

Market Dynamics

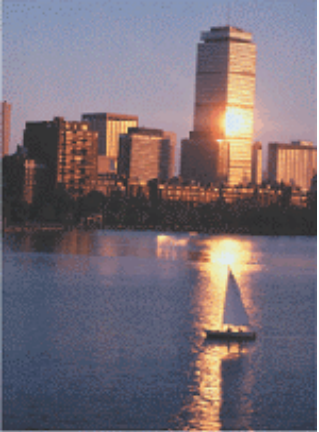
MBA CREF

February 4, 2002

Presented by:

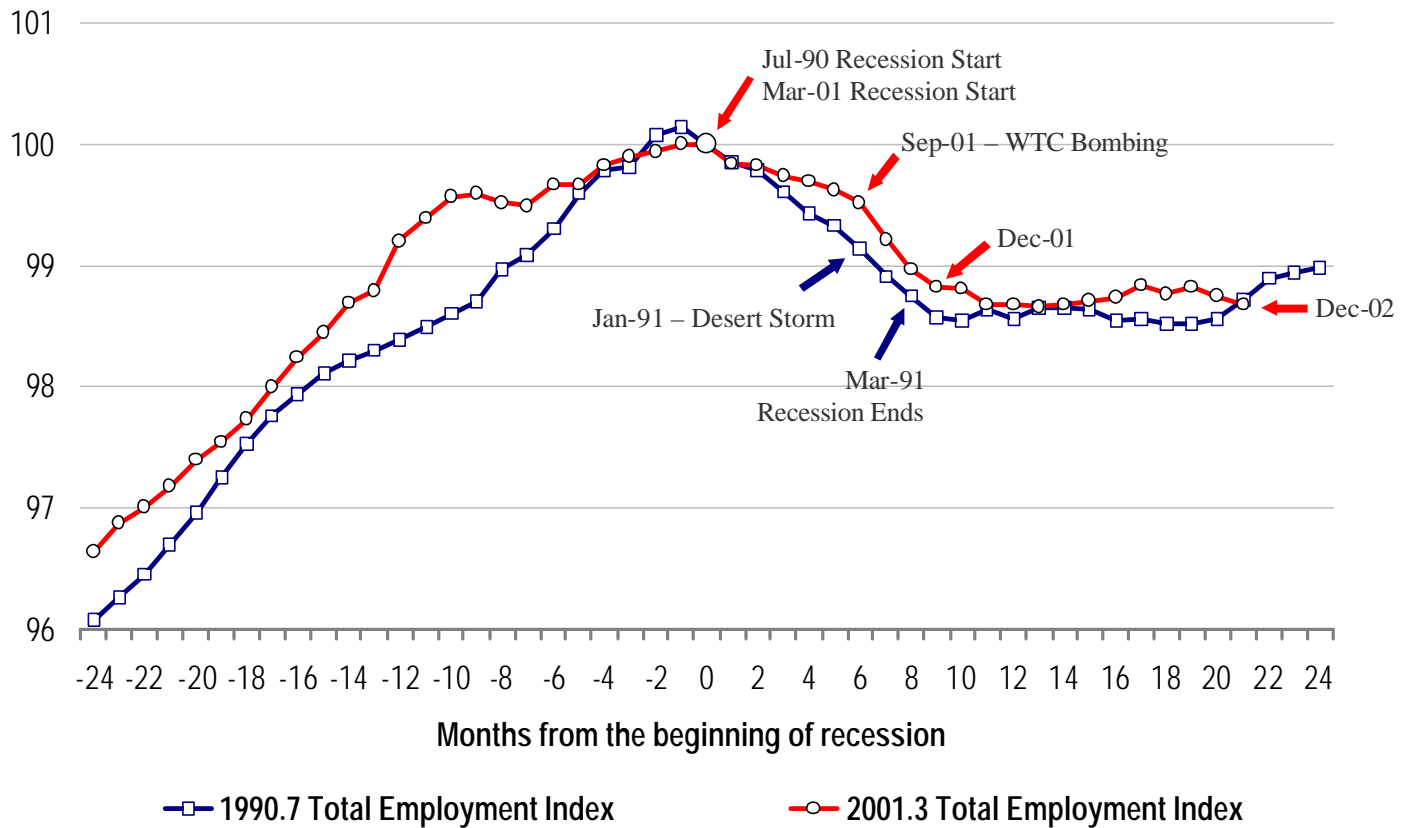
Raymond G. Torto, Ph.D., CRE

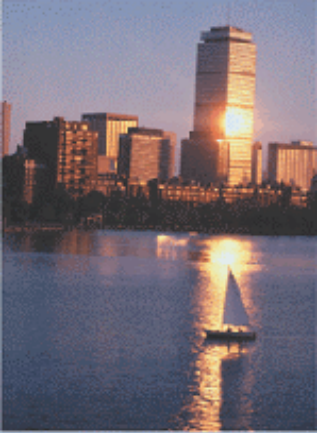
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Job Growth Not Visible on Horizon

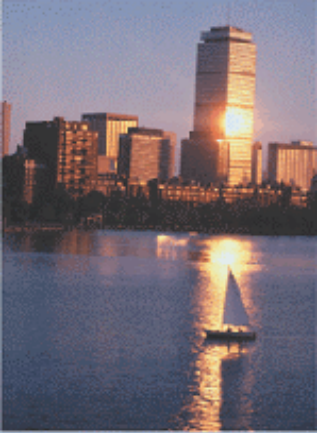
1990-1 vs. 2001-2 Recession





The Bottom Line: The Real Estate Investment Market

- 1). The absence of demand, not overbuilding, will keep markets soft for some time.
- 2). NOI declines *will continue for several years but not severely: 10% versus 25% in 1990s*
- 3). Cap rates currently holding firm given alternatives. This is *not* a “regime shift and they *will* rise in years ahead [50 to 120 bps]
- 4). Five year IRRs will be anemic!



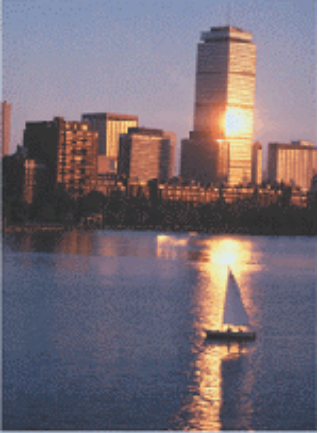
The Bottom Line: Debt Risk

Historically(1978-1999):

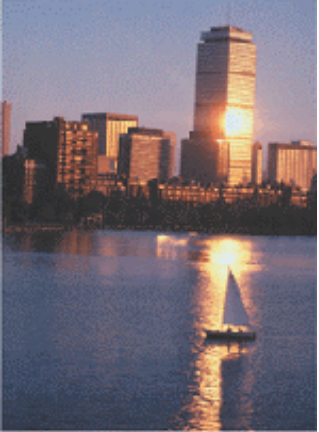
- Defaults average 18%
- Expected Loss averages 6.0%

TWR's Forecast (2002-2007):

- Defaults range from 2% (retail) to 27% (Hotel). Average 7%
- Expected Loss ranges from .3% to 4%. Average is 1.5%



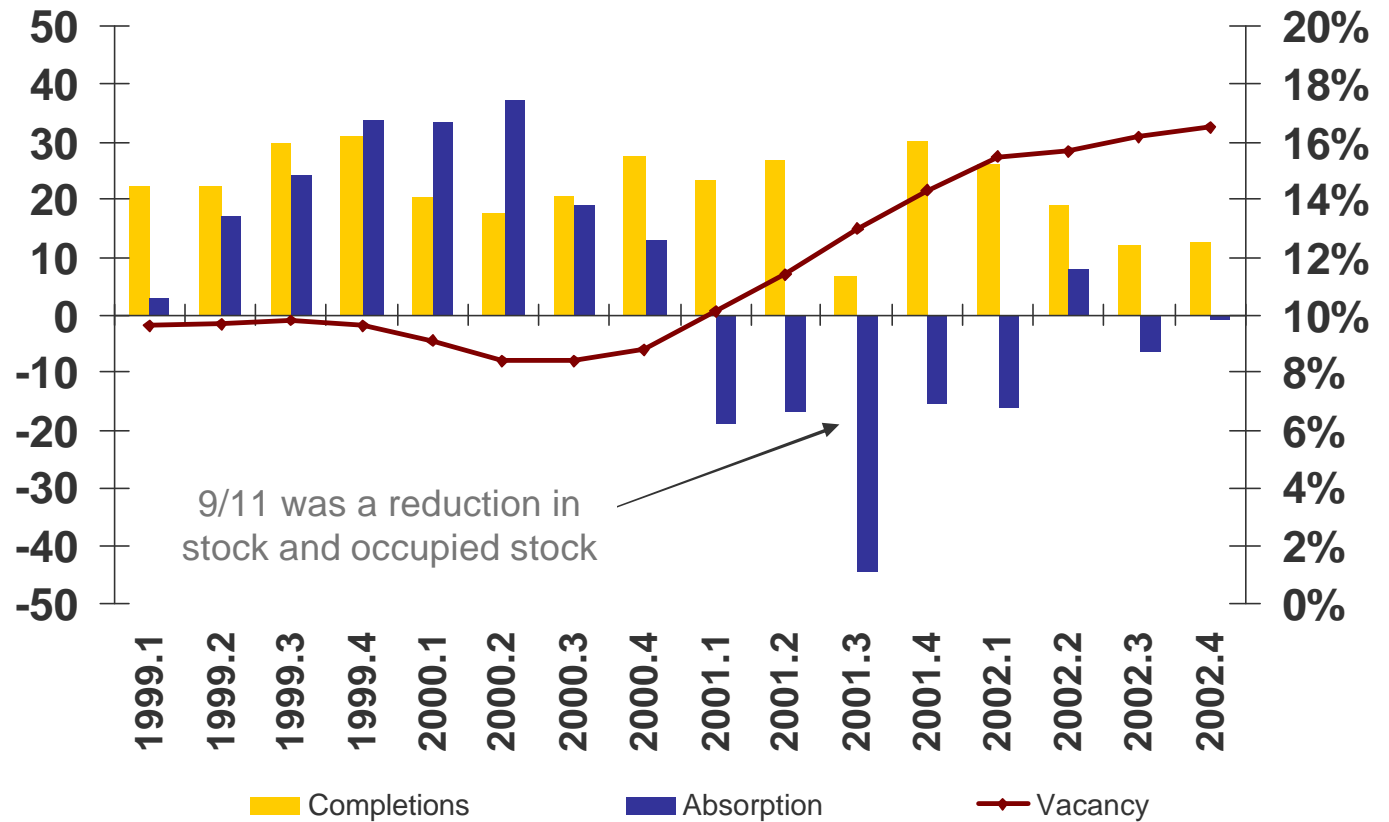
The Underlying Fundamentals: Some Examples



Office Vacancies: Lack of Demand and New Supply

Completions and Absorption
(millions of square feet)

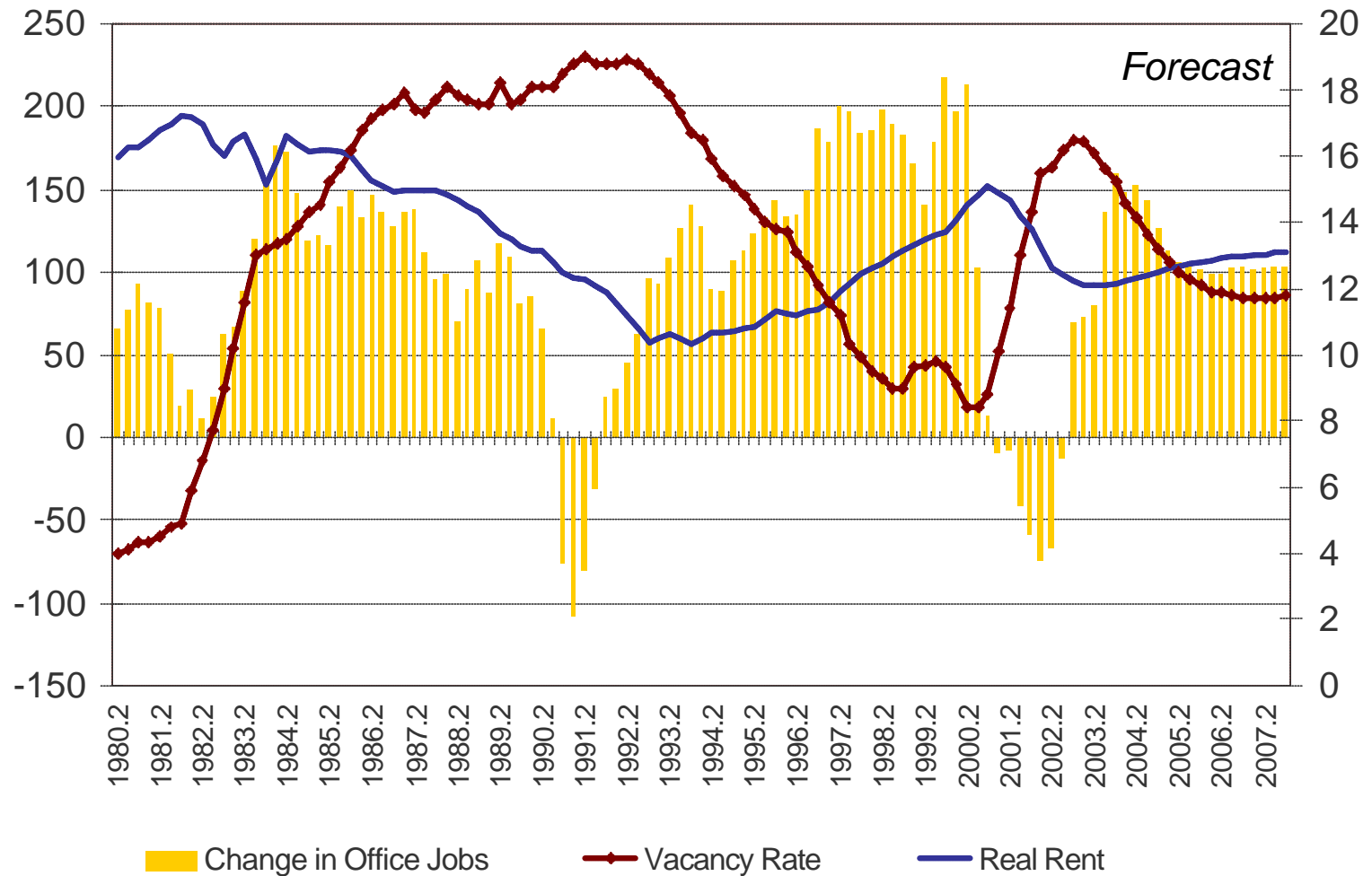
Vacancy Rate %

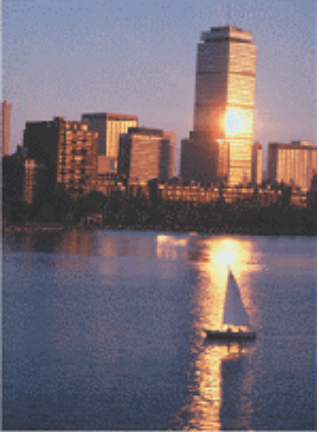


Office Outlook Will Improve in 2004

Change in Office Jobs, x 1,000

Real Rent Index, \$ 2002, Vacancy %



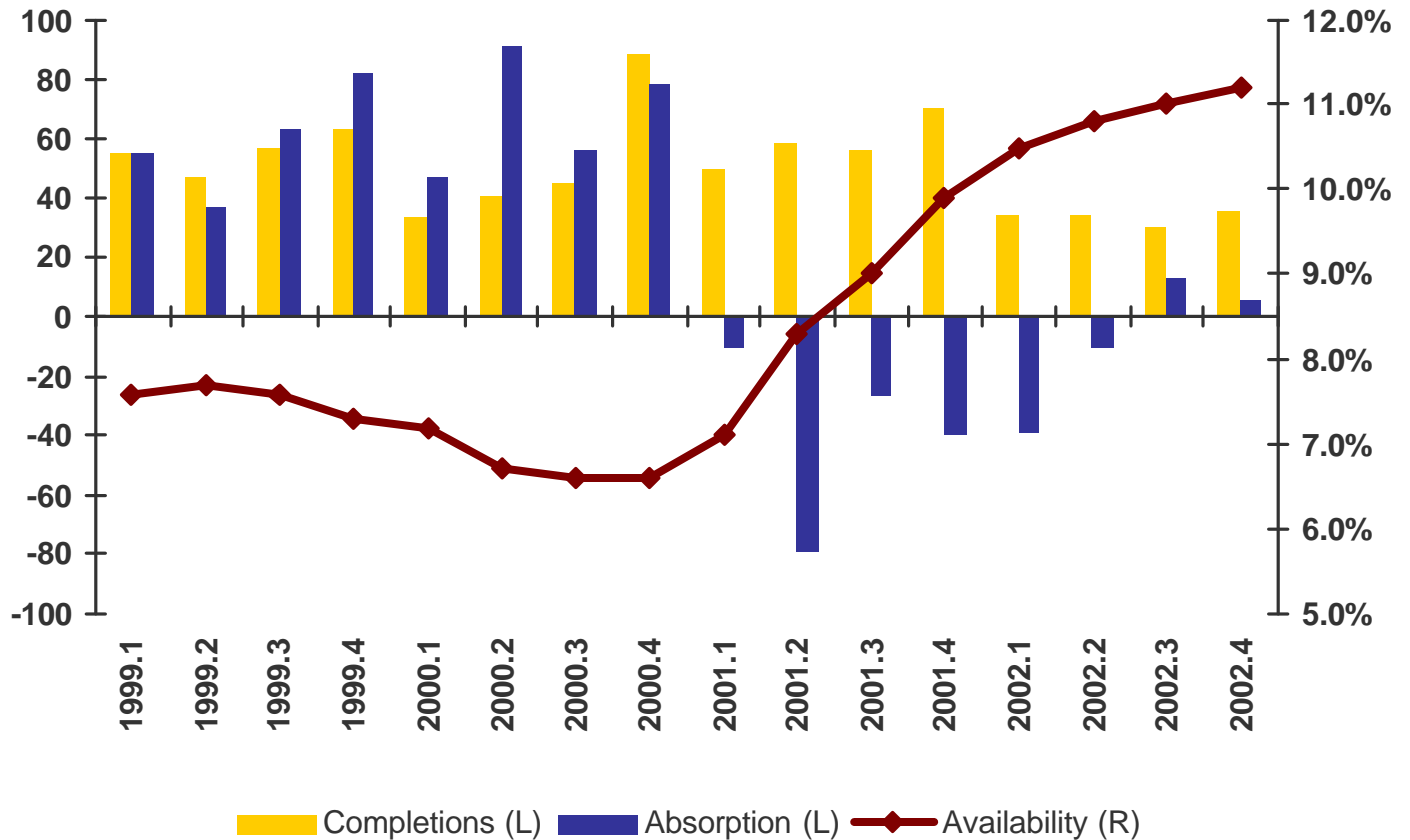


Industrial Availability: Fall Off In Demand, Supply Continues

Completions and Absorption

(millions of square feet)

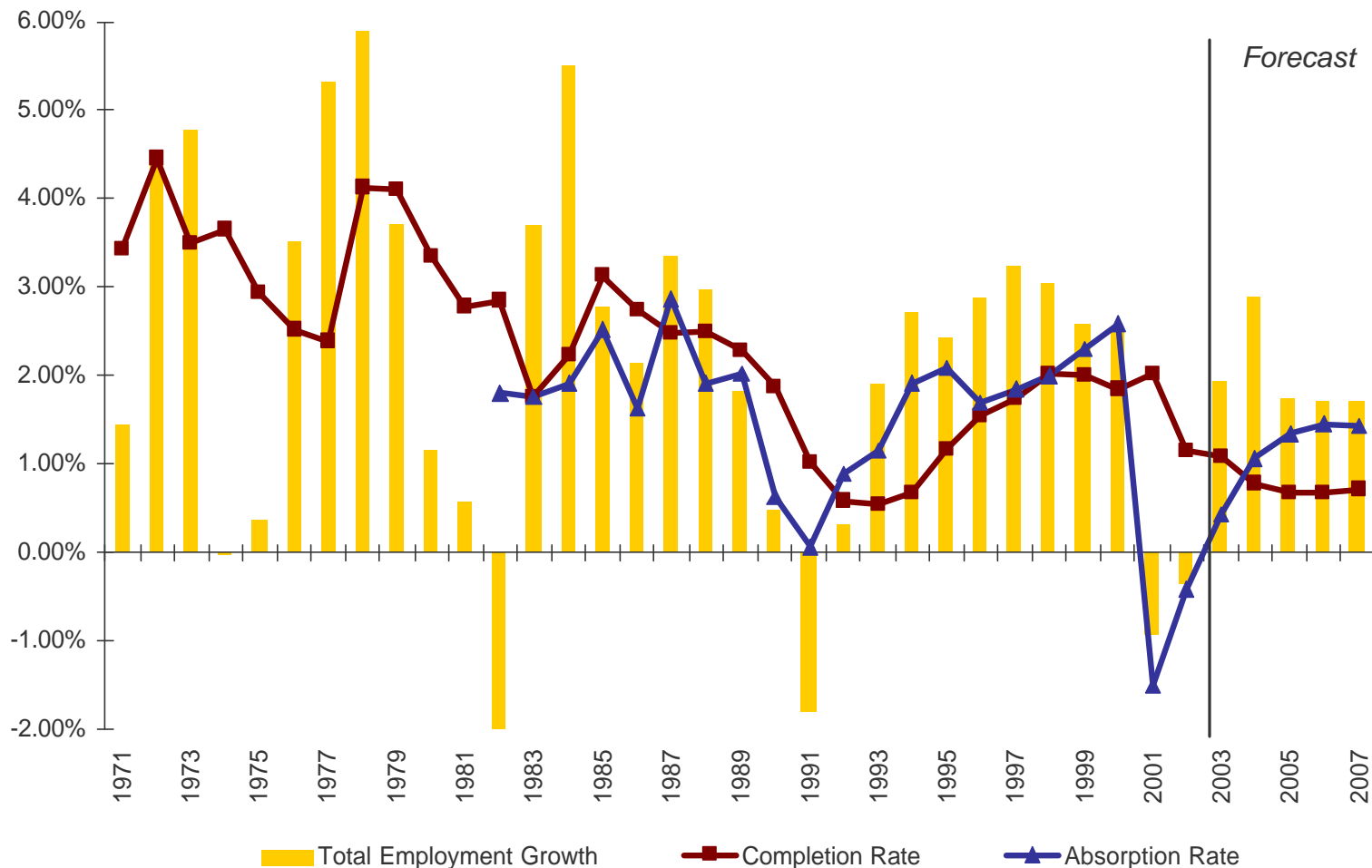
Availability Rate





National Industrial Forecast

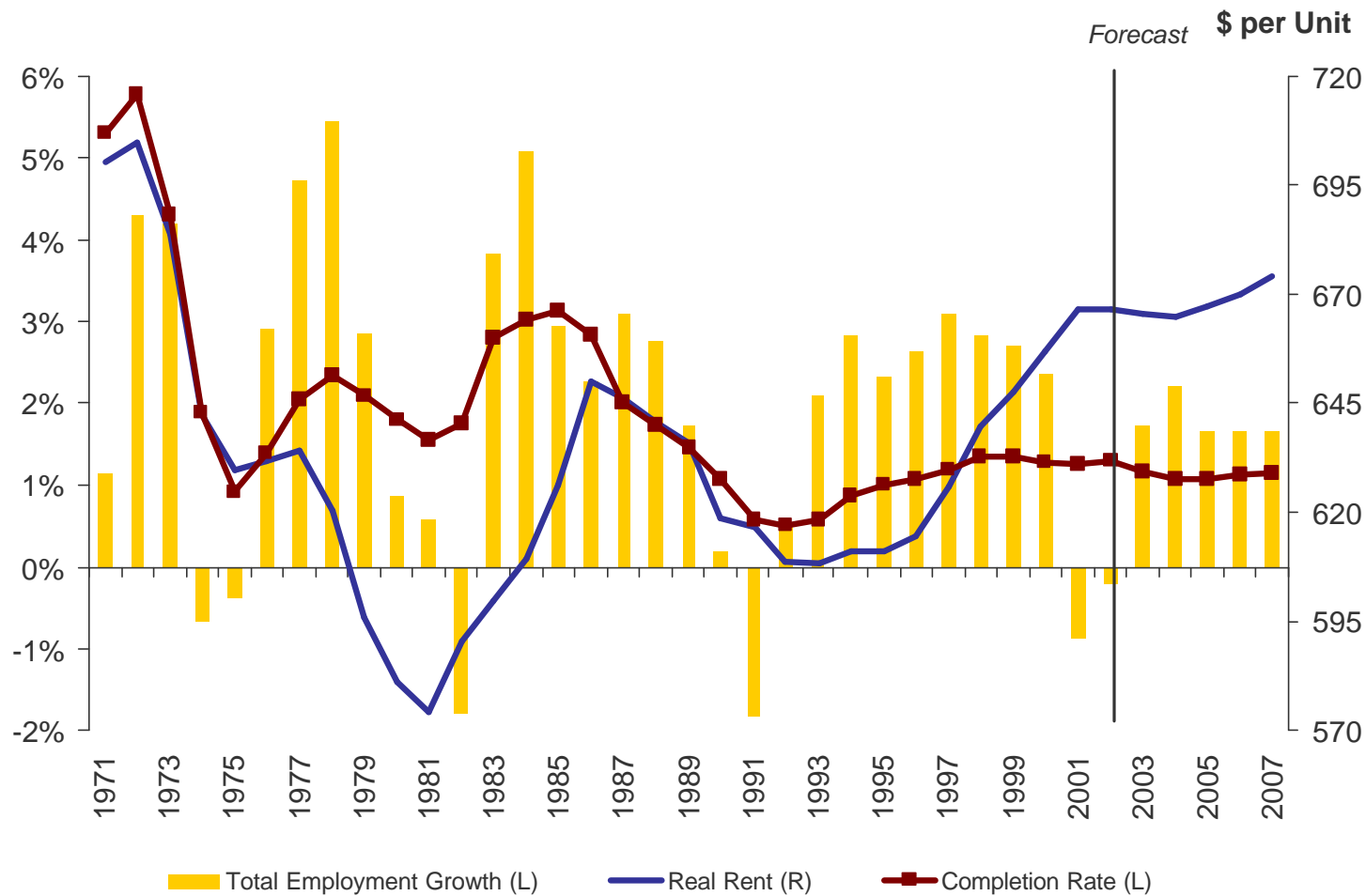
Total Employment Growth, Completion Rate, Absorption Rate





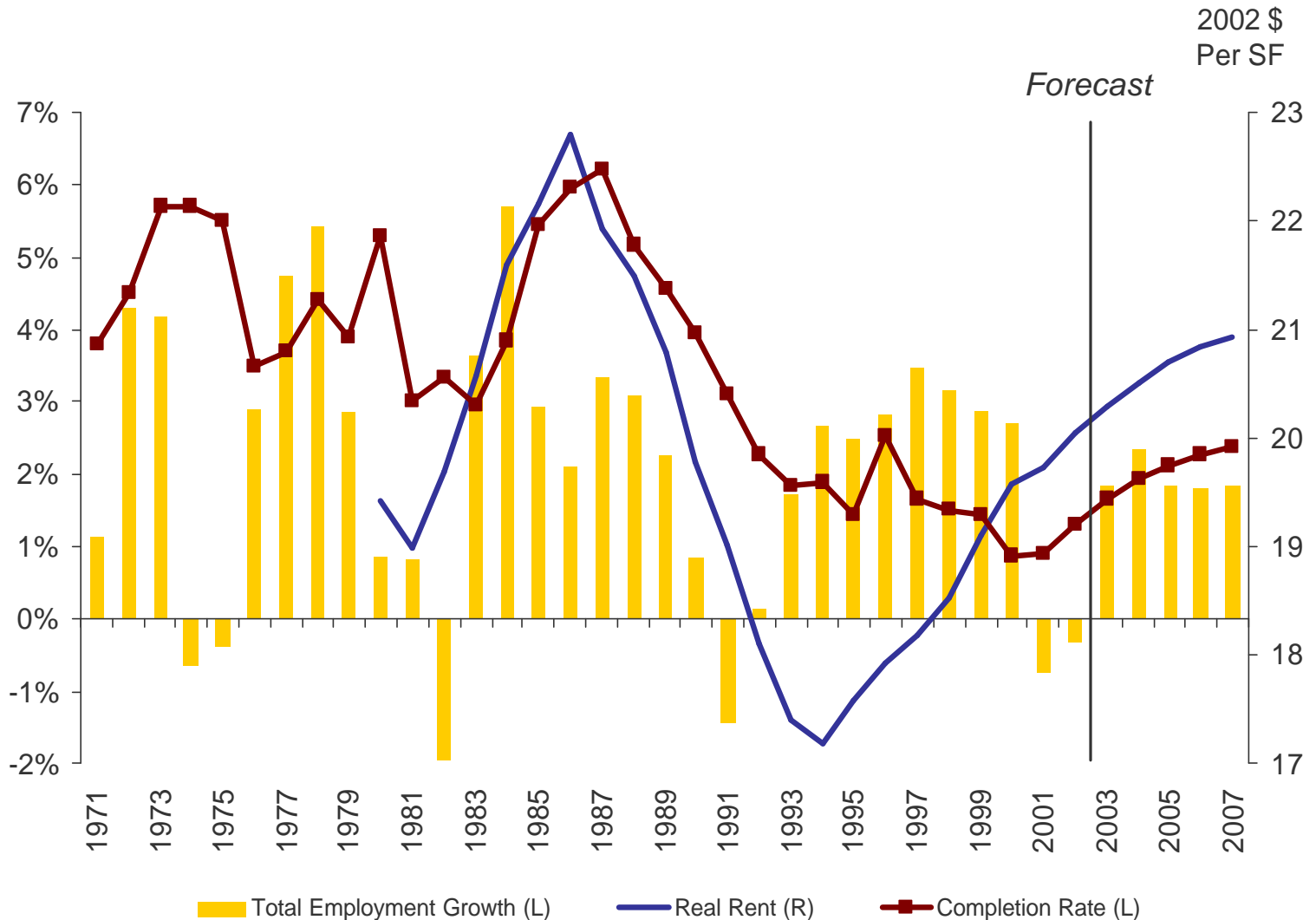
National Multi-Housing Forecast

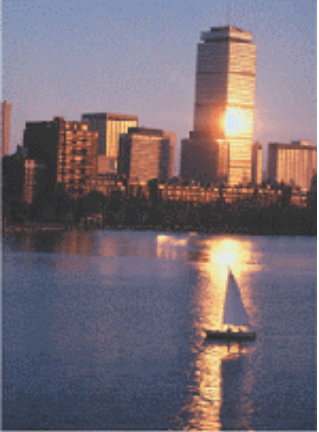
Completions Rate vs. Real Rent





National Retail Forecast Completion Rate vs. Real Rent





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