Gruen Gruen + Associates

Holiday Greeting and Forecast for 2014

Gratitude

The co-founders of Gruen Gruen + Associates (GG+A), Principal Sociologist Nina Gruen and Principal Economist Claude Gruen, have three primary passions in their lives:

- Family;
- Contemporary Russian art; and
- Helping make the best use of land, urban, and environmental resources.

Since 1970, Nina and Claude Gruen and other members of GG +A have applied the concepts and analytical tools of behavioral urban economics, demographic analysis, market and regional science research, financial analysis, and impact analysis to identify and help implement the best real estate investment and development alternatives, land use programs, and public policy and economic development choices.

The culture of state-of-the-art research and analysis, responsive and efficient predevelopment services, and care and commitment to clients instilled by the co-founders continues today.

With this 43rd annual holiday greeting and forecast, we celebrate the four decades of exemplary service by GG+A's founders that will continue from their Downtown San Francisco home office. We also celebrate the completion of two decades of service by each of GG+A's second generation leaders, Aaron Gruen and Debra Jeans. Aaron and Debra have led GG+A's expansion into the Midwest, Rocky Mountains, and Southwest, while continuing to help position our clients in the West to align or realign their assets and policies to seize opportunities, avoid pitfalls, and optimize returns.

All of us at GG+A are extremely grateful for the support of our clients, firm colleagues, consulting team partners, and friends over the multiple real estate and economic cycles and increasingly rapid secular and structural changes since the firm's founding.

Past Predictions in Perspective

Only rarely do we review the accuracy of past predictions in our annual holiday forecasts. We indulge so in this year's edition focusing on the results of specific calls which are readily measured to illustrate the increasing volatility and scale of dramatic change to which governments, institutions, and private interests must anticipate and respond to remain relevant and competitive.

- In the forecast for 2000, GG+A identified the paramount importance of the Internet. Since 2000, the volume of domestic e-commerce has increased by 720 percent from $28 billion in 2000 to $225 billion in 2012.

- For the 2003 forecast, GG+A predicted a year of "Transition, Reassessment, and Opportunity," and recommended the purchase of stocks at their bargain basement levels. Between the 2003 and 2004 forecasts, both the Dow Jones and Standard and Poor's 500-stock indices increased by more than 25 percent.

- The 2008 forecast advised that "bike trails and open space are in, and golf courses are out in creating residential land values." Since 2007, 705 golf courses have closed.

- The 2010 forecast predicted that "Amazon" will beat the growth of same store sales at big box retailers. Amazon's year-over-year net sales growth (and stock price) from 2010 to 2012 was significantly higher than comparable store year-over-year sales growth for Wal-Mart and Target. (*This does not mean GG+A recommends Amazon as a stock investment*).

	Year-over-Year Sales Growth			Increase in Stock Price 2010 - 2012
	2010 %	2011 %	2012 %	2010 - 2012 Change %
Amazon[1]	40	41	27	113.7
Wal-Mart U.S.[2]	(0.7)	(1.5)	(0.3)	42.6
Target[2]	2.1	3.0	2.7	17.6

[1] Net sales. (Amazon's stock price was $180 as of December 2010 and $384.66 as of December 3, 2013)

[2] Comparable store sales.

Source: 2012 annual reports for Amazon, Wal-Mart, and Target

Forecast for *2014*

- A significant increase in housing construction to over one million dwelling units will occur. Manufacturing of construction materials will also increase in response to an increase in household formation and the wealth effects from the improving housing market and stock market gains.

- Investment in new equipment and R&D will increase as will manufacturing as on-shoring accelerates with automotive producers and suppliers increasing production capacity. The chemical industry will also increase investments in the United States in anticipation of low prices for natural gas and feedstocks. Investments in new less labor intensive technology will combine with these price declines causing a rebirth of many manufacturing industries.

- Inflation will remain below 2% due to continued output gaps and decline in energy prices due to the expansion of domestic energy production.

- Unemployment will remain too high as the shortage of workers with skills attuned to new technologies in a broad array of industries slow the addition of workers by firms with growing labor needs.

- Interest rates will remain relatively low with the 10-Treasury Note staying not too far from 3%.

- Repurposing golf courses and other uses no longer generating profitable returns will reward investor-developers while providing positive fiscal impacts to municipalities.

- While prime renter cohort demographics, increasing household formation, and changing attitudes toward housing tenure stimulate demand for apartment units, increasing construction and weak income growth suggests the need to be vigilant about investing or developing in locations subject to oversupply or lacking a sufficient package of amenities, transit service, and proximity to workplaces. Household and employment growth rates will vary considerably within and between metro areas and will critically influence housing development opportunities.

- Expanding international trade, the increasing proportion of retail sales made over the Internet, and the need to replace obsolete space bodes well for the development of logistics centers, especially in gateway markets and inland hubs near population concentrations.

- Green office space development and investment will need to be keenly attuned to locations near transit, integrated with relatively high density housing close to experiential shopping, restaurant, and entertainment venues. Product characteristics will need to support high density usage, improve workers' productivity, and help innovative companies retain and attract talent.

- Retail bifurcation between retail "winners and losers" will grow more intense. Differentiated, experiential locations with retailers offering luxury goods will withstand the onslaught of e-tailing. Commodity-type community and power center retail in markets with limited barriers to supply additions and lower average household income will be challenged to stay or become viable.

Gruen Gruen + Associates wish you and your family a healthy, happy, peaceful, and prosperous New Year.

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Applying Knowledge, Creating Results, Adding Value

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