

Future New York, "The City of Skyscrapers," New York.

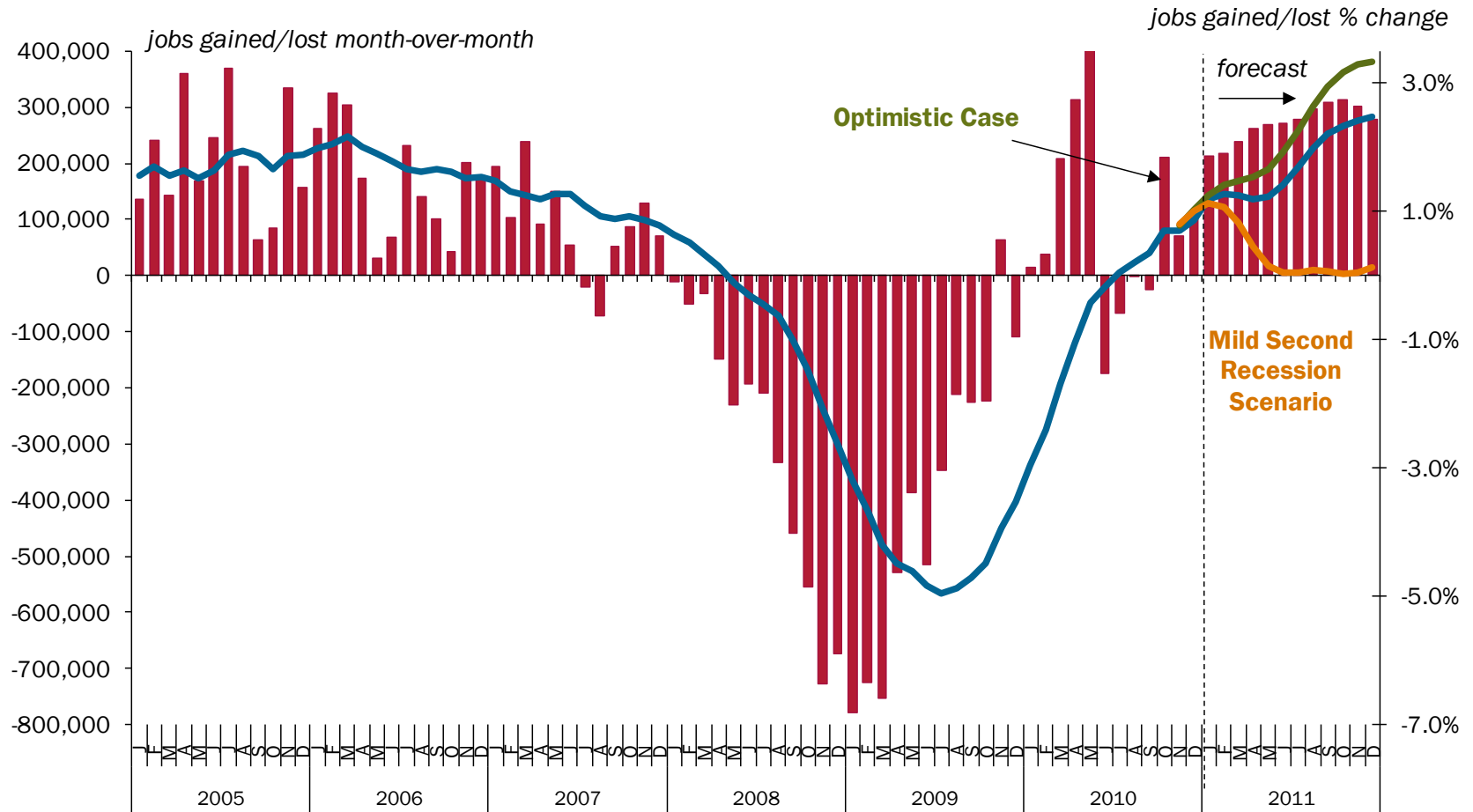


Looking Back, Looking Ahead
2011 National Overview
Presentation to Lambda Alpha

Mary Ludgin, PhD Heitman
January 19, 2011

Job Creation Poised to Accelerate

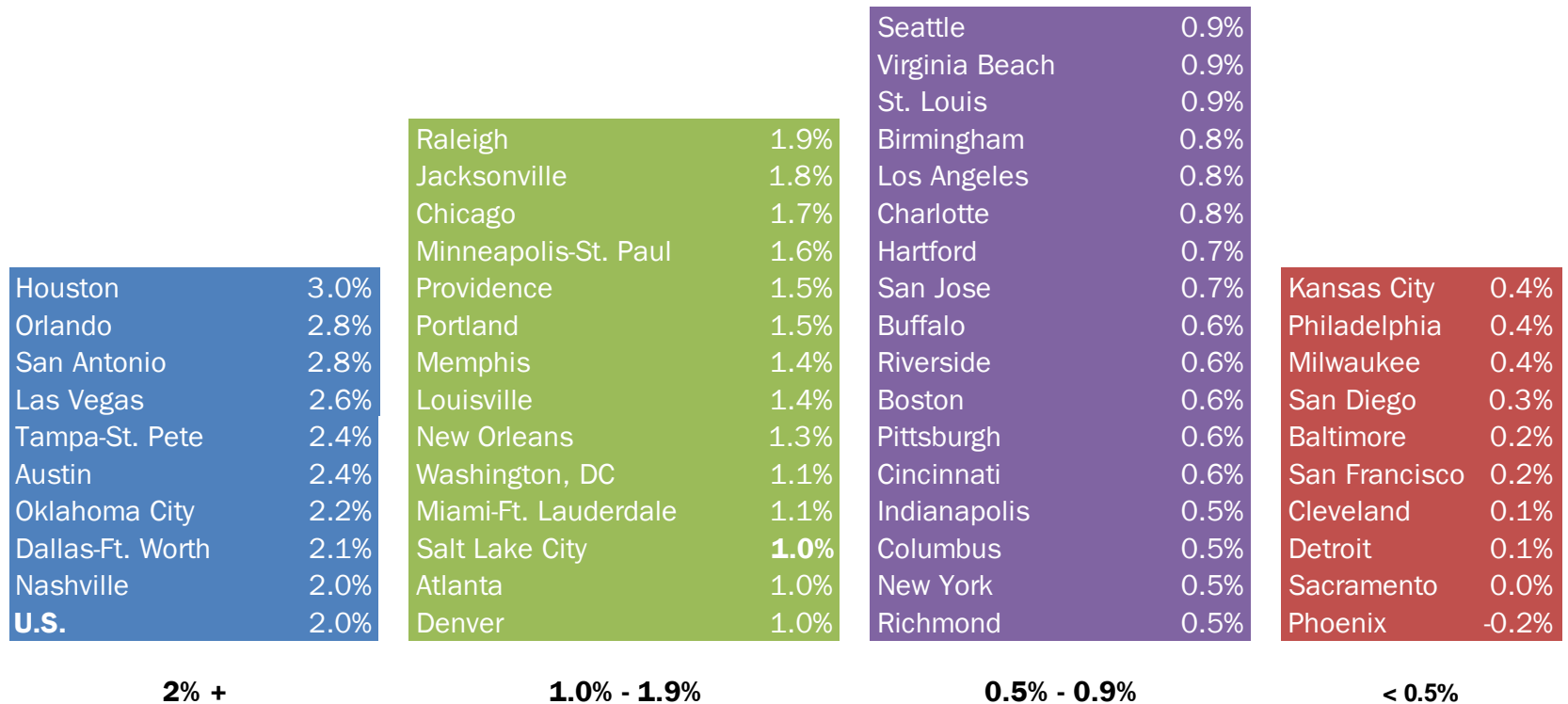
Historical and Forecast Employment Growth U.S. 2005-2011



Source: Bureau of Labor Statistics; Economy.com; Heitman Research

Texas Markets Leading; Chicago Not Far Behind

Job Growth by Metropolitan Area Q3 2010-Q3 2011



Source: Moody's Economy.com; Heitman Research

That Relationship Holds Over Five-Year Forecast

Job Growth by Metropolitan Area Q3 2010-Q3 2015

Austin	3.7%	Raleigh	2.9%	Denver	2.0%	Milwaukee	1.6%
Las Vegas	3.5%	Chicago	2.6%	San Diego	2.0%	Cincinnati	1.6%
Atlanta	3.4%	Jacksonville	2.6%	San Jose	1.9%	Cleveland	1.6%
San Antonio	3.4%	Tampa-St. Pete	2.5%	Los Angeles	1.9%	Boston	1.6%
Houston	3.3%	Birmingham	2.5%	Washington, DC	1.9%	Baltimore	1.5%
Dallas-Ft. Worth	3.1%	Minneapolis-St. Paul	2.5%	Sacramento	1.9%	Hartford	1.4%
Orlando	3.0%	Louisville	2.4%	New York	1.9%	Detroit	1.2%
		Providence	2.4%	San Francisco	1.9%		
		Portland	2.4%	Philadelphia	1.8%		
		Phoenix	2.3%	Kansas City	1.8%		
		New Orleans	2.3%	Columbus	1.8%		
		Miami-Ft. Lauderdale	2.2%	St. Louis	1.8%		
		Salt Lake City	2.2%	Charlotte	1.8%		
		Riverside	2.2%	Pittsburgh	1.8%		
		Nashville	2.2%	Virginia Beach	1.8%		
		Oklahoma City	2.2%	Indianapolis	1.8%		
		U.S.	2.1%	Richmond	1.8%		
		Seattle	2.1%	Buffalo	1.8%		
		Memphis	2.1%				

3% +

2.1%-2.9%

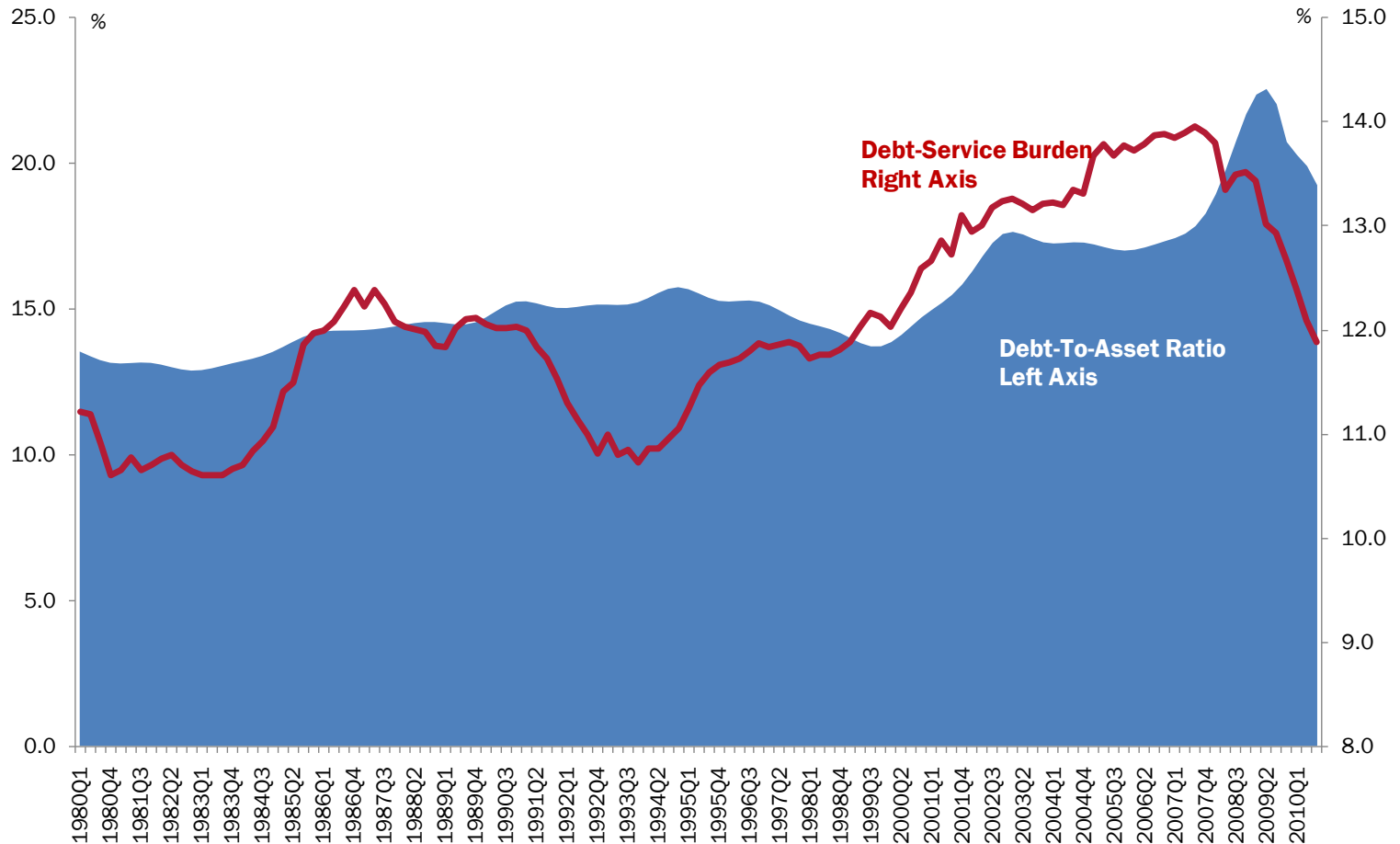
1.8%-2.0%

< 1.8%

Source: Moody's Economy.com; Heitman Research

We've Made Some Progress on Deleveraging

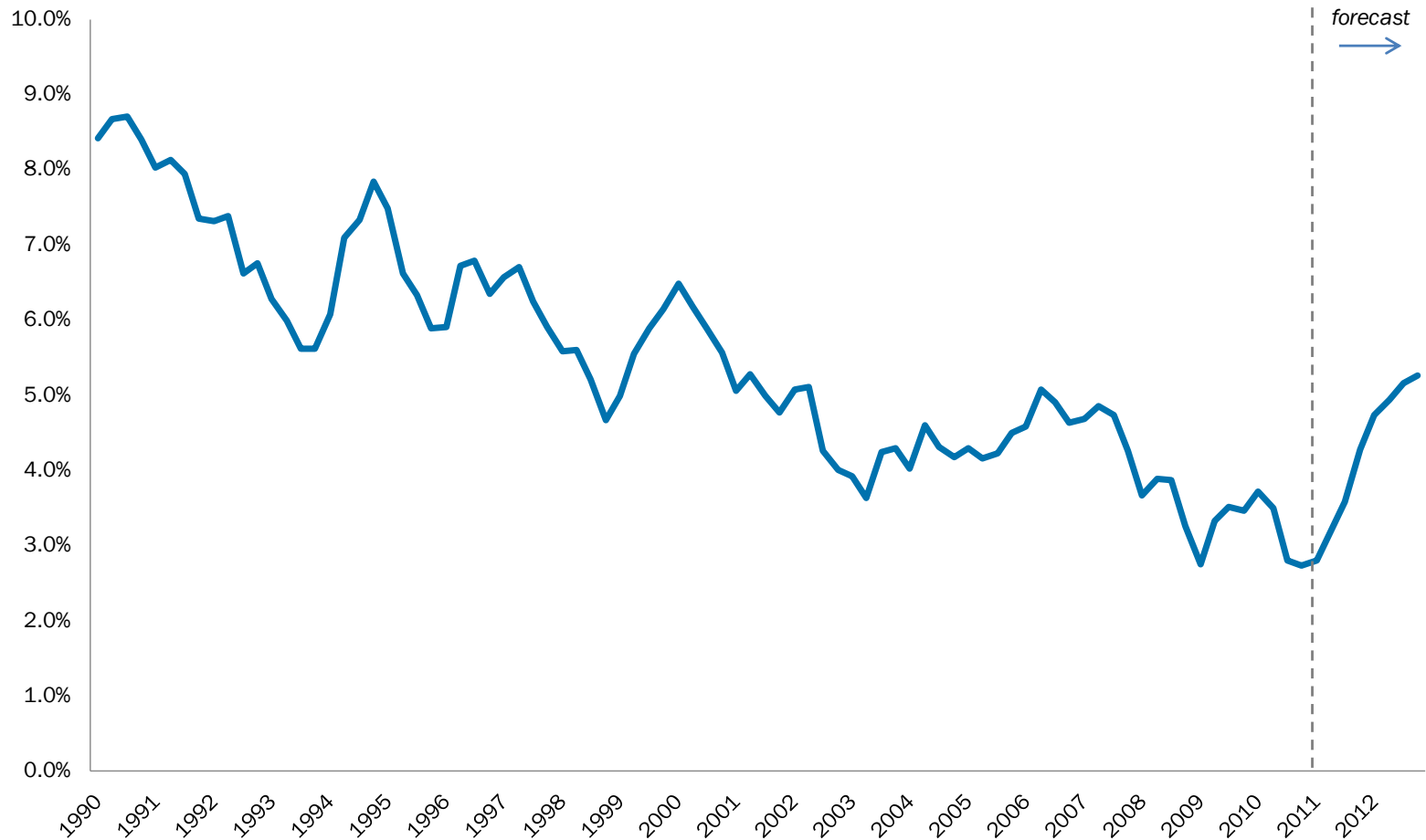
Consumer Debt-to-Asset Ratio and Debt-Service Burden U.S. 1980 Q1-2010 Q3



Source: Economy.com; Heitman Research

But Interest Rates Will Rise with Faster Growth

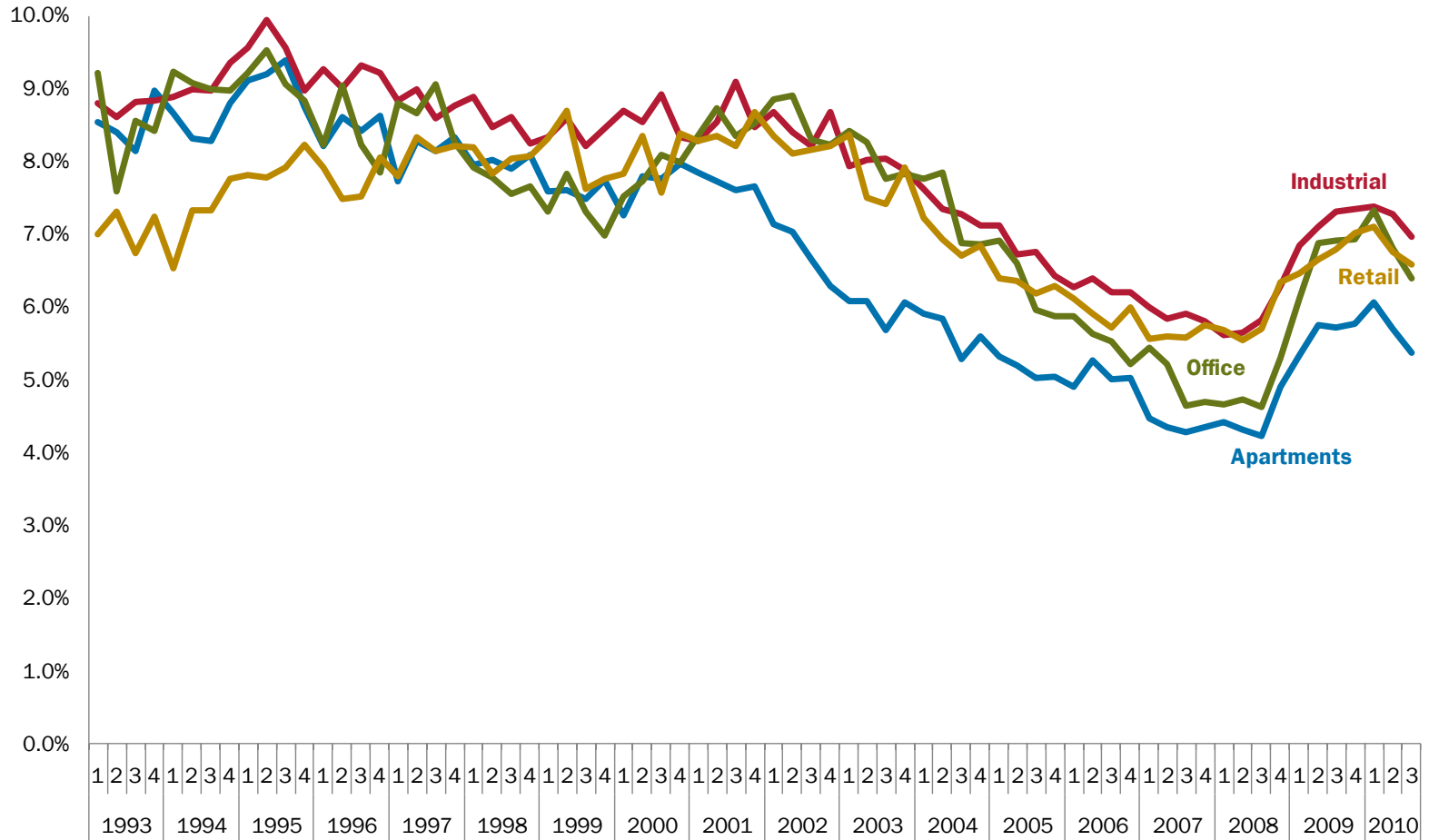
Ten-Year Treasury Yield U.S. 1990-2012



Source: Economy.com; Heitman Research

Cap Rates Back Down For Now

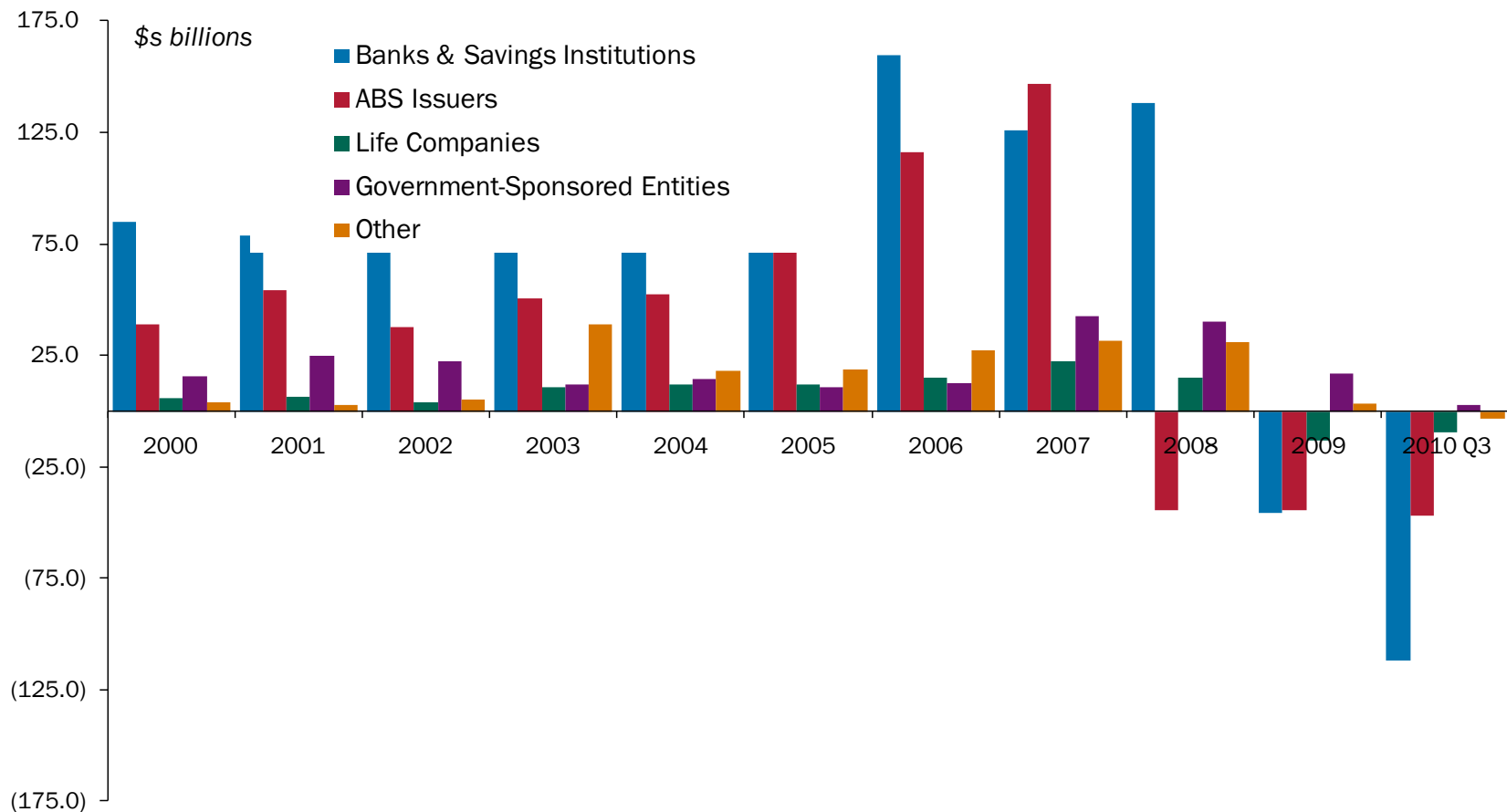
**Current Value Cap Rates
U.S. 1993-2010 (Q3)**



Source: NCREIF; Heitman Research Current value cap rates are derived from those NCREIF properties valued during a quarter

The Mixed Picture on Debt

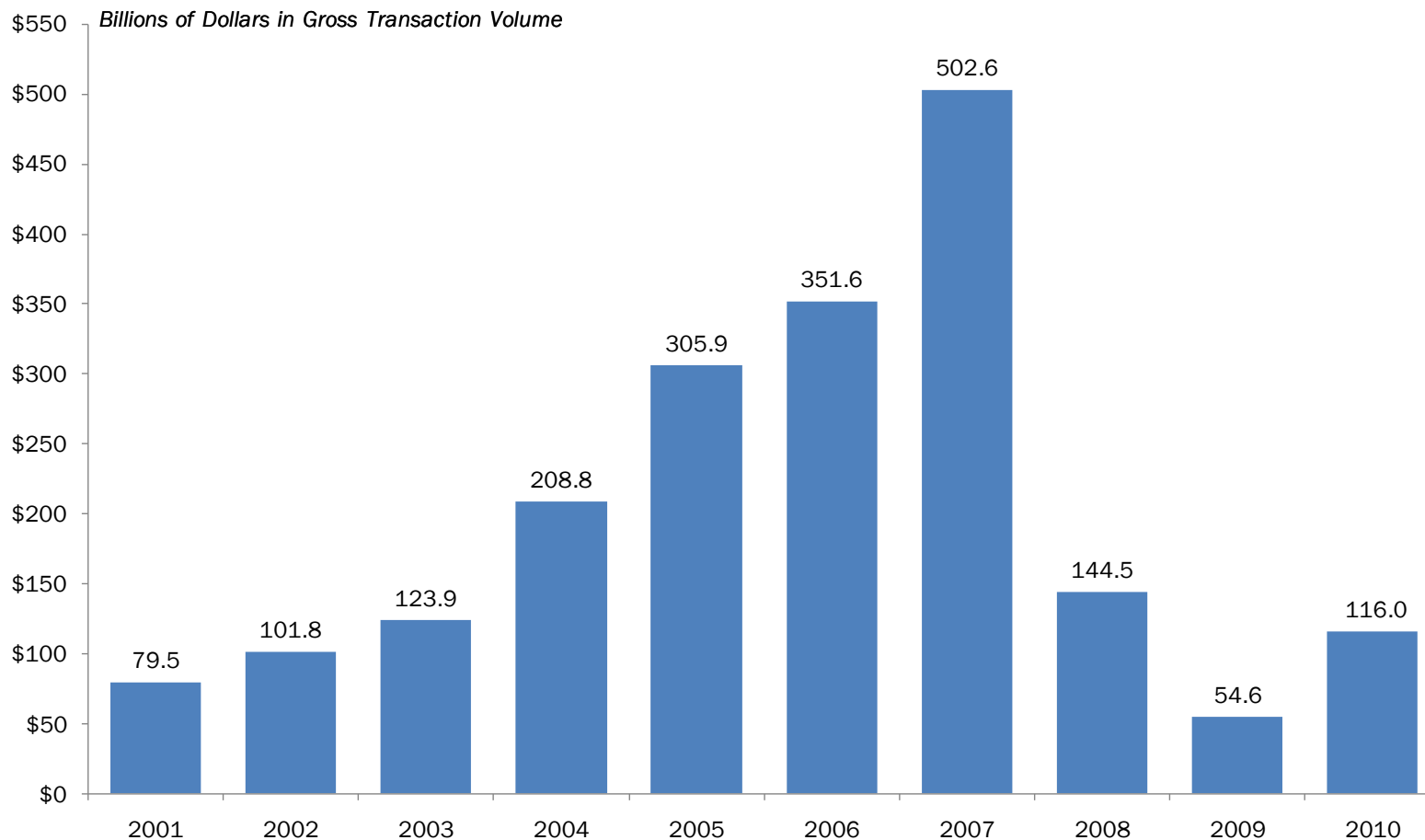
Commercial Mortgage Flows By Issuer 2000-2010 Q3



Source: Federal Reserve Board; Heitman Research. Fraction-year numbers are seasonally adjusted annual rates.

Transactions Happening Again; More to Come

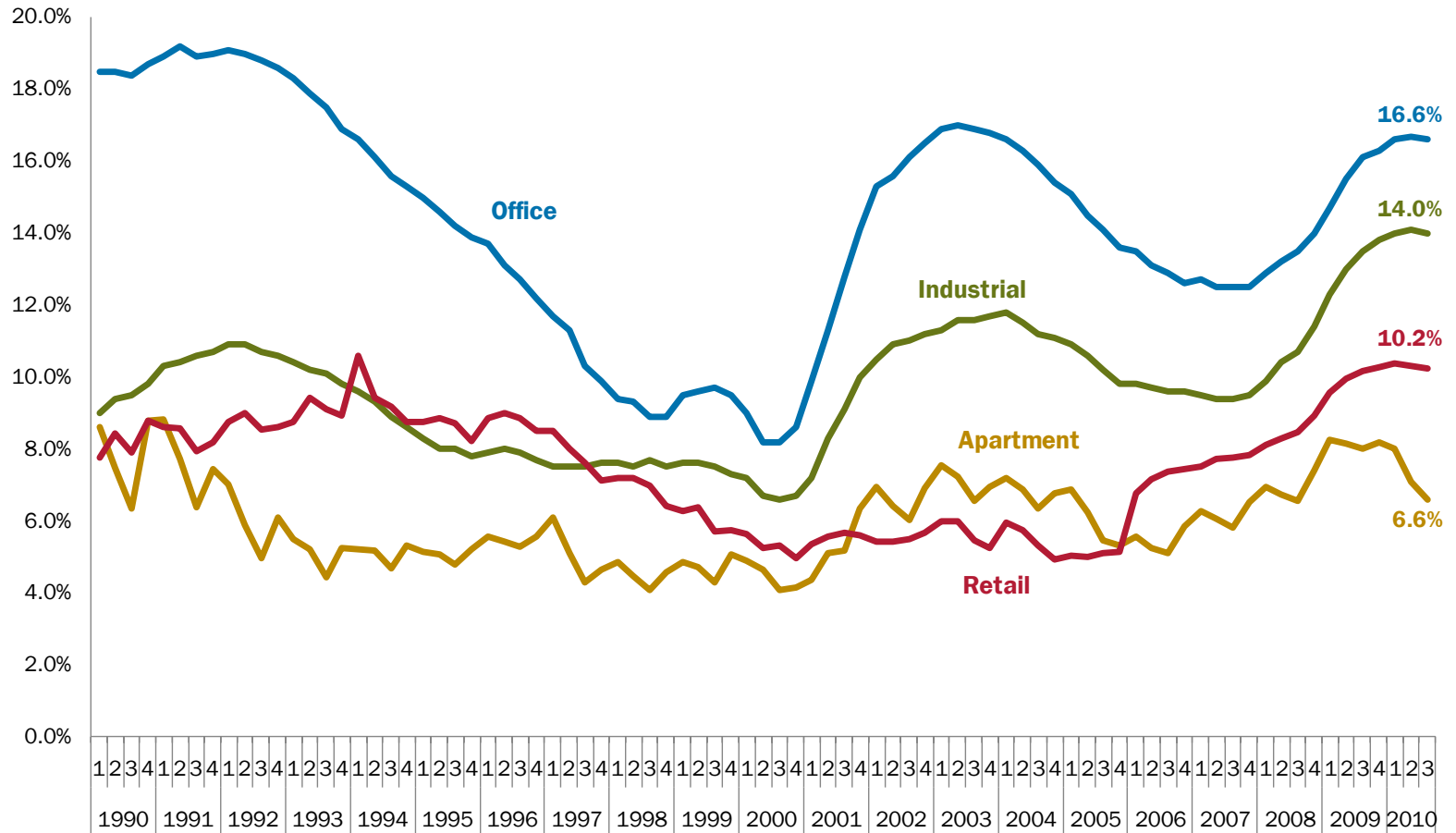
Commercial Property Transaction Volume U.S. 2001-2010



Source: Real Capital Analytics; Heitman Research

Vacancy Has Peaked Across All Sectors

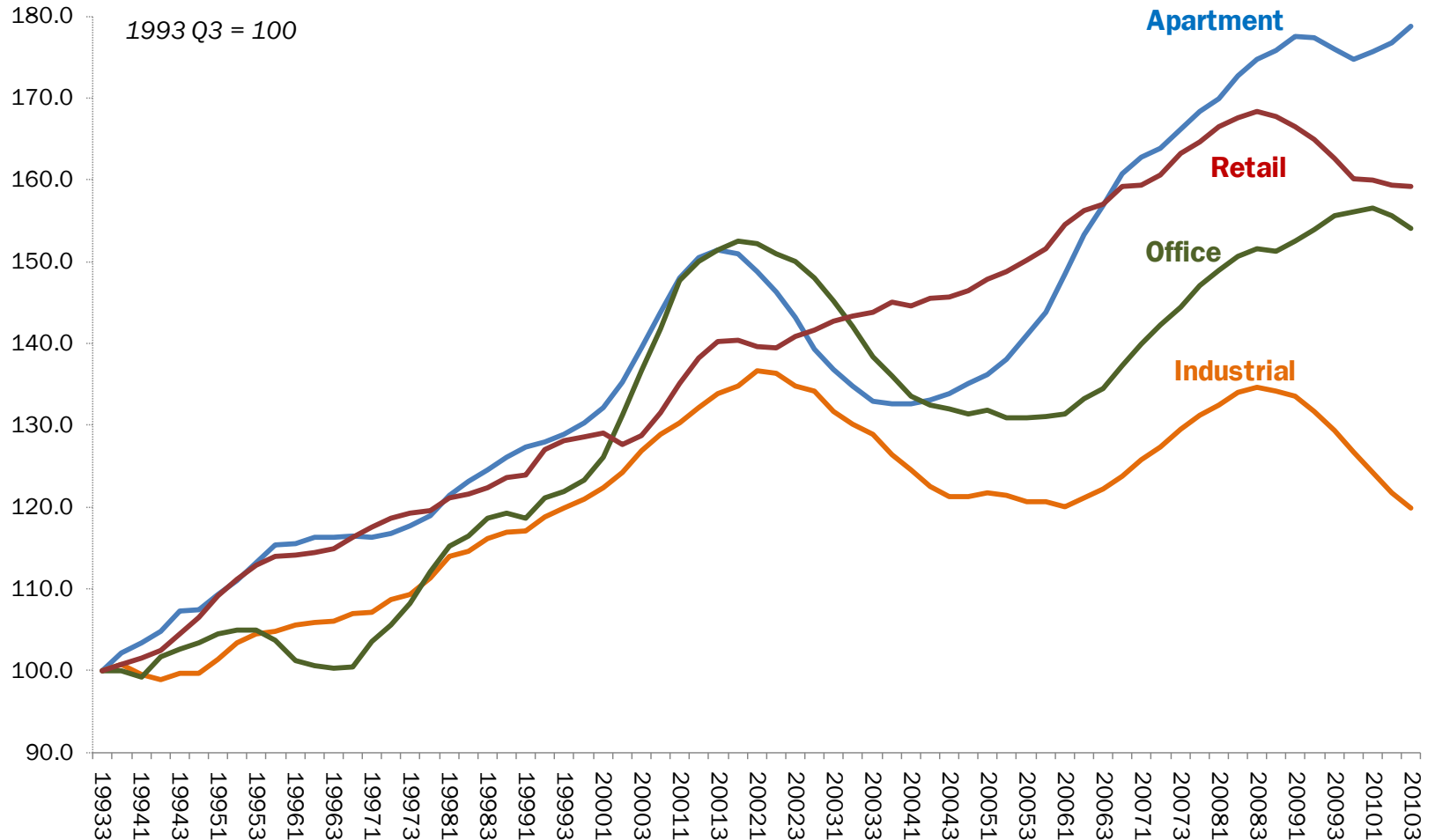
Vacancy Rates by Property Type
U.S. 1990-2010 (Q3)



Source: CBRE Econometric Advisors; NCREIF; Axiometrics; CoStar; Heitman Research. The apartment series reflects NCREIF data through 1996Q1 and Axiometrics data thereafter. The retail series reflects NCREIF data through 2006Q1 and CoStar data thereafter. The industrial series reflects the availability rate rather than the vacancy rate.

But NOI A Different Story

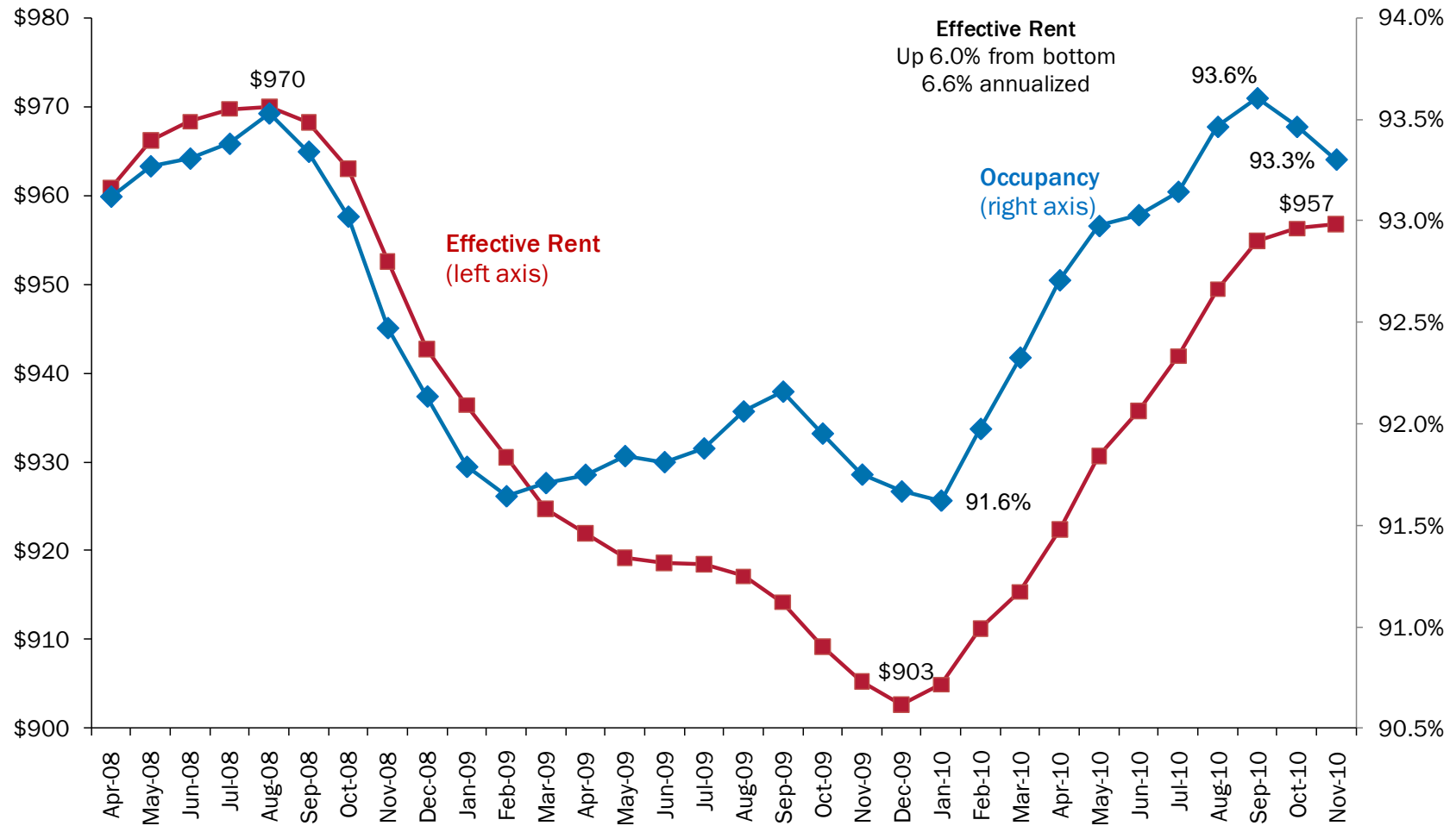
NOI Index By Property Type 1993-2010



Source: National Council of Real Estate Investment Fiduciaries; Heitman Research

Apartments Leading the Recovery

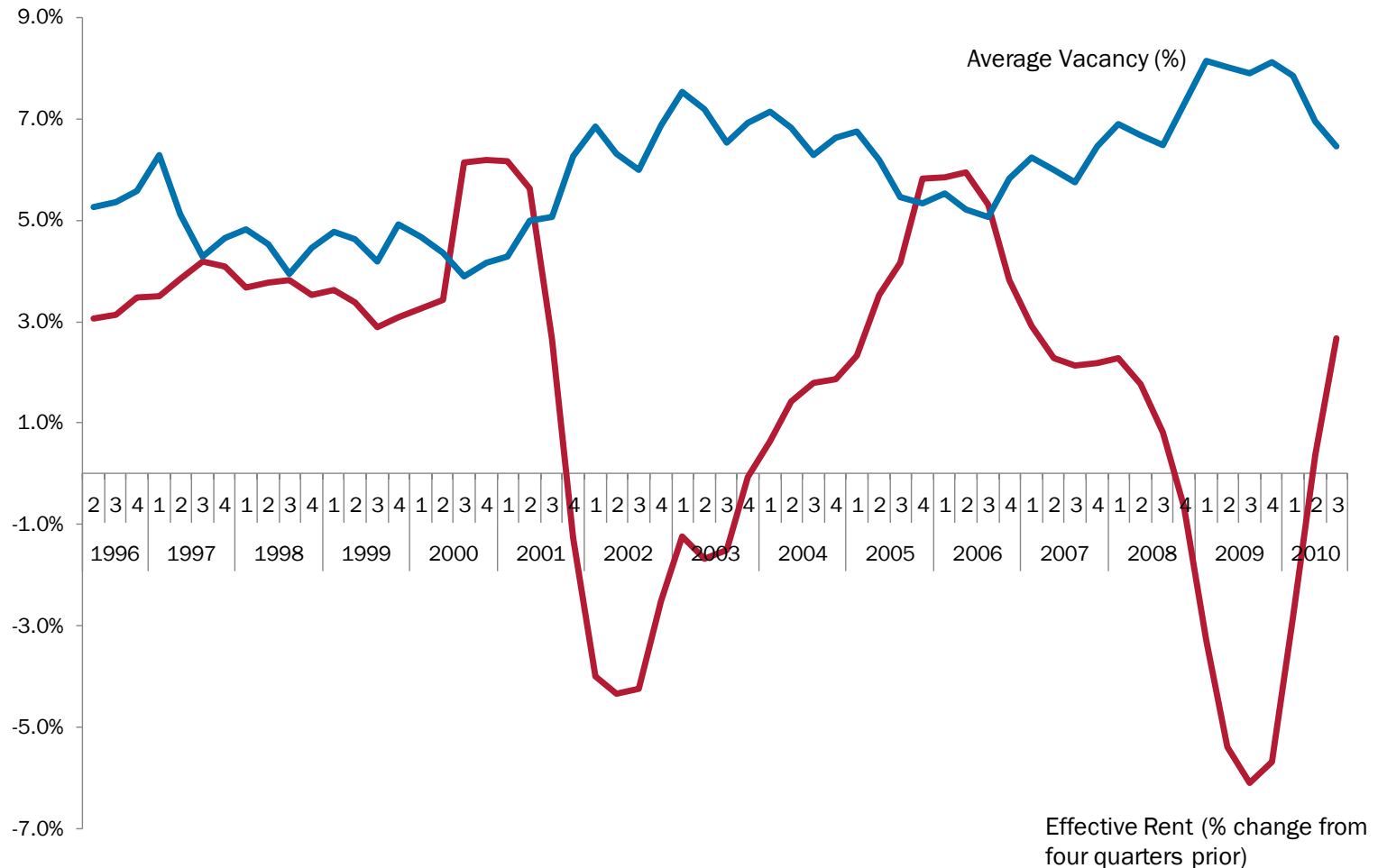
Apartment Effective Rent vs. Occupancy U.S. April 2008-November 2010



Source: Axiometrics Research; Heitman Research

Solid Improvement Relative to 2009

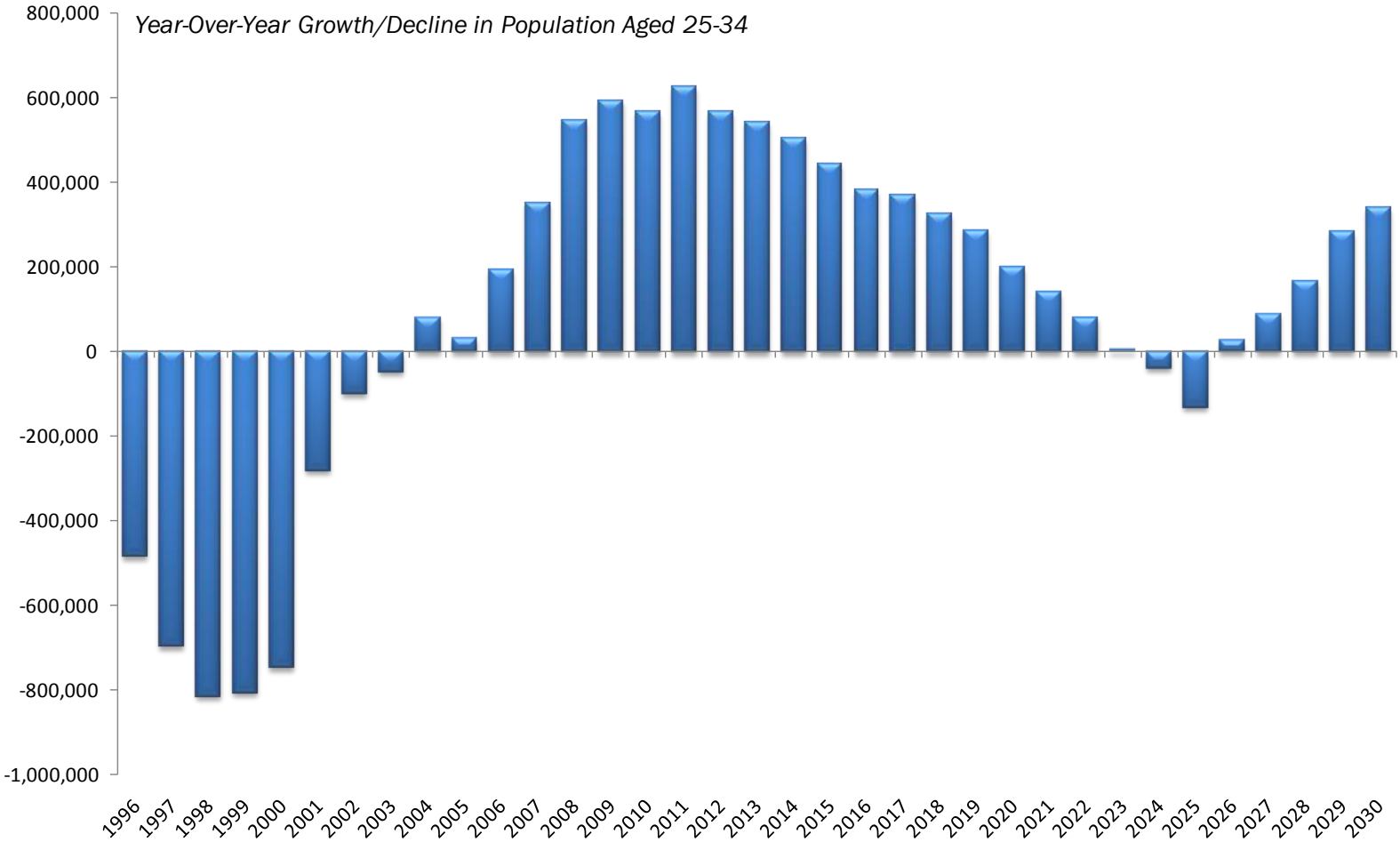
Apartment Effective Rent vs. Vacancy U.S. 1996-2010 (Q3)



Source: Axiometrics; Heitman Research

U.S. Demographic Landscape Favors Apts

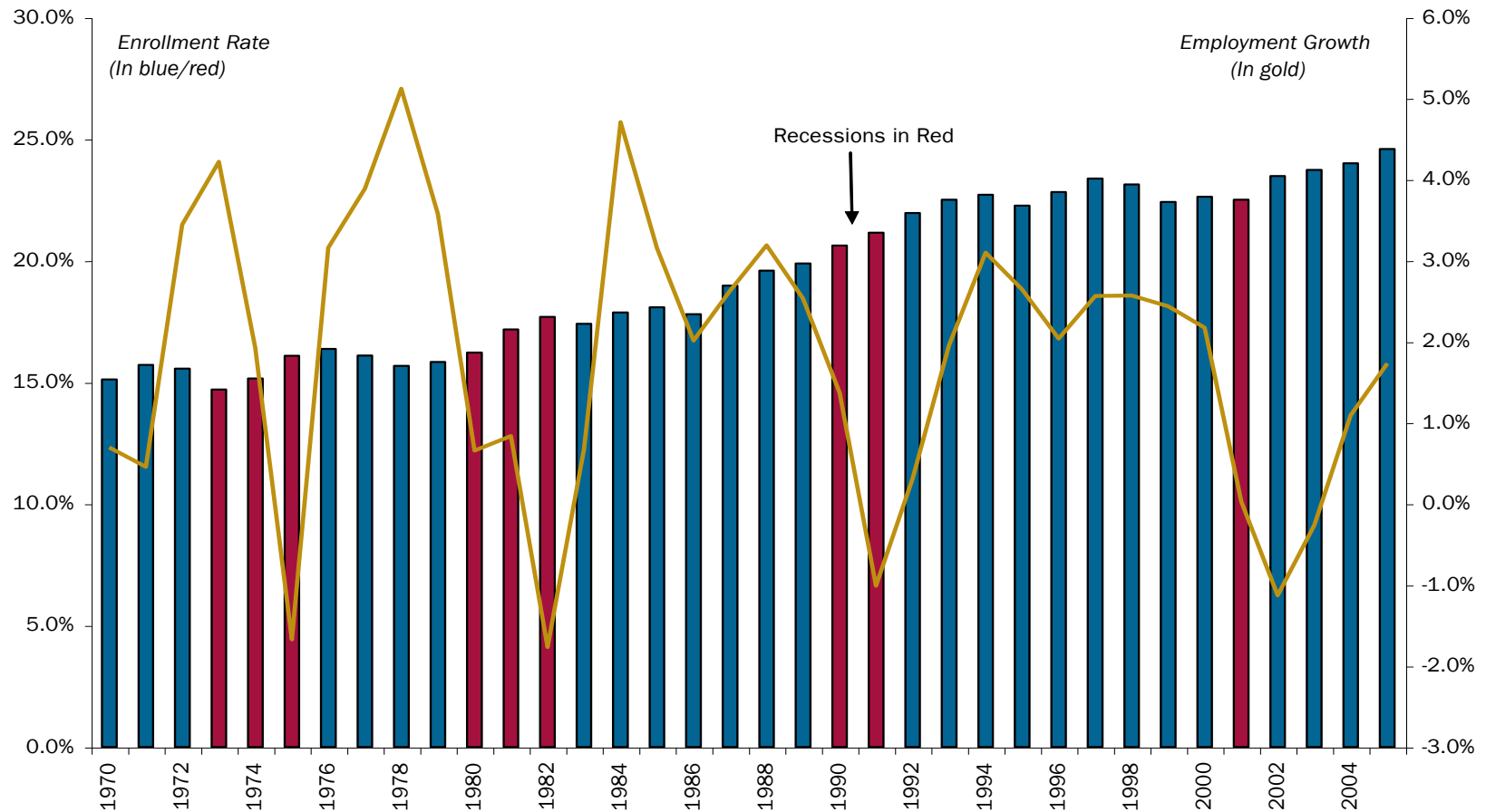
Annual Change in the Age Group Most Likely to Rent Apartments 1995-2030



Source: U.S. Bureau of the Census; Heitman Research

Demographics/Economics Favor Student Housing Too

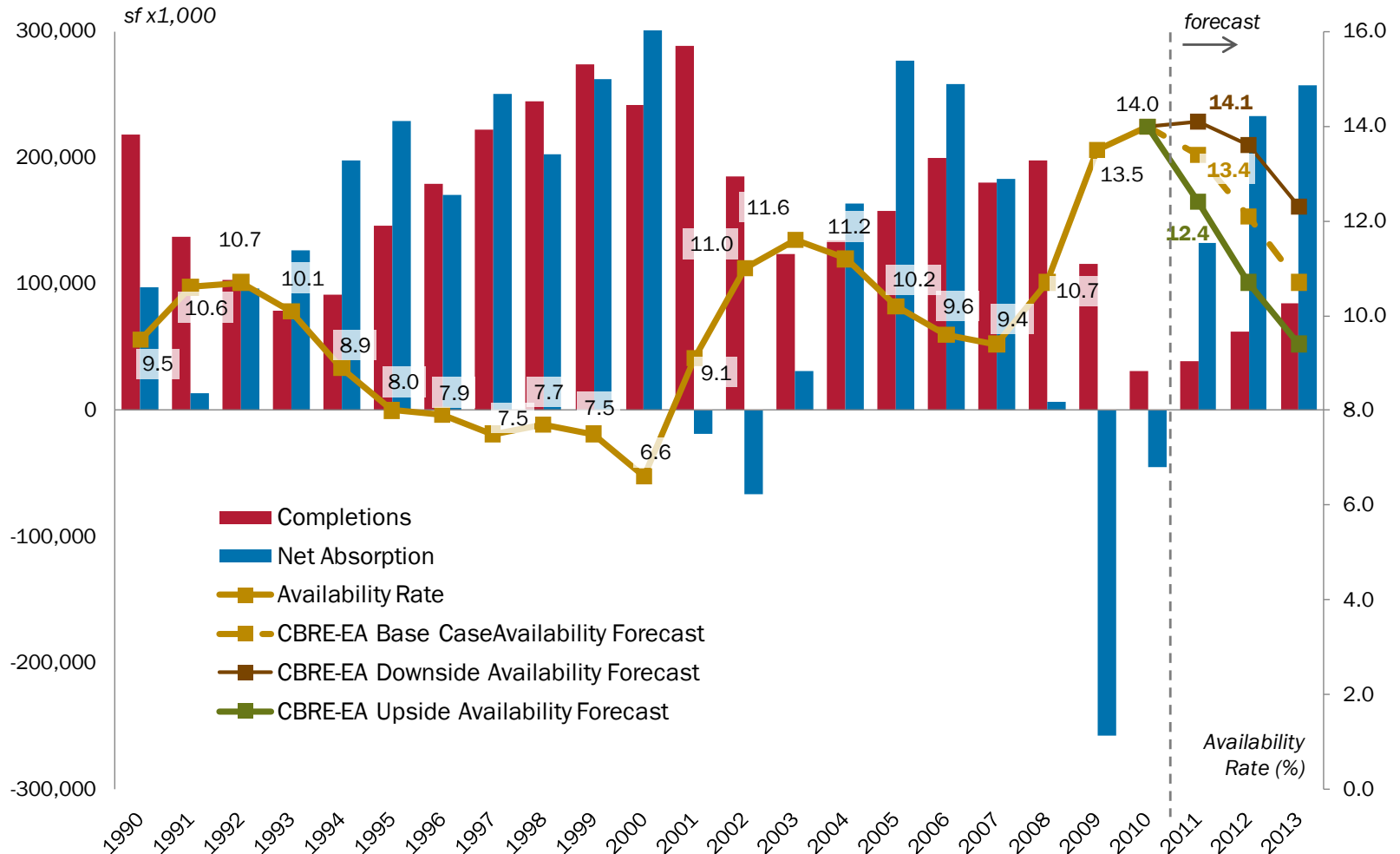
College Enrollment Rates and Employment Growth U.S. Universities' Full-Time Students 18 to 24 Years Old



Source: National Center for Education Statistics, U.S. Census Bureau, Economy.com; Heitman

Industrial Vacancy Has Peaked

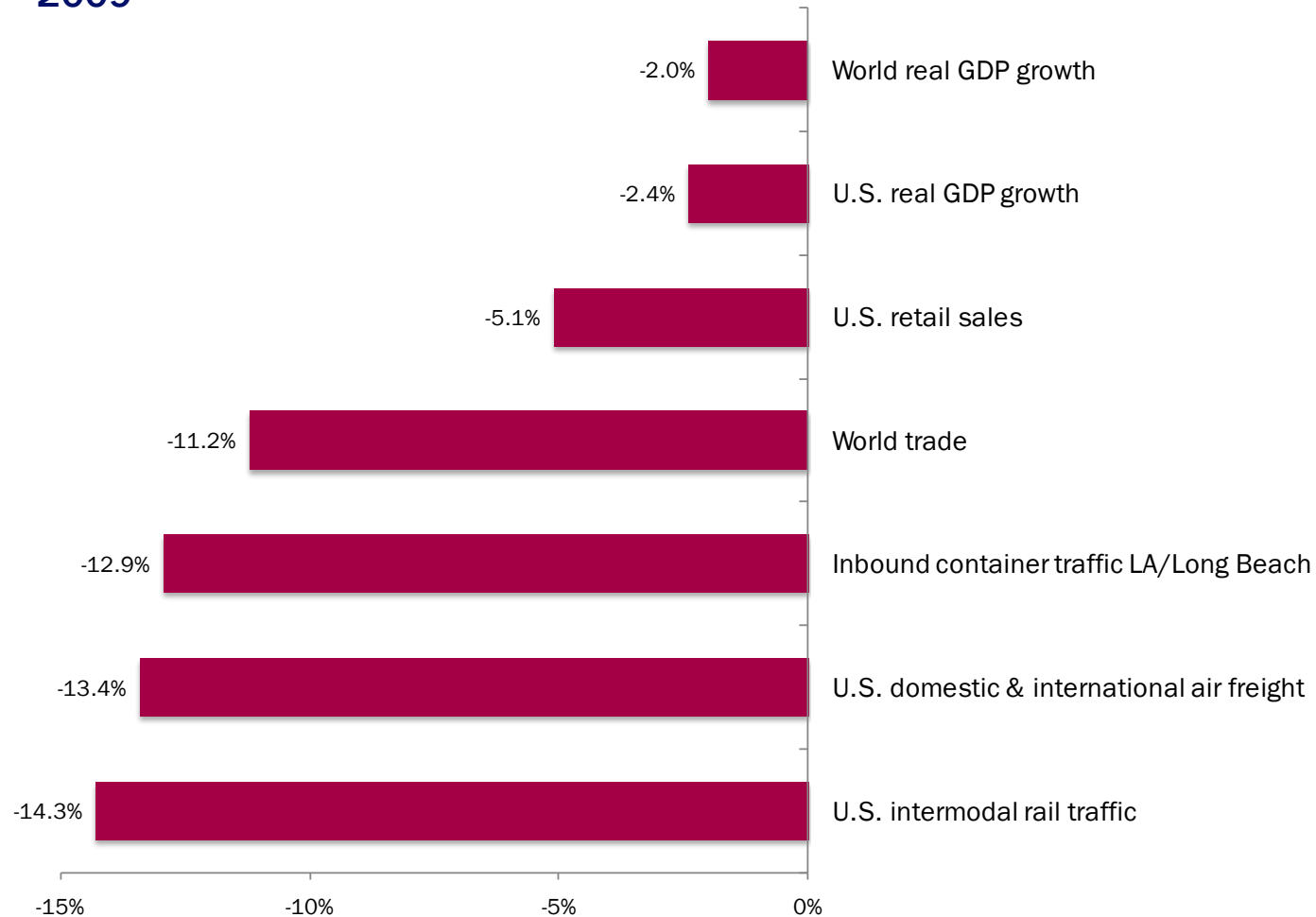
Industrial Completions, Net Absorption, and Availability U.S. 1990-2013 Years Ending Q3



Source: CBRE Econometric Advisors; Heitman Research

Industrial Demand Drivers Weak in 2009...

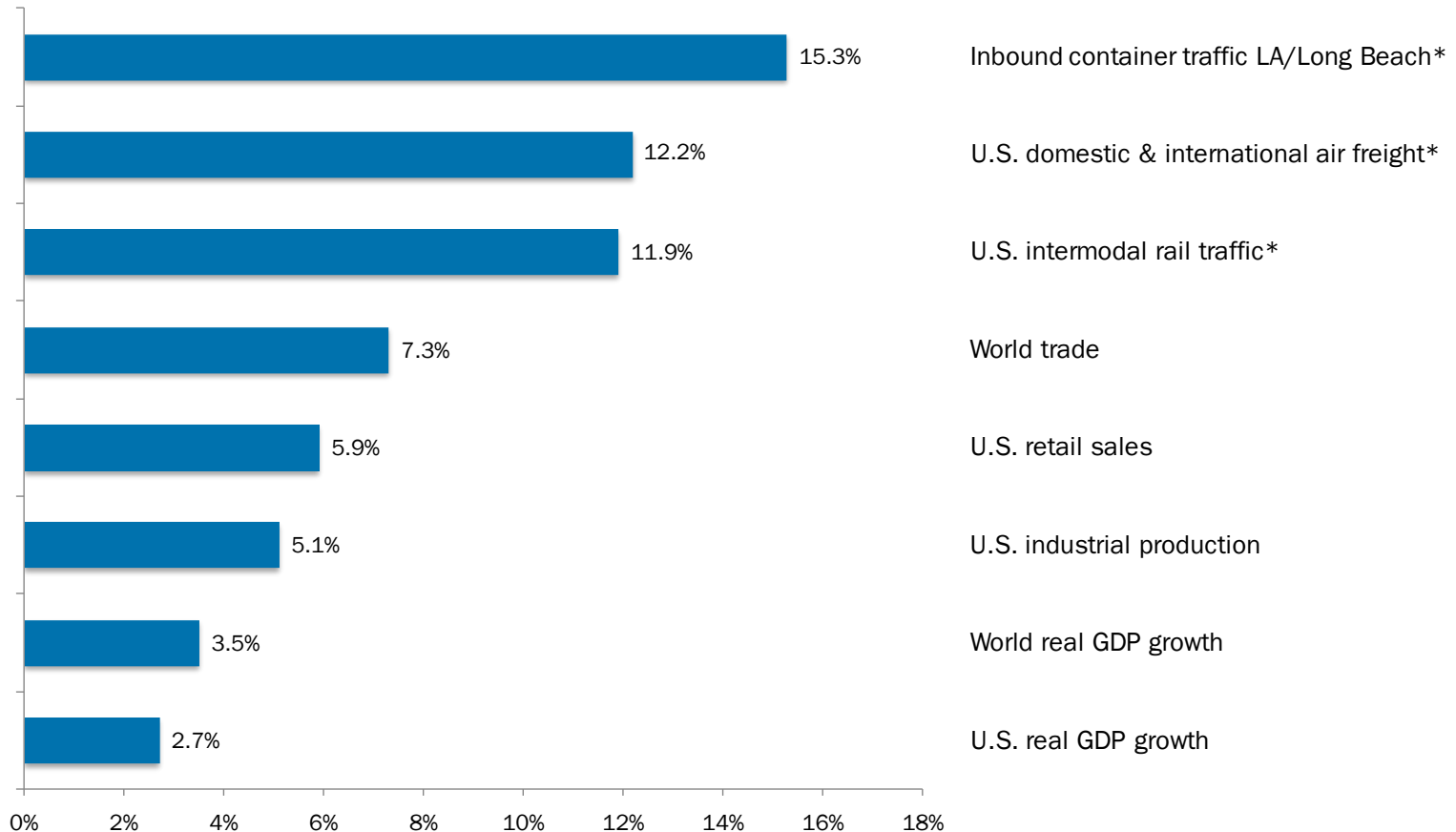
Industrial Market Drivers 2009



Source: Economist Intelligence Unit; Moody's Economy.com; American Association of Railroads; Port of Los Angeles; Port of Long Beach; Bureau of Transportation Statistics; Heitman Research

...But 2010 Dramatically Improved

Industrial Market Drivers 2010 (f)

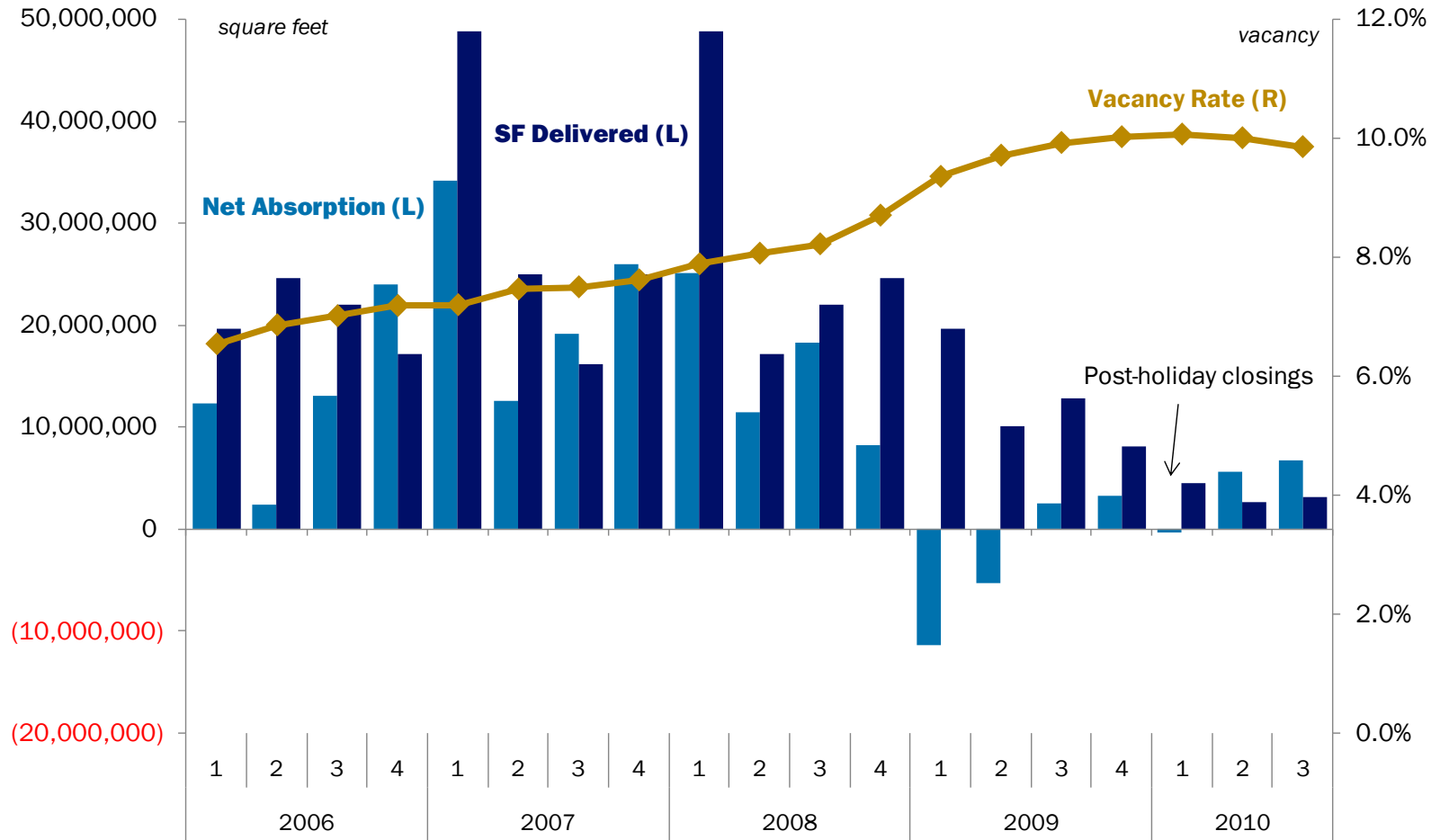


*YTD data, annualized

Source: Economist Intelligence Unit; Moody's Economy.com; American Association of Railroads; Port of Los Angeles; Port of Long Beach; Bureau of Transportation Statistics; Heitman Research

Retail Starting to Rebound; Strong Will Get Stronger

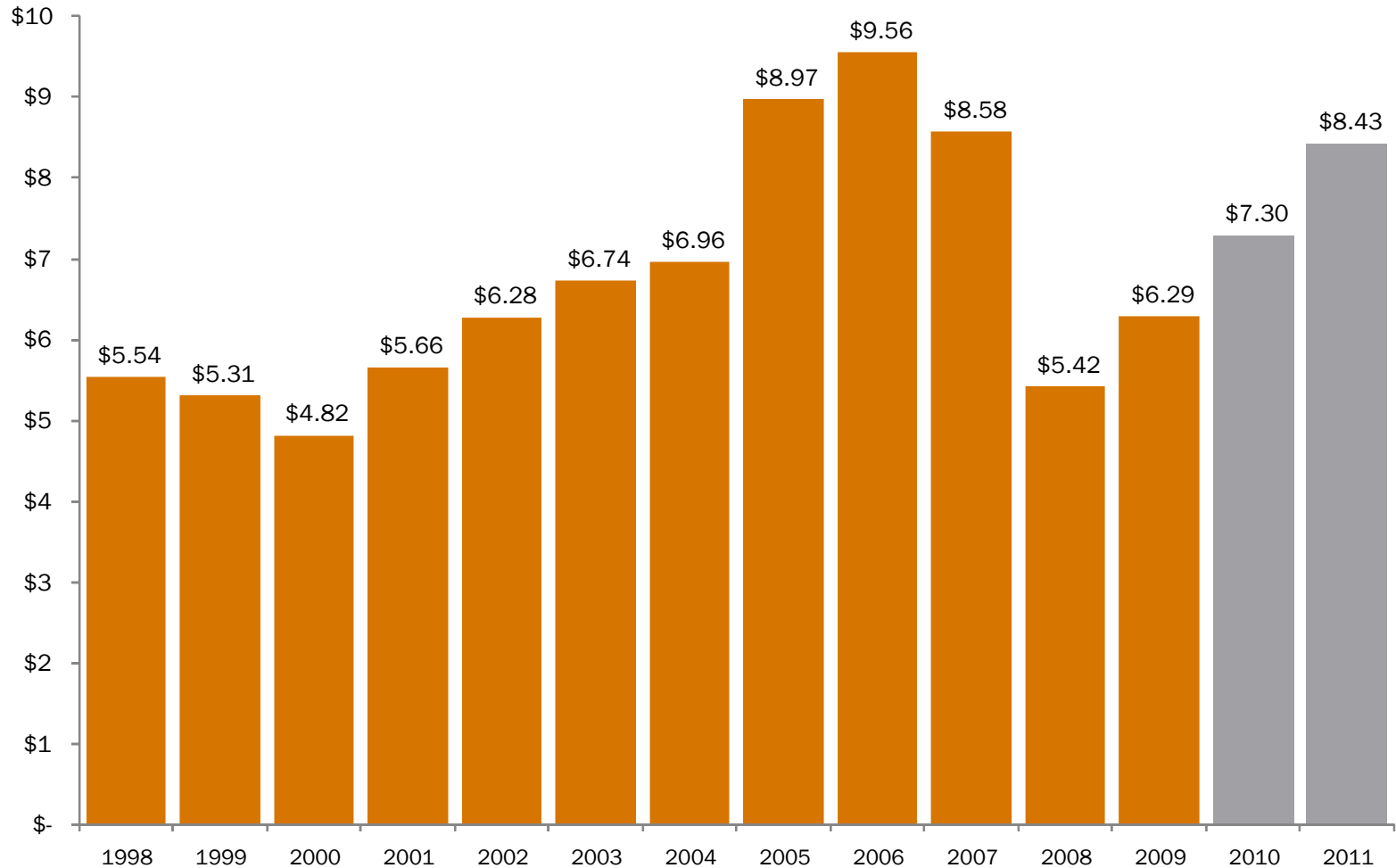
Open-Air Retail Real Estate Market Trends U.S. 2006-2010 (Q3)



Source: CoStar; Heitman Research

Retailers Profitable Again and Expanding

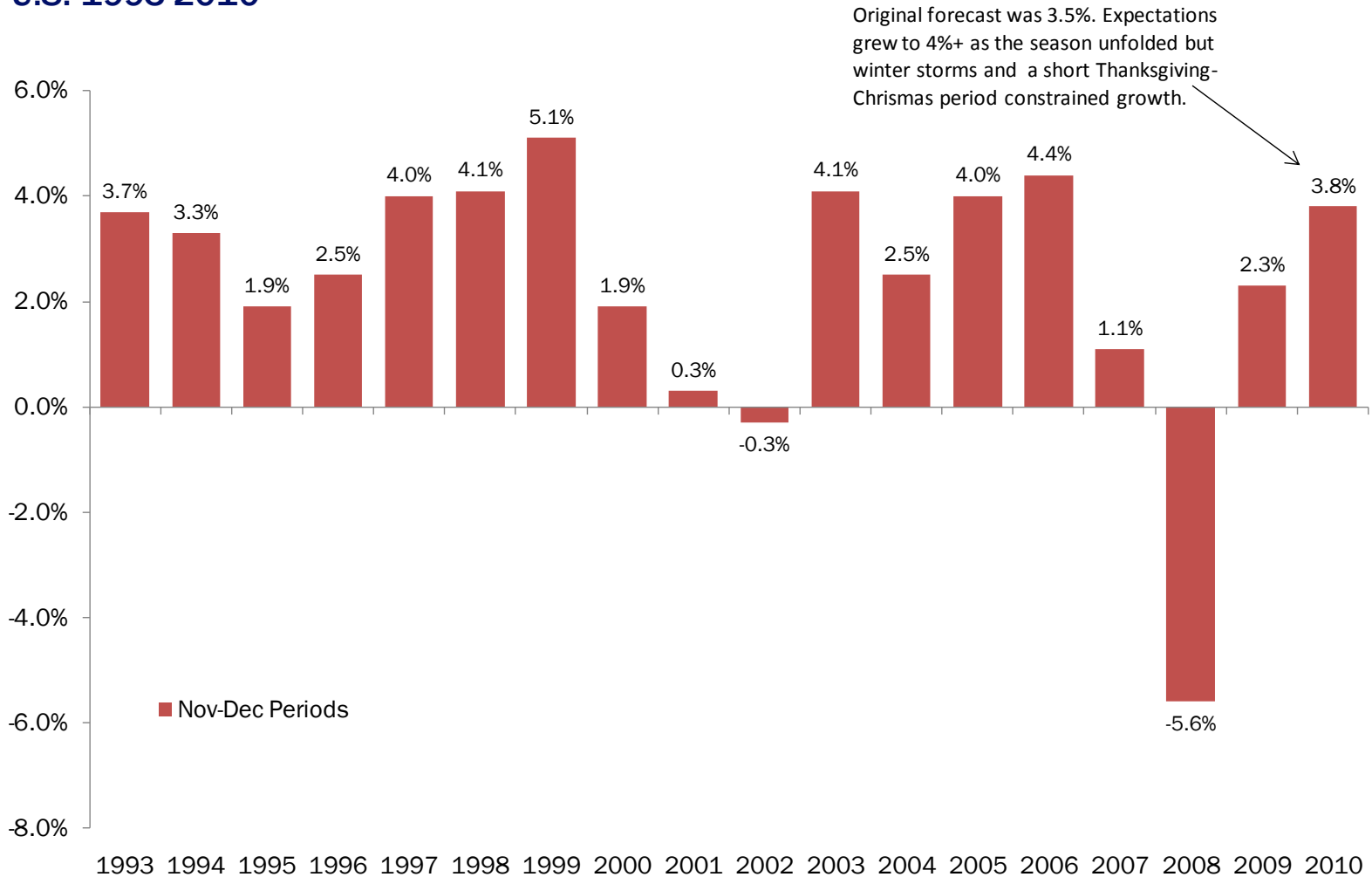
Retailer Profits Per Square Foot U.S. 1998-2011 (f)



Source: Bureau of Economic Analysis, Telsey Advisory, CBRE Econometric Advisors; Heitman Research

Solid Growth in Holiday Sales

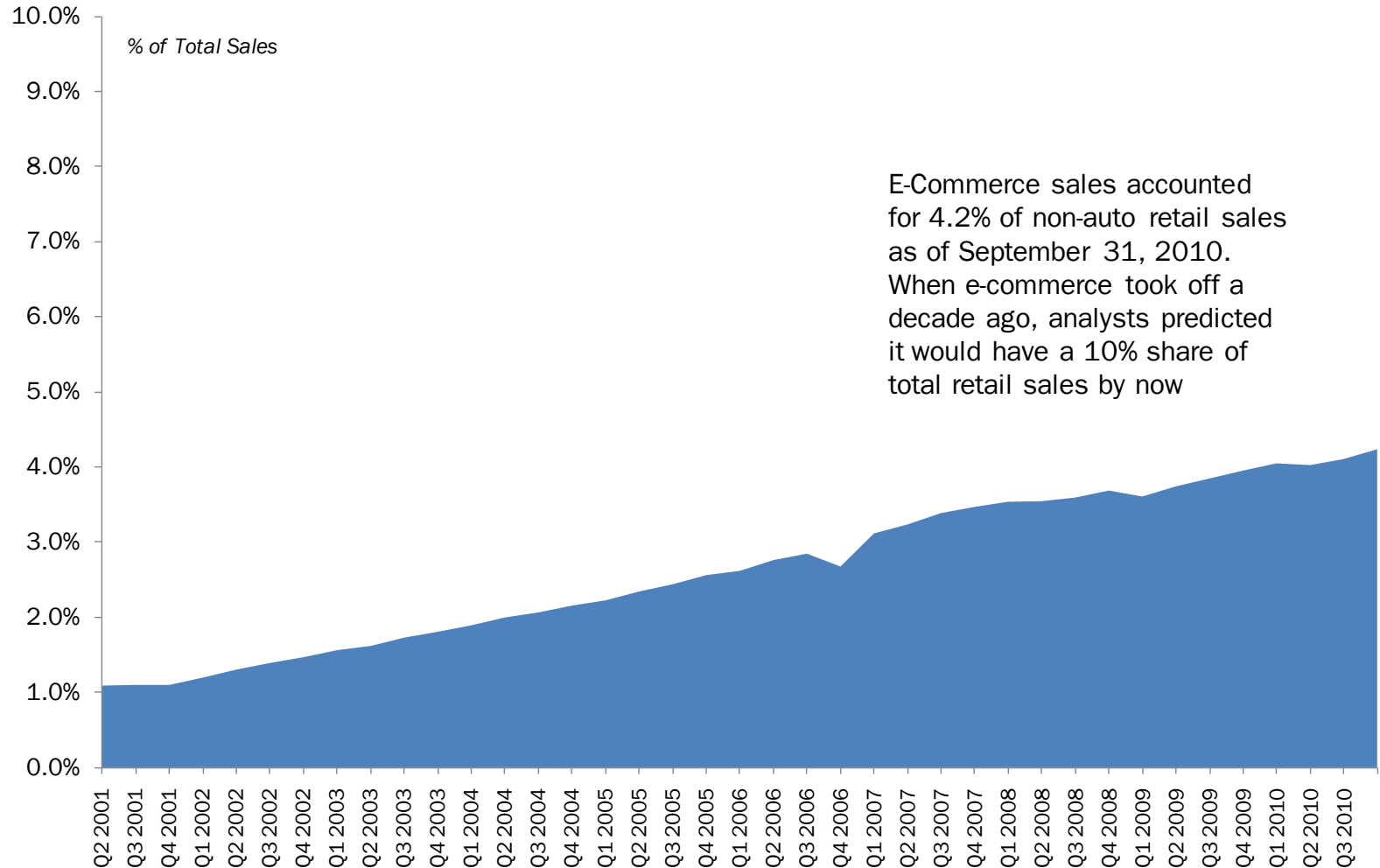
Holiday Same-Store Sales Growth U.S. 1993-2010



Source: ICSC; Heitman Research

E-Commerce Has Gained Market Share But ...

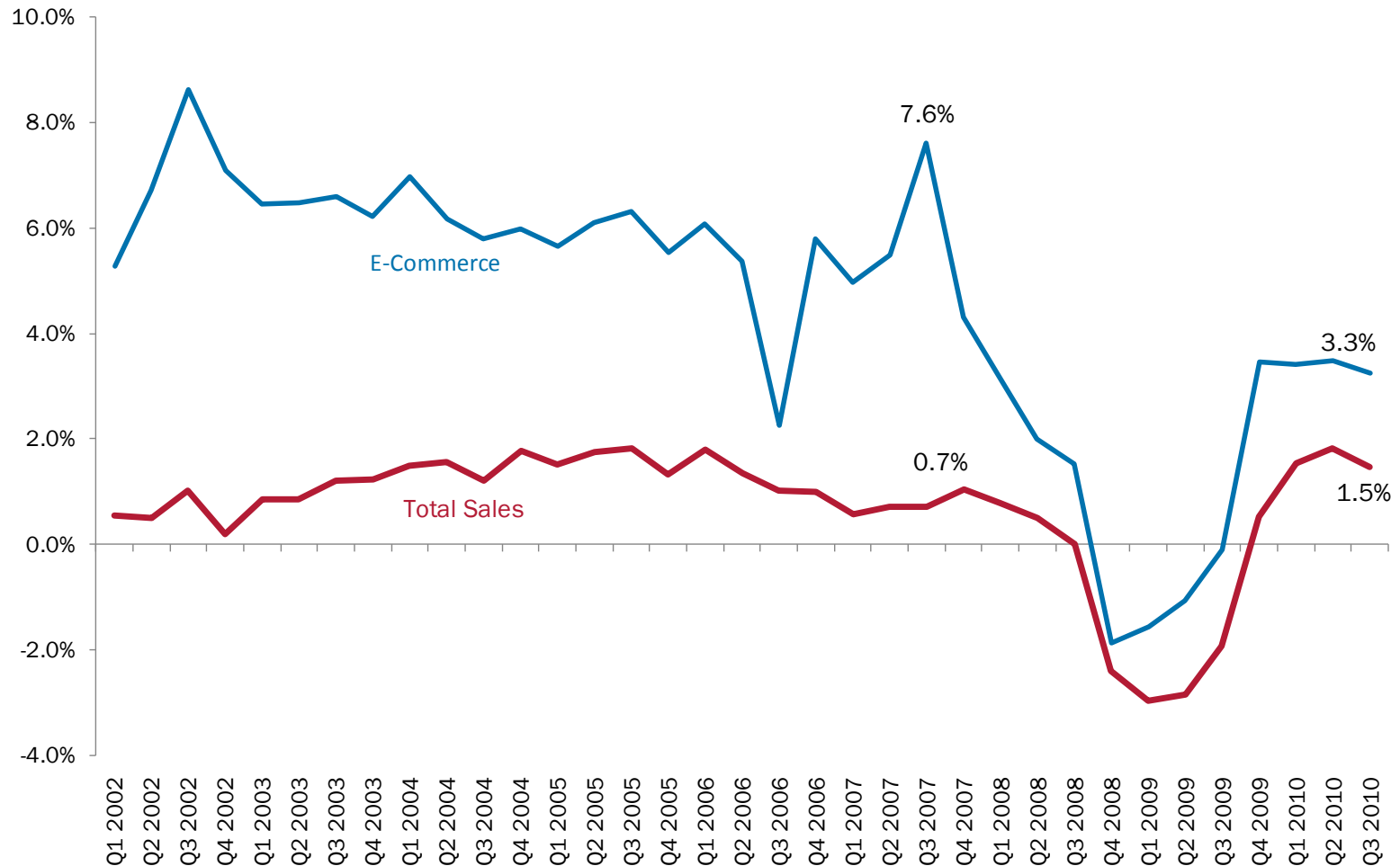
E-Commerce Share of Non-Auto Retail Sales 2001-2010 Q3



Source: Census Bureau; Heitman Research

E-commerce's Greatest Impact in Categories That Can Be Digitized

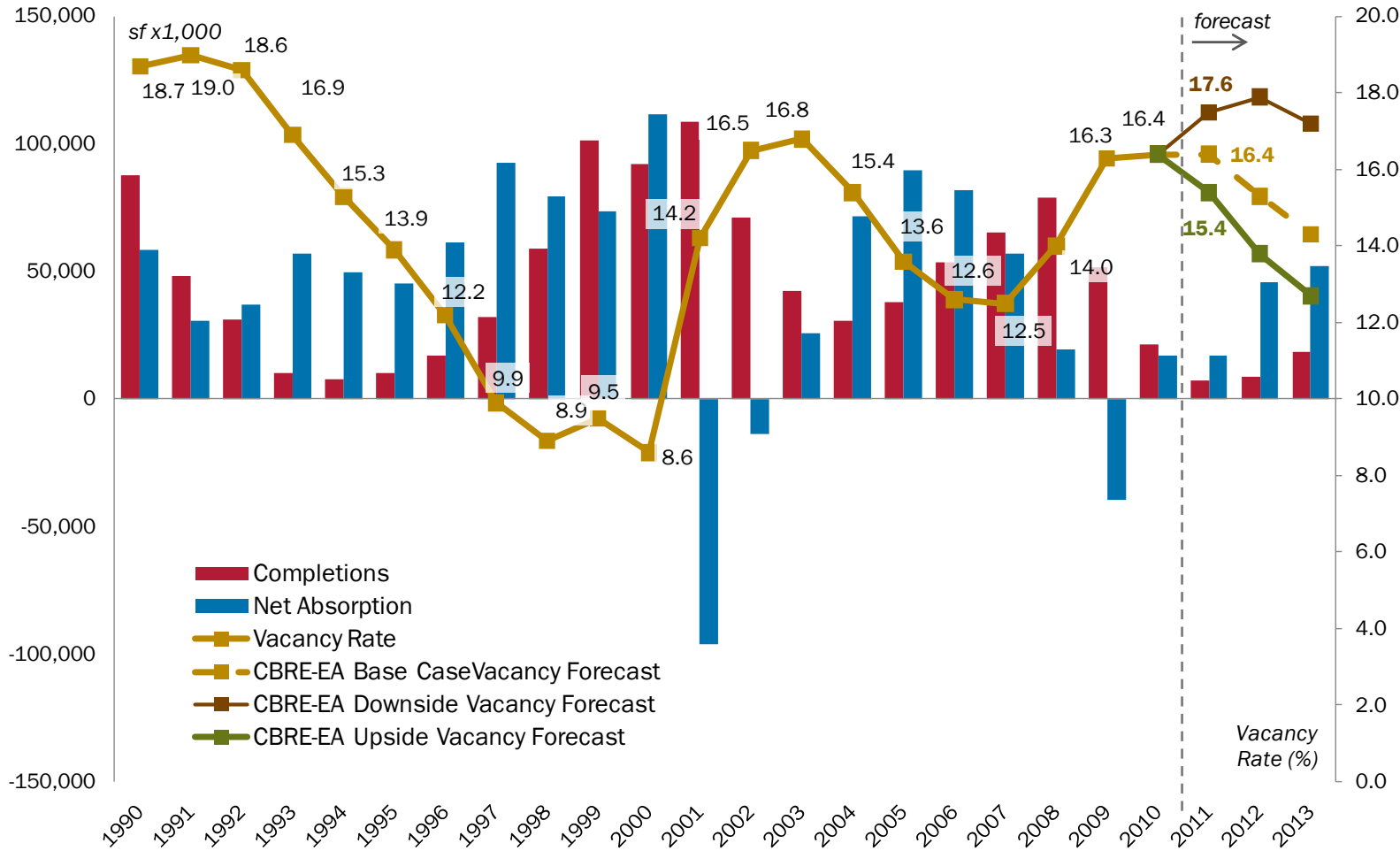
E-Commerce Sales Growth vs. Total Retail Sales Growth 2002-2010 (Q3)



Source: U.S Census Bureau; Heitman Research

Office Market Beginning the Long Climb Back

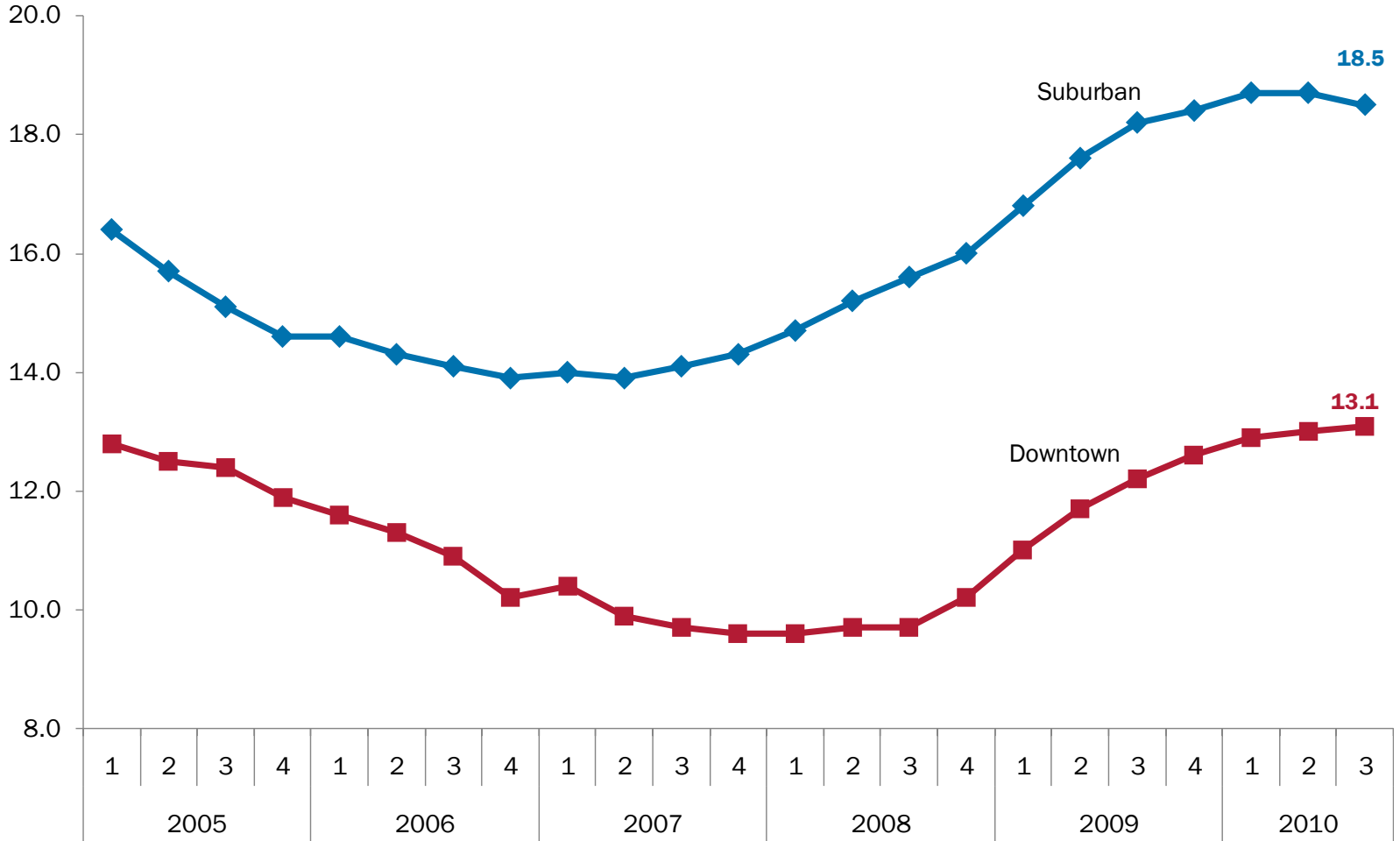
Office Completions, Net Absorption, and Vacancy
U.S. 1990-2013 Years Ending Q4



Source: CBRE Econometric Advisors; Heitman Research

Recovery Starting in Suburban Office Markets

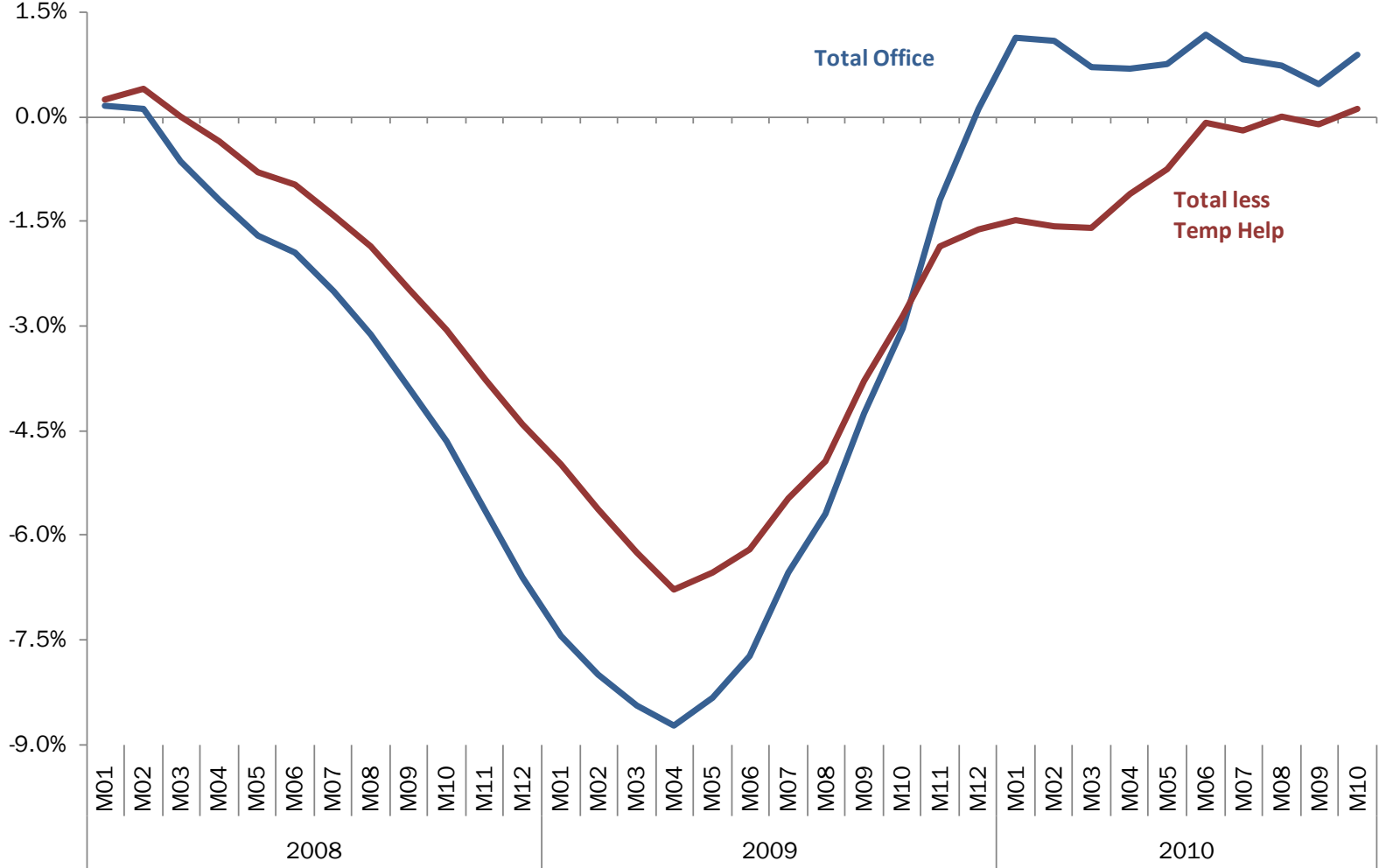
Office Market Vacancy Trends: Downtown vs. Suburbs U.S. 2005-2010



Source: CBRE Econometric Advisors; Heitman Research

Office Employment Expanding But ...

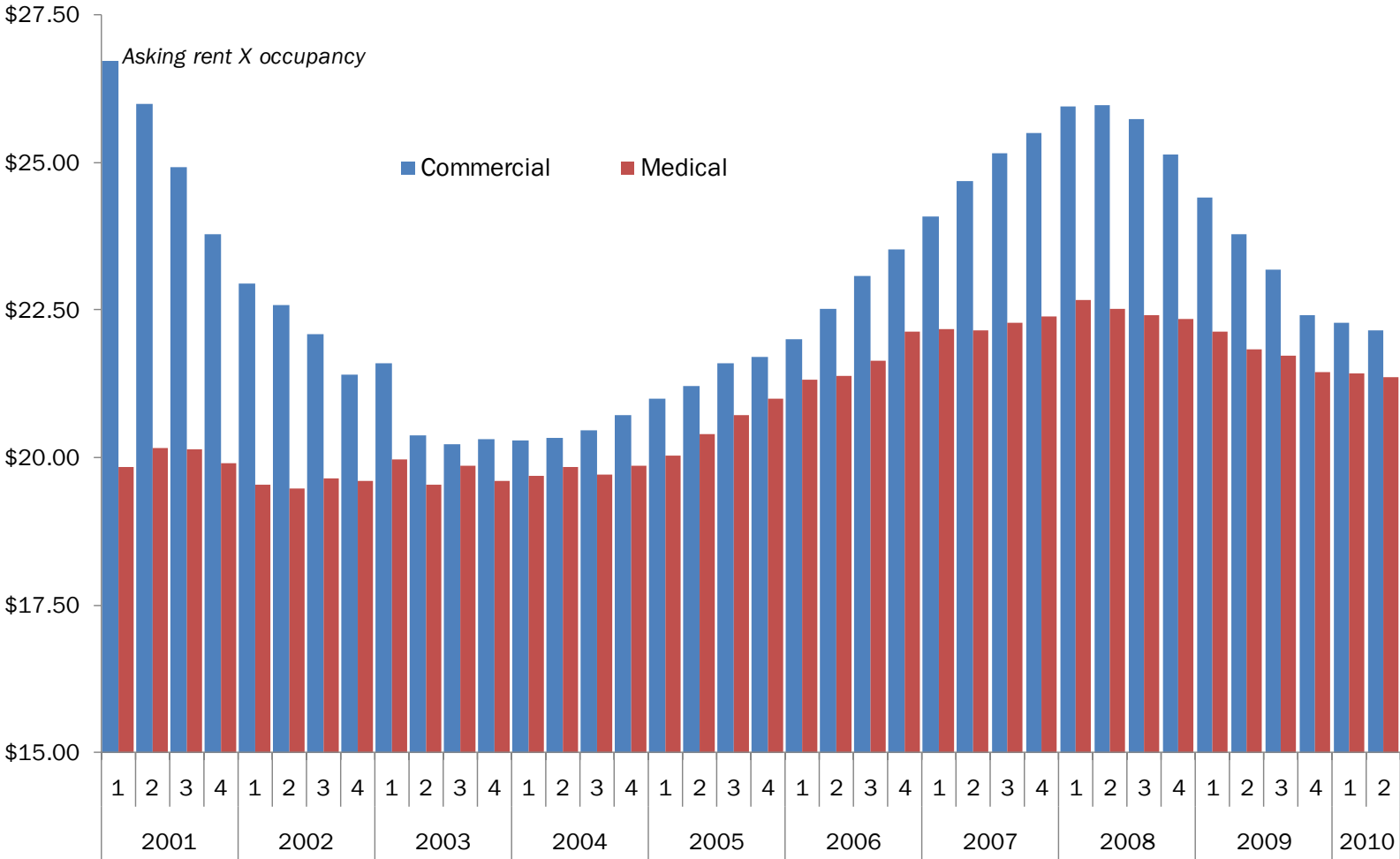
Office Employment: Annualized 3-Month Change in Rolling 3-Month Average



Source: U.S. BLS; Heitman Research

Medical Office Hurt Less in Recession; Will Recover Ahead of Commercial Office

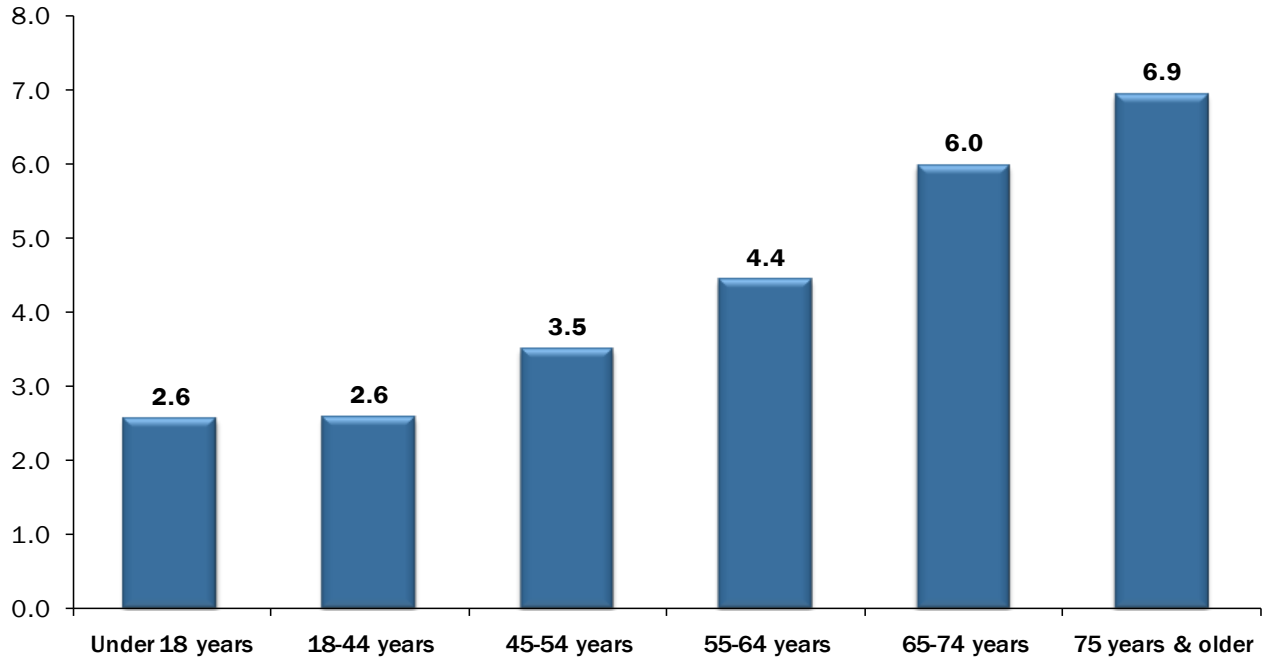
**Economic Rent: Medical Office vs. Commercial Office
U.S. 2001-2010**



Source: CoStar; Heitman Research

Medical Office A Clear Winner

Frequency of Visits to Physician Office or Outpatient Hospital Departments

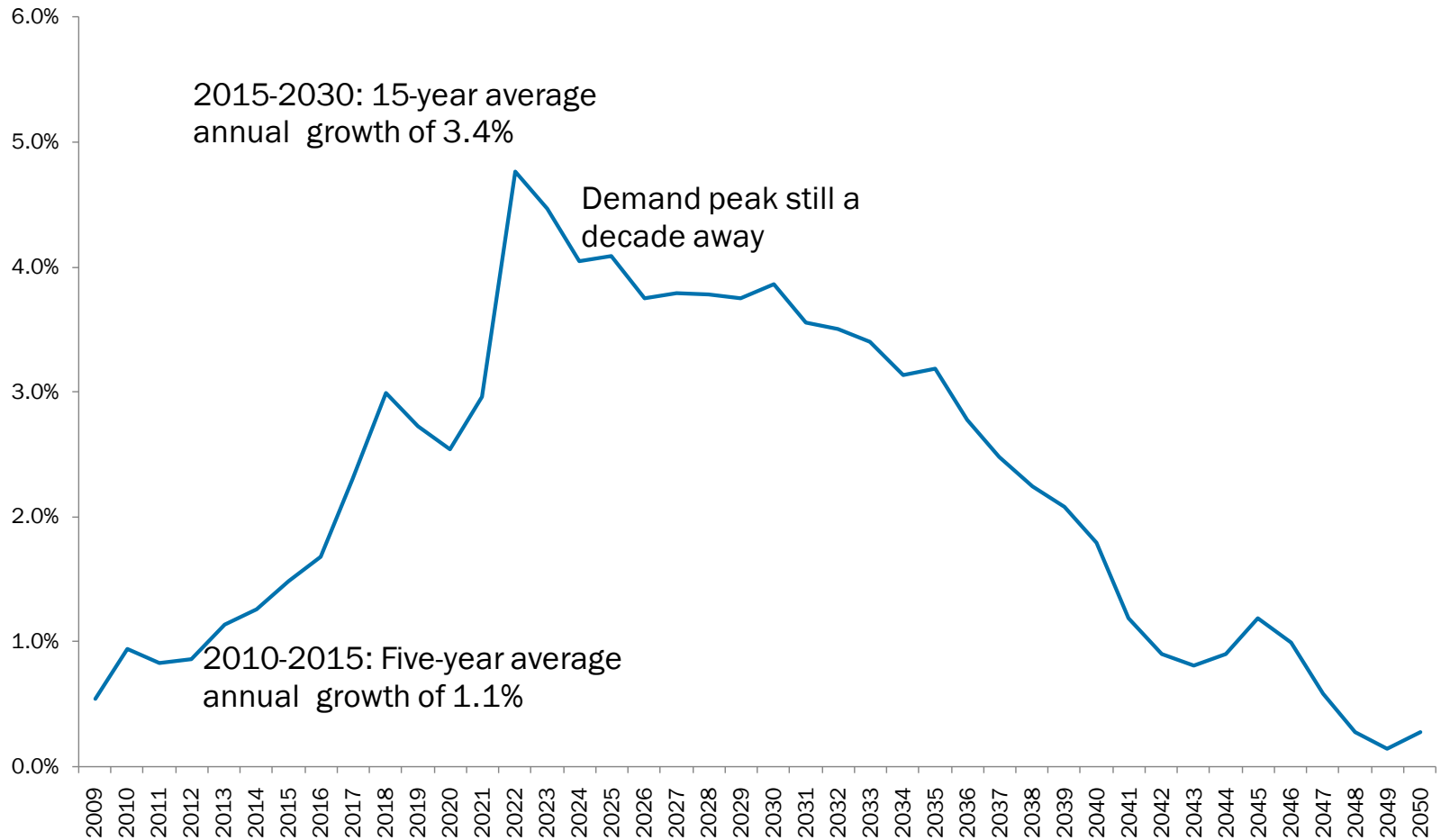


Source: Green Street Advisors; Center for Disease Control and Prevention; Heitman Research



Senior Housing: Yes the Baby Boom is Aging But ...

Annual Growth in U.S. Population Age 75+ 2008-2050



Source: U.S. Census

Concluding Thoughts

- Improving economy but choppy (not consistent upward movement)
- Inflation will be a hot topic but risk of it is more mid term than near term
- Regional economics matter again
- 2011 will see continued, accelerated recovery in U.S. property
- Construction will commence in safe markets but stay dormant in most markets
- Transaction volume will rise sharply and geography of transactions will expand, led by the REITs
- Distressed properties coming to market in greater numbers. This will continue in 2011
- Spreads will tighten as interest rates rise, assuming rate increase sparked by intensifying economic recovery
- Mispricing, if it exists, could disappear by mid year given volume of capital available to invest