



Virginia Commonwealth University
Real Estate Trends Conference

October 14, 2008

Sally Gordon, Managing Director

Table of Contents

- I. Where Are We Now
- II. How Did We Get Here
- III. Where Are We Going



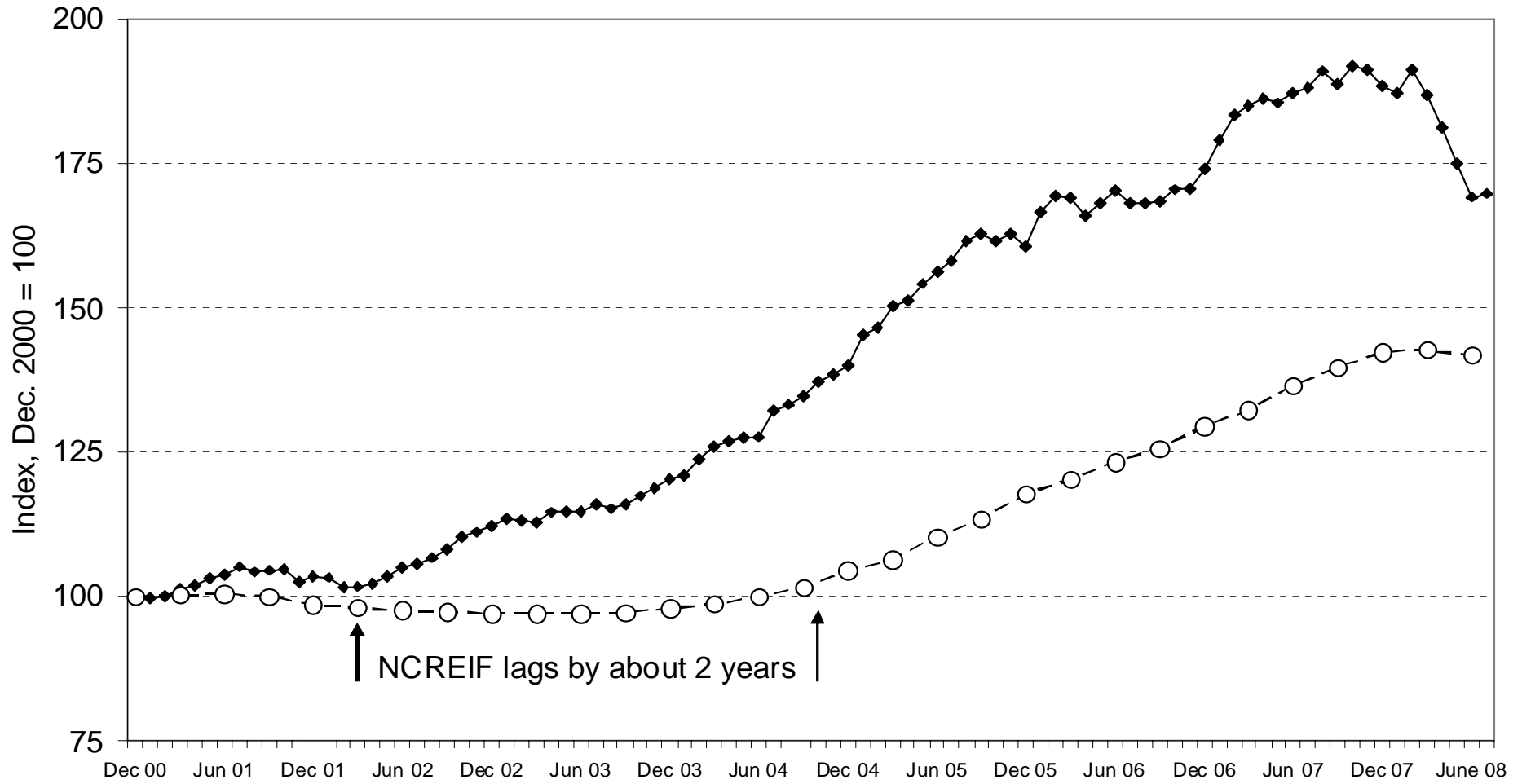
Markets are liquid ...

Until they're not.

Assets don't correlate ...

Until they do.

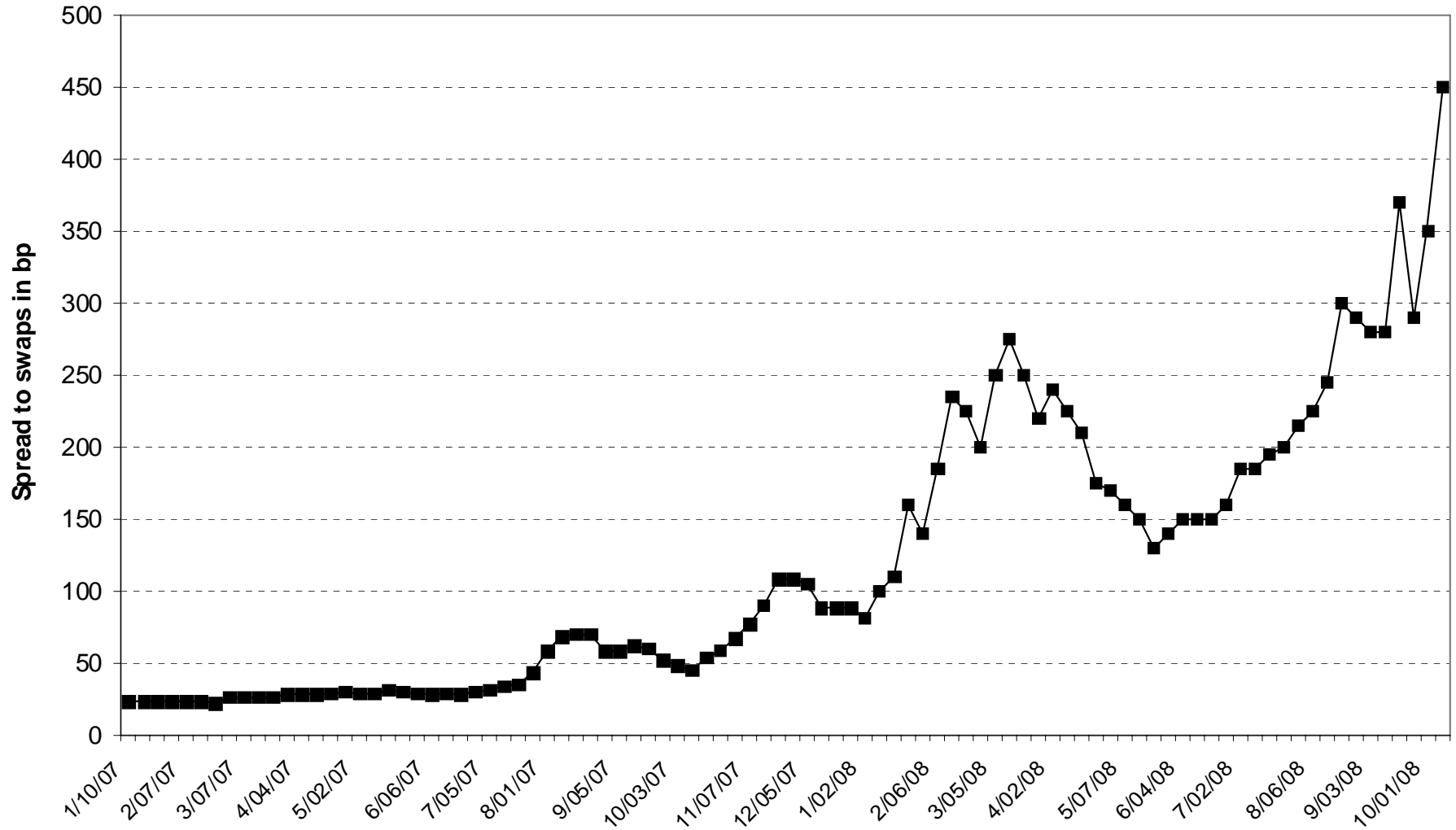
Moody's/REAL Composite Commercial Property Price Index (CPPI) and NCREIF Capital Appreciation



Sources: NCREIF and Moody's Investors Service.
 CPPI data through July 2008. NCREIF through 2Q 2008.

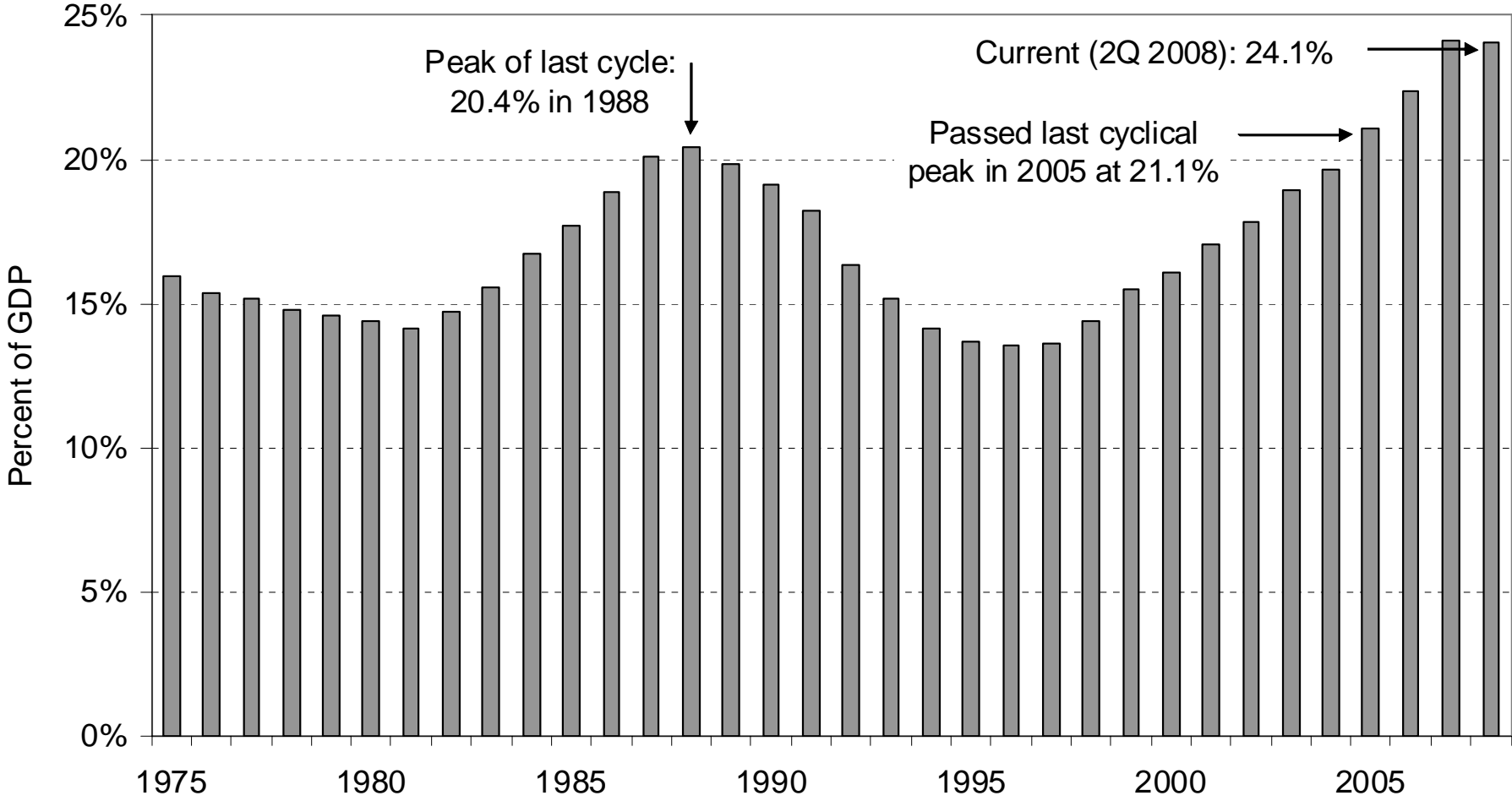
—◆— CPPI Composite Index -○- NCREIF Capital Appreciation

Super-Senior AAA Spreads to Swaps



Source: Morgan Stanley.

Commercial + Multifamily Mortgages Outstanding As Percent of GDP

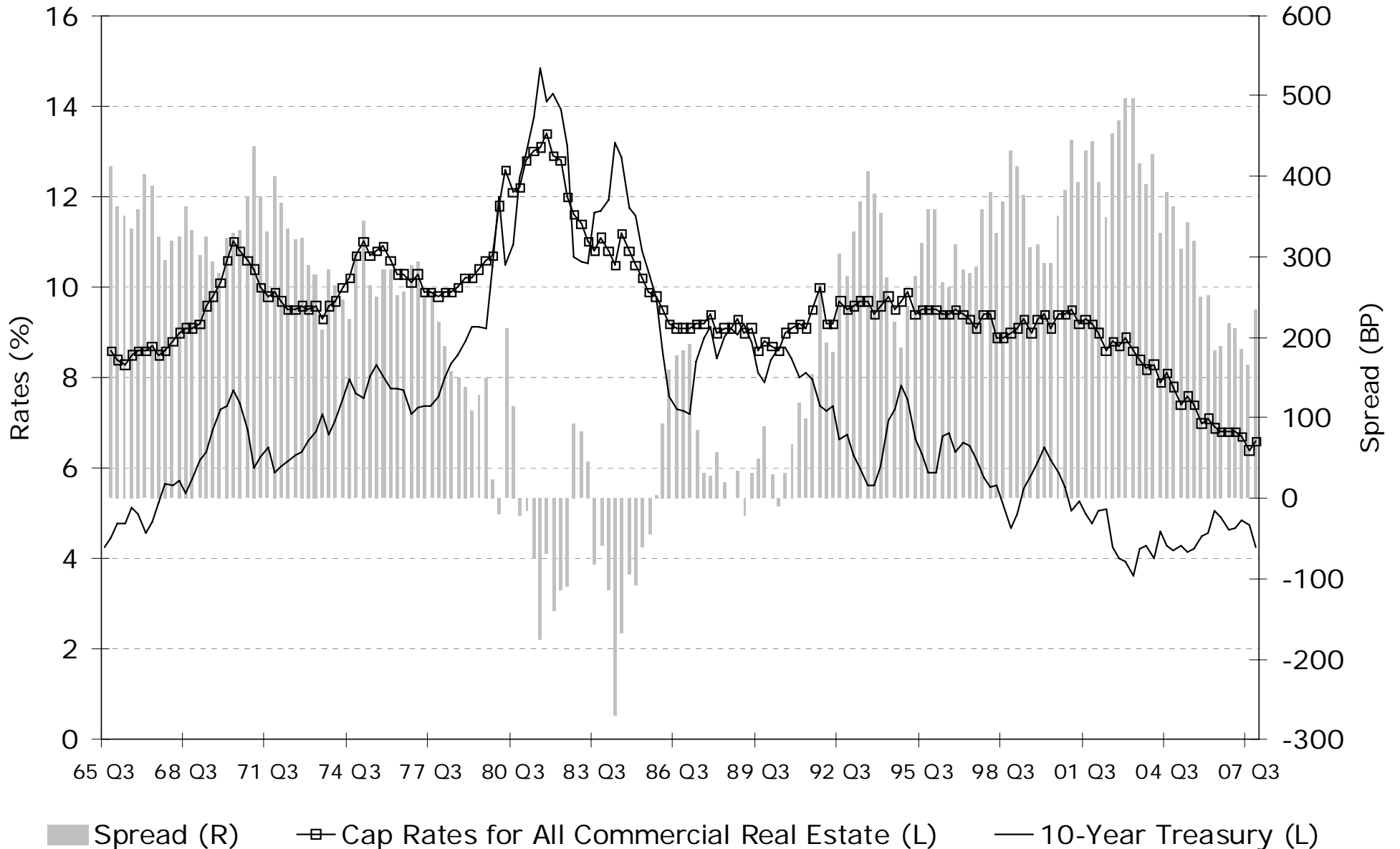


Sources: Federal Reserve Flow of Funds; Bureau of Economic Analysis. All data through 2Q 2008.

Net Capital Rule: A Regulatory Letdown

- April 2004 decision by SEC to exempt investment bank brokerage units from a regulation that limited debt
- A response to anticipated competition from overseas from EU
- Exemption rescinded

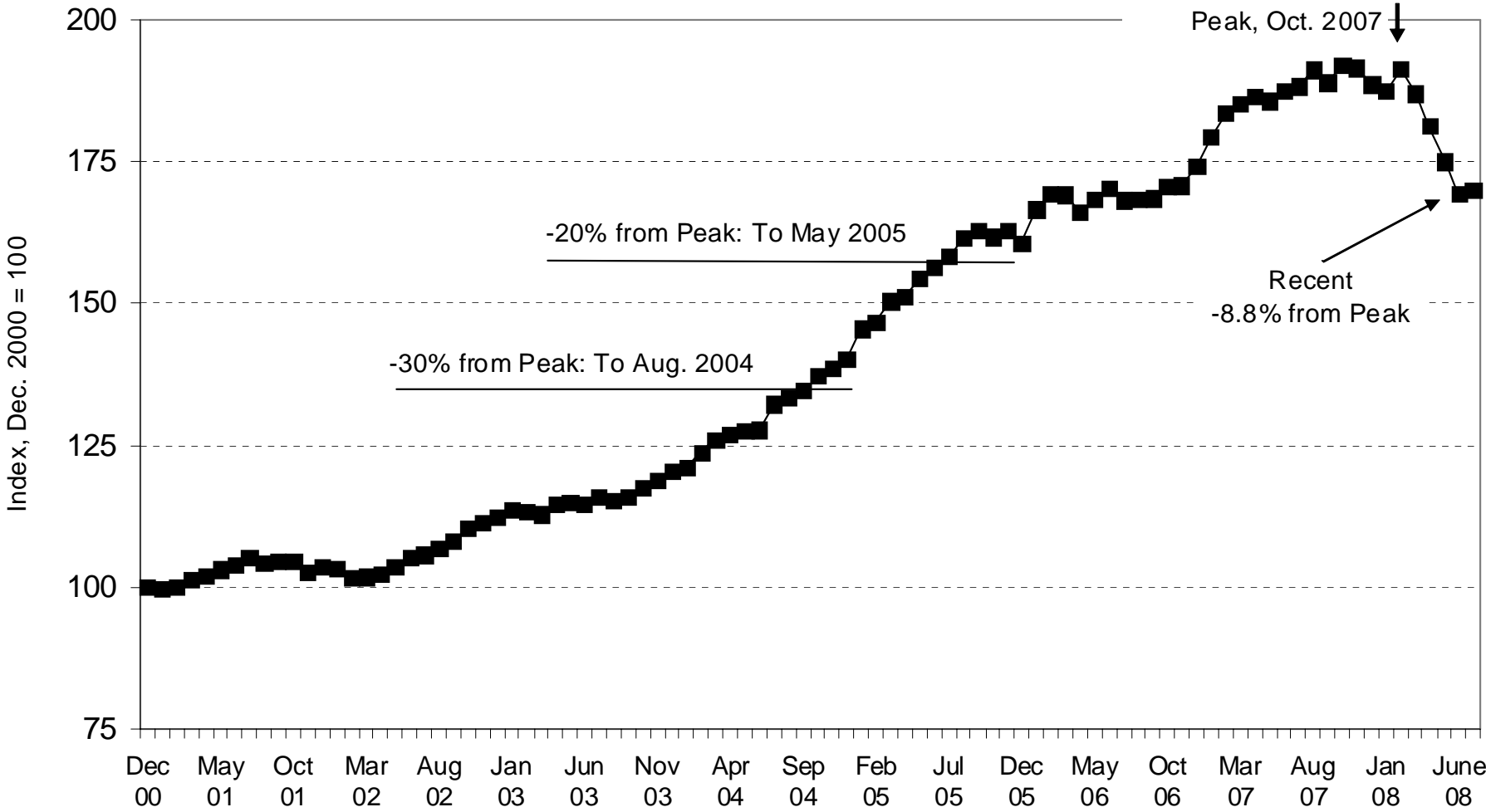
Spread Between Cap Rates and 10-Year Treasuries



**CHANGE IN VALUE
WITH CHANGE IN CAP RATE AND/OR NET OPERATING INCOME (NOI)**

Change in Cap Rate →	6.5%	7.5%	8.5%
	Current	Up 100 bp	Up 200 bp
Change in NOI ↓			
No Change	Baseline	-13.3%	-23.5%
-10%	-10.0%	-22.0%	-31.2%
-20%	-20.0%	-30.7%	-38.8%

Moody's/REAL Composite Commercial Property Price Index (CPPI)



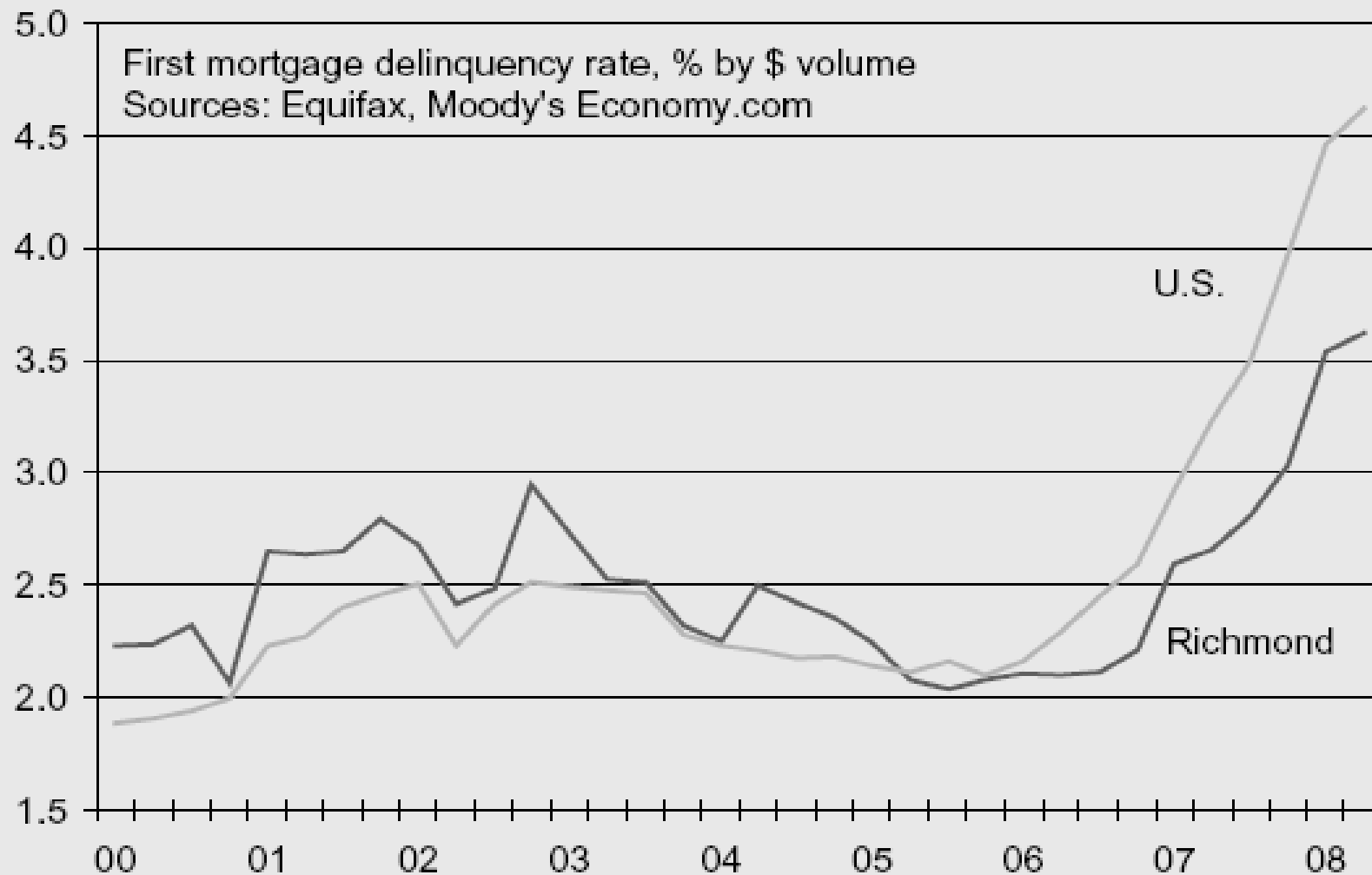
Source: Moody's Investors Service
Data through end of July 2008

■ CPPI Composite Index

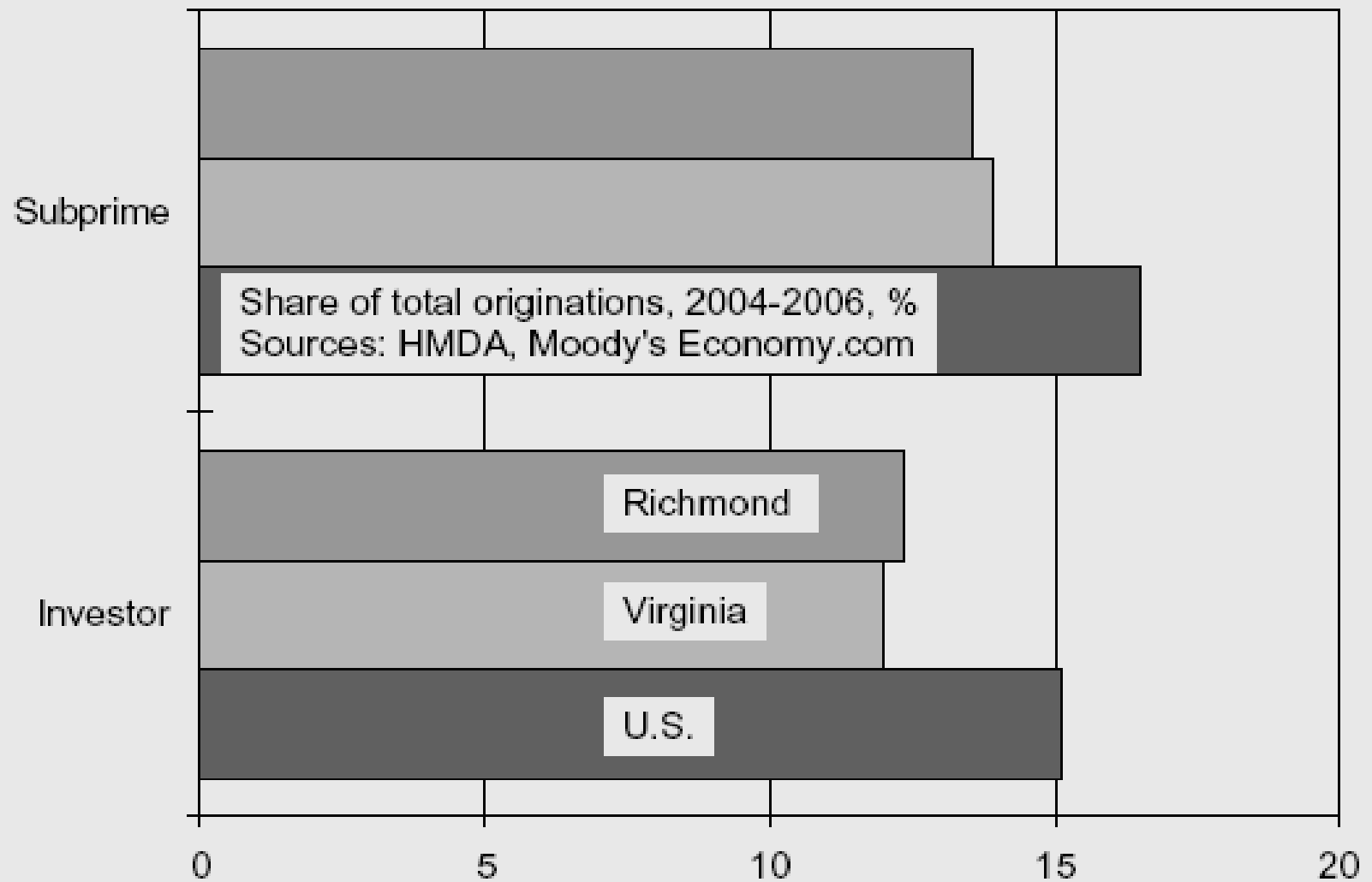
Covered Bonds - An Idea, Not a Panacea

- A European vehicle older than the US - since 1770
- Covered bonds are bank-issued debt with a security interest in a pool of collateral
- Does not provide capital relief since collateral remains in bank balance sheet
- Modifications easy
- Treatment of cover pool unclear in the event of bank failure

Mortgage Delinquencies Rise Less Than Average in Richmond



More Conservative Lending Mutes Richmond's Housing Cycle



Richmond's Population Growth Remains High

