Agenda

- U.S. economy strengthening; others weak or slowing
  - U.S. labor market
  - Potential rise in U.S. interest rates
  - Drop in oil prices

- Real estate markets continue to recover; extent of recovery varies across markets and property type
  - Home prices and affordability
  - Residential and commercial construction
Real GDP growth forecast for 2015 above 3%, driving unemployment towards 5%

Real GDP, annual % change

Quarterly average unemployment rate, %

Sources: BEA, BLS, Blue Chip Economic Indicators (March 2015)
As long-term unemployment and part-timers being absorbed, earnings growth edging higher

Source: BLS (data through 4Q:2014)
U.S. growth accelerating while EU and Japan struggle and emerging markets slow

Source: Oxford Economics; January 2015 forecast
Treasury yield curve expected to flatten through 2015 into 2016

Coming rate increase cycle expected to be mild from a historical perspective

Intensity of federal funds rate increases
(basis point increase / # months from trough to peak)

<table>
<thead>
<tr>
<th>Period</th>
<th>Rate Increase</th>
<th>Time to Peak</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986-1989</td>
<td>5.9% to 9.8%</td>
<td>over 30 months</td>
</tr>
<tr>
<td>1994-1995</td>
<td>3.0% to 6.0%</td>
<td>over 14 months</td>
</tr>
<tr>
<td>1999-2000</td>
<td>4.75% to 6.5%</td>
<td>over 13 months</td>
</tr>
<tr>
<td>2004-2006</td>
<td>1.0% to 5.25%</td>
<td>over 26 months</td>
</tr>
<tr>
<td>2015-2017*</td>
<td>0% to 3.00%</td>
<td>over 30 months (consensus forecast)</td>
</tr>
</tbody>
</table>

* 2015-17 cycle assumes first rate increase at July 2015 FOMC meeting, rising to a peak fed funds rate target by December 2017. Assumption of a 3% fed funds rate target by December 2017 aligns with several baseline rate forecasts as of December 2014. Assumption of a 4.25% fed funds rate target by December 2017 reflects highest FOMC member forecast as of December 2014 (median forecast = 3.63%).

Source: FRB, OCC Econ calculations
Sharp drops in oil prices are not uncommon; current cycle largely driven by supply growth

Price West Texas Intermediate Oil, $/barrel (log scale)

Sources: EIA, WSJ, Haver Analytics (data through January 2015)
Manufacturers, particularly in Midwest and South, benefit from lower oil prices...

Petroleum used by manufacturing sector per dollar of output, 2013

Sources: Census Bureau, EIA, Moody’s Analytics
...as do consumers, particularly in non-oil South and mountain states...

Gasoline expenditure share of disposable income, %, 2012

Sources: BEA, EIA, Moody’s Analytics
...but energy-producing states hurt by lower oil prices

Mining and extraction share of real GDP, %, 2013

Sources: Census Bureau, EIA, Moody’s Analytics
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Home price appreciation slowing in most states

Home price index, year-to-year change, %

Source: Black Knight (formerly LPS), through December 2014
Note: Black Knight data represents prices of non-distressed transactions; they compute discount-corrected REO and short sale prices and combines them with non-distressed sale prices.
Home prices are rising, but remain below prior peak in some metros

change (%) Dec:13-Dec:14

Philadelphia, PA
McAllen, TX
Charlotte, NC
Newark, NJ
U.S.
Los Angeles, CA
Miami, FL
Shawnee, OK
San Francisco

change (%) prior peak to Dec:14

Source: Black Knight (formerly LPS), data through December 2014 at the metro division level.
Note: Represents prices of non-distressed transactions; Black Knight computes discount-corrected REO and short sale prices and combines them with non-distressed sale prices.
Relationship between home prices and income varies widely across local markets

Median home price to median household income ratio

Source: NAR, Census Bureau, Moody’s Analytics; data at the metro division level
Multifamily starts back to historical averages; single-family starts remain subdued

Source: Black Knight (formerly LPS), through December 2014
Note: Black Knight data represents prices of non-distressed transactions; they compute discount-corrected REO and short sale prices and combines them with non-distressed sale prices.
Housing construction relative to area trend has recovered fastest in tech and energy areas

2012-2014 average annual housing starts index (1 = 82-14 average)

Source: Census Bureau, Moody’s Analytics; note: housing starts includes multifamily units; data at the metro division level
Apartment construction surges while other property types remain below historical norms

Growth in existing CRE space by property type

Source: CoStar Portfolio Strategy 4Q:2014 baseline forecast for 54 Tier 1 markets
Summary

- U.S. economy strengthening; others weak or slowing
  - U.S. labor market tightening
  - Rise in U.S. interest rates complicated by international factors
  - Both gainers and losers from drop in oil prices

- Real estate markets continue to recover; extent of recovery varies across markets and property type
  - Home price growth slowing and affordability varies widely across U.S.
  - Housing in tech and energy-reliant areas and apartments seeing fastest growth in construction