

NAIOP

COMMERCIAL REAL ESTATE
DEVELOPMENT ASSOCIATION

Development '09

The Annual Meeting for
Commercial Real Estate

ECONOMIC OUTLOOK: US COMMERCIAL REAL ESTATE

SIFTING THE DATA, LOOKING FOR OPPORTUNITY

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TEXAS A&M UNIVERSITY



Today's Topics

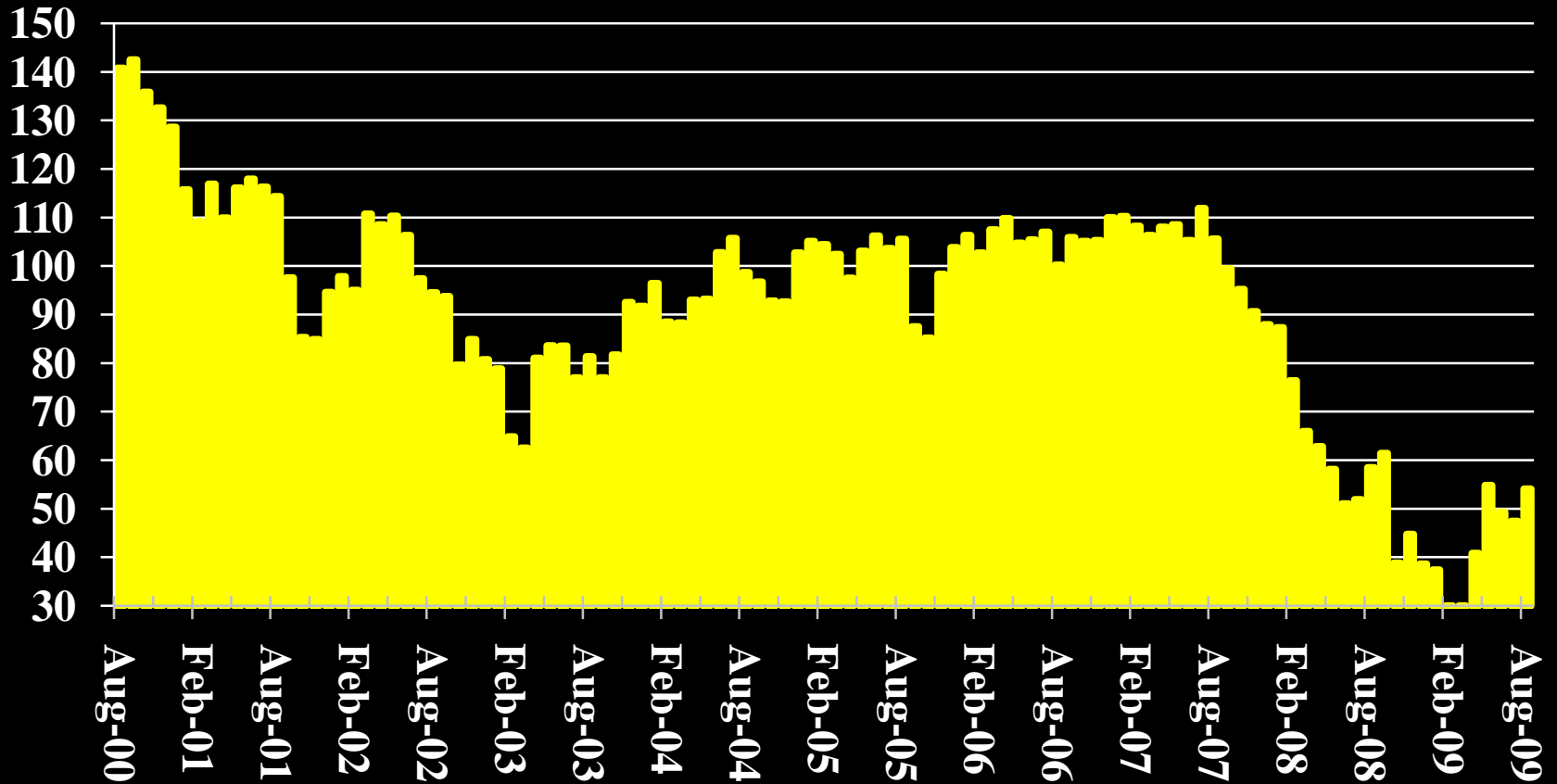
The Outlook for Job Growth

Which Segments of the Economy
are Strongest ?

A Timeline for the Commercial
Real Estate Recovery

Near-Term Opportunities

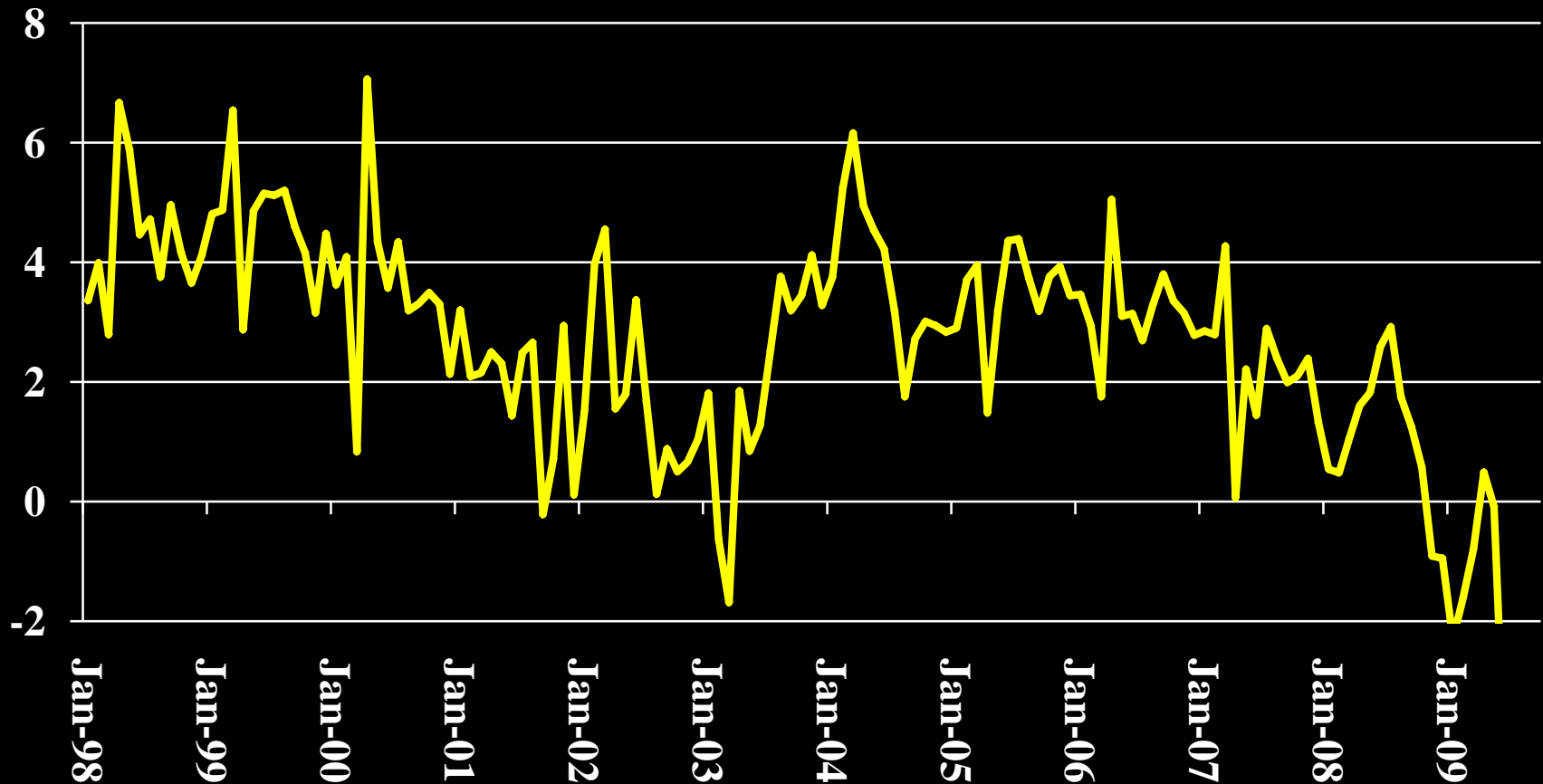
Consumer Confidence Index



Source: The Conference Board

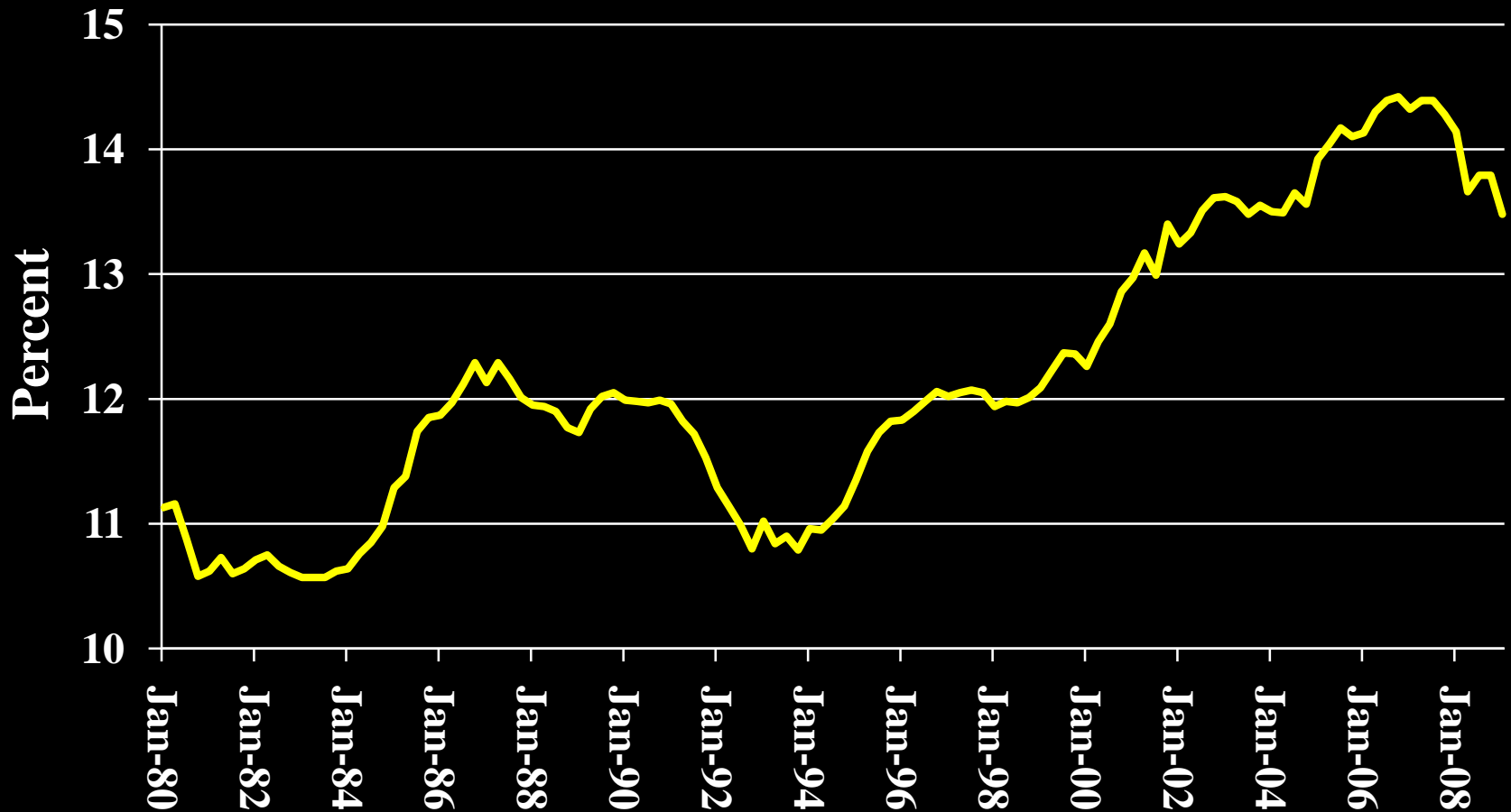
General Merchandise Retail Sales

Same Store Sales % Change from Year Earlier



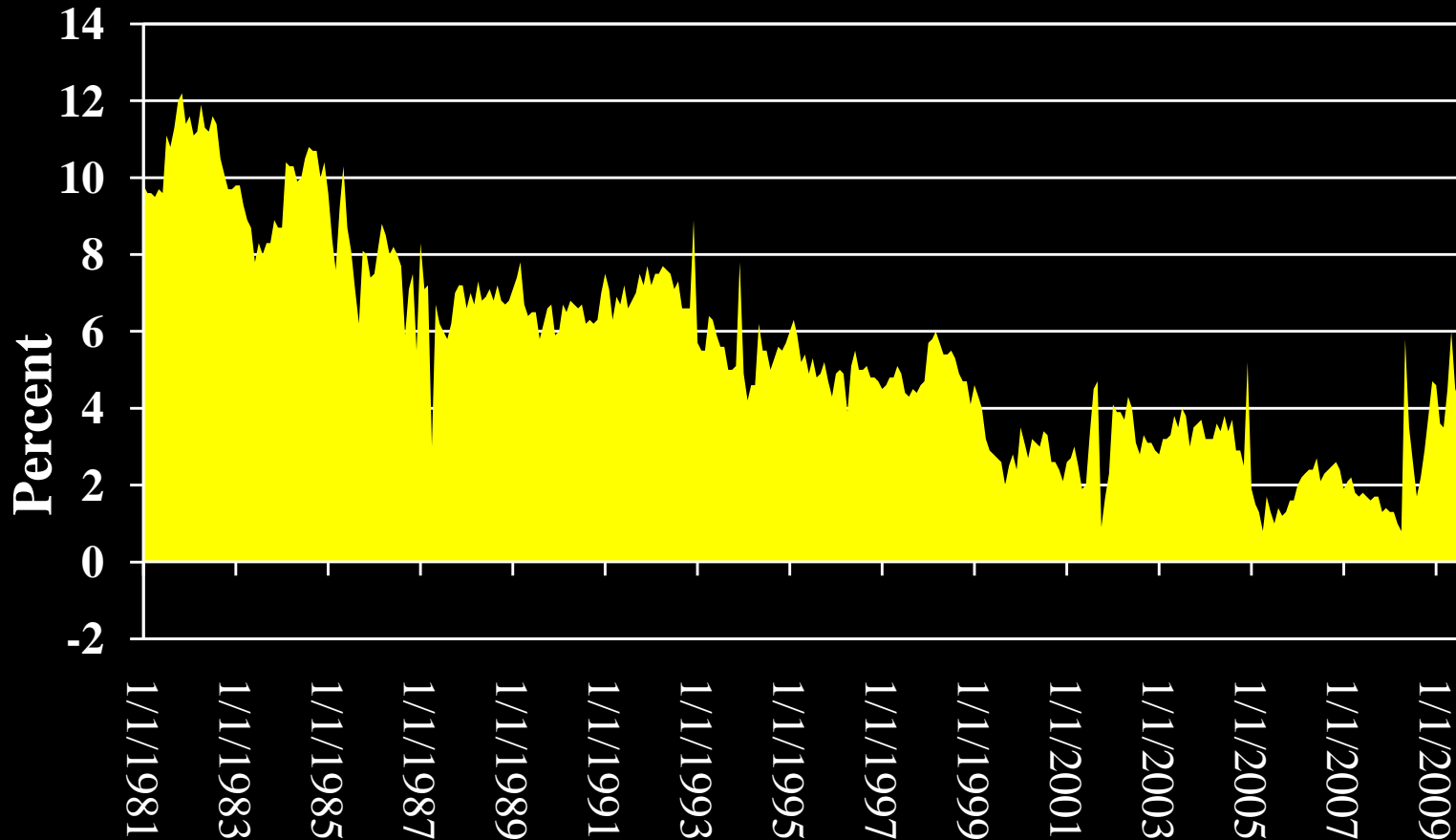
Source: Redbook Instinet Research

Debt Service Payments as a Percent of Disposable Personal Income



Source: Federal Reserve Board

Personal Savings Rate



Source: Department of Commerce

Corporate Profits

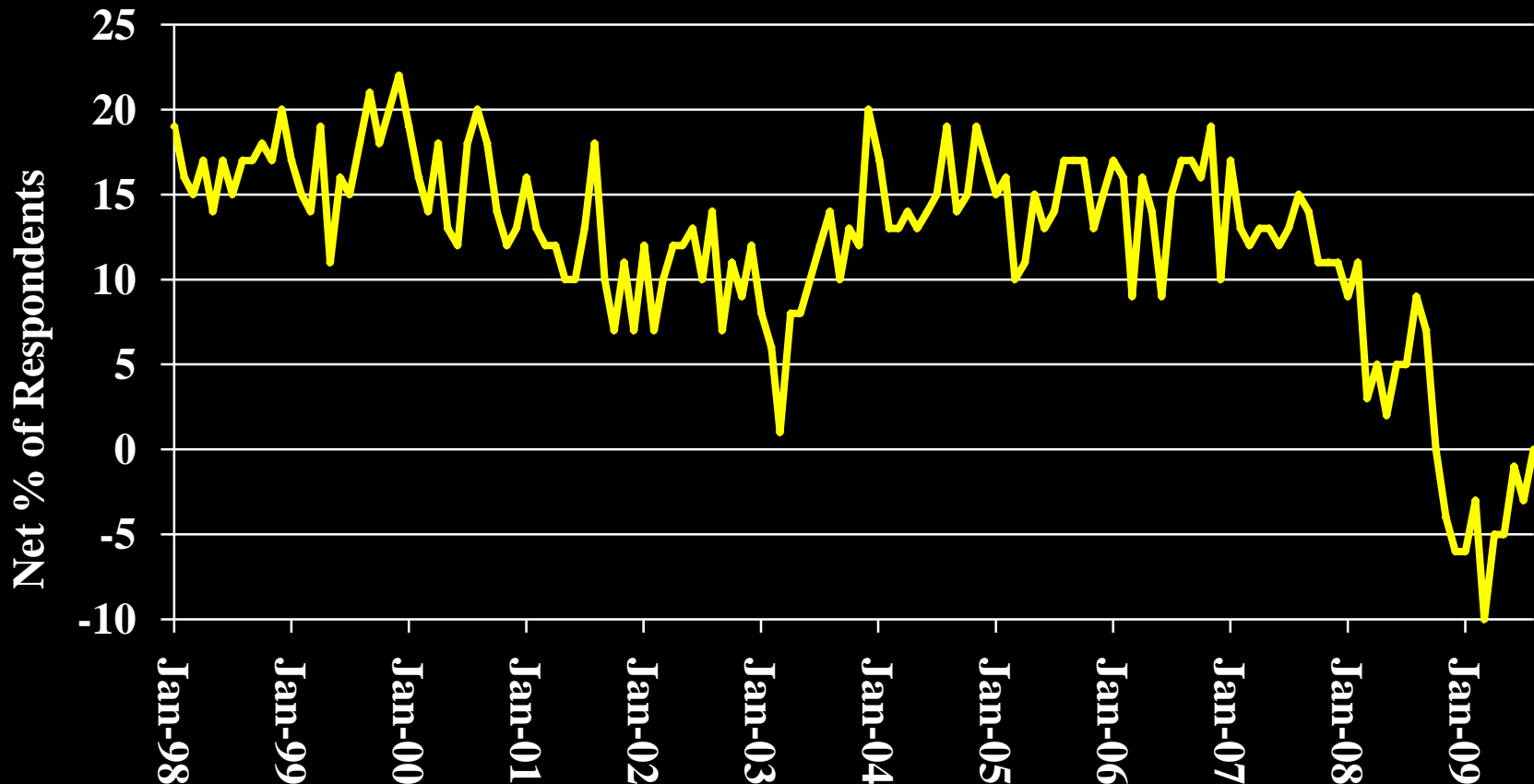
(With Inventory Valuation Adjustment & Capital Consumption Adjustment)



Source: Department of Commerce

Small Business Outlook

“Planning To Hire People In The Next Six Months”



National Federation of Independent Business

DEVELOPMENT '09: THE ANNUAL MEETING FOR COMMERCIAL REAL ESTATE

Corporate Hiring Plans: Next 6 Months

Q2-09

Q1-09

Q4-08

Q3-08

More Jobs

6%

7%

9%

29%

Less Jobs

49%

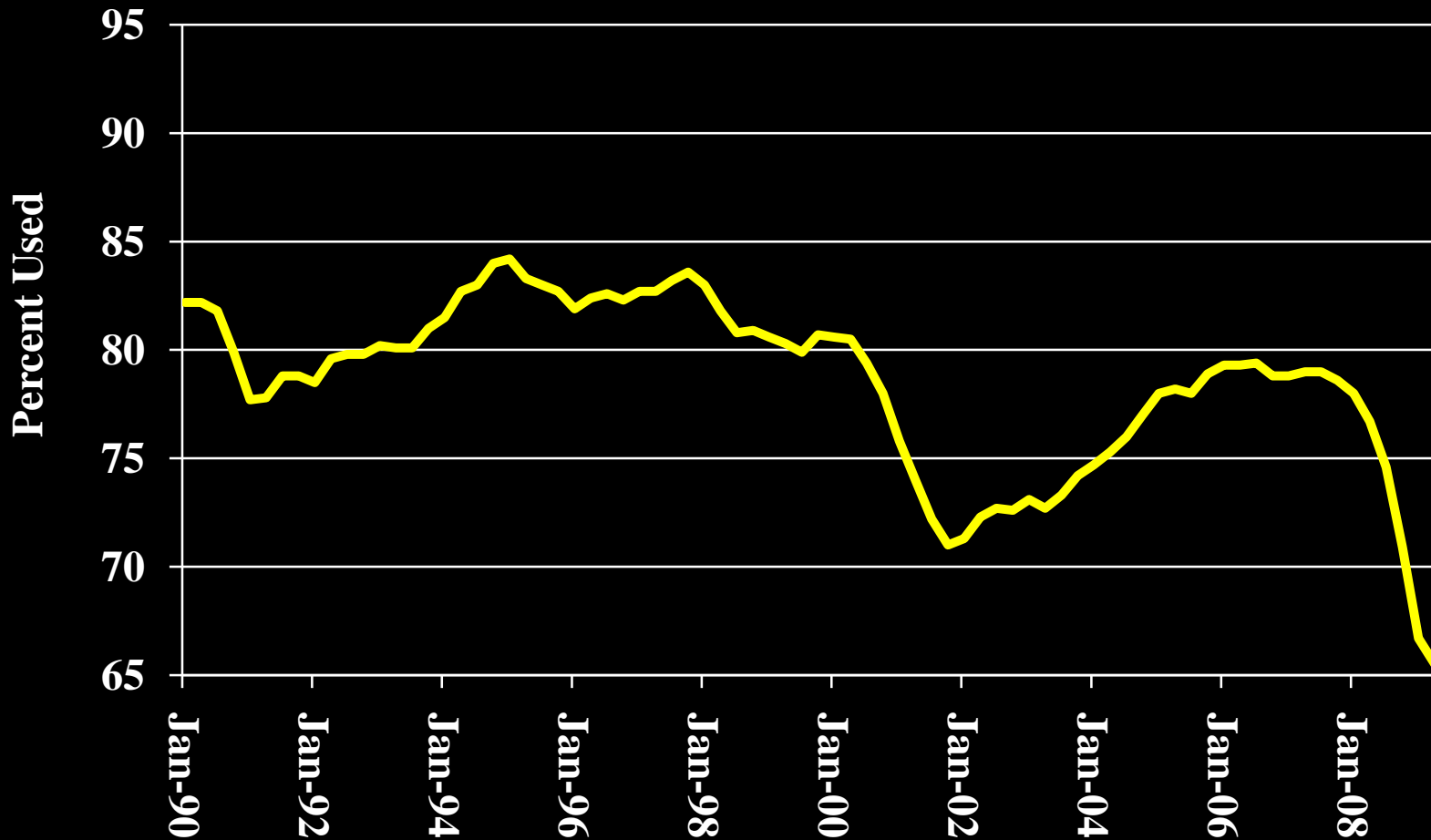
71%

60%

32%

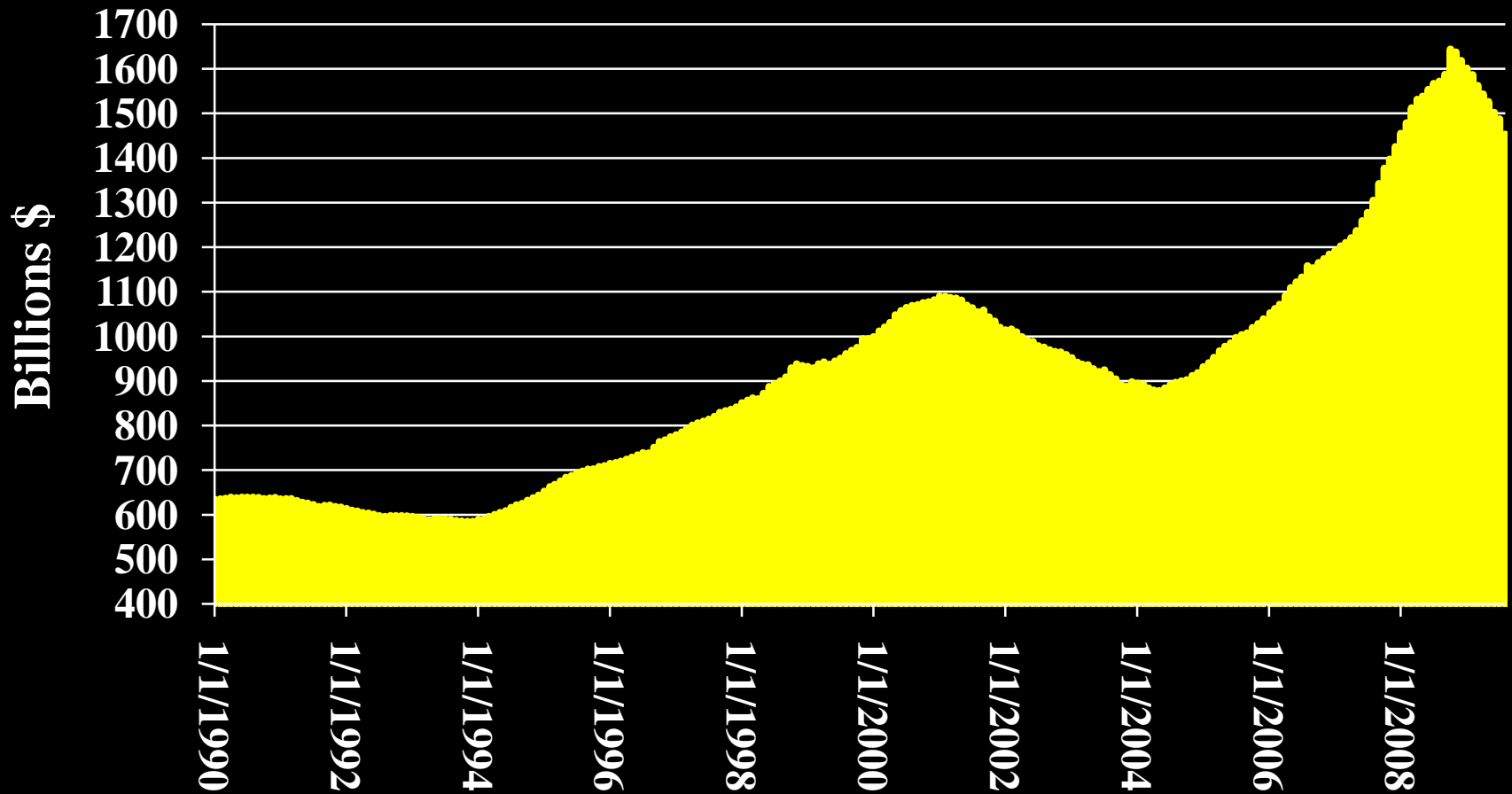
Source: Business Roundtable

Capacity Utilization: Manufacturing



Source: Federal Reserve Board

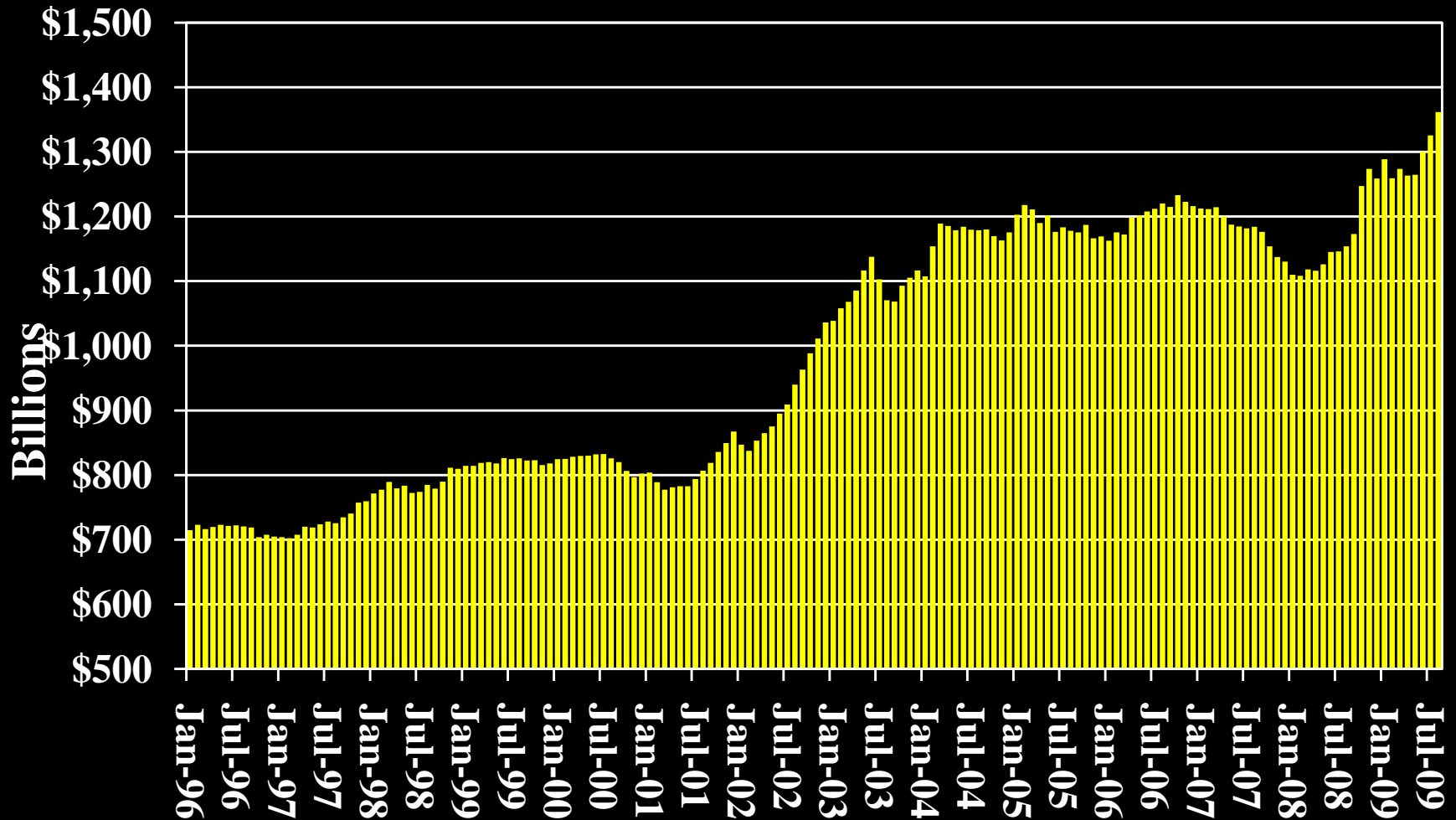
Commercial & Industrial Loans in Commercial Banks in the US



Source: Federal Reserve Board

U.S. Government Securities

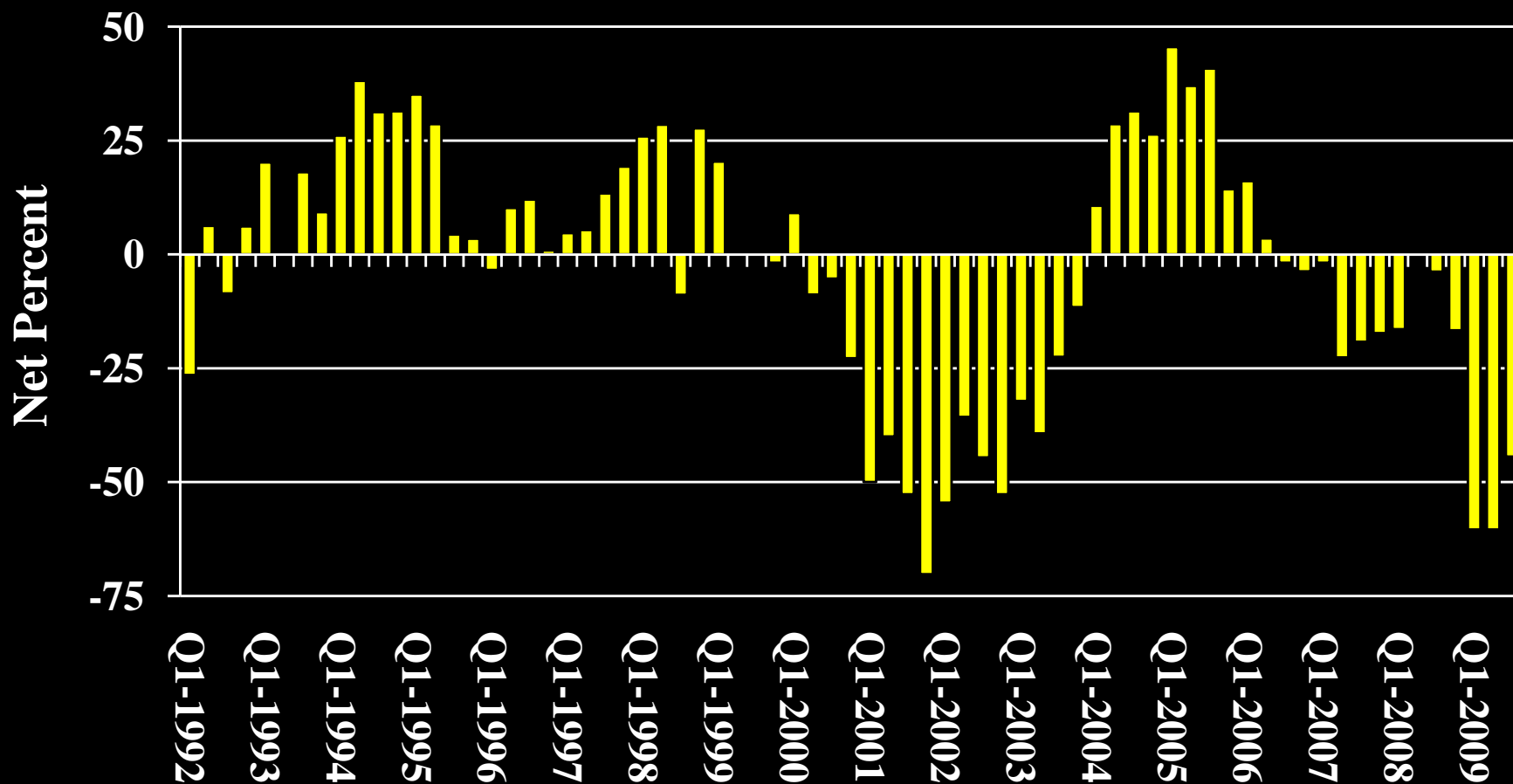
at all Commercial Banks



Source: Federal Reserve Board

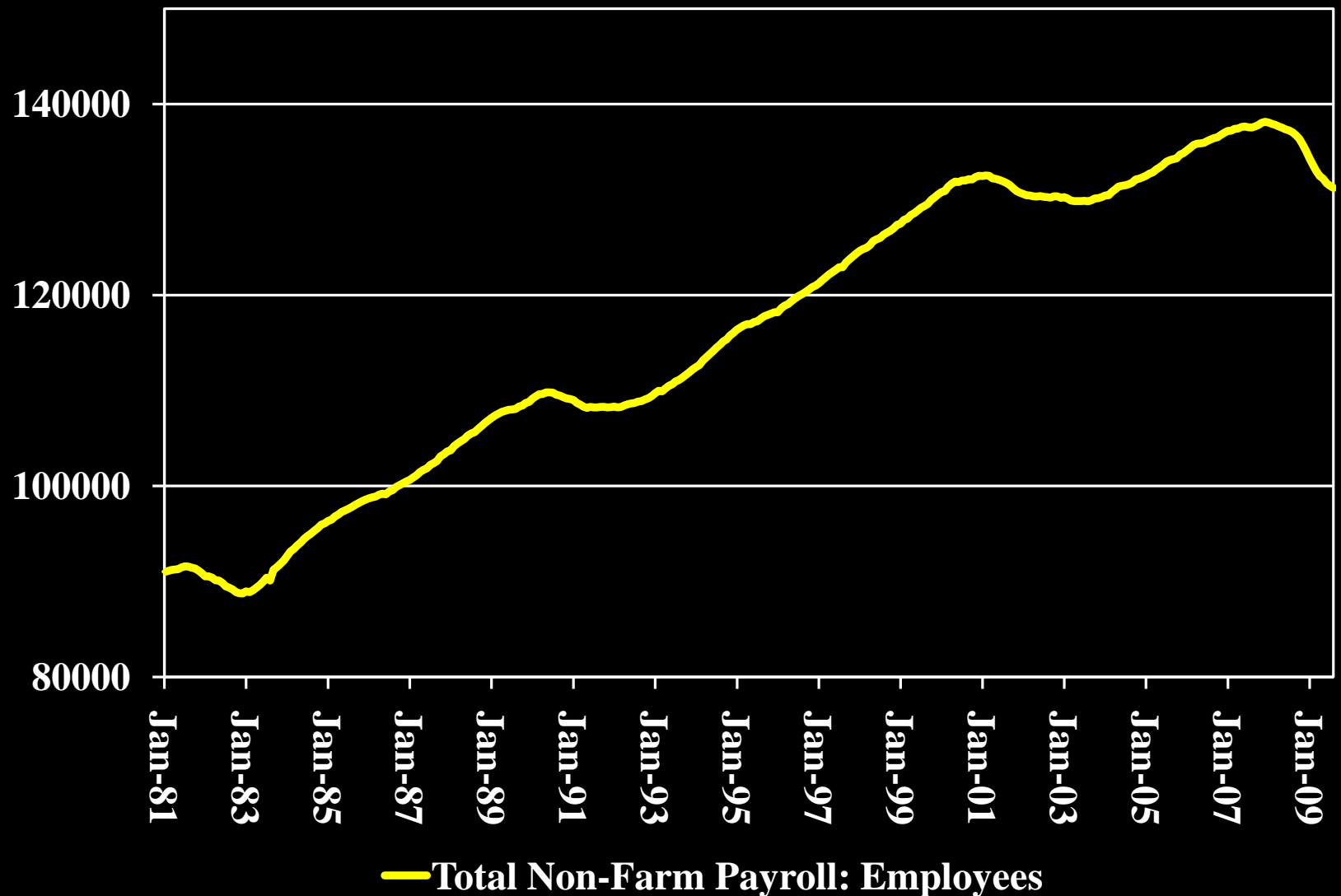
Banks Reporting Stronger Loan Demand

From Large Firms

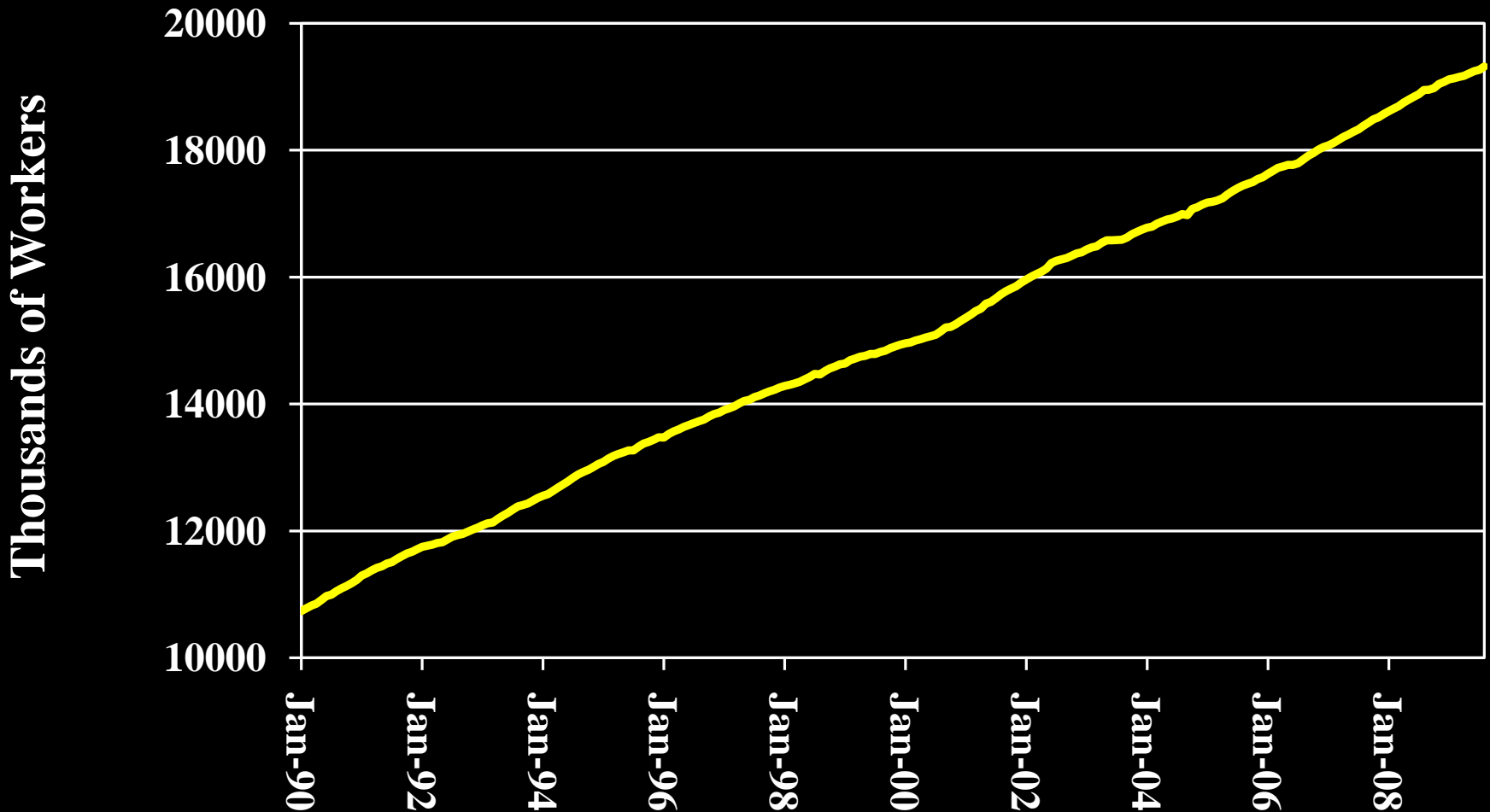


Federal Reserve Senior Loan Officer Survey

Total US Non-Farm Employment



US Employment: Education and Health Services



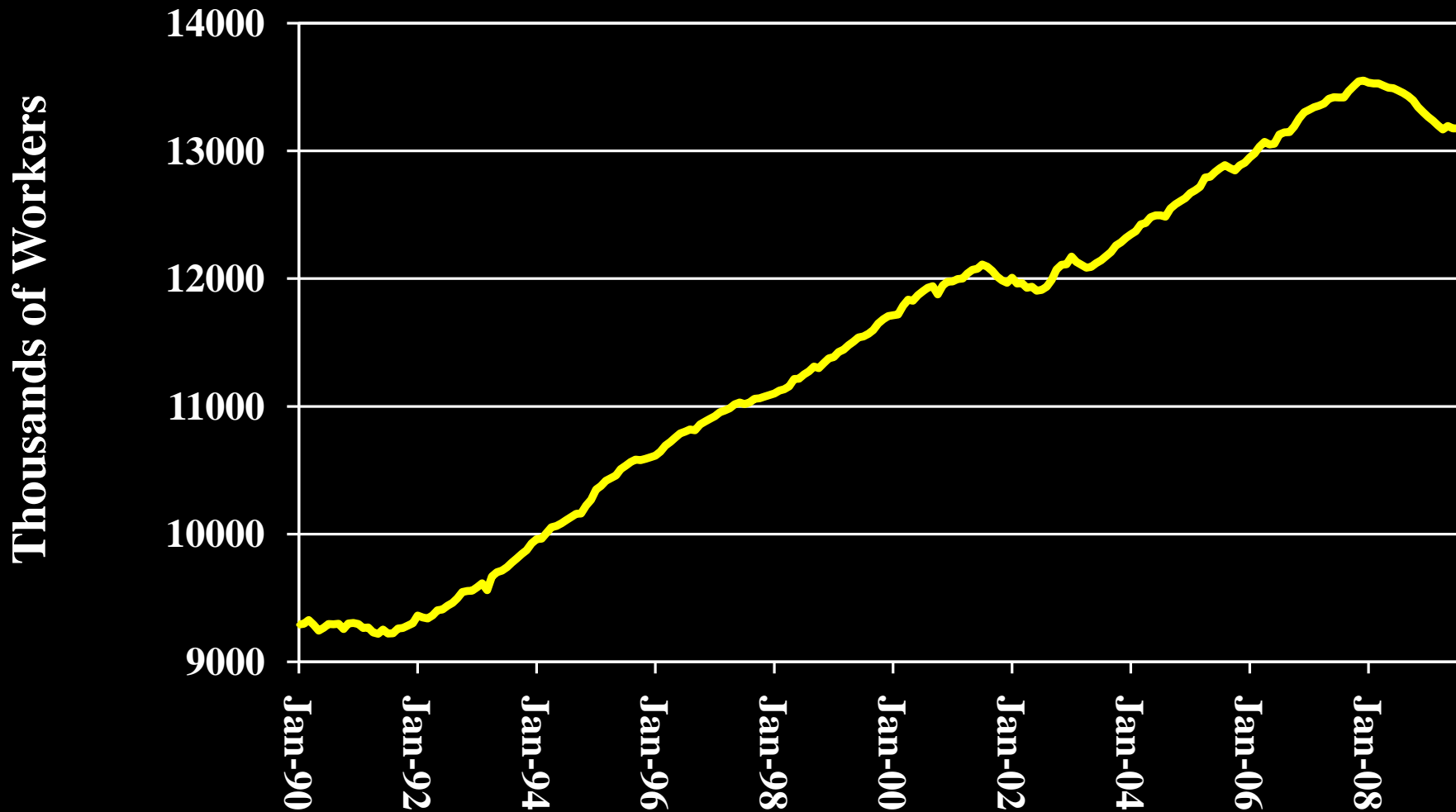
Source: Bureau of Labor Statistics

US Employment: Government



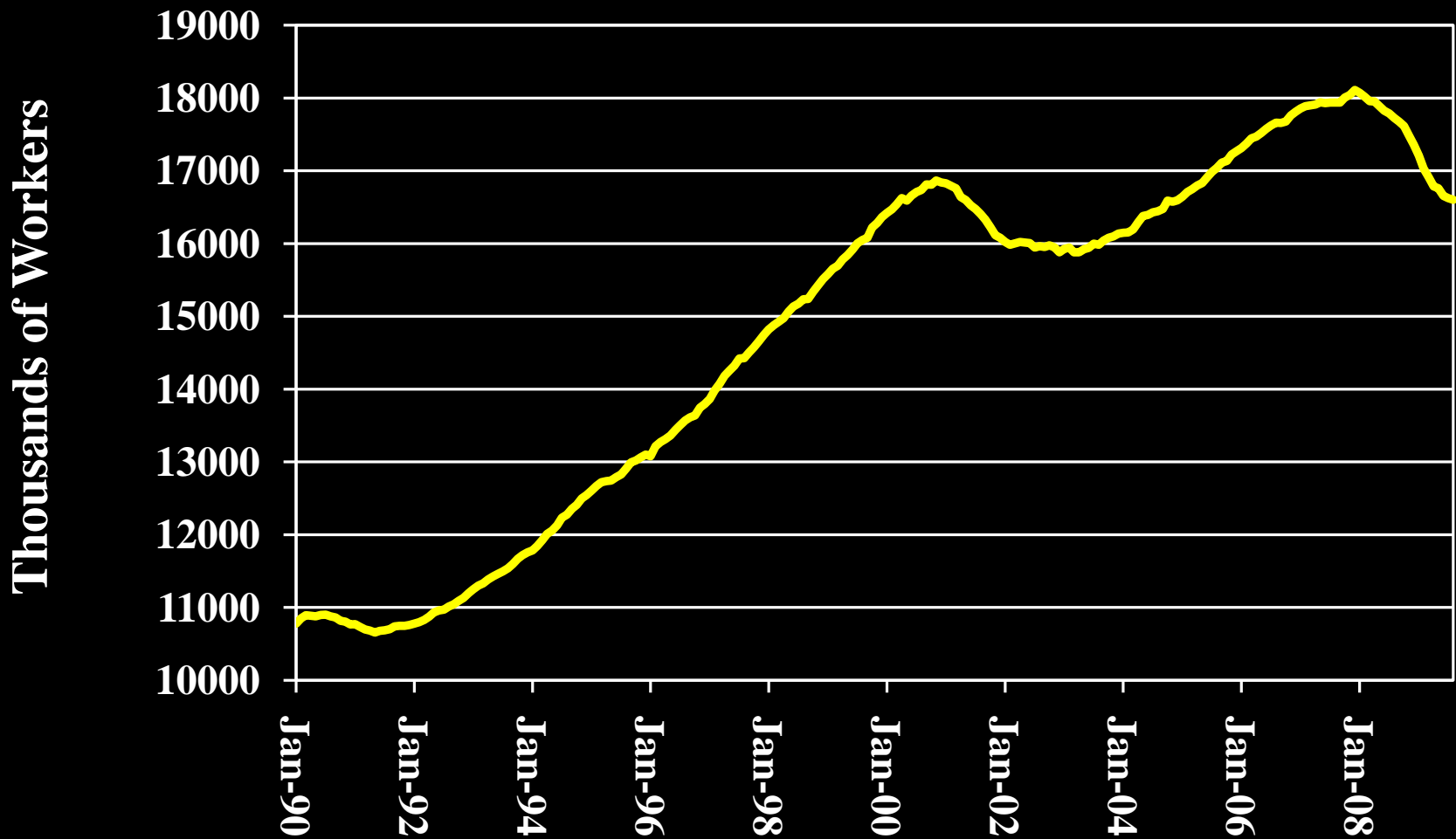
Source: Bureau of Labor Statistics

US Employment: Leisure and Hospitality



Source: Bureau of Labor Statistics

US Employment: Professional and Business Services



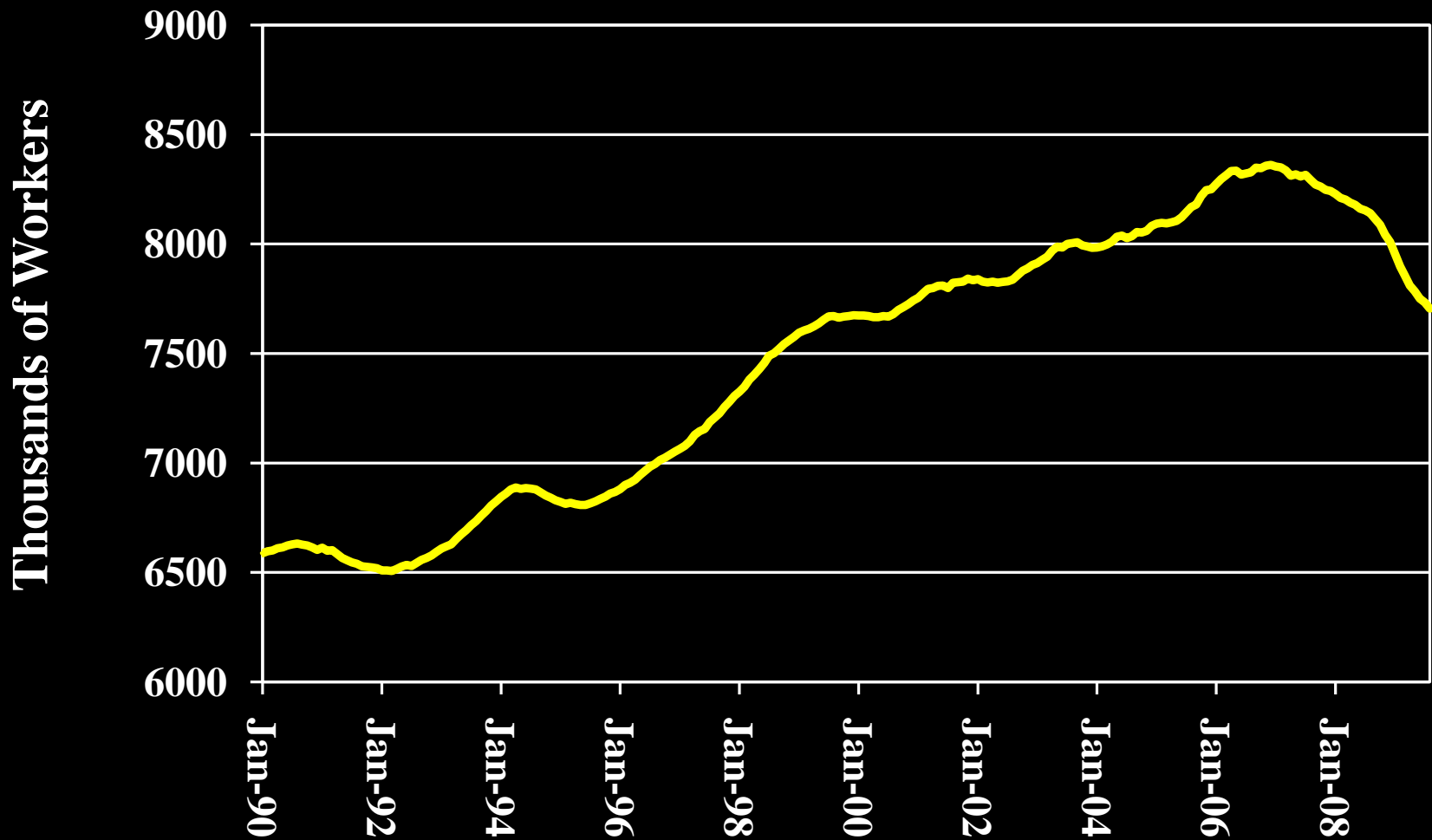
Source: Bureau of Labor Statistics

US Employment: Retail



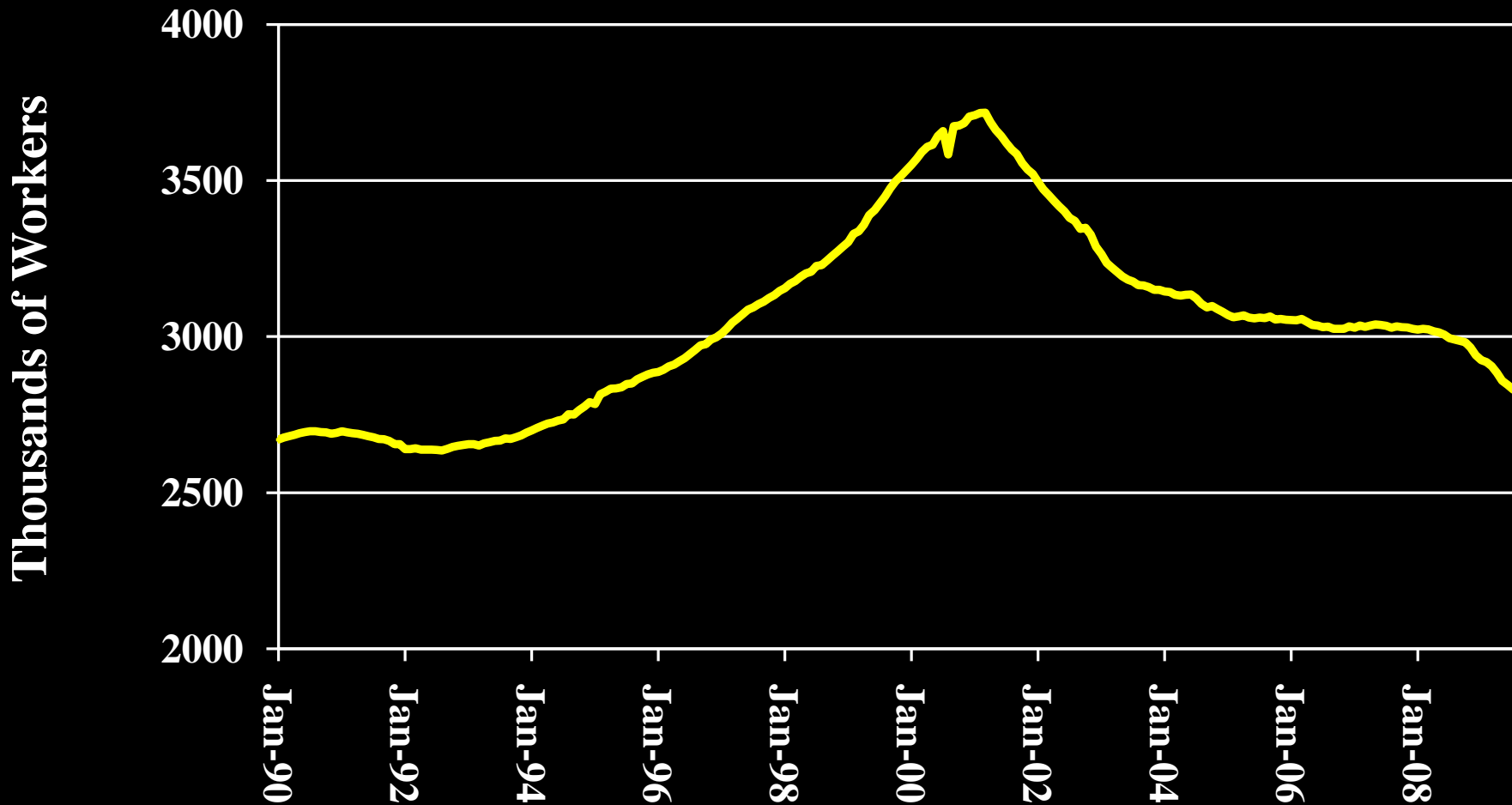
Source: Bureau of Labor Statistics

US Employment: Financial Activities



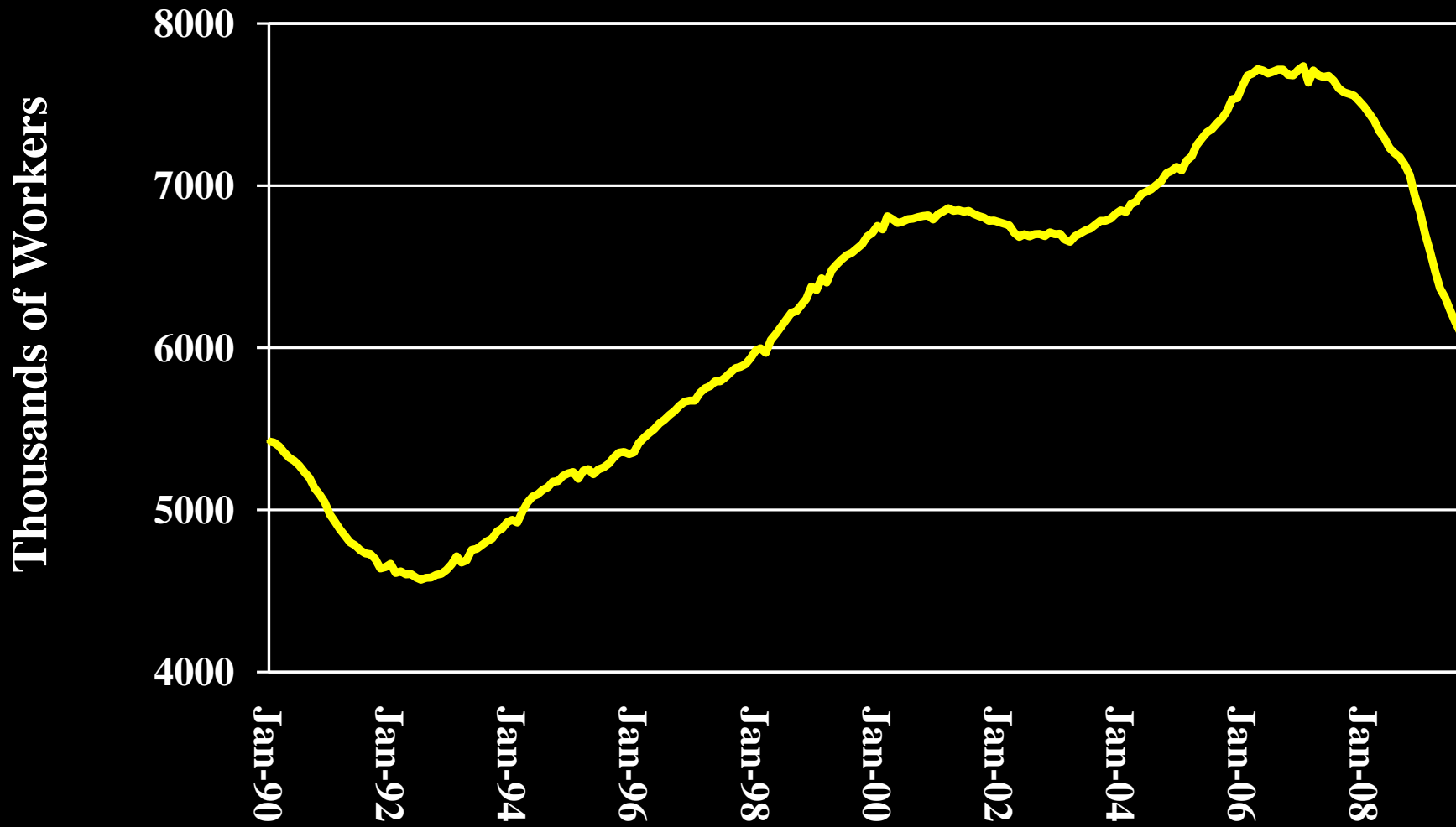
Source: Bureau of Labor Statistics

US Employment: Information Services



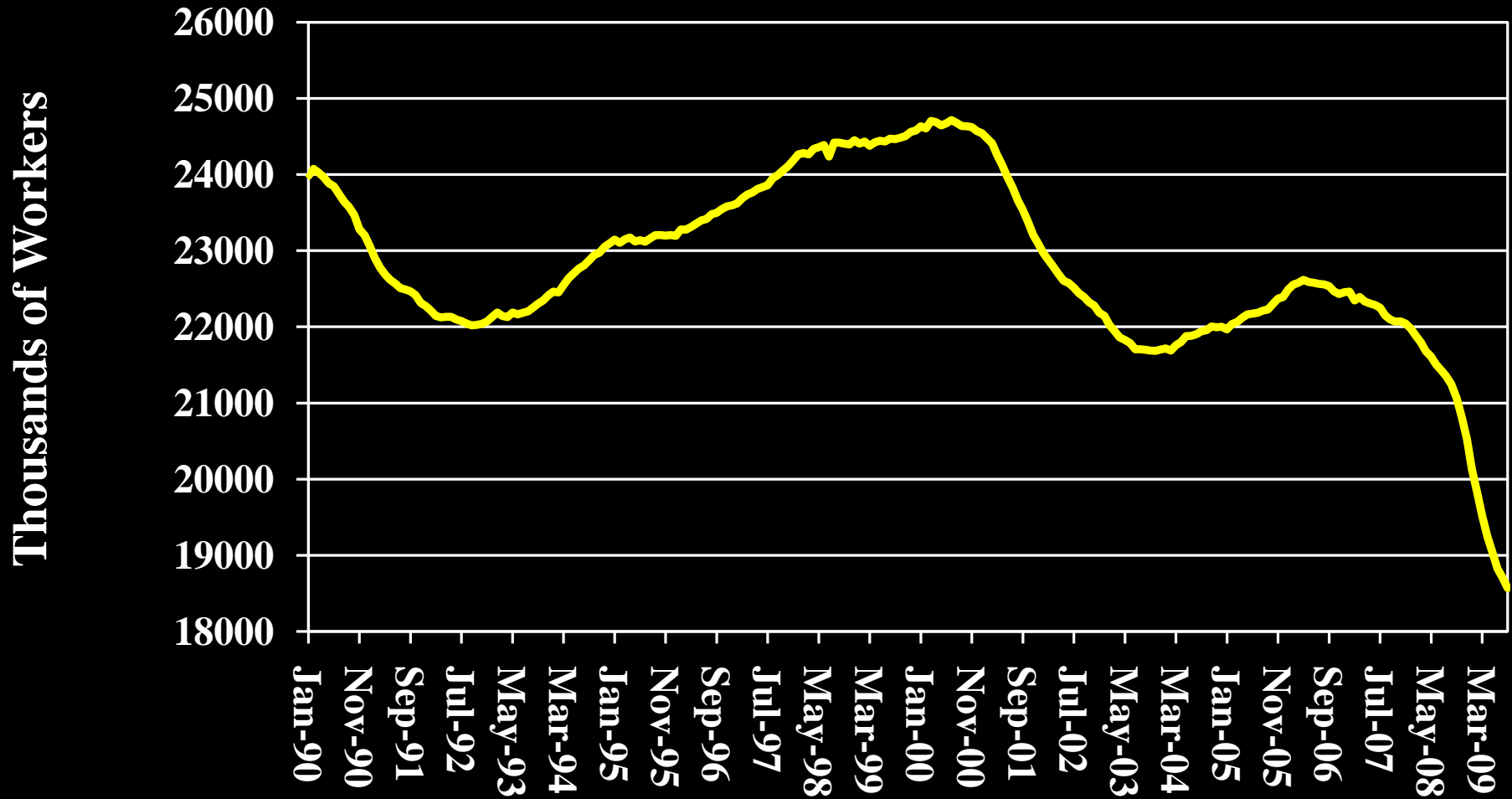
Source: Bureau of Labor Statistics

US Employment: Construction



Source: Bureau of Labor Statistics

US Employment: Goods Producing Industries



Source: Bureau of Labor Statistics

The Best Case Scenario for the US Economy

Favorable corporate earnings 4Q09

Stocks rise about four months prior to that

Consumer confidence rises with stocks

Foreclosure pressure continues to be heavy

More spending results in higher profits

Layoffs end by the end of the 2009

“Jobless recovery” in 2010

Higher interest rates and inflation in 2010-11

The Worst Case Scenario for the US Economy

The securitized lending market doesn't reopen

Bad banks and businesses propped up

No price discovery for "toxic" mortgages

Political risk for business stays high

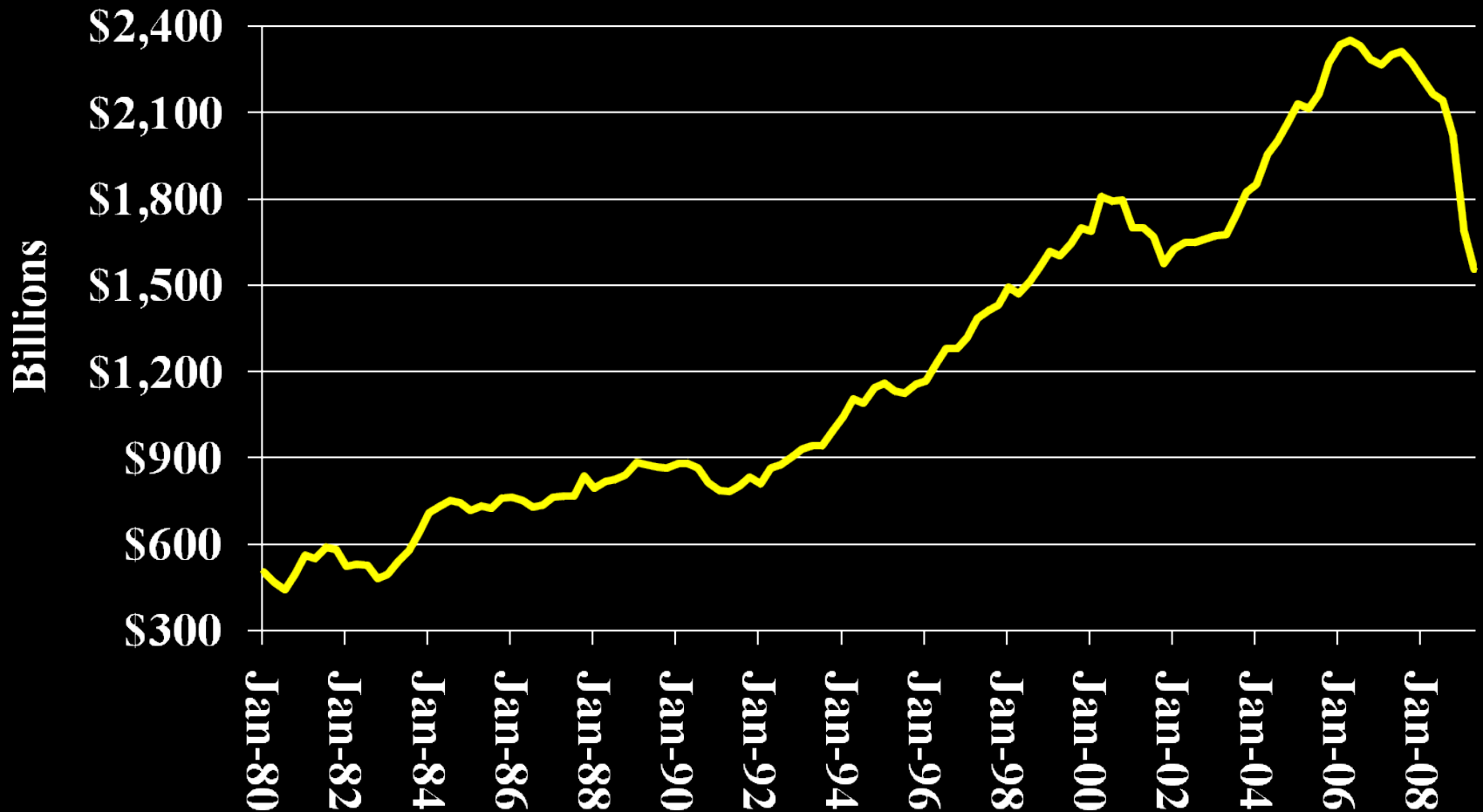
Business / investors "sit on their hands"

Unemployment goes well over 10%

Commodity deflation and price deflation

Gross Private Domestic Investment

Political Risk Creates Uncertainty for Business Owners



Source: Department of Commerce



Timeline for the commercial real estate recovery



A Timeline for CRE Recovery

2009

- Prices fall as cap rates revert to 2002 levels
- Occupancy falls as job layoffs continue
- Rents fall as owners covet tenants
- New construction continues to add new supply
- Foreclosures increase as refinancing is precluded



A Timeline for CRE Recovery 2010

- Prices continue to fall as price discovery continues
- Occupancy falls as firms downsize staff
- Layoffs end, but downsizing continues for cost savings
- Rents fall to compete for smaller tenant base
- New projects started in 2007-08 are completed
- No new construction projects undertaken



A Timeline for CRE Recovery

2011

- Slow job growth begins to soak up space
- No new supply delivered to the market
- Rent levels stabilize at lower rates
- 2006 vintage loans fail to refinance
- Foreclosure rates decline as credit market heals
- Class A space starts to fill at expense of lesser properties



A Timeline for CRE Recovery 2012

- More rapid job growth increases absorption rate
- No new supply delivered to the market
- Rents start to rise as space starts to fill
- More foreclosures from properties bought 1H07
- Property values start to increase, anticipating positive absorption and very limited new supply.



A Timeline for CRE Recovery 2013

- More rapid job growth soaks up more space
- Occupancy rate increases significantly
- No new buildings delivered to the market
- Prices continue to increase due to rising fundamentals and falling cap rates



Some Comps Start to Appear at 35% Price Decline

- Phoenix Apartment Portfolio – Phoenix, AZ

On January 13, 2009, the Account sold a portion of an apartment portfolio investment located in Phoenix, Arizona for approximately \$20 million and realized a loss of approximately \$11.7 million.

- Houston Apartment Portfolio – Houston, TX

On February 19, 2009, the Account sold a portion of an apartment portfolio investment located in Houston, Texas for approximately \$8.9 million and realized a loss of approximately \$5.2 million.



The Progression of Investors Returning to Commercial RE

First buyers will be high net worth investors, buying for their own account. They can afford to miss the bottom and still make good money. Cap rates will be at their highest as buyers seek opportunistic returns.

Once prices stabilize at the bottom, then institutional buyers will re-enter the market. Cap rates will start to fall as “core buyers” enter the market.

Private Equity War Chests

- Loan Star Funds raising two funds of \$10 billion each to buy distressed real estate assets.
- Numerous funds raising capital to buy, which will put a strong floor on real estate when the bottom is determined.

Near-Term Opportunities

- Retail and industrial dormant nationally
- Sun belt demand for more retail and apartment as population migration resumes
- Modifying existing office and retail “green”
- Municipalities will be short of capital, looking for partners
- Cap and trade will increase fuel costs
- An attractive alternative to “Assisted Living”



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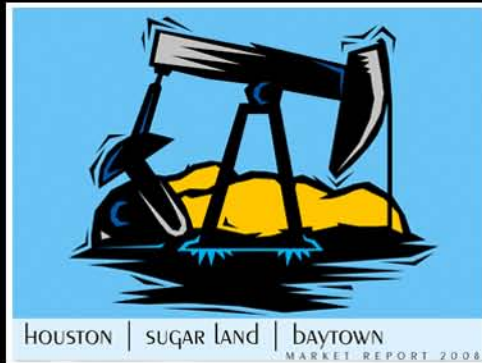
PUBLICATIONS

Tierra Grande
monthly economic reports
technical reports



MARKET REPORTS

25 MSAs
annual updates

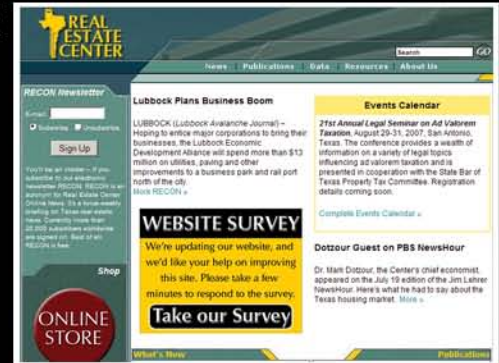


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Questions