

THE NEW YORK FAMILY OFFICE

Your Contact in the U.S.

Newsletter: 2nd Half of 2015

Economic Outlook

Strong Headwinds from Overseas Slow U.S. Economy (Page 2)

Business & Finance

U.S. Lifts 40-Year-Old Ban on Exporting Crude Oil (Page 2)

Ongoing Challenges Due to Increased Online Shopping (Page 2)

Real Estate

2016 Real Estate Trends among Foreign Investors (Page 3)

Uncovering Real Estate Values (Page 4)

Taxes

New Tax Return Due Dates (Page 6)

Market & Financial Data

Economic Indicators & U.S. Dollar Foreign-Exchange Rates (Page 8)

Interest Rates, Real Estate & Taxes (Page 9)





Strong Headwinds from Overseas Slow U.S. Economy

The U.S. job market continued to improve in 2015 and the labor participation rate increased moderately. In November and December the U.S. economy created 252,000 and 292,000 new jobs, respectively, with employment gains in several industries, led by professional and business services, construction, health care, and food services. The employment rate was unchanged at five percent indicating a tightening labor market. Despite strong headwinds from overseas, the U.S. economy continued to grow modestly at 0.7 percent annualized in the fourth quarter of 2015. The slow GDP growth was partly a result of an ongoing inventory correction, the strong dollar and a widening trade gap. As a result, the industrial core of the economy was very slow. Regardless, according to the advance estimate of the U.S. Department of Commerce real GDP increased 2.4 percent in 2015, the same rate as in the prior year.

The recent gyrations in the financial market have heightened uncertainty about the future global economic environment and may dampen business confidence as well as further decrease investment growth in the beginning of 2016. However, most economists expect consumer spending to grow relatively strongly, fueled by continued robust job gains, moderate growth in incomes and an improving consumer sentiment as well as housing market. Although business investment and spending at the federal level will remain low in 2016, state and local government spending are expected to add positive growth to the economy. Additionally, the Fed is expected to increase short-term interest rates in careful steps. Overall, economists expect a GDP growth of approximately two percent for the year 2016.

U.S. Lifts 40-Year-Old Ban on Exporting Crude Oil

As response to the oil embargo in 1973 the U.S. banned all crude oil exports to any country except Canada. However, due to America's surge in shale-oil-production times changed. On December 18, 2015 President Obama signed a bill lifting the ban on U.S. oil exports. Less than three weeks later the first two cargos of U.S. oil were shipped to Germany and Switzerland.

Prior to this historic event, the oil ban had been loosened in 2014 when two U.S. companies received private letter rulings from the Bureau of Industry and Security (BIS), an agency of the U.S. Commerce Department, not considering slightly processed condensates as crude oil and in turn allowed them to be exported. The most recent shipments after lifting the ban are different because they did not require any special processing or government permission.

Ongoing Challenges Due to Increased Online Shopping

Unsurprisingly, the holiday season continued the ongoing trend in consumer behavior of transitioning from retail stores to online shopping, also known as electronic retail or e-tail. Surveys found that during the Thanksgiving weekend more people shopped online than in stores. Interestingly, about half of the online orders were placed on mobile devices, especially on mobile phones, which seems to be a continuously rising trend. Many customers value the ease of shopping online combined with often lower prices. Even a growing number of last-minute Christmas shoppers chose to





go online instead of heading to the malls. On the last weekend before Christmas, sales at physical stores fell nearly seven percent compared to 2014 while traffic declined even more. Meanwhile online sales increased by about 12 percent. This shift in consumer behavior pushed brick-and-mortar retailers into deeper discounts and longer promotions than their e-tail competitors. It is important to note that furniture, for a while considered to be limited to physical stores, was one of the fastest growing online categories, as well as the home and garden segment. So far, fine jewelry, cosmetics and craft supplies appear to be the remaining categories that are still resisting the online trend.

Big retail chains like Wal-Mart and Target tried to adjust and invested heavily in their online platforms. Some brick-and-mortar retailers offered similar promotions and discounts that were offered online and others had employees ship online orders from stores before opening hours. However, despite these efforts, online sales still remained a relatively small portion for these retail chains.

These changes also affected other industries, in particular logistics, and tested the limits of delivery services. Between Thanksgiving and New Year's Eve, UPS, FedEx and the U.S. Postal Service combined were expected to deliver over 1.5 billion packages, an increase north of ten percent compared to 2014. By investing heavily in infrastructure UPS and FedEx hoped to avoid a repeat of 2013 when last minute orders completely overloaded their systems and millions of packages were not delivered on time. At the same time, the companies wanted to avoid cost overruns like the one UPS experienced in 2014 when it over-hired to handle the shipping volume. Given the vast volume of predicted

shipments – UPS forecasted approximately 630 million shipments and FedEx 317 million – this obviously posed logistical challenges.

2016 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 2015 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:

United States: The Investment Opportunity is the Strength of the Country

- Almost 65 percent of survey respondents said they expected to have increases in their U.S. real estate investments in 2016. Another approximately 30 percent planned to maintain the size of their U.S. portfolio or reinvest in 2016. No one planned a major decrease.
- Sixty percent of respondents voted the U.S. the most stable and secure country for real estate investments, outstripping second-place Germany by 41 percentage points.
- The U.S. also offers the best opportunity for capital appreciation, out-performing second-place Brazil by 29 percentage points.





- 85 percent of survey respondents said their perspective on the viability of the U.S. real estate market was unchanged over the last year, although 80 percent of respondents said it was “very” (35 percent) or “somewhat” (45 percent) difficult to find attractive U.S. real estate investment opportunities.
- Multifamily and industrial tied for first place as preferred U.S. property types followed by retail, office, and hotel.

Some results of the survey in the fourth quarter of 2015 are:

a) Top Five Global Cities

- | | |
|------------------|-----------------|
| 1. New York | (#1 last year) |
| 2. London | (#2 last year) |
| 3. Los Angeles | (#10 last year) |
| 4. Berlin | (#7 last year) |
| 5. San Francisco | (#3 last year) |

b) Top Five U.S. Cities

- | | |
|-----------------------|------------------------------------|
| 1. New York | (#1 last year) |
| 2. Los Angeles | (#4 last year) |
| 3. San Francisco | (#2 last year) |
| 4. Washington, DC | (#5 last year) |
| 5. Seattle and Boston | (#8 and #6 respectively last year) |

c) Most Stable and Secure Countries for Foreign Investment

- | | |
|------------------|----------------|
| 1. United States | (#1 last year) |
|------------------|----------------|

- | | |
|-------------------|----------------------|
| 2. Germany | (#2 last year) |
| 3. United Kingdom | (#3 last year) |
| 4. Canada | (#4 last year) |
| 5. Australia | (Unranked last year) |

d) Countries Providing the Best Opportunity for Capital Appreciation

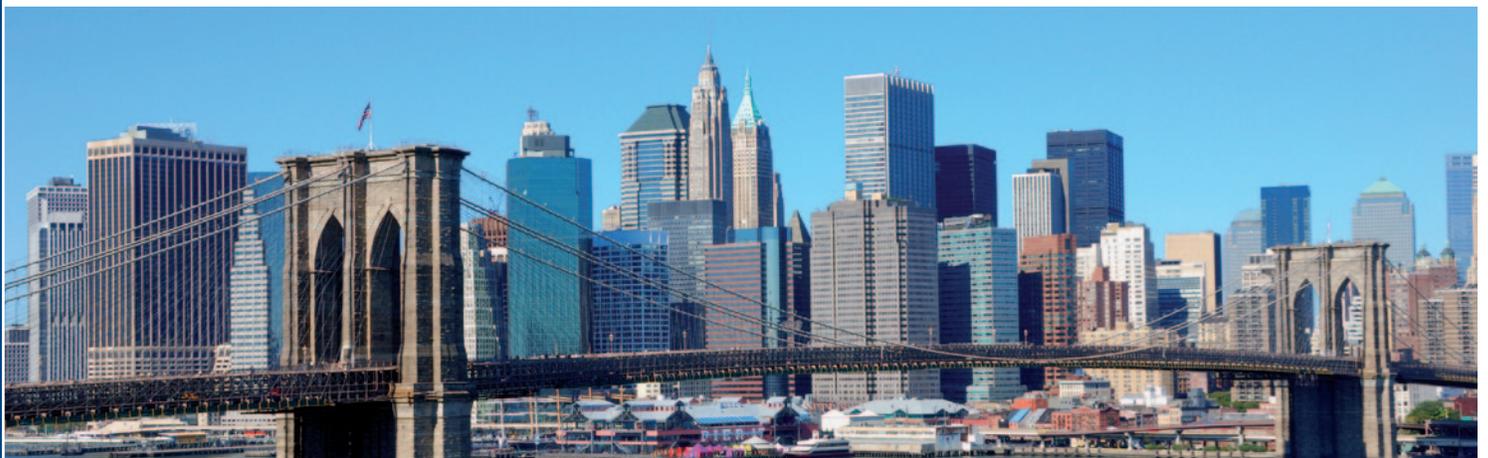
- | | |
|-------------------|----------------------|
| 1. United States | (#1 last year) |
| 2. Brazil | (#5 last year) |
| 3. Spain | (#2 last year) |
| 4. Ireland | (Unranked last year) |
| 5. United Kingdom | (#3 last year) |

e) Ranking of U.S. Property Types

- | | |
|-------------------------------|------------------------------------|
| 1. Multifamily and Industrial | (#1 and #2 respectively last year) |
| 3. Retail | (#4 last year) |
| 4. Office | (#3 last year) |
| 5. Hotel | (#5 last Year) |

Uncovering Real Estate Values

Steep increases in real estate values caused several retail and restaurant chains to consider various options to uncover the value of their real estate holdings. The idea is that markets often assess a lower valuation for land and buildings when they are embedded in an operating entity and that public companies can get a higher valuation by separating the assets. To realize increased real estate values companies have been entering into sale and lease back agreements, forming joint ventures or selling parts of properties:



1) Sale and lease back

In a sale and lease back, companies sell their real estate, realize the profits and then lease the property back from the buyer. Some of the disadvantages are that companies lose control over their assets and are burdened with large lease expenses. It has been a particularly popular strategy to spinoff assets into a real estate investment trust (REIT), which is generally tax-free if the spun-off entity includes an “active trade or business”. Simply collecting rent does not qualify for an “active trade or business” and therefore companies typically included a small business alongside the real estate assets to meet the test. However, in 2015 the Internal Revenue Service (IRS) signaled strong concern with transactions in which real estate and other physical assets are split from mainstream operations if the qualifying businesses are very small in comparison with the size of the real estate assets. According to the IRS some of these transactions might violate rules meant to ensure that companies do not disguise dividends and other taxable transactions as spinoffs to avoid paying taxes.

Still, in 2015 Sears Holdings Corp. sold 235 properties to Seritage Growth Properties, a REIT, for \$2.7 billion. Sears, which spun off Seritage, will lease back a majority of the acquired properties. In addition, Darden Restaurants Inc., the owner of Olive Garden and LongHorn Steakhouse, said it was selling 430 of its over 1,500 restaurants to a publicly traded REIT and leasing them back.

For many years real estate has been a backbone of McDonald’s Corporation’s business and the company derives a huge and growing part of its revenue from

its real estate. Rent payments from franchisees increased by more than 25 percent over the last five years, totaling over \$6 billion in 2014 and accounting for more than 20 percent of McDonald’s total revenue. The company sometimes owns the land and building for its restaurants directly. In other cases, it rents the building from another owner and subleases it to franchisees. In this case, McDonald’s pays the owner a market rent of approximately five percent of the restaurants’ sales but charges its franchisees ten percent. These real estate revenues distinguish McDonald’s for example from Darden Restaurants Inc. which does not franchise its U.S. restaurants. However, due to declining sales, increasing minimum wages and more competition, McDonald’s came under shareholder pressure in 2015 to spin off some of its real estate assets into a REIT. In November, the company informed investors that it decided against a REIT spinoff due to significant financial and operational risks to its business model outweighing any potential value creation from a REIT. Instead McDonald’s is focusing on its operational turnaround through cost-cutting and refranchising its owned restaurants.

2) Forming Joint Ventures

In July 2015 Hudson’s Bay Co., the owner of Saks Fifth Avenue, Lord & Taylor as well as Canadian department stores, pursued a modified real estate strategy and formed a joint venture with Simon Property Group, one of the largest U.S. mall operators. In a complex transaction, Hudson’s Bay contributed 42 properties valued at over \$1.5 billion to the joint venture, signed long-term leases and in return received an 80 percent stake in the joint venture with Simon Property owning the remaining 20 percent by contributing \$1 million and





committing to invest about \$280 million over time if certain milestones are met. Using approximately 80% of the properties as collateral, the joint venture took on almost \$850 million in debt. Hudson's Bay will receive \$600 million of the funds and use them to pay down its debt and reduce interest payments. In approximately three to five years the joint venture could go public which would offer a potential exit for the joint venture partners.

3) Selling parts of existing properties

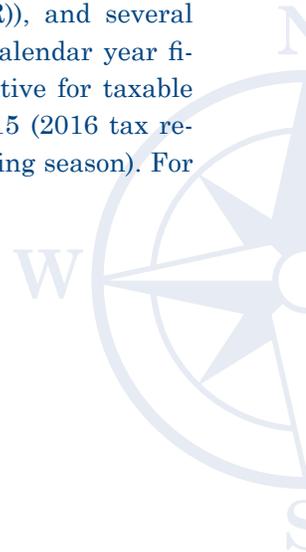
In August 2015 Macy's Inc. announced a different real estate strategy by selling the top five floors of its store in downtown Brooklyn, the air rights above it plus a parking garage across the street to developer Tishman Speyer for \$170 million in cash and another \$100 million over three years. Macy's will remodel and reduce its existing retail operations at the site into 310,000 square feet (approximately 28,800 square meters) in the basement and on the first four floors, down from 378,000 square feet (approximately 35,100 square meters) on eight floors. Tishman Speyer plans to develop 10 floors of office space above Macy's revamped store and might use the parking facility for a mixed-use development.

There is speculation that a similar deal might be advantageous for Macy's crown jewel, the landmark building at New York City's Herald Square that covers a whole block in Manhattan. Macy's has been under pressure from investors for some time to evaluate its real estate options. Converting the upper floors into condominiums or a hotel might be the way to create most value for the company at a time when commercial real-estate values are soaring and Macy's like other

retailers is facing long-term challenges from online rivals. While selling the whole building could immediately materialize a huge profit for Macy's shareholders, finding a way to extract value without losing control of this prime location and burdening its bottom line with expensive lease backs could create a larger long-term benefit.

New Tax Return Due Dates

On July 31, 2015 President Obama signed into law the "highway bill" (H.R. 3236, the Surface Transportation and Veterans Health Care Choice Improvement Act of 2015) that contains several tax provisions and modifies the due dates for partnership and C corporation tax returns, as well as FinCEN 114 (Report of Foreign Bank and Financial Accounts (FBAR)), and several other IRS information returns. For calendar year filers these changes are generally effective for taxable years starting after December 31, 2015 (2016 tax returns prepared during the 2017 tax filing season). For details see Appendix 1.





Appendix 1: Overview of the Most Important Tax Return Due Date Changes (Calendar Year Filers)

Form	Explanation	Due Date		Extension	
		Before	After	Before	After
<i>U.S. and Foreign Estates</i>					
1041	U.S. Income Tax Return for Estates and Trusts	April 15	April 15	Sept. 15	Sept. 30
<i>U.S. and Foreign Partnerships</i>					
1065	U.S. Return of Partnership Income for Partnerships	April 15	March 15	Sept. 15	Sept. 15
<i>U.S. Corporations (“C Corporations”)</i>					
1120	U.S. Corporation Income Tax Return	March 15	April 15	Sept. 15	Sept. 15 (before Jan. 1, 2026); Oct. 15 (after Dec. 31, 2025)
<i>Information Returns & Reporting</i>					
FinCEN Report 114	„Foreign Bank Account Reporting (FBAR)“ („Report of Foreign Bank and Financial Accounts”)	June 30	April 15	N/A	Oct. 15





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

Economic Indicators	December 2015	October 2015	December 2014	December 2012	December 2010
Employment	292,000	271,000	252,000	155,000	103,000
Unemployment Rate	5.0%	5.0%	5.6%	7.8%	9.4%
Avg. Weekly Hours (Manuf.)	40.6	40.7	41.0	40.7	40.2
Avg. Overtime Hours (Manuf.)	3.3	3.3	3.6	3.3	3.1
Building Permits	1,232,000	1,150,000	1,032,000	903,000	635,000
Housing Starts	1,149,000	1,060,000	1,089,000	954,000	529,000
Consumer Confidence Index	96.3	99.1	93.1	64.6	63.4
Purchasing Managers Index	48.0	49.4	55.1	50.7	57.0

Other Indicators	Dec. 31, 2015	Oct. 30, 2015	Dec. 31, 2014	Dec. 31, 2012	Dec. 31, 2010
S&P 500 Index	2,043.94	2,079.36	2,058.90	1,426.19	1,257.64
S&P 500 - Trading Volume (in thousands)	2,655,330	4,256,200	2,606,070	3,204,330	1,799,770
VIX (Volatility Index)	18.21	15.07	19.20	18.02	17.75

Real GDP	2015 Q4	2015 Q3	2014	2012	2010
Real GDP	0.7%	2.1%	2.2%	2.2%	3.0%

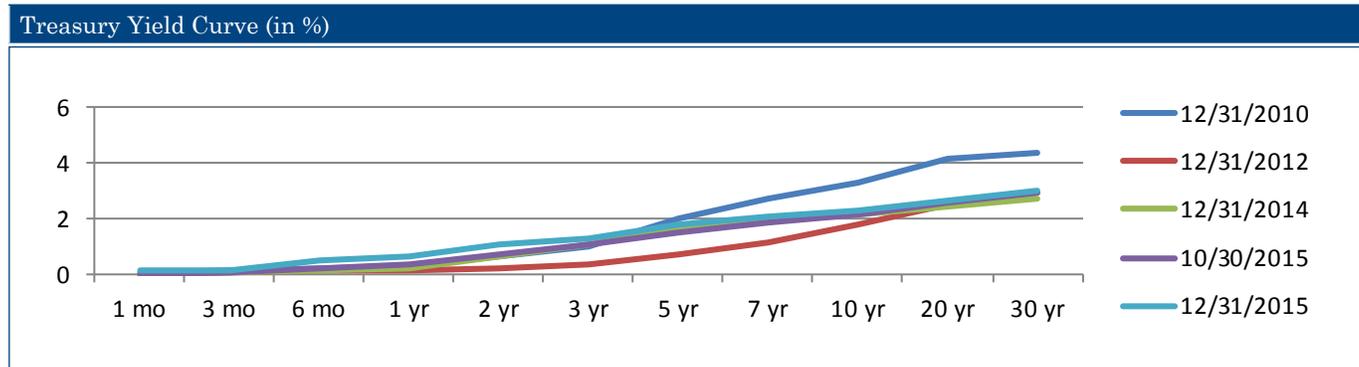
Inflation	December 2015	October 2015	2014	2012	2010
Inflation	0.7%	0.2%	1.6%	2.1%	1.6%

Currency Exchange Rates	Dec. 31, 2015	Oct. 30, 2015	Dec. 31, 2014	Dec. 31, 2012	Dec. 31, 2010
EUR / USD	1.0906	1.1001	1.2142	1.3203	1.3339
GBP / USD	1.4802	1.5425	1.5573	1.6186	1.5500
CHF / USD	1.0073	1.0119	1.0097	1.0935	1.0686
CAD / USD	0.7209	0.7645	0.8620	1.0049	1.0015
CNY / USD	0.1540	0.1583	0.1624	0.1584	0.1517
JPY / USD	0.0083	0.0083	0.0084	0.0116	0.0123

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



Interest Rates, Real Estate & Taxes



Base Rates	December 21, 2015	2 Weeks Ago	One Year Ago
30 Day LIBOR	0.413%	0.287%	0.165%
U.S. Treasury			
5 Year	1.67%	1.67%	1.68%
10 Year	2.19%	2.23%	2.19%

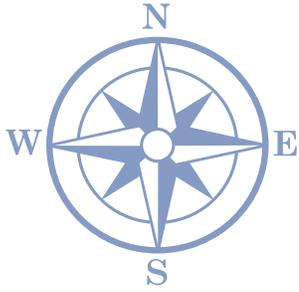
10-Year Fixed Rate Ranges by Asset Class	Max. LTV	Class A	Class B/C
Anchored Retail	70 - 75%	T + 230	T + 240
Strip Center	65 - 75%	T + 230	T + 240
Multi Family (Non-Agency)	75 - 80%	T + 210	T + 220
Multi Family (Agency)	75 - 80%	T + 235	T + 240
Distribution/Warehouse	65 - 70%	T + 230	T + 240
R&D/Flex/Industrial	65 - 70%	T + 235	T + 245
Office	65 - 75%	T + 230	T + 240
Full Service Hotel	55 - 65%	T + 280	T + 300

Note: T = Interest Rate for 10-Year U.S. Treasury (2.19%)
 Source: Cushman & Wakefield (December 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, 2016 higher tax rates apply for individuals earning more than USD 415,050 (and couples earning more than USD 466,950).





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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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