



The Best, the Distressed, and the Rest

Presented by:

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Principles for Today

- Re-set expectations
- Re-pricing vs. liquidity
- Think about the alternatives
- There is market trifurcation
 - CRE: top tier, distressed, and the rest

The Global Environment

- Massive asset devaluation
 - In 2008, global financial market losses reached approximately \$50 trillion
 - Asian Development Bank (ADB)
- Accelerated deleveraging
- Continued re-pricing
- Unprecedented times for our generation

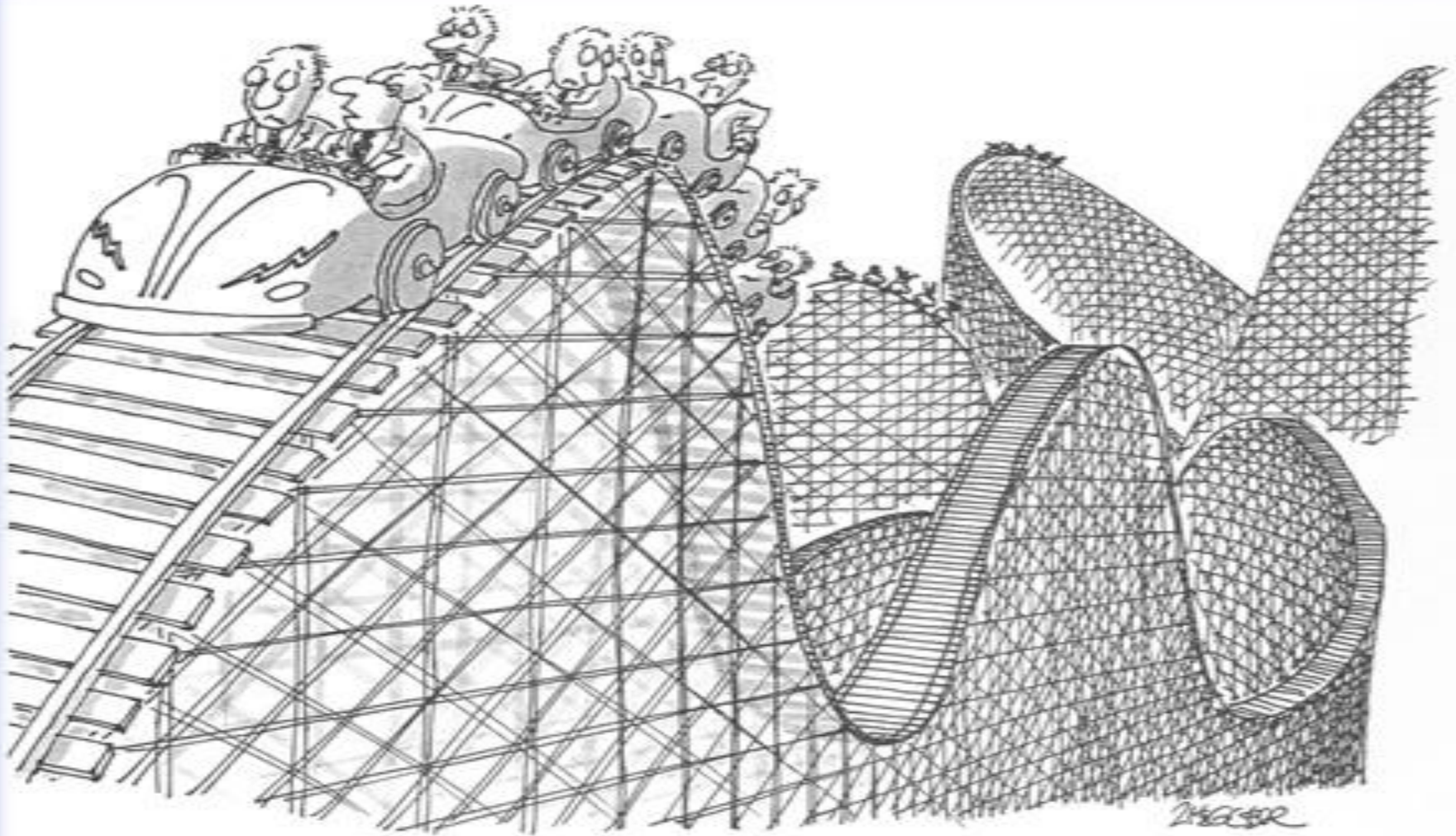


Change Your Opinion

“The difficulty lies not so much in developing new ideas as in escaping from old ones.”

- John Maynard Keynes

It is all about Expectations!



"Dow Jonesy enough for you?"

Reset Expectations

- There is positive job growth
 - U.S. added 860,000 jobs from January to October 2010, after shedding over 8.2 million jobs from 2008 to 2009
- U.S. companies are highly profitable
- The Fed is and will be very accommodative

Waiting for Improvement

- Housing market continues to struggle
- Consumer and business sentiment remains weak
- Foreclosure crisis continues on
 - “Strategic defaults...are now over 20% of defaults.”
 - Moody’s Analytics

Optimist

New definition of an optimist:

“Things are so bad now they
can’t get any worse!”

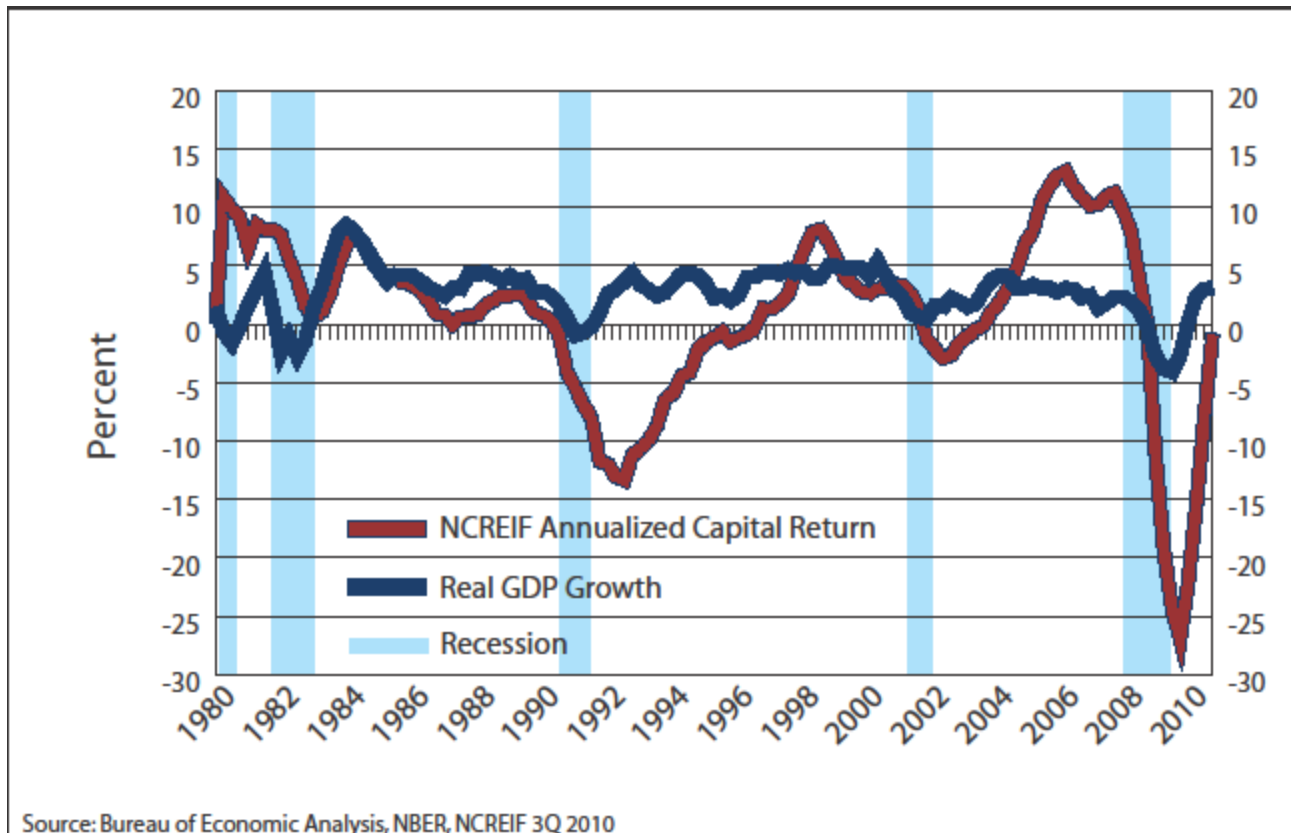
(It is going to take time to work through!!!)

“Vuja De”

“...It's the distinct sense that something that just happened has never happened before. Nothing seems familiar and suddenly the feeling is gone.”

- George Carlin

Economic Recessions and Value Changes, 1980-2010



1990s vs. this Cycle

- 1990s: no liquidity for CRE at any price
- 1990s: out of sync with alternatives
- Excess supply with massive over-leverage (It was like a casino!) 120% LTVs
- Fundamentals were deplorable: Prices at 35% of replacement costs
- NYC almost bankrupt; 20% obsolescence in retail sector

The Rest of the Story

- CRE risk for banks remains high
 - Hidden issues in smaller bank systems
- Downgrades of internal ratings remain high
 - Up to 3 years to correct
- Increasing levels of troubled loans
- Refinancing is high-risk element to recovery

What Are the Alternatives Like?

Compounded Annual Rates of Return as of 9/30/2010

Market Indices	YTD	3-Year	5-Year	10-Year	15-Year
Consumer Price Index ¹	0.38%	1.55%	1.90%	2.32%	2.40%
10-Year Treasury Bond ²	3.33%	3.46%	3.97%	4.23%	4.81%
Dow Jones Industrial Average	0.38%	-6.96%	2.09%	2.00%	7.52%
NASDAQ Composite ³	4.38%	-4.29%	1.94%	-4.29%	5.62%
NYSE Composite ³	1.34%	-10.15%	-0.94%	0.38%	5.39%
S&P 500	3.89%	-7.16%	0.64%	-0.43%	6.45%
NCREIF Index	8.12%	-4.61%	3.67%	7.25%	8.91%
NAREIT Index (Equity REITS)	19.10%	-6.06%	1.88%	10.38%	10.31%

¹Based on the published data from the Bureau of Labor Statistics (Seasonally Adjusted).

²Based on Average End of Day T-Bond Rates.

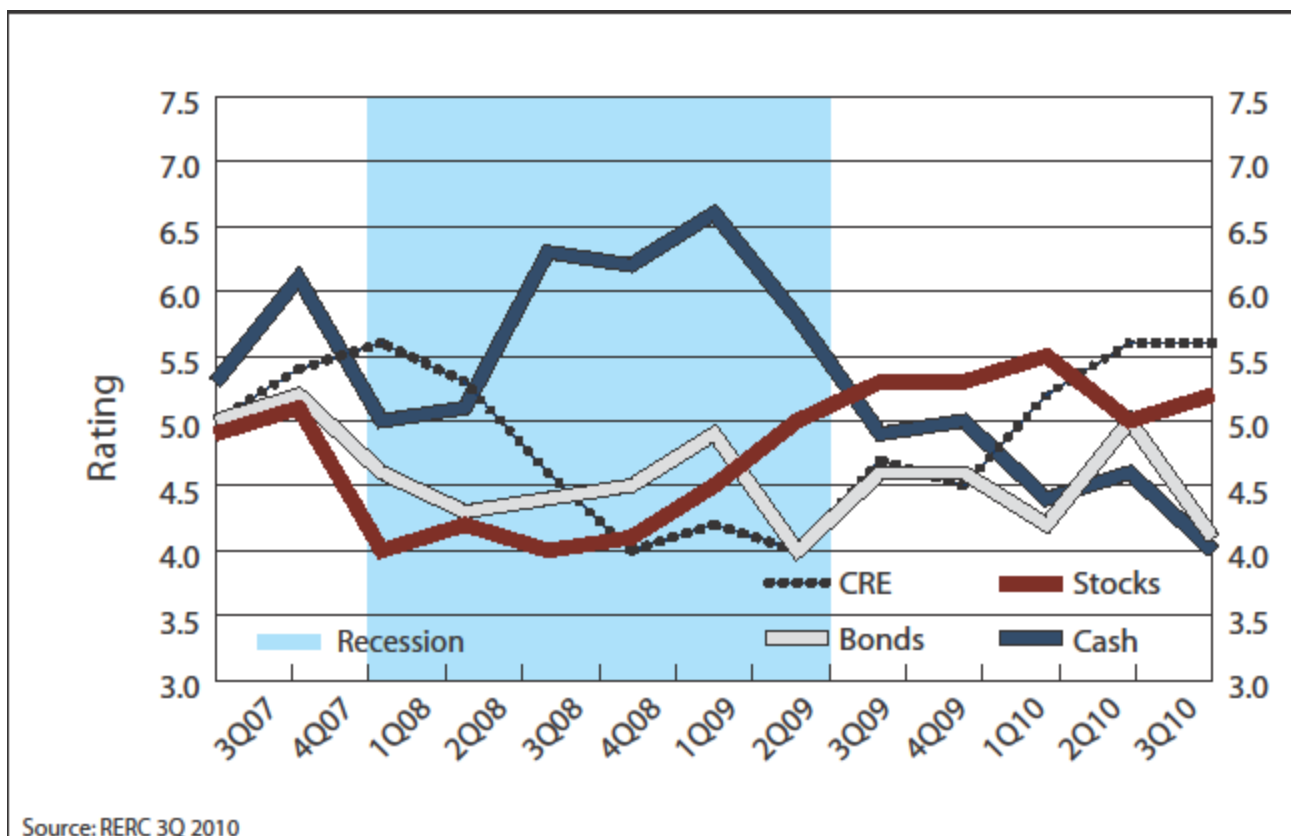
³Based on Price Index, and does not include the dividend yield.

Sources: BLS, Federal Reserve Board, S&P, Dow Jones, NCREIF, NAREIT, compiled by RERC.

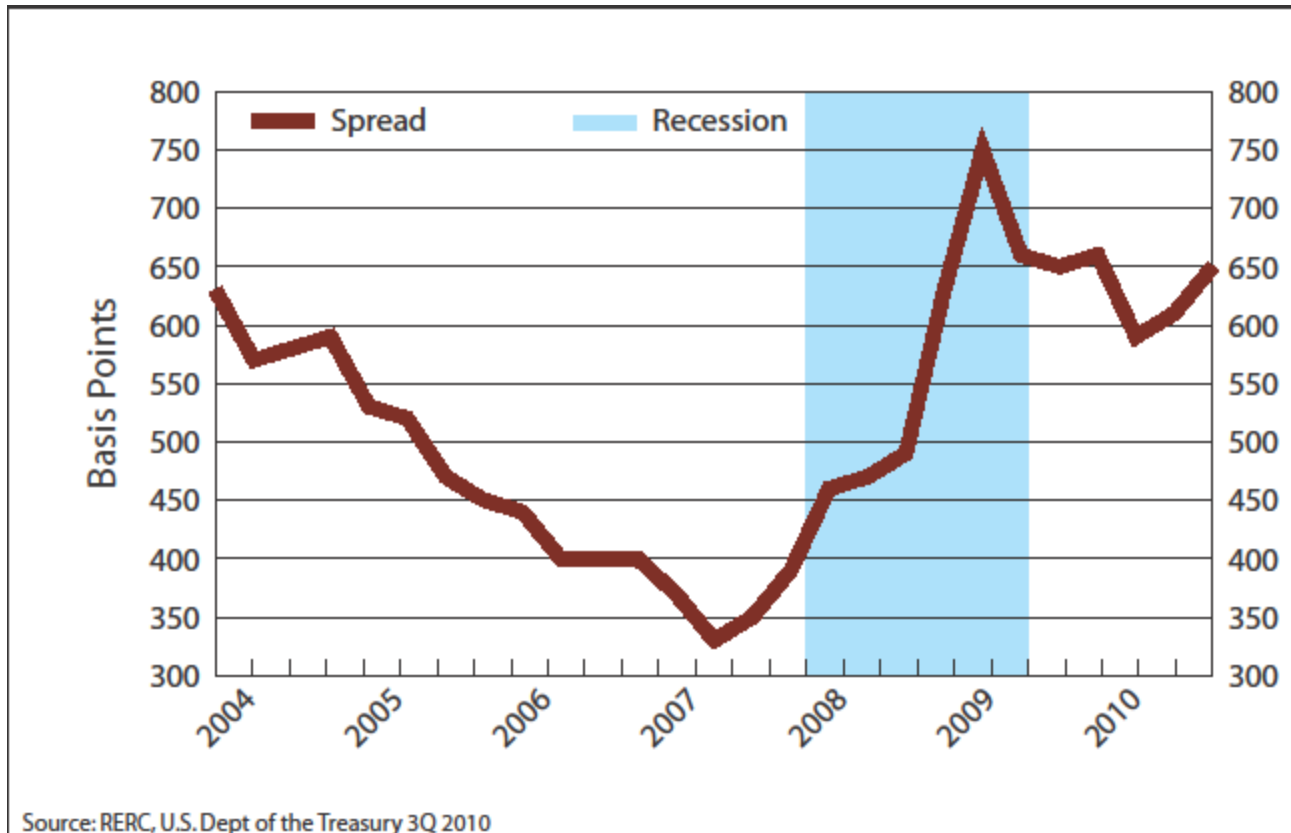


**"MY STOCKS DON'T GO UP OR DOWN. THEY GO
CLOCKWISE LIKE WATER GOING DOWN THE DRAIN!"**

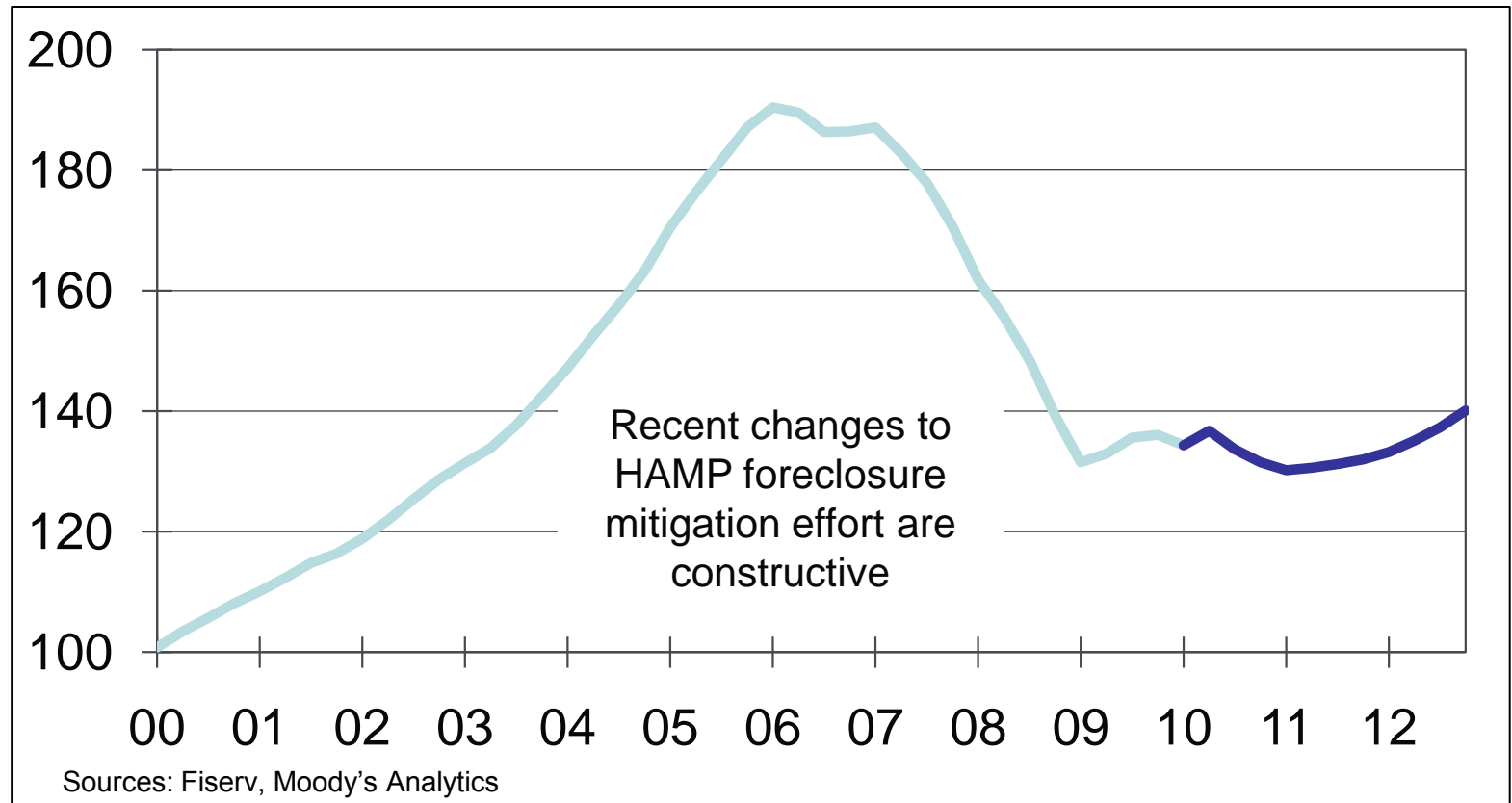
CRE vs. Investment Alternatives



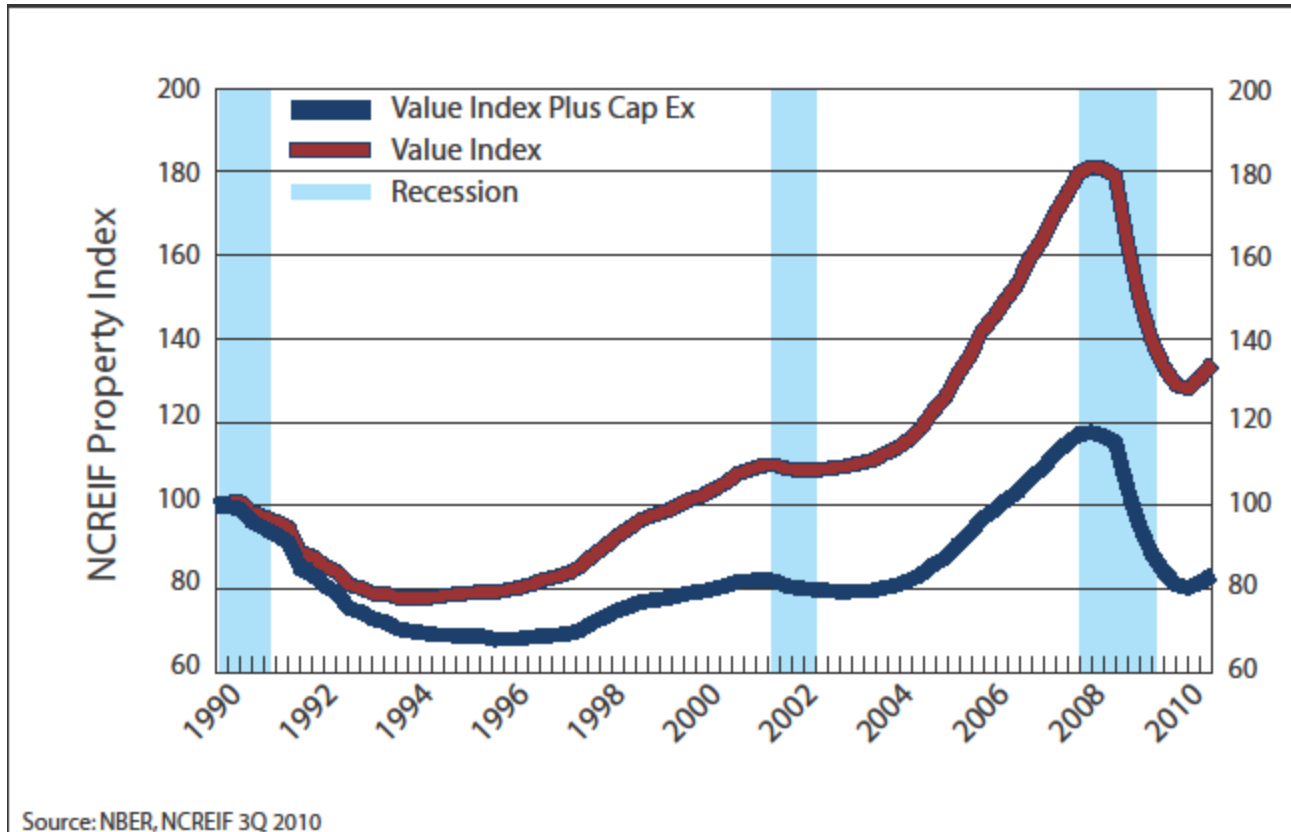
RERC IRRs vs. 10-Year Treasuries (Basis Points)



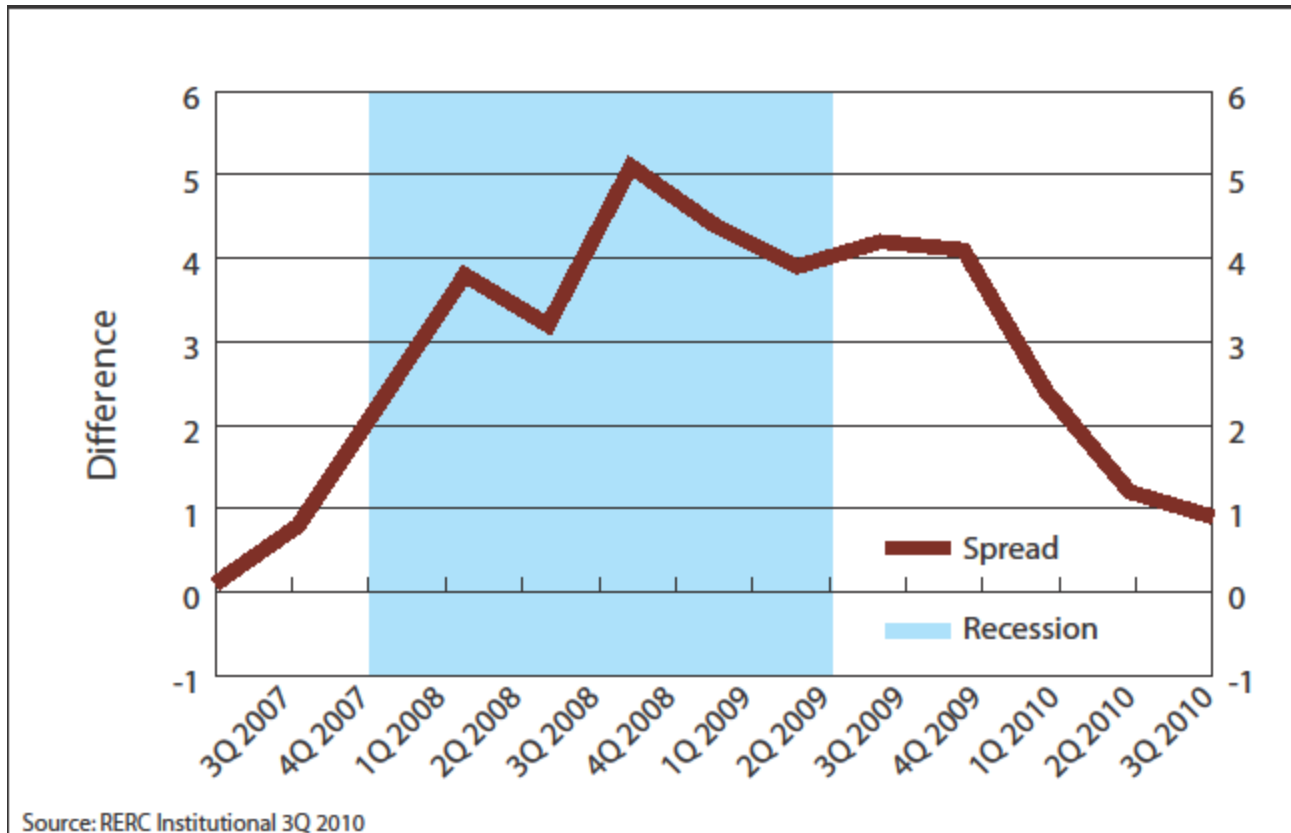
Case-Schiller[®] Home Price Index (1st Q 2000=100)



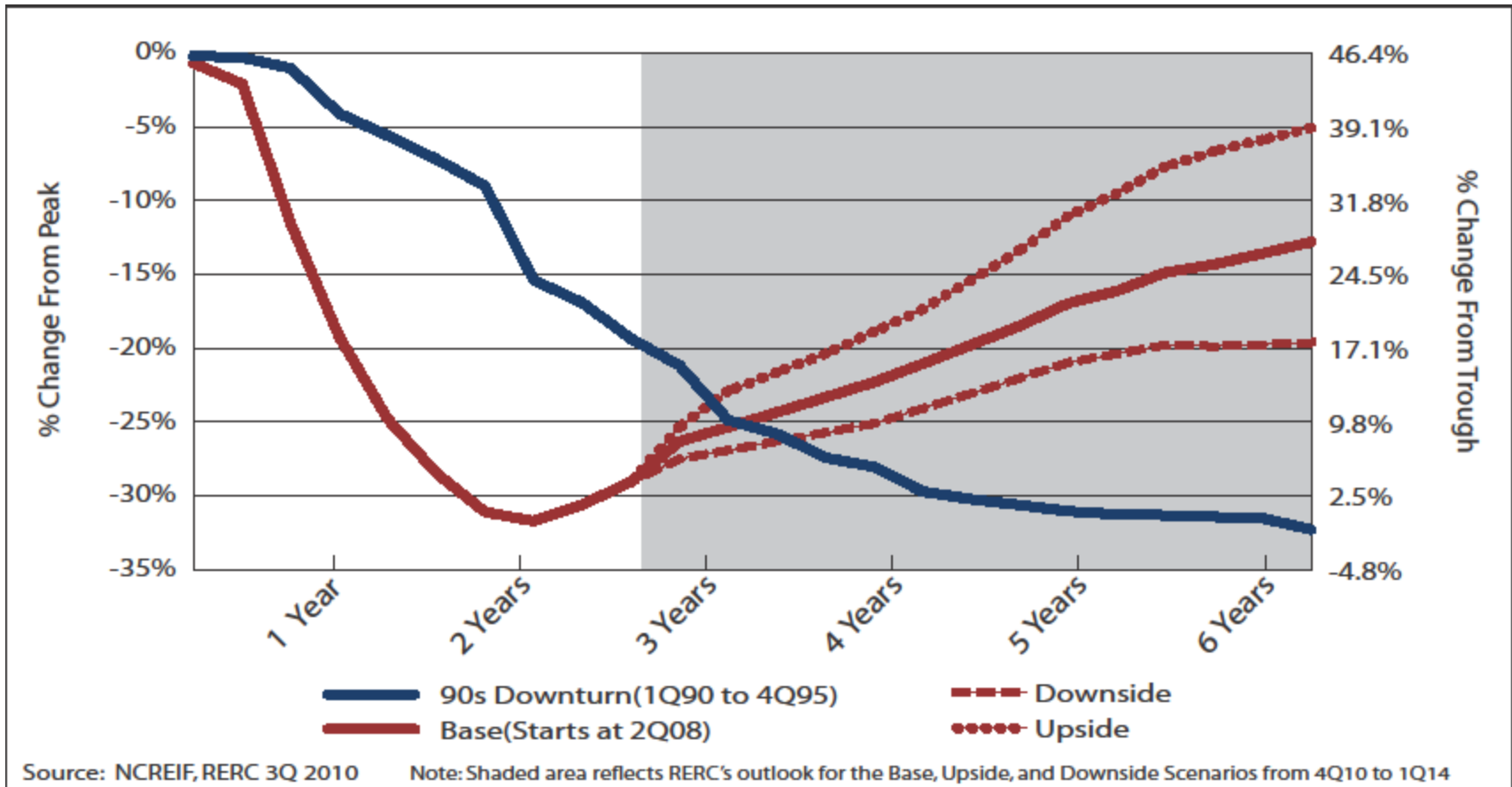
NCREIF Value Index and Value Index Plus Cap Ex (1st Q 1990=100)



Availability vs. Discipline of Capital



NCREIF Value Outlook



Thank You!

“Betting against the United States has not worked since 1776.”

-Warren Buffet