Commercial Real Estate Investment Market Update

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March 12, 2008

OVERVIEW

- Housing versus Commercial Real Estate
- Changes in the Capital Markets
- Commercial Real Estate as an Investment Class
- Trends by Property Type
  - Office
  - Industrial
  - Multi-Family
  - Retail

HOUSING VS COMMERCIAL REAL ESTATE

3 Key Reasons this is a Housing Recession and not a Commercial Real Estate Recession

1. Residential construction doubled over 5 year period from 2001 to 2006
2. Over-reliance of residential boom on speculative investors
3. Residential lending practices allowed “no money down”

BOOM IN SUPPLY OF NEW HOUSING

Source: Real Capital Analytics

CAPITAL MARKET CHANGES

**Variables**
- Loan to value ratio
- Debt service coverage
- Interest only periods
- Reserves

**Definitions**
- Value for loan basis
- Net Operating Income
- Occupancy
- Capital for loan proceeds

LAX UNDERWRITING & AGGRESSIVE LENDING

Source: Real Capital Analytics
US COMMERCIAL PROPERTY SALES

Commercial Real Estate is now a “Major Food Group”
- Alternative investment opportunities not rock solid either
- Underlying fundamentals remain healthy
- Commercial real estate with predictable and transparent contractual cash flows
- Key perspective is returns on a “risk adjusted basis”

ANALYSIS OF INVESTMENT RETURNS

How Investment Returns have been so Great
- Moderate growth in net operating income
  - Growth in rents
  - Rising occupancy
- Sharp decline in capitalization rates

EVOLUTION OF INVESTMENT RETURNS

Last 5 Years vs. Next 5 Years

NATIONAL OFFICE SALES

- The Good News: Economic expansion has been increasingly driven by office-occupying industries
- The Bad News: Softening economy will lead to slower growth in rents and less space absorption

2007 HAMPTON ROADS OFFICE SALES

LANDMARK TRANSACTIONS
- Gee’s Group Portfolio
- 150 W. Main

Source: TWR Investment Database
**NATIONAL INDUSTRIAL SALES**

- **The Good News:** Export business and business to business services are expected to continue to grow.
- **The Bad News:** Impacted by the slowing economy especially with goods related to housing and retailers.

**2007 HAMPTON ROADS INDUSTRIAL SALES**

**LANDMARK TRANSACTIONS**
Commonwealth Storage

**NATIONAL MULTI-FAMILY SALES**

- **The Good News:** More people will decide to rent rather than pursue home ownership.
- **The Bad News:** Shadow competition of rental supply created by unsold homes and condos listed for rent.

**HAMPTON ROADS MULTI-FAMILY TRANSACTIONS**

**LANDMARK TRANSACTIONS**
The Heights and The Myrtles at Olde Towne Portfolio

**NATIONAL RETAIL SALES**

- **The Good News:** Continued growth in lifestyle & town centers; new concepts continue to emerge.
- **The Bad News:** Future performance impacted by slowdown in employment & consumer demand.

**HAMPTON ROADS RETAIL TRANSACTIONS**

**LANDMARK TRANSACTIONS**
Denbigh Village
Lynnhaven North

**The Good News:**
Continued growth in lifestyle &
town centers; new concepts continue to emerge

**The Bad News:**
Future performance impacted by
slowdown in employment & consumer demand

**Source:** Real Capital Analytics
FINAL THOUGHTS

“The retailers that have the right merchandise at the right price are still doing significant business. There are winners and losers in market share, and consumers are voting every day with their purchases.”

- Daniel Hurwitz, President & CEO of Developers Diversified Realty Corp.

This concept applies to all of us in the commercial real estate profession and not just for retailer sales.