

2008 Outlook for Commercial Real Estate and Real Estate Securities Markets

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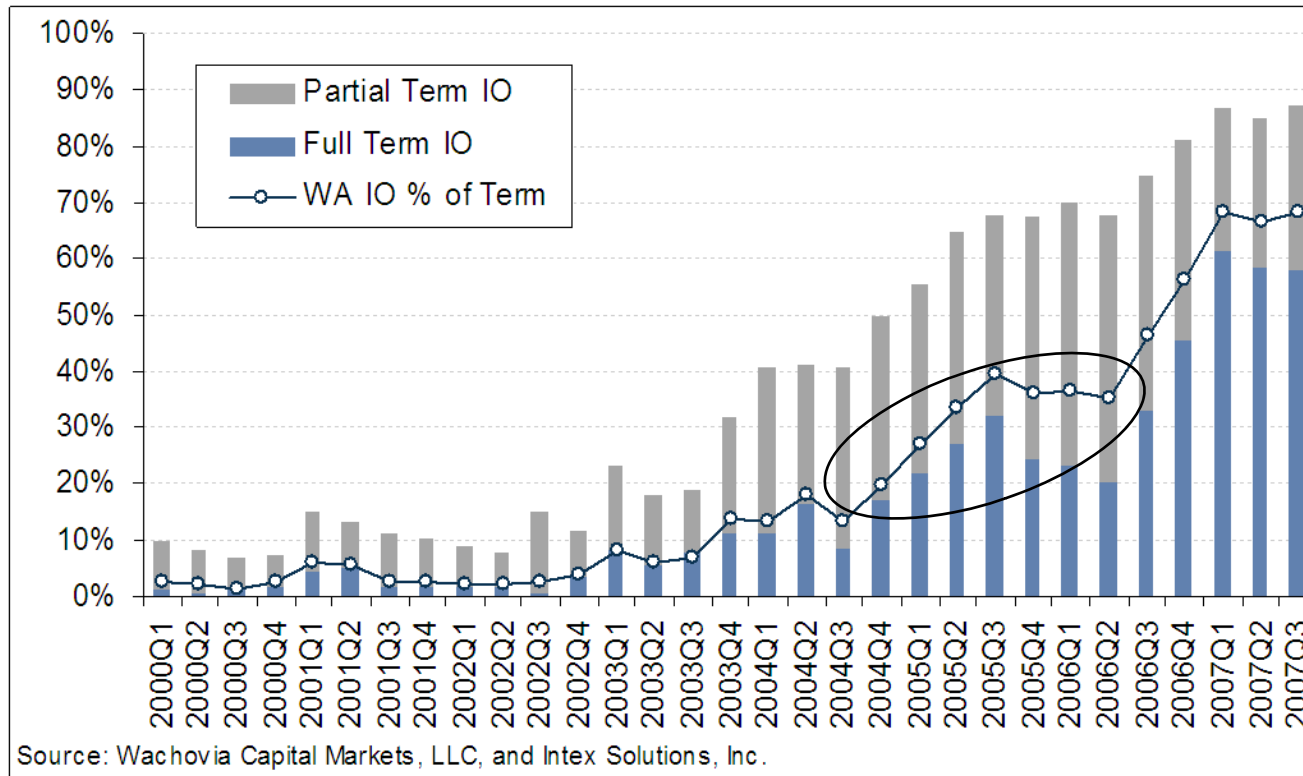
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Underwriting in 2008

Some Expected Underwriting Changes:

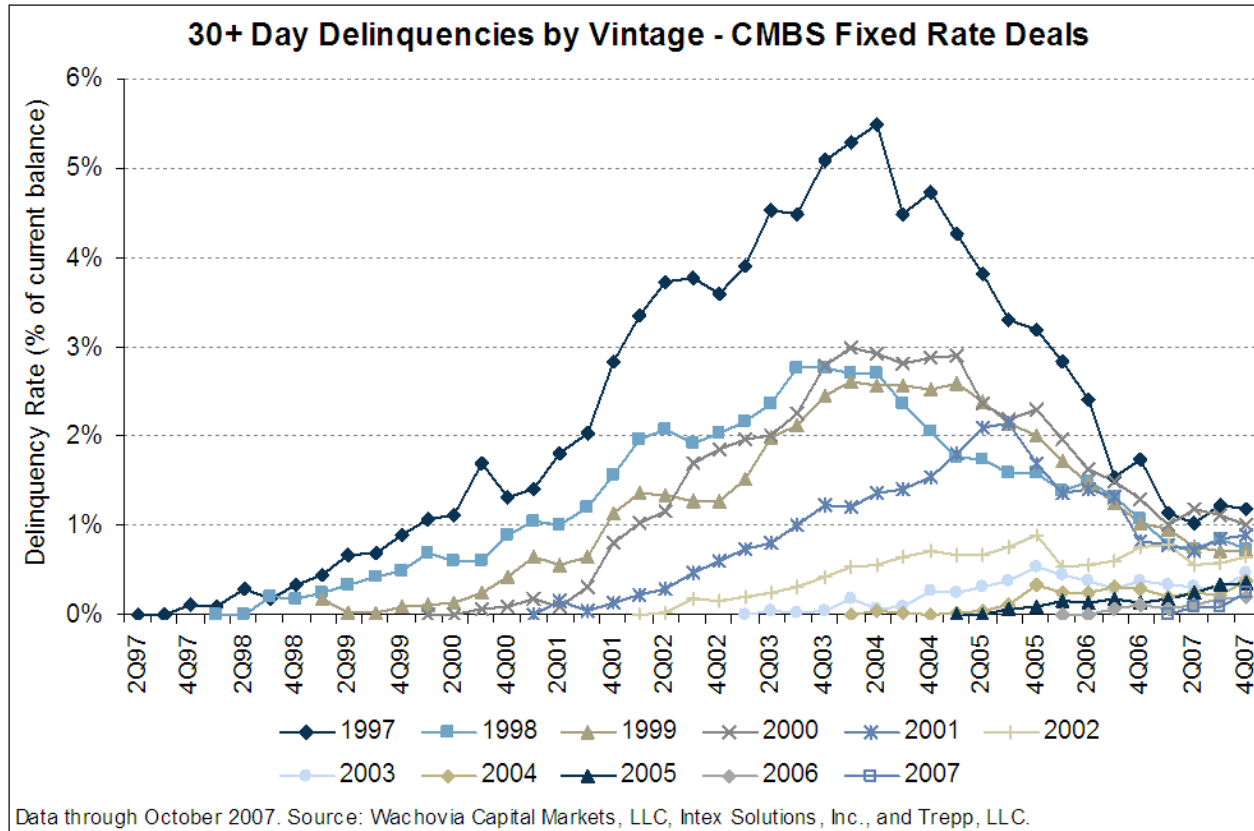
- “Back to the basics”
 - No master leases
 - No pro forma rents
 - Limited Full-term IO and Partial IO (1-3 years)
 - No waiving of escrows, etc.
 - In-place cash flow likely to be the rule.
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- The origination process gets started again when there’s some feeling of confidence re execution on the back end.

CMBS Fixed-Rate Collateral IO Periods

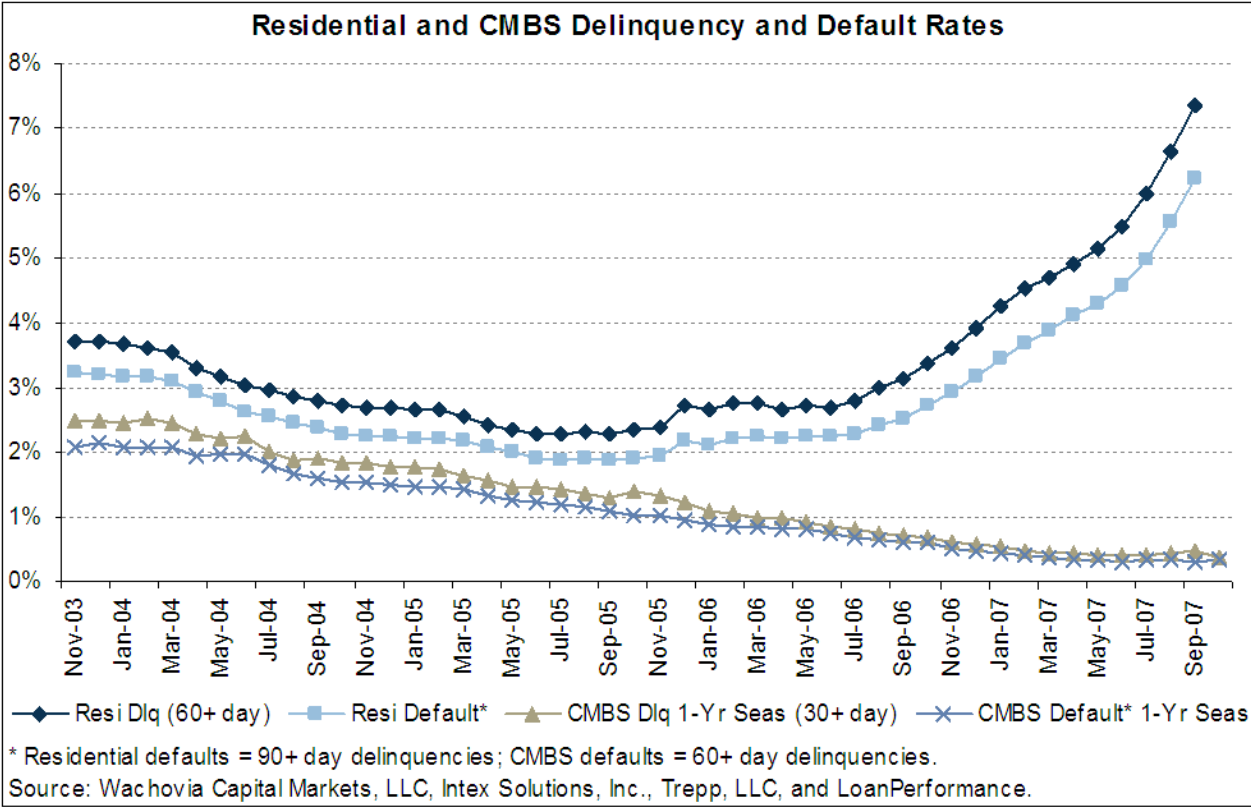


IO period as a percentage of the loan term has remained high, though it is expected to drop precipitously—perhaps to 2004–2005 levels.

CMBS Delinquencies



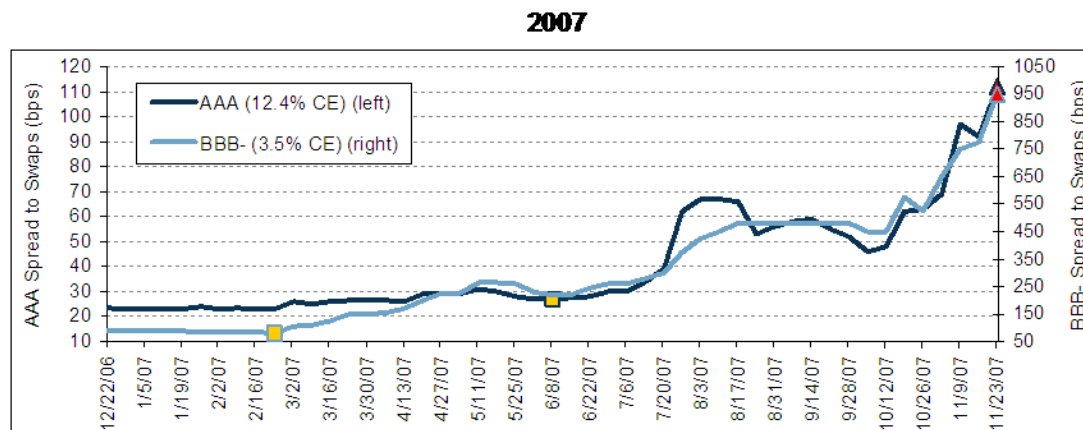
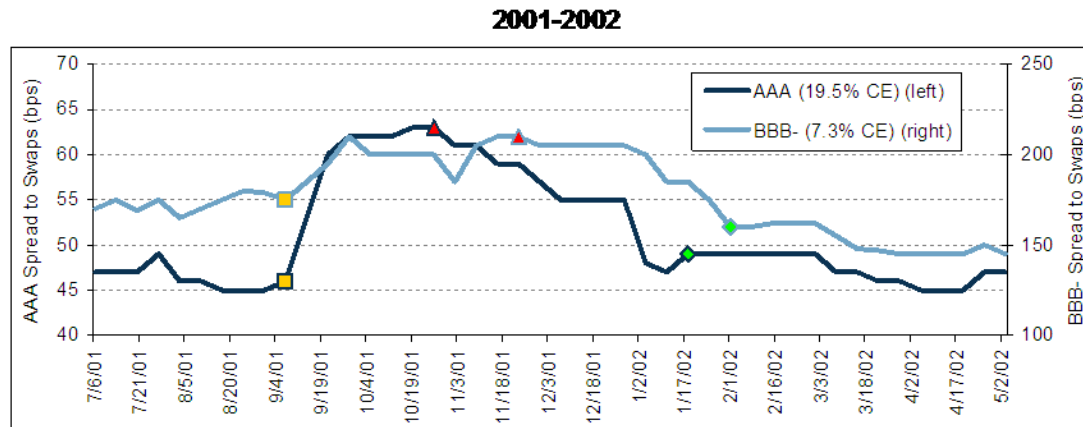
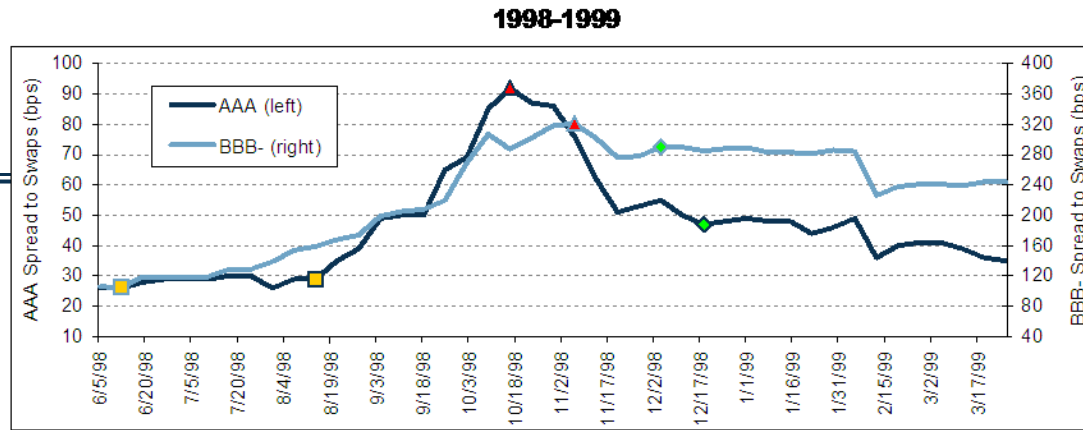
Favorable Returns and Mortgage Performance



- CMBS credit has dramatically outperformed U.S. residential MBS/ABS credit.
- That said, CMBS delinquencies have no where to go but up given their low levels.



Past Spread Events



Prior periods of volatility may not be a good indicator for how current events may play out.

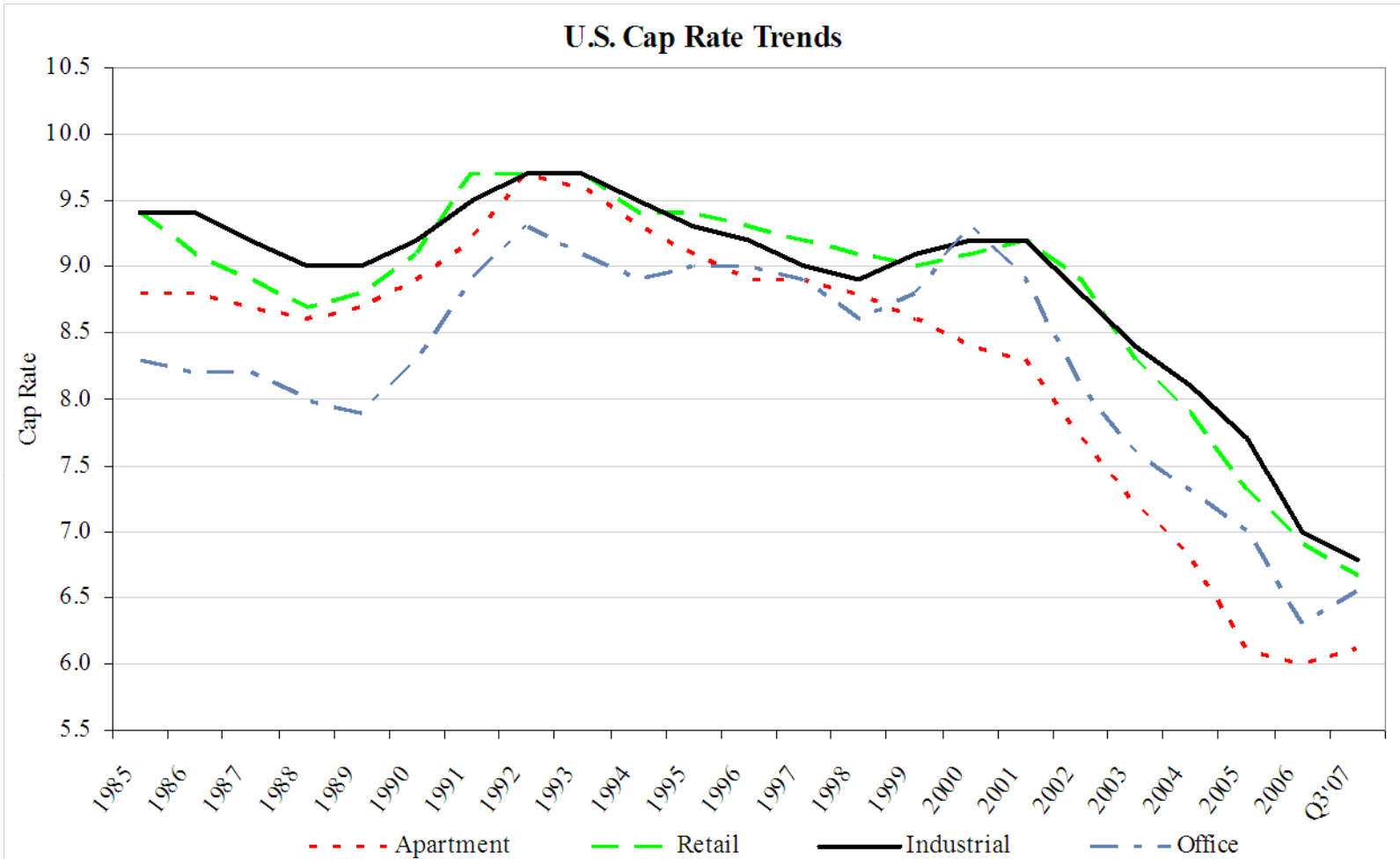
Source: Wachovia Capital Markets, LLC and Bloomberg.



Oversupply of Multifamily and Retail?

- **Multifamily** – Inventories had been reduced due to condo conversions; however, we are seeing more repartments taking place.
- Home owners who cannot sell their homes/condos have turned to renting. This “shadow supply” is competing against traditional rental apartment inventory.
- Markets with headwinds include the major Florida metros, Phoenix and Las Vegas. Detroit and Hartford have issues because of poor demographic and job trends.
- **Retail** – Poor demographic trends resulting in declining sales tax receipts can prompt local officials to offer tax credits to developers to build more retail (not because market conditions dictate).
- Local officials think new retail will increase sales tax receipts, but the resulting development ends up exacerbating an already-bad situation. (Detroit and metros in Ohio)
- Other retail markets at risk for oversupply include Pittsburgh, Miami, Orlando, Central N.J., Phoenix and Milwaukee.

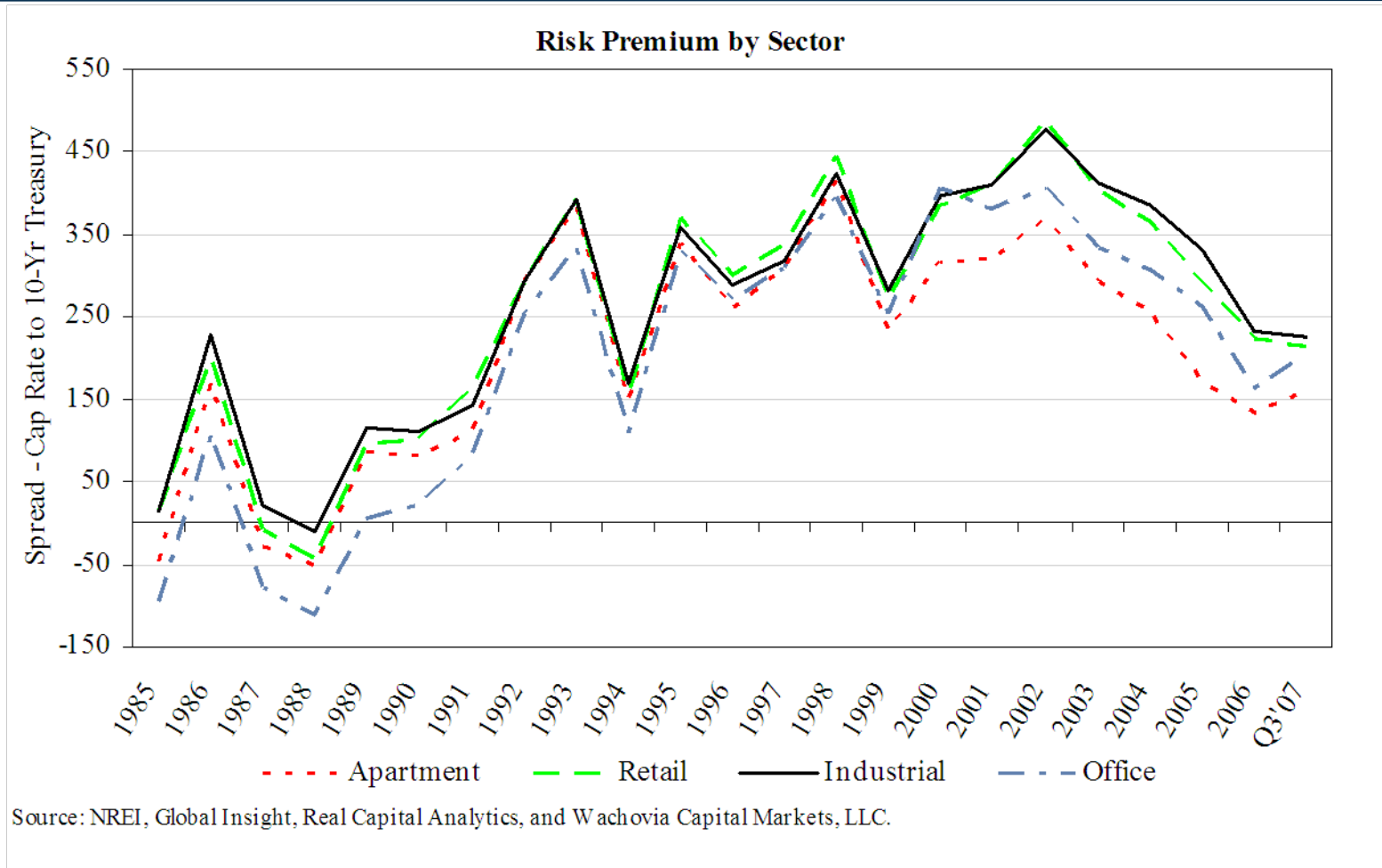
Cap Rates Headed Higher



Source: NREI, RCA, Wachovia Capital Markets, LLC.



Cap Rates Headed Higher



- The rise in cap rates may be offset by the decline in the 10-year Treasury yield.
- Given the current conditions in the credit markets, we expect upward pressure on cap rates.

REIT-Implied Changes in Values and Cap Rates (from 2007 Peak)

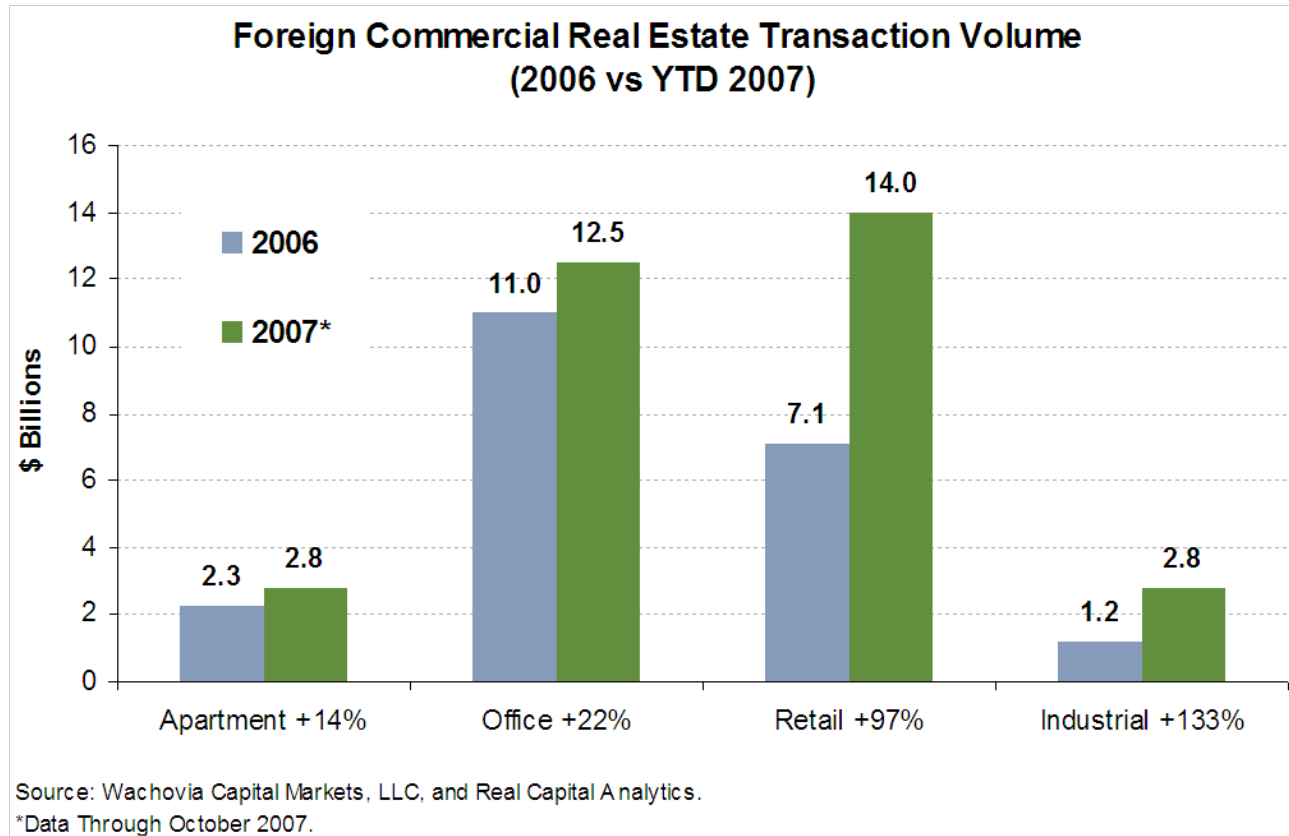
Sector	52	52	11/26/2007 Current	% Change In Equity Value			Assumed Sector Ave. Leverage	Implied Change In Prop. Value	Estimated Peak Cap Rate	Implied Forecasted Cap Rate	Forecast Change In Fwd Cap Rates
	Week High	Week Low		Peak to Trough	Trough To Current	Peak to Current					
Equity REITs	295.8	202.4	202.5	(32%)	0%	(32%)	50%	(16%)	5.91%	6.80%	89 bps
Large Cap	345.3	235.5	235.6	(32%)	0%	(32%)	50%	(16%)	5.25%	6.08%	83 bps
Small Cap	209.6	154.0	154.3	(27%)	0%	(26%)	50%	(13%)	6.50%	7.36%	86 bps
Retail	610.4	425.9	426.5	(30%)	0%	(30%)	50%	(15%)	6.00%	6.90%	90 bps
- Shopping Centers	337.9	243.2	243.6	(28%)	0%	(28%)	50%	(14%)	5.75%	6.55%	80 bps
- Malls	505.9	342.9	343.4	(32%)	0%	(32%)	60%	(13%)	5.75%	6.49%	74 bps
Office	471.9	303.8	303.9	(36%)	0%	(36%)	50%	(18%)	4.75%	5.60%	85 bps
Multifamily	561.0	366.4	366.4	(35%)	0%	(35%)	50%	(17%)	4.75%	5.57%	82 bps
Warehouse	519.0	376.7	435.6	(27%)	16%	(16%)	50%	(8%)	6.25%	6.75%	50 bps
Hotels	147.0	100.3	100.4	(32%)	0%	(32%)	55%	(14%)	7.50%	8.57%	107 bps
Self-Storage	568.5	335.5	345.3	(41%)	3%	(39%)	50%	(20%)	6.50%	7.78%	128 bps
Diversified	251.8	160.0	160.2	(36%)	0%	(36%)	50%	(18%)	6.00%	7.09%	109 bps
Avg.	420.4	278.6	287.3	(33%)	2%	(32%)		(15%)	5.91%	6.80%	68 bps

Source: Bloomberg, Wachovia Capital Markets, LLC estimates

Few considerations:

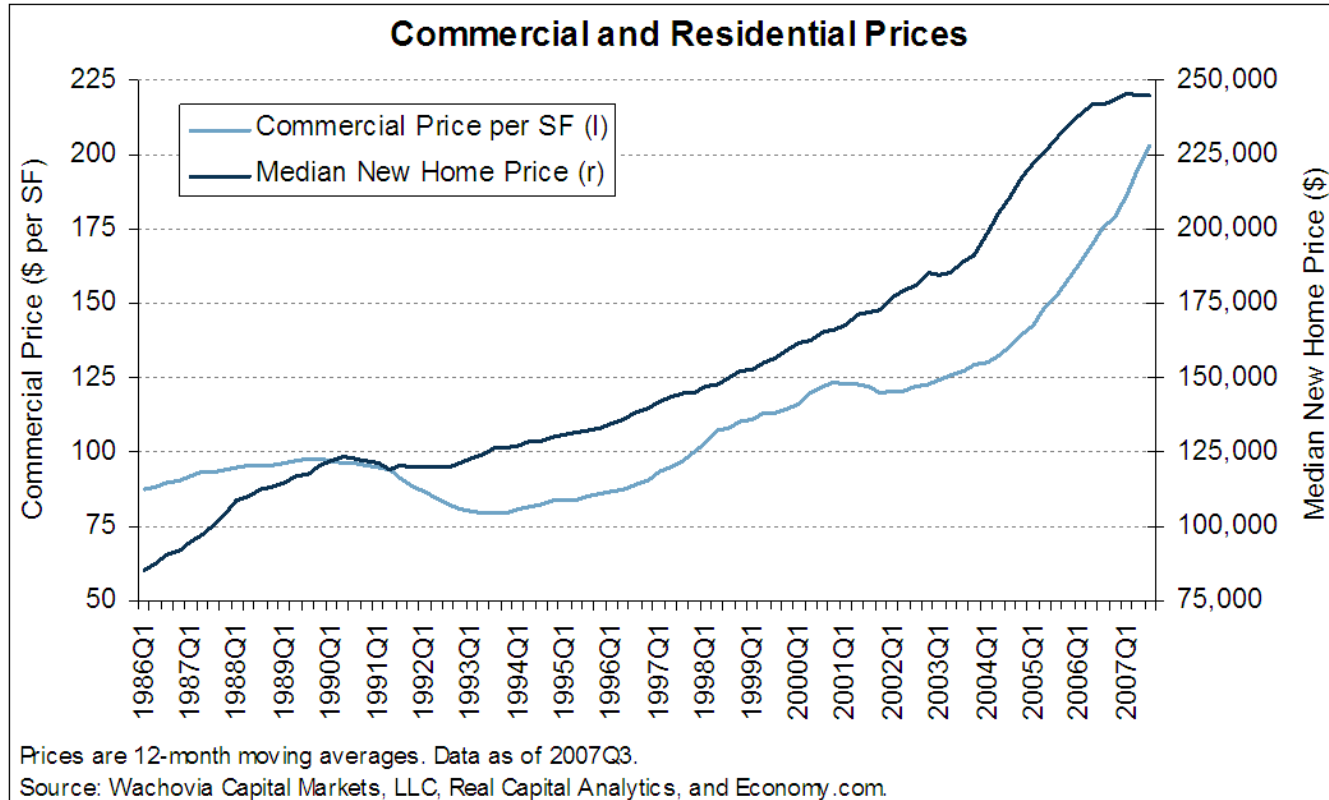
- 1) Peak values in multifamily, office and hotels were likely skewed high by consolidation rumors and activity in early-2007
- 2) Self-storage is largely driven by Public Storage. Public Storage acknowledged the timeline and cost of integrating Shurgard was behind plan. Peers have overestimated growth in 2007, therefore much of the movement in the self-storage sector is driven by downward estimate revisions.

Weak Dollar Providing Some Backstop



- The weak dollar is making property assets in U.S. look quite attractive to overseas investors. Foreign investment activity is likely to increase in the coming months.
- Generally, foreigners prefer to invest in the office and retail sectors.

Residential versus Commercial Markets



Disclosure Appendix

Additional information is available on request.

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