Real Estate Capital Markets Update – March 25, 2005

Volume 7, Number 4

Welcome to the update of ULI's Real Estate Capital Markets Web site. Updates are divided into four sections: public real estate securities markets, public real estate debt markets, private real estate equity markets, and private real estate debt (mortgage) markets. In each section, we feature Real Estate Capital Markets Scoreboards detailing selected performance indices for each of the real estate capital markets.

To expand site users' knowledge and understanding of the real estate capital markets, we will publish "knowledge" papers describing underlying market mechanics. In addition, we have provided links to other Web sites that provide related and relevant information. Click here for links to other Web sites.

Frequently Asked Questions (FAQs): In addition to knowledge papers, we have published answers to FAQs about the real estate capital markets. To go to FAQs, click here.

Glossaries of frequently used terms are available for readers' use. To go to the glossary section, that includes selected Web sites that provide glossaries and/or real estate term search engines, click here.

We want this site to be both useful and responsive to users, and we encourage you to e-mail comments and suggestions. If you want to send me an e-mail, click stephen@uli.org, add your comments, and click "Send".

Interest Rate Monitor					
Date	**Federal Funds Rate**	**Prime Rate**	**10-Year Treasuries**	**3-Month Libor**	**Date of Federal Reserve Board Meeting**
3/23/05	**2.75%**	**5.75%**	**4.64%**	**3.06%**	**May 3, 2005**
Year Ago	**1.00%**	**4.00%**	**3.70%**	**1.11%**	**-----**
Change	**+1.75%**	**+1.75%**	**+0.94%**	**+1.95%**	

Special Comment: Alice Connell, Group Managing Director, TIAA/CREF, to be Guest Speaker at 3rd ULI Real Estate Capital Markets Conference Call

We are pleased to announce that Alice Connell, Group Managing Director of TIAA/CREF, will the next guest speaker on ULI's Real Estate Capital Markets Conference call. The call is scheduled for April 5, 2005, from 11:00 to 11:45 am, Eastern Standard Time. If you would like to suggest a question for the call, please e-mail blank@uli.org.

The call-in number will be: 1-719-785-9359

The participant code will be: 508131

The call will be recorded and available for playback for 30 days.

The replay call-in number will be: 1-719-457-0820

The replay pass code will be: 64743601

Special Comment: Federal Reserve Board Increases Federal Funds Rate 25 Basis Points

As widely anticipated, the Federal Reserve Board (FRB) increased the Federal Funds Rate 25 basis points (0.25%) to 2.75%, marking the seventh 25 basis point increase since June 2004.

In its published statement accompanying the announcement of the rate increase, the FRB noted specifically that "monetary policy remains accommodative…and is providing support for the economy…[and] that policy accommodation can be removed at a pace that is likely to be measured", thereby maintaining the same language that the FRB has used to describe monetary policy.

It terms of its policy bias (or direction), the announcement noted that the "…upside and downside risks to the attainment of both sustainable growth and price stability…" remain roughly equal.

What appears to have upset the stock and bonds markets was the specific and substantially changed reference to inflation contained in the FRB statement, as follows: "Though longer-term inflation expectations remain contained, pressures on inflation have picked up in recent months and pricing power is more evident".

According to economy.com, "Today's statement (1) acknowledges tentative signs of an unfavorable turn in inflation data as well as the limited impact of rising energy prices on growth and inflation thus far; and (2) highlights the fact that the end to Fed [FRB] tightening [of interest rates] maybe quite some way off."

For planning purposes, it appears likely that the FRB will raise rates 25 basis points at each of its next two regularly scheduled meeting (May 3rd and June 30th). A continuation of this type of activity means that the Federal Funds Rate could reach 3.75% to 4.00% by yearend 2005.

In a related action, the FRB increased the Discount Rate 25 basis points to 3.75% and major money center commercial banks increased their Prime lending rate to 5.75%. In the bond markets, the yield on 10-year Treasury bonds increased 12 basis points to 4.64% from 4.52%.

Special Comment: Quotes from "The PunchLine…

"When Alan Greenspan says he cannot explain why longer-term interest rates are so low, what's an investor to do? Take cover!"

"Mr. Greenspan said that the recent performance of longer-term interest rates 'may be a short-term aberration.' In other words, the normal upward tilt of longer-term rates could return."

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“If there is a bubble, it probably doesn’t lie in stocks. Americans are so enamored of real estate that they’re snapping up two or more homes. Second homes accounted for more than a third of all houses sold last year, according to a study by the National Association of Realtors. Most of them were for investment purposes, as opposed to vacation homes. That works fine as long as prices keep going up. But if the typical buyer, earning $87,500, sees housing prices fall, then tat high-debt strategy may backfire.”

Editor’s Note: Could the same thing be said about commercial and multifamily real estate? What would the consequences be of a withdrawal of liquidity from the real estate capital markets?

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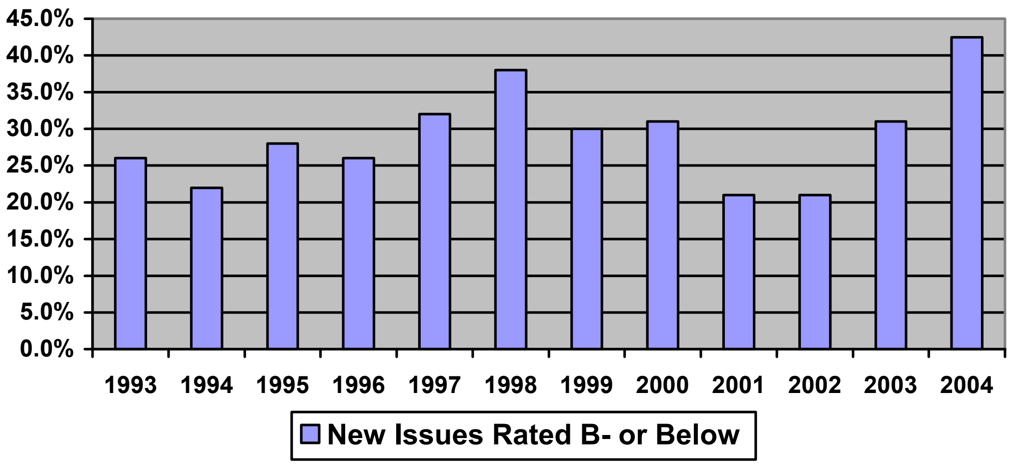
Credit Concerns – Reality Programming: What are the implications for the credit markets in the period 2006 to 2008 of the recent rapid increase in the amount of debt rated B- or below?



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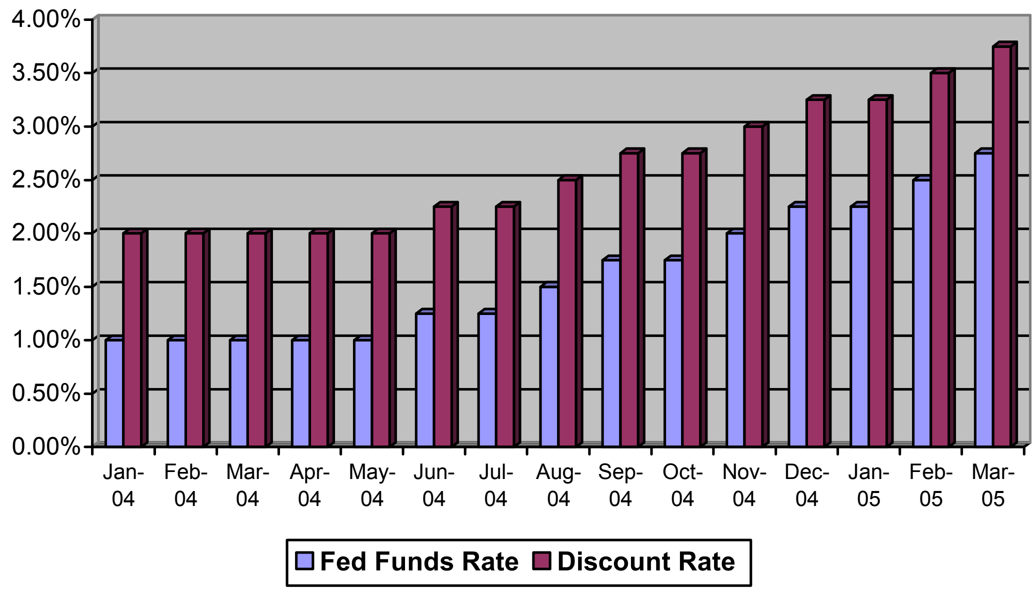
Federal Funds Target Rate and Discount Rate



Real Estate Capital Markets Scoreboard: Money Rates	March 23, 2005
Prime Rate (Base rate on corporate loans by the largest commercial banks)	5.75%
Federal Funds Rate (Rate banks charge other banks for overnight loans)	2.75%
Discount Rate (Rate charged banks who borrow overnight from the FRB)	3.75%
Dealer Commercial Paper (Rate for high grade unsecured notes sold by major corporations)	2.79% - 30 days 2.93% - 60 days 3.00% - 90 days
London Inter-bank Offered Rate (LIBOR) (Rate on deposit-based transactions between banks in the Eurocurrency market)	2.85%- 1-month 3.09% - 3-months 3.37% - 6 months 3.82% - 1 year
U.S. Treasury Securities	4.60% - 10-year

Public Real Estate Securities Capital Markets

Real estate investment trusts (REITs), reacting to the recent increase in the Federal Funds Rate and the resulting increase in the Treasury bond yields, continued their “tumble from the top”. While many would like to argue that REITs are not interest sensitive, every investment platform is interest sensitive, especially in a rising rate environment where the “weight of capital” is bearing down on income-producing investments. Where this stops nobody knows; interestingly, technical analysts are being to look for floors and resistance points for buying signals. What we probably need is a series of strong first quarter earnings announcements to renew investor confidence.

Real Estate Capital Markets Scoreboard: Public Securities and Real Estate Performance Indices as of March 24, 2005						
	Dow Jones Industrial Average	S&P 500 Stock Index	NASDAQ Composite Index	Russell 2000 Index	Morgan Stanley REIT Index	NCREIF All Property Index
2005	-3.15%	-3.34%	-8.48%	-5.57%	-8.08%	+14.5%*
* Trailing 12-months ended December 31, 2004.						

Real Estate Capital Markets Scoreboard: Market Capitalization of REITs (number of shares multiplied by share price in $ millions) as of March 24, 2005								
	# of REITs	Market Cap	Equity REITs	Market Cap	Mortgage REITs	Market Cap	Hybrid REITs	Market Cap
2005	195	282,048	153	252,723	35	23,327	7	5,949
Source: National Association of Real Estate Investment Trusts (NAREIT).								

Real Estate Capital Markets Scoreboard: Offerings of Securities by REITs (in $ millions) as of February 28, 2005				
	2004		2005	
	# of Offerings	$ Value	# of Offerings	$ Value
Initial Public Offerings	29	$8,271	2	$794
Follow-on offerings-Common Shares	79	7,338	6	437
Follow-on Offerings-Preferred Shares	61	5,858	5	409
Unsecured Debt	97	17,306	8	1,126
Secured Debt	0	0	2	1,910
Source; National Association of Real Estate Investment Trusts.				

Public Real Estate Debt Capital Markets

Capital remains plentiful as securitization platforms compete for business in every manner possible, from rate to loan-to-value ratio, from debt service coverage ratios to loan covenants. It appears that no term or condition is inviolate in today's marketplace and everything is subject to negotiation. Issuance volume is brisk to say the least and 2005 could easily be another record year for the commercial mortgage-backed securities business.

Conduits have come of age! Conduits were the largest originators of commercial and multifamily loans during the fourth quarter of 2004 as a well as on a full year basis.

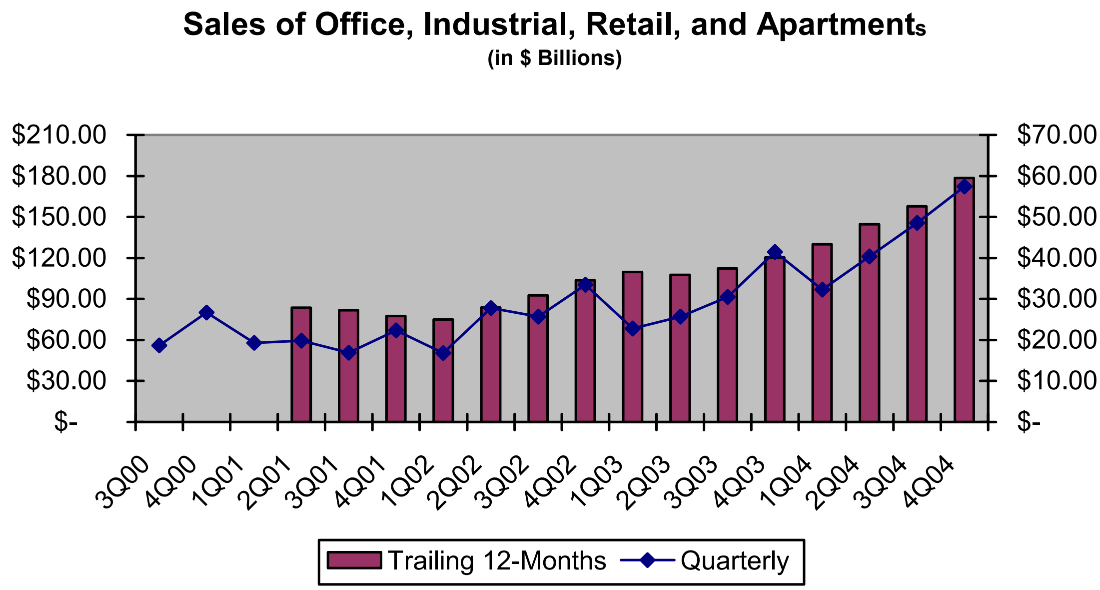
The following data, provided by the Mortgage Bankers Association, details the volume by lender type, including conduits, commercial banks, life insurance companies, Fannie Mae, Freddie Max, FHA, pension funds, credit companies, and "miscellaneous":

	2004		2003		4Q04	
	Volume ($ Millions)	% of Total	Volume (S Millions)	Change 03 to 04	Volume ($ Millions)	% of Total
Conduits	$41,234	30.3%	$38,855	6.1%	$13,920	32.6%
Commercial Banks	26,062	19.1%	16,919	54.0%	8,543	20.0%
Life Insurers	28,970	21.3%	24,048	20.5%	8,412	19.7%
Fannie Mae	12,270	9.0%	14,178	-13.5%	3,715	8.7%
Freddie Mac	9,009	6.6%	7,122	26.5%	3,290	7.7%
FKA	3,071	2.3%	4,336	929.2%	608	1.4%
Pension Funds	1,866	1.4%	1,910	-2.3%	565	1.3%
Credit Companies	751	0.6%	893	-15.9%	247	0.6%
Other	12,897	9.5%	8,950	44.1%	3,370	7.9%

Issuance of Commercial Mortgage-Backed Securities January 1, 2000 through March 25, 2005 (in $ Millions)			
	U.S. Assets	Non-U.S Assets	Total Issuance
2000	46,849.4	12,116.4	59,010.8
2001	67,149.9	22,713.8	89,863.7
2002	52,073.3	28,705.9	80,779.1
2003	77,848.1	20,802.9	98,651.0
2004	93,838.2	33,746.0	127,584.2
2005	29,000.0	9,200.0	38,200.0
Source: Commercial Mortgage Alert.			

Real Estate Capital Markets Scoreboard: Commercial Mortgage-Backed Securities Trading Spreads above 10-Year Treasury Bonds (in Basis Points)				
	Trailing 12-Months	12/29/04	3/22/05	Year-to-Date
10-Yr. Treasury Bonds	4.33%	4.32%	4.64%	+0.07%
AAA	+73	+70	+70	0
AA	+81	+77	+79	+2
A	+89	+85	+89	+4
BBB	+129	+127	+136	+9
BBB-	+169	+167	+186	+19
BB	+357	+325	+310	-15
B	+822	+770	+750	-20

Private Real Estate Equity Capital Market



Source: Real Capital Analytics Inc. (www.realcapitalanalytics.com).

Real Estate Capital Markets Scoreboard: Survey of Initial Capitalization Rates								
	Multi-Family	CBD Office	Suburban Office	Retail-Mall	Retail-Neighborhood	Retail-Power	Industrial-Warehouse	Industrial-R & D
2Q98	8.5%	8.5%	8.6%	8.3%	9.1%	9.2%	8.7%	8.8%
4Q98	8.8%	8.7%	8.9%	8.6%	9.5%	9.6%	8.9%	9.1%
4Q99	8.8%	8.9%	9.0%	8.5%	9.2%	9.6%	9.0%	9.3%
4Q00	8.7%	8.6%	9.3%	8.9%	9.4%	10.1%	8.9%	9.3%
4Q01	8.6%	9.2%	9.8%	8.9%	9.5%	10.2%	9.1%	9.7%
4Q02	8.0%	9.0%	9.7%	8.7%	9.2%	9.5%	8.9%	9.7%
4Q03	7.6%	8.4%	9.0%	7.9%	8.2%	8.4%	8.4%	9.2%
4Q04	7.2%	8.1%	8.5%	7.6%	7.7%	8.0%	8.0%	8.9%
YTD	**-0.4%**	**-0.3%**	**-0.5%**	**-0.3%**	**-0.5%**	**-0.4%**	**-0.4%**	**-0.3%**
Source: Real Estate Research Corp. (www.rerc.com).								

Private Real Estate Debt (Mortgage) Capital Markets

Reinforcing what we all know already, a recent report from the American Council of Life Insurers (ACLI), insurance companies issued record commitments of $39.2 billion of conventional commercial and multifamily mortgages in 2004, an increase of approximately 20% over 2003's $32.7 billion, which was also a record. The ACLI survey included data from 27 insurance companies that account for 70% of the industry's commercial and multifamily mortgage holdings.

The following chart details fourth quarter 2004 lending by insurance companies on a property segment basis, including rate spreads in basis points over 10-year Treasury bonds, debt service coverage ratios, loan-to-value ratios, and average term (in years);

	Spread in Basis Points	Debt Service Coverage Ratio	Loan-to-Value Ratio	Average Life (in years)
Multifamily	+147	1.88	69.3	7.8
Office	+154	1.99	63.9	8.0
Retail	+145	1.65	67.4	9.0
Industrial	+143	1.78	69.1	8.1
Hospitality	+188	1.73	63.2	8.5
Mixed-Use	+147	1.70	71.6	7.3
Other	+199	1.74	70.3	7.3
Average	**+151**	**1.83**	**67.0**	**8.2**
Source: American Council of Life Insurers.				

In keeping with commitments for conventional mortgage financing reaching an all-time record, delinquency rates for commercial and multifamily mortgages originated by life insurance companies reach an all-time low as of the fourth quarter 2004. According to a survey by the ACLI, only 0.08% (that's 8/100ths of 1.0%) of mortgages held by insurance companies participating in the survey were delinquent as of December 31, 2004, down from 0.14% as of the end of the third quarter 2004. The current level of 0.08% marks the lowest level in the 36 years that the ACLI has been surveying delinquency statistics from members. The survey included 58 insurers who accounted for 85% of the insurance industry's outstanding balance as of December 31, 2004.

The following chart details delinquency rates by property sector from December 31, 2003 through December 31, 2994 on a quarter-by-quarter basis:

	12/03	3/04	6/04	9/04	12/04
Multifamily	0.04%	0.03%	0.06%	0.19%	0.01%
Retail	0.04%	0.09%	0.06%	0.05%	0.06%
Office	0.14%	0.14%	0.23%	10.19%	0.15%
Industrial	0.14%	0.12%	0.14%	0.11%	0.07%
Hospitality	0.00%	0.19%	0.39%	0.10%	0.06%
Mixed-Use	1.44%	1.43%	0.01%	0.16%	0.01%
Other	0.03%	0.03%	0.00%	0.00%	0.03%
Total	**0.12%**	**0.14%**	**0.14%**	**0.14%**	**0.08%**
Source: American Council of Life Insurers.					

Interest rates for conventional mortgage loans have increased slightly in response to the recent run-up in the yield on 10-year Treasury bonds, but still remain attractive and business is report is “robust”.

Real Estate Capital Markets Scoreboard: “Prime” 10-Year Commercial Mortgages						
	12/31/01	12/31/02	12/31/03	12/31/04	2/28/05	Year-to-Date
Prime Mortgages	7.33%	6.05%	5.80%	5.51%	5.51%	0.00%
10-Year Treasuries	5.05%	3.81%	4.25%	4.22%	4.31%	+0.09%
Spread	2.28%	2.23%	1.65%	1.29%	1.20%	-0.09%
Source: Barron’s/John B. Levy and Company Survey.						