

Real Estate Investment Beyond(?) the Global Credit Crisis

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On the pulse of
the property world



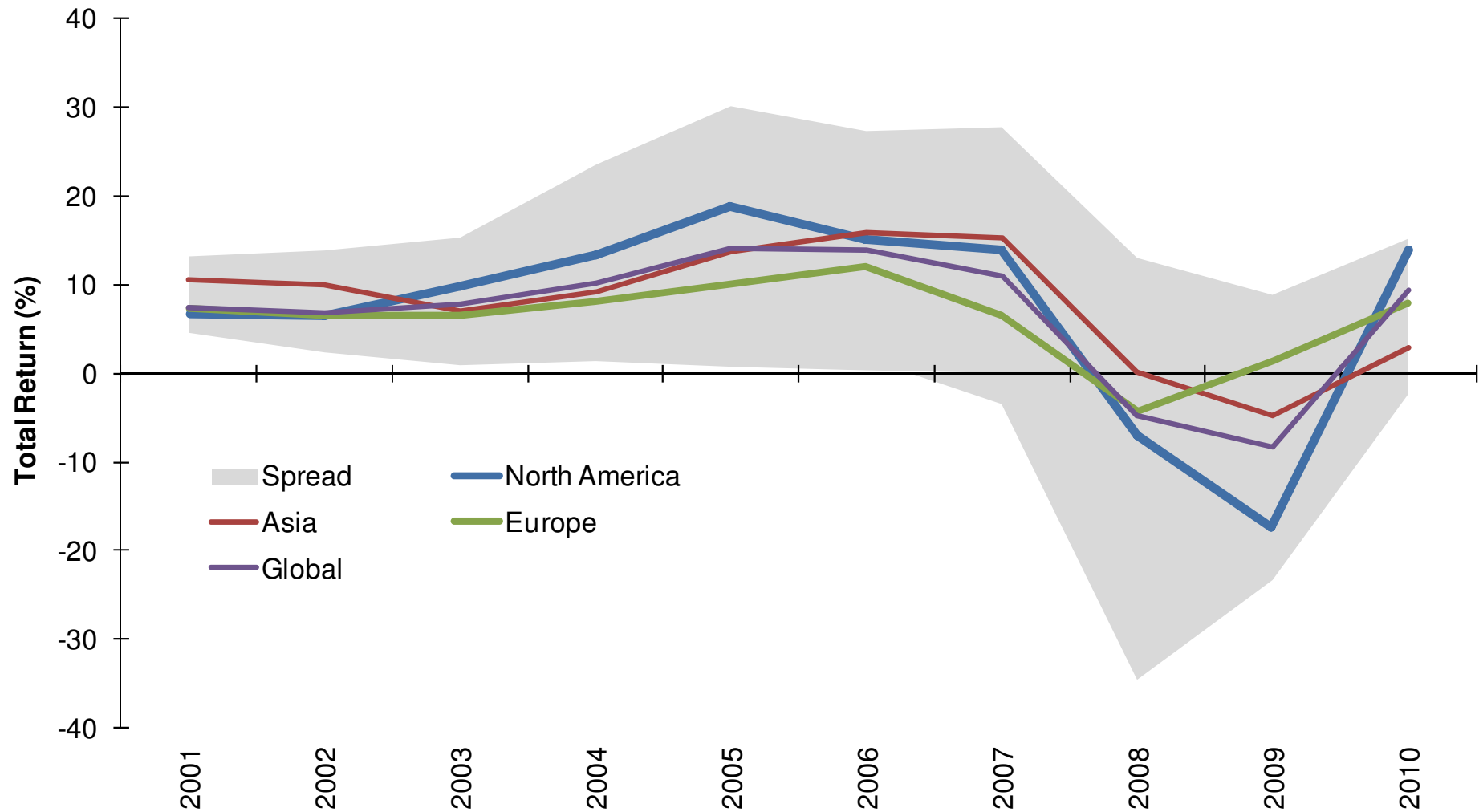
Overview

- ❑ Variation in regional trends
- ❑ Global investment flows into real estate
- ❑ Changing expectations
- ❑ Pricing risks



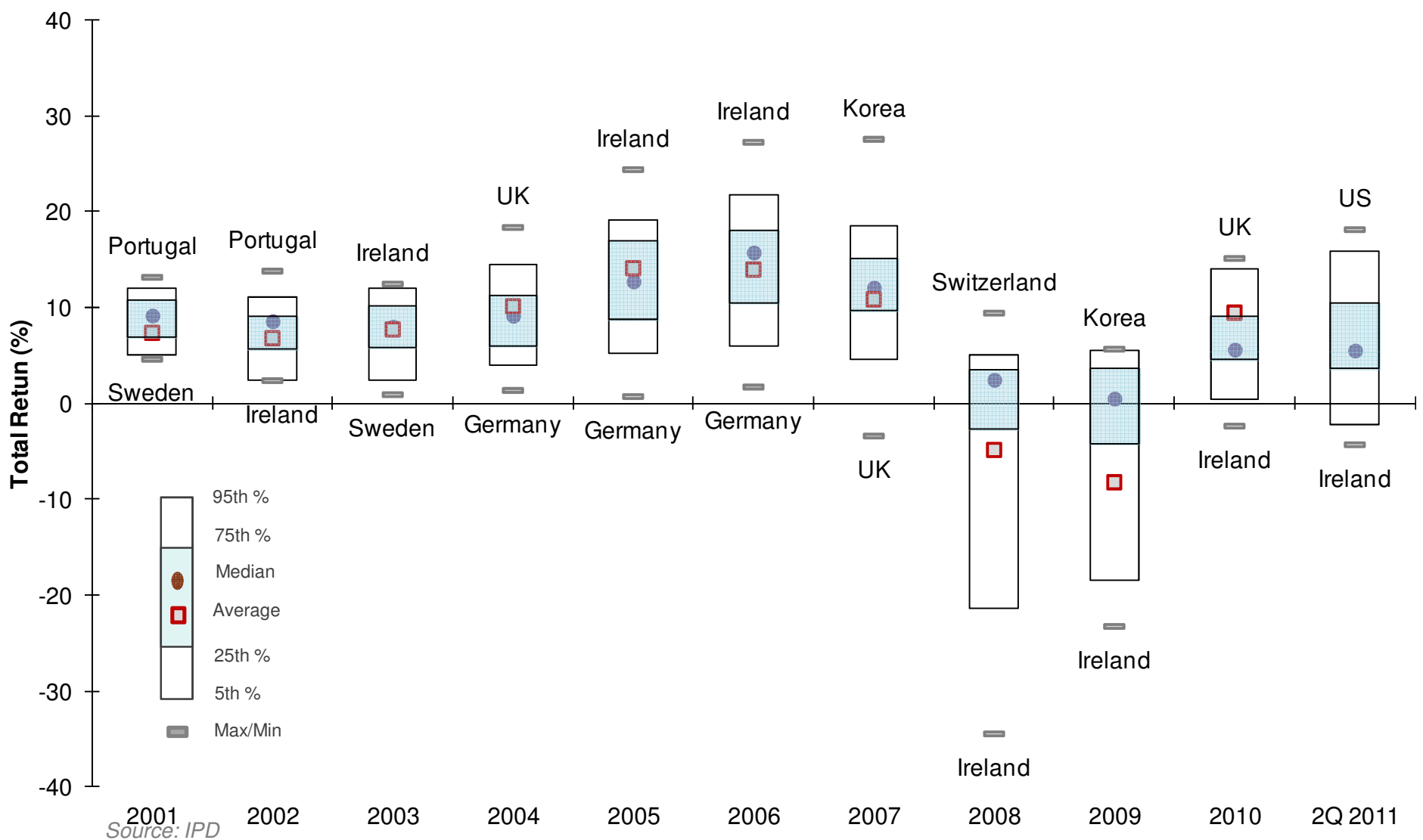
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Variation of performance across regions narrowing again



Source: IPD



As countries jockey for position



The pattern of performance in 2009



Top 10	
Johannesburg	8.1
Cape Town	7.7
Zurich	5.6
Geneva	5.5
Munich	5.3
Seoul	4.6
Edinburgh	4.4
Vienna	4.2
Oslo	3.6
Brussels	3.4
Bottom 10	
Dallas	-17.2
Denver	-17.7
Portland	-18.3
Atlanta	-18.7
Boston	-19.0
Los Angeles	-20.0
San Francisco	-22.1
Seattle	-22.1
Miami	-22.2
Dublin	-22.9

 Above average
 Below average

Source: IPD



Shifted in 2010



Top 10	
Washington DC	20.5
New York	19.8
London	19.4
Denver	17.3
San Diego	17.1
Minneapolis	15.9
Dallas	14.3
Los Angeles	14.3
Montreal	14.2
San Francisco	14.1

Bottom 10	
Dusseldorf	3.8
Porto	3.2
Frankfurt	3.0
Berlin	3.0
Brussels	2.9
Madrid	2.2
Budapest	1.9
Prague	1.1
Tokyo	-1.0
Dublin	-1.4

◆ Above average
◆ Below average




Source: IPD

And again through first half of 2011



Top 10	
Washington D.C.	22.6
San Francisco	22.6
Portland	21.3
Denver	19.9
New York	19.8
Seattle	19.4
Los Angeles	17.7
Philadelphia	17.4
Montreal	16.7
Minneapolis	16.5

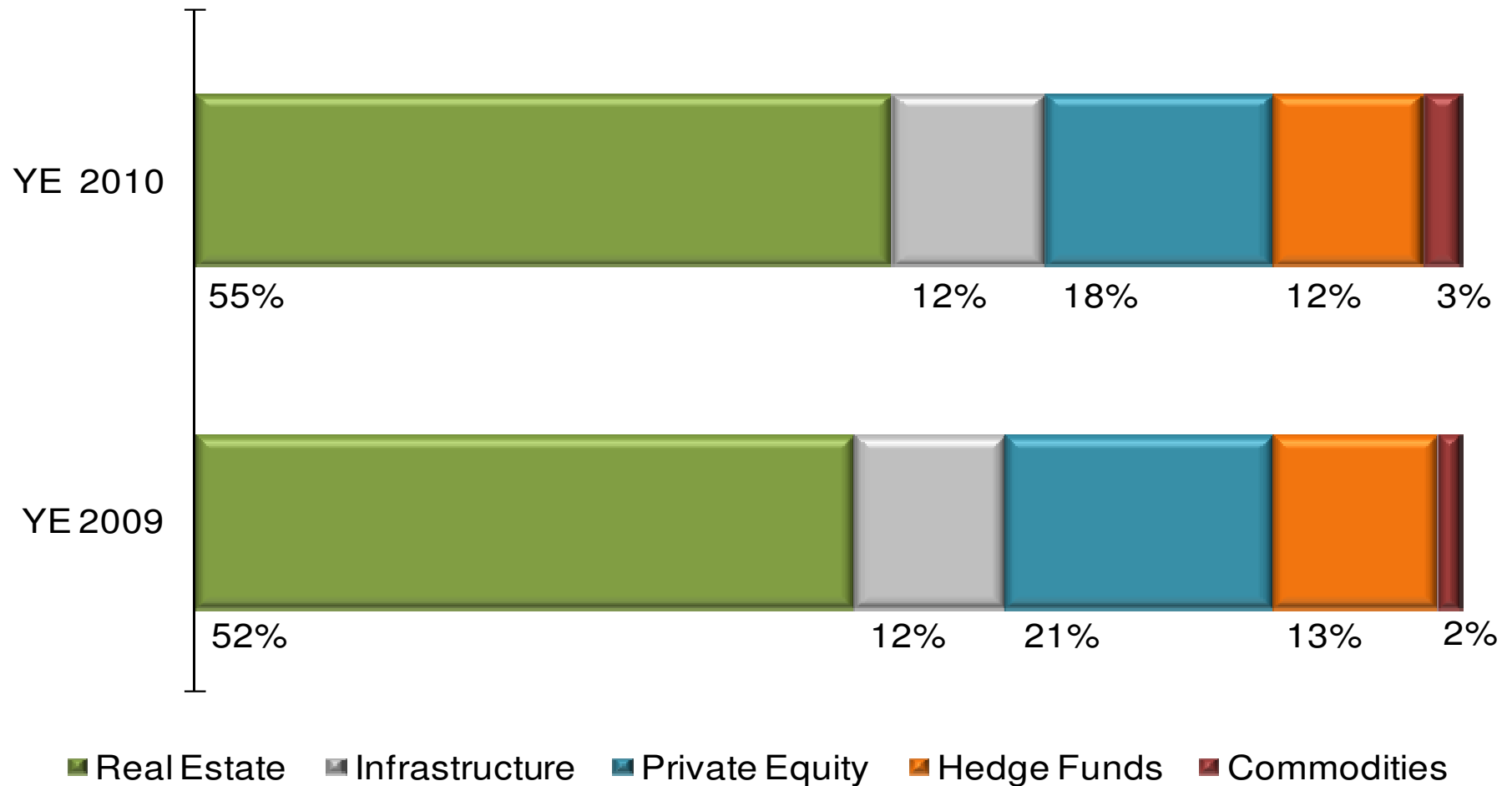
Bottom 10	
Manchester	7.3
Birmingham	6.6
Detroit	6.3
Edinburgh	6.3
Rome	5.5
Milan	5.2
Amsterdam	4.6
Rotterdam	3.9
Tokyo	1.3
Dublin	-3.5

-  Above average
-  Median/Average
-  Below average

Source: IPD

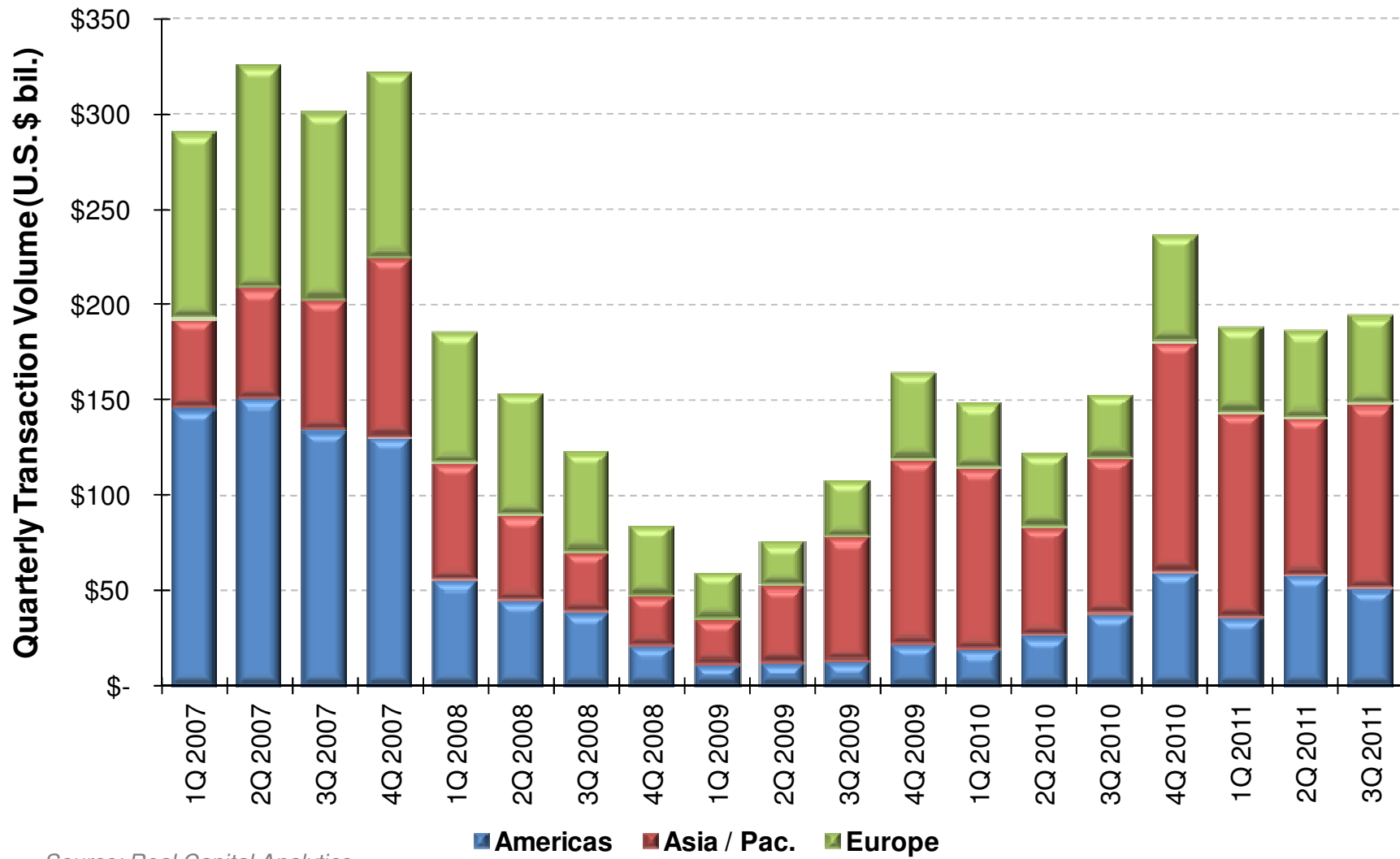
Real estate favored among alternatives

Pension fund allocations across alternatives, heading into 2011



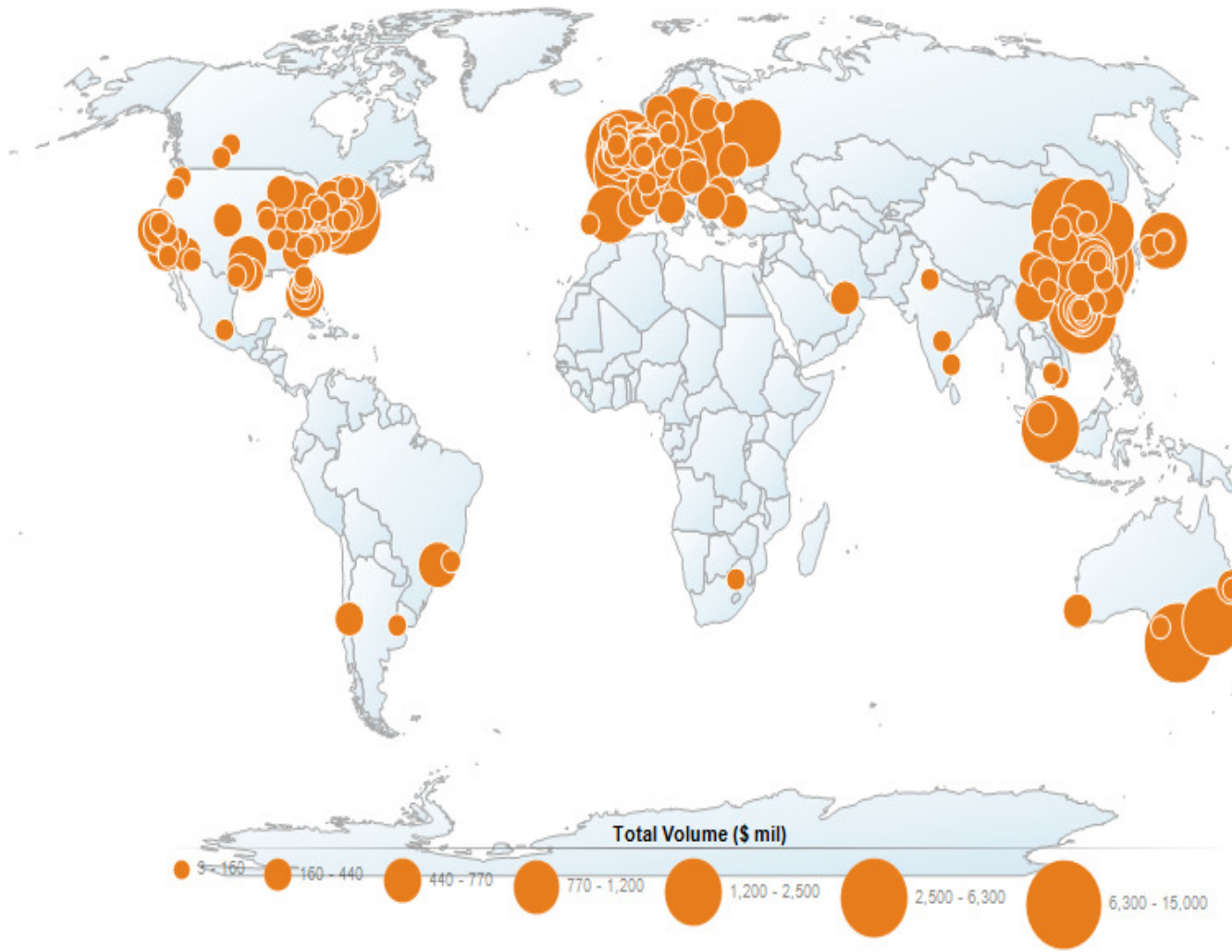
Source: Towers Watson, 2011

Supported by improved transaction volume



Source: Real Capital Analytics

And diverse regional investment flows



Top Countries of Origin

Country	#	\$	%
United States	754	\$18,139	15%
Hong Kong	142	\$17,130	14%
Canada	488	\$12,284	10%
Singapore	74	\$10,881	9%
UK	247	\$9,593	8%
Germany	100	\$6,074	5%
Netherlands	51	\$5,967	5%
France	105	\$3,787	3%
Norway	20	\$3,246	3%
Other	967	\$33,514	28%
Total	2,948	\$120,614	100%

Volume in Millions of \$

Top Market Destinations

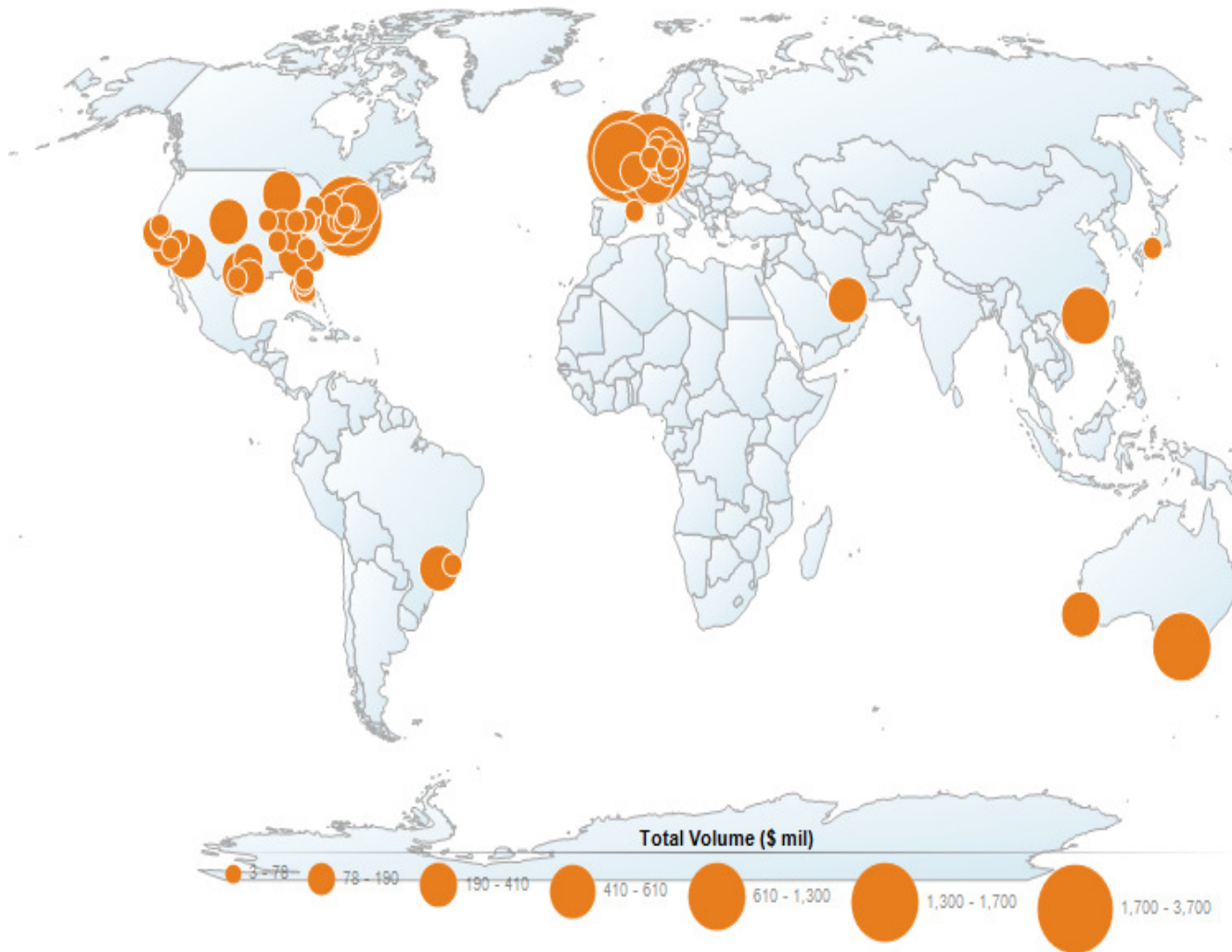
Country	#	\$	%
London	99	\$14,545	12%
Paris	78	\$6,702	6%
Shanghai	16	\$5,917	5%
Manhattan	26	\$5,393	4%
Beijing	15	\$2,588	2%
Melbourne	29	\$2,548	2%
Kowloon	3	\$2,507	2%
Singapore	14	\$2,359	2%
Ruhr Valley	33	\$2,249	2%
Other	2,635	\$75,806	63%
Total	2,948	\$120,614	100%

Volume in Millions of \$

Source: Real Capital Analytics



Canadian firms invested abroad



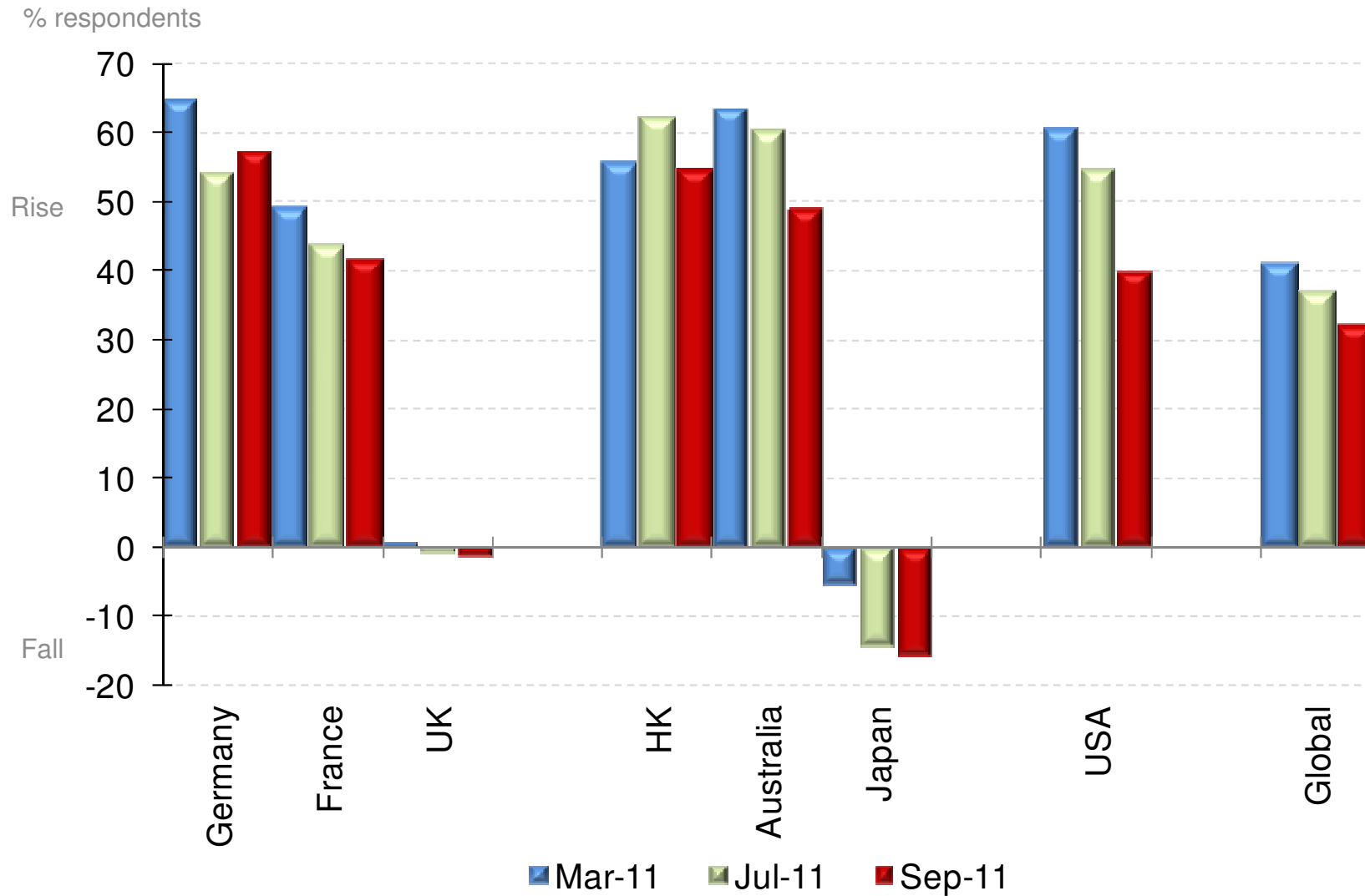
Top Market Destinations

Market	#	\$	%
London	9	\$3,638	22%
Ruhr Valley	21	\$2,004	12%
Manhattan	2	\$1,463	9%
Melbourne	2	\$1,255	8%
Reading	1	\$643	4%
New Territories	1	\$589	4%
NYC Boroughs	1	\$416	3%
Dubai	1	\$406	2%
Bern	1	\$300	2%
Other	456	\$5,780	35%
Total	495	\$16,493	100%

Volume in Millions of \$

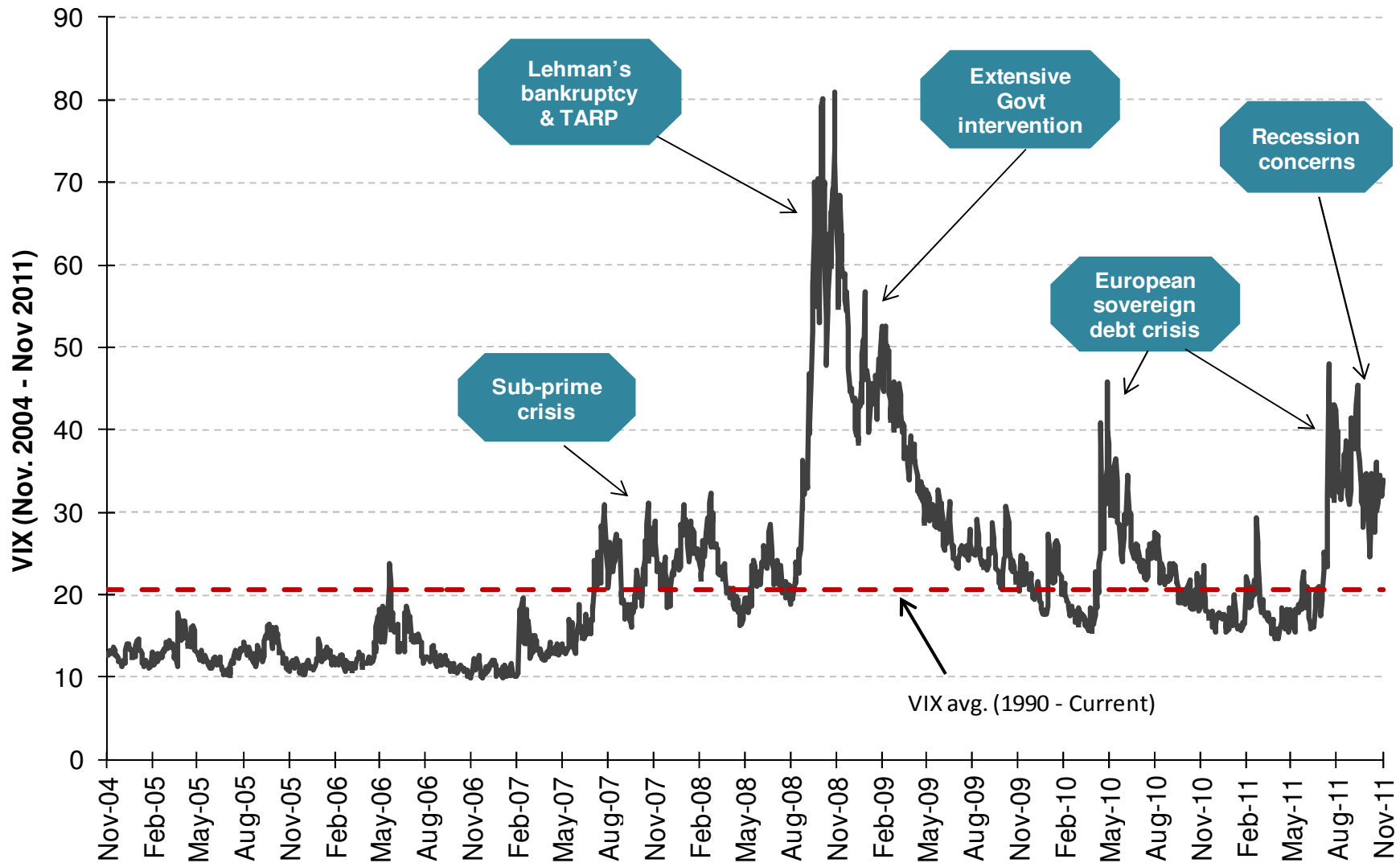
Source: Real Capital Analytics

But expectations for value change have pulled back



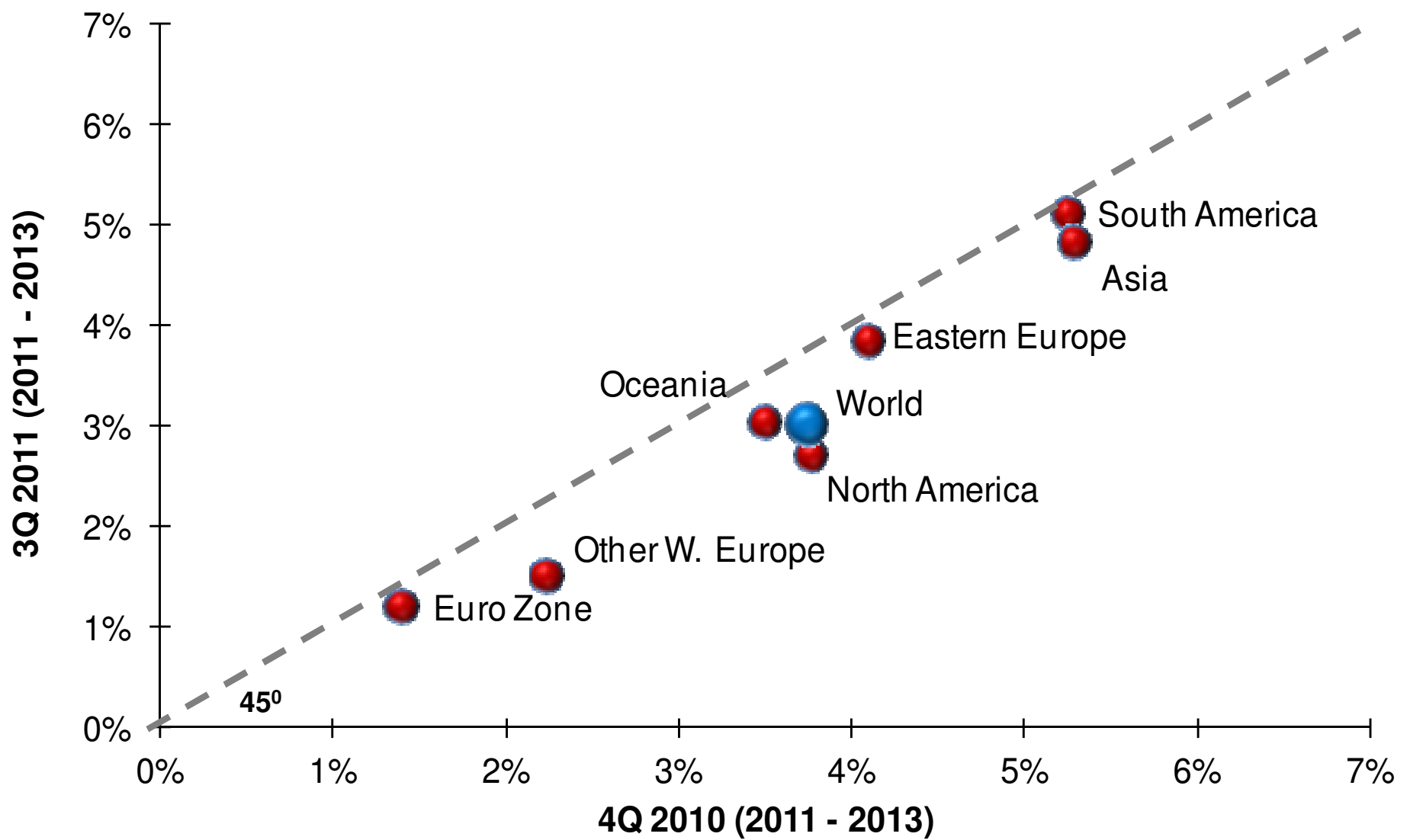
Source: IPE Sept/Oct 2011

Because the crisis is not over yet



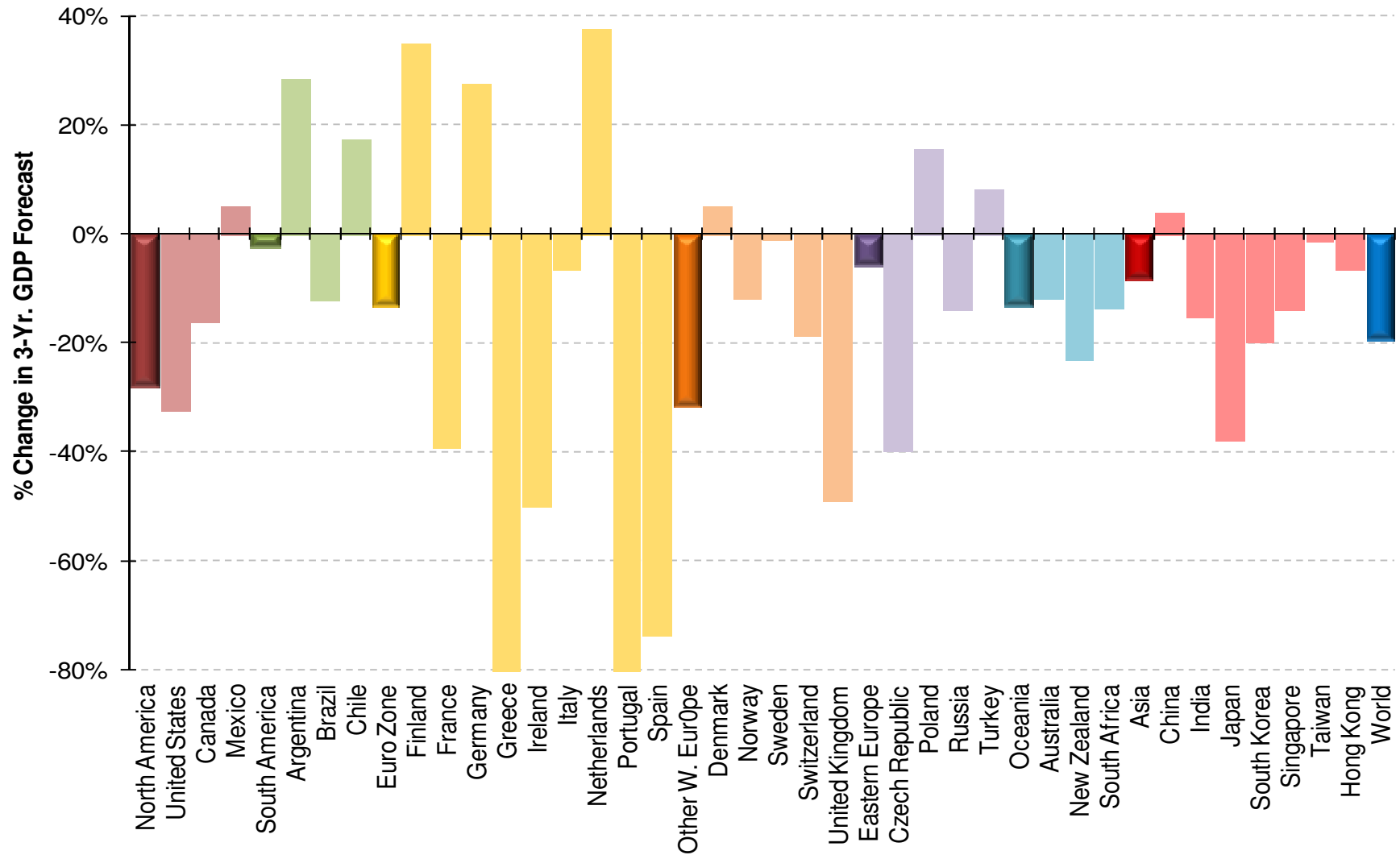
Source: VIX (November 23, 2004 – November 25, 2011)

Growth expectations moderate



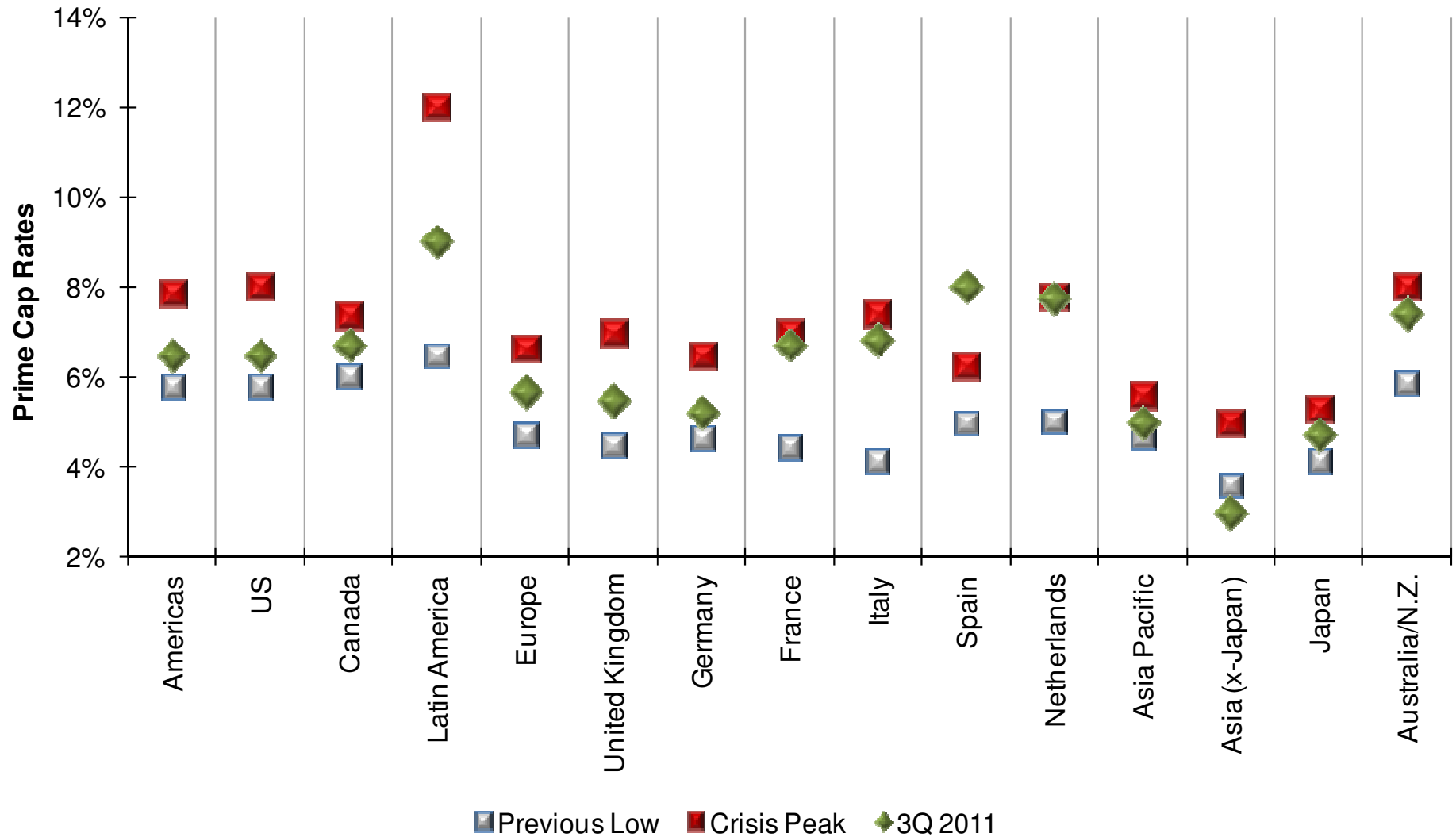
Source: Moody's Analytics

With meaningful variety within regions



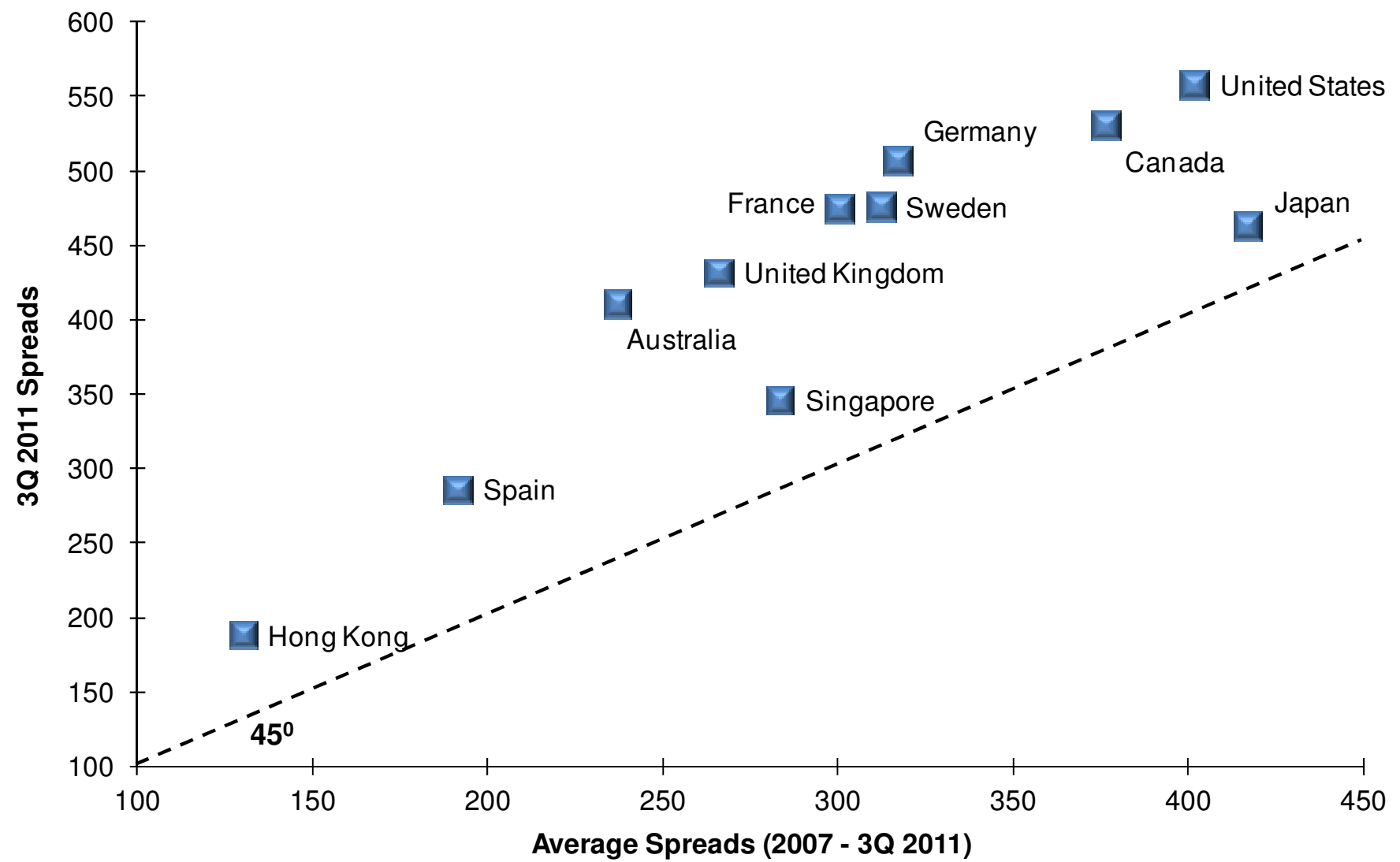
Source: Moody's Analytics

Pricing recovers near previous lows in some markets



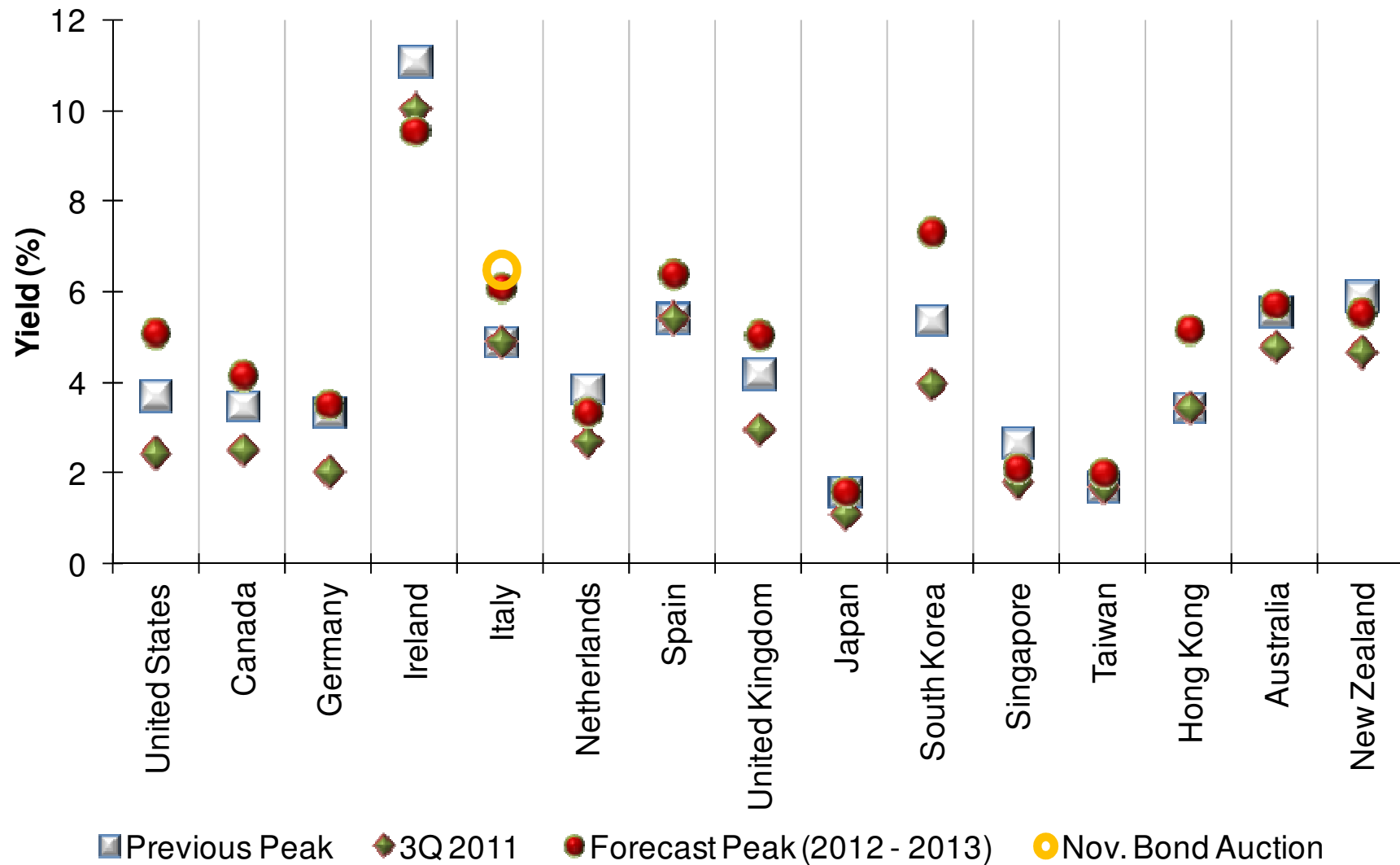
Source: Real Capital Analytics

Yet spreads remain wide



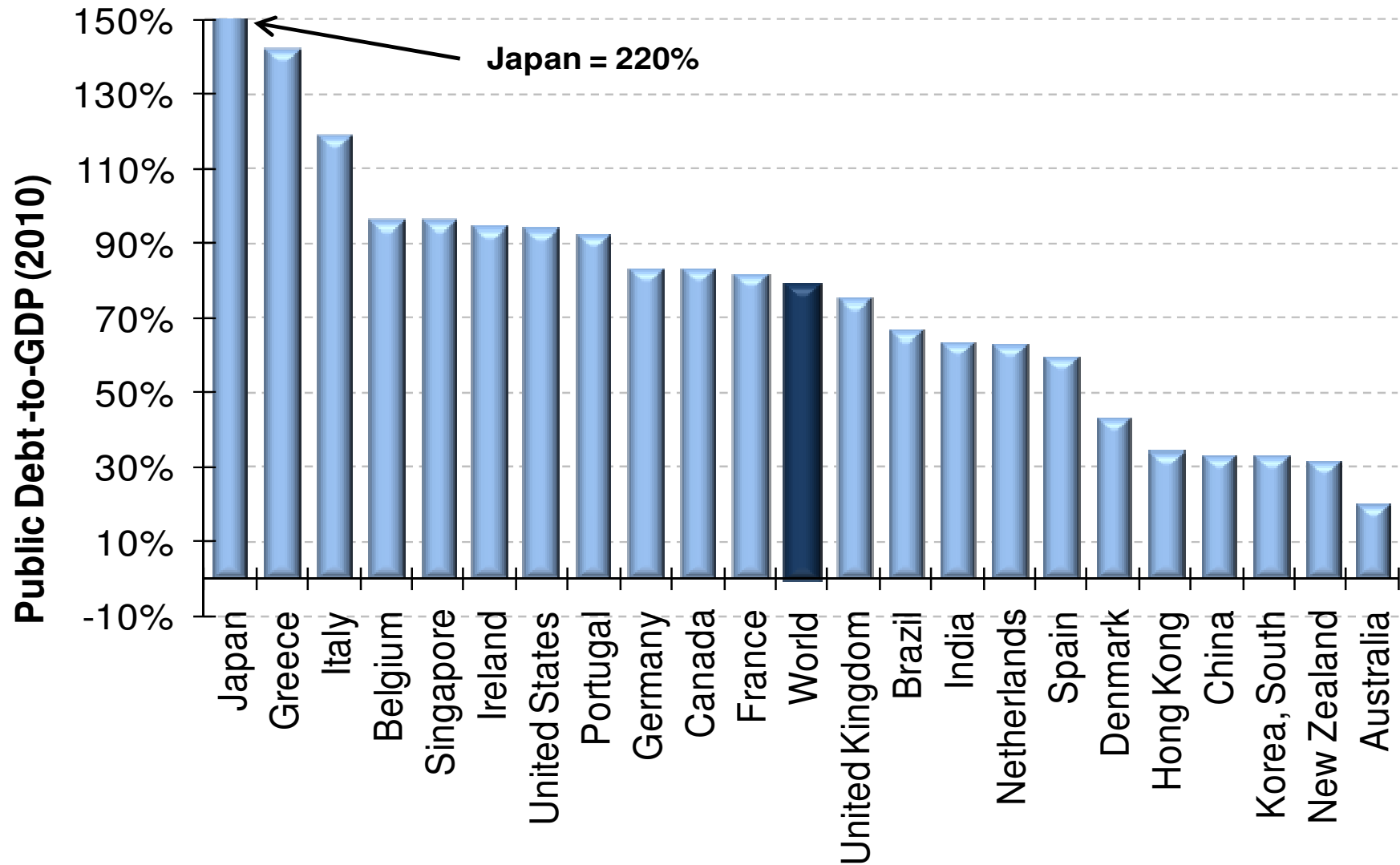
Source: Moody's Analytics, Real Capital Analytics

Because bond yields are low RISK



Source: Moody's Analytics

Especially in markets where



Source: IMF

And banks face potential capital shortfalls



Country	# Banks Tested	CT 1 < 5	5 < CT 1 < 6
U.K.	4	0	0
Ireland ^a	3	0	0
France	4	0	0
Germany	12	0	2(3) ^b
Spain	25	3	6(7) ^b
Italy	5	0	1
Portugal	4	0	4
Greece	6	2	2

a All three Irish banks failed in Dec. 2010 test

b (.) additional bank at CT1=6.1

Conclusions

- ❑ Markets (price) are recovering around the world
 - ❑ Recovery has not been highly coordinated as investors chased expectations / rotated away from perceived risks
- ❑ Investors remain attracted to real estate and made significant investments during first three quarters of 2011
- ❑ Growth expectations have pulled back
- ❑ Cap rates (especially primary global markets) are approaching previous cyclical lows
- ❑ But spreads remain very wide due to low benchmark bond yields
 - ❑ THIS IS INJECTING RISK
- ❑ Spreads could contract quicker than property earnings grow due to political and banking risks

Thank You For Your Time

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