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# The Fall of our Discontent

Macro-Market Analysis  
Presented to UW CRE 2011

by

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October 13, 2011

# Overview

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- Respondent Profile
- Market Timing
  
- Part I: Economic Outlook
- Part II: Capital Market Overview
- Part III: Real Estate Market Outlook
- Part IV: Challenges, Issues and Opportunities

# Careers: Past & Future

1. Please indicate your NAIOP Forum. I will use this to cross-tab the results to see how you compare to the other Forum responses.

[Create Chart](#) [Download](#)

		Response Percent	Response Count
Office Development II		17.1%	7
Marketing & Leasing		19.5%	8
<b>UW</b>		<b>61.0%</b>	<b>25</b>
Other (please specify) <a href="#">Show Responses</a>		2.4%	1

## 2. Career plans.

[Download](#)

How many more years do you think you will be active in the real estate industry?

	Under 5 years	5-7 years	8-10 years	11-15 years	16-20 years	20-25 years	26-30 years	31-35 years	36-40 years	Over 40 years	Response Count
Let's talk about your future career plans and how they may have changed.	0.0% (0)	2.4% (1)	4.8% (2)	16.7% (7)	26.2% (11)	11.9% (5)	9.5% (4)	2.4% (1)	7.1% (3)	19.0% (8)	42

How have your retirement plans changed recently (i.e., # years shorter or longer) due to recent events.

	-10 years	-5 years	-2 years	No change	+2 years	+5 years	+10 years	Response Count
Let's talk about your future career plans and how they may have changed.	0.0% (0)	0.0% (0)	2.4% (1)	68.3% (28)	4.9% (2)	24.4% (10)	0.0% (0)	41

# Market Timing

Economy														
	It already has	4th Quarter 2010	1st Quarter 2011	2nd Quarter 2011	3rd Quarter 2011	4th Quarter 2011	1st Quarter 2012	2nd Quarter 2012	3rd Quarter 2012	4th Quarter 2012	1st Quarter 2013	2nd Quarter 2013	3rd Quarter 2013	4th Quarter 2013
National Market	33.3% (11)	3.0% (1)	0.0% (0)	0.0% (0)	3.0% (1)	0.0% (0)	12.1% (4)	3.0% (1)	6.1% (2)	12.1% (4)	9.1% (3)	6.1% (2)	3.0% (1)	0.0% (0)
Housing Market														
	It already has	4th Quarter 2010	1st Quarter 2011	2nd Quarter 2011	3rd Quarter 2011	4th Quarter 2011	1st Quarter 2012	2nd Quarter 2012	3rd Quarter 2012	4th Quarter 2012	1st Quarter 2013	2nd Quarter 2013	3rd Quarter 2013	4th Quarter 2013
National Market	18.2% (6)	3.0% (1)	3.0% (1)	3.0% (1)	0.0% (0)	6.1% (2)	3.0% (1)	3.0% (1)	3.0% (1)	15.2% (5)	9.1% (3)	6.1% (2)	6.1% (2)	3.0% (1)
Commercial RE Market														
	It already has	4th Quarter 2010	1st Quarter 2011	2nd Quarter 2011	3rd Quarter 2011	4th Quarter 2011	1st Quarter 2012	2nd Quarter 2012	3rd Quarter 2012	4th Quarter 2012	1st Quarter 2013	2nd Quarter 2013	3rd Quarter 2013	4th Quarter 2013
National Market	27.3% (9)	6.1% (2)	0.0% (0)	3.0% (1)	3.0% (1)	0.0% (0)	9.1% (3)	0.0% (0)	6.1% (2)	12.1% (4)	9.1% (3)	6.1% (2)	3.0% (1)	3.0% (1)

# Part I: Economic Environment for Real Estate

## 2010 Outlook

- Recession over; slow recovery; some downside risk
- Big businesses okay, Small struggling, stock market up
- Consumers guarded; CEOs hopeful

## 2011 Outlook

- Recession really over? slow recovery; some downside risk
- Big business bragging profits up; small business lagging.....
- Consumers wanna do it; CEOs hopeful

## 2012 Outlook

- Double-dip? Slow recovery at best; more downside risk
- Big business balance sheets okay; small business slipping.....
- Consumer discontent; CEOs defensive

# Agree/Disagree on Economy

POLITICS | OCTOBER 13, 2011

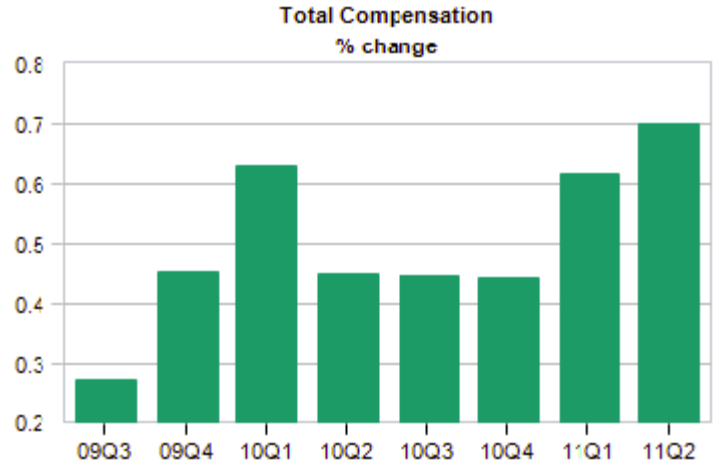
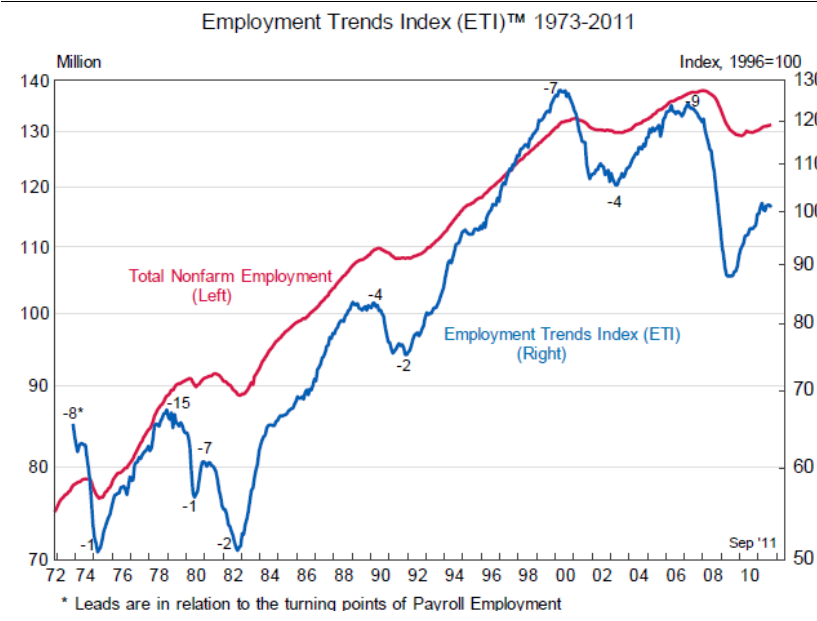
## Country Is Headed in Wrong Direction, 74% Say

WSJ/NBC

	Strongly Agree	Agree	Neither	Disagree	Strongly Disagree	Response Count
The economy is recovering and we will avoid a double dip.	0.0% (0)	38.2% (13)	20.6% (7)	35.3% (12)	5.9% (2)	34
Inflation will not be a concern over the next 2 years.	0.0% (0)	50.0% (17)	14.7% (5)	32.4% (11)	2.9% (1)	34
Employment gains will accelerate by year-end.	0.0% (0)	8.8% (3)	26.5% (9)	64.7% (22)	0.0% (0)	34
GDP growth will rebound in 2012.	0.0% (0)	41.2% (14)	23.5% (8)	35.3% (12)	0.0% (0)	34
Consumer confidence will rebound in the near future.	0.0% (0)	11.8% (4)	32.4% (11)	55.9% (19)	0.0% (0)	34
The manufacturing slump will continue well into the year.	2.9% (1)	52.9% (18)	32.4% (11)	8.8% (3)	2.9% (1)	34
The economic recovery will be very gradual.	52.9% (18)	47.1% (16)	0.0% (0)	0.0% (0)	0.0% (0)	34
Interest rates will remain low.	11.8% (4)	82.4% (28)	0.0% (0)	5.9% (2)	0.0% (0)	34
The credit markets will return to normal in the next 6 months.	0.0% (0)	0.0% (0)	9.1% (3)	72.7% (24)	18.2% (6)	33
Corporate profits will continue	14.7% (5)	64.7%	8.8% (3)	11.8% (4)	0.0% (0)	34

Some 21% in the new survey said they believed the economy would get better in the next 12 months, compared with 32% who said it would get worse. Some 45% said it would stay the same.

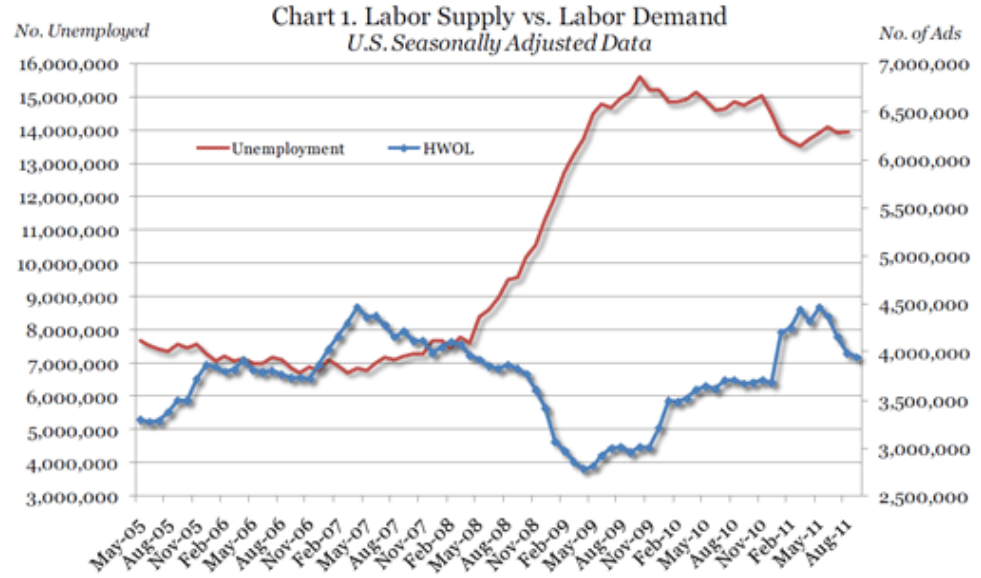
# Employment Trends Index



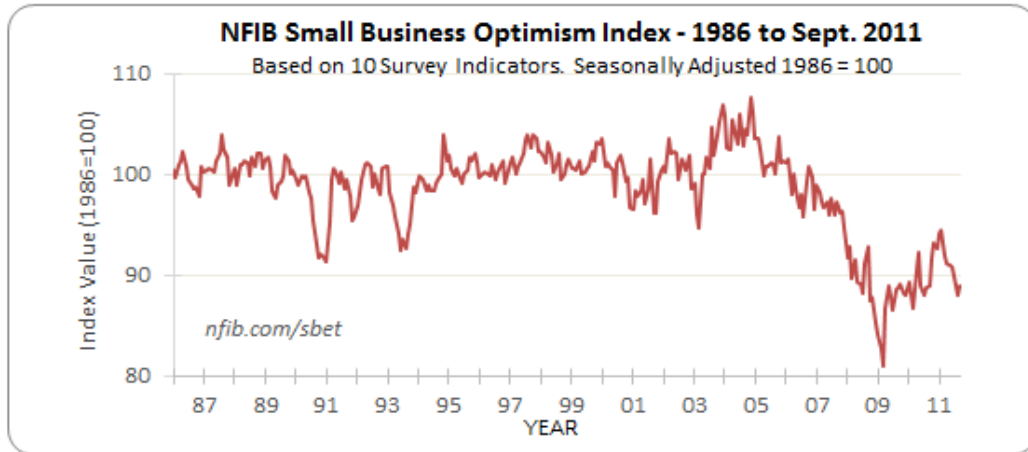
## Labor Supply vs. Demand: Unemployment and Openings

**Bloomberg**

### U.S. Senate Shelves Obama's \$447B Job Plan



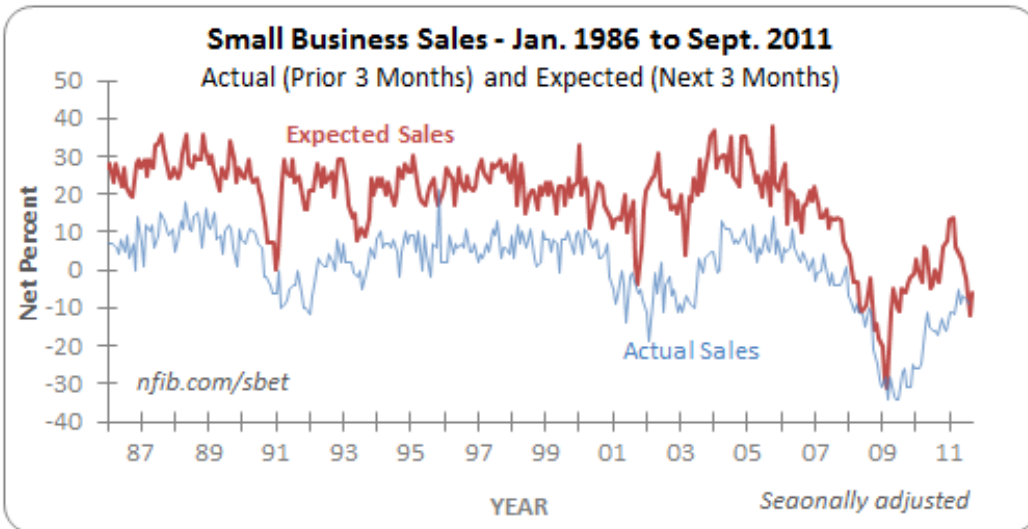
# Small Business Confidence: Where the Jobs Aren't



**Small Business Optimism Index - NFIB**

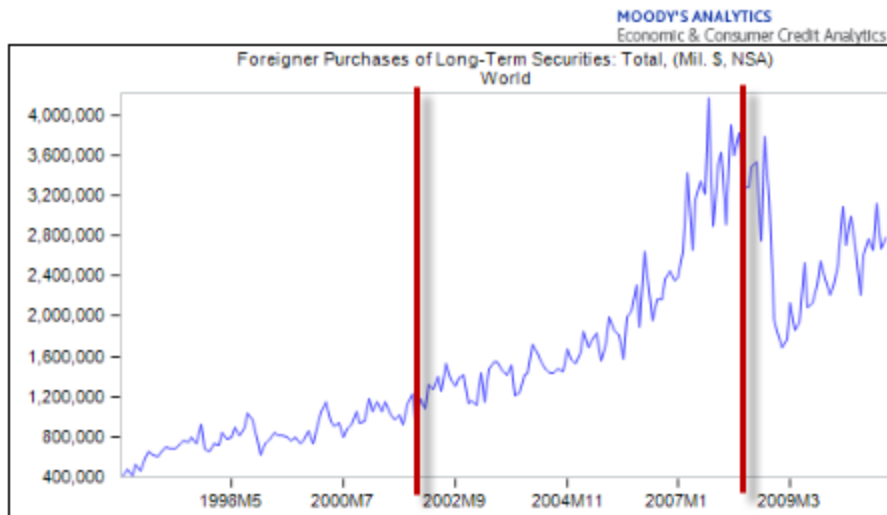
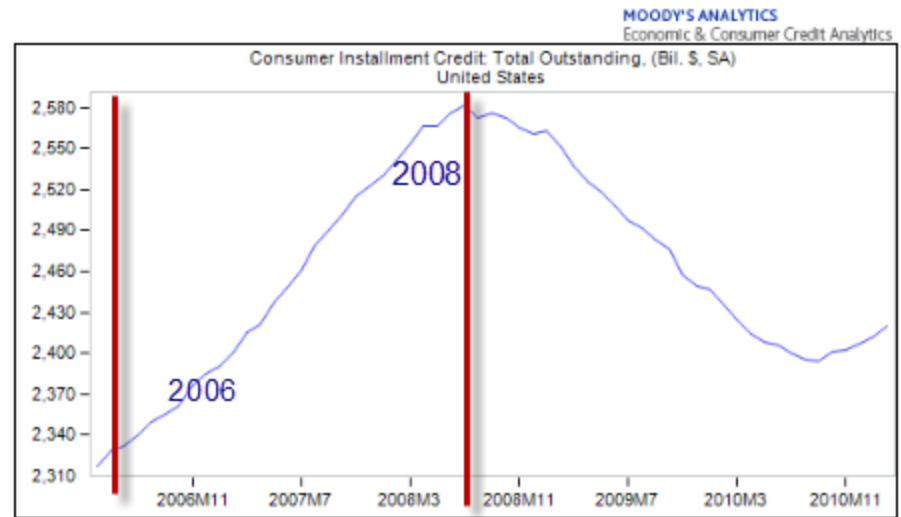
Index Component	Change from Last Month
Plans to Increase Employment	▼ -1
Plans to Make Capital Outlays	▼ -1
Plans to Increase Inventories	▲ 3
Expect Economy to Improve	▲ 4
Expect Real Sales Higher	▲ 6
Current Inventory	▼ -2
Current Job Openings	▼ -1
Expected Credit Conditions	▲ 1
Now a Good Time to Expand	▲ 1
Earnings Trend	▼ -1
<b>Total Change</b>	<b>▲ 9</b>

*nfib.com/sbet*

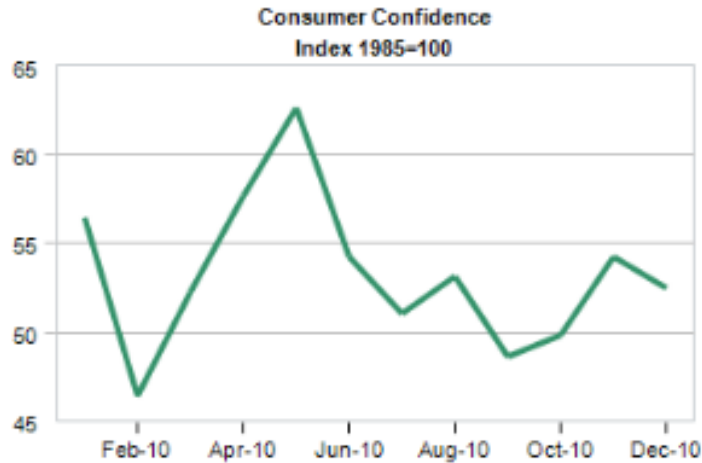


Sales vs. Credit  
is driving  
confidence for  
small business

# Credit: Consumer & Foreign

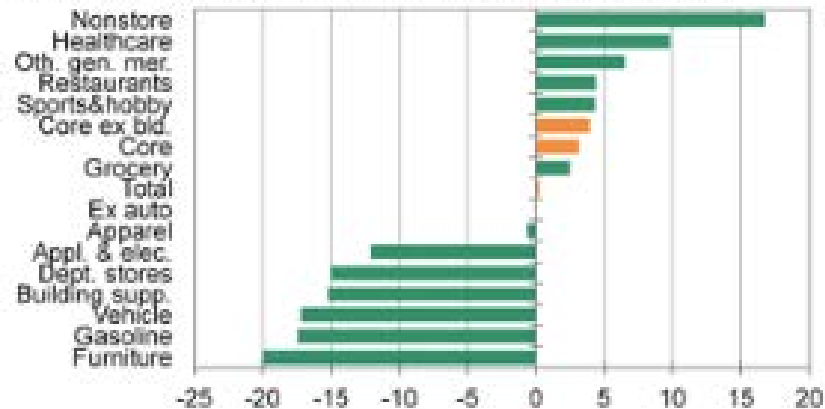


# Consumer Confidence

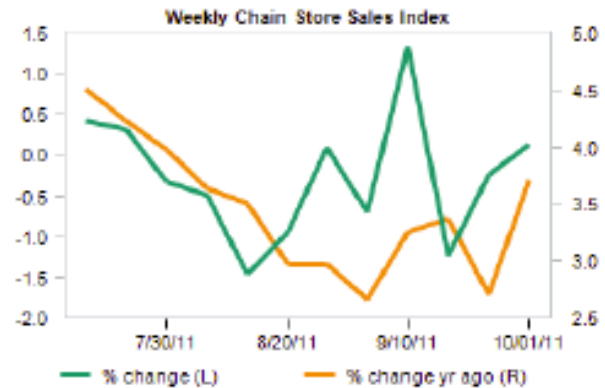


## Recovery Incomplete for Some Segments

Retail sales, % change from prerecession peak, December

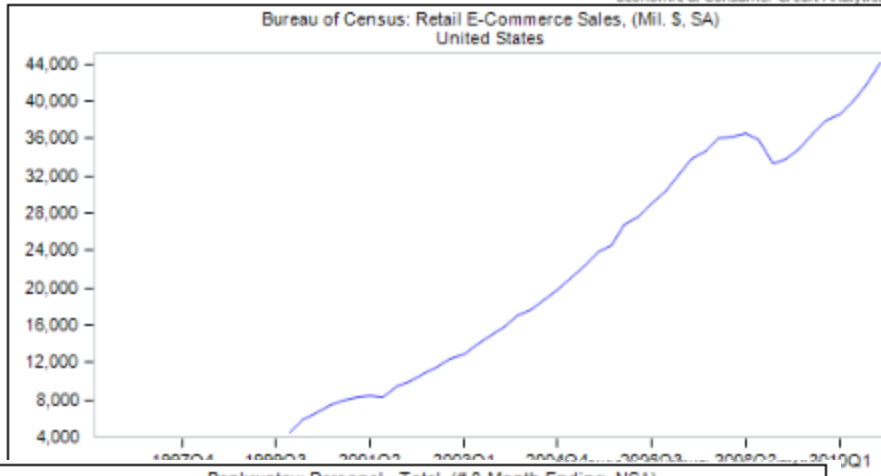


Source: Census Bureau

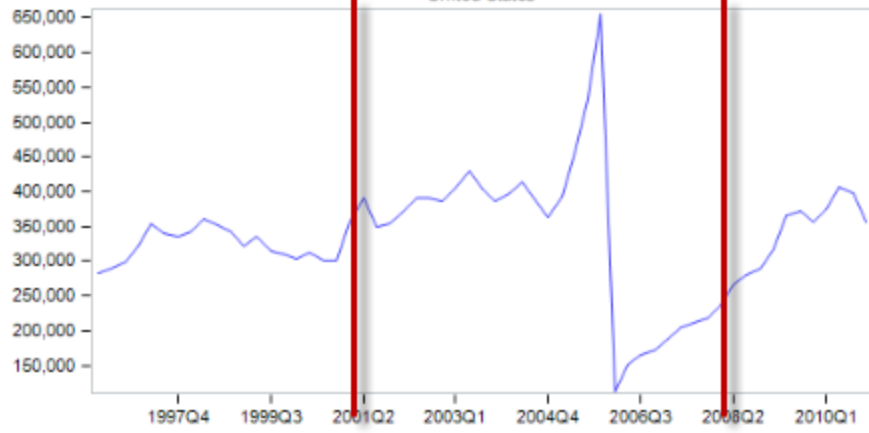


# Retail Sales

MOODY'S ANALYTICS  
Economic & Consumer Credit Analytics



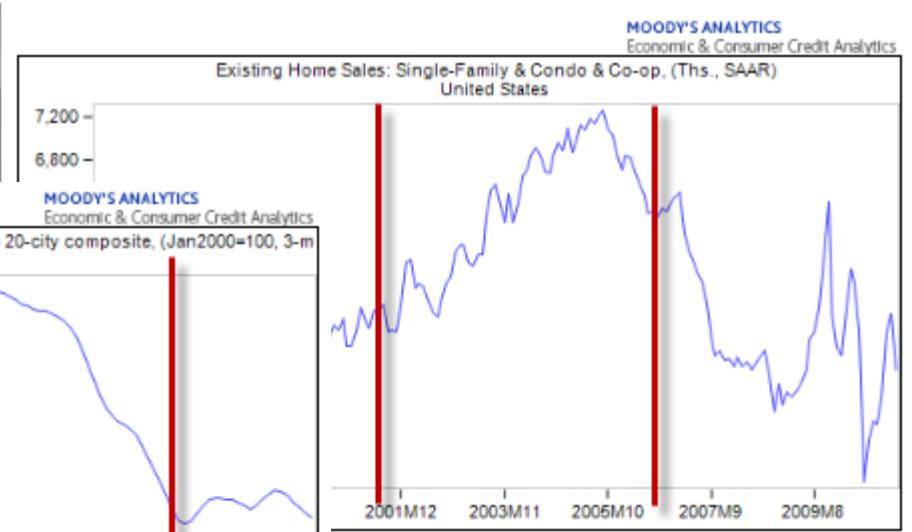
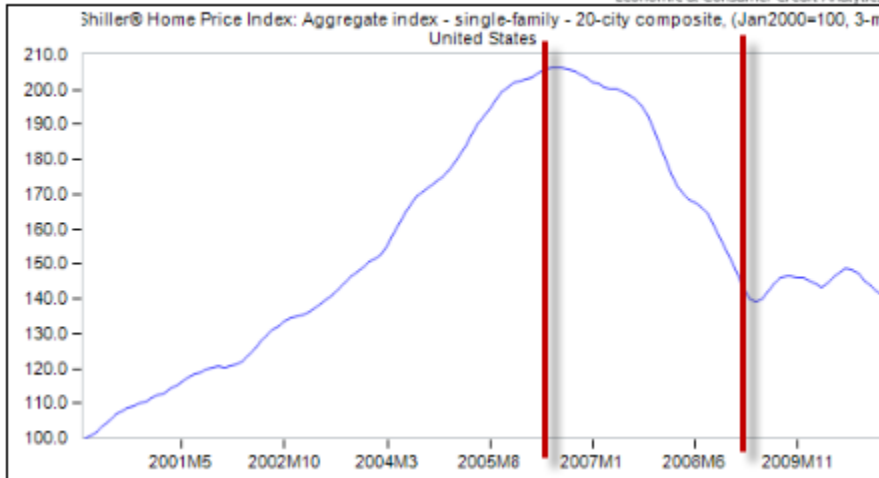
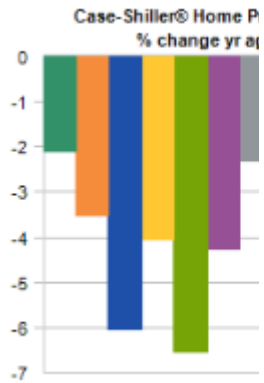
Bankruptcy: Personal - Total, (# 3-Month Ending, NSA)  
United States



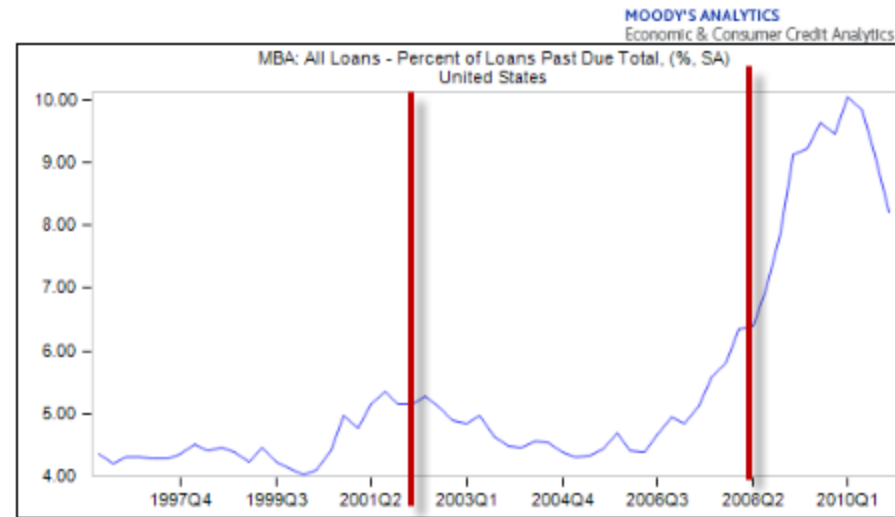
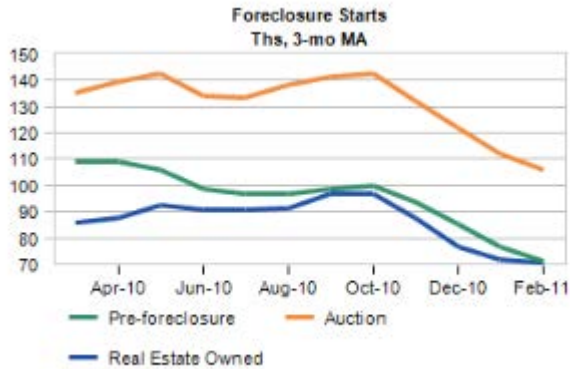
MOODY'S ANALYTICS  
Economic & Consumer Credit Analytics



# Housing



April 1, 2011



Source: RealtyTrac

# What's the Fed to Do (what's left?)

ECONOMY | SEPTEMBER 22, 2011

## Fed Launches New Stimulus

*Dramatic Recasting of Securities Holdings Aims to Reduce Long-Term Rates*

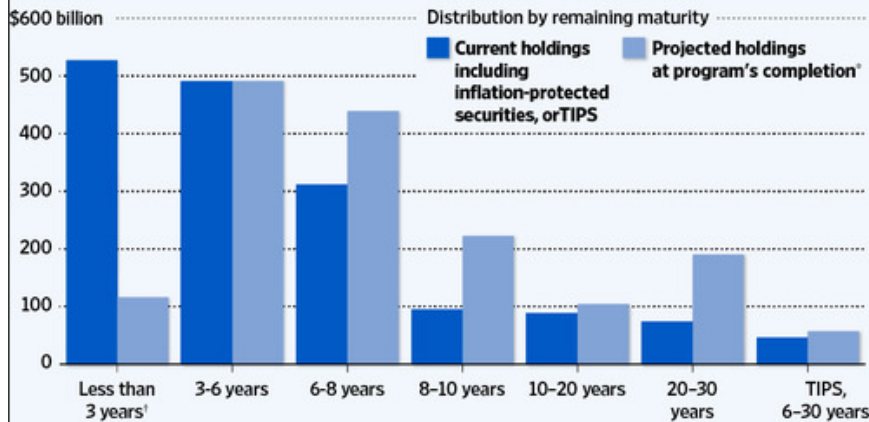
... the Fed will sell \$400 billion in Treasury securities that mature within three years and reinvest the proceeds into securities that mature in six to 30 years, significantly tilting the balance of its holdings toward long-term securities.

### The Latest Step

The Federal Reserve will be selling bonds with a remaining maturity of three months to three years and adding to its holdings of bonds with a remaining maturity of six to 30 years in an attempt to push down yields on longer-term bonds and encourage borrowing.

### The Fed goes long(er)

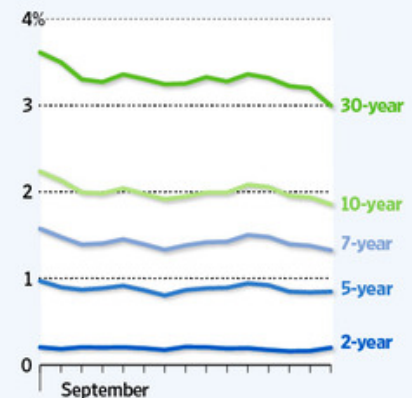
What the Fed's portfolio of Treasury holdings might look like nine months from Wednesday\*



\*Doesn't take into account rollovers of maturing debt or how the natural maturing of debt would change the distribution. <sup>1</sup>Excludes Treasury bills. Source: WSJ estimates based on Federal Reserve Bank of New York data and published statements; Thomson Reuters (yields)

### Bond-market reaction

Yields on Treasuries since August



SEPTEMBER 21, 2011, 5:34 PM ET

## Economists React: Fed Is 'Doing What It Can'

# Importance to Economic Recovery

	Extremely Important	Important	Neither	Unimportant	Extremely Unimportant	Response Count
Ending the political rancor in Washington.	58.8% (20)	35.3% (12)	2.9% (1)	2.9% (1)	0.0% (0)	34
Maintaining or low interest rates.	11.8% (4)	73.5% (25)	14.7% (5)	0.0% (0)	0.0% (0)	34
Improving access to credit for businesses.	38.2% (13)	52.9% (18)	8.8% (3)	0.0% (0)	0.0% (0)	34
Creating strong job growth through various programs.	26.5% (9)	47.1% (16)	8.8% (3)	8.8% (3)	8.8% (3)	34
Resolving the budget problem.	17.6% (6)	61.8% (21)	17.6% (6)	2.9% (1)	0.0% (0)	34
Improving consumer confidence levels.	32.4% (11)	64.7% (22)	2.9% (1)	0.0% (0)	0.0% (0)	34
Helping settle the "Occupy Wall Street" movement.	5.9% (2)	8.8% (3)	23.5% (8)	35.3% (12)	26.5% (9)	34
Resolving the debt crisis in Europe.	35.3% (12)	47.1% (16)	17.6% (6)	0.0% (0)	0.0% (0)	34
Introducing incentives for businesses to hire employees.	5.9% (2)	35.3% (12)	29.4% (10)	20.6% (7)	8.8% (3)	34
Continuing to attract offshore capital flows to the U.S.	14.7% (5)	55.9% (19)	23.5% (8)	5.9% (2)	0.0% (0)	34

# Part II: Real Estate Capital Markets

## 2010 Capital Market

- Tentative, waiting to pounce, new players & rules
- Rising Cap rates, declining values de-capitalizing
- Challenges re-levering; credit crunch for asset class

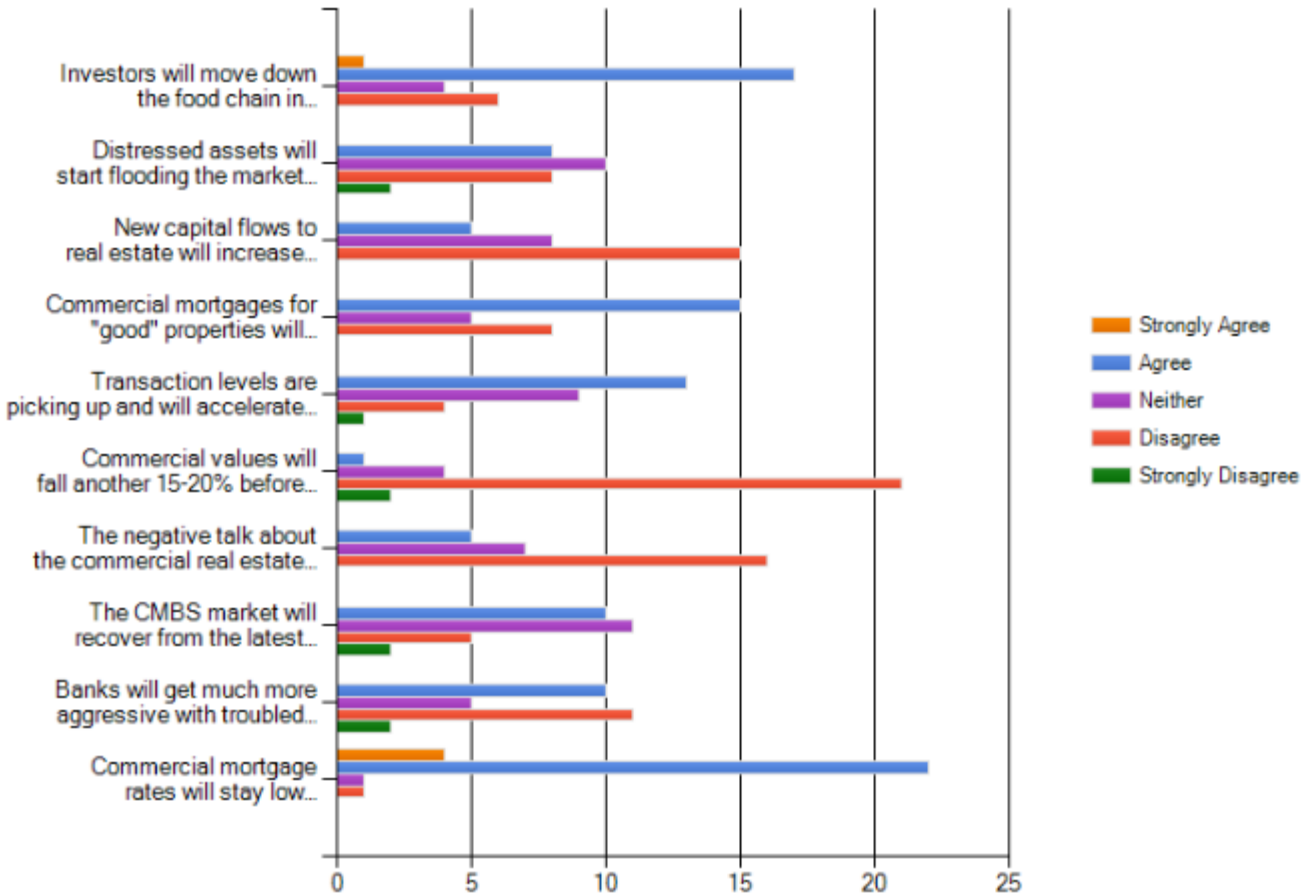
## 2011 Capital Market

- Patient pouncers, old rules, core rules
- Cap rate halos; values unknown...
- Re-levering at top only; credit crunch for rest

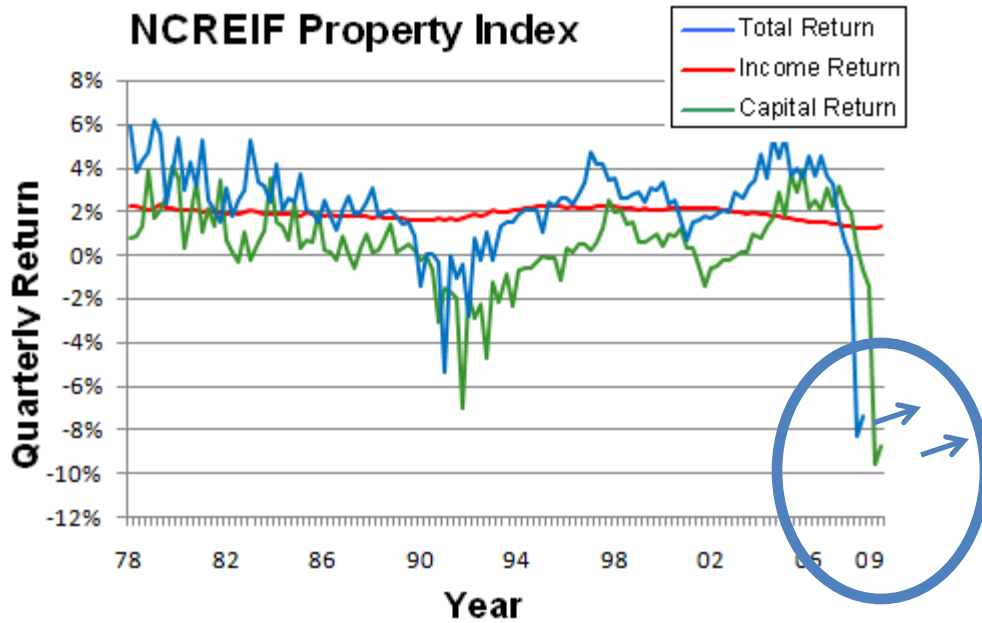
## 2012 Capital Market

- Top-end frenzy, core investor apprehension
- Cap rate compression, spread investment
- Window opening, headwinds closing, distress unrest

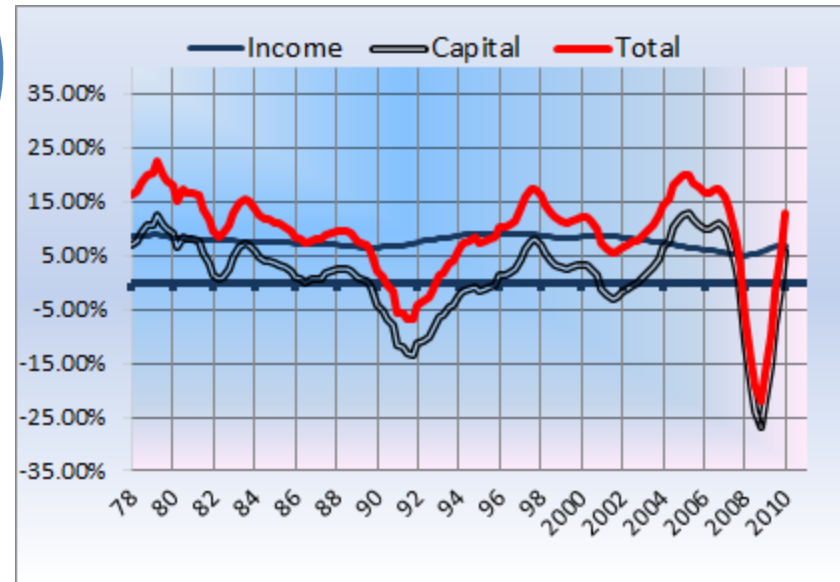
# Ratings on Capital Markets



# How We're Doing: Commercial Real Estate



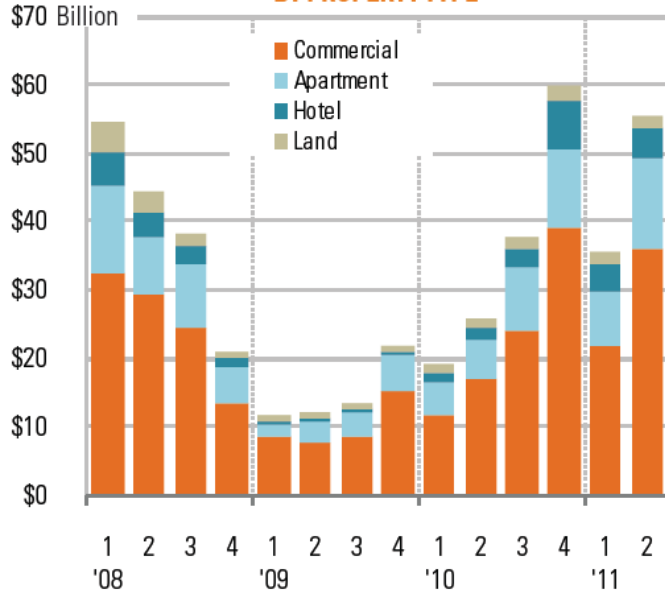
Annual Returns



What a difference  
a year makes.....

# Transactions: Americas

**QUARTERLY TRANSACTION VOLUME  
BY PROPERTY TYPE**

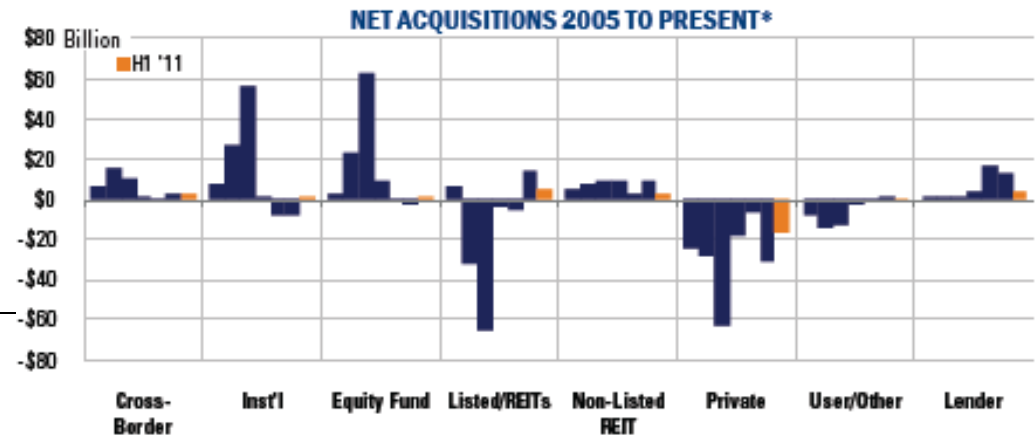
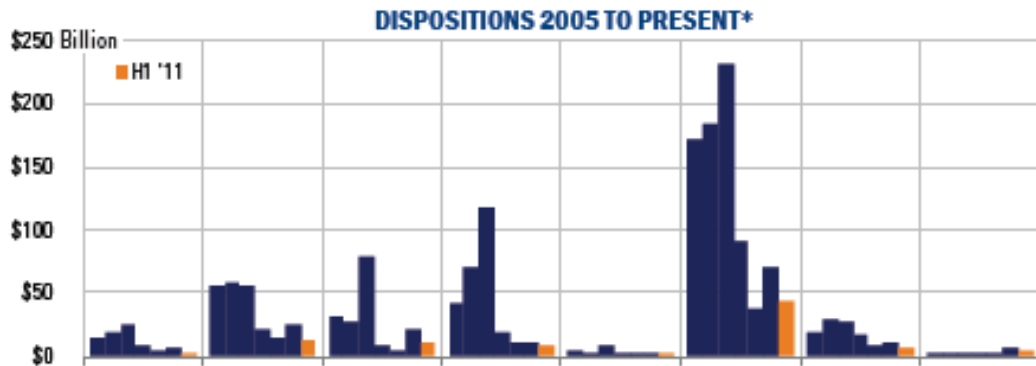
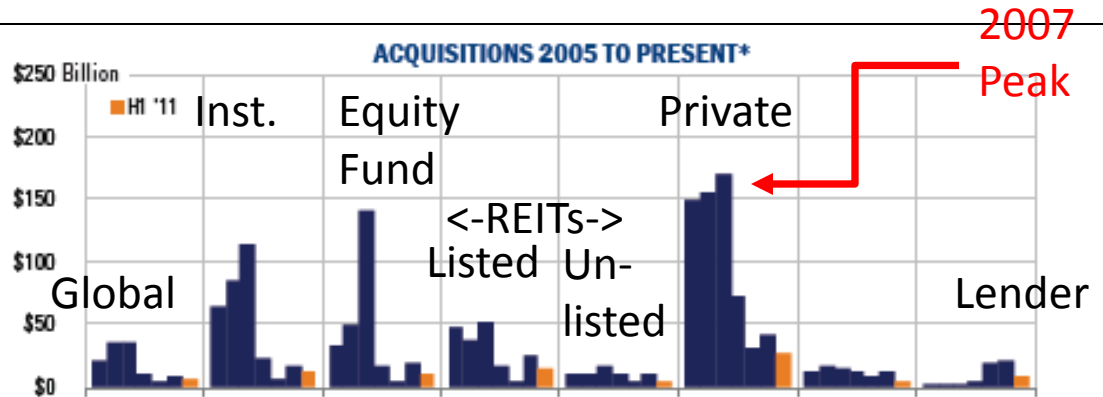


## PERCENT CHANGE IN TRANSACTION VOLUME

(H1'10 VS H1'11)

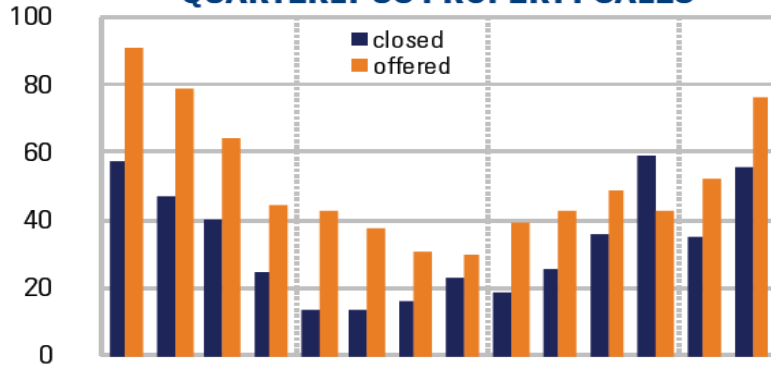


# Commercial Transactions: 2005-2010

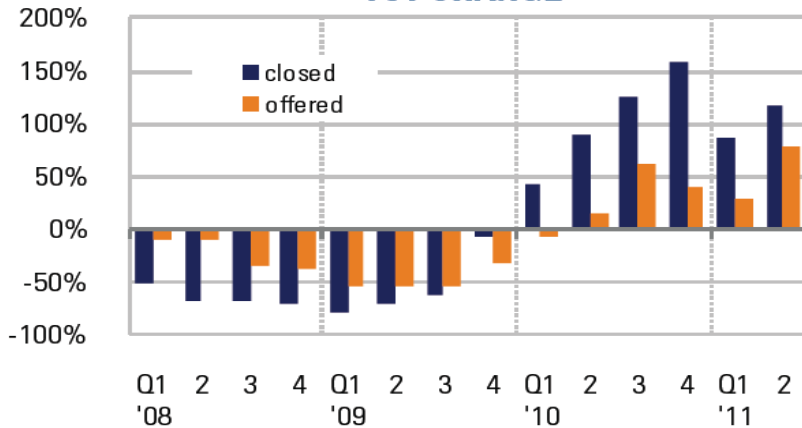


# US Transaction Momentum

### QUARTERLY US PROPERTY SALES



### YOY CHANGE



### YOY CHANGE IN US PROPERTY SALES Office, Apartment, Retail, Industrial, Hotel and Dev Sites BY MONTH



# 2011 Shift in Allocations by Strategy: Risk Aversion

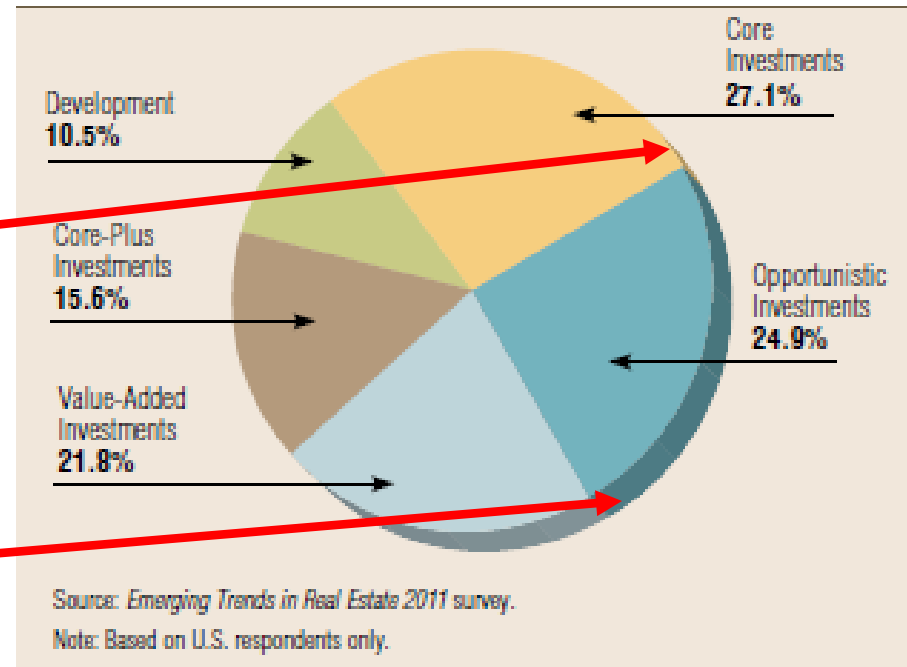
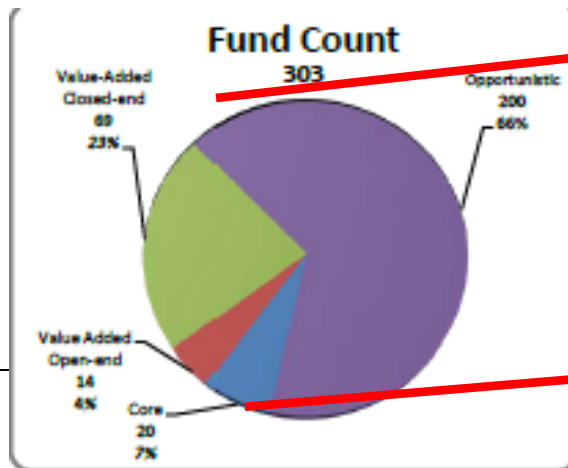
## Pension Funds by Style

Core			Value-Added			Opportunistic
All Core	Open-end	NFI-ODCE	All Value-Added	Open-end	Closed-end	All Opportunistic

### Trailing Four Quarters

Value Weight - Gross of Fee	-35.0%	-35.0%	-35.2%	-43.2%	-51.9%	-34.6%	-46.4%
Value Weight - Net of Fee	-35.3%	-35.3%	-35.7%	-43.9%	-52.6%	-35.1%	-46.2%

### Strategic Investment Allocation Preferences for 2011



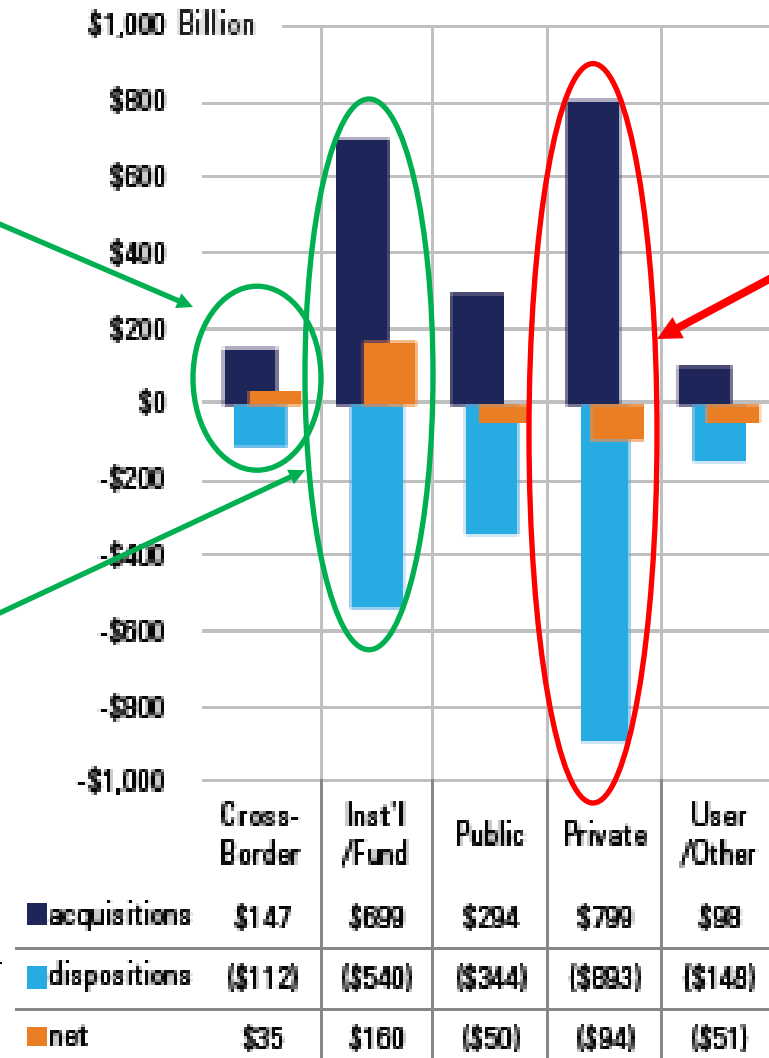
# Long-term Commercial Transaction Trends

**TOTAL ACQUISITIONS AND DISPOSITIONS BY CAPITAL SECTOR**  
2001-2010

Global: Cross-Border

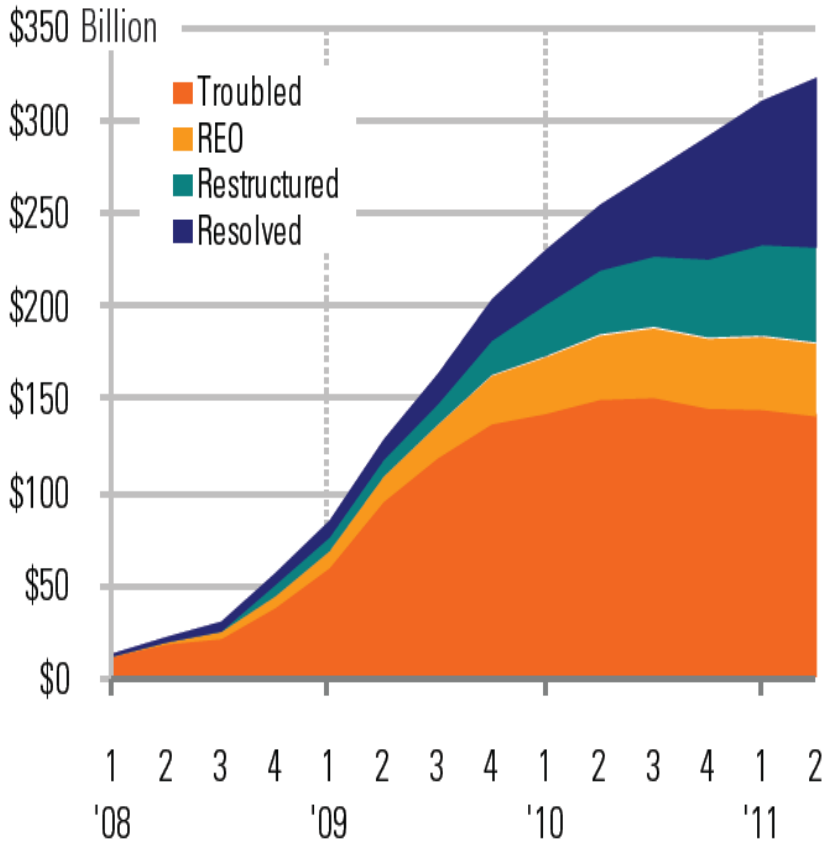
Institutional

Private:  
Market  
Timers



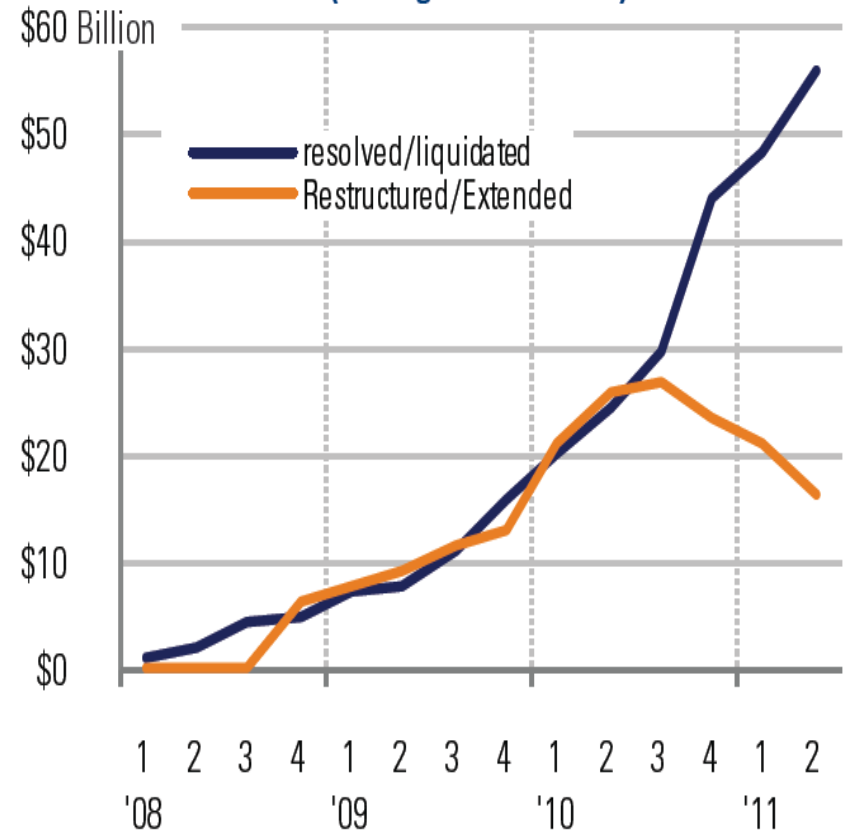
# Distress Levels

## QUARTERLY CUMULATIVE DISTRESS VOLUME

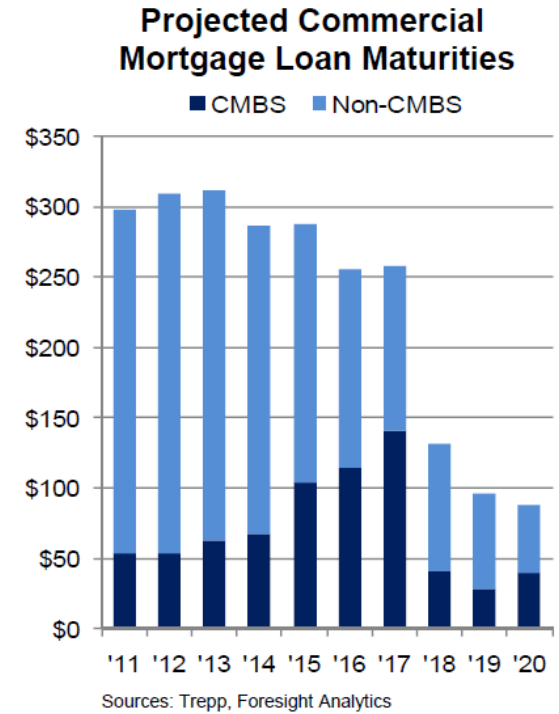
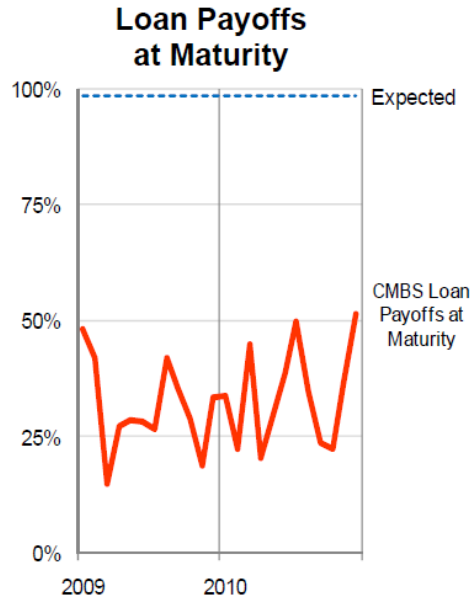
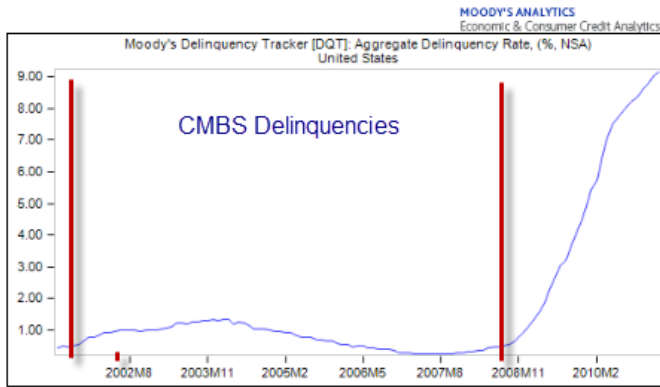


## WORKOUT STRATEGIES

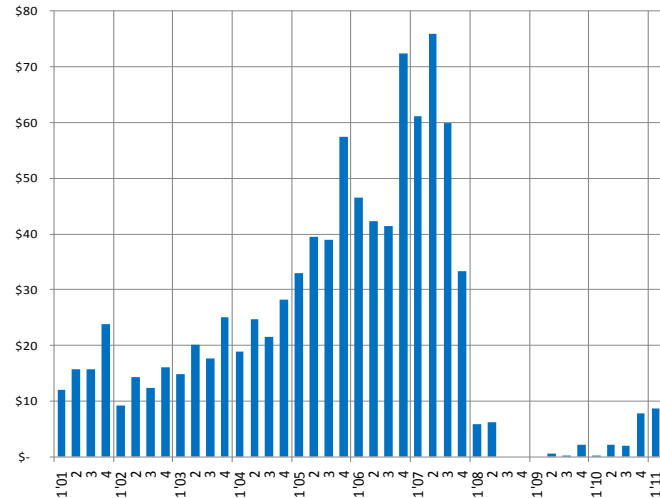
(Trailing 12 Month Total)



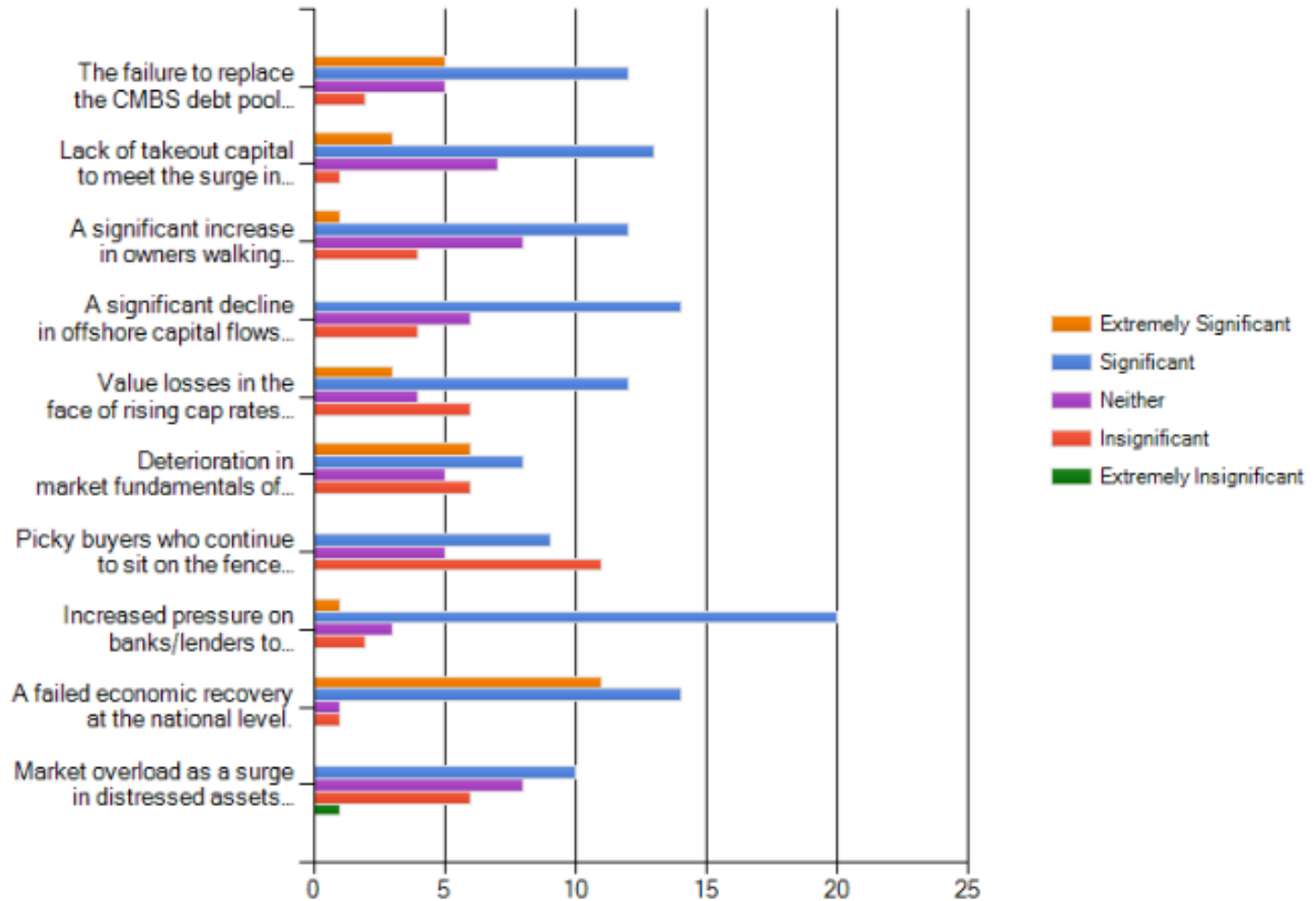
# Loan Maturities: CMBS Land Volume & Payoffs



## CMBS Issuances



# Risks to Real Estate Market



# Part III: Spatial Market Fundamentals

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## 2010 Spatial Market

- Still weakening, negative absorption; more downside risk
- Vacancy rates pushing records, rents declining
- Negative absorption, lagged recovery

## 2011 Spatial Market

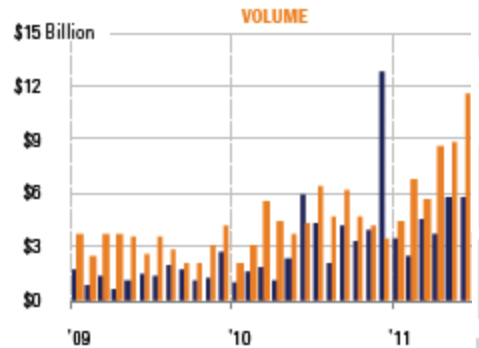
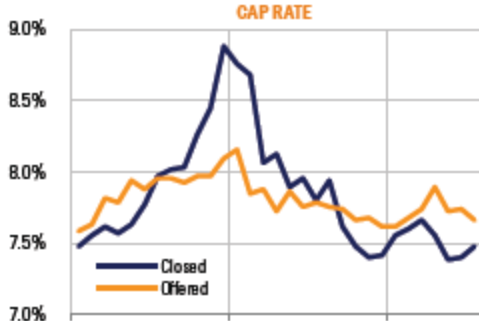
- Still weak, limited absorption; more downside risk
- Vacancy rates peaking, rents stabilizing but low
- Absorption flat, recovery lagging tenants nagging

## 2012 Spatial Market

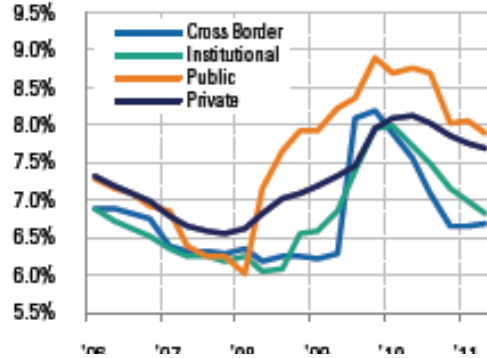
- Spotty correction, plateau in connection, deferred resurrection
- Vacancy peaking, rents creaking
- Modest absorption, tenant reflection, landlord perplexion

# Office Market: National Snapshot

## OFFICE INVESTMENT TRENDS



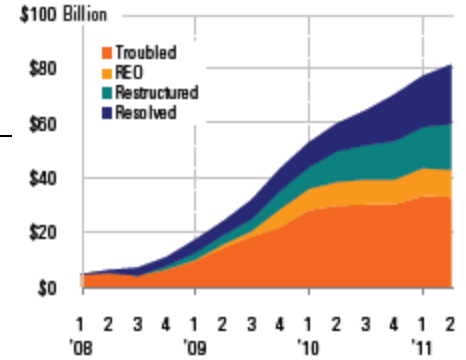
## OFFICE CAP RATES BY CAPITAL SECTOR



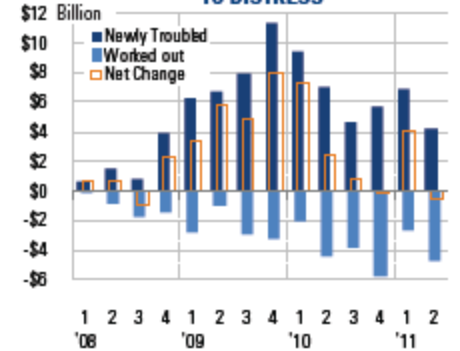
	H1'11		Q2'11			
	\$B	YOY # Props	YOY	Cap	PPSF	
CBD	\$12.4	112%	206	84%	6.4%	\$257
Suburban	\$12.0	51%	688	37%	7.8%	\$158
<b>All Office</b>	<b>\$24.5</b>	<b>77%</b>	<b>894</b>	<b>45%</b>	<b>7.4%</b>	<b>\$203</b>

West					
1918 8th Ave 1918 8th Ave Seattle, WA	668,000 2010 Office - CBD	\$350,108,054 \$524 confirmed	JP Morgan Asset Management from Schnitzer Northwest by CB Richard Ellis		
818 Stewart St 818 Stewart St Seattle, WA	232,000 2008 Office - CBD	\$129,310,690 \$557 confirmed	JP Morgan Asset Management from Schnitzer Northwest by CB Richard Ellis		
505 First & 83 King 83 S King St Seattle, WA	492,504 1904 Office - CBD	\$124,825,000 \$253 confirmed	Spear Street Capital from Starbucks by Kinzer Real Estate Services		
Key Center 601 108th Ave NE Bellevue, WA	472,900 2000 Suburban	\$216,492,440 \$458 confirmed	Kirroy Realty from Beacon Cap Ptnrs by Eastdil Secured		
Eastpointe Corporate Center 22833 SE Black Nugget Rd Issaquah, WA	157,546 2001 Suburban	\$32,000,000 \$203 confirmed	SanMar by Cushman & Wakefield from Wells RE Funds AKA Piedmont Office Realty Trust by Pacific RE Ptnrs		

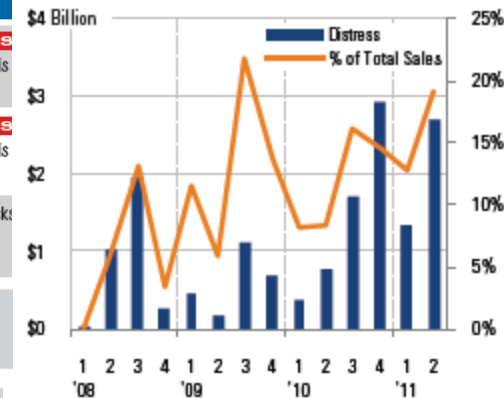
## QUARTERLY CUMULATIVE DISTRESS VOLUME



## ADDITIONS AND REDUCTIONS TO DISTRESS

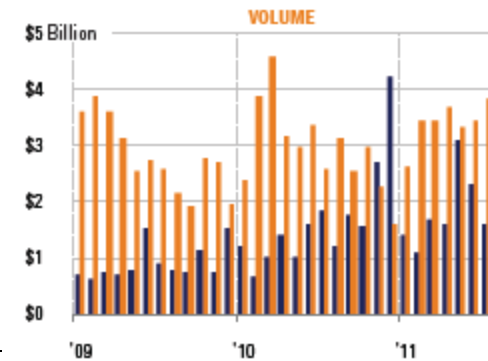
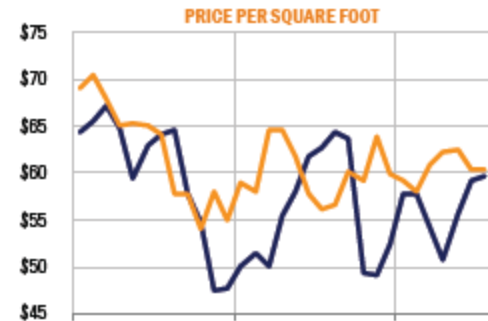
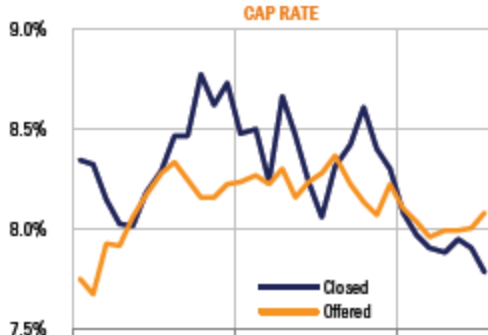


## DISTRESSED PROPERTY SALES

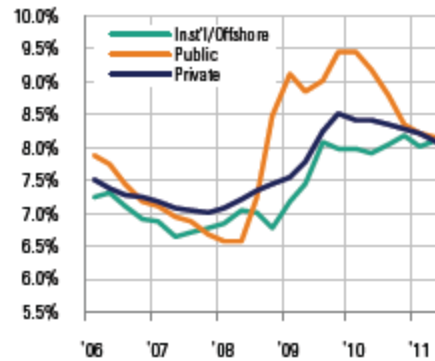


# Industrial Market: National Snapshot

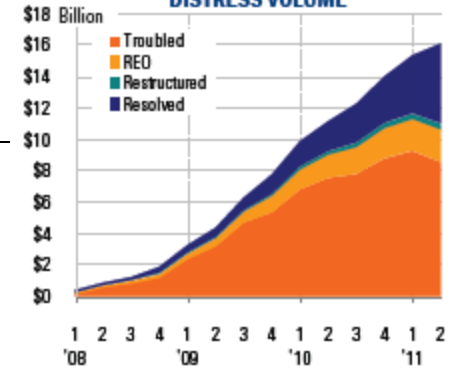
## INDUSTRIAL INVESTMENT TRENDS



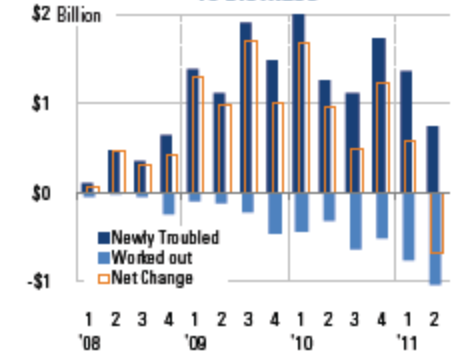
## INDUSTRIAL CAP RATES BY CAPITAL SECTOR



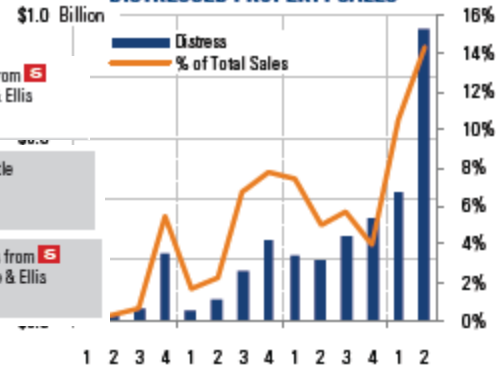
## QUARTERLY CUMULATIVE DISTRESS VOLUME



## ADDITIONS AND REDUCTIONS TO DISTRESS



## DISTRESSED PROPERTY SALES



**6617 Associated Boulevard**  
6617 Associated Blvd  
Everett, WA

**217,700**  
2007  
Warehouse

**\$23,180,000**  
\$106  
approximate

**E** LBA Realty by **Grubb & Ellis** from **S**  
Columbia Pacific Advs by **Grubb & Ellis**

**Troy Landry Building**  
307 Fairview Ave N  
Seattle, WA

**126,145**  
1927  
Warehouse

**\$18,400,000**  
\$146  
confirmed

**E** Touchstone Corp from **S** Seattle  
Times Co by **Century Pacific LP**

**4501 West Valley Highway East**  
4501 W Valley Hwy E  
Puyallup, WA

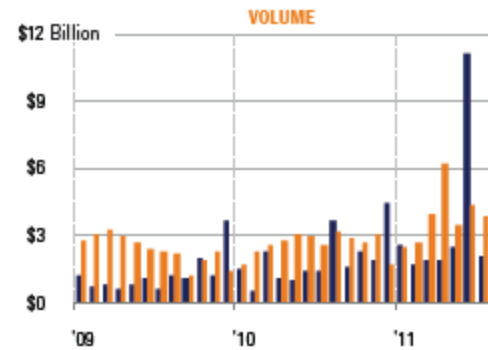
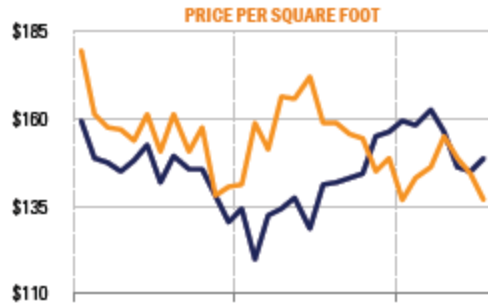
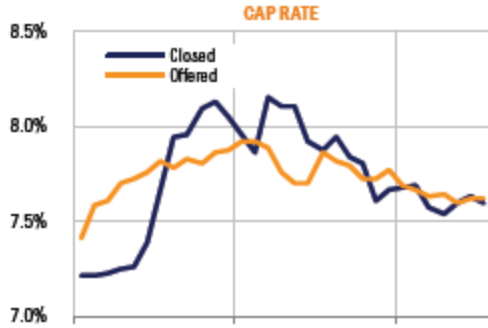
**256,148**  
2007  
Warehouse

**\$17,807,475**  
\$70  
approximate

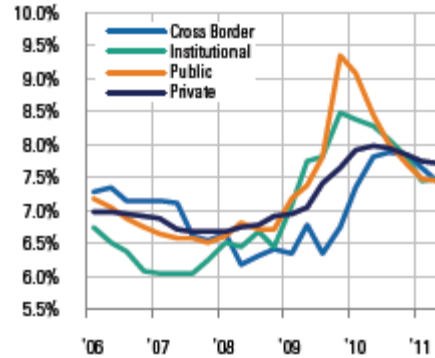
**E** LBA Realty by **Grubb & Ellis** from **S**  
Columbia Pacific Advs by **Grubb & Ellis**

# Retail Market: National Snapshot

## RETAIL INVESTMENT TRENDS

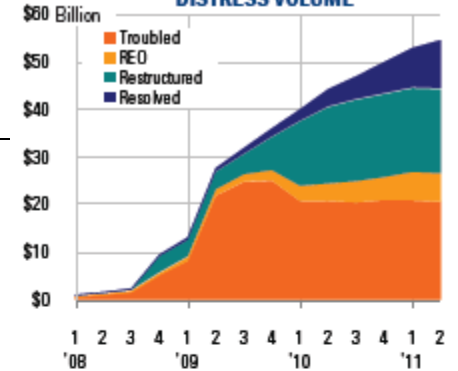


## RETAIL CAP RATES BY CAPITAL SECTOR

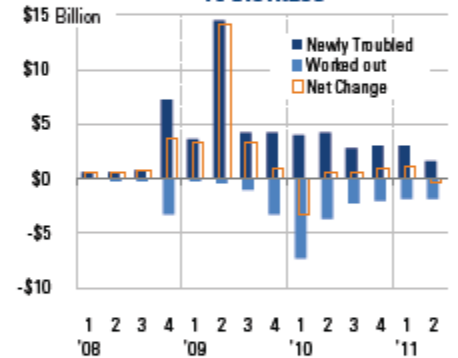


	HI'11		Q2'11		
	\$B	YOY # Props	YOY %	Cap	PPSF
Mall & Other	\$5.8	48%	619	27%	7.3% \$181
Strip Centers	\$15.7	346%	1,110	281%	8.0% \$129
<b>All Retail</b>	<b>\$21.5</b>	<b>189%</b>	<b>1,729</b>	<b>122%</b>	<b>7.7% \$146</b>

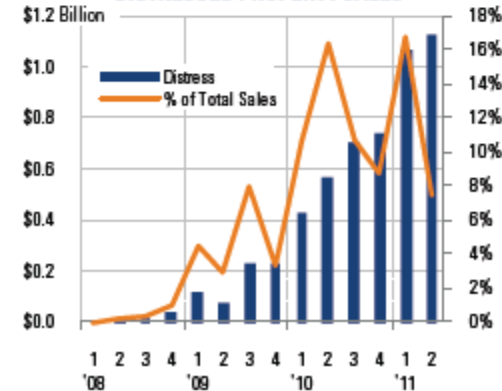
## QUARTERLY CUMULATIVE DISTRESS VOLUME



## ADDITIONS AND REDUCTIONS TO DISTRESS

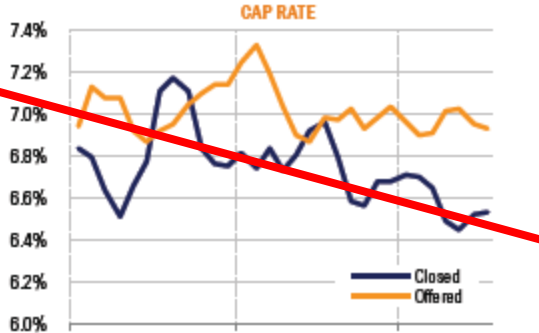


## DISTRESSED PROPERTY SALES

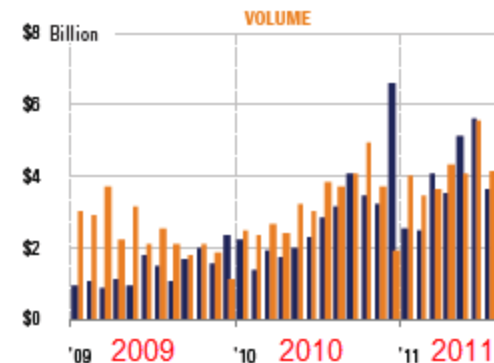
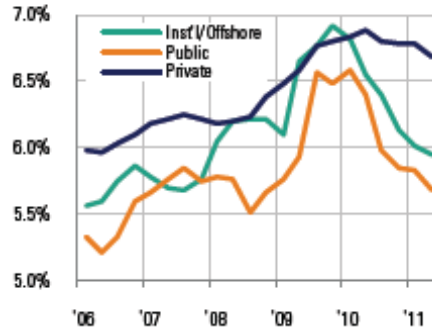


# Apartment Market Snapshot

## APARTMENT INVESTMENT TRENDS



## APARTMENT CAP RATES BY CAPITAL SECTOR 12-MO ROLLING AVG



	H1'11		Q2'11			
	\$B	YOY # Props	YOY	Cap	PPU (K)	
Garden	\$14.2	123%	1,044	75%	6.8%	\$76
Mid/high-rise	\$8.8	80%	418	44%	5.8%	\$204
<b>All Apartment</b>	<b>\$22.9</b>	<b>104%</b>	<b>1,462</b>	<b>65%</b>	<b>6.6%</b>	<b>\$100</b>

**Pratt Park**  
1800 S Jackson St  
Seattle, WA

248  
2008  
Mid/high-rise

\$55,873,000  
\$225,294  
confirmed

Cornerstone RE Advisers from  
Legacy Ptnrs by CB Richard Ellis

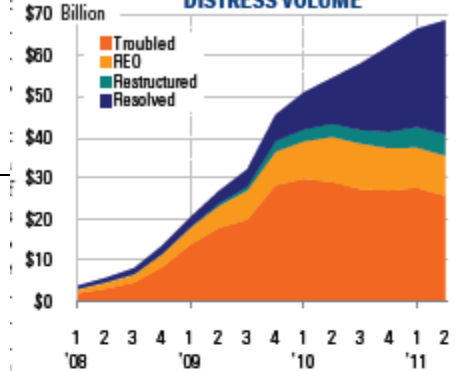
**Moda**  
2312 3rd Ave  
Seattle, WA

251  
2008  
Mid/high-rise

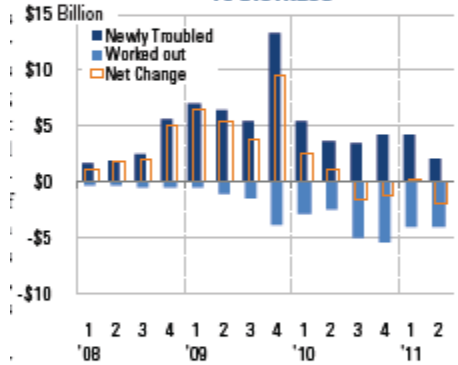
\$49,424,700  
\$196,911  
confirmed

Equity Res from HMI RE  
by CB Richard Ellis

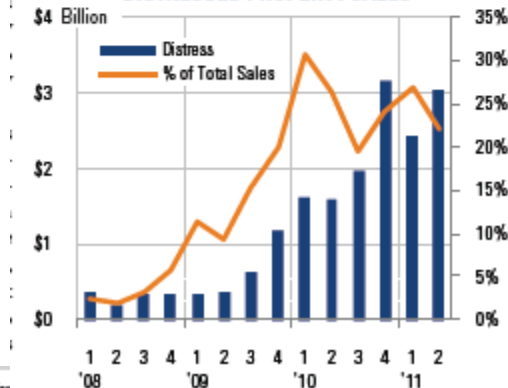
## QUARTERLY CUMULATIVE DISTRESS VOLUME



## ADDITIONS AND REDUCTIONS TO DISTRESS

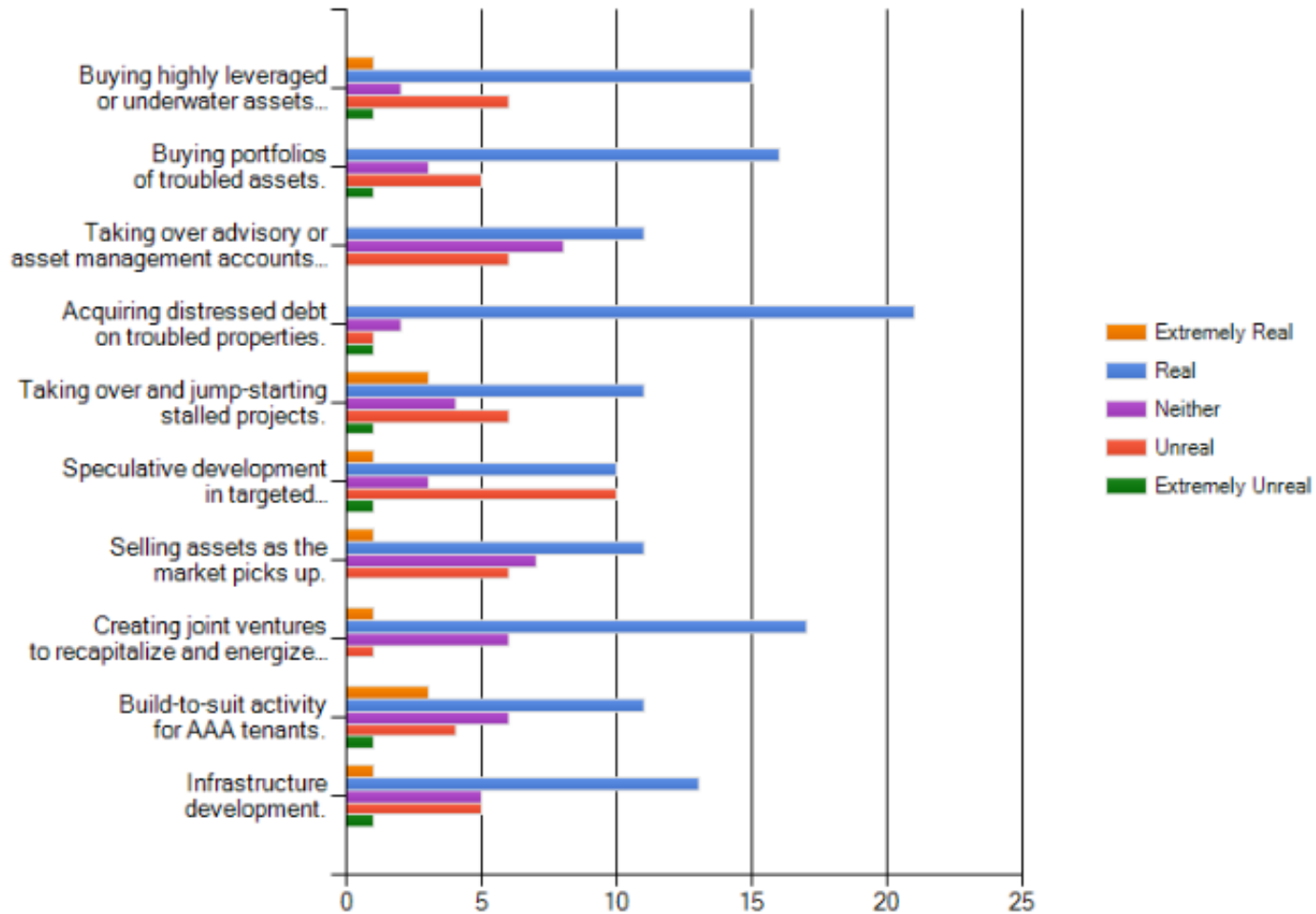


## DISTRESSED PROPERTY SALES



# Opportunities in Real Estate

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# How industry change

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- Fewer players
- New normal
- Less development
- More certainty
- More uncertainty
- More conservative
- More discipline
- Return to fundamentals
- Lessons learned, to be forgotten
- Fewer but smarter deals and people
- Nothing

# Presentation Summary

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- Part I: Economic Outlook
- Part II: Real Estate Capital Markets
- Part III: Real Estate Market Fundamentals
- Part IV: Challenges, Issues & Opportunities

Don't forget the golden rule; when things are tough there's always school.....