UNDERSTANDING THE NEW ECONOMY

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PREPARED FOR

MEREDA

Maine Real Estate & Development Association

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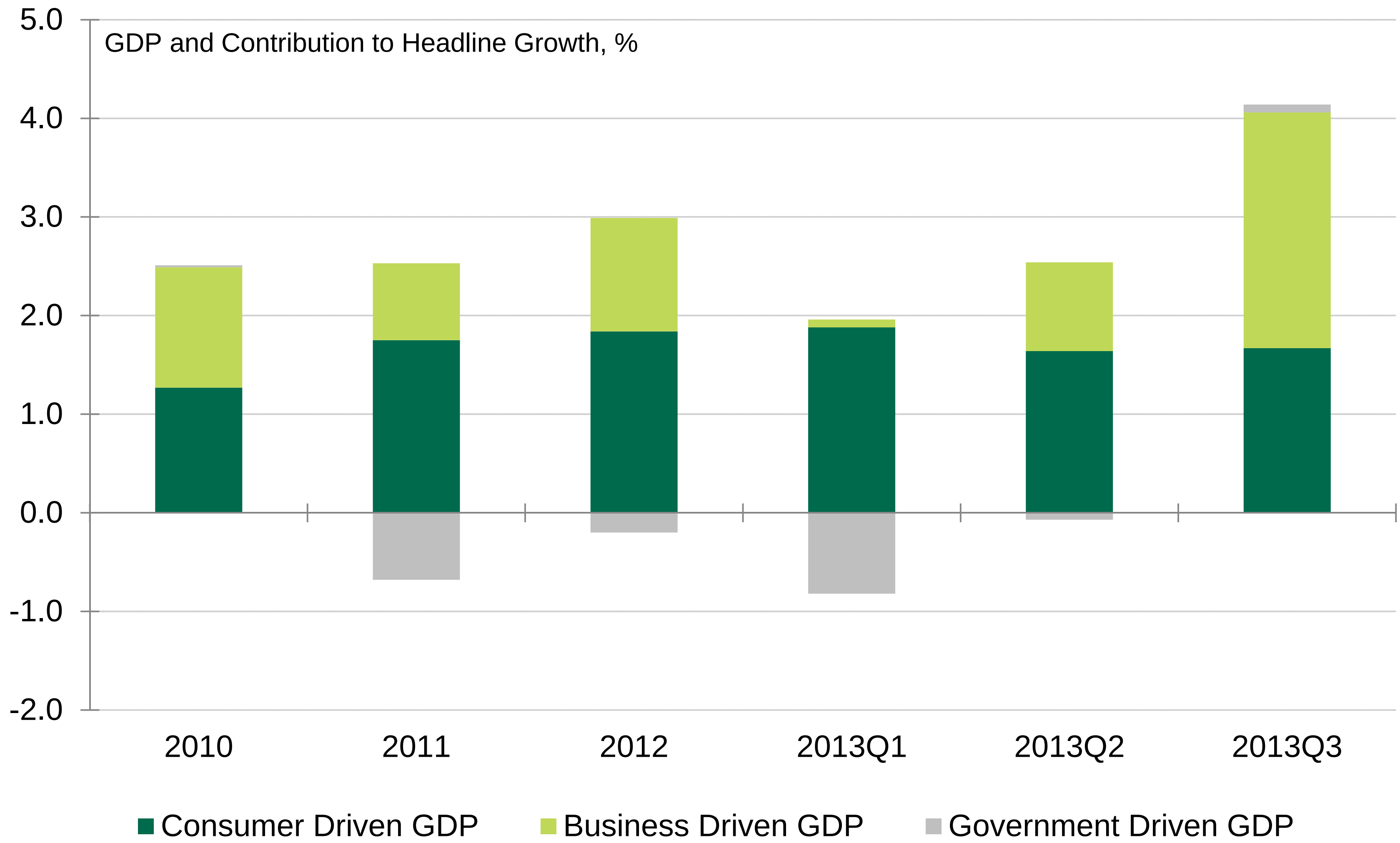
AGENDA

Understanding the New Economy

1. **U.S. Economic Recovery and Outlook**
   a. Five years into recovery: Where are we?
   b. Slower growth a side effect of financial crisis or secular change
   c. New growth drivers: the New Economy?
2. **Maine Economy**
   a. Still trailing the national recovery
   b. Demographic drag?
   c. New industrial drivers?
   d. Housing recovery in Maine
3. **Commercial Real Estate Outlook**
   a. Capital once again flowing
   b. Most property types now seeing measurable improvements
   c. Shifting demand patterns for office and industrial properties
   d. Can multi-housing sustain its current pace?

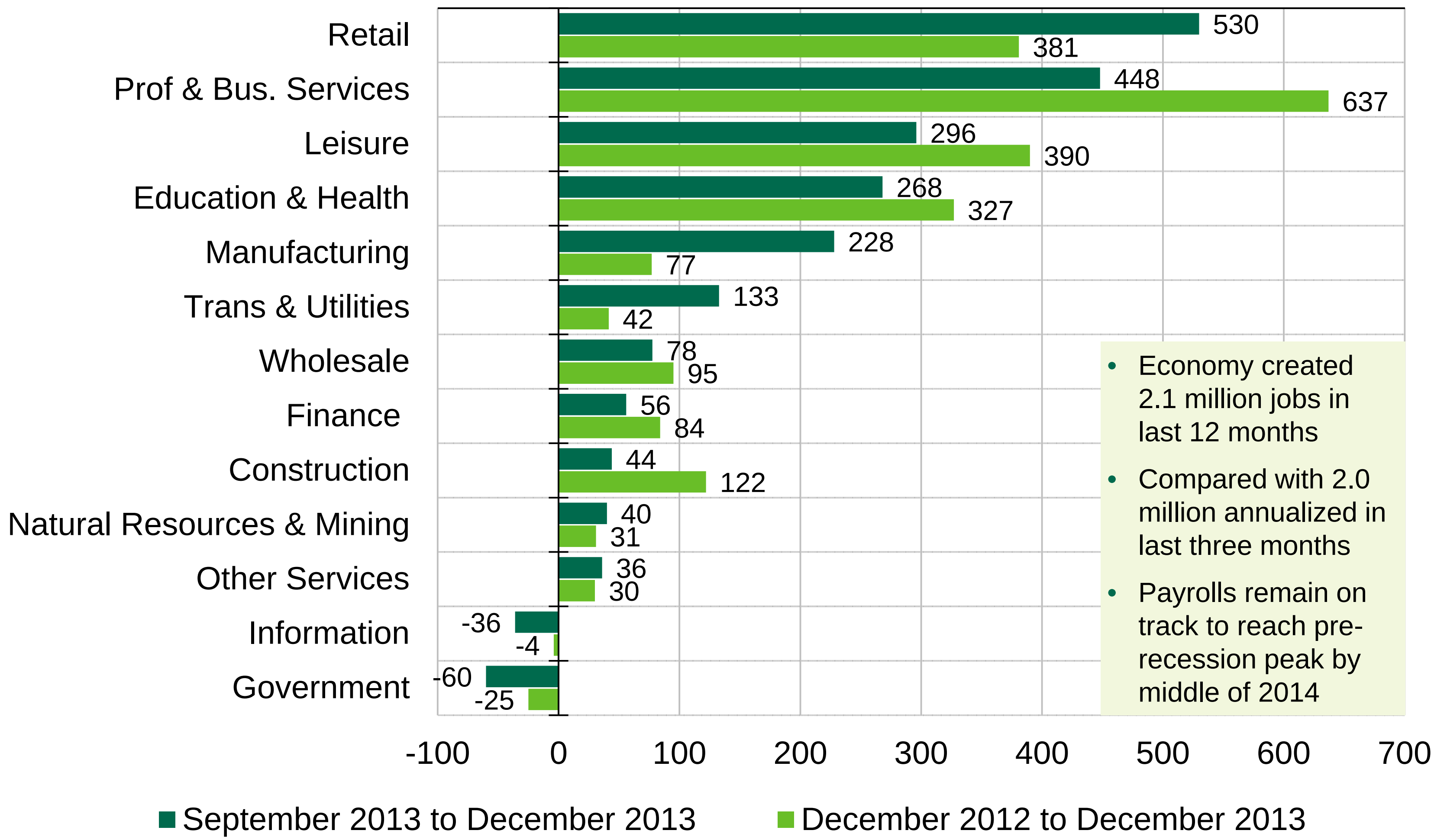
GROWTH UNIMPRESSIVE YET STABLE



Source: Bureau of Economic Analysis and CBRE Econometric Advisors.

HIRING AMONG PRIVATE BUSINESSES REMAINS ON TRACK

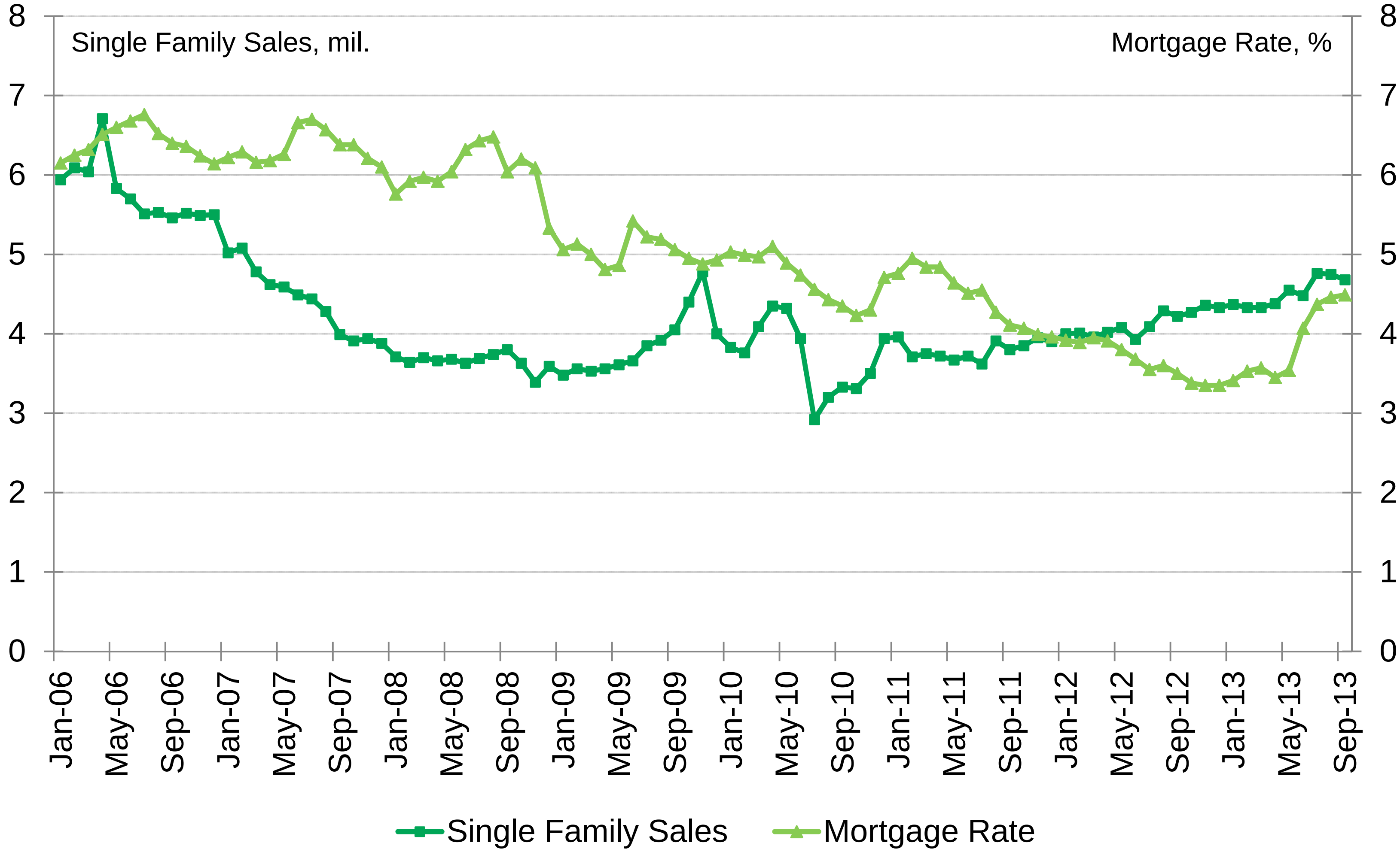
Change in Payroll Employment, ths.



- Economy created 2.1 million jobs in last 12 months
- Compared with 2.0 million annualized in last three months
- Payrolls remain on track to reach pre-recession peak by middle of 2014

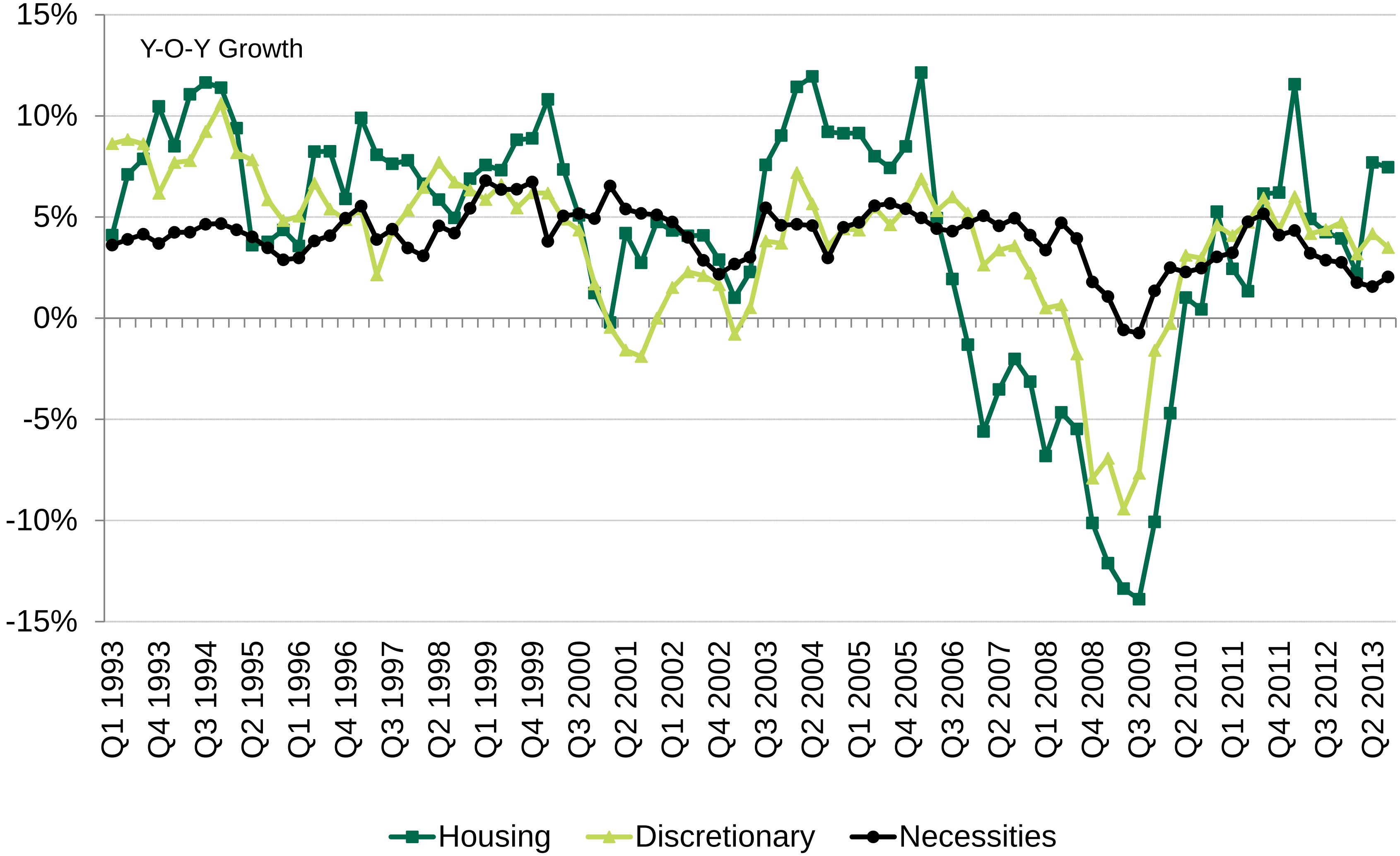
Source: Bureau of Labor Statistics.

HOUSING IS WHAT SHOULD DRIVE RECOVERY



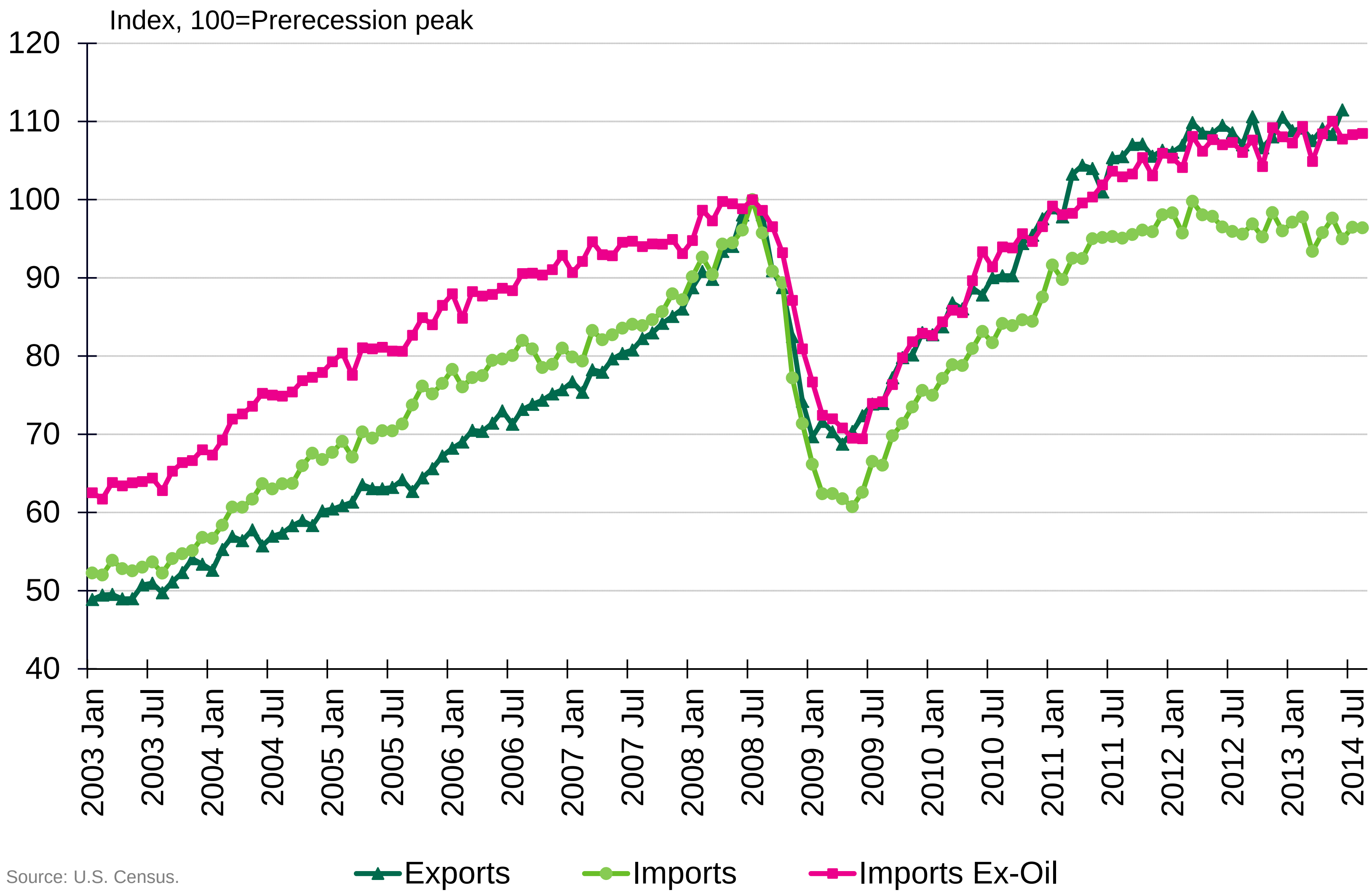
Source: CBRE EA Office Outlook, Q3 2013.

HOUSING RECOVERY BOOSTS RETAIL SALES



Source: Census Bureau.

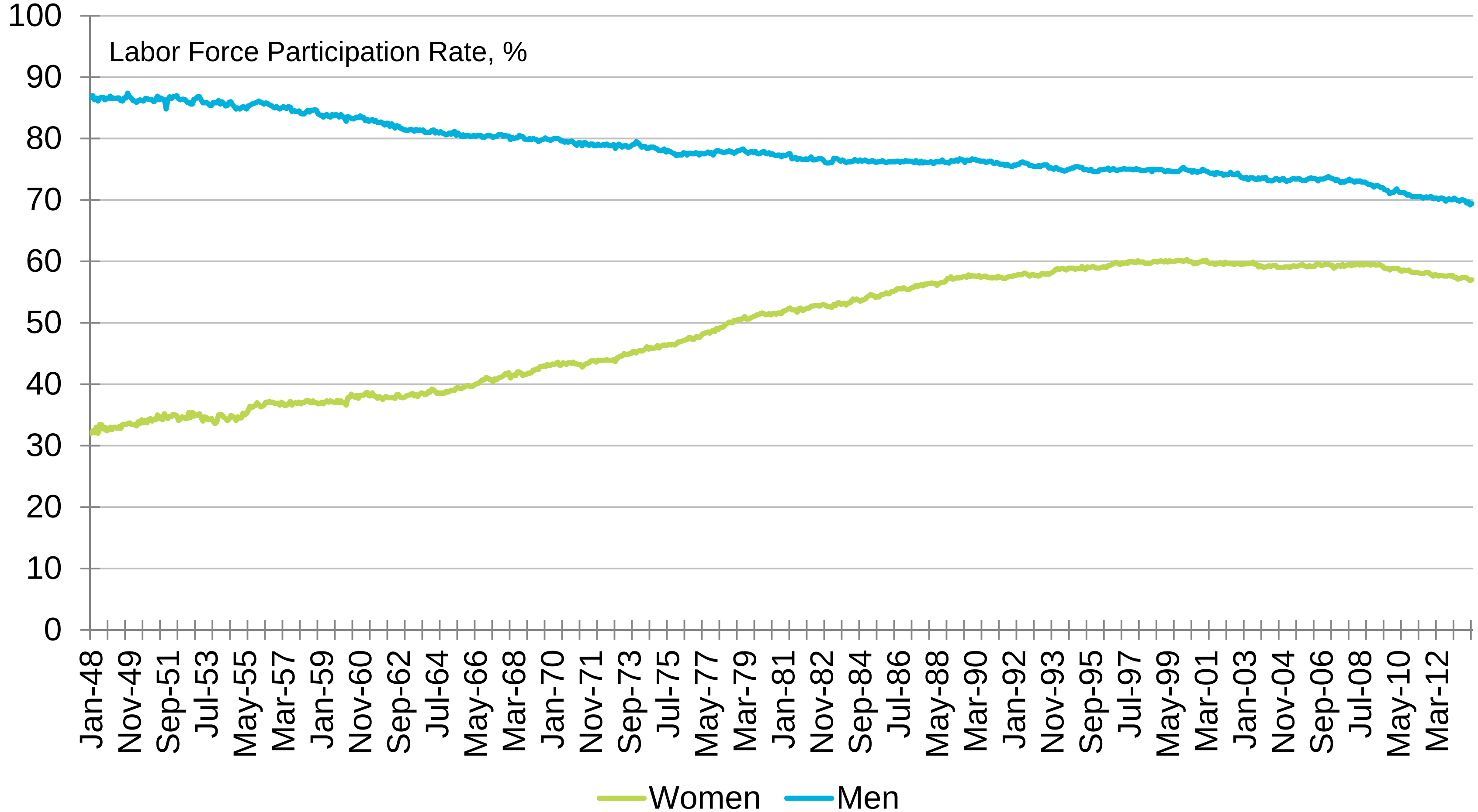
IMPORTS ARE STRONGER THAN THEY APPEAR ONCE OIL IS EXCLUDED



Source: U.S. Census.

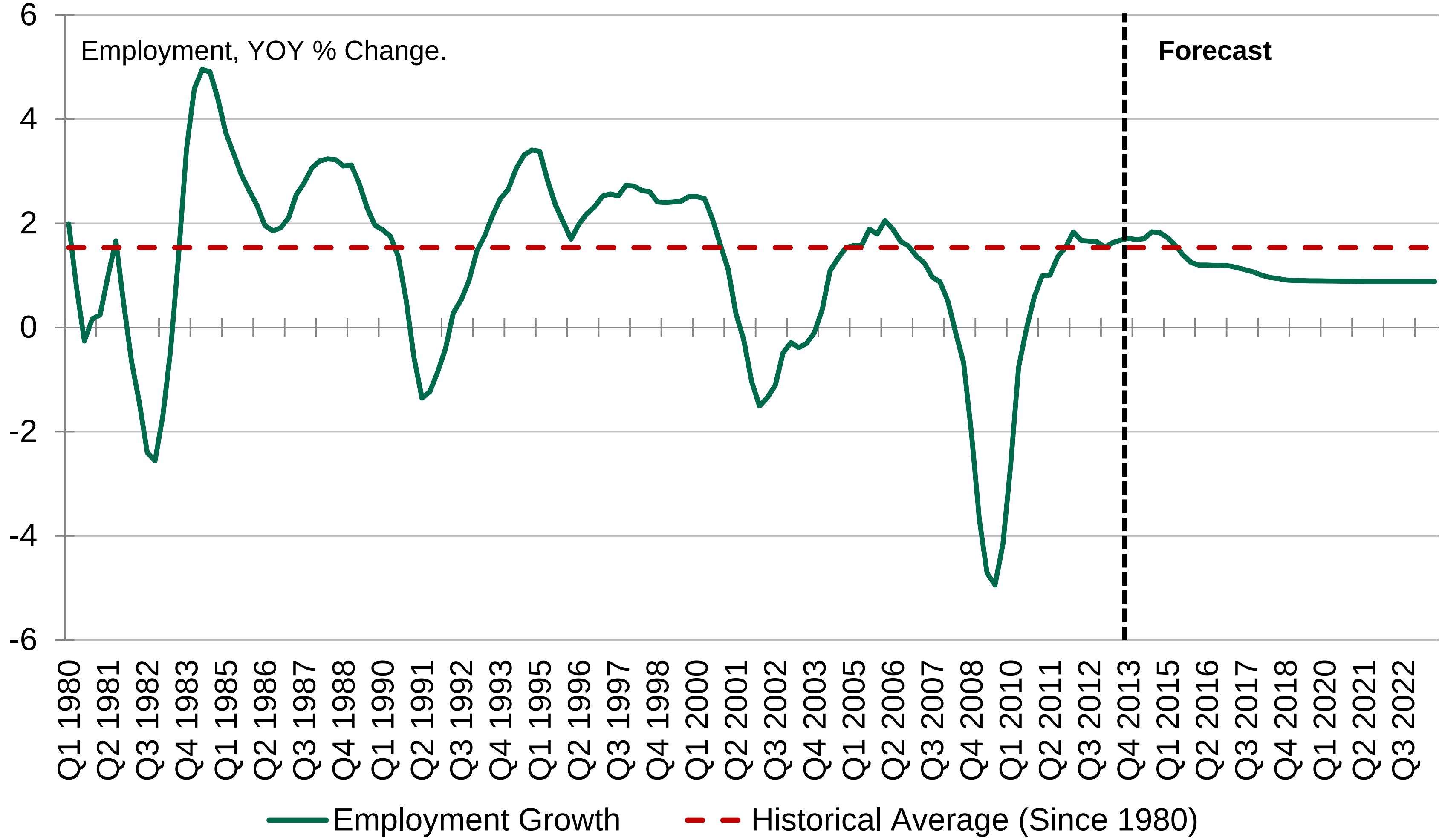
LABOR FORCE PARTICIPATION RATE BECOMES AN ISSUE

Women's Participation Peaked At 60%



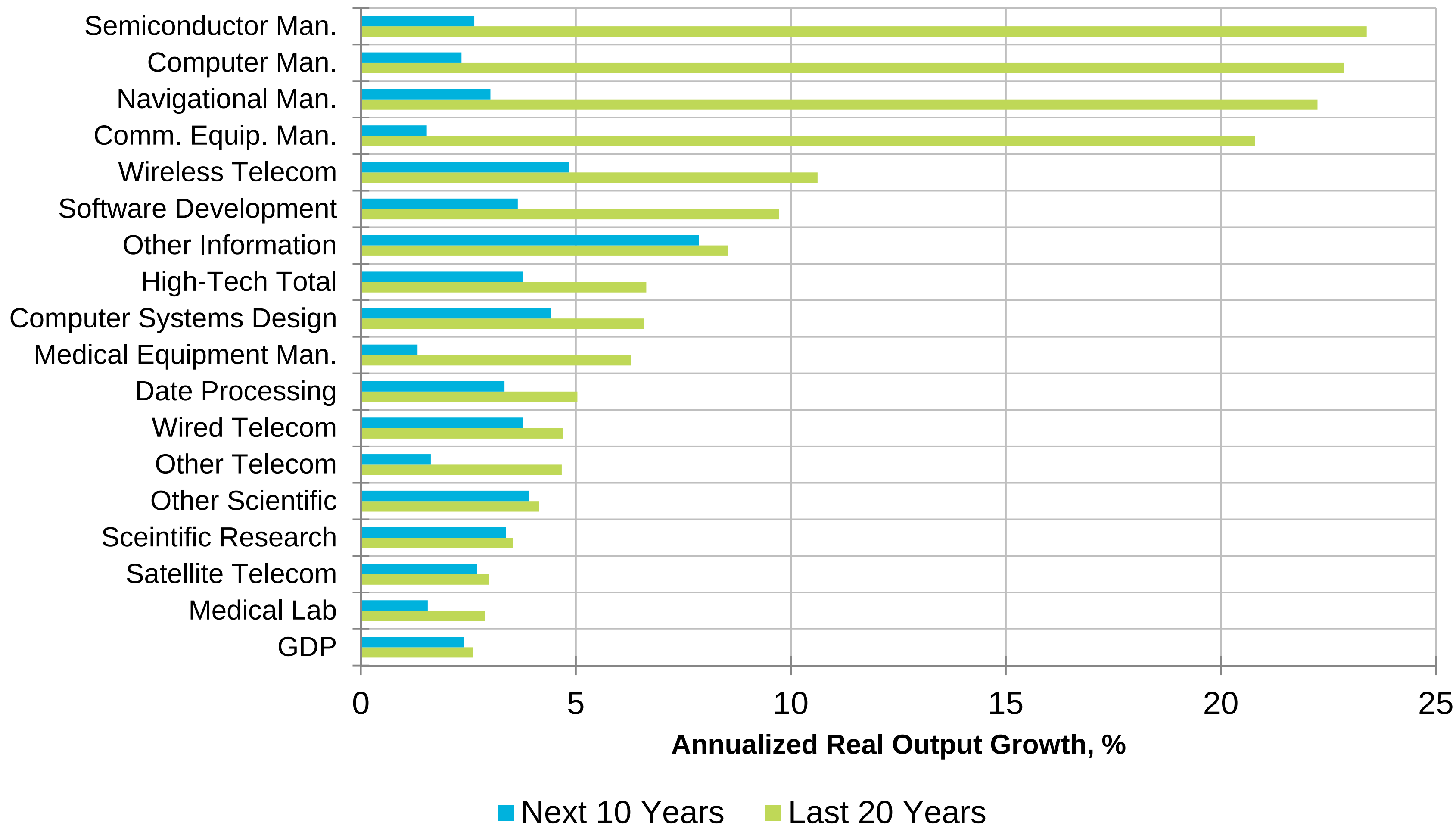
Source: Bureau of Labor Statistics.

U.S. EMPLOYMENT OUTLOOK: NEW SPEED LIMIT FOR GROWTH



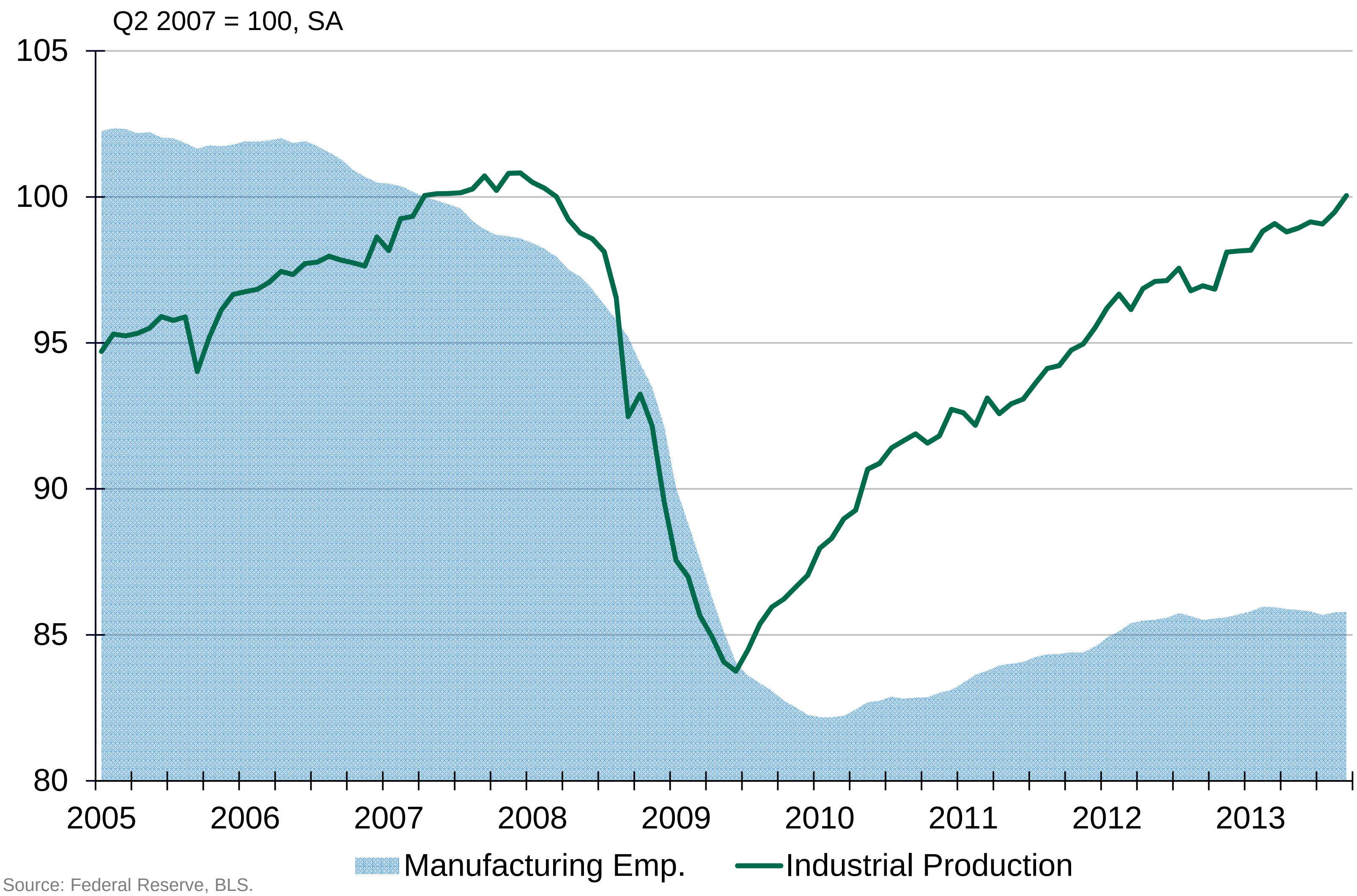
Source: Bureau of Labor Statistics and CBRE Econometric Advisors.

HIGH-TECH INDUSTRIES HAVE BECOME BACKBONE OF U.S. ECONOMY



Source: Bureau of Economic Analysis and Moody's Analytics.

MANUFACTURING RESURGENCE?



Source: Federal Reserve, BLS.

THE MAINE ECONOMY

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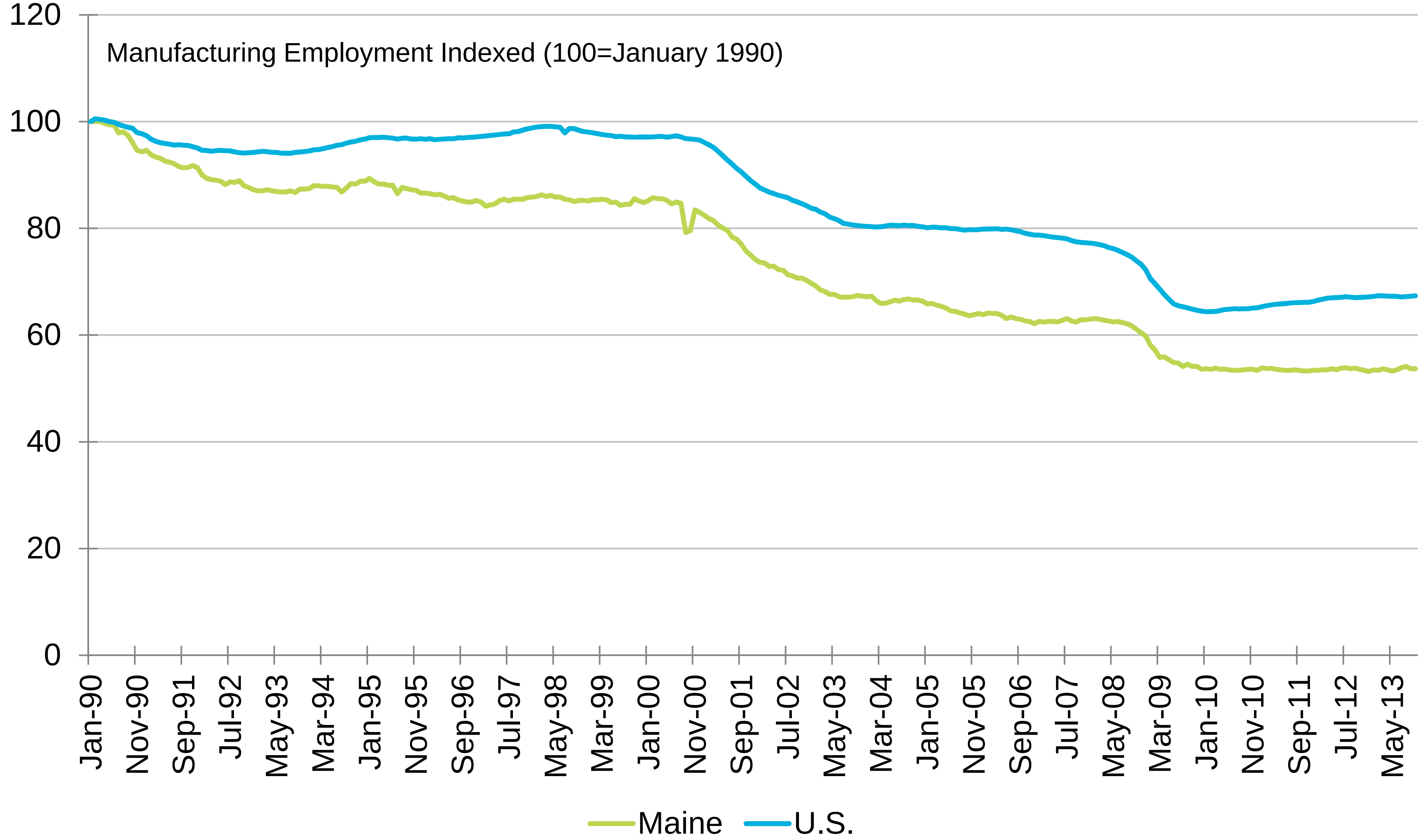
LET'S START AT THE BEGINNING

Manufacturing Decline Has Not Been Kind to Maine

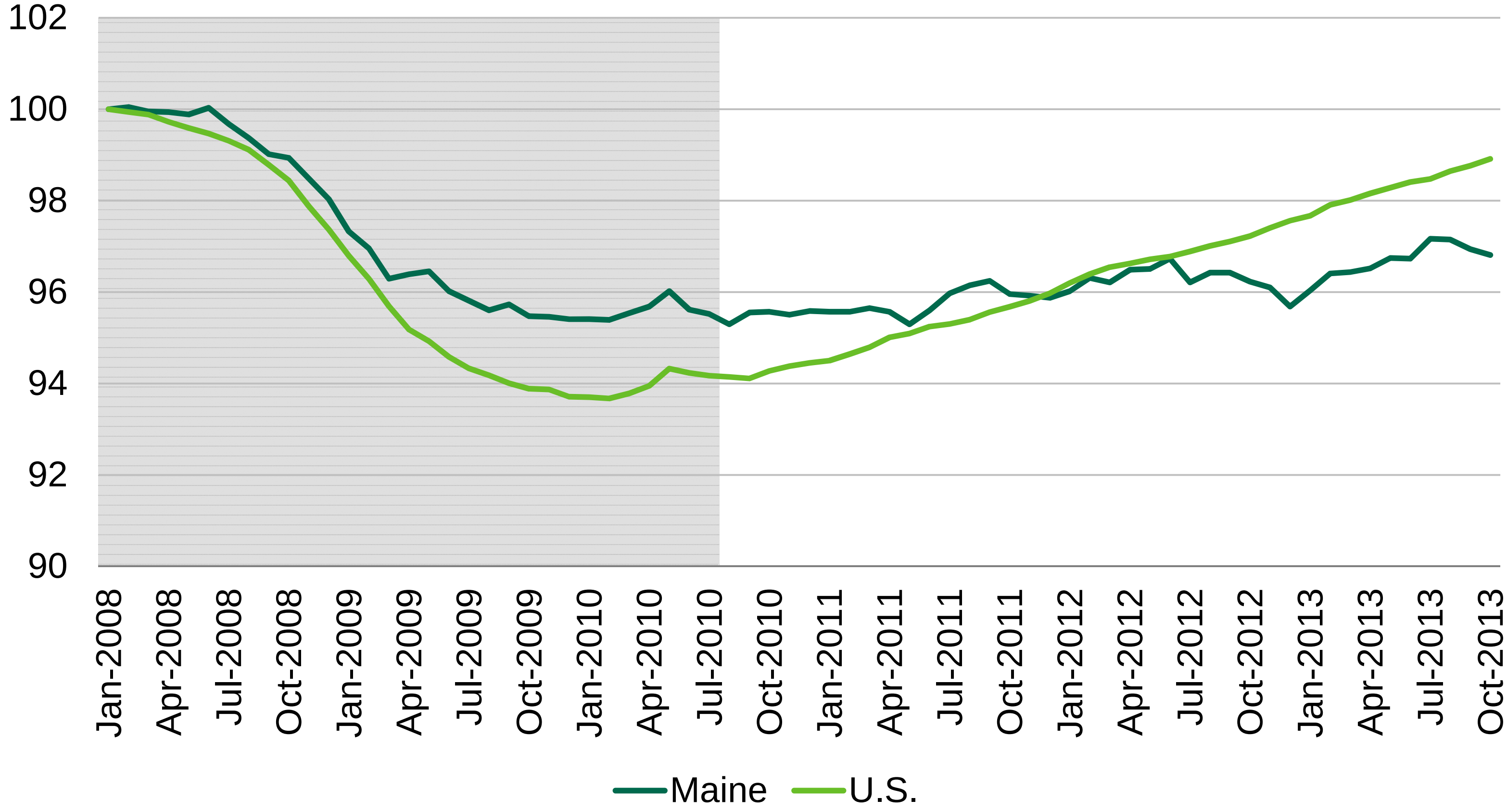


Source: Bureau of Labor Statistics.

SLOW U.S. JOB MARKET RECOVERY

Maine Lags Significantly Behind

Non farm payrolls, indexed (Jan-2008=100)

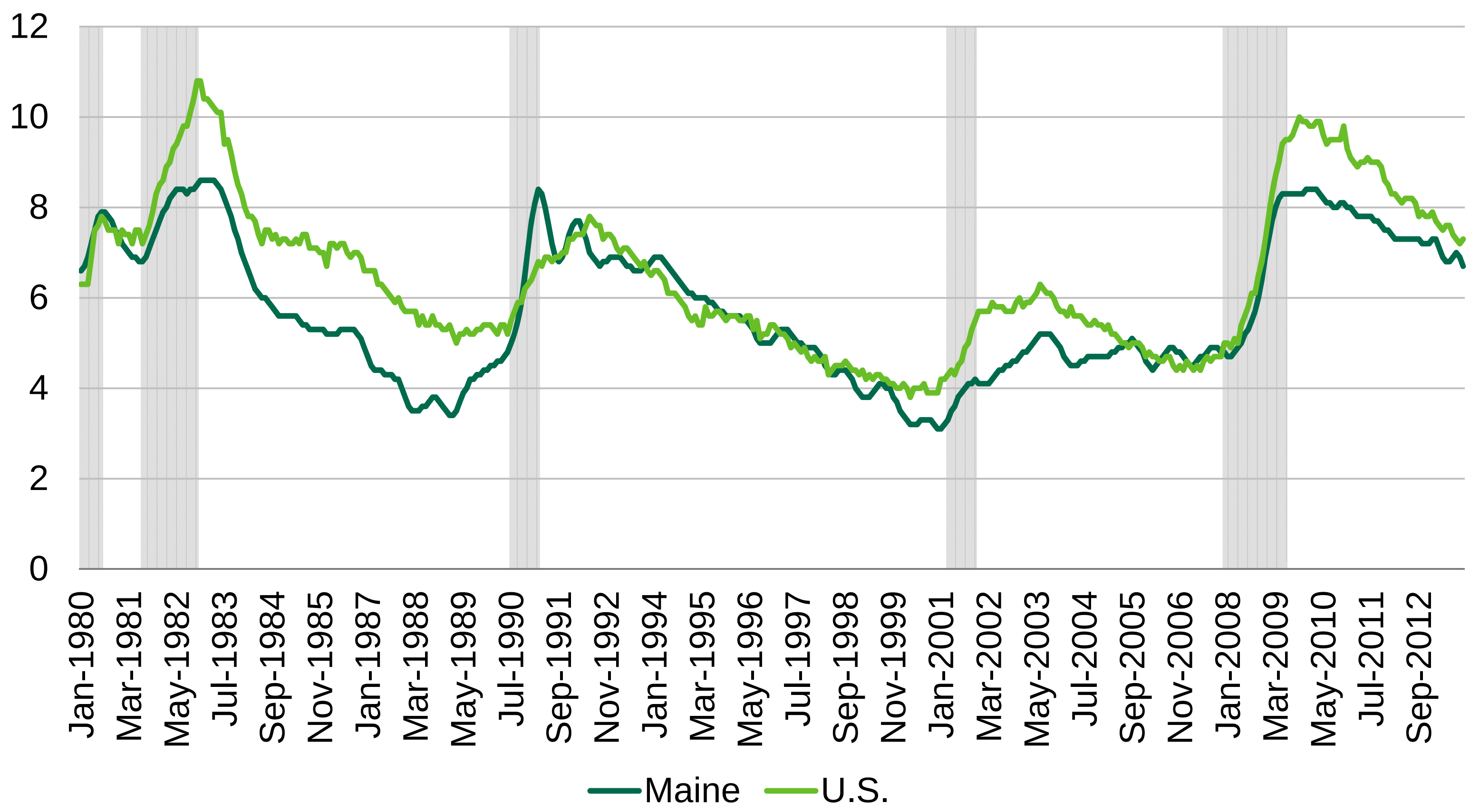


Source: Bureau of Labor Statistics.

HOUSEHOLD DATA PAINT SLIGHTLY DIFFERENT PICTURE

Maine Unemployment Lower Than National Average

Unemployment Rate, %

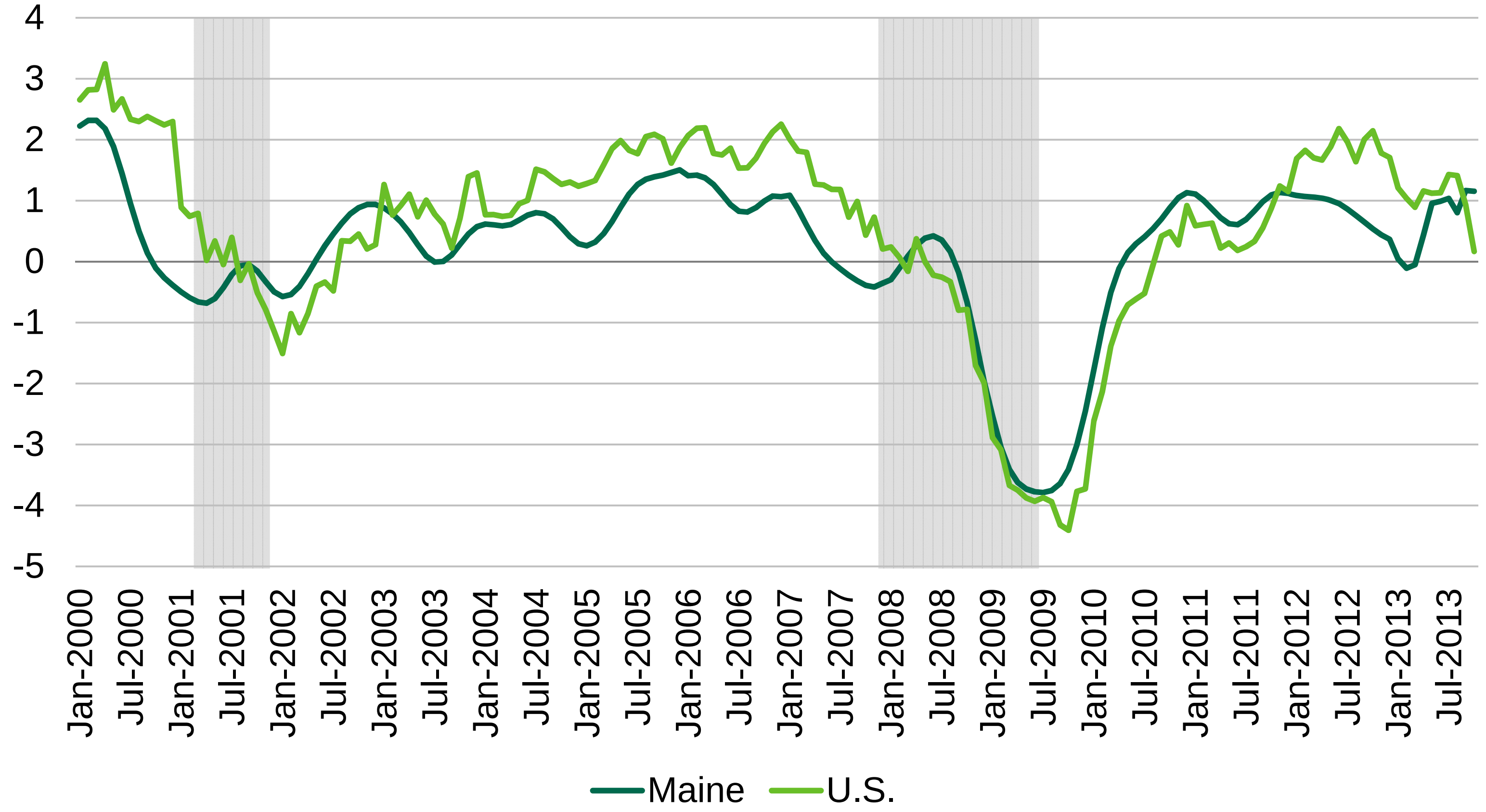


Source: Bureau of Labor Statistics.

HOUSEHOLD EMPLOYMENT RECOVERING

More Consistent with National Picture

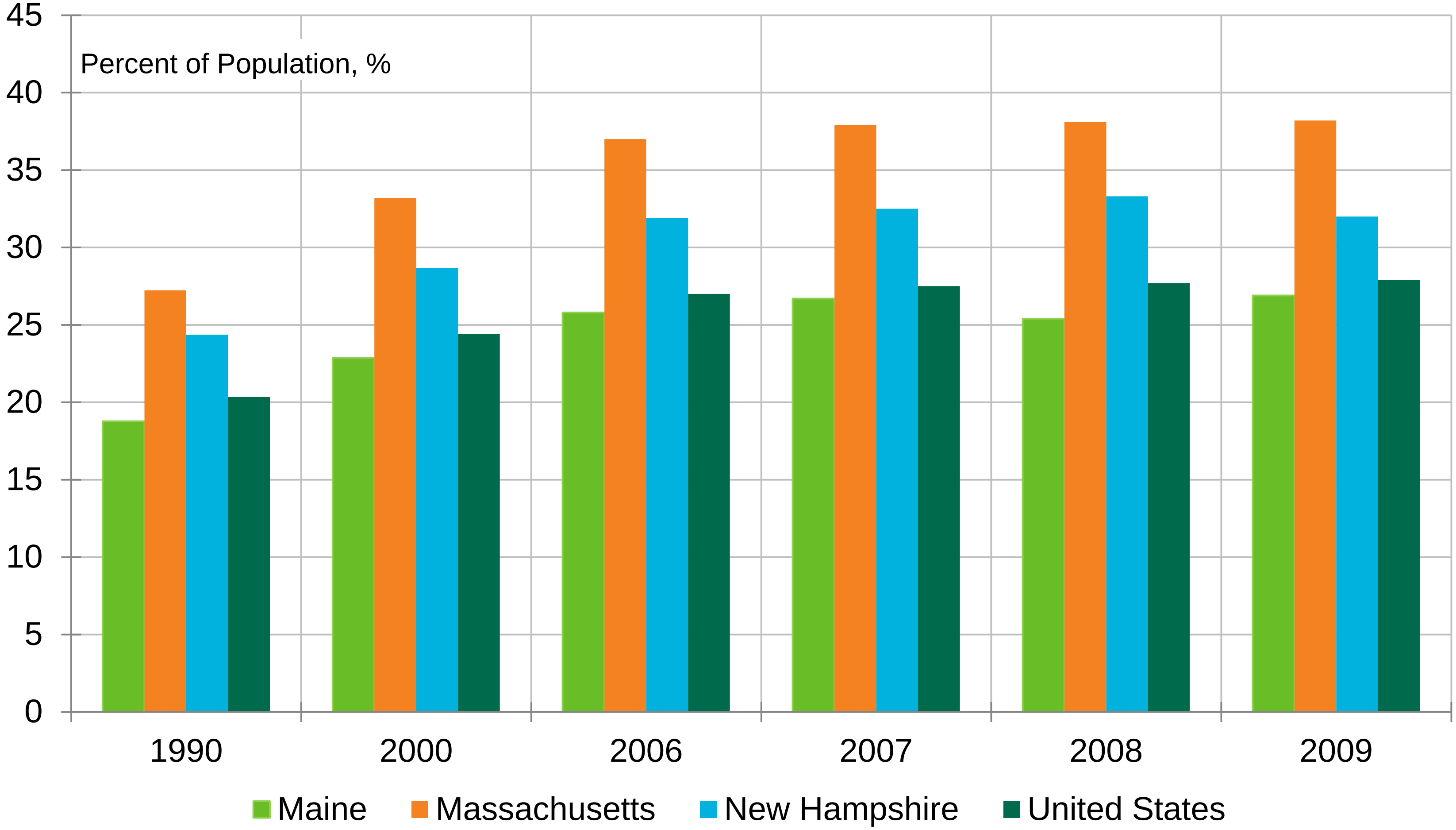
Household Survey Employment, Year-over-Year % Change



Source: Bureau of Labor Statistics.

IS EDUCATIONAL ATTAINMENT A PROBLEM

Maine Losing Talent to New England Neighbors



Source: U.S. Bureau of the Census.

MAINE GROWTH SLOW, BUT SOME BRIGHT SPOTS

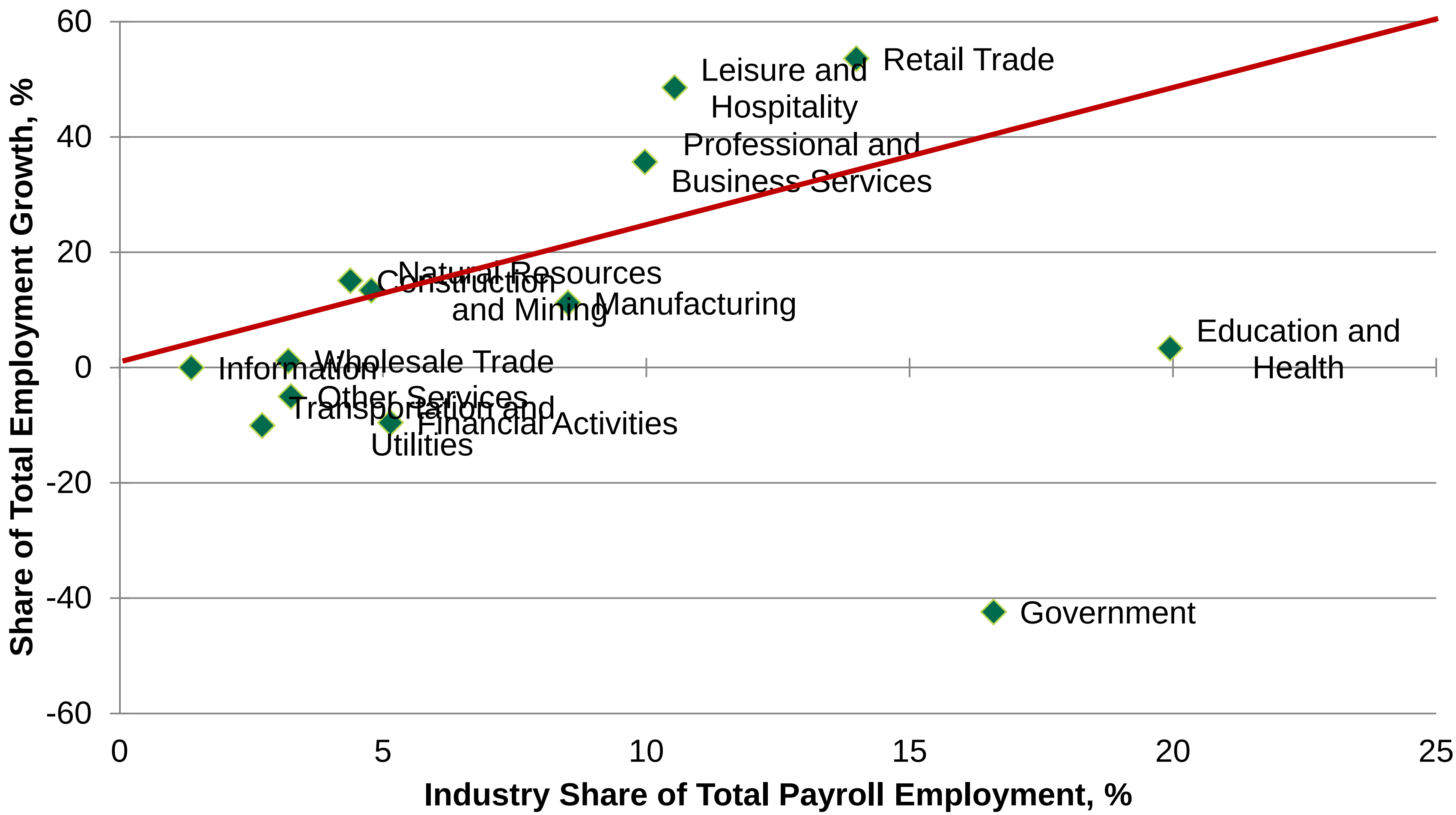
Housing Could Be Common Theme With National Outlook

Industry	Share of Employment %		Employment Growth, 2-Yr. Average Annual %	
	Maine	US	Maine	US
Total Employment			0.50	1.65
Natural Resources and Mining	4.78	4.91	1.42	2.52
Construction	4.38	4.27	1.75	2.25
Manufacturing	8.51	8.78	0.66	0.85
Wholesale Trade	3.20	4.25	0.18	2.02
Retail Trade	13.99	11.18	1.95	1.69
Prof. and Business Services	9.97	13.68	1.82	3.49
Transportation and Utilities	2.70	3.69	-1.79	1.57
Information	1.36	1.98	0.00	0.52
Financial Activities	5.14	5.81	-0.91	1.30
Government	16.59	16.05	-1.24	-0.38
Other Services	3.25	4.03	-0.76	1.08
Education and Health	19.95	15.23	0.08	1.96
Leisure and Hospitality	10.54	10.42	2.36	2.88

Source: Bureau of Labor Statistics and CBRE Econometric Advisors.

INDUSTRIES TO WATCH IN MAINE

Business Services, Trade and Tourism Show Momentum

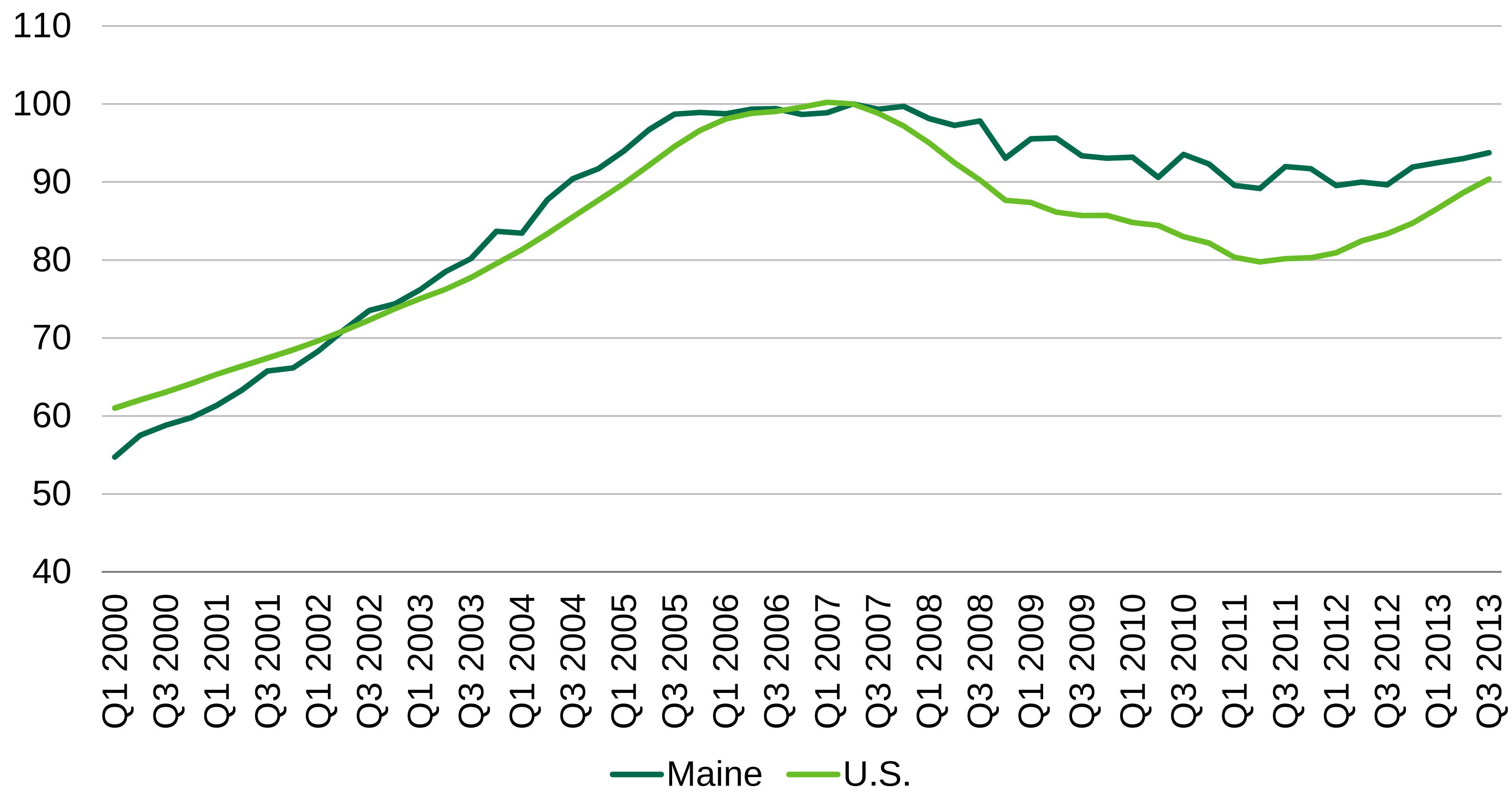


Source: CBRE Econometrics Advisors and Bureau of Labor Statistics.

HOME PRICES RISING SLOWLY

Maine Home Price Still Have Less Ground to Make Up

FHFA Purchase Only Home Price Index, (Index=Q2 2007)

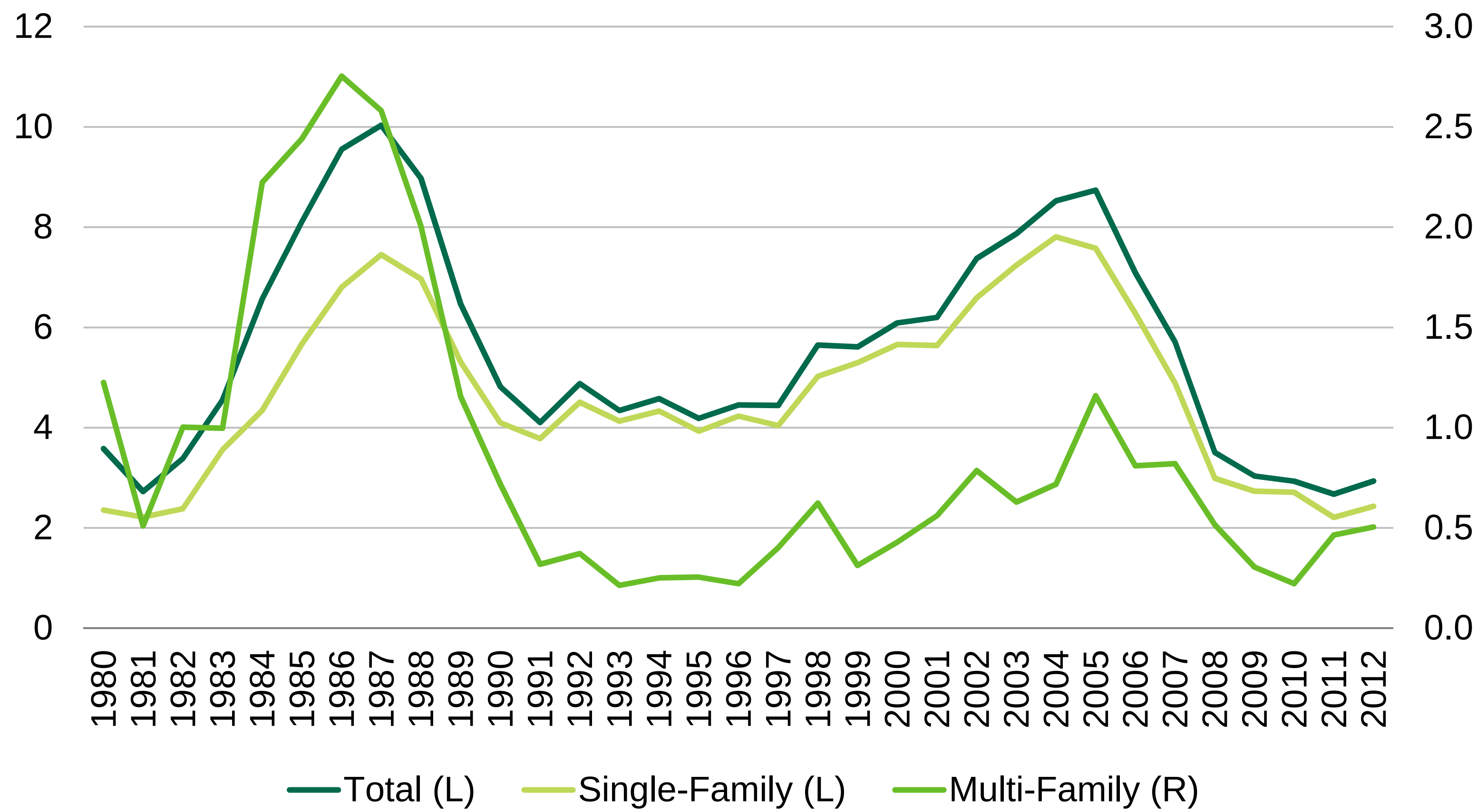


Source; Federal Housing Finance Agency.

CONSTRUCTION ACTIVITY SLOW TO RAMP UP

Housing Could Provide a Boost To Maine Economy

Single- and Multi-Family Housing Permits, ths.



Source; Department of Housing and Urban Development.

COMMERCIAL REAL ESTATE OUTLOOK

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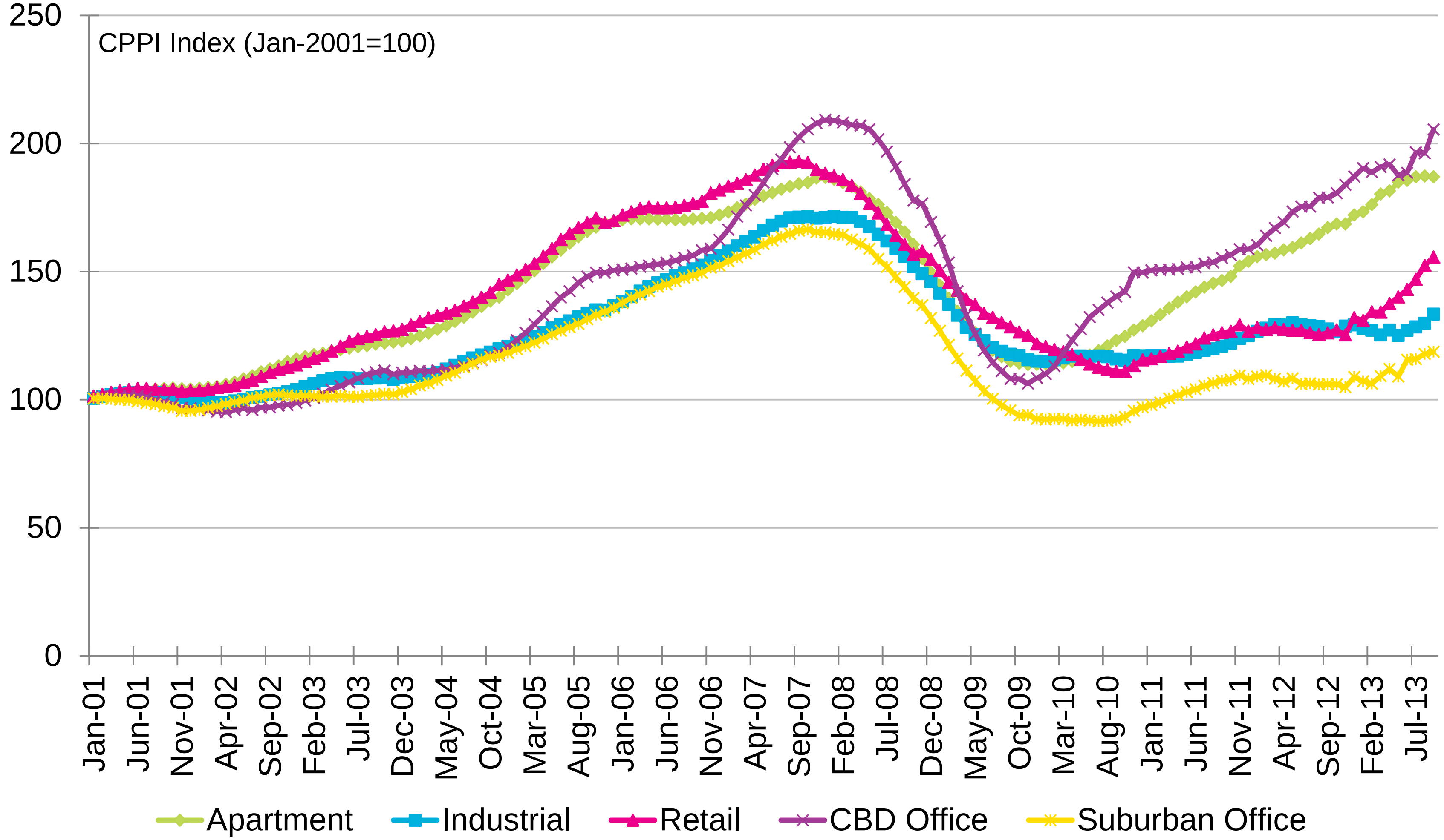
COMMERCIAL REAL ESTATE PRICES MOVING HIGHER

CBD Office Near Full Recovery Prices



Source: Real Capital Analytics

COMMERCIAL REAL ESTATE RECOVERY TO DATE

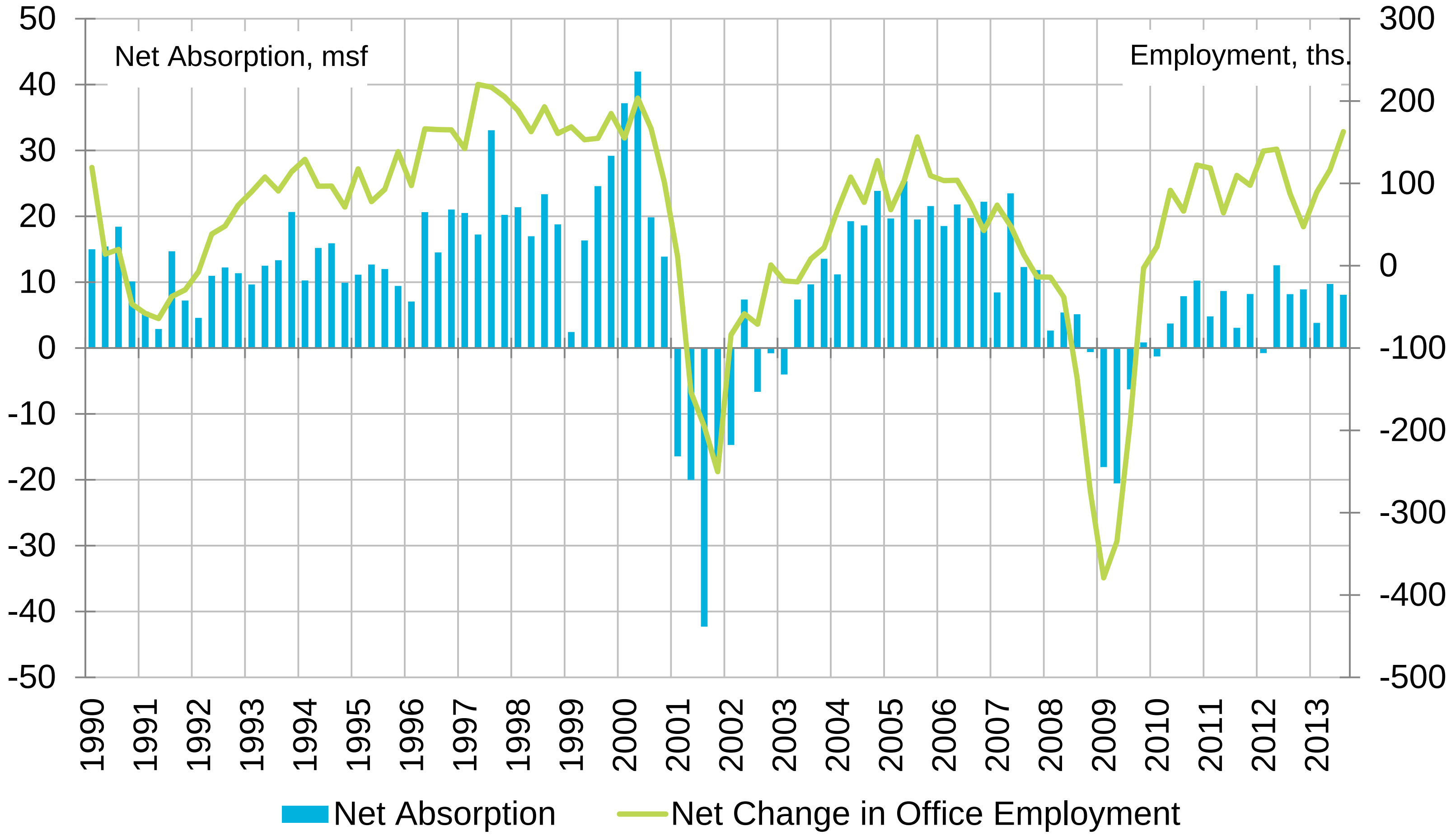
Office and Industrial Poised for Solid Rent Recovery in 2014

PROERTY TYPE	MEASURE	Q3 2013	Cyclical Peak	NATURAL RATE	YEAR BACK TO NATURAL RATE
Office	Vacancy Rate	15.1%	16.9% 2010	13 to 14%	2014
Industrial	Availability Rate	11.7%	14.5% 2010	10.0 to 11.0%	2014
Retail	Availability Rate	12.3%	13.2% 2011	9 to 10%	2015
Multifamily	Vacancy Rate	4.6%	7.4% 2009	5 to 6%	2010
Full Service Hotels	Vacancy Rate	26.7%	43% 2009	34 to 38%	2010

Source: CBRE Econometric Advisors

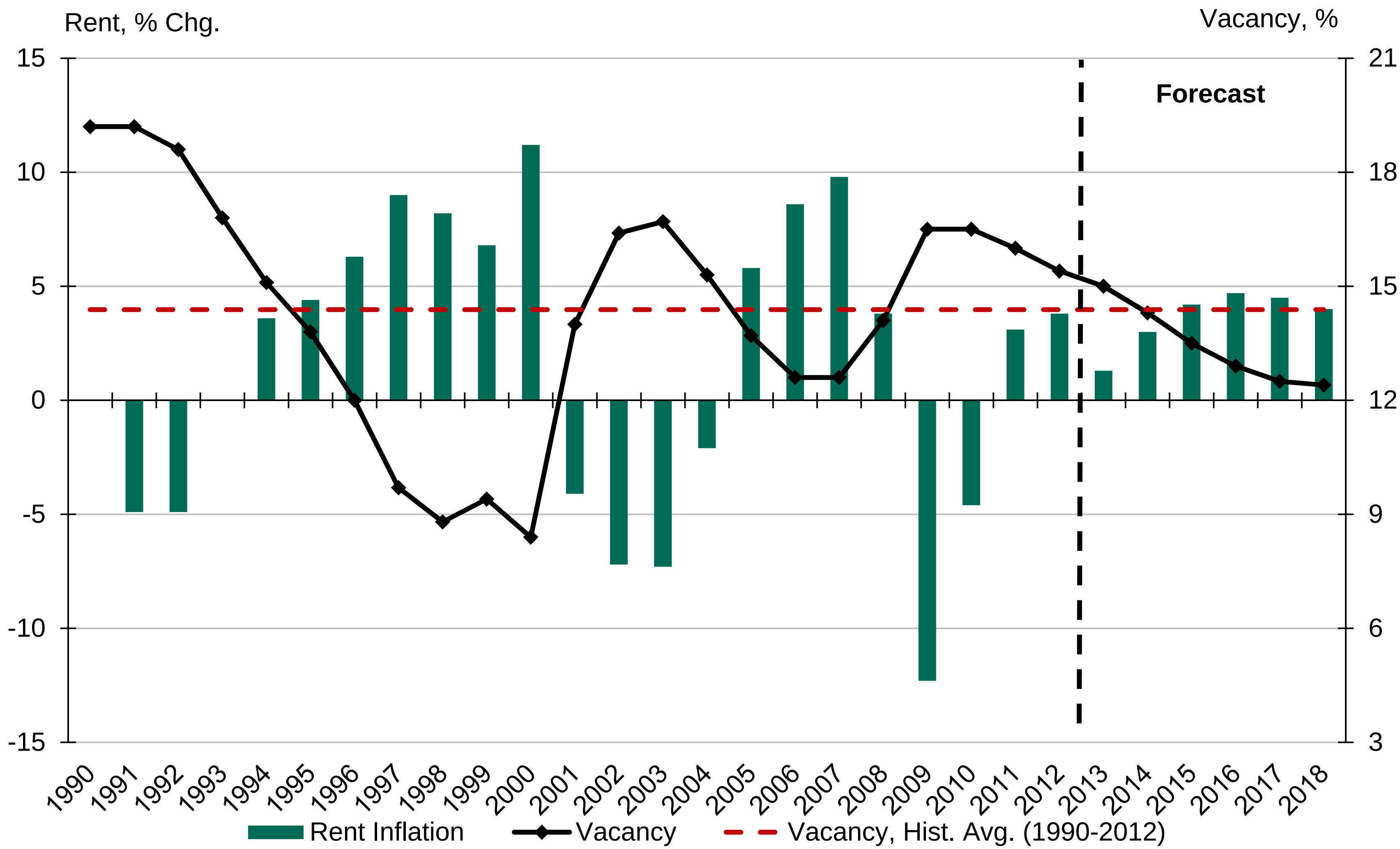
THE OFFICE MARKET

Employers Hiring: Backfilling Space and Densifying?



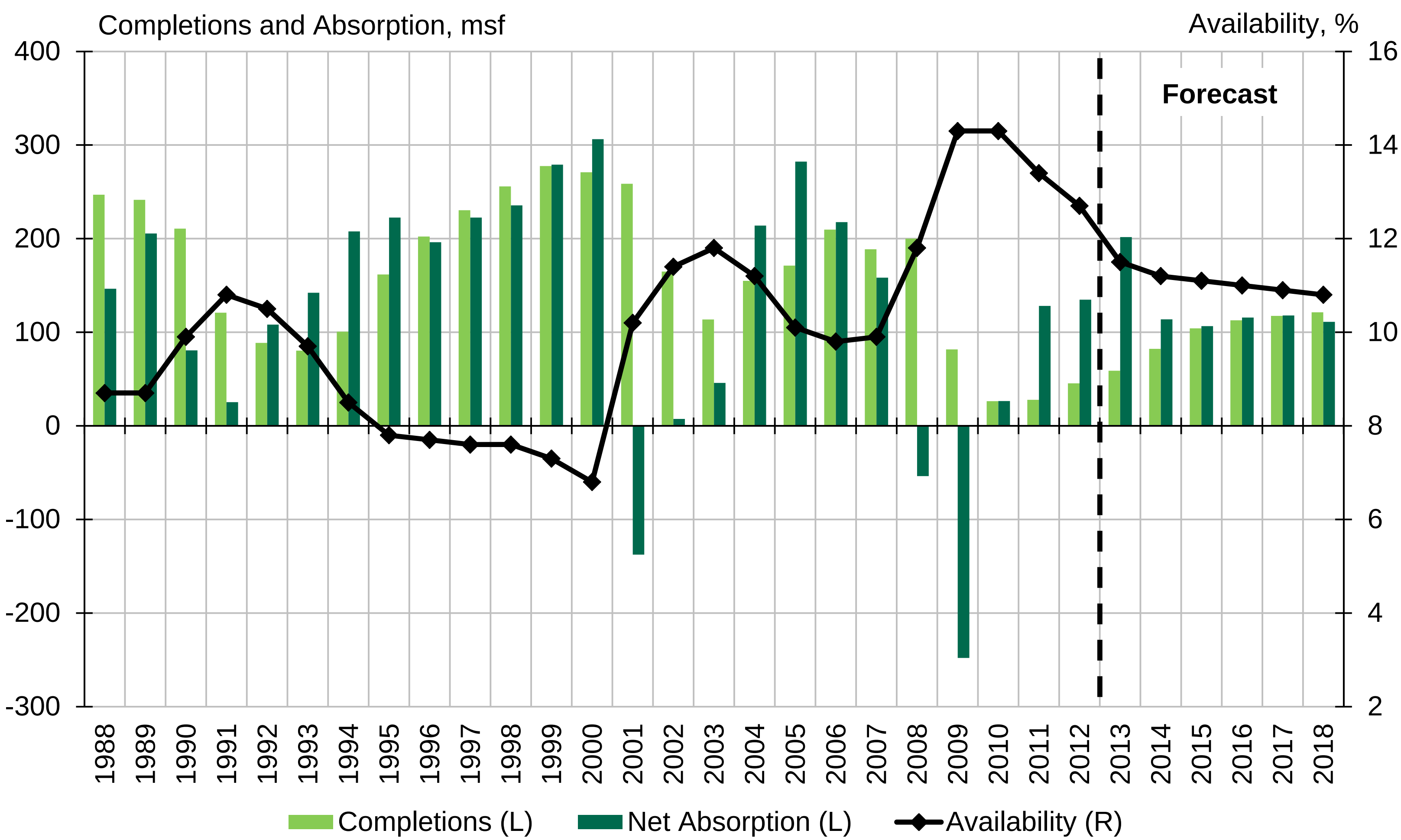
Source: CBRE Econometric Advisors.

U.S. OFFICE RENT RECOVERY WILL ACCELERATE



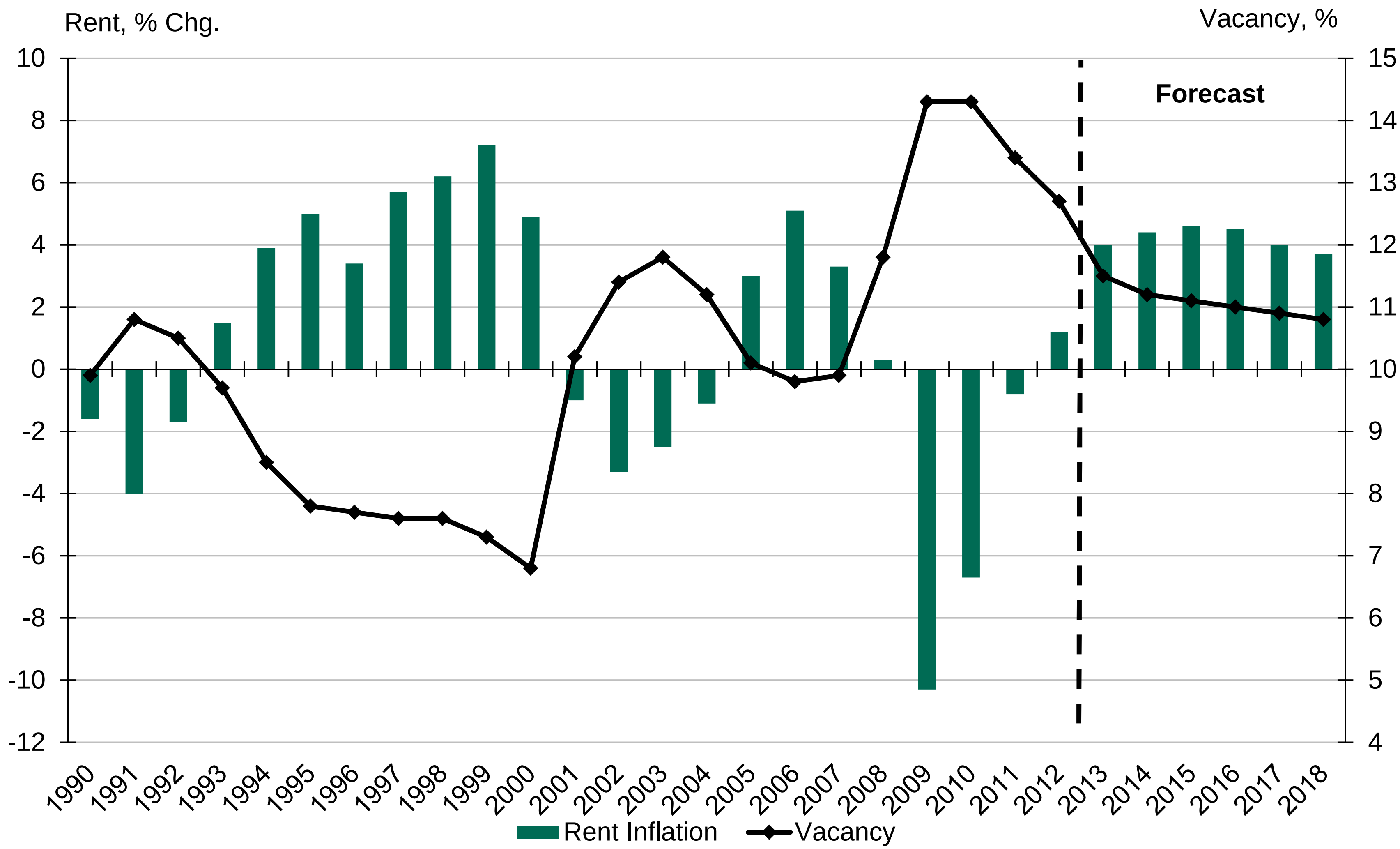
Source: CBRE Econometric Advisors.

INCREASED GLOBAL TRADE AND PRODUCTION HELPING INDUSTRIAL



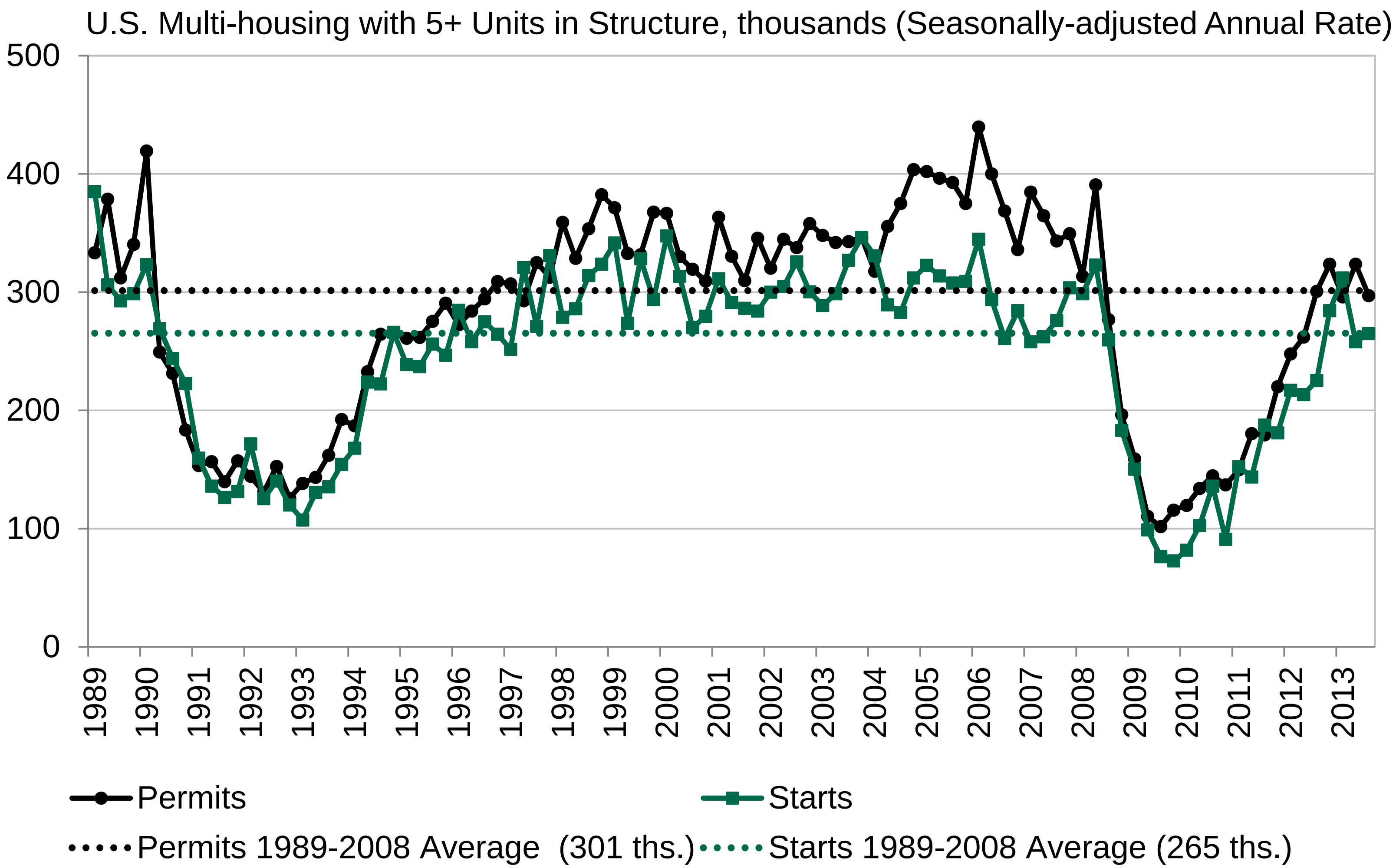
Source: CBRE EA Office Outlook, Q2 2013.

RENT GROWTH TO PRE-RECESSION LEVELS AS AVAILABILITY CONTINUES TO IMPROVE



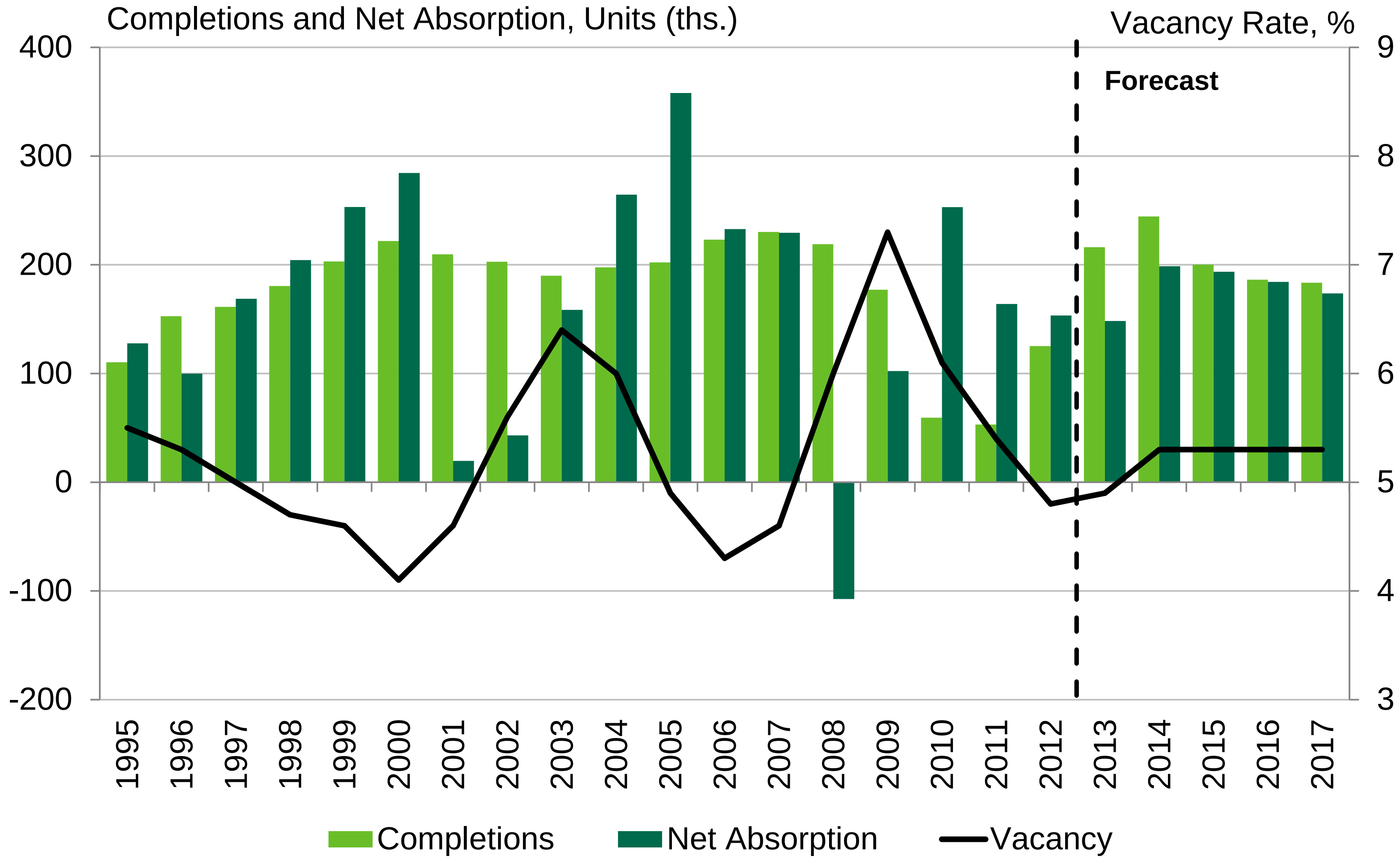
Source: CBRE Econometric Advisors.

PERMITS AND STARTS REMAINED NEAR THE HISTORICAL NORM IN Q3



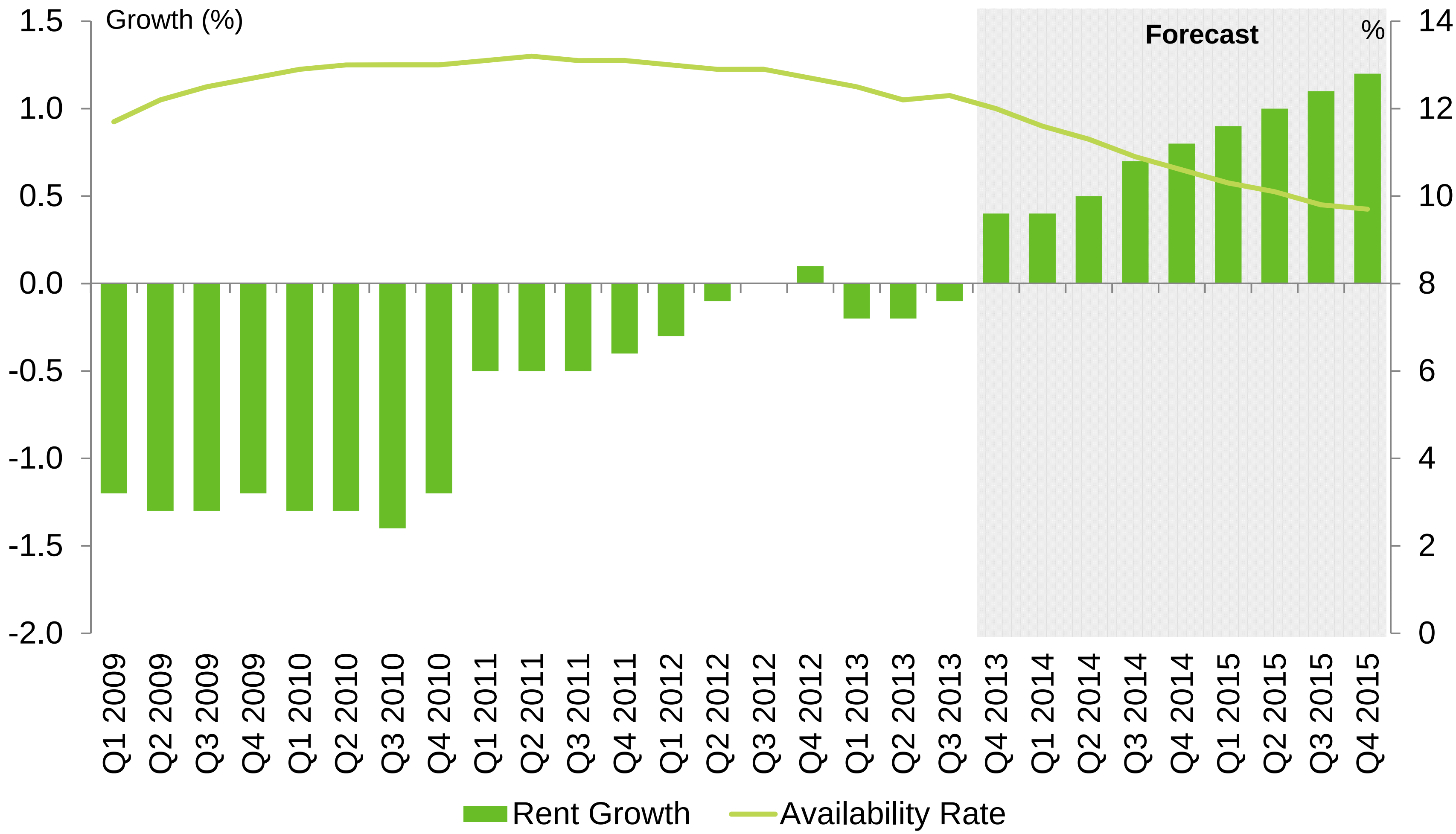
Source: CBRE Econometric Advisors, Q2 2013.

VACANCY IS LIKELY TO RISE IN 2014



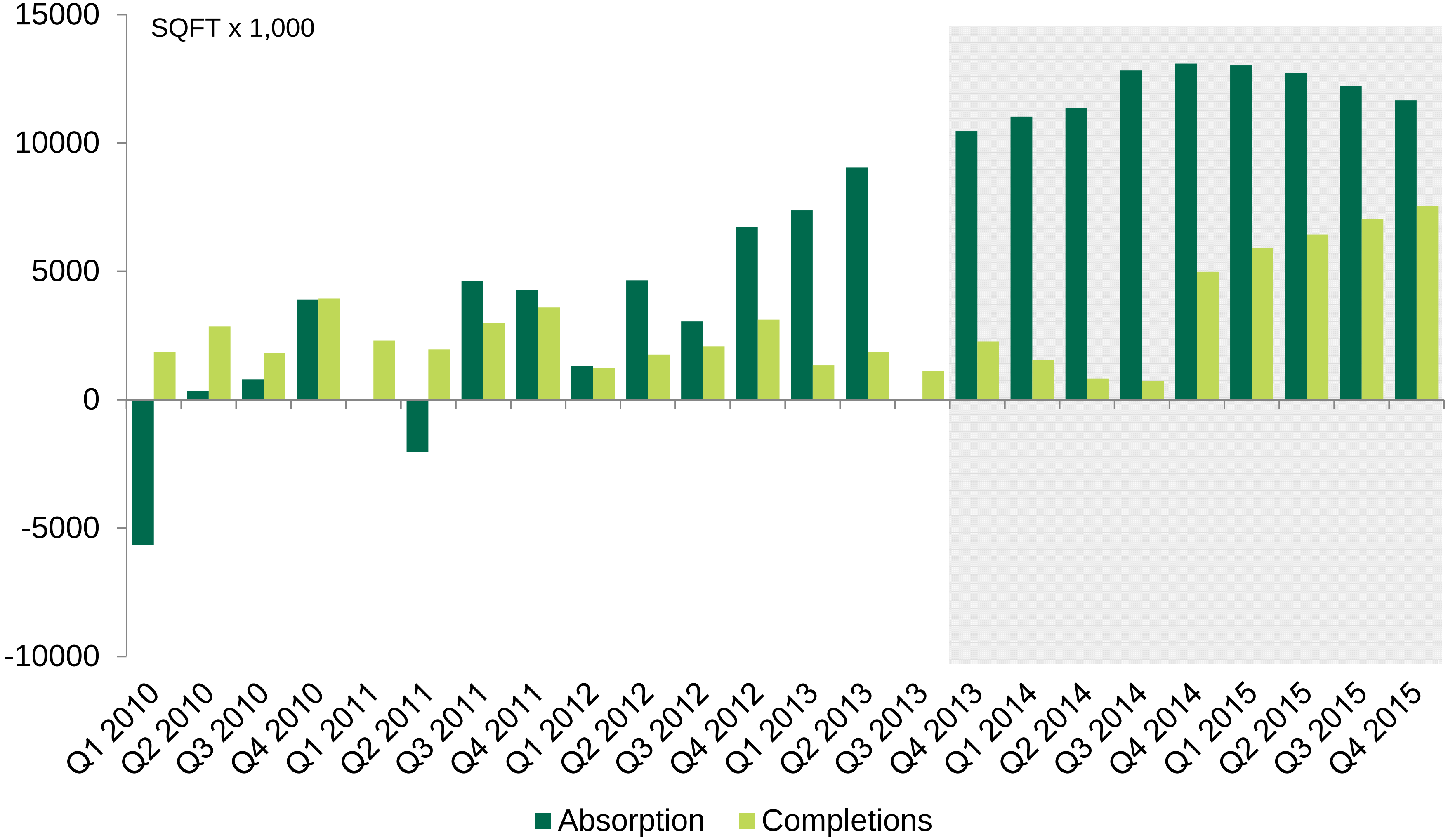
Source: MPF/CBRE EA Multi-Housing Outlook, Q3 2013.

SIGNIFICANT RENT GROWTH A COUPLE OF YEARS AWAY



Sources: CBRE Econometric Advisors.

DEMAND RECOVERY STALLS IN Q3



Source: CBRE Econometric Advisors.

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