Property Income Advisors, Inc.

Advisory Services for the Investor in U.S. Real Estate

June 2014

State of the Market

Employment Gains Fuel the Expansion of the U.S. Commercial Real Estate Recovery

Job Growth is the Basis for On-Going Positive Trends

April's job gain numbers reflect a continuation of the ongoing U.S. economic recovery. The initial estimate for April added 288,000 jobs to the nonfarm payroll employment total, much higher than the consensus forecast of 210,000. And employment gains in February and March were adjusted 36,000 higher than previously reported. As a result of the April job growth, the U.S. unemployment rate fell 0.4 percentage points to 6.3%. The majority of the job gains occurred in the following sectors – Professional & Business Services (+75,000), Transportation, Trade & Utilities (+59,000), Education & Health Services (+40,000), Construction (+32,000), Leisure & Hospitality (+28,000) and Health Care (+19,000).

Recovery Gains Momentum Across Geographic Areas

The on-going U.S. economic recovery is now reaching more regions as improved employment growth begins to spread away from a select set of gateway metro areas to secondary markets. Secondary markets posting year-on-year job growth better than 2.5% include Austin, Charlotte, Jacksonville, Orange County, Phoenix, Portland, Raleigh-Durham and South Florida.

Top Five Job Gain Metros		Bottom Five Job Gain Metros	
MSA	Ann. Gain	MSA	Ann. Loss
Los Angeles, CA	91,300	Virginia Beach, VA	-2,400
Dallas, TX	89,600	Jackson, MS	-2,500
Houston, TX	85,800	Camden, NJ	-3,200
New York, NY	73,600	Albuquerque, NM	-4,500
Atlanta, GA	47,600	Detroit, MI	-11,000

Sources: Axiometrics Inc., BLS

U.S. Commercial Real Estate Recovery Continues

With continuing job growth and other favorable economic trends, the U.S. commercial real estate recovery continues to make positive strides. The recovery is picking up momentum across property types and geographic regions through increased occupancy, growing rents and a noticeable shift to new development. Tightening market

Property Income Advisors, Inc. is a boutique real estate advisory firm with professional expertise and a focused niche exclusively assisting Gulf-based clients in the investment and management of United States commercial real estate.

We provide a turnkey real estate investment management platform, including advisory services for acquisitions, financing and sales, as well as comprehensive asset management capabilities.

Our career experience includes the successful asset management of more than 13 million square feet of United States commercial real estate valued in excess of $2 billion. In addition, we have directed property acquisitions, dispositions, financings and lease transactions totaling more than $3 billion.

Property Income Advisors, Inc. has nationwide experience and maintains strong national relationships to insure success in all of the major markets in the United States. Our clients consist of Gulf-based ultra high net-worth investors, family offices, private banks and institutions.

fundamentals have spread from core, gateway cities into many secondary markets.

According to JLL, a global real estate service provider, 85% of the U.S. office markets posted quarterly rent growth, while more than three in four witnessed occupancy gains. These increases represent a shift deeper into landlord-favorable territory causing rents to spike as vacancy declines to new lows. U.S. office market net absorption for the first quarter of 2014 totaled almost 8.4 million square feet, the highest of any first quarter figure throughout the recovery. Compared to the first quarter of 2013, this represents a year-on-year increase of more than 28%.

From a geographic standpoint, the top U.S. office markets for absorption (at least 400,000 square feet each) included Houston, Atlanta, Silicon Valley, Baltimore, Los Angeles, Phoenix and Denver. These metros represent more variety than in previous quarters, from energy hubs to tech centers to secondary markets, and helped to make the first quarter of 2014 the 16th consecutive quarter of positive U.S. net absorption.

Construction Cranes Rise Throughout the U.S.

With enhanced job growth and further tightening of U.S. commercial real estate fundamentals now spreading across numerous metros, the U.S. office market showed an 18.5% increase in construction volumes during the first quarter of 2014. Development underway now totals 55.6 million square feet. Houston is the leader with development underway at 12.5 million square feet, more than double New York, the second-highest metro at 5.4 million square feet. Seattle, San Francisco and Boston continue to see development due to the technology sector's growth. Among secondary markets, Austin, Phoenix, Pittsburgh, Raleigh-Durham and San Diego are construction leaders. Even with this amount of activity, development remains below average.

Investment Activity Outlook Remains Positive

Investment activity in the U.S. office sector remained robust at $25 billion for the first quarter of 2014. This is a 60% increase over the same period during 2012. Investor confidence is high due to improving economic and commercial real estate fundamentals, especially the positive trends now expanding outside of core, gateway markets and into secondary markets. A favorable lending environment is also playing a role. Foreign buyers continue to drive investment sales pricing in the primary markets. Many off-shore buyers are now also shifting their focus to secondary markets and to more risky, higher-yielding investments. We expect investment sales momentum to continue at high levels for the remainder of 2014 and into 2015 as the U.S. commercial real estate recovery continues.

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