

# 2008

*National Economic and Office/Industrial Market*

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*Overview and Outlook – Client Teleconference  
November 20, 2008*

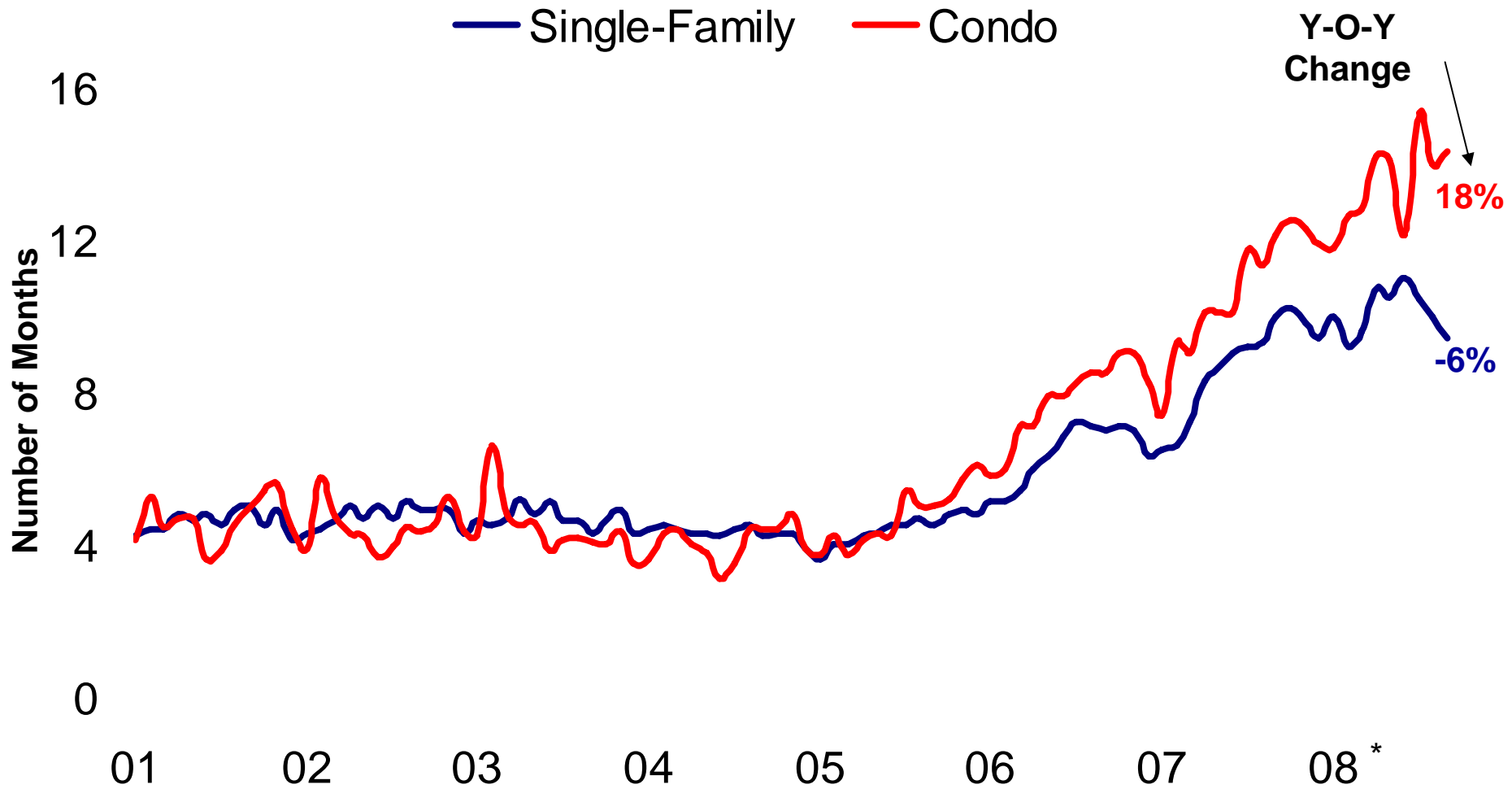
**Marcus & Millichap**

**NATIONAL OFFICE AND INDUSTRIAL  
PROPERTIES GROUP**

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***ECONOMIC and MARKET  
FUNDAMENTALS  
OVERVIEW and OUTLOOK***

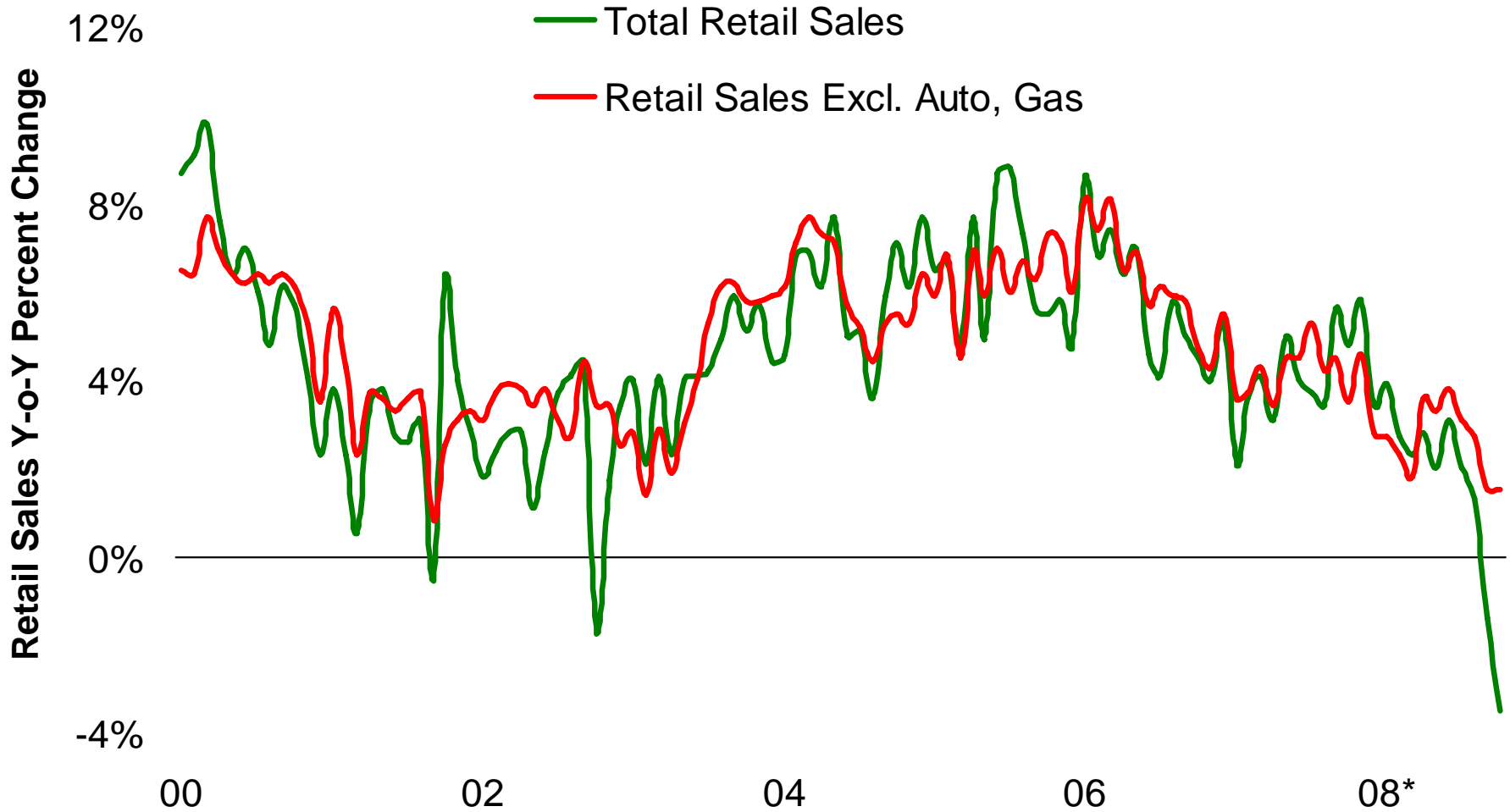
# Housing Inventory Overhang Indicates Further Weakness (months of supply)



\* Through September

Sources: Marcus & Millichap Research Services, National Association of REALTORS®

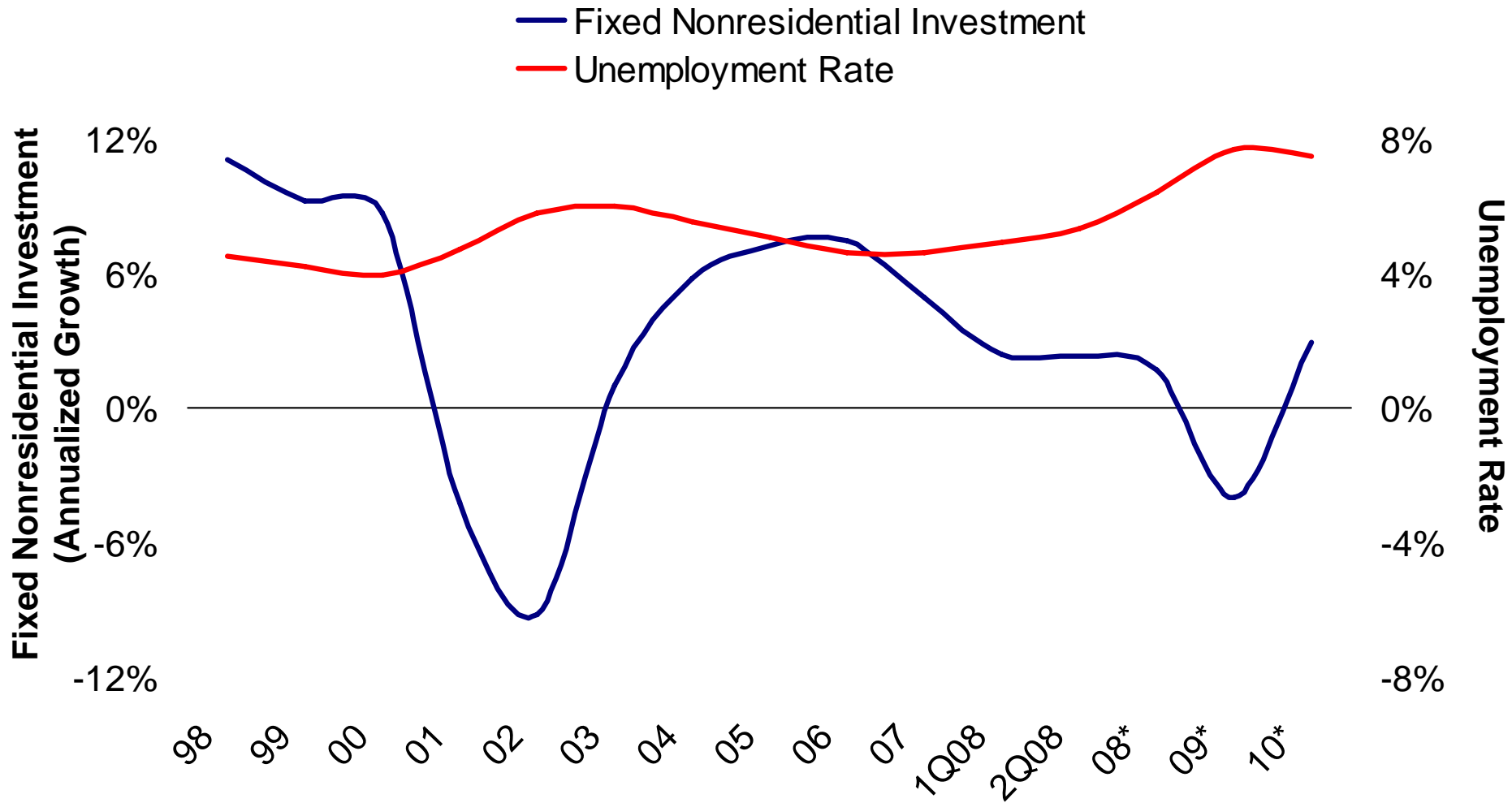
# Housing and Employment Conditions Causing Consumers to Scale Back



\* Through October

Sources: Marcus & Millichap Research Services, Bureau of the Census

# Corporate Investment Stalled Despite Healthy Balance Sheets, Unemployment Rising



\* Forecast

Sources: Marcus & Millichap Research Services, BLS, Economy.com

# Employment Trends by Market

## YTD September 2008

| Top 15 Markets       | YTD Abs. Change | YTD % Change |
|----------------------|-----------------|--------------|
| Houston              | 37,411          | 1.4%         |
| San Antonio          | 11,835          | 1.4%         |
| Seattle-Tacoma       | 24,606          | 1.4%         |
| Dallas-Fort Worth    | 40,607          | 1.4%         |
| Austin               | 9,799           | 1.3%         |
| Oklahoma City        | 6,215           | 1.1%         |
| Charlotte            | 8,485           | 1.0%         |
| Washington, D.C.     | 29,070          | 1.0%         |
| Denver               | 8,857           | 0.7%         |
| Boston               | 13,612          | 0.6%         |
| Columbus             | 5,256           | 0.6%         |
| Baltimore            | 3,900           | 0.3%         |
| New York             | 13,607          | 0.3%         |
| San Francisco        | 1,500           | 0.2%         |
| San Jose             | 1,101           | 0.1%         |
| <b>United States</b> | <b>-939,000</b> | <b>-0.7%</b> |

| Bottom 15 Markets    | YTD Abs. Change | YTD % Change |
|----------------------|-----------------|--------------|
| St. Louis            | -12,816         | -0.9%        |
| Milwaukee            | -10,100         | -1.2%        |
| West Palm Beach      | -7,100          | -1.2%        |
| Orange County        | -22,500         | -1.5%        |
| Sacramento           | -13,590         | -1.5%        |
| Atlanta              | -37,351         | -1.5%        |
| Miami                | -16,400         | -1.5%        |
| Tampa                | -20,800         | -1.6%        |
| Inland Empire        | -21,300         | -1.7%        |
| Phoenix              | -33,600         | -1.8%        |
| Fort Lauderdale      | -14,200         | -1.8%        |
| Memphis              | -12,045         | -1.9%        |
| Oakland              | -19,800         | -1.9%        |
| Tucson               | -7,200          | -1.9%        |
| Detroit              | -42,746         | -2.2%        |
| <b>United States</b> | <b>-939,000</b> | <b>-0.7%</b> |

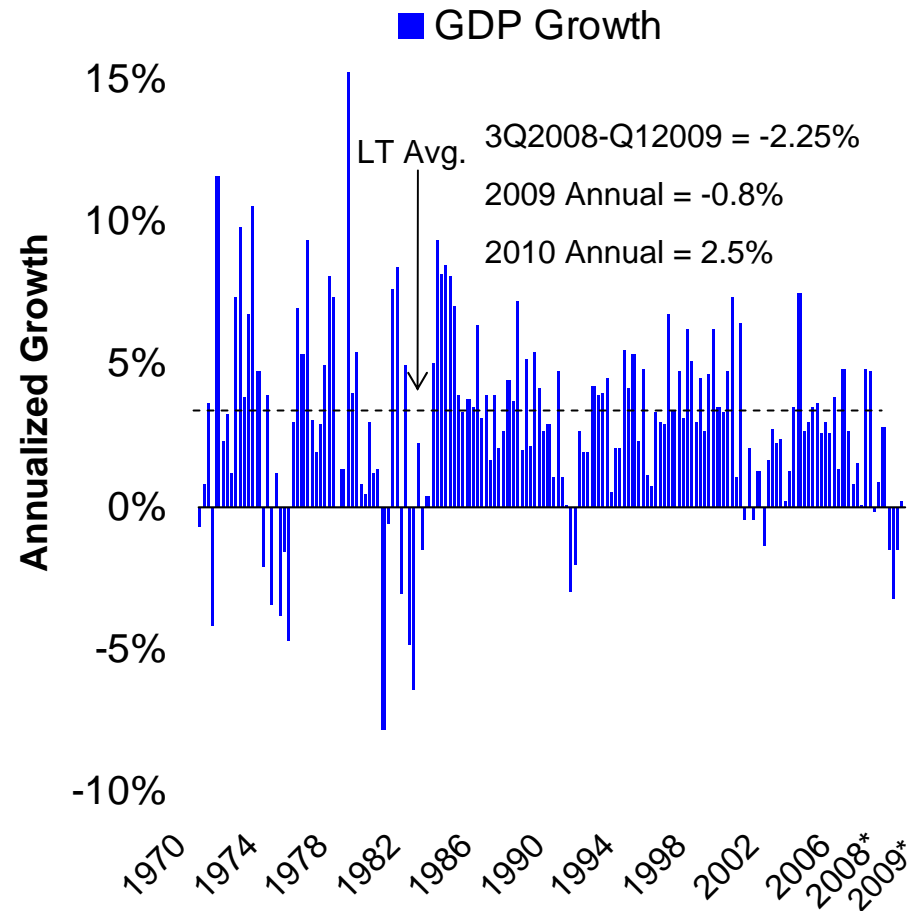
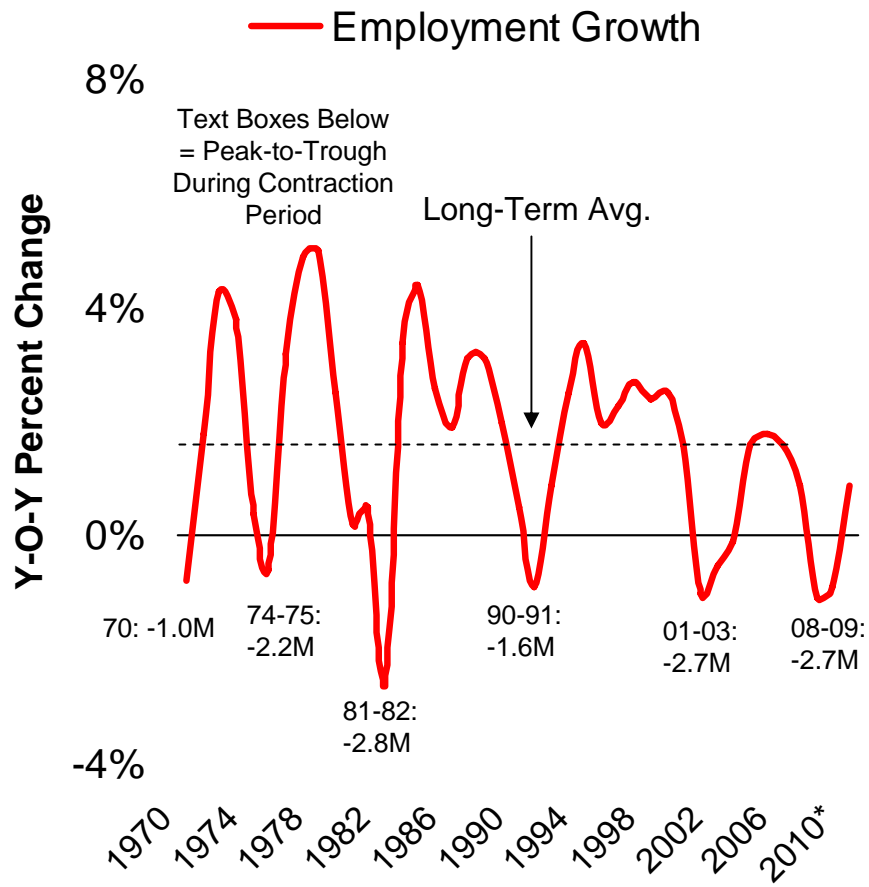
# Peak to Trough Real GDP Declines

## Post-War U.S. Recessions

|             | # of<br>Quarters | Real GDP<br>Decline % | Annualized<br>% |
|-------------|------------------|-----------------------|-----------------|
| Q3:57-Q1:58 | 2                | -3.70%                | -7.40%          |
| Q3:81-Q1:82 | 2                | -2.90%                | -5.60%          |
| Q1:80-Q3:80 | 2                | -2.20%                | -4.30%          |
| Q3:70-Q4:70 | 1                | -1.10%                | -4.20%          |
| Q4:48-Q2:49 | 2                | -1.80%                | -3.50%          |
| Q2:53-Q1:54 | 3                | -2.70%                | -3.50%          |
| Q4:73-Q1:75 | 5                | -3.10%                | -2.50%          |
| Q3:90-Q1:91 | 2                | -1.30%                | -2.50%          |
| Q1:60-Q4:60 | 3                | -1.60%                | -2.20%          |
| Q2:01-Q3:01 | 1                | -0.40%                | -1.40%          |
| Average     | 2.3              | -2.10%                | -3.70%          |

# Economic Weakness Expected Through Mid-2009

## Risk Levels Remain Elevated



\*Forecast Assumes "Thawing" of Credit Markets by Late 2008, Sustained Easing of Energy Prices, No Additional Major Shocks

Sources: Marcus & Millichap Research Services, Blue Chip, Economy.com, Global Insight

# Job Losses Have Accelerated in the last Two Months; Likely to Remain High through Q1-2009



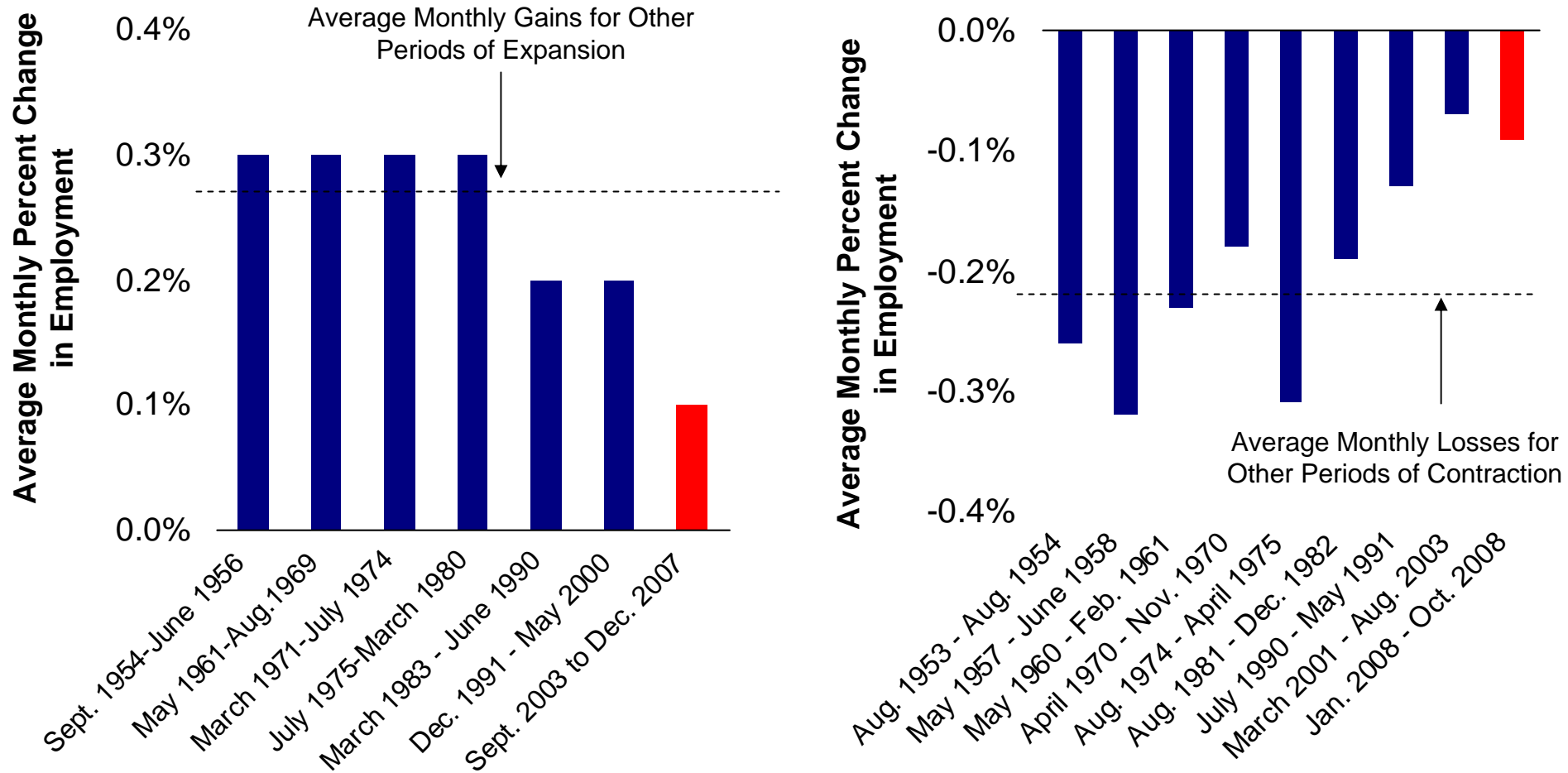
\* Through October

Sources: Marcus & Millichap Research Services, Economy.com

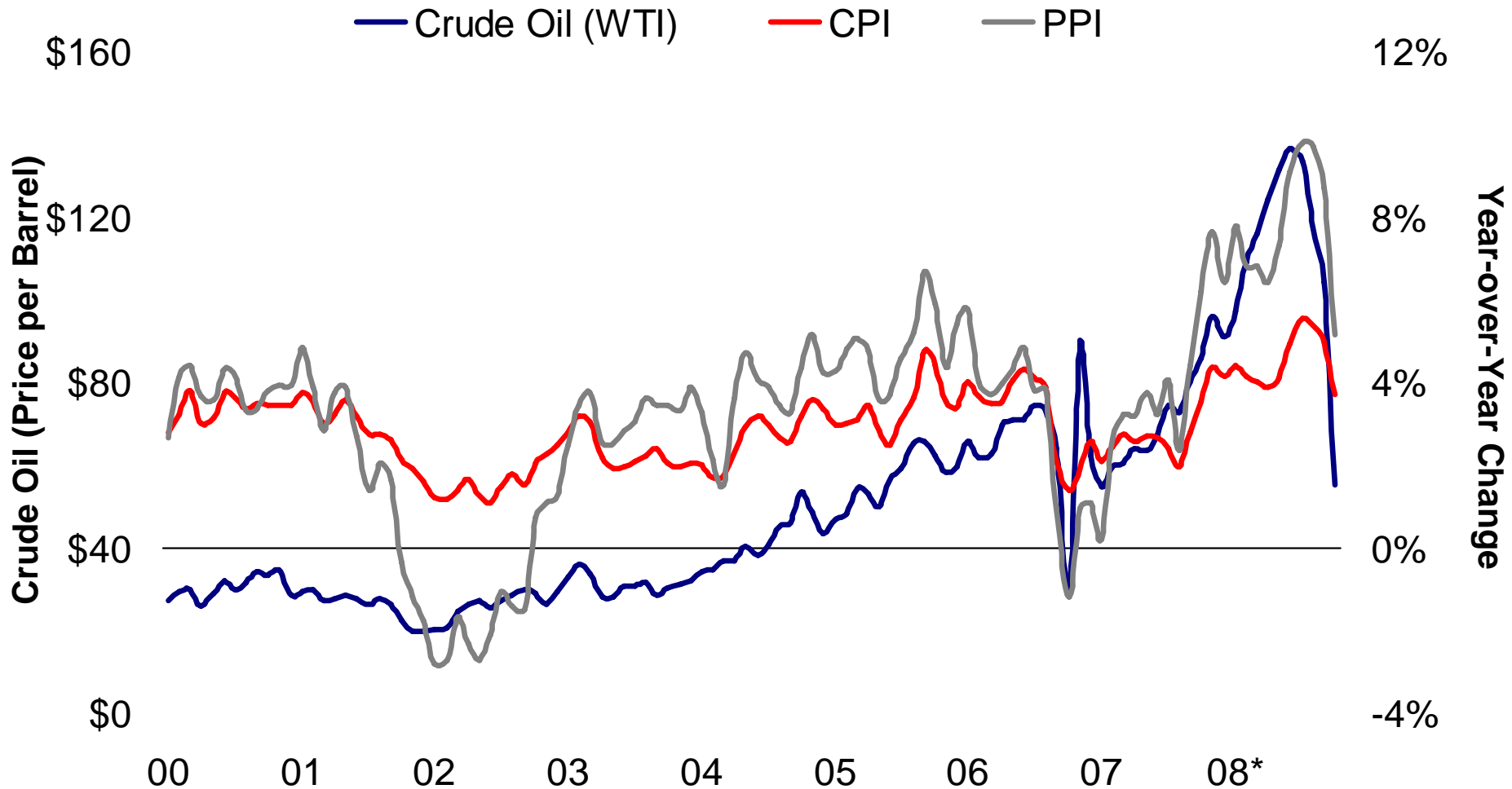
# Fed/Treasury Multiple Credit Facilities, Injecting Unprecedented Levels of Liquidity into Economy

|   | <u>Jan 00 - Dec 02</u> | <u>Jul 07 - Sept 08</u> | <u>Oct. 2008</u> |
|---|------------------------|-------------------------|------------------|
| Discount Window Credit of Depository Institutions   | \$10.9 Billion         | \$286.7 Billion         | \$403.5 Billion  |
| Asset-Backed Comm. Paper/Money Market Fund Facility   | -                      | \$31.9 Billion          | \$117.5 Billion  |
| Special Liquidity Facility  | \$72 Million           | -                       |                  |
| Other Credit Extensions   | -                      | \$23.4 Billion          | \$77.1 Billion   |
| Primary Borrowings of Depository Institutions   | -                      | \$113 Billion           | \$94 Billion     |
| Secondary Borrowings of Depository Institutions   | -                      | \$246 Million           | \$38 Million     |
| Primary Dealer and Other Broker-Dealer Credit   | -                      | \$116.8 Billion         | \$115 Billion    |
| Seasonal Borrowings of Depository Institutions  | \$5.0 Billion          | \$1.3 Billion           | \$28 Million     |
| Term Auction Credit of Depository Institutions  | -                      | \$1.0 Trillion          | \$244.8 Billion  |
| <i>*All figures above represent cumulative monthly totals over time period (Federal Reserve Statistics – H3 Tables)</i> |                        |                         |                  |
| Emergency Economic Stabilization Act (includes TARP)  | -                      | \$700 Billion           |                  |
| <i>Capital Purchase Plan (Purchasing Stock in Banks)</i>  | -                      | \$250 Billion           |                  |
| <i>Additional AIG Funding (Purchase of AIG shares)</i>  |                        |                         | \$40 Billion     |
| FDIC Increased Guarantee of Deposits to \$250,000   | -                      | Unknown                 |                  |
| Fed Provides Unlimited Currency Swap Lines for European Central Banks   | -                      | Unknown                 |                  |

# Lean Payrolls During the Expansion were Limiting Job Losses During the Downturn



# Drop in Energy Prices a Positive Factor for the Consumer – Fed on Deflation Watch (For Now)

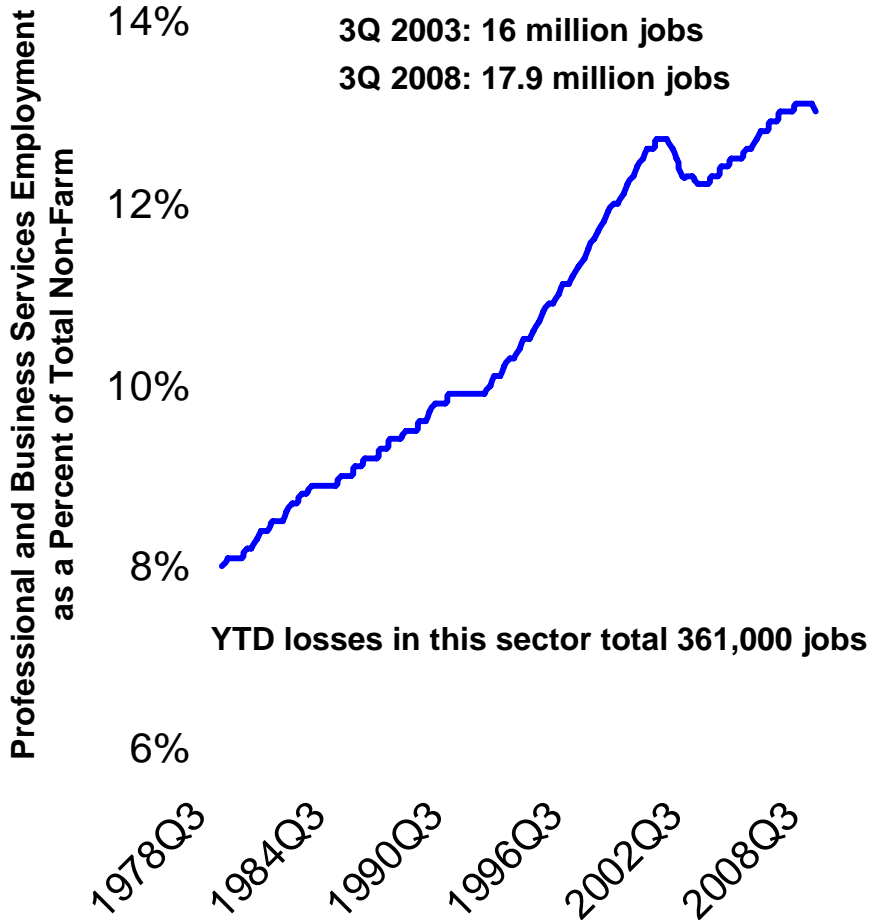


\* Crude Oil through November 17th, CPI and PPI through October  
Sources: Marcus & Millichap Research Services, Economy.com

# U.S. Economic Landscape has Shifted

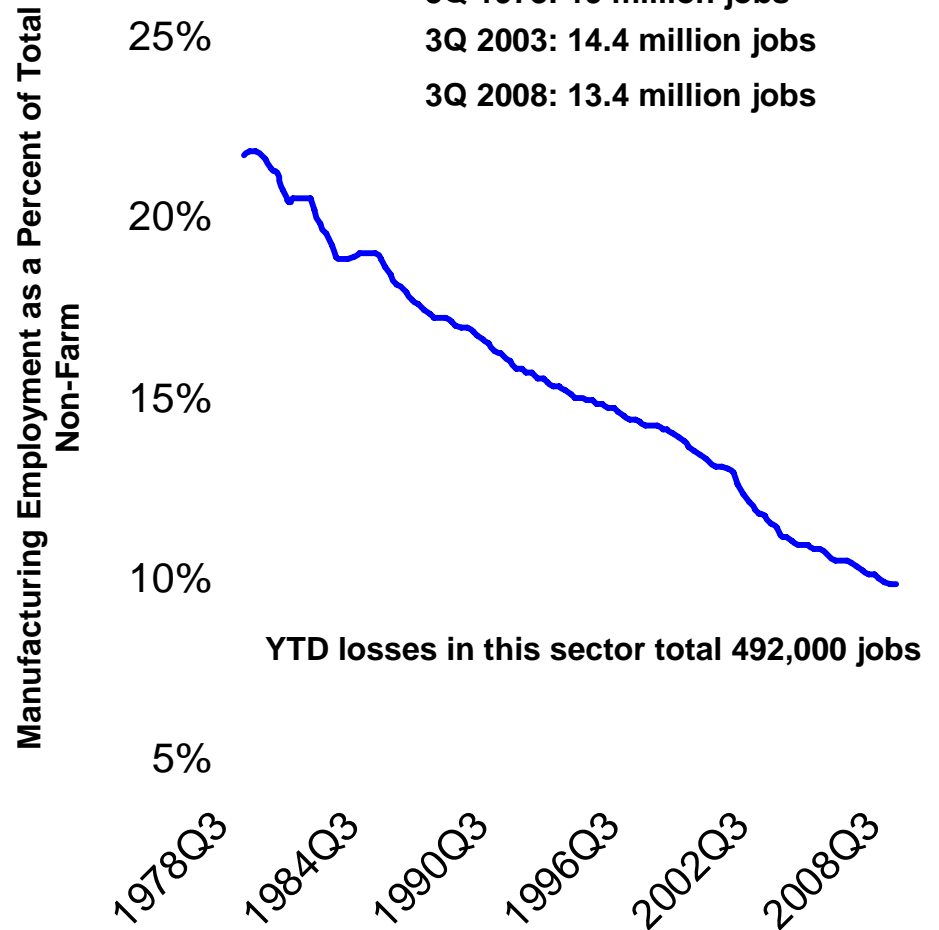
## Professional and Business Services

3Q 1978: 7 million jobs  
3Q 2003: 16 million jobs  
3Q 2008: 17.9 million jobs

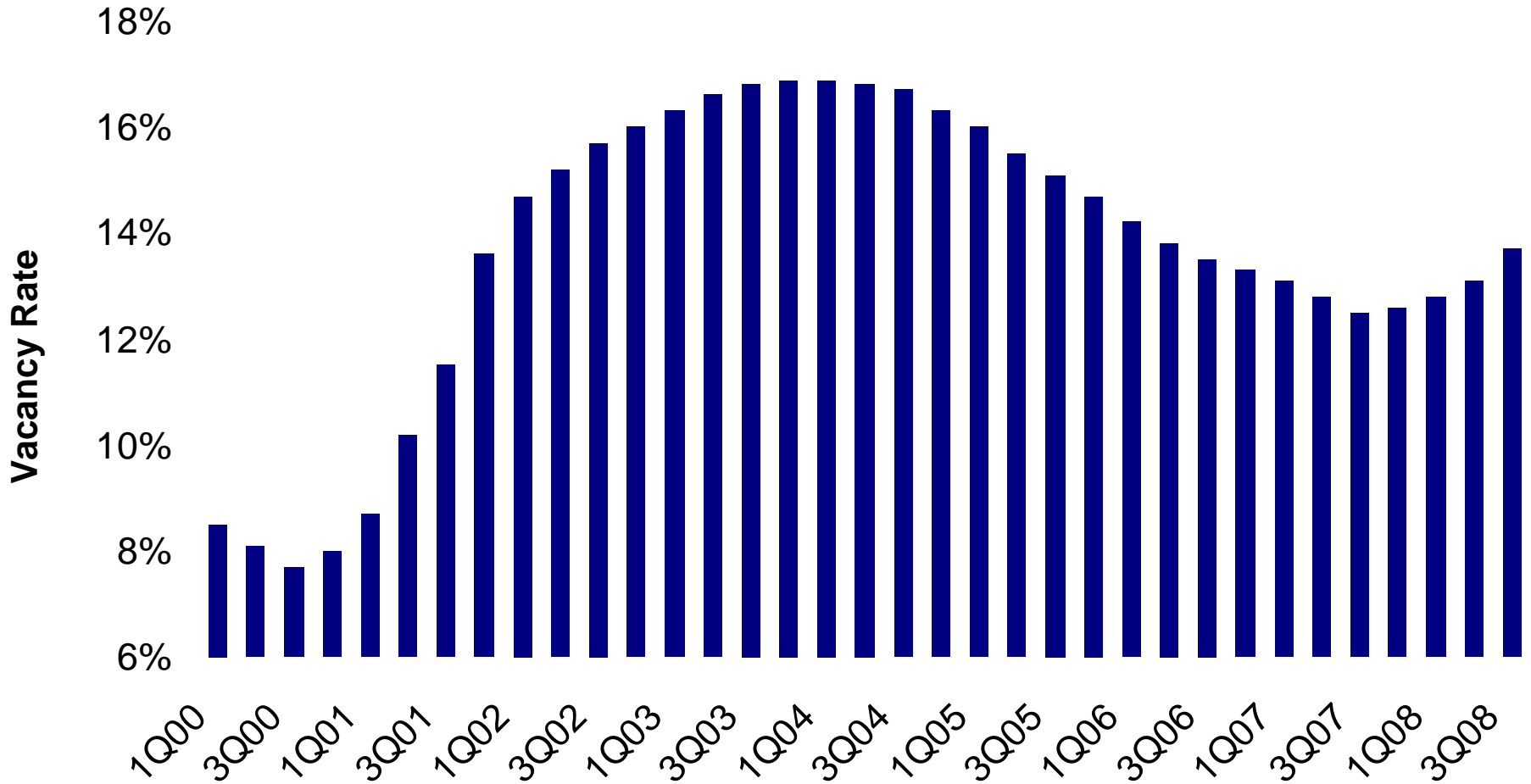


## Manufacturing

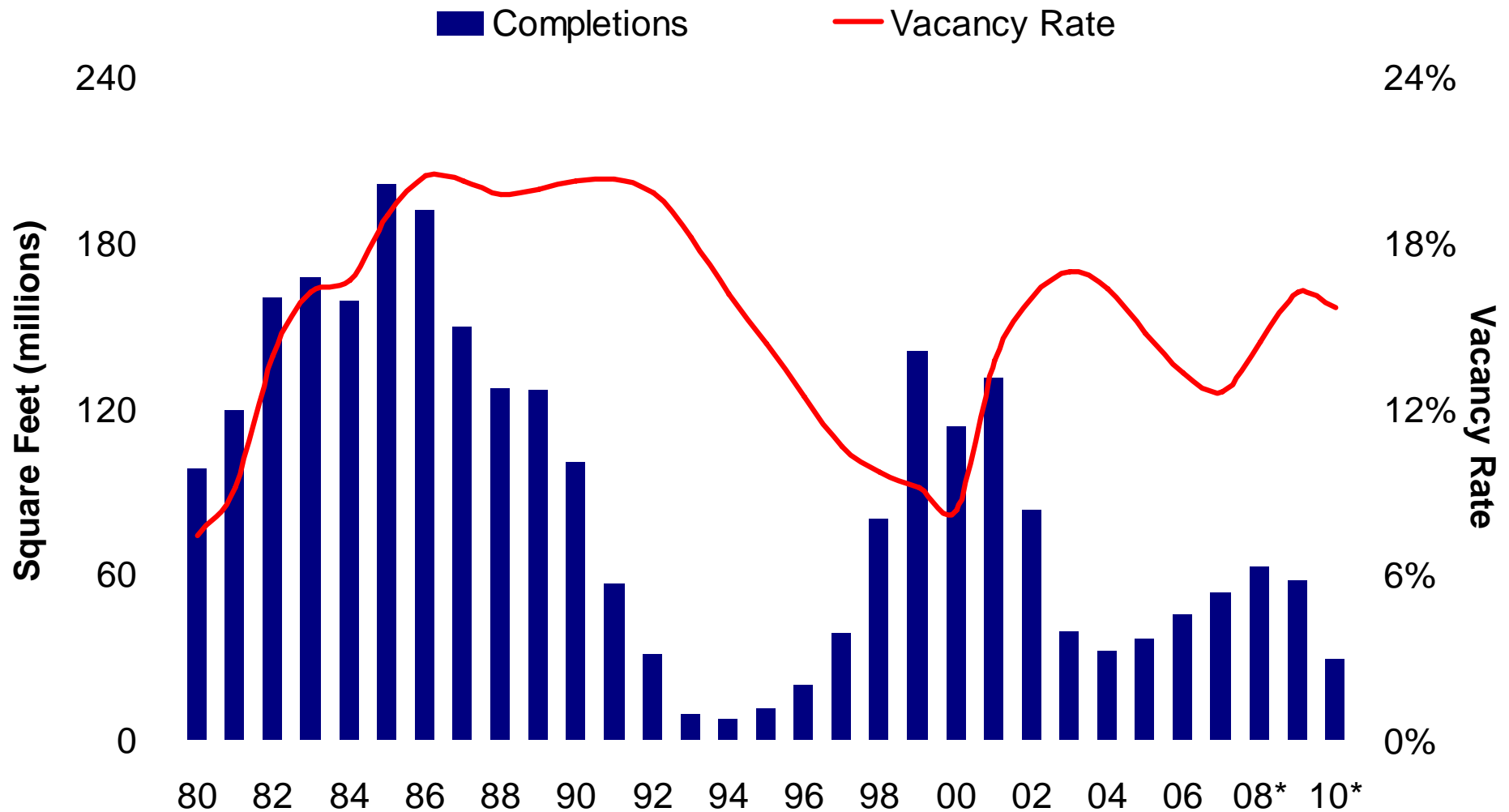
3Q 1978: 19 million jobs  
3Q 2003: 14.4 million jobs  
3Q 2008: 13.4 million jobs



# U.S. Office Quarterly Vacancy

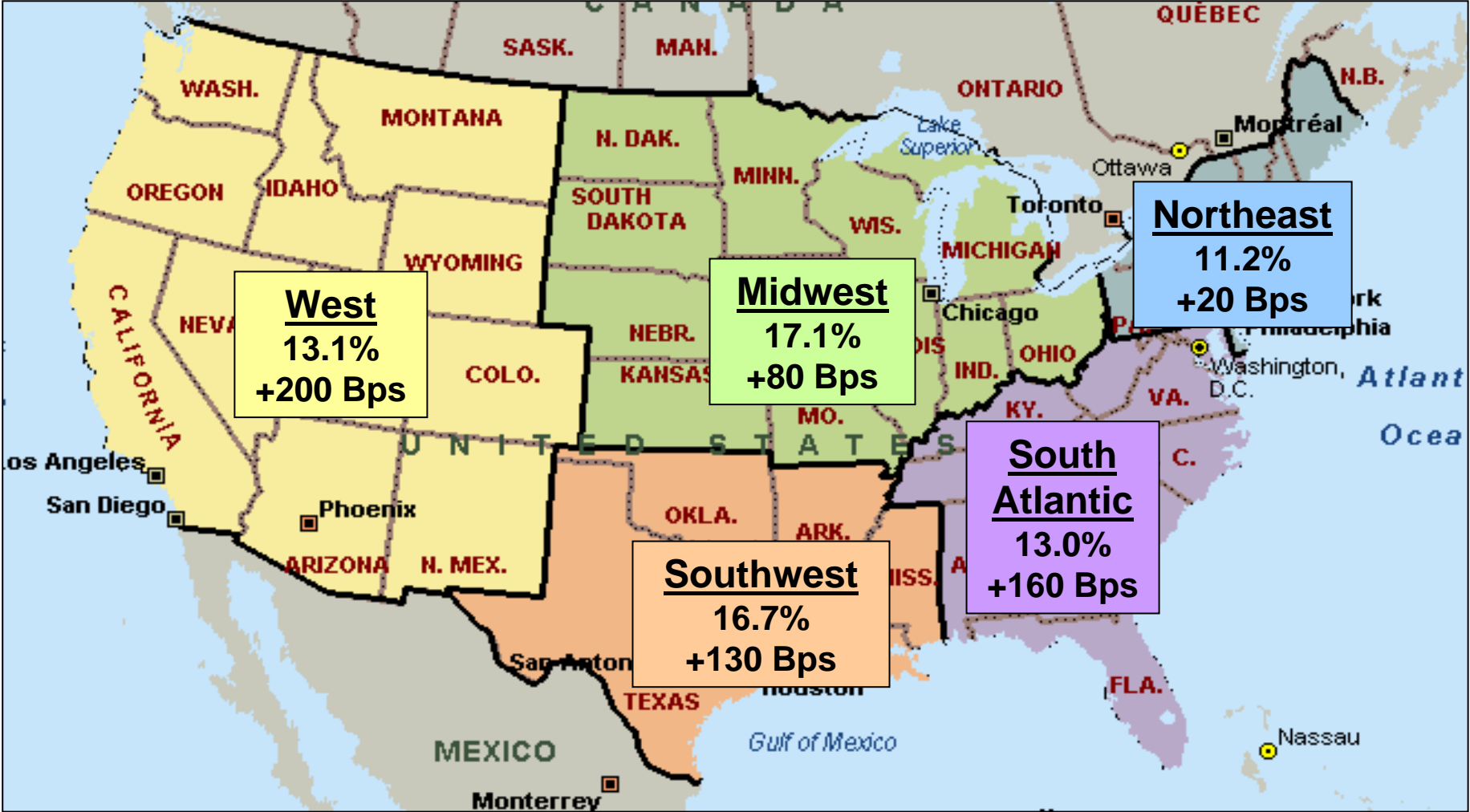


# Office Vacancies Rising After Strong Recovery - Lack of Significant Over-Building a Major Advantage



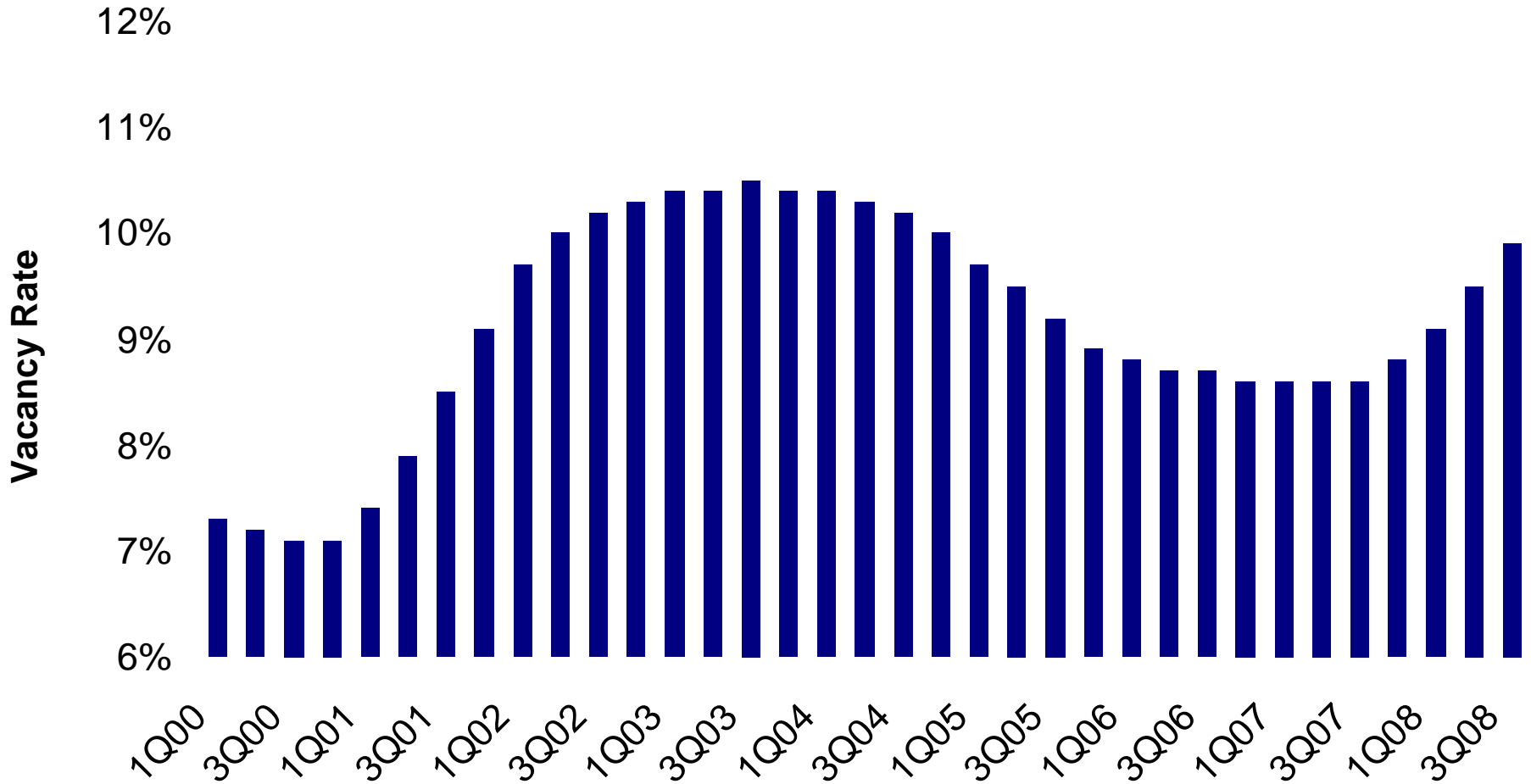
\* Forecast  
Sources: Marcus & Millichap Research Services, Reis

# U.S. Office Vacancy by Region 3Q 2008 - YOY Change

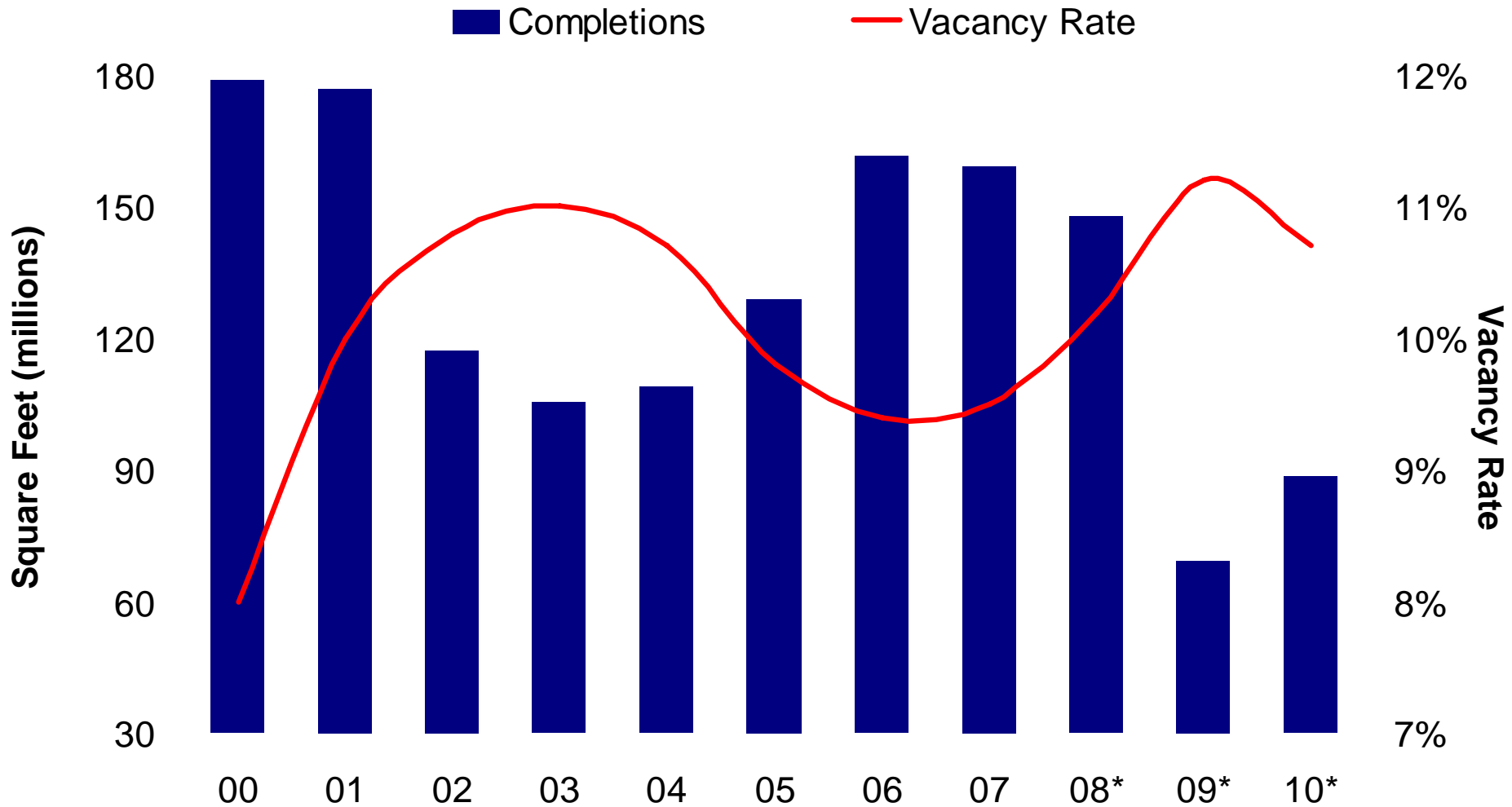


Sources: Marcus & Millichap Research Services, Reis

# U.S. Industrial Quarterly Vacancy



# Industrial Vacancy Rising – Construction Expected to Drop-Off More Significantly

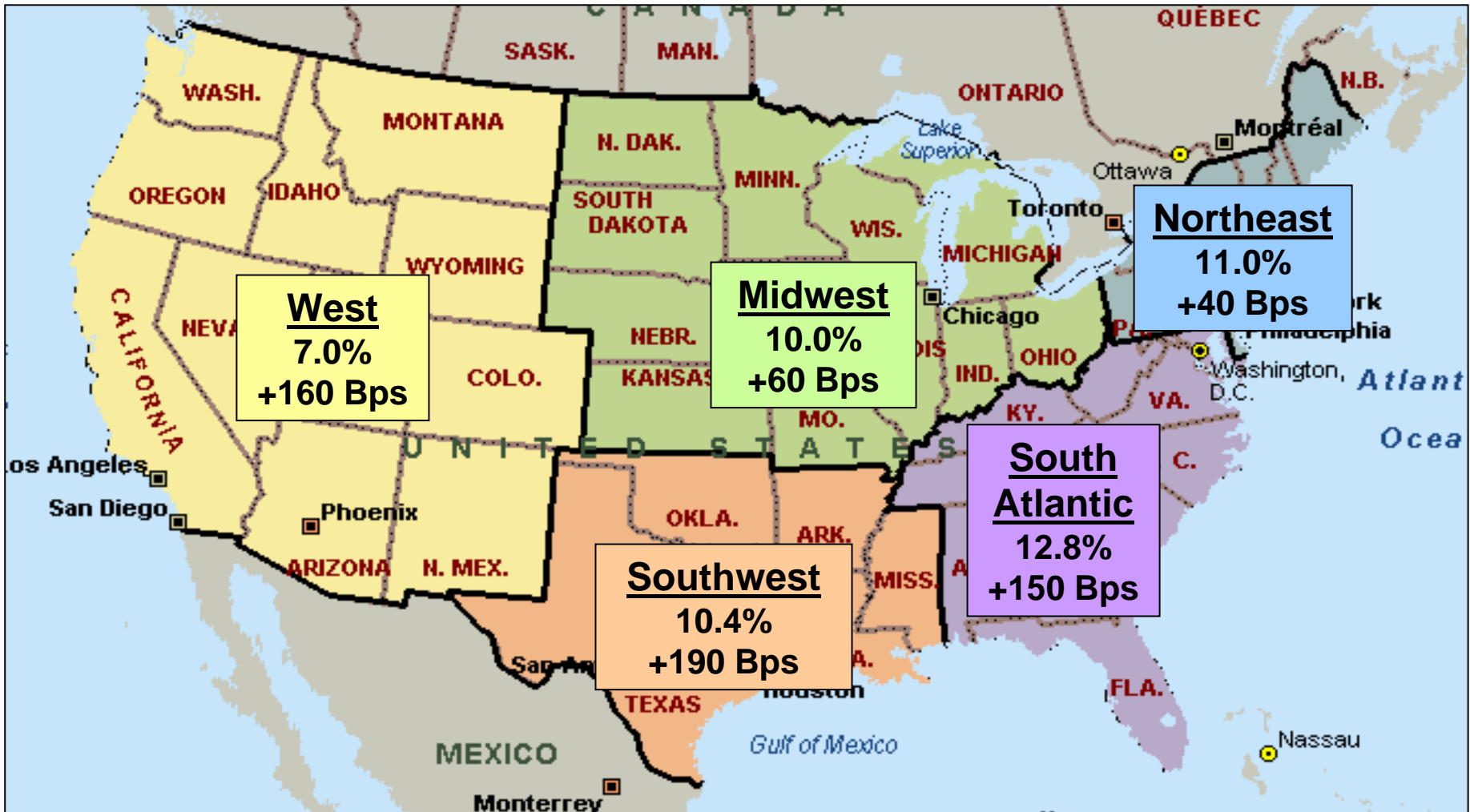


\* Forecast

Sources: Marcus & Millichap Research Services, Reis

# U.S. Industrial Vacancy by Region

## 3Q 2008 - YOY Change



Based on core Warehouse/Distribution properties

Sources: Marcus & Millichap Research Services, Property & Portfolio Research

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***CAPITAL MARKETS  
OVERVIEW and OUTLOOK***

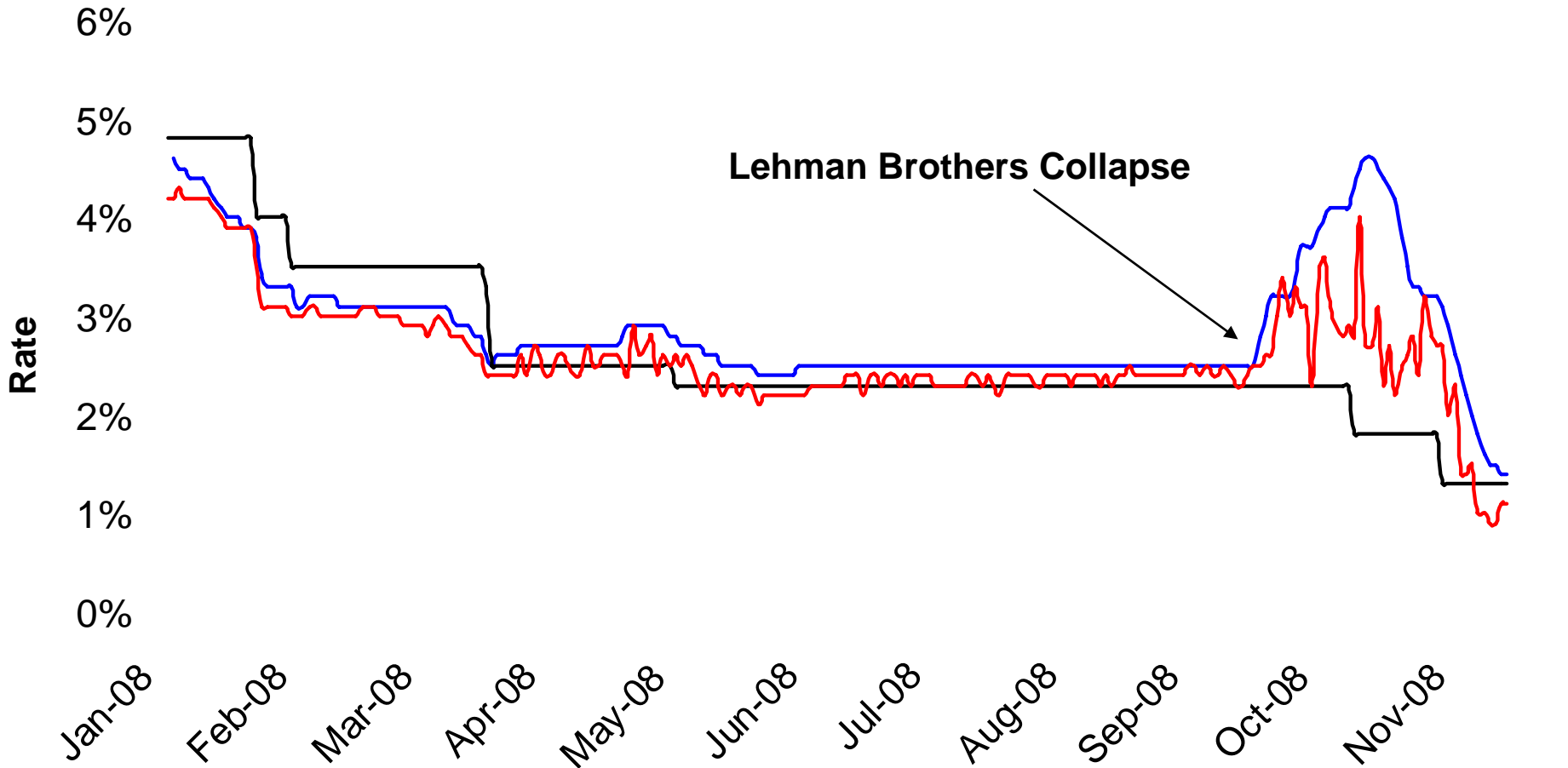
# Financial Development Since October 2008

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- 1. Inter-bank lending has improved**
- 2. LIBOR and TED spreads have come in**
- 3. Fed/Treasury injecting cash directly into financial institutions**
- 4. Treasury has changed direction on TARP – will not acquire troubled assets directly**
- 5. Local/regional banks still lending**
  - The number of failed banks is up to 19 and rising**
- 6. Pressure on commercial spreads to widen based on eroding fundamentals**
- 7. Delinquencies still near historical lows**
- 8. Distress in the commercial sector to increase based upon deteriorating fundamentals**

# Key Market Rates

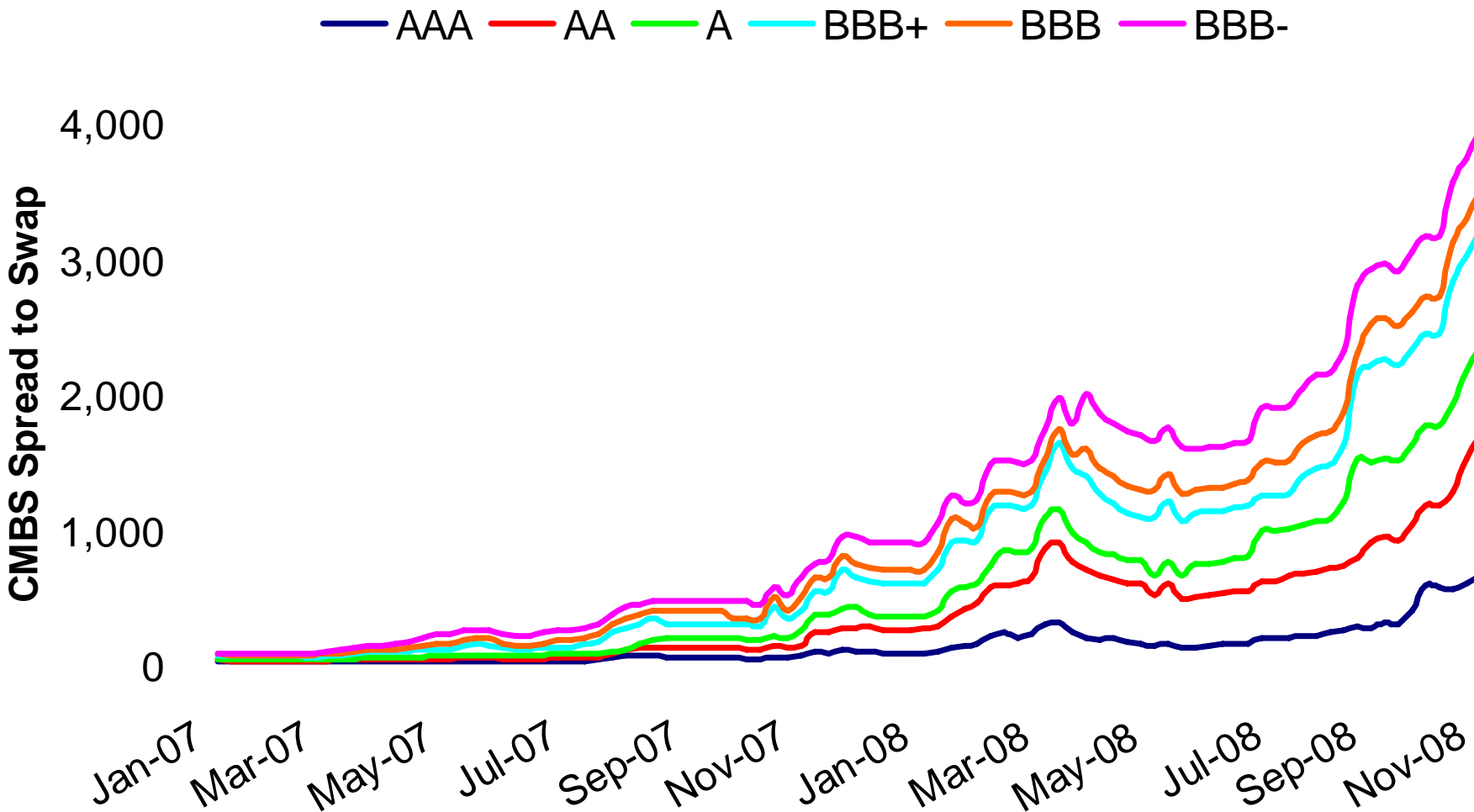
— 30 Day LIBOR    — Federal Discount Rate    — 30 Day Commercial Paper



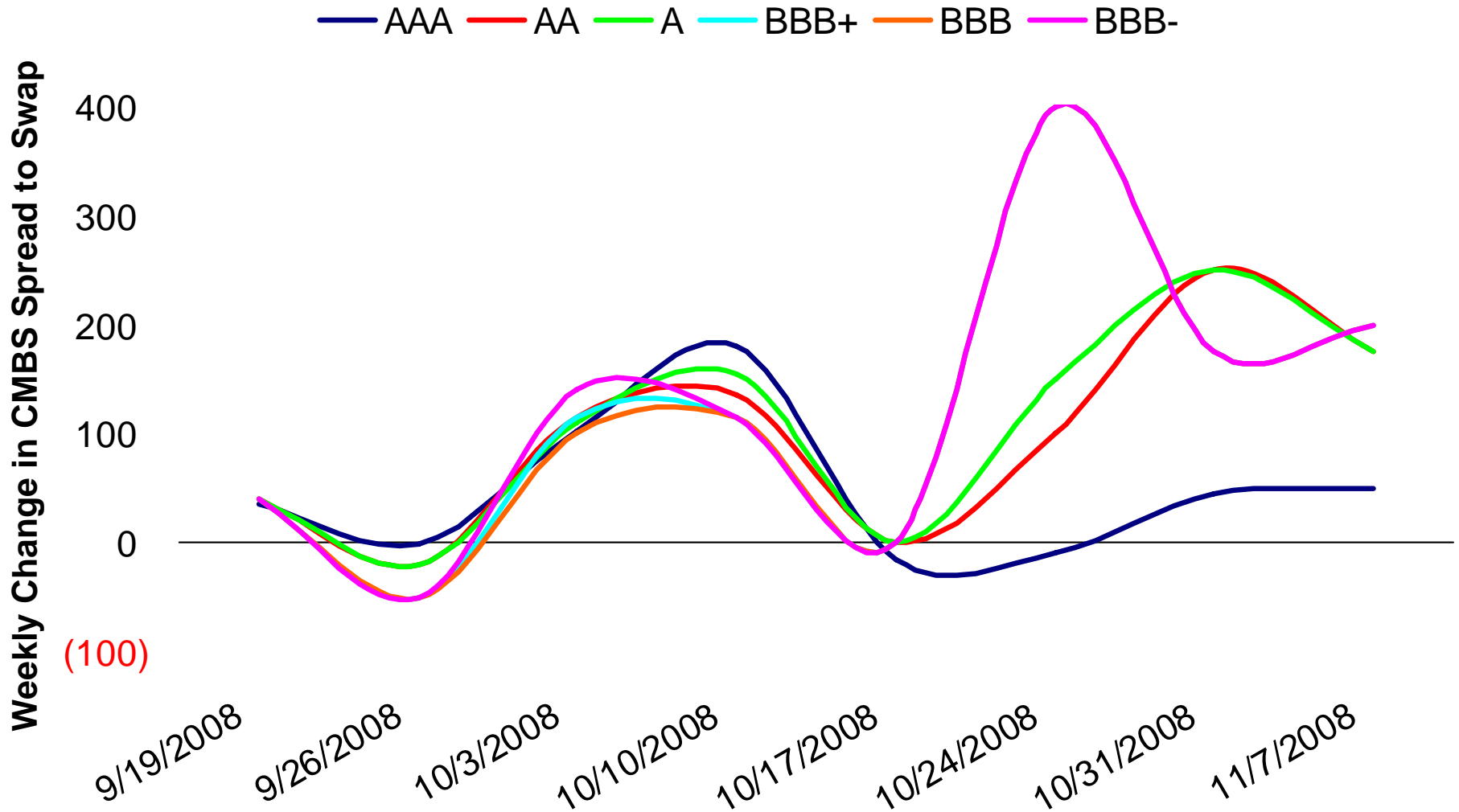
Through November 13, 2008

Sources: Marcus & Millichap Research Services, Economy.com, Federal Reserve

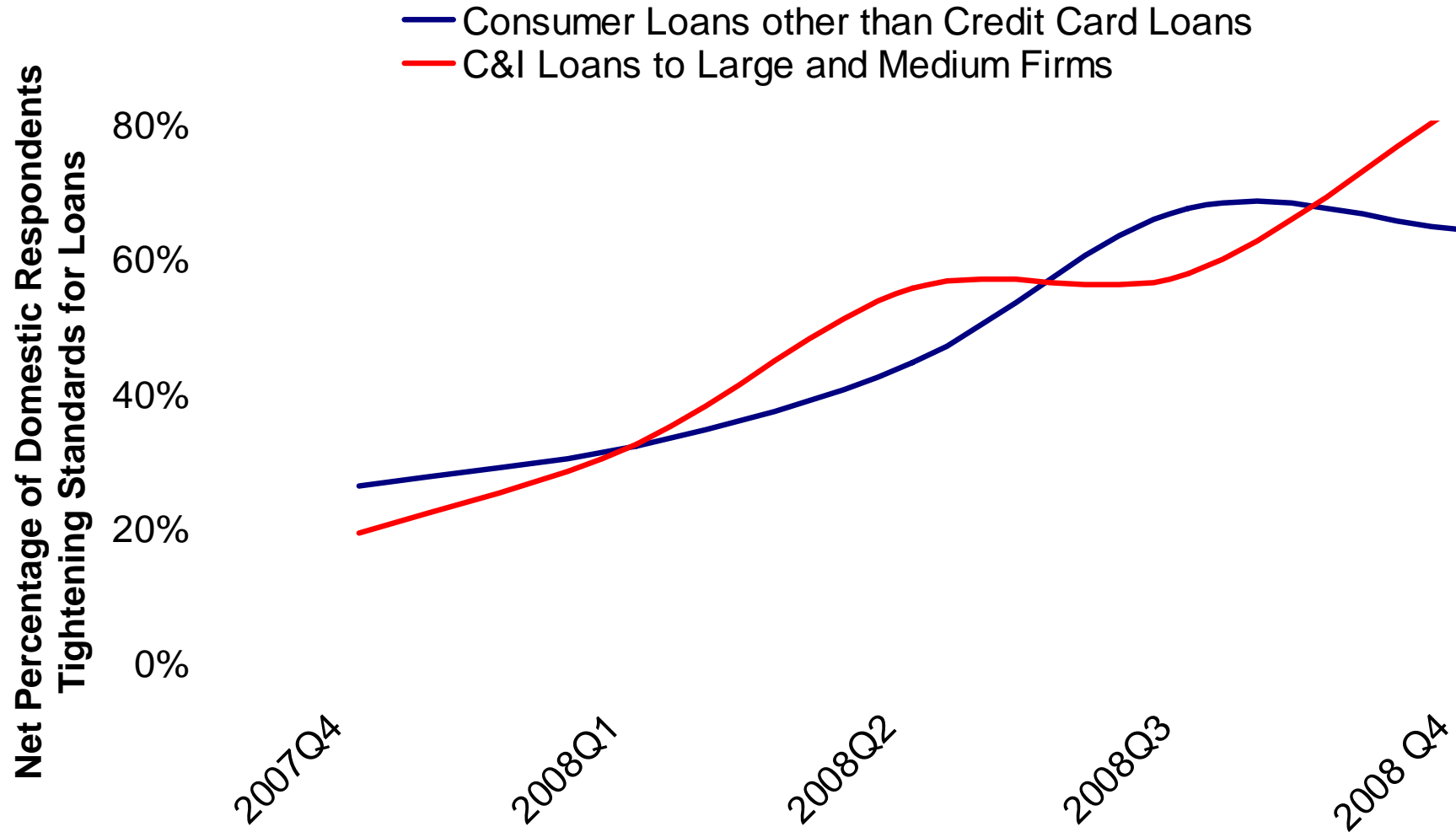
# CMBS Credit Spreads Remain at Elevated Levels



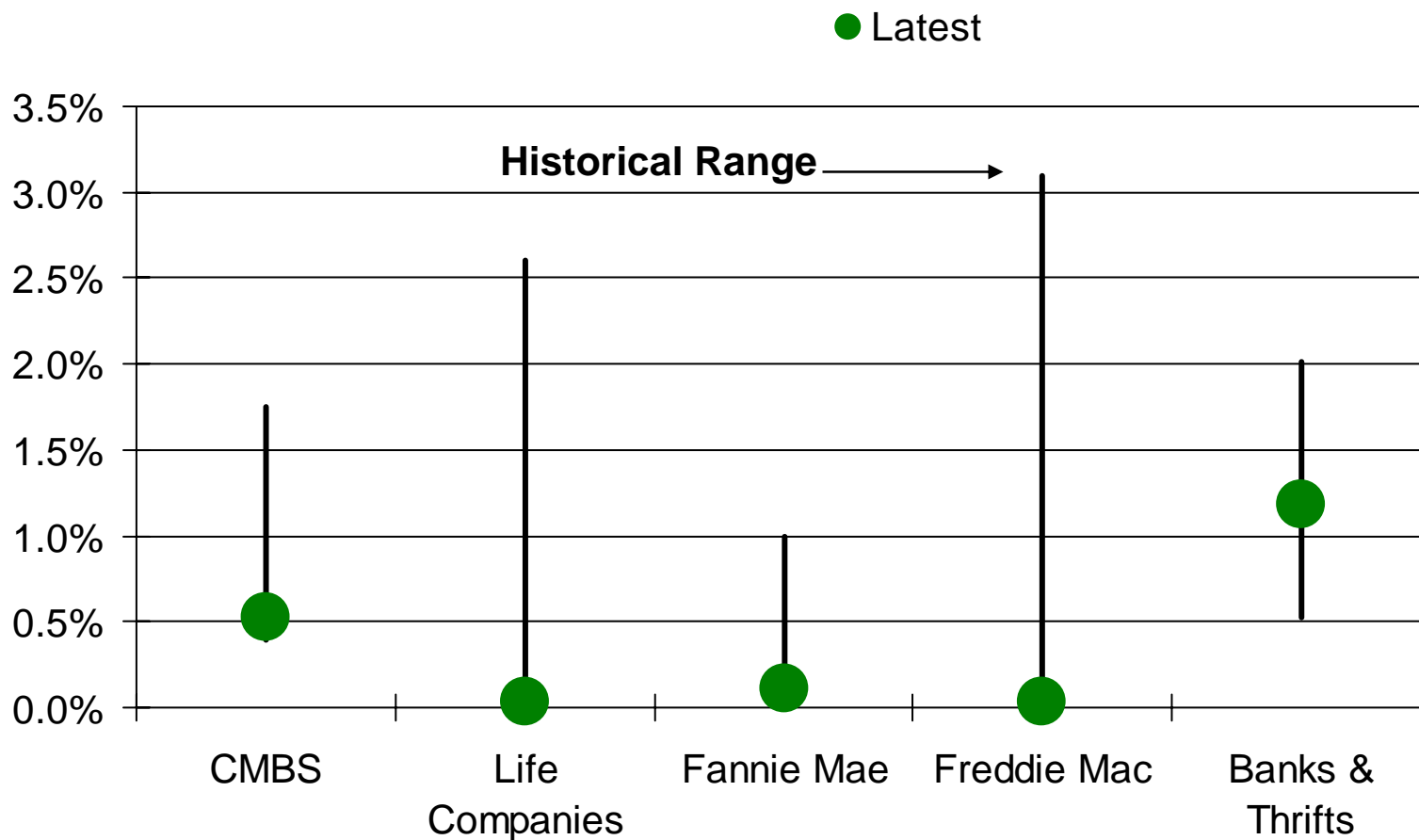
# Credit Spreads Remain Volatile on a Week to Week Basis



# Credit Standards Have Tightened Across the Board

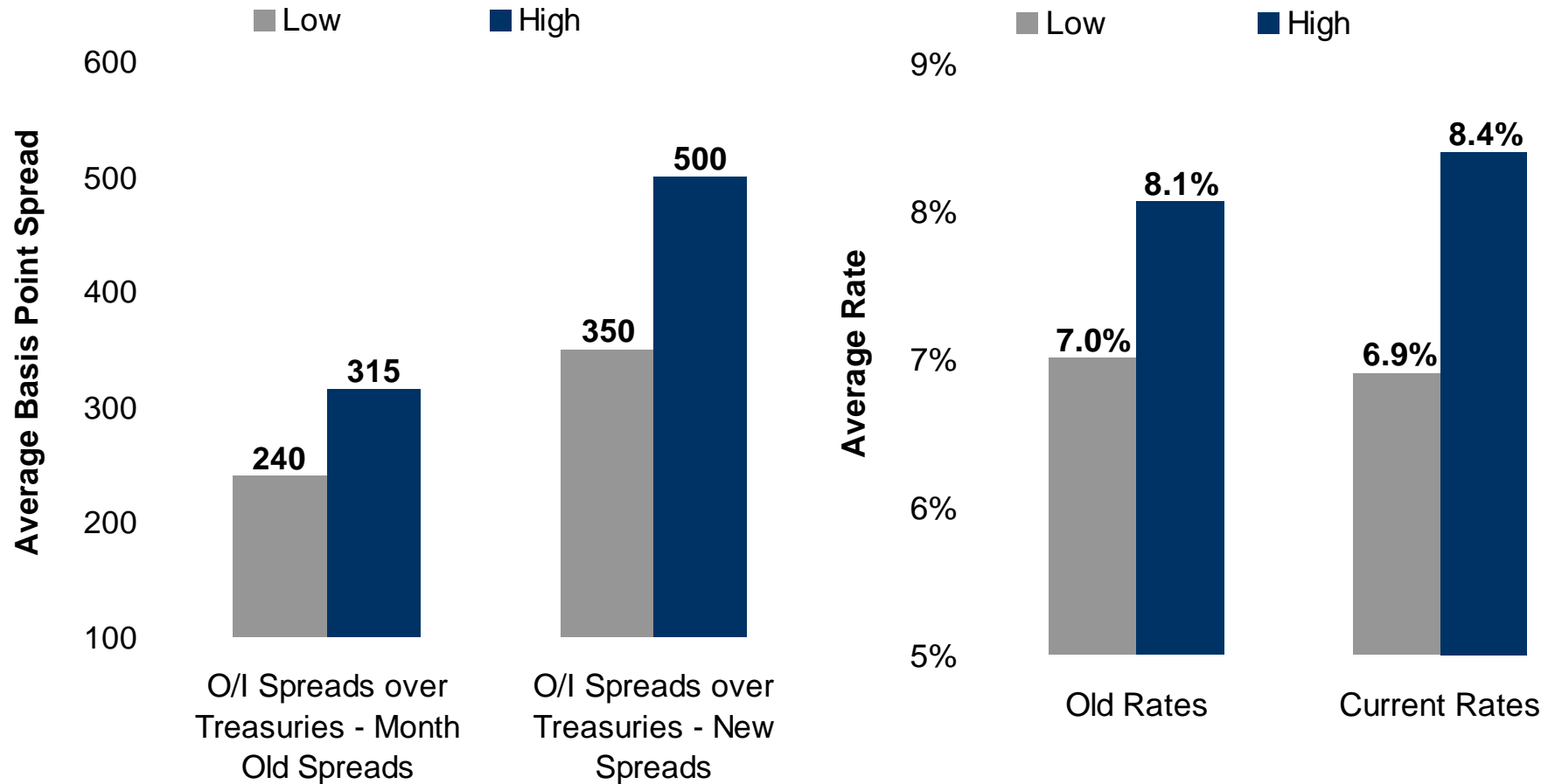


# 2Q 2008 Delinquency Rates Near Historical Lows



Sources: Marcus & Millichap Research Services, Wachovia Capital Markets, LLC and Intex Solutions, Inc., ACLI, Fannie Mae, Freddie Mac, OFHEO, and FDIC

# Indicative Rates for Office and Industrial Properties



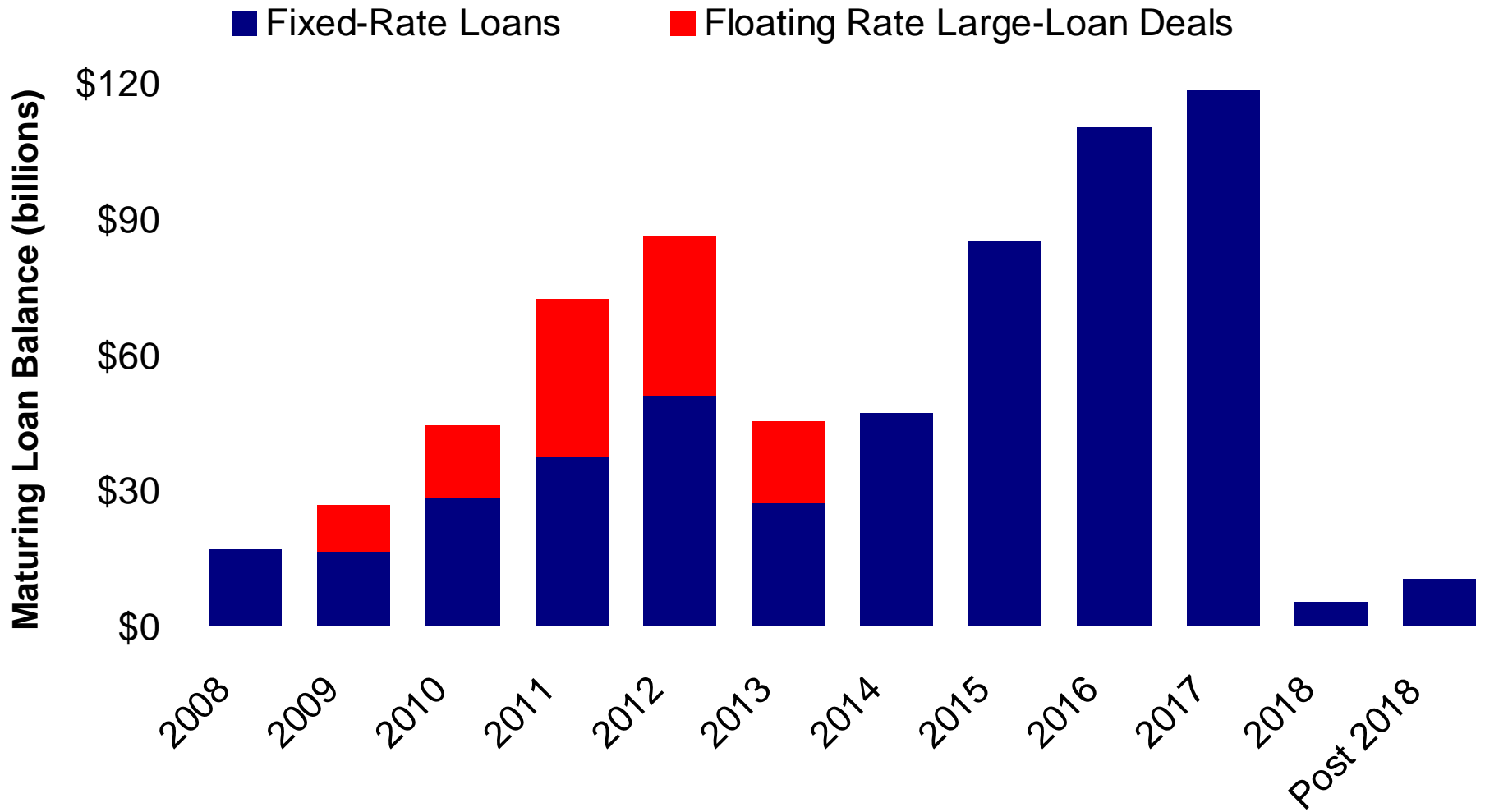
10-Yr Treasury Index:3.40%

As of November 19, 2008

Source: Marcus & Millichap Capital Corporation

# Maturing Commercial Loan Volume Likely to Cause Some Distress Starting in 2010

## S&P CMBS Maturities



# What Does the Future Hold?

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- 1. Commercial delinquencies likely to rise to 3-5% - still below prior peaks.**
- 2. Treasuries in the short term will remain range bound in the high 3% to low 4% range.**
- 3. Treasuries will rise as the government finances TARP and other support systems over next 12-18 months.**
- 4. Spreads will eventually come in as markets stabilize but will remain vulnerable to wide swings.**
- 5. Distressed sales will increase but should be distinguished from the state of the overall market place.**

# What Does the Future Hold?

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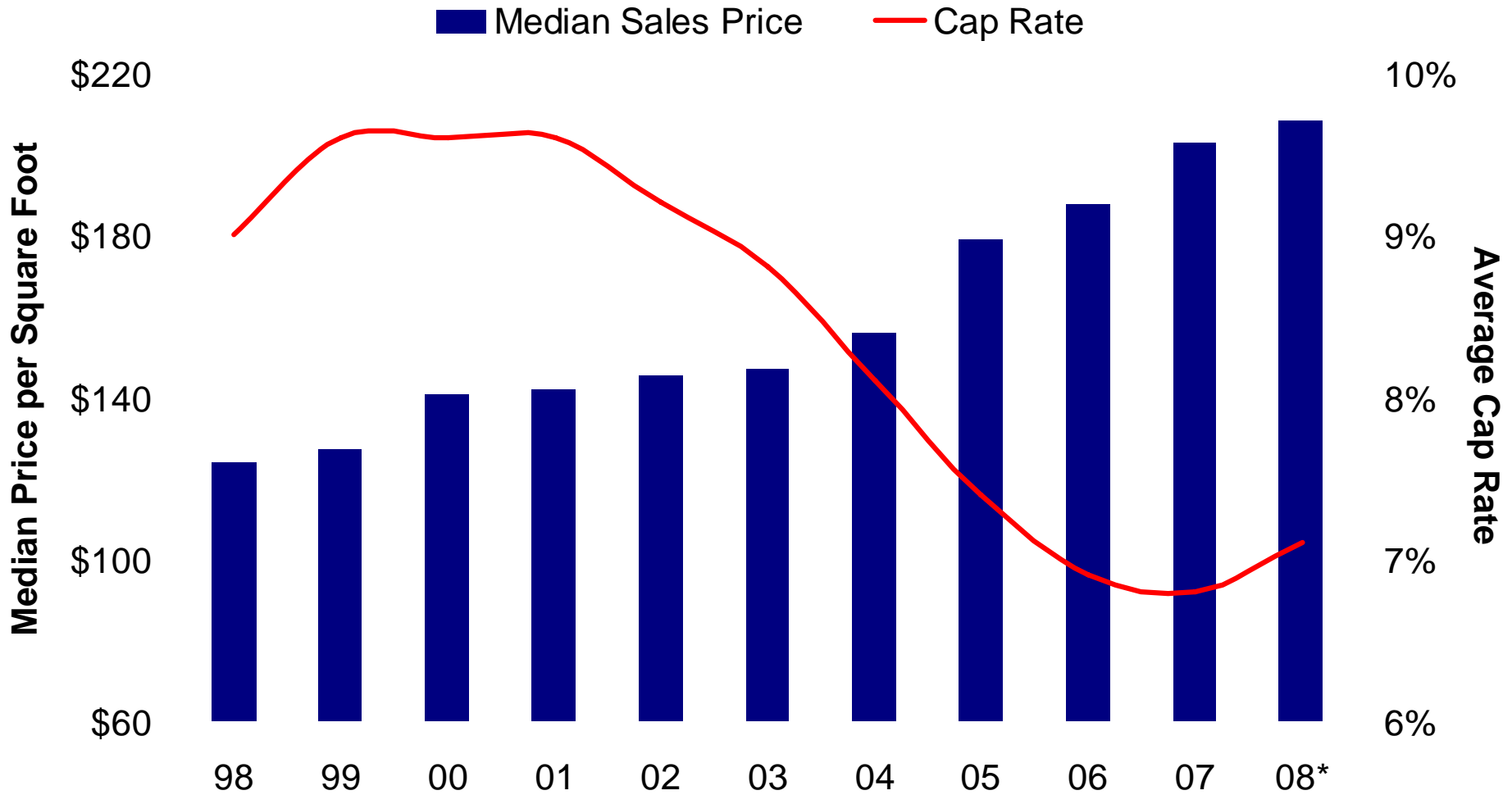
- 6. Long-Term (10-Yr) Fixed Rates will be in the 6.9% to 8.4% range**
- 7. Underwriting will continue to be conservative:**
  - I/O available for short periods
  - Use of shorter terms and bridge financing for stabilized projects
  - Well-grounded revenue, realistic uncollectible allowances
  - Use of trailing 12-month operating expenses updated to market
  - Funded reserves
  - Debt service coverage ratios 1.25 to 1.30
  - Much more focused on sponsorship
- 8. Market normalizing with LTV of 60% to 70%:**
  - Commercial Banks – 65% to 70%
  - Life Companies – 50% to 55%

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***OFFICE and INDUSTRIAL  
INVESTMENT TRENDS***

# Office Investment Trends

## Pricing and Cap Rates



\* Through 3Q

Sales \$5 million and greater

Sources: Marcus & Millichap Research Services, Costar Group, Inc.

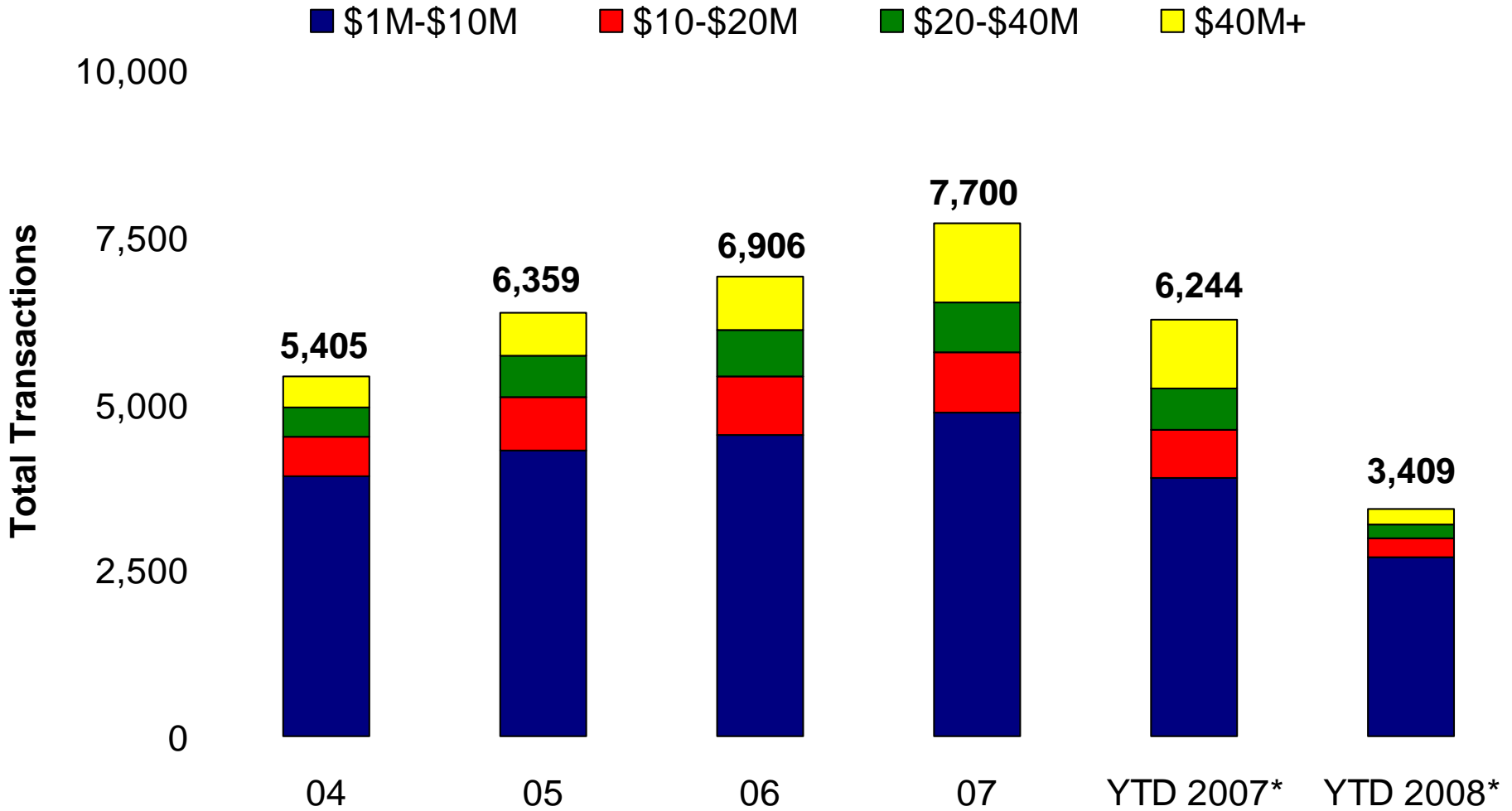
# Office Cap Rates By Market Classification



Sales \$5 million and greater  
Sources: Marcus & Millichap Research Services, Real Capital Analytics

# National Office Investment Trends

## Institutional Transactions Lead Sales Growth in 2007; Volume Hampered Since Capital Markets Shift



\* Through September

Data includes Equity Office Portfolio sale

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Real Capital Analytics

# Office Vacancy Primary Markets

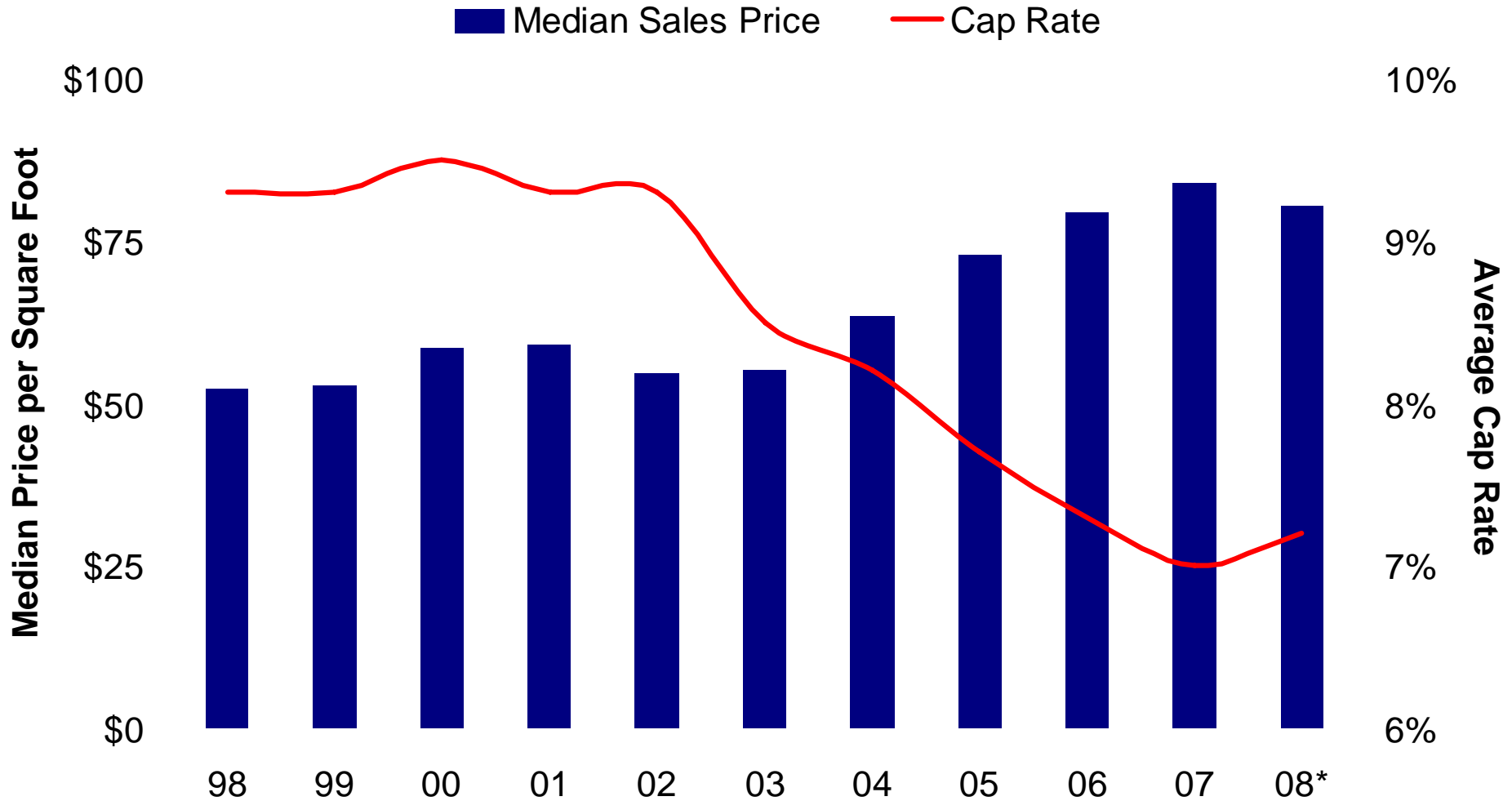
| Market              | 1992<br>Vacancy | 2002<br>Vacancy | 3Q 2008<br>Vacancy |
|---------------------|-----------------|-----------------|--------------------|
| New York - Mid-Town | 15.0%           | 8.8%            | 6.2%               |
| New York - Downtown | 22.6%           | 12.1%           | 6.9%               |
| San Francisco       | 12.4%           | 20.9%           | 10.0%              |
| Seattle-Tacoma      | 16.4%           | 15.4%           | 10.1%              |
| Los Angeles         | 20.5%           | 15.3%           | 10.3%              |
| Miami               | 17.2%           | 14.3%           | 10.7%              |
| Washington, D.C.    | 15.0%           | 11.2%           | 11.0%              |
| Philadelphia        | 17.9%           | 12.5%           | 11.7%              |
| Boston              | 17.8%           | 18.4%           | 11.8%              |
| Chicago - Downtown  | 21.4%           | 15.0%           | 12.2%              |
| Houston             | 22.0%           | 15.6%           | 12.5%              |
| Atlanta             | 18.8%           | 18.7%           | 16.2%              |
| Phoenix             | 20.9%           | 20.3%           | 17.3%              |
| Chicago - Suburbs   | 20.8%           | 21.8%           | 19.8%              |
| Dallas-Ft. Worth    | 25.1%           | 23.2%           | 21.0%              |
| <b>US Average</b>   | <b>19.8%</b>    | <b>16.0%</b>    | <b>13.7%</b>       |

# Office Vacancy - Secondary Markets

| Market              | 1992<br>Vacancy | 2002<br>Vacancy | 3Q 2008<br>Vacancy |
|---------------------|-----------------|-----------------|--------------------|
| Portland            | 13.1%           | 16.9%           | 11.3%              |
| Long Island         | N/A             | 10.5%           | 11.4%              |
| Orlando             | 16.6%           | 16.2%           | 12.1%              |
| Baltimore           | 19.0%           | 13.2%           | 13.1%              |
| Orange County       | 19.9%           | 16.9%           | 13.5%              |
| San Diego           | 21.1%           | 13.4%           | 13.9%              |
| St. Louis           | 19.1%           | 16.3%           | 13.9%              |
| San Antonio         | 23.5%           | 15.9%           | 14.6%              |
| Northern New Jersey | N/A             | 15.9%           | 14.8%              |
| Tampa               | 21.2%           | 17.1%           | 15.0%              |
| Denver              | 20.1%           | 19.8%           | 15.6%              |
| Minneapolis         | 18.6%           | 18.1%           | 15.6%              |
| Austin              | 15.9%           | 24.1%           | 17.0%              |
| Las Vegas           | N/A             | 16.0%           | 18.1%              |
| Inland Empire       | 22.9%           | 10.0%           | 18.4%              |
| <b>US Average</b>   | <b>19.8%</b>    | <b>16.0%</b>    | <b>13.7%</b>       |

# Industrial Investment Trends

## Pricing and Cap Rates



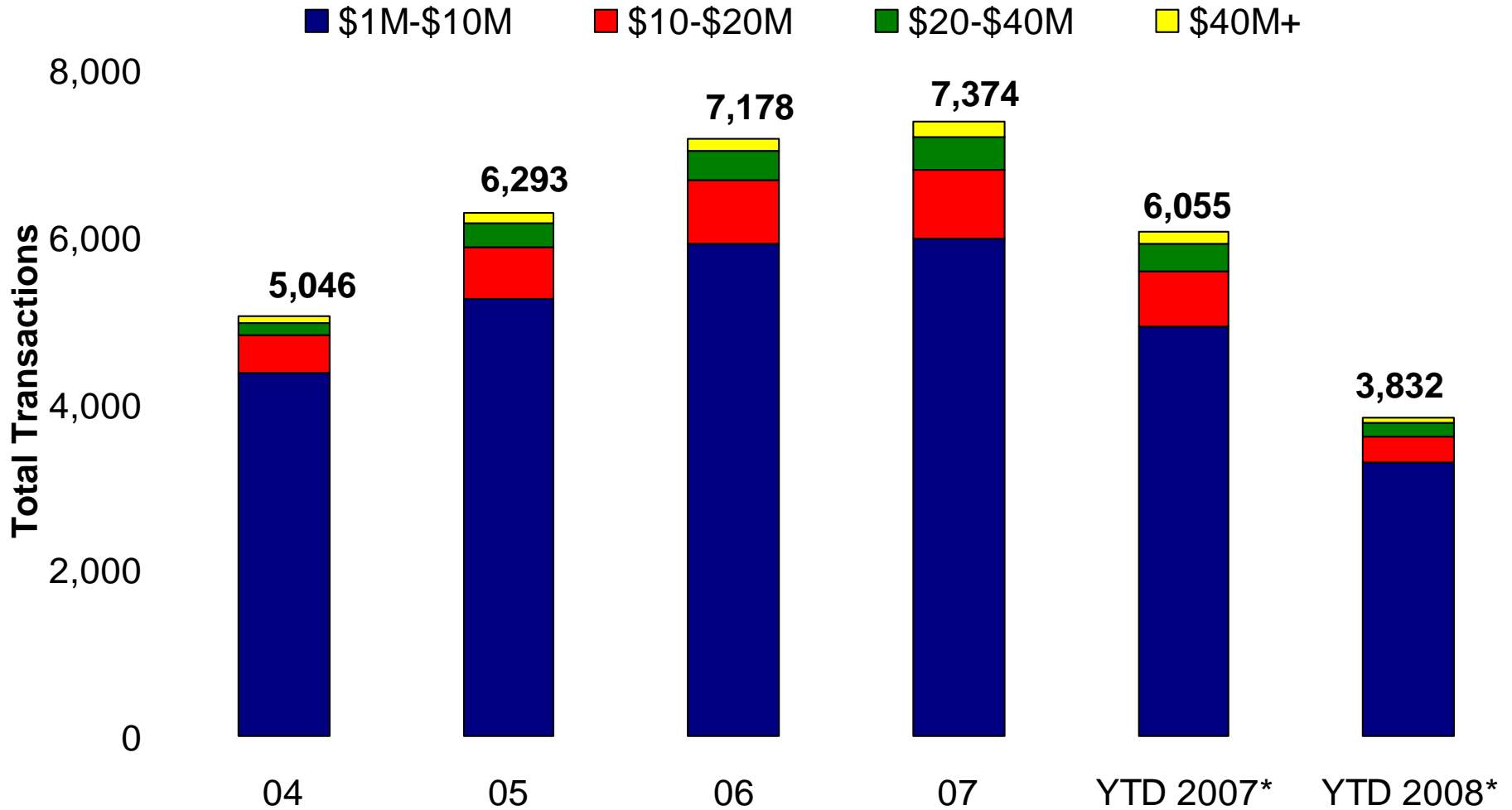
\* Through 3Q

Sales \$5 million and greater, excludes portfolio sales

Sources: Marcus & Millichap Research Services, Costar Group, Inc.

# National Industrial Investment Trends

## Volume Hampered Since Capital Markets Shift



\* Through September

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Real Capital Analytics

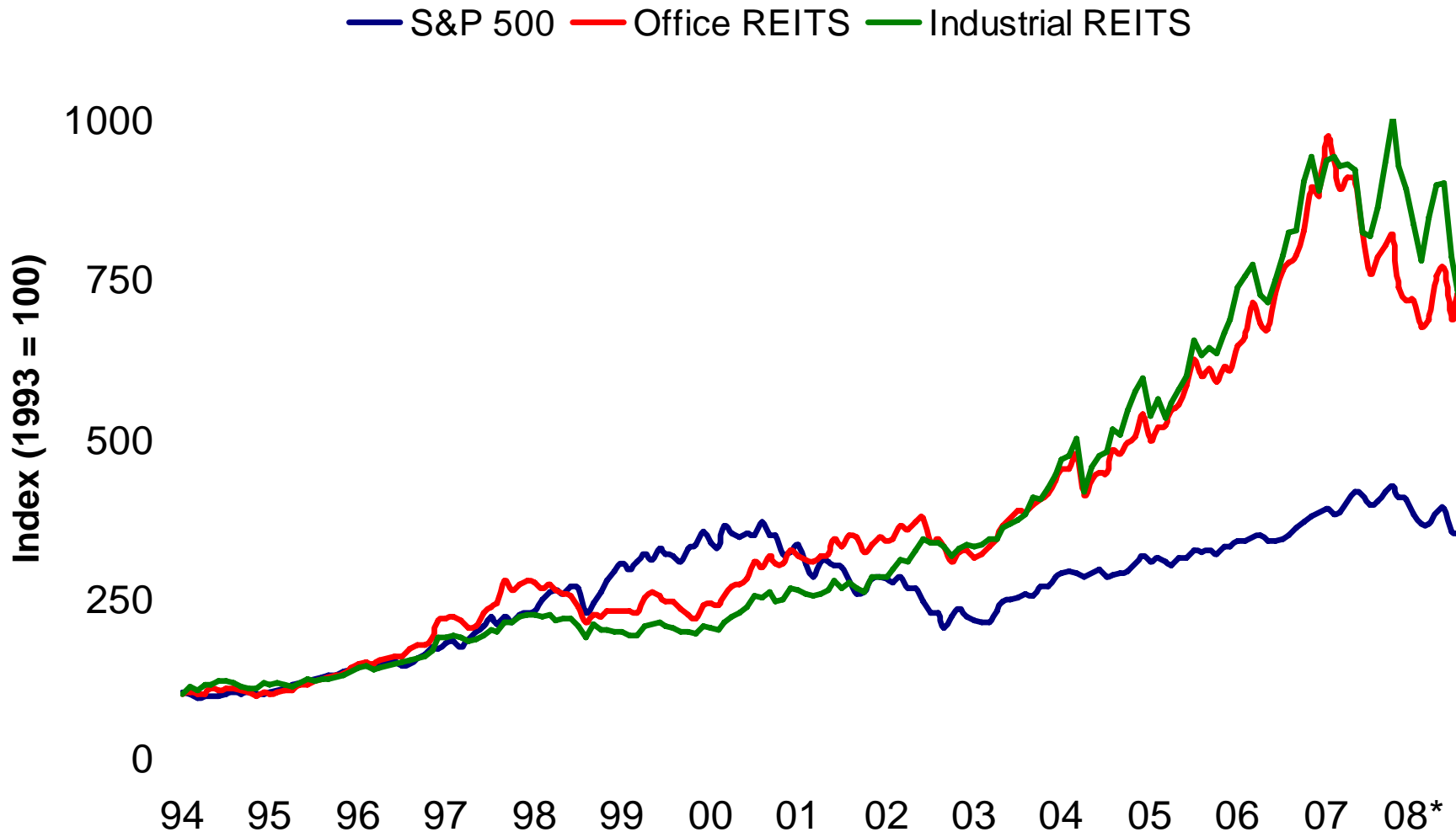
# Industrial Vacancy Major Distribution Centers

| <b>Market</b>                   | <b>1992<br/>Vacancy</b> | <b>2002<br/>Vacancy</b> | <b>3Q 2008<br/>Vacancy</b> |
|---------------------------------|-------------------------|-------------------------|----------------------------|
| <b>Atlanta</b>                  | <b>11.6%</b>            | <b>14.0%</b>            | <b>15.5%</b>               |
| <b>Chicago</b>                  | <b>8.6%</b>             | <b>10.4%</b>            | <b>10.7%</b>               |
| <b>Dallas-Fort Worth</b>        | <b>8.2%</b>             | <b>11.4%</b>            | <b>11.4%</b>               |
| <b>Los Angeles</b>              | <b>11.9%</b>            | <b>6.4%</b>             | <b>5.1%</b>                |
| <b>North-Central New Jersey</b> | <b>12.5%</b>            | <b>10.2%</b>            | <b>12.2%</b>               |
| <b>US Average</b>               | <b>10.2%</b>            | <b>10.3%</b>            | <b>9.9%</b>                |

Based on core Warehouse/Distribution properties

Sources: Marcus & Millichap Research Services, PPR

# U.S. Office and Industrial REIT Index vs. S&P 500

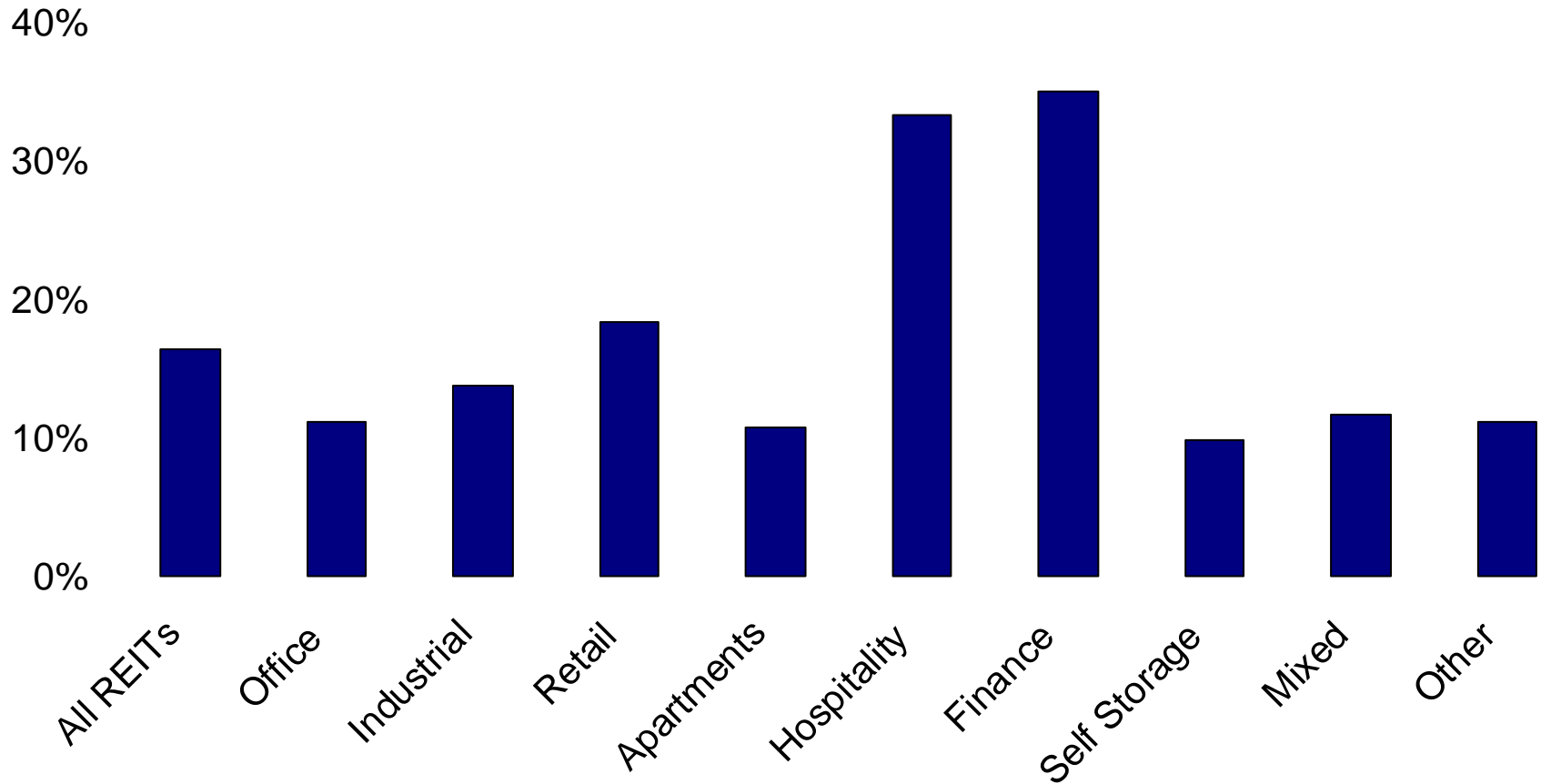


\* Through October

Index: December 1993 = 100

Sources: Marcus & Millichap Research Services, NAREIT, Standard and Poor's

# REIT Common Stock Dividend Yield



Data as of November 18 closing prices.

Other includes entertainment, healthcare, manufactured housing and life sciences

Sources: Marcus & Millichap Research Services, Yahoo Finance, NAREIT

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# **REAL DEALS**

## **What is Getting Done?**

# Genesis Corporate Center San Diego, CA

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**Price: \$5,660,000**

**Square Feet: 17,056**

**Cap Rate: 6.76%**

**Financing: \$3,000,000 - Assumption**

# Capitol Commerce Center Wheeling, IL

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**Price: \$6,100,000**

**Square Feet: 60,855**

**Cap Rate: 9.59%**

**Financing: \$3,965,000 - New**

# Fifth Third Bank Building Schaumburg, IL

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**Price: \$14,900,000**

**Square Feet: 107,852**

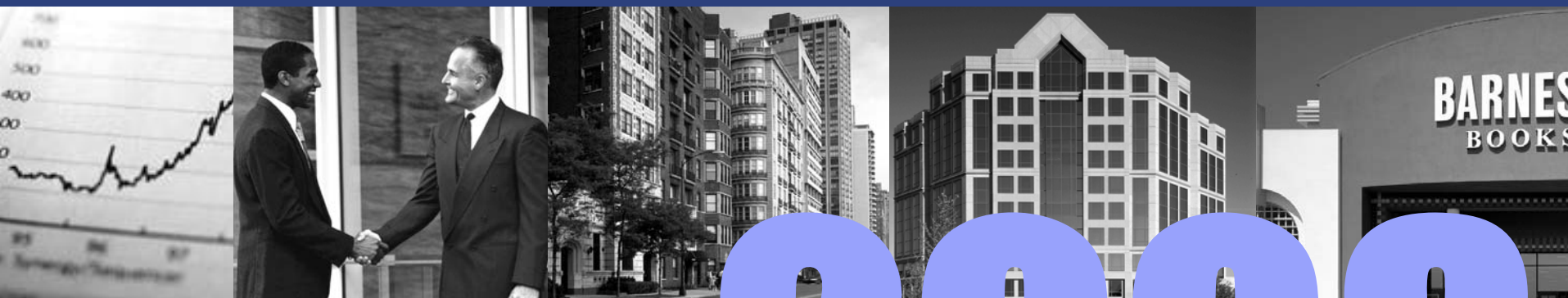
**Cap Rate: 8.52%**

**Financing: \$11,175,000 - New**

# Today's Topics of Debate

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- **Sidelined Equity**
- **Distressed Sale Opportunities**
- **Alternatives**
- **Timing The Bottom**
- **Pricing**



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