

Commercial Real Estate Values and Economic Trends 2009 - 2010

Prepared for

**Commercial Real Estate Women (CREW)
California Conference (San Francisco)**

Prepared by

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Johnson Souza Group, Inc

- Over 20 years of real estate economic and financial research, and institutional due diligence underwriting. Specializes in apartment and commercial market research, valuation and brokerage services.
- Offering tax deferred vehicles: 1031 Exchanges, Tenants in Common (TIC), Deferred Sales Trusts (DST), etc.; and real estate related investments: partnerships, funds, REITs, etc.

Contact Information:

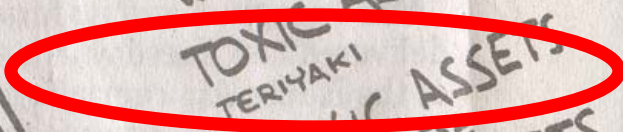
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MY NAME IS
TIM GEITHNER
AND I'LL BE
YOUR SERVER.

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- TOXIC ASSETS
WITH OLIVE OIL
- TOXIC ASSETS
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- TOXIC ASSETS
WITH CHEESE
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OVER RICE
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COUNTRY STYLE
- TOXIC ASSETS



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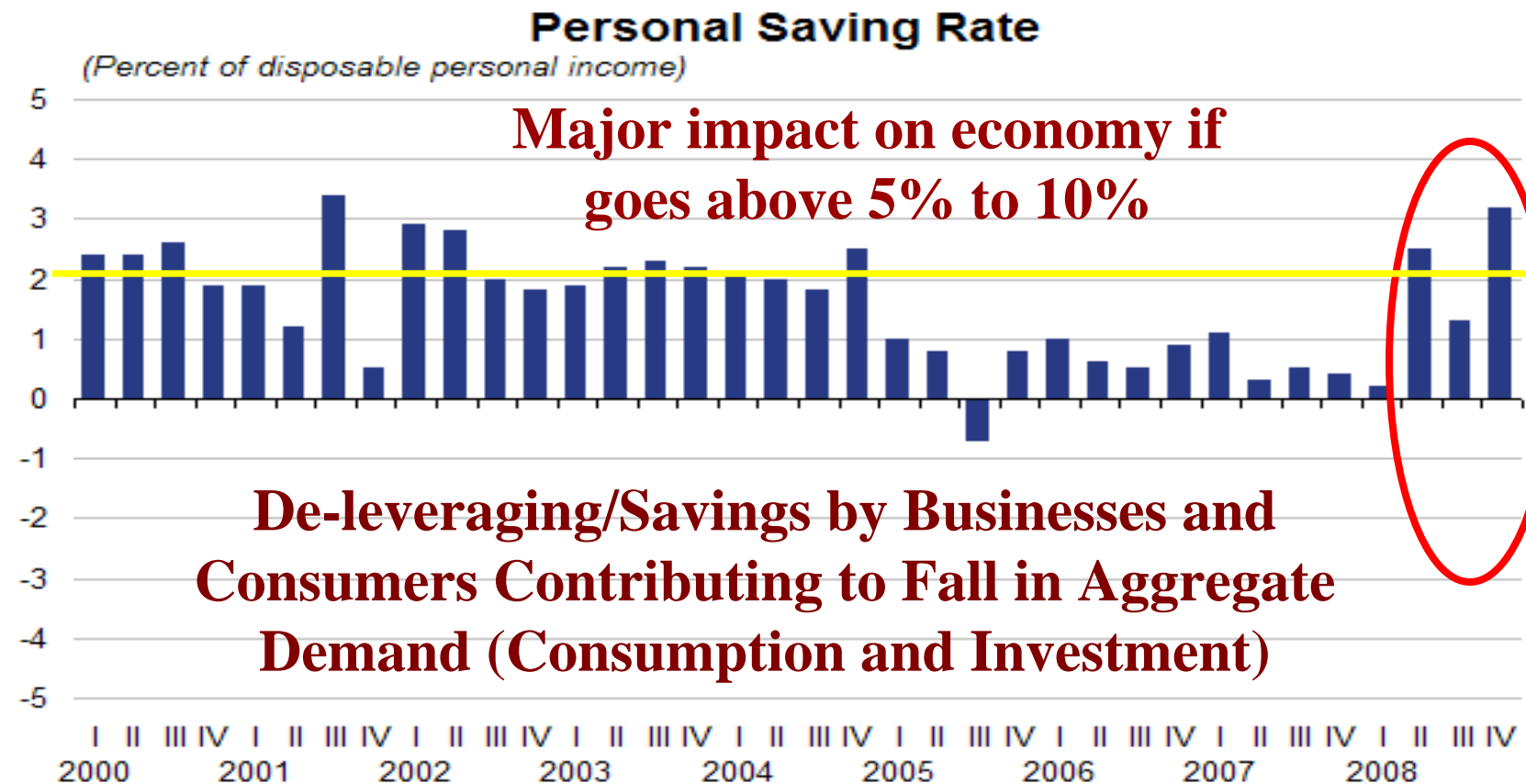
Business-Market Cycle Forecast

- Economy in decline/trough phase: employment contraction accelerating through June (36-to-60 month trough).
- Next 12-to-24 months: Cap Rates up +200 bps, NOIs down 16%-to-20%, sales volumes down 75%-to-95%, values down 30%-to-50%, and construction down 18%.
- Business-commercial real estate cycle: recovery 2010 – 2013, growth 2014 – 2015 (rent/value spikes) and peak 2016 – 2018.
- Target markets for commercial investment 2009-2010:

Urban Infill/Supply Constrained/Transit Oriented/Diverse Economic Base Submarkets

**Downtown San Francisco/San Jose; I-680/880 Corridors-
Walnut Creek/San Ramon (Pleasanton/Fremont); SF
Peninsula-Redwood City/Palo Alto (Marin/Santa Cruz)**

Personal Savings Rate

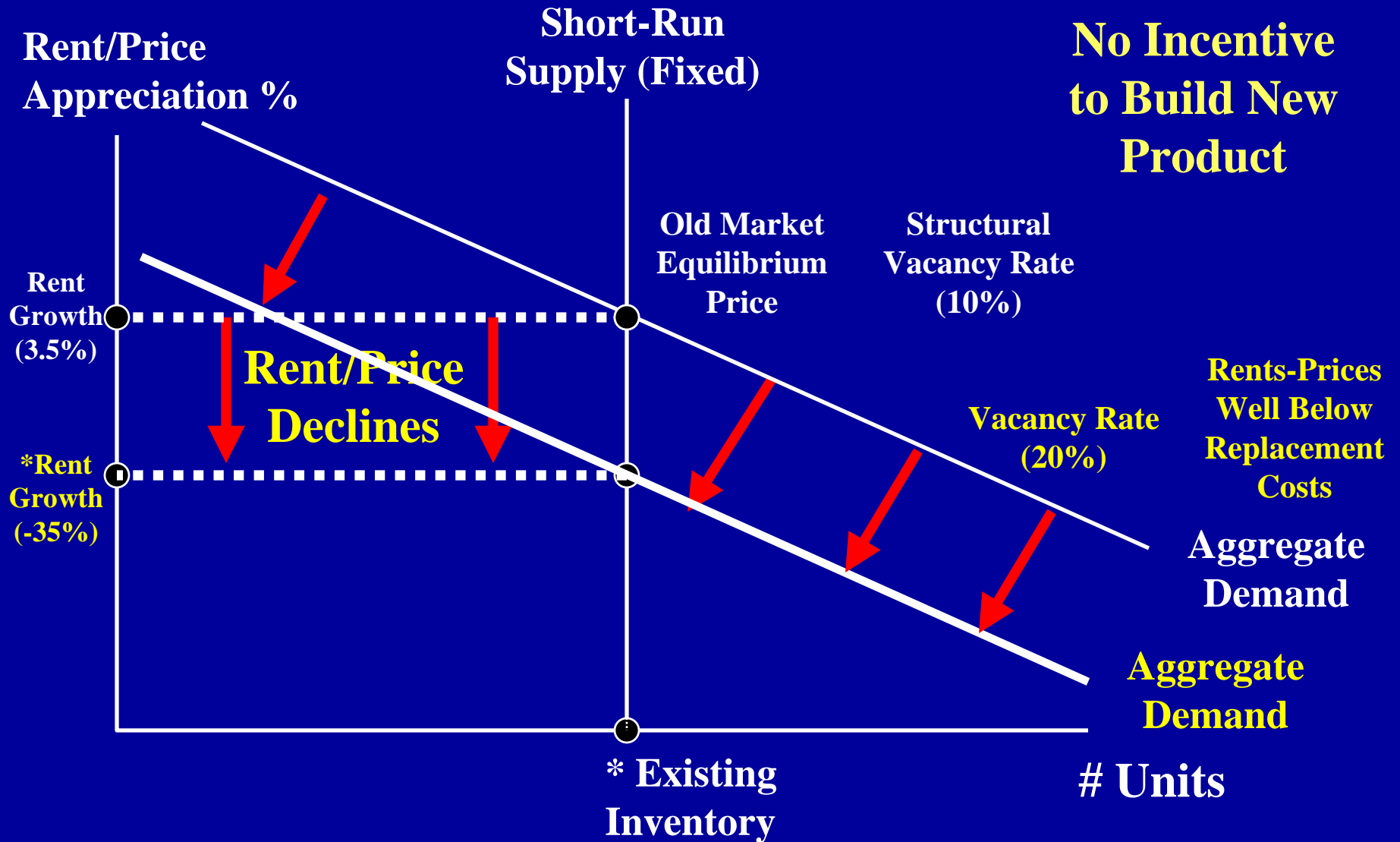


U.S. Bureau of Economic Analysis

Source: Bureau of Economic Analysis. <http://www.bea.gov/briefrm/saving.htm>

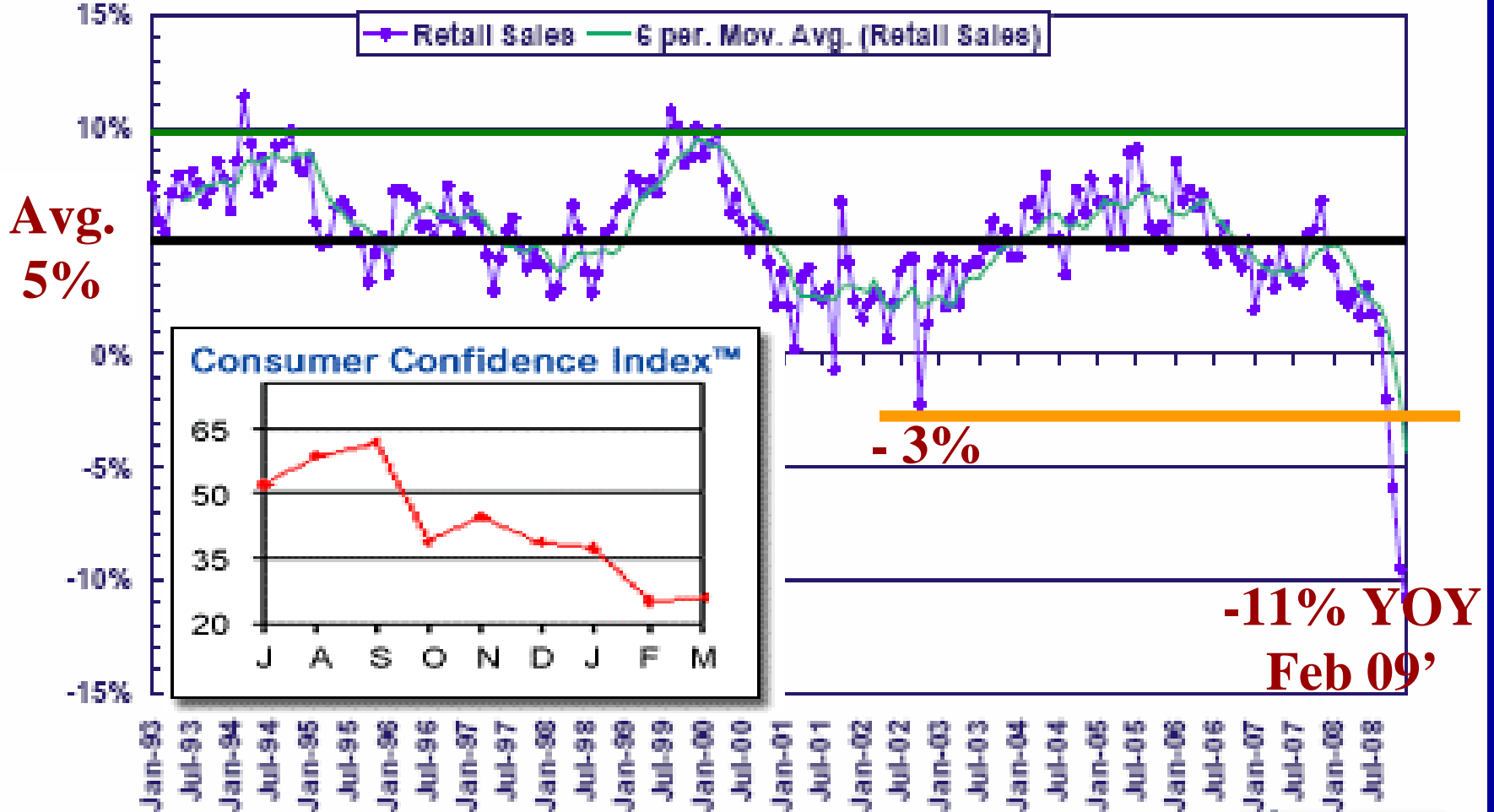
Real Estate Supply and Demand Analysis

Short-Run Supply Conditions with Negative Employment Demand Shock



Retail Sales/Consumer Confidence

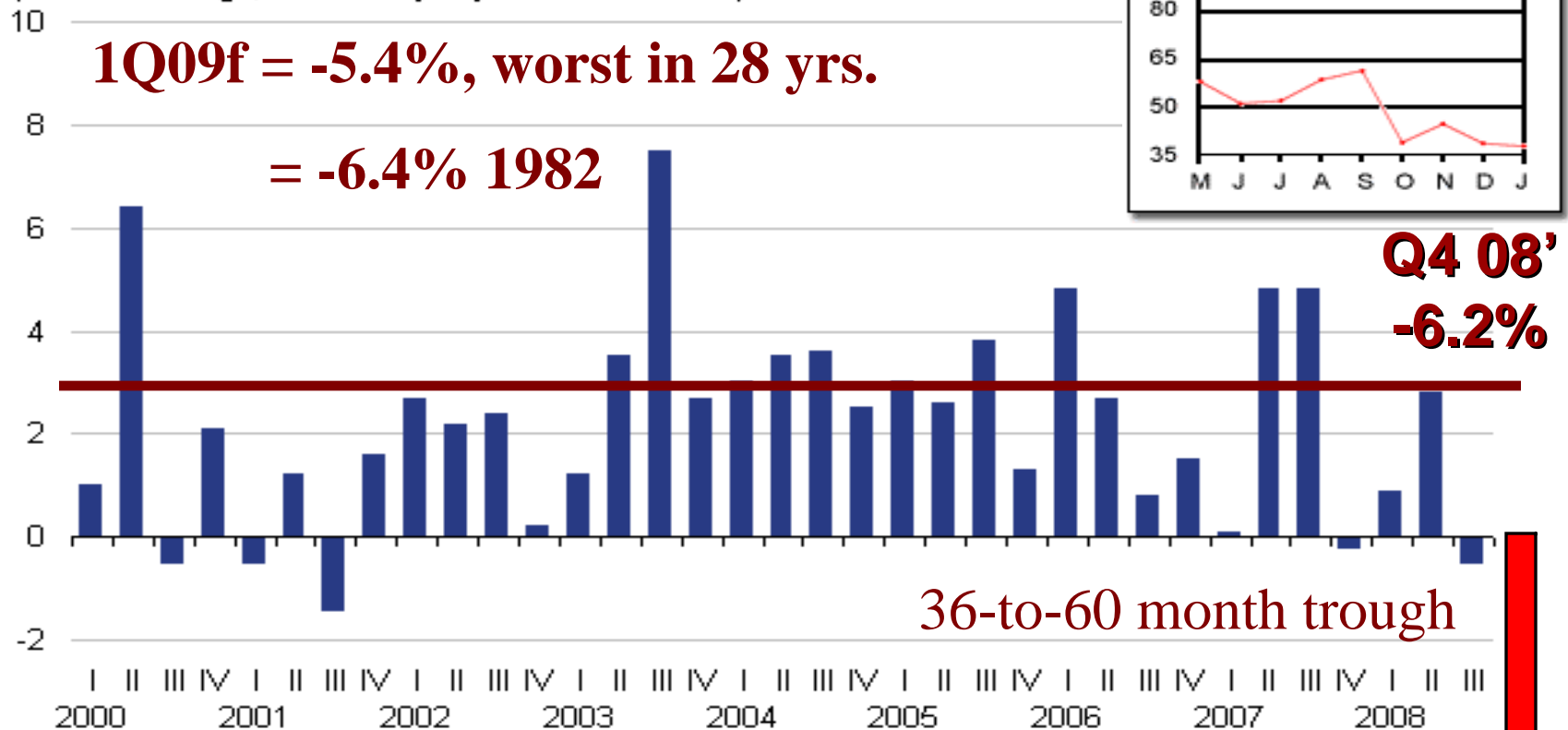
PERCENT CHANGE FROM A YEAR AGO



Gross National Product (GDP)

Real Gross Domestic Product

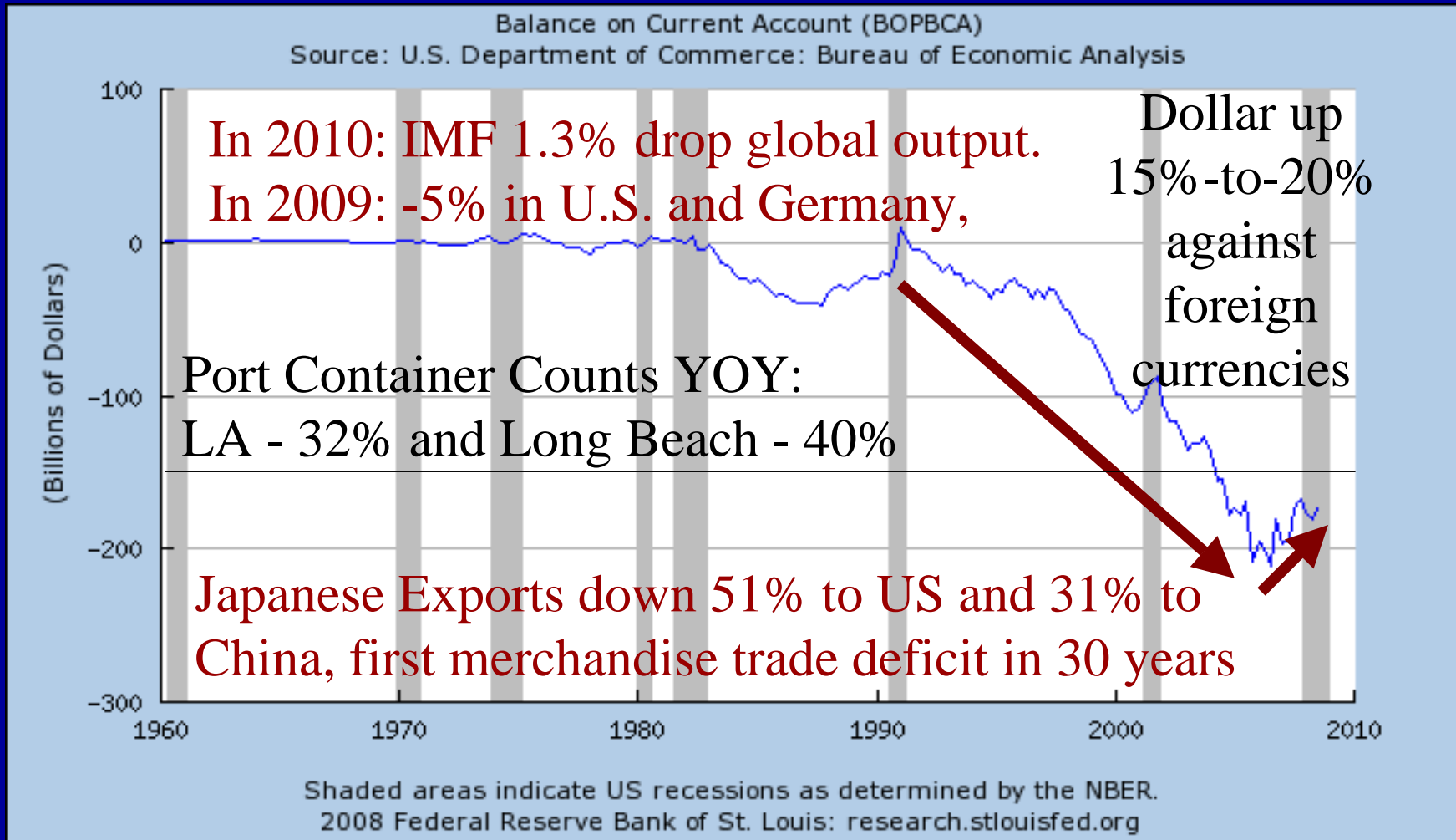
(Percent change, seasonally adjusted annual rate)



U.S. Bureau of Economic Analysis

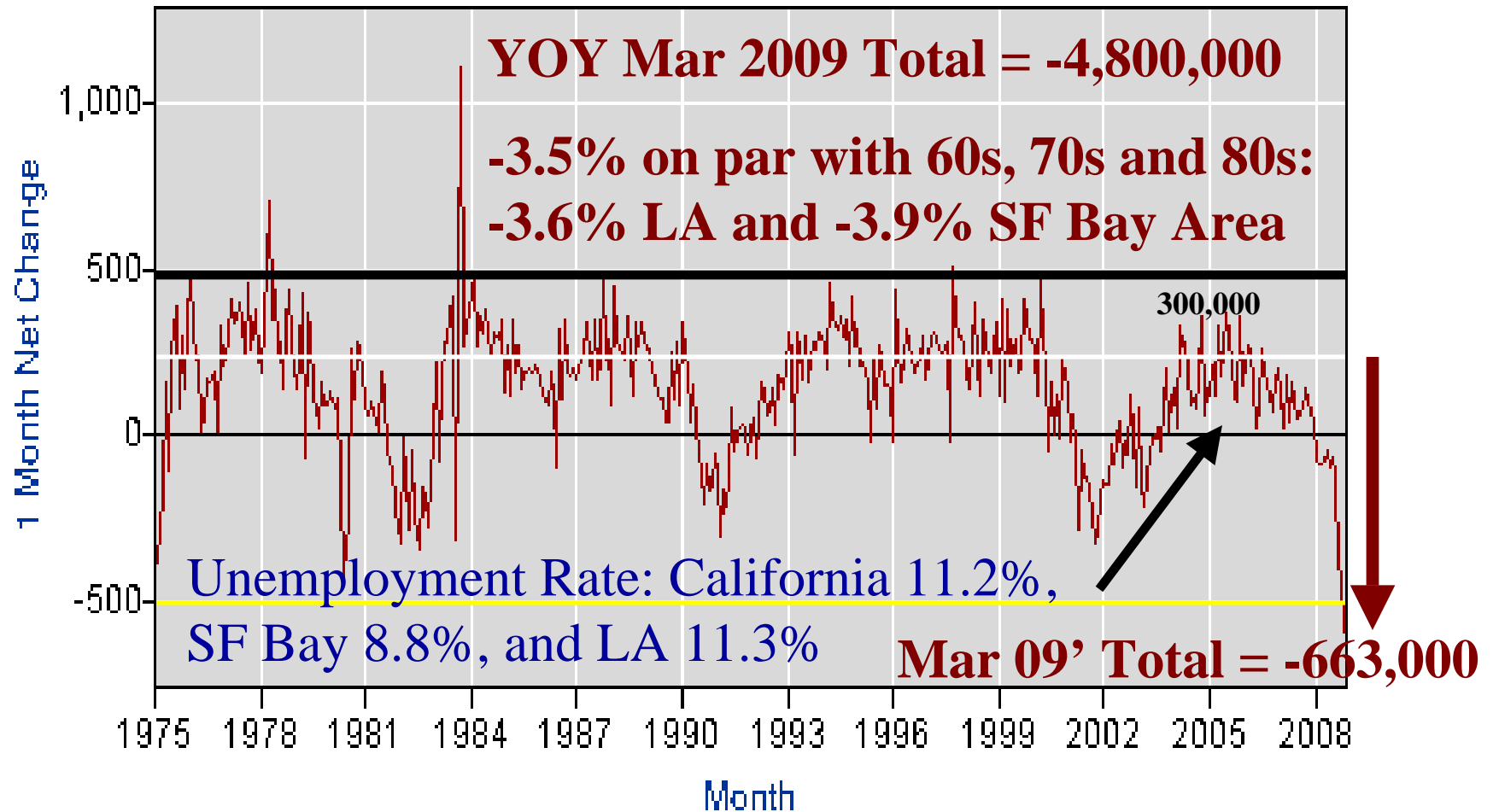
Significant declines in consumption and residential and commercial investment

Balance of Trade



Sources: U.S. Department of Commerce: Bureau of Economic Analysis
<http://research.stlouisfed.org/fred2/series/BOPBCA/13>

Non-Farm Payroll Employment



Source: Bureau of Labor Statistics.
<http://www.bls.gov>

Venture Capital Flows

Investments by Industry / Q3 2008 **Silicon Valley: 35%-to-39% of US**

Industries Defined	Total \$ Invested	Average \$ Per Deal	Deals
All	\$7,131,302,400	\$7,862,516	907

Silicon Valley VC down 33% YOY

	Amount	% of Total	Deals
Biotechnology	\$1350M	18.93%	114
Software	\$1343M	18.83%	214
Industrial/Energy	\$1191M	16.71%	96
Medical Devices and Equipment	\$896M	12.57%	93
Media and Entertainment	\$409M	5.74%	92
IT Services	\$403M	5.65%	62
Semiconductors	\$396M	5.55%	50
Telecommunications	\$323M	4.53%	45
Networking and Equipment	\$178M	2.50%	21
Financial Services	\$142M	1.99%	18
Electronics/Instrumentation	\$120M	1.68%	18
Business Products and Services	\$94M	1.32%	29
Consumer Products and Services	\$92M	1.28%	18
Computers and Peripherals	\$73M	1.03%	14
Healthcare Services	\$56M	0.78%	13
Retailing/Distribution	\$49M	0.69%	6
Other	\$16M	0.23%	4

Source: Venture Economics. <http://www.ventureeconomics.com/vec/us.html>.

<https://www.pwcmoneytree.com/MTPublic/ns/index.jsp>

Net Change Commercial Mortgage Debt (1980-2008)

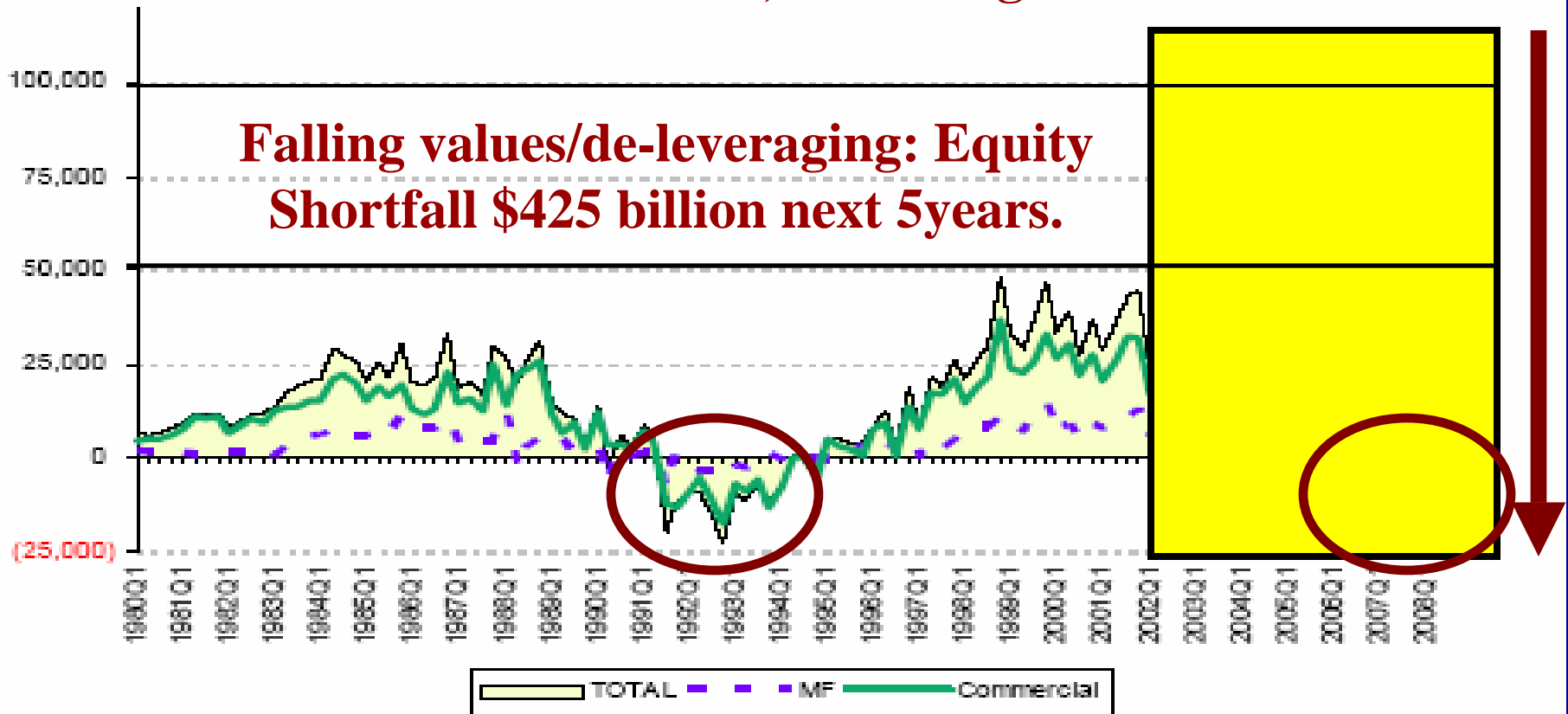
COMMERCIAL AND MULTIFAMILY MORTGAGE FLOWS

Net Change in Commercial and Multifamily Mortgage Debt Outstanding, by Quarter

(\$millions)



Next 4 Years: \$200 billion per year coming due, will need to be refinanced, escalating until 2015.

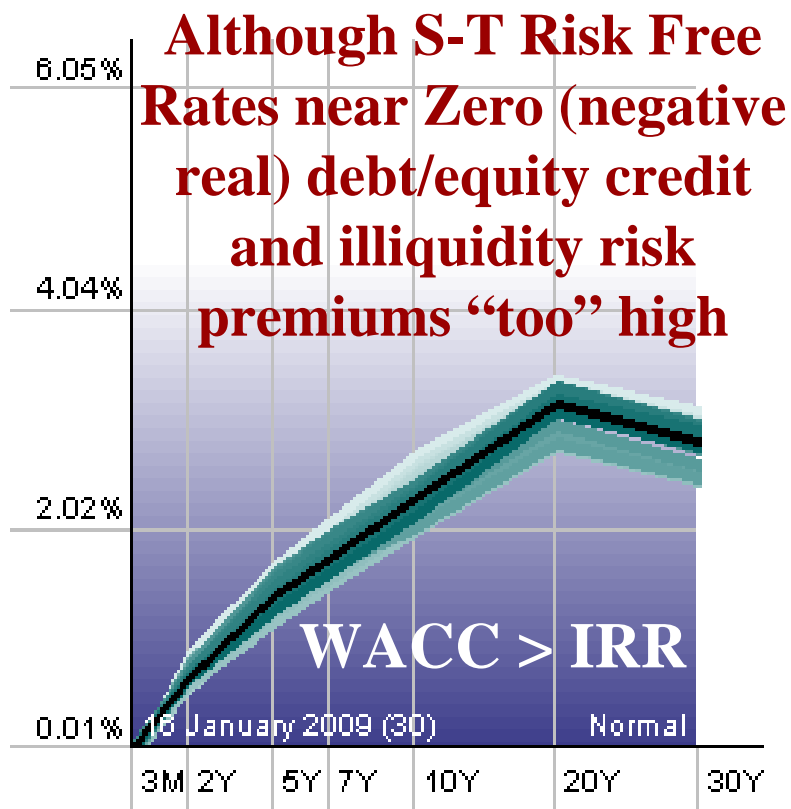


Source: Flow of Funds Accounts, Federal Reserve Board of Governors

<http://www.mbaa.org/files/Research/DataBooks/3Q08QuarterlyDataBook.pdf>

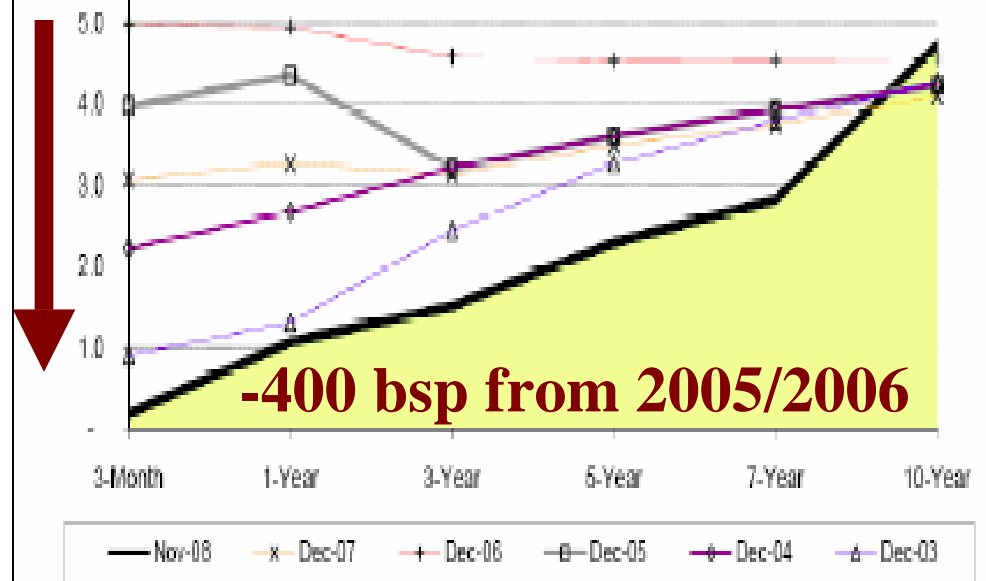
Yield Curve

Dynamic Yield Curve



Treasury Yield Curve *Percent - Falling Prices*

All debt + equity securities price off of the yield curve (term structure interest rates)



Source: Federal Reserve Board

Objective: Steep Rebuild Interest Margin, Loan Loss Reserves, Reserve Capital, etc.

<http://stockcharts.com/charts/YieldCurve.html>

Lawrence Souza (lsouza@Johnson/SouzaGroup.com) brings to Johnson Souza Group, Inc. (**Direct: (415-713-0213)**) over 20 years of experience in real estate economic and financial research. As Managing Director-Index Services, Charles Schwab Investment Management (CSIM); Chief Real Estate Economist and Director of Index Services, Global Real Analytics (GRA); Director of Research for BRE Properties, Inc. (REIT) in San Francisco and holding Senior Market/Research Analyst positions at Metric Institutional Realty Advisors and Mellon-McMahan/MacFarlane Realty Advisors, and market research positions at Norris, Beggs and Simpson and Grubb & Ellis commercial brokerage. **Mr. Souza combines traditional fundamental real estate economic and market research with fundamental and technical financial and capital market research. This combined approach allows for the tracking and forecasting of economic, real estate and financial cycles and efficient portfolio construction, optimization and risk management.**

Mr. Souza is also a licensed California Real Estate Broker (Realtor), specializing in urban-infill residential, commercial property transactions, and 1031 Exchanges in the San Francisco Bay Area and Western Region.

Mr. Souza has undergraduate degrees in Economics (BA) and Business Administration (BS) with concentrations in Accounting, Finance, Banking and Real Estate; and holds master's degrees in Applied Economics (MA), Finance/Investments (MS), Public Administration (MPA), and Information Systems (MSIS). **Mr. Souza has been teaching Modern Real Estate Principles and Finance since 1996 with an emphasis on real estate in a modern portfolio and capital markets context; and the institutionalization, securitization, internationalization and technologization of real estate markets and products.**