

## Real Estate Capital Markets Update – May 18, 2008

### Volume 10, Number 9

#### Liquidity Update

According to an article in *The Wall Street Journal On-Line*, liquidity may be starting to return to the capital markets. The co-head of J.P. Morgan Chase Co.'s investment bank noted that “about half of the roughly \$300 billion in ‘hung’ bridge loans” [loans sued to finance leveraged buyouts] [on the books of commercial banks and investment banks] had been sold. He cited Citigroup, deutsche bank, and Credit Suisse as institutions who had reduced their book of loans “significantly.”

#### Outsized Returns are...Out as National Council of Real Estate Investment Fiduciaries National Property Index Returns Come Down to Earth

The National Council of Real Estate recently released the results of the performance of its National Property Index (NPI) for the first quarter 2008 as well as on a trailing 12-month basis. The NPI is comprised of 5,976 properties having an estimated market of approximately \$328 billion.

First comparison: 1<sup>st</sup> quarter 2008 versus 4<sup>th</sup> quarter 2007

		1 <sup>st</sup> Quarter 2008	4 <sup>th</sup> Quarter 2007	Decrease
Total Index	Total Return	1.60%	3.21%	-1.61%
	-Income	1.26%	1.35%	-.009%
	-Appreciation	0.34%	1.86%	-1.52%
Multifamily	Total Return	1.26%	1.85%	-0.59%
	-Income	1.07%	1.14%	-0.07%
	-Appreciation	0.18%	0.71%	-0.53%
Industrial	Total Return	1.44%	2.64%	-1.20%
	-Income	1.44%	1.49%	-0.05%
	-Appreciation	0.00%	1.15%	-1.15%
Office	Total Return	1.96%	3.82%	-1.86%
	-Income	1.23%	1.30%	-0.07%
	-Appreciation	0.73%	2.51%	-1.78%
Retail	Total Return	1.44%	3.91%	-2.47%
	-Income	1.40%	1.51%	-0.11%
	-Appreciation	0.04%	2.40%	-2.36%

Conclusion: In every instance, by every metric—total return, income, and appreciation—rates of return are “returning” to earth.

The same overall analysis is true when one compares total returns for the trailing 12-months ended March 31, 2008 with the prior trailing 12-months period (January 1, 2007 to December 31, 2007):

	Trailing 12- Months Ended March 31, 2008	Trailing 12- Months Ended December 31, 2007	Decrease
Total Index	13.60%	15.80%	-2.20%
Multifamily	9.60%	11.40%	-1.80%
Industrial	13.00%	14.90%	-1.90%
Office	17.50%	20.50%	-3.00%
Retail	11.60%	13.50%	-1.90%

### Real Estate Investment Trusts Continue to Outperform All Other Equity Indices

	Total Returns		Dividend Yield
	04/2008	YTD	
Industrial	5.09%	0.63%	4.00%
Office	10.02%	5.58%	4.53%
Office/Industrial	10.17%	8.02%	7.01%
Shopping Centers	4.96%	10.14%	4.57%
Regional Malls	7.08%	9.39%	4.36%
Freestanding Retail	3.87%	-2.80%	5.83%
Multifamily	3.04%	14.87%	4.77%
Manufactured Homes	-0.46%	4.54%	4.60%
Diversified	6.97%	7.42%	4.56%
Hospitality	5.95%	-1.24%	6.79%
Healthcare	6.55%	9.19%	5.27%
Self-Storage	2.99%	23.83%	3.06%
Specialty	2.64%	-5.27%	4.26%
<b>Equity REIT Index</b>	<b>5.86%</b>	<b>7.34%</b>	<b>4.72%</b>

### Projected Weakening in Fundamentals Sparks Concern Over Debt Refinancing

According to an article in Commercial Real Estate Direct, research firm Reis Inc. foresees ongoing weakness in property fundamentals and advises lenders and highly-leveraged owners to beware. It is projecting a slowdown in the pace of rent increases, as well as increasing vacancy across all property sectors.

### Highlights from Real Capital Analytics April 2008 Capital Trends Monthly

- By any measure, first quarter 2008 sales activity declined.
- Average capitalization rates have increased (at least) 25 to 50 basis points since the Fall of 2007; fortunately, the decline in yields for benchmark 10-year Treasury bonds has offset a portion of the increase in rates.

- A large gap continues to exist between bid and asked, indicating that many buyers believe capitalization rates should be even higher than they are today.

### **ULI Joins Green Building Finance Consortium**

We are pleased to announce that ULI has become a Sustaining Member of the Green Building Finance Consortium (GBFC at [www.greenbuildingfc.com](http://www.greenbuildingfc.com)) which is comprised of leading real estate companies and industry trade groups and organizations who have joined together to support independent research and analysis of investment in “Green” or energy efficient buildings.

The GBFC’s mission is to develop metrics and measures which recognize and quantify the value and risk of investment in Green buildings. The GBFC is tasked with developing the underwriting practices, tools, and valuation methodologies required to assess investment in or lending Green buildings and lending secured by Green buildings. The GBFC is committed to widely distributing the results of its research process and programs and expects to become an industry-wide resource.

The GBFC’s 2008 operations plan includes the development of the following work product and is divided into three phases:

1. Underwriting sustainable property investment;
2. Special reports on sustainable property underwriting; and
3. Special considerations in underwriting by property type.

GBFC members include a wide array on real estate industry participants including, but not limited to, the follow: BOMA International, Cherokee Investment Partners, EPA Energy Star Division, Kennedy Associates Real Estate Counsel, National Association of Realtors, Mortgage Bankers Association, Pension Real Estate Association, and Principal Real Estate Investors.

ULI’s membership will benefit from our association with the GBFC as ULI will publish and make available on its web site the results of the GBFC’s program of work, thereby providing our members with the models, tools, knowledge, and technology developed by the GCFC and the ability to independently assess the cash flows, values, risks, and benefits associated with an investment in Green buildings.

If you would like to gain an in-depth understanding of the work of the GBFC, please visit their web site at: [www.greenbuildingfc.com](http://www.greenbuildingfc.com)

### **Indicated Spreads for Conventional Commercial Mortgages (as of April 30, 2008)**

According to the most recent survey of indicated spreads for conventional commercial mortgage loans by Cushman & Wakefield Sonnenblick Goldman, spreads remained generally unchanged with a modest amount (25 basis points) of widening here and there. However, overall cost to borrowers spiked in the most recent survey due to the widening

in spreads of 5-year Treasury bonds (+46 basis points in two weeks) and 10-year Treasury bonds (26 basis points in two weeks).

	Commercial Mortgage Rate Spreads for 5-10 Year Fixed-Rate Mortgages	
Property Type	<65% LTV	>65% LTV
Multifamily	+230 – 260	+250 – 300
Regional Malls	+225	+250 – 350
Strip/Power Centers	+250 – 300	+300 – 450
Multi-Tenant Industrial	+250 – 300	+300 – 500
CBD Office	+225 – 325	+325 – 450
Suburban Office	+250 – 350	+350 – 500
Full-Service Hotel	+300 – 400	+350 – 500
Limited-Service Hotel	+300 – 450	+400 – 500
	5-Year Treasury – 3.14%; 10-Year Treasury – 3.86%	
Source: Cushman & Wakefield Sonnenblick-Goldman, LLC.		