State of the U.S. Economy, Capital Markets, and Commercial Real Estate

VCU Real Estate Trends Conference

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Strong Growth is Hard to Find in Developed Economies

Year-over-Year GDP Growth

- United States
- Euro Area
- United Kingdom
- Canada
- Emerging and Developing Economies

2010 | 2011 | 2012F | 2013F
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This Was Not Your Father’s Recession

ANATOMY OF A DELEVERAGING CYCLE

Crisis Hits

Real GDP Growth

Price Discovery → Repair & Recognition → Contingent Liability Realization → Deleveraging Concludes

Year 1 → Year 2/3 → Year 4/5 → Year 6+ or more?

This is where we are!
Global Investors Seeking Safe Havens

- Germany
- Spain
- France
- Italy
- United Kingdom
- United States

10-Yr. Gov. Bond Yield (%)

- 2010
- 2011
- 2012
Most Job Sectors Are Growing, But Some Still Showing Signs of Weakness

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<tr>
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<tbody>
<tr>
<td>Natural Resources &amp; Mining</td>
<td>-1% (92)</td>
<td>-5% (47)</td>
<td>-11% (82)</td>
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<tr>
<td>Educational Services</td>
<td>2% (344)</td>
<td>-2% (27)</td>
<td>-2% (6)</td>
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<tr>
<td>Health Services</td>
<td>13% (1,406)</td>
<td>-3% (181)</td>
<td>-4% (88)</td>
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<tr>
<td>Federal Government</td>
<td>2% (68)</td>
<td>0% (0)</td>
<td>2% (10)</td>
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<tr>
<td>Leisure &amp; Hospitality</td>
<td>10% (99)</td>
<td>1% (8)</td>
<td>2% (19)</td>
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<tr>
<td>Professional &amp; Business Services</td>
<td>13% (-93)</td>
<td>-2% (42)</td>
<td>-6% (26)</td>
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<tr>
<td>Other Services</td>
<td>4% (-148)</td>
<td>-1% (14)</td>
<td>-4% (51)</td>
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<tr>
<td>State &amp; Local Government</td>
<td>14% (-544)</td>
<td>-3% (15)</td>
<td>-9% (60)</td>
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<tr>
<td>Transportation &amp; Utilities</td>
<td>4% (-155)</td>
<td>-1% (7)</td>
<td>-4% (27)</td>
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<tr>
<td>Retail Trade</td>
<td>11% (-820)</td>
<td>-2% (20)</td>
<td>-5% (37)</td>
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<tr>
<td>Financial Activities</td>
<td>6% (-477)</td>
<td>-1% (4)</td>
<td>-5% (25)</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>4% (-391)</td>
<td>0% (0)</td>
<td>2% (10)</td>
</tr>
<tr>
<td>Information</td>
<td>2% (-384)</td>
<td>-1% (11)</td>
<td>-5% (29)</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>9% (-1,753)</td>
<td>-3% (59)</td>
<td>-11% (219)</td>
</tr>
<tr>
<td>Construction</td>
<td>4% (-1,966)</td>
<td>-4% (76)</td>
<td>-10% (200)</td>
</tr>
</tbody>
</table>

Sources: Moody's Analytics, Bureau of Labor Statistics

Note: sector share of total and peak to current employment change in 000s shown in parenthesis.
Capacity Tightening, Corporations Have Cash to Spend

Sources: Federal Reserve, BEA
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Tech & Energy Markets Leading the Recovery

Employment Change (% of peak)

-15.0% -10.0% -5.0% 0.0% 5.0% 10.0%

Peak to Trough  Trough to July 2012  Trough to July 2011  Peak to July 2012

Houston New York Washington, D.C. Dallas Denver Boston San Francisco San Jose Baltimore Seattle Minneapolis United States Portland Philadelphia San Diego Atlanta St. Louis Miami Chicago Orlando Los Angeles Northern New Jersey Oakland Orange County Phoenix Fort Lauderdale Riverside West Palm Las Vegas

Sources: Moody’s Analytics, Bureau of Labor Statistics
High Educational Attainment Positions Metros for Stronger Growth

Sources: Moody's Analytics, U.S. Census Bureau
Tech Markets Experiencing Fastest Office Demand Growth

*Bubble Size Denotes Market Size

Demand Growth 2011Q2 to 2012Q2

Vacancy 2012Q2

Sources: CBRE-EA
Retail Sales Rising Again but Gas and Internet Sales grabbing a Larger Share

Source: U.S. Census Bureau
Modest Demand Growth = Soft Markets

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Demand Growth 2011Q2 to 2012Q2

- Availability 2012Q2
- Y/Y Rent Growth >1%
- Y/Y Rent Growth -1% - 1%
- Y/Y Rent Growth -4% - -1%
- Y/Y Rent Growth < -4%

Source: CBRE-EA
Trade Flows Play a Major Role in Industrial Market: Top Ten U.S. Container Ports

Source: U.S. Census Bureau, Moody’s Analytics, ESRI, American Association of Port Authorities

Notes: Bubbles denote MSA population levels; circles identify 250-mile radius from port color coded by import (blue), export (yellow), balanced (green); population in millions in parenthesis

Source: U.S. Census Bureau, Moody’s Analytics, ESRI, American Association of Port Authorities
Industrial Market Performance is Mixed, But Few Strong Performers

*Bubble Size Denotes Market Size

Source: CBRE-EA
The Reality of the American Housing Bust Continues to Play Out

CAN I MOVE BACK IN WITH YOU UNTIL I FIND A JOB?

THAT'S FUNNY. I JUST ASKED YOUR GRANDPARENTS THE SAME QUESTION.
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Home Prices Stabilizing as Sales Volume Improves

Sources: S&P/Case-Shiller, National Association of Realtors
Renter Households Set for Continued Strong Growth

Forecast Scenarios (12-16)
Downward Arrow Indicates Falling Homeownership Rate

Sources: Moody’s Analytics, U.S. Census Bureau, Bentall Kennedy Research
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New Multifamily Supply Still Running Well Below Housing Boom Era

Sources: Moody’s Analytics, U.S. Census Bureau, REIS
Apartment Market Experiencing Strong Demand Growth

Source: REIS
Even My Daughter is out of the House

“I do like it here, but I’m ready for my own apartment.”

Source: Cartoonbank.com
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Sales Volume Solid but Leveling Out

- **Apartment**
- **Office**
- **Retail**
- **Industrial**

Sales Transactions (3-mo moving avg., billions)

Sources: Real Capital Analytics
Real Estate Offering Attractive Yields Versus Treasuries

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Sources: Federal Reserve, Moody's Analytics, NCREIF (transaction-based cap rates)
“Valuation Effect” has played a Significant Role in the Rebound of CRE Performance

Sources: NCREIF, Bentall Kennedy Research
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