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INSPIRING INNOVATION

CoreNet Global Summit
18-20 April 2010

NEW ORLEANS

MEGA SESSION: TROUBLE IN THE COMMERCIAL REAL ESTATE CAPITAL MARKETS – OPPORTUNITY OR THREAT?

PART 1 – KEYNOTE SPEAKERS

Moderators:

Sven Pole, CB Richard Ellis, Inc.
Richard Podos, Lance LLC

Keynote Speakers:

Tom Fish, Jones Lang LaSalle
Spencer Levy, CB Richard Ellis, Inc.
Mitch Rotchford, Cushman & Wakefield



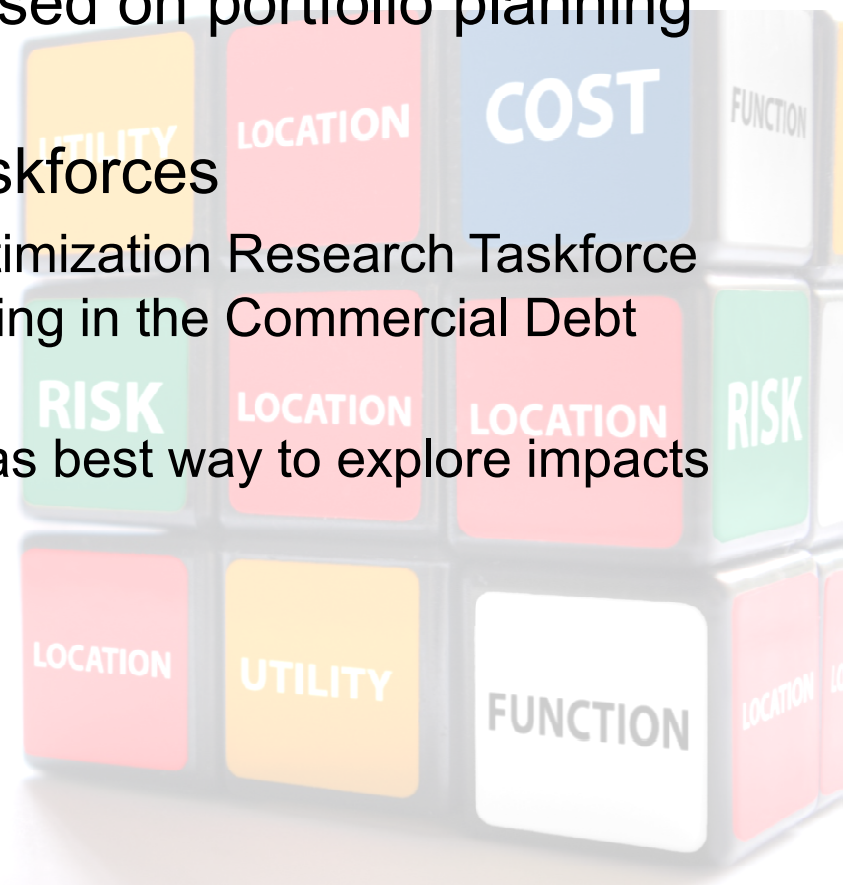
Welcome & Agenda

TROUBLE IN THE COMMERCIAL REAL ESTATE CAPITAL MARKETS – OPPORTUNITY OR THREAT?

- Origin of Discussion
- 9:00 – 10:00: Keynote Speakers
- 10:30 – Noon: Panel Discussion

Origin of Discussion

- CNG Strategy & Portfolio Planning Community
 - “Community of Practice” focused on portfolio planning discipline
 - Comprised of 8 Research Taskforces
 - Value Creation and Capital Optimization Research Taskforce identified rapid changes occurring in the Commercial Debt Markets
 - Conceived of Panelist Format as best way to explore impacts on Corporate Occupiers



Interested in Participating in the SPP Community?



- Access SPP Microsite to join the eGroup:
spp.corenetglobal.org
- Use sign-up form at back of conference room
- Or contact
 - Americas and SPP Sponsorship
 - Joan Price, Gensler: joan_price@gensler.com
 - Gail Smith, CRE Strategies: gail.smith@crestrategies.com
 - EMEA
 - Colin King, Nokia: colin.king@nokia.com
 - APAC
 - Steve Atherton, NAI Global: satherton@naiglobal.com

Survey - Capital Market's influence on Corporate Real Estate

- Survey description
 - Survey generated by SPP and Newmark Knight Frank
 - Focus on capital planning and appropriations for CRE Departments
 - CNG Business Center computer or online at CNG web site

Strategy & Portfolio Planning Community

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Keynote Speakers: 9:00 – 10:00



9:10 – 9:25

Tom Fish, Jones Lang LaSalle – Debt Markets

9:25 – 9:40

Spencer Levy, CB Richard Ellis – Investors

9:40 – 9:55

Mitch Rotchford, Cushman & Wakefield – Tenants

9:55 – 10:00

Q&A Wrap-up

10:30 – Noon

Panel Discussion

Panelists: 10:30 - Noon



1. **Bo Reddic, Piedmont REIT, Office REIT Owner**
2. **Greg Michaud, ING Life, Lender**
3. **Greg Winchester, Trimont Servicing, Servicer**
4. **Jack Minter, Stoneforge Partners, Opportunistic Investor**
5. **Jeff Vines, McKesson Corporation, Corporate Tenant**
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Key Notes:

12. ***Tom Fish, Jones Lang LaSalle, Mortgage Banker***
13. ***Spencer Levy, CB Richard Ellis, Distressed / Restructuring Advisor***
14. ***Mike Rotchford, Cushman & Wakefield, Corporate RE Investment Banker***



JONES LANG
LASALLE®

Real value in a changing world

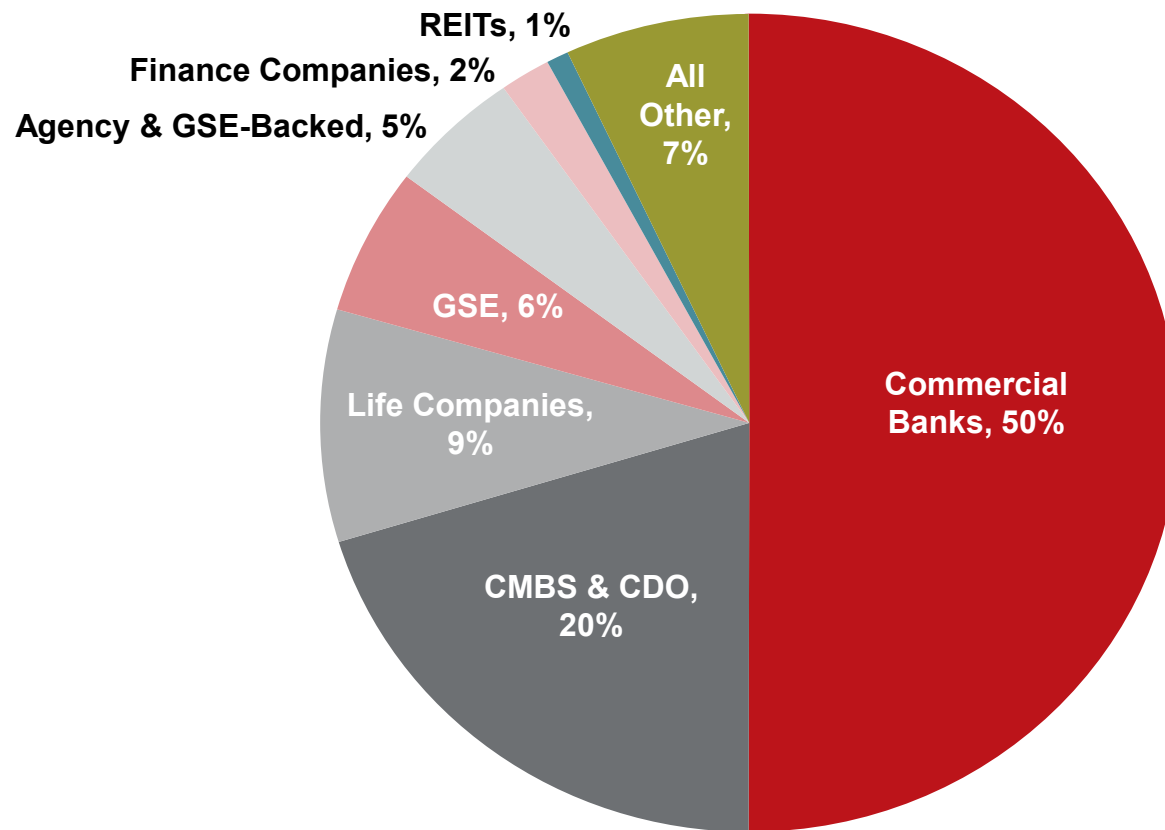
US Capital Markets

April 2010



Current commercial real estate debt outstanding

\$3.4 trillion as of year-end 2009



Source: Federal Reserve, Jones Lang LaSalle

Distressed property levels very high

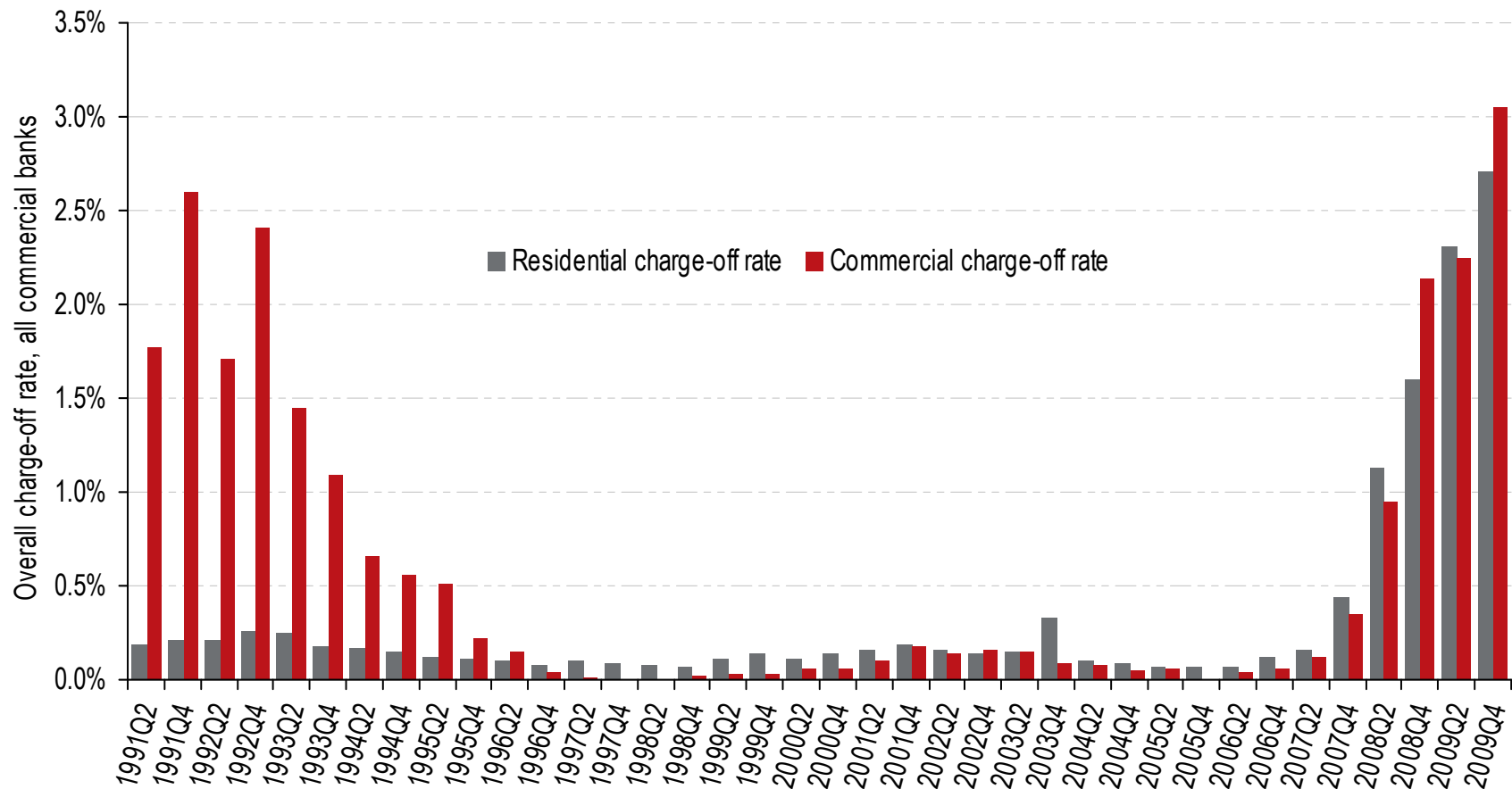
Net growth in level of outstanding troubled properties has at least temporarily stalled as lenders boost pace of workouts in early 2010



Source: Real Capital Analytics, Jones Lang LaSalle

Bank charge-off rates: commercial vs. residential

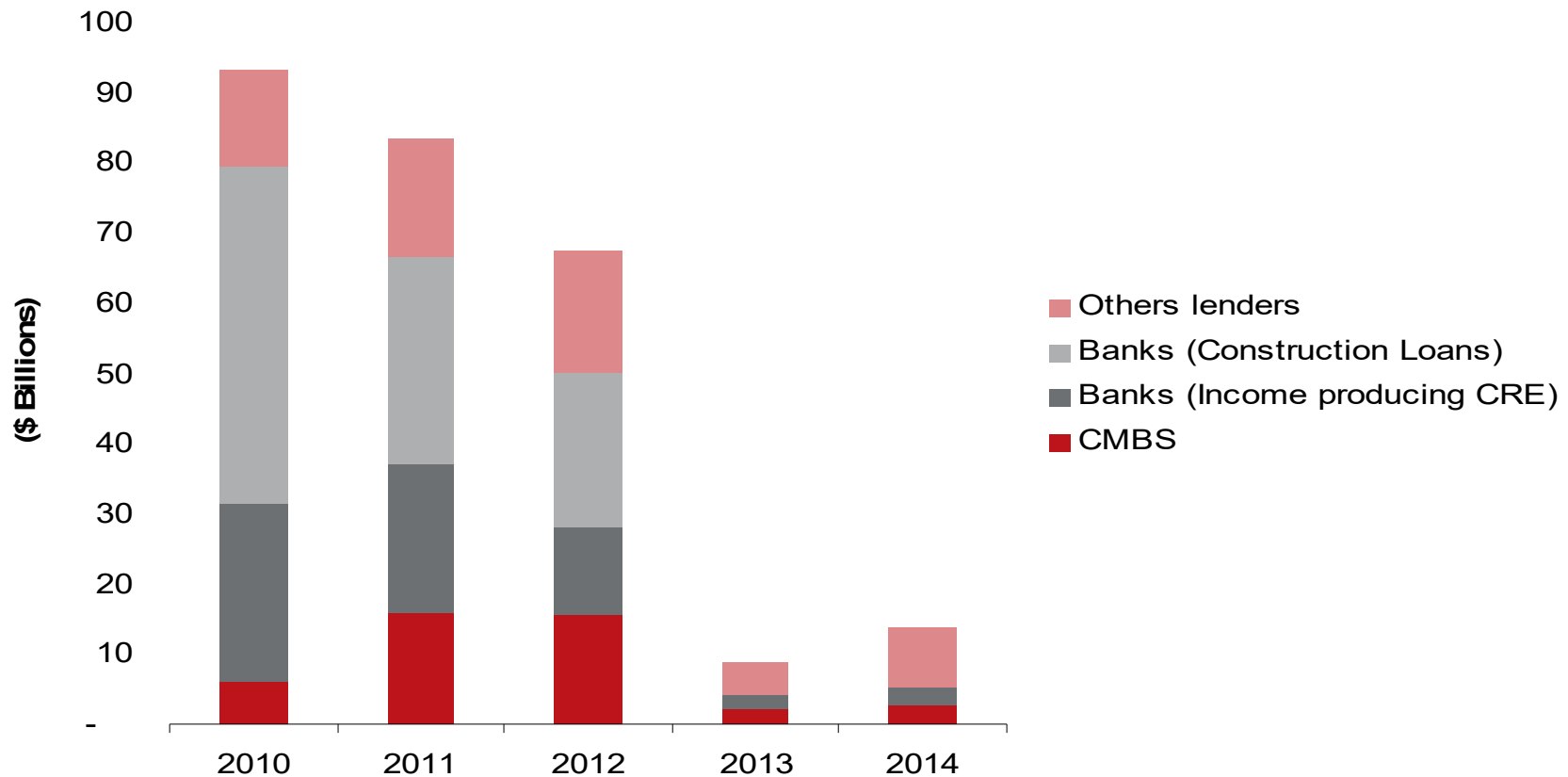
Charge-off rates for CRE loans have now surpassed those at height of the S&L crisis



Source: Federal Reserve, Jones Lang LaSalle

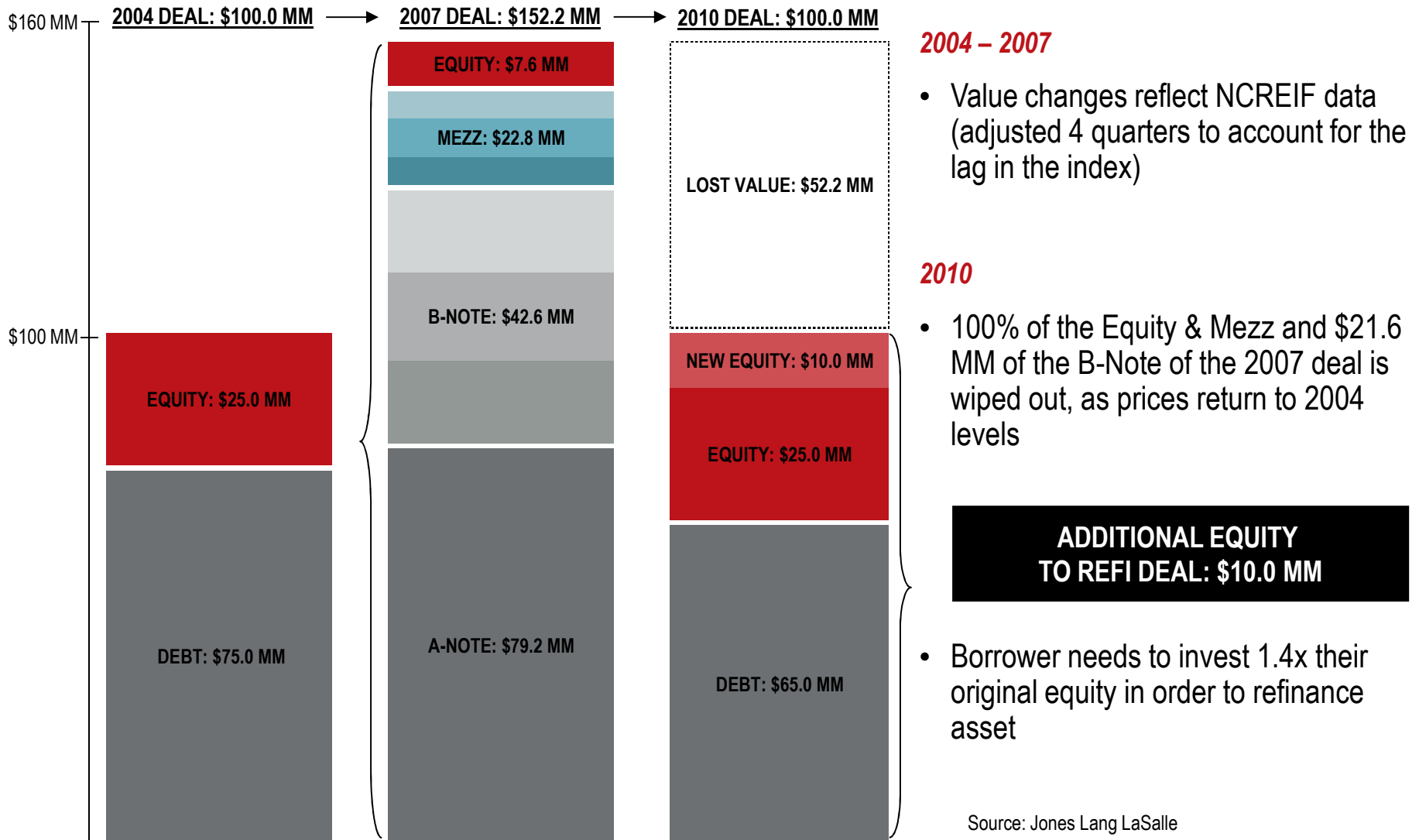
Commercial real estate “equity gap”

Difference between debt outstanding upon maturity and debt that is sustainable today based on normalized LTVs (~65%)



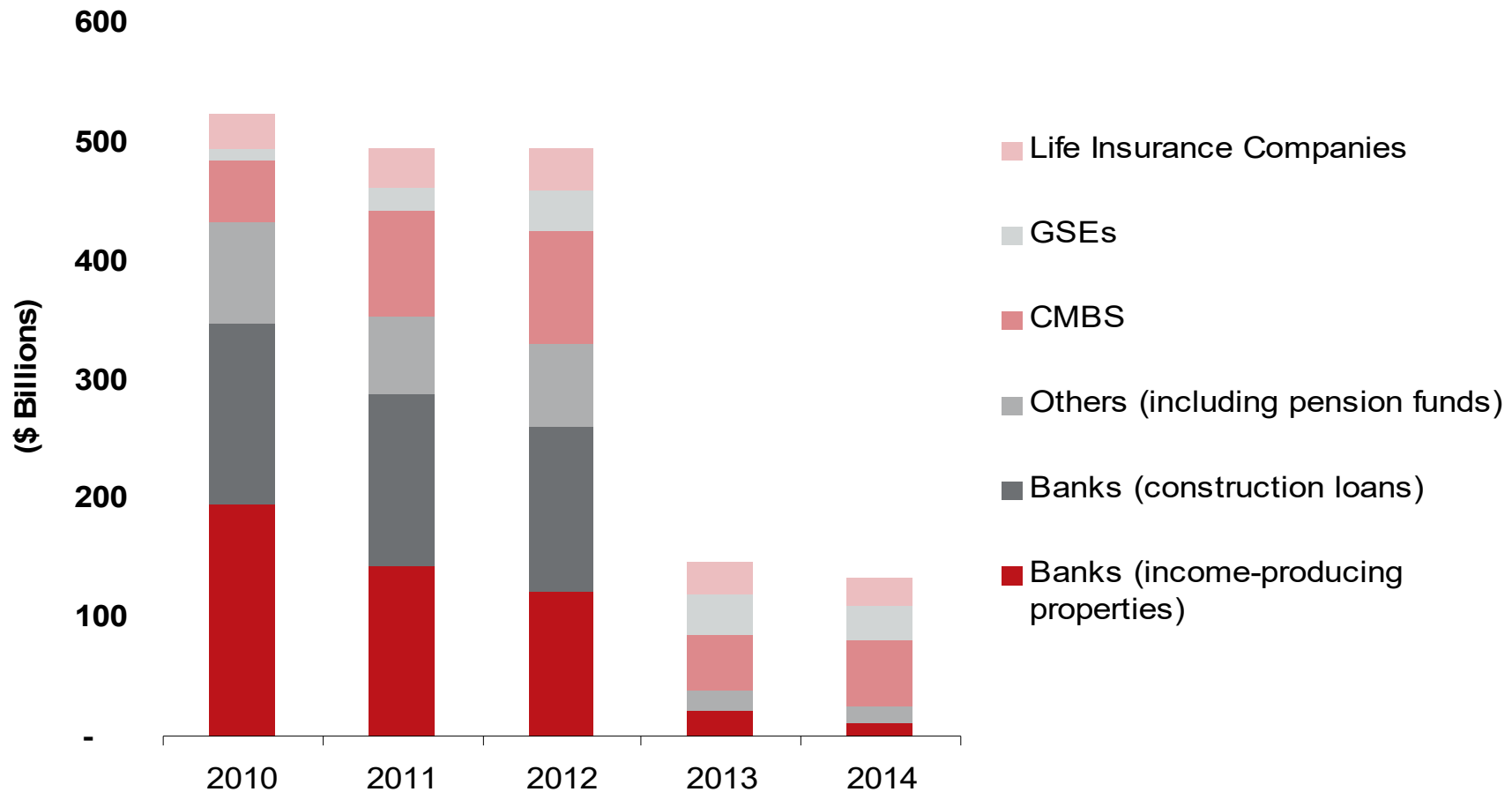
Source: Morgan Stanley, MBA, FDIC, FFIEC, Intex, PPR, and Jones Lang LaSalle

Deleveraging has forced sales and recapitalizations



Commercial real estate debt maturities by lender

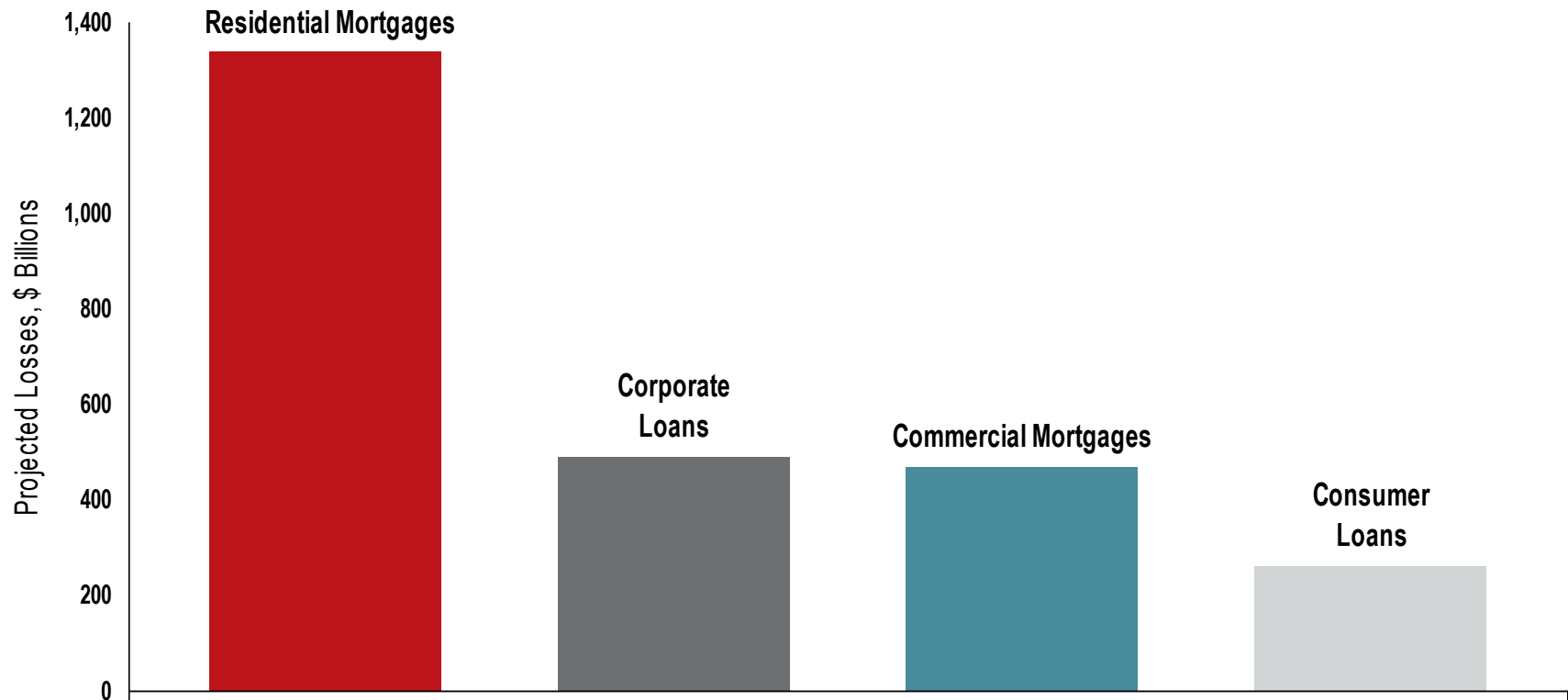
Bank maturities dominate landscape and will be most challenged



Source: Morgan Stanley, MBA, FDIC, FFIEC, Intex, PPR, and Jones Lang LaSalle

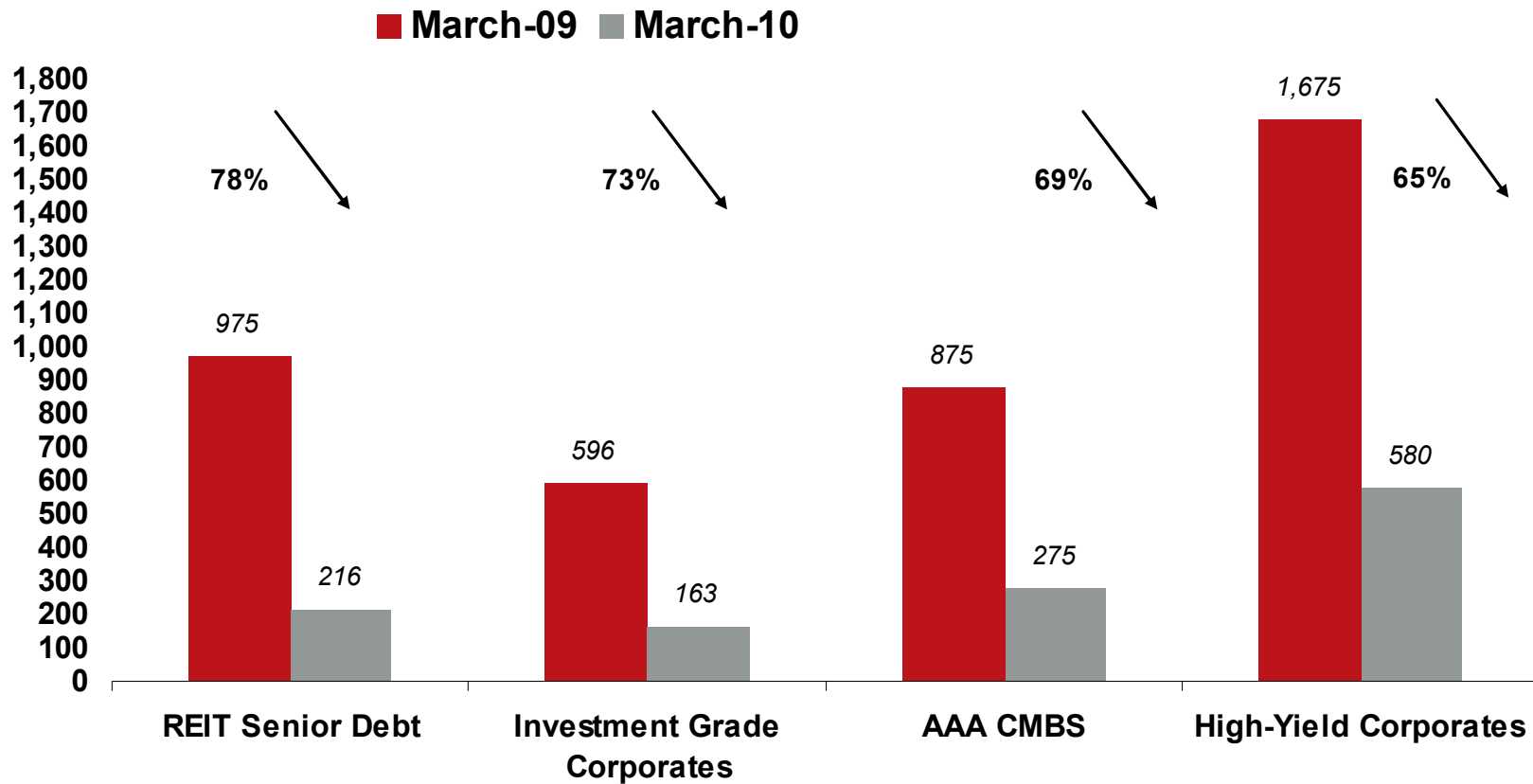
Staggering scale of “bad asset” problem

Not just commercial real estate



Source: Moody's Economy.com, Jones Lang LaSalle

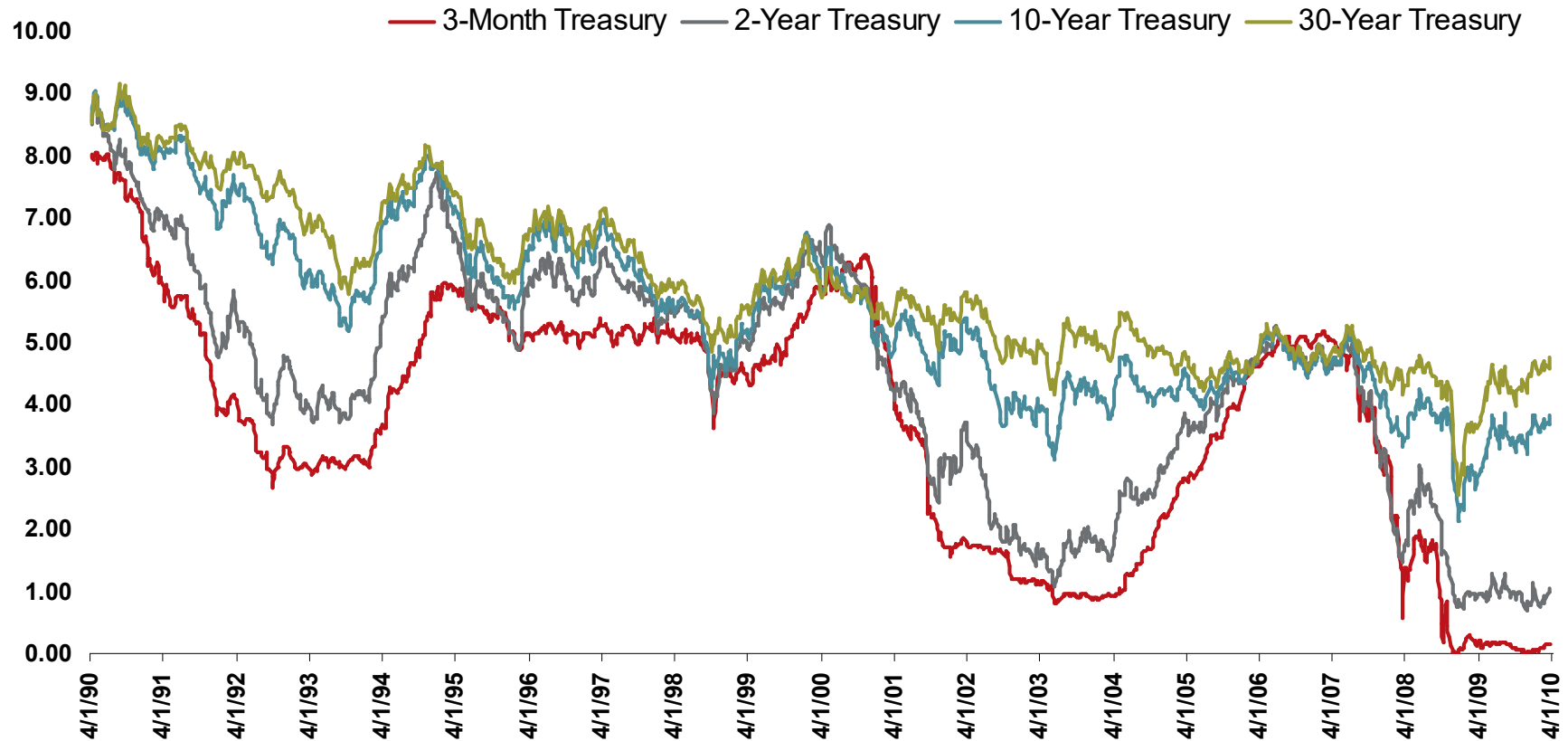
Rational pricing returning to market



Source: Bloomberg, Wells Fargo, Jones Lang LaSalle

Government debt yields gradually increasing

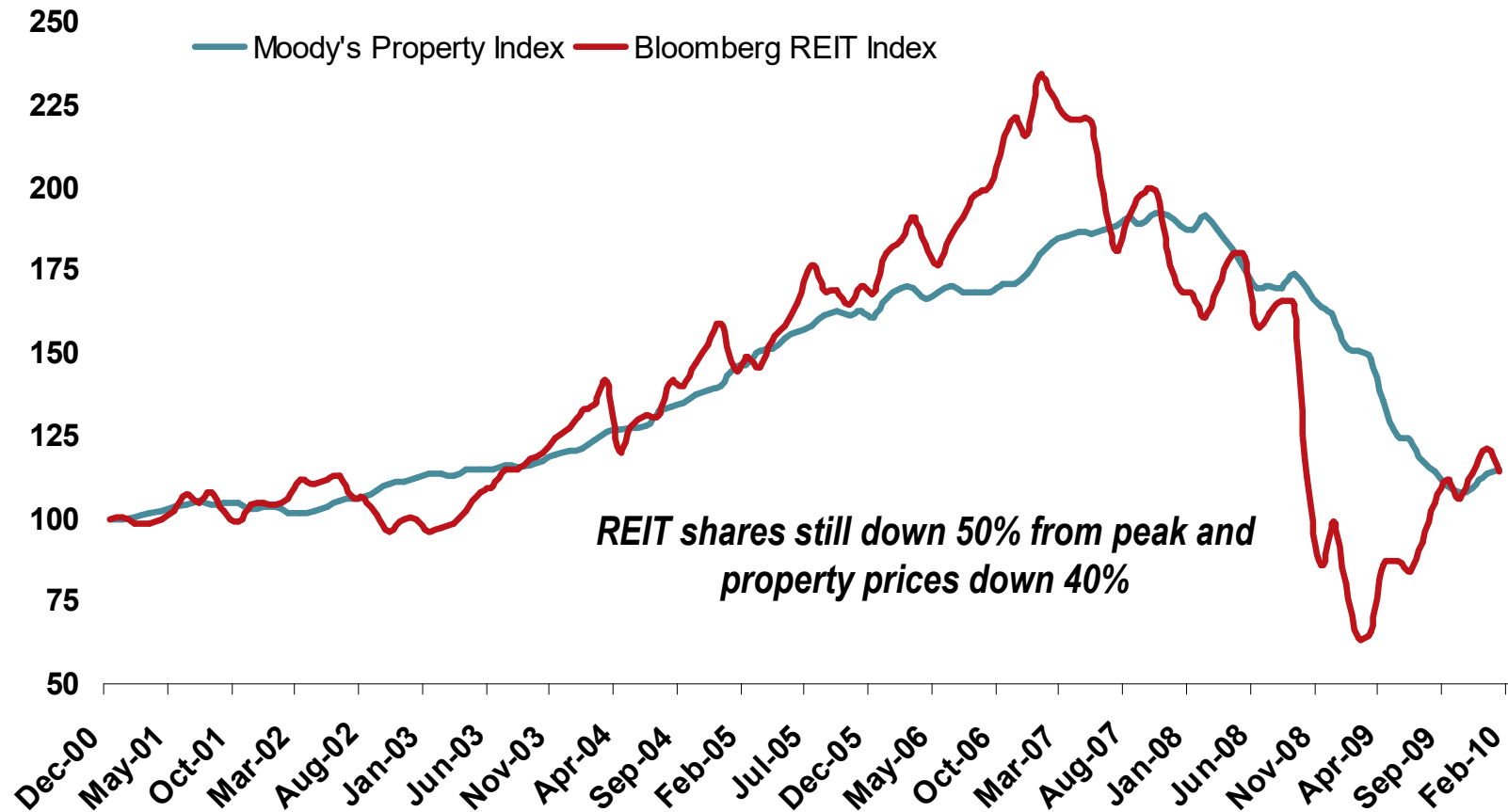
Investors moving away from absolute safety and back into risk



Source: Bloomberg, Jones Lang LaSalle

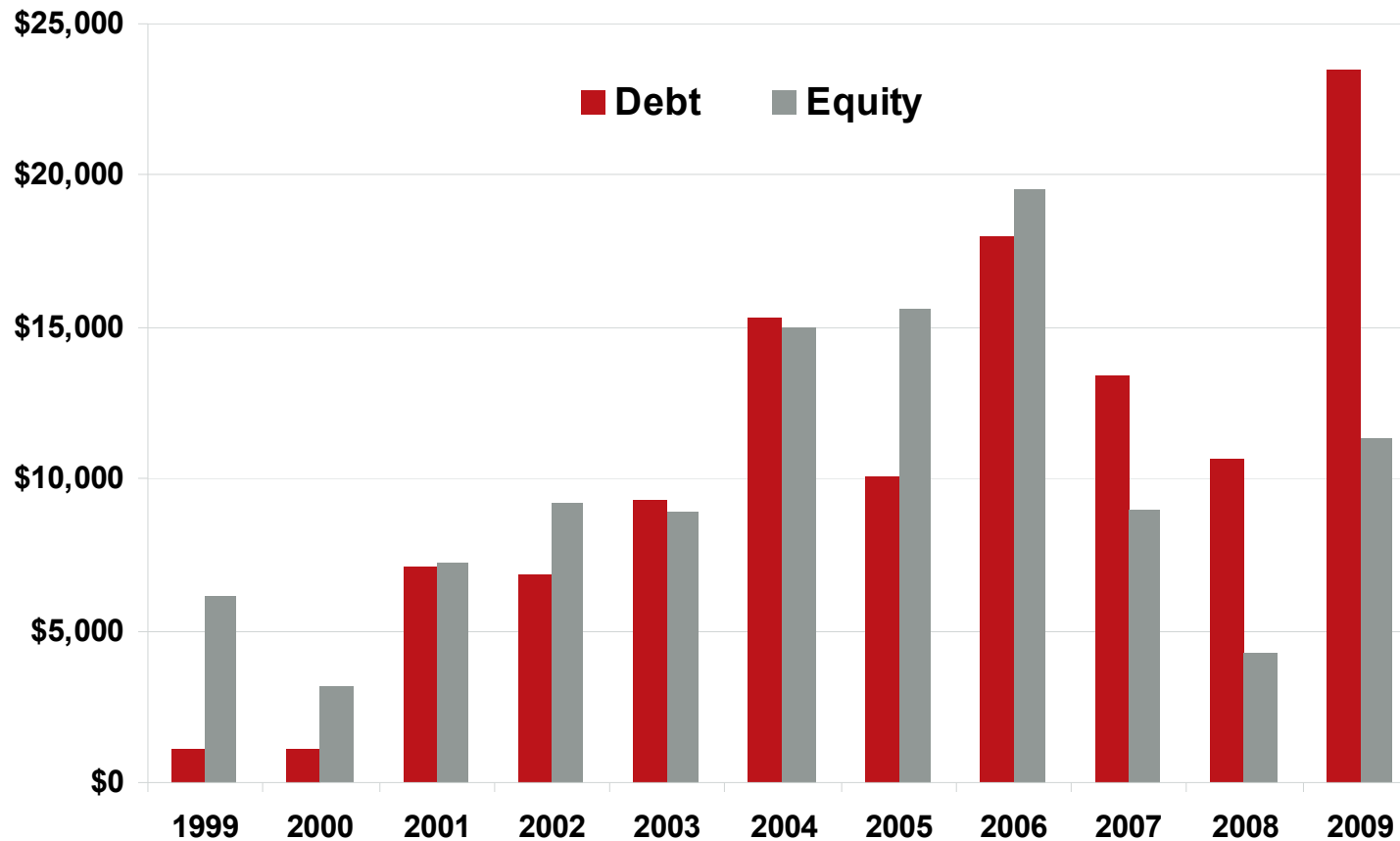
REIT shares up big in 2009 but still off from peak

Commercial prices increasing for 3 straight months and have likely bottomed out



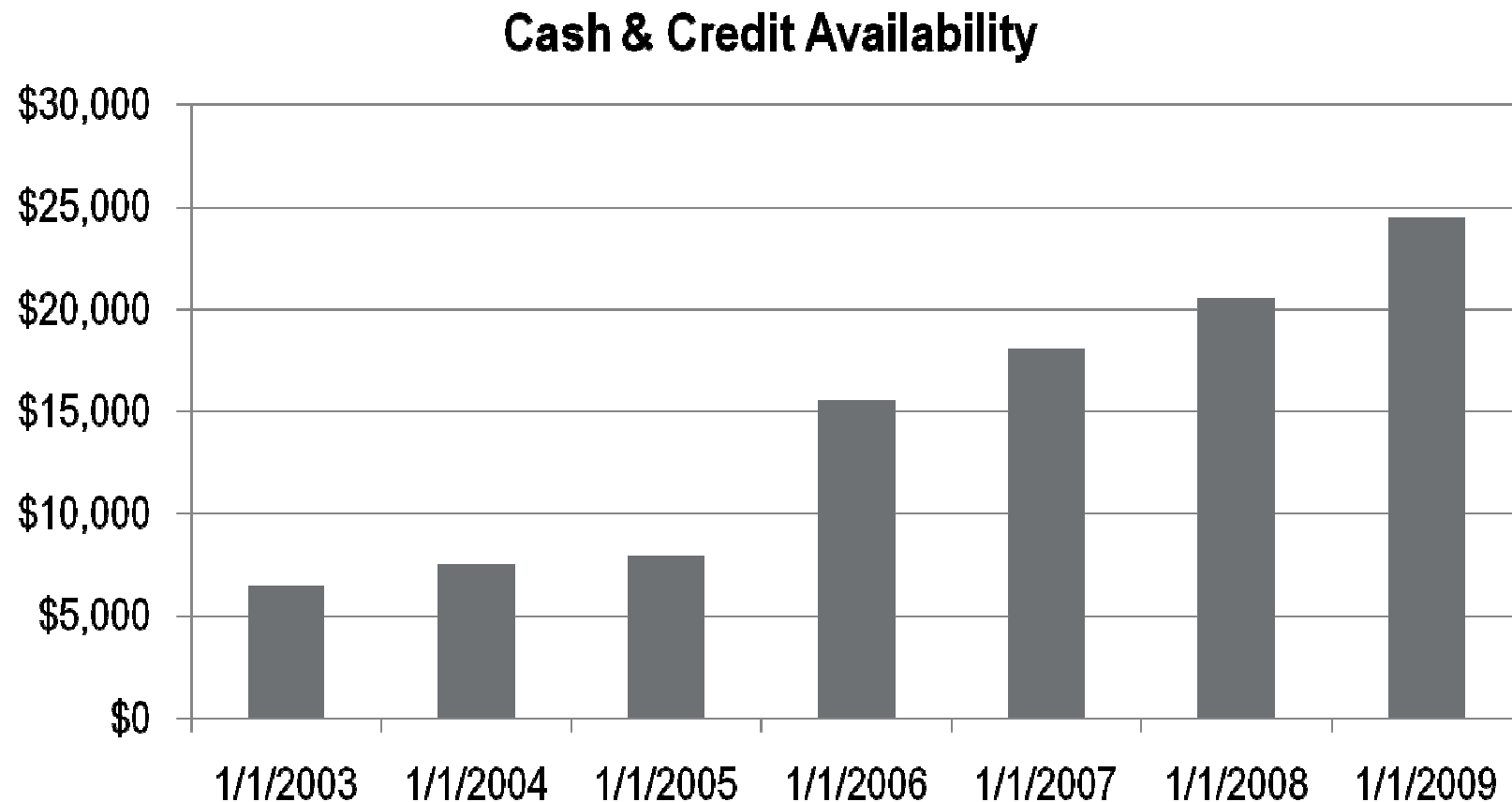
Source: Bloomberg, Jones Lang LaSalle

REITs stabilize and recapitalize with new issuance



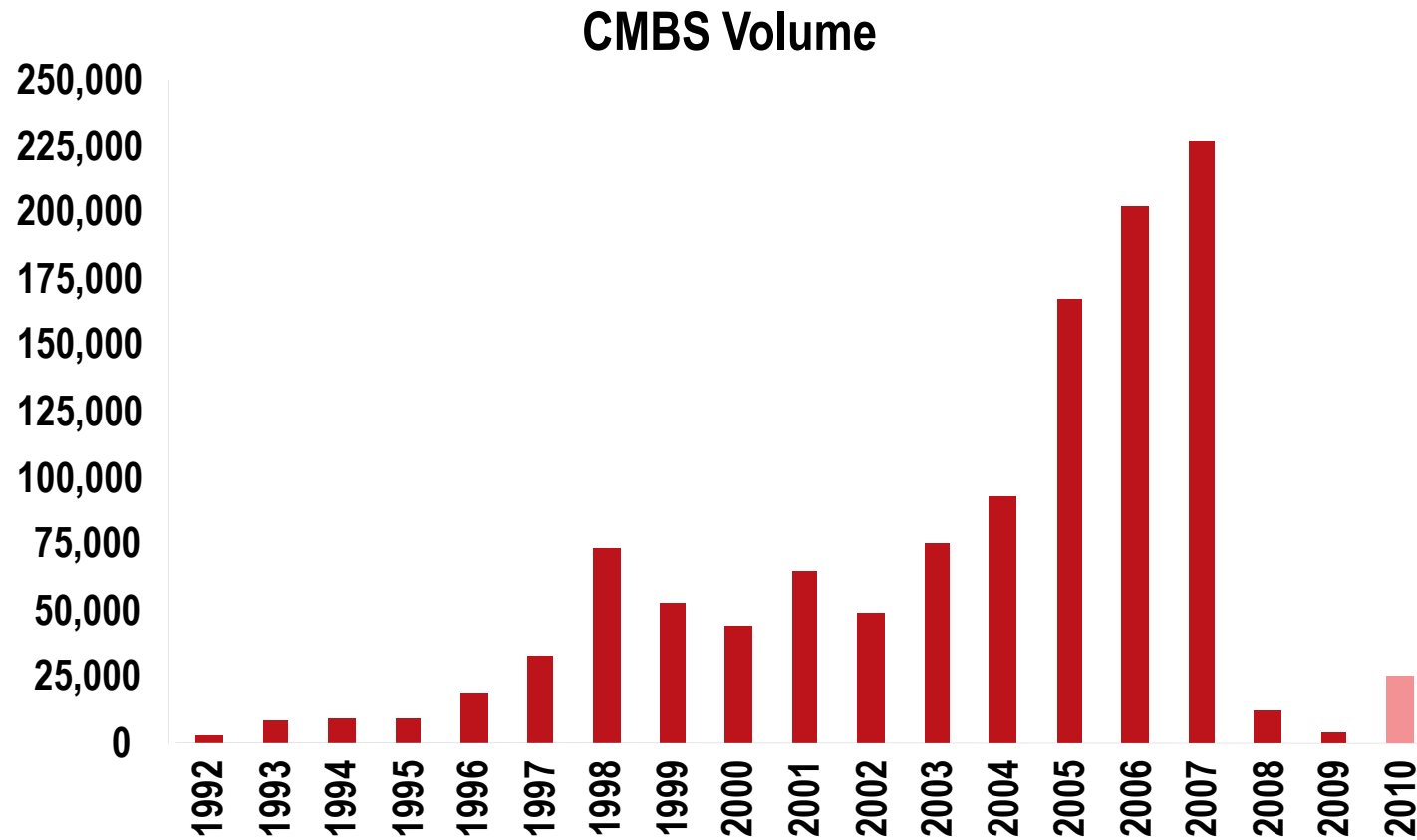
Source: Bloomberg, Jones Lang LaSalle

REIT liquidity stronger than peak years



Source: Bloomberg, Jones Lang LaSalle

CMBS market slowly reemerging



Source: Commercial Mortgage Alert, Jones Lang LaSalle

Old versus new CMBS

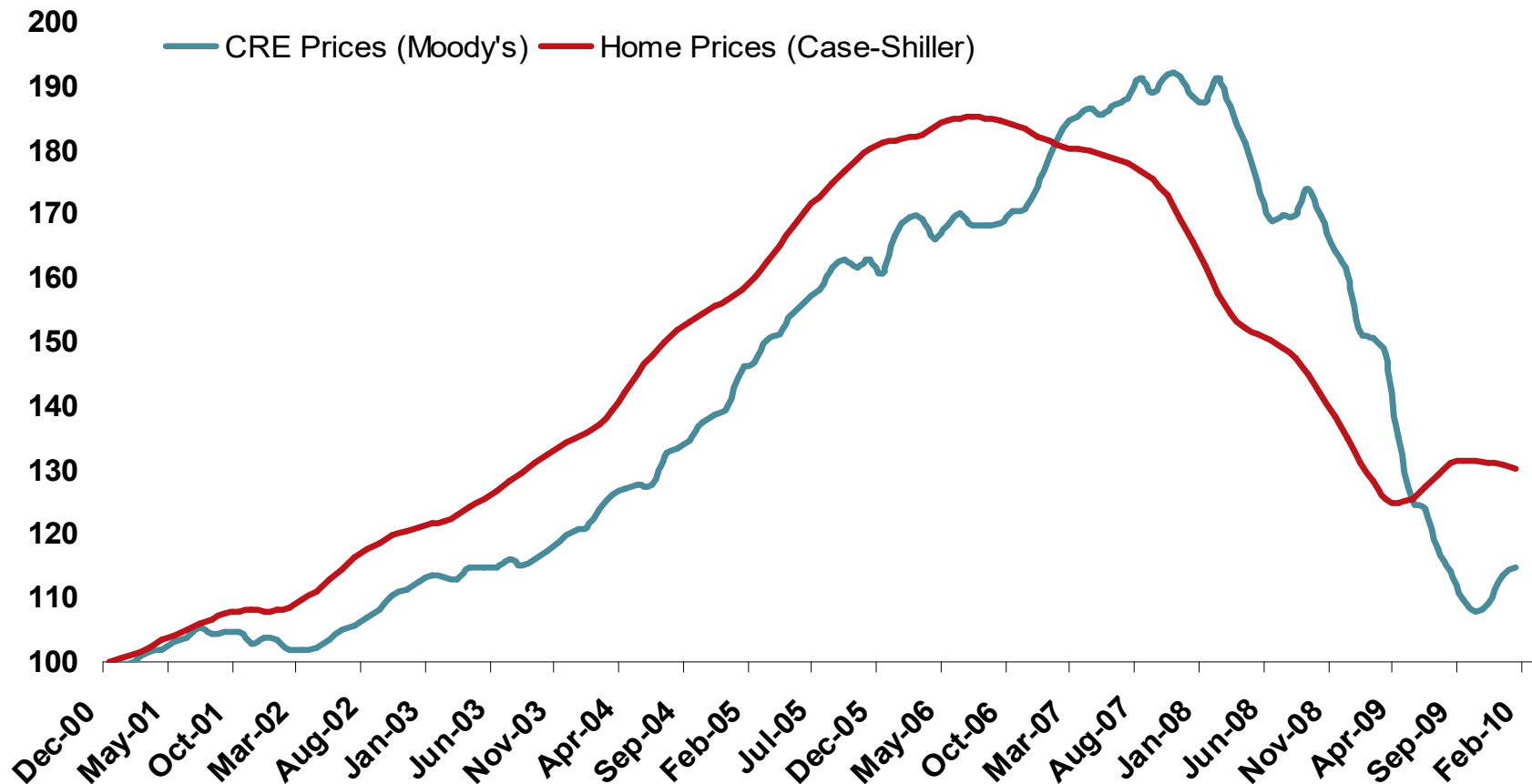
Simplicity and transparency will prevail

	GSMS 2007 - GG10	DDR 2009 - DDR1
Issuance Date	July 2007	November 2009
Size	\$7.56 billion	\$400 million
Issuer LTV	74%	52%
AAA LTV	52%	42%
Issuer DSCR (last \$)	1.3x	2.5x
# of Tranches	25	3
# of Loans	202	1
# of Properties	353	28
Rating Agencies (#)	3	3
Special Servicer	B-Piece Holder	Independent

Source: CMSA, Jones Lang LaSalle

Commercial declines exceeded residential declines

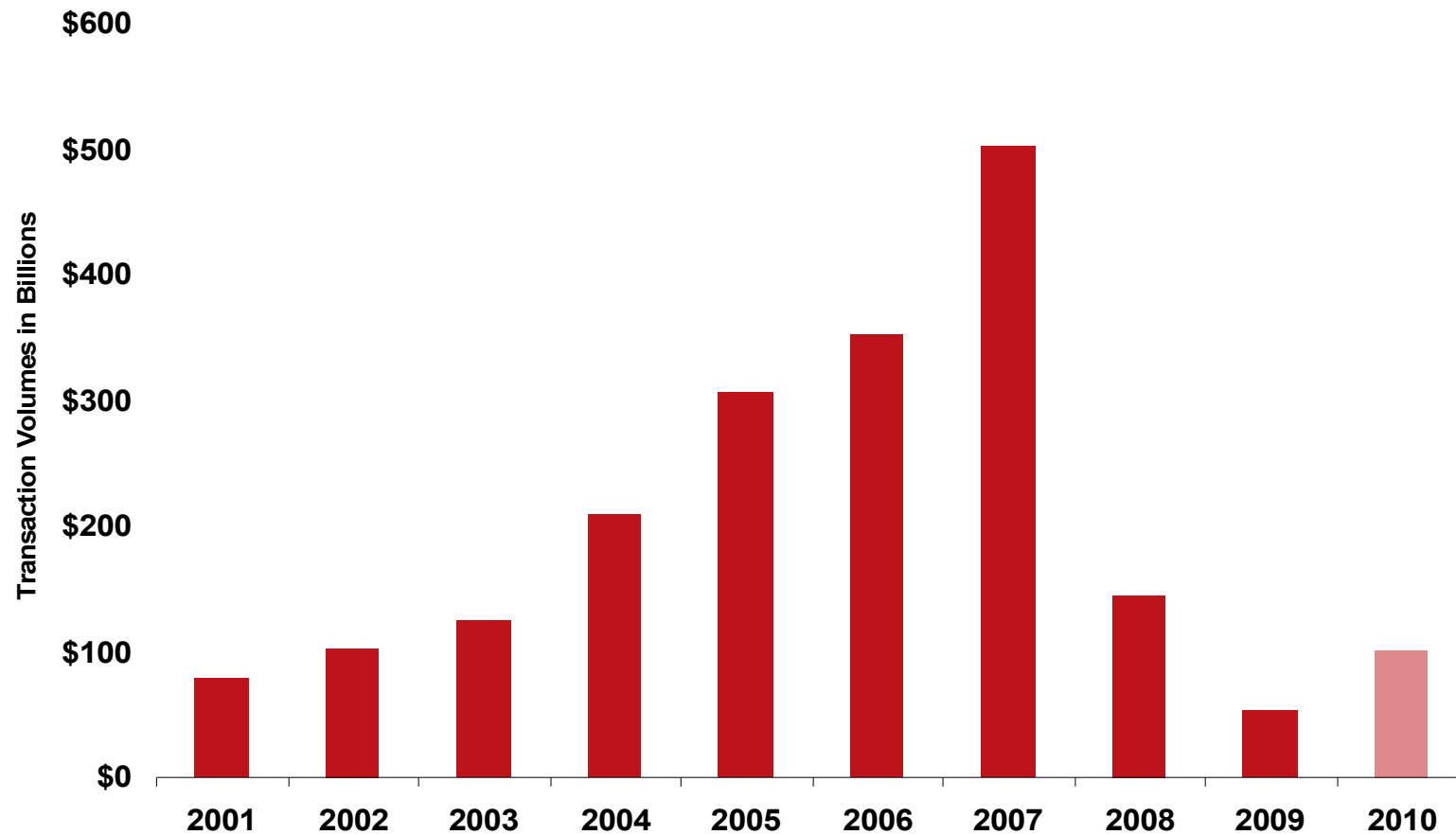
Home price index has stabilized in the last few months



Source: Bloomberg, Jones Lang LaSalle

Transaction volumes down 63% in 2009 versus 2008

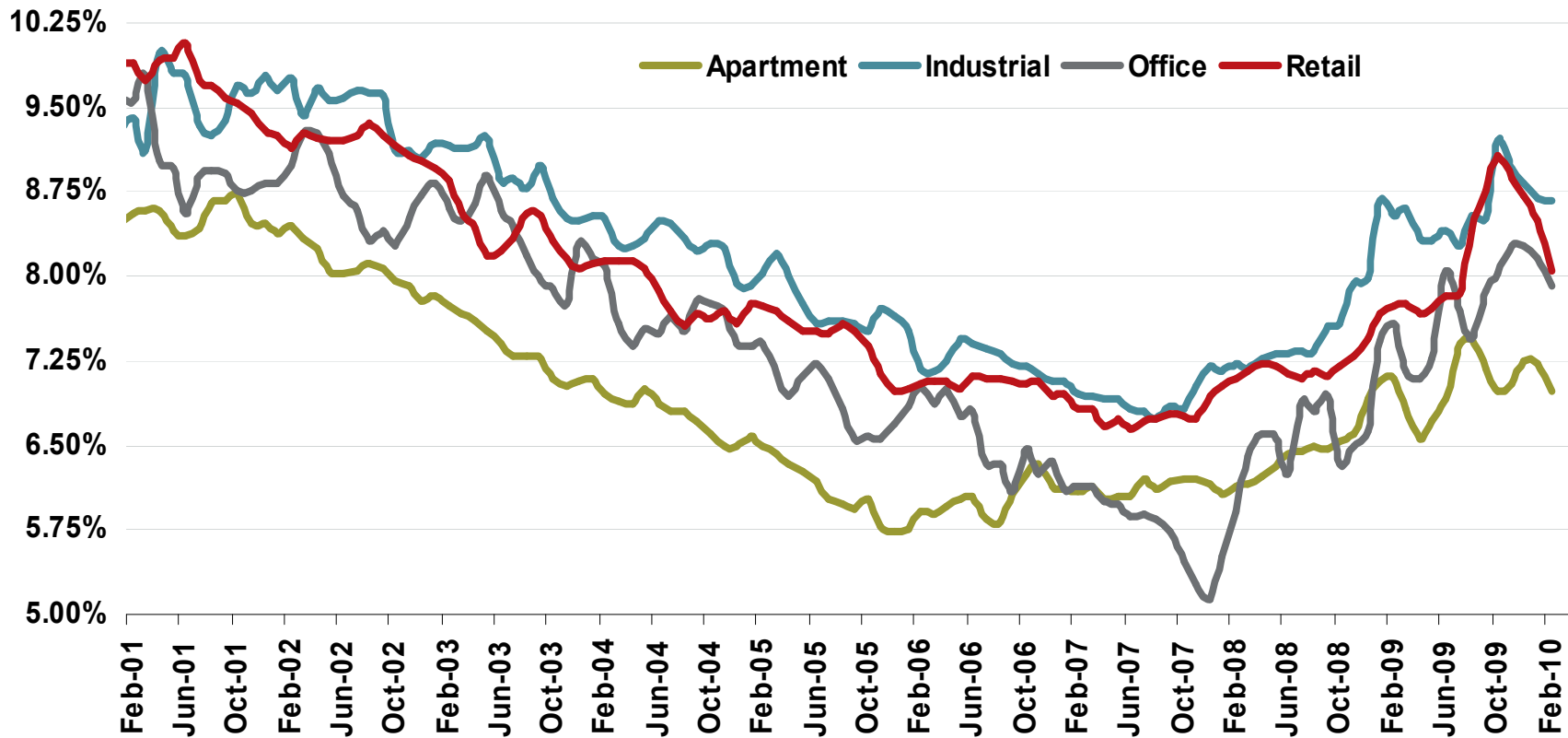
Volumes down 89% from 2007 peak



Source: Real Capital Analytics, Jones Lang LaSalle

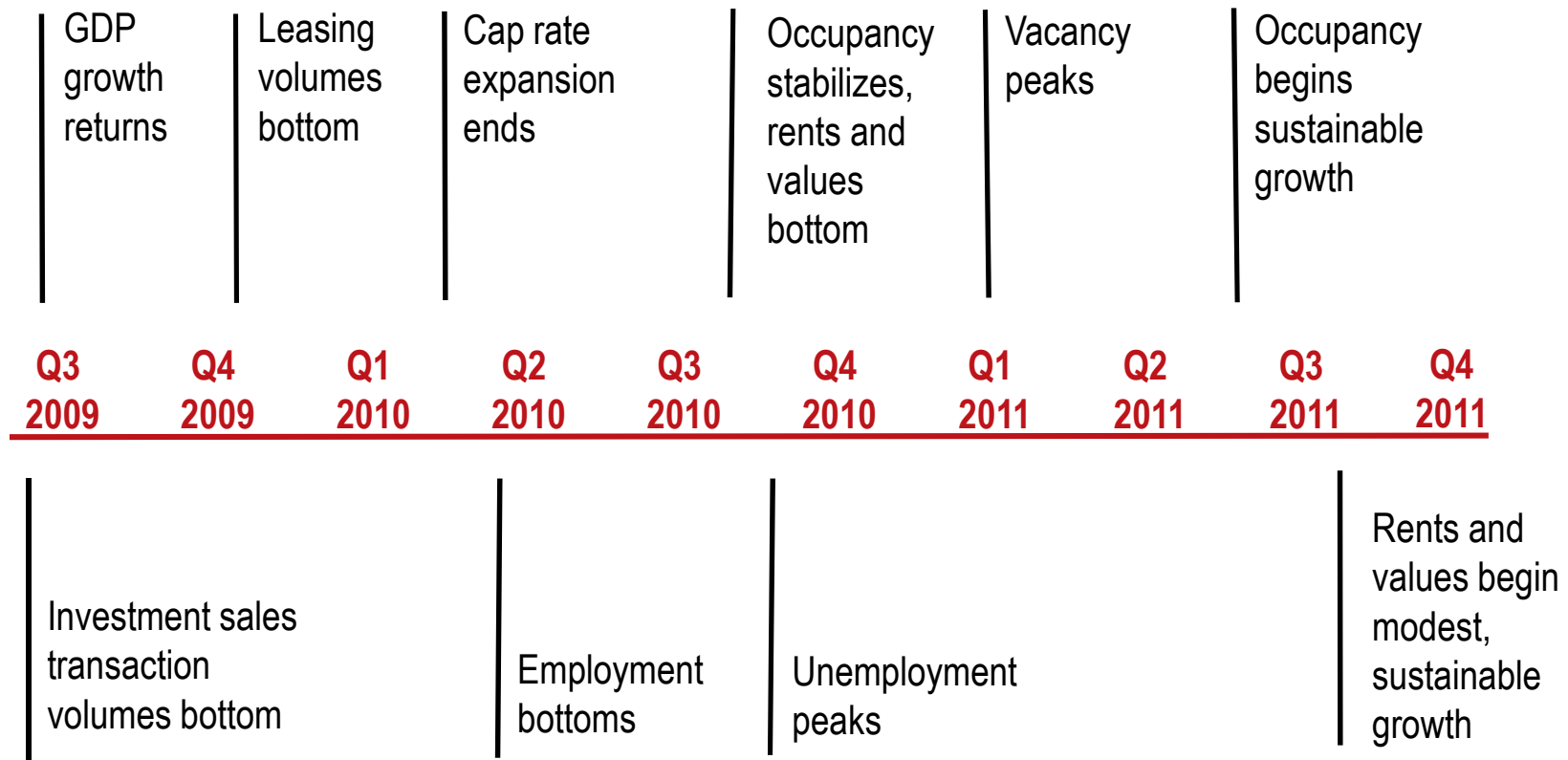
Cap rates have returned to early 2004 range

Outlook is for bifurcated market with primary markets leading the charge



Source: Real Capital Analytics, Jones Lang LaSalle

Commercial real estate recovery timeline



Source: Jones Lang LaSalle

Market comparison

Yesterday	Today
90% financing	Moderate leverage and "skin in the game"
Underwriting based on future cash flows	Rational pricing and underwriting of risk
Blind eye to how debt is structured as long as you get the proceeds	Detailed knowledge of complex capital stacks
Over reliance on CMBS for financing needs during peak years	Strong relationships with balance sheet lenders
\$100/SF+ rents and over-the-top amenities	Tenants demanding maximum space efficiency
Inbox flooded with dozens of deals a day	Deep landlord and servicer relationships to uncover opportunities



Real value in a changing world

Thank you!



Trouble in the Commercial Real Estate Debt Market — Opportunity or Threat?

CoreNet Global Spring Summit
New Orleans, April 20, 2010

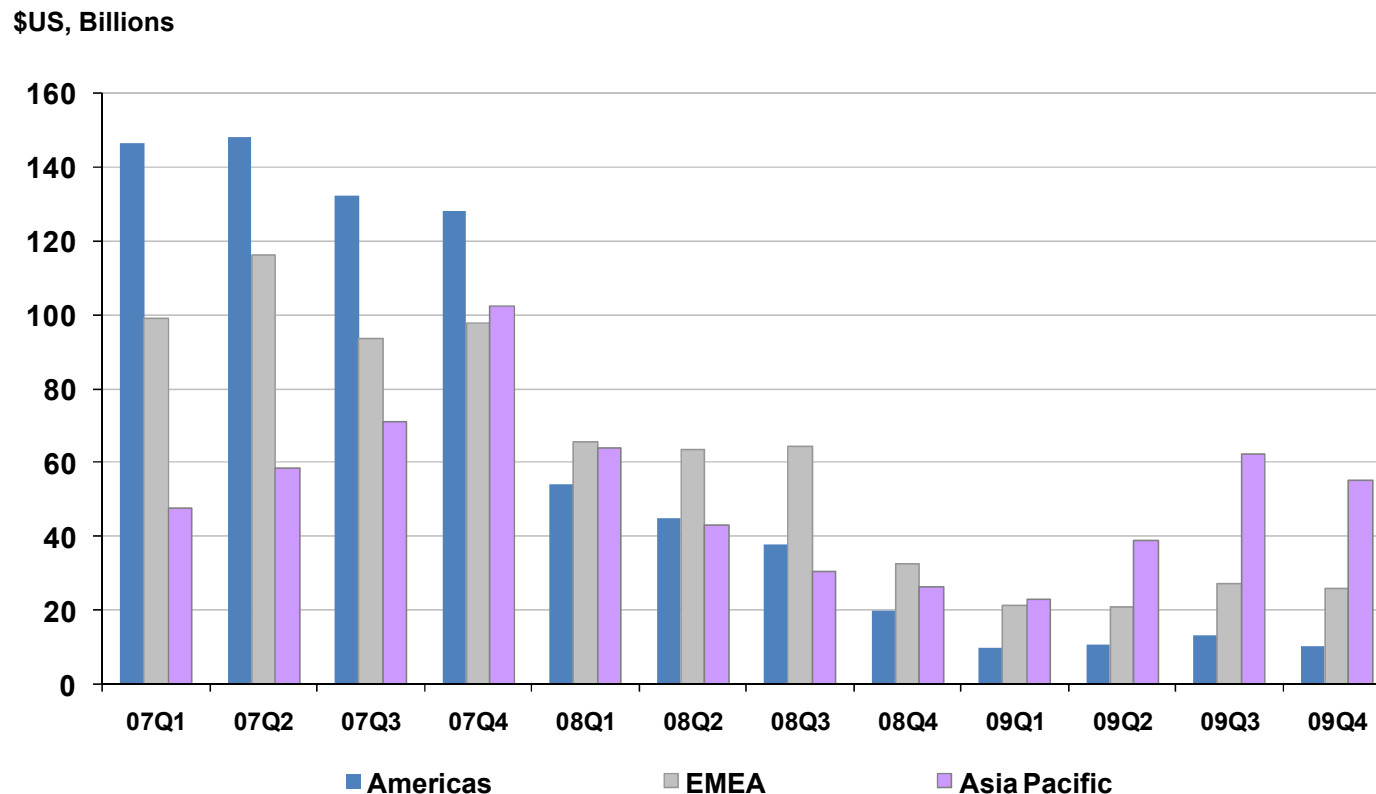
Spencer Levy, Senior Managing Director
CBRE Restructuring Services Initiative



Global CRE Transaction Volume by Region

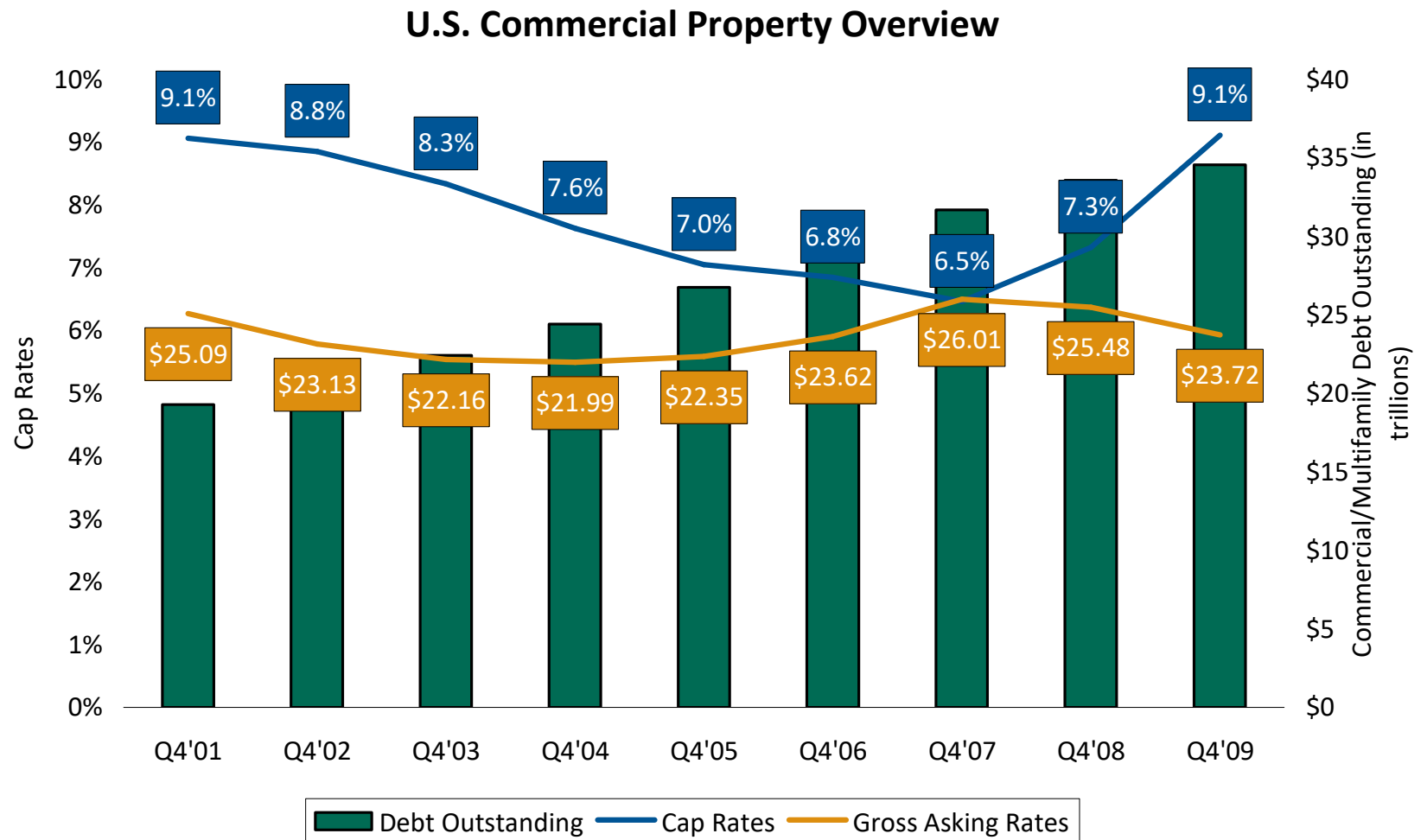
US Transaction Volume is improving:

- February trades were \$3.8b.
- \$3.4b traded in first 3 weeks of March. \$11b under contract.
- \$10.5b offered in March vs. 10b in 4Q 2009



Source: Real Capital Analytics, January 2010

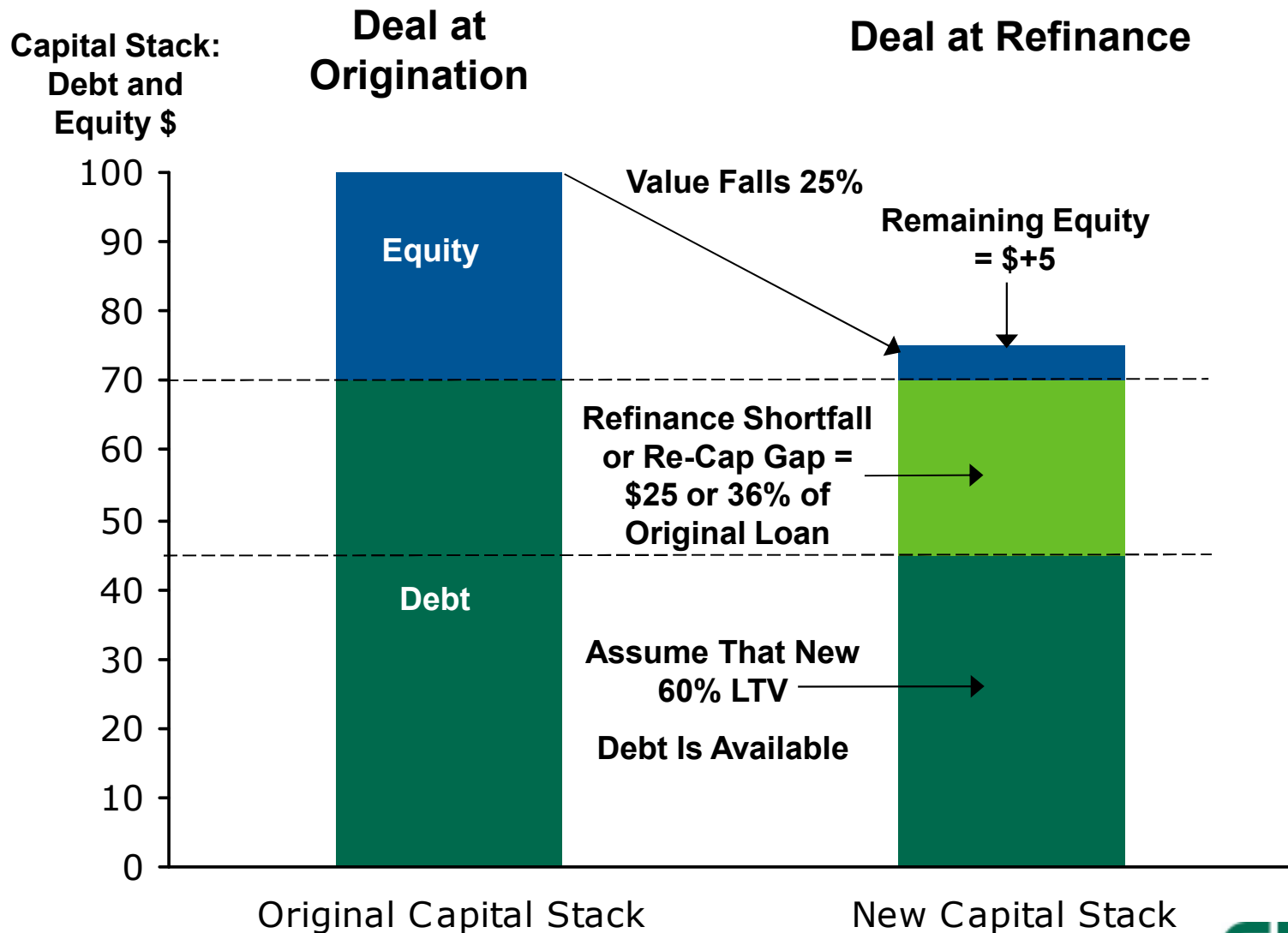
U.S. Commercial Property Overview



Source: Mortgage Bankers Association, Federal Reserve, Real Capital Analytics

* Debt outstanding labeled "Q4'09" is actually from Q3'09

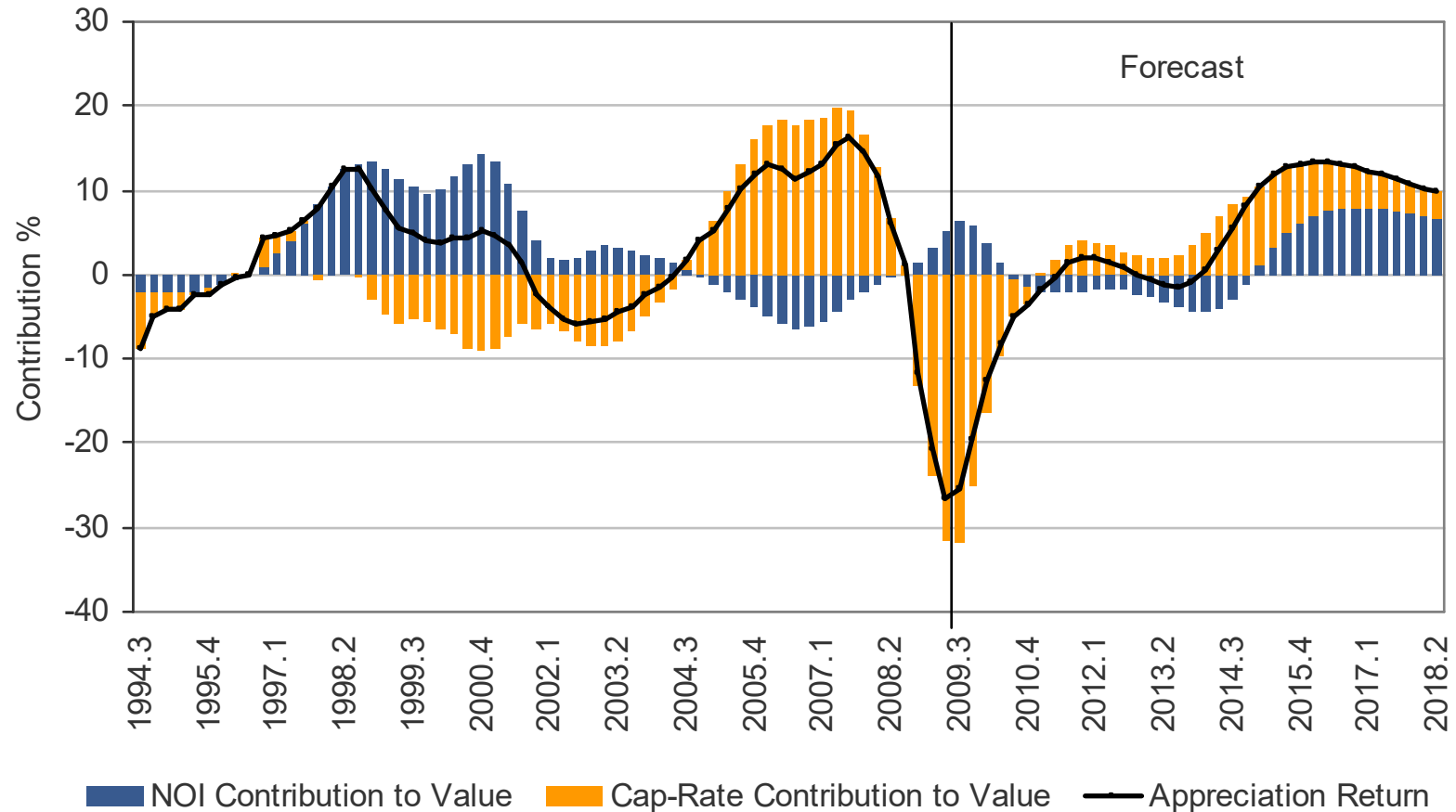
Impact of De-Leveraging



Perspective: What is Value?

From 2003-2008 95% of the increase in value was due to cap rate compression.

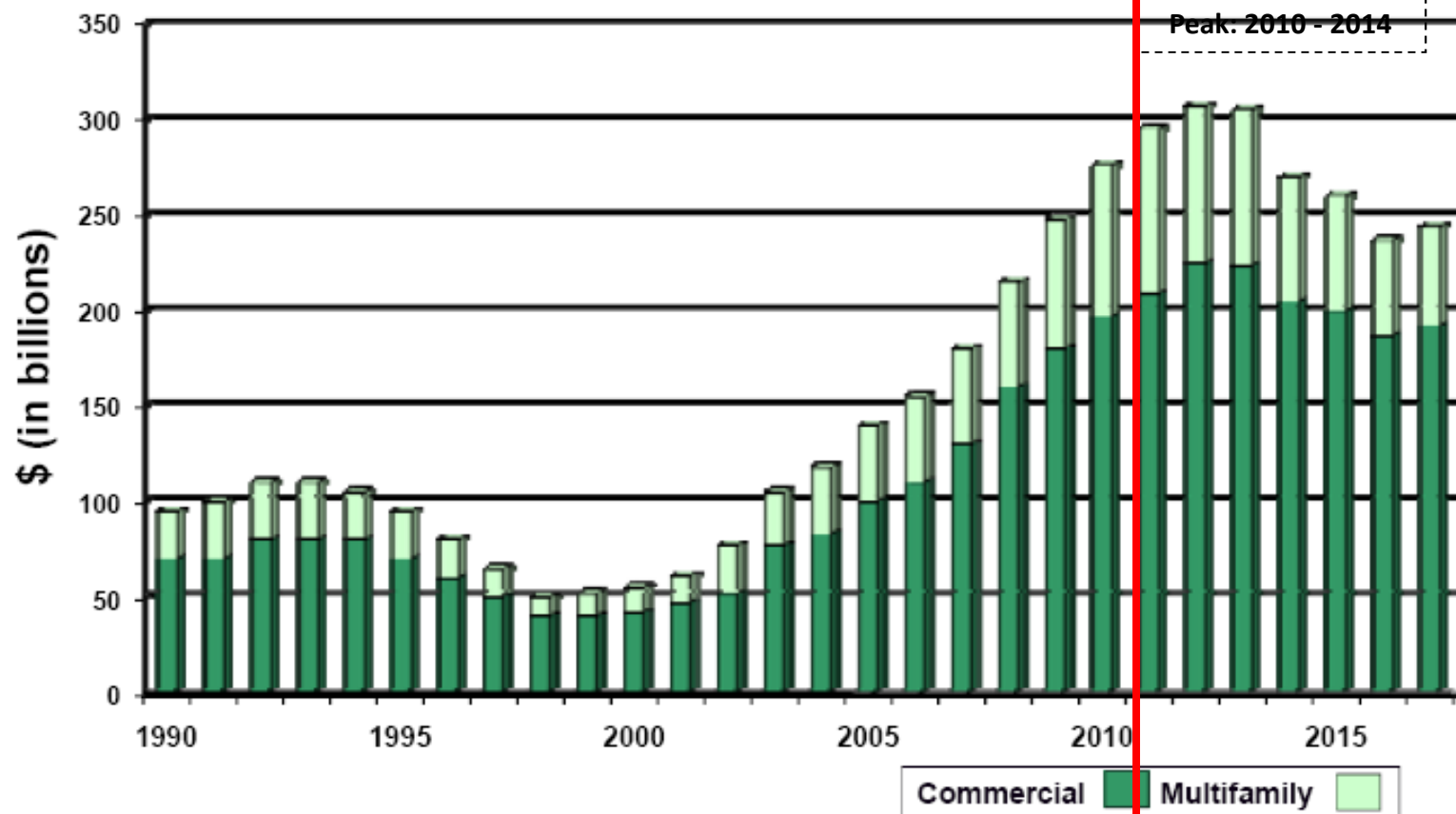
Annualized Contribution to Appreciation Return %



Source: CBRE-EA, Investment Outlook Fall 2009, NCREIF; Base Case Scenario

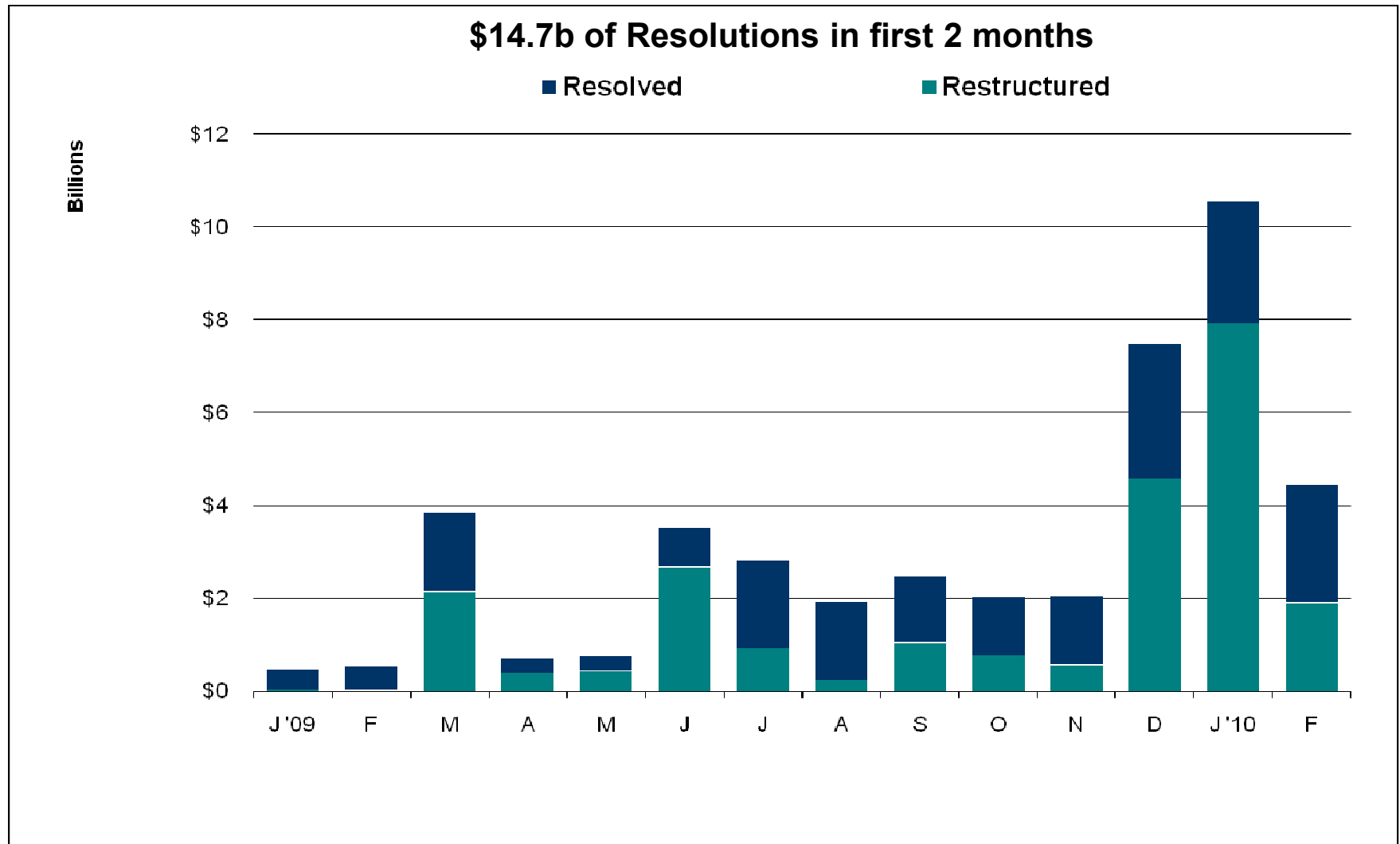
Mortgage Maturity Schedule

Commercial and Multifamily Mortgage Maturities Loans Maturing by Year



Source: Federal Reserve, Foresight Analytics; November 2009.

Lenders are Taking Care of Business!



Overall Appetite for Real Estate Remains High

Investment Funds' Coffers Are Full

Capital Available to Invest Before Application of Maximum Allowable Leverage Second Quarter 2009

Vehicle Type	Total (M)	Percentage	Equity Products		
Separate Account	\$11,316.79	25.38%	Core	\$11,050.50	24.78%
Pooled Fund	\$33,279.50	74.62%	Core-Plus	\$3,951.64	8.86%
TOTAL CAPITAL	\$44,596.29	100.00%	Value-Added	\$11,342.37	25.43%
			Opportunistic	\$10,874.17	24.38%
			Equity Securities	\$507.88	1.14%
			Other	-\$103.74	-0.23%
Debt Products			TOTAL EQUITY	\$37,622.82	84.36%
Whole Loans	\$3,220.52	7.22%			
Mezzanine Debt	\$154.23	0.35%	TOTAL CAPITAL	\$44,596.29	100.00%
Participating Debt	\$0.00	0.00%			
Structured Debt	\$1,906.33	4.27%	Manager Discretion		
Rated CMBS	\$50.00	0.12%	Discretionary	\$40,382.95	90.55%
Unrated CMBS	\$0.00	0.00%	Nondiscretionary	\$4,213.34	9.45%
Other	\$1,642.39	3.68%	TOTAL CAPITAL	\$44,596.29	100.00%
TOTAL DEBT	\$6,973.47	15.64%			

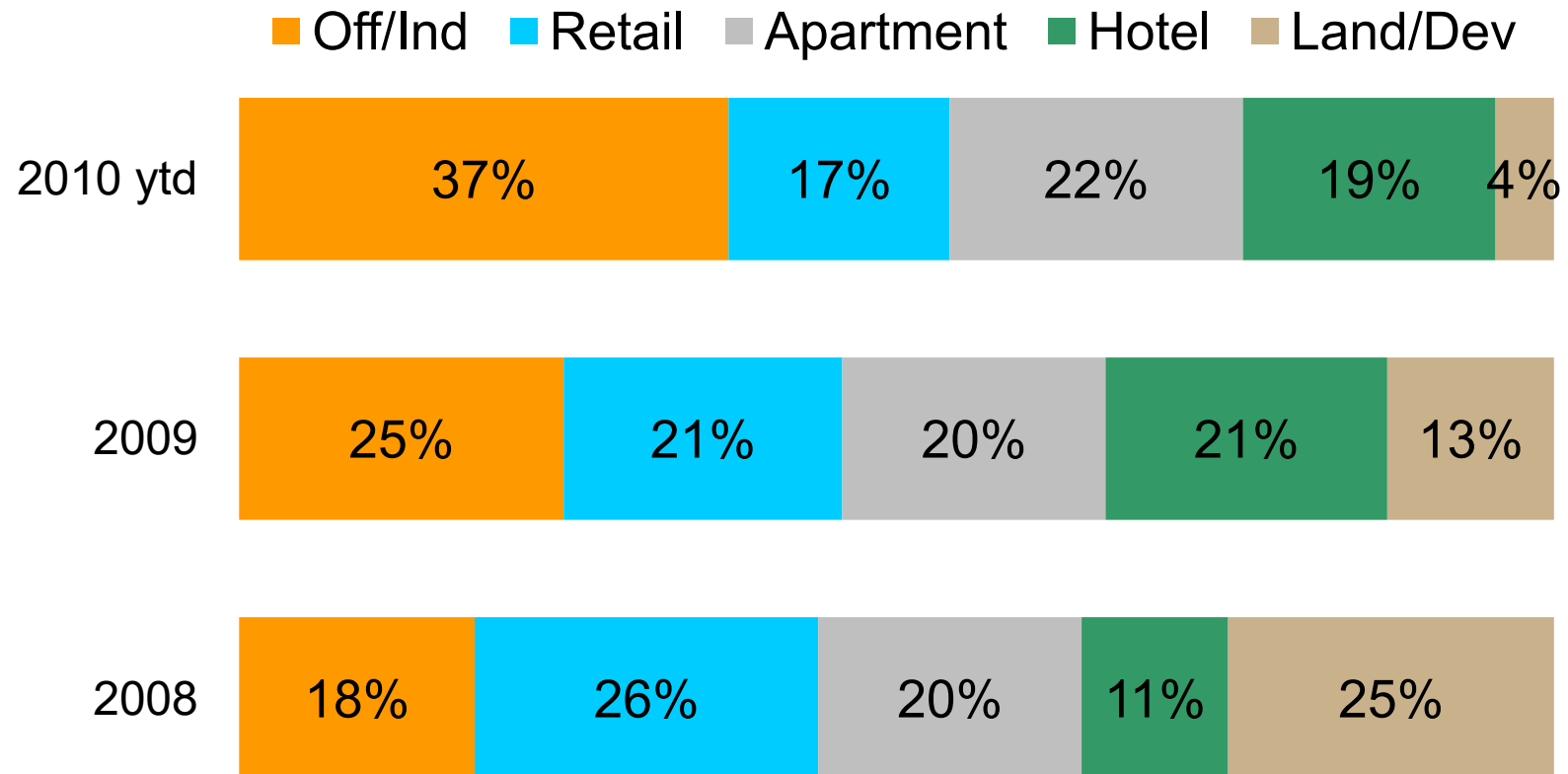
Debt Funds: \$6.97 BB + Equity Funds: \$37.6 BB = **\$44.6 BB of capital to invest**

Source: IREN



Recent Distress: Office and Industrial—37%

Newly Distressed By Property Type



Occupancy Moving toward Cyclic Lows

With vacancy high relative to long-term trends, rents moving downward.

Vacancy and Availability Rates

	2009Q4	Peak/Year	Previous Peak Year	"Natural Rate"	Year Back to "Natural Rate"
Office	16.3	17.5 / 2011	19.1 / 1991	13 to 14	2013
Industrial	13.9	14.8 / 2010	11.8 / 2003	9 to 10	2014
Retail	12.2	12.9 / 2011	11.4 / 1992	9 to 10	2015
Multifamily	7.4	7.7 / 2010	6.8 / 2003	5 to 6	2011
Hotels	37.3*	41.1 / 2009	39.1 / 2003	32 to 34	2014

Sources: CBRE-EA Spring 2010

* Hotel as of 3Q 2009

Industrial Trades – Is the Market Recovering?

Cheyenne Industrial Center – Las Vegas, NV



<i>Seller:</i>	Panattoni
<i>Buyer:</i>	Bixby Land Co.
<i>Year:</i>	April 2009
<i>SF:</i>	130,597
<i>Price:</i>	\$8,750,000
<i>Price Per SF:</i>	\$67.00
<i>Cap Rate:</i>	7.60% (on 100% occupancy)

In April 2008, CBRE Dallas was engaged by Panattoni Development to market a 2 msf portfolio located in Las Vegas, Reno and Fernley. The portfolio included 7 institutional quality industrial buildings with credit tenants including Urban Outfitters, Wacker-Neuson, K2 Inc. and Cardinal Health. The Portfolio consisted of two single-tenant and five multi-tenant buildings on ±129 acres of land, boasting an average lease term of 6.95 years. Due to the dislocation in the capital markets in 2008, CBRE was unsuccessful in meeting Panattoni's pricing expectations. In 2009, CBRE Dallas was able to identify a 1031 exchange situation that opened an opportunity to sell one of the single-tenant assets at premium pricing. The Cheyenne Industrial Center was leased until 2018 to Johnston Supplies (not rated) and included 5% rental escalations every 2 years.

West Point Trade Center – Jacksonville, FL



<i>Seller:</i>	Hillwood
<i>Buyer:</i>	Realty Trust
<i>Year:</i>	December 2009
<i>SF:</i>	601,500
<i>Price:</i>	\$29,000,000
<i>Price Per SF:</i>	\$48.21
<i>Cap Rate:</i>	8.00% (on 100% occupancy)

In May 2009, Hillwood engaged CBRE to market West Point Trade Center, a tilt-wall distribution center featuring secure fencing surrounding the entire facility, ample truck yard space, 150' and 180' truck courts, 128 dock doors, and 2 drive-in doors. The facility's location was selected to specifically meet Dr Pepper's warehouse and distribution needs while still providing flexibility for future tenant prospects. The Class A facility is 100% leased to Dr Pepper Snapple Group (NYSE: DPS) providing a stable cash flow and future upside potential within the Jacksonville market.

The transaction closed within 15 days of signing the LOI because both parties worked diligently throughout the entire process.



Office Trades – “Scarcity Premium” Driving Down Cap Rates?

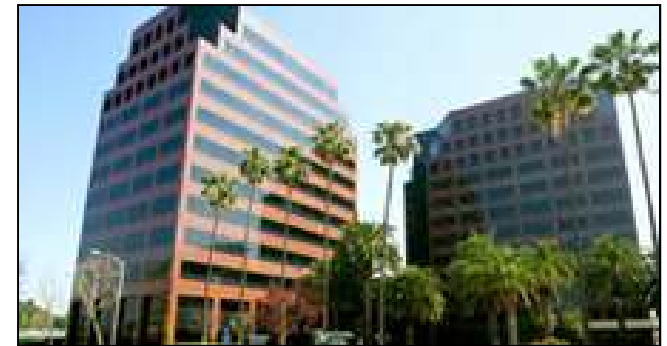
Distressed Deals: Southern California

Office Sales

- **3 MacArthur office tower, a 76% occupied office building sold to Highridge Properties from Tishman Speyer for \$125 per square foot in October, 2009**
- **Griffin Towers, a 76% occupied office building in the same submarket sold for \$165 per square foot in March, 2010. Seller was Maguire Properties**



3 MacArthur



Griffin Towers

Office Debt

- **3 MacArthur:**
 - **Debt quotes in November 2009 at 8%**
 - **Today: Under application at 5.5% including 4 years of interest only.**

Institutional Grade Deals

■ 1999 K Street NW

Status: Closed
Market: Washington, DC
Seller: Vornado Realty Trust
Buyer: DekaBank
Size: 243,000 sf
Current Occupancy: 100%
Sale Price: \$207,900,000
Sale Price per SF: \$835
In-Place Cap Rate: 6.3%



■ 1099 K Street NW

Status: Closed
Market: Washington, DC
Seller: Tishman Speyer
Buyer: Credit Suisse
Size: 87,000 sf
Current Occupancy: 61%
Sale Price: \$90,500,000
Sale Price per SF: \$508
In-Place Cap Rate: 7.4%





Trouble in the Commercial Real Estate Debt Market – Opportunity or Threat?

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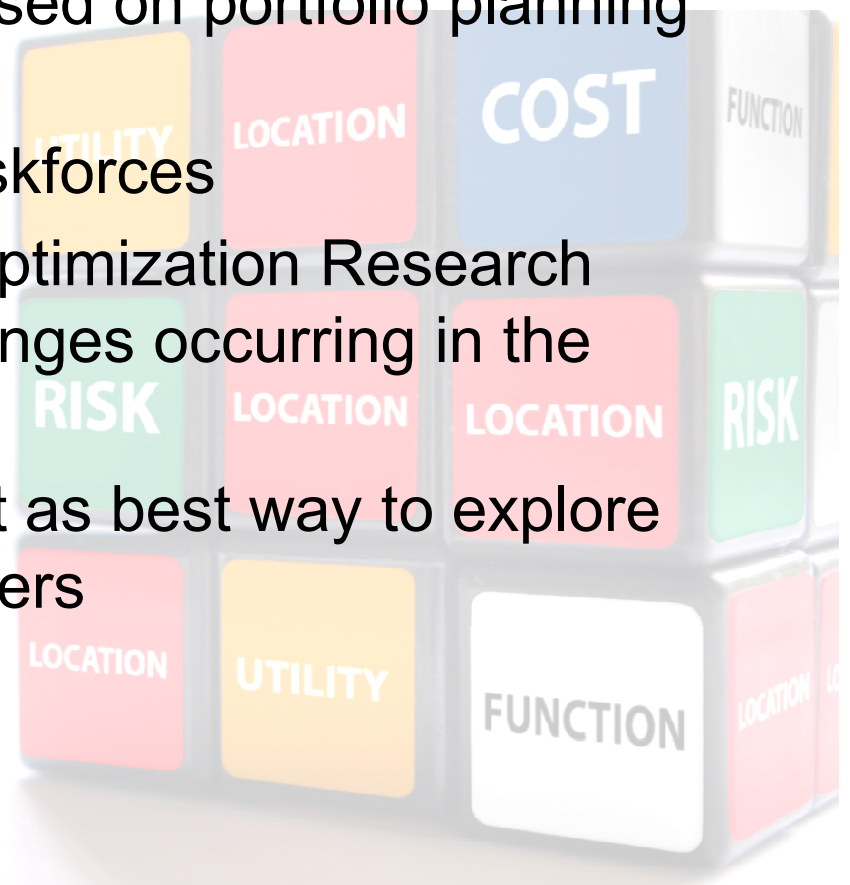
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 - Americas and SPP Sponsorship
 - Joan Price, Gensler: joan_price@gensler.com
 - Gail Smith, CRE Strategies: gail.smith@crestrategies.com
 - EMEA
 - Colin King, Nokia: colin.king@nokia.com
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CoreNet New Orleans:

Trouble in Commercial Real Estate Capital Markets

Tuesday, April 20, 2010 / 9:00 am to 12:00 pm

Hosted by the Strategy & Portfolio Planning Community's Value Creation/Optimizing Capital Research Taskforce

Moderators

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