



HEITMAN



There is a difference.

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

▪ U.S. Macro Economic Environment

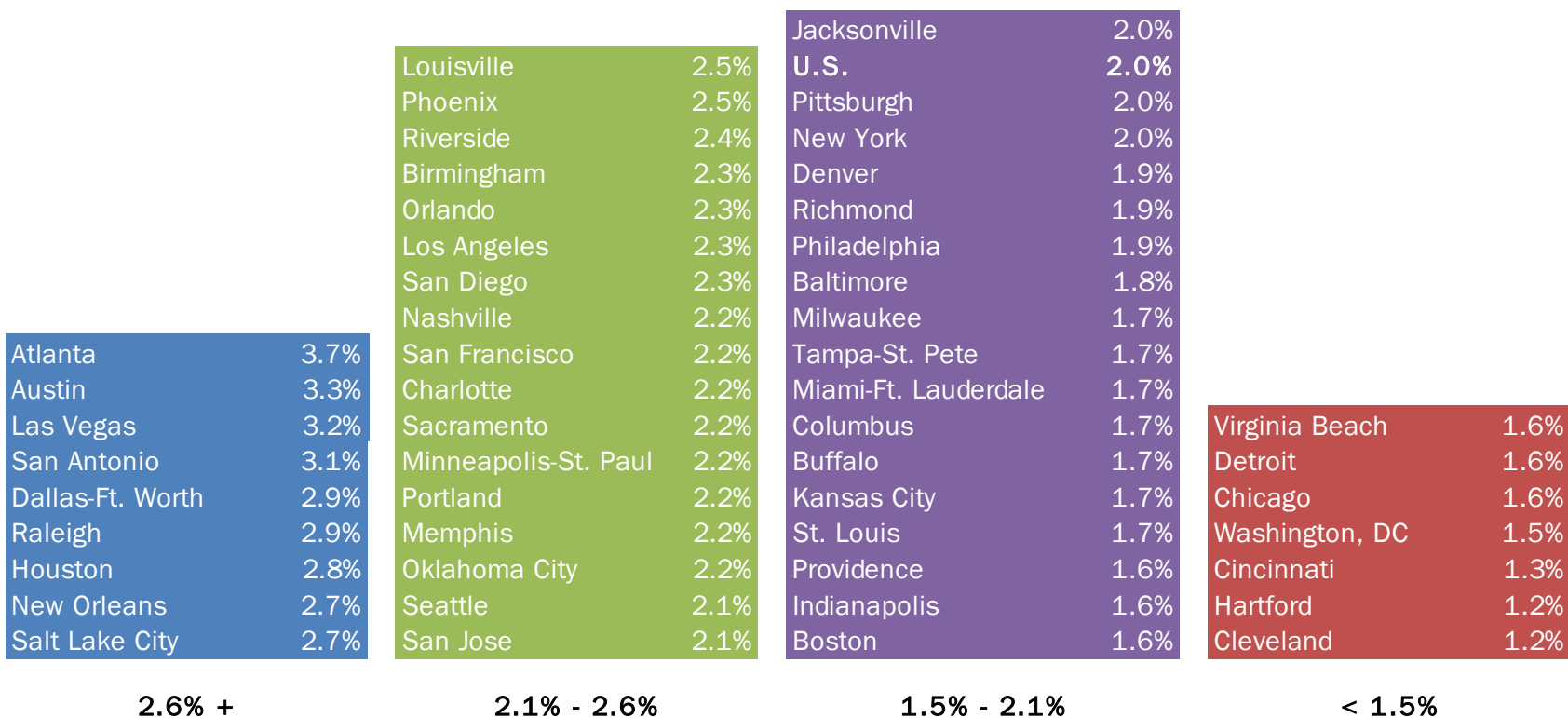
- The U.S. is posting healthy economic numbers now. While that will diminish given weakness in Europe and slowing global growth, we do not expect the U.S. economy to reenter recession, absent a major shock
- While drags remain (housing market, persistently high unemployment, slow wage growth, recession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

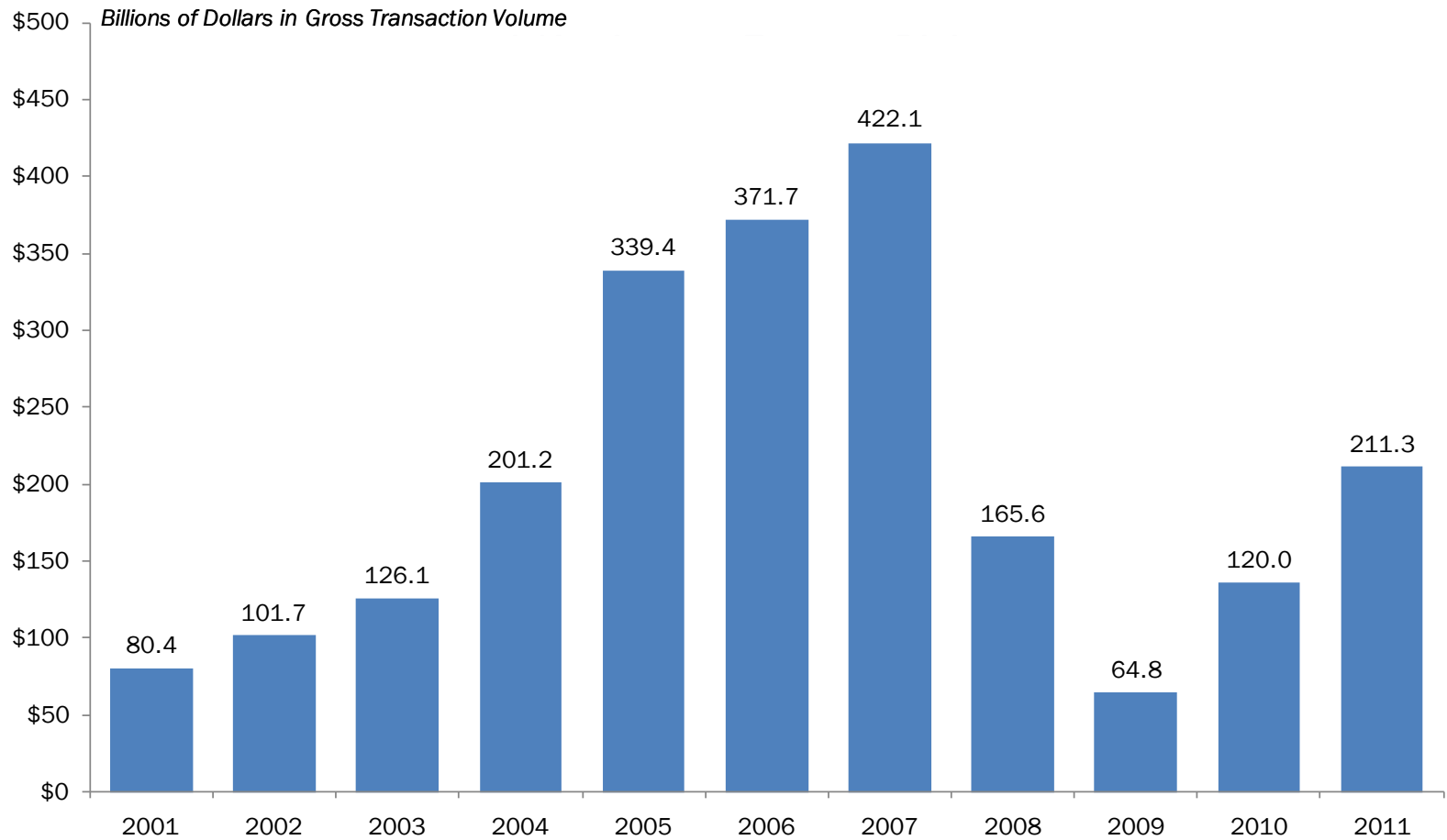
Great Variability in Job Growth by Metro

Job Growth by Metropolitan Area Q4 2011-Q4 2014



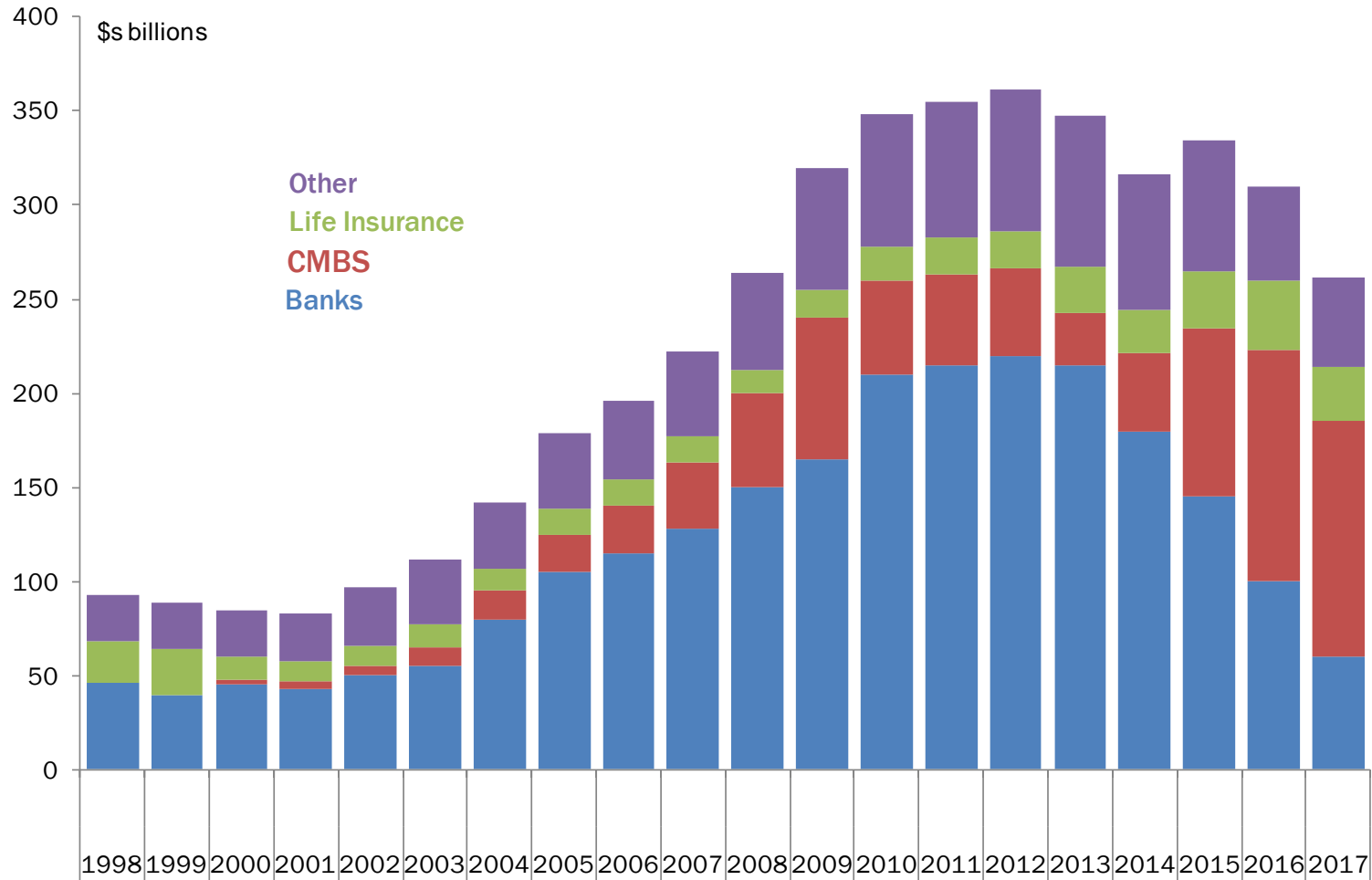
Source: Moody's Economy.com; Heitman Research

Commercial Property Transaction Volume U.S. 2001-2011



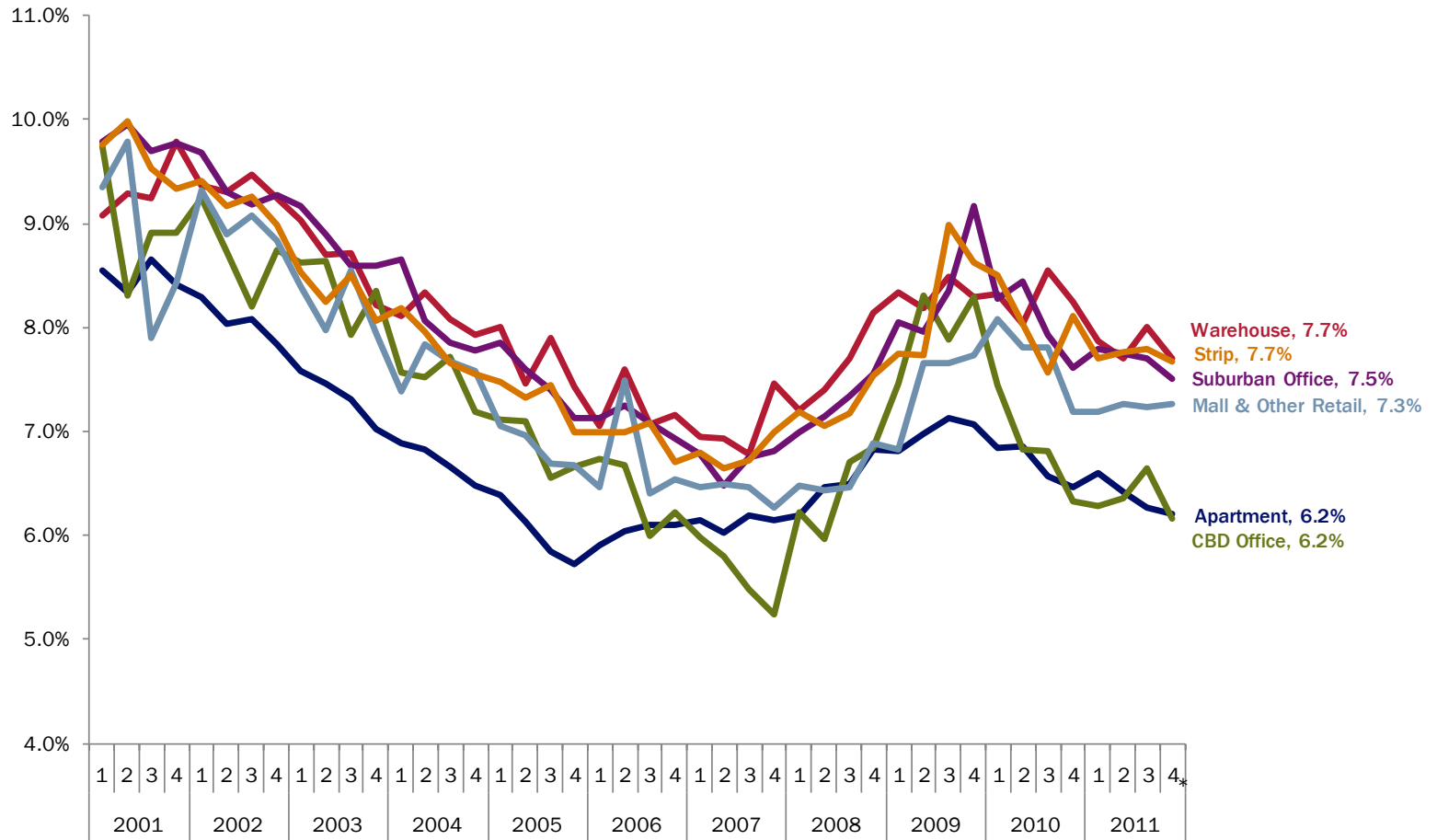
Source: Real Capital Analytics; Heitman Research. These numbers reflect commercial real estate transactions over \$5 million.

Commercial Mortgage Maturities
U.S. 1998-2017



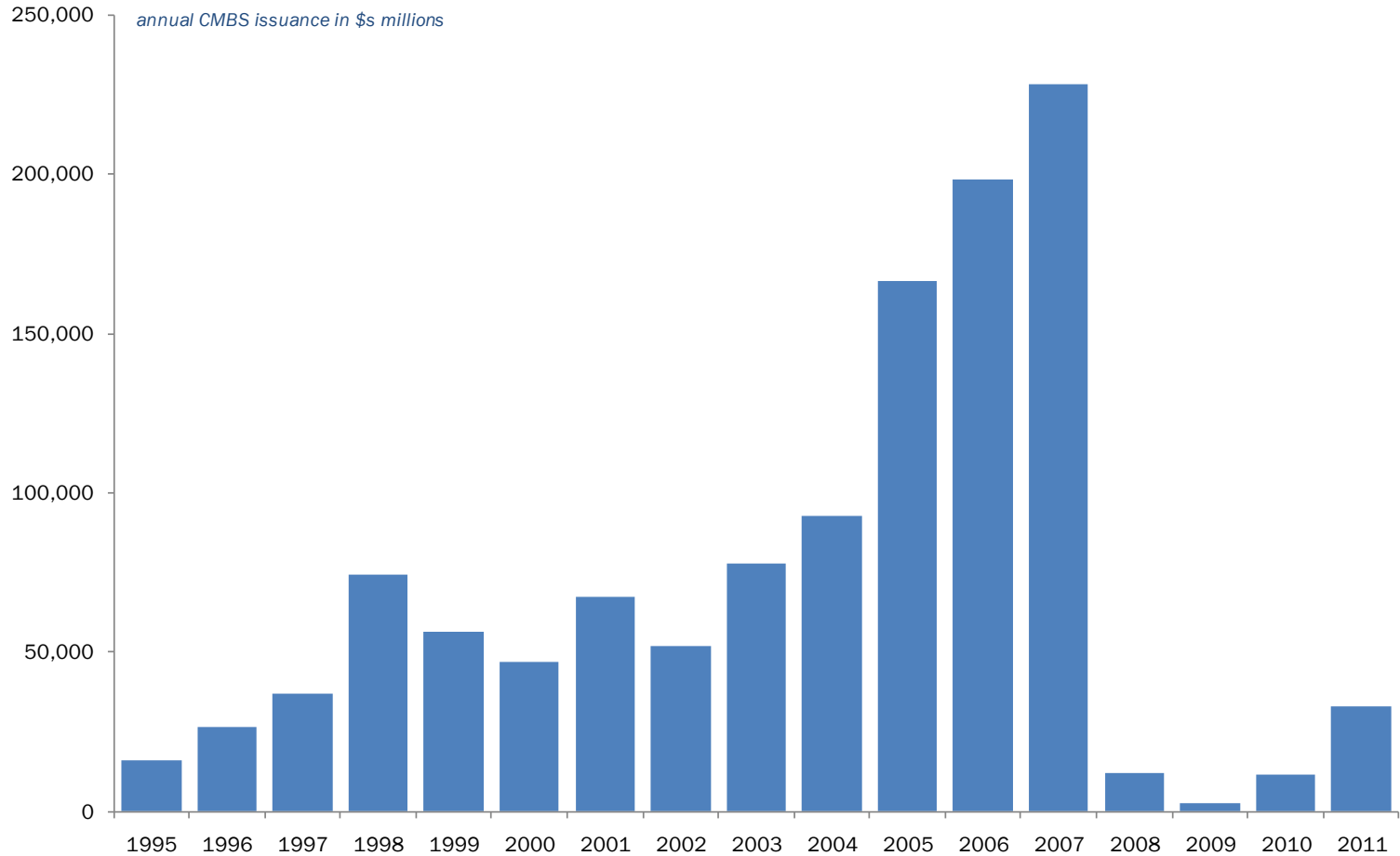
Source: Foresight Analytics, Heitman Research

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



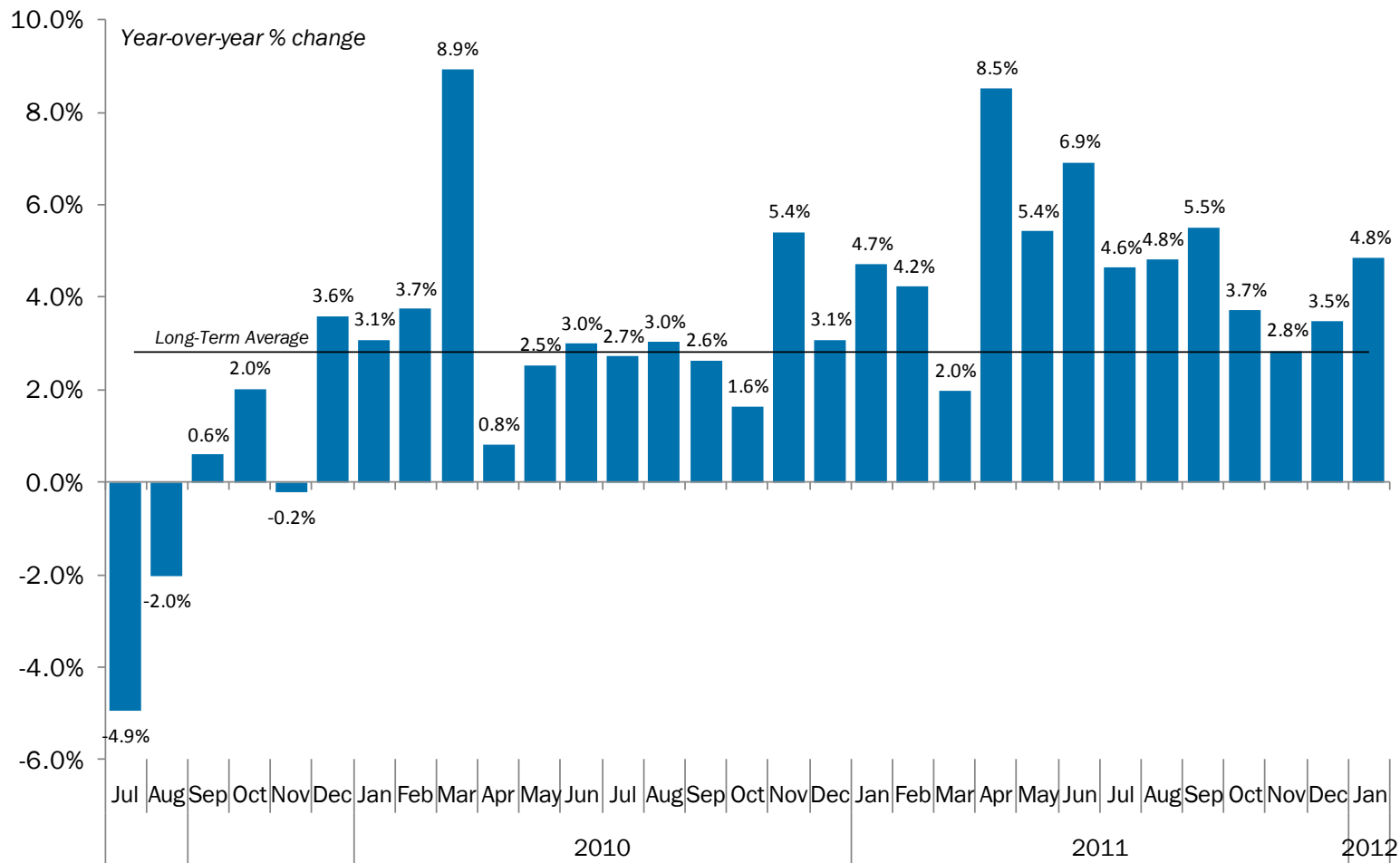
Source: Real Capital Analytics; Heitman Research
*Q4 2011 data through November 2011

CMBS Issuance U.S. 1995-2011



Source: Commercial Mortgage Alert; Heitman Research

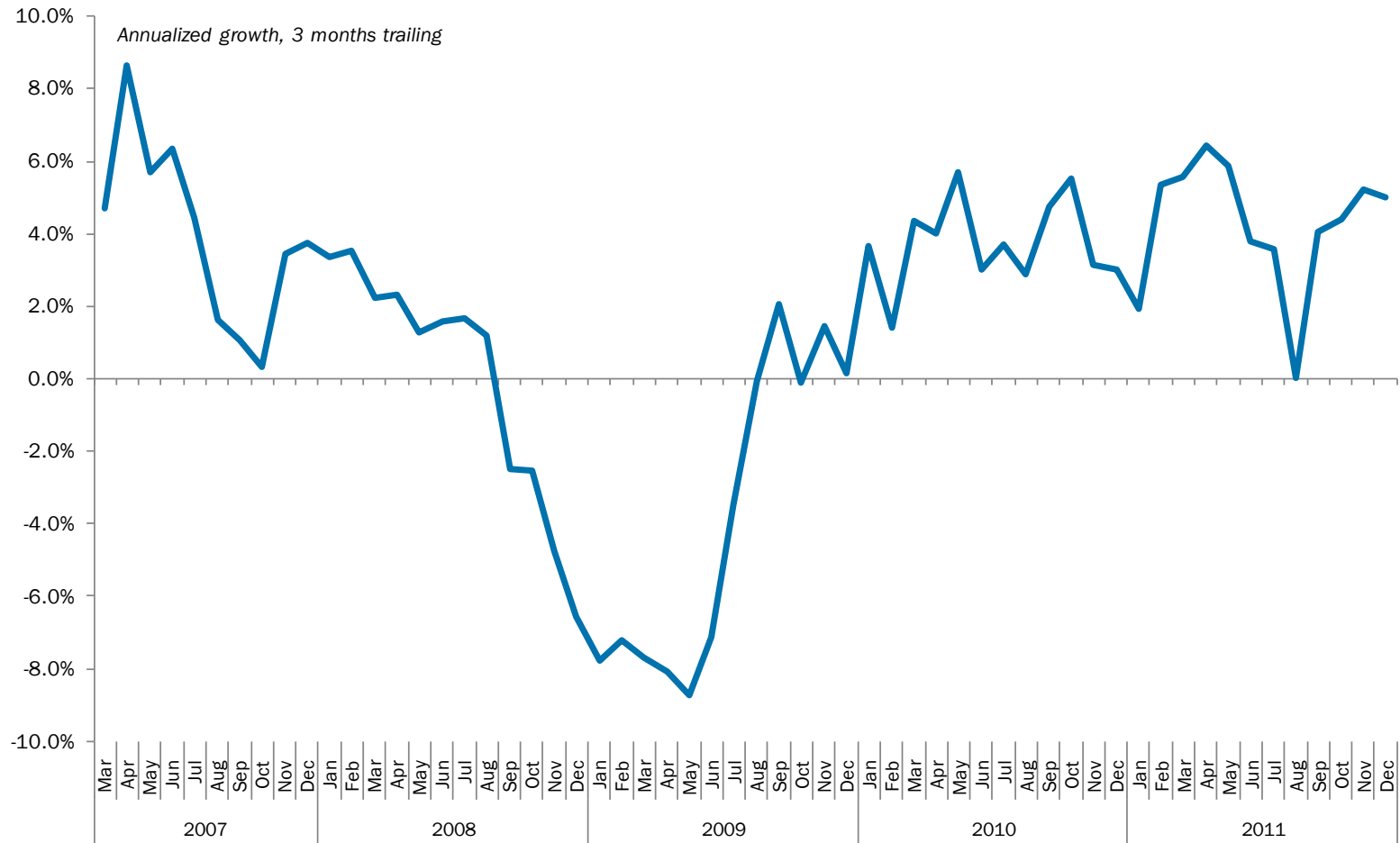
ICSC Same-Store Sales Trends U.S. 2009-2012 (January)



Source: ICSC; Heitman Research

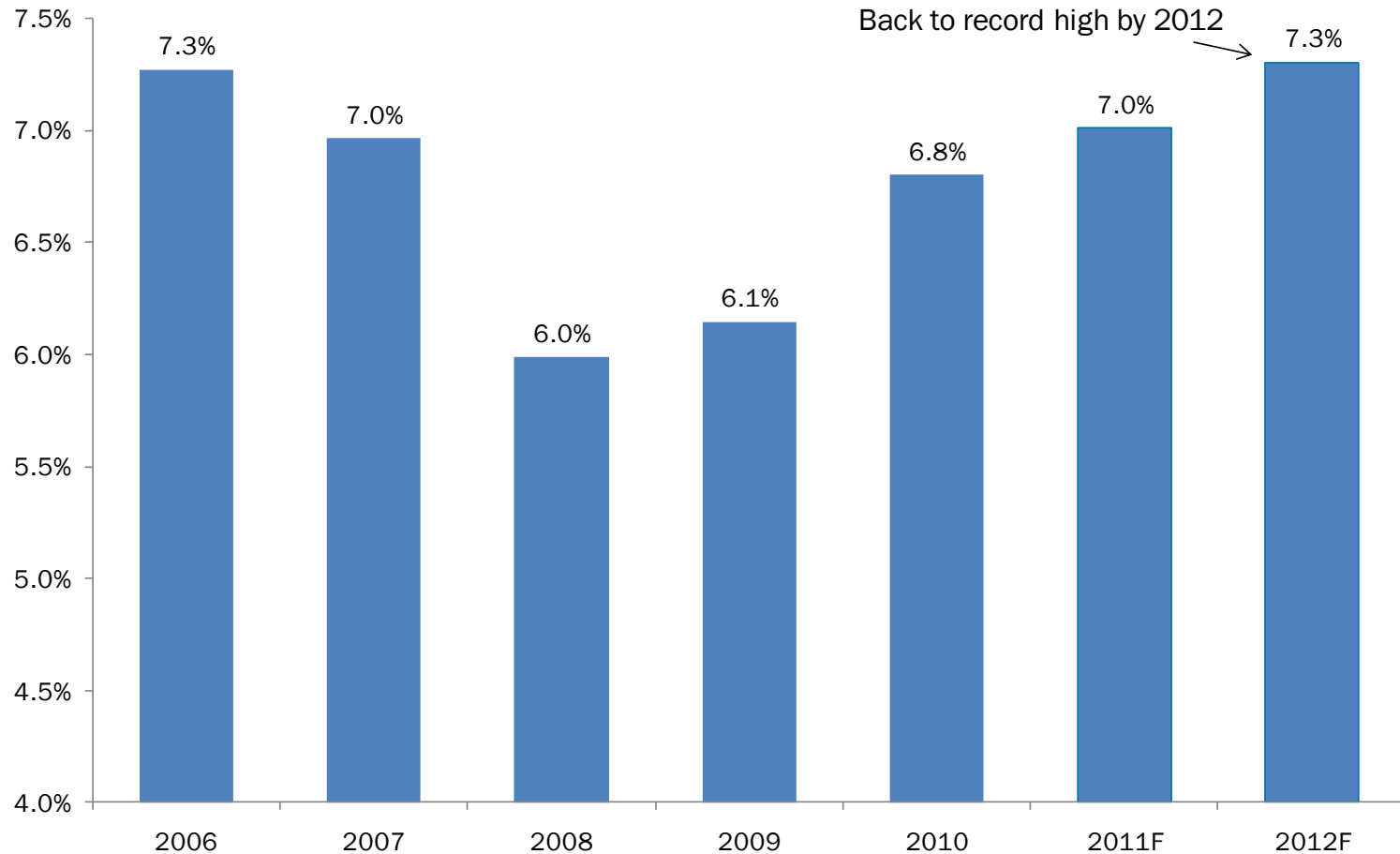
Continued Growth in Wages Needed to Sustain Retail Sales

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



Source: BLS; Heitman Research

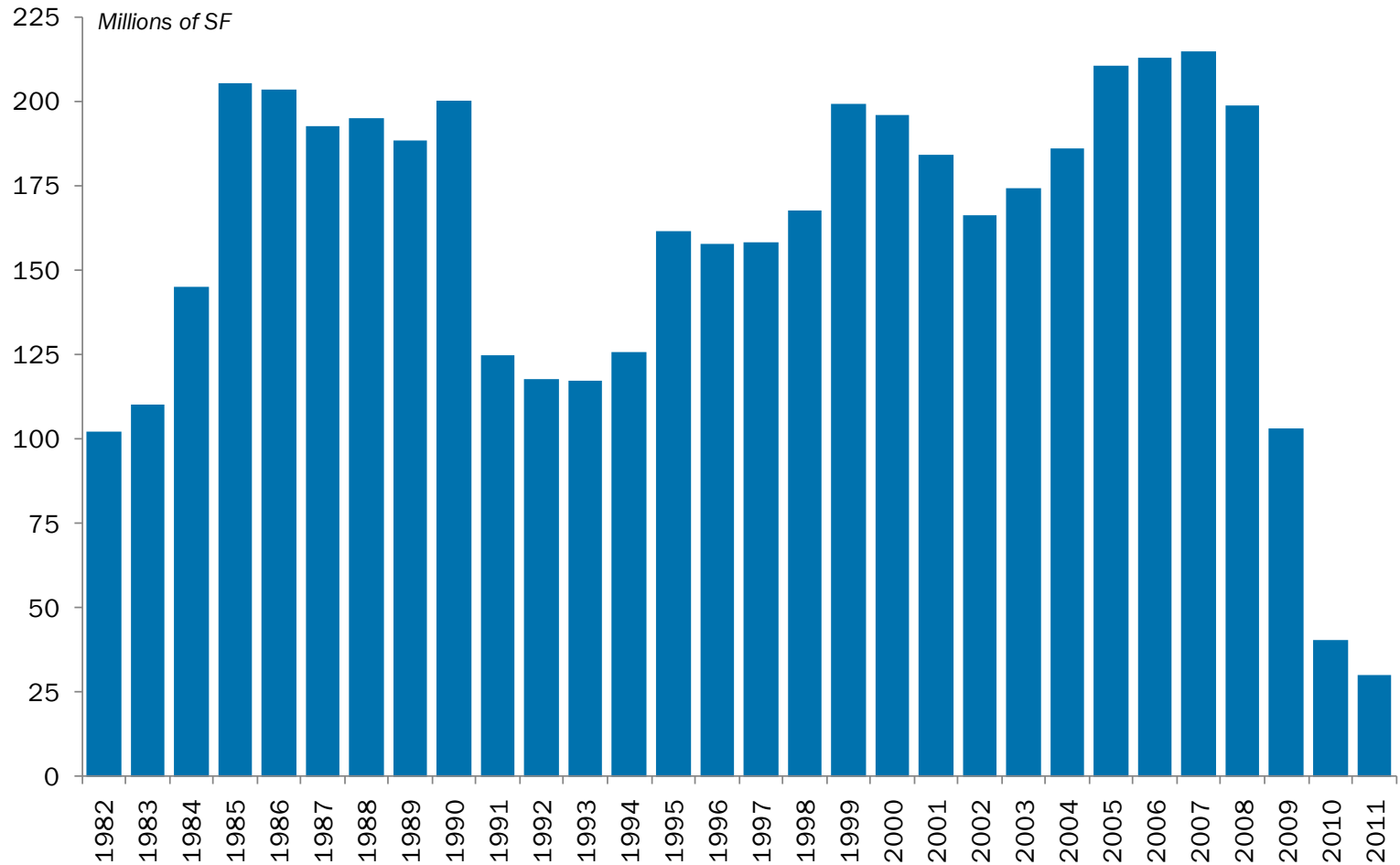
Operating Margins – Major Publicly Traded Retailers U.S. 2006-2012



Source: TAG Reserach; Heitman Research

Retail Deliveries

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

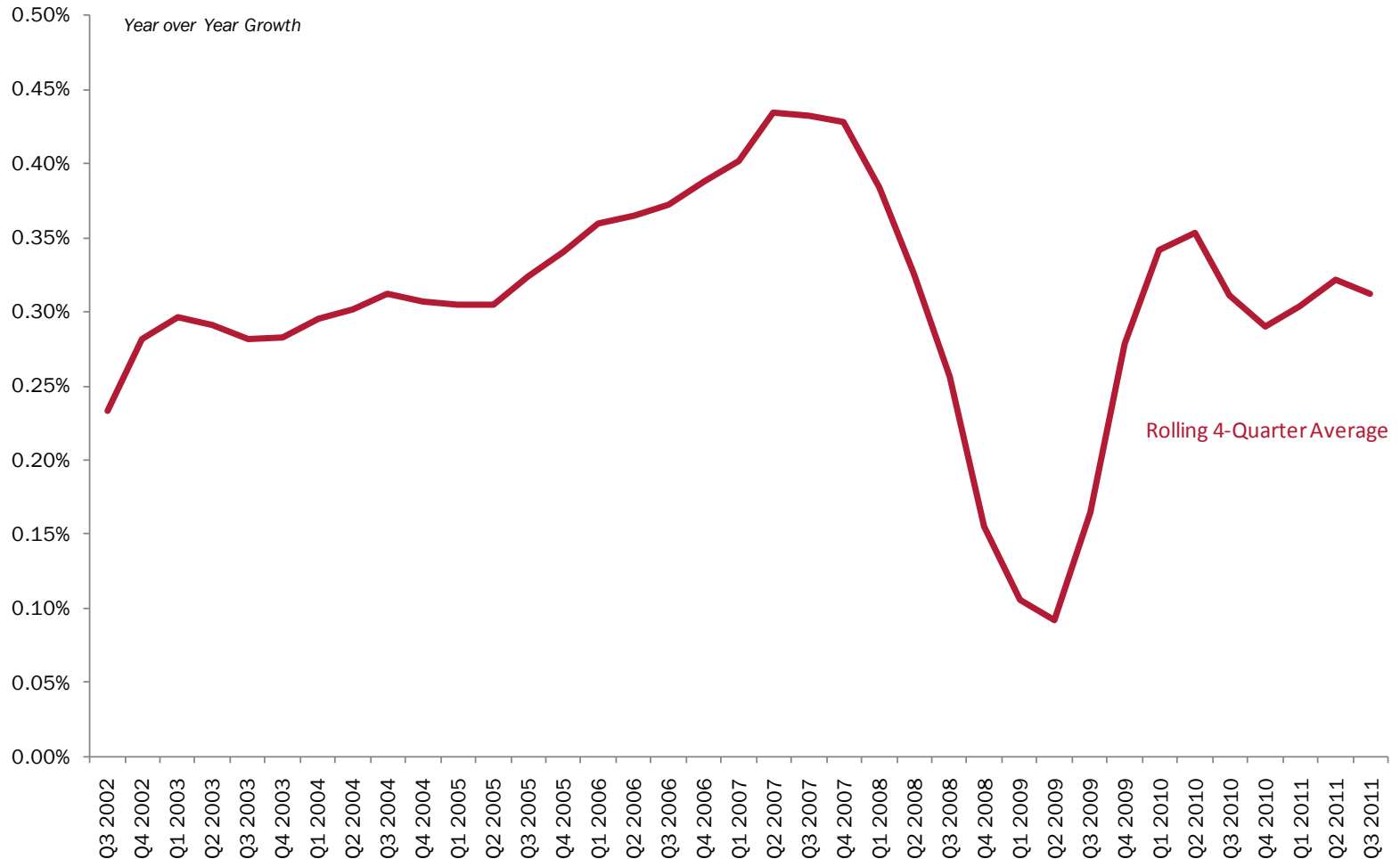


Source: CoStar; Heitman Research

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

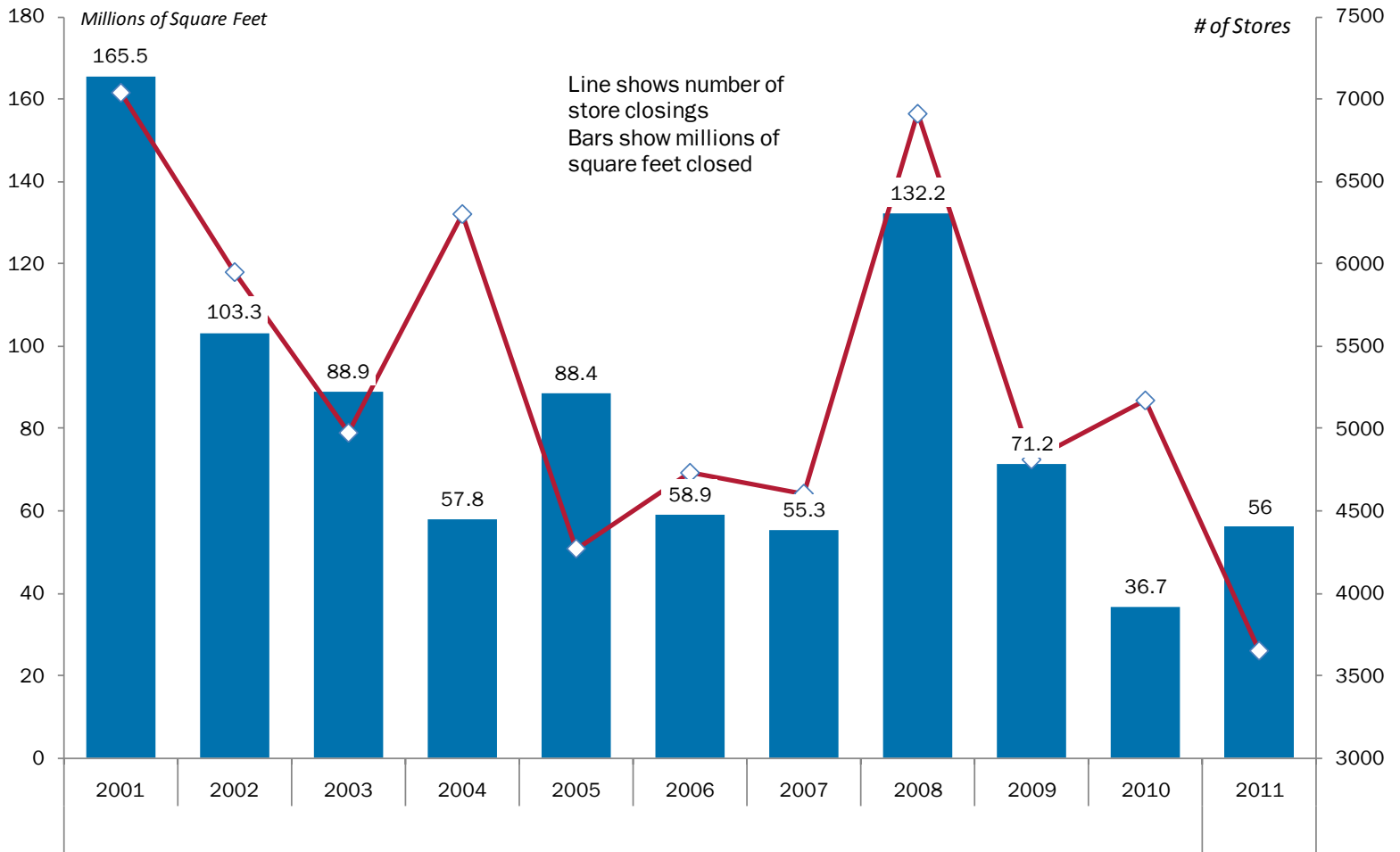
Retail

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



Source: U.S Census Bureau; Heitman Research

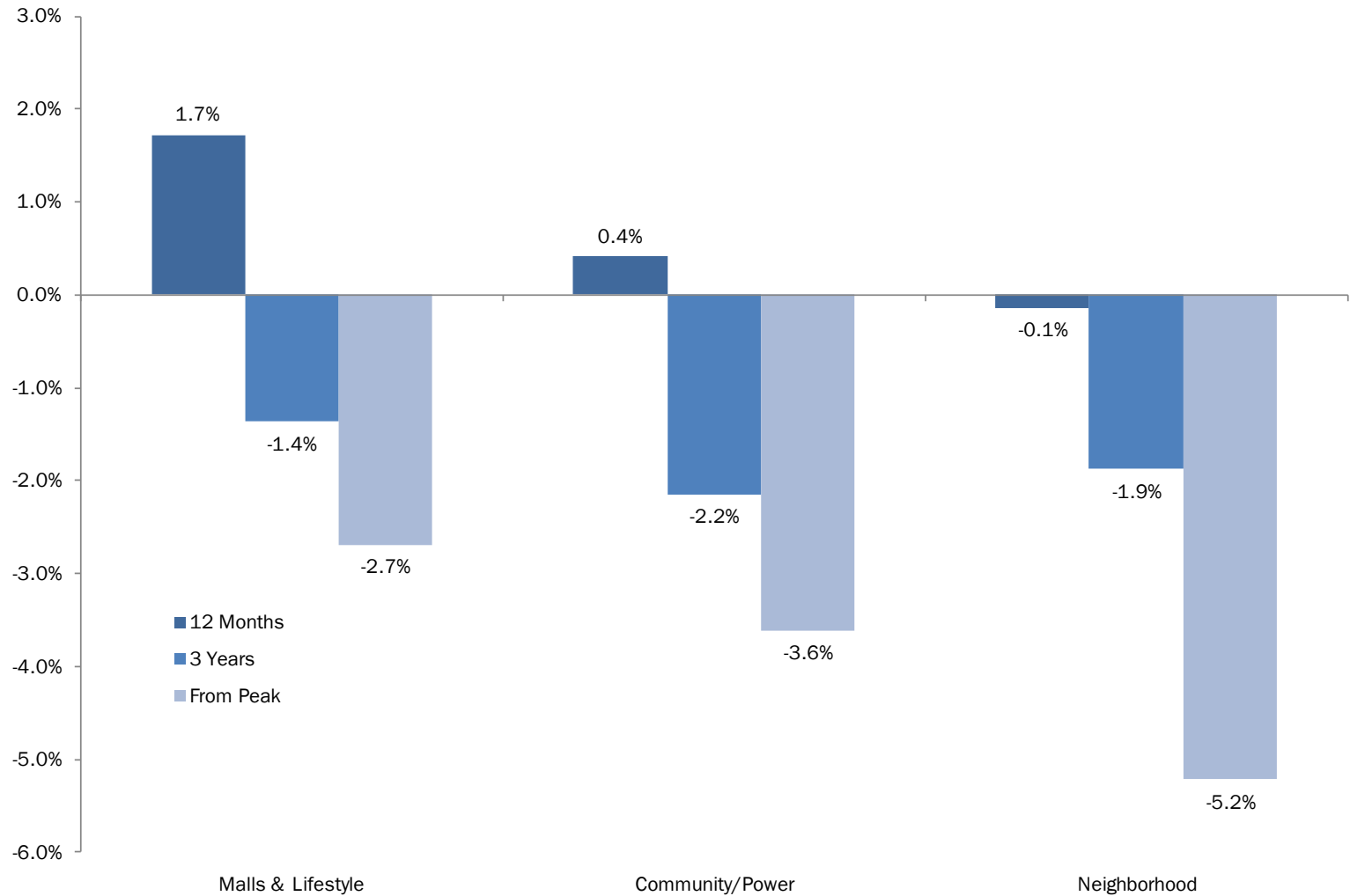
Store Closing Announcements (GAFO Categories) U.S. 2001-2011



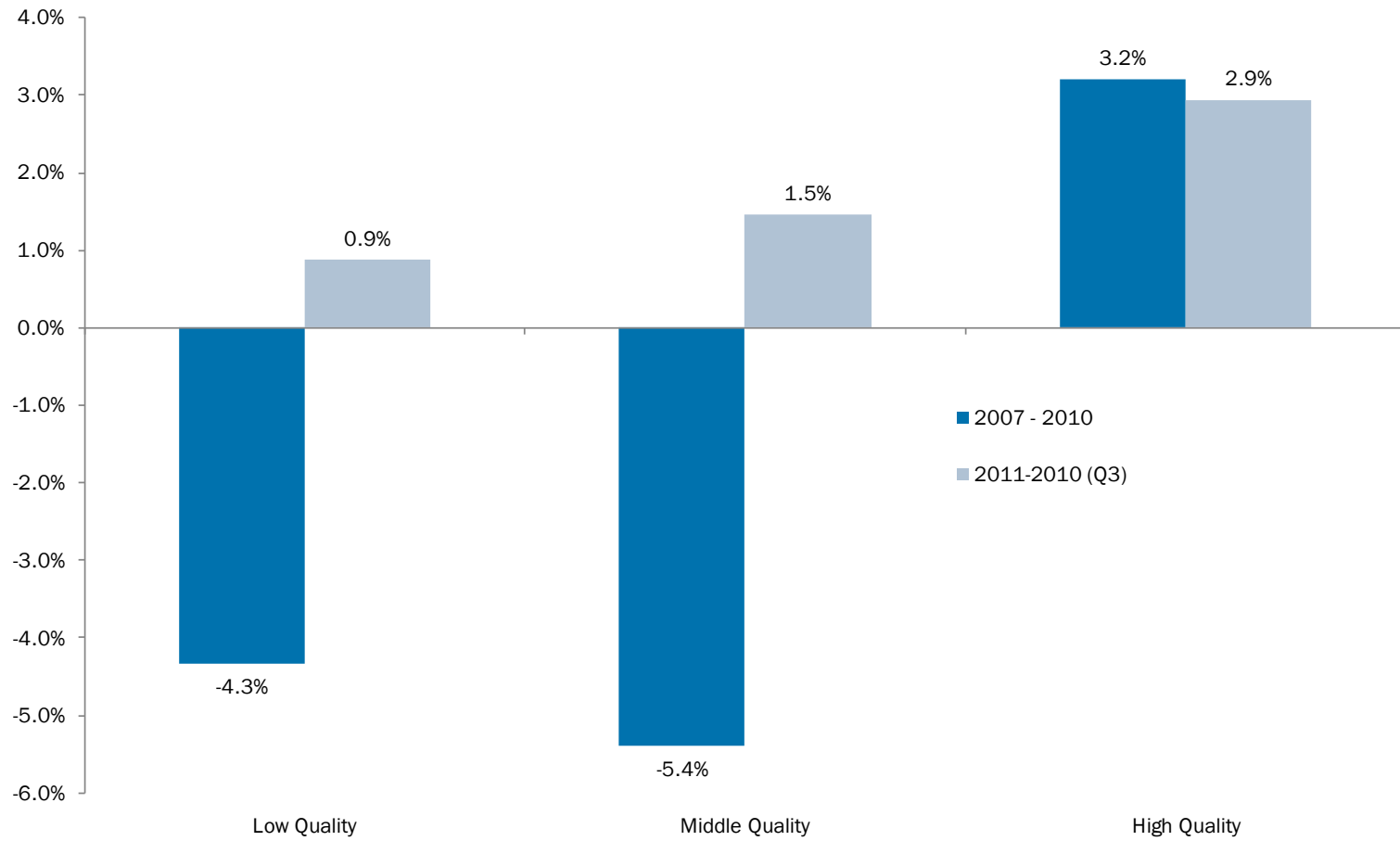
Source: ICSC/PNC Bank; Heitman Research

Performance Trends Vary Significantly by Subtype

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

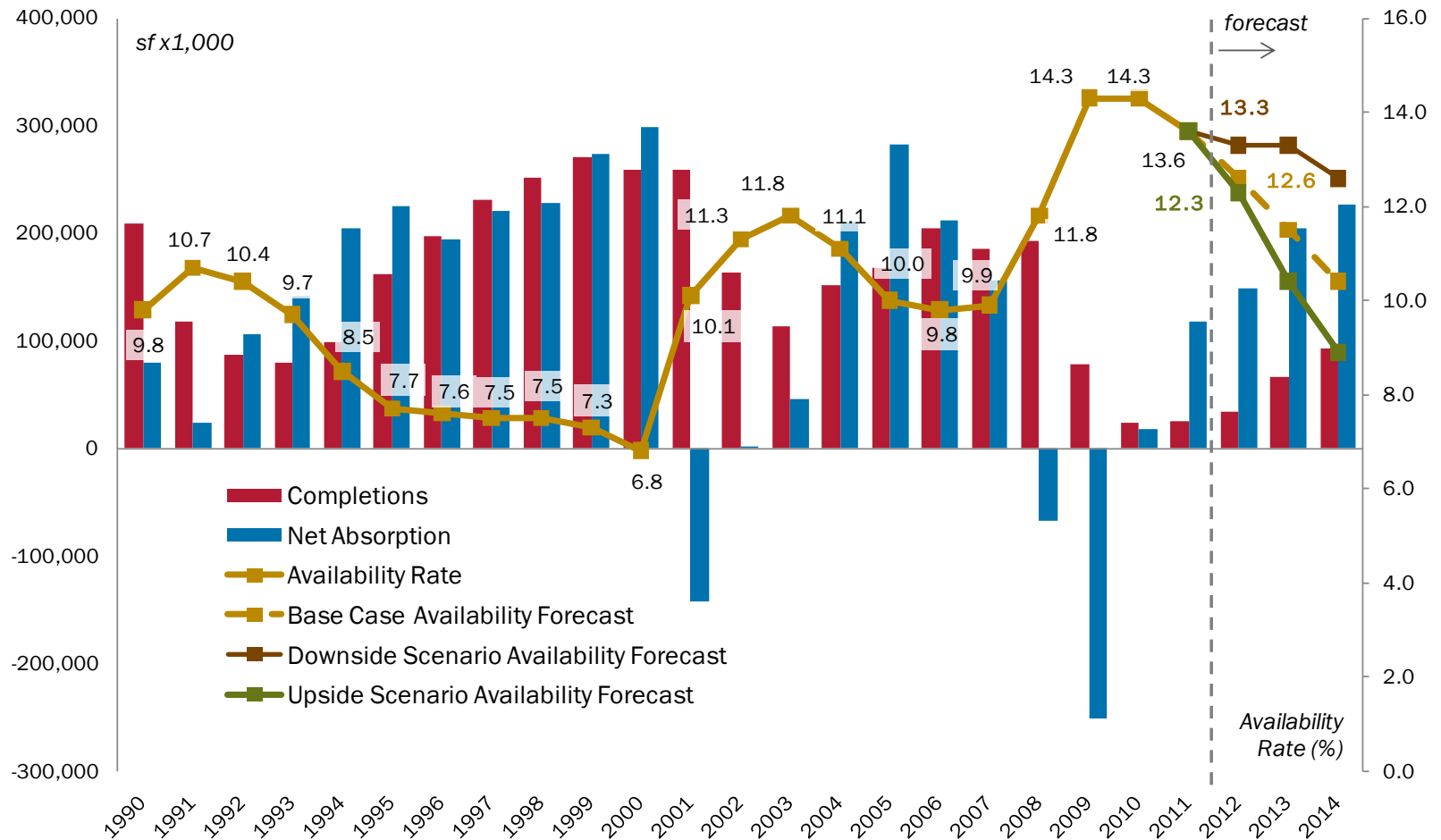


% Change in NOI
Mall REITs by Quality Level 2007 - 2011 (Q3)



Source: Company Reports; Heitman Research

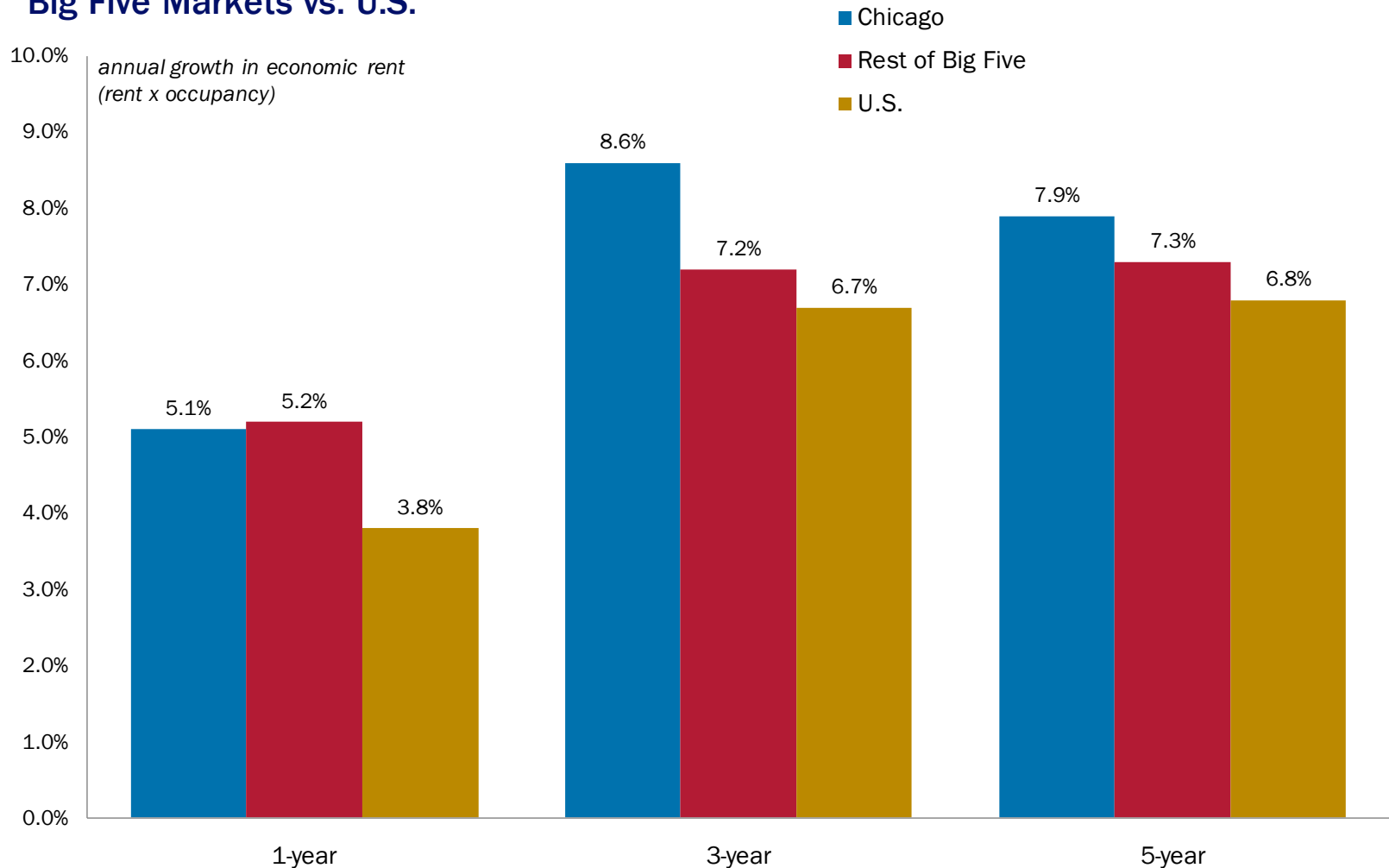
Industrial Completions, Net Absorption, and Availability U.S. 1990-2014 Years Ending Q4



Source: CBRE Econometric Advisors; Heitman Research

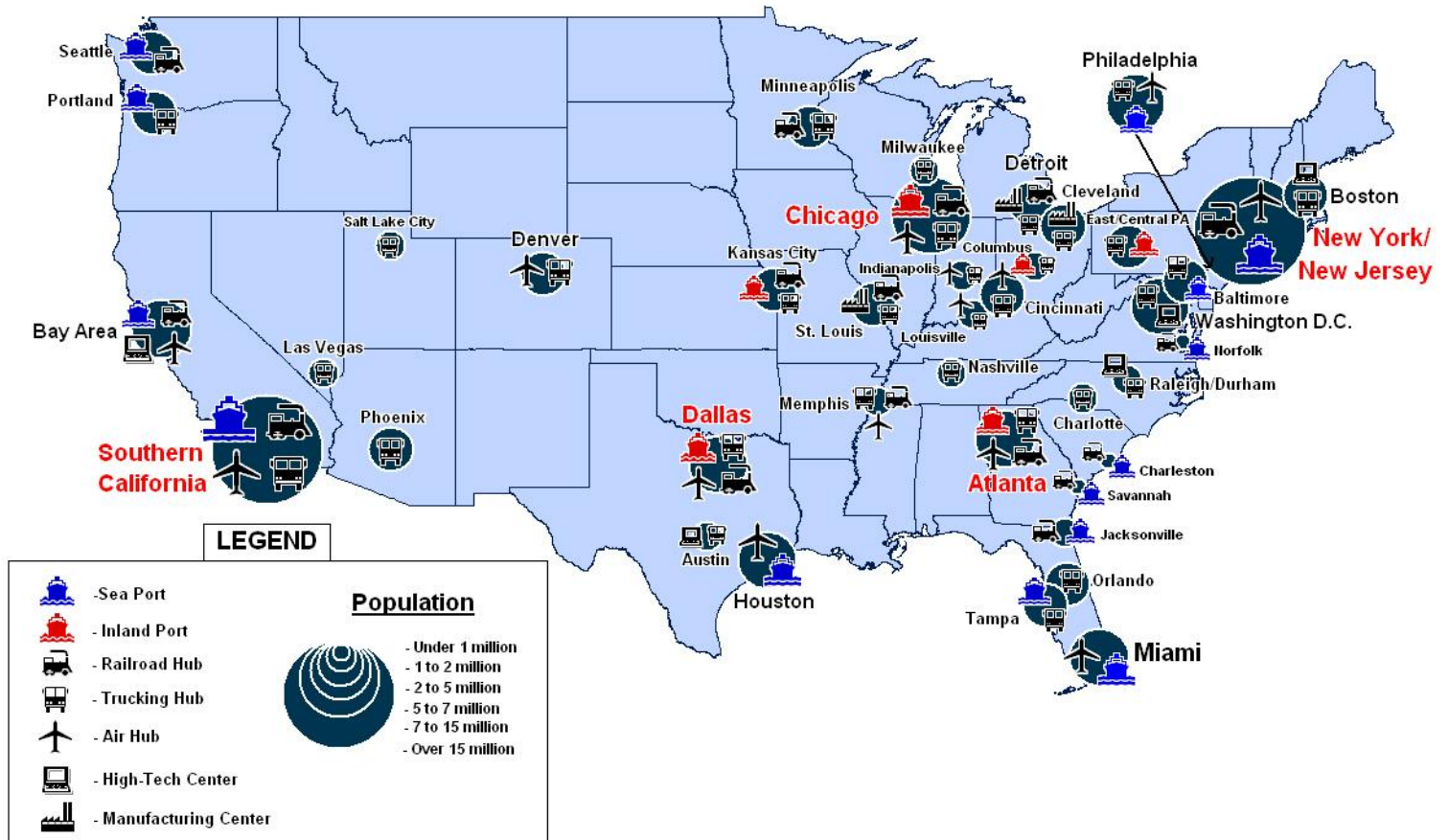
Diversified Industrial Centers Expected to See Good Recovery

Economic Rent Growth Forecasts Big Five Markets vs. U.S.



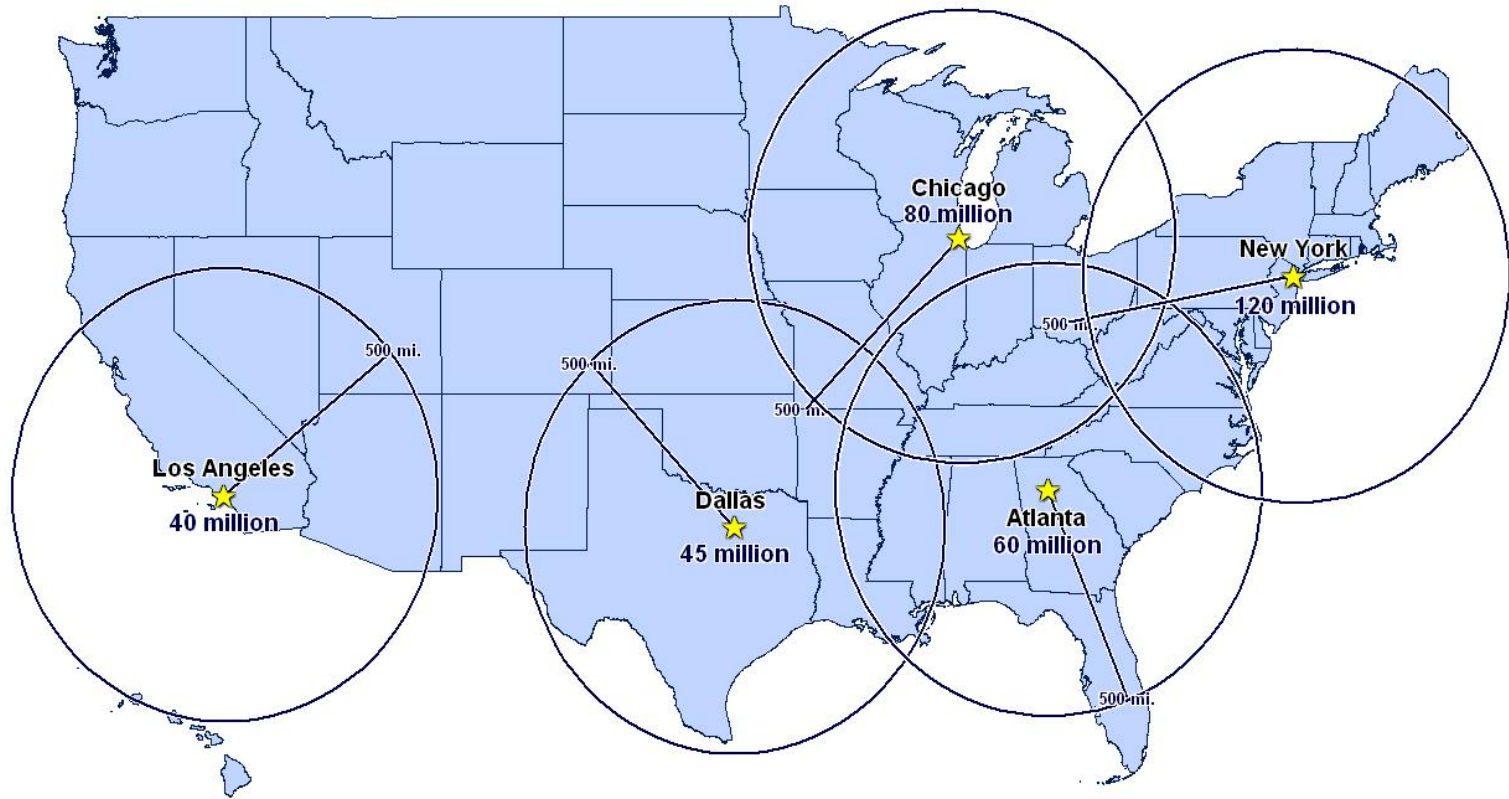
Source: CBRE Econometric Advisors; Heitman Research

US Industrial Markets



Warehouse Tenants Focused on Access to Population

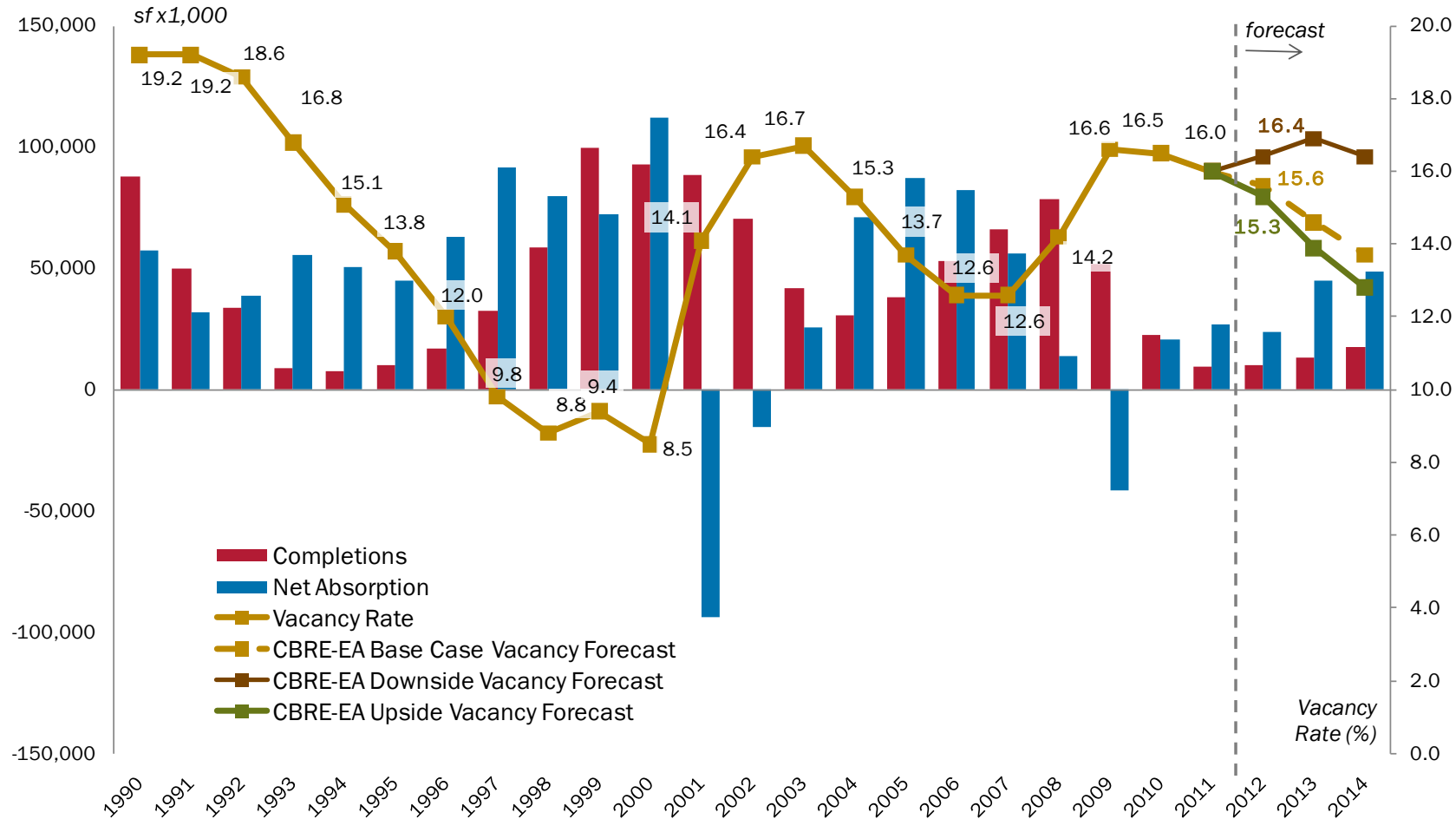
Access to U.S. Population Within One-Day Drive Time



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

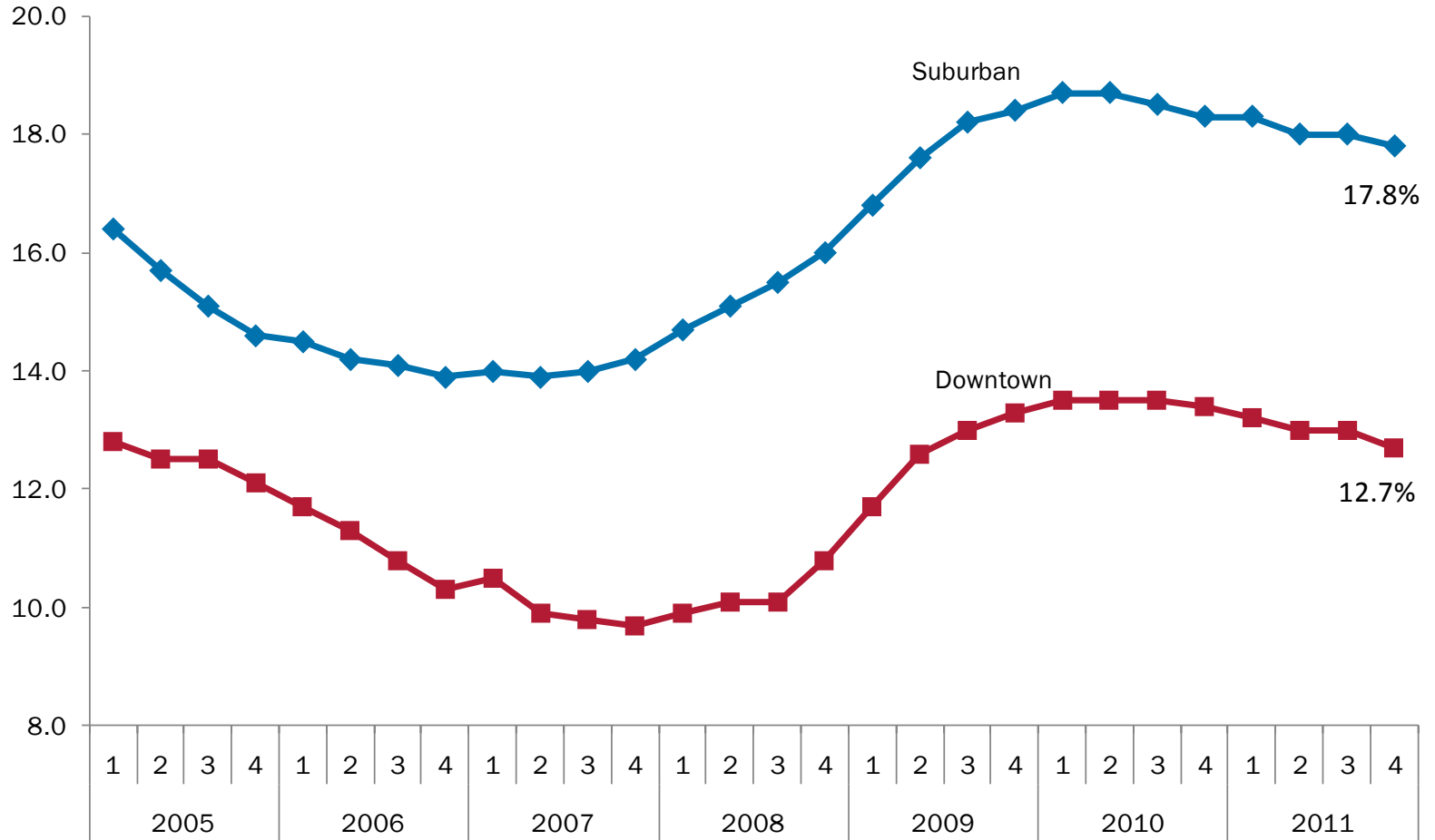


Source: CBRE Econometric Advisors; Heitman Research

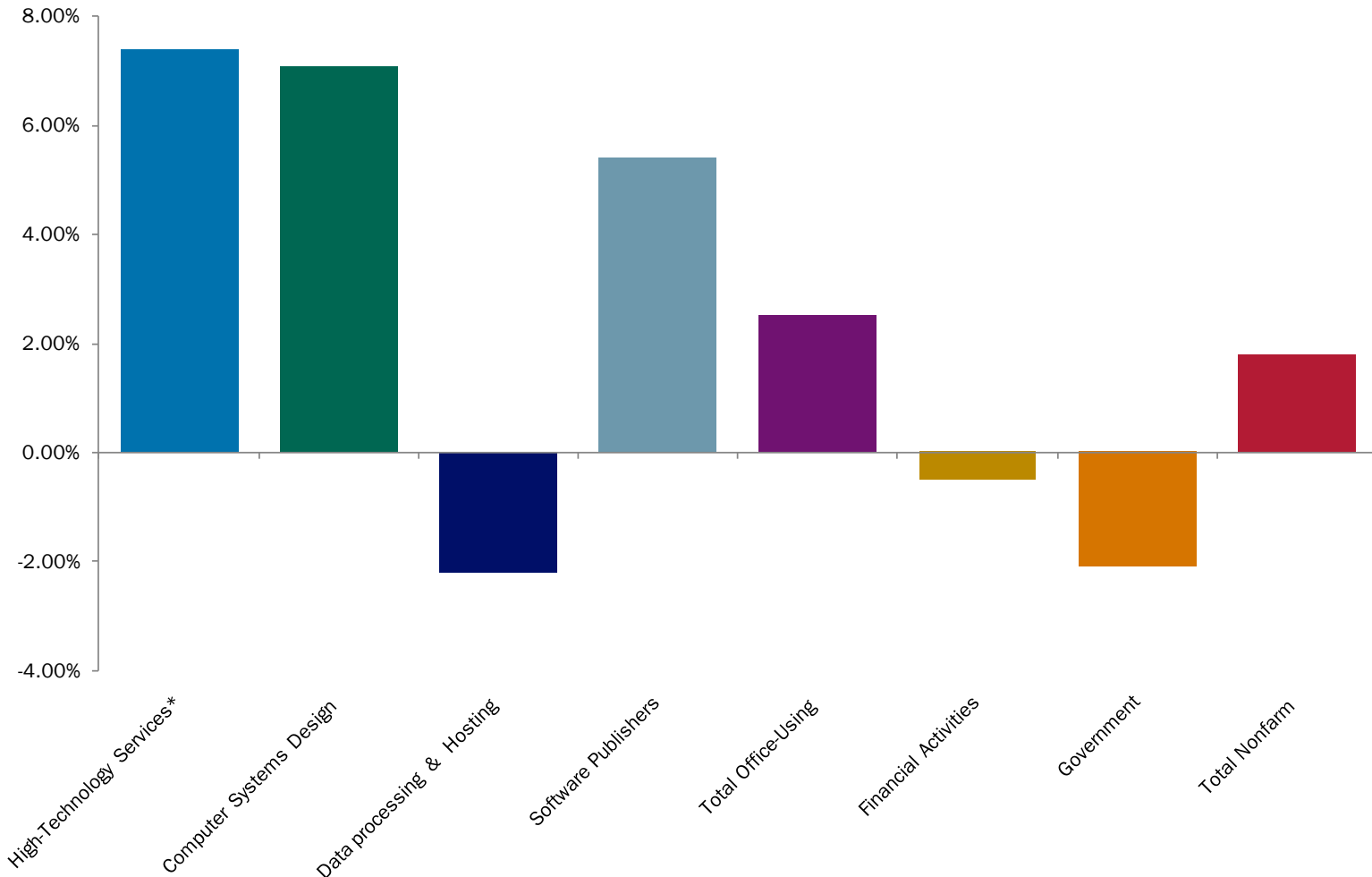
Downtown Office Markets in Better Shape Than Suburban

Office

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



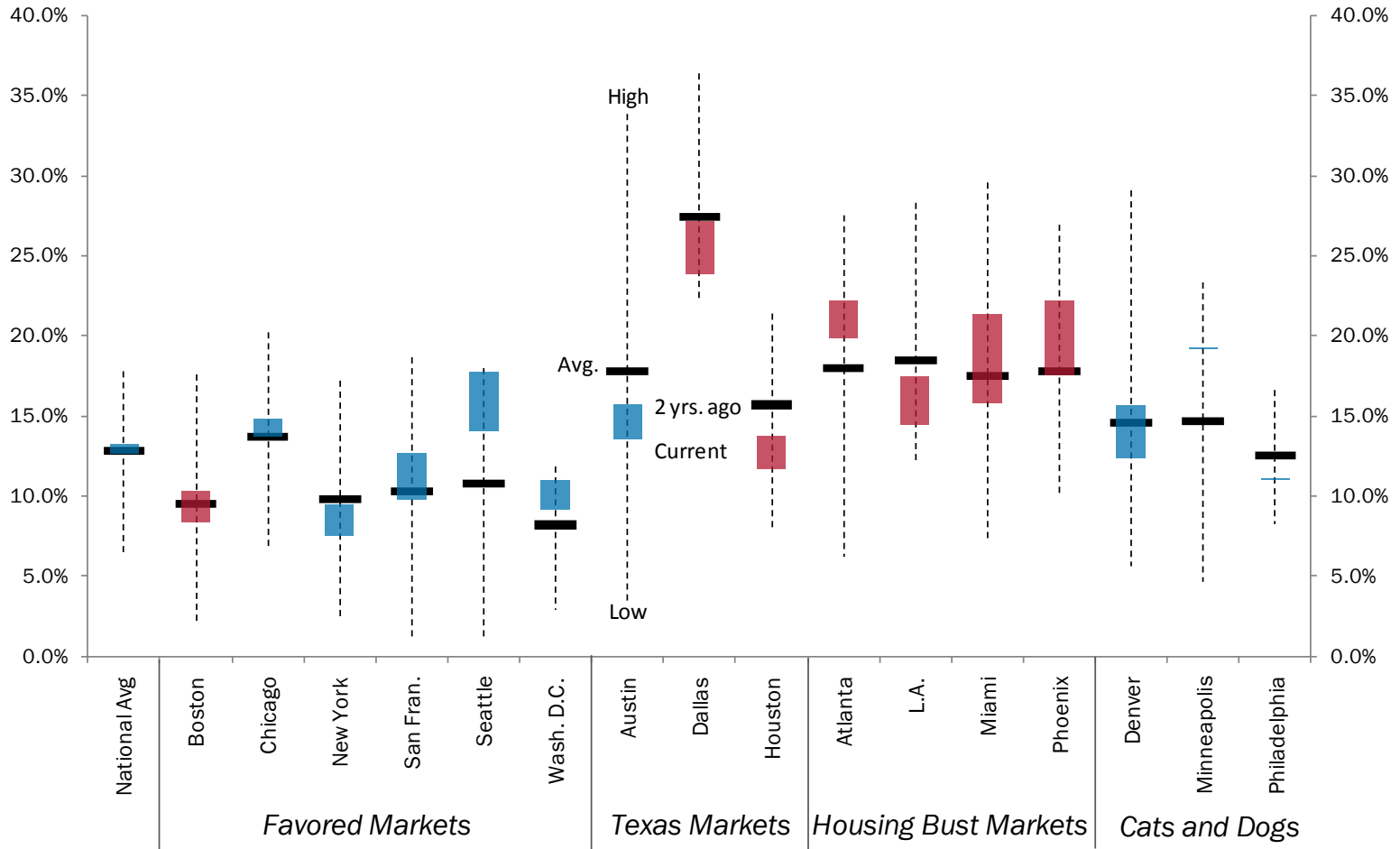
Source: CBRE Econometric Advisors; Heitman Research

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

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

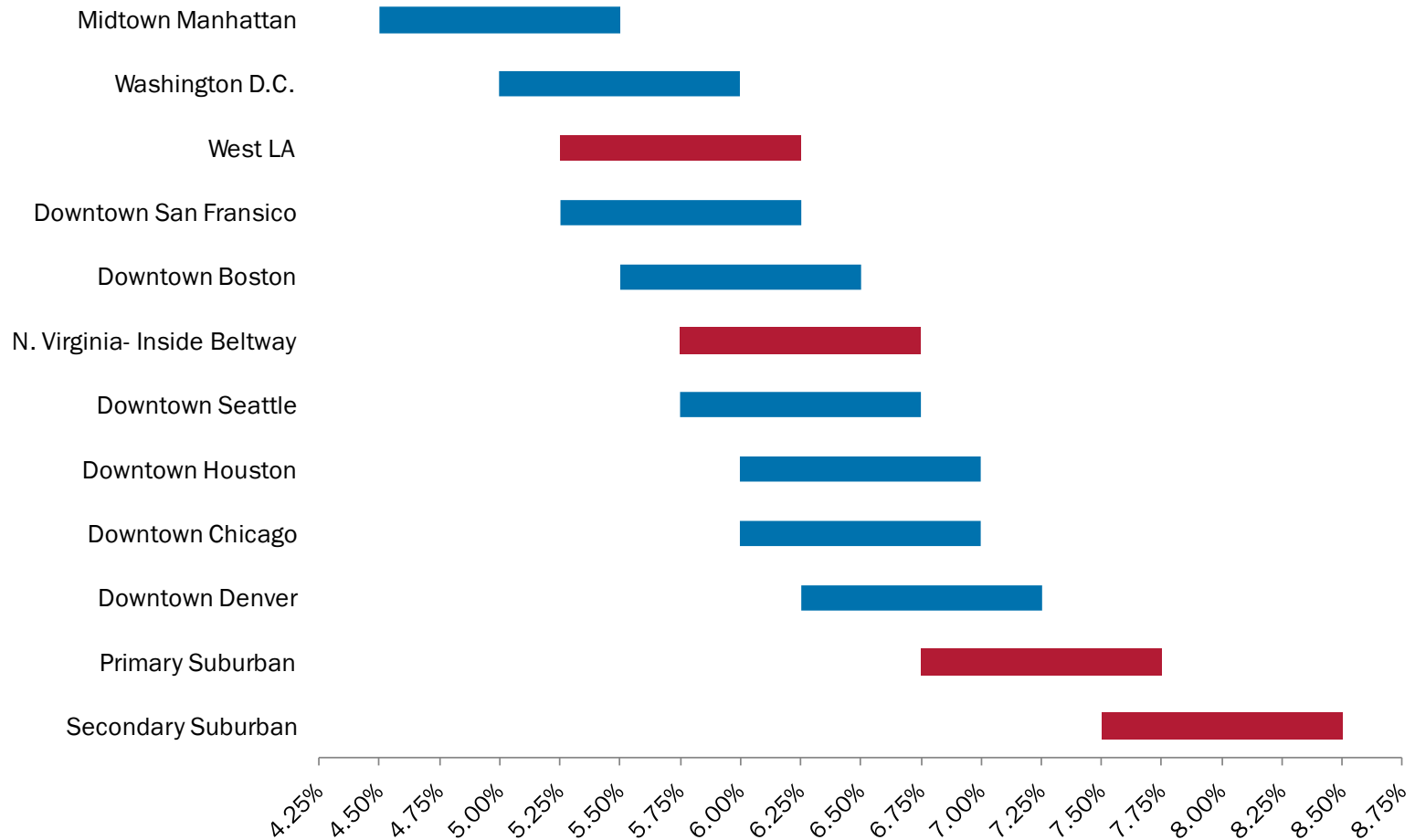
Conditions Vary Considerably By Market

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



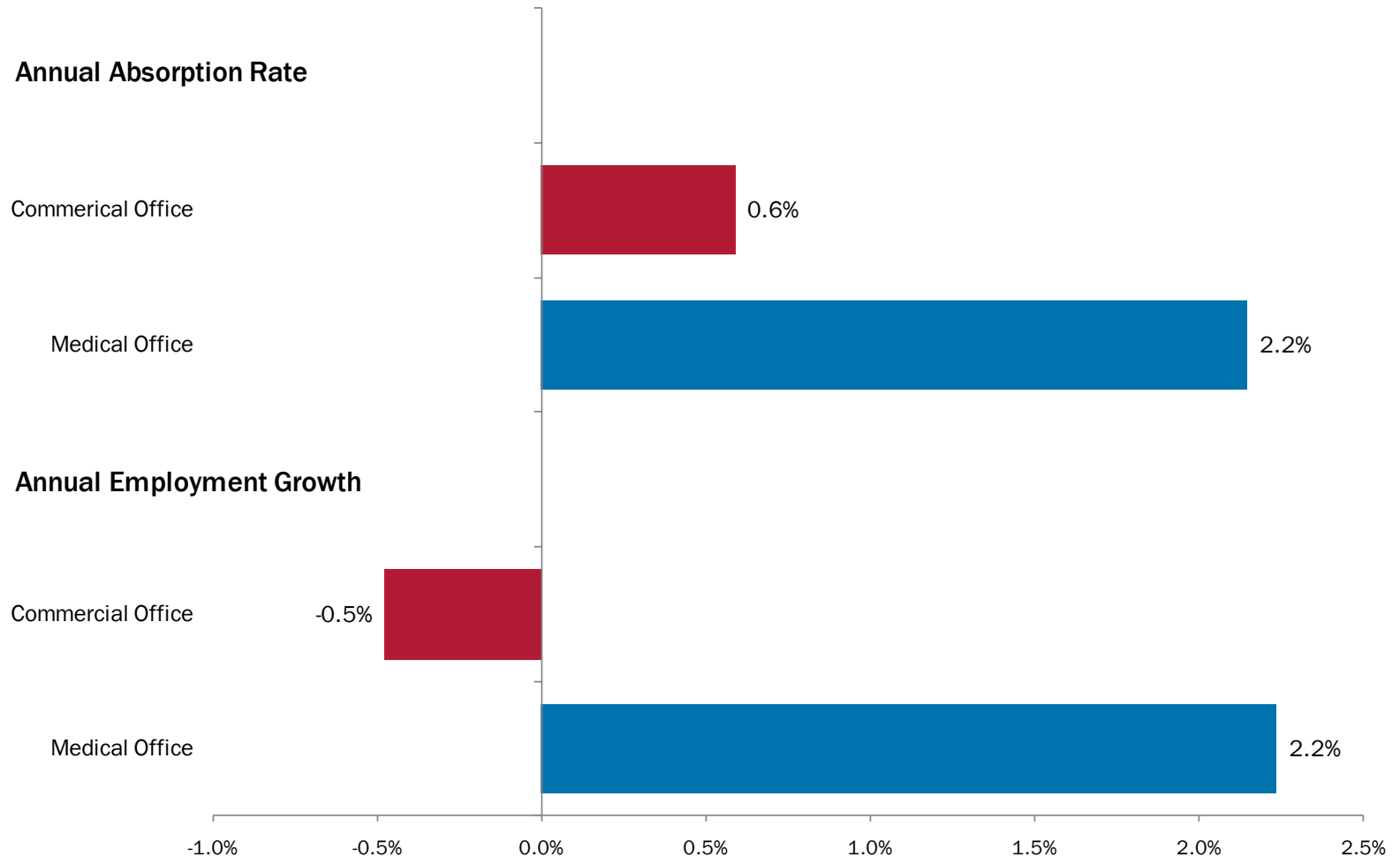
Source: CBRE Econometric Advisors, Heitman Research

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



Source: Heitman Research

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



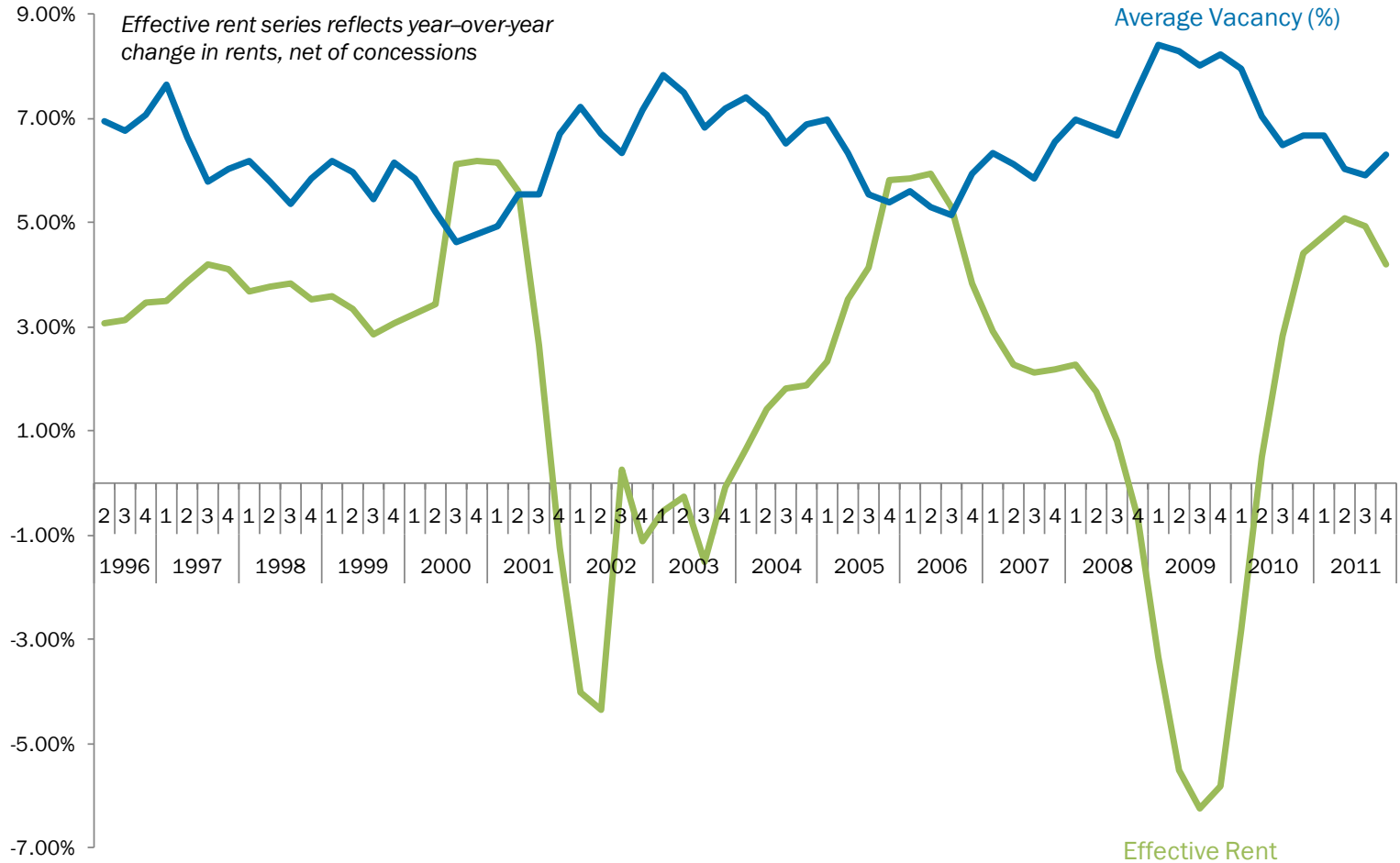
Source: CoStar; Moody's Economy.com; U.S. Bureau of Labor Statistics; Heitman Research

Apartment Fundamentals

Apartment

Weakened in Q4 on Seasonal Factors

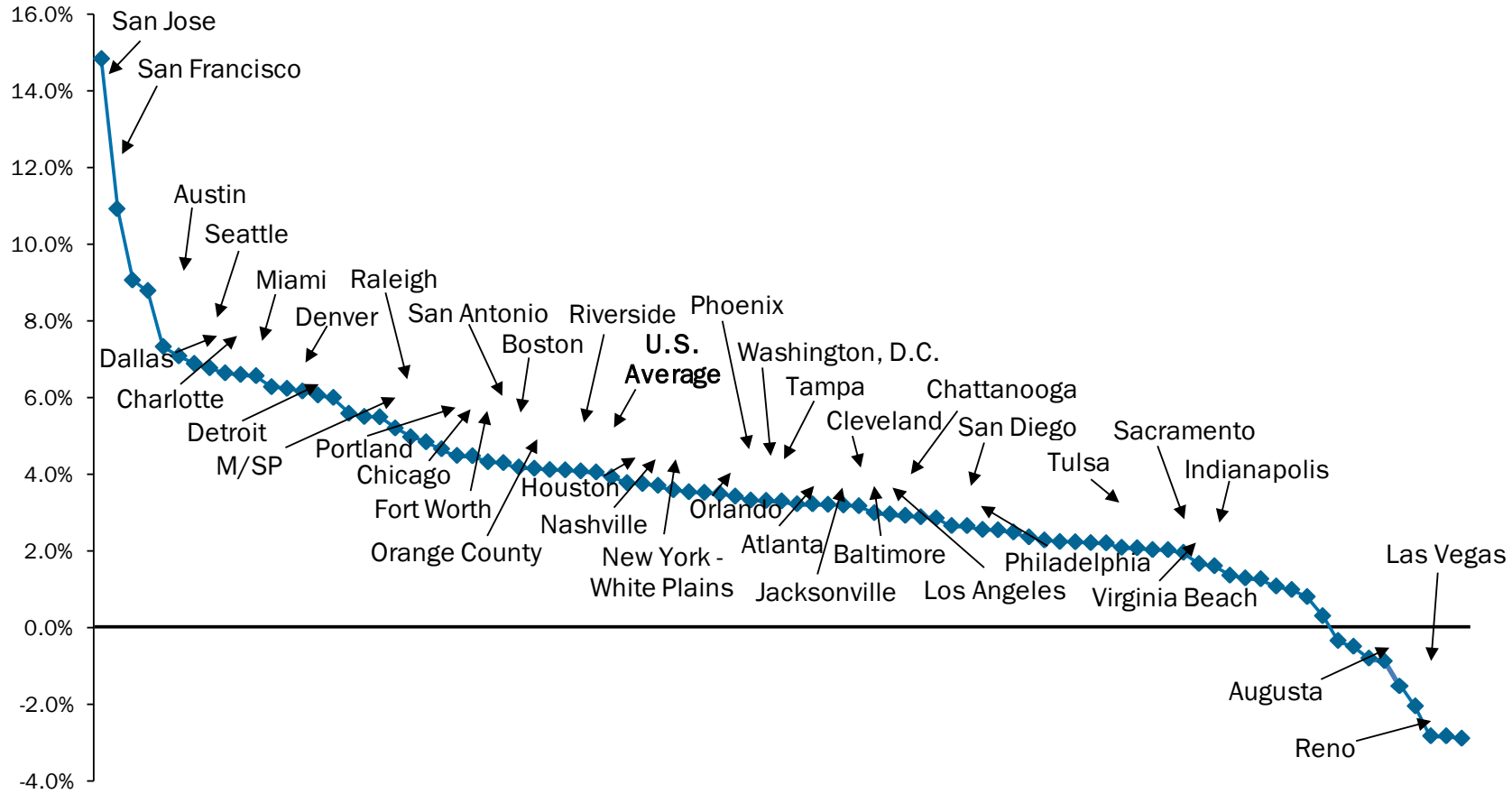
Apartment Effective Rent vs Vacancy U.S. 1996-2011 Q4



Source: Axiometrics; Heitman Research

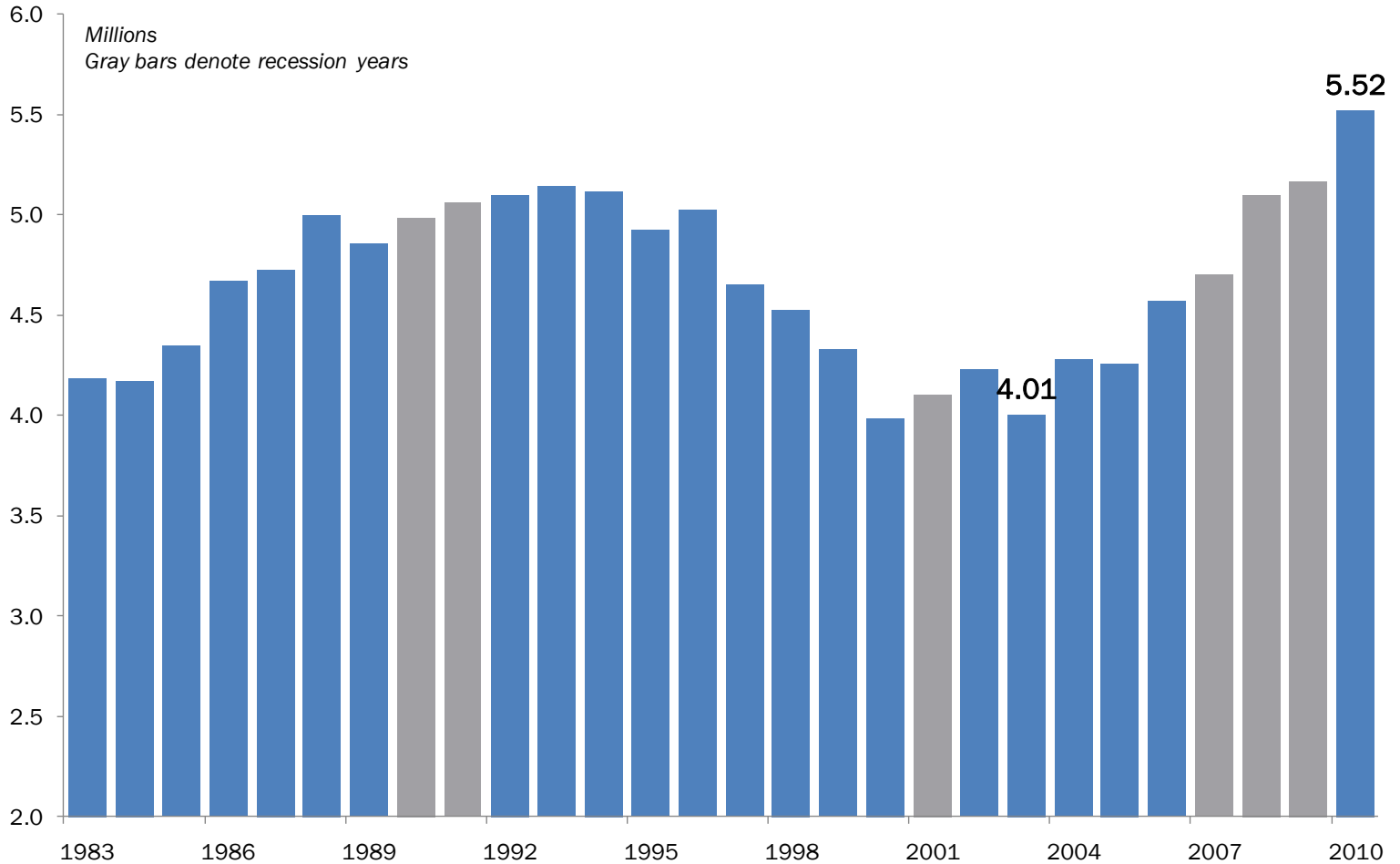
Effective Rent Growth

Selected U.S. Metropolitan Areas November 2010-November 2011



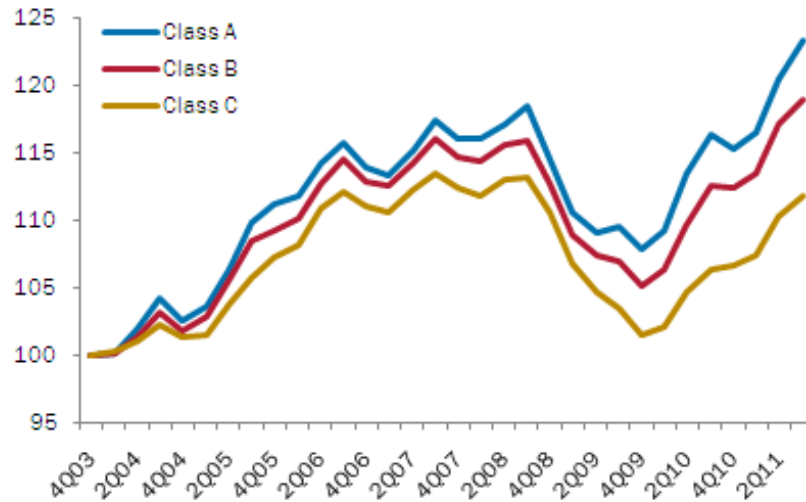
Source: Axiometrics; Heitman Research

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

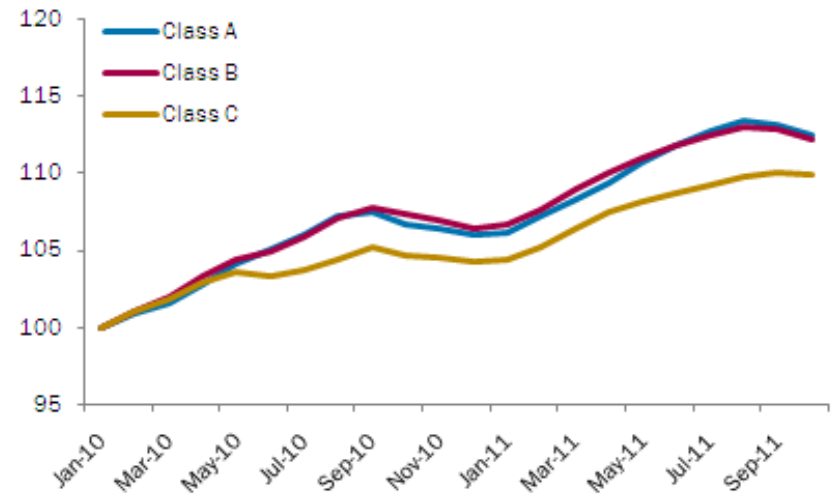


Sources: US Census Bureau, JBREC; Heitman Research

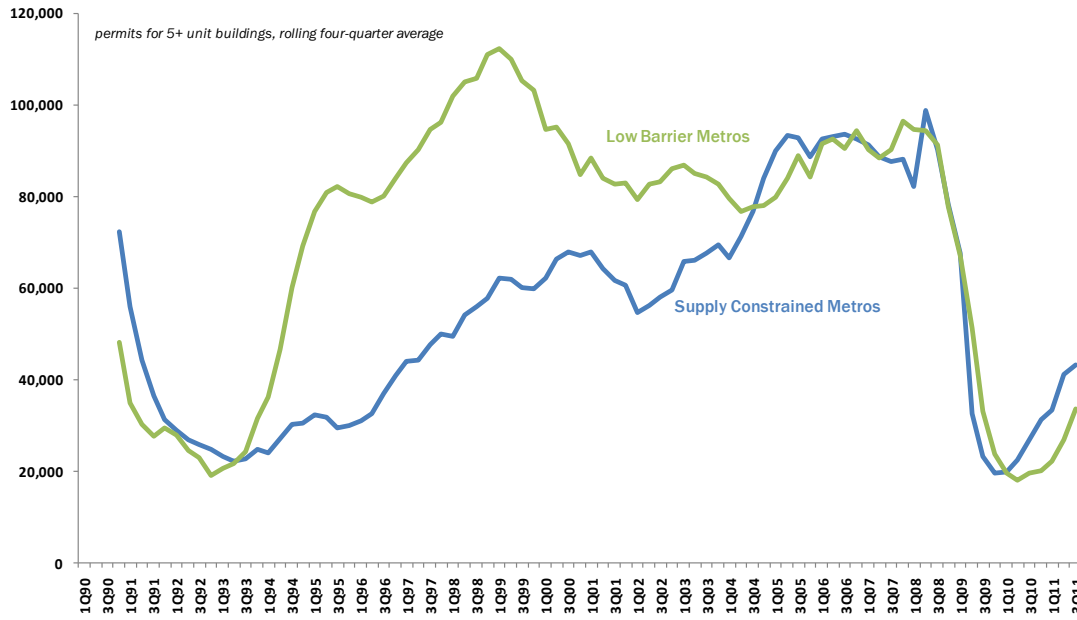
RevPau by Class by Quarter



RevPau Index by Class by Month



**Multifamily Permit Activity in Major Metropolitan Areas
U.S. 1990-2011 Q3**



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

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

| | Q3 2011 MF Permits | Peak MF 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

Compelling Demographic Argument For Senior Housing Around the Globe

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

| | Additional Years Someone Age 75 is Expected to Live | |
|------------------|---|------------|
| | <u>Women</u> | <u>Men</u> |
| 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

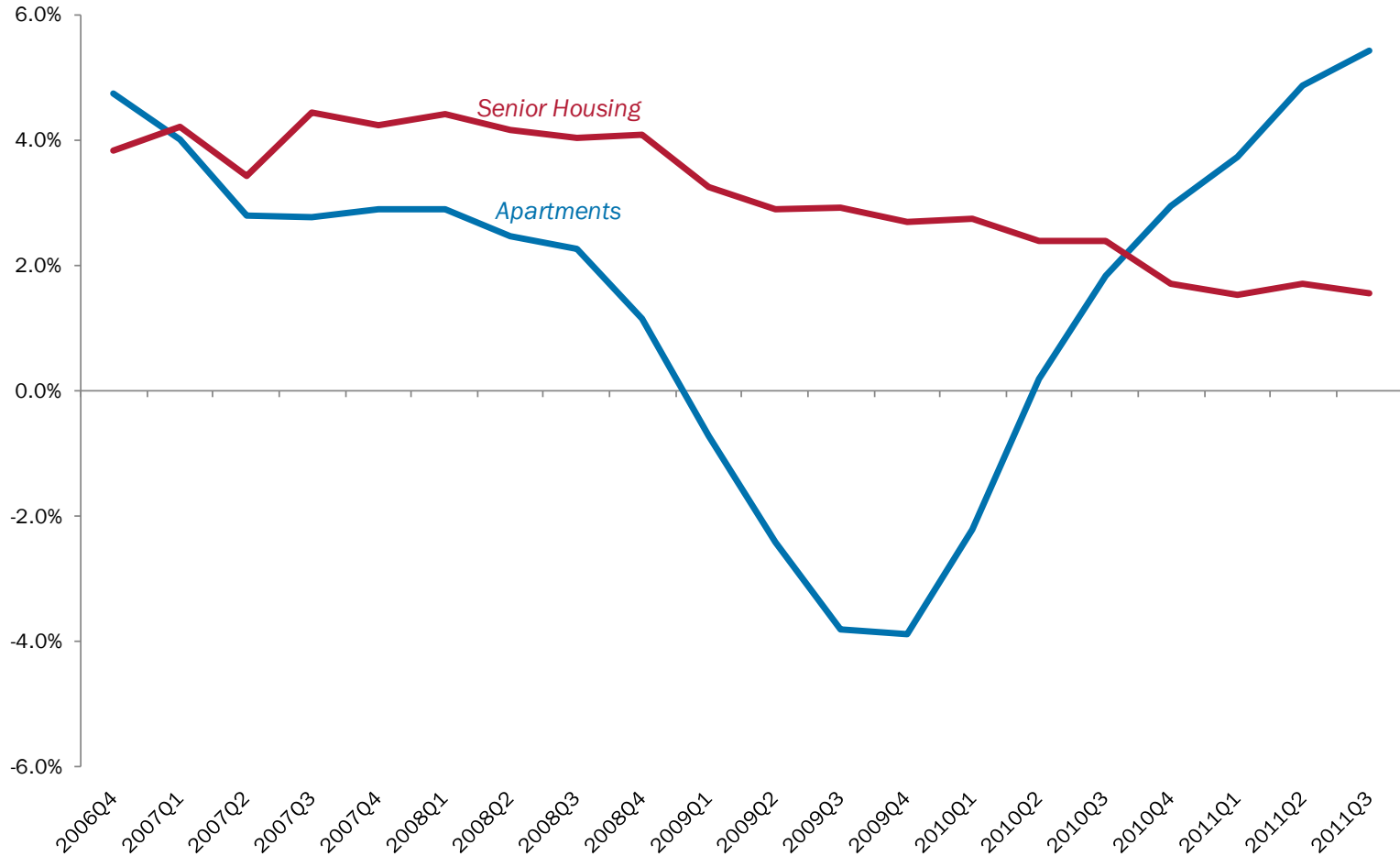
Incidence of Alzheimer's or Other Form of Dementia U.S. 2011

| | 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

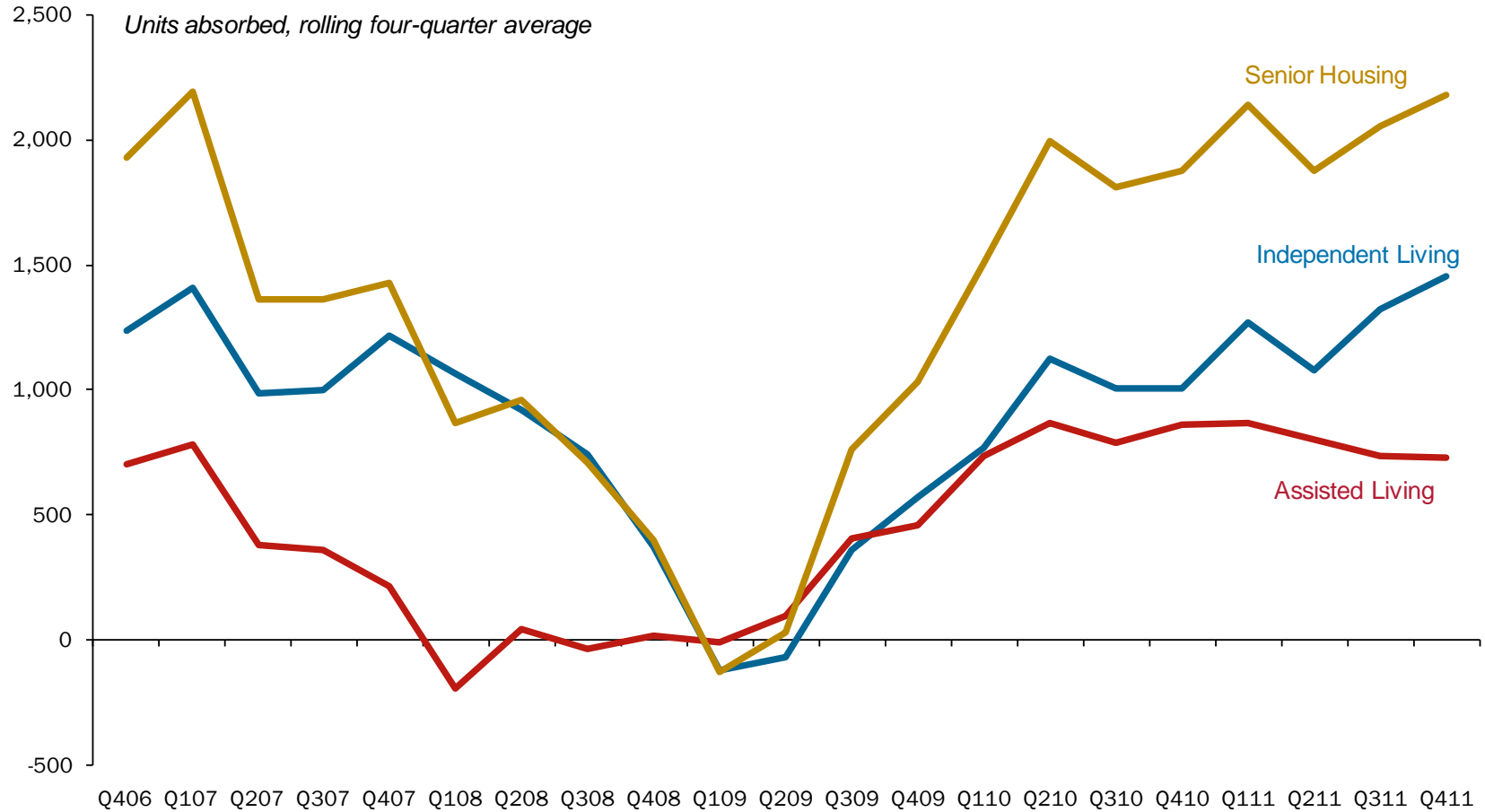
Senior Housing Showed Its Defensive Nature During Recession

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



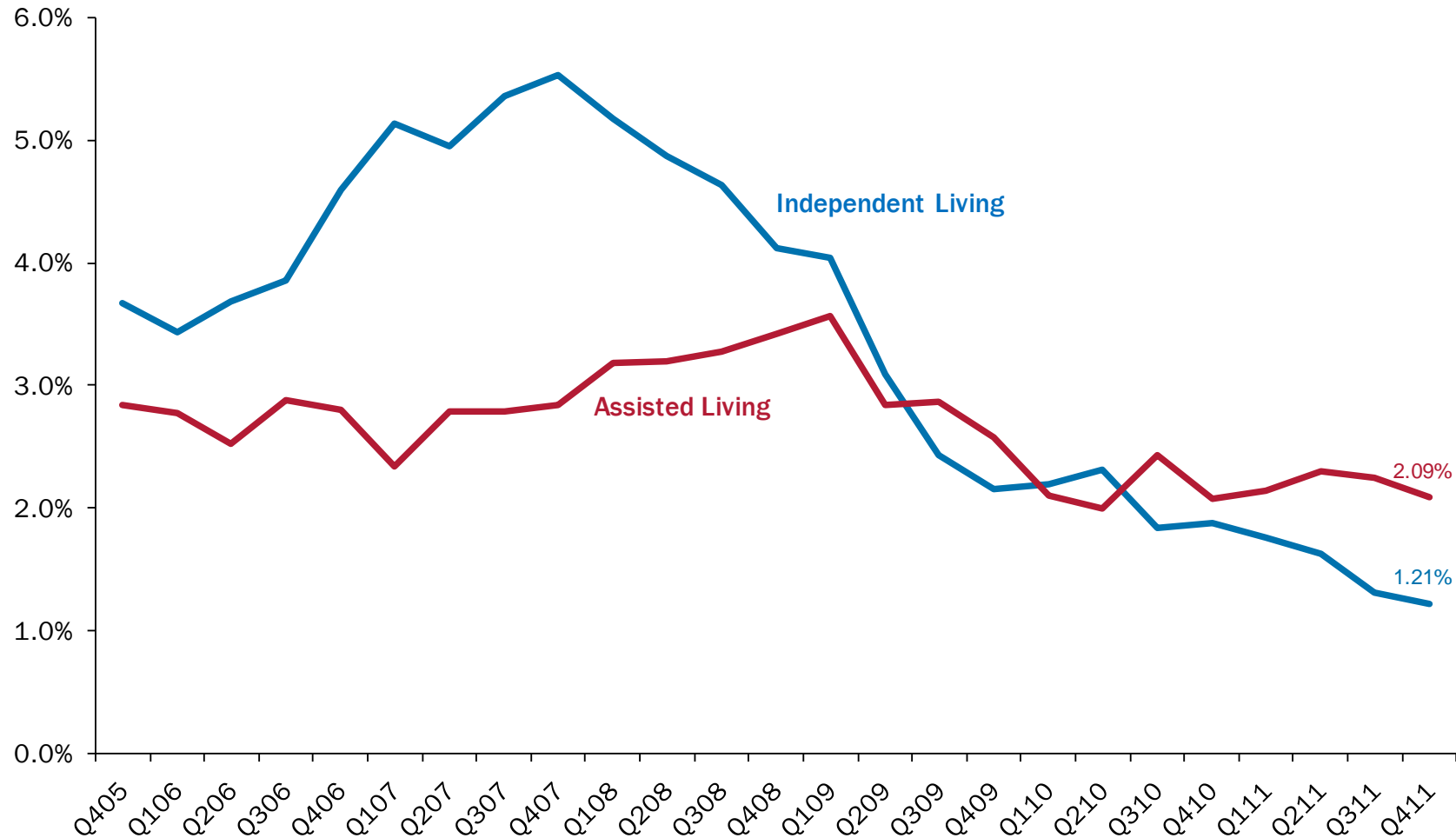
Source: Axiometrics; NIC; Heitman Research

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



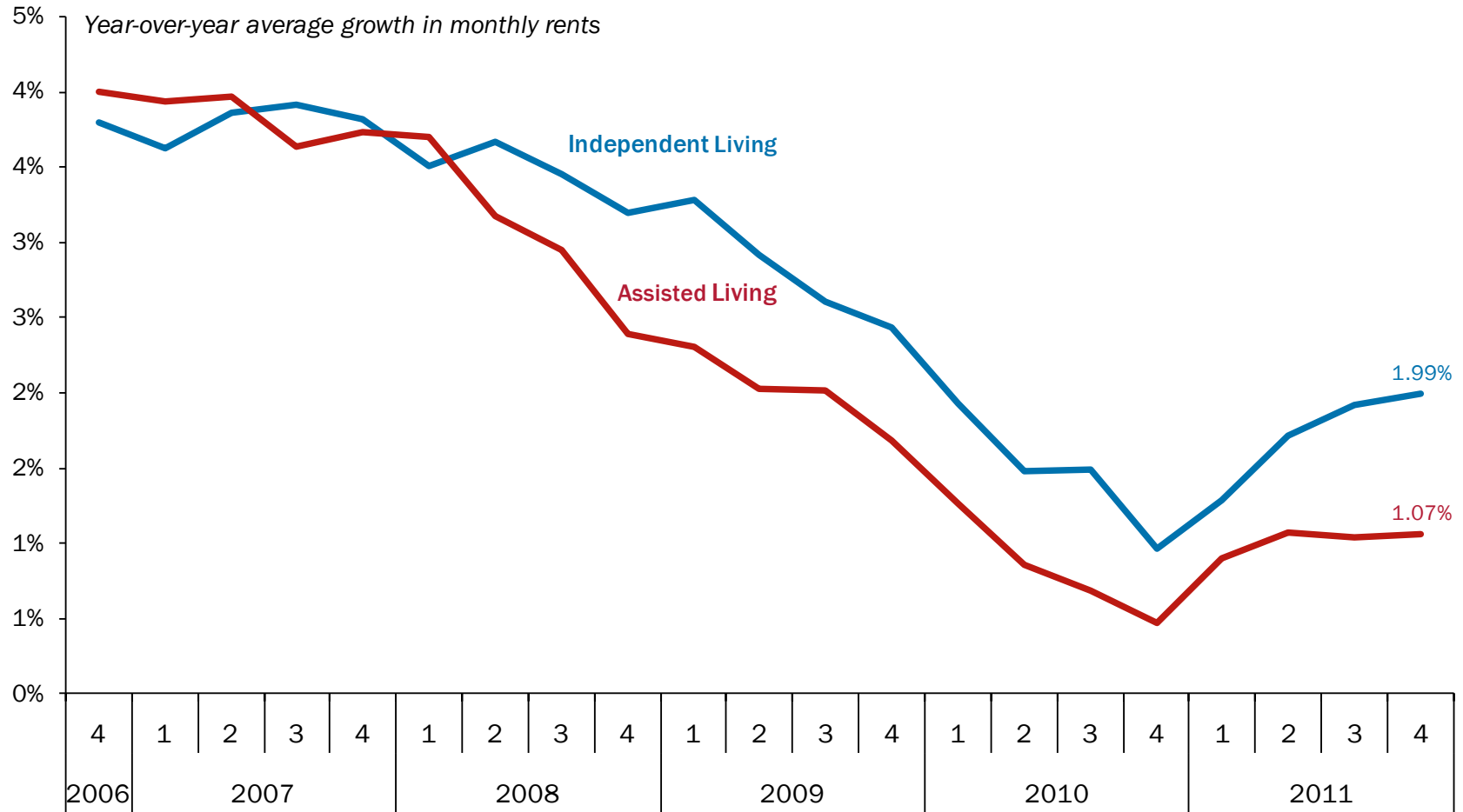
Source: NIC, Heitman Research

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



Source: NIC

**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