RICHEY MAY & CO

2015 Predictions/Current Events Checkup

Early in 2015, we had reviewed the economic and real estate industry predictions for the year. In this newsletter, we will review how the predictions have panned out and update developments on other topics we covered this year. Here is the summary:

- We said, "multifamily rental rates and occupancy are at or near peak." Rental rate growth, while still growing at substantial increases, is slowing down with vacancy rates increasing somewhat; rental concessions are also on the rise.
- We said, "Office rents have room to increase 10% or so to peak." Rental rates are up around 8% for 2015 with increased vacancy with pressure due largely to energy market sublet space on the market.
- We said, "Retail rents should trend upward, with one expert predicting a 45% increase 2014 – 2018." With reported over 22% increases (downtown) in just 2015 alone, that seemingly audacious goal is within reach. Note, however, that market wide increases are much lower.
- We said, "Industrial is the best bet in terms of both growth and durability." Rental rates for this property type are up around 13% this year with low vacancy.
- We said, "Hospitality-new supply will moderate growth rate and occupancy." This may be a miss since both occupancy and rate are still strong, particularly downtown.
- We said, "Interest rates will not go up meaningfully." With a 11 basis point increase in 10 year treasury rates so far this year, I think that qualifies (with some indication spreads have retreated at least that much). It now seems likely the Fed will act (modestly) in December with maybe 50bp or so cumulative increases in the fed funds rate each year over the next few years, but 10 year treasury rates should still remain below the 20 year average (4.14%).

Following is an update on other 2015 Real Estate Newsletter articles:

- In our **April newsletter**, we noted the dramatic challenge (and opportunities) presented by the IRS re-working of capitalization policy. The IRS is continuing to tweak these rules with a recent revenue procedure directed to retail/restaurant "refreshes" and I expect there will be much more to come in this area.
- In our **July newsletter**, we presented the SEC's newfound scrutiny of the private equity industry and what it might mean to Main Street real estate deals. The SEC has recently reaffirmed its interest in this area (see more at **http://www.sec.gov/news/speech/white-regulation-of-private-fund-advisers-after-dodd-frank.html**, note **Risks Within the Firm** section).
- In our **September newsletter**, we proposed that IRS audits of partnerships may increase. That door has already been opened when a provision slipped into the recent Budget Act implemented most of the items we had suggested may be in the offing for partnership audits (effective in 2018).
- In our **November newsletter**, we discussed the historical tax implications of public/private partnerships, suggesting that care must be taken in structure and entity choice in those deals. Effective in 2016, there are new regulations which are intended to provide some relief going forward (primarily related to bond issuances for projects with private and public use components – relating to tax exempt interest thereon) and will make such transactions more workable.

The information in this newsletter was gleaned from a number of sources. If you have a particular question, or would like a citation to the source, please contact Zane Dennis at **zane@richeymay.com** or 303-721-6131.