Lambda Alpha International
Golden Gate Chapter

RREEF Research Economic and Market Outlook: 2009
A Year to Forget

January 13, 2009

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Section I

Economic Outlook

U.S. Economy: In Recession

- ❑ Downturn triggered by housing bubble
- ❑ Massive excess leverage in banking industry
- ❑ Job losses to date: 2.6 million; 7.2% unemployment rate
- ❑ Total job losses expected through 2009: 4.5 to 5.0 million
  - ✓ 2.7 million in 2001 – 2003 recession
- ❑ Major consumer retrenchment will continue through 2010

This information is a forecast and due to a variety of uncertainties, and assumptions made in our analysis, actual events or results or the actual performance of the markets covered may differ from those presented.
As of January 2009.

U.S. Economy: Longer Term

- Modest economic recovery to begin in 2010
- Recovery will require stimulus and restoration of confidence
- Modest renewed job growth in 2010; more robust 2011-2013
- Inflationary pressure will begin to reassert by 2011 (oil, U.S. currency, federal deficit)
- Fed. Fund rates back up to 4.5% - 5.0% in 2012+
- Economic growth during recovery will be restrained by Fed

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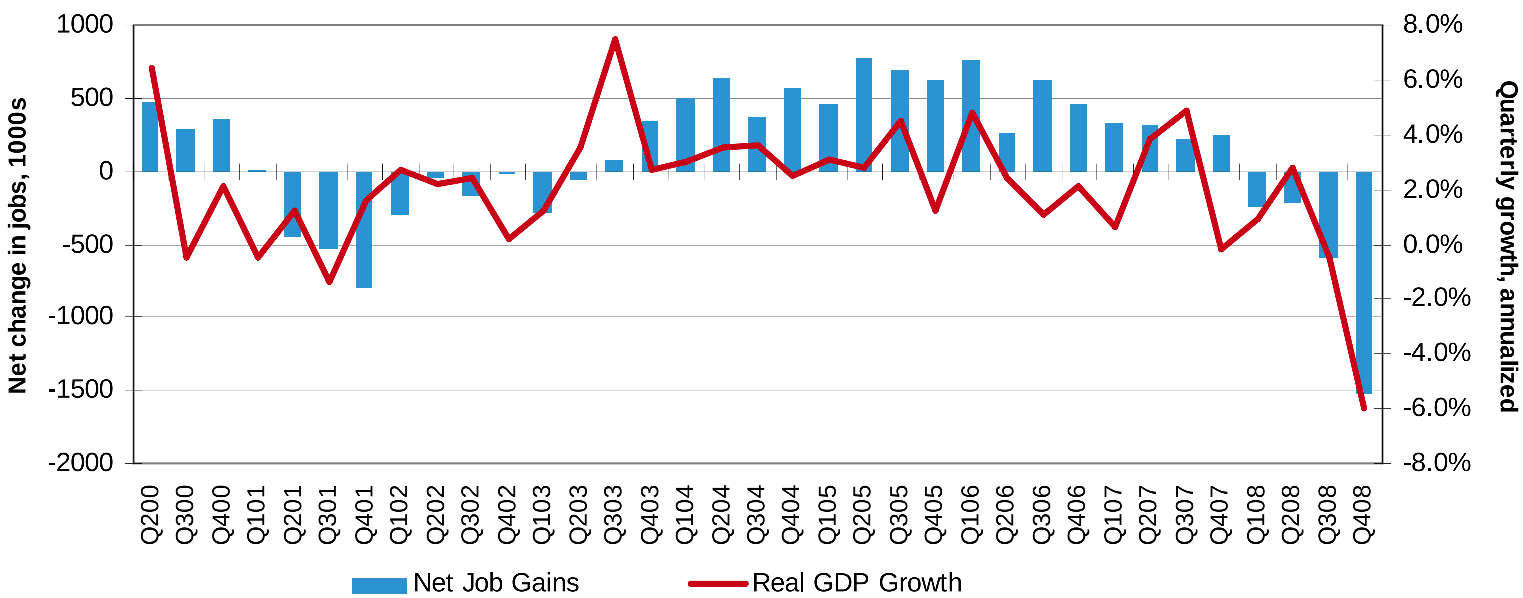
U.S. Economy Losing Momentum

Economy in Historical Perspective



2008 Job Loss through December = 2.6M

Source: BLS, BEA and RREEF Alternative Investments.
As of December 2008.

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U.S. Economy: In Recession

Forecast Highlights: Composition of Real GDP (percent change)

	2007	2008	2009	2010		2007	2008	2009	2010
Real GDP	2.0	1.2	-2.5	2.2	Consumer Price Inflation	2.9	3.8	-2.2	2.4
Consumption	2.8	0.3	-0.9	2.3	Payroll Employment Growth	1.1	-0.2	-2.6	0.0
Business Fixed Investment	4.9	1.9	-15.1	-0.3	Unemployment Rate (%)	4.6	5.6	8.5	9.1
Equipment & Software	1.7	-2.8	-14.6	7.7	Federal Funds (%)	5.02	1.98	0.13	0.94
Exports	8.4	6.4	-7.0	-0.9	Ten-Year Treasury (%)	4.63	3.67	2.33	3.36
Imports	2.2	-3.1	-9.6	6.2	30-Year Fixed Mortgage (%)	6.33	6.05	4.97	5.55

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Source: Global Insight and RREEF Research.
As of January 2009.

Peak to Trough Employment Declines

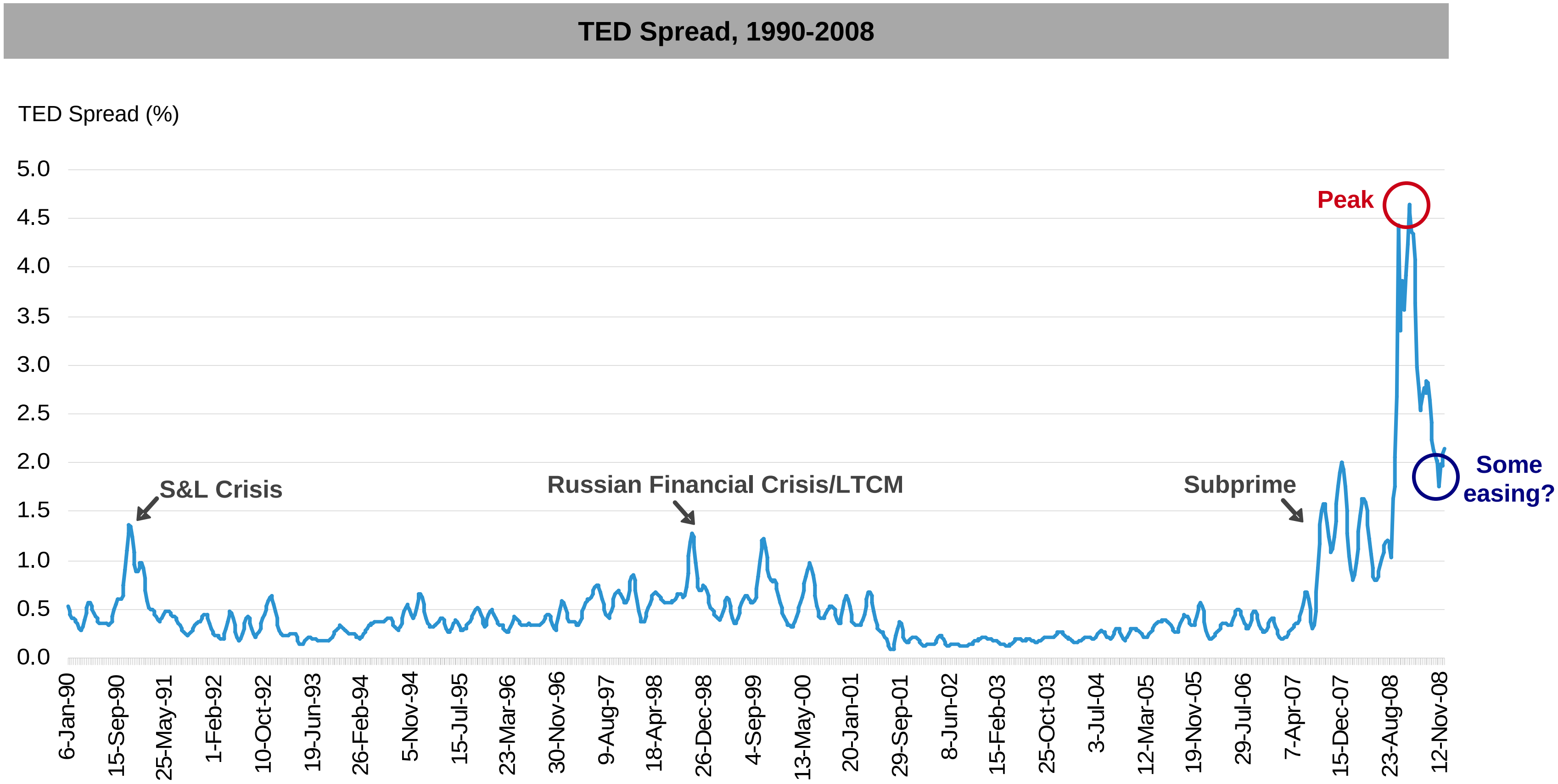
	Number of Months	Employment Percentage	Change in Employment Level**
Aug53-Aug54	13	-3.4%	-1,711,000
May57-Jun58	14	-4.4%	-2,326,000
May60-Feb61	10	-2.3%	-1,256,000
Apr70-Nov70	8	-1.5%	-1,044,000
Aug74-Apr75	9	-2.8%	-2,171,000
Aug81-Dec82	17	-3.1%	-2,838,000
Jul90-May91	11	-1.5%	-1,621,000
Mar01-Aug03	30	-2.0%	-2,708,000
Jan08-Dec08	**12**	**-1.9%**	**-2,600,000**
Jan08-Jun09*	***18***	***-3.4%***	***-4,700,000***
Average	**14**	**-2.7%**	**-2,264,000**

** Current Forecast.*
*** From peak to trough.*
Sources: Global Insight and RREEF Research.
As of December 2008.

Section II

Capital Markets

Financial conditions still tight

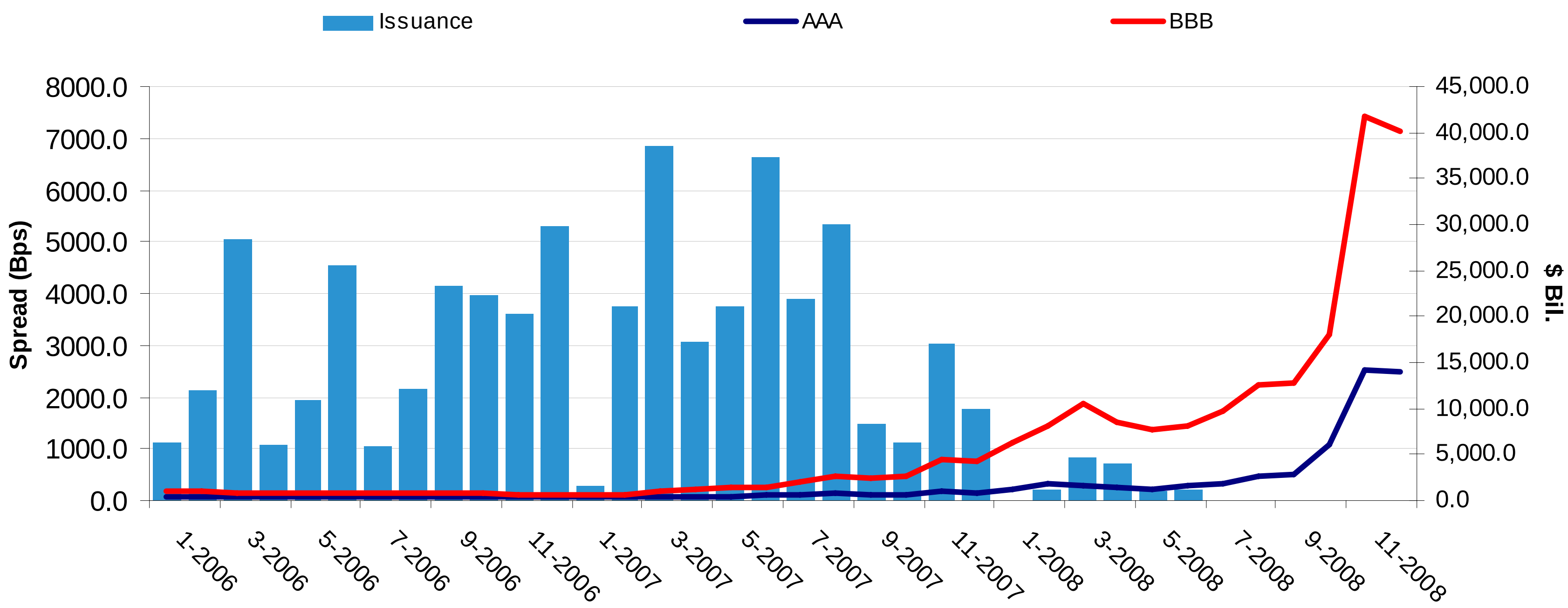


Note: Data to November 17th 2008. The TED spread is the difference between the Fed rate and Libor. This is an indicator of the cost of short term borrowing for banks
Source: Economy.com, Bloomberg and RREEF Research.

CMBS: Issuance Dries up while Pricing Spikes

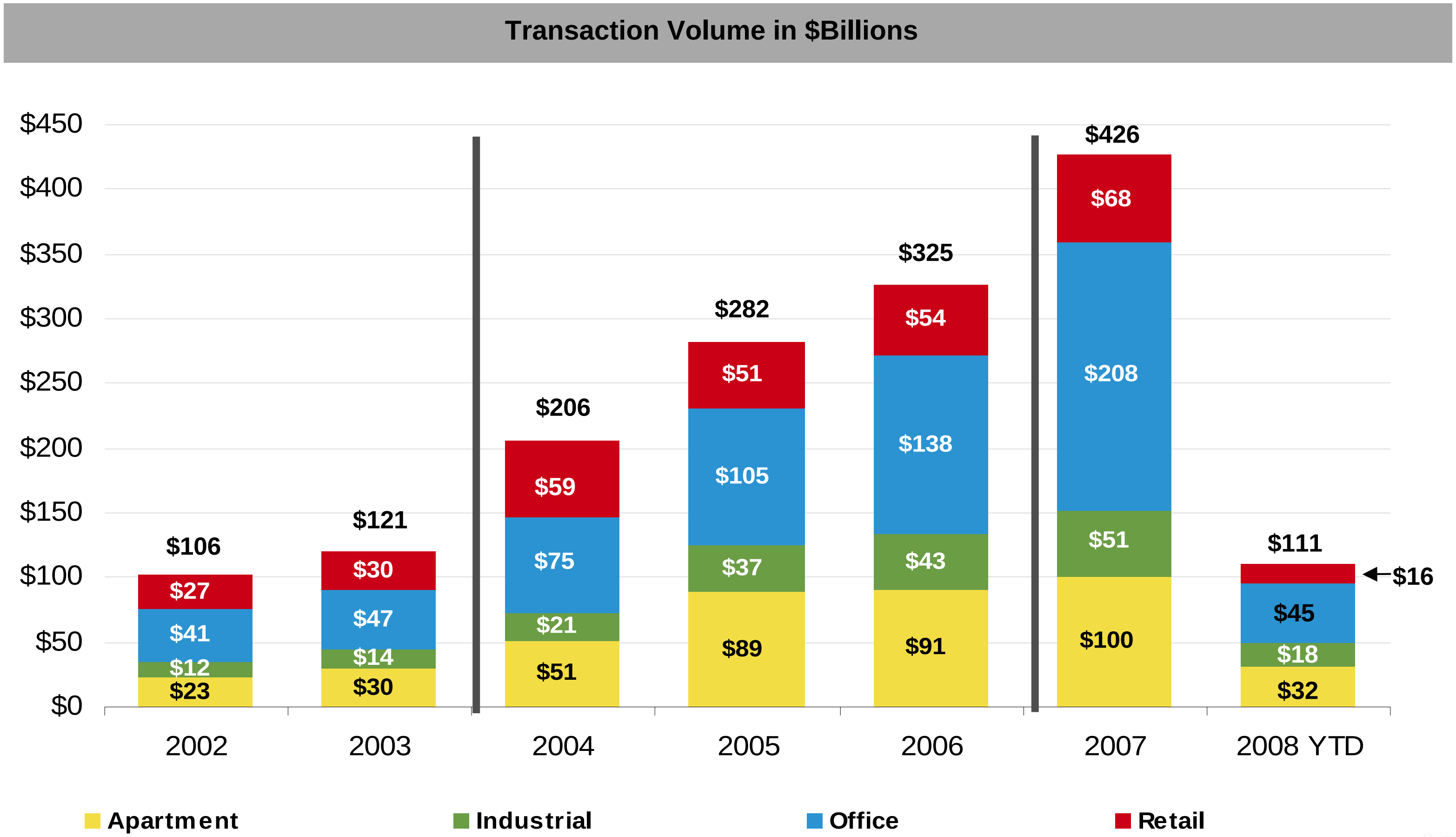
- Availability of debt severely limited, which creates buying opportunities for low-leverage, equity investors.
- Equity returns will increase for real estate as spreads widen.

U.S. CMBS Issuance and Pricing



Source: Commercial Mortgage Alert and Real Capital Analytics.
As of December 2008.

Transaction Volumes: Reversion to Early 2000s Levels?



Source: Real Capital Analytics.
As of September 30, 2008.

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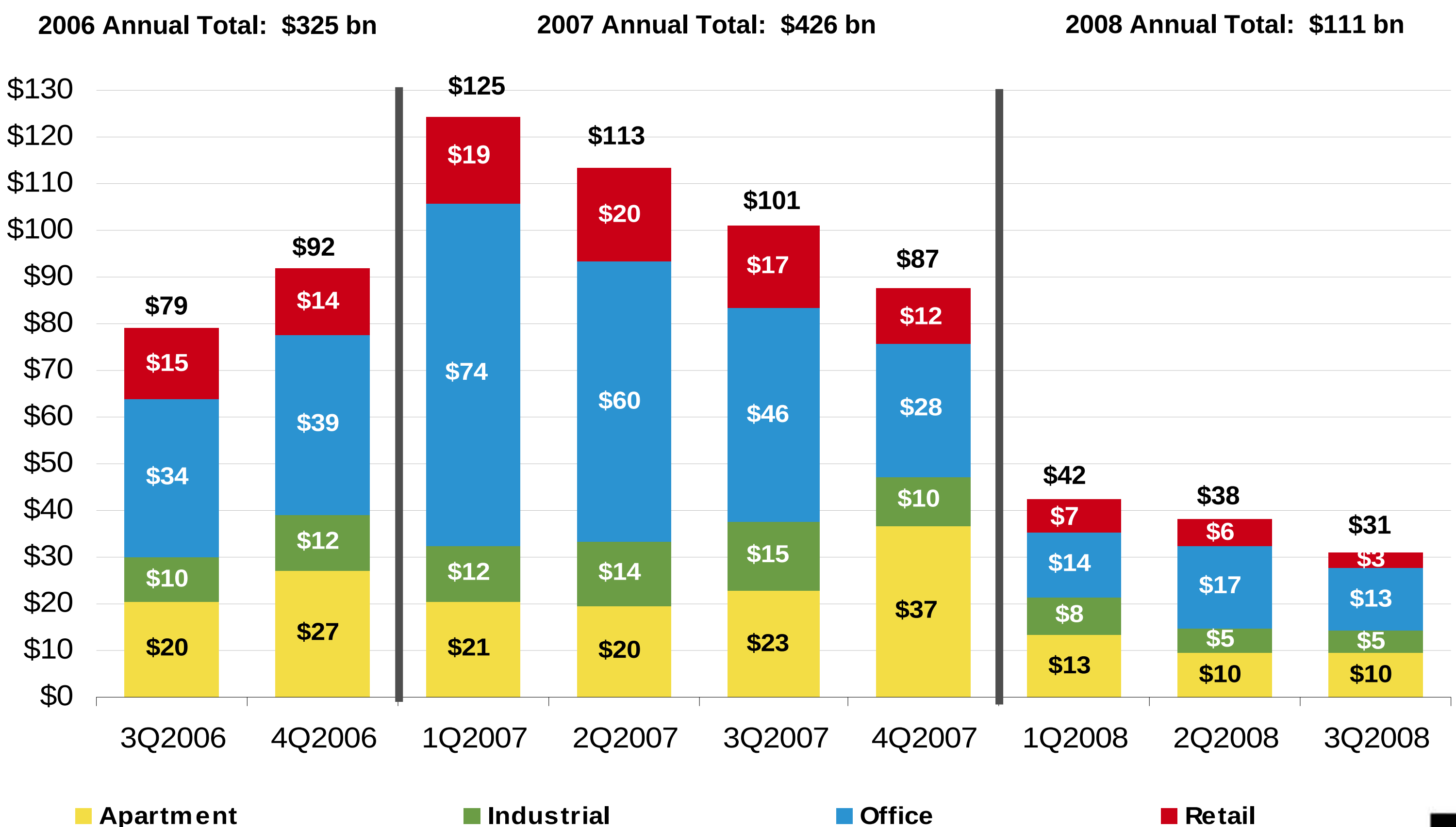
Quarterly Transaction Volumes: 3Q2006 - 3Q2008

Transaction Volume in $Billions



Source: Real Capital Analytics.
As of September 30, 2008.

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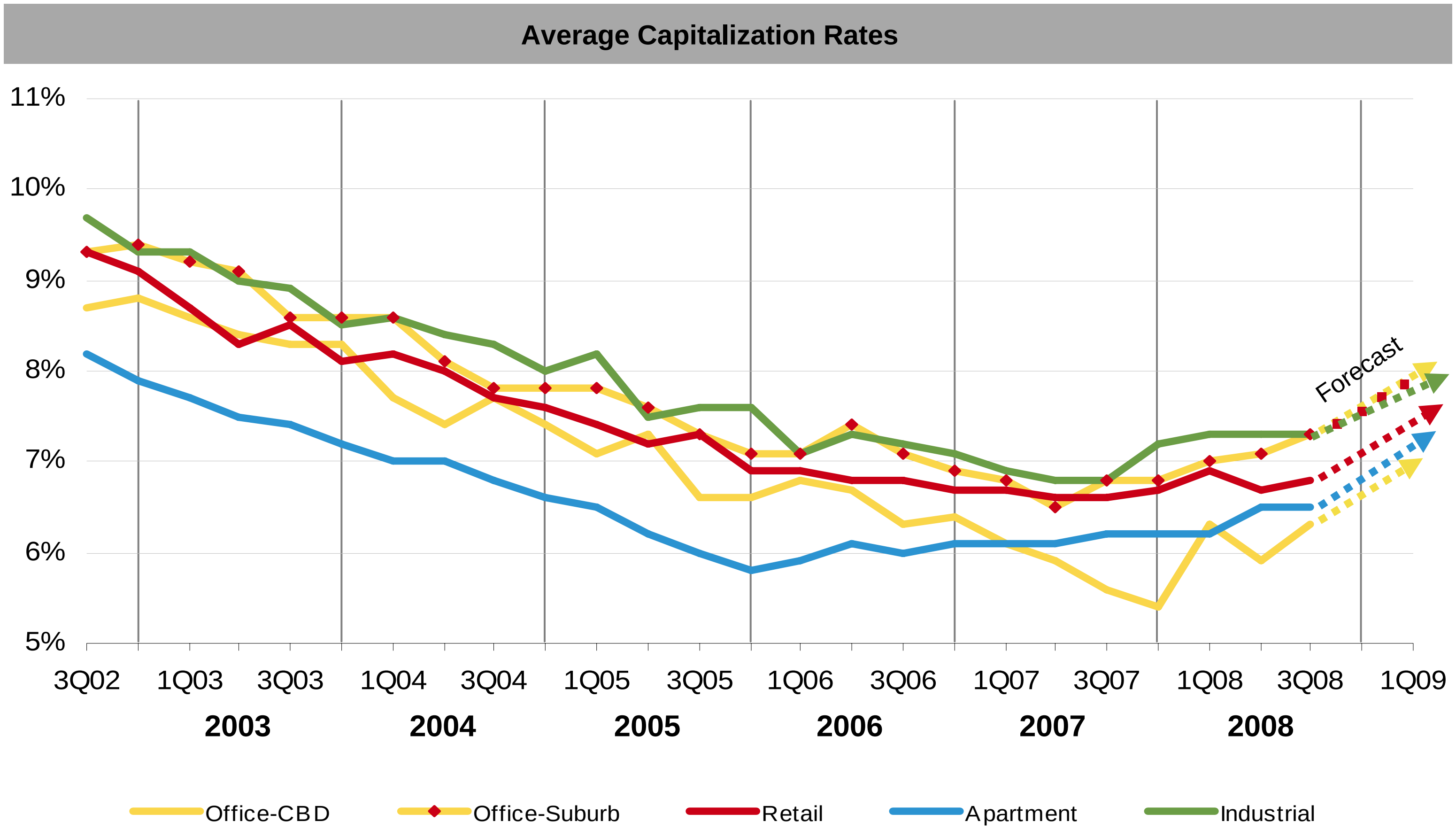
Capitalization Rate Trends: Modest Increase in 2007- 2008

But significant increases ahead… as spreads widen equity returns will increase for real estate.



Source: Real Capital Analytics and RREEF Research. This information is a forecast and due to a variety of uncertainties, and assumptions made in our analysis, actual events or results or the actual performance of the markets covered may differ from those presented.
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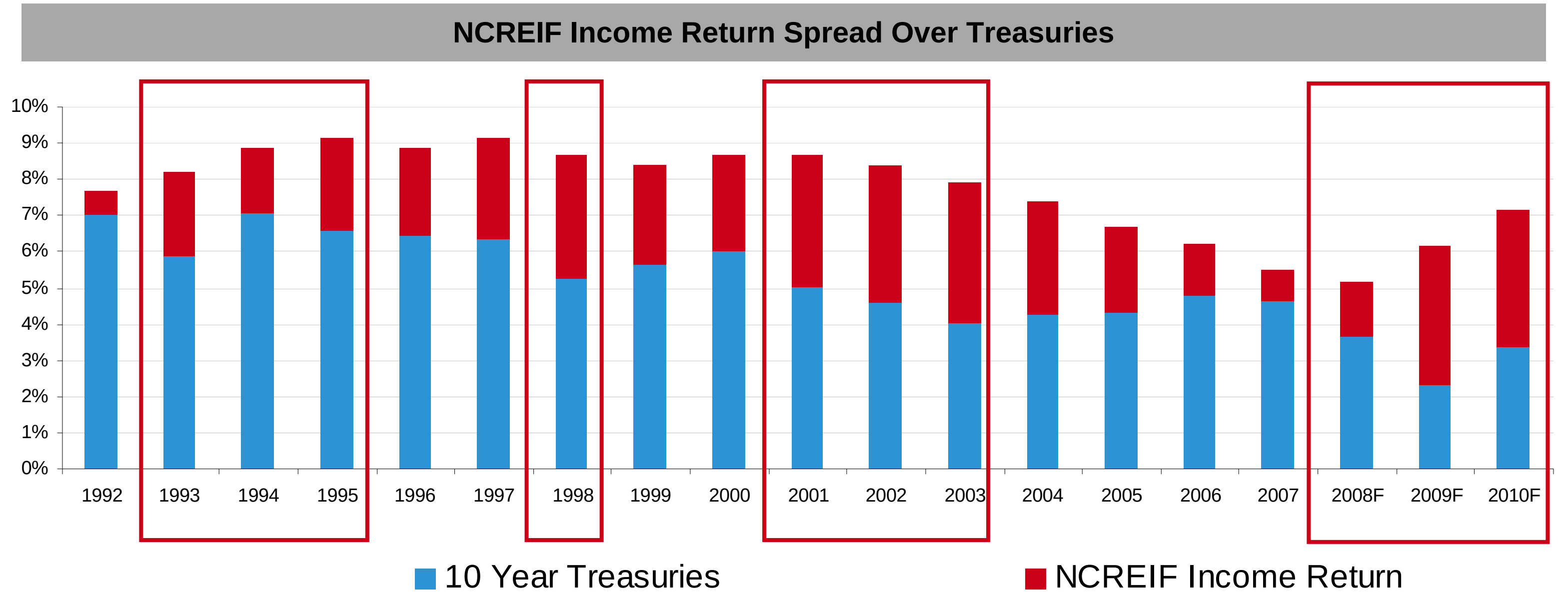
Real Estate Risk Premium Trend

- From 2004 through 2007 risk premiums were severely compressed.
- Expansion underway in 2008, with further expansion likely in 2009.
- Post previous financial shocks, spreads have historically risen, in some cases substantially.



Note: "F" indicates forecast. Source: NCREIF, Federal Reserve & RREEF Research, September 2008. This information is a forecast and due to a variety of uncertainties, and assumptions made in our analysis, actual events or results or the actual performance of the markets covered may differ from those presented. As of December 2008.

Estimated Returns for Unlevered Privately-Held Core Real Estate: These Metrics are Changing!

	Estimated* Going-In Returns		Projected* Ten-Year IRR	
Property Type	July 2007	December 2008	July 2007	December 2008
Apartment				
CBD	4.00%	6.00%	7.00%	7.75%
Garden	4.50%	6.50%	7.00%	8.00%
Industrial				
W/D	4.50%	7.50%	6.75%	8.25%
Flex	5.50%	7.50%	7.25%	8.50%
Office				
CBD	5.00%	7.00%	7.00%	8.00%
Suburban	5.75%	7.50%	7.00%	8.50%
Retail				
Neighborhood/Community	5.50%	7.75%	7.00%	8.25%
Power	5.75%	8.00%	7.00%	8.50%

** The returns shown apply to core, income-producing properties leased at current rents. They are intended to provide a fair characterization of pricing and performance at the upper end (best properties - best submarkets) of today's market and not representative of any of RREEF's products.*
There is not assurance forecasts will be attained.
Source: RREEF Research.
As of December 2008.

Real Estate Capital Markets: A Fundamental Change

- The bubble has popped
  - ✓ Highly leveraged buyers gone
  - ✓ Yields now based on fundamentals, not cheap leverage
  - ✓ Real estate is re-pricing: down approximately 20% so far
- As the dust settles
  - ✓ Mortgages available at conservative terms
  - ✓ Equity is valued again
- Source of capital will change to equity buyers
  - ✓ Institutional
  - ✓ Foreign
  - ✓ Private
- Yields are becoming more attractive

Section III

Real Estate Fundamentals

Vacancy Rates Tick Up through 2009 Then Trend Back Down

National Vacancy Rate Trends

	2006	2007	Forecast 2008	Forecast 2009	Forecast 2010	Forecast 2011
Apartment	5.8%	5.7%	6.4%	7.1%	6.7%	5.9%
Industrial	9.7%	9.6%	11.1%	11.8%	11.1%	10.3%
Office	12.6%	12.5%	14.6%	17.6%	17.4%	15.4%
Retail	6.9%	7.3%	9.0%	10.5%	9.5%	8.0%

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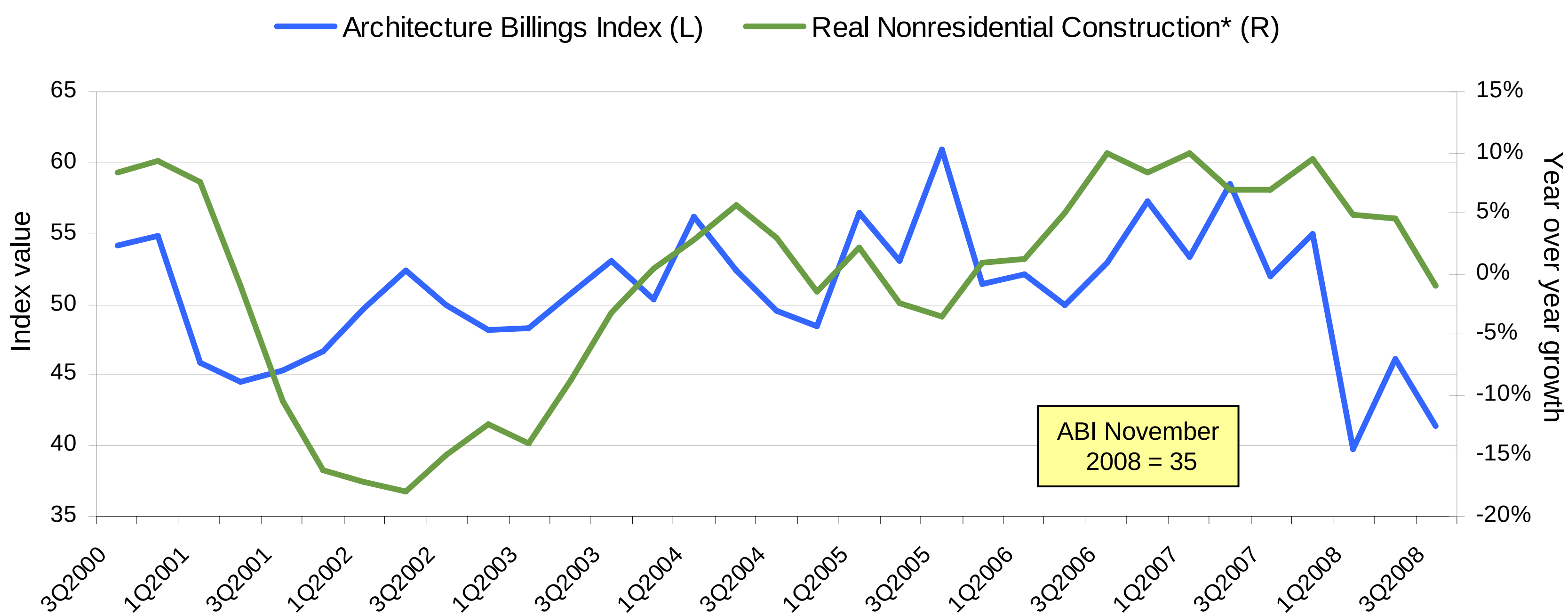
Forecasts are of the market and not of a RREEF product.
Source: REIS Reports, CB Richard Ellis/Torto Wheaton, & RREEF Research.
As of January 2009.

Architecture Billings Index vs. Real Non-residential Construction

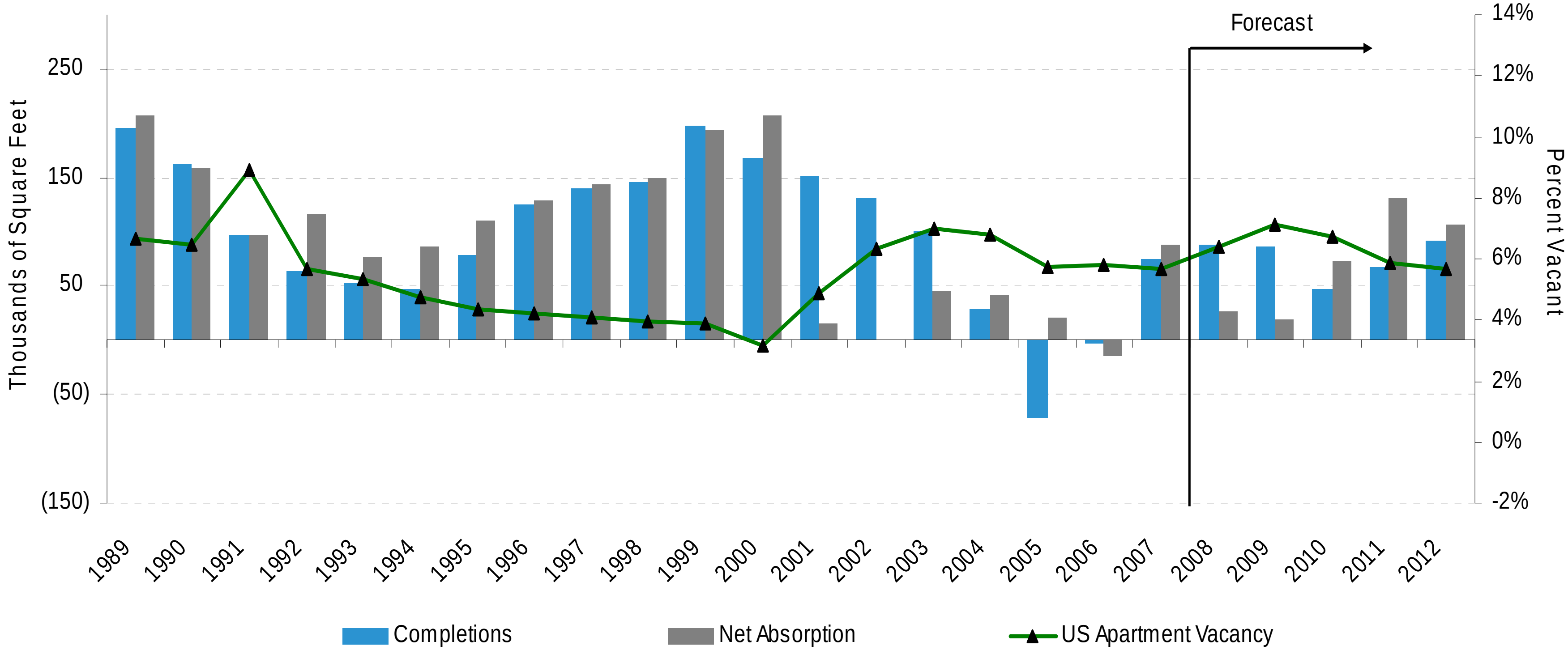
Dramatic Slowing of New Construction Activity



**Year over year growth.*
Source: American Institute for Architects, BEA.
As of December 2008.

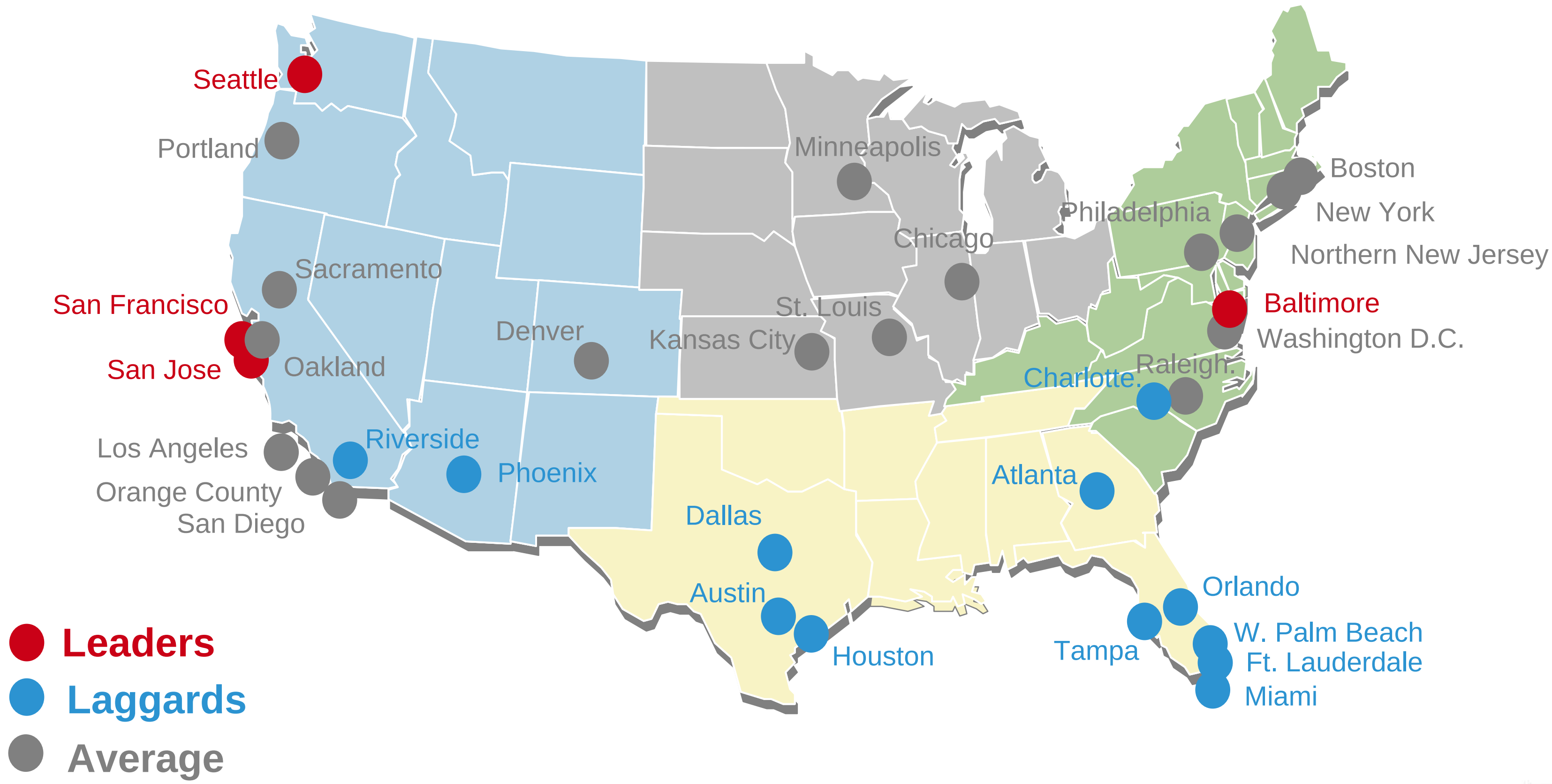
U.S. Apartment Supply and Demand: 1989 - 2012

Vacancy rate to peak similar to 2003-2004, but well below 1991



Source: RREEF Research, REIS.
As of December 2008.

The National Apartment Market



Source: RREEF Research. Based on two-year market outlook. This information is a forecast and due to certain uncertainties, and assumptions made in our analysis, actual events or results or the actual performance of the markets covered may differ from those presented.
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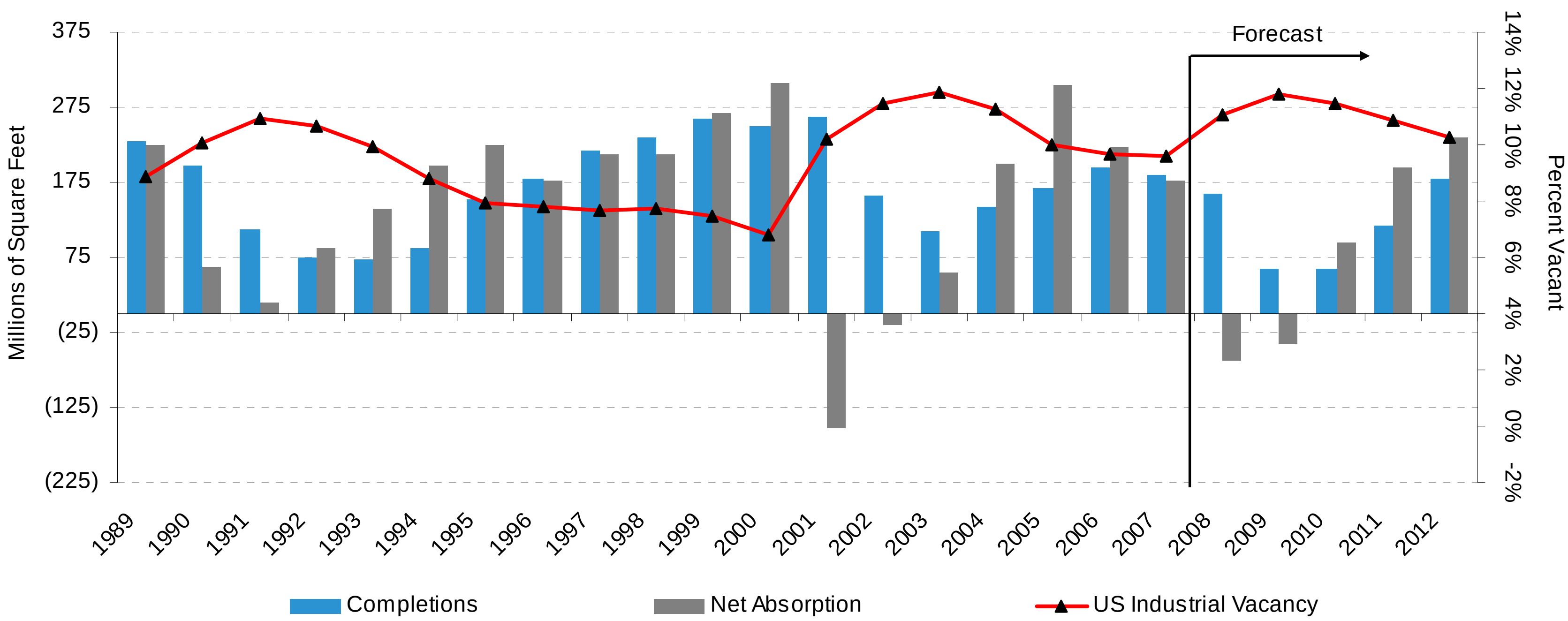
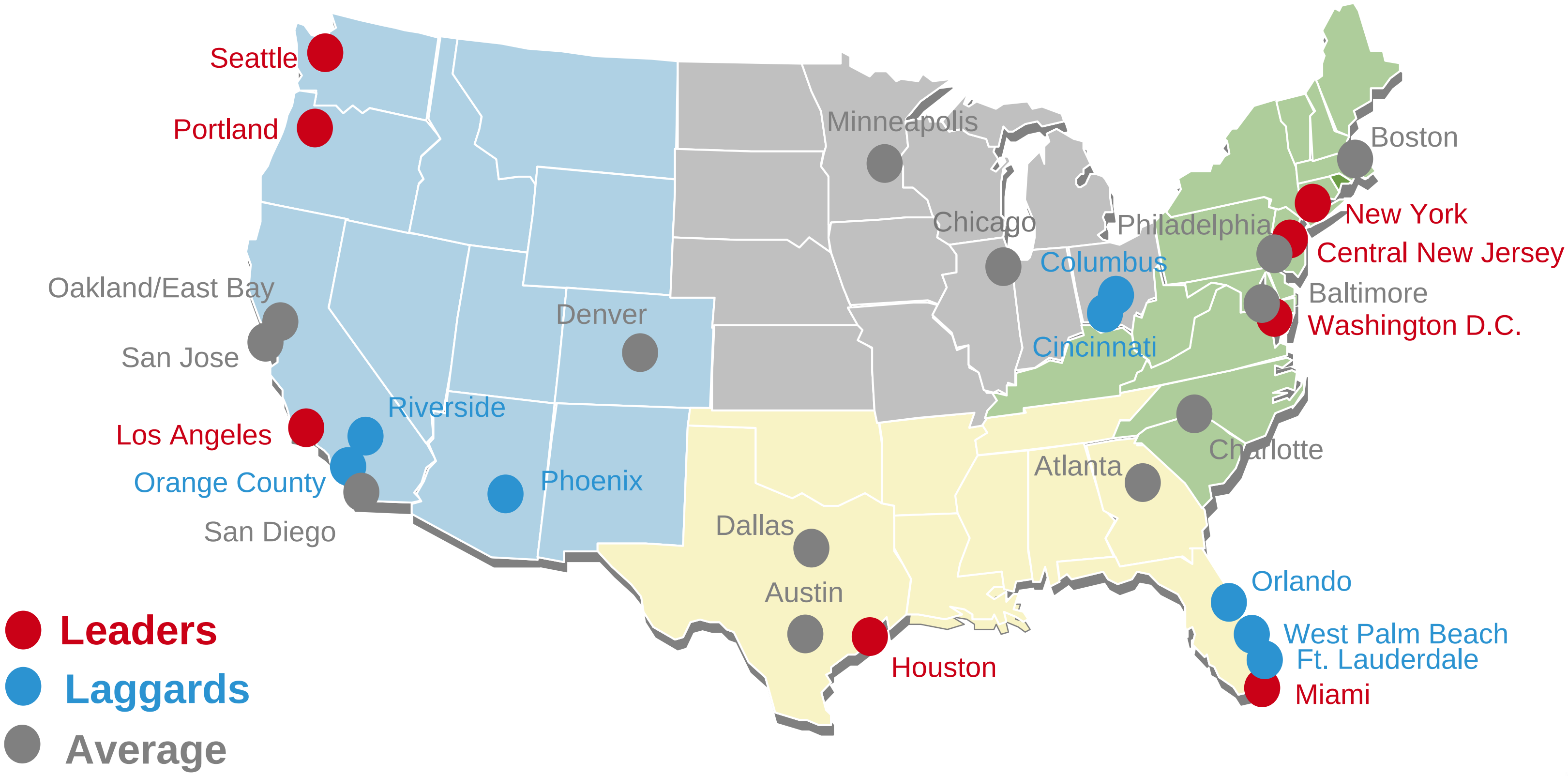
U.S. Industrial Supply and Demand: 1989 - 2012

Vacancy rate similar to past recessions



Source: RREEF Research, Torto Wheaton & Global Insight.
As of December 2008.

The National Industrial Market



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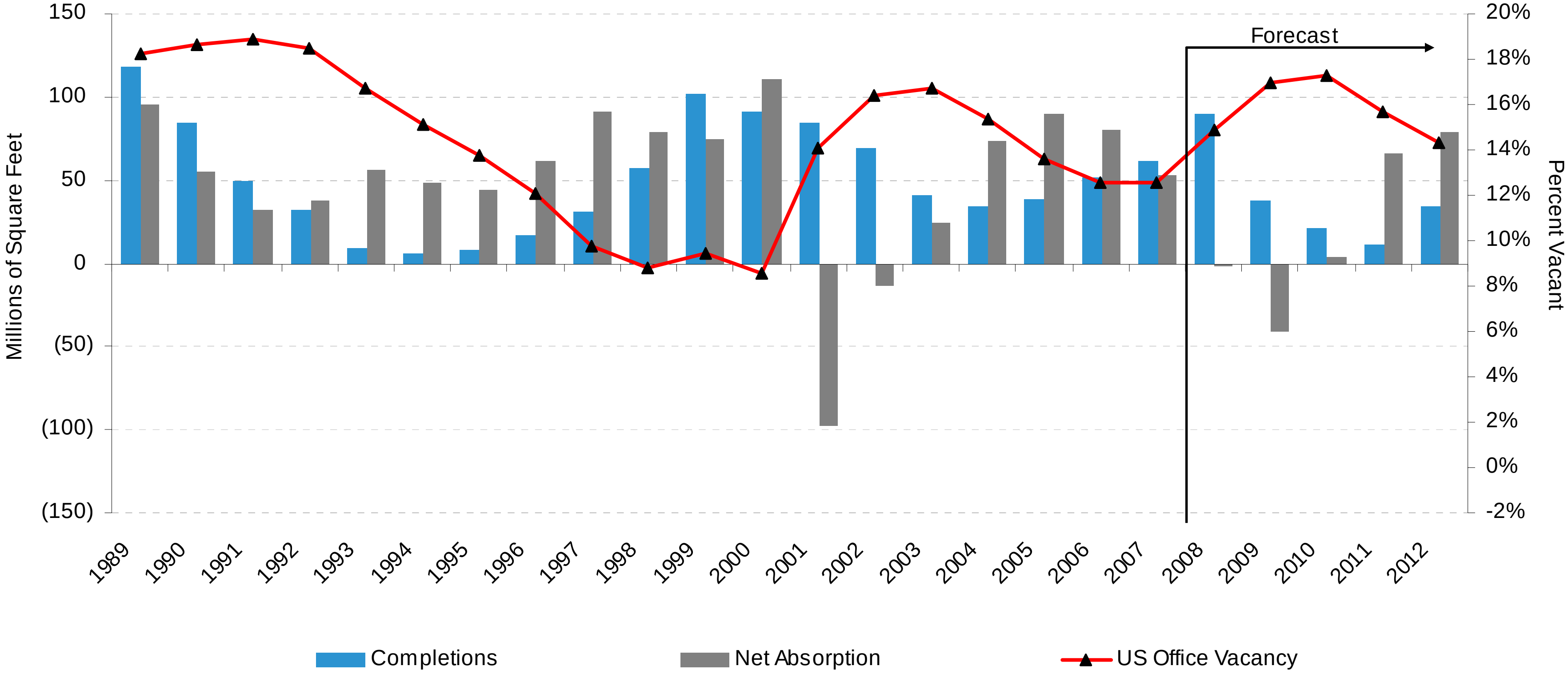
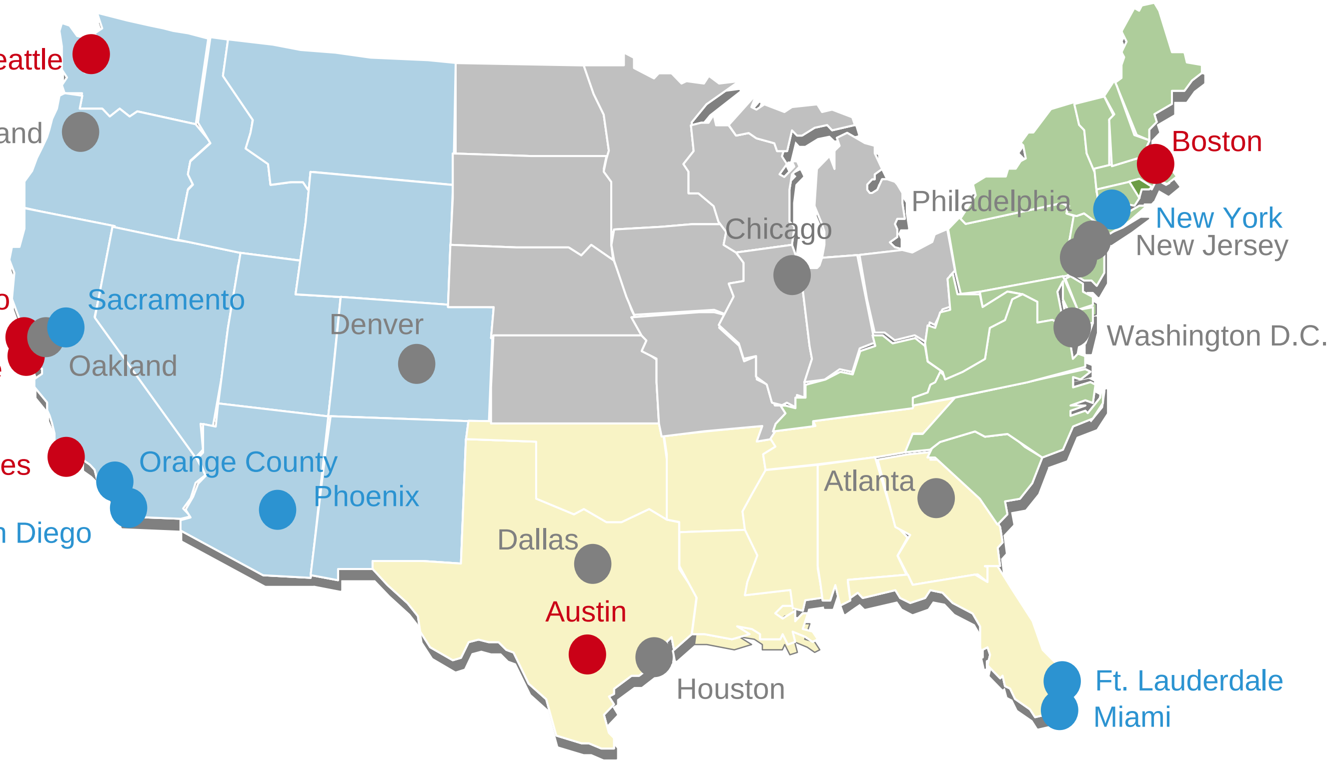
U.S. Office Supply and Demand: 1989 - 2012

Vacancy rate constrained by lower supply



Source: RREEF Research, Torto Wheaton & Global Insight.
As of December 2008.

The National Office Market



Leaders
Laggards
Average

Source: RREEF Research. Based on two-year market outlook. This information is a forecast and due to certain uncertainties, and assumptions made in our analysis, actual events or results or the actual performance of the markets covered may differ from those presented.
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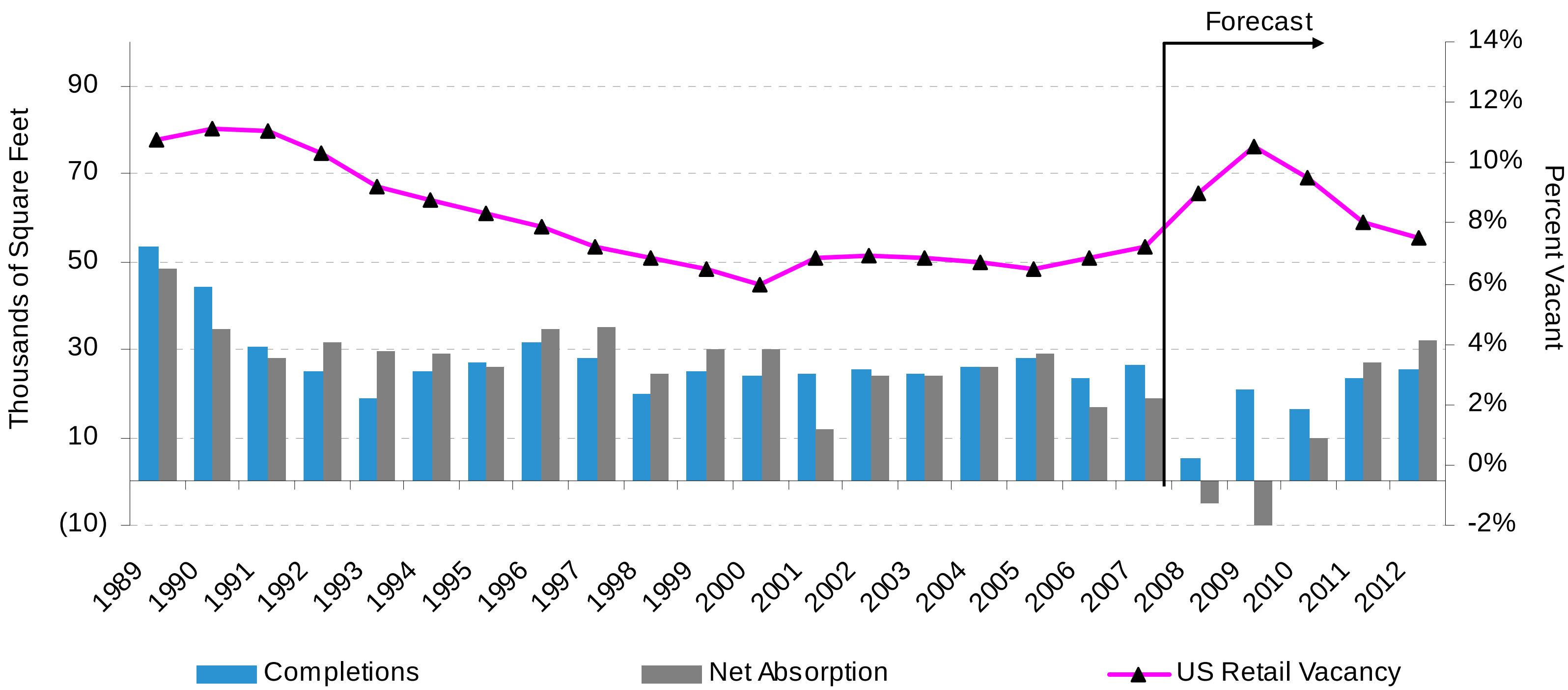
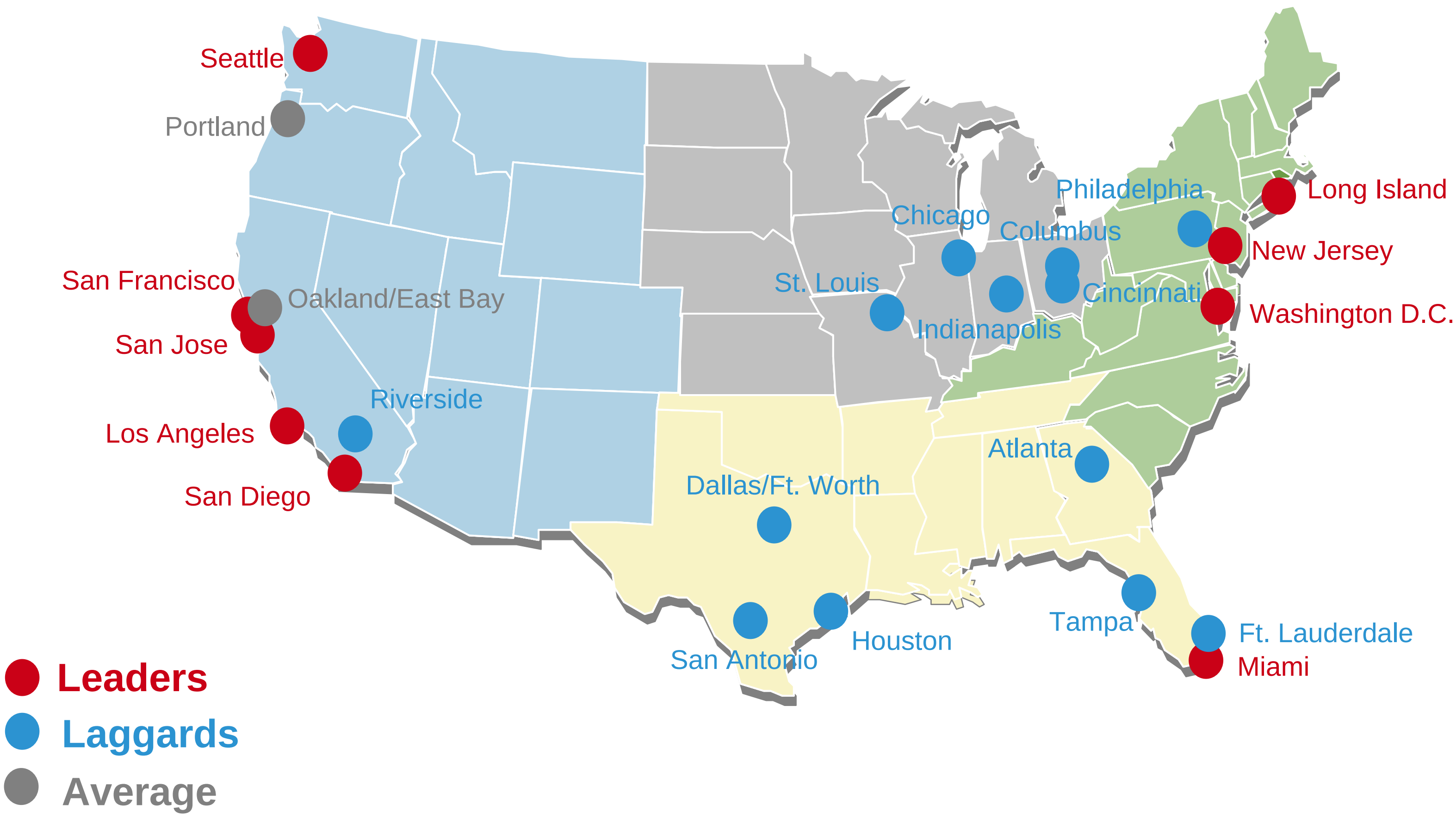
U.S. Retail Supply and Demand: 1989 - 2012

Weak demand but also restrained supply



Source: RREEF Research, REIS & Global Insight.
As of December 2008.

The National Retail Market



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Summing Up Our Real Estate Outlook

- Weak demand 2008 - 2010
- Construction pipeline largely completed in 2008
- Market recovery late in 2010 with little new supply
- Rent growth to resume for most sectors beginning in 2011
- Apartment performance will be strongest in the near term
- Industrial sector will maintain moderate performance
- Office and retail look weakest near term; recovery in longer term

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Summing Up Our Real Estate Outlook *(continued)*

2008-2009

- Coastal, supply constrained markets should outperform other regions of the country given the inherent advantage in fundamentals
- In an uncertain economy, the apartment (this time!) and industrial sectors will be defensive investments
- Markets that were most impacted by an overbuilt for-sale housing market are also likely to have troubled apartment markets, at least in the near-term. The downturn in the home construction and finance industries are impacting the overall economies of these metros, with spillover effects to the other property sectors
- Office and retail /fundamentals will weaken the most as both business and consumers retrench in response to poor credit conditions and soft demand

2010-2012

- As recovery progresses, a broader range of property sectors and metros <u>can be considered</u>
- Office and retail properties recover during the later stages of the forecast

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Best Core Investment Opportunities for 2009-2010

Apartments:	**Balanced housing markets in infill locations of major coastal metros with supply constraints**
Industrial:	**Infill locations, preferably near ports, in major coastal metros with supply constraints**
Office:	**Major CBD and inner suburban commercial centers (be wary of near term vacancy)**
Retail:	**Extreme selectivity in best located infill markets with top performing retailers**

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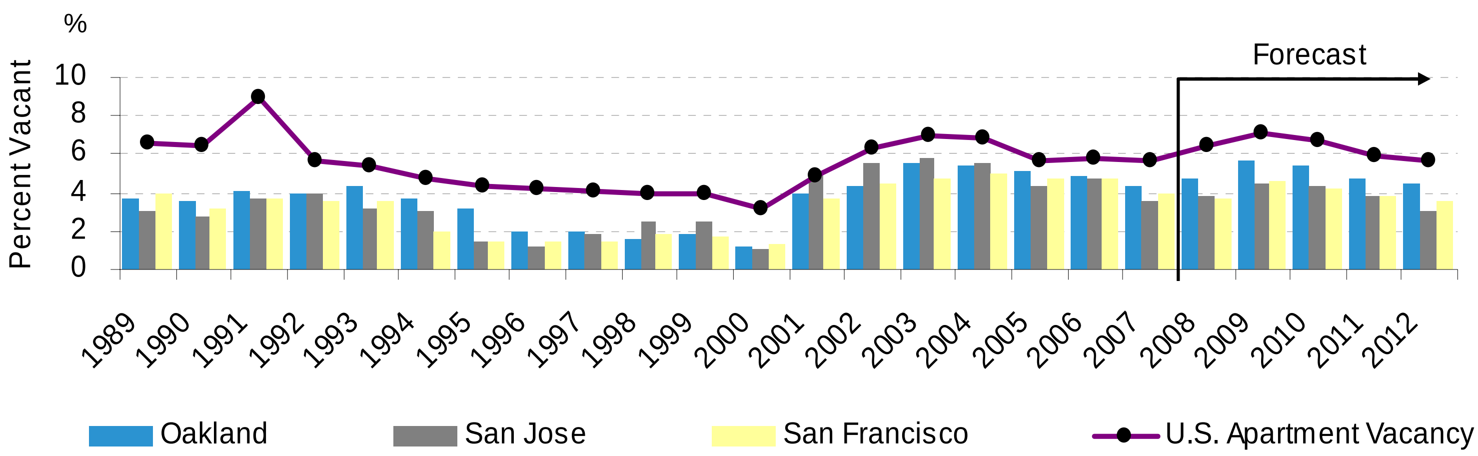
Section IV

San Francisco Bay Area Outlook

Bay Area Apartment Market

Strong Fundamentals Outperform U.S.



Source: RREEF Research and REIS.
As of December 2008.

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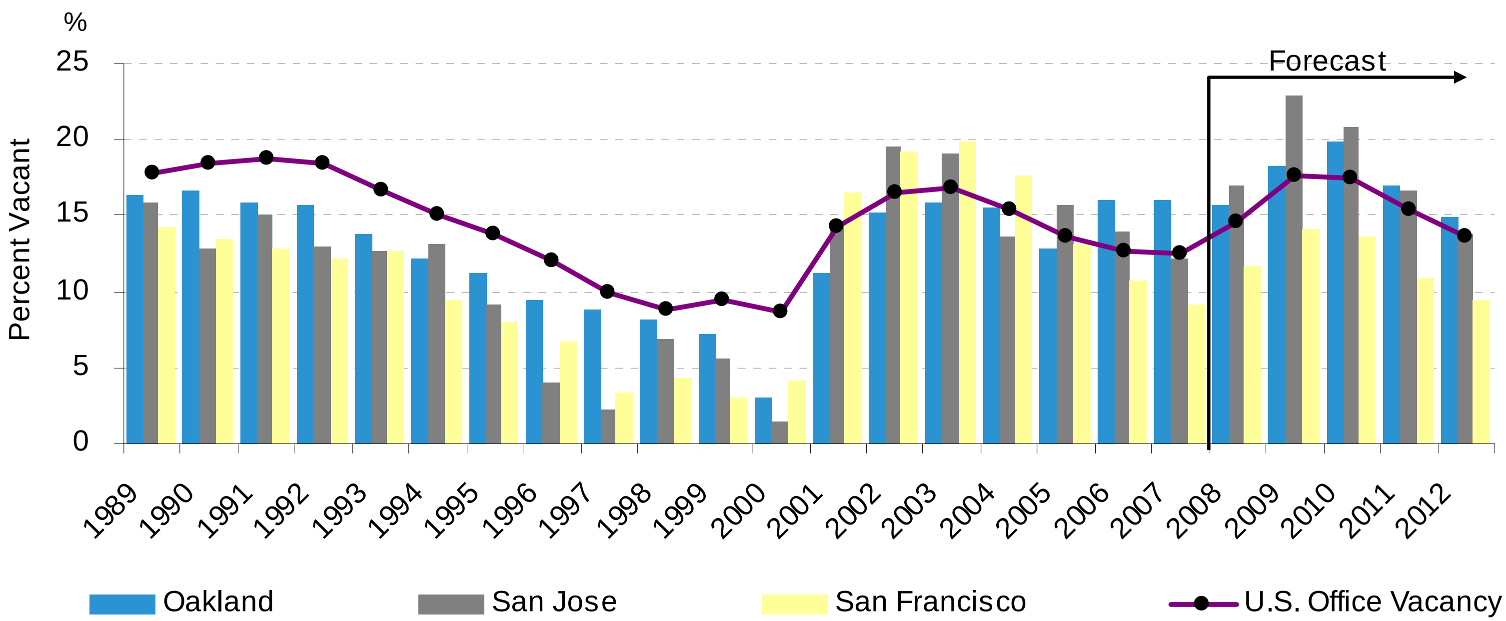
Bay Area Office Market

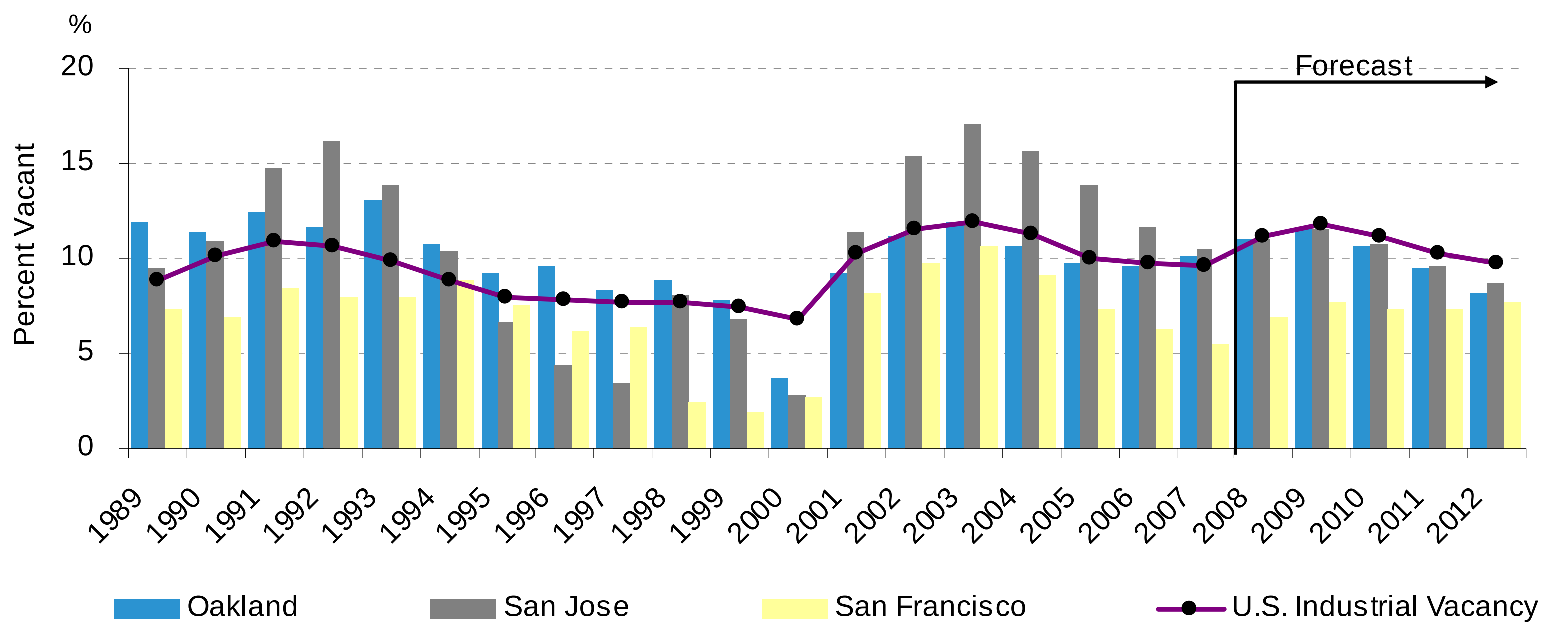
Vacancy Peaks in 2009 and recovers in 2011



Source: RREEF Research and Torto Wheaton.
As of December 2008.

Bay Area Industrial Market

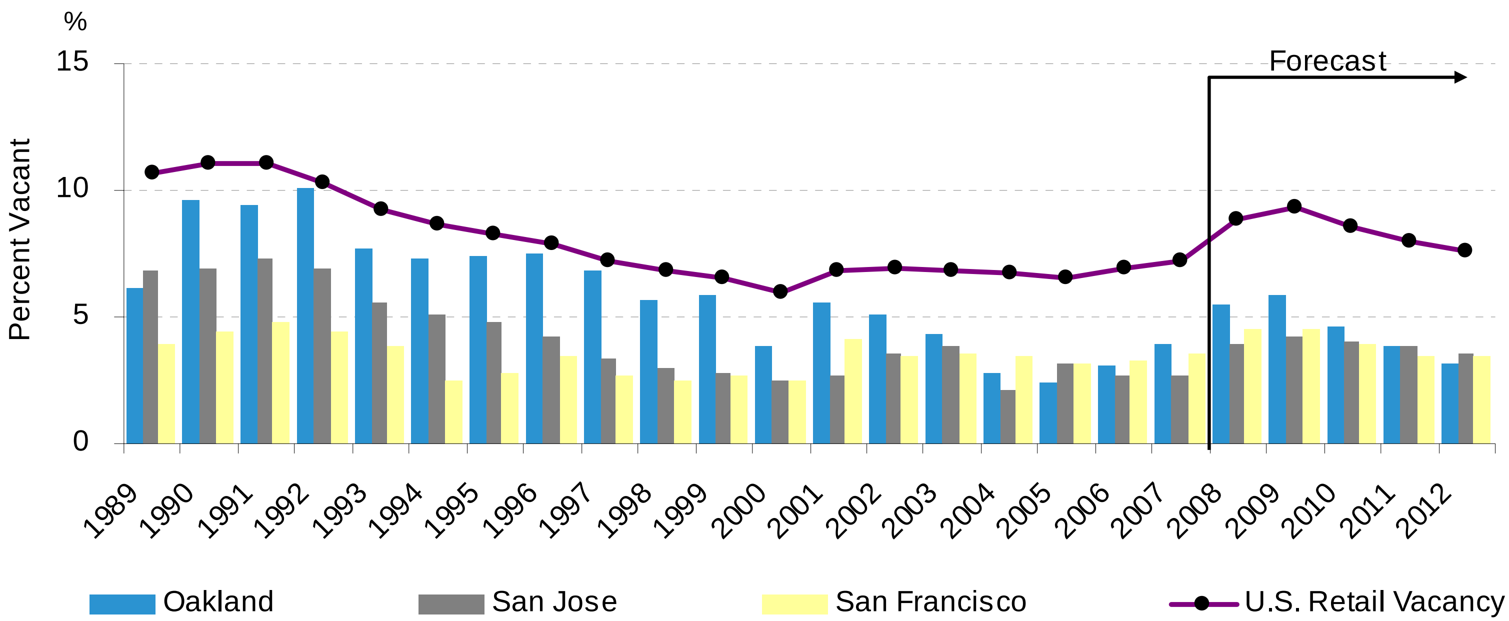
Supply Constraints Mute Vacancy Rate



Source: RREEF Research and Torto Wheaton.
As of December 2008.

Bay Area Retail Market

Sound Fundamentals: Steady Market



Source: RREEF Research and REIS.
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