

ENERGY MARKETS UPDATE

Commercial Real Estate Impact

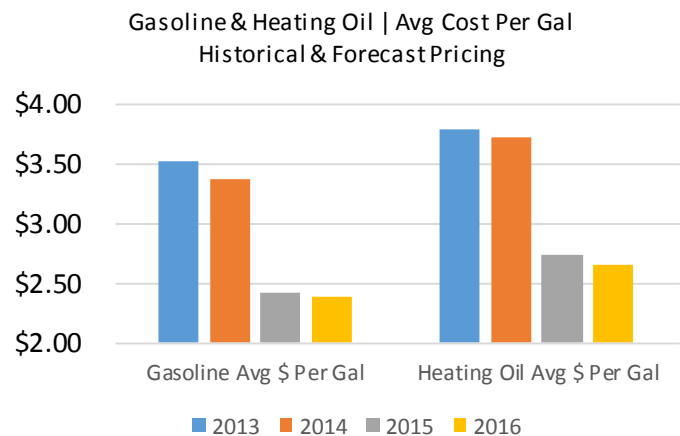
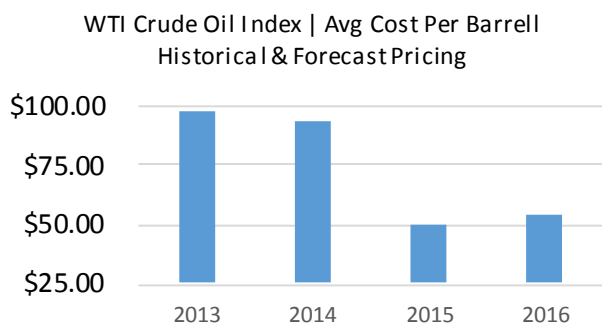
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Energy prices continued to trend downward in the third quarter of 2015. Price decreases in all energy sources occurred, including those most impactful to the commercial real estate industry. Energy pricing is being influenced by the moderation of growth in the global economy, in particular China. The recent sell off in the U.S. equities market also impacted the energy commodities market.

US crude oil production has declined and is forecasted to continue decreasing into 2016. However, both crude oil and natural gas inventories remained at very high levels. Expectations of higher oil exports from the Middle East, including Iran, will continue to put pressure on market pricing. U.S. Energy Information Administration's Short-term Energy Outlook (STEO) reported North Sea Brent crude oil prices (one of the two major crude oil indexes) averaging \$47 per barrel in August, a \$10 per barrel reduction from July and the third consecutive monthly decrease. As illustrated in the charts below, crude oil pricing has a derivative effect on gasoline, diesel oil & heating oil prices. Commercial real estate owners & operators, in the Northeast region of the country, will benefit most from lower oil prices since that section of the country has the greatest oil consumption for heating their buildings.

"Data Source - U.S. Energy Information Administration
September 2015"



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Crude Oil Price & Inventories		Year Earlier
WTI Crude Oil Futures Price (9/24/15)	\$44.91 per barrel	\$92.80
Crude Oil Inventories (9/18/15)	454 million barrels	358 million barrels

“Data Source - U.S. Energy Information Administration - September 2015”

The chart above, illustrates the significant changes in crude oil pricing and inventories occurring over the last year. Year over year, crude oil prices fell 52 percent while inventories increased 27 percent.

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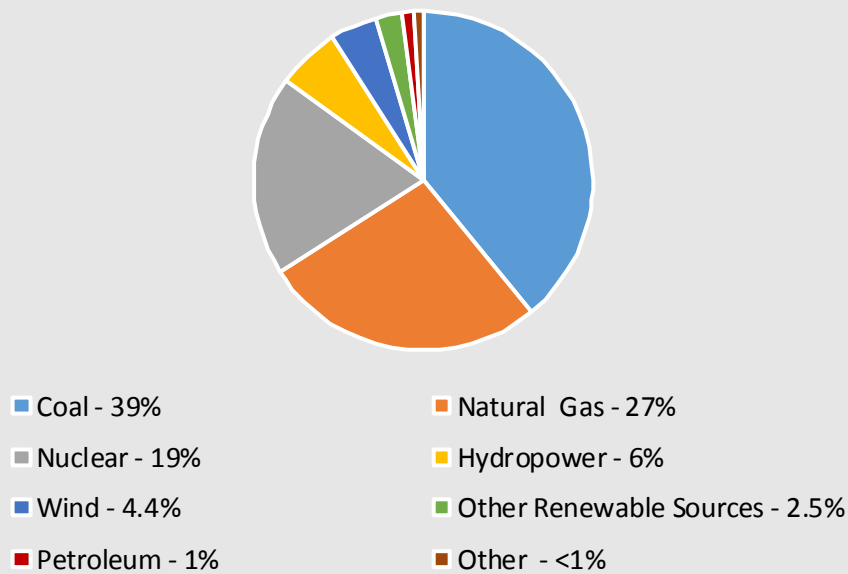
Natural Gas Price & Inventories		Year Earlier
Natural Gas Futures Price (in million BTU's 9/24/15)	\$2.591/mmBtu's	\$3.911/mmBtu's
Natural Gas Inventories (in billion cubic feet 9/18/15)	3,440 Bcf	2,974 Bcf

“Data Source - U.S. Energy Information Administration - September 2015”

The chart above, illustrates the significant changes in U.S. natural gas pricing and inventories occurring over the last year. Year over year, natural gas prices fell 34 percent while inventories increased 16 percent.

For commercial real owners, the current and projected natural gas prices should translate to relatively lower building utilities expenses over the next year or longer. Buildings with natural gas and oil fired boilers, as well as gas-fired package roof top units (very common in the northern section of the country) should experience relatively favorable pricing through the 2015- 2016 heating season and beyond. The cost of electricity generation, among other factors, is effected by natural gas prices. With favorable natural gas price projections in the near future, commercial real estate owners should expect a correlation in continued favorable electricity supply pricing.

2014 U.S. Electricity Generation - Energy Source



“Data Source - U.S. Energy Information Administration September 2015”

As illustrated above, approximately 27% of U.S. electricity generation is produced by power plants using natural gas as their energy source (as of year end 2014). Over the last 10 years, electricity generation by natural gas energy source has increased 35% - 40%, while generation by coal energy source has decreased approximately 15%. Commercial real estate owners should continue to expect a strong correlation between the natural gas and electricity commodities market. In the current energy commodities environment, building owners, in both regulated and de-regulated markets, should expect to see very competitive pricing on a short term (annual) and long term (3 year) basis.