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There is a difference.

Capital Markets, Real Estate Markets and the Economy Presentation to Ely Chapter, Lambda Alpha by Mary Ludgin February 15, 2012

Market Overview

Generally Supportive Conditions For Real Estate

U.S. Macro Economic Environment

- The U.S. is posting healthy economic numbers now. While that will diminish given weakness in Europe and slowing global growth, we do not expect the U.S. economy to reenter recession, absent a major shock
- While drags remain (housing market, persistently high unemployment, slow wage growth, recession in Europe), U.S. will lead developed countries in 2012
- Inflation benign for near term

U.S. Real Estate Implications

- Environment is supportive of continued commercial real estate market recovery
- Capital flows should remain elevated as investors globally search for safety and while U.S. investors search for yield
- That could further skew pricing for U.S. markets deemed global
- Low-cost debt capital is available for well-leased assets but gaps exist in debt finance
- Construction activity will be extremely limited outside the apartment sector

Economic Overview

Great Variability in Job Growth by Metro

Job Growth by Metropolitan Area Q4 2011-Q4 2014

				Jacksonville	2.0%		
		Louisville	2.5%	U.S.	2.0%		
		Phoenix	2.5%	Pittsburgh	2.0%		
		Riverside	2.4%	New York	2.0%		
		Birmingham	2.3%	Denver	1.9%		
		Orlando	2.3%	Richmond	1.9%		
		Los Angeles	2.3%	Philadelphia	1.9%		
		San Diego	2.3%	Baltimore	1.8%		
		Nashville	2.2%	Milwaukee	1.7%		
Atlanta	3.7%	San Francisco	2.2%	Tampa-St. Pete	1.7%		
Austin	3.3%	Charlotte	2.2%	Miami-Ft. Lauderdale	1.7%		
Las Vegas	3.2%	Sacramento	2.2%	Columbus	1.7%	Virginia Beach	1.6%
San Antonio	3.1%	Minneapolis-St. Paul	2.2%	Buffalo	1.7%	Detroit	1.6%
Dallas-Ft. Worth	2.9%	Portland	2.2%	Kansas City	1.7%	Chicago	1.6%
Raleigh	2.9%	Memphis	2.2%	St. Louis	1.7%	Washington, DC	1.5%
Houston	2.8%	Oklahoma City	2.2%	Providence	1.6%	Cincinnati	1.3%
New Orleans	2.7%	Seattle	2.1%	Indianapolis	1.6%	Hartford	1.2%
Salt Lake City	2.7%	San Jose	2.1%	Boston	1.6%	Cleveland	1.2%

2.6% +

2.1% - 2.6%

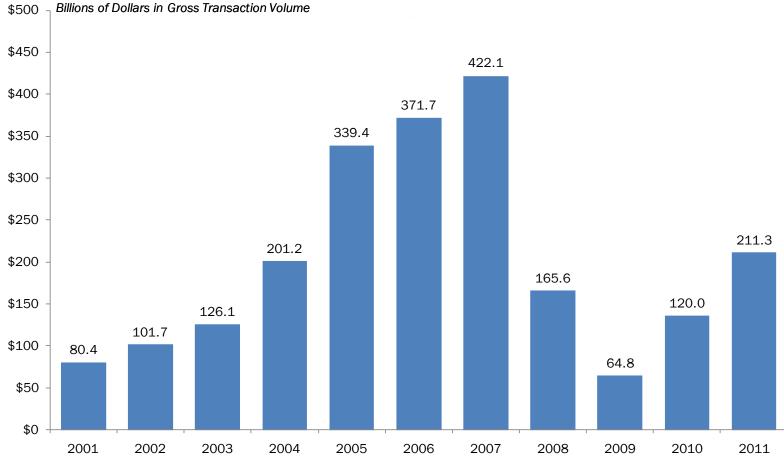
1.5% - 2.1%

< 1.5%

Source: Moody's Economy.com; Heitman Research

Capital Market Overview Transaction Volume Highest in Three Years

Commercial Property Transaction Volume U.S. 2001-2011

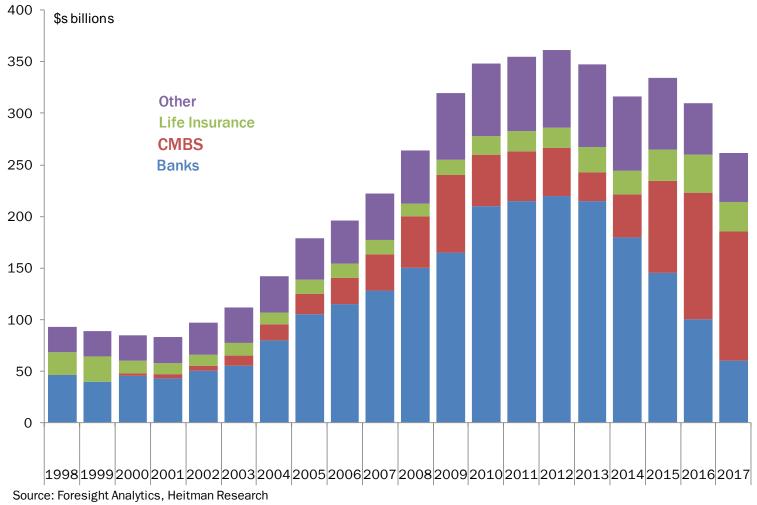


Source: Real Capital Analytics; Heitman Research These numbers reflect commercial real estate transactions over \$5 million

Capital Market Overview

Deleveraging Creating Opportunities in U.S.

Commercial Mortgage Maturities U.S. 1998-2017



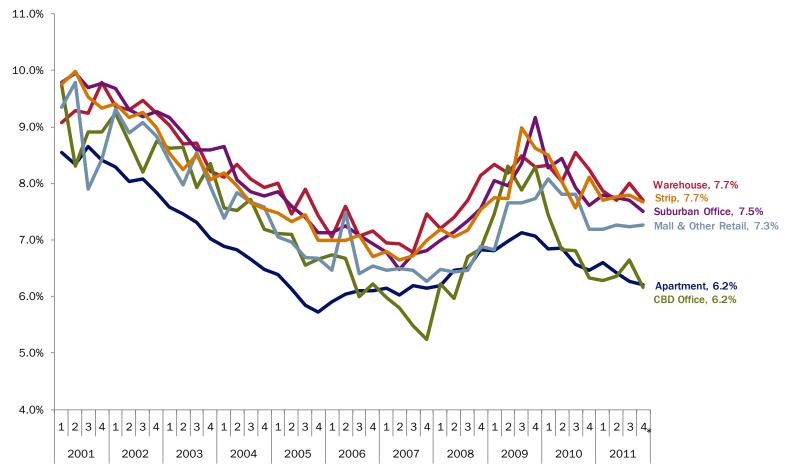
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Real Estate Pricing Rising for High-Quality Assets

Capitalization Rates By Property Type U.S. 2001-2011

Capital Market

Overview

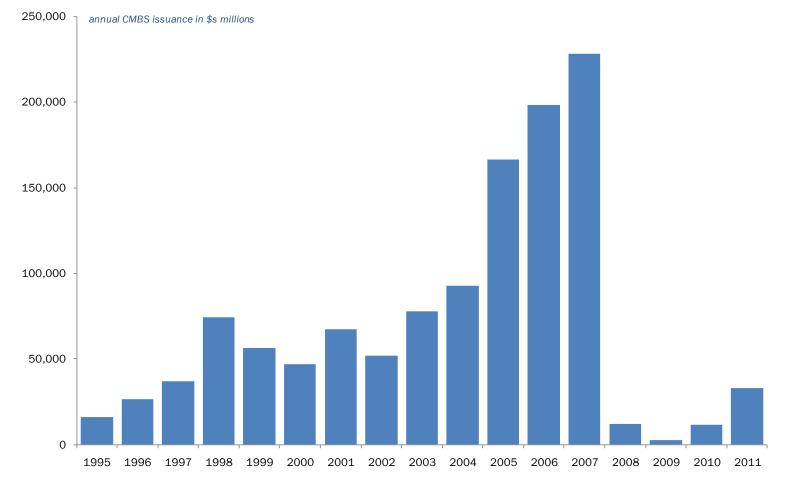


Source: Real Capital Analytics; Heitman Research *Q4 2011 data through November 2011

Capital Market Overview

CMBS Market Made Modest Restart in 2011

CMBS Issuance U.S. 1995-2011



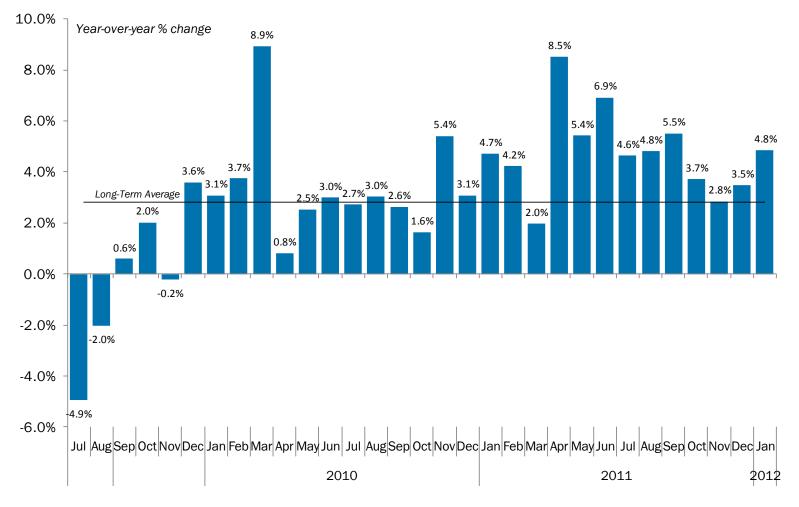
Source: Commercial Mortgage Alert; Heitman Research

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Sales Trends are Healthy

ICSC Same-Store Sales Trends U.S. 2009-2012 (January)

Retail

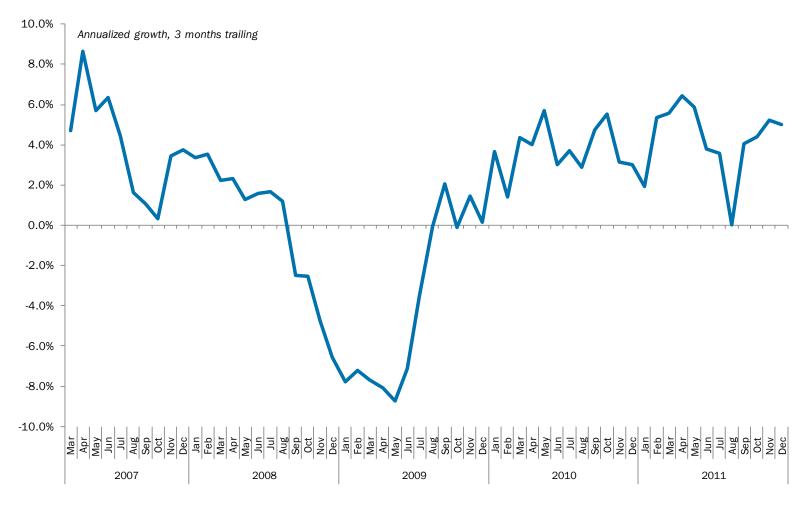


Source: ICSC; Heitman Research

Continued Growth in Wages Needed to Sustain Retail Sales

Retail

Private Sector Aggregate Wage Growth U.S. 2007-2011 (December)



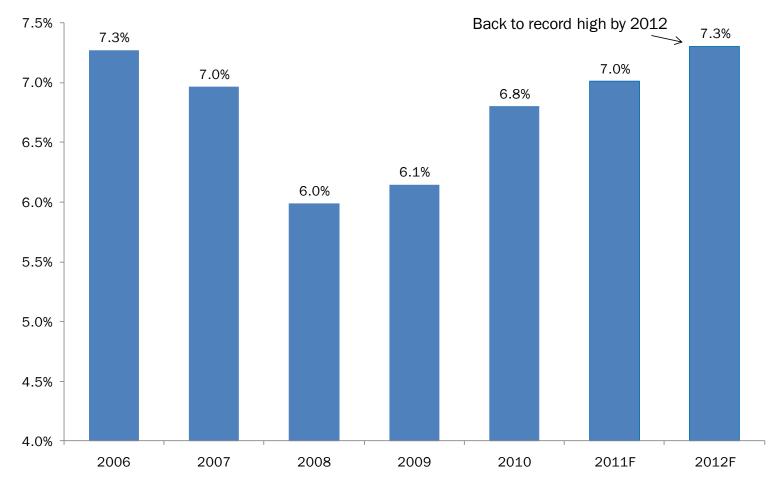
Source: BLS; Heitman Research

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Retailer Profits Near Pre-Recession Peaks

Operating Margins – Major Publicly Traded Retailers U.S. 2006-2012



Source: TAG Reserach; Heitman Research

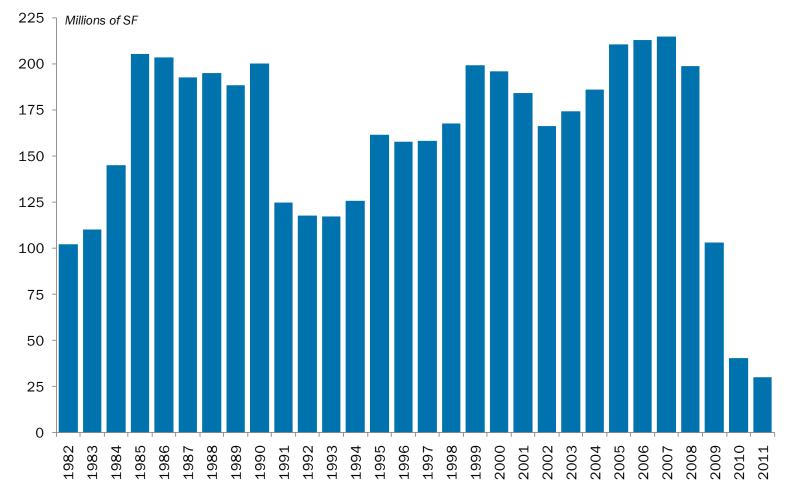
Retail

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Retail

While Construction has Plummeted

Retail Deliveries U.S. 1982-2011 (annualized based on data through Q3)

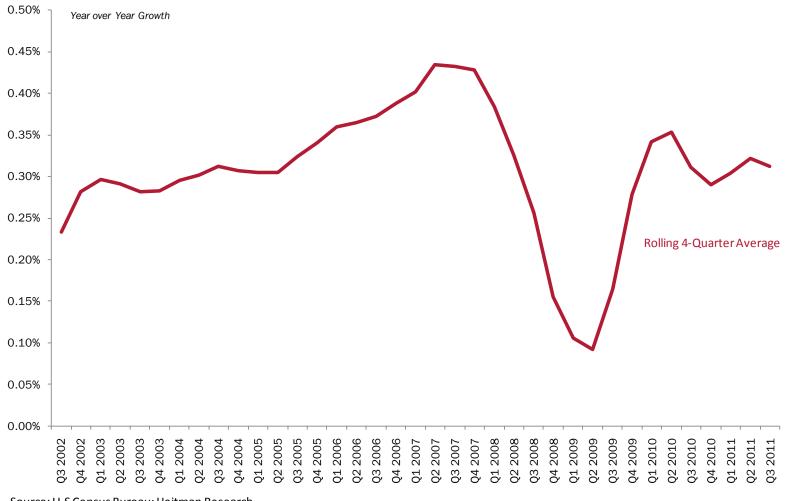


Source: CoStar; Heitman Research

E-Commerce Market Share Gains Running at 30 bps Year-Over-Year

Retail

E-Commerce Annual Market Share Gains 2002 - 2011 (Q3)

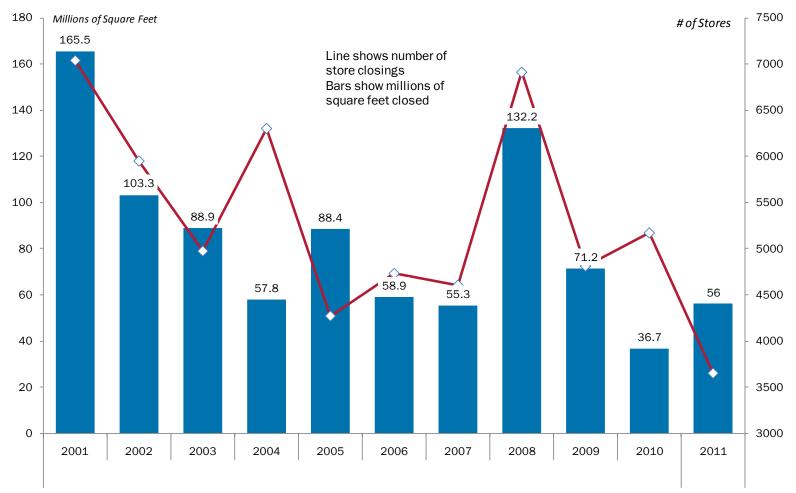


Source: U.S Census Bureau; Heitman Research

Store Closings Up But ...

Store Closing Announcements (GAFO Categories) U.S. 2001-2011

Retail



Source: ICSC/PNC Bank; Heitman Research

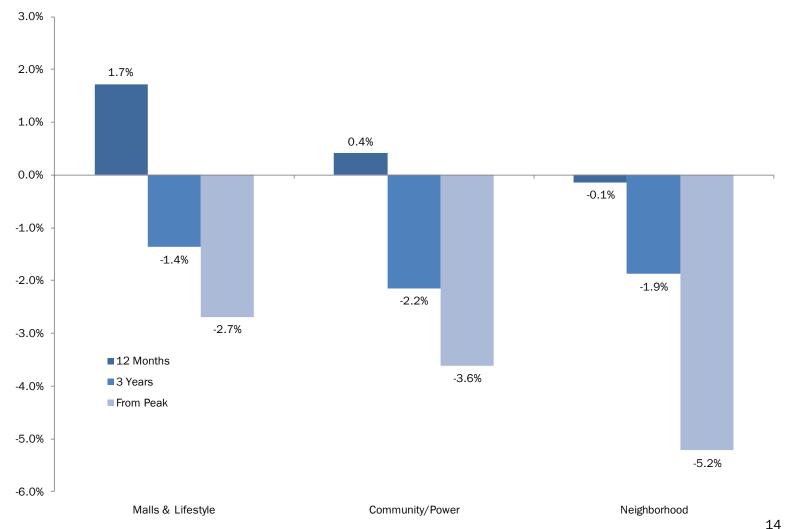
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Performance Trends Vary Significantly by Subtype

Net Change in Occupancy U.S. NCREIF Properties 2008 Q3 - 2011 Q3

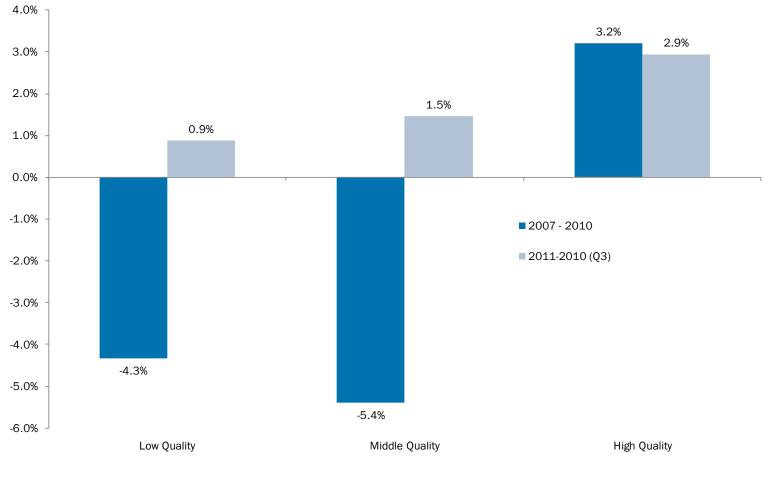
Retail



Quality Matters in Retail Asset Performance

% Change in NOI Mall REITs by Quality Level 2007 - 2011 (Q3)

Retail

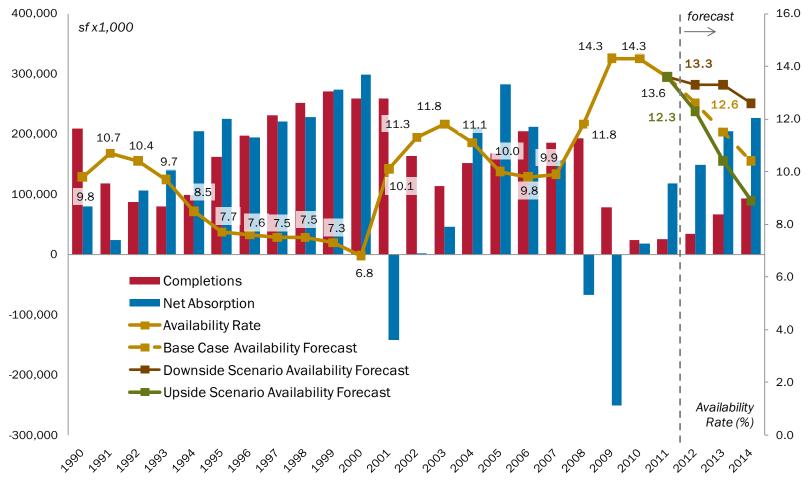


Source: Company Reports; Heitman Research

Industrial Market in Modest Recovery

Industrial Completions, Net Absorption, and Availability U.S. 1990-2014 Years Ending Q4

Industrial

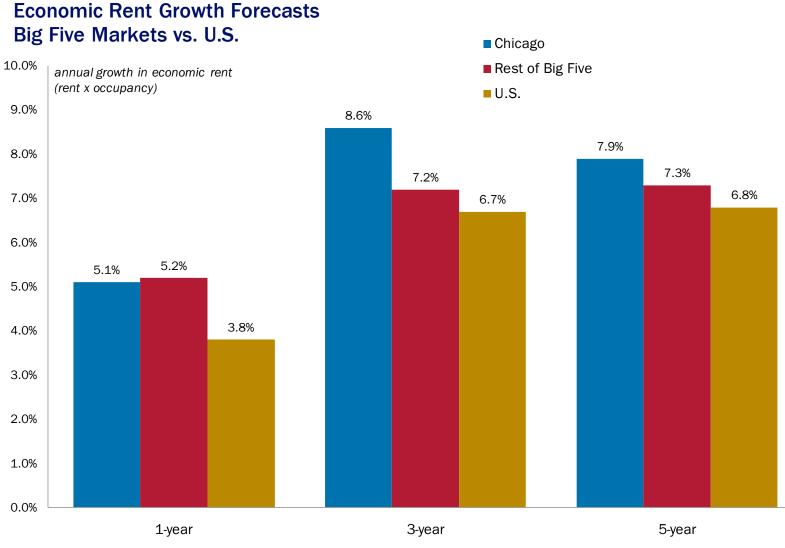


Source: CBRE Econometric Advisors; Heitman Research

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Diversified Industrial Centers Expected to See Good Recovery

Industrial



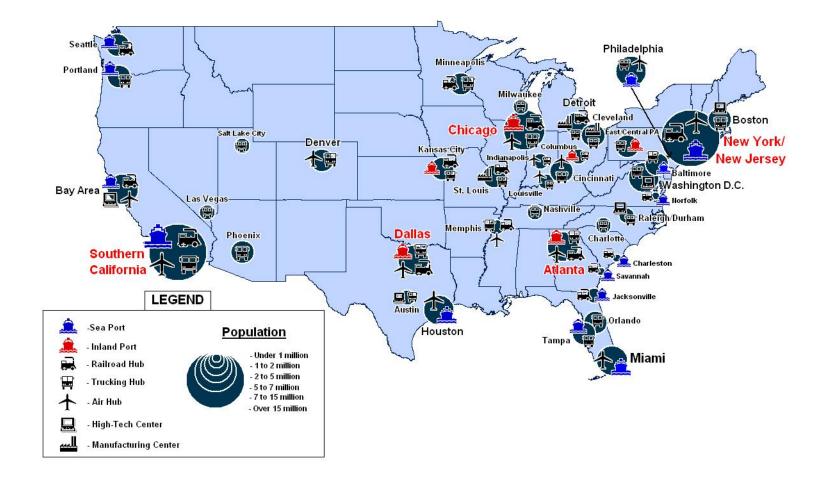




Industrial

Proximity to Population Centers and Transportation Infrastructure Drives Demand

US Industrial Markets

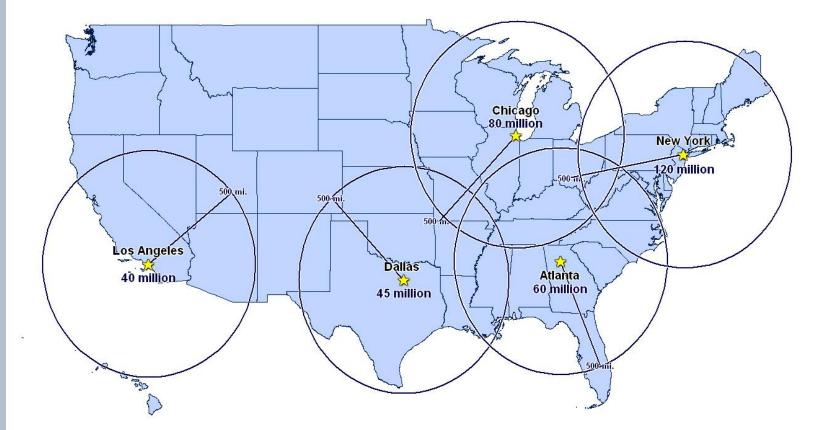


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Industrial

Warehouse Tenants Focused on Access to Population

Access to U.S. Population Within One-Day Drive Time

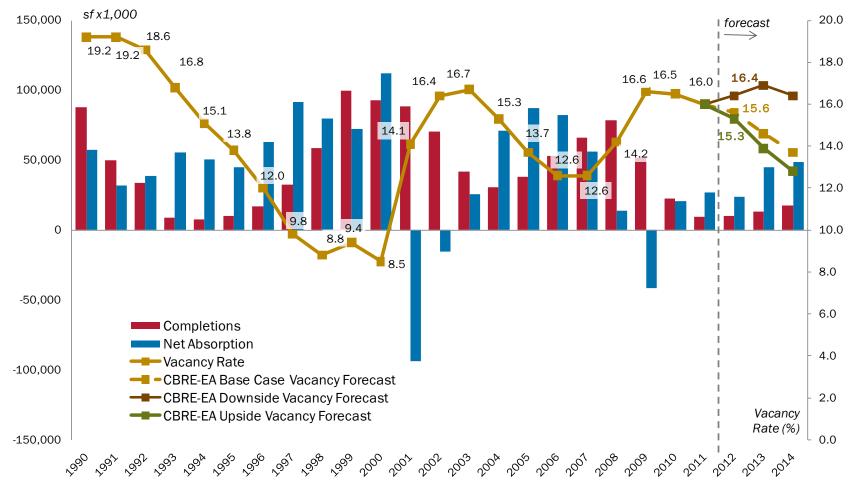


Source: Curtis Spencer, "The Panama Canal Expansion and Impact on Industrial Real Estate," ULI Fall Meeting, October 27, 2011

Contrary Forces Limiting Office Recovery

Office Completions, Net Absorption, and Vacancy U.S. 1990-2014 Years Ending Q4

Office



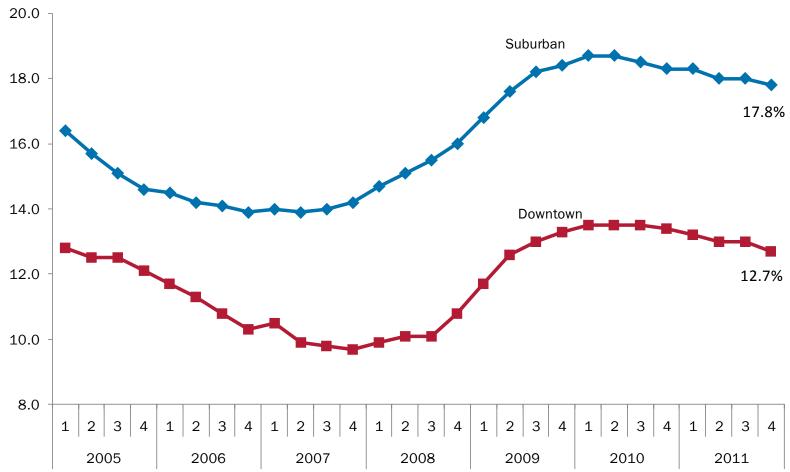
Source: CBRE Econometric Advisors; Heitman Research

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Downtown Office Markets in Better Shape Than Suburban

Office

Office Vacancy: Downtown vs. Suburbs U.S. 2005-2011

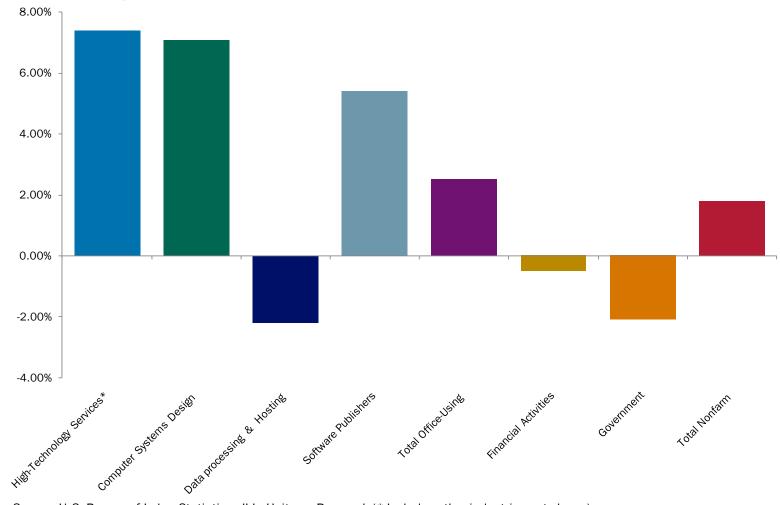


Source: CBRE Econometric Advisors; Heitman Research

High Tech Services Lead Office Job Growth

Office-Oriented Employment Growth by Sector Since Trough U.S. February 2010-November 2011

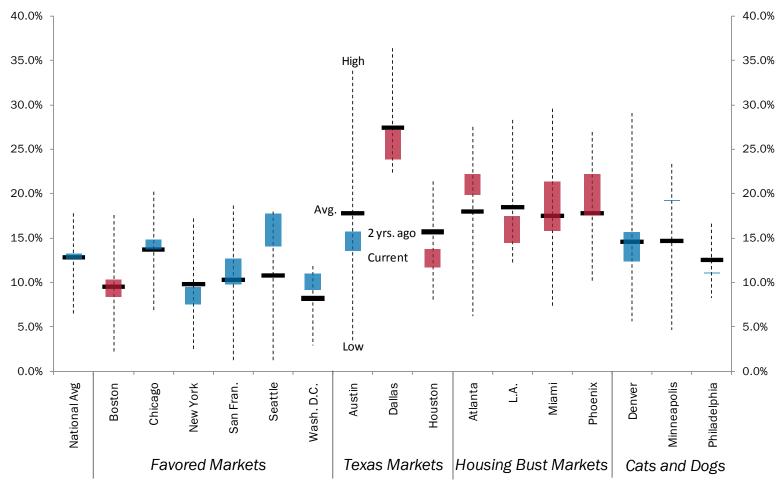
Office



Source: U.S. Bureau of Labor Statistics; JLL, Heitman Research (* Includes other industries not shown)

Conditions Vary Considerably By Market

Downtown Office Vacancy Rates, Selected Major Markets Historical High, Low, Average, 1989-2011 Q4



Source: CBRE Econometric Advisors, Heitman Research

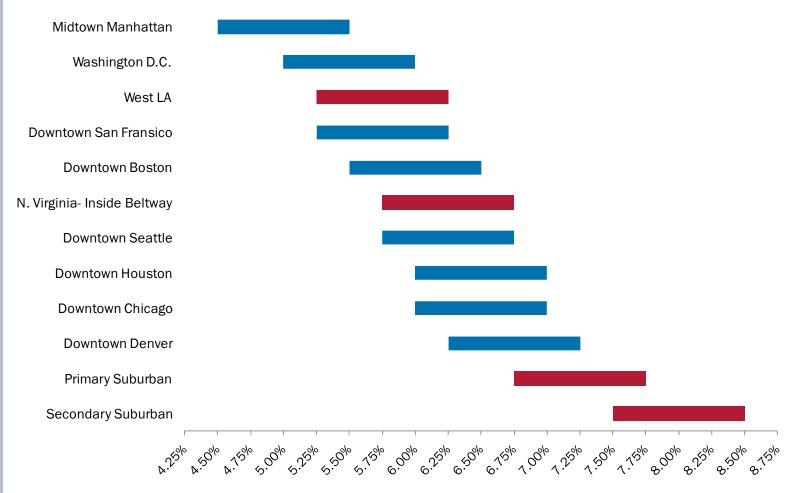
Office

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Office

Office Pricing is Highly Differentiated

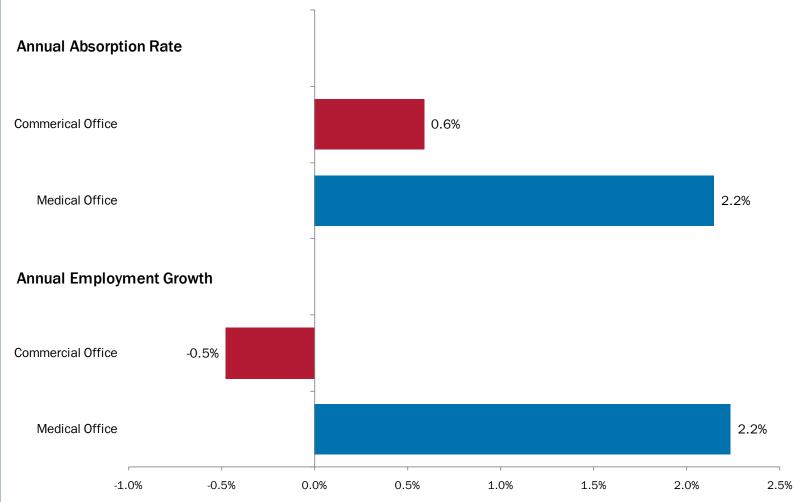
Stabilized Class A Office Cap Rates Major U.S. Markets Q4 2011



Source: Heitman Research

Medical Office Want Office? Go See the Doctor

Net Absorption and Employment Growth Commercial Office vs. Medical Office Top 20 U.S. Markets 2000(Q4)-2011(Q3)



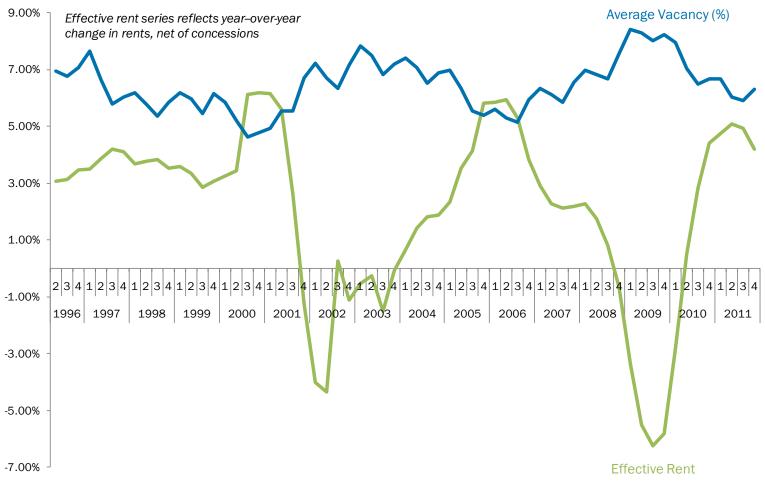
Source: CoStar; Moody's Economy.com; U.S. Bureau of Labor Statistics; Heitman Research

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Apartment Fundamentals Weakened in Q4 on Seasonal Factors

Apartment Effective Rent vs Vacancy U.S. 1996-2011 Q4

Apartment

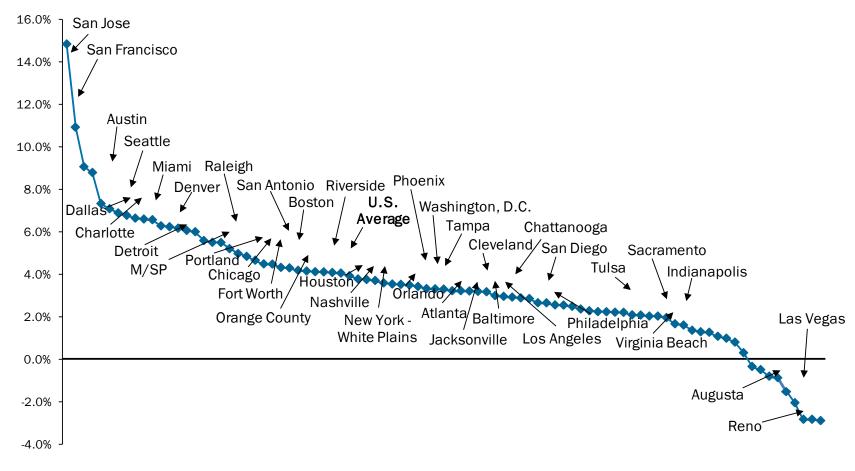


Source: Axiometrics; Heitman Research

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Apartment The Recovery is Widespread Geographically

Effective Rent Growth Selected U.S. Metropolitan Areas November 2010-November 2011

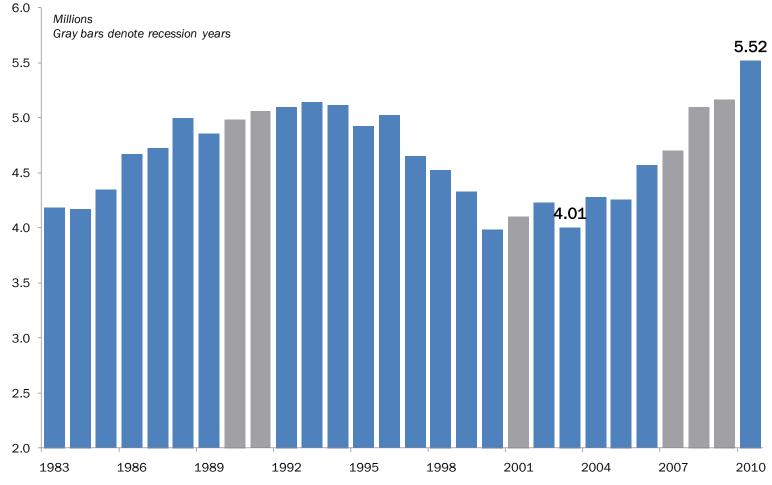


Source: Axiometrics; Heitman Research

Demand Helped by Unbundling

25 to 34-Year-Olds Living at Home with Parents U.S. 1983-2010

Apartment

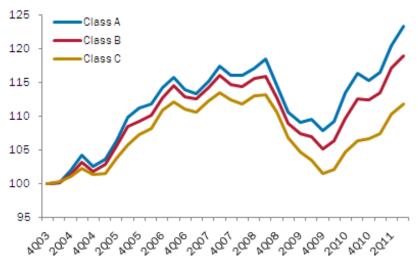


Sources: US Census Bureau, JBREC; Heitman Research

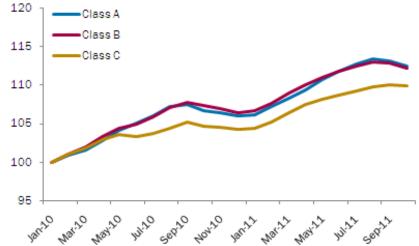
Apartment Performance Varies By Class

RevPau by Class by Quarter

Apartment



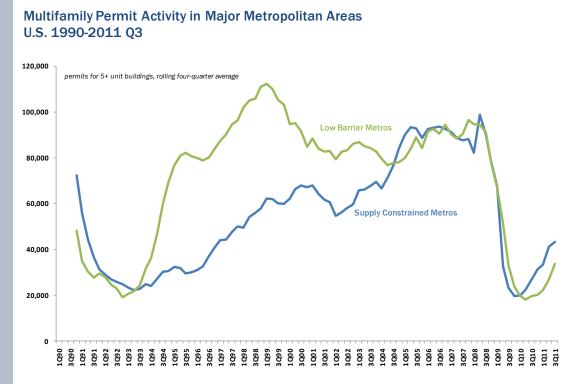
RevPau Index by Class by Month



Apartment

Construction Volume Rising But ...

Multifamily Permit Activity as Share of Peak Q3 2011 vs Each Metro's Peak Quarter



Source: U.S. Census Bureau; Axiometrics; Heitman Research

	Q3 2011 MF	Peak MF	
	Permits	Permits	% of Peak
United States	194,000	486,998	39.8%
New York	11,318	47,427	23.9%
Los Angeles	6,364	15,260	41.7%
Chicago	1,968	18,237	10.8%
Houston	5,823	21,057	27.7%
Atlanta	1,808	17,066	10.6%
Boston	2,325	9,440	24.6 %
Detroit	629	4,409	14.3%
Washington	6,053	9,603	63.0%
Phoenix	2,145	10,868	19.7%
Dallas	7,083	16,378	43.2%
Philadelphia	1,018	5,058	20.1%
Riverside	960	8,321	11.5%
Minneapolis	1,348	8,172	16.5%
Tampa	3,232	9,103	35.5%
St. Louis	1,405	3,041	46.2 %
San Diego	2,513	8,431	29.8%
Seattle	3,882	12,494	31.1%
Baltimore	1,587	3,172	50.0%
Denver	2,851	10,441	27.3%
San Francisco	2,310	4,270	54.1%
Santa Ana	2,232	5,566	40.1%
Pittsburgh	203	1,763	11.5%
Warren	295	2,374	12.4%
Nassau	574	1,521	37.8%
Oakland	1,555	5,696	27.3%
Portland	1,605	6,193	25.9%

Source: Moody's Economy.com; Heitman Research

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Compelling Demographic Argument For Senior Housing Around the Globe

Senior Housing

Life Expectancy at Age 75 Australia, Japan, U.K. and U.S.

	Additional Years Someone Age 75 is Expected to Live		
	<u>Women</u>	Men	
Australia	15.0	9.1	
Japan	15.2	11.3	
U.K.	11.8	9.8	
U.S.	12.6	10.5	

Source: Australian Bureau of Statistics; Japanese National Institute of Population and Social Security Research; U.K. Dept. of Health; U.S. Centers for Disease Control Number of People Age 80+ Selected Countries or Regions, 2015

	<u>80+ (000s)</u>
China	23,731,966
U.S.	12,628,692
Western Europe	10,820,367
Japan	9,811,698
U.K.	3,048,344
Australia	926,887

Source: United Nations; Heitman Research

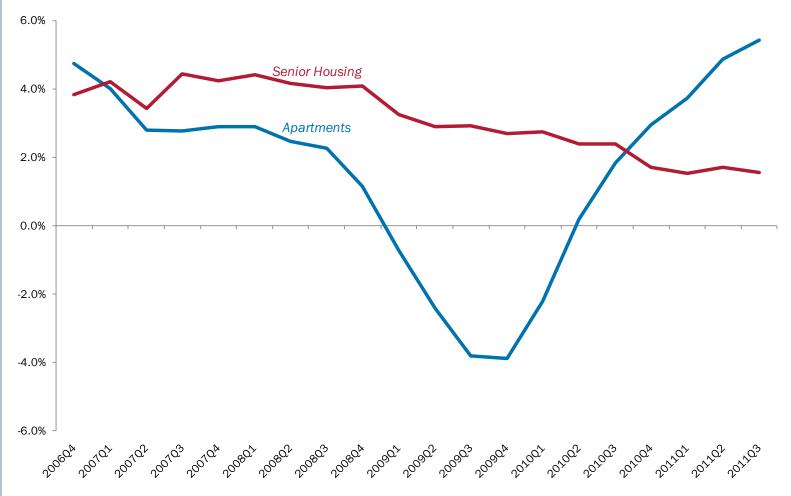
Incidence of Alzheimer's or Other Form of Dementia U.S. 2011

	Alzheimer's Incidence	Total With Alzheimer's (%)	Total Population in Age Group	Share of Age Group With Alzheimer's
< 65 years	216,000	4%	270,004,151	0.08%
65 < 74	324,000	6%	21,462,599	1.51%
75 > 84	2,430,000	45%	13,014,814	18.67%
85+	2,430,000	45%	5,751,299	42.25%
Total	5,400,000		310,232,863	1.74%

Source: Alzheimer's Association; U.S. Census Bureau; Heitman Research

Senior HousingSenior HousingSenior HousingDefensive Nature During Recession

Year-over-Year Change in Asking Rent: Senior Housing vs. Apartments Top 30 Metro Markets 2006(Q4)-2011(Q3)

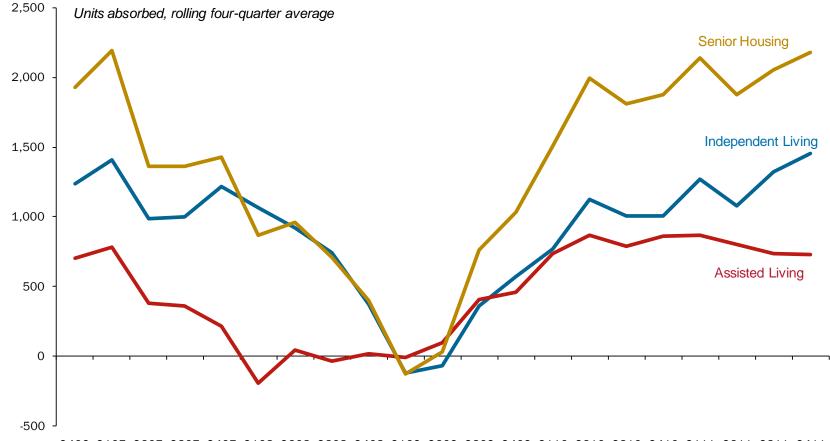


Source: Axiometrics; NIC; Heitman Research

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Source: NIC, Heitman Research



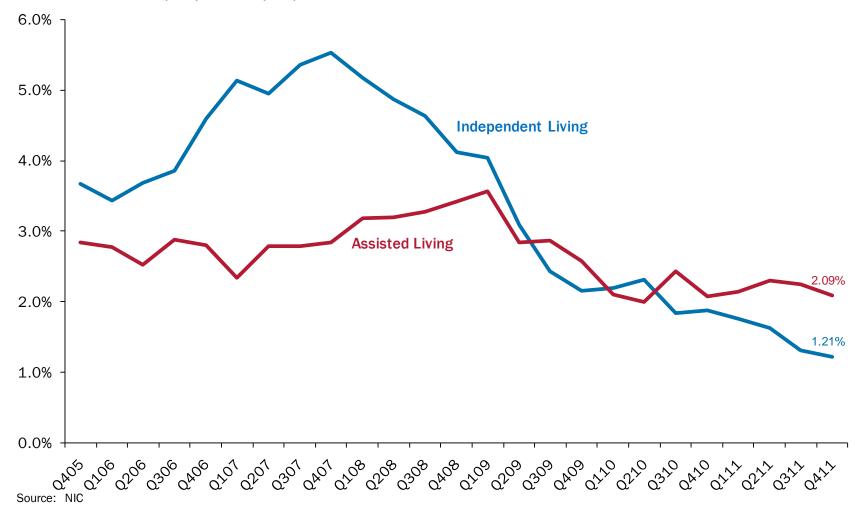


Quarterly Absorption of U.S. Senior Housing Units 31 MSAs 2006(Q1)-2011(Q4)

Senior Housing Demand **Rising Across Formats Senior Housing**

Senior Housing While Construction has Fallen

Senior Housing Units Under Construction as % of Inventory 31 MSAs 2005(Q4)-2011(Q4)

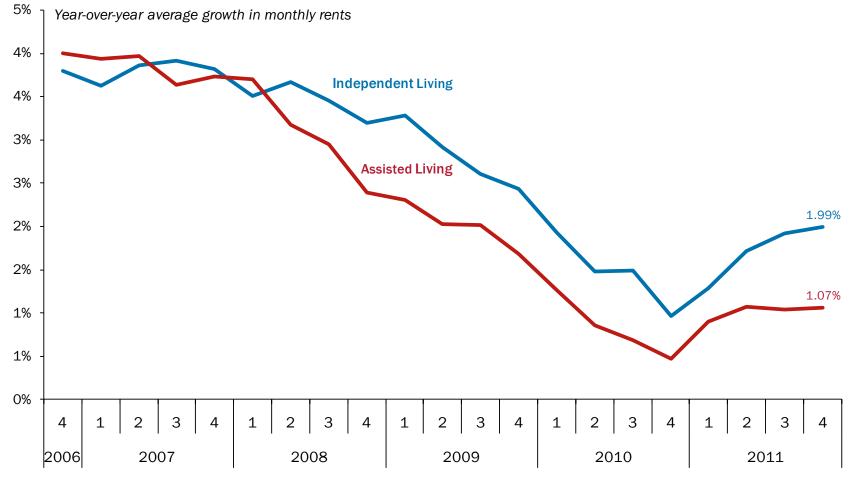


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Senior Housing Prompting an Uptick in Rents For IL and AL

Senior Housing Rent Growth 31 MSAs 2006(Q4)-2011(Q4)



Source: NIC, Heitman Research

In Conclusion...

- Should be a good year
- While employment growth won't match prior recoveries, it will continue
- In an environment of limited construction, 2012 will be a high point