Real Estate Insights, Forecasts & Strategies
Editor: Christopher Lee

Strategic Advantage

Issue K011714

2014 Outlook
Part II ~ Real Estate

In This Issue

- *Office Sector Outlook*
- *Industrial Sector Outlook*
- *Retail Sector Outlook*
- *Multifamily Sector Outlook*
- *Other Considerations*
- *Closing Comments*

Friends & Colleagues:

Last week you received *Part I ~ Economic Outlook* of our three-part series on what to look forward to in 2014. If you would like to access an additional copy for easy reference, please use this link www.celassociates.com/onlinenewsletter/2014OutlookEconomicPartI-SA-K012014.pdf. In this issue, *Part II ~ Real Estate*, we examine the outlook for the office, industrial, retail and multifamily sectors. Our next issue, the third and final installment in this series, will include *Ten Key Strategies* for 2014 to capture these unique opportunities. You don't want to miss any of these.

In 2014, office buildings will continue the shift to occupiers who want a *different kind* of space, not *more* space. The industrial sector will continue the shift from "storage" buildings to "speed-of-delivery" buildings. The retail sector will continue its shift from a tenant-based to a consumer-based orientation. The apartment industry will continue to shift to a rental-based society. In addition, global real estate markets will continue to grow, perhaps exceeding the $620 billion mark. There is, indeed, a great deal to look forward to in this pivotal year for the real estate industry.

I see several bright lights of opportunity, not floodlights of possibilities. The key in 2014 will not be identifying opportunities…it will be determining which opportunities to pursue.

Office Sector Outlook

The Great Generational Transfer

Generation	View Of Work	View Of Work Environment	View Of Office Space	Square Feet Per Worker
Baby Boomers 76 million (1946 – 1964)	"About to retire...not about to change."	"I want the trappings of success."	Dedicated office with title-based amenities.	350 Square Feet
Gen Xers 49 million (1965 – 1976)	"Flexible hours for more personal TO."	"I want more money, portable skills and to work on my own."	Cube space with external amenities.	250 Square Feet
Millennials 86 million (1977 – 1996)	"Meaningful hours...no schedule."	"I want teamwork, personal growth and opportunities."	Collaborative space with internal amenities.	<150 Square Feet

Source: CEL & Associates, Inc.

Office buildings – in both their use and design – will undergo dramatic changes between 2014 and 2020. **The occupiers have clearly stated that they don't need more office space; they need a different kind of office space**. Cost-cutting, more efficient space planning, occupancy costs, consolidation and outsourcing will drive occupier decisions. The 2007-2009 recession demand fall-off has begun to recover as U.S. corporations have re-engineered and restructured their organizational business practices, processes and platforms.

Positive net absorption has continued for nearly four years, and overall national vacancy rates have dropped to slightly below 17% (<14% in the CBDs), the lowest vacancy level since 2007. According to Jones Lang LaSalle, in 2013 a total of approximately 40 million square feet of office space was absorbed…a dramatic increase over the 28.2 million square feet absorbed in 2012. Of the 44 major downtown and 55 suburban markets studied by JLL, 80% recorded positive absorption in 4Q 2013. However, the office sector vacancy rate is still far above the 12.5% level reached in 3Q 2007. Touring volume has increased, rents have risen modestly and concession packages have declined. The absence of new construction activity and a recovering economy has created **increased leasing activity, and in many CBDs the lack of space or declining space options will sustain modest rent increases**. In 2014, Tenants will begin to lose their advantage as existing inventory is absorbed and lack of new construction limits the available space in several key markets.

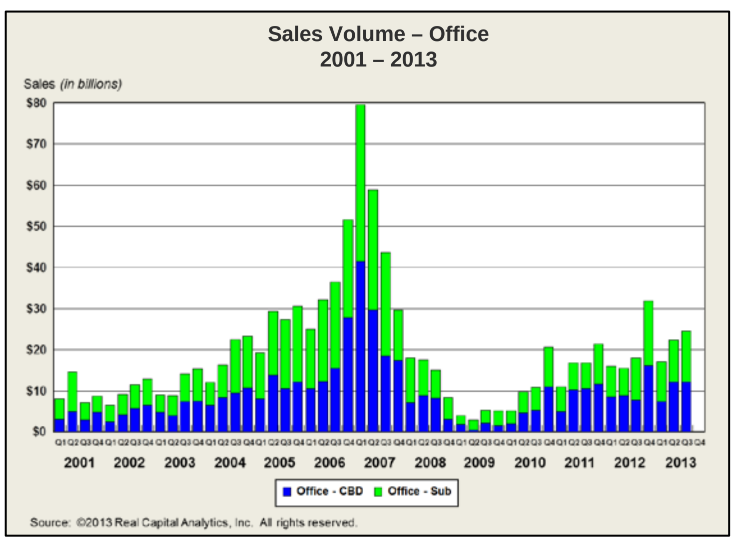
Major Office Shifts Are Underway

From…	To…
Managing Four Walls	Managing Inside The Four Walls
Dedicated Offices	Unassigned Work Space
Locked Doors	Collaborative Space Designs
Work From Offices	Work Remotely
Face-To-Face Meetings	Virtual, Skype, GoToMeeting
Fixed Walls	Movable Walls
Attached Workforce	Untethered Workers
Controlling Boomers	Collaborative Millennials
Office Buildings	Workplace Environments
Old Technologies	New Technologies
9:00 to 5:00 Office Day	24/7 Workplace

Source: CEL & Associates, Inc.

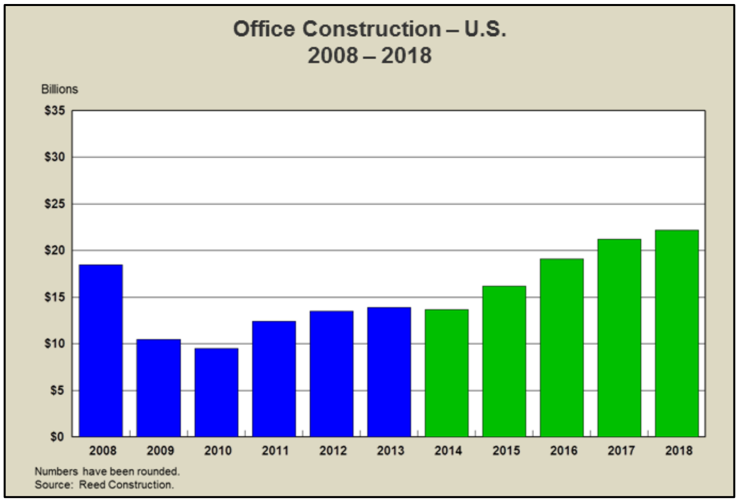
Suburban and tertiary markets, however, continue to lag behind major CBD markets. Some Analysts believe that in 2013 many/most suburban markets "bottomed out" and are no longer the stagnant force in an otherwise improving office market. However, the office market recovery has not been uniform. Geocentric markets such as San Francisco, New York and Washington, D.C. have been the primary contributors to net absorption. **The tech (Silicon Valley) and energy sectors (Houston, Denver) have accounted for around 50% of office space absorption**. Over 50 million square feet of office space is under construction at the time of this writing, according to Jones Lang LaSalle.

In 2014, the office sector will flourish in industry-centric submarkets (bio-tech, tech, energy, healthcare-related and creative class), struggle in secondary and tertiary geocentric regions and muddle through in markets heavily dependent upon government jobs. Vacancy levels will be around 13% in many CBDs, and overall national vacancy levels will decline 60 bsp – 90 bsp. Asking rents could increase 2.1% - 2.6%, with effective rent increases rising 1.3% - 1.6% in most markets, and construction starts will approach 50 million square feet in 2014. According to Moody's Analytics, jobs that utilize office space will increase 2.1% in 2014 to nearly 34 million. Leasing activity could be 6% - 9% higher in 2014.



However, U.S. corporations are cutting travel budgets, utilizing more remote technologies and reducing the amount of square footage per employee. **Personal office space is rapidly declining (now 30% of a respective floor plan).** By 2020, 46% of the U.S. workforce will be

Millennials. Today, 25% - 30% of the U.S. workforce consists of contingent workers. By 2020, that percentage could grow to nearly 40%. **The average individual workspace is occupied only 55% of the time in a normal work day and only 18% of the total "leased space day."** Currently the average U.S. tenant has approximately 33% of its space as excessive shadow space based on the new square-feet-per-employee ratio. Increasing workplace and worker productivity has been the focus of U.S. corporations. Reducing the amount of square footage per employee to less than 150 – 175 square feet will result in new floor plans and demand for additional Tenant Improvement allowances. The mobile, work-any-place-at-any-time workforce has arrived. **It could take nearly a decade for office space to create a new "norm."**



Sales of office buildings in 2014 could approach $90 billion, while cap rates for CBD and suburban office buildings are likely to remain at or around the 6.1% and 7.2% range, respectively. In 2013, three office buildings sold for prices in excess of $1 billion each. This price peaking could result in **more trophy assets marketed for sale over the next 12 months**. Watch for more sale-leaseback activities as companies continue to shed their assets.

In 2014, I like New York, San Francisco, Dallas, Houston, Silicon Valley, Boston, Seattle-Bellevue, Portland, Raleigh-Durham, San Diego and Denver. Six sleeper markets to watch are: Pittsburgh, Minneapolis, Nashville, Boise, Indianapolis and Charlotte. **Watch for increased demand within markets that foster emerging technologies, regional financial services, bio-research and high security data centers**.

Industrial Sector Outlook

Industrial fundamentals continue to improve, but the transition from old, inefficient and technology-challenged buildings to speed-of-delivery properties combined with continued expansion in the U.S. manufacturing sector are reshaping the location and type of in-demand industrial space. Space functionality will be a primary driver of industrial space activity in 2014. Economic activity has increased in the manufacturing sector to a December ISM Index of 57%. New orders are up, and overall production has increased to a PI Index of 62.2%. According to the Institute for Supply Management, of the 18 manufacturing industries, 13 reported growth in December 2013. The backlog of orders and volume of new export orders are rising. December's ISM employment reading is the highest since June 2011.

According to ISM Chairman Bradley J. Holcomb, the manufacturing sector has posted "a positive start for 2014." The one caveat to the strong U.S. manufacturing growth is its sustainability in light of weak manufacturing reports from China. Manufacturers appear wary of the future and will be very cautious about hiring to meet capacity until there is more confidence in the economy. In 2014, I expect manufacturing to move into cruise-control as consumers spend a little more and exports rebound. The first and perhaps second quarter of 2014 should be particularly strong. However, it is important to remember that manufacturing represented 21% of the U.S. economy in 1980…today, it is closer to 12%.

This positive news has resulted in an increase in the sale/purchase of industrial properties. Through 3Q 2013, year-to-date sales of industrial building totaled $31.9 billion, up 33% from one year ago. While portfolio sales were around one-third of overall sales, **sales of individual properties, according to Real Capital Analytics, were up 26% year-over-year and even higher on a year-to-date basis**. Integra Realty Resources reports 14 industrial markets are expanding in 2013, compared to only two in 2012.

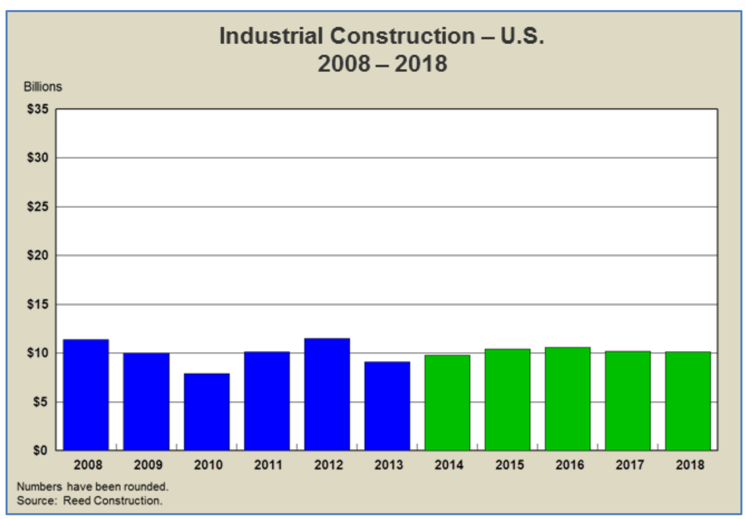
Industrial Shifts

Category	Agrarian Revolution	Industrial Revolution	Logistics Revolution
Typical Building Size	100,000 sf - 300,000 sf	500,000 sf - 750,000 sf	>1,000,000 sf
Docks	Single Dock	Cross Dock	Cross Dock / U-Shape
Building / Land Ratios	50% - 52%	48% - 50%	40% - 45%
Leases	>15 Years	10 -15 Years	< 10 Years
Typical Ceiling Height	22 Feet	32 Feet - 36 Feet	36 Feet - 60 Feet
SF / Dock Ratios	1/10,000	1/5,000	1/3,000
Trailer Storage	N/A	1/10,000	1/5,000
Stacking	Manual	Forklifts	Robotics
Building Owners	Local/Regional	Regional/National	National/Global
Design	Outside In Developer-Driven	→ →	Inside Out Tenant-Driven

Source: CEL & Associates, Inc.

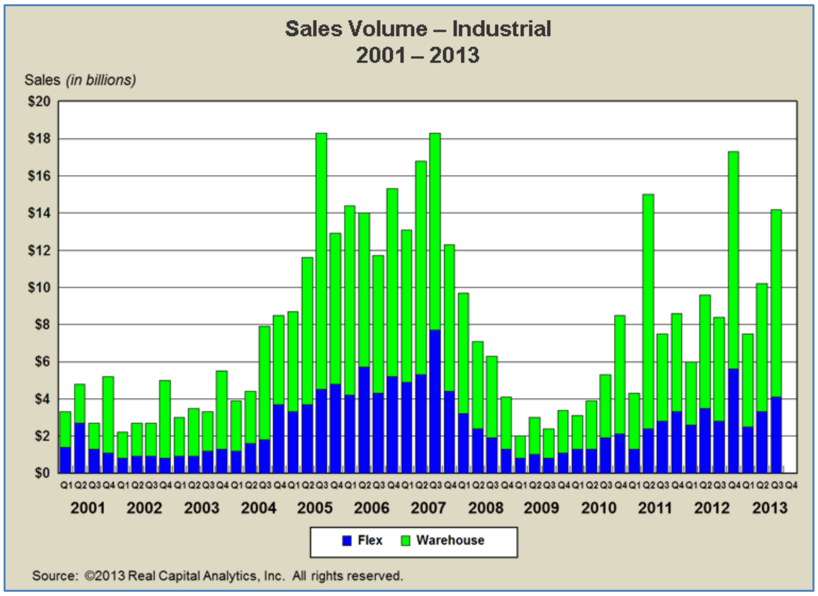
Overall vacancy level is now around 8.2% - 8.3%, while net absorption through 3Q 2013 was nearly 128 million square feet. According to Cushman & Wakefield, the U.S. industrial sector has absorbed 279.3 million square feet since year-end 2011. Net absorption has been the greatest in the traditional locations (ports, distribution hubs and regional logistics centers). **Key trends to monitor in 2014 will be the growth of e-commerce, exports and backlog orders**.

Entering 2014, the best landlord cities will continue to be Los Angeles, Miami, Chicago, Oakland, northern New Jersey, Salt Lake City, San Francisco, Atlanta, Houston, Denver and Memphis. Also, keep your eye on Baltimore, Cleveland, Philadelphia, Tacoma, Tampa, Kansas City, Portland, Charleston and Seattle. I am excited about the $5 billion port infrastructure upgrades for the ports of Los Angeles and Long Beach (2012 – 2017). Because global GDP growth is not robust, watch for continued rail intermodal traffic growth. However**, I believe over the next 12 – 36 months, shippers from Asia will use the Suez Canal rather than the upgraded Panama Canal until the new rates to pay for the $5.2 billion expansion are locked in**.



Also, the Spanish-led consortium expanding the Panama Canal has asked the country of Panama to pay an extra $1.6 billion for cost overruns or work will be halted. The stakes are high, since Panama was expecting annual revenues to jump from $1 billion to $4 billion per year with the expansion. In the end, this dispute will be resolved, but it could delay the grand opening if the solution goes to arbitration.

In 2014, cap rates for flex and warehouse space should remain plus/minus 10 bsp from their 7.8% and 7.5% levels, respectively, experienced in 2013. Overall industrial cap rates in 2014 should remain in the 7.2% - 7.3% range.



Remember, the three-month rolling average cap rate for U.S. industrial properties was 9.2% in 2009, according to Real Capital Analytics.

I expect total industrial sales in 2014 to range from $42 billion to $47 billion. Overall vacancy levels will hover around the 8.1% - 8.3% range. **The real property type winner in 2014 will be warehouse space**. Industrial rents will rise 4.2% - 4.4% in 2014 and 4.3% - 4.5% in 2015.

Watch for an increase in build-to-suit opportunities driven by the global distribution giants (Amazon, Caterpillar, etc.), and as such, the global industrial real estate leaders will capture an increasing share of the new logistics business. I would also expect the industrial sector to be in the top three best performing among the REIT asset classes in 2014. There is clearly an opportunity and excitement surrounding this property type.

ISM Index – December 2013					
PMI	57.0	Growing	Inventories	47.0	Contracting
New Orders	64.2	Growing	Prices	53.5	Growing
Production	62.2	Growing	Backlog Orders	51.5	Growing
Employment	56.9	Growing	Exports	55.0	Growing

Retail Sector Outlook

The retail sector is dependent upon five factors: job growth; household income growth; consumer confidence; economic vitality; and home values. On a report-card basis, job growth and household income growth have not occurred on a scale to move the retail sector needle. Consumer confidence is improving, but caution and uncertainty have kept overall optimism at moderate levels. Overall economic vitality is far better today, but the impact of higher taxes, rising interest rates, and the financial impact of the Affordable Care Act is expected to reduce overall household expenditures. The one bright spot is a rise in home values (up 11% year-over-year in 3Q13); although Analysts are suggesting that the market is shifting to a much slower growth rate.

Generational Shifts In Retail Shopping

View Of...	Baby Boomers	Xers	Millennials
Retailers	Trust the brand.	Trust the connectivity.	Trust the experience.
Groceries	Food as a necessity.	Food as a connector.	Food as a nutrient.
Frequency Of Shopping	Structured and consistent.	Based on time availability.	As needed...24/7.
Retail Motivation	Advertisements.	Ratings.	Word-of-mouth/Twitter.
Shopping	One stop.	Digital retailing.	Unlimited stops.
Physical Plant	Mega centers.	Smaller stores.	Omni-channel.
Restaurants	Place to eat.	Place to socialize.	Place to connect.
Stores	Place to see products.	Place to interact with products.	Place to experience products.
Display Space	Floor space.	Display space.	Mental space.

"Technology has changed the definition of retail real estate."

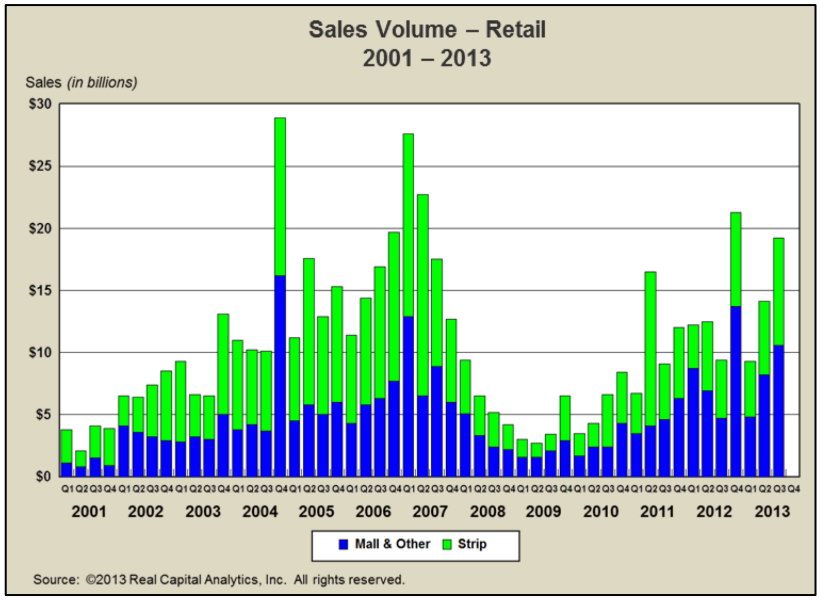
"When online sales reach 15% – 20%, the current retail model begins to fail."

Source: CEL & Associates, Inc.

One of the harbingers of the retail sector's health has been the growth in holiday retail sales. **In 2013, sales during the holiday season increased only 2.3%** compared with last year, according to MasterCard data. **Overall consumer demand during the holidays was considered to be "anemic" by some Analysts**. While national retail sales increased, according to ShopperTrak, overall holiday foot traffic dropped 14.6% in 2013. Shipping problems caused by a surge of heavily discounted purchases created further challenges. According to ComScore, there were 10 days in 2013 when online shopping exceeded $1 billion, down from 12 days in 2012. ShopperTrack reported for the week ending December 22, retail brick and mortar traffic decreased by 21.2% over the same period last year. Retailers are hoping for another wave of post-Christmas gift card sales ($29.8 billion), but retailers are expected to offer significant discounts (50% - 70%) to move unsold inventories.

The uptick for retailers, but not owners of and tenants in retail properties, was a 37% (12/20 – 12/22) increase in online sales over that period, up 10.3% overall in 4Q 2013. Nearly 22% of online sales were consummated from mobile devices. Overall, consumers spent $82 billion on Internet sales in November and December. Shoppers using tablets spent an average of $118.09 per order, according to IBM Digital Analytics Benchmark. The average smartphone order was $104.72. Traffic to retailers from smartphones made up 21.3% of all online visits.

The retail sector is now dividing itself between the winners (grocery stores, fast food, discounters, drug stores) and the losers (anything that you can easily obtain online rather than in a store). Retail centers have become extensions of consumer behavior and individual needs. However, more importantly, in 2013 many agreed that **the consumer, not the retailer, has taken hold of retail interactions**. Because 66% of mobile shoppers comparative shop online while in a retail store and overall online retail sales are expected to reach $370 billion by 2017, the retail real estate sector should be concerned. Continued retailer survival-based consolidation and the emergence of new retail concepts and innovative retail center designs mandate retail real estate owners and operators restructure their business strategies in 2014.



In 2014 watch for more store closures caused by financial failure/consolidation and growth of grocery stores focused on ethnic and health food choices. Vacancy levels across most major markets should remain in the 8.5% - 8.7% range throughout 2014. Community centers and strip center vacancy levels will remain in the 9.9% - 10.2% range in most major markets. Mall vacancy levels will remain below 5%. Specialty center vacancy levels will hover in the 7.6% - 7.9% range as overbuilding will dampen leasing activity, and online sales reduce onsite sales. Only 44 msf of retail space was opened in the 54 largest U.S. markets in 2013…down 87% from the 325 sf in 2006, according to CoStar. Power center vacancy levels will likely increase 20 bsp to 90 bsp in 2014 (approaching 7.0%).

Sales of retail assets in 2014 should range from $54 billion to $57 billion. Cap rates probably will increase 10 bsp to 30 bsp as sales of retail assets will not continue their decline from 2012. Retail construction activity should be around $18 billion in 2014 as rehabs, repositioning and redevelopment activity dominate this sector. Watch for continued redevelopment of big box single-tenant, urban infill and ethnic centers in 2014.

I like Boston, Silicon Valley, New York City, Orange County (CA), San Diego, Pittsburgh, Houston, Dallas, San Antonio, Salt Lake City and Tulsa. There will also be opportunities in Austin, Seattle, Washington, D.C., Los Angeles and the greater Baltimore MSA. Long-term, I like San Francisco, San Diego, Denver and San Jose.

Multifamily Outlook

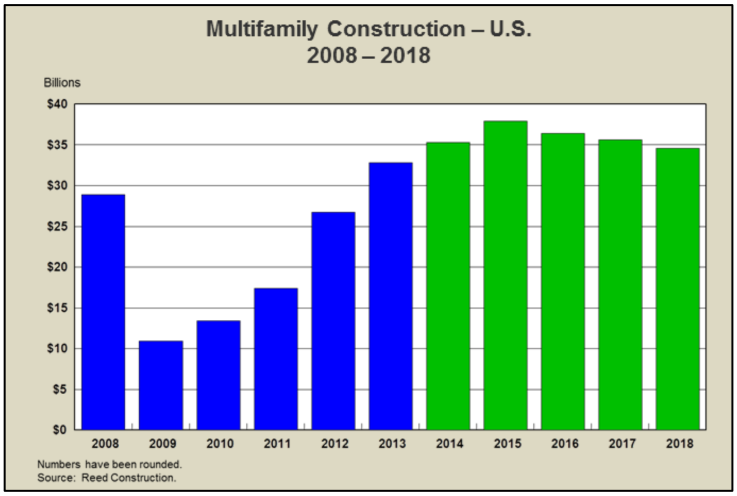
For the past six years, I have asked, "What is not to like about apartments?" The combination of strong demographics, shifting generational needs, delayed household formations (marriages), delayed birth of the first child, anemic job growth, a significant pent-up demand for rental housing and historically low household incomes indicate another good year for this sector. **The U.S. is slowly becoming a renter-based society**.

Generational Shifts In Residential

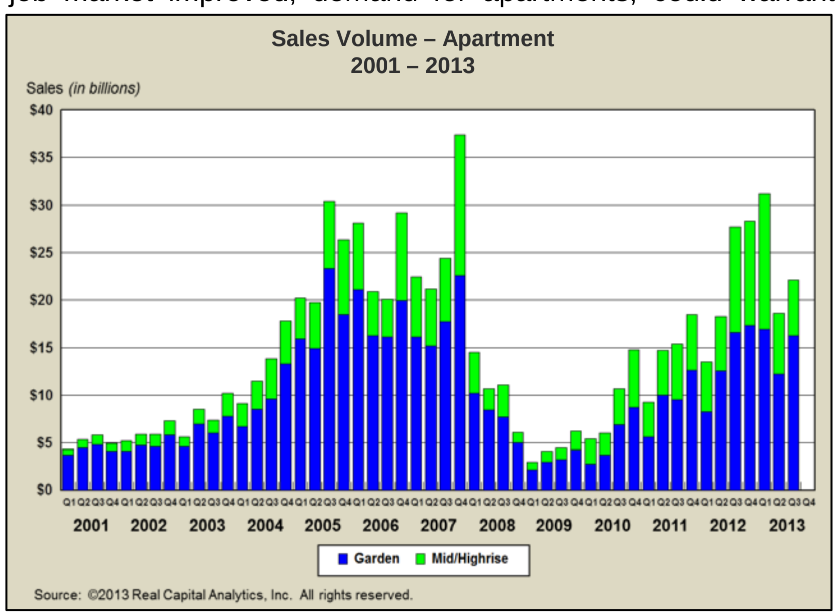
View Of . . .	Baby Boomers	Xers	Millennials
Homeownership	The American Dream	Protective Castle	Too Restrictive
Mortgage	Tax Deduction	Forced Savings	Another Payment
Living Space	Full of Furniture	Full of Gadgets	Full of Technology
Renting	Renting As A "Last Resort"	Renting By Need	Renting By Choice
Neighborhood	Suburban	Suburban / Urban	Urban
Location	Long Commute	Moderate Commute	Short Commute

Source: CEL & Associates, Inc.

According to the National Association of Realtors®, existing home sales were 4.9 million on a seasonally adjusted basis in November 2013. This was a 4.3% decline from October numbers and the first time in 29 months that sales were below year-ago levels. Faced with economic and job uncertainty, higher mortgage interest rates, constrained inventory and tighter credit markets, consumers are reluctant and/or unable to purchase or stay in their current single-family home. In addition, the dramatic decline of new home construction over the past several years is creating higher home values and a robust single-family rental market. Approximately 2 million existing homes are for sale (5.1-month supply), while the national median existing home price is around $196,000. Distressed sales still account for 13% - 17% of existing home sales, and all cash sales comprised 32% of the transactions in November. **The relief for current or prospective homeowners is still two to four years away.** With nearly two-thirds of Americans surveyed believe the U.S. economy is on the wrong track and 22% of Americans expect their personal financial condition to worsen in 2014, the demand for rental properties will increase, and current renters are likely to stay renters for a longer period of time.



Financially-challenged by college debt, limited full-time job growth, a muddle-through economy and high unemployment, the 18 – 34 year olds are renting longer. **The unemployment rate for 18 – 34 year olds is higher than for the U.S. population overall.** Boomerang Millennials, while still living with their parents, represent another significant level of pent-up demand. With nearly 39 million renter-occupied households (94.5 million residents) or 32% of the total U.S. households renting, the market is large and growing. **There is a clear demand for 340,000 – 375,000 new apartment units annually through 2017**, and if the job market improved, demand for apartments, could warrant 400,000 or so starts per year. I expect some renter pushback on rapidly rising monthly rents in 2014 as the percent of household income dedicated to housing rises near and above 40%. **Affordability will be the dominant rental theme throughout 2014.**



Apartment vacancy rates for all rental apartments should decline 30 bsp to 70 bsp in 2014. National vacancy for investment-grade apartments in 2014 should stay in the 4.5% - 4.7% range. I expect permits to range from 282,000 – 291,000, while starts should range from 258,000 to 264,000. In 2014, nearly 230,000 new apartments will be added to the supply (up from only 87,000 in 2012). Same-store rents should again increase 3.2% - 3.4% nationally; however, I expect rent increases in the 4.1% - 4.5% range in the West. Some "hot" markets in the West will enjoy 6% - 7% rent increases. Concession values will equate to four to five days of free rent in 2014. One key to watch is the strategic direction of Fannie Mae and Freddie Mac.

I like Dallas, Denver, Nashville, Los Angeles, San Francisco, Silicon Valley, Austin, Orange County, San Diego and Portland. Frankly, nearly 75% of the multifamily markets is poised for a good year in 2014. Watch for greater interest by investors in secondary and tertiary markets.

Cap rates will remain in the 6.1% - 6.3% range nationally, with several markets likely to post sub 4% cap rates in 2014. Overall transaction volume in 2014 will likely be $89 billion - $93 billion as price appreciation slows, institutional buyers shift their attention to other property types, foreign investor interest in apartments declines slightly and REIT buyers slow their investment activity. **However, despite these "peaking" variables, the apartment sector will be robust and prosper throughout 2014.**

Multifamily Trends
❑ 46% of Millennials plan to have fewer children than their parents.
❑ Single-person households were 27% in 2012 (vs. 17% in 1970).
❑ Average household size is down from 3.1 (1970) to 2.6 (2012).
❑ In 2012, married couples with children made up just 20% of all U.S. households (down from 40% in 1970).
❑ 61% of Americans would prefer to live in a smaller home and have a commute of 45 minutes or less.
❑ The U.S. fertility rate has stabilized after hitting record lows (1.89 children in 2012 vs. 2.12 in 2007).
❑ Overall multifamily vacancy level stalls at 4.5%.
❑ 35.1% of current renters previously owned a home.
❑ There are now 2.4 million people who should be renting but cannot afford to do so.

According to Redshift Research, 1.6 billion delivery orders were placed in the U.S. from October 2012 to October 2013. The cities with the highest rental rates generate the most delivery orders. If you own/manage apartments in major urban areas, have you designed and/or set up processes to manage this emerging trend? Apartment living in 2014 and beyond is less about space and more about convenience, proximity, access, amenities and services.

Other Considerations

In addition to the primary asset classes, I expect the following events to occur in 2014.

Data Centers: This space is locked up with five public REITs and a handful of regional companies. I expect steady but not spectacular growth in this sector over the next 12 months.

Healthcare: On hold for 2014 as the industry awaits clarity from the Affordable Care Act and the current hospital buying binge of physician practices subsidies. I like the MOB space and expansion of existing medical facilities opportunities in 2014. I expect more healthcare IPOs in the future.

Hospitality: Consolidation, G & A efficiencies and the unveiling of new brands and new branding programs are likely. Expect RevPar (6.2% growth in 2014) or occupancy numbers (likely over 72%) to improve slightly over 2013 levels. International not domestic expansion will be the focus. The increased market penetration of the 18 – 34 year-old hospitality guest will likely garner more attention over the next 36 months.

REITs: In addition to the respective asset classes, I also expect: (1) continued REIT consolidations and a return to privatizations…based on several REIT stocks' discount to NAVs; (2) a beginning wave of REIT CEO succession planning; (3) a likely shift of several private REITs into the listed space; and (4) fewer transformative deals. REITs underperformed the S&P 500 in 2013, however, they were still able to raise around $5.7 billion in 19 new public offerings (the largest number of IPOs since 2004).

Net Lease: I expect overall transactional volume in this space to increase over the just-concluded phenomenal 2013 results. While I do not expect to see large-scale leaseback sales, the volume of small- to mid-size transactions will likely accelerate.

Self-Storage: This is truly a sleeper asset class with incredible opportunities for aggregators. Cap rates should remain in the 5% – 6% range.

Service Company Outlook

Over the next 12 months, real estate service companies will take two very distinct tracks. Some will have developed a robust financial services and specialization track and others will take a generalist approach to their business model. One will be proactive…the other reactive. One will be regional and national…the other local and regional. One will experience double-digit growth and the other will not.

A wave of mergers, entity sales and consolidations will occur in 2014. Smaller and mid-size firms owned/managed by aging Baby Boomers will be faced with succession, sale and sustainability decisions. Larger real estate service firms will be faced with "what is next" and "is-that-the-best-you-can do" questions. I would expect to see 1 – 3 very large, 6 – 9 moderate-size and 11 – 13 small entity transactions in 2014. As we predicted in 2005, **there will be three global service providers (CBRE, JLL and ???)…and 30% fewer real estate service firms. The industry is on track to actualize that prediction**.

The need to have a financial services platform with brand recognition, global reach, brand differentiation and a constantly improving technology and CRM platform will be essential. Will there be room for the local and regional real estate services firms in this new age of consolidation? Absolutely. However, a well-conceived strategic and long-range business plan, dedicated leadership and a team of company-first professionals will be essential.

The table below highlights the expected growth by business line for real estate service companies.

Business Line/Category	2014 Growth Rate		
	Low	**Likely**	**Optimistic**
Property Management	9%	10%	11%
Leasing	6%	7%	8%
Investment Sales	13%	14%	15%
Appraisal	9%	10%	11%
Asset Management	7%	8%	9%
Annual Growth	11%	13%	15%
Profit Margin	9%	10%	11%

Indeed, 2014 will be a pivotal year for many real estate companies.

Closing Comments

Despite the significant economic and financial challenges facing the U.S.…the theme of *Strategic Advantage* 2014 Outlook Part I ~ Economic (our first January issue), the real estate outlook for most is fairly good. **I expect an 8% - 12% growth in real estate service companies' EBITDA in 2014 as a result of growing demand with limited supply**. However, an estimated $1.4 trillion in commercial mortgages will mature between 2014 - 2017. With volumes still 15% or so below their peak, there will be some very interesting investment opportunities over the next 12 months.

Part III, next in our three-part Strategic Advantage newsletter. will provide the top **Ten Key Strategies** for real estate companies in what is shaping up to be a Pivotal Year for the real estate industry. The combination of the Economic Outlook (Part I), the Real Estate Outlook (Part II) and Ten Key Strategies (Part III) will provide a road map for success in 2014.

I would welcome comments, insights or ideas; please email them to newsletter@celassociates.com.

Regards,

Christopher Lee

CEL & Associates, Inc.

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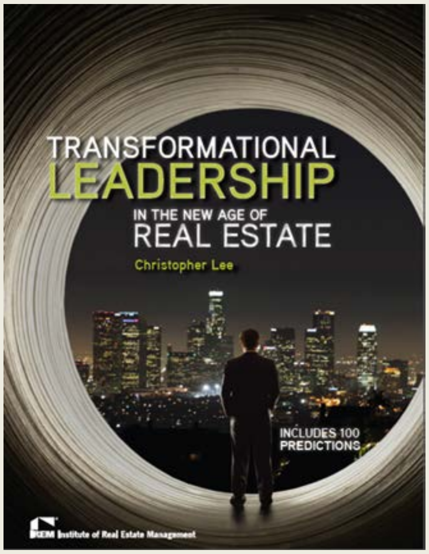

★★★★★

Surviving, prospering and achieving a competitive edge in today's marketplace can be challenging. *Transformational Leadership* is a book that traces the history of real estate, provides insights into what's ahead, highlights the timing of the next real estate cycle and provides strategies on how to succeed and thrive. The book also includes 100 predictions you will find fascinating and thought-provoking.

Simply click on this link *IREM* and you will be directed on how to purchase your copy.

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SPECIAL ANNOUNCEMENT

Due to an increasing number of requests from Owners and Boards of Directors to assist:

- Finding secure/stable long-term financial partners.
- Owners wishing to sell all or a portion of their company.
- Finding a long-term source of capital to facilitate growth.

CEL & Associates, Inc. has formed:

CEL Capital Advisors

For small to mid-size real estate companies, including: developers, service providers, owners/operators and investors who want to secure their future, monetize enterprise value, develop succession planning, and/or accelerate growth strategies, contact **CEL Capital Advisors**. A conversation regarding your current business strategy and need for capital may provide the optimal solution. **CEL Capital Advisors** can be reached by calling 310.571.3113. (Jeff Hawkins, Managing Director)

COMPENSATION SURVEY RESULTS ARE NOW AVAILABLE

The **2013-2014 National Real Estate Compensation & Benefits Survey Results** are now available for purchase. Covering nearly 200 positions and incorporating data from approximately 400 firms, this 450 page report is a very valuable tool for everyone who is involved with setting compensation and benefits for the coming year. This year's report was again done in partnership with NAIOP, the Commercial Real Estate Development Association and NAA, the National Apartment Association.

To purchase a copy of the current and **most comprehensive compensation survey in the real estate industry**, go to http://www.naiop.org/en/E-Library/Business-Trends/2013-CEL-Associates-Compensation-Report.aspx

Give Us Your Opinion: We want to hear from you and to have future issues reflect your needs and questions. Please email your comments, ideas, suggestions and insights to newsletter@celassociates.com.

For More Information: For more information regarding our services (Strategic Planning, Compensation, Opinion Surveys, Benchmarking, Performance Improvement, Succession Planning and Governance/Management), please email us at newsletter@celassociates.com or call 310.571.3113.

To Subscribe: To subscribe to CEL & Associates, Inc. and Christopher Lee's *Strategic Advantage* newsletter with ongoing insights, opinions and forecasts regarding issues, trends and opportunities within the real estate industry, please email us at newsletter@celassociates.com with *"Subscribe"* in the Subject line and provide your full contact information.

***To Change Your Contact Information*:** Please email us at newsletter@celassociates.com with *"Change Contact Information"* in the Subject line and include your new contact information.

Disclaimer: The opinions, forecasts, information and insights presented in this article are of a general nature and do not constitute the provision of investment, management or economic advice to any person, organization or governing board, and this article does not contain any recommendation(s) to buy, sell and/or invest in any security, real estate asset, fund or adopt as an element of any investment strategy. Opinions and forecasts expressed herein are subject to change without notice. Relevant information was obtained from sources deemed reliable. Such information is not guaranteed as to its accuracy.

Prior Newsletters: If you would like to download prior newsletters, please go to the following links.

2014 Outlook: Part I ~ Economic

http://www.celassociates.com/onlinenewsletter/2014OutlookEconomicPartI-SA-K012014.pdf

The Future Of The Office Sector

http://www.celassociates.com/onlinenewsletter/TheFutureOfTheOfficeSector-SA-K062013.pdf

Breaking Strategic Gridlock

http://www.celassociates.com/onlinenewsletter/BreakingStrategicGridlock-SA-K041713.pdf

"The Times…They Are A' Changing" Eight Key Strategies for 2013

http://www.celassociates.com/onlinenewsletter/EightKeyStrategiesfor2013-SA-K120712.pdf

The Great Generational Divide

http://www.celassociates.com/onlinenewsletter/TheGreatGenerationalDivide-SA-K091812.pdf

Becoming A Customer-Centric Company

http://www.celassociates.com/onlinenewsletter/BecomingACustomer-CentricCompany-SA-K040212.pdf

It Is Time To Get Rid Of Oldco!

http://www.celassociates.com/onlinenewsletter/TimeToGetRidOfOldco-SA-K030712.pdf

A Contrarian Perspective

http://www.celassociates.com/onlinenewsletter/AContrarianPerspective-SA-K110211.pdf

The Role Of Real Estate In Society

http://www.celassociates.com/onlinenewsletter/TheRoleOfRealEstateInSociety-SA-K091411.pdf

Tomorrow Has Already Arrived

http://www.celassociates.com/onlinenewsletter/TomorrowHasAlreadyArrived-SA-K062711.pdf

Age Of Consequence & Opportunity

http://www.celassociates.com/onlinenewsletter/AgeOfConsequence-SA-K050611.pdf

Take Control Of Your Destiny

http://www.celassociates.com/onlinenewsletter/TakeControlOfYourDestiny-SA-K032911.pdf

Real Estate Outlook 2010-2020 Part II

http://www.celassociates.com/onlinenewsletter/RealEstateOutlook.2010-2020-PartII.SA-K060110.pdf

Real Estate Outlook 2010-2020 Part I

http://www.celassociates.com/onlinenewsletter/RealEstateOutlook.2010-2020-PartI.SA-K050110.pdf