Real Estate 2009

America's Lost Decade of Growth:

What Happened and Where Do We Go From Here

Fisher Center for Real Estate & Urban Economics
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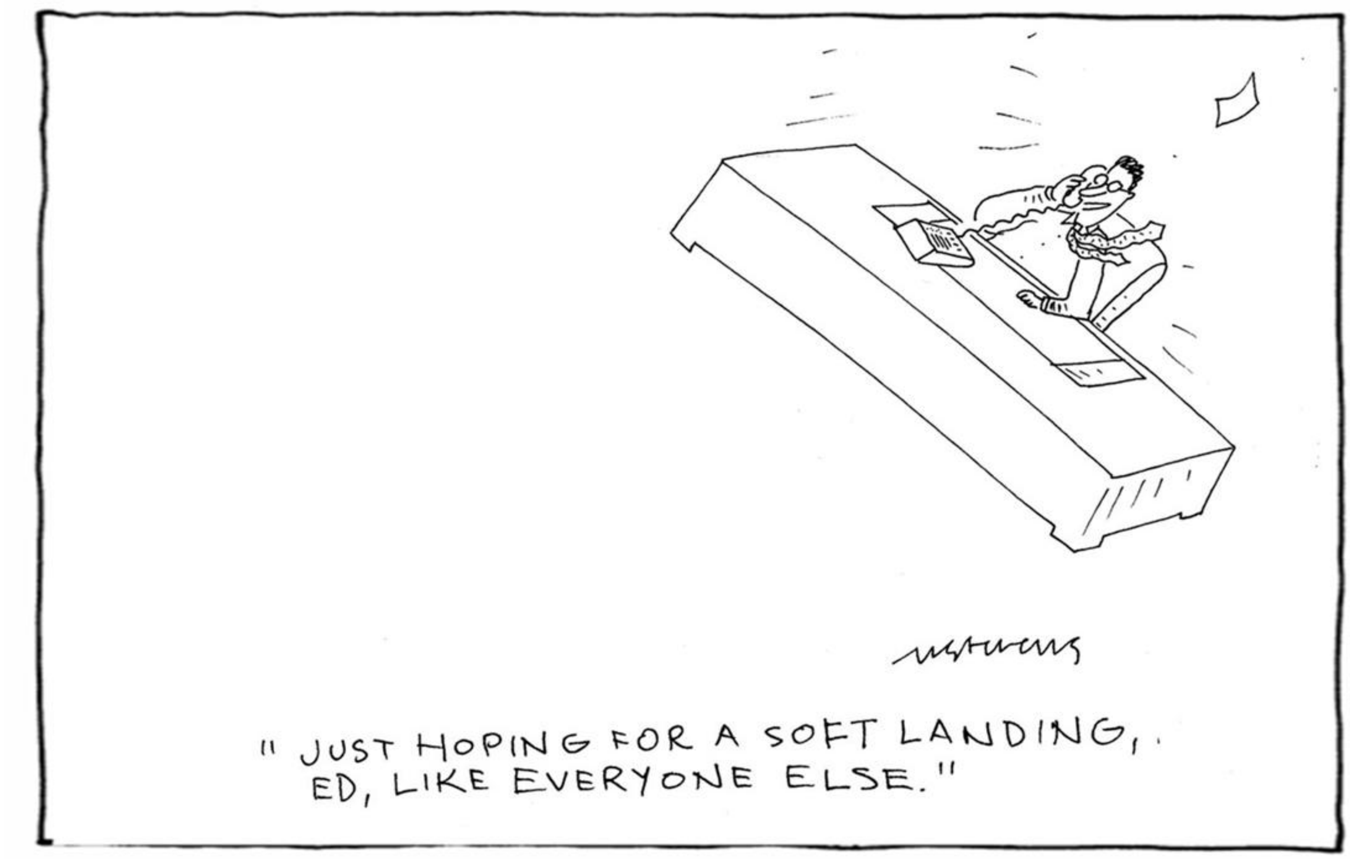
Real Estate 2007:
"Any Landing You Walk Away From Is A Good Landing"



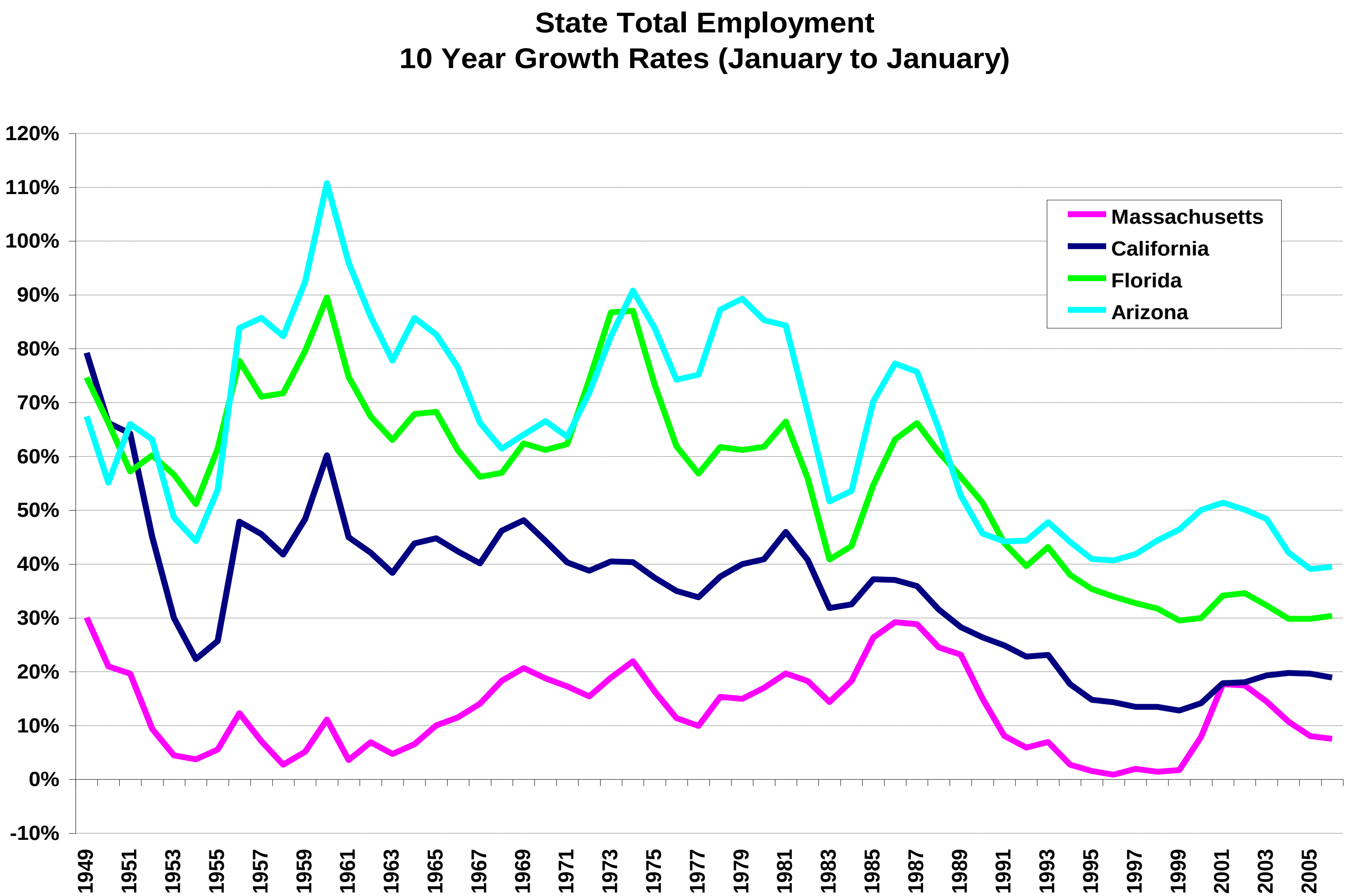
Real Estate 2008: Risk is B A C K!

The Lost Decade of Growth

Decade	Job Growth (millions)	% Change
1940s	11.927	38%
1950s	10.744	25%
1960s	16.902	31%
1970s	19.624	28%
1980s	18.351	20%
1990s	21.630	20%
2000s	0.200	0%

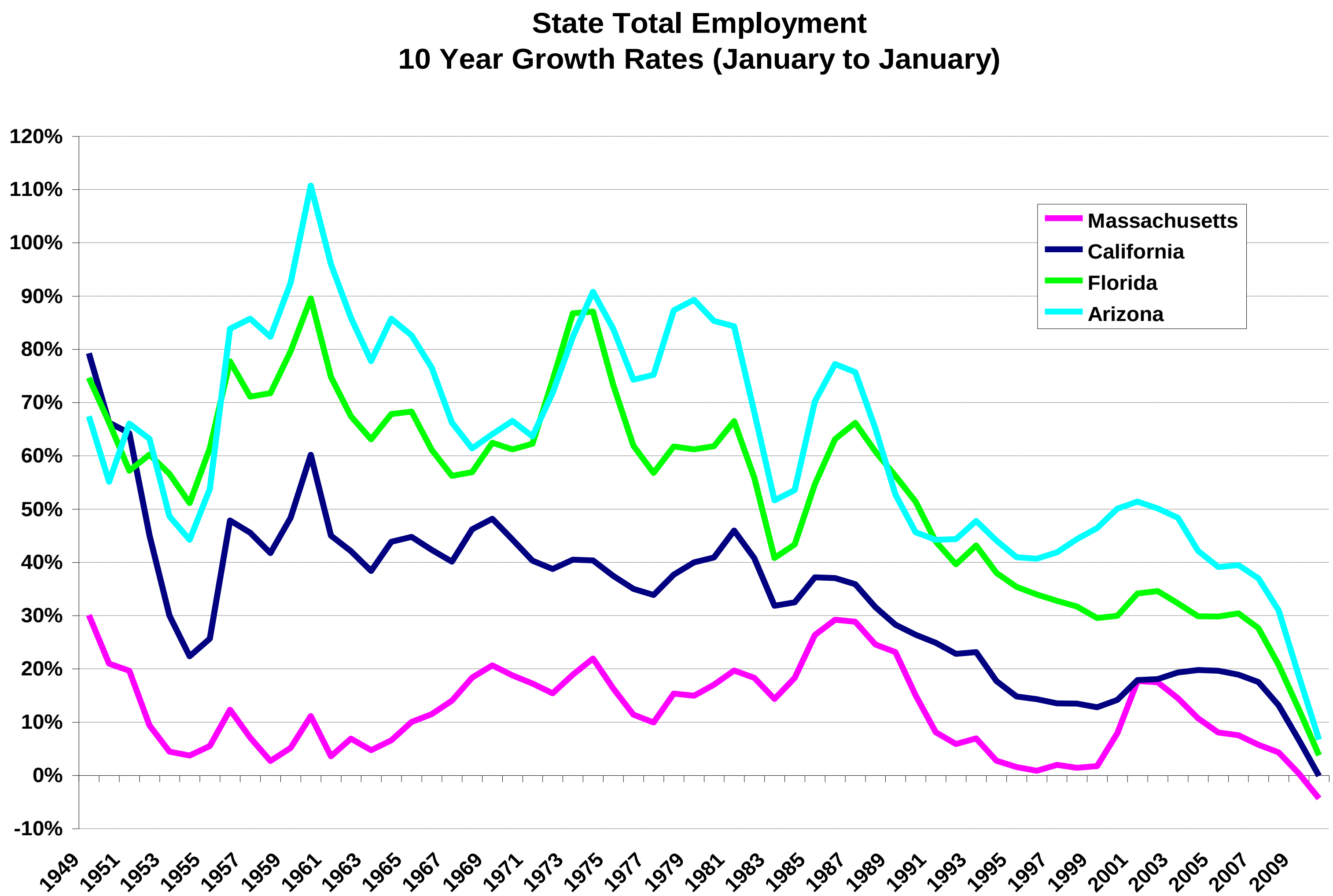
Source: Moody's Economy.com: Feb 2009 Forecast

The Lost Decade of Growth by State



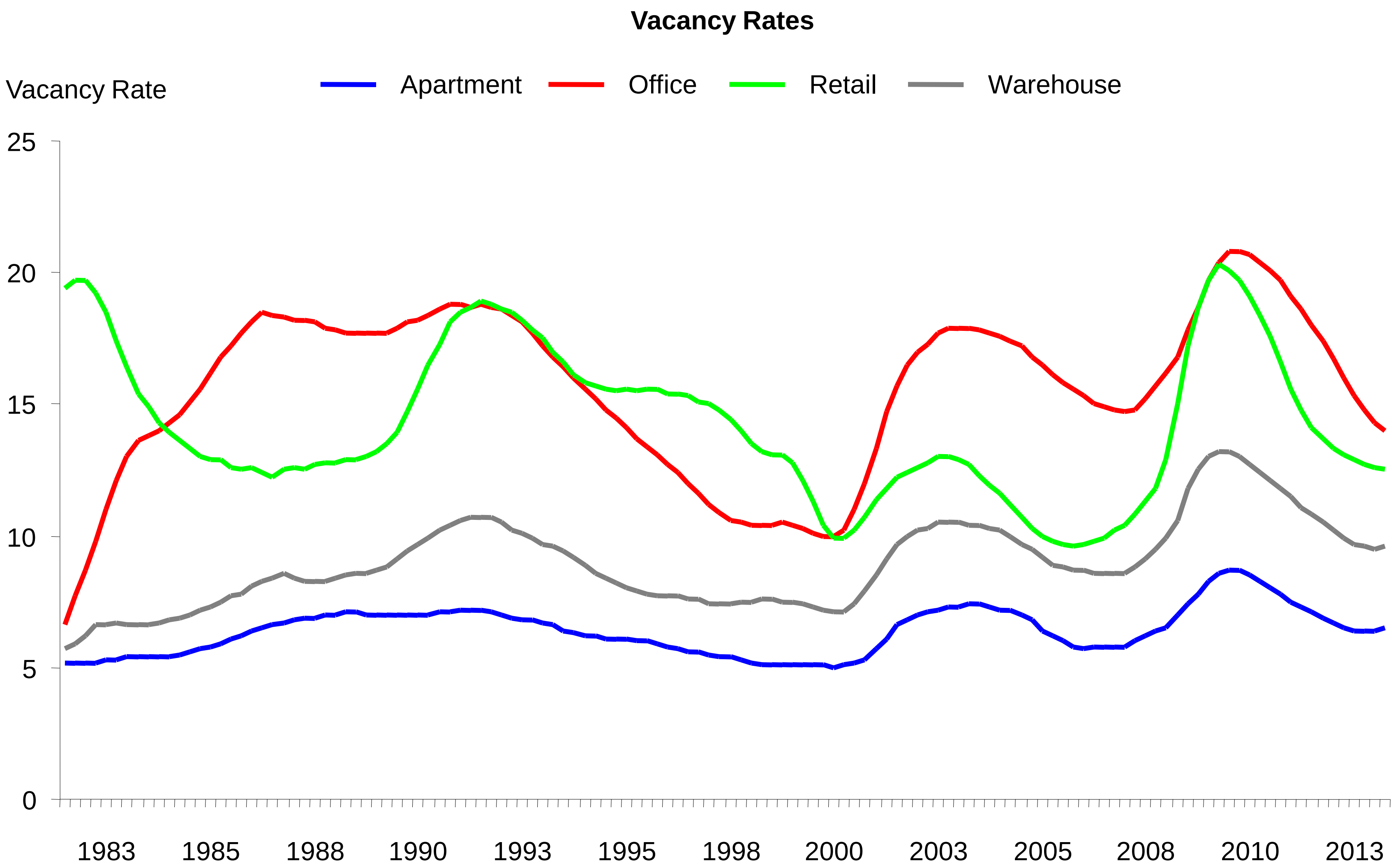
Source: BLS

The Lost Decade of Growth by State



Source: BLS,NCREIF Projection

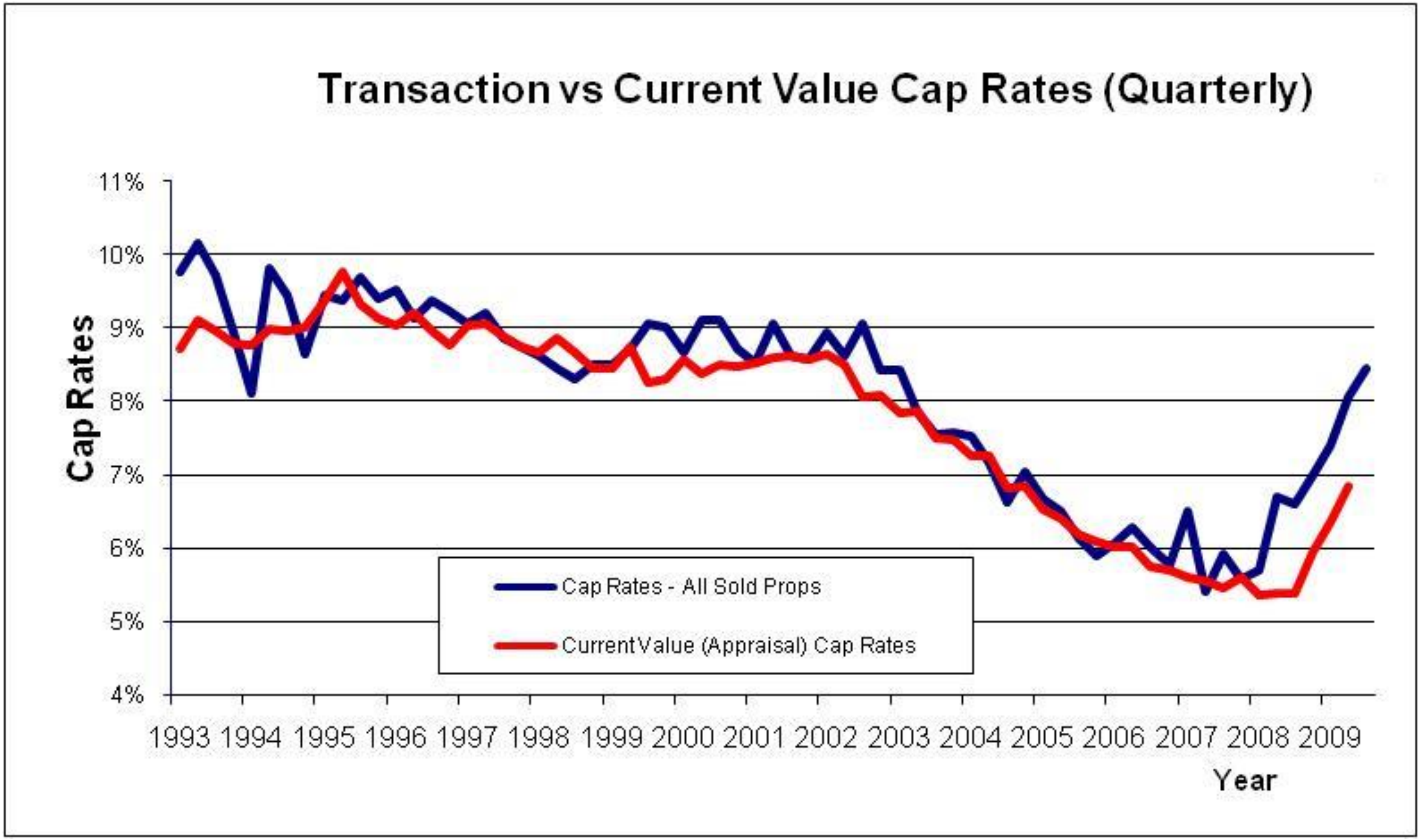
Nowhere to Hide from Record High Vacancies



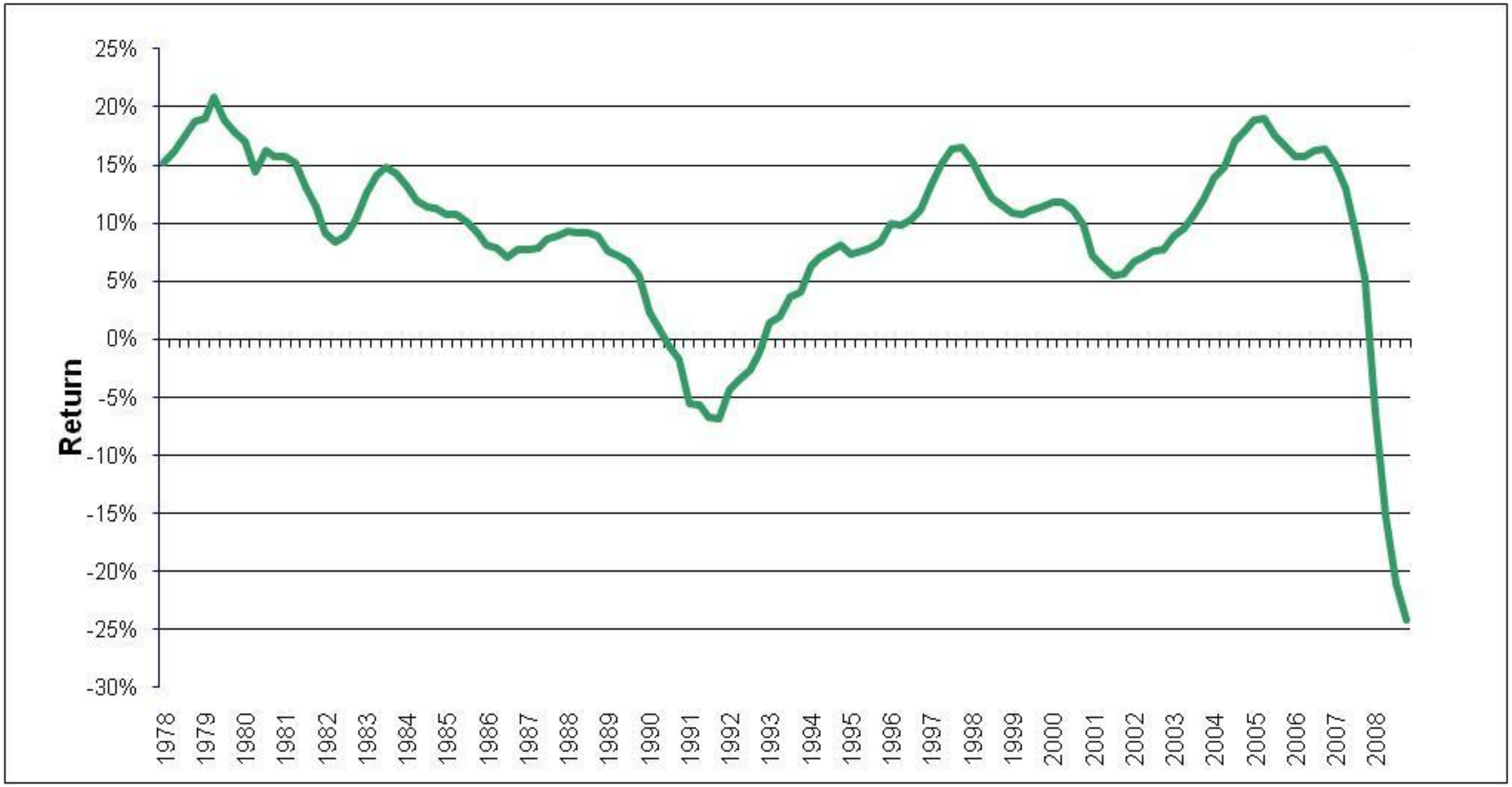
Source: PPR's Deep Recession Fast Recovery Scenario, March 2009

PPR

NCREIF Property Index Cap Rates (Quarterly)



NCREIF Property Index Total Return (4 Quarter Rolling)



What to Expect for NOI Growth

The economy is worse in this cycle and the property markets will be weaker

Must assume that NOI declines will be greater

PEAK-TO-TROUGH DECLINE IN PROPERTY NOI

	EARLY 1990s	EARLY 2000s	To 2009Q3
APARTMENTS	(10%)	(13%)	(3%)
INDUSTRIAL	(11%)	(14%)	(10%)
OFFICE	(20%)	(16%)	(4%)
RETAIL	(5%)	(3%)	(9%)
TOTAL	(12%)	(12%)	(4%)

Impact of NOI and Cap Rate Changes on Value

THE WALL STREET JOURNAL.

"I told you we should have sold last winter."

POTENTIAL NOI DECLINE	CAP RATE INCREASE FROM NCREIF 2008 Q4 LEVEL OF 5.5% (BASIS POINTS) 25	50	75	100	150	200	250
(15%)	(19%)	(22%)	(25%)	(28%)	(33%)	(38%)	(42%)
(10%)	(14%)	(18%)	(21%)	(24%)	(29%)	(34%)	(38%)
(5%)	(9%)	(13%)	(16%)	(20%)	(25%)	(30%)	(35%)
(0%)	(4%)	(8%)	(12%)	(15%)	(21%)	(27%)	(31%)

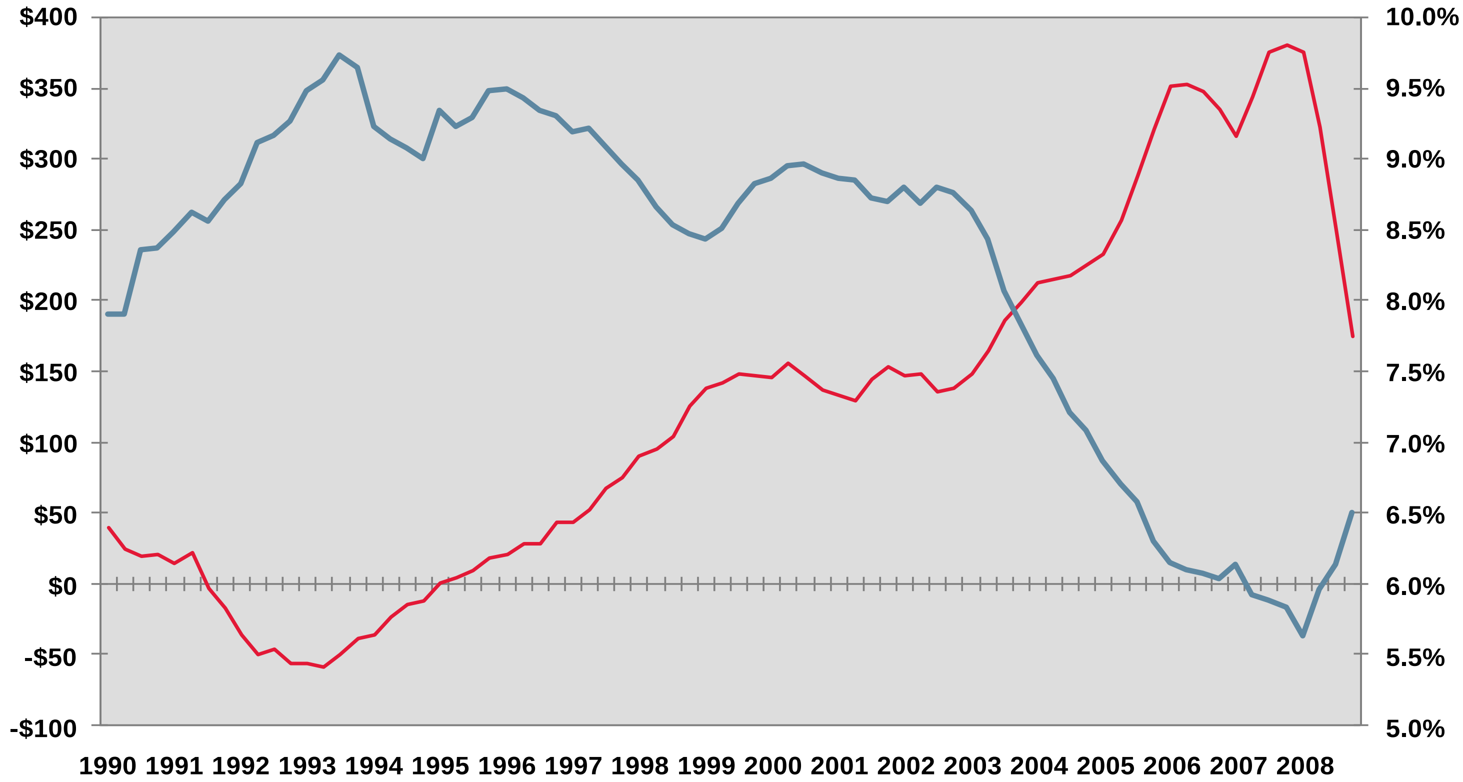
Debt Drives Real Estate Pricing

Capital flows drive pricing

Availability more important than cost

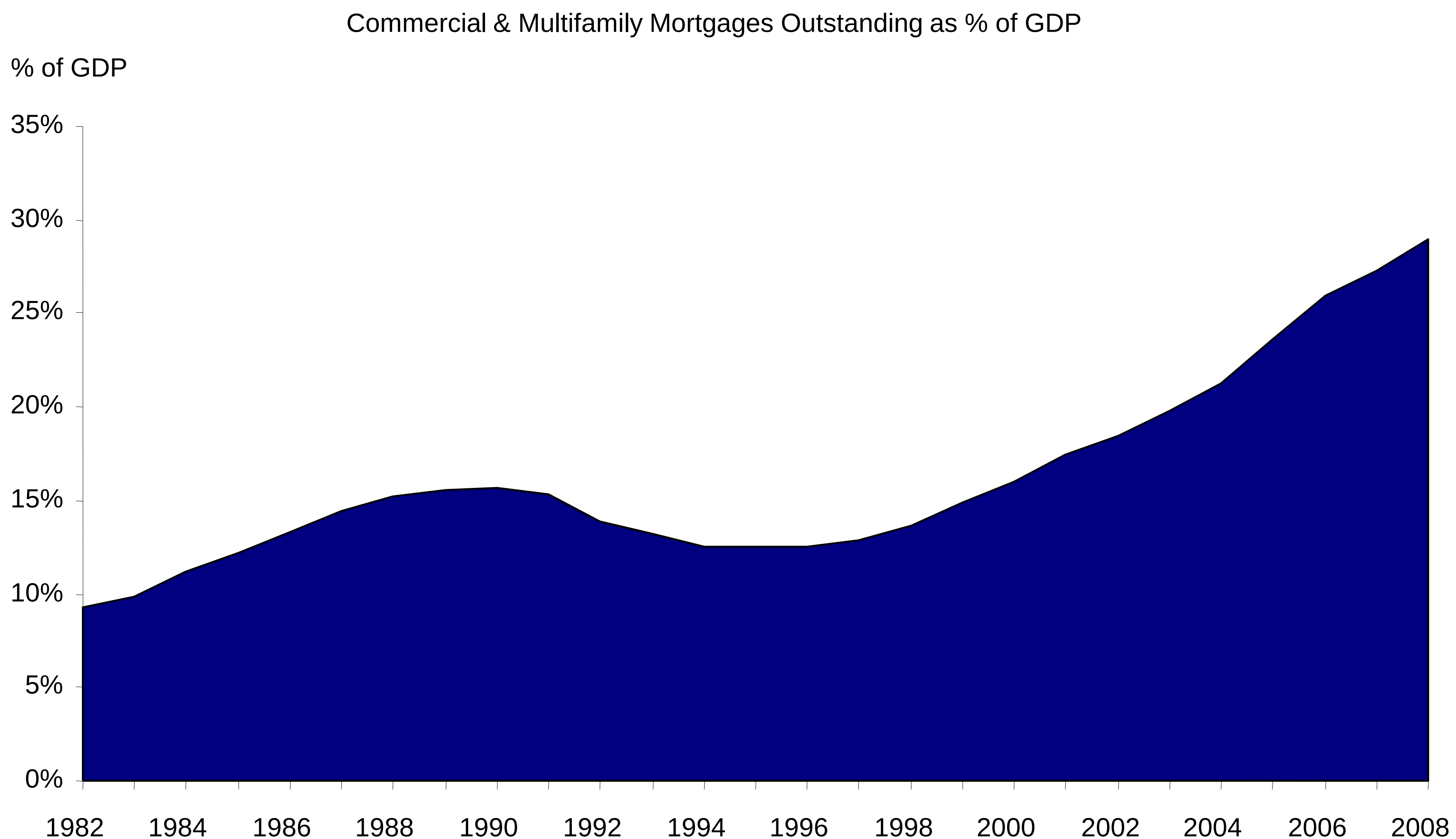
More debt = lower yields

FOUR QUARTER MOVING AVERAGE OF DEBT FLOWS AND CAP RATES



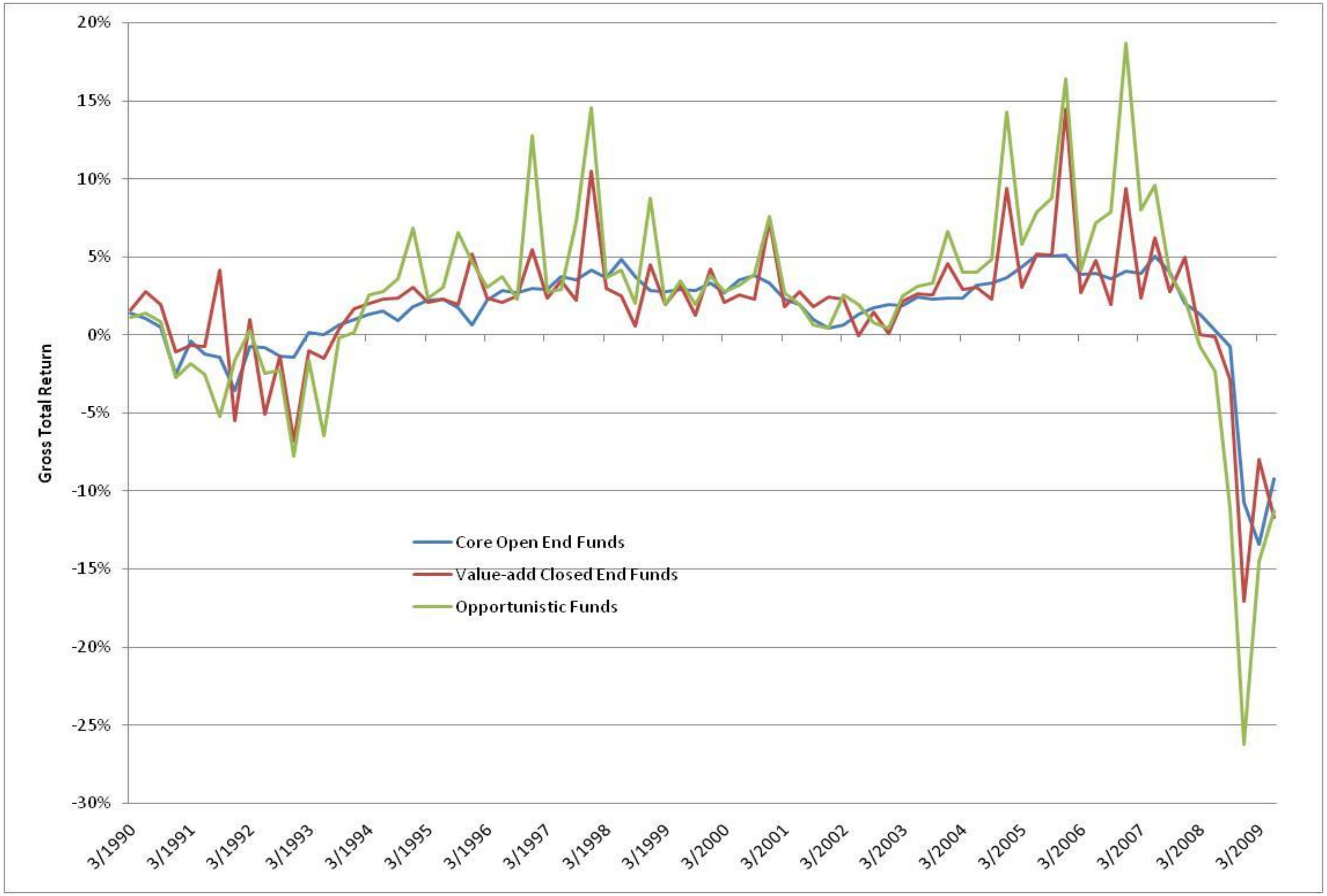
As of 2008Q4
Source: Federal Reserve, NCREIF

Excessive Leverage in the Commercial Mortgage Market

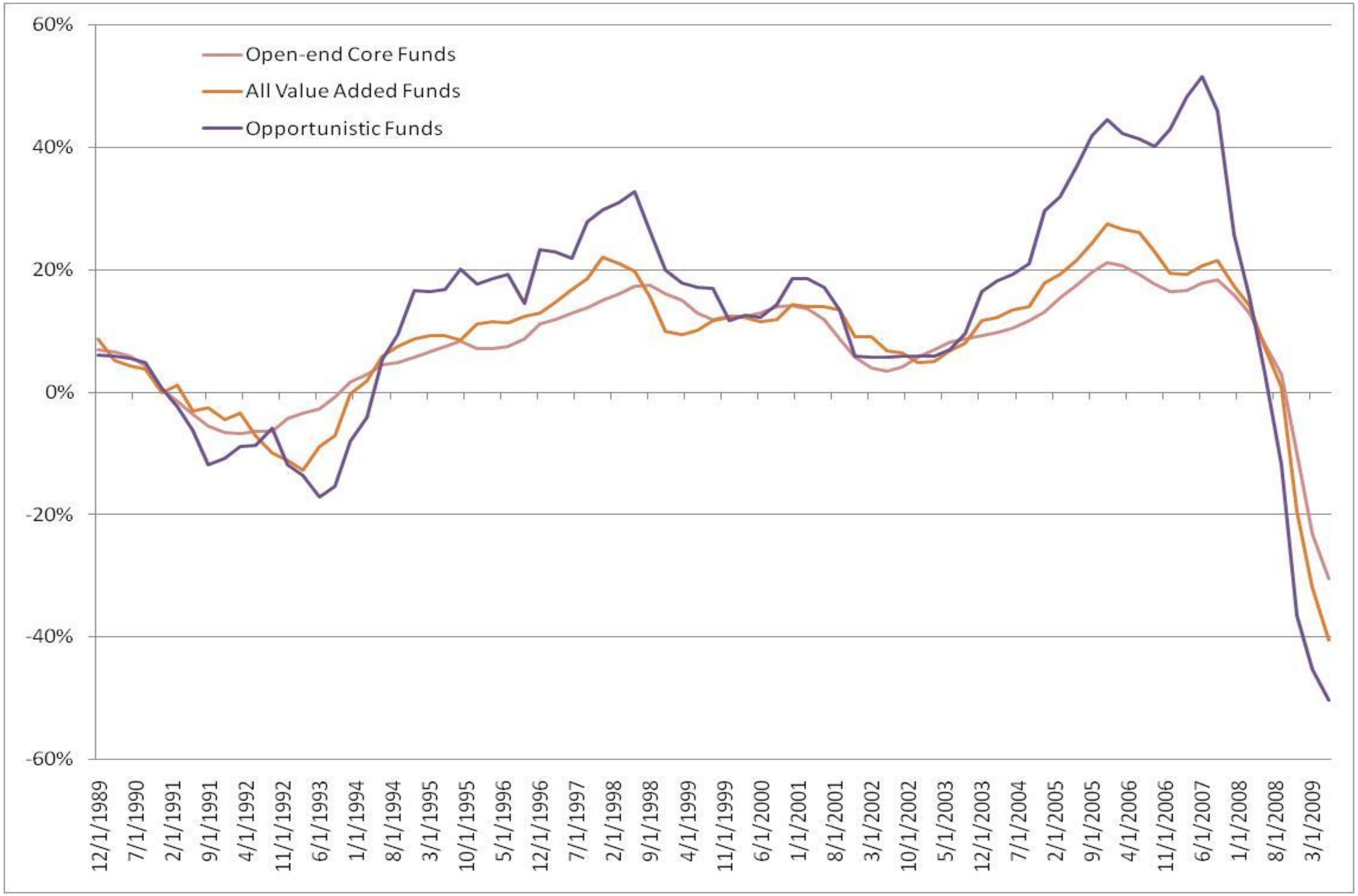


Sources: Federal Reserve; Moody's Economy.com

NCREIF/Townsend Fund Indices: Comparative Performance



NCREIF/Townsend Fund Indices: Rolling 4 Quarter Performance



NCREIF/Townsend Fund Indices: Comparative Performance

Gross Returns thru 2009Q2	Core Open-End	Value Add Closed-End	Opportunistic Closed End
One Year Return	-30.4%	-34.4%	-50.3%
Five Year Return	4.4%	6.1%	8.4%
Five Year Std Dev	11.21%	14.52%	22.21%

Five Year Individual Fund Performance	Core	Value Add	Opportunistic
Count	16	38	89
Top Quartile Break	5.8%	10.2%	22.3%
Median	4.4%	4.0%	10.7%
Bottom Quartile Break	2.5%	-0.2%	-1.0%
Dispersion	1.93%	8.63%	21.84%

Mixing Illiquid and Liquid Investments in a Strategy

- The great lesson of the Crash of 2008: Liquidity matters!
- Conventional Wisdom: Public Market investments more liquid than private market
- Was BBB CMBS more liquid than a whole loan held in portfolio? It depends on what you mean by liquid!
- Hard to hold to your strategy when you have to liquidate your REITs to get cash to meet your opportunity fund capital calls!
- Lesson to Learn: Mixing strategies with vastly different liquidity profiles must be done very carefully.
- Oh, and **LIQUIDITY MATTERS**

2008Q3-2009Q2 **($ Millions)**	**Core**	**Value Add**	**Opportunistic**
Contributions	**2,331**	**4,661**	**19,219**
Distributions	**4,441**	**1,784**	**621**

AEW EUROPE

…& some parental advice…