This is a presentation made to three NAIOP Forums on April 28, 2010 in San Francisco by Jim DeLisle, the Runstad Professor of Real Estate and Director of Graduate Real Estate Studies at the University of Washington. The Forums included:

- Industrial Development III Forum
- Mixed Use Development Forum
- Trends in Real Estate Development I Forum

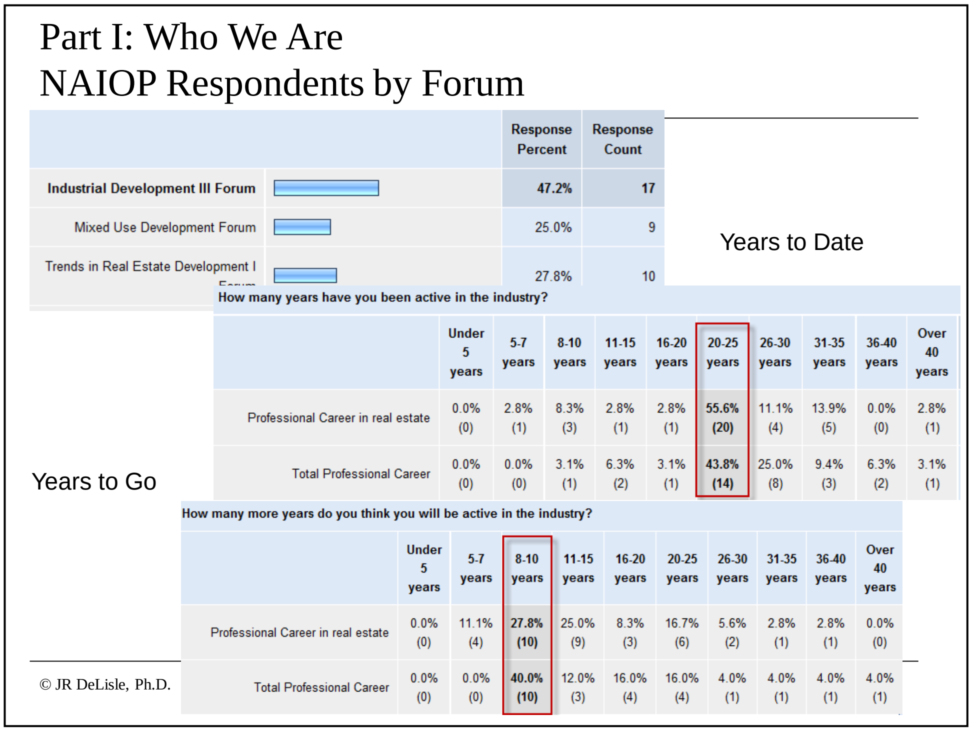
The presentation provides a mid-year update on the macroeconomic environment, capital markets, and real estate fundamentals with emphasis on the revolution that is occurring that will forever affect how the industry works; at least until lessons of the past are once again forgotten. The overview provides a smattering of the "catchy" phrases and themes being bantered about by pundits and trade associations. While the labels are interesting, they suggest a gradual change rather than the revolutionary changes argued by the presenter.

Hyperlinked Table of Contents to Presentation

Overview

Respondent Profile

To help connect with the audience and glean insights from those in the trenches, a brief internet survey was conducted prior to the meeting. The overall response rate was around 60%, with results varying by Forum. Due to the relatively small size of the individual forums, the results were pooled. In general, the respondents were fairly mature, with an average of 20-25 years in the real estate or another professional field. The respondents were asked to indicate how long they intended on continuing their careers. As noted, the most common response was 8-10 years. Given the prolonged recovery period ahead of the industry and the revolutionary changes on the horizon, the question was posed as to whether some may opt to retire early and avoid the angst that is coming. The responses also punctuate the need for training the "Developing Leaders" group for the new world which will be dramatically different than the past.



	Response Percent	Response Count
Industrial Development III Forum	**47.2%**	**17**
Mixed Use Development Forum	25.0%	9
Trends in Real Estate Development I Forum	27.8%	10

How many years have you been active in the industry?

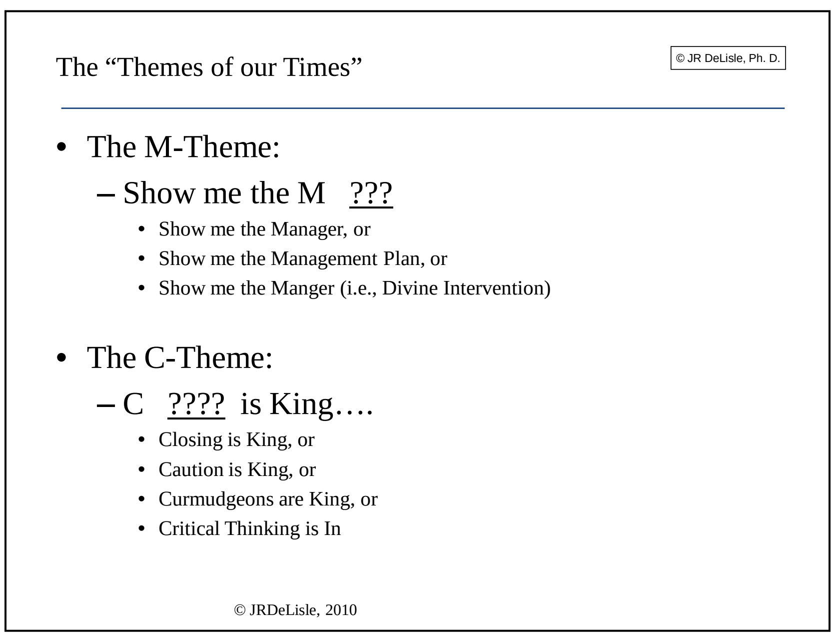
	Under 5 years	5-7 years	8-10 years	11-15 years	16-20 years	20-25 years	26-30 years	31-35 years	36-40 years	Over 40 years
Professional Career in real estate	0.0% (0)	2.8% (1)	8.3% (3)	2.8% (1)	2.8% (1)	**55.6% (20)**	11.1% (4)	13.9% (5)	0.0% (0)	2.8% (1)
Total Professional Career	0.0% (0)	0.0% (0)	3.1% (1)	6.3% (2)	3.1% (1)	**43.8% (14)**	25.0% (8)	9.4% (3)	6.3% (2)	3.1% (1)

How many more years do you think you will be active in the 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
Professional Career in real estate	0.0% (0)	11.1% (4)	**27.8% (10)**	25.0% (9)	8.3% (3)	16.7% (6)	5.6% (2)	2.8% (1)	2.8% (1)	0.0% (0)
Total Professional Career	0.0% (0)	0.0% (0)	**40.0% (10)**	12.0% (3)	16.0% (4)	16.0% (4)	4.0% (1)	4.0% (1)	4.0% (1)	4.0% (1)

Themes of our Times

In this environment, many real estate professionals are faced with the prospects of laughing or crying. To lighten up the scene a bit, it's useful to look at a couple of themes. The first is the play on the "Cash is King Theme." While cash is important, in this stage of the cycle investors who are not wary are likely to be able to make $10 million profits through no-brainer investing. While I don't agree with late night television programs that it's as easy as it sounds, it can be done assuming you start with $20 million!!! With the impending flood of distressed assets and the surge of new, naïve players, the ability to close deals will be of paramount concern. Similarly, "caution" and realism will



rule while curmudgeons like me will spin tales and document lessons learned, both before and after they hit home.

The M-theme is a play on the Jerry Maguire theme, “Show me the Money.” Again, it points to the importance of fundamentals and the ability to develop and implement solid management plans that are spearheaded by experienced asset and property managers who are empowered to act. Absent that, it’s back to the manger and hope for “divine intervention” which I don’t see on the horizon. However, it is useful to explore my Top-10 Trend that will lead the revolution in real estate.

NAIOP Forums on Market Bottoming Out

To help engage the audience and incorporate them in the discussion, a brief internet survey was conducted. To allow for candor, the survey was anonymous, with a series of closed-end and open-end questions. One of the first questions posed to the respondents was designed to gauge their perceptions on when the economy, housing market and commercial real estate markets would bottom out. As noted in the exhibit, the majority of respondents felt the economy had already bottomed out at the national level. With respect to the Seattle economy, the results were spread out, with most feeling the economy would bottom out in the second or third quarter of 2010. The results for the housing markets were more spread out, with the greatest responses for the national market indicating a 2010 bottom.

When Will We Bottom Out?

Economy

1st Quarter 2010	2nd Quarter 2010	3rd Quarter 2010	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	After 2012
6.3% (2)	**25.0% (8)**	18.8% (6)	15.6% (5)	15.6% (5)	12.5% (4)	3.1% (1)	0.0% (0)	0.0% (0)	0.0% (0)	0.0% (0)	0.0% (0)	3.1% (1)

Housing Market

1st Quarter 2010	2nd Quarter 2010	3rd Quarter 2010	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	After 2012
6.3% (2)	12.5% (4)	12.5% (4)	12.5% (4)	6.3% (2)	**18.8% (6)**	9.4% (3)	12.5% (4)	0.0% (0)	6.3% (2)	0.0% (0)	0.0% (0)	3.1% (1)

Commercial Real Estate

1st Quarter 2010	2nd Quarter 2010	3rd Quarter 2010	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	After 2012
0.0% (0)	0.0% (0)	9.4% (3)	9.4% (3)	12.5% (4)	**21.9% (7)**	0.0% (0)	12.5% (4)	12.5% (4)	3.1% (1)	3.1% (1)	9.4% (3)	6.3% (2)

State of the Economy

To explore perceptions about the national economy, respondents were asked to agree or disagree to a series of statements. As might be expected in these uncertain times, opinions were rather divided. In general, respondents agreed that the economy was on the right path, although they also agreed the recovery would be gradual and tempered by a weak labor market. They thought corporate profits would hold up, although manufacturing activity would continue to slump. The biggest concerns related to employment, consumer confidence, and credit which create significant downside risk to the recovery.

The State of the Economy

	Strongly Agree	Agree	Neither	Disagree	Strongly Disagree
The US economy is on the road to recovery.	0.0% (0)	**59.4% (19)**	28.1% (9)	9.4% (3)	3.1% (1)
Inflation will not be a concern over the next 2 years.	6.1% (2)	33.3% (11)	3.0% (1)	**51.5% (17)**	6.1% (2)
Employment losses will stop by year-end.	0.0% (0)	**57.6% (19)**	15.2% (5)	27.3% (9)	0.0% (0)
GDP Growth will be positive in 2010.	0.0% (0)	**72.7% (24)**	9.1% (3)	18.2% (6)	0.0% (0)
The economic recovery will be very gradual.	36.4% (12)	**54.5% (18)**	6.1% (2)	0.0% (0)	3.0% (1)
Consumer confidence will rebound in the near future.	0.0% (0)	**39.4% (13)**	21.2% (7)	33.3% (11)	6.1% (2)
The manufacturing slump will continue well into the year.	9.1% (3)	**45.5% (15)**	21.2% (7)	21.2% (7)	3.0% (1)
Interest rates will remain low.	0.0% (0)	**57.6% (19)**	9.1% (3)	33.3% (11)	0.0% (0)
The credit markets will return to normal in the next 6 months.	0.0% (0)	6.1% (2)	0.0% (0)	**78.8% (26)**	15.2% (5)
Corporate profits will continue increasing this year.	3.1% (1)	**50.0% (16)**	25.0% (8)	21.9% (7)	0.0% (0)

Importance to a Sustainable Recovery

The survey explored the vulnerability of the economic recovery by asking a series of questions regarding the factors that are important to a sustainable recovery. As might be expected, the majority of factors were either extremely important or important, suggesting there are few degrees of freedom and keeping the recovery on track will be challenging. Of particular note was the employment front, a point that was made in the closed-end and open-end responses. Consumers were also seen as a key, although I do not see them leading a recovery until the jobs situation improves. The role of the federal government in terms of interventions and stimulus programs was somewhat mixed which I interpreted as growing frustration over the record deficit and concerns over the long-term impacts of excess spending. On the other hand, our dependence on outside capital flows was generally recognized.

Importance to Sustainable Economic Recovery

	Extremely Important	Important	Neither	Unimportant	Extremely Unimportant
Extension of the first-time homebuyer program.	3.0% (1)	30.3% (10)	18.2% (6)	**36.4% (12)**	12.1% (4)
Maintenance of low interest rates.	30.3% (10)	**63.6% (21)**	3.0% (1)	0.0% (0)	3.0% (1)
Improvement in access to credit for businesses.	**81.8% (27)**	15.2% (5)	0.0% (0)	0.0% (0)	3.0% (1)
Actual job growth versus deceleration of losses.	**78.8% (26)**	18.2% (6)	0.0% (0)	0.0% (0)	3.0% (1)
Improvement in consumer confidence.	**45.5% (15)**	**45.5% (15)**	9.1% (3)	0.0% (0)	0.0% (0)
A rebound in the global economy.	21.2% (7)	**72.7% (24)**	6.1% (2)	0.0% (0)	0.0% (0)
Reduction in the federal government deficit.	**33.3% (11)**	**33.3% (11)**	30.3% (10)	3.0% (1)	0.0% (0)
Continuation of federal stimulus efforts.	3.0% (1)	18.2% (6)	21.2% (7)	**36.4% (12)**	21.2% (7)
Introduction of new tax breaks for businesses.	24.2% (8)	**51.5% (17)**	18.2% (6)	3.0% (1)	3.0% (1)
Continued offshore capital flows to the US.	9.1% (3)	**84.8% (28)**	6.1% (2)	0.0% (0)	0.0% (0)

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Cap Rate Outlook

The outlook for cap rates is one of the greatest wildcards facing the commercial real estate market. This is especially true with respect to distressed assets. As noted in the exhibit, respondents believe national cap

Cap Rates on Core and Distressed: Now & 3 yrs.

Now	Under 5%	5%	5.5%	6%	6.5%	7%	7.5%	8%	8.5%	9%	9.5%	10%	10.5%	11%	11.5%	12%	12.5%	13%	13.5%	14%	14.5%	15%
Institutional Grade Assets	3.3% (1)	0.0% (0)	0.0% (0)	0.0% (0)	3.3% (1)	3.3% (1)	10.0% (3)	**36.7% (11)**	16.7% (5)	20.0% (6)	0.0% (0)	0.0% (0)	3.3% (1)	3.3% (1)	0.0% (0)	0.0% (0)	0.0% (0)	0.0% (0)	0.0% (0)	0.0% (0)	0.0% (0)	0.0% (0)
Distressed/Troubled Assets	0.0% (0)	0.0% (0)	0.0% (0)	0.0% (0)	3.6% (1)	3.6% (1)	0.0% (0)	0.0% (0)	0.0% (0)	3.6% (1)	3.6% (1)	14.3% (4)	3.6% (1)	3.6% (1)	0.0% (0)	**17.9% (5)**	3.6% (1)	7.1% (2)	7.1% (2)	7.1% (2)	0.0% (0)	3.6% (1)

12 months out

	Under 5%	5%	5.5%	6%	6.5%	7%	7.5%	8%	8.5%	9%	9.5%	10%	10.5%	11%	11.5%	12%	12.5%	13%	13.5%	14%	14.5%	15%
Institutional Grade Assets	0.0% (0)	0.0% (0)	0.0% (0)	6.7% (2)	0.0% (0)	16.7% (5)	**30.0% (9)**	16.7% (5)	20.0% (6)	0.0% (0)	3.3% (1)	0.0% (0)	3.3% (1)	0.0% (0)	3.3% (1)	0.0% (0)	0.0% (0)	0.0% (0)	0.0% (0)	0.0% (0)	0.0% (0)	0.0% (0)
Distressed/Troubled Assets	0.0% (0)	0.0% (0)	0.0% (0)	3.6% (1)	0.0% (0)	0.0% (0)	3.6% (1)	0.0% (0)	0.0% (0)	7.1% (2)	3.6% (1)	**25.0% (7)**	0.0% (0)	14.3% (4)	0.0% (0)	7.1% (2)	7.1% (2)	10.7% (3)	0.0% (0)	0.0% (0)	0.0% (0)	0.0% (0)

3 years out

	Under 5%	5%	5.5%	6%	6.5%	7%	7.5%	8%	8.5%	9%	9.5%	10%	10.5%	11%	11.5%	12%	12.5%	13%	13.5%	14%	14.5%	15%
Institutional Grade Assets	0.0% (0)	0.0% (0)	0.0% (0)	3.4% (1)	3.4% (1)	31.0% (9)	**34.5% (10)**	10.3% (3)	10.3% (3)	3.4% (1)	0.0% (0)	0.0% (0)	0.0% (0)	0.0% (0)	0.0% (0)	0.0% (0)	0.0% (0)	0.0% (0)	0.0% (0)	0.0% (0)	0.0% (0)	0.0% (0)
Distressed/Troubled Assets	0.0% (0)	0.0% (0)	0.0% (0)	0.0% (0)	0.0% (0)	3.7% (1)	0.0% (0)	3.7% (1)	7.4% (2)	11.1% (3)	3.7% (1)	**14.8% (4)**	7.4% (2)	11.1% (3)	3.7% (1)	7.4% (2)	7.4% (2)	3.7% (1)	0.0% (0)	0.0% (0)	0.0% (0)	**14.8% (4)**

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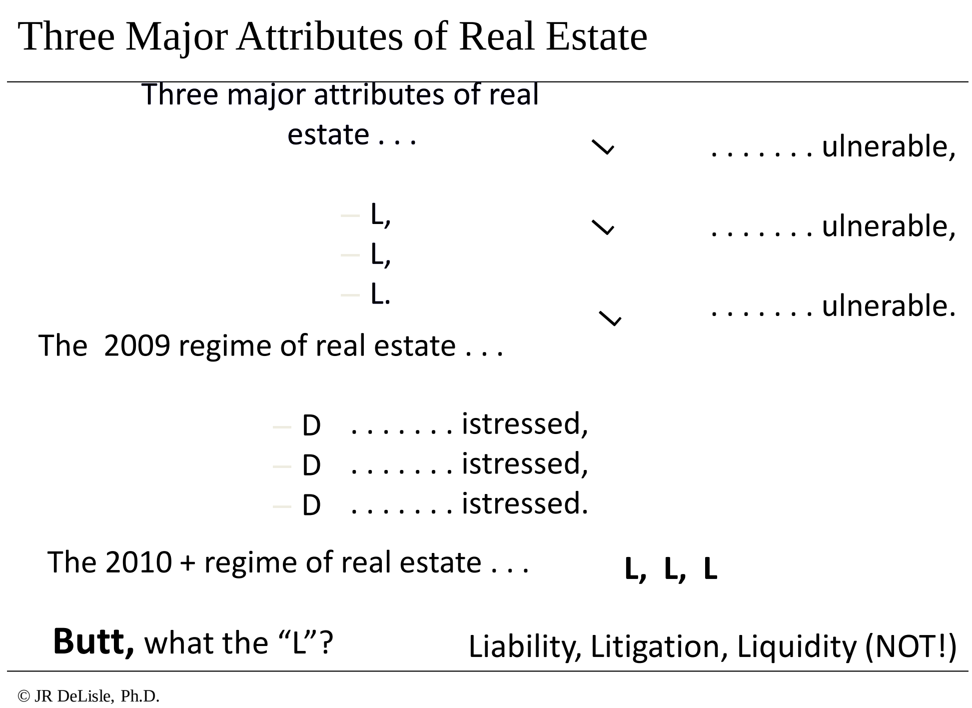
rates are in the 8-8.5% range, and think they will come down slightly next year and then will hover around long term averages. This is greater than the NCREIF index which is priced around a 6.35% implicit cap rate suggesting there will be more downside pressure on values to bolster cap rates. In general, respondents are on the bearish side with respect to cap rates for distressed assets, pushing the mid-teens in the current market before coming down somewhat. Three years out is a major question, but respondents believe cap rates for distressed assets are likely to be in the low double digits for some time.

The Three Major Attributes of Real Estate

To set the tone for the presentation and help the audience put on their critical thinking hats, the presentation began with something of a play on words drawing on the “Location, Location, Location” theme. While location is critical and a key element of real estate fundamentals, it is also important to note the Vulnerability of real estate with respect to a range of externalities that create windfalls and wipeouts. This is especially true in the current real estate environment where the government giveth, and the government taketh away. It also introduces the “D” word for distress. We also talked about the dreaded “R” word which to some might be “Recession” but to developers is “Recourse” which is coming in future loans resets which are hanging over the industry.



In something of a return to fundamentals, the L, L, L is back in vogue for 2010. Unfortunately, instead of Location, Location, Location, they will stand for Liability (recourse for borrowers), Litigation for a lot of players, and Liquidity (NOT) reflecting the inability to access debt capital and the challenges sellers will face when the glut of distressed assets clouds the market.

Part I-A: Where We're at on the Economic Front

Economic Snapshot

The economic snapshot is not as bleak as it was a year ago, with the economy moving out of its recessionary spiral. Despite positive GDP growth, the market is somewhat bifurcated with small businesses struggling and big business and the stock market heading upward and consumers largely out of the picture. Despite positive signals, the recovery will be tempered relative to other post-recessionary periods with some downside risk that may derail much of the recent upside momentum.

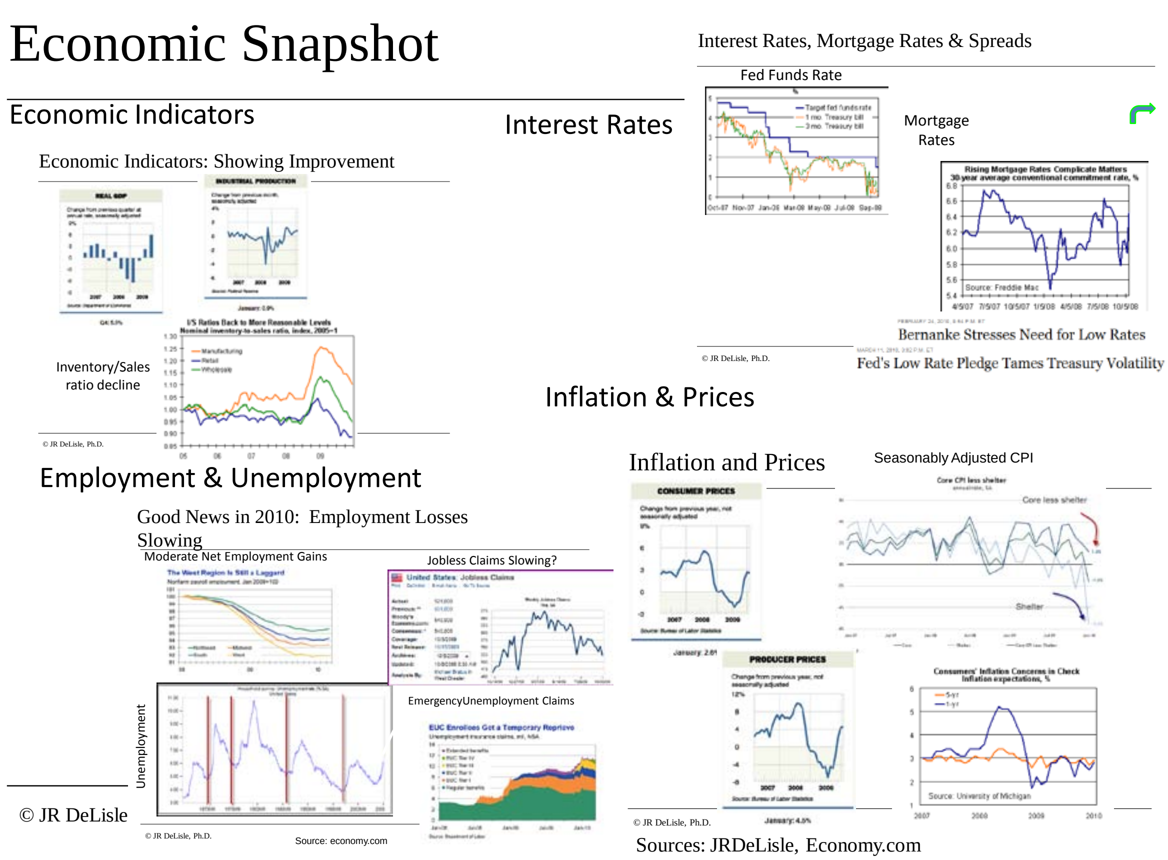
Part 1-A: Where We're (Economy) At

Economic Flash

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

Economic Snapshot

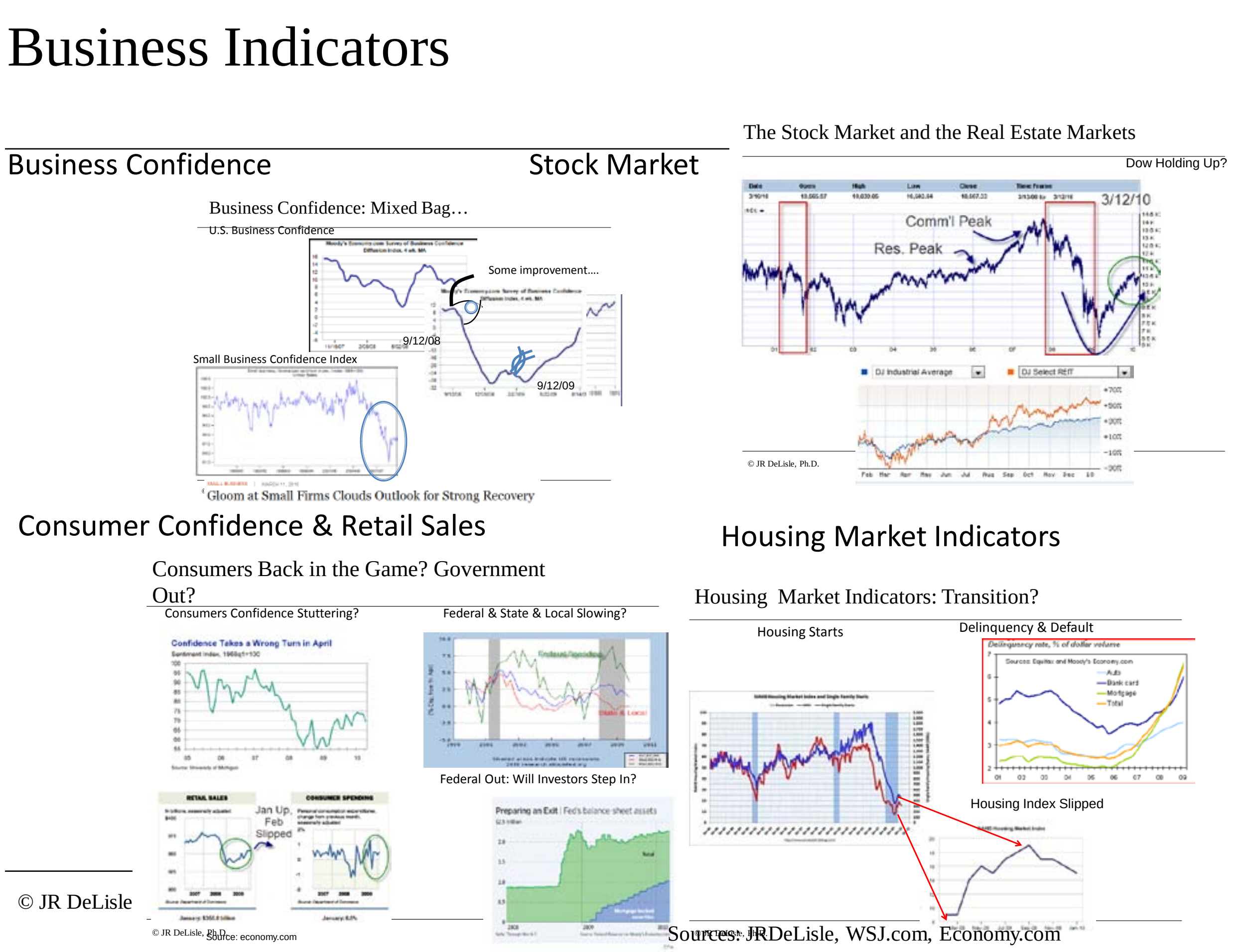
The economic snapshot contains a number of positive indicators, although not all are pointing up. Real GDP was strong at year-end, although the rate has flattened out a bit and is expected to be in the 2-3% range



during 2010. The inventory buildup in 2009 has been burned off which might create added stimulus to production. Interest rates remain low by historical standards, with the Fed pledging to hold them down as long as possible. The employment front remains a problem, with no signs of a quick turnaround. The plight of the unemployed benefited from extension of the emergency funding for longer term benefits although this issue will continue to resurface in the face of tempered job growth and a soft labor market. Inflation has not been a major concern although there are some signs that prices may start rising, especially with the impact of the weak dollar on imports and a strengthening global economy which the US is likely to lag.

Business Indicators

The recent recession and the slow, somewhat uncertain recovery, has created significant angst among business leaders and consumers. The recent improvement in economic indicators has led to improved business confidence levels overall, although small business confidence remains clouded keeping small business owners on the defensive. Consumer confidence levels have trended upward moderately although the weak employment picture and concerns about the troubled housing market and the broader economy has made for a choppy ride with confidence levels slipping moderately in April. This pattern is expected to continue until employment and earnings prospects improve. A number of observers have argued that the housing crisis is behind us and that the market has bottomed out. While declining house prices have indeed tapered off, rising to vacancy rates in the prospects for even more foreclosures hangs over the sector. The withdrawal of government support in the form of purchases of mortgage-backed securities as well as expiration of the temporary housing tax credit programs will put additional downward risk on the housing sector.



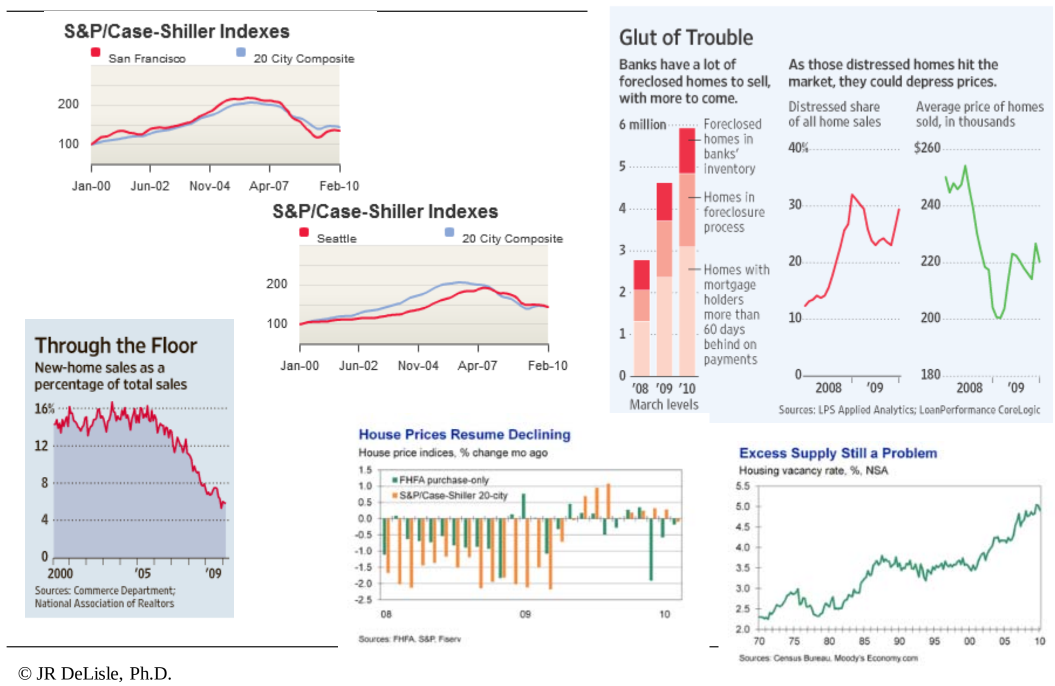
Latest News is a Mixed Bag

The latest news on the economic front is something of a mixed bag, with positive news on consumer confidence being dampened by rising concerns over inflation and continued weakness on the job front. On the other hand, manufacturing activity has picked up a bit, due in large part to replenish inventories that were depleted as companies pulled back and took a defensive stance. Going forward, output is expected to increase, although productivity gains will dampen the impact on jobs. While demand will increase, albeit at a tempered rate, excess capacity will forestall any major recovery in commercial real estate markets and may signal an even greater lagged recovery than is discounted in the current market.

Housing Market Not Out of the Woods

The housing market remains one of the wildcards in the economic recovery, especially with the withdrawal of federal support for transactions and low interest rates being withdrawn from the market. While home values may have hit a platuea, there is still downside risk that market fundamentals may erode even further. This risk is amplified by the tightening of credit standards and upward pressure on mortgage spreads associated with an increase in perceived risk of default and foreclosure that plagues many markets.

Housing Still Not Out of Woods

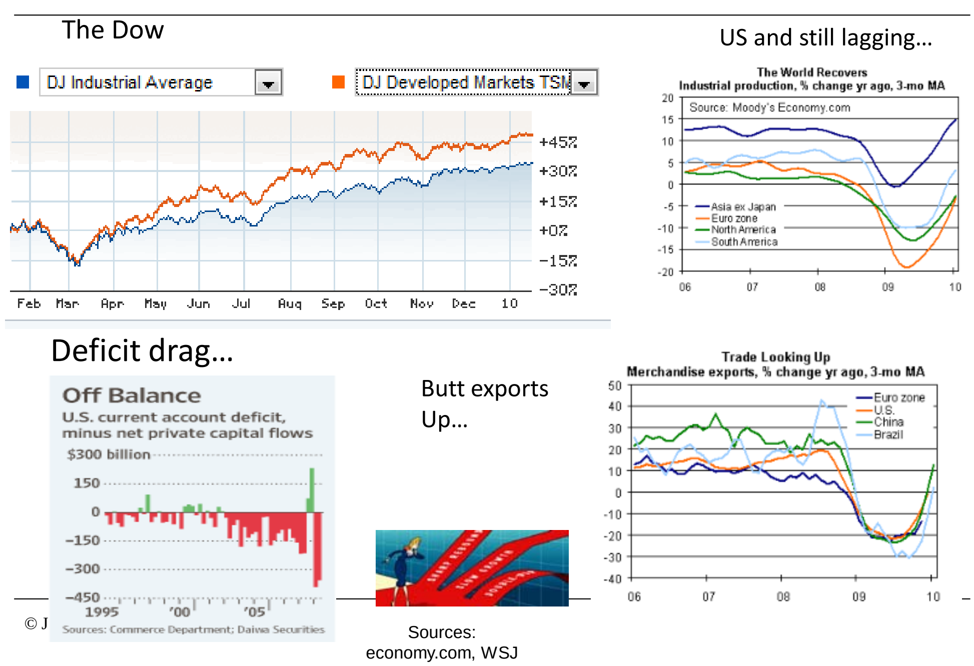


Sources: JRDeLisle, WSJ.com, Economy.com

The Global Recovery

The improvement in the US stock market has received widespread attention and is welcomed news to many observers. While the recovery in the stock market has been positive, it is important to note that it lags its global counterparts.

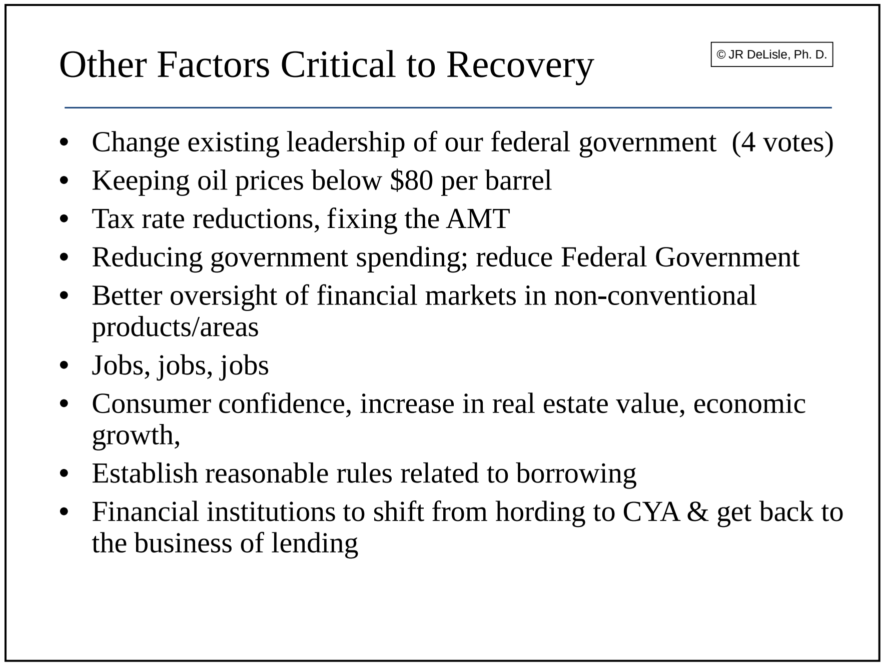
US vs. Global Economies



Indeed, the recovery in North America in terms of industrial production trails the exuberant growth in Asia and South America and is on par with more tempered recovery in the euro zone. On a positive note, exports have turned up and are ahead of the euro zone, although still lagging Asia and other emerging markets. The deficit remains a concern, especially with exports languishing in spite of the cheap dollar and our dependence on foreign purchases of US securities.

Other Factors Critical to a Recovery

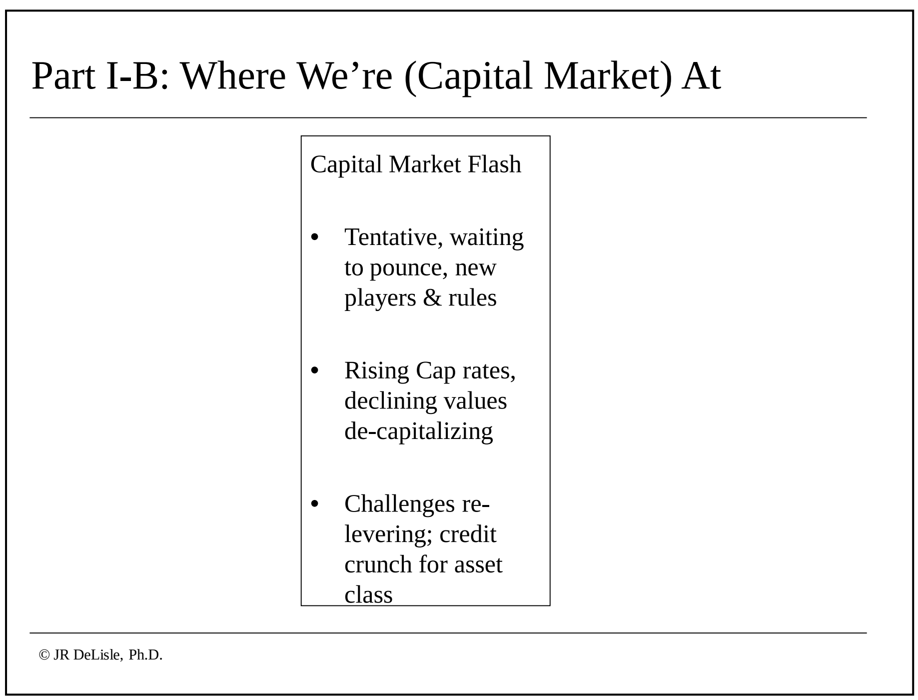
The respondents were asked to identify other factors they felt are critical to a recovery. The most common factor related to "leadership" or lack of leadership at the federal level. They were concerned about oversight of financial institutions and exotic products, with concern about the impact of over and under-regulation. Credit access and the rules of engagement were also important issues. Finally, keeping the fledgling recovery on track and getting to real job growth was seen as a critical step.



Part I-B: Where We're At in Real Estate Capital Markets

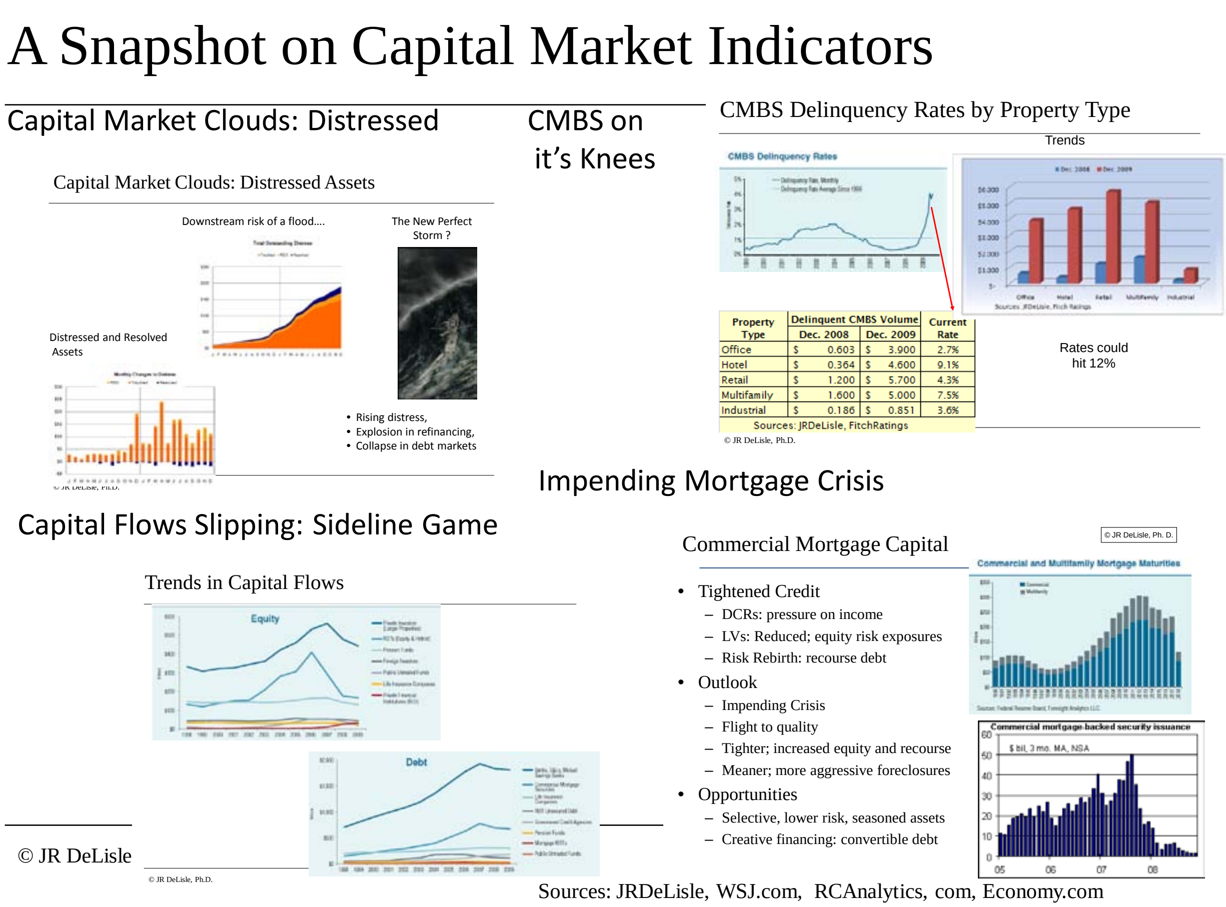
Capital Market Snapshot

Looking at both the economic and capital markets, there are a number of danger signals for commercial real estate. For the first time in years, capital flows may actually decline as assets are repriced and owners forced to come up with more equity at higher yields that are commensurate with the attendant risk. The prospects of a deep and prolonged recession create significant downside risk that has yet been priced into the market.



Capital Market Snapshot

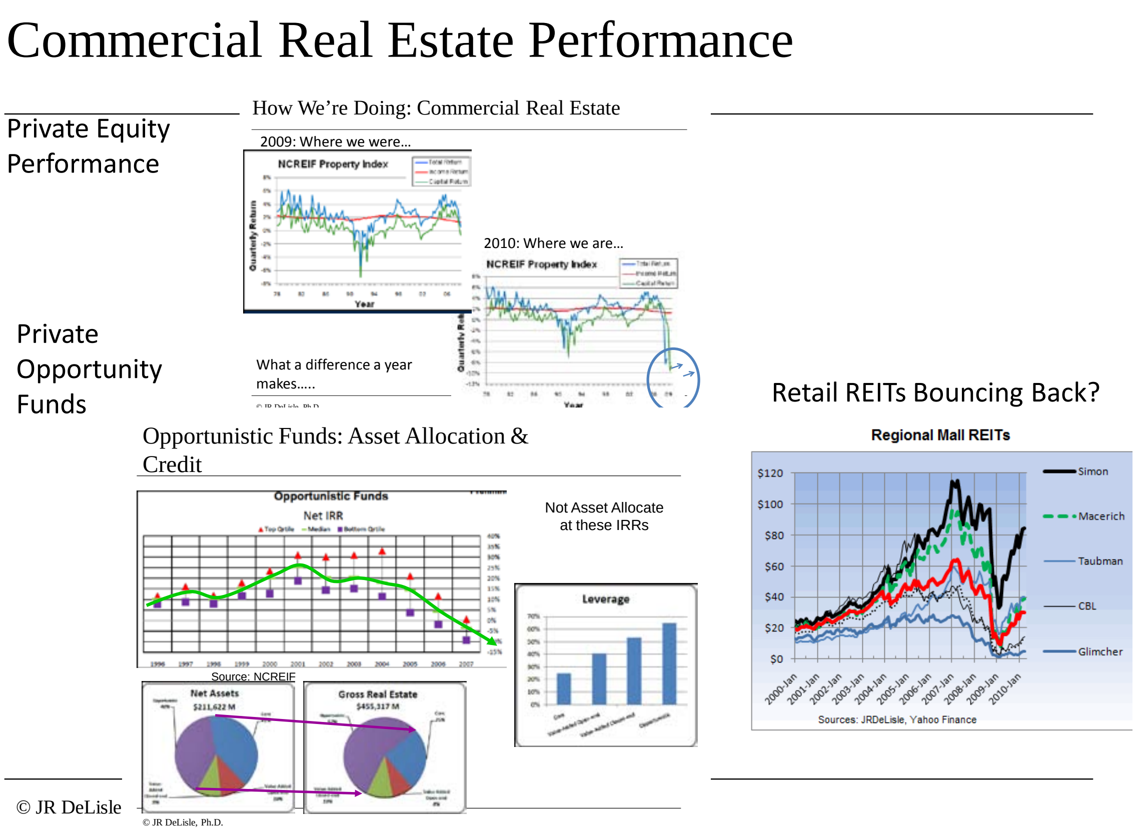
The real estate capital markets are in the middle of significant turmoil which may turn into a tsunami of unprecedented proportions. Distress assets continue to build at a dramatic pace, while workouts have lagged. The CMBS industry has collapsed and continues in that moribund state although some deals are being done. Life insurance companies have stepped up lending activity but nowhere near the volume needed to recapitalize the impending surge in refinancing activity. In the face of this turmoil, capital deployment (vs. build-up) will be down for 2010 and into 2011 before the rookies get into the game. Unfortunately, "rookie" mistakes will be costly and may exacerbate an already difficult position.



Commercial Real Estate Performance

The private commercial real estate market –as measured by the NCREIF Open-end, Commingled Equity Fund Index– has plummeted since its peak in 2008, falling some 38% in value. The speed and depth of this decline is unprecedented, exceeding that of the latter 80s and early 90s which lead to the previous "revolution" in commercial real estate leading to securitization of the debt (CMBS) and equity (REIT) sectors. In addition to the classic NCREIF Index which is largely core, private opportunity and value-add funds have had a very difficult time, falling even more dramatically in value. As noted in the graph, the speed of the collapse in commercial values was unprecedented. Since we are facing a tempered economic recovery, it is likely the recovery will be choppy as it was in the early 90s and prolonged, dragging on for 5-

6 years. Interestingly, REITs have bounced back in 2009, with the momentum carrying share prices upward for more than six months. The growing spread between the private and public markets is interesting and bears watching. In some respects, it suggests that optimism is growing and that investors believe the market has turned the corner. On the other hand, it may suggest that disconnect between the spatial and capital markets continues, and that the "revolution" which would bind them forever has yet to sink in. The reality is likely a combination of the two, with investors noting that REITs are well positioned to take advantage of distressed asset sales as they did in the 90s. On the other hand, their performance has been dragged down somewhat by the deterioration in spatial fundamentals which has forced them to shore up their own portfolios and focus effort on asset management, tenant retention and cash solvency.



Sources: JRDeLisle, NCREIF, jrdelisle.com

Biggest Capital Market Issues/Risks

Respondents identified a number of concerns over capital markets, with the lack of access to credit for deals, refinancing, and tenants the most common concern. They also bemoaned the death of the community banking system which has been brought to its knees in many markets. They are concerned about excess and/or inappropriate government regulation. Valuation issues which go to the underlying credit worthiness of existing investments and loans, as well as the surge in refinancing that is looming on the horizon were also troublesome. Finally, getting the financial system back in the game with fair rules of engagement was a major issue.

Biggest Capital Market Issues/Risks

- Lack of trades to establish values, liquidity
- Over-regulating an industry that needs some regulation
- Deleveraging overleveraged assets; underwater maturities
- Banks unwilling to lend and unwilling to write down assets
- Access to credit for tenants, small business, developers
- Opportunity funds waiting on sidelines? how much $, repurpose the money? change their return thresholds?
- LTV, perception of the market for lenders, credit
- Inertia in the financial institutions & hording
- Understanding the go forward rules that we will face
- Death of the community banking system
- Refinancing of the CMBS loans; CMBS rollovers

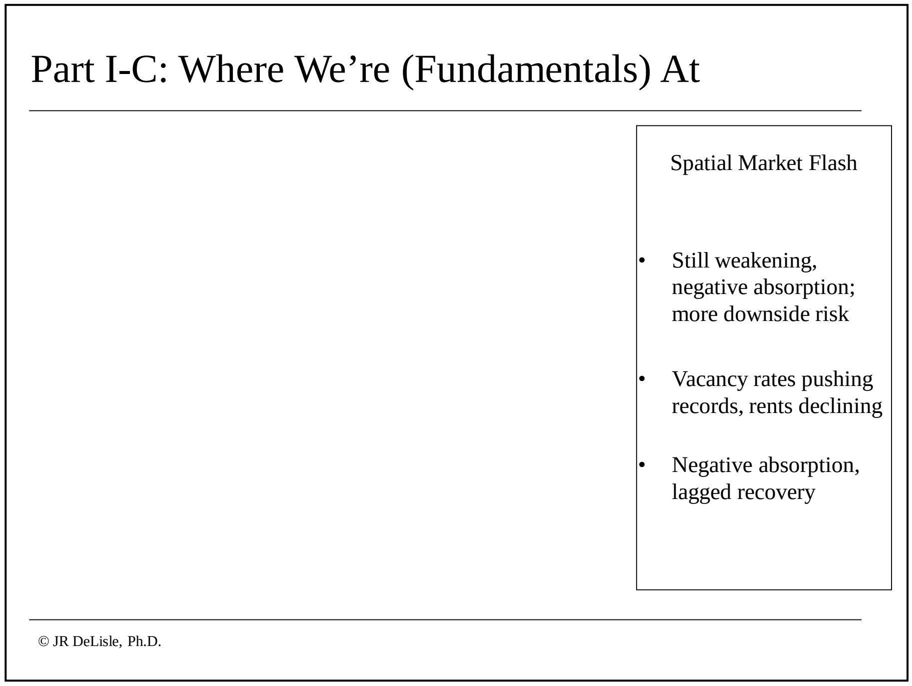
Greatest Capital Market Opportunities

Despite recognizing the turmoil in the market and the potential downside risk hanging over the asset class, respondents did see a number of opportunities in the market. These ranged from portfolio acquisitions at wholesale prices, to purchase of non-performing loans and/or distressed assets. Staying liquid and ready to act was also seen as an opportunity. While I agreed with many of these responses, I cautioned them to avoid getting out of their element and making sure they have the resources, infrastructure and acumen necessary to work the market, especially on the fringe with the higher risk "opportunities" that could easily backfire and come back to bite them.

Greatest Capital Market Opportunities

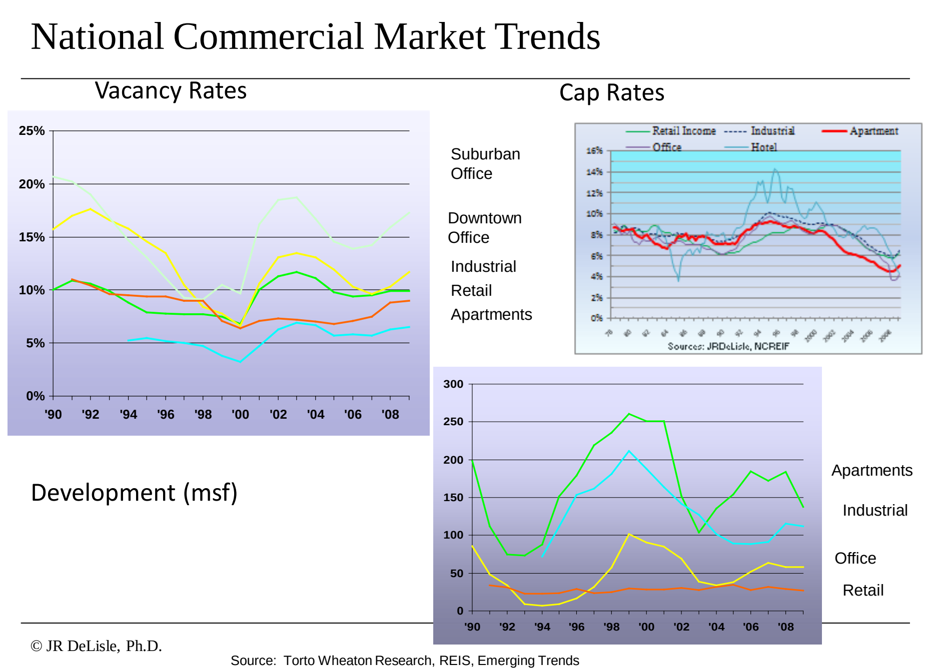
- Large portfolios at wholesale pricing
- Class A assets, quality Assets in markets, that lack liquidity
- Buying real estate in a "short sale" prior to a formal forclosure
- Providing a take-out for the CMBS market
- Buying non performing loans at a discount
- Bringing tons of equity...cash talks...show me the money...
- Good performing assets tainted by other poor performers in their submarkets
- Purchase of debt on non-performing assets, discounted loans
- Pick up fire sale assets; use value left on the table to reposistion
- Stay liquid
- Private equity

Part I-C: Where We're at on Fundamentals



Spatial Fundamentals

In looking at the snapshot of the spatial market --supply and demand for real estate-- the bottom line echoes that of the broader economy and capital markets. That is, there is some additional downside risk associated with a combination of a slowing economy, tighter credit, a renewed interest in risk, and weakening fundamentals. That situation should prevail over the near-intermediate term, with commercial real estate lagging the broader economic recovery which is well into 2011 at best. These will be interesting and challenging times with some opportunities for those willing and able to take advantage of the market malaise and lack of capital.



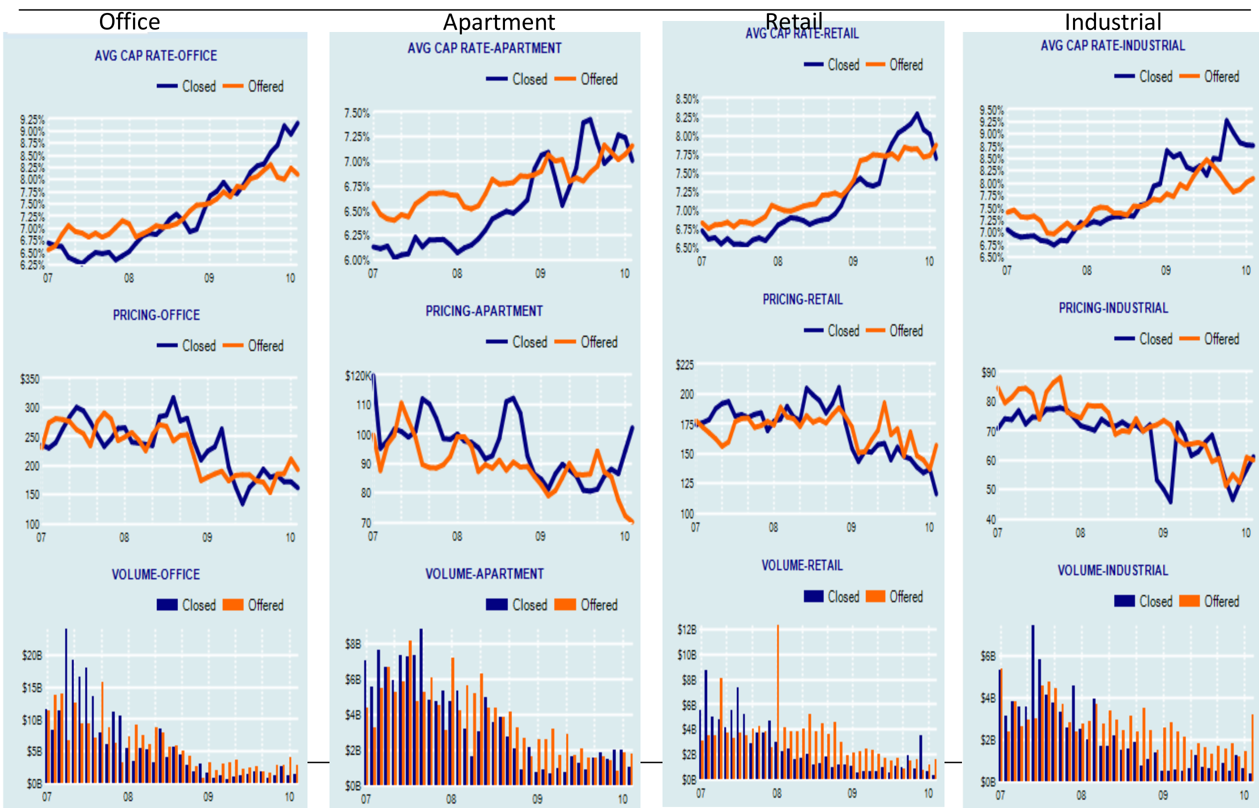
National Commercial Market Conditions

The commercial real estate market fundamentals are deteriorating across-the-board with rising vacancy rates and falling rents dominating the news. On the other hand, development activity has plummeted with the exception of projects in the pipeline. In some markets, developers have been forced to abandon projects during construction while in others they have filled in holes in anticipation of a long hiatus. This situation is expected to continue with further erosion in market fundamentals limiting additions to supply.

Trends in Cap Rates and Transactions

The deterioration in real estate fundamentals across the major food groups, has led to a consistent increase in cap rates for closed transactions. The flight to quality and competitive atmosphere surrounding the good projects that have come to market have led to a convergence between bid and ask spreads. This situation is likely to change on the flood of distressed assets in the market and attention shifts to risks inherent in such investments. The pricing of assets that have sold has also trended downward, although not as much as cap rates have risen. This anomaly has been due to the higher quality of assets that have actually closed as well as a limited transaction volume in the face of significant capital chasing scarce deals.

Trends in Cap Rates, Pricing and Transactions



Source: Real Capital Analytics

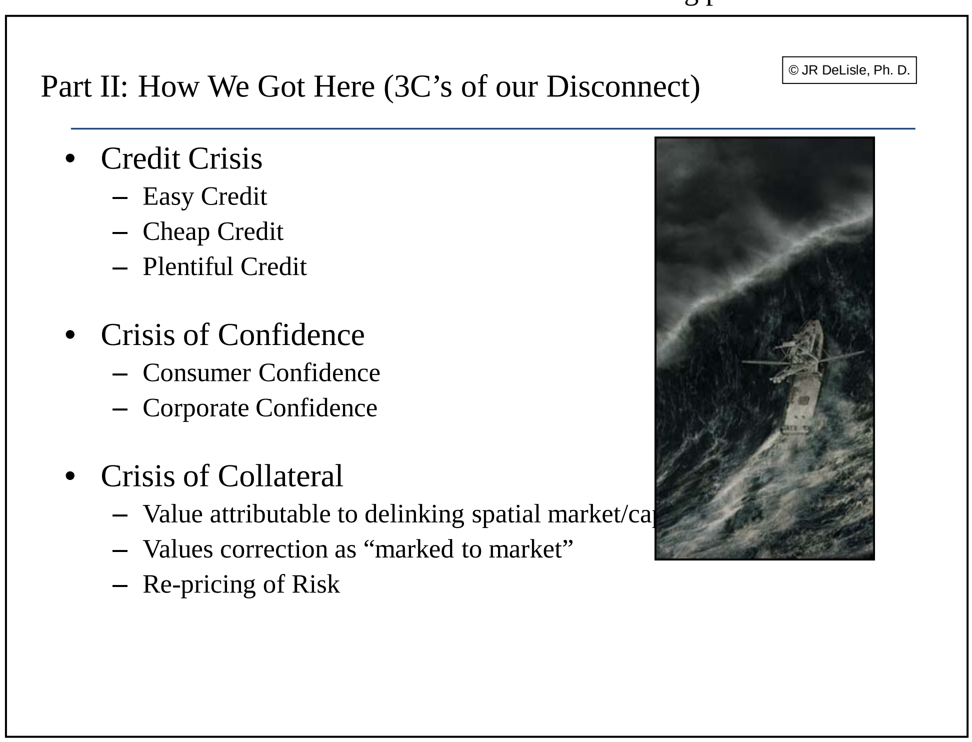
Part II: How we Got Here

Overview

Looking at both the economic and capital markets, there are a number of danger signals for commercial real estate. For the first time in years, capital flows may actually decline as assets are repriced and owners forced to come up with more equity at higher yields that are commensurate with the attendant risk. The prospects of a deep and prolonged recession create significant downside risk that has yet been priced into the market. To get a better handle on the future, it is useful to spend some time exploring the dramatic if not traumatic events that got us to where we are today.

The Three C's of Our Disconnect

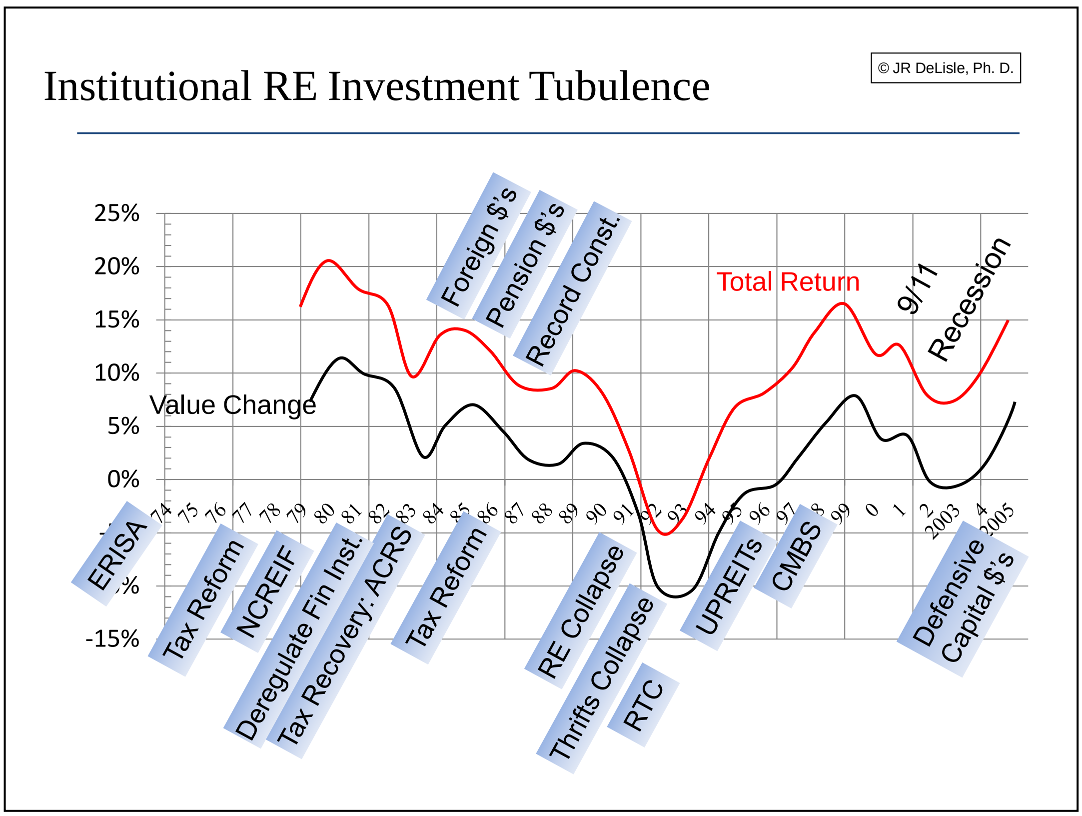
We are facing an unprecedented confluence of seemingly independent, but related events. The problems began to surface in the residential credit markets. Once attention was drawn on festering problems in the residential market, some began to worry about whether this was a symptom of a broader problem. Those who began to explore how widespread the credit practices were in other sectors, realized that we had created a house of cards. As attention turned to the broader economy, the credit crisis quickly turned into a crisis of confidence. The crisis of confidence was contagious, rippling across



the consumer and corporate spectrum forcing many players to revisit expenditure patterns. Once confidence levels were eroded, the market faced the double-whammy of tightening or evaporating credit. This quickly translated to erosion in collateral values, leading to a self-fulfilling prophecy which became a black hole that started the implosion.

Institutional Real Estate Turbulence

In order to understand the impending crisis facing the commercial real estate industry is useful to take a historical look in to see if we can extract the lessons learned from the past. The seeds for institutional real estate investment were planted with the passage of ERISA in 1974. The most significant impact of the legislation was to raise the “prudent man” criterion to the “prudent expert” criterion. Under the prudent man criterion, institutional investors to could rely on “risk management by avoidance” and ignore real estate investing based on its inherent complexity. However, under the prudent expert criterion, if real estate is an asset class, institutional investors and asset allocators were required to commit resources to achieve diversification. By 1978, institutional capital flows to real estate were still limited, due in large part to the absence of the return a series of asset allocators could use to understand how real estate with other asset classes. To address that need the real estate units of the major life insurance companies including Prudential, Aetna, Cigna and Equitable created the National Council of Real Estate Investment Fiduciaries (NCREIF). The objective of NCREIF was to create a time series for real estate returns that asset allocators could use along with stocks, bonds and other asset classes in making asset allocation decisions.

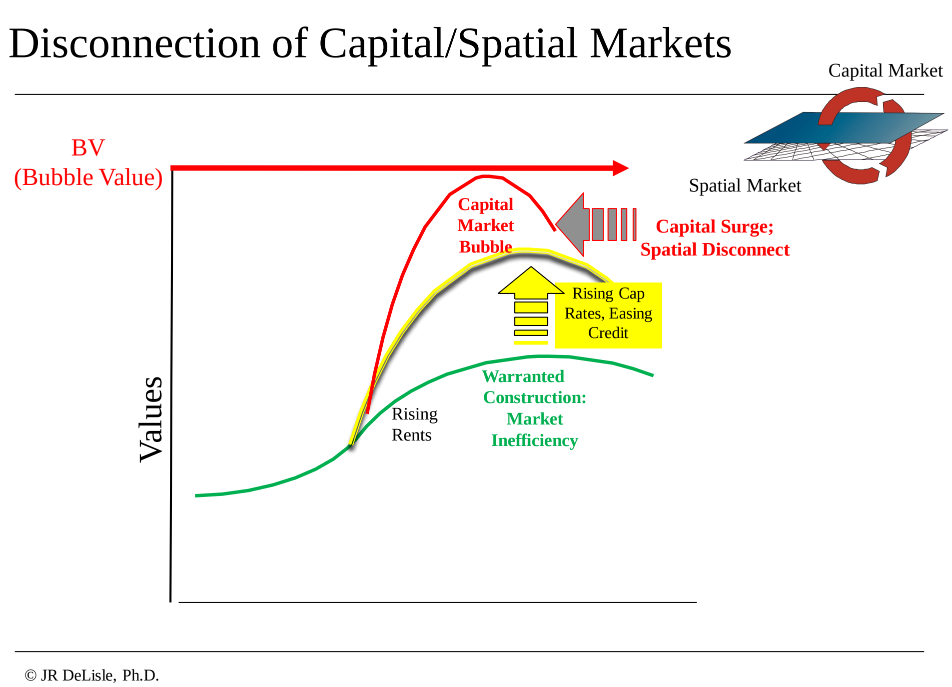


In 1981, financial institutions were deregulated and allowed to create development subsidiaries. In 1982 the Economic Tax Recovery Act (ERTA) creating double declining depreciation was passed. This attracted more capital for syndicators, who doubled up with foreign investors and pension funds to create a surge of capital to real estate. This created a disconnect between the spatial and capital markets. This led to overbuilding which ultimately led to the collapse of latter 80s. Other than disposing of troubled assets, the real estate market shut down. When the commercial real estate market collapsed, the RTC was created to work off that debt financial institutions. In 1992, faced with the prospect of filing bankruptcy, Taubman decided to file an IPO and convert to a REIT and was quickly joined by a spate of other owner/developers including Simon, DeBartolo, General Growth and a number of smaller players. Around the same time, while the RTC was wrapping up its business, Wall Street investment banks and others sought to convert the temporary securitization of commercial real estate to an ongoing activity. During the mid-to latter 90s REITs grew from under a $10 billion industry to over $200 billion, while CMBS volume rose from nothing to a similar market cap.

Our success in recapitalizing the real estate market was quickly adopted across the globe, setting the stage for the worldwide collapse of credit and real estate markets that is now occurring. In 2001, the 9/11 tragedy attracted investors to real assets –including real estate -- as defensive investments with some inherent and enduring value. Benefiting from an improving economy and the government's support of homeownership for all and complete trust in self-control by financial institutions, the housing market went on a bull run characterized by easy credit. Thus, both the commercial and residential markets became disconnected from the fundamentals (i.e., Wall Street vs. Main Street or Capital Markets vs. Spatial Markets). This disconnect led to the recent collapse since easy created permeated all asset classes and became an accepted mode of operation. Unfortunately, the problems in the commercial market have yet to be recognized with attention being focused on the residential market and the broader credit markets. The disconnect that occurred on the commercial side that has yet to receive attention suggests hard times ahead.

Disconnection of Capital and Spatial Markets

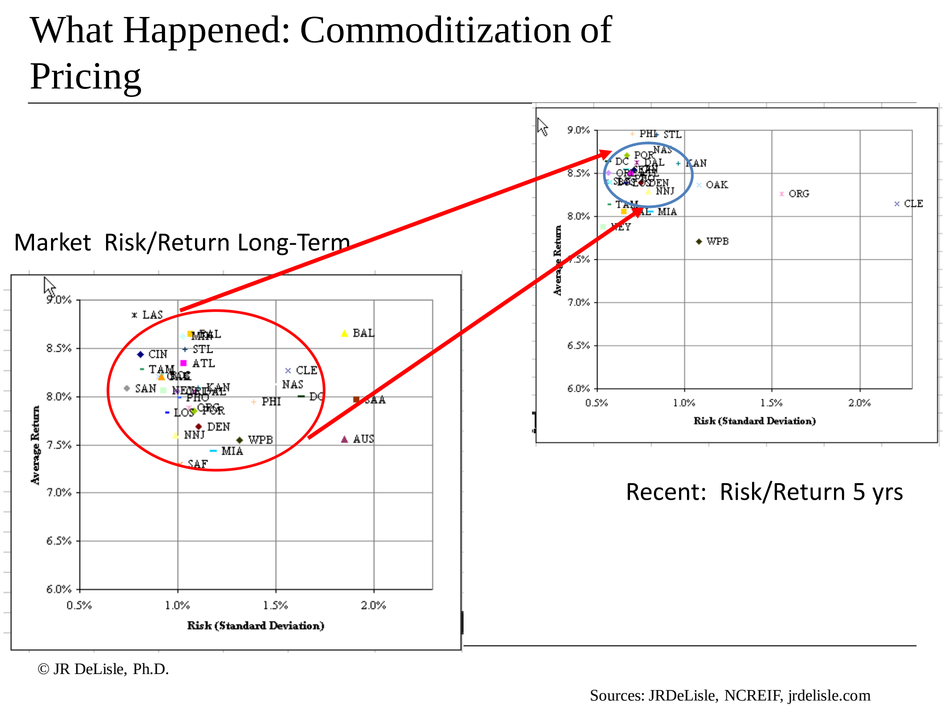
The real estate asset class is inherently cyclical, with periods of over and under building. This can be attributed to the lags in production, capital intensive nature, and typically large size of transactions. As such, developers tend to over-react to market conditions and lead to periods of overbuilding. On the other side of the cycle, after developers pull back, market conditions tighten up and drive rents up and vacancies down. The result is improved returns which depending on conditions in the broader



macroeconomic environment and performance of real estate relative to other asset classes can lead to a capital market surge. This situation was exacerbated by the absence of an appreciation of the importance of underlying real estate market fundamentals, with investors and lenders either ignoring the risk component or managing it by transferring it to other parties. This led to the peak of the commercial market in 2008 in which properties were traded at bubble prices.

Commoditized Pricing: Market Compression

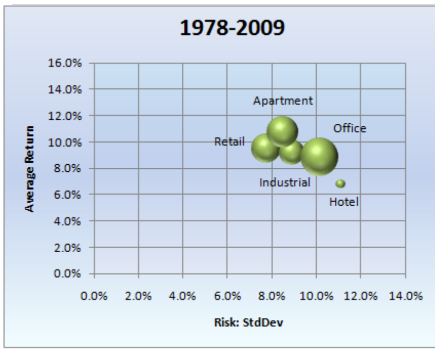
One of the “buy-products” of the disconnect between spatial and capital markets was the trend toward commoditized pricing. This term refers to the fact that investors --and indirect capital providers-- failed to price risk associated with property types and markets. As such, prices converged from historical levels. This is illustrated by comparing the long-term risk/return plots by market with the more recent risk/return plots stemming back some 5 years. As noted, markets were drawn into a narrow band due in large part to surplus capital flows. Going forward, returns are expected to diverge or move to longer term levels along with the attendant risk. Respondents to the survey were somewhat divided on the question of whether commoditized pricing is behind us, with a slight majority believing that fundamentals would once again prevail as investors focused on the risk side of the equation. If this occurs --as I believe it will-- 2nd and 3rd tier markets with limited exit strategies will face particular challenges, as will weaker product which in the recent past benefited from the rising tide of values. On the other hand, there will be opportunities for those who can pick and time markets --which is possible in real estate-- as well as those with an understanding of fundamentals and the ability to “create value.”

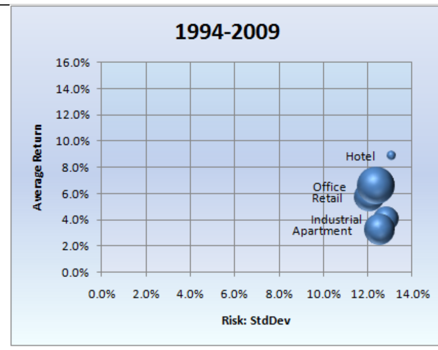


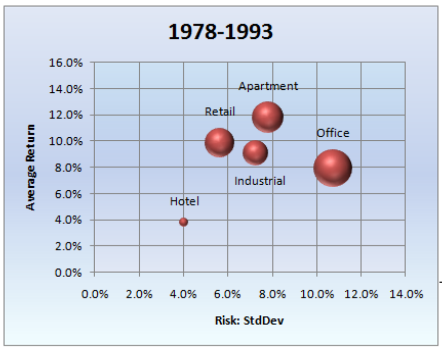
Commoditized Pricing: Property Type Compression

As in the case of markets, the institutional real estate markets experienced significant commoditization across property types over the past decade. This is reflected in the shifts in the risk/return positioning of the office, retail, industrial, apartment and hotel sectors noted in this slide. Over the long term from 1978-2009, retail properties exhibited the lowest risk (i.e., standard deviation), while hotels had the greatest. In the 15 year period from 1978-1993, hotels had the lowest risk, while office properties had the highest. Finally, during the past 15 years, property types converged around the same risk level, which was elevated from the initial period and exceeded the highest level experienced by office properties. Going forward, risk and return are expected to diverge, returning to longer term levels which will add more uncertainty to the asset class.

Institutional Property Type Commoditization







	1978-09		1978-93		1994-09		3Q 2009
Type	Average	Std Dev	Average	Std Dev	Average	Std Dev	Mkt Cap *
Retail	9.5%	7.8%	9.8%	5.6%	12.1%	5.7%	$ 54.13
Industrial	9.2%	8.9%	9.1%	7.3%	12.8%	4.1%	$ 37.09
Apartment	10.7%	8.5%	11.8%	7.8%	12.5%	3.2%	$ 59.10
Office	8.8%	10.2%	7.9%	10.7%	12.4%	6.6%	$ 88.75
Hotel	6.8%	11.1%	3.8%	4.0%	13.1%	8.9%	$ 4.76
Total							$ 243.82

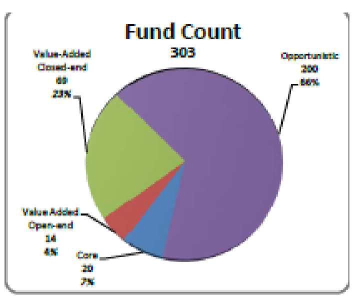
Sources: JRDeLisle, NCREIF * Market Cap in $billions as of 3Q 2009

Sources: JRDeLisle, NCREIF, jrdelisle.com

Mission Drift: Core to Opportunistic Strategies

During the 1980s, institutional investors favored core investments with little appetite for value-add or opportunistic investments. Indeed, those terms weren't even coined until the mid-90s when advisors tried to differentiate themselves –all at the same time– and expanded their product lines to include higher return investments that could compete with Wall Street vulture funds which dominated the market in its early recovery phases. Over the past 10 years, this pattern was completely reversed, with value-add and opportunistic funds comprising over 90% of

Types of Institutional Allocations by Strategy



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%

Sources: JRDeLisle, NCREIF, jrdelisle.com strategies for investors in the NCREIF universe. The collapse of the commercial market and the disappointing performance of higher risk funds caused a reversal of fortunes, as punctuated by CALPERs which announced it is shifting back to a more traditional strategy after racking up significant losses. Other pension funds are expected to continue this trend setting the stage for significant increase in asset takeovers and upward price pressure on “core” assets.

Part III: Where We’re Going

A Prelude to Revolutionary Phonetics, Before and After

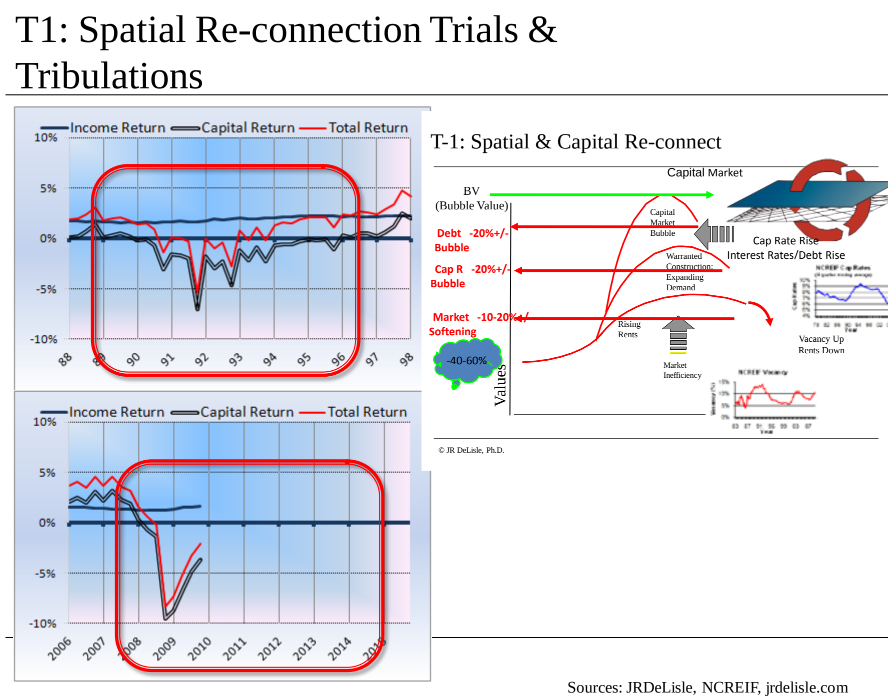
In this difficult environment, many of us are either laughing or crying. Since there’s a fine line between the two emotions, it’s important to step back and take a fresh look at where we’re going. To that end, I coined some “revolutionary” phonetics to emphasize some of the fundamental changes that are occurring, with even more to come. While they may not be in a dictionary or glossary of real estate terms, they do help one pause and put on their critical thinking hats; that is the goal anyway. The series of de-words refer to some of the industry practices and market “norms” that dominated the recent past. These ranged from value losses and capital withdrawal to the disconnection between the spatial and capital markets. They also refer to current market conditions and the dearth of activity, although deals still dominate some mindsets. Going forward, we are looking at a change of mindsets which will be affected by a change of players or by adoption of new rules, which in many cases are merely a return to fundamentals and the original set of rules under which the game was played. Unfortunately, many forgot these rules and it was much more than a game. The R-words are reflective of this new order; at the same time, they are not new. Recapitalization and reconnection will be challenging but not impossible to achieve. In the meantime, fundamentals and relationships will rule.

Part III. Where We’re Going:
Revolutionary Phonetics, Before and After

D-words: The Way It Was/Is	R-words: The Way it Will Be
• Decapitalization	• Recapitalization (partial)
• Devaluation	• Revaluation (partial)
• Denormalization	• Renormalization (new norm)
• Derecourse-ification	• Recourse-ification (old norm)
• Deal deprivation	• Regurgitation (deal choking)
• Distress-ification	• Repositioning (value creation)
• Decapitulation (denial)	• Recapitulation (give up, strategic)
• Disconnection	• Reconnection (spatial/capital)
• Deal domination	• Relationships rule
• Defensive moves	• Retirement woos

T 1: Spatial and Capital Market Reconnect

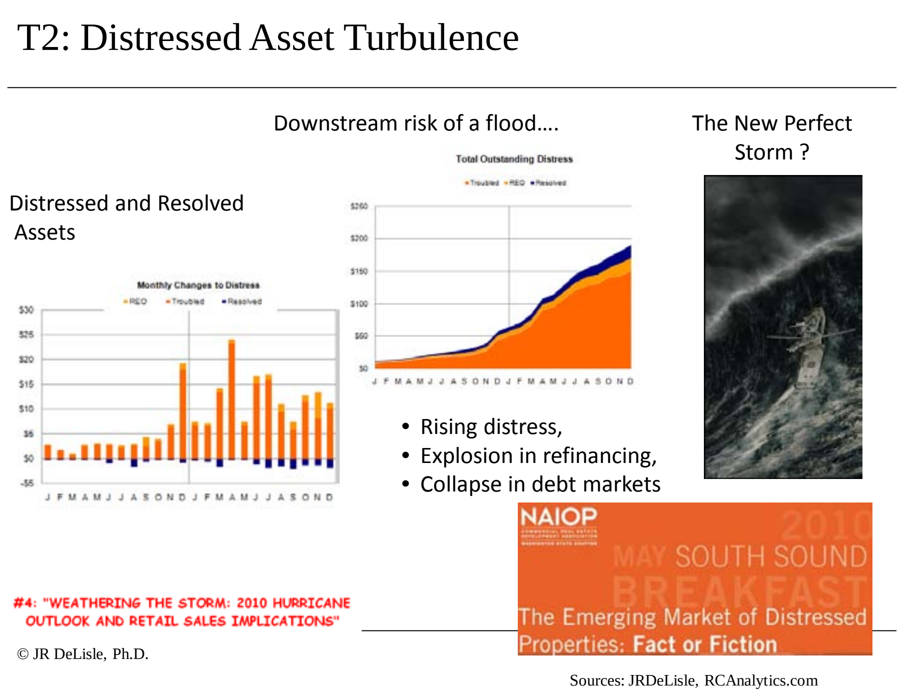
As noted earlier, the unprecedented convergence of cyclical forces –exacerbated by easy, cheap, plentiful credit and a lack of focus on risk-- converged to create bubble pricing. Once the bubble burst and it became clear that values were unsustainable, values collapsed as capital pulled back, cap rates rose and market conditions deteriorated. Drawing on my experiences in the 90s and what I have seen in terms of the spatial/capital divide, I believe institutional property in mark-to-market accounts may lose 40-60% of value before the cycle begins to turn. If so, we're slightly more than half way there which suggests we are in for more difficult times ahead. This is illustrated by comparing the recovery period in the 90s to where we are in the current market. Clearly, we are in for some turbulent times, with few prospects for an instant fix. Even when



the market does recover, it will not get back to the bubble pricing, with recovery pushing some 80% of the old peak when the market fully recovers. Even then, pricing and values gains will depend on underlying market fundamentals, with emphasis on risk/return ratios and a general aversion to risk.

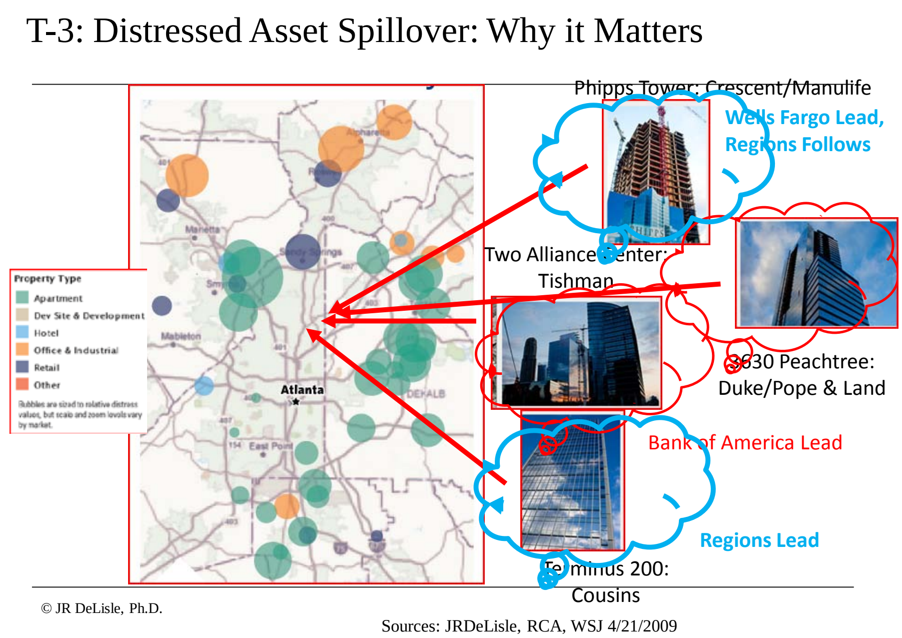
T 2: Distressed Asset Turbulence

While transaction volume in the commercial real estate market has been relatively slow, the surge in distressed assets suggests that situation will change over the next 12-15 months. When these assets hit the market and begin to clear, the market will be flooded with a tidal wave of



potential deals. In terms of scale, as of April 2010, the pent-up supply of distressed assets approached $300 billion. This figure understates the potential scope of the impending crisis. For example, it does not include performing mortgages in bank portfolios that are in danger of falling into distress as market conditions deteriorate. It also fails to recognize the downward pressure on values as the market tries to absorb distressed assets when they ultimately come to market. At some point, holders of distressed assets and special servicers will be forced to try to unload them, regardless of underlying fundamentals. Unless there is some type of intervention, which doesn't appear likely, the situation will be reminiscent of a perfect storm.

T3: Distressed Asset Spillover



Some owners of commercial real estate and some recent buyers who have been swooping up stronger assets take solace in the fact that their assets are performing well and have good fundamentals. While such assets will serve them well in the long run, it is important to recognize that the potential disposition of distressed assets at bargain basement prices may create some spillover effects that drag down values of strong assets. For example, distressed buyers who are able to acquire assets for 40%-60% of "value," will likely try to lure tenants to their buildings using their lower cost basis as a floor which would allow them to undercut rents. Even if owners can keep tenants in place, net market rents are likely to experience additional downward pressure, creating a further drag on appraised values. These effects will be especially pronounced in mark-to-market accounts which will be forced to document the extent of unrealized losses in their holdings. While this situation will tend to cure with the market, the interim effects will create additional turmoil in the already stressed market.

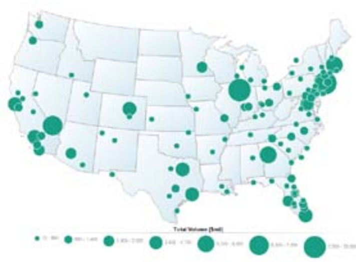
The potential for these spillover effects can be highlighted by exploring the distribution of "currently distressed" and "potentially distressed" assets in the Atlanta market. These troubled spots were then superimposed on a map indicating the imminent delivery of four major speculative buildings in Buckhead, one of the leading submarkets in Atlanta.

The slide also notes the "doubling down" of some of the major banks who have assumed significant risk exposures in concentrated areas. To the extent that distressed buyers are willing to discount rents to capture tenants, grab landlords should be on notice and paying much more attention to their existing tenants. Indeed some owners are renegotiating leases to try to extend the terms in return for a reduction in rents. The strategy may become more widespread but may also be delayed as tenants are developing a better understanding of market conditions and the outlook for commercial real estate.

T4: Foreign Capital Flows to Real Estate

The influx of foreign capital has been critical to the economy as declines in real estate values made such investments attractive, both in absolute and relative terms as the US lags the world in its recovery. While foreign capital flows will be an important part of the re-capitalization, they will not help avoid the additional downturn on the horizon. That said, competition for managing foreign capital flows will be heated, making it difficult for potential investors to sift and winnow among the "compelling" stories that will be put together. Unfortunately, low barriers to entry in advising individual offshore investors will cloud the picture, placing capital in the hands of some who will lack the market connections, real estate acumen and experience necessary to target and then ultimately manage complex assets, many of which will need to be repositioned to create enduring value.

T-4: Foreign Capital Flows to US: 1Q 2010



Strategies for Winning Chinese Real Estate Investors:
What Developers, Owners, Fund Managers, and Professionals Need to Know

May 10 – 11, 2010, at Harvard Graduate School of Design

"China Investment Corp Invests $800 million in Morgan Stanley Real Estate Fund"

"Jin Jiang Hotels JV to Acquire Interstate Hotels and Resorts--$307 Million Deal"

"China State Construction Corporation to Invest $99 Million in Baha Mar Resorts;China Exim Bank in Negotiations to Provide $1.9 Billion Construction Loan"

Top Property Types

	Total Props	Total Volume (in mil)
Strip	847	$18,613.5
Warehouse	785	$8,486.5
Mall & Other	560	$14,686
Garden	509	$10,830.3
Office - Sub	498	$17,782.5
Office - CBD	320	$54,159.5
Limited Service	238	$2,052.2
Full-Service	111	$8,597.4
Mid/Highrise	103	$3,685.8
Flex	100	$2,317.4
Other	80	$8,978.9
Total	**4,151**	**$150,189.9**

Tax changes in US planned to ease financial burden on foreign commercial property investors

News - Latest
Written by Ray Clancy
Wednesday, 28 April 2010 12:00

The new bill also would treat the sale of stocks by foreigners of a REIT that is less than half foreign owned as a stock sale and not subject to US taxes.

The Real Estate Roundtable, an industry trade group, said it hopes the changes would lure about $100 billion sitting on the sidelines back into the US commercial property market.

Sources: JRDeLisle, WSJ.com, RCAnalytics.com

T5: Changing of the Guard

One of the more difficult challenges for recent players in the market will be a changing of the guard. That is, the role of some of the more successful players over the past 5-10 years will likely change, with some stepping up their game and others reducing or leaving the playing field. For example, after a difficult 2008, REITs have been

T5: Changing of the Guard

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Last updated: April 28, 2010 09:51am
Caruso JV to Invest $750M in Retail, Mixed

- REITs
  - Have reversed downward spiral
  - Significant new capital raised through Sept 2009
  - Low Dividends suggest accretive opportunities
- Global Investors
  - Western European
  - Middle East
  - Asia/Australia
- Domestic Funds
  - Positive denominator
  - Core vs. Opportunity Funds
  - New Value-Plus Funds

WSJ, April 27 2010

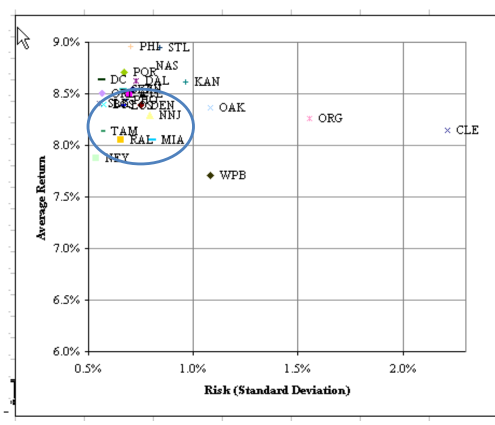
doing fairly well with a number of larger REITs raising some $12 billion of capital in the first half of the year. The ability to raise capital for the otherwise distressed asset class is reminiscent of the mid-90s when REIT market cap surged from sub-$10 billion to some $200 billion. Offshore investors will also likely be active players in the US real estate market when it begins to move, although the US real estate recovery is expected to lag other developed nations. Finally, a number of existing and new domestic funds will be established over the near term as sponsors try to take advantage of the market malaise and the strong talent who could implement successful investment programs on the street. A number of sources have suggested that well over $200 billion of equity capital has been assembled to acquire commercial real estate at distressed prices. While much of this capital remains on the sidelines, it is interesting to note the general sources of capital that are lined up.

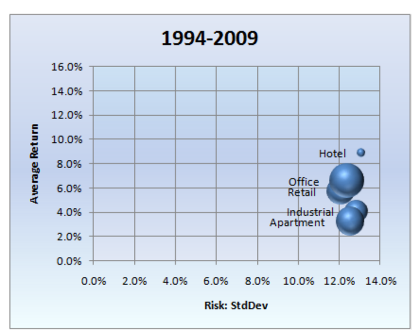
T6: Widening of the Two-Tiered Pricing System

Although transaction levels have been relatively low, the transactions that have occurred reveal the emergence of a two-tiered pricing system in which core assets (e.g., proven assets, fully leased, solid cash flows) are trading at a much higher value than distressed assets. This situation is likely to hold, although the glut of distressed assets that will hit the market is likely to create some convergence as buyers find it difficult to identify core assets from the impending flood of listings. At the same time, the “decommoditization” of the industry in which prices converged across markets and property types will be a painful process, leading to even greater widening of the gap between good and bad real estate. Without an understanding of real estate fundamentals, many of the new players in the market will not be able to differentiate, throwing the risk/return equation out of balance. Unfortunately, such players will be caught in the turbulence and have to face the ultimate recognition that a rising tide will not right all ships; some assets will continue to languish and will not be able to regain lost value, especially those for which there was no true value proposition in the first place.

T6: Widening of Two-Tiered Pricing System

Decommoditization





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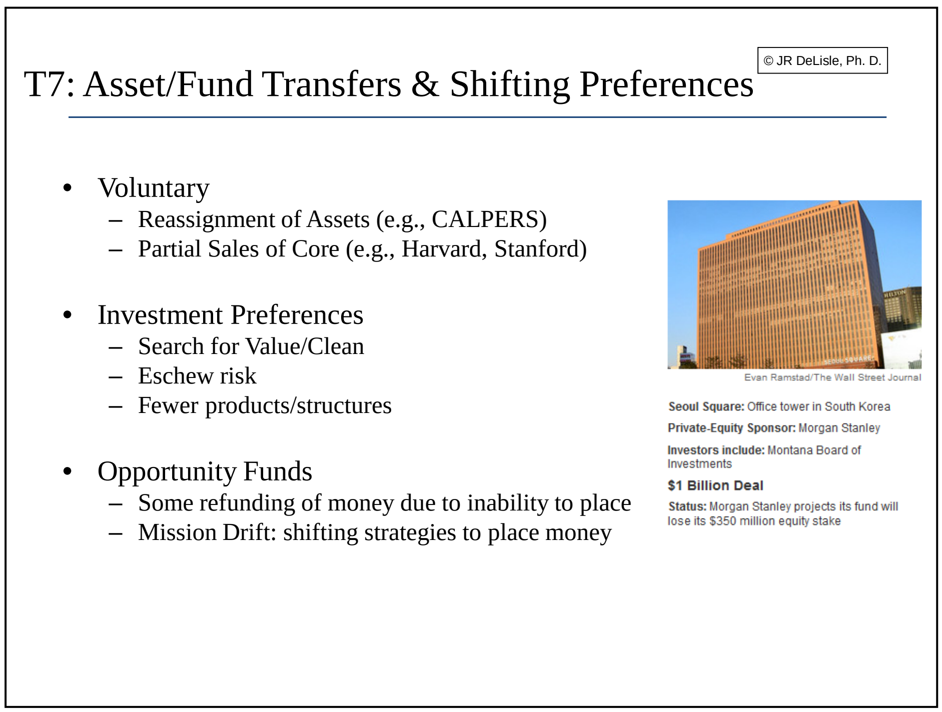
Sources: JRDeLisle, NCREIF, jrdelisle.com

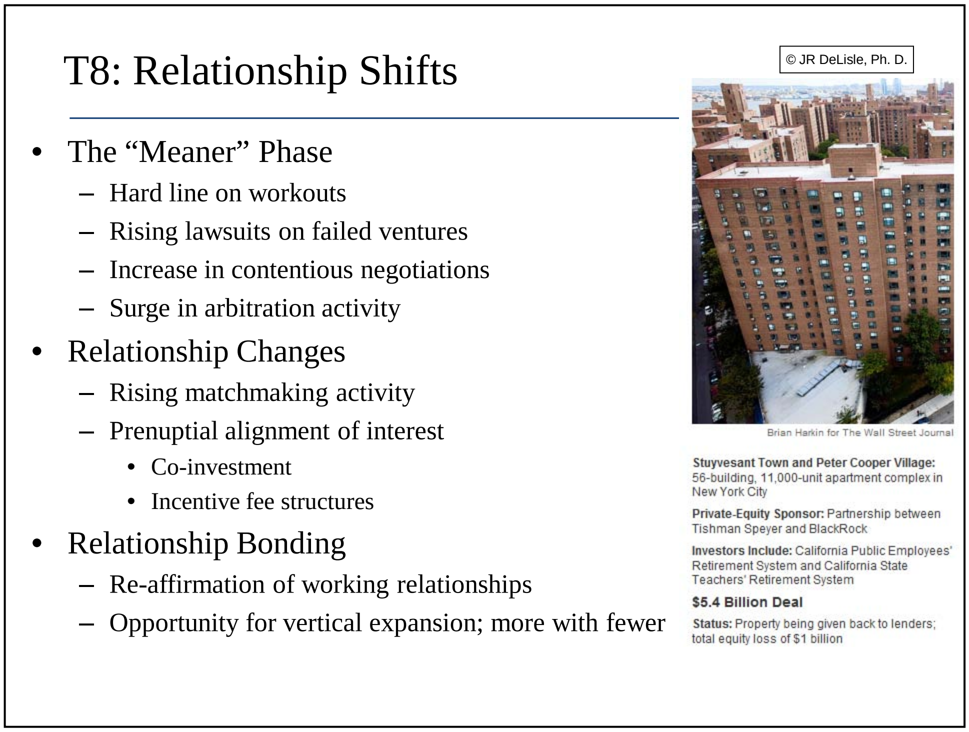
T7: Asset/Fund Transfers & Shifting Preferences

The private institutional real estate market has lost some 38% of value as reflected in the NCREIF Commingled Open-end Index. The numbers have been even more pronounced for the Value-Add and Opportunity Funds tracked by NCREIF and Townsend. Thus, the "risk" side of such investment strategies becoming painfully clear although few investors focused on that side of the equation. Another source of funds –separate accounts– which are dedicated funds and ventures managed by advisors on behalf of pension funds and other institutional investors, have gone unnoticed. The exception is CALPERs which has taken center stage in firing managers and reallocating assets as a result of disappointing performance and prospects for even more losses. This is reminiscent of what happened during the early 90s when pension funds turned "meaner" and put the blame on advisors who they felt should have been able to avoid such losses. Going forward, we will see institutional investors try to correct these mistakes without dumping otherwise good assets by selling partial interests (e.g., Harvard, Stanford) or hiring new managers to take over existing assets. At the other end of the spectrum, new funds will find sourcing assets that generate high double digit returns promised in prospectuses extremely difficult, especially if they are not willing to roll the dice and get ahead of the market. Some will refund money while others will turn to more exotic investments, including emerging markets where it will be difficult to monitor risk and determine if investment returns are commensurate with risk. That is what happened in the 90s and a trend that helped lead to the globalization of the asset class. In this environment, balance and discipline rather than chasing deals will rule the day or at least buy some time to live another which, for many, may be a realistic goal.



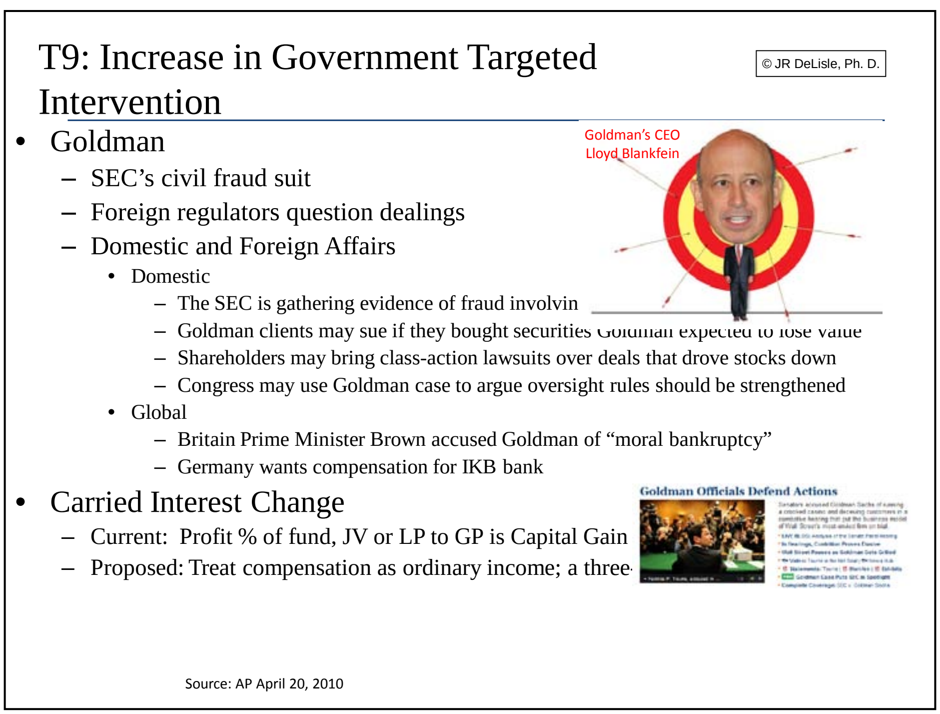
T8: Relationship Shifts

The recent turmoil in the commercial real estate market and the promise of more to come will test relationships among various players. This will create a difficult environment in which to conduct business, a trend that will continue for several years while the industry deals with the aftermath of the excesses of the recent past. Some relationships will be severed, while others will be re-affirmed. Investors will be looking for new advisors and consultants, changing captains as a way of navigating through the troubled waters. In addition to changing partners, the nature of contracts will change as investors seek to protect themselves through even greater alignment of interest using co-investment, subordinated fees and look-backs to ensure advisors and managers stay focused on the bottom line.



T9: Increasing Government Intervention

The political fall-out from the bailouts and stimulus programs the government introduced to help the economy through the recent recession and avoid the collapse of the financial system will hang over the country for a number of years. Indeed, outrage is likely to grow even stronger as taxpayers are forced to begin to repay the debt that has been racked up. The outrage over the Goldman scandal is symptomatic of more to come and argues that future bailouts will be highly unlikely until we are on the brink of, or just over, disaster. Thus, the commercial market will be on its own until things hit the breaking point which may well come with the surge of refinancing due to hit over the next three years and the ultimate flood of distressed assets pent up in the queue. The government is likely to look for additional revenue as in the case of the bill to repeal the carried interest treatment which has subsidized



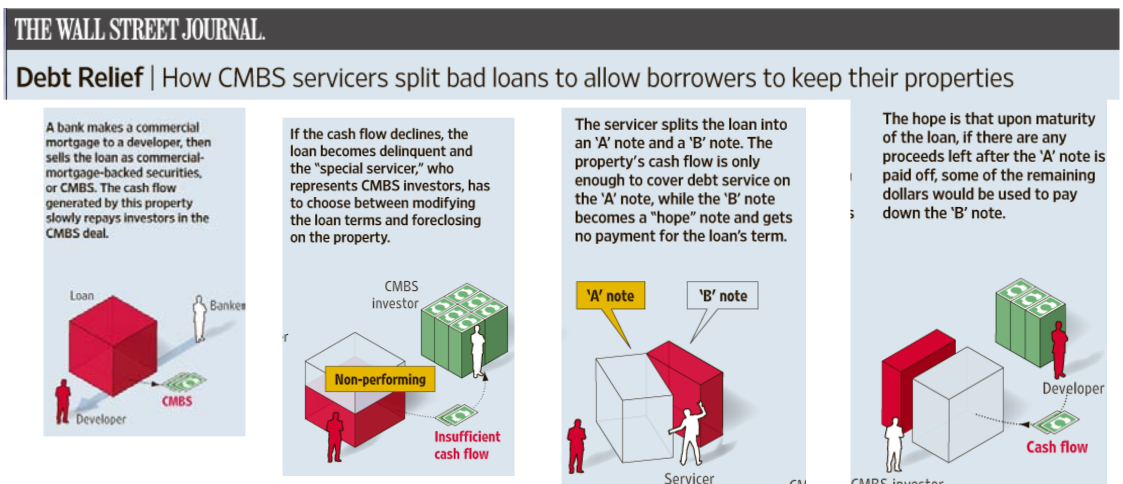
general partner compensation. The potential for such “wipeouts” should be closely monitored, especially since lobbying by interest groups is likely to be less effective due to public scrutiny and outrage. So, we’re in for challenging times indeed.

T10: Renewed Search for Next CMBS Sector

While the CMBS industry remains on its knees and delinquency rates rise even more, the search will be on for some “new” version of securitized debt to fill the $300 billion hole it left. This is especially true in light of the impending surge in refinance activity and the continued pace of downgrades. While the ultimate form of such initiatives is an unknown, financial engineers and Wall Street types will be at work creating new products and tranches that may appeal to investors. Regardless of the form these activities take, it is likely that the asset class and investments will be bifurcated or partitioned, breaking them into two or more categories with varying levels of risk. Unfortunately, it will prove impossible to financial engineer out of a bubble, suggesting that losses will have to be realized before the asset class can move forward and reverse its freefall. These developments will bear close monitoring as a leading indicator of when capital flows may begin to turn around.

T10: Renewed Search for CMBS Solutions

(e.g., Special Servicer Split Deal Structure)



04/23/2010. Goldman to originate a $77 m CMBS for Taubman Centers on a Michigan mall

- The REIT, use proceeds to retire an $81 m const. loan, pegged to 115 bp over Libor
- Originated in 2006, maturing in September
- Only a few banks closed CMBS: Bank of America, Deutsche Bank and J.P. Morgan.
- RBS and Natixis pricing the first multi-borrower CMBS since mid-2008…$309.7m…

Sources: JRDeLisle, WSJ.com

Part IV: Conclusion (or, the Rest of the Story???)

Greatest Challenges to Real Estate Professionals

To help prepare for the future, respondents were asked to identify the greatest challenges real estate professionals will face. The debt crisis will not go away and should be faced head on. Also, some new relationships will have to be formed but should be done very carefully and with the right partners. The answers ranged from survival, to preservation of capital. They believe the turmoil will not be short-lived, and should be faced with a sense of realism. Finally, professionals will also have to deal with significant changes as they reinvent their business models to adjust to these revolutionary times.

Greatest Challenge to Professionals

- Deleveraging/loan restructuring battling declining cash flows
- Maintaining an income stream to cover debt
- Maintaining portfolio value and good banking relationships
- Managing debt maturities, refinancing
- Loss of equity in bringing in partners to hold quality assets
- Figure out how to make deals w/out giving it all away
- Lack of development for an extended time period
- Staying employed and motivated; stay alive 'till “one-five (2015)”
- Survival of the fittest...getting a part time job that pays
- Re-inventing our business models
- Properly assessing credit risk of tenants
- Preservation of capital

What the Industry Will Look Like

Respondents were asked to indicate what the industry will look like in the future. Reminiscent of the “leaner” times I suggested, they thought there would be fewer players, with the stronger surviving if they opt to stay in the game. However, with a mature industry and long careers, some of the veterans will opt to retire or look for new playing fields. They also believe the industry will return to fundamentals and its core value proposition which, in the long term will be good but in the short term, extremely painful. Development activity will be scarce and entrepreneurs will have to take on more risk, especially for speculative deals. Time will heal some problems, but change is coming; what that looks like is still unclear.

What Will Industry Look Like in Future?

- Fewer players, limited development, less Leverage, More core
- Bad in the short run, good in the long haul as we reach balance
- Trend back to cap rates and return expectations of 80's and 90's
- Stronger survive and the market back to equilibrium.; so its good
- Entrepreneurial opportunities will be more limited as a result
- Lower yields based upon costs with fewer deals
- Speculative development will not occur for five to seven years
- Get back to fundamental- leverage, recourse debt
- The RE market will be the same, it will just take some time
- Increased equity limits smaller investors, a cash flow business again,
- We will need to change the way we are doing things today
- Change is good! No Clue!

What Should Developers Do?

Since many respondents were developers, they were asked to advise themselves; “what’s a developer to do?” As might be expected, answers were pragmatic, ranging from whatever it takes, to hibernating and taking a much-needed timeout. They also advised developers to cover their current assets, ranging from tenant retention to de-leveraging and project stabilization. While on the defensive for the most part, they also suggested that developers should be strategically opportunistic. That is, to look before they leap and focus on fundamentals and relationships. Entrepreneurial skills will continue to be important, although patience will also rule.

What Should Developers Do?

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- Manage costs, de-lever, focus on leasing and cash flow
- Keep existing tenants in place, take care of tenants
- Every thing they can to survive
- Stabilize and maintain existing properties and diversify
- Innovate...tee up projects...get entitlements in place
- Be ready to jump in with a bank on a stalled project
- Conserve cash, raise equity if you don't have any
- Stay alive - including maintaining past & new relationships,
- Reposition & prepare for the upturn
- Look for opportunities and be strategic
- Don't panic or pretend things are as they were
- Hybernate.

Reflecting on the Revolution

In the current stage of the real estate cycle, many difficult decisions will have to be made. Some lucky decision-makers will be focused on expanding wealth, while others will be focused on damage control and survival. However, while the market has already sustained significant losses and experienced tremendous wealth transfer, the current revolution argues that wealth expansion cannot be taken for granted by buying good assets alone. Value must be captured and retained, which will depend on the ability to apply solid fundamentals and critical thinking.

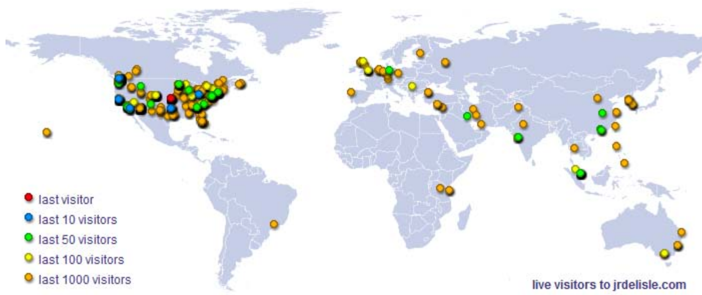
During this revolutionary period, being connected to the rapidly changing markets and having solid on-going relationships will be more important than ever. To help, I will try to stay on top of the unfolding scene and, where possible, try to get ahead of the curve. I offer my personal website http://jrdelisle.com with more features to come including an Ask DrD interactive element. My full text articles on Financial Views dating back 10 years are also available in the Market Watch section. Good luck and thanks for the opportunity to share my thoughts and to stay connected. For many it will indeed be a good time to go back to school and pursue formal real estate studies; a revolutionary concept for many. However, it is clear the next wave of industry leaders will need to master fundamentals to help guide us through the current crisis and help avoid the next. At the same time, we are all in school although rather than enjoying the safety of our ivory towers; some of us are in the school of hard knocks and will have to role with the punches in hopes of surviving.

So, It's Time for the Revolution ?????

COLLEGE CLUB APARTMENTS

Marcus & Millichap recently listed a Student Housing property in Ft Myers, Florida for a leading Special Servicer; the property known as **College Club , located in Ft. Myers, FL.**

- Strive to survive
- Go to great lengths to stay true to your strengths
- Don't forget the rule, "there's always school…."



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