



# Capital Market Update

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# Overview

## The Macro Picture

- Lenders

- Investors

- Fundamentals

## An Appreciation of Risk and Return

- Income

- Capital Returns

- Extremes

## The Outlook

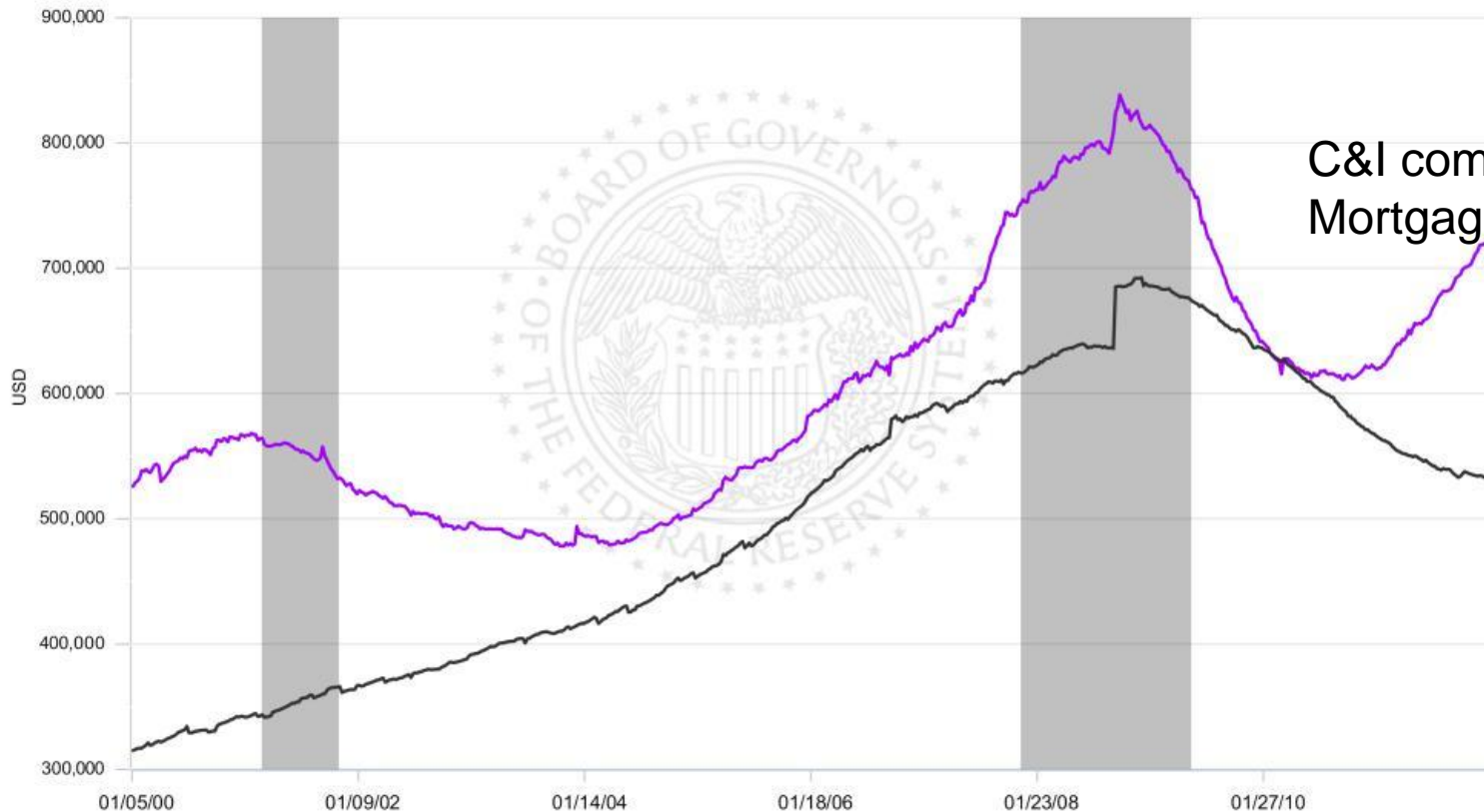
- Jobs picture

- Space Demand

# Large Bank Loan Portfolio

▲ Commercial and industrial loans, large domestically chartered commercial banks, seasonally adjusted

▲ Real estate loans: Commercial real estate loans, large domestically chartered commercial banks, seasonally adjusted



Source: Federal Reserve Board 2012

Note: The shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research.

# Small Bank Loan Portfolio

- Commercial and industrial loans, small domestically chartered commercial banks, seasonally adjusted
- Real estate loans: Commercial real estate loans, small domestically chartered commercial banks, seasonally adjusted

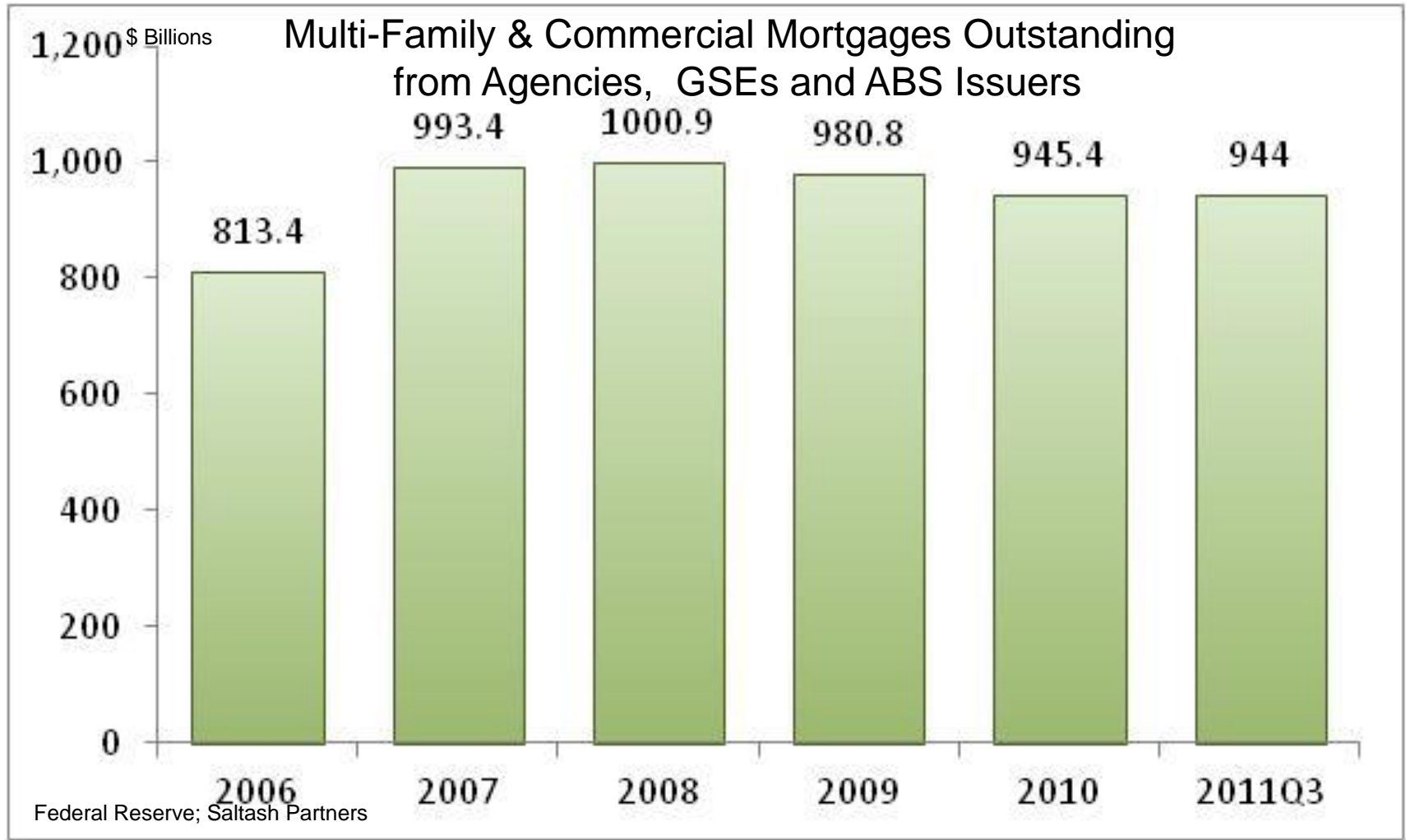


Regional banks  
Under pressure to  
Reduce RE loans

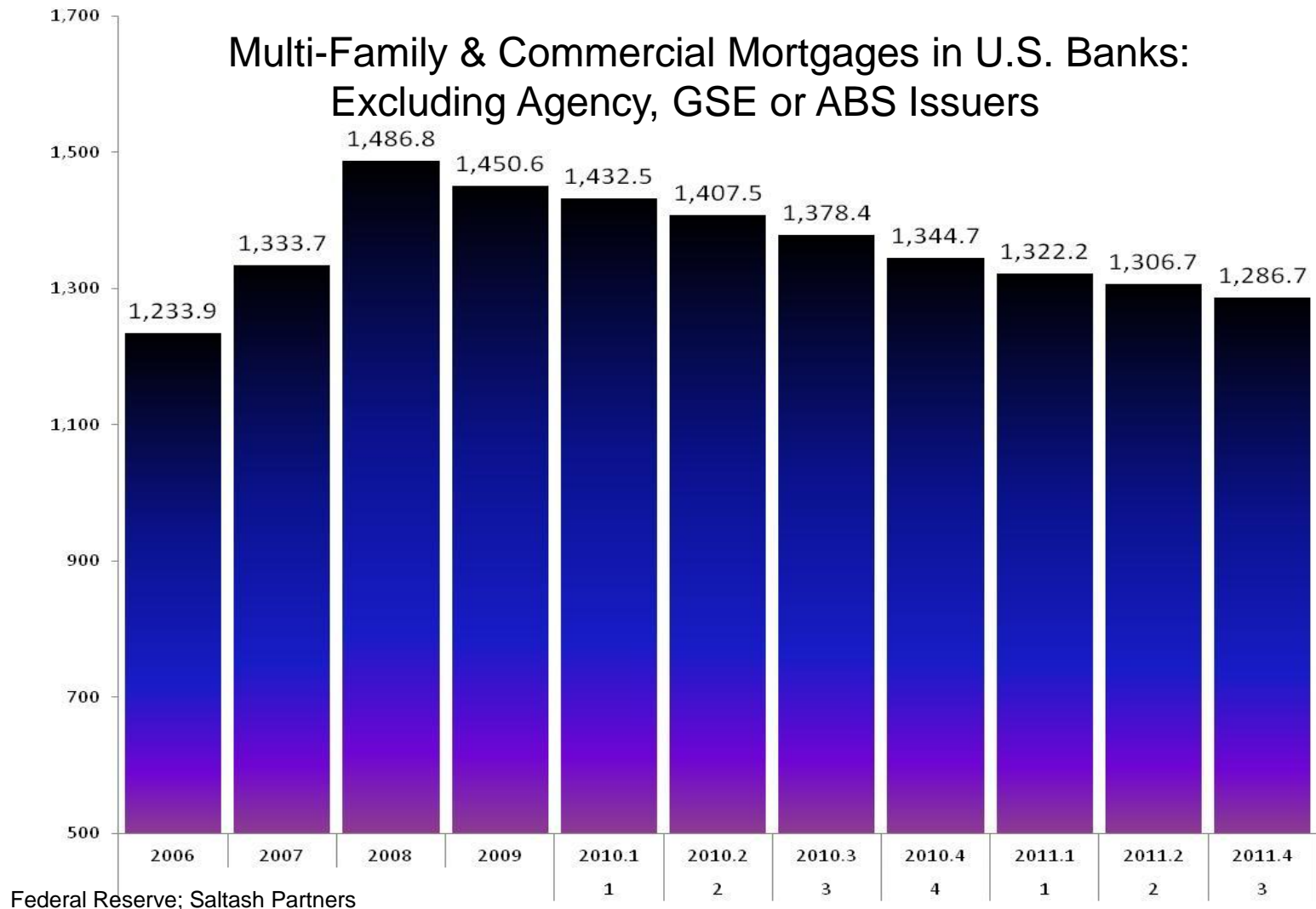
Source: Federal Reserve Board 2012

Note: The shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research.

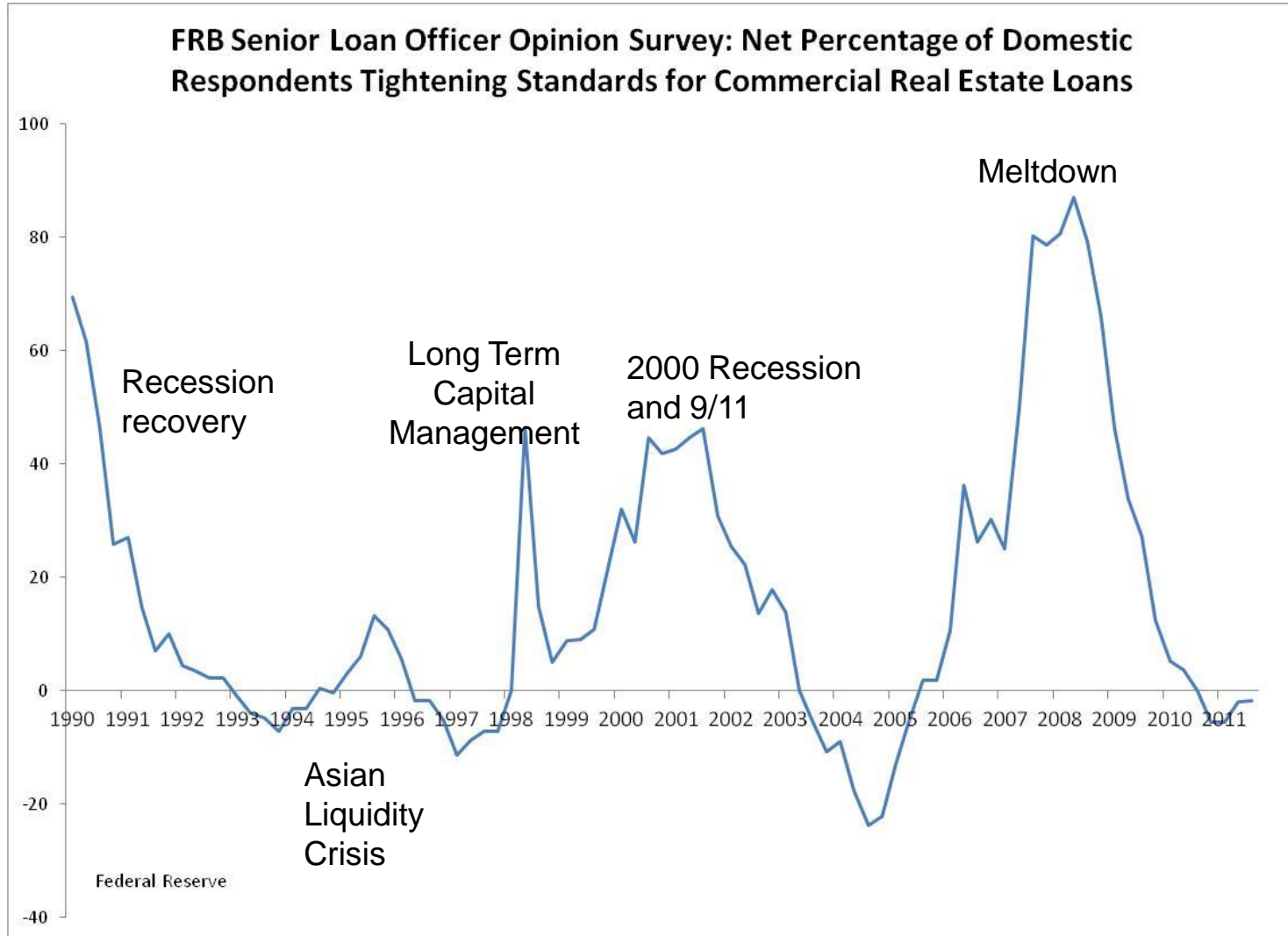
# The Securitized Mortgage Pools are Shrinking



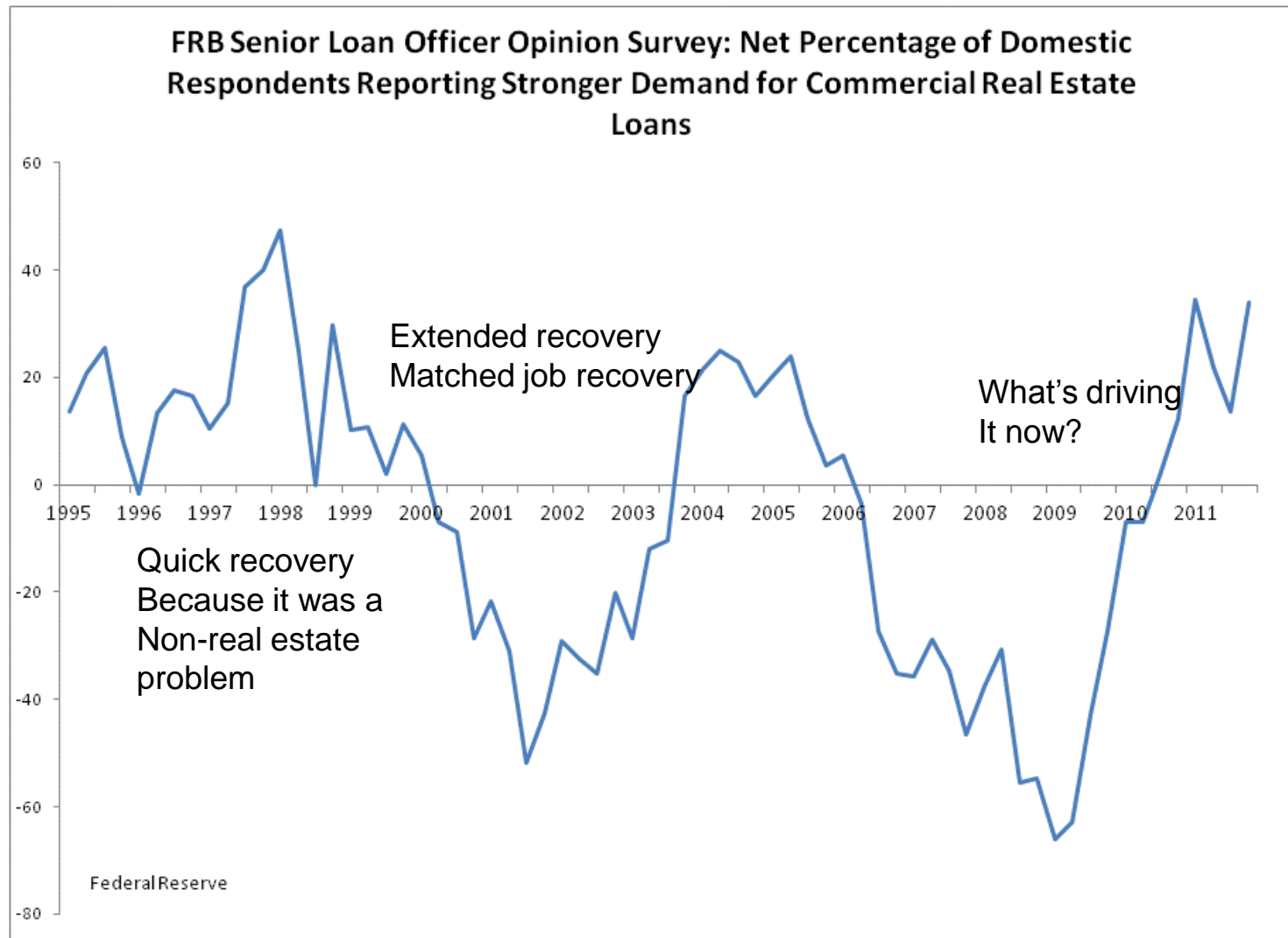
# The Scale of the Problem: the Bank Portfolio



# Banking Sector Response: Still Tight?



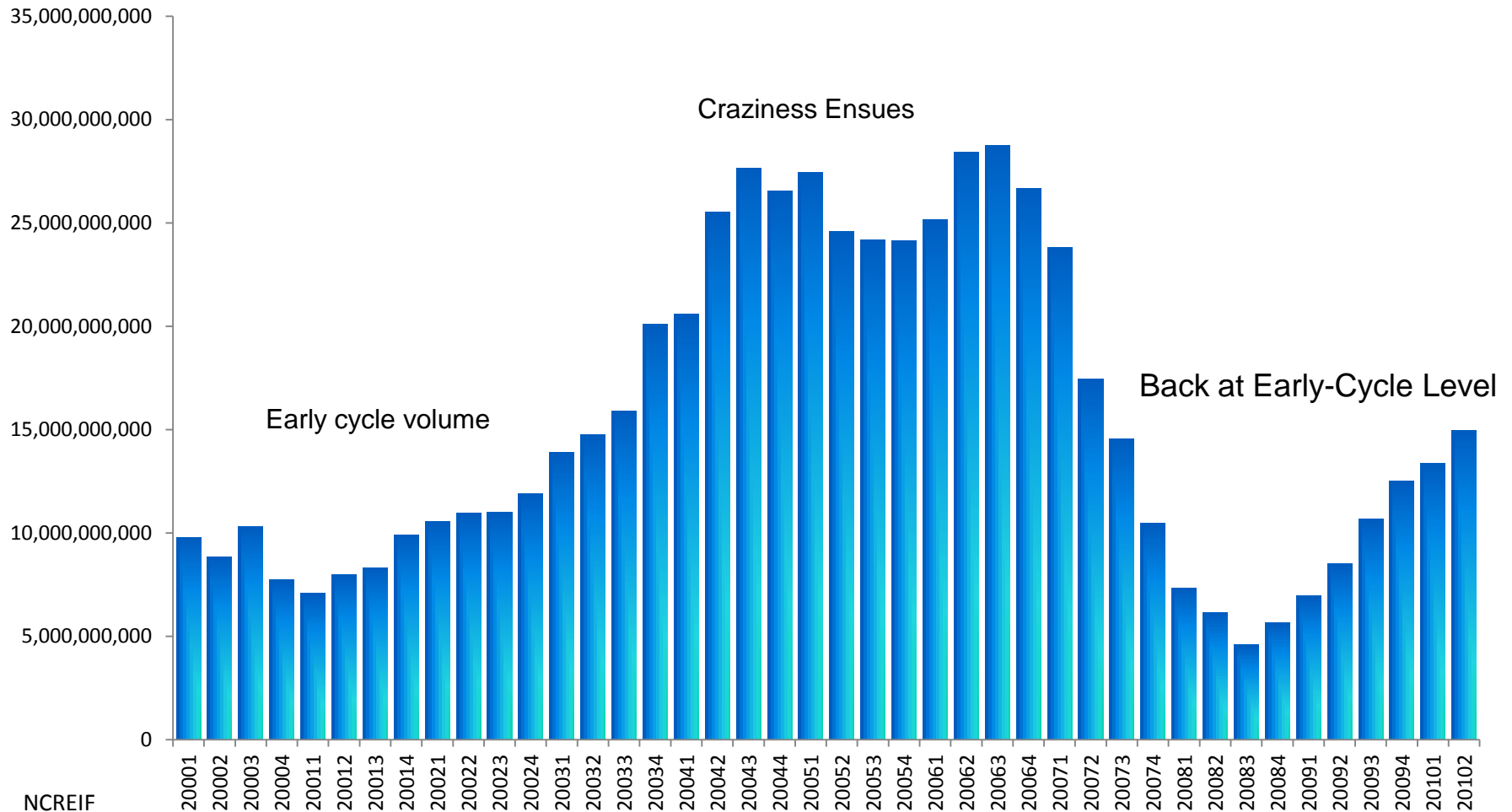
# Borrowers Back in the Market ?



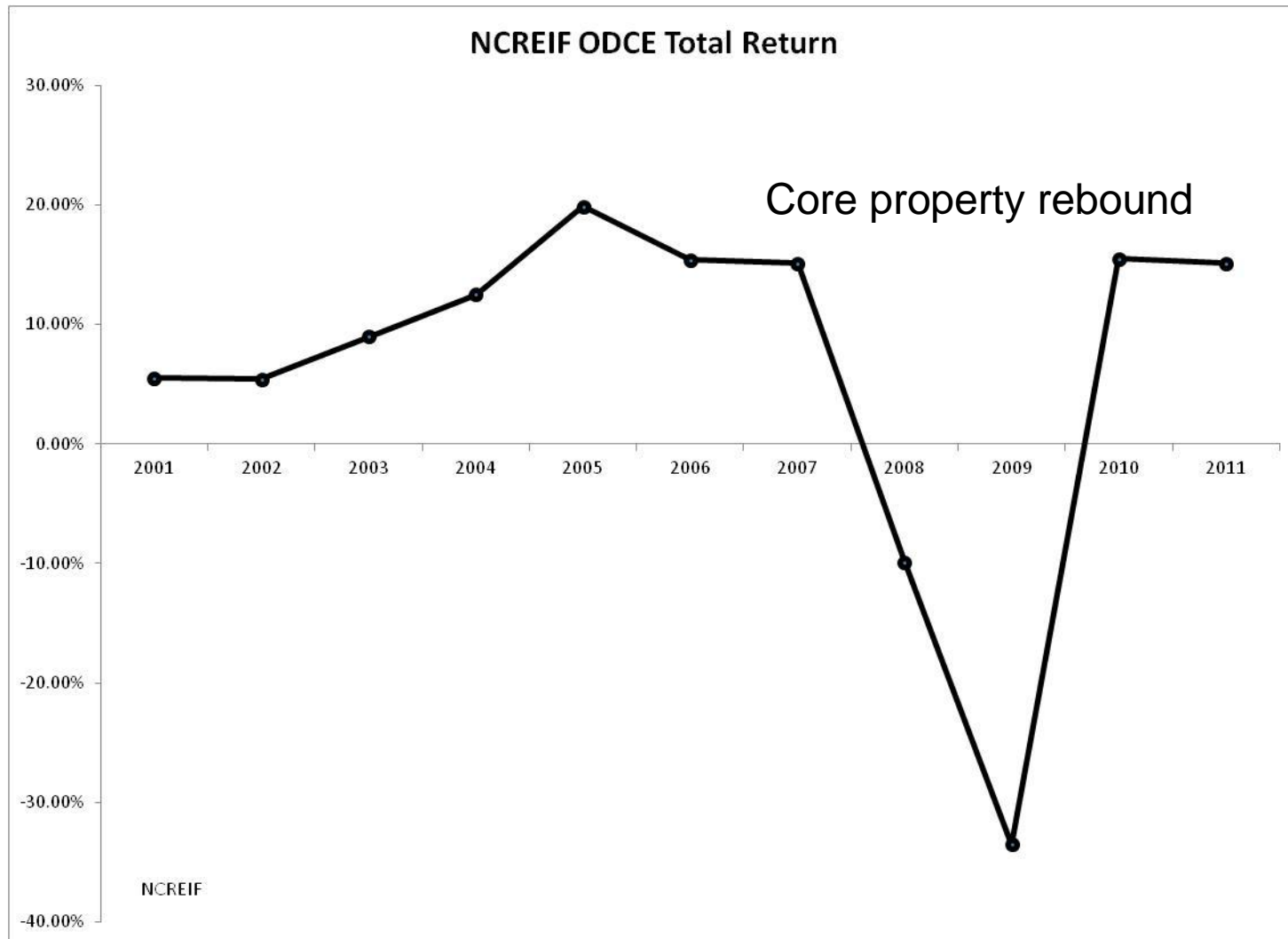


# Core Transactions Volume Recovering

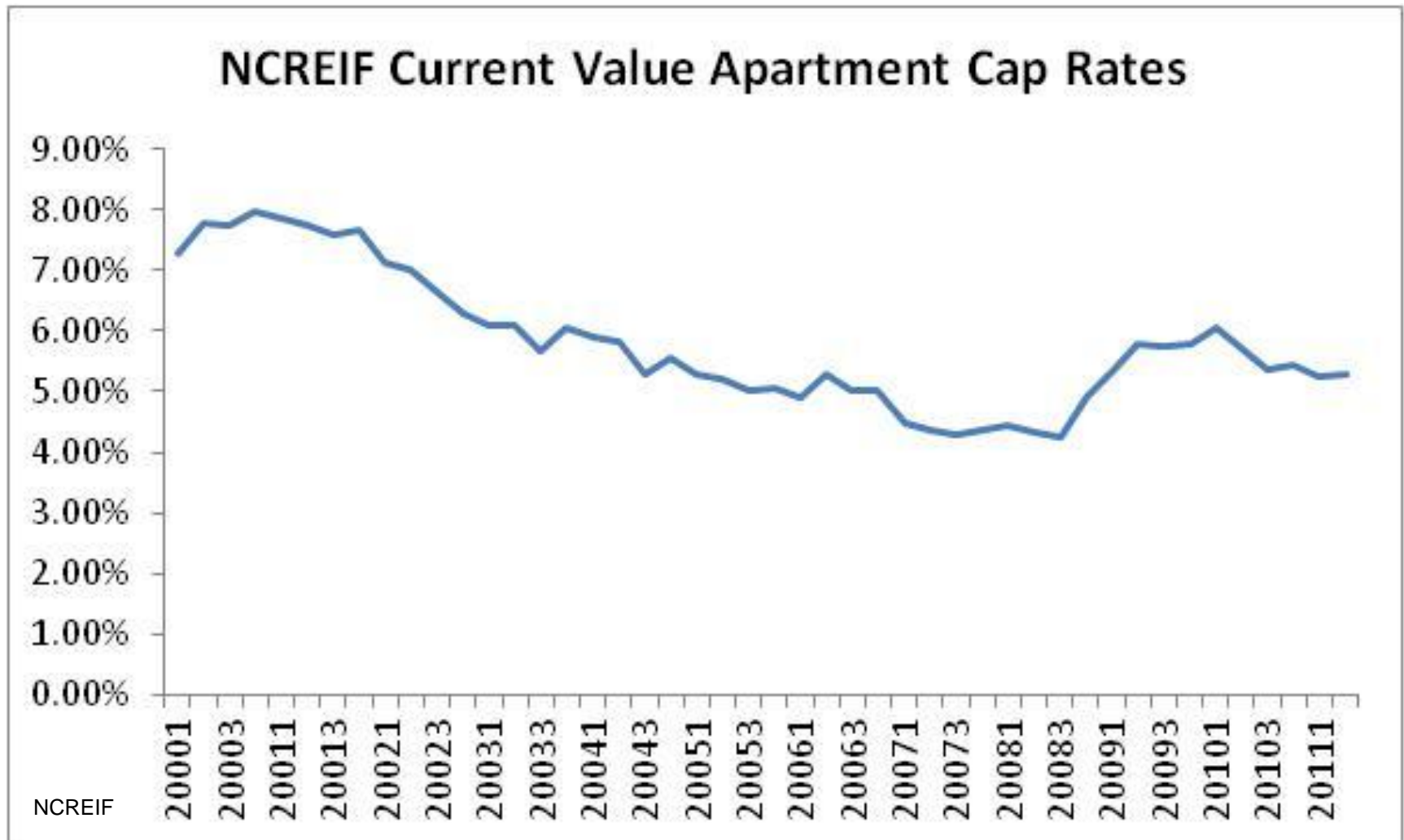
## NCREIF Property Index Annualized Sales Volume



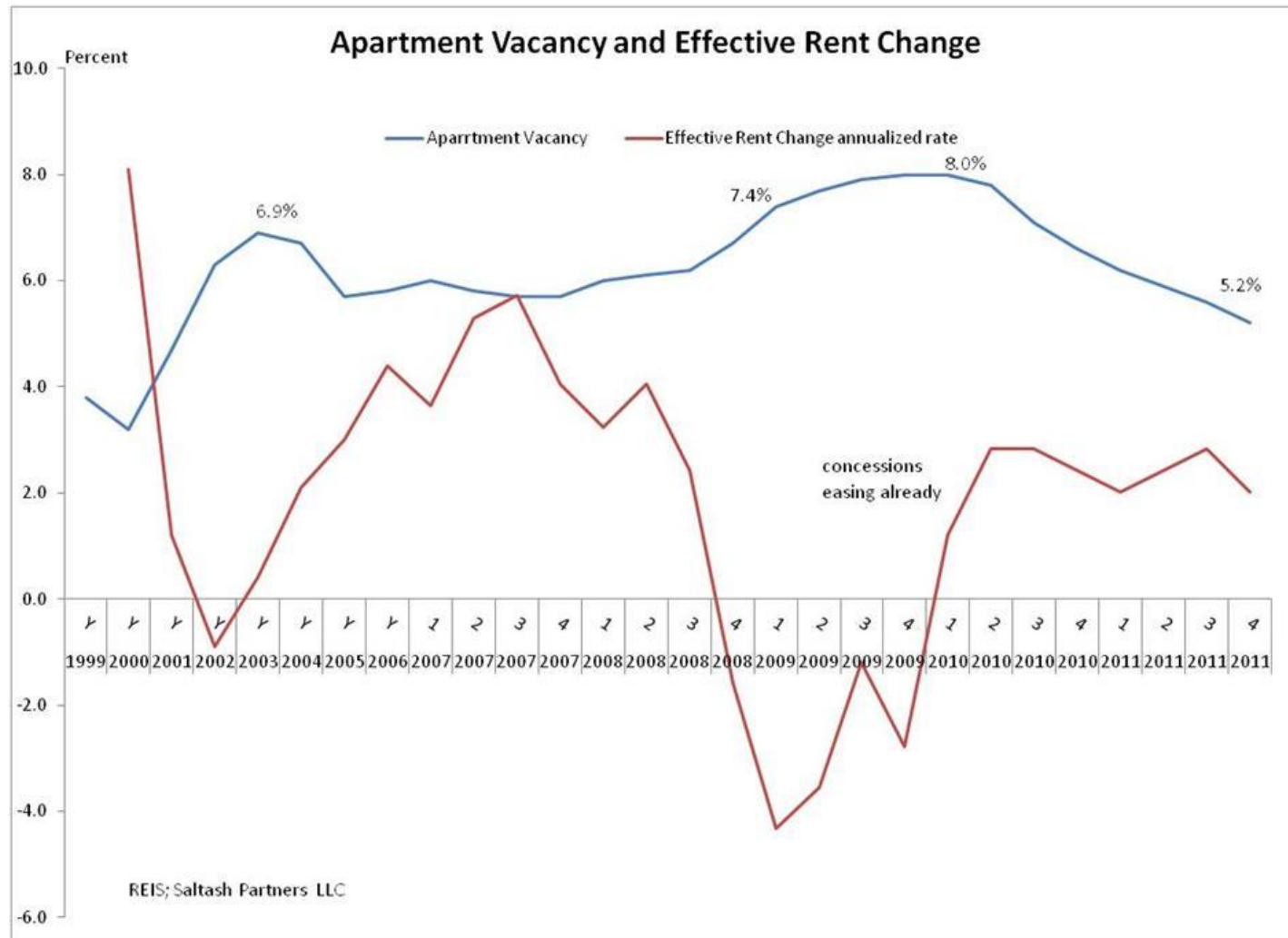
# Recent Core Property Returns



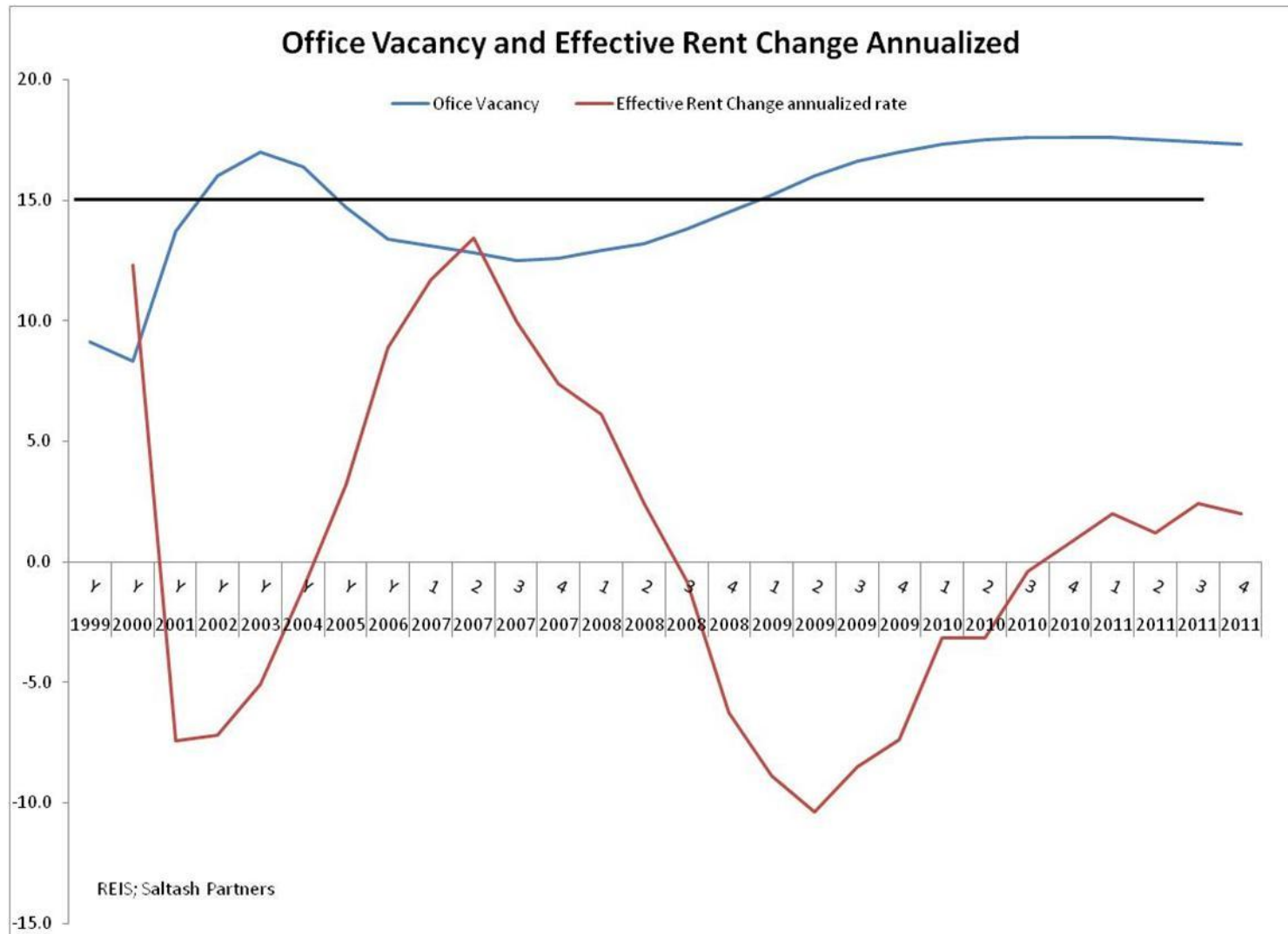
# Apartment Pricing Reflects Fundamentals



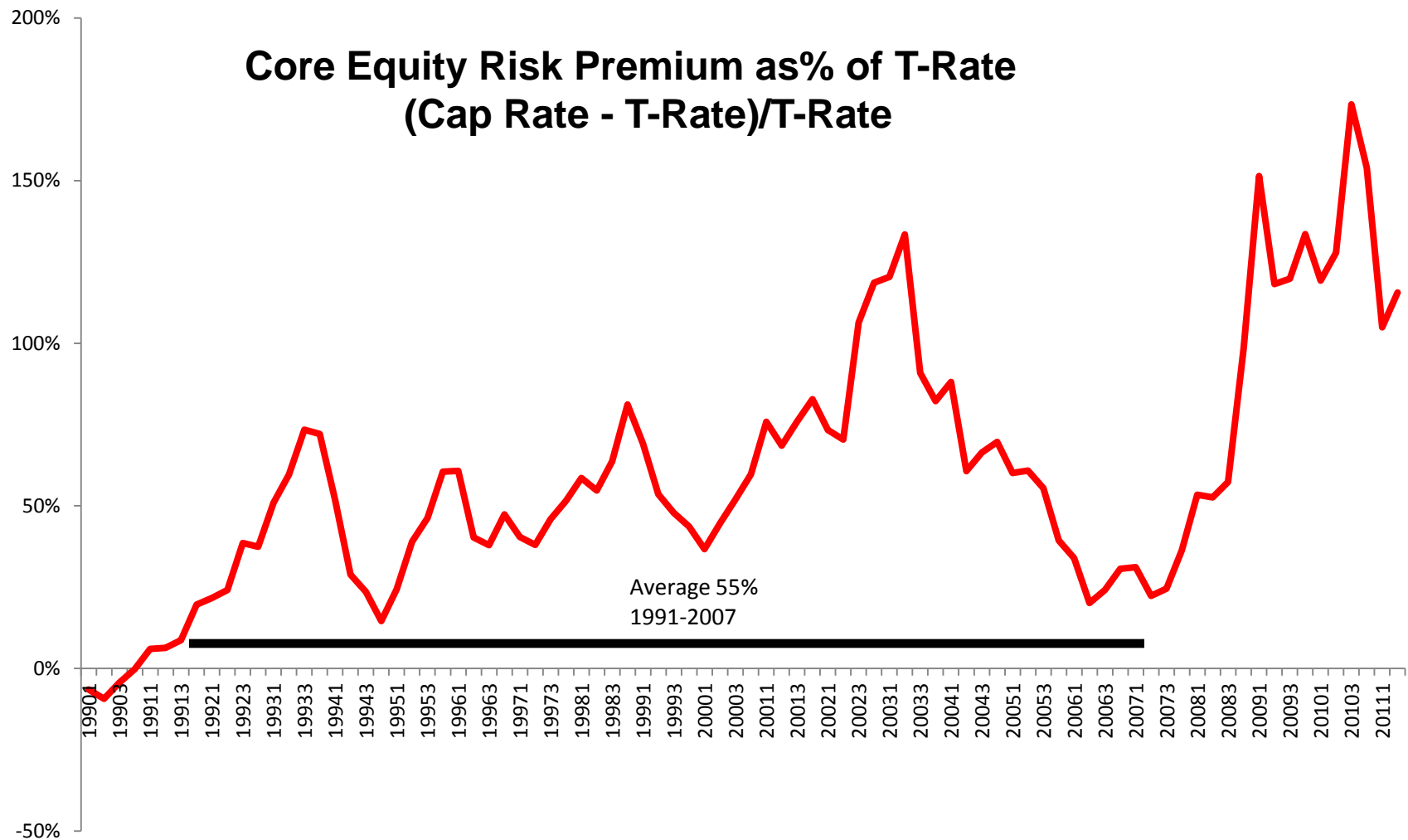
# Multi-Family is Strong



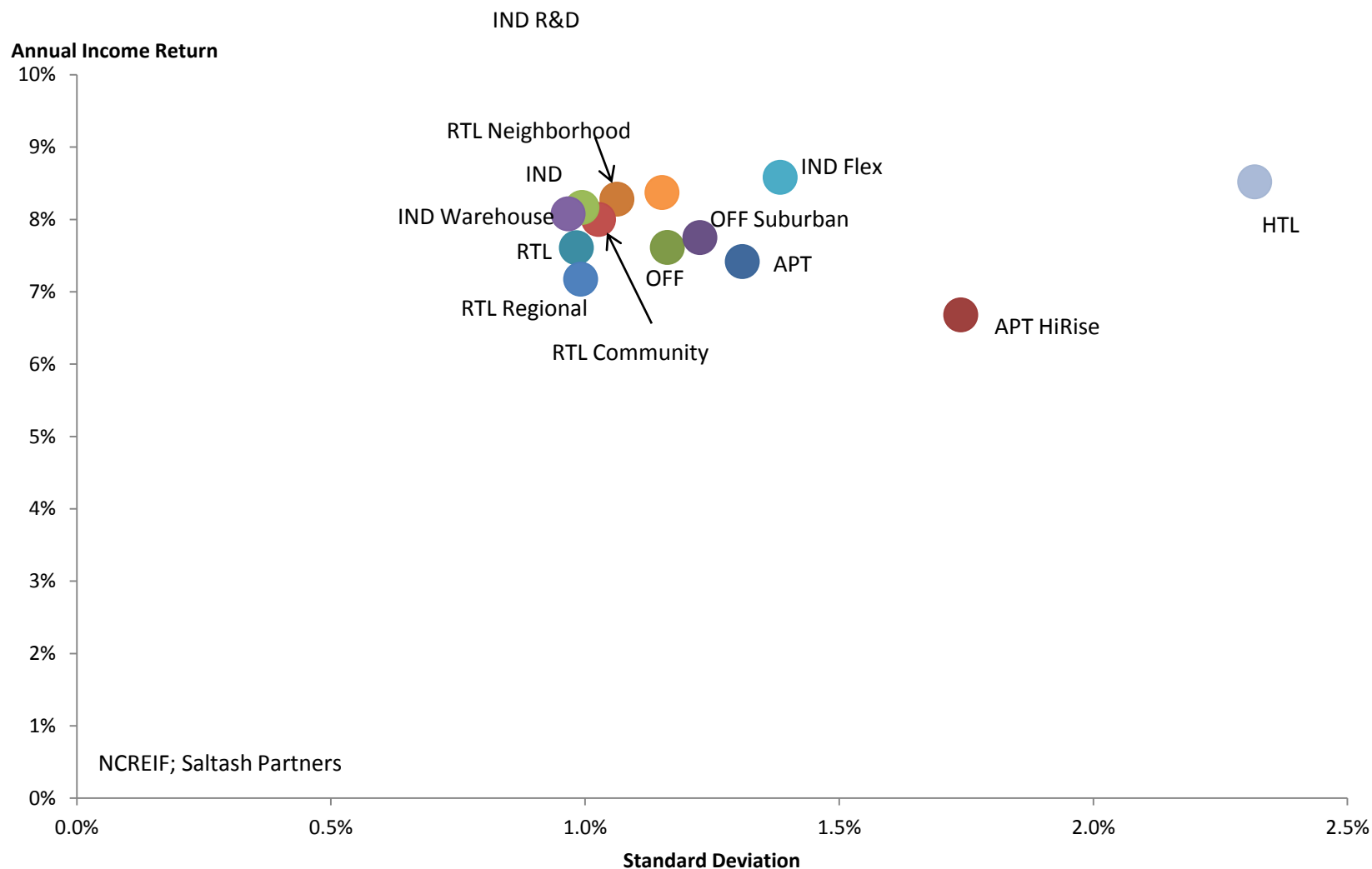
# Office Market has Bottomed



# Are Cap Rates too Low or too High?



# NCREIF: Income Return and Volatility by Property Type



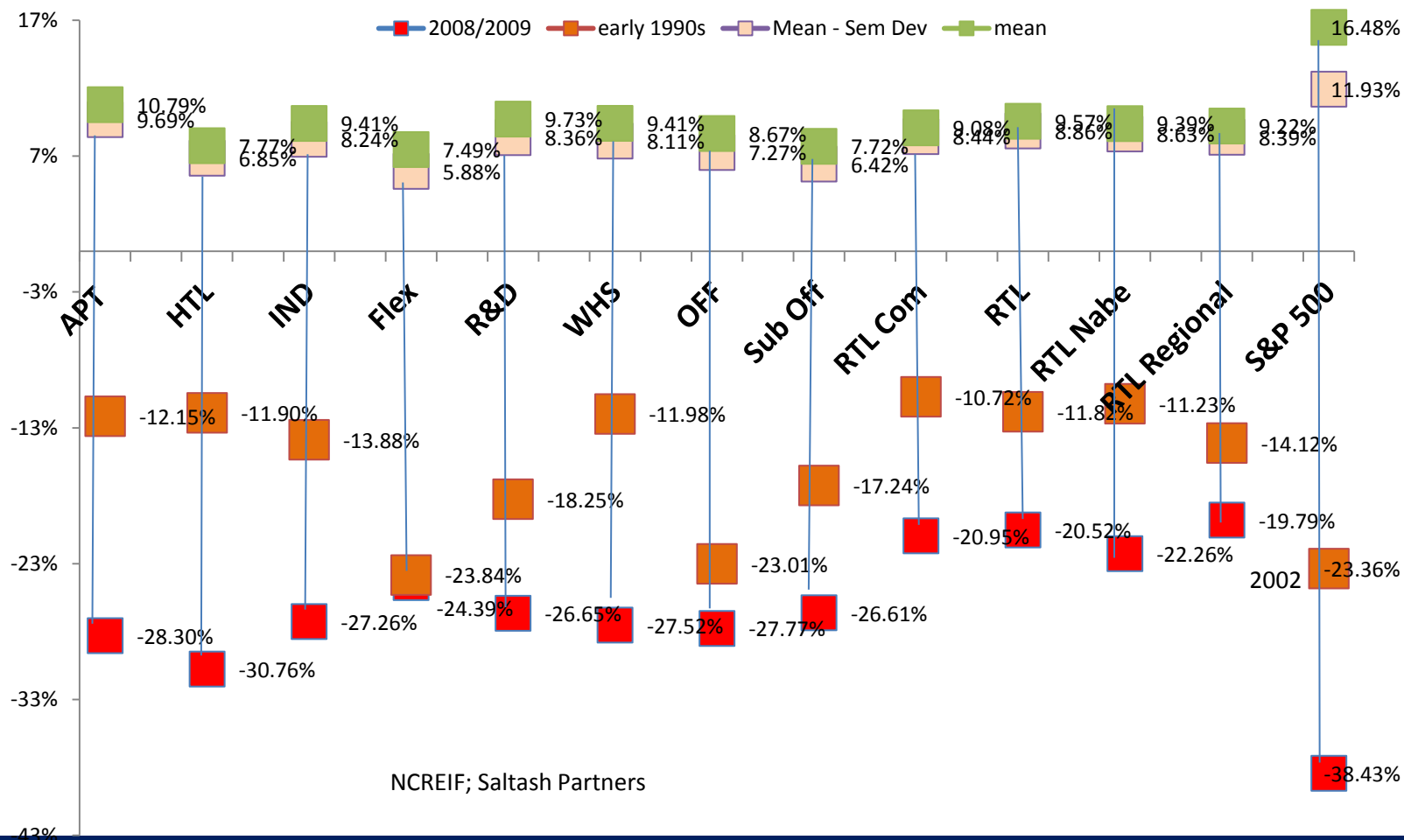
# NCREIF Appreciation Return and Volatility by Property Type



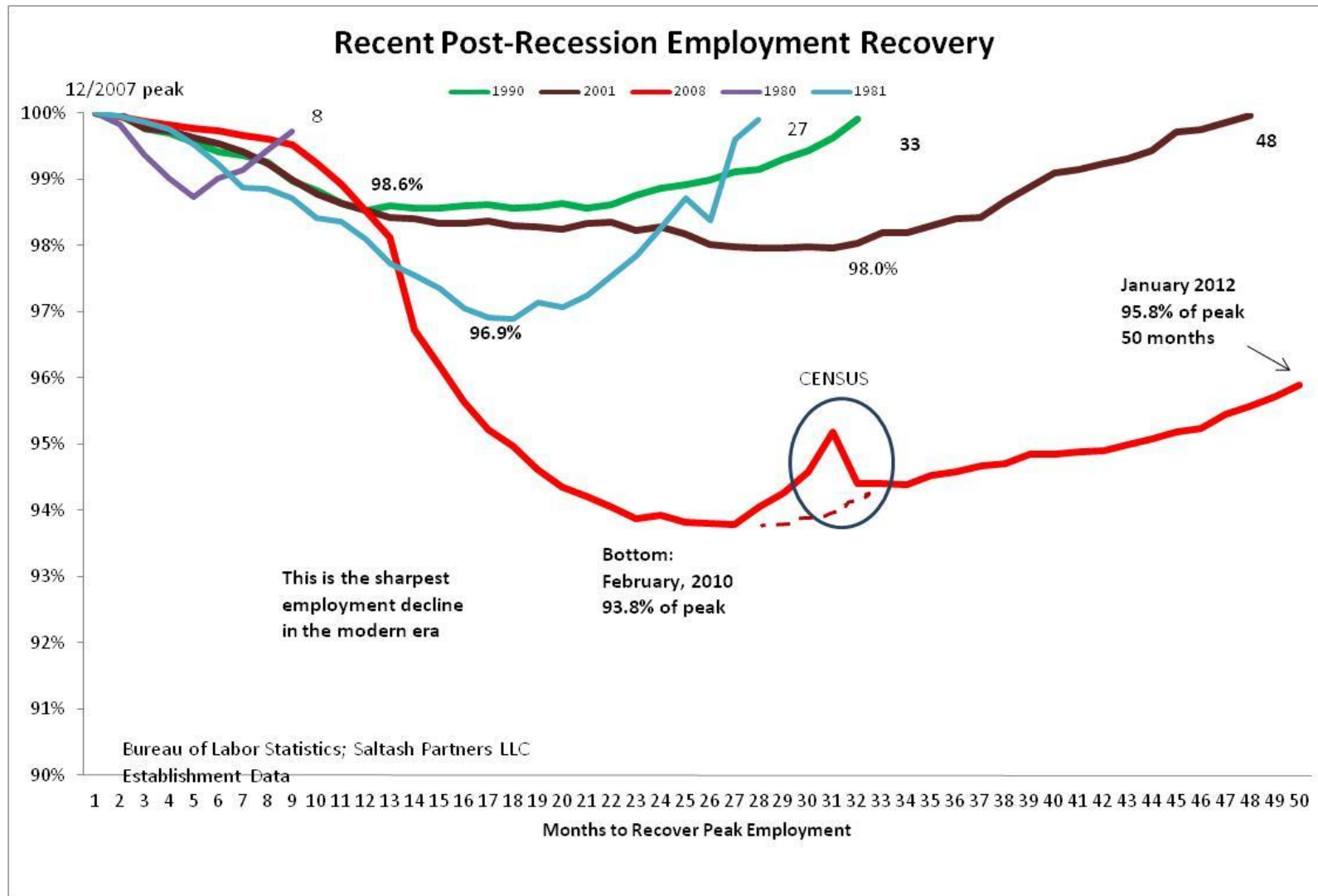


# Core Property's Capacity for Surprise

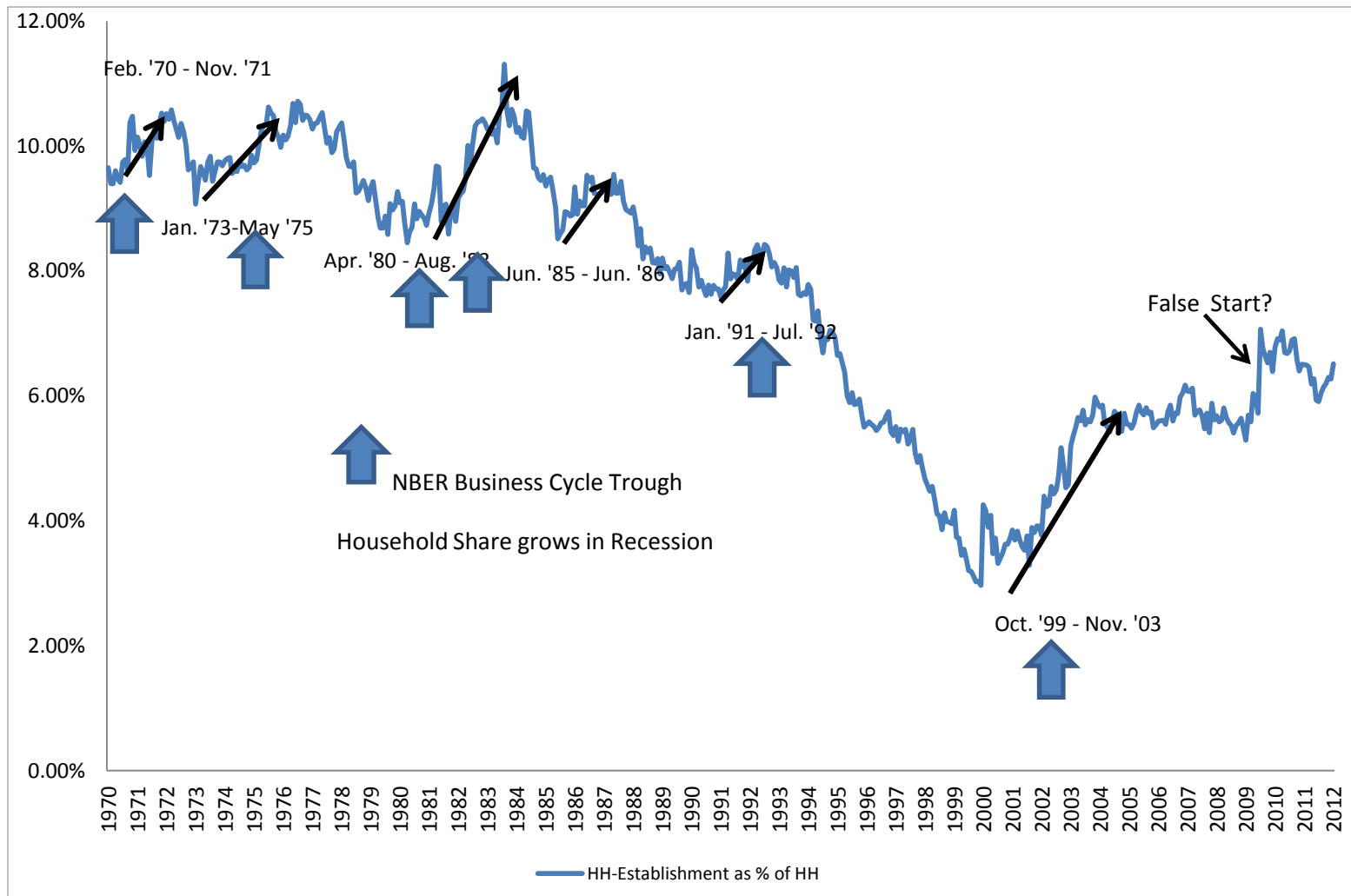
## NCREIF Risk Experience Mean, SemiDeviation, Previous Low and 2008/2009 Low



# When Will Space Demand Return?



# Watch for the “Household Yawn”

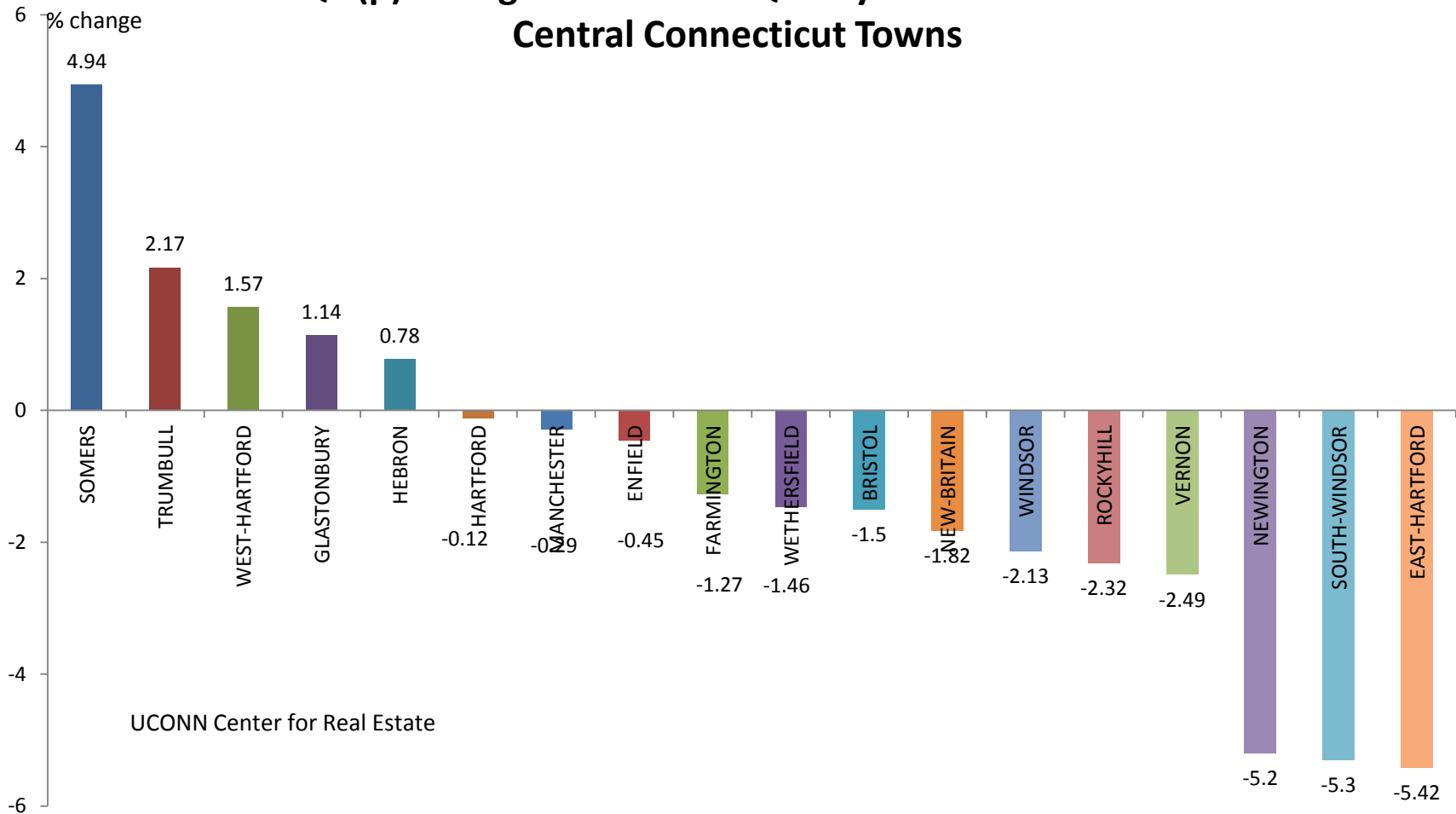


# What Will it Take to get to Equilibrium?

- Apartments are there
- Office at 17% needs about 700,000 more office jobs or another 3 million in total jobs.
- The 243,000 job rate in January would get us there in a year – two years is more likely
- Retail will lag until those jobs get replaced
- Industrial is firming up nationally – lots of uncertainty about the Panama Canal widening – Battle of the Port Authorities
- Hotels are back in major cities – still room to recover in resorts and meetings properties

# Connecticut Housing Picture is Still Mixed

**2011Q4 (p) Change in Constant Quality Mid-Price Home Index  
Central Connecticut Towns**



- Thanks for your time!