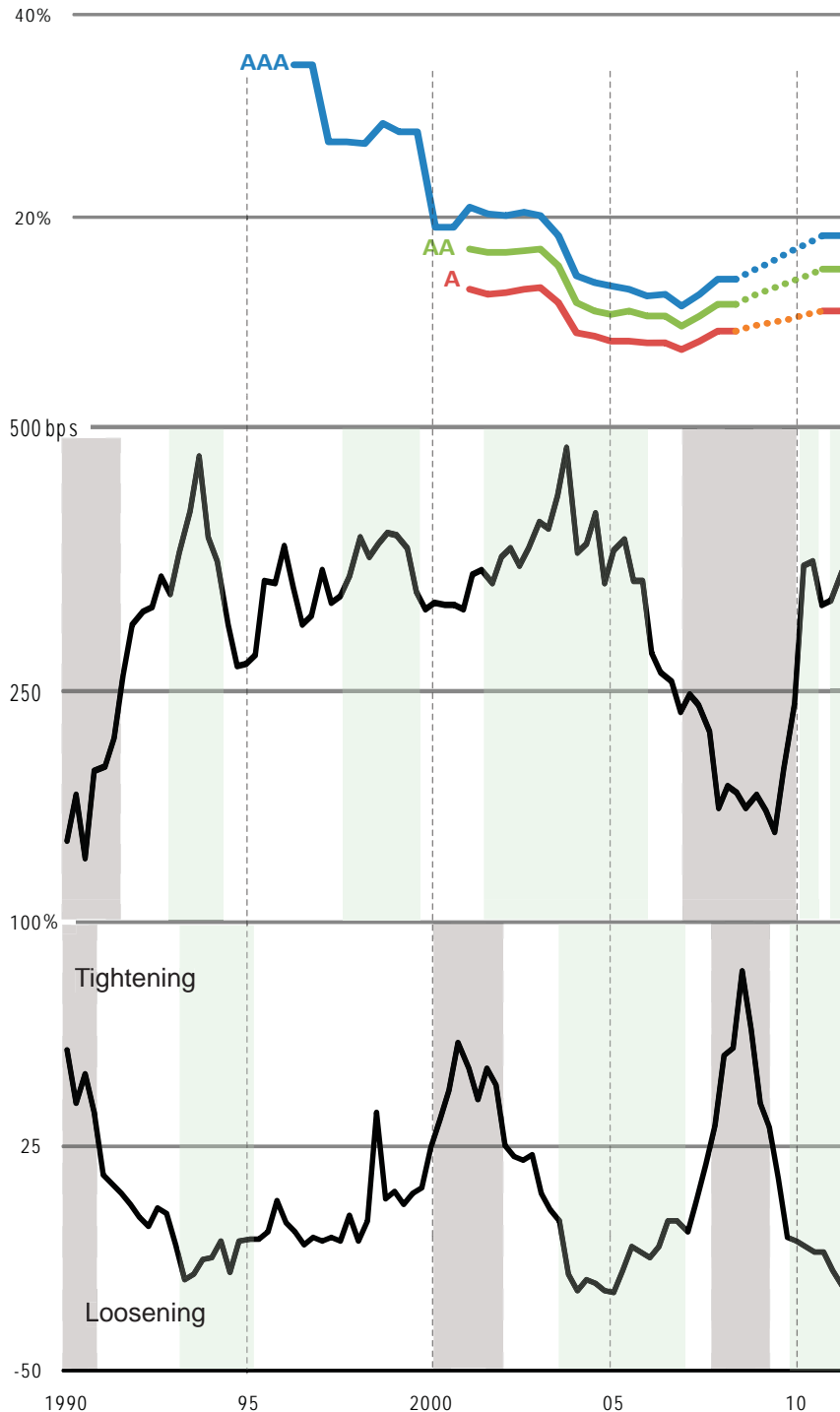


Commercial Real Estate Profile

Fall 2011, Published September 2



CRE Leading Indicators

CMBS Subordination Levels

In retrospect, it now appears that lower subordination levels were a sign of overly aggressive underwriting from 2005-2007. Although data is not available for the early 1990's RTC era, subordination levels will be noteworthy indicators of underwriting trends.

CRE Yield Over Baa Corporate Yield  
 When commercial real estate yields exceed 350 bps over Baa corporate yields, commercial real estate offers a superior return premium.

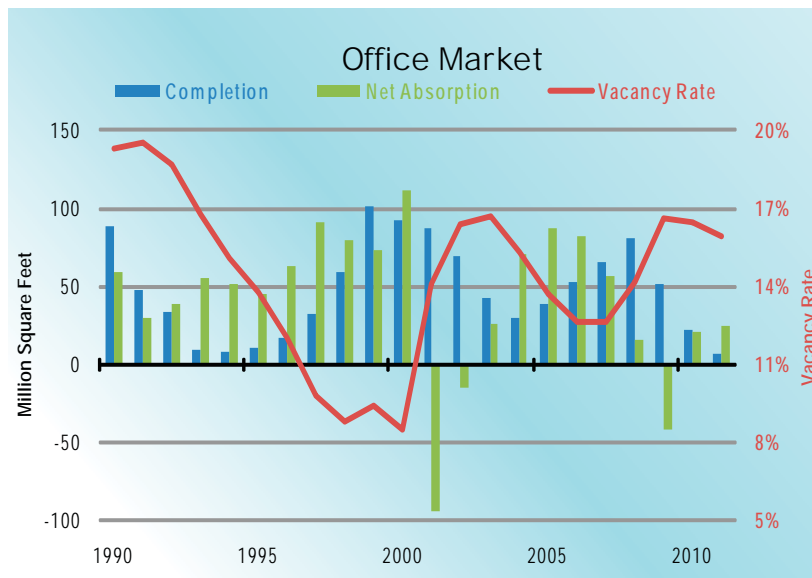
In the graph, green depicts times when the CRE to Baa spread was approximately above 350bps, and gray when the spread was below 250bps.

Federal Senior Loan Officer Survey  
 This survey is conducted once per quarter and asks loan officers at banks if they feel lending conditions have tightened or loosened.

This survey has been a leading indicator of market cycles as loan officers notice tightening before credit downturns begin. In the graph, green depicts when loan officers indicate loosening credit (below 0 on the graph) and gray shading when loan officers indicate tightening credit (25 on the graph).

# Commercial Real Estate Profile

## Office



CBRE Econometric Advisors, 2011 Q2, August 1, 2011

Office-using employment is up 1.8% year-over-year through July, but is 1.8 million employees below the peak in December 2007. (Bureau of Labor Statistics, August 5, 2011)

Vacancy improvements mainly occurred in dominant downtown markets, like San Francisco, Washington DC, and Midtown Manhattan. 10 of the 11 office markets in the Northeast region will stand in the recovery or expansion phase of the real estate cycle by year-end 2011. Besides St. Louis and Minneapolis, most individual markets in the Midwest region are expected to remain in recession through 2011. In the West and South-west regions, markets like Sacramento and Orlando will favor tenants while markets like Fort Worth and Raleigh will favor landlords. (PwC Real Estate Investor Survey, 2011 Q2)

### Top and Bottom Trending Office Markets (Year over Year)

	Vacancy			Effective Rent (\$/SF)		
	10Q2	11Q2	Change	10Q2	11Q2	Change
<b>Leaders*</b>						
San Francisco	20.0%	19.2%	-0.8% ▼	\$28.65	\$30.71	7.2% ▲
San Jose	21.9%	21.6%	-0.3% ▼	\$27.93	\$29.11	4.2% ▲
New York	11.4%	11.3%	-0.1% ▼	\$43.59	\$46.56	6.8% ▲
<b>Laggards**</b>						
North-Central New Jersey	18.5%	19.8%	0.9% ▲	\$20.60	\$20.05	-2.7% ▼
Honolulu	12.2%	13.0%	0.8% ▲	\$25.02	\$24.69	-1.3% ▼
St. Louis	15.6%	16.2%	0.6% ▲	\$17.51	\$17.45	-0.3% ▼
Memphis	18.5%	19.0%	0.5% ▲	\$16.09	\$15.95	-0.9% ▼
Sacramento	18.5%	19.0%	0.5% ▲	\$19.36	\$18.50	-4.4% ▼
<b>Favorable Vacancy Trend:</b>	37			<b>Rent Growth Above 0%:</b>	10	
<b>Unfavorable Vacancy Trend:</b>	17			<b>Rent Growth Below 0%:</b>	44	
<b>Neutral Vacancy Trend:</b>	0			<b>Neutral Rent:</b>	0	
<b>Total MSAs:</b>	54			<b>Total MSAs:</b>	54	

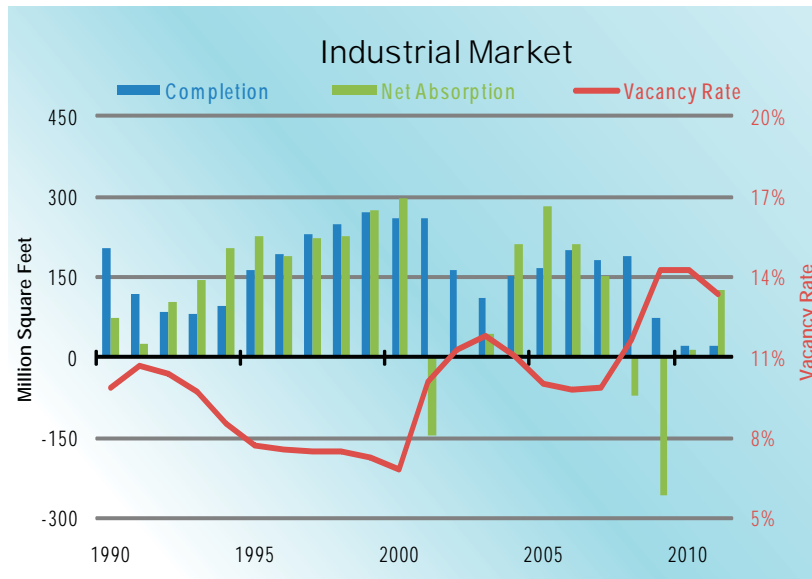
Property & Portfolio Research, 2011 Q2

\* Leaders have the greatest vacancy decreases with rent growth above 3%; 3 MSAs met the criteria this quarter.

\*\* Laggards have the greatest vacancy increases with rent growth less than or equal to 0%. 13 MSAs met the criteria this quarter.

# Commercial Real Estate Profile

## Industrial



CBRE Econometric Advisors, 2011 Q2, August 1, 2011

Individual markets that are expected to lead the recovery include Long Island and New York in the Northeast, San Jose and Salt Lake City in the West, Dallas and Charlotte in the South, and Cleveland in the Midwest region. (PwC Real Estate Investor Survey, 2011 Q2)

“Orders for non-defense capital goods, excluding aircraft, are now up 19.3 percent on a three-month annualized basis, suggesting that demand for business equipment remains strong. Orders for capital goods should continue to pick up in the second half of the year as the bonus depreciation tax benefits draw to a close at the end of this year.” (Scott Anderson, Senior Economist, Wells Fargo Securities, August 3, 2011)

### Top and Bottom Trending Industrial Markets (Year over Year)

Leaders*	Vacancy			Effective Rent (\$/SF)		
	10Q2	11Q2	Change	10Q2	11Q2	Change
Norfolk	11.9%	11.2%	-0.7% ▼	\$4.95	\$5.10	3.0% ▲
<b>Laggards**</b>						
Nashville	11.8%	13.5%	1.7% ▲	\$3.58	\$3.51	-2.0% ▼
Las Vegas	13.4%	14.6%	1.2% ▲	\$3.81	\$3.65	-4.2% ▼
Austin	17.7%	18.4%	0.7% ▲	\$4.06	\$4.01	-1.2% ▼
Sacramento	10.9%	11.3%	0.4% ▲	\$4.11	\$3.94	-4.1% ▼
New York	12.8%	13.1%	0.3% ▲	\$7.46	\$7.12	-4.6% ▼
<b>Favorable Vacancy Trend:</b>	45			<b>Rent Growth Above 0%:</b>	8	
<b>Unfavorable Vacancy Trend:</b>	7			<b>Rent Growth Below 0%:</b>	46	
<b>Neutral Vacancy Trend:</b>	2			<b>Neutral Rent:</b>	0	
<b>Total MSAs:</b>	<u>54</u>			<b>Total MSAs:</b>	<u>54</u>	

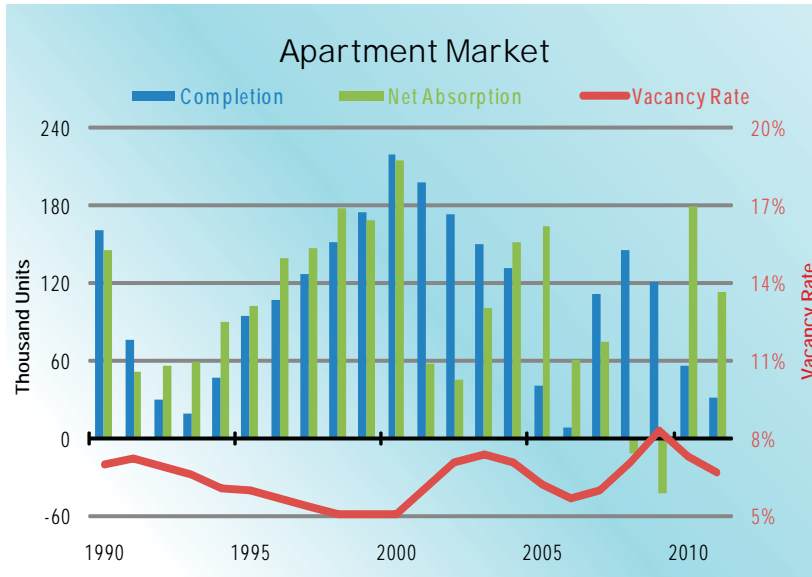
Property & Portfolio Research, 2011 Q2

\* Leaders have the greatest vacancy decreases with rent growth above 3%; 1 MSA met the criteria this quarter.

\*\* Laggards have the greatest vacancy increases with rent growth less than or equal to 0%. 7 MSAs met the criteria this quarter.

# Commercial Real Estate Profile

## Apartment



90.3% of the U.S. multifamily stock resides in the late stages of the recovery phase of the real estate cycle. In addition, the percentage of multifamily stock entering the expansion phase grew to 8.6% over the past three months. (PwC Real Estate Investor Survey, 2011 Q2)

Garden apartment sales reached \$14.2 billion, heavily outpaced mid/high-rise sales of \$8.8 billion in 2011 first half. (RCA, US Capital Trends, July 2011)

Property & Portfolio Research, 2011 Q2, August 4, 2011

### Top and Bottom Trending Apartment Markets (Year over Year)

Leaders*	Vacancy			Effective Rent (\$/unit)		
	10Q2	11Q2	Change	10Q2	11Q2	Change
Austin	9.5%	6.3%	-3.2% ▼	\$785	\$814	3.7% ▲
Raleigh	12.4%	10.0%	-2.4% ▼	\$682	\$706	3.5% ▲
Boston	5.5%	4.3%	-1.2% ▼	\$1,466	\$1,563	6.6% ▲
San Jose	5.9%	4.8%	-1.1% ▼	\$1,577	\$1,738	10.2% ▲
Denver	7.9%	6.9%	-1.0% ▼	\$855	\$911	6.6% ▲

#### Laggards\*\*

There were 0 out of 54 MSAs with negative rent growth and rising vacancy.

Note: 4 out of 54 MSAs had unfavorable vacancy trends: Washington DC (+0.5%), Norfolk NV (+0.5%), Stamford CT (+0.2%), Philadelphia PA (+0.2%)

6 out of 54 MSAs had a negative rent growth: Las Vegas NV (-2.3%), Richmond VA (-1.0%), Detroit MI (-0.9%), Inland Empire CA (-0.6%), Memphis TN (-0.1%), Charlotte NC (-0.1%)

<b>Favorable Vacancy Trend:</b>	48	<b>Rent Growth Above 0%:</b>	48
<b>Unfavorable Vacancy Trend:</b>	4	<b>Rent Growth Below 0%:</b>	6
<b>Neutral Vacancy Trend:</b>	2	<b>Neutral Rent:</b>	0
<b>Total MSAs:</b>	54	<b>Total MSAs:</b>	54

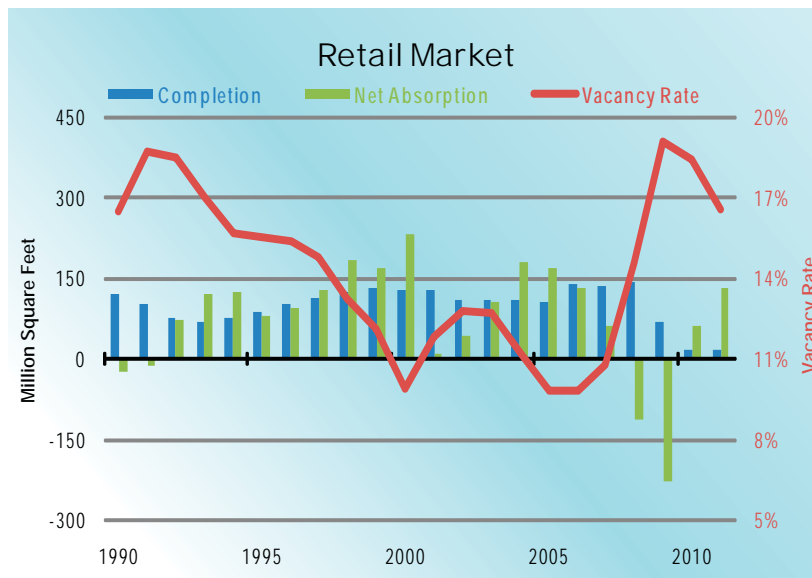
Property & Portfolio Research, 2011 Q2

\* Leaders have the greatest vacancy decreases with rent growth above 3%. 18 MSAs met the criteria this quarter.

\*\* Laggards have the greatest vacancy increases with rent growth less than or equal to 0%. 0 MSA met the criteria this quarter.

# Commercial Real Estate Profile

## Retail



Retail property sales reached \$15.2 billion, a 337% gain from the same quarter last year, but down 46% from the peak of \$28 billion in 2007 Q1. In the first half of 2011, 81% of the sales were from strip centers. New offerings spiked in Q2 to nearly double the Q1 level, particularly for large regional malls. (RCA, US Capital Trends, July 2011)

Inflated gas prices will impact the magnitude and the distribution of retail sales gains. Rising gas costs tend to disproportionately affect cost-conscious consumers, making value retailers especially susceptible to price hikes. (PPR, Market Performance, August, 2011)

Property & Portfolio Research, 2011 Q2, August 4, 2011

### Top and Bottom Trending Retail Markets (Year over Year)

Leaders*	Vacancy			Effective Rent (\$/SF)		
	10Q2	11Q2	Change	10Q2	11Q2	Change

There were 0 out of 54 MSAs with rent growth above 3% and decreasing vacancy.

Note: 53 out of 54 MSAs had favorable vacancy trends. The top 10 MSAs are Austin TX (-3.9%), Honolulu HI (-3.5%), Houston TX (-3.0%), Raleigh NC (-2.8%), Salt Lake City UT (-2.7%), Seattle WA (-2.6%), Charlotte NC (-2.5%), Las Vegas NV (-2.5%), Oklahoma City OK (-2.5%), San Jose CA (-2.5%)

6 out of 54 MSAs had a positive rent growth: Pittsburgh PA (+2.4%), San Francisco CA (+1.1%), Oklahoma City OK (+1.1%), San Jose CA (+0.9%), Honolulu HI (+0.3%), Orange County CA (+0.2%)

#### Laggards\*\*

Fort Lauderdale	17.3%	18.0%	0.7% ▲	\$16.16	\$16.03	-0.8% ▼
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<b>Favorable Vacancy Trend:</b>	53	<b>Rent Growth Above 0%:</b>	6
<b>Unfavorable Vacancy Trend:</b>	1	<b>Rent Growth Below 0%:</b>	48
<b>Neutral Vacancy Trend:</b>	0	<b>Neutral Rent:</b>	0
<b>Total MSAs:</b>	54	<b>Total MSAs:</b>	54

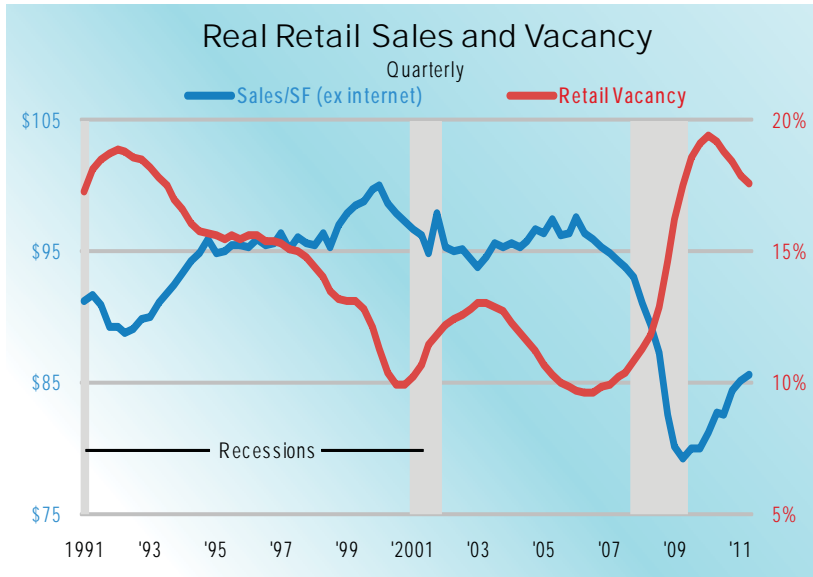
Property & Portfolio Research, 2011 Q2

\* Leaders have the greatest vacancy decreases with rent growth above 3%; No MSAs met the criteria this quarter.

\*\* Laggards have the greatest vacancy increases with rent growth less than or equal to 0%.1 MSA met the criteria this quarter.

# Commercial Real Estate Profile

## Retail Sales



U.S. Census Bureau, August 12, 2011  
 Property & Portfolio Research, 2011 Q2  
 Excludes sales from E-commerce (Internet Sales)

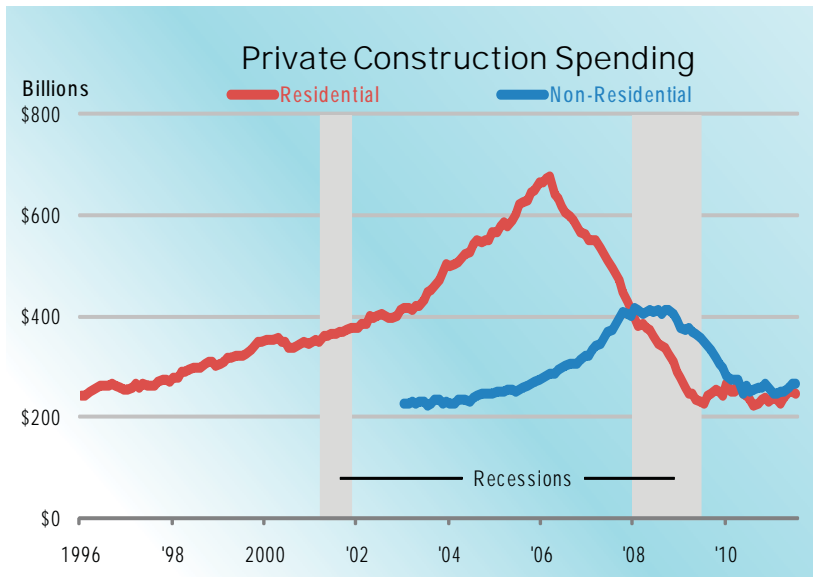
Retail sales per square foot increased 4.3% in 2011 Q2 from a year ago. Retail vacancy decreased 1.6% from a year ago.

Retail Sales in the U.S. climbed 0.5% in July, the most in four months. 9 of the 13 major categories showed a gain in sales in July, led by electronics stores, furniture retailers, auto dealers and service stations. (U.S. Census Bureau, August 12, 2011)

	E-commerce* (billions)	% of All Retail Sales
1996Q2	\$14	2.3%
2001Q2	\$28	3.4%
2006Q2	\$49	4.6%
2011Q2	\$73	6.4%

U.S. Census Bureau, August 12, 2011  
 \* E-commerce includes NAICS category 4541

## Construction Spending



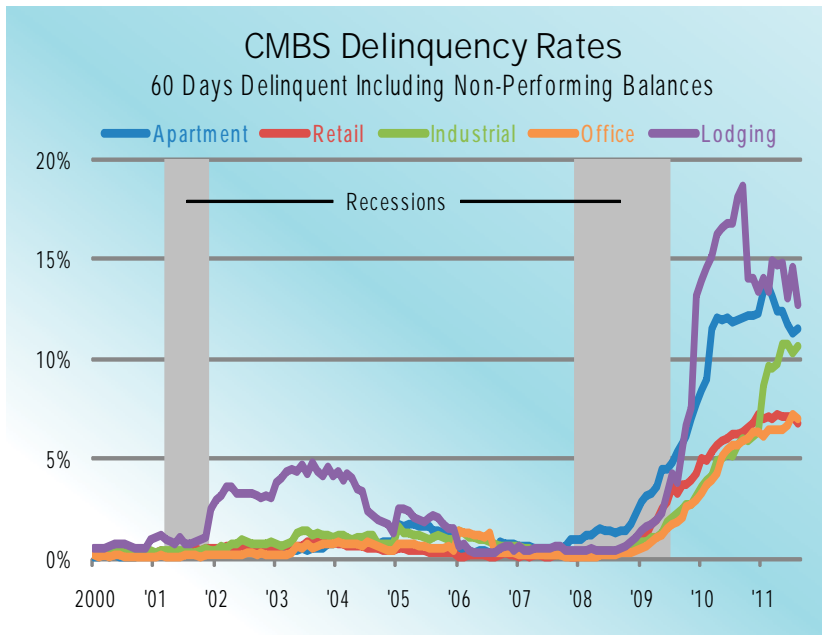
U.S. Census Bureau, August 1, 2011

Residential construction spending in July 2011 is down 63% from the peak in March 2006, and increased 5.3% from a year ago.

Non-residential spending in 2011 Q2 is down 36% from the peak in January 2008, and increased 5.6% from a year ago.

“Private construction projects decreased 1.4 percent in July, the largest decrease since March. “During the first 7 months of this year, construction spending amounted to \$435.5 billion, 3.5 percent ( $\pm 1.3\%$ ) below the \$451.2 billion for the same period in 2010.” (U.S. Census Bureau, September 1, 2011)

## CMBS Delinquency



Trepp, August 30, 2011

“After falling in the first quarter, delinquency rates ticked up a bit in July for CMBS products. CMBS delinquencies are becoming more disparate by sector, however. Since May, delinquency rates have risen slightly in the office and multifamily sectors, whereas delinquency rates have come down in the industrial and retail sectors.” (Wells Fargo Economics Group, August 11, 2011)

### Delinquency Rates

	July '09	July '10	July '11
Office	1.7%	5.7%	7.3%
Industrial	2.1%	5.1%	10.3%
Apartment	4.8%	11.8%	11.3%
Retail	3.7%	6.3%	7.2%
Lodging	4.3%	16.9%	14.6%
Total	3.0%	7.8%	8.5%

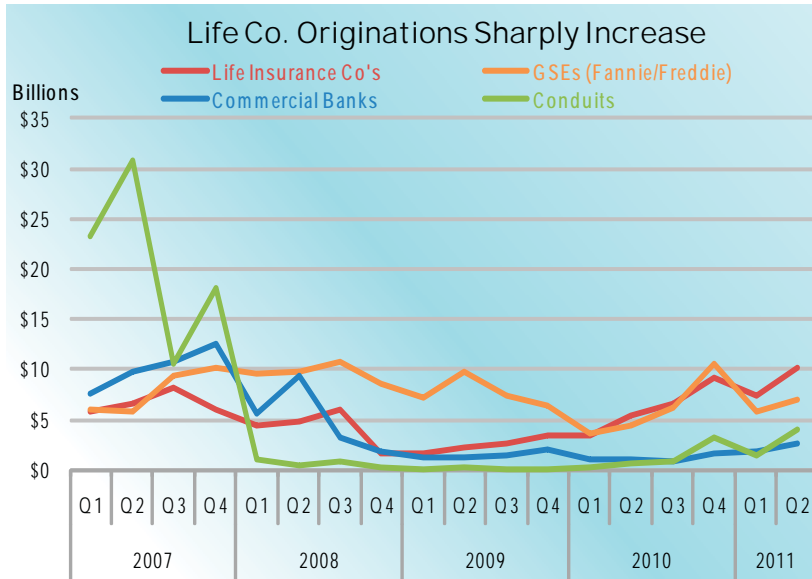
## Highest and Lowest Delinquency Rates by MSA

(\$ balance in millions; includes apartment, retail, industrial, and office, top 50 MSAs)

Highest	Delinquent Balance	60+ Days	Lowest	Delinquent Balance	60+ Days
Birmingham, AL	\$477	27%	New Orleans, LA	\$24	2%
Las Vegas, NV	\$1,453	20%	Portland, OR	\$64	2%
Riverside, CA	\$1,184	20%	San Jose, CA	\$92	2%
Orlando, FL	\$650	20%	Salt Lake City, UT	\$48	2%
Phoenix, AZ	\$1,959	18%	Seattle, WA	\$192	3%
Memphis, TN	\$279	17%	San Antonio, TX	\$95	3%
Indianapolis, IN	\$458	15%	Boston, MA	\$330	3%
Sacramento, CA	\$490	14%	Milwaukee, WI	\$70	3%
Cincinnati, OH	\$413	14%	Baltimore, MD	\$210	4%
Atlanta, GA	\$1,721	14%	Buffalo, NY	\$45	4%

Trepp, August 1, 2011

# Commercial Real Estate Profile



Mortgage Bankers Association Quarterly Data Book, 2011 Q2

## Originations

### Originations by Property Type

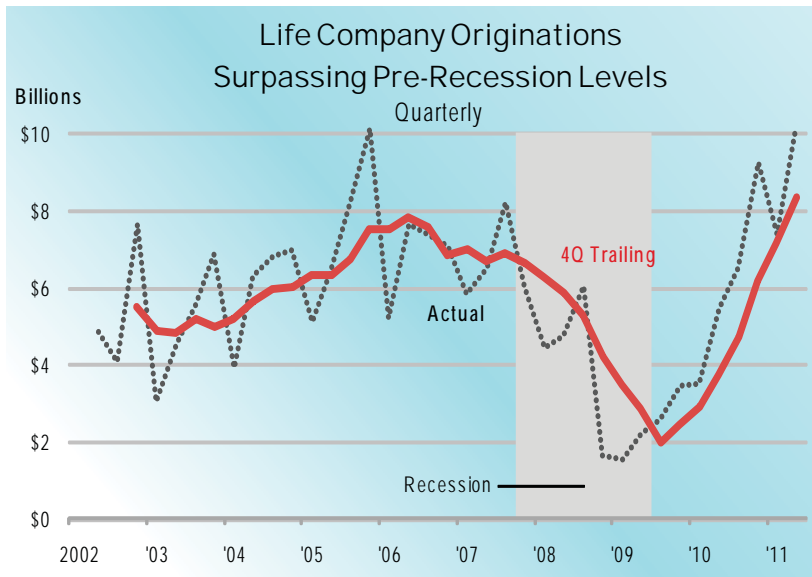
	2009 Q2	2010 Q2	2011 Q2
Office	4%	12%	9%
Industrial	2%	7%	5%
Apartment	36%	31%	32%
Retail	8%	9%	9%
Other*	50%	41%	45%

\*Other includes hotel and health care.

### Originations by Investor Class

	2009 Q2	2010 Q2	2011 Q2
Life Co's	16%	47%	43%
GSEs	73%	39%	29%
Comm Bank	9%	9%	11%
Conduits	2%	5%	17%

The spread on the benchmark triple-A classes of new-issue CMBS transactions has widened to 180 bp over swaps, from 105 bp in early June. The blowout in CMBS spreads has dashed the optimism that prevailed in the sector earlier in the year. (Commercial Mortgage Alert, August 5, 2011)



Mortgage Bankers Association Quarterly Data Book, 2011 Q2

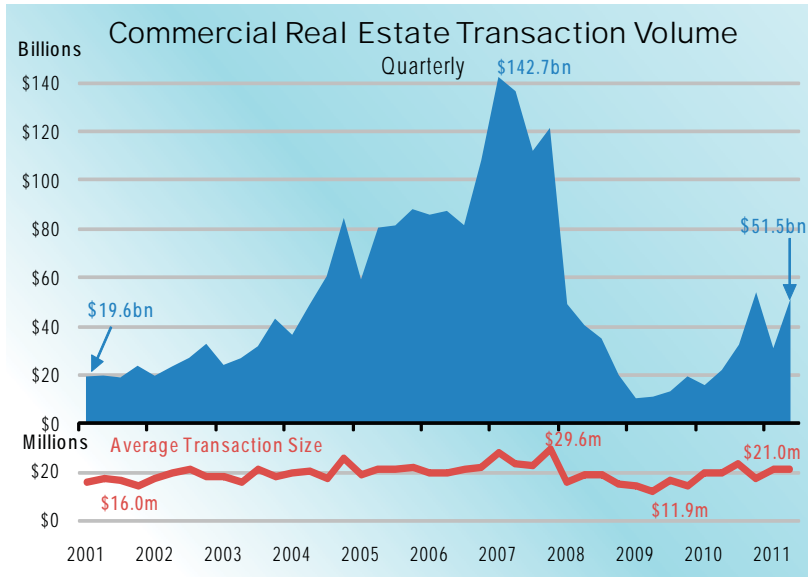
2011 Q2 originations are 107% higher than a year ago. Loan originations for Health-care properties and hotels increased 141% and 125% respectively compared to a year ago. (Commercial Mortgage Alert, August 5, 2011)

### Life Co's Originations (billions)

2003 Q2	\$4.5
2004 Q2	\$6.3
2005 Q2	\$6.4
2006 Q2	\$7.6
2007 Q2	\$6.5
2008 Q2	\$4.7
2009 Q2	\$2.2
2010 Q2	\$5.4
2011 Q2	\$10.1

# Commercial Real Estate Profile

## Transaction Volume



Real Capital Analytics, 2011 Q2

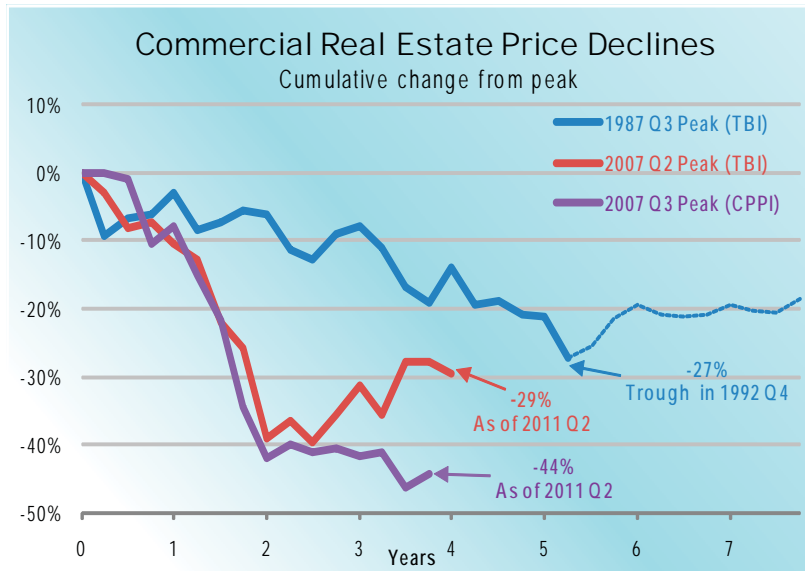
Transaction volume increased 132% to \$53.5 billion in 2011 Q2, from \$22.2 billion in 2010 Q2.

Sales volume in the retail sector increased 414%, lead by a 669% increase in strip mall sales. Apartment sales increased 143% from a year ago, with garden style apartments increasing 160%. (Real Capital Analytics, Capital Trends, June 2011)

### Total Number of Properties Sold

	2007 Q2	2009 Q2	2011 Q2	'07-'11 % Change
Off	1,118	158	383	-66%
Ind	1,010	241	385	-62%
Apt	1,118	241	646	-42%
Ret	1,144	265	1015	-11%
Ttl	4,390	905	2,429	-45%

## CRE Price



MIT Transaction Based Index (TBI) is 29% below the 2007 peak. Prices fell 0.7% from 2010 Q4. The supply index increased 1.1% and demand index decreased 5.1% in 2011 Q1.

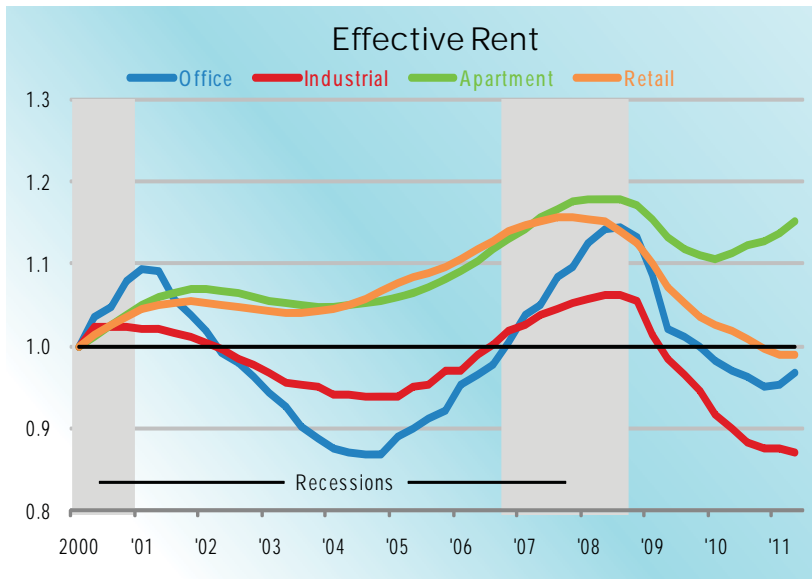
The Moody's/REAL CPPI (CPPI) is down 46% from the peak.

"The recovery in US institutional property pricing was still mixed and tentative in the second quarter of 2011. The market remained abnormally segmented, with different types of properties trading at substantially different price points." (David Geltner, professor of real estate finance & engineering systems at MIT)

MIT TBI Pricing Index (NCREIF), 2011 Q2  
 -In 2011 Q2 the TBI index was replaced by NTBI.  
 The new methodology is not identical, but believed to be comparable.  
 Moody's/REAL CPPI (RCA), 2011 Q2

# Commercial Real Estate Profile

## Effective Rents



PPR forecasts vacancies will begin declining at a steady pace in late 2011 and 2012, then sustained rent growth should begin in the majority of markets. Rents are expected to average 5.3% growth annually during 2012-2015. (PPR, Market Performance, August 8, 2011)

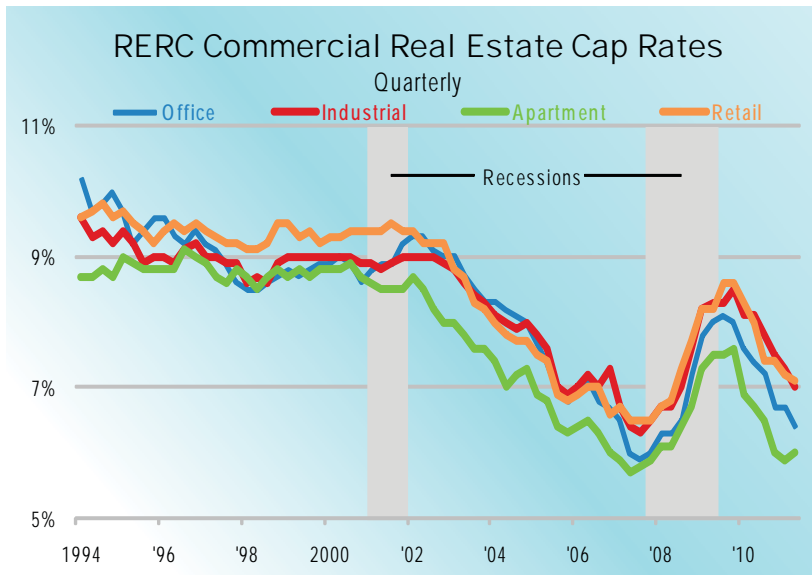
Apartment rents have recovered to pre recession peaks in a number of markets, such as Baltimore, Boston, Chicago, Columbus, Dallas, Denver, Nashville, Norfolk, North-Central New Jersey, Philadelphia, Pittsburgh, San Francisco, Stamford, Washington DC. (PPR, Market Performance, August 3, 2011)

CBRE Econometric Advisors for office and industrial markets and Property & Portfolio Research for retail and apartment markets, 2011 Q2  
Note: Calculation based on second quarter rent index.

## Cap Rates

Garden-style apartment cap rates averaged 6.9% during the first half of 2011, almost 100 basis points above mid/high-rise apartment for sales. (RCA, US Capital Trends, July 2011)

“New apartment offerings totaled nearly \$25 billion in first half 2011 alone – the highest level in three years – and distressed property sales remain at nearly one-fourth of the market. Pricing, in terms of cap rates, has remained steady and interest rates are staying relatively low, at least for now. With the ongoing for-sale housing slump, investors should remain interested in the multifamily sector for the foreseeable future.” (Fannie Mae, Economics and Mortgage Market Analysis, August 2011)



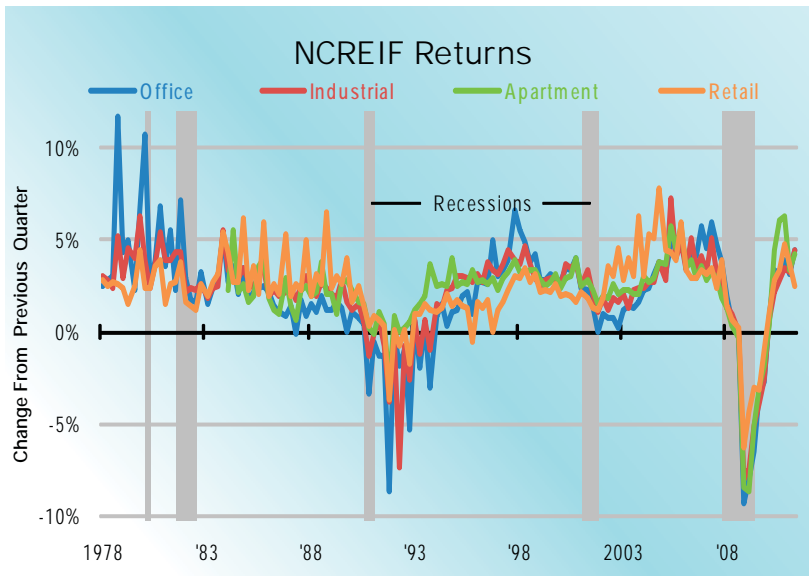
RERC Investor Survey, 2011 Q2

### RERC Cap Rates

	2008 Q2	2009 Q2	2010 Q2	2011 Q2
Off	6.3%	8.0%	7.4%	6.4%
Ind	6.7%	8.3%	8.1%	7.0%
Apt	6.1%	7.5%	6.7%	6.0%
Ret	6.8%	8.2%	8.0%	7.1%

# Commercial Real Estate Profile

## NCREIF



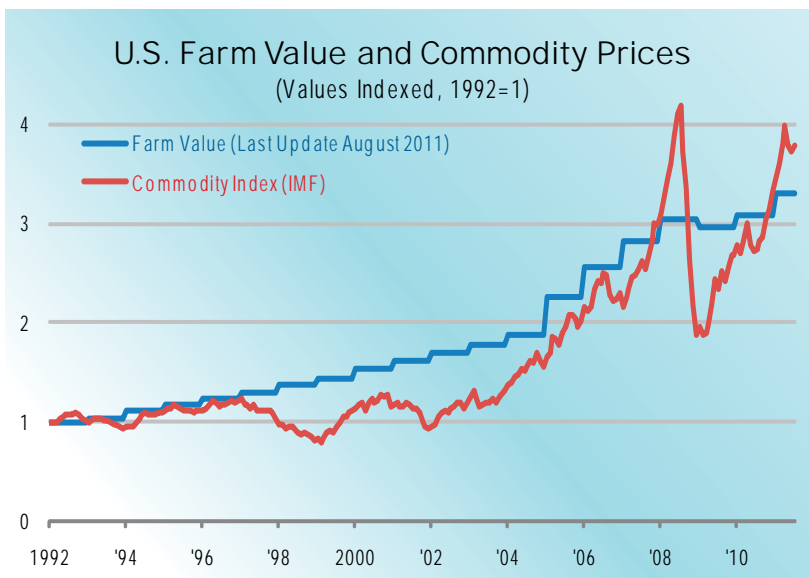
NCREIF, 2011 Q2

### Quarterly Returns

	2010 Q4	2011 Q1	2011 Q2
Office	3.9%	3.2%	4.5%
Industrial	3.4%	3.3%	4.5%
Apartment	6.3%	3.3%	4.2%
Retail	4.8%	3.6%	2.5%
Total	4.6%	3.4%	3.9%

The NCREIF Property Index (NPI) rose 3.9% in 2011 Q2, the sixth straight positive quarter. The NCREIF property index is a measure of unleveraged private equity returns.

## Farmland



USDA, Ag Land Values and Cash Rents Annual Summary, August 4, 2011  
International Monetary Fund, Primary Commodity Price Index, July, 2011

The United States farm real estate value, a measurement of the value of all land and buildings on farms, averaged \$2,350 per acre for 2011, up 6.8 percent from 2010. Cropland value increased 9.4 percent to \$3,030 per acre and pasture value increased 1.9 percent to \$1,100 per acre in 2011.

The value of Iowa cropland increased 24 percent in 2011, the most of any state. (USDA, Land Values 2011 Summary, August 2011)

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## Commercial Real Estate Profile

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### Additional Observations

#### PROPERTY MARKETS

RCA, US Capital Trends, July 2011 - Investment volume surged to \$55.6 billion in 2011 Q2, a 117% increase from a year earlier and totaling just shy of the year-end spike in transactions recorded in 2010 Q4. The acceleration in sales cut across all property types but was led by retail property sales of \$15.2 billion.

#### OFFICE

RCA, US Capital Trends, July 2011 - Intense competition for the top assets continues to drive down the yields. 10% of properties in 2011 Q2 traded at cap rates of 4.7% or lower.

#### INDUSTRIAL

Real Estate Alert, August 4, 2011 - Owners of industrial portfolios are expected to bring more large packages to market and lift this year's volume to the highest level since 2007. Many of the activities in the second quarter were in portfolio trades, and those are expected to dominate in the second half as well - with a sweet spot of \$100 million - \$250 million.

#### APARTMENT

RCA, July 2011 - "Going forward, with vacancy rates in many markets approaching pre recession lows for high-quality assets, look for owners to push rents aggressively. This will likely result in increased turnover, as tenants are forced to seek more affordable options, which should accelerate the recovery for lesser-quality assets."

#### RETAIL

PPR Market Performance, August 2011 - Since the end of 2009, power center vacancies have fallen about 100 basis points compared to 30 basis point drop for all retail. Power centers have outperformed the market in terms of absorption in every year since 2006. On the contrary, grocery-anchored and strip centers continue to struggle with inflated vacancies.

#### COMMERCIAL MORTGAGE ORIGINATIONS

Commercial Mortgage Alert, August 19, 2011 - Only three U.S. transactions totaling \$3.1 billion are in the pipeline for the fourth quarter, down from an average of \$8.6 billion in the first two quarters of the year. Recent CMBS spreads blow out has raised the cost of capital for lenders and forced them to become more cautious. Securitization programs have widened loan spreads significantly, making them less competitive against portfolio lenders. Under the scenario, US issuance will reach about \$33 billion in 2011, 6 billion less than the forecast at the beginning of the year.

#### OTHER NEWS

Commercial Mortgage Alert, July 22, 2011 - "CoStar projects that a whopping \$850 billion of commercial mortgages, multi-family mortgages and construction loans are now due to mature this year. That's more than twice as high as originally scheduled because of rollovers from previous years. CoStar estimates that \$381 billion of loans will reach their original maturity date this year. But an even larger amount of extended loans — \$473 billion — are mature this year. The extended mortgages account for 55% of this year's total. CoStar estimates that 27%-47% of the combined balance of commercial real estate loans that mature this year will have loan-to-value ratios in excess of 100%, depending on the level of economic growth. "