

ELMTREE FUNDS TRACKER

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2014 marketOutlook

Corporate Relocation: Redistribution of Wealth Amongst States

In the past several months, commercial real estate brokers and corporate site selection consultants have noticed an emerging trend in company expansions and headquarter relocations to southern states. Notable companies including Toyota and Hertz have recently moved their operations from California and New Jersey to Texas and Florida, respectively.

The southern migration is driven by a variety of factors – cost efficiency, logistics, and tax incentives – and with companies now looking to invest and expand, we expect the trend to continue as the region becomes a real estate hotspot for the foreseeable future.

In a CoStar interview with Eric Stavriotis, head of the corporate relocation team with JLL in Chicago, Stavriotis noted that his corporate clients are gradually shifting their focus from cost control to expansion. Stavriotis is optimistic about the real estate market, *“In the last 12 months, we’ve seen more projects that are focused on deploying new capital and growth, whether it’s a relocation, expansion, even just a reset of the*

overall corporate footprint. We predict more headquarters projects in the next five to 10 years than we saw in the previous five to 10 years.”

Texas’ government has seized this opportunity by making a concerted effort in the last several years on pushing several of its policies to encourage businesses to move their operations to the Lone Star State, and it has led to a boom in its economy that far exceeds other regions of the US. Employment figures are exceptional in the south, especially in urban areas such as Houston, San Antonio, and Atlanta, and they are much lower than the national rate. This is a great sign for people living and searching for work in the south, and it can only get better as more and more companies follow suit.

However, all this comes at the expense of other parts of the US as the ripple effect of corporate relocation is substantial. Hertz’s relocation from New Jersey to Florida, for example, is expected to generate an estimated \$300 million per year for the Estero local economy. Toyota announced its plan to transfer 3,000 jobs from Los Angeles County to Plano, Texas, in the next 24 months. The county had already lost 76,000 jobs during the recession, and it is about to suffer another significant blow with the departure of Toyota. California has long been a hotbed for the automotive industry, so while it is unlikely for the other manufacturers to follow, site selection consultants warn that the situation could exacerbate if state officials don’t act to improve business conditions.

2014 marketOutlook (continued)

Other markets in the Northeast and Midwest with high labor and land costs also suffer from the migration. As businesses take measure to increase their cost efficiency, the relatively low cost of living and lack of income tax in the south make it an attractive destination. In order for the other regions to retain businesses and labor talent, states need to establish tax incentives and subsidies to prevent further relocation and exporting its work force.

It's not all bad news for these markets. After sitting on the sidelines throughout the recession and the early stages of recovery, corporations are finally picking up the slack and investing their capital into the economy, which should give the commercial real estate market a significant boost. Recently, MetLife consolidated its business and moved into Raleigh-Durham in North Carolina.

Meanwhile, Google's subsidiary, Motorola Mobility, relocated from a suburb of Chicago to the Merchandise Mart in downtown Chicago. While an overall rise in business confidence will benefit all facets and regions of the economy, there will be winners and losers as the US undergoes a redistribution of wealth amongst states. Southern states took early advantage of this opportunity and demand for office and industrial sites in those markets are soaring. Other states need to take notes and implement policies that appeal to businesses, or risk further corporate relocation.

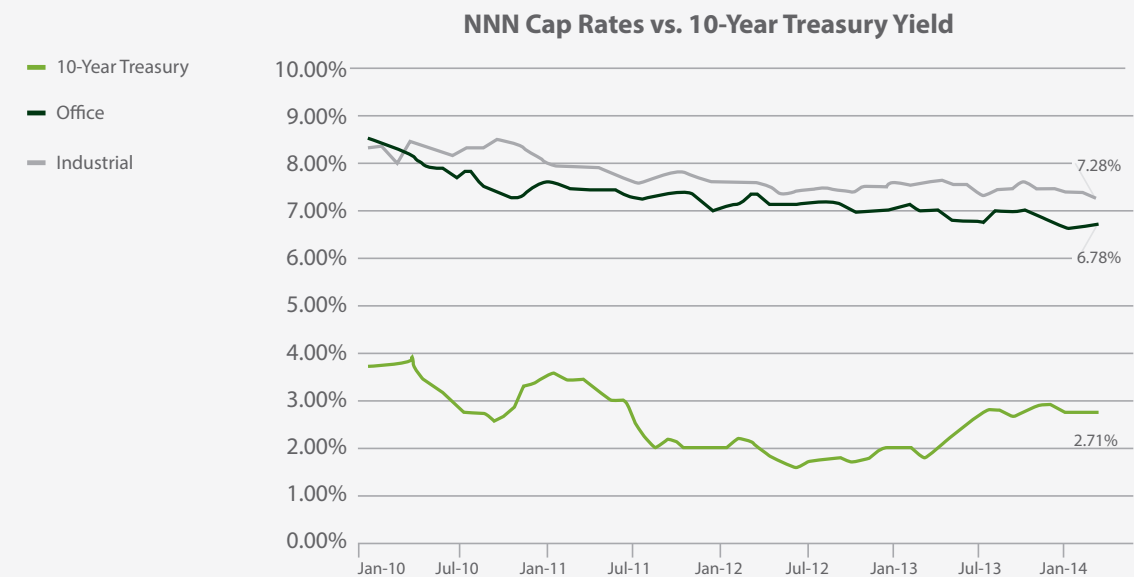
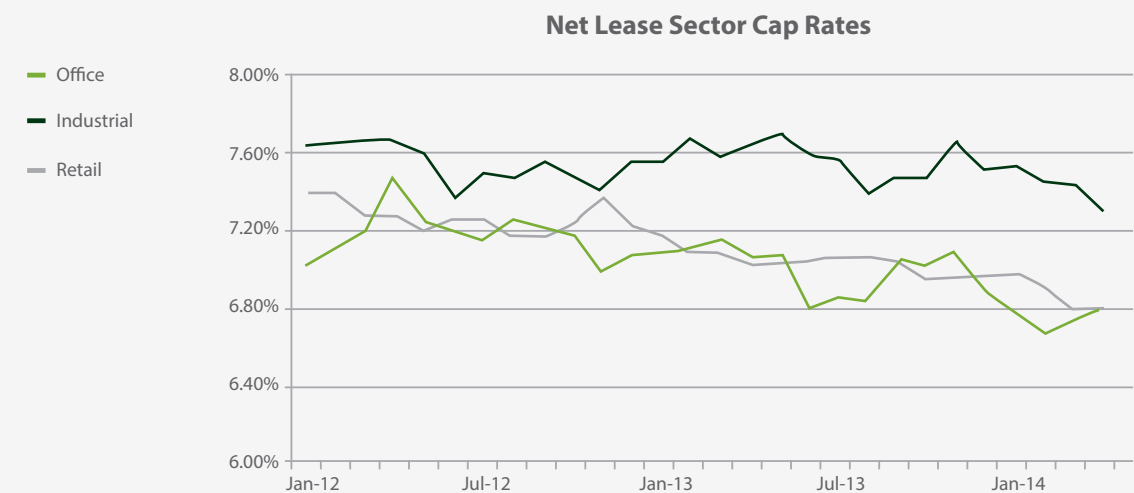
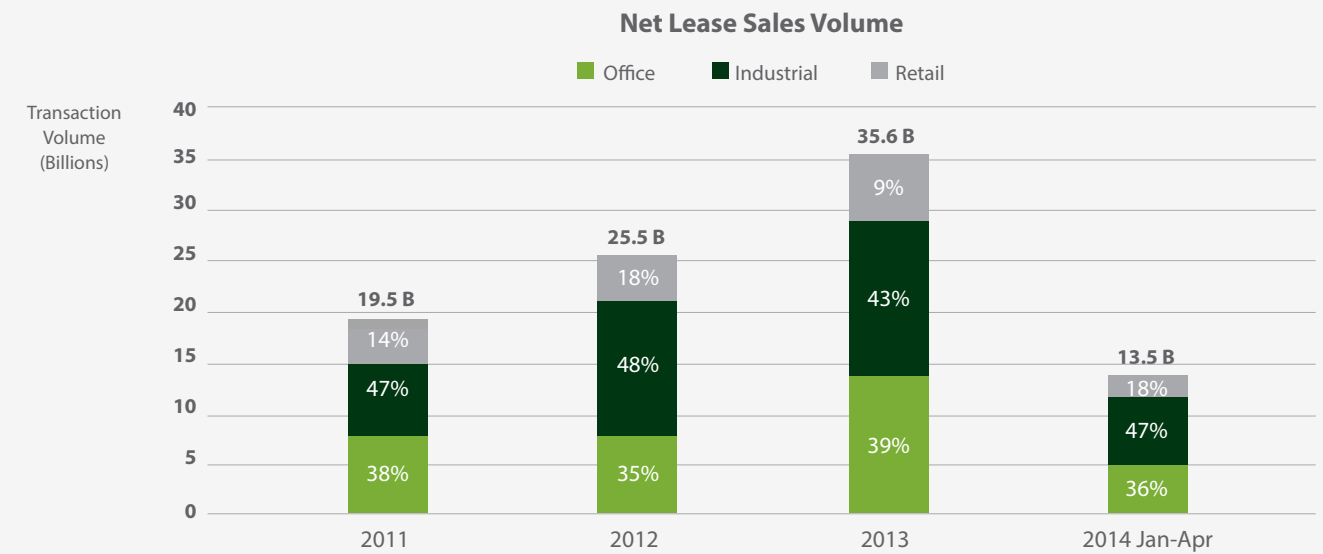


The Japanese automaker, whose headquarters have been in Torrance, California since 1957, has decided to transfer almost all operations to Texas, including its engineering, finance, and marketing teams



Hertz's new, \$51 million global headquarters is set to be built in Estero, Florida. It is scheduled to be completed by mid-2015, and will bring over 700 jobs to Lee County. It is the first Fortune 500 company to call Estero home.

marketWatch



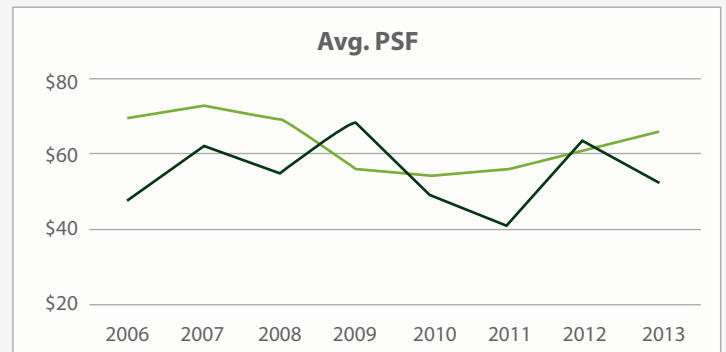
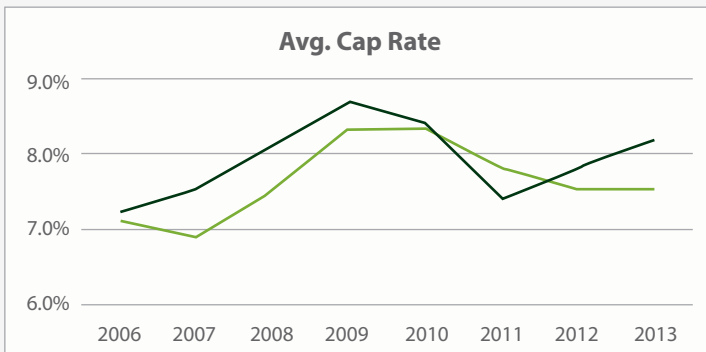
marketSpotlight: Houston, Texas

The Texan commercial real estate market shows a positive outlook given its robust economy and healthy employment growth. For the 12 months ending March 2014, Texas saw an increase of 310,000 net jobs and its lowest unemployment rate over the past five years at 5.5%. Houston, in particular, led the job growth in the state by 81,300 in 2013.

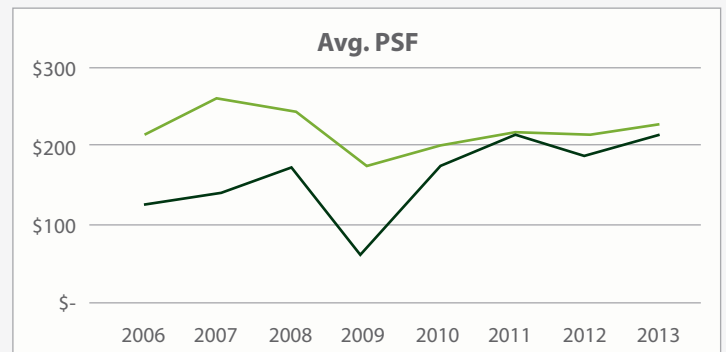
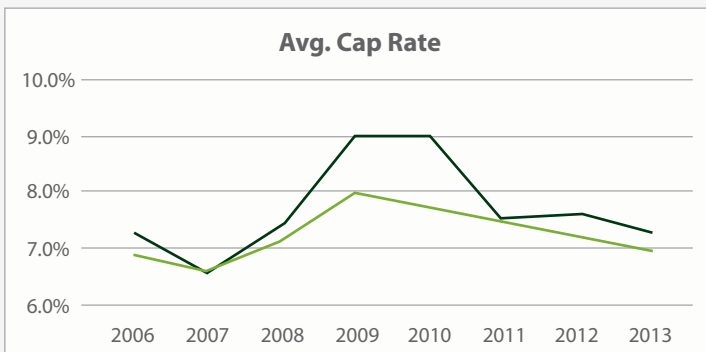
Houston as a global hub for energy industry is a key industrial market in the US with a vacancy rate among the lowest in the nation at 5.4%. It has 1,600,000 SF net absorption and 8,100,000 SF under construction in Q1 2014. Tax increases have been the primary drivers for rental rate increases in Houston.

Recent investment in industrial properties in Houston include Dow Chemical R&D's new Texas Innovation Center. Dow plans for a total of 900,000 SF space in Lake Jackson. The facility will support Dow's \$4 billion Gulf Coast expansion and other operations. Another potential deal in Houston includes an office building leased to Jacobs Technology.

Houston Industrial vs US Industrial



Houston Office vs. US Office



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