



**2003
Take it to
the
extreme**

**2003 Commercial Real Estate
Finance/Multi-Housing
Convention**

**February 4, 2003
San Diego**

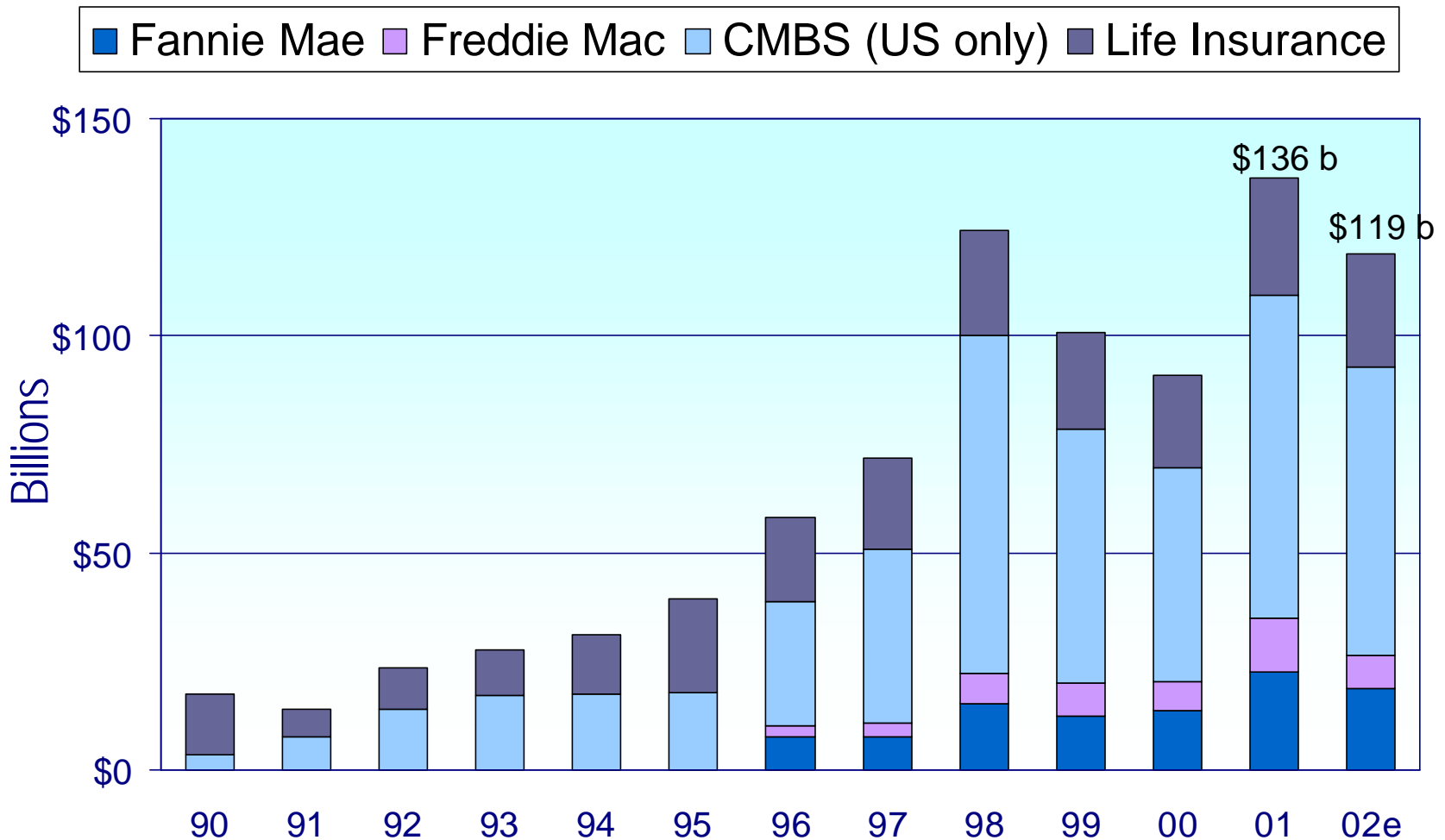
Market Dynamics as An Input Into Strategic Planning:

Commercial Mortgage Demand in 2003 and Beyond

Jeanette I. Rice

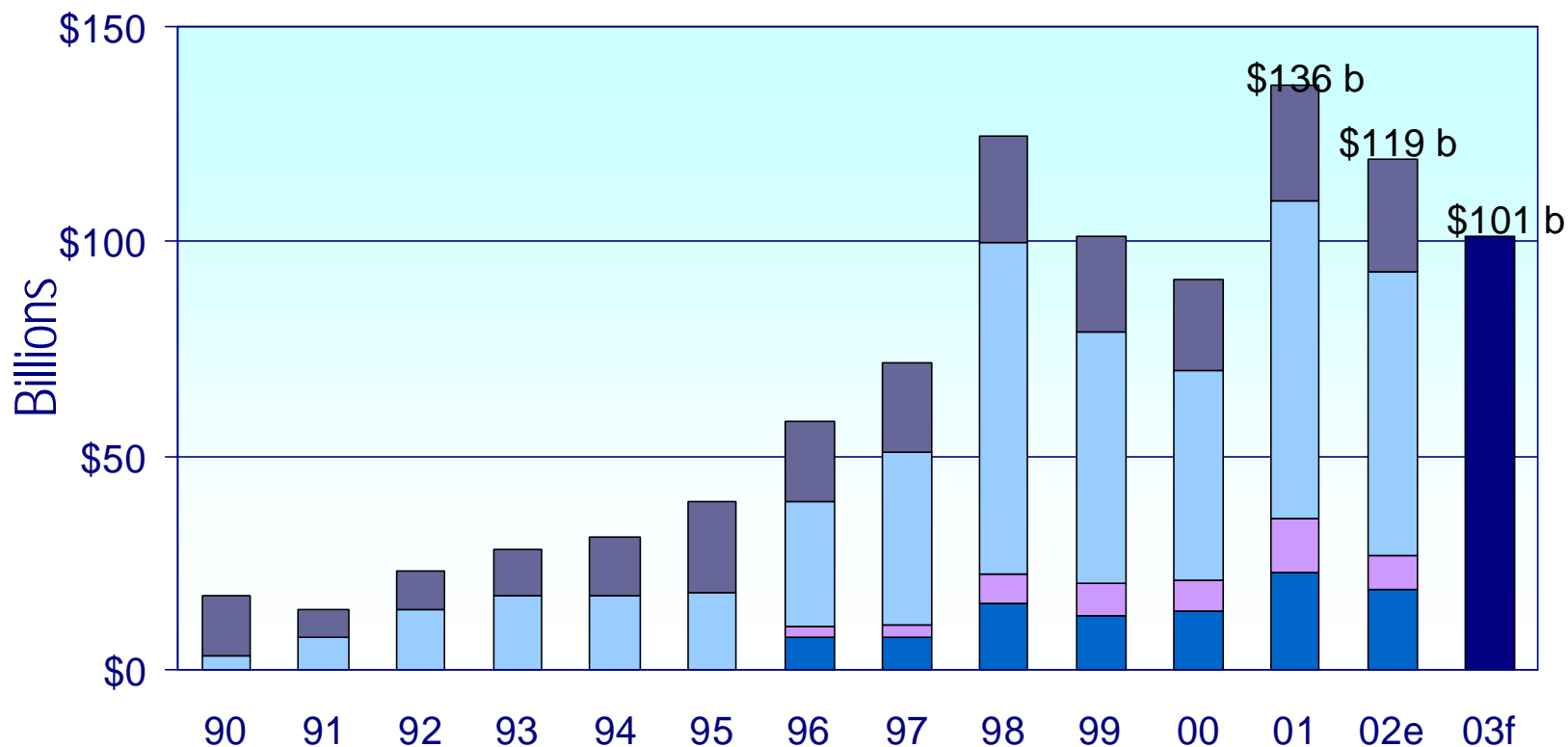
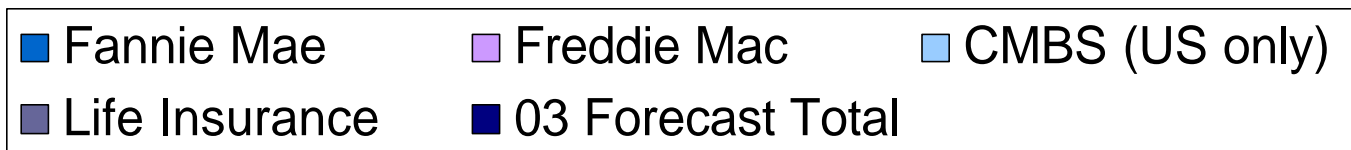
Principal, Research, Lend Lease Real Estate Investments, Inc.
Sr. Managing Director, Research, Holliday Fenoglio Fowler, Inc.

Historical Mortgage Production



Sources: Fannie Mae, Freddie Mac, Commercial Mortgage Alert, ACLI, Lend Lease Research.

Historical Mortgage Production



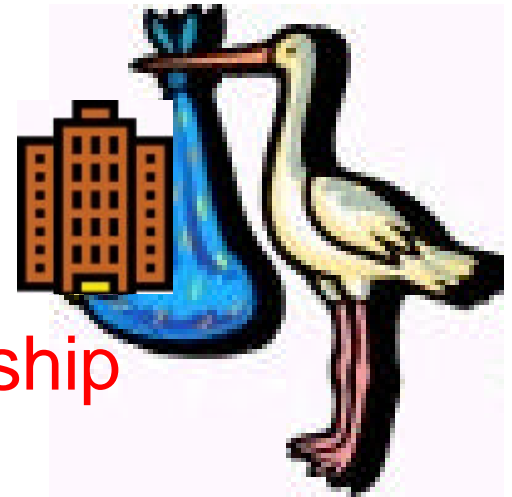
Forecast: Lend Lease Research (J. Rice), 15-20% decline for 2003.

Mortgage Demand Origins

- New Real Estate - Development
- Existing Real Estate - Same Ownership
 - Loan Maturity
 - New Financing (better deal)
 - Changing Level of Leverage
- Existing Real Estate - New Ownership



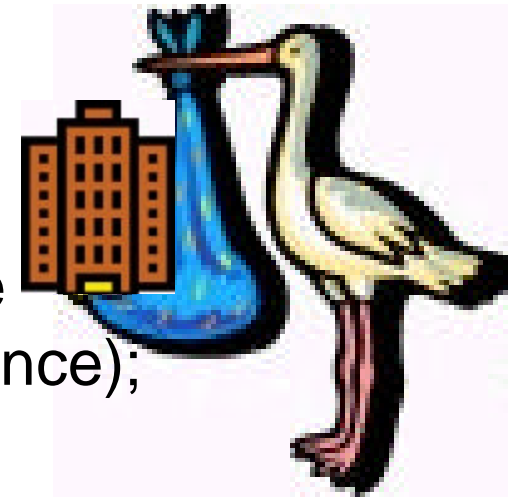
Mortgage Demand Origins



- Existing Real Estate - Same Ownership
 - Loan Maturity
 - New Mortgages Required (or temporary extensions of existing)
 - Takeouts - Construction to Perm
 - Old Replaced with Similar Structures
 - New Financing
 - Old Mortgage Replaced by Better Financing Structure
 - Changing Level of Leverage

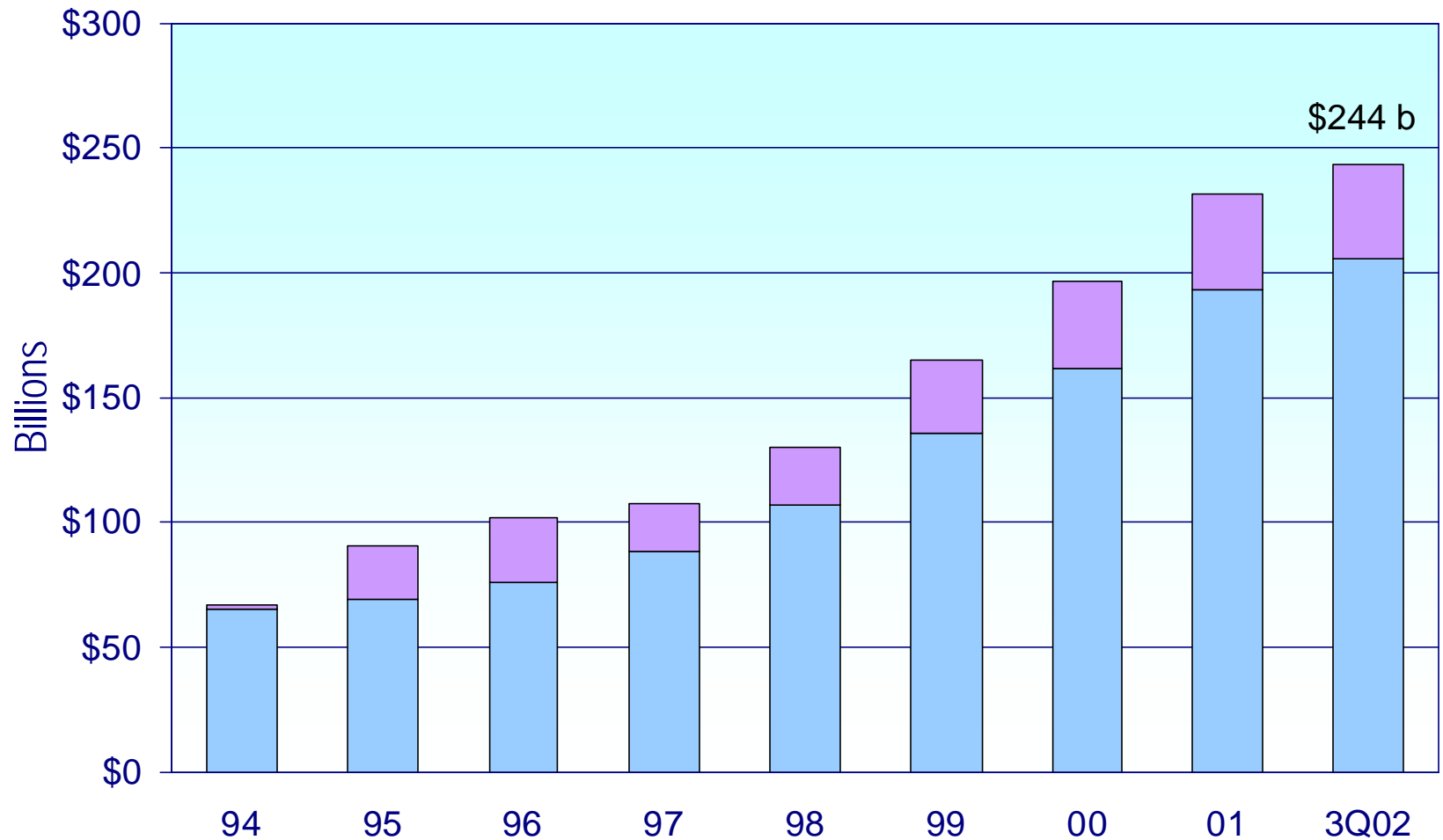
Refinancings - Considerations

- Loan maturity cycle; are we in a trough?
When is the next peak?
- Cost and opportunity of refinancing before loan maturity (yield maintenance, defeasance); flexibility of lending community
- Capital availability and cost of capital - interest rates, short-term, long-term; other pricing criteria
- Investment arena - if can't sell at required price (bid-ask gap), refinancing may be better
- Construction loan extensions vis-à-vis getting take outs - policy, costs
- Sea change in use of leverage by tradition all-cash buyers or owners?



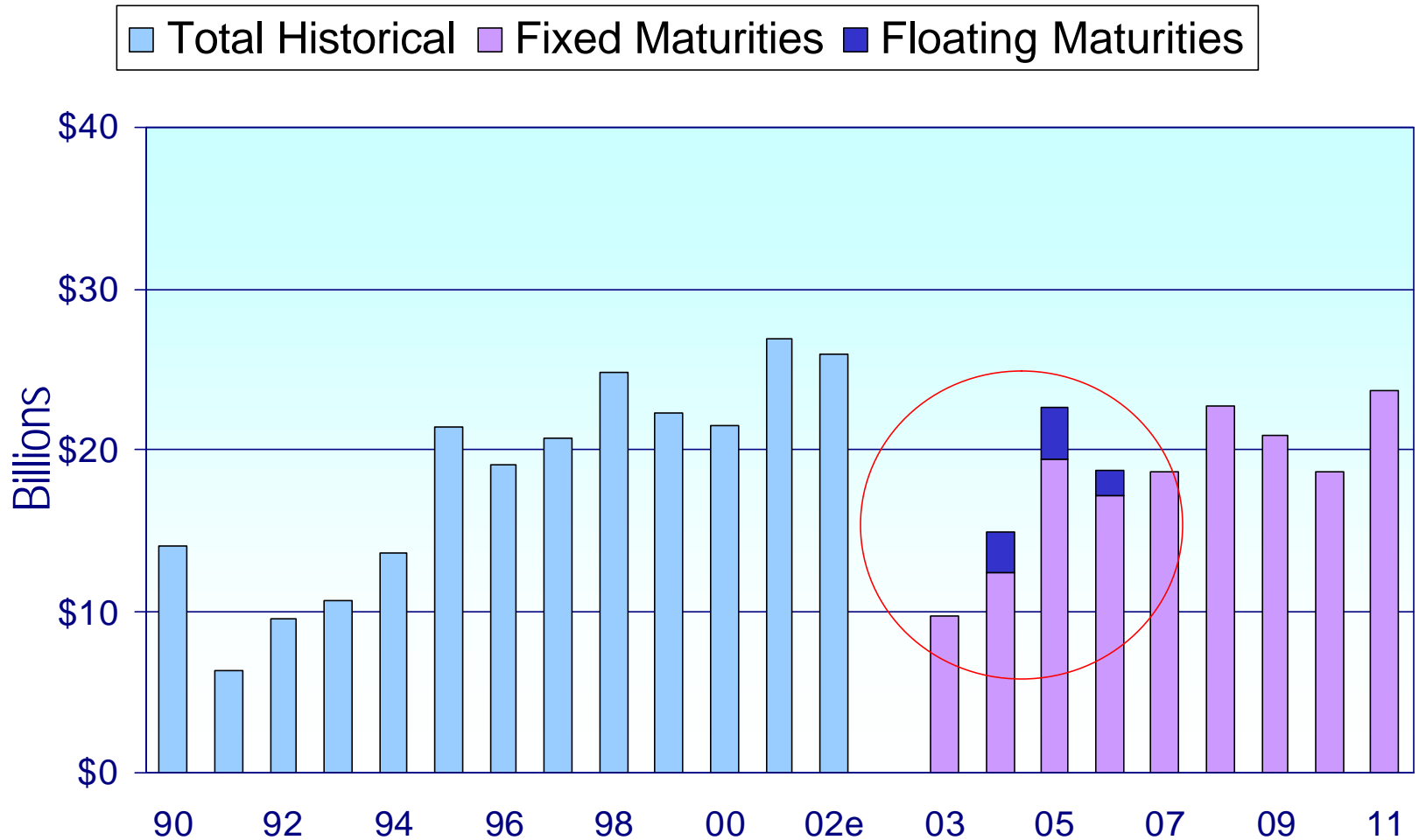
Construction and Development Mortgages

Held by banks and savings & loan institutions.



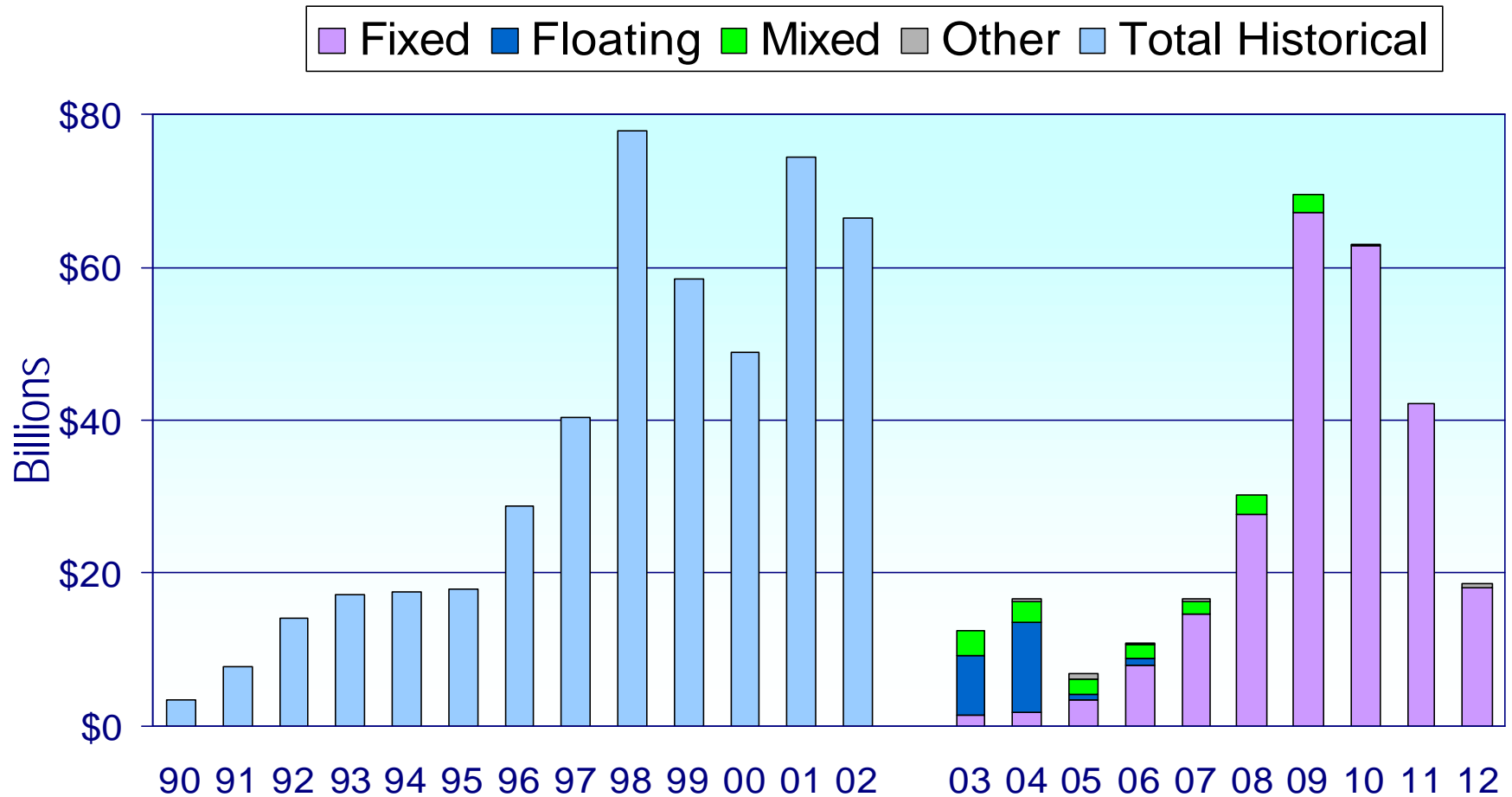
Source: FDIC and Lend Lease Research.

Life Insurance Mortgage Production



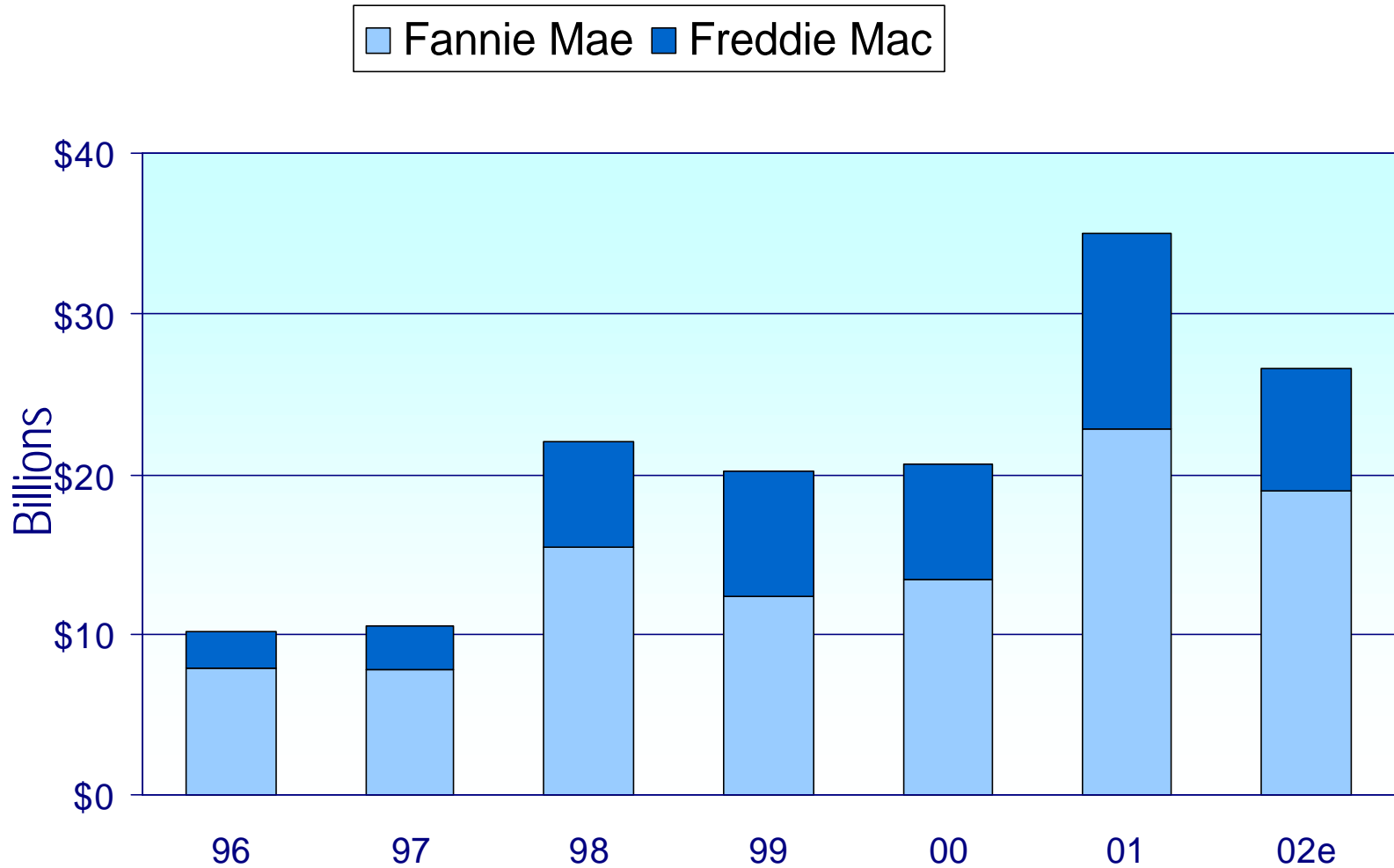
Sources: ACLI historical; Lend Lease Research future calculations based on ACLI. Fixed-rate based on average maturity 10 years; floating 4 years.

Historical CMBS Production (US only)



Sources: Commercial Mortgage Alert historical. Future loan maturities calculated by Lend Lease Research based on CMA's CMBS database through 01/03, and average weighted maturities per CMBS pool.

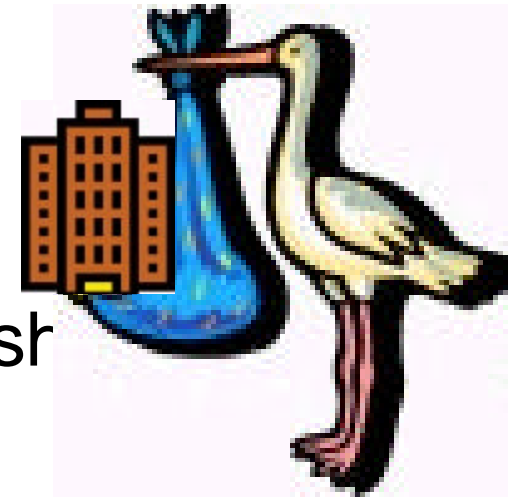
Agency Multi-Family Mortgage Production



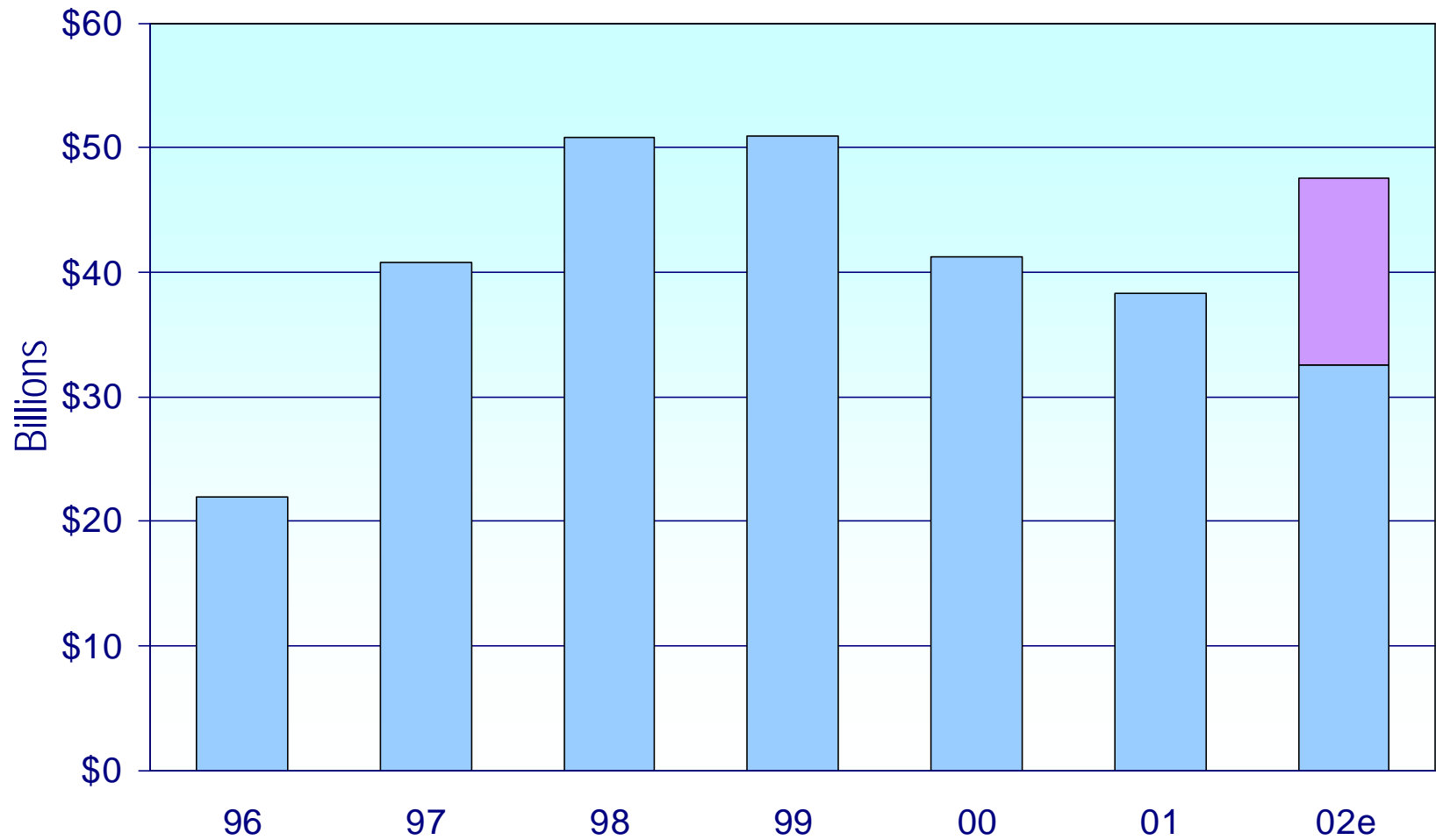
Sources: Fannie Mae & Freddie Mac. Loan maturities are averaging 10 years.

Mortgage Demand Origins

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U.S. Real Estate Equity Investment



Source: Investment Real Estate, Inc. 2002 = ytd through 3Q + estimated 4Q.

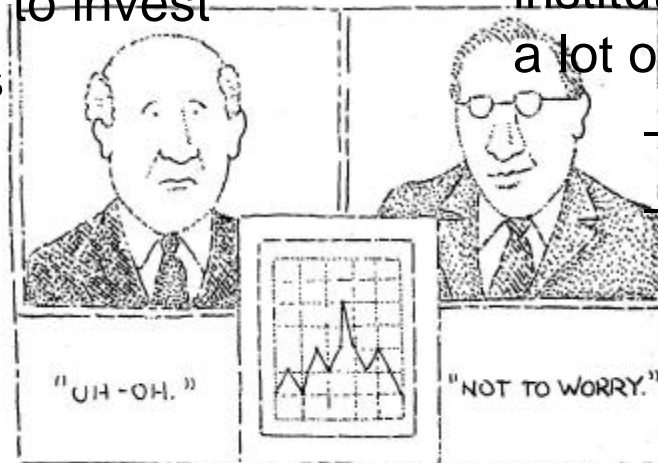
Equity Investment in 2003 - Barriers & Stimuli

- Inhibiting Factors

- Weak property markets and lower real estate returns
- Uncertainty in economy creates uncertainty in projecting future returns
- Few “opportunistic” opportunities, not a lot of “value-added” either
- Investors don’t have to invest
- Refinancing remains an alternative for would be sellers
- Pricing on favored property types very aggressive

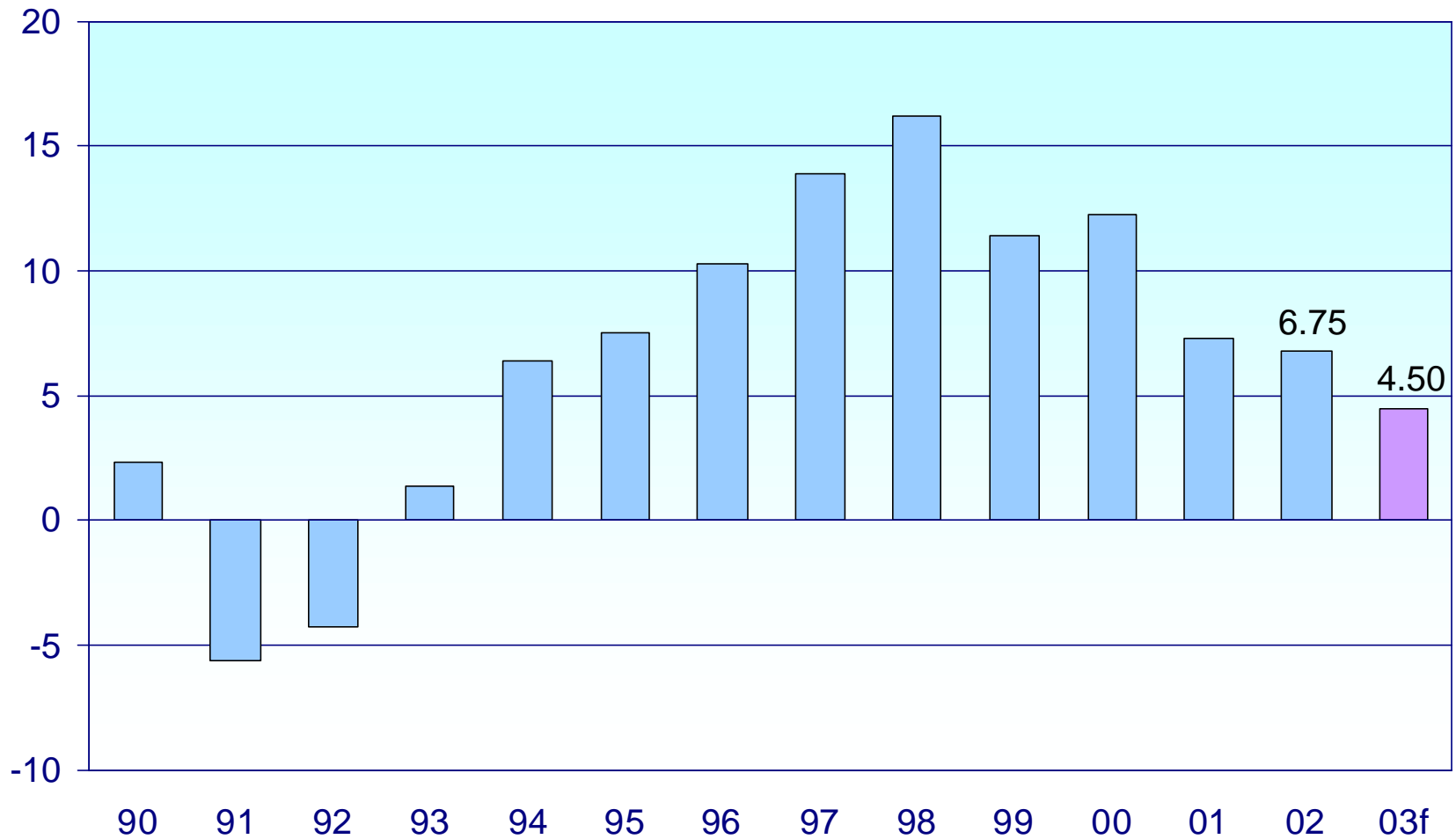
- Stimuli

- Real estate should still outperform other investment alternatives (while economy remains weak)
- Foreign capital (esp. German) find US real estate attractive
- Pension funds and other institutional investors sitting on a lot of capital (to be invested)
- Cheap debt
- Lots of pockets of performing markets



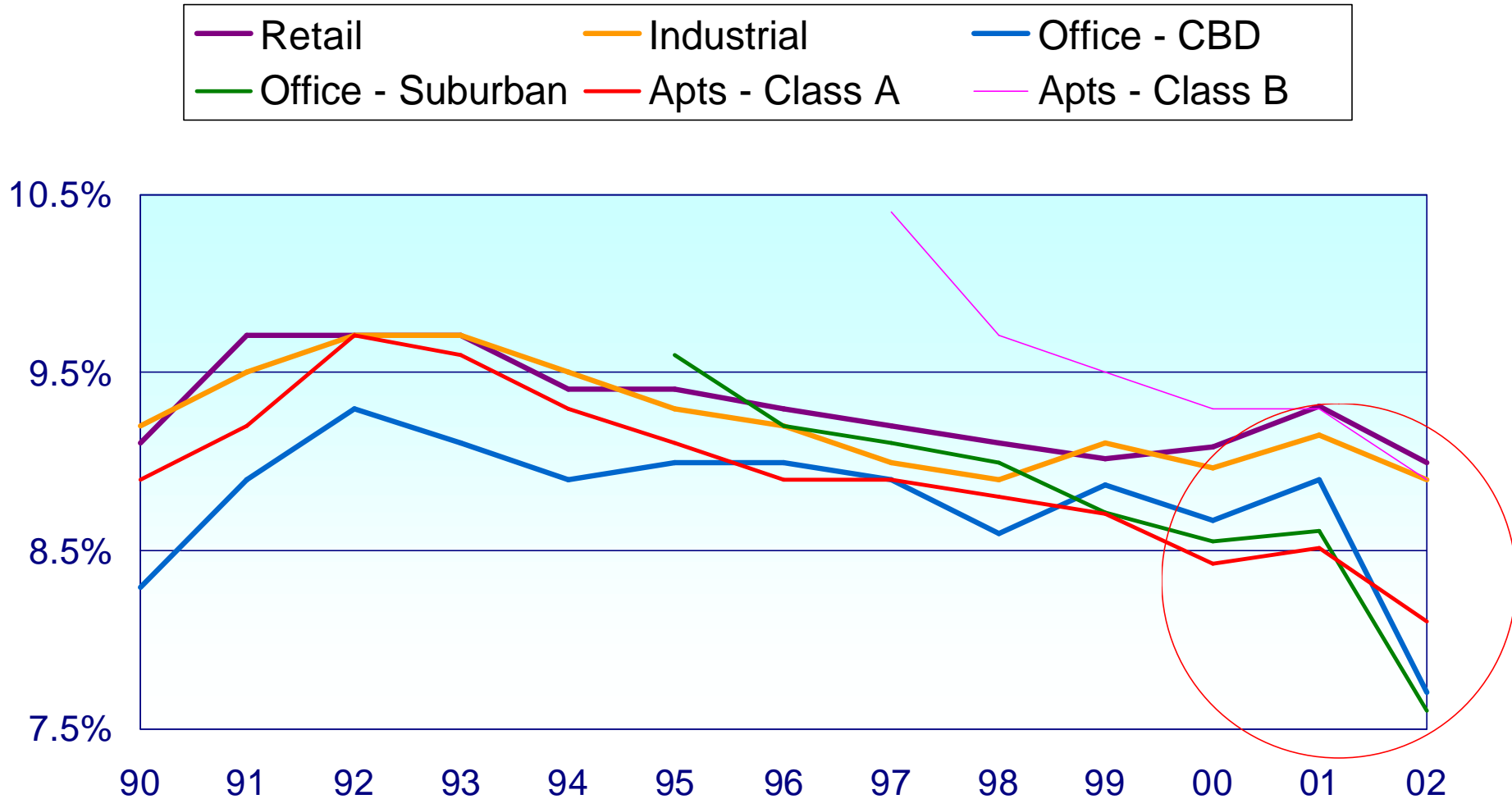
Real Estate Investors

NCREIF Returns



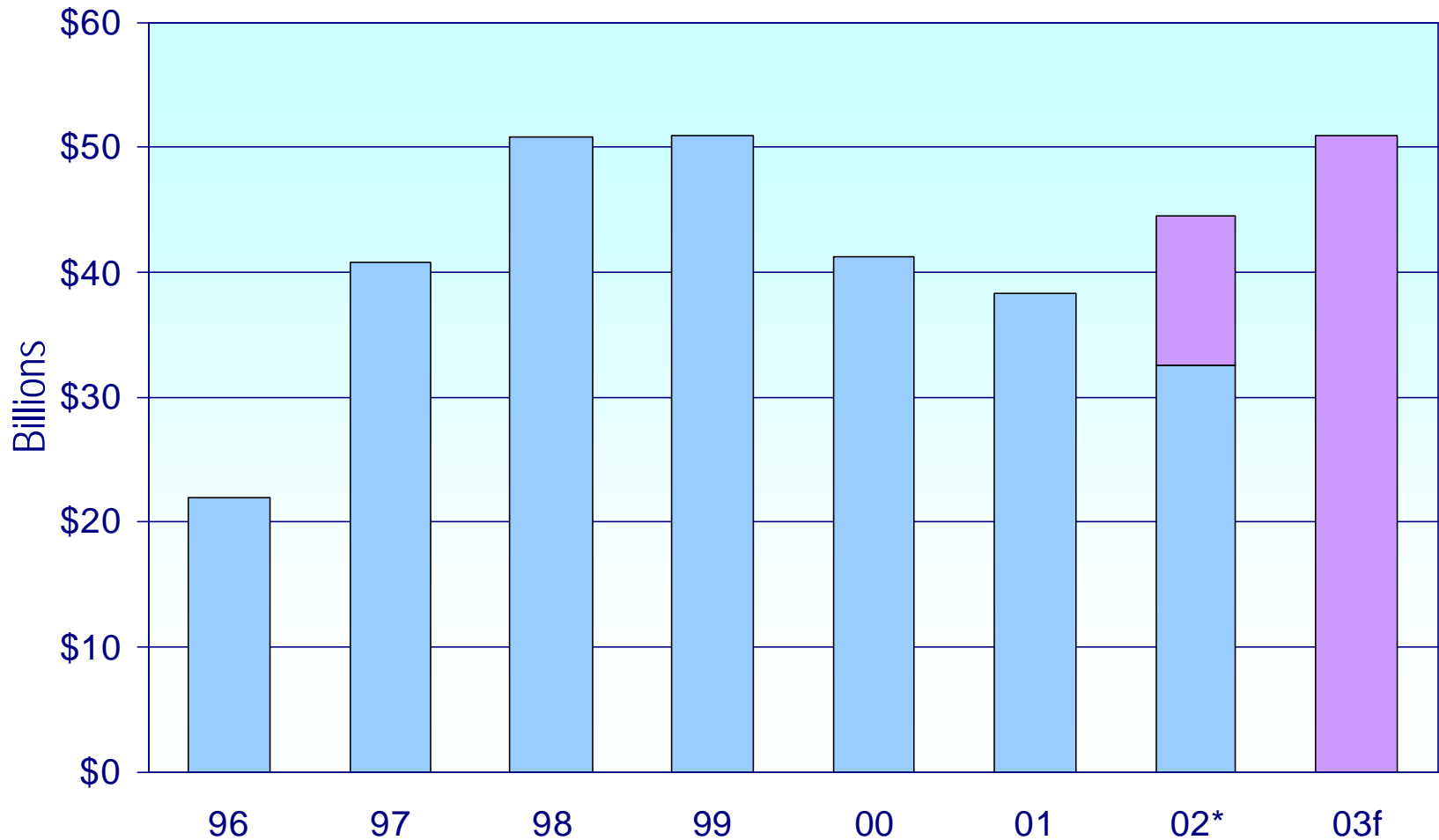
Source: NCREIF. In 2002, income=8.42 while appreciation= -1.58. J. Rice forecast for 2003.

Equity Investment: Cap Rates



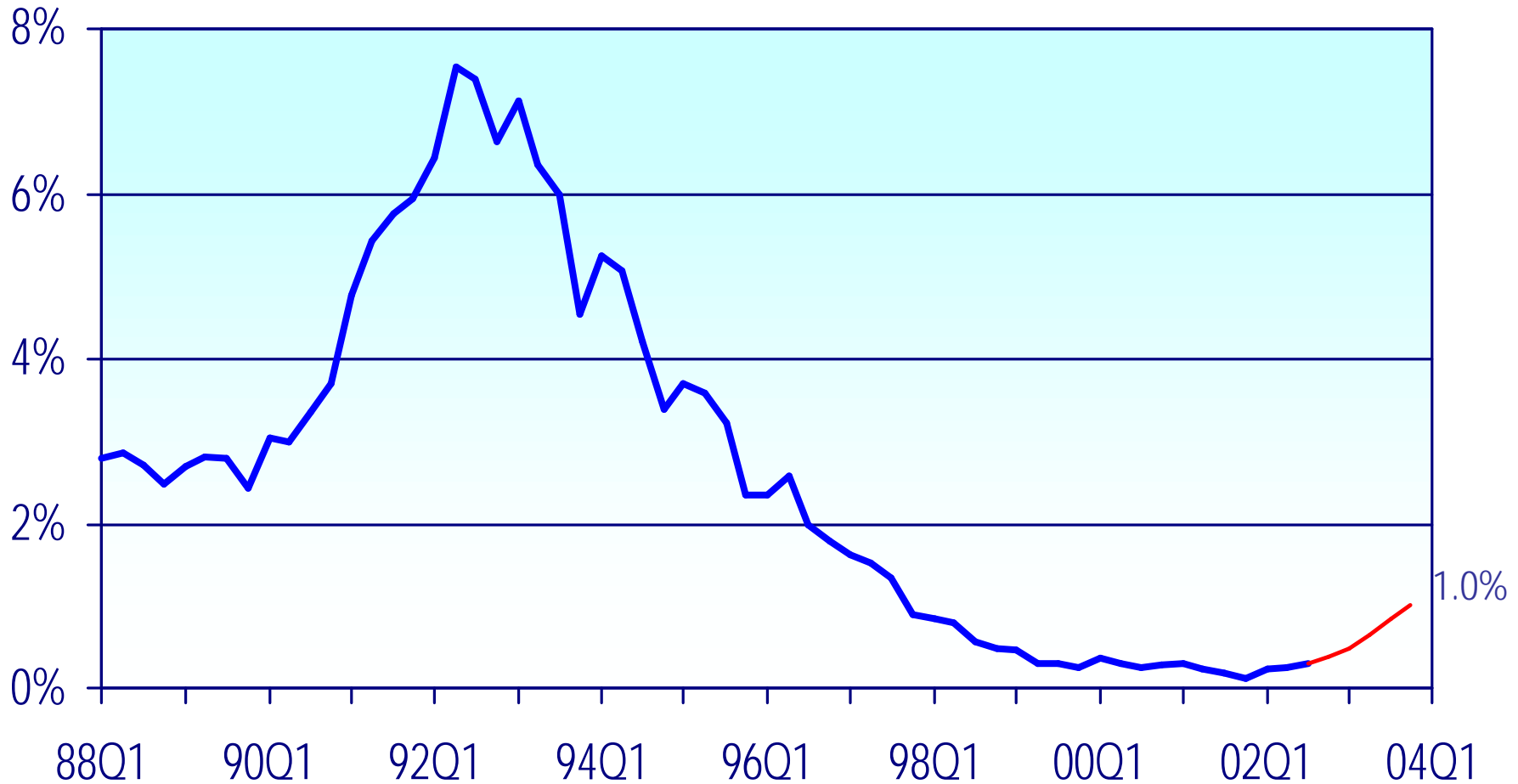
Source: National Real Estate Index. Data as of 4Q except 2002=3Q.

U.S. Equity Investment: Historical Activity



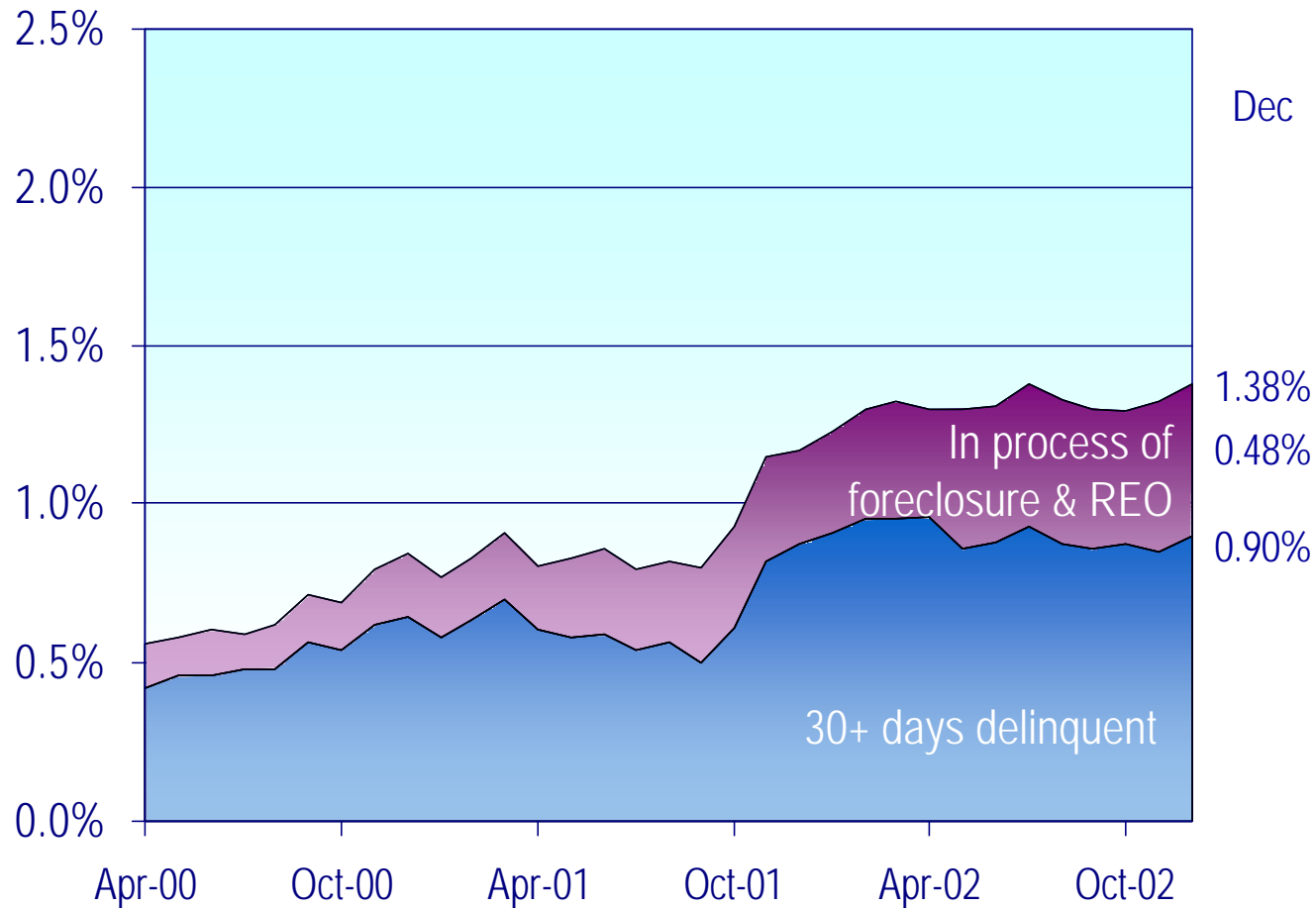
Source: Investment Real Estate, Inc. 2002 = ytd through 3Q + estimated 4Q.

Mortgage Delinquency Rates - Life Companies



Source: American Council of Life Insurers (whole mortgages held by life insurers). 3Q02 = 0.31%. Forecast for 4Q03: Lend Lease Research.

CMBS Mortgage Delinquency Rates



Source: Morgan Stanley Dean Witter, through December 2002. For non-RTC multi-asset pools. Forecast: Lend Lease Research.