

AGENDA

THE ECONOMY AND FINANCIAL MARKETS

- **Economic Growth and the Labor Market**
- **Consumer Activity and Housing**
- **Inflation, Interest Rates, and Borrowing Costs**

PROPERTY INVESTMENT

- **Uneven Gains in Transaction Activity and Pricing**
- **Changing Intermediation of Distress**
- **Policy Issues Impacting Investment Trends**

Where are we in the economy and in the broader recovery, an important time to be talking about it. Some of data has undermined the confidence that we have been feeling earlier in the year, after tax cut enacted. Spending power that we got with a little more money in the family. Still headwinds we face, firms are very hesitant to hire, payroll growth still very weak in the global geopolitical, the sovereign debt crisis in Europe, Where are we in the recovery, potentiality for things to slow down a little further in the first quarter, what are reasonable expectations on what we should anticipate, what does this mean for inflation interest rates, and borrowing costs. Global investors have bought US treasuries worried about taking on additional risk. This could have negative impact on cap rates. Look at some of the data We thought by 2011 we thought we might have been a little further

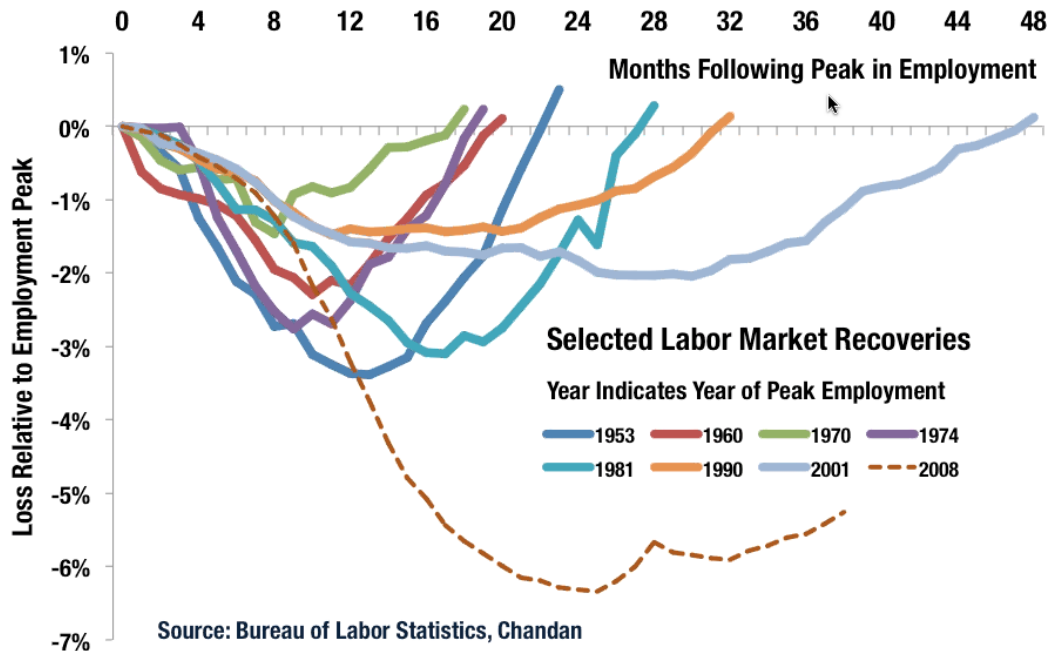
Transaction activities more than doubled between 2009 and 2011. Many of those improvements isolated to major markets in terms of size of transactions, LA, NY, Boston. For many of us who are looking on a specific geographic market we have been looking for clear evidence price discovery credit availability, we also see underlying economic levels may be more stable than what we see in major markets who are concentrating in major markets, they may be masking labor market recovery that we are seeing in off the radar markets, availability of credit within these markets with significant market

What we should see is some quantifiable evidence of recovery: Sheila Baird Chairman Head for FDIC, she is proved to be an able steward of FDIC over this difficult time period. The intermediation of distress of allowing banks to hold onto their change of leadership of FDIC, her 2nd in command is going to take over. Will we start to see a larger number of distressed assets through the auction system or one-off activities. Some expectation is that this process could happen under new leadership. Credit is becoming available, potential buyers can finance these acquisitions. If sold distressed assets off at that point very little certainty as to what type of recovery would see at the bank's level. What should we be looking for in our market. This pressure of Risk Retention of CMBS, what does this mean for securitization the relative period for risk retention.

It's going to be We are in fairly early discussion FREDIE-MAC and Fannie Mae will almost certainly go away what will it be replaced with is the question.

Public Contribution of growth has certainly decreased significantly over the past couple for years. Earlier in 2010 when became government couldn't retain its support for the economy we were looking for clear evidence that the private sector could support business activity in and as the private sector without the government intervention. There is a robust and necessary discussion on how we can live with in The fact that US treasuries being bought says we can spend a lot more than we are bringing in. The resolution of the debt issue will start to be addressed this summer. The first quarter growth rate was much weaker than economist thought it was going to be. This is problematic for us involved in Real Estate. How are we creating jobs how is that driving income in households. How are we creating jobs that are driving

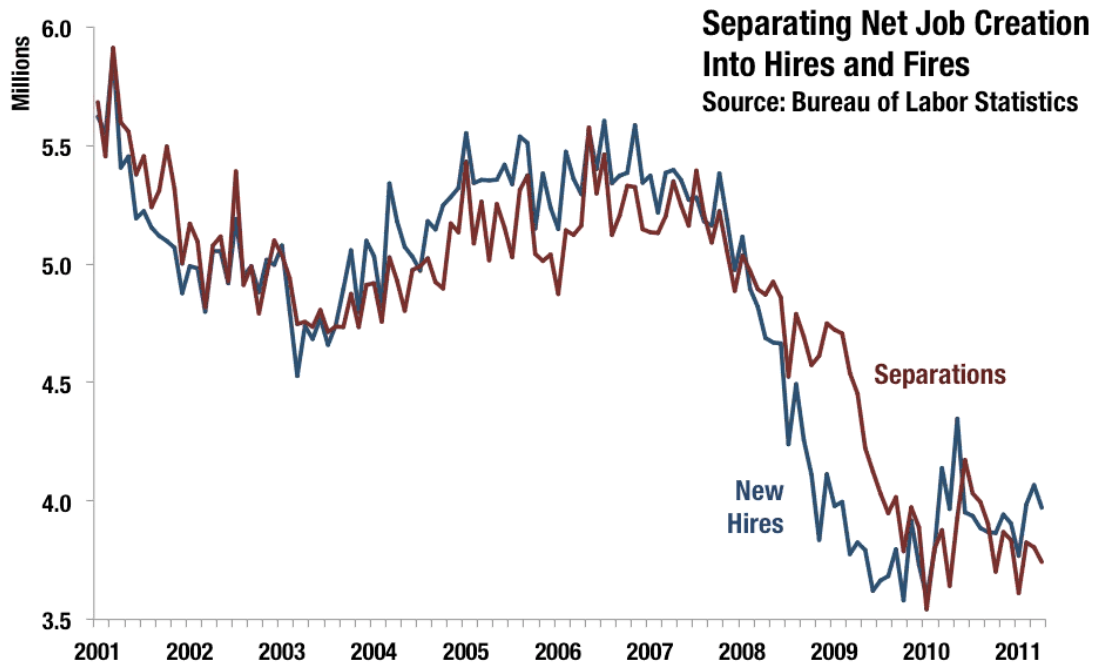
THE LABOR MARKET



We can see that the current market labor market downturn is deeper than anything we have experienced roughly 6-7% of all jobs in the economy were lost. The drop-off of job losses has been debated. Its recovery is painfully slow. For a lot of people are not seeing improvement in wages. Many of their colleagues and friends who lost their jobs have not found new gainful employment.

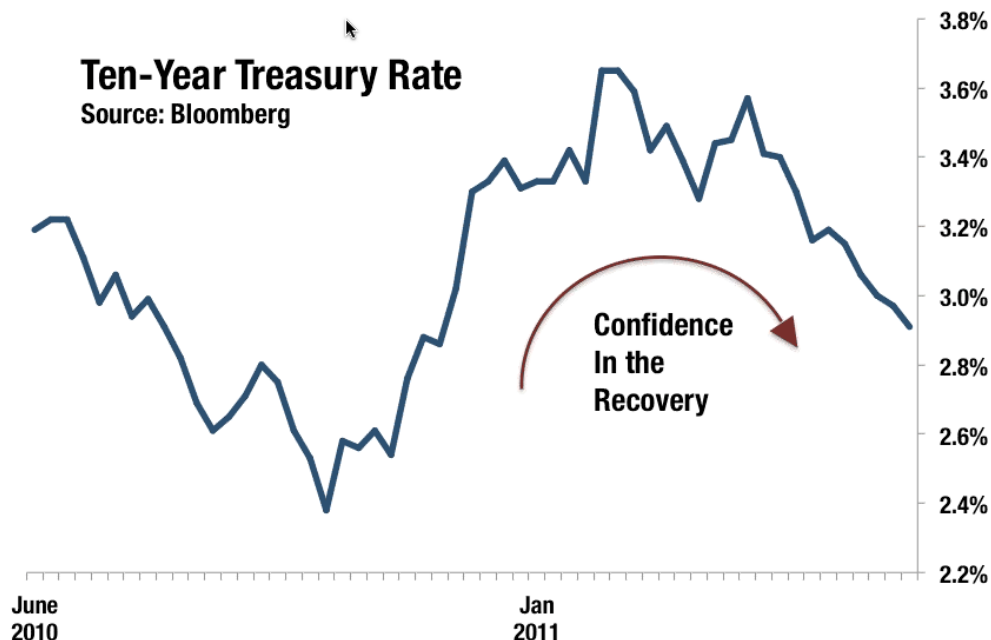
Businesses are significantly constrained around nature of government intervention, many concerns about what the Health Care Cost will be. What will the rules of the game going to be these are acting as constraints on job growth and hiring by the corporations even though corporations are becoming profitable. People were welcoming positive job growth, only job growth of significance, we need to see acceleration for it to be meaningful to commercial real estate.

THE MEASURE OF EMPLOYMENT



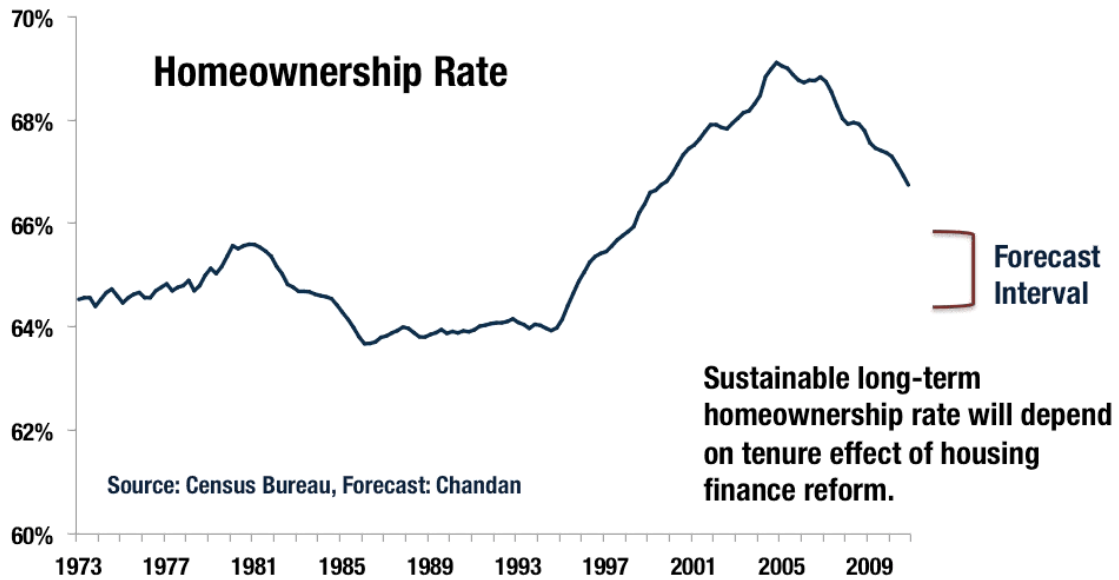
We have a significant drop-off of people being let go by the corporations. The new hiring in blue has improved, businesses are not letting go of so many people in 2011, the 2008-2009 etc. but businesses are still holding back on bringing new people into our businesses. We are not there yet. We need to focus on why businesses are not willing to bring on new hiring. What is holding businesses back.

TREASURIES AND THE COST OF CAPITAL



Treasuries were mid-year higher in 2010. They were kept down by Federal Reserves a Quantitative Easing Program. Sovereign debt crisis Ireland, Iceland, Portugal, Spain, capital moving out of Europe allowed treasury rates to fall even lower during this time in 2010. The low cost of capital has helped commercial real estates, Cap rates has stayed low because spread has been very wide by historic standards. Confidence in 4th quarter of 2010 came out, Treasury rate has fallen showing a fall in confidence which is seen on the right side of this graph. Upward rates on pressure in 2011 in first quarter late 2011 and a couple of months ago. As treasury rates rise we see not a 1-1 correspondence. Positive leverage in the market responded to the upward pressure. Where cap rates were very low, the spreads were very narrow. Sharp rates did start to tick up. In spite of gas increases, inflation factors in significantly apartment rents are rising, long term inflation rates are moderately slow as see economy is slacking. The market is more concerned about weak data that we are getting on economic growth

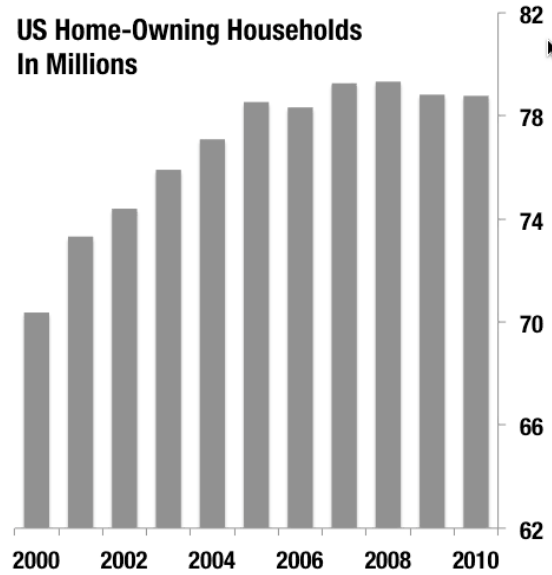
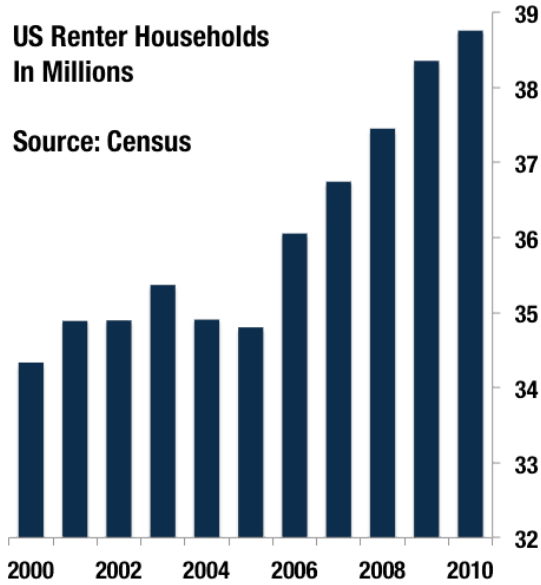
UNCERTAIN FUTURE FOR HOUSING



Is renting cyclical or structural? Ultimately the idea of being a homeowner over a normalized housing market we will return to be wanting to be homeowners but the still the apartment market will still benefit. Generally people want to change in their 30's and get that home. Ultimately Americans will make this transition from rental maybe a little later not 32 but maybe 34 in age.

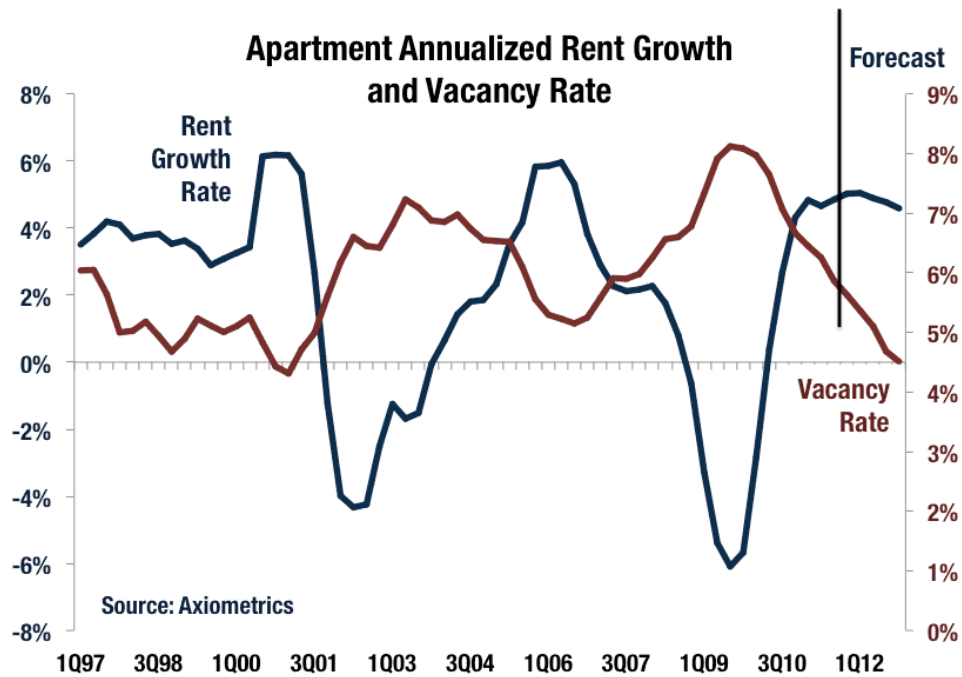
New households are biased towards renting:

THE HOUSING MARKET



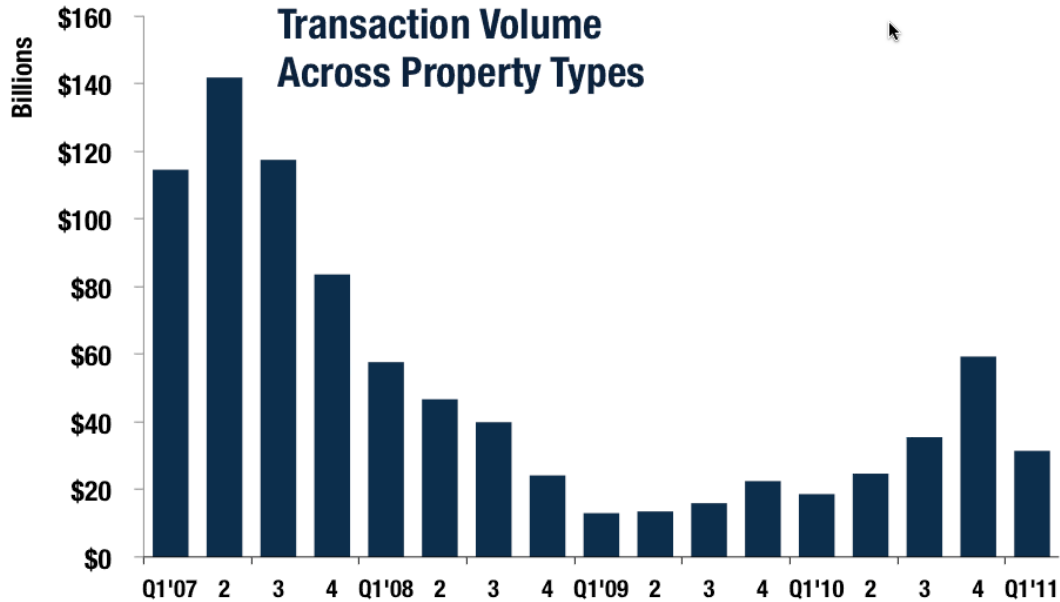
We went from 34.5 million to 39 million in the United States. We have seen significant gains in

THE HOUSING MARKET



We are back to where we were before crisis occurred. There should be increasing completion for apartment aspects. Liquidity is improving as a feature of the market over the next capital year. There is potential for shocks to the availability of credit. There could be an adjustment period depending upon the GSE's role in making loans available for apartment credit. Treasury and HUD proposals currently expect over next 5 years will see role of GSE's will come to end.

COMING OFF THE MARKET'S LOW



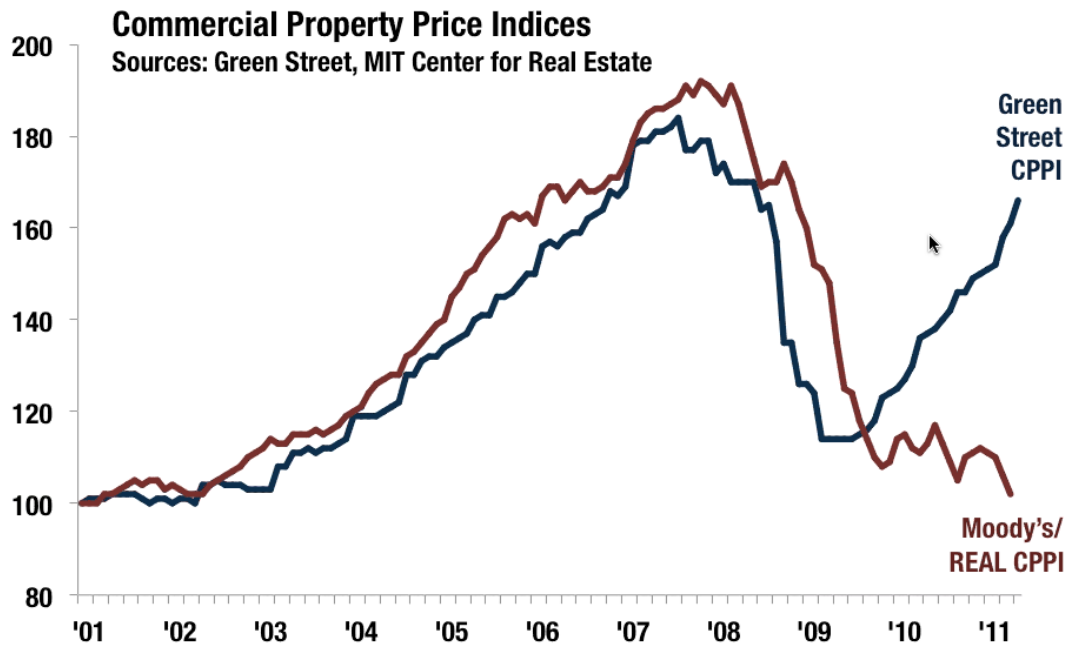
Source: Mortgage Bankers Association, Real Capital Analytics

Under radar of institutional and foreign investors may not have felt this. New York has a diversity of participants and credit lenders. There are a finite number of assets

750 7th Avenue were upwards of 20 bids for that asset. A smaller number of lenders who were willing to make the loan for that acquisition. This is opposed to fundamentals.

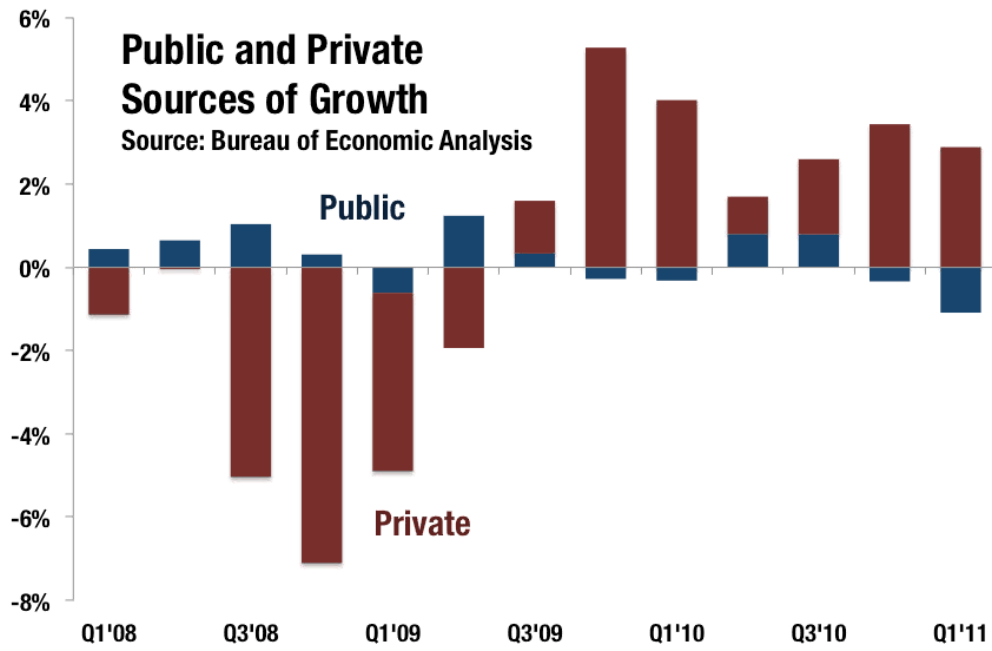
What is going on across the country in lesser prominent markets.

DIVERGENT INVESTMENT RECOVERIES

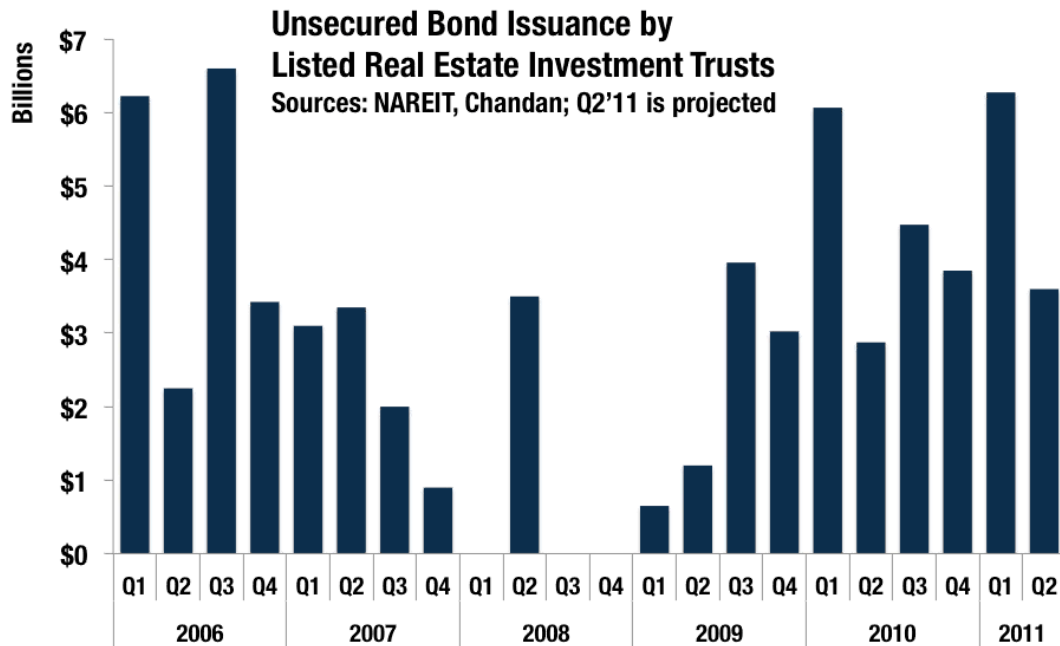


Two indices a Moody's Real CPPI and Green Street CPPI what is behind divergence. Moody's is a repeat sale index that is weighing down on the Moody's Index. Conversely Green Street the assets held by publicly traded REITS they have a higher quality of assets, they are professionally managed, The Green Street puts us within 10% of the overall investment highs.

SOURCES OF ECONOMICS GROWTH



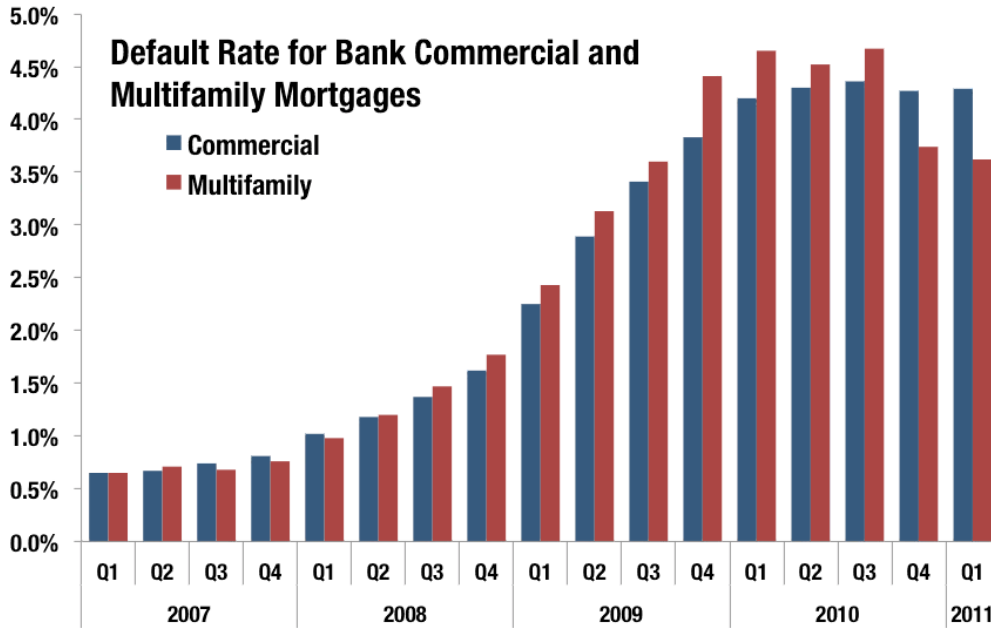
REIT BOND ISSUANCE



They have been able to raise debt through Bonds Low Cost of Capital. REITS have a real value appreciation in their portfolios.

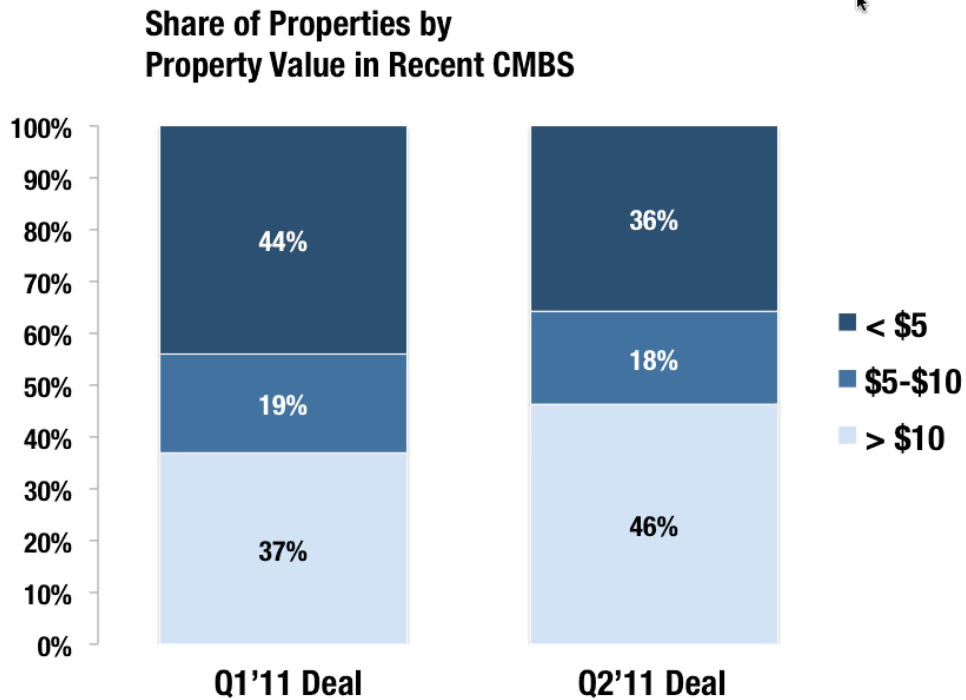
What is going on with other sources of credit?

BANK LOANS PERFORMANCE



In Secondary and Tertiary Credit two sources of Credit is banks and CMBS banks are regulated for them to be able to increase their stress from legacy portfolio is abating. The high point of distress in commercial, Multi-Family balances are shown here. Construction and Development loans has fallen off dramatically, commercial and moderate new loans. \$9.9 Billion through April we had this through all of 201. One unknown of risk retention guidelines which issuers whole 5% of face value (not market value) of their investments. Projected volume for 2011 is \$35-

PROPERTY VALUES IN CMBS



This slide shows that 37% in 1st quarter valued at \$10 million or more. When looked at separate quarter less than \$5 million more than 505 of assets were valued at \$5 million or less. CMBS tends to be democratizing. As see stronger CMBS issuance expect price discovery and spill-over into secondary and tertiary markets, will be an important feature of the markets.

Do you think CMBS will catch up to maturities up and through 2017.

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