



## Some Bright Spots Amid the Gloom: An Overview of U.S. Real Estate Market Conditions

Mary Ludgin, PhD, Managing Director and Director of Investment Research

## U.S. Macro Economic Environment

We do not expect the U.S. economy to reenter recession

Rate of economic growth will be extremely slow as many of the traditional drivers of growth are depressed

Absent external shocks, environment likely to remain the same through the November 2012 Presidential election

## Real Estate Implications

Environment is supportive of commercial real estate investment

Capital flows should remain elevated as investors search for income yield

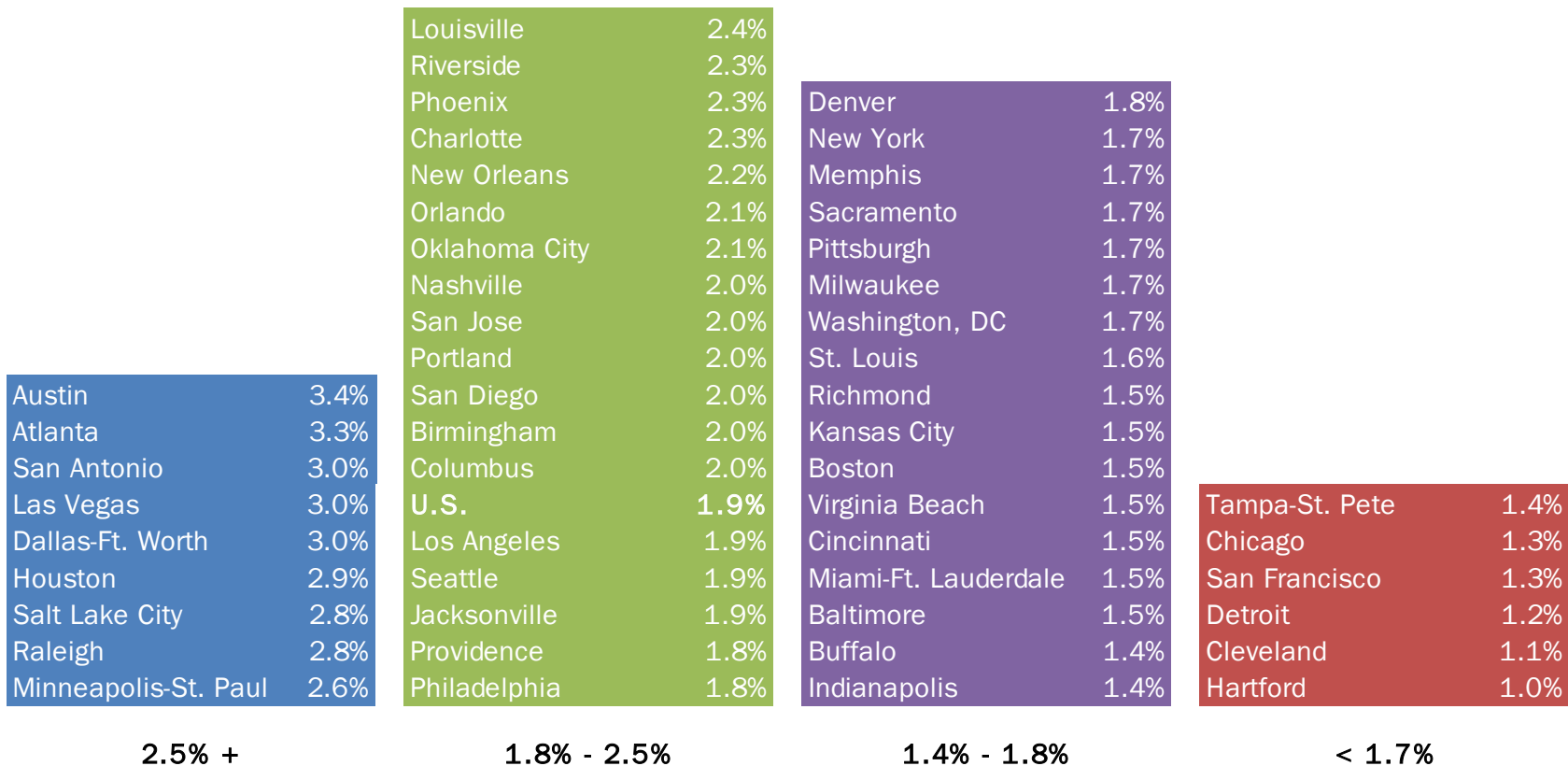
Property market conditions continue to improve

Low-cost debt capital is available for well-leased assets but gaps exist in debt finance

Construction activity will be limited

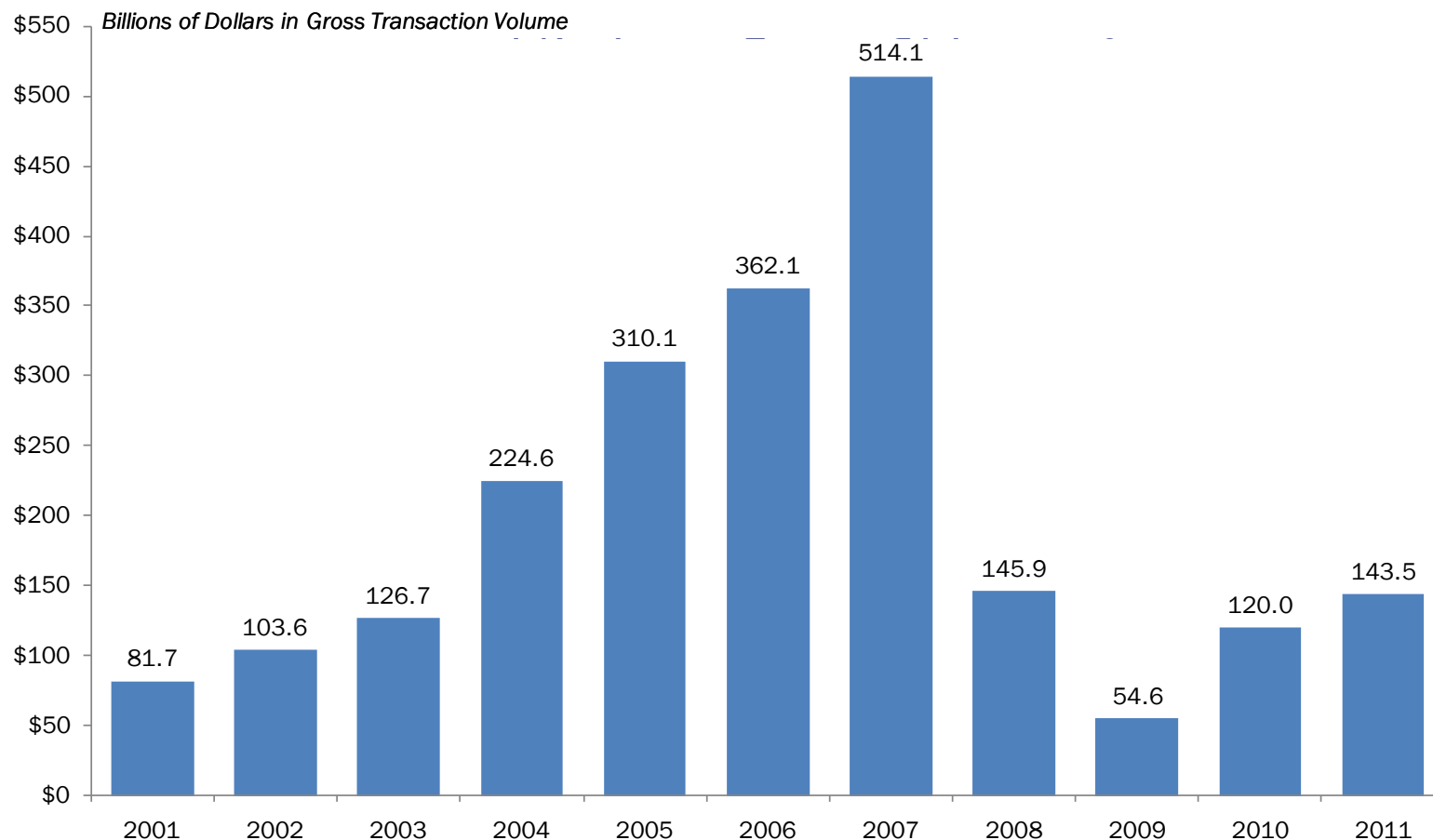
# While Overall Growth Slow, Some Faster Options

## Job Growth by Metropolitan Area Q3 2011-Q3 2014



Source: Moody's Economy.com; Heitman Research

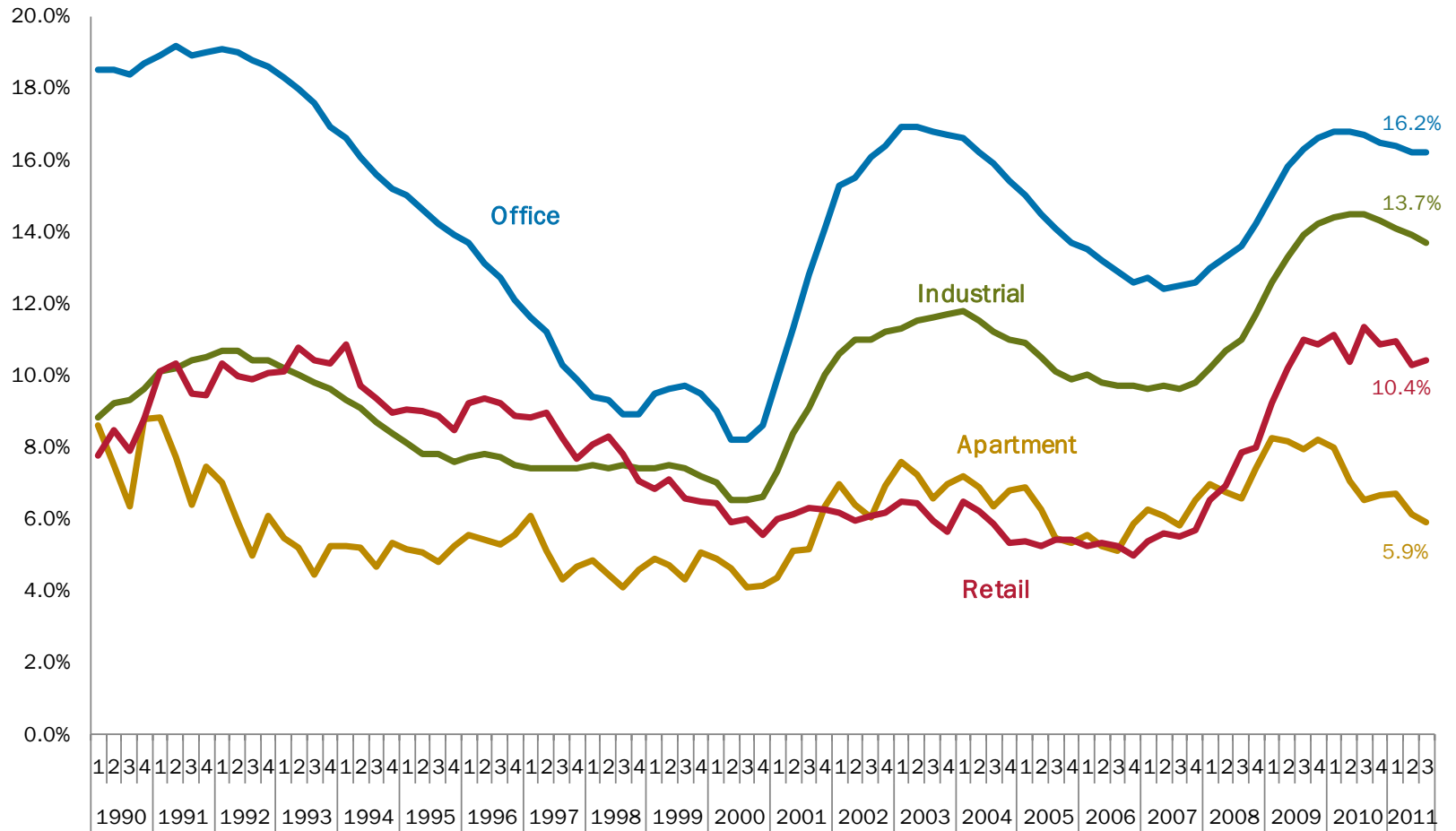
## Commercial Property Transaction Volume U.S. 2001-2011 YTD September



Source: Real Capital Analytics; Heitman Research. These numbers reflect sales of all commercial real estate transactions over \$5 million.

# Modest U.S. Economic Growth has Been Sufficient to Spark Property Market Recovery

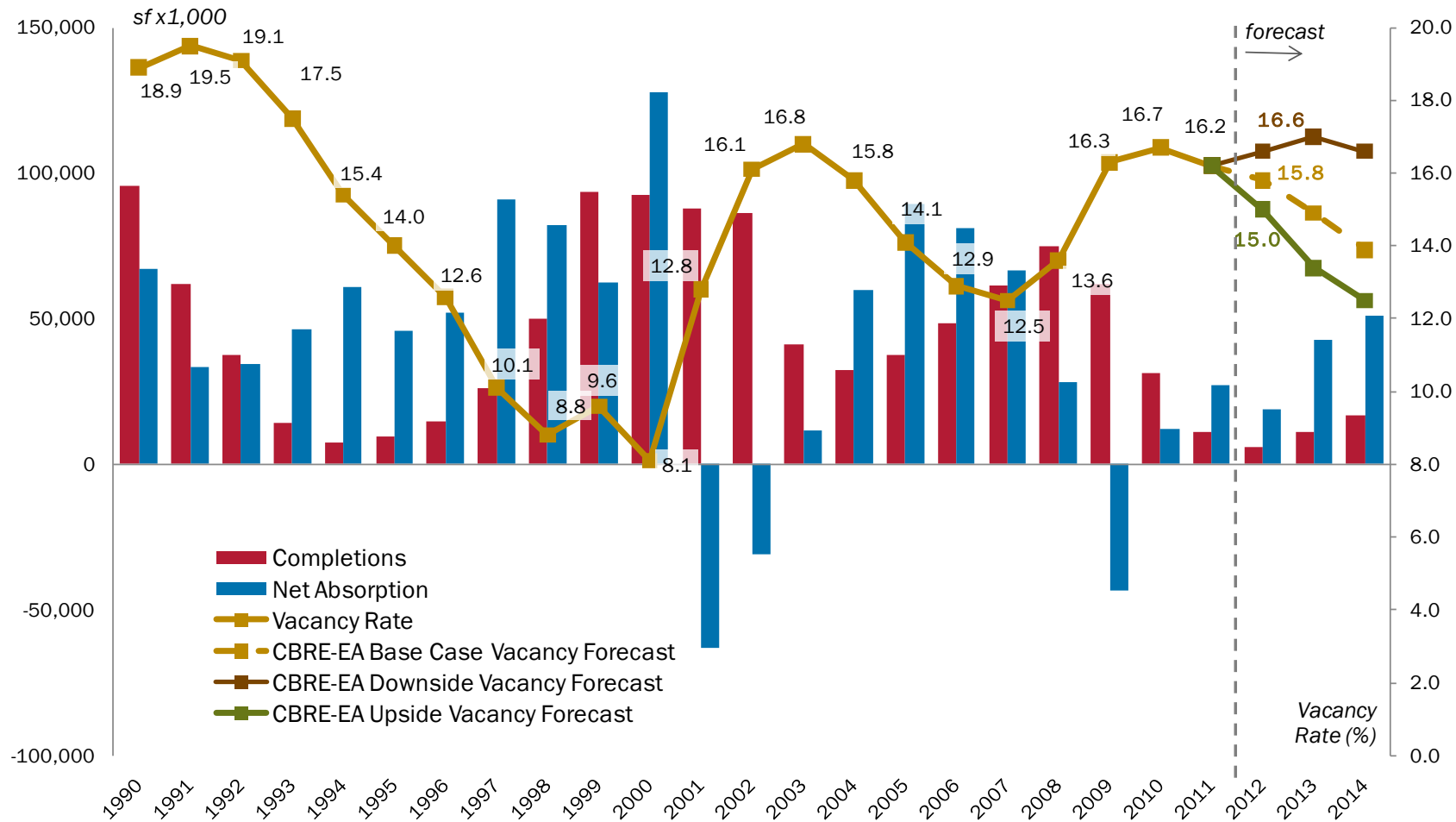
## Vacancy Rates by Property Type U.S. 1990-2011 (Q3)



Source: CBRE Econometric Advisors; NCREIF; Axiometrics; CoStar; Heitman Research. The apartment series reflects NCREIF data through 1996Q1 and Axiometrics data thereafter. The retail series reflects NCREIF data. The industrial and office series reflects the availability rate rather than the vacancy rate.

# A Slow Office Recovery Underway

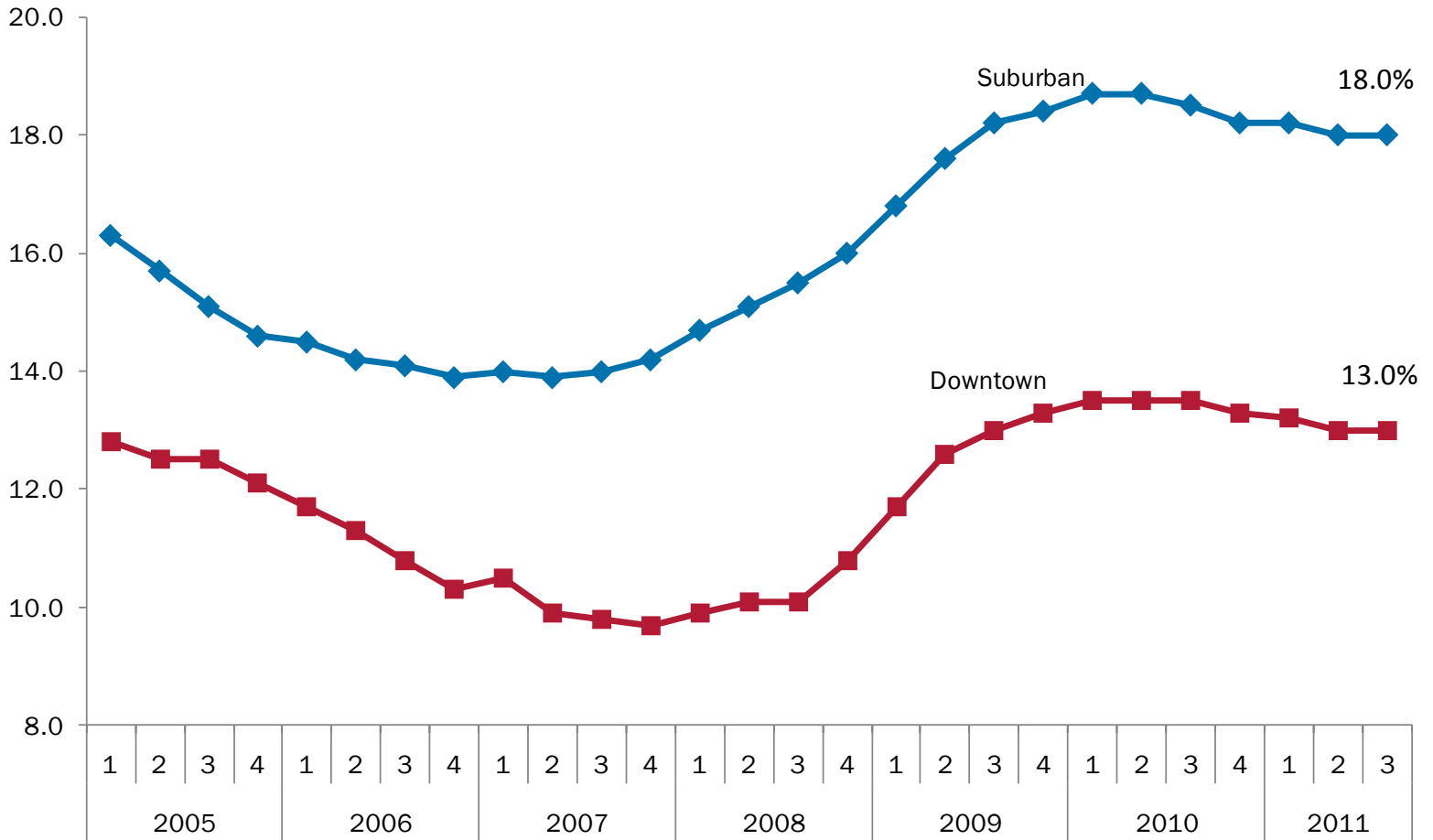
## Office Completions, Net Absorption, and Vacancy U.S. 1990-2014 Years Ending Q3



Source: CBRE Econometric Advisors; Heitman Research

# Downtown Markets Healthier Than Suburban

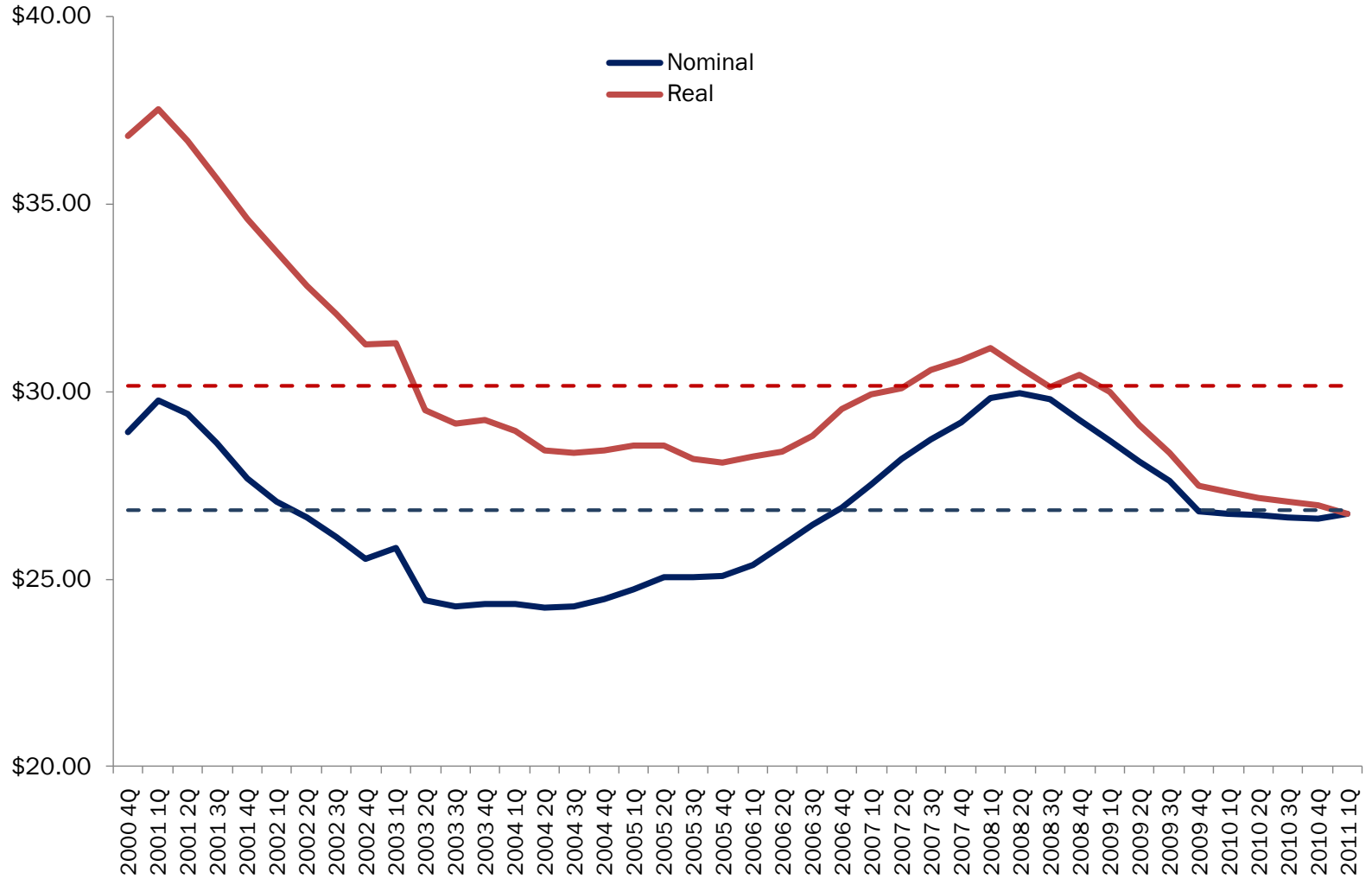
## Office Vacancy: Downtown vs. Suburbs U.S. 2005-2011 Q3



Source: CBRE Econometric Advisors; Heitman Research

# Office Rents Have Bottomed

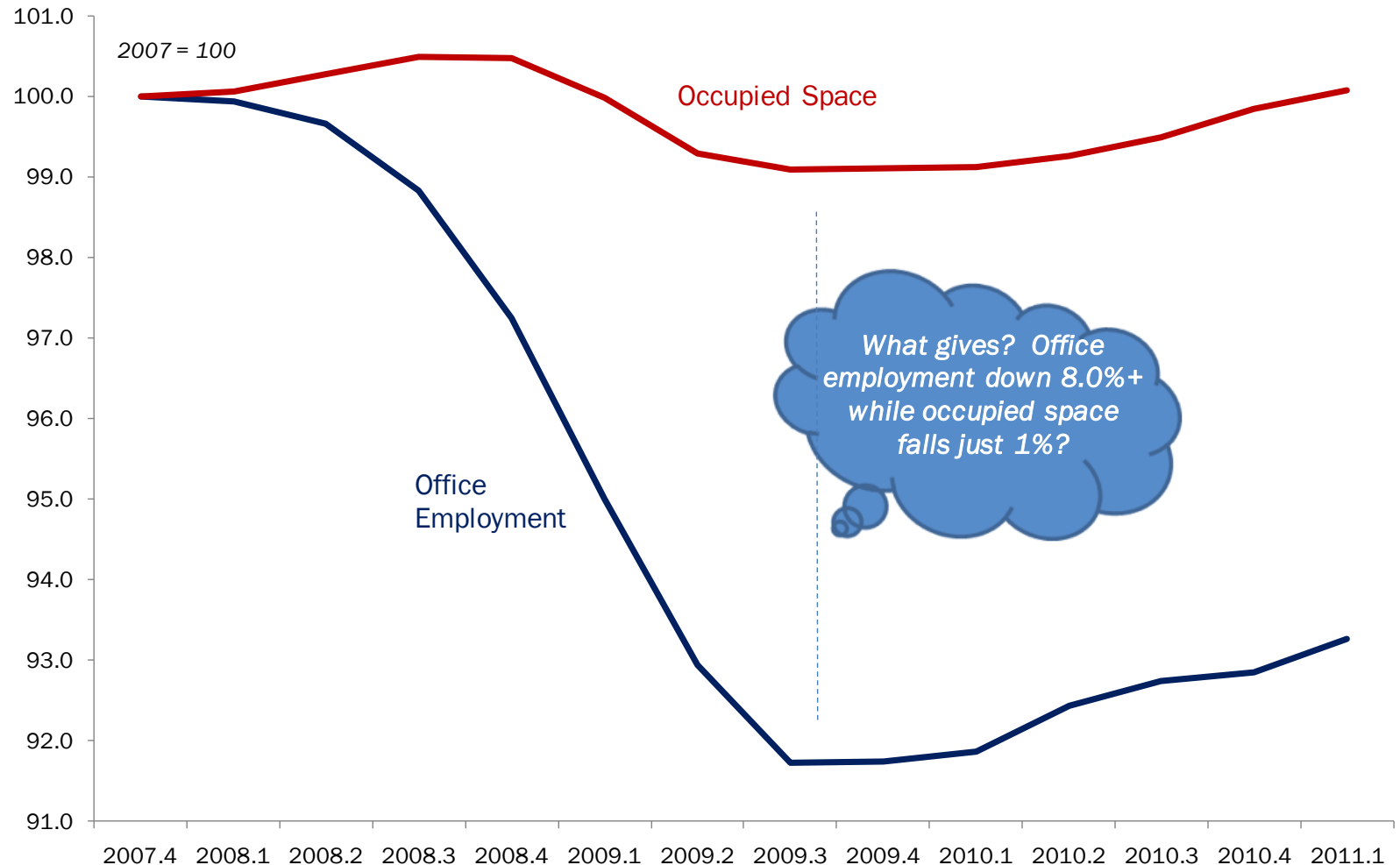
## Average Asking Rental Rates Top 20 Office Markets





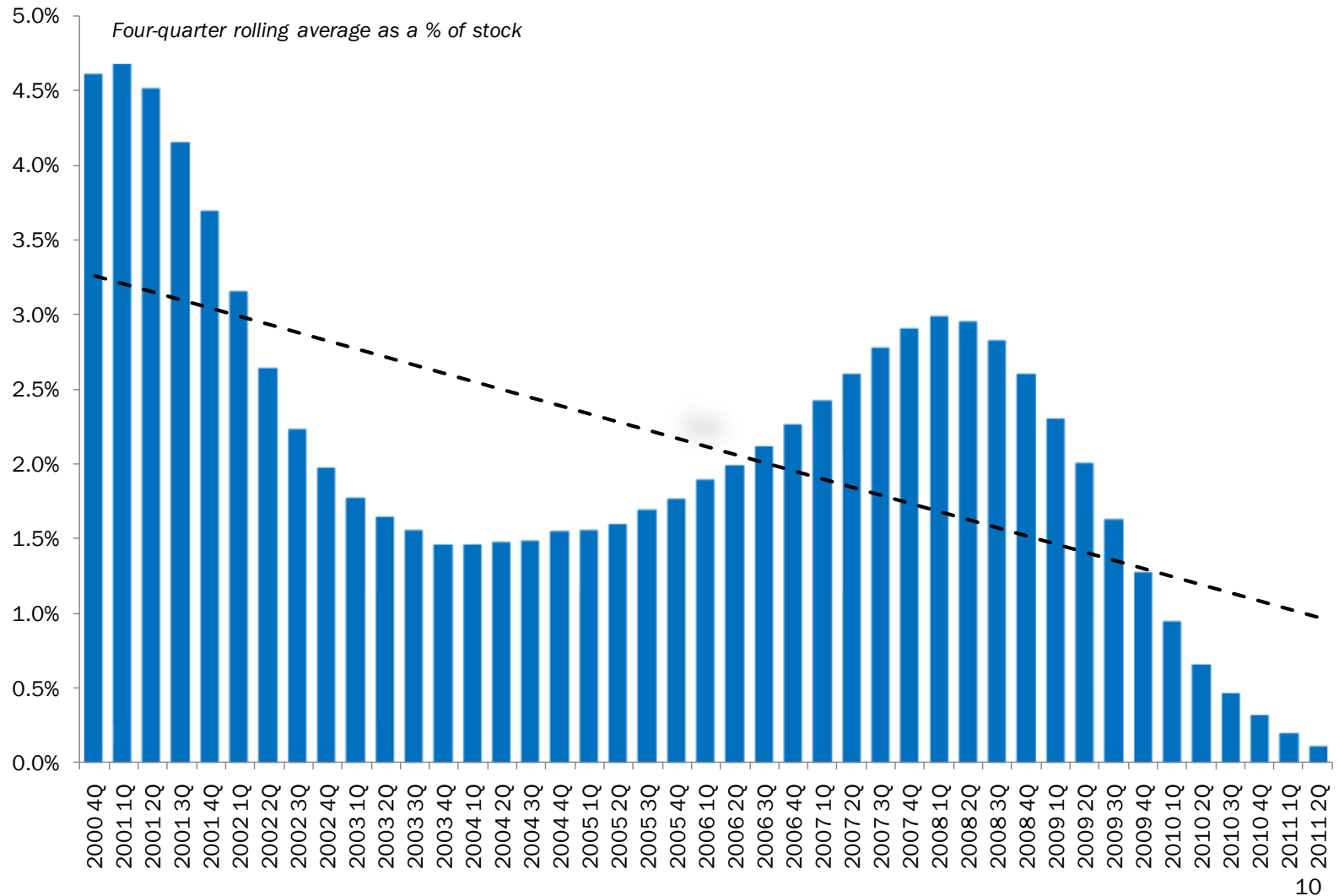
# But Shadow Vacancy Clouds Demand Recovery

Office Employment vs. Occupied Space  
U.S. Office Markets 2007-2011



# New Office Space Won't Be a Problem

## Office Space Under Construction Top 20 Office Markets



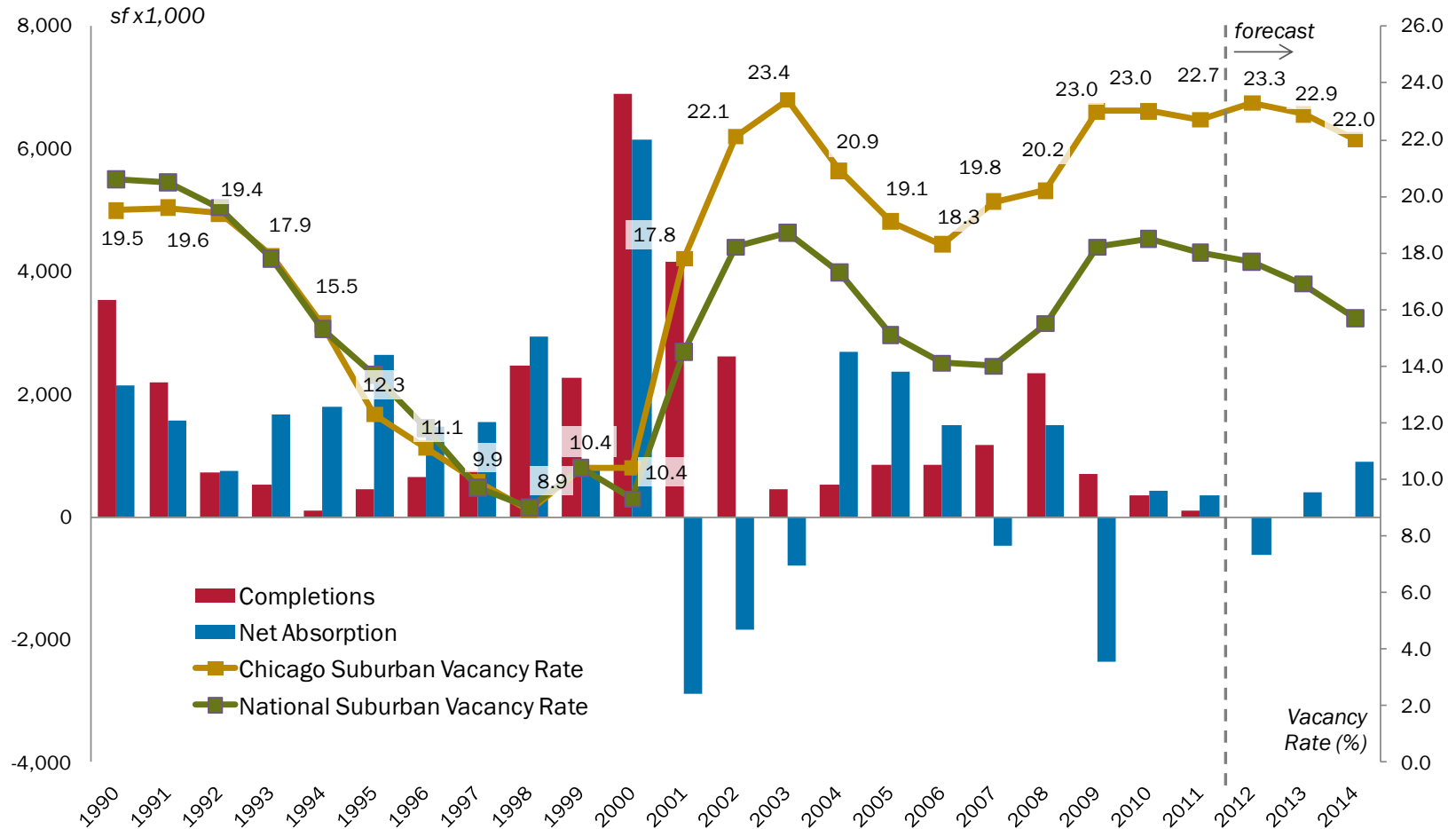
The chart displays the unemployment rate for Chicago and the United States from 2000 to 2014. The y-axis represents the unemployment rate percentage, ranging from -10.0% to 6.0%. The x-axis shows years from 2000 to 2014, with quarterly markers (1, 2, 3, 4). A vertical dashed line at the end of 2011 indicates the start of the forecast period. Both lines show a significant dip in 2003 and a sharp decline in 2009, followed by a recovery. The United States generally has a higher unemployment rate than Chicago throughout the period.

Year	Quarter	Chicago (%)	United States (%)
2000	1	1.8	4.3
2000	2	1.3	3.8
2000	3	1.3	3.3
2000	4	0.4	2.8
2001	1	0.4	2.0
2001	2	-1.0	0.5
2001	3	-2.5	-1.0
2001	4	-4.0	-2.5
2002	1	-4.8	-3.5
2002	2	-4.5	-3.0
2002	3	-3.5	-2.5
2002	4	-2.5	-1.5
2003	1	-2.0	-1.0
2003	2	-2.0	-0.5
2003	3	-1.5	0.0
2003	4	-1.0	0.5
2004	1	0.0	1.0
2004	2	0.8	1.5
2004	3	0.8	1.5
2004	4	1.5	1.8
2005	1	1.5	2.0
2005	2	1.5	1.8
2005	3	2.0	2.5
2005	4	2.5	2.8
2006	1	2.5	3.0
2006	2	2.5	3.0
2006	3	2.5	2.5
2006	4	2.0	2.0
2007	1	1.5	1.5
2007	2	1.5	1.0
2007	3	1.5	0.5
2007	4	0.5	0.0
2008	1	-0.5	-0.5
2008	2	-1.5	-1.5
2008	3	-2.5	-2.5
2008	4	-4.0	-4.0
2009	1	-6.0	-6.0
2009	2	-8.0	-7.0
2009	3	-8.2	-6.8
2009	4	-6.5	-5.0
2010	1	-2.5	-1.0
2010	2	1.2	0.5
2010	3	0.5	1.0
2010	4	1.0	1.5
2011	1	0.5	1.5
2011	2	0.2	1.8
2011	3	0.0	1.8
2011	4	0.7	1.5
2012	1	0.0	1.2
2012	2	0.5	1.0
2012	3	0.5	1.5
2012	4	0.5	1.8
2013	1	0.8	2.2
2013	2	1.5	2.8
2013	3	2.5	3.5
2013	4	3.0	3.8
2014	1	3.5	4.0
2014	2	3.8	4.0
2014	3	3.8	4.0
2014	4	3.8	4.0

11

# And Suburban Chicago is Suffering

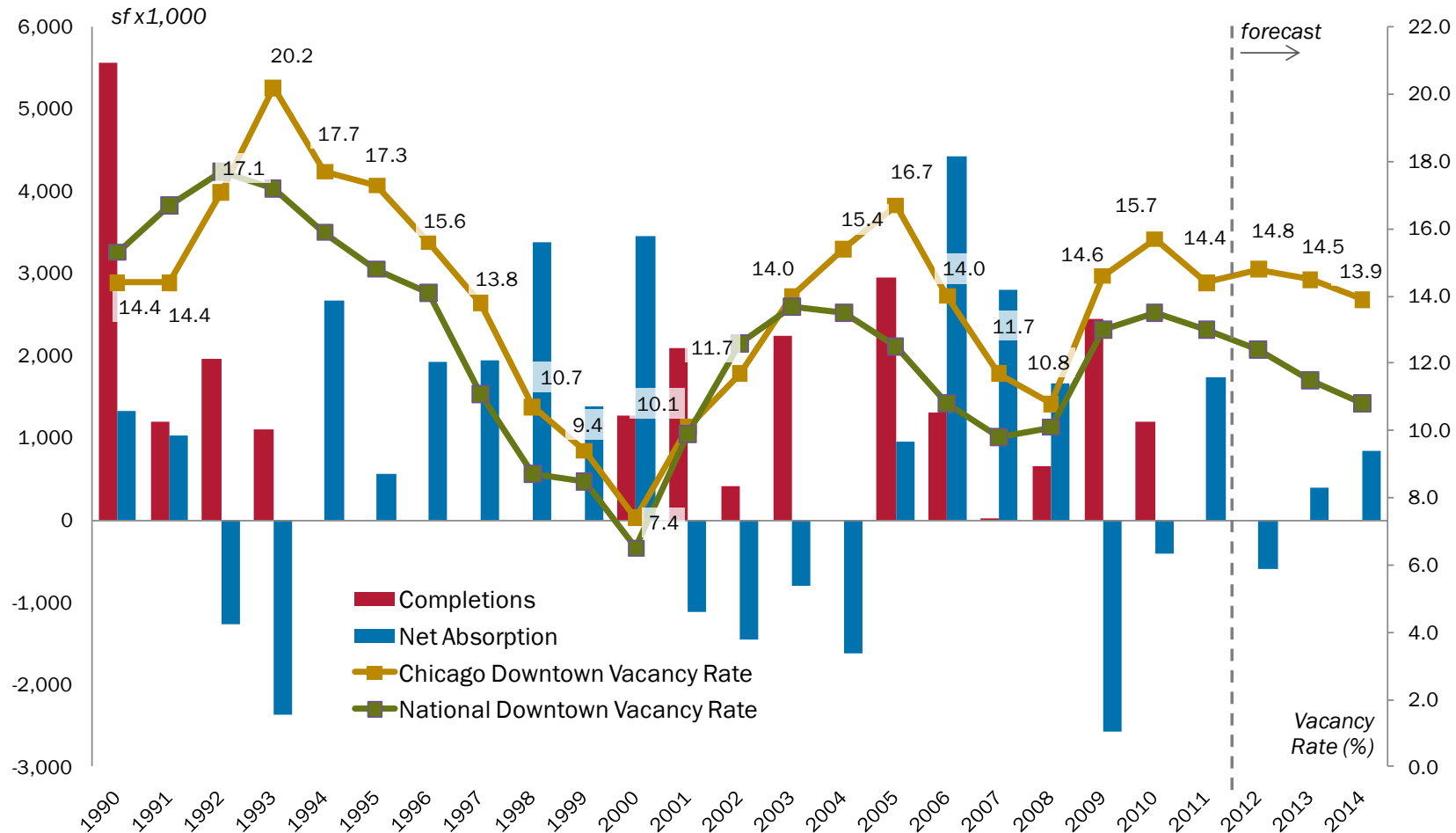
## Office Completions, Net Absorption, and Vacancy Suburban Chicago 1990-2014 Years Ending Q3



Source: CBRE Econometric Advisors; Heitman Research

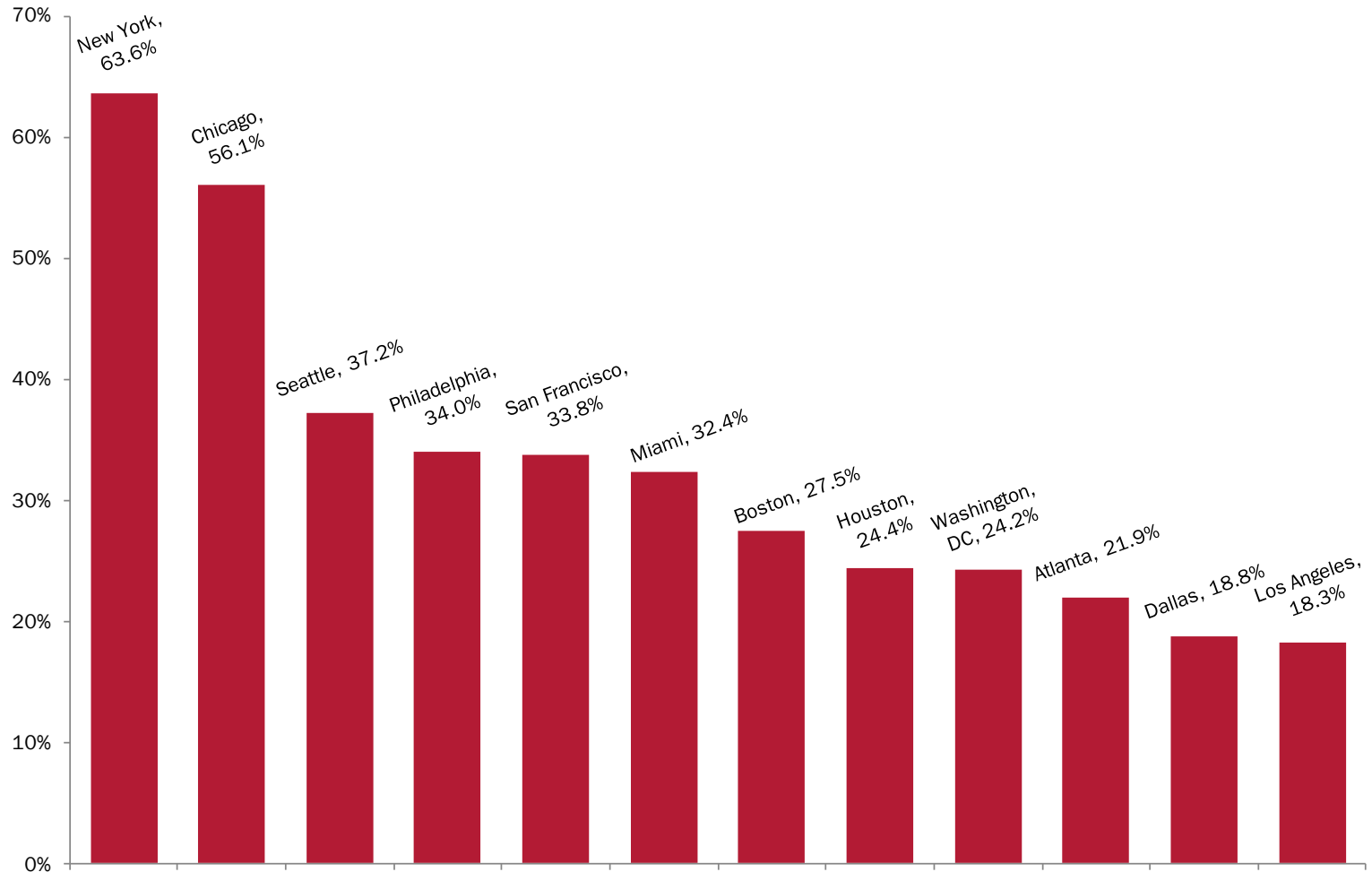
# Downtown Chicago is Much Healthier

## Office Completions, Net Absorption, and Vacancy Downtown Chicago 1990-2014 Years Ending Q3



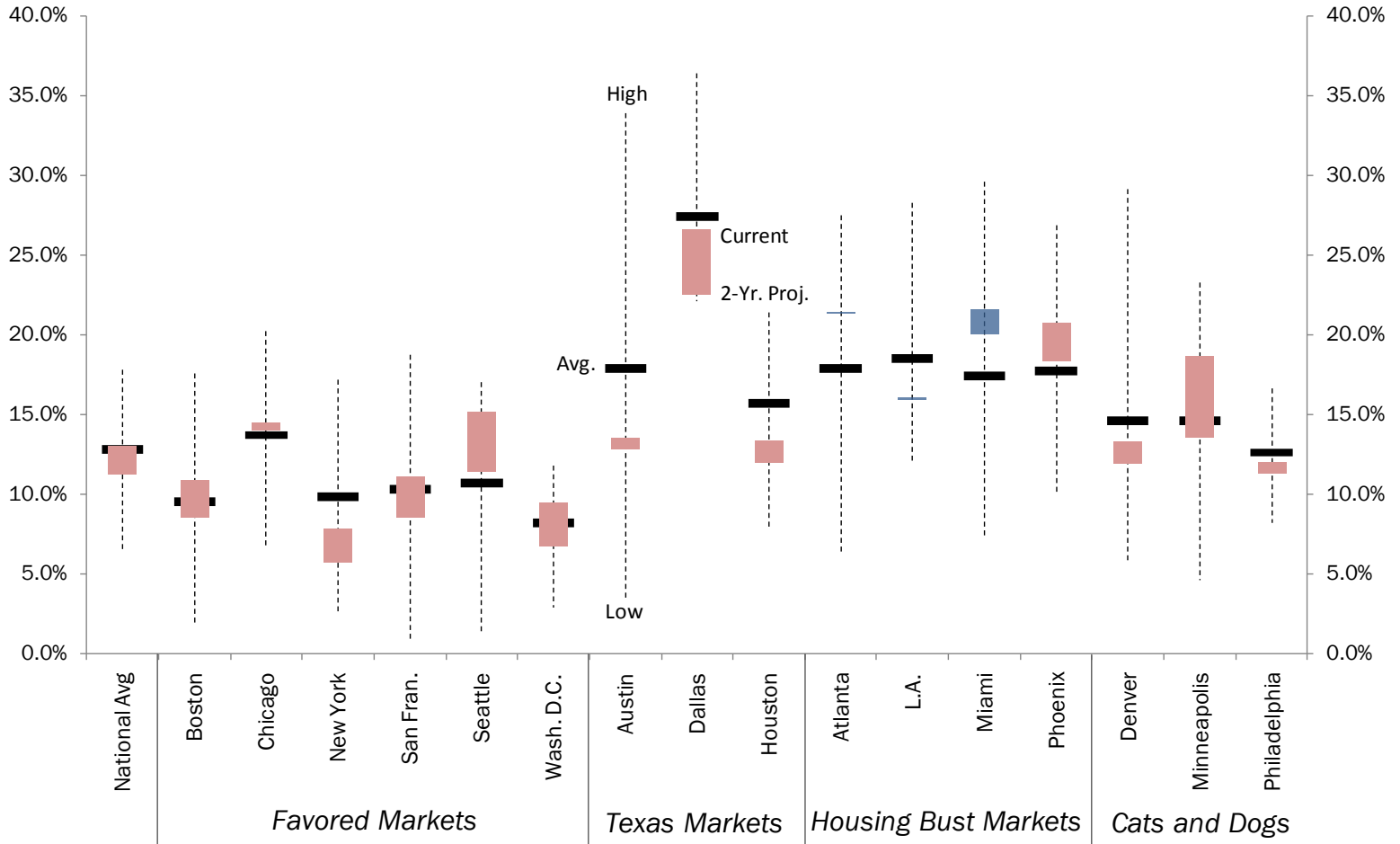
Source: CBRE Econometric Advisors; Heitman Research

## Downtown Inventory as a % of Total Metro Inventory Select Office Markets Q3 2011



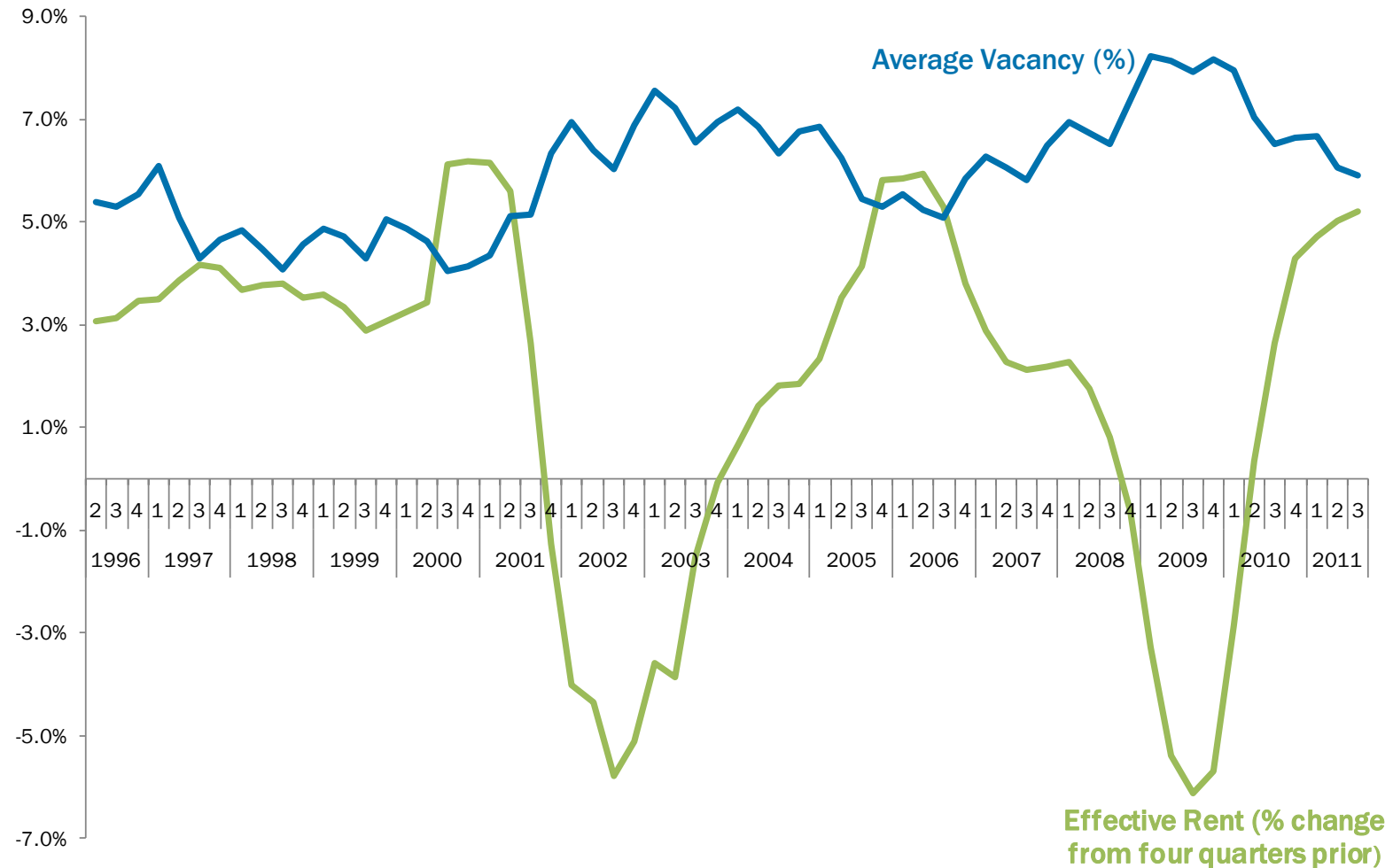
Source: CBRE Econometric Advisors; Heitman Research

## Downtown Office Vacancy Rates Two-Year Projection



Source: CBRE Econometric Advisors, Heitman Research

## Apartment Effective Rent vs Vacancy U.S. 1996-2011 Q3 \*

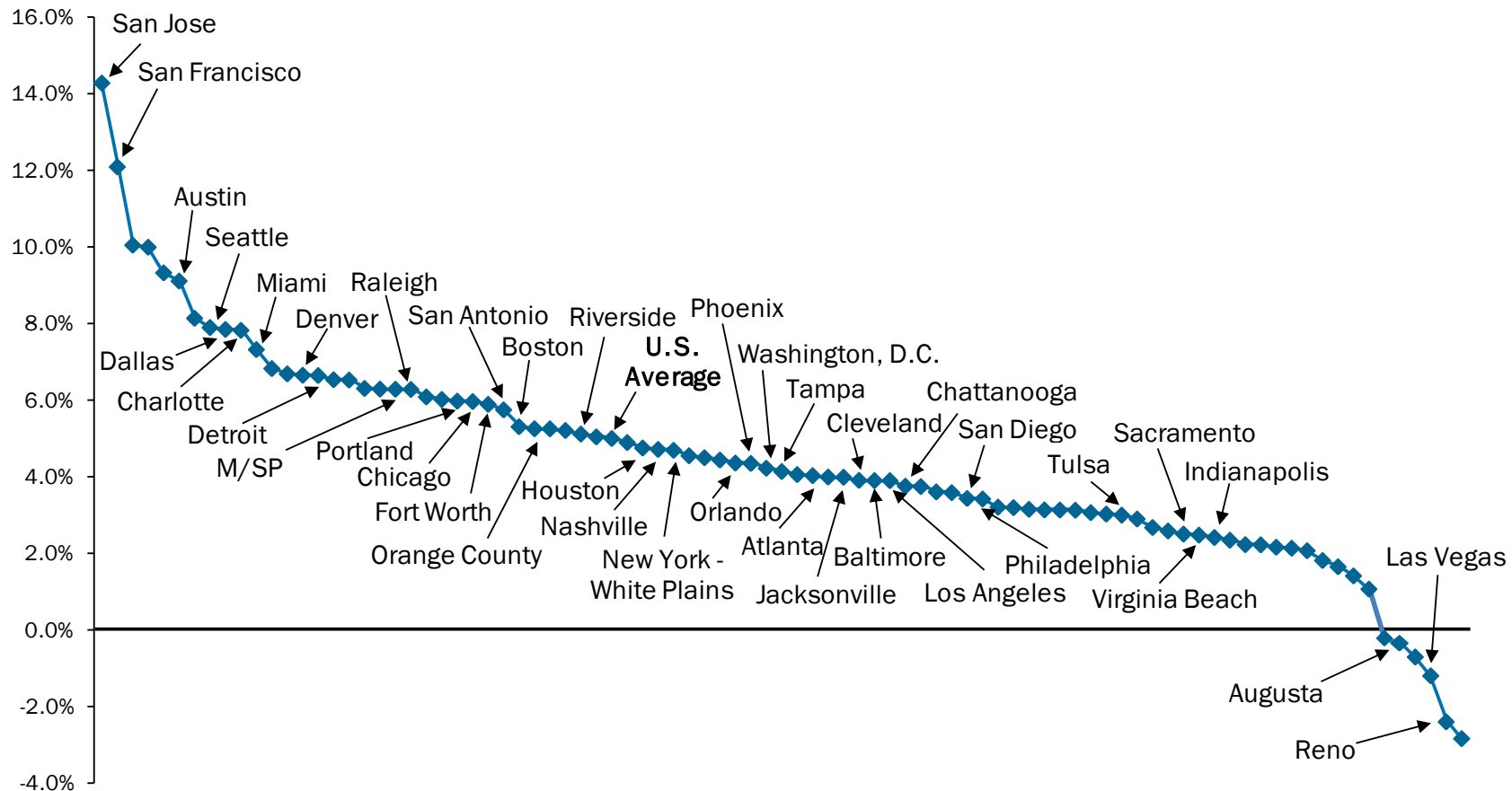


Source: Axiometrics; Heitman Research \* Q3 2011 is a 3-month moving average as of August



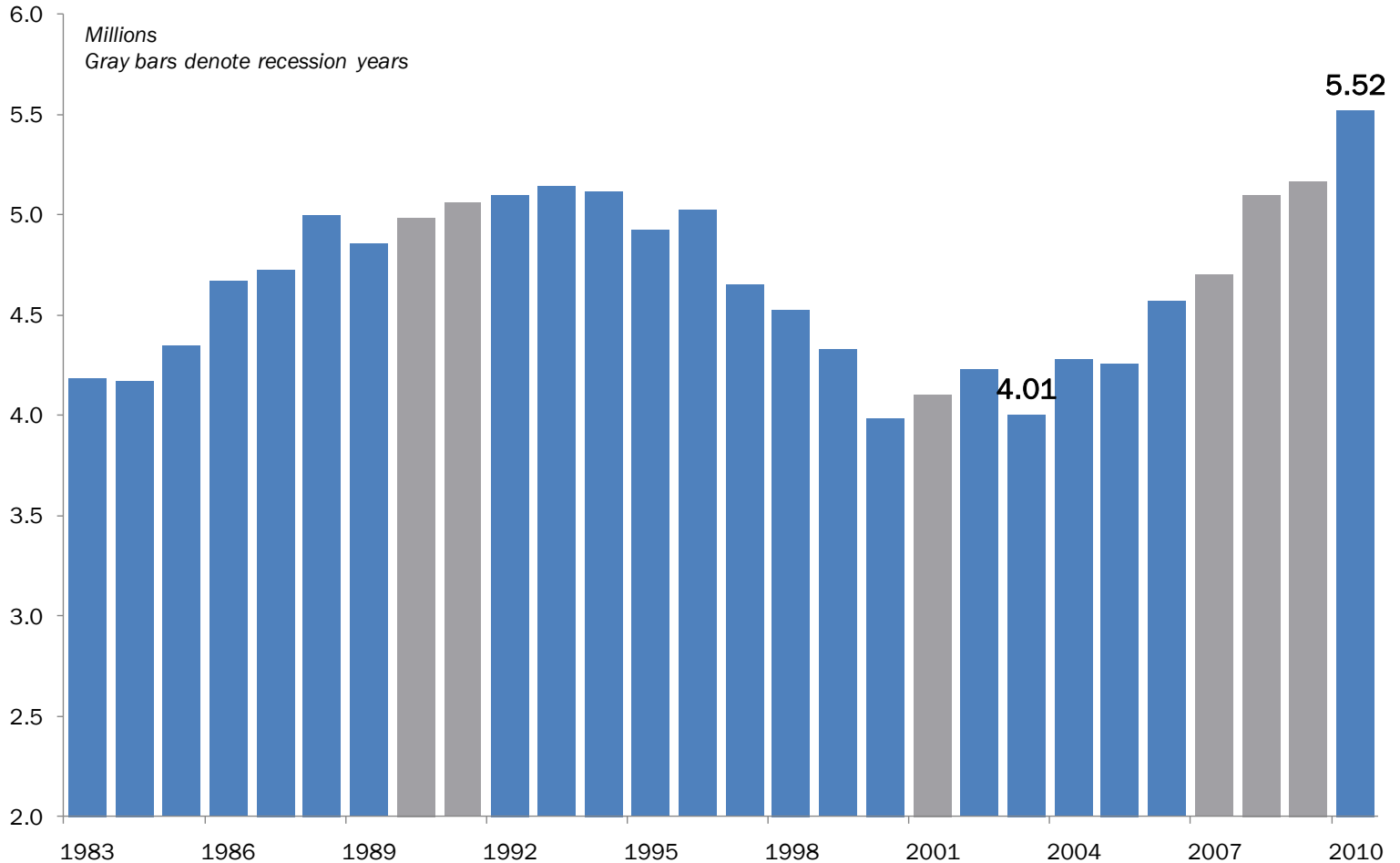
## Effective Rent Growth

Selected U.S. Metropolitan Areas August 2010-August 2011



Source: Axiometrics; Heitman Research

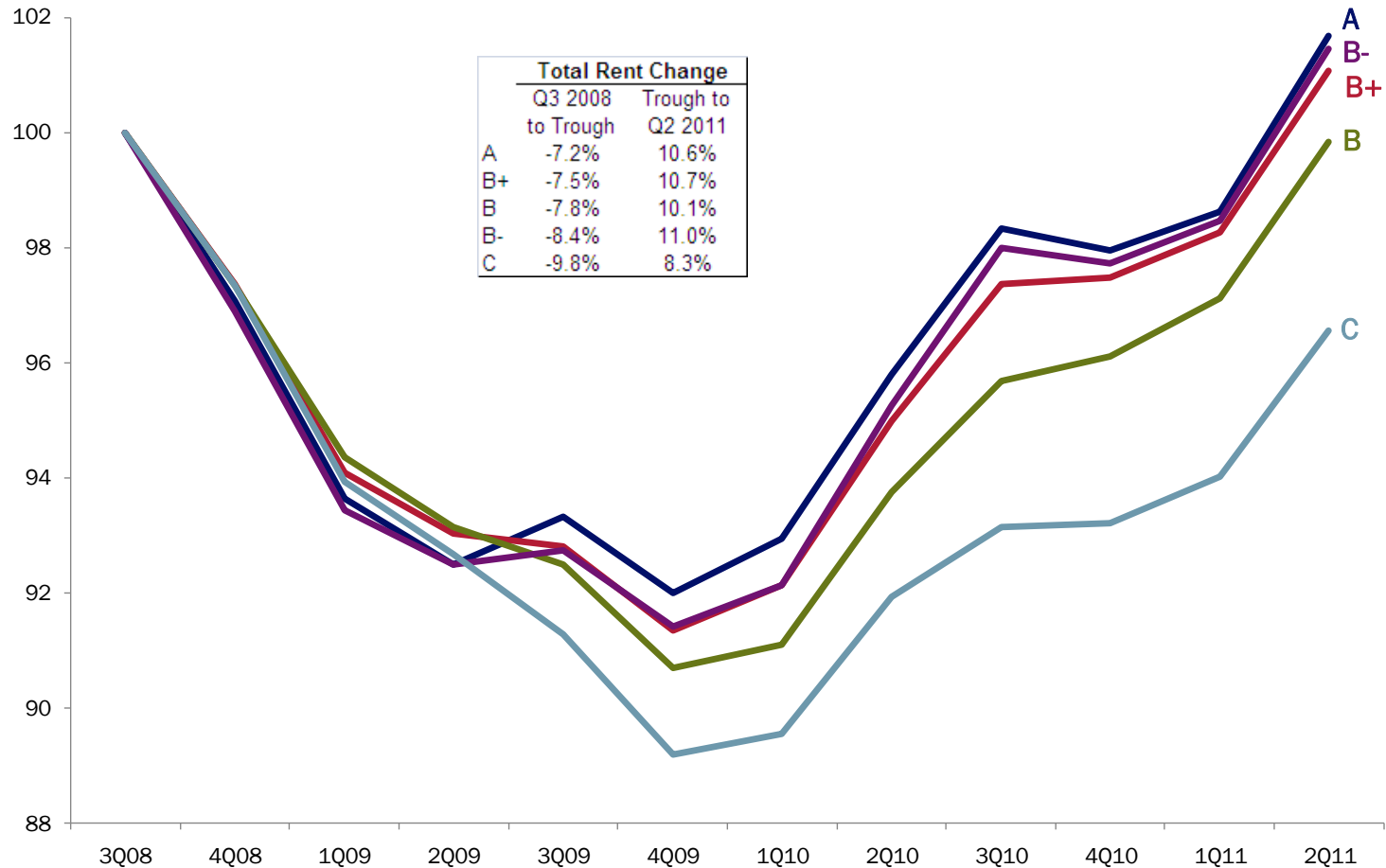
## 25 to 34-Year-Olds Living at Home with Parents U.S. 1983-2010



Sources: US Census Bureau, JBREC; Heitman Research

# Class A and B Assets Have Recovered Most

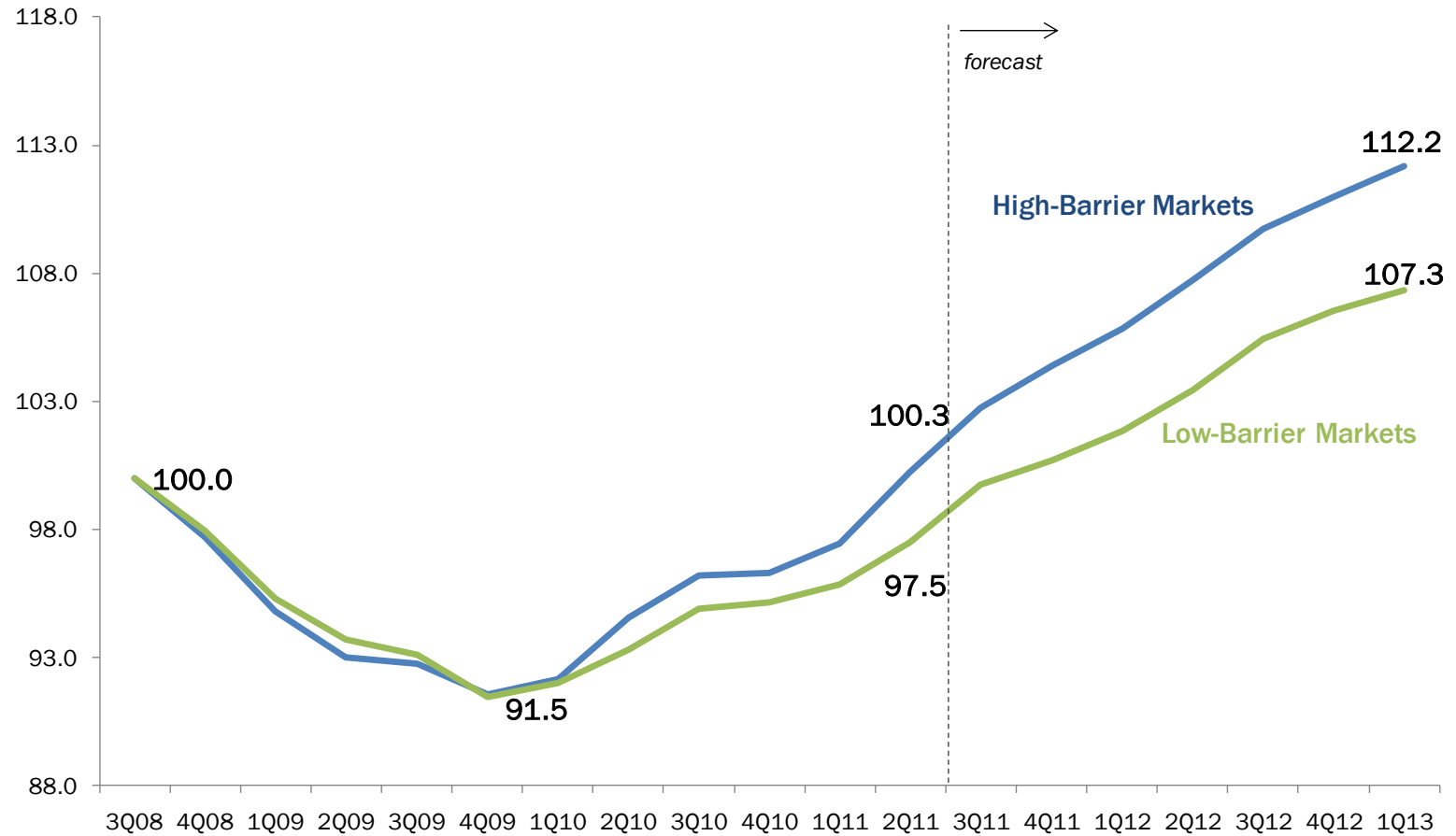
## Revenue Growth by Apartment Class Q3 2008-Q2 2011



Source: Axiometrics Research; Heitman Research

# Rents Recovering in Both Market Types

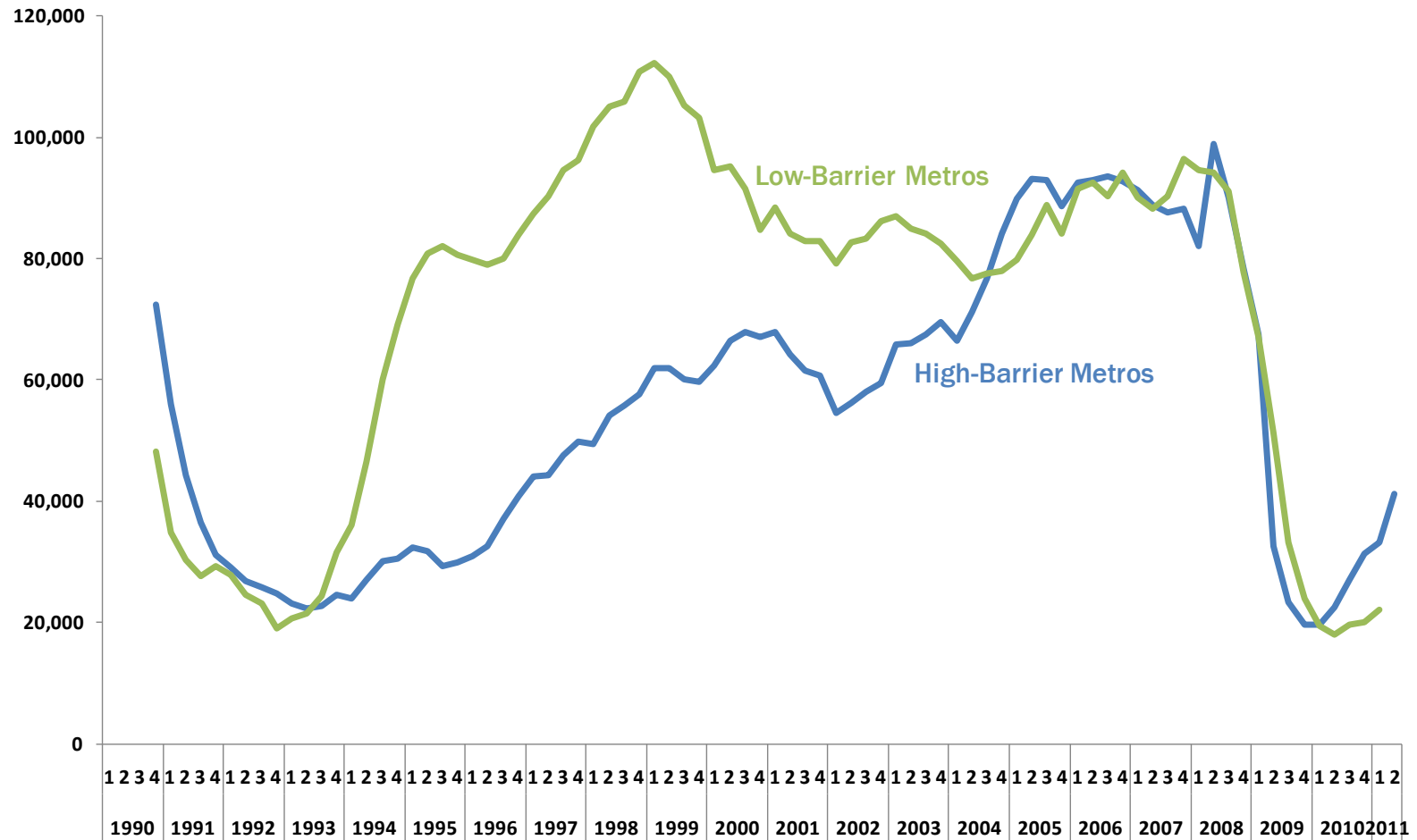
## Effective Rent Growth High-Barrier vs Low-Barrier Markets U.S. 2008-2013



Source: Axiometrics; Heitman Research

# Construction Volume Up Modestly in Supply Constrained Markets

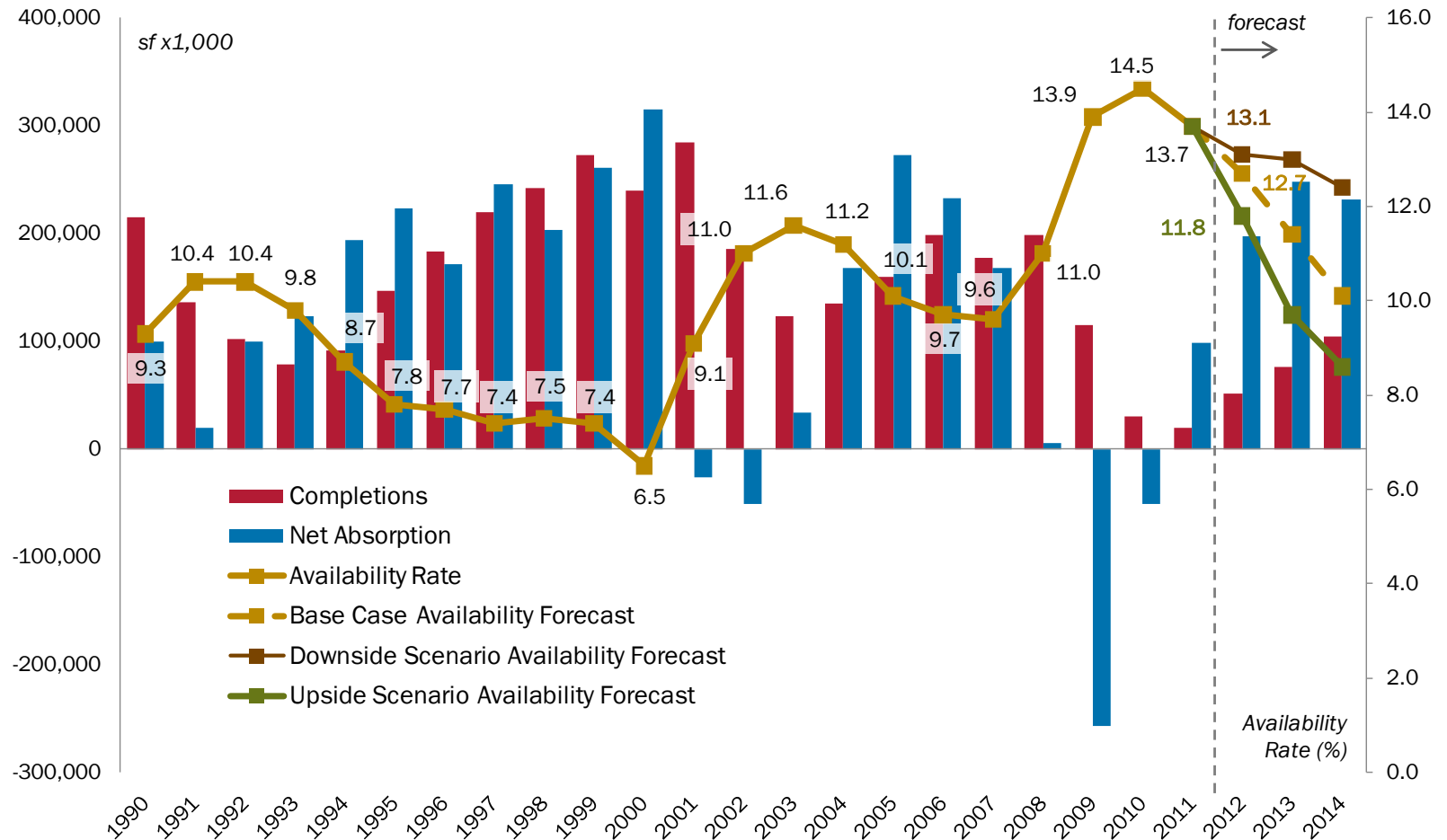
## Multifamily Building Permits: High-Barrier vs Low-Barrier Markets\* U.S. 1990-2011 2Q



\* Rolling four-quarter average

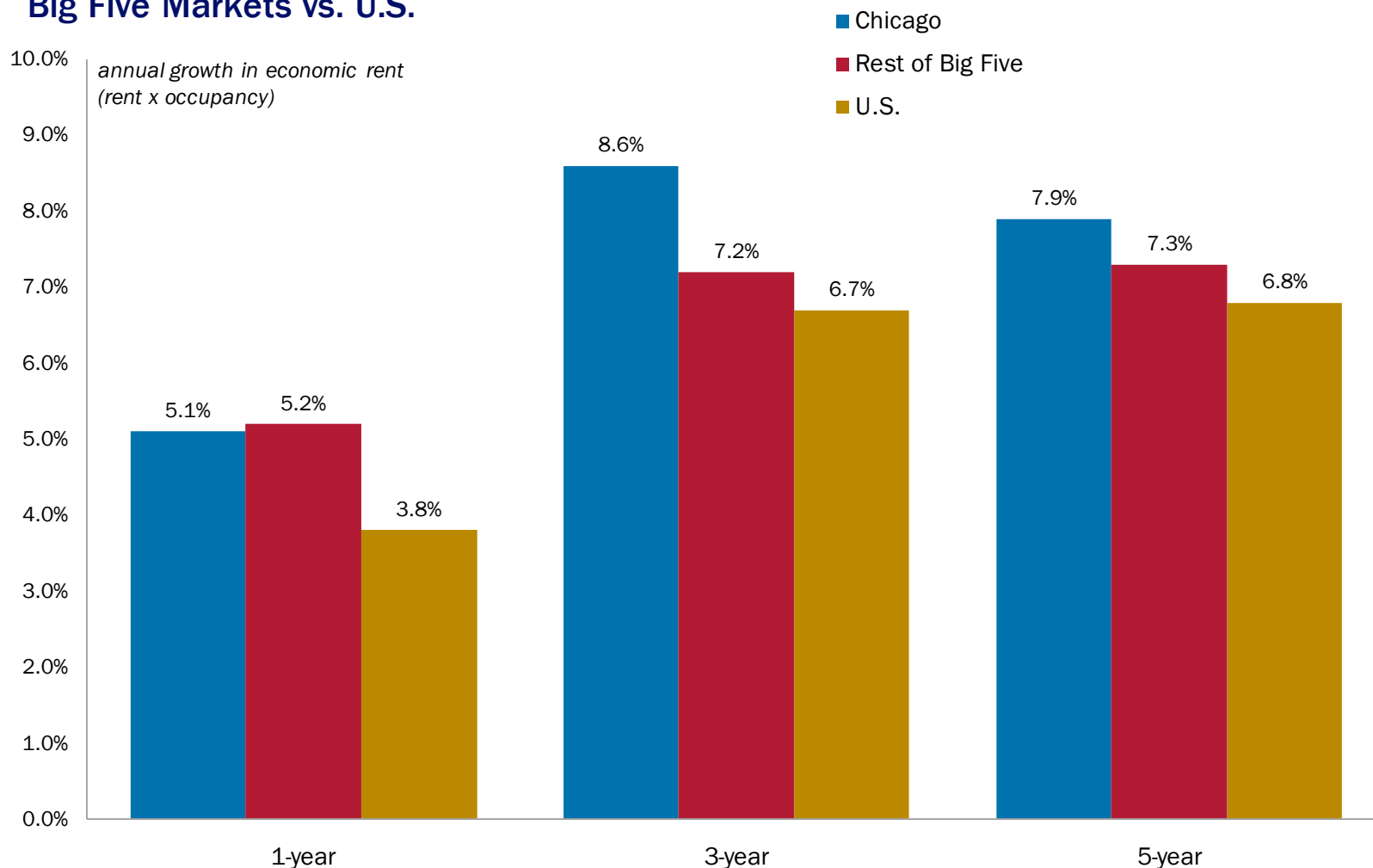
Source: Census Bureau; Axiometrics Research; Heitman Research

## Industrial Completions, Net Absorption, and Availability U.S. 1990-2014 Years Ending Q3



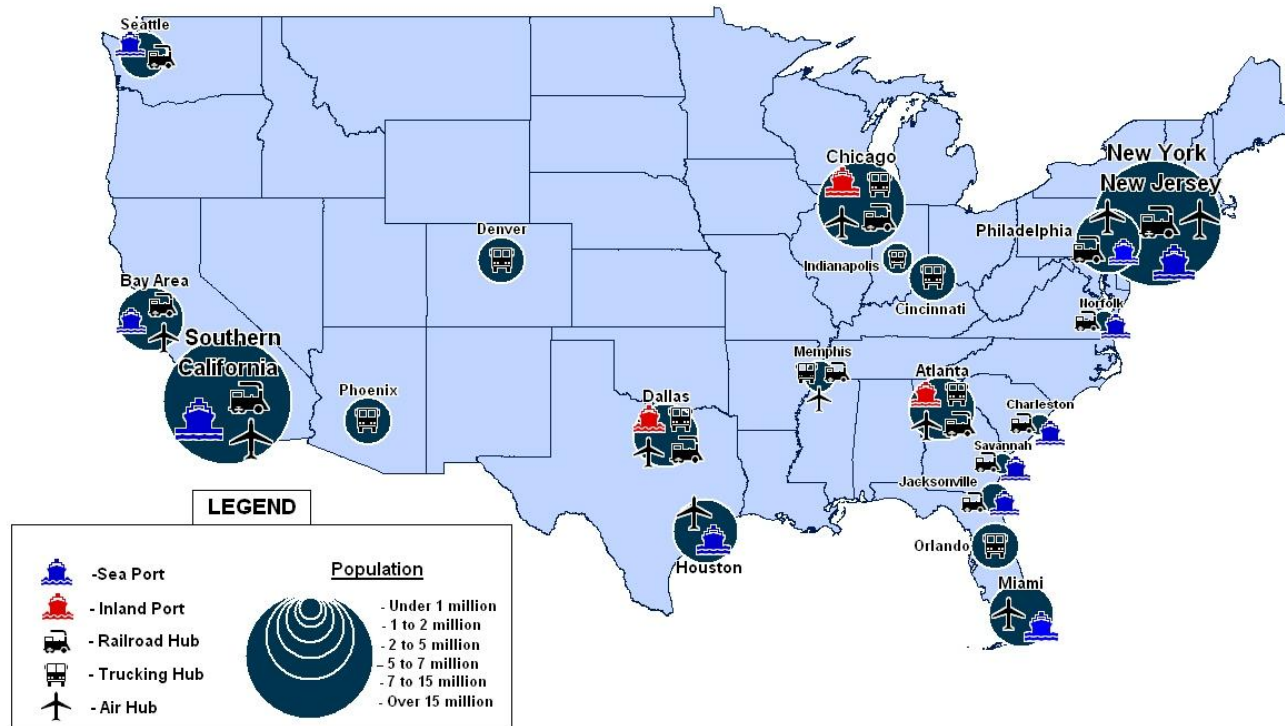
Source: CBRE Econometric Advisors; Heitman Research

## Economic Rent Growth Forecasts Big Five Markets vs. U.S.



Source: CBRE Econometric Advisors; Heitman Research

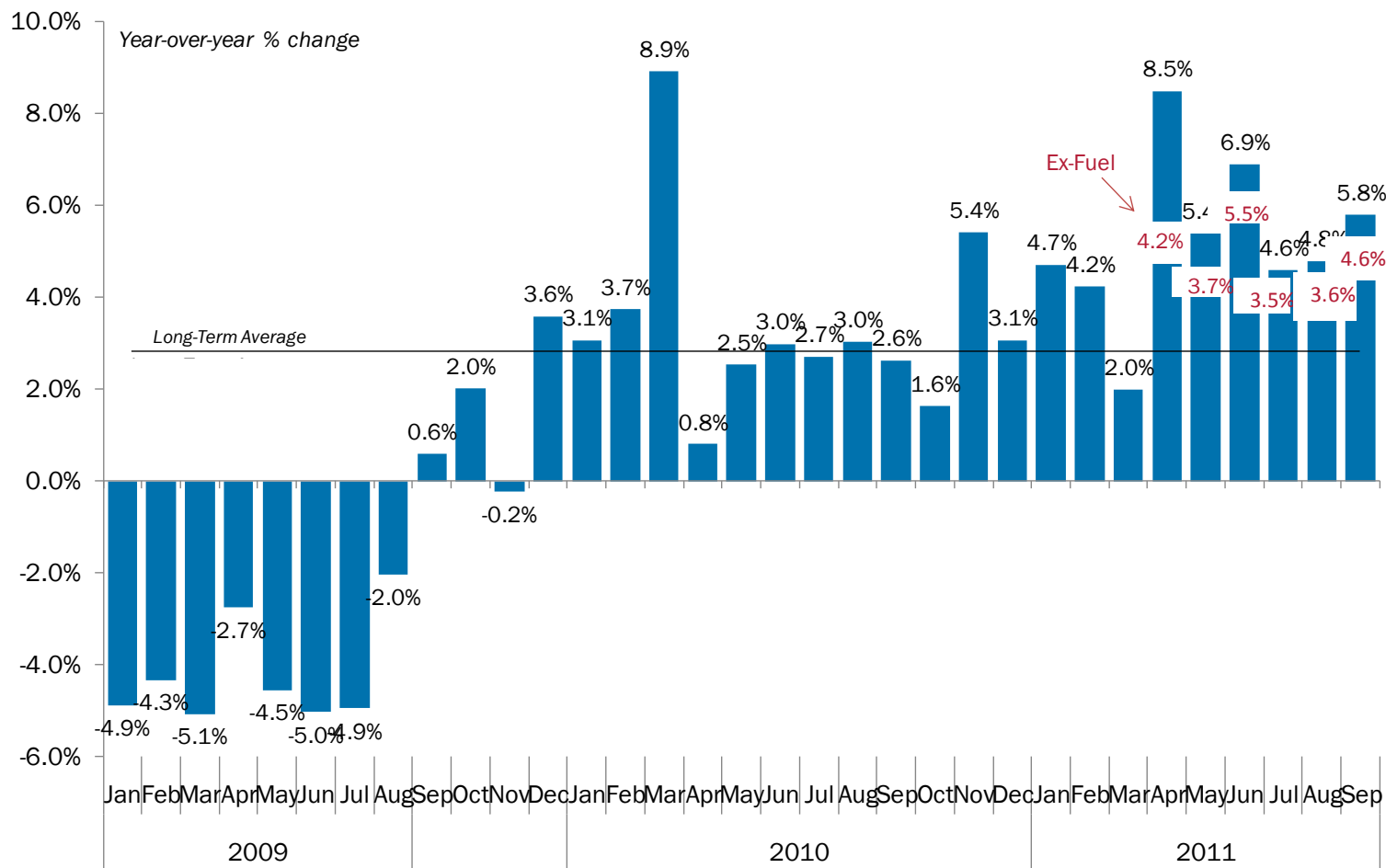
# Factors Driving Warehouse Demand





# Shopping Center Sales Rising Despite Market Volatility

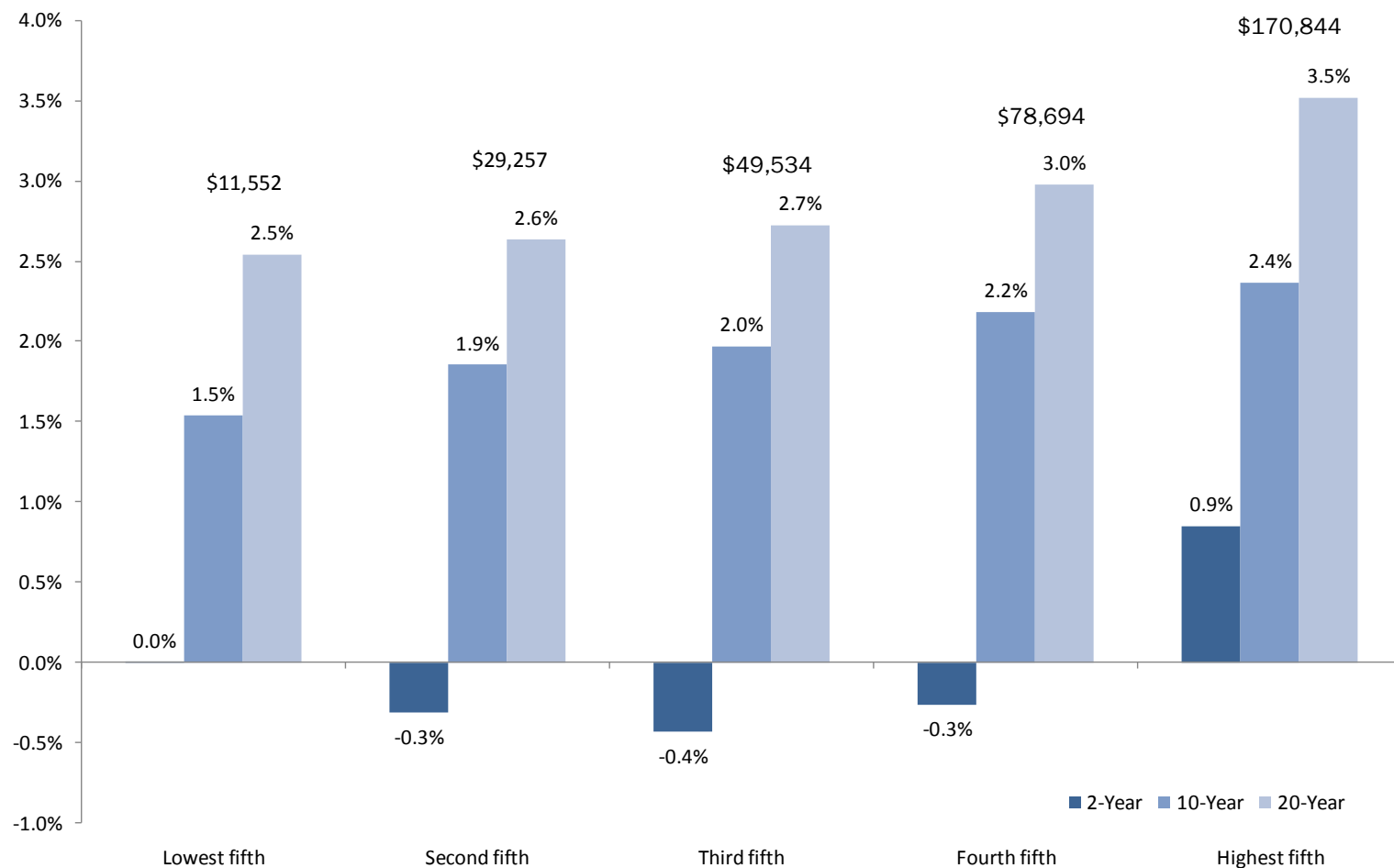
## ICSC Same-Store Sales Trends U.S. 2009-2011 (September)



Source: ICSC; Heitman Research

# High-Income Households Have Led U.S. Income Growth

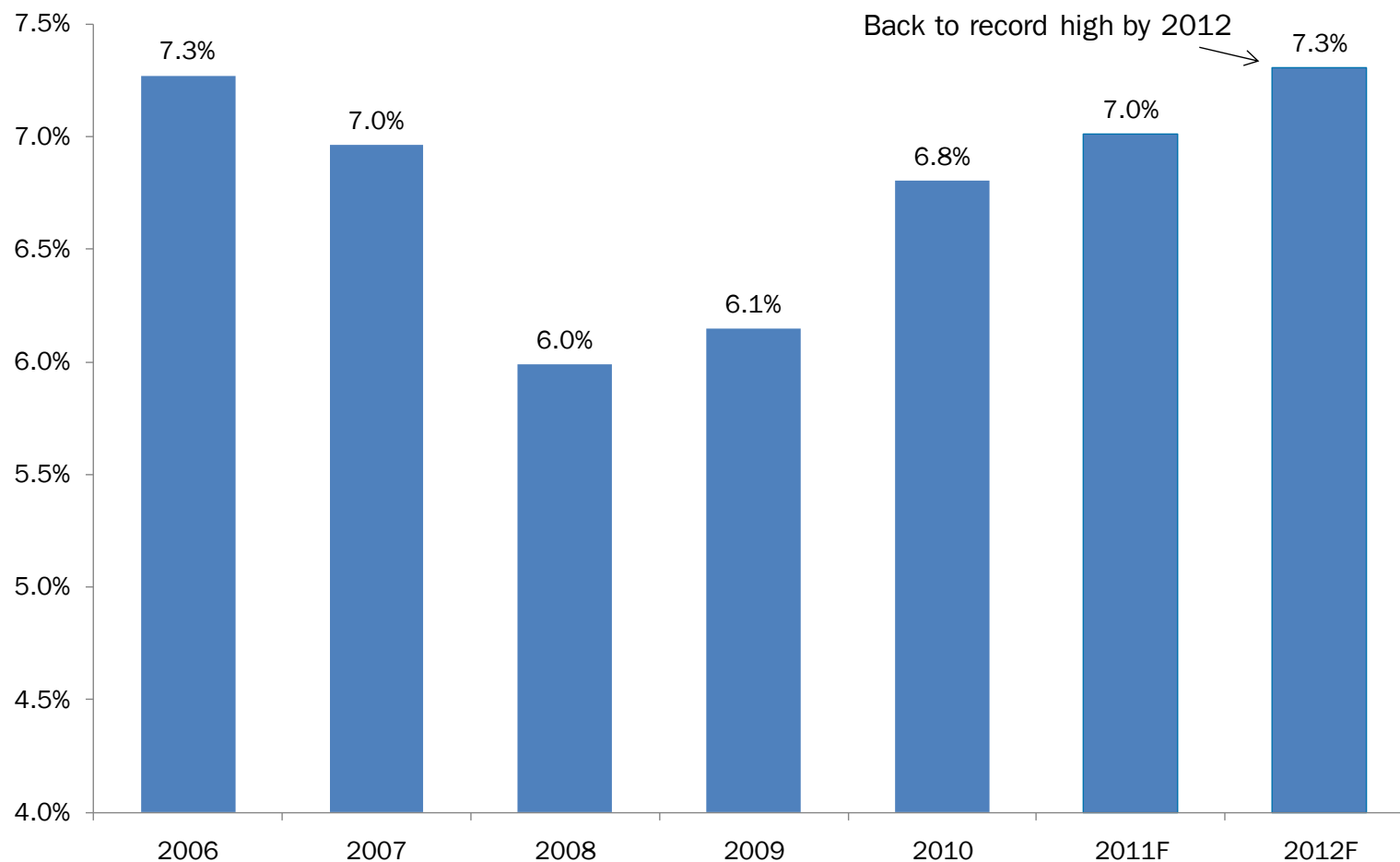
## Annual Growth in Mean Household Income 2009 U.S. Households by Income Quintile



Source: US Census Bureau; Heitman Research

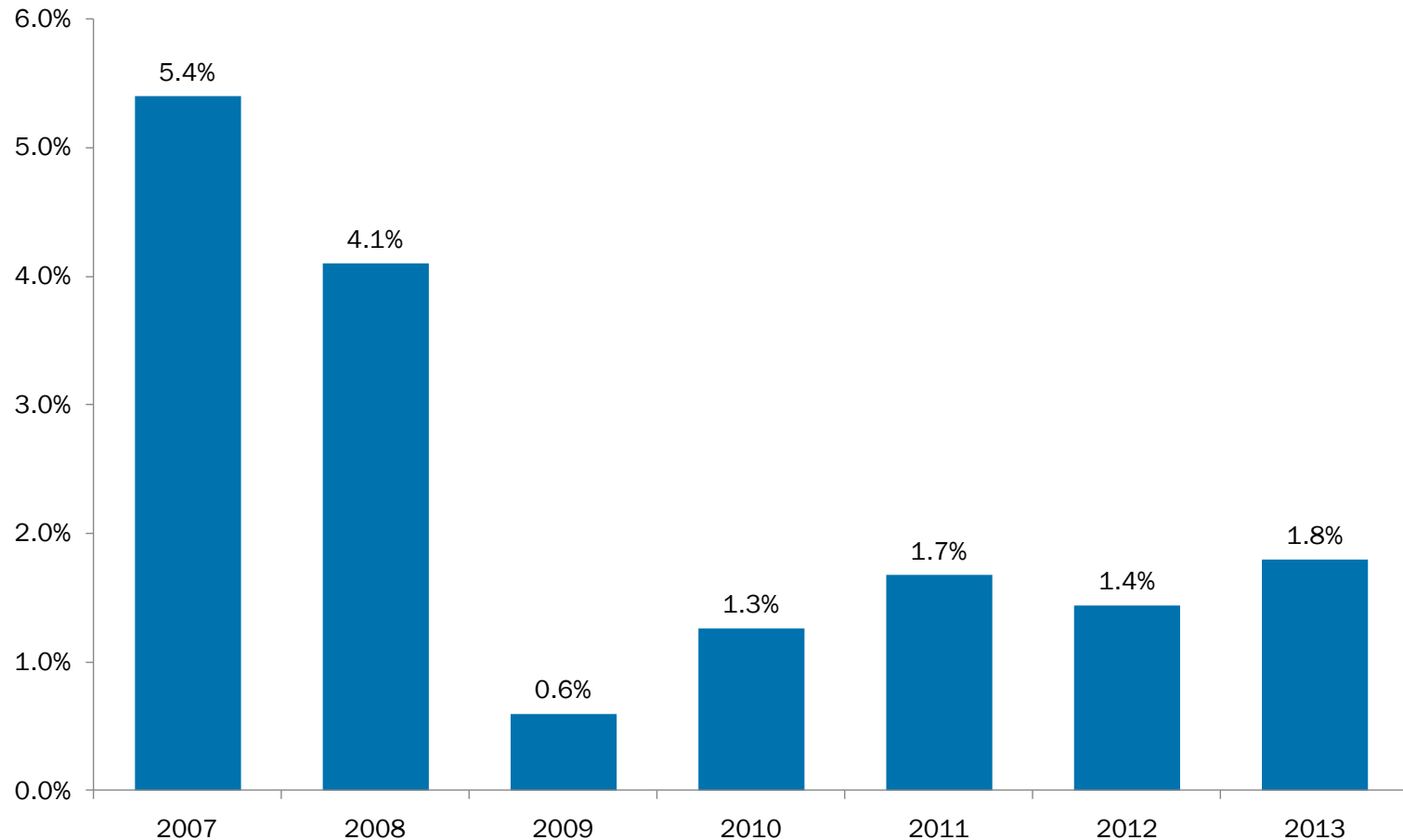
# Retail Profits Recovering Despite Rising Commodity Costs

## Operating Margins – Major Publicly Traded Retailers U.S. 2006-2012



Source: TAG Reserach; Heitman Research

## Net Square Footage Growth 57-Retailer\* Sample (U.S. Stores Only)

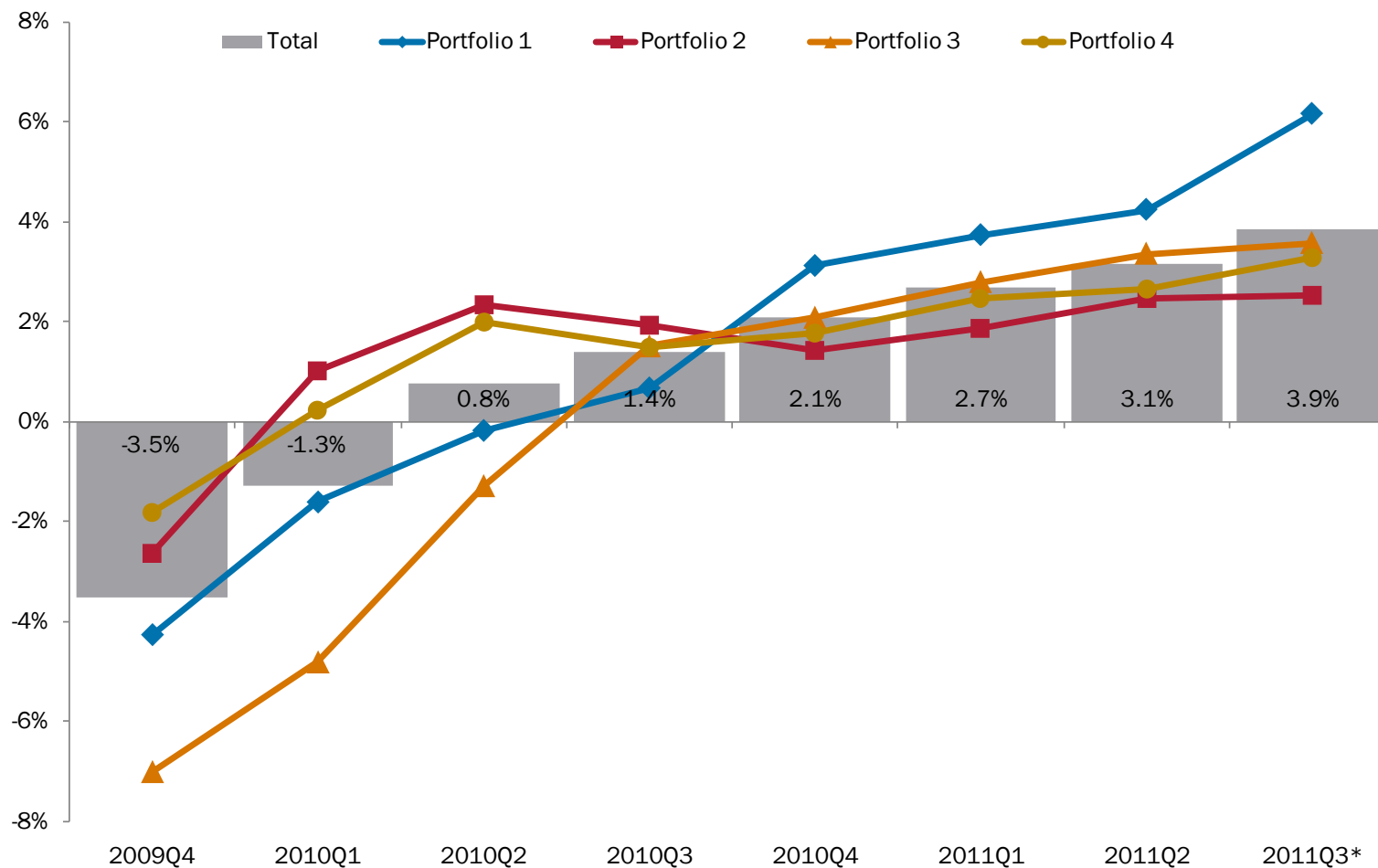


Source: Telsey, Heitman Research

\* Includes Blockbuster, Borders, Barnes and Noble

# Storage Rebound Continues

## Same-Property Revenue Growth (Y-O-Y) for Heitman Self-Storage Properties 2009-2011 Q3\*



Source: Heitman Research \* Three-month moving average through August