

# Chicago Booth Real Estate Conference

## *Precarious Balance*

**Presented by:**

**Ken Riggs**  
*President & CEO*

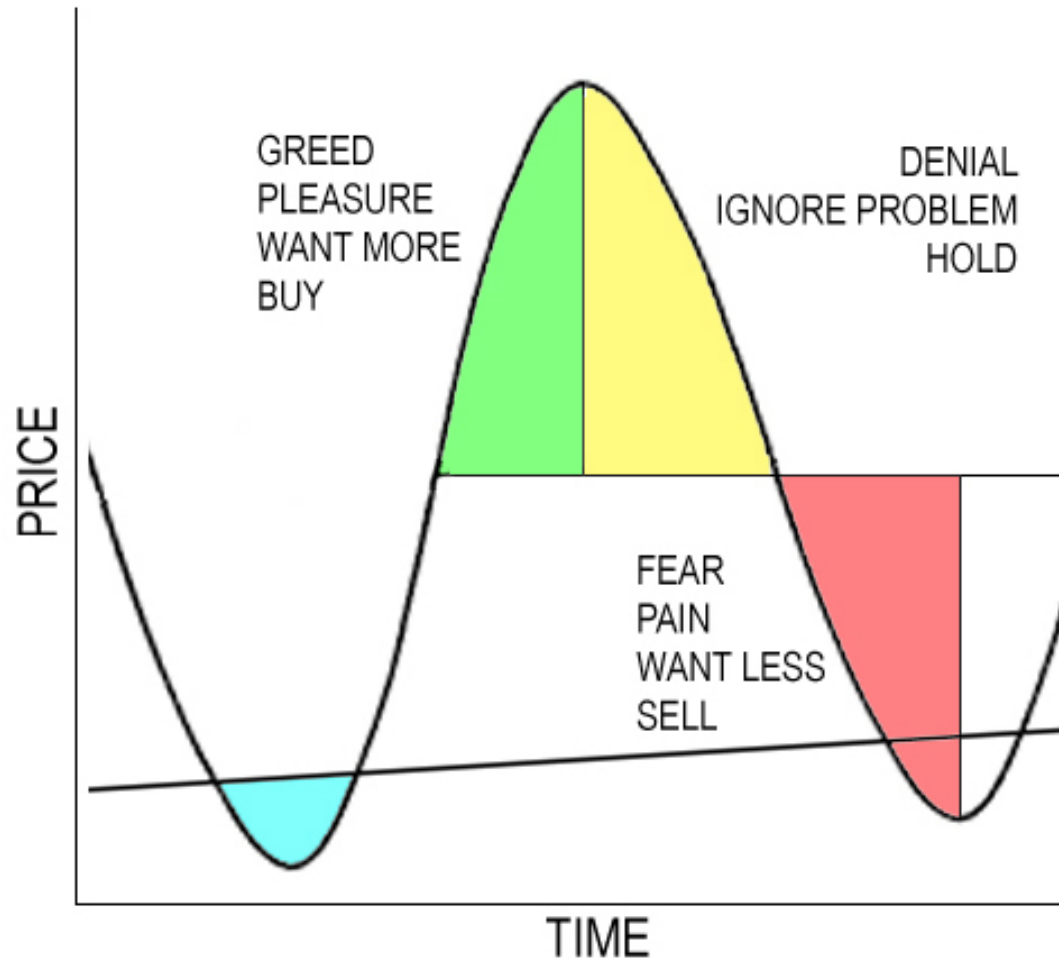
**RERC**<sup>®</sup>  
A Situs Company



# CRE Overview

- *Value and Price Assessment*
- *Investment Characteristics*
- *Investment Outlook for 2015*

# Investment Psychology



# It's All About Expectations



# Returns Strong

## What Do the Financial Markets Tell Us?

Compounded Annual Rates of Return as of 9/30/2014

Market Indices	1-Year	3-Year	10-Year
Consumer Price Index <sup>1</sup>	1.71%	1.64%	2.30%
10-Year Treasury Bond <sup>2</sup>	2.66%	2.21%	3.37%
NASDAQ <sup>3</sup>	19.14%	22.99%	9.01%
S&P 500	19.73%	22.99%	8.11%
NCREIF Property Index <sup>4</sup>	11.21%	11.32%	8.63%
NAREIT Index (Equity REITs)	13.17%	17.17%	8.53%

<sup>1</sup> Based on the published data from the BLS (seasonally-adjusted).

<sup>2</sup> Based on Average End of Day T-Bond Rates.

<sup>3</sup> Based on Price Index, and does not include the dividend yield.

<sup>4</sup> NCREIF returns are as of 2Q14

Sources: BLS, Federal Reserve Board, S&P, NCREIF, NAREIT, compiled by RERC.

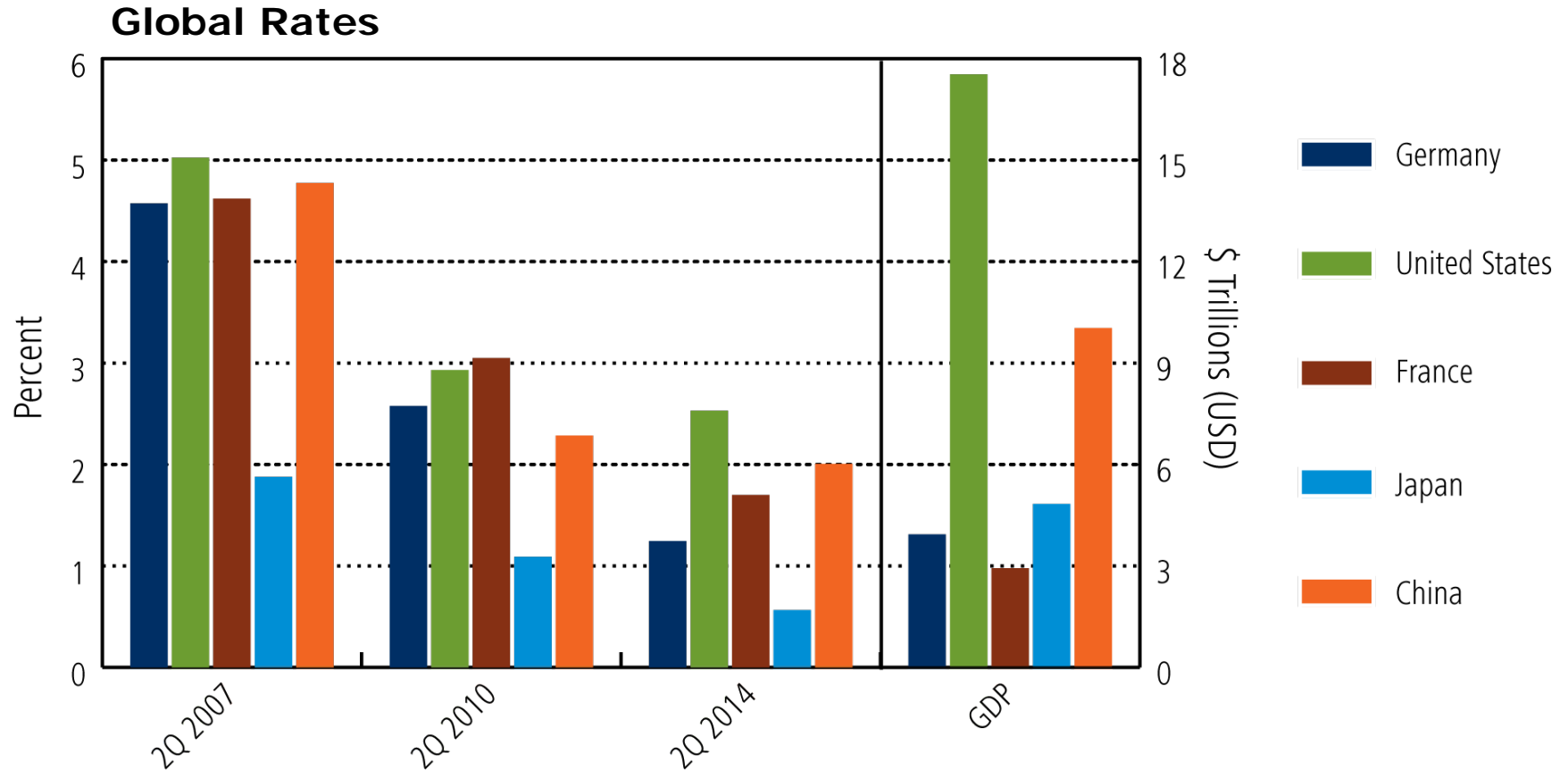


# Treasurys Still Very Low



Sources: Federal Reserve, 3Q14.

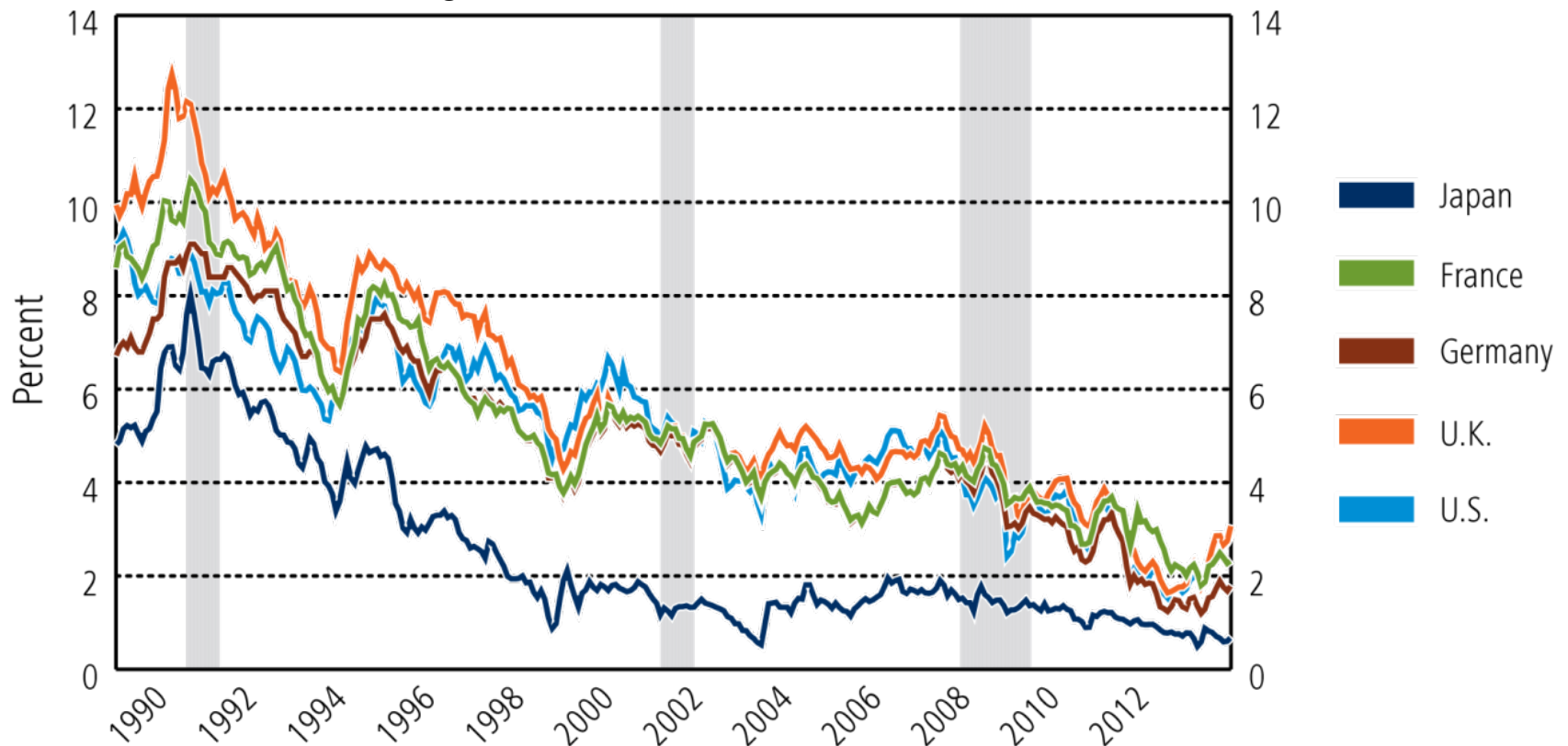
# Global Risk Free Rates



Sources: Real Capital Analytics, 2Q 2014, CNN Money, October 2014.

# Global Risk Free Rates

**Global Treasury Rates**



Source: Federal Reserve Bank of St. Louis, October 2014.

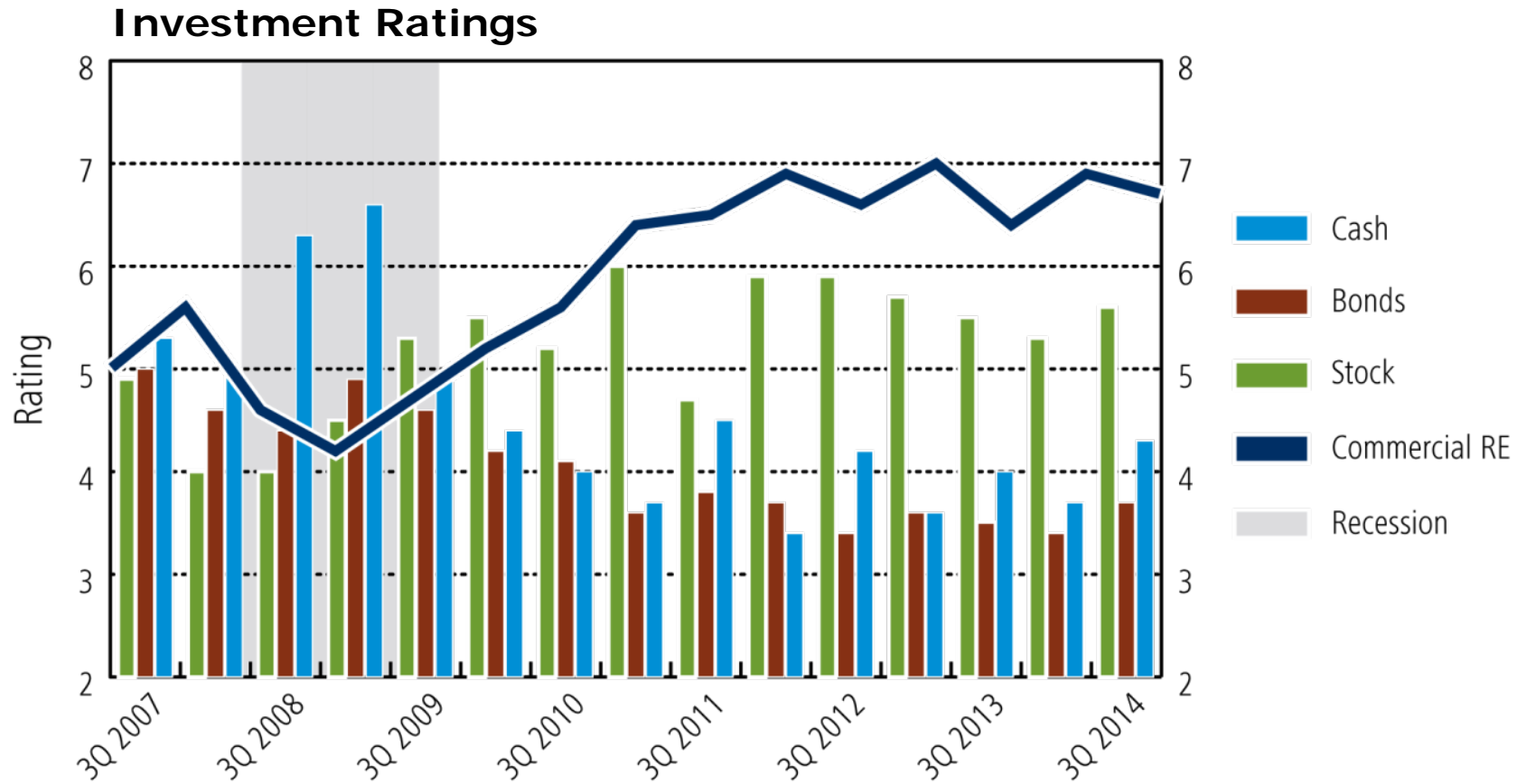




***“The difficulty lies not so much in developing new ideas as in escaping from old ones.”***

**- John Maynard Keynes**

# CRE Very Attractive



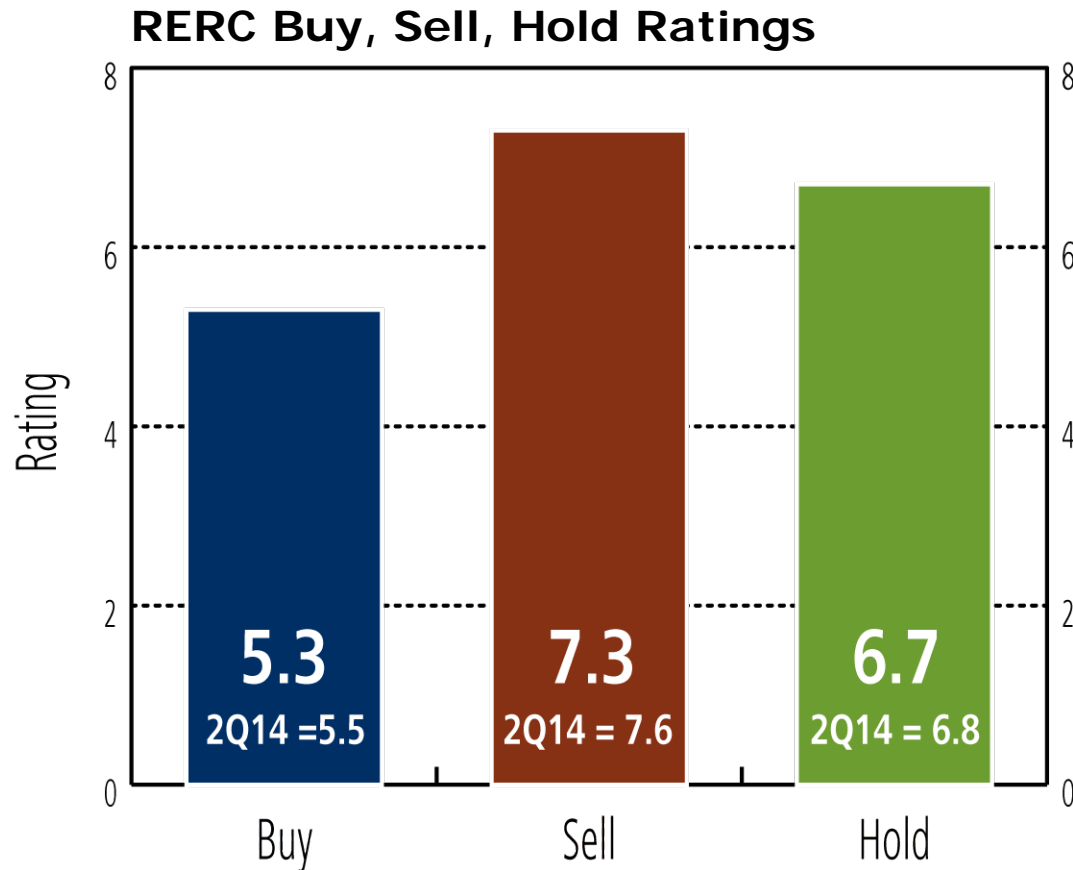
Source: RERC, 3Q14 preliminary.



***“CRE is favored the most in an era of moderate growth, low interest rates, the search for yield, and uncertainty....”***

***-Institutional Sponsor***

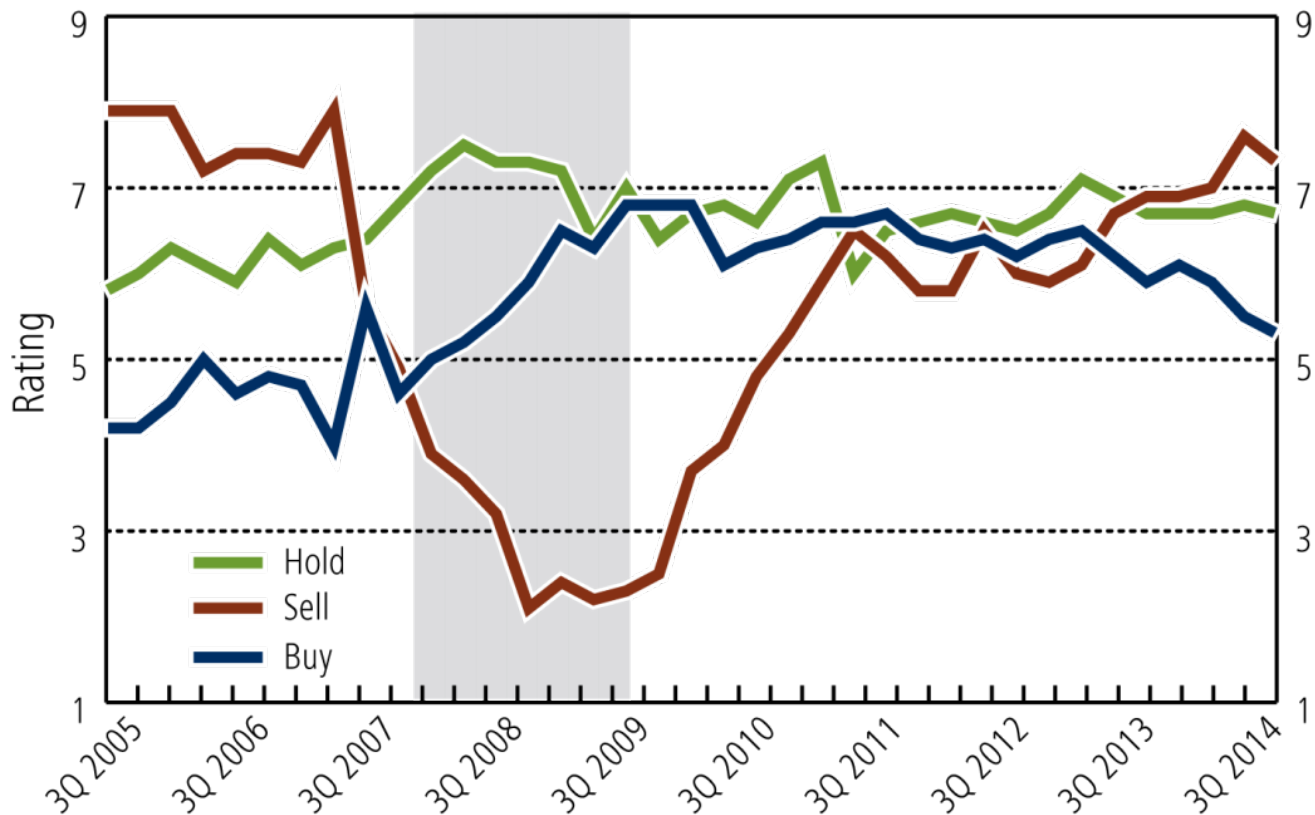
# Buy-Sell Gap Forming



Source: RERC, 3Q14 preliminary.

# Buy-Sell Gap Continues

RERC Historical Buy, Sell, Hold Ratings



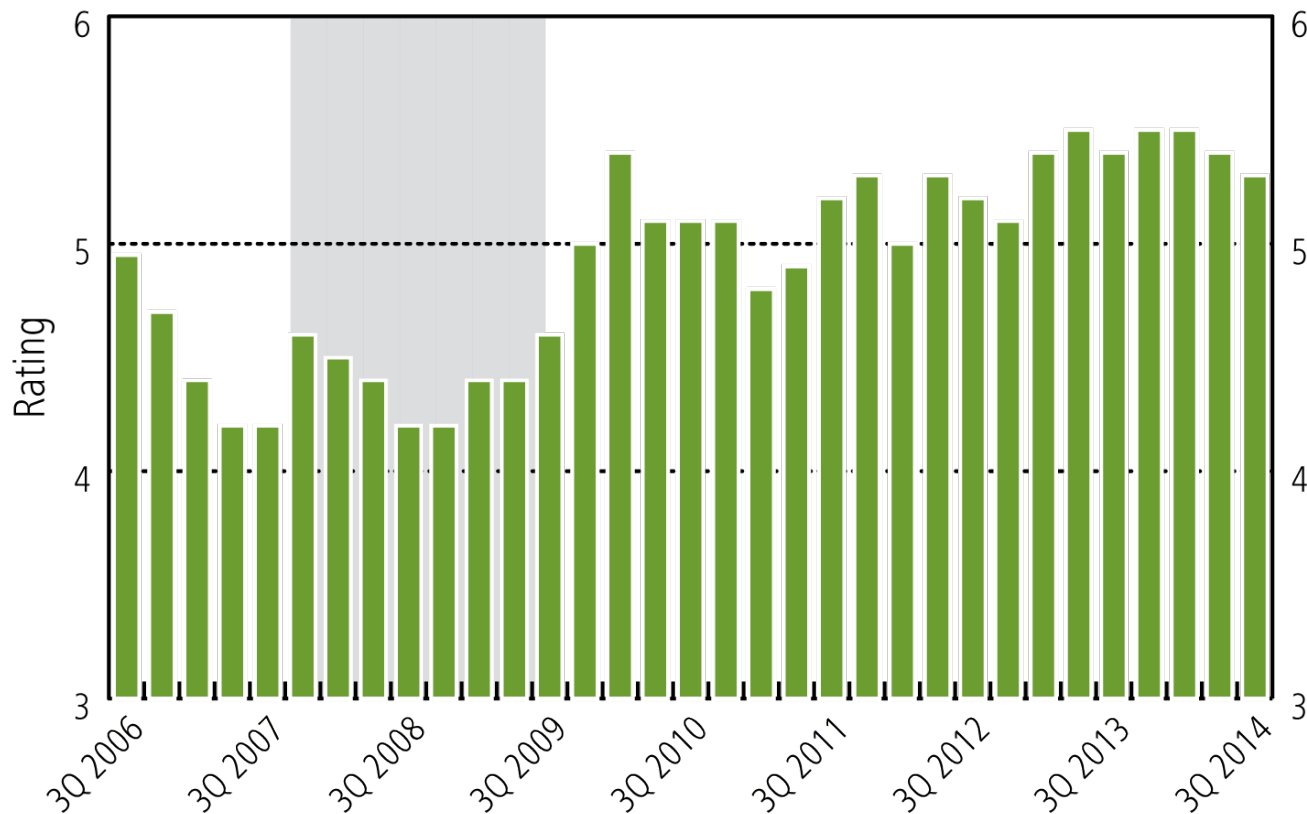
Source: RERC, 3Q14 preliminary.





# Value Ratings Above Avg.

RERC Institutional Value vs. Price Ratings



Source: RERC, 3Q14 preliminary.

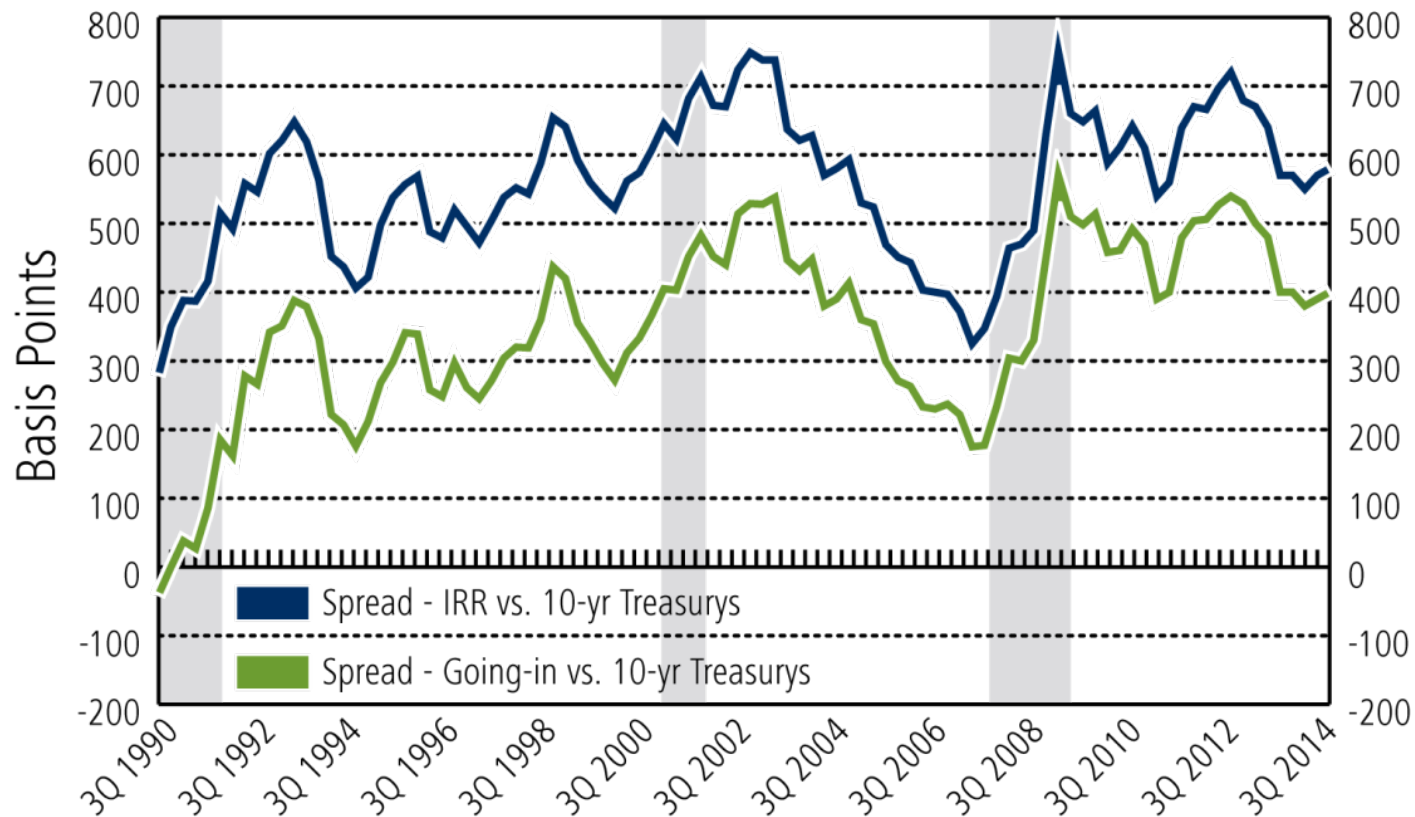


*“...core markets have reached  
unattainable rent/price levels....”*

**-Institutional Sponsor**

# Spread Growing

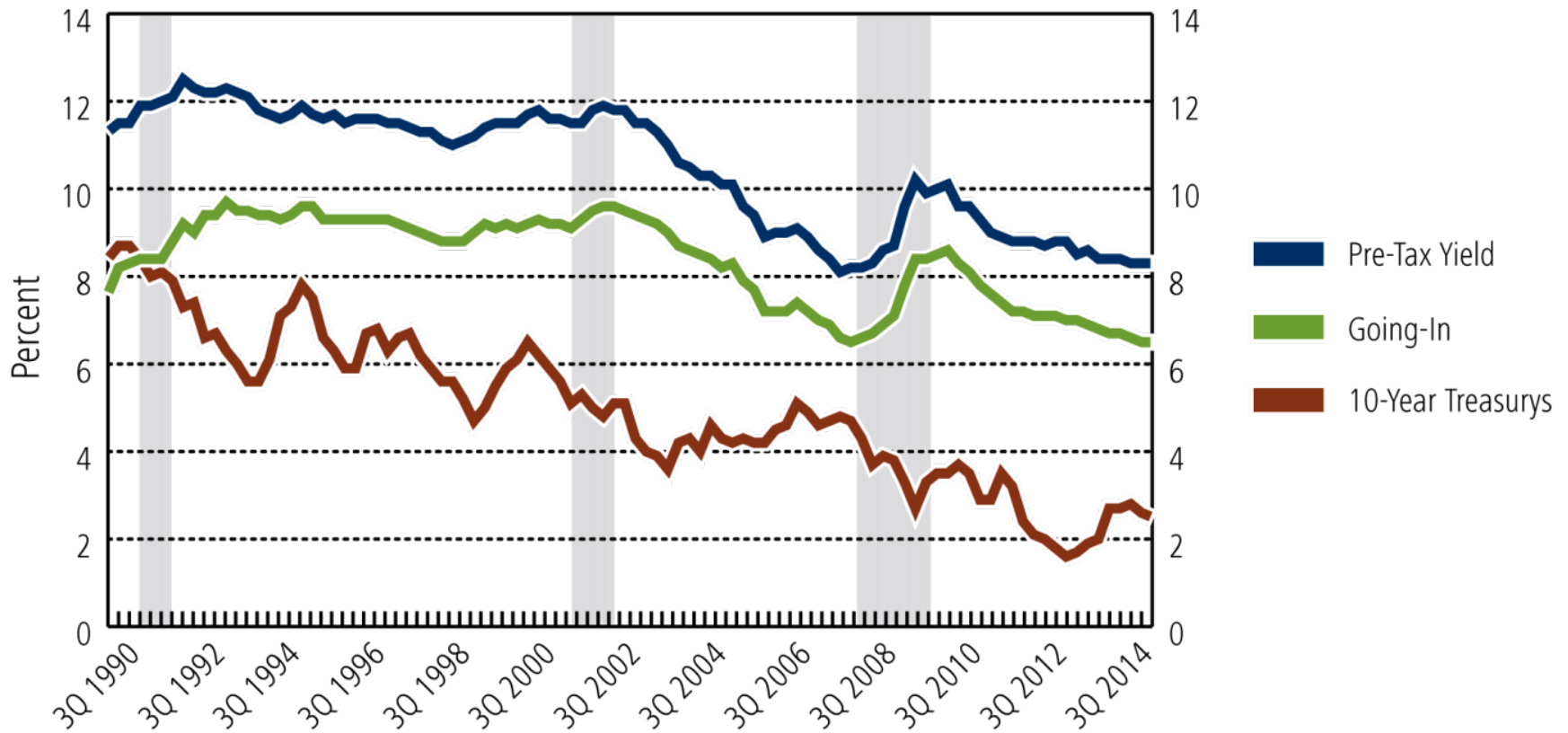
RERC Rates vs. 10-year Treasuries



Sources: RERC, Federal Reserve, 3Q14 preliminary.

# Rates Still Compressing

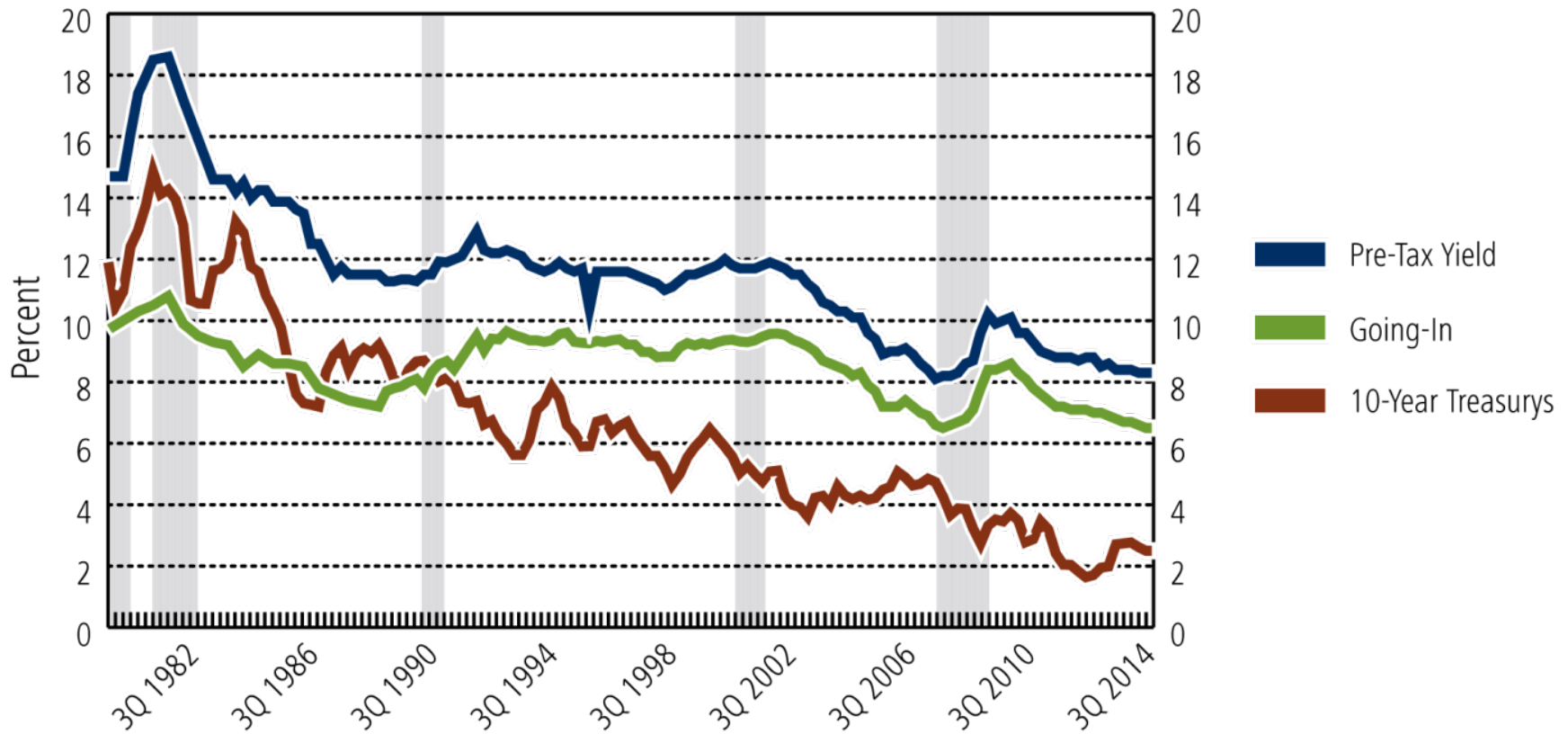
RERC Rates and 10-year Treasurys



Sources: RERC, Federal Reserve, 3Q14 preliminary.

# Rates Still Compressing

RERC Rates and 10-year Treasurys



Sources: RERC, Federal Reserve, 3Q14 preliminary.



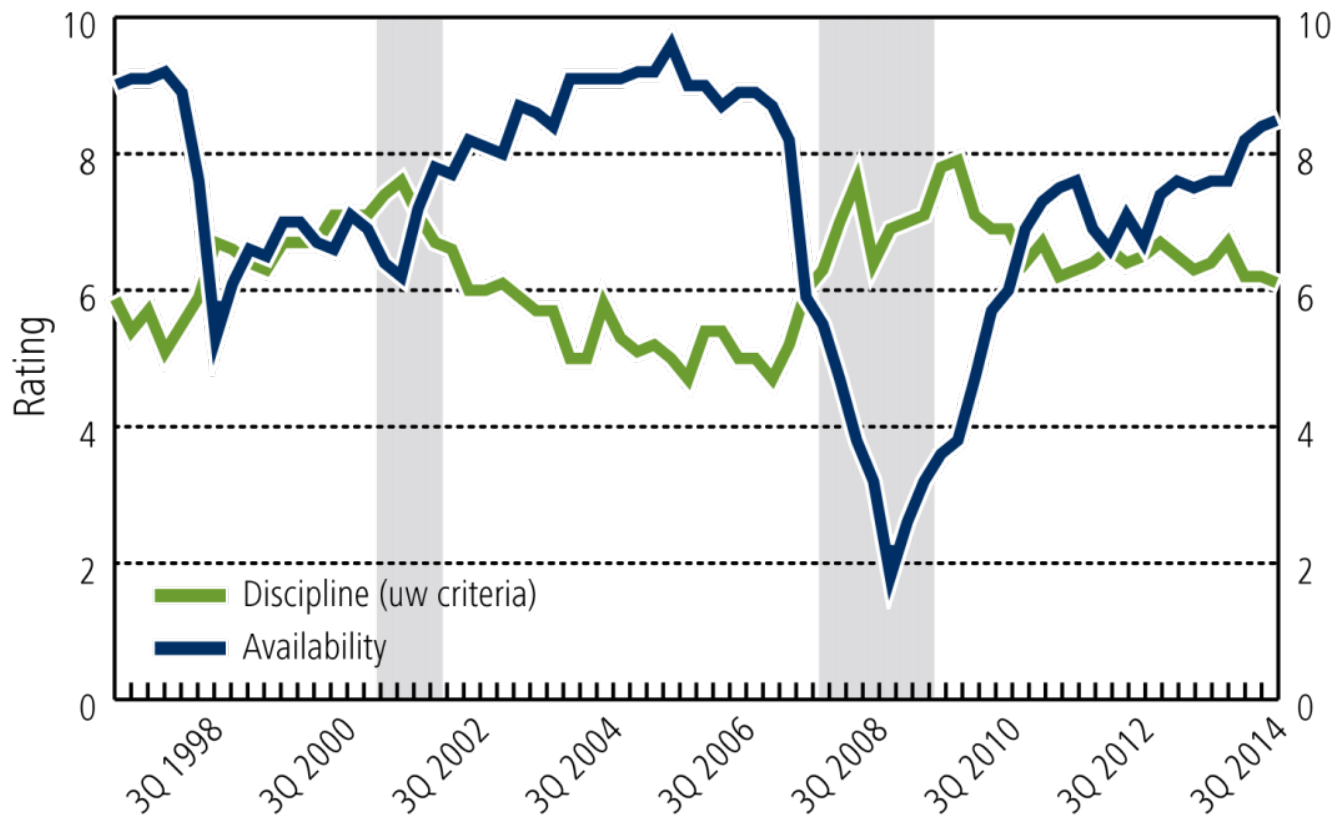
***“...underwriting seems rational, but not necessarily price....”***

**-Institutional Sponsor**



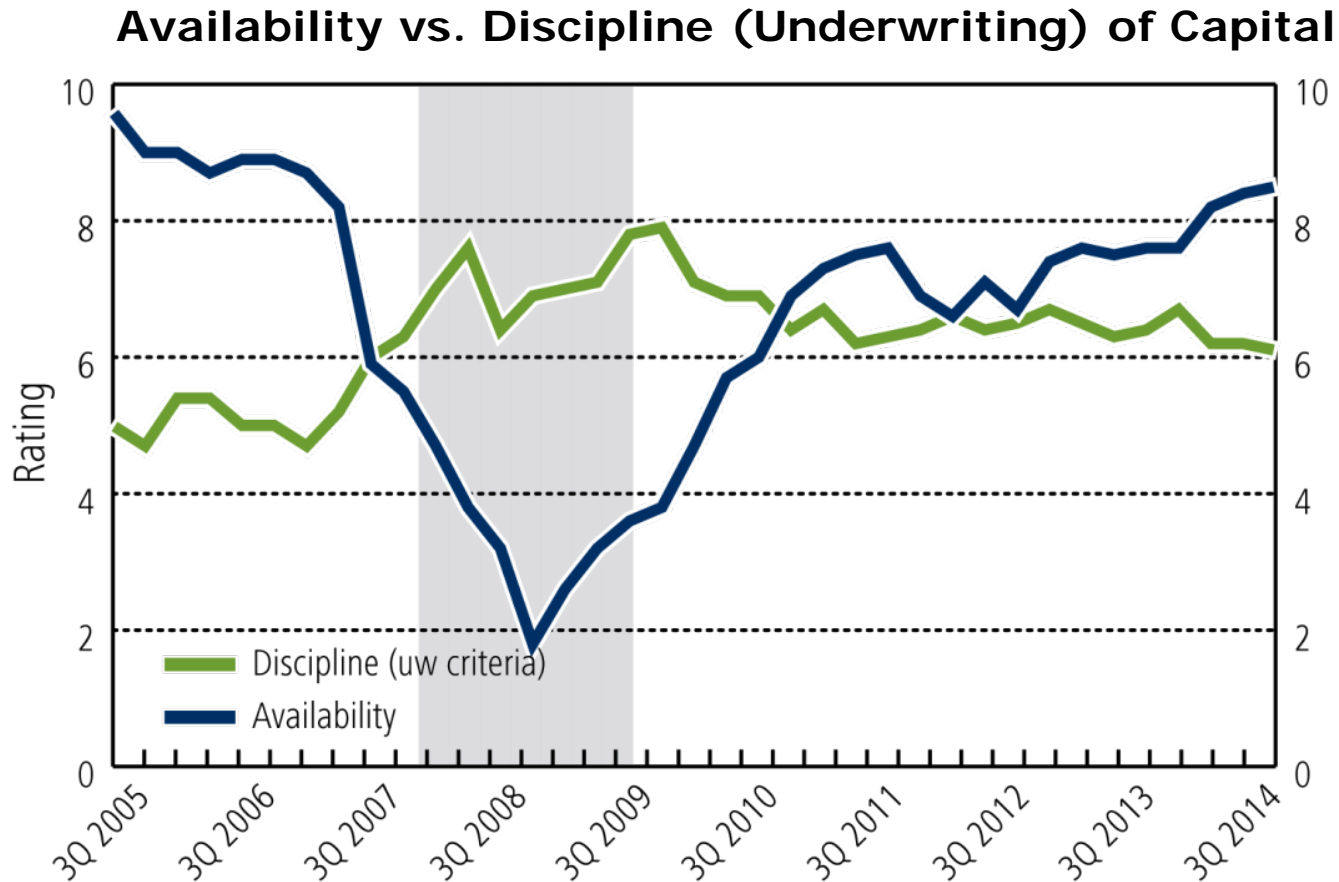
# Underwriting Lagging

Availability vs. Discipline (Underwriting) of Capital



Source: RERC, 3Q14 preliminary.

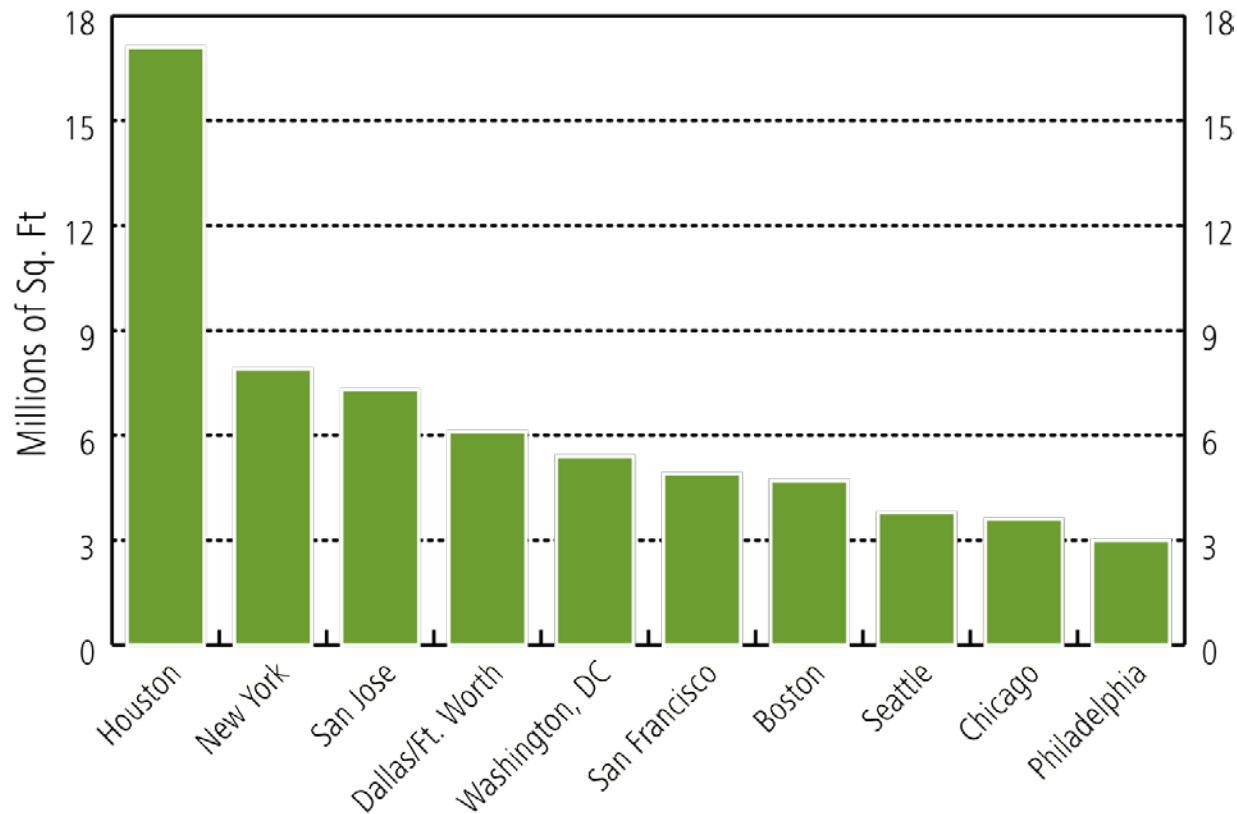
# Underwriting Lagging



Source: RERC, 3Q14 preliminary.

# Houston Market Booming

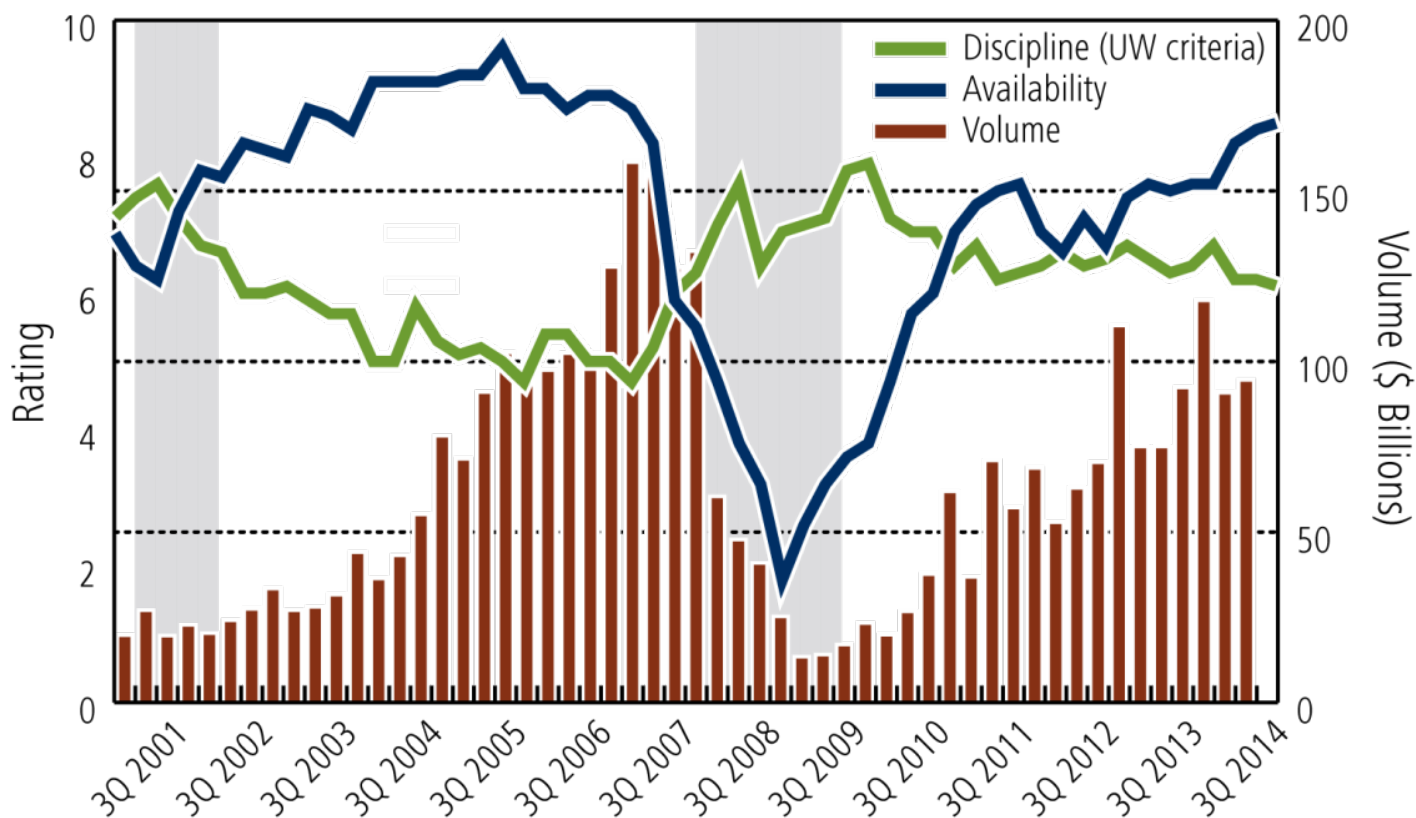
Top 10 Markets for Office Construction



Source: CBRE Econometric Advisors, 3Q14.

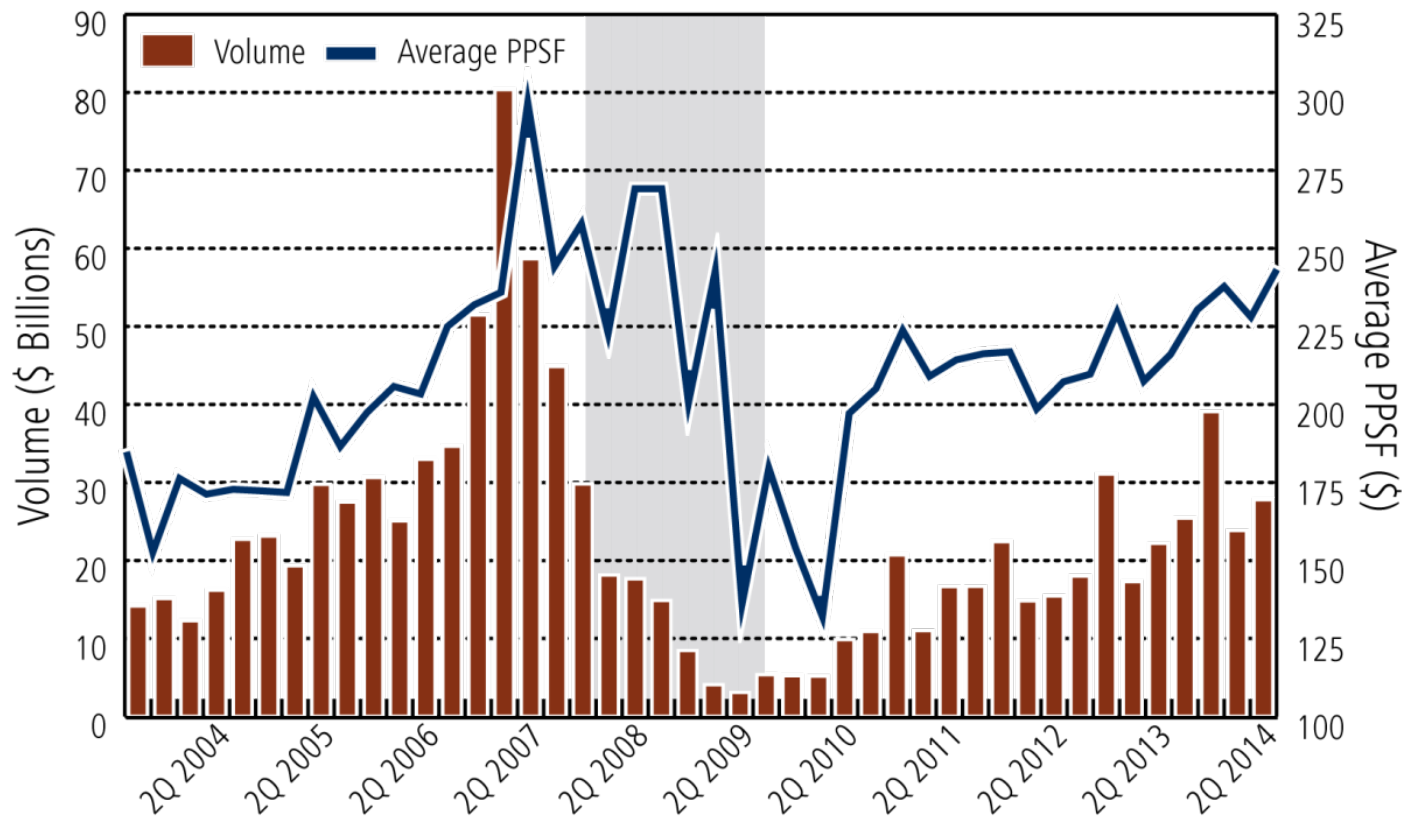
# Underwriting Lagging

**Availability vs. Discipline (Comparing w/ Volume)**



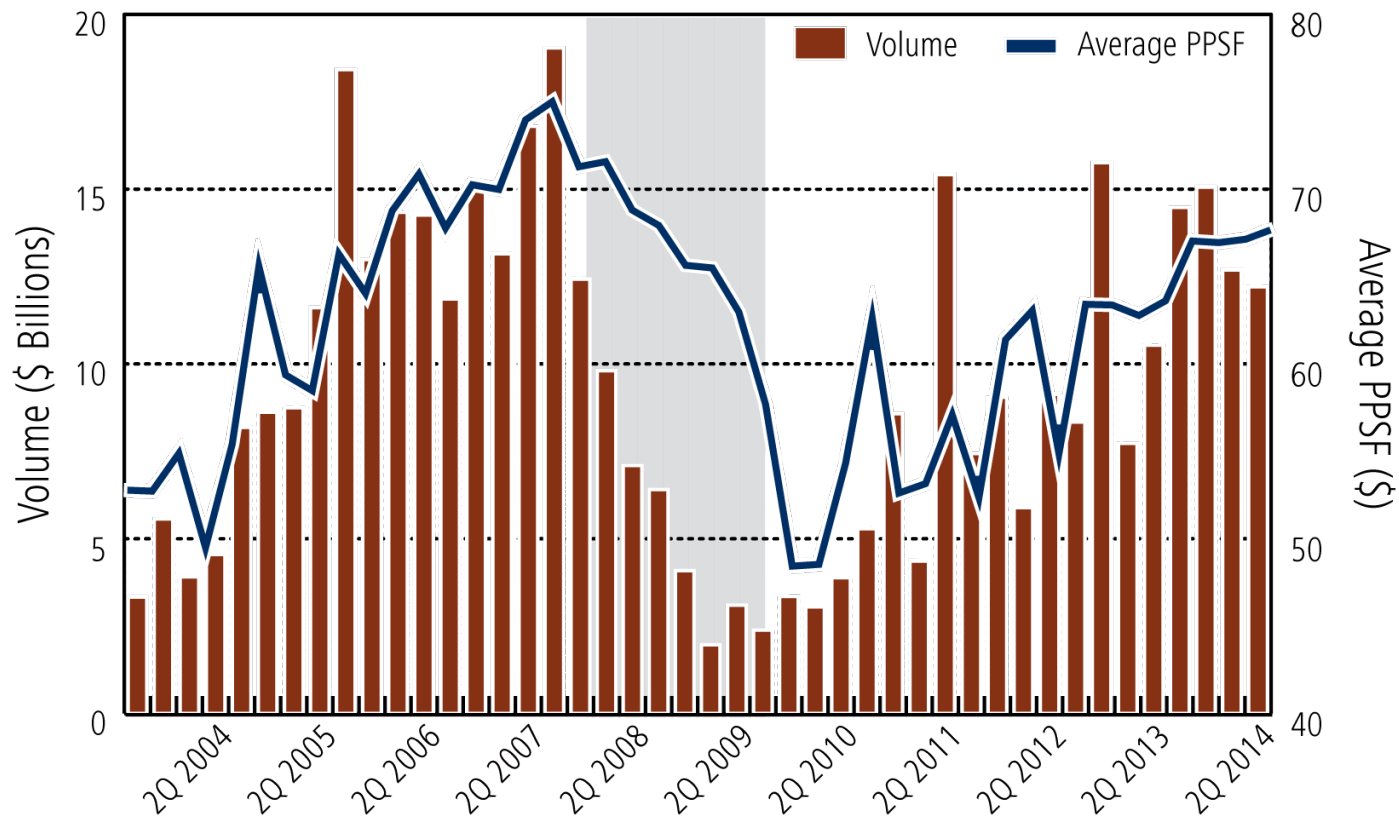
Source: Real Capital Analytics, 2Q14, RERC, 3Q14 preliminary.

# Office Volume/PPSF



Source: Real Capital Analytics, 2Q14.

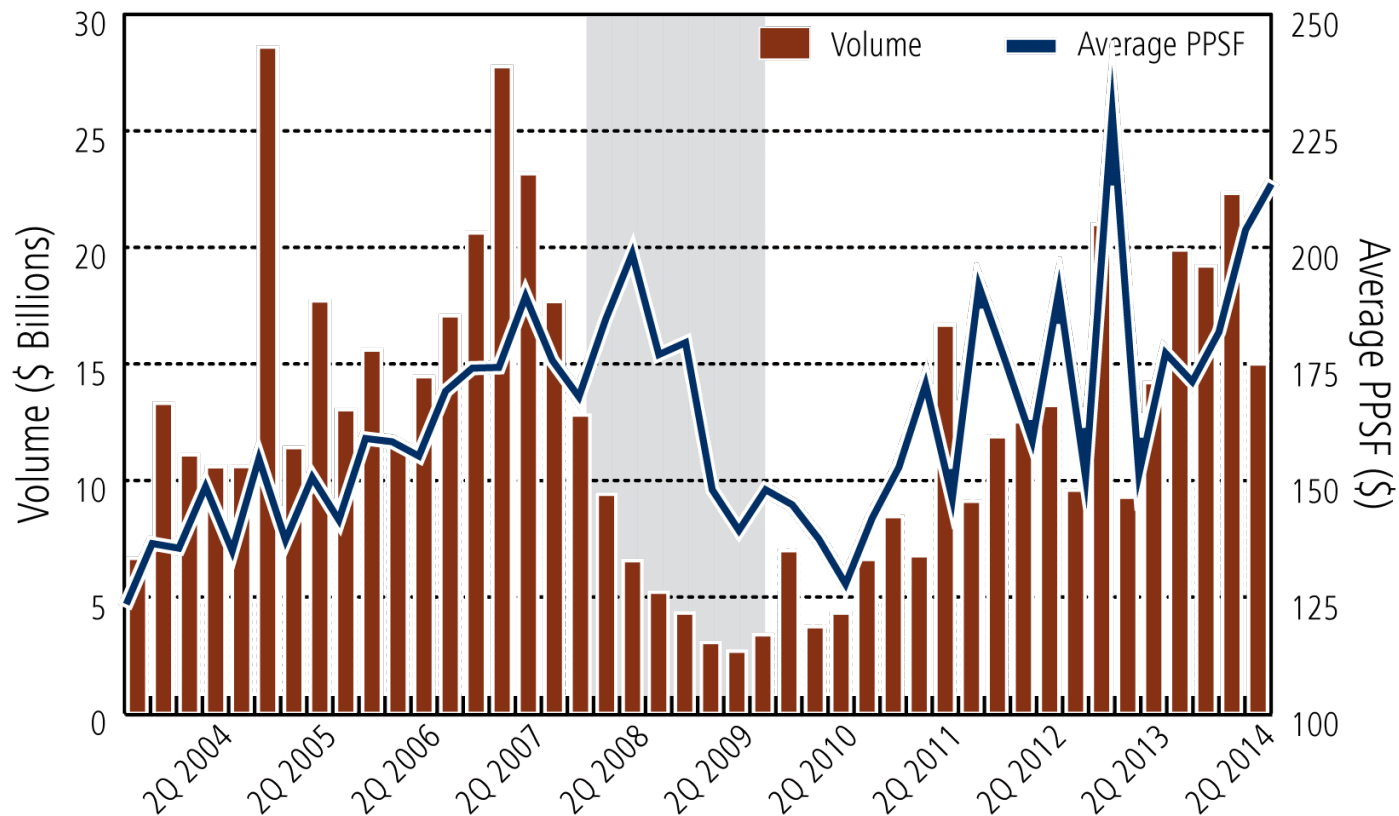
# Industrial Volume/PPSF



Source: Real Capital Analytics, 2Q14.

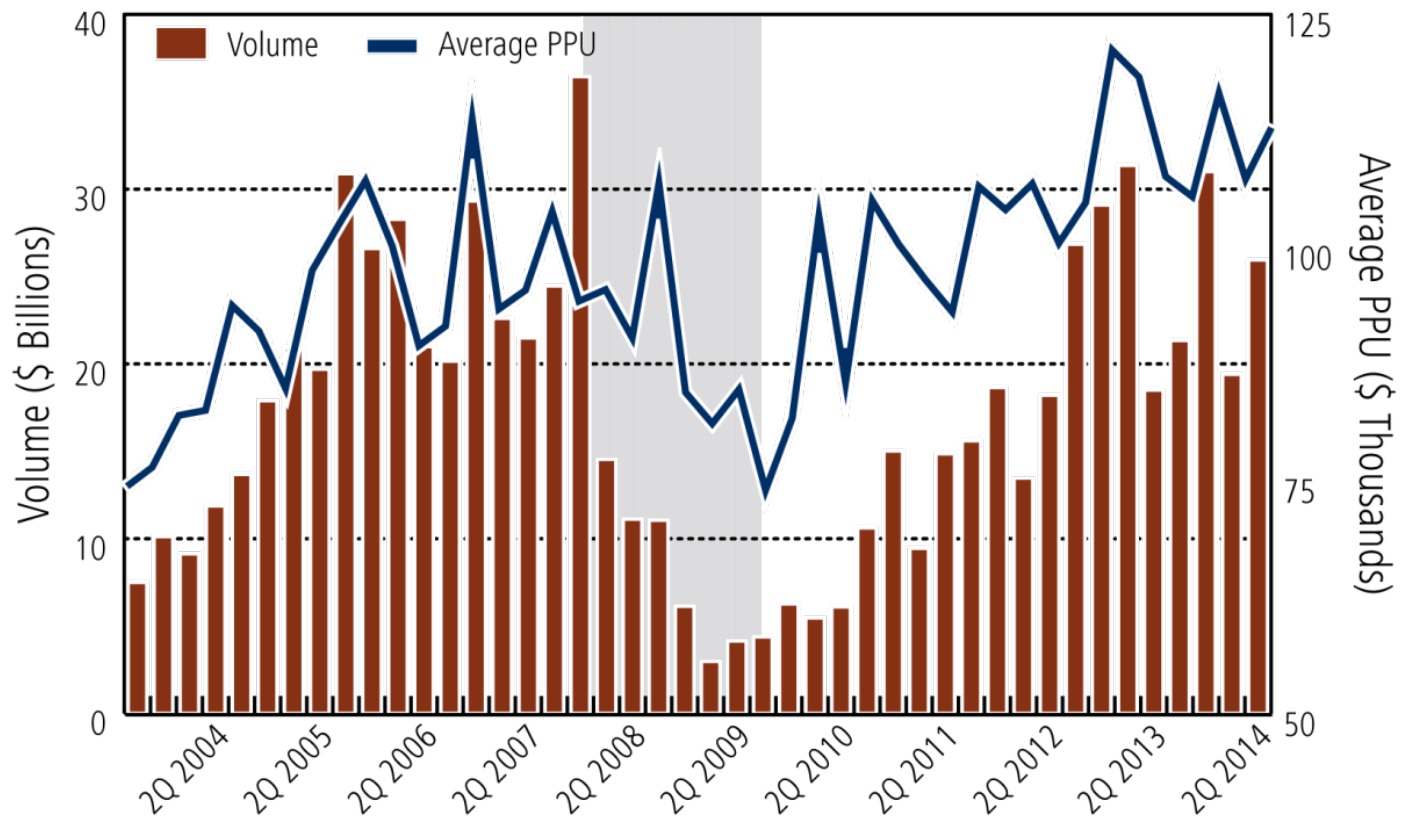


# Retail Volume/PPSF



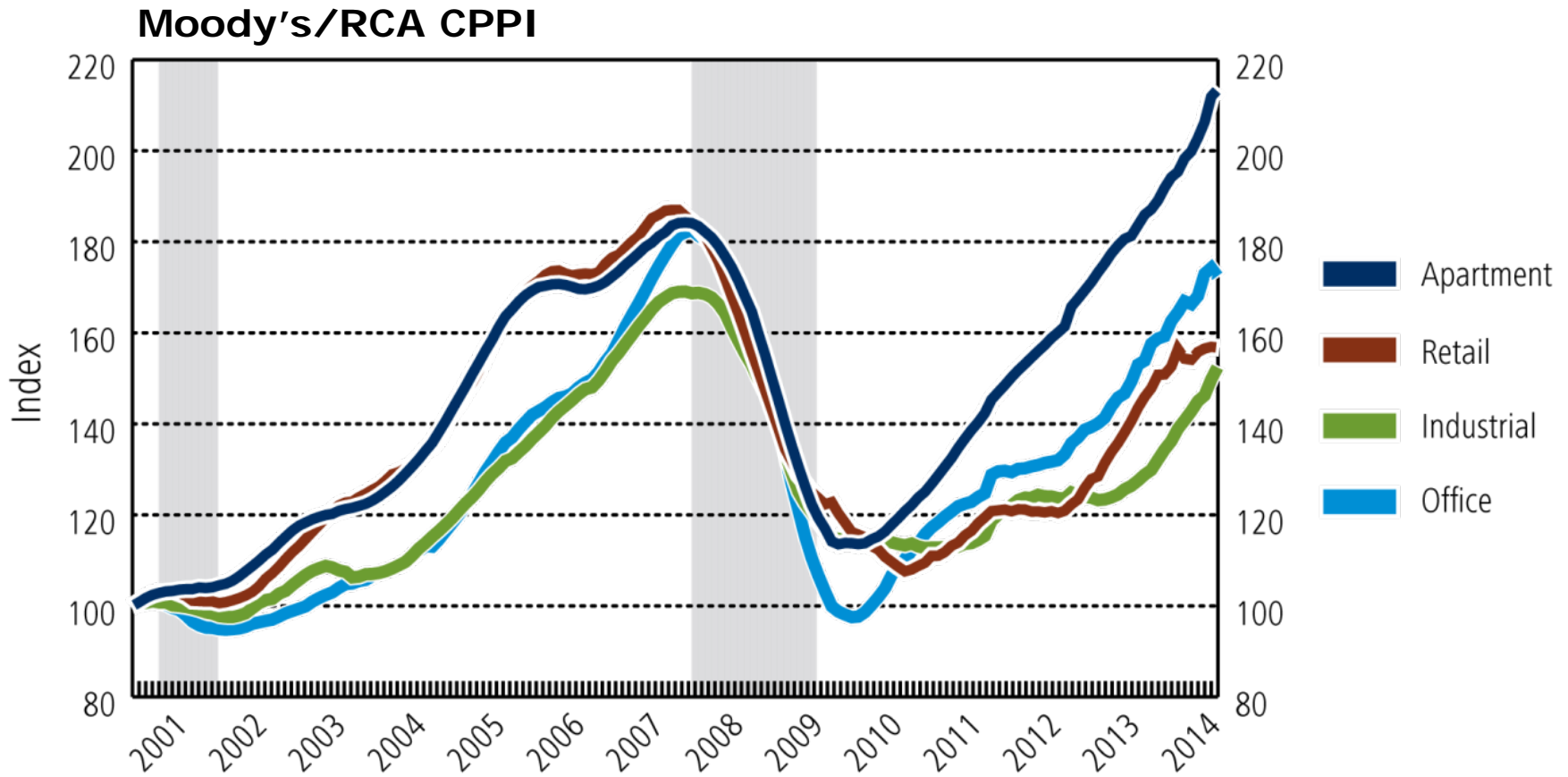
Source: Real Capital Analytics, 2Q14.

# Apartment Volume/PPU



Source: Real Capital Analytics, 2Q14.

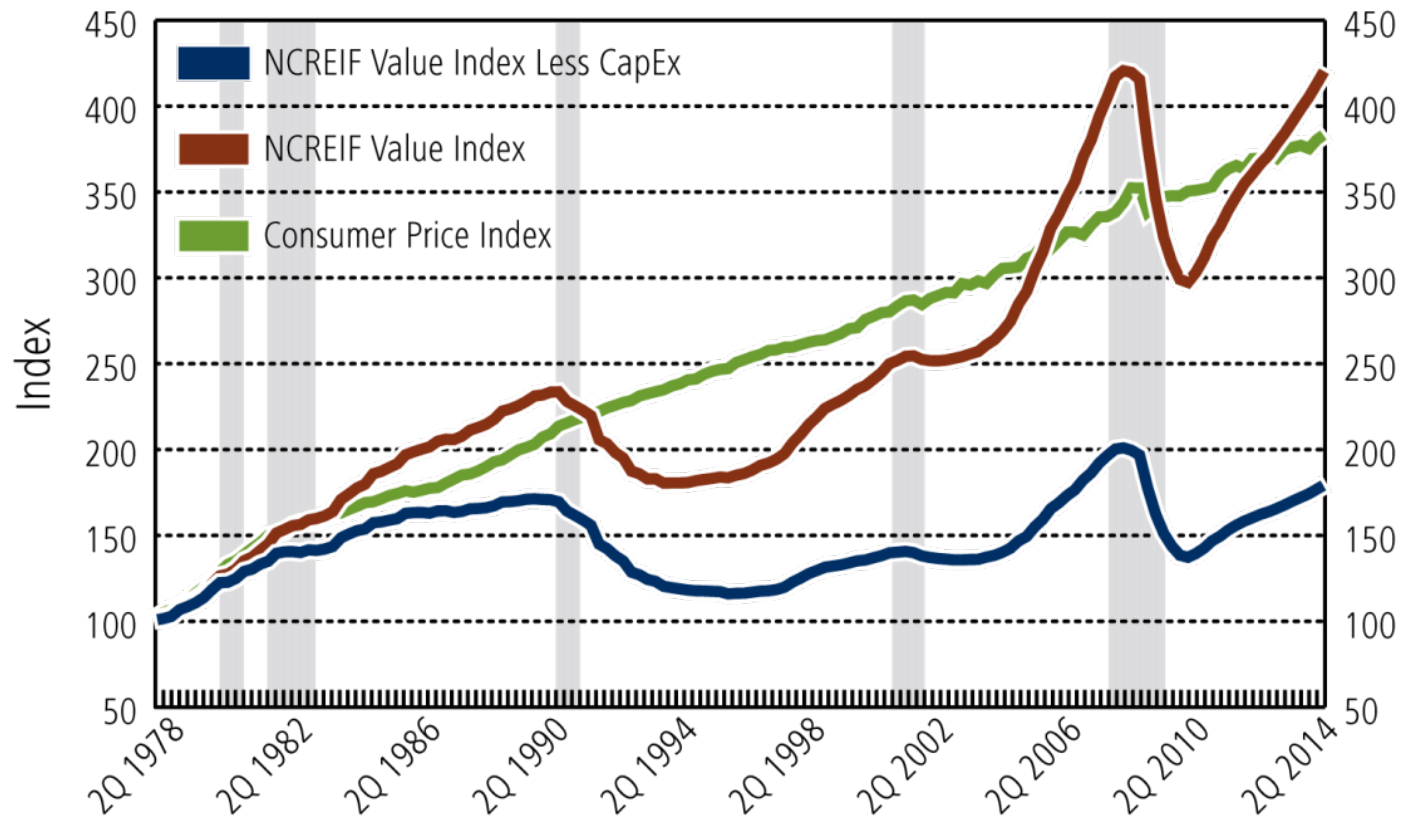
# Prices Increasing



Source: Moody's/Real Capital Analytics, 2Q 2014.

# Value Index Less CapEx

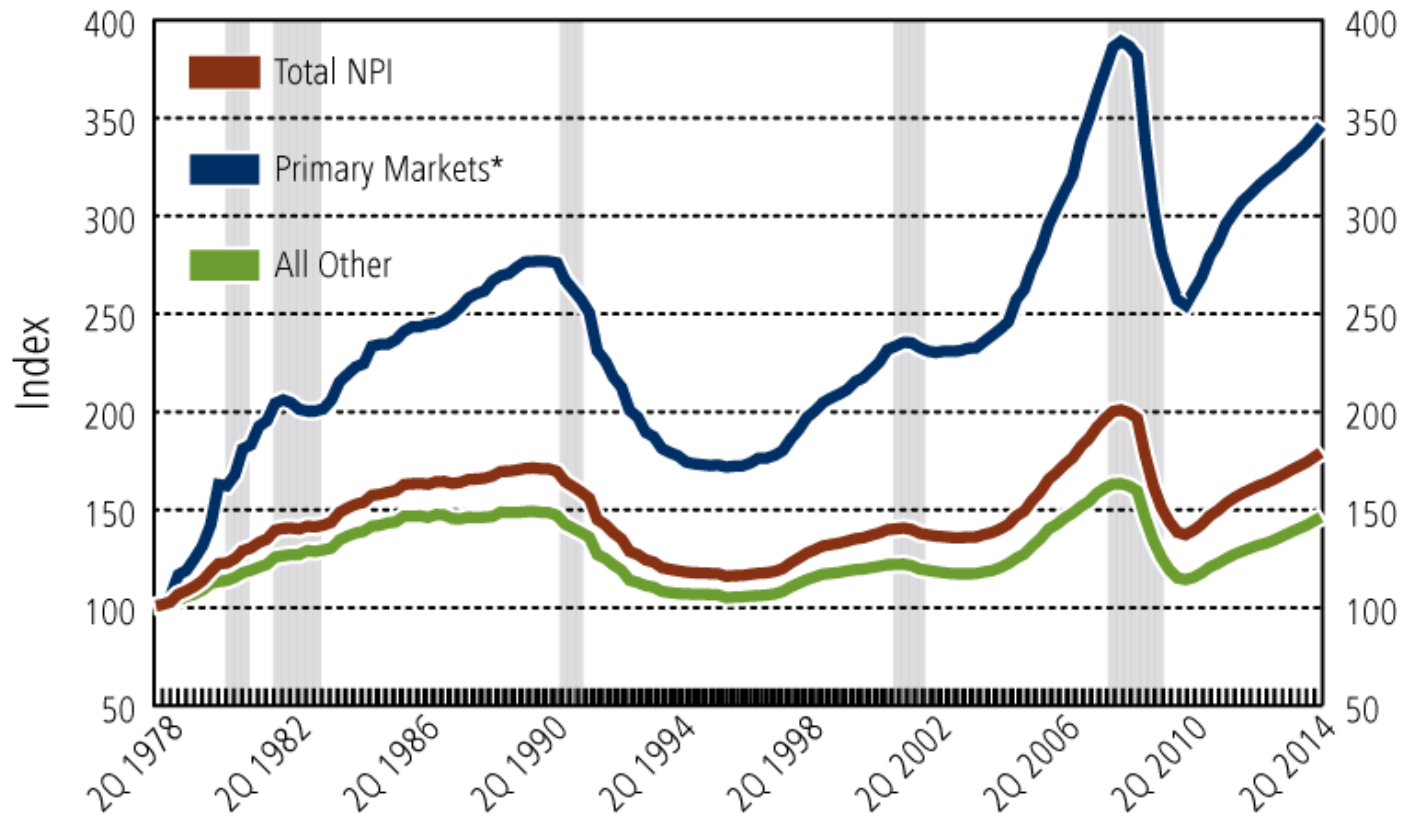
**NCREIF Value Index**



Source: NCREIF, BLS, 2Q 2014.

# NCREIF Markets

## NCREIF Value Index

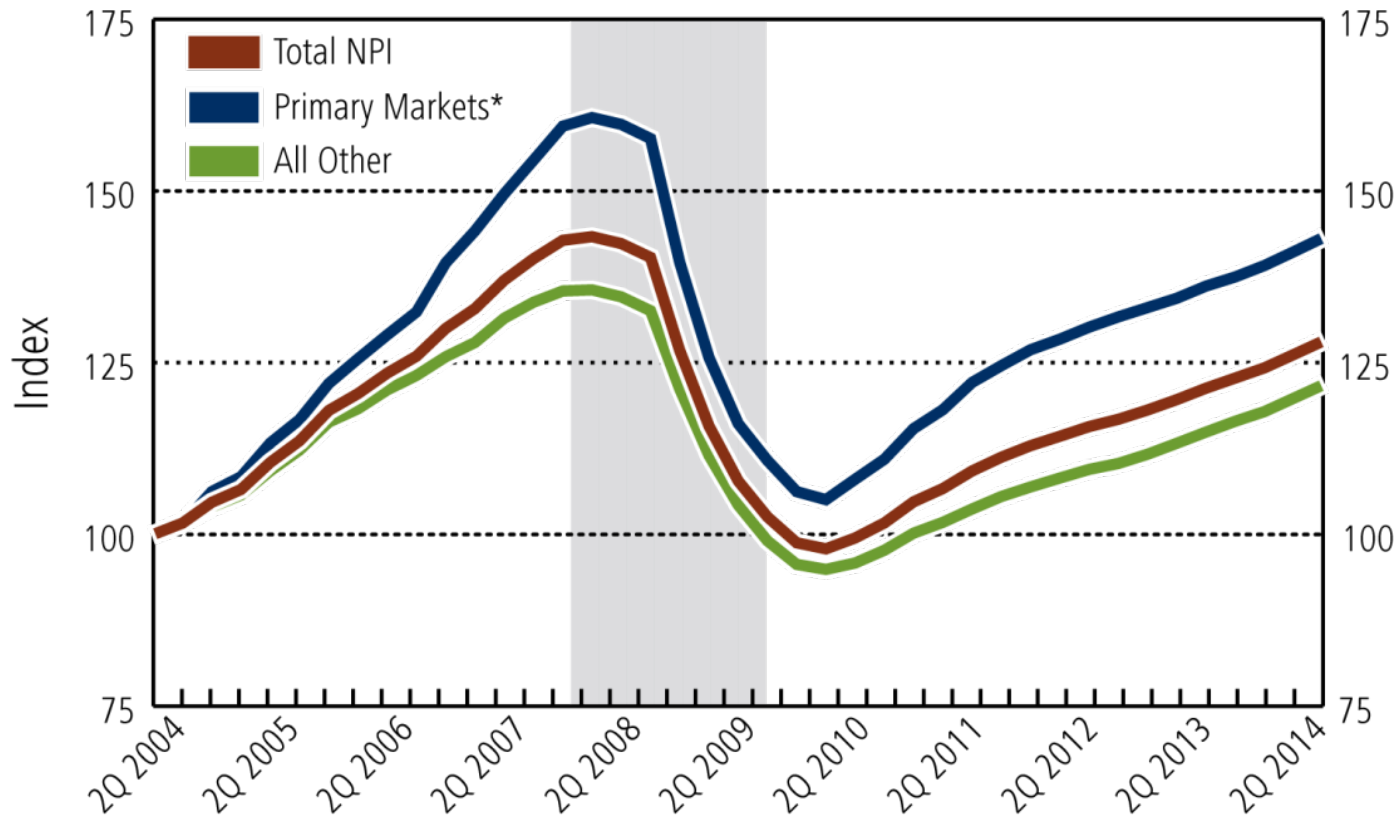


\*Primary markets include Boston, Los Angeles, New York City, San Francisco, Seattle, and Washington.

Source: NCREIF, 2Q 2014.

# NCREIF Markets

## NCREIF Value Index



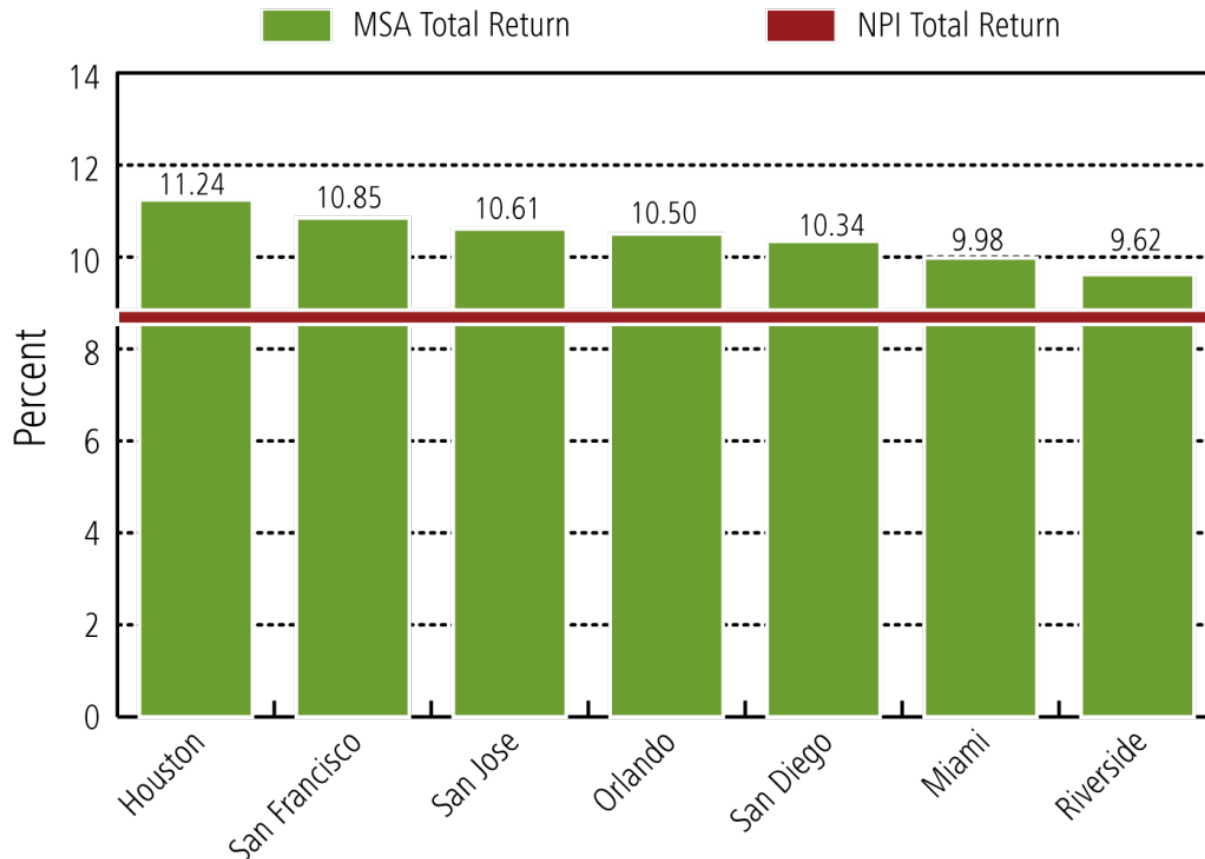
\*Primary markets include Boston, Los Angeles, New York City, San Francisco, Seattle, and Washington.

Source: NCREIF, 2Q 2014.



# Top 7 Markets - NPI

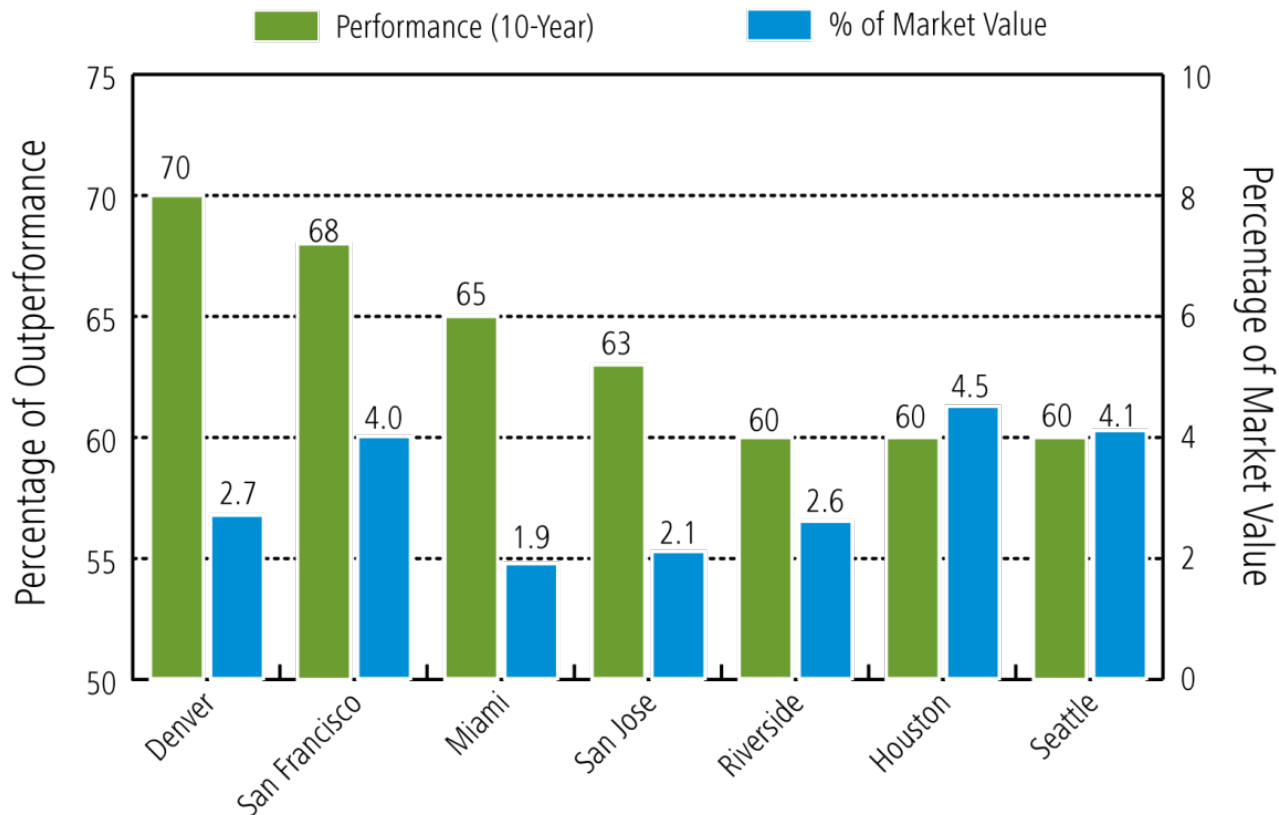
## Top 7 Outperforming Markets (10-yr Period)



Source: NCREIF NPI, compiled by RERC, 2Q 2014.

# Top 7 Markets - NPI

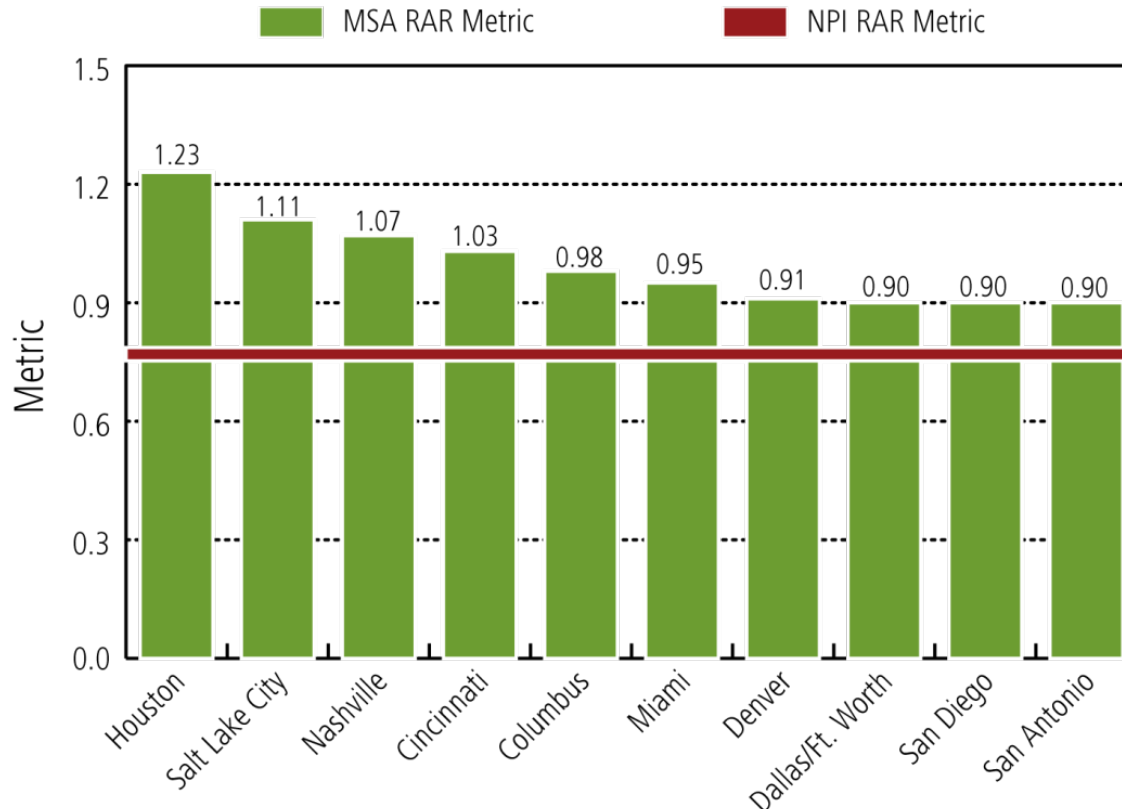
## Top 7 Outperformance and % of Mkt Value (10-yr period)



Source: NCREIF NPI, compiled by RERC, 2Q 2014.

# Top 10 Risk-Adjusted

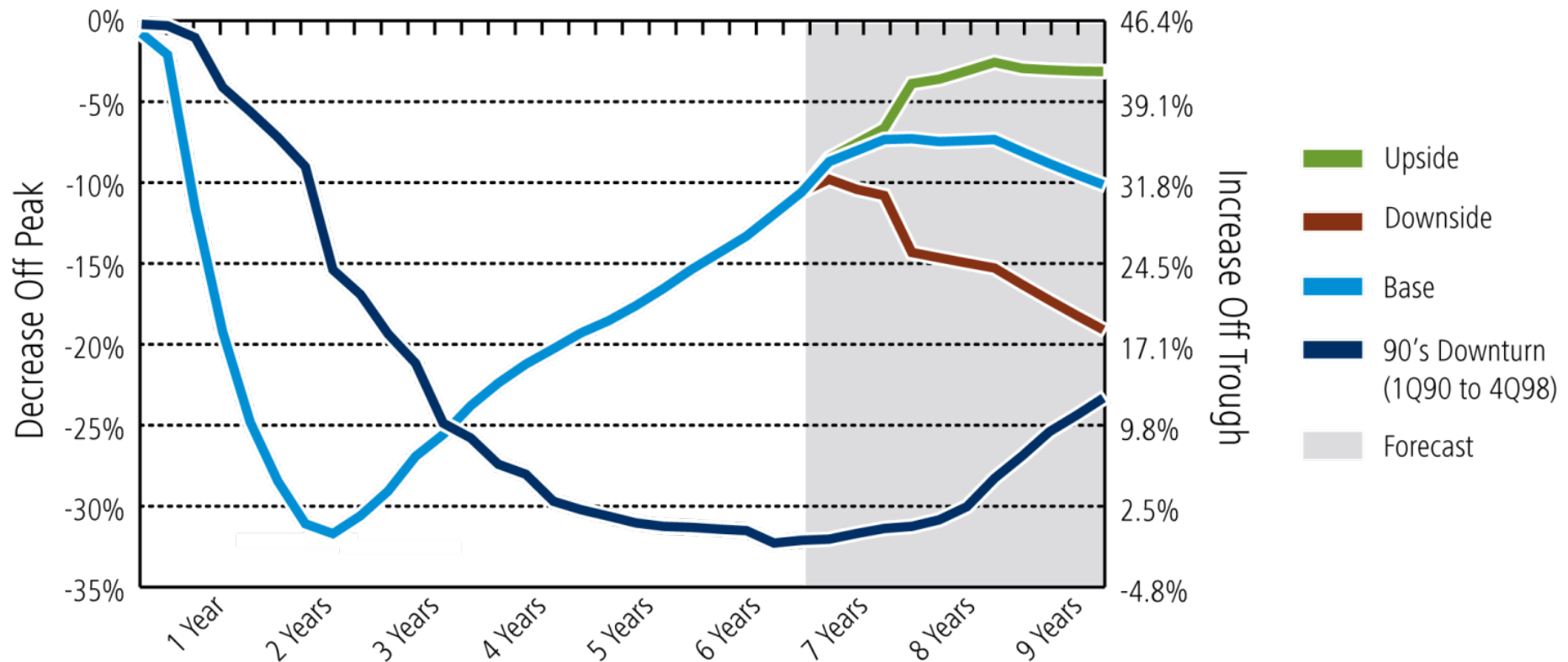
## Top 10 Markets with highest 10-Year Risk-Adjusted Return



Source: NCREIF NPI, compiled by RERC, 2Q 2014.

# RERC's Outlook

**RERC/NCREIF Value Outlook**



Sources: RERC, NCREIF, 2Q14.

Note: Shaded area reflects RERC's outlook for the Base, Upside, and Downside scenarios from 3Q14 to 4Q16.

# Chicago Booth Real Estate Conference

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Thank You & Questions





# Situs

**RERC** REAL ESTATE®  
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CORPORATION  
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Global Experience.  
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Trusted Advisors.

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**For more information, contact Situs today.**

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**For more information, contact RERC today.**

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