

# THE NEW YORK FAMILY OFFICE

Your Contact in the U.S.

## Newsletter: 1st Half of 2015

### **Economic Outlook**

Improving Labor Market Will Lead to Rising Interest Rates (Page 2)

### **Business & Finance**

German Firms Optimistic about Continued Business Growth in 2015 (Page 2)

The End of the \$1 Million Taxi Medallions? (Page 3)

### **Politics**

Will Super PACs Change the Presidential Election in 2016? (Page 5)

### **Real Estate**

Terms to Consider when Investing in New Luxury Apartments (Page 6)

### **Market & Financial Data**

Economic Indicators & U.S. Dollar Foreign-Exchange Rates (Page 10)

Interest Rates, Real Estate & Taxes (Page 11)



## Improving Labor Market Will Lead to Rising Interest Rates

For the second year in a row, severe winter weather impacted the U.S. economy. In the first quarter 2015 weather conditions caused a temporary dip in GDP growth. However, solid employment numbers in the second quarter when the U.S. economy added north of 200,000 jobs per month resulted in a drop of the unemployment rate to 5.3 percent in June suggesting continued tightening of the labor market. Eventually, this will result in an acceleration of wage growth, which will increase the still low labor participation rate. With the labor force being almost flat, the creation of approximately 200,000 new jobs per month will continue to rapidly lower the unemployment rate. As the labor market continues improving, further acceleration in wage growth is expected in the second half of 2015. Weak productivity growth combined with eventually increasing labor costs in a tightening labor market is anticipated to exert downward pressure on corporate profits in the not so remote future. Most economists expect that short-term interest rates will increase modestly with very little changes on long-term rates.

Consumption is still lagging behind prior recoveries while U.S. households are continuing to repair their balance sheets. According to a June 2015 report by the Federal Reserve Bank the net worth of U.S. households and nonprofit organizations saw record growth of approximately two percent, or about \$1.5 trillion, in the first quarter of 2015 to a total of \$81.8 trillion. These figures have not been adjusted for inflation or population growth. There are mainly two reasons for this increase in net value: On the one hand, rising home values and stock prices and, on the other hand, a reduc-

tion of total U.S. household debt to about 108 percent of disposable income, which came down from its 2007 peak of approximately 135 percent. Once wages start to rise and increase the disposable income of American households, consumption should improve to moderate pre-crisis levels.

Another positive sign is that in the U.S. the fertility and the birthrate had their first increases since the beginning of the Great Recession according to data released by the U.S. Centers for Disease Control and Prevention (CDC) in June. While the increases are small, it appears in an optimistic view that the country's improving economy is making Americans believe in their financial prospects and is encouraging more couples to have children.

## German Firms Optimistic about Continued Business Growth in 2015

The German American Chambers of Commerce (GACCs), the Representative of German Industry and Trade (RGIT), and Roland Berger Strategy Consultants conducted a survey monitoring the state of German-owned subsidiaries in the U.S. The key findings of the "German American Business Outlook 2015" are:

- German-American firms have had another positive year in terms of business activity and growth in 2014; respondents expect to continue the trend of outperforming the U.S. economy in 2015.
- ✓ Firms experienced strong top-line growth as sales volumes have continued to increase even though price levels remained largely un-



changed.

- ✓ However, labor costs are rising as the economy continues to recover while non-labor costs remained relatively stable.
- ✓ In 2015, respondents expect the U.S. market to continue improving and are confident in the growth prospects for their own firms. Nonetheless, companies hired less last year and only 50 percent expect to increase their workforces in 2015 (75 percent in 2014).
- ✓ Based on their confidence in the market, firms introduce new product lines to their U.S. operations, optimize processes and invest in plant, property, and equipment (PP&E).
- Three reasons drive further U.S. investments: Access to the U.S. market, closeness to the firms' American consumers and increasing product demand.
- ✓ A Majority of respondents had increased their strategic focus on the U.S. in 2014. Expectations for 2015 are further growth and investments.
- ✓ Companies experience rising difficulties in finding highly skilled labor, in particular with engineering or technical expertise. Therefore, firms increasingly train employees in-house and mounting initiatives expand German-style dual education programs for vocational training throughout the U.S.

- Future expectations and challenges
  - ✓ German-American firms continue to believe that long-term economic value and competitiveness can only be ensured through investments in education. In addition, economic related reform, investment in infrastructure and data security are top priorities.
  - ✓ Firms believe that the planned Transatlantic Trade and Investment Partnership (TTIP) is important. It is expected that TTIP will stimulate growth and additional investments by reducing tariffs and increasing standardization.

*Sources:* [www.rgit-usa.com](http://www.rgit-usa.com), [www.gaccny.com](http://www.gaccny.com), [www.rolandberger.us](http://www.rolandberger.us)

### The End of the \$1 Million Taxi Medallions?

The yellow taxicabs of New York City are also named Medallion taxicabs after the medallion issued by the New York City Taxi and Limousine Commission (TLC) and attached to a taxi's hood. Medallions are sold from the City at infrequent auctions, or by a medallion owner. Currently, there are approximately 13,500 taxicab medallion licenses in existence.

First introduced in 1937, the New York City taxi medallion license was intended to govern the volume of taxis in New York's boroughs while creating stable taxi fares. The original price of a NYC taxi medallion in 1937 was \$10. Since that time, the taxi medallion value in NYC has continued to grow rapidly over the years, costing around \$1 Million at the beginning of





2014. Because of their high prices medallions are often owned by private investment companies and leased to taxi operators. These taxi operators try to provide the cheapest possible vehicle with the most inexpensive labor to make it economically work and pay for the high leasing cost of a medallion. Normally, taxi companies rent their vehicles to drivers to receive a steady flow of income.

By artificially restricting the number of yellow cabs, this system works as an entry barrier to the New York City taxi market. Its critics claim that the system may cut into the income of drivers and raise costs to passengers. However, proponents argue that cities with no barriers to entry to the taxi market end up with an abundance of poorly maintained taxis. In their view a medallion system helps the City to better regulate taxis and enables the City to raise the standards of all taxis.

For many years, economists predicted the medallions' value will continue to rise as taxi demand remains constant. However, in 2014 medallion prices have dropped approximately 20 percent due to rising competition from services like Uber, which have taken significant market share from traditional transportation companies.

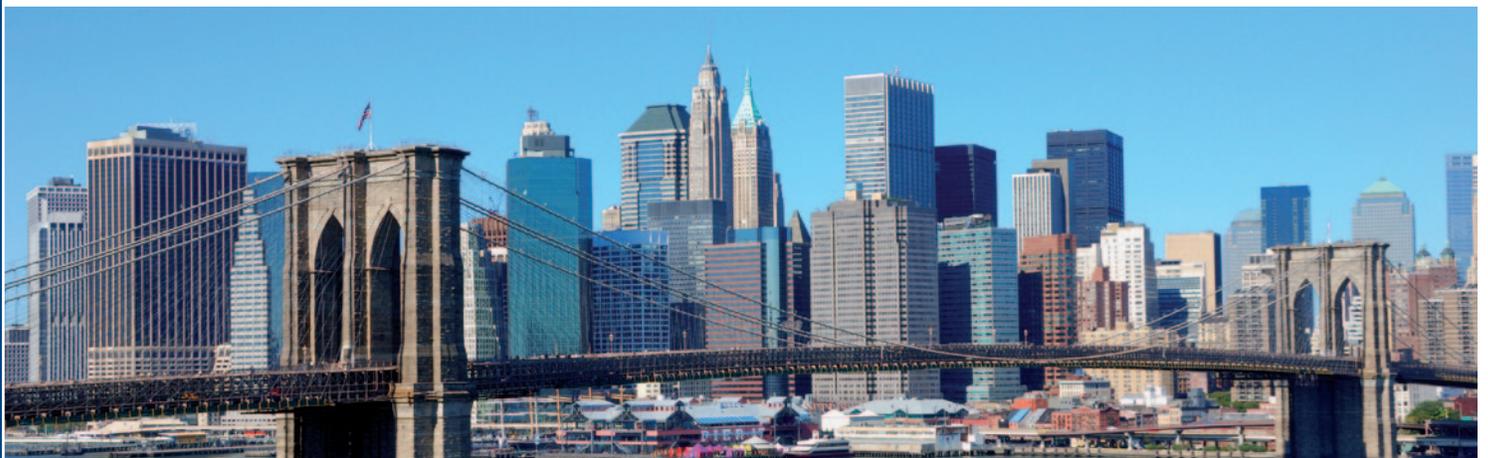
### 1) What Is Uber and How Does It Work?

Uber is a software company that provides an app-powered on-demand car service for smart phones and does not own any of the cars which transport Uber customers. Uber's management saw an opportunity to change the technologically stagnant car transportation industry with established firms that are heavily gover-

ned by local statutes and regulations. These firms have little incentive to spend money to improve the riding experience and did not invest in innovation since it was assumed the industry status quo will remain.

Uber's technology consists of two components: The app technology for consumers and the demand calculation technology at the firm. The app technology is available for iPhone/Android devices and uses GPS from the requested pickup destination to display a map of all available Uber cars in the area. Uber calculates the nearest driver and schedules your pickup time accordingly. Drivers use an app to manage incoming customer requests. In general, Uber enters into a revenue sharing contract with its drivers where the drivers receive 75 percent of the fare while Uber receives the remaining 25 percent. An important aspect for Uber's success is the fact that it eliminates many expenses associated with car ownership including licenses, insurance, and daily operational costs.

The Uber system promotes good service. Uber's reputation and its ability to charge about 50 percent more than taxicabs are impacted by the quality of service from its drivers. Therefore, the company measures driver performance through a successful driver monitoring program. Driver rankings are visible to Uber users who can make decisions about different drivers for their commute. This ranking system motivates the drivers and sets high standards for the Uber experience. Drivers will be expected to offer outstanding professional services if they want to continue to be a part of this growing successful business model. The drivers get to rate the passengers as well. If passengers are often rude, late or drunk, they may find there is never a driver willing to pick them up. Uber's customer-driver





rating system creates mutual obligations in which both parties are incentivized to be courteous.

## 2) Can the Uber-Model be Transferred to Other Industries?

A myriad of companies are now trying to emulate Uber's business model in other fields, such as medicine, grocery shopping and daily chores. Just as Uber is doing for taxis, new technologies have the potential to separate a broad spectrum of traditional jobs into discrete on-demand tasks. Compensation is set by a dynamic measurement of supply and demand, with every worker's performance constantly tracked, reviewed and subject to customer satisfaction.

There is a lot of discussion about on-demand apps not only changing the way consumers buy products and services, but also changing the labor market. In addition, these apps have altered how people think about their jobs. While consumers are the obvious winners of "Uberization", the effect on workers is more complex. The benefits are that on-demand apps could make people's work life more flexible, allowing them to fit their job, or perhaps multiple jobs, around their schedule. Plus this new technology may provide additional sources of income for families in times of weak wage growth. However, critics claim that most workers in the on-demand world much rather have good, well-paying, regular jobs than an unpredictable work life that does not pay very well and is insecure.

Overall, there is no doubt that on-demand services have changed the labor market and they are expected to grow further. Based on the large market share that Uber has taken from the traditional yellow cab indus-

try in such a short period of time, it would appear that the competition from Uber and other on-demand services is a force to be reckoned with.

## Will Super PACs Change the Presidential Election in 2016?

July 2015 was the first deadline for most Presidential candidates to report to the Federal Election Commission (FEC) specifics about how much money they raised and spent. Based on those reported details it became obvious that outside groups like super PACs (political action committee (PAC)) will play a larger role than ever in supporting candidates of both parties. For example, Hillary Clinton raised \$47.5 million through June 30, far more than any other candidate so far. However, this reflects only part of the whole picture. According to the filings, outside groups like super PACs backing Hillary raised an additional \$15.6 million for a combined \$63.1 million. In comparison, Jeb Bush "only" raised \$11.4 million through June 30 according to its filings to the FEC. However, the super PAC backing Jeb raised an additional \$103 million totaling \$114 million. Independent of political preference, combining fund-raising totals for outside groups like super PACs with those of campaigns provides a more complete picture of how the candidates do in the money race.

### 1) What Are Super PACs?

The term super PAC is used to describe what is technically known in the Federal Election Campaign Laws as an independent expenditure-only committee. Un-





like traditional PACs, super PACs can raise unlimited funds from corporations, unions, individuals and associations to spend unlimited amounts to advocate for or against political candidates. Though, unlike traditional PACs, super PACs are prohibited from donating money directly to political candidates. According to the FEC, super PACs cannot spend money “in concert or cooperation with, or at the request or suggestion of, a candidate, the candidate’s campaign or a political party.” Super PACs must, however, report their donors to the FEC on a monthly or quarterly basis as a traditional PAC would.

## 2) When Did Super PACs Come into Existence and Why?

Super PACs were created in July 2010 after two important federal court decisions that found the limitations on both corporate and individual contributions to be unconstitutional because it prohibited the right to free speech protected by the First Amendment of the U.S. Constitution. In *SpeechNow.org v. Federal Election Commission*, a federal court ruled that limits on individual contributions to independent organizations that seek to influence elections are unconstitutional. In *Citizens United v. Federal Election Commission*, the U.S. Supreme Court found that limits on corporate and union contributions to influence elections were also unconstitutional.

The rulings allow individuals, unions and other organizations to contribute limitlessly to political action committees that are independent of political candidates. Critics of both parties who believe money corrupts the political process say the court rulings and creation of super PACs opened the floodgates to widespread cor-

ruption.

## 3) Super PACs Role in the 2012 Presidential Election

In the 2012 Presidential election, super PACs were new to the scene and their fundraising did not have a significant impact. Their role mostly focused on running advertisements. As their share of funds grows, super PACs are expanding their roles to include tasks traditionally reserved for a campaign, such as compiling voter data, running field and press operations, and helping to set up candidate events.

## Terms to Consider when Investing in New Luxury Apartments

Since the official end of the Great Recession in June 2009, foreign real estate investment activity has been concentrated in primary U.S. real estate markets and many investors continue to flock towards “secure” investments in core and core-plus properties. After years of new construction, space is getting scarce in cities like New York while prices for land are skyrocketing. As a result, a growing number of developers are planning new luxury apartment developments in areas that were not considered or desirable for many years. Therefore, when researching new investment opportunities and their surrounding neighborhoods foreign investors increasingly will need to consider the following terms:

### 1) Rent Regulations

The term “rent regulated” in New York City encompasses



ses both rent controlled and rent stabilized units.

### a) Rent Control

Rent control limits the amount a property owner can charge for rent. Less than two percent (approximately 38,000) of NYC apartments are rent controlled. In general, for an apartment to be under rent control, the tenant (or their legal successor such as a family member, spouse, or lifetime partner) must have been living in that apartment continuously since before July 1, 1971. When a rent controlled apartment becomes vacant, it can become rent stabilized, or, if it is in a building with less than six units, it is usually deregulated, which means rented at market rates.

### b) Rent Stabilization

There are approximately one million rent stabilized apartments in NYC for which the NYC Rent Guidelines Board sets the allowable percentage increase for renewal leases each year. Rent stabilized tenants are protected from sharp increases in rent and have the right to renew their leases. However, when tenants' rent reaches \$2,500 per month or their annual household income \$200,000 per year, landlords are allowed to deregulate certain apartments.

In general, there are three categories of rent stabilized apartments in NYC:

- Apartments in buildings of six or more units built between February 1, 1947 and January 1, 1974.
- Tenants in buildings of six or more units built before February 1, 1947 and who moved in after June

30, 1971 are also covered by rent stabilization.

- Buildings with three or more apartments constructed or extensively renovated since 1974 with special tax benefits (property tax exemption or abatement). Generally, these buildings are stabilized only while the tax benefits continue.

In newly constructed or completely renovated buildings, many developers take advantage of the third category, in particular the City's 421a and J-51 tax exemption programs. In exchange for the tax exemption, the developer or owner of the building must maintain the units under rent stabilization for the length of time of the tax exemption, usually 10 to 20 years. In the case of new construction, rent over \$2,500 does not affect the apartment's stabilization status.

### c) The 421-a Property Tax Exemption Program in New York City

Most newly-constructed housing developments in New York City are eligible for a 10 to 15 year property tax exemption under the City's 421-a program. The 421-a Property Tax Exemption Program came into existence in the 1970s, when City officials were concerned about declining residential construction and many residents moved to the suburbs. The City decided to give property tax breaks to newly built housing developments. In the 1980s, as housing improved in Manhattan, the City created an "exclusion zone" in Manhattan, approximately between 14th and 96th Streets. Developers building in this area are eligible for a tax exemption if they build affordable units either on-site with 20 percent low-income units or off-site by purchasing "certificates" that are used to create affordable housing else-





where in the City.

## 2) Housing Programs and Subsidies

### a) Public Housing

Public housing was established to provide decent and safe rental housing for eligible low-income families, the elderly, and persons with disabilities at rents they can afford. Public housing comes in all sizes and types, from scattered single family houses to high-rise apartments. There are approximately 1.2 million households in the U.S. living in subsidized public housing units, managed by some 3,300 local housing agencies (HAs). New York City has approximately 180,000 public housing apartments. The U.S. Department of Housing and Urban Development (HUD) administers Federal aid to HAs. HUD sets the lower-income limits at 80 percent and very low-income limits at 50 percent of the median income for the respective county or metropolitan area. HUD furnishes technical and professional assistance in planning, developing and managing these developments.

Subsidized apartment buildings often referred to as housing projects or „the projects“ are owned by the housing authority which is the landlord. In a few cases, a private company manages the building for the housing authority or may be part of the ownership, but the building is ultimately controlled by the housing authority.

### b) Affordable Housing or Low-Income Housing

Affordable housing is generally defined as housing for which the occupant is paying no more than 30 percent

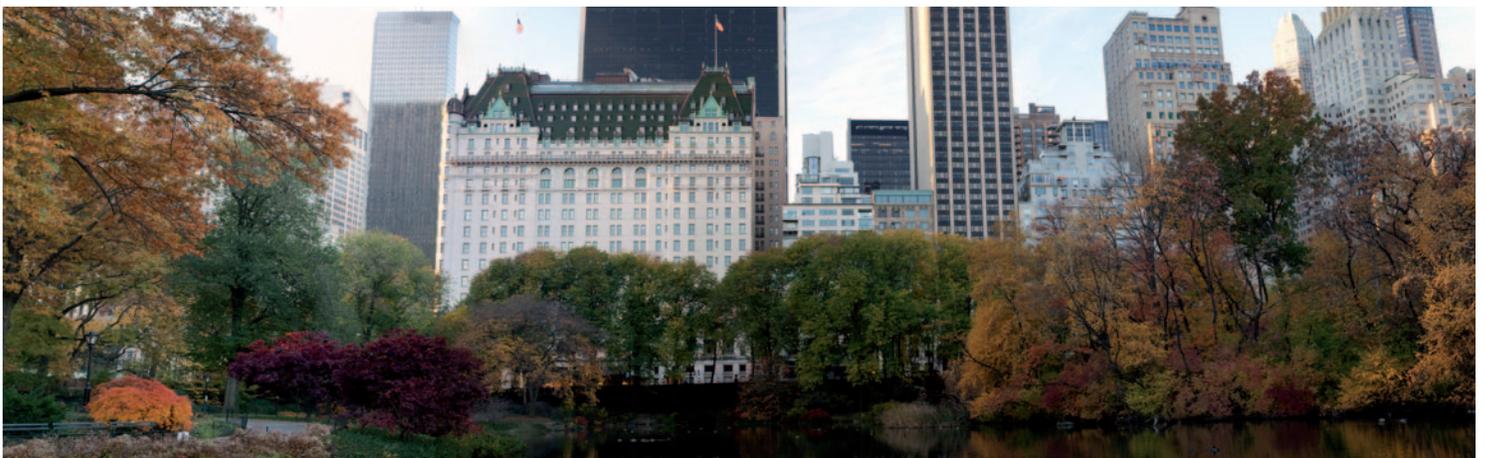
of gross income for housing costs, as defined by HUD. Affordable housing provides residents with low-cost housing for sale or rent. This form of housing is often provided by HAs and targets local low- or very low-income individuals and families. According to HUD, low-income persons earn less than 80 percent of an area's median income and very low-income persons earn 50 percent or less of an area's median income.

Examples for affordable housing programs:

- Section 42 housing provides low-income housing tax credits to private investment partners who contribute to project financing. These tax credits in turn encourage private investments in affordable housing for low- and moderate-income households and offset the cost of building and renovating the property to keep rents low.
- Section 202 is a program that was created to help widen the supply of affordable housing with supportive services for the elderly. It provides very low-income elderly with choices that allow them to live independently in an environment that provides supportive services such as cleaning, cooking, transportation, etc. HUD provides interest-free capital advances to private, nonprofit sponsors to finance the development of supportive housing for the elderly. The nonprofit sponsors are then able to charge lower rents.

### c) Subsidized Housing

Typically, the term subsidized housing is used if the building is owned by and operated by business owners or nonprofits who receive subsidies (rental assistance)





in exchange for renting to low- and moderate-income people. Tenants pay less than the market rate for rent or for rent and services because of rental assistance provided by government, private enterprises or individuals.

An example for subsidized housing is the government Section 8 housing program that allows low-income residents to pay only 30 percent of their income for housing. There are two types of Section 8 programs: Section 8 vouchers and project based Section 8.

- Section 8 vouchers are given directly to qualified renters. Once a person receives a Section 8 voucher from the government, their household can choose to live at market rate or affordable properties and the government pays the difference between 30 percent of the renter's income and the fair market rate of an apartment in that area. However, these vouchers are very difficult to receive due to reduced funding in the program.
- Project-based Section 8 is an affordable housing subsidy connected to the rental unit rather than to individuals. The subsidy provides the difference between the market rate value of the unit and 30 percent of the resident's income. If the individual moves, the subsidy will be passed on to the next qualified resident who moves into the Section 8 unit.





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

Economic Indicators	June 2015	April 2015	June 2014	June 2012	June 2010
Employment	223,000	223,000	288,000	80,000	(125,000)
Unemployment Rate	5.3%	5.4%	6.1%	8.2%	9.5%
Avg. Weekly Hours (Manuf.)	40.7	40.8	41.1	40.7	40.0
Avg. Overtime Hours (Manuf.)	3.4	3.2	3.5	3.3	2.9
Building Permits	1,343,000	1,143,000	963,000	755,000	586,000
Housing Starts	1,174,000	1,135,000	893,000	760,000	549,000
Consumer Confidence Index	99.8	95.2	86.4	62.7	54.3
Purchasing Managers Index	53.5	51.5	55.3	50.2	56.1

Other Indicators	June 30, 2015	April 30, 2015	June 30, 2014	June 29, 2012	June 30, 2010
S&P 500 Index	2,063.11	2,085.51	1,960.23	1,362.16	1,030.71
S&P 500 - Trading Volume (in thousands)	4,078,540	4,509,680	3,037,350	4,590,480	5,067,080
VIX (Volatility Index)	18.23	14.55	11.57	17.08	34.54

Real GDP	2015 Q2	2015 Q1	2014	2012	2010
Real GDP	2.3%	0.6%	2.2%	2.2%	3.0%

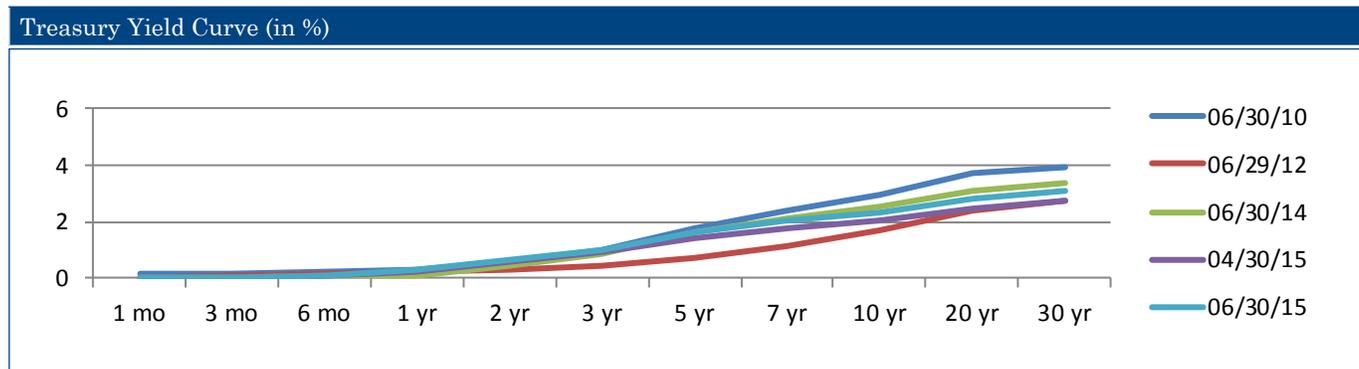
Inflation	June 2015	April 2015	2014	2012	2010
Inflation	0.1%	(0.2%)	1.6%	2.1%	1.6%

Currency Exchange Rates	June 30, 2015	April 30, 2015	June 30, 2014	June 29, 2012	June 30, 2010
EUR / USD	1.1094	1.1028	1.3645	1.2459	1.2206
GBP / USD	1.5717	1.5380	1.7028	1.5549	1.5067
CHF / USD	1.0703	1.0521	1.1216	1.0372	0.9215
CAD / USD	0.8093	0.8318	0.9371	0.9727	0.9538
CNY / USD	0.1632	0.1635	0.1624	0.1582	0.1469
JPY / USD	0.0081	0.0084	0.0098	0.0126	0.0113

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



## Interest Rates, Real Estate & Taxes



Base Rates	June 22, 2015	2 Weeks Ago	One Year Ago
30 Day LIBOR	0.19%	0.19%	0.15%
<b>U.S. Treasury</b>			
5 Year	1.60%	1.72%	1.71%
10 Year	2.29%	2.39%	2.62%

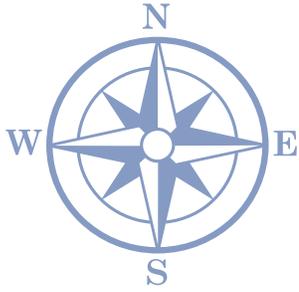
10-Year Fixed Rate Ranges by Asset Class	Max. LTV	Class A	Class B/C
Anchored Retail	70 - 75%	T + 200	T + 210
Strip Center	65 - 75%	T + 200	T + 210
Multi Family (Non-Agency)	75 - 80%	T + 195	T + 205
Multi Family (Agency)	75 - 80%	T + 220	T + 225
Distribution/Warehouse	65 - 70%	T + 200	T + 210
R&D/Flex/Industrial	65 - 70%	T + 205	T + 215
Office	65 - 75%	T + 195	T + 205
Full Service Hotel	55 - 65%	T + 235	T + 255

Note: T = Interest Rate for 10-Year U.S. Treasury (2.29%)  
 Source: Cushman & Wakefield (June 22, 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).





# THE NEW YORK FAMILY OFFICE

Your Contact in the U.S.

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

**The New York Family Office**

Telephone: +1 (646) 734 - 4056

Facsimile: +1 (646) 355 - 2855

[contact@tnyfo.com](mailto:contact@tnyfo.com)

[www.tnyfo.com](http://www.tnyfo.com)

Copyright © 2015 · The New York Family Office. All rights reserved.

