



Real Estate Capital Markets Overview

January 2008

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Real Estate Capital Markets Overview

Introduction

- ◆ Boom Years – liquid credit markets fueled larger transaction volume

- ◆ Credit Crunch – significantly reduced appetite for risk

- ◆ Outlook – “back-to-basics”

- ◆ New reality – impact on your real estate business:
 - Availability of capital
 - Sources of capital
 - Pricing and underwriting
 - Changing M&A environment
 - Cautious public investors
 - Active private investors

The Boom Years

Background

- ◆ Monetary policy eased
 - Low interest rate environment
 - Increased liquidity
 - Aggressive underwriting
 - Availability of higher leverage capital

- ◆ Strong corporate cashflows

- ◆ Increased appetite for risk

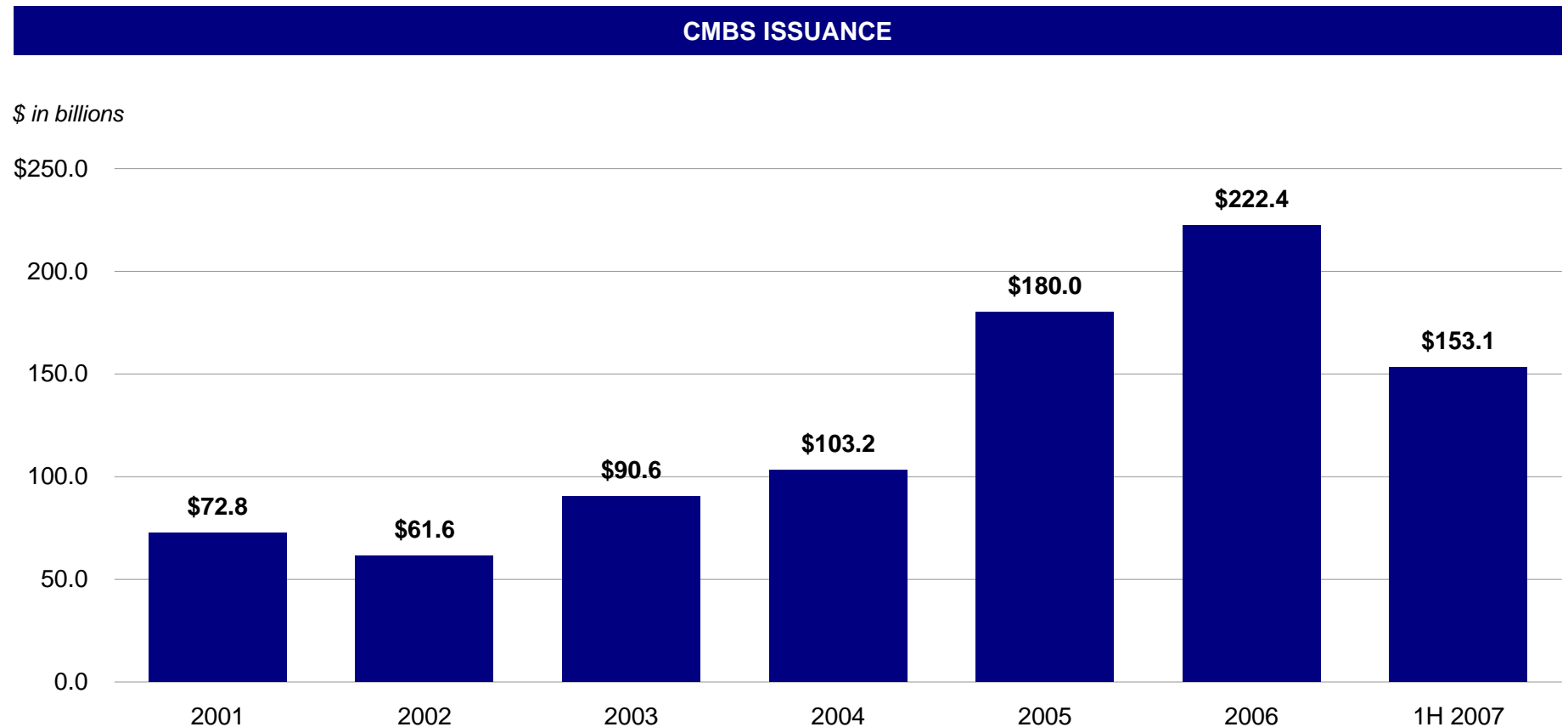
- ◆ Strong demand for real estate as an asset class

- ◆ Robust M&A environment

The Boom Years

CMBS Volume

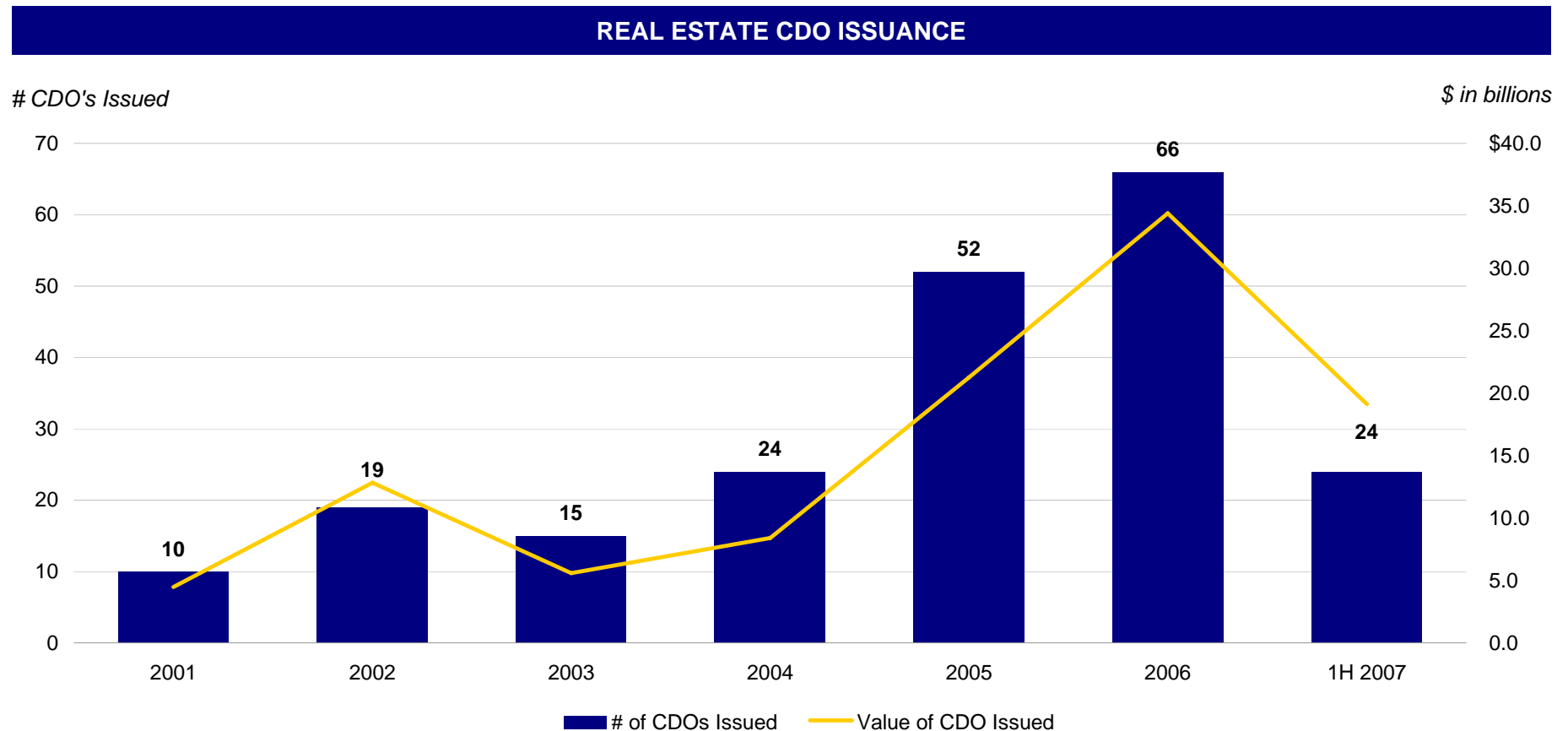
- ◆ CMBS volume increased markedly in recent years



The Boom Years

Real Estate CDO Volume

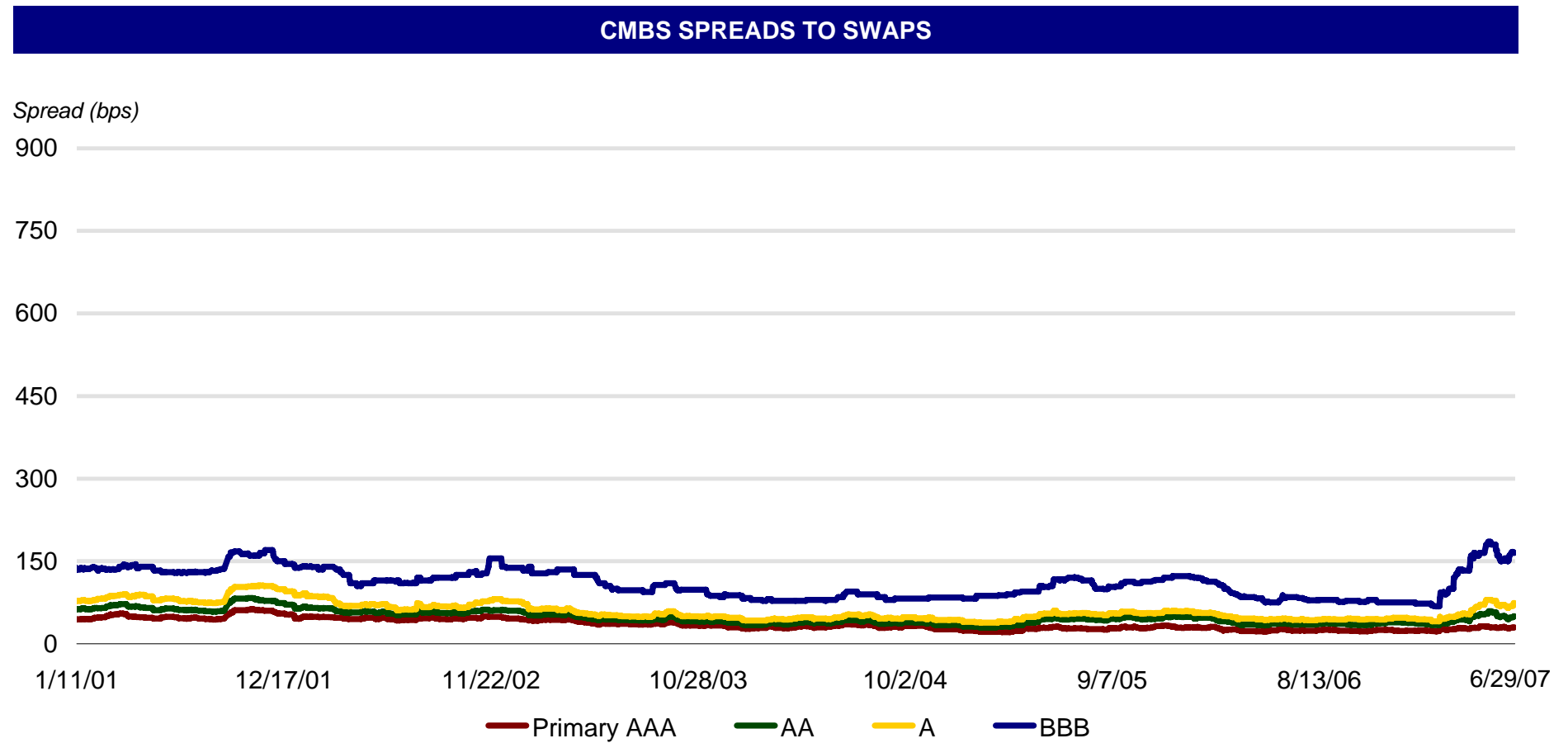
- ◆ Real estate CDO issuance helped fuel volume for CMBS and other real estate secured paper



The Boom Years

CMBS Spreads

- ◆ CMBS spreads decreased dramatically through the Spring of 2007



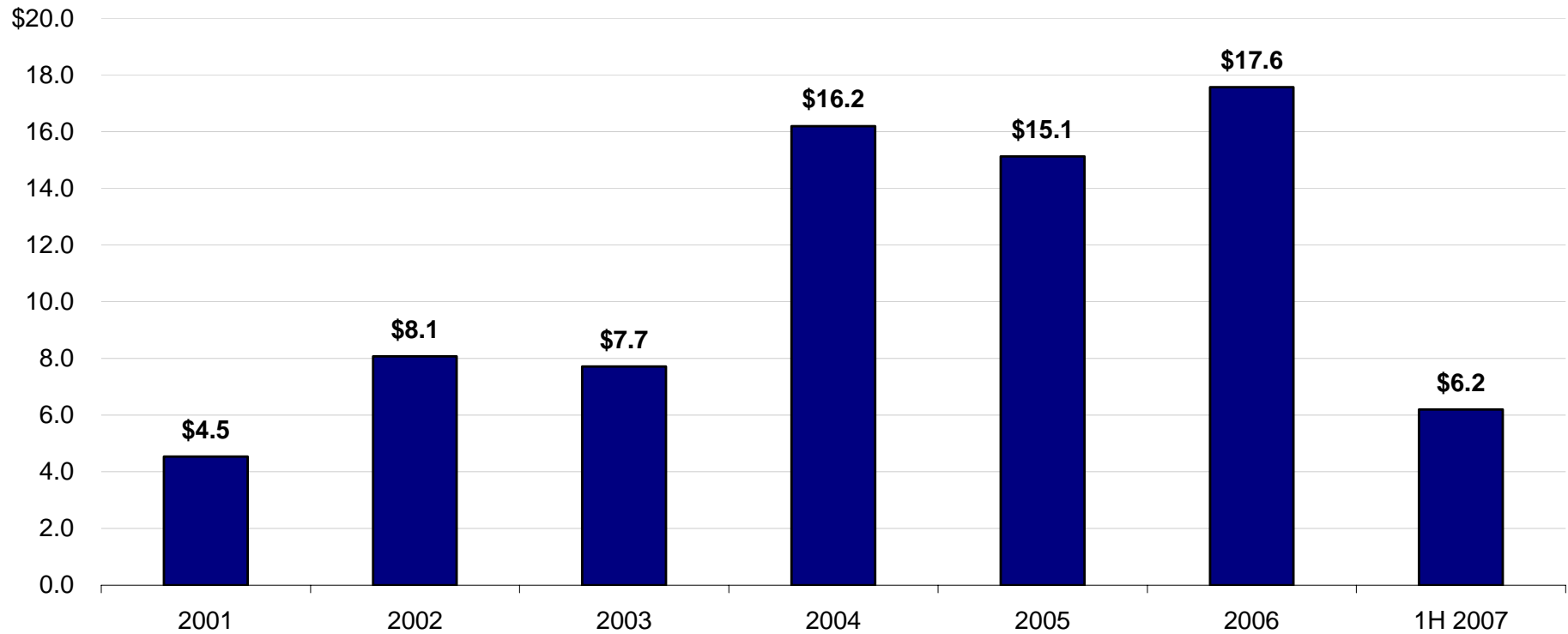
The Boom Years

Investment Grade Bond Volume

- ◆ The high grade bond market also grew to record levels

REAL ESTATE HIGH GRADE BOND ISSUE VOLUME

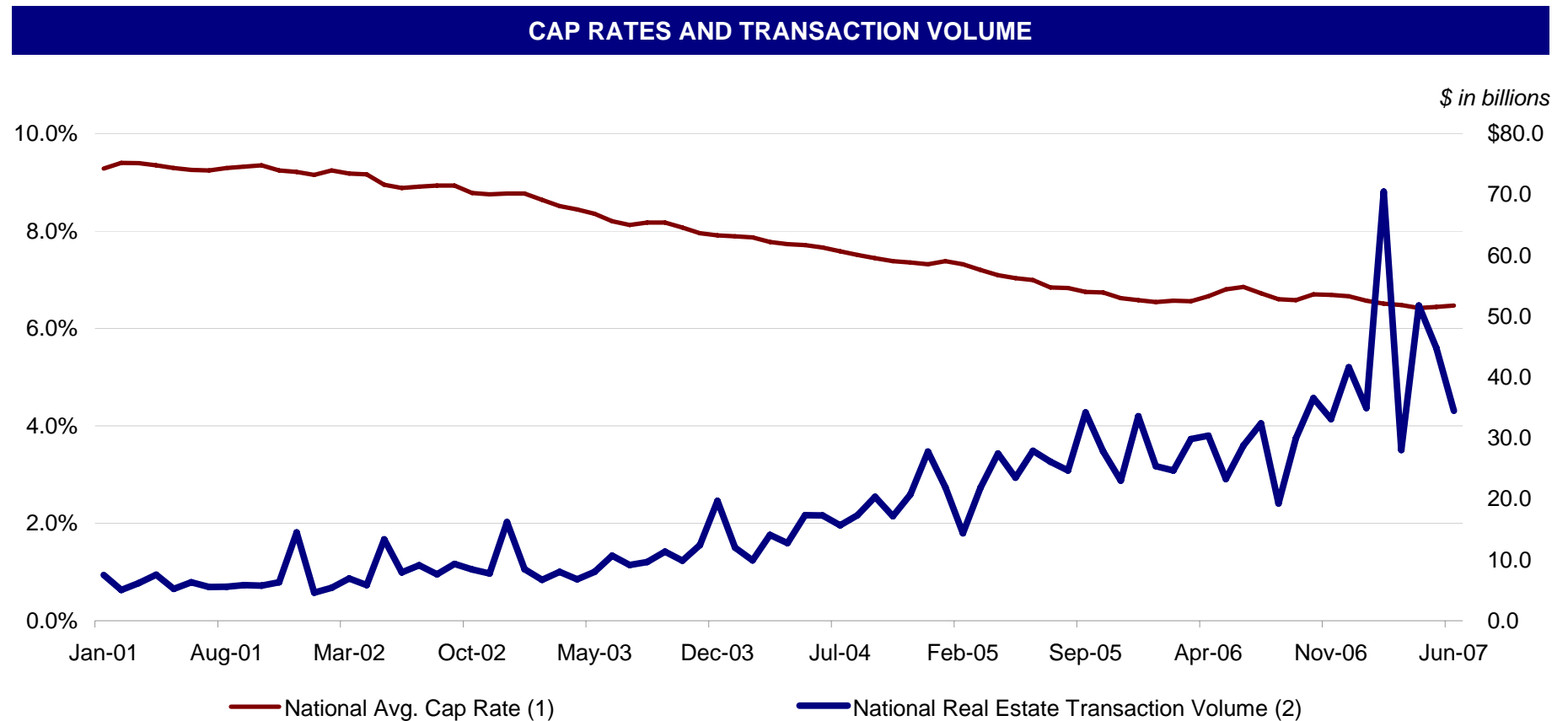
\$ in billions



The Boom Years

Real Estate Valuations

◆ Cap rates compressed as transaction volume increased



Source: Real Capital Analytics.

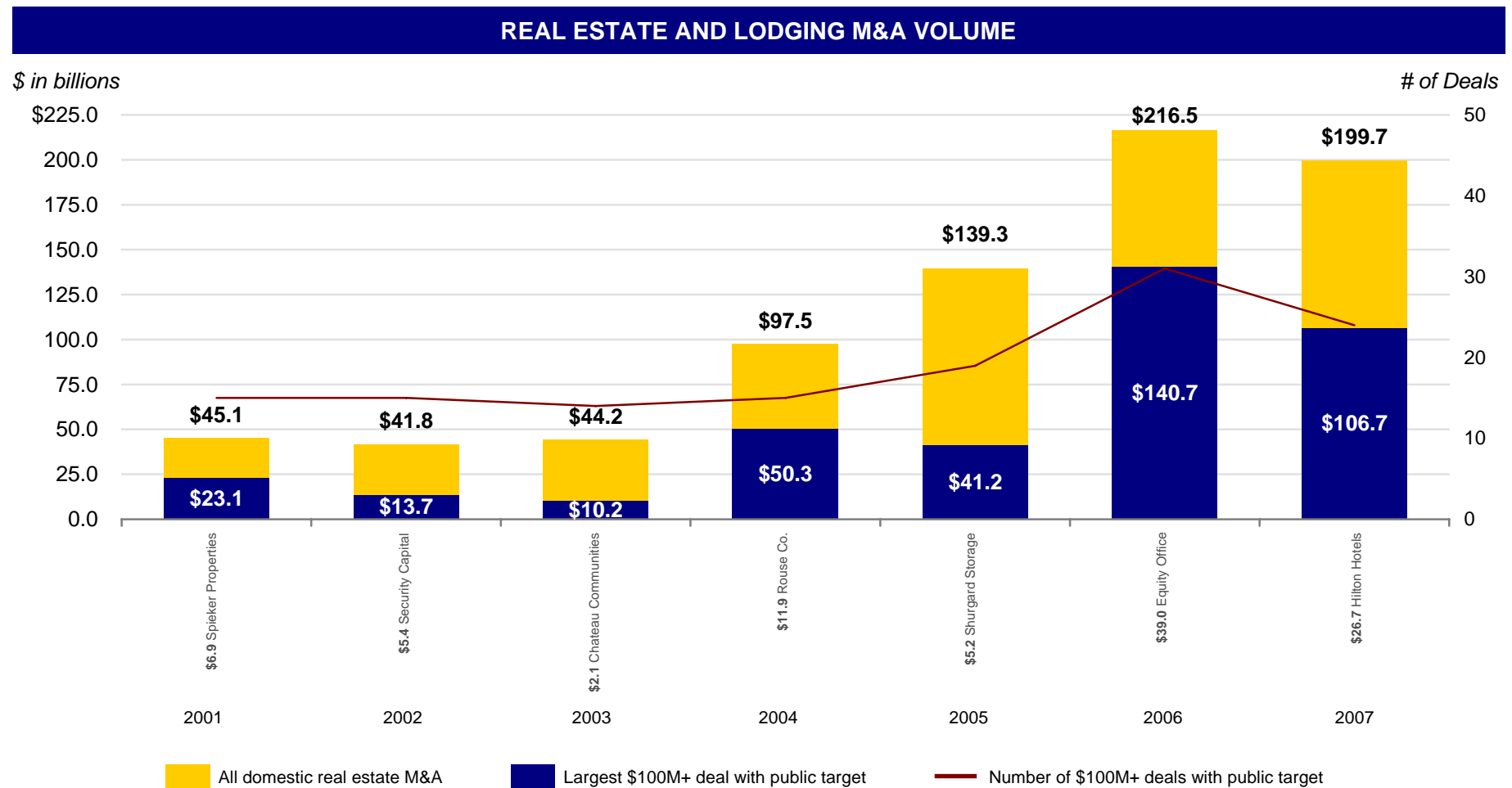
(1) Data shown as a 90-day rolling average based on properties and portfolios across all sectors \$5 million and greater per Real Capital Analytics.

(2) Data based on independent reports of properties and portfolios across all sectors \$5 million and greater per Real Capital Analytics.

The Boom Years

Real Estate M&A Activity

- ◆ Record M&A activity was catalyzed with readily available inexpensive debt financing

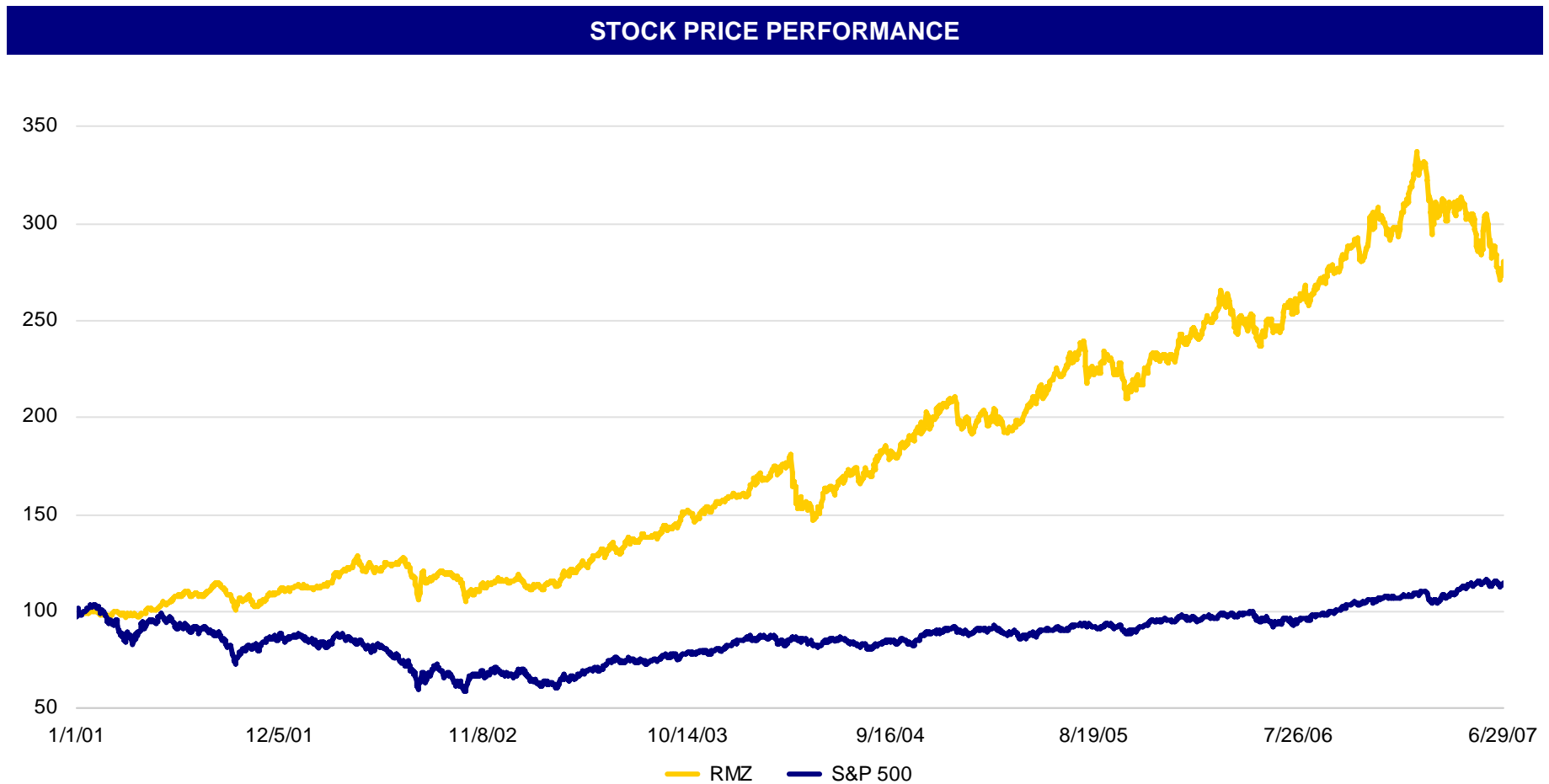


Source: Thomson Financial Securities Data Corporation as of 1/11/08.

The Boom Years

Real Estate Stock Price Performance

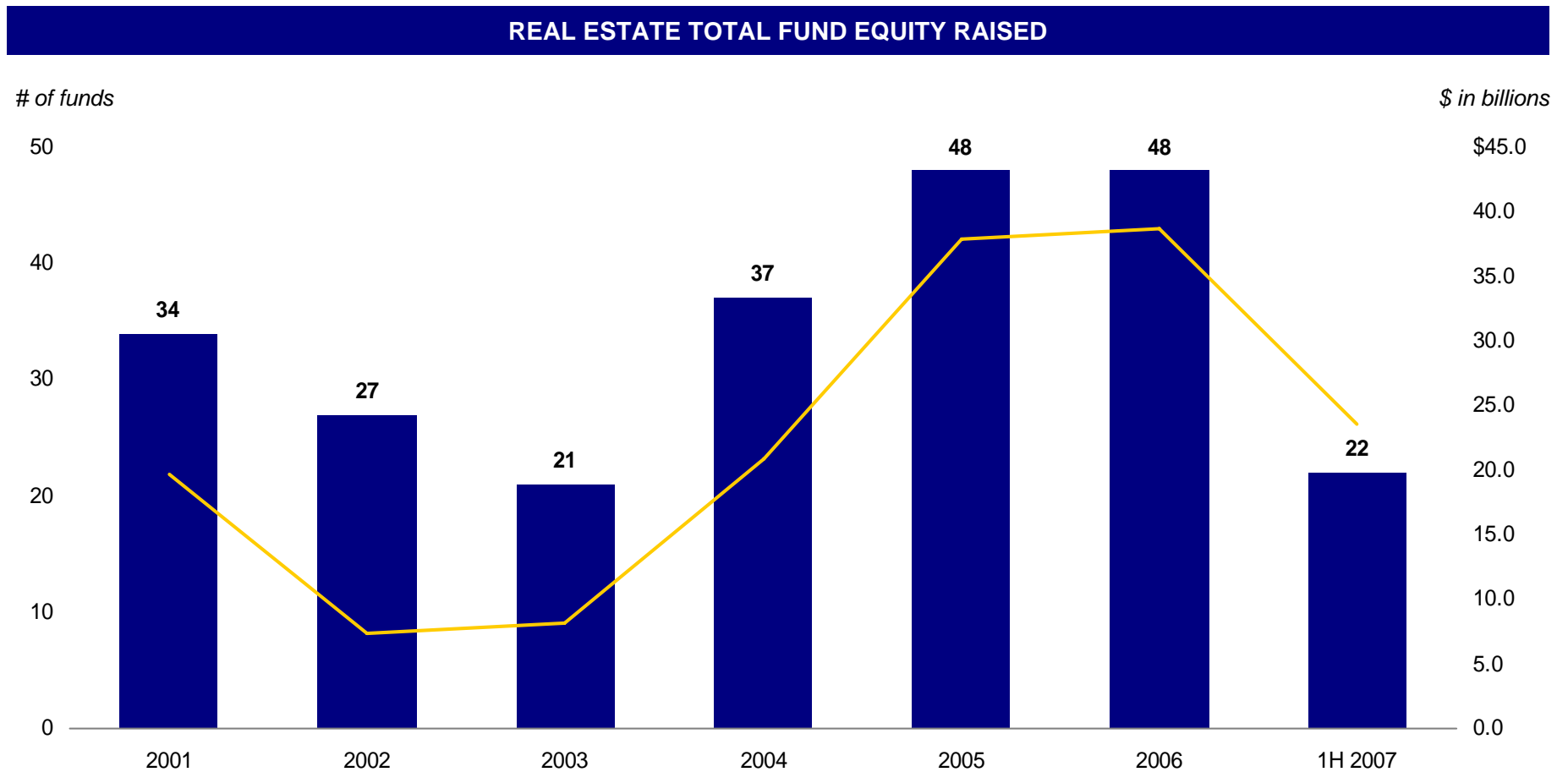
- ◆ As investors priced in a “take-out premium” and lower cap rates in the private markets, real estate stocks outperformed the broader markets



The Boom Years

Real Estate Private Equity

- ◆ The amount of private equity dollars allocated to real estate continued to increase



The Boom Years

Sources of Liquidity

| EQUITY | DEBT |
|--|--|
| <ul style="list-style-type: none">◆ Private equity funds◆ Bridge equity◆ Domestic institutions◆ Hedge funds◆ International investors◆ Public, unlisted REITs◆ 1031 investors◆ TICs◆ SPACs◆ IPOs | <ul style="list-style-type: none">◆ CMBS◆ Leveraged loans◆ Bridge debt◆ Mezzanine debt◆ Bonds: investment grade and high yield◆ CDOs◆ Hedge funds◆ Investment banks◆ Commercial banks◆ Life insurance companies |

Credit Crunch

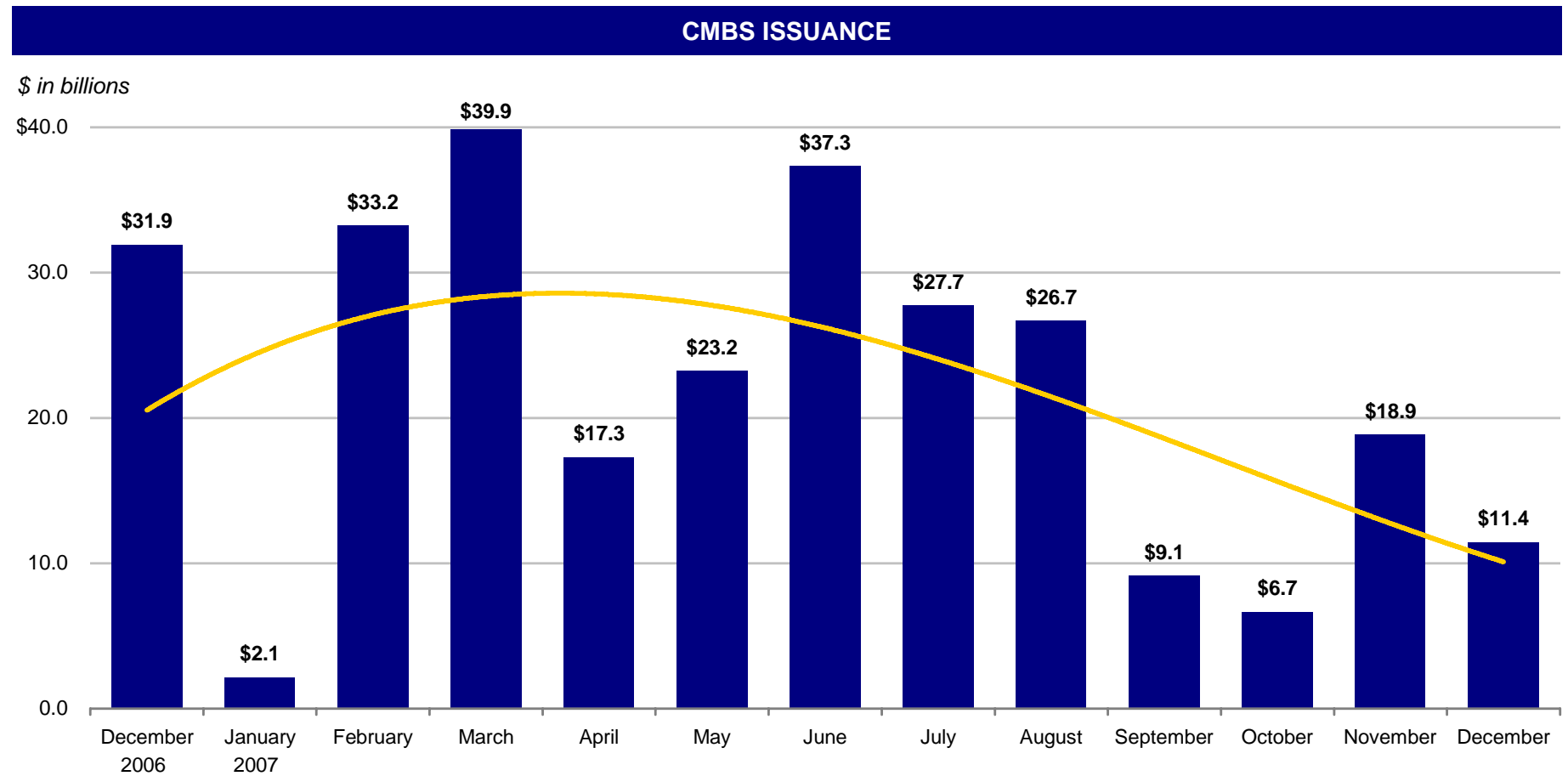
Selected Causes

- ◆ Housing slowdown – lower sales volumes / decelerating price appreciation in mid to late 2006
- ◆ Sub-prime mortgages – rising default rates in early 2007
- ◆ Financial contagion – losses appear unexpectedly throughout the global financial system
- ◆ Prominent “blow-ups” – Bear Stearns and UBS hedge funds
- ◆ Fear of the unknown – uncertainty regarding location and amount of exposure
- ◆ Short-term money seizure – significant reduction in short-term liquidity and inter-bank lending
- ◆ Re-pricing of risk – significantly reduced availability of credit and higher pricing

Credit Crunch

CMBS Volume

◆ CMBS volume turned down sharply

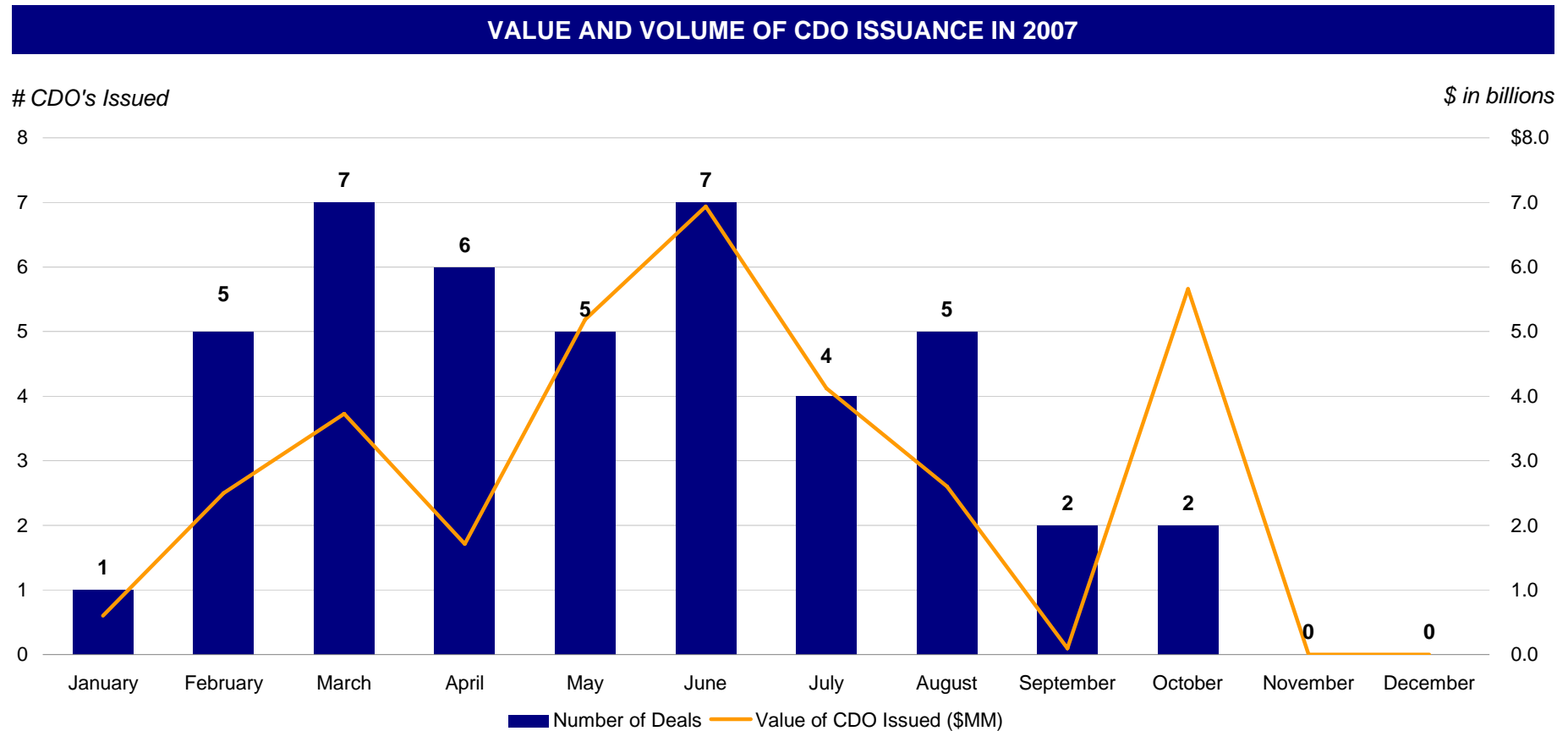


Source: Intex, Bloomberg, CMAAlert, CRENews, ABAAlert, Thomson and InformaGM as of 1/14/08.

Credit Crunch

CDO Volume

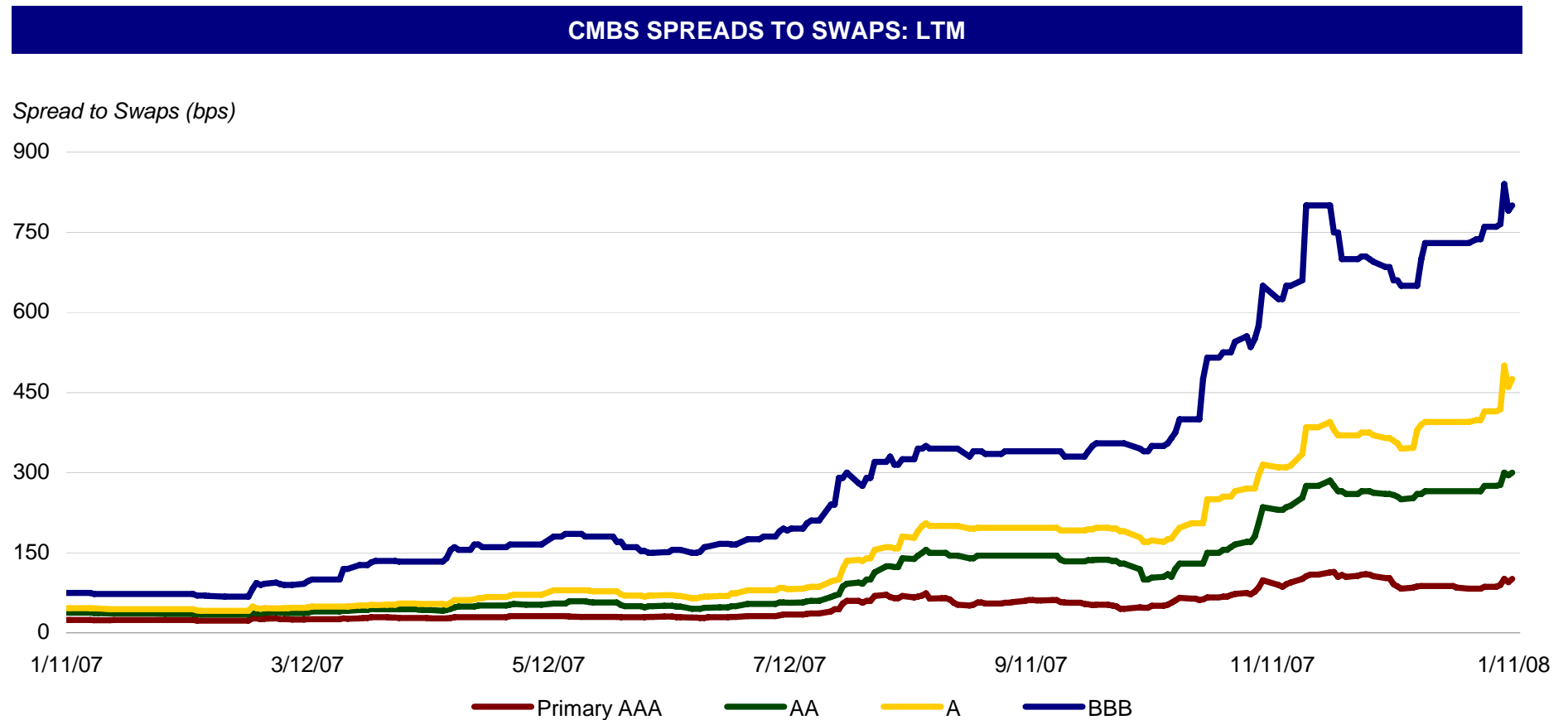
◆ CDO issuance ceased



Credit Crunch

CMBS Spreads

◆ CMBS spreads spiked dramatically



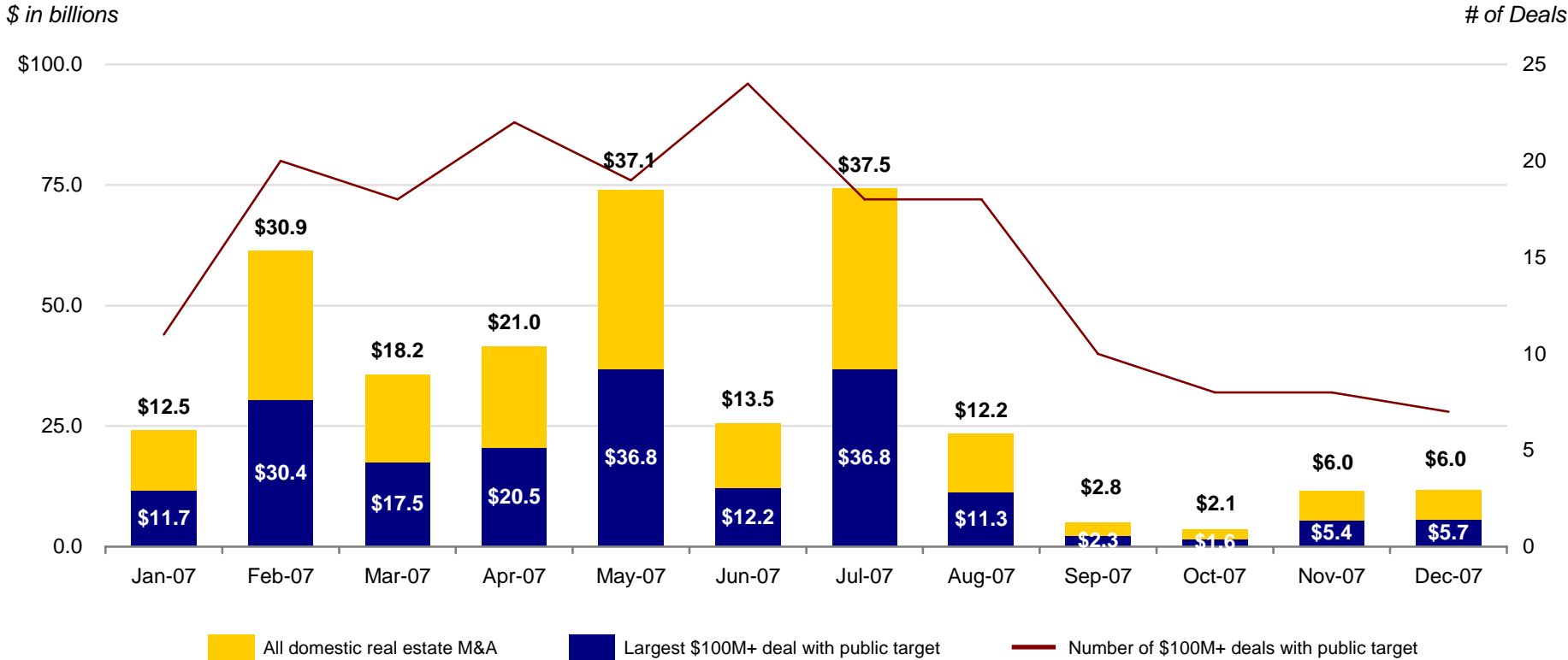
Source: Publicly available information as of 1/14/08.

Credit Crunch

Real Estate M&A Activity

◆ M&A volume slowed significantly

REAL ESTATE AND LODGING M&A VOLUME



Source: Thomson Financial Securities Data Corporation as of 1/11/08.

Credit Crunch

Equity Market Volatility

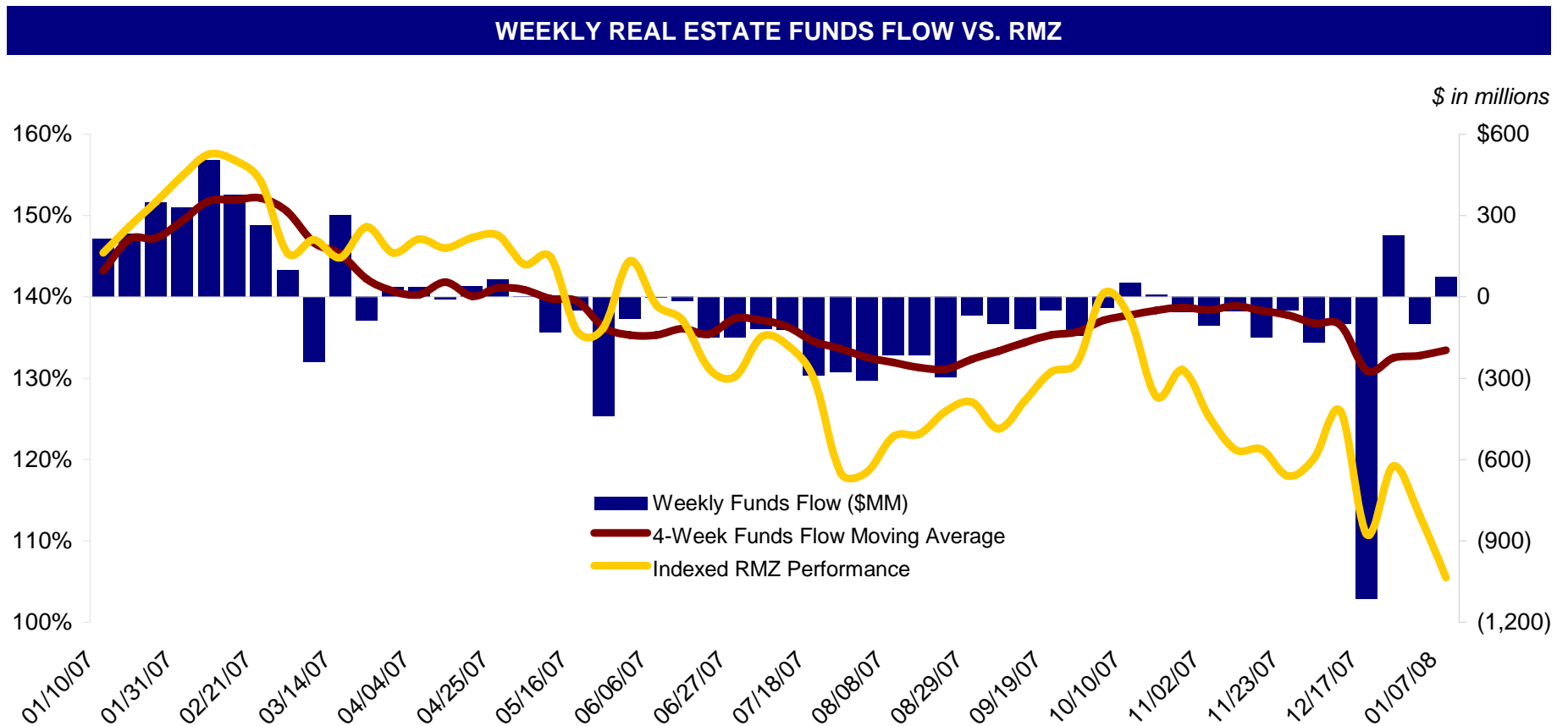
- ◆ Overall market volatility has risen sharply



Credit Crunch

Real Estate Funds Flow

- ◆ Public investors have been exiting the real estate sector

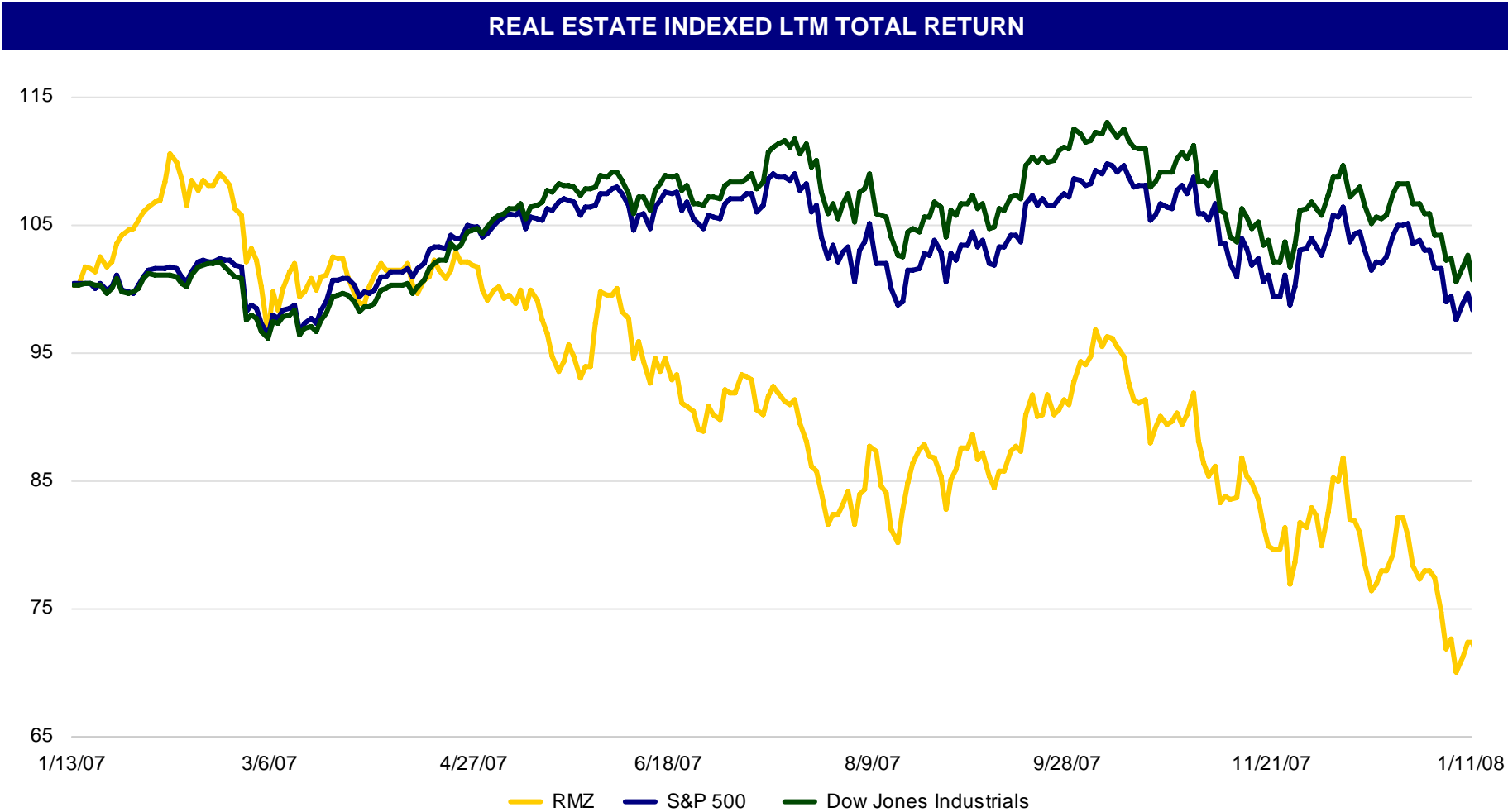


Source: FactSet and AMG Data Transfer as of 1/14/08.

Credit Crunch

Real Estate Stock Price Performance

◆ Real estate stocks have experienced significant declines in line with entire financial sector

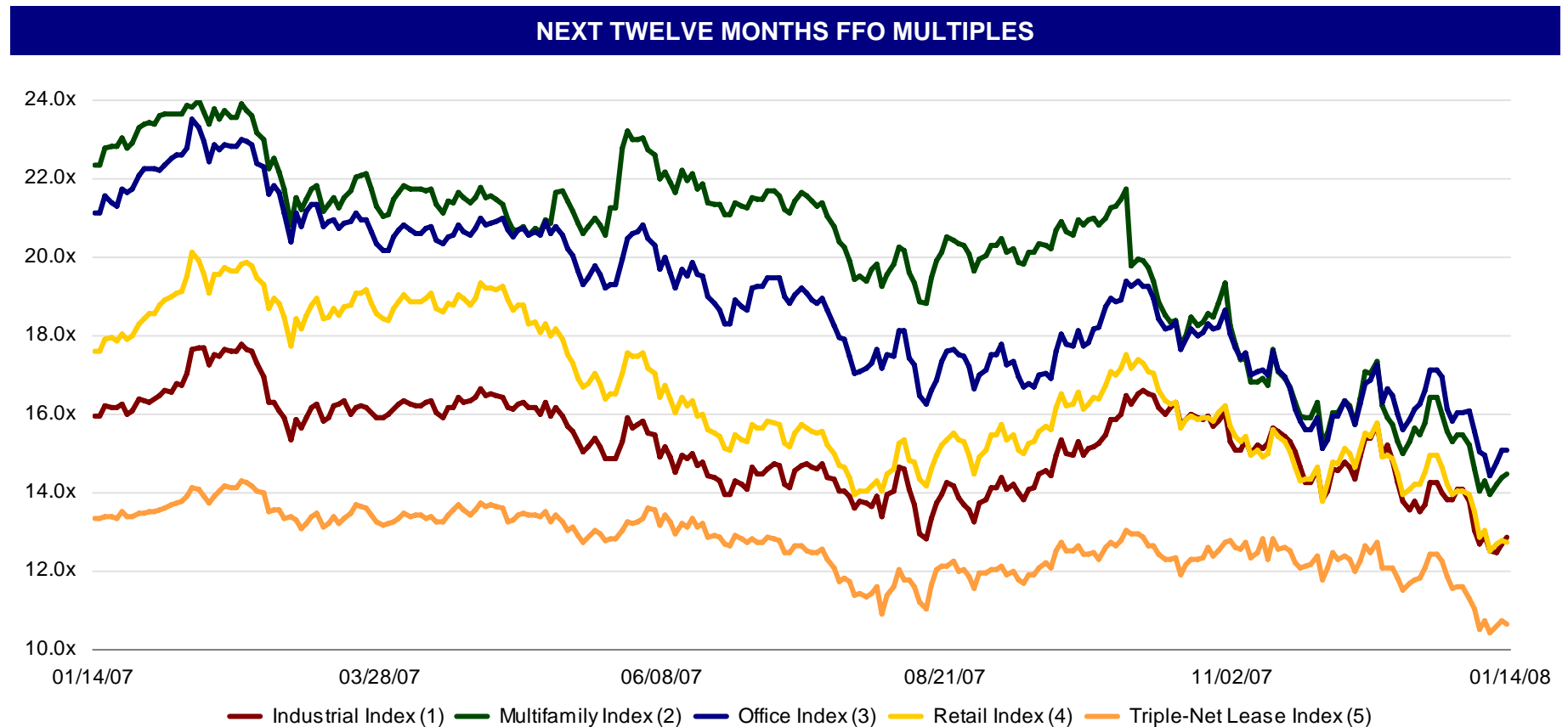


Source: FactSet Research Systems as of 1/13/08.

Credit Crunch

Public Real Estate Valuation

- ◆ Public real estate valuations have declined implying higher cap rate expectations and reduced M&A volume



Source: FactSet and Bloomberg as of 1/14/08.

(1) Industrial Index includes: AMB, EGP, FR and PLD.

(2) Multifamily Index includes: AEC, AIV, AVB, BRE, CLP, CPT, EQR, ESS, HME, MAA, PPS and UDR.

(3) Office Index includes: ARE, BDN, CLI, DLR, HIW, IUR.U, HRP, OFC, PKY, BPO, BXP, CEI, CUZ, MPG, SLG and VNO.

(4) Retail Index includes: AKR, BFS, CDR, DDR, EQY, FRT, KIM, KRG, REG, RPT, UBA, WRI, CBL, GGP, GRT, MAC, PEI, SKT, SPG and TCO.

(5) Triple-Net Lease Index includes: EPR, GTY, LXP, MNRTA, NNN, O, OLP, WPC.

Credit Crunch

Sources of Liquidity

| EQUITY | DEBT |
|--|--|
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Current Environment

New Reality

- ◆ More cautious credit environment
- ◆ Fewer sources of debt capital
- ◆ Continued availability of equity capital
- ◆ Shift of M&A activity
- ◆ Increasing distress

Current Environment

Cautious Credit Environment

- ◆ General re-pricing of risk – higher spreads
- ◆ More conservative underwriting – coverage ratios, growth expectations
- ◆ Lower leverage – loan-to-value ratios
- ◆ Less availability
- ◆ More equity required

Current Environment

Fewer Sources of Debt Capital

- ◆ Banc of America Securities (“BAS”) believes that the capital markets will provide limited liquidity
 - Continued write-downs
 - Investor wariness
 - Bloated inventories

- ◆ Bank and life companies continue to lend to varying degrees
 - Borrowers have flocked to these capital sources
 - Balance sheets are constrained
 - Flight to quality

- ◆ Demand for debt financing exceeds supply
 - Client selection is critical
 - Structures more conservative
 - Upward pressure on pricing and fees

- ◆ New sources of capital are forming

Current Environment

Equity Capital Remains Available

- ◆ Equity more readily available than debt financing
 - Private equity motivated to invest existing capital
 - Institutional investors continue to allocate capital to the sector
 - International investors seeking opportunities
 - Retail investors continue to seek yield

- ◆ Continued disconnect between public and private equity markets
 - Fund outflows from REIT sector
 - Public market valuations below NAV

- ◆ Institutional investors may be more selective with their capital
 - Experienced, successful sponsors
 - Best locations
 - Highest quality assets

Current Environment

Shifting M&A Markets

- ◆ Lower transaction volume
 - Relative dearth of debt financing
 - Wider bid / ask spread

- ◆ Changing investor profile
 - Highly leveraged buyers out of the market
 - Well-capitalized investors have competitive advantage

- ◆ BAS expects M&A activity to be driven by:
 - Strategic buyers
 - Cash / low leverage buyers
 - International investors
 - Opportunistic buyers focused on distressed situations