



Capital Market Update

February 10, 2011

Marc Louargand, Ph.D., CRE[®], FRICS

Principal

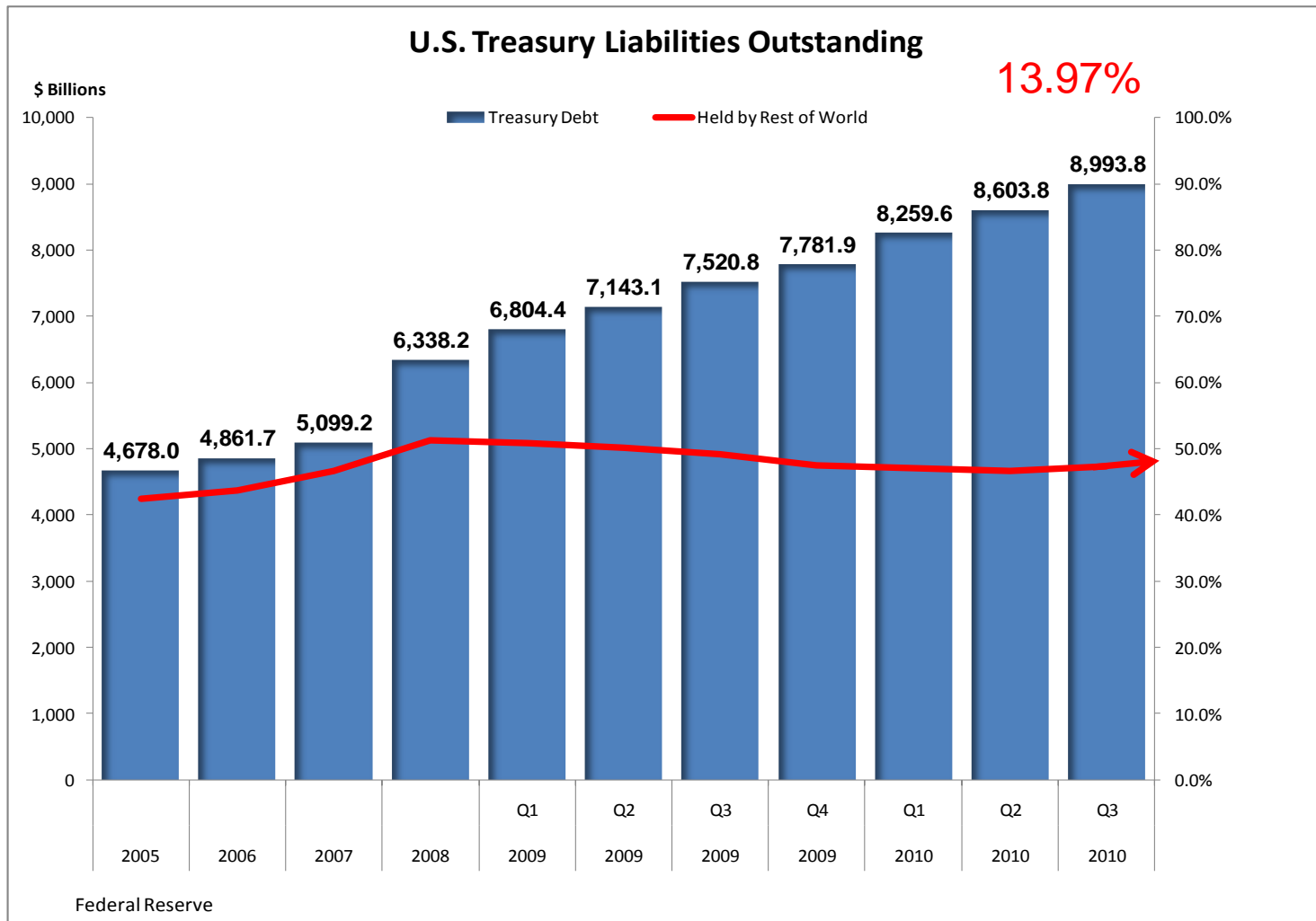
SALTASH PARTNERS LLC

investing in American ingenuity

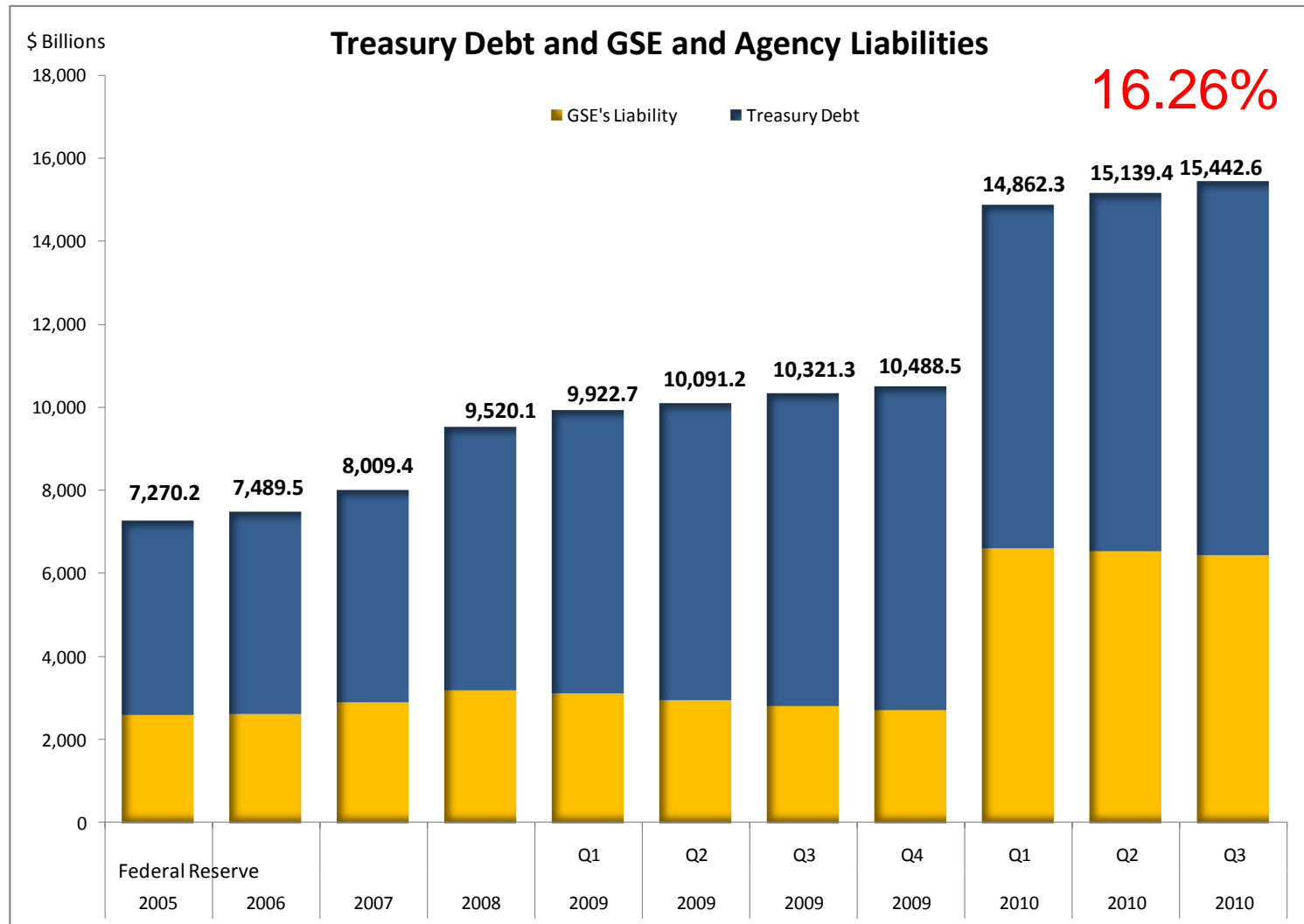
A Brief Tour of the Capital Market

- What's happened in the past year?
- Capital market conditions
- Property market conditions
- Outlook for 2011 and beyond
- Property sectors to watch

Treasury Liabilities have Doubled in Five Years

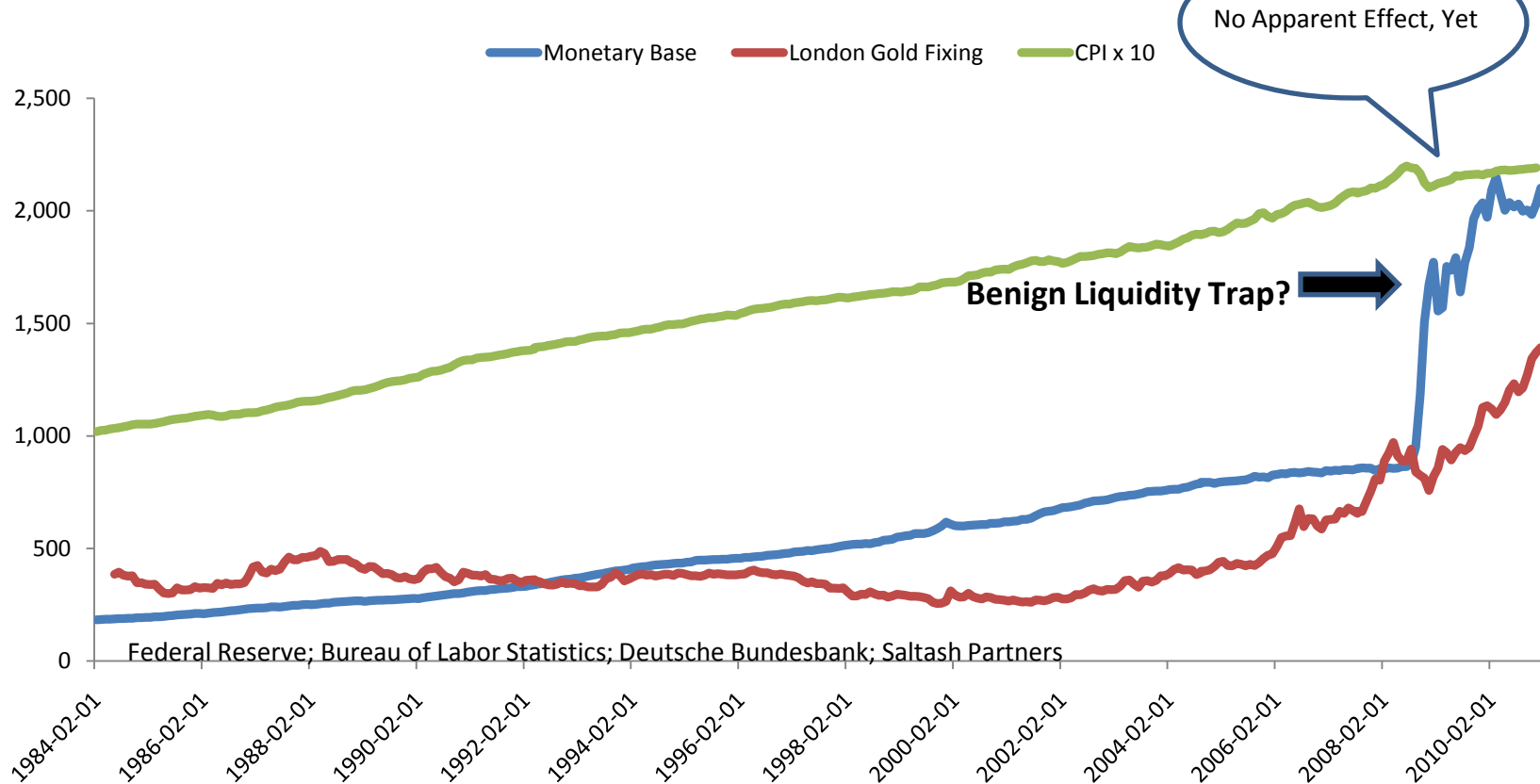


Add in GSE and Agency Liabilities

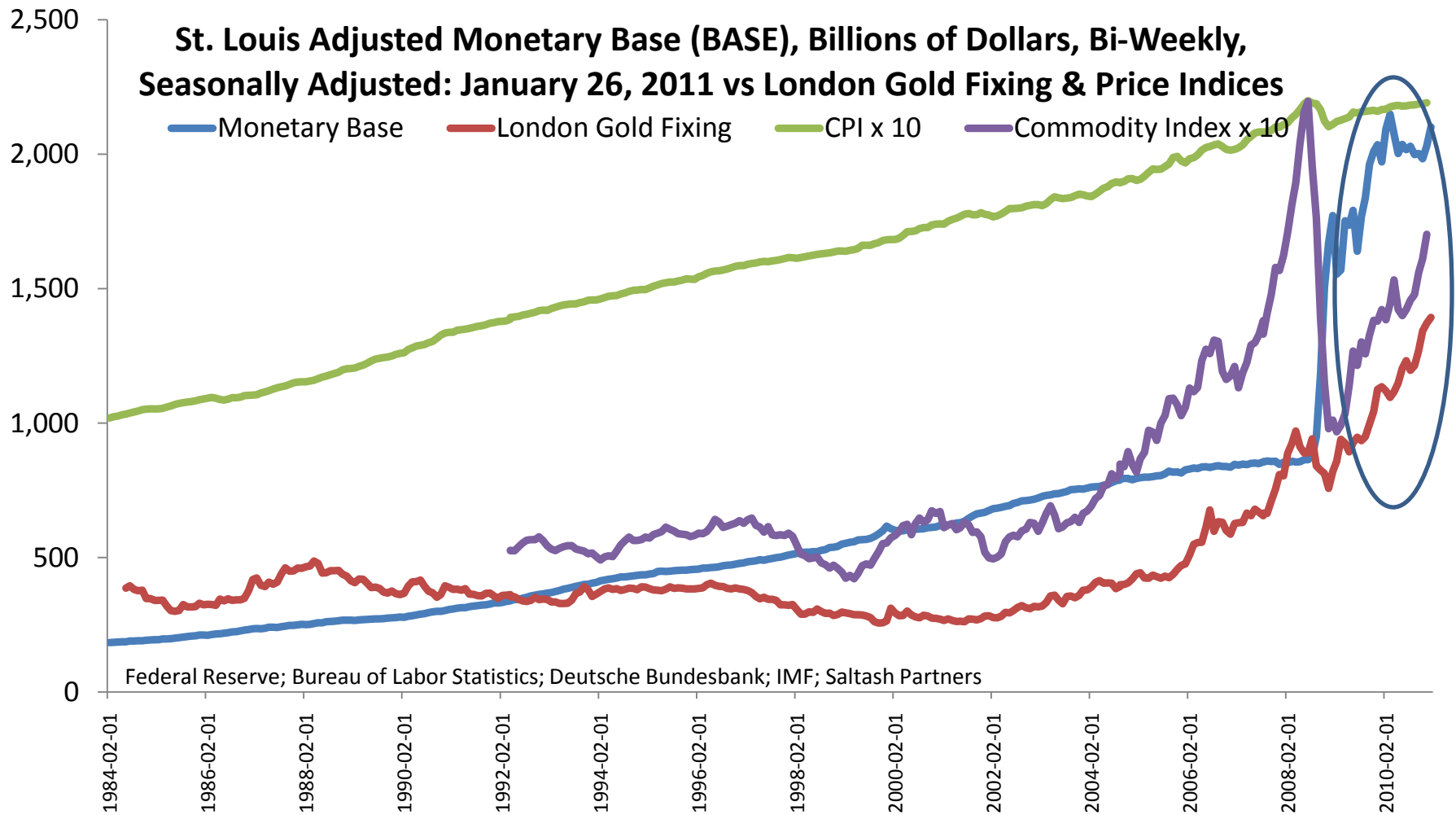


Is Quantitative Easing Working?

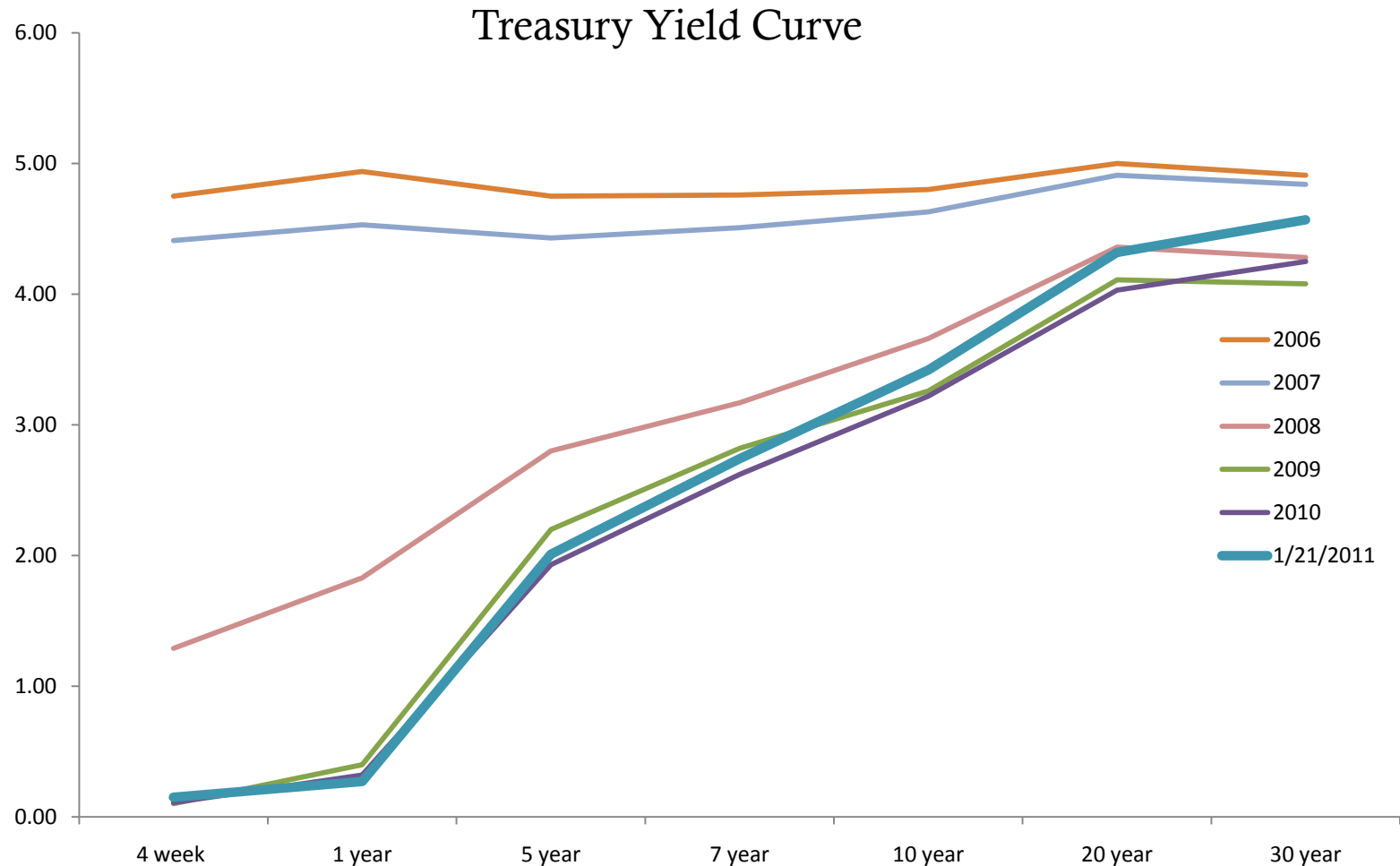
St. Louis Adjusted Monetary Base (BASE), Billions of Dollars, Bi-Weekly, Seasonally Adjusted: January 26, 2011 vs London Gold Fixing & CPI



Is Inflation around the Corner?

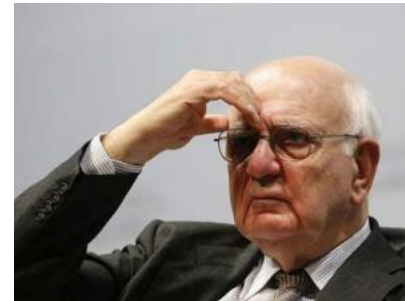


Is Quantitative Easing Working?



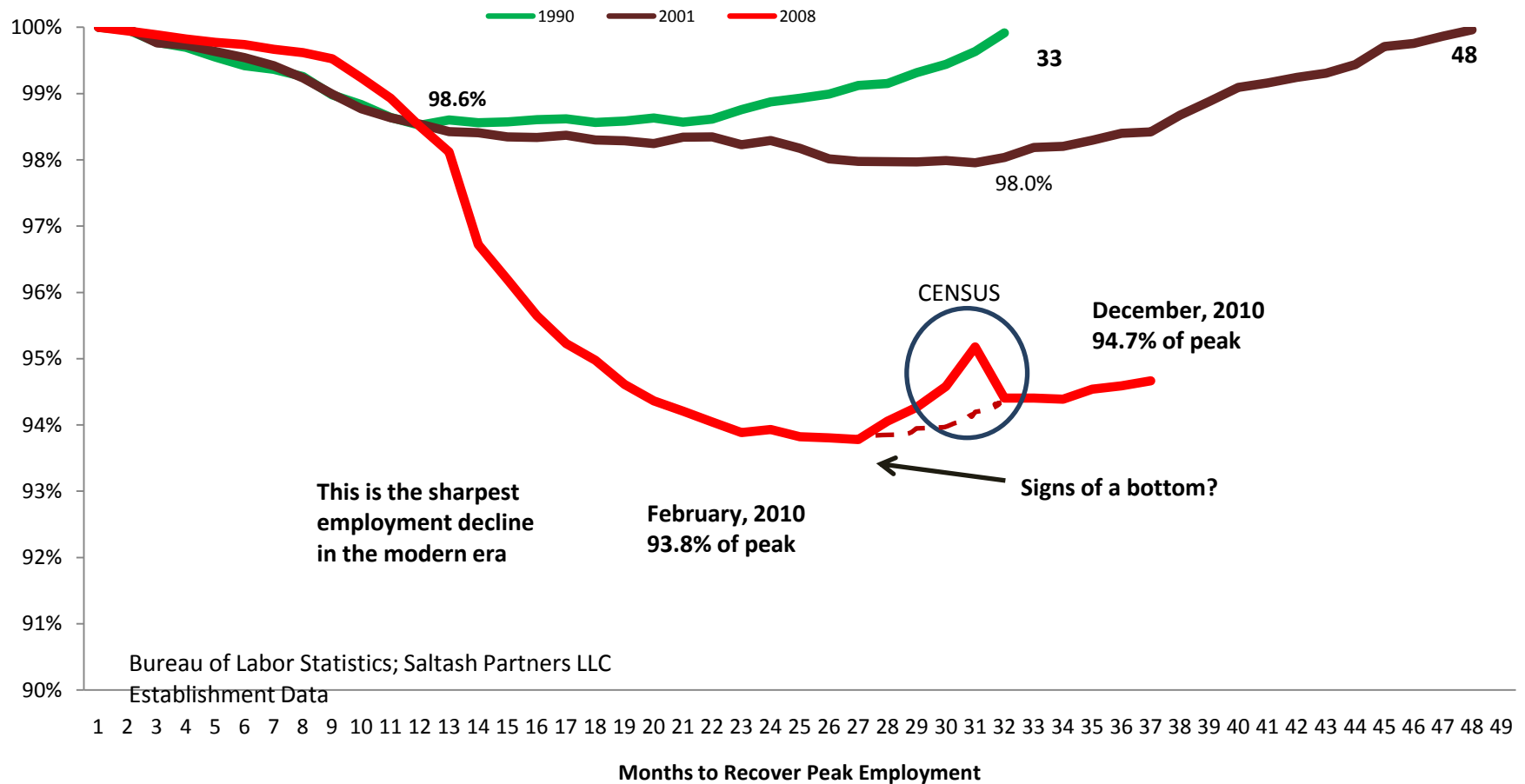
Has Inflation Begun?

- Wall Street Journal – yesterday
 - Inflation Worries Spread
 - *China Raises Rates amid Hit to Wheat Crop*
 - *Treasury Yields at 9-Month High*
- Paul Volcker on inflation
 - *"won't be a problem next year, it won't be a problem for several years."* October, 2010



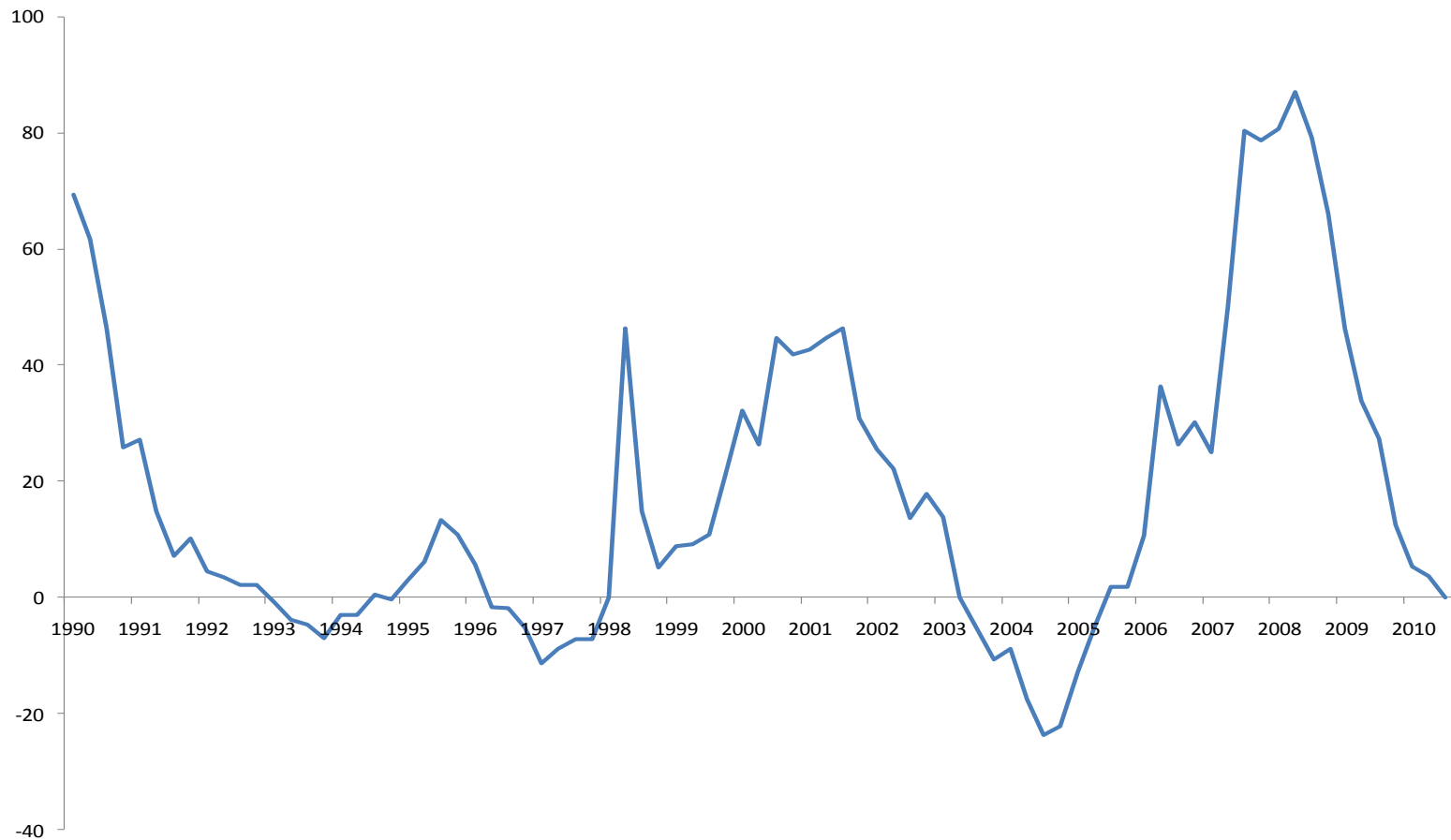
When Will Demand Return?

Recent Post-Recession Employment Recovery

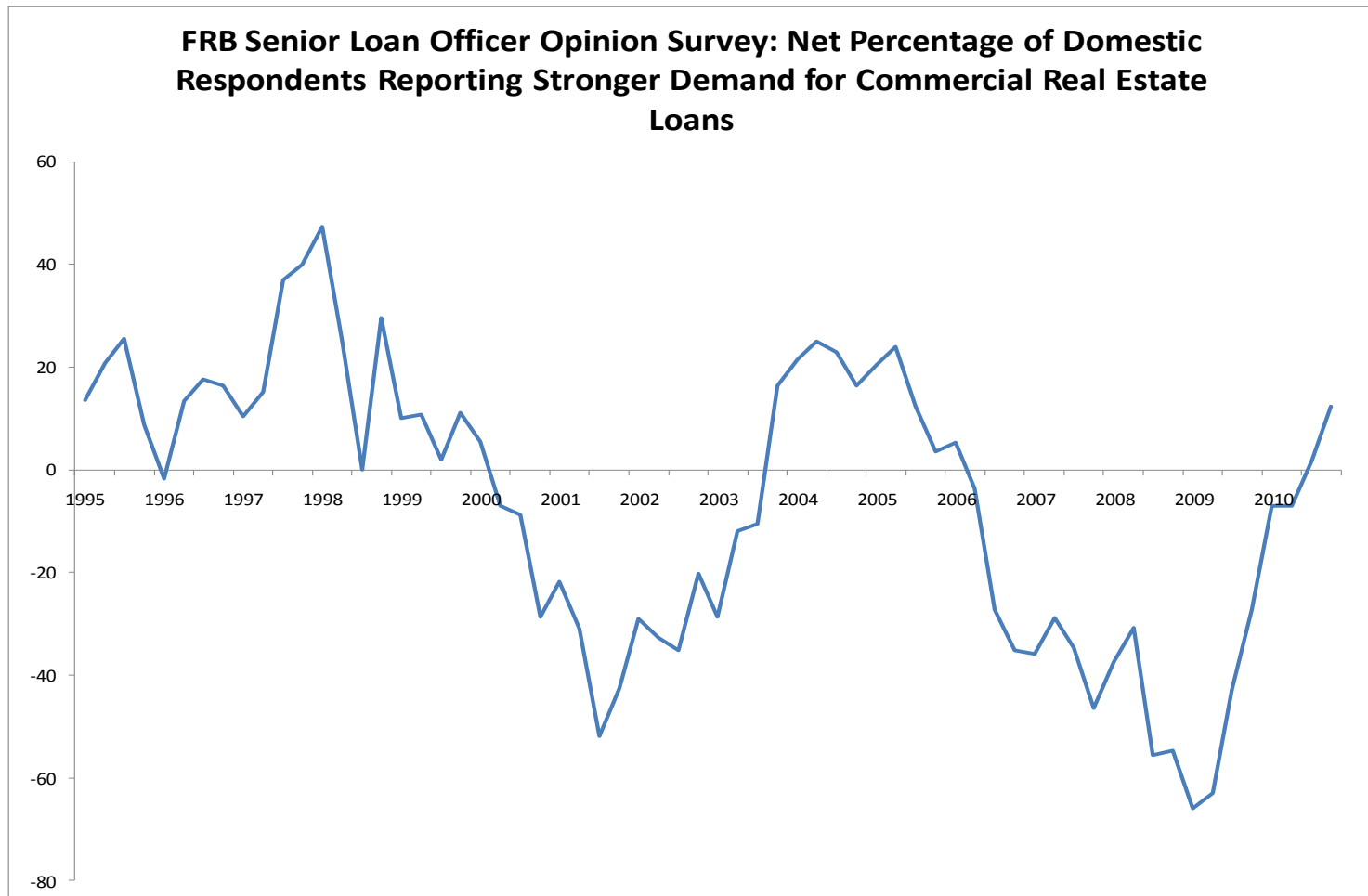


Commercial Mortgage Supply Easing?

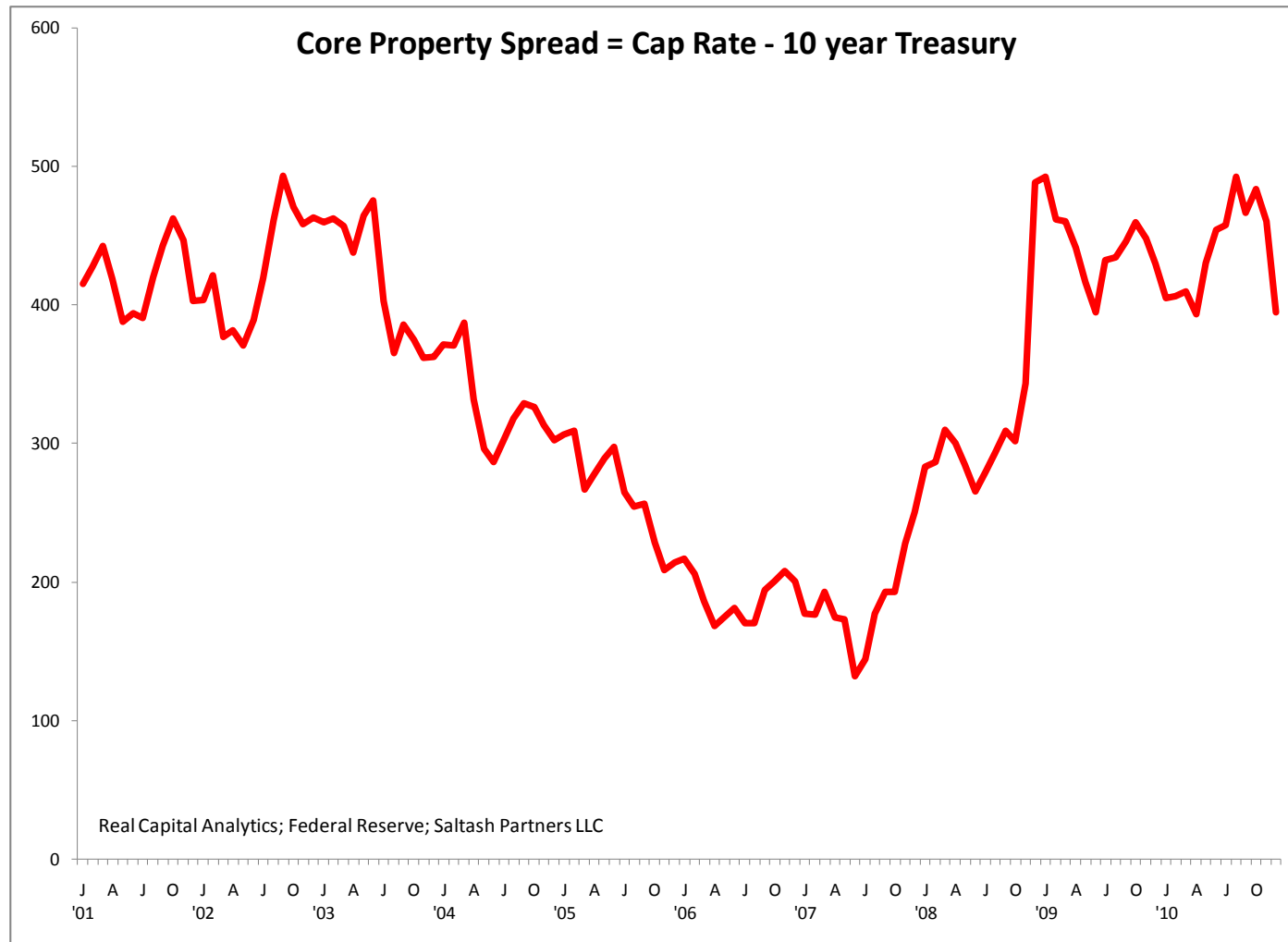
FRB Senior Loan Officer Opinion Survey: Net Percentage of Domestic Respondents Tightening Standards for Commercial Real Estate Loans



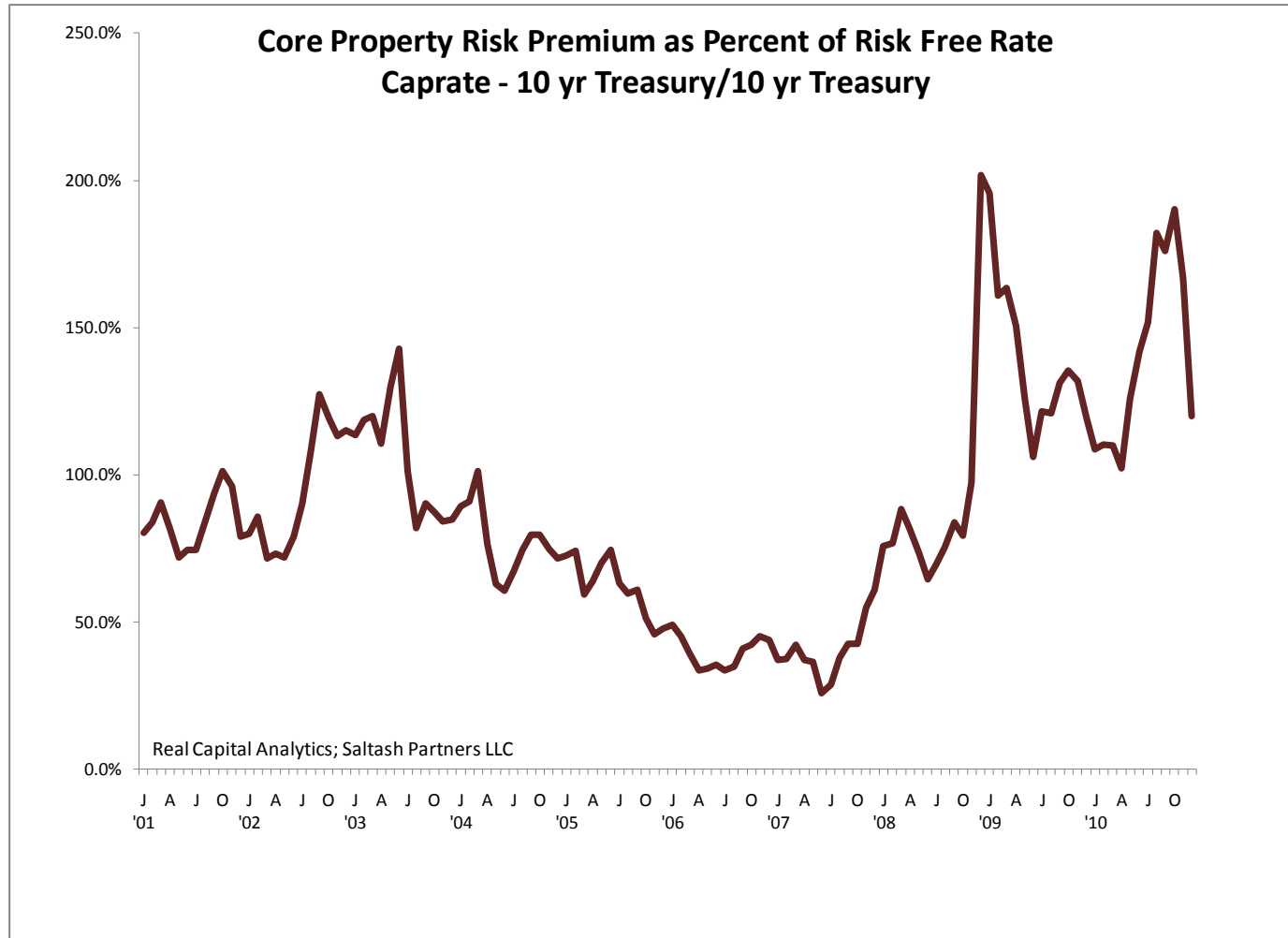
Commercial Mortgage Demand Rising



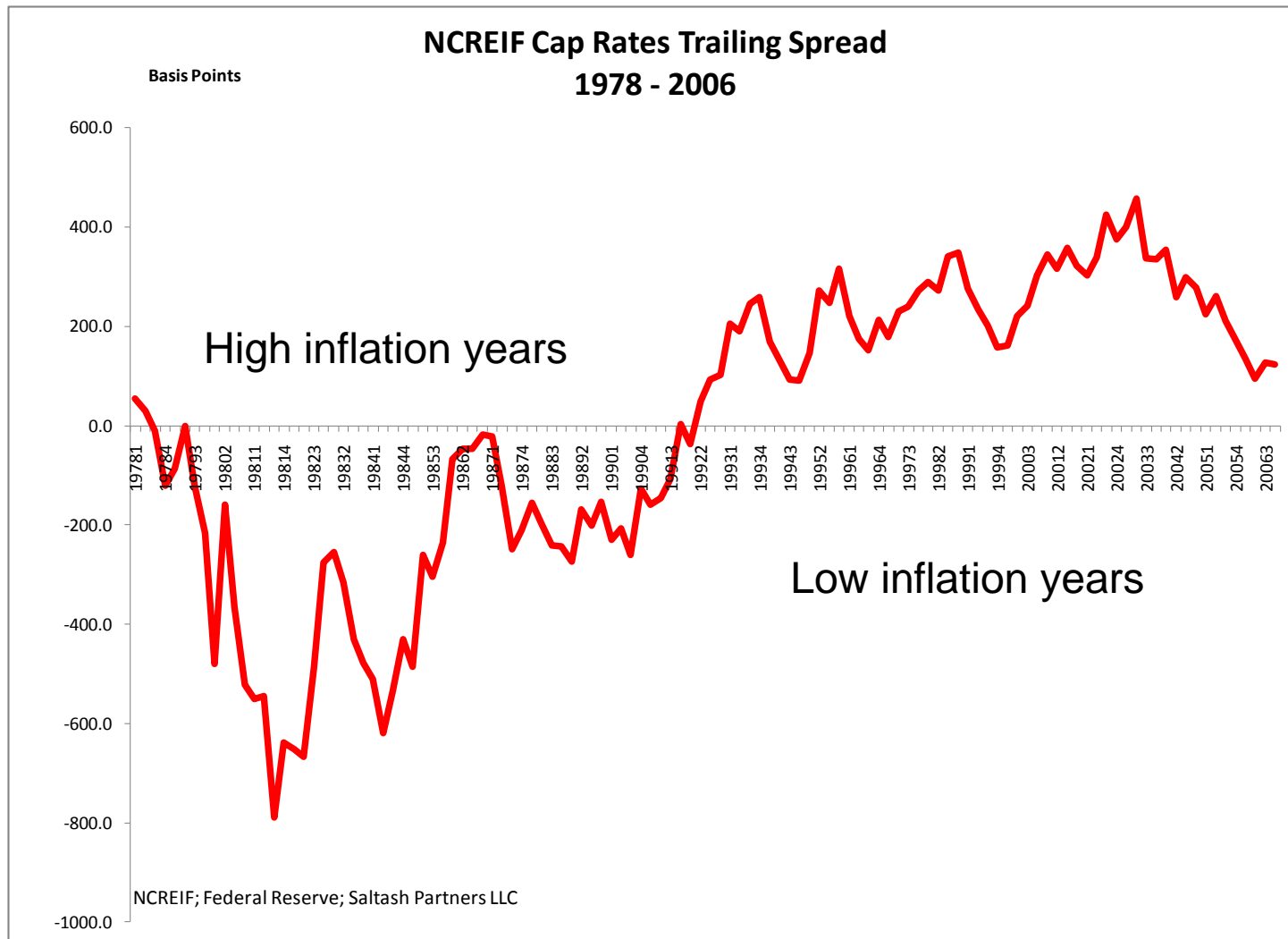
Whither Cap Rates?



Property Risk Premium Declining?

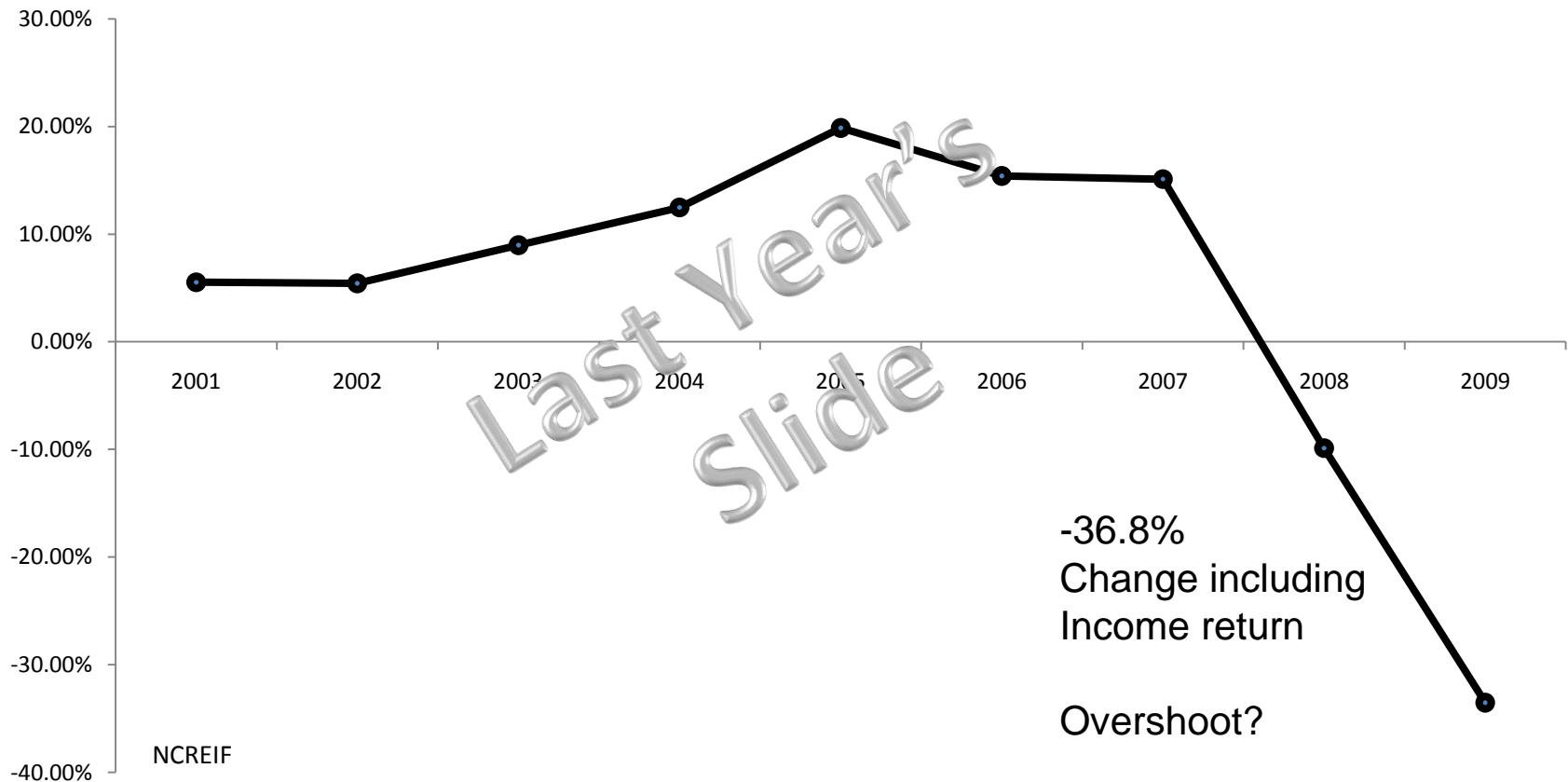


Whither Cap Rates?

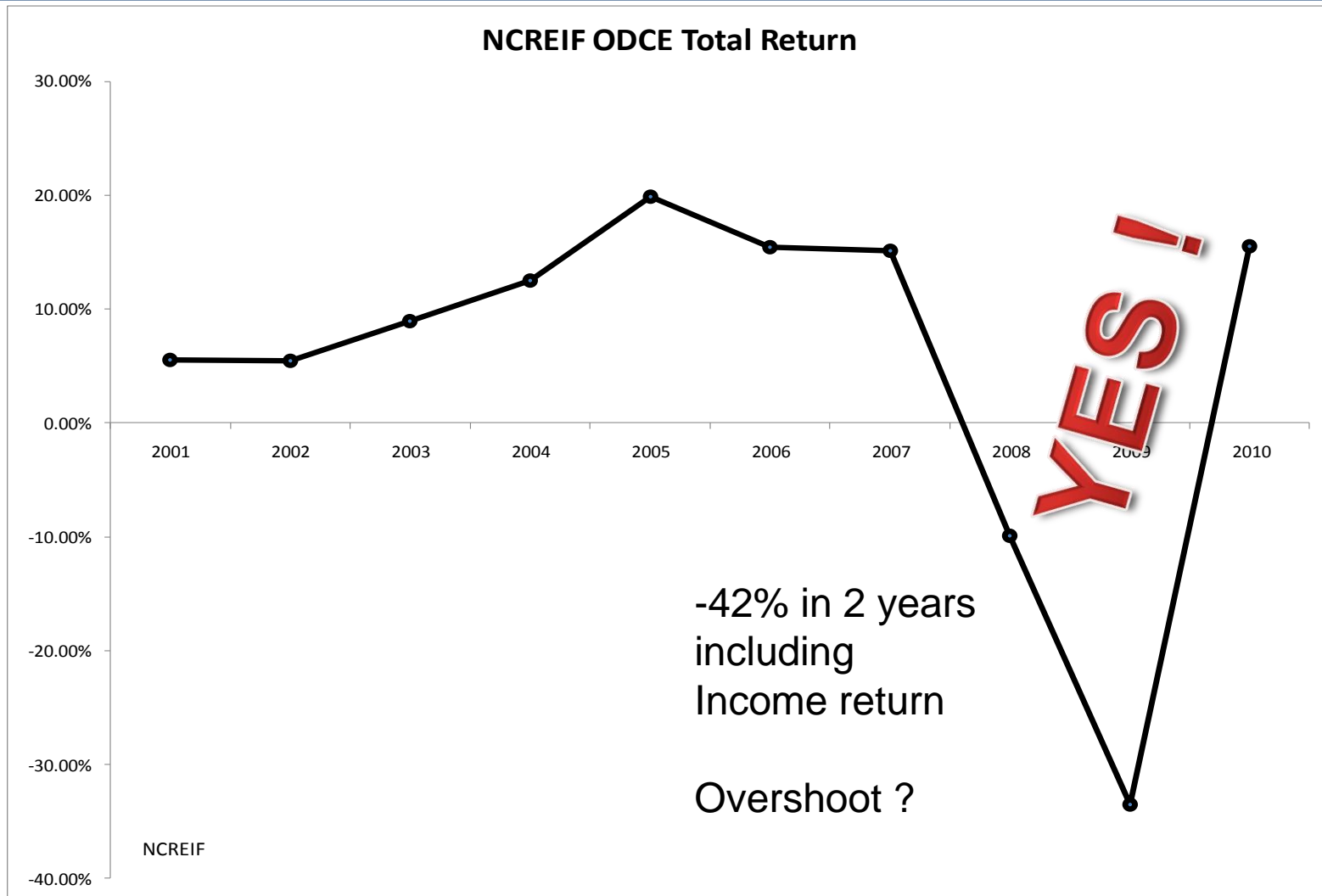


Recent Core Property Returns

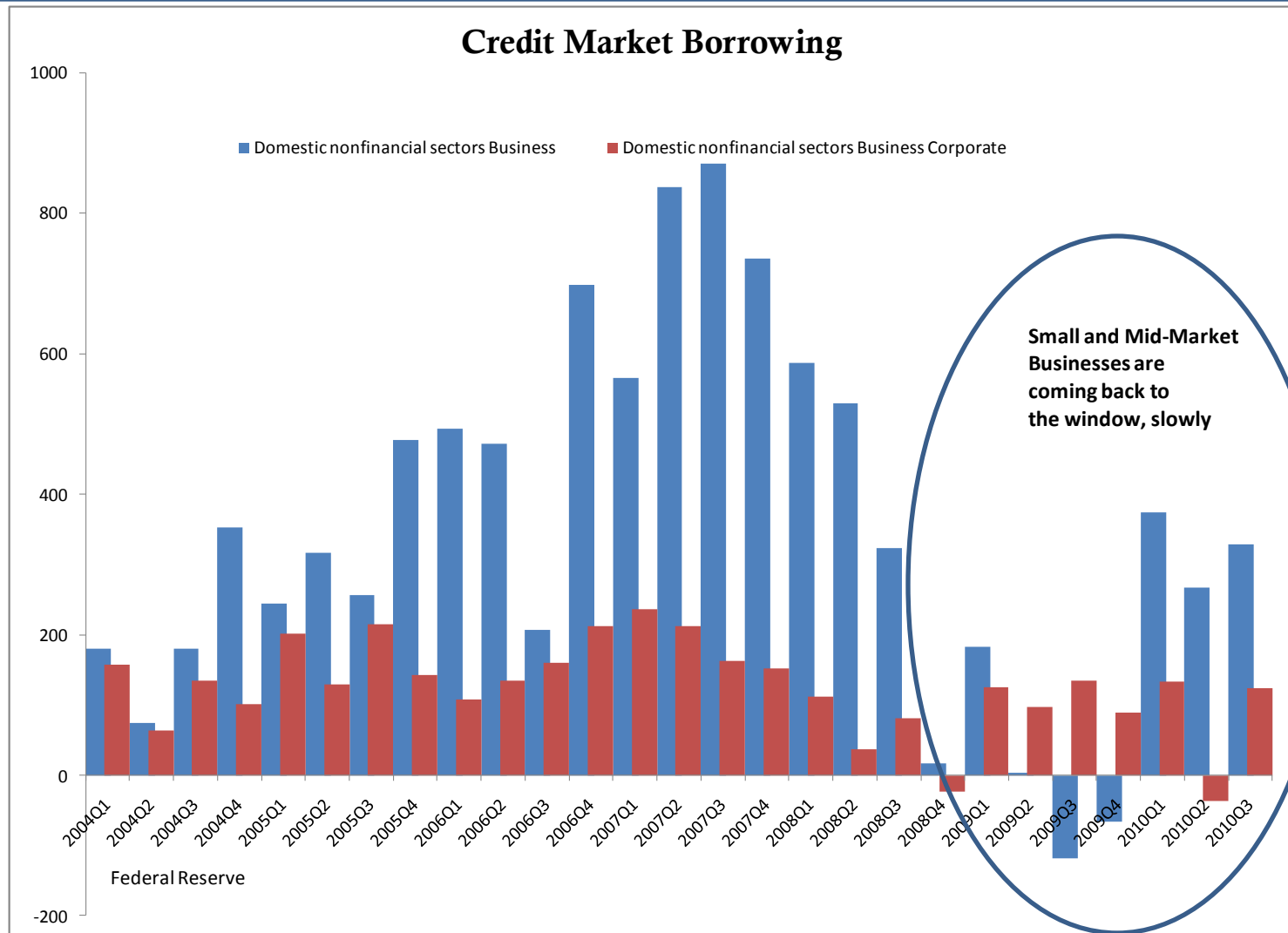
NCREIF ODCE Total Return



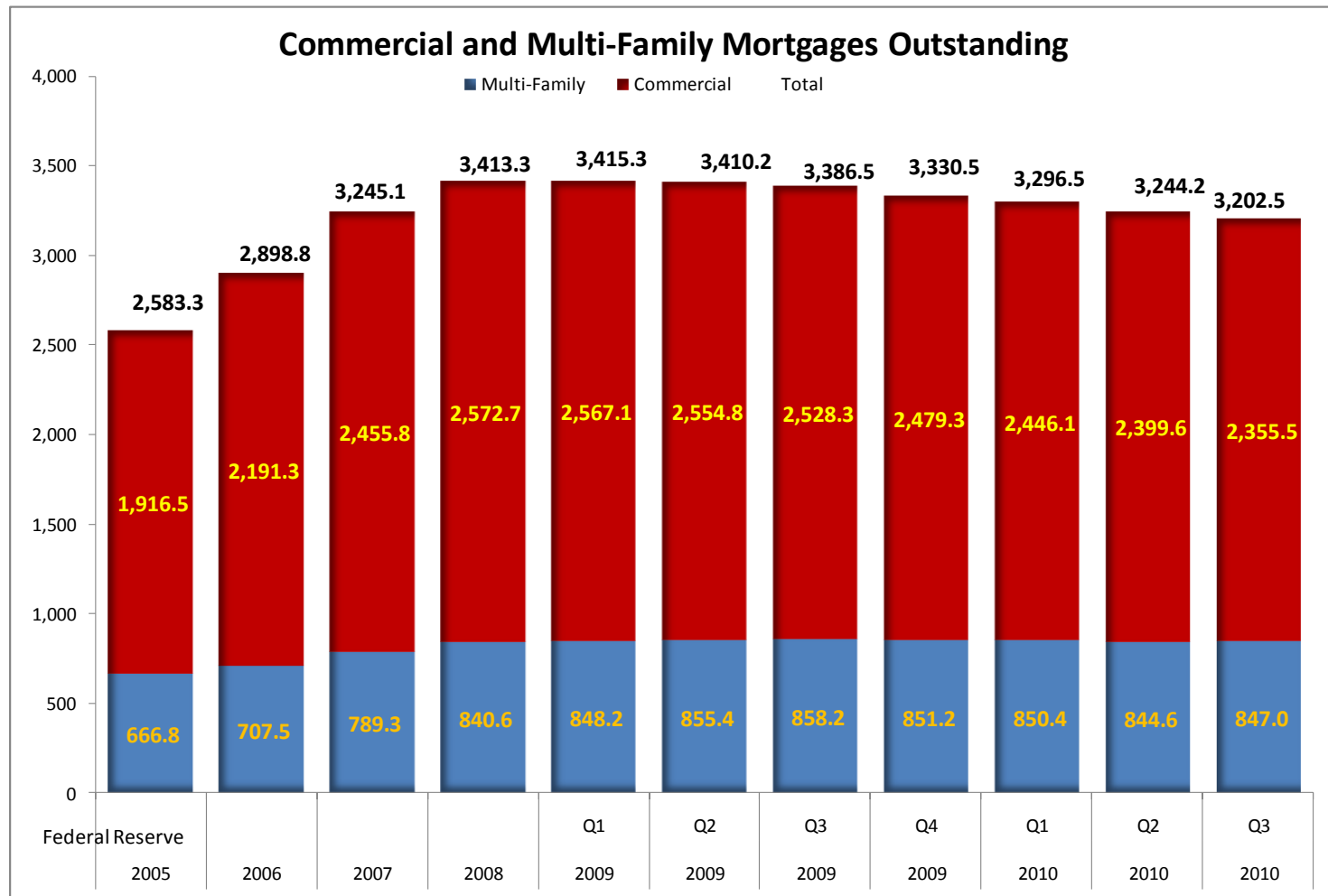
Recent Core Property Returns



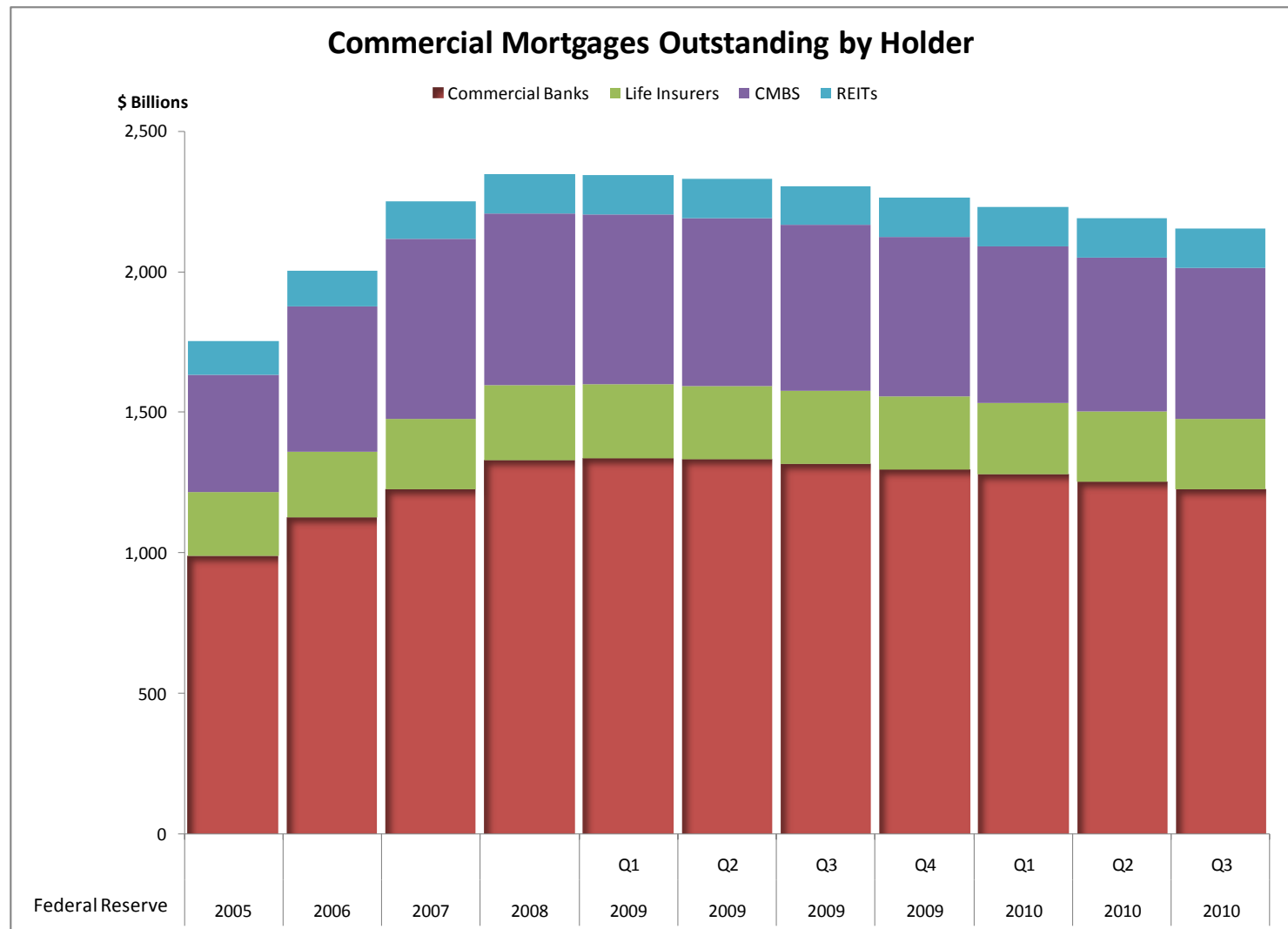
Business Credit is Beginning to Come Back



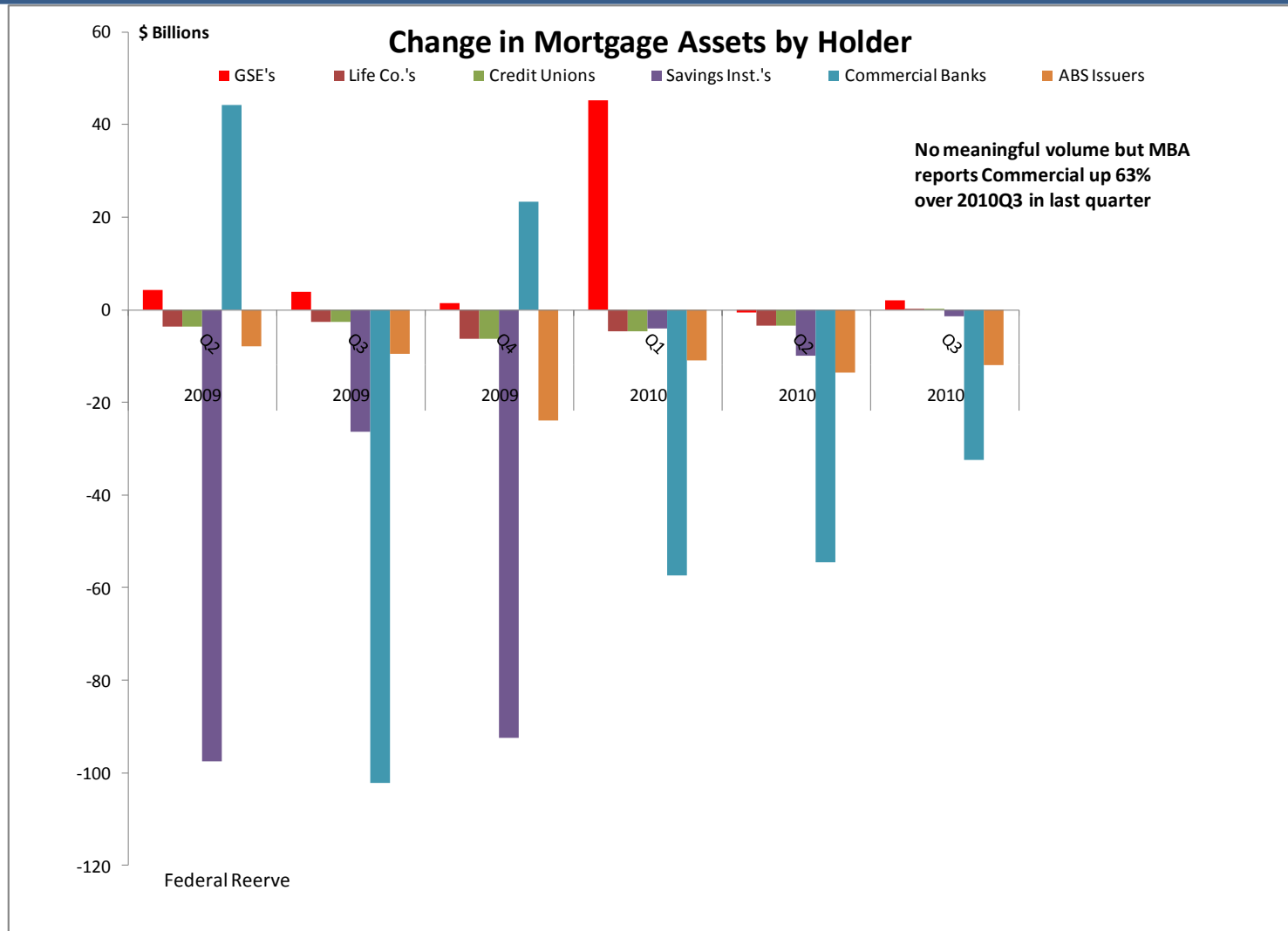
Commercial and Multifamily Not So Much



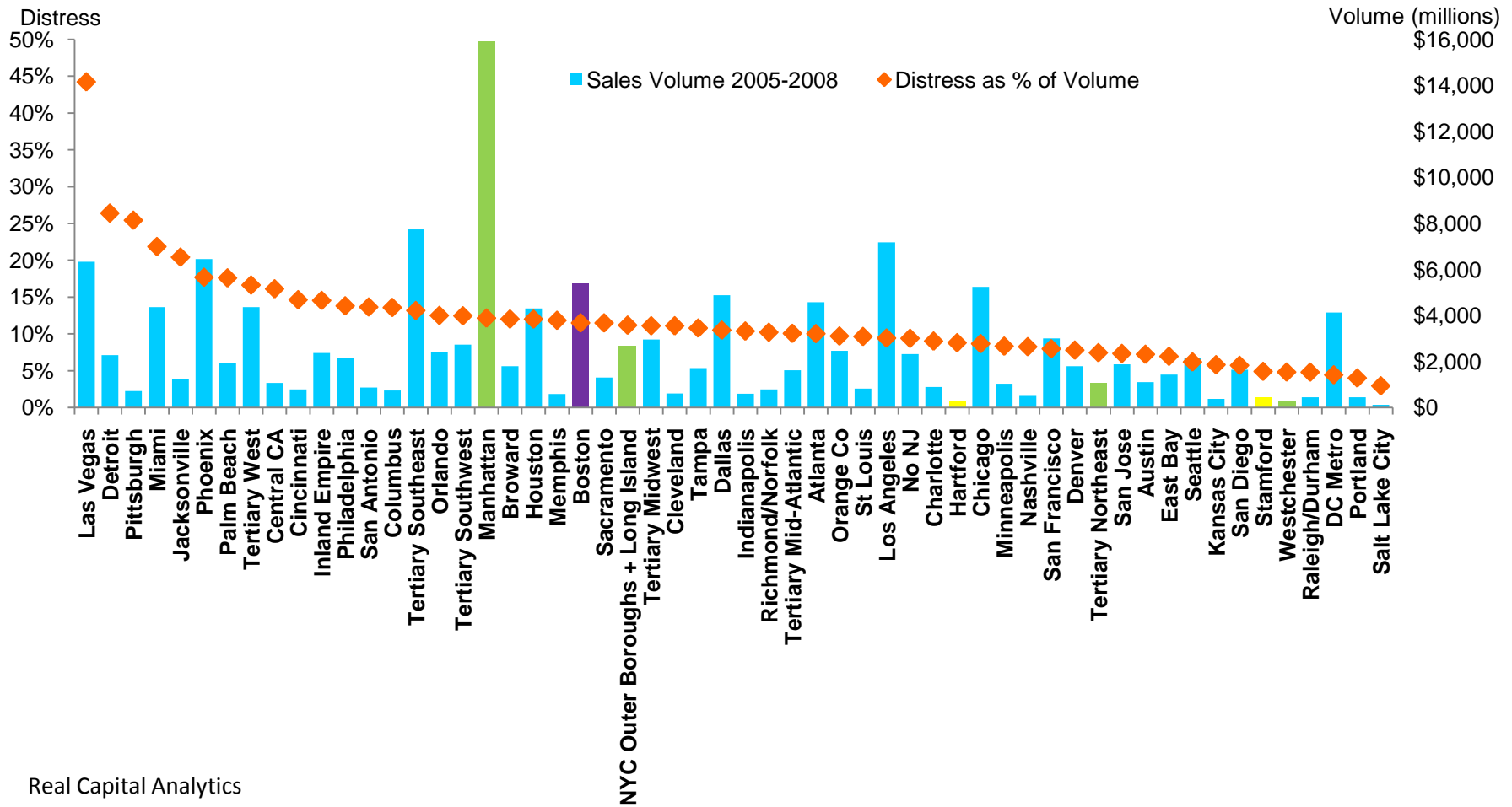
Mortgage Portfolio Continued to Shrink



Originators All Pulled Back



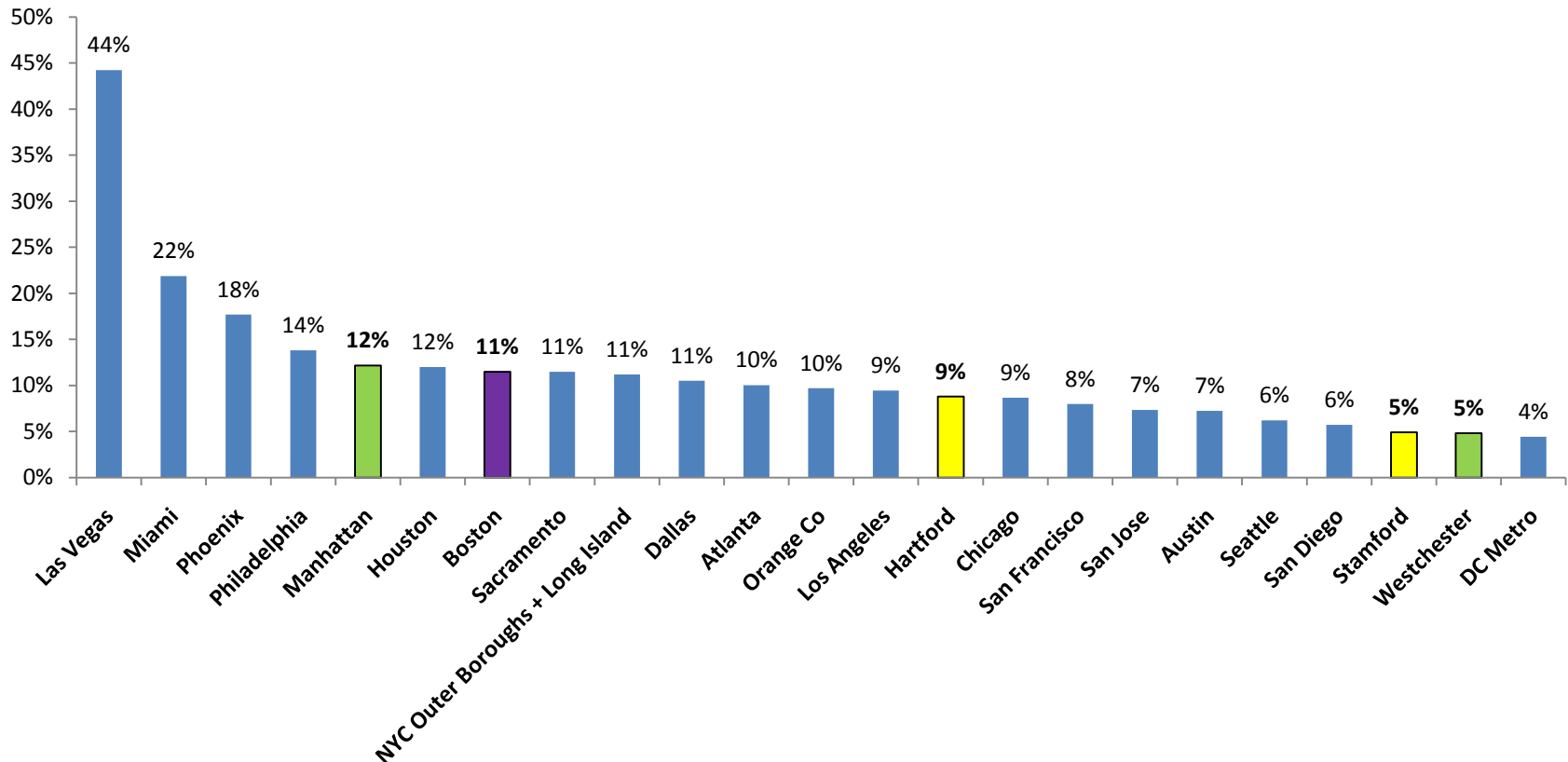
The Scope of the Problem – Distress as a Share of Market



Real Capital Analytics

The Scope of the Problem - a Closer Look

Distress as % of 2005-2008 Deal Volume: Selected Markets

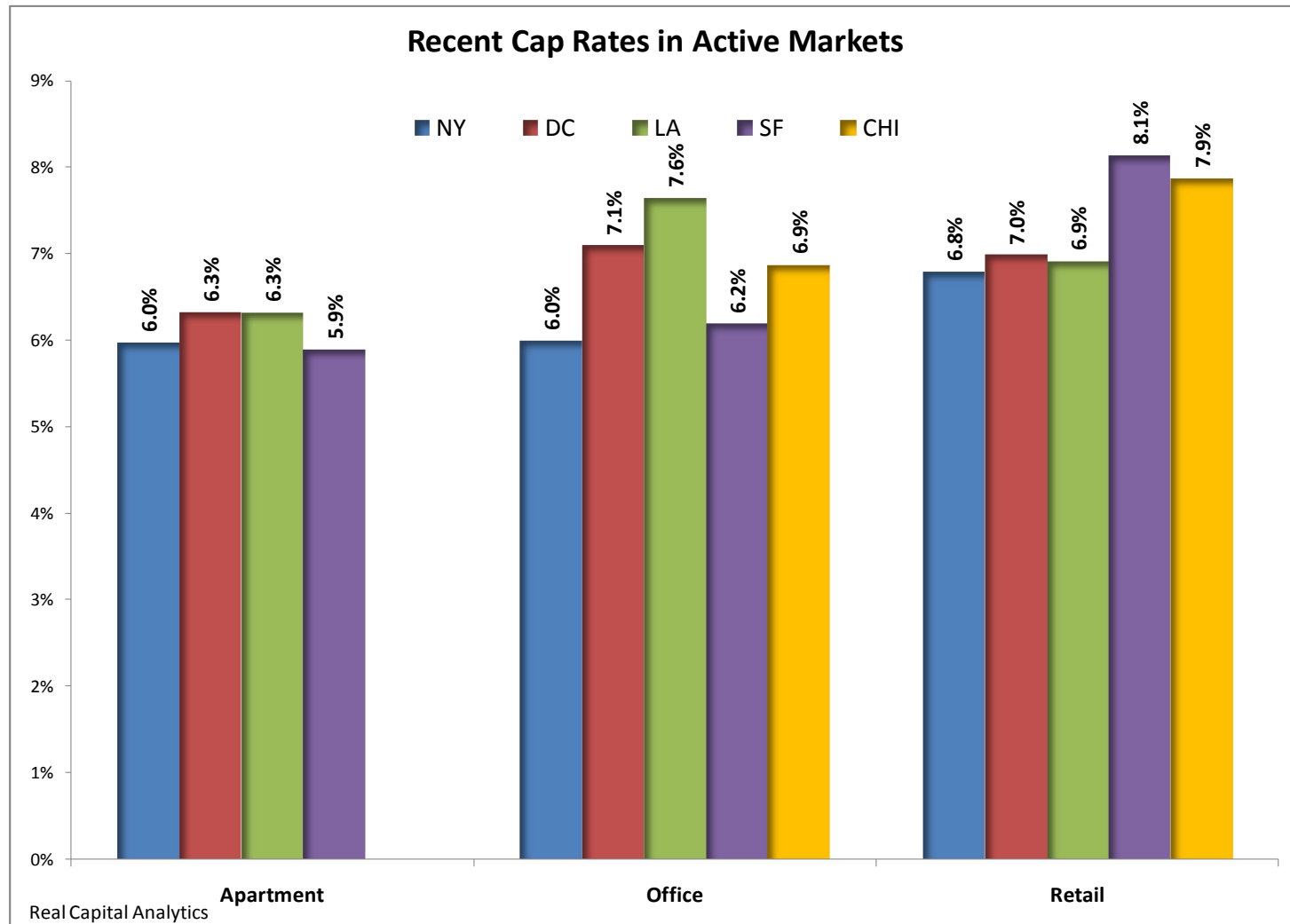


Real Capital Analytics

What's Going on in The Institutional Market?

- Tax exempts chasing Core and Funds
- “Barbell” strategy, Core and Opportunistic
- Shift from Separate Accounts to Funds
- Premier markets
- Trophy properties
- Lots of firings
- Some hirings

Do These Numbers Look Familiar?



What's Wrong with the Current Strategy?

- “Corest of Core” office properties have gain to lease
 - Rents will be rolling down for some time
 - Tenants are demanding expensive TI's and other concessions
 - Declining cash flow in early years will kill the IRR
 - Office will take the longest to recover fully

Where are the Best Opportunities?

- Multi-family development and rehab
 - Massive generation maturing into the work force
 - Huge pent-up demand from the recession
 - Continued shift to the “new urbanism”
 - Very low level of new supply in recent years
 - Rents are rising
 - Concessions are easing

Where are the Best Opportunities?

- Hotels are looking attractive
 - Midweek January occupancy up 10% YoY
 - Business travel is back
 - Lots of room for occupancy growth
 - Even more room for RevPAR Growth
 - Pricing has not caught up with hotels as quickly as other property types
 - Distressed assets are trading

Where are the Best Opportunities?

- Hurt Core office
 - Has been lightly traded as yet
 - Capital spent on tenants will be *increasing* revenue
 - Revenue will grow annually as market recovers
 - Rush to sustainability can be implemented with TI dollars
 - Retrofitting vacant space for sustainability will speed rent-up

Where are the Best Opportunities?

- Developable land (Yikes!)
 - Multi-family home sites
 - Single family pre-development
 - Homebuilders are acquiring again
 - Reduced supply will begin to tell in 2 to 3 years
 - Sustainability movement will require sites recycled from other uses now in low demand

**Thanks for your time,
Have a great 2011.**