

Commercial Real Estate, Capital Markets and the Macroeconomy

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UCLA Anderson School of Management

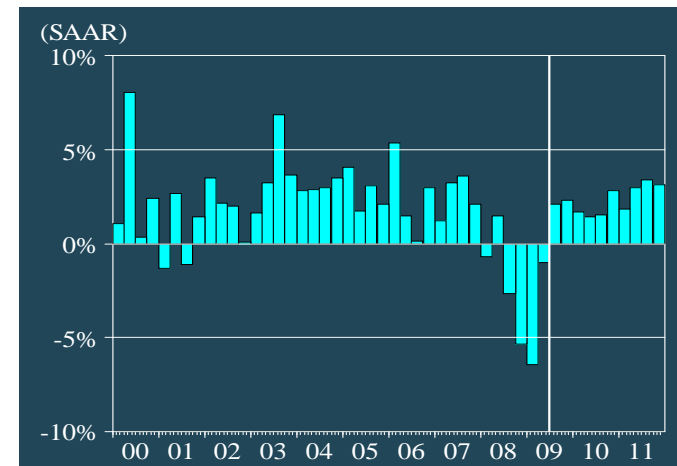
Genesis Real Estate Funds
Annual Investor Meeting
April 13, 2010

So Where Are We Now?

- Three Root Causes:
 - Housing, Finance/Credit Bubble and the Consumer
- Positives:
 - Big Imbalances Winding Down, Subdued Growth Ahead
- Negatives:
 - Economy Now Driven by Government Policy, Little Done to Prevent Repeat Performance, Potential Double Dip in 2011, CRE Lagging the Recovery

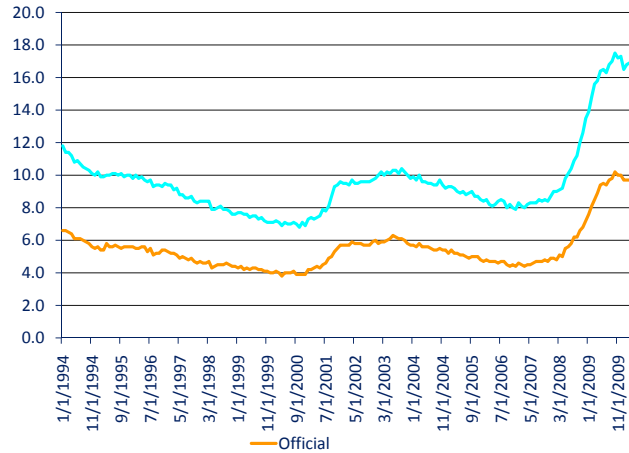
I Macroeconomic Overview

Real GDP Growth 2000Q:1 – 2011:Q4F



Source: UCLA Anderson Forecast

Unemployment Rates



US March 2010
Official: 9.7%

CA March 2010
Official: 12.5%

US Job Growth
March 2010:
451,000

Source: Bureau of Labor Statistics (NOTE: current alternative rates approx 7% higher)

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Unemployment Forecast



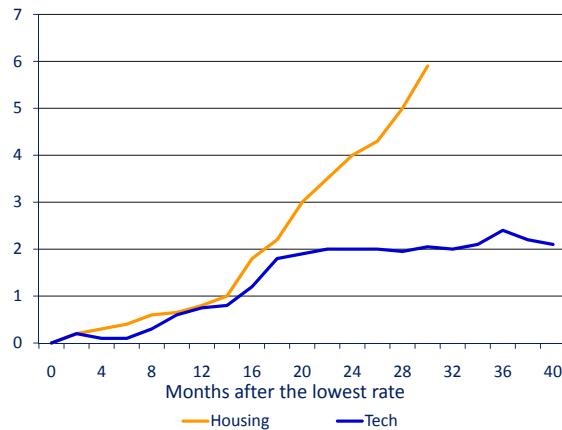
CA State Forecast:

Per the Anderson Forecast, rate will fall slowly and should average 11.8% for 2010, but won't hit single-digits until 2012

Source: UCLA Anderson Forecast

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Changes in Unemployment (in percentage points)



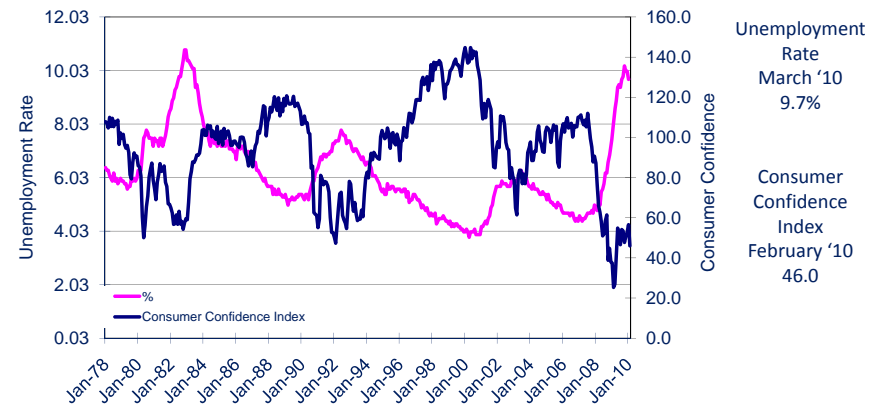
Housing Bubble
Mar 2007– Oct 2009

Tech Bubble
Apr 2000 – Oct 2003

Source: WSJ

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Unemployment & Consumer Confidence



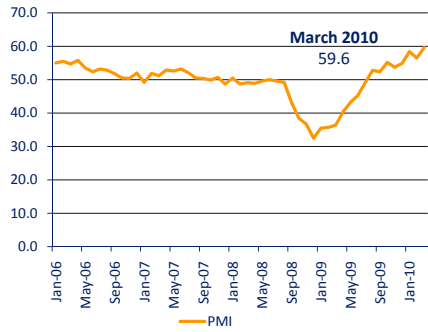
Unemployment
Rate
March '10
9.7%

Consumer
Confidence
Index
February '10
46.0

Sources: The Conference Board, Labor Department

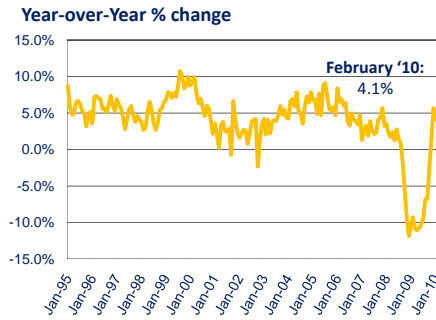
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US Manufacturing



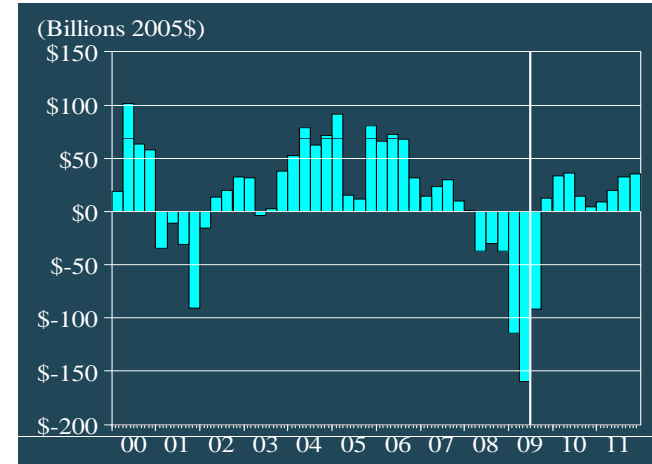
Source: Manufacturing ISM

US Retail Sales



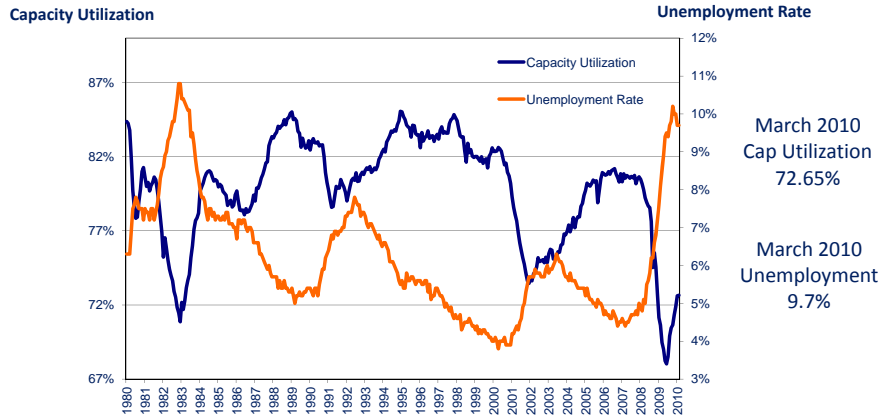
Source: Federal Reserve

Change in Real Inventories 2000:Q1-2011:Q4 (F) SAAR



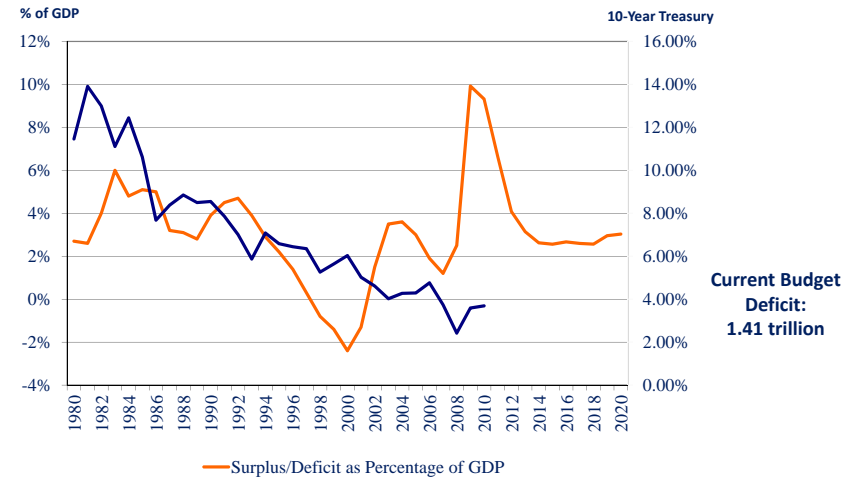
Source: UCLA Anderson Forecast

Capacity Utilization and Unemployment



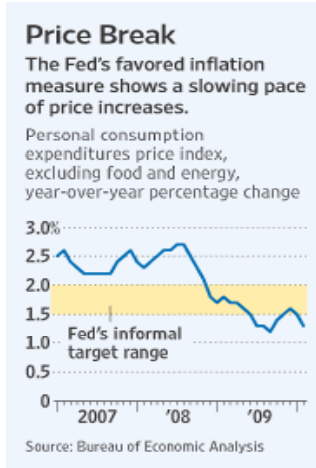
Source: Federal Reserve, Bureau of Labor Statistics

Federal Deficit



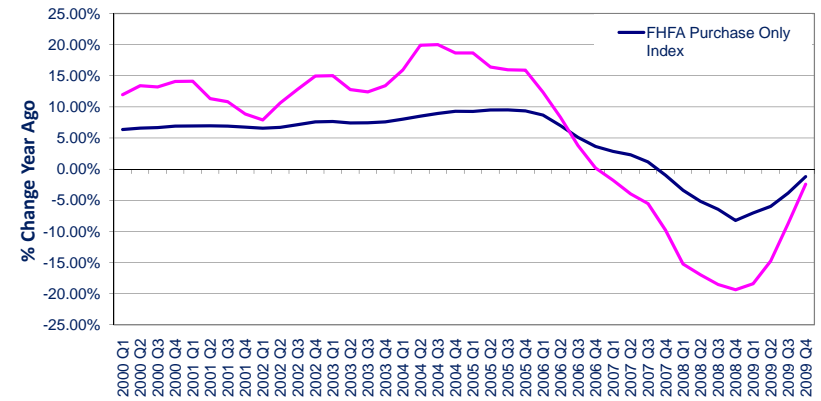
Source: Congressional Budget Office Note: Negative % denotes surplus

Inflation Measures



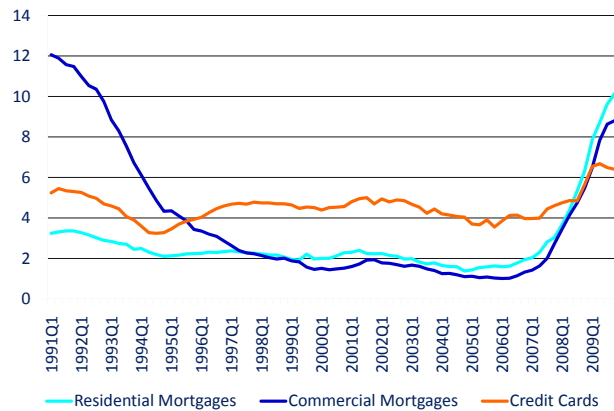
Source: WSJ, Bureau of Economic Analysis

Housing Price Trends



Sources: Federal Housing Finance Agency, S&P

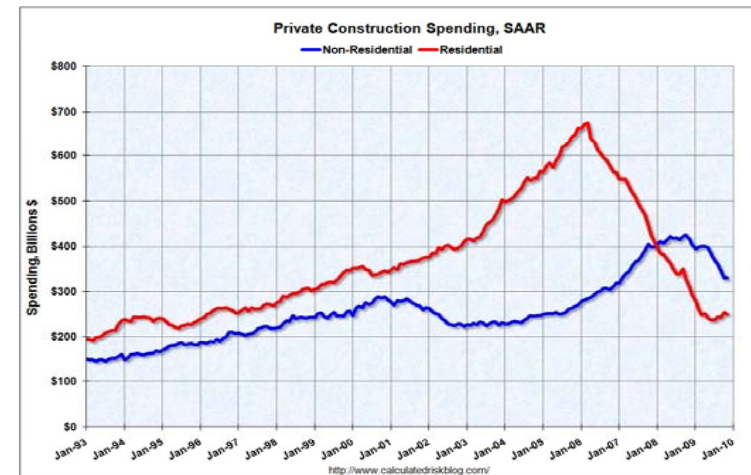
Loan Delinquency Rates



10.1% of US homeowners are delinquent on their mortgages

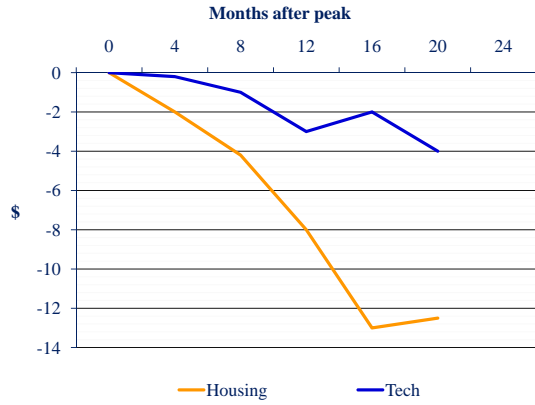
Source: Federal Reserve

Construction Spending



Source: US Census Bureau, Calculated Risk

Changes in US Household Net Worth (in trillions)

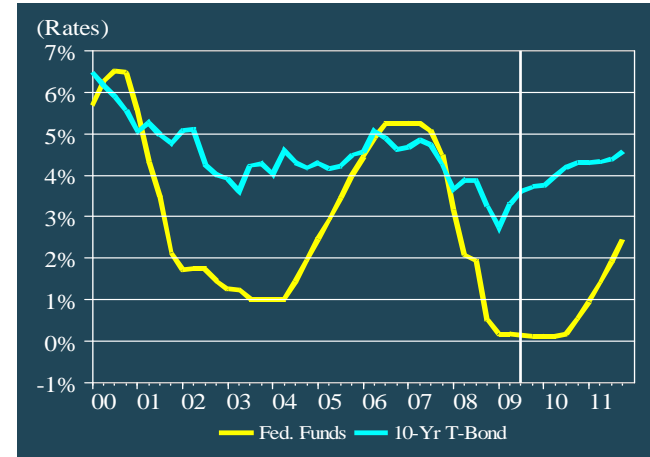


Housing Bubble:
Q3 2007 – Q2 2009

Tech Bubble:
Q1 2000 – Q3 2001

Source: WSJ

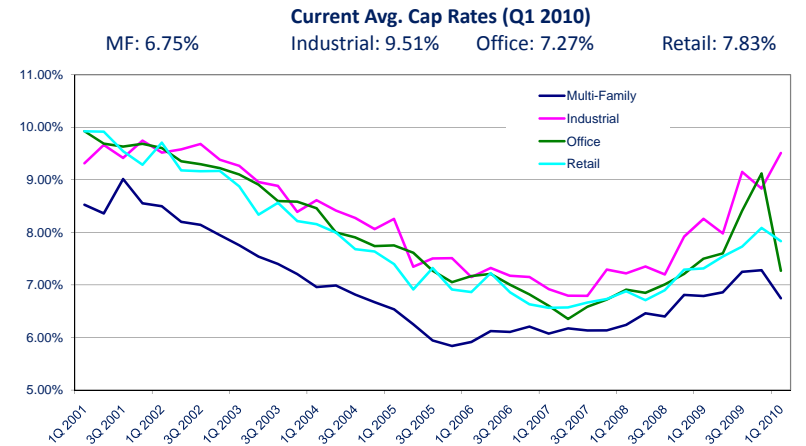
Fed Funds vs. 10-Year Treasury 2000:Q1 – 2011:Q4F



Source: UCLA Anderson Forecast

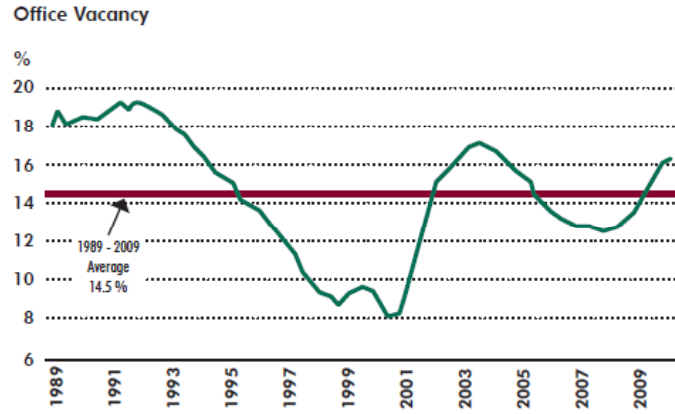
II Commercial Real Estate

Average Cap Rate by Property Type



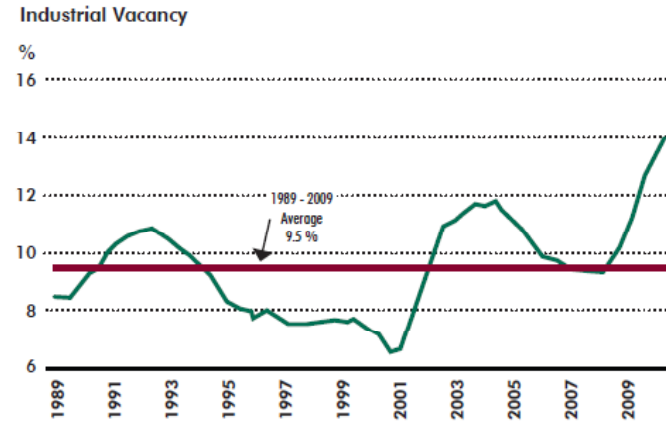
Source: Real Capital Analytics

Office Vacancy Rates



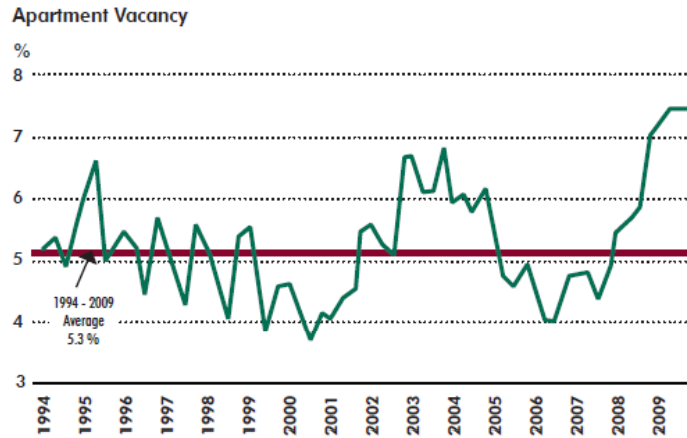
Source: CBRE

Industrial Vacancy Rates



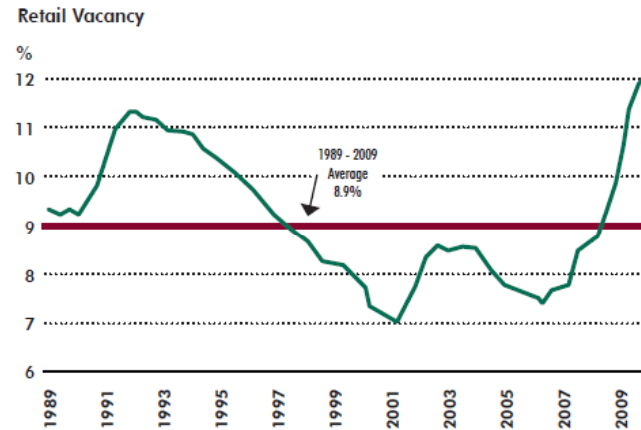
Source: CBRE

Apartment Vacancy Rates



Source: CBRE

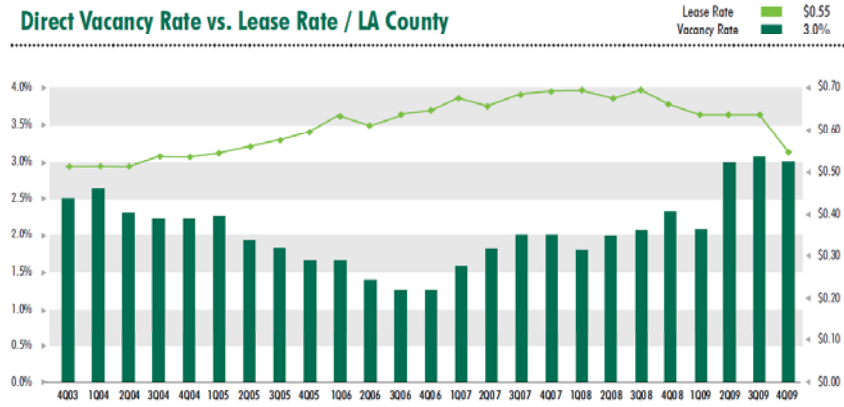
Retail Vacancy Rates



Source: CBRE

Los Angeles Industrial

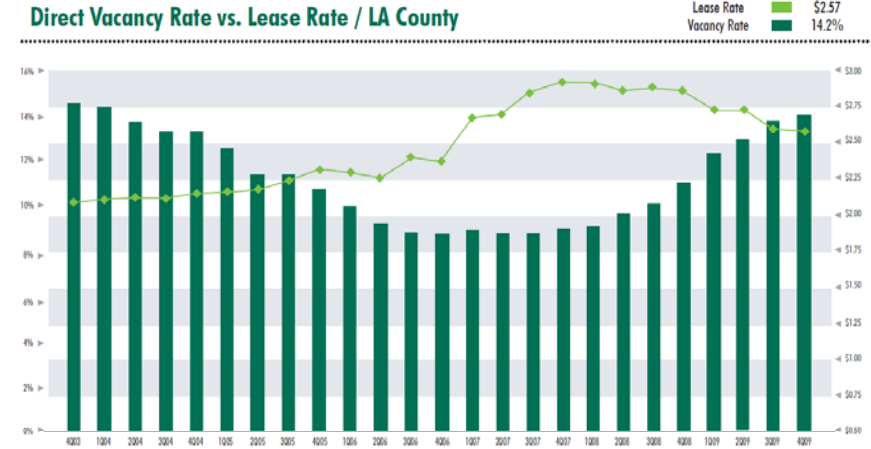
Direct Vacancy Rate vs. Lease Rate / LA County



Source: CBRE

Los Angeles Office

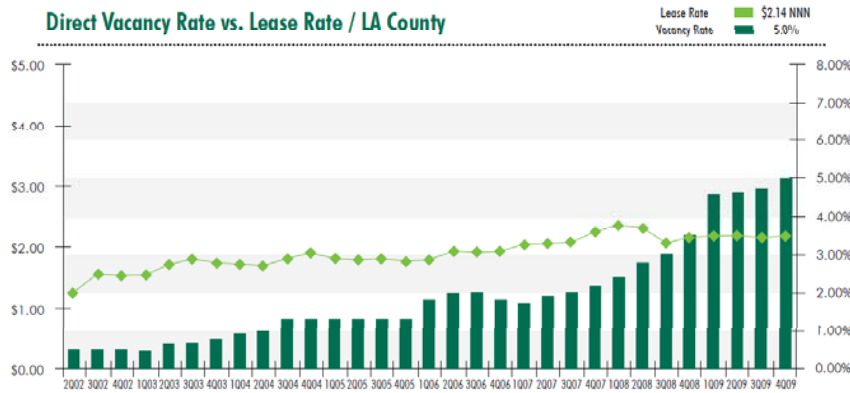
Direct Vacancy Rate vs. Lease Rate / LA County



Source: CBRE

Los Angeles Retail

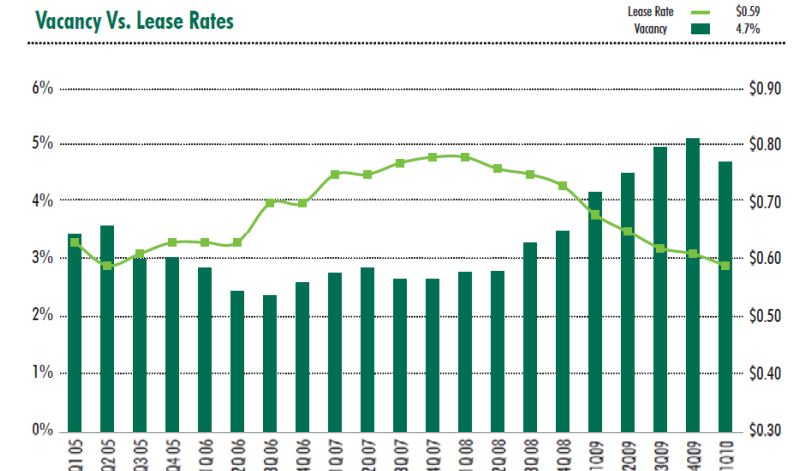
Direct Vacancy Rate vs. Lease Rate / LA County



Source: CBRE

Orange County Industrial

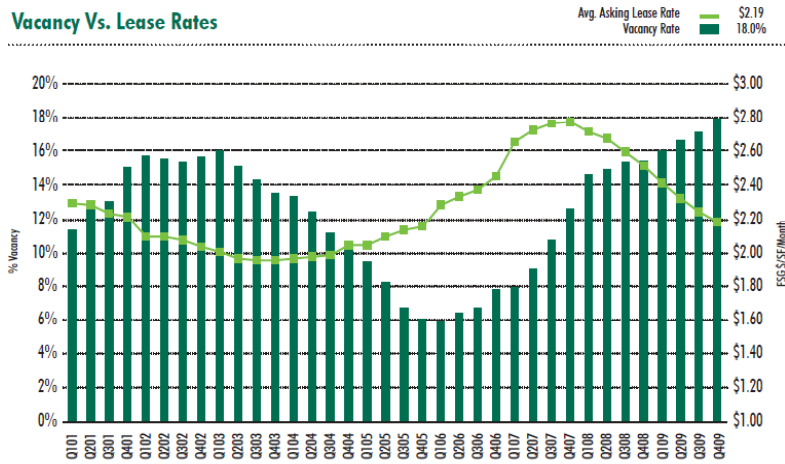
Vacancy Vs. Lease Rates



Source: CBRE

Orange County Office

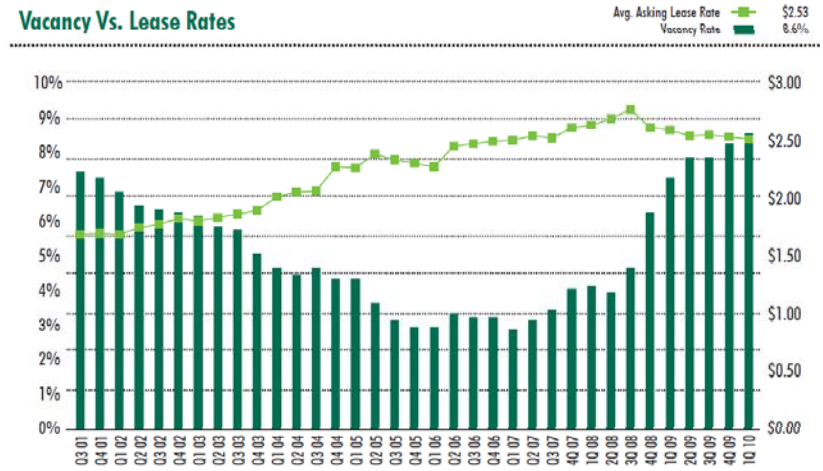
Vacancy Vs. Lease Rates



Source: CBRE

Orange County Retail

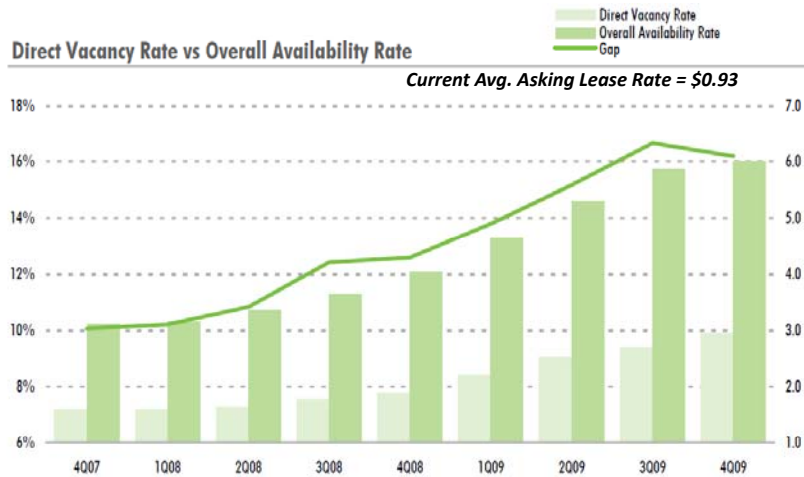
Vacancy Vs. Lease Rates



Source: CBRE

San Diego Industrial

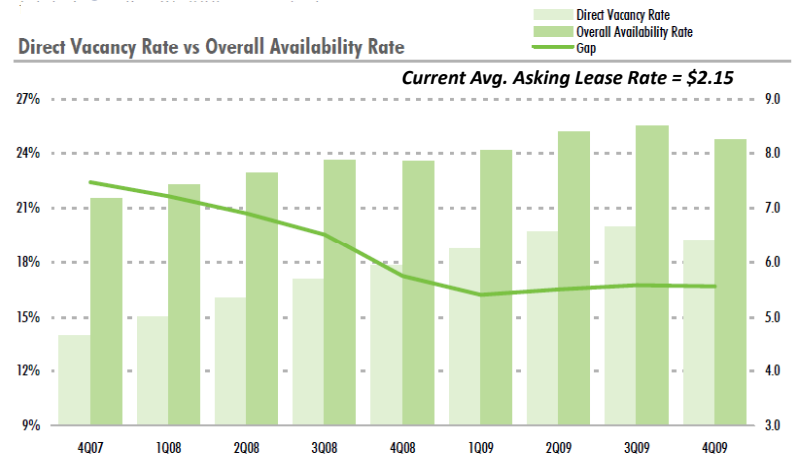
Direct Vacancy Rate vs Overall Availability Rate



Source: CBRE

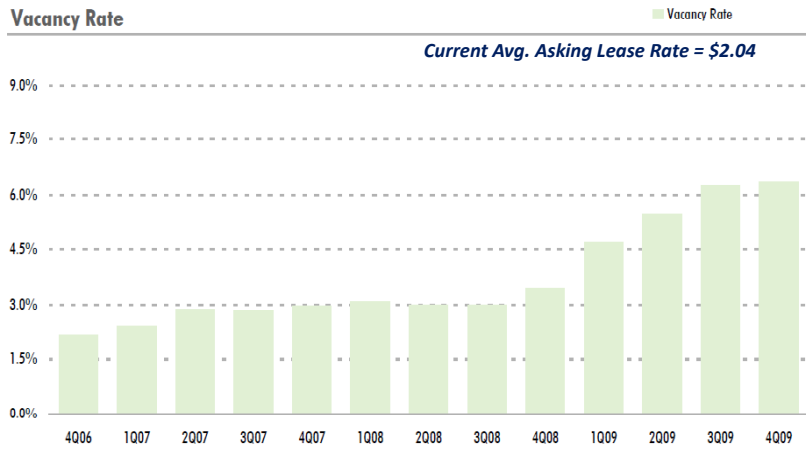
San Diego Office

Direct Vacancy Rate vs Overall Availability Rate



Source: CBRE

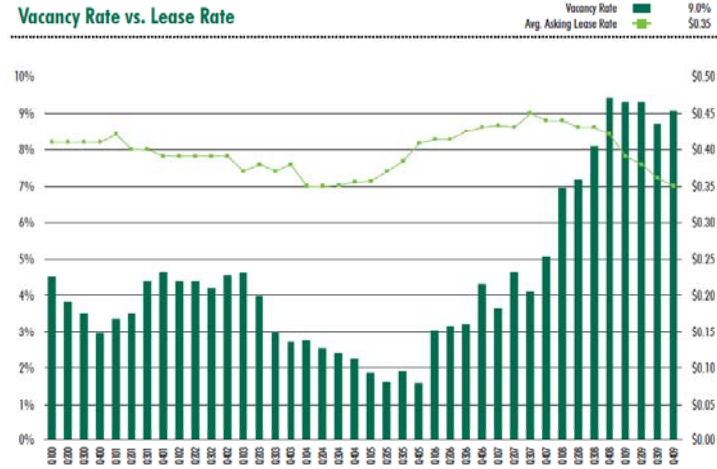
San Diego Retail



Source: CBRE

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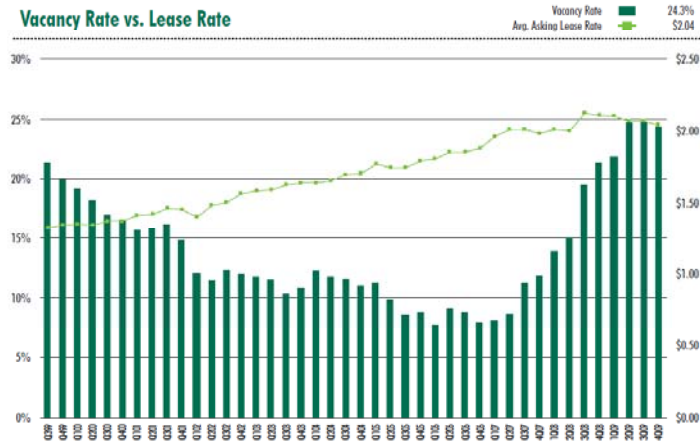
Inland Empire Industrial



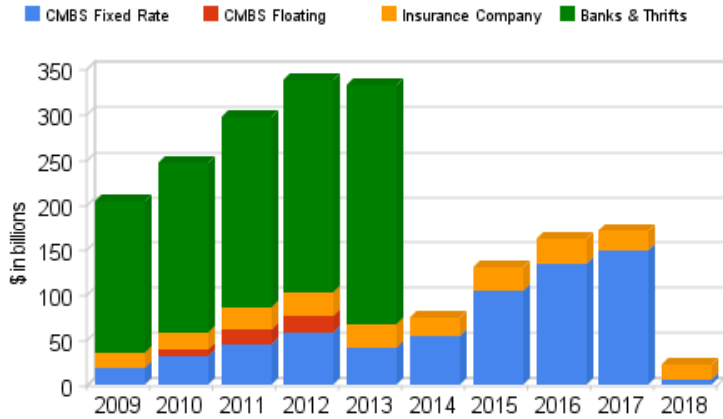
Source: CBRE

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Inland Empire Office

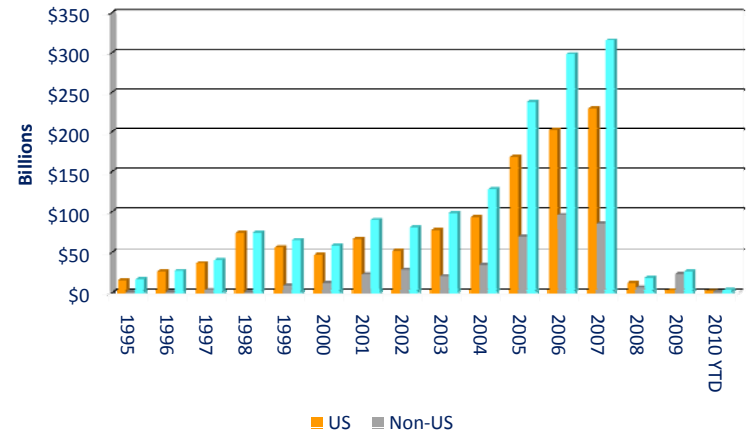


Commercial Loan Maturities



Source: Deutsche Bank, Intex, Trepp, Mortgage Bankers Assoc, Federal Reserve

CMBS Issuances



Sources: Commercial Mortgage Alert, CMSA

AAA CMBS Spreads

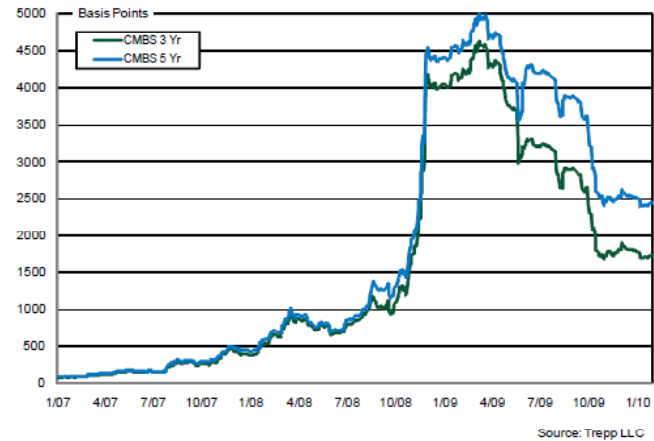


Spread over equivalent treasuries

Source: Trepp LLC

Source : SIFMA

BBB CMBS Spreads



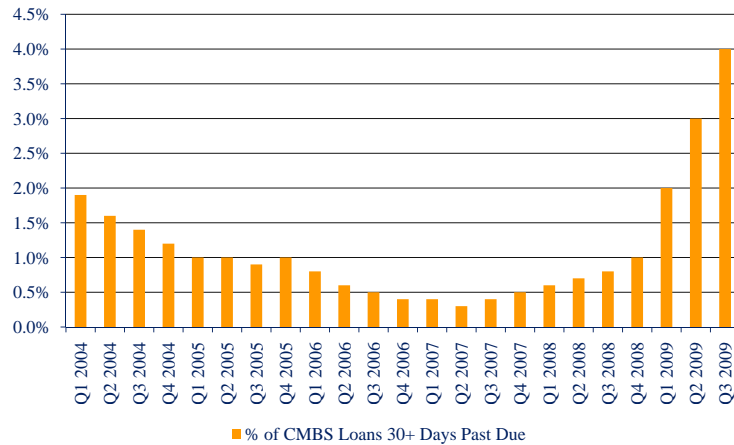
Spread over equivalent treasuries

Source: Trepp LLC

Source : SIFMA

CMBS Delinquencies

% of CMBS Loans 30+ Days Past Due



Source : WSJ

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III Policy Imperatives

Summary of Policy Initiatives

- Quantitative Easing/Monetary Stimulus
- TARP/TALF/PPIP (“Stimulus Part I”)
- Recovery & Reinvestment Act (“Stimulus Part II”)
- HAMP
- \$1.25T MBS Purchase Program
- Easing of FASB Mark-to-Market Rules
- Support for Fannie and Freddie
- FHA/GNMA Loans
- Homebuyer Tax Credit

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Quantitative Easing and Monetary Stimulus

- **“Quantitative Easing”**
 - Purchase government bonds in open market, lend money to depositary institutions, and buy assets from banks for currency
 - Reduces interest yields on government bonds and inter-bank overnight interest rates, encourages banks to loan money to higher interest-paying bodies
- **Monetary Stimulus**
 - Fed Funds target rate = 0%
 - Liquidity enhancements to credit markets
 - Loans collateralized by highly rated agency MBS
 - Purchases of agency debt and ABS in combination with private capital
 - Incent and leverage private capital, inject liquidity into markets

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American Recovery & Reinvestment Act “Fiscal Stimulus II”

- Approx. \$800B stimulus package
 - 2/3 in new spending and 1/3 in tax cuts
 - May raise GDP growth by 3.2%, reduce unemployment rate by 1.7%, raise employment by 3.2M jobs
 - Less than half of the \$355B intended for infrastructure investments be used prior to 2011
- Keynesian theory assumes multipliers of >1
 - Government spending “crowds out” private investment in which case multiplier is <1
 - More emphasis should be placed on private incentives

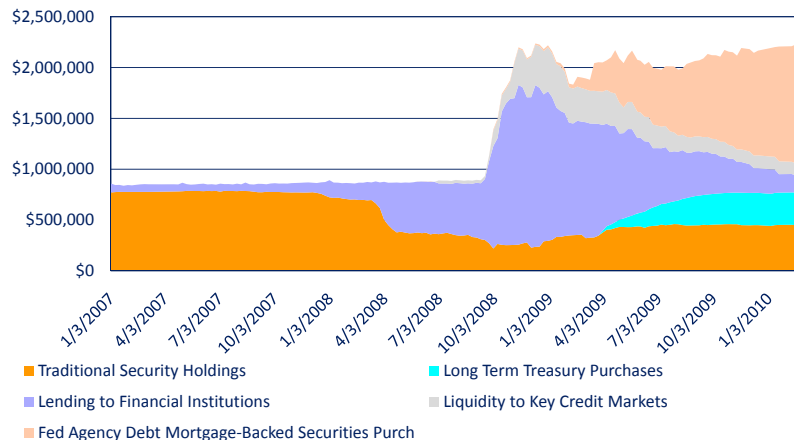
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Has the Fed been Successful?

- Fed’s announced increases to spur growth:
 - Agency debt purchases from \$100B to \$200B
 - Agency MBS purchases from \$500B to \$1.25T
 - US Treasury purchases of \$300B
 - Increase in Fed B/S, by \$1.63T in ‘09
- Risks:
 - More stimulus may be needed to fully revive credit markets
 - Core CPI inflation will be modest—but monetary stimulus will need to be withdrawn as economy rebounds

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Federal Reserve Activity



Source : Federal Reserve

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What Are the Gray Areas?

Positive Potential Changes:

- Strong Export Growth on Back End of Recovery
- Recovery in Business Investment and Spending

Potential Policy Changes:

- Extend Tax Cuts/More Stimulus
- Will Labor Markets Force Excessively Loose Monetary Policy?
- Financial Regulation and Reform

A New Bubble?:

- Excess Housing Inducements
- Return of Loose Lending Standards
- Consumer Savings Rate Uncertain

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Shape of the Recovery?

V ? W ?
? U ? L

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National Economic Outlook

- Recession Winding Down...
- Consumer Weakness will Continue
- Business Bottom Line Gains, Top Lines Sluggish
- Labor Markets Slow to Recover
- Housing Elevator at Ground Floor, Not Rising Soon
- Banks Not Out of the Woods Yet
- Commercial Real Estate Fallout
- Higher Interest Rates Ahead

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SoCal Economic Outlook

- Bullish Over the Long-Term...
 - Outperformed US from '94-'07 in employment, income, economic output
 - Key Hub for Growing Industries: Entertainment, Health/Biotech, Manufacturing/Distribution, Green Tech
 - Gateway to Pacific Rim, Weak \$US Benefits Export-Heavy CA
 - Quality of Life
- Keys to So Cal Recovery...
 - Growing demand for manufactured/agricultural goods from outside the state
 - Recovery of U.S. consumption increases demand for Asian imports and products from our factories
 - Increased public works construction and investment in business equipment/software

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Questions?

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