Winter 2017

Issue 01

MANCHESTER
CAPITAL MANAGEMENT, LLC

Real Estate Insight

Introducing: Real Estate Insight

-Manchester Capital Management Real Estate Team

We are pleased to announce that Manchester Capital Management is commencing production of a quarterly real estate newsletter titled "Real Estate Insight." We hope that you find this valuable and informative.

We are quite excited at Manchester Capital Management to be presenting our clients and friends this inaugural copy of Real Estate Insight, which will be published at the end of each calendar quarter.

The real estate market is vast; the London-based real estate advisor Savills recently tallied the value of global property at $217 trillion[1]. By comparison, S&P Global' s DJ Global TXS Index estimated the market capitalization of the world's equity market at approximately $60 trillion, or 27.7% of the total real estate value[2]. Given its size and prominent place in the investment world, we feel compelled to provide Manchester's quarterly insights into this important investment arena.

Our real estate advisory practice is national in scope. We have acquired, on behalf of our clients, many types of real estate including apartments, commercial offices, and industrial warehouse buildings in a number of markets around the country. Our goal in publishing this newsletter is to provide our clients and friends of the firm insightful and informative material derived from our "boots on the ground" experiences.

Crane-ful in Seattle?

-Jeffrey S. Hall, Senior Managing Director

One of the real estate industry's indicators of future performance of commercial property is the presence, or lack thereof, of construction tower cranes in a market. We follow crane counts like the oil industry analysts follow rig counts. Their presence indicates economic optimism and activity but also causes concerns about potential oversupply of real estate.

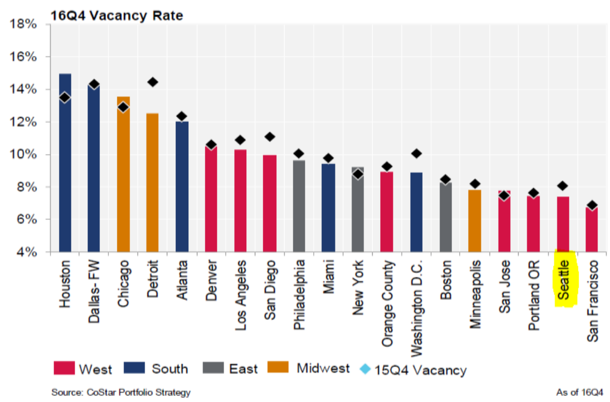
The online addition of the Seattle Times reported in October 2016 that Seattle had 58 tower cranes at work over the past summer, more than any other city in the country and more than San Francisco and New York combined[3]. Last month, as I headed into Seattle on I-5, I observed the number of cranes first-hand and this brought reality home to me. The picture in the left margin shows five tower cranes within a narrow frame of the Seattle commercial business district ("CBD"), one of which is obscured by the Space Needle.

Did the presence of the cranes in the Seattle skyline indicate a healthy real estate investment climate or was it setting the stage for oversupply conditions and potentially lower lease rates?

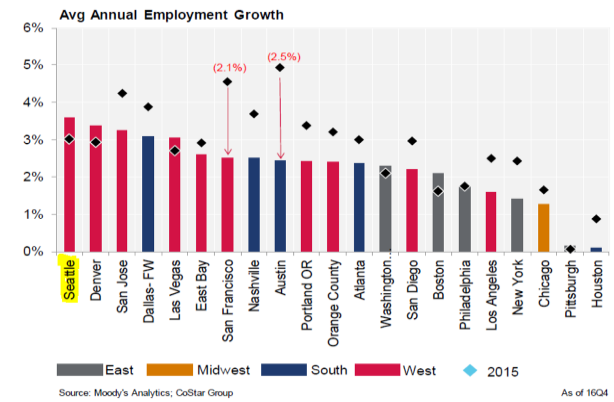
My view of the skyline forced me to consider this question and the effect the cranes might have on a strategy we are implementing for a client family. The strategy is to sell a portion of a San Francisco commercial office portfolio (for average prices of $900 per rentable square foot) and use the proceeds to acquire similar class office buildings in Seattle (in the $400 per rentable square foot range). Lease rates in San Francisco are approximately double those in Seattle but it is our belief that tenants are recognizing this and will seek value in other markets, such as Los Angeles, Seattle, and Portland.

Ultimately, the success of this strategy rests with the facts on the ground and not with the cranes in the sky, so we set out to research a number of key market factors. We needed to consider two very important factors, current trends in vacancy and current employment growth. Vacancy rates are a barometer of the health of the commercial office market and employment growth is a strong indicator of future demand for office space.

Vacancy Rates For Metros, Current Vs. Last Year



Employment Growth By Metro



The bar graph on the left shows the Seattle vacancy rate is the lowest of major U.S. markets in the fourth quarter of 2016 with the exception of San Francisco. Seattle also experienced a decline in vacancy from the fourth quarter of 2015 while San Francisco was flat. These vacancy rates are a positive indicator of high demand and low supply in Seattle.

The bar graph on the right shows that Seattle had the greatest average annual employment growth in 2016. Growth is San Francisco was only slightly less that Seattle's in 2016 but significantly slower than in 2015. Overall, we view these as very positive for long term Seattle office demand notwithstanding the crane count.

There are a number of other factors that makes us bullish on Seattle. It has great employers such as Amazon, Microsoft, and Boeing. The city is the dominant city of the Pacific Northwest and serves as a regional headquarters location for other S&P 500 companies. The University of Washington is incubating entrepreneurs who hope to become the next Bill Gates or Jeff Bezos. I should also mention there is no state income tax.

For now, we are safe despite the cranes. More importantly, we remain bullish on the long term real estate investment prospects for Seattle and that the strategy implemented for our client can safely proceed.

2016 and YTD Selected REIT Returns

REIT PERFORMANCE BY PROPERTY SECTOR

28-Feb-17

Sector	Total Return (%) 2016	Total Return (%) 2017 (YTD)	Dividend Yield (%)
FTSE NAREIT Equity REIT	8.52	3.53	3.90
Industrial	30.7	-2.00	3.34
Office	13.2	6.37	2.84
Retail	0.95	1.03	4.06
Apartments	2.86	1.58	3.17
Data Centers	26.4	8.65	2.75
S&P 500 TR USD	12	5.94	2.06

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OF NOTE:

- 2016 FTSE NARIET Equity REITs total returns fell short of S&P returns by approximately 340 basis points.
- Industrial and Data Centers were strong performers outpacing other real estate sectors and the S&P during 2016.
- Industrial is negative year to date 2017 though up 4.77% in February.

ENDNOTES

1. Robert Hackett, "How Critical Real Estate Is to the Global Economy—In One Chart", Fortune Online, January 26, 2017
2. Dow Jones, "Global Total Stock Market Indices, Fact Sheet"
3. Mike Rosenberg, "Seattle skyline is tops in construction cranes—more than any other U.S. city", Seattle Times Online, March 10, 2017