

# Economics and the Practitioner

UC Berkeley Fisher Center for Real Estate and Urban Economics  
32nd Annual Real Estate & Economics Symposium

Presented by John S. Long

Founding Chairman, Ziman Center  
President and Chairman, Highridge Partners

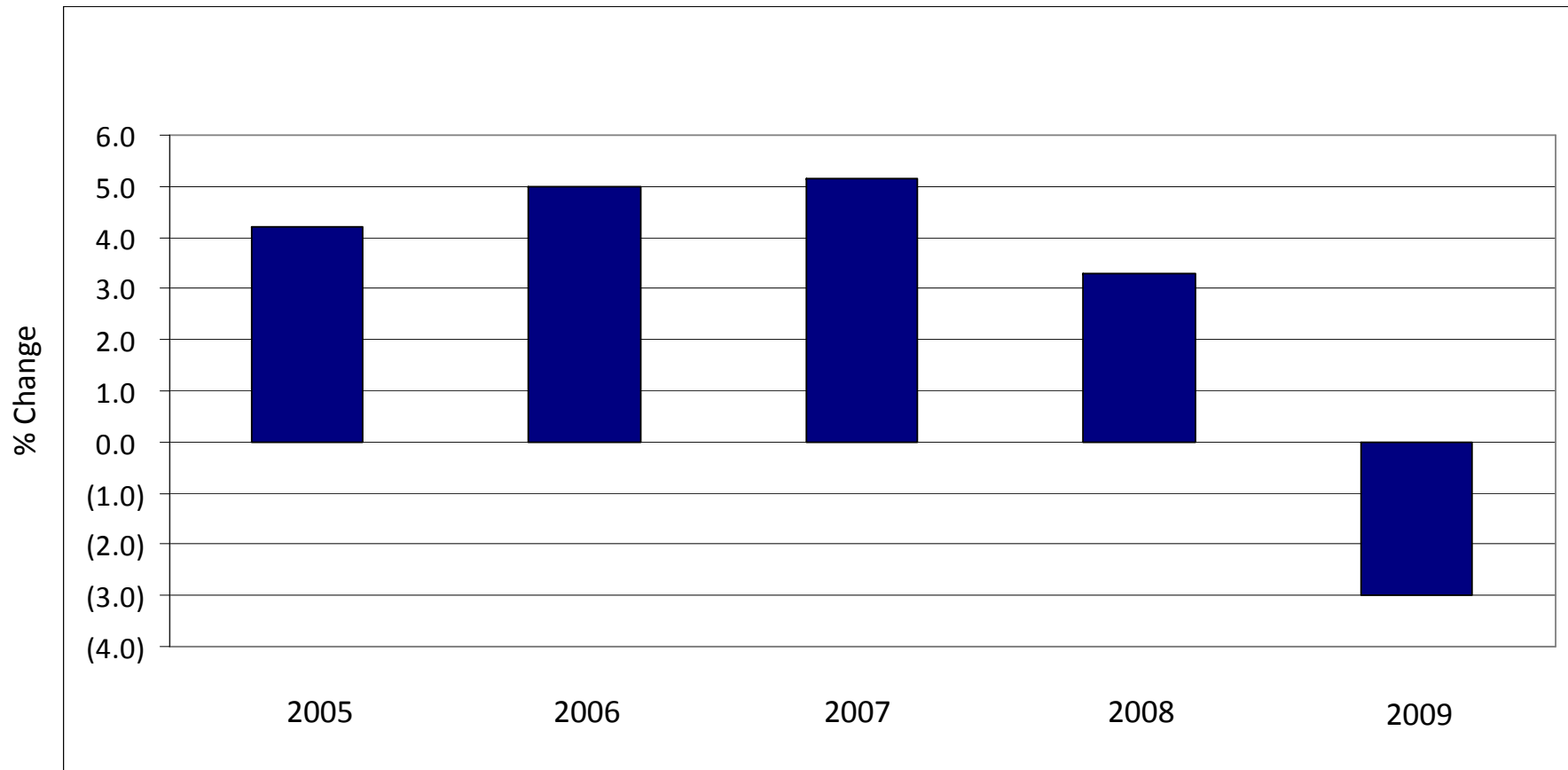
November 23, 2009

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# World GDP Growth

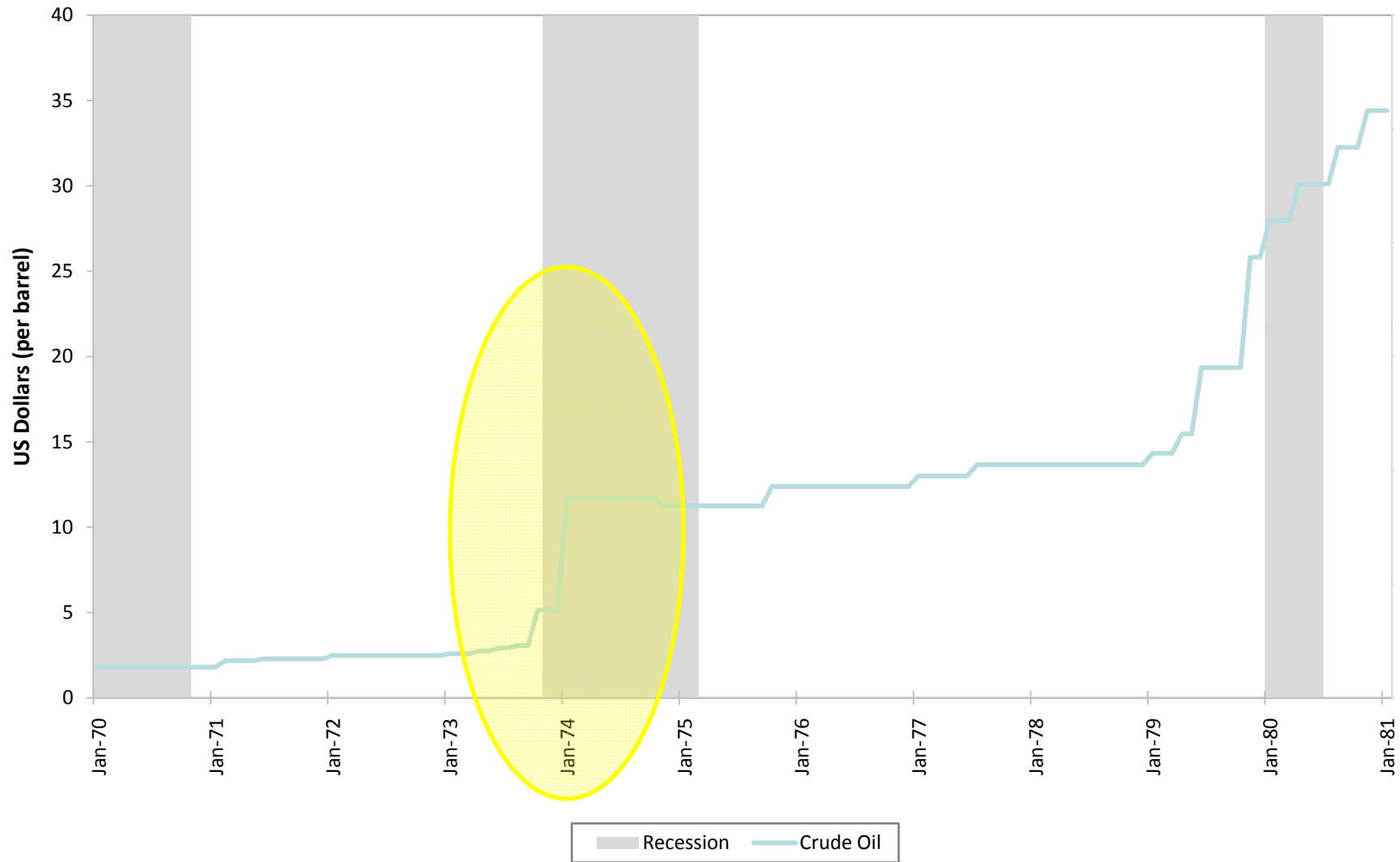
## ...Global Collapse



Source: International Monetary Fund and TCW Global Strategy Forecast

# Crude Oil Prices

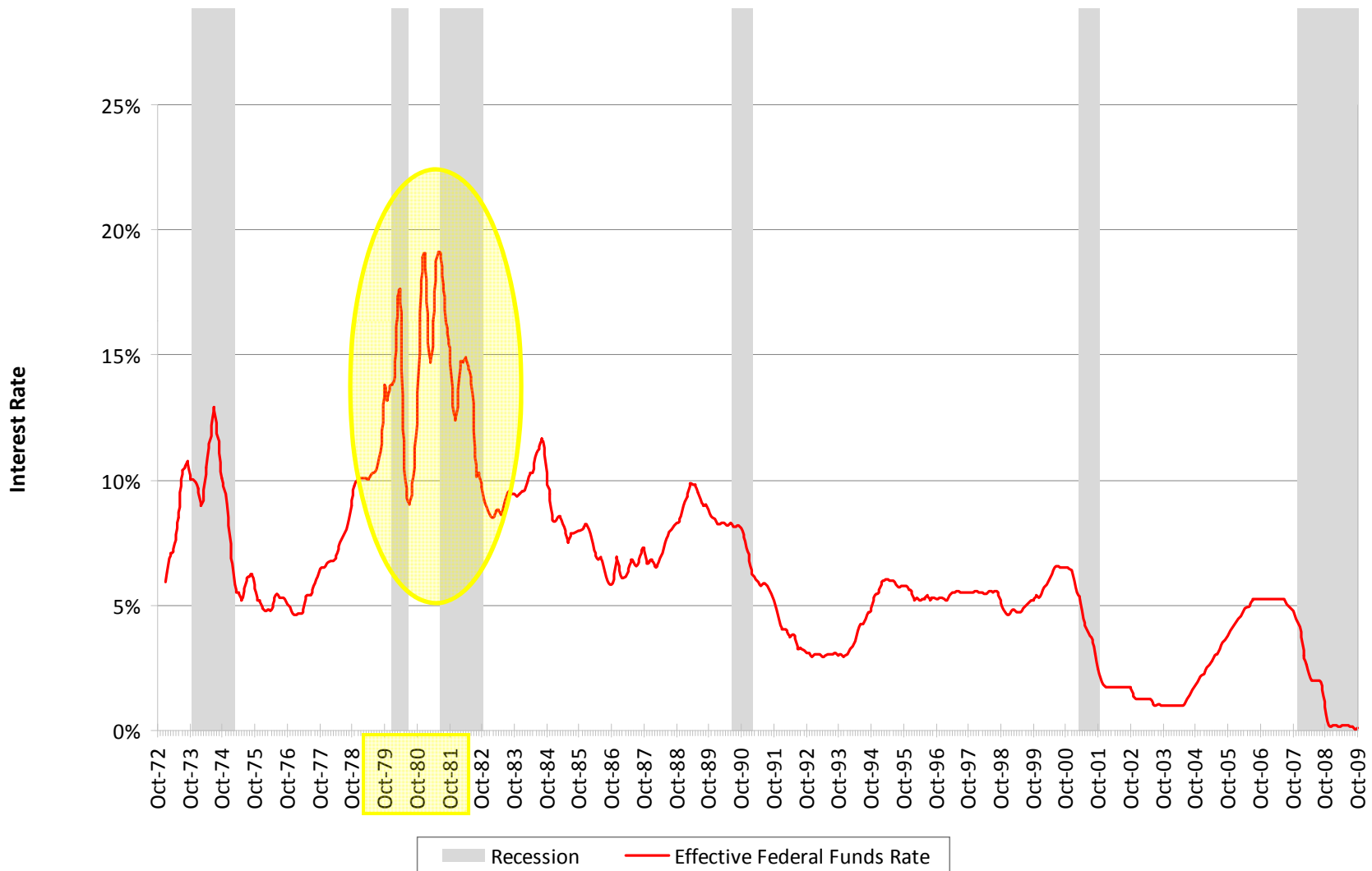
1970-1981



Source: New York Mercantile Exchange

# Fed Funds Rate

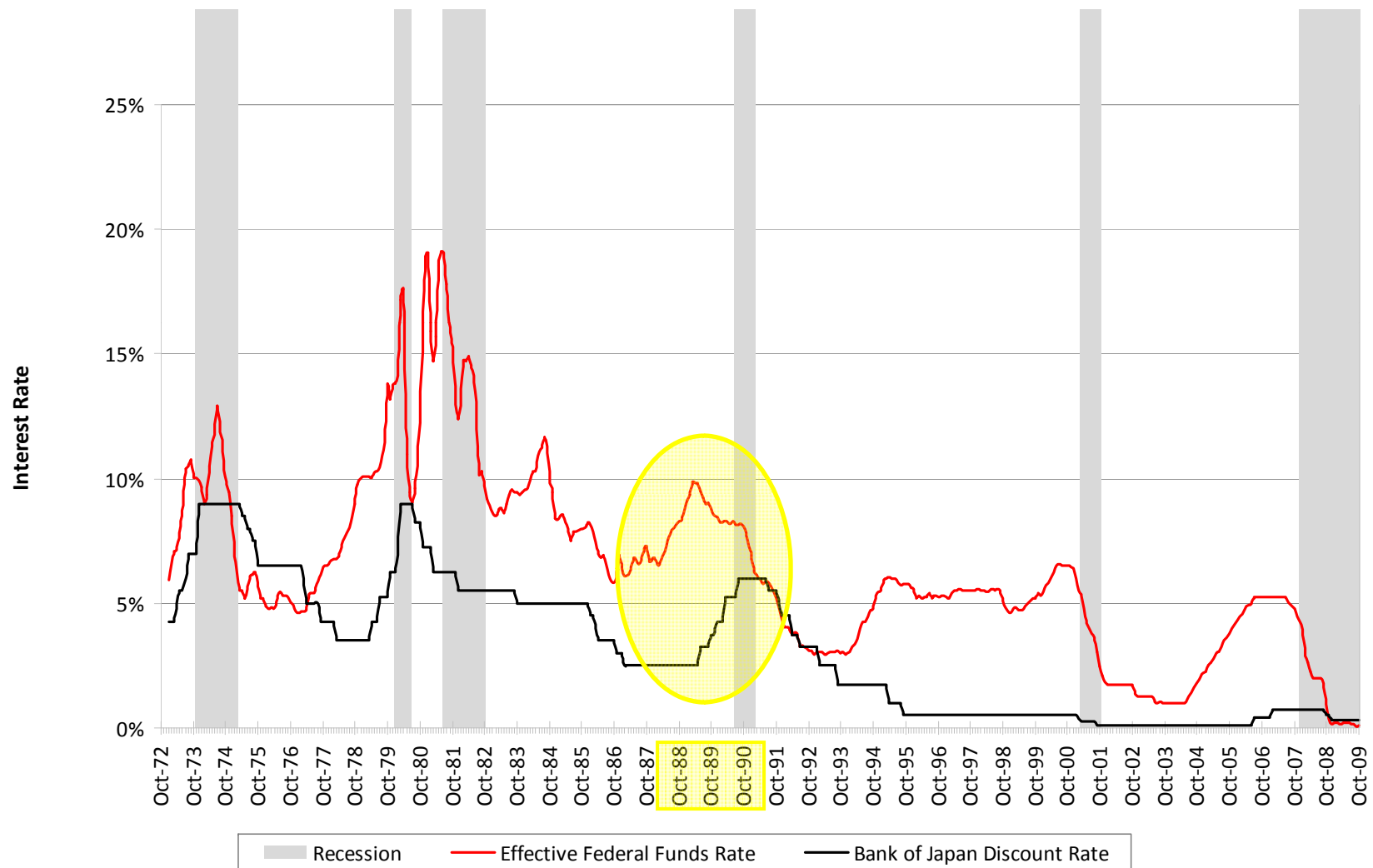
...Raising Rates Doesn't Help Economy



Source: Federal Reserve

# Fed Funds vs. Japanese Discount Rate

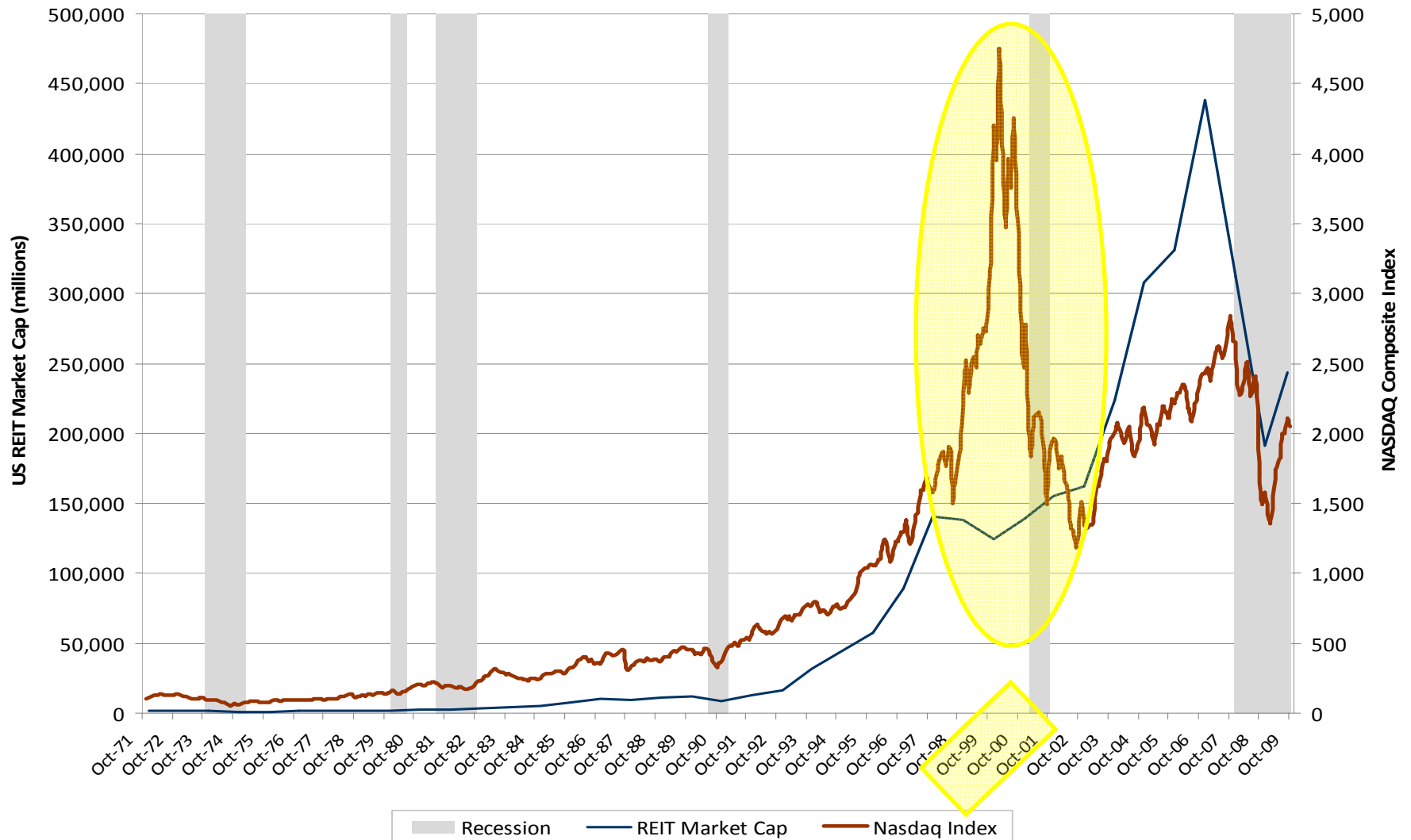
...Foreigners to the Rescue



Source: Bloomberg, Federal Reserve

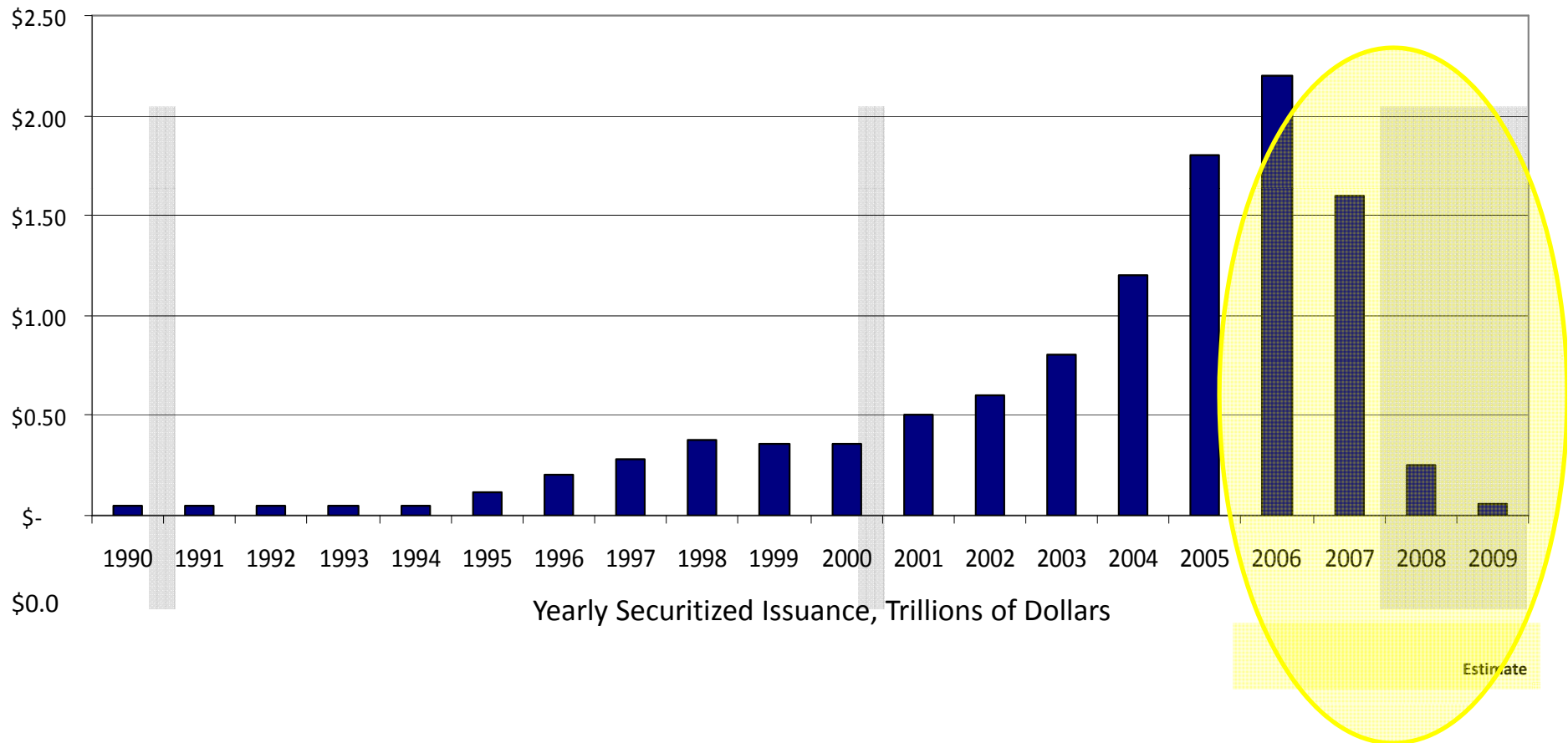
# NREIT vs. NASDAQ

## ...Who Has the Last Laugh?



# Growth of Securitization Markets

...Jumping off the Cliff in 2007



Source: Wachovia

# Residential Collapse

“...Irrational Exuberance...”

-Alan Greenspan

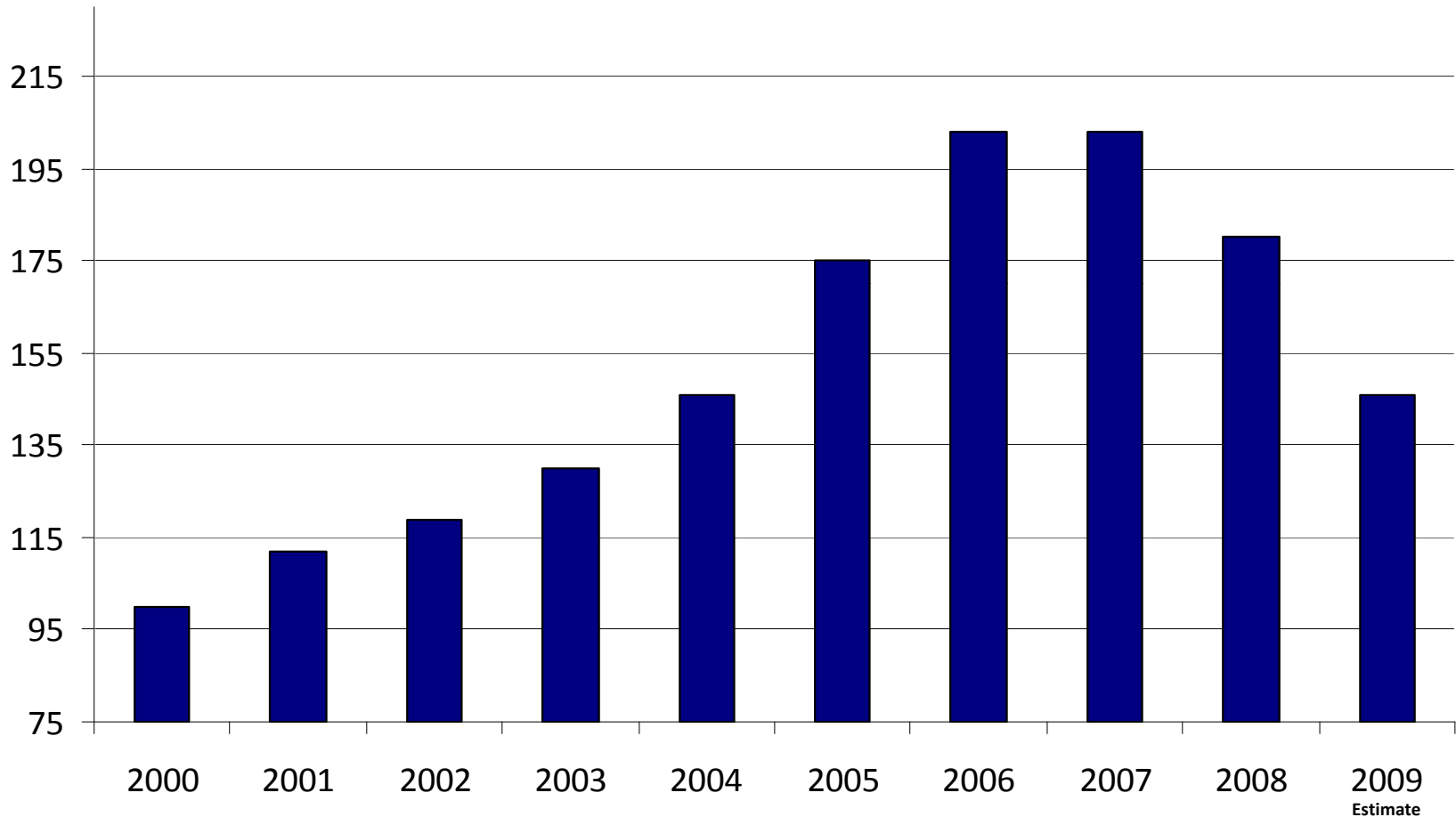
*December 5, 1996*



# S&P/Case Shiller 20-City Composite

(2000-2009)

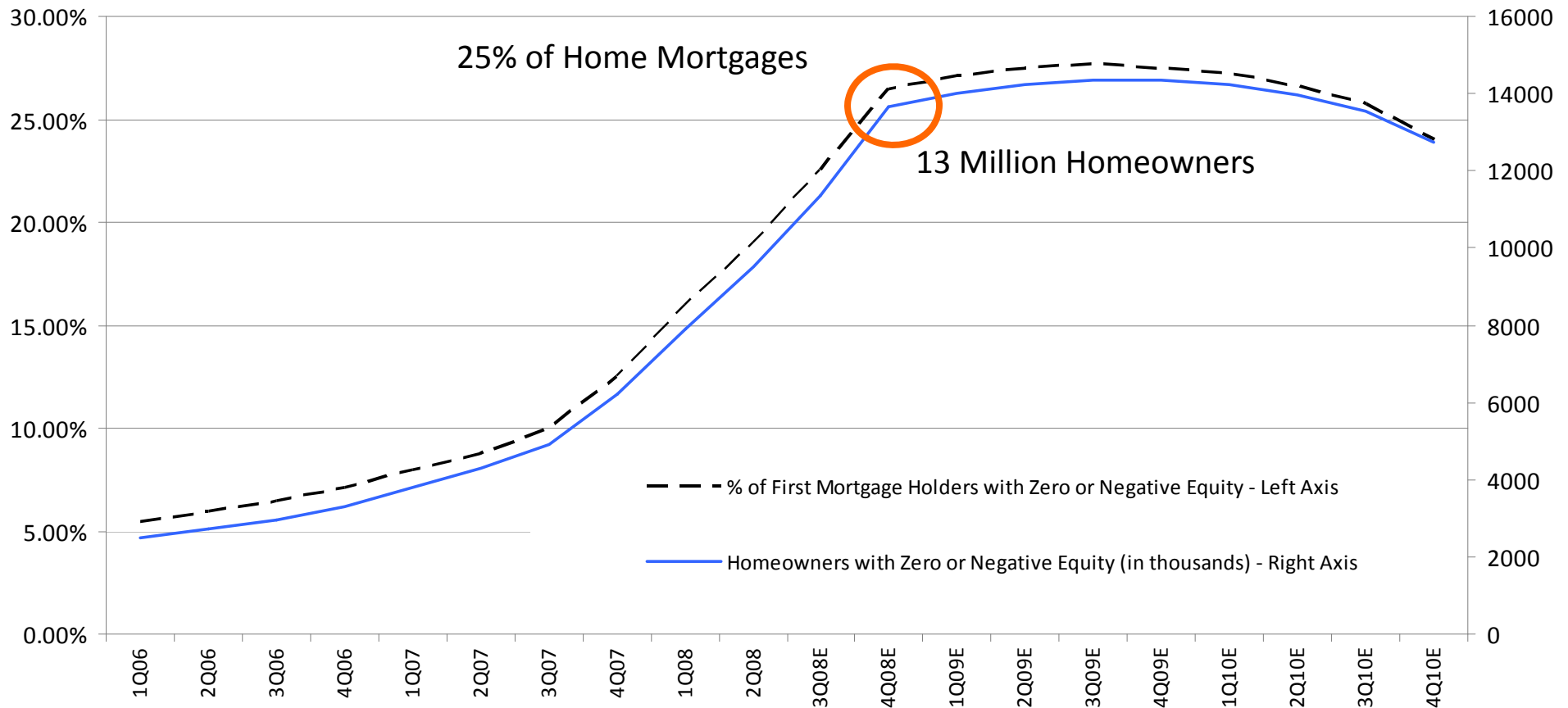
...The Bad News is Out



Source: Standard & Poor's

# 13 Million Homes with Zero or Negative Equity

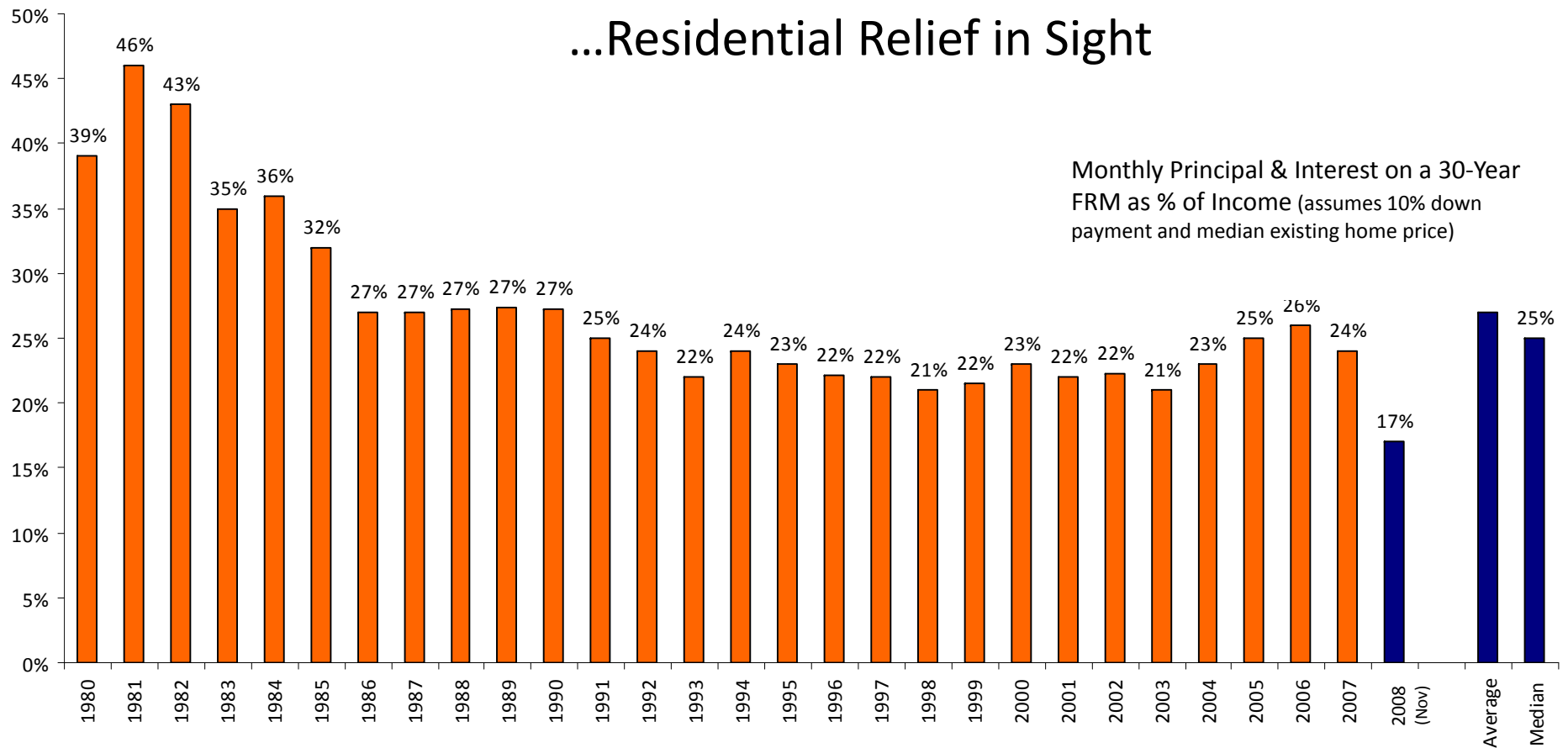
...What Happened to My Nest Egg?



Source: Equifax, Case-Shiller, Moody's Economy.com

# Affordability Back to Historically Attractive Levels

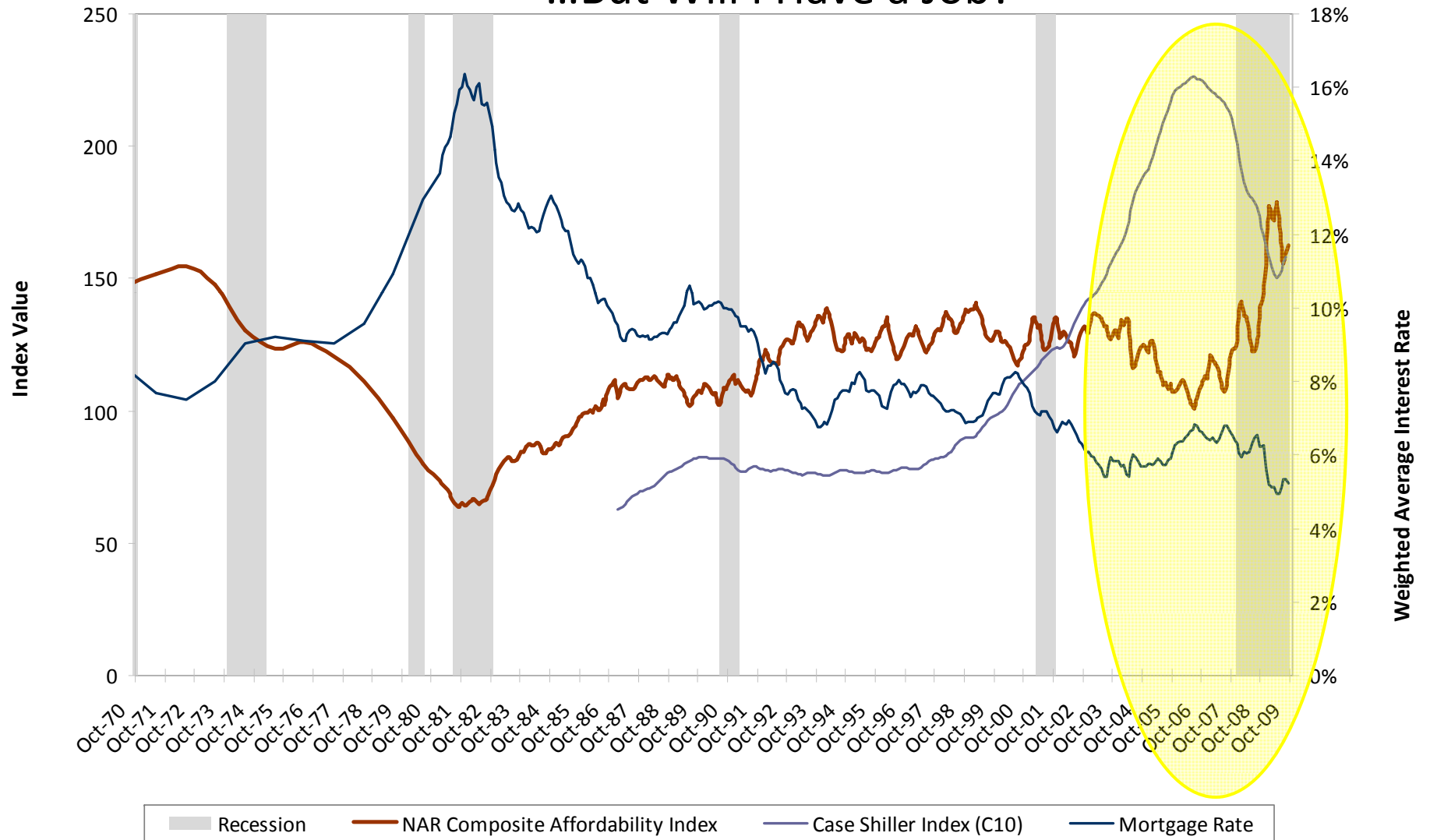
...Residential Relief in Sight



Source: NAR, MBA

# Metrics are Right to Buy

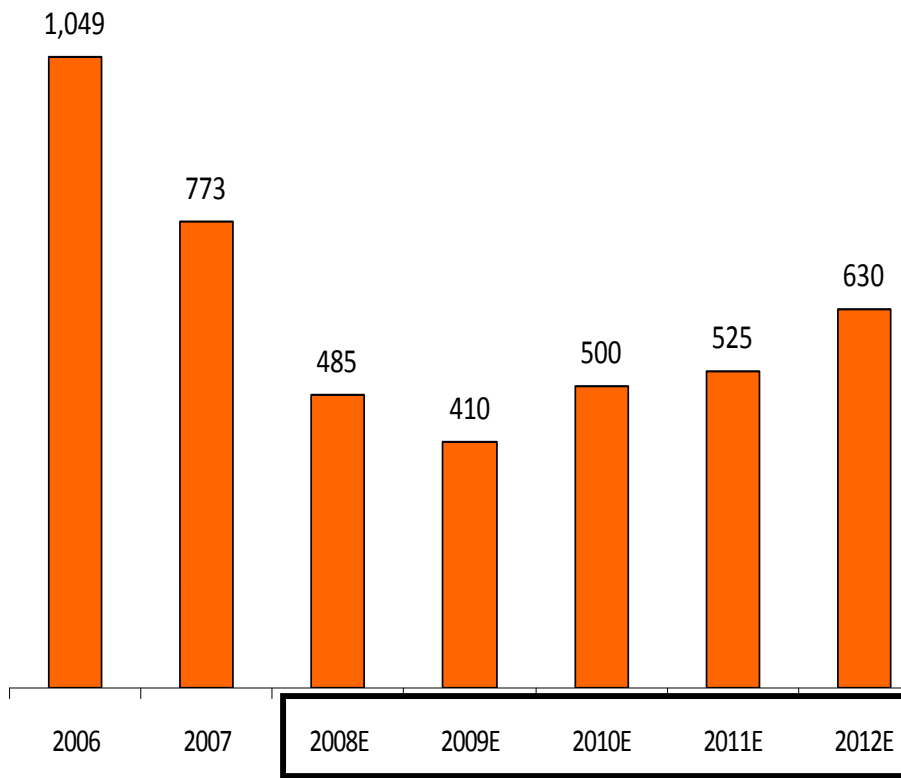
...But Will I Have a Job?



# People Will Buy Homes Again

## New Home Sales

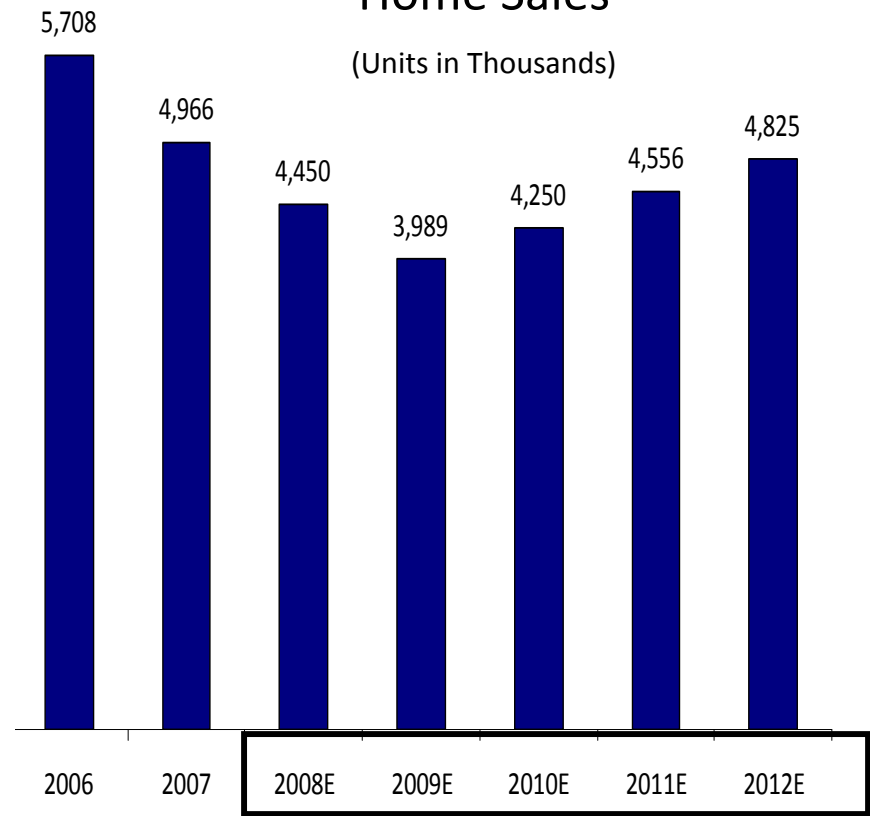
(Units in Thousands)



Projections

## Single Family Existing Home Sales

(Units in Thousands)



Projections

Source: Census Bureau, NAR

# Commercial Collapse

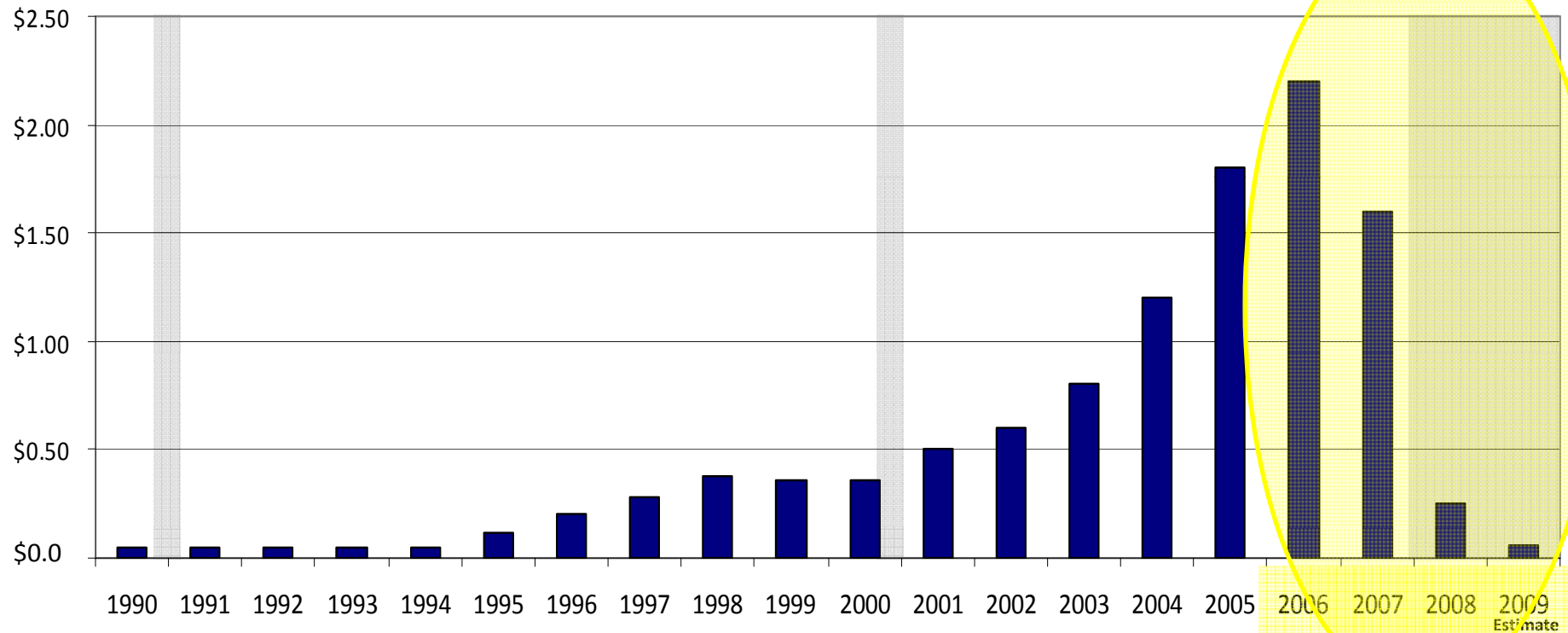
“Panic in a market is like liquid nitrogen – it can quickly cause a devastating freeze.”



-Alan Greenspan  
*The Age of Turbulence (2007)*

# Growth of Securitization Markets

...What Created This Mess?

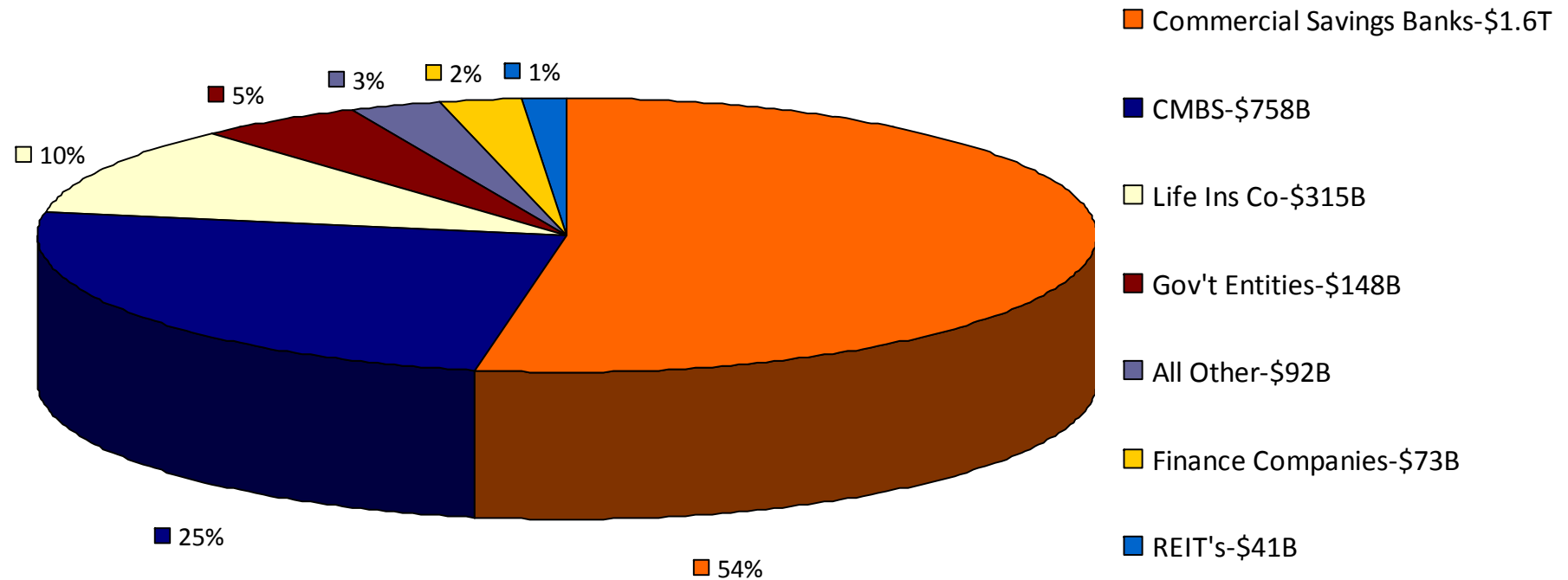


Yearly Securitized Issuance, Trillions of Dollars

Source: Wachovia

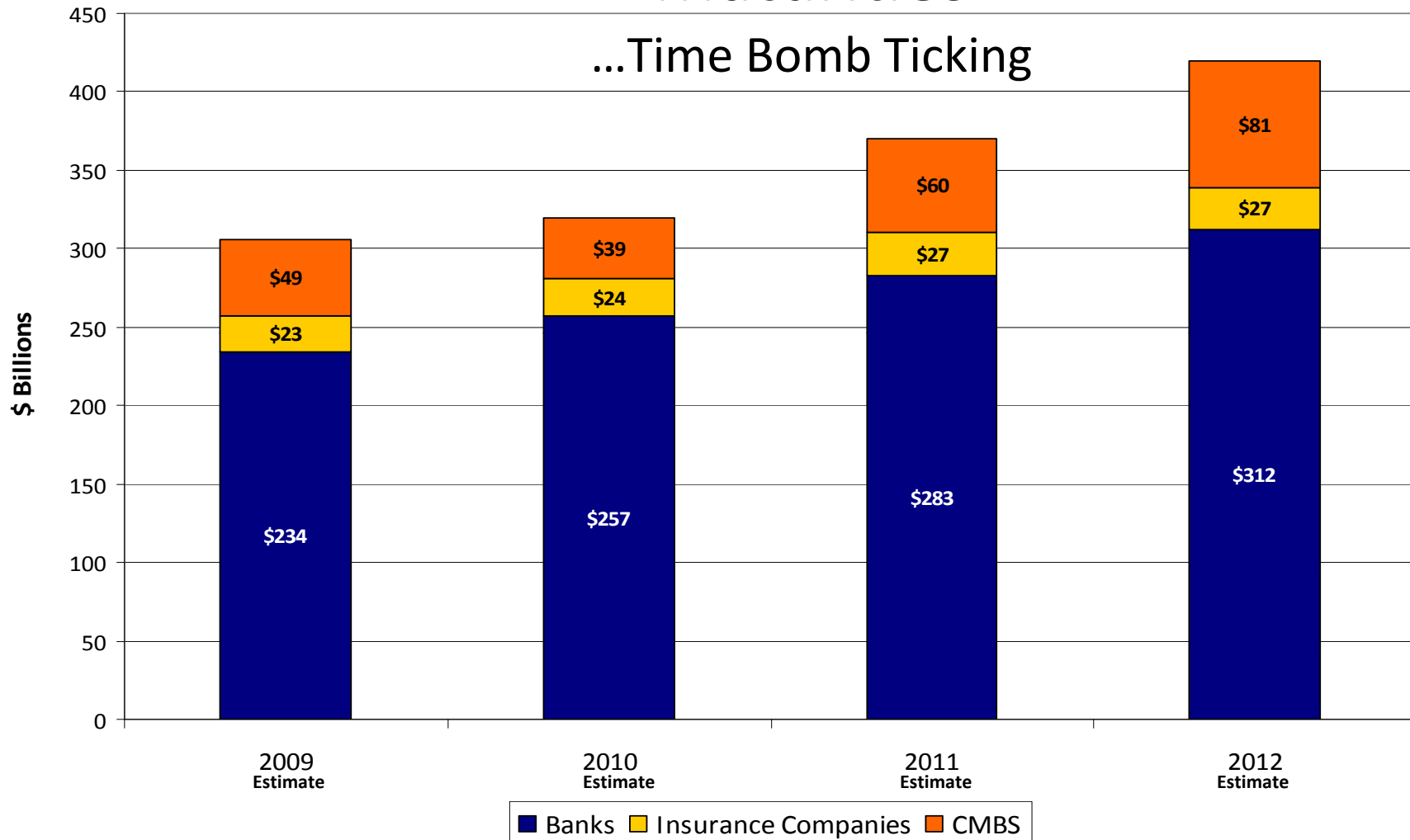
# U.S. Commercial Real Estate Debt Markets – \$3.1 Trillion

...Rollover Maturities until 2016



Source: Mortgage Bankers Association

# Estimated Commercial Mortgage Maturities

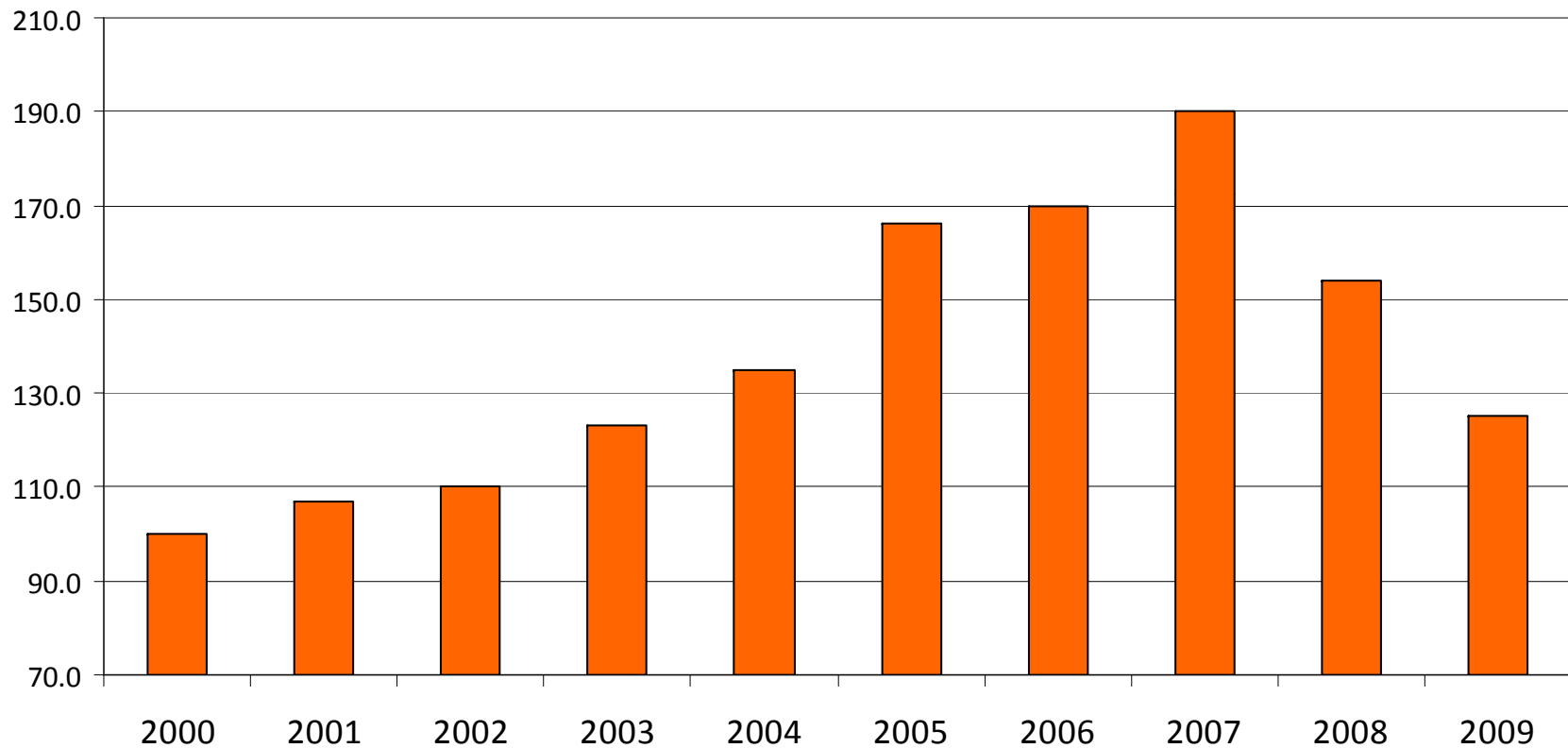


CMBS total includes both fixed and floating rate loans to first maturity.

Source: ACLI, Federal Reserve Board of Governors, Wachovia Capital Markets

# Commercial Property Values Continue to Decline

...And Continue to Continue



Source: Moody's/Real National All Property Type Aggregate Index (CPPI)

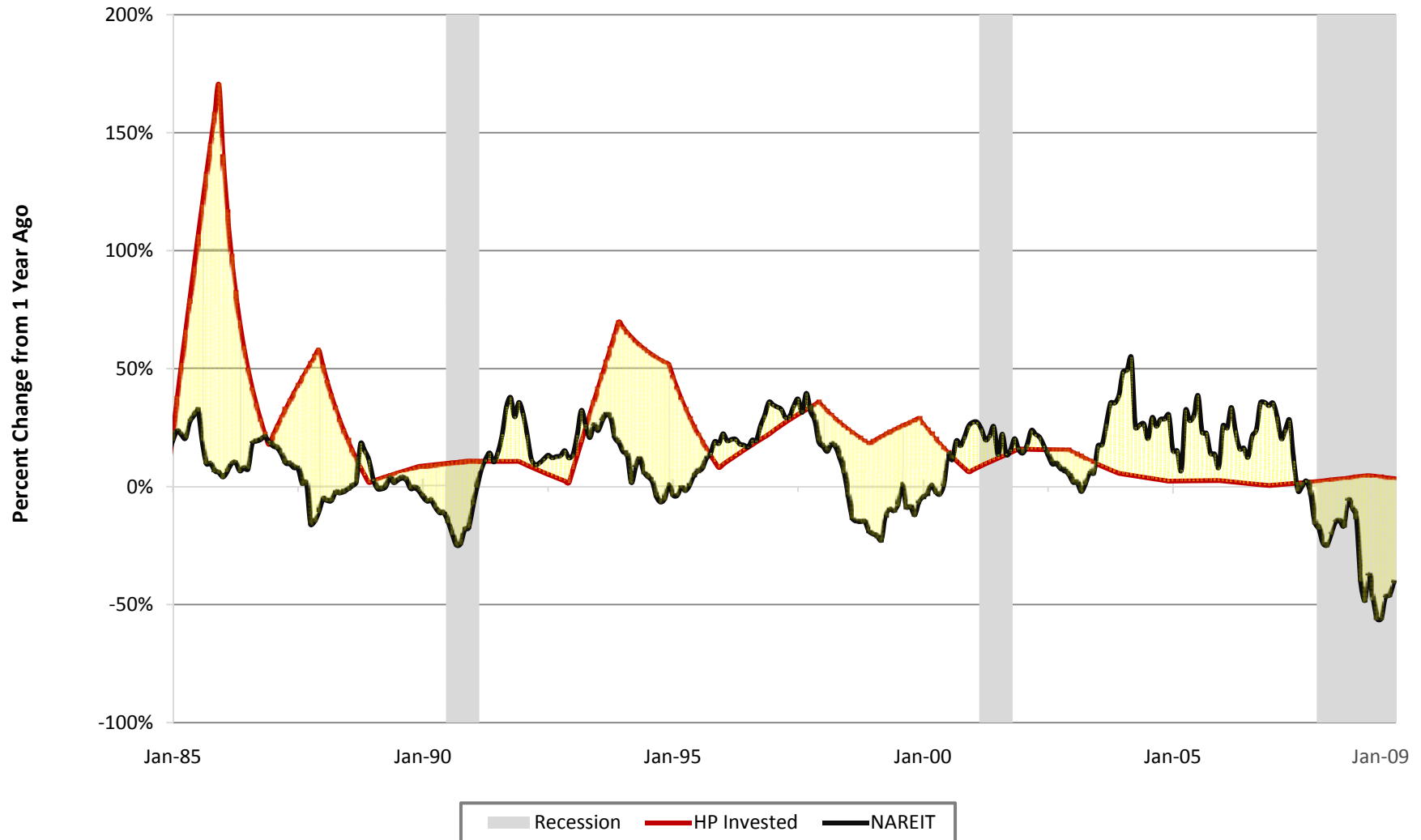
# The Highridge Journey

## 30 Years of Uninterrupted Growth

Broaden Your Knowledge.  
Examine Thoroughly.  
Think Critically.  
Analyze Logically.  
Execute Prudently and with Perseverance.

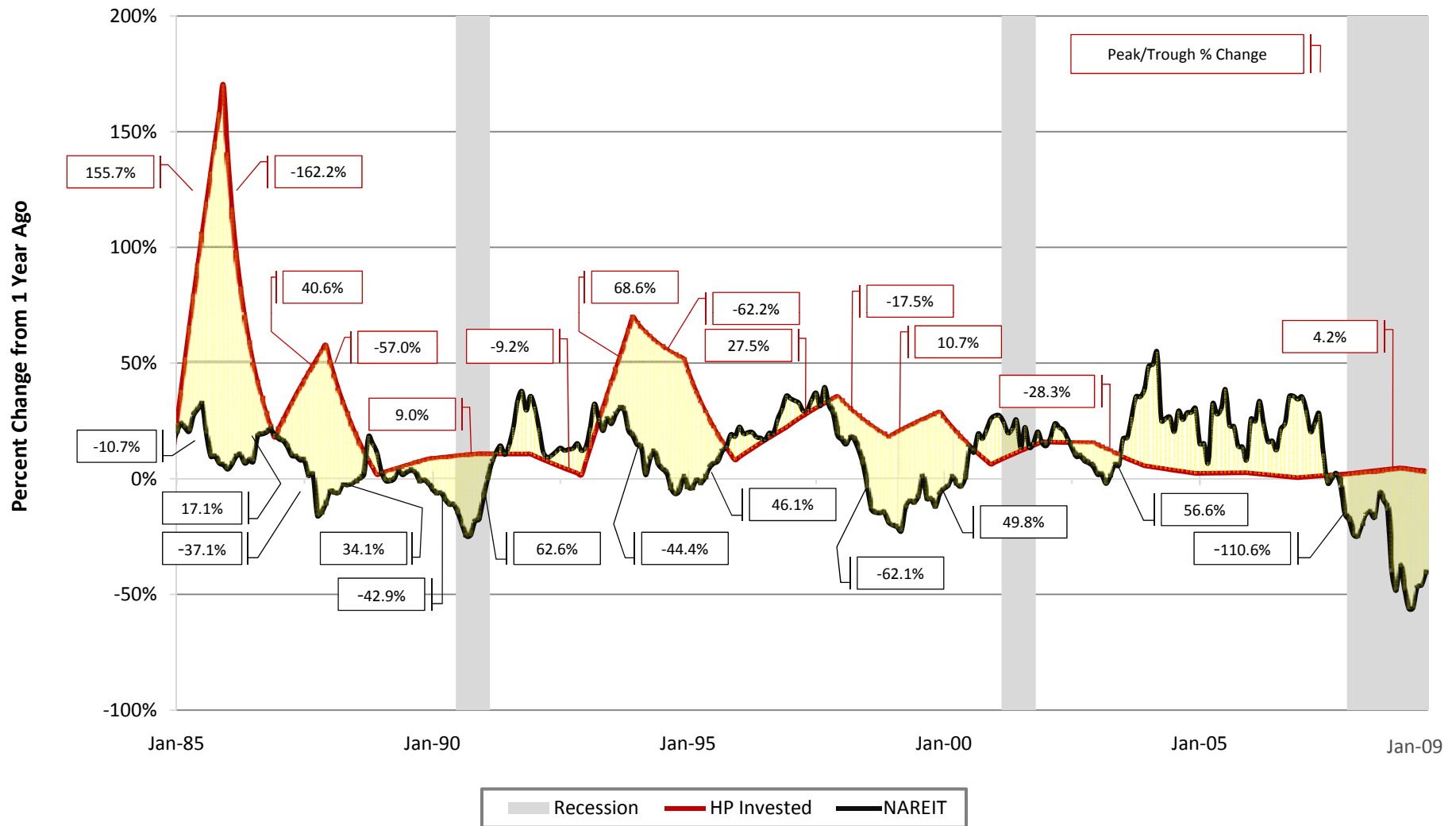
*Ancient Chinese Proverb*

# Highridge Partners Investment Approach



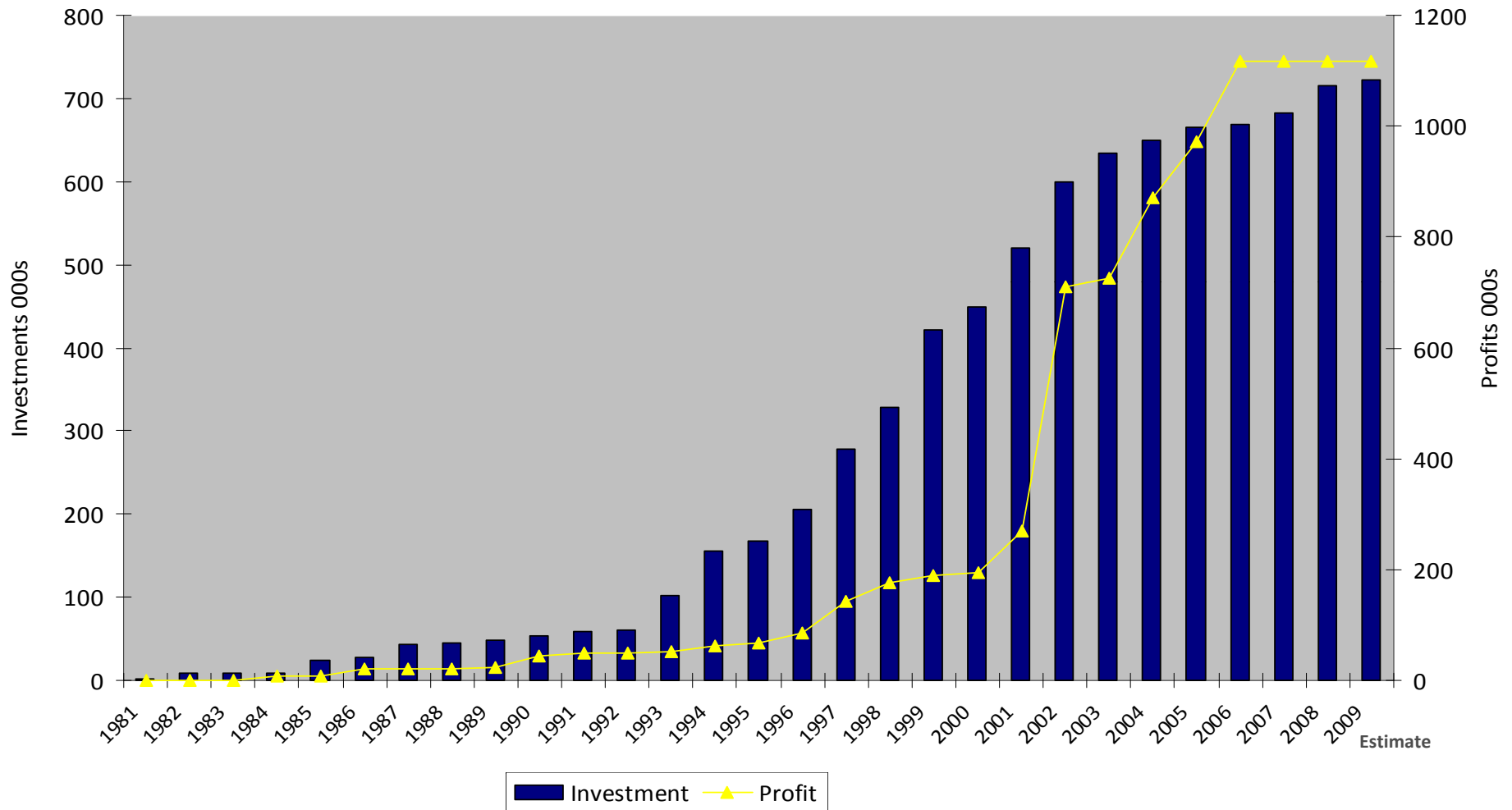
\*\* Internal Highridge Partners Unaudited Estimates

# Highridge Partners Investment Approach



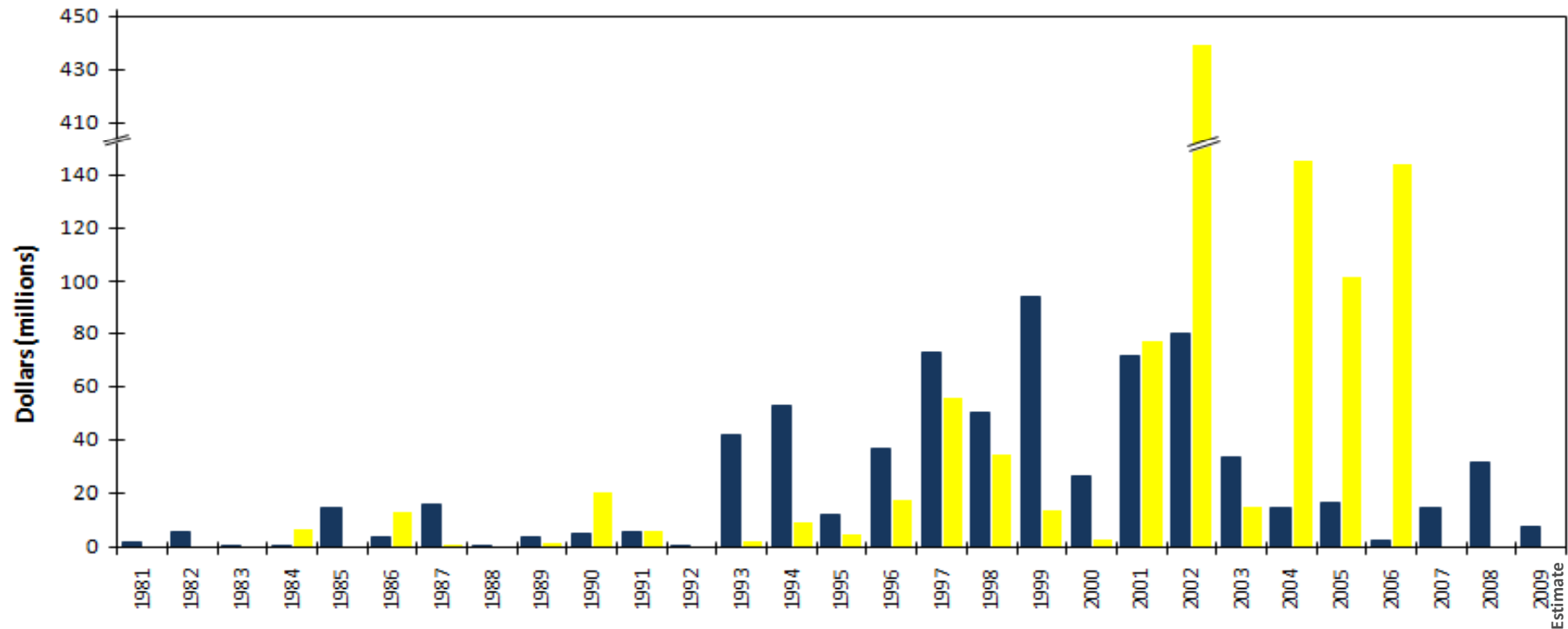
\*\* Internal Highridge Partners Unaudited Estimates

# HP Invested Capital and Profits



\*\* Internal Highridge Partners Unaudited Estimates

# HP Invested Capital and Profits



<b>Invested Capital and Resulting Profits (millions)</b>				
Invested Capital		→	Realized Profits	
1980 - 1983	8.0		1984 - 1987	20.0
1984 - 1987	35.7		1988 - 1991	23.2
1988 - 1991	15.5		1992 - 1995	19.6
1992 - 1995	108.4		1996 - 1999	113.7
1996 - 1999		254.5	2000 - 2003	
2000 - 2003		212.0	2004 - 2007	
2004 - 2007		49.2	2008 - 2011	
2008 - 2011		39.4	2012 - 2015	
			Future	

\*\* Internal Highridge Partners Unaudited Estimates

# Highridge Focus Today

...Riding the Recovery Curve

- Play the Deleverage Game – Buy Debt with Equity
- Residential Opportunities Today
  - **Foreclosures**
  - **Vacant Land (Entitled)**
  - **Urban Affordable Housing**
- Commercial Opportunities - Just Beginning
  - **Wait and See**
  - **Office**
  - **Hospitality**
  - **Industrial**
- REITs, Public Market Opportunities
  - **Low leverage, high yield**
  - **Equity REITS vs. Mortgage REITS**
  - **Localized vs. National**

# Economics and the Practitioner

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