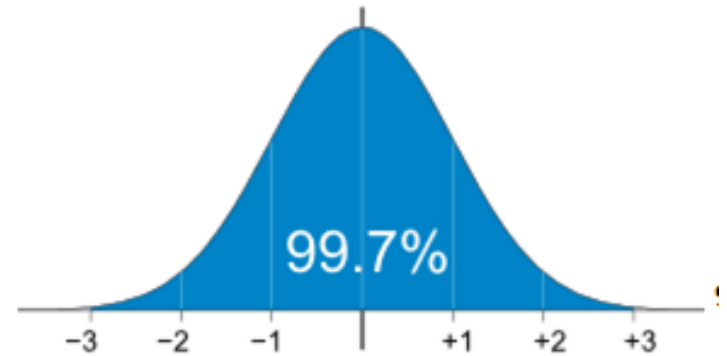
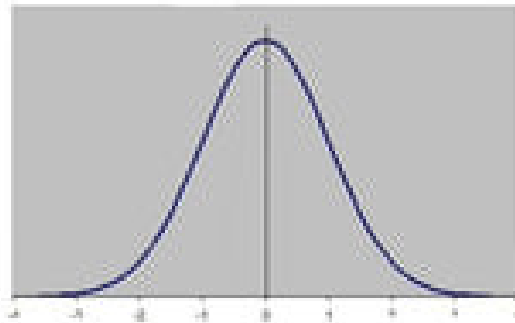


$$p(X) = \frac{1}{\sqrt{2\pi\sigma^2}} e^{-\frac{(X-\mu)^2}{2\sigma^2}}$$



$$\mu \in \left[\hat{\mu} + t_{n-1, \alpha/2} \frac{1}{\sqrt{n}} s, \hat{\mu} + t_{n-1, 1-\alpha/2} \frac{1}{\sqrt{n}} s \right] \approx \left[\hat{\mu} - |z_{\alpha/2}| \frac{1}{\sqrt{n}} s, \hat{\mu} + |z_{\alpha/2}| \frac{1}{\sqrt{n}} s \right]$$

$$\sigma^2 \in \left[\frac{(n-1)s^2}{\chi_{n-1, 1-\alpha/2}^2}, \frac{(n-1)s^2}{\chi_{n-1, \alpha/2}^2} \right] \approx \left[s^2 - |z_{\alpha/2}| \frac{\sqrt{2}}{\sqrt{n}} s^2, s^2 + |z_{\alpha/2}| \frac{\sqrt{2}}{\sqrt{n}} s^2 \right],$$

The New Normal for Real Estate and the Economy

Ted C. Jones, PhD Chief Economist

Stewart Title Guaranty Company

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Current Positives

- **More Jobs Than Anytime in History**
- **YTD 58% of New Jobs Pay More**
- **Interest Rates Highly Affordable**
- **Significant Demographic Demand**

Mega Themes

- **Time to Over Weight in Real Estate**
- **Residential Renting vs. Owning**
- **DEBT CEILING – Kicking the Can Down the Road**
- **Washington, DC – REGULATION!**

Election -- Changes

- **XL Pipeline**

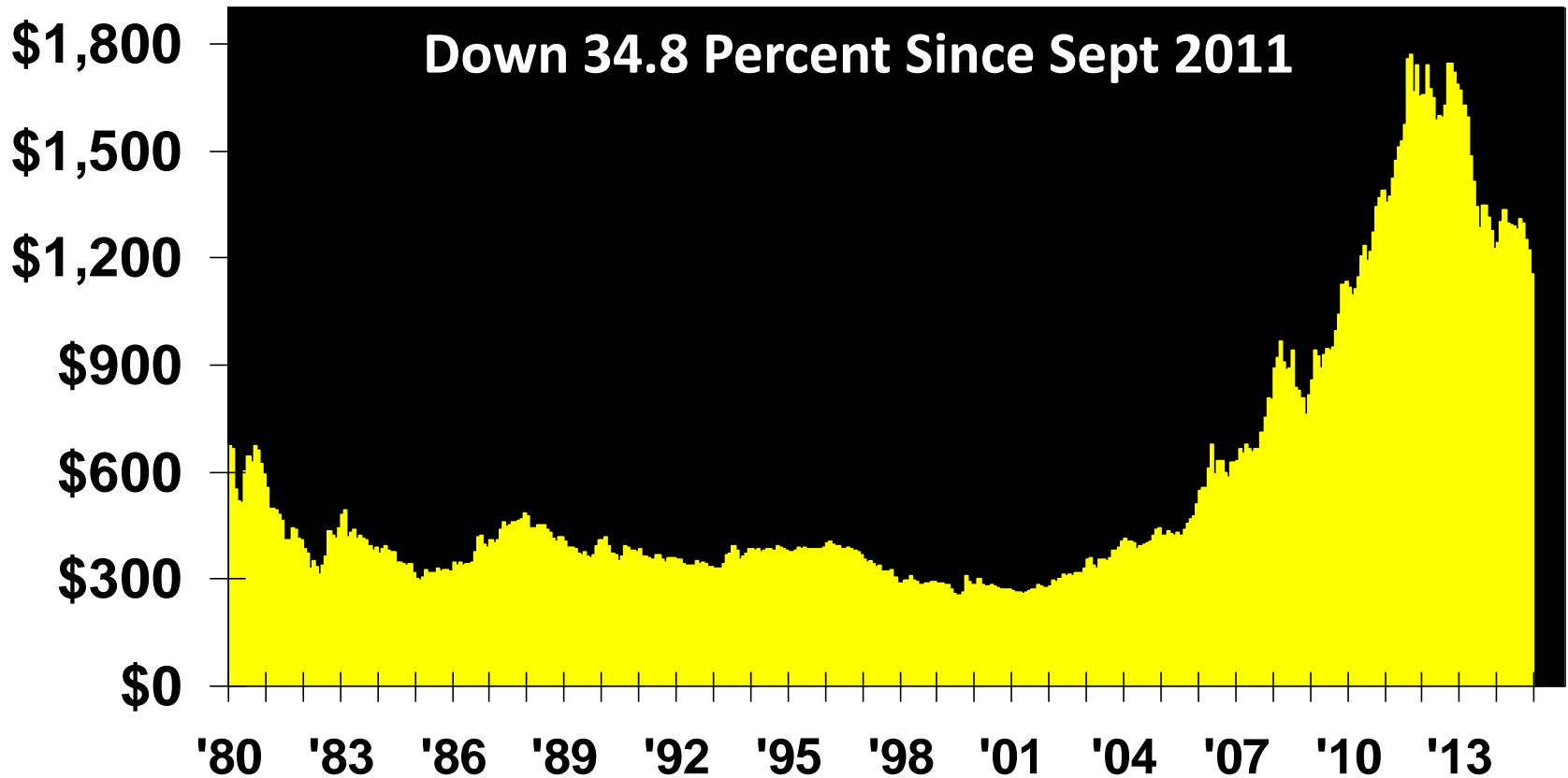
THAT'S IT

Washington, DC

Stalemate

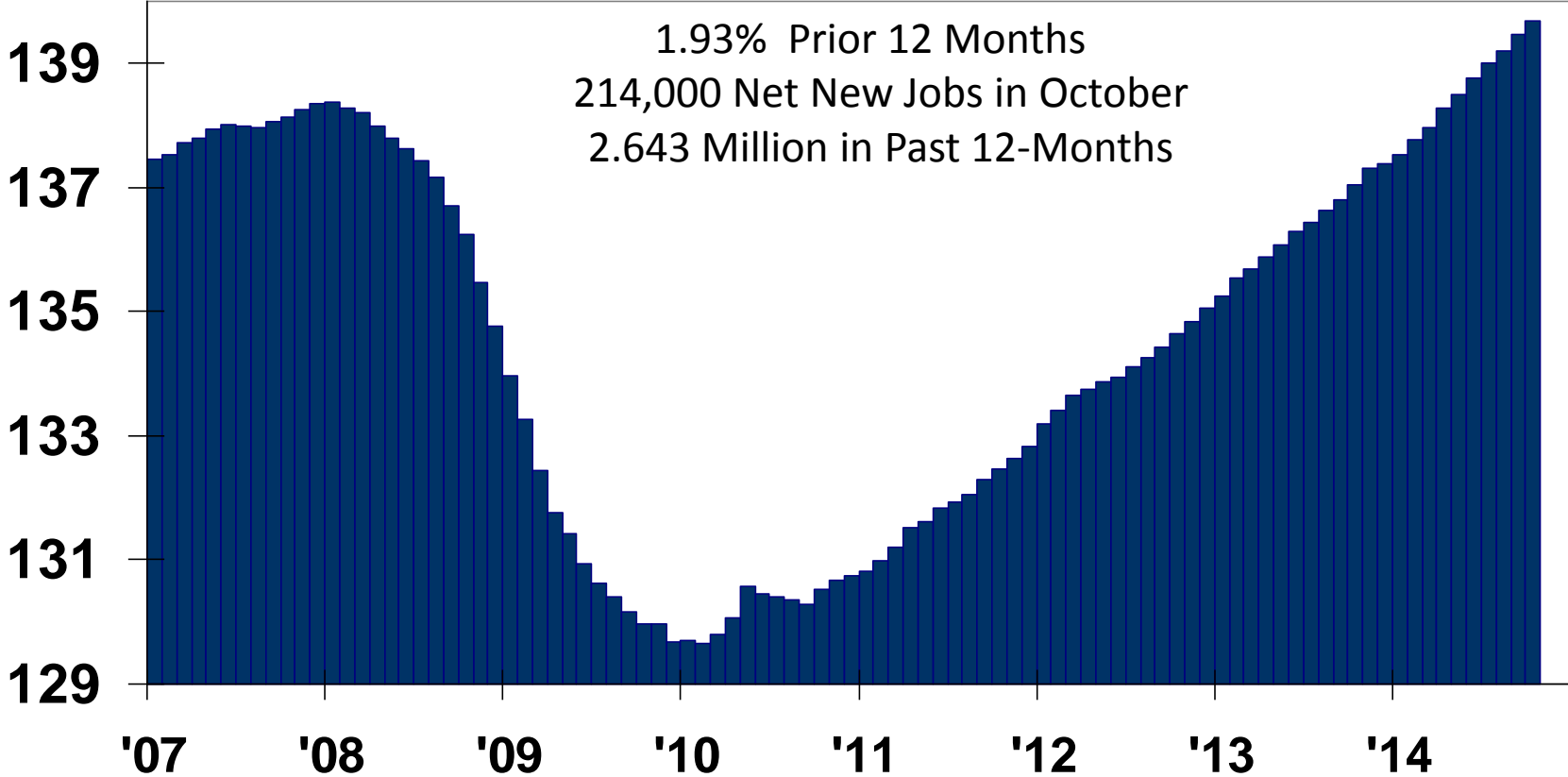
Gold

Price Per Ounce — *Nominal (Not Inflation Adjusted)*



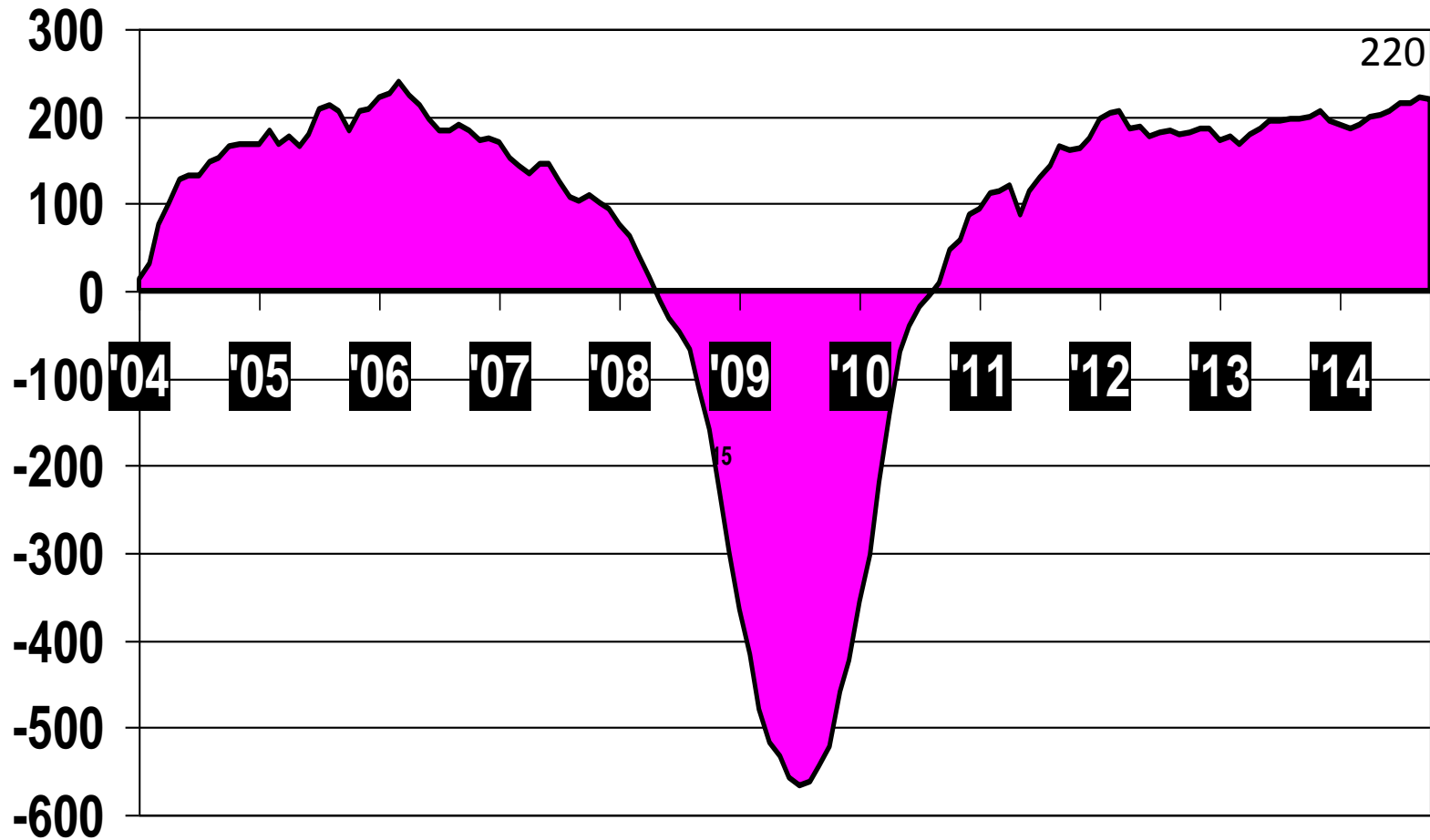
U.S. Jobs

Jobs (Thousands) *Seasonally Adjusted*



U.S. Average Number of New Jobs Per Month – Prior 12 Months

Jobs - Thousands



Job Growth by State

September Data

| Rank | State | 12 Months | | Total Jobs |
|------|----------------|----------------|--------------------|------------|
| | | Percent Growth | New Jobs Thousands | |
| 1 | North Dakota | 5.09% | 22.8 | 470.4 |
| 2 | Texas | 3.67% | 413.7 | 11,672.2 |
| 3 | Utah | 3.58% | 46.3 | 1,340.5 |
| 4 | Nevada | 3.24% | 38.2 | 1,217.9 |
| 5 | Delaware | 2.94% | 12.6 | 441.1 |
| 6 | Colorado | 2.81% | 67.4 | 2,464.5 |
| 7 | Florida | 2.70% | 205.6 | 7,827.2 |
| 8 | North Carolina | 2.67% | 108.5 | 4,170.0 |
| 9 | Oregon | 2.45% | 41.2 | 1,722.6 |
| 10 | South Carolina | 2.27% | 43.2 | 1,946.2 |

Job Growth by State

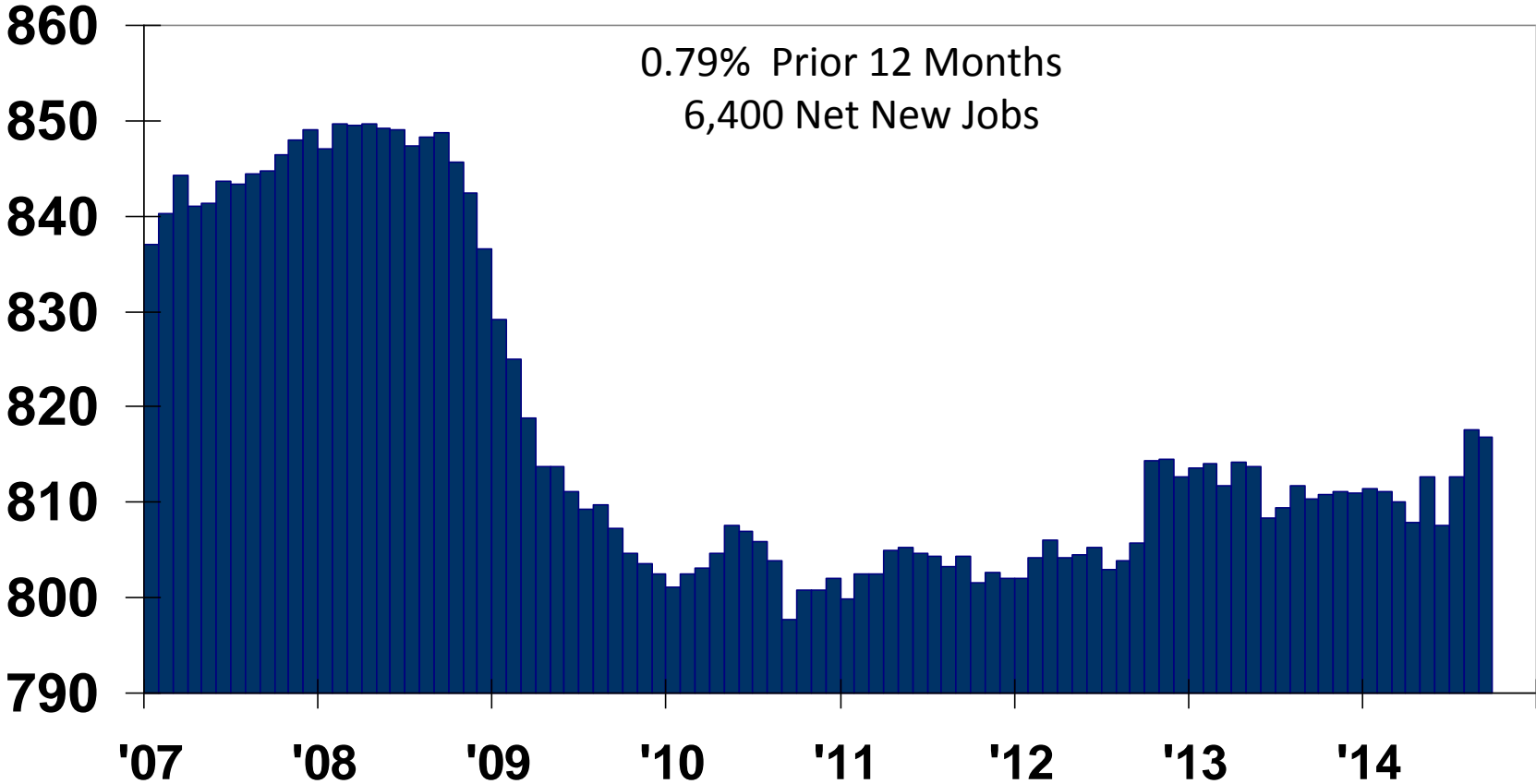
September Data

stewart®

| Rank | State | 12 Months | | Total Jobs |
|------|------------------|-------------------|-----------------------|---------------|
| | | Percent Growth | New Jobs Thousands | |
| 41 | Dist of Columbia | 0.78% | 5.9 | 757.7 |
| 42 | Nebraska | 0.73% | 7.2 | 989.1 |
| 43 | Kansas | 0.67% | 9.2 | 1,389.4 |
| 44 | Ohio | 0.62% | 32.7 | 5,303.4 |
| 45 | Pennsylvania | 0.62% | 35.4 | 5,782.6 |
| 46 | Maryland | 0.55% | 14.2 | 2,611.7 |
| 47 | South Dakota | 0.48% | 2.0 | 420.5 |
| 48 | Vermont | 0.26% | 0.8 | 306.1 |
| 49 | Virginia | 0.25% | 9.5 | 3,775.8 |
| 50 | New Jersey | 0.17% | 6.7 | 3,953.8 |
| 51 | Alaska | -0.18% | (0.6) | 336.0 |

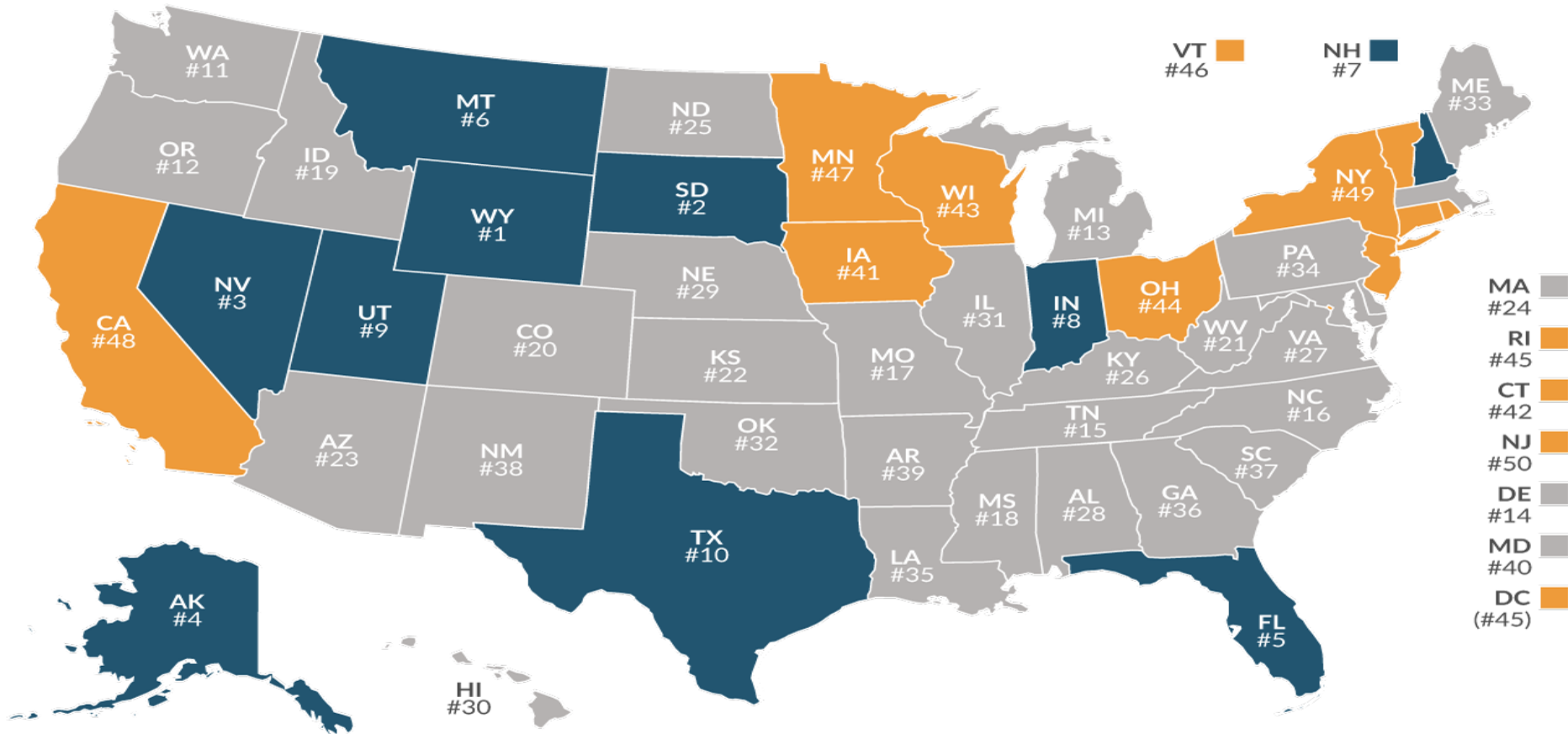
New Mexico Jobs

Jobs (Thousands) *Seasonally Adjusted*



2015 State Business Tax Climate Index

Which states have the most competitive business tax systems?



Note: Published October 28, 2014.

Source: State Business Tax Climate Index.

10 Best Business Tax Climates

10 Worst Business Tax Climates

Metropolitan Market Employment September 2014

| Metropolitan Statistical Area | Thousands | | |
|-------------------------------|----------------------------|-------|-----------------|
| | 12-Month Change Percent | Jobs | Current Jobs |
| Albuquerque | -0.62% | (2.3) | 367.8 |
| Farmington | -1.02% | (0.5) | 48.7 |
| Las Cruces | 0.00% | - | 70.3 |
| Santa Fe | -0.65% | (0.4) | 61.2 |
| New Mexico | 0.79% | 6.4 | 816.8 |

New Mexico Ranks 40th in State Job Growth

Comparative Employment

| U.S. | Jobs | |
|-----------------------------|------------------|----------------|
| | Thousands | Percent |
| Total Employment | 139,680 | 100.0% |
| Government Employment | 21,914 | 15.7% |
| Federal Employment | 2,711 | 1.9% |
| State Government Employment | 5,066 | 3.6% |
| Local Government Employment | 14,137 | 10.1% |

New Mexico

| | | |
|-----------------------------|-------|--------|
| Total Employment | 816.8 | 100.0% |
| Government Employment | 192.2 | 23.5% |
| Federal Employment | 29.8 | 3.6% |
| State Government Employment | 58.7 | 7.2% |
| Local Government Employment | 103.7 | 12.7% |

Jobs & Federal-Owned Lands

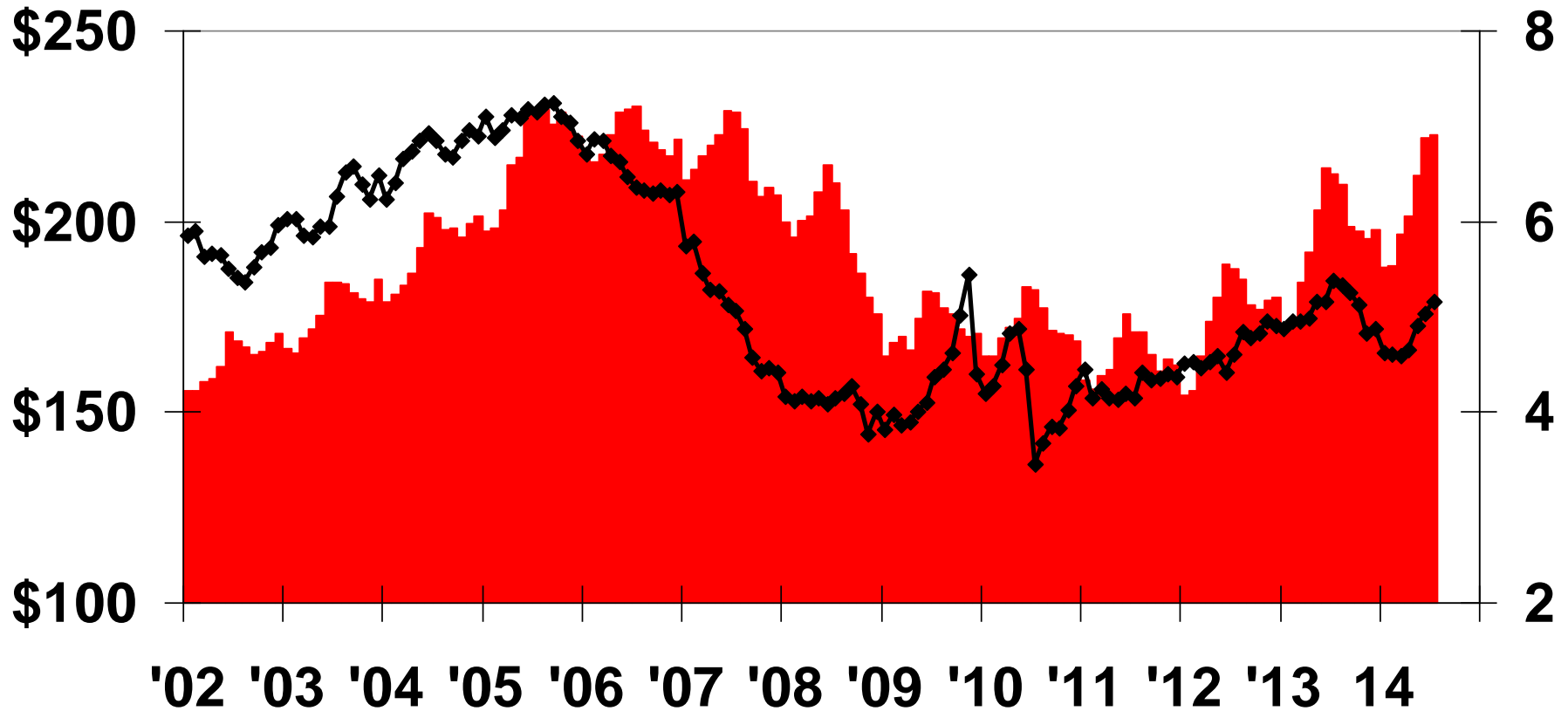
| State | Federal Lands | Federal Government Jobs |
|-------------------|--------------------------|--|
| Arizona | 42.3% | 2.2% |
| Colorado | 36.2% | 2.1% |
| New Mexico | 34.7% | 3.6% |

U.S. Existing Home Sales & Median Prices

Sales on a Seasonally Adjusted Annualized Rate

Median Price \$ Thousands

Home Sales Millions



Median Price → Homes Sales

U.S. Existing Sales

| 2014 | Actual | | Forecast | |
|--------------|--------------|------------------|----------------|--------------|
| | Actual Sales | Forecast | Error | Percent |
| Jan | 281,000 | 303,246 | 22,246 | 7.9% |
| Feb | 282,000 | 297,399 | 15,399 | 5.5% |
| Mar | 355,000 | 365,940 | 10,940 | 3.1% |
| Apr | 422,000 | 371,533 | (50,467) | -12.0% |
| May | 473,000 | 449,877 | (23,123) | -4.9% |
| Jun | 506,000 | 498,939 | (7,061) | -1.4% |
| Jul | 494,000 | 489,292 | (4,708) | -1.0% |
| Aug | 479,000 | 510,586 | 31,586 | 6.6% |
| Sep | 435,000 | 412,861 | | |
| Oct | | 441,407 | | |
| Nov | | 387,572 | | |
| Dec | | 357,534 | | |
| Total | | 4,886,186 | (5,188) | -0.2% |

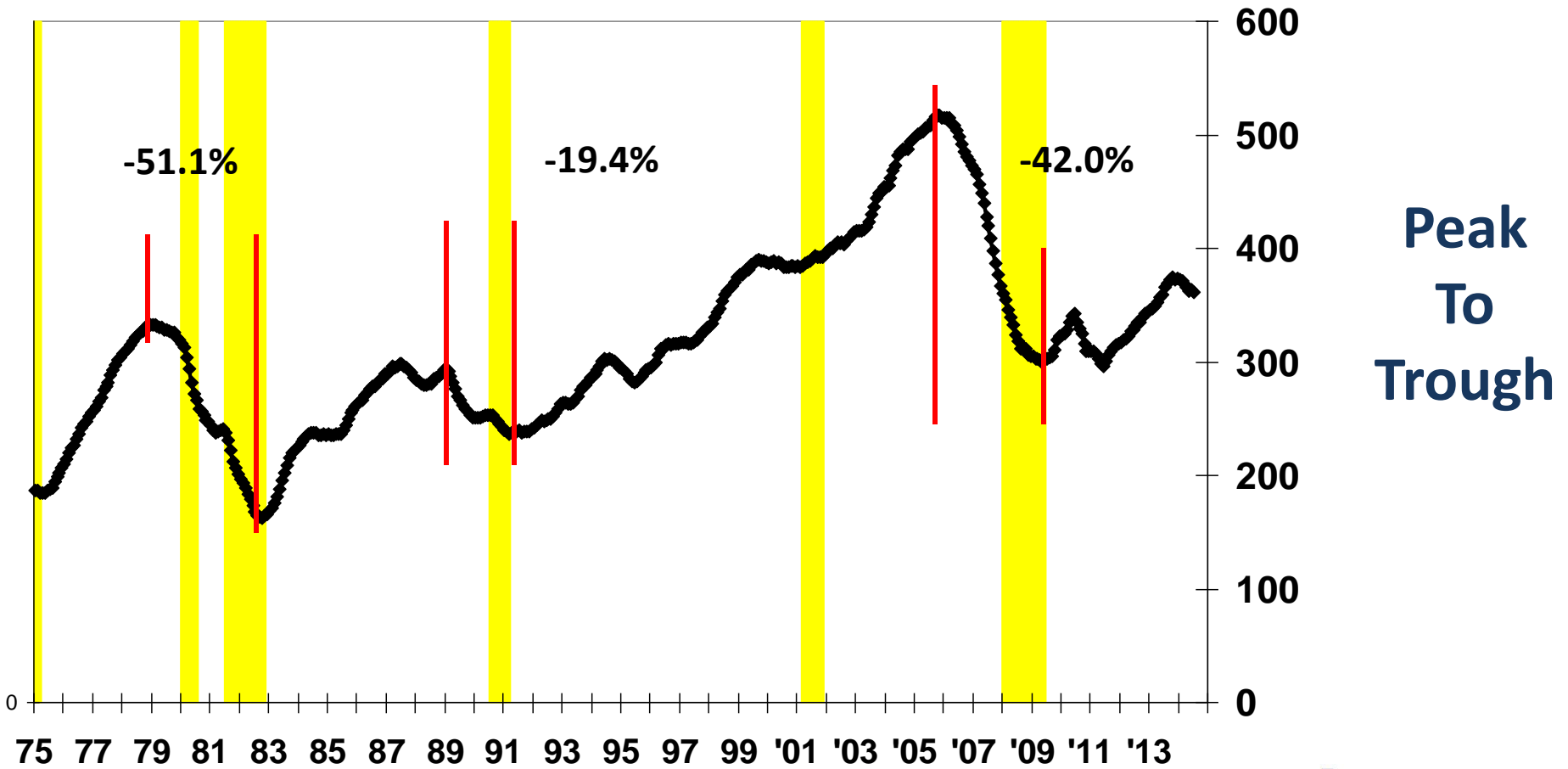
| 2015 | Percent Change | | |
|--------------|------------------|--------------|-------------|
| | Quarterly Sales | Sequentially | Y-O-Y |
| | 317,949 | | |
| | 336,504 | | |
| | 436,668 | 1,091,122 | -8.0% 18.9% |
| | 457,005 | | |
| | 487,195 | | |
| | 513,912 | 1,458,112 | 33.6% 4.1% |
| | 496,943 | | |
| | 513,627 | | |
| | 442,707 | 1,453,277 | -0.3% 2.5% |
| | 441,407 | | |
| | 387,572 | | |
| | 357,534 | 1,186,512 | -18.4% 0.0% |
| Total | 5,189,022 | | 5.4% |

Ted's Latest Forecast

U.S. Existing Home Sales

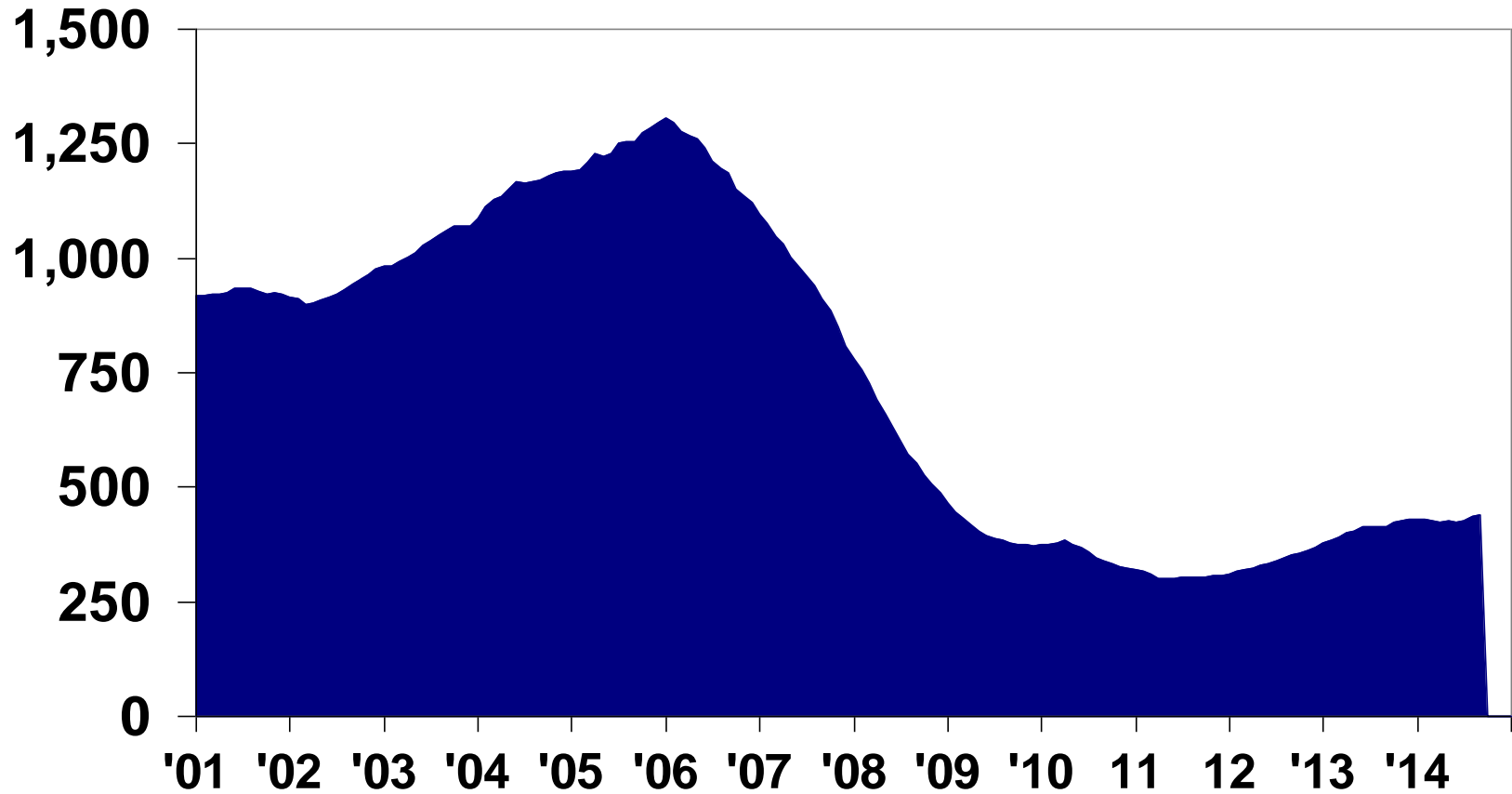
Average Number of Sales
Per Month – Prior 12 Months
Thousands

 Recession



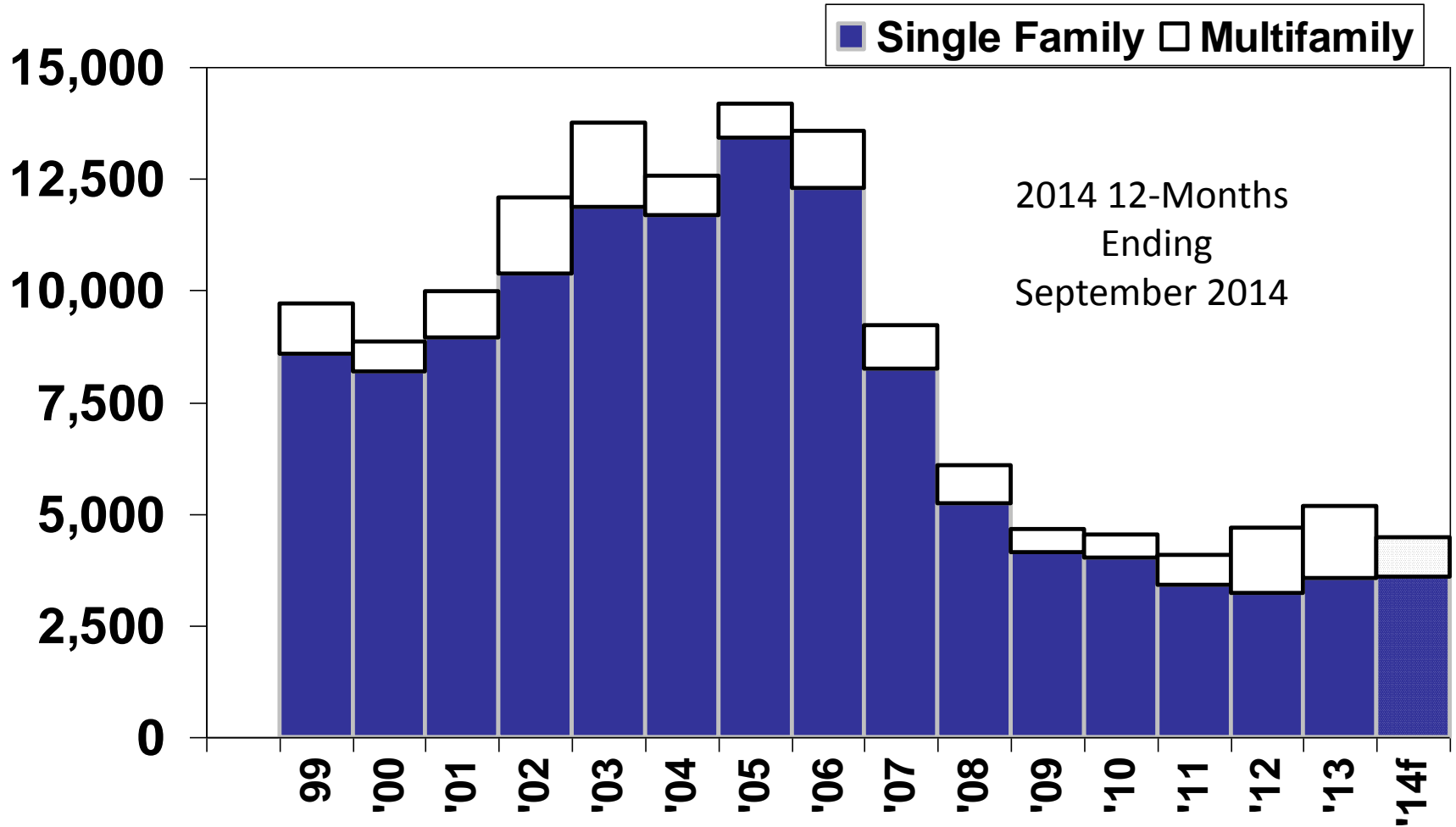
New Home Sales

Thousands Seasonally Adjusted Annualized Rate
12-Month Moving Average



New Mexico Residential Building Permits

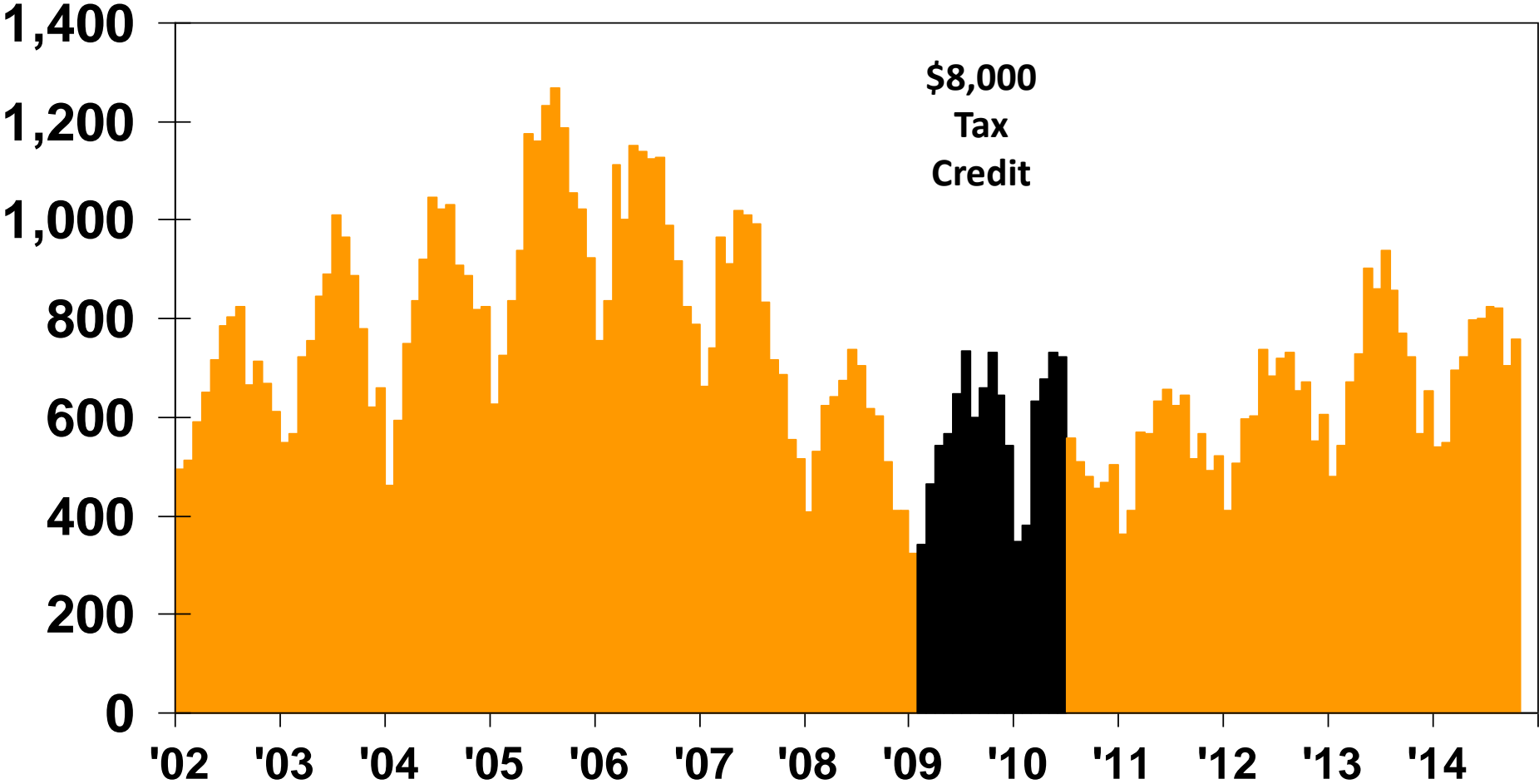
Number of Dwelling Units



4,459 New Dwelling Units in 12-Months Ending September 2014

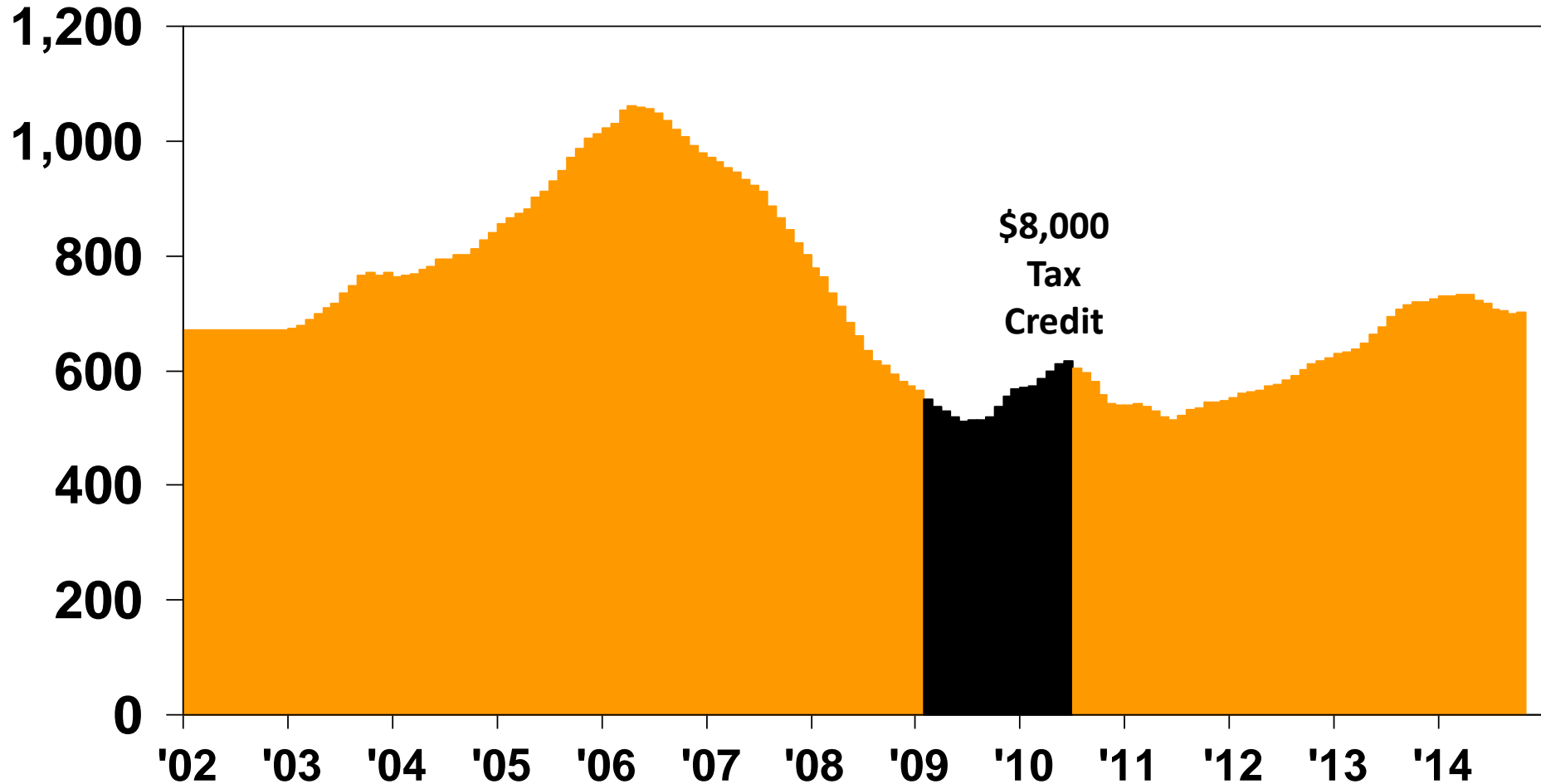
Albuquerque Existing Home Sales

Closings Per Month



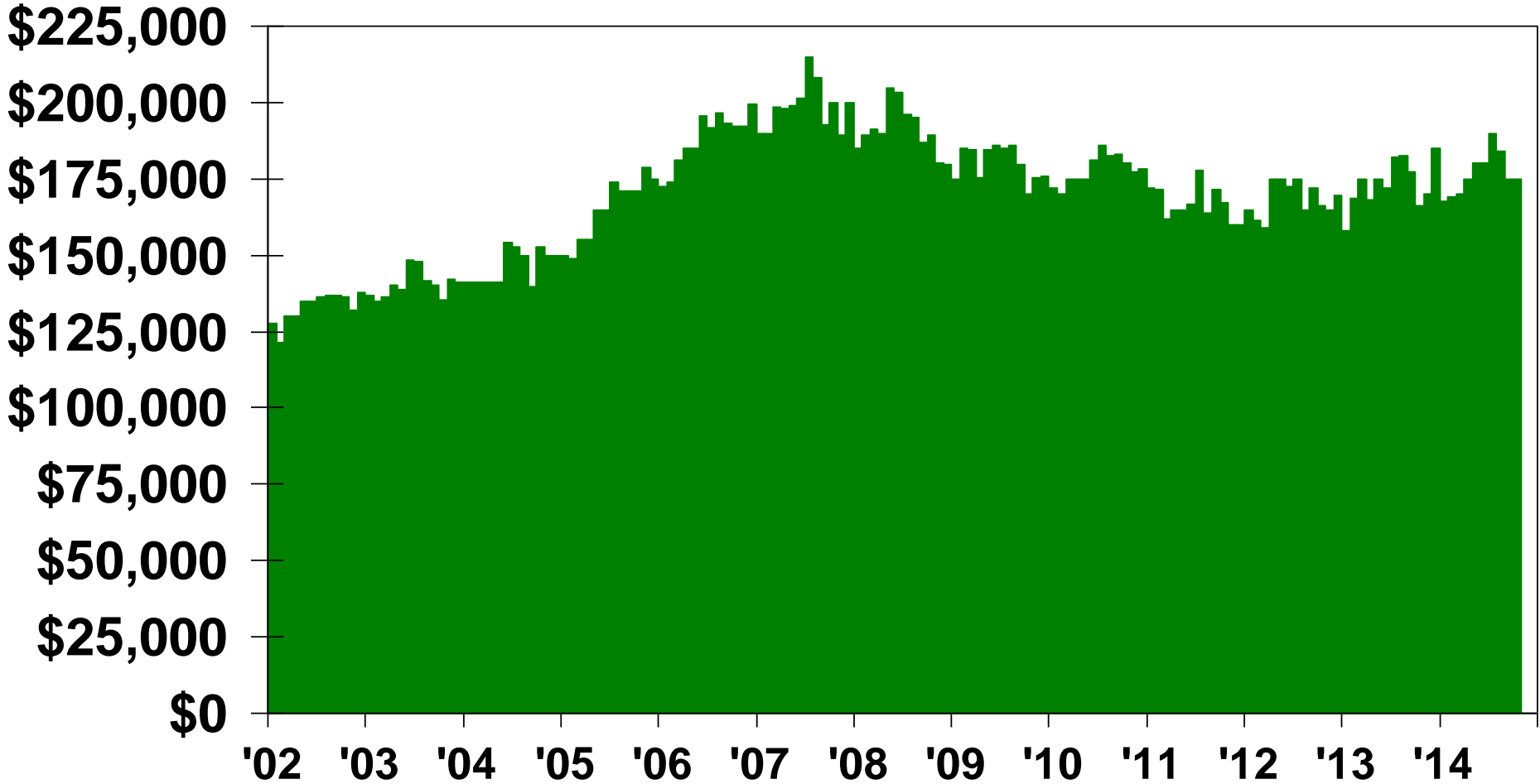
Albuquerque Existing Home Sales

Average Number of Closings Per Month for Prior 12 Months



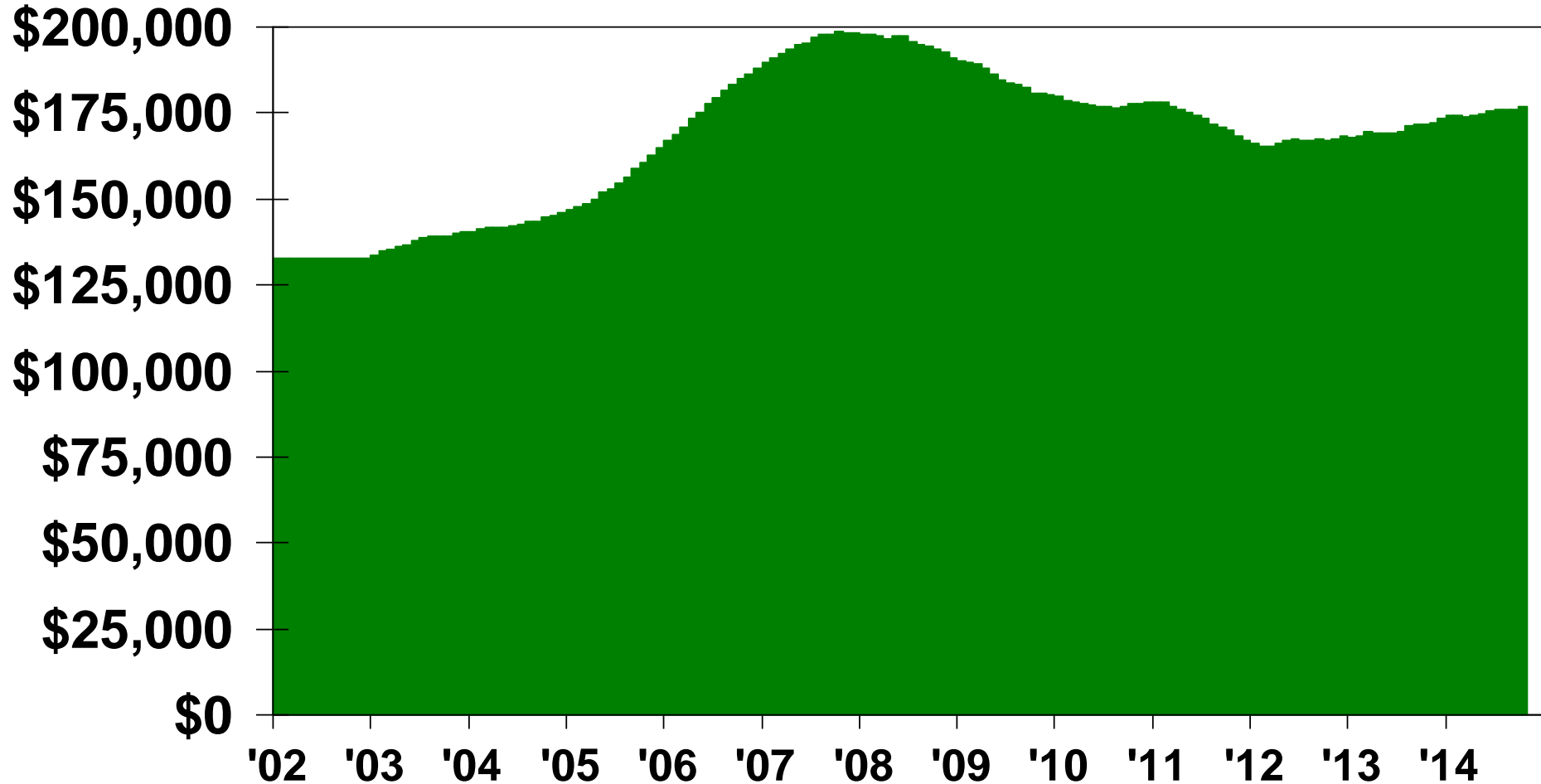
Albuquerque Existing Home Sales

Median Price



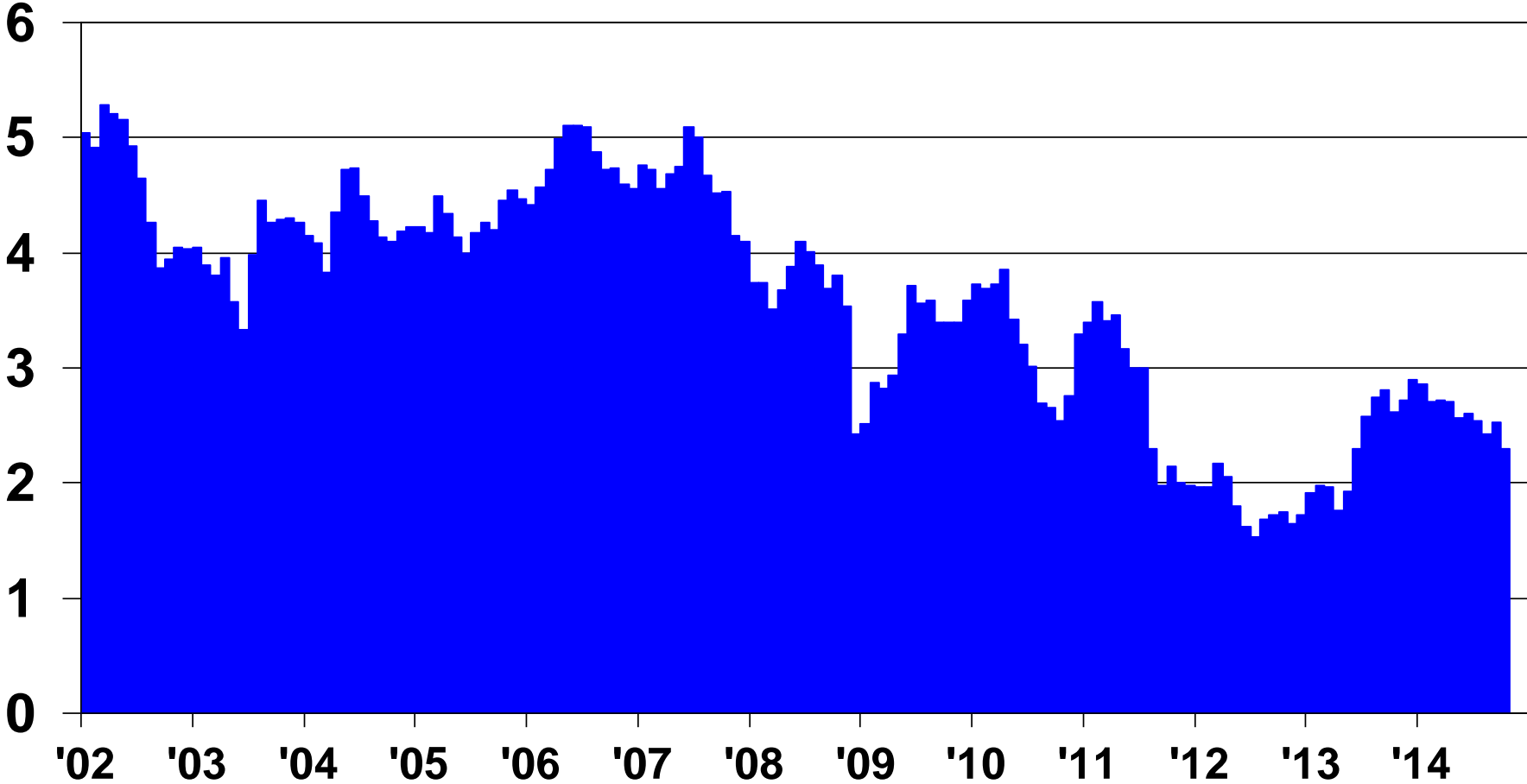
Albuquerque Existing Home Sales

Median Price – Average of the Trailing 12 Months



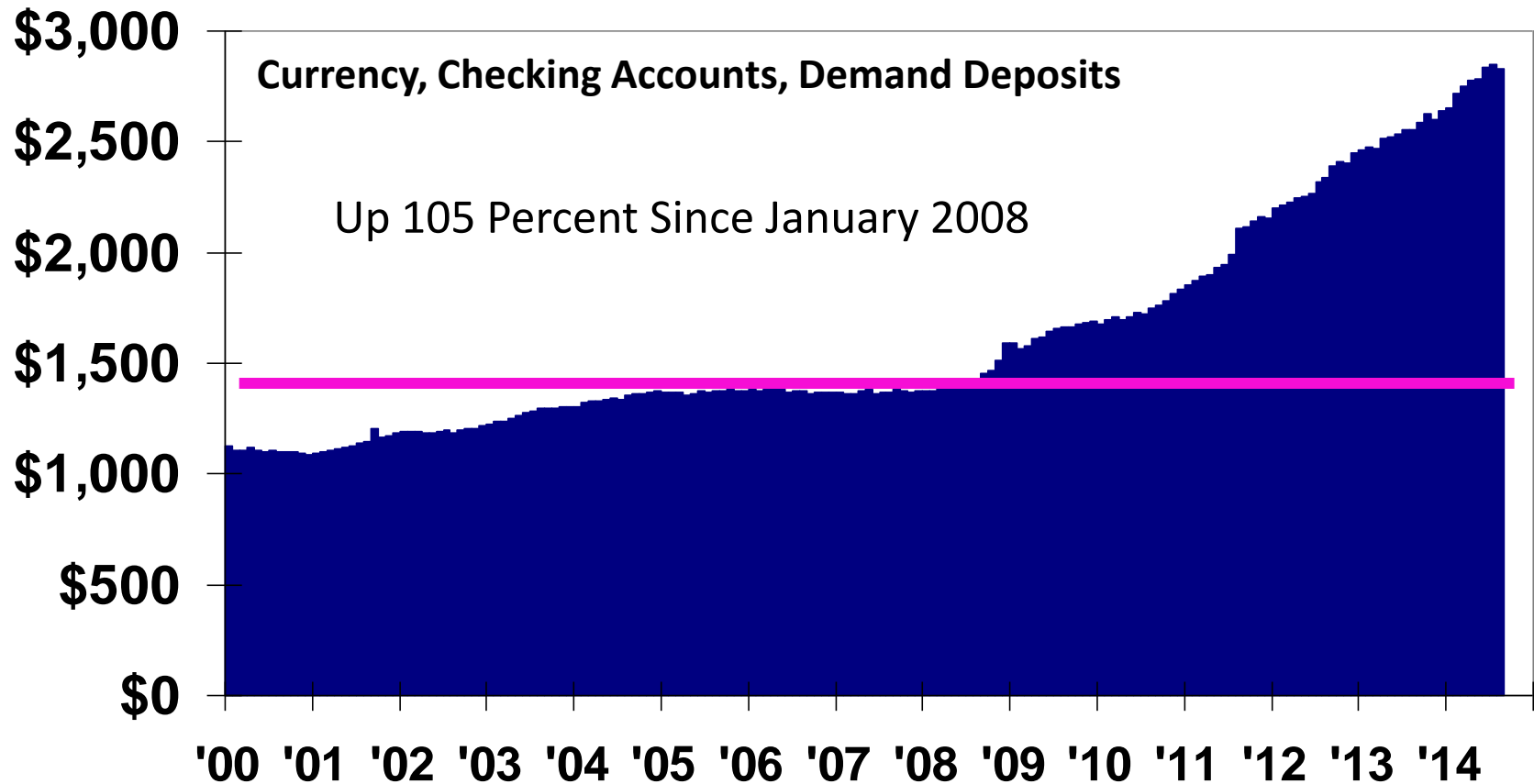
10-Year Treasury Rates

Percent

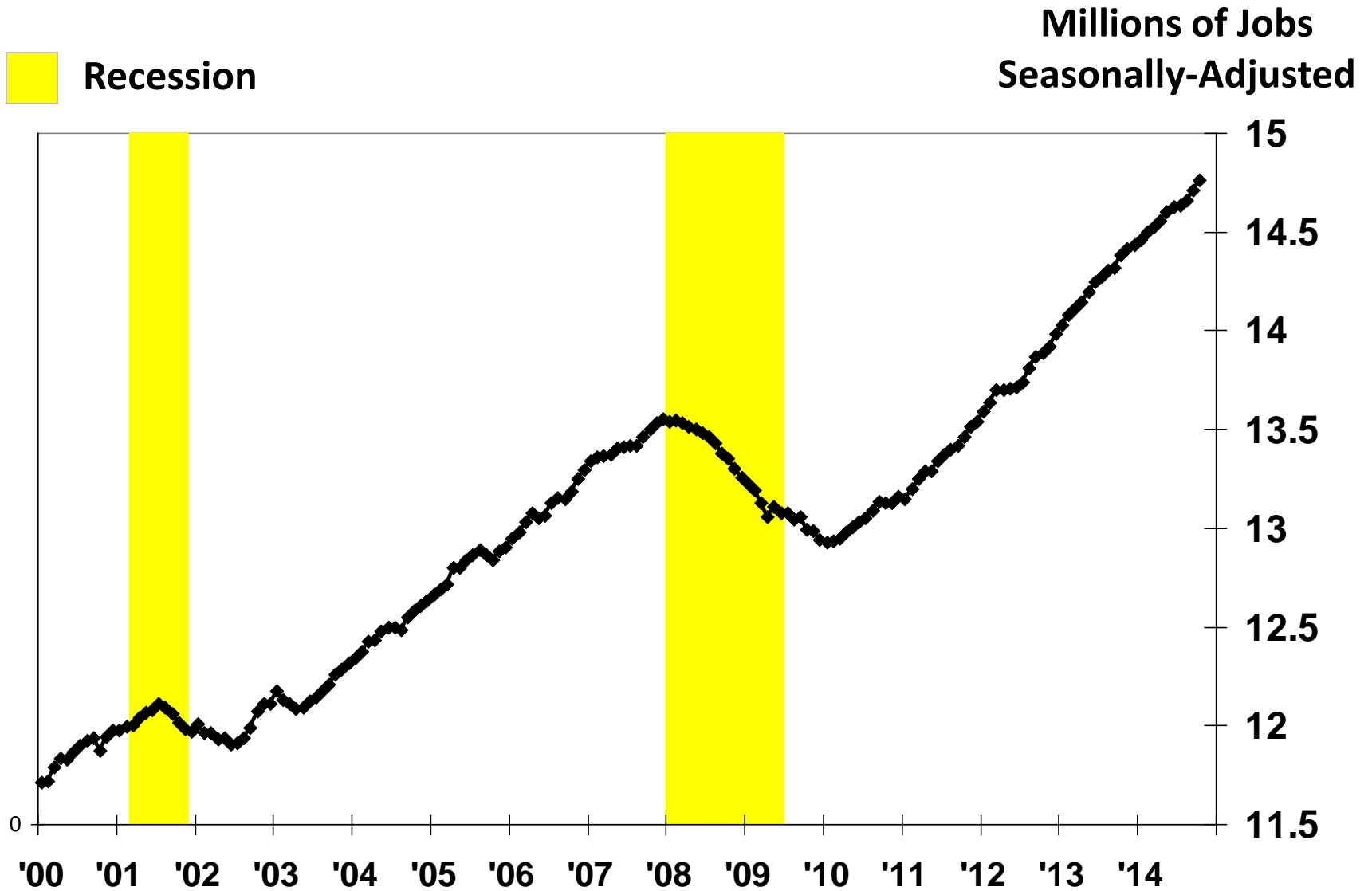


Money Supply – M1

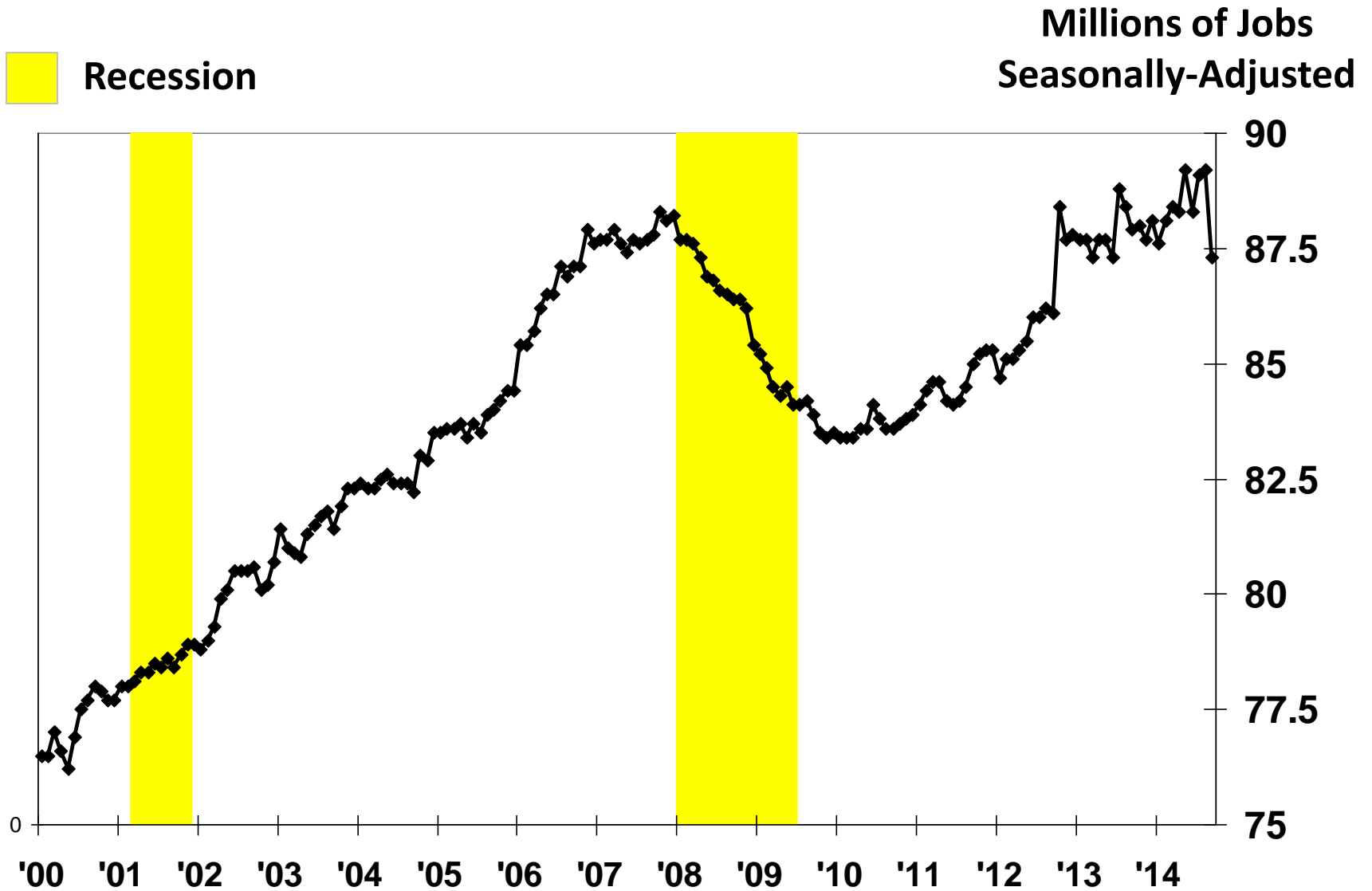
\$ Billions – *Seasonally Adjusted*



U.S. Leisure & Hospitality Jobs

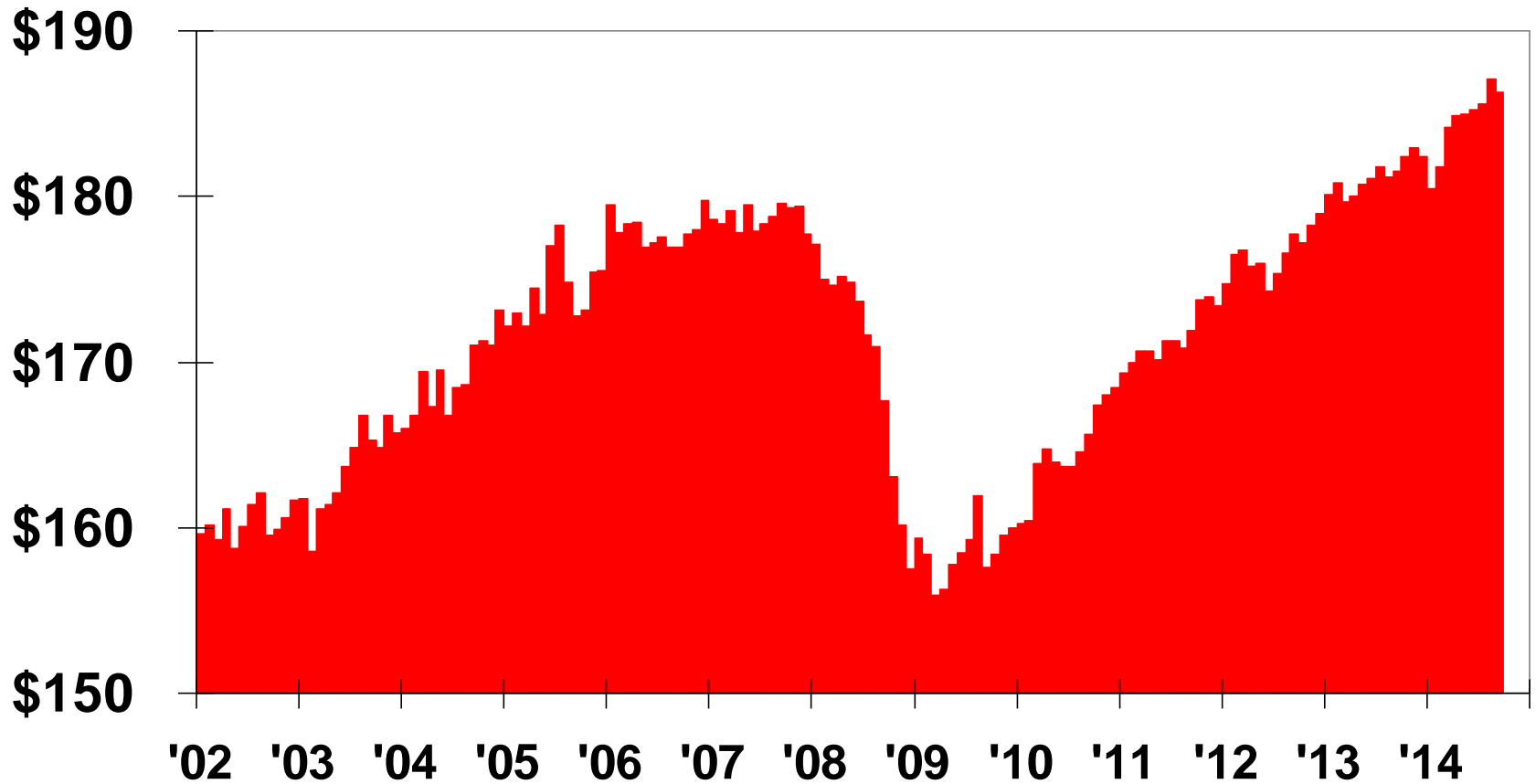


New Mexico Leisure & Hospitality Jobs



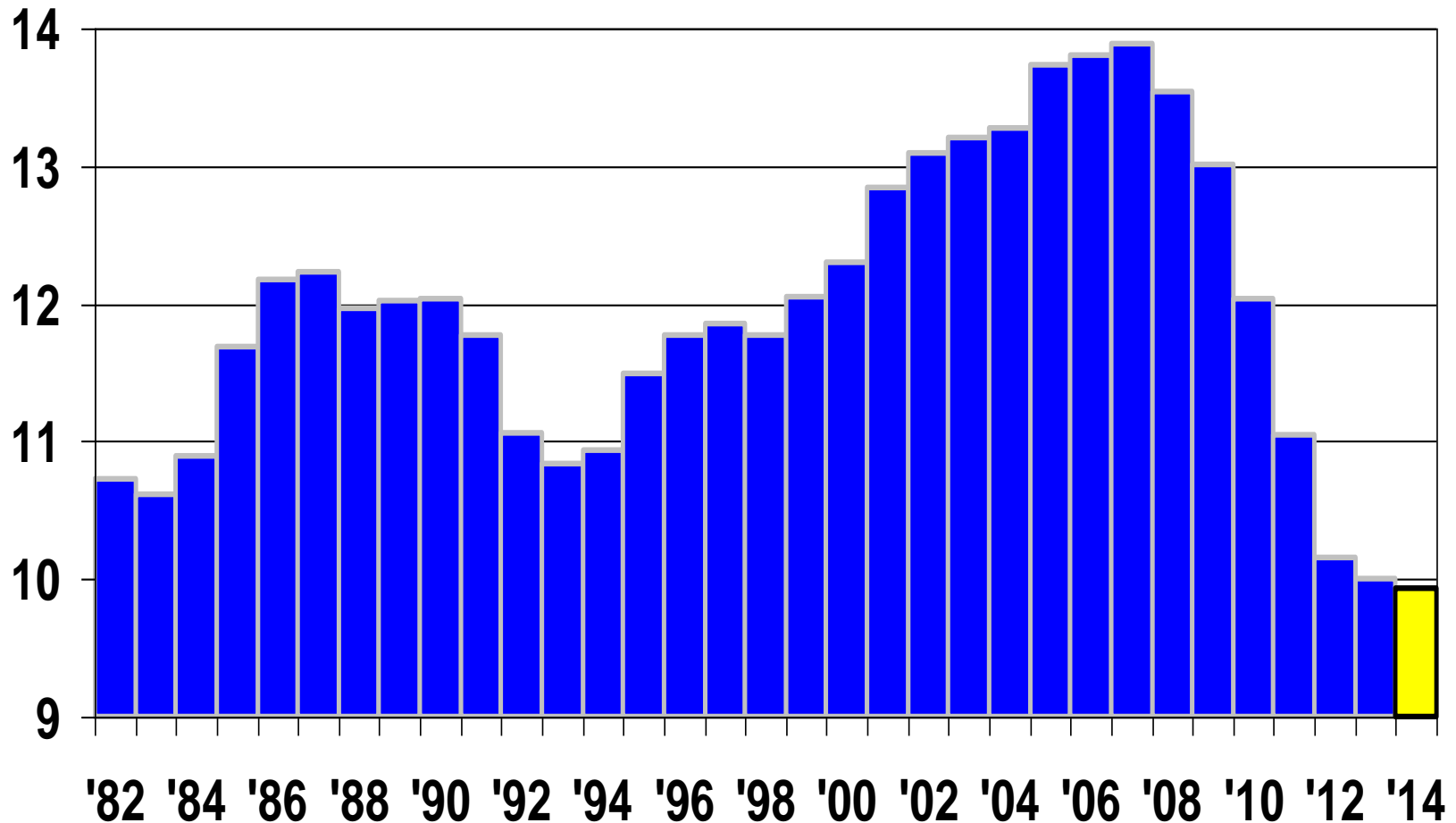
U.S. Real Retail & Food Service Sales

\$ Billions – Seasonally Adjusted



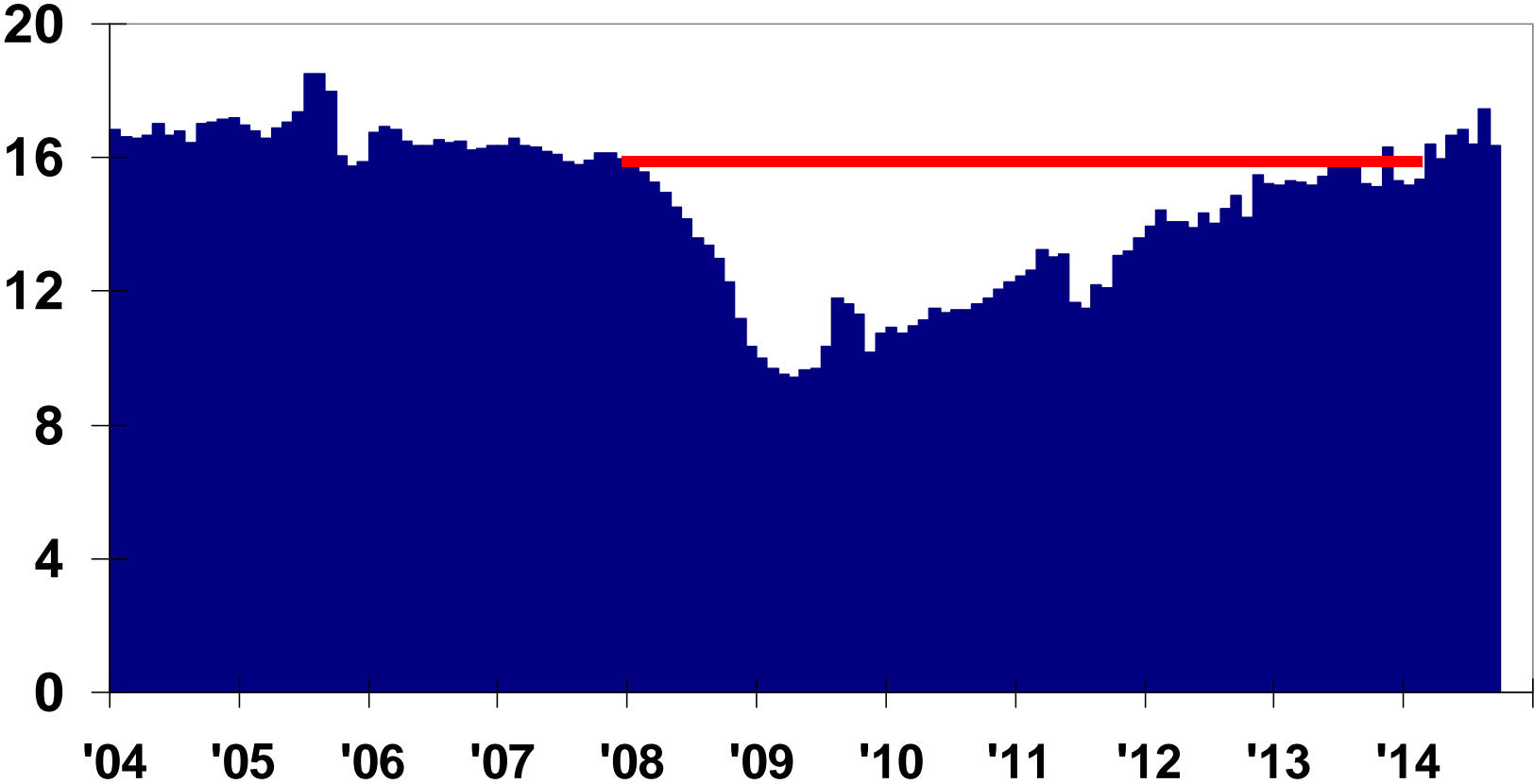
Household Debt Service as a Percent of Household Disposable Income

Percent



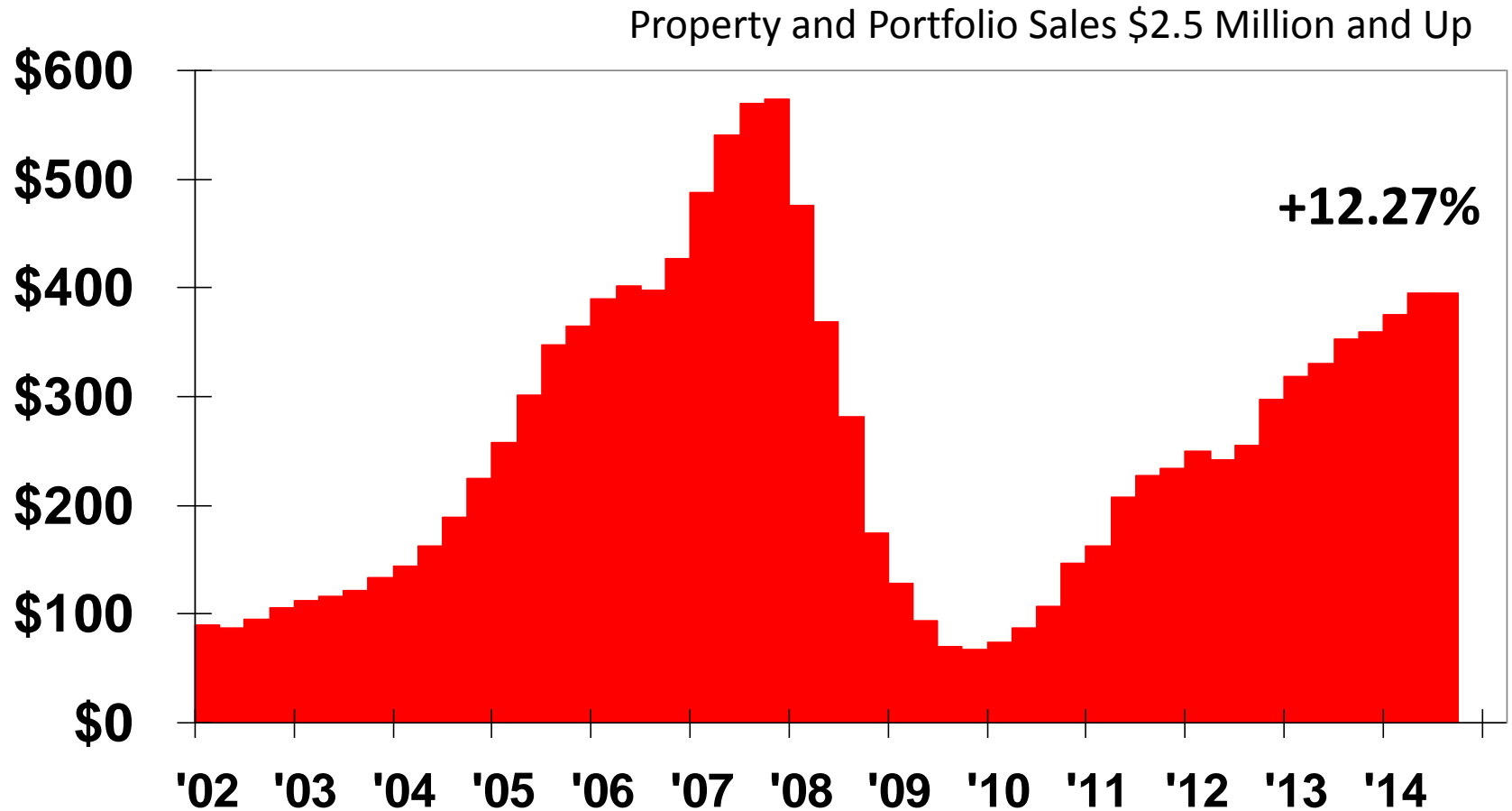
Light Weight Vehicle Sales

Millions – *Seasonally Adjusted Annual Rate*



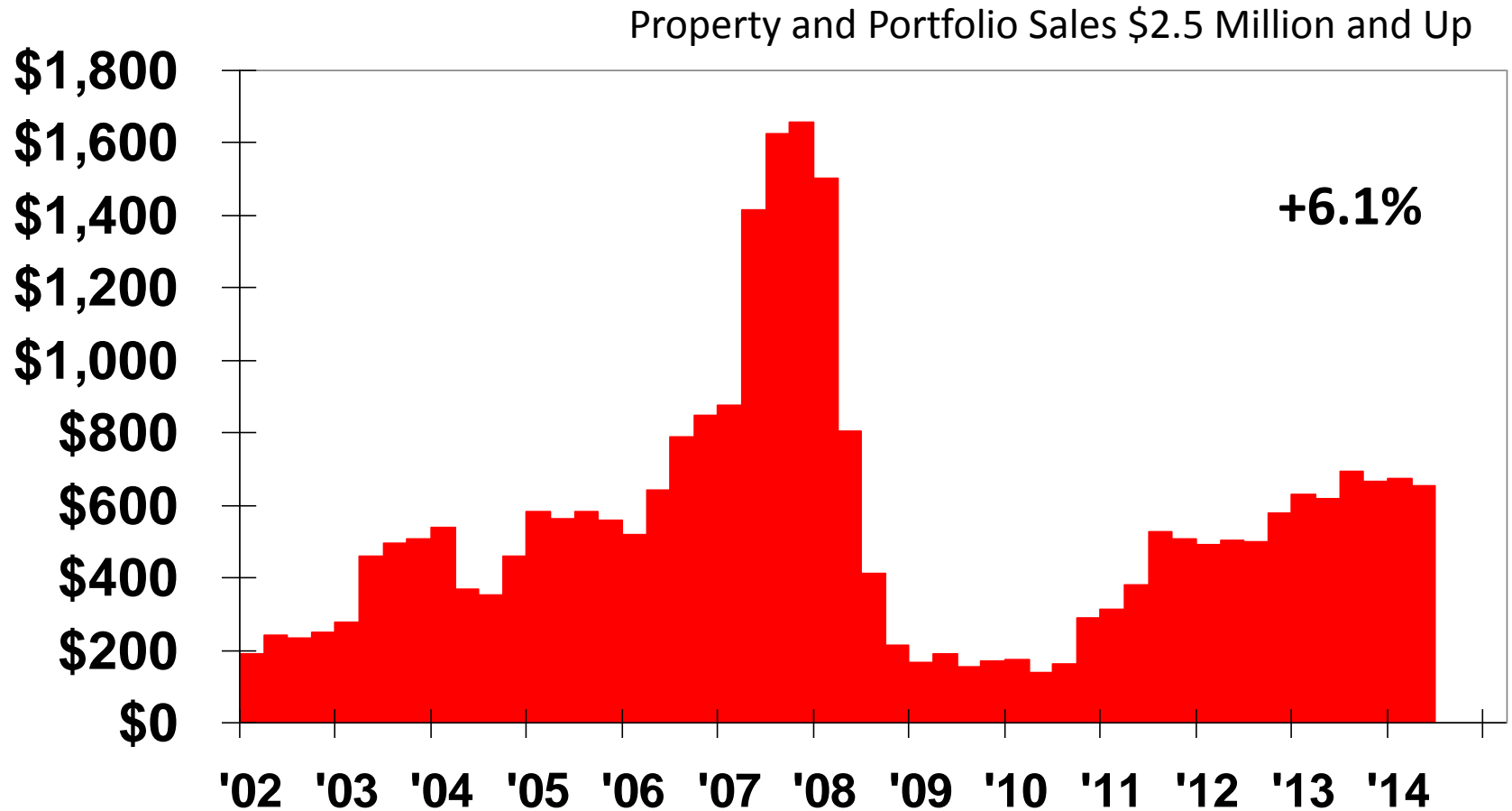
U.S. Commercial Real Estate Sales Volume

\$ Billions – *Trailing 12 Months*



New Mexico Commercial Real Estate Sales

\$ Millions – *Trailing 12 Months*

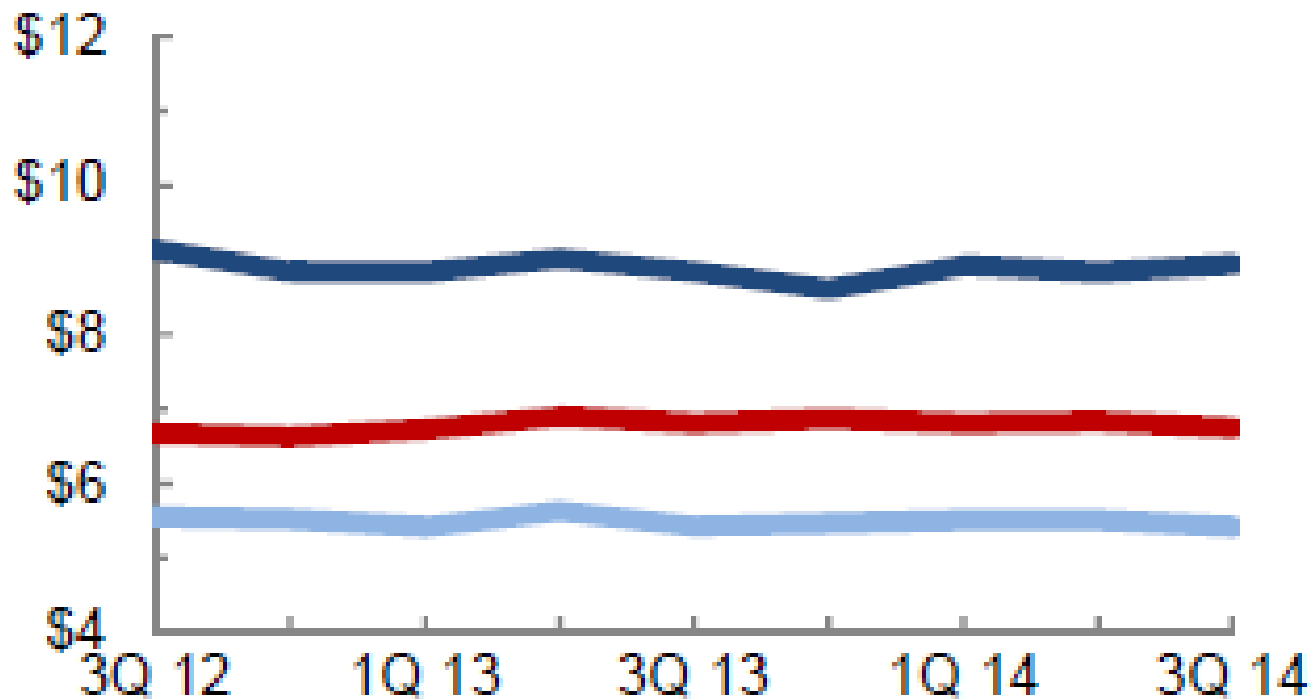


ALBUQUERQUE, NEW MEXICO

INDUSTRIAL TRENDS REPORT

ASKING RENTAL RATES

Last Nine Quarters, Annual Triple Net



R&D/Flex

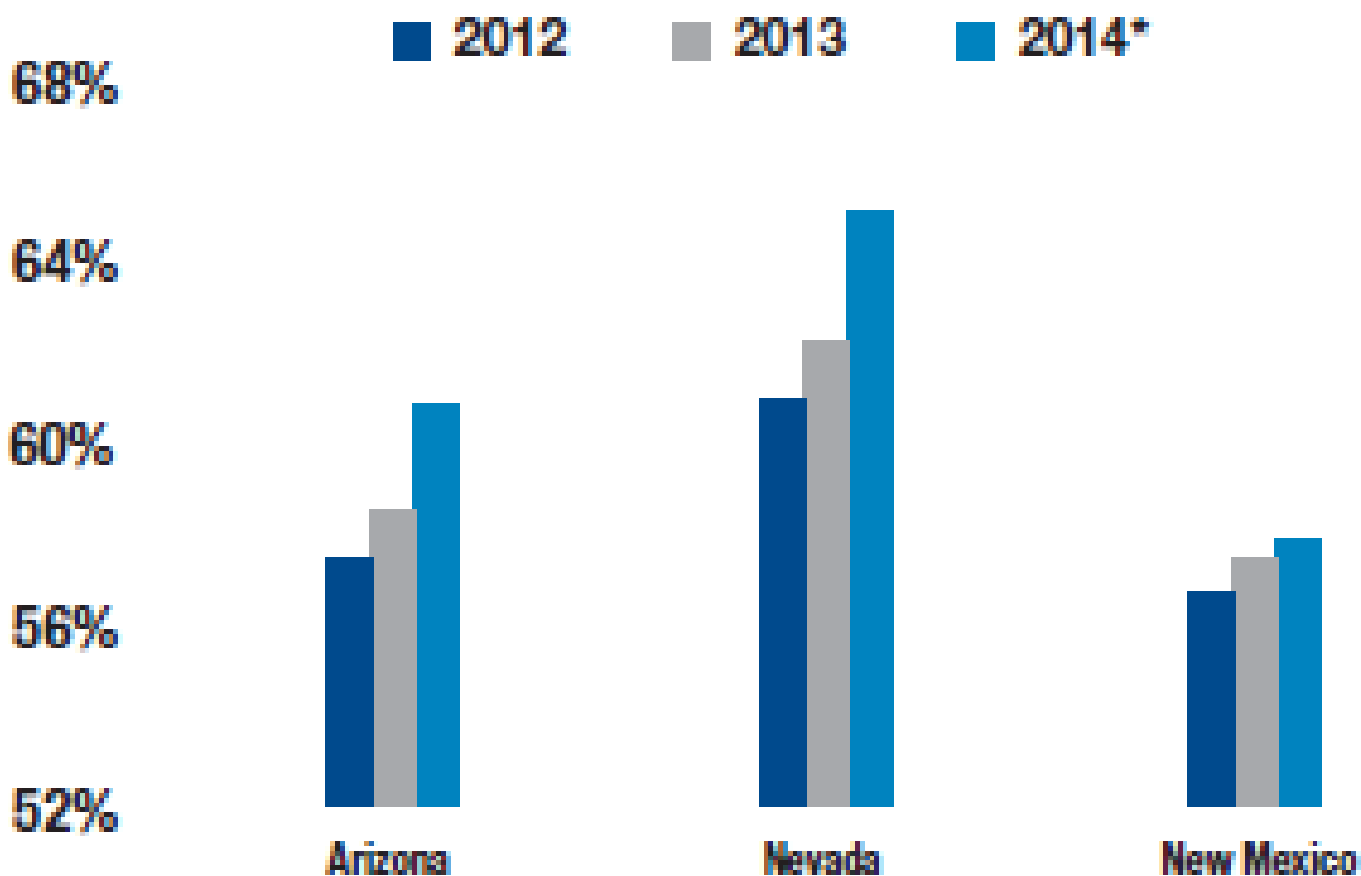
General Industrial

Warehouse/Dist.



Hospitality

Annual Occupancy by State



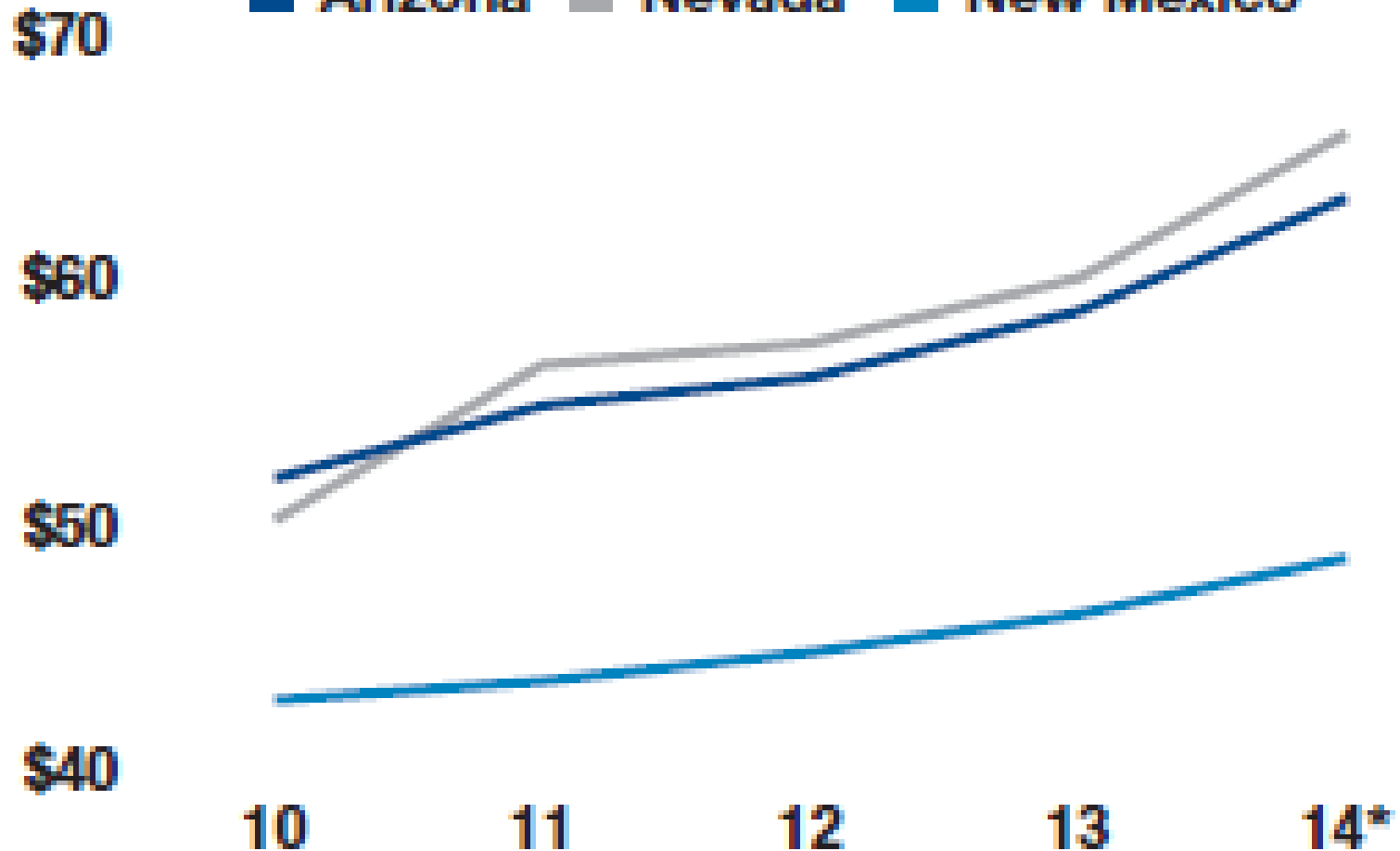
* Forecast

Sources: Marcus & Millichap Research Services, STR, Inc.

Hospitality

Yearly RevPAR Climbing

■ Arizona ■ Nevada ■ New Mexico



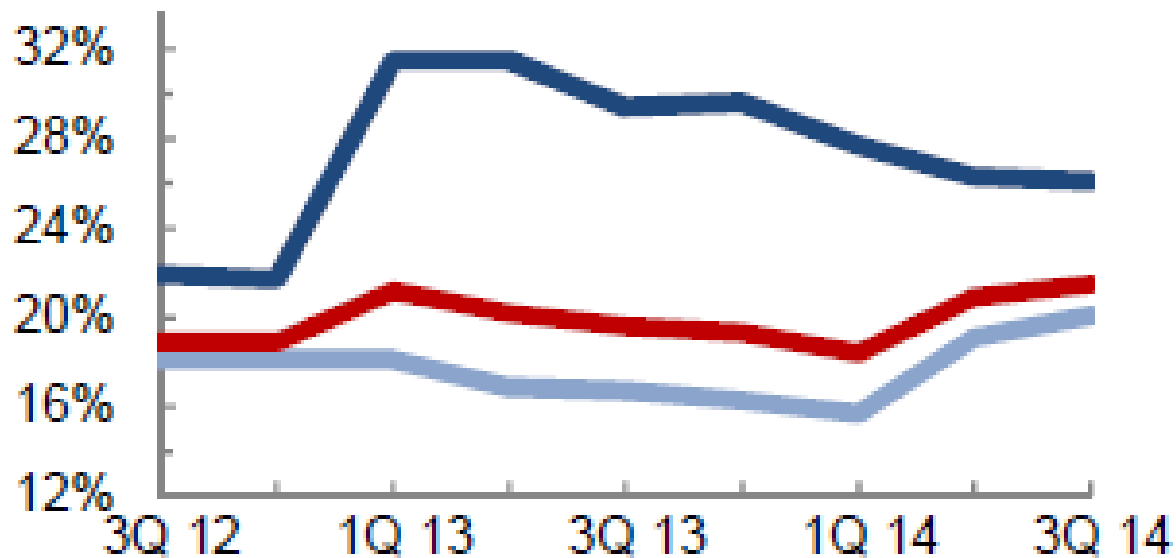
* Forecast

Sources: Marcus & Millichap Research Services, STR, Inc.

OFFICE

VACANCY

Quarterly



 CBD

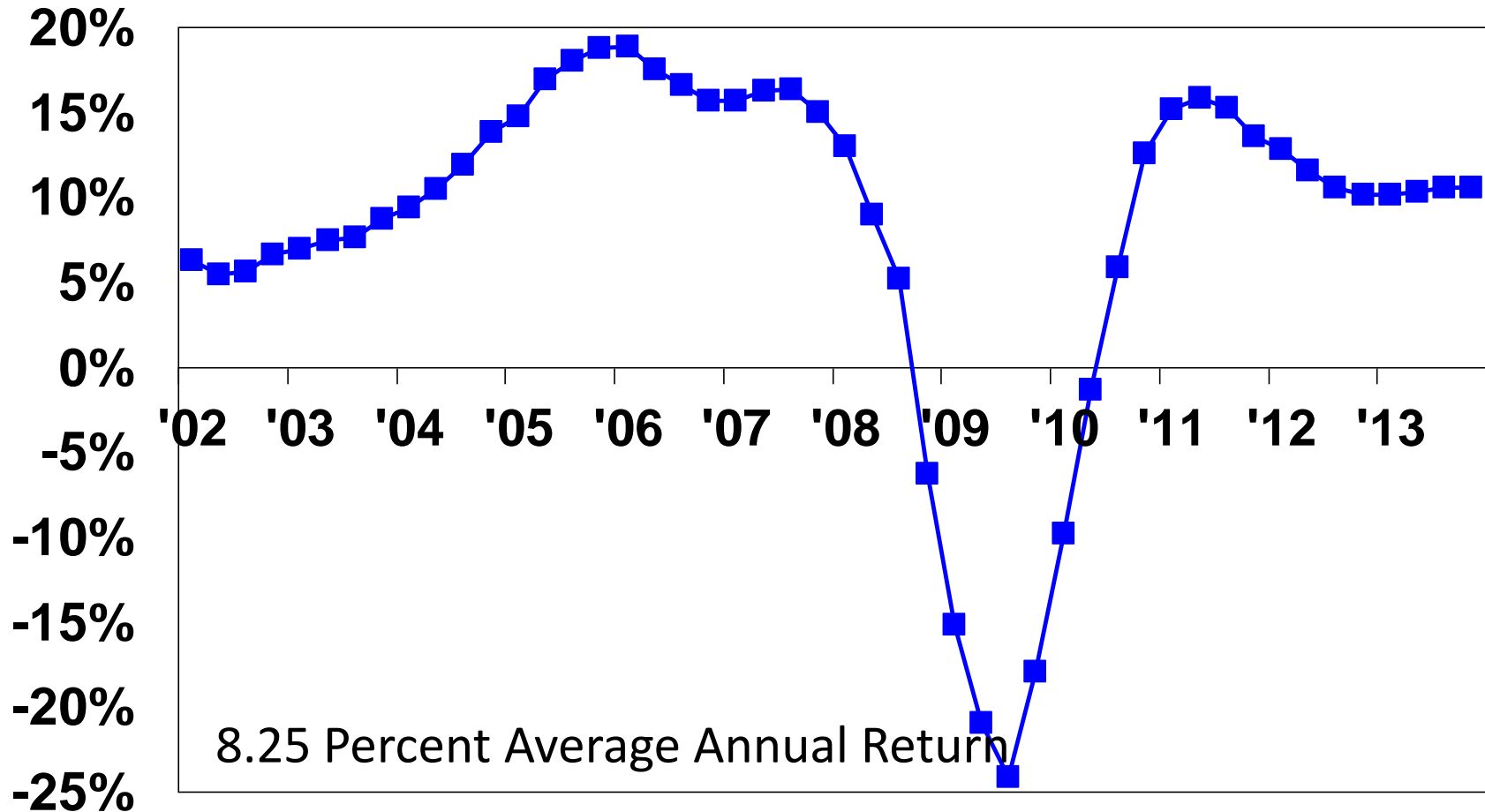
 Combined

 Suburban

Total Commercial Returns

Price and Performance Returns

Percent

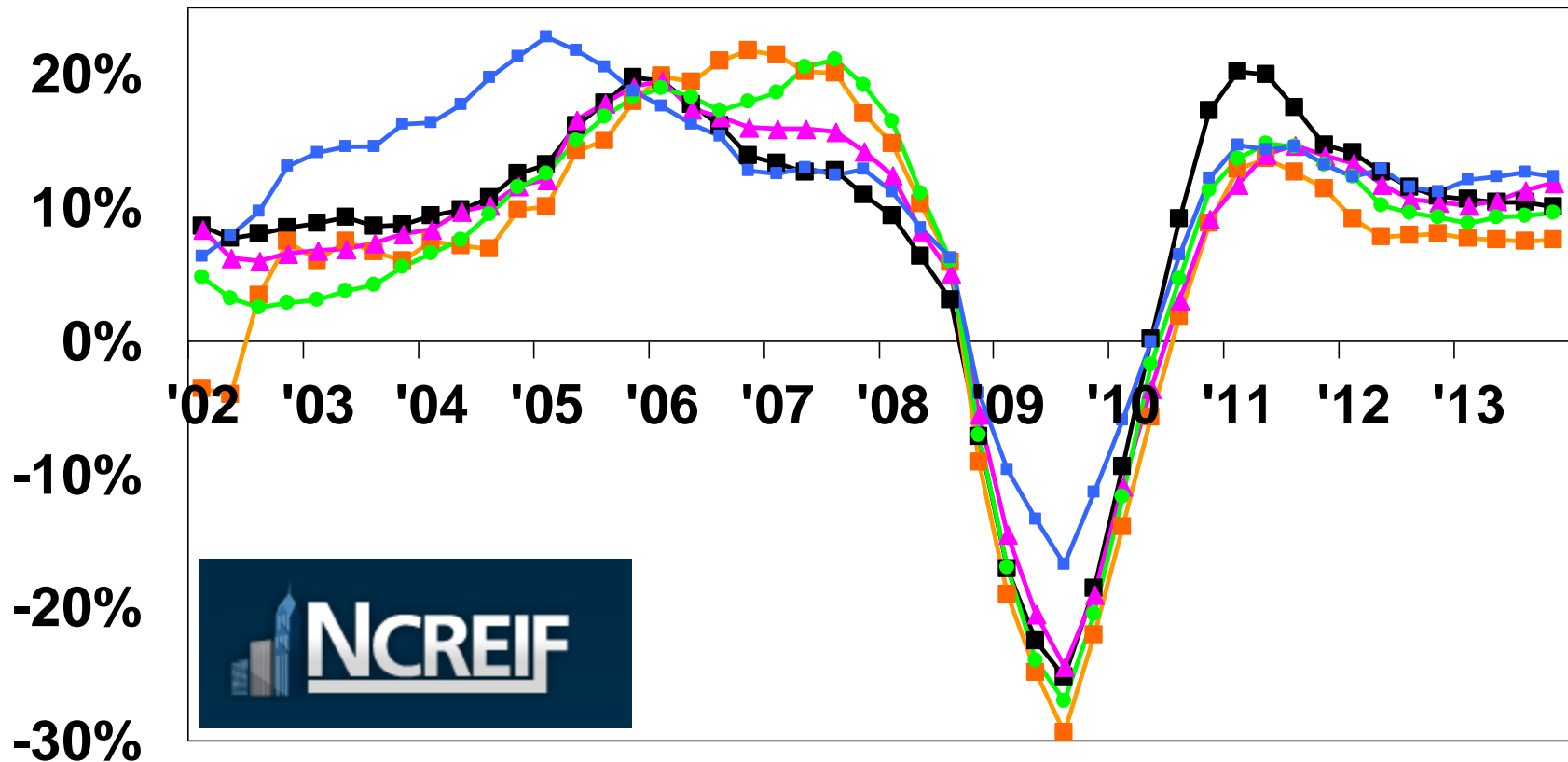


U.S. Commercial Segments

Price and Performance Returns

Percent

stewart®



Commercial Real Estate

Value and Performance Returns

| Property | 2013 | Annual Average Return Since 2000 |
|-------------------|---------------|---|
| Retail | 12.29% | 10.12% |
| Industrial | 11.79% | 8.40% |
| Apartments | 10.03% | 8.78% |
| Office | 9.52% | 7.92% |
| Hotels | 7.48% | 6.44% |

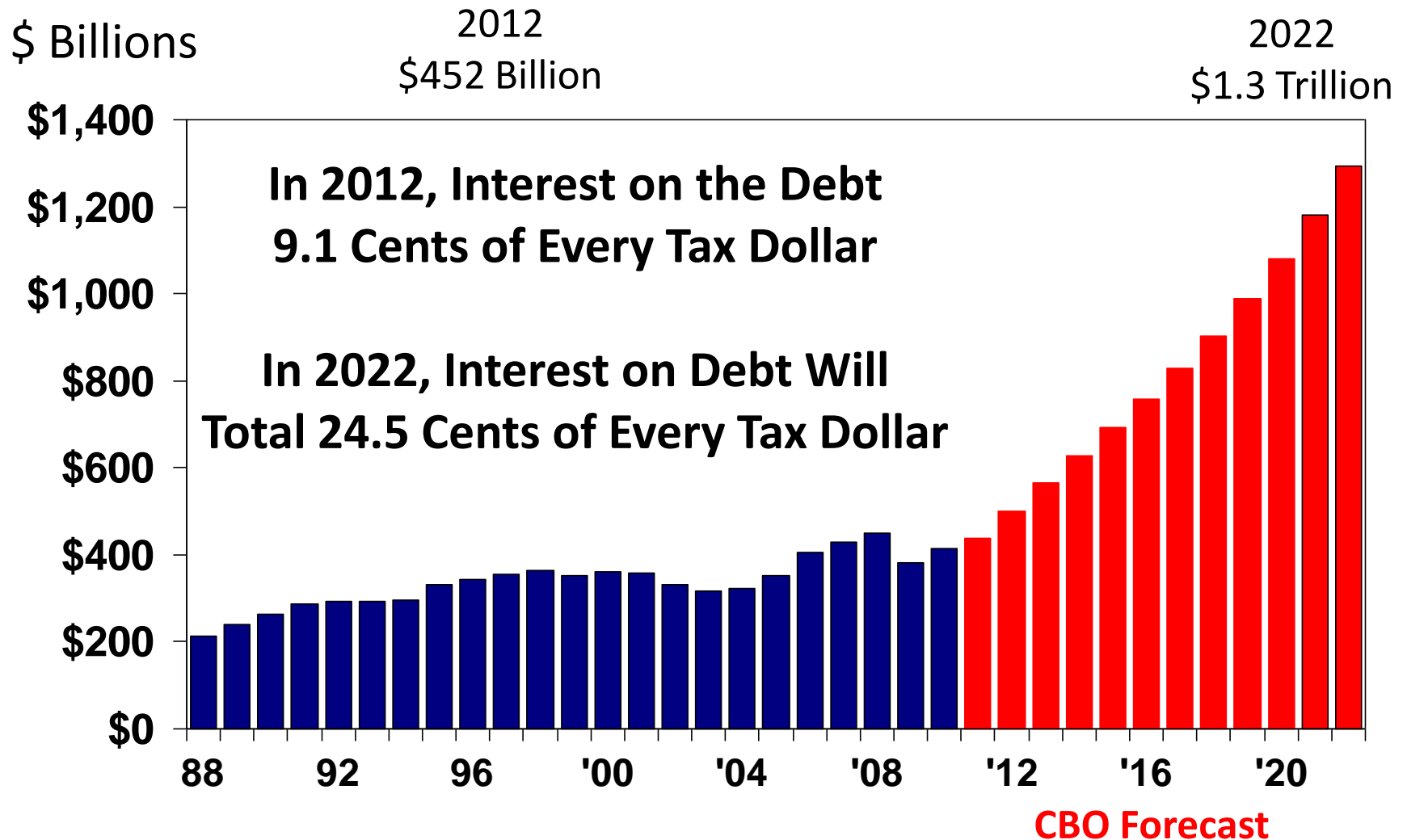
National Council of Real Estate Investment Fiduciaries

Liquidity Has Returned to Commercial Real Estate

- * 30 to 35 Percent Equity**
- * 125 Percent Debt Coverage Ratio**
- * Quality Tenant(s)**
- * Longer-Term Lease**

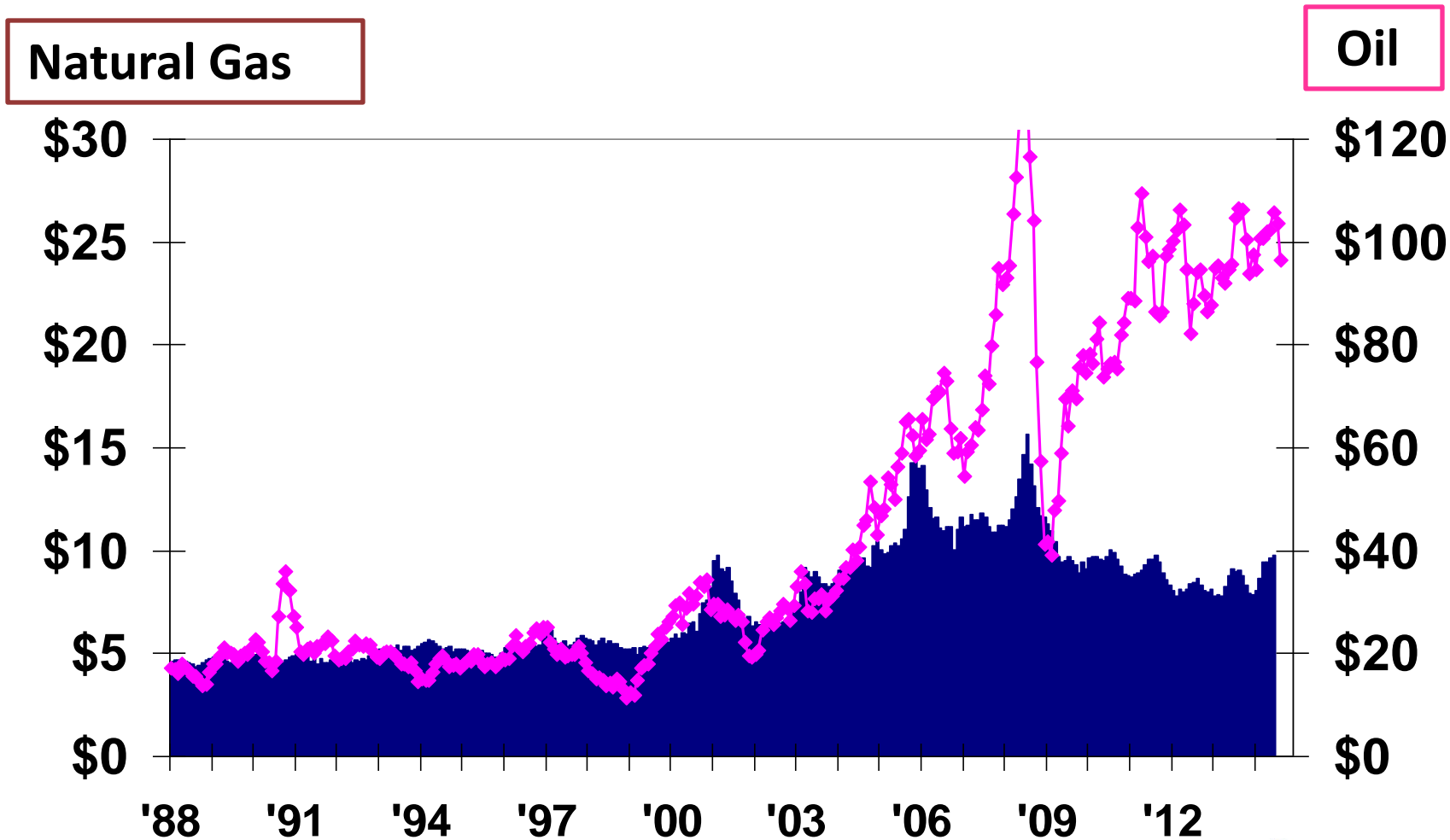
**52 Percent of
U.S. Households
Receive Some Form
Of Government
Benefits**

Interest Expense on Federal Debt



Natural Gas Price Delivered to Commercial Customers vs. WTI Crude Oil

Gas Per 1,000 Cubic Feet, Oil Per Barrel



Natural Gas

Oil

\$30

\$25

\$20

\$15

\$10

\$5

\$0

'88

'91

'94

'97

'00

'03

'06

'09

'12

\$120

\$100

\$80

\$60

\$40

\$20

\$0

\$60

OIL

Crude Oil Prices and Gasoline

| Crude Oil Price | | | | | | | | |
|-----------------|---------|---------|---------|---------|---------|---------|---------|---------|
| | \$50 | \$60 | \$70 | \$80 | \$90 | \$100 | \$110 | \$120 |
| \$0 | \$ 2.06 | \$ 2.35 | \$ 2.65 | \$ 2.94 | \$ 3.24 | \$ 3.53 | \$ 3.83 | \$ 4.12 |
| \$1 | \$ 2.09 | \$ 2.38 | \$ 2.68 | \$ 2.97 | \$ 3.27 | \$ 3.56 | \$ 3.85 | \$ 4.15 |
| \$2 | \$ 2.12 | \$ 2.41 | \$ 2.71 | \$ 3.00 | \$ 3.29 | \$ 3.59 | \$ 3.88 | \$ 4.18 |
| \$3 | \$ 2.15 | \$ 2.44 | \$ 2.73 | \$ 3.03 | \$ 3.32 | \$ 3.62 | \$ 3.91 | \$ 4.21 |
| \$4 | \$ 2.17 | \$ 2.47 | \$ 2.76 | \$ 3.06 | \$ 3.35 | \$ 3.65 | \$ 3.94 | \$ 4.24 |
| \$5 | \$ 2.20 | \$ 2.50 | \$ 2.79 | \$ 3.09 | \$ 3.38 | \$ 3.68 | \$ 3.97 | \$ 4.27 |
| \$6 | \$ 2.23 | \$ 2.53 | \$ 2.82 | \$ 3.12 | \$ 3.41 | \$ 3.71 | \$ 4.00 | \$ 4.30 |
| \$7 | \$ 2.26 | \$ 2.56 | \$ 2.85 | \$ 3.15 | \$ 3.44 | \$ 3.74 | \$ 4.03 | \$ 4.33 |
| \$8 | \$ 2.29 | \$ 2.59 | \$ 2.88 | \$ 3.18 | \$ 3.47 | \$ 3.77 | \$ 4.06 | \$ 4.36 |
| \$9 | \$ 2.32 | \$ 2.62 | \$ 2.91 | \$ 3.21 | \$ 3.50 | \$ 3.80 | \$ 4.09 | \$ 4.39 |

Source: Ted C. Jones, PhD - Chief Economist, Stewart Title Guaranty Company

Regression: Gasoline Price Per Gallon = 0.582988 + 0.029477 x Oil Price

0.9691 adjusted R Square, F statistic = 38,849.4

2015 Economic Concerns

- **DEBT CEILING Issues (Cash Flow)**
- **GSEs**
- **CFPB**
- **Rural Land Bubble**
- **Government Regulation**

Newton's Third Law of Motion

Telling It Like It Is Ted

Twitter – DrTCJ

blog.stewart.com/ted

It is What it Is

Ted C. Jones, PhD Chief Economist

Stewart Title Guaranty Company

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