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difference.

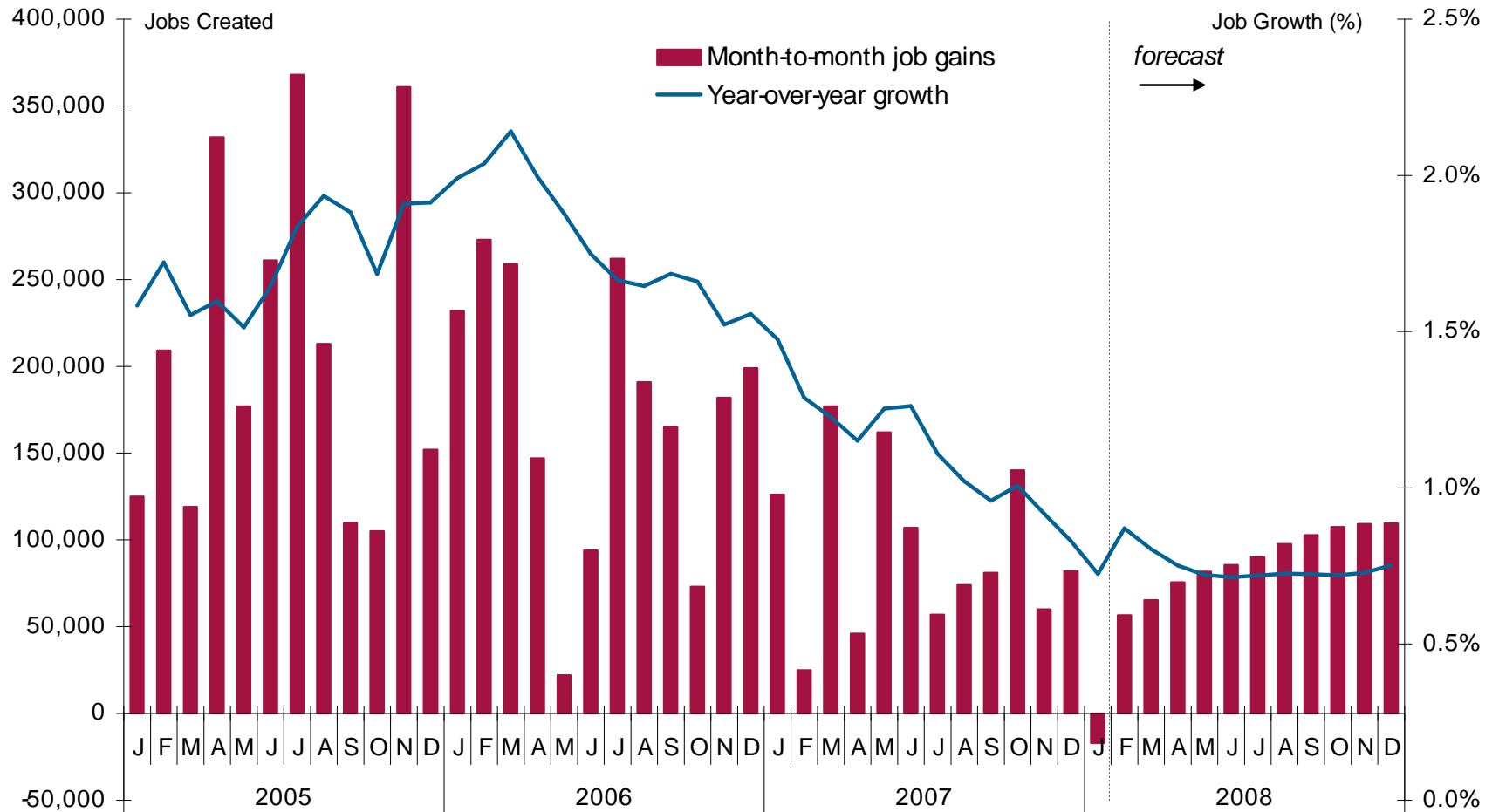
U.S. Commercial Real Estate at an Inflection Point

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Managing Director and Director of Global Investment Research

February 2008

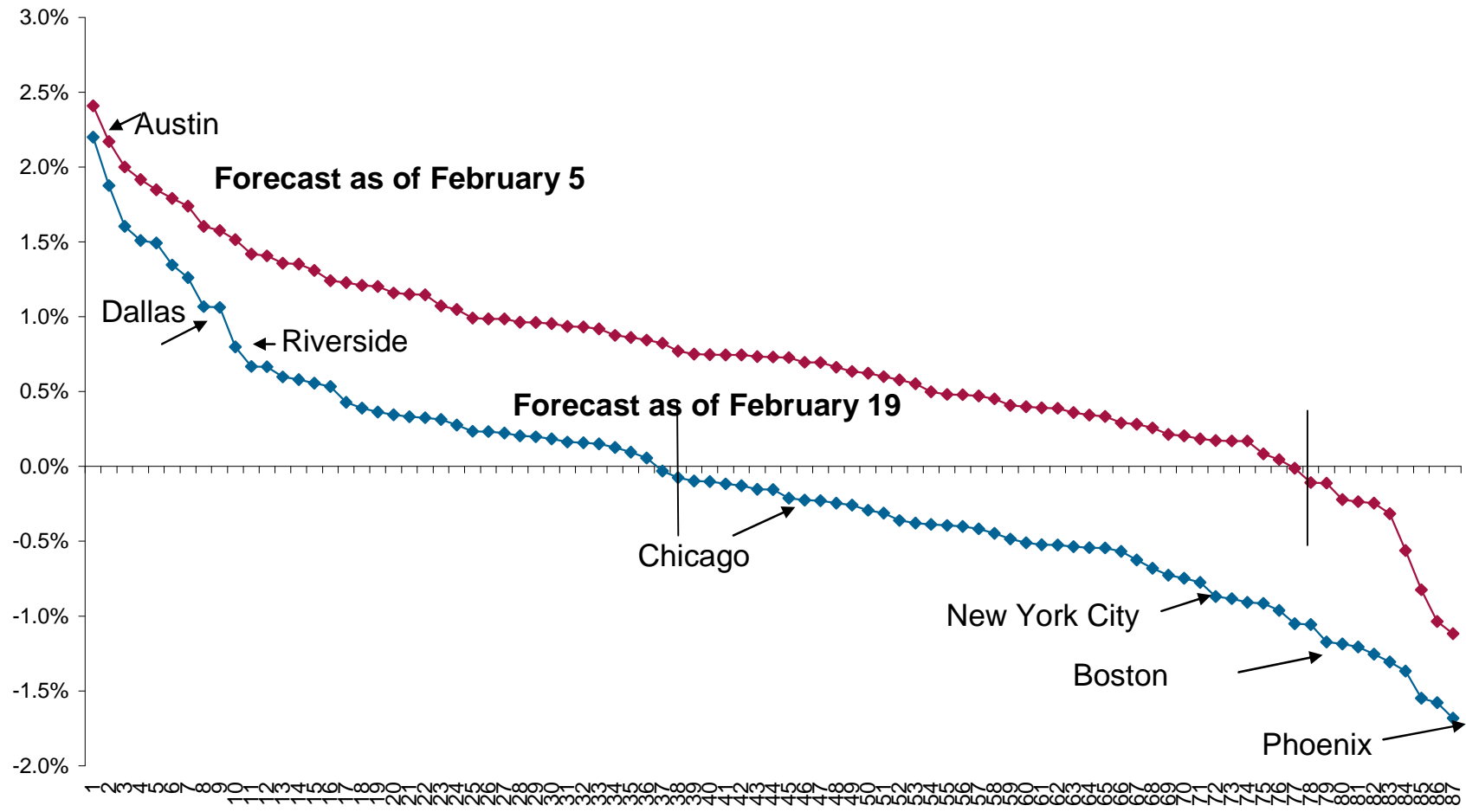
Historical and Forecast Employment Growth U.S. 2005-2008



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

Rapid Down Shift in Job Growth Prospects

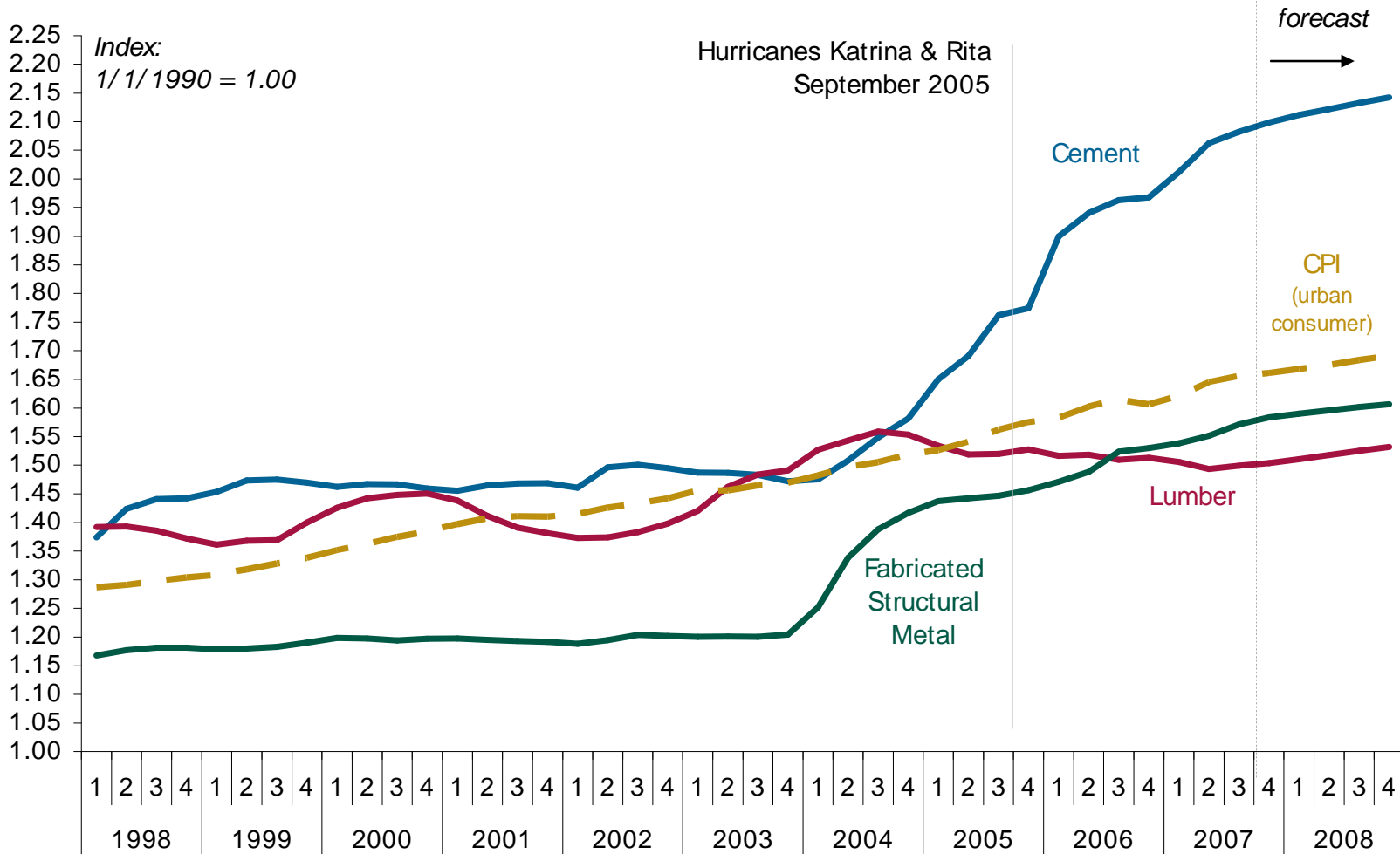
Job Growth Forecast Q4 2007 to Q4 2008
U.S. and 85 Largest U.S. Metropolitan Areas



Source: Economy.com; Heitman

High Construction Costs a Positive

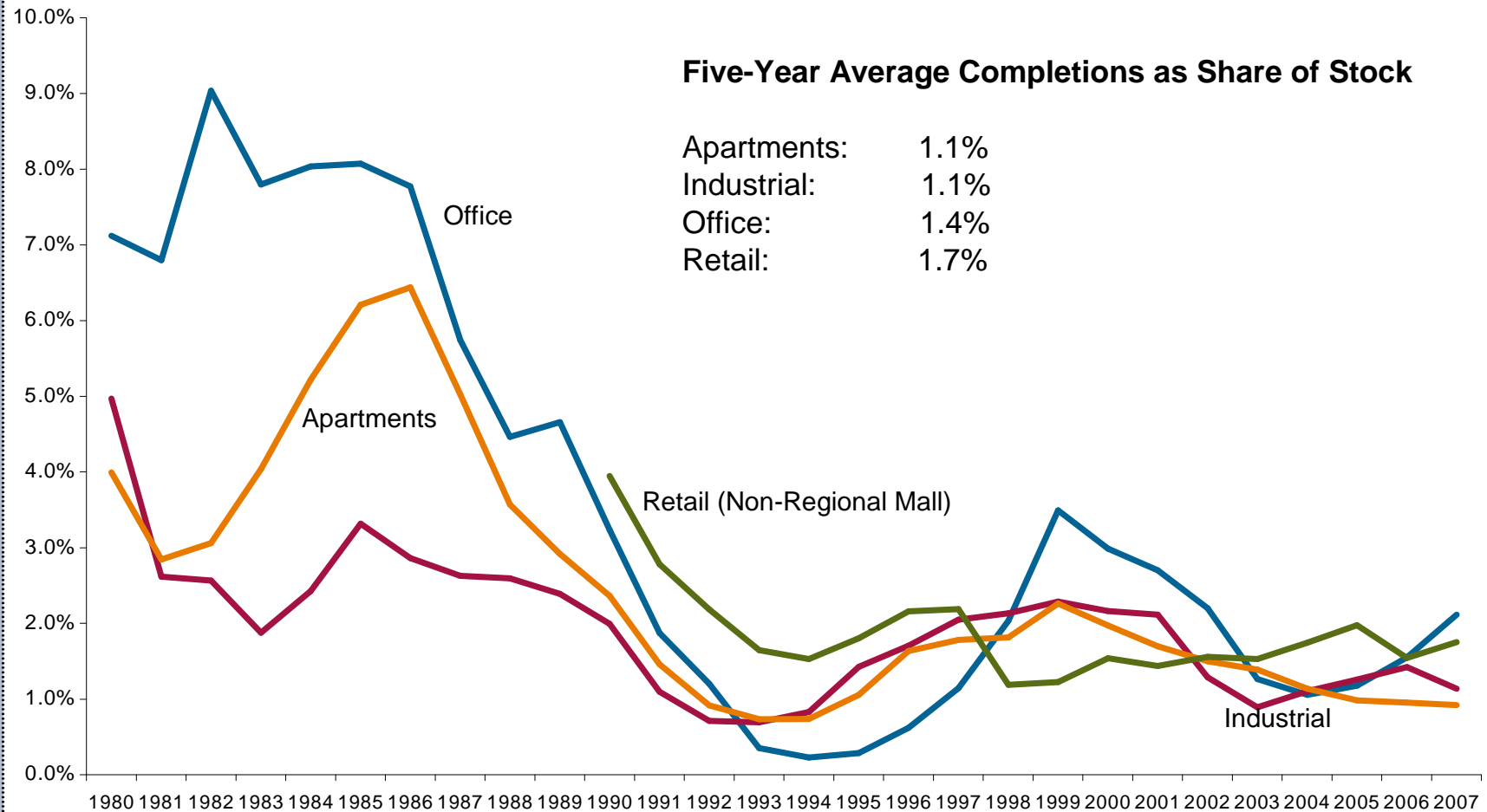
Price Inflation of Construction-Related Commodities U.S. 1998-2008



Source: Economy.com; Heitman Research

Real Estate Helped by Restrained Construction

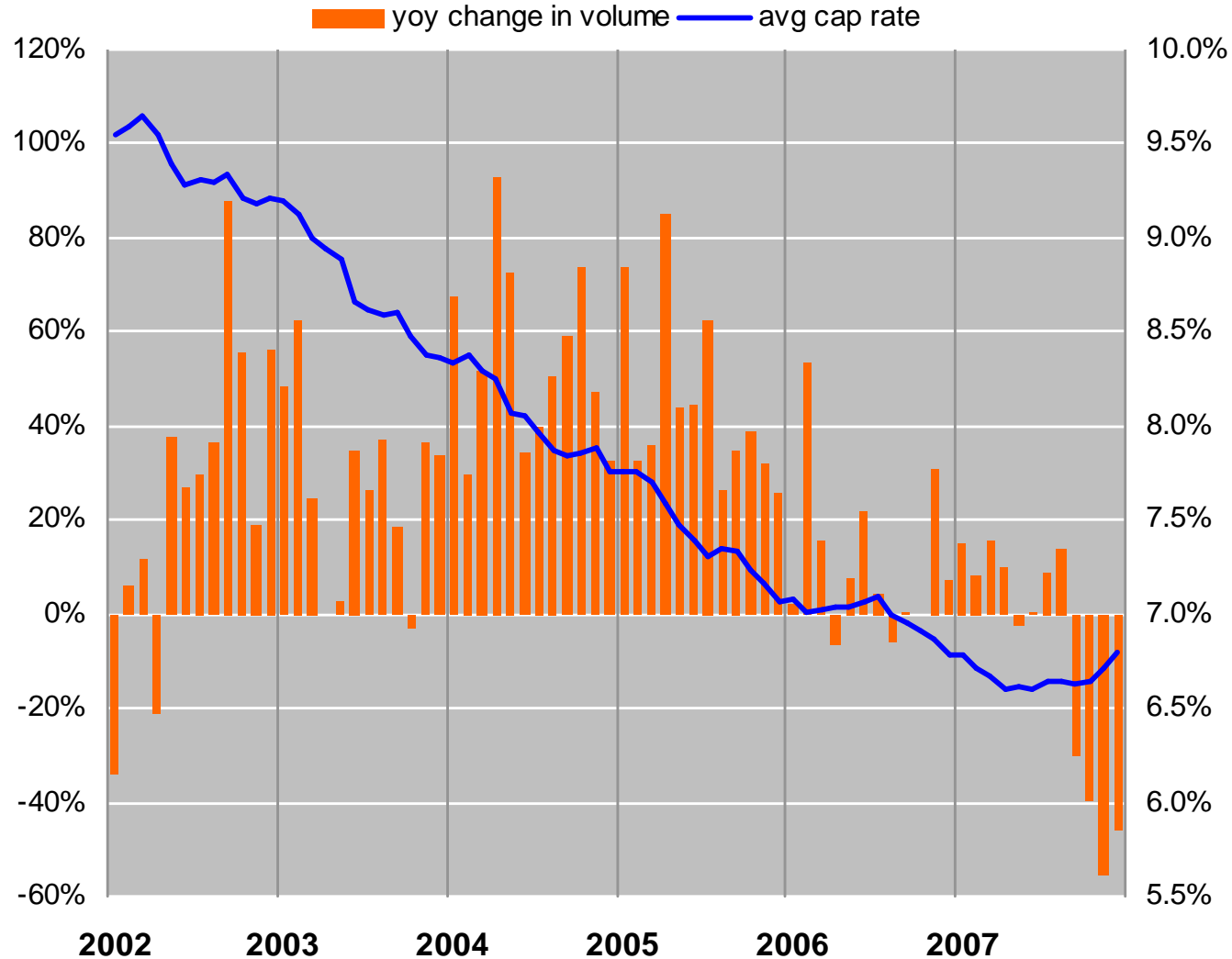
Completions as % of Existing Stock
Top U.S. Markets 1980-2007



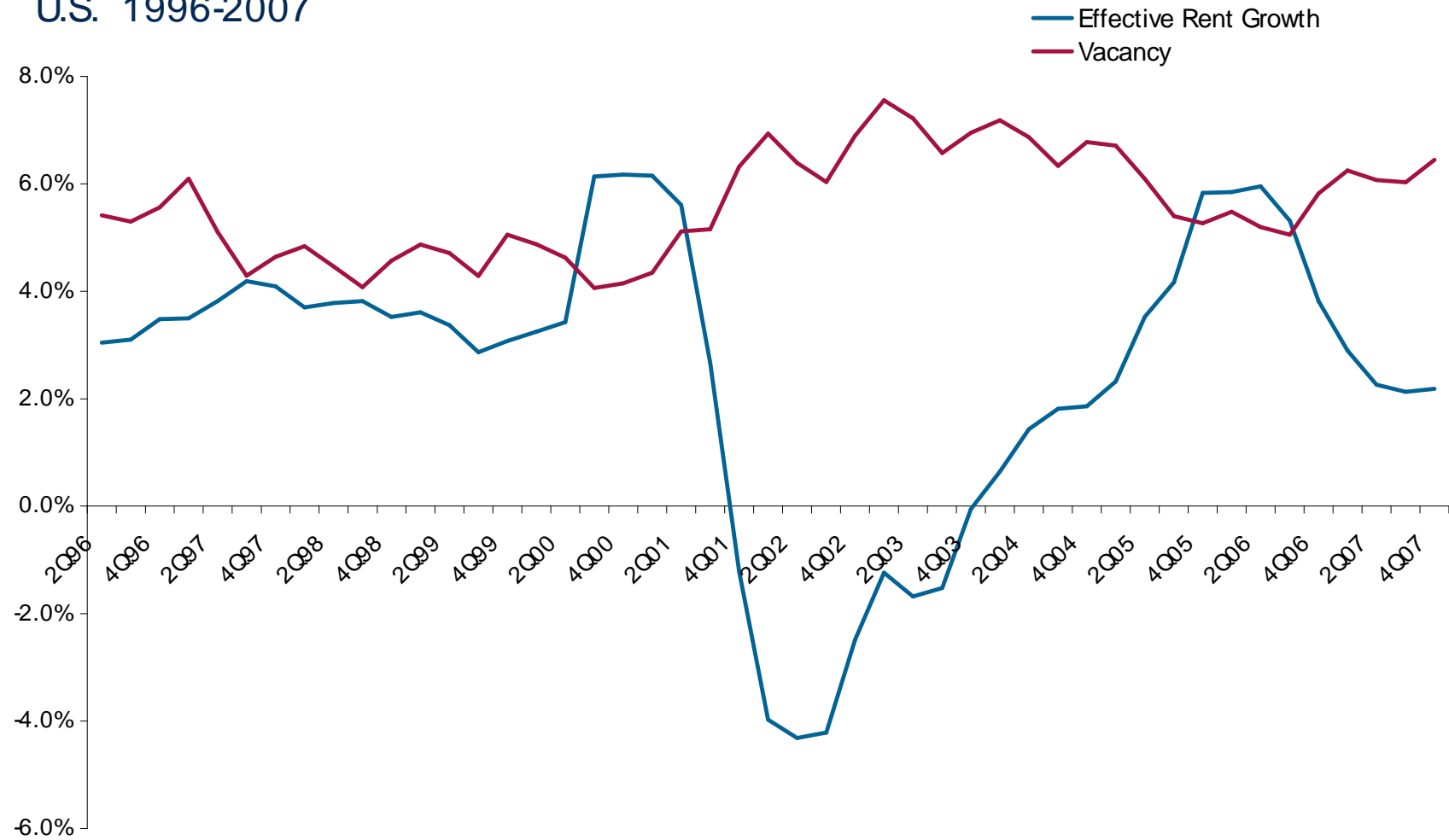
Source: Torto Wheaton Research; REIS; Heitman Research

Capital-Markets Price Correction In

U.S. Transaction Volume and Capitalization Rate 2002-2007



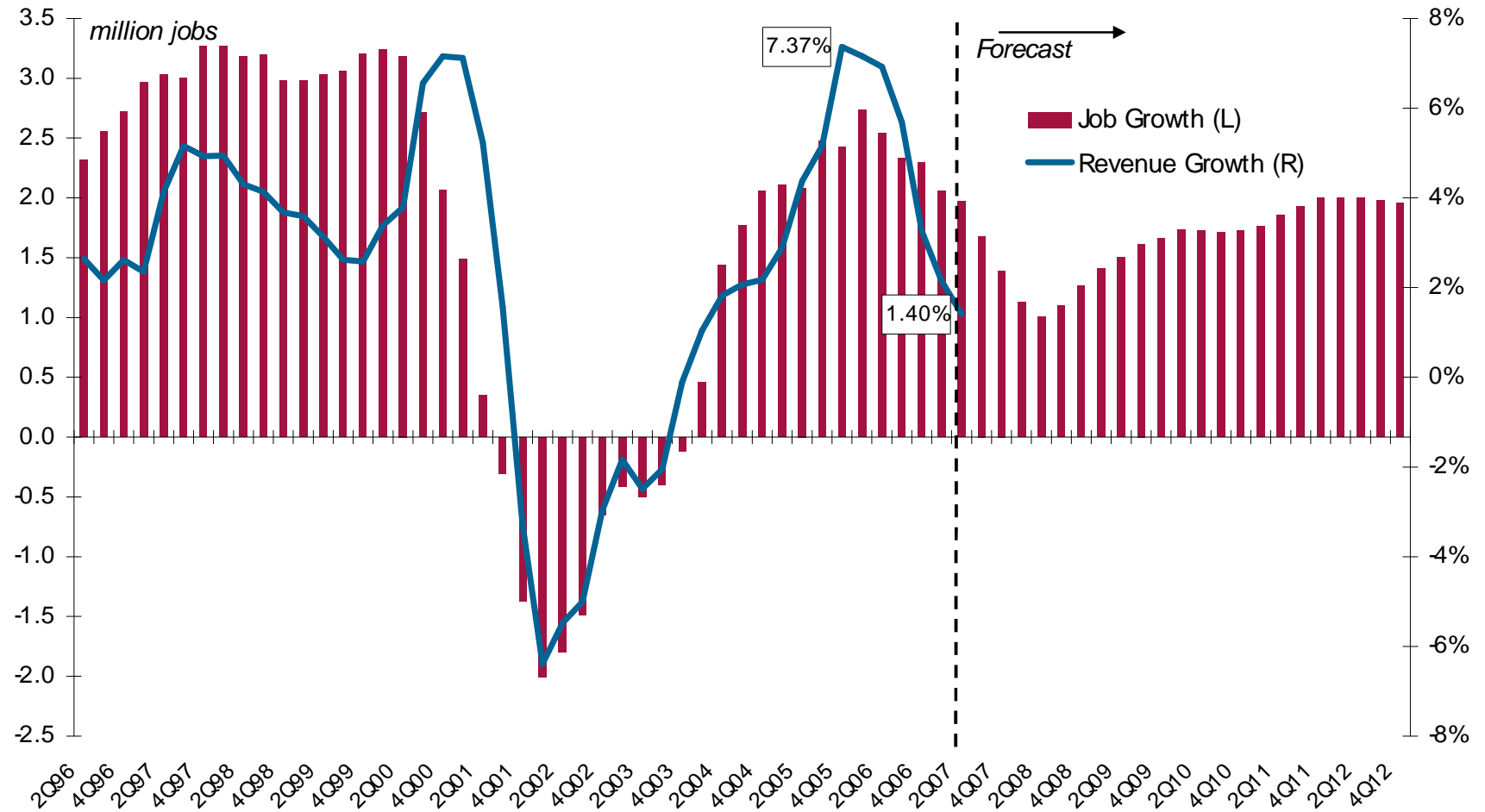
Effective Apartment Rent Growth U.S. 1996-2007



Source: Axiometrics; Heitman Research

Revenue Growth Has Slowed Quickly

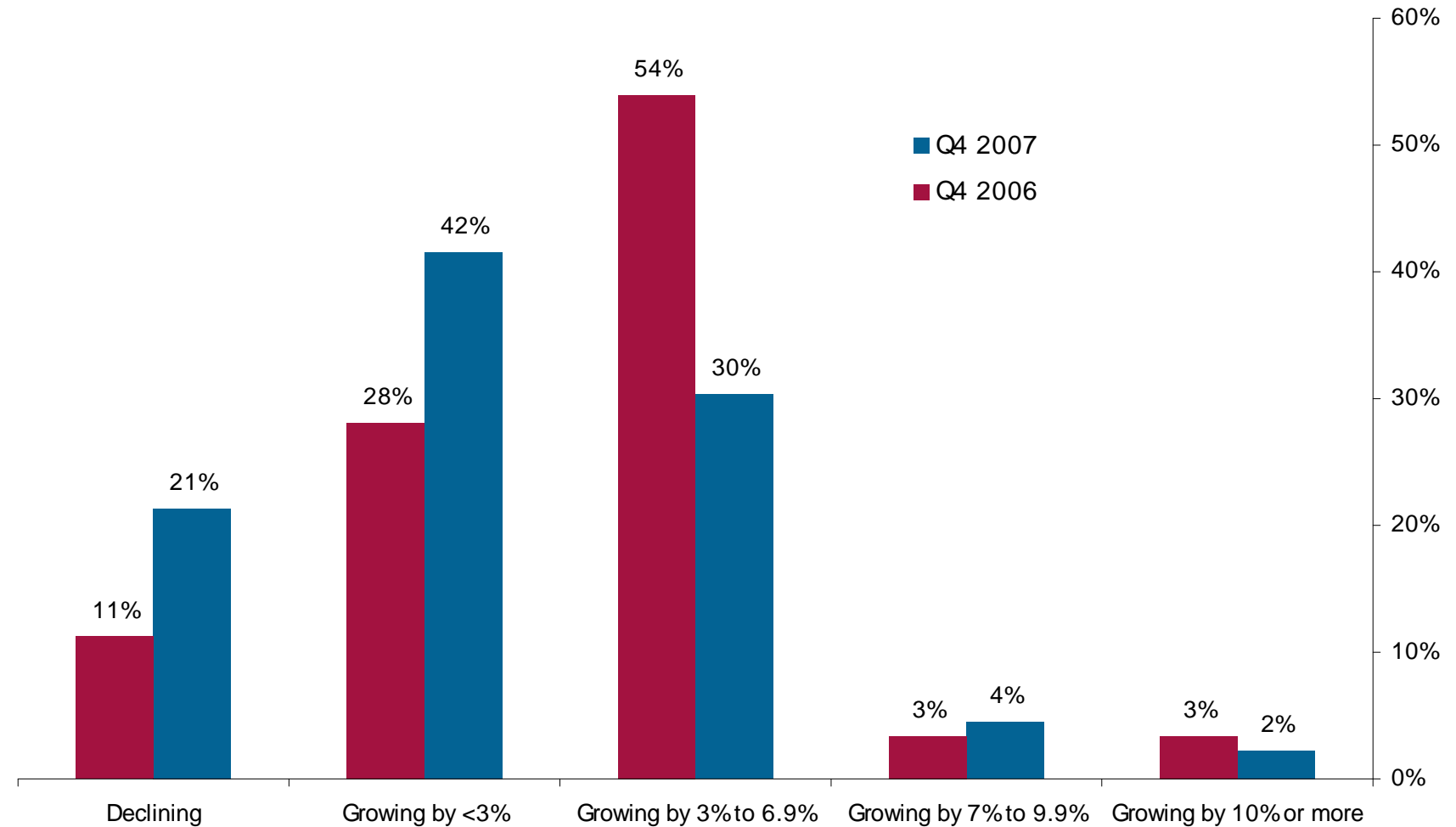
Employment Growth and Apartment Revenue Growth
U.S. 1996-2012, Year-over-Year Changes by Quarter



Source: Economy.com; Axiometrics Research; Heitman Research

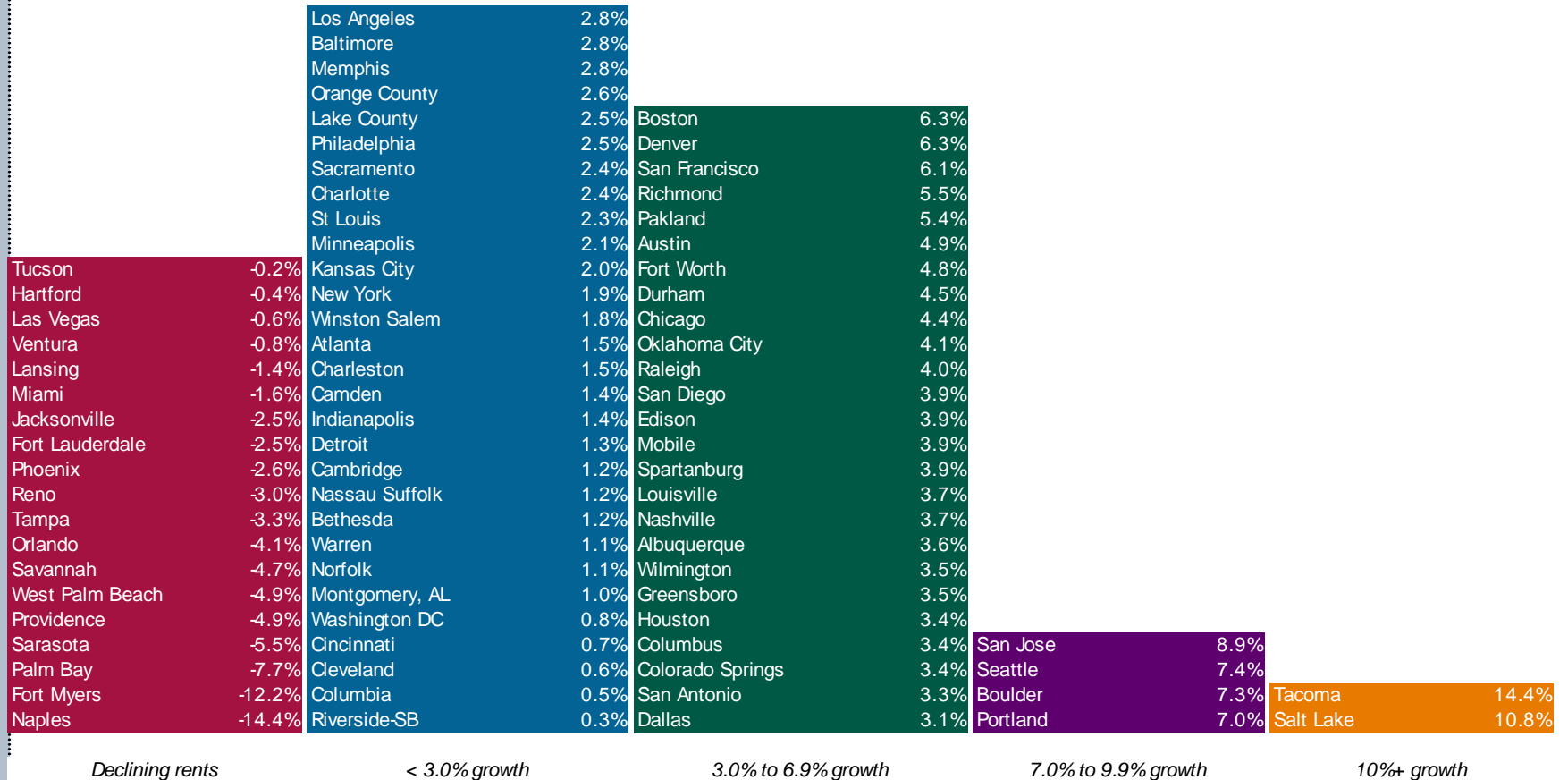
Conditions Vary Widely By Market

Share of Apartment Markets with Declining/ Growing Rents
U.S. Q4 2006 vs. Q4 2007



Source: Axiometrics Research; Heitman Research

Effective Apartment Rent Growth
Q4 2006-Q4 2007

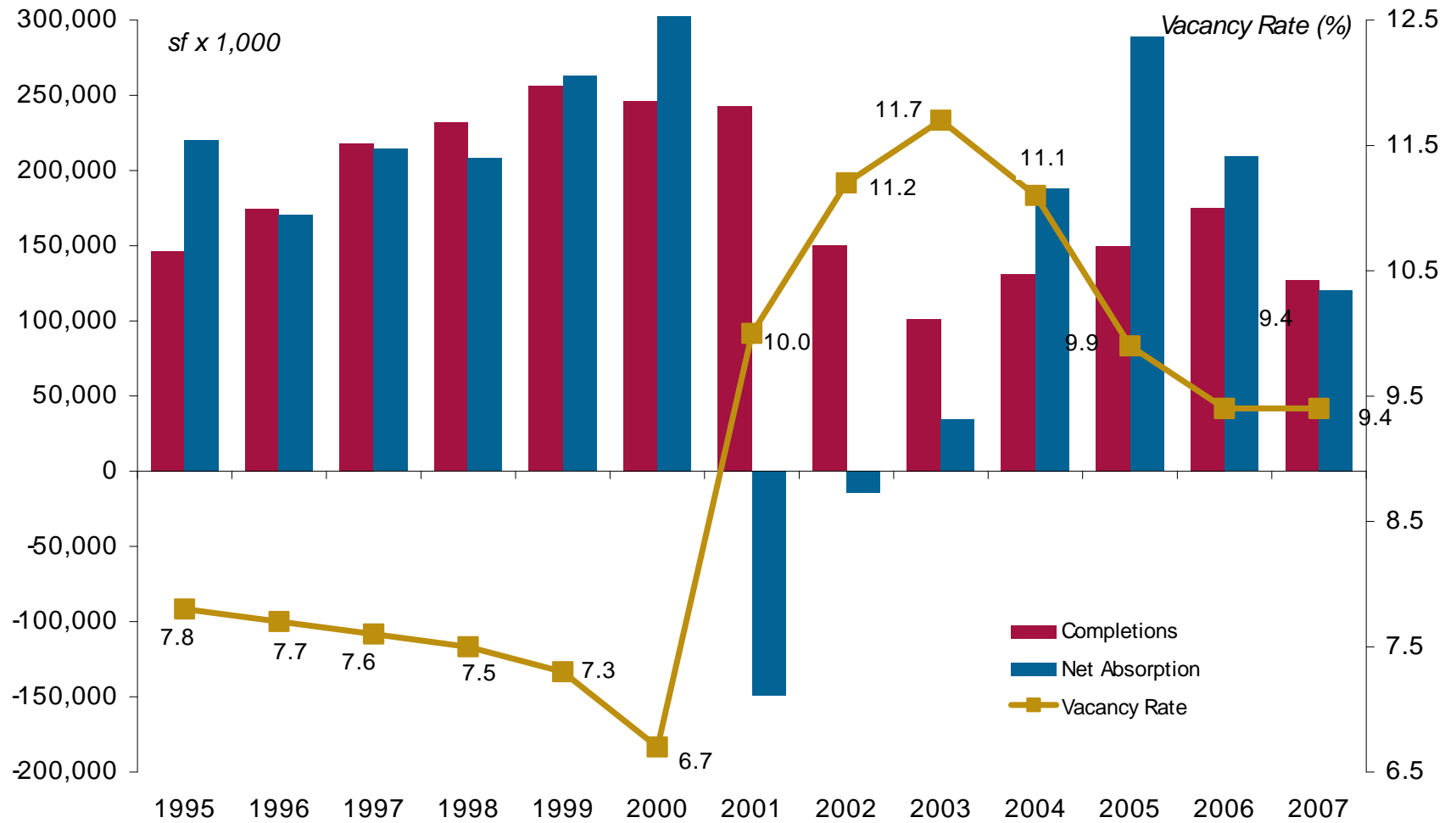


Source: Axiometrics Research; Heitman Research

- Focus on markets with low vacancy rates and above-average job growth prospects, including Seattle, San Francisco/San Jose, Chicago, and Portland
- Acquisition of well-located Class A and B apartments adjacent to amenities in healthy submarkets
- Longer-term focus on recovery markets with elevated current vacancy rates but where vacancy should diminish rapidly as job growth accelerates. Candidates for this include Phoenix and South Florida
- Specialty strategies in apartment include renovation and repositioning of Class B/C assets
- Acquisition of student housing assets on or adjacent to the campuses of major universities with growing enrollments

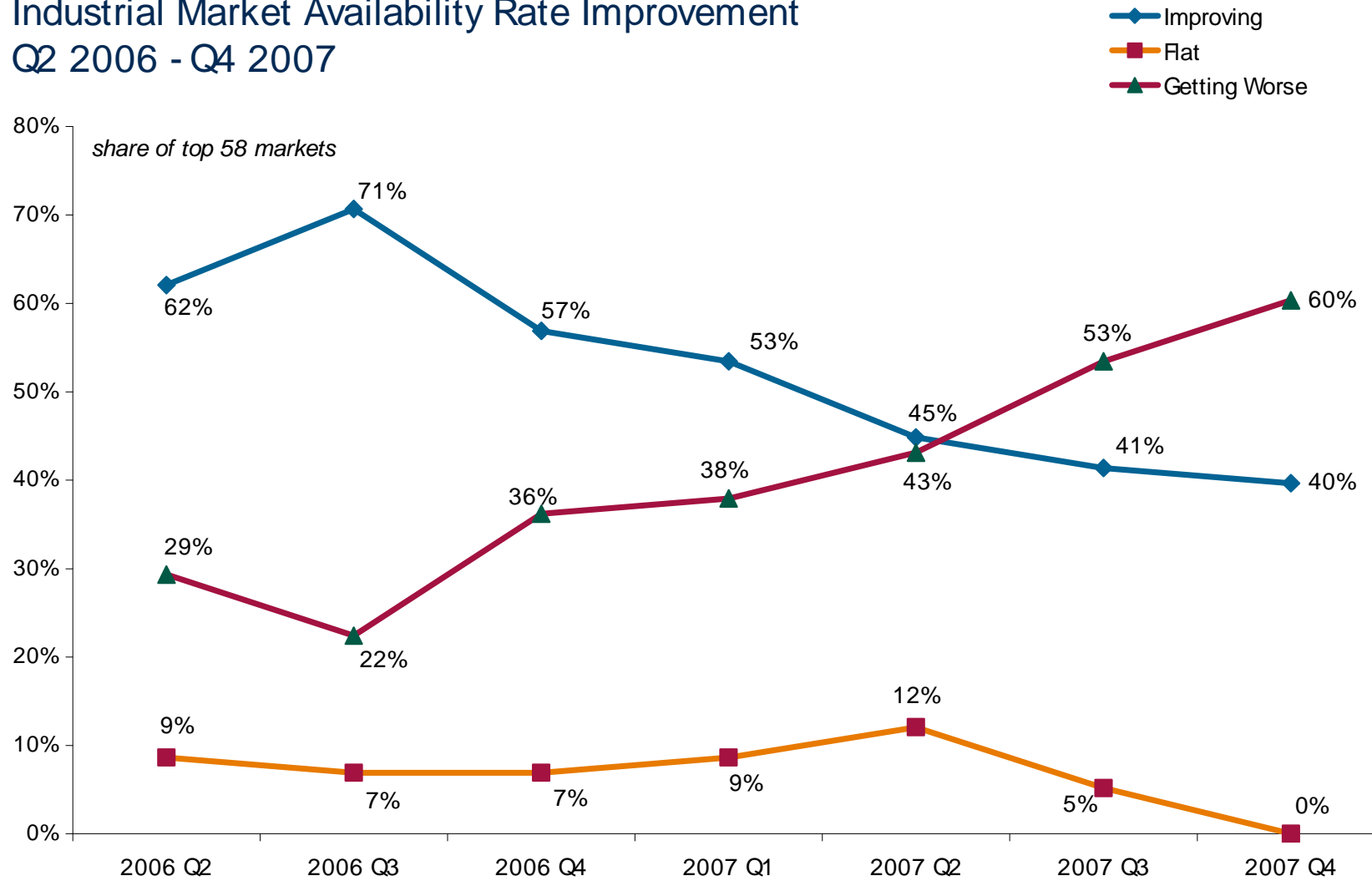


Industrial Completions, Net Absorption, and Availability
U.S. 1995-2007 (years ending Q4)



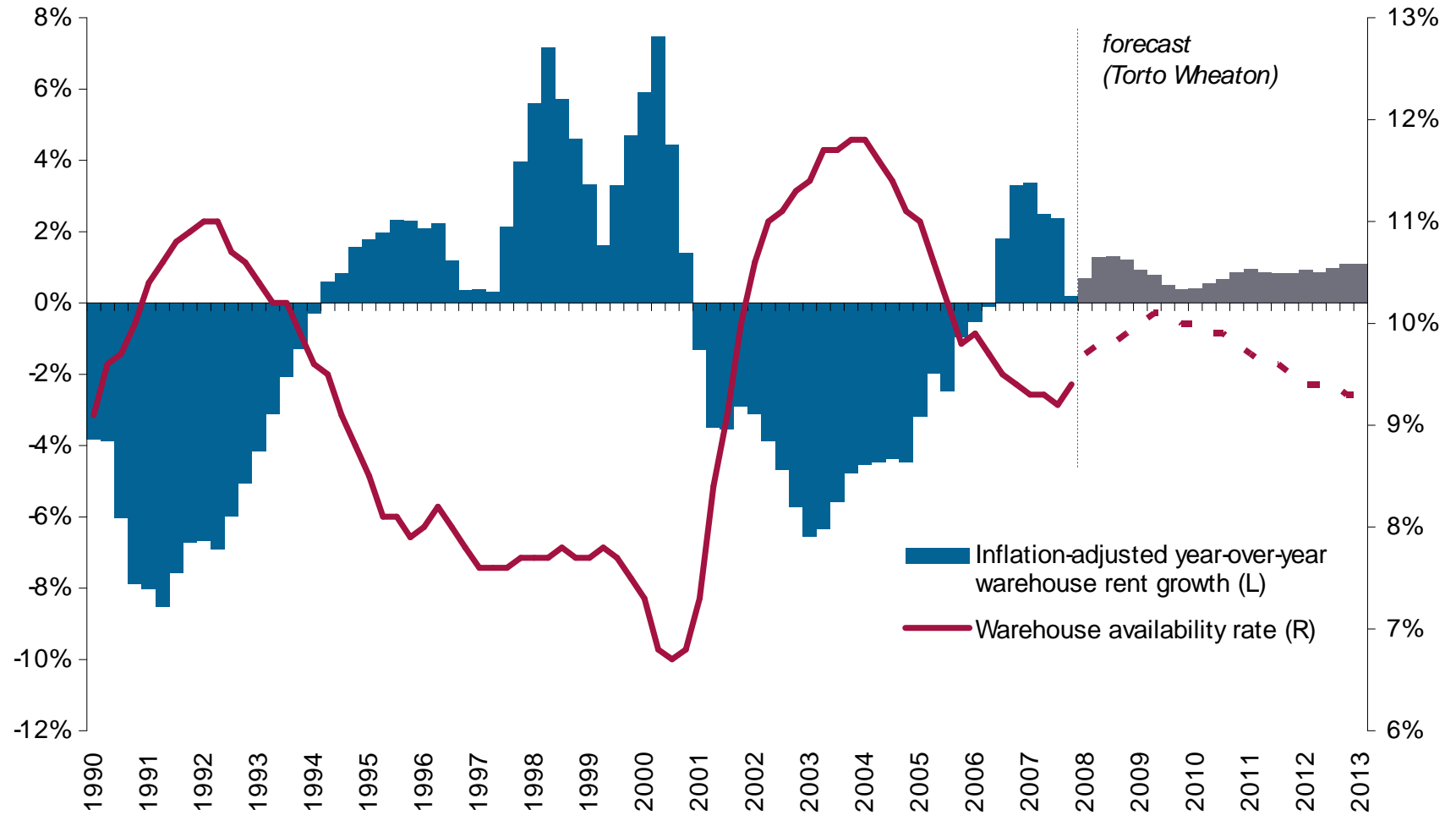
Source: Torto Wheaton Research; Heitman Research

Industrial Market Availability Rate Improvement Q2 2006 - Q4 2007



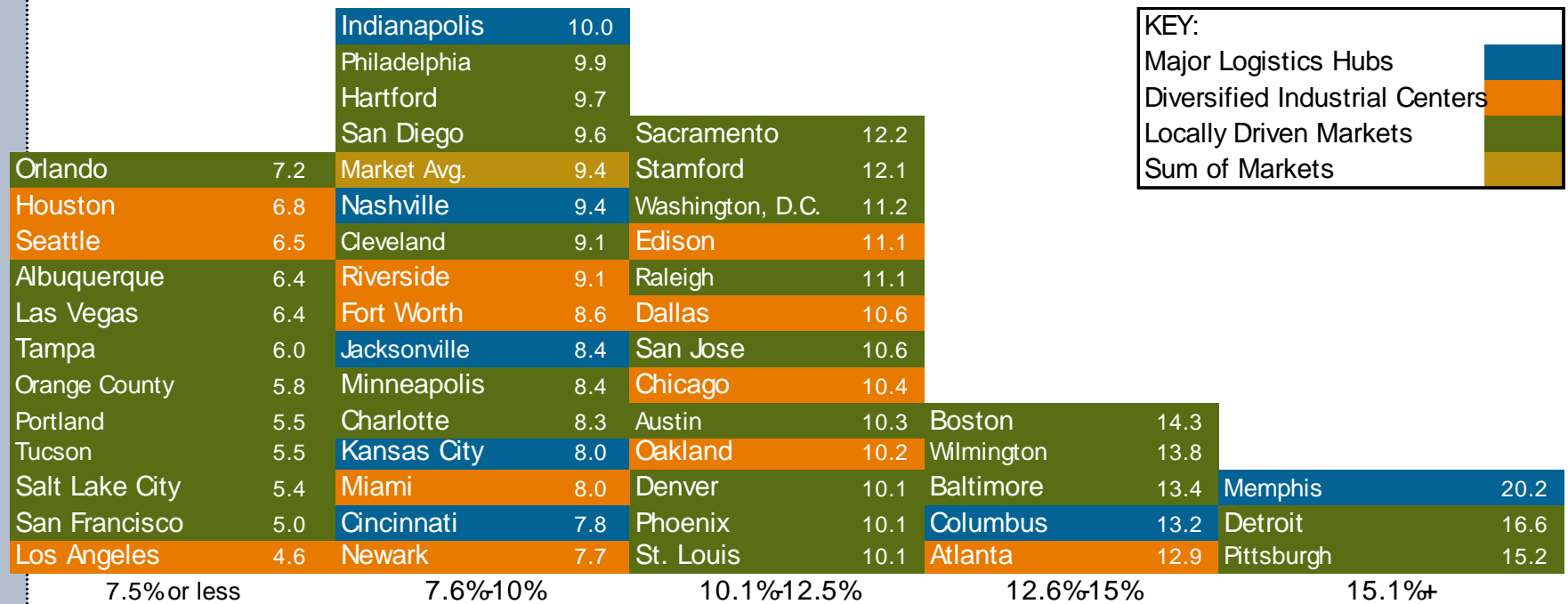
Source: Torto Wheaton Research; Heitman Research

Warehouse Real Rent Growth and Availability
U.S. 1990-2013



Source: Torto Wheaton Research; Heitman Research

Industrial Market Vacancy Rates U.S. 2007 Q4



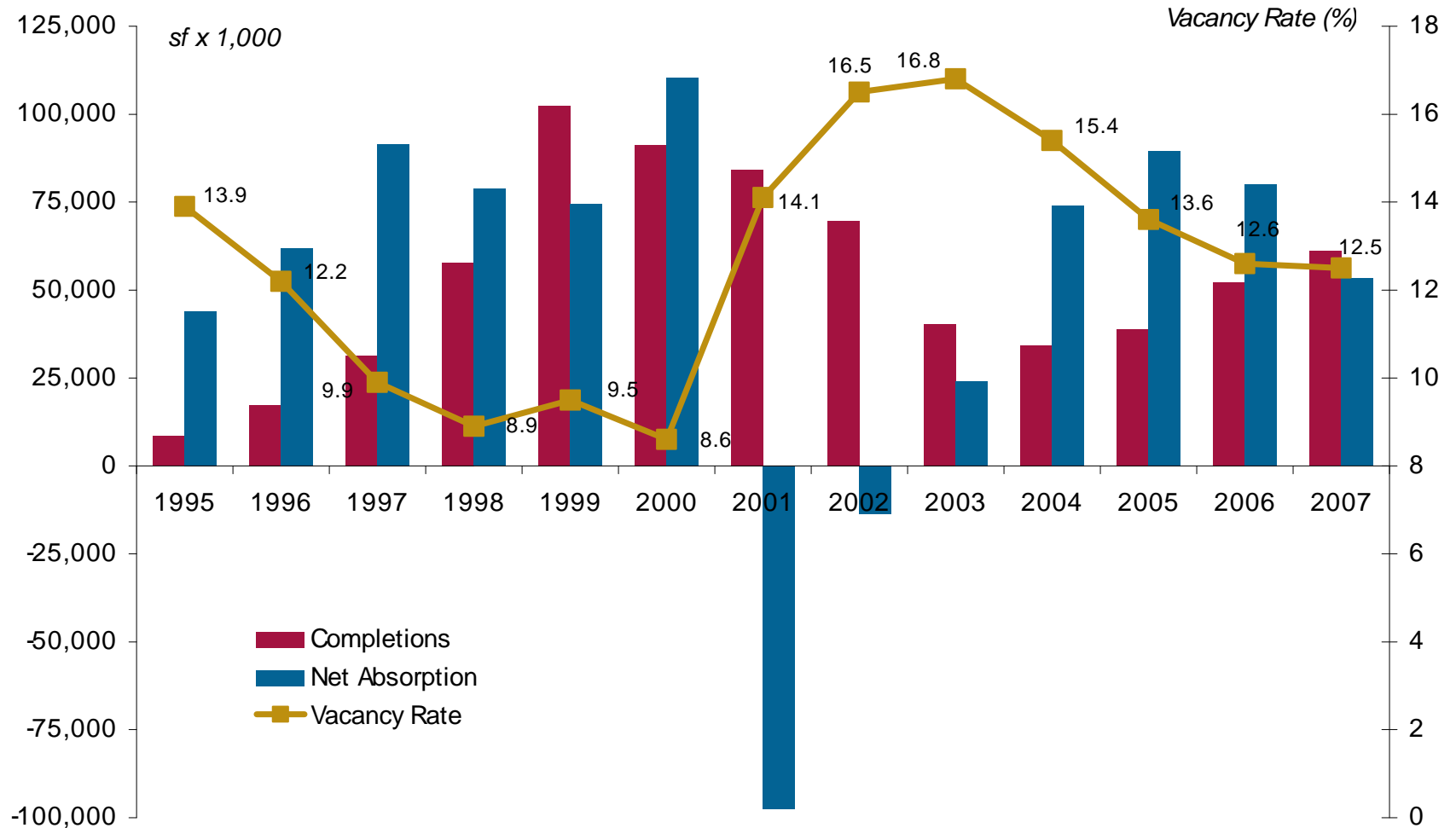
Source: Torto Wheaton Research; Heitman Research

- Focus on markets on path-of-goods movement with low current availability rates. These include Los Angeles, Seattle, and Chicago. These markets have added benefit of being major job and population centers.
- Acquisition of Class A assets in best submarkets that benefit from adjacency to major logistics infrastructure
- Execute aggregation strategy in selected metropolitan areas, providing potential for portfolio premium, creating pricing power and heightening tenant retention
- Explore development opportunities in healthiest markets
- Acquire self-storage assets in markets with strong commercial and residential demand



A Market Just Past Full Bloom

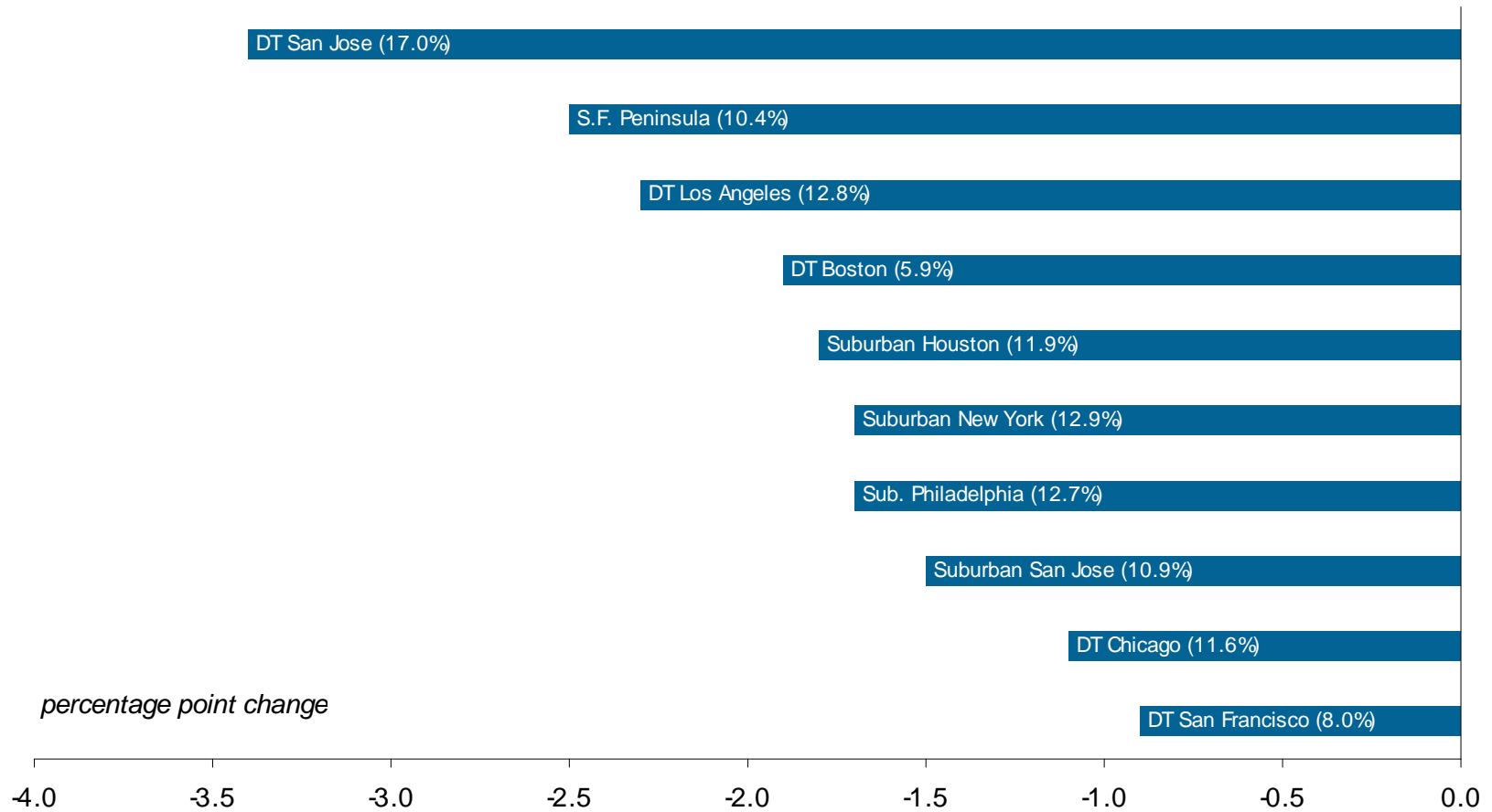
Office Completions, Net Absorption, and Vacancy U.S. 1995-2007 (years ending Q4)



Source: Torto Wheaton Research; Heitman

Many Strong/Improving Markets

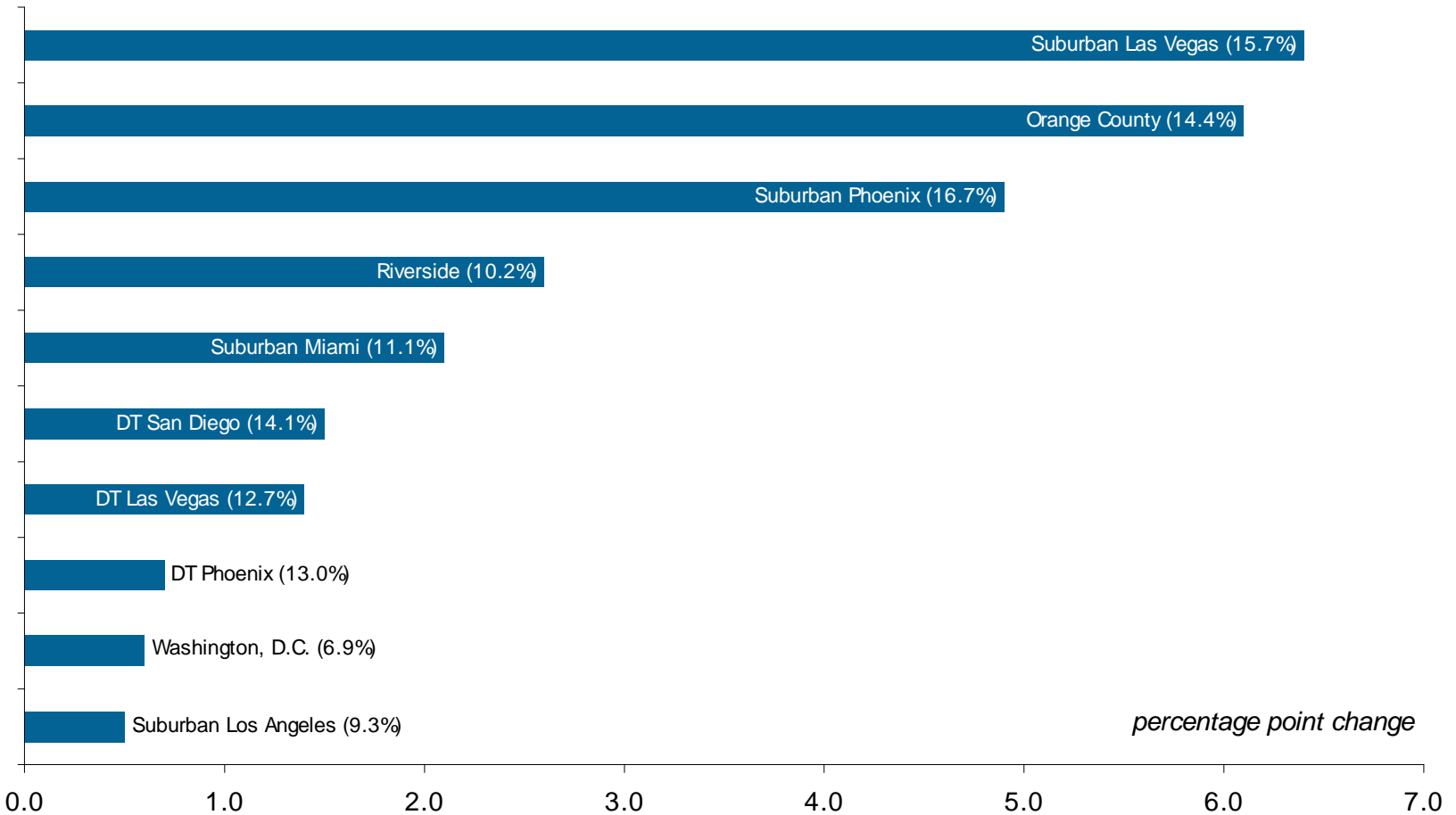
Year-over-Year Vacancy Rate Change Top Ten Selected Markets 2007Q4



Source: Torto Wheaton Research; Heitman Research

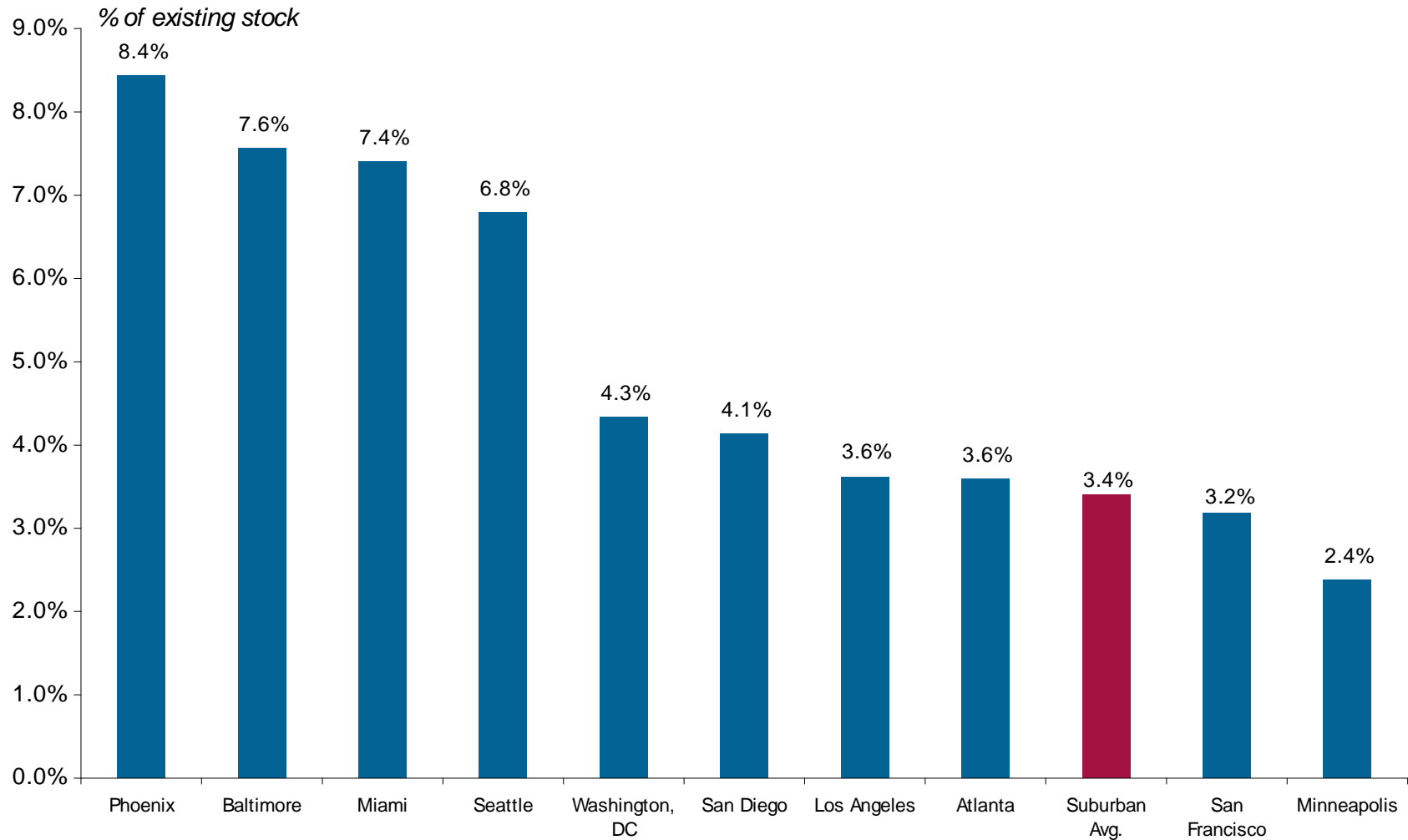
And Some That Are Not

Year-over-Year Vacancy Rate Change Bottom Ten Selected Markets 2007Q4



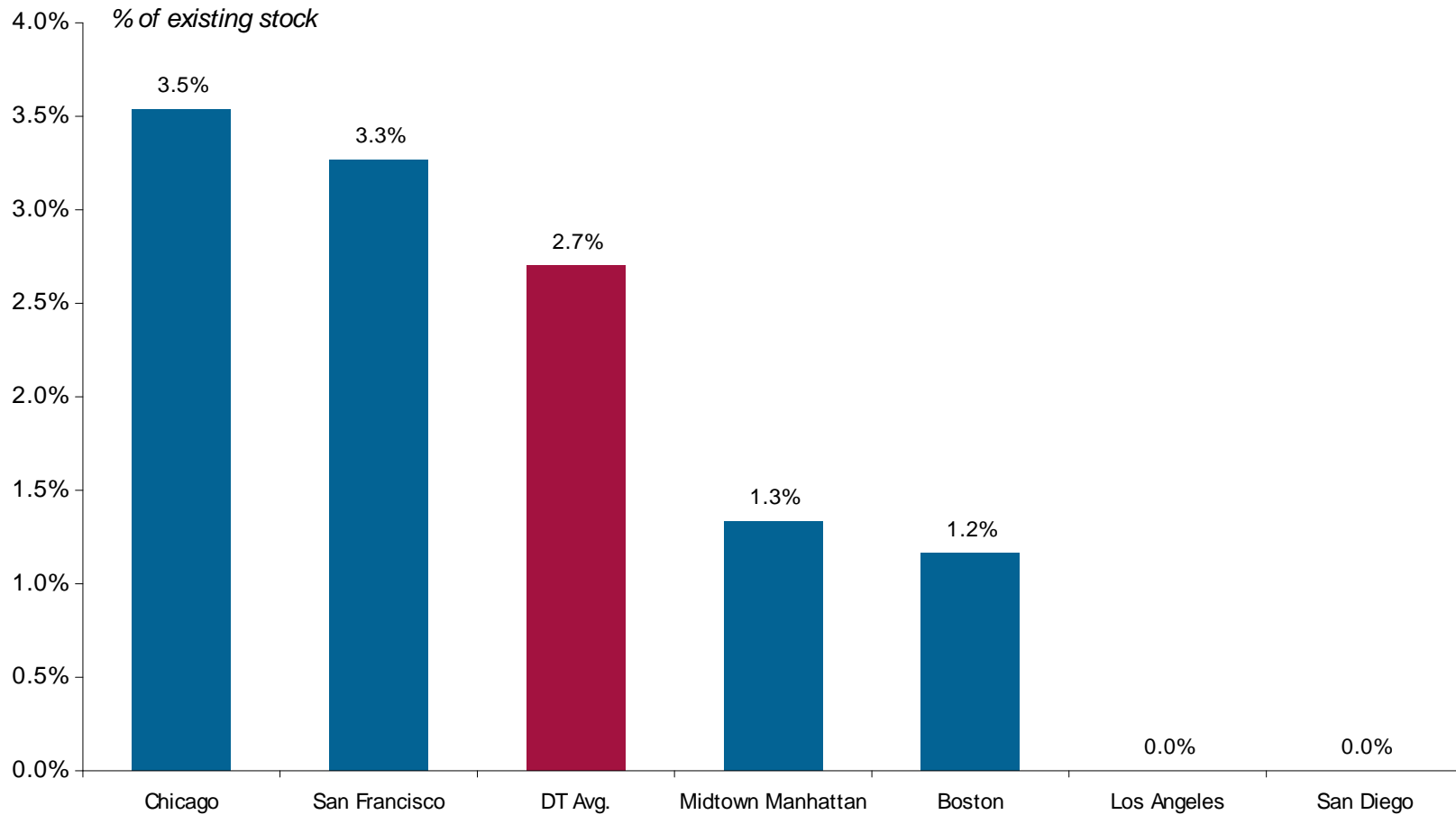
Source: Torto Wheaton Research; Heitman Research

Multi-Tenant Office Space Under Construction Primary Suburban Markets 2007Q4



Source: Torto Wheaton Research; Heitman Research

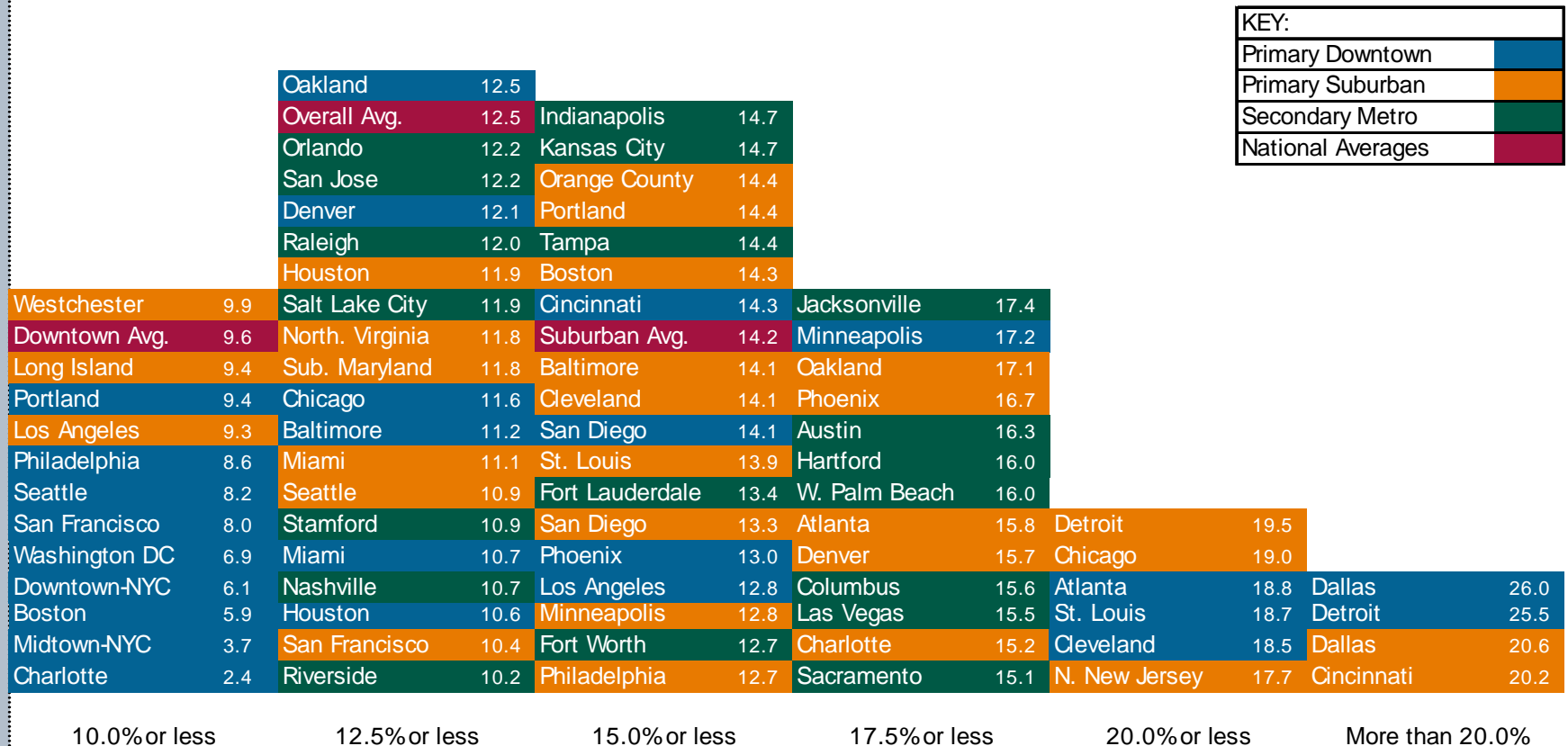
Multi-Tenant Office Space Under Construction Primary Downtown Markets 2007Q4



Source: Torto Wheaton Research; Heitman Research

Great Variability at Metro Market Level

Office Market Vacancy Rates U.S. 2007 Q4



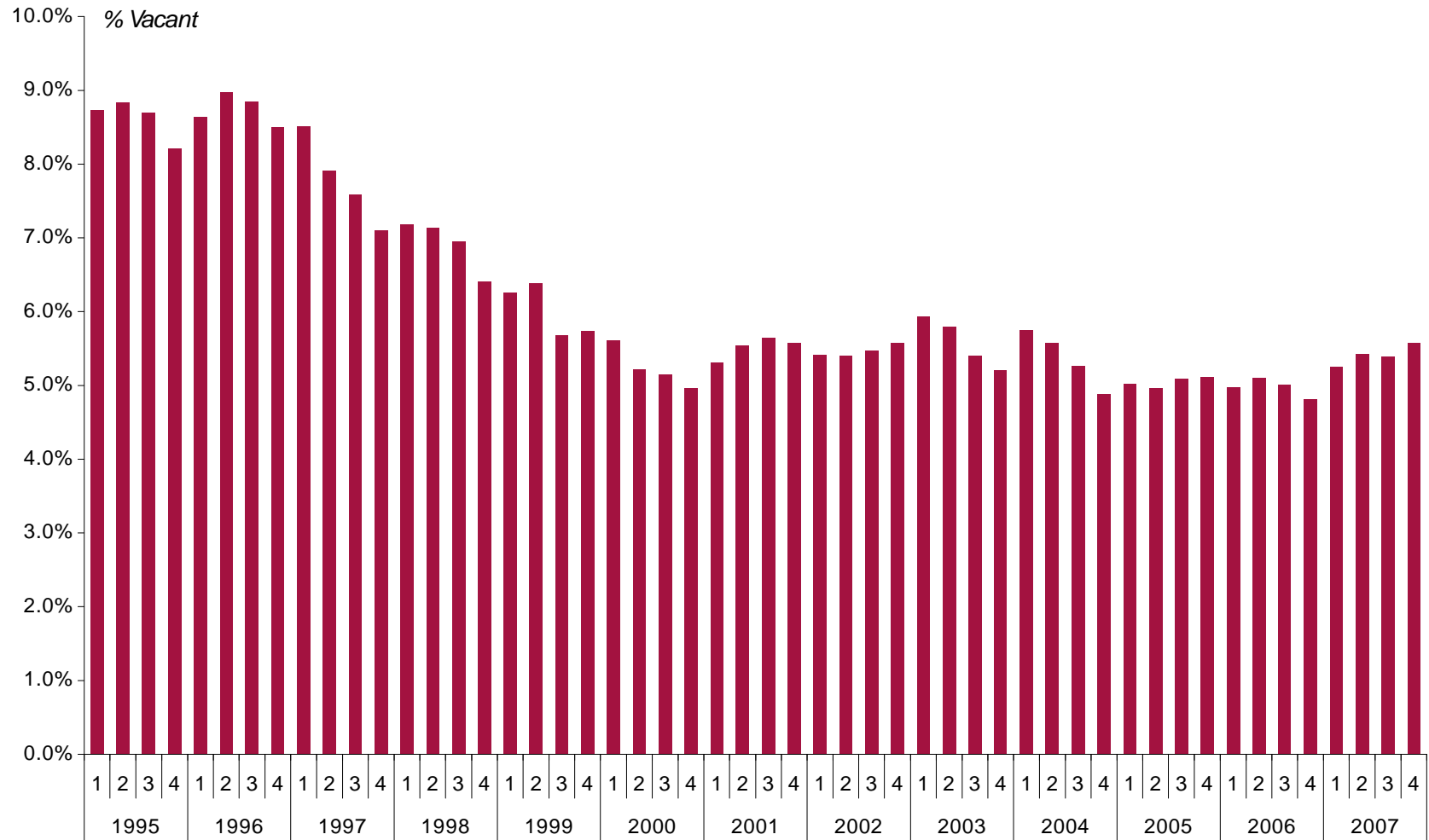
Source: Torto Wheaton Research; Heitman Research

Recommended Office Investment Strategies

- Initial focus on healthiest markets, characterized by low current vacancy rates and good office job growth prospects
- Healthy markets include West Los Angeles, Seattle, Downtown Boston, Austin, Houston, and Arlington County, VA
- Acquisition of well-leased, well-located Class A assets with little near-term tenant roll over in strong submarkets
- Acquisition of well-located Class B assets In markets that have experienced rapid increases in rent to pursue a *Flight From Quality strategy*
- Acquisition of well-located medical office assets, on or adjacent to the campus of major hospitals with strong credit ratings
- Longer-term focus on recovering markets and assets with roll over exposure in strong markets

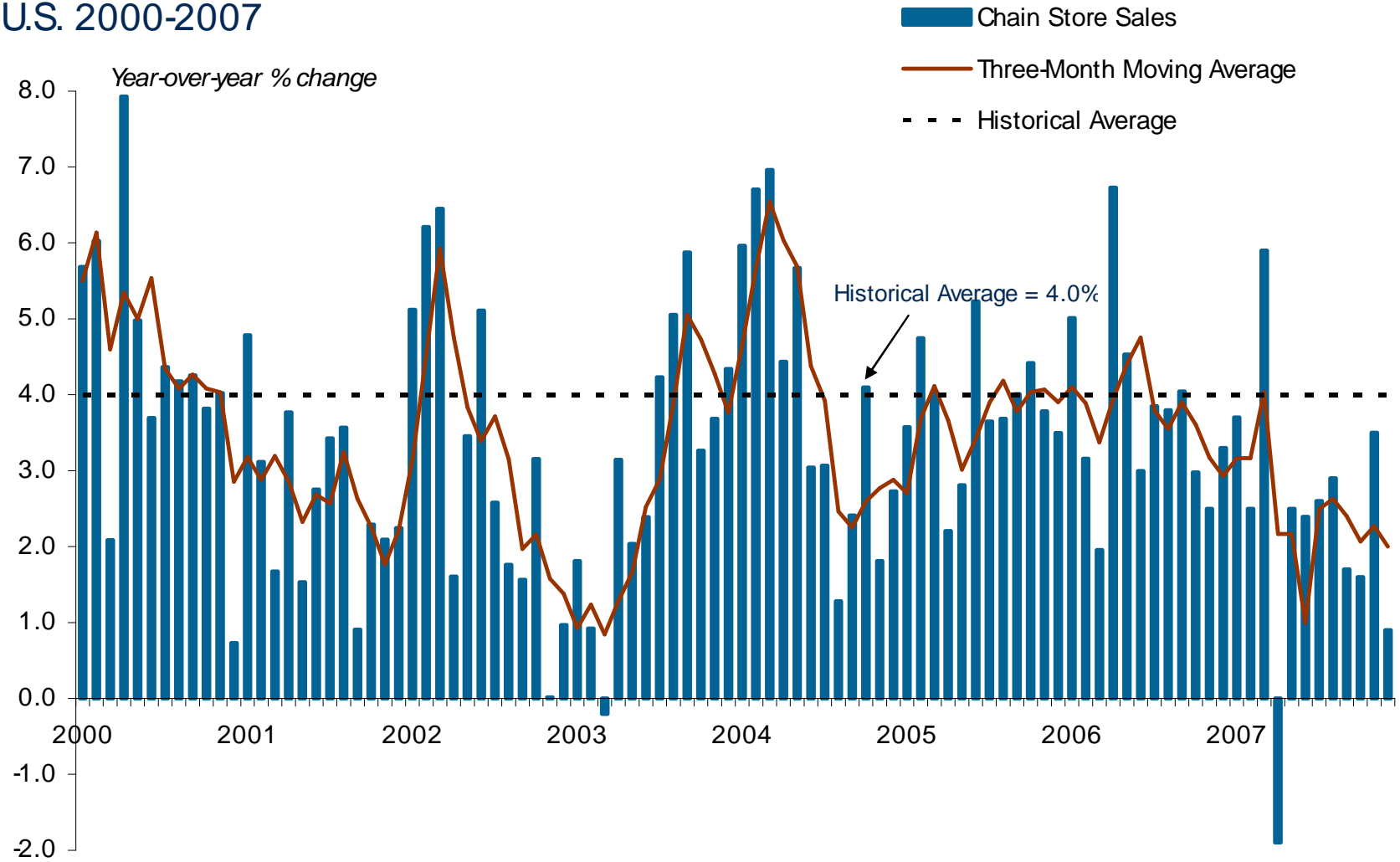


NCREIF Retail Vacancy Rate
U.S. 1995-2007 Q3



Source: NCREIF; Heitman Research

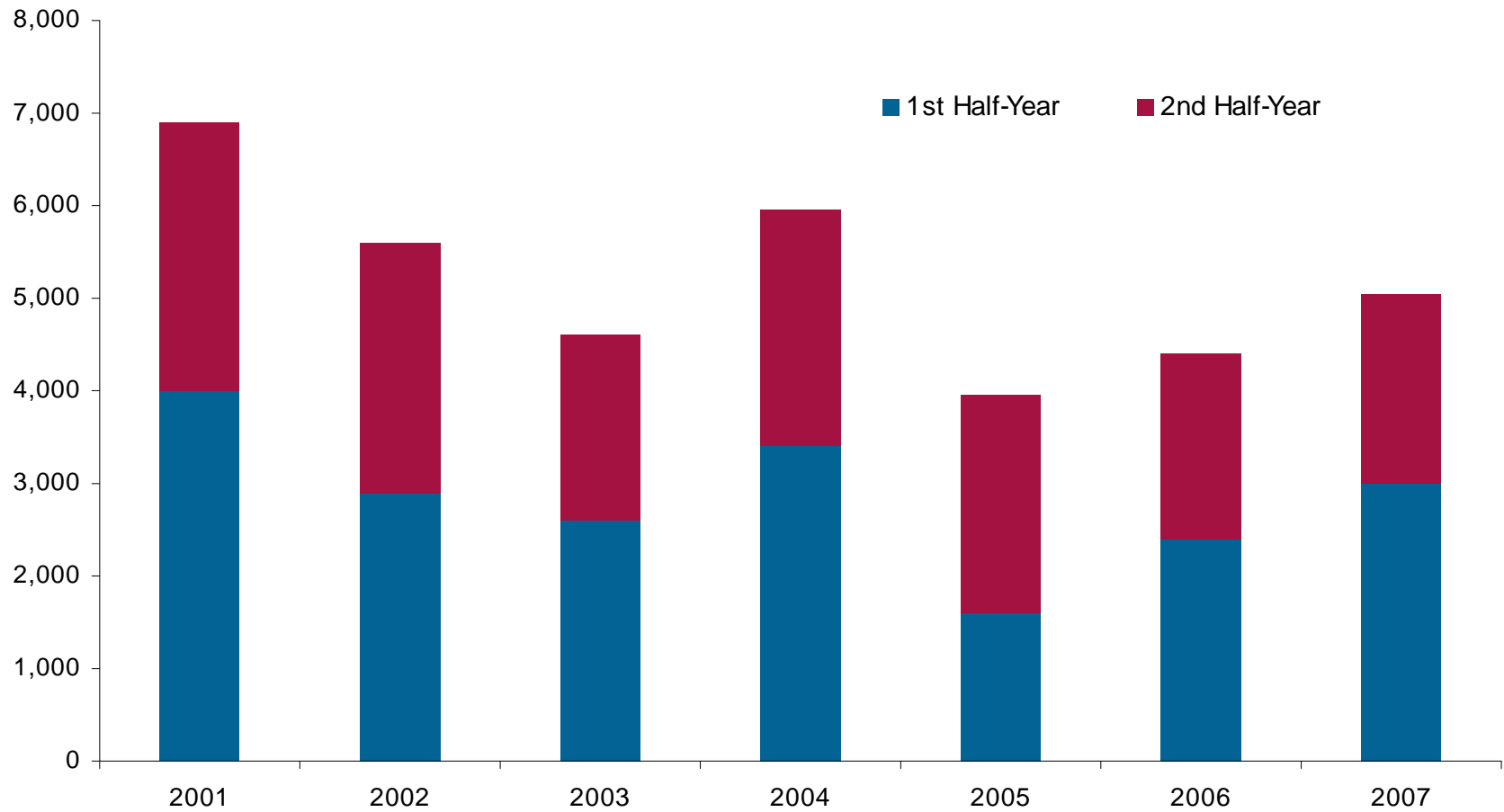
Chain Store Sales Trends U.S. 2000-2007



Source: ICSC; Heitman Research

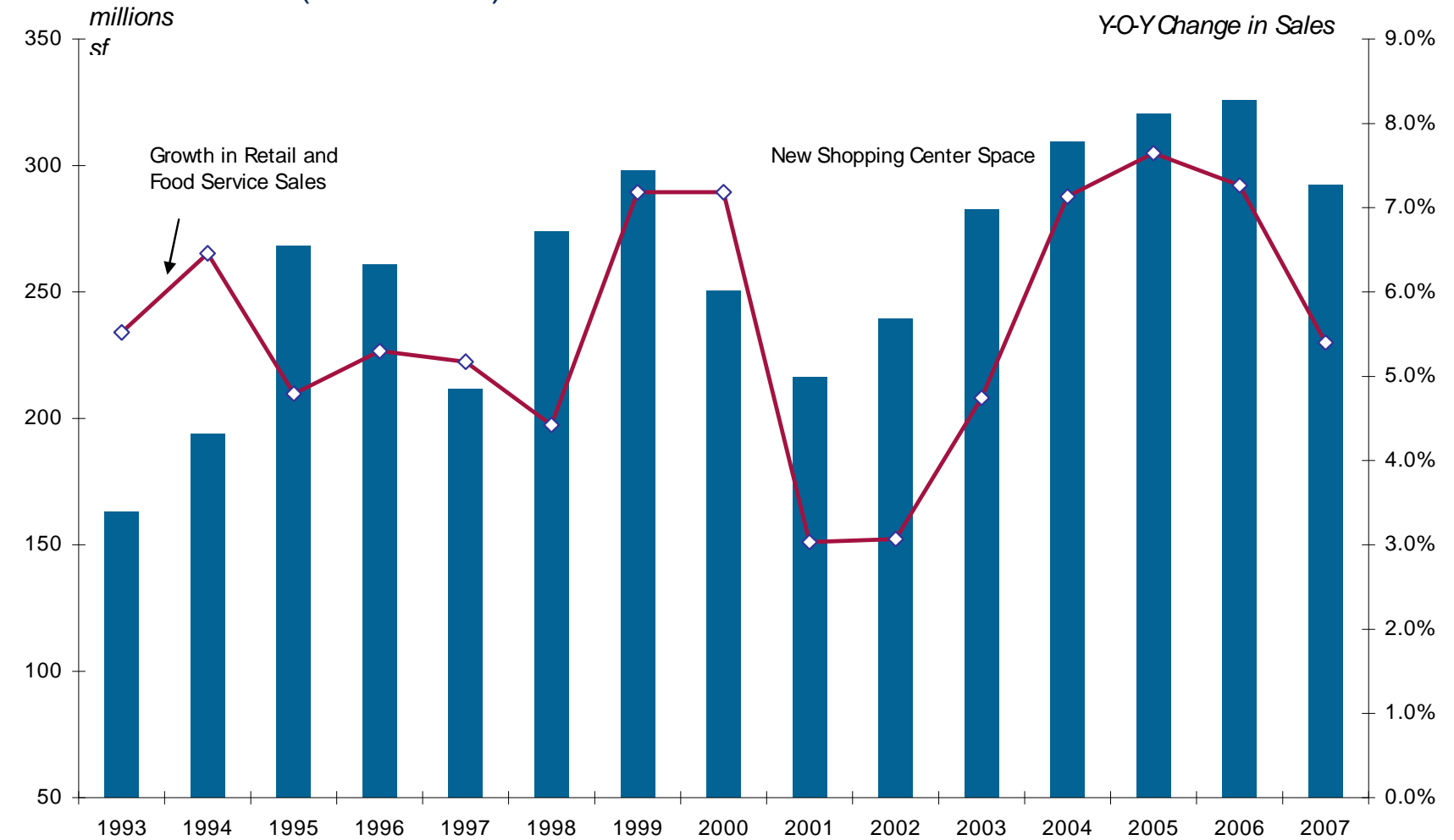
But Store Closings Trending Up

Store Closing Announcements
U.S. Retail Chains 2001-2007



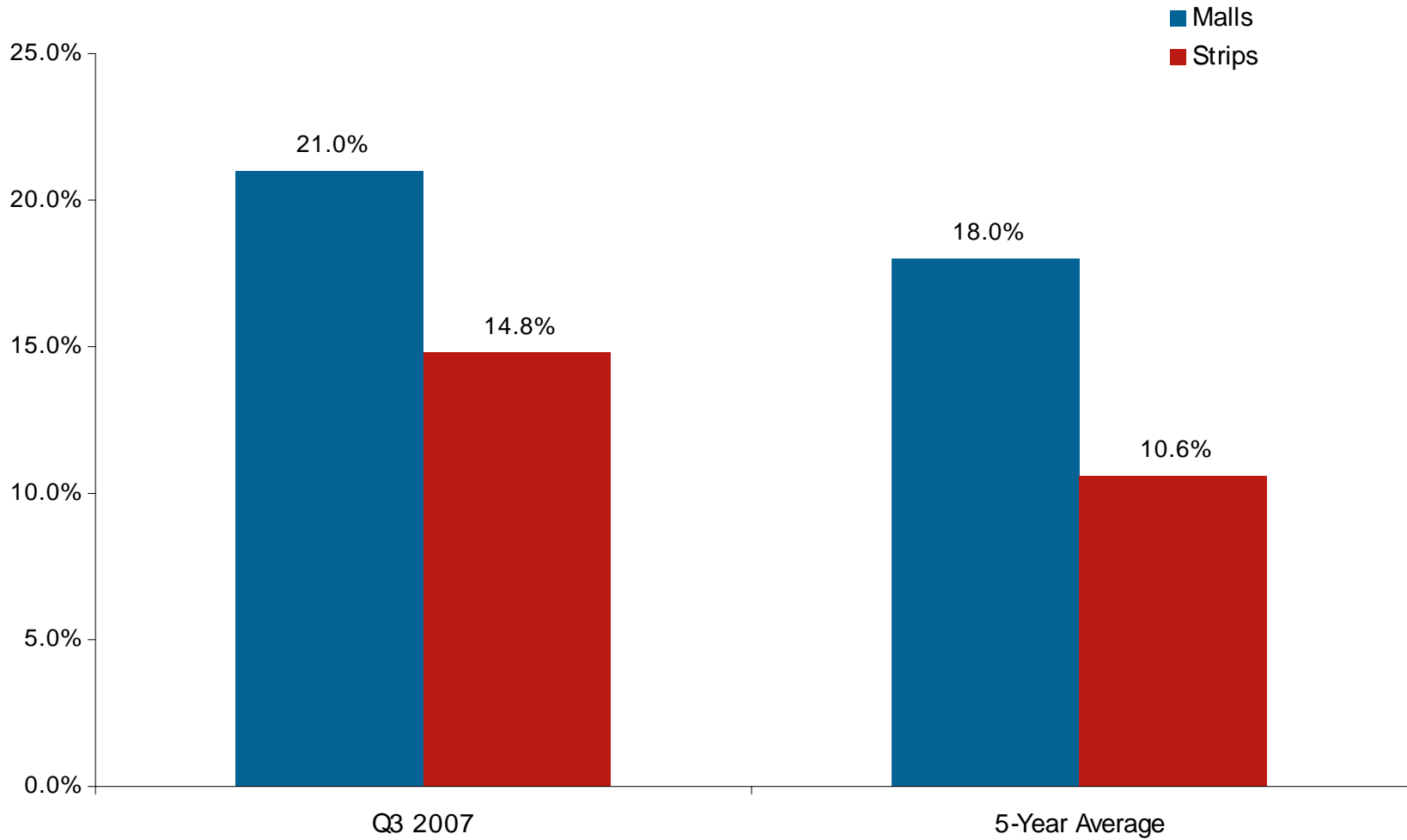
Source: ICSC, Chain Store Guide; Heitman Research

New Supply and Demand Growth U.S. 1993-2007 (Annualized)



Source: FW Dodge, ICSC; Heitman Research

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



Source: Green Street Advisors; Heitman Research

- Retail performance driven by submarket demographics and supply/demand characteristics and the tenant profile of an individual center, not metro economy
- Initial focus on in-fill trade areas with high relative household income
- As markets recover, expand focus to include green field sites
- Acquisition of neighborhood, community, power and lifestyle centers with high-performing tenants. Value-added strategies include expansion or redevelopment of well-located centers
- Explore acquisitions in secondary and tertiary economies

