Outlook for the U.S. Florida and PGA Corridor

January 10, 2018

PGA Corridor Association

Hank Fishkind
Fishkind & Associates, Inc.
12051 Corporate Boulevard
Orlando, Florida 32817

How Do You Think Your Business Will Do in 2018?

Log in to http://fishkind.participoll.com/

- **A = Better than 2017**
- **B = Same as 2017**
- **C = Worse than 2017**

How Do You Think Your Business Will Do in 2019?

- A = Better than 2017
- B = Same as 2017
- C = Worse than 2017

Do You Think There Will Be a Recession in 2019-21?

- A = Yes
- B = No
- C = Do Not Know

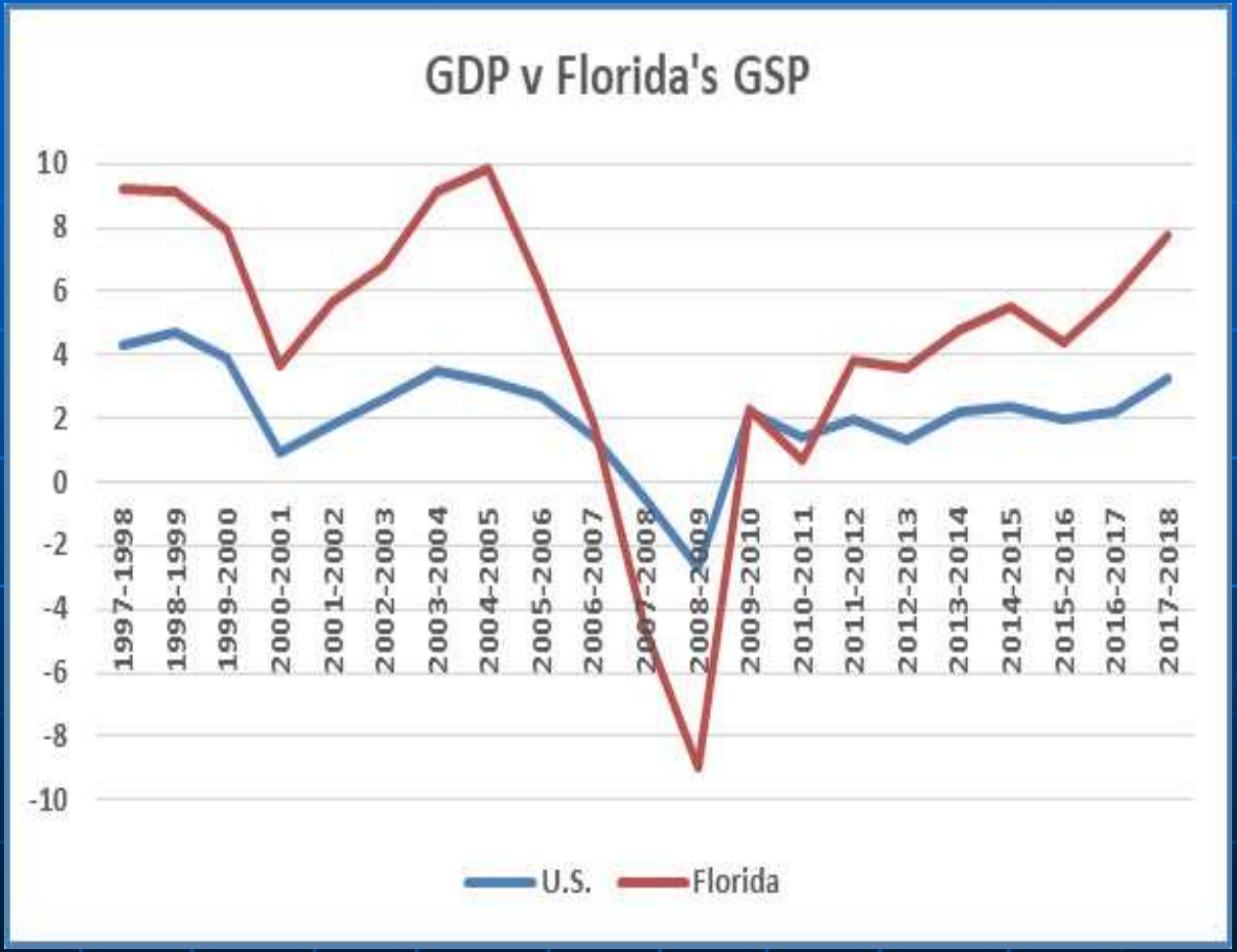
Factors Shaping U.S. Outlook

- How much momentum?
- Tax Cuts and Jobs Act?
- Impact of structural change?
- Policies on trade and immigration?
- When will higher interest rates slow growth?

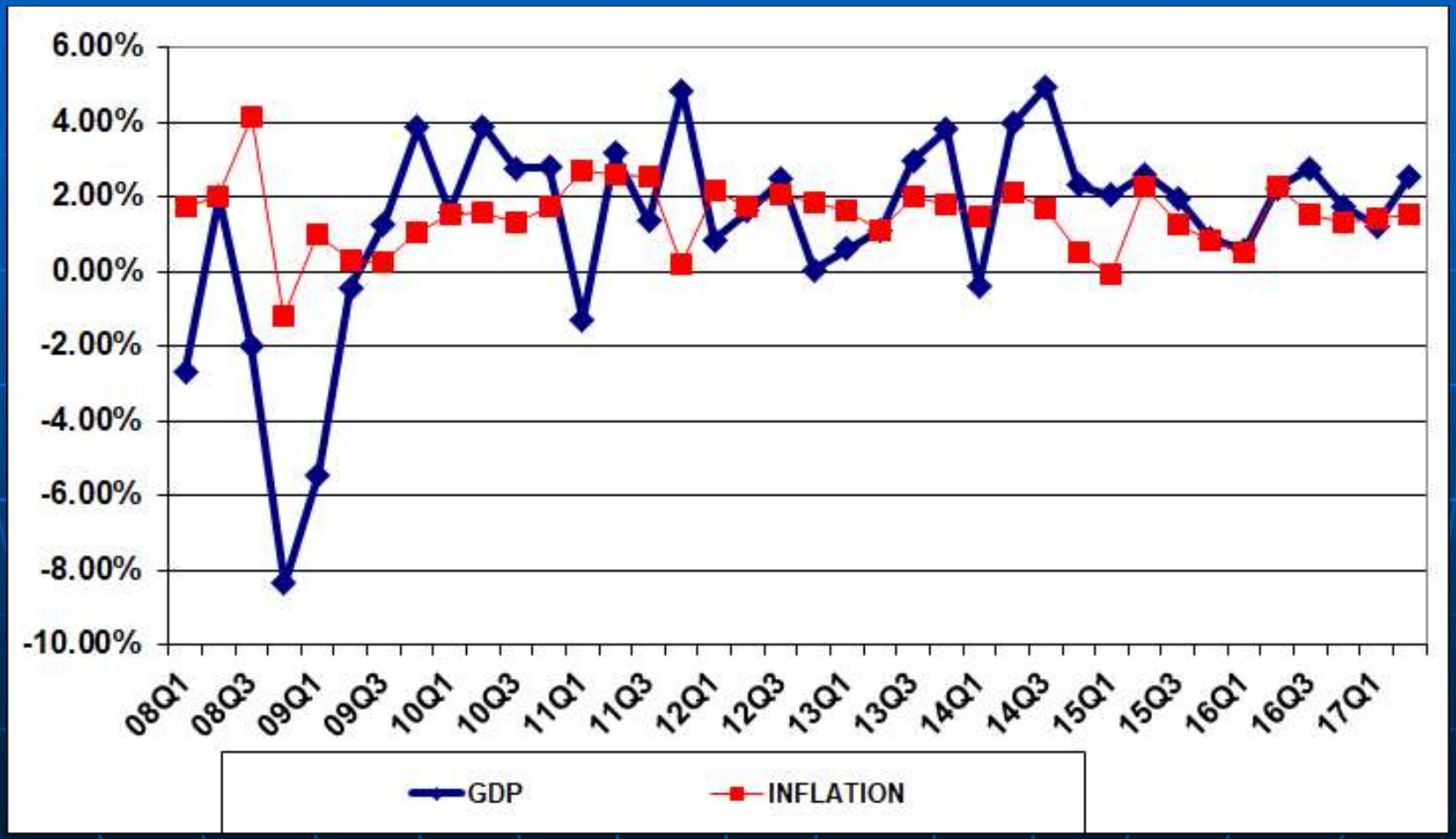
HOW MUCH MOMENTUM?

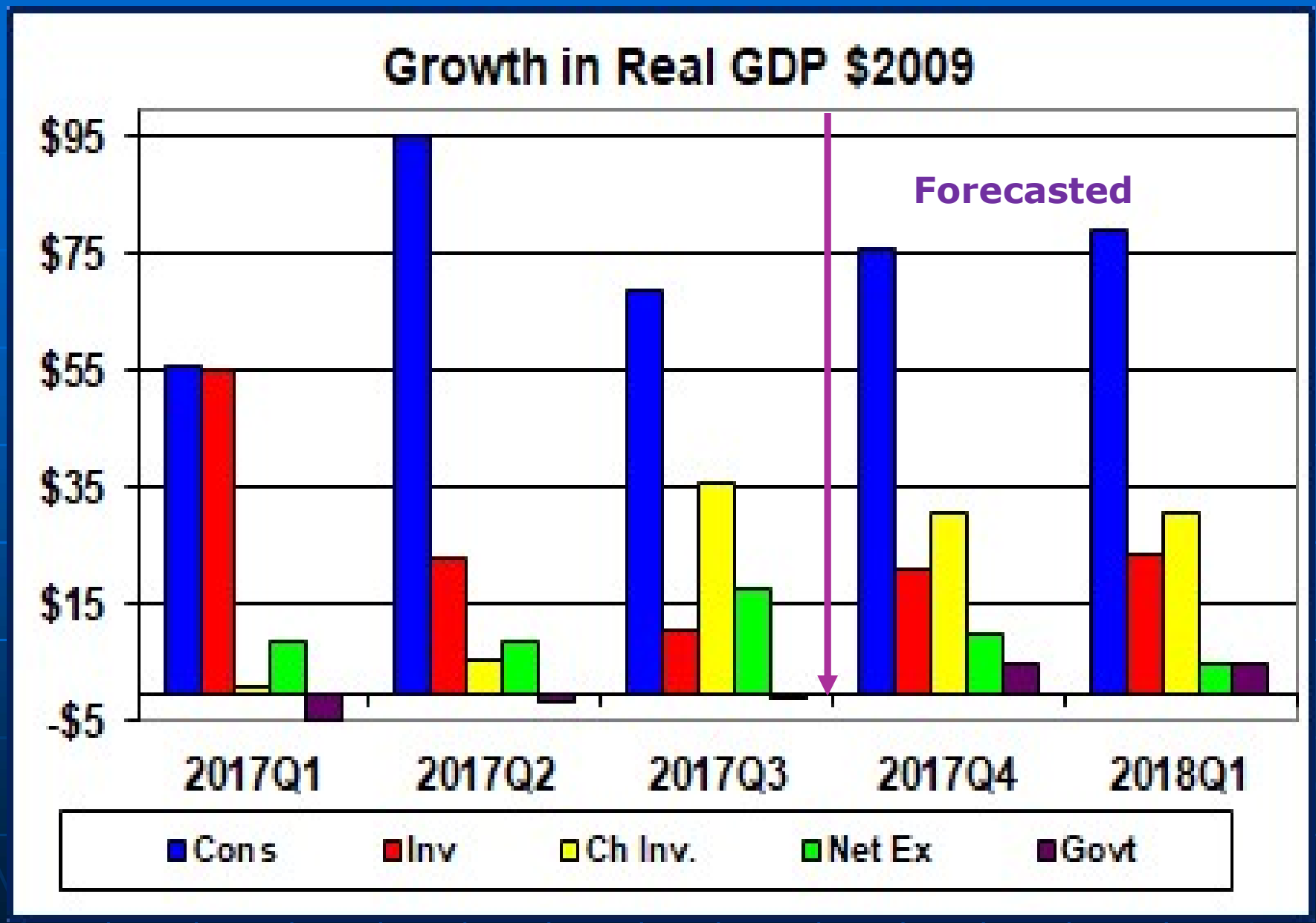
Why Care About GDP?

- Trajectory of GSP correlated with pathway of GDP
- Correlation = 0.88
- 88% of annual growth in GSP can be explained by growth GDP



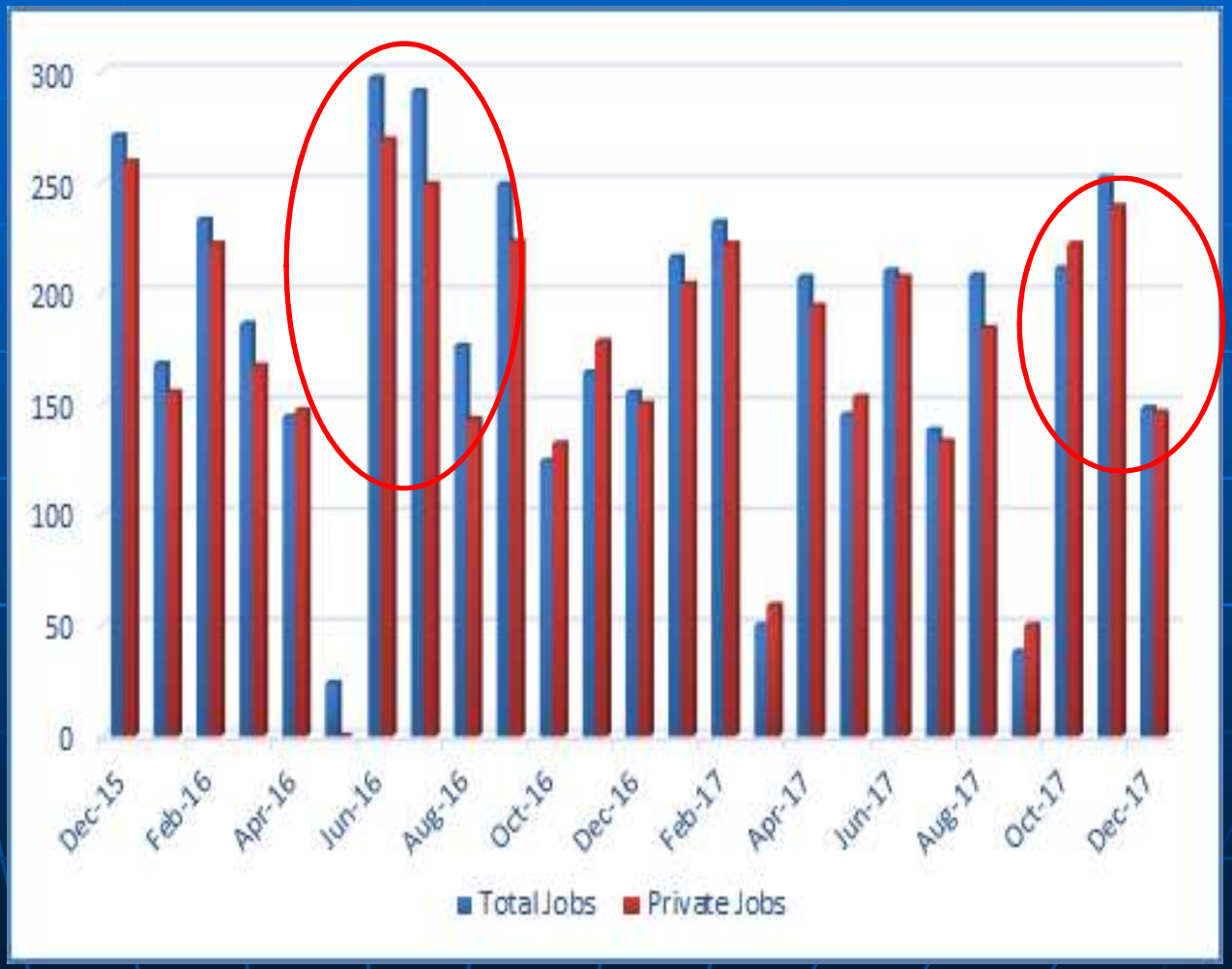
RECENT TRENDS IN GDP AND INFLATION

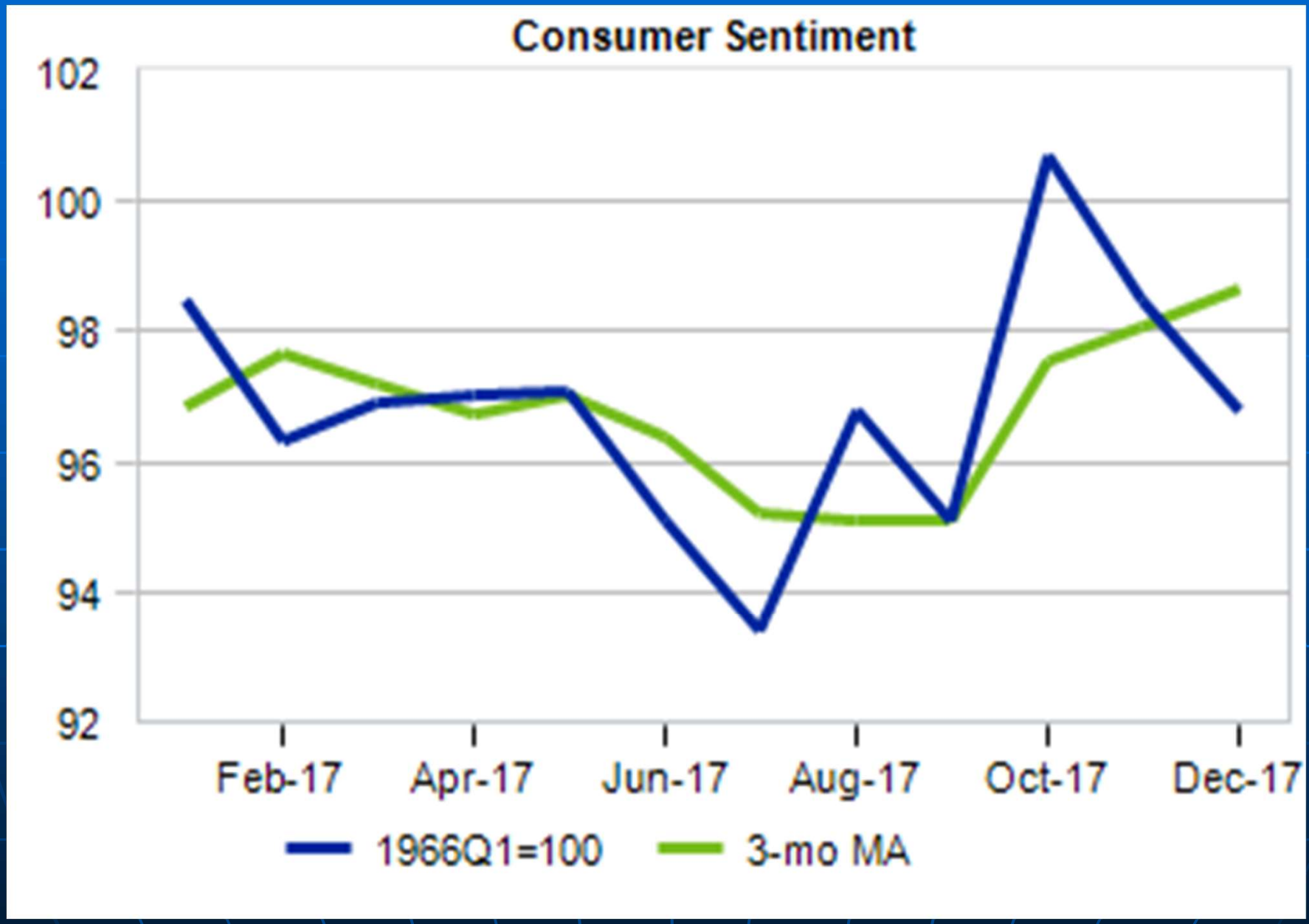



Growth in Real GDP $2009
$95
$75
$55
$35
$15
-$5
Forecasted
2017Q1
2017Q2
2017Q3
2017Q4
2018Q1
Cons
Inv
Ch Inv.
Net Ex
Govt

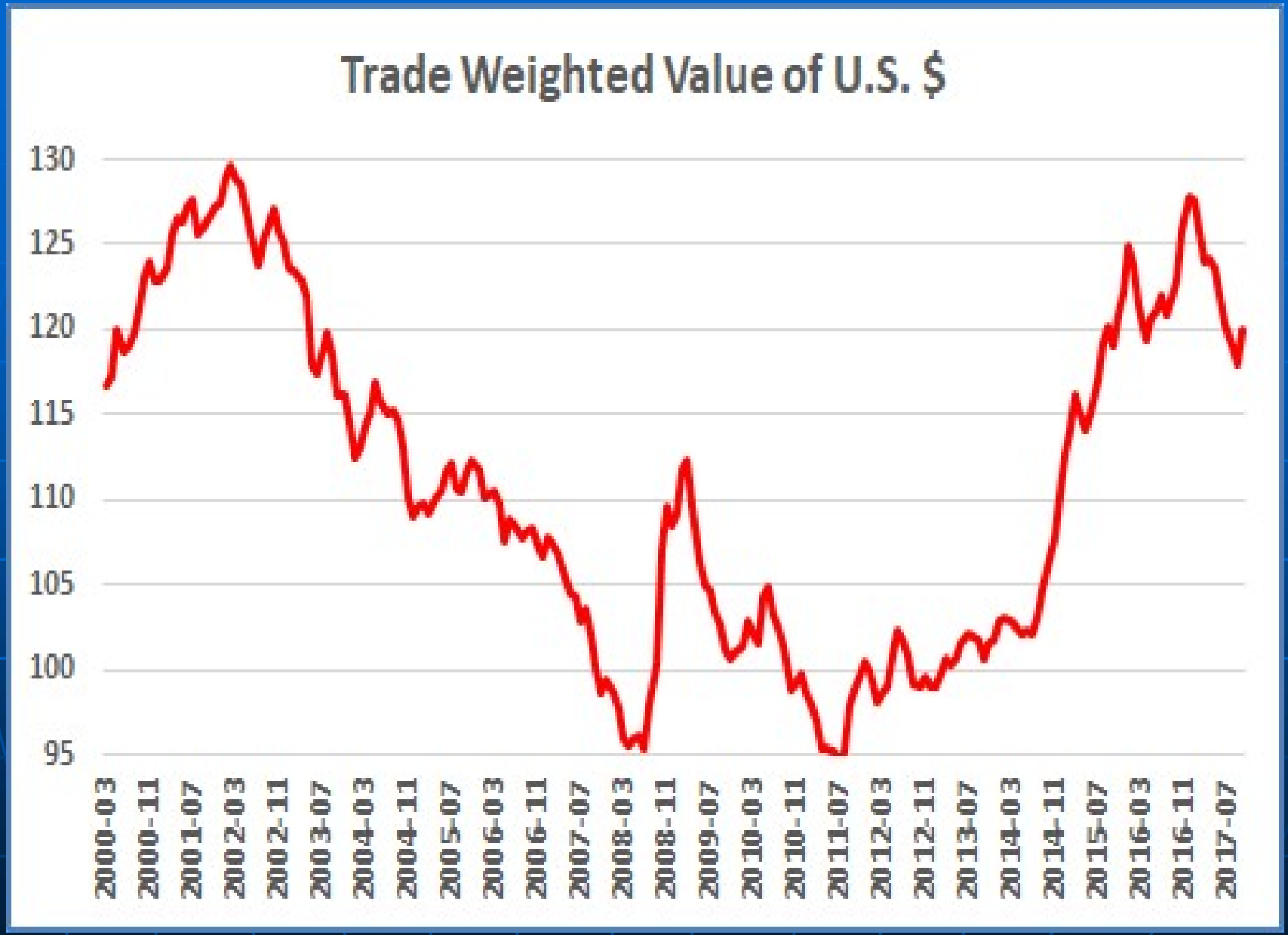
Change in Jobs

- Hiring up 87 consecutive months – longest ever
- Job gains > 2M/Year for 7 years
- 3-Month average 203,700 – highest since 9/2016

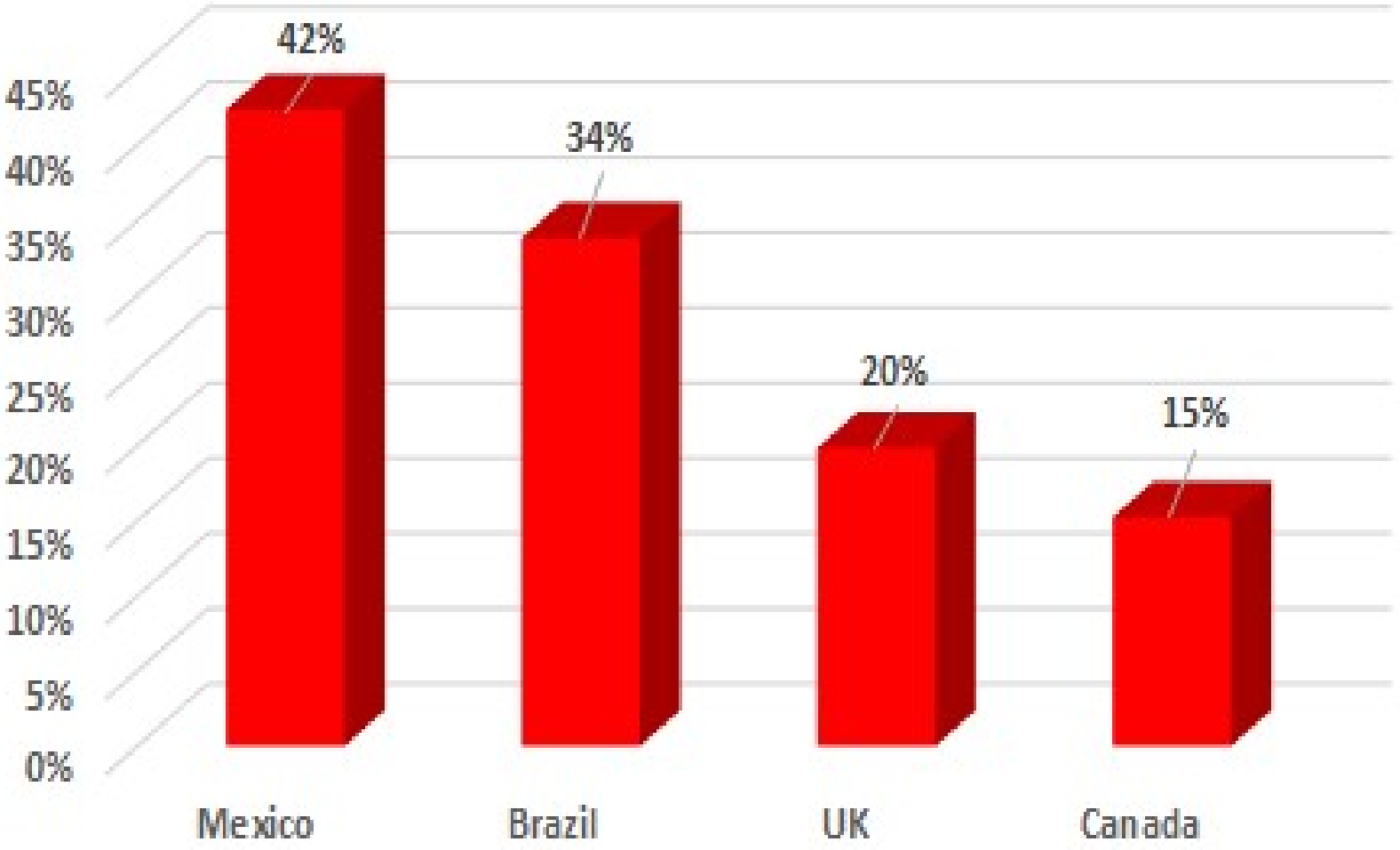


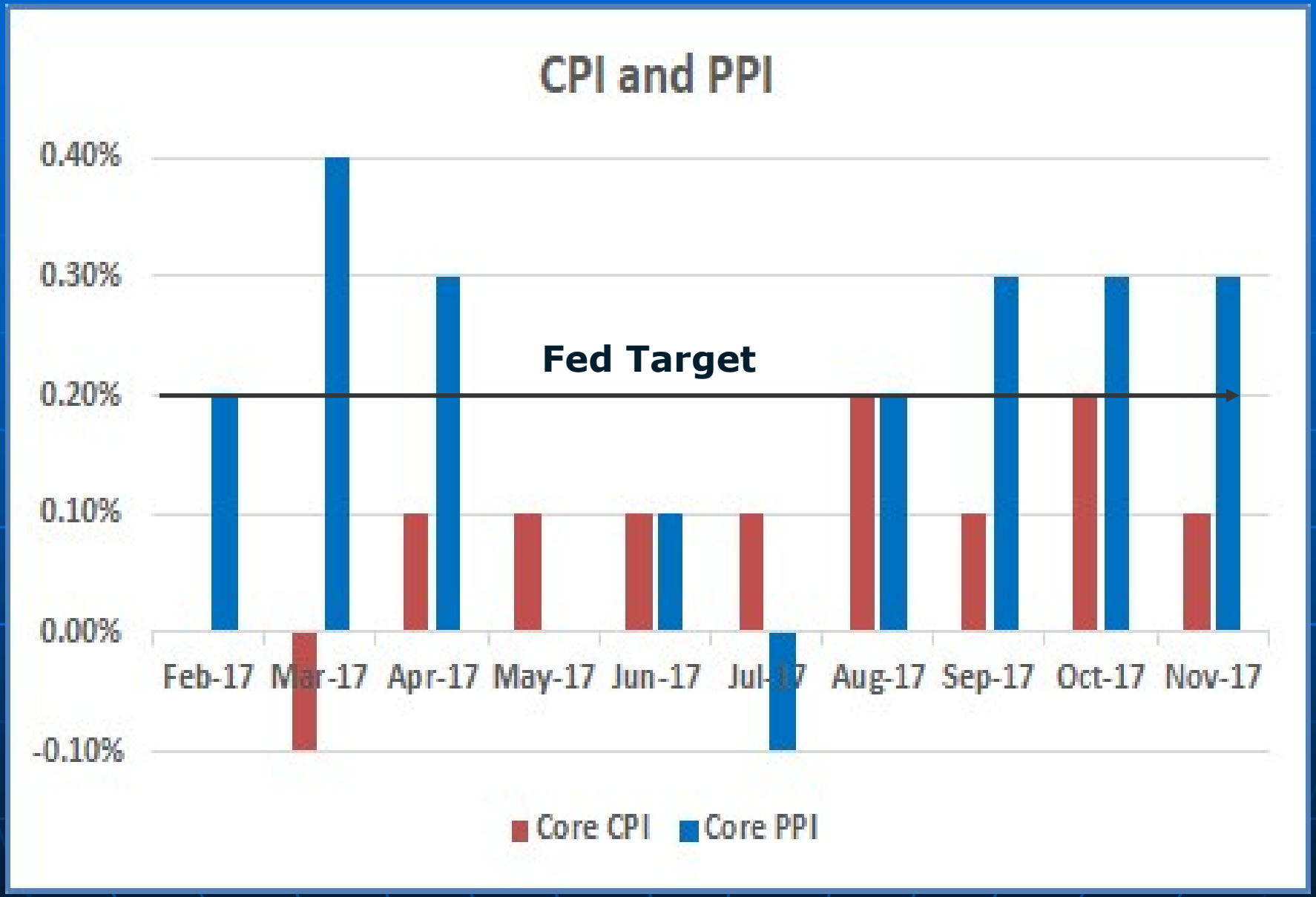

Consumer Sentiment
102
100
98
96
94
92
Feb-17
Apr-17
Jun-17
Aug-17
Oct-17
Dec-17
1966Q1=100
3-mo MA

Home Sales
5,990,000
5,790,000
5,590,000
5,390,000
5,190,000
4,990,000
4,790,000
4,590,000
735,000
685,000
635,000
585,000
535,000
485,000
435,000
385,000
335,000
Nov-13
Jan-14
Mar-14
May-14
Jul-14
Sep-14
Nov-14
Jan-15
Mar-15
May-15
Jul-15
Sep-15
Nov-15
Jan-16
Mar-16
May-16
Jul-16
Sep-16
Nov-16
Jan-17
Mar-17
May-17
Jul-17
Sep-17
Existing
New


Trade Weighted Value of U.S. $
130
125
120
115
110
105
100
95
2000-03
2000-11
2001-07
2002-03
2002-11
2003-07
2004-03
2004-11
2005-07
2006-03
2006-11
2007-07
2008-03
2008-11
2009-07
2010-03
2010-11
2011-07
2012-03
2012-11
2013-07
2014-03
2014-11
2015-07
2016-03
2016-11
2017-07

Appreciation of the Dollar 2014-17




CPI and PPI
0.40%
0.30%
0.20%
0.10%
0.00%
-0.10%
Fed Target
Feb-17
Mar-17
Apr-17
May-17
Jun-17
Jul-17
Aug-17
Sep-17
Oct-17
Nov-17
Core CPI
Core PPI

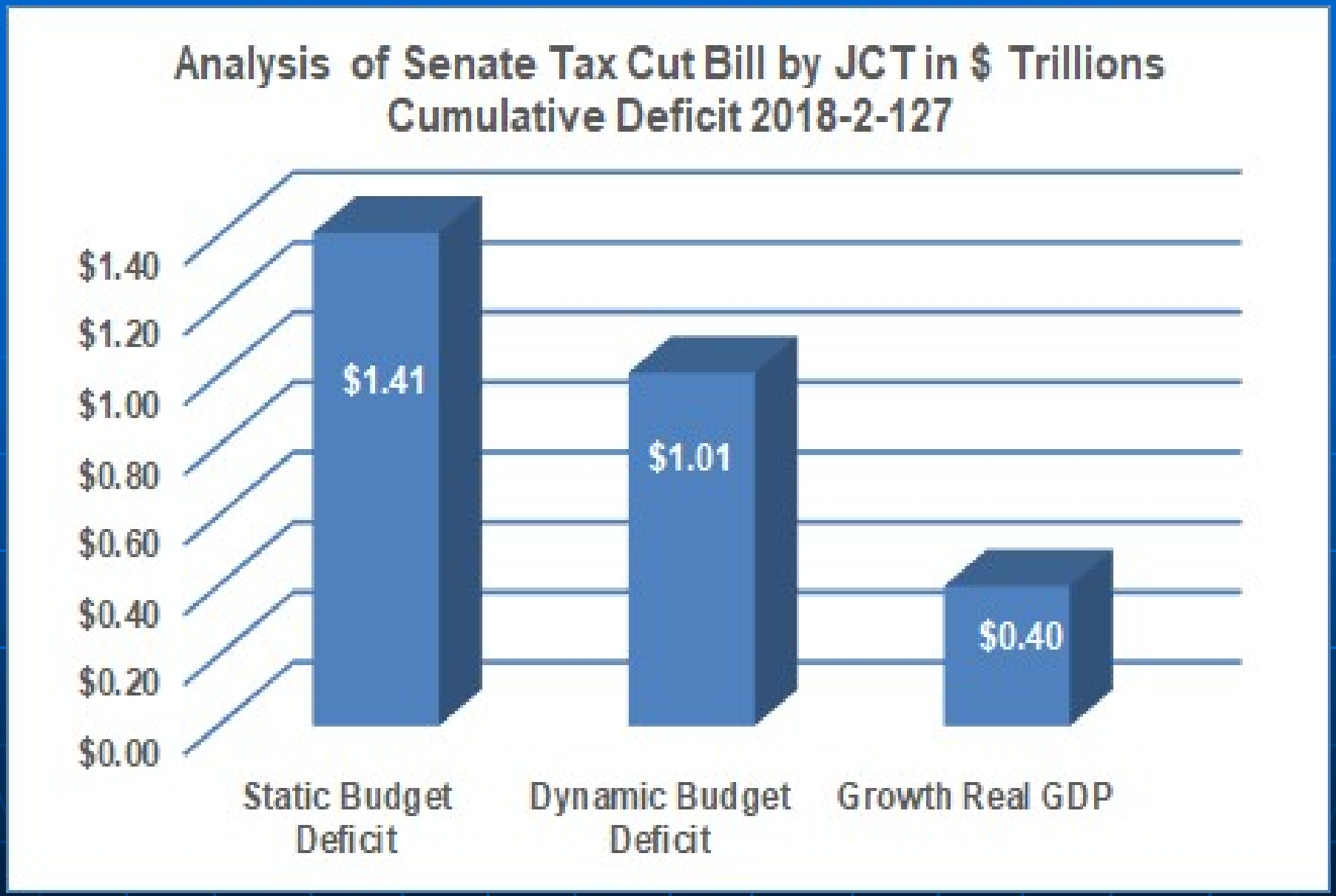
TAX CUTS AND JOBS ACT

Tax Cuts and Jobs Act

- $1.5 trillion stimulus over 10 years
- Corporations
  - 21% rate
  - Shift to Territorial System – taxed at U.S. rate (21%) on profits generated in U.S. and profits elsewhere taxed at rates in effect in those foreign countries and exempt from U.S. taxation
  - Full expensing of investments for 5-years
  - Expands areas for oil/gas exploriation
- Individuals
  - Cut in rates and changes in brackets
  - Double standard deduction
  - $10,000 limit on SALT deductions
  - $750,000 limit on mortgage interest deduction
  - Repeals ACA Mandate to purchase insurance

Impact of Act on Your Business

- Now that the Act has passed, will you:
  - Expand your business?
  - Increase your investment?
  - Hire more workers?
- If the answers to any of these questions is YES then vote “A”
- If not, vote “B”
- If you are unsure vote “C”


Analysis of Senate Tax Cut Bill by JCT in $ Trillions
Cumulative Deficit 2018-2-127
$1.40
$1.20
$1.00
$0.80
$0.60
$0.40
$0.20
$0.00
$1.41
$1.01
$0.40
Static Budget Deficit
Dynamic Budget Deficit
Growth Real GDP

Impact on Households

Average Income	Total Tax Change (Thousands)	Avg. Tax Change	Share of US Tax Change	Tax Change as share of Pre-Tax Income
$14,600	$ –3,176,900	$ –100	1%	-0.7%
$32,900	$ –12,674,800	$ –410	4%	-1.3%
$53,400	$ –24,555,400	$ –800	8%	-1.5%
$86,400	$ –42,990,200	$ –1,400	14%	-1.6%
$155,700	$ –63,769,500	$ –2,770	21%	-1.8%
$356,800	$ –76,424,100	$ –12,470	25%	-3.5%
$2,023,900	$ –84,753,100	$ –55,190	27%	-2.7%
$94,400	**$ –308,290,500**	**$ –1,990**	**100%**	**-2.1%**

Source: Institute on Taxation and Economic Policy
https://itep.org/finalgop-trumpbill/

Composition of Net Tax Cuts

Average Income	Families & Individuals	Estate Tax	Health Mandate	Pass-Through Businesses	Corporations
$14,600	$ –2,931,600	$ —	$+941,700	$ –109,600	$ –1,077,400
$32,900	$ –10,783,100	$ —	$+968,600	$ –473,600	$ –2,386,700
$53,400	$ –19,893,200	$ —	$+820,000	$ –724,900	$ –4,757,200
$86,400	$ –32,039,100	$ —	$+305,000	$ –2,131,300	$ –9,124,900
$155,700	$ –38,566,500	$ —	$+37,200	$ –8,690,400	$ –16,549,800
$356,800	$ –44,562,800	$ —	$+8,000	$ –15,794,600	$ –16,074,600
$2,023,900	$+2,692,000	$ –8,100,000	$+2,000	$ –39,334,500	$ –40,012,700
$94,400	**$ –146,096,400**	**$ –8,100,000**	**$+3,117,600**	**$ –67,222,000**	**$ –89,989,700**

Source: Institute on Taxation and Economic Policy
https://itep.org/finalgop-trumpbill/

Effects of the ACT

- Reform is needed, but stimulus is ill timed
  - Economy operating at or near full employment
  - Capacity utilization high
  - Fed is embarked on program to raise interest rates and reduce money supply
- Add ½ % to GDP growth 2018 & 2019
  - Impact muted by composition of cuts which primarily go to higher income households with lower propensity to spend
  - Investment impacts muted by structural changes
- Act cause interest rates to rise higher and faster
  - Finance $1 trillion more debt over 10-years
  - Fed is raising rates and shrinking money supply
- Ultimately, this will slow growth and lead to a recession

Policy Decisions Pending

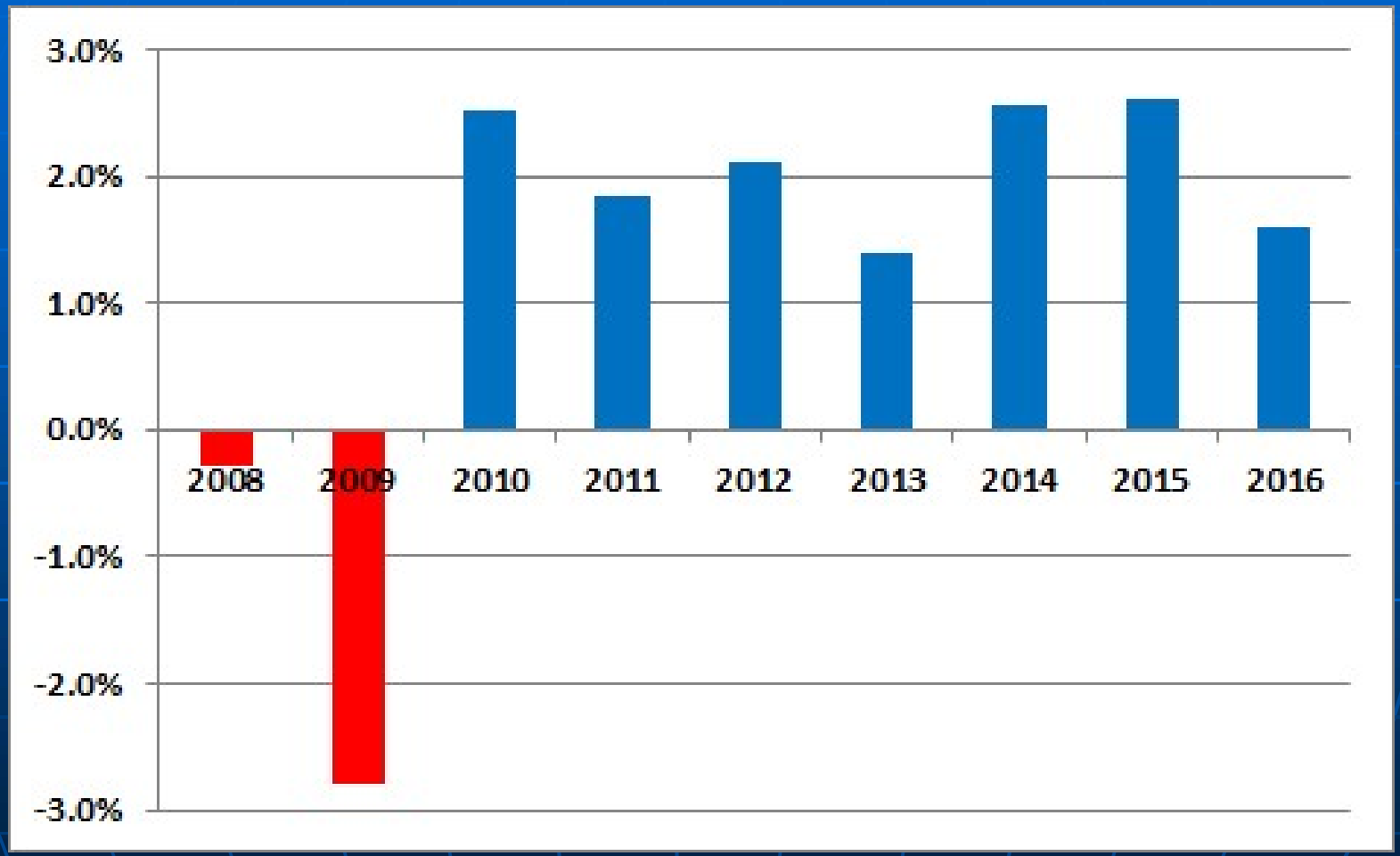
- Major unresolved issues remain
  - Debt ceiling
  - Government budget
  - Structural budget deficit
- Major unknowns and risks
  - Foreign trade
  - Immigration
  - Mueller Investigtion
- Pander to the Base – But Destructive Policies are Ultimately Unlikely
  - NAFTA will be renewed
  - Drastic immigration policies will not be imposed

STRUCTURAL CHANGE

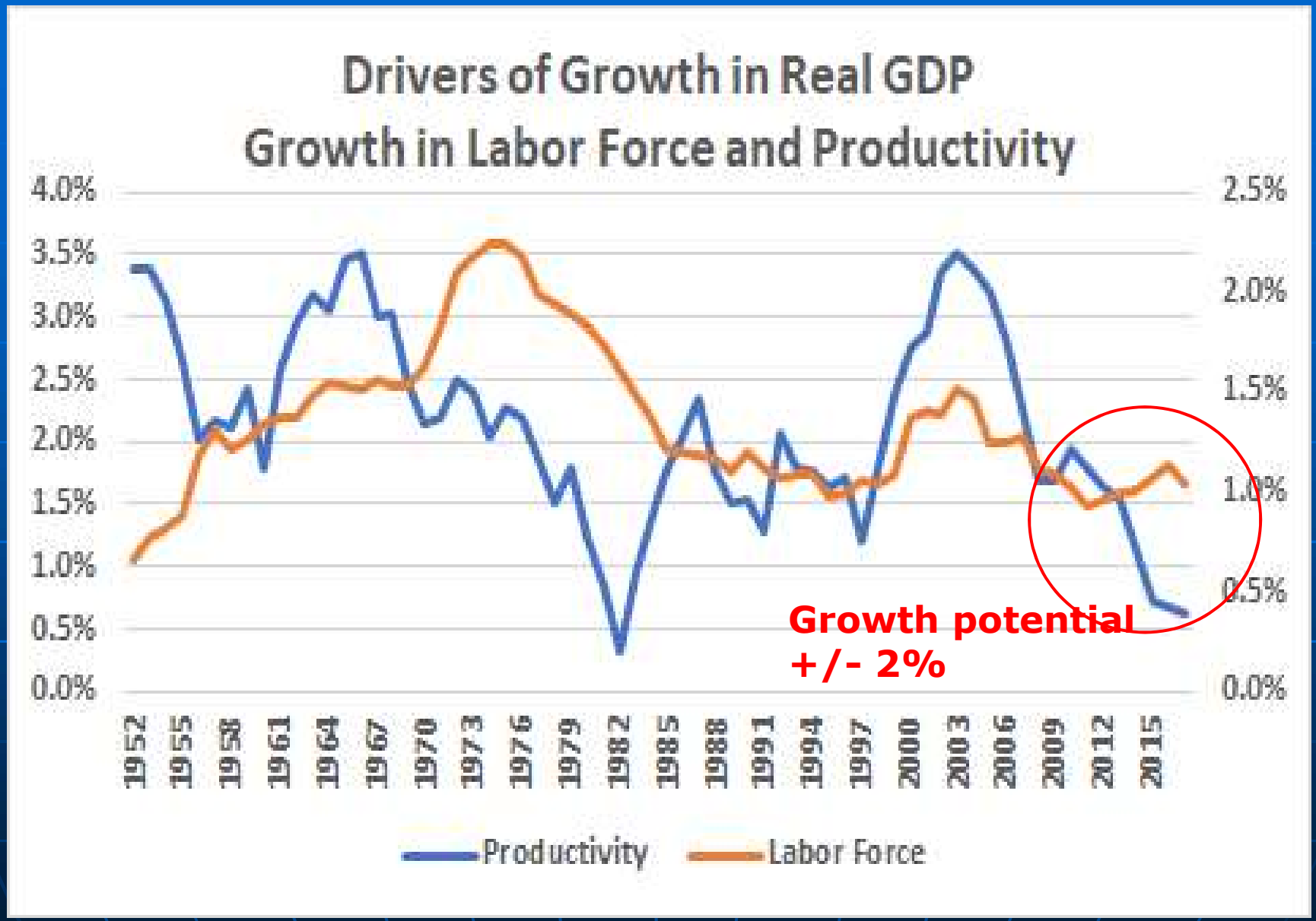
Structural Change

- AI and Automation
- Globalization
- Immigration
- Income inequality
- Impact on real estate development
  - Less demand for space
  - Retail and office in particular
- Climate Change and Current Impacts

Low Growth Trajectory for Real GDP



Growth Potential +/- 2% Growth GDP


Drivers of Growth in Real GDP
Growth in Labor Force and Productivity
4.0%
3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%
1952
1955
1958
1961
1964
1967
1970
1973
1976
1979
1982
1985
1988
1991
1994
1997
2000
2003
2006
2009
2012
2015
Growth potential
+/- 2%
Productivity
Labor Force

Economic Policy Issues in a World of Structural Change

- Transformational forces
  - Globalization/Trade
  - Automation/Artificial Intelligence
  - Migration
- Slow economic growth / low demand / low inflation / low wage growth
- Distributional issues for those left behind / political & economic issues
- Debt and structural issues in the budget

Current Impacts of Climate Change on Florida

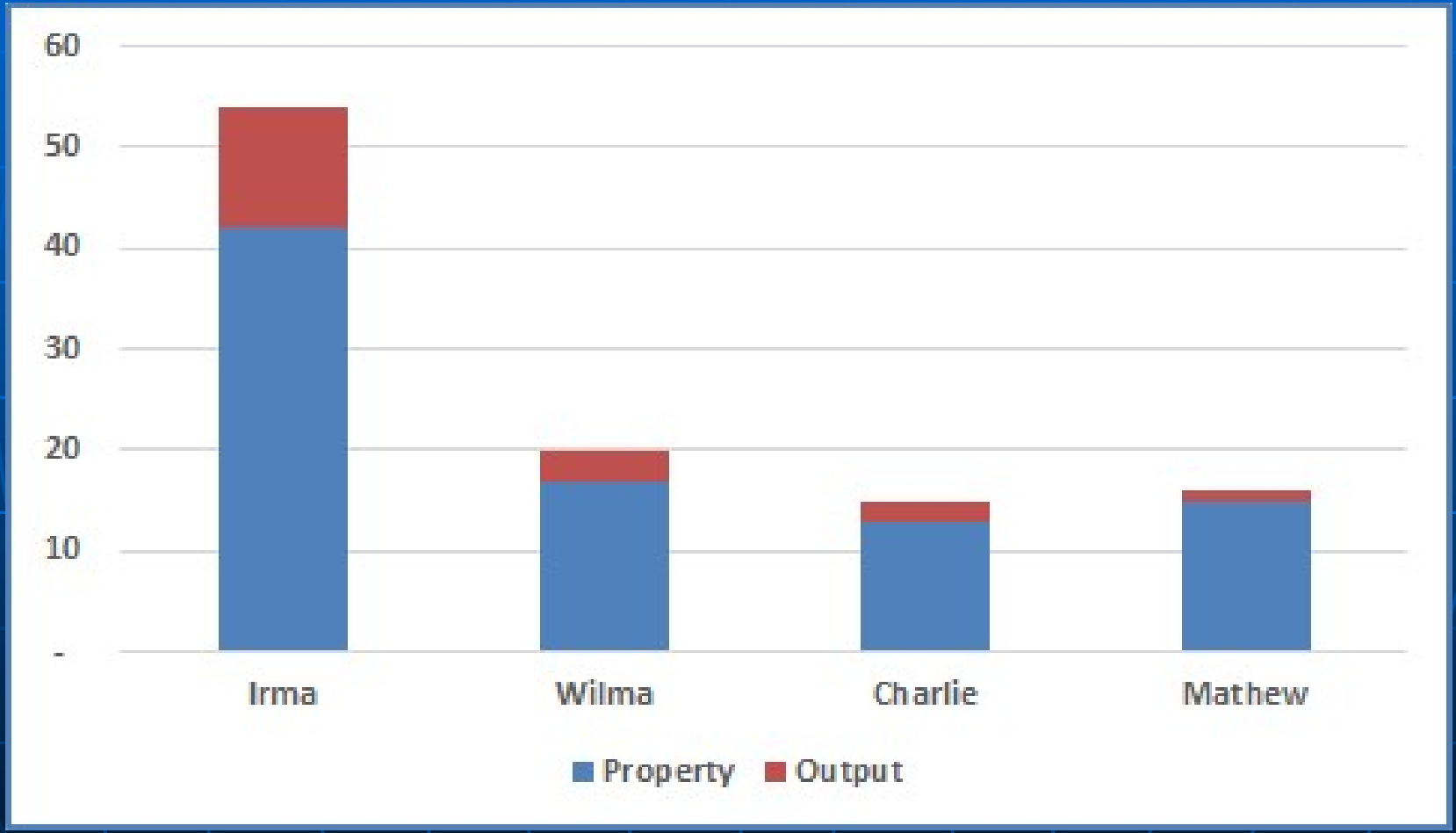
- Increased frequency and intensity of tropical cyclones
- Increased “nuisance” flooding monthly in Miami Beach and the Keys
- Rising sea level and beach erosion
- Algal blooms and invasive plants/bugs
- Migration from Puerto Rico >500,000

$Billion Events Impacting the U.S. from 2005-2017

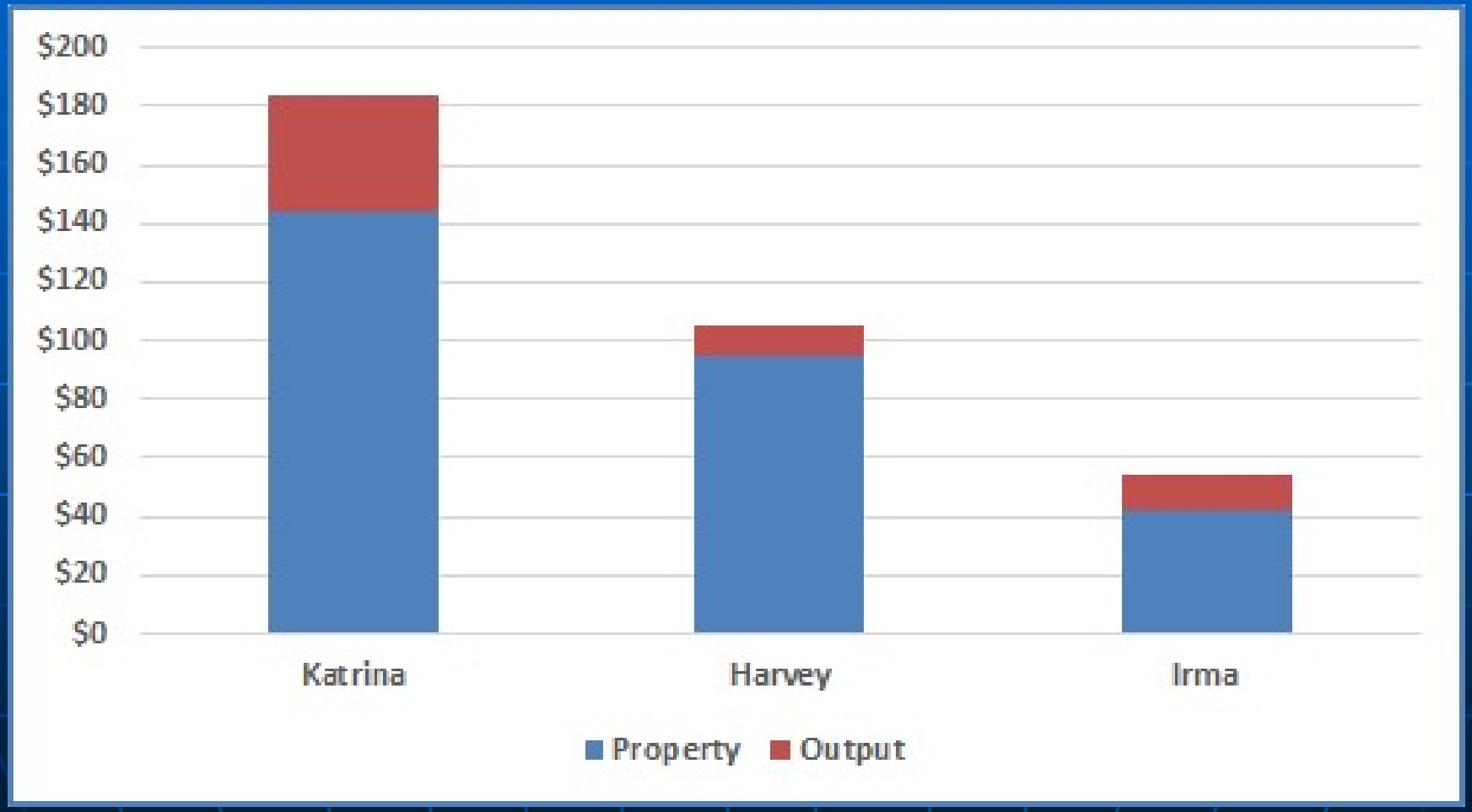
Disaster Type	# Events	Frequency	CPI Adjusted Loss $B	% Loss	Average Cost$B	Deaths
Drought	11	9%	$95	11%	$9	266
Flooding	17	14%	$52	6%	$3	244
Freeze	3	2%	$5	1%	$2	1
Severe Storm	63	52%	$144	17%	$2	988
Tropical Cyclone	**14**	**12%**	**$509**	**61%**	**$36**	**2,553**
Wildfire	10	8%	$17	2%	$2	112
Winter Storm	3	2%	$7	1%	$2	82
	=====	=====	=====	=====	=====	=====
All Disasters	**121**	**100%**	**$829**	**100%**	**$7**	**4,246**

- **Source:** NOAA National Centers for Environmental Information (NCEI) U.S. Billion-Dollar Weather and Climate Disasters (2017). https://www.ncdc.noaa.gov/billions/
- **Florida subject to hurricanes which are the most damaging of events**

Damage from Recent Florida Hurricanes



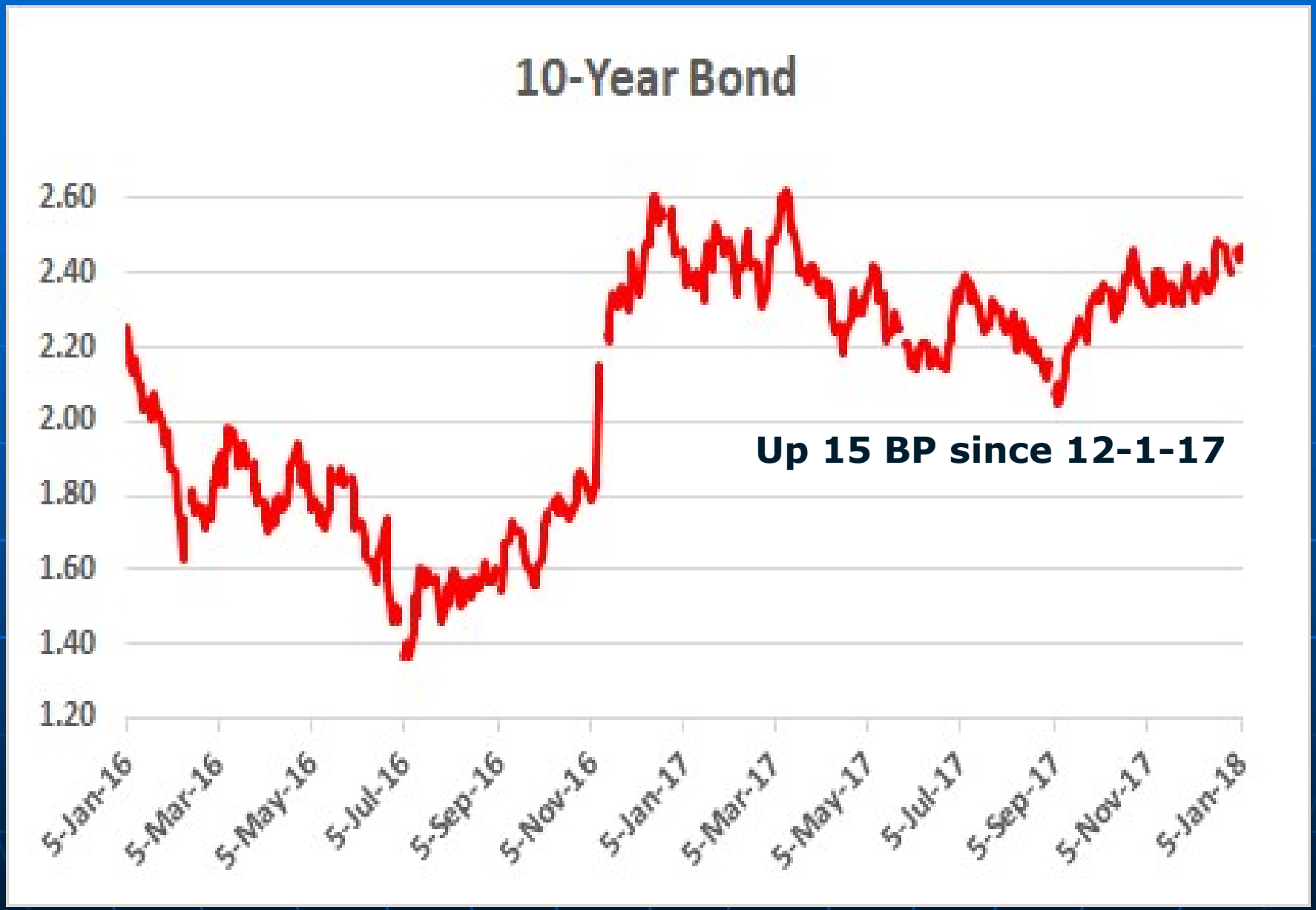
2017 Hurricanes in Perspective

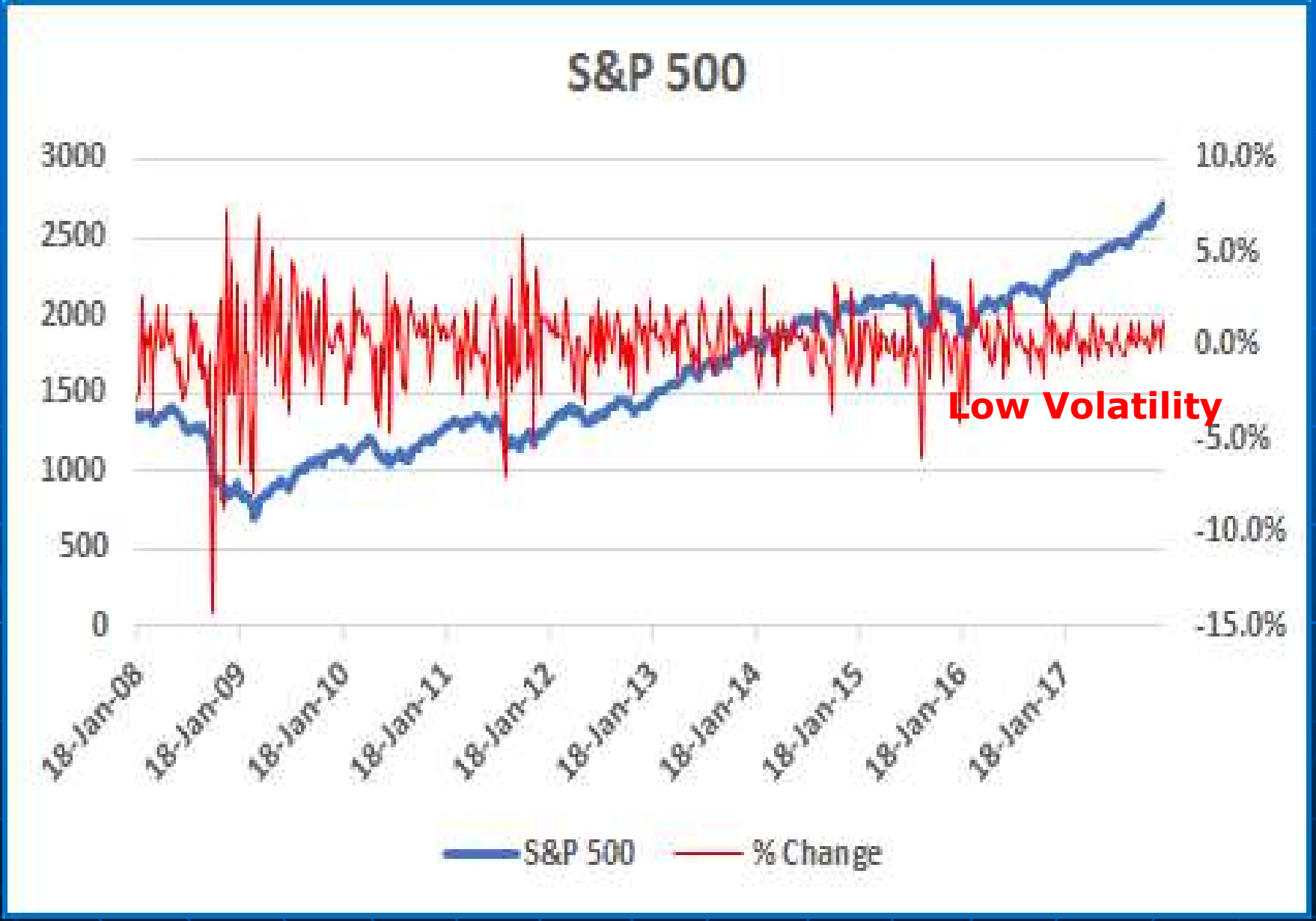


U.S. FORECAST

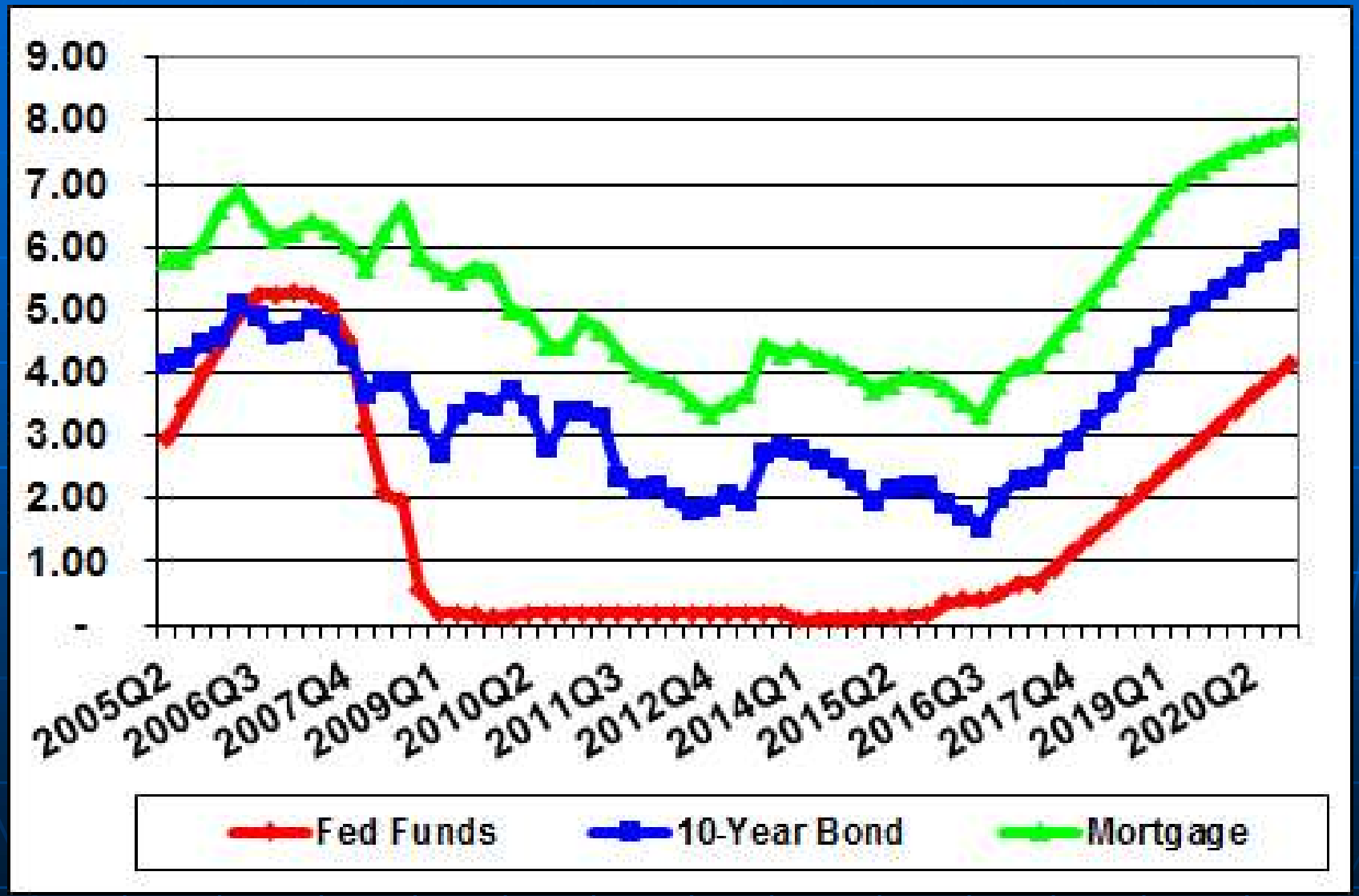
What to Watch For

- 10-year Bond Rate
- Stock market and volatility
- Fed funds rate
- New claims for unemployment
- Policy decisions: immigration and trade

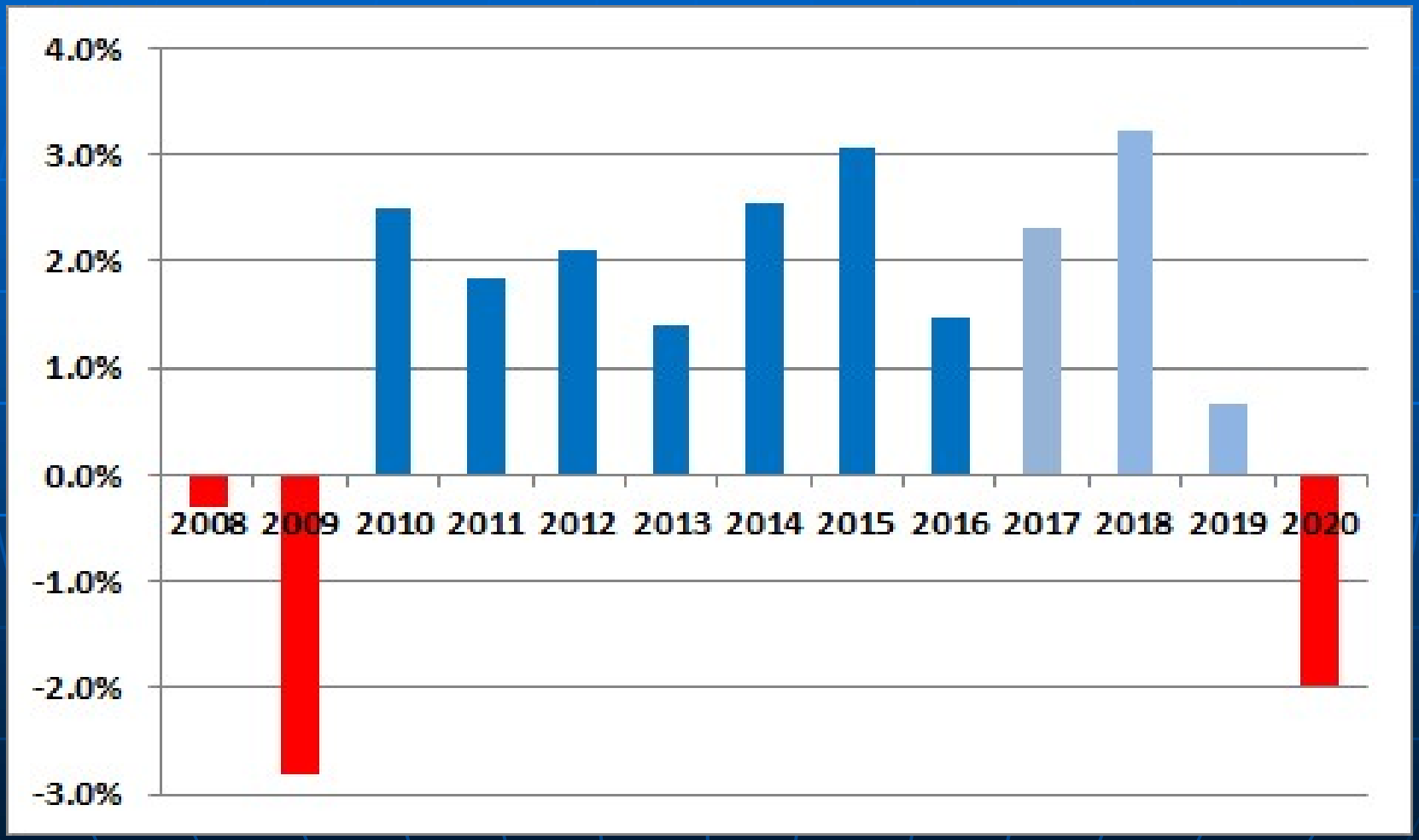

10-Year Bond
2.60
2.40
2.20
2.00
1.80
1.60
1.40
1.20
5-Jan-16
5-Mar-16
5-May-16
5-Jul-16
5-Sep-16
5-Nov-16
5-Jan-17
5-Mar-17
5-May-17
5-Jul-17
5-Sep-17
5-Nov-17
5-Jan-18
Up 15 BP since 12-1-17

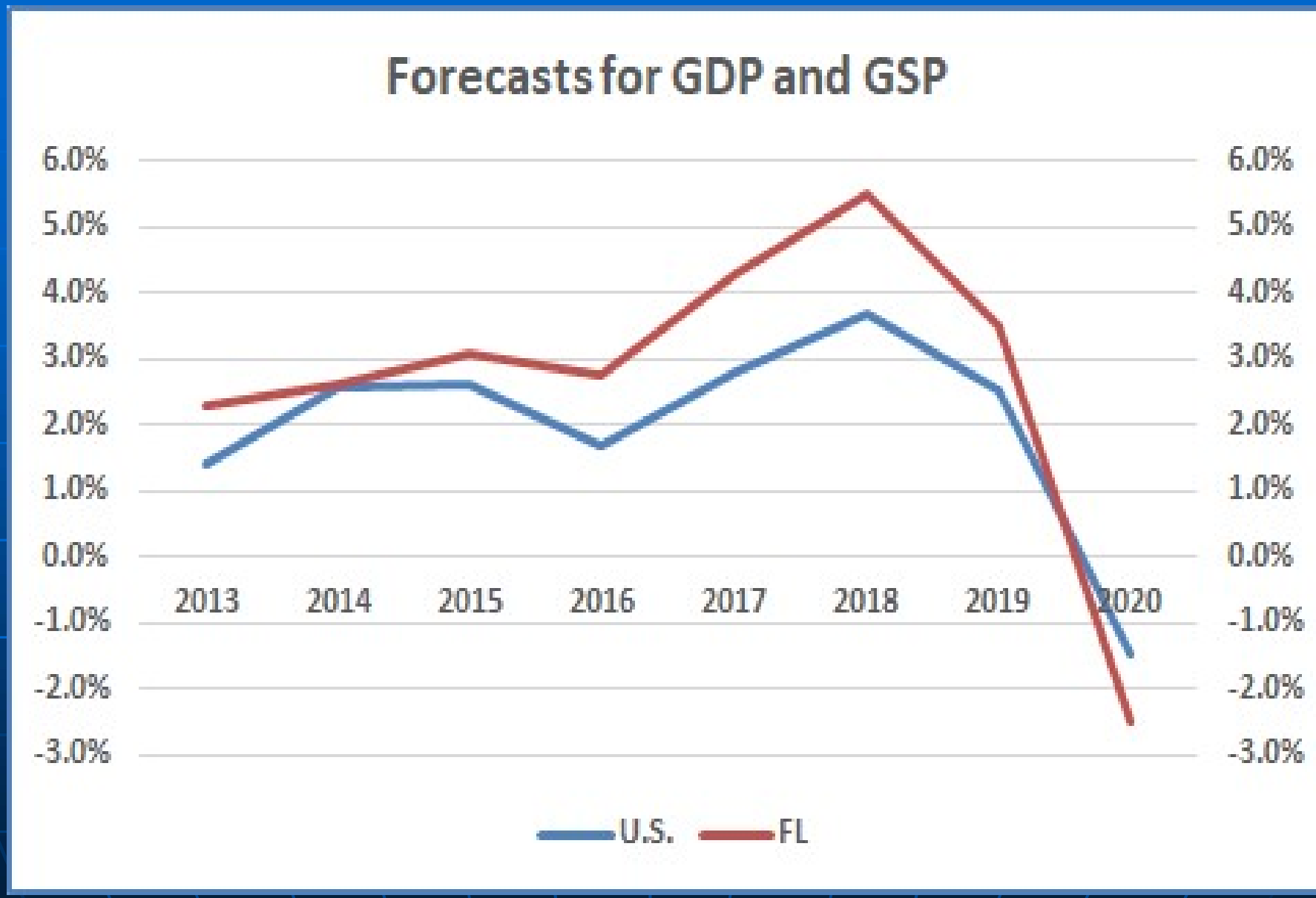

S&P 500
3000
2500
2000
1500
1000
500
0
10.0%
5.0%
0.0%
-5.0%
-10.0%
-15.0%
Low Volatility
18-Jan-08
18-Jan-09
18-Jan-10
18-Jan-11
18-Jan-12
18-Jan-13
18-Jan-14
18-Jan-15
18-Jan-16
18-Jan-17
S&P 500
% Change

INTEREST RATES

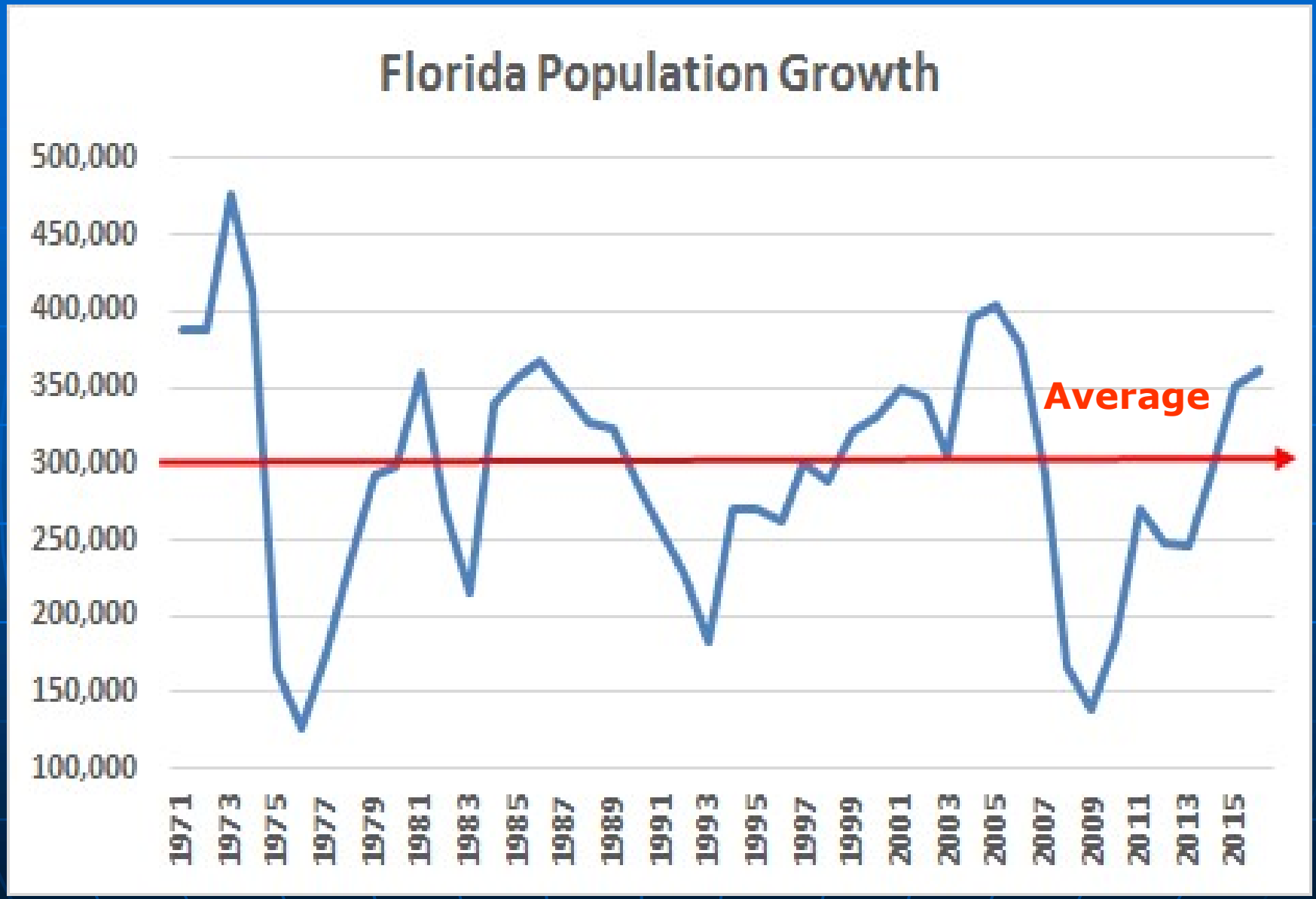


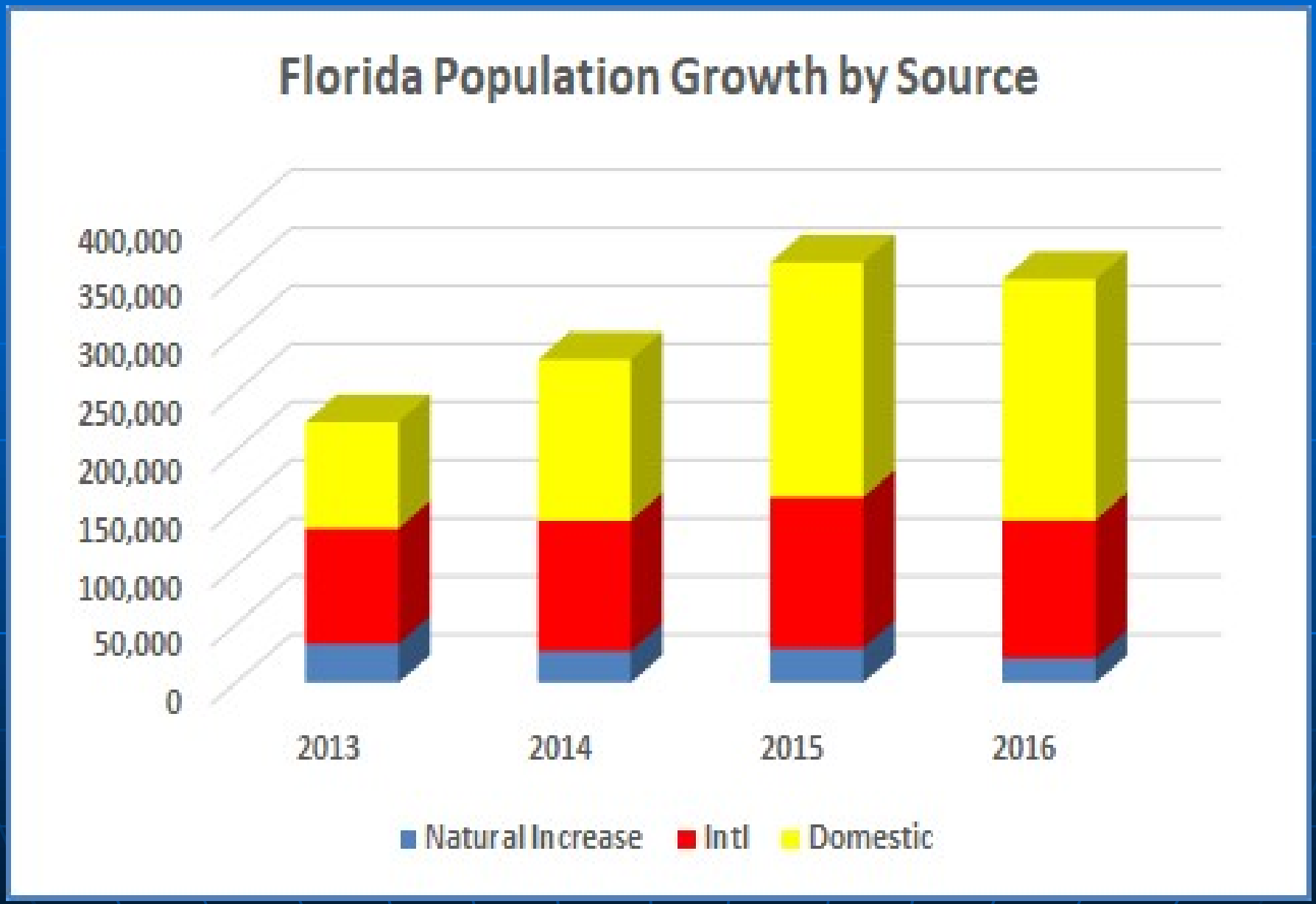
GDP Growth
(Percent growth SAAR)



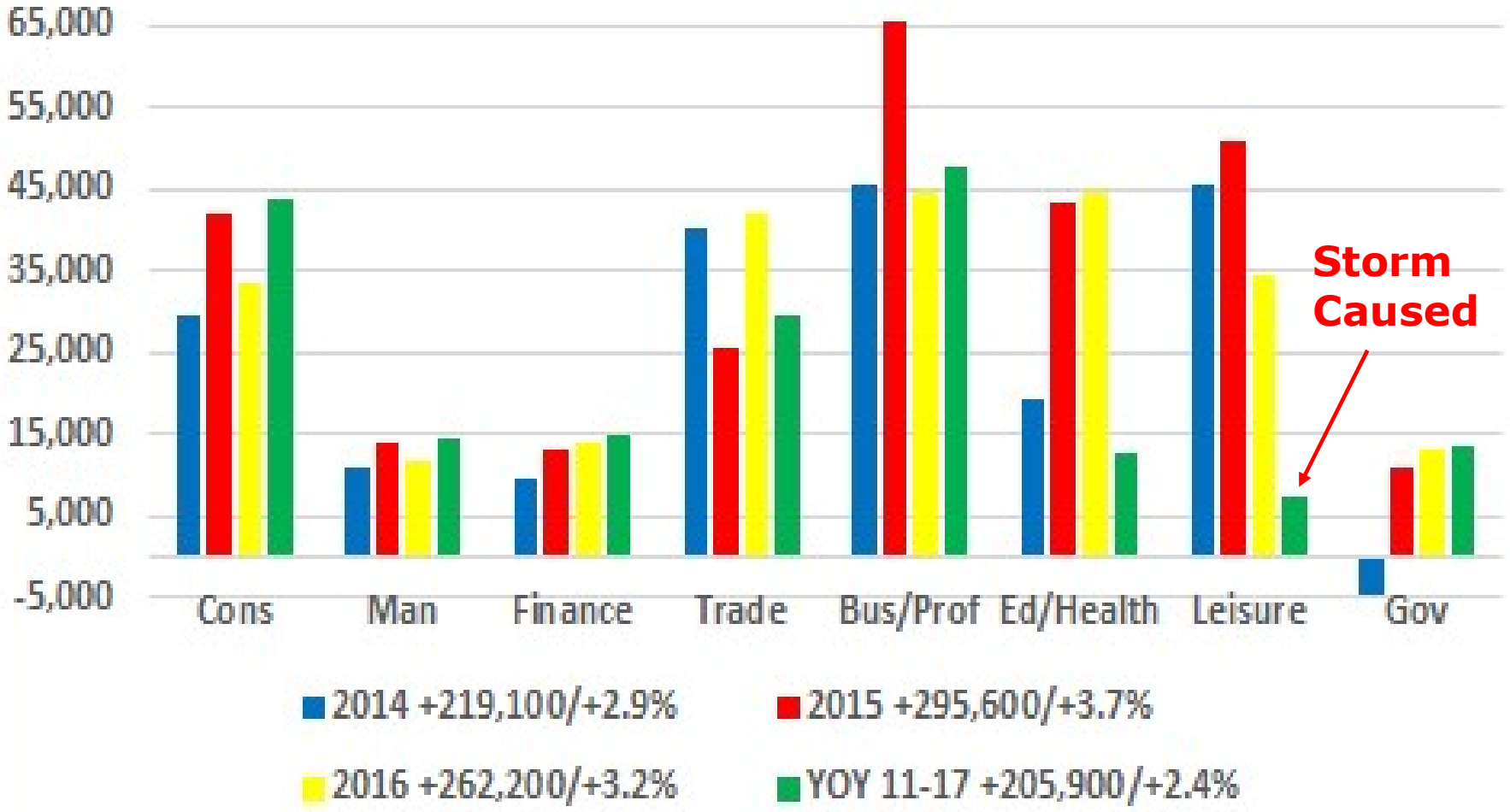

Forecasts for GDP and GSP
6.0%
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
-1.0%
-2.0%
-3.0%
2013
2014
2015
2016
2017
2018
2019
2020
U.S.
FL

Florida Forecast


Florida Population Growth
500,000
450,000
400,000
350,000
300,000
250,000
200,000
150,000
100,000
Average
1971
1973
1975
1977
1979
1981
1983
1985
1987
1989
1991
1993
1995
1997
1999
2001
2003
2005
2007
2009
2011
2013
2015


Florida Population Growth by Source
400,000
350,000
300,000
250,000
200,000
150,000
100,000
50,000
0
2013
2014
2015
2016
Natural Increase
Intl
Domestic

Job Growth Year-Over-Year



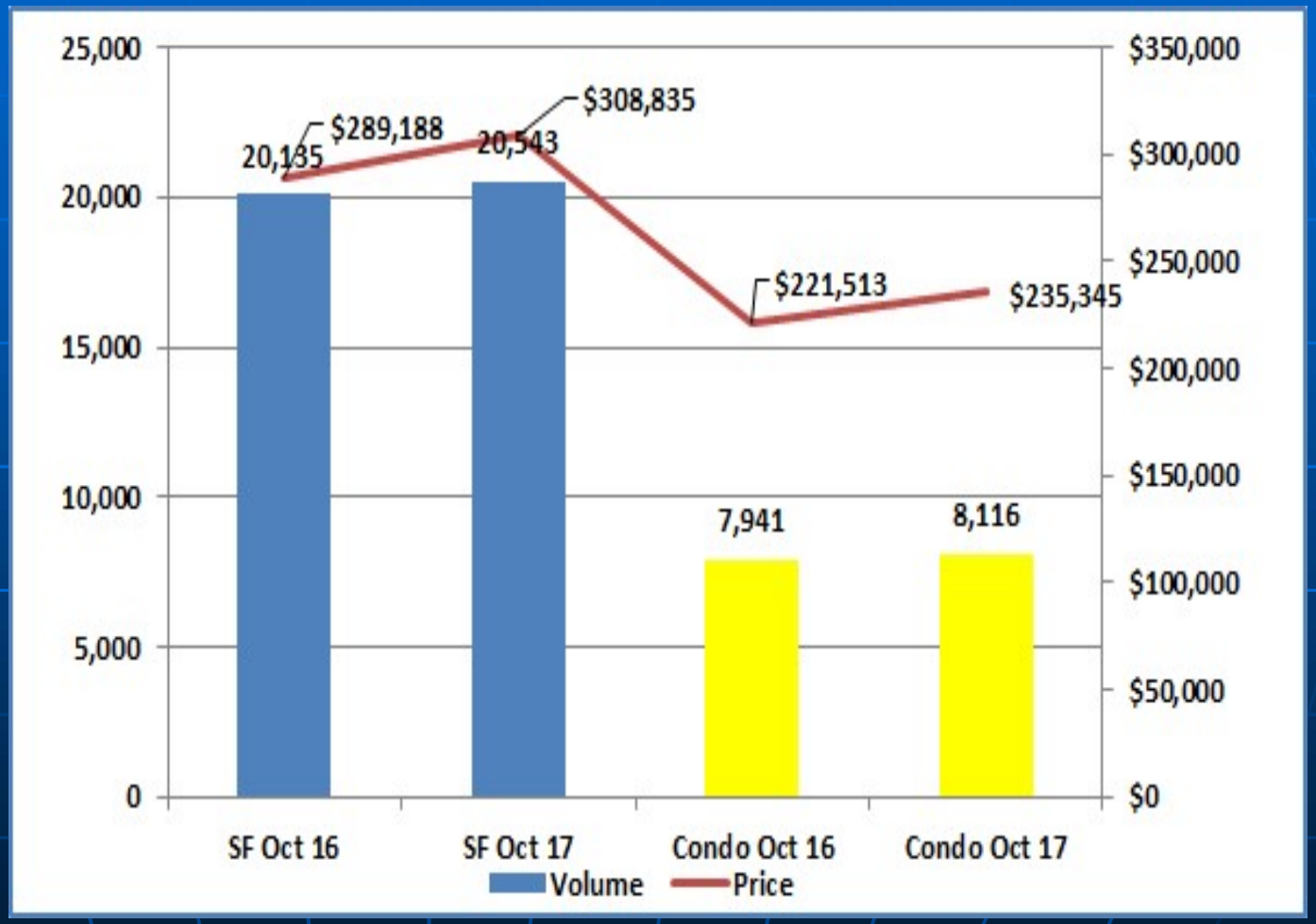
Data as of November 2017	Unemployment Rate	Last 12 Months	% Change Jobs
Florida	**3.6%**	**205,900**	**2.4%**
Cape Coral-Ft. Myers	3.6%	-300	-0.1%
Gainesville	3.5%	2,800	2.0%
Jacksonville	3.6%	18,800	2.8%
Lakeland-Winter Haven	4.3%	7,100	3.2%
South Florida	4.1%	52,000	1.9%
Ft. Lauderdale	3.6%	22,100	2.6%
Miami	4.6%	27,100	2.3%
West Palm Beach	3.8%	2,800	0.4%
Naples	3.9%	4,000	2.8%
North Port-Sarasota-Bradenton	3.4%	12,200	4.1%
Ocala	4.4%	1,300	1.3%
Orlando	3.5%	38,800	3.1%
Palm Bay	3.9%	3,400	1.6%
Pensacola	3.7%	2,700	1.5%
Port St. Lucie	4.3%	1,500	1.0%
Punta Gorda	4.0%	1,800	3.7%
Sebastian-Vero	4.5%	1,900	3.9%
Tallahassee	3.6%	1,400	0.8%
Tampa-St. Pete	3.6%	30,600	2.3%

Gov Scott's Budget

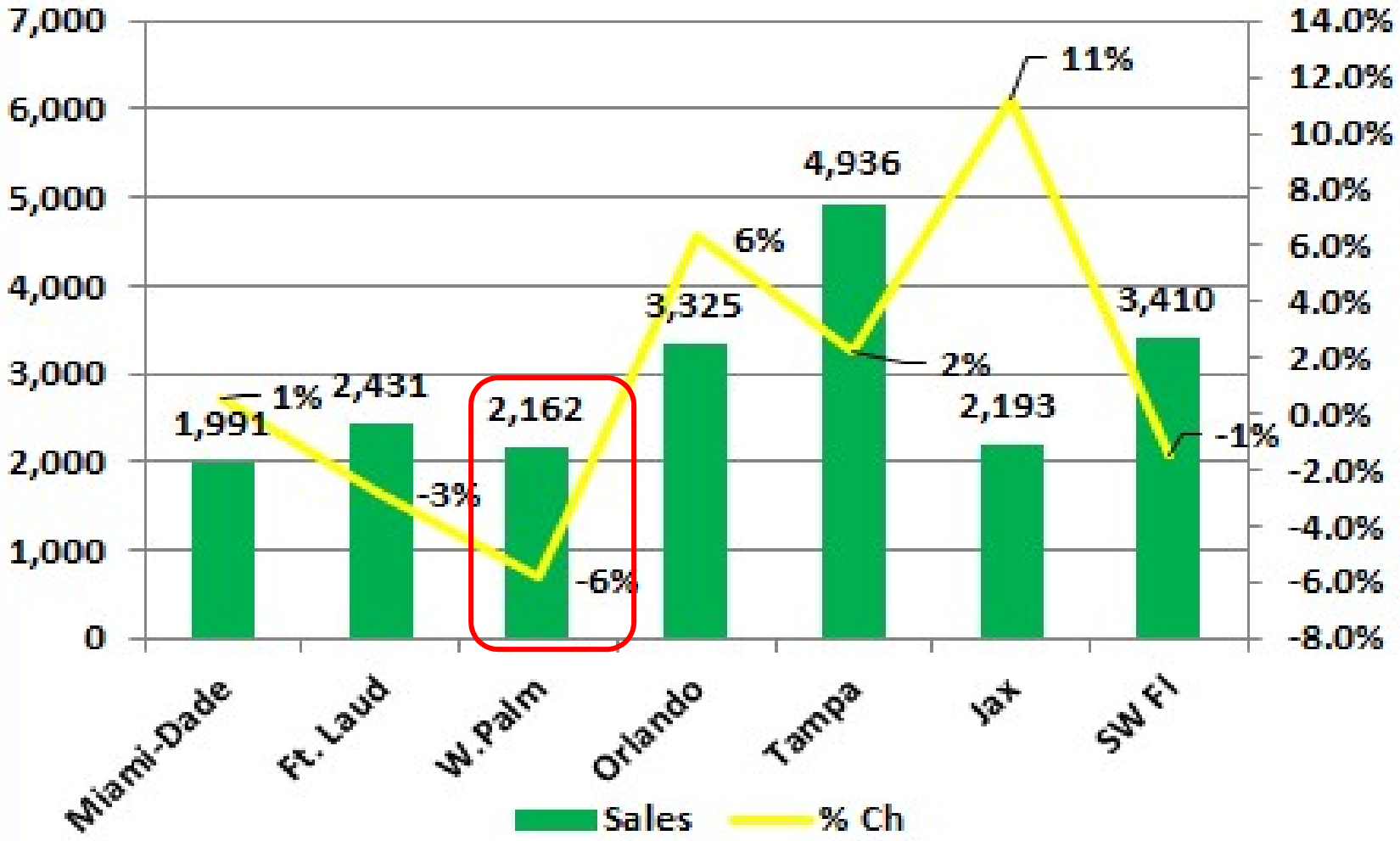
- $87.3 B spending plan
  - K-12 $7,497 a new high
  - $180 tax cuts
  - $800 M environmental programs
- Political budget designed to enhance run for Senate
- Offers something for most voters, but ultimately fails to meet State needs
  - Spending up 2.9%
  - Growth in population (2.2%) + inflation (2%) = 4.2%
  - Budget results in a cut of 1.3% in real per capita terms
  - K-12 spending will fall below $7,497 – PR + enrollment growth
- Proposed constitutional amendment requiring a 2/3rds vote to raise taxes or fees

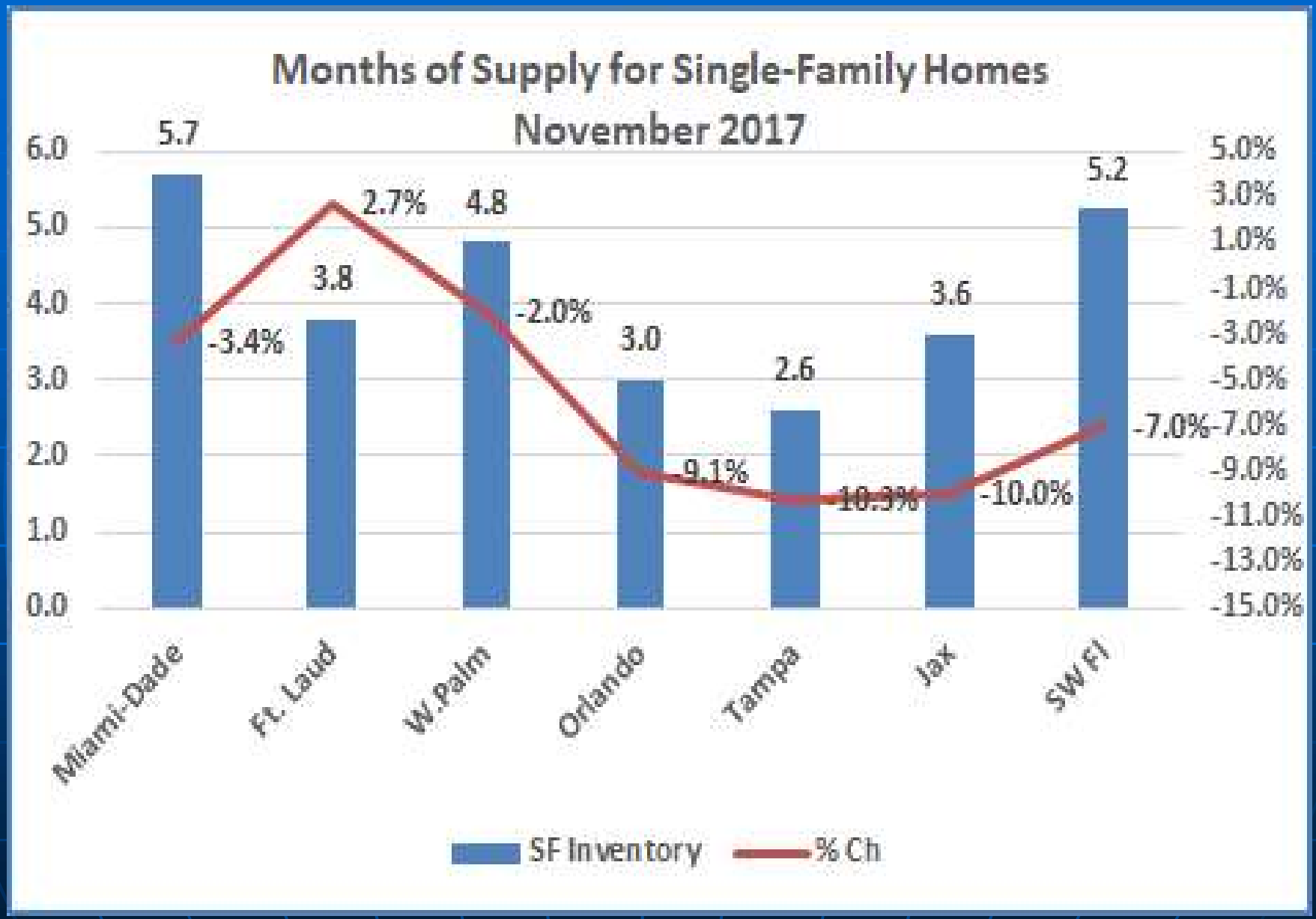
Existing Home Sales

- Sales volume up 2%
- Prices up 7%

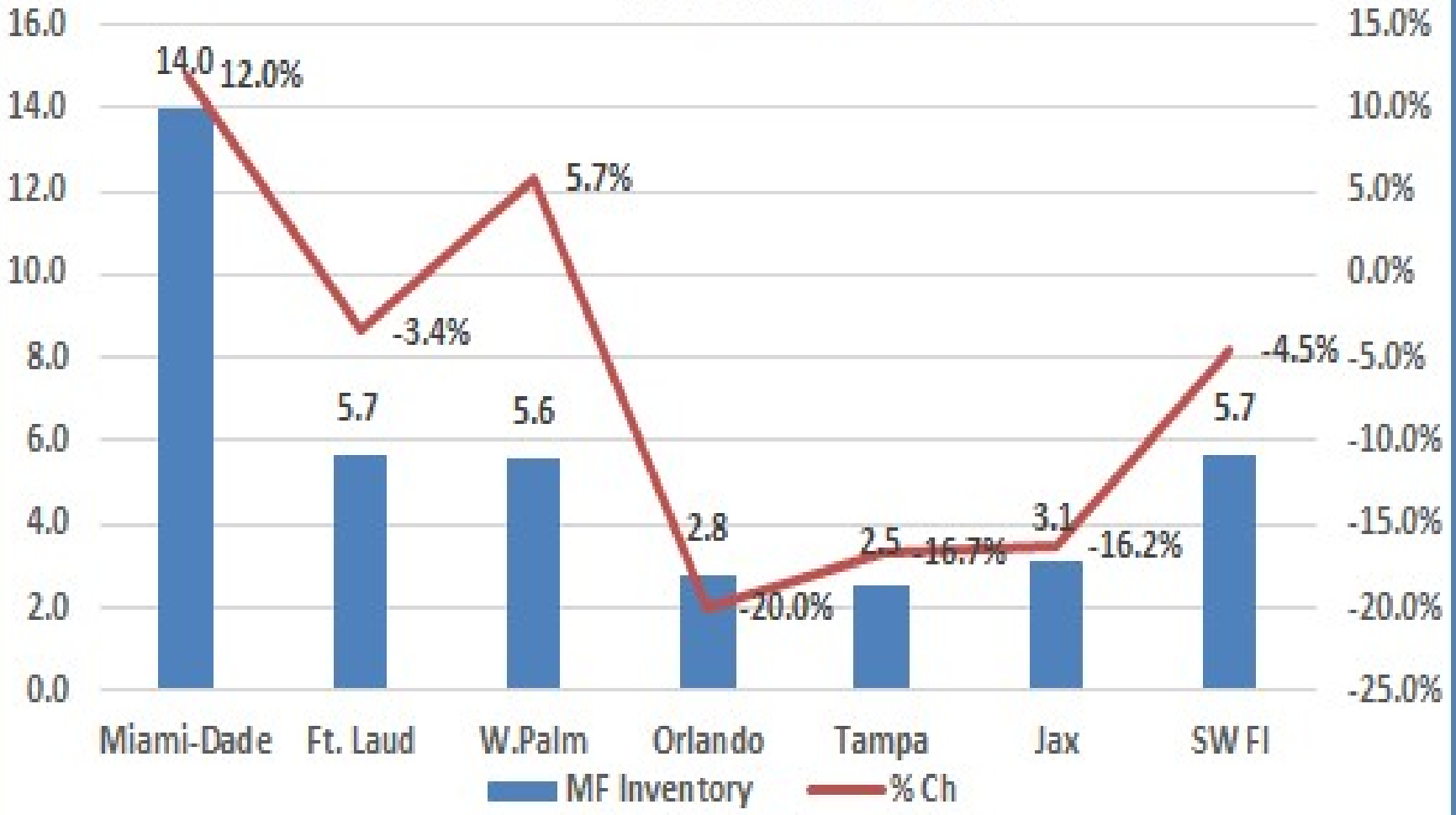


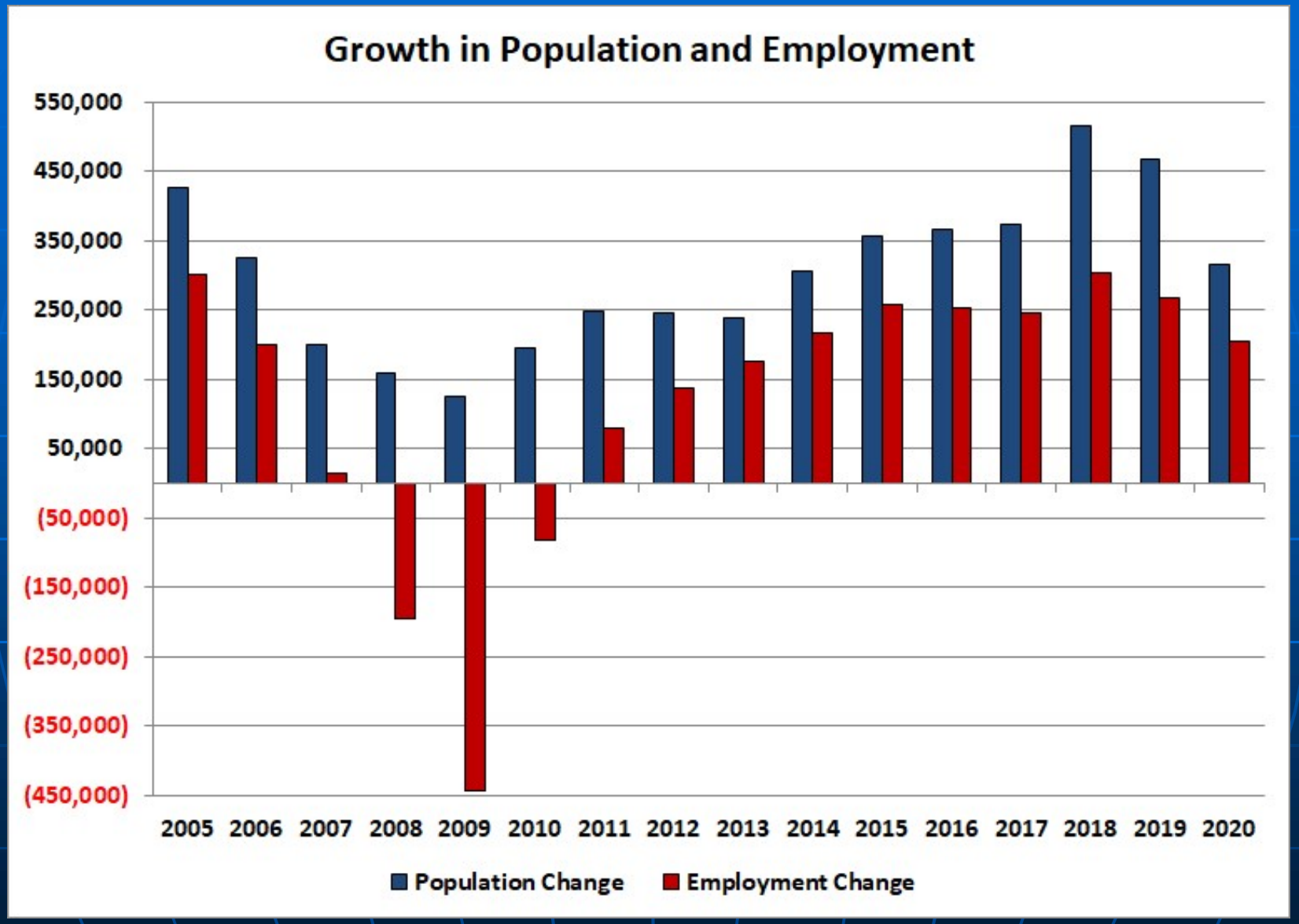
Existing Home Sales November 2017

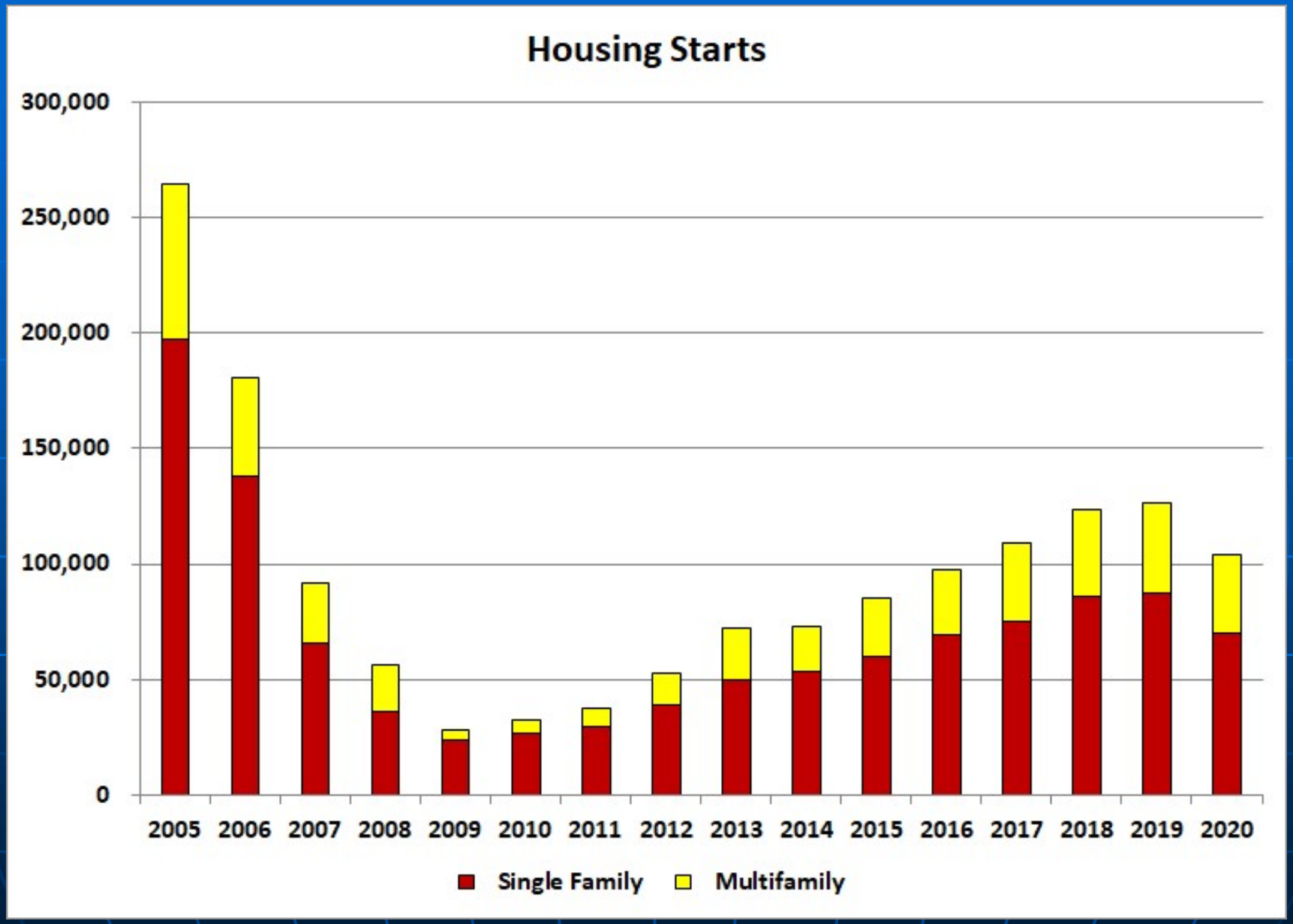


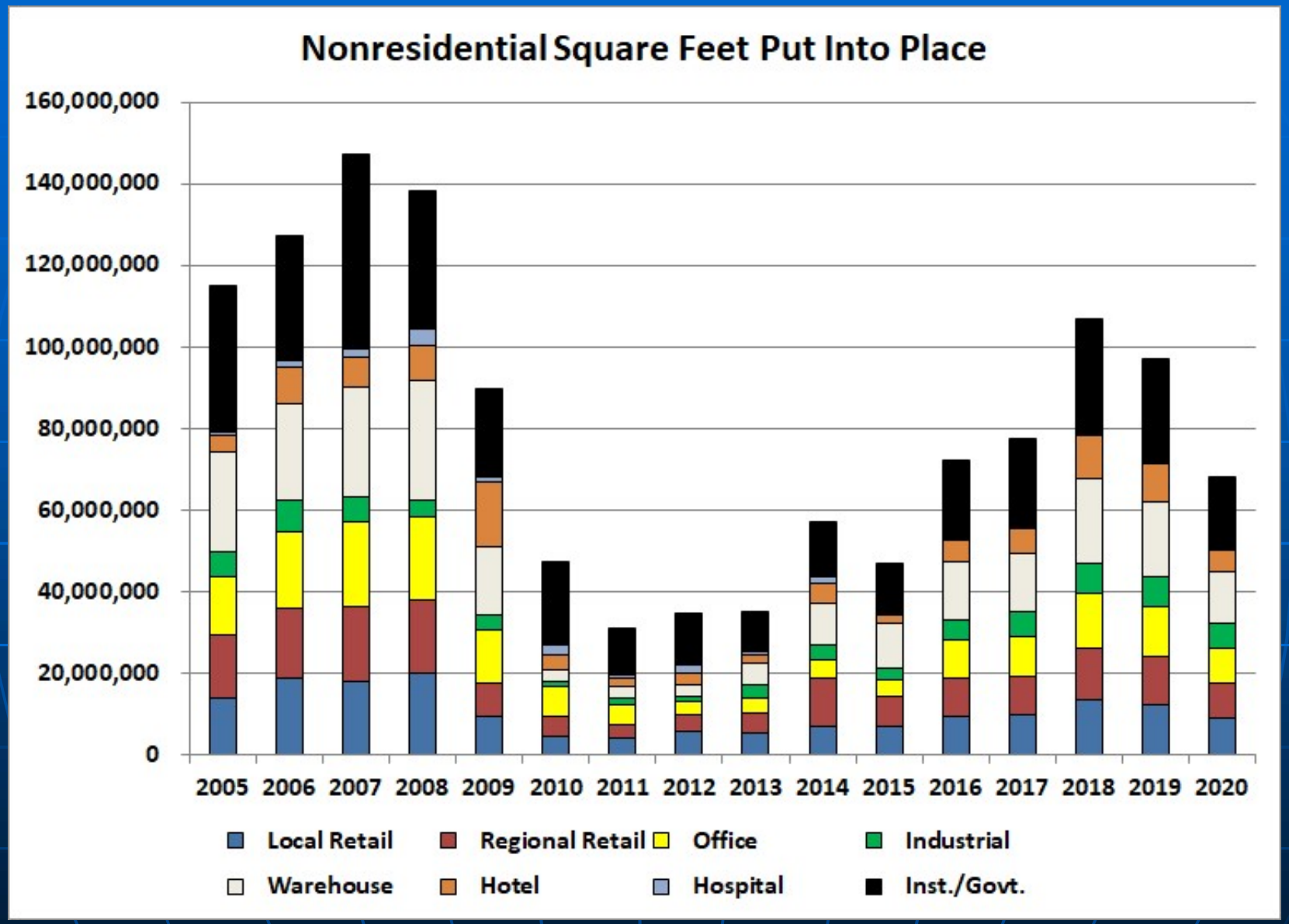

Months of Supply for Single-Family Homes
November 2017
6.0
5.0
4.0
3.0
2.0
1.0
0.0
5.0%
3.0%
1.0%
-1.0%
-3.0%
-5.0%
-7.0%
-9.0%
-11.0%
-13.0%
-15.0%
5.7
3.8
4.8
3.0
2.6
3.6
5.2
-3.4%
2.7%
-2.0%
-9.1%
-10.3%
-10.0%
-7.0%
Miami-Dade
Ft. Laud
W.Palm
Orlando
Tampa
Jax
SW Fl
SF Inventory
% Ch

Months of Supply for Condo and Townhomes
November 2017



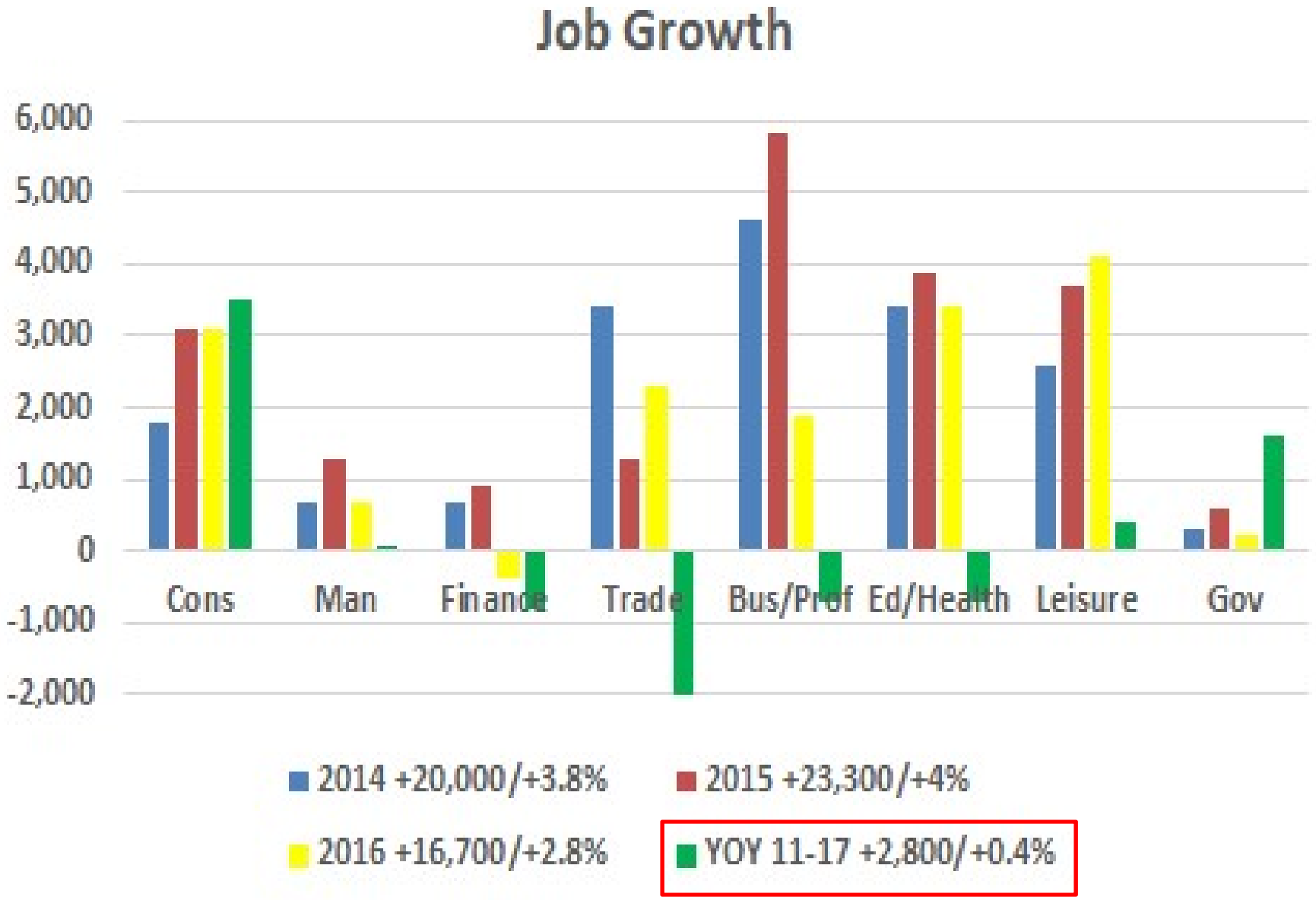

Growth in Population and Employment
550,000
450,000
350,000
250,000
150,000
50,000
(50,000)
(150,000)
(250,000)
(350,000)
(450,000)
2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020
Population Change
Employment Change


Housing Starts
300,000
250,000
200,000
150,000
100,000
50,000
0
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
Single Family
Multifamily

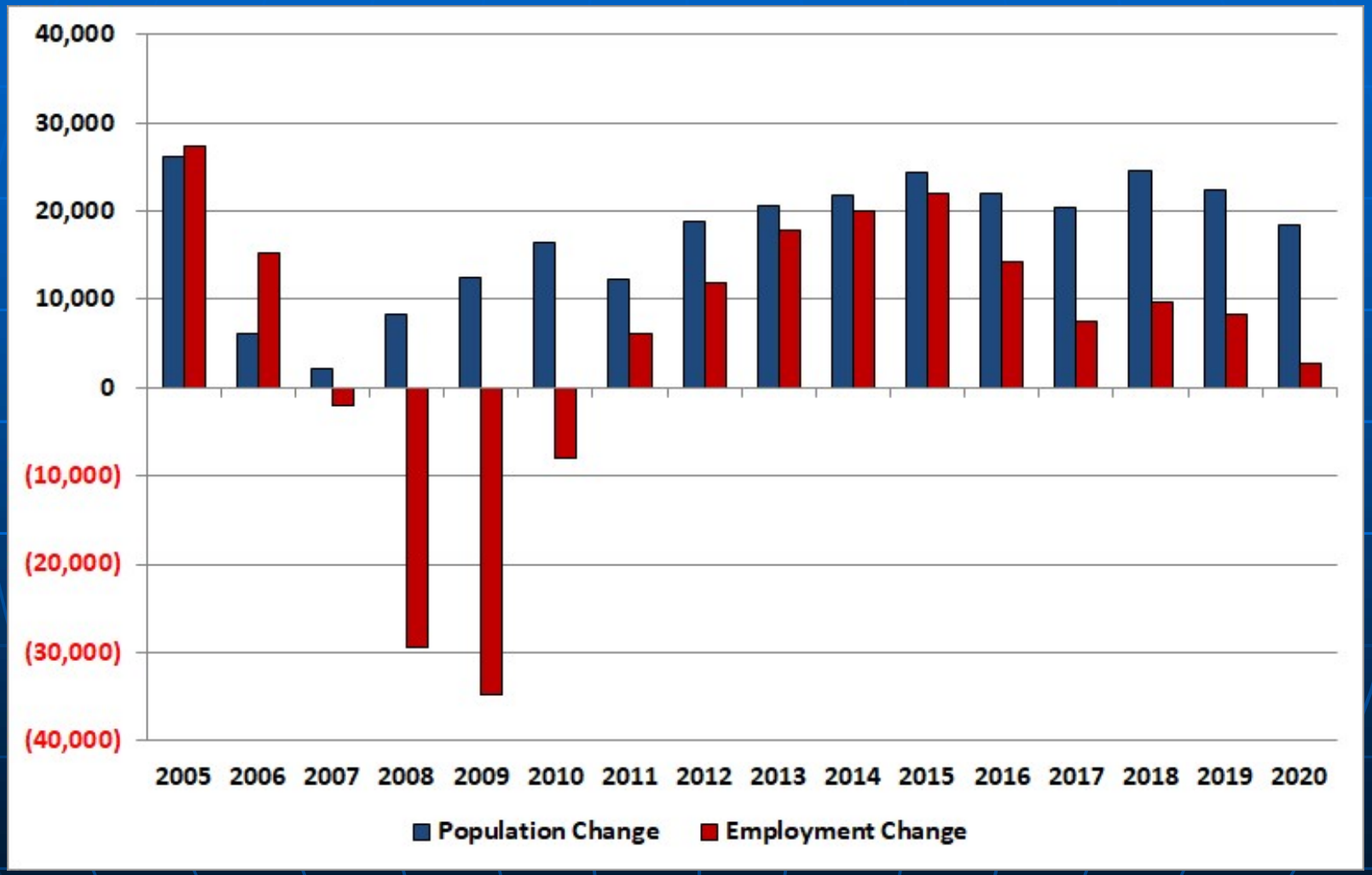

Nonresidential Square Feet Put Into Place
160,000,000
140,000,000
120,000,000
100,000,000
80,000,000
60,000,000
40,000,000
20,000,000
0
2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020
Local Retail
Regional Retail
Office
Industrial
Warehouse
Hotel
Hospital
Inst./Govt.

Palm Beach County

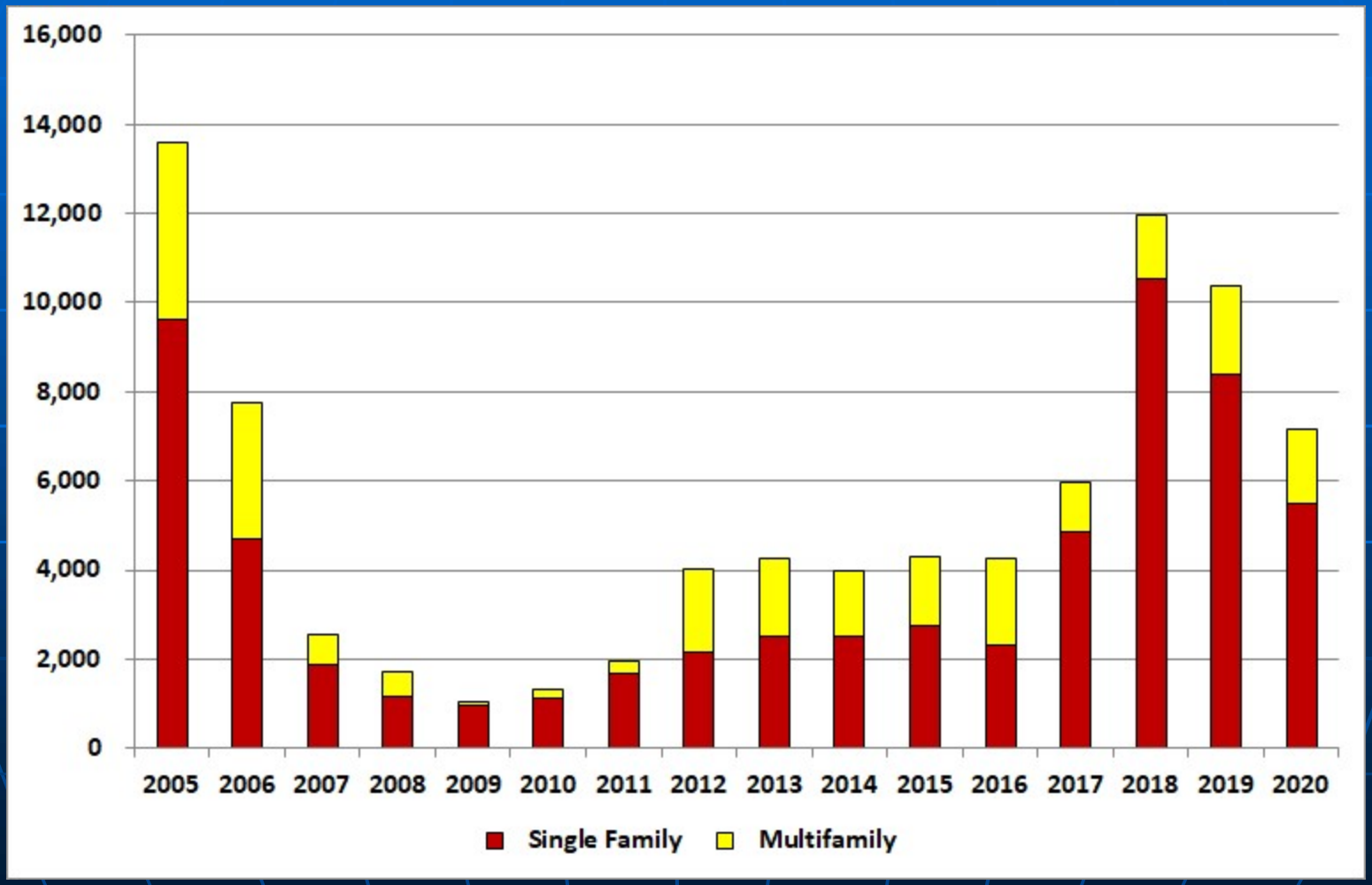
- Great reputation for migration.
- Where did the magic go?
- Job performance is poor
- Despite attracting Scripps & Max Planc the employment base remains very narrow
- UTC Center a plus
- Land costs very high and land availability limited
- Permitting environment ranges from very difficult to down right hostile
- Lack of political leadership
- Where is this County headed?


Job Growth
6,000
5,000
4,000
3,000
2,000
1,000
0
-1,000
-2,000
Cons
Man
Finance
Trade
Bus/Prof
Ed/Health
Leisure
Gov
2014 +20,000/+3.8%
2015 +23,300/+4%
2016 +16,700/+2.8%
YOY 11-17 +2,800/+0.4%

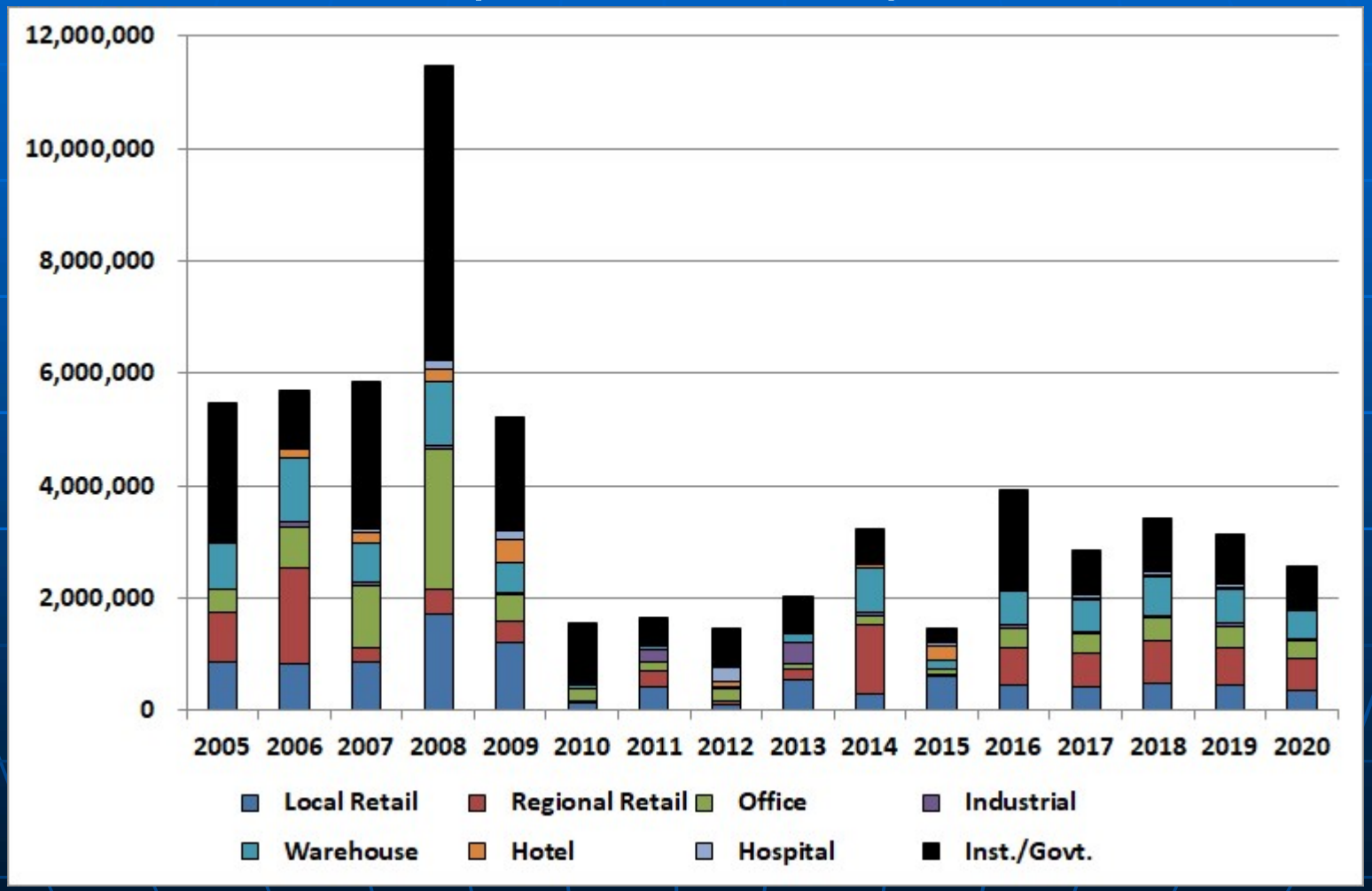
PALM BEACH GROWTH IN
POPULATION & EMPLOYMENT



PALM BEACH COUNTY
HOUSING STARTS



PALM BEACH COUNTY NON RESIDENTIAL CONSTRUCTION
(SQUARE FEET)



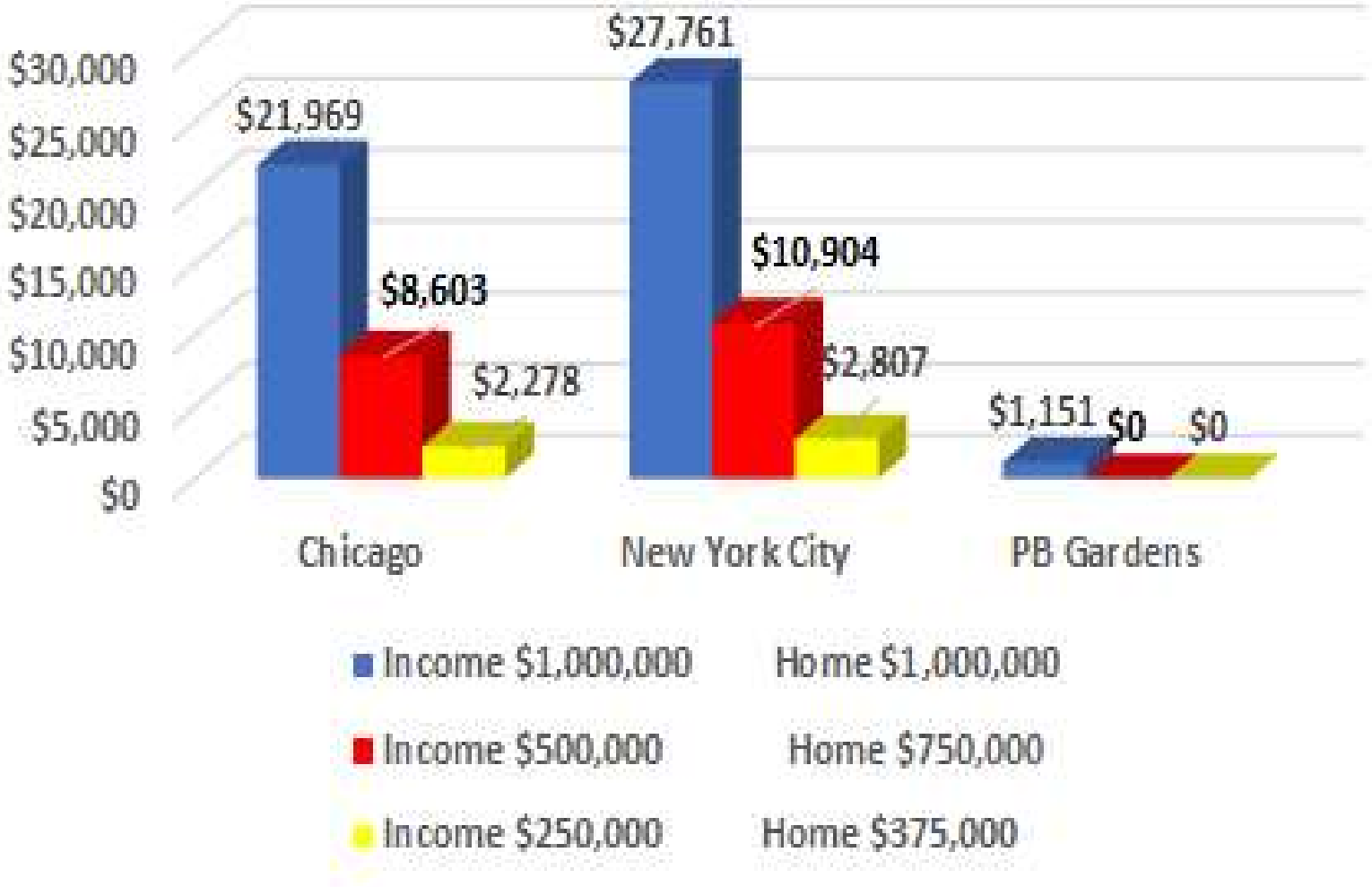
PALM BEACH GARDENS

Palm Beach Gardens in a World of Structural Change

- **Current situation**
  - Job growth stalled
  - Retailing changed dramatically
  - Newly permitted growth in west
  - Redevelopment difficult and expensive but needed to remain competitive
  - Mobility Study vision – urbanization
  - Economics of bio-sciences changed
- **Great opportunities for PBG and Corridor**

SALT Liability after Tax Cut Plan

Change in SALT from ACT



Vision for Urban Core in Palm Beach Gardens

- The recent mobility study offers a vision for an urban core in Palm Beach Gardens centered at the Fly-Over and the Mall area.
- Do you support this vision?
- A = Yes
- B = No
- C = Don't Know

Policies to Facilitate Economic Growth

- Opportunity to transform City's core and promote economic development and sustainability of PBG
- Mobility and mixed-use
  - Great vision – but easier to say than to do
- Encourage redevelopment of retail – Gulf Stream
- Promote mixed-use, more residential, office, and MORE DENSITY
- Permitting and impact fees need to change to facilitate the transformation
- Lift restrictions on Brigger Tract
- Terms limits compromise economic growth at the local level – vision and commitment needed – Orlando v Miami Beach

The End

QUESTIONS?