
The Fall of our Discontent: Development Outlook 2012

NAIOP Development II Forum Presentation

by

James R. DeLisle, Ph.D.

October 18, 2011

Overview

- 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

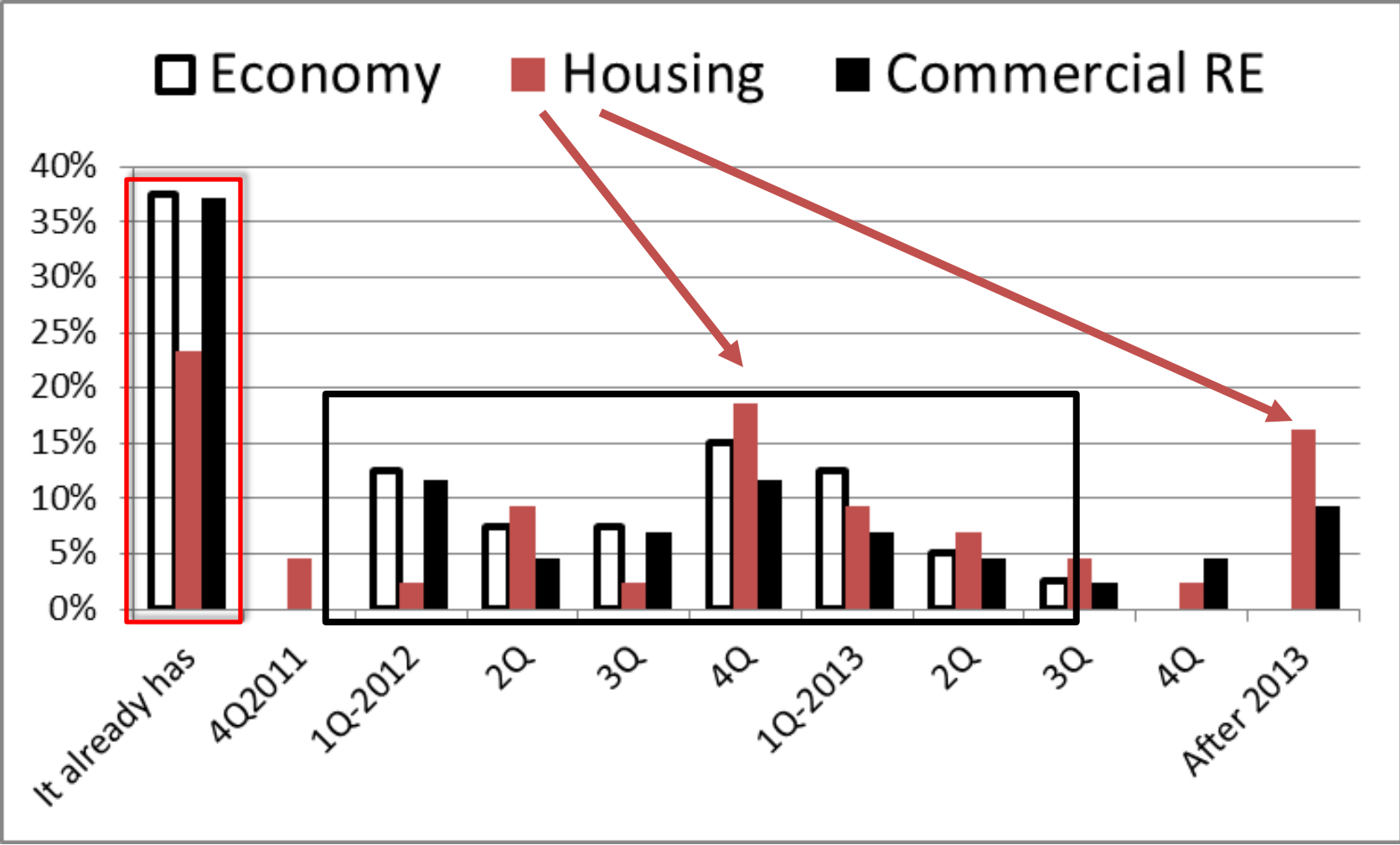
How many more years do you think you will be active in the real estate industry?

	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
Let's talk about your future career plans and how they may have changed.	0.0% (0)	5.0% (1)	10.0% (2)	35.0% (7)	30.0% (6)	5.0% (1)	5.0% (1)	5.0% (1)	5.0% (1)	0.0% (0)

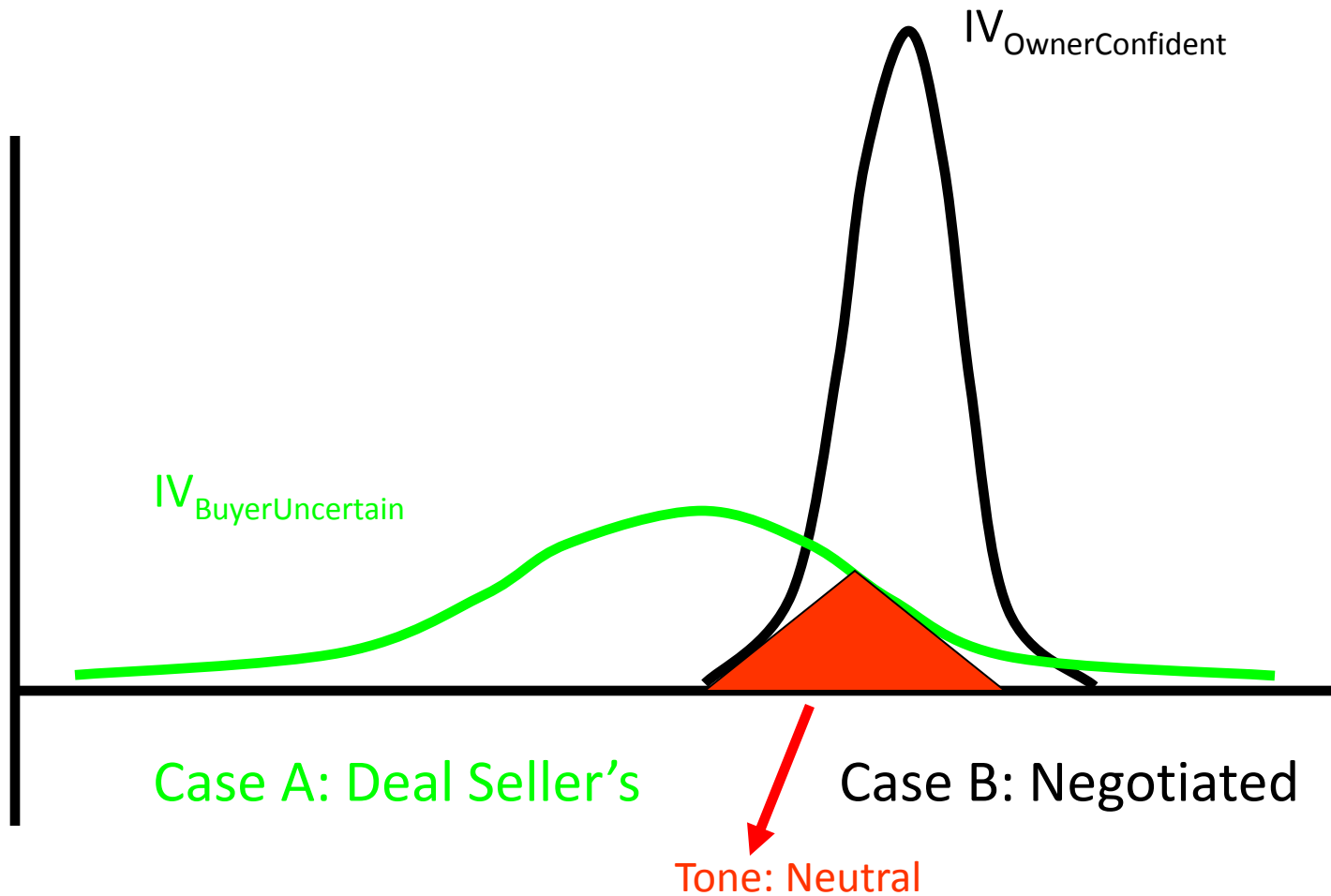
How have your retirement plans changed recently (i.e., # years shorter or longer) due to recent events.

	-10 years	-5 years	-2 years	No change	+2 years	+5 years	+10 years
Let's talk about your future career plans and how they may have changed.	5.0% (1)	0.0% (0)	0.0% (0)	60.0% (12)	0.0% (0)	25.0% (5)	10.0% (2)

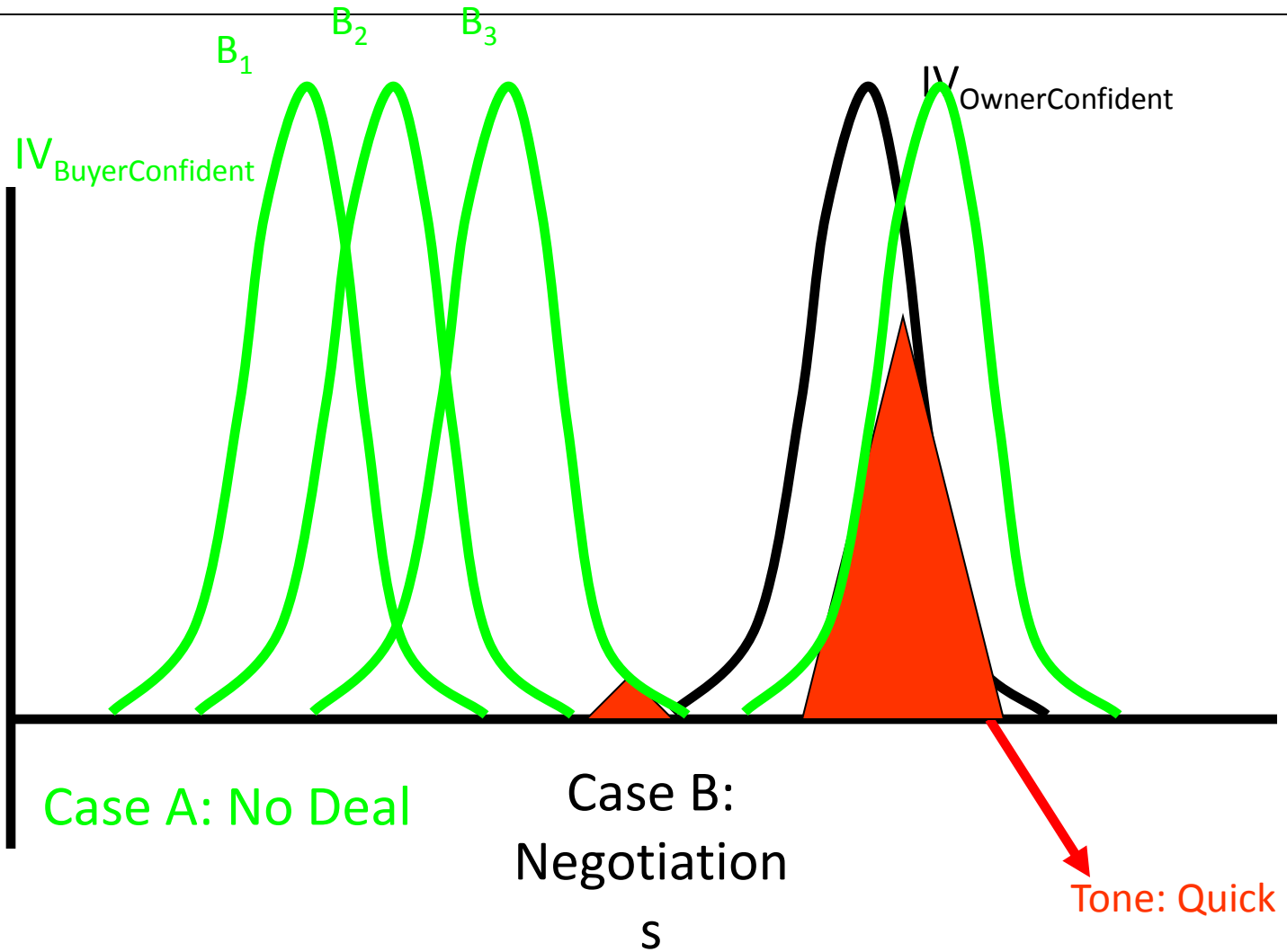
Market Timing: When Will Recovery Start



Confident Owner/Uncertain Buyer



Confident Owner/Buyer IVs

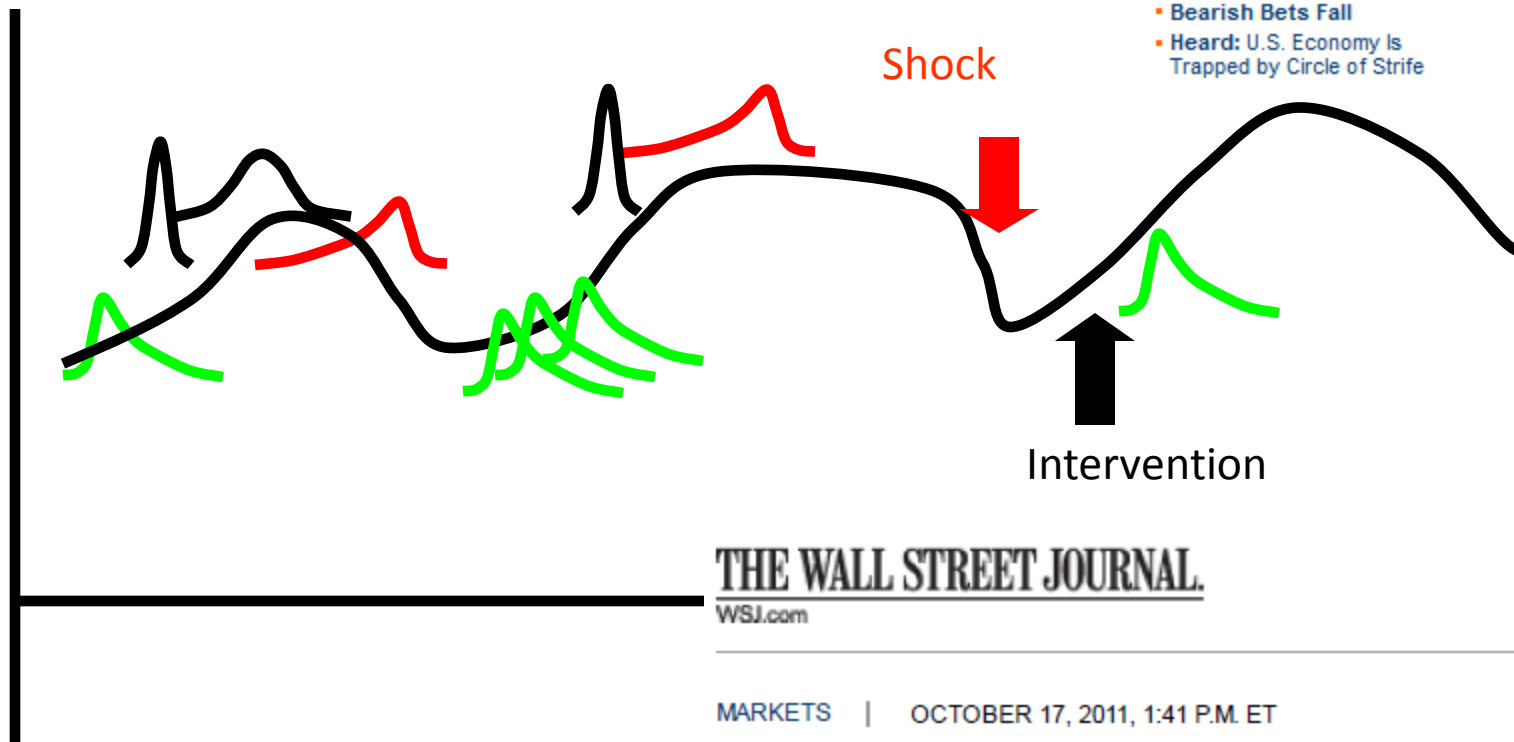


Market Expectations and Real Estate Cycles

Europe Knocks Wind Out of Stocks

Stocks staged a steep drop as fresh worries about European debt knocked the market off a 2 ½-month closing high.

- Bearish Bets Fall
- Heard: U.S. Economy Is Trapped by Circle of Strife



THE WALL STREET JOURNAL.
WSJ.com

MARKETS | OCTOBER 17, 2011, 1:41 P.M. ET

Bearish Bets Fall at NYSE, Nasdaq

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

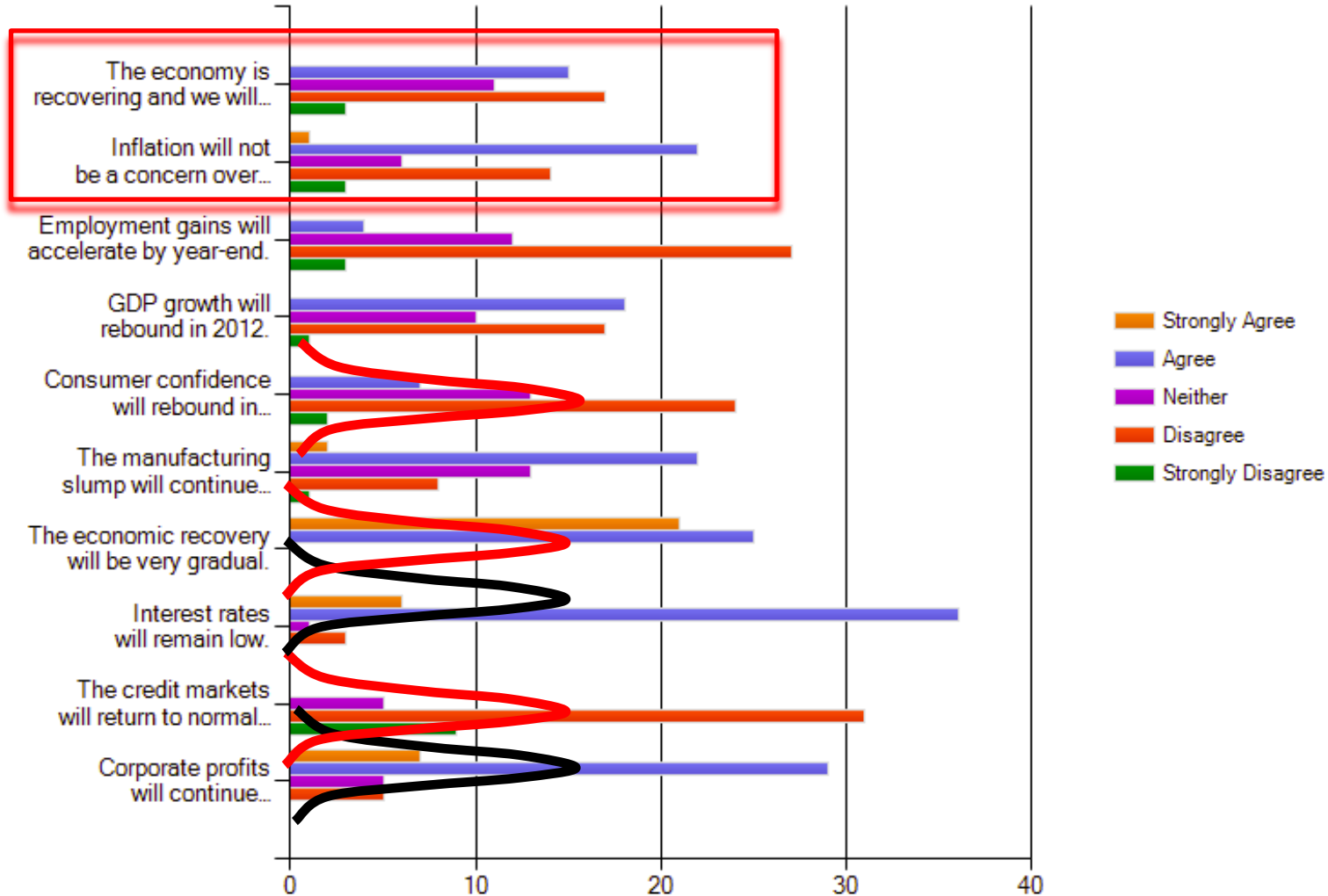
2011 Outlook

- 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

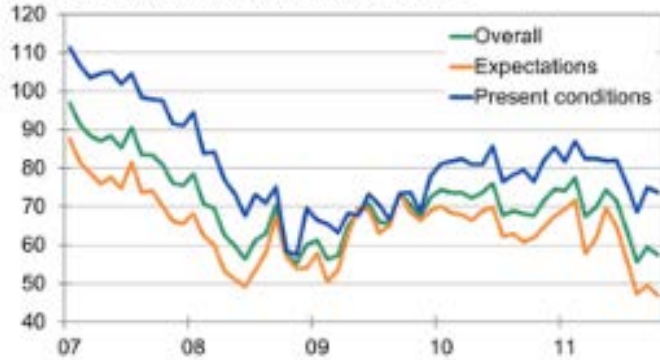
Agree/Disagree on Economy



Consumer Confidence & the TINR Principle

Consumer Sentiment Stalls in September

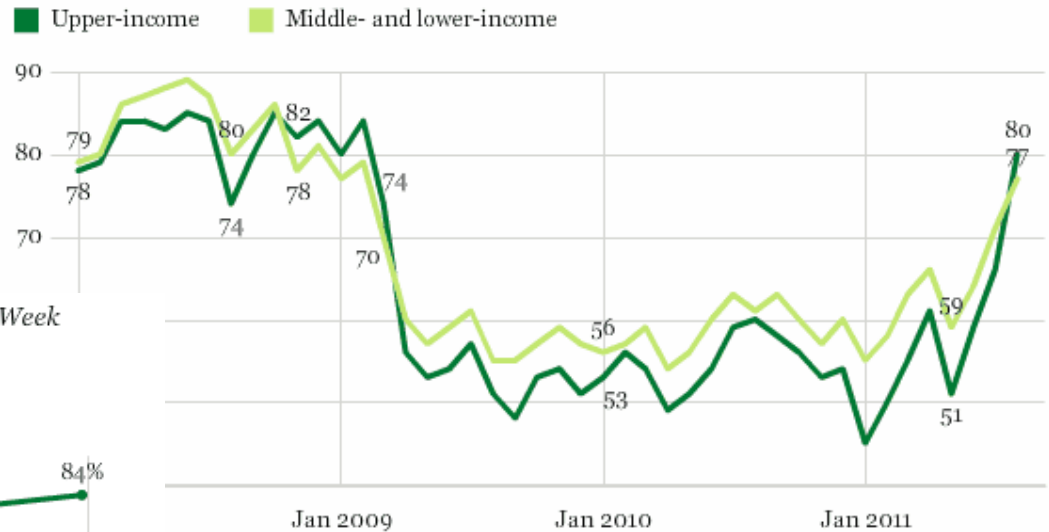
Michigan consumer sentiment, index, NSA



Source: University of Michigan

There Is No Reality

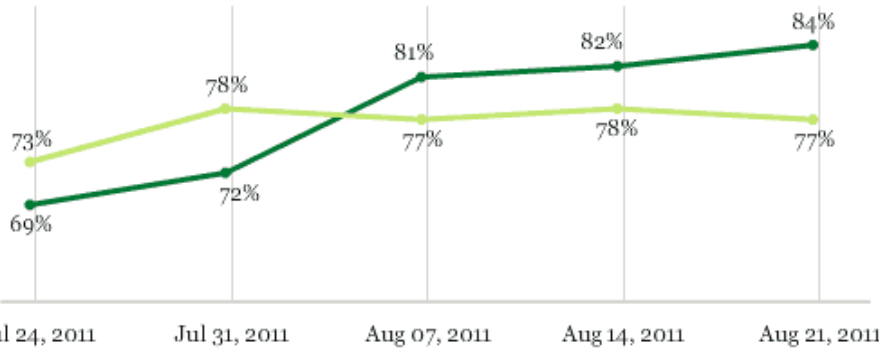
Percentage Saying Economic Conditions Are "Getting Worse" by Month, 2008 to 2011



Percentage Saying Economic Conditions Are "Getting Worse," by Week

July-August 2011

Upper Income Middle and Lower Income



© JR DeLisle, Ph.D.

Source: Gallup.com

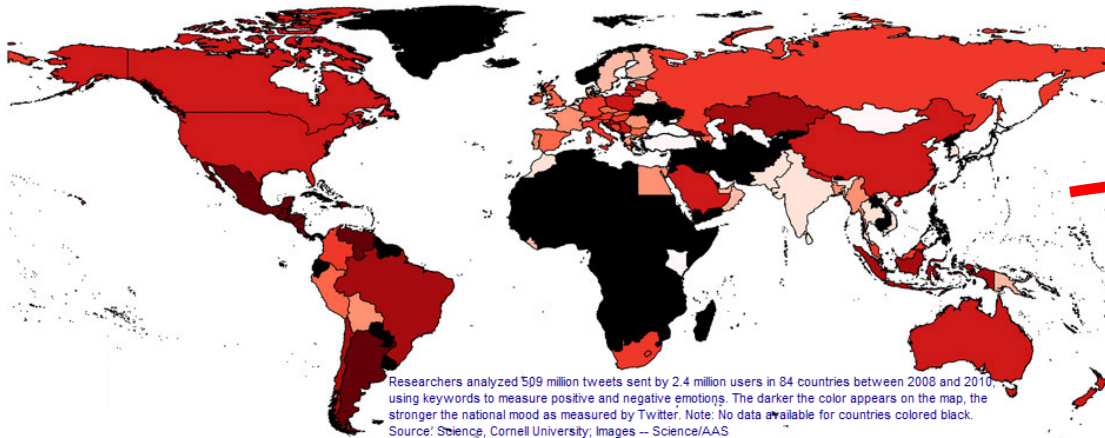
New Research: Informational Disintermediation

Twittering

Positive Feelings

Negative Feelings

Twitter's Global Moods



Negative state of mind

Blogging

WSJ BLOGS

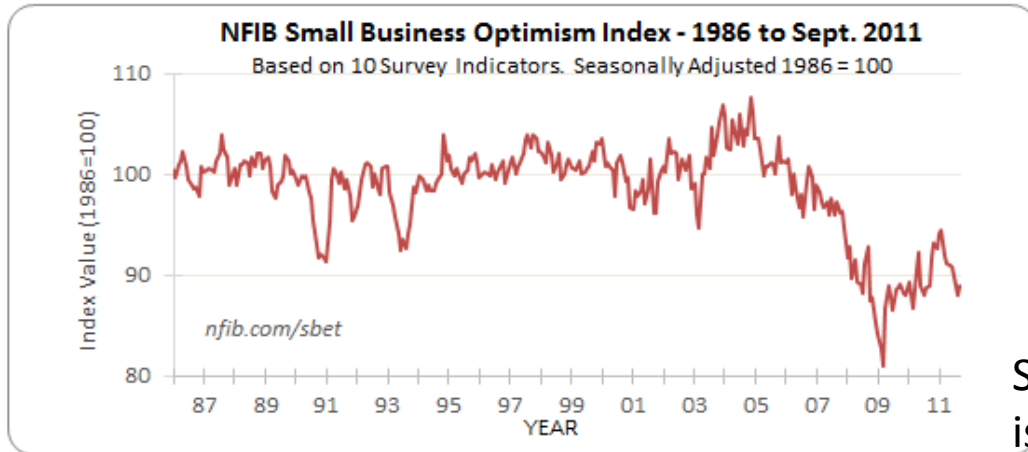
Deal Journal

An up-to-the-minute take on deals and deal makers.

OCTOBER 17, 2011, 5:04 PM ET

The Big Picture for Global Banks

Small Business Confidence: Where the Jobs Aren't

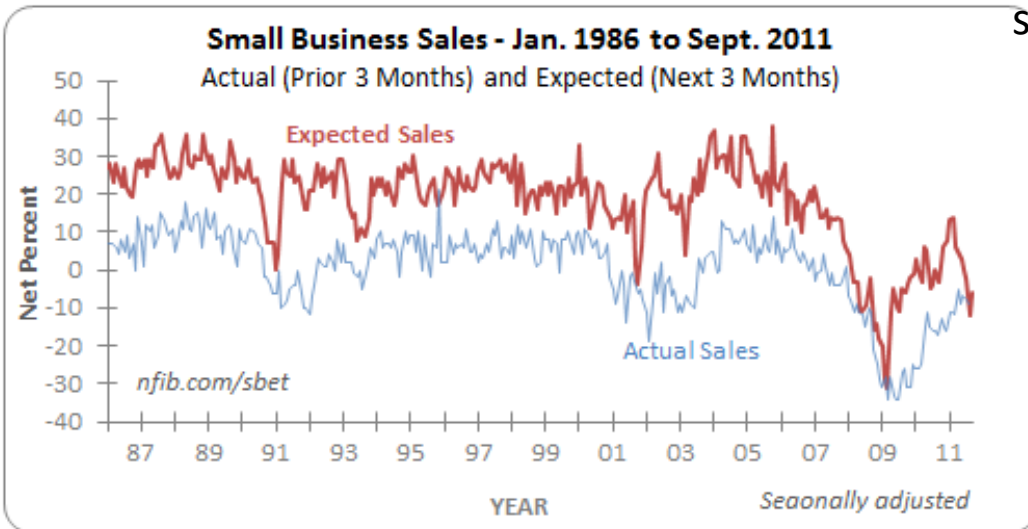


Sales vs. Credit
is driving
confidence for
small business

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
Total Change	9

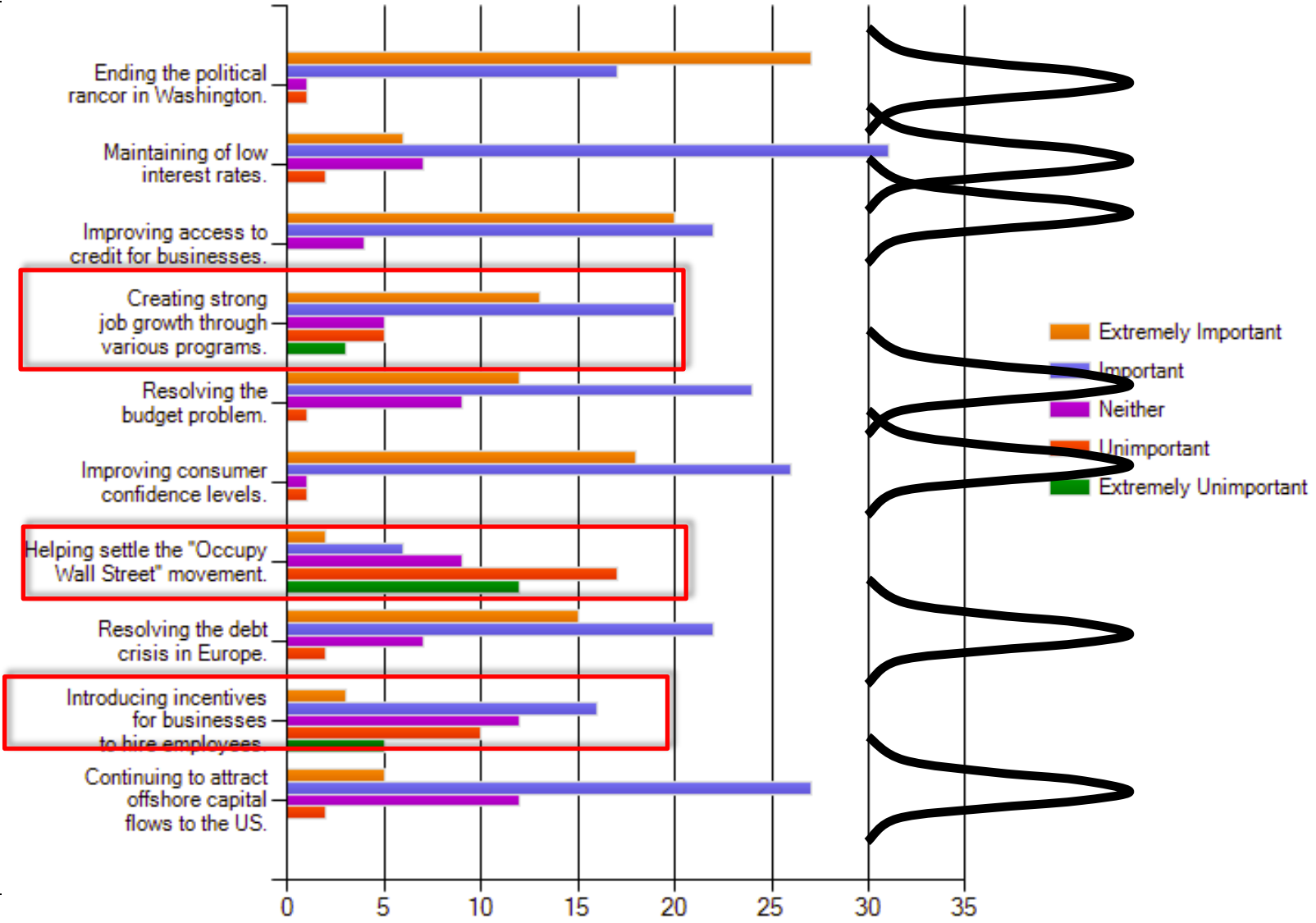
nfib.com/sbet



Help Wanted
Companies with fewer than 500 employees created 64% of net new U.S. jobs from September 1992 through 2010, though they employ just 55% of the private-sector work force.

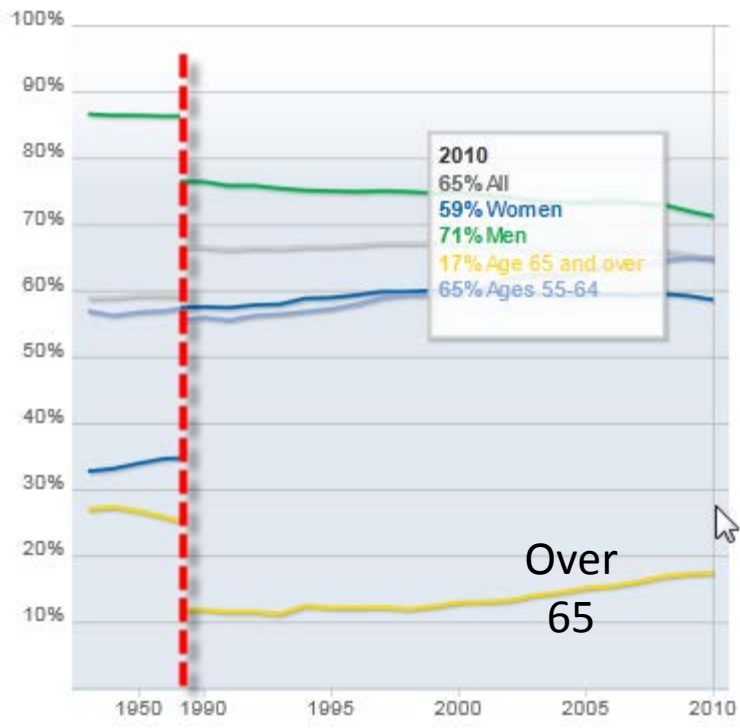
Firm size	Net new jobs
1 to 9 employees	13%
10 to 49	19%
50 to 99	10%
100 to 499	22%
500 to 999	7%
1,000 or more	29%

How Important to a Recovery?



Employment & Economic Trends

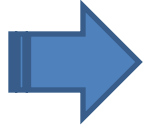
Labor Force Participation Rates



Bloomberg

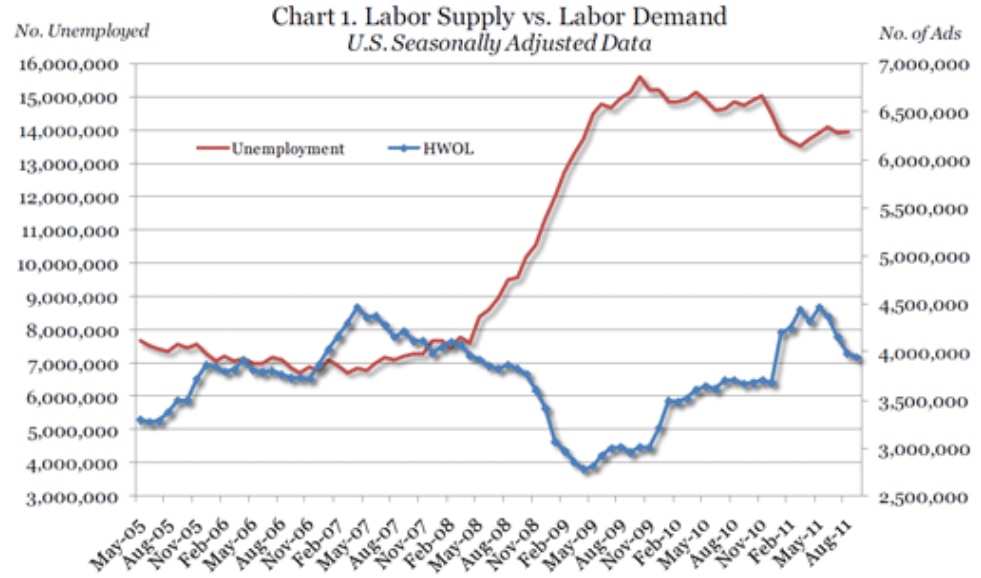
U.S. Senate Shelves Obama's \$447B Job Plan

Good news....



Source: Federal Reserve

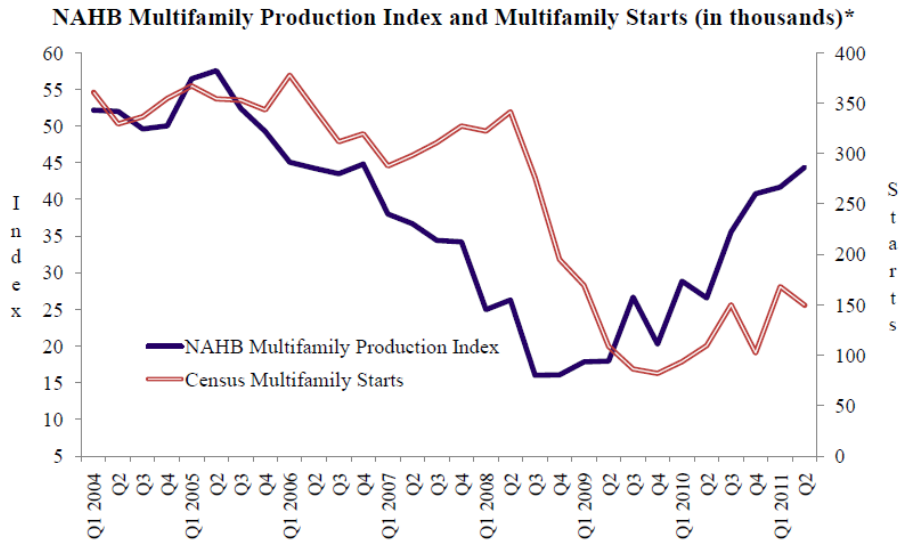
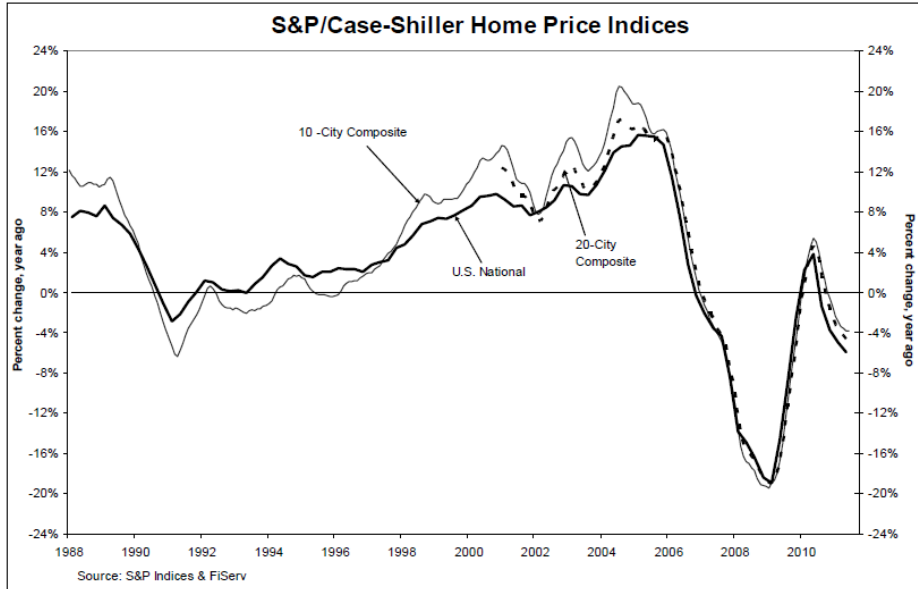
Labor Supply vs. Demand: Unemployment and Openings



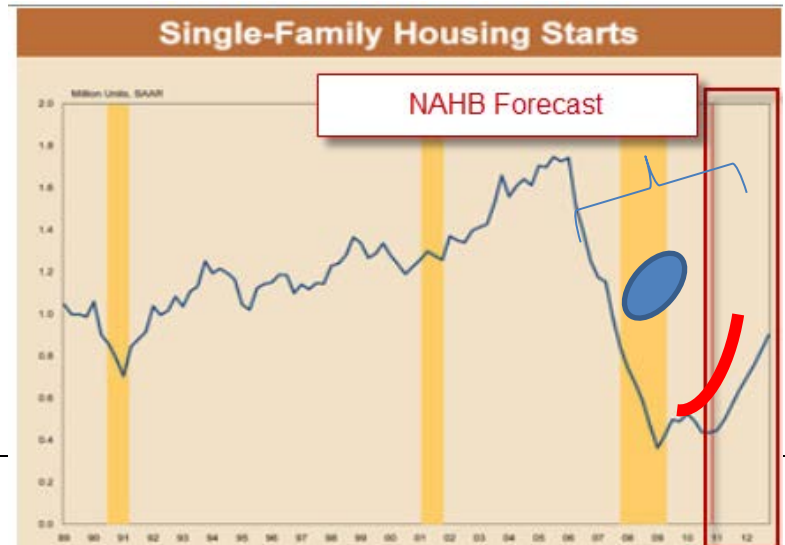
Source: The Conference Board

Housing Trends

Next Generation of Homeowners Are Freaked Out



Home Builder Confidence Rises Four Points in October



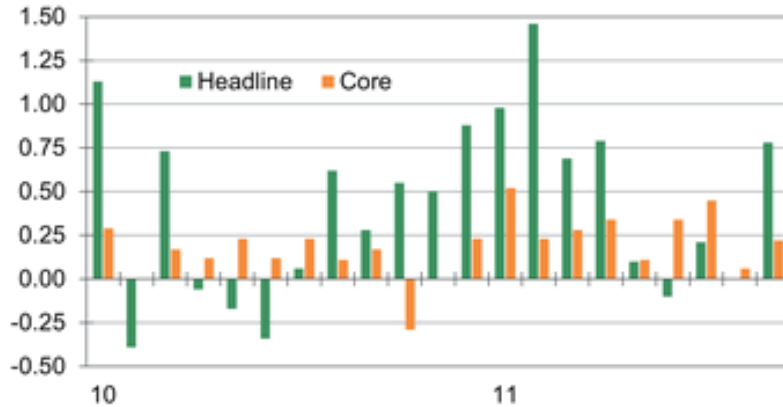
Inflation & Interest Rates

ECONOMY | OCTOBER 18, 2011, 11:34 A.M. ET

Wholesale Prices Indicate Continued Inflation Pressures

Producer Prices Rise More Than Expected

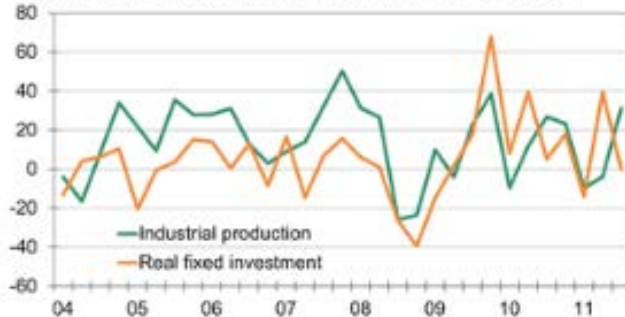
Producer price index, % change



Source: BLS

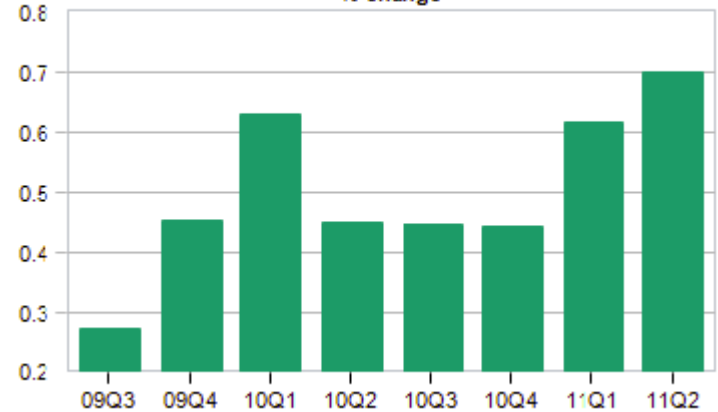
Another Solid Quarter for Business Investment

Computers and peripheral equipment, annualized % change

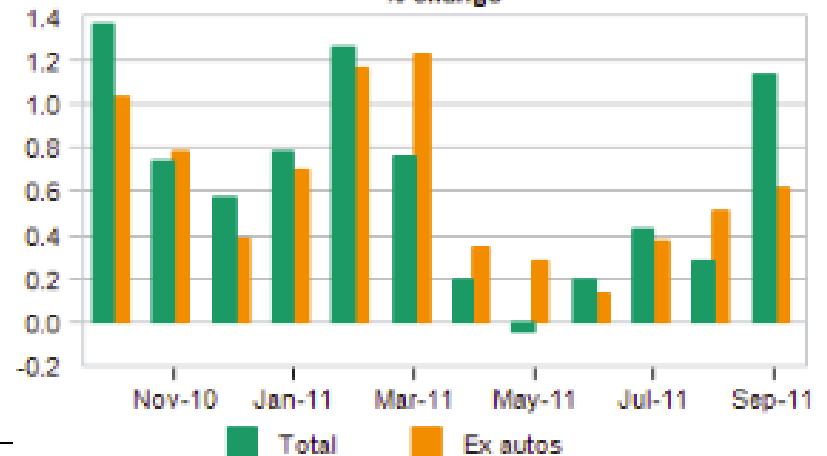


Sources: Fed, BEA, Moody's Analytics

Total Compensation % change



Retail Sales % change

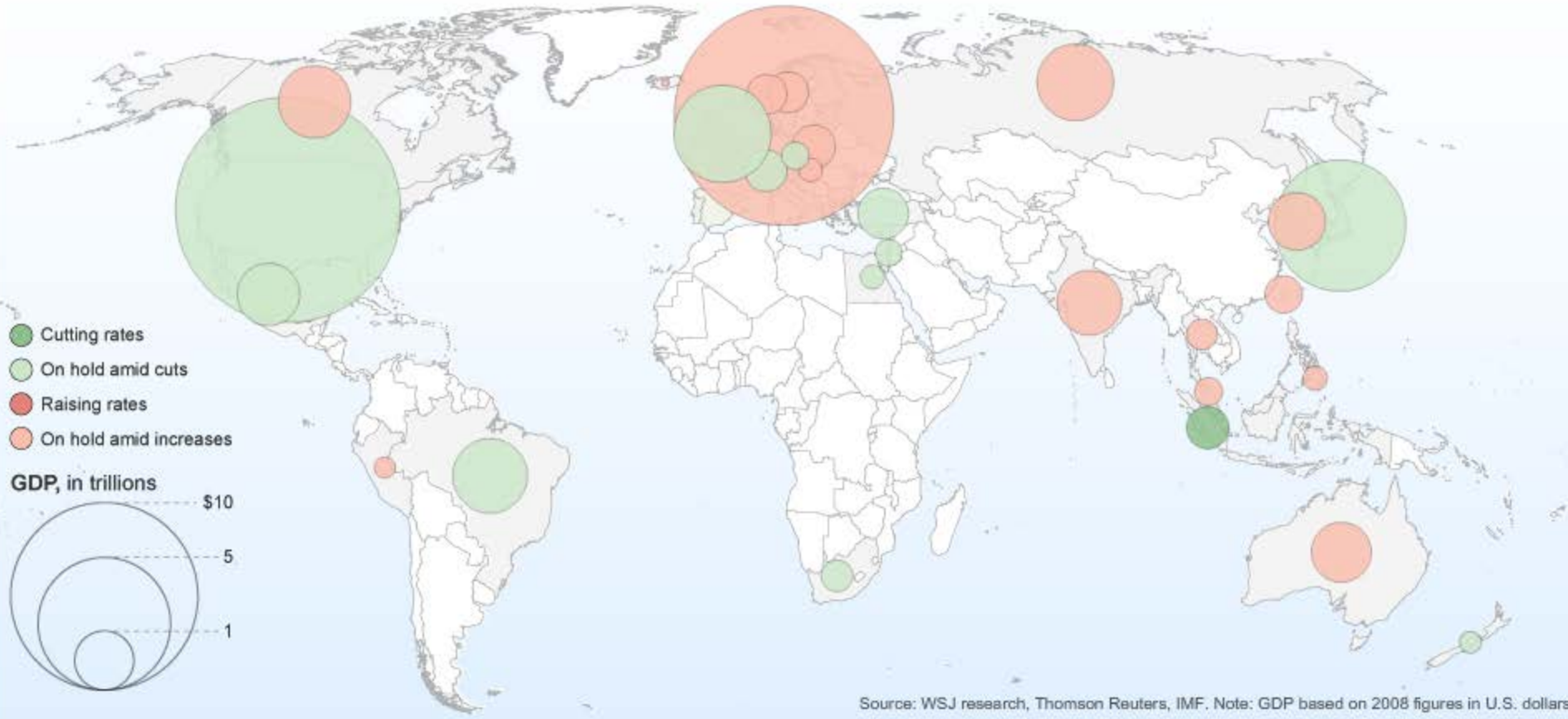


Global Interest Rate Targets: Changing Times

October 2011



2004 2005 2006 2007 2008 2009 2010 2011



What's the Fed to Do (Twist & Shout?)

OCCUPY DC

HOME SCHEDULE COMMUNITY PHOTOS PREPARATION

ECONOMY | SEPTEMBER 22, 2011

Fed Launches New Stimulus

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

Monday, October 17

- 11:00am Teach-in: Know Your Rights
- 12:00pm Political Education Discussions & Workshops
- 12:30pm Announcements
- 4:00pm March/Protest/Action
- 5:00pm Newcomer Orientation
- 6:00pm General Assembly
- 8:00pm Committee Meetings
- 8:00pm Teach-In: Know Your Rights

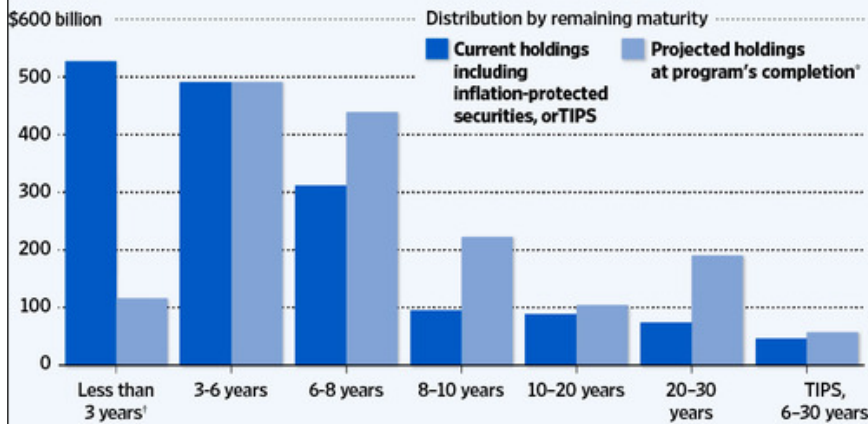
... the Fed will sell \$400 billion in Treasury securities that mature within three years and reinvest the proceeds into securities that mature in six to 30 years, significantly tilting the balance of its holdings toward long-term securities.

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)

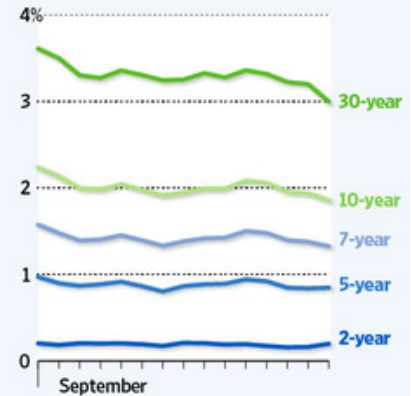
What the Fed's portfolio of Treasury holdings might look like nine months from Wednesday*



*Doesn't take into account rollovers of maturing debt or how the natural maturing of debt would change the distribution of New York data and published statements; Thomson Reuters (yields)
¹Excludes Treasury bills

Bond-market reaction

Yields on Treasuries since August



SEPTEMBER 21, 2011, 5:34 PM ET

Economists React: Fed Is 'Doing What It Can'

The Global Scene

ASIA NEWS | OCTOBER 18, 2011, 12:20 P.M. ET

China Gets Growth Help From Domestic Demand

GDP Slips from 9.5 to 9.1%....

EUROPE NEWS | OCTOBER 18, 2011

Merkel Tempers EU Summit Hopes

Greek bailout Greece needs more than the €109 billion (\$162 billion) estimated three months ago.

Devil in the Details

Bailout fund The fund needs to be more powerful to backstop Italy, probably through using the fund as an insurer of debt.

Bank recapitalization Banks will need to hold more capital against lending.

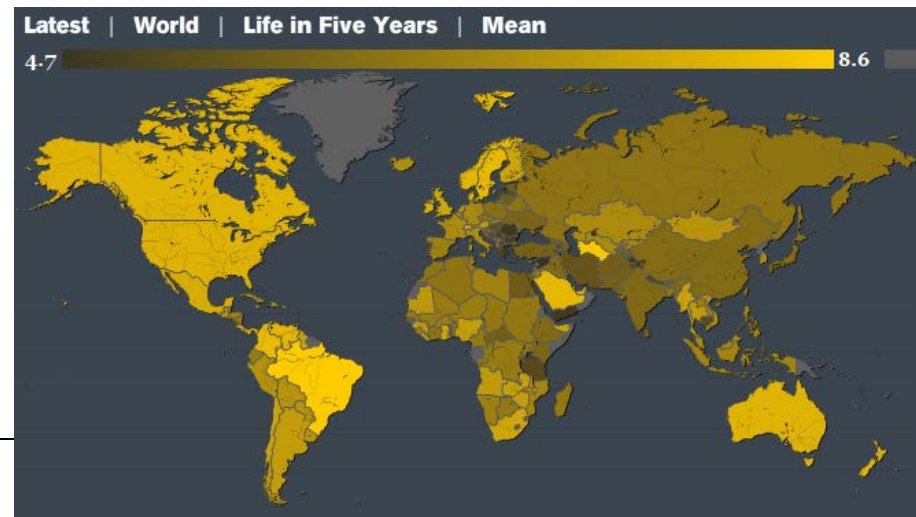


OCTOBER 18, 2011, 8:10 PM HKT

Cosmic Convergence? China Growth and U.S. Unemployment Rates Coincide

© JR DeLisle, Ph.D.

Global Outlook: 5 Years (Gallup)



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

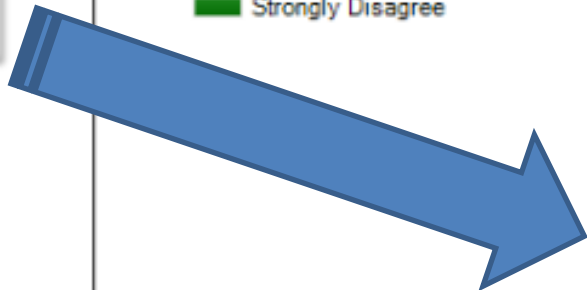
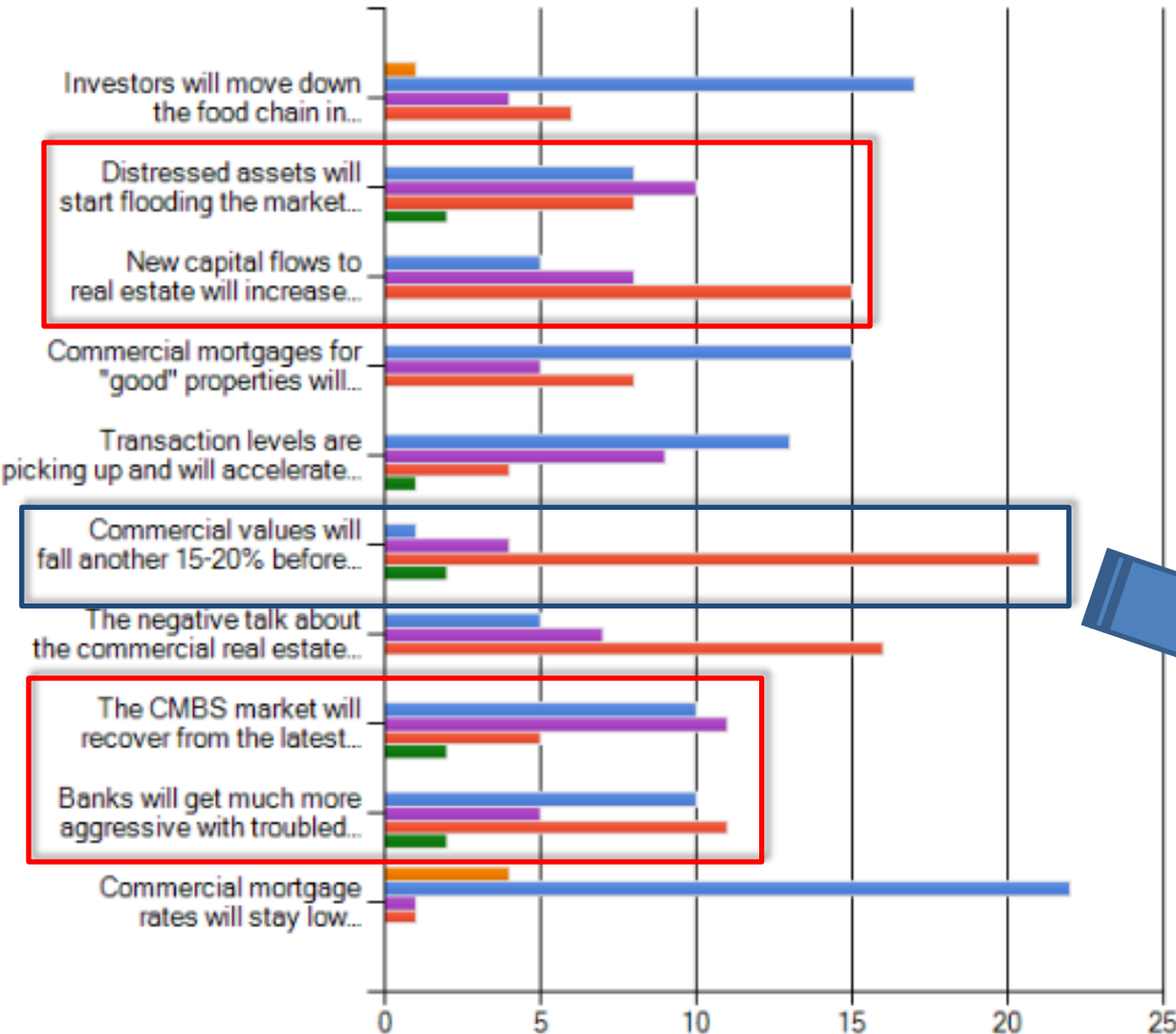
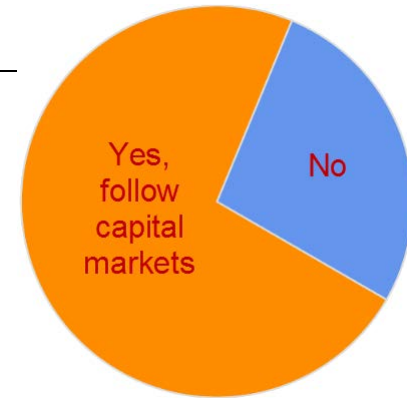
2011 Capital Market

- 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

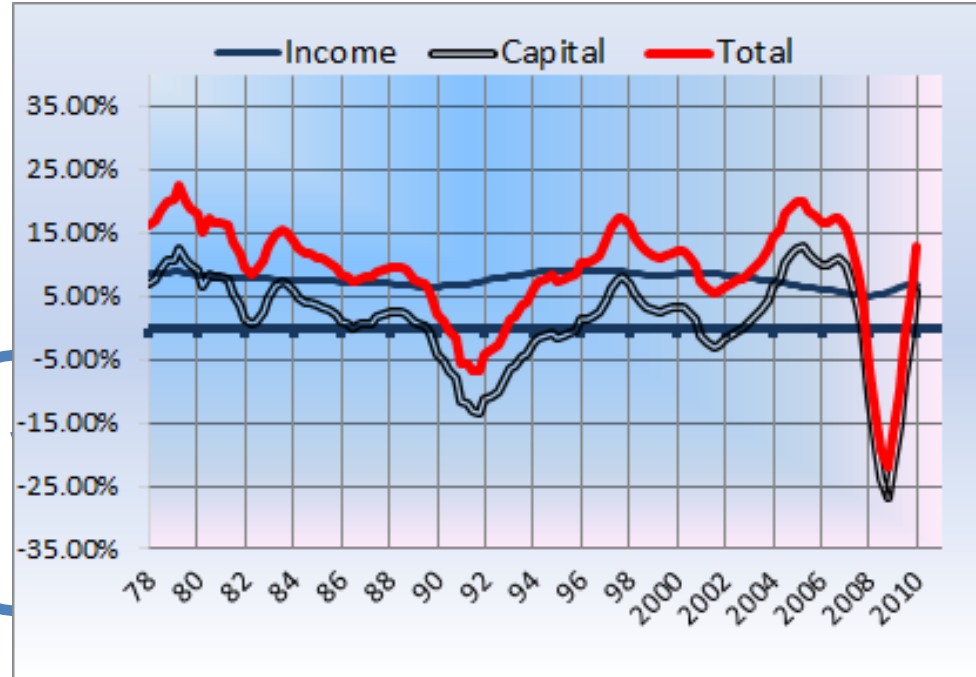
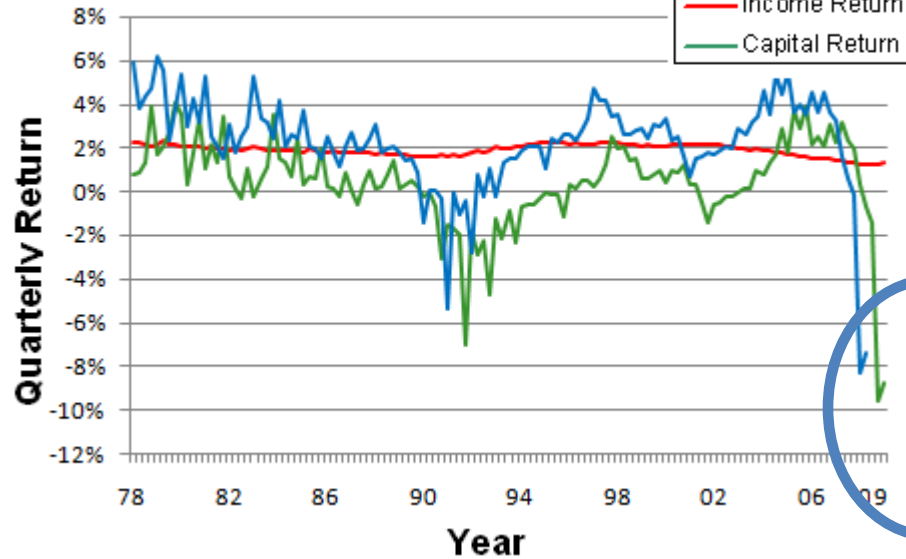


How We're Doing: Commercial Real Estate

Annual Returns

NCREIF Property Index

— Total Return
— Income Return
— Capital Return



3Quarter 2011

Current Qtr
Estimate

Income	1.29%
Appreciation	2.28%

$1.29\% * 4 = 5.16\%$

Total, Gross o **3.58%**

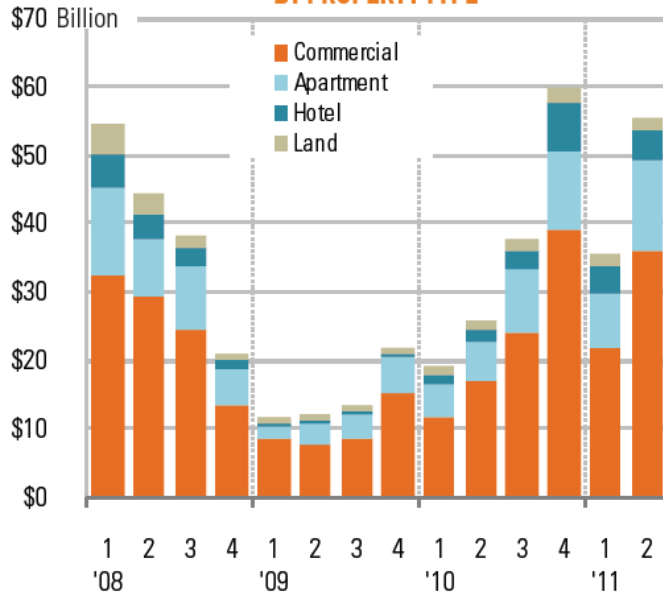
	1 Year	3 Years
Income	5.7%	6.0%
Appreciation	12.1%	-11.8%
Total, Gross	18.3%	-6.4%

UPSIDE | OCTOBER 1, 2011

REITs, Don't Fail Me Now

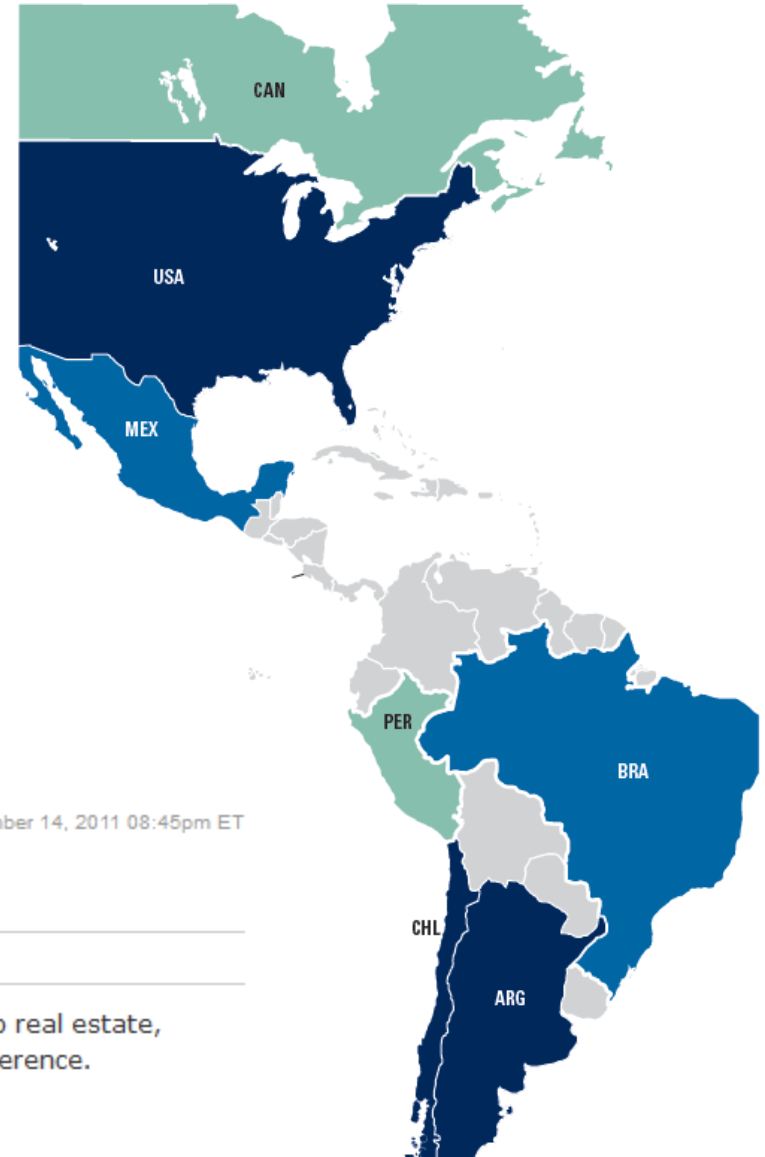
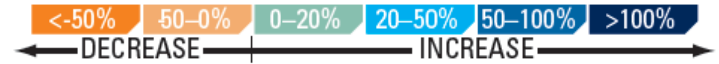
Transactions: Americas

**QUARTERLY TRANSACTION VOLUME
BY PROPERTY TYPE**



PERCENT CHANGE IN TRANSACTION VOLUME

(H1'10 VS H1'11)



Last Updated: September 14, 2011 08:45pm ET

EVENT COVERAGE

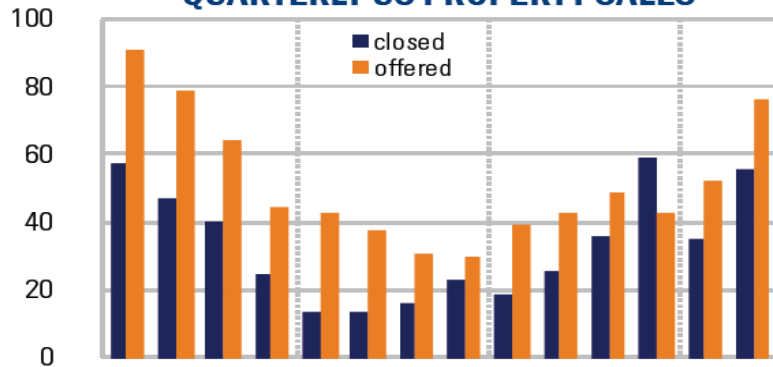
Real Estate Remains Refuge for Capital

By Bob Howard

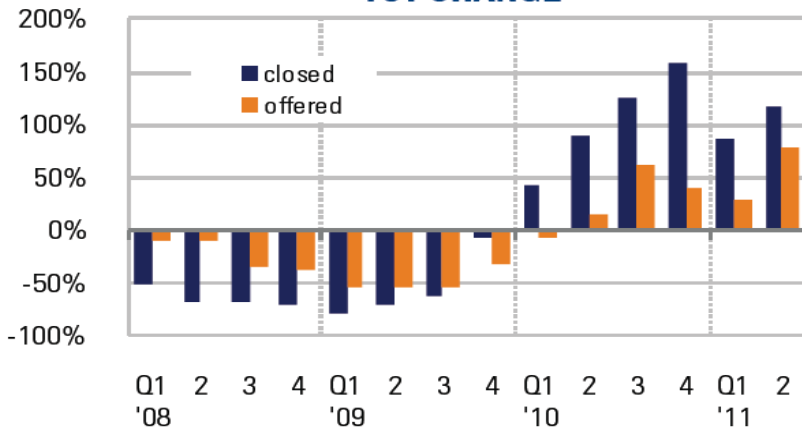
BEVERLY HILLS-Inflation fears and other factors will continue to push capital into real estate, according to a presentation at the annual Allen Matkins View From The Top conference.

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



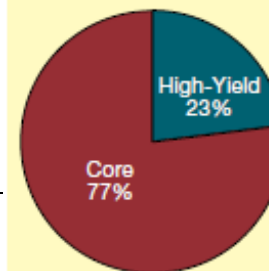
Search by Style

2011 YEAR-TO-DATE SEARCH SUMMARY

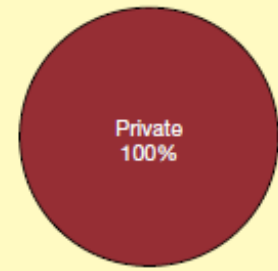
Completed Searches

Publicly Announced	\$615.0M
Pending Allocations	\$1,555.0M

Allocations by Strategy (\$)



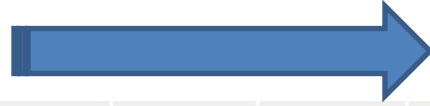
Equity Real Estate Allocations (\$)



Cap Rates: Current Cap Rates

	Under 5%	5%	5.5%	6%	6.5%	7%	7.5%	8%	8.5%	9%
Office	0.0% (0)	3.1% (1)	0.0% (0)	15.6% (5)	9.4% (3)	21.9% (7)	15.6% (5)	18.8% (6)	6.3% (2)	3.1% (1)
Retail	0.0% (0)	0.0% (0)	3.6% (1)	10.7% (3)	3.6% (1)	21.4% (6)	17.9% (5)	17.9% (5)	17.9% (5)	7.1% (2)
Industrial	0.0% (0)	3.4% (1)	6.9% (2)	17.2% (5)	3.4% (1)	13.8% (4)	20.7% (6)	10.3% (3)	6.9% (2)	13.8% (4)
Apartments	3.3% (1)	23.3% (7)	16.7% (5)	23.3% (7)	16.7% (5)	3.3% (1)	3.3% (1)	0.0% (0)	3.3% (1)	3.3% (1)
Mixed-use	3.4% (1)	3.4% (1)	0.0% (0)	13.8% (4)	10.3% (3)	20.7% (6)	13.8% (4)	13.8% (4)	6.9% (2)	6.9% (2)

Cap Rates: Current Cap Rates in 12 Months

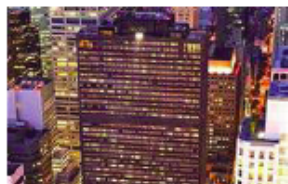
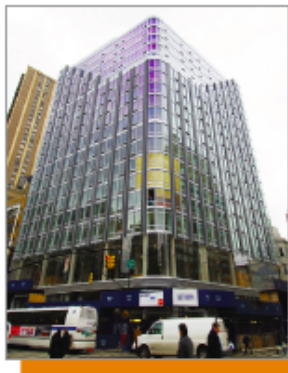


	Under 5%	5%	5.5%	6%	6.5%	7%	7.5%	8%	8.5%	9%
Office	3.2% (1)	0.0% (0)	3.2% (1)	0.0% (0)	19.4% (6)	32.3% (10)	12.9% (4)	12.9% (4)	9.7% (3)	3.2% (1)
Retail	0.0% (0)	0.0% (0)	0.0% (0)	14.8% (4)	7.4% (2)	11.1% (3)	29.6% (8)	22.2% (6)	14.8% (4)	0.0% (0)
Industrial	0.0% (0)	0.0% (0)	10.7% (3)	17.9% (5)	3.6% (1)	21.4% (6)	7.1% (2)	10.7% (3)	14.3% (4)	7.1% (2)
Apartments	3.4% (1)	10.3% (3)	27.6% (8)	24.1% (7)	13.8% (4)	3.4% (1)	6.9% (2)	0.0% (0)	3.4% (1)	3.4% (1)
Mixed-use	3.6% (1)	0.0% (0)	3.6% (1)	3.6% (1)	25.0% (7)	14.3% (4)	17.9% (5)	14.3% (4)	7.1% (2)	3.6% (1)

What's Trading?

Selected Investment Sales Transactions

Reported in the Past 3 Months



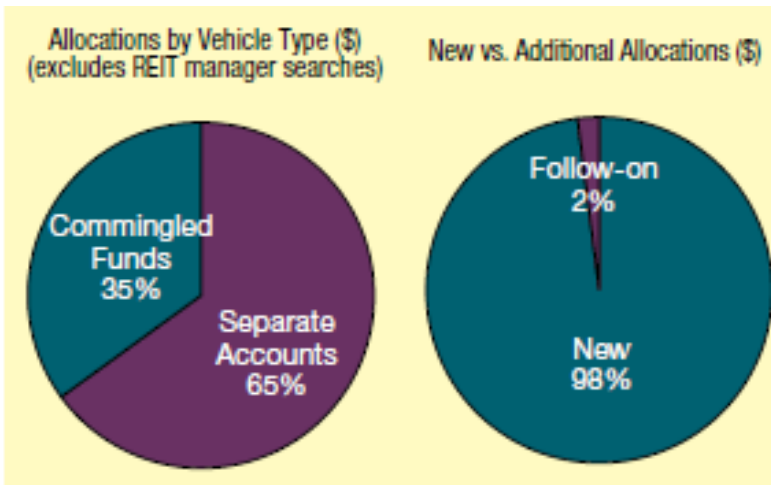
Property Name Address Location	SF/Units Year Built Property Type	Price PPSF/PPU Qualifier	B Buyer S Seller ↔ Broker	AMERICAS
Helmsley Building 230 Park Ave New York, United States	1212,576 1929 Office	\$763,266,667 \$629 confirmed	B Invesco Real Estate by Houlihan Lokey from S Monday Properties ‡	
Atrium on Bay 595 Bay St Toronto, Canada	1070,287 1981 Office	\$356,221,543 \$333 confirmed	B H&R Real Estate Investment Trust from S Hines Real Estate Investment Trust Inc by Brookfield Financial BMO Capital Markets	
The Corner 200 W 72nd St New York, United States	196 2007 Apartment	\$209,000,000 \$1,066,327 approximate	B TIAA-CREF from S Gotham Organization Inc JV Phillips International JV Rhodes New York by CB Richard Ellis	
Millennium Warner Center 21201 Kittridge St Woodland Hills, United States	438 2010 Apartment	\$132,883,333 \$303,387 approximate	B Essex Property Trust from S Dinerstein Companies by Institutional Property Advisors - Marcus & Millichap Company	
Rockhill Apartments 4858 Chemin De La Côte-des-neiges Montreal, Canada	1000 1968 Apartment	\$120,417,957 \$120,418 street talk	B Ivanhoe Cambridge from S Canapen	
Prime Outlets Jeffersonville I 8000 Factory Shops Blvd Jeffersonville, United States	409,959 1993 Retail	\$134,000,000 \$327 confirmed	B Tanger Factory Outlet from Simon Property Group by Jones Lang LaSalle	
Scottsdale Promenade 16447 N Scottsdale Rd Scottsdale, United States	433,533 1999 Retail	\$110,000,000 \$254 confirmed	B Excel Trust Inc from S Levine Investments LP by Lucescu Realty	
New York Palace Hotel 455 Madison Ave New York, United States	899 1981 Hotel	\$377,000,000 \$419,355 approximate	B Northwood Investors LLC from S Brunei Investment Agency (BIA)	
YOTEL 440 W 42nd St New York, United States	669 2011 Hotel	\$315,000,000 \$470,852 approximate	B IFA Hotels & Resorts JV Kuwait Real Estate Co by Hodges Ward Elliott Inc from S Related Companies JV Goldman Sachs	

Long-term Commercial Transaction Trends

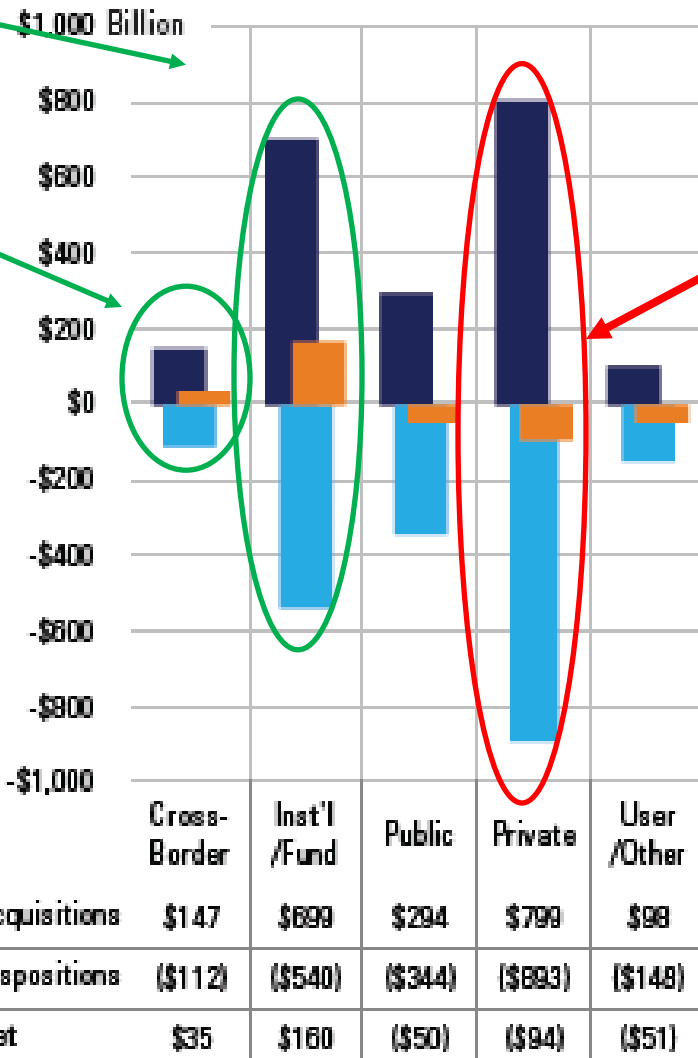
Institutional

Global: Cross-Border

Institutional Allocation by Vehicle



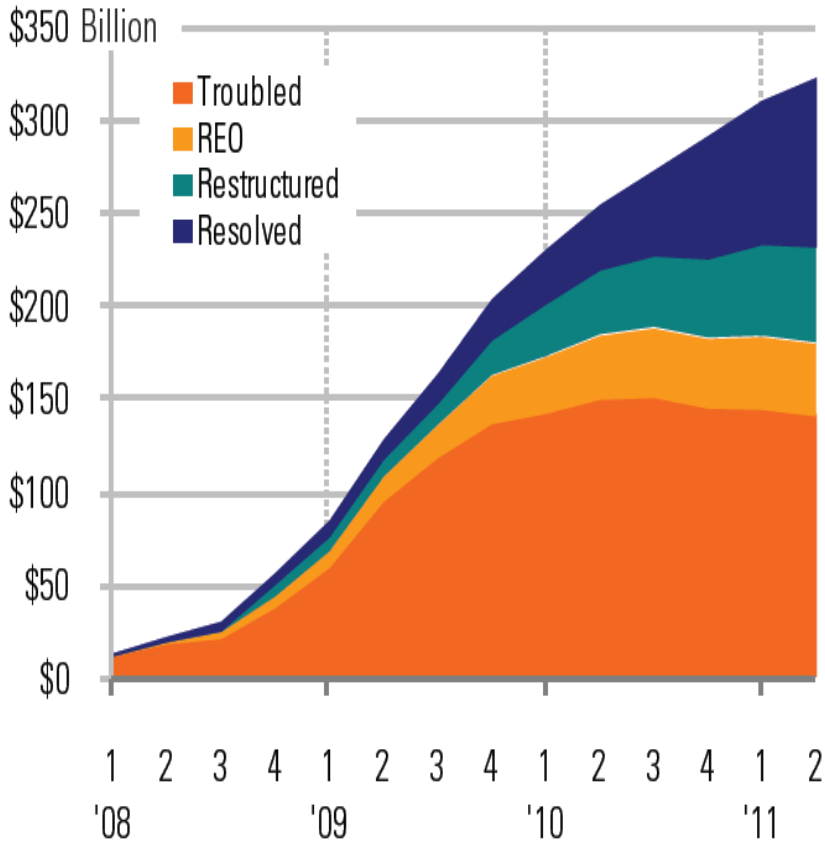
TOTAL ACQUISITIONS AND DISPOSITIONS BY CAPITAL SECTOR
2001-2010



Private:
Market
Timers

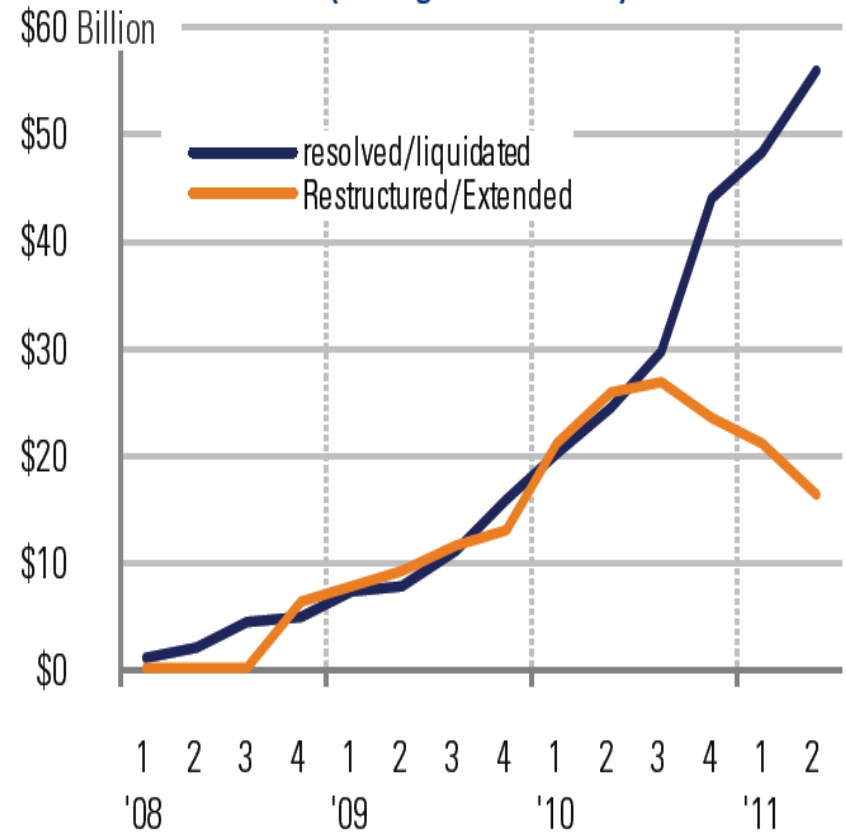
Distress Levels

QUARTERLY CUMULATIVE DISTRESS VOLUME

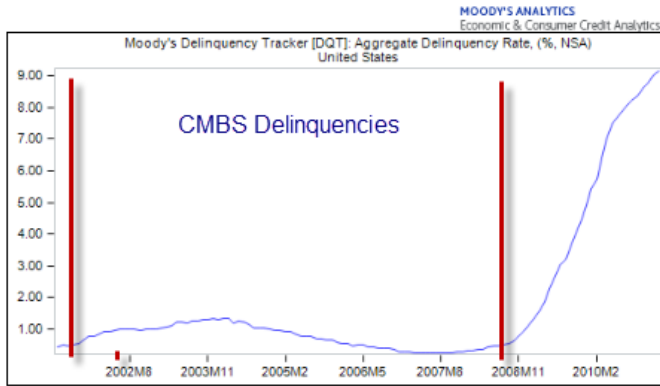


WORKOUT STRATEGIES

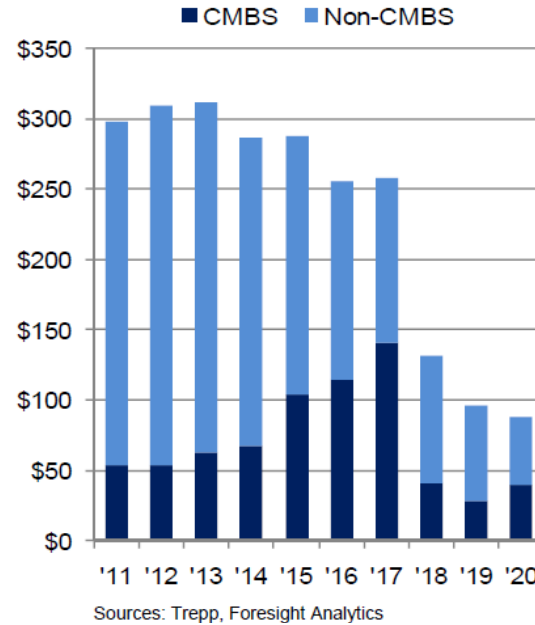
(Trailing 12 Month Total)



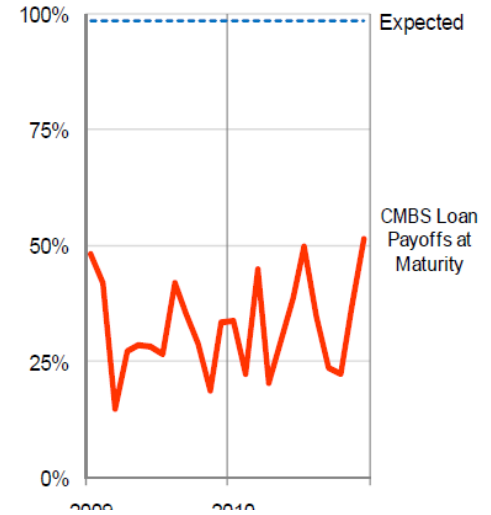
Commercial Loan Maturities: CMBS Land & Payoffs



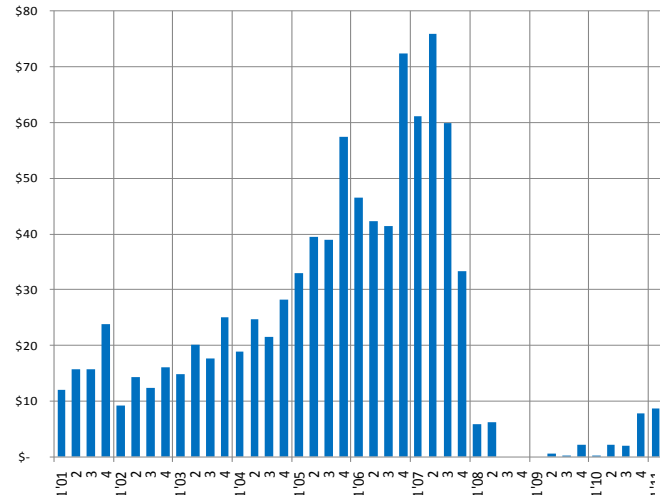
Projected Commercial Mortgage Loan Maturities



Loan Payoffs at Maturity



CMBS Issuances



Bloomberg

CMBS Sales to Reach \$30 Billion in 2012 on Refi Needs, JPMorgan

October 17, 2011, 2:55 PM EDT

NEWS ANALYSIS

Downgrades of BofA, Wells Fargo and Citigroup Leave CRE in Limbo

Last Updated: September 23, 2011 04:44pm ET

Part III: Spatial Market Fundamentals

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

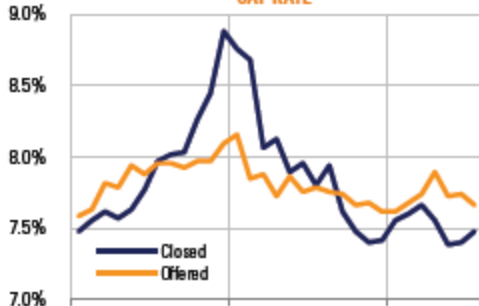
2012 Spatial Market

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

Office Market: National Snapshot

OFFICE INVESTMENT TRENDS

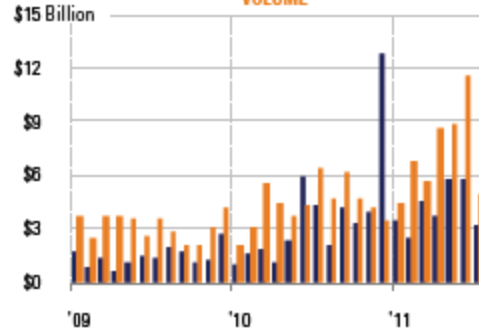
CAP RATE



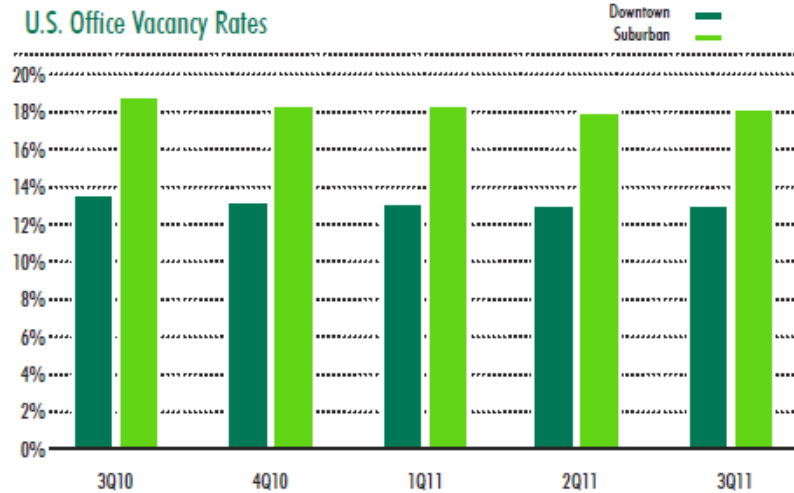
PRICE PER SQUARE FOOT



VOLUME

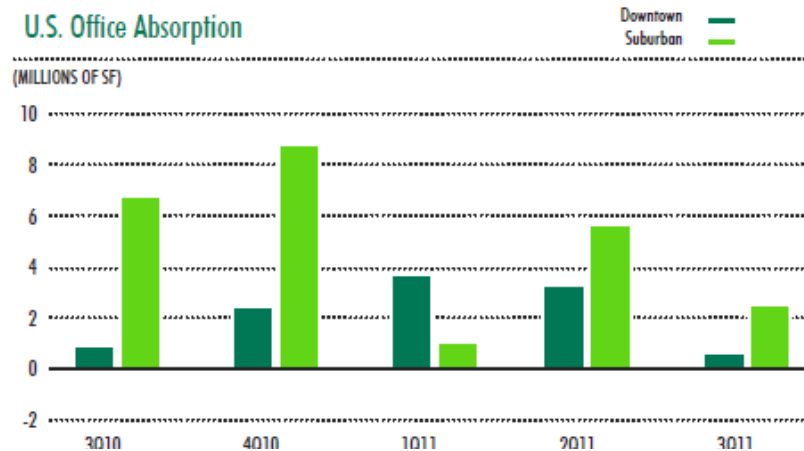


U.S. Office Vacancy Rates



U.S. Office Absorption

(MILLIONS OF SF)



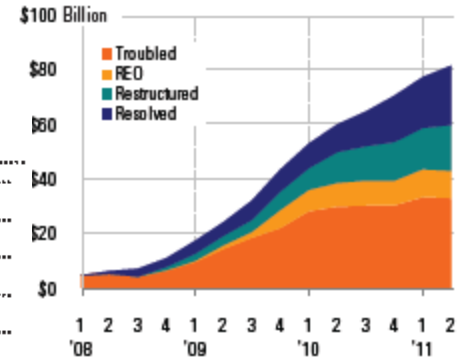
Downtown

Manhattan, D/T	7.6
Manhattan, Midtown	7.9
Portland	9.7
Washington, D.C. D/T	10.2
Houston	11.4

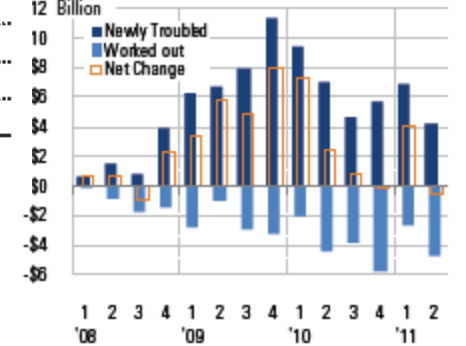
Suburban

Cambridge	9.0
Pittsburgh	10.6
San Francisco	10.9
Nashville	11.1
Virginia Northern	13.3

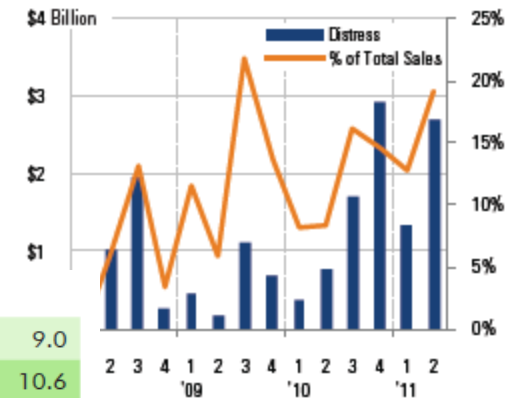
QUARTERLY CUMULATIVE DISTRESS VOLUME



ADDITIONS AND REDUCTIONS TO DISTRESS



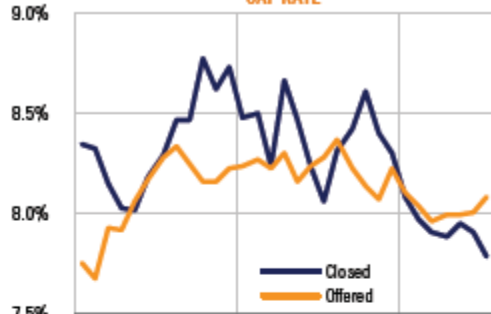
DISTRESSED PROPERTY SALES



Industrial Market: National Snapshot

INDUSTRIAL INVESTMENT TRENDS

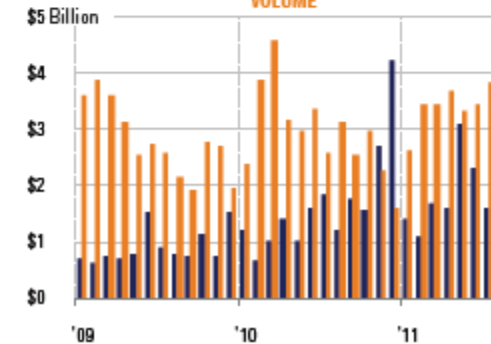
CAP RATE



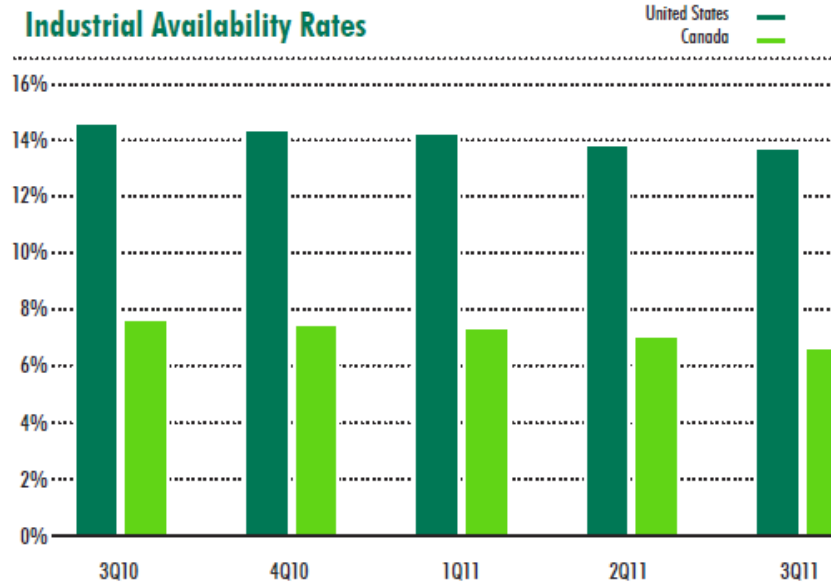
PRICE PER SQUARE FOOT



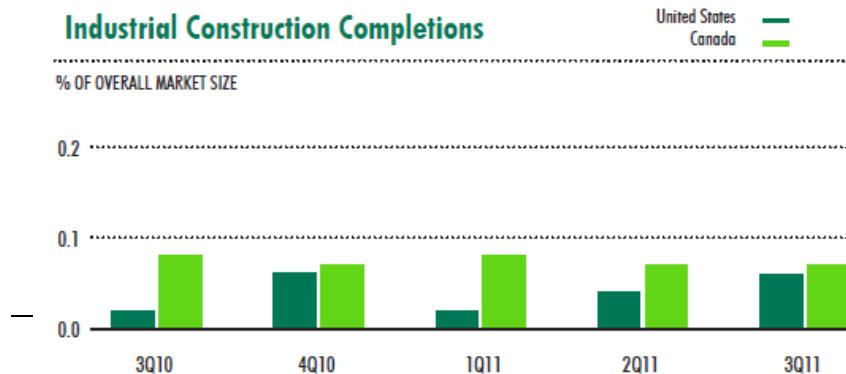
VOLUME



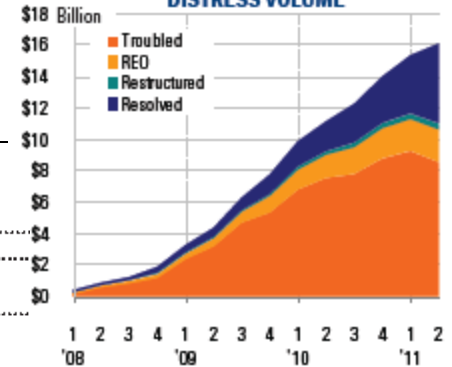
Industrial Availability Rates



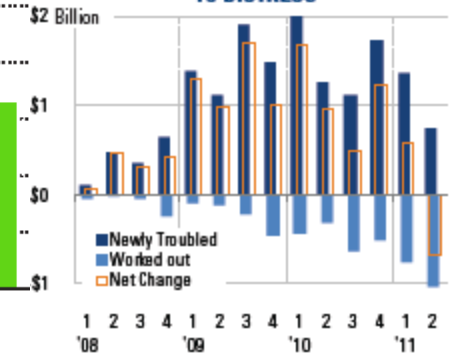
Industrial Construction Completions



QUARTERLY CUMULATIVE DISTRESS VOLUME



ADDITIONS AND REDUCTIONS TO DISTRESS



DISTRESSED PROPERTY SALES



Presentation Summary

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