

Urban Land Institute
Global Real Estate and Capital Markets

February 26, 2008

Section 1

Global Economic Trends

Global Economic and Capital Market Themes

THEME

IMPLICATION

Real estate credit markets remain unstable and not expected to recover in the near future



- Has led to repricing of risk and transactions, especially in the U.S. and Western Europe
- Illiquidity in financing markets for asset transactions
- Public and private companies unable to access the capital markets due to a lack of liquidity
- Real estate credit markets generally remain open in Japan and in Asia Pacific

Global growth is still expected to slow in 2008 as a result of a U.S. recession



- Economic growth in developed economies expected to fall to 1.5% in 2008, but normalize in 2009
- U.S. seems to be in a recession
- Emerging markets, and those countries and companies driven by them, will likely grow, although at a slower pace
- Can the rest of the world bail the U.S. out, or will the U.S. pull it down?

Recent economic expansion had been broad-based¹



- Euro zone had experienced its strongest expansion since 2000
- Asia Pacific economies continue to expand but likely at a slower pace
- Japan will likely suffer in 2008 as a result of the U.S. slowdown
- Growth in larger developing economies such as Brazil, Russia, India and China have meaningfully contributed to growth in the aggregate

1. Morgan Stanley GDP forecasts as of February 8, 2008

Global Growth, Now Revised Lower for 2008

Morgan Stanley GDP Growth Forecast

- Recent financial market turmoil has led to the revision of growth expectations
 - Nonetheless, certain areas of the globe remain healthy and growth expectations have not changed significantly
 - Growth is expected to strengthen in 2009 as headwinds begin to dissipate
- U.S. growth expected to slow considerably to 1.3% in 2008 and 2.7% in 2009

	Current Forecast ¹ , %			Adjustment from Pre-Credit Crunch Forecast ² , Basis Points	
	2007E	2008E	2009E	2007E	2008E
Global Economy	4.9	3.9	4.5	30	(60)
Industrial World	2.4	1.5	2.4	0	(110)
Developing World	7.6	6.6	6.7	100	40
Europe					
Germany	2.5	1.6	2.1	(10)	(80)
U.K.	3.1	1.8	2.2	70	(50)
France	1.9	1.5	2.2	0	(70)
Emerging Europe	6.5	5.1	5.7	60	(60)
Americas					
U.S.	2.2	1.3	2.7	10	(160)
Mexico	3.2	2.6	3.8	(10)	(100)
Brazil	5.3	4.3	4.0	80	(30)
Asia					
Japan	1.8	0.9	2.0	(70)	(160)
China	11.4	10.0	9.5	210	150
Hong Kong	6.0	5.5	5.0	100	0
Singapore	7.9	5.8	6.4	220	10
India	8.8	7.4	7.8	60	50

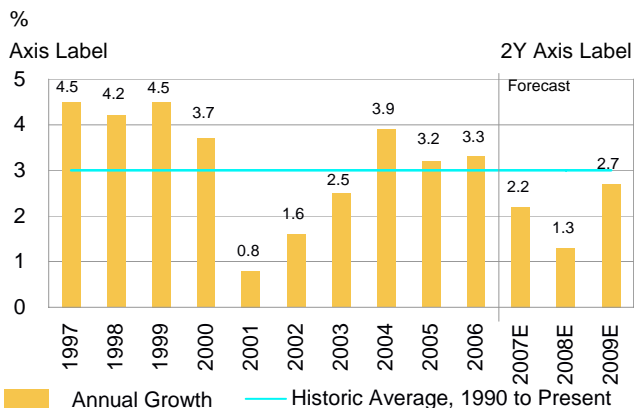
Source: Morgan Stanley

- Morgan Stanley GDP forecasts as of February 8, 2008
- Morgan Stanley GDP forecasts as of June 8, 2007. Negative numbers indicate downward revisions, positive numbers indicate an increased forecast. Forecasts have been adjusted due to the credit crunch, but also for a variety of other reasons. 2009E is omitted as a pre-credit crunch forecast was not made

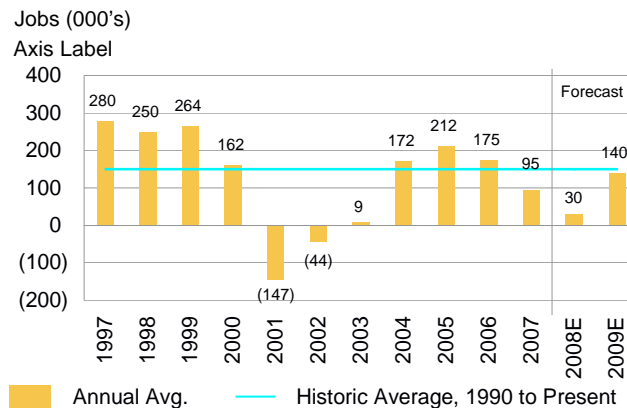
- Consumer-led downturn
 - Continuing weakness in the homebuilding sector
 - Negative home buyers psychology surrounding housing markets
 - Decelerating retail sales
- The recession is expected to be contained
 - Excesses to be unwound are modest
 - Housing recession already part-way over
 - Government acting quickly and strongly to spur growth
 - Weak dollar providing some support to the economy

Economic Headwinds Leading to Recession

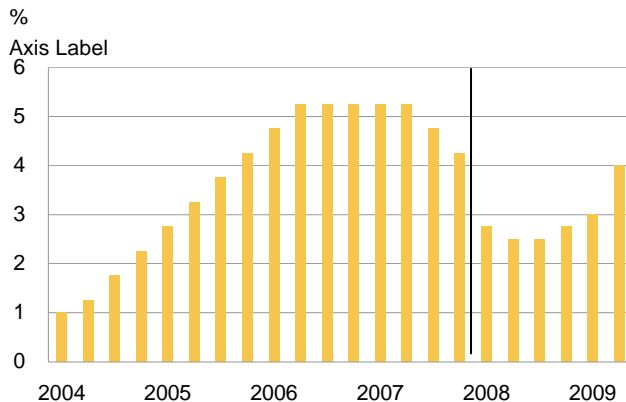
U.S. Real GDP Growth



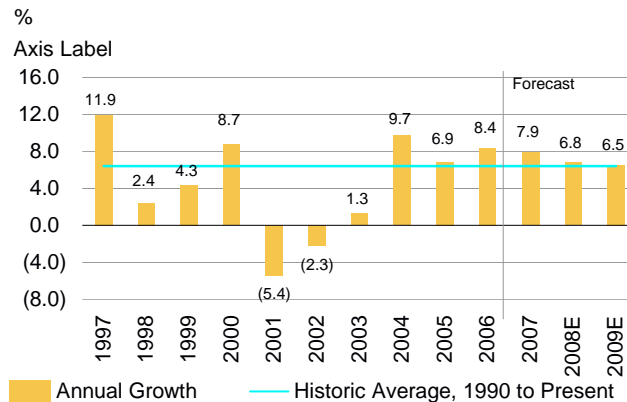
U.S. Average Monthly Job Formation



Fed Funds Rate Target⁽¹⁾



U.S. Exports Growth



Source: Morgan Stanley forecast as of 4 February 2008

Implications for Direct Real Estate Investors

Strong Headwinds

- Lack of credit/financing across much of the world
- Expect continued distress in the credit/capital markets
- U.S. residential issue will get worse before it gets better
- Economic downturn may be worse than expected outside the U.S.
- Public markets continue to be volatile
- Cap rates have widened 50-150+bps – flight to quality

However...

- Continuing liquidity for real estate from new sources of capital, including Sovereign Wealth Funds and new investors to the asset class
- Many real estate markets have stable to positive fundamentals (ex U.S., UK and Spain for-sale residential) – may not hold up if recession is prolonged
- China, India and other Emerging Markets continue to experience reasonable growth and remain short of quality real estate
- Although real estate lending spreads have widened significantly, LIBOR and 5-Year Swap rates have fallen
- New construction activity has been cut back (lenders pull financing and replacement cost continues to go up)

Morgan Stanley Real Estate Market Expectations for 2008

U.S.

- Credit markets should stabilize as CMBS and Leveraged Loan inventories currently held by banks are sold off. MSRE Expectation: Late 2008 into early 2009
- Real estate transaction activity should return to levels seen in late 2005 and early 2006 once sellers and buyers accept new market dynamics and lenders begin to lend. MSRE Expectation: Into 2009
- Spot market cap rates to increase 50 – 150 bps with lower increases on higher quality assets in supply constrained markets. MSRE Expectation: Already occurred
- Income growth to still be attainable in high growth markets for high quality assets; a deep U.S. recession and financial services industry pull back would be a major headwind! MSRE Expectation: To be determined in 2008

Asia

- Credit market dislocation caused ripples in Asia but local banks absorbed much of the pullback of CMBS lenders; mezzanine markets less deep due to foreigner pullback but not “out of business”. MSRE Expectation: Close to normalized level throughout 2008
- Real estate transaction activity has not slowed down in the region, from Japan, to China, to Australia, to Singapore to India. MSRE Expectation: Transaction activity will remain relatively active
- Similarly, values have not pulled back in the region. MSRE Expectation: Values will remain stable

Europe

- Credit markets will likely follow the U.S. and recover along the same time line. MSRE Expectation: Late 2008
- Real estate transaction activity is mixed across the region; dead in U.K., mixed in France, still relatively active in Germany. Weaker markets will improve once lending markets re-open. MSRE Expectation: Late 2008
- Values to be under pressure from cap rate expansion but helped by income growth, especially in growth/recovering markets such as Germany and Emerging Europe. MSRE Expectation: Depends on the market but repricing already occurring

Section 2

U.S. Real Estate and Capital Markets



● Global Cities

U.S.

Macroeconomic Prospects

- Growth has slipped below average due to mounting headwinds; recession possibility mounting
 - Continuing and intensifying weakness in the homebuilding and manufacturing sectors; increasing risk of spillover to broader economy
 - Housing market expected to remain challenging through 2008 and in parts through 2009
 - Strong export growth anticipated due to weak dollar and strong global growth likely to cushion the corporate sector
 - Fed trying to stimulate growth through multiple rate cuts

Real Estate Fundamentals/Capital Markets

- We believe that commercial real estate property markets remain solid
 - Fundamentals in the corporate-oriented sectors of office and industrial remain healthy
 - Apartment and retail vacancies are low, but have recently edged higher
 - More restrictive financing environment should help limit new supply
- We view pricing as aggressive, but reflective of the income growth opportunity

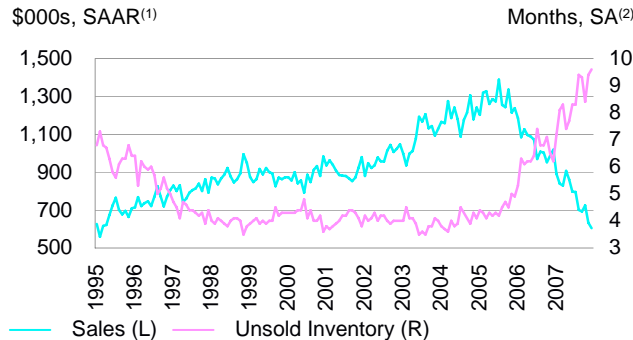
Effects of a U.S. Recession

- Likely to be a consumer-led downturn, disproportionately affecting retail and for-sale residential
 - Fundamentals for office and industrial would likely weaken, but current mark-to-market lease opportunities expected to continue to offer income growth, even absent further market rent increases

Housing: Near-Term Outlook Negative

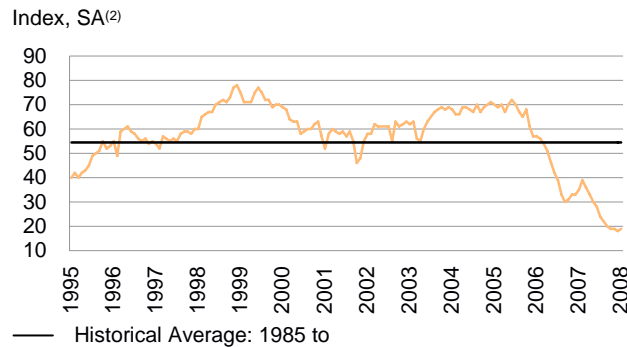
- Homebuilders continue to build based on unsupportable demand, leading to housing overhang
- Demand continues to fall while supply remains elevated
 - New home sales at lowest level since 1995
- As a result:
 - Months supply in January at 9.6 months – well above “normal” levels of around 6 months
 - New home prices are down sharply
 - Homebuilder sentiment at record lows
 - Homeowner vacancy rate at record highs

Single-Family Home Sales & Unsold Inventory



Source: Census Bureau, Moody's Economy.com

Homebuilder Sentiment

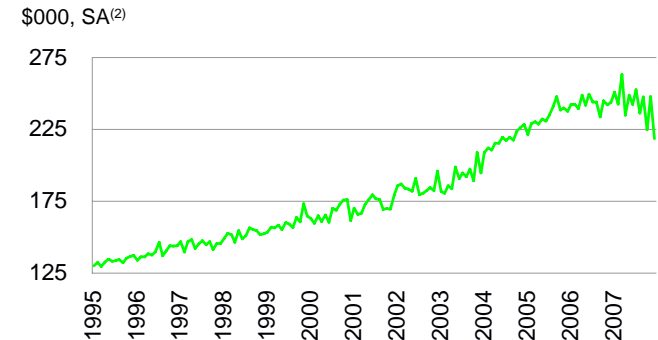


Source: National Association of Homebuilders, Moody's Economy.com

Notes

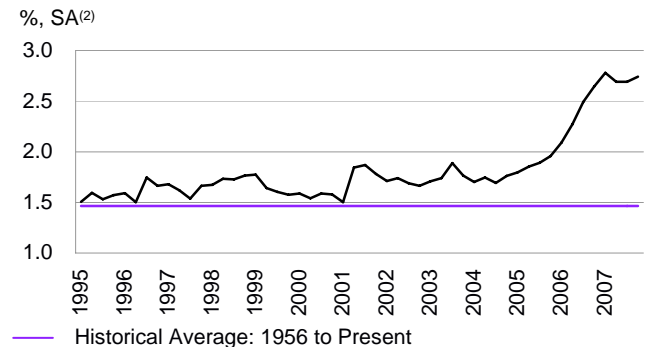
1. Seasonally adjusted, annualized rate
2. Seasonally adjusted
3. Lehman Brothers
4. Goldman Sachs

Median Single-Family New Home Price



Source: Census Bureau, Bureau of Economic Analysis, Moody's Economy.com, Morgan Stanley Calculations

Homeowner Vacancy Rate

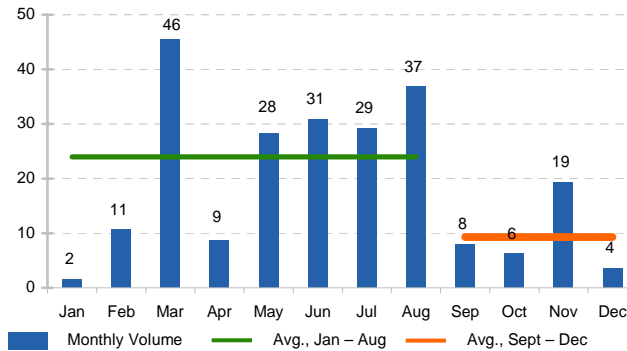


Source: Census Bureau, Moody's Economy.com

Commercial: Capital Becoming More Scarce

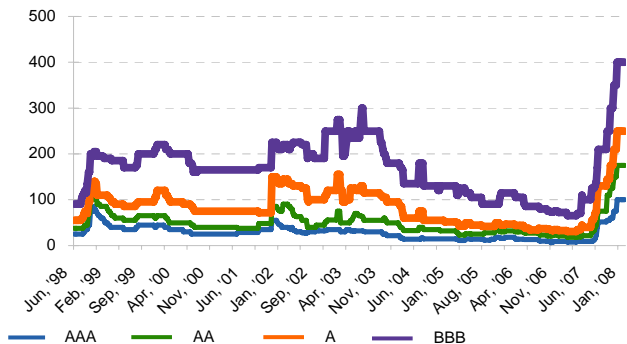
- The credit crunch has led to a sharp downturn in ABS issuance and purchases
 - CMBS issuance volume during the last four months of 2007 is roughly 40% of the pace set during the first 8 months of the year
 - Morgan Stanley strategists estimate volume in 2008 will be 33% of 2007 levels
- The market for debt from syndicators, especially floating rate debt, is effectively shut for the time being
 - Pricing has troughed
 - The seizure in the real estate debt markets has led to sharply reduced transaction volumes

Monthly U.S. CMBS Issuance, 2007
(\$Bn)



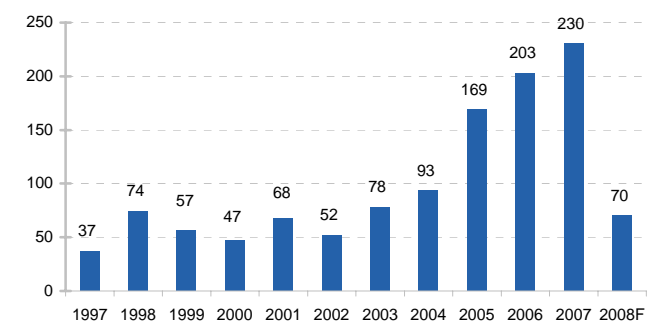
Source: Morgan Stanley

Floating Rate CMBS Spreads
(Basis Points)



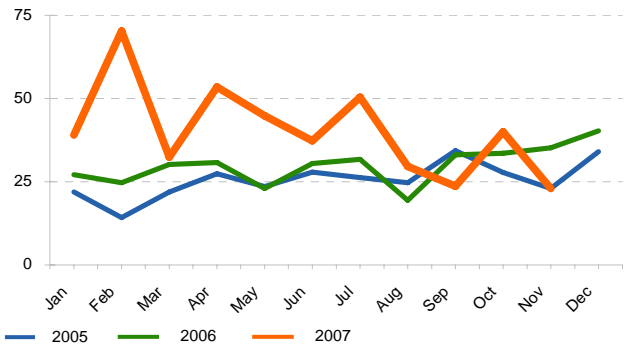
Source: Morgan Stanley as of January 30, 2008

Projected U.S. CMBS Issuance
(\$Bn)



Source: Morgan Stanley

Real Estate Transaction Activity by Month
(\$Bn)

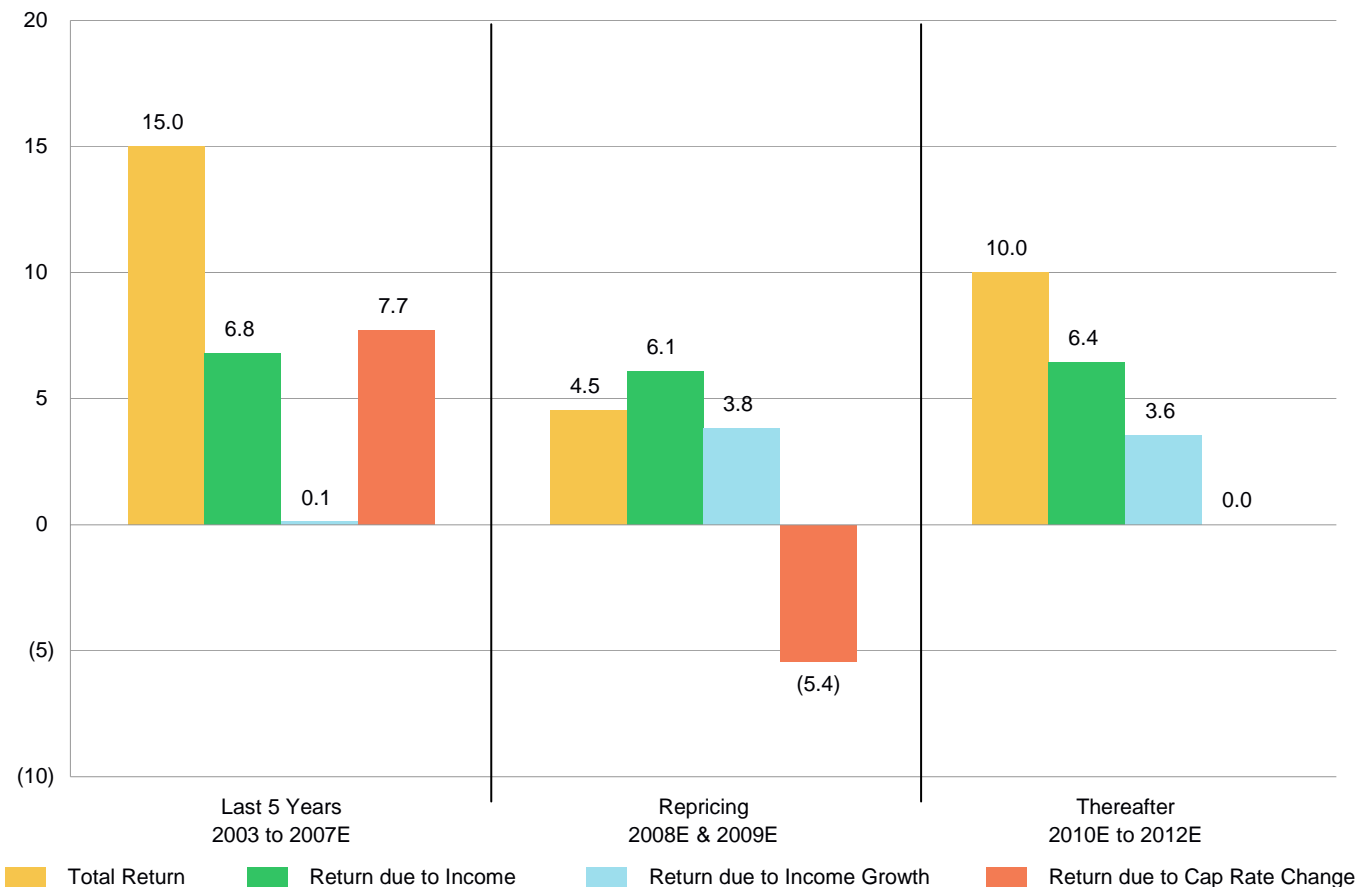


Source: Real Capital Analytics

Total Return Drivers are Shifting

NCREIF Returns by Component

Average Annual Return, %

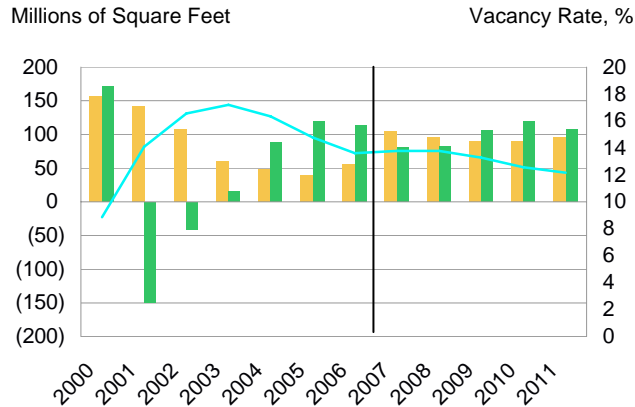


- Real estate capital markets are at an inflection point
 - Real estate values are expected to decline 3% in total during the next two years
 - The forecast contemplates a 70 basis point cap rate increase, which would result in an 11% price decline, although rising property incomes partially offset this loss
 - Total returns are expected to remain positive as a result
- Once the re-pricing cycle has run its course, annual returns are expected to rise to attractive levels

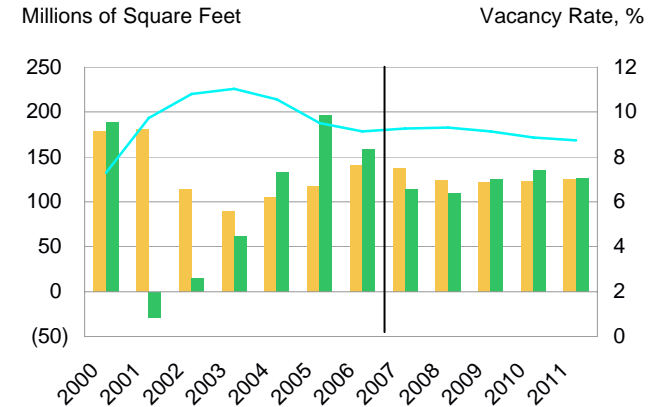
- Real estate property markets are healthy
 - Vacancy rates have been trending down for several years
 - The scarcity of available space has allowed landlords to strongly increase rates in many metro areas
 - Supply is now a greater concern across more markets and across all asset types

Commercial: Property Market Fundamentals

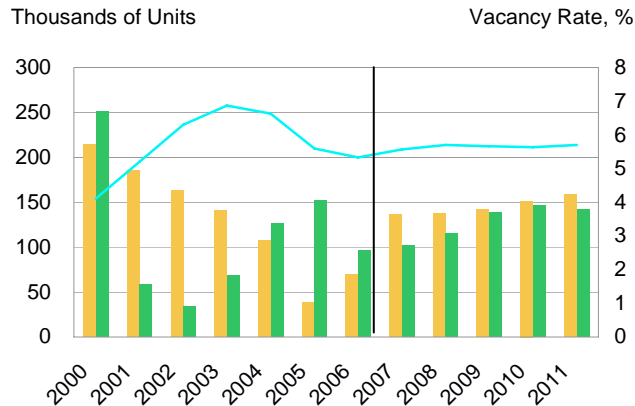
Office Market Fundamentals



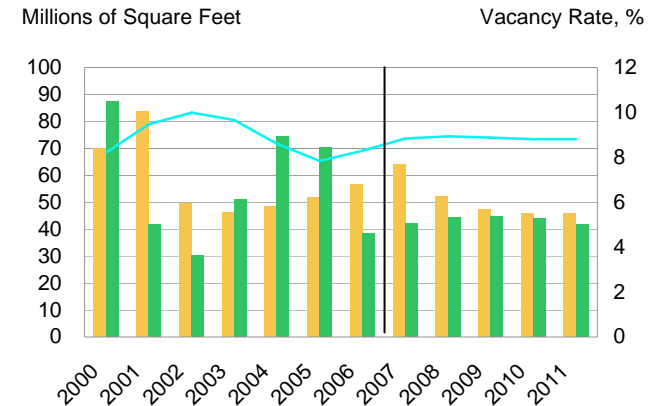
Industrial Market Fundamentals



Apartment Market Fundamentals



Retail Market Fundamentals



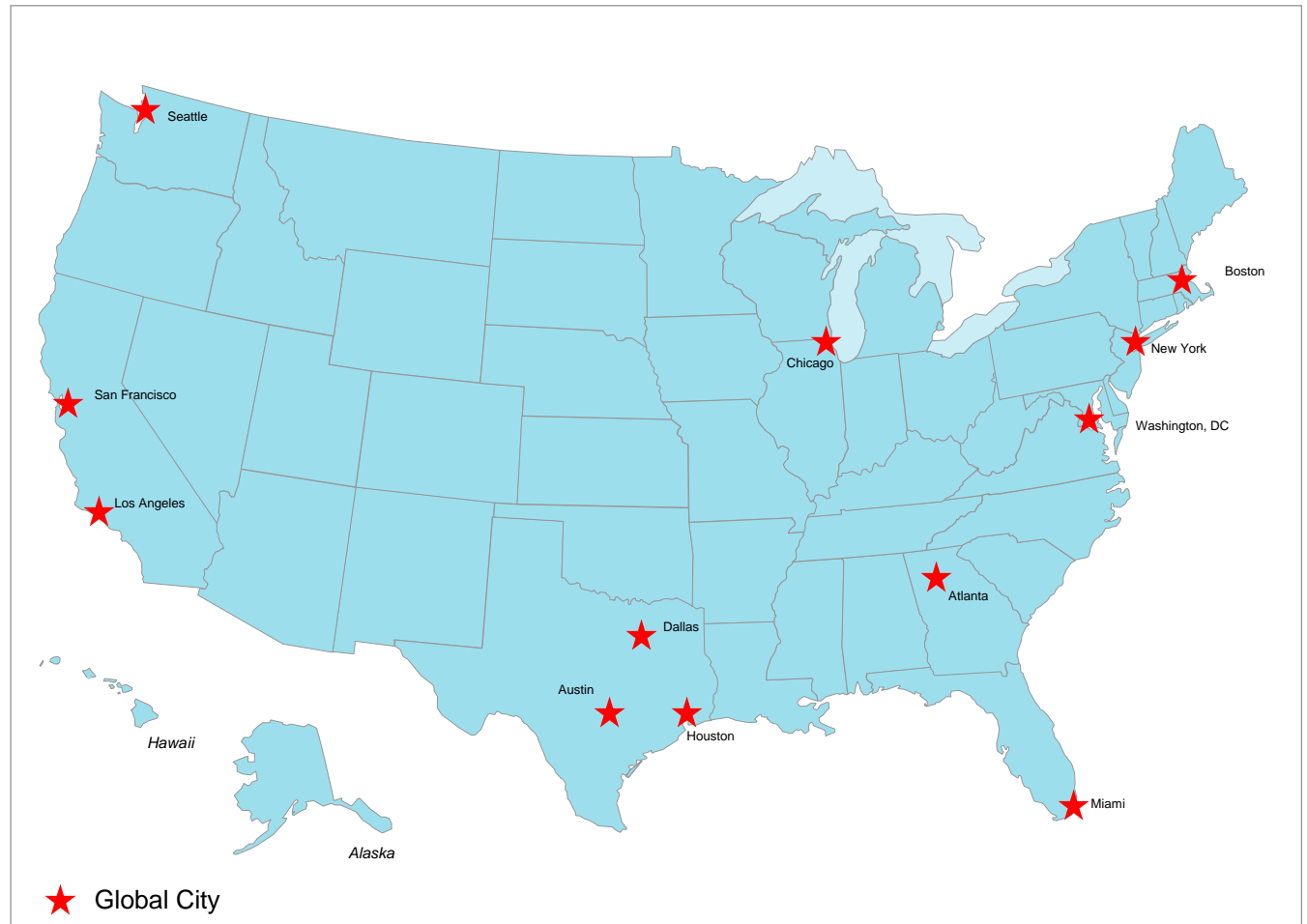
Source TWR, PPR, Reis, Morgan Stanley calculations

Net Completions (Yellow bar) Net Absorption (Green bar)

Occupancy (Cyan line)

Globally Oriented Cities Enjoy Tailwinds

- Global GDP is expected to outpace US GDP
 - 2008E
 - Global: 3.9%
 - US: 1.3%
 - 2009E
 - Global: 4.5%
 - US: 2.7%
- Internationally-oriented cities will benefit most from global growth & a weak dollar
- Global cities have
 - Concentration in global services
 - Exposure to export industries
 - Large foreign-born population
 - Strong FDI
 - Robust port activity
 - Breadth of global services



Sources Moody's Economy.com, Morgan Stanley

Section 3

Global Capital Flows in 2007

Global Property Sales - 2007

- Global capital flows through Q3 2007 exceeded all of 2006, but then fell off sharply as the global credit crunch took hold
- 2008 capital flows could be upwards of 25% below 2007 if credit situation does not stabilize in near-term
- Nearly 1.2Bn sf changed hands in 2007, equivalent to all of London, Tokyo and Manhattan combined

	Vol \$ Bil	# of Props	Area	Average \$/Unit	Cap Rate
Office	\$434	7,870	1.2 Bn sf	\$378 / sf	6.0%
Industrial	78	4,643	1.3 Bn sf	46 / sf	6.7%
Retail	173	8,896	733 mil sf	283 / sf	6.2%
Apartment	122	5,841	919 k units	129,153 / unit	5.9%
Hotel	114	3,636	635 k units	207,917 / unit	7.9%
Dev Site	116	1,342	42.0 Bn sf	3 / sf	N/A
Total	\$1,036	32,228			6.2%

Source: Real Capital Analytics

- The average yield on property acquisitions in the top 12 countries is 6.0%, with capitalization rates ranging from a low of 4.4% in Hong Kong to a high of 7.4% in Canada
- Capitalization rates in the most active countries are all within a relatively tight 300 basis-point range
- The mobility of capital and rise in cross-border acquisitions is resulting in a convergence of property prices across markets

2007 Pricing by Country

Office

2007

		Volume (\$Bn)	SF (MM)	Cap Rate	Avg. Price/SF
1	US	\$209.3	734	6.3%	\$277
2	UK	54.8	63	5.3%	\$979
3	Germany	36.4	82	6.8%	\$395
4	France	25.0	32	5.5%	\$830
5	Australia	17.6	35	6.5%	\$445
6	Japan	14.1	23	4.9%	\$591
7	Canada	7.4	37	7.4%	\$185
8	Netherlands	6.7	21	5.6%	\$398
9	China	6.6	24	10.0%	\$271
10	Spain	5.8	8	5.7%	\$713

Retail

2007

		Volume (\$Bn)	SF (MM)	Cap Rate	Avg. Price/SF
1	US	\$65.8	423	6.5%	\$197
2	UK	26.1	32	4.8%	\$755
3	Germany	10.9	34	6.9%	\$285
4	Japan	8.6	28	5.2%	\$225
5	Sweden	6.6	22	5.5%	\$339
6	Australia	6.0	11	6.4%	\$550
7	France	5.7	16	5.3%	\$404
8	Spain	4.5	13	5.8%	\$444
9	Netherlands	4.4	14	n/a	\$268
10	Finland	3.3	11	5.2%	\$341

Source: Real Capital Analytics

Industrial

2007

		Volume (\$Bn)	SF (MM)	Cap Rate	Avg. Price/SF
1	US	\$41.4	534	6.9%	\$77
2	UK	8.6	61	6.2%	\$136
3	Germany	4.1	44	7.3%	\$101
4	Canada	3.5	32	7.7%	\$81
5	Sweden	3.2	33	7.4%	\$127
6	France	2.9	29	7.5%	\$83
7	Australia	2.5	17	7.2%	\$103
8	Japan	1.6	4	5.7%	\$224
9	Spain	1.3	11	N/A	\$113
10	Hong Kong	1.0	4	5.7%	\$228

Apartment

2007

		Volume (\$Bn)	SF (MM)	Cap Rate	Avg. Price/SF
1	US	\$87.8	704.1	6.0%	\$109
2	Singapore	7.5	6.2	N/A	\$1,212
3	Germany	6.5	92.6	N/A	\$68
4	Japan	4.8	21.8	5.4%	\$226
5	Canada	1.4	16.6	8.3%	\$89
6	UK	1.2	2.5	6.0%	\$509
7	Hong Kong	1.1	0.7	4.2%	\$1,626
8	Sweden	1.0	5.9	N/A	\$140
9	France	0.6	2.0	5.0%	\$381
10	China	0.5	0.8	N/A	\$740

- 24 hour global cities continue to be the focus of global investors – NY, London and Tokyo

Leading Global Cities

Americas

City	\$ in billions
NYC Metro	78.44
LA Metro	41.85
DC Metro	38.52
SF Metro	36.63
Las Vegas	22.33
Chicago	21.94
Boston	18.16
Seattle	17.30
Atlanta	16.13
Dallas	13.22

Europe

City	\$ in billions
London	49.87
Paris	18.37
Frankfurt	8.26
Stockholm	6.86
Berlin	6.80
Madrid	6.70
Moscow	4.50
Hamburg	4.17
Helsinki	4.00
Munich	3.99

Asia

City	\$ in billions
Tokyo	24.90
Singapore	18.64
Hong Kong	14.40
Sydney	10.66
Shanghai	10.33
Beijing	8.56
Melbourne	5.53
Hangzhou	5.43
Brisbane	4.37
Guangzhou	4.37

Source: Real Capital Analytics

Largest Individual Property Sales

Property	Location	Property Type	Price (\$MM)	Size	\$ / Unit	Buyer
CityCenter Casino & Resort	Las Vegas, US	Dev Site	\$5,400	3.3MM sf	\$1,631 / sf	Dubai World
Coeur Defense	Paris, France	Office	2,792	2.0MM sf	1,425 / sf	Lehman Brothers
HSBC headquarters	London, UK	Office	2,178	1.2MM sf	1,839 / sf	Metrovacesa
Citigroup Tower	London, UK	Office	2,078	1.2MM sf	1,699 / sf	Quinlan Private
666 Fifth	New York, US	Office	1,800	1.5MM sf	1,161 / sf	Kushner Companies
WorldWide Plaza	New York, US	Office	1,739	1.6MM sf	1,087 / sf	Macklowe Properties
Travelers Complex	New York, US	Office	1,575	2.6MM sf	598 / sf	SL Green Realty Corp
AXA Financial Center	New York, US	Office	1,546	2.0MM sf	784 / sf	Vornado Realty Trust
One Market Complex	San Francisco, US	Office	1,460	1.5MM sf	1,001 / sf	Paramount Group
Shunyi New City Plot 1	Beijing, China	Dev Site	1,458	15.0MM sf	97 / sf	Shunyi New City Construct.

Source: Real Capital Analytics