

# NCREIF

## Summer Conference 2009

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Presented by:

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RERC President & CEO

# A Zero-Sum Decade

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Winners and Losers

Lost Trust

Lost Confidence

# Investment Expectations

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Priced for Perfection 2007  
Versus 2009 and Beyond

Priced for ??????

**(Is the glass Half Full or Half Empty?)**

# Recessions Since World War II

Peak	Trough	Duration in Months		Peak-to-Trough % Change		Jobless Rate		
		Recession Peak to Trough	Expansion Trough to Peak	Real GDP	Nonfarm Employment	Low	High	Change
<b>Dec 2007</b>	<b>December 2009</b>	<b>24</b>	<b>73</b>	<b>-3.9</b>	<b>-5.1</b>	<b>4.4</b>	<b>9.8</b>	<b>5.4</b>
Mar 2001	Nov 2001	8	120	-0.4	-2.0	3.8	6.3	2.5
Jul 1990	Mar 1991	8	92	-1.3	-1.5	5.0	7.8	2.8
Jul 1981	Nov 1982	16	12	-2.9	-3.1	7.2	10.8	3.6
Jan 1980	Jul 1980	6	58	-2.2	-1.3	5.6	7.8	2.2
Nov 1973	Mar 1975	16	36	-3.1	-2.7	4.6	9.0	4.4
Dec 1969	Nov 1970	11	106	-1.0	-1.4	3.4	6.1	2.7
Apr 1960	Feb 1961	10	24	-1.3	-2.3	4.8	7.1	2.3
Aug 1957	Apr 1958	8	39	-3.8	-4.4	3.7	7.5	3.8
Jul 1953	May 1954	10	45	-2.7	-3.3	2.5	6.1	3.6
Nov 1948	Oct 1949	11	37	-1.7	-5.1	3.4	7.9	4.5
<b>Average for past recessions</b>		<b>10</b>	<b>57</b>	<b>-2.0</b>	<b>-2.7</b>	<b>4.4</b>	<b>7.6</b>	<b>3.2</b>

Sources: NBER, BEA, FRB, BLS, Moody's Economy.com

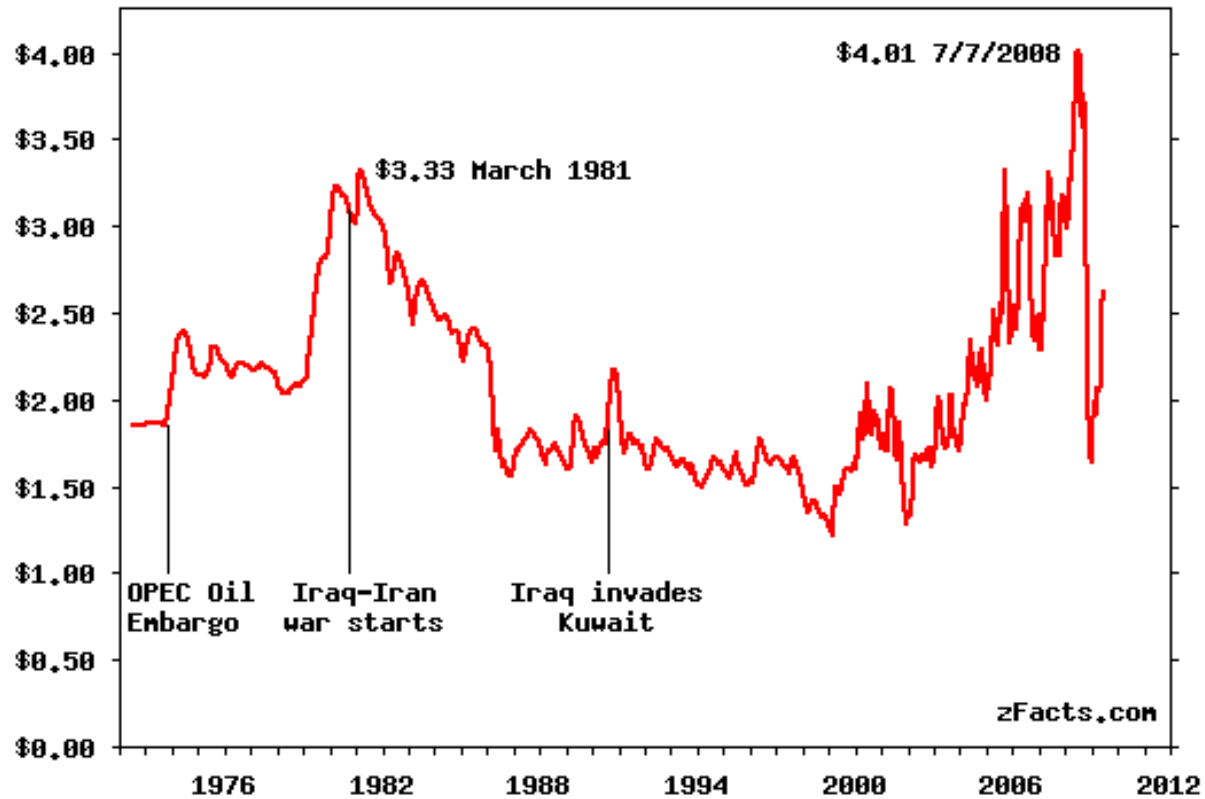
# Housing Supply Still Excessive

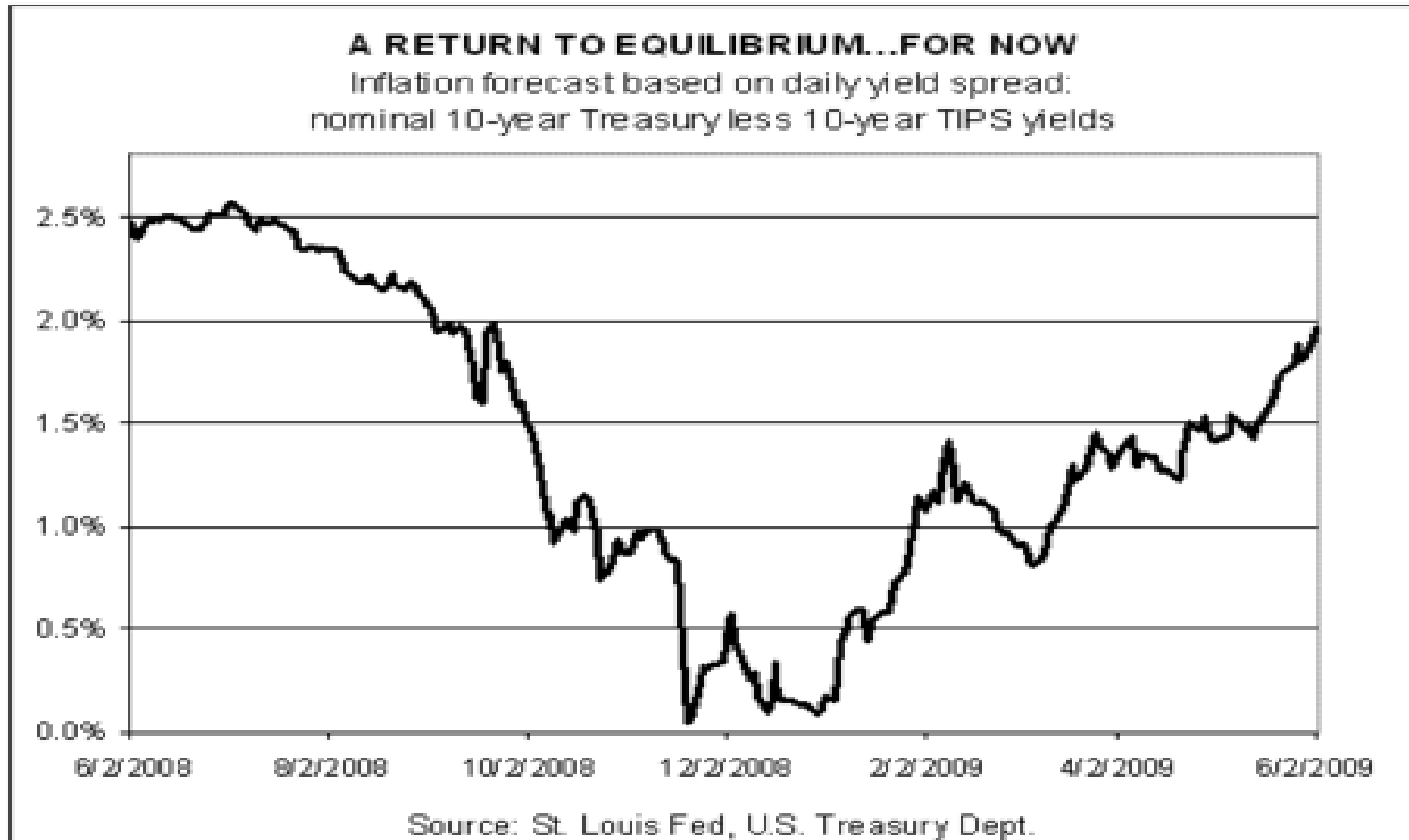
Housing Data	Apr-09	Mar-09	Percent Change
Existing Home Sales	4,680,000	4,550,000	2.9%
Pending Home Sales Index	90.3	84.6	6.7%
New-Home Sales (Millions)	350,000	350,000	0.0%
Housing Affordability Index	174.8	171.9	1.7%
Housing Inventory (Months Supply)	10.2	9.6	6.3%
Sales Price of Existing Homes (Median)	\$169,800	\$169,700	0.1%
New Residential Construction	458,000	525,000	-12.8%

Sources: Census Bureau, NAR.

# Oil Prices

Regular Gasoline Price in Today's Dollars (6/8/2009)





# Tapped-Out Consumers

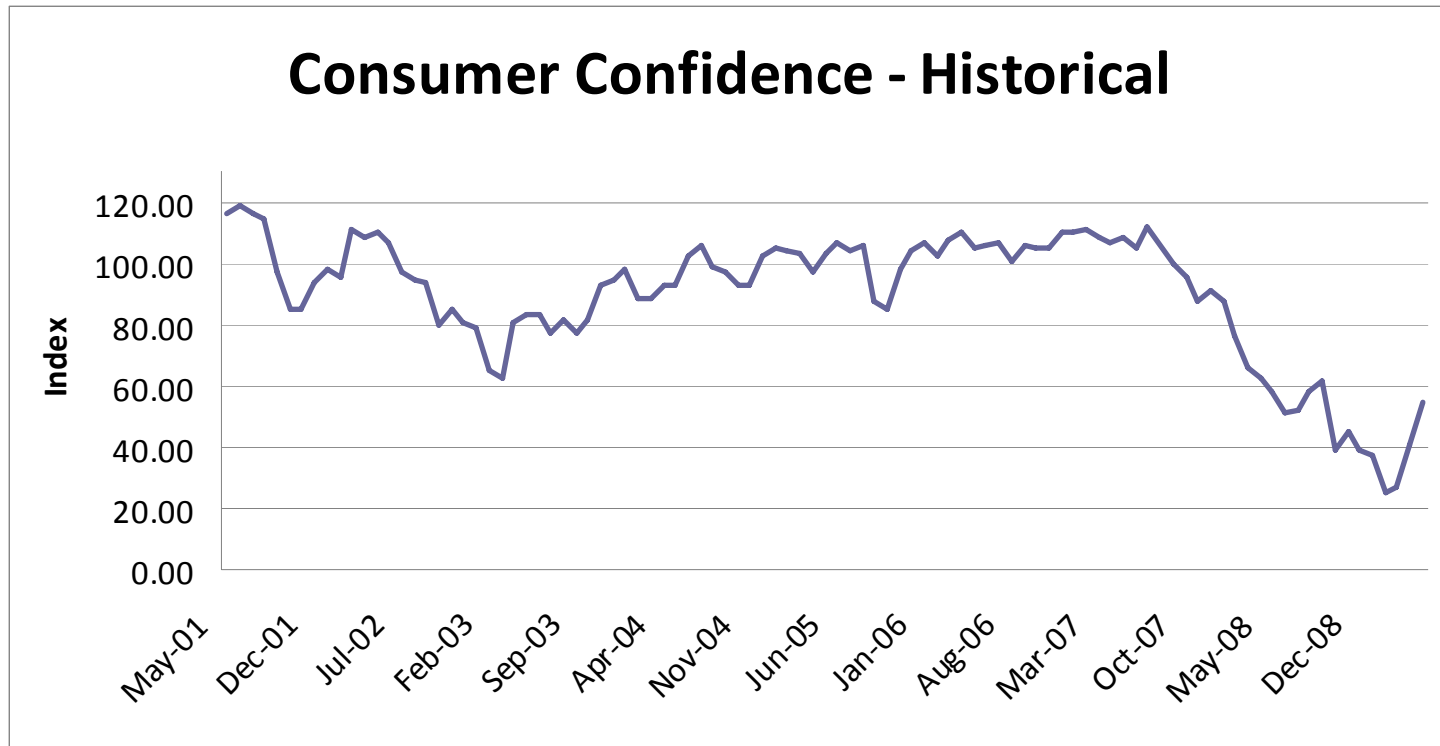
- Wealth effect diminished:
  - Mortgage credit fell to \$10.5 trillion, first decline since the 1950s
  - Homeowner equity (% of value) declined \$2.0 Trillion in 2008
  - Value of stock market holdings fell to \$12.1 trillion from \$20.6 trillion a year ago

*Sources: Dept. of Commerce, RealtyTrac, Federal Reserve*

# Tapped-Out Consumers Focused on Saving

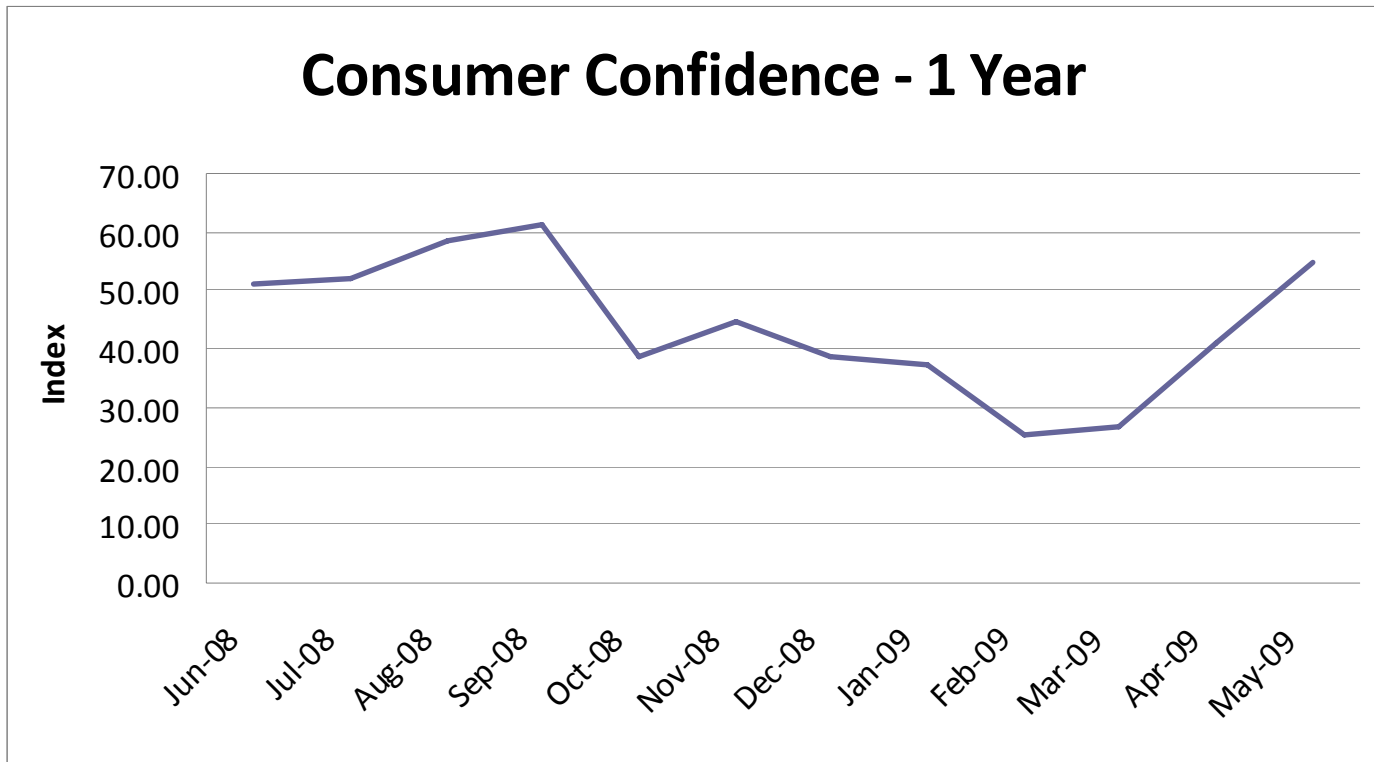
- April 2009 retail sales down 0.4 percent from March sales (and down 10.1 from April 2008)
- Personal saving as a percentage of after-tax income rose to 5.7% in April 2009
- Number of homeowners facing foreclosure up 32% in April 2009 from a year ago (2<sup>nd</sup> straight month of more than 300,000 notices issued), with 1 in every 374 households receiving a foreclosure filing in April

# Consumer Confidence



Source: Conference Board.

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Source: Conference Board.

# Snapshot of the Chicago Economy

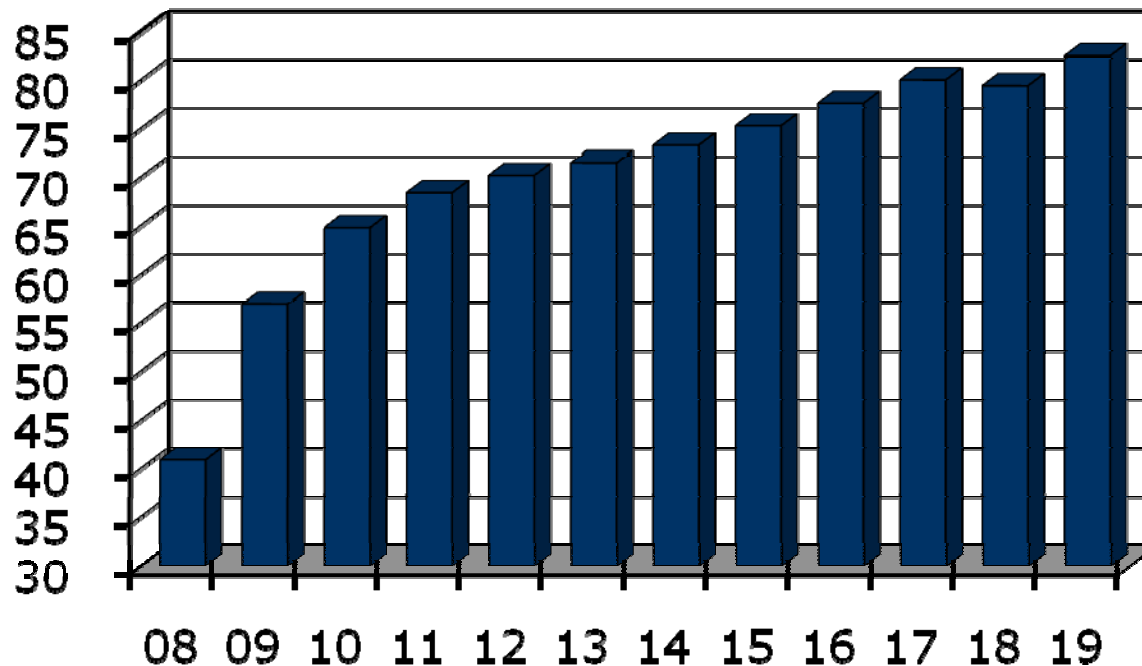
- Unemployment rate of 9.3% in March 2009, up from 5.6% a year ago
  - Chicago-area banking jobs projected to fall 16% to 92,170 in 2009, and decline another 1% in 2010
  - Transportation-related jobs declined to 166,000 by March 2009, and expected to drop another 6,000 by 2010
  - Passenger volume down by more than 12% at Chicago's 2 airports during 1q 2009; air cargo tonnage off by one-third for same quarter

# Chicago Economy

- Real estate-related employment (including construction and financing) expected to decline by 14% to 326,030 jobs by the end of 2009
- Total retail sales in the Chicago area are expected to fall 5.1% in 2009, and increase 2.6% in 2010
- Retail property vacancy on the Magnificent Mile is at 7.2%, the highest since 1992
- Chicago downtown hotels ADRs dropped 23% in April from a year ago
- Distressed real estate will dominate the market for at least another year

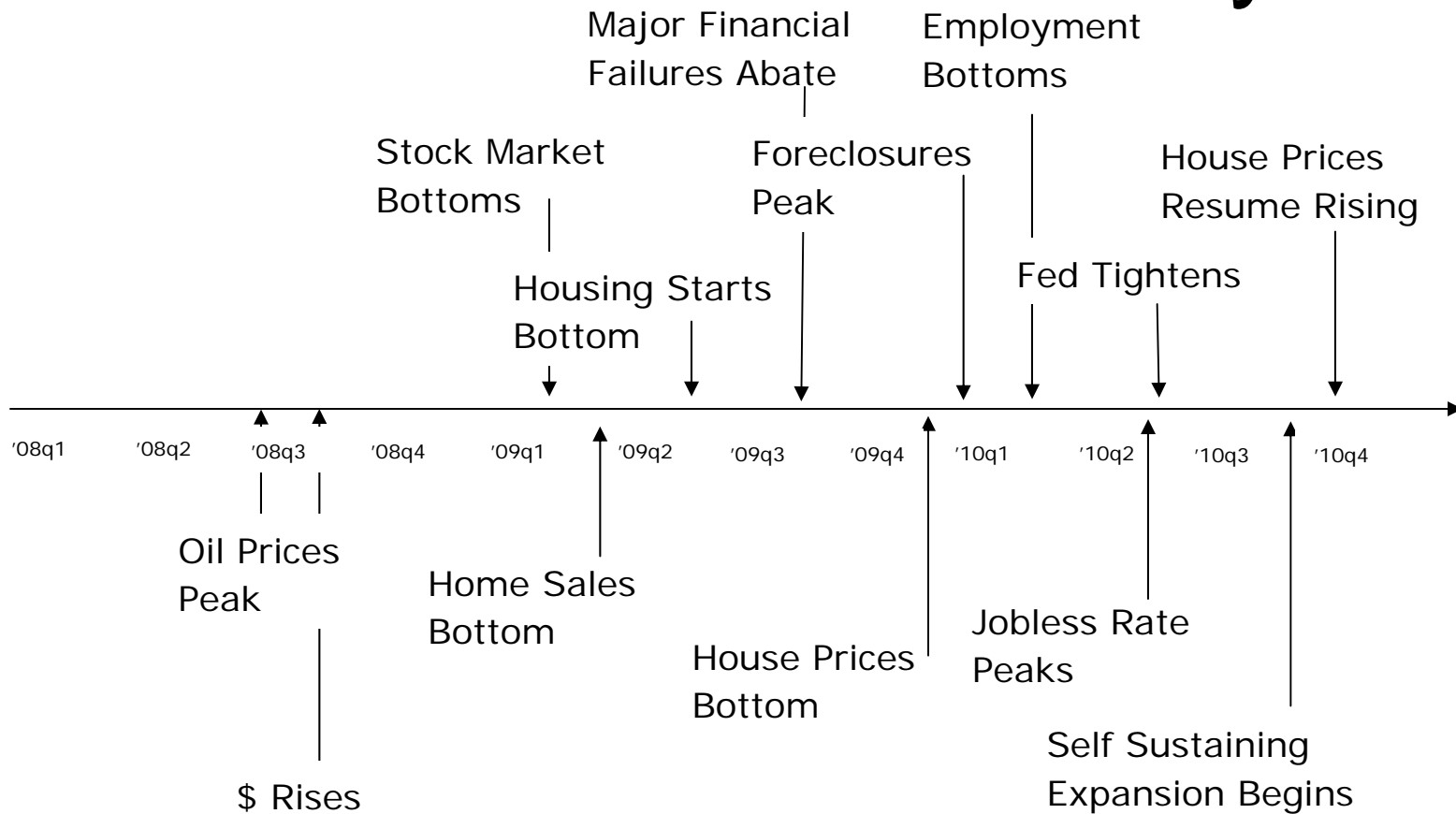
*Sources: Illinois Dept. of Employment Security, Moody's Economy.com, CBRE, Smith Travel Research, Crain's Chicago Business, March-June 2009.*

# Federal Debt to GDP Ratio Under the President's Budget



Sources: OMB, Moody's Economy.com, March 2009.

# A Timeline to Recovery



Source: Moody's Economy.com

# Threats to the Frail U.S. Economy

- Ballooning federal debt at current or higher levels is unsustainable and must be contained
- Unemployment increases more than anticipated
- Housing market fails to stabilize as foreclosures further multiply
- State, local tax revenues continue to fall, reducing essential services to cities
- Inflation (or stagflation)
- Skyrocketing oil/gasoline prices
- Geopolitical risk

# Financial Markets

**Financial Market Returns: Compounded Annual Rates of Return as of May 31, 2009**

Market Indices	YTD	1-Year	3-Year	5-Year	10-Year	15-Year
Consumer Price Index <sup>1</sup>	0.56%	-0.50%	1.97%	2.56%	2.51%	2.48%
10-Year Treasury Bond <sup>2</sup>	2.89%	3.33%	4.11%	4.22%	4.61%	5.15%
Dow Jones Industrial Average	-1.61%	-30.45%	-6.22%	-1.10%	0.02%	7.90%
S&P 500	2.96%	-32.57%	-8.24%	-1.90%	-1.71%	6.73%
NCREIF Index <sup>3</sup>	-7.33%	-14.67%	4.16%	9.43%	9.37%	9.94%
NAREIT Index (Equity REITS)	10.28%	-47.50%	-15.54%	-1.42%	5.77%	7.03%

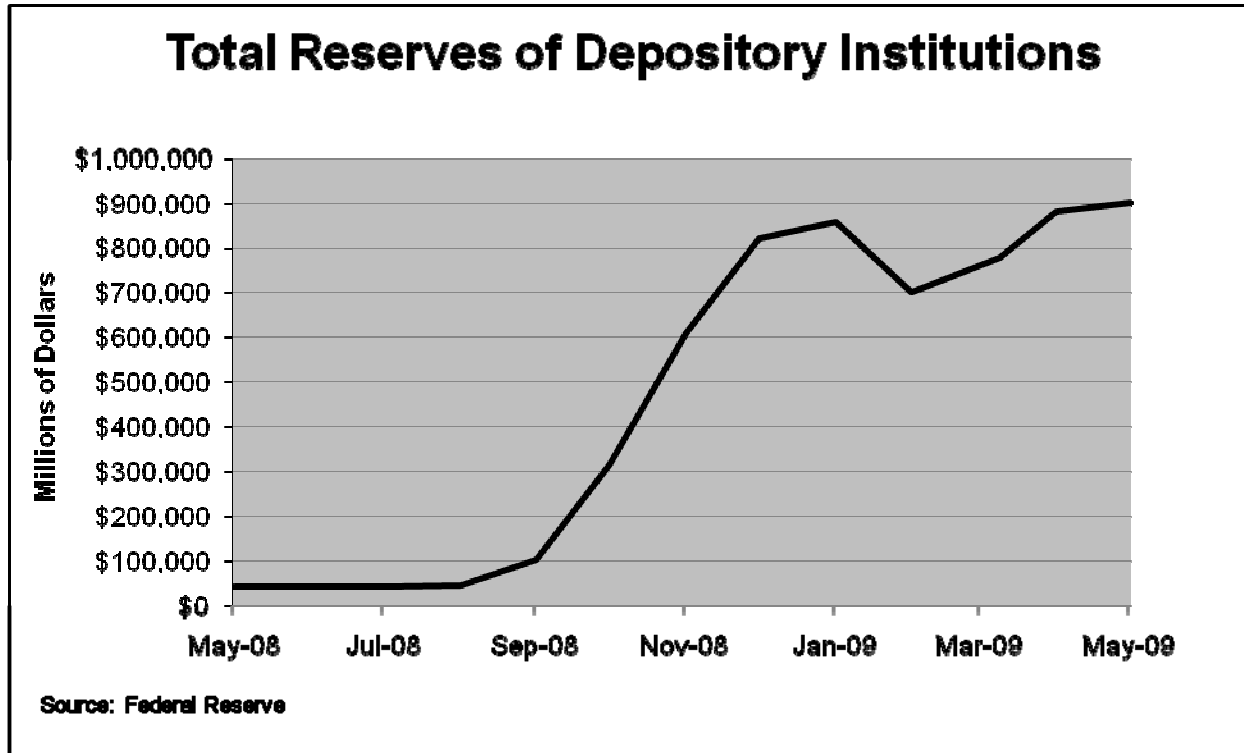
<sup>1</sup>Based on the published data from the Bureau of Labor Statistics (Seasonally Adjusted)

<sup>2</sup>Based on Average End of Day T-Bond Rates

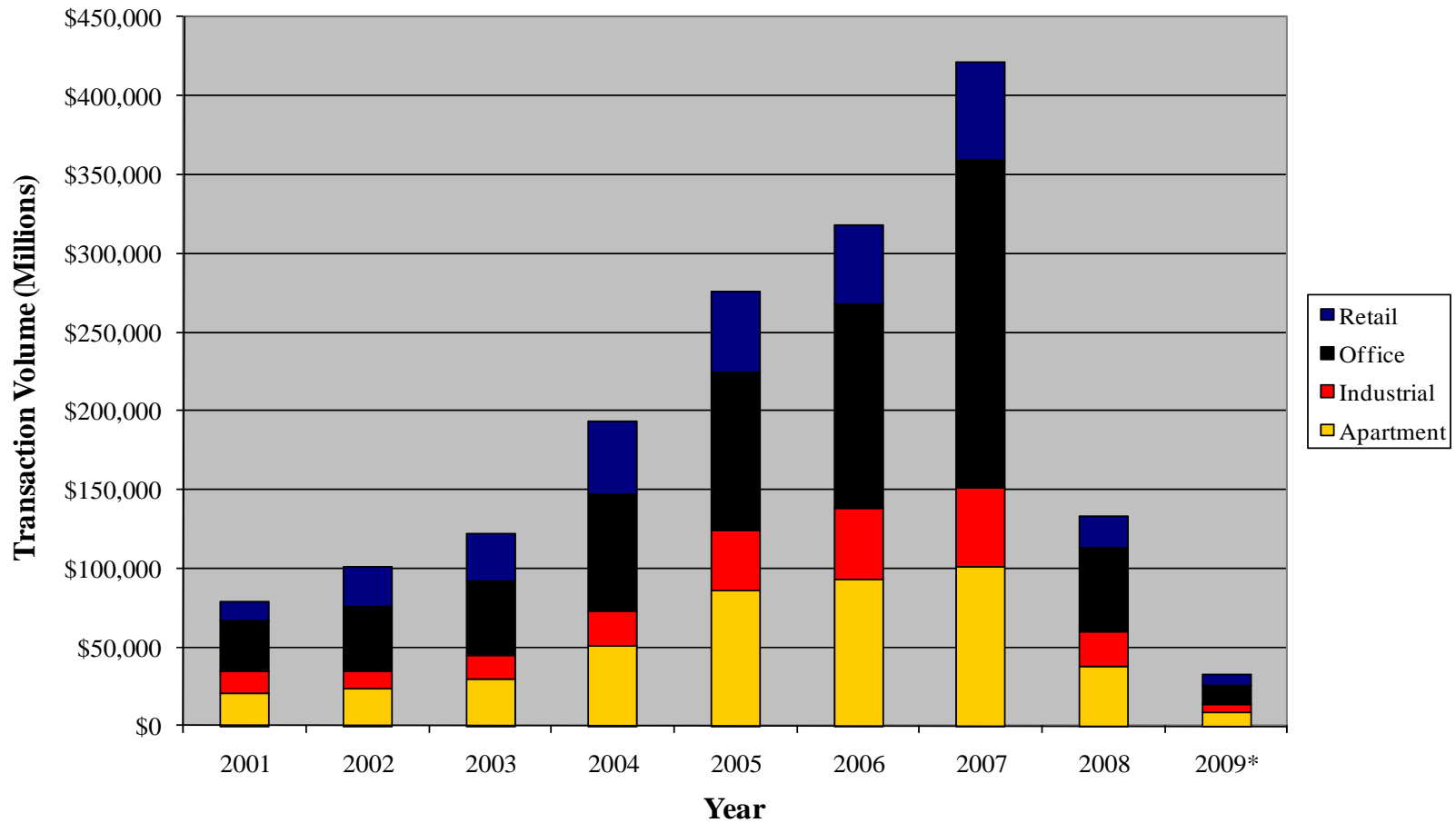
<sup>3</sup>Based on quarterly NCREIF Index, as of March 31, 2009

Sources: BLS, Federal Reserve Board, S&P, Dow Jones, NCREIF, NAREIT, compiled by RERC

# Bank Reserves



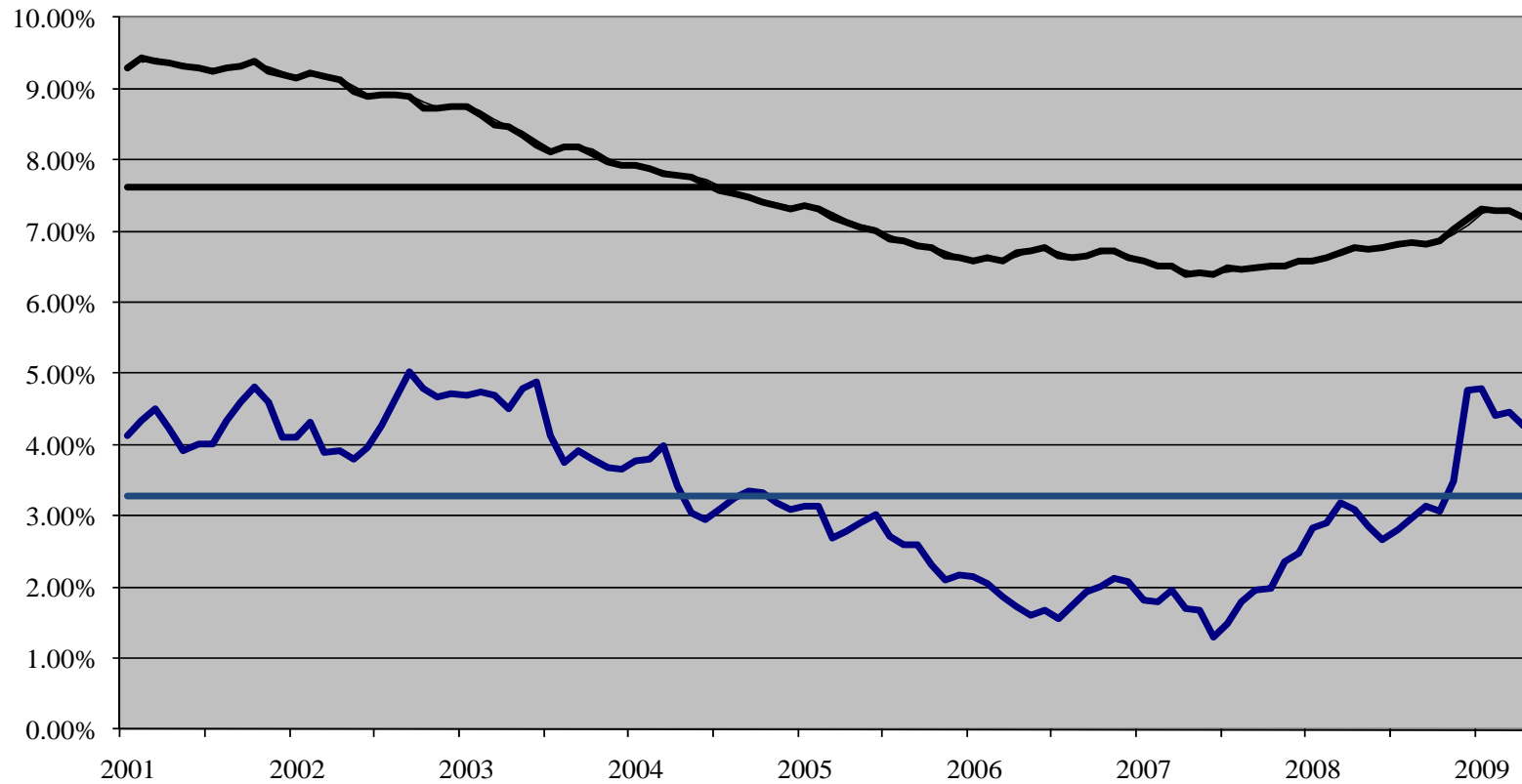
**U.S. Transaction Volume - By Property Type  
(Commercial Real Estate)**



Source: Real Capital Analytics

\* Annualized as of April 30, 2009

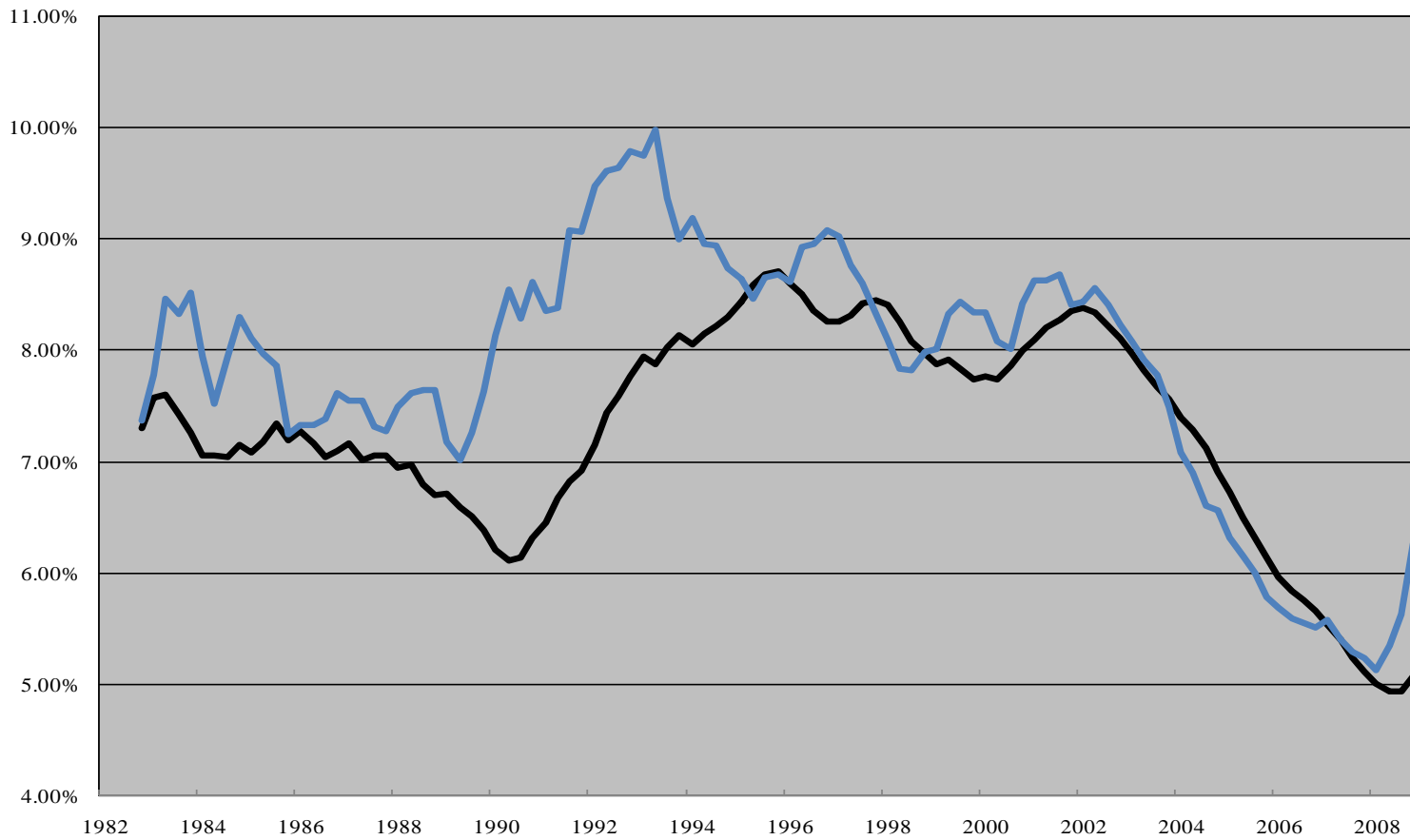
Capitalization Rates & Spreads



Source: Real Capital Analytics

— Capitalization Rate    — Spread (Cap Rate vs. 10-Year Treasury)

**NCREIF Analysis: Appraisal vs. Transaction Cap Rates**

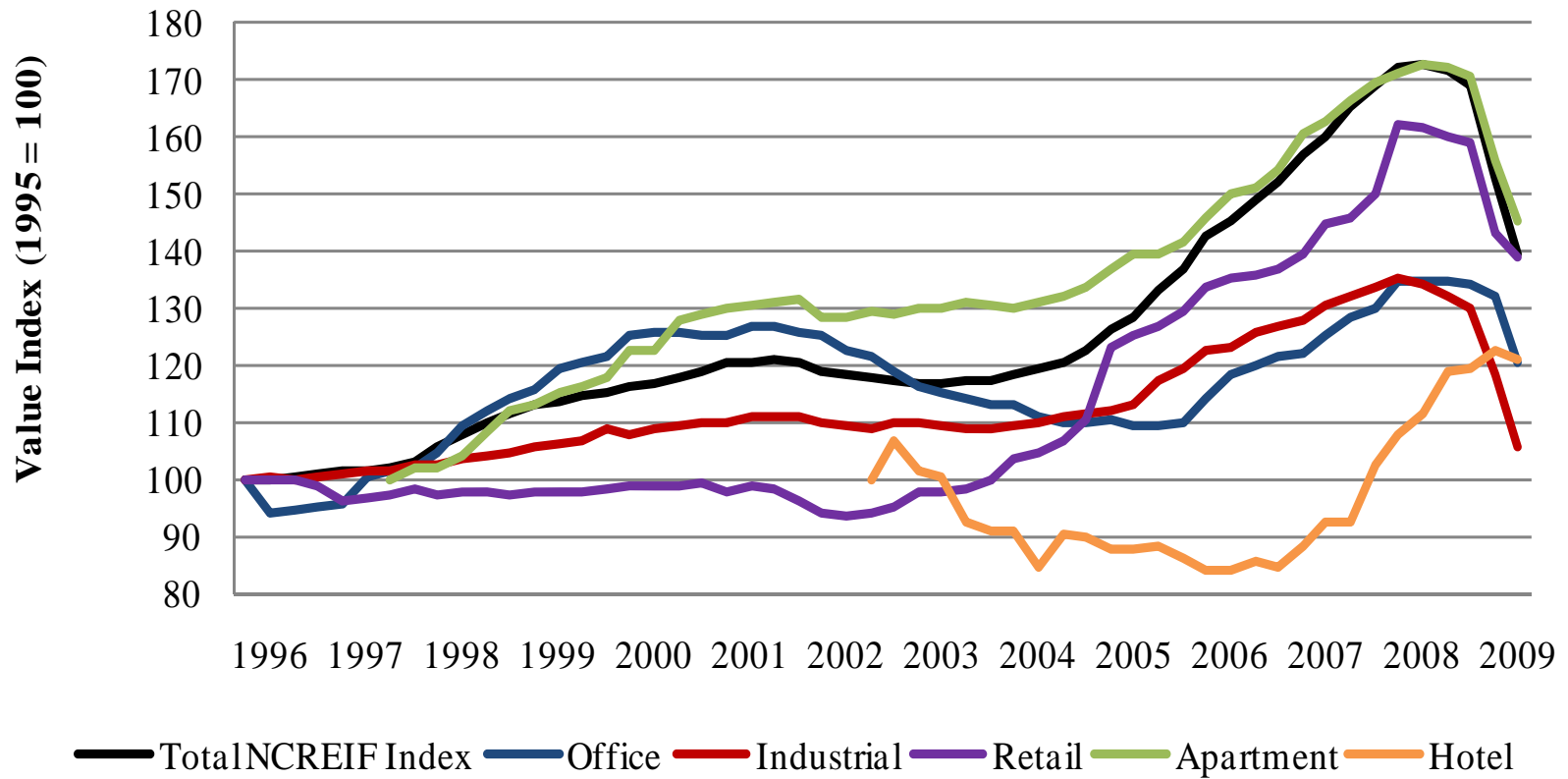


Source: NCREIF

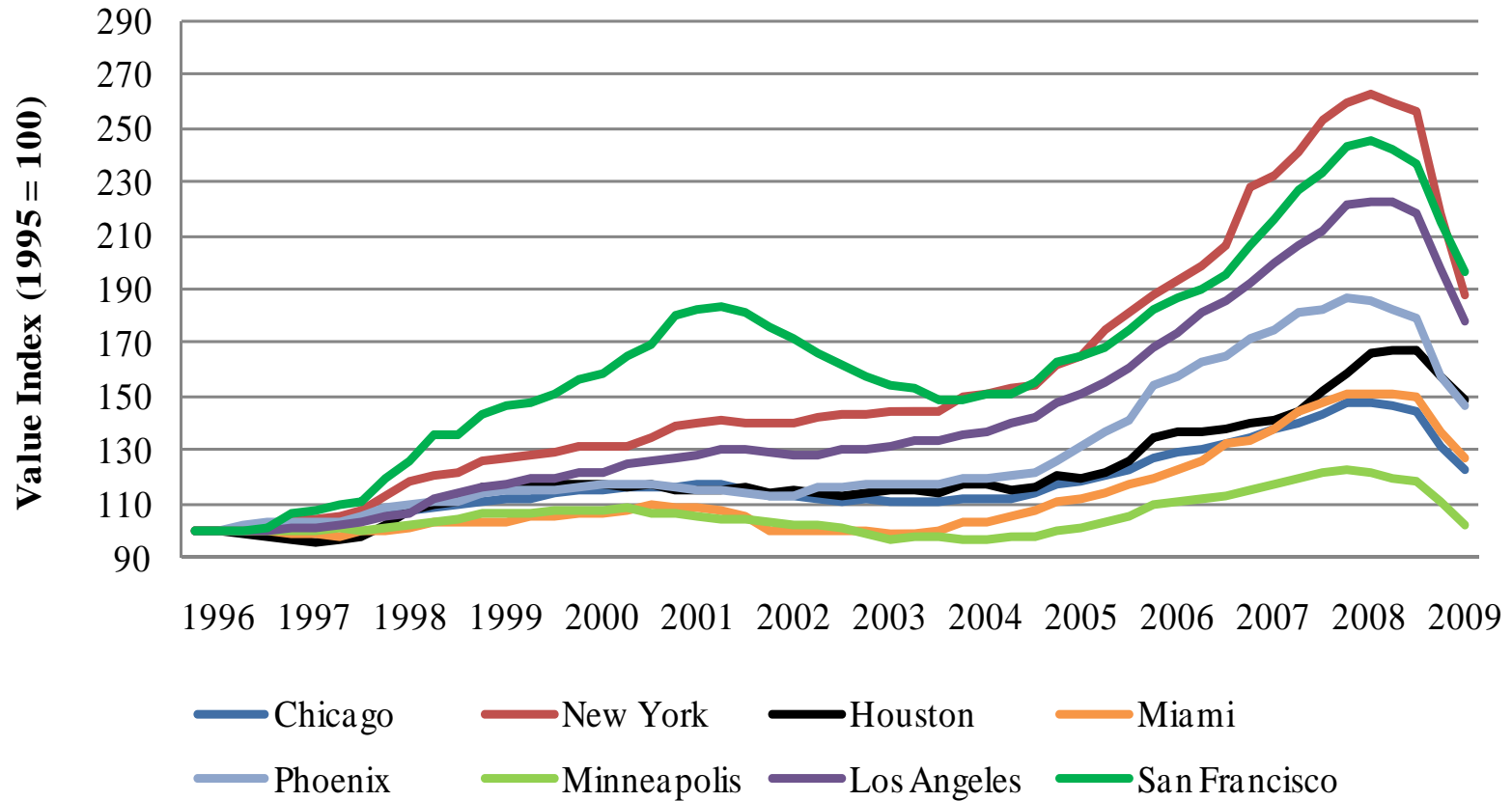
— Annual Moving Average (Appraisal)

— Annual Moving Average (Transaction)

## Value Index (Chicago All Properties): 1995 - 2009



## Value Index (All Metros): 1995 - 2009



## General Observations for CRE

- **Price vs. Liquidity**
- **Cap Rate vs. NOI**
- **2009 vs. 2010 vs. Beyond**

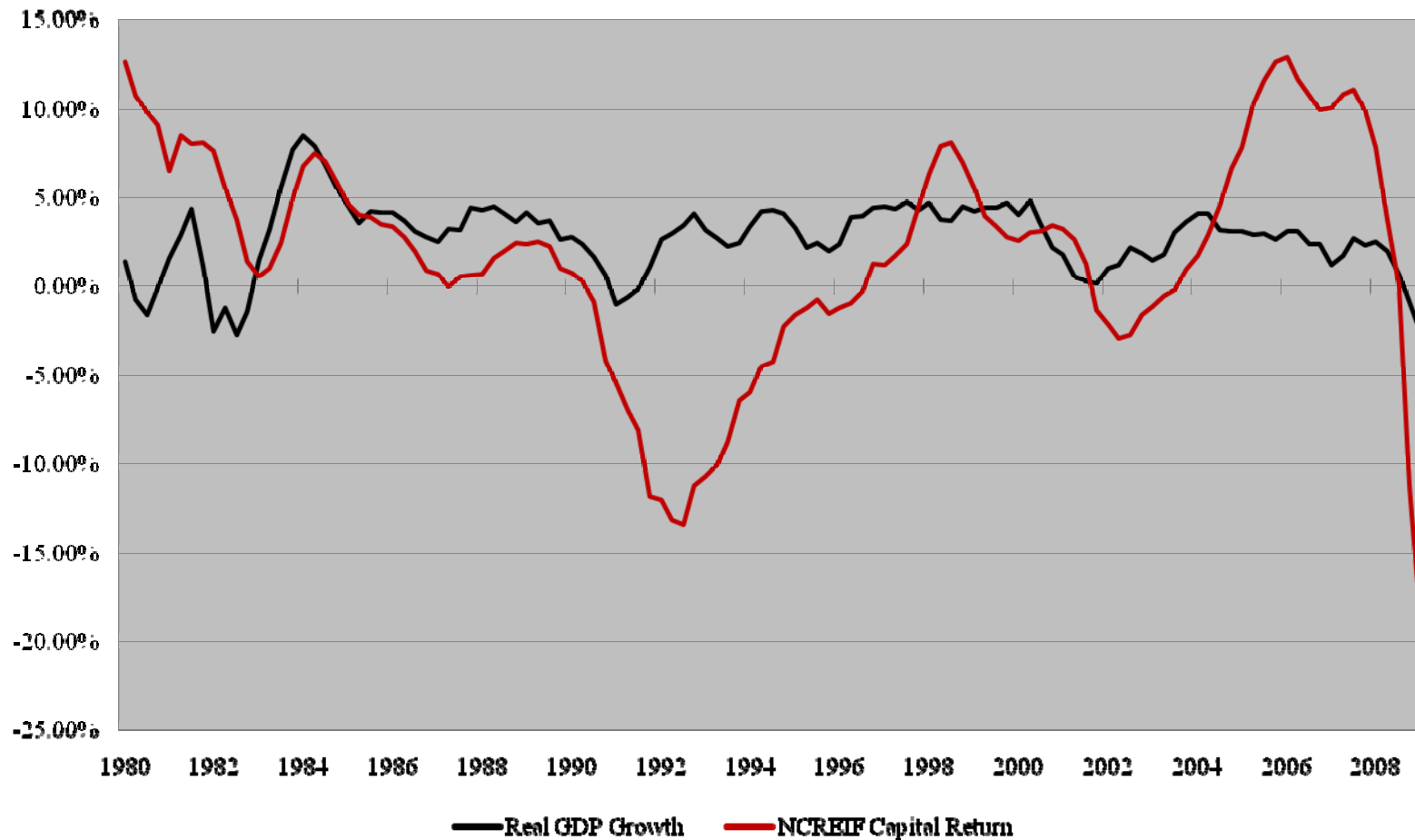
# Real Estate Downturns

## Real Estate Downturns: Historical Performance

	<u>1990's</u>	<u>2000's</u>	<u>Current</u>
<b>Time Horizon</b>	1Q90 - 4Q95	3Q01 - 1Q03	2Q08 - Present
<b>Length of Downturn</b>	24 Quarters	7 Quarters	4 Quarters
<b>Cumulative Price Adjustment</b>	-32.3%	-3.5%	-19.2%
<b>Worst 1-Year Total Return</b>	-6.8%	5.5%	-14.7%
<b>3-Year Annual Total Return - Following Market Bottom</b>	13.5%	15.2%	-

Source: NCREIF, RERC

### Economic Recessions and CRE Price Corrections



# Investment Expectations

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Priced for Perfection 2007  
Versus 2009 and Beyond  
Priced Just Right, Over or Under  
(Is the glass Half Full or Half Empty?)

**Thank You!**

**Questions...  
and Comments...**