

# **Market Dynamics as an Input Into Strategic Planning**

**Presentations By**

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# Looking Beyond 2003

“Market Dynamics as an Input to Strategic Planning”

Mortgage Bankers Association

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# Forecast at a Glance

	<u>2000</u>	<u>2001</u>	<u>2002e</u>	<u>2003e</u>	<u>2004e</u>
GDP Growth <sup>(1)</sup>	2.3	0.1	2.8	3.4	4.1
Core CPI Inflation <sup>(1)</sup>	2.5	2.7	2.2	2.3	2.5
Budget Surplus (% of GDP)	2.4	1.3	-1.5	-2.5	-2.5
Fed Funds Rate <sup>(2)</sup>	6.50	1.75	1.25	2.50	3.50
10-Year Note Yield <sup>(2)</sup>	5.11	5.05	4.00	4.95	5.50

Notes: (1) Q4/Q4 Percent Change

(2) End of period

e = Morgan Stanley Estimate

# Some Longer-Term Forecasts . . .

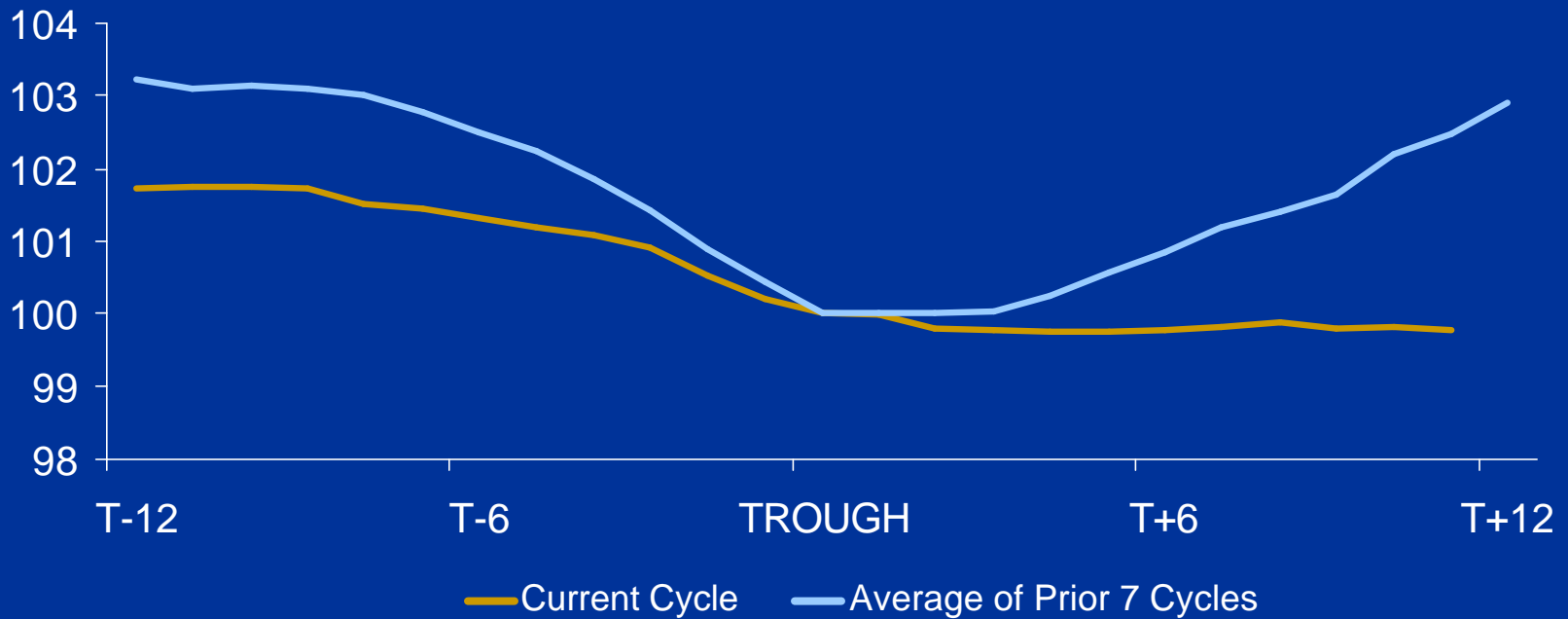
	<u>2005</u>	<u>2006</u>
Real GDP Growth (%)	2.7	2.7
Inflation (%)	2.4	2.4
T-Bill Rate (%)	2.8	2.9
Employment Growth (%)	1.4	1.3

Source: Ray Fair, Yale University, fairmodel.econ.yale.edu

# The Jobless Recovery

## Private Sector Payroll Employment

(Indexed to Trough = 100)

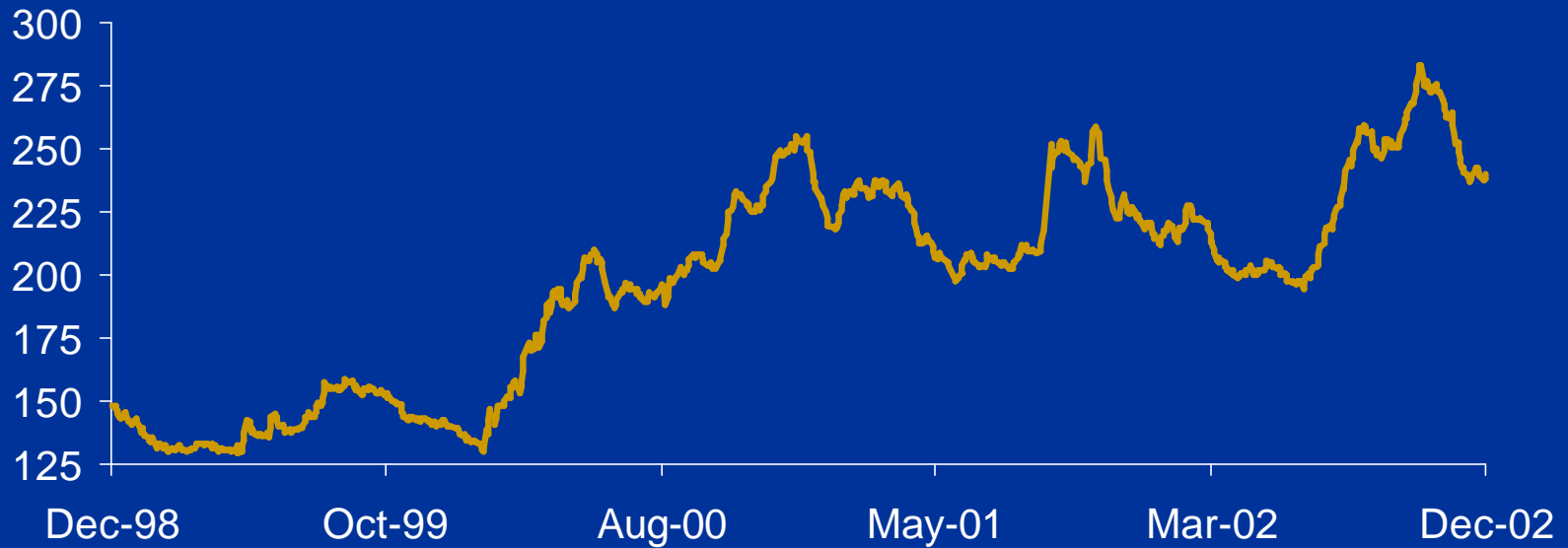


Source: BLS. Assumes current cycle trough is December 2001

# Credit Spreads Widen

## Credit Spreads

(S&P Investment Grade Index, Spread Over Treasuries)



Source: Bloomberg

# 10-Year AAA CMBS Spreads to Swaps



Source: Morgan Stanley

# Cumulative Total Returns

Since 12/31/99

	<u>Total Return (%)</u>
CMBS BBB	50.2
CMBS AAA	43.2
7-10 yr. US Treasury	38.1
MSCI Inv. Grade Corporate	31.8
S&P 500	-38.0
Nasdaq	-65.6

Source: MSCI., Bloomberg.

# Reaction to Shocks

(in bp)

	<u>CMBS Widening</u>	<u>Corporate Widening</u>
1998-LTCM	86	80+
1999-Y2K	16	10
2000-Nasdaq	No reaction	50
2001 Terrorism	12	60
2002-Earnings	-7	100+

Source: MSCI, Morgan Stanley, Bloomberg

# Commercial Mortgage Loan Delinquency Rate



Source: ACLI