

# How Good is Our Credit?

## Real Estate Markets in 2001 and Beyond: Why This Cycle is Different

Presentations to  
MBA's CREF /MF Conference  
San Diego, February 5, 2001  
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# Can supply and demand stay in harmony? Are there sufficient controls to maintain relative stability in the market?

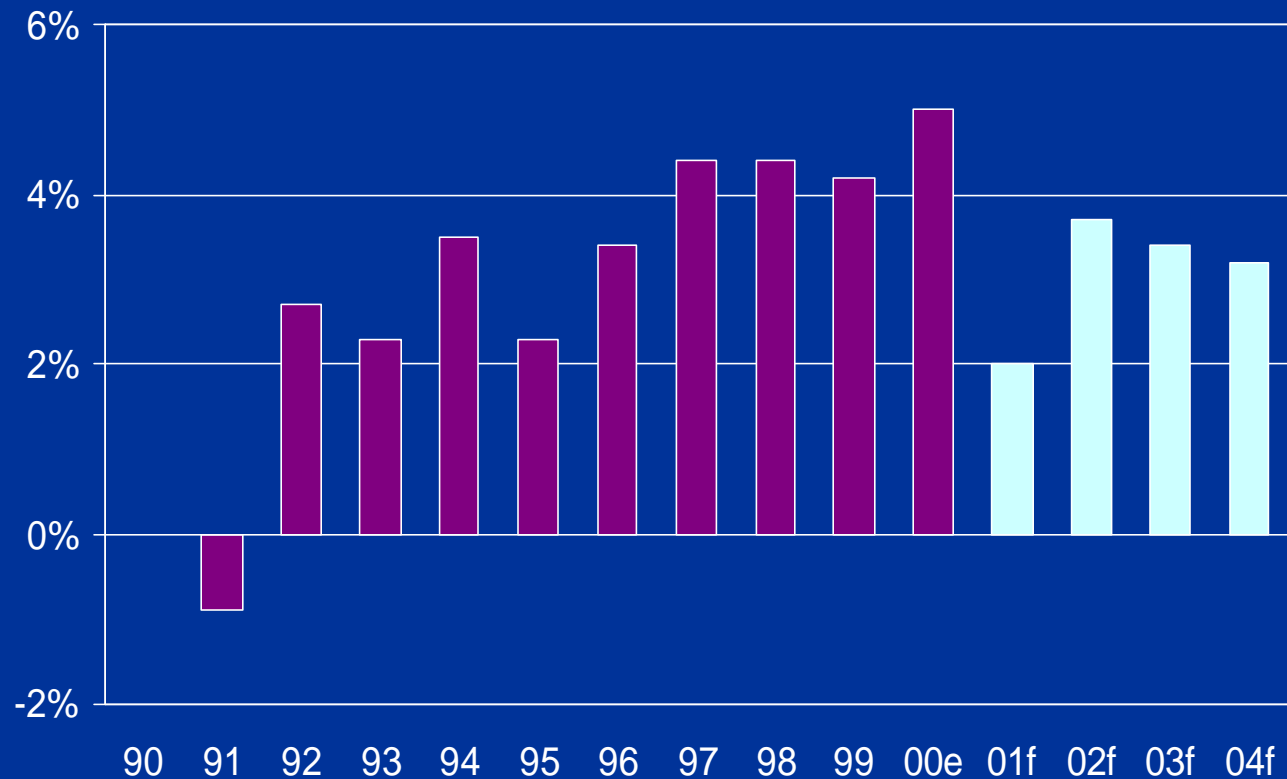
## Mortgage Delinquency Rates



Source: ACLI (through 2000).

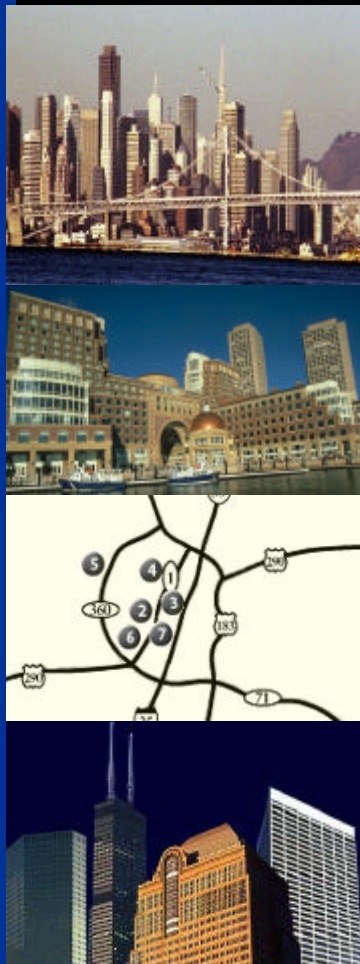
# With the national economic slowdown ahead, can we maintain supply/demand balance?

## U.S. GDP



Source: Economy.com (forecasts).

**Yes. For the most part, markets will fair well. Mortgage risk will remain fairly low.**



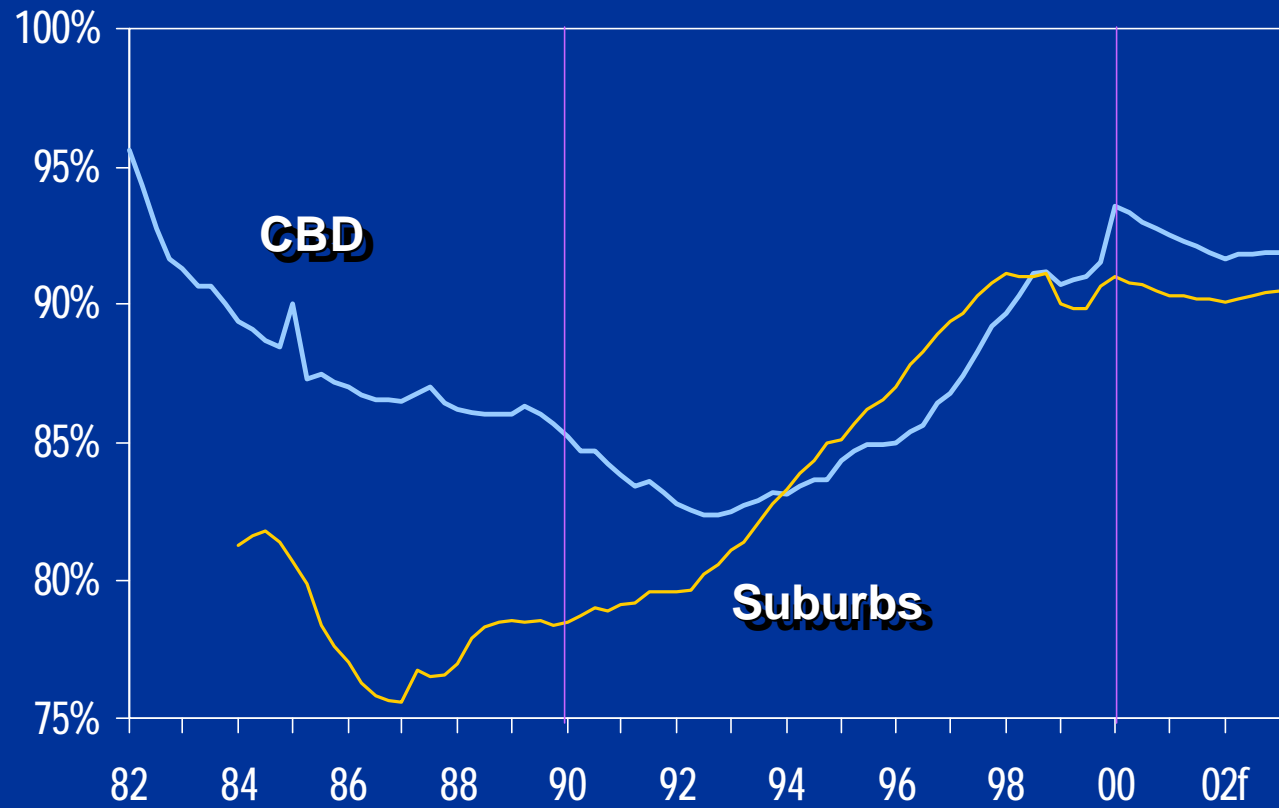
◆ Why?

- We're entering this phase of the cycle with healthy real estate markets in relative balance (first part of presentation).
- The real estate industry does have discipline from 10 internal and external forces (second part of the presentation).

# Strengths. Occupancy excellent. Rental growth above inflation. Construction activity slowing.

## Office Occupancy

annual rent growth (01-03)  
≅ 4%



Source: Rosen Consulting Group.

**Risks. In a switch from last year, the principal risks to the office market are on the demand side.**

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**Office  
Market  
Risks**

- ◆ Demand: weaker economy = weaker demand, dot.com contraction
- ◆ Supply: some suburban markets slightly out of kilter from recent construction surge
- ◆ Investment: pricing very high in "momentum" markets
- ◆ Expenses: rising utility costs

**Strengths. Greater air cargo, centralization, globalization, 8 years of economic growth have been very good to industrial market.**

## Industrial Occupancy

annual rent  
growth (01-02)  
= 3.9%



Source: Rosen Consulting Group.

**Risks. Unquestionably, the slower economy will impact industrial (but the market is tight enough to hold up fairly well)**

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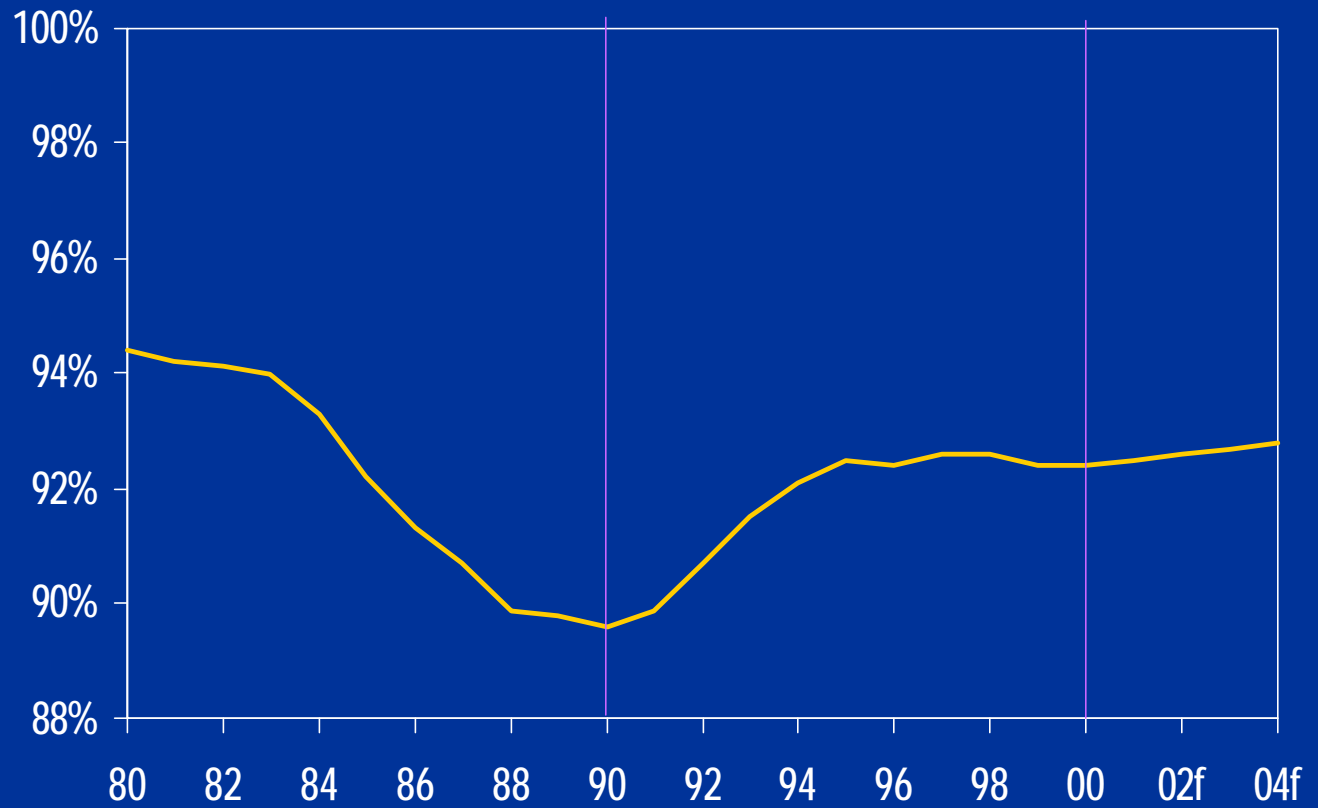
**Industrial  
Market  
Risks**

- ◆ Demand: slower economy = weaker demand, tech contraction; centralization detrimental for some secondary markets
- ◆ Supply: only slight overbuilding in a few markets
- ◆ Investment: everyone wants industrial; will they “overpay” for it?

**Strengths. New centers significantly preleased. 8 years of robust sales. Easy to differentiate between good and bad assets.**

## Retail Occupancy

annual rent growth (01-02)  
= 2.8%



Source: REIS, Inc., Rosen Consulting Group (rents).

# Risks. Retail industry restructuring continues. Declining sales activity.

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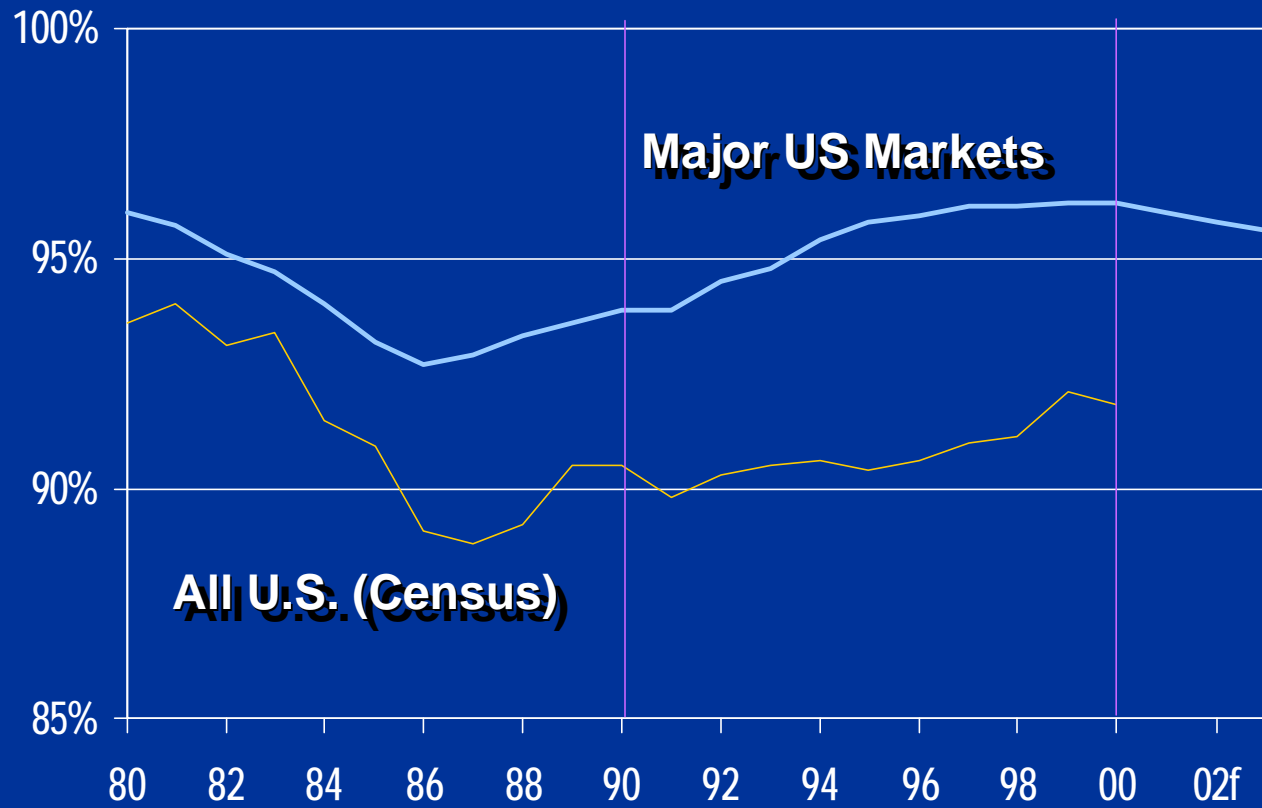
## Retail Market Risks

- ◆ Demand: falling consumer confidence, high consumer debt, retailers scaling back.
- ◆ Supply: still building more retail than needed? Obsolescence. Preleasing good, but will tenant still be there in 5 years?
- ◆ Investment: few buyers.

**Strengths. Excellent outlook overall. The least vulnerable property type. Great demographics. High, stable occupancy.**

## Apartment Occupancy

annual rent growth (01-02)  
= 3.6%



Source: REIS, Census Bureau, Rosen Consulting Group (rents).

# Risks. Relatively few risks. Yet economy can adversely impact multi-family.

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## Apartment Market Risks

- ◆ Demand: the more delicate economy will dampen absorption in many more risky high-growth metros.
- ◆ Supply: overbuilding in some markets (but none severe)
- ◆ Investment: everyone chasing mf. Will this lead to overpaying or not pricing adequately for risk?