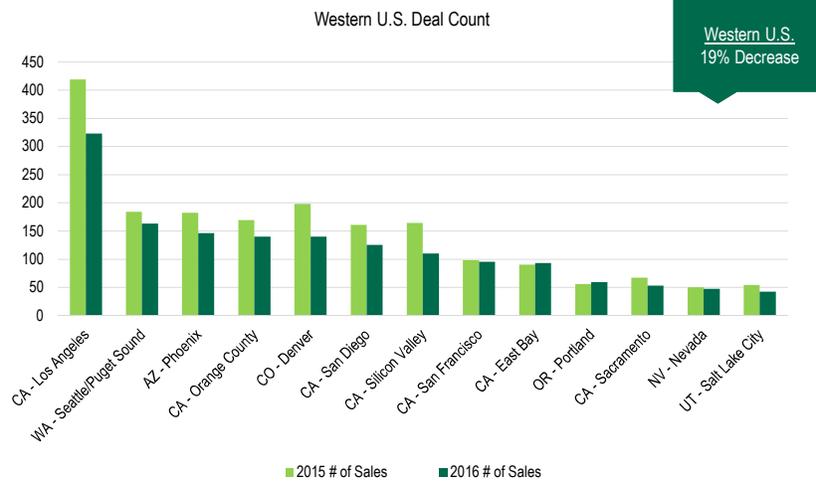


Western U.S.
2015: \$47B
2016: \$48B

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TRANSACTION VELOCITY COMPARISON OFFICE PRODUCT

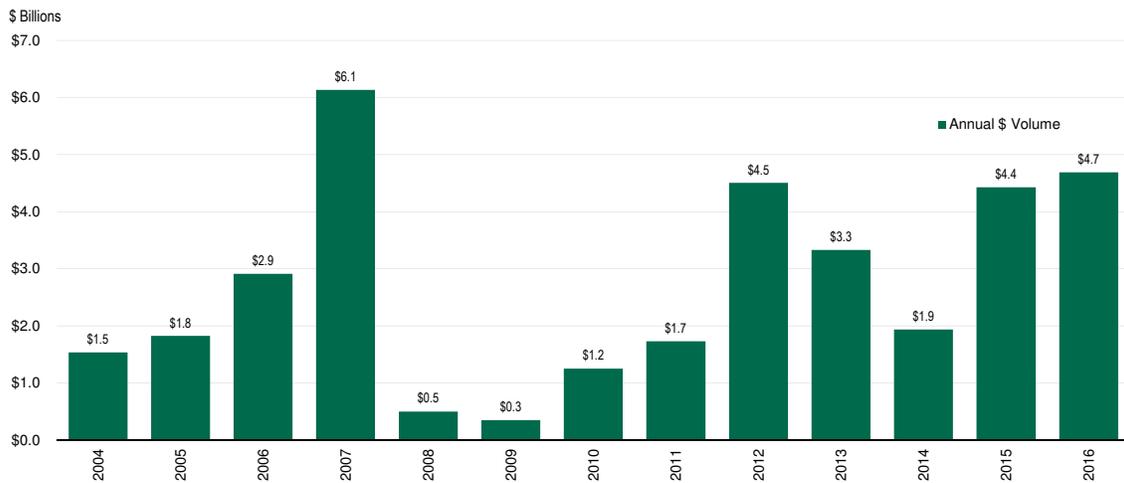


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PUGET SOUND OFFICE SALES VOLUME

Consideration greater than \$10 million



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INVESTMENT RETURNS – A TALE OF TWO PROFILES

SUBURBANN

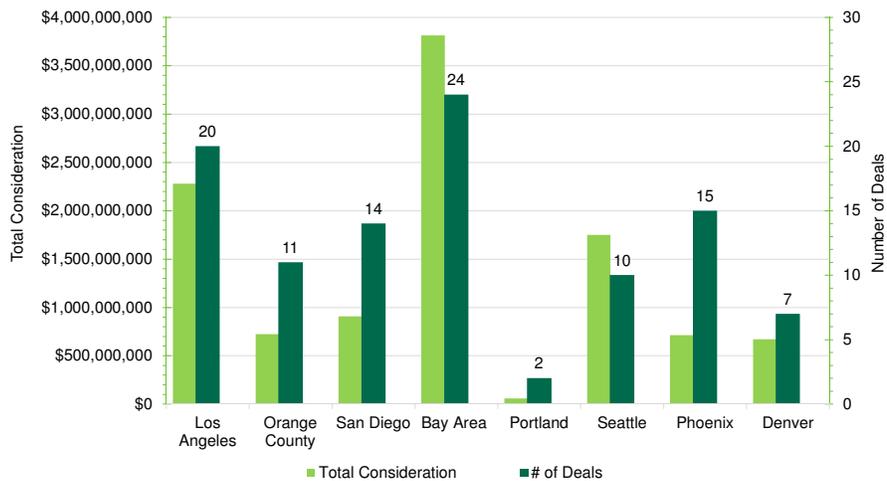


- ~ 7.0% Stabilized CAP Rates
- Multi-tenant, shorter lease terms
- Price PSF < Replacement Cost
- Limited Institutional/Foreign Demand
- Debt Financing comparable to CBD

- Sub 5.0% Stabilized CAP Rates
- Single-tenant, long-term leases

2016 HANGOVER EFFECT – TOTAL CONSIDERATION & NUMBER OF DEALS

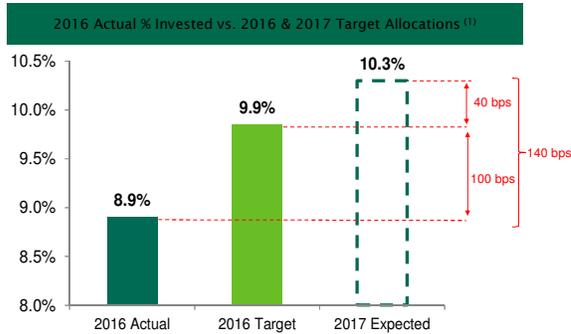
103 TRANSACTIONS → \$11.05 BILLION



CAPITAL MARKETS OUTLOOK

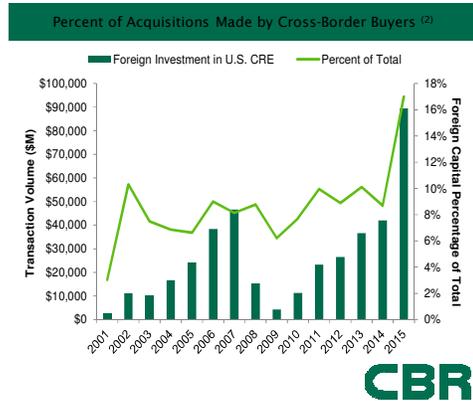
INSTITUTIONAL INVESTORS ARE INCREASING ALLOCATIONS

- INSTITUTIONAL INVESTORS REMAIN UNDERWEIGHT REAL ESTATE
- 100 bps under-invested and increasing allocations by ~40 bps in 2017
- Trending toward a 10%+ institutional portfolio allocation



FOREIGN INVESTOR RATIONALE FOR U.S. REAL ESTATE

- U.S. REMAINS THE MOST FAVORED DESTINATION FOR REAL ESTATE INVESTMENT
- FOREIGN INVESTORS CONTINUE TO FAVOR LARGE GATEWAY U.S. CITIES



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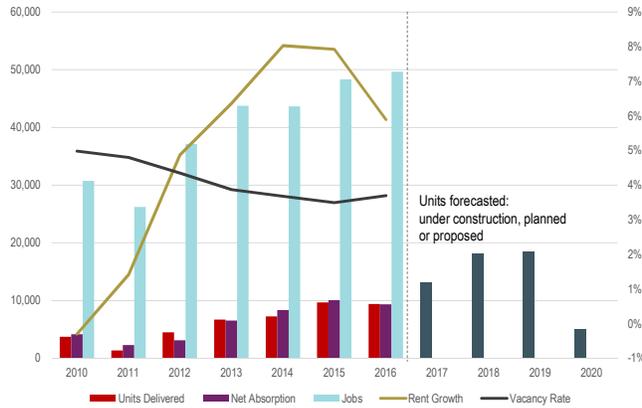
Seattle-Bellevue-Everett

Multifamily Overview

State of the Market

Multifamily market dynamics supply and demand Seattle-Bellevue-Everett

Largest supply in history and vacancy remains low because of the equally high absorption and job growth



Source: JLL Research, Dupre + Scott, CoStar PPR

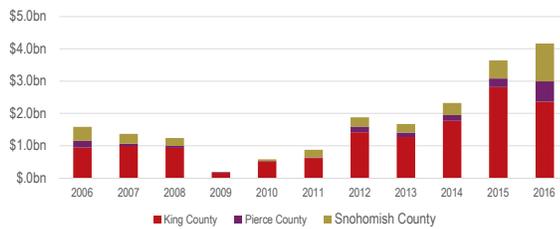
Source: ESRI Business Analytics, Dupre and Scott

- 5**
New jobs added per unit built
- 9,367**
Units delivered in 2016
- 9,298**
Units absorbed in 2016
- 49,600**
Jobs added in 2016

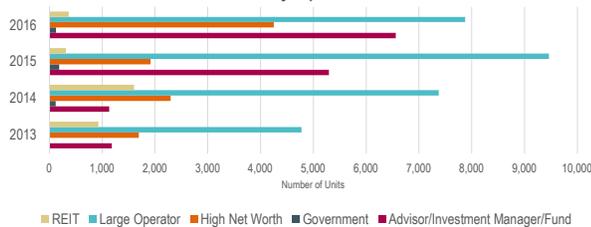


Historic tri-county sales volume

Sales Volume 100 units plus



Buyer profile



Source: Yardi Matrix, Dupre and Scott

JLL Sales

- Radius**
 Sold February 2017
 \$141,000,000
 \$500,000 / Unit
- LIV Bel-Red**
 Sold September 2016
 \$172,000,000
 \$381,375 / Unit
- Soren**
 Sold August 2016
 \$45,553,000
 \$410,387 / Unit
- Tivalli**
 Sold March 2016
 \$94,250,000
 \$246,084 / Unit



Jobs and companies in Seattle

Key companies driving job growth

Larger tech companies and other headquarters are hiring rapidly to fill their new and expanding office footprints

 <p>Estimated Employees: 40,000 (30,000 in Seattle) Projection: 80,500 by 2022 Location: South Lake Union - Will occupy 12M SF of office space by 2022</p>	 <p>Estimated Employees: 3,500 Projection: 4,500 in 2019 Location: Seattle (Interbay) - Moving Bellevue campus to Seattle, new location 12M SF total</p>
 <p>Estimated Employees: 1,900 Projection: 6,358 by 2019 Location: South Lake Union, Fremont and Kirkland - Approaching 1M SF in the region</p>	 <p>Estimated Employees: 800 Projection: New building has room for growth to 1,390 Location: Pioneer Square - Moved from long time HQ home in Federal Way</p>
 <p>Estimated Employees: 1,000 Projection: 5,500 by 2018 Location: South Lake Union - Dexter Station has room for 1,000 more employees - New lease at 1101 Westlake has room for 1,000 more - New lease at Arbor Blocks has room for 2,500 more</p>	 <p>Estimated Employees: 68,000 Projection: 80,479 in 2028 Location: University District - Master plan released with plans that anticipate up to 6M SF of space by 2028</p>
 <p>Estimated Employees: 1,600 Projection: 4,500 by 2020 Location: Seattle (Interbay) and Bellevue - Looking to move HQ in Interbay to 500,000 SF from 320,000 SF</p>	

Source: Dupre and Scott



Living in San Francisco versus Seattle

Seattle paychecks go further

Seattle leads the country in highest paid VP of engineering and director of product in a tech company



2016 4Q Office Vacancy
 Seattle-Bellevue 9.2%
 San Francisco 8.2%

Average Office Rent
 Seattle-Bellevue \$34.90
 San Francisco \$73.65

Office SF Under Construction
 Seattle-Bellevue 5.9M
 San Francisco 5.8M

Category	Seattle	San Francisco
Average Tech Engineer Salary	\$108,240	\$110,554
State Income Tax	\$0	\$10,282
Federal Income Tax	\$23,344	\$23,992
1 BD High-rise Apartment per Year	\$33,600	\$50,400
Disposable Income	\$51,296	\$25,881

Tech firms from the San Francisco/Bay Area are seeking more economical value on office space rents in Seattle

New to Seattle in 2016
 Pinterest, Airbnb, mixpanel, Planet, Stripe

Source: JLL Research



Renting versus buying

Average mortgage payment versus average rent throughout the Seattle metro area



Source: Mortgages calculated based on a 30-year loan, 3.85% interest rates, 1.25% property tax, 0.5% PMI



David Young
 Multifamily
 Managing Director
 206.607.1719
 David.Young@am.jll.com

Corey Marx
 Multifamily
 Managing Director
 206.607.1726
 Corey.Marx@am.jll.com

Thank you