THE NEW YORK FAMILY OFFICE

Your Contact in the U.S.

Newsletter: 4th Quarter 2014

Can the U.S. Economy Weather Strong Headwinds from the Rest of the Globe in 2015?

The U.S. economy generated 252,000 new jobs and the unemployment rate declined to 5.6 percent in December. In total the U.S. created almost three million new jobs in 2014 and has now recovered all the jobs lost during the recession. GDP growth is estimated to be around 2 percent for 2014. In addition, the U.S. government's budget deficit narrowed in its 2014 fiscal year ending September 30 to its lowest level since 2008. Overall, the U.S. economy seems to be on the right track. However, problems remain including a low labor-force participation rate, weak wage growth, a spike in the number of part-time employees who are unable to find full time jobs, and unemployed who remain that way for an abnormally long time. Strong job growth combined with only moderate GDP growth suggests that sluggish improvement in labor productivity is likely to persist.

Still, the U.S. economy is on a modest but stable course and for 2015 GDP is expected to grow at about 2.5 percent despite continued slow economic growth around the world and a rise in the value of the U.S. dollar. For the first half of 2015 most economists expect the U.S. to reach its natural unemployment rate of 5.5 percent and a tightening labor market should accelerate wage growth. The Fed will be pressured to raise interest rates due to labor market conditions even in a low inflationary environment.

Given severe economic and geopolitical worries in the rest of the world, the U.S. (once again) has become a safe harbor for many companies and investors. From a U.S. perspective, the choppy international situation is regarded as the largest downside risk to domestic economy and employment. However, for pessimists it is reassuring to know that historically turbulences overseas may have slowed U.S. growth but did not cause it to collapse.

Will the Texas Miracle Continue?

Due to a very business friendly climate, including a light-handed approach to regulating businesses, Texas' economy has been booming for many years. Combined with plentiful employment, a lack of income tax and a low cost of living, Texas added 1.3 million people from 2010 to 2013 according to the U.S. Census Bureau, far more than any other state during that period. Texas' population exceeds 26 million and is projected to increase to 40 million by 2050. Approximately half of the nation's fastest growing cities are in Texas. Even during the recession the economy in the Lone Star State barely contracted. After shrinking 0.5 percent in 2009, it expanded again by 4.1 percent in the following year. Between 2010 and 2013 Texas' economic expansion kept a pace approximately twice that of the U.S. as a whole and developed into a nationwide growth phenomena. A substantial portion of its growth comes from the energy sector and the oil and gas boom caused by fracking. Texas was responsible for more than 60 percent of the increase in overall U.S. crude-oil production in the last five years and combined with high oil prices that contributed quite significantly to its success story. However, other sectors such as trade and transportation, leisure and hospitality, education and construction all created more new jobs in recent

years than the energy sector. In addition, cities like Houston and Austin have experienced fast growth in the medical and technology sectors, respectively. Yet all these statistics come with the caveat that it is difficult to quantify all the jobs the oil and gas industry directly or indirectly supports in other sectors.

According to a report by the Federal Reserve Bank of Dallas, in the period from 2006 to 2012 approximately 25 percent of people migrating to Texas from other States came from California, which is known for over-regulation, excessive litigation and high taxes. Also businesses are moving to Texas. Toyota Motor Corp. that was based in Southern California for over 55 years decided in 2014 to relocate its North American headquarters from the Golden State to Texas. This move is symbolic and will create 4,000 new jobs in Plano, a suburb of Dallas.

Texas politicians and citizens believe that small-government and low-tax policies are the root of this huge success story, dubbed the Texas Miracle. However, the size and pace of growth strain the public infrastructure such as systems for water, power, schools, health (hospitals), and roads. Of all problems, water scarcity is perhaps the State's largest potential threat. While those growing strains have not slowed its economic momentum so far, Texas needs to find a way to pay for the significant public infrastructure needs that come with this kind of growth and it is questionable if this will work without raising taxes in the mid-term.

While the strong decline in oil prices from around $100 a barrel to about $50 a barrel within the last six months is positive for the U.S. economy overall, states like Texas will suffer and their tax revenues dwindle. If low oil prices continue for an extended period of time, the Lone Star State will be hurt but many predict it will not be a repeat of the oil bust and banking crisis in the 1980s. However, it will test whether Texas' economy has become more diversified after the last major downturn in energy prices and whether the Texas Miracle can become an economic role model for the rest of the U.S.

Foreign Automotive Industry Continues Shift to Southeast

Mercedes-Benz is the latest car company which announced that it is moving to the Southeast. The firm will relocate its U.S. headquarters from Montvale, New Jersey – where it has been since 1972 – to Sandy Springs, Georgia, a suburb of Atlanta in the second half of 2015. With this step Mercedes is following a number of other foreign auto makers to the South to take advantage of low union membership in right-to-work states, a low tax environment and easily accessible, well-maintained infrastructure.

Over the past two decades foreign auto makers have started operating car plants in southern states like Kentucky, Tennessee, Alabama, Mississippi, South Carolina, Georgia, and Texas. In addition, some of them have announced in recent years that their U.S. headquarters will be relocating to the Southeast, like Toyota in 2014 (from California to Texas), Volkswagen Group in 2007 (from Michigan to Virginia), and Nissan in 2005 (from California to Tennessee).

The move makes strategic sense for Mercedes since it places the company closer to its growing Southeast customer base, its port in Brunswick, Georgia, and to its manufacturing facility in Tuscaloosa, Alabama, which accounts for half of its vehicles sold in the U.S. In addition, Atlanta offers Mercedes' employees a strong quality of life, excellent schools as well as cultural and recreational opportunities.

From a financial point of view, the move was striking because the company received an attractive incentive package from the State of Georgia totaling approximately $25 million. The auto maker's relocation will be good for the metro Atlanta area which has struggled since the recession and which has an unemployment rate still above the national average. These incentives could not be matched by New Jersey. According to a spokesman for New Jersey's Governor Chris Christie, Mercedes made it clear that the cost of doing business and the tax environment are just too high in the State to be competitive with a state like Georgia.

Big Business: Observation Decks in NYC

In New York City (NYC) observation decks are contributing significantly to the bottom line of existing landmark properties like the Empire State Building and Rockefeller Center ("Top of the Rock"). However, additional decks will open in coming years for example at One World Trade Center, One Vanderbilt and 30 Hudson Yards Tower which will increase the competition for visitors.

Even though skeptics question whether there is enough demand for all the observatories, real estate developers seem to be determined to get a piece of the estimated $38.8 billion that approximately 80 million visitors and tourists spend every year in NYC. Here are the impressive numbers for the observation decks at the **Empire State Building** ("The Empire State Building Experience"), which offers panoramic views of NYC from its 86th and 102nd floor observation decks:

- From 2007 through 2013 approximately four million people visited the decks per year.
- Approximately nine percent of all tourists coming to the City visit the building's observation decks.
- The Empire State Building generates approximately 40 percent of the building's total revenue from the observation decks (approximately $100 million in 2013).

One World Trade Center's business plan for its observatory deck ("One World Observatory"), which opens in 2015, is not less ambitious:

- The observation deck will cover the 100th to 102nd floors. These three floors are expected to attract 3.5 million visitors per year and compared to the remaining 70 office floors create about a quarter of the building's annual revenue (approximately $53 million) by 2019.
- For comparison: The 9/11 Memorial drew approximately ten million visitors in 2013 and

the observation deck at the old World Trade Center ("Twin Towers") drew 1.8 million visitors per year.

It remains to be seen how the landscape viewing competition will play out in the coming years for the real estate developers. One thing is for sure, the viewers will be the winners in this competition.

2015 Real Estate Trends among Foreign Investors

The James A. Graaskamp Center for Real Estate of the Wisconsin School of Business conducted a survey in the fourth quarter of 2014 among the members of the Association of Foreign Investors in Real Estate (www.afire.org) which have an estimated $2 trillion or more in real estate assets under management. Some of the key findings are:

a) U.S. a Magnet for Foreign Investment

- More than 90 percent of survey respondents say they plan to maintain or increase the size of their U.S. portfolio in 2015.
- By a wide margin, the U.S. was voted the most stable and secure country for investment, outstripping both second-place Germany by 55 percentage points, and third-place U.K. by 60 percentage points.
- The U.S. also offers the best opportunity for capital appreciation, out-performing second-place Spain by 34 percentage points and third-place U.K. by 40 percentage points.
- Two-thirds of survey respondents expect China to become the largest source of capital into the U.S. in 2016 and beyond; ten percent expect that could happen as early as 2015. Seventy-two percent of survey respondents said they expected this investment to be a long-term, permanent inflow.

b) U.S. Property Trends

- Investors ranked multi-family as their preferred property type followed by industrial, office, retail, and hotel.
- Within the multifamily category, 74 percent of respondents said that mid- and high-rise apartments faced a low risk of obsolescence due to demographic and technological changes; only 42 percent of respondents said that garden apartments shared the same low risk.
- Similarly, 48 percent of respondents indicated that CBD (central business district) office buildings shared a low risk of obsolescence while only 5 percent of respondents said suburban office buildings were in the low-risk category.

c) Top Five Global Cities

1. New York (No. 2 last year)
2. London (No. 1 last year)
3. San Francisco (No. 3 last year)
4. Tokyo (No. 6 last year, tied with Madrid)
5. Madrid (No. 6 last year, tied with Tokyo)

d) Top Five U.S. Cities

1. New York (No. 1 last year)
2. San Francisco (No. 2 last year)
3. Houston (No. 3 last year)
4. Los Angeles (No. 5 last year)
5. Washington, D.C. (No. 4 last year)

e) Most Stable and Secure Countries for Foreign Investment

1. United States (No. 1 last year)
2. Germany (No. 2 last year, tied with the U.K.)
3. U.K. (No. 2 last year, tied with Germany)
4. Canada (No. 4 last year)
5. Switzerland (No. 5 last year)

f) *Countries Providing the Best Opportunity for Capital Appreciation*

1. United States (No. 1 last year)
2. Spain (No. 2 last year)
3. U.K. (No. 3 last year, tied with China)
4. China (No. 3 last year, tied with the U.K.)
5. Brazil (unranked last year)

g) Ranking of U.S. Property Types

1. Multi-family (No. 4 last year)
2. Industrial (No. 1 last year)
3. Office (No. 2 last year)
4. Retail (No. 3 last year)
5. Hotel (No. 5 last year)

Economic Indicators & U.S. Dollar Foreign-Exchange Rates

Economic Indicators	November 2014	September 2014	November 2013	November 2011	November 2009
Employment	321,000	248,000	203,000	120,000	(11,000)
Unemployment Rate	5.8%	5.9%	7.0%	8.6%	10.0%
Avg. Weekly Hours (Manuf.)	41.1	40.9	41.0	40.3	40.4
Avg. Overtime Hours (Manuf.)	3.5	3.5	3.5	3.2	3.4
Building Permits	1,035,000	1,018,000	1,007,000	681,000	584,000
Housing Starts	1,028,000	1,017,000	1,091,000	685,000	574,000
Consumer Confidence Index	91.0	89.0	70.4	56.0	50.6
Purchasing Managers Index	58.7	56.6	57.3	52.3	54.4

Other Indicators	Nov. 28, 2014	Sept. 30, 2014	Nov. 29, 2013	Nov. 30, 2011	Nov. 30, 2009
S&P 500 Index	2,067.56	1,972.29	1,805.81	1,246.96	1,095.63
S&P 500 - Trading Volume (in thousands)	2,504,640	3,951,100	1,598,300	5,801,910	3,895,520
VIX (Volatility Index)	13.33	16.31	13.70	27.80	24.51

Real GDP	2014 Q3	2014 Q2	2013	2011	2009
Real GDP	5.0%	4.0%	1.9%	1.8%	(2.8%)

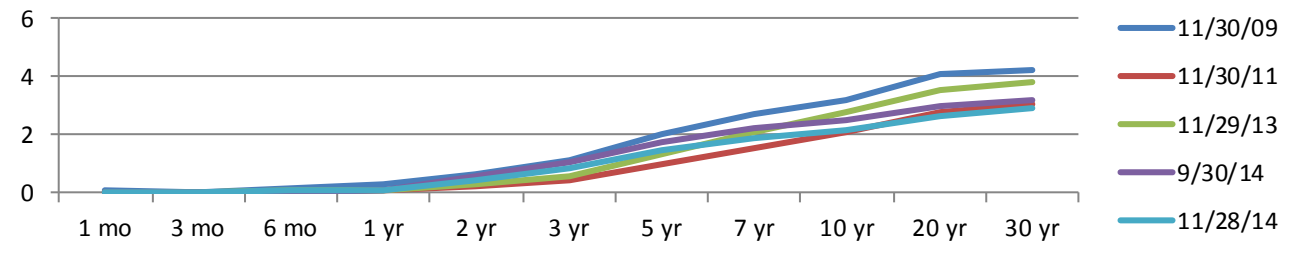
Inflation	November 2014	September 2014	2013	2011	2009
Inflation	1.3%	1.7%	1.5%	3.2%	(0.4%)

Currency Exchange Rates	Nov. 28, 2014	Sept. 30, 2014	Nov. 29, 2013	Nov. 30, 2011	Nov. 30, 2009
EUR / USD	1.2490	1.2685	1.3588	1.3336	1.4987
GBP / USD	1.5767	1.6239	1.6318	1.5557	1.6504
CHF / USD	1.0390	1.0510	1.1028	1.0855	0.9942
CAD / USD	0.8867	0.8962	0.9445	0.9688	0.9416
CNY / USD	0.1630	0.1624	0.1631	0.1568	0.1464
JPY / USD	0.0085	0.0091	0.0098	0.0128	0.0115

Note: Some numbers may be updated due to revisions of official statistics.

Interest Rates, Real Estate & Taxes

Treasury Yield Curve (in %)



Base Rates	January 21, 2015	2 Weeks Ago	One Year Ago
30 Day LIBOR	0.17%	0.17%	0.16%
U.S. Treasury			
5 Year	1.31%	1.47%	1.66%
10 Year	1.80%	1.96%	2.84%

10-Year Fixed Rate Ranges by Asset Class	Max. LTV	Class A	Class B/C
Anchored Retail	70 - 75%	T + 200	T + 210
Strip Center	65 - 75%	T + 200	T + 210
Multi Family (Non-Agency)	75 - 80%	T + 190	T + 200
Multi Family (Agency)	75 - 80%	T + 175	T + 180
Distribution/Warehouse	65 - 70%	T + 200	T + 210
R&D/Flex/Industrial	65 - 70%	T + 205	T + 215
Office	65 - 75%	T + 195	T + 205
Full Service Hotel	55 - 65%	T + 250	T + 270

Note: T = Interest Rate for 10-Year U.S. Treasury (1.80%)
Source: Cushman & Wakefield (January 21, 2015)

Simplified Presentation of the Most Important U.S. Federal Tax Rates:	
Income Tax	10% - 39.6%*
Long-Term Capital Gains (LTCG)	15% / 20%*
"Qualified" Dividends	15% / 20%*
Corporate Tax	15% - 35%
Gift and Estate Tax	18% - 40%*

Note: * = As of January 1, 2015 higher tax rates apply for individuals earning more than USD 413,200 (and couples earning more than USD 464,850).

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If you have questions or would like to schedule a meeting, please contact us.
We are looking forward to hearing from you.

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