



The Opportunities in Commercial Real Estate

Presented by:

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SIMS
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Global Research and Consulting

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Beware the Boston Accent!

1. Speaks quickly with nasalized pronunciation
2. Omits the -r sound in -ar combination and adds an -r to words that end with an -a:

Car
↓
Idear

Mark
↓
Floridar

3. The -er sound at the end of the word becomes an -uh:

Sistuh
er

Donuh
or

4. The -ow sound at the end of the word often becomes an -uh (as in cut):

Felluh
ow

Tomorruh
ow

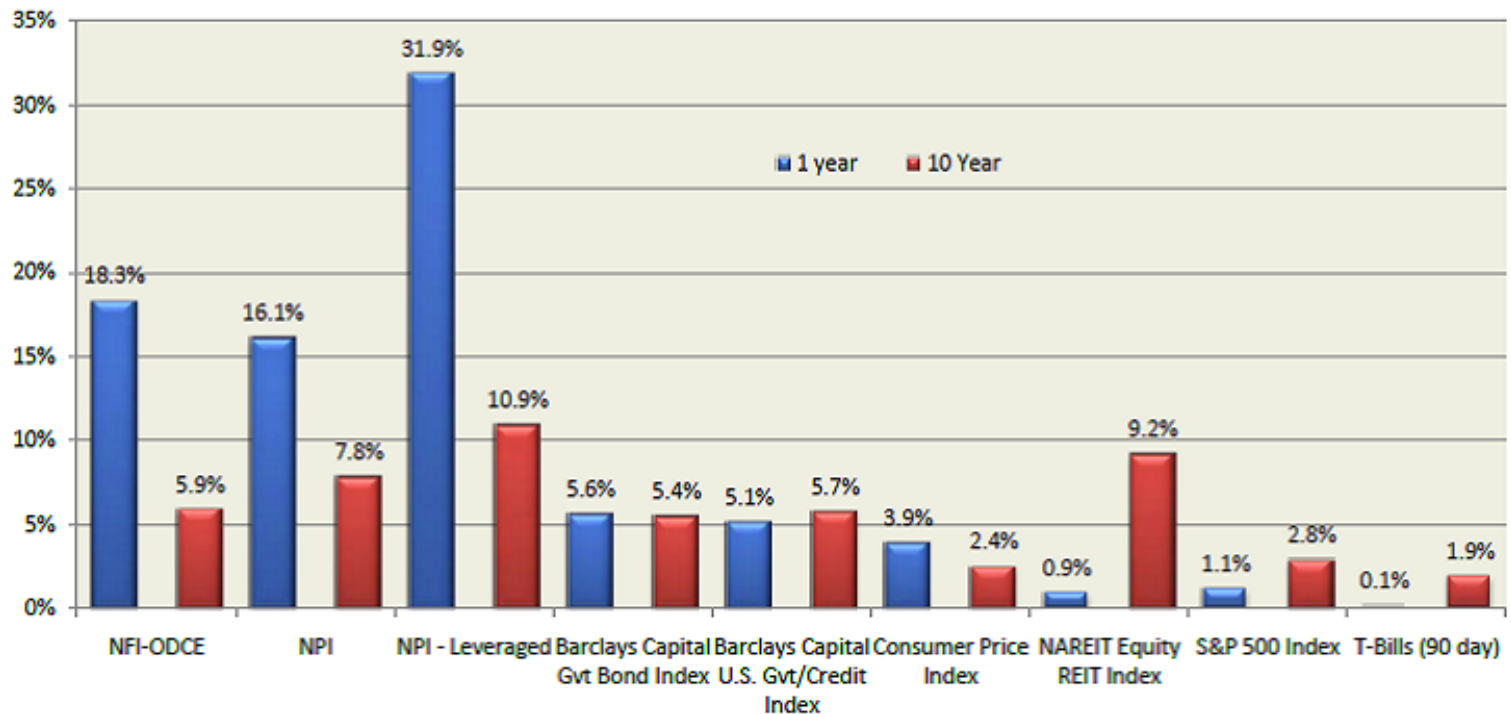
5. When words end in -ing, the -ng becomes an -n sound:

Walkin
g

Meetin
g

NPI and ODCE vs. other Asset Classes: 1 and 10 year returns

Total Return Index Comparison as of September 30, 2011



NPI Total Returns

Percent, annualized

	Q3 2011 Quarter Return	1 Year	3 Year	15 Year	Since Inception
Apartment	18.5	21.38	-1.40	9.28	8.60
Industrial	15.0	14.74	-3.72	9.37	9.19
Office	15.0	15.52	-4.12	9.48	8.27
Retail	15.0	15.09	.01	9.79	9.39
Total	16.1	16.73	-2.56	9.34	8.99

Source: The National Council of Real Estate Investment Fiduciaries (NCREIF) and CBRE Americas Research



The Economic Environment

Structural: History of Financial Crisis

	Cumulative Percentage Peak to Trough	Duration
Home Prices	-36%	3 years
Stock Prices	-56%	3.4 years
Unemployment	+7%	4.8 years
Real GDP Percentage	-9.3%	1.7 years

Source: Reinhart and Rogoff:, This Time is Different.

“Estimate is 7-10 years for the Second Great Contraction” Ken Rogoff, Oct 18, 2011

Cyclical: An Age-old Battle of Economic Policy

“THE IDEAS OF ECONOMISTS AND POLITICAL PHILOSOPHERS BOTH WHEN THEY ARE RIGHT AND WHEN THEY ARE WRONG ARE MORE POWERFUL THAN IS COMMONLY UNDERSTOOD. INDEED THE WORLD IS RULED BY LITTLE ELSE.

PRACTICAL MEN, WHO BELIEVE THEMSELVES TO BE QUITE EXEMPT FROM ANY INTELLECTUAL INFLUENCE ARE USUALLY THE SLAVES OF SOME DEFUNCT ECONOMIST.”

JOHN MAYNARD KEYNES – THE GENERAL THEORY



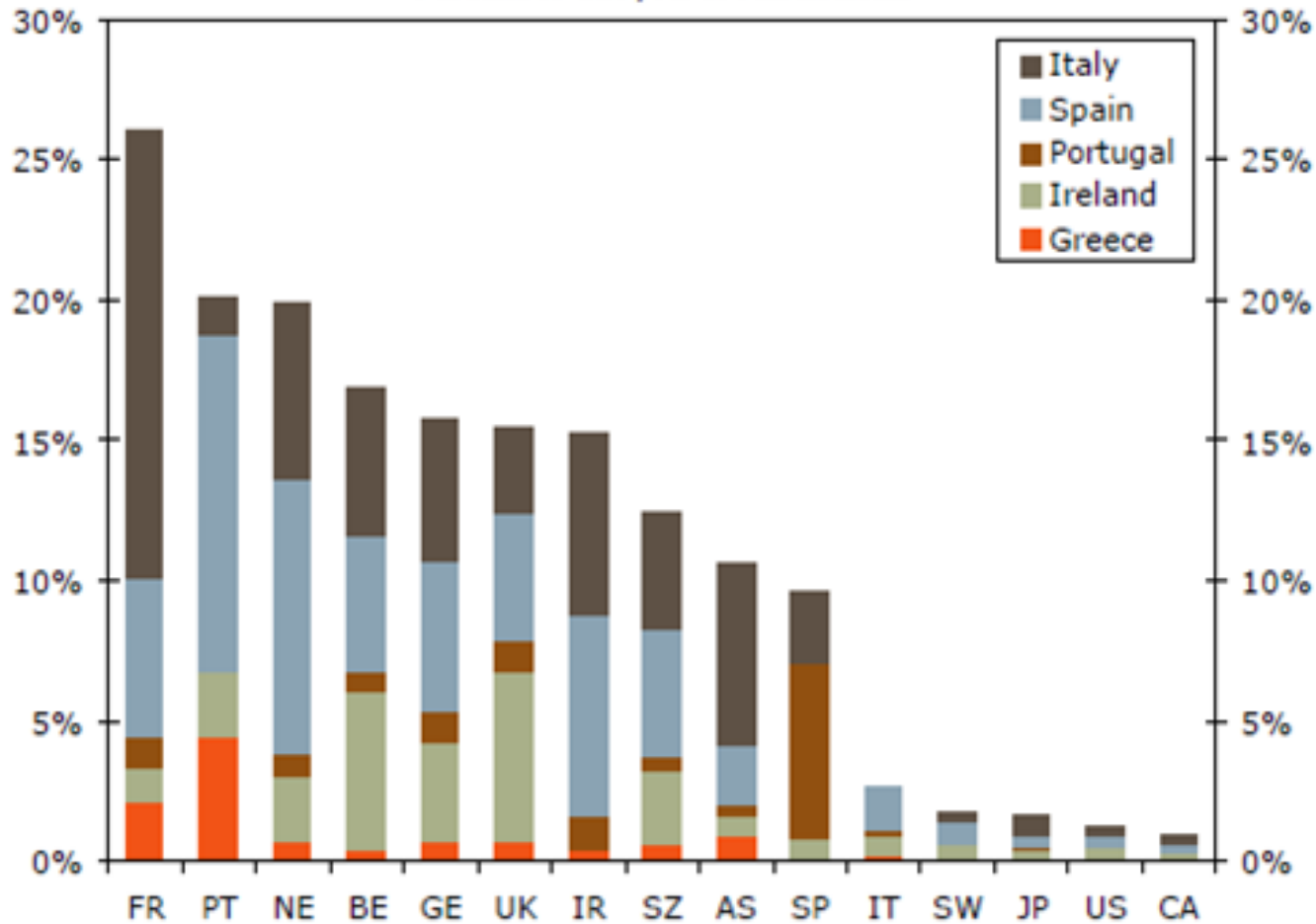
“THE CURIOUS TASK OF ECONOMICS IS TO DEMONSTRATE TO MEN HOW LITTLE THEY REALLY KNOW ABOUT WHAT THEY IMAGINE THEY CAN DESIGN.”

F. A. HAYEK – THE FATAL CONCEIT

Systemic: European Banking Exposure

Bank Exposure to Peripheral Europe

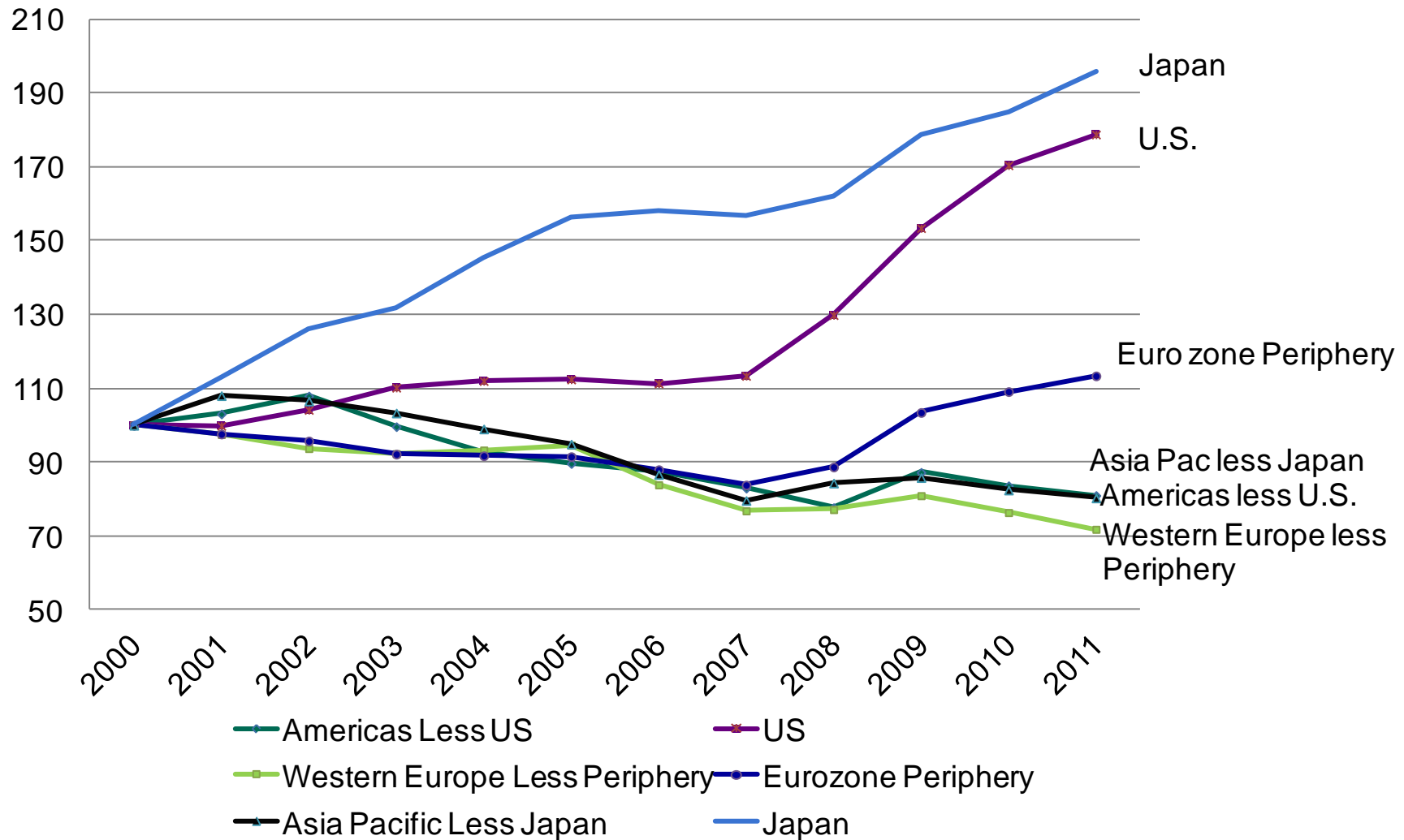
Percent of GDP, As of March 2011



FR = France
 PT = Portugal
 NE = Netherlands
 BE = Belgium
 GE = Germany
 UK = United Kingdom
 IR = Ireland
 SZ = Switzerland
 AS = Austria
 SP = Spain
 IT = Italy
 SW = Sweden
 JP = Japan
 US = United States
 CA = Canada

Systemic: Global Sovereign Fiscal Vitality

Gross Government Debt as % of GDP, Indexed to 2000



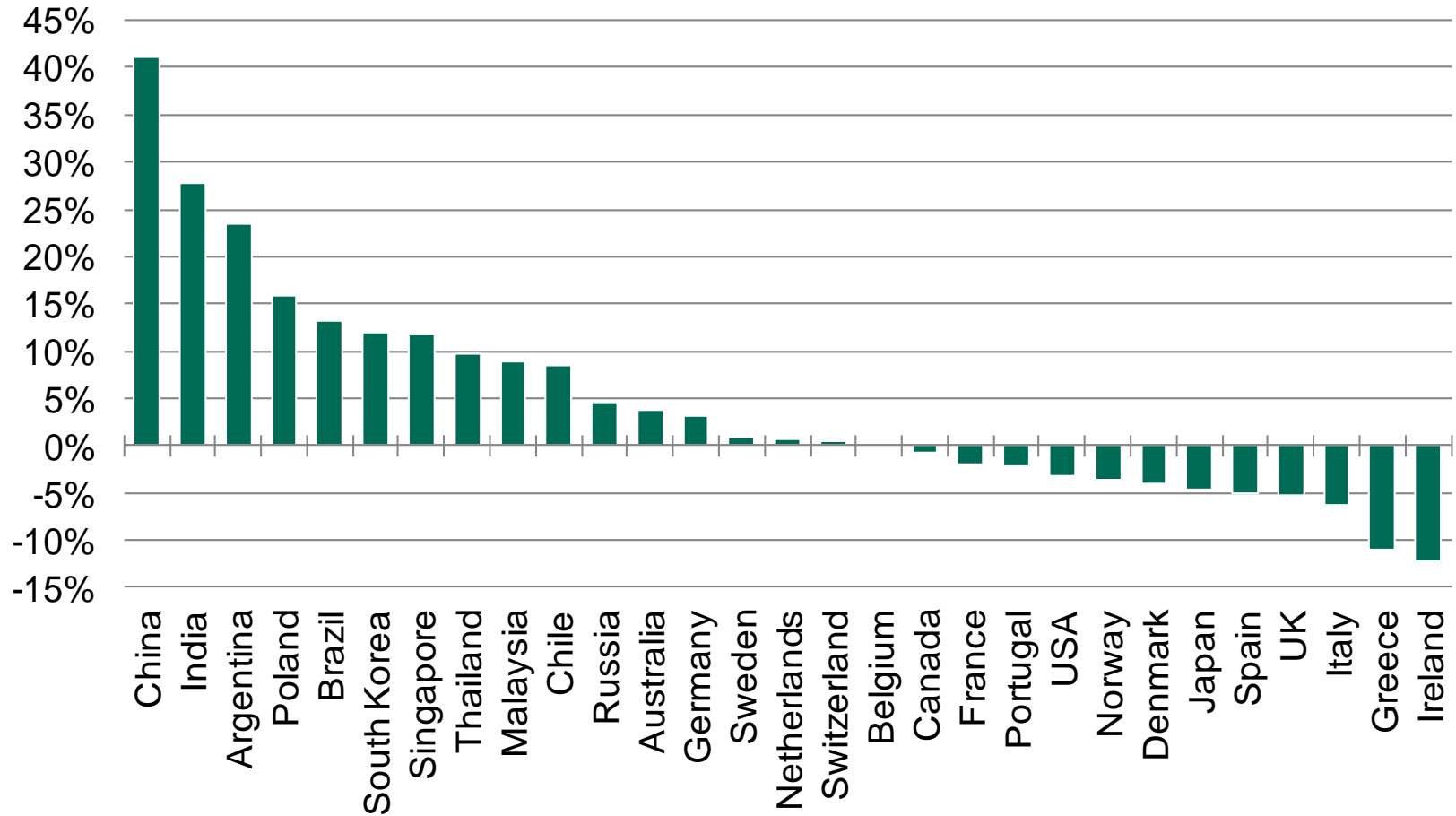
Source: CBRE Econometric Advisors, Oxford Economics as of Q2 2011.

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A World of Divergence

% Change in Real GDP per Person

Q2 2007 to Q2 2011



Source: Oxford Economics, Q2 2011

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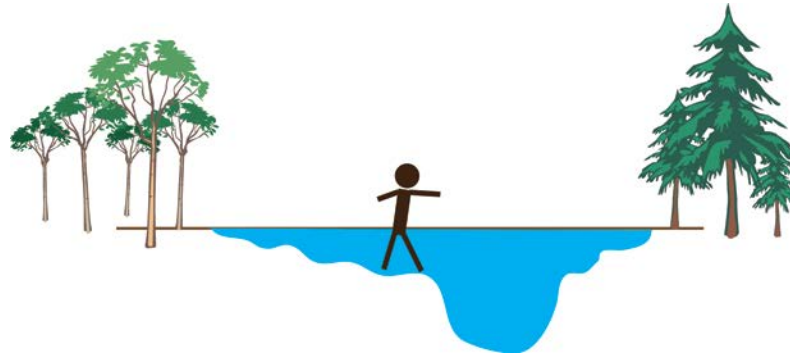
Investor Adages* for This Environment

*Howard Marks

Survive the Worst Day!

One must bear in mind:

never forget the six-foot-tall man who drowned crossing the stream that was five feet deep on average

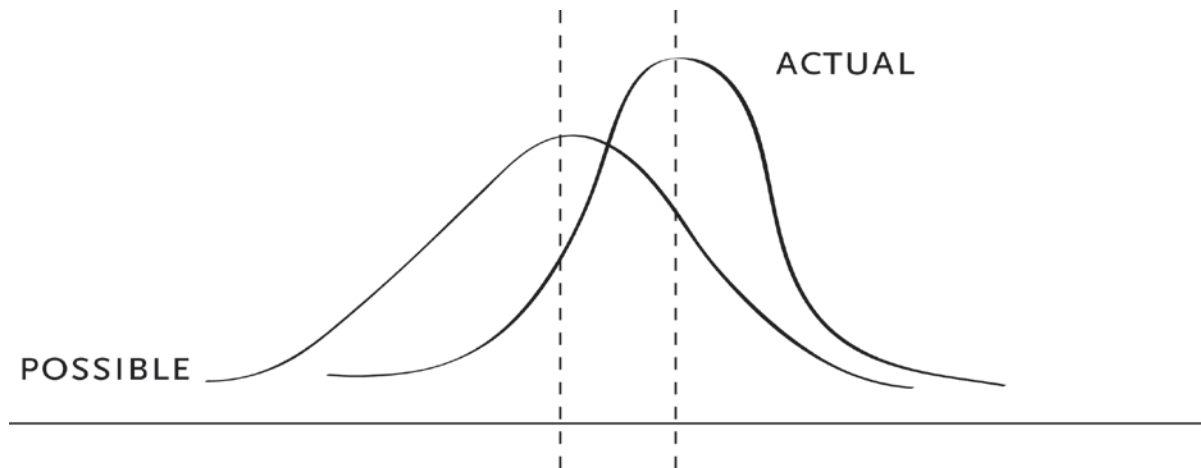


In other words, it's not enough to survive on average. You have to be able to survive the worst day.

That's the lesson of 2007-08

Expect Wider Distributions and Lower Returns

Remember, past results are just a subset of the many things that could have materialized
More things could have happened, and some of them would have been far less pleasant



With forces unleashed that have never been seen before, *only an optimist would assume today that the future is knowable and rosy*. And the possibility of some real “stinkers” lurking in the left-hand tail shouldn’t be ignored

Never forget Elroy Dimson:

“Risk means more things can happen than will happen”

- Being too far ahead of your time is indistinguishable from being wrong...

And other reminders:

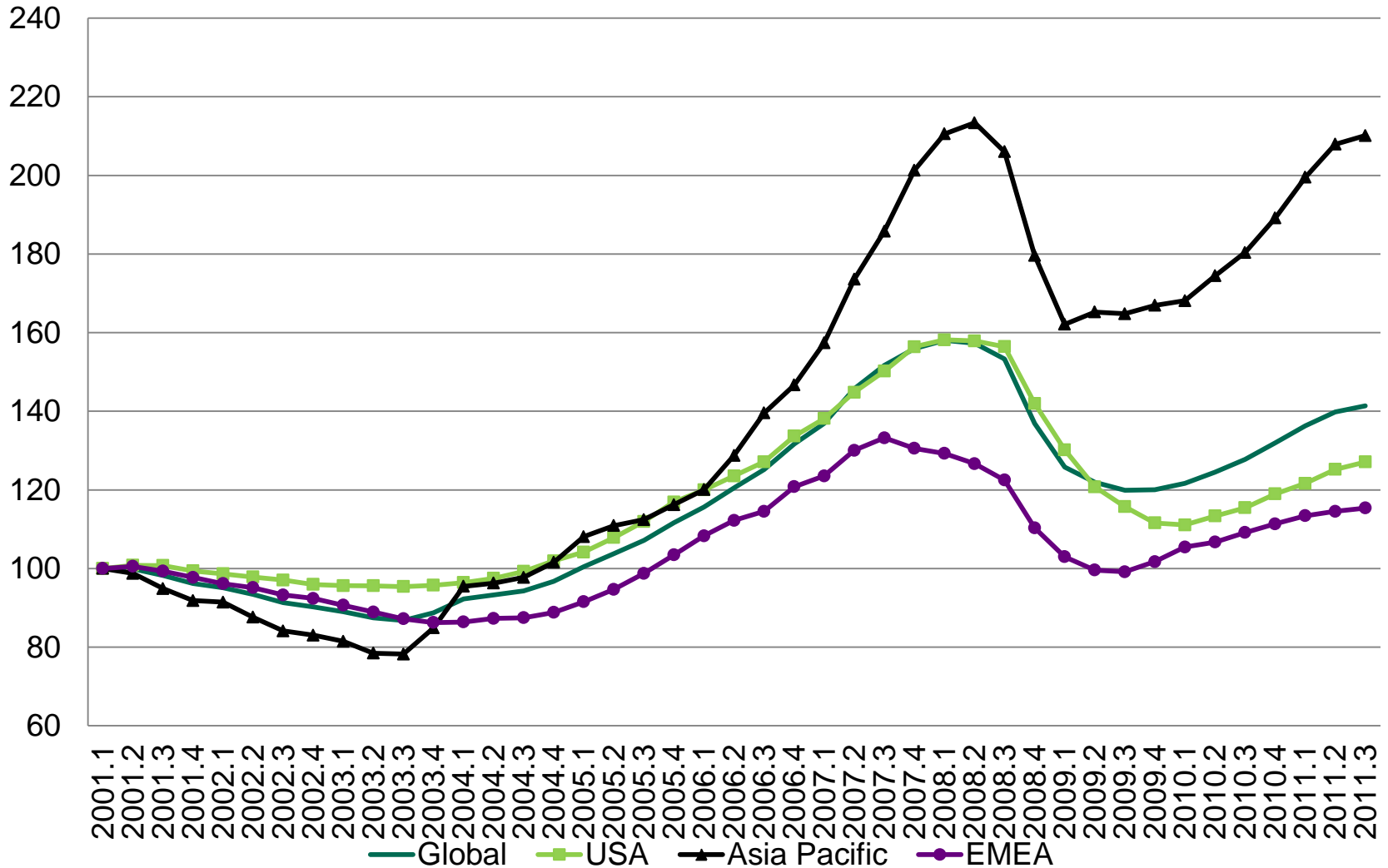
- Use the right amount of leverage for the risk your asset possesses
- Refuse to dance even when the music is playing and everybody is on the dance floor!



Pricing

CBRE Global Capital Value Index

Index Q1 2001 = 100

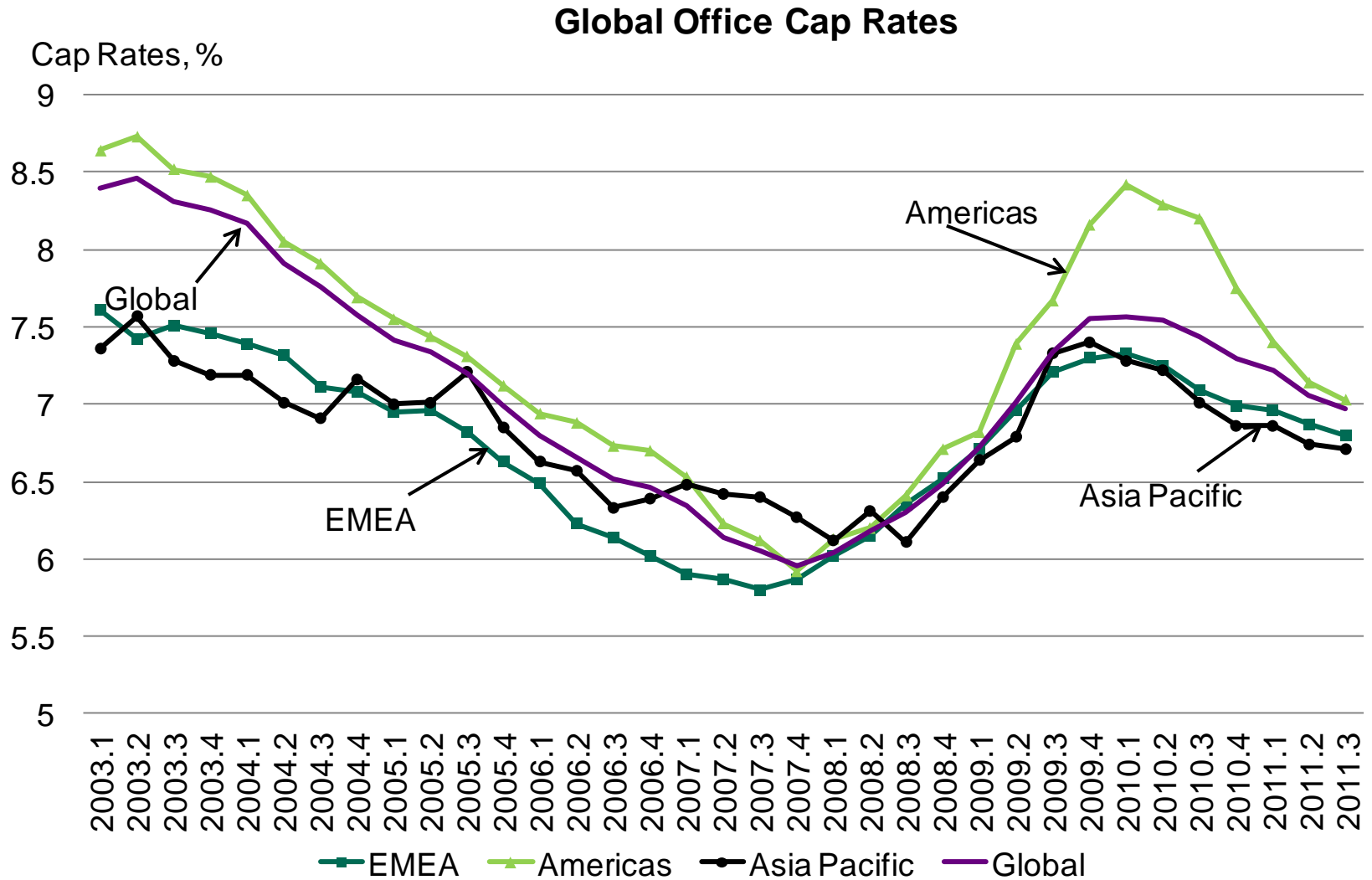


Source: CBRE Research, NACREIF.

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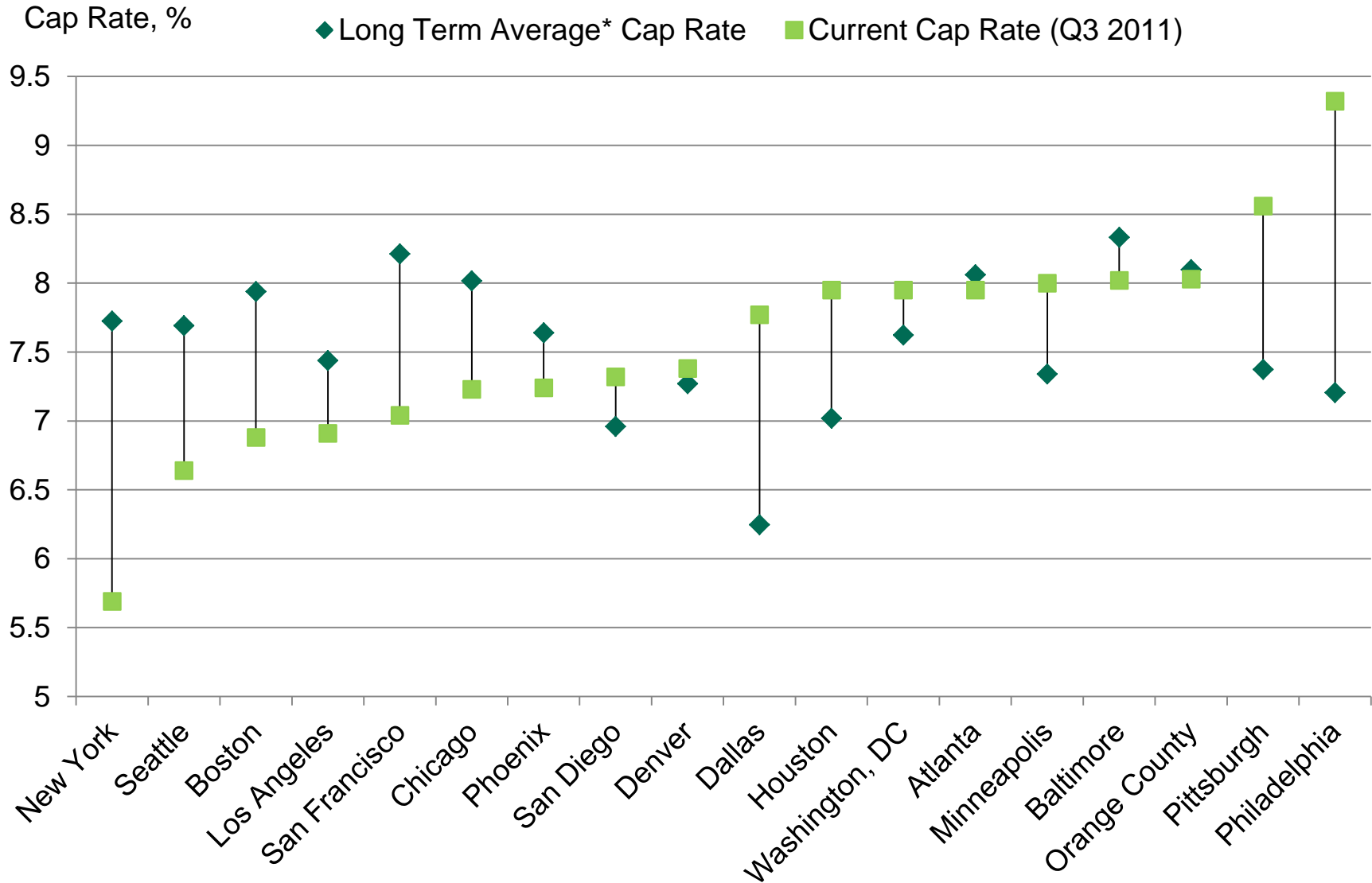


Global Office Cap Rates



Source: CBRE Research and RCA; data as of Q3 2011.

US Office Cap Rates ~ Long Term Perspective



*Long Term Average spans from current back to Q1 2003, RCA's earliest tracking period.

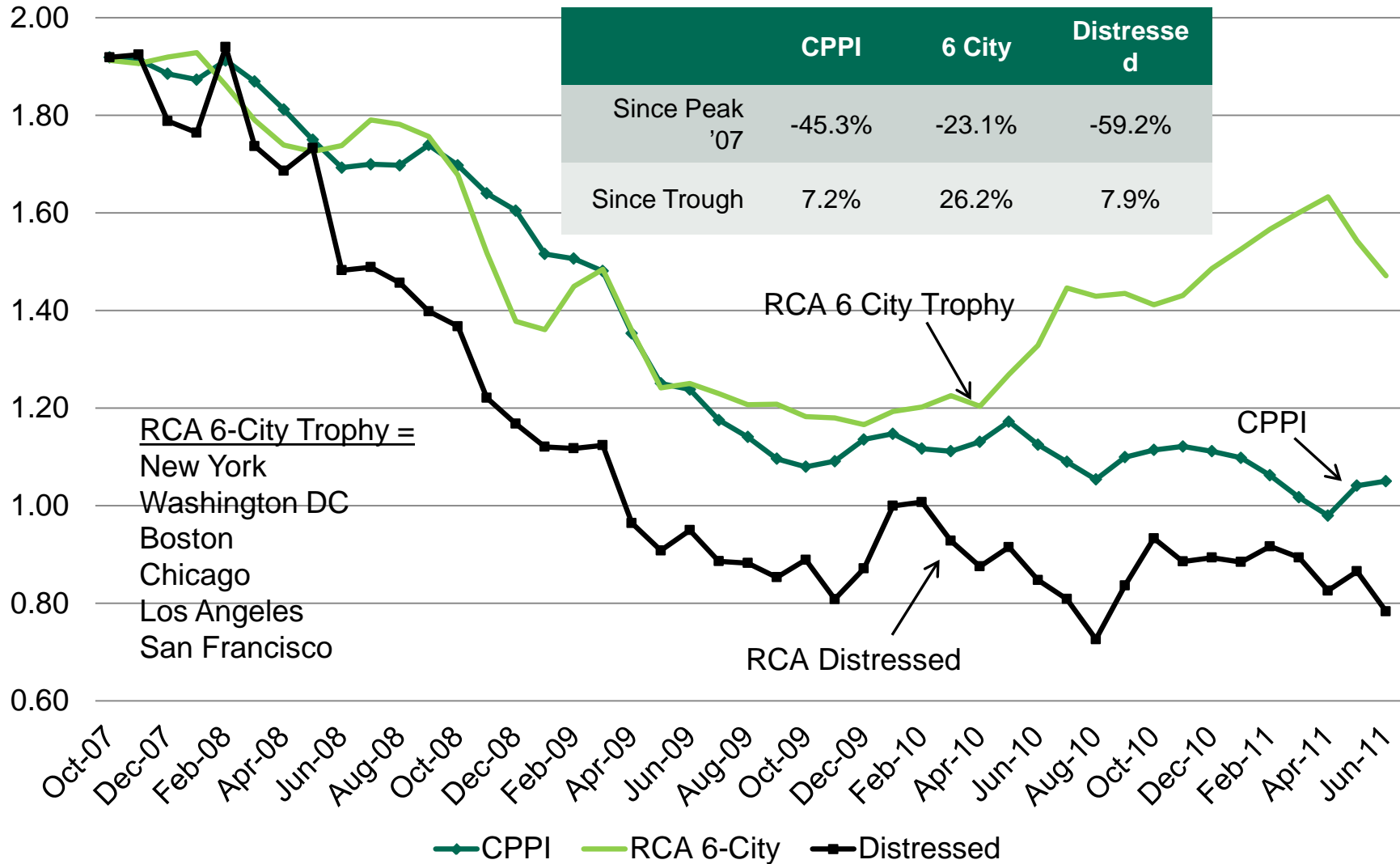
Source: CBRE Research and RCA as of Q3 2011.

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US Flight to Quality

CPPI, RCA-Trophy and Distressed Property Divergence



Source: RCA and Geltner & Associates; data extends through June 2011.

Lack of "Core" or "Safe Assets" Today

World issue of AAA fixed-income



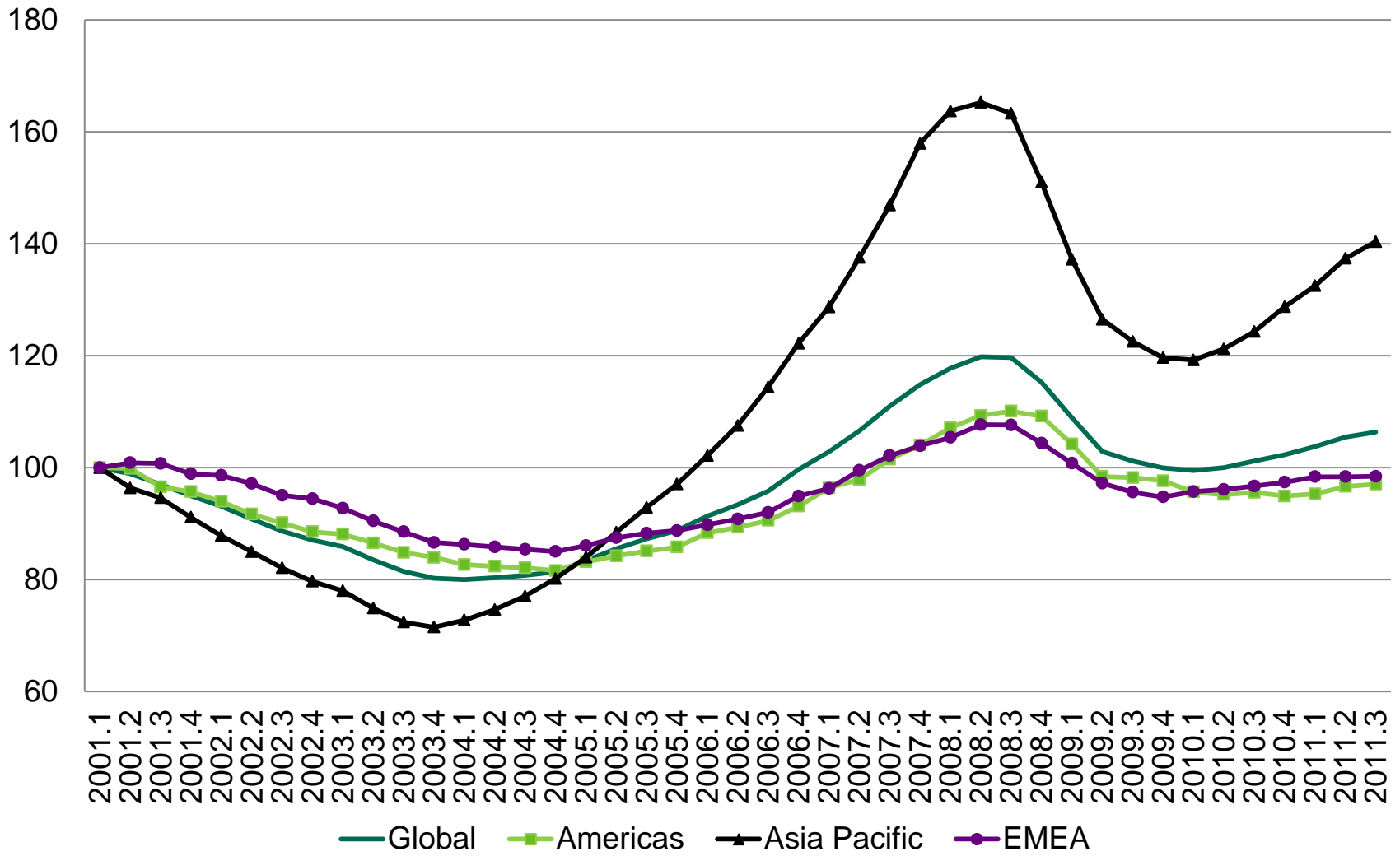
Source: Dealogic and CNMV. (1) The category "others" includes mortgage bonds, preferred shares and other long-term fixed-income instruments.



Occupier Market

CBRE Global Office Rent Index

Index Q1 2001 = 100



Source: CBRE Research.

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U.S. Vacancy Moving from Cyclic Highs

Vacancy and Availability Rates

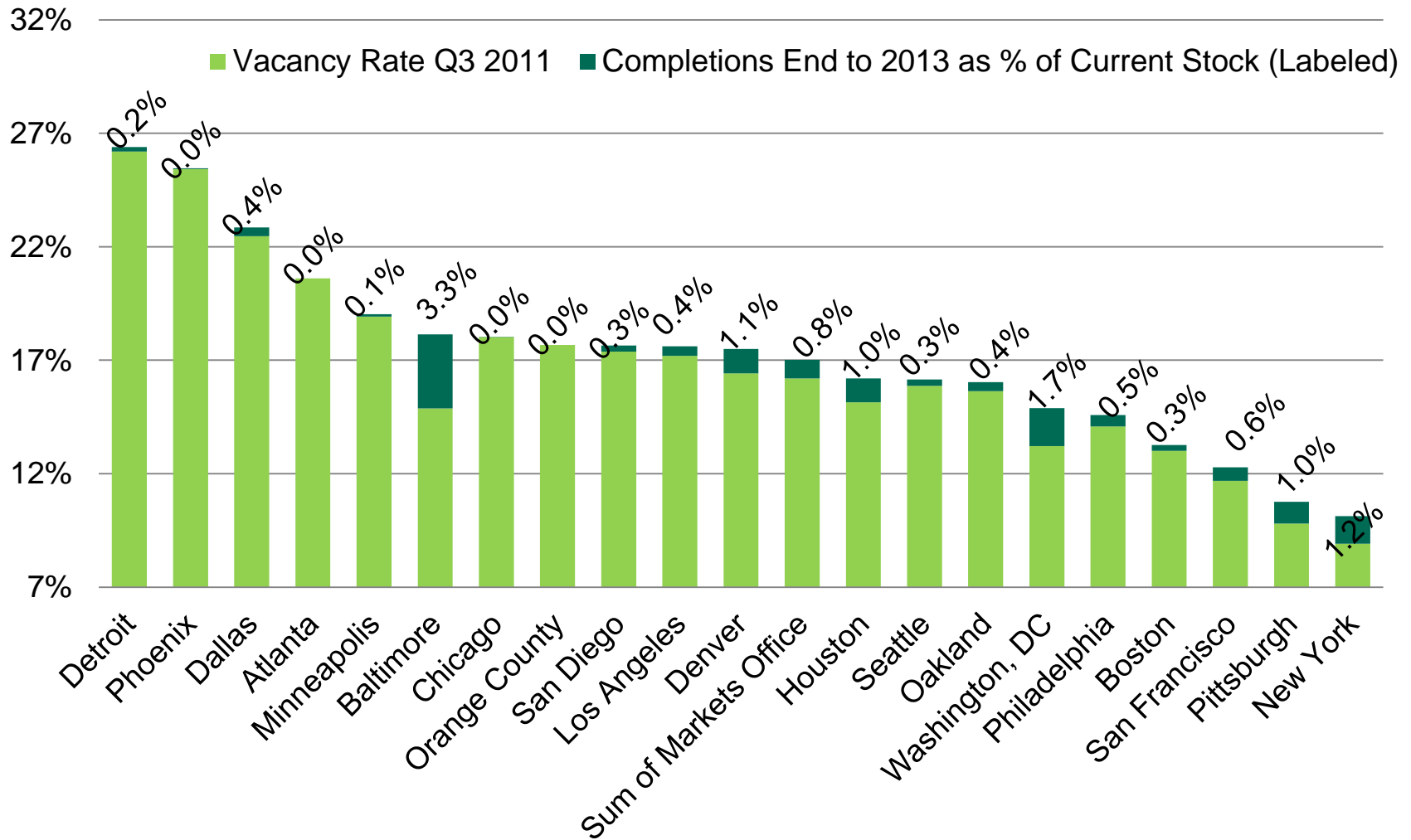
	Q3 2011	Most Recent Recession Peak/Year	Historic Peak Year	“Natural Rate”	Year Back to “Natural Rate”
Office	16.2	2010.2 16.8	1987.1 20.5	13 to 15	2012.2
Industrial	13.7	2010.2 14.6	2010.2 14.6	9 to 10	2014.2
Retail	13.2*	2011.2 13.2	2011.2 13.2	9 to 10	2014.3
Multi-Family	5.0	2009.2 7.4	2009.2 7.4	5 to 6	Already Attained
Hotels	30.6*	2009.1 44.5	2001.4 44.8	34 to 38	Already Attained

* Q2 2011 data is the most up-to-date available.

Source: CBRE Econometric Advisors Q3 2011 Outlook.

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U.S. Office Vacancy and Supply Pipeline

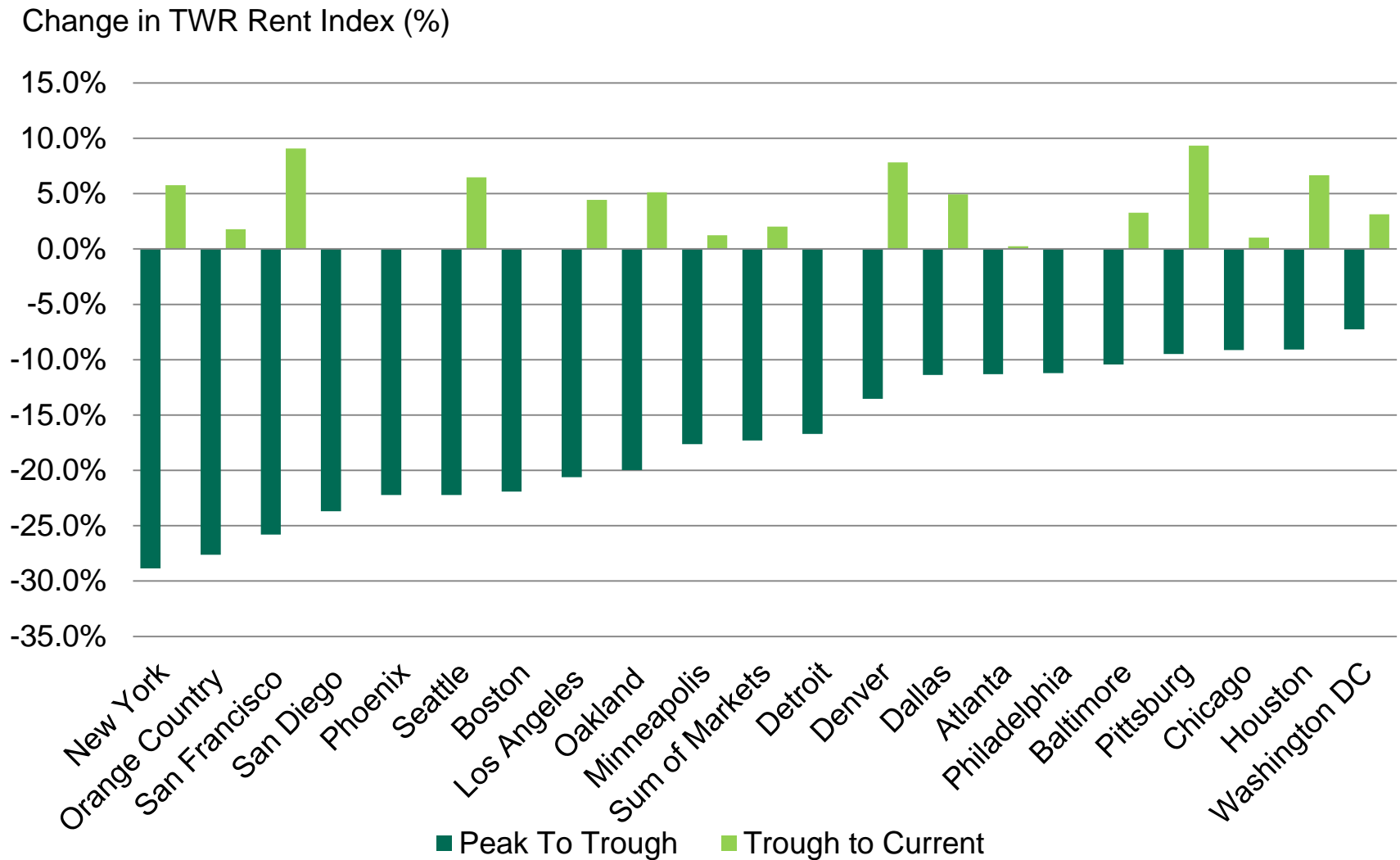


Source: CBRE Econometric Advisors Q3 2011 Baseline Scenario.

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U.S. TWR Rent Index: Recovery Progress

Changes in Rents: Peak-to-Trough and Trough to Q3 2011



Source: CBRE Econometric Advisors Q3 2011.

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- Economy:
 - Anemic growth but another recession unlikely.

- Leasing:
 - Macro level very difficult to develop and execute a strategy. Micro level there is plenty of opportunity.

- Capital Markets:
 - Volume continues to increase. Capital is still plentiful but growth expectations have been tempered.

- Trends:
 - Demand is macro weak and micro strong.

Ray Torto is CBRE's Global Chief Economist. He directs CBRE's worldwide team of commercial real estate market analysts and serves as the firm's primary spokesperson on macro economic issues and the global commercial real estate market.

Ray earned his Ph.D. in Economics from Boston College. He is active in many organizations including Chairman of the Pension Real Estate Association and the Real Estate Roundtable. A former professor and author, he currently teaches Executive Education in the Harvard School of Design.



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Thank You

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