The Trump Economy
Steve Cochrane, Managing Director, Moody’s Analytics
Trump Inherits a Fundamentally Strong Economy

Rate, % of labor force

Sources: BLS, Moody’s Analytics

- Openings
- Hiring
- Quits
- Layoffs
# Trump Fiscal Stimulus

Sources: Moody’s Analytics

<table>
<thead>
<tr>
<th>Amount</th>
<th>Start Date</th>
<th>Multiplier</th>
<th>GDP Impact</th>
<th>GDP Impact % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Federal Spending x Infrastructure</strong></td>
<td>12</td>
<td>2018q1</td>
<td>0.94</td>
<td>11.3</td>
</tr>
<tr>
<td><strong>Infrastructure Spending</strong></td>
<td>38</td>
<td>2018q1</td>
<td>1.27</td>
<td>48.3</td>
</tr>
<tr>
<td><strong>Corporate Taxes</strong></td>
<td>32</td>
<td>2017q3</td>
<td>0.23</td>
<td>7.4</td>
</tr>
<tr>
<td><strong>Low/Middle Income Taxes</strong></td>
<td>33</td>
<td>2017q3</td>
<td>1.03</td>
<td>34.0</td>
</tr>
<tr>
<td><strong>High Income Taxes</strong></td>
<td>35</td>
<td>2017q3</td>
<td>0.37</td>
<td>13.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>150</td>
<td></td>
<td>0.77</td>
<td>113.8</td>
</tr>
</tbody>
</table>
Results in a More Cyclical Economy...

Real GDP growth, % change yr ago

Sources: BEA, Moody’s Analytics
...With Higher Inflation...
Core PCE inflation, % change yr ago

Sources: BEA, Moody’s Analytics
...Higher Interest Rates...
Core PCE inflation, % change yr ago

Sources: FRB, Moody’s Analytics
...and Less Regulation
S&P 500, % change since U.S. Presidential Election

Sources: S&P, Moody’s Analytics

Financials
Telecommunication Services
Energy
Industrials
Materials
Consumer Discretionary
Total
Information Technology
Healthcare
Utilities
Consumer Staples
Higher Tariffs under President Trump

U.S. average effective tariff rate, %

Sources: World Bank, Moody’s Analytics
…Threatens Globalization…

Global trade in goods & services as a % of global GDP

Sources: WTO, Moody’s Analytics
...With Risks to NAFTA Supply Chains...
Exports to Canada & Mexico, good & commodities, % of GMP 2015

Sources: BEA, Census Bureau, ITA, Moody’s Analytics
As Well as Risks to Long-Term Growth

U.S. population growth average annual % change

Sources: Census Bureau, Moody’s Analytics

<table>
<thead>
<tr>
<th>Year Interval</th>
<th>With Immigration</th>
<th>Without Immigration</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015-25</td>
<td>0.8</td>
<td>0.4</td>
</tr>
<tr>
<td>2025-35</td>
<td>0.6</td>
<td>0.3</td>
</tr>
<tr>
<td>2035-45</td>
<td>0.5</td>
<td>0.2</td>
</tr>
</tbody>
</table>
Demographics Strongest in West & Southwest
Population, 2016, % change

Sources: Census Bureau, Moody’s Analytics

U.S. = 0.70

0.96 to 2.03
Near average
0 to 0.41
Decline
State to State Migration Drains the Northeast
Net domestic migration, 2016, rate per 1,000 population

Sources: Census Bureau, Moody’s Analytics
Immigration Buoys Northeast and Gateways

Net international migration, 2016, rate per 1,000 population

Sources: Census Bureau, Moody’s Analytics

3.3 to 6.1 Near average
0.5 to 1.7

U.S. = 3.1
Job Growth Strongest in West and Southeast

Employment, 3-mo MA, % change yr ago

Sources: BLS, Moody’s Analytics
Manufacturing Is Making a Comeback
Composite manufacturing index, harmonized

Sources: Federal Reserve, Moody’s Analytics
Homebuilding Finally Responds in the West
Residential construction permits, Jan 2011=100, 3-mo MA, SAAR

Sources: Census Bureau, Moody’s Analytics
- United States
  - 121 North Walnut Street
  - Suite 500
  - West Chester PA 19380
  - +1.610.235.5299

- Australia
  - Level 10
  - 1 O'Connell Street
  - Sydney, NSW, 2000
  - Australia
  - +61.2.9270.8111

- United Kingdom
  - One Canada Square
  - Canary Wharf
  - London E14 5FA
  - +44.20.7772.5454

- Prague
  - Washingtonova 17
  - 110 00 Prague 1
  - Czech Republic
  - +420.22.422.2929
Real Estate Outlook
Maria Sicola, Integrity Data Solutions, LLC
Key Drivers That Will Have The Most Impact

- Job Growth/Opportunity: 12%
- Presidential Election/Election Results: 11%
- Economy/Health of Economy: 10%
- Interest Rates: 8%
- Tax Issues: 7%
- Price of Oil and Gas: 6%
- Ecommerce Emergence: 6%
- Emergence of New Companies: 6%
- New Construction: 6%
- Company Relocation: 6%
- Growth in Tech: 6%

Source: Real Capital Markets
Survey Respondents See Office Slowdown

Office Market Leasing Next 6 Months

- Hot: 10%
- Heating Up: 32%
- Flat: 50%
- Cooling Down: 7%
- Cold: 1%

Source: NAI Global
Industrial Picks Up Steam

Industrial Market Next 6 Months

- Hot: 24%
- Heating Up: 39%
- Flat: 33%
- Cooling Down: 3%
- Cold: 0%

Source: NAI Global
Demand Growth Checks Supply…Mostly

Stock Under Construction As % of Inventory

- Apartment: 4%
- Logistics: 3%
- Office: 2%
- Retail: 1%

Average Over Past 20 Years vs 16Q4

Source: Costar
Peak Supply Levels Should Nudge Vacancies Higher

National Index Apartment Fundamentals

Annual Change in Demand & Supply (000s Units) vs Vacancy & Vacancy Average

Annual Rent Growth

Source: CoStar Portfolio Strategy As of 4Q16
Supply Is Not Evenly Distributed Across Metros

Growth In Inventory By Metro Through 2018Q4 (14Q4-18Q4)

New Supply (14Q4-18Q4; Units)

New Supply (As % of Inventory)

Units (Greater Than 10% Inventory Growth)
Units (Less Than 10% Inventory Growth)
Completions As A % Of Inventory

Source: Costar
Occupancy Will Continue To Rise Until 2018

National Index Vacancy And Demand, Supply Percentage Changes

Annual Change in Demand & Supply (MSF)

Vacancy & Vacancy Average

Current Vacancy: 10.5%

Source: Costar
Late Recovery Markets Starting to Pick Up

Past 6 Months Absorption, Annualized (SF Millions)

Avg. Annual Net Absorption, Past Three Years (SF Millions)

Source: Costar
Industrial Landscape

• Lowest Historical Vacancy Rate
• Construction At Record Highs
  – Possible Oversupply By 2019/2020
• Reshoring Trend Continues
  – Offshoring advantages declining
  – Proximity to customers is key
• Inland Ports In Favor – Examples:
  – Kansas City
  – Indianapolis
  – Minneapolis
Sales Volume Slowing & Likely To Slow More In 2017

Source: Costar
A 2016 Pullback By REITS And Cross-Border Buyers

Who Is Buying: Total Market

<table>
<thead>
<tr>
<th>Year</th>
<th>User/Other</th>
<th>Private</th>
<th>Public</th>
<th>Institutional/Fund</th>
<th>Cross-Border</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>4%</td>
<td>46%</td>
<td>9%</td>
<td>27%</td>
<td>14%</td>
</tr>
<tr>
<td>2015</td>
<td>4%</td>
<td>41%</td>
<td>10%</td>
<td>27%</td>
<td>18%</td>
</tr>
<tr>
<td>2014</td>
<td>5%</td>
<td>44%</td>
<td>15%</td>
<td>26%</td>
<td>10%</td>
</tr>
<tr>
<td>2013</td>
<td>5%</td>
<td>40%</td>
<td>18%</td>
<td>25%</td>
<td>12%</td>
</tr>
<tr>
<td>2012</td>
<td>6%</td>
<td>40%</td>
<td>13%</td>
<td>31%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: Real Capital Analytics
Varied Movement In Cap Rates By Sector

Source: Real Capital Analytics
There Is A Nice Clustering For The Non-Major Markets

Prices And Volume Vary By Sector/Geography

Source: Real Capital Analytics
Investor Sentiment

- Buy: 42%
- Buy But Trending Toward Hold: 27%
- Sell: 14%
- Sell But Trending Toward Hold: 11%
- Hold: 7%

Source: Real Capital Markets
Looking Forward 2017-2020

Tailwinds
Economy remains strong in 2018
Job growth in short term fuels office demand
Leasing fundamentals mostly balanced – some sectors slowing down
Easing regulatory environment favors some industries

Headwinds
Higher tariffs threaten globalization
Stricter immigration laws slow population growth
Increased construction could lead to oversupply in 2019-2020

Real estate remains attractive investment alternative- Apartments, Industrial, Medical Office, Suburban Office
Questions?