

Inside Out ... Right-Side Up? Bubble residue and recession

Presentation to
NAIOP Northern Virginia
July 9, 2009

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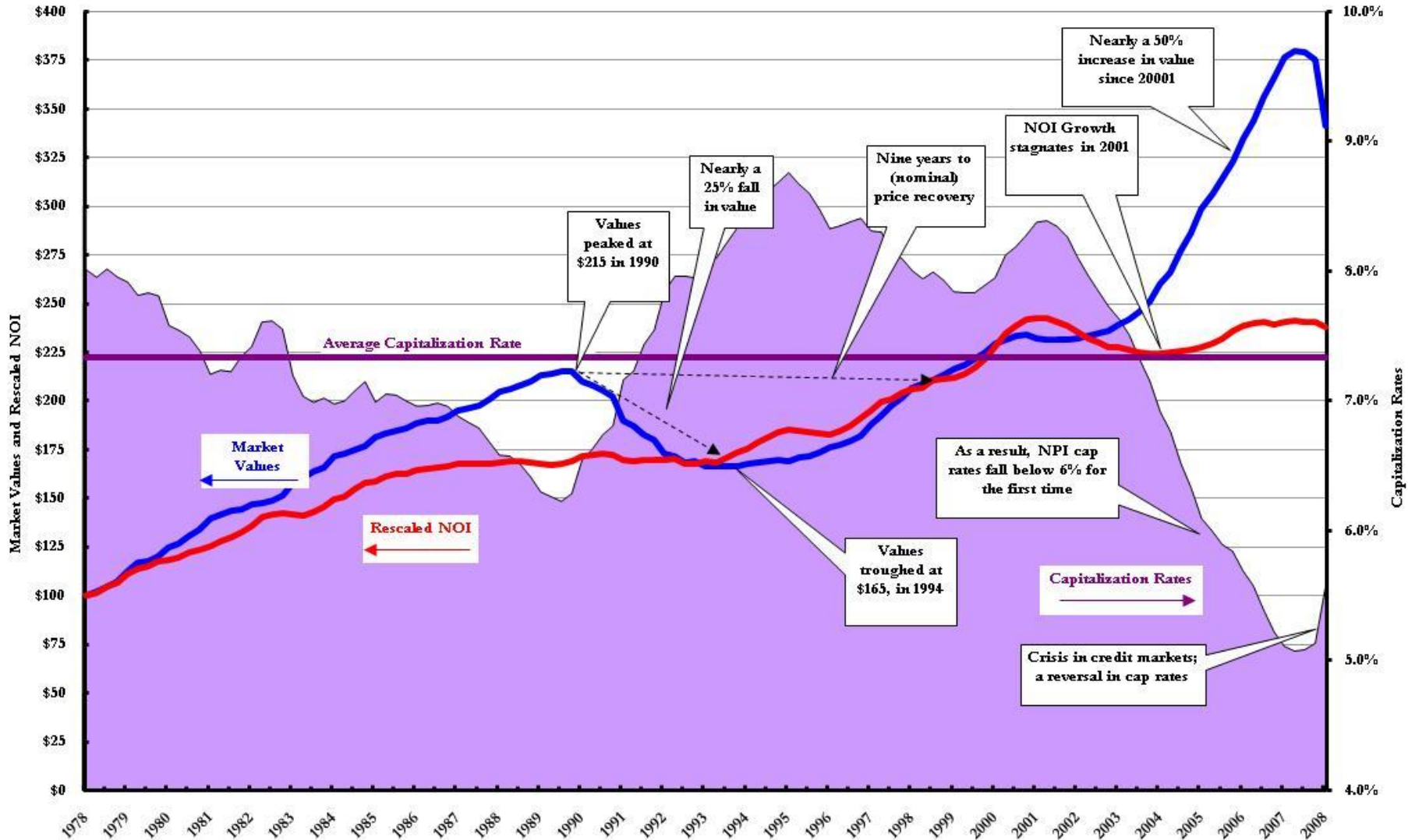
<http://mason.gmu.edu/~asander7/>

The equity side

- Biggest decline since early 1990s
- Regional differences in vacancy are moving together
- Recent “bubble” in commercial real estate, but not like previous bubbles.

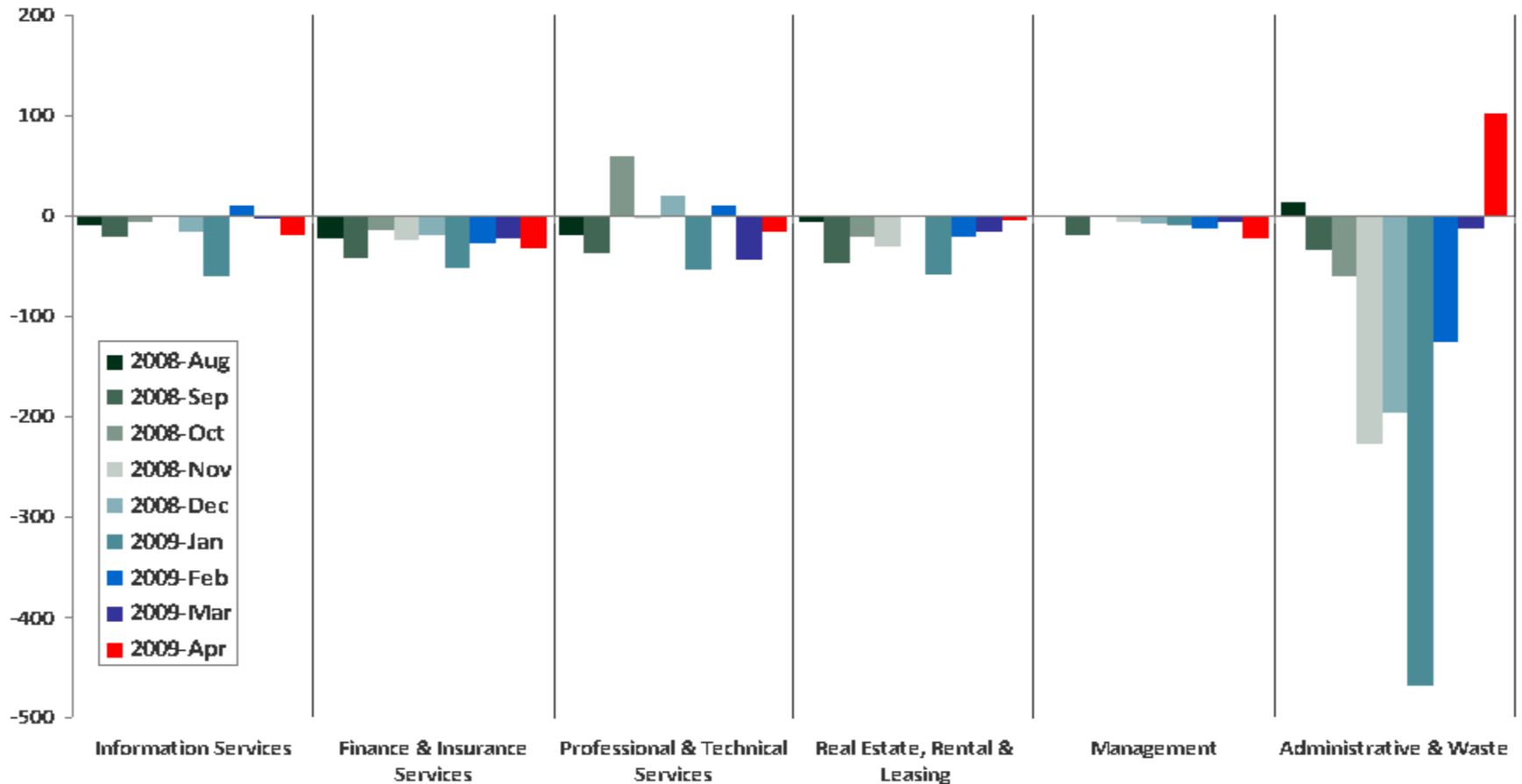
Quick historical overview

NCREIF Property Index: Market Values, Rescaled NOI and Capitalization Rates
Based on a \$100 Investment for the Period 1978 through 2008



Month-over-Month Change in Office-Demanding Jobs (Not Seasonally Adjusted)

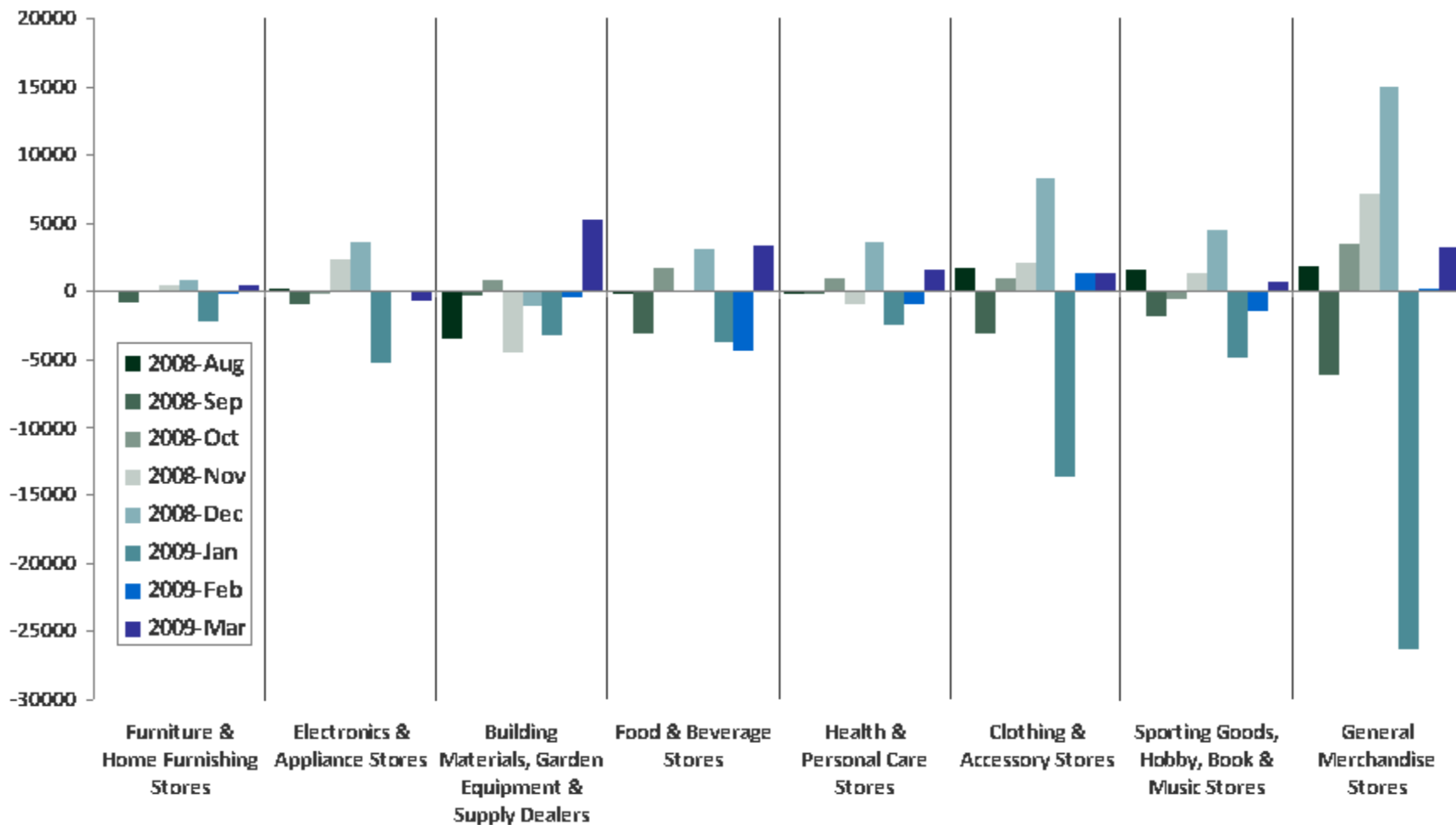
Thousands



Source: Census Bureau

Month-over-Month Change in Selected Retail Sales (Not Seasonally Adjusted)

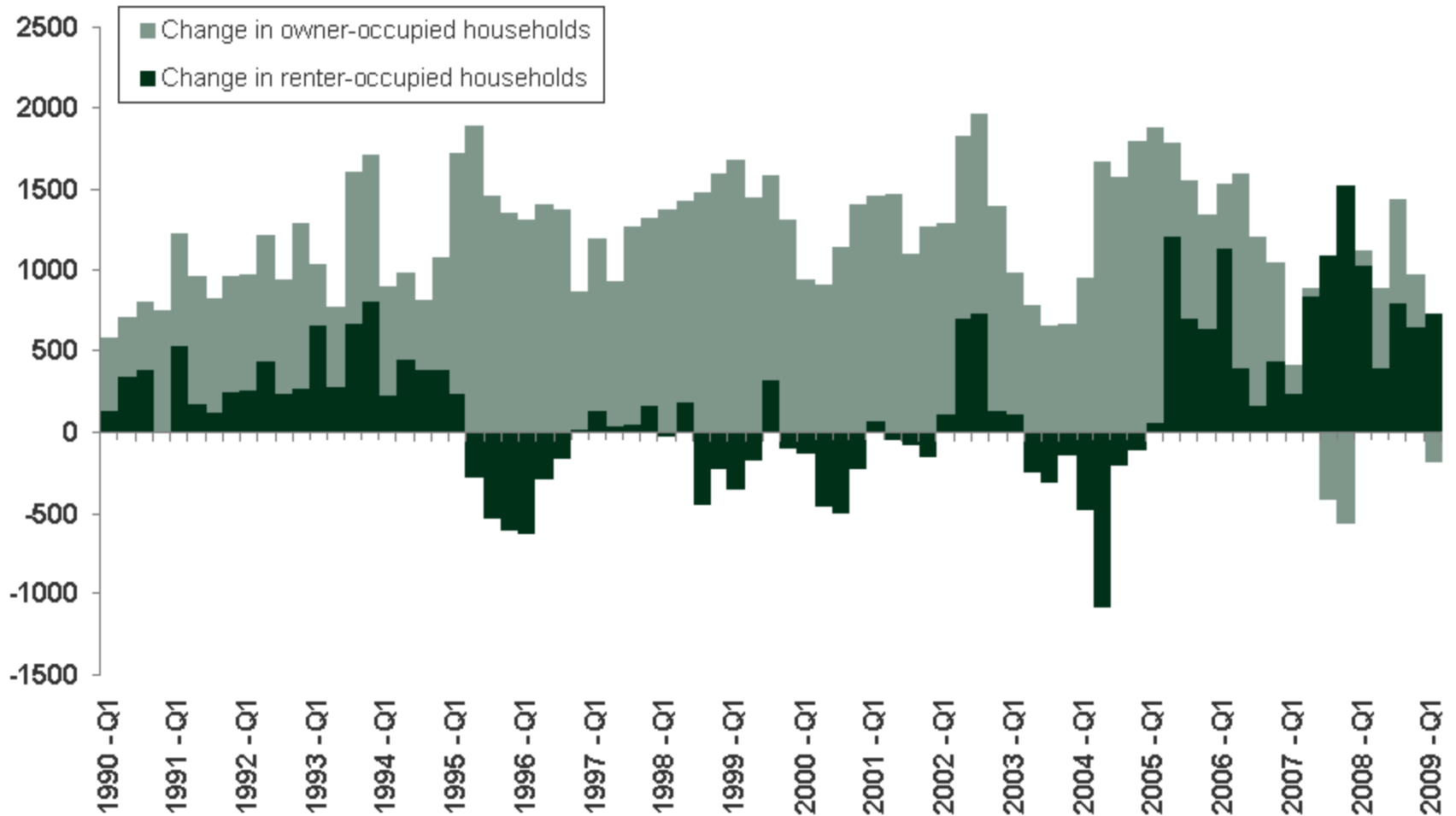
\$millions



Source: Census Bureau

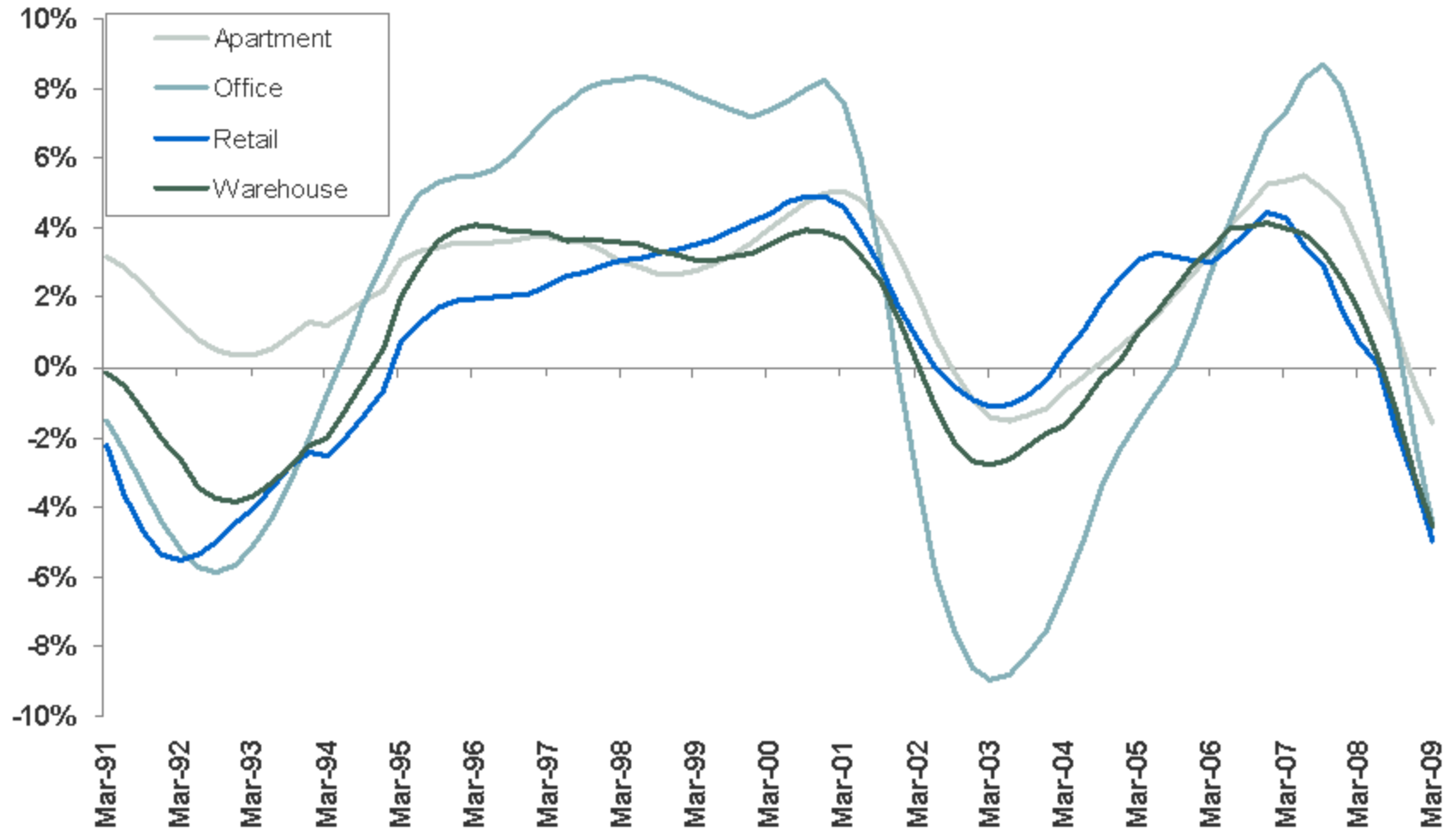
Change in Number of Owner- and Renter-occupied Households, Year-over-year (additive)

Thousands of households



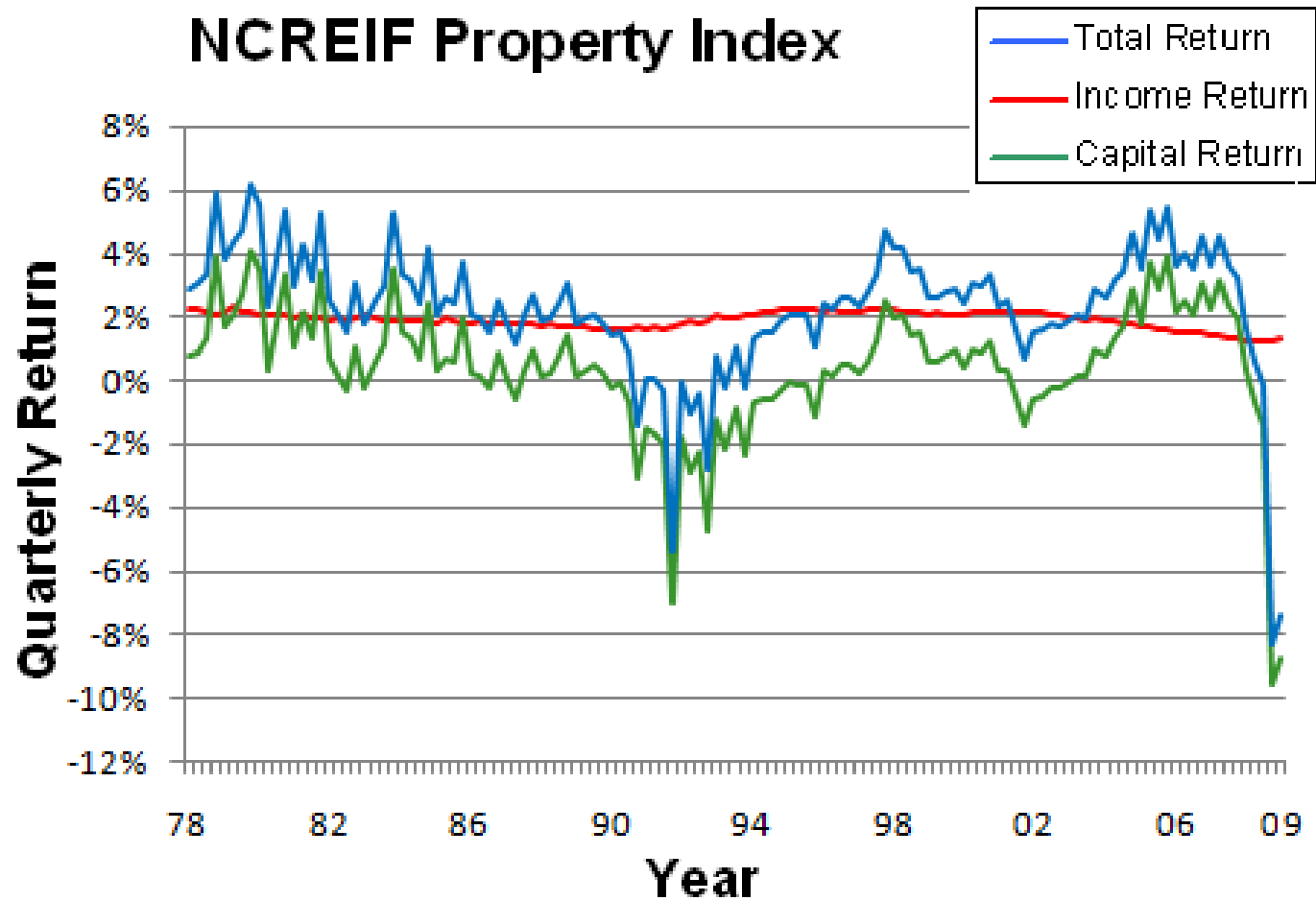
Source: Census Bureau and MBA

Year-over-year Asking Rent Growth, by Property Type by Quarter

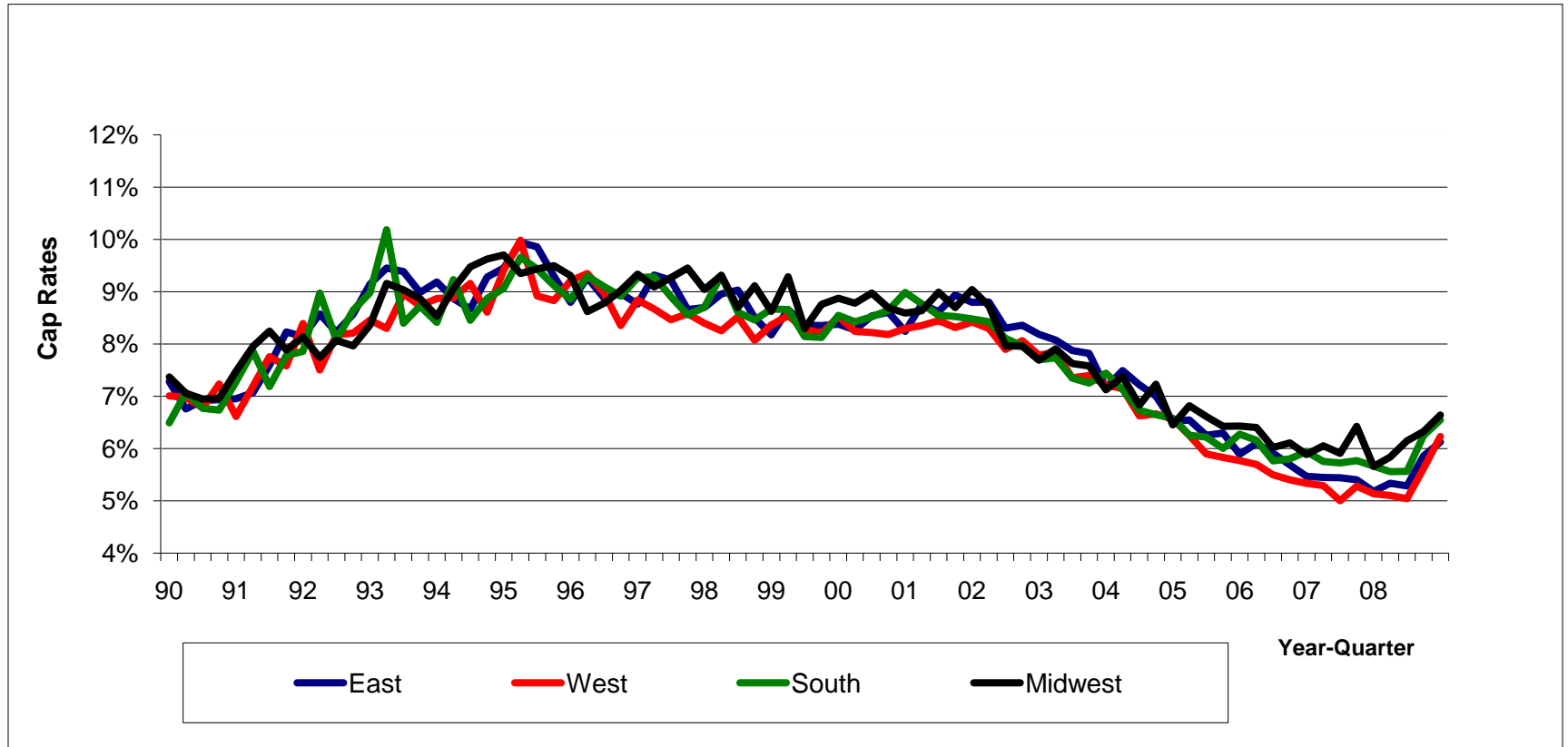


Source: Property and Portfolio Research

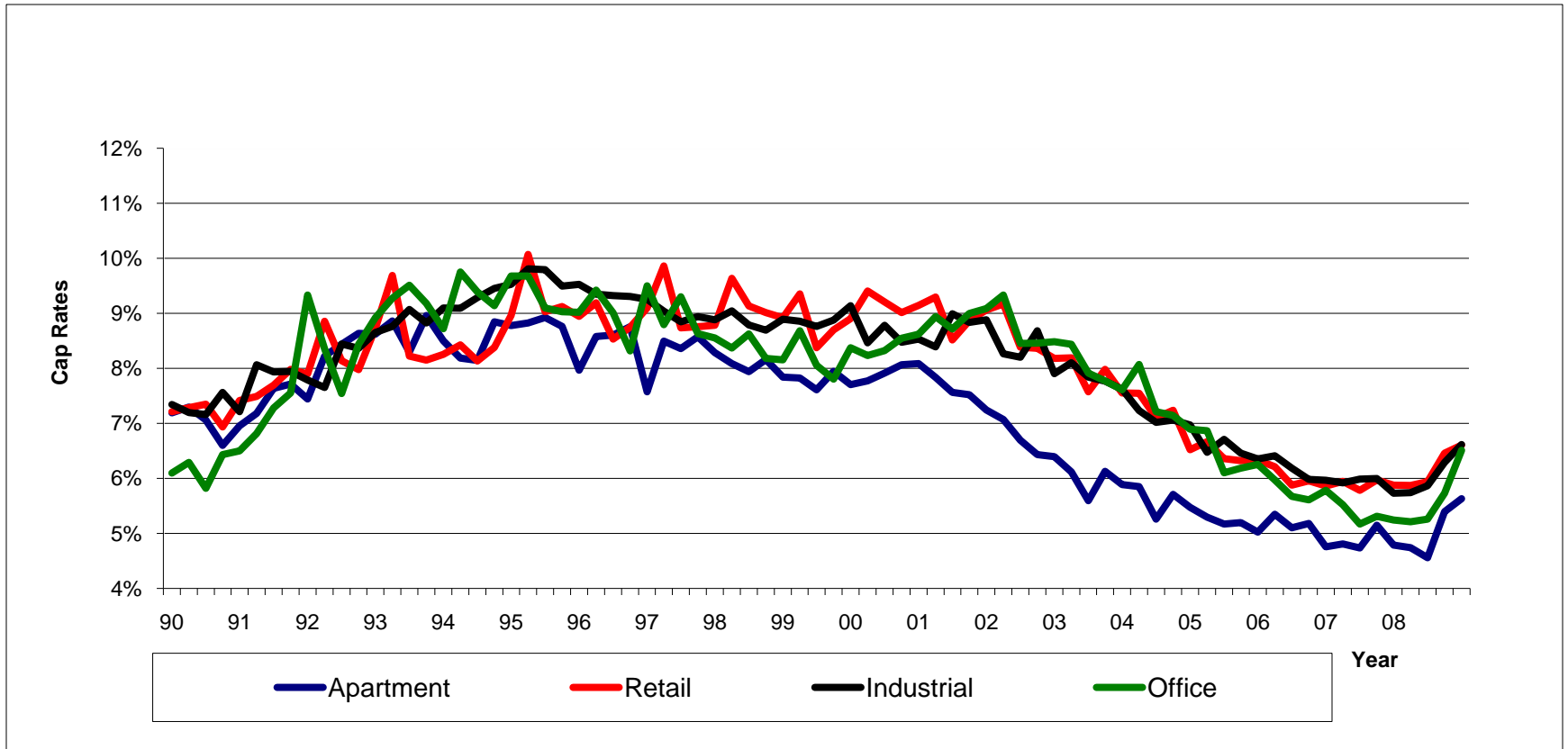
2009 is the worst market since the early 1990s



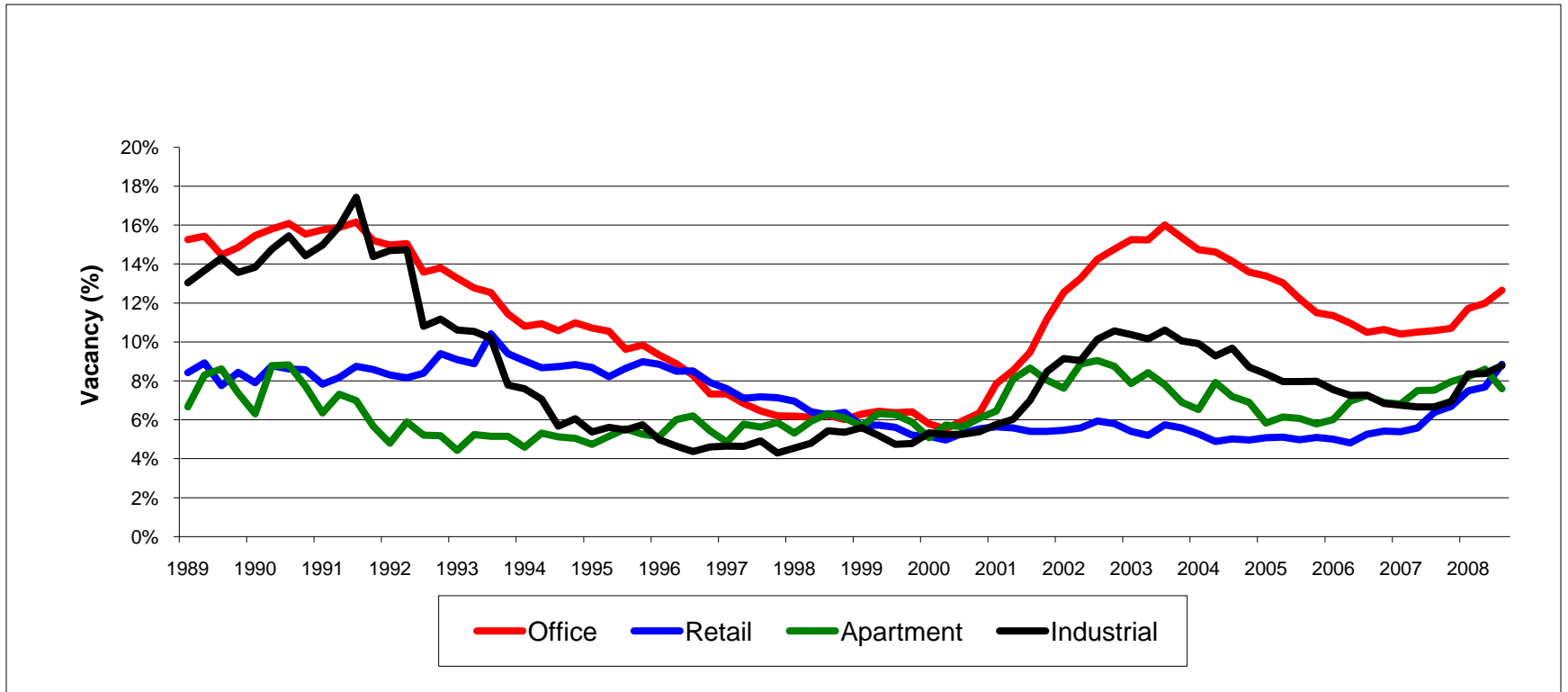
NCREIF Current Value Cap Rates by Region



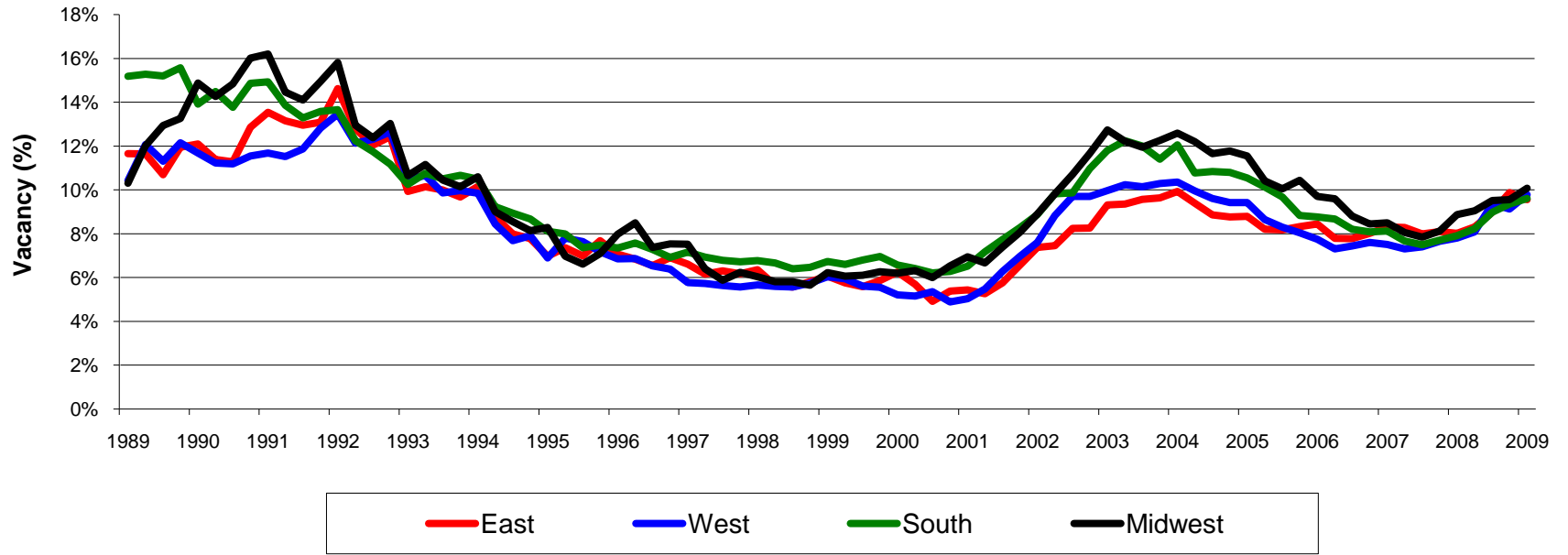
NCREIF Current Value Cap Rates by Property Type



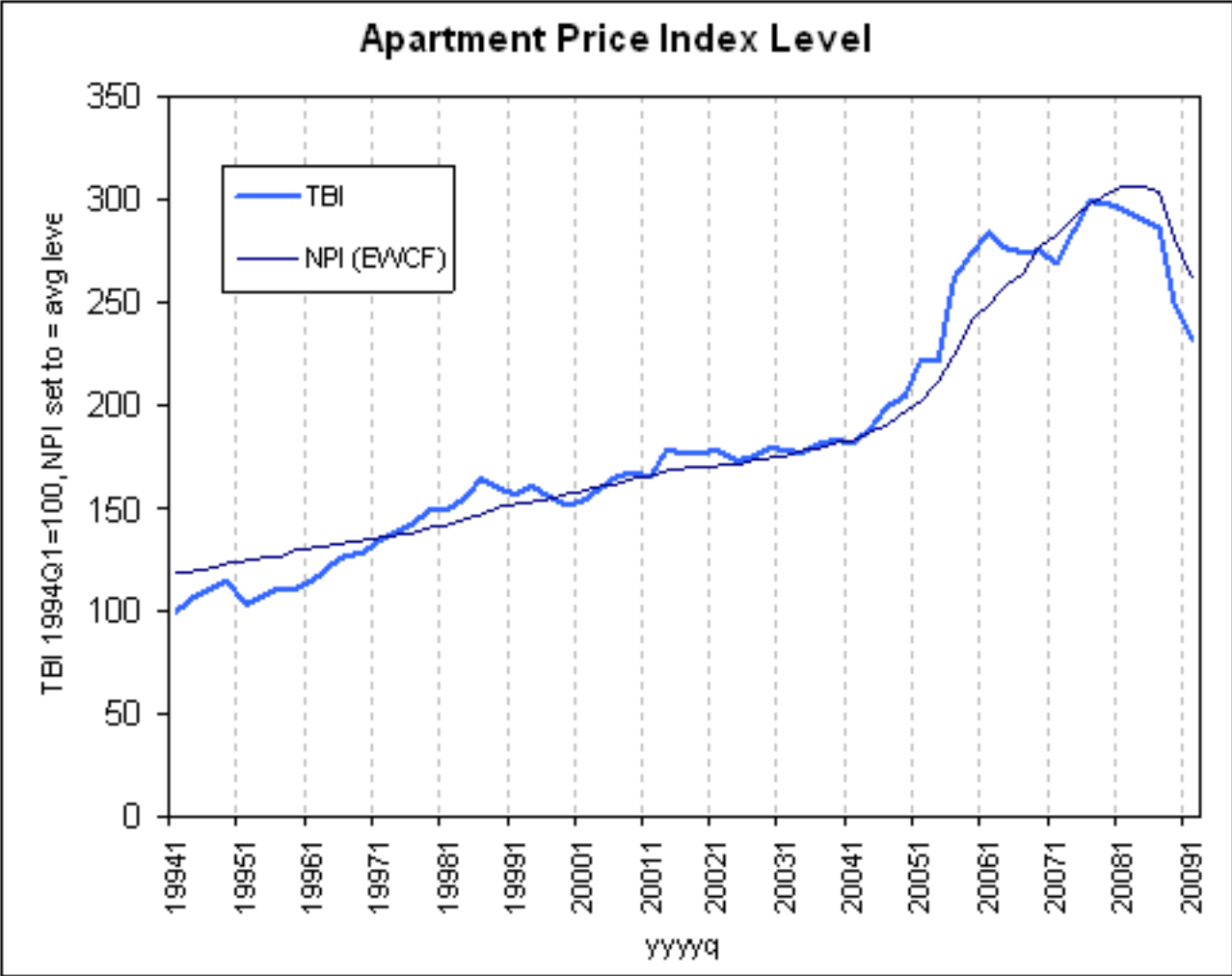
NCREIF Vacancy by Property Type



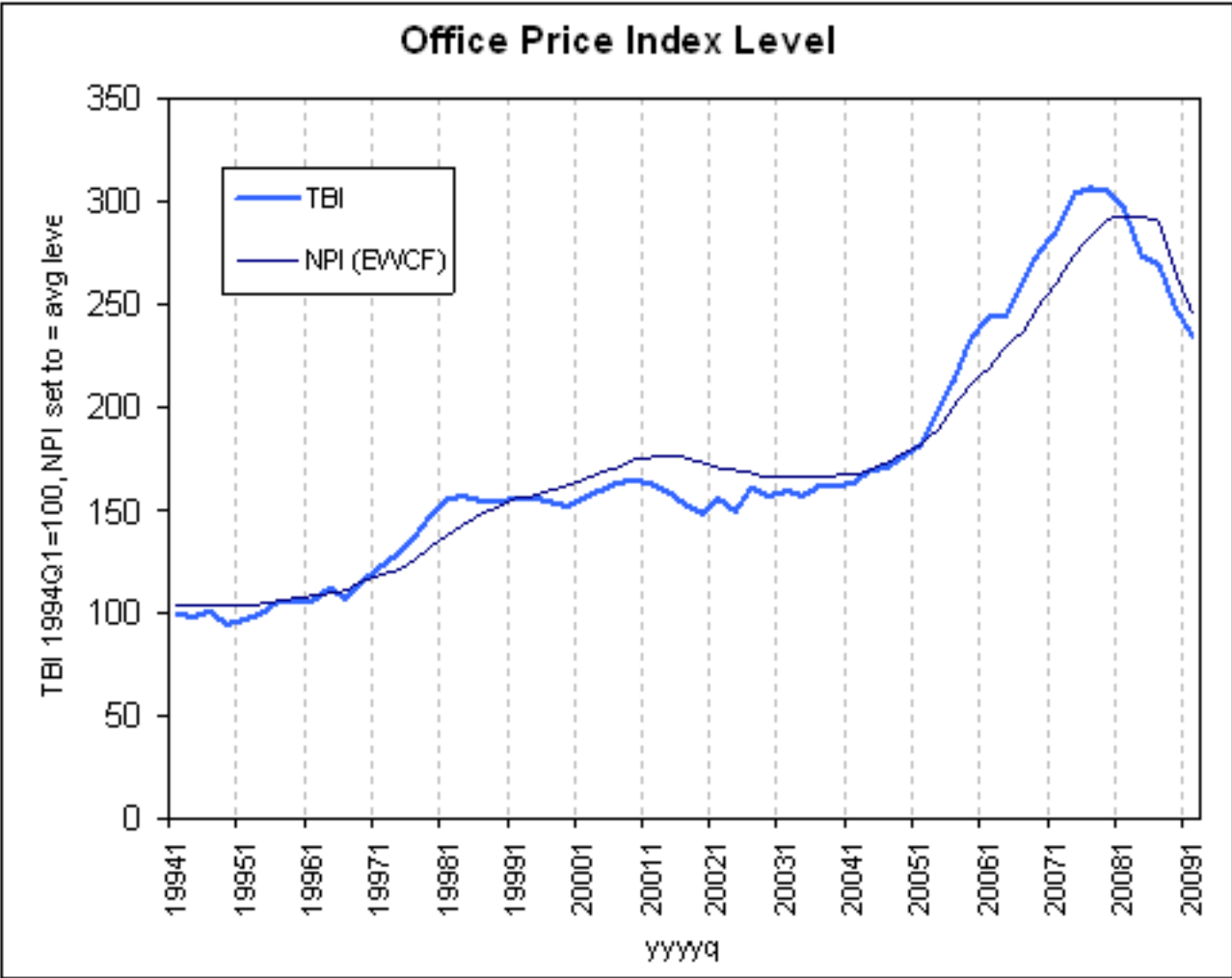
NCREIF Vacancy by Region



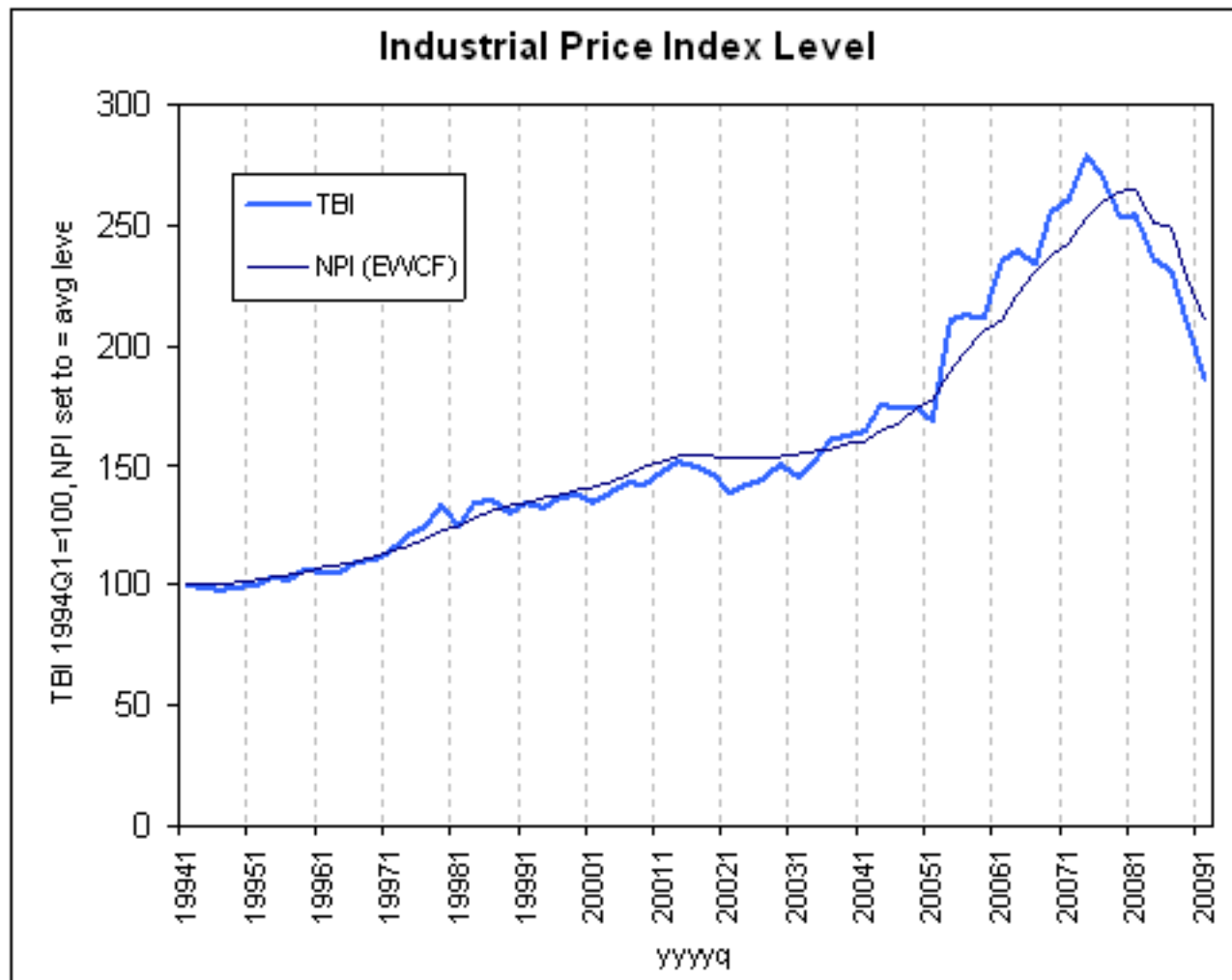
Multifamily (Transaction Based Index and NCREIF Property Index)



Office (Transaction Based Index and NCREIF Property Index)



Industrial (Transaction Based Index and NCREIF Property Index)



The funding side

- Pension funds still a major player, at least in holdings
- Banks are leery of lending on the downside
- Private equity is changing with money still sitting on the sidelines
- CMBS is dead, although AAA CMBS has seemingly stabilized.

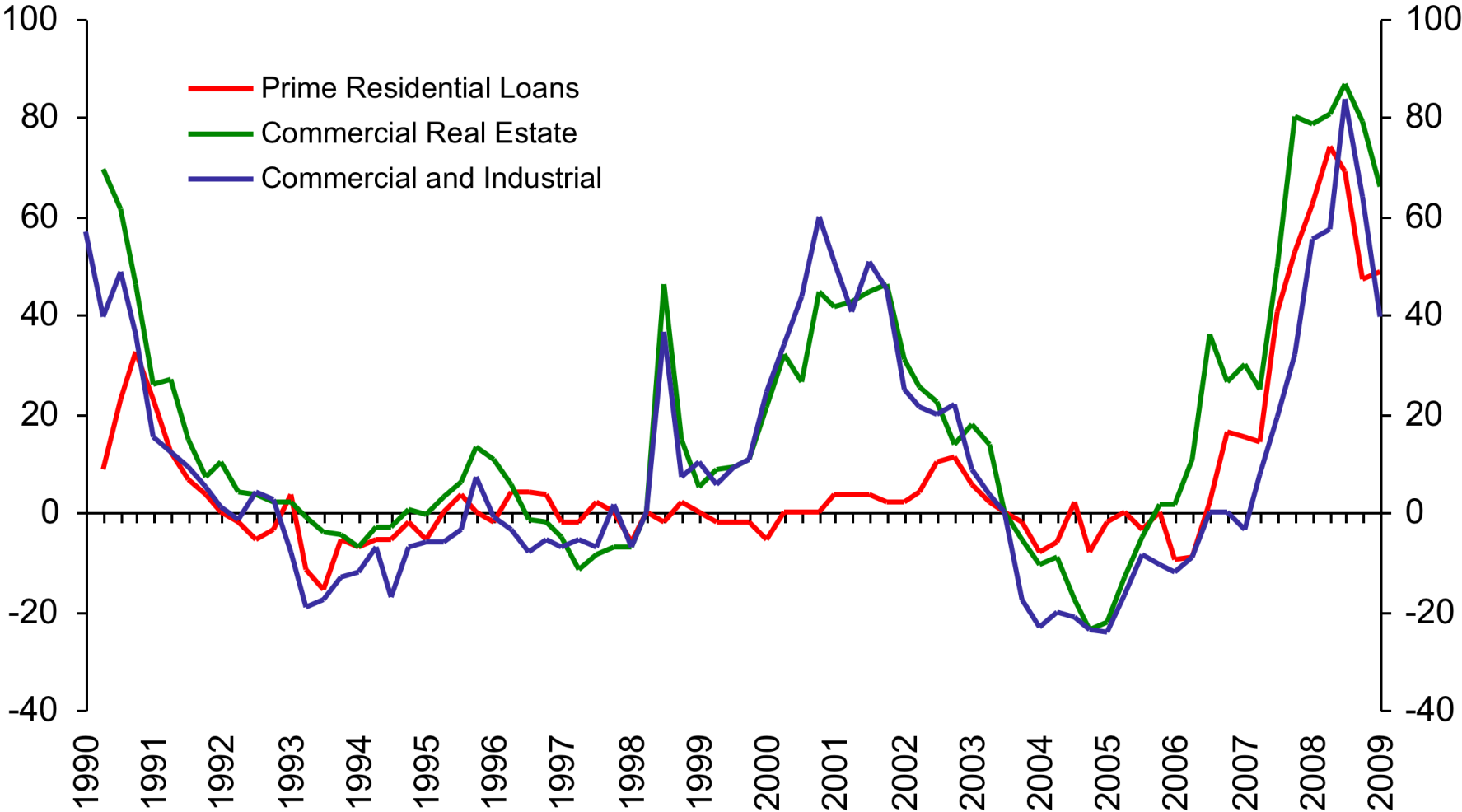
The funding side

Top 20 Public Pension Funds Based on Real Estate Holdings as of December, 2008

	<u>Total Assets</u>	<u>Real Estate Holdings</u> (in \$ millions)	<u>Net Change In Holdings in 2008</u>	<u>Unfunded Real Estate Commitments</u>	<u>Real Estate Holdings as a Percentage of Total Assets</u>	<u>Holdings Plus Commitments as a Percentage of Total Assets</u>
1. CalPERS	\$183,323	\$20,932	\$2,954	\$11,900	11.4%	17.9%
2. California State Teachers	126,433	20,260	1,914	10,240	16.0%	24.1%
3. Washington State Investment Board	50,836	9,471	1,720	8,100	18.6%	34.6%
4. Florida State Board	97,355	7,981	-1,251	539	8.2%	8.8%
5. New York State Teachers	75,300	7,525	-1,062	2,000	10.0%	12.6%
6. New York Common Fund	153,900	6,752	0	2,295	4.4%	5.9%
7. Ohio State Teachers	52,468	5,840	23	1,044	11.1%	13.1%
8. Michigan Retirement	44,512	5,474	-183	770	12.3%	14.0%
9. Oregon Public Employees	44,977	5,275	1,525	855	11.7%	13.6%
10. Pennsylvania Public School Employees	45,400	5,231	431	4,000	11.5%	20.3%
11. Ohio Public Employees	49,637	4,759	1,542	1,179	9.6%	12.0%
12. Illinois Teachers	29,100	4,700	151	1,010	16.2%	19.6%
13. Los Angeles County Employees	30,700	4,125	76	560	13.4%	15.3%
14. Massachusetts Pension Reserves	37,775	3,697	-93	250	9.8%	10.4%
15. Alaska Permanent Fund	29,291	3,582	333	0	12.2%	12.2%
16. Virginia Retirement	41,800	3,536	836	971	8.5%	10.8%
17. North Carolina Public Employees	72,300	3,341	885	2,300	4.6%	7.8%
18. Wisconsin Investment Board	61,791	3,274	-226	1,800	5.3%	8.2%
19. Texas Teachers	80,620	3,260	1,351	4,400	4.0%	9.5%
20. Colorado Public Employees	<u>35,100</u>	<u>3,100</u>	<u>100</u>	<u>950</u>	<u>8.8%</u>	<u>11.5%</u>
Total/Average - Top 20	<u>\$1,342,618</u>	<u>\$132,115</u>	<u>\$11,026</u>	<u>\$55,163</u>	<u>9.8%</u>	<u>13.9%</u>
Total/Average - Top 50	<u>\$1,893,818</u>	<u>\$166,124</u>	<u>\$13,249</u>	<u>\$66,306</u>	<u>8.8%</u>	<u>12.3%</u>

Source: *Pensions & Investments*. Note: Real estate figures exclude REITs, timber and agriculture.

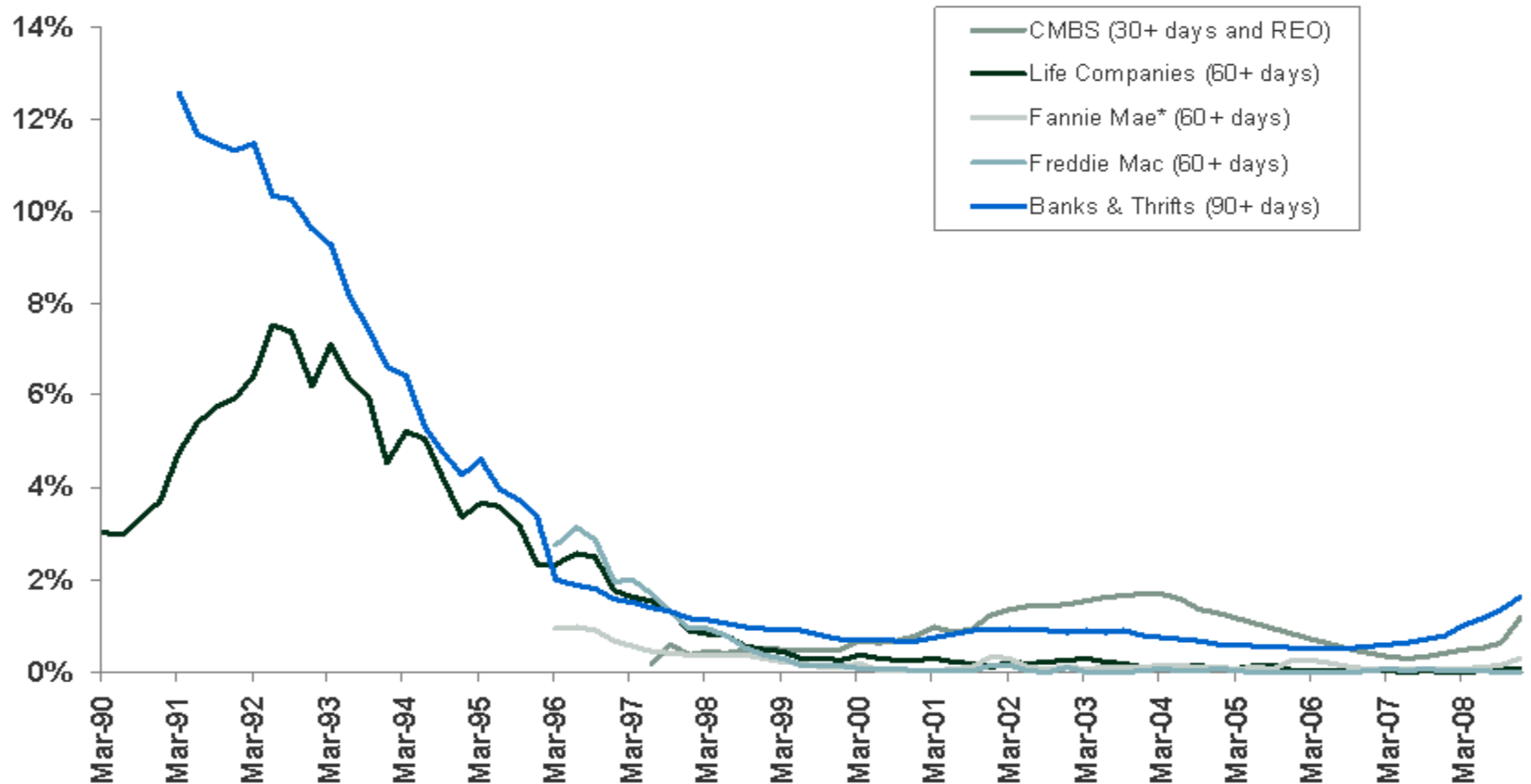
Banks still tightening commercial real estate standards



Source: Federal Reserve Board's Senior Loan Officer Survey

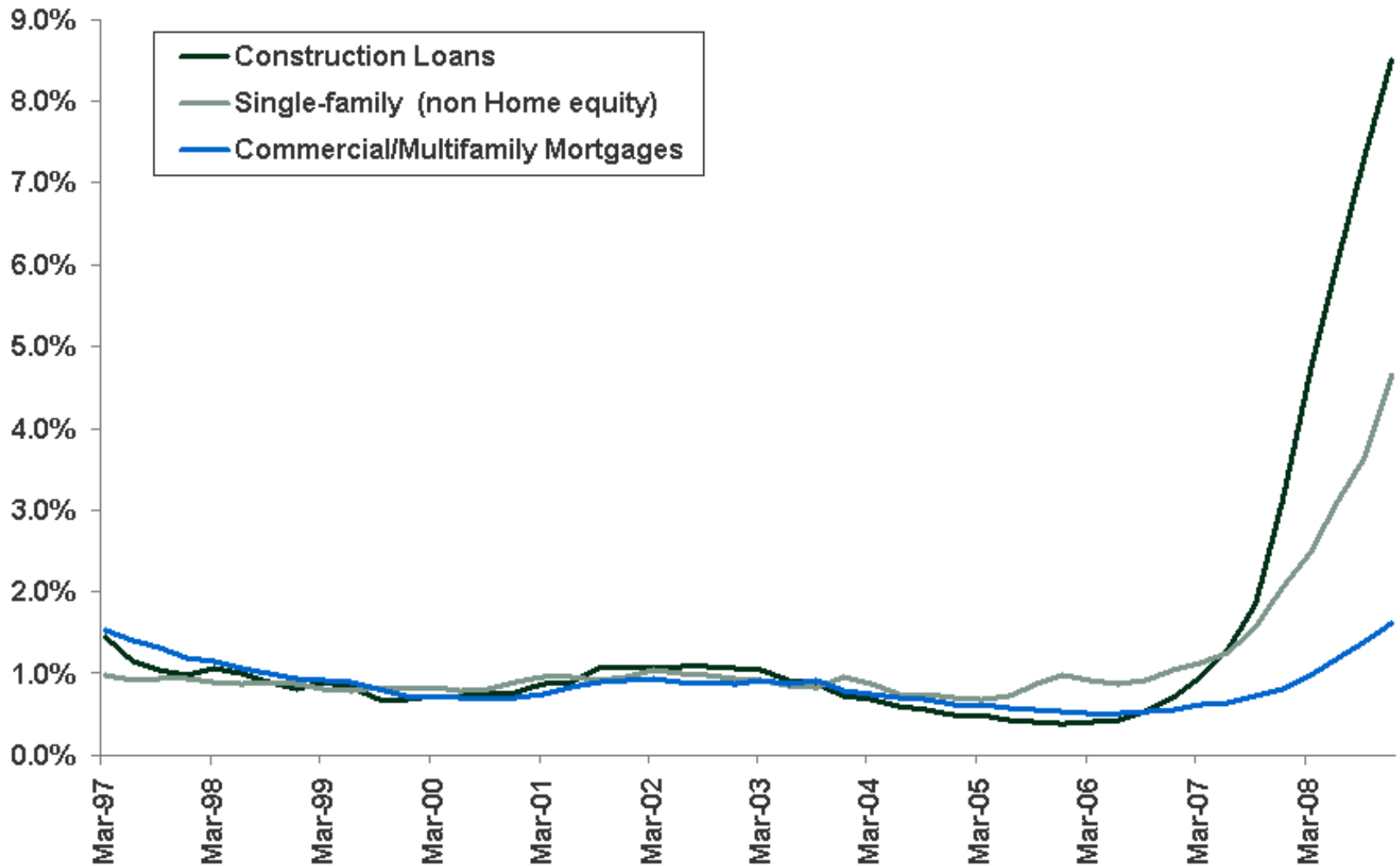
Commercial/Multifamily Mortgage Delinquency Rates Among Major Investor Groups and Single-family Delinquency Rate

NOTE: Delinquency rates shown are NOT comparable between investor groups. These rates show how performance of loans for each investor groups has varied over time, but cannot be used to compare one investor group to another.



Sources: Mortgage Bankers Association Wachovia Capital Markets, LLC and Intex Solutions, Inc., American Council of Life Insurers, Fannie Mae, Freddie Mac, OFHEO and Federal Deposit Insurance Corporation.

90+ Day Delinquency Rate on Commercial/Multifamily Mortgages, Single-family Mortgages and Construction Loans at FDIC-Insured Banks and Thrifts

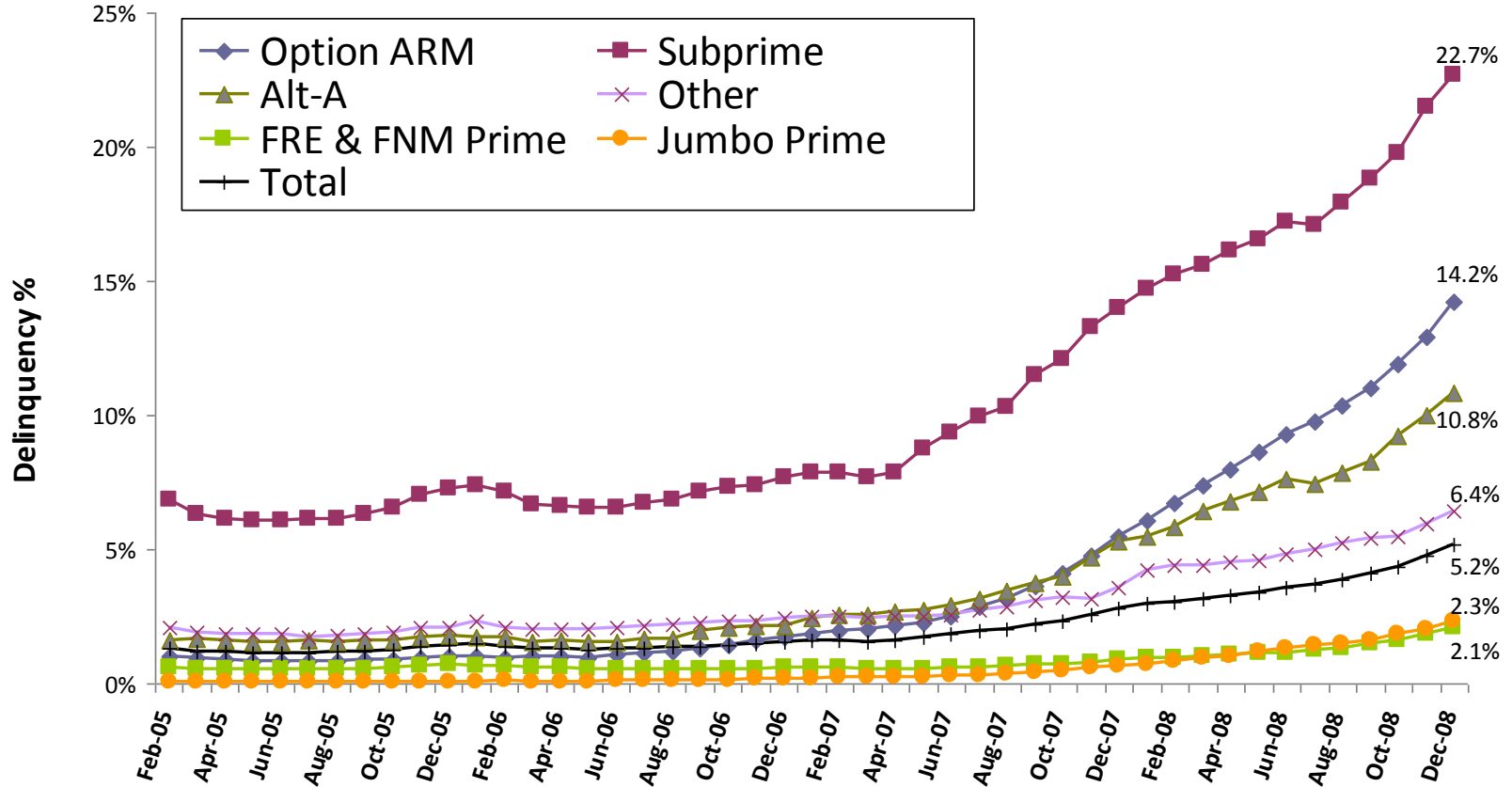


Source: Mortgage Bankers Association and FDIC

Residential loans still melting down

Loans 90 days or more delinquent or in foreclosure (percent of number)

Data as of: 12/31/08



Raising Capital - 2008

- In 2008, over \$40 billion raised for real estate.
- Of late, money raising has become much more difficult and bifurcated between:
 - Big v. small
 - Experienced v. new-comer
 - Proven winner v. mixed performance
- For private equity, some familiar names:

Top 10 Real Estate Funds Raised in 2008

Fund	Fund Manager	Size (mn)	Fund Focus
Blackstone Real Estate Partners VI	Blackstone Real Estate Advisors	10,900 USD	US
Lone Star Fund VI	Lone Star Funds	7,500 USD	US
MGP Asia Fund III	MGPA	3,900 USD	ROW
Carlyle Europe Real Estate Partners III	Carlyle Group	2,200 EUR	Europe
Lehman Brothers Real Estate Partners III	Lehman Brothers Real Estate Private Equity	3,200 USD	US
LaSalle Asia Opportunity Fund III	LaSalle Investment Management	3,000 USD	ROW
Merrill Lynch Asian Real Estate Opportunity Fund	Merrill Lynch Commercial Real Estate	2,650 USD	ROW
Lone Star Real Estate Fund I	Lone Star Funds	2,500 USD	ROW
Rockpoint Real Estate Fund III	Rockpoint Group	2,500 USD	US
Westbrook Real Estate Fund VIII	Westbrook Partners	2,500 USD	US

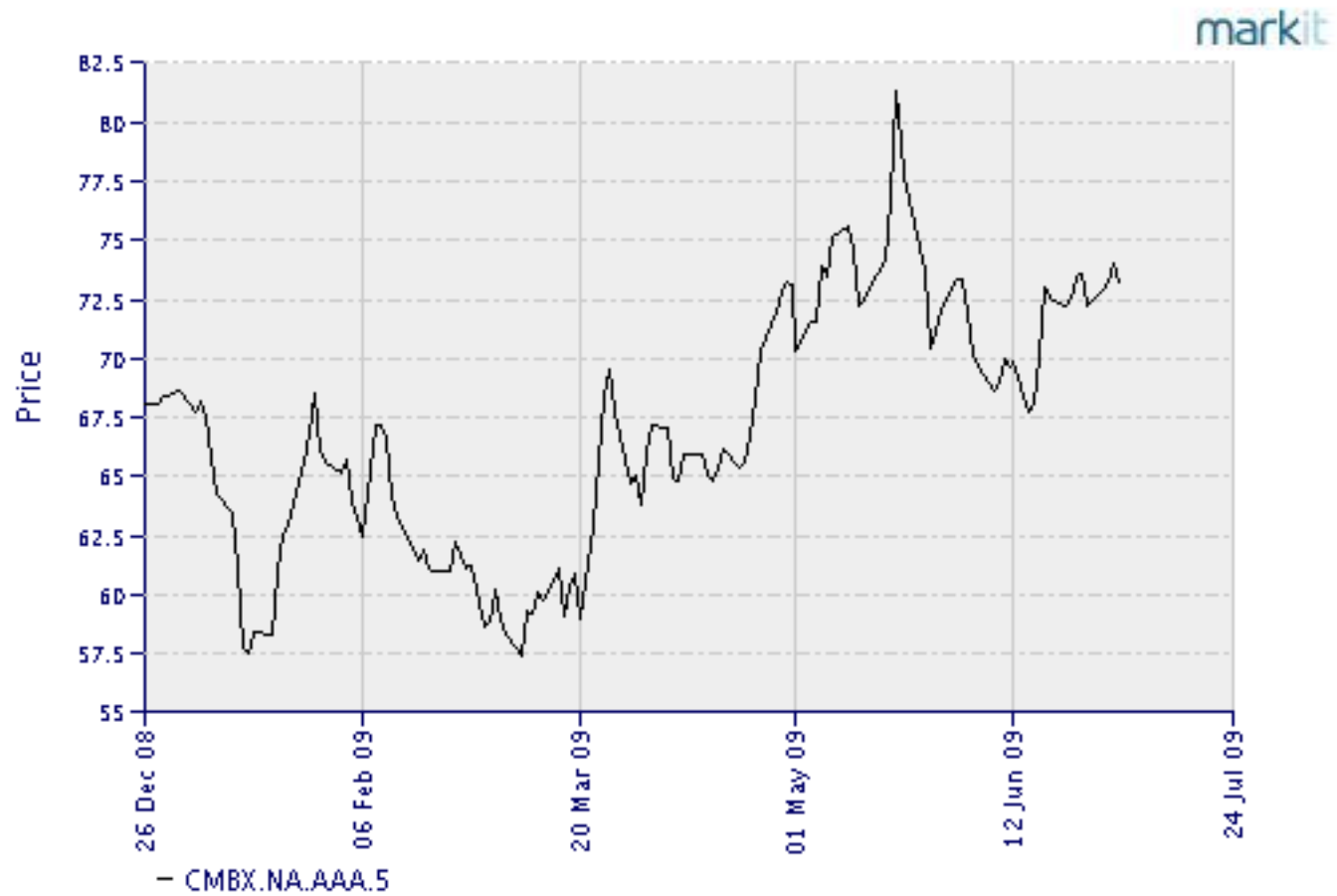
Raising Capital - 2009

- In 2009 (YTD), over \$10 billion raised for real estate.
- Fund raising has become even more difficult and still bifurcated between:
 - Big v. small
 - Experienced v. new-comer
 - Proven winner v. mixed performance
- For private equity, some **less-familiar** names:

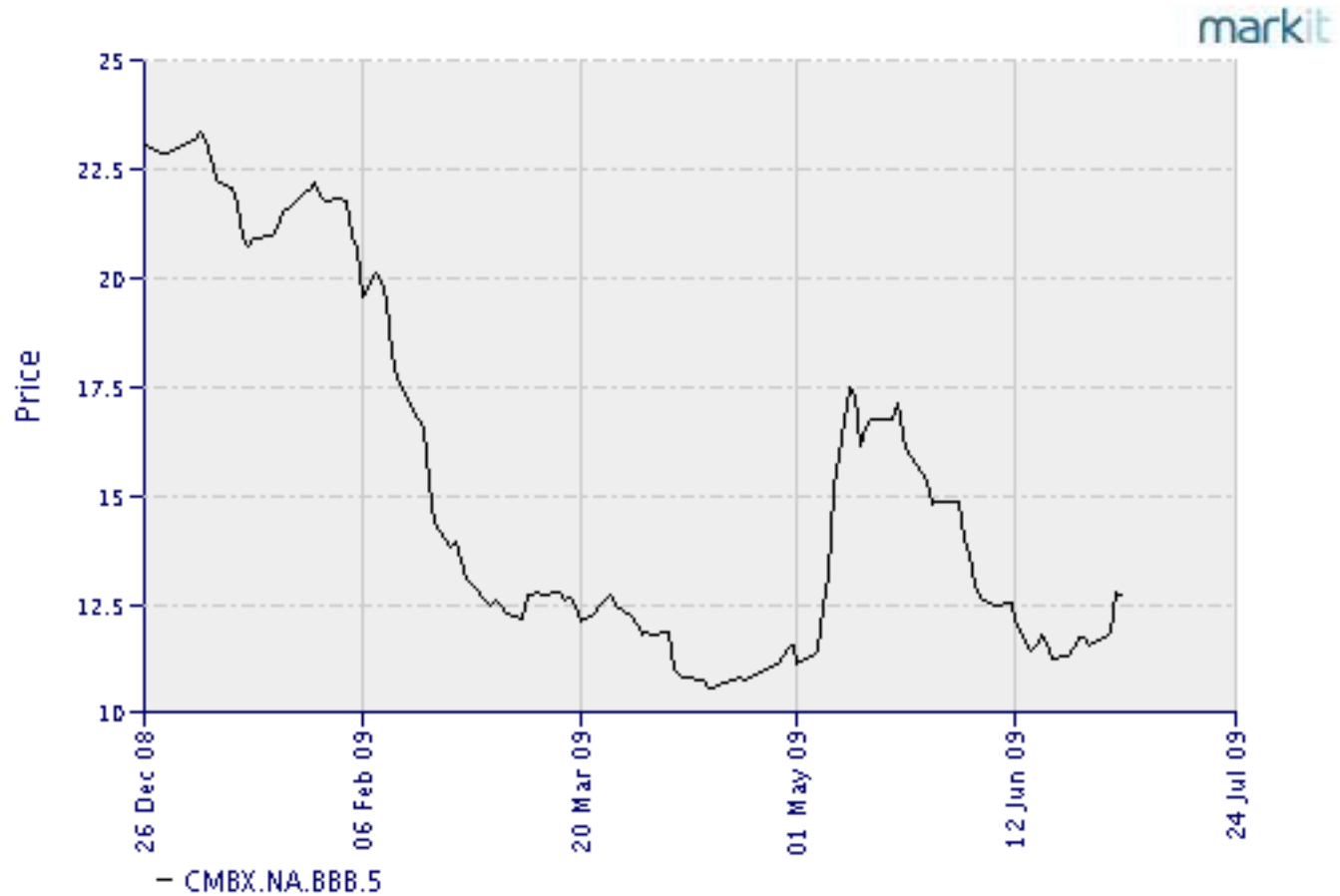
Top 10 Real Estate Funds Raised 2009 (YTD)

Fund	Firm	Amount Closed (Mn)	Fund Focus
Goldman Sachs Real Estate Mezzanine Partners	Goldman Sachs Real Estate Principal Investment Area	2,630	US
Orion European Real Estate Fund III	Orion Capital Managers	1,338	Europe
Cerberus Institutional Real Estate Partners (Series Two)	Cerberus Real Estate Capital Management	1,250	US
Stockbridge Real Estate Fund III	Stockbridge Capital Partners	1,150	US
DLJ Real Estate Capital Partners IV	DLJ Real Estate Capital Partners	1,100	US
Rockwood Capital Real Estate Partners Fund VIII	Rockwood Capital	964	US
daVinci Japan Real Estate Partners V	KK DaVinci Advisors	822	ROW
Square Mile Partners III	Square Mile Capital Management	806	US
KTR Industrial Fund II	KTR Capital Partners	700	US
Benson Elliot Real Estate Partners III	Benson Elliot Capital Management	682	Europe

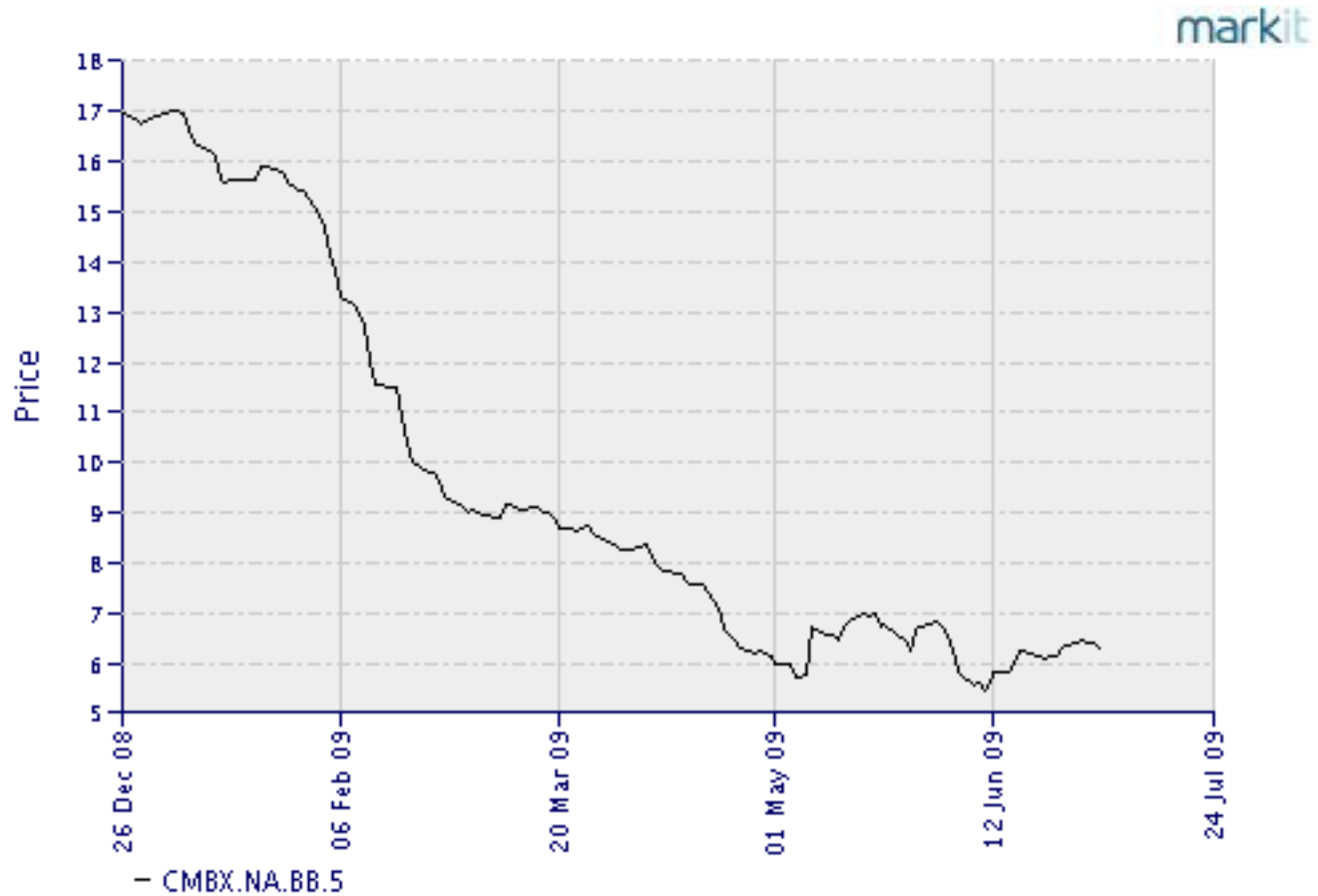
Good news from CMBX



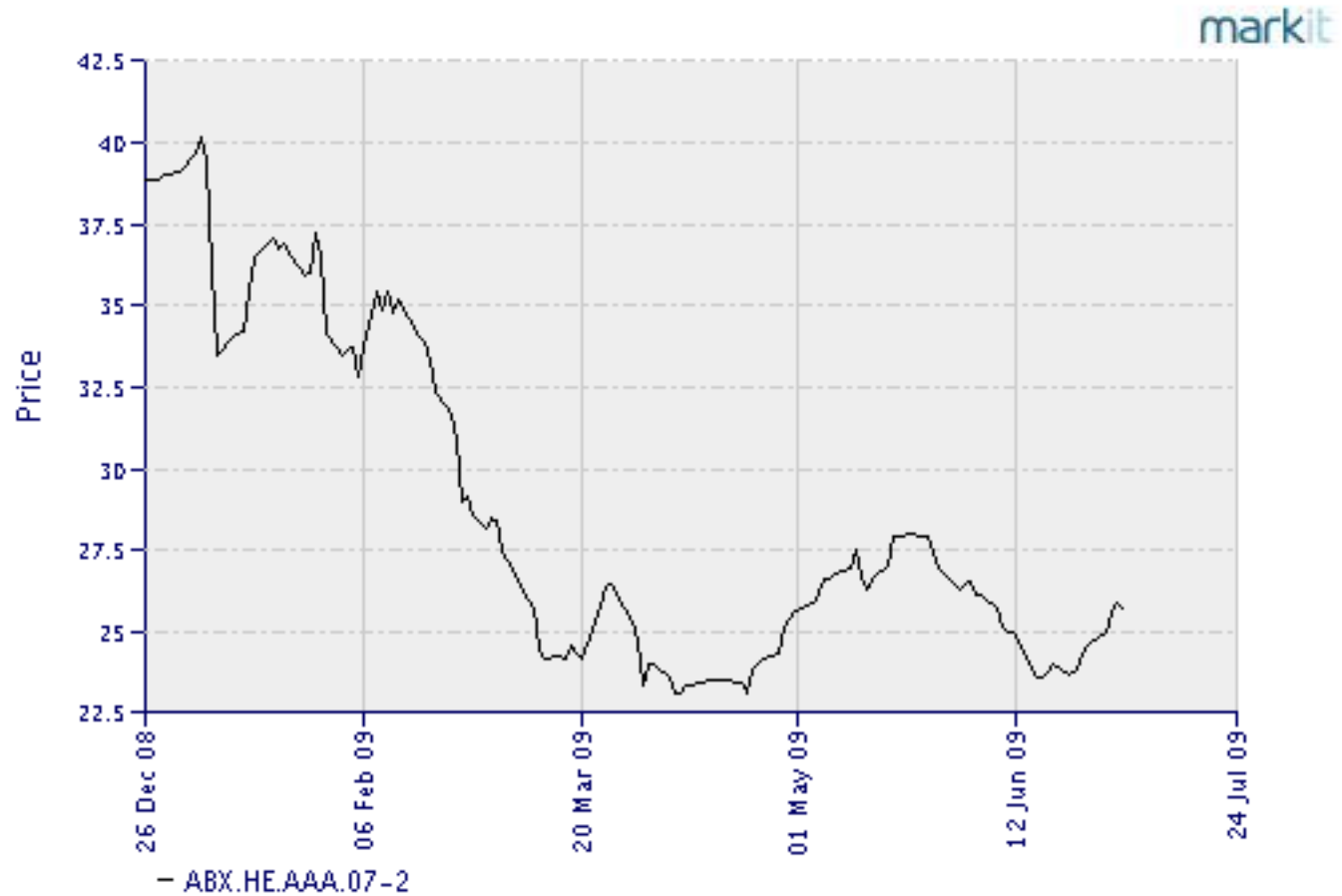
BBB-rated CMBX still struggling



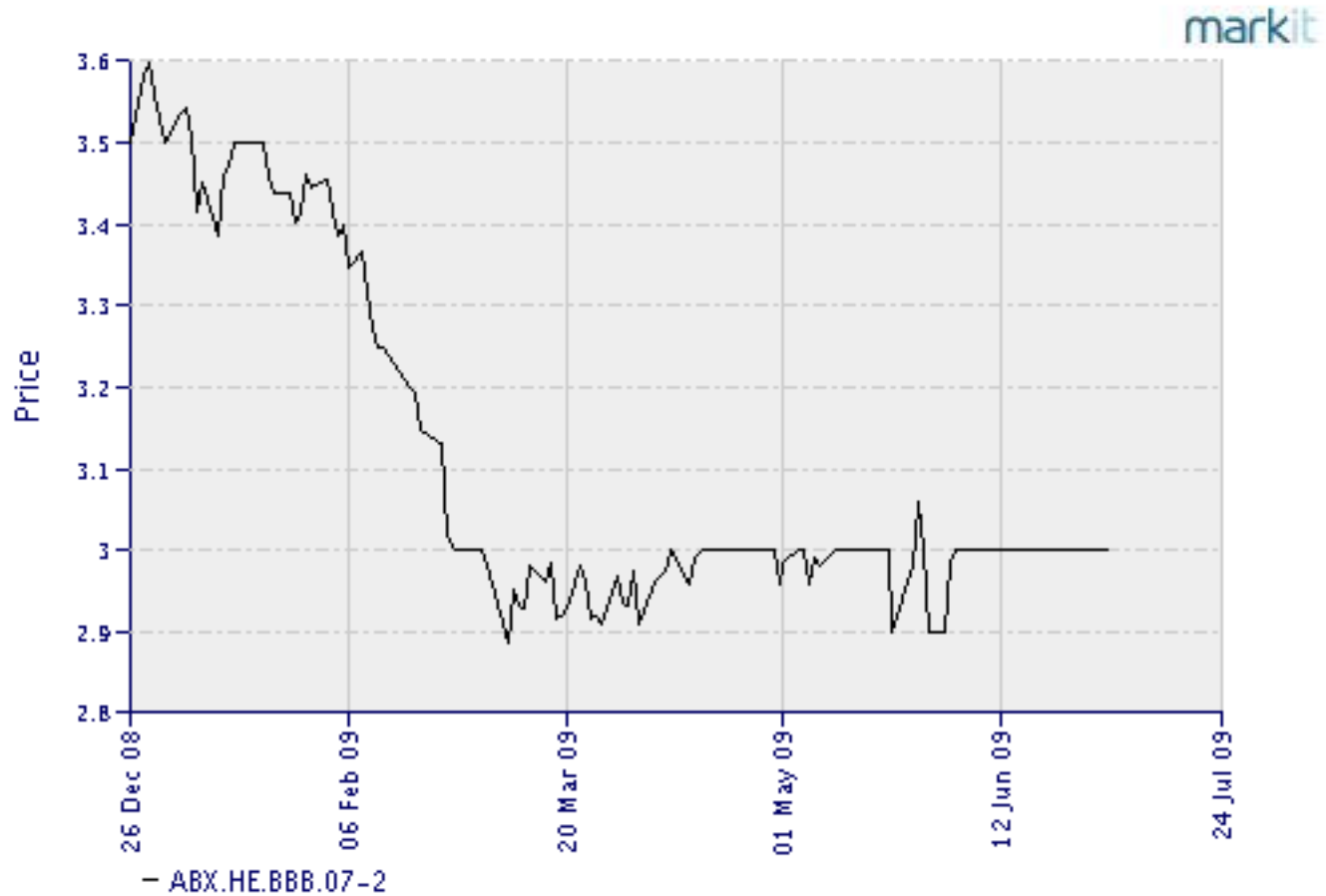
BB CMBX – gliding along near 6-7



Compared to ABX (HELs, CDS) -- AAA

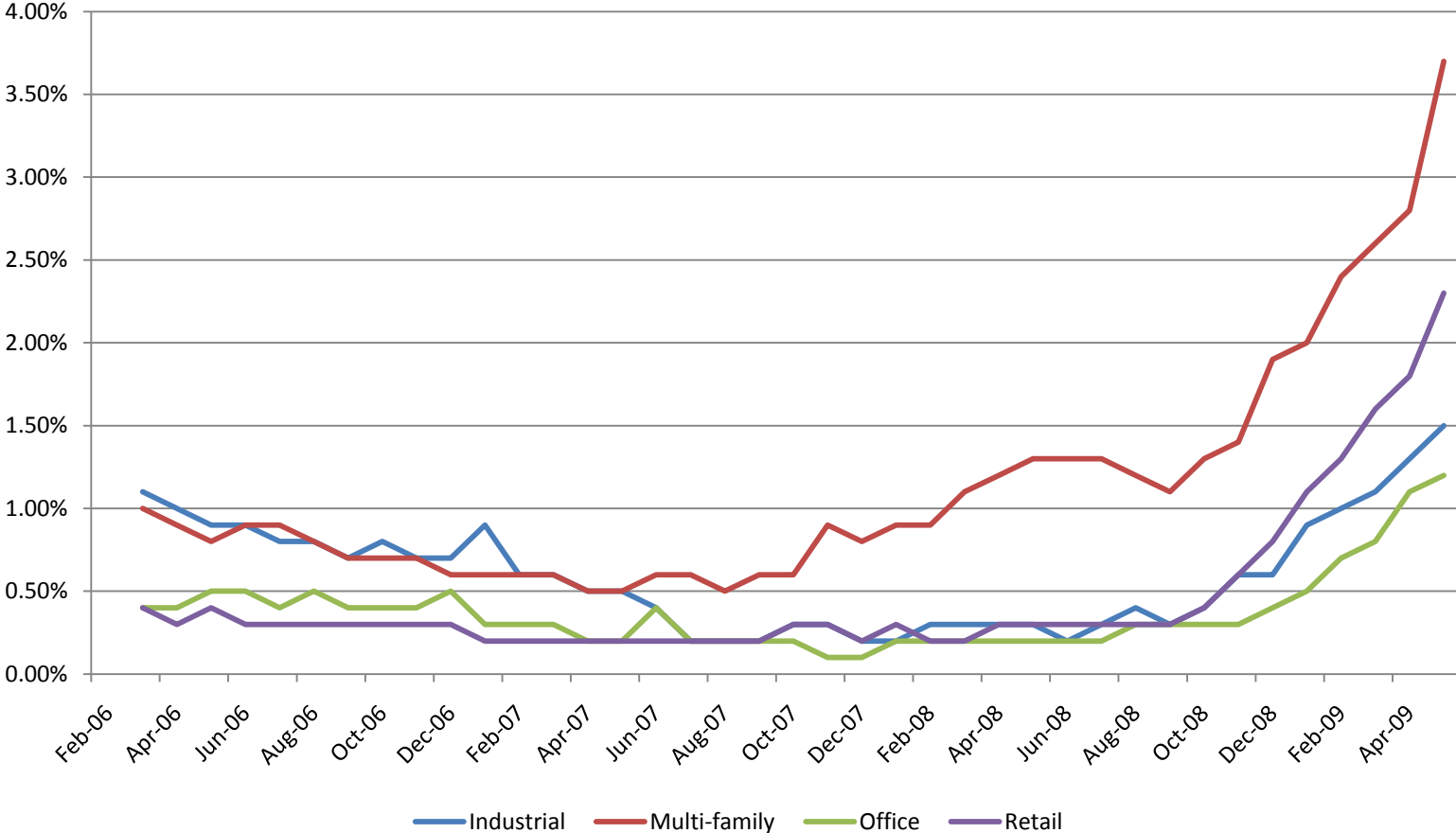


BBB ABX is deadsville



The reason why

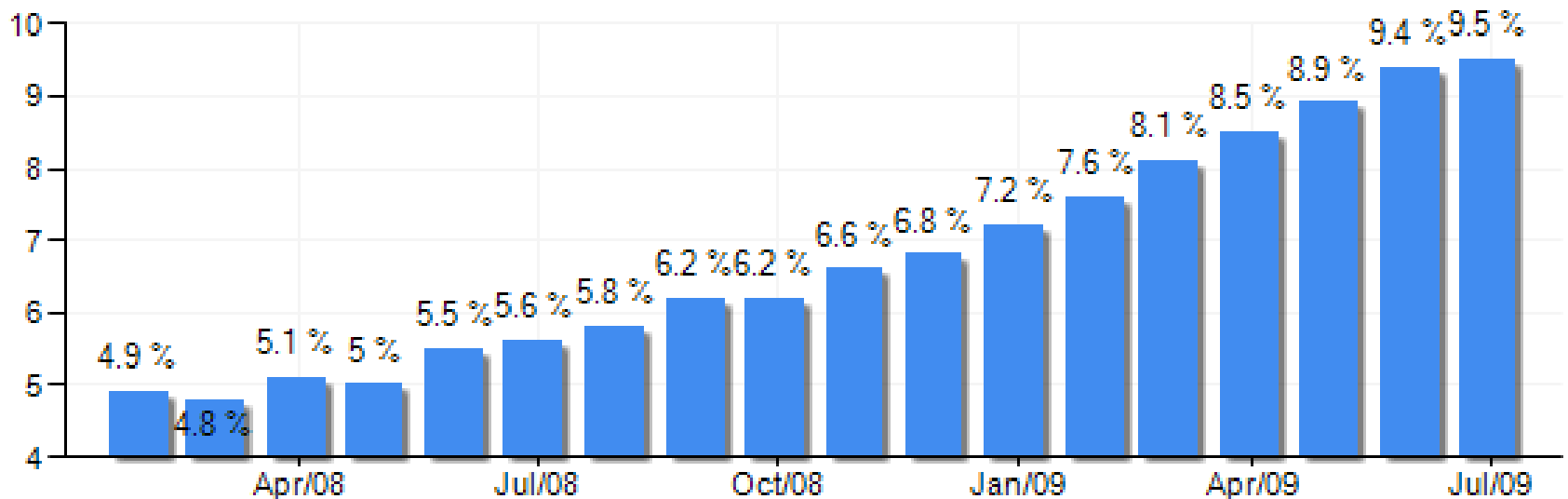
Serious Delinquency Rates



Unemployment: will it stabilize soon?

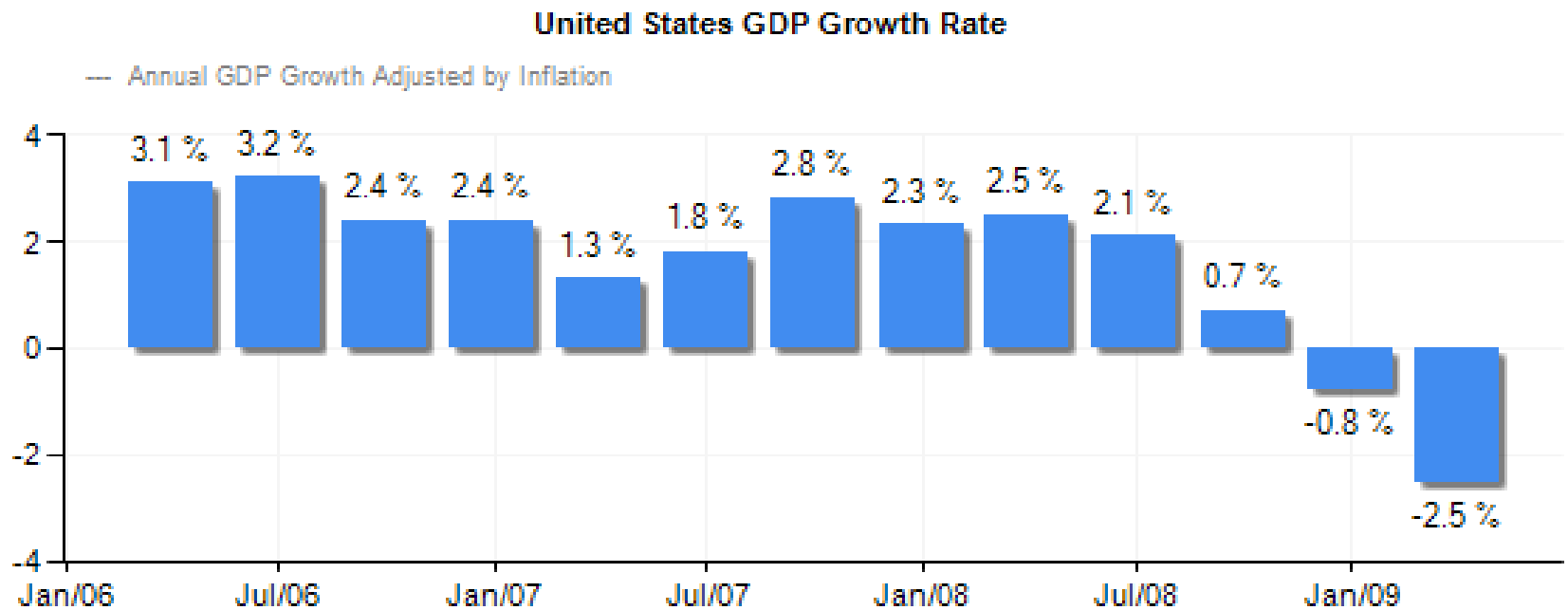
United States Unemployment Rate

— Percentage of the Labor Force



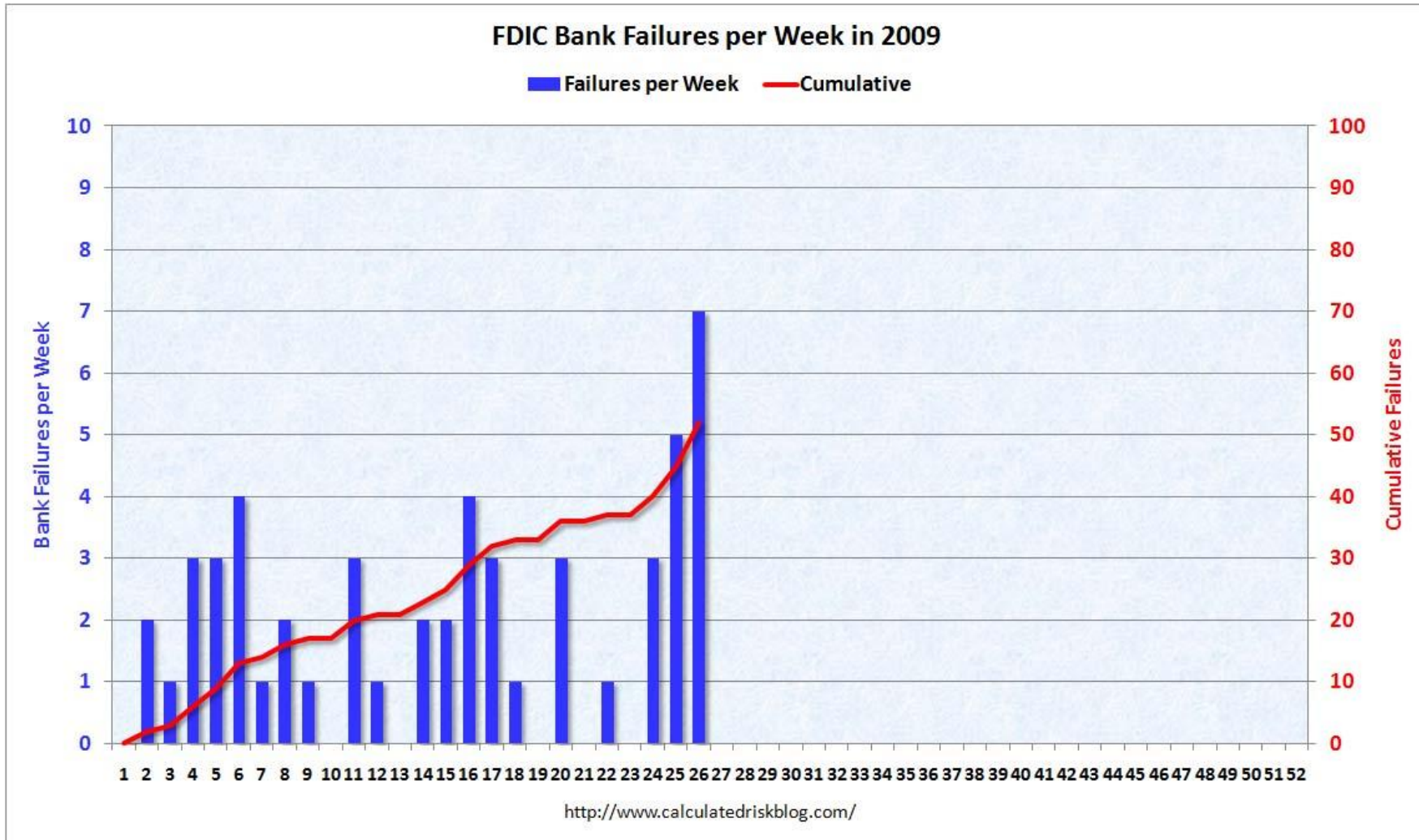
source: Bureau of Labor Statistics

Or when will GDP turn positive?

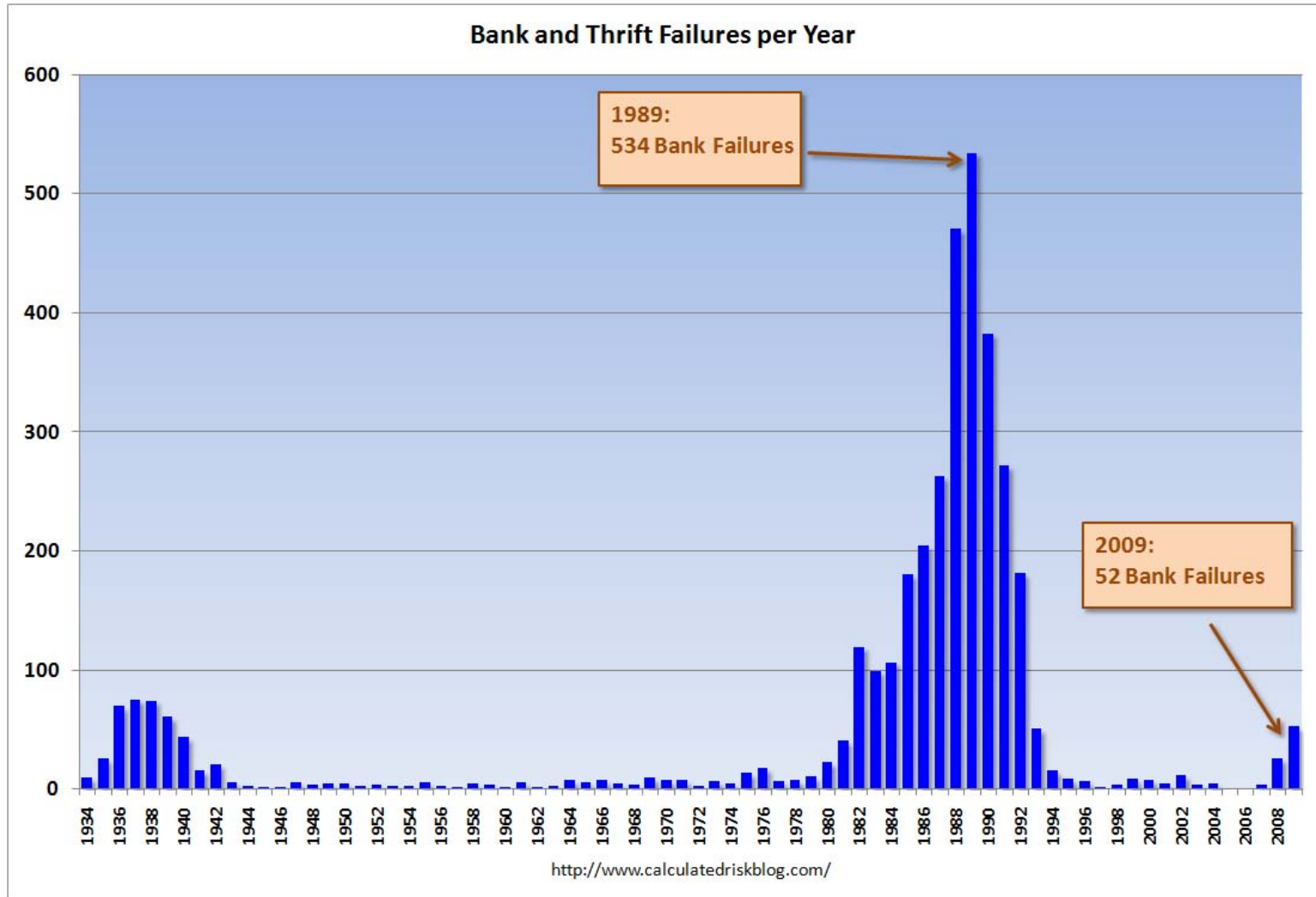


source: Bureau of Economic Analysis

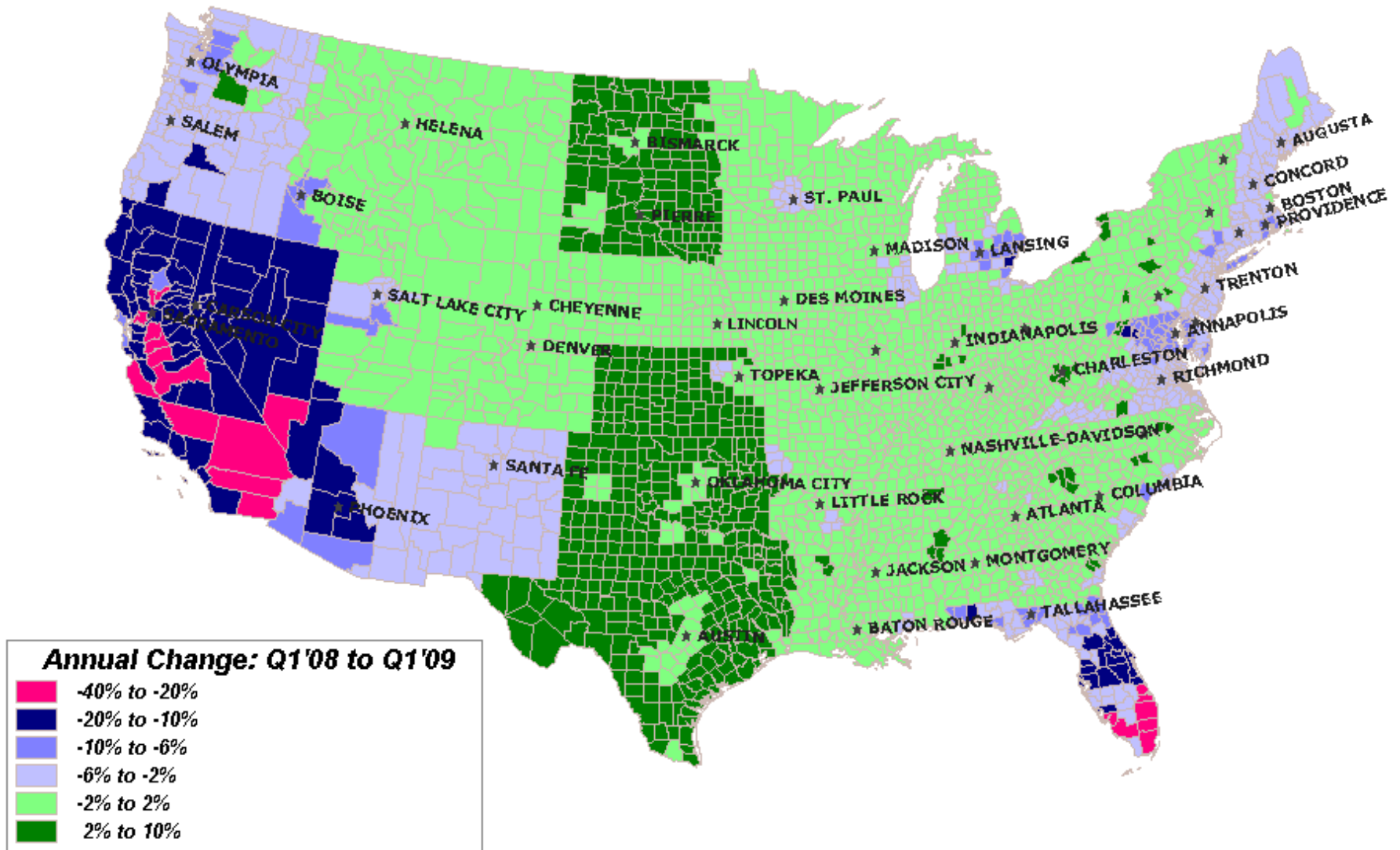
Bank failures must slow down



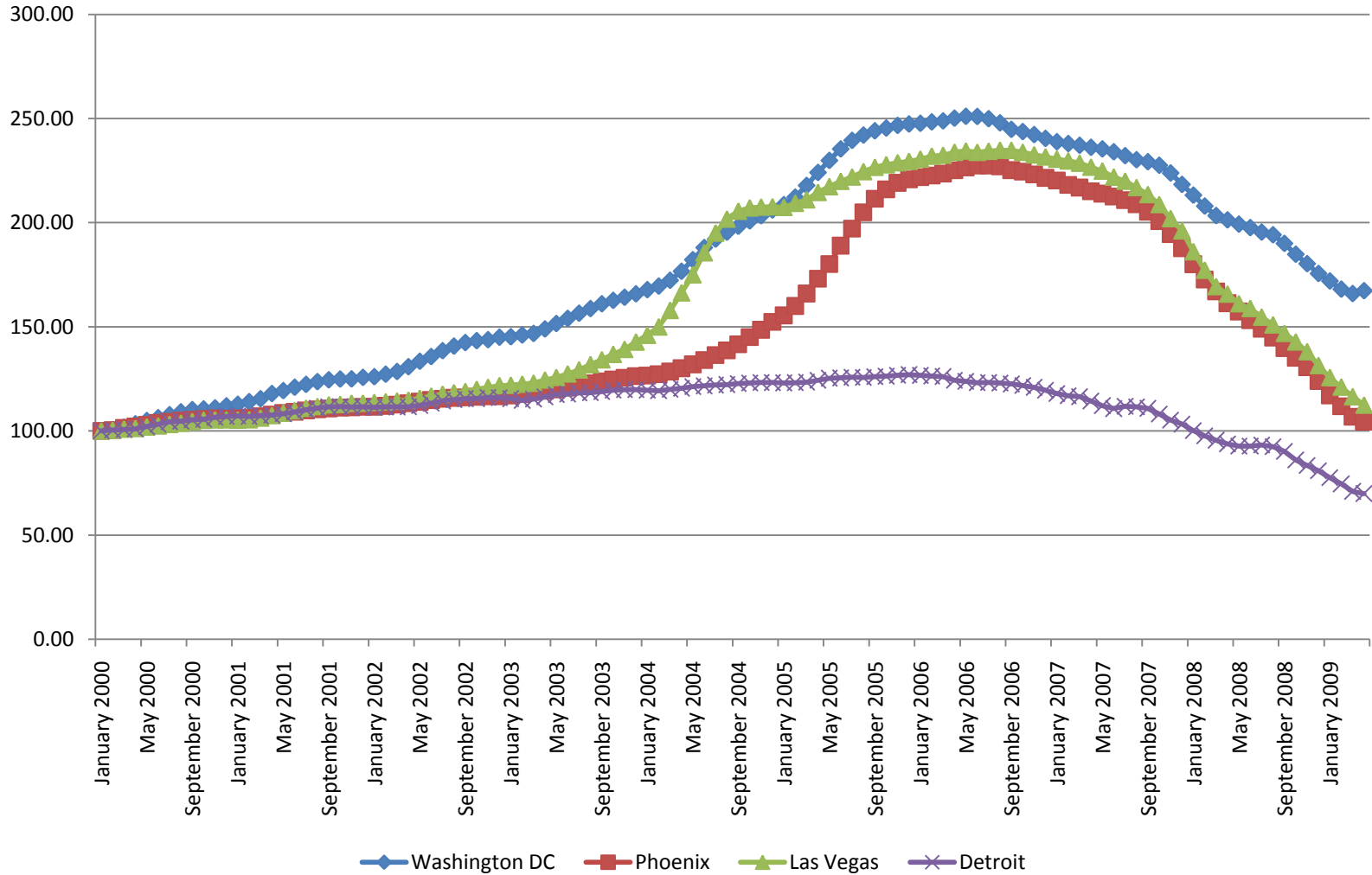
However, much better than 1989!



Over The Past Year Some Areas Have Seen Priced Declines of Up to 40 Percent



Lastly, Case-Shiller House Price Indices



Finale

- Questions?
- Thank you!