The Fall of our Discontent: Management & Leasing Outlook 2012

NAIOP Management & Leasing Forum Presentation

by

James R. DeLisle, Ph.D.

October 18, 2011

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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

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What Do You Want Me To Talk About?

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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)

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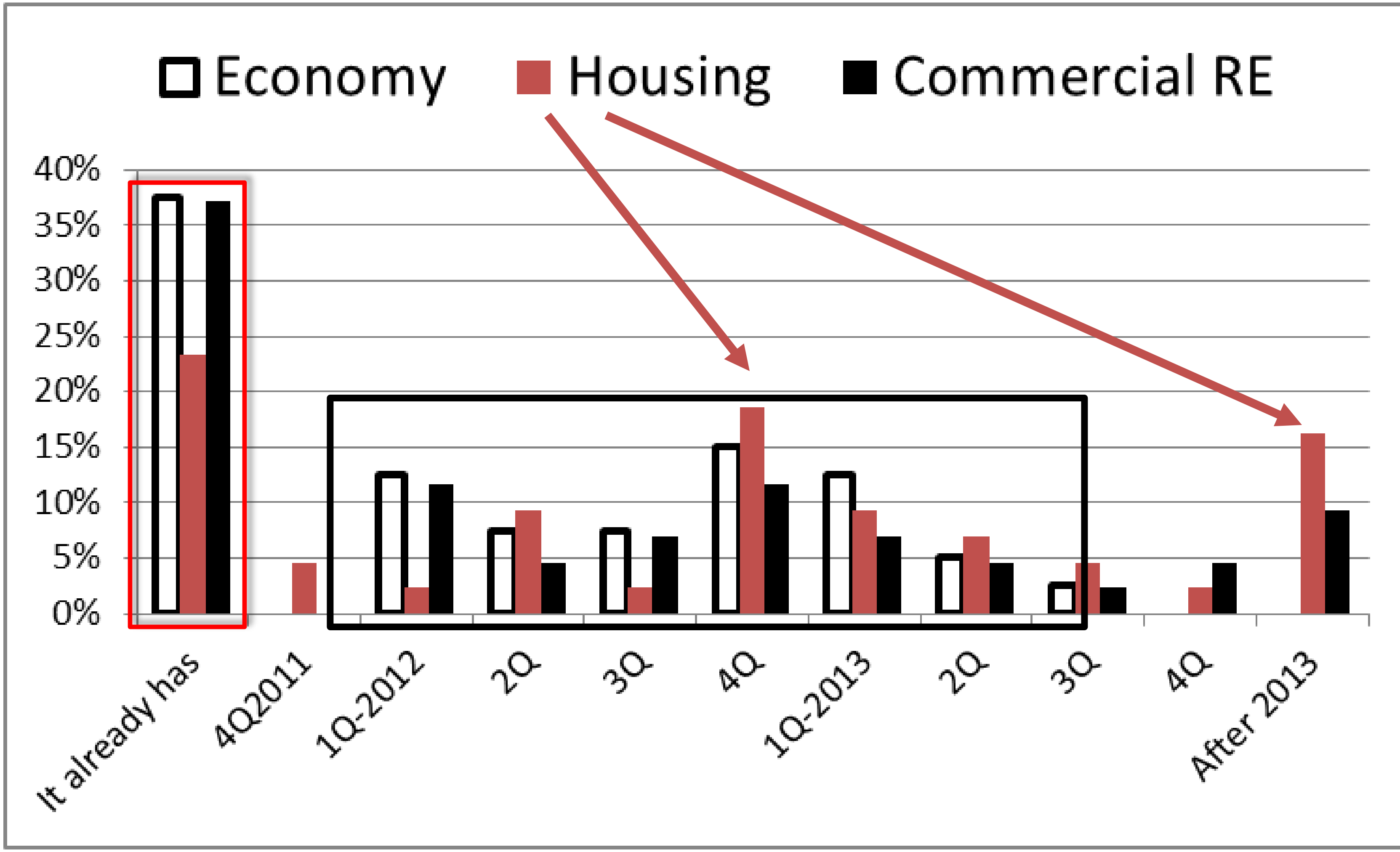
Market Timing: When Will Recovery Start



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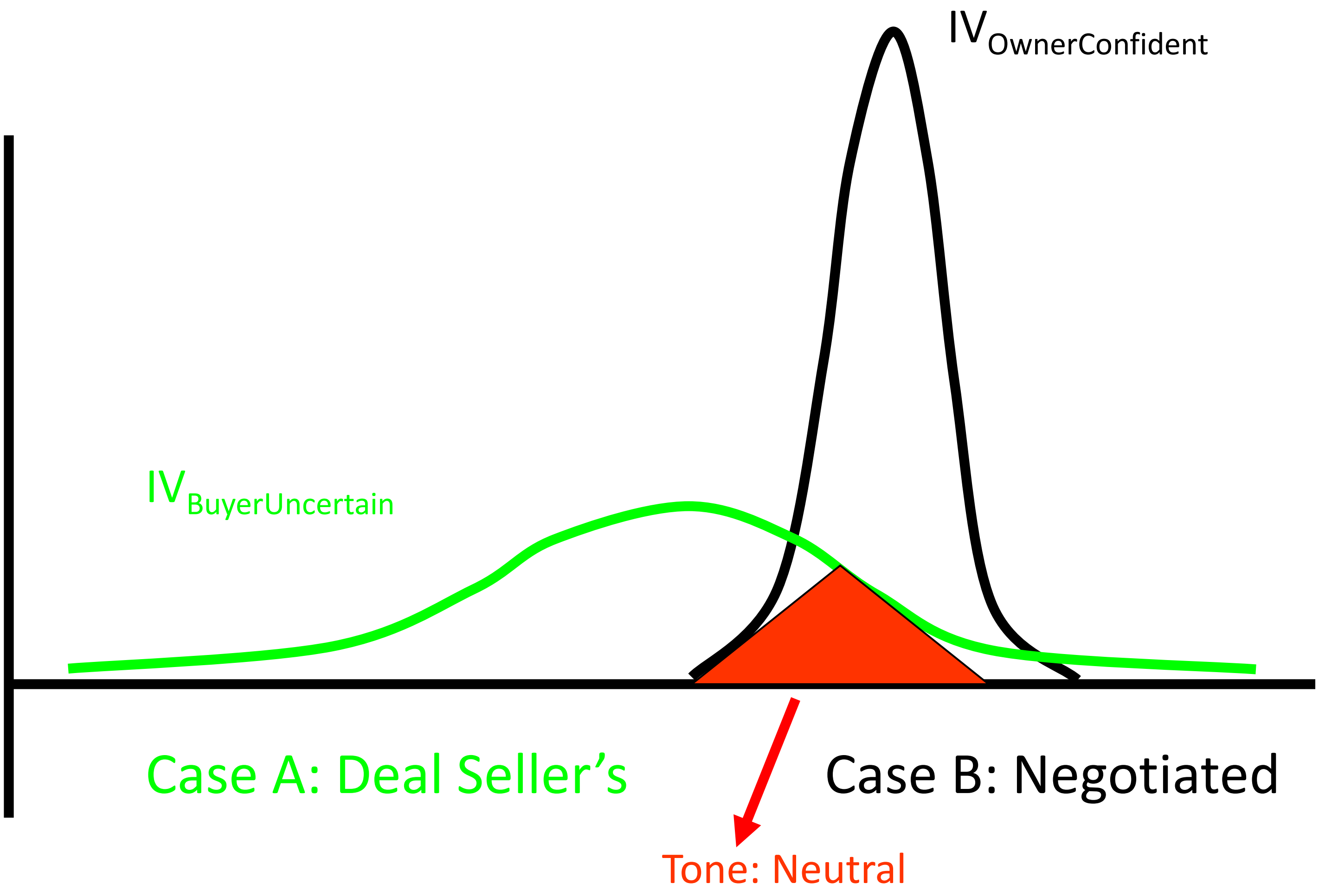
Confident Owner/Uncertain Buyer



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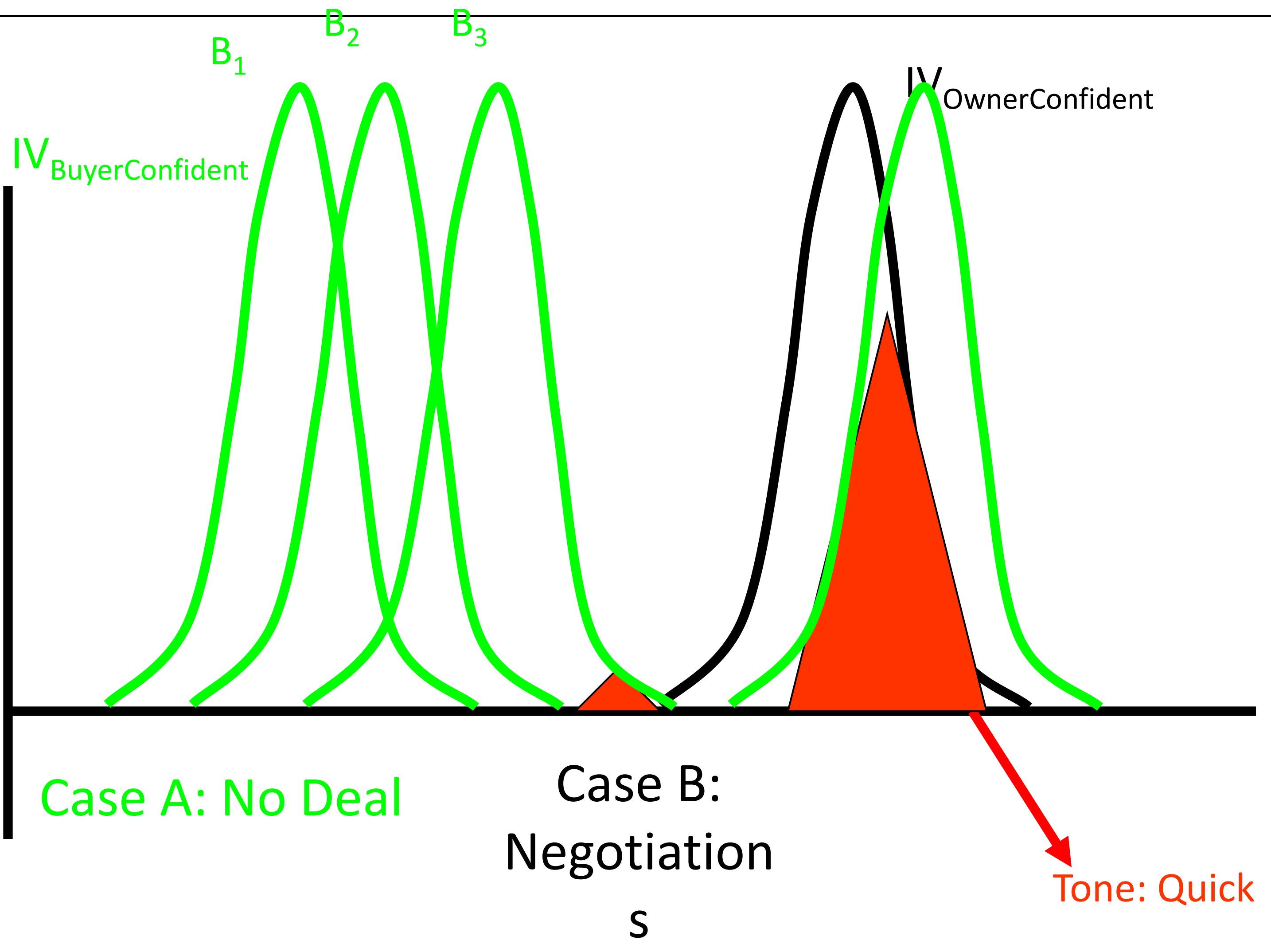
Confident Owner/Buyer IVs



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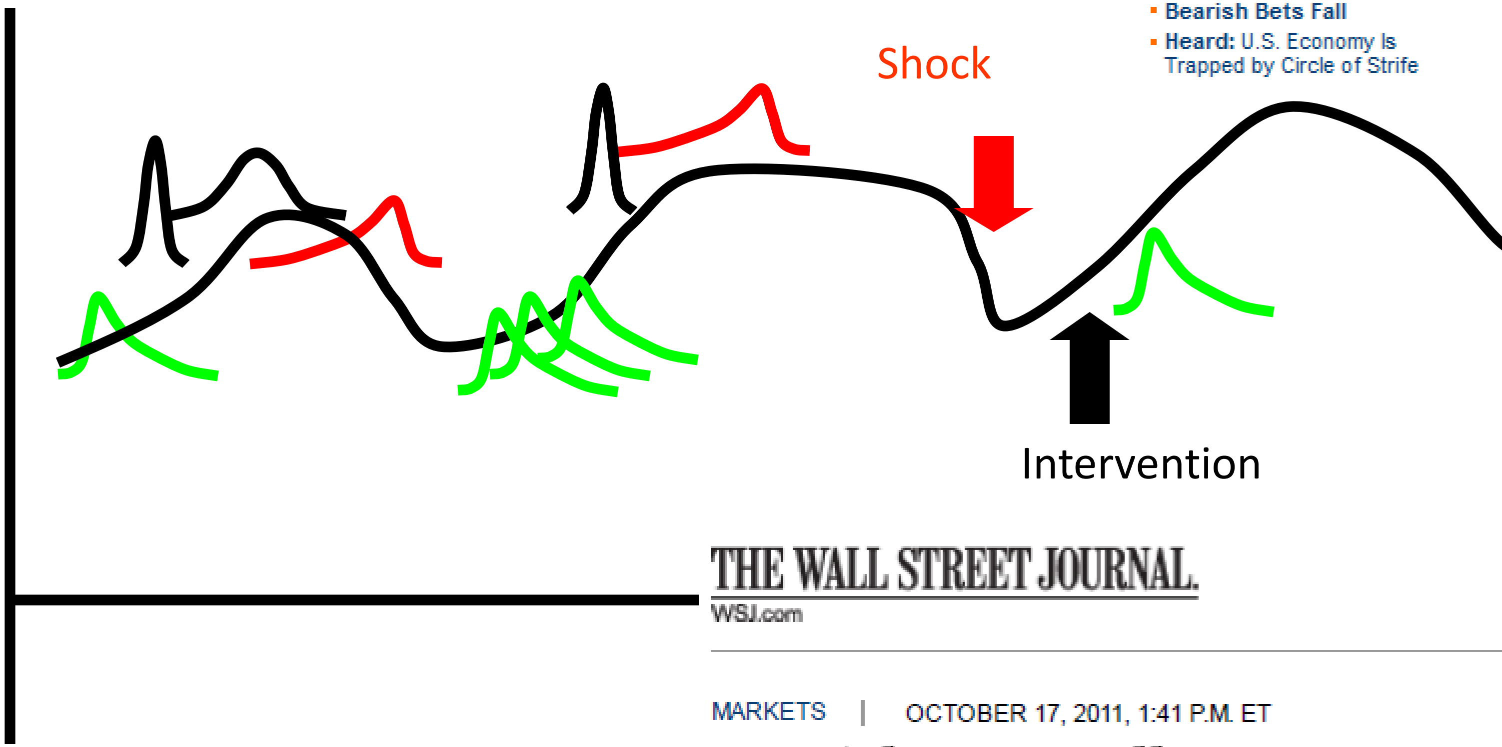
Market Expectations and Real Estate Cycles

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

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Part I: Economic Environment for Real Estate

2010 Outlook	2011 Outlook	2012 Outlook
• Recession over; slow recovery; some downside risk	• Recession really over? slow recovery; some downside risk	• Double-dip? Slow recovery at best; more downside risk
• Big businesses okay, Small struggling, stock market up	• Big business bragging profits up; small business lagging…..	• Big business balance sheets okay; small business slipping…..
• Consumers guarded; CEOs hopeful	• Consumers wanna do it; CEOs hopeful	• Consumer discontent; CEOs defensive

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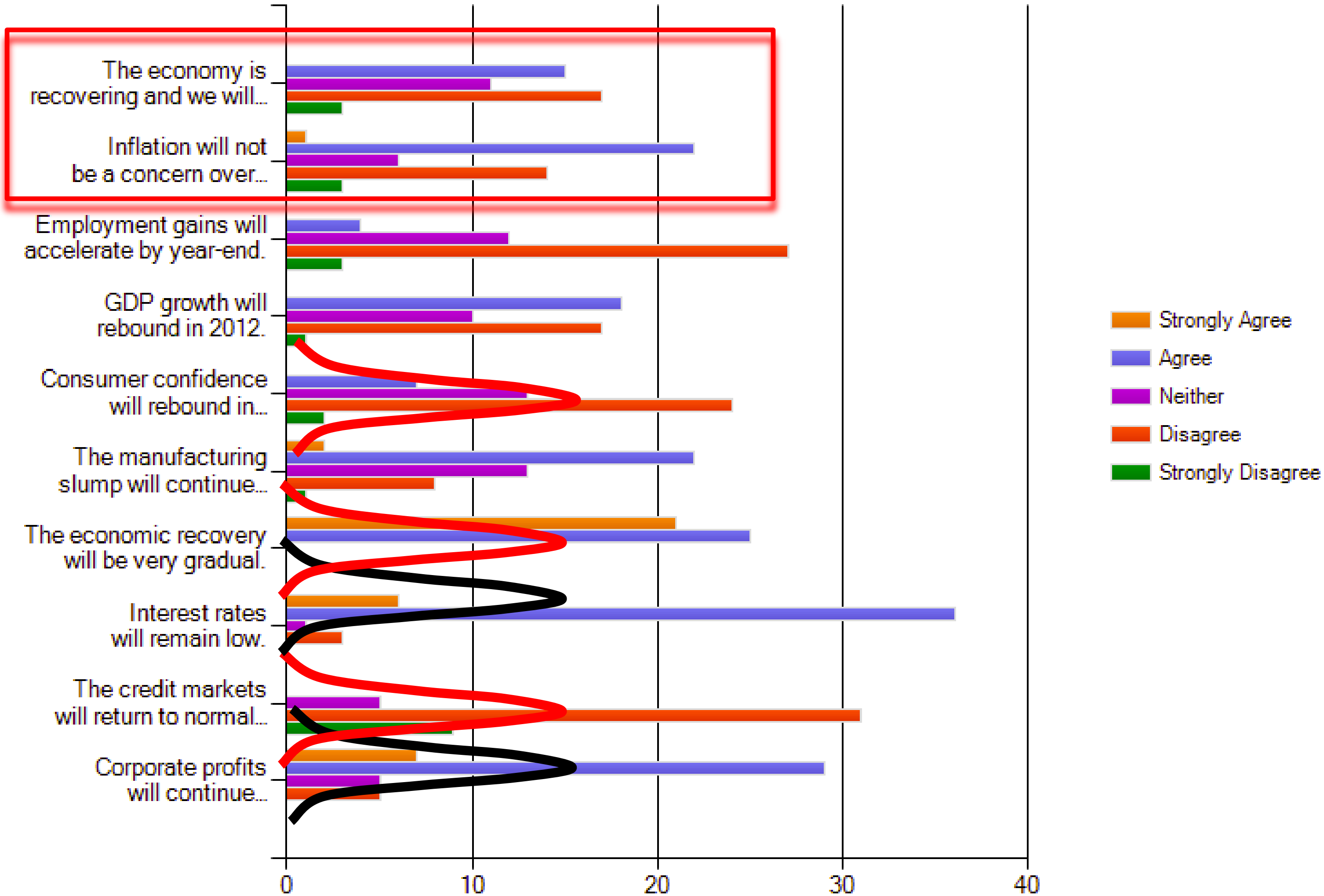
Agree/Disagree on Economy



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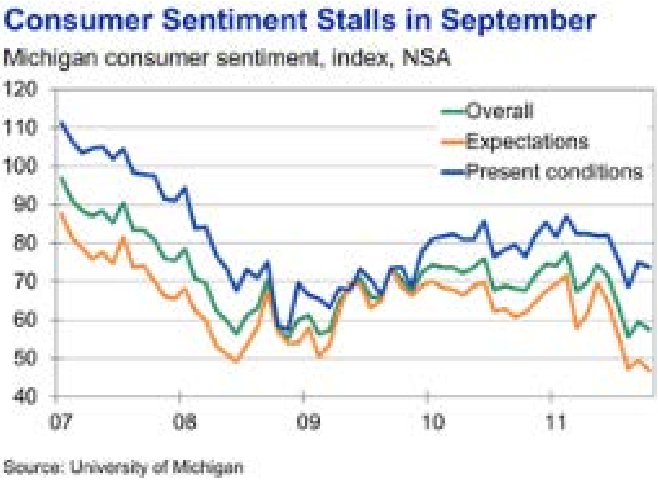
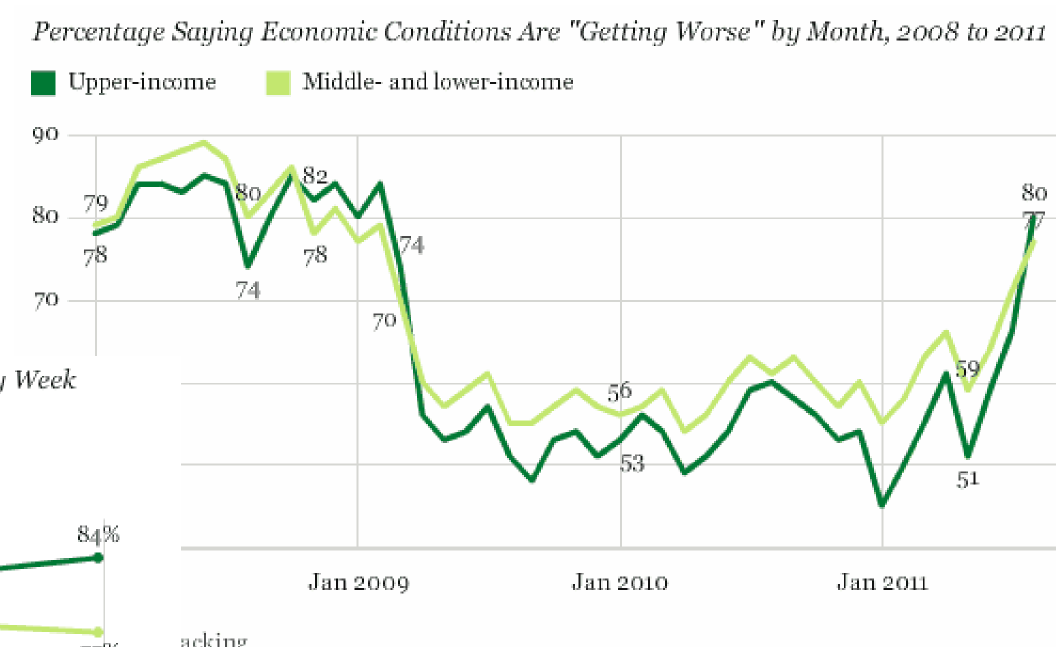
POLITICS | OCTOBER 13, 2011

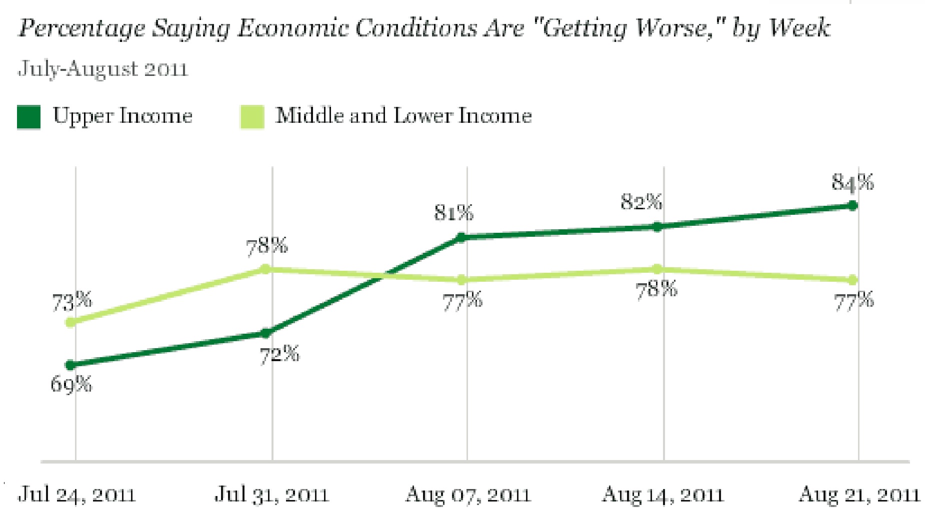
Country Is Headed in Wrong Direction, 74% Say

Consumer Confidence & the TINR Principle



There **I**s **N**o **R**eality





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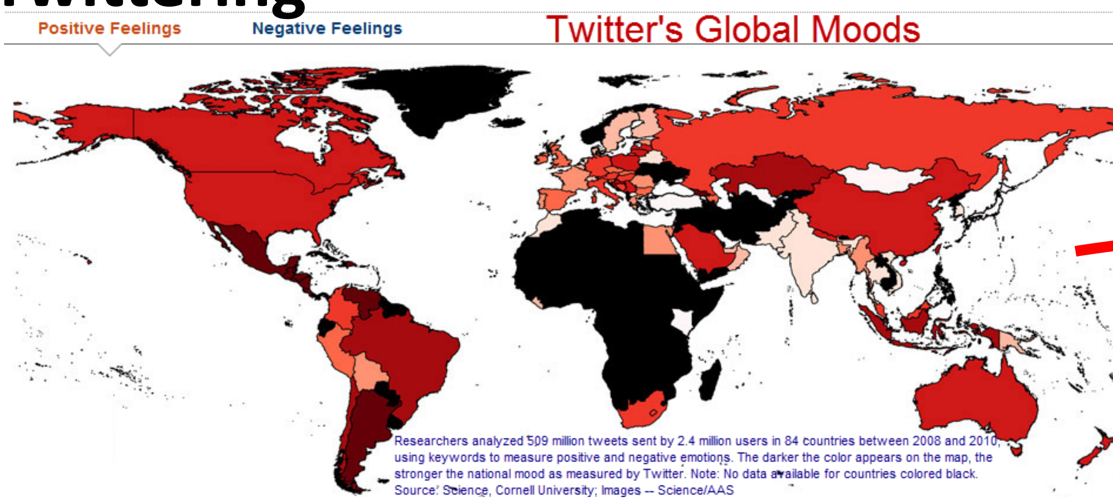
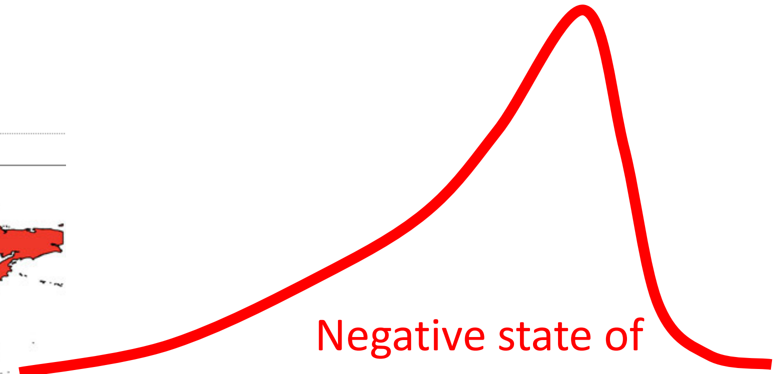
Source: Gallup.com

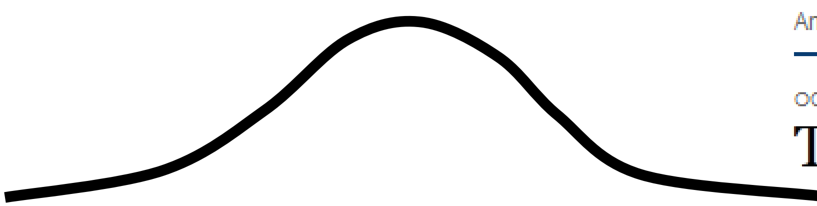
New Research: Informational Disintermediation

Twittering





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

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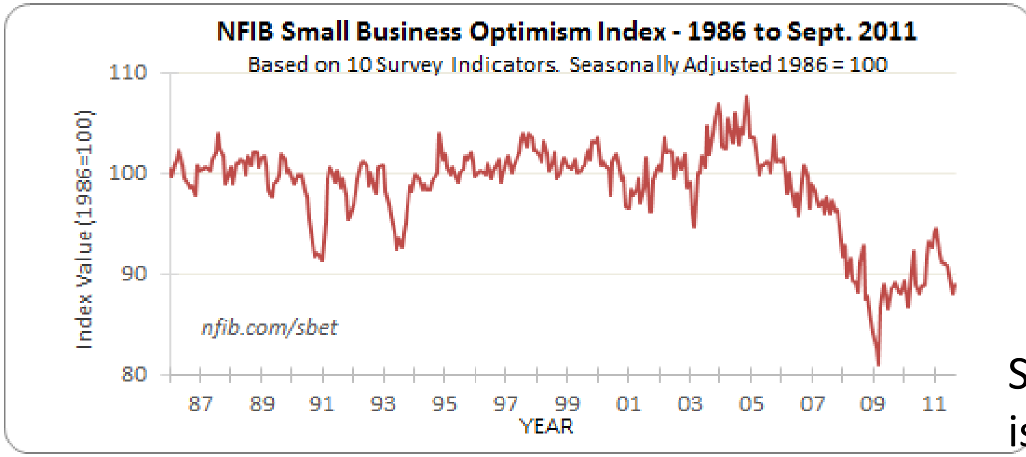
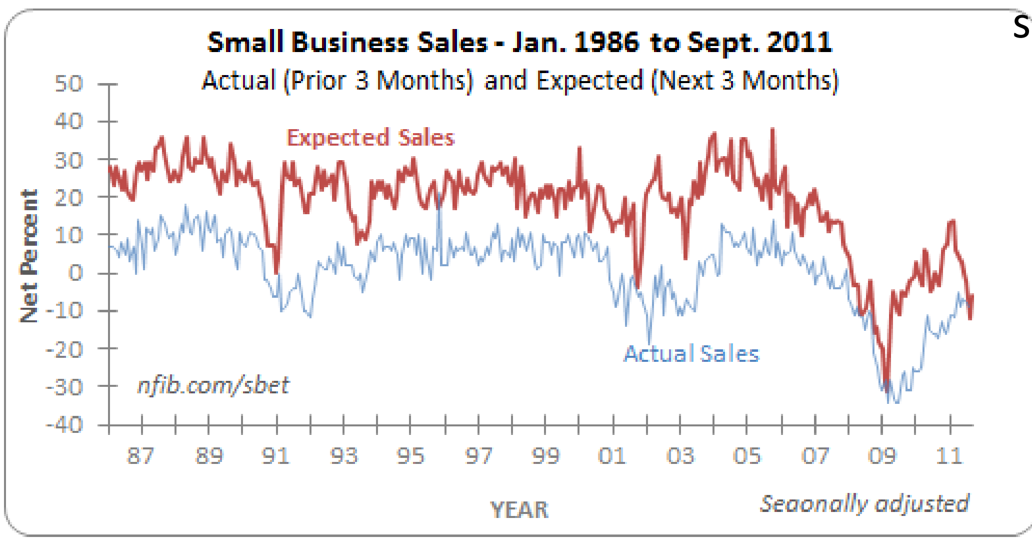
Small Business Confidence: Where the Jobs Aren't





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%

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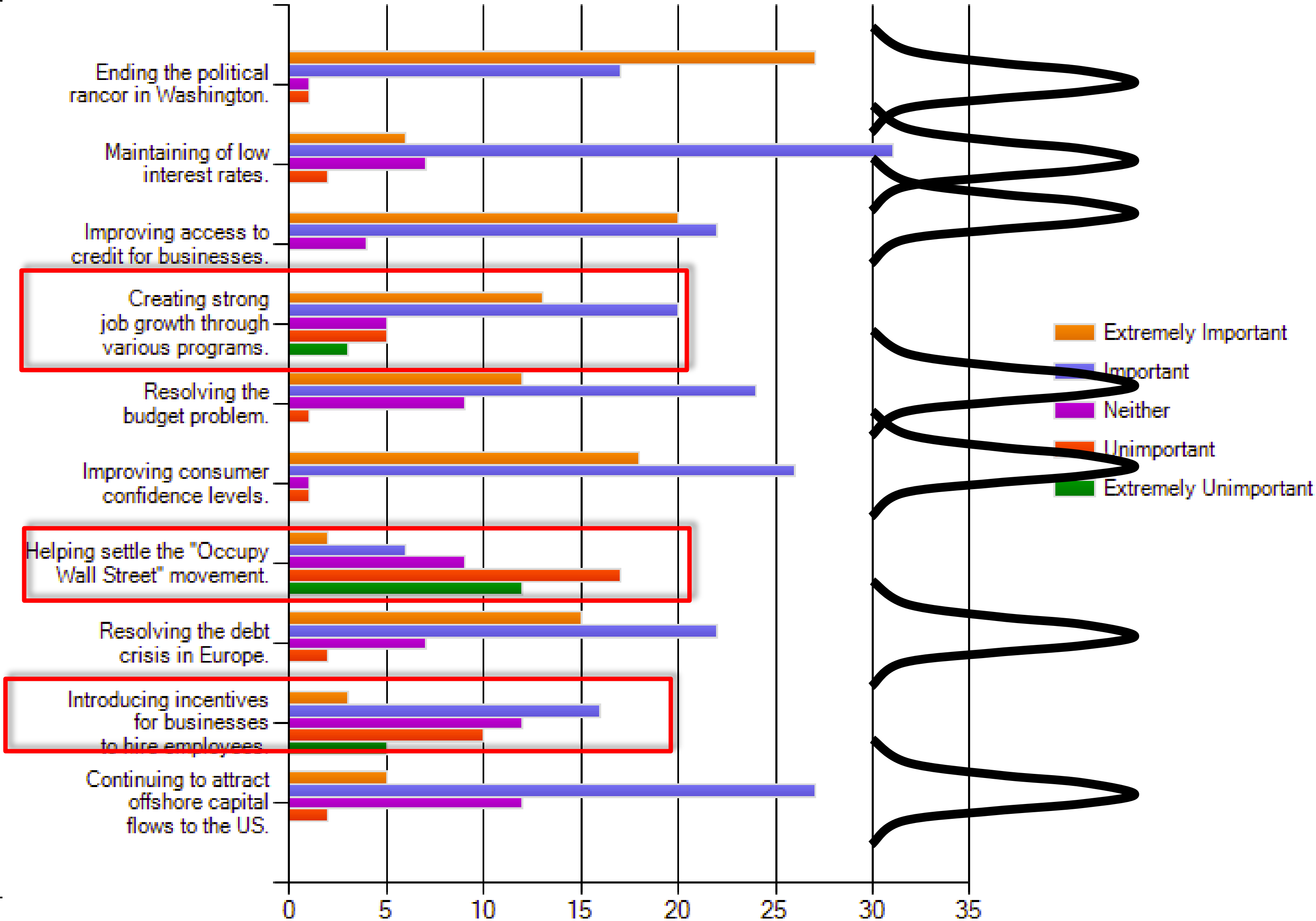
How Important to a Recovery?



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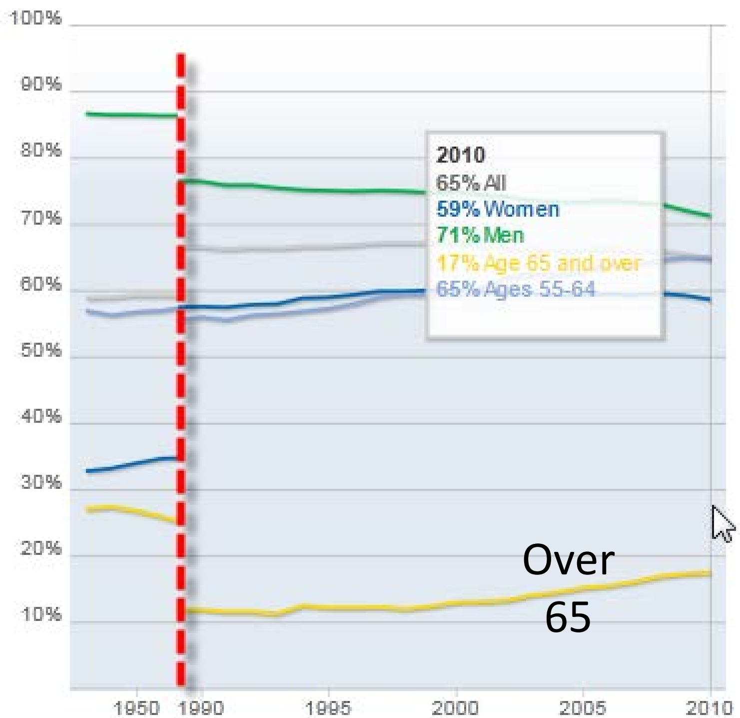
Employment & Economic Trends

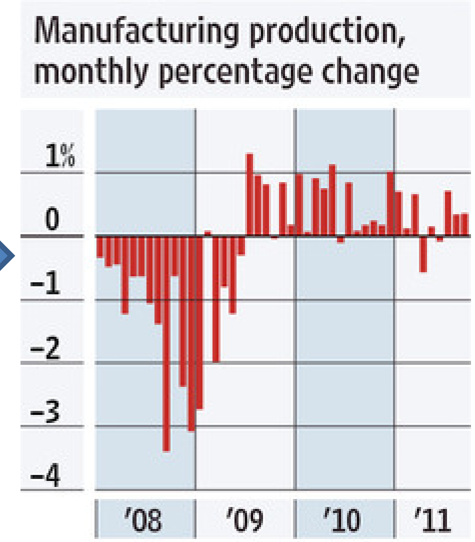
Labor Force Participation Rates



Bloomberg

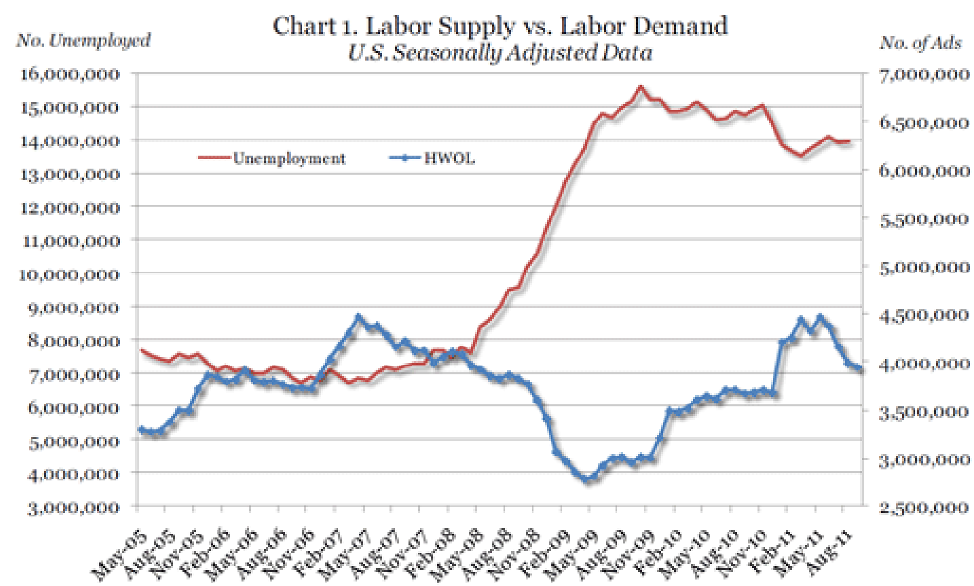
U.S. Senate Shelves Obama's $447B Job Plan

Good news….



Source: Federal Reserve

Labor Supply vs. Demand: Unemployment and Openings



Source: The Conference Board

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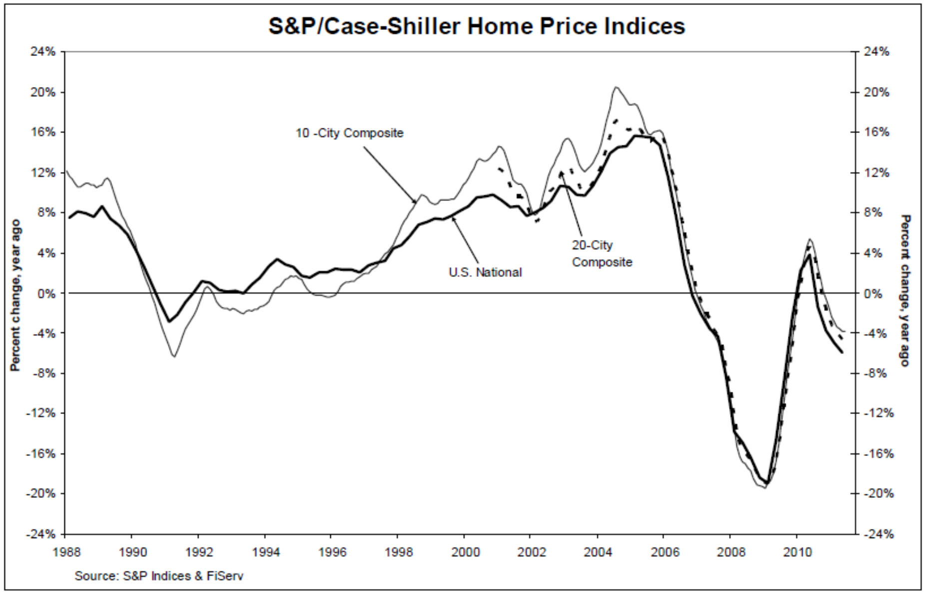
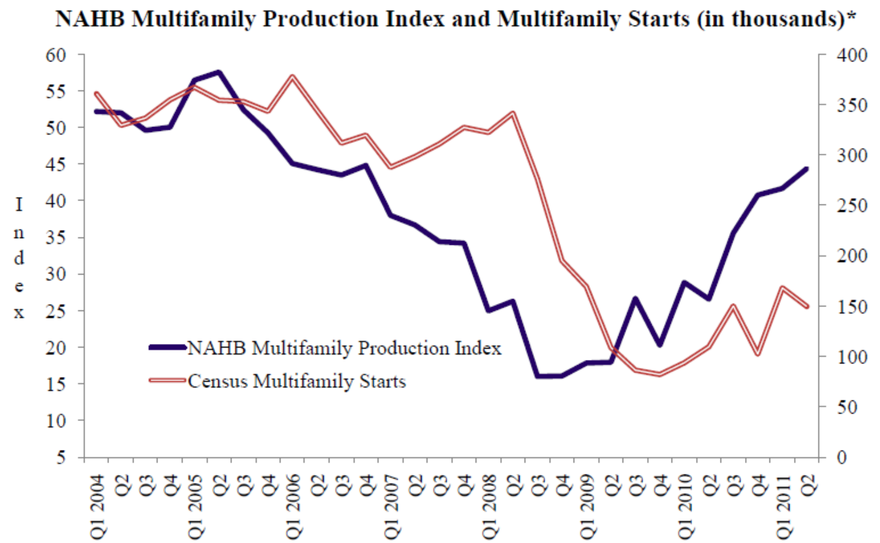
Housing Trends

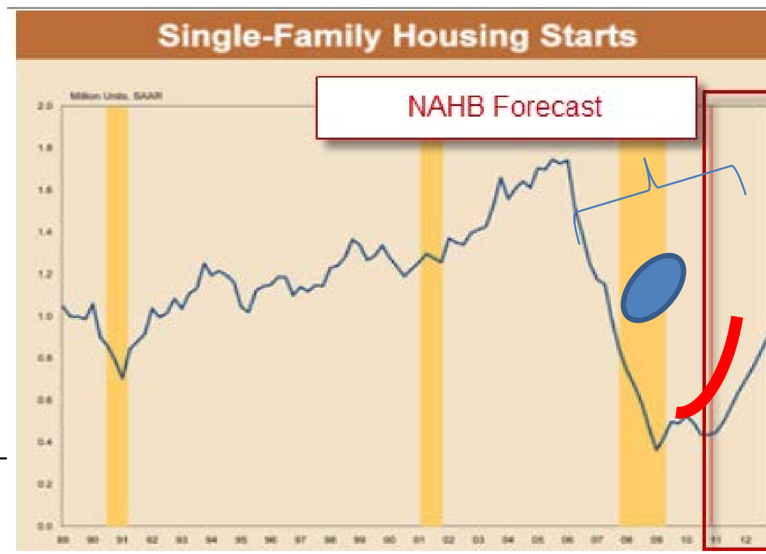


OCTOBER 18, 2011, 11:17 AM ET

Next Generation of Homeowners Are Freaked Out



Home Builder Confidence Rises Four Points in October



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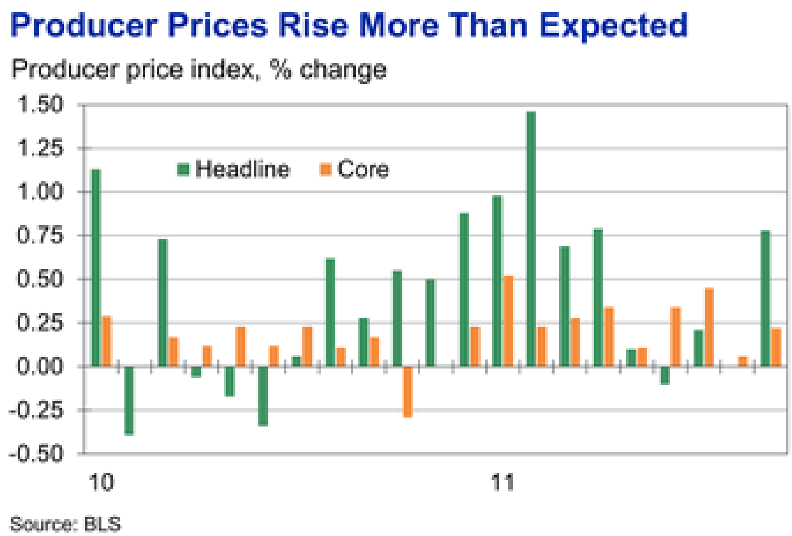
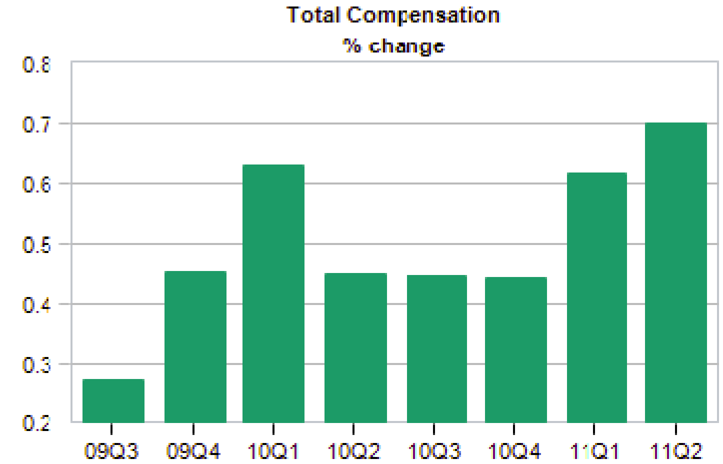
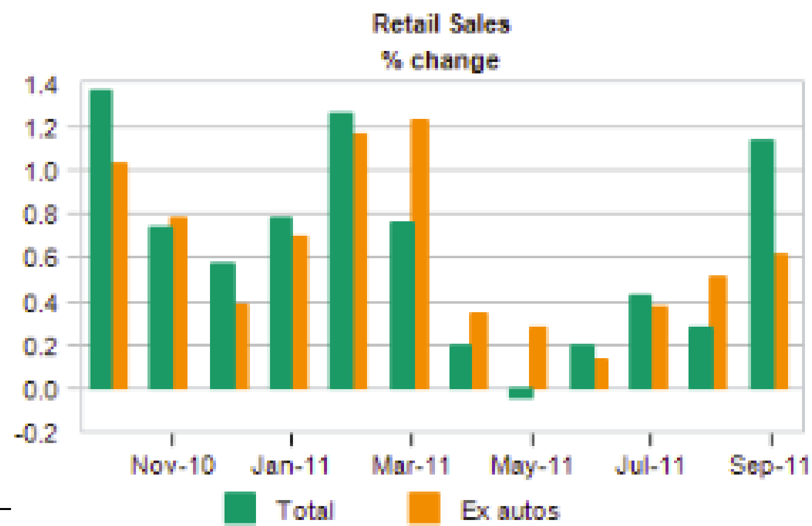
Inflation & Interest Rates

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

Wholesale Prices Indicate Continued Inflation Pressures







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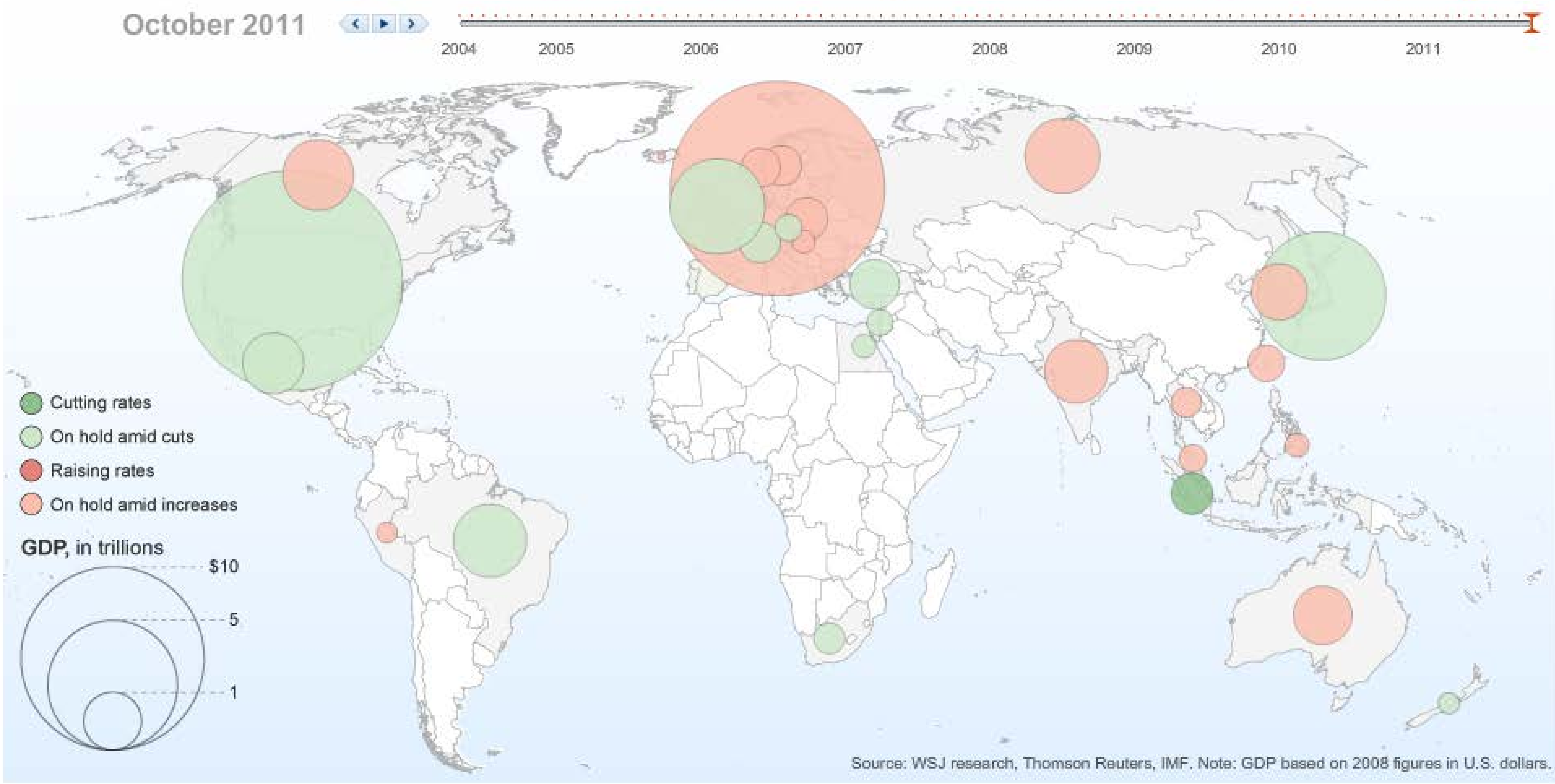
Global Interest Rate Targets: Changing Times



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

OCCUPY DC

HOME | SCHEDULE | COMMUNITY | PHOTOS | PREPARATION

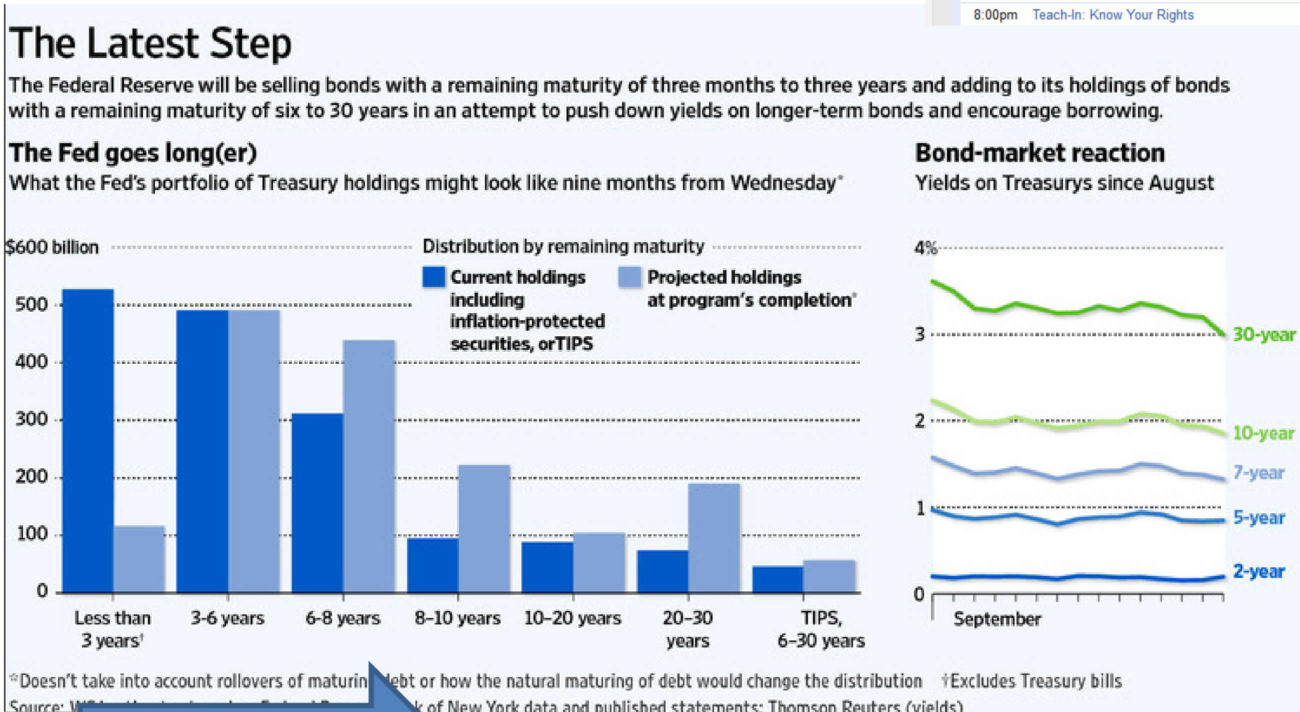
Monday, October 17	
11:00am	Teach-in: Know Your Rights
12:00pm	Poltical Education Discussions & Workshops
12:30pm	Announcements
4:00pm	March/Protest/Action
5:00pm	Newcomer Orientation
6:00pm	General Assembly
8:00pm	Comittee Meetings
8:00pm	Teach-In: Know Your Rights

ECONOMY | SEPTEMBER 22, 2011

Fed Launches New Stimulus

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

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



SEPTEMBER 21, 2011, 5:34 PM ET

Economists React: Fed Is 'Doing What It Can'

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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

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.

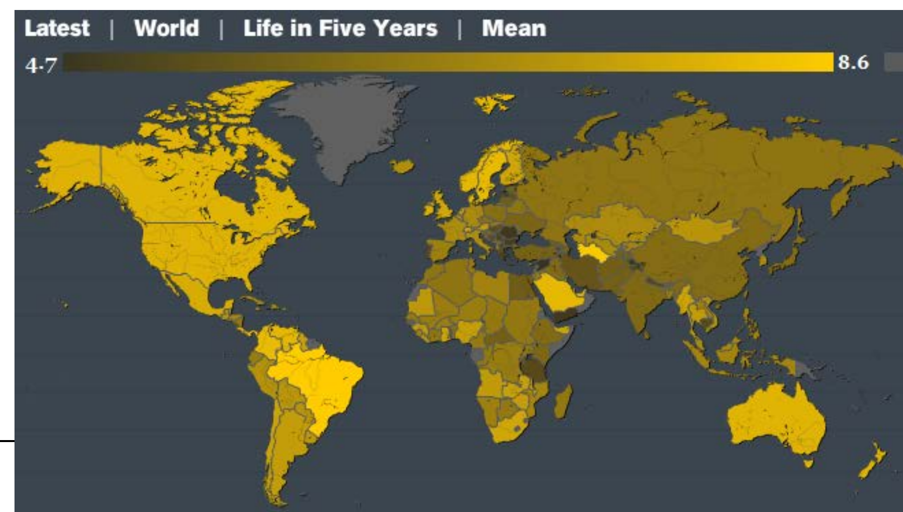
Greek bailout Greece needs more than the €109 billion ($162 billion) estimated three months ago.

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

Global Outlook: 5 Years (Gallup)



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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

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How Market Different?

More Behavioral

Pessimistic

Normal

Optimistic

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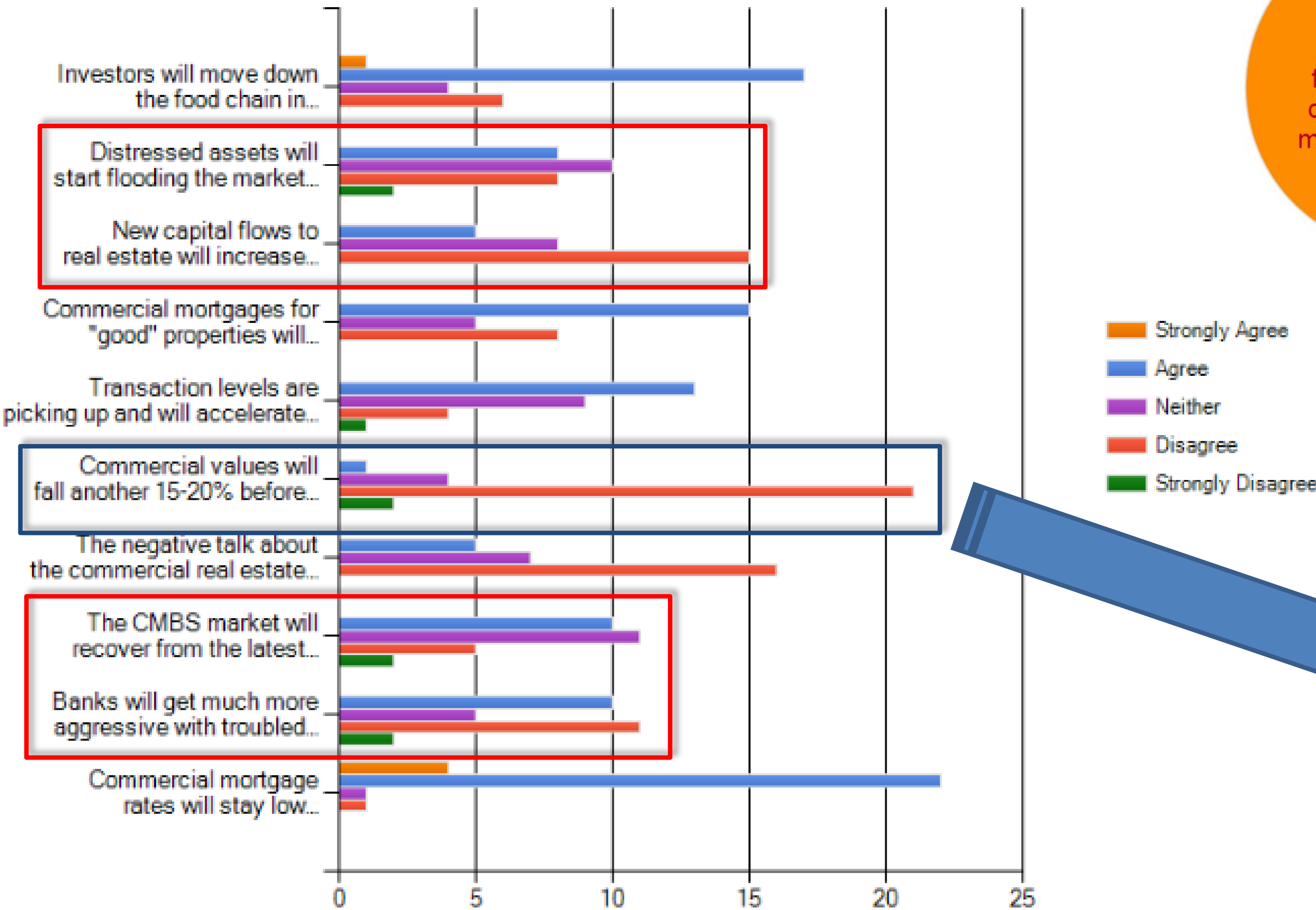
Ratings on Capital Markets



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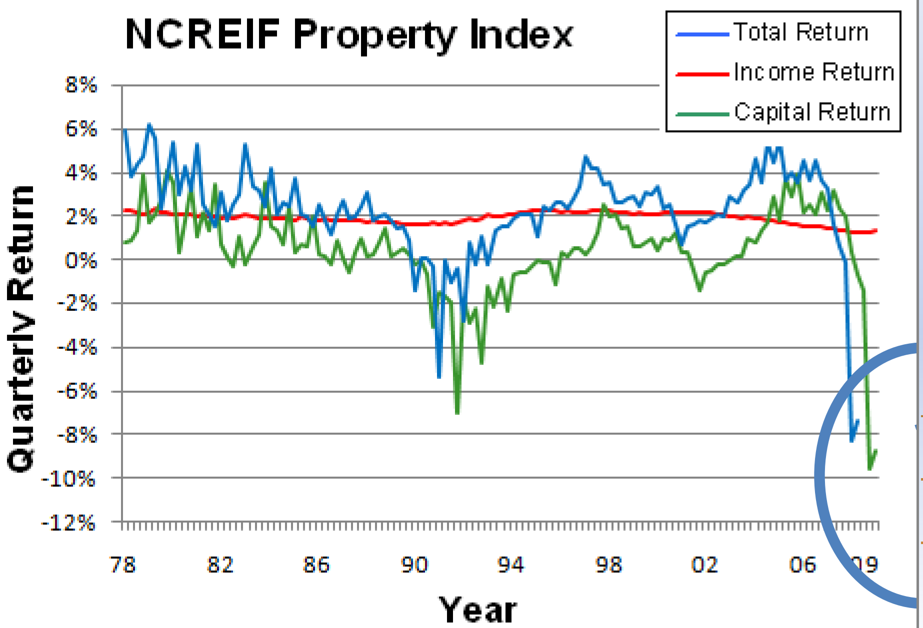
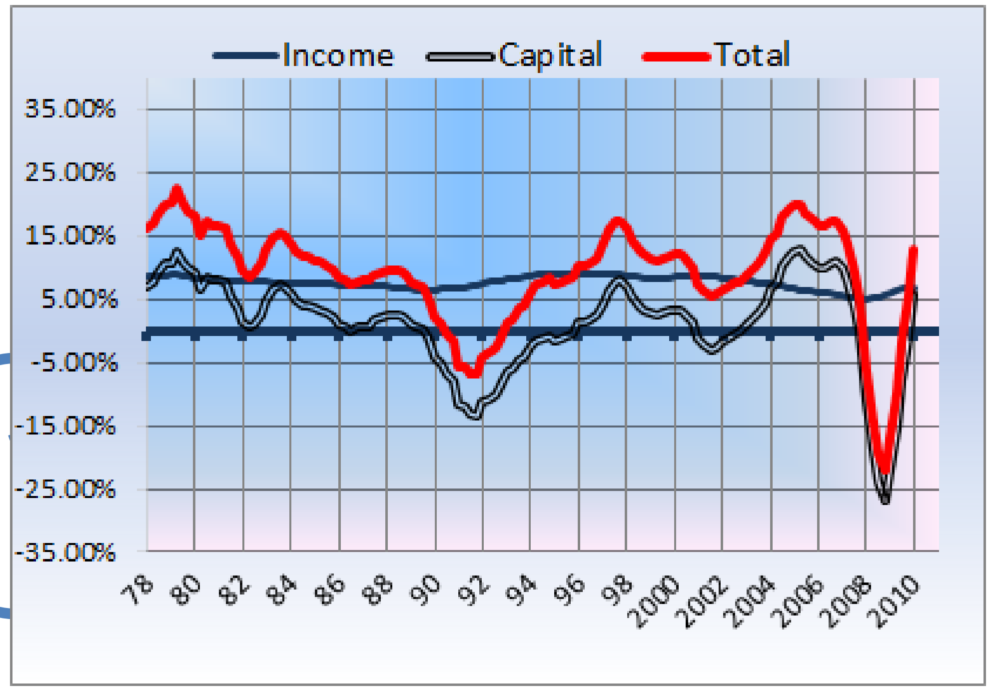
How We're Doing: Commercial Real Estate



Annual Returns



3Quarter 2011

	Current Qtr Estimate
Income	1.29%
Appreciation	2.28%
Total, Gross o	**3.58%**

1.29% * 4 = 5.16%

	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

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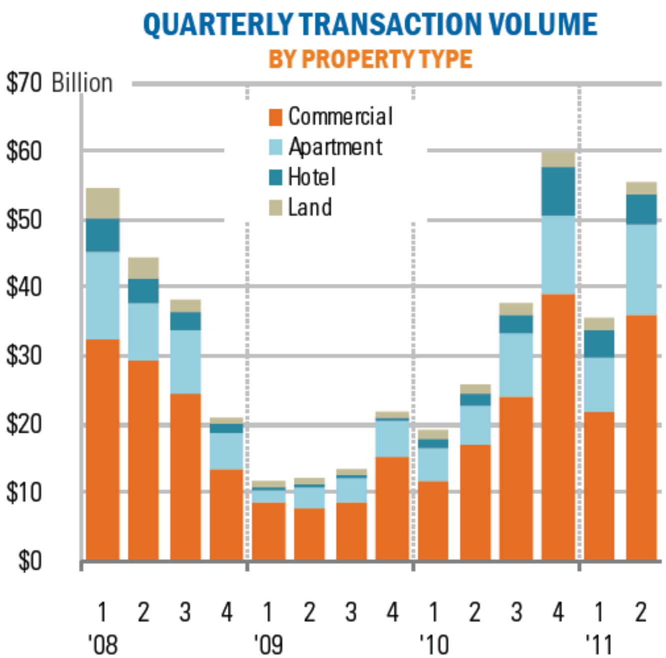
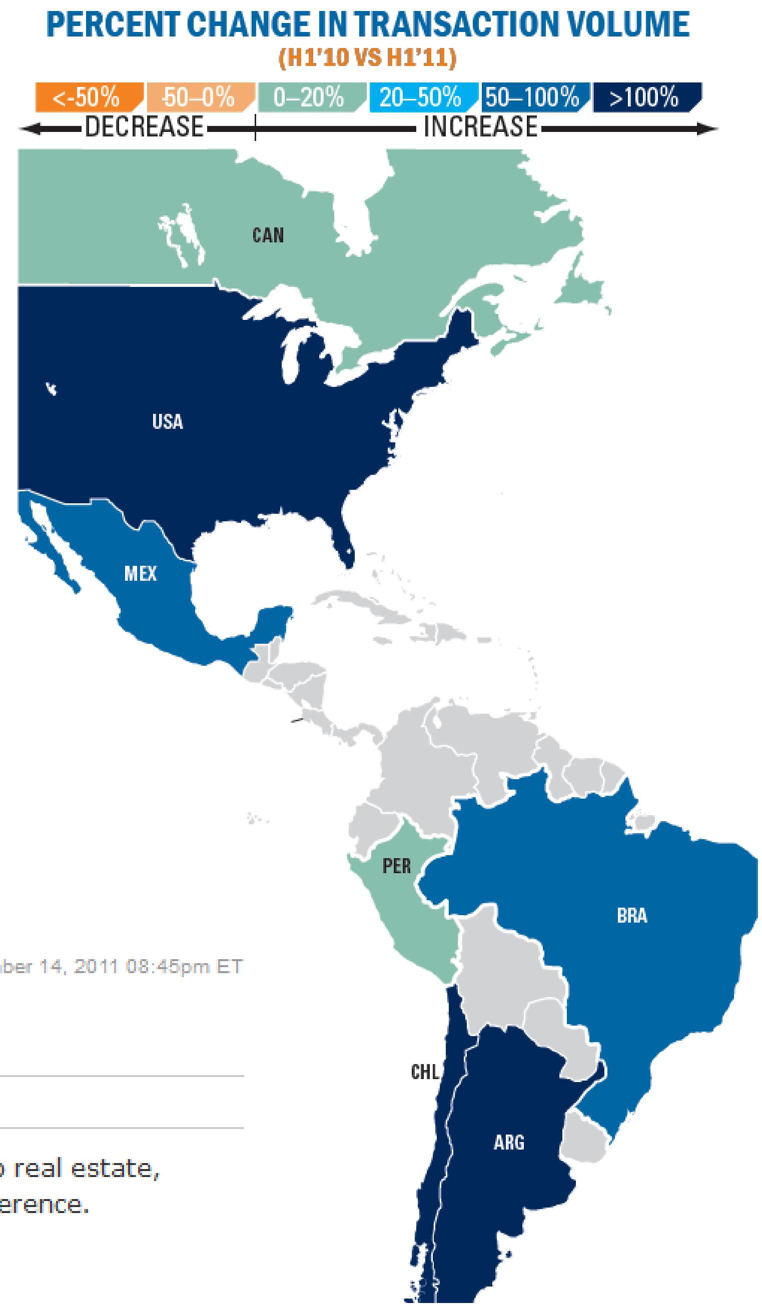
Transactions: Americas





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.

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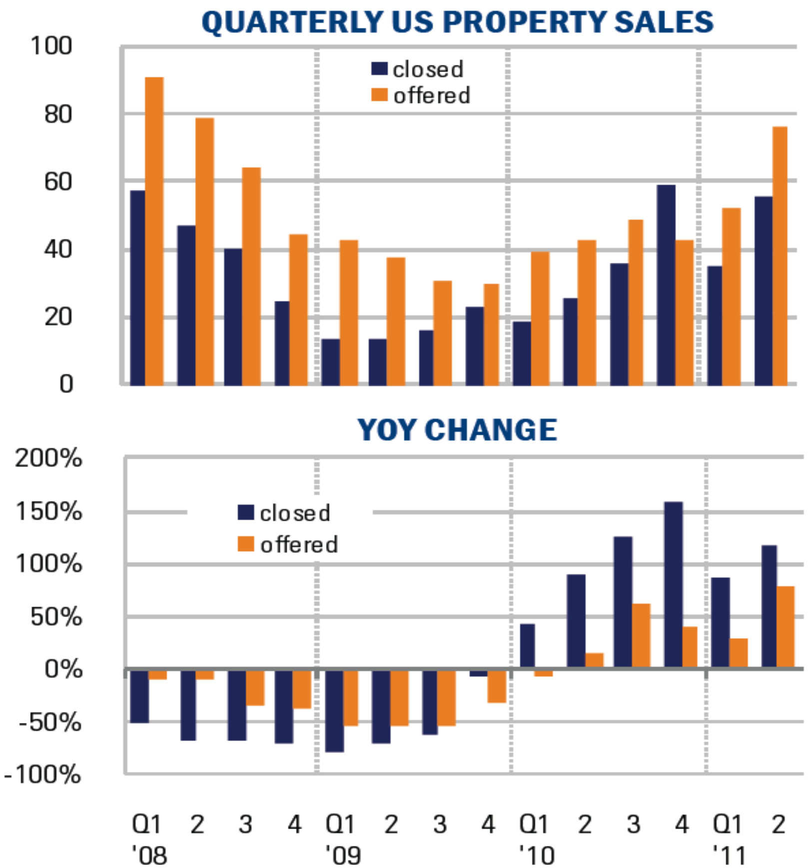
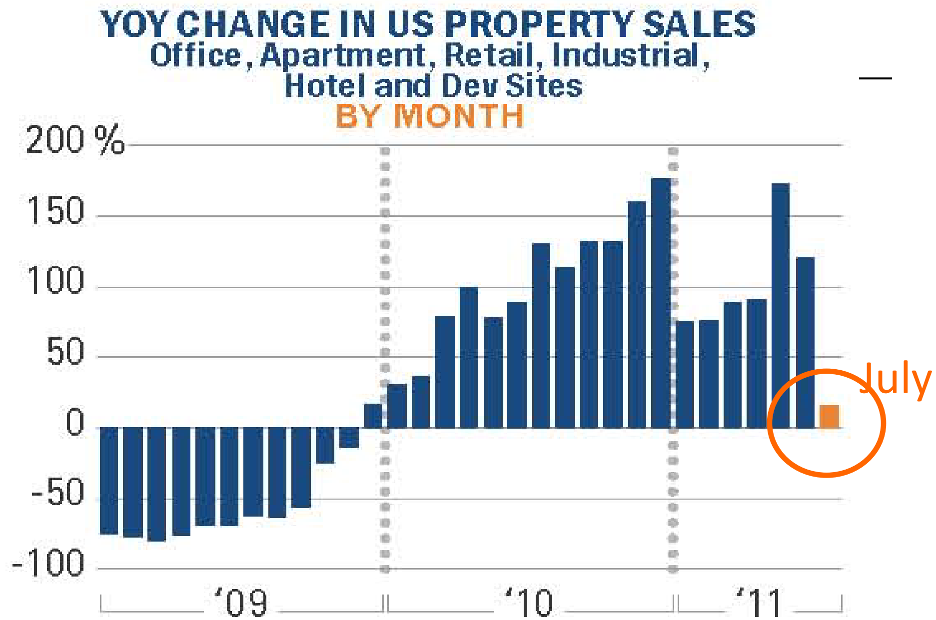
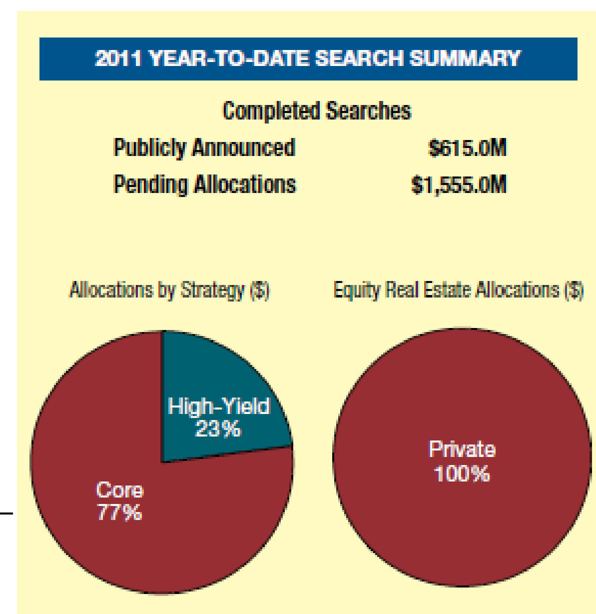
US Transaction Momentu





Search by Style



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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)

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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)

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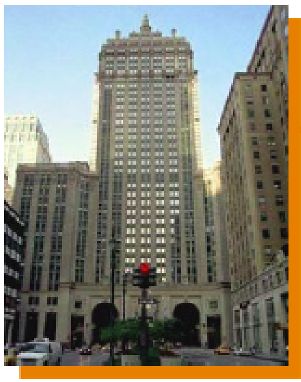
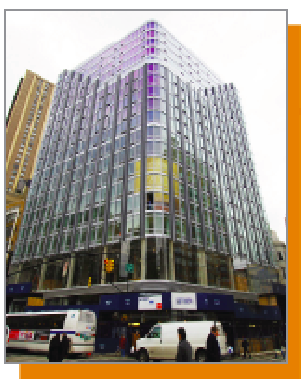
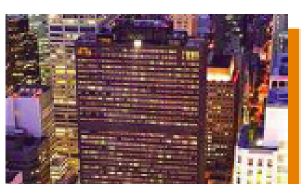
What’s Trading?







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 Philips 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

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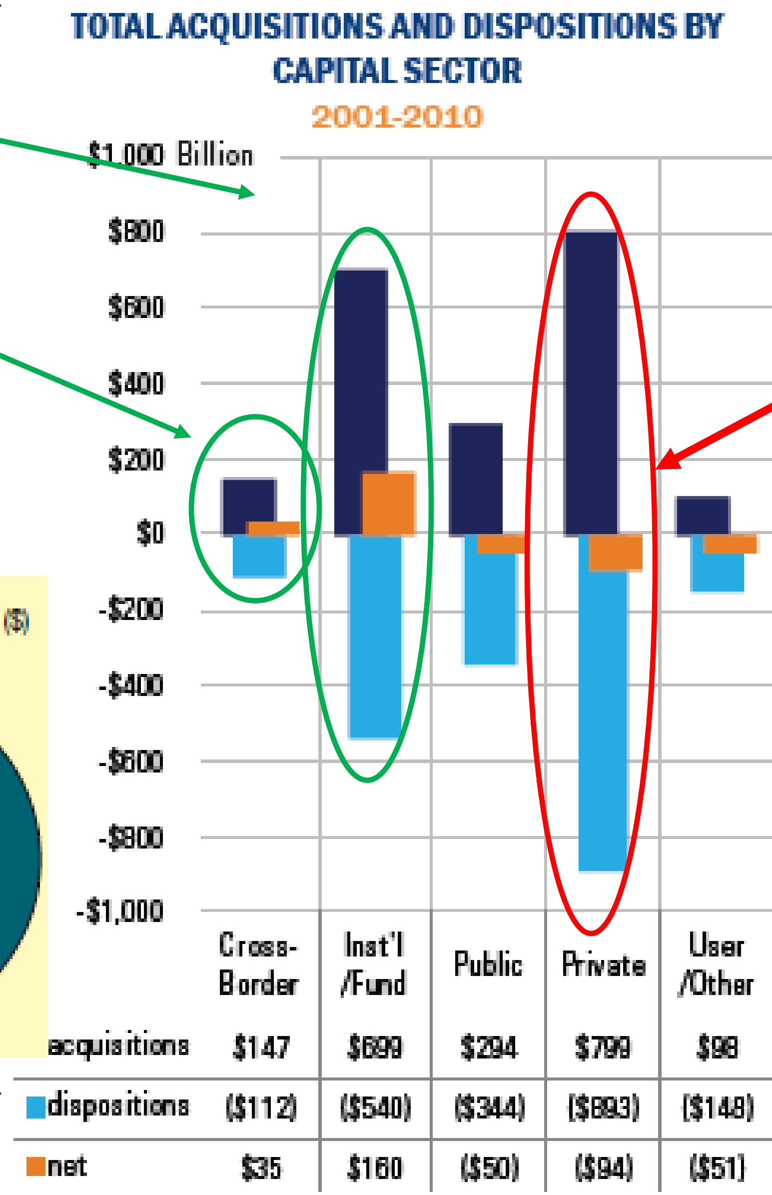
Long-term Commercial Transaction Trends

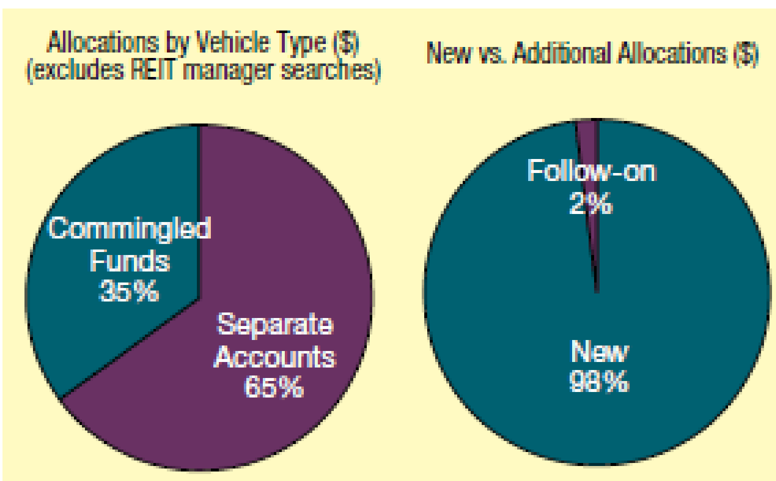
Institutional

Global: Cross-Border

Private: Market Timers



Institutional Allocation by Vehicle



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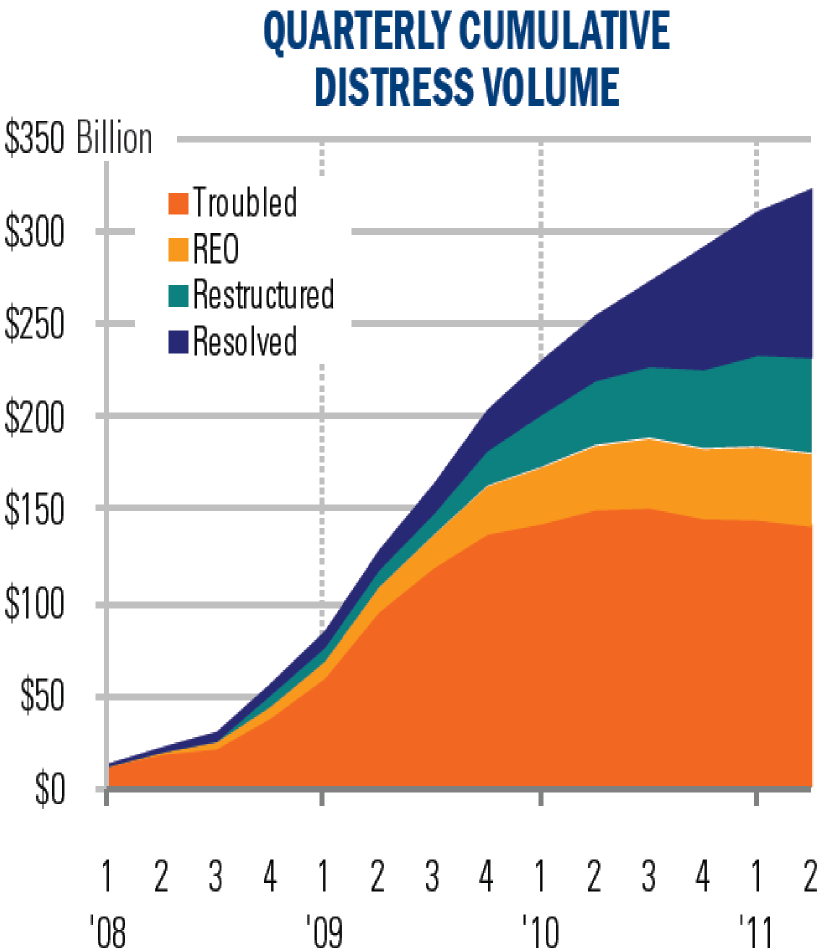
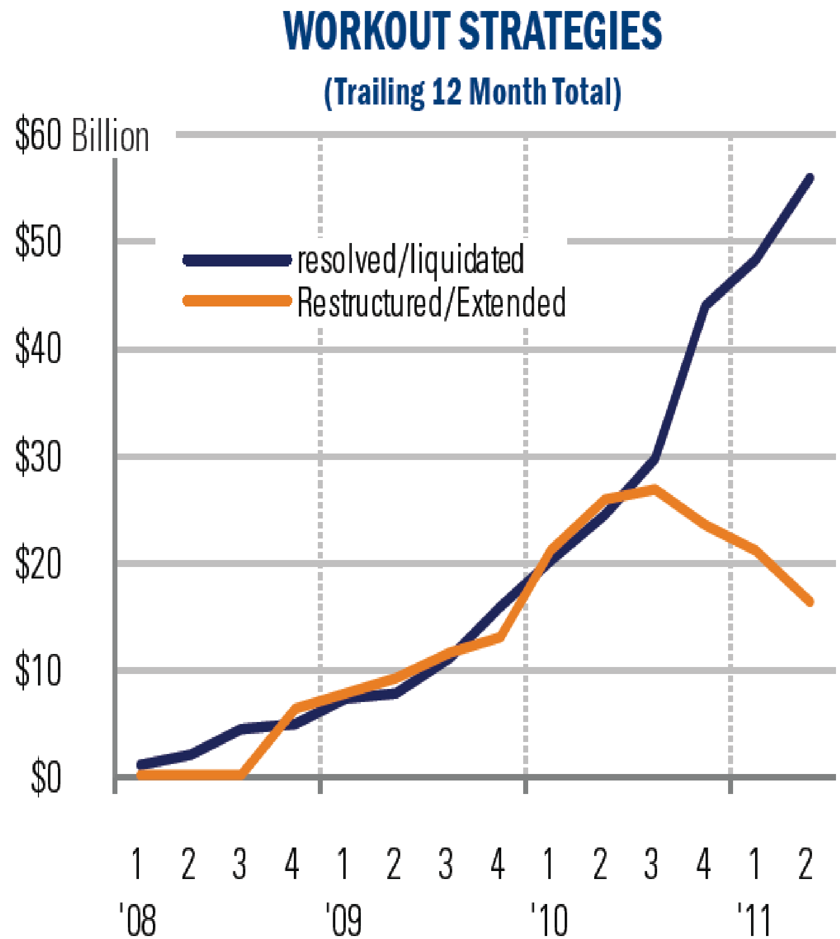
Distress Levels





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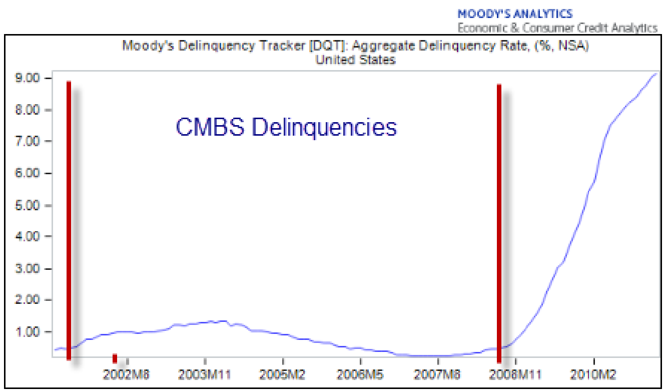
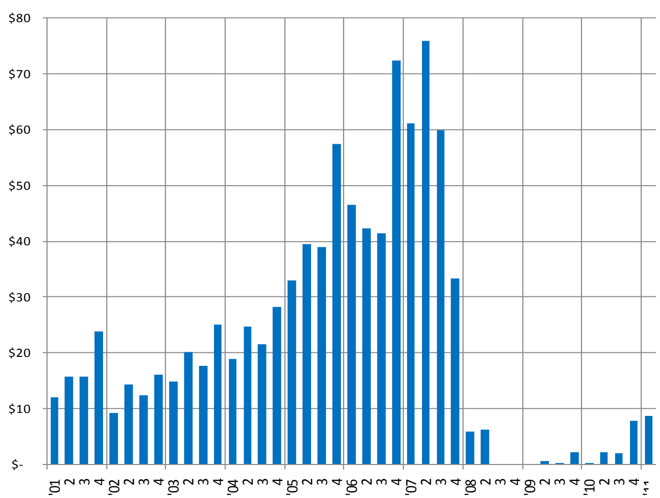
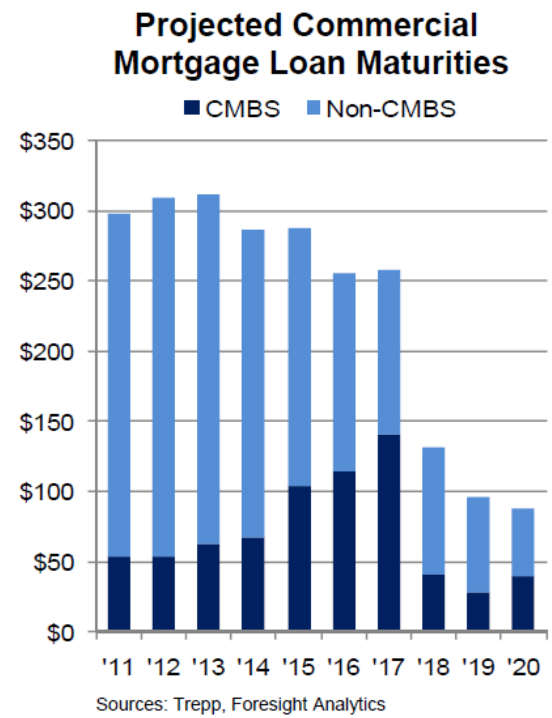
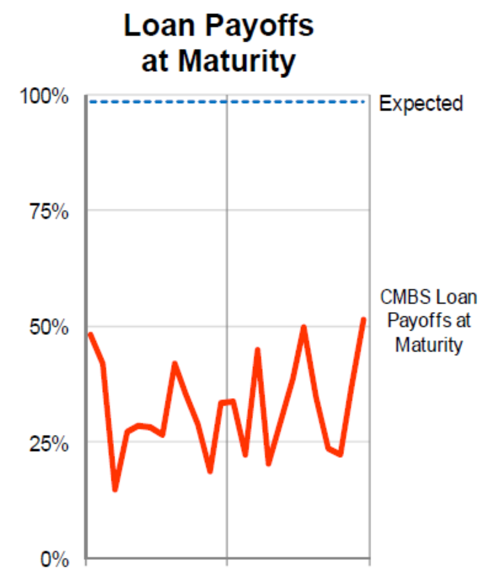
Commercial Loan Maturities: CMBS Land & Payoffs



CMBS Issuances







Bloomberg

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

October 17, 2011, 2:55 PM EDT

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

NEWS ANALYSIS

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

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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

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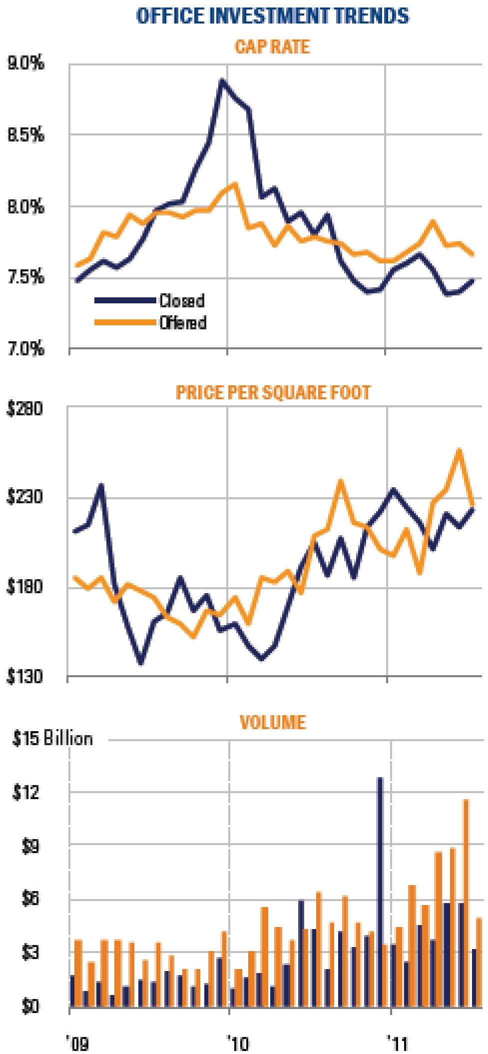
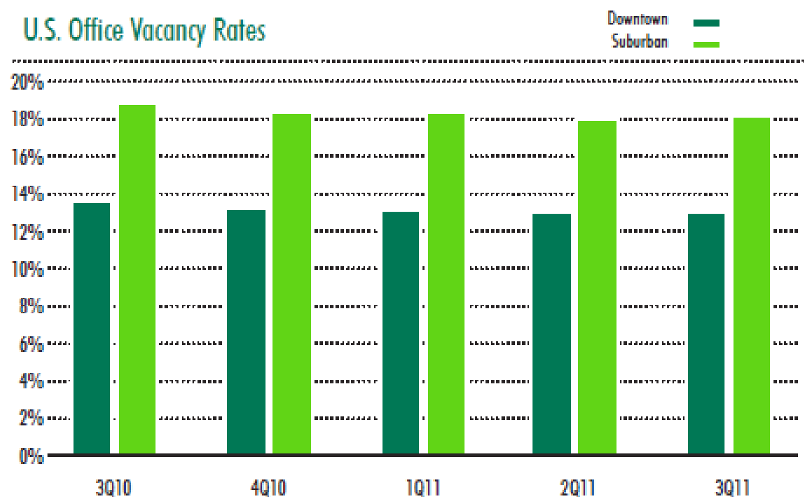
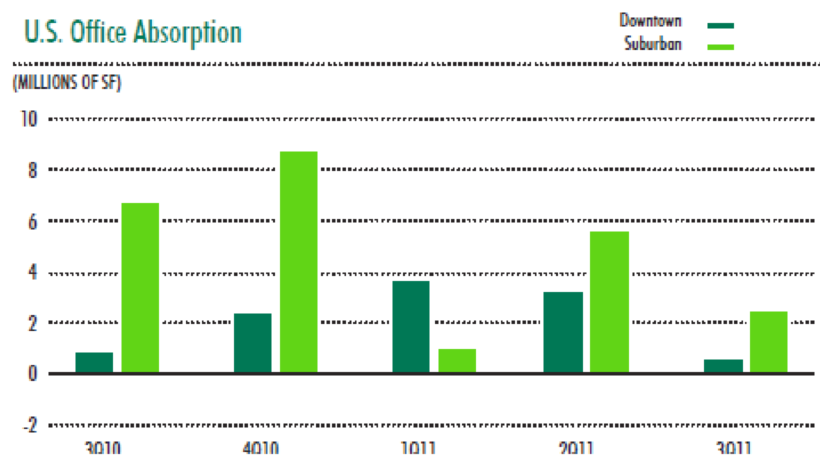
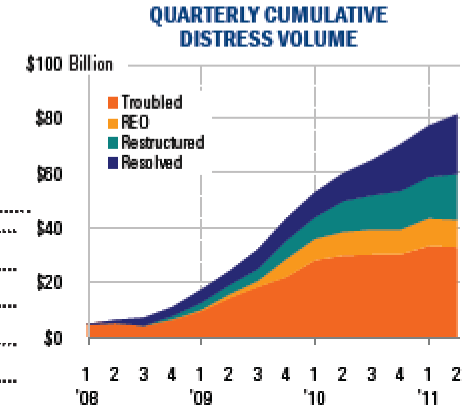
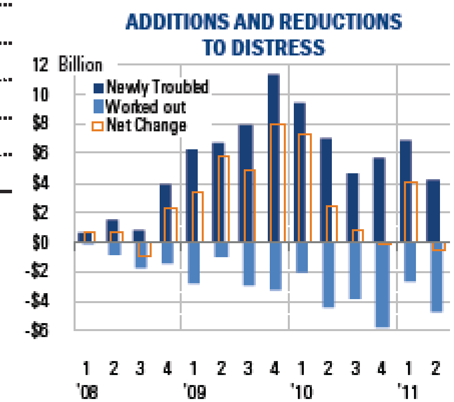
Office Market: National Snapshot

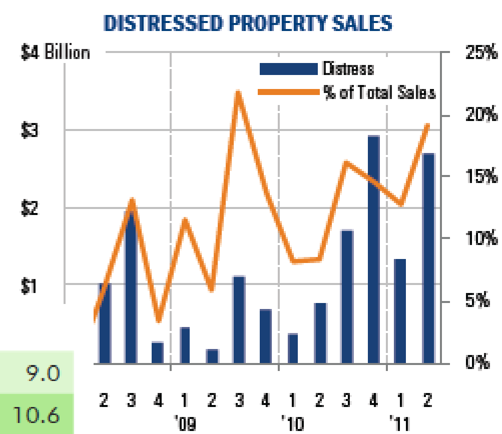












Downtown	
Manhattan, D/T	7.6
Manhattan, Midtown	7.9
Portland	9.7
Washington, D.C. D/T	10.2
Houston	11.4

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

Lowest Vacancy

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Office Market Structure & Trends

Market Structure

- Major: CBD vs. Suburban
- Other: Class A, B, C; Intensity, Specialty

Trends

- Growth of Specialty: biotech, medical and R&D facilities
- Green buildings, sustainability
- Office hotelling, virtual officing
- Corporate Social Responsibility

Demand

- Primary Demand: FIRE & Office & office-related employment; secondary office needs of others
- Quality of life, pop. growth, education, business attractiveness

Supply

- Office stock & structure
- Growth in stock & location
- Land & construction costs
- Entitlements & barriers to entry

Investment Performance

- Rental level and growth
- Operating expenses
- Lease structure and terms
- Tenant mix, rent roll

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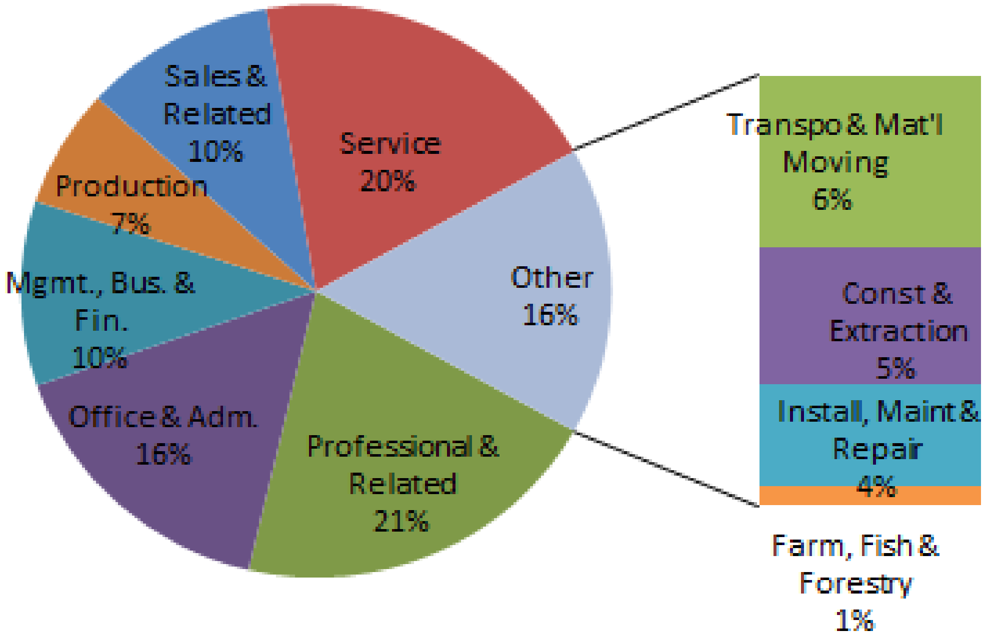
Office vs. Total Employment



As of 2008, there were some 150,900 occupational workers in the US. Of that total, over 71,000 workers (47%) worked in office-type space… These occupations included: Management, Business & Finance; Office & Administration; and, Professional & Related.

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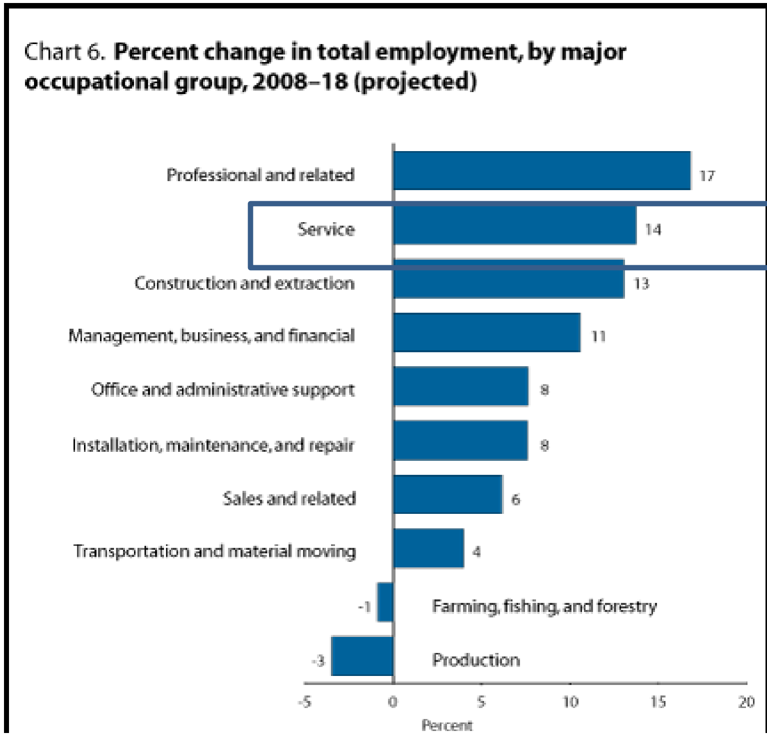
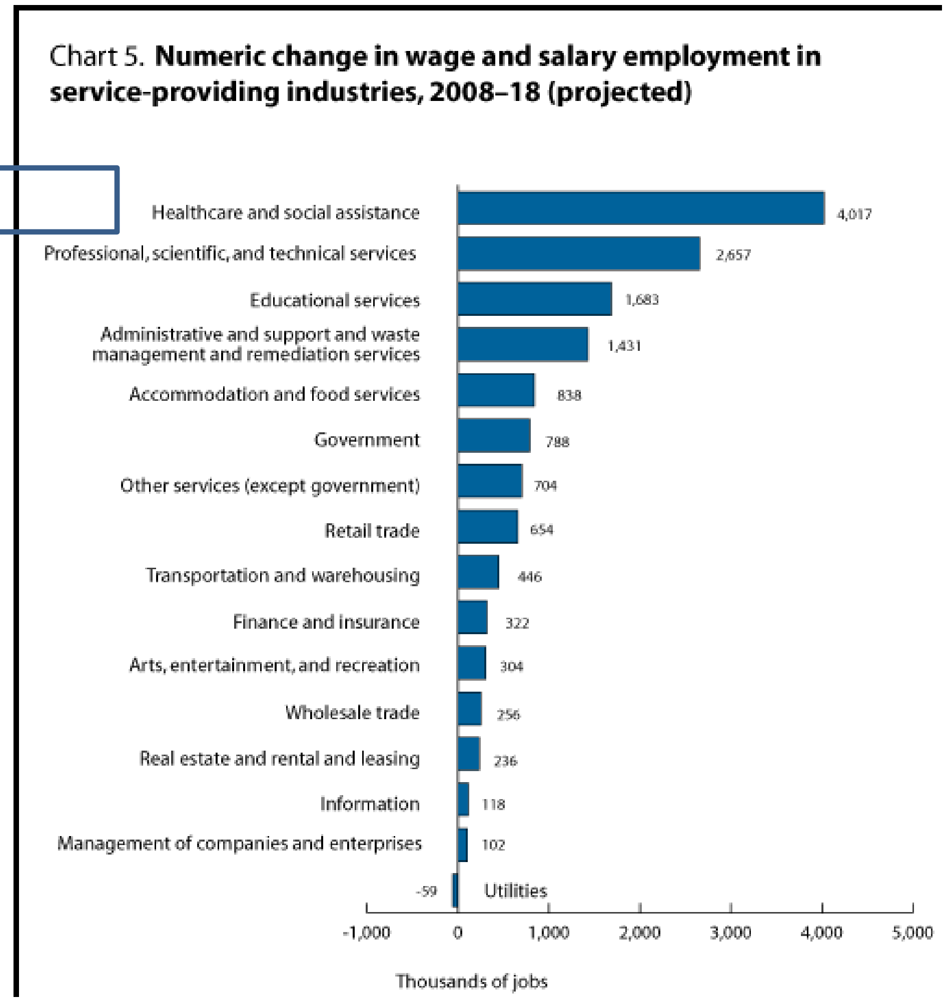
Office-Related Job Growth





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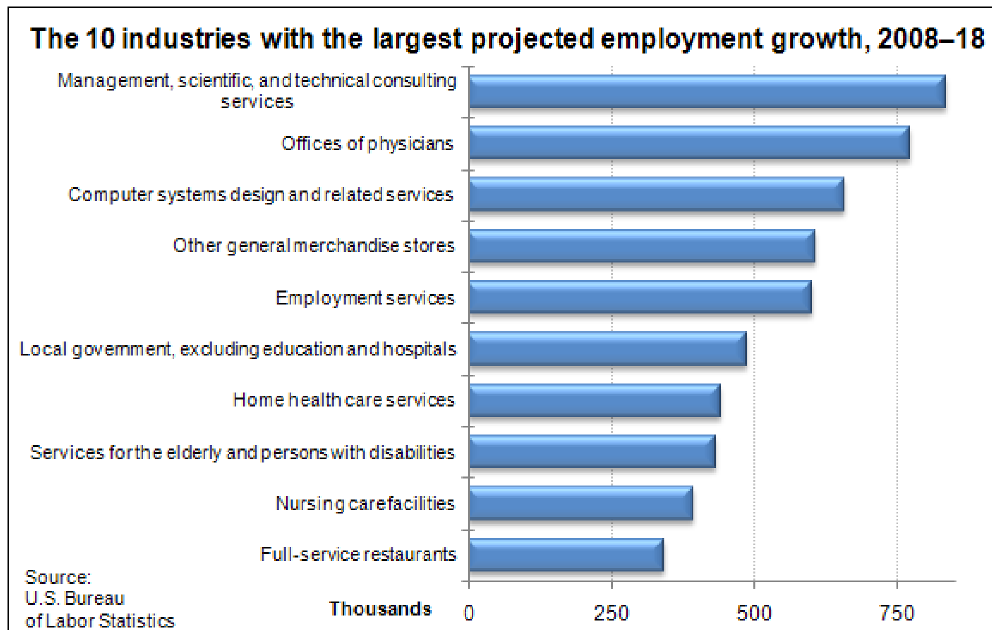
Where the Office Jobs Might Go



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Future Trends Affecting Office

Globalization
- Continued globalization expands the competitive arena
- Shifting among locations and greater elasticity in demand and supply adds risk

Consolidation
- Trend toward consolidation is continuing creating larger space users
- Increases in the scale of operations increases risk

Growth of demand for pecially office
- Demand for idiosyncratic space increases
- greater specialization requires more understanding of business activities of targeted users

Green/Sustaiinable buildings
- Concerns over environment render some buildings functionally obsolescent
- Added pressure to produce more efficient buildings

Corporate social responsibility
- Concerns over CSR pressures corporate users to focus on real estate
- Quality and character of office space will become more important

Virtual office andtechnological innovation
- Technological innovations will continue to change demand function
- Some changes will have impact on design and infrastructure requirements

Corporate Policies and Practices
- In the increasingly global, dynamic arena companies will place more emphasis on flexibility, mobility, collaboration and productivity
- Real estate solutions and the workplace will take on added importance in recruiting, retaining and motivating employees, especially "new milleneum" employees of the future

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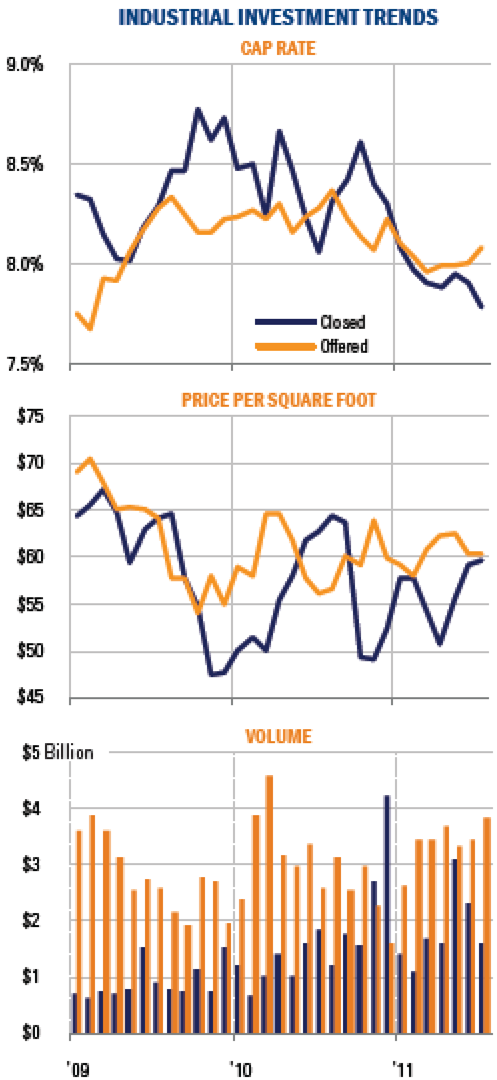
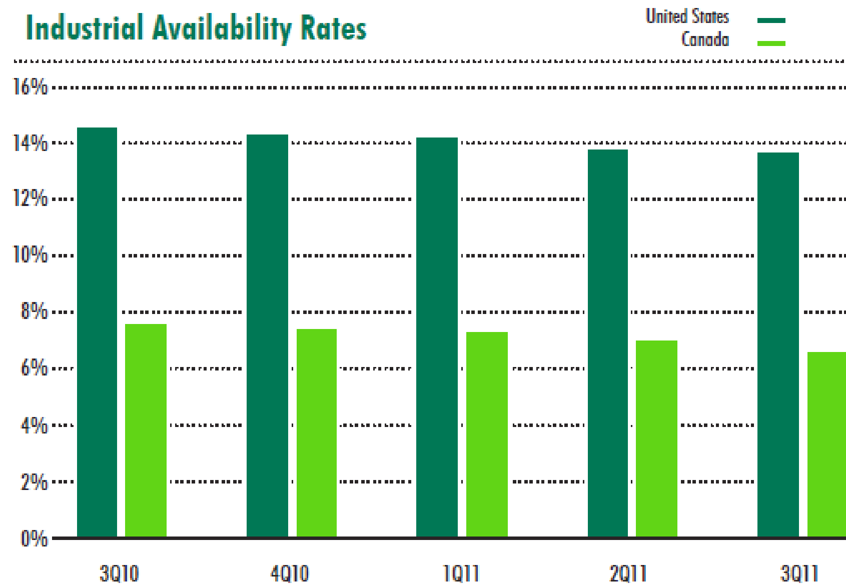
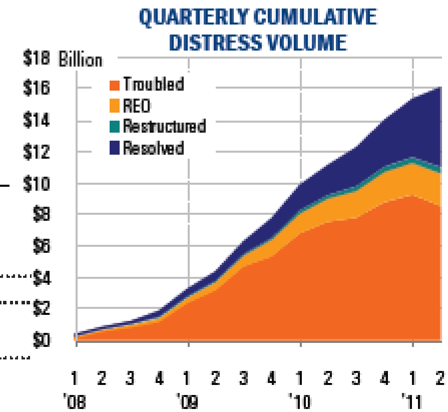
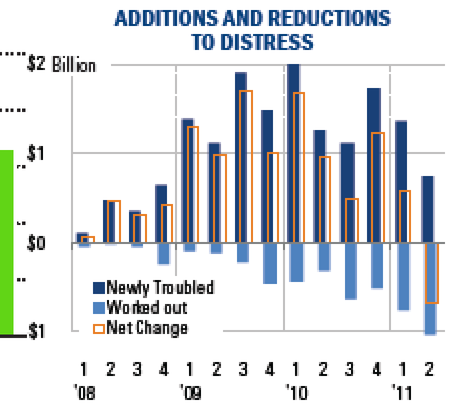
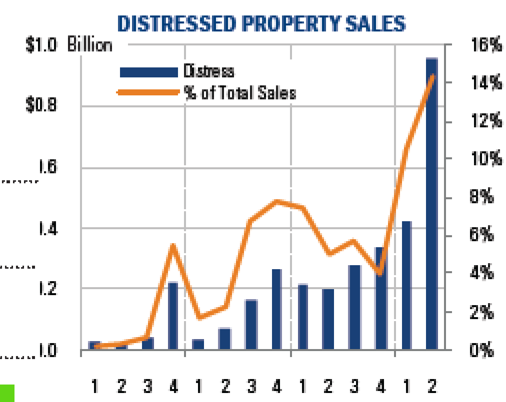
Industrial Market: National Snapshot

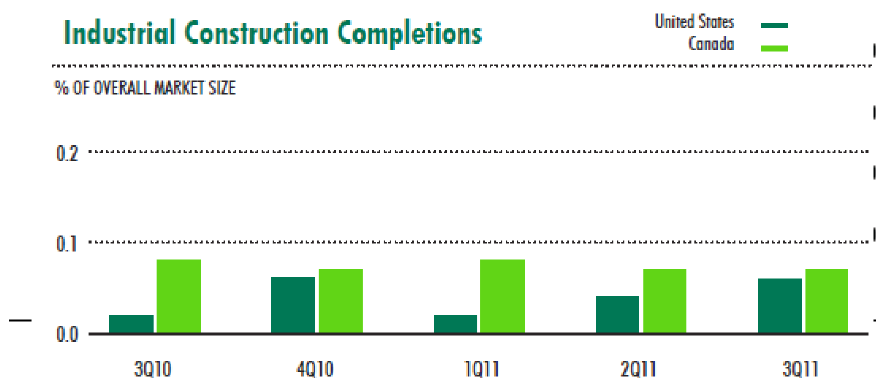












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Industrial Market Snapshot

Market Structure

- Major: manufacturing & warehouse
- Other: light/heavy manufacturing, general & specialized warehouse & distribution, specialized, flex space

Trends

- Globalization
- Supply chain reconfiguration, logistics
- Technological innovation,

The space-time component of warehouse facilities has taken on much greater stratification than in the past, creating specialized needs for some users that require 30’plus clear height ceilings, super-flat floors, cross-dock loading and other design features needed to accommodate an increasingly global and dynamic logistical network.

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Industrial Drivers of Value

Demand

- Global trade and transportation
- Distribution and logistics
- Manufacturing & assmbly
- Global and domestic economic conditions , business & consumer sales

Supply

- Industrial and warehouse stock
- Construction and net absorption
- Supply of entitled land; excess capacity
- Land prices and barriers to entry

Investment Performance

- Rental level and rent change
- Operating expenses
- Lease structure, terms & tenancy

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Industrial Property Classification

Manufacturing

- Heavy Manufacturing
- Medium Manufacturing
- Light Manuracturing

Warehouse/
Distribution

- Regional Warehouse
- Bulk Warehouse
- Refigerated Storage
- Truck Terminal
- Heavy Distribution
- Air Cargo

Hybrid
Facilities

- R&D Faciilities
- Flex Space
- Office/Showroom

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Supply Chain Management

- Business & marketing plan
- Design products
- Forecast demand/take orders
- Obtain inputs
- Produce products/add value
- Package & ship
- Tracking and replenishment

Producers

- Business & marketing plan
- Develop logistical strategies, network
- Receiving & Storage
- Shipping & Delivery

Supply Chain

- Search & selection
- Order and/or purchase in store
- Consume or use
- Evaluate and learn

Consumers

In addition to globalization, technological innovations and changes in logistical models have made supply chains more dynamic, creating changes in the demand for industrial and distribution/warehouse facilities.

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Distribution: Inter and Intrastate Shipping

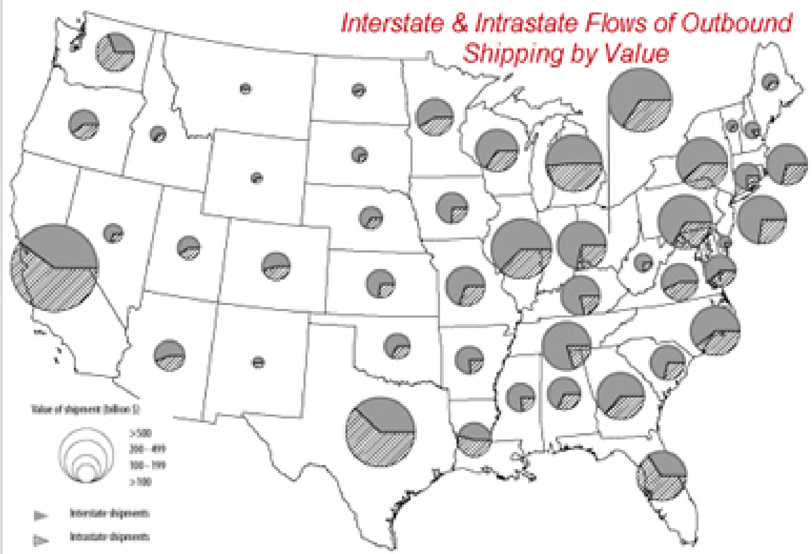

Table 1: U.S. Value, Tonnage, and Ton-Miles of Shipments by Mode of Transport, Percent of Total: 2007

Transportation mode	Value (million $)	Percent of total	Tons (thousands)	Percent of total	Ton–miles (millions)	Percent of total
All modes	11,831,503	100	13,016,610	100	3,490,806	100
Truck	8,363,657	71	8,957,687	69	1,390,102	40
Rail	387,567	3	1,928,530	15	1,294,921	37
Water	106,905	1	423,282	3	175,973	5
Air (includes truck to/from airport)	209,611	2	3,525	–	4,014	–
Pipeline	487,140	4	774,732	6	NA	NA
Parcel, USPS, or courier	1,597,931	13	36,029	–	29,535	1
Multiple modes	340,953	3	590,510	5	460,233	13
Other and unknown modes	337,739	3	302,315	2	47,964	1

NOTES: A percent below 0.5% is marked by a dash (–) in the table. NA = not available due to high sampling variability or poor response quality.

SOURCE: U.S. Department of Transportation, Research and Innovative Technology Administration, Bureau of Transportation Statistics, 2007 Commodity Flow Survey, preliminary data table 1, December 2008.

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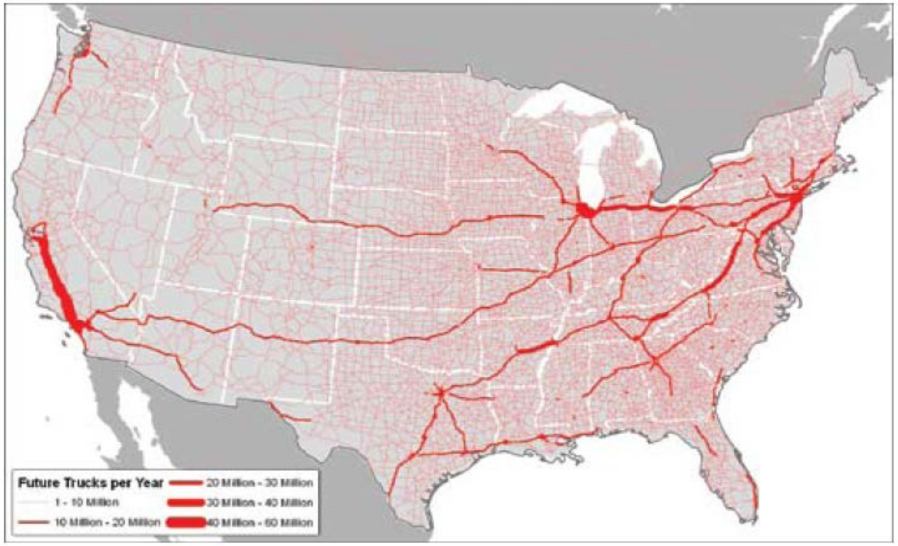
Distribution Paths by Mode



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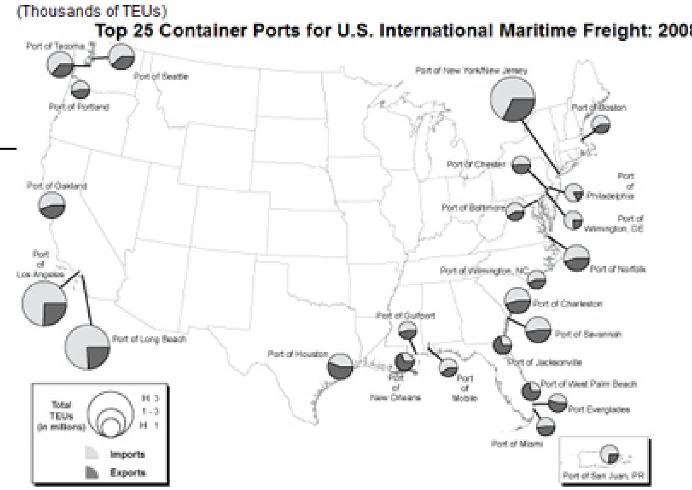
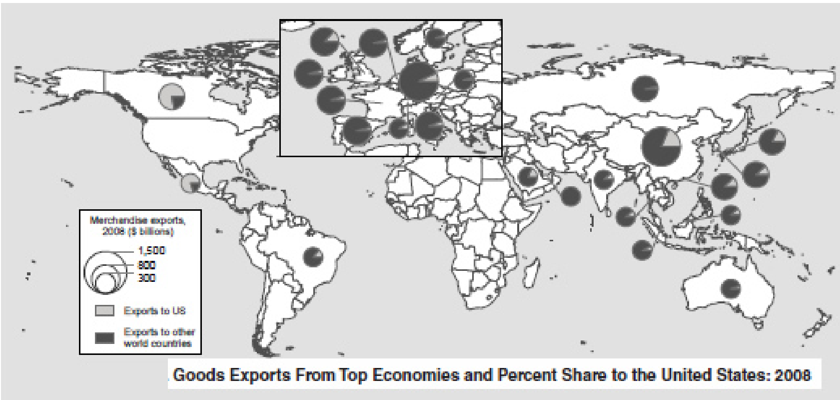
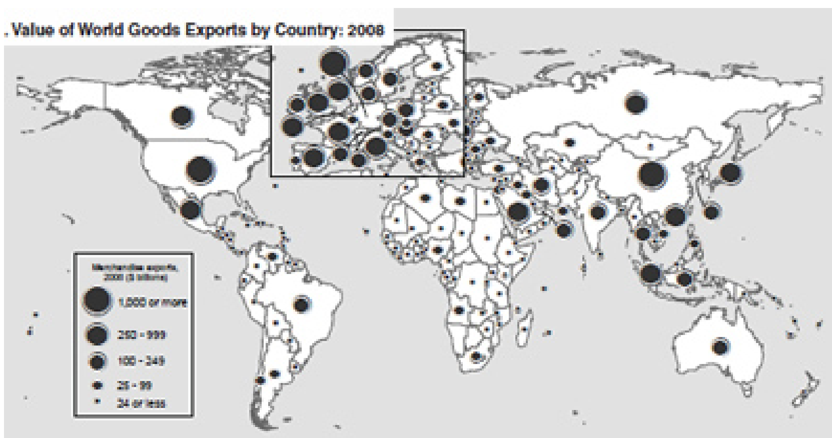
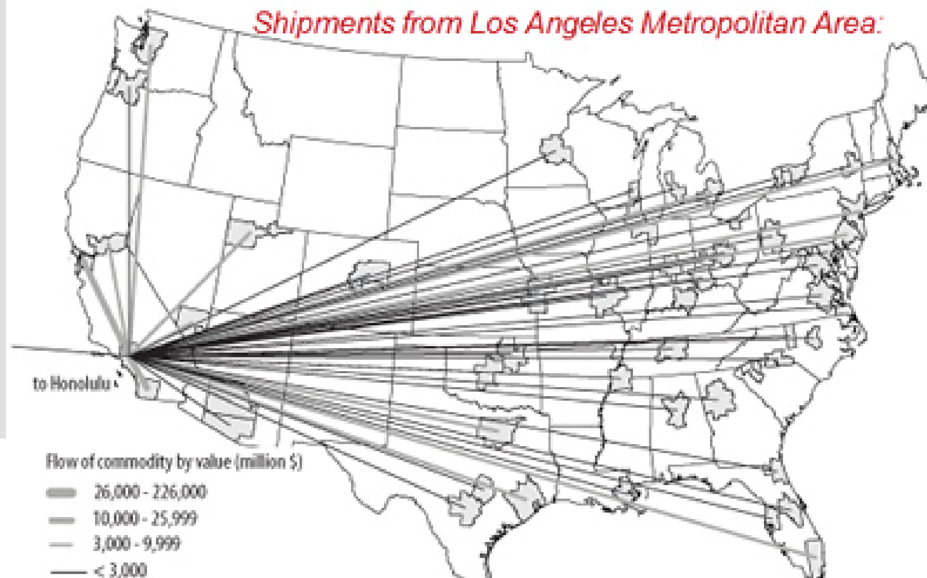
Exports and Imports









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What Should Professionals Do?

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Presentation Summary

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

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