



CRE Capital Markets Update **Amid Renewed Financial Instability** **and Fear of a Global Recession**



presented to:

**Center for Real Estate
and Urban Economic Studies**



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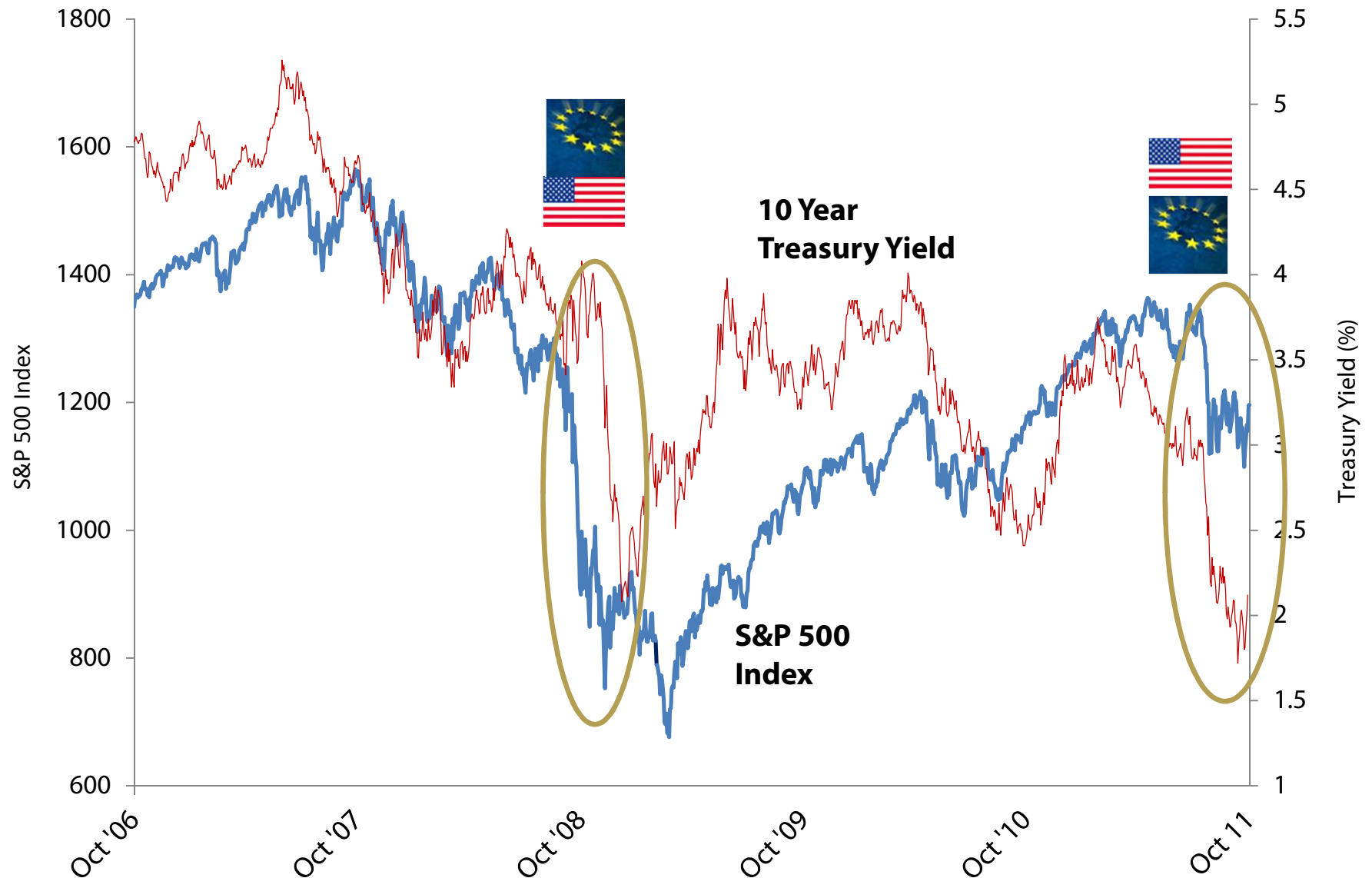
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October 14, 2011

From My Presentation Here 2 Years Ago ...

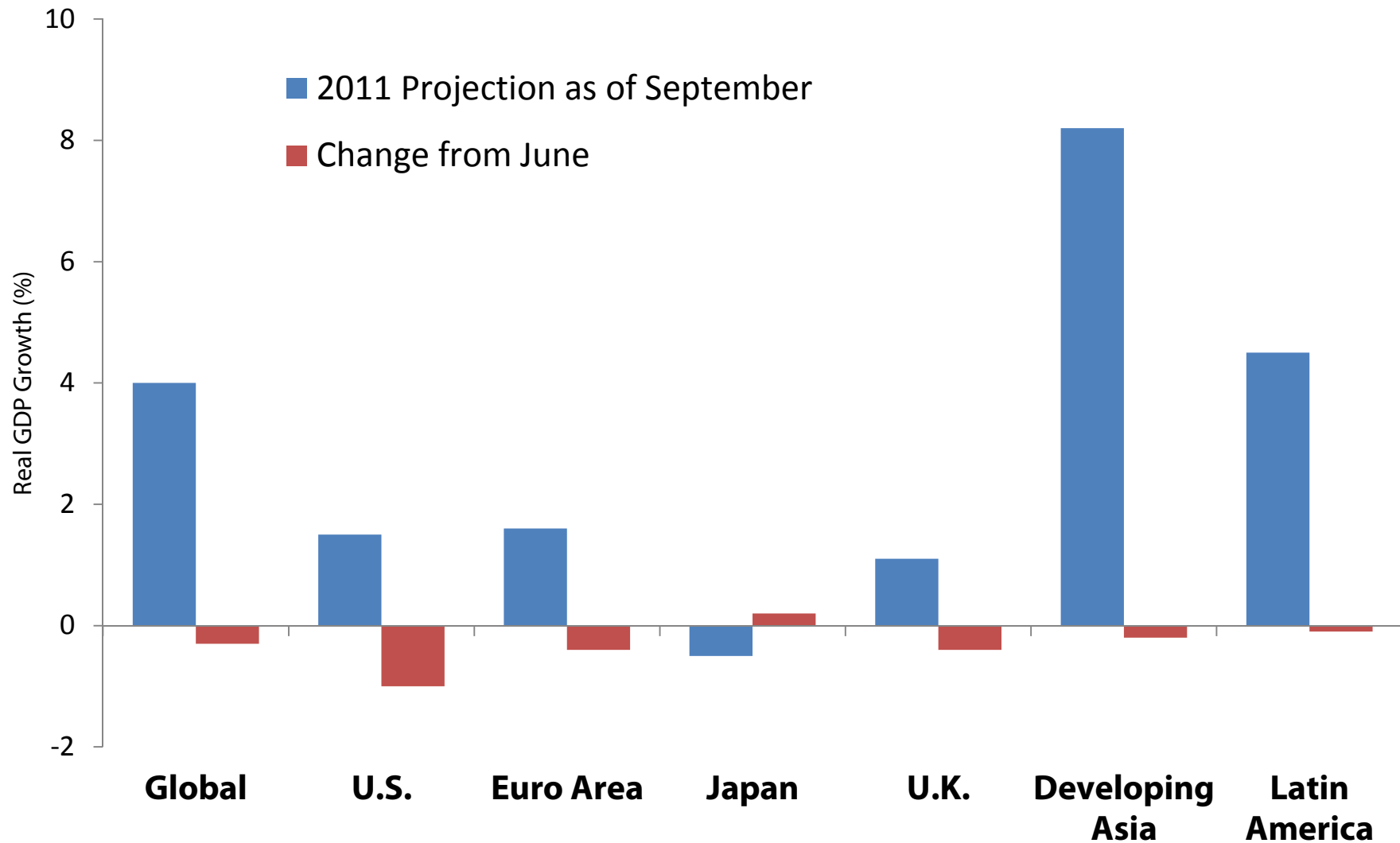


Volatility, Uncertainty ... Twisting in the Wind?

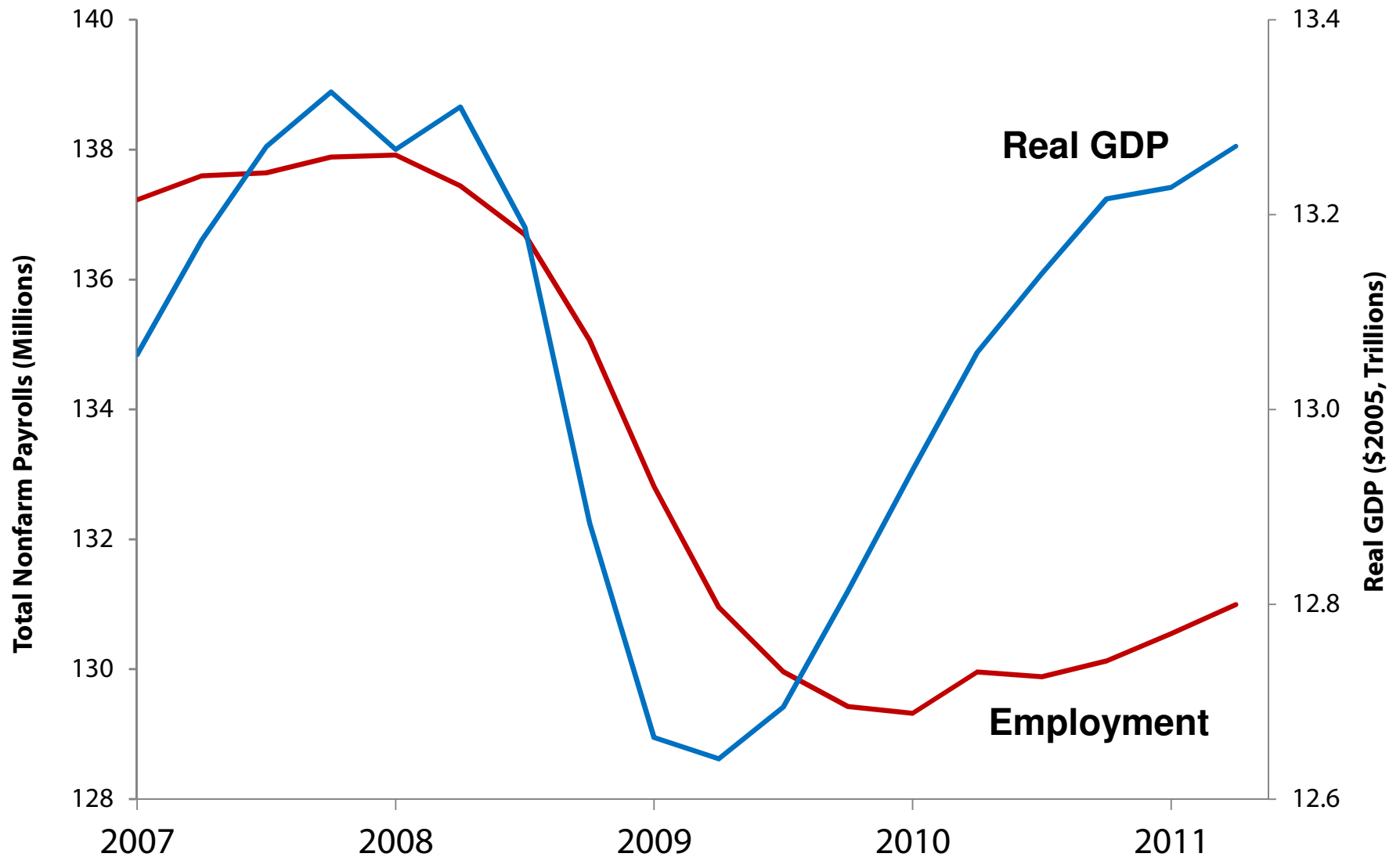


Global Growth Projections Revised Downwards

Real GDP Growth Forecasts and Revisions Around the World

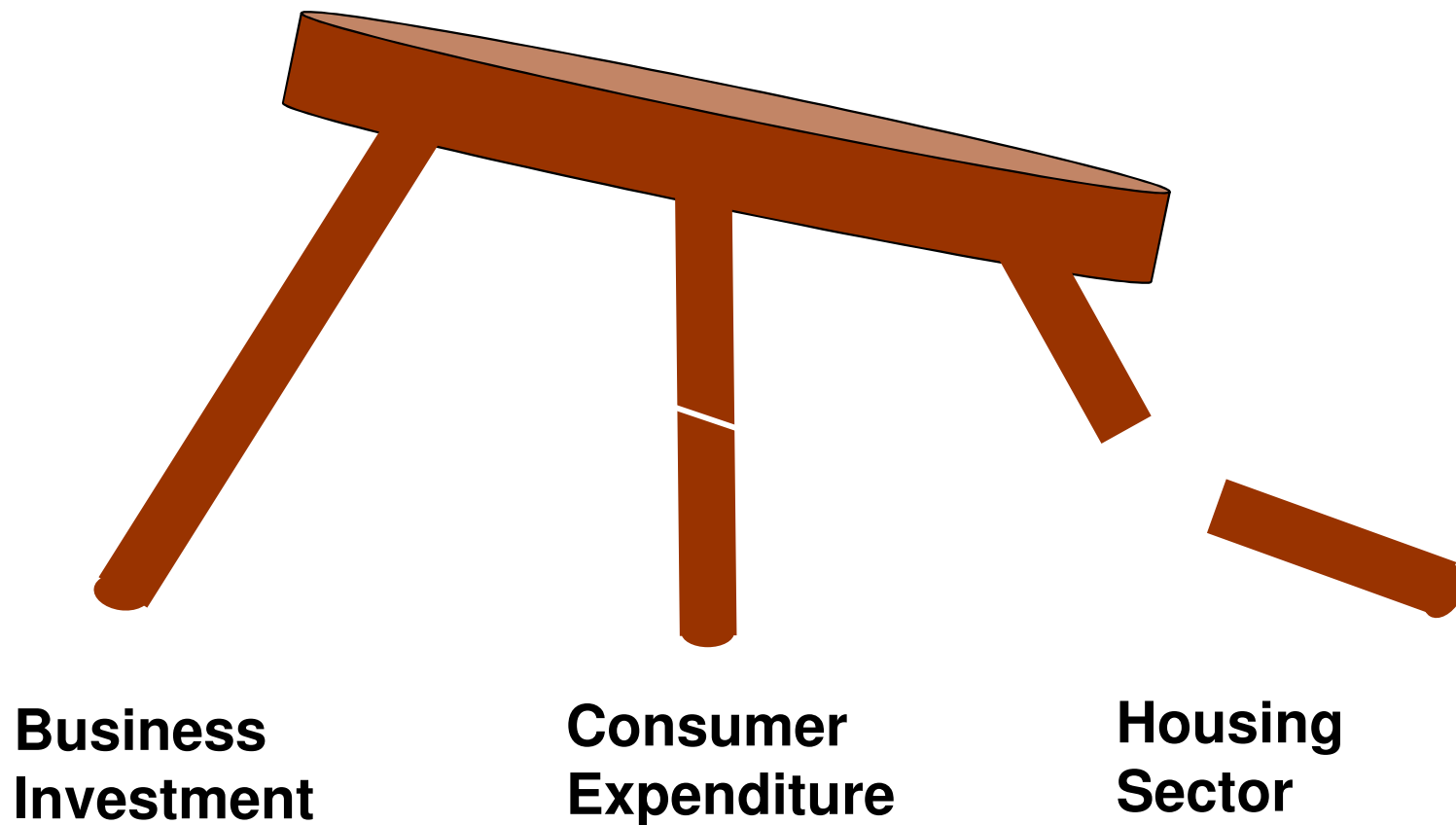


U.S. Economy ... the Big Picture



Not a “Typical” Recovery

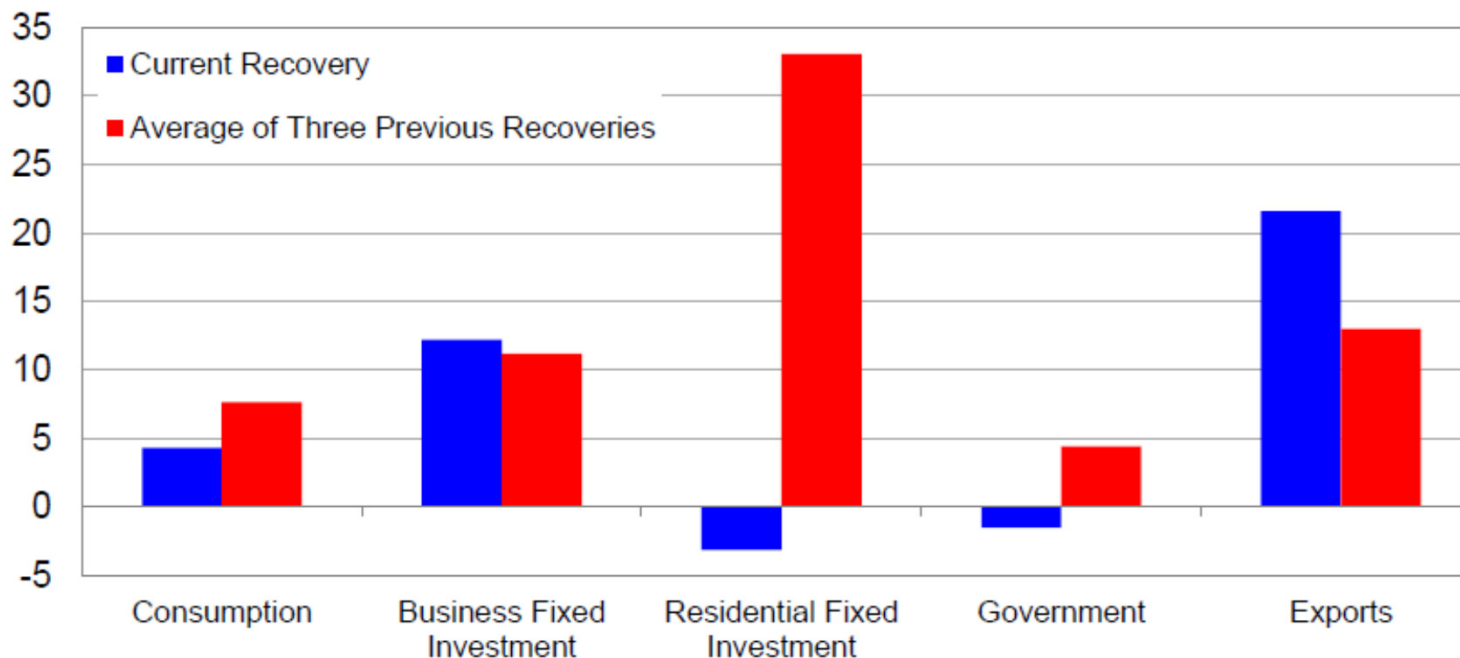
The Three Legs (Stages) of Economic Recovery ...



Not a “Typical” Recovery

Figure 4
Growth in Real GDP Components:
Current and Three Previous Recoveries

Percent Change over First Two Years of Recovery



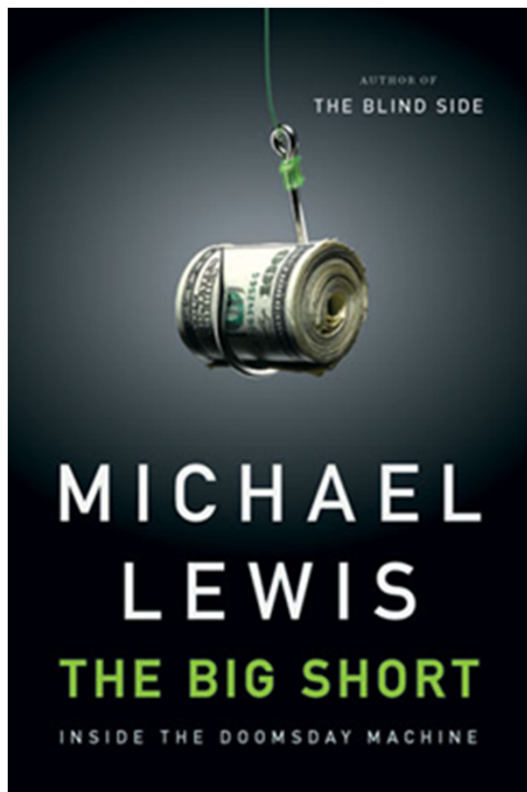
Not a "Typical" Recovery



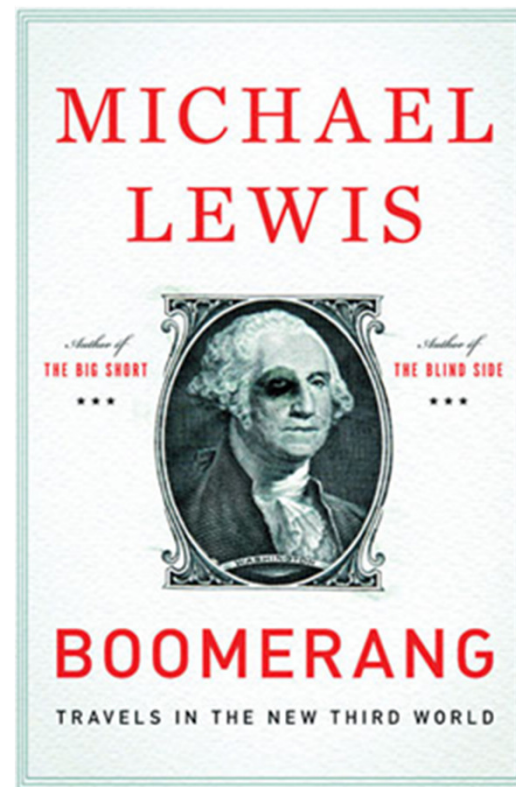
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Not a “Typical” Recovery

Michael Lewis has had time to “research”, write and publish two books on the financial crisis

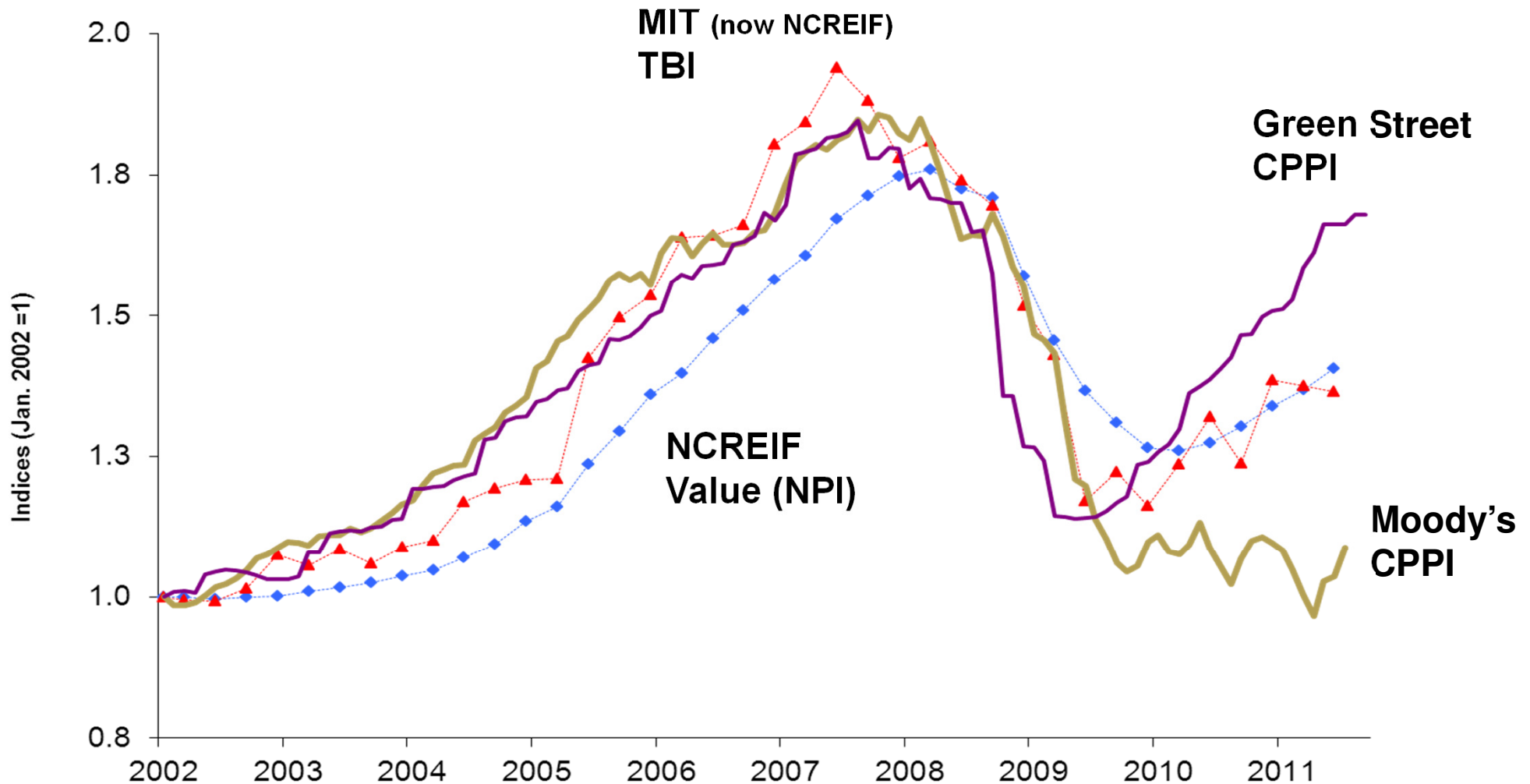


March 2010



October 2011

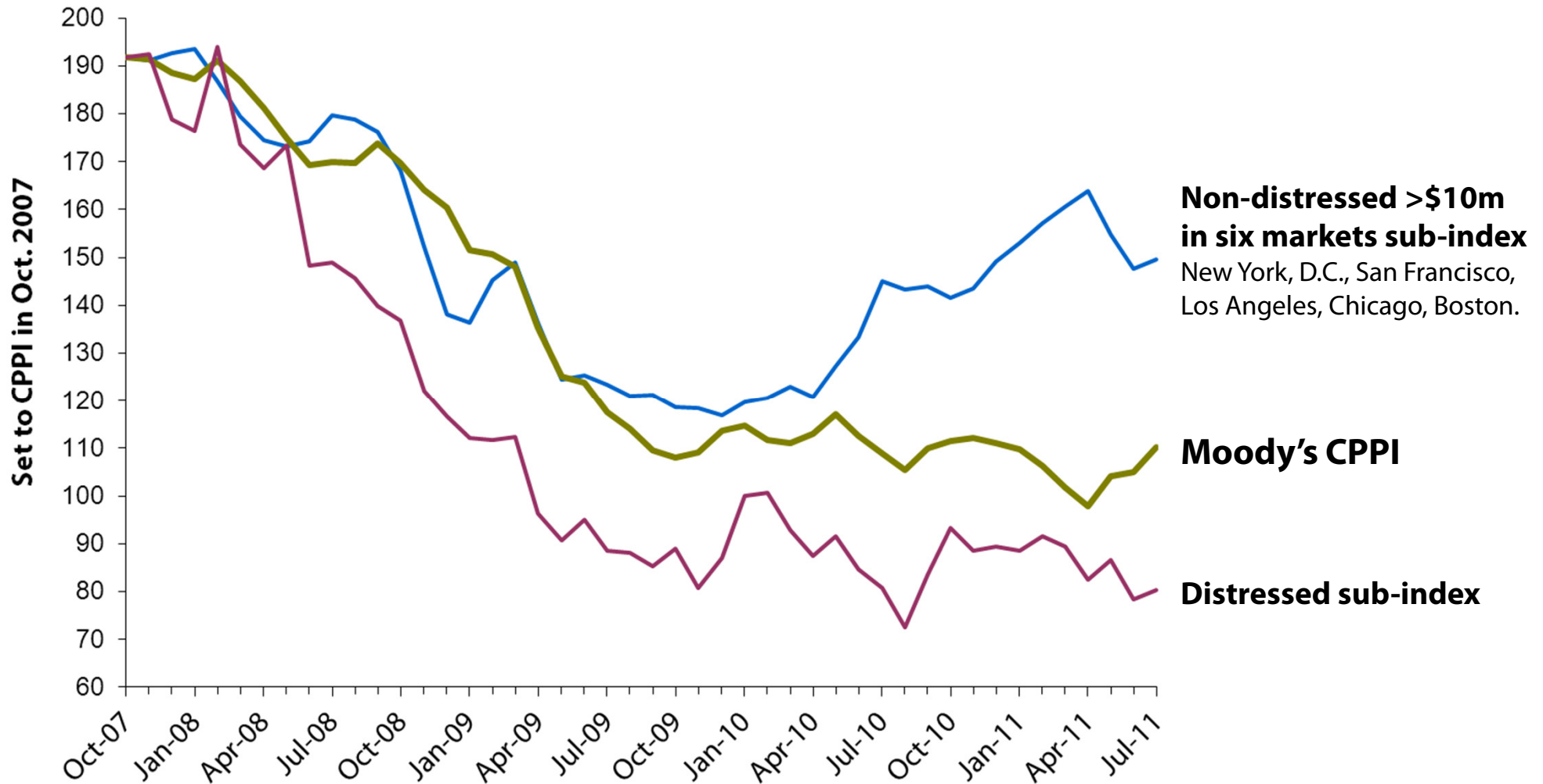
Property Price Cycle at Bottom or Beyond



*Denotes equally weighted cash flow based NCREIF appreciation return component (and not the published value weighted income-based data series).
 Notes: NPI and TBI are quarterly indices through 2Q11. The dashed lines are monthly interpolations. Moody's and Green Street CPPI's are monthly indices through July and September 2011, respectively.

Aggregate Indices Mask Divergent Pricing Dynamics

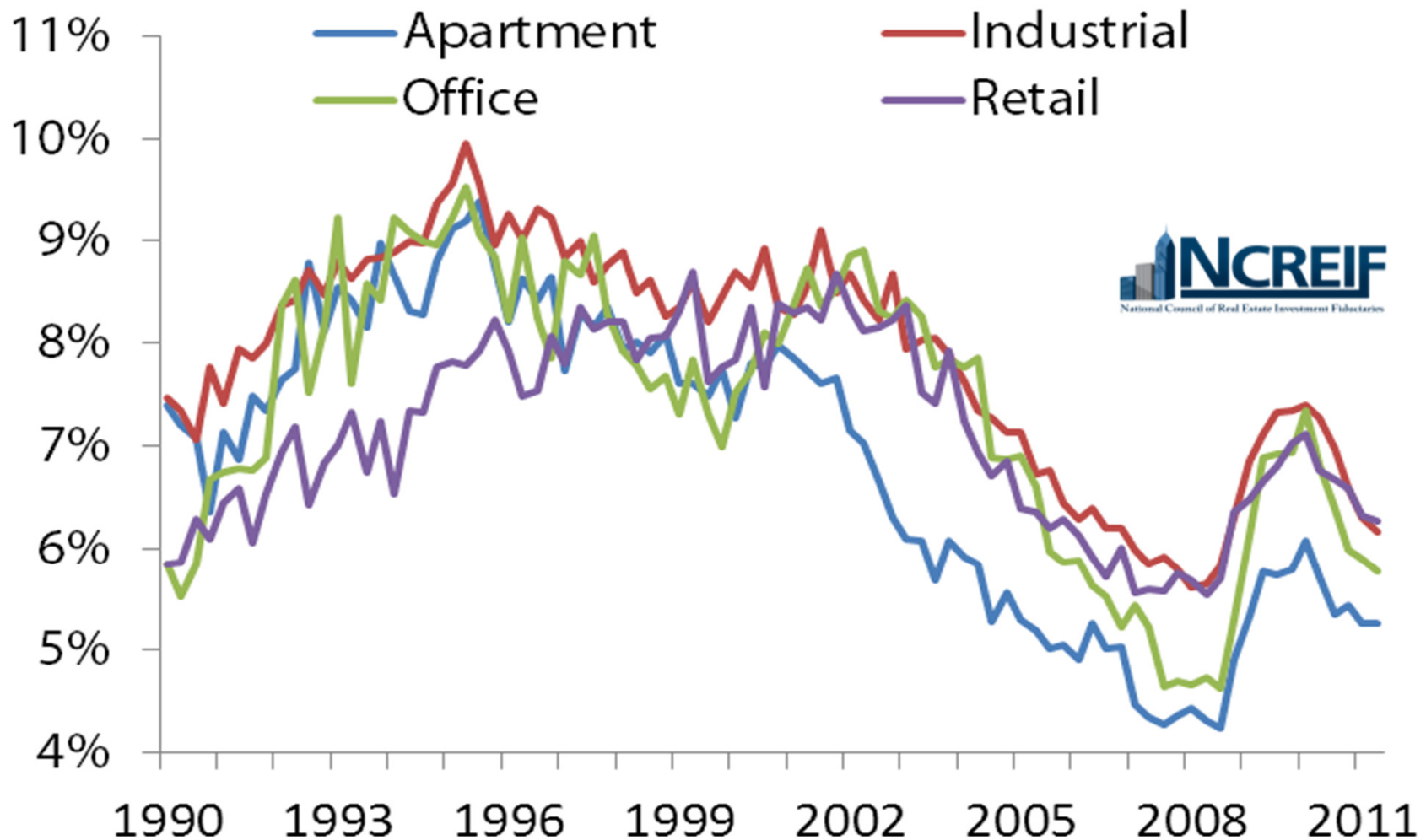
Sub-Indices of the Moody's/REAL Repeat Sales CPPI Since Peak



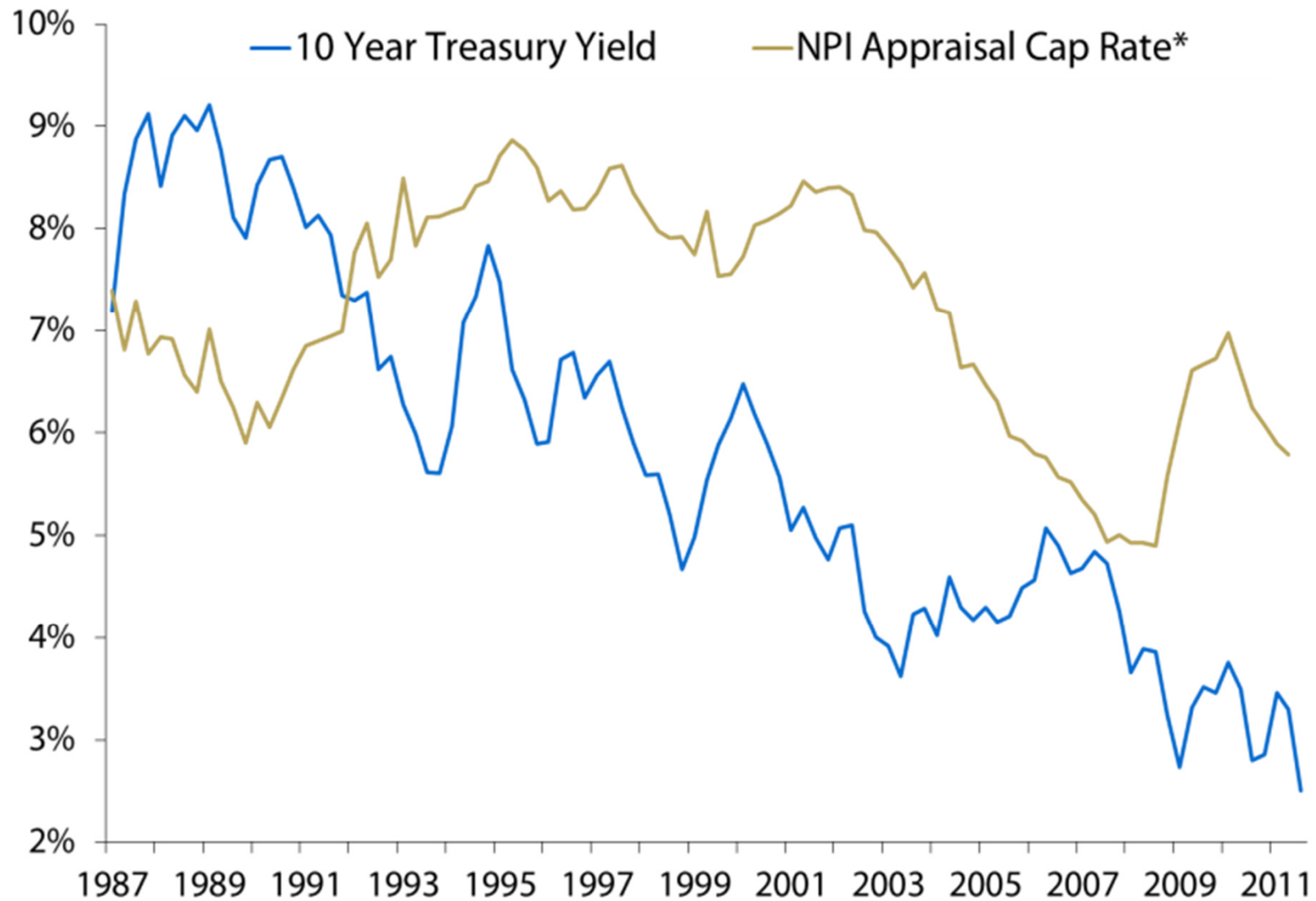
Data through July 2011.

Source: Geltner Associates LLC, Real Capital Analytics (RCA), Cornerstone.

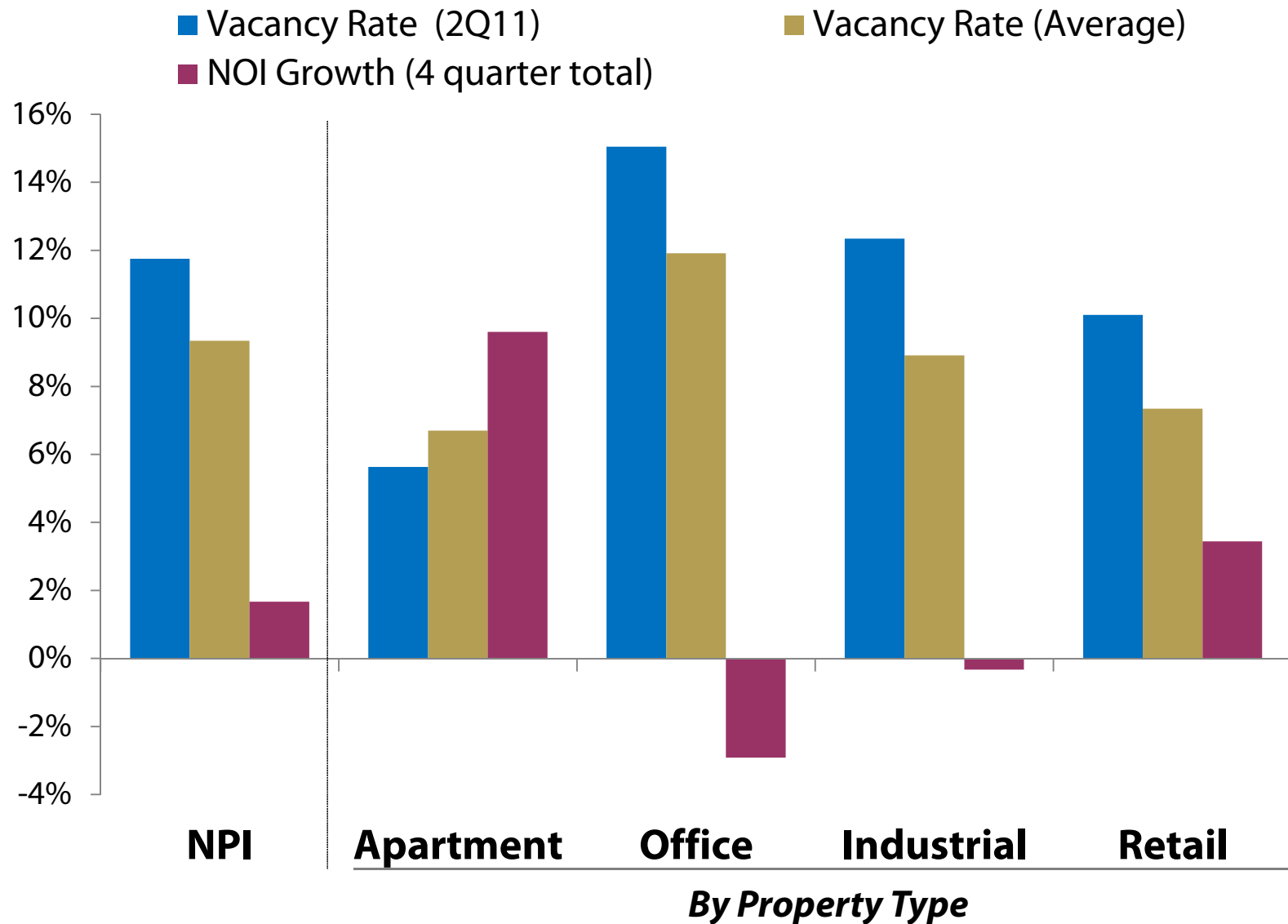
U.S. Institutional Appraisal Cap Rates



U.S. Institutional Appraisal Cap Rates

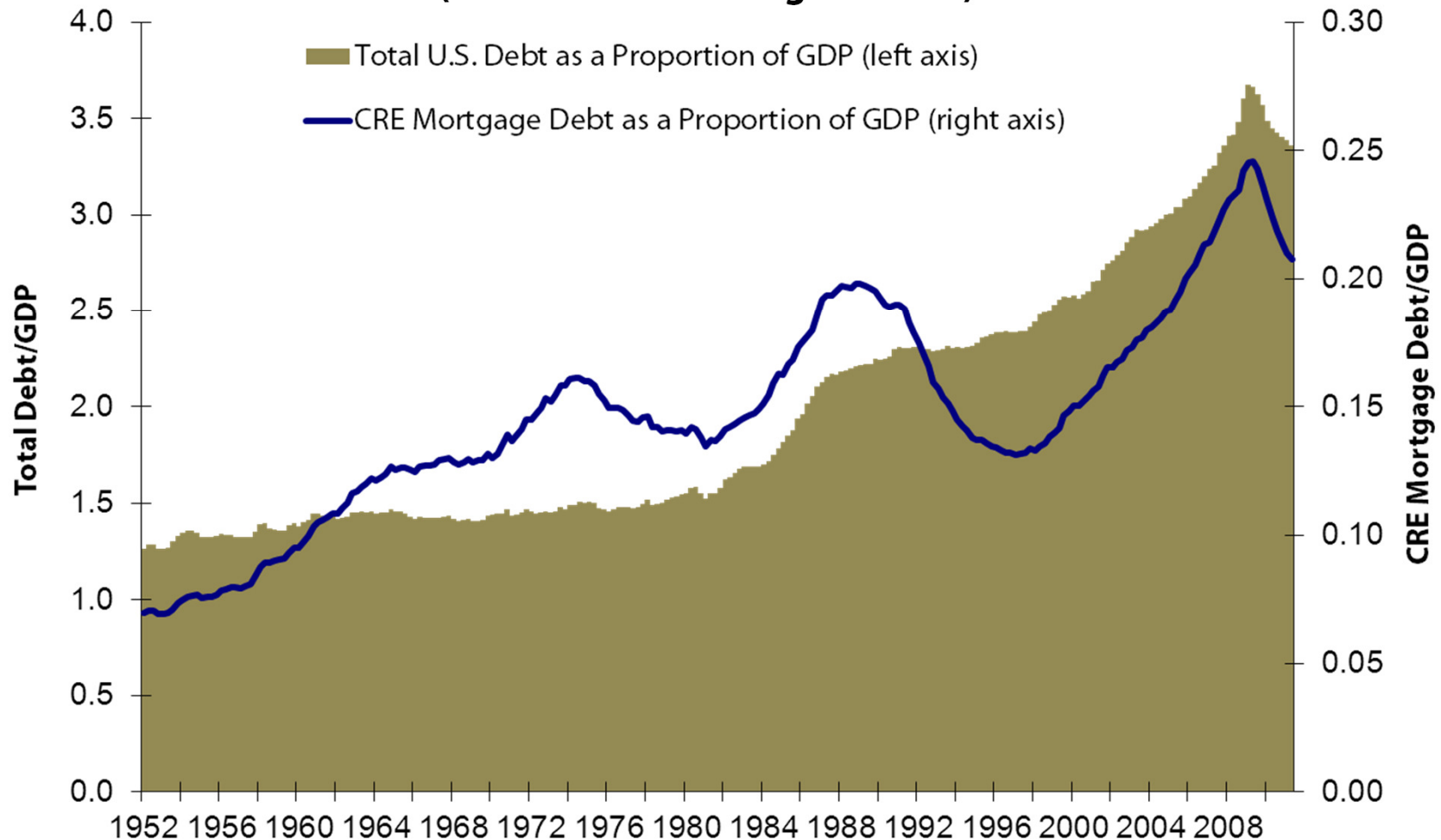


NCREIF Space Market Dynamics ... Apartments Lead



Debt Situation Improving But Legacy Issues Remain

Deleveraging Underway and Continuing (Debt as a Percentage of GDP)

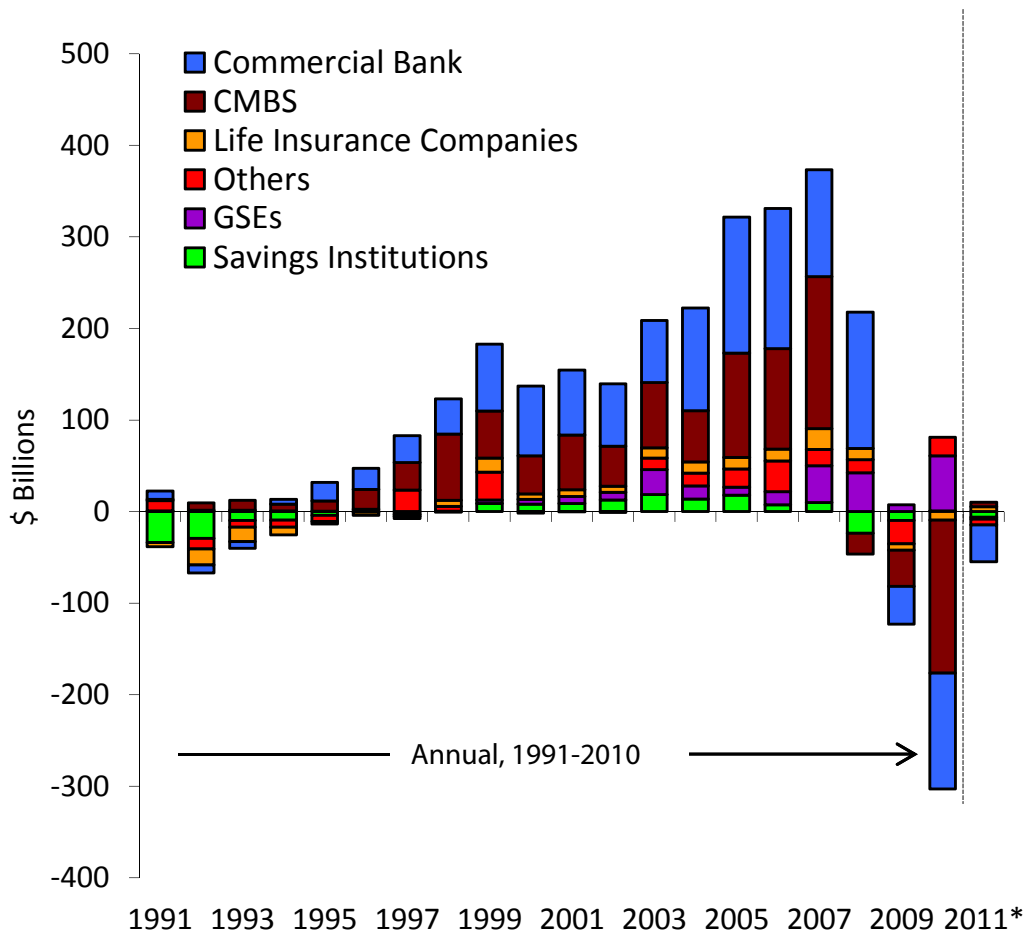


Quarterly data through to Q211.

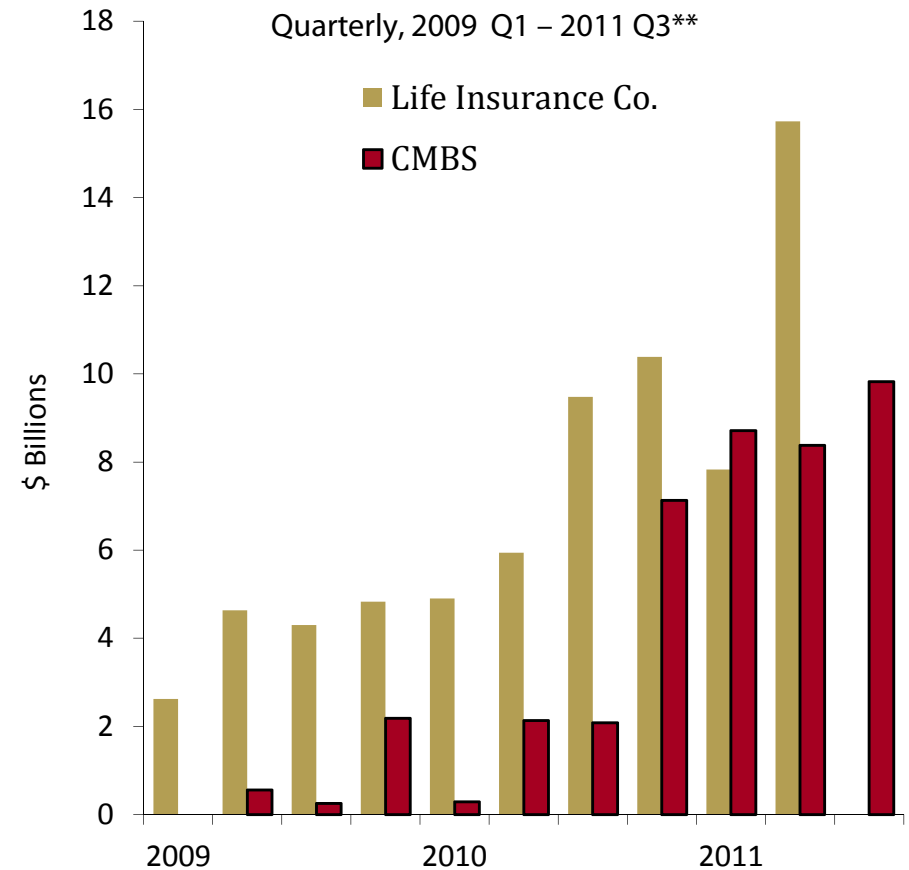
Source: Cornerstone Research, Federal Reserve Board, and Bureau of Economic Analysis.

Mortgage Market Improving But Legacy Issues Remain

Net Mortgage Flows by Lender Type



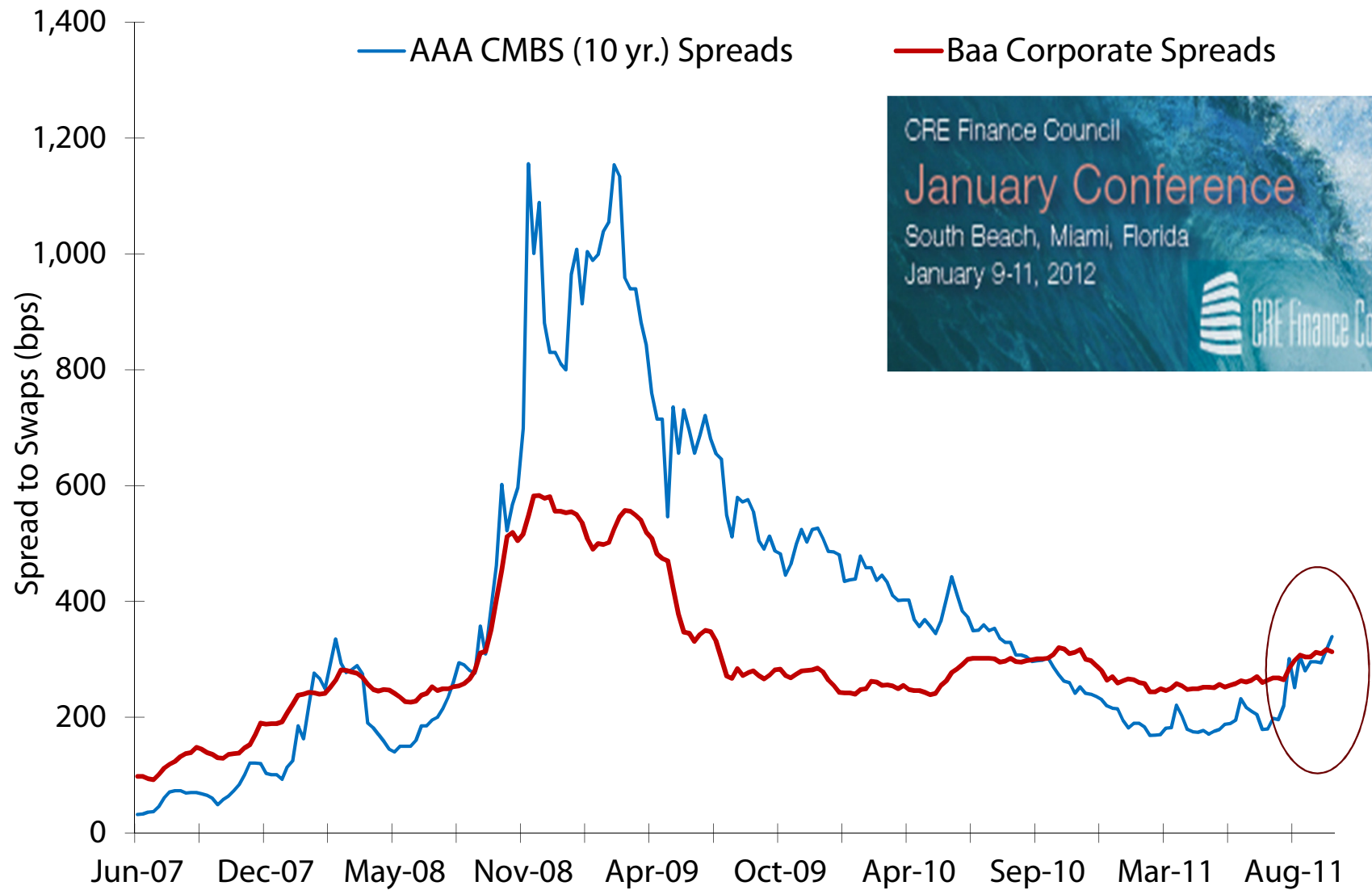
Life Insurance Company Mortgage Commitments and CMBS Issuance



Change in the combined outstanding balance of commercial and multifamily mortgage loans.
 * 2011 data through Q2.

** Insurance co. data through 2011 Q2. CMBS data through 2011 Q3.

Volatility and Growth Concerns Impact CMBS Pricing



Debt and CRE Valuation: Did we learn anything??

**Linking *Ex Ante* Total
Asset Required Returns
with Debt and Equity
Costs of Capital**

$$IRR_P$$

$$IRR_D + IRR_E$$

$$IRR_P = IRR_E \left(\frac{E}{V} \right) + IRR_D \left(\frac{L}{V} \right)$$

In theory with financing separate (2nd) after the investment/valuation decision ...

$$IRR_E = IRR_P + (IRR_P - IRR_D) \frac{L}{E}$$



Thanks for your attention!

Questions?

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