



**MBA's COMMERCIAL REAL ESTATE FINANCE/
MULTIFAMILY HOUSING CONVENTION & EXPO**
Manchester Grand Hyatt, San Diego, Calif.

Office Market Overview

Presented To:

MBA CREF/Multifamily Conference

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CBRE/Torto Wheaton Research

February 10, 2009

Office Market Outlook



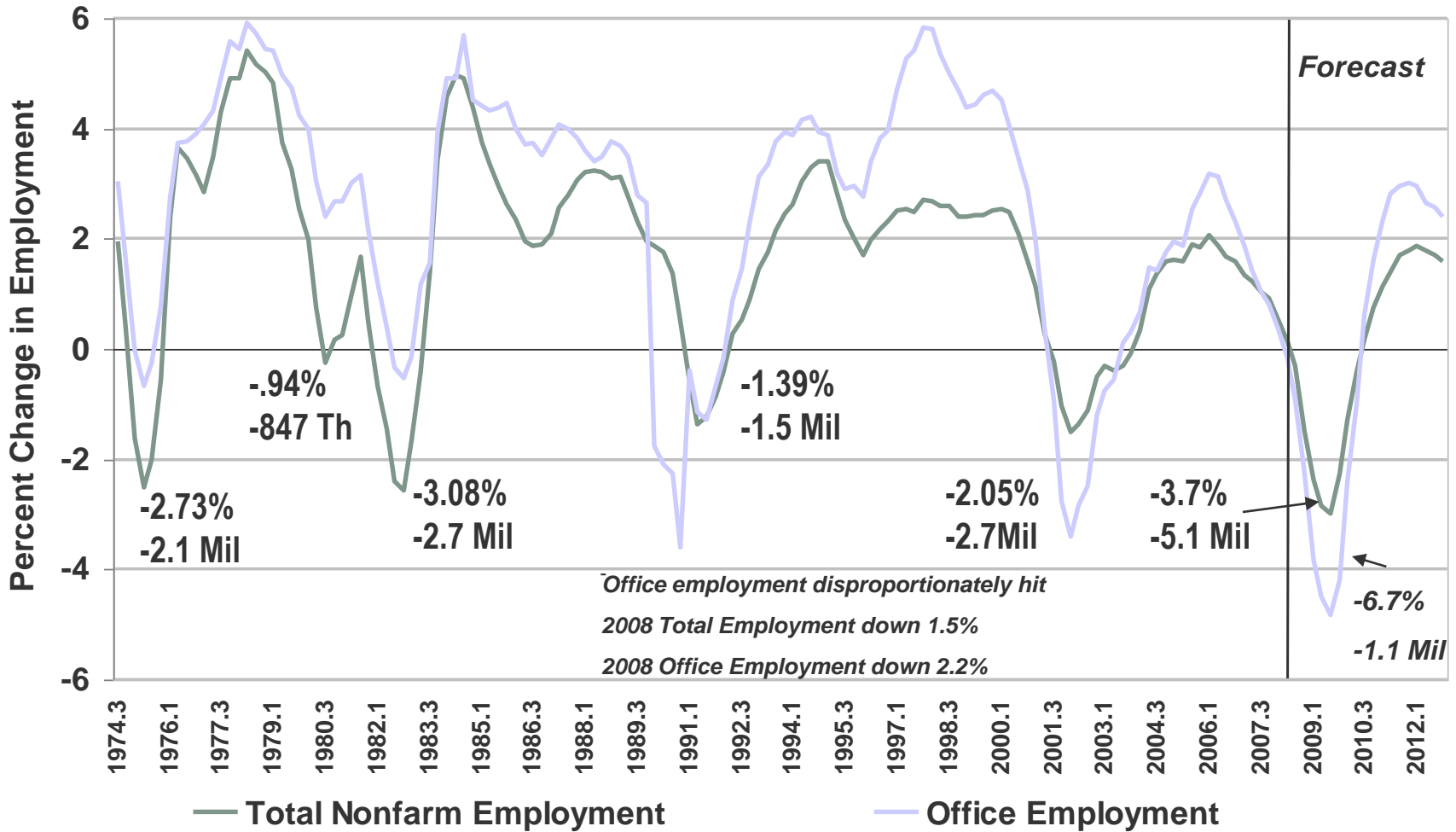
- Key Points:

- Downturn becoming widespread geographically
- Markets with financial and housing exposure suffer more
- CBD office fortunes reverse
- Credit crunch slowing development pipeline, supports recovery after 2011.

- Underwriting Challenges:

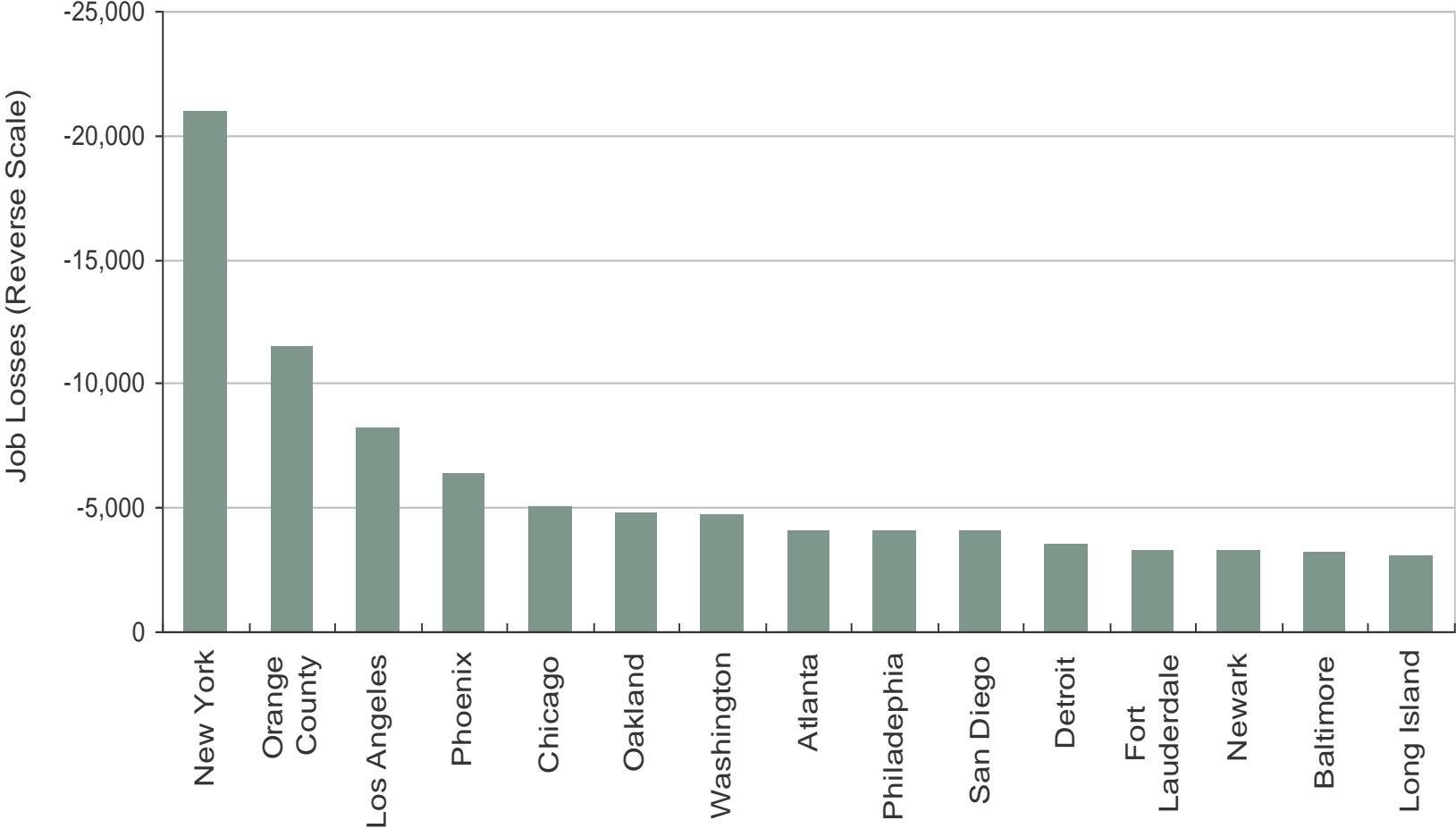
- Weaker fundamentals: rent-roll downs, appropriate vacancy assumptions, and rising cap rates.
- Values could decline 30%+, as institutional cap rates rise above 8%

US Job Losses In Previous Cycles vs. TWR Forecast



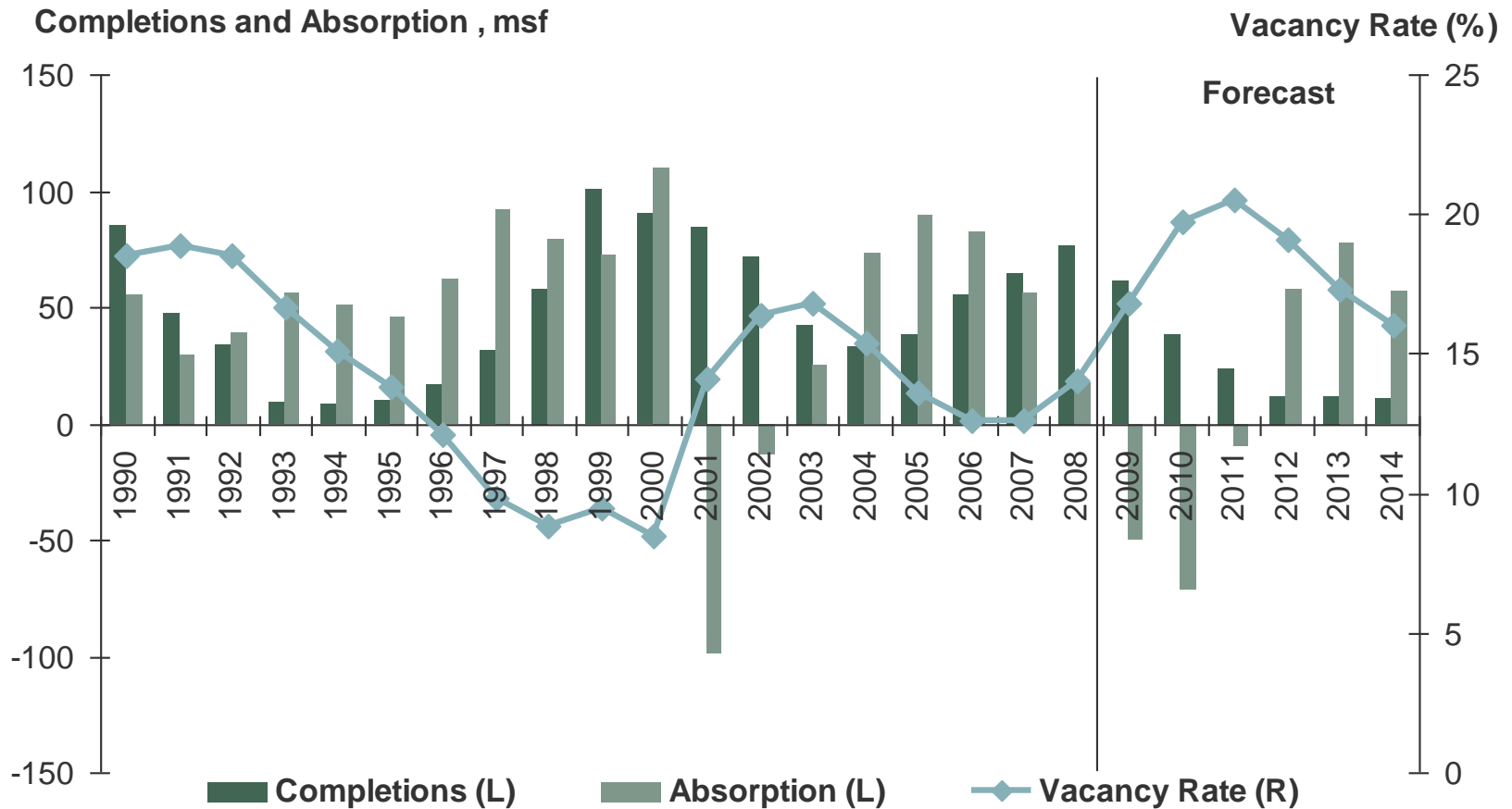
Job Losses Mount in Financial Services

Top 15 Markets For Financial Job Losses, Last 12 Months



Sources: TWR Office Outlook XL, Winter 2009.

How Bad Can it Get: Demand-Side Woes Influence Office Outlook

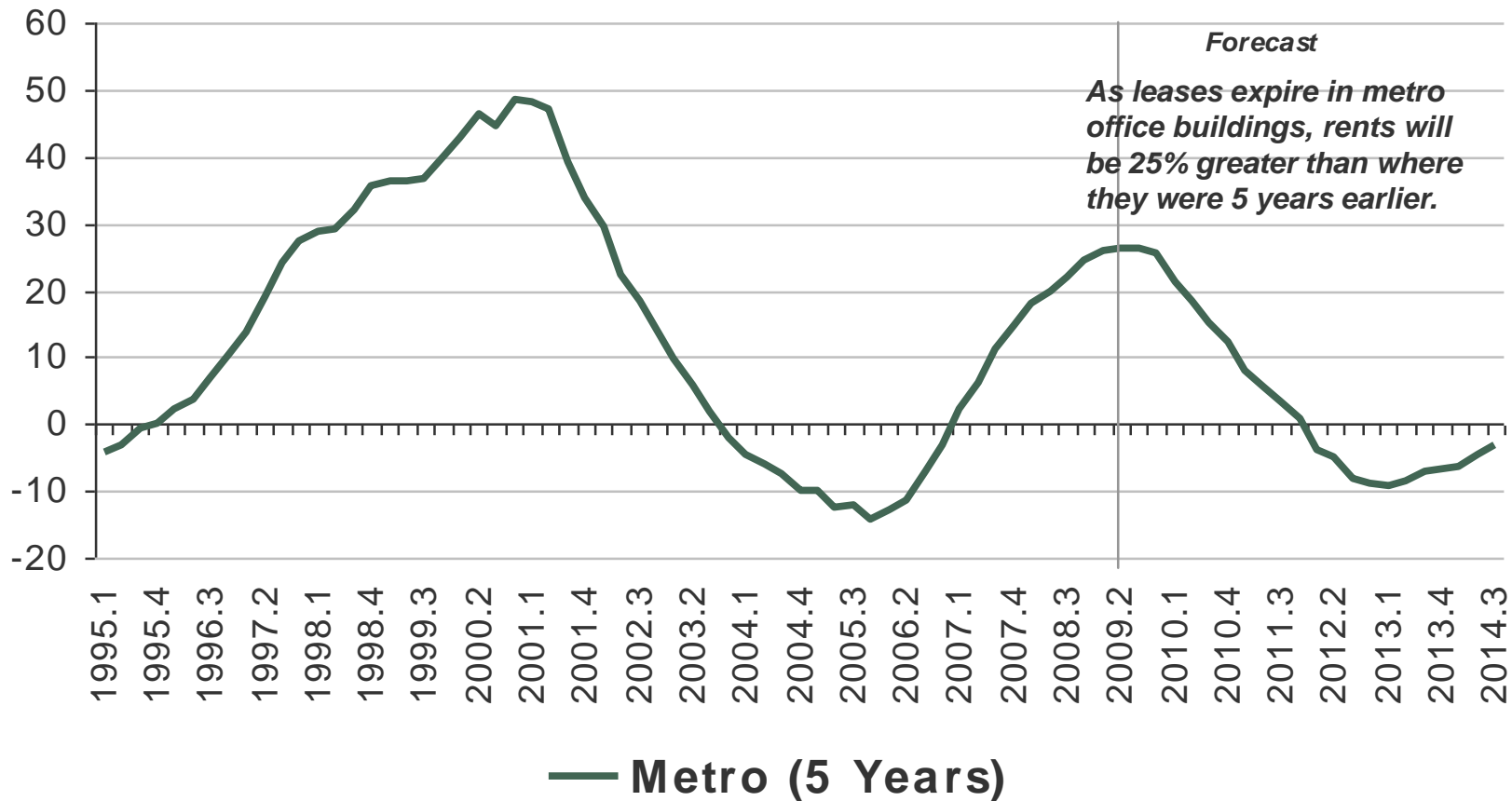


Source: TWR Office Outlook XL, Spring 2009

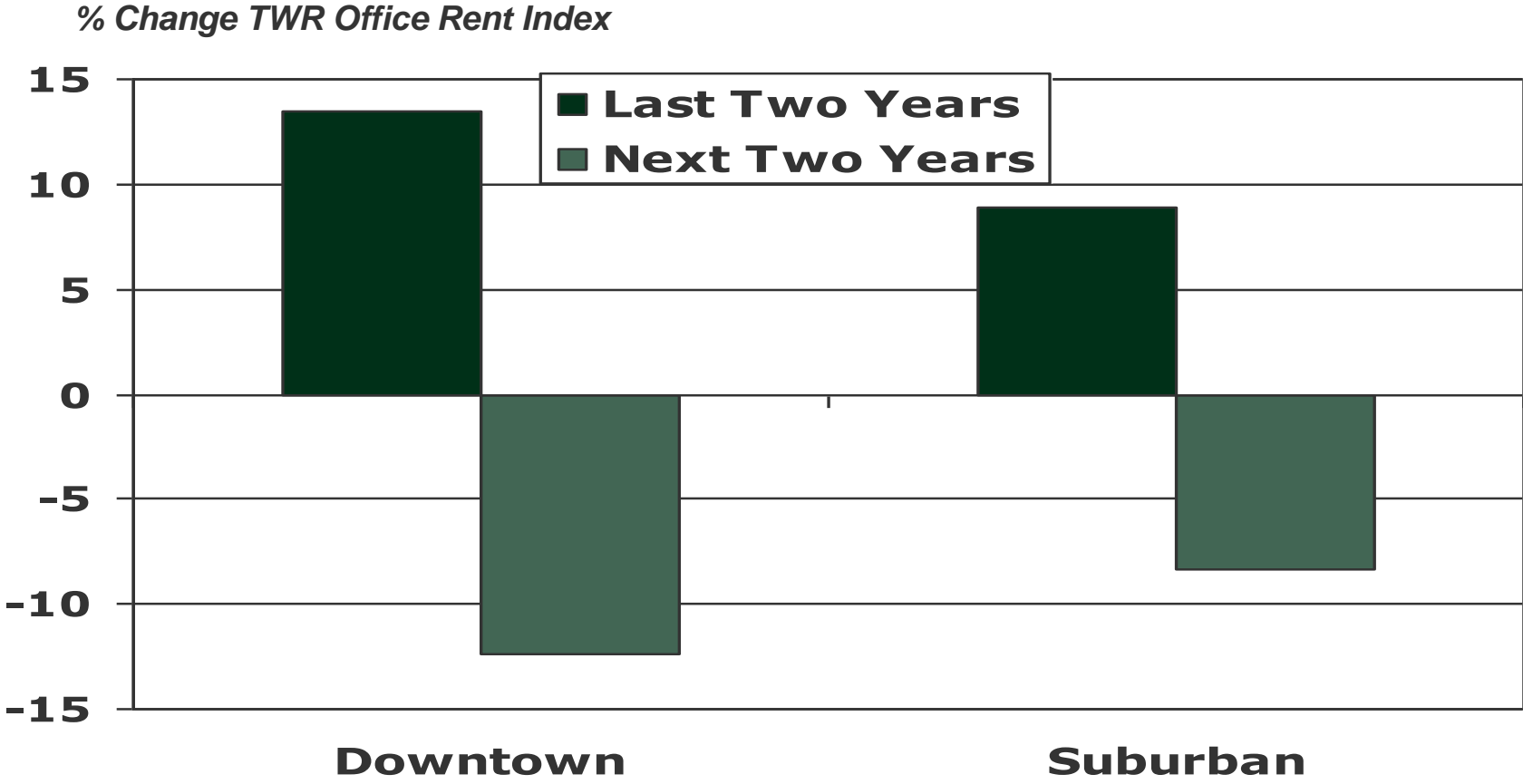
Lease Rollover Potential Will Diminish Rapidly



Office Rent Rollover Potential, % Gain



Downtown Rent Gains Begin to Reverse Faster...

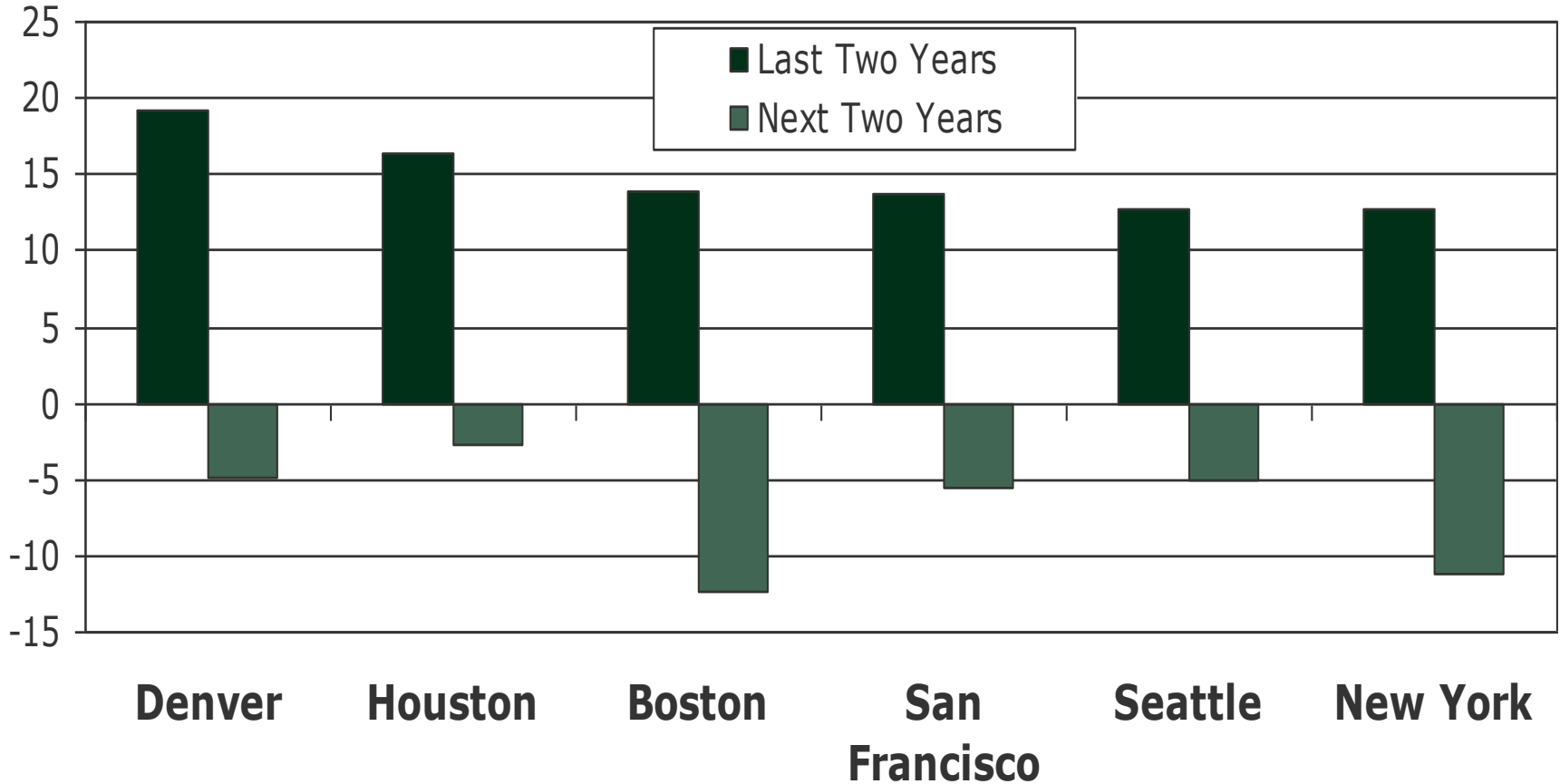


Source: TWR Office Outlook XL, Spring 2009

Reversing Fortunes: Top CBD Performers Have Sub-Par Outlook

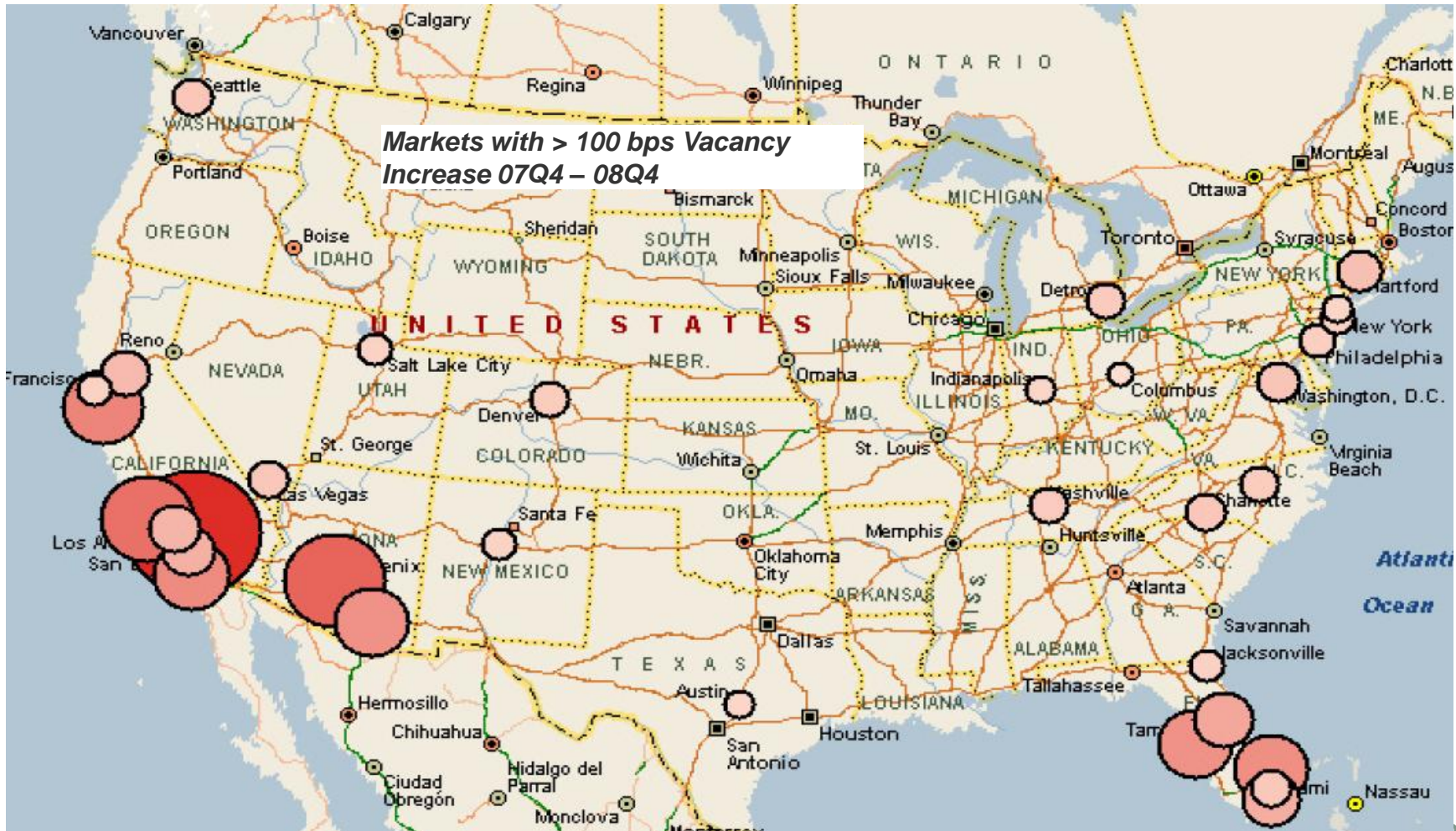


% Change TWR Office Rent Index



Source: TWR Office Outlook XL, Spring 2009

Regionally, Vacancy Increases Becoming More Widespread...



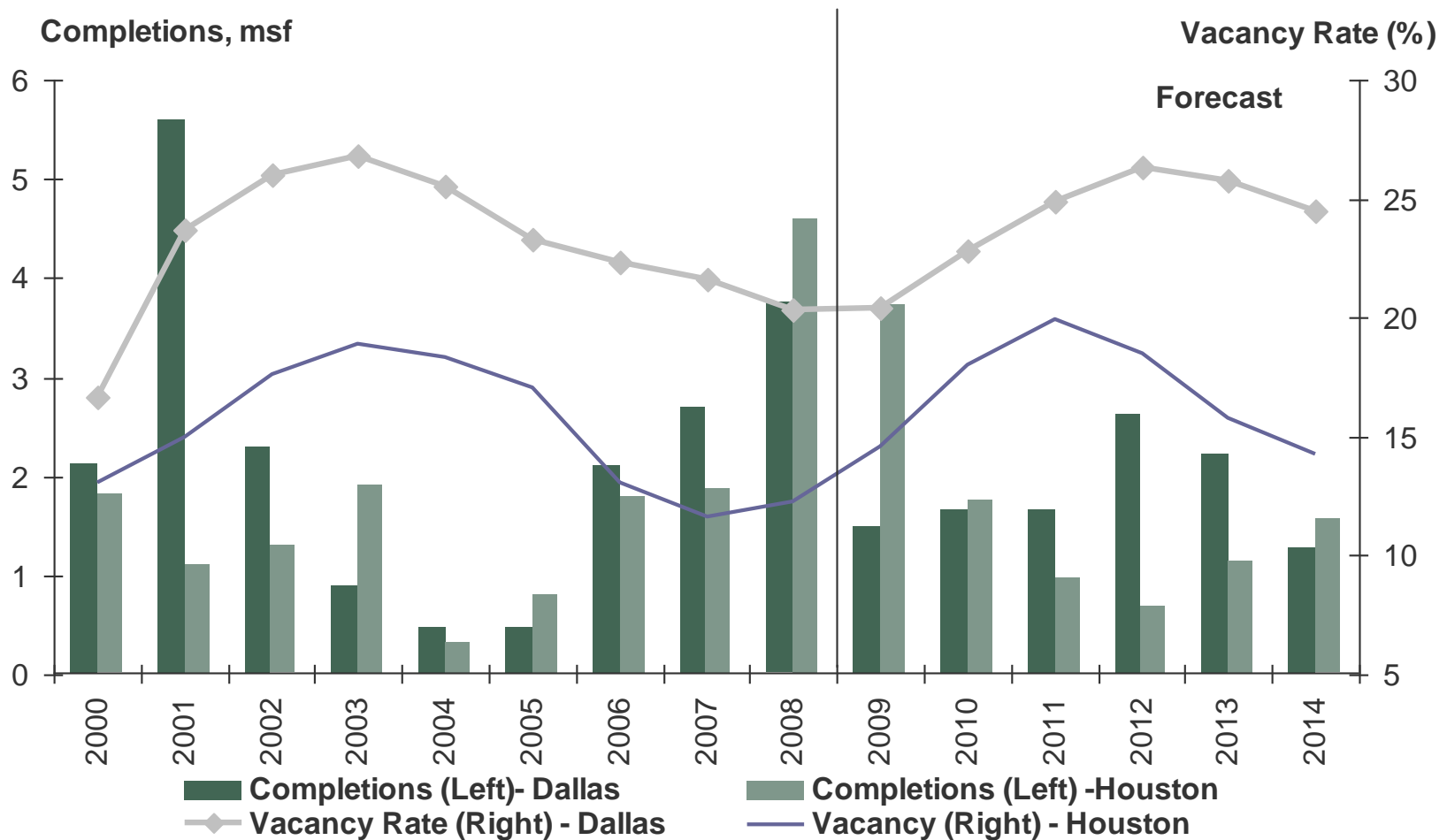
Source: TWR Mapmatics, Spring 2009

Strong Performing Major Office Markets



| | Vacancy (%) 2007.4 | Vacancy (%) 2008.4 | Absorption Rate (%) 2007.4-2008.4 |
|------------|--------------------|--------------------|--------------------------------------|
| Dallas | 21.9 | 20.3 | 4.17 |
| Pittsburgh | 14.9 | 11.9 | 3.67 |
| Baltimore | 13.4 | 13.9 | 3.07 |
| Houston | 11.6 | 12.2 | 2.24 |
| Oakland | 16 | 14.7 | 1.83 |

Construction in Houston Will Drive Vacancies Higher



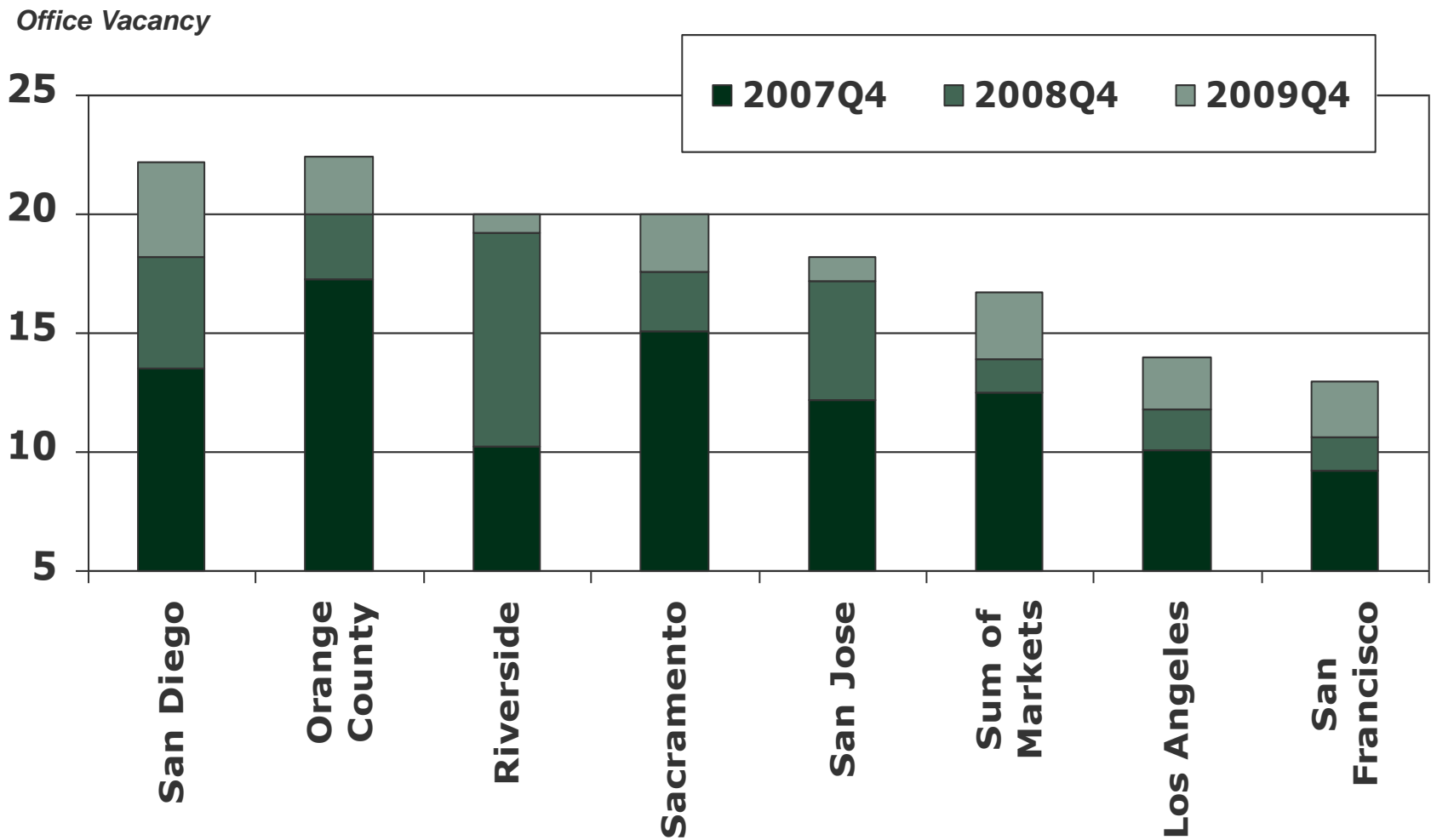
Source: TWR Office Outlook XL, Spring 2009

Weak Performing Major Office Markets



| | Vacancy (%) 2007.4 | Vacancy (%) 2008.4 | Absorption Rate (%) 2007.4-2008.4 |
|---------------|--------------------|--------------------|--------------------------------------|
| Los Angeles | 10.1 | 12.8 | -2.24 |
| San Diego | 13.5 | 18.2 | -2.18 |
| Detroit | 20.4 | 22.1 | -1.71 |
| Orange County | 14.4 | 17.3 | -1.66 |
| Denver | 14.7 | 16.3 | -.02 |

Vacancy Rises in California Markets



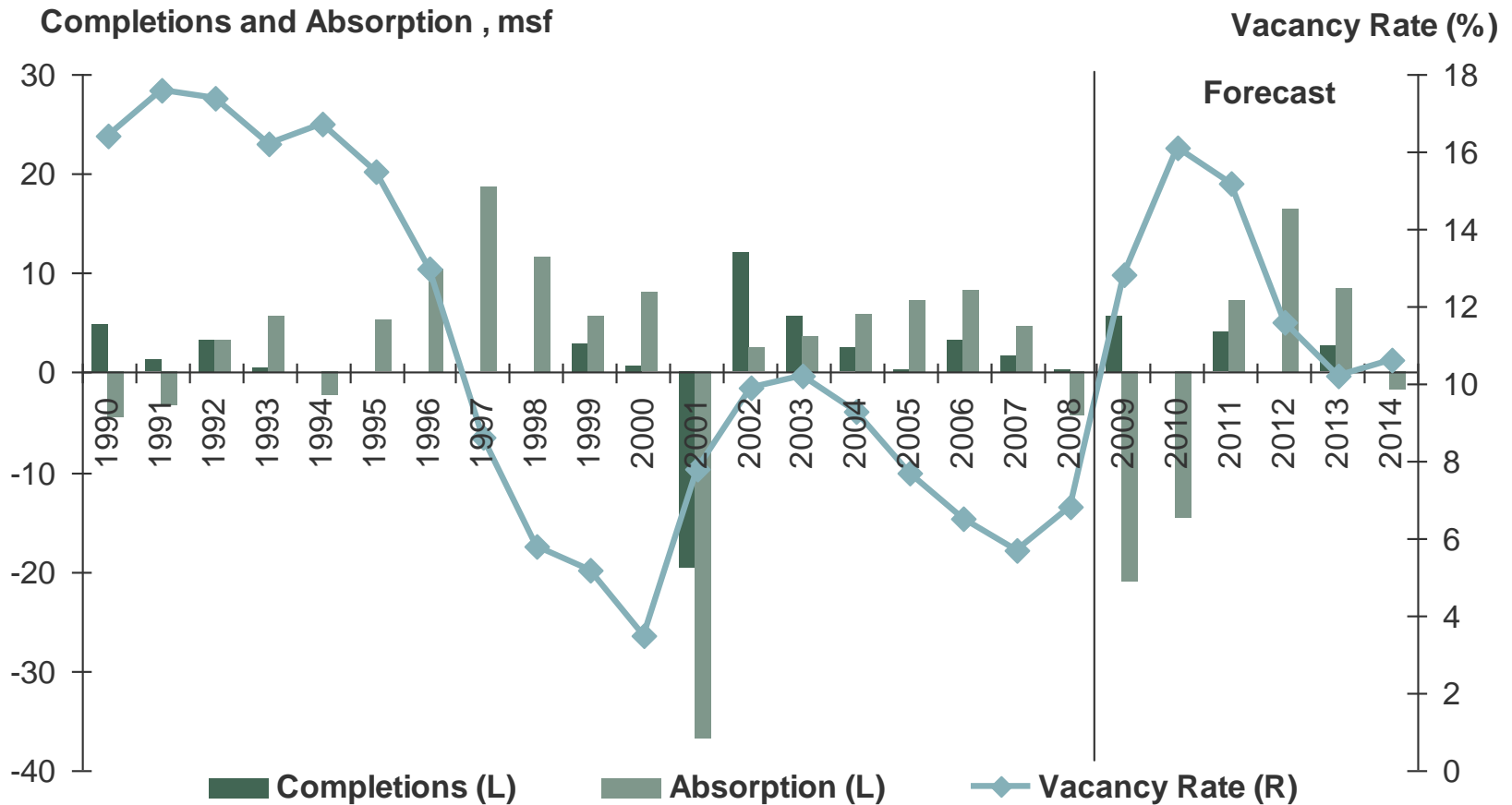
Source: TWR Office XL, Spring 2009

Midtown NYC Bears Brunt of Slowdown So Far



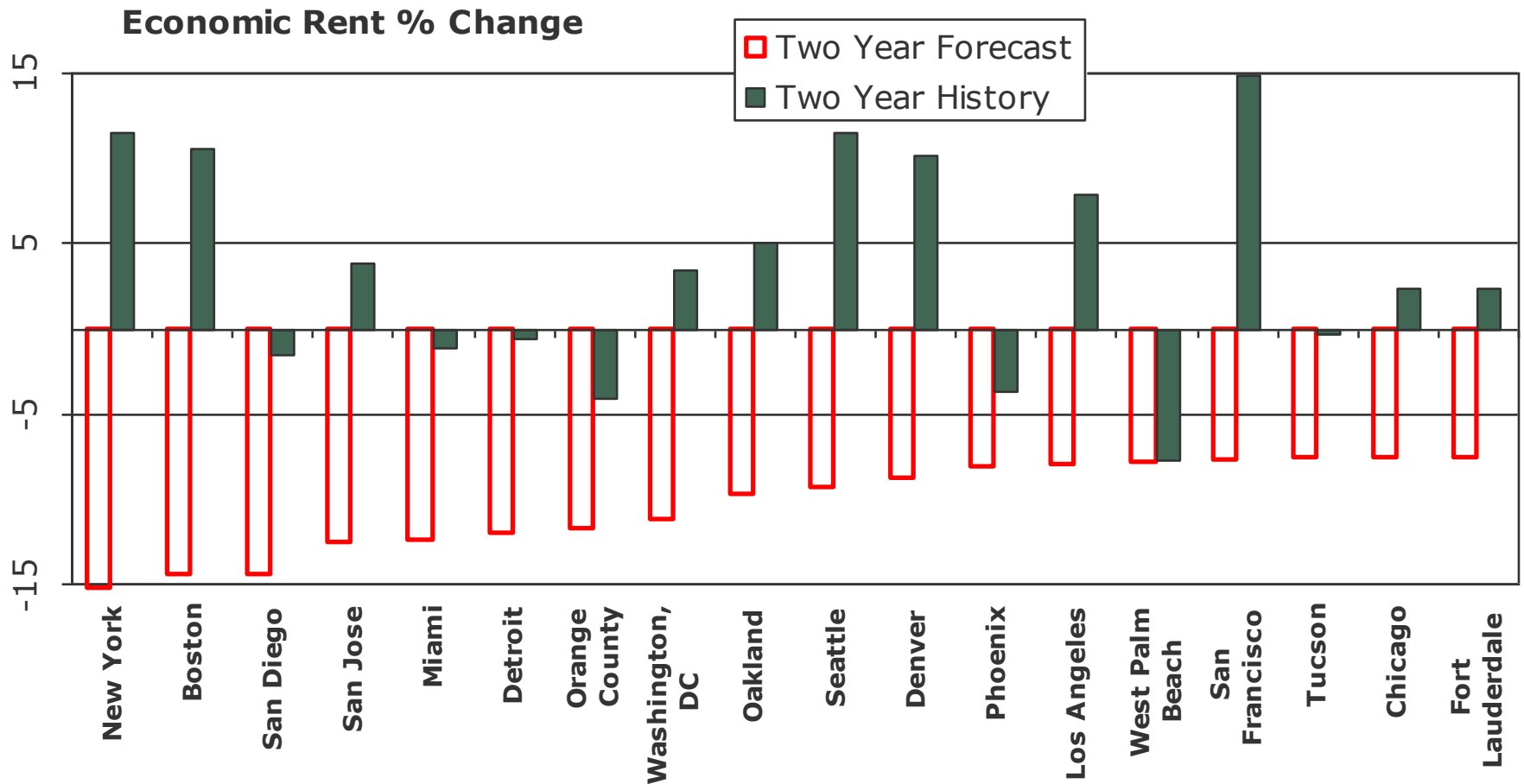
| Submarket | 2008 Net Absorption | 4 th Qtr Gross Asking Rent (%change from peak) | Current Vacancy Rate (bps change from Low) |
|-------------|---------------------|--|---|
| Midtown | -4.50 msf | \$62.63 (-22.7%) | 5.4% (170) |
| Downtown | +0.17 msf | \$47.19 (-8.2%) | 6.0% (80) |
| Westchester | -0.36 msf | \$27.37 (-4.0%) | 11.3% (140) |

How Bad Can It Get?: Sharp Drop in Fundamentals for New York



Source: TWR Office Outlook XL, Winter 2009. Financial Spiral

Outlook: Financial Centers and Florida, California Markets Rank Among Weakest



Source: TWR Office Outlook XL, Spring 2009

- Analyze defaults and expected losses for a prototypical 10-year, 1.4x DSCR, 75% LTV multi-tenant office loan using Moody's/TWR Commercial Mortgage Metrics (CMM).
- Markets with highest expected losses:
 - Detroit
 - Miami
 - Denver
 - San Diego
 - Phoenix
 - Sacramento
 - Orange County
 - New York

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Industrial Market Overview

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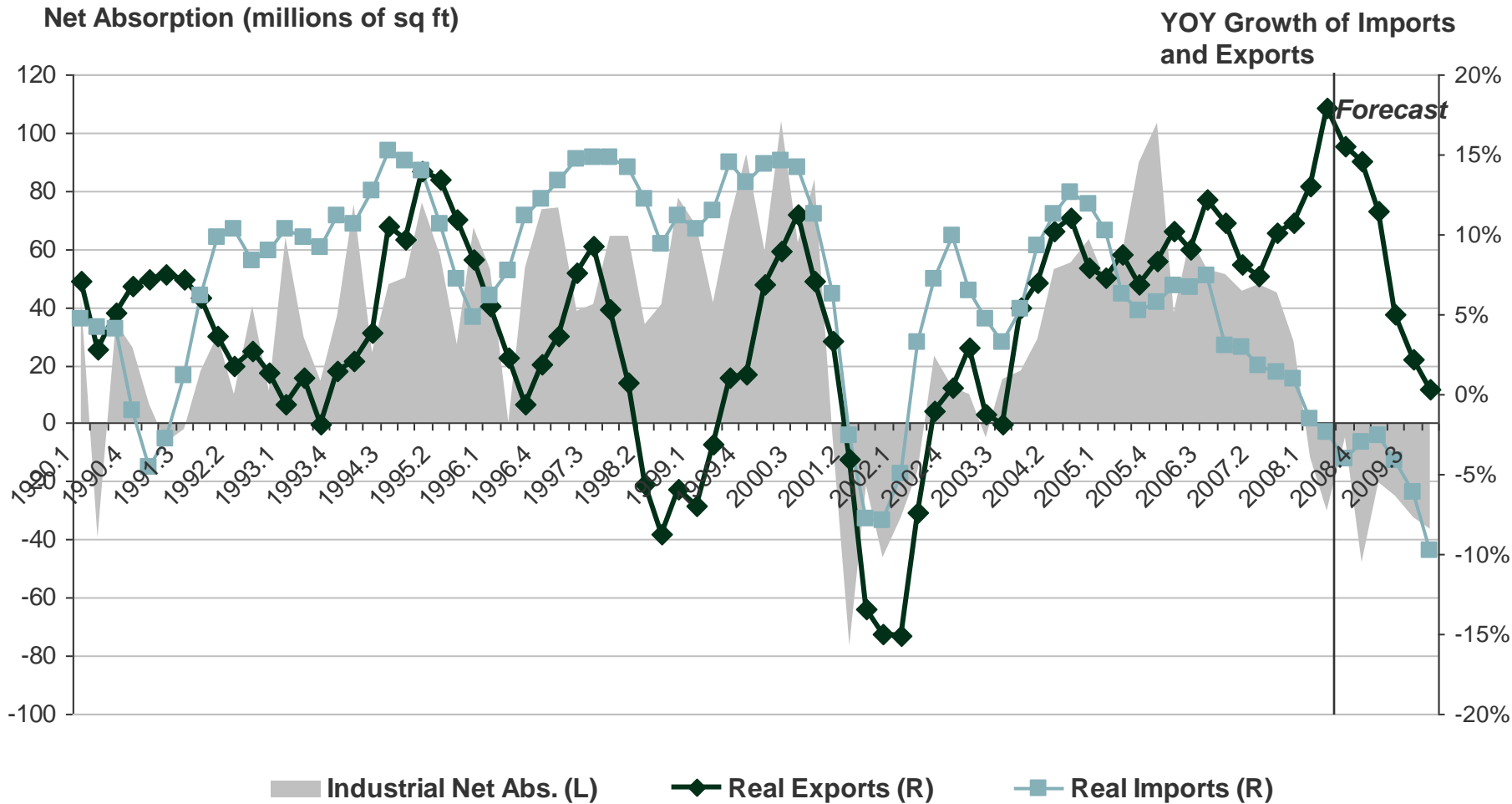
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Key Points:

- Demand Issues Shape Outlook:
 - Declining international trade flows
 - Housing Crisis (foreclosure markets)
 - Manufacturing weakness (autos, durable goods)
- Supply risk limited to a few markets
- Downturn wide-spread: warehouse, manufacturing, R&D.
- Availability rates expected to reach new highs, putting downward pressure on rents

Using Imports and Exports Helps Capture Market-Level Variation



Warehouse Demand Fell Sharply In Export Markets During Second Half



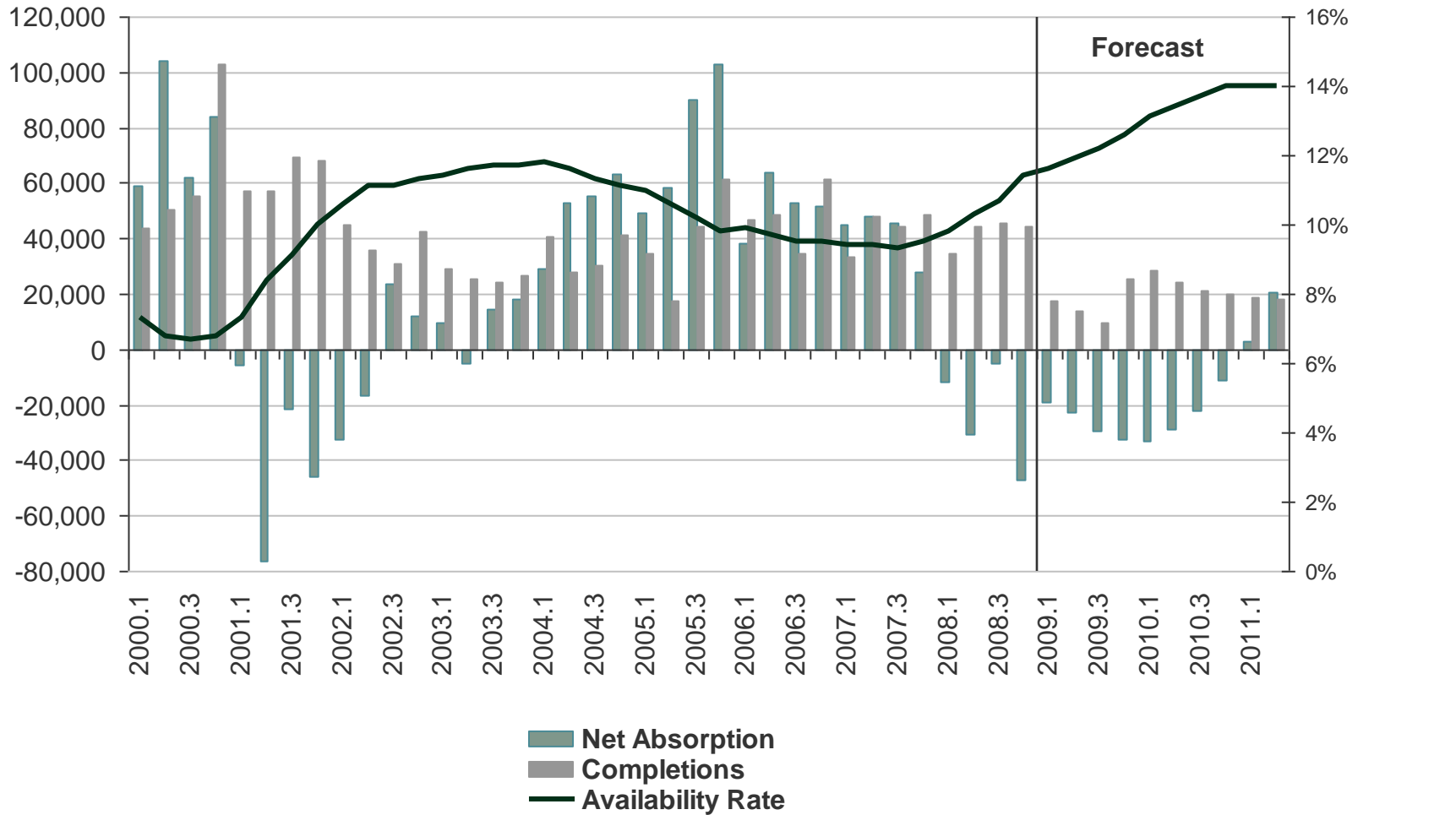
Warehouse Net Absorption 000s sf

| Import-Dependent Markets | First Half 2008 | Second Half 2008 | Export-Dependent Markets | First Half 2008 | Second Half 2008 |
|--------------------------|-----------------|------------------|--------------------------|-----------------|------------------|
| Los Angeles | -2,942 | -1,712 | Chicago | 79 | -1,563 |
| Riverside | -1,040 | 1,591 | Kansas City | 3,092 | -858 |
| Edison | -14 | -132 | Atlanta | 956 | -3,326 |
| New York | -304 | -733 | Dallas | 1,029 | -2,841 |
| Miami | -753 | -1,990 | Boston | -568 | -1,004 |
| Newark | -215 | -1,549 | Philadelphia | -1,863 | -1,652 |
| Orange County | -2,771 | -1,615 | Portland | -1,437 | -91 |
| Columbus | -861 | 629 | Cleveland | -712 | 174 |
| Sum | -8,900 | -5,511 | Sum | 576 | -11,161 |

Current State of the US Industrial Market: Supply & Demand



Net Absorption, Completions (sf x 1,000)



Source: TWR Industrial Outlook XL, Spring 2009.

What About Building Types?



Warehouse/Distribution

| | Net Absorption (sf x 1000) | Completions (sf x 1000) | Availability Rate Δ (bp) |
|------|-------------------------------|----------------------------|---------------------------------------|
| 2001 | -74,001 | 175,579 | 350 |
| 2008 | -41,591 | 122,888 | 190 |

R&D

| | Net Absorption (sf x 1000) | Completions (sf x 1000) | Availability Rate Δ (bp) |
|------|-------------------------------|----------------------------|---------------------------------------|
| 2001 | -35,513 | 45,626 | 570 |
| 2008 | -15,404 | 13,214 | 170 |

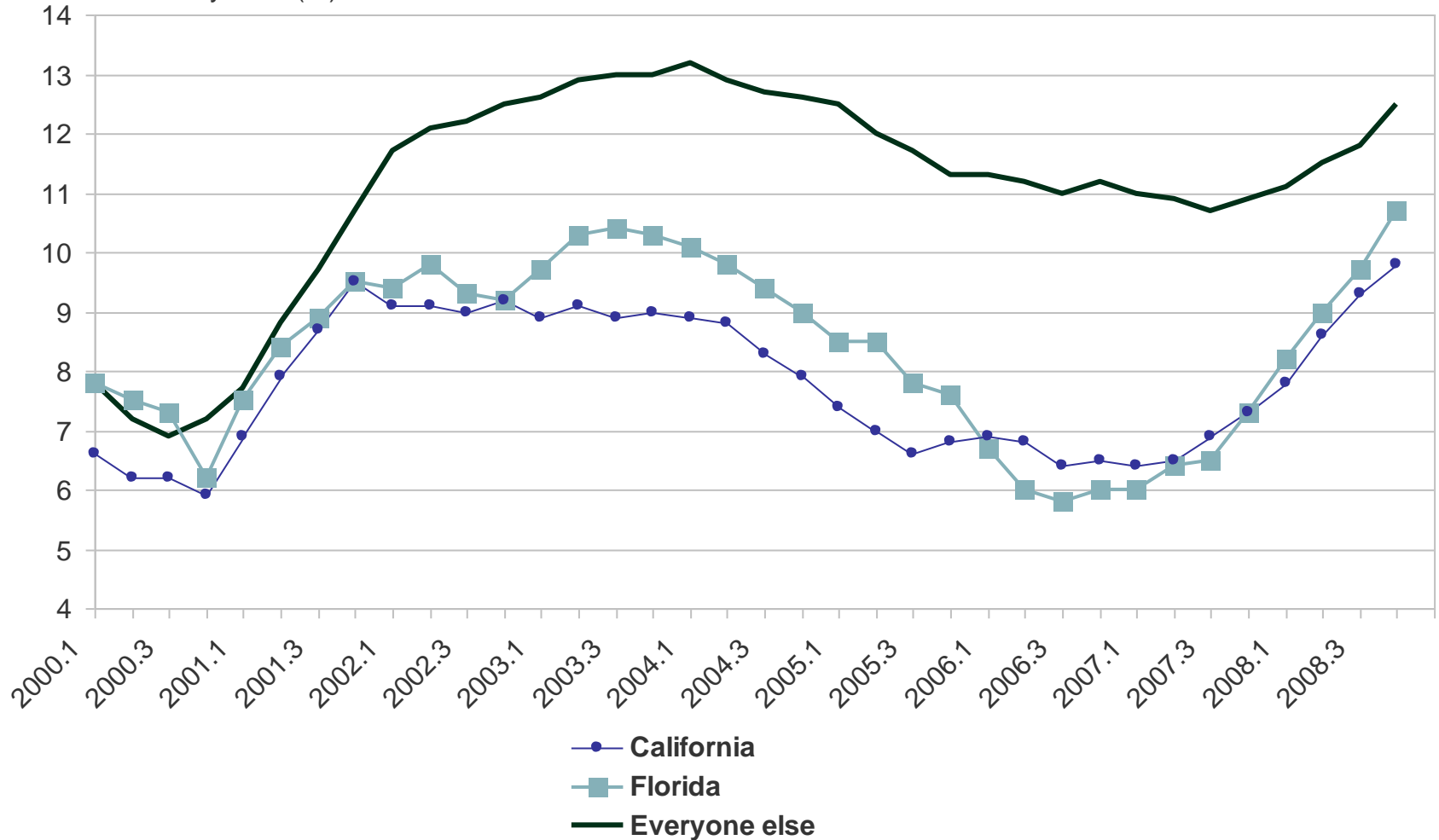
Manufacturing

| | Net Absorption (sf x 1000) | Completions (sf x 1000) | Availability Rate Δ (bp) |
|------|-------------------------------|----------------------------|---------------------------------------|
| 2001 | -37,256 | 26,590 | 190 |
| 2008 | -39,795 | 6,810 | 140 |

Warehouse Availability Increases More Severe in CA, FL



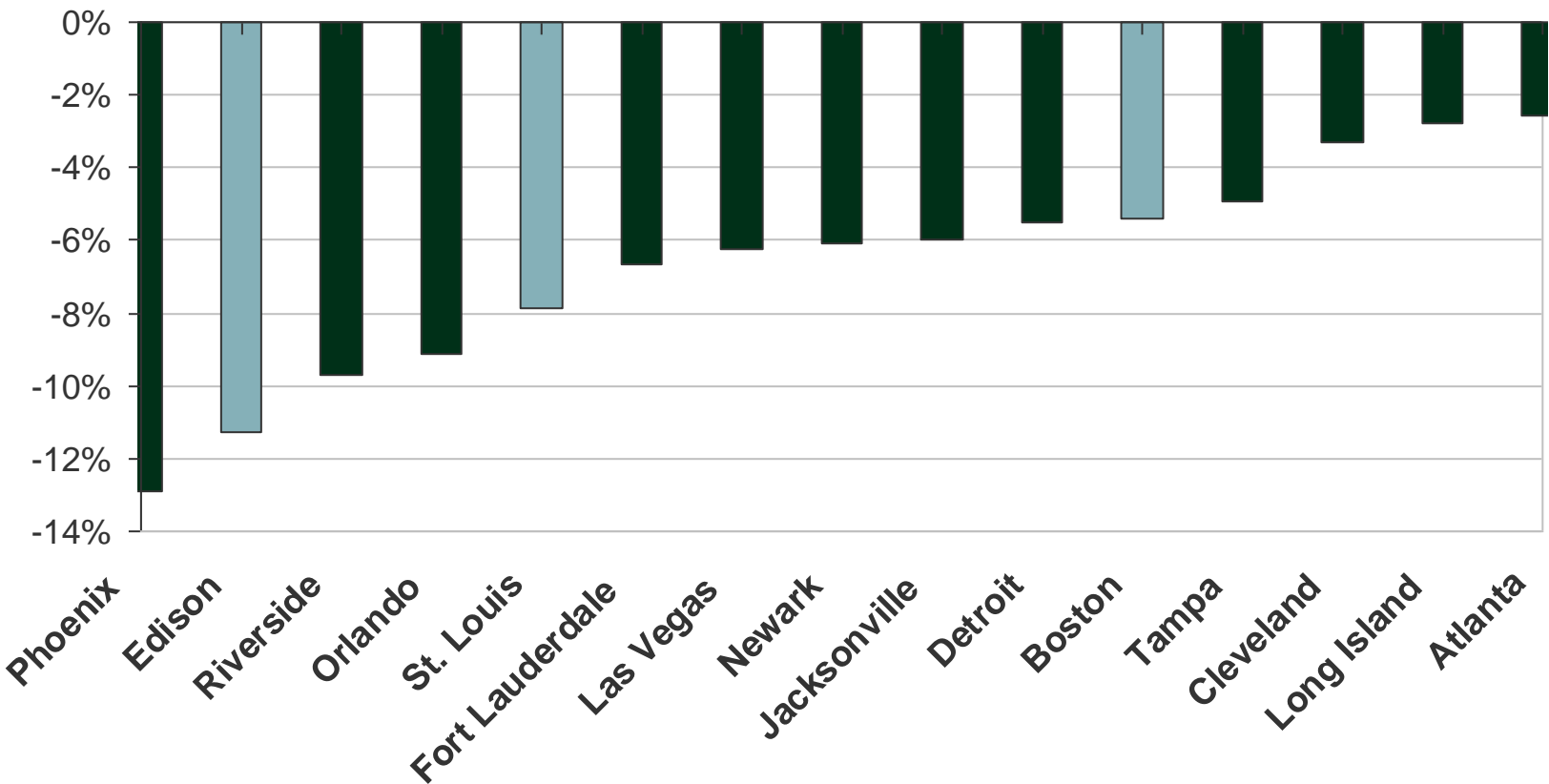
Warehouse Availability Rate (%)



Industrial Meets the Subprime Crisis



TW Warehouse Rent Index (% Δ in 2008)



Markets with foreclosure rates **HIGHER** than the US average are dark
Markets with foreclosure rates **LOWER** than the US average are light

Source: TWR Industrial Outlook XL, Spring 2009 (preliminary estimates).

Strong Performing Major Industrial Markets



| | Availability (%) 2007.4 | Availability (%) 2008.4 | Absorption Rate (%) 2007.4-2008.4 |
|--------------|-------------------------|-------------------------|--------------------------------------|
| Houston | 7.3 | 7.6 | 1.72 |
| Indianapolis | 10.2 | 10.8 | .97 |
| Kansas City | 8.1 | 8 | .87 |
| Edison | 11.2 | 12.1 | .2 |
| Denver | 10 | 11 | .19 |

Weak Performing Major Industrial Markets



| | Availability (%) 2007.4 | Availability (%) 2008.4 | Absorption Rate (%) 2007.4-2008.4 |
|---------------|----------------------------|----------------------------|--------------------------------------|
| Orange County | 5.7 | 8.9 | -3.1 |
| Phoenix | 10.3 | 15.9 | -2.54 |
| Miami | 7.9 | 10.6 | -1.77 |
| Newark | 8.0 | 9.8 | -1.65 |
| Columbus | 13.2 | 15.7 | -.89 |

Construction Risk Limited; But There Are Exceptions



| Market | 2008 Completions Rate | Historical Average |
|-----------------------|-----------------------|--------------------|
| Riverside | 6.2% | 5.6% |
| Las Vegas | 5.3% | 8.1% |
| Jacksonville | 4.5% | 2.5% |
| Phoenix | 4.0% | 4.6% |
| Fort Worth | 3.1% | 3.3% |
| Dallas | 2.9% | 3.2% |
| Sum of Markets | 1.3% | 2.4% |

Outlook: Availability in Largest Industrial Markets



| Market | Current Availability Rate | Rank | Bps Change (2008-2010) | Rank |
|----------------|---------------------------|------|------------------------|------|
| Chicago | 12.7% | 40 | 160 | 38 |
| Los Angeles | 5.5% | 1 | 70 | 27 |
| Atlanta | 14.6% | 48 | 50 | 22 |
| Detroit | 18.1% | 55 | 160 | 39 |
| Dallas | 13.6% | 46 | 80 | 28 |
| Sum of Markets | 11.4% | -- | 110 | -- |

- Analyze defaults and expected losses for a prototypical 10-year, 1.4x DSCR, 75% LTV multi-tenant industrial loan using Moody's/TWR Commercial Mortgage Metrics (CMM).
- Markets with highest expected losses:
 - Detroit
 - Gary
 - Phoenix
 - Riverside
 - Orlando
 - Jacksonville
 - Las Vegas
 - Miami

