



# HEITMAN

There is a Difference.



The Year Ahead for Real Estate:  
The Four-Way Tug of War  
Mary Ludgin, PhD  
Counselors of Real Estate , April 2008

# Real Estate Values Being Pulled Multiple Ways



## Downward pressure from:

- Economy in recession, job losses mounting, consumer sentiment plunging
- Pullback in space demand
- Capital markets in midst of repricing of risk
- Credit crunch restricting debt capital availability

## Mitigating Factors

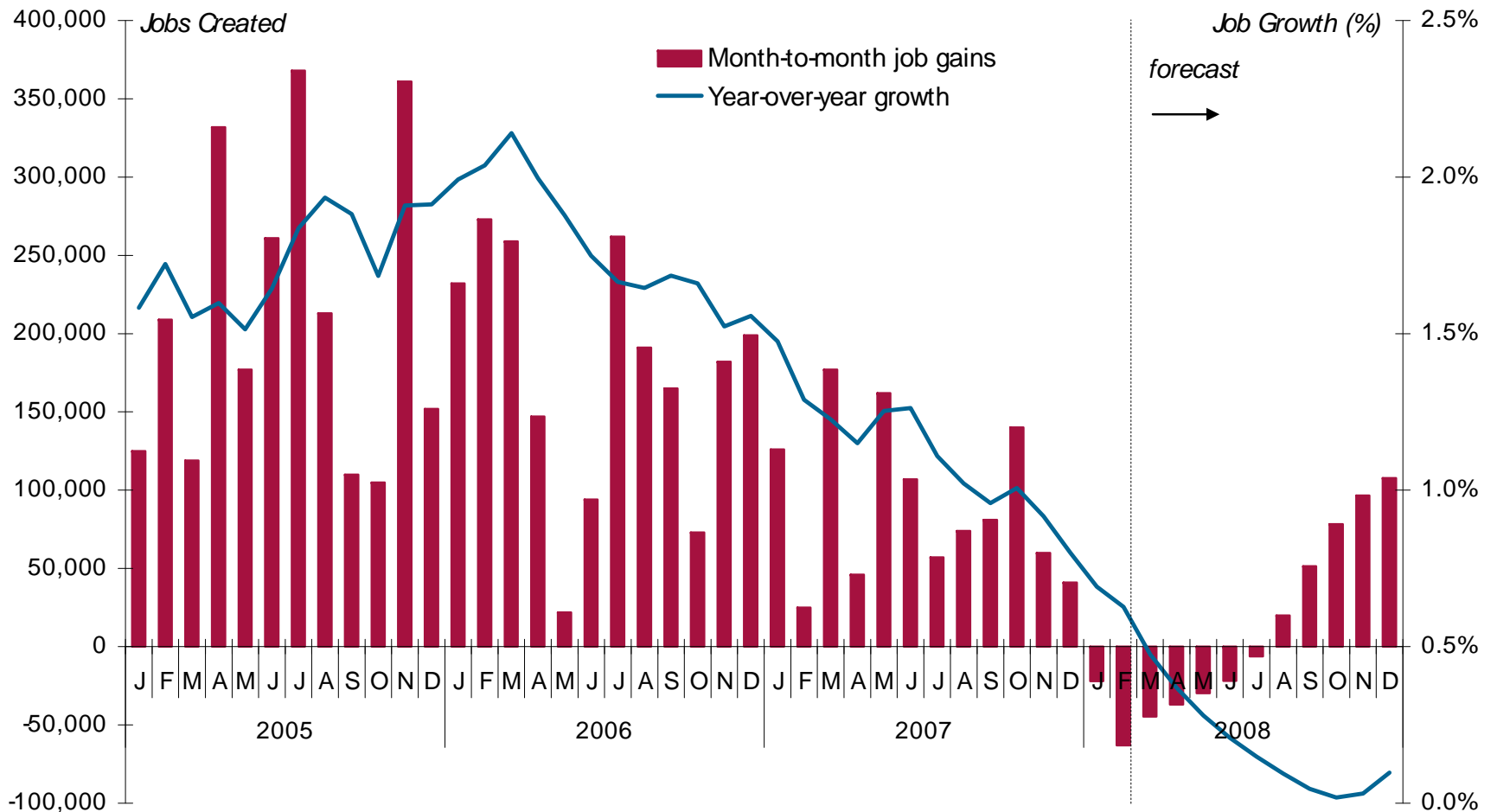
- Low vacancy rates for onset of recession
- Low levels of new supply for onset of recession

## Not Our First Time in This Predicament

*Real estate as an investment class has been oversold, overbuilt, overleveraged, and overvalued.*

Emerging Trends in Real Estate, **1992**

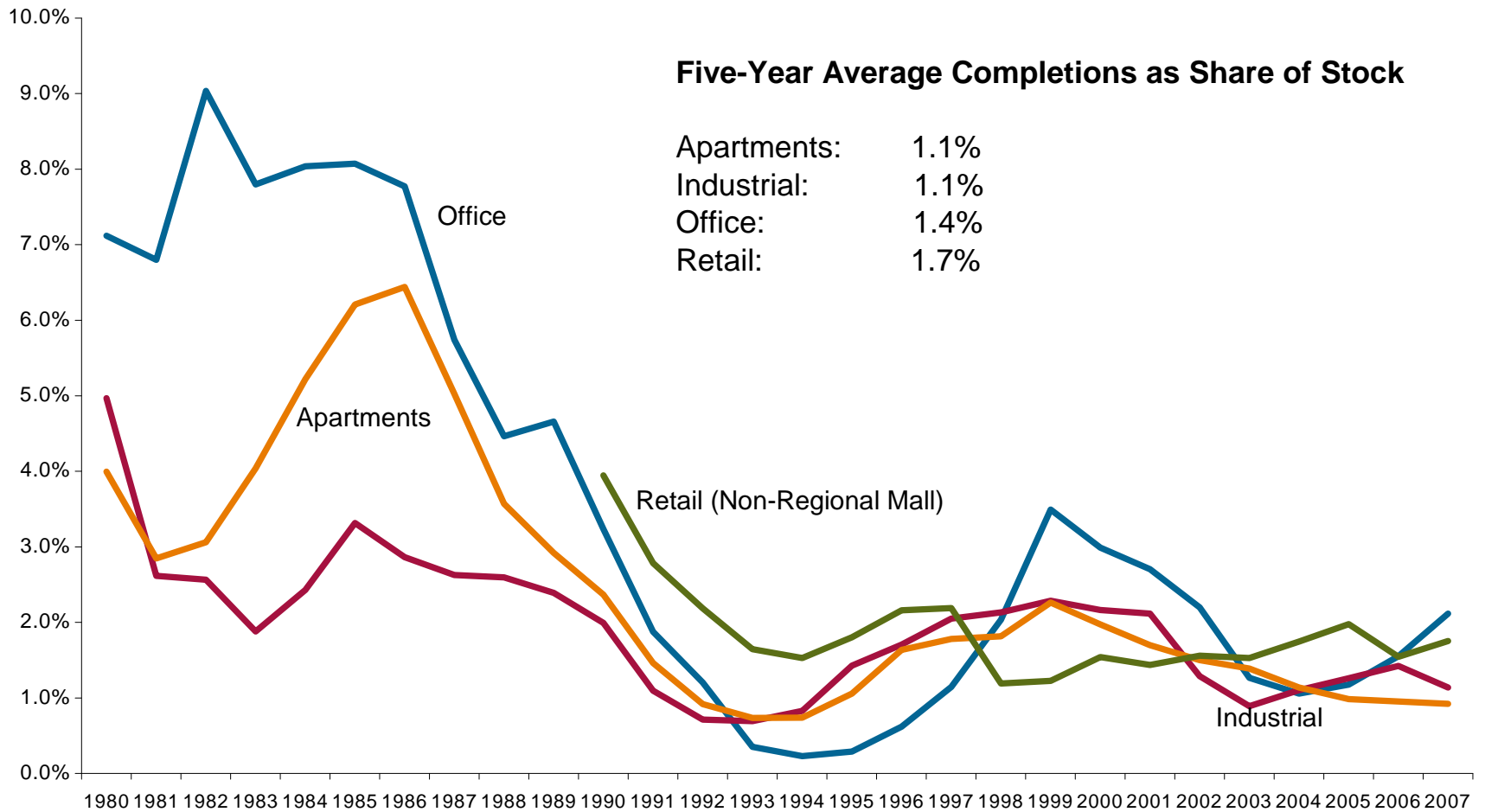
## Historical and Forecast Employment Growth U.S. 2005-2008



Source: Bureau of Labor Statistics; Economy.com; Heitman Research

# Real Estate Helped by Restrained Construction

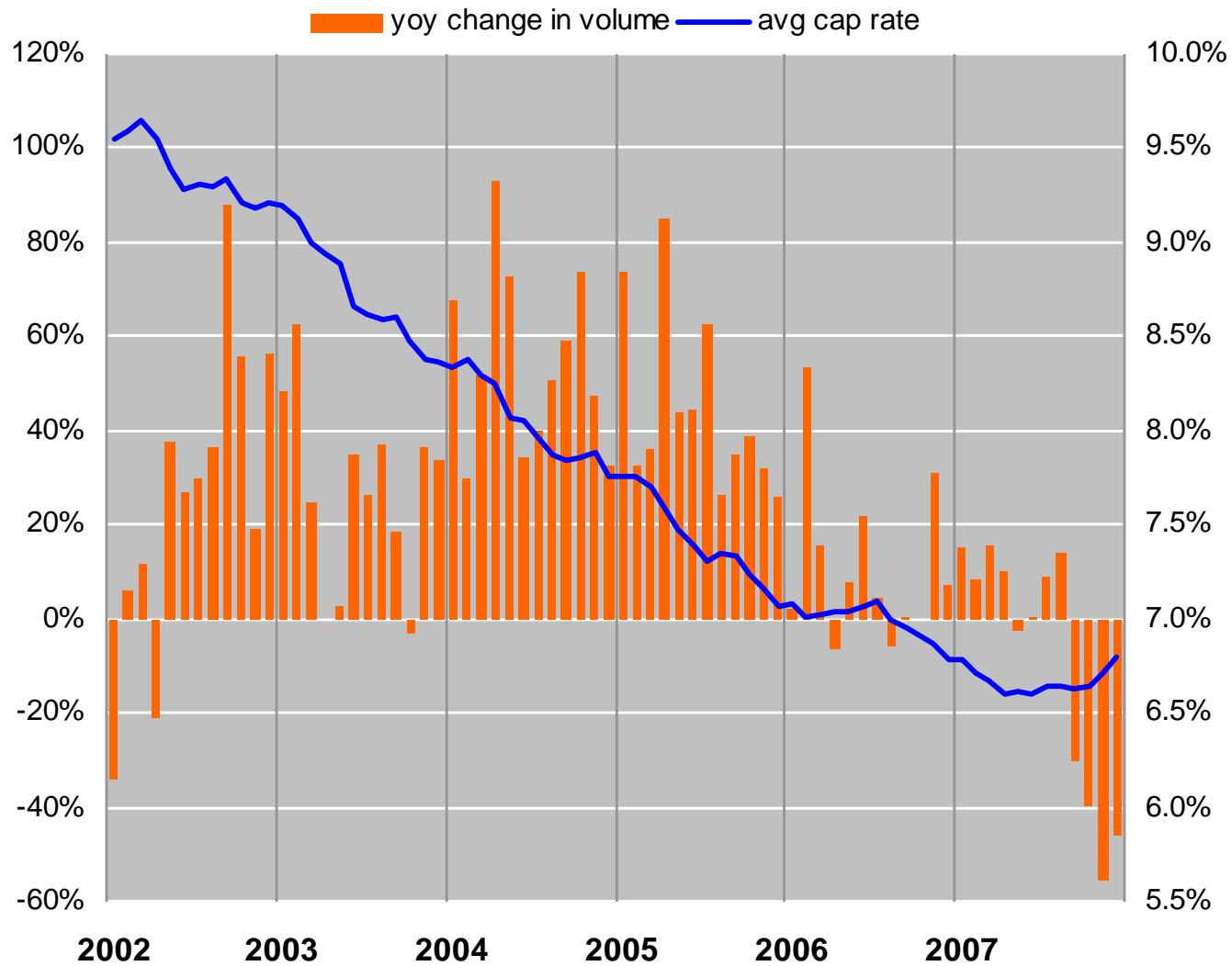
Completions as % of Existing Stock  
Top U.S. Markets 1980-2007



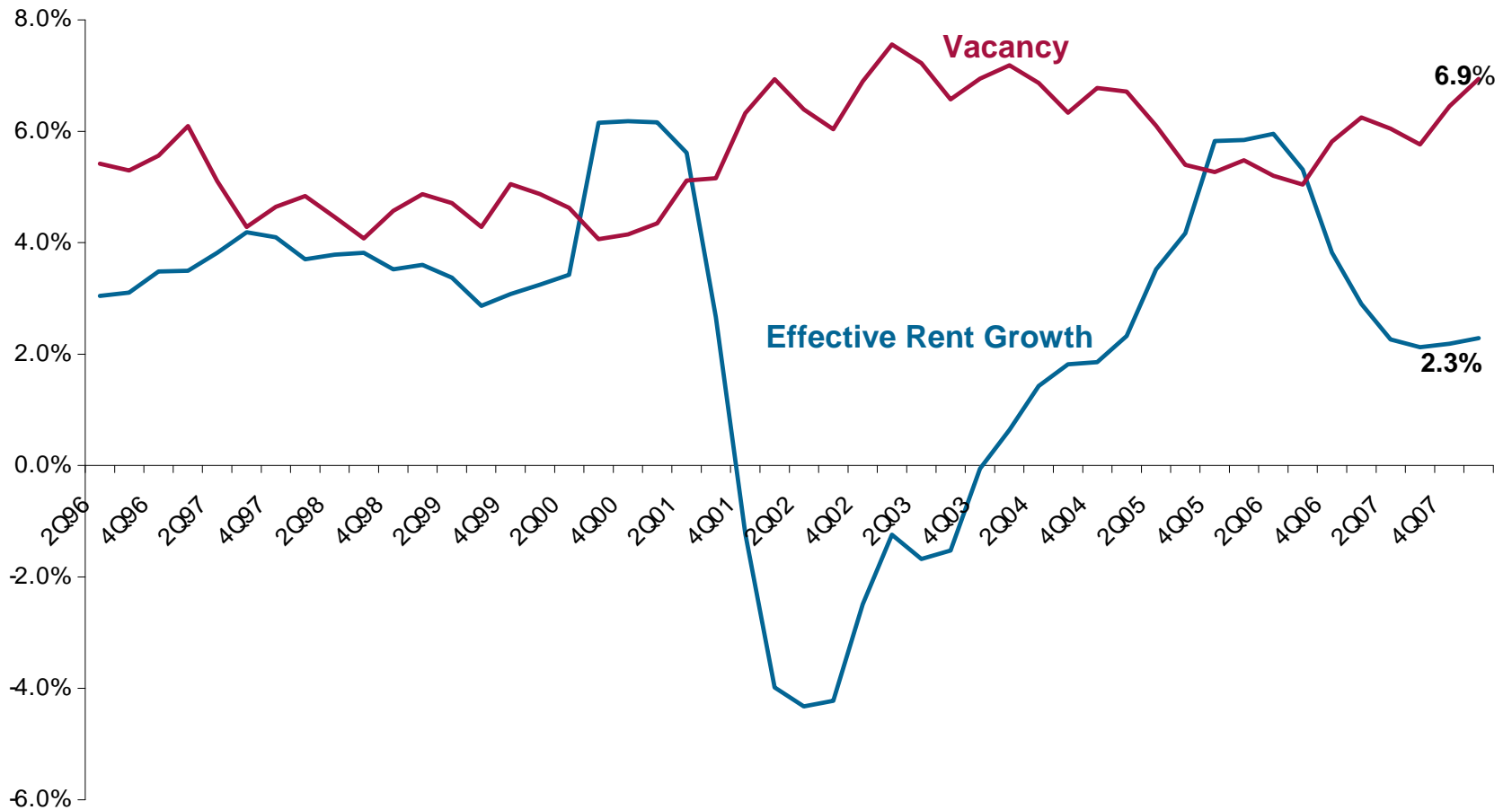
Source: Torto Wheaton Research; REIS; Heitman Research

# Capital-Markets Price Correction In

## US Transaction Volume and Capitalization Rate 2002-2007



## Effective Rent Growth vs Apartment Vacancy U.S. 1996-2008



Source: Axiometrics; Heitman Research

## Apartment Update

# Fewer Markets Seeing Above-Inflation Rent Growth

### Effective Apartment Rent Growth

Q1 2007-Q1 2008

		Los Angeles	2.8%				
		Bethesda	2.8%				
		Nashville	2.7%				
		Philadelphia	2.6%				
		Sacramento	2.6%				
		Nassau Suffolk	2.4%	Boston	6.8%		
		Kansas City	2.2%	San Francisco	6.8%		
		Santa Ana-Anaheim	2.1%	Denver	6.2%		
		Cleveland	2.1%	Portland	5.9%		
		Charlotte	2.0%	Colorado Springs	5.4%		
Memphis	-1.4%	Washington DC	2.0%	Oklahoma City	4.8%		
Camden	-1.6%	Raleigh	2.0%	Austin	4.5%		
Reno	-2.5%	Warren	2.0%	Cambridge	4.2%		
Fort Lauderdale	-2.5%	San Antonio	1.9%	Albuquerque	4.1%		
Phoenix	-2.6%	Cincinnati	1.7%	Fort Worth	4.1%		
Tampa	-3.0%	Miami	1.3%	Chicago	4.0%		
Savannah	-3.3%	Minneapolis	1.2%	San Diego	4.0%		
Orlando	-4.1%	New York	1.1%	Durham	3.7%		
Providence, RI	-4.7%	Riverside-SB	1.0%	Houston	3.4%		
Jacksonville	-4.9%	Lake County, IL	1.0%	Indianapolis	3.3%	Tacoma	10.0%
West Palm Beach	-4.9%	St. Louis	0.9%	Dallas	3.1%	Boulder	9.9%
Palm Bay	-5.5%	Atlanta	0.7%	Edison	3.1%	Salt Lake	9.6%
Sarasota	-7.7%	Las Vegas	0.6%	Detroit	3.1%	San Jose	9.1%
Naples	-12.2%	Tucson	0.3%	Columbus	3.0%	Norfolk	7.2%
Fort Myers	-14.4%	Hartford	0.0%	Baltimore	3.0%	Seattle	7.1%

NONE!

*Declining rents*

*< 3.0% growth*

*3.0% to 6.9% growth*

*7.0% to 9.9% growth*

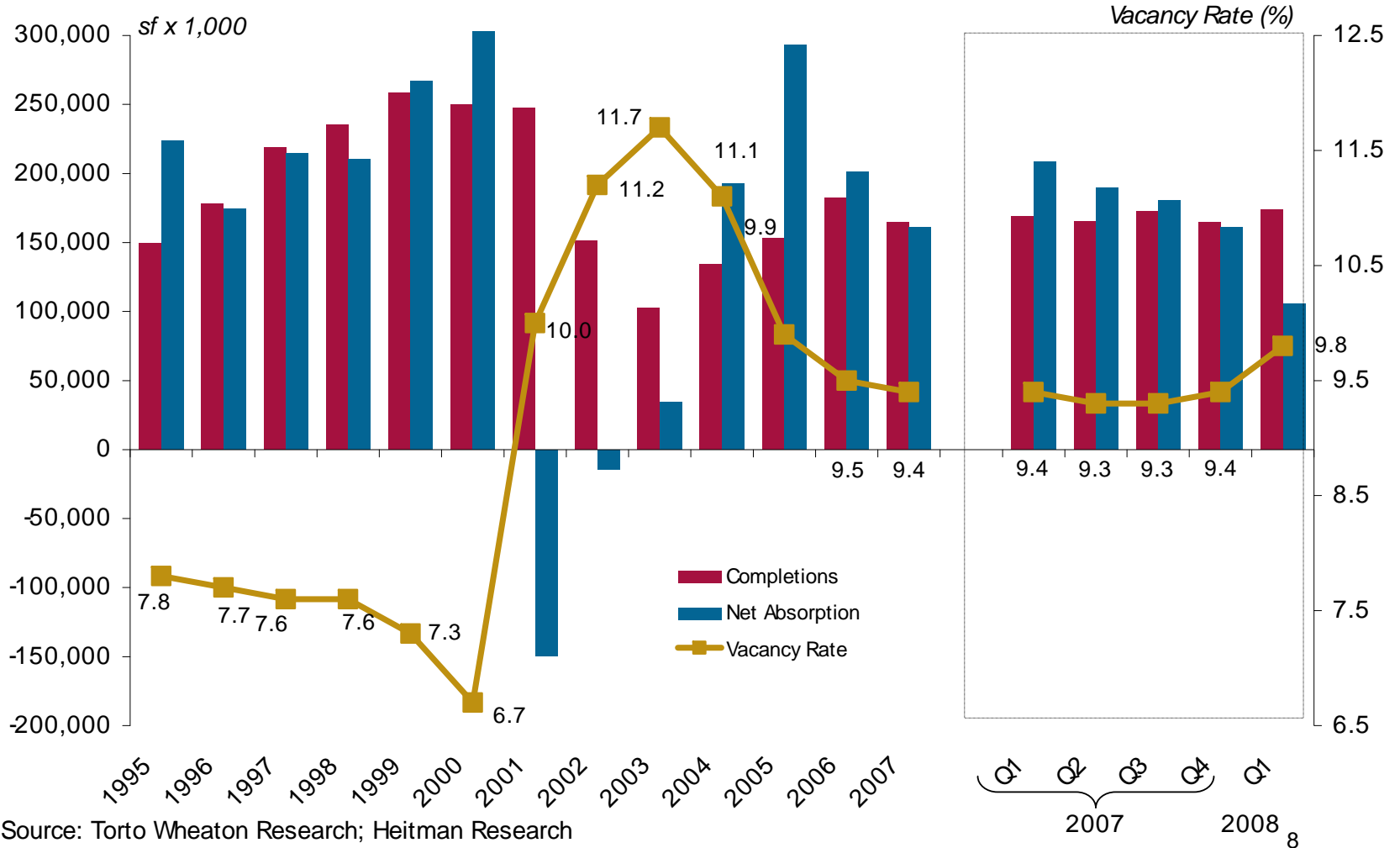
*10%+ growth*

Source: Axiometrics Research; Heitman Research

HEITMAN

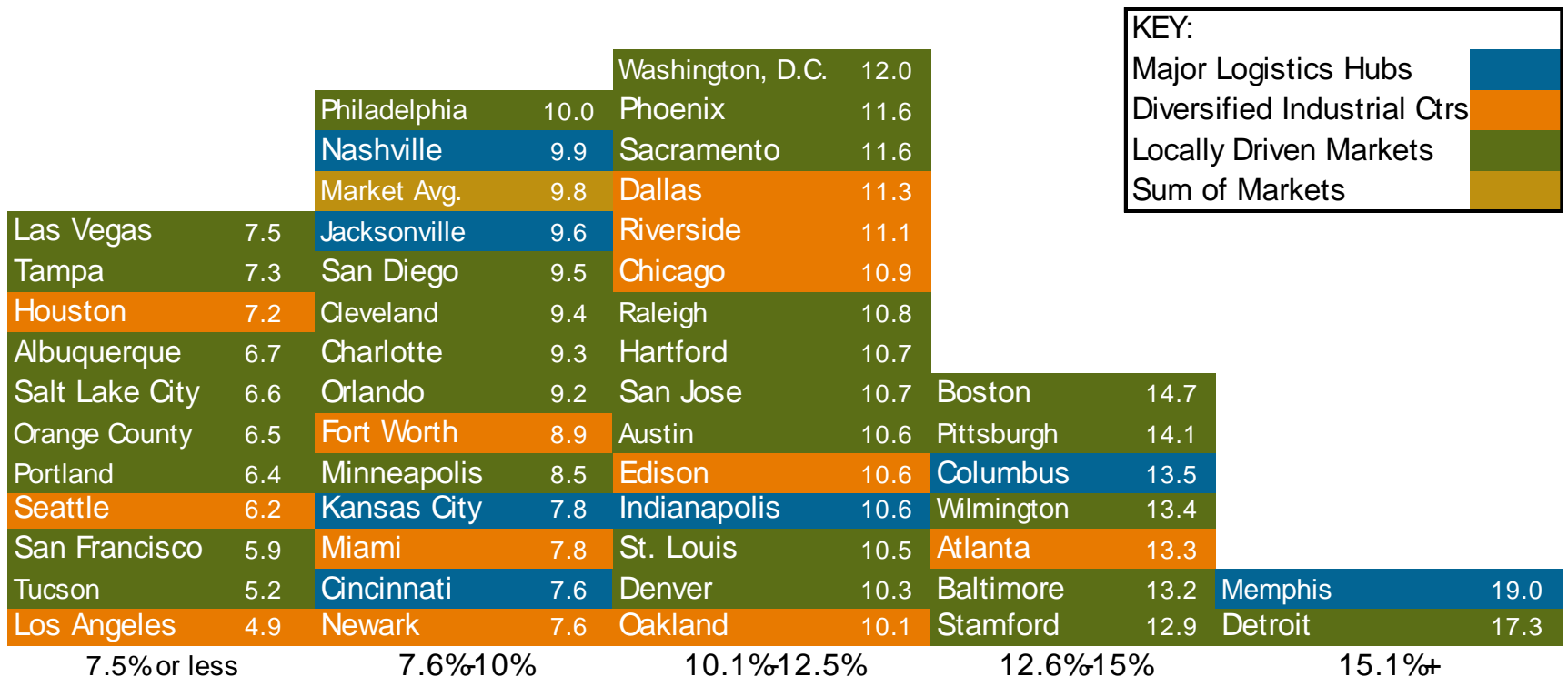
# Industrial Weakening Slightly

Industrial Completions, Net Absorption, and Availability  
U.S. 1995-2008 Q1



Source: Torto Wheaton Research; Heitman Research

## Industrial Market Vacancy Rates U.S. 2008 Q1



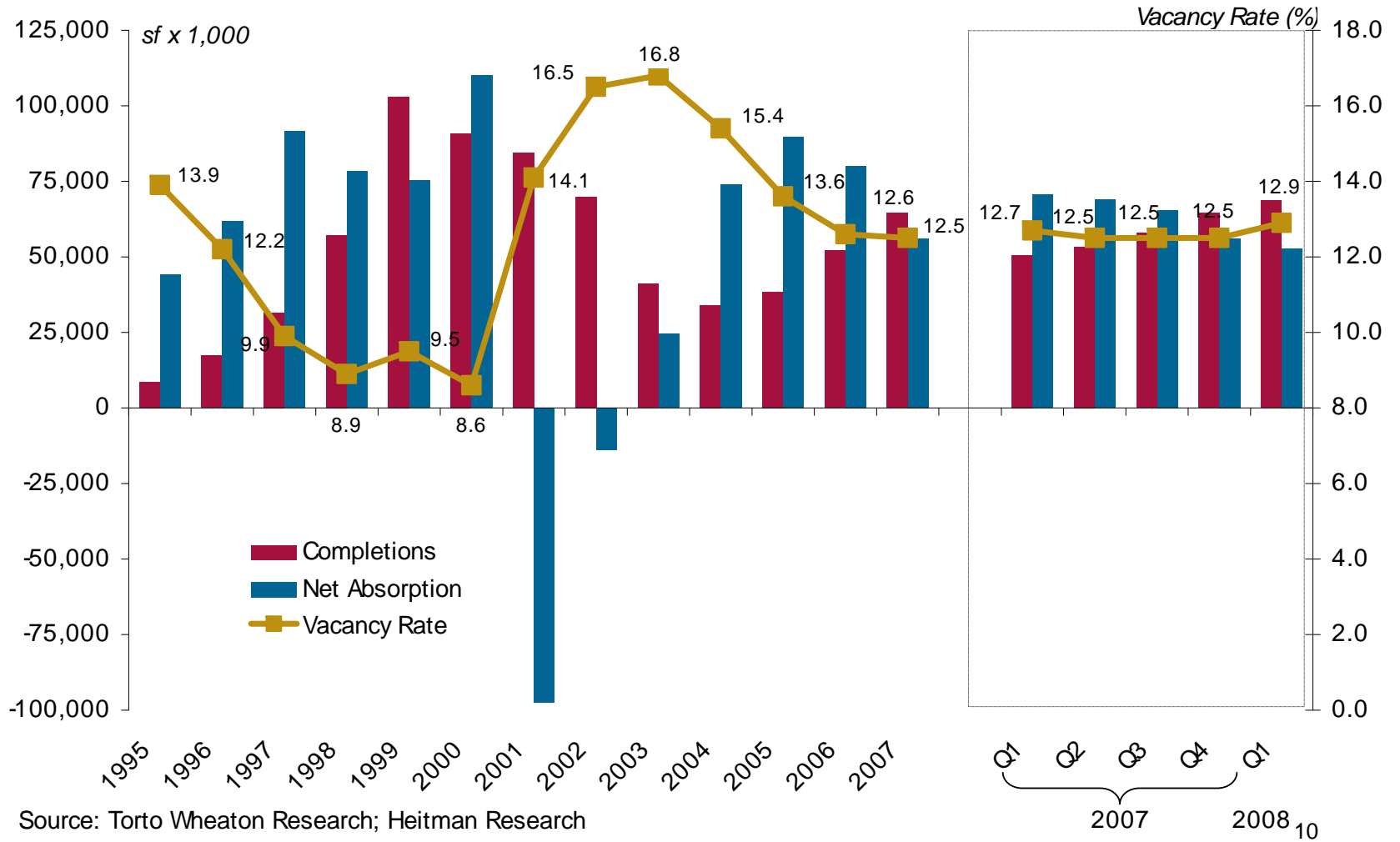
KEY:

- Major Logistics Hubs
- Diversified Industrial Ctrs
- Locally Driven Markets
- Sum of Markets

Source: Torto Wheaton Research; Heitman Research

# Initial Signs of Softer Office Market

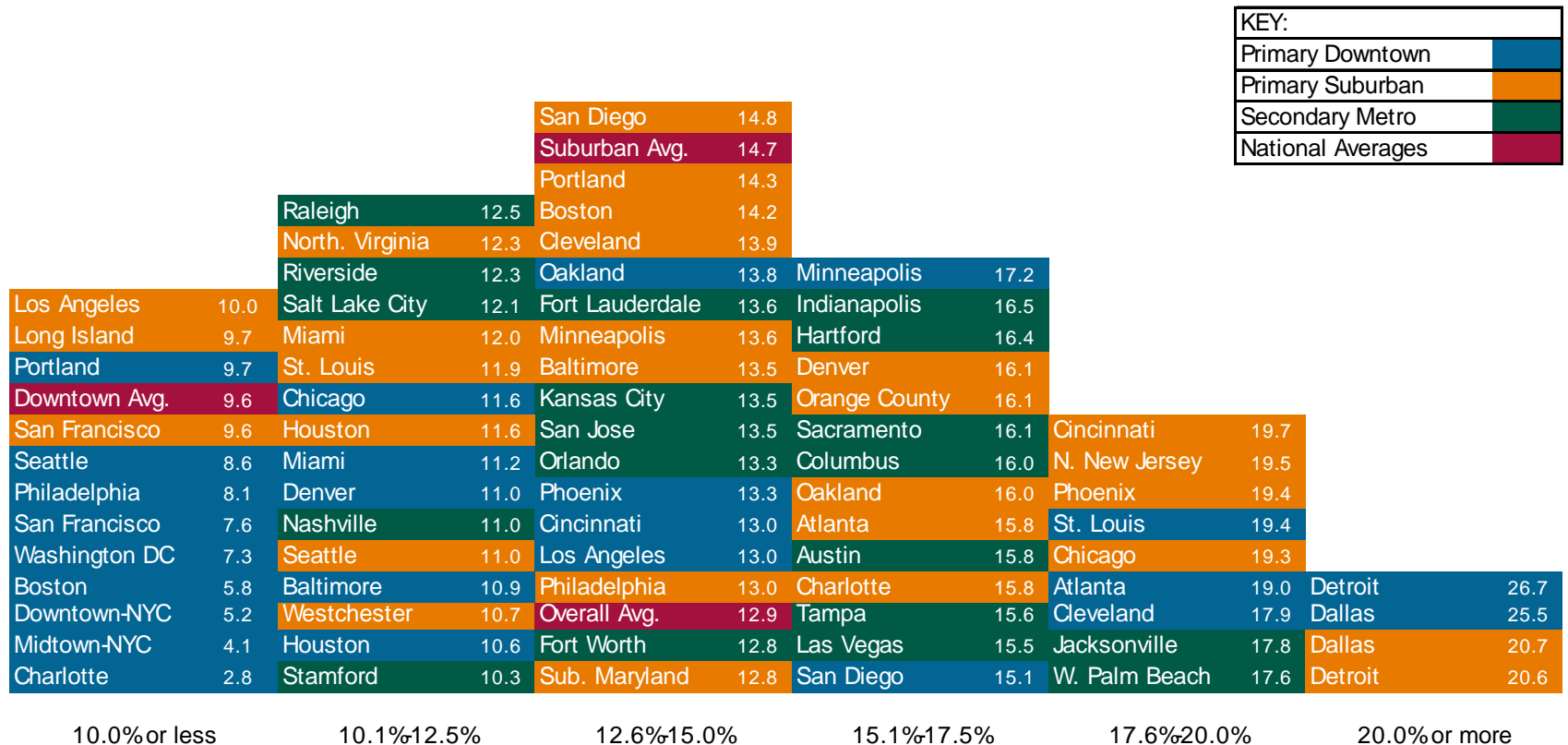
Office Completions, Net Absorption, and Vacancy  
U.S. 1995-2008 Q1



Source: Torto Wheaton Research; Heitman Research

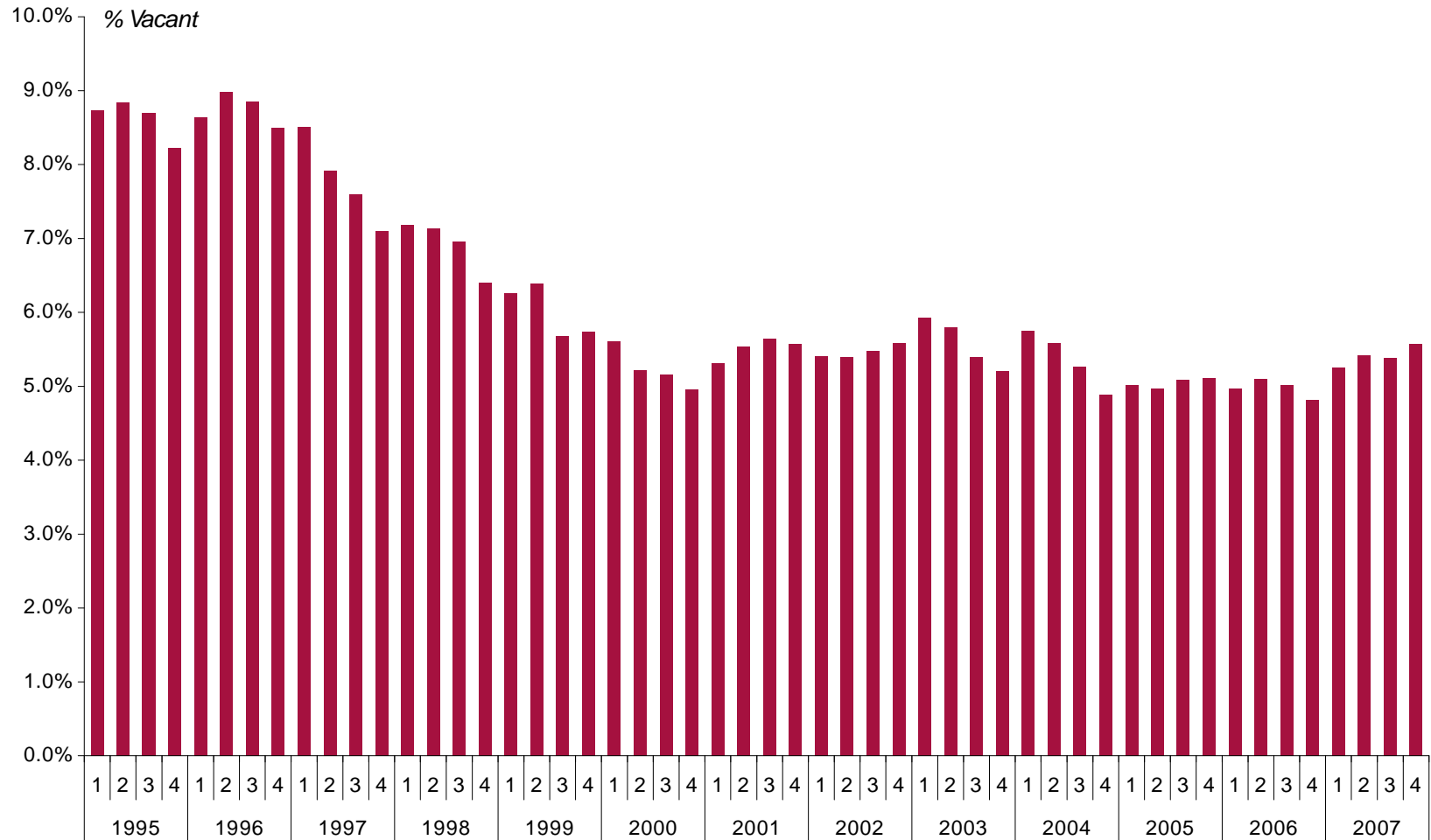
# Great Variability at Metro Market Level

## Office Market Vacancy Rates U.S. 2008 Q1



Source: Torto Wheaton Research; Heitman Research

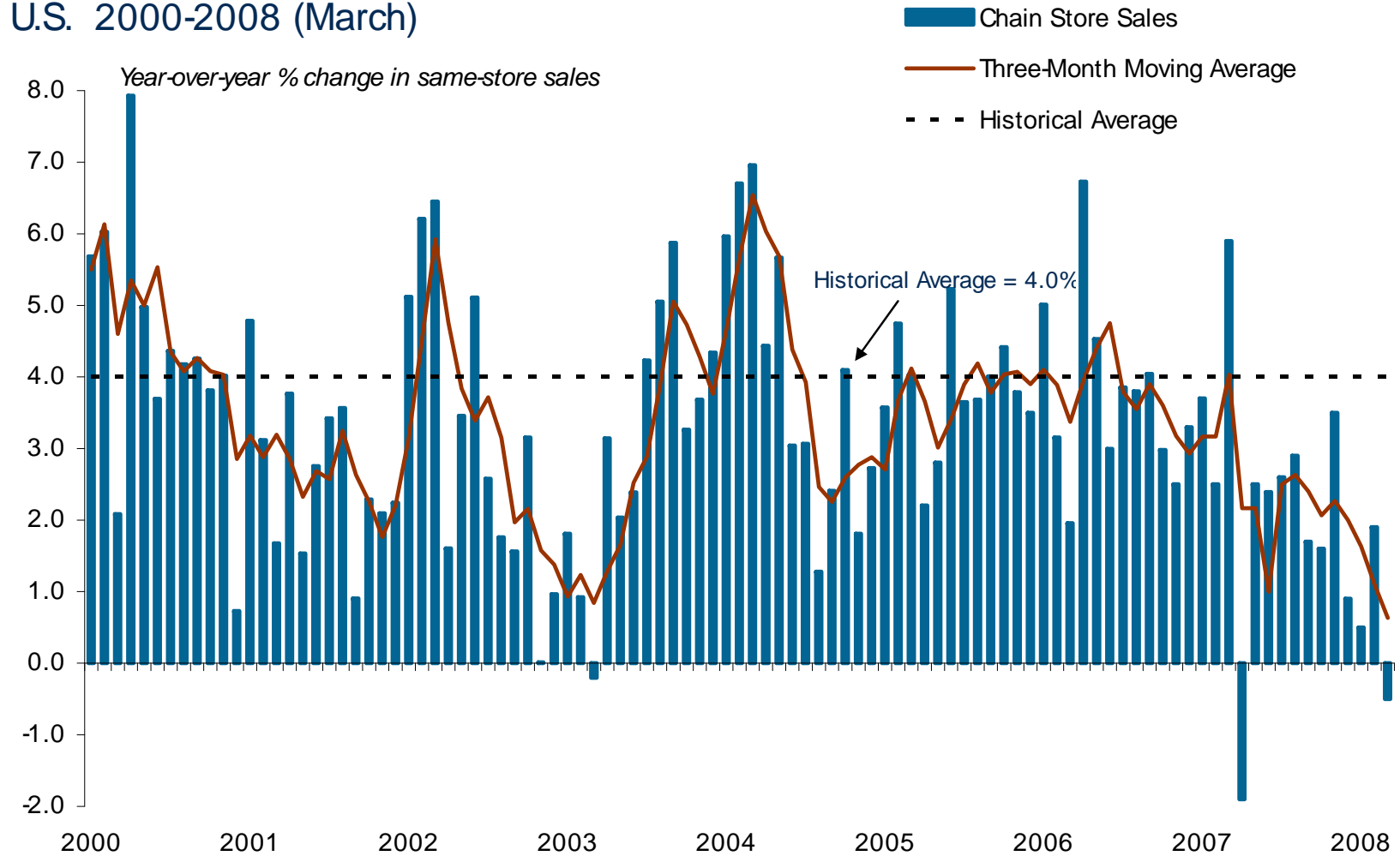
## NCREIF Retail Vacancy Rate U.S. 1995-2007 Q4



Source: NCREIF; Heitman Research

# Retail Sales Trending Down Awaiting Rebate Checks

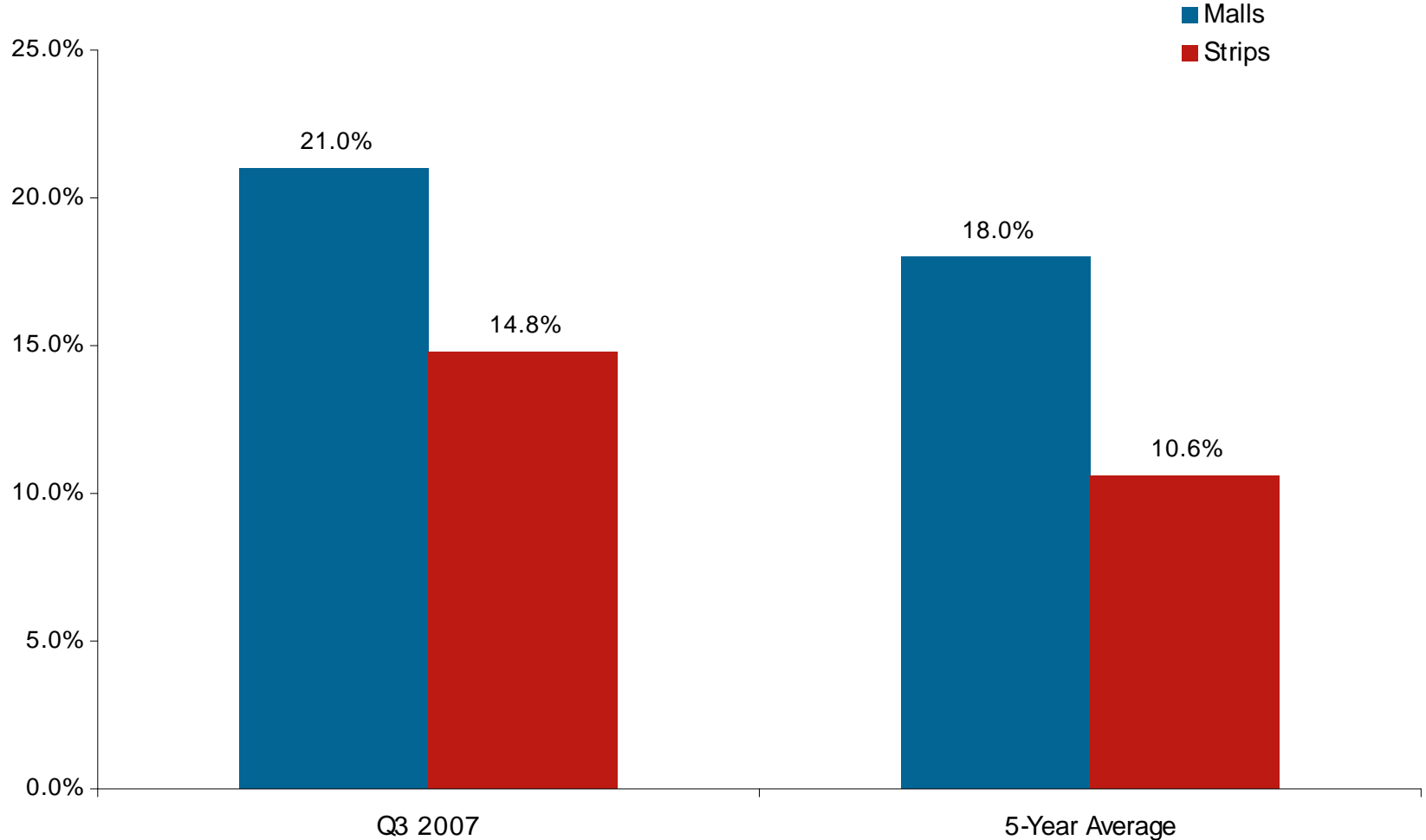
Chain Store Sales Trends  
U.S. 2000-2008 (March)



Source: ICSC; Heitman Research

# Markets Can't be Painted with Single Brush: Vacancy Sometimes a Positive

Average Re-Leasing Spreads  
U.S. REITs 2007 Q3



Source: Green Street Advisors; Heitman Research



# HEITMAN

There is a Difference.



The Year Ahead for Real Estate:  
The Four-Way Tug of War  
Mary Ludgin, PhD  
Counselors of Real Estate , April 2008

HEITMAN