



Real Estate Market Outlook 2012: A Year of Selective Opportunities

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Agenda

- I. Economy, Property Sectors and Capital Markets
- II. Property Markets

Section I

Economy, Property Sectors and Capital Markets



The economy today

- 2011 surprisingly strong given significant headwinds.
- Private sector is leading the recovery, with 1.9 million jobs; offset by 300,000 public sector losses.
- Consumers a modest positive; housing a minor negative; government continues to be a significant drag.
- Below trend economic growth will continue 2012 to 2013.
- Solid recovery beginning in 2014 with above trend growth through 2016.
- Peak employment achieved by 2014.
- 12 million to 13 million additional jobs by 2016.
- Sectors driving recovery:
 - Natural resources & energy
 - Professional and business services
 - Health care
 - Manufacturing
 - Technology

Source: RREEF Real Estate and Global Insight



Near-term economic outlook for 2012-2013

- Significant headwinds will limit growth the next couple years.
- European debt crisis could be much worse for U.S. than expected.
- U.S. banking sector is increasing caution.
- The U.S. could feel a fiscal drag in 2012.
 - Election year: few decisions will be made
 - Public sector contraction and stimulus are all expiring totaling \$261 billion in cuts, or 1.4% of GDP
 - If unemployment insurance and payroll tax is not extended, another \$160 billion in cuts, or 1.1% of GDP
- U.S. could feel a fiscal drag in 2013.
 - Sequester \$109 billion or nearly 1% of GDP
 - If Bush tax cuts expire, \$255 billion or 1.8% of GDP
- Housing market is still finding its bottom, and will provide modest boost in 2013.
- Jobs forecast: 1.6 million jobs in 2012 and 1.9 million in 2013.

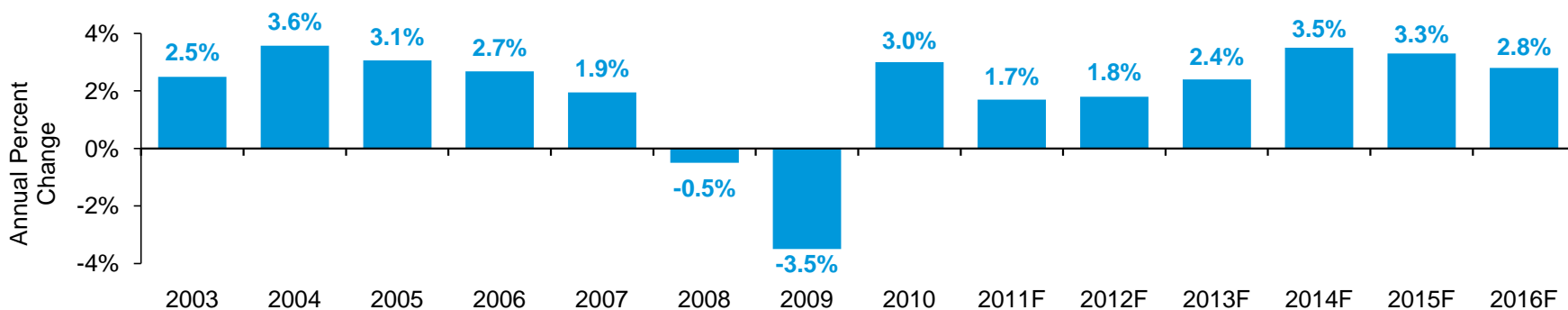
Source: RREEF Real Estate and The Economist. As of November 2011.



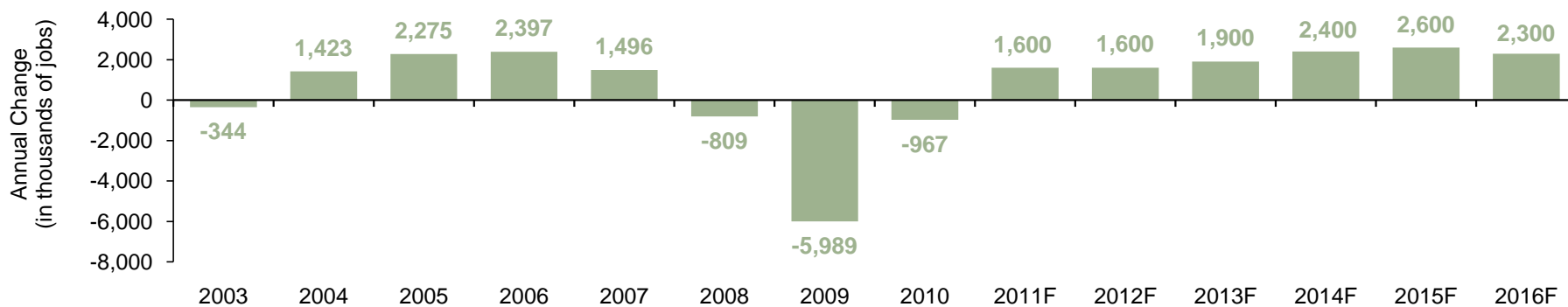
2012 – 2016 economic outlook

Slow growth through 2013; stronger recovery begins in 2014

2003 to 2016 Annual GDP Growth



2003 to 2016 Annual Job Growth



F = Forecast.

Sources: IHS Global Insight, RREEF Real Estate.

As of December 2011.



Vacancy rate forecasts: 2011 - 2016

National Vacancy Rate Trends

	2008	2009	2010	Forecast 2011	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015	Forecast 2016
Apartment	6.8%	8.2%	6.7%	5.6%	4.8%	4.4%	4.3%	5.1%	5.6%
Industrial	11.8%	14.3%	14.3%	13.5%	12.3%	11.1%	10.3%	10.2%	10.2%
Office	14.2%	16.6%	16.5%	16.1%	15.5%	14.2%	12.6%	12.0%	12.3%
Retail	8.7%	10.3%	10.7%	10.8%	10.3%	9.6%	9.3%	9.0%	9.1%

**Office properties experienced higher vacancy rates during the 1990's downturn, but all other properties hit historical highs.*

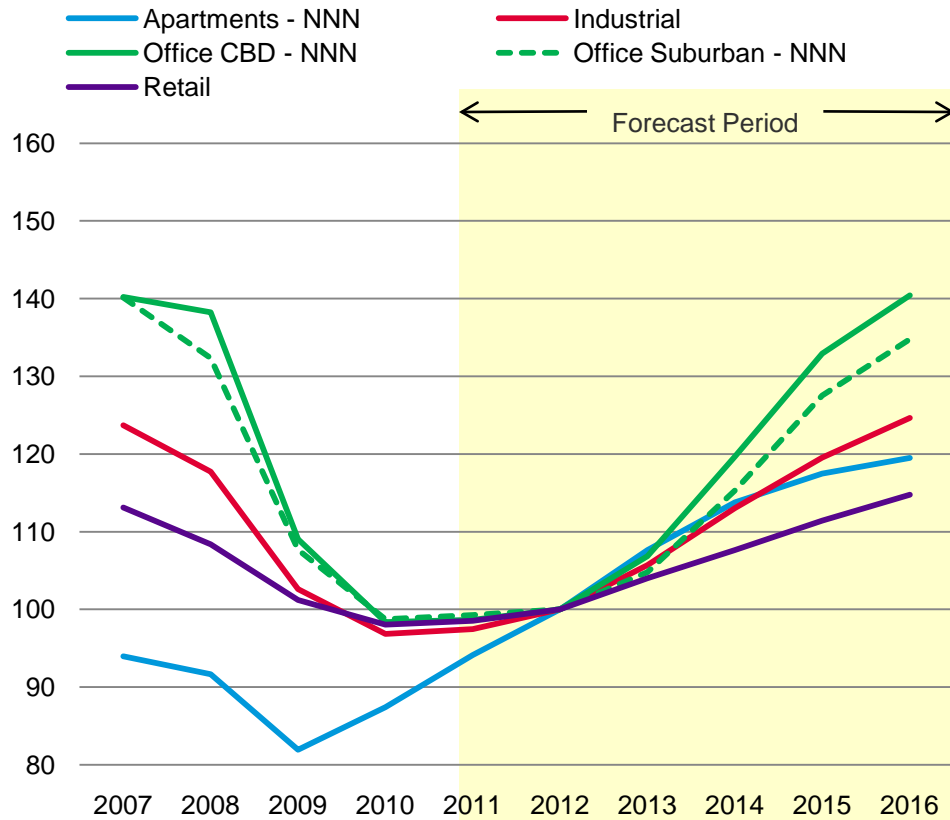
Forecasts are of the market and not of a RREEF product.

Sources: REIS Reports, CBRE-EA, RREEF. As of November 2011.

U.S. average rent growth in sum of markets surveyed, by sector (2011 = 100)



Rent growth from market peak: office to outperform in the longer term



Sector*	2011	2012	2013	2014	2015	2016
Apartments	5.8%	4.9%	5.9%	4.6%	2.9%	1.8%
Industrial	0.6%	2.6%	5.7%	6.9%	5.8%	4.3%
Office-CBD	1.0%	1.6%	4.9%	8.1%	7.8%	4.4%
Office-Suburb	1.1%	1.2%	3.7%	6.9%	7.4%	4.4%
Retail	0.5%	1.5%	4.0%	3.5%	3.5%	3.0%
NNN Equivalent Growth						
Apartments	7.7%	6.2%	7.6%	5.7%	3.3%	1.7%
Office CBD	0.3%	1.4%	6.9%	12.0%	11.1%	5.6%
Office Suburb	0.5%	0.7%	4.8%	10.0%	10.6%	5.7%

- CBD office will be top performer
- Retail will lag
- Apartment growth will recede

*Industrial and Retail are forecast on NNN basis. Apartments and Office are forecast based on Gross Rents, and these are converted to NNN equivalent, assuming 2% per year expense increases, for consistency in comparison across sectors. Data represents the unweighted average of markets surveyed by RREEF.
Source: RREEF Research. As of December 2011.



Capital markets summary

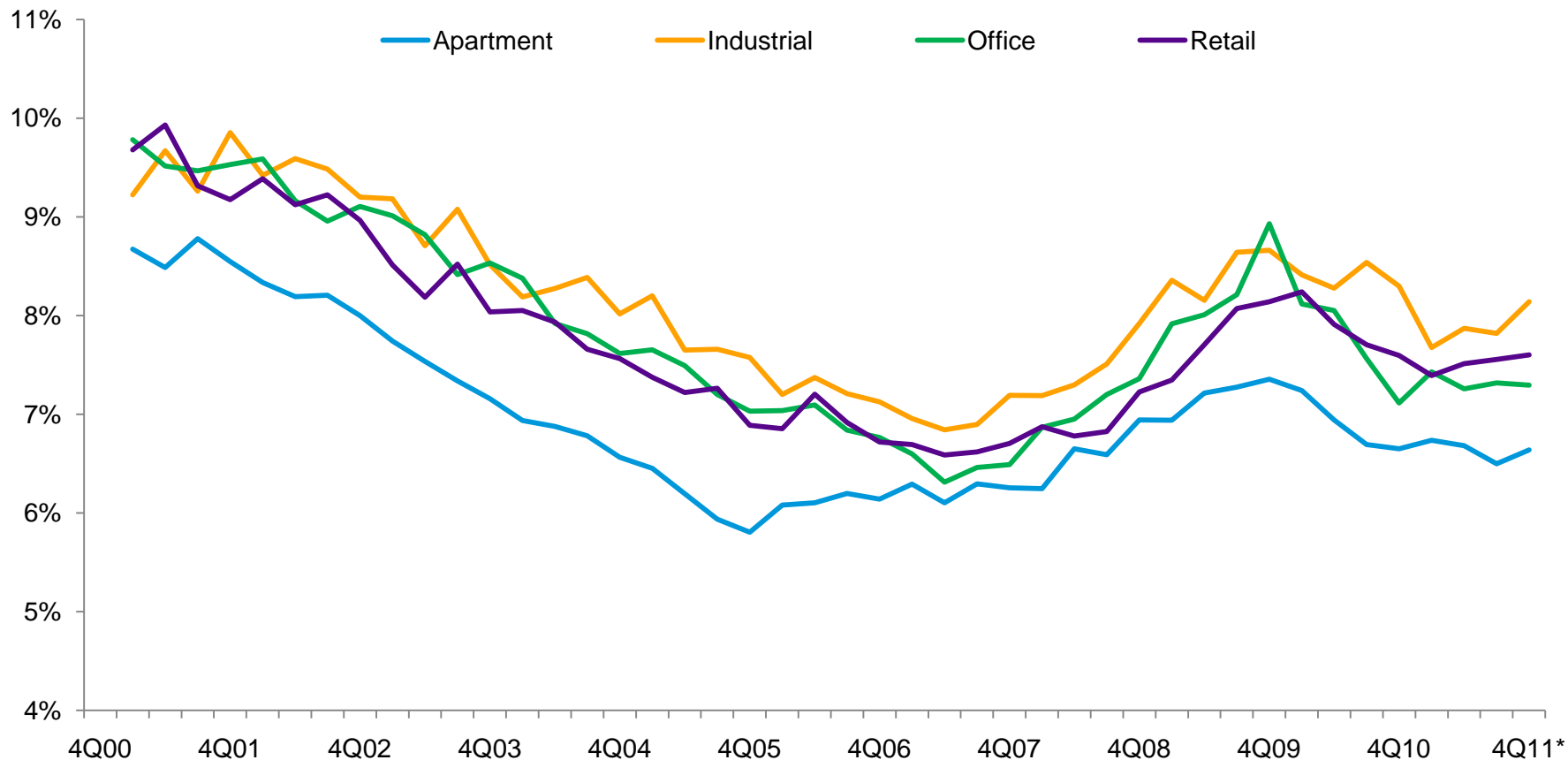
- Steady increase in transaction volume stabilizing at 2003/2004 levels.
- Treasury rates will remain at record lows, while all asset classes are at higher risk, making real estate look attractive.
- Capitalization rates are stabilizing, with possible risk of decompression in certain markets
- Strong investor demand for primary gateway markets expected to continue.
- Some investor demand pick-up for the better second-tier markets.
- Weak demand for underperforming markets.
- Increased interest in class B properties in top locations.
- Weak demand for industrial flex, suburban office and retail power centers.
- Financial institutions are working through the distress.
- Debt for core properties is highly available, but still scarce for properties with poor income yields.

Source: RREEF Real Estate, as of January 2012.



Capitalization rates are flattening after re-compression

U.S. Transaction Capitalization Rates 2001 to 4Q2011*



*4Q 2011 only includes October data.

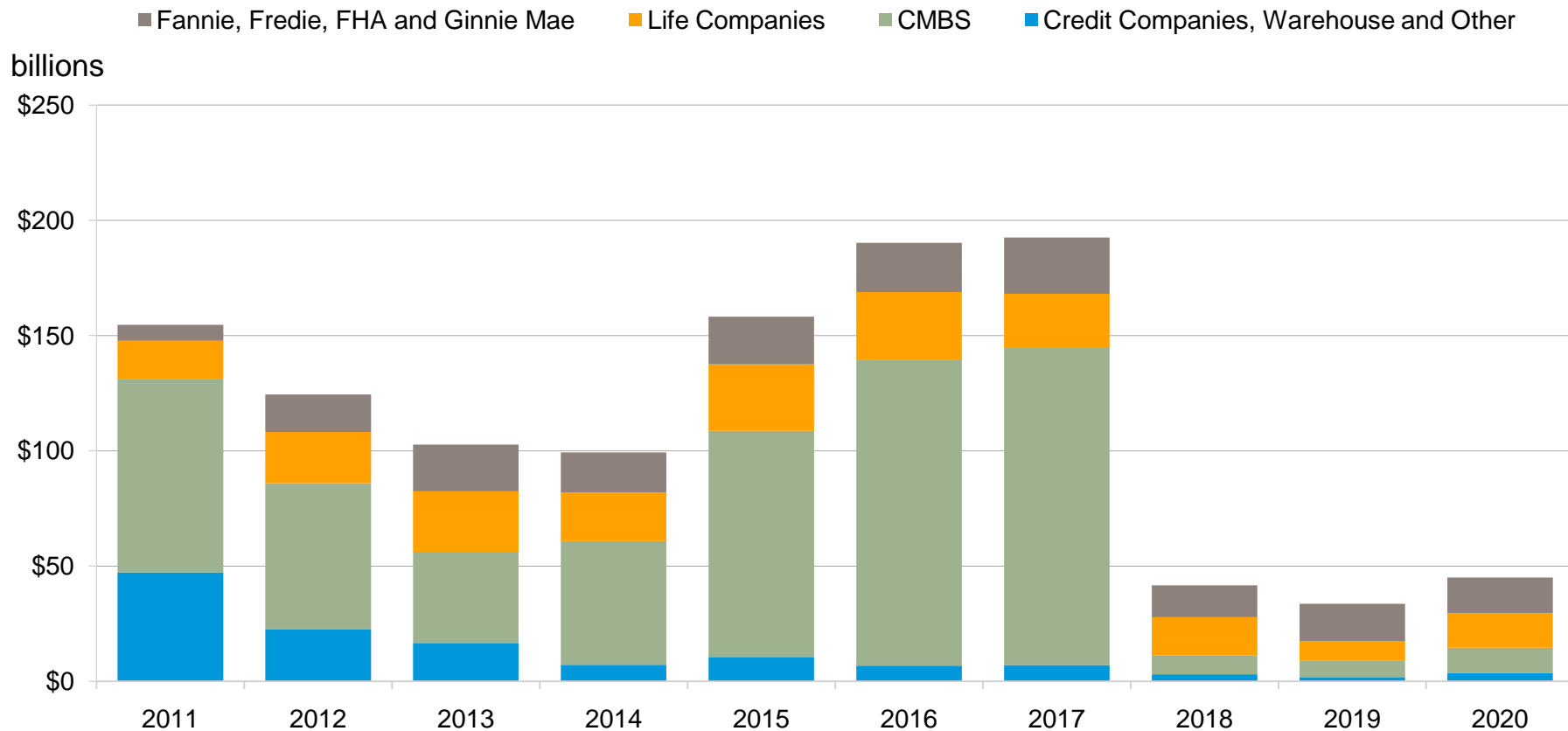
Sources: Real Capital Analytics and RREEF. As of November 2011



Commercial mortgage maturities peak

Too early to say we have “dodged the bullet!”

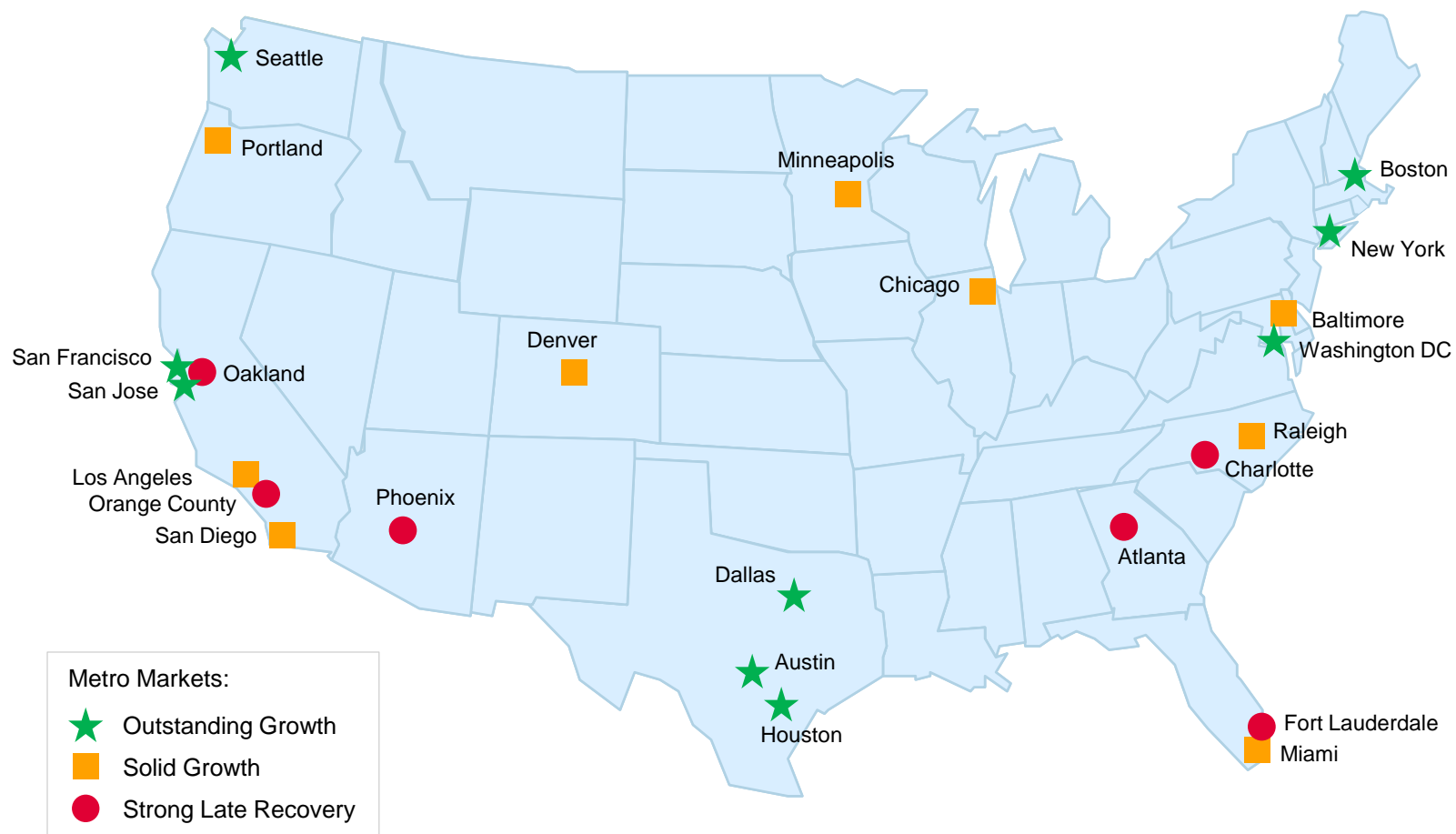
CRE Mortgage Maturity Schedule – Not including Banks



Sources: MBA. As of 2011.



Growth prospects by metro market



Note: Includes cities with over 500k jobs.

Source: Economy.com & RREEF Research, as of November 2011.

Section II

Property Markets



Apartments: pros & cons

The Pros

- Best performing property sector to date , with strong near term prospects due to strong drivers of demand.
- Strong demographic support from prime renter age cohort (“echo boomers”), and stronger job growth forecast 2014+ will accelerate demand.
- The spread in cap rates relative to the other property sectors has narrowed, with total returns more comparable to other prime properties.
- Continued distress in the for-sale housing market encourages a sentiment that favors renting over buying.
- Attractive debt is readily available from multiple sources, and no longer dependent upon the GSEs.

The Cons

- Well into the growth cycle, allowing for less future increase in NOI than other sectors.
- Rent levels, already past their previous peak, will experience affordability issues after a few more years of growth.
- Although strong demand is forecast, new deliveries are expected to ramp up between 2014 and 2016, dampening rent growth.
- The cost differential between owning and renting has narrowed significantly, and in some metros, it has reversed.
- Low cost markets could particularly slower growth in rents, as new supply competes with a resurgent for-sale market.

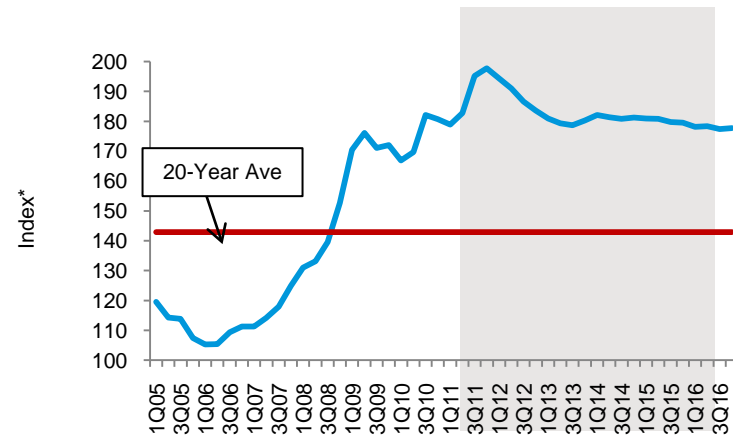
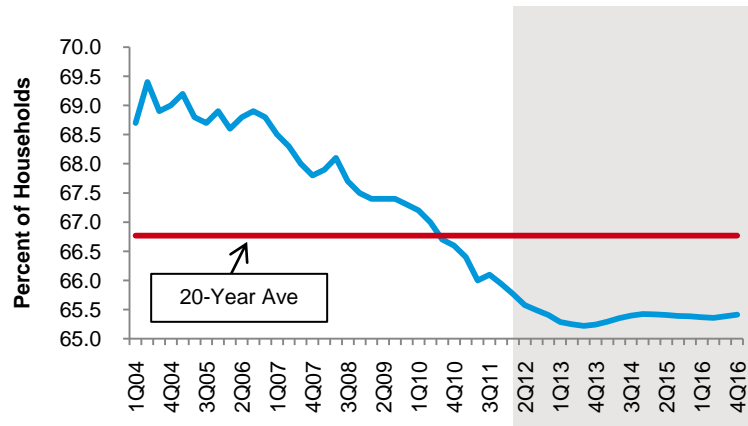
Wildcards

- At some point, households will take advantage of a highly favorable for-sale market?
- The pipeline for new apartments is growing quickly, and could lead to over-building in some markets.
- The GSEs are likely to be altered after the 2012 election, in ways that could negatively impact debt for rental and/or for-sale housing.

Source: RREEF Real Estate. As of January 2012.

Apartment market indicators remain favorable

Homeownership Rate



- The current homeownership rate of 66.1% is at its lowest level since 1998 and is 3.3 percentage points below the 2004 peak.
- Home foreclosures and tightening mortgage credit are keeping households in the rental market.
- Home prices continue to fall ensuring lack of confidence in homeownership.
- Homeownership affordability is at a record high.
- Single family home construction is at record lows, while new multifamily starts are ramping up dramatically.

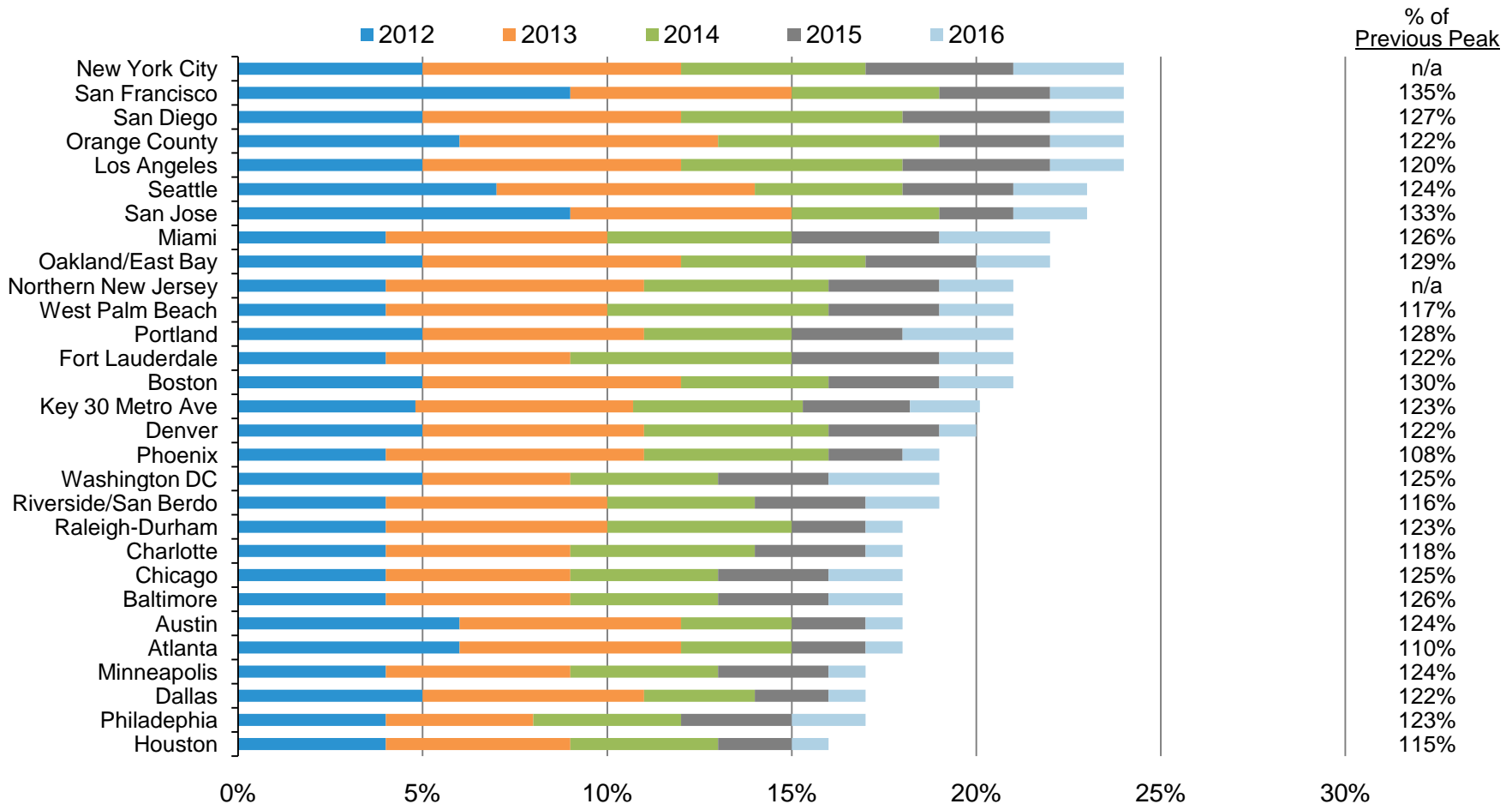
Note: (*) A value of 100 means that a family with the median income has exactly enough income to qualify for a typical mortgage on a median-priced single-family home. An index above 100 signifies that the family has surplus income.

Source: Census, NAR, Moody's Analytics, RREEF. As of December 2011.

Apartments: growth frontloaded – affordability could be an issue in outer years



Cumulative Rental Growth Rate (%), 2012-2016

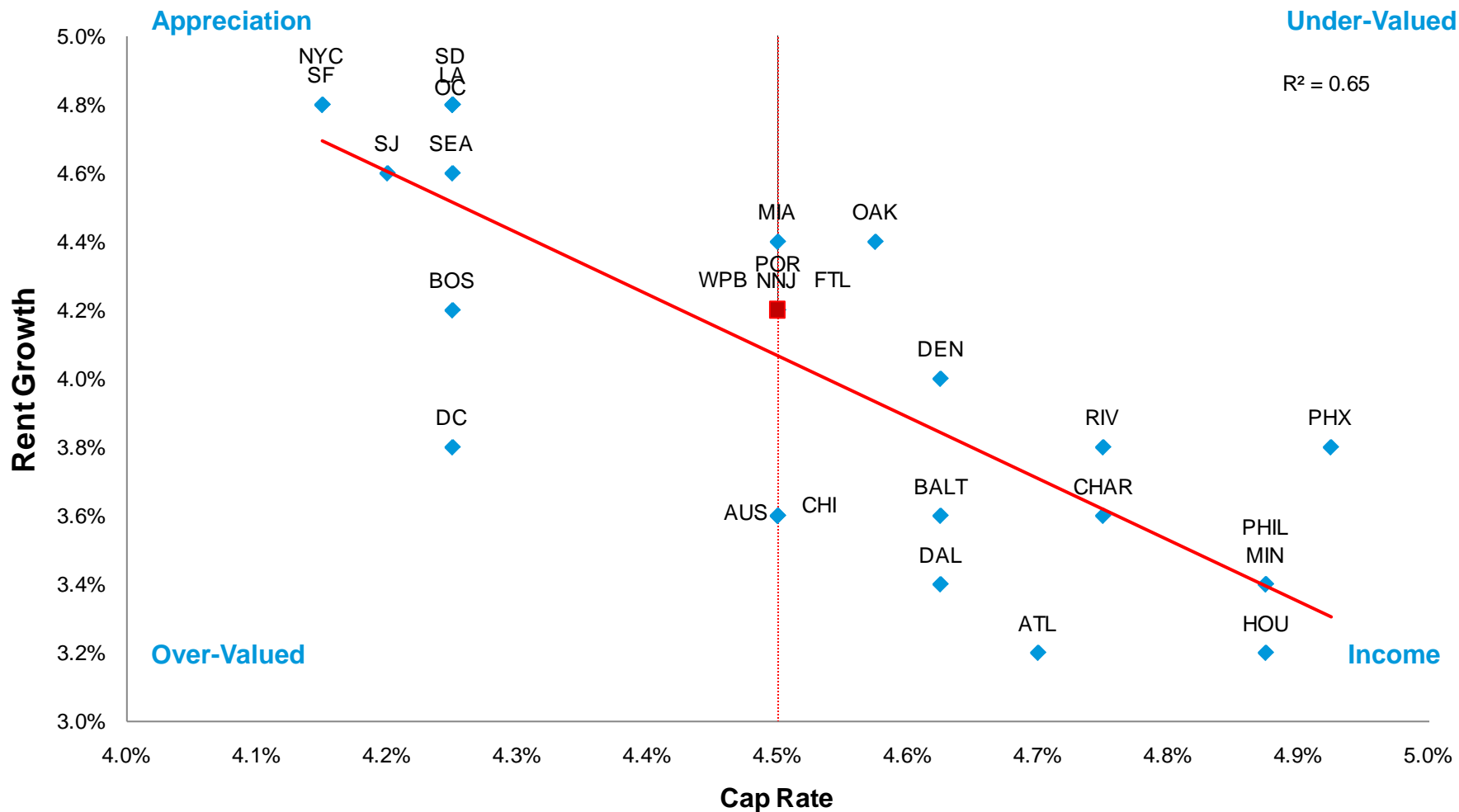


Source: RREEF Real Estate. As of December 2011.



Apartments: Best potential total return opportunities

Apartment Rent Growth 2012-2016 vs Cap Rate



Note: Best investment opportunities lie above the red diagonal line.

Source: RREEF Research, As of January 2012.



Industrial: pros & cons for investors

Pros

- Market fundamentals decidedly in recovery, with occupancy increasing across the majority of US metros in 2011.
- Rents stabilized 20% to 30% below peak levels, allowing for substantial growth in recovery.
- Recovery drivers for industrial linked to favorable parts of economy; expanding US population, forecasted job gains, linkages to growth in Asia and Latin America, manufacturing, high tech, exports and industrial services.
- Investor demand is highly selective currently, creating favorable price opportunities in some excellent markets. Higher yields and lower capital expenditures than other sectors make this a good income vehicle.
- Institutional quality assets available in relatively small capital chunks, unlike other sectors, allowing for high quality diversification in smaller portfolios. Larger bulk warehouses provide stable bond-like income streams for larger portfolios.

Cons

- Moderate consumer spending growth and lean inventories are dampening bulk warehouse space demand in near term. A weak dollar will slow growth in imports, a major driver for bulk warehouse
- Small-tenant industrial product is linked to lagging growth drivers, employment and housing. Tight credit environment, although improving, limits growth for such businesses.
- Continued weak housing market is tempering upside for industrial space demand.
- Changes in trade routes (Panama Canal opens in 2015) will make large bulk warehouse hubs more competitive, giving retailers and 3PLs more location options.
- Large-bay warehouses, especially in commodity locations, will incur significant lease-up risk due to functional obsolescence or substitutable locations.

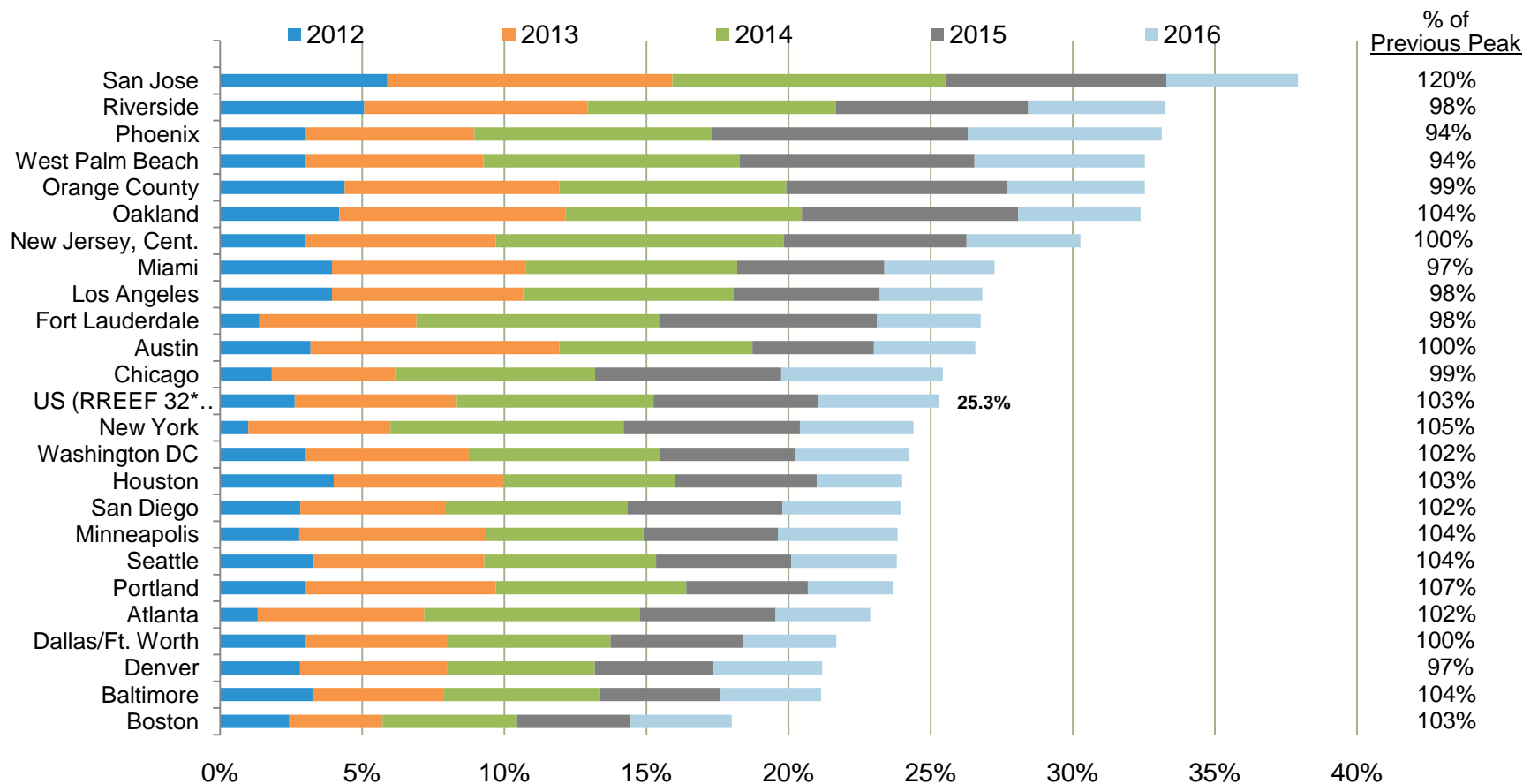
Source: RREEF Real Estate. As of December 2011.



Industrial: 2012 – first year of broad rent growth and stronger gains in 2013-2015

Markets with lower average growth are closer to prior peaks and replacement rent levels

Cumulative Rental Growth Rate (%), 2012-2016

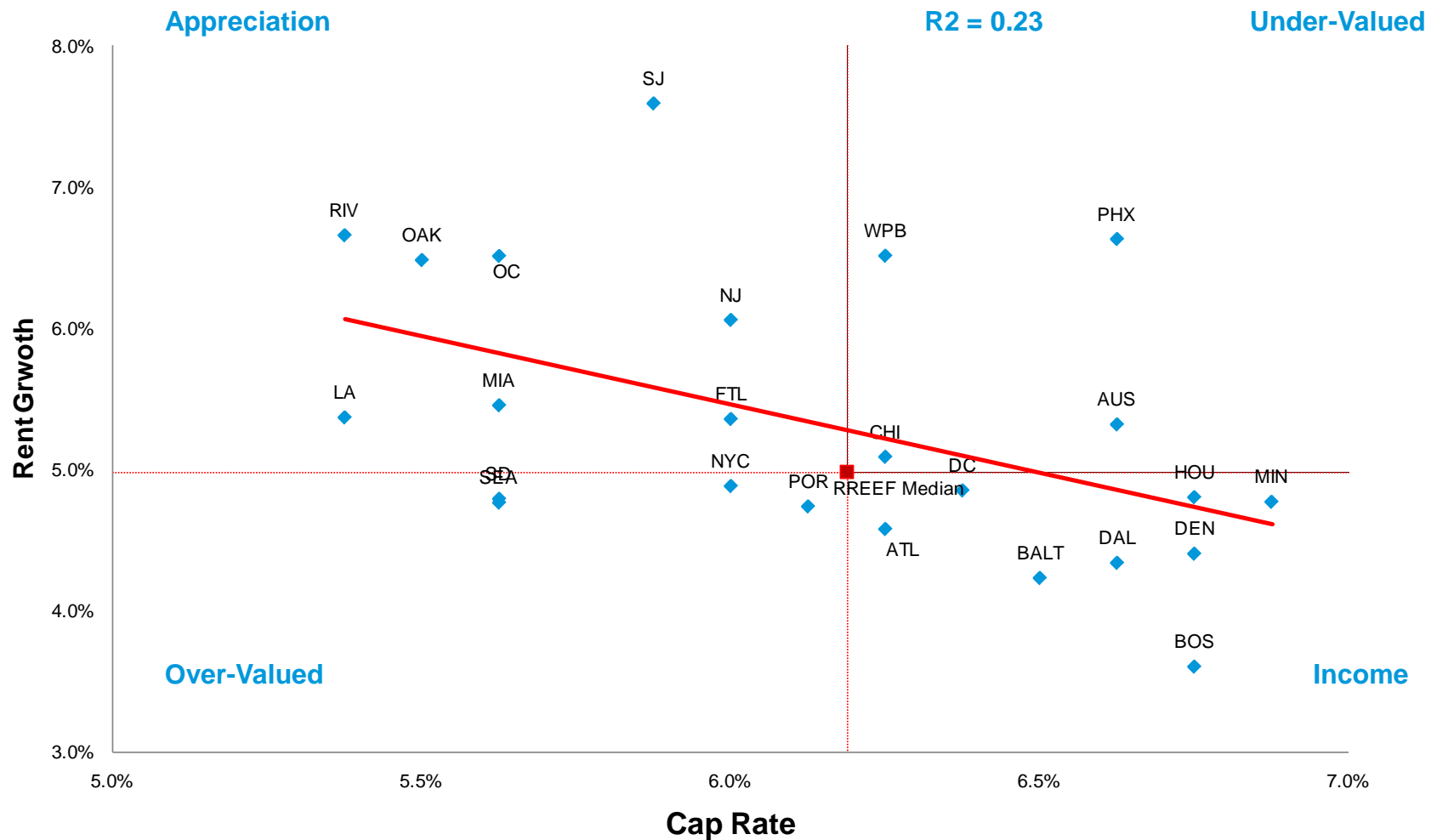


Source: RREEF Research. As of July 2011.



Warehouse: best potential total return opportunities

Warehouse Rent Growth 2012-2016 vs Cap Rate

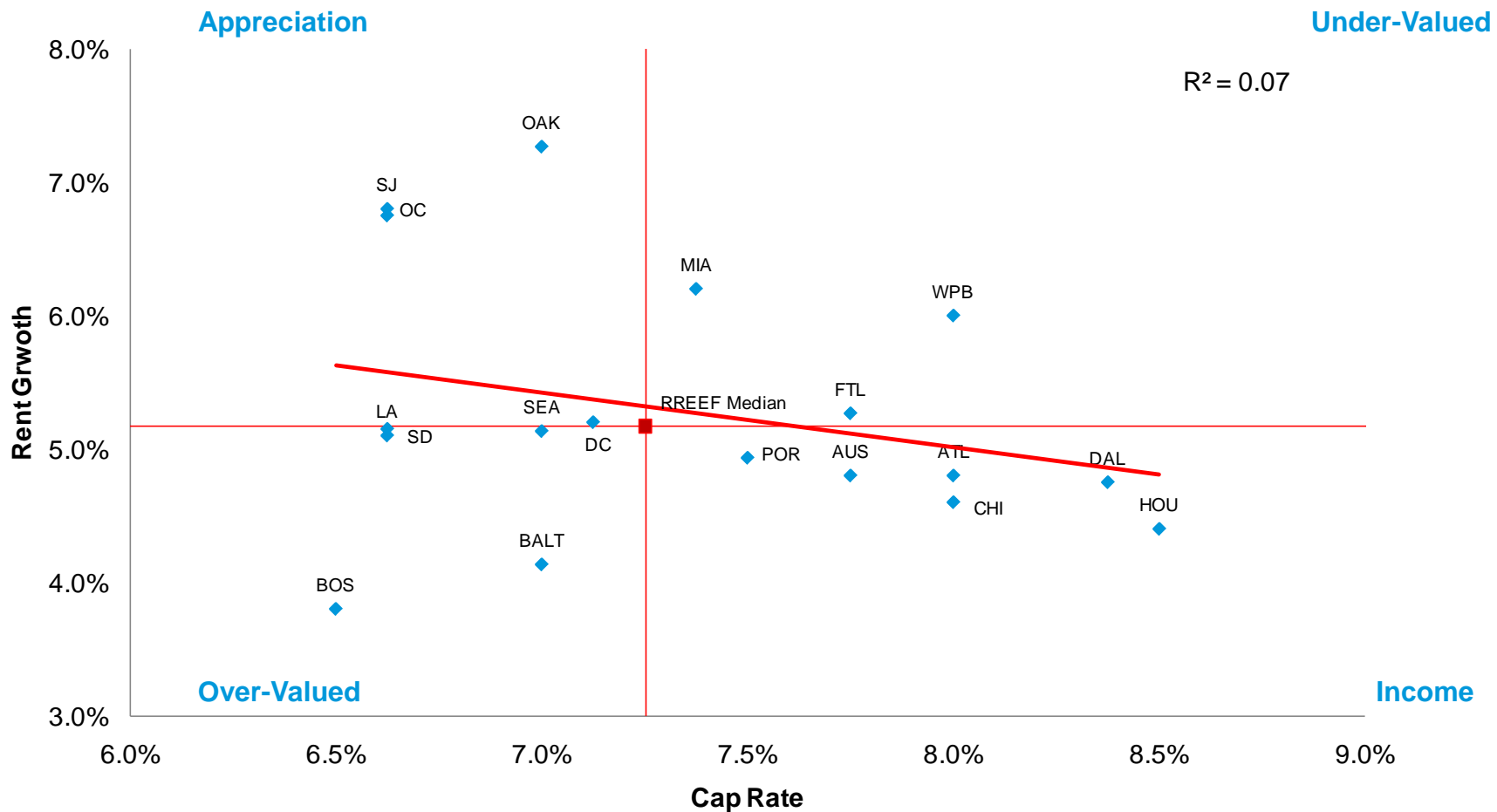


Note: Best opportunities lie above the red line.
 Source: RREEF Research, As of January 2012.



Flex: best potential total return opportunities

Flex Rent Growth 2012-2016 vs Cap Rate



Note: Best opportunities lie above the red line.
 Source: RREEF Research, As of January 2012.



Office: pros & cons

The Pros

- Leading submarkets posted rent gains in 2011 ahead of the pace forecast a year ago, with San Francisco, Austin, San Jose, New York, Boston and Houston as the top metros .
- Office was not oversupplied during the last cycle, but markets heavily impacted by the recession will require time to recover.
- Select suburban submarkets are poised for high rent growth recovery, providing investment opportunities.
- As in other periods of economic recovery, office employment growth is occurring at a faster pace than average job growth.
- The office sector is forecast to generate the highest returns of all property sectors over the mid-term.

The Cons

- The sector is the most directly dependent on job growth, which is expected to be lackluster during the next two years.
- Recovery is not yet widespread, and is limited to specific submarkets, even within the healthiest metros.
- An increased emphasis on space efficiencies by tenants, along with shadow vacancy, is a drag on future absorption.
- Markets that have been leading the recovery are already richly priced.
- Lagging markets still have a long way to go to recover.

Wildcards

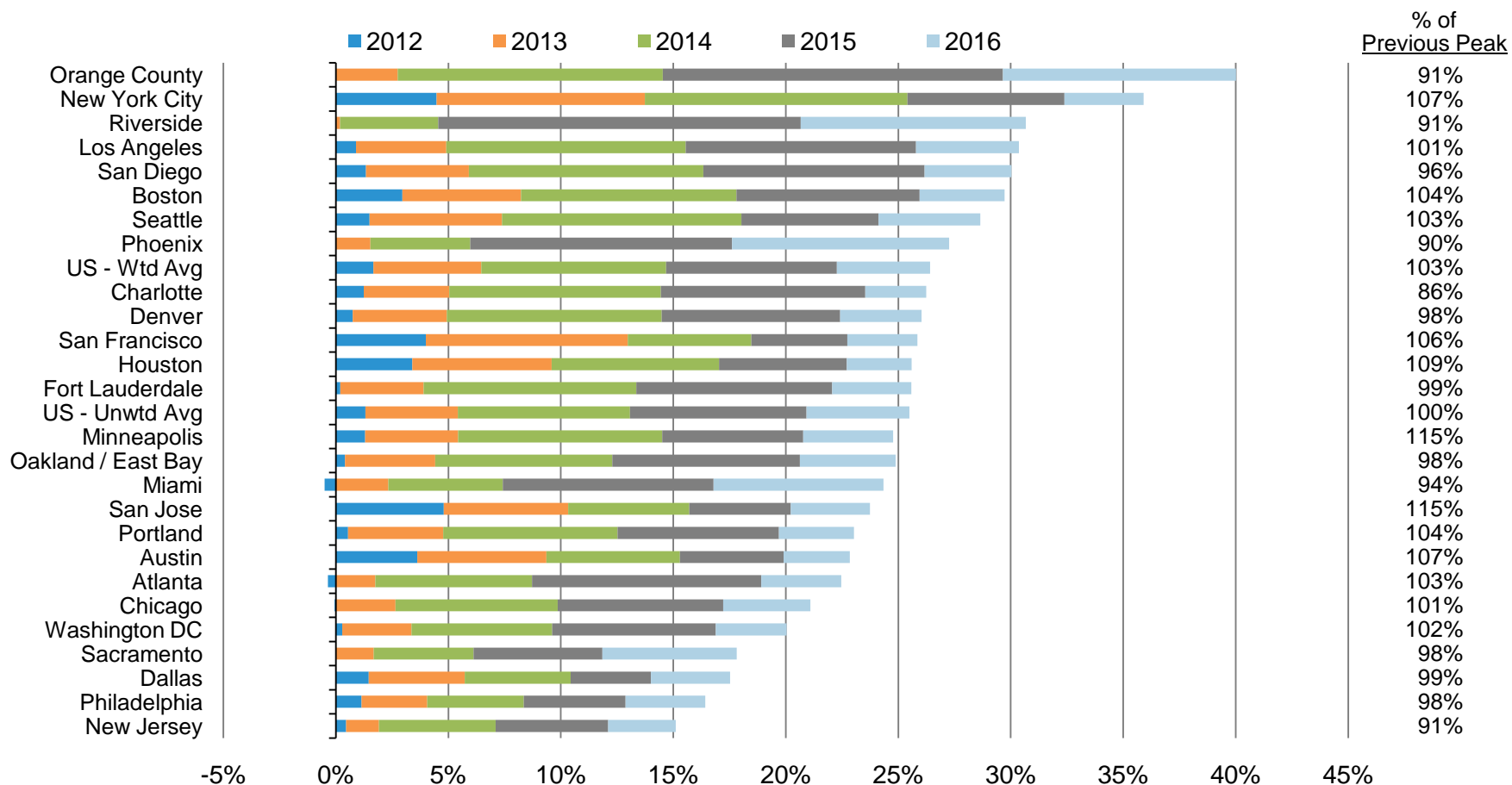
- Cuts in government spending could be more significant than forecast, negatively impacting forecasts for some metros.
- A global financial crisis, most likely in Europe, could negative impact US banking more than forecast.
- Tenants may adjust their space demand even more than forecast, as employees utilize space differently.

Source: RREEF Real Estate. As of December 2011.



Office: early recovery metros like San Francisco and Austin move down in ranking as rent growth is now behind them

Cumulative Rental Growth Rate (%), 2012-2016

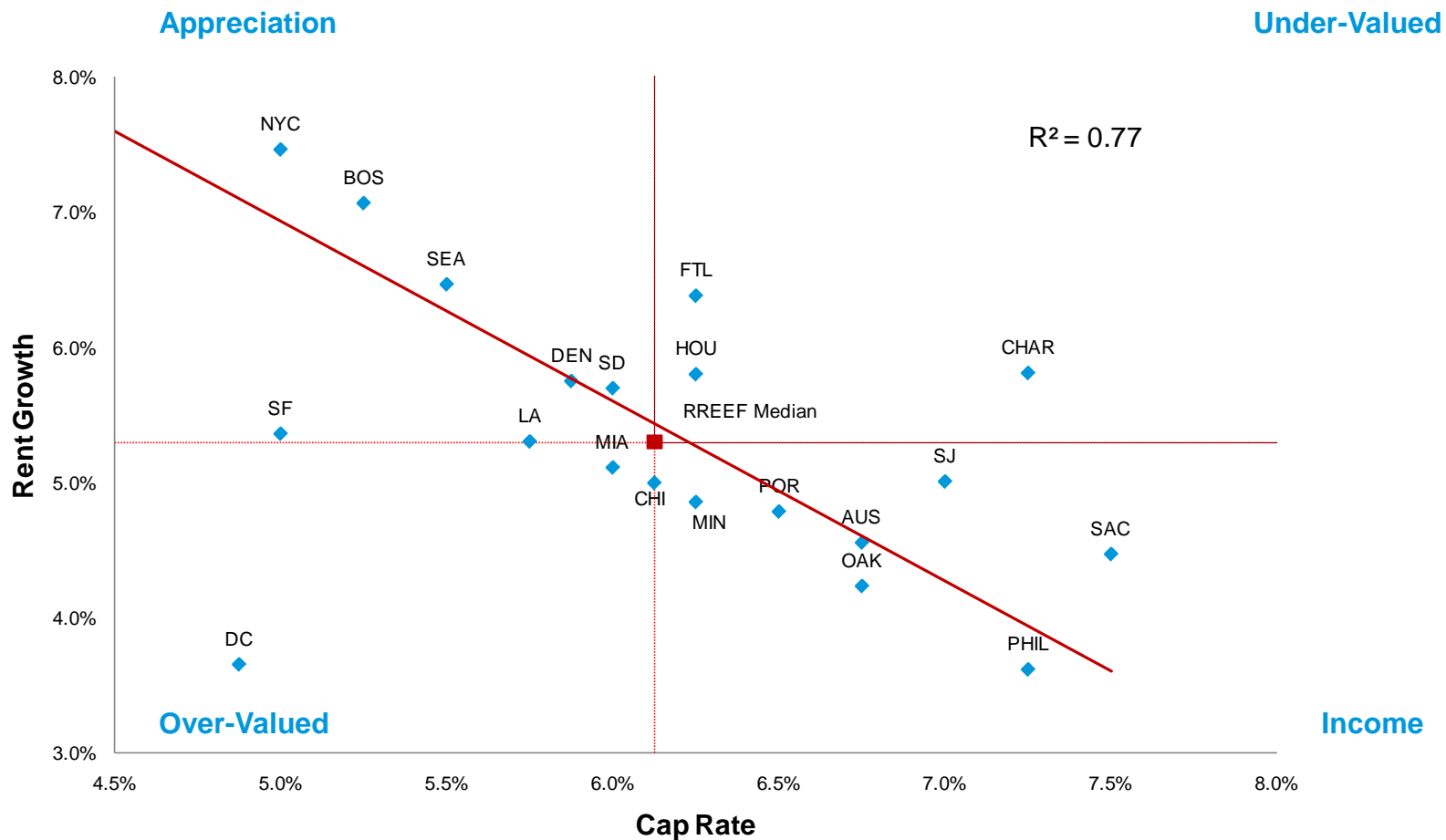


Source: RREEF Real Estate. As of December 2011.



CBD Office: best potential total return opportunities

Forecast Office Rent Growth – RREEF Metros



Note: Rent growth is the simple annual average rate for the 5-year forecast during 2012 through 2016.

Cap rate is assumed current market rent.

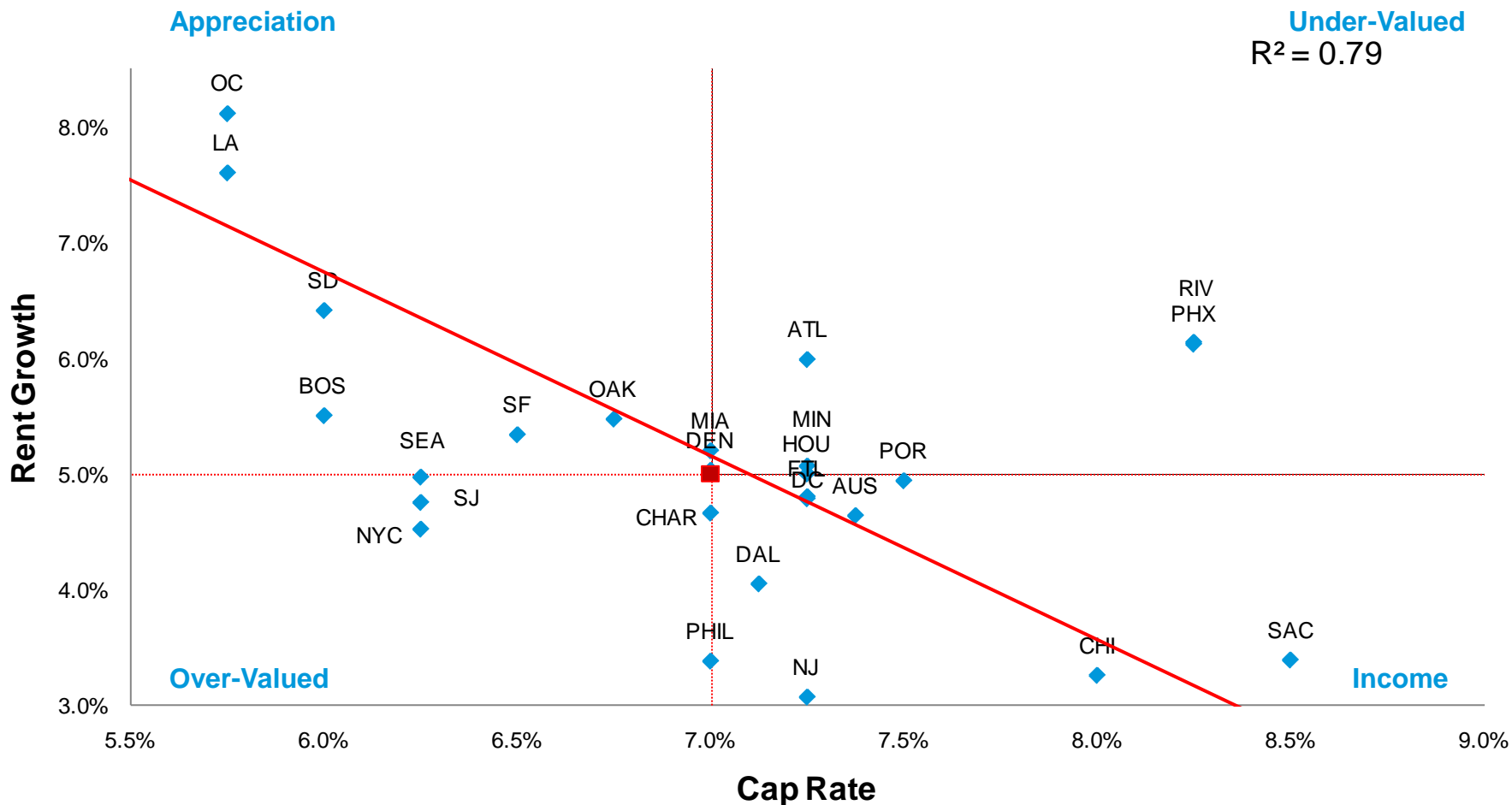
US Median is a composite of RREEF's forecasts for 26 major metros.

Source: RREEF Real Estate, As of January 2012.



Suburban Office: best potential total return opportunities

Forecast Office Rent Growth – RREEF Metros



Note: Rent growth is the simple annual average rate for the 5-year forecast during 2012 through 2016.

Cap rate is assumed current market rent.

US Median is a composite of RREEF's forecasts for 26 major metros.

Source: RREEF Real Estate, As of January 2012.



Retail: pros & cons

The Pros

- Retail properties have stabilized, and higher quality properties are experiencing rent and occupancy growth.
- Retail sales are recovering, with total retail sales now exceeding pre-recession levels and comparable-store sales at the nation's chain stores up now for 24 consecutive months
- Construction at historic lows and even more restrained than forecast, allowing for gradual sector recovery.
- The majority of large national retailers are experiencing strong financial health, even including some department stores.

The Cons

- Recovery, especially rent growth, slow to spread beyond top markets and retail centers.
- Online retailers increasingly compete with bricks-and-mortar stores, placing downward pressure on space demand
- Downsizing of store prototypes and restrained growth by retailers is blunting recovery of lower quality centers.
- Sector forecast to underperform in rent growth.
- Strong neighborhood centers and malls are aggressively priced.
- “Zombie” retailers and restaurants, bankrupt or very weak but still operating, are likely to create future vacancies.

Wildcards

- Online retailing could increase its market share more than forecast, at the expense of bricks-and-mortar stores.
- Retail sales could rebound more vigorously than forecast, providing support for second-tier retail properties.
- The housing sector could recover more quickly than forecast, fueling new greenfield retail development.
- Investor bias toward “super-core” retail may yield superior investment opportunities in overlooked markets.

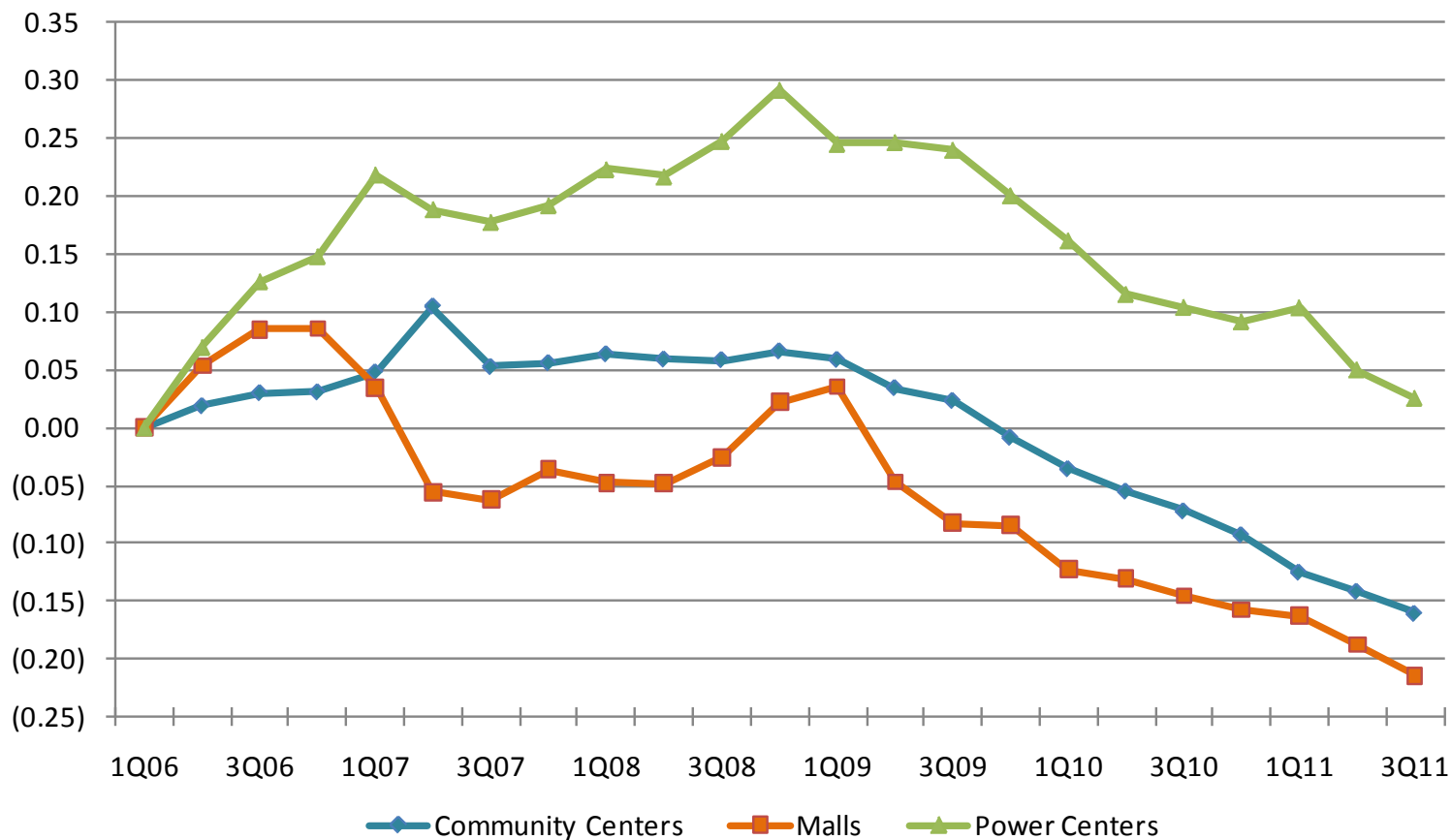
Source: RREEF Real Estate. As of December 2011.



Retail rents are still down sharply relative to sales . . .

Rent rents fell far more than retail sales during the recession (about 20% since 2007 for community centers and malls, almost 15% for power centers), providing support for future rent growth.

Retail Rents vs. Sales at U.S. Shopping Centers
Ratio of Rent/Sales Indexed to 1Q06

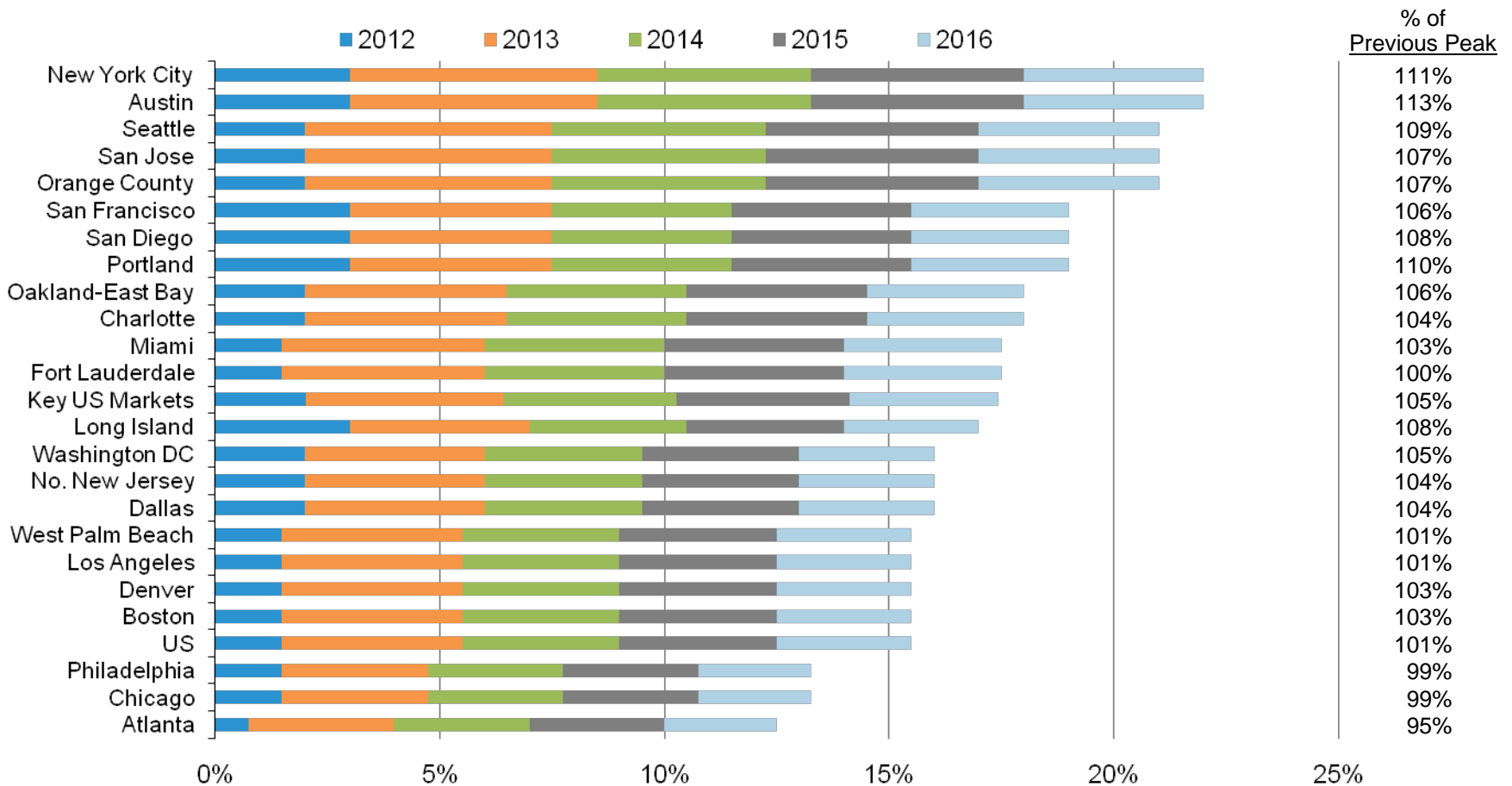


Source: U.S. Census, REIS and RREEF. As of September 2011.

Retail: historically low rent/sales ratios fuel greater mid-term rent growth



Cumulative Rental Growth Rate (%), 2012-2016

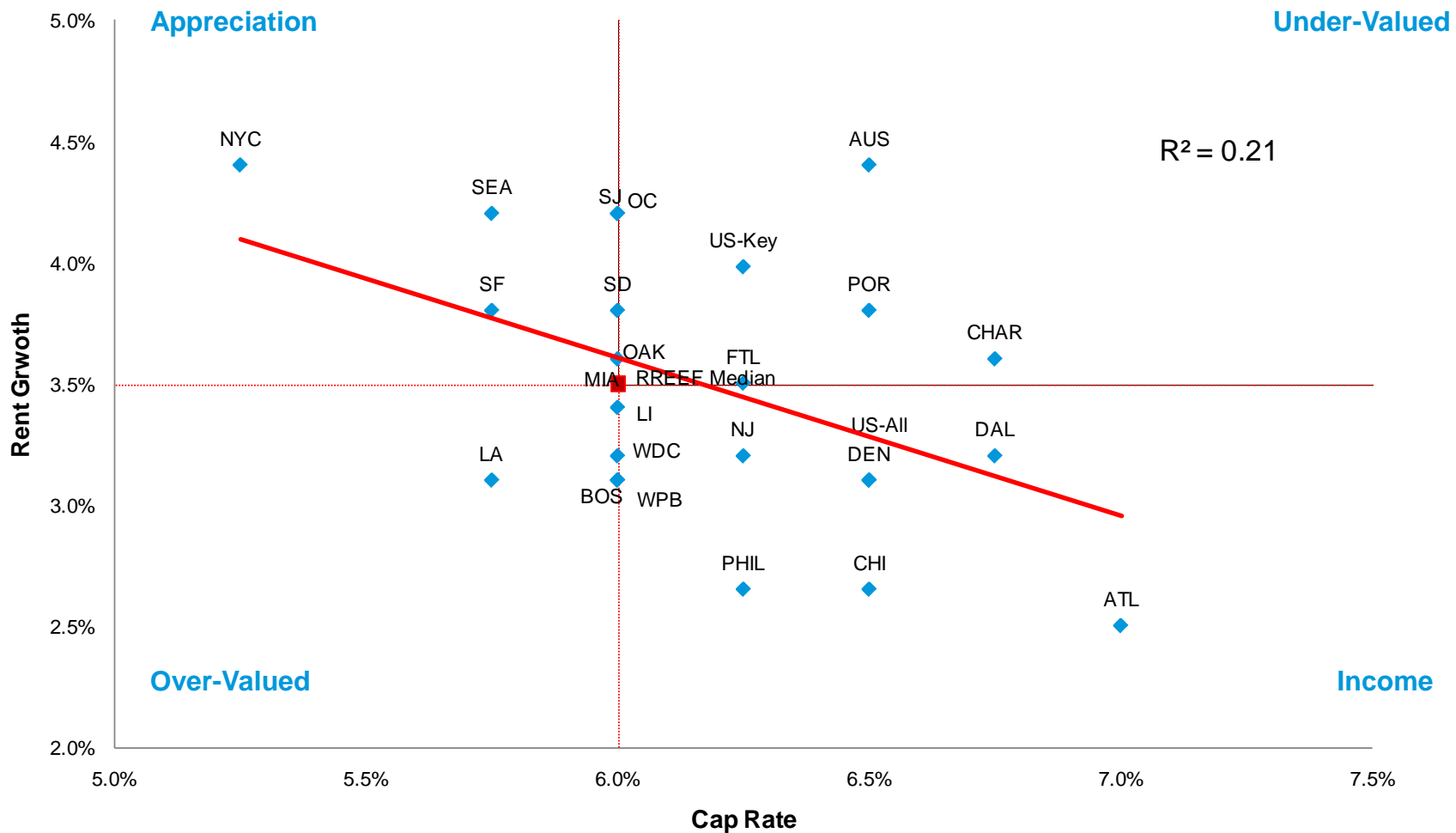


Source: RREEF Research. As of November 2011.



Retail: best potential total return opportunities

Retail Rent Growth 2012-2016 vs Cap Rate



Note: Best opportunities lie above the diagonal line.
 Source: RREEF Research, As of January 2012.



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