

THE ROAD TO RECOVERY: CHALLENGES AND OPPORTUNITIES

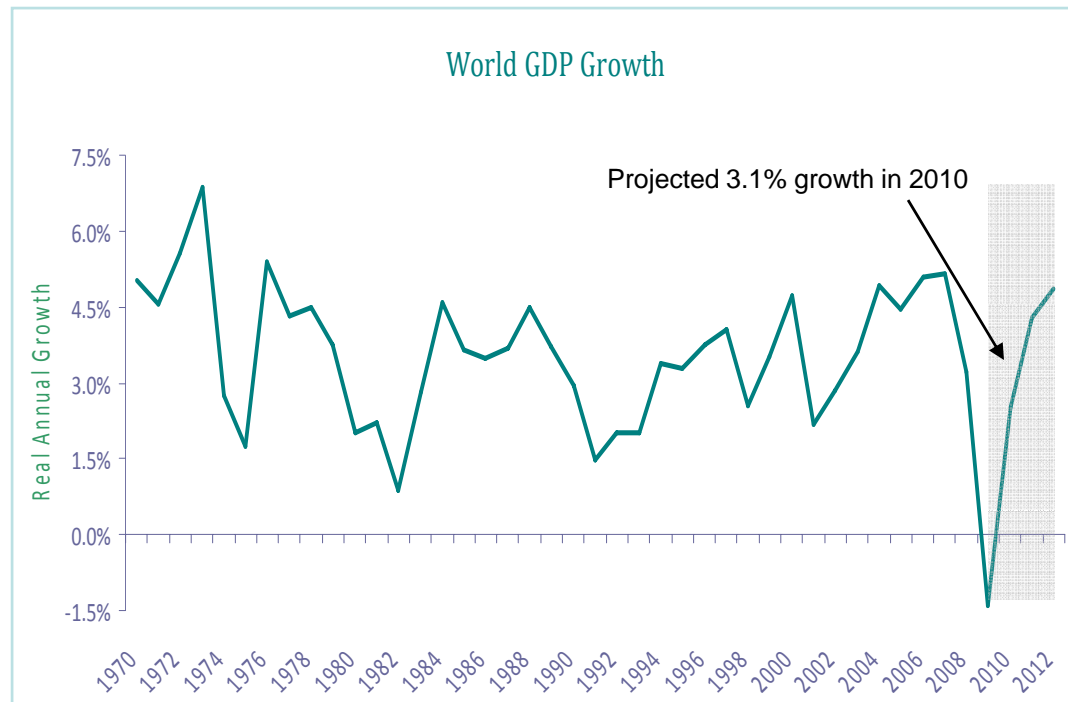
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The Road to Global Economic Recovery

- Global economy on the mend, led by developing nations
- But developed nations also beginning to see positive economic growth
- Increased market confidence that systemic risk is fading, replaced by idiosyncratic risk
 - Recovery somewhat less synchronized than the downturn
 - Despite coordinated government intervention and global interconnectivity, strength of economic and job growth varies greatly across markets
 - Cross-market variability in pace of credit restoration and deleveraging

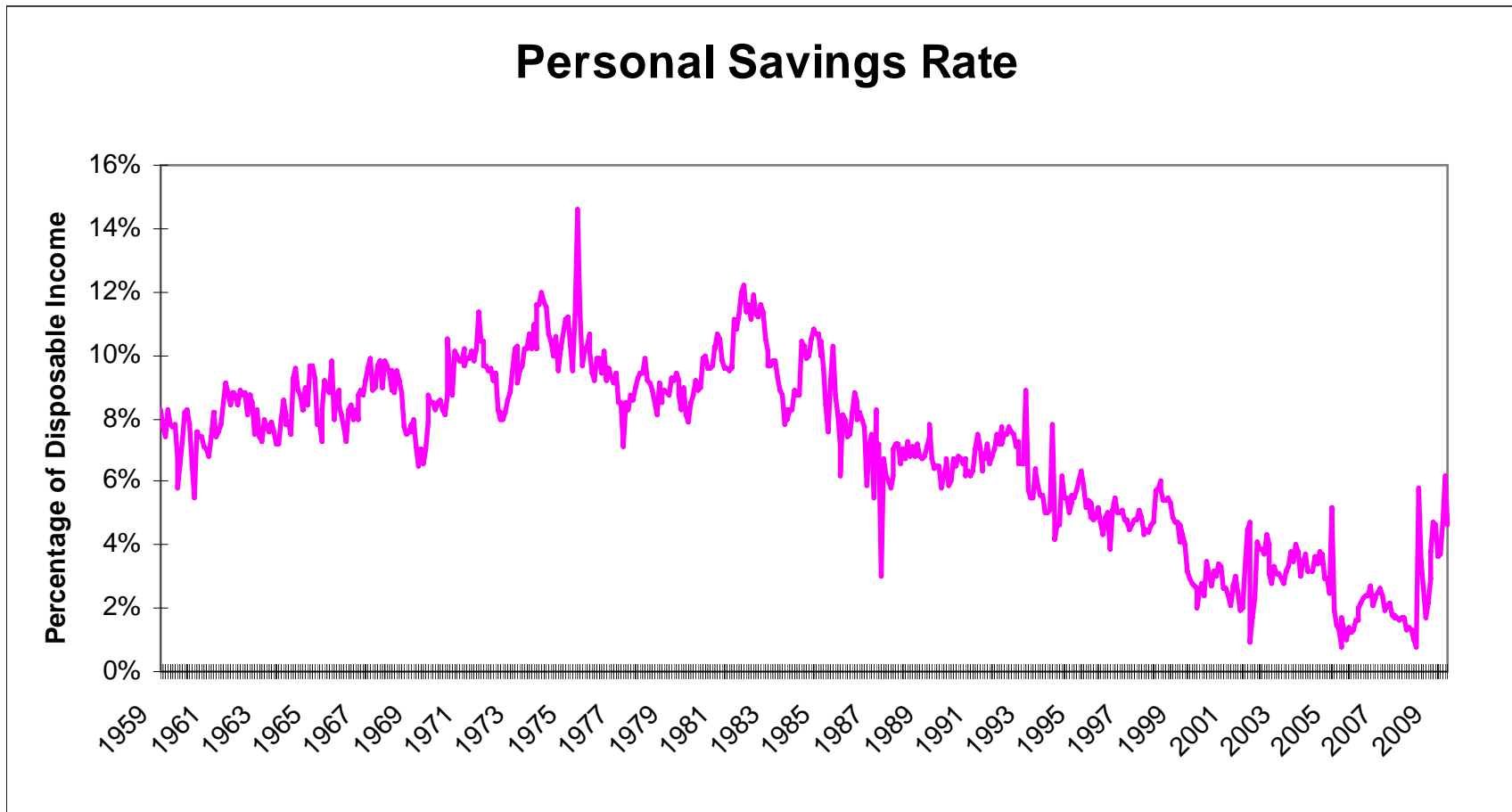


Source: International Monetary Fund, October 2009

The Road to Global Economic Recovery

- Entering initial phase of global monetary policy tightening cycle
- Fiscal stimulus in U.S. turning out to be primarily pro-cyclical, not countercyclical
- The forces of global deleveraging
- Severity of decline means recovery characterized by possible secular changes
 - Personal savings rates, the wealth effect and demographics
 - Displacement of U.S. consumer as fallback catalyst for global growth
 - Emerging middle class as an economic force in developing nations and impact on U.S. export growth
 - Expanding boundaries of government intervention
 - Creeping protectionism
 - Higher structural unemployment rates and another jobless recovery

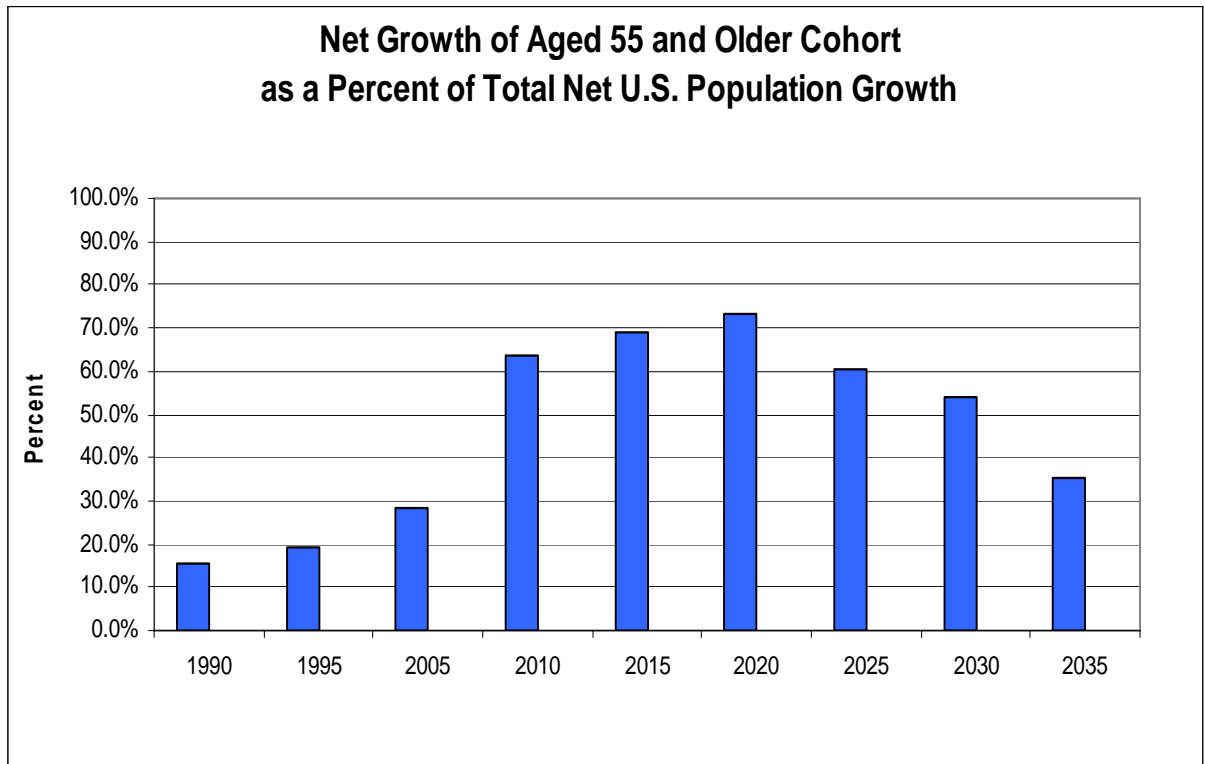
Structural uptick in personal savings rates?



Source: Bureau of Economic Analysis, August 2009

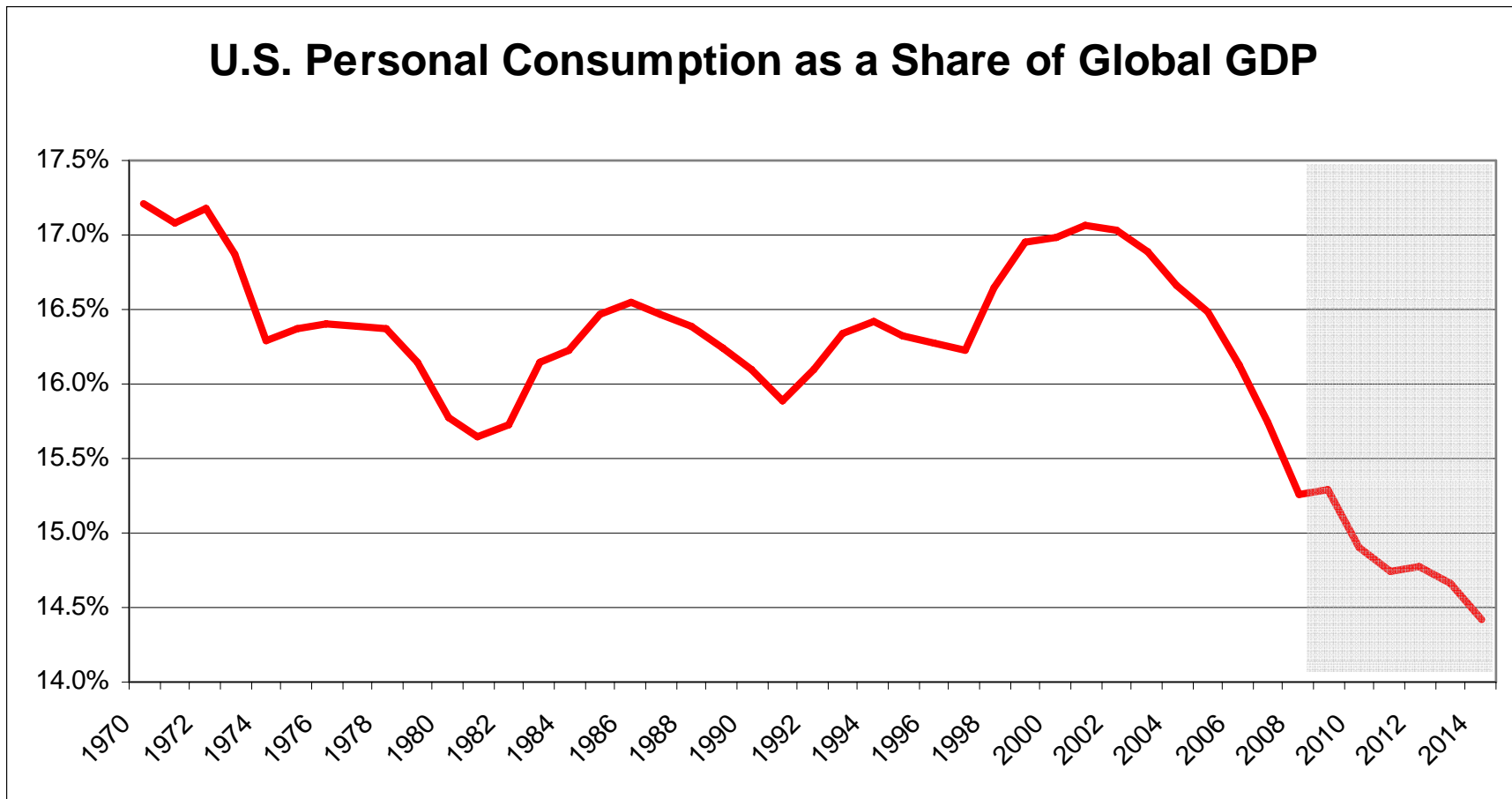
The highest savings cohort is growing rapidly

| Age Cohort | Personal Savings Rate - 1990's | Personal Savings Rate - 2000's |
|------------------------|--------------------------------|--------------------------------|
| Overall Population | 6.4% | 1.8% |
| Under age 35 | -2.9% | -11.1% |
| 35 to 44 | 1.7% | -7.1% |
| 45 to 54 | 6.5% | -1.2% |
| Age 55 and over | 17.0% | 14.8% |



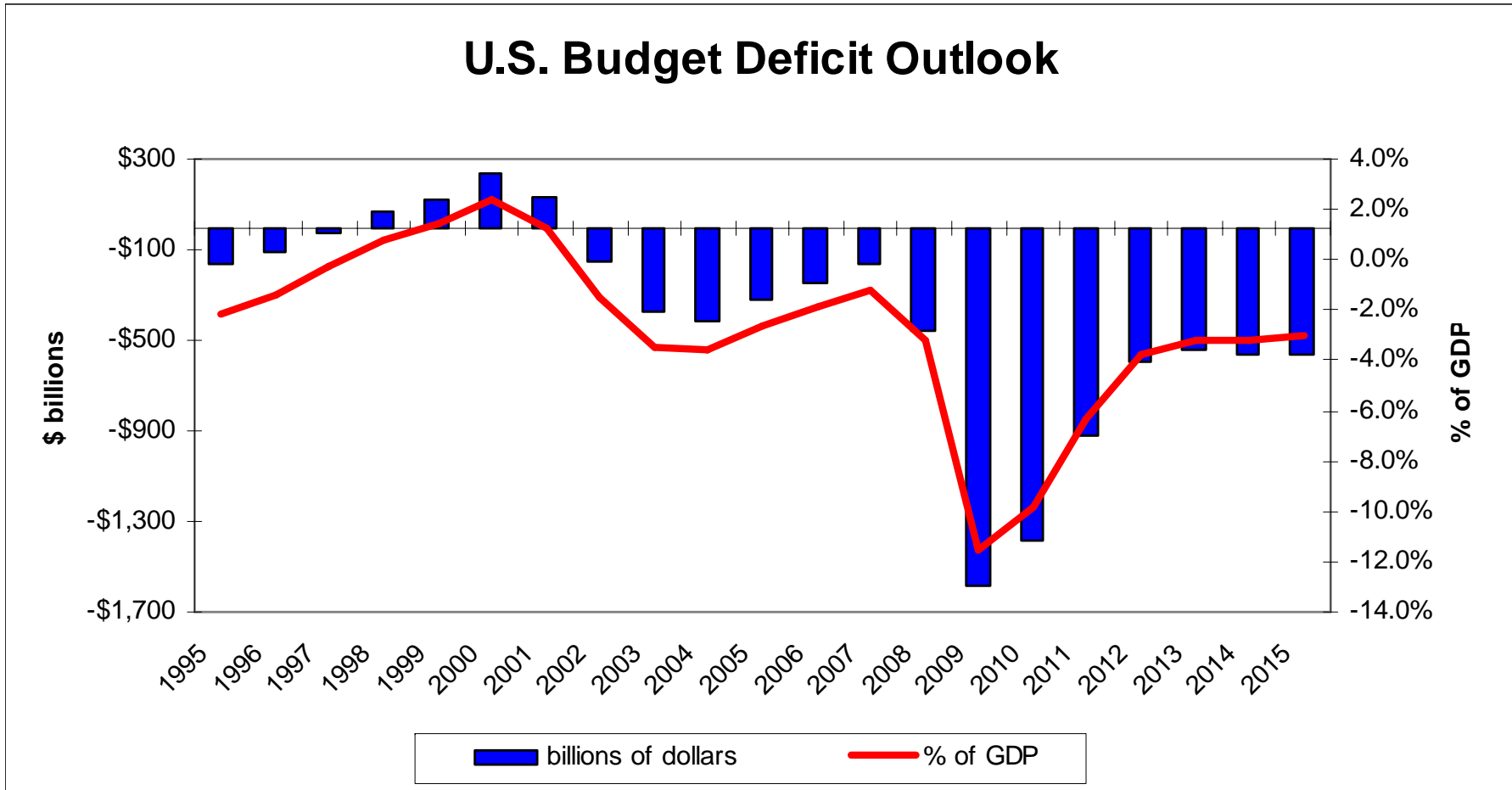
Sources: Moody's Economy.com, U.S. Census Bureau, August 2009

Relative displacement of the U.S. consumer



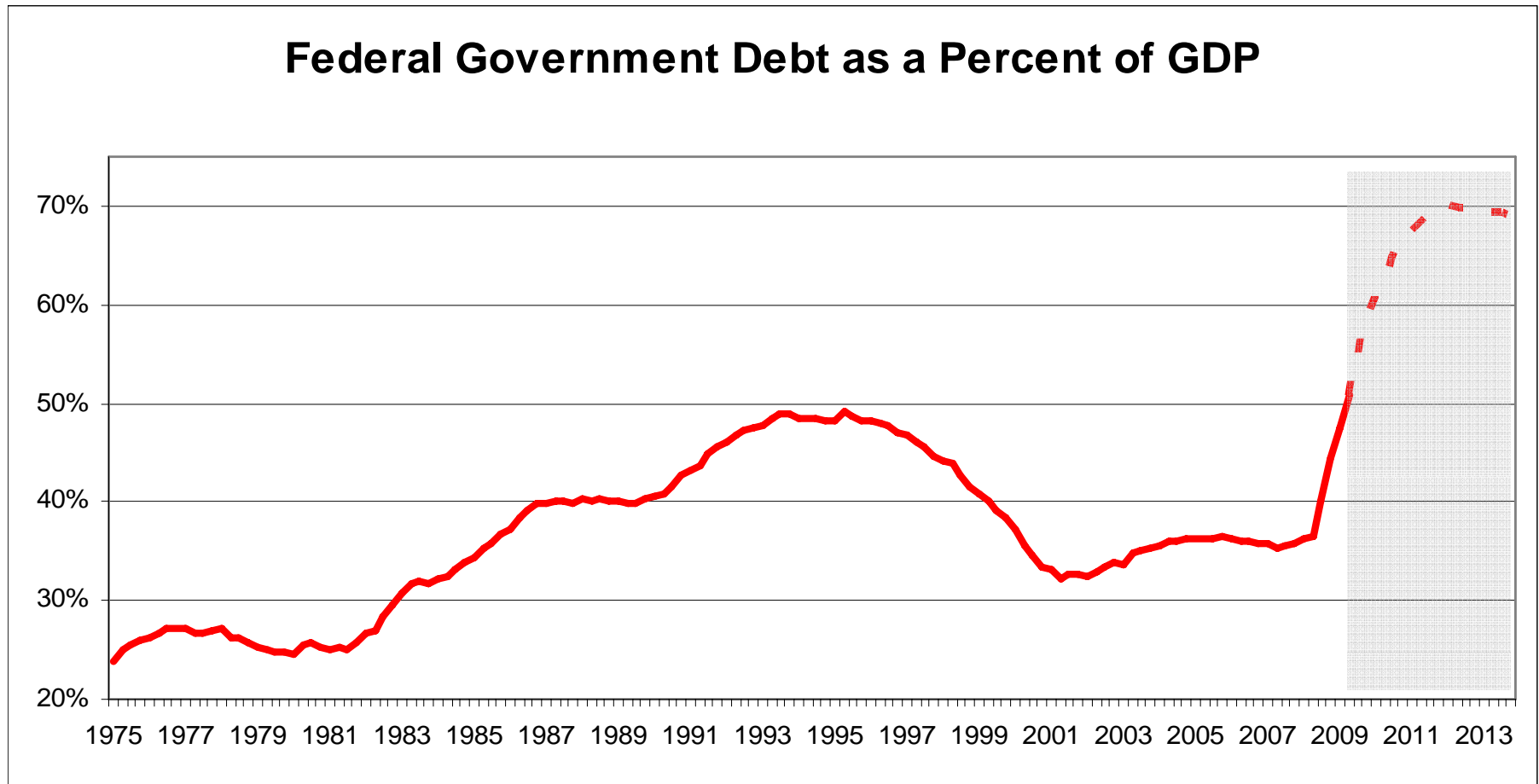
Sources: International Monetary Fund, Moody's Economy.com, October 2009

Dramatically increased government presence in economy...



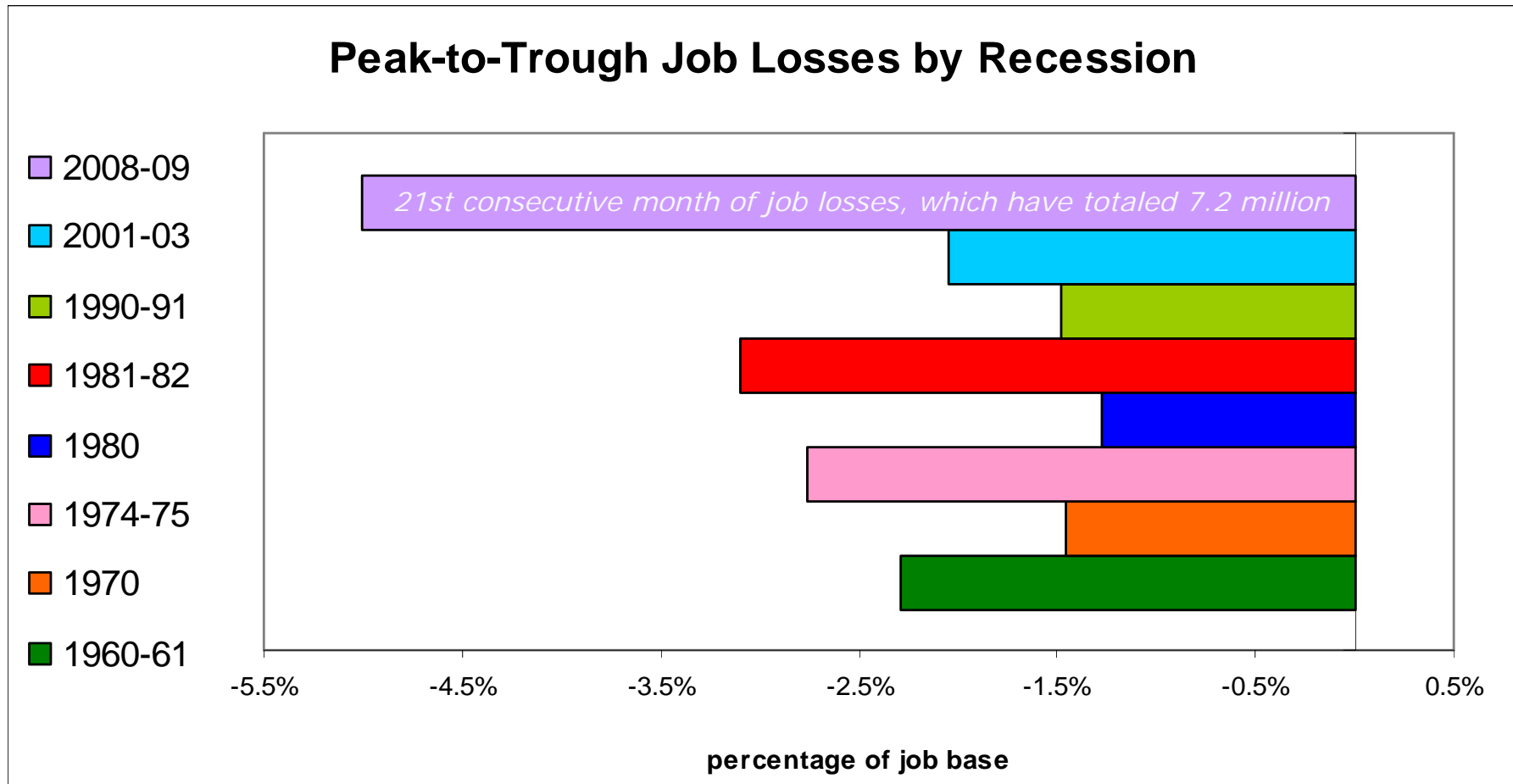
Sources: Congressional Budget Office, Moody's Economy.com, August 2009

...leading to record budget deficits



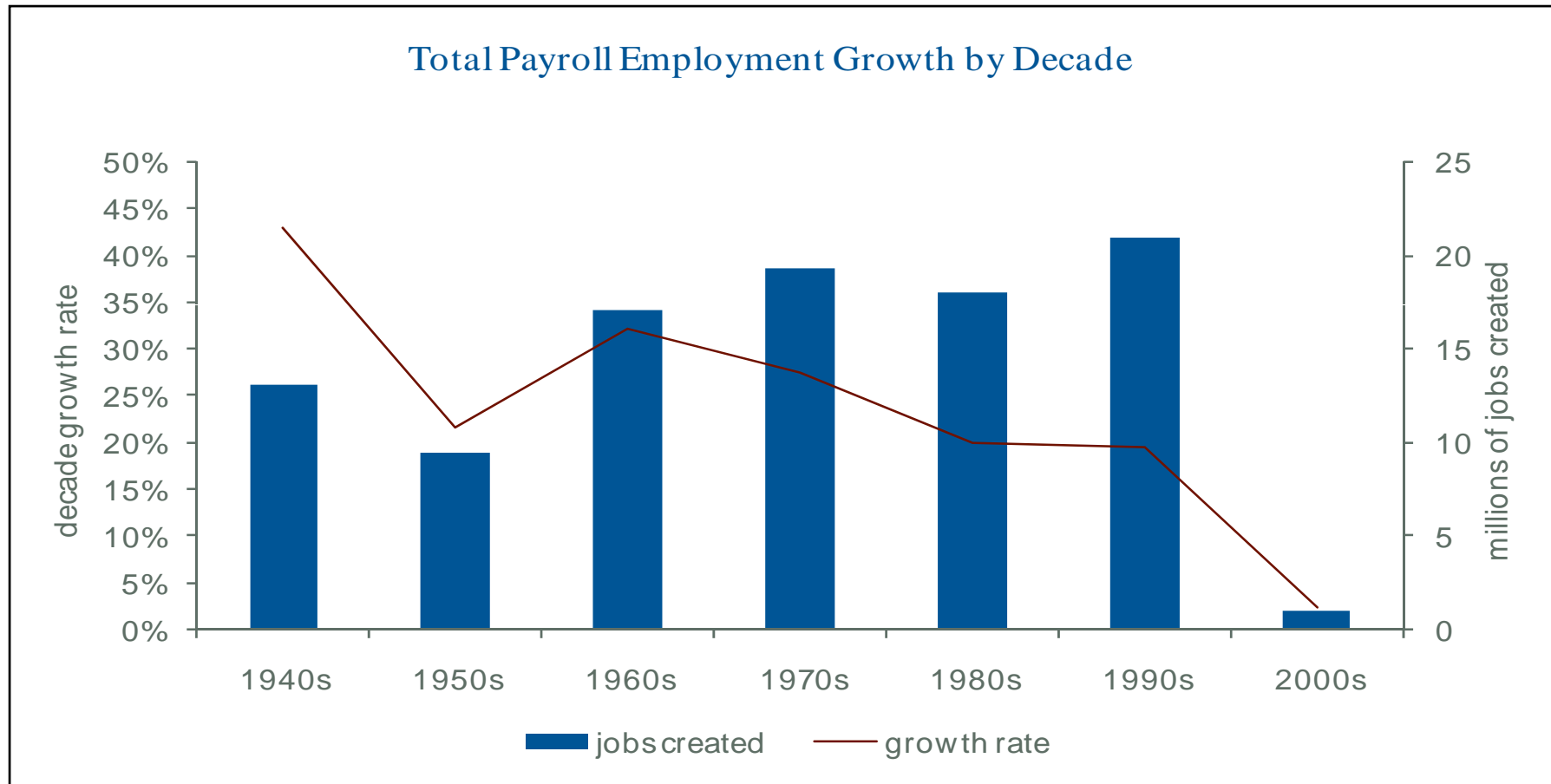
Sources: Congressional Budget Office, Moody's Economy.com, August 2009

A particularly severe job loss recession...



Source: Bureau of Labor Statistics, September 2009

...leads to the lost decade of job growth.



Source: Bureau of Labor Statistics, September 2009

U.S. Economic Outlook

- Consumer not the driver of this recovery
- Other growth areas
 - Exports
 - Federal government fiscal stimulus
 - Inventory rebuild
 - Drag removal: residential construction and business capital spending
- Corporate profits rebounding following extensive cost cutting
- Severity of job losses winding down but another jobless recovery likely
- Secular changes likely to be a drag on economic growth trajectory, with projected 2010 economic growth of approximately 2.5%
- Inflation outlook moderating
 - Not a concern over near-to-intermediate term
 - Global overcapacity leads to lack of global pricing power
 - Asset reflation likely a bigger concern than goods and services inflation

The Gauntlet Continues

Where are we in the Investment Cycle?

Price vs. Value Cycle

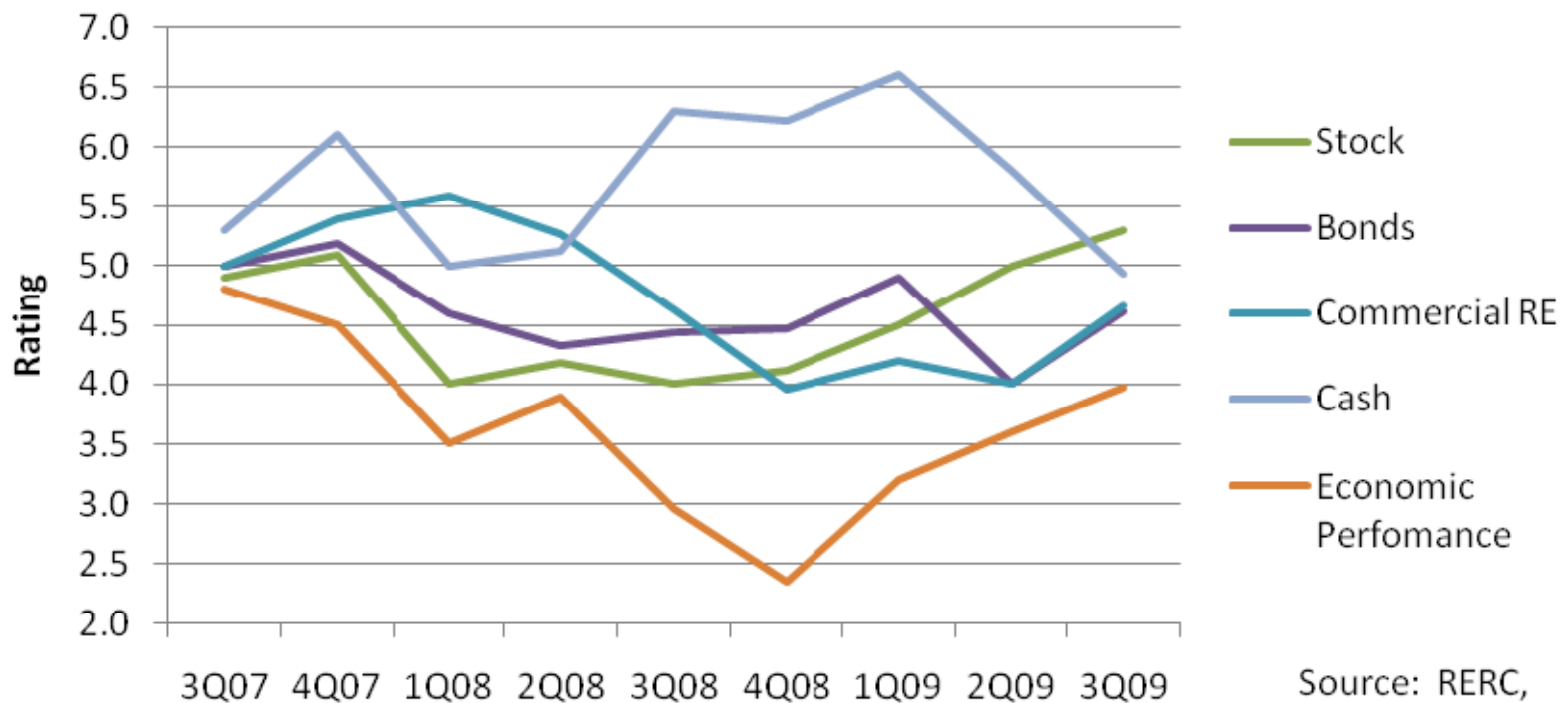
Key Issues

- Economic vs. Capital vs. CRE Recovery
- Liquidity versus Pricing
- Market Value versus Market Pricing
 - Have we overshot?
- Cyclical versus Structural Elements

CRE Price Adjusters

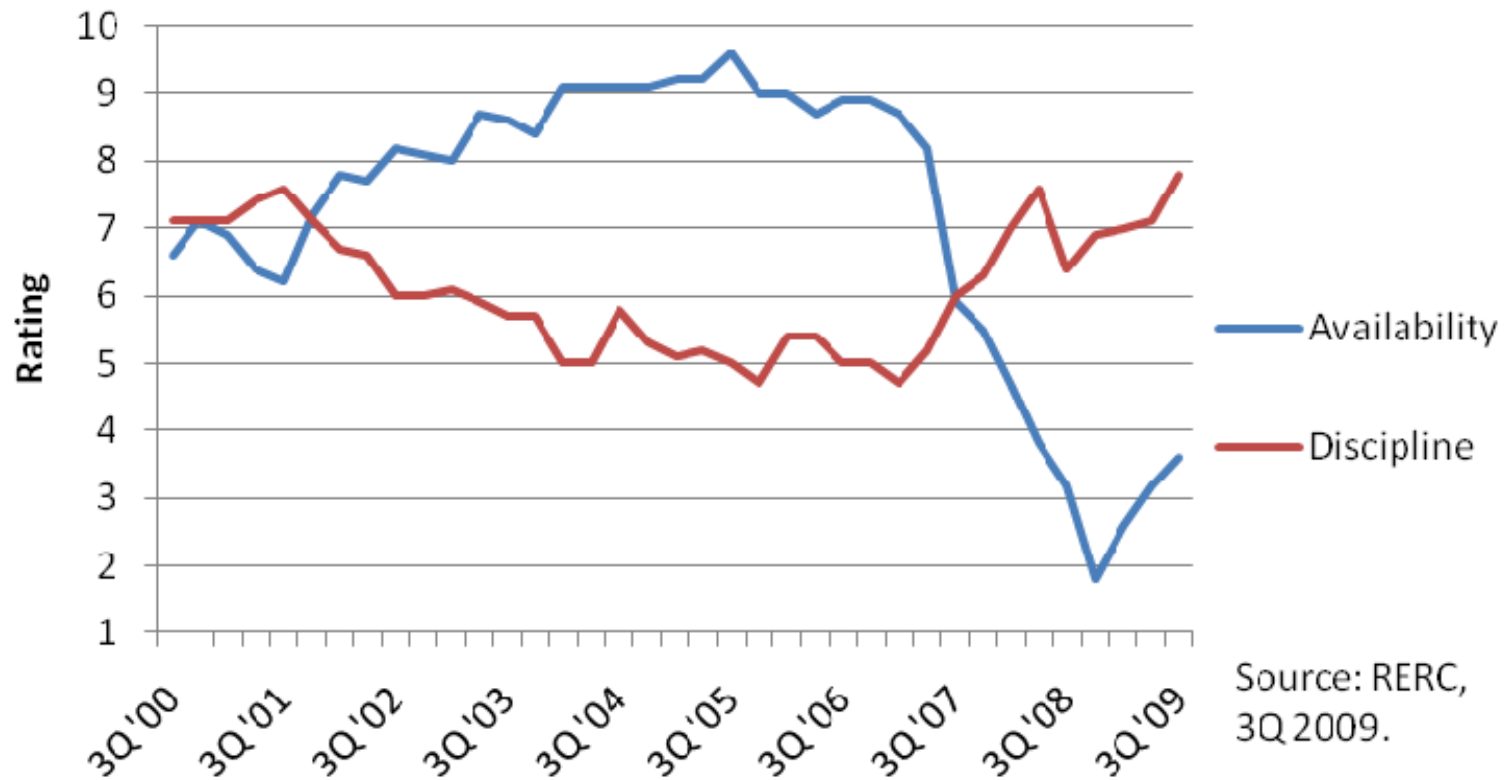
- Cap Rate Expansion
- Revenue Deterioration
- Debt Squeeze

Investment Rankings

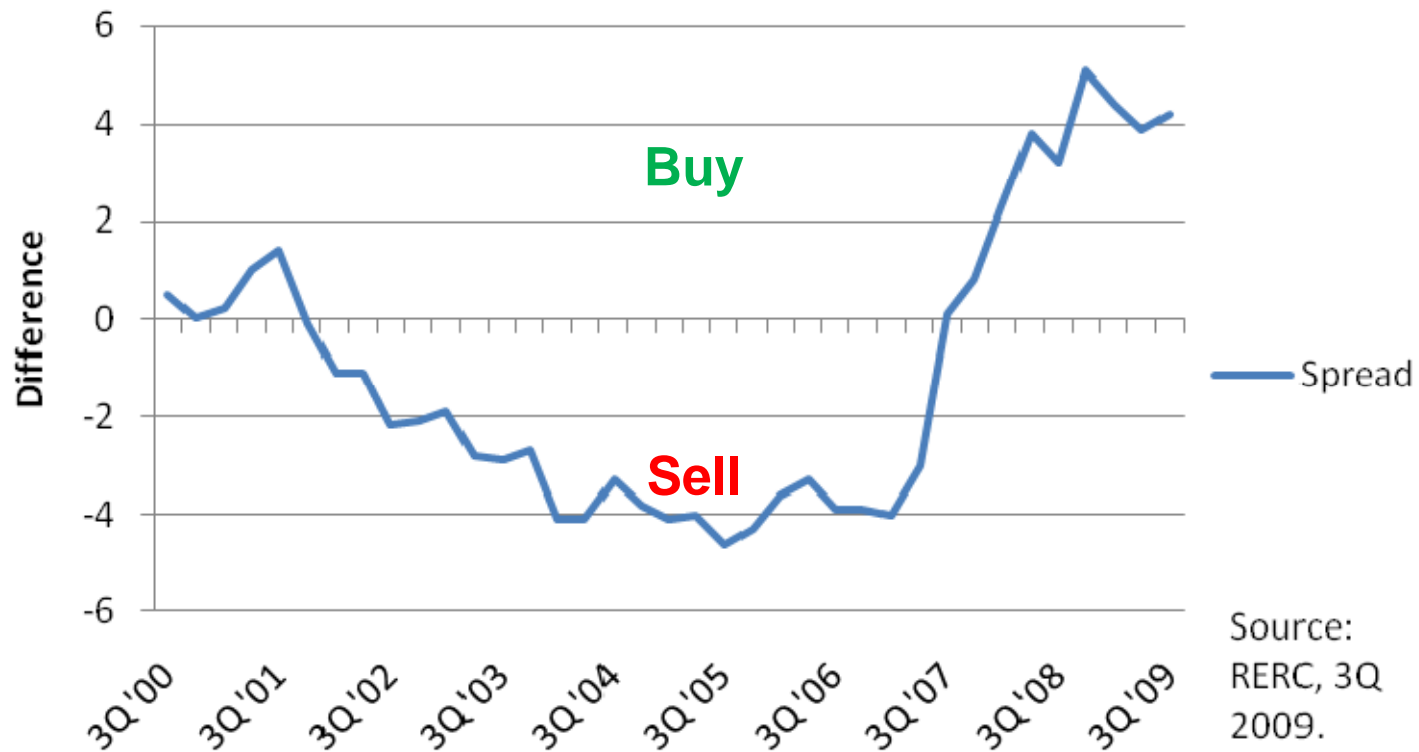


Source: RERC, 3Q2009.

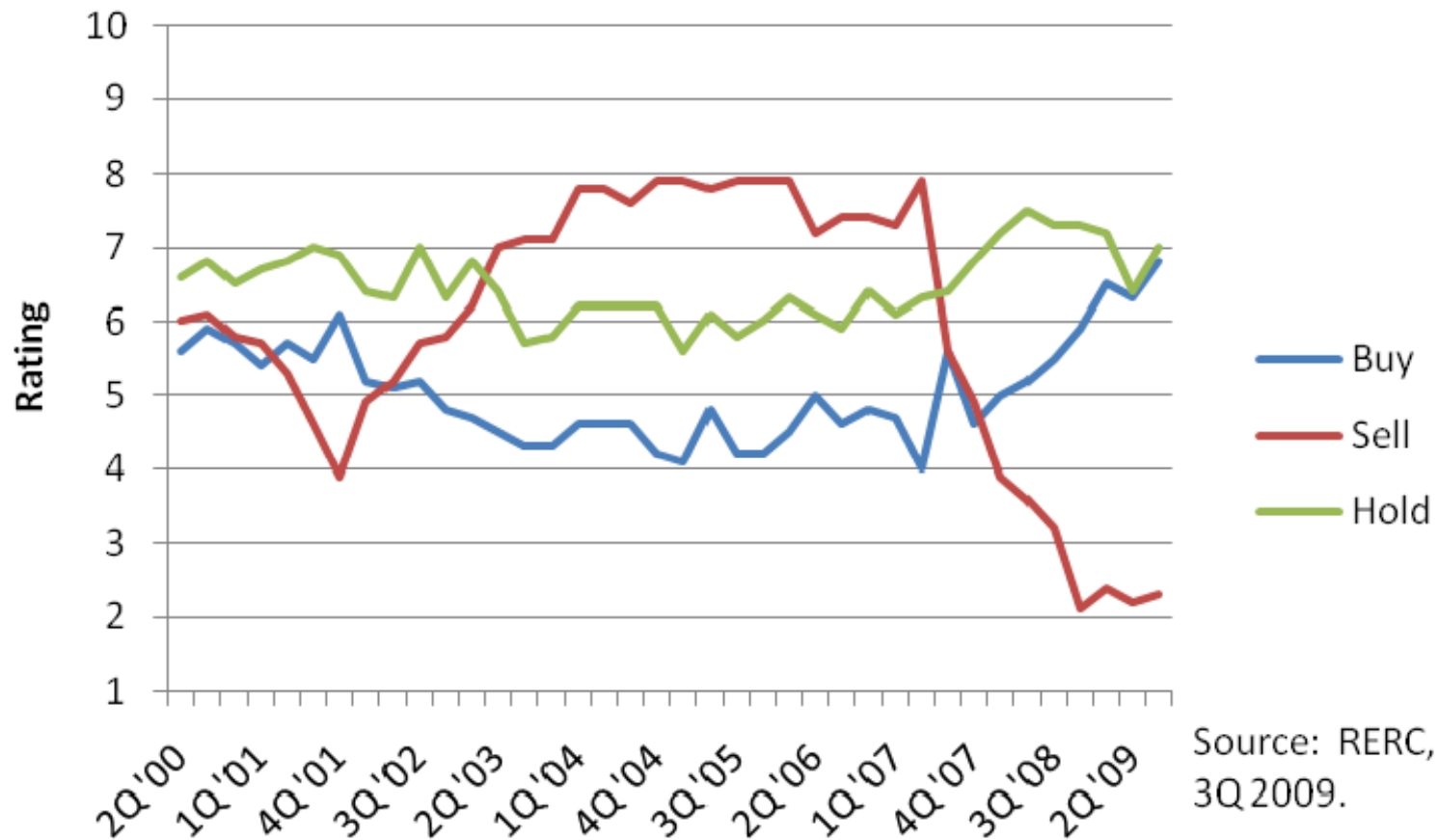
Availability & Discipline of Capital



Availability vs. Capital



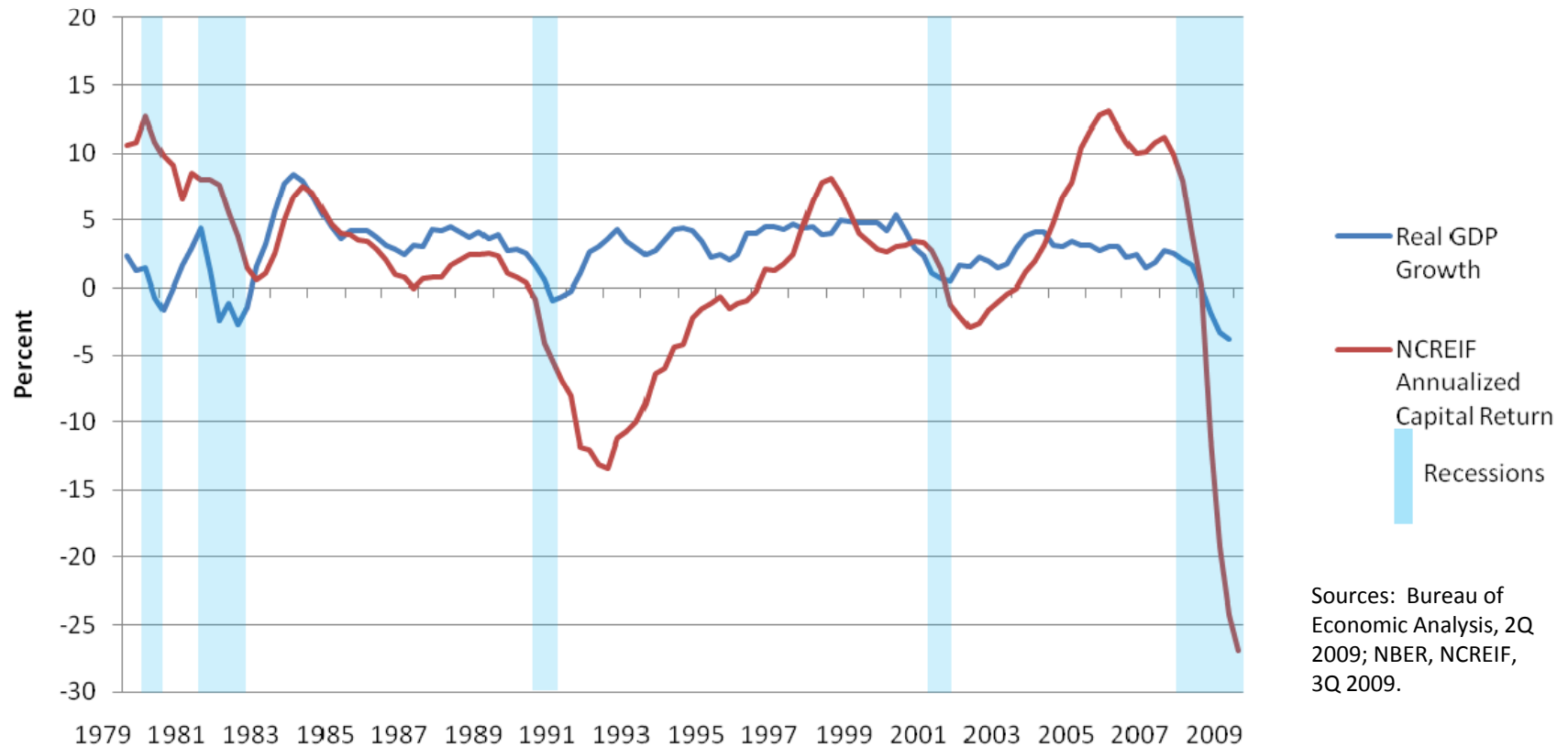
Buy, Sell, Hold on CRE



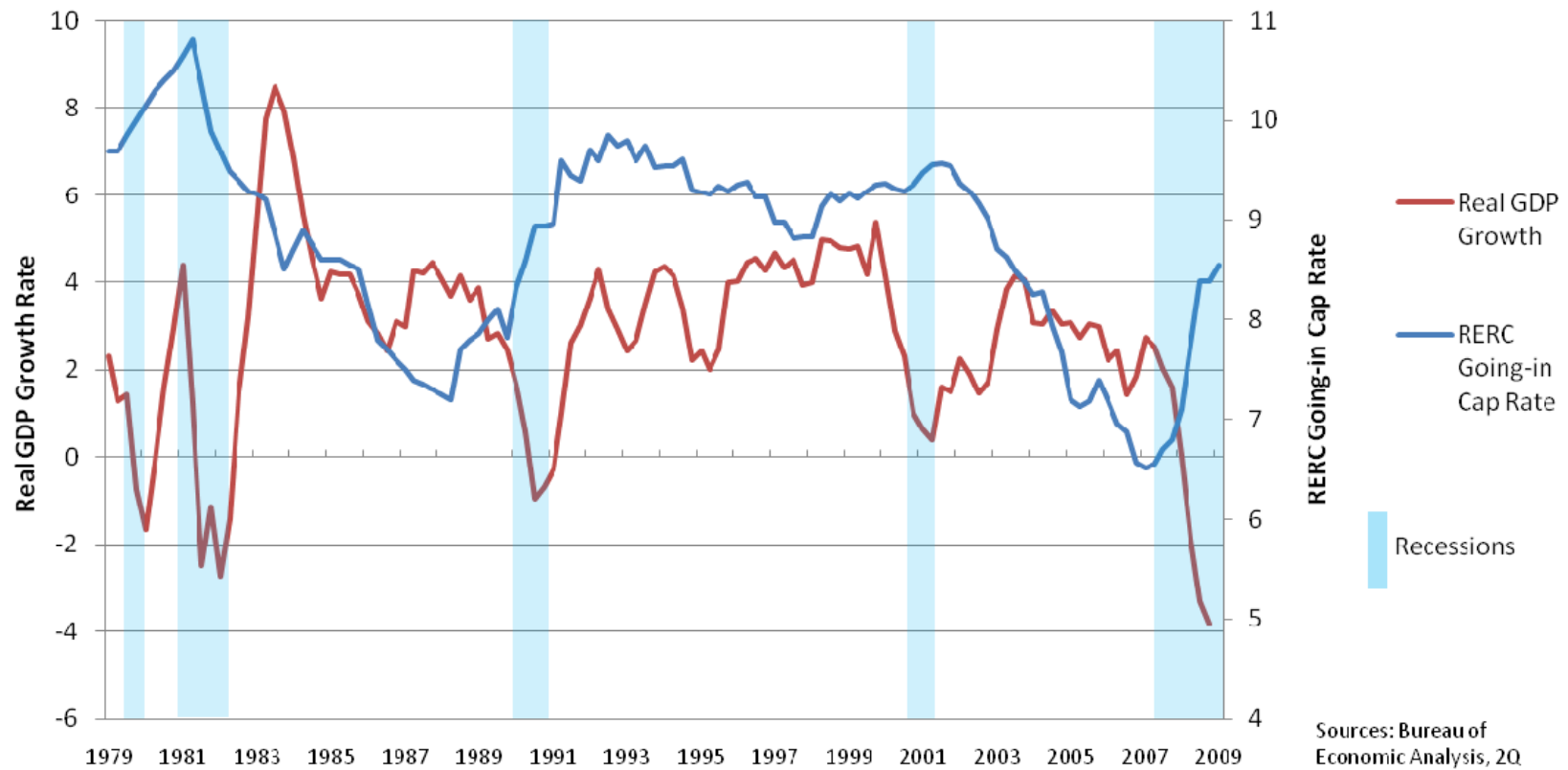
Buy vs. Sell



Recessions & Value Changes

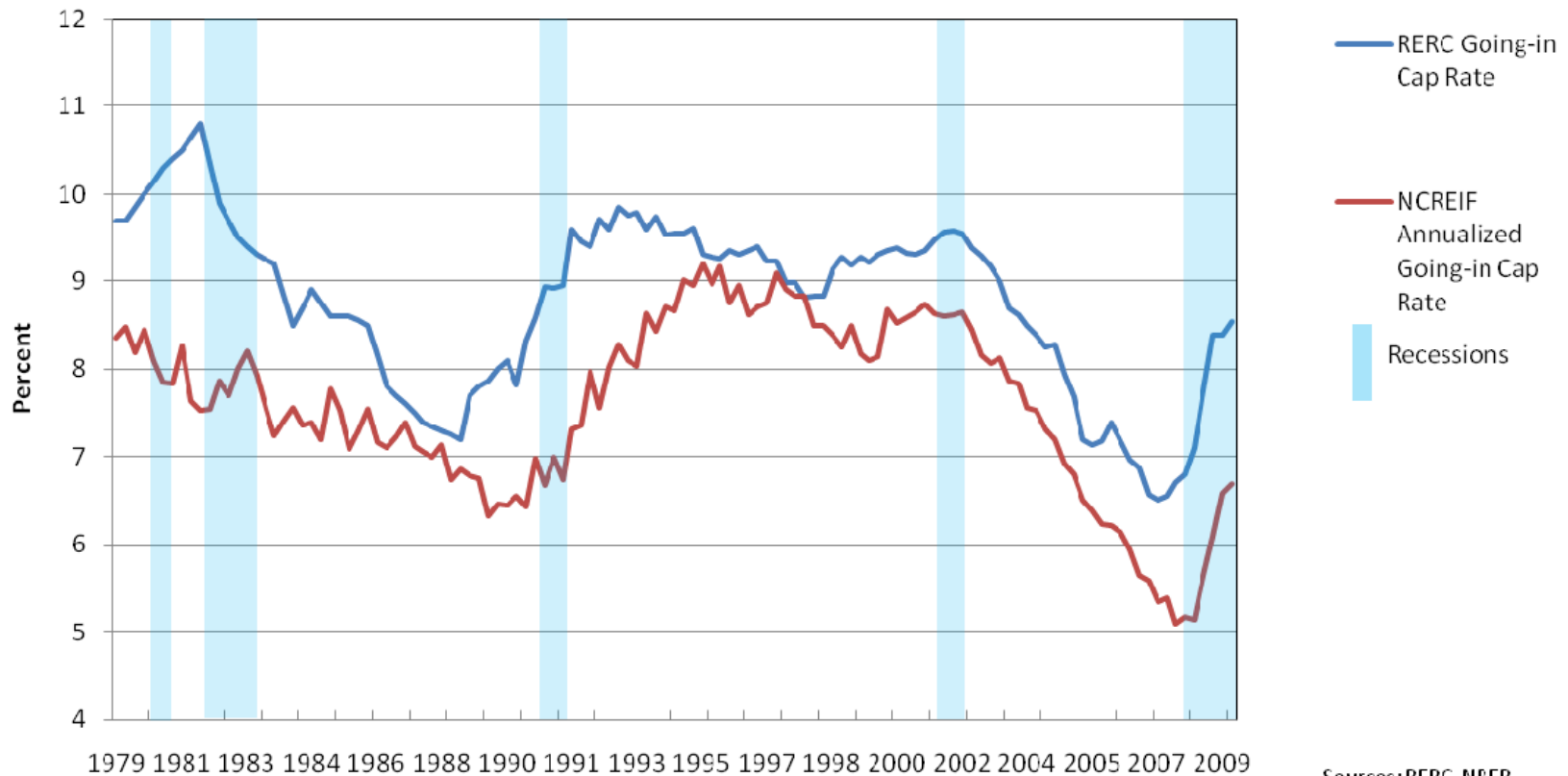


RERC Cap Rates and GDP Changes



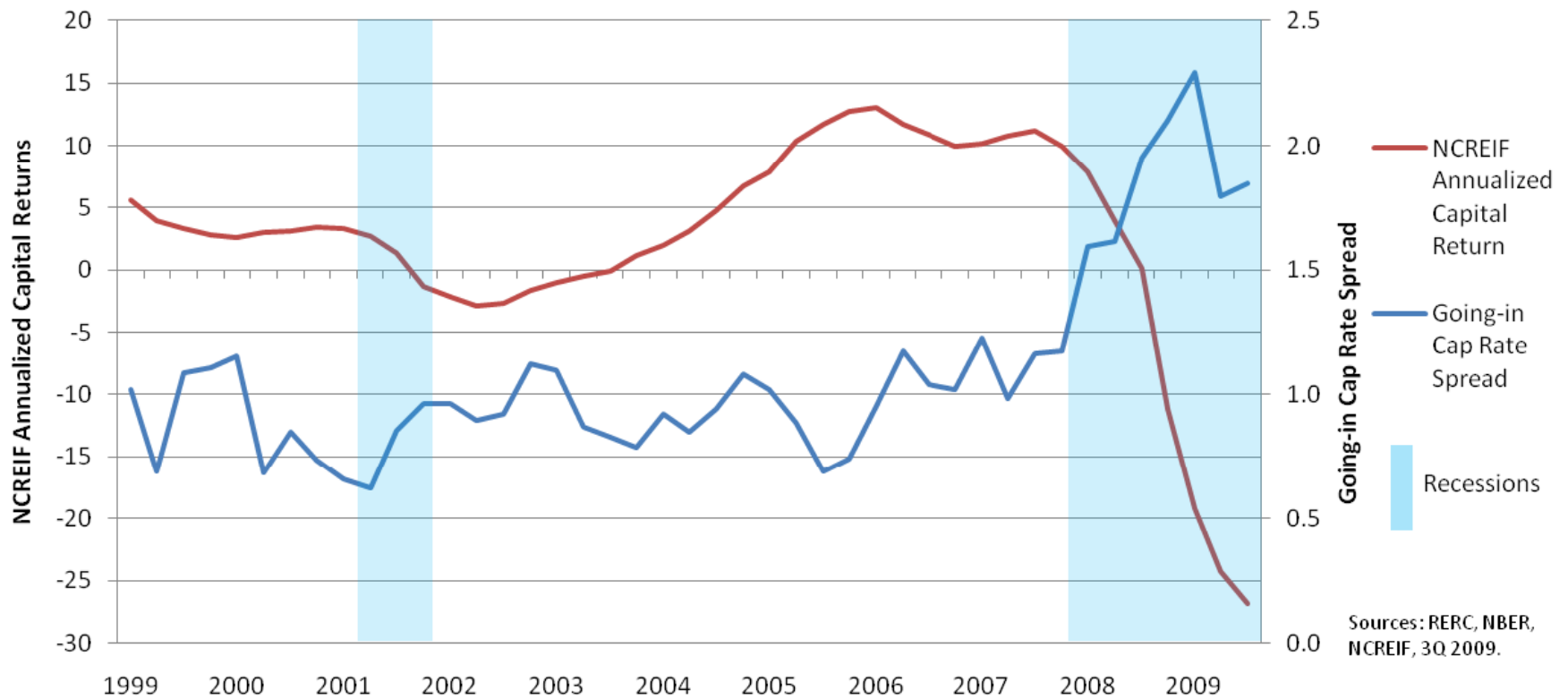
Sources: Bureau of Economic Analysis, 2Q 2009; RERC, NBER, 3Q

Buy vs. Sell Cap Rates



Sources: RERC, NBER, NCREIF, 3Q 2009.

Cap Rates vs. Value Changes



Cap Rate Comments

- RERC's third quarter 2009 required cap rate of 8.5% has remained relatively flat from first quarter's rate of 8.4%
- RERC's required cap rates have returned to the level of first quarter 2004 (prior to cap rate compression)
- NCREIF's third quarter 2009 reported cap rate is 6.7%
 - Need to go higher to match market expectations
 - NCREIF cap rates are still 60 basis points below levels of first quarter 2004

Cap Rate Comments

- First quarter 2004 through fourth quarter 2007
 - RERC cap rates declined by 200 basis points
 - NCREIF declined 220 basis points
- NCREIF will continue to experience cap rate increases

Value Comments

- NCREIF value expansion from 2004 – 2008
 - Roughly **45 percent** during this 4-year period
- NCREIF recorded the largest single quarter decline
 - Fourth quarter 2008 of **negative 9.6%**
- NCREIF capital component last 4 quarters
 - **negative 26.9%** from 4th quarter '08 to 3rd quarter '09

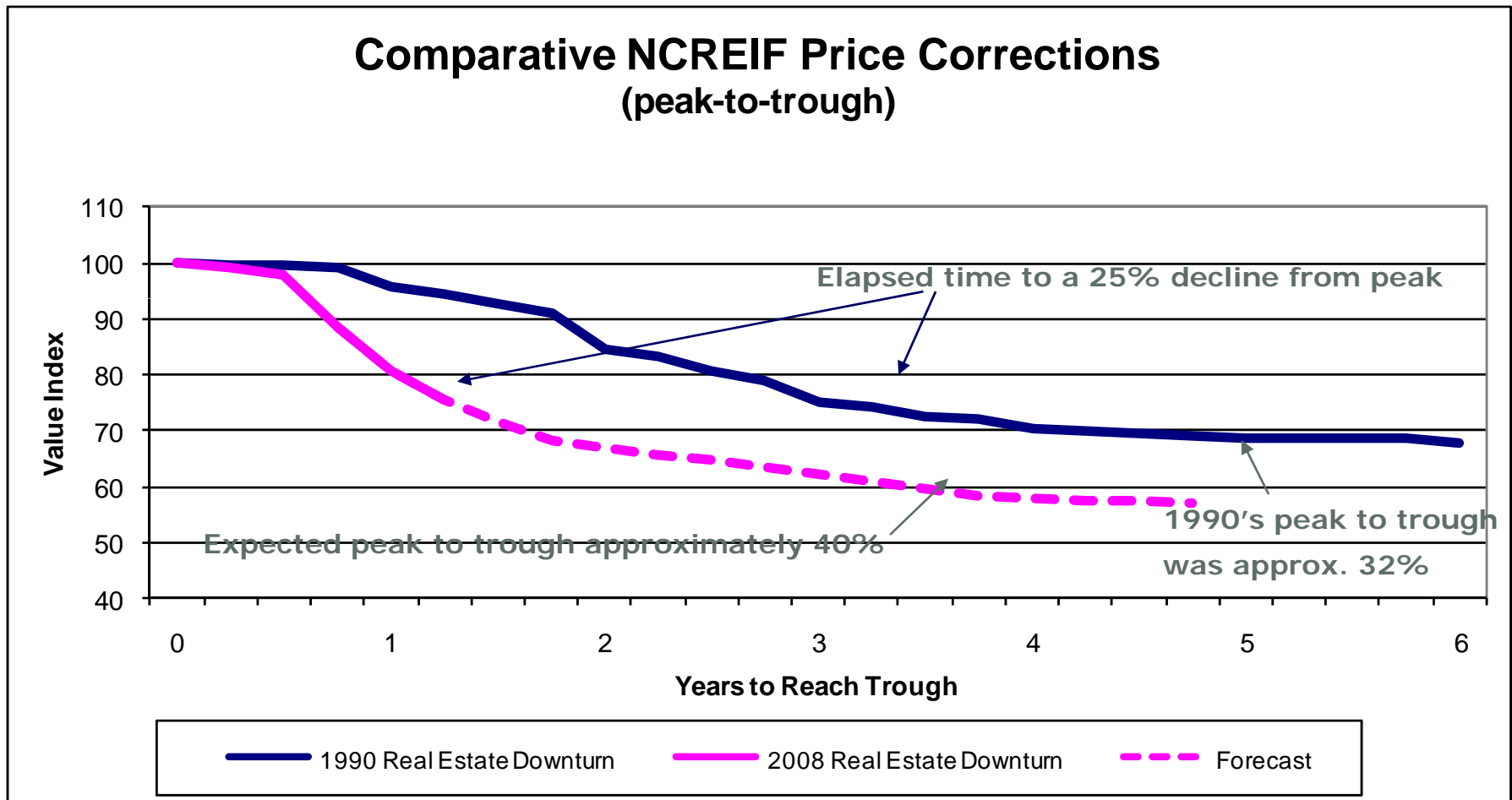
Cap Rate & Value Comments

- 1999 to 2007
 - RERC cap rates vs. NCREIF cap rates
 - 50 – 120 basis points
 - Average of around 90 basis points
- For NCREIF's cap rates to realign with RERC cap rates, NCREIF cap rates would go up by another 90 basis points
- Currently at 180 (8.5 – 6.7) basis point spread

Concluding Comments

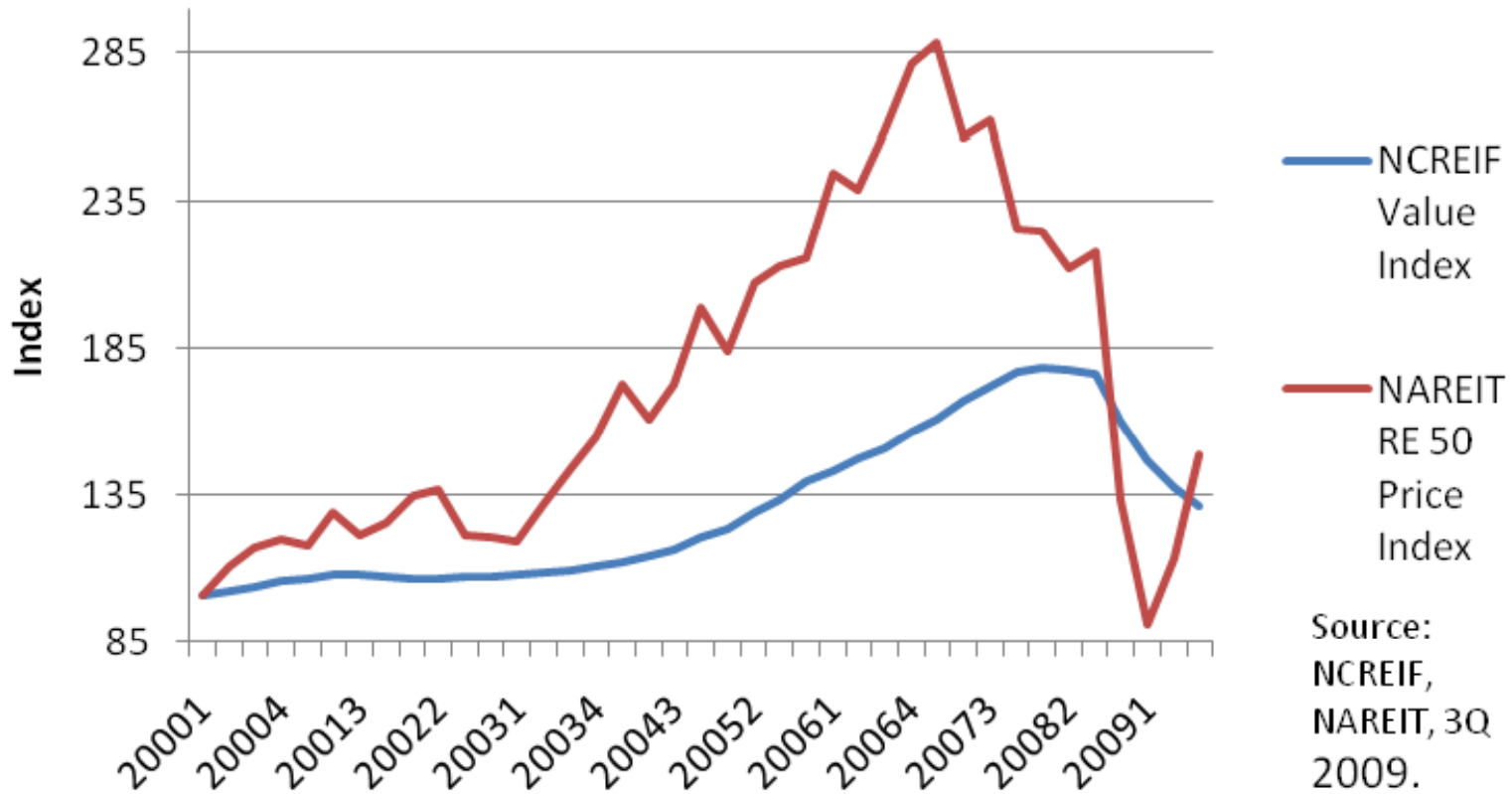
Courage, Conviction, Decisiveness.

Relative Pace and Magnitude of Value Declines

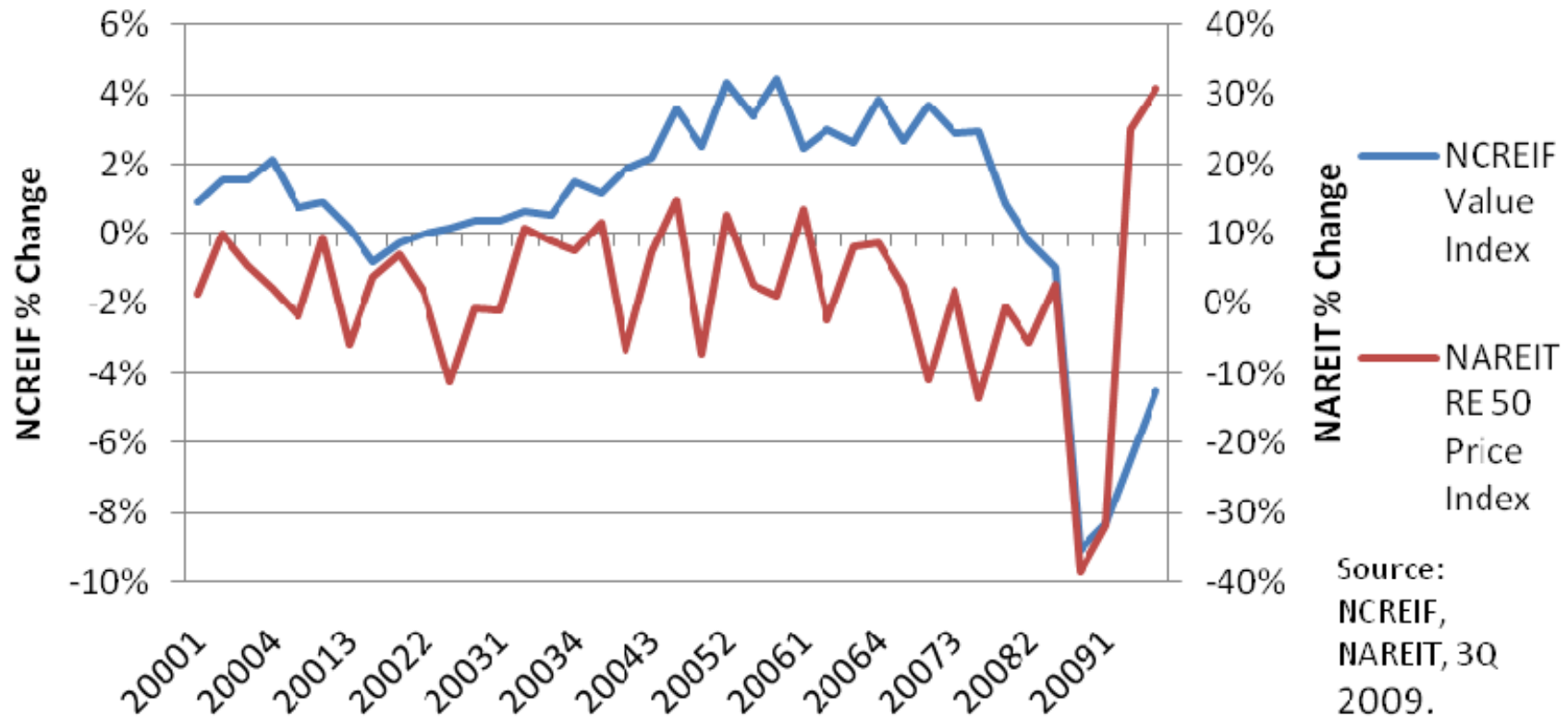


Source: NCREIF, July 2009

Price vs. Value



Price vs. Value



Key Issues

- Economic vs. Capital vs. CRE Recovery
- Liquidity vs. Pricing
- Market Value vs. Market Pricing
- Cyclical vs. Structural Elements

Concluding Comments 2010

- Media vs. reality issues with CRE
 - A looming CRE crisis with the smaller banks
- Most structural issues priced into CRE
- Cyclical issues playing out but pricing overshoots values

Concluding Comments 2010

- Most large core CRE players focused on debt issues or deleveraging
- Prices meet with values by end-of-year 2010
- Best year to buy distressed CRE
 - Wealthy entrepreneurs & opportunistic funds seize market opportunities

Concluding Comments 2010

“Price is what you pay. Value is what you get.”

“Be greedy when others are fearful.”

“You don’t make money by betting against the U.S.”

- Warren Buffett

The Gauntlet Ends Here: For Now!

Thank You...

Questions?