



NEW FOUNDATIONS IN AN UNCERTAIN WORLD

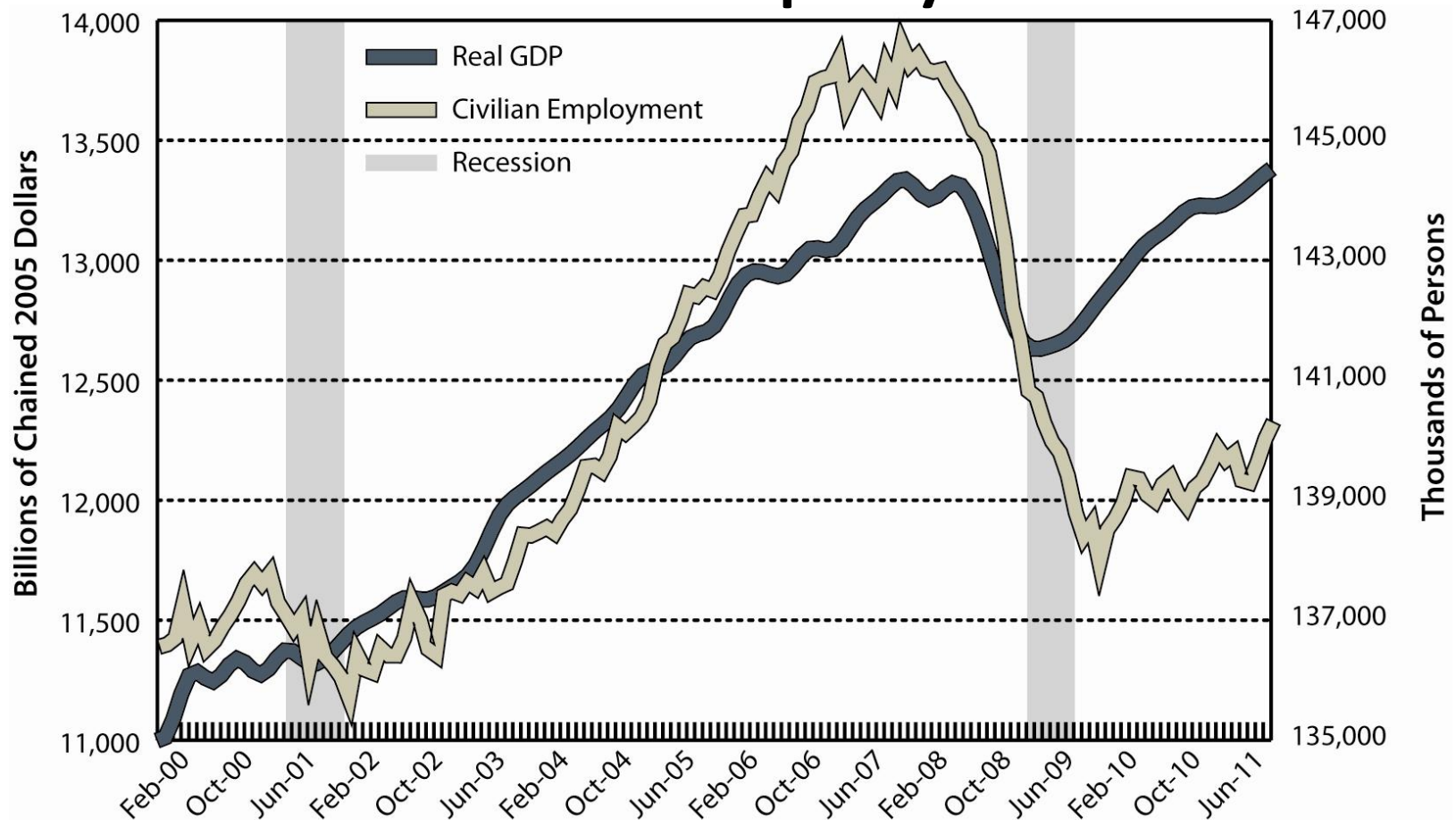
Presented by:
Kenneth P. Riggs, Jr.,
CFA, CRE, FRICS, MAI, CCIM
RERC President & CEO

***“You can't always get what you want
But if you try sometimes you might find
You get what you need”***

- Rolling Stones

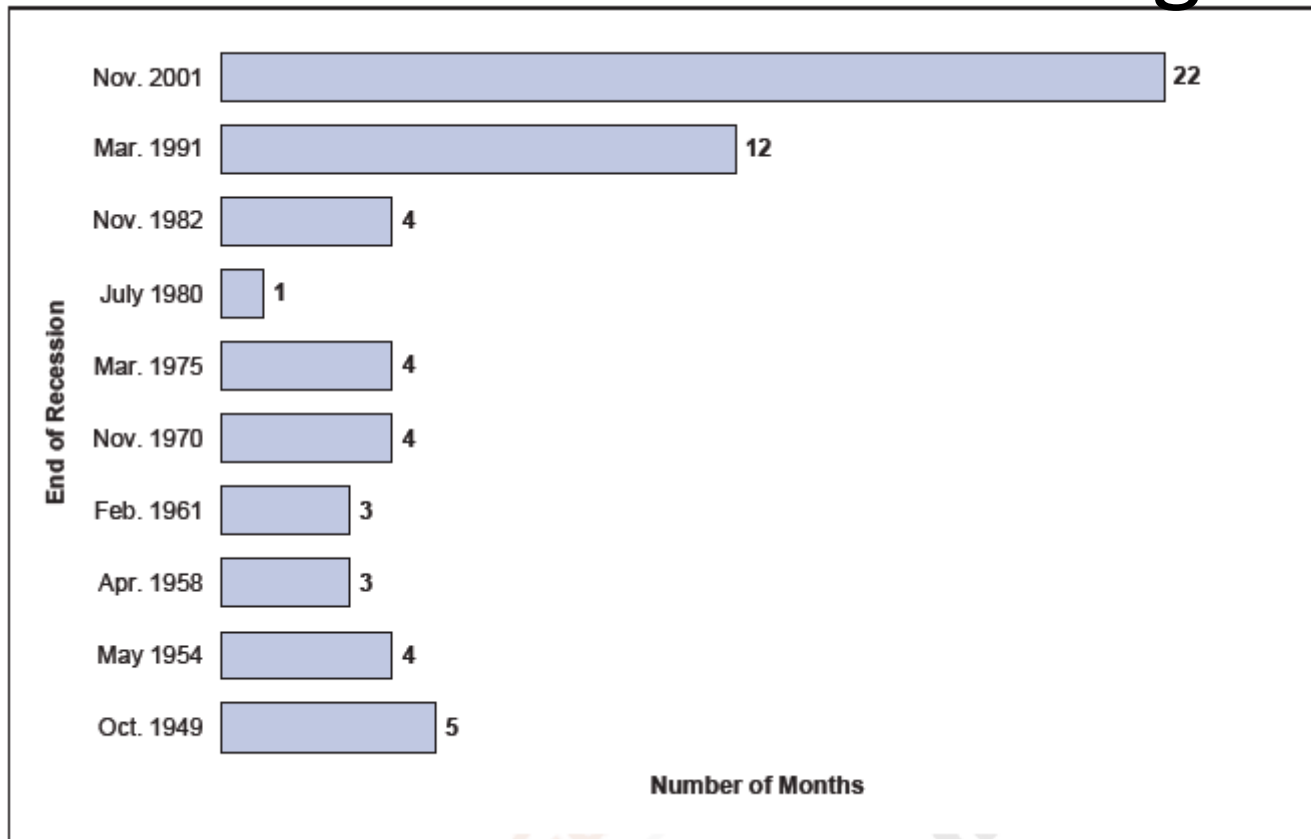


GDP vs. Employment



Source: BEA, BLS, Oct. 2011.

Number of Months into Recovery When Sustained Job Growth Began



Source: Created by the Congressional Research Service from the Bureau of Labor Statistics jobs data and Business Cycle Dating Committee for end date of recessions.

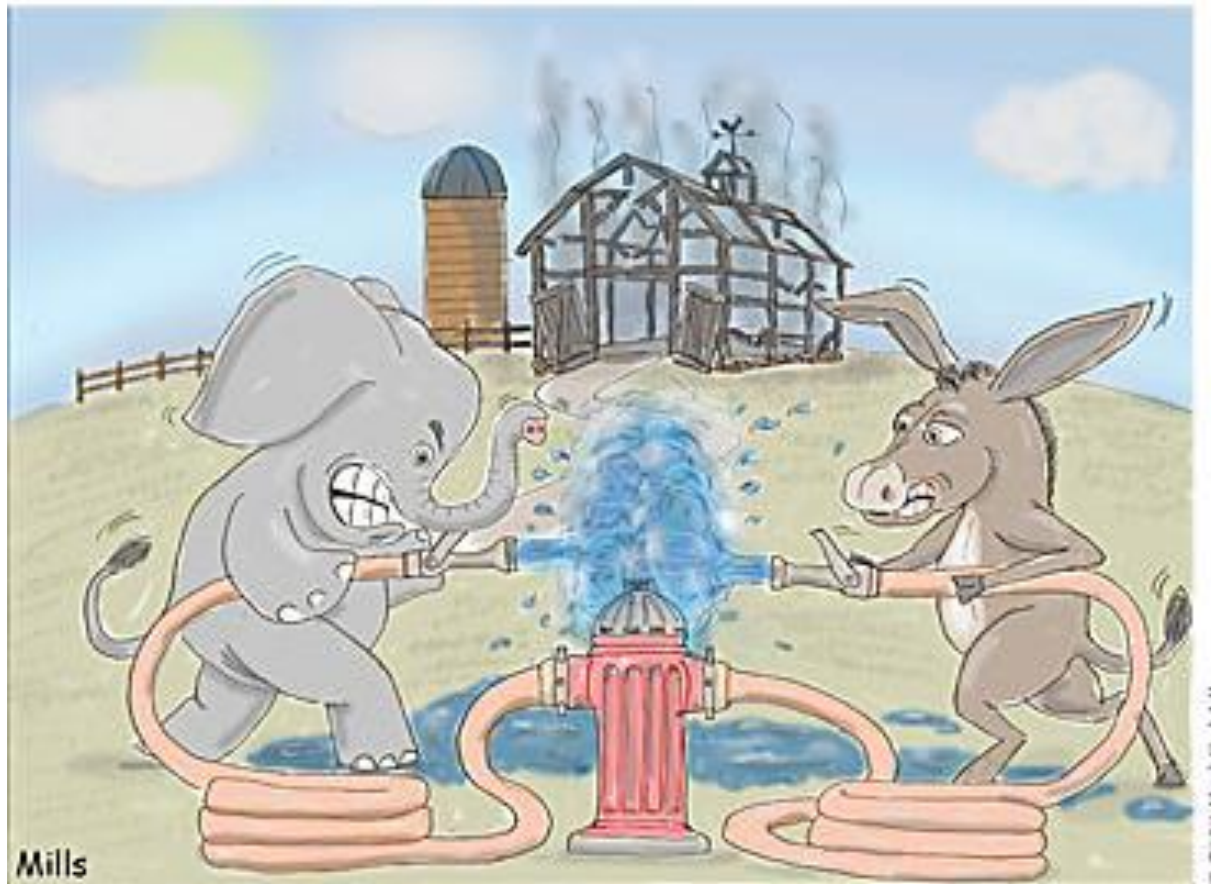
Jobless Recovery

- October 2011: Created 80,000 jobs – lowest growth in 4 months
- Need roughly 200,000 jobs/month to grow
 - 130,000 jobs/month to keep up with population growth
- Productivity gains
- Fed forecasts unemployment won't go below 8% until 2013

Employment Environment

- Unemployment rate hovering around 9% since Jan. 2010
 - Total employment is 7 million below peak in 2007
- Long-term unemployed (without job for longer than 6 months) at 6 million
 - In 2001 recession, this figure peaked at 2 million

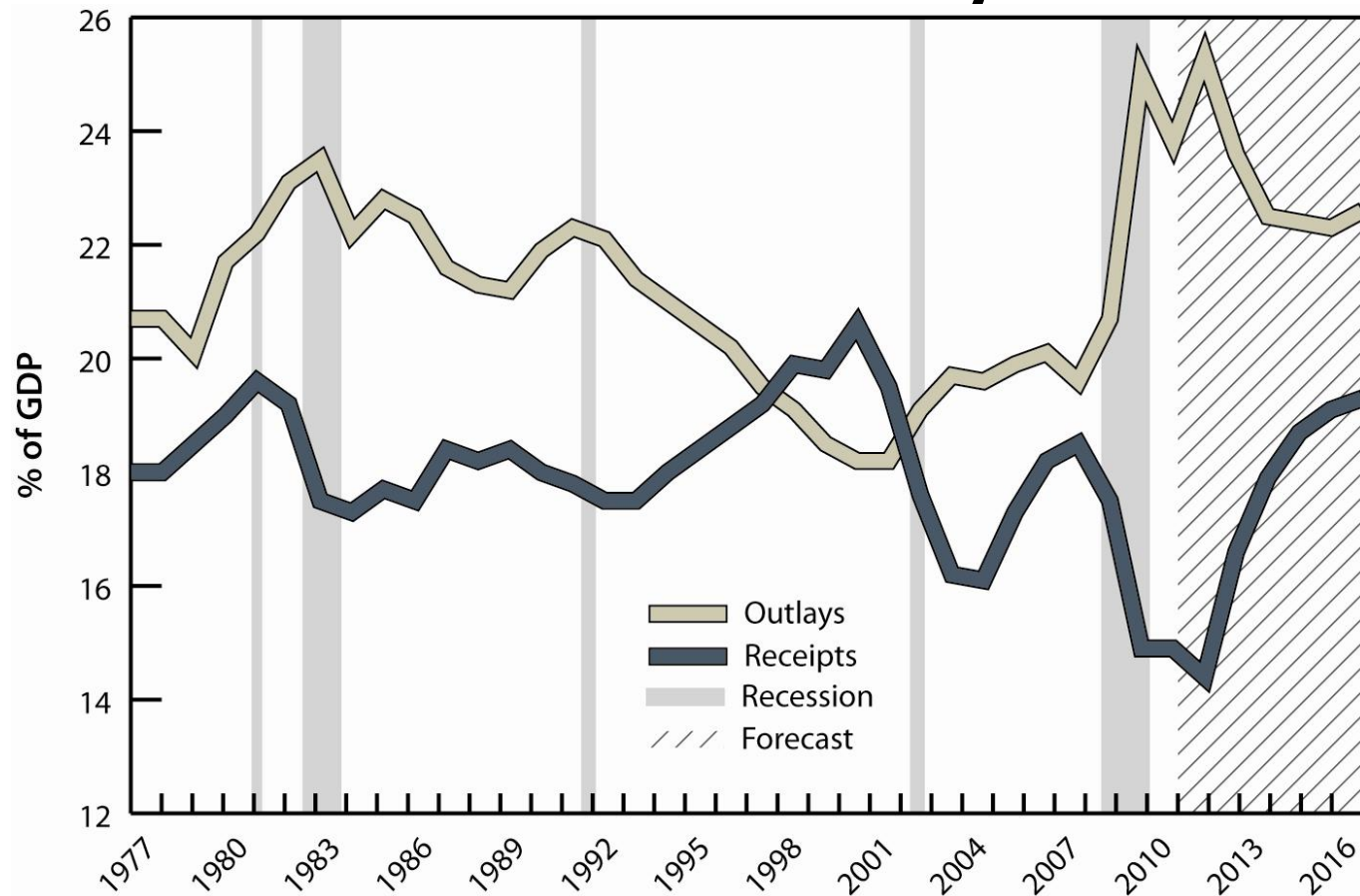
It's the Politics, Stupid!



*“United States of America Long-Term Rating Lowered To 'AA+' Due To **Political Risks**, Rising Debt Burden; Outlook Negative”*

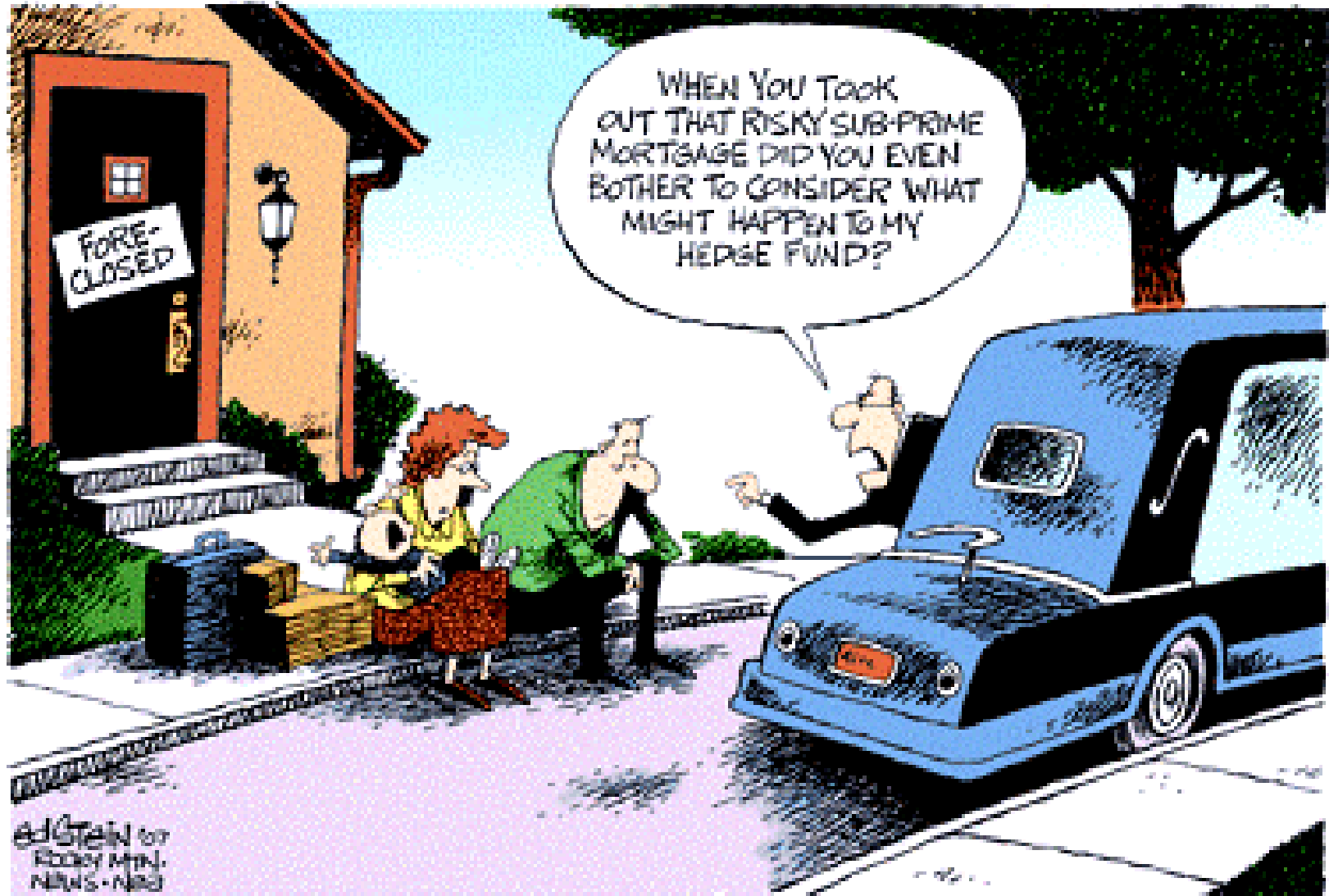
- Standard & Poor's

Fiscal Policy



Source: US Department of Treasury, 2011.

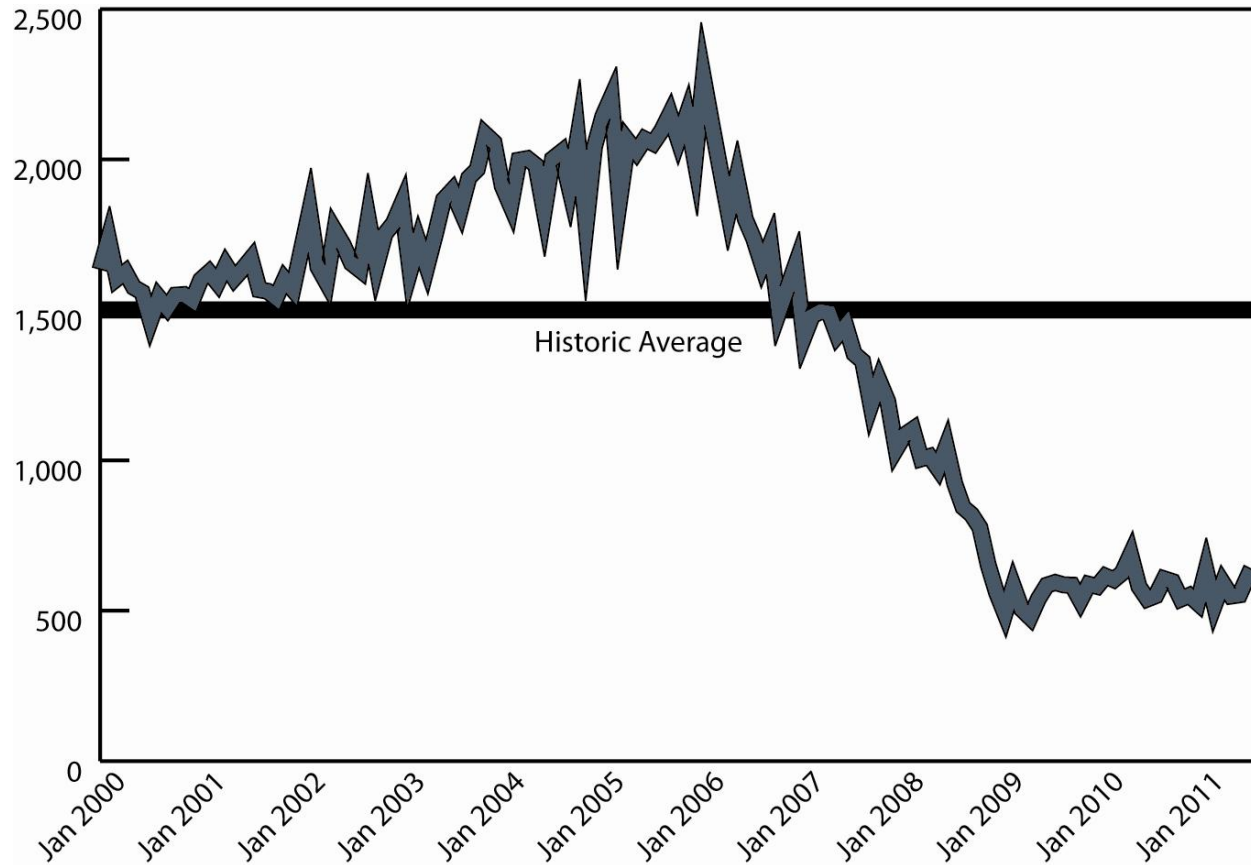
EXPECTATIONS & MARKET REALITIES IN REAL ESTATE



Current Housing Market

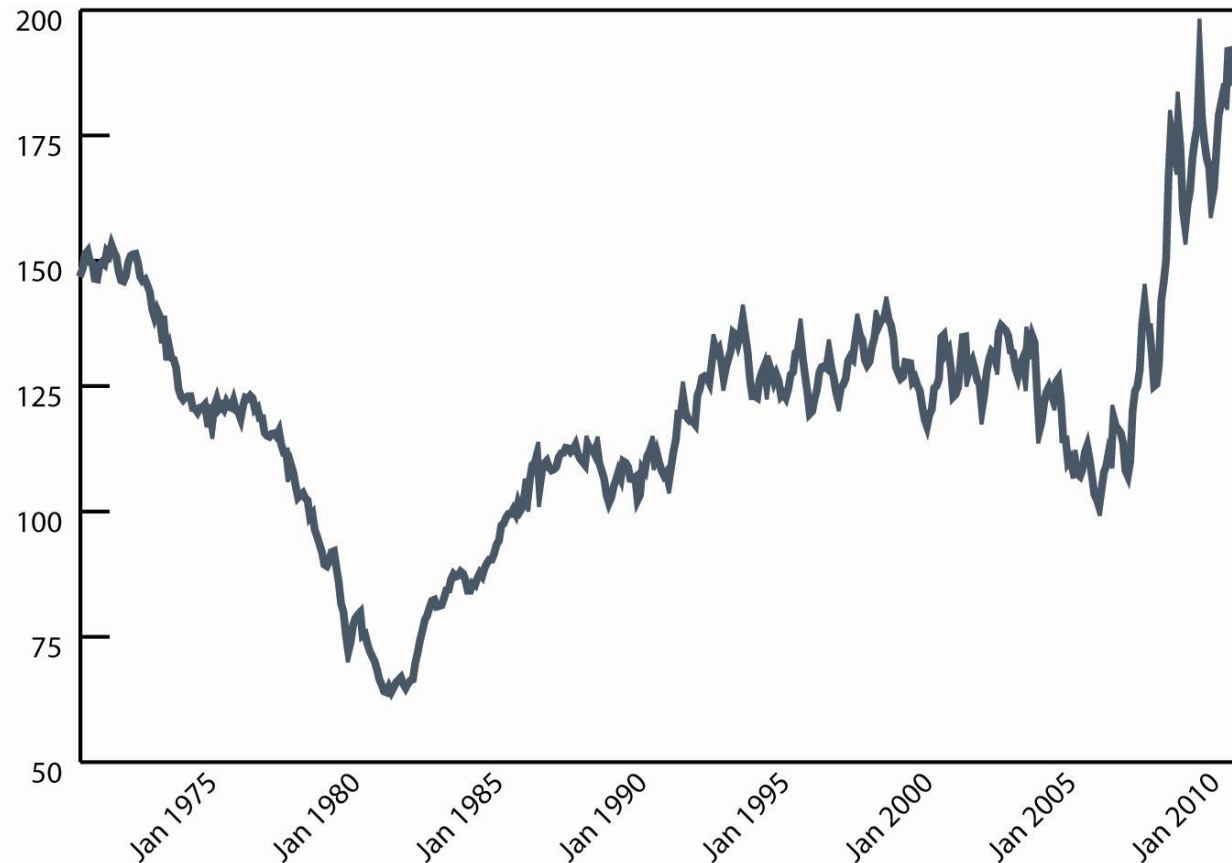
- Housing starts at 60-year low
- Home sales are struggling
- Foreclosures at historic highs
- Approximately 1/5 of homeowners with mortgages are underwater

Housing Starts



Source: US Census.

NAR Housing Affordability Index



Source: NAR, Hayer Analytics, September 2011.

Glimpse of Positive Housing Market

- Record-high home affordability
- Rising apartment rents
- Overcorrection in home price to income and rent ratios
- Unsold homes inventory is declining
- 40-year low on newly constructed inventory

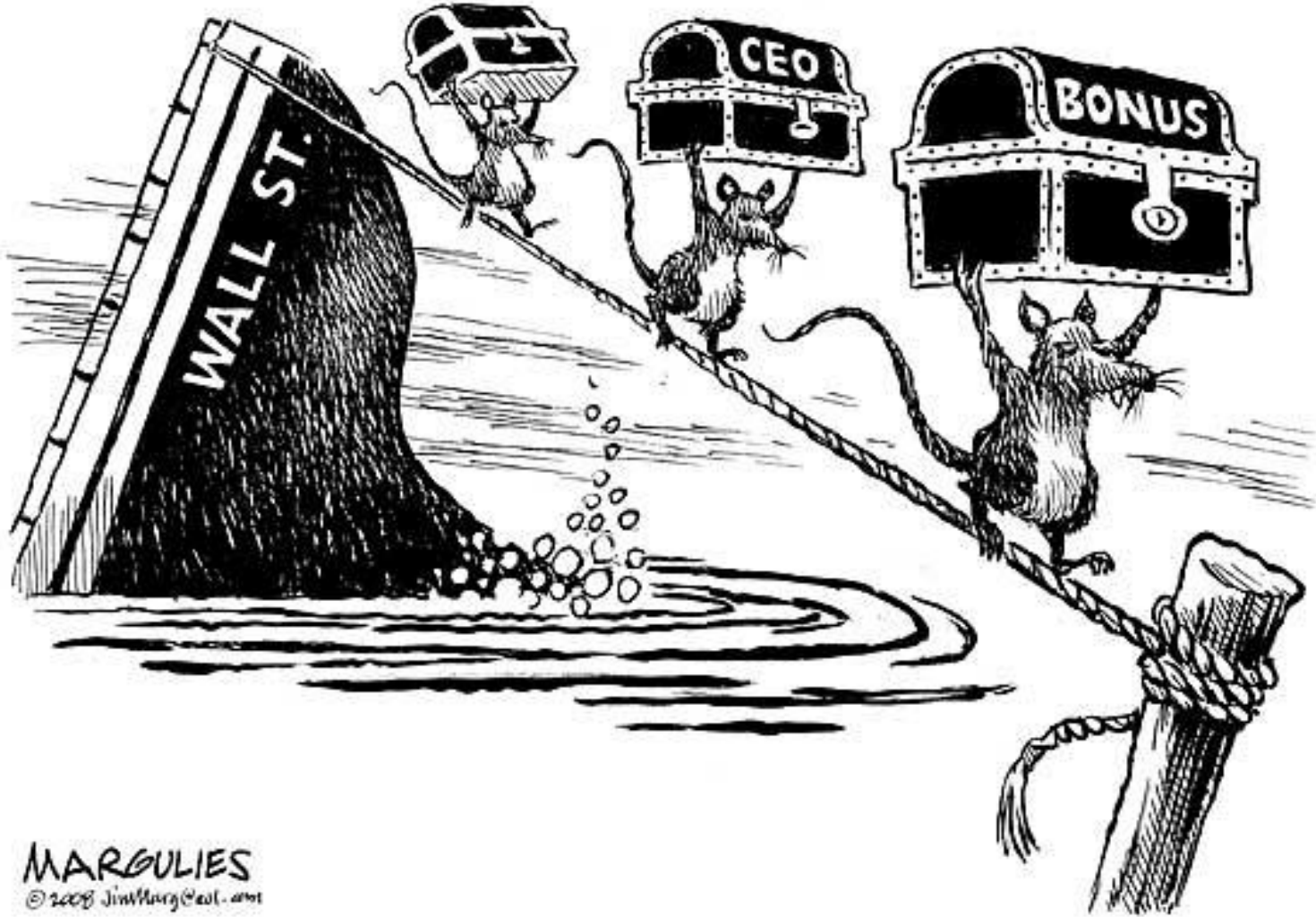
Moral Hazard:

“Lack of incentive to guard against risk where one is protected from its consequences”

Credit Crisis Headlines

- Lehman Brothers collapsed, Merrill Lynch raced into arms of BofA
- Amount missing from client accounts, including fabricated gains, almost \$65 billion, Madoff pleaded guilty to 11 federal felonies
- WaMu the largest bank failure ever
- IndyMac one of the largest bank failures in US history

EXPECTATIONS & MARKET REALITIES IN REAL ESTATE



Headlines from 2011

- Exit packages for 3 CEOs top \$100 million
- \$600 million missing from the books of bankrupt brokerage MF Global
- Judge rejects both Tribune bankruptcy exit plans

“What have the public companies really learned?”

CRE in 1990s vs. this Cycle

- 1990's: no liquidity for CRE at any price
- 1990's: out of sync with alternatives
- Fundamentals (overbuilding) were deplorable:
\$0 net office deals
- RTC selling at Fire Sale Pace and Price

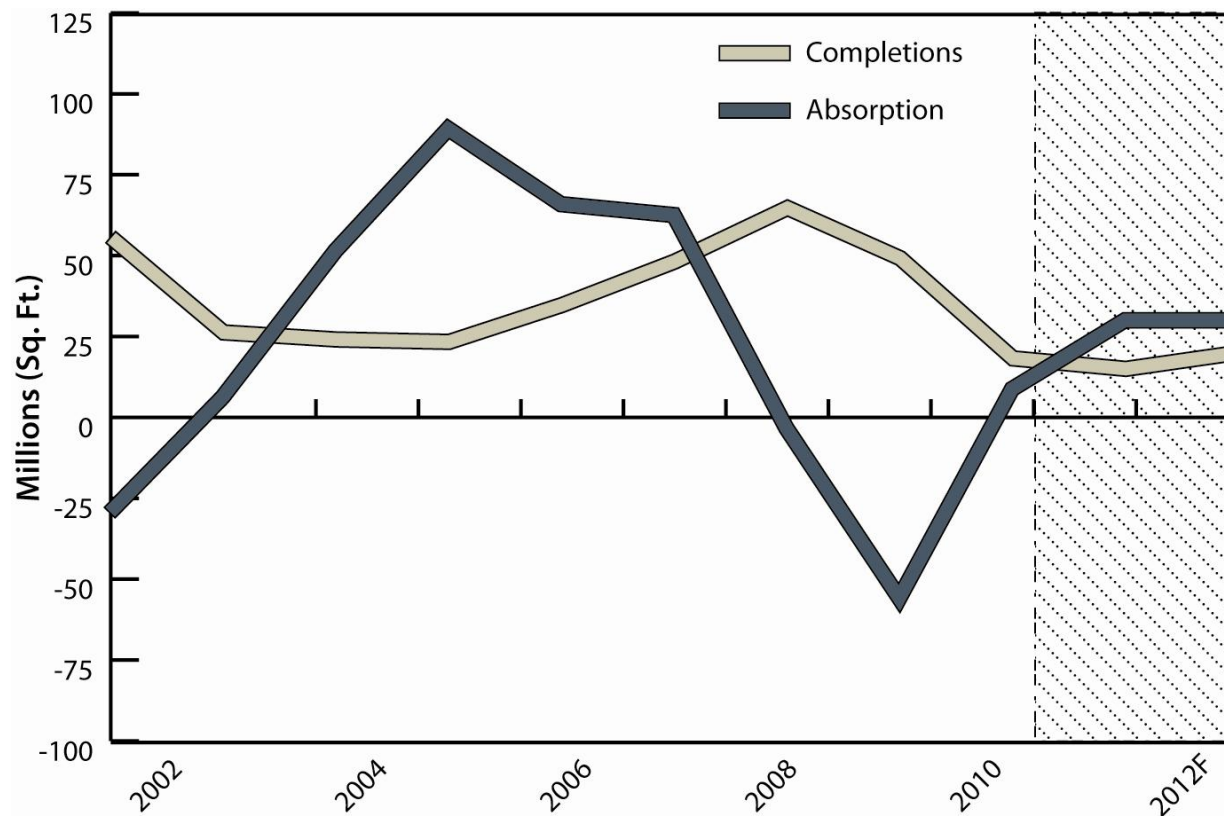
Economy & Investment Comparisons

	3Q 2011	2Q 2011	1Q 2011	4Q 2010	3Q 2010	2Q 2010
Economy	3.9	4.9	5.4	5.3	4.7	5.3
Stocks	4.7	5.2	6.0	6.0	5.2	5.0
Bonds	3.8	3.6	3.6	3.7	4.1	5.0
Commercial Real Estate	6.5	6.2	6.4	6.1	5.6	5.6
Cash	4.5	3.8	3.7	3.6	4.0	4.6

Source: RERC, 3Q 2011.

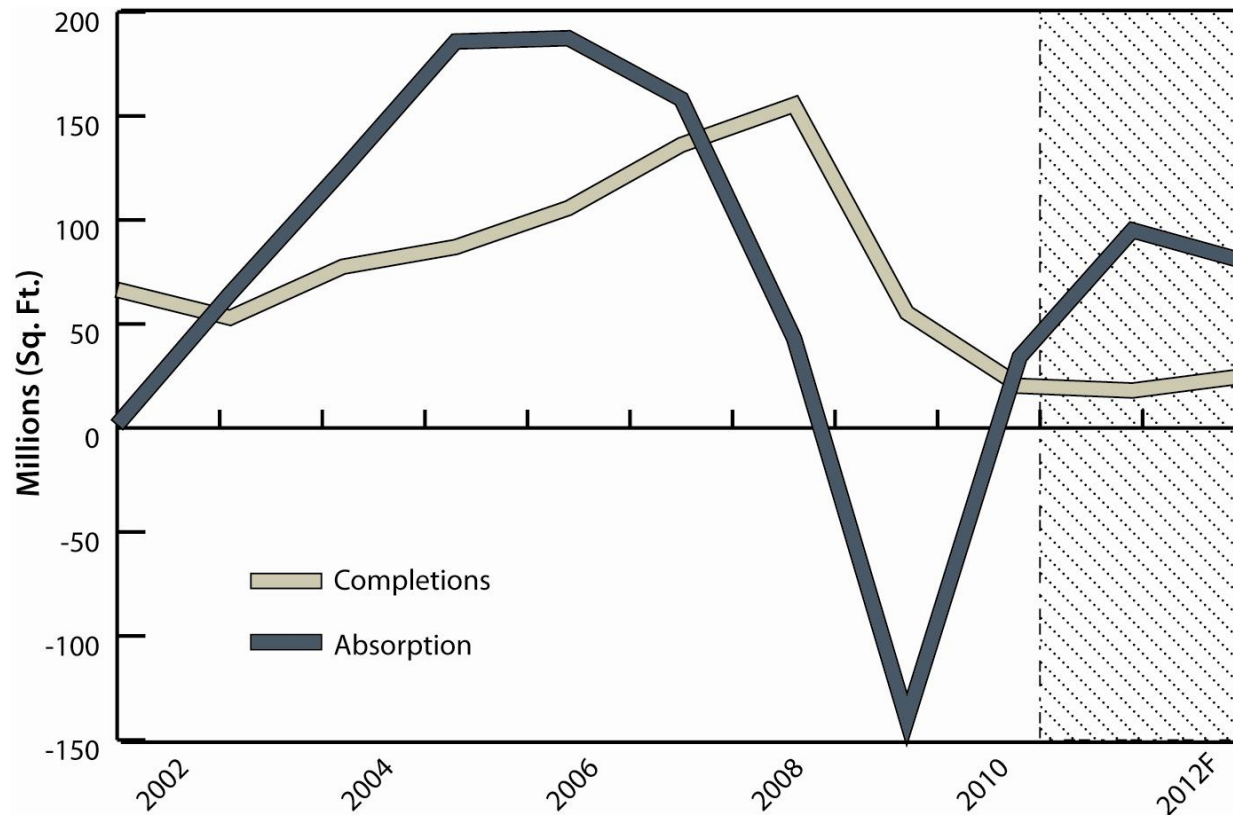
Ratings are based on a scale of 1 to 10, with 10 being high.

Office Absorptions & Completions



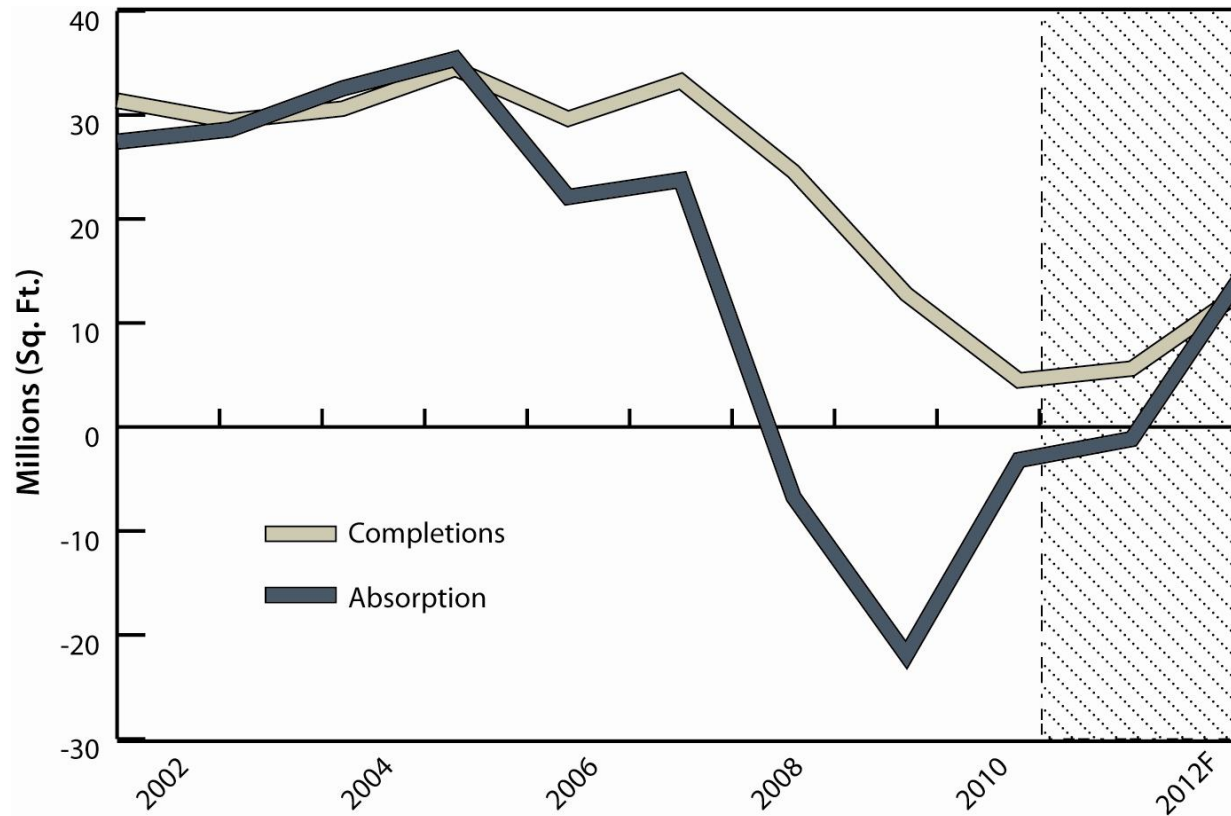
Source: REIS, Grubb & Ellis.

Industrial Absorptions & Completions



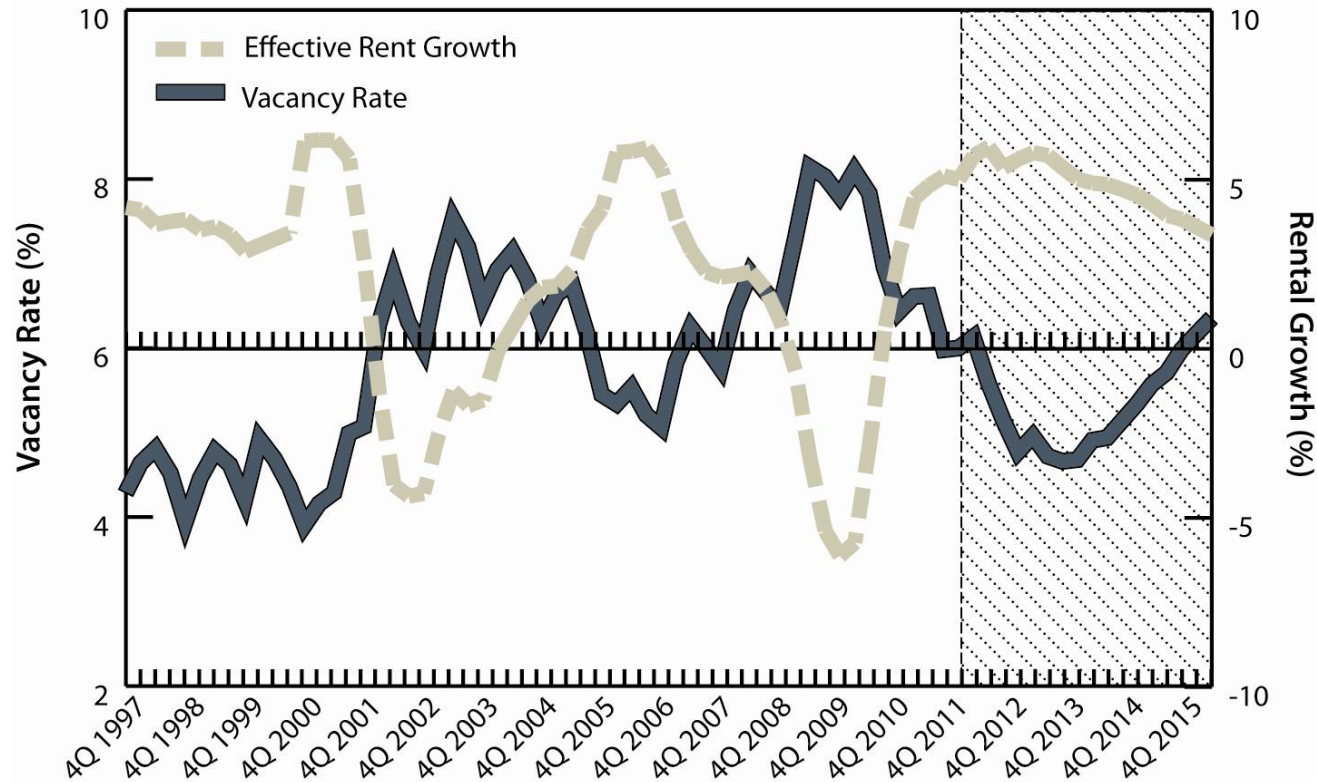
Source: REIS, Grubb & Ellis.

Retail Absorptions & Completions



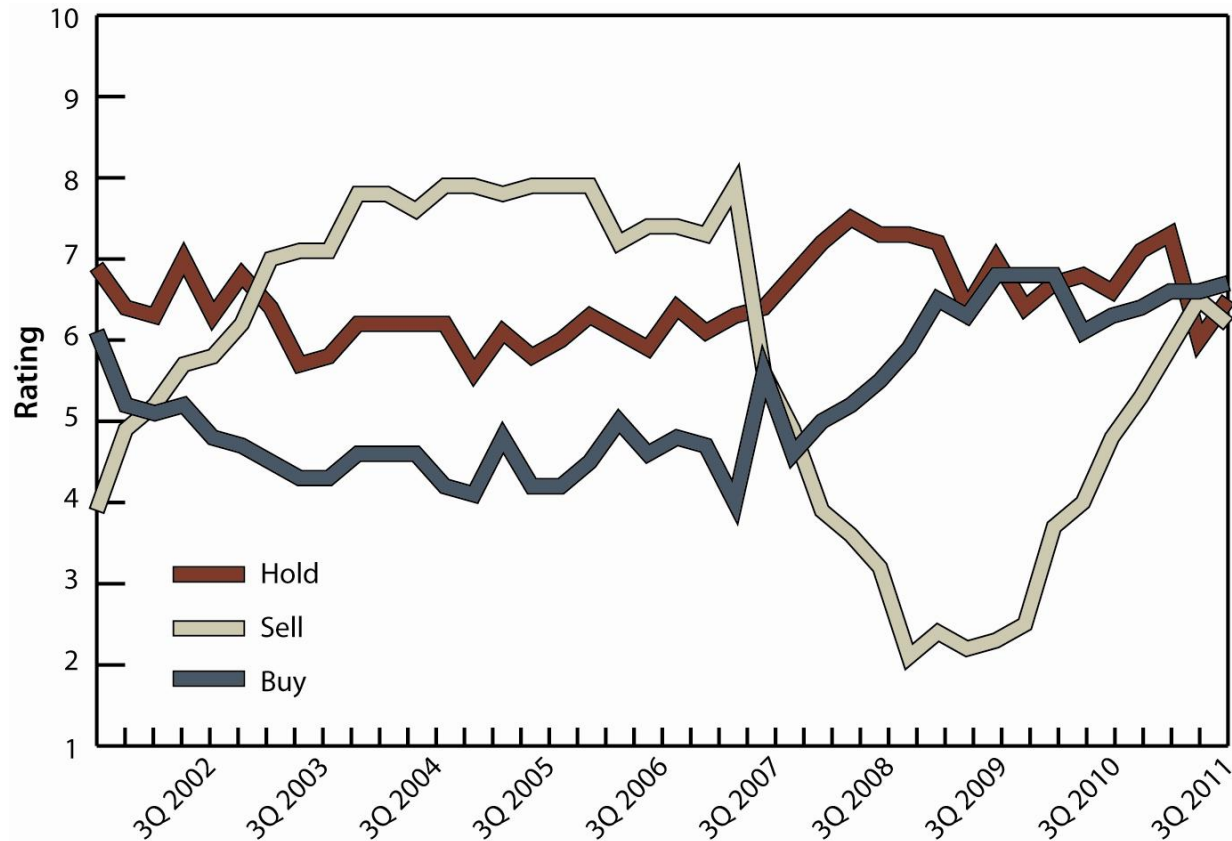
Source: REIS, Grubb & Ellis.

Apartment Vacancy & Rental Rates



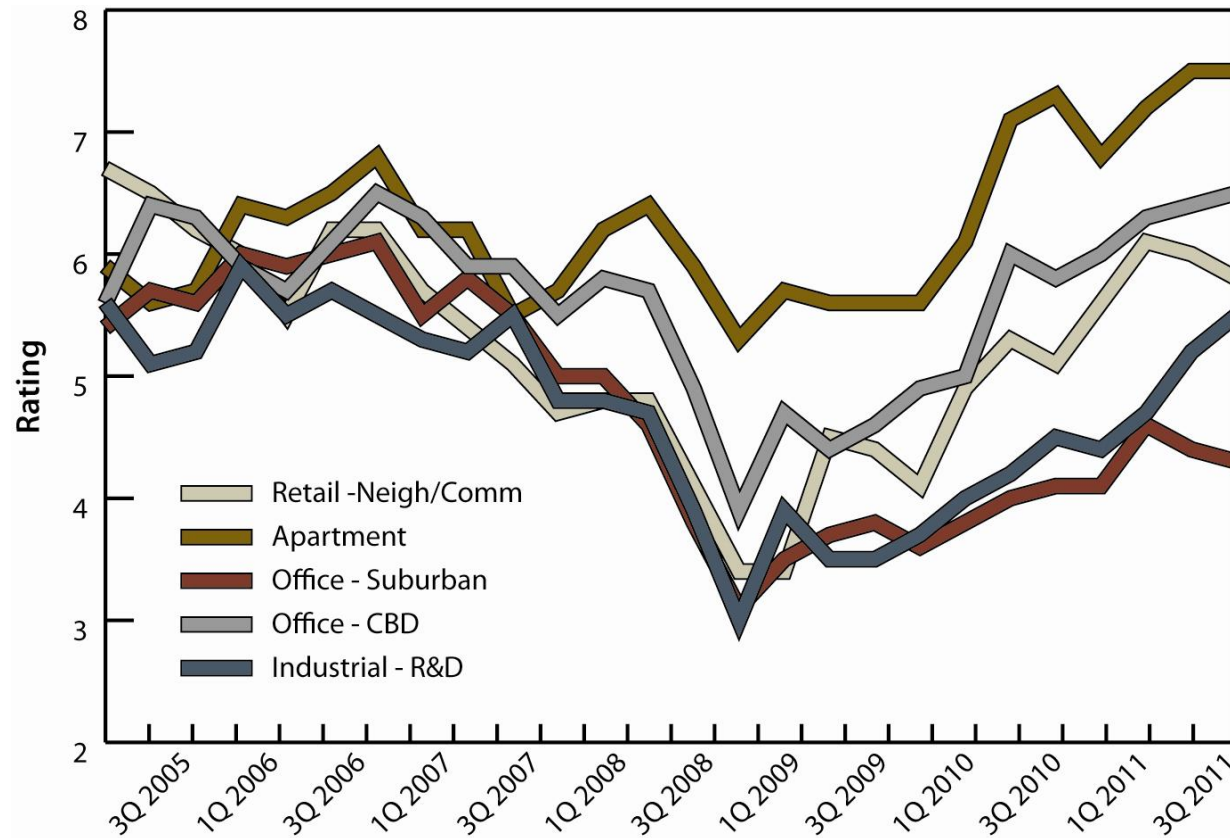
Source: Axiometrics, Inc., 2Q 2011.

Buy, Sell, Hold



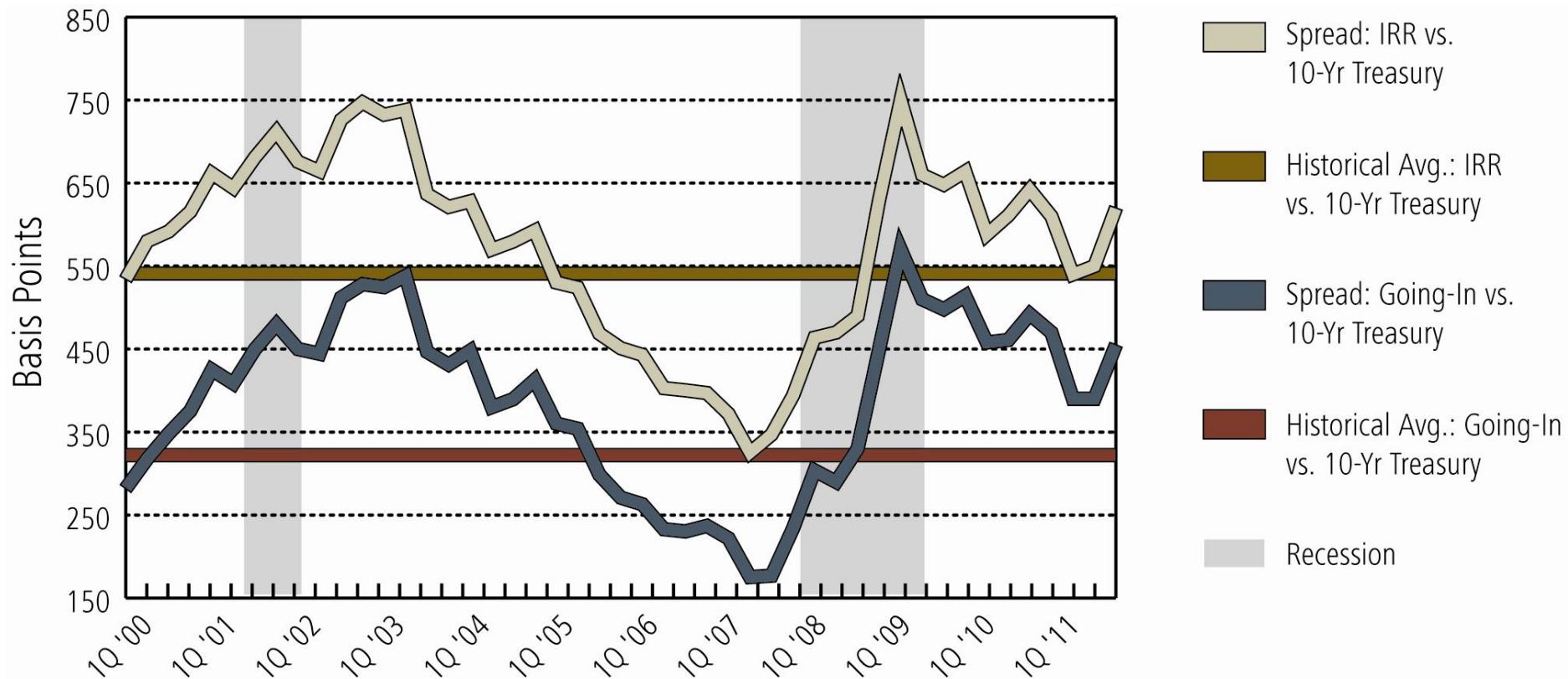
Source: RERC, 3Q 2011.

Investment Conditions



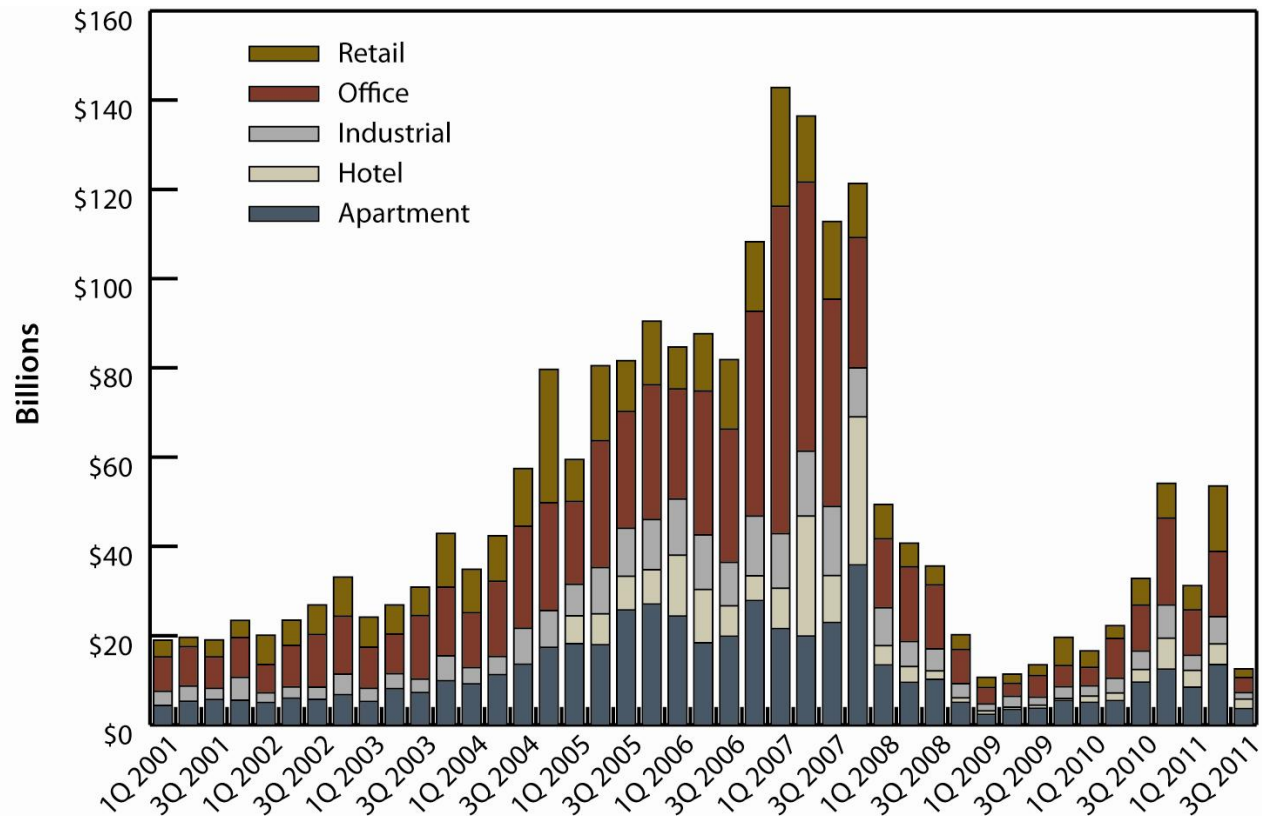
Source: RERC, 3Q 2011.

RERC Rates vs. 10-Year Treasuries



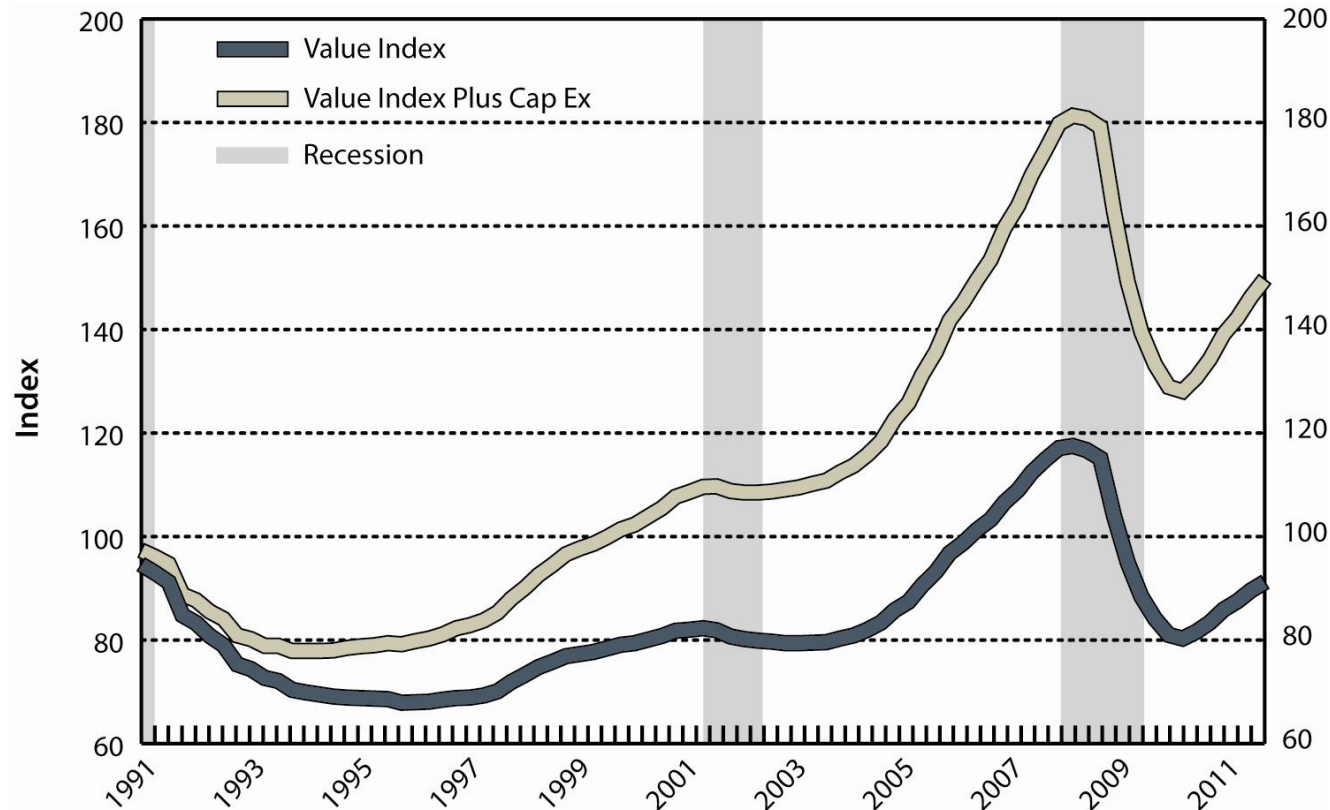
Source: RERC, Federal Reserve, NBER, 3Q 2011.

Sales



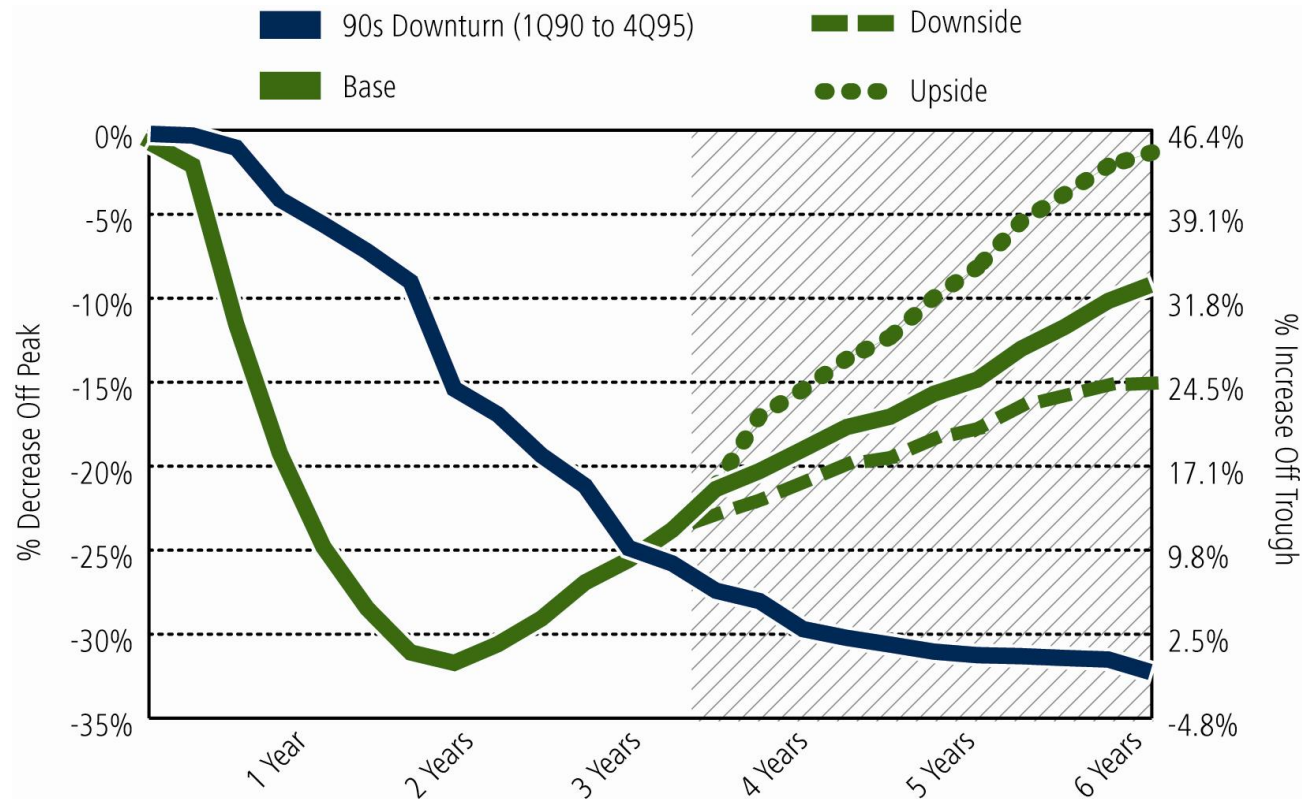
Source: RCA, 3Q 2011.

NCREIF NPI Value Index and Value Index Plus Cap Ex (1st Q 1990=100)



Source: NBER, NCREIF 3Q 2011.

RERC's NCREIF Forecast



Source: NCREIF, RERC.

Note: Shaded area reflects RERC's outlook for the Base, Upside and Downside Scenarios from 3Q11 to 1Q14.

The Investor Psychology Cycle



Change Your Opinion

“The difficulty lies not so much in developing new ideas as in escaping from old ones.”

- John Maynard Keynes



NEW FOUNDATIONS IN AN UNCERTAIN WORLD

Presented by:
Kenneth P. Riggs, Jr.,
CFA, CRE, FRICS, MAI, CCIM
RERC President & CEO