

SIOR FALL CONVENTION

“LIQUIDITY AND TODAY'S COMMERCIAL REAL ESTATE MARKET”

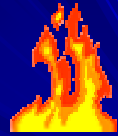
Renaissance Grand Hotel
St. Louis
November 9, 2007

ROBERT J. NAHIGIAN, FRICS, SIOR, CRE
AUBURNDALE REALTY CO.
NEWTON, MASS.



US CBD INVESTMENTS

- One Word: Hot and more Hot !
- Values were up in 2006
- Values continue to rise in 2007



LAST 2 YEARS

- It has been all about capital !
- You couldn't fail with real estate investments
- A lot of money chasing deals and “yields”



Next 2 Years

- 2007 looks like another banner year !
- Real Estate now recognized as a 4th Asset class with bonds, stocks and cash.
- There is a new demand and a new allocation !
- Next 2 years could be very different



Next 2 Years

- Success based more local (micro) rather than national (macro) environment
- Difficult to find a balanced value commercial investment in the US
- People think buying now will be cheaper than tomorrow



Next 2 Years

- Today everyone is a “genius” so demand for real estate has amplified
- Real estate growth and differences will be driven by sectors, market and not uniform growth
- Investors will need to look at real estate with true due diligence evaluation
- We need to get back to old-fashion growth

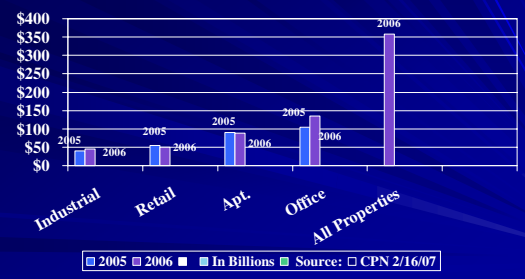
DEMAND DRIVERS

- EUROPE PAYS MORE PSF; GLOBAL CAP RATES ARE LOWER (More Pricey)
- US REAL ESTATE PRICE IS STILL CHEAP COMPARED TO OTHER GLOBAL PROPERTIES
- DROP OF US \$ HELPS
- REPRODUCTION COST IS STILL HIGH
- Construction Costs = 6-10% annual increases



Source: Sam Zell/Hugh Kelly '05 CRE Chicago

US COMMERCIAL VOLUME: 2005-06

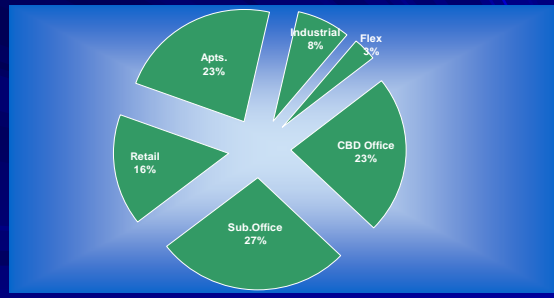


U.S. COMMERCIAL VOLUME

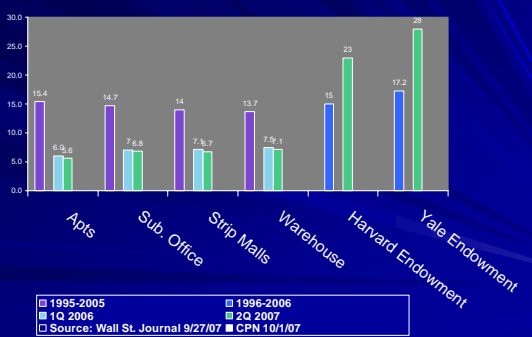


Source: MSNBC
Oct. 21, 2007
Billions

PROPERTIES PURCHASED: 1st Q 2007

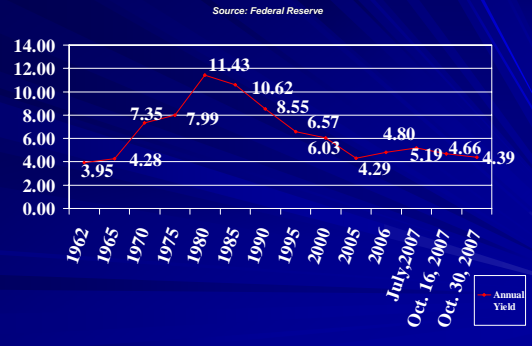


SUMMARY ON RETURNS



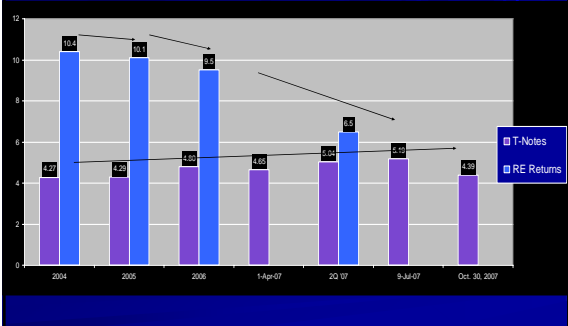
Source: Wall St. Journal 9/27/07
CPN 10/1/07

US 10 YR. T-NOTE: '62-'07



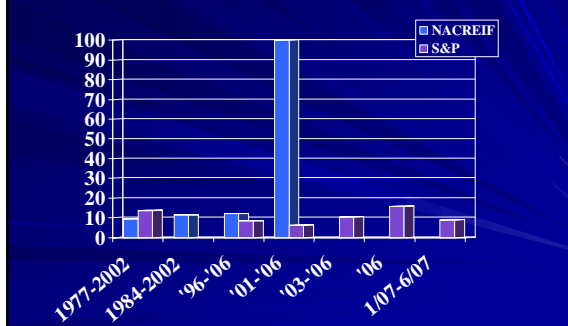
US T-Note Yields: '07

Source: Federal Reserve 7/07



IRR Average %

Source: CRE Spring Convention 4/07

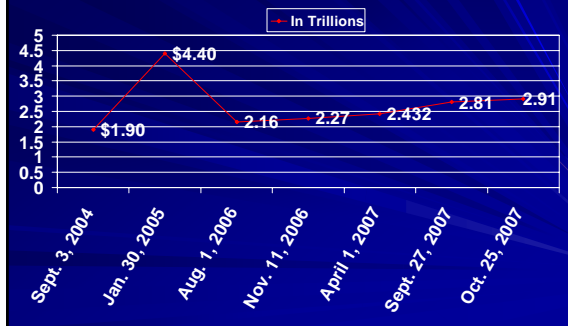


CASH-ON-SIDELINES

Sept. 3, 2004:	\$ 1.9 Tril.
Jan. 30, 2005:	4.4 Tril
Aug. 1, 2006	2.16 Tril.
Nov. 11, 2006	2.273 Tril
April 1, 2007:	2.432 Tril.
Sept. 27, 2007:	2.810 Tril.
Oct. 25, 2007:	2.91 Tril.

Source: MSNBC 2/1/07/Wall Street 1/25/07, Boston Globe 4/1/07,WSJ 10/25/07

MONEY MARKET CASH-ON-HAND



CONCLUSION

- CASH POSITIONS HAVE BEEN INCREASING SINCE 2006
- BUT FOR HOW LONG?
- WE MAY BE SHIFTING SIDWAYS: Real Estate v. Stock Market ?



US HOUSING AS AN INVESTMENT THE SUB-PRIME CRISIS? THE COMMERCIAL DEBT CRISIS?



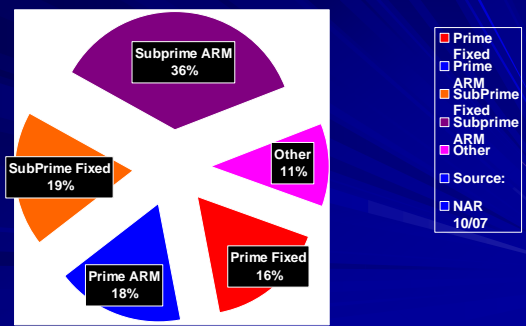
US EXISTING HOMES FOR SALE

	Homes on market	Months Est. to sell	Annualized Purchases of all Homes	Median Price
Jan. '05	2.15 M	3.6		
2006			6.51 M	
April '07	4.20 M	7.0		\$220,900
May '07		7.1		\$236,100
July '07		9.1		
Aug. '07	4.59 M	9.6	5.75 M	\$225,700
Sept. '07	4.4 M	10.5	5.04 M	\$211,700
2007 est.				\$210,200

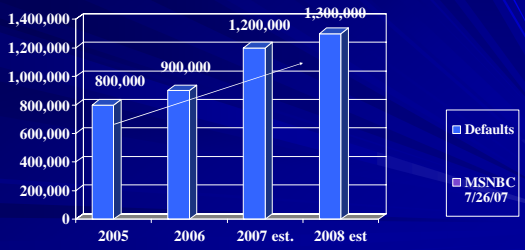
U.S. HOME LOAN DELINQUENCIES

	Home Eq. Loan Late	Prime Loans: Late	Sub-Prime: Late	ARM: Late
Jan.-Sept. '06				14%
4 th Q '06	1.92%			
1 st Q '07	2.15%	0.8%	7.6%	
June '07	3.98%			
2 nd Q '07		0.6%	6.6%	
Aug. '07	3.56%			
3 rd Q '07	3.41%			

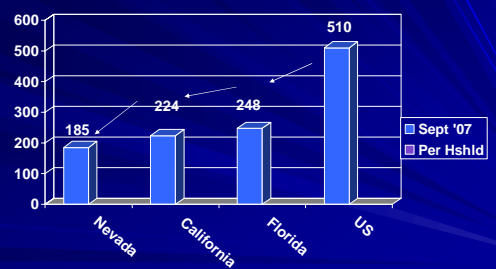
TOTAL FORECLOSURE MORTGAGES: 2nd Q '07



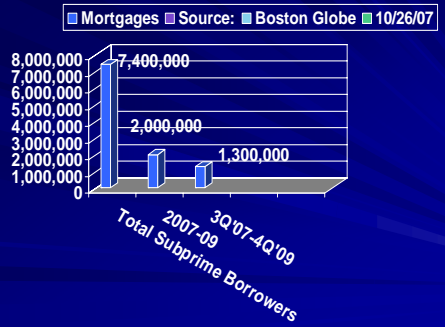
US HOME DEFAULTS



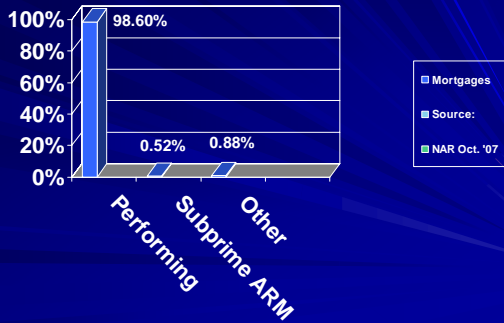
SEPT. HOME FILINGS PER HOUSEHOLD BY STATE: 2007



U.S. SUBPRIME FORECLOSURES



ALL MORTGAGES: 2ND Q '07



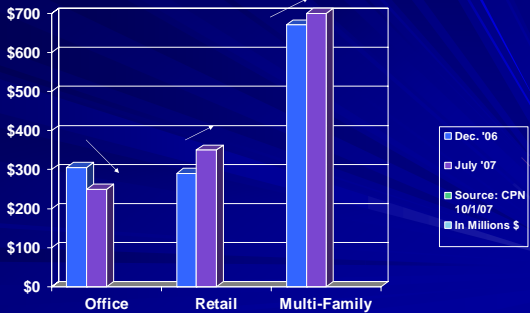
WORST HOUSING MARKETS

As of Oct. 1, 2007:

- Los Angeles
- Chicago
- Miami
- Tampa
- Detroit
- Phoenix
- Washington DC
- Dallas
- Boston
- Sacramento
- Houston

Source: MSNBC 10/30/07

COMMERCIAL DELINQUENCIES



CMBS DEBT AND THE CAPITAL MARKET COLLAPSE

Unsold:

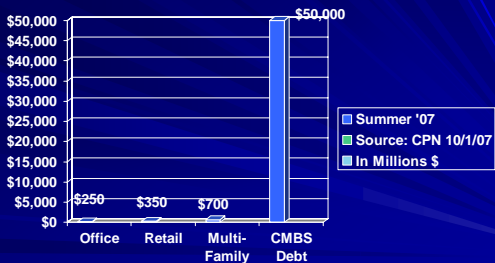
- Summer '07: \$ 50 Billion
- Early Sept. '07: \$ 20 Billion
- CMBS Delinquencies: 0.4 - 1% Low

So.....

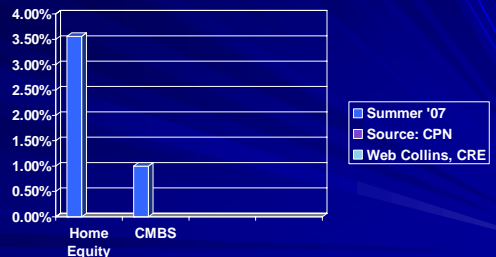


Source: Web Collins, CBRE 10/1/07 NREJ

DELINQUENCIES



SUMMER '07 DELINQUENCIES



DEBT RE-PRICING

- When there is excess supply and low Federal Rates/Spread over 10Yr T-Notes then....
- Early '07 Spread: 70-75 BP
- Normal Spread: 150-175 BP
- Sept. '07: 225 BP

CONCLUSION

- Securitization has added liquidity for commercial real estate
- Collateralized debt obligations have been a driver
- Debt capital is being re-priced to better reflect the "new" risk



CONCLUSION

- Debt is costing more today



- And real estate prices are starting to drop

REAL ESTATE YIELD BREAK-DOWN V. THE DOW



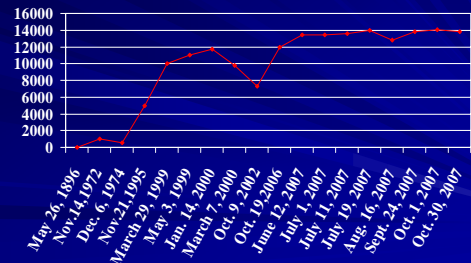
DOW HISTORY

- MAY, 1896: 0
- NOV. 14, 1972: 1,000
- NOV. 21, 1995: 5,000
- MARCH 29, 1999: 10,000
- OCT. 19, 2006: 12,000
- JULY 1, 2007: 13,408
- JULY 11, 2007: 13,578
- JULY 19, 2007: 14,000
- AUG. 16, 2007: 12,845
- SEPT. 24, 2007: 13,820
- OCT. 1, 2007: 14,088
- OCT. 16, 2007: 13,952
- OCT. 30, 2007: 13,792

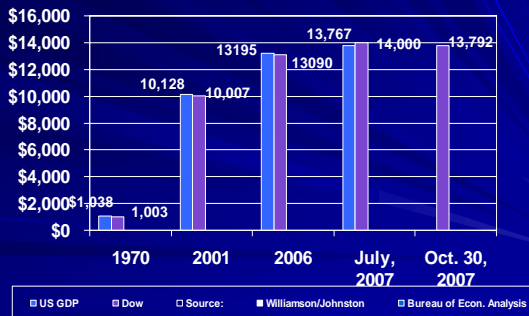


Source: USA Today 10/20/07, MSNBC 10/10/07, Globe 7/14/07

DOW HISTORY



US GDP v. DOW HISTORY: In Trillions \$



NCREIF 1995 – 2005

Expected v. Reported Returns

- R. E. : 11.46% v. 10.4%
- S&P 500: 14.49%
- Stock Market: 11.1%
- Nasdaq: 8.1%
- Dow: 9.8%

*REIC, Winter '04; Morningstar1/05Wall St. Journal 4/19/06
*Source: LM Annual 2002 Report; DFM 10/1/07

NAREIT INDEX RETURNS:1987-2007



REAL ESTATE RETURNS and CAP RATES IN DETAIL: 2007



EQUITY RETURNS

Boston Office Towers: 1/07

- (100% Cash)
- 10 Yr. T-Note + 25-40 BP = 5%

Boston Suburbs: 1/07

- (100% Cash)
- 10 Yr. T-Note + 150-175 BP = 6.1-6.35%

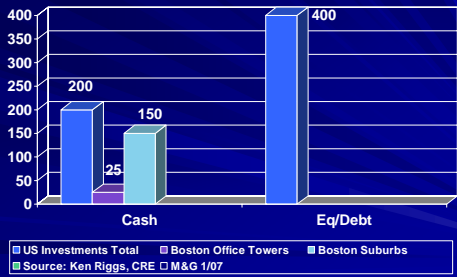
■ Source: Meredith & Grew 1/07

Risk v. Reward: Spring 2007 U.S. Total Returns

- 100% Cash: UnLeveraged
- 10 Yr. T-Note + 200 BP = 6-7%
- Leveraged w/ 75% Financing
- Cost of Debt + 400 BP = 10%-11%
- 10 Yr. T-Note + 300 BP = 7-8 %

■ Source: Ken Riggs, CRE 4/20/07

USA v. BOSTON RETURNS OVER 10 YR T-NOTES



REAL ESTATE RETURNS COMPOSITION

Source: Herb Krumsick, Ken Riggs	Overall Yield	Rental Income	Mort. Reduction	Tax Benefit	Apprec.
1999	14.5%	44%	-13%	6%	63%
2005	9.5%	70%	NA	NA	20%
2007	6.7-7%	7-40%	NA	NA	60-93%

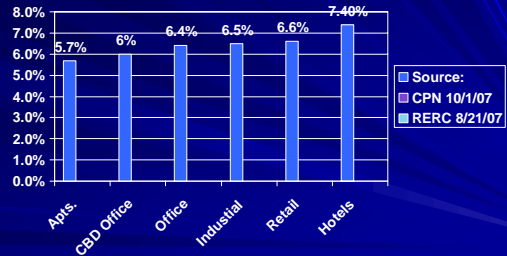
REAL ESTATE OWNED

- 1999: 8.3 YEARS
- 2000: 7.7 YEARS
- 2001: 8.5 YEARS
- 2002: 8.6 YEARS
- 2003: 8.5 YEARS
- 2004: 8.0 YEARS
- 2005: 3.7 YEARS
- 2007: 10 MONTHS
- 2008: 10-20 YEARS ?



Source: RERC W02.F03.W05.M&G1/07; David Provost BP 9/07; Glenn Mueller, PhD, 10/07

WEIGHTED AVERAGE US CAP RATES 2nd Q '07



CAP RATE CONCLUSION: '07

- Many believe that August, 2007 was the peak
- Expect caps to rise and values to drop; maybe by 50 BP
- Aver. Going-in return decreased to 5.48%

CAP RATE '07 CONCLUSION

- Aug. 2007: Lenders increased conduit mortgage by 85 BP



- Debt now at 200 BP (2%) over 10 Yr. T-Note

2007 SALES

THE TALE OF TWO CITIES: NORTH VS. THE SOUTH



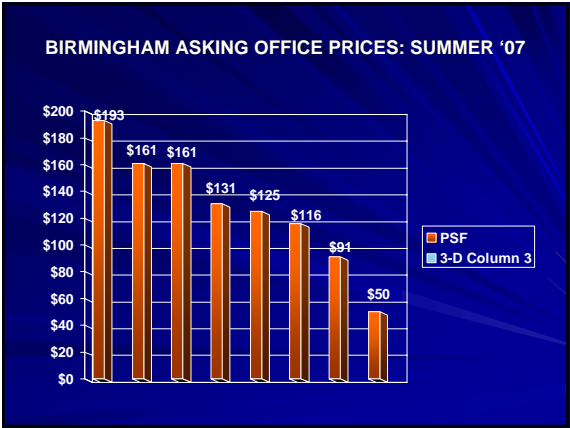

Lincoln

Birmingham Asking '07 Cap Rates: Office Samples

Source: LoopNet	Cap	Price PSf		
Vestavia Medical	7.00%	\$ 193		
Old Springville	NA	\$ 161		
502 Bldg	7.74%	\$ 161		
French Colonial	NA	\$ 131		
3 rd Avenue	NA	\$ 125		
Pelham	8.3%	\$ 116		

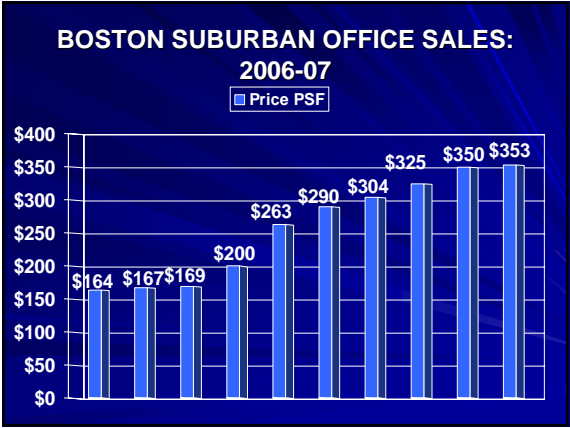
Birmingham Asking '07 Cap Rates: Office Samples

Source: LoopNet	Cap	Price PSf		
Saks	NA	\$ 91		
Litcher/Jaymark	NA	\$ 50		



Boston Suburban Office Sales

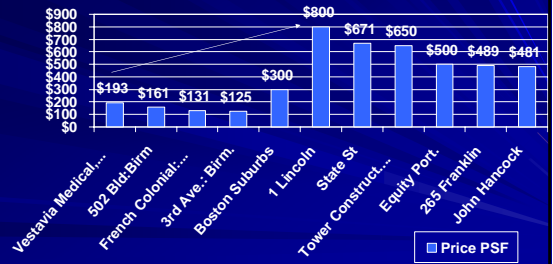
Class A Buildings	Date	TOT. SF	\$ PSF
174 Middlesex, Burl.	Dec. '05		\$290
Campus Dr, Marlboro	Sept.'06		\$251
5/15 Wayside, Burl.	Dec. '06		\$304
4 Van de Graff, Burl.	1 Q '07	93,519	\$353
Sunmicrosystems, Bedford	June '07	805,774	\$263
Batterymarch Park	July'07	104,718	\$167
1400 Computer Dr, Westboro	July '07	79,754	\$164
281 Winter St, Waltham	Aug. '07	67,743	\$200
Westboro Office Park	Sept.'07	374,711	\$169



Boston CBD Office '07

Class A Buildings	Date	TOT. SF	\$ PSF
Two Oliver, Boston	July '07	220,672	\$278
Seaport District/Farnsworth St., Boston	Summer '07	381,000	\$316
2 Liberty Sq. Boston	July '07	65,768	\$350

BIRMINGHAM ASKING v. BOSTON CBD RECENT SALES: 2006-07



Birmingham Asking '07 Cap Rates: Sample Industrial

Source: LoopNet	Cap Rates	Price PSF			
H&H	NA	\$ 42			
Cook	NA	\$ 59			
Boston Subs.		\$70-90			

Boston/Birmingham Flex/Industrial '07 Sales



CONCLUSION

- Areas of U.S. have less expensive real estate
- Can rents remain on the increase? Blackstone is betting "yes" **FOR RENT**
- Some markets are resisting rent increases

THE INTERNATIONAL INFLUENCE



FOR. BOUGHT/US OWNED REAL ESTATE

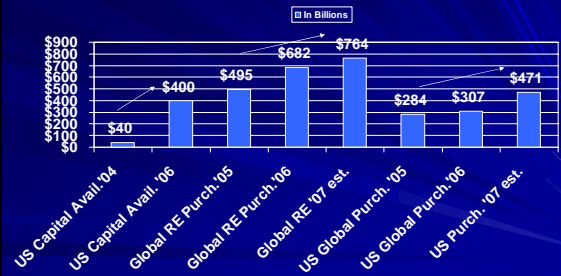
- Global Purchases '03 = \$ 354 BILLION
- Global Purchases '04 = \$ 393 BILLION
- Global Purchases '05 = \$ 495 BILLION
- Global Purchases '06 = \$ 682 BILLION
- Global Purchases 7/1/07 = \$ 382 BILLION or \$ 764 Bill. Annualized

- US 2005: = \$ 284 BILLION
- US 2006: = \$ 307 BILLION
- US 2007 5/07: = \$ 157 BILLION or \$ 471 Bill. Annualized



Source: Realtor Commercial Alliance 20 '07; CRE Convention 4/07; CPN 10/16/07

LIQUIDITY AND REAL ESTATE



DEMAND DRIVERS

- YOU PAY MORE IN EUROPE PSF; GLOBAL CAP RATES ARE MORE SEVERE
- US REAL ESTATE PRICE IS STILL CHEAP COMPARED TO OTHER GLOBAL PROPERTIES
- DROP OF US \$ HELPS



Source: Sam Zell/Hugh Kelly '05 CRE Chicago

DEMAND DRIVERS

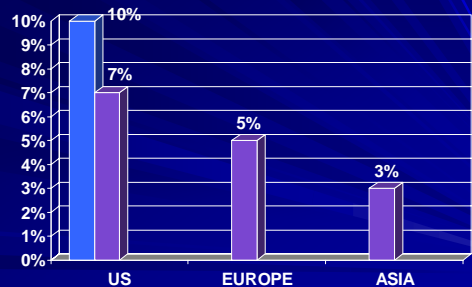
- Reproduction Cost (with tenants) is still higher than existing building purchase price
- Real Estate is now recognized as a 4th asset class
- In general, more \$ is being allocated and invested into real estate both in U.S. and abroad



REAL ESTATE CAP RATES

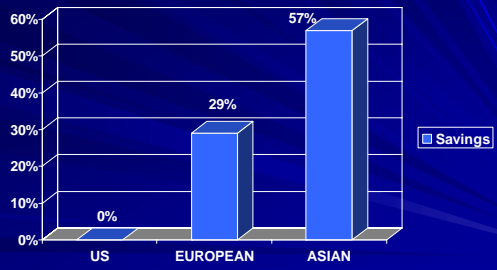
Source: Glenn Mueller, PHD	US	EUROPE	ASIA
HISTORICALLY	6-10%		
2007	7%	5-8%	3-6%
FOREIGN SAVINGS	At a 7% Cap rate	29%	57%

CAP RATES



Historically 2007 Source: Glenn Mueller

FOREIGN INVESTOR'S SAVINGS



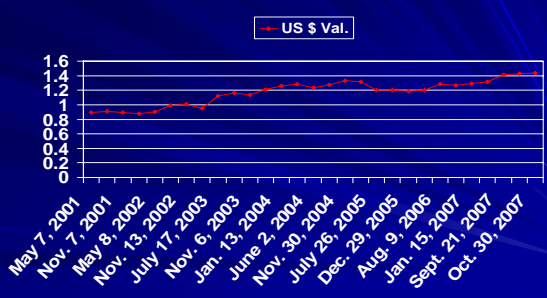
DEMAND DRIVERS: CURRENCY EXCHANGE VALUE

■ SAVINGS ON CAP RATES

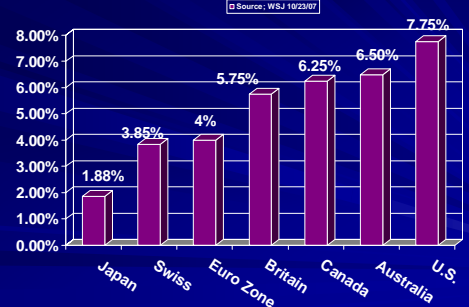


■ LET'S REVIEW EURO DOLLAR V. US DOLLAR AND PRIME RATE

EURO DOLLAR VALUE



COST OF BORROWING: PRIME RATE Oct. 30, 2007



CONCLUSION

- EUROPEANS SAVE 48% OVER U.S. PRIME RATE
- JAPANESE SAVE 76% OVER U.S. PRIME RATE



CONCLUSION

- EURO DOLLAR WORTH 44% MORE
- SAVE 29-57% ON CAP RATES
- SAVE 48-76% ON BORROWING COSTS
- IT'S A DISCOUNT TO BUY IN THE U.S. !



GLOBAL COMMERCIAL RE INVESTMENTS

- 2006 US PORTION: 34%
- 2006 Americas: 39%
- 2006 Europe: 37%
- 2006 Asia-Pacific: 21%



■ \$ 5.00 was chasing \$1.00 of avail. RE globally

Source: Global RE Monitor 4/1/07, CRE Connection 437

COUNTRIES TO INVEST BY FOREIGNERS

- US = #1
- UK = #2
- GERMANY = #3
- JAPAN = #4
- FRANCE = #5



Source: Com Prop. News 5/1/06

TOP CITIES BY FOREIGN INVESTORS '06

1. LONDON
2. NEW YORK CITY
3. PARIS
4. WASHINGTON DC
5. TOKYO



Source: WallStJournal1/24/07

TOP US CITIES BY FOREIGN INVESTORS '06

1. New York City
2. Washington, DC
3. Los Angeles
4. Chicago
5. Boston



Source: NAR Commercial Alliance 2Q '07

TOP US CITIES BY FOREIGN INVESTORS

2006	2005
1. NEW YORK CITY	1. NEW YORK CITY
2. WASHINGTON DC	2. WASHINGTON DC
3. LOS ANGELES	3. LOS ANGELES
4. CHICAGO	4. CHICAGO
5. BOSTON	5. DALLAS

LESS VOLATILE MARKETS THAT ARE INVESTED

- WASHINGTON, DC
- BOSTON
- NYC



Source: CPN 3/1/07

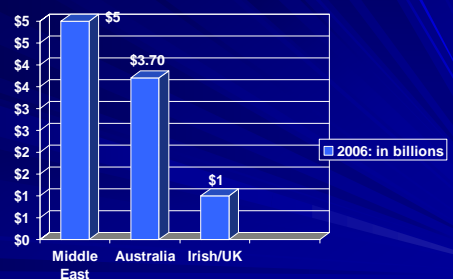
2006 FOREIGN RE INVESTORS IN THE U.S.

- **TOP INVESTORS:**
March, 2006
 - Australia
 - Germany
 - Canada
 - Middle East
 - Israel
 - Ireland
- All 2006
- * Middle East
 - * Australia
 - * Pacific Rim
 - * Canada
 - * Germany
 - * Europe



Source: Wall St. Journal 3/15/06; CPN

2006 US RE ACQUIRED



TOP US PROPERTY TYPES BY FOREIGN INVESTORS '06

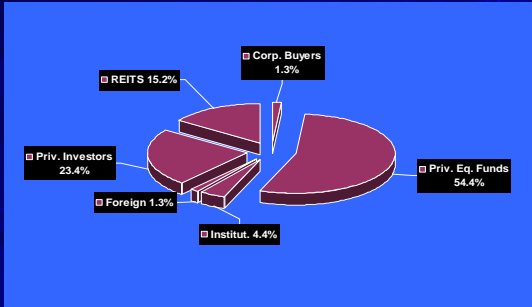
1. OFFICES
2. MULTI-FAMILY
3. HOTELS
4. INDUSTRIAL
5. RETAIL



Source: WallStJournal1/24/07

WHO ARE THE 2007 OFFICE INVESTORS?

Source: Real Capital Analytics



CONCLUSION: For the Foreign RE Investor

- U.S. IS A STABLE, SAFE AND GROWING MARKET
- U.S. HAS LARGEST ECONOMY: GDP 3.9%
- U.S. \$ IS CHEAP, CAP RATES ARE REASONABLE AND GLOBAL PRIME RATE IS CHEAP
- ADD IT ALL UP: WINDFALL FOR THE FOREIGN INVESTOR !!!!



HAPPINESS DEFINED:

- EXPECTATION = REALITY
- OR
- REALITY IS GREATER THAN EXPECTATION



THANK YOU !
SIOR

