

Real Estate Capital Markets Update – June 23, 2005

Volume 7, Number 8

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".

Key Rates			
	June 20, 2005	Year Ago	Increase/Decrease
Prime Rate	6.00%	4.00%	+2.00%
Federal Funds Rate	3.00%	1.00%	+2.00%
3-Month Libor	3.44%	1.56%	+1.88%
3-Month Treasury Bills	2.96%	1.31%	+1.65%
10-Year Treasury Bonds	4.11%	4.68%	-0.57%
30-Year Treasury Bonds	4.39%	5.37%	-0.98%
Telephone Bonds	5.77%	6.51%	-0.74%
Municipal Bonds	4.39%	5.23%	-0.84%

Special Comment: What Did He Say?

Federal Reserve Board Chairman Alan Greenspan is not known for being forthright or blunt; rather he is characterized by many as being both opaque and oblique.

In recent testimony before the Joint Economic Committee of the Congress, Chairman Greenspan noted that the economy faced significant “imbalances” and made it very clear that the Federal Reserve Board (FRB) is not finished increasing interest rates, which he then affirmed would be increased at a “measured pace”, thereby virtually guaranteeing that the FRB will increase the Federal Funds Rate 25 basis points at its next meeting on June 30. While noting that the economy was on a “reasonably firm footing”, Chairman Greenspan expressed concern about the nation’s significant trade deficit, the increasing evidence of

“risky speculation” in the single family housing market, and the “negligible” rate of personal savings. Referring to what has become known as “Greenspan’s Conundrum” (where long-term interest rates have been pushed down almost below short-term interest rates in the Treasury Bond market), Chairman Greenspan noted that the unexpected decline in long-term interest rates was “unprecedented”, and that...“It’s a profoundly important phenomenon and really quite different than one would expect” as long-term interest rates are lower today than they were a year ago.

When asked how he would know that interest rates had reached the FRB’s target level, Chairman Greenspan said: “We will know we’re there when we get there”.

Special Comment: Federal Reserve Chairman Says Low Rates Tempt Investors to Risk More

Speaking to a conference of central bankers in Beijing, Federal Reserve Board Chairman Alan Greenspan warned that persistence of cheap (via borrowings at low, long-term, interest rates) money is “clearly without recent precedent”, defying simple explanations, and is tempting investors to take additional investment risk.

As noted in an article in the *New York Times* (June 7, 2005): “Mr. Greenspan warned that low rates are driving investors to seek higher returns by taking on higher financial risks—particularly in hedge funds and private equity funds that hold out the prospect of higher profits through sophisticated trading strategies. He took particular aim at packages of debt known as collateralized debt obligations (or CDOs), which is one of the fastest growing businesses on Wall Street.”

Special Comment: Notes and Quotes from “The PunchLine...”

“New York Federal Reserve Board Warns of Risk of Structured Credit”

“The explosive growth in structured credit products could have made some investors vulnerable to losses in the event of an unexpected economic shock, the President of the New York Federal Reserve has warned. Speaking to the *Financial Times*, Timothy Geithner said: ‘The growth of credit derivatives and other forms of risk transfer seem to have made the system more stable. But these gains may have come at the price of increasing uncertainty and potential losses if we end up in the “tail”—a bankers’ term to describe the chance of a statistically rare event occurring.’”

“Bubble, Bubble, Housing Market’s in Trouble, Shiller Warns”

“In March 2000, when our stocks and our sensibilities were ripping through the stratosphere, Yale economist Robert J. Shiller tried to yank us down to Earth. His first edition of *Irrational Exuberance* pointed to a bubble in the stock market. Now, Shiller has seen fit to update *Irrational Exuberance*. In this new edition, he warns that there’s a bubble in home values. We haven’t lost the irrational exuberance Greenspan chided us about in 1996, he writes. We’ve redirected much of it into real estate.”

Special Comment: Where Do You Get Your Information?

The answer is—from many public and private sources. Obviously, as an ex-real estate investment banker (and ULI member) with over 30 years experience on Wall Street, I maintain a large rolodex of contacts in the real estate, corporate finance, pension fund advisory, legal, accounting, real estate services, etc. industries, all of whom have been more than generous in sharing information, views, insights, and opinions.

On the public, published side, ULI's Real Estate Capital Markets Update receives access to a wide array of specialized corporate finance as well as real estate industry specific publications, each of which we periodically review in this publication as way of thanking them for their help as well as bring them to our reader's attention.

One of the sources on which rely extensively is Harrison Scott Publications, publisher of *Commercial Mortgage Alert*, *Real Estate Alert*, *Asset-Backed Alert*, *Hedge Fund Alert*, and *Private Equity Insider*. In total, these publications provide readers with unprecedented access to hard-to-get news and analysis of the activities of participants in the securitized and conventional real estate finance, acquisition and disposition of commercial and multifamily real estate, asset-backed and mortgage-backed securitization, hedge fund, and private equity investment sectors. The following summarizes the focus of each publication:

Commercial Mortgage Alert—analysis and statistics on the commercial mortgage-backed securities and real estate investment trust debt markets as well as the traditional real estate finance business. For further information, visit www.cmalert.com

Real Estate Alert—news, analysis, listings, buyer and seller investment strategies, and transactional data regarding the activities of buyers and sellers active in the commercial and multifamily property markets. For further information, visit www.realert.com

Asset-Backed Alert—news and statistics on asset-backed and mortgage-backed securitization activities throughout the world. For further information, visit www.abalert.com

Hedge Fund Alert—news of hedge fund launches, investment strategies and products, and regulatory and legal issues. For further information, visit www.hfalert.com

Private Equity Insider—developments and market trends in the buyout fund, venture capital, fund of funds, and other types of private investment vehicles. For further information, visit www.peinsider.com

If you would like to sample any or all of these publications, visit the individual web sites and click on “How do I start a free trial subscription?”

Special Comment: John B. Levy, President of John B. Levy & Company, Inc. and author of the monthly *Barron's*/John B. Levy Company, Inc. National Mortgage Survey, to be Guest Speaker on 4th ULI Real Estate Capital Markets Conference Call

We are pleased to announce that John B. Levy, President of John B. Levy Company, Inc. and author of the *Barron's*/John B. Levy National Mortgage Survey, will be the guest speaker on ULI's Real Estate Capital Markets conference call which will be held on Friday, September 23, 2005 from 11:00 am to Noon, Eastern Standard time.

Given the unique experience, perspective, and knowledge of our guest speaker, the discussion will focus exclusively on the conventional and securitized real estate mortgage capital markets.

If you would like submit a question, please e-mail: blank@uli.org

The call-in number will be 1-719-785-9359; the participant pass code will be 508131. The call will be recorded and available for playback for 30 days.

Date	Federal Funds Rate	Increase/Decrease	Discount Rate	Increase/Decrease
May 4, 2004	1.00%	-----	2.00%	-----
June 30, 2004	1.25%	+0.25%	2.25%	+0.25%
August 10, 2004	1.50%	+0.25%	2.50%	+0.25%
September 21, 2004	1.75%	+0.25%	2.75%	+0.25%
November 10, 2004	2.00%	+0.25%	3.00%	+0.25%
December 14, 2004	2.25%	+0.25%	3.25%	+0.25%
February 2, 2005	2.50%	+0.25%	3.50%	+0.25%
March 22, 2005	2.75%	+0.25%	3.75%	+0.25%
May 3, 2005	3.00%	+0.25%	4.00%	+0.25%
June 30, 2005				

Real Estate Capital Markets Scoreboard: Money Rates	June 22, 2005
Prime Rate	6.00%
Federal Funds Rate	3.00%
Discount Rate	4.00%
Dealer Commercial Paper	3.17% - 30 days 3.27% - 60 days 3.35% - 90 days
London Inter-bank Offered Rate (LIBOR)	3.26%- 1-month 3.43% - 3-months 3.64% - 6 months 3.87% - 1 year
U.S. Treasury Securities	3.94% - 10-year

Public Real Estate Securities Capital Markets

Where's the money coming from? As the scoreboard below indicates, real estate investment trusts (REITs) have not raised a lot of equity this year. Instead, they have been satisfying their capital raising needs through joint ventures with and portfolio sales to U.S. pension funds and offshore institutional investors. According to Real Capital Analytics, REITs this year have acquired \$4.0 billion of assets via institutional joint ventures and have recycled \$2.0 billion in assets through sale to institutional investors.

Three merger and acquisition/buyout transactions were recently announced in rapid succession. The question is—is this the start of something...big?

The quick answer is no one knows, or if they do, they are not about to tell anyone else. Clearly there is a flood tide of capital—both individual as well as institutional investors—waiting to enter the real estate investment markets. Other drivers include: an array of well capitalized lenders willing to provide debt capital at low interest rates; continuing concerns about the performance of the equity stock market; aggressive private investors employing highly leveraged strategies; and perceived differences in the value of certain companies and/or asset classes in the private real estate markets as compared to the public real estate markets.

The deals included: ProLogis' acquisition of Catellus Development Corporation, a REIT-to-REIT merger; a partnership managed by ING Clarion's acquisition of Gables Residential Property, a pension fund advisor sponsored buyout of a public company; and DRA Advisors' acquisition of CRT Properties, a second pension fund advisor sponsored buyout of a public company.

In the ProLogis-Catellus transaction, ProLogis proposes to acquire Catellus for \$4.9 billion, a 16.1% premium over the closing price of Catellus' shares the day before the merger was announced. The combined company will own over 2,250 distribution and service facilities having over 350 million square feet located in 75 markets worldwide as well as land available for the development of an additional 100 million buildable square feet. According to parties familiar with the transaction, the transaction capitalization rate was 5.7%. ProLogis reported that the transaction would be 3.0% to 5.0% accretive to earnings in 2006.

In the ING Clarion-Gables transaction, the ING Clarion managed partnership proposes to acquire Gables for \$2.8 billion, a 14.0% premium over Gables' closing price the day before the transaction was announced. The transaction, which represents the largest public-to-private REIT transaction in the multifamily sector, traded at a reported capitalization rate in the 5.2% range. It is anticipated that ING Clarion will seek to refinance a portion of Gables' long-term real estate debt as well immediately convert certain properties to condominiums.

In the DRA Advisors-CRT Properties transaction, DRA Advisors proposes to acquire CRT for \$1.7 billion, which represents a 15.4% premium above CRT's closing stock price on the day preceding the transactions announcement. CRT's portfolio consists of 137 office properties.

According to data from the National Association of Real Estate Investment Trusts (NAREIT), equity real estate investment trusts gained 3.47% in May. The following chart details total returns by property sector for the month of May as well as on a year-to-date basis and dividend yields as of May 31, 2005:

Property Sector	Total Return		Dividend Yield
	May 2005	Year-to-Date	May 2005
Office	1.33%	2.91%	5.40%
Industrial	3.74%	-3.24%	4.25%
Office/Industrial	2.18%	-6.20%	5.85%
Shopping Center	4.96%	0.68%	4.69%
Regional Mall	3.64 %	6.10%	4.11%
Freestanding retail	5.15%	2.28%	5.06%
Multifamily	3.20%	-0.58%	5.07%
Manufactured Home	1.31%	-3.24%	3.91%
Diversified	4.73%	2.44%	5.06%
Lodging/Resort	3.26%	-2.08%	3.46%
Healthcare	5.99%	1.02%	6.33%
Self-Storage	3.77%	7.72%	3.83%
Specialty	5.08%	0.98%	4.67%
Equity REIT Index	3.47%	1.29%	4.81%

Source: National Association of Real Estate Investment Trusts.

Public Securities and Real Estate Performance Indices as of June 17, 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	-1.48%	+0.42%	-3.92%	-1.13%	+2.94%	+15.55%*

* Trailing 12-months ended March 31, 2005.

Market Capitalization of REITs (number of shares multiplied by share price in \$ millions) as of June 22, 2005								
	# of REITs	Market Cap	Equity REITs	Market Cap	Mortgage REITs	Market Cap	Hybrid REITs	Market Cap
2005	193	320,812	152	288,761	34	25,780	7	6,272

Source: National Association of Real Estate Investment Trusts (NAREIT).

Offerings of Securities by REITs (in \$ millions) as of May 31, 2005				
	2004		2005	
	# of Offerings	\$ Value	# of Offerings	\$ Value
Initial Public Offerings	29	\$8,271	3	\$1,106
Follow-on offerings-Common Shares	79	7,338	21	1,609
Follow-on Offerings-Preferred Shares	61	5,858	15	1,392
Unsecured Debt	97	17,306	37	6,291
Secured Debt	0	0	2	1,910

Source; National Association of Real Estate Investment Trusts.

Public Real Estate Debt Capital Markets

When the dust finally settles, issuance of commercial mortgage-backed securities (CMBS) for the first half of 2005 will certainly have reached record levels, given the fact that U.S. issuance is presently equal to 75% of total 2004 issuance and non-U.S. issuance is presently equal to 97% of total 2004 issuance.

According to an analysis of May 2005 remittance reports by Morgan Stanley Fixed Income Research, delinquencies for seasoned commercial mortgage-backed securities equaled 1.52% of outstanding balances, down 0.07% as compared to April 2005. It should be noted that delinquencies dropped below the long-term average (of 1.55%) for the first time since November 2001.

The property sectors with the highest delinquencies levels were: senior housing, hotel-motel, and multifamily.

The states with the highest levels of delinquencies included: Texas, Illinois, and Florida.

Originators have serious amounts of capital available and are making loans at extremely competitive rates and on extremely competitive terms.

Issuance of Commercial Mortgage-Backed Securities January 1, 2000 through June 24, 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	69,900.0	30,300.0	100,200.0

Source: Commercial Mortgage Alert.

Commercial Mortgage-Backed Securities Trading Spreads above 10-Year Treasury Bonds (in Basis Points)			
	12/29/04	6/15/05	Year-to-Date
10-Year Treasury Bonds	4.32%	4.10%	-0.22%
AAA	+70	+74	+4
AA	+77	+88	+11
A	+85	+98	+13
BBB	+127	+158	+31
BBB-	+167	+198	+31
BB	+325	+290	-35
B	+770	+700	-70

Source: Morgan Stanley.

Private Real Estate Equity Capital Market

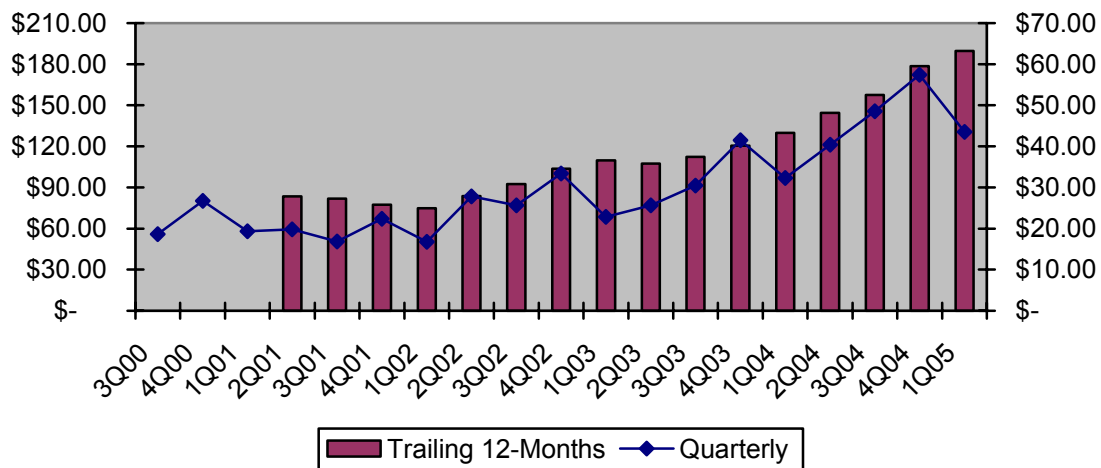
In the immediately prior issue of ULI's Real Estate Capital Markets Update we detailed the rates of return for the National Association of Real Estate Investment Fiduciaries Property Index on a quarter-over-quarter basis.

The following chart details the rates of return on a trailing twelve month (TTM) basis:

Period	All Property	Office	Retail	Industrial	Multifamily
TTM ended December 2004	14.52%	12.02%	22.95%	12.07%	13.22%
TTM ended March 2005	15.55%	13.12%	24.72%	12.56%	13.78%

Source: National Council of Real Estate Investment Fiduciaries.

Sales of Office, Industrial, Retail, and Apartments (in \$ Billions)



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%
1Q05	6.9%	7.8%	8.3%	7.3%	7.5%	7.7%	7.8%	8.6%
YTD	-0.3%	-0.3%	-0.2%	-0.3%	-0.2%	-0.3%	-0.2%	-0.3%

Source: Real Estate Research Corp. (www.rrc.com).

Private Real Estate Debt (Mortgage) Capital Markets

Real Estate Capital Markets Scoreboard: "Prime" 10-Year Commercial Mortgages						
	12/31/01	12/31/02	12/31/03	12/31/04	6/6/05	Year-to-Date
Prime Mortgages	7.33%	6.05%	5.80%	5.51%	5.15%	-0.36%
10-Year Treasuries	5.05%	3.81%	4.25%	4.22%	4.10%	-0.12%
Spread	2.28%	2.23%	1.65%	1.29%	1.05%	-0.24%
Source: Barron's/John B. Levy and Company Survey.						

Capital remains "abundant" at extremely competitive rates...period.