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# Living With The “Great Global Recession”

Presented by

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**Global Chief Economist**

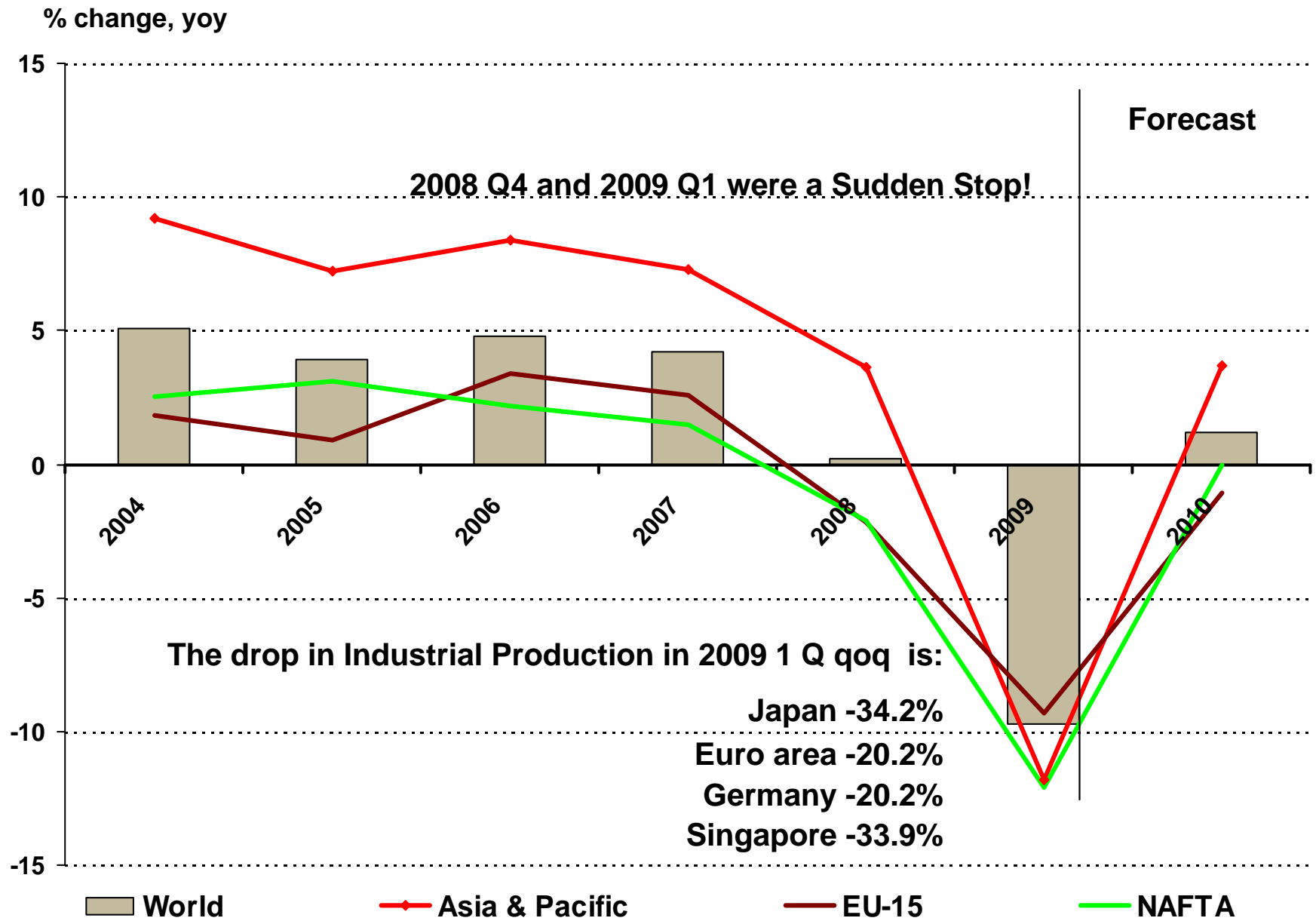
**CBRE**

**Portland State University**

**May 27, 2009**

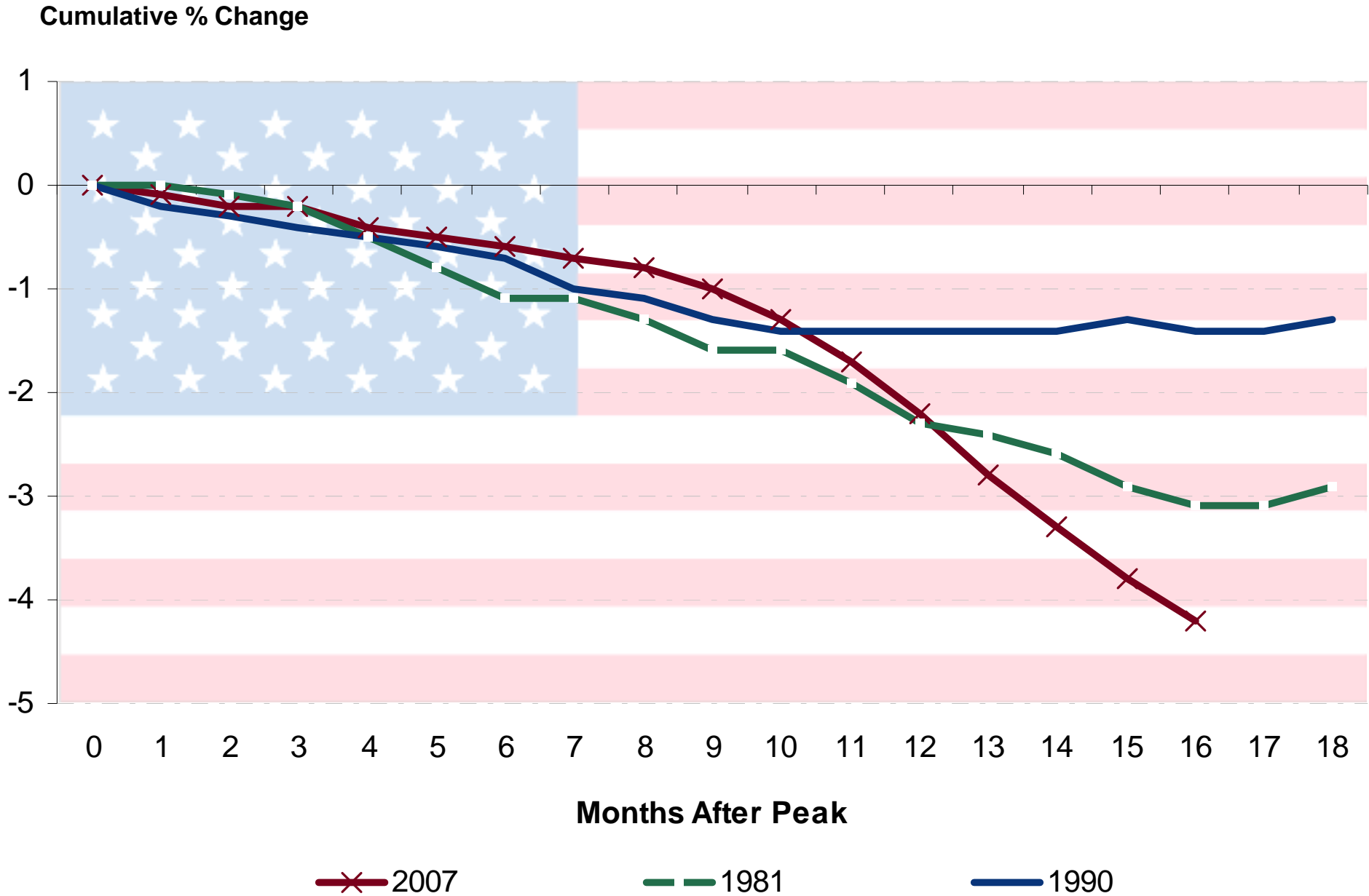
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# Global Industrial Production Growth



Source: Economist Intelligence Unit, April 2009

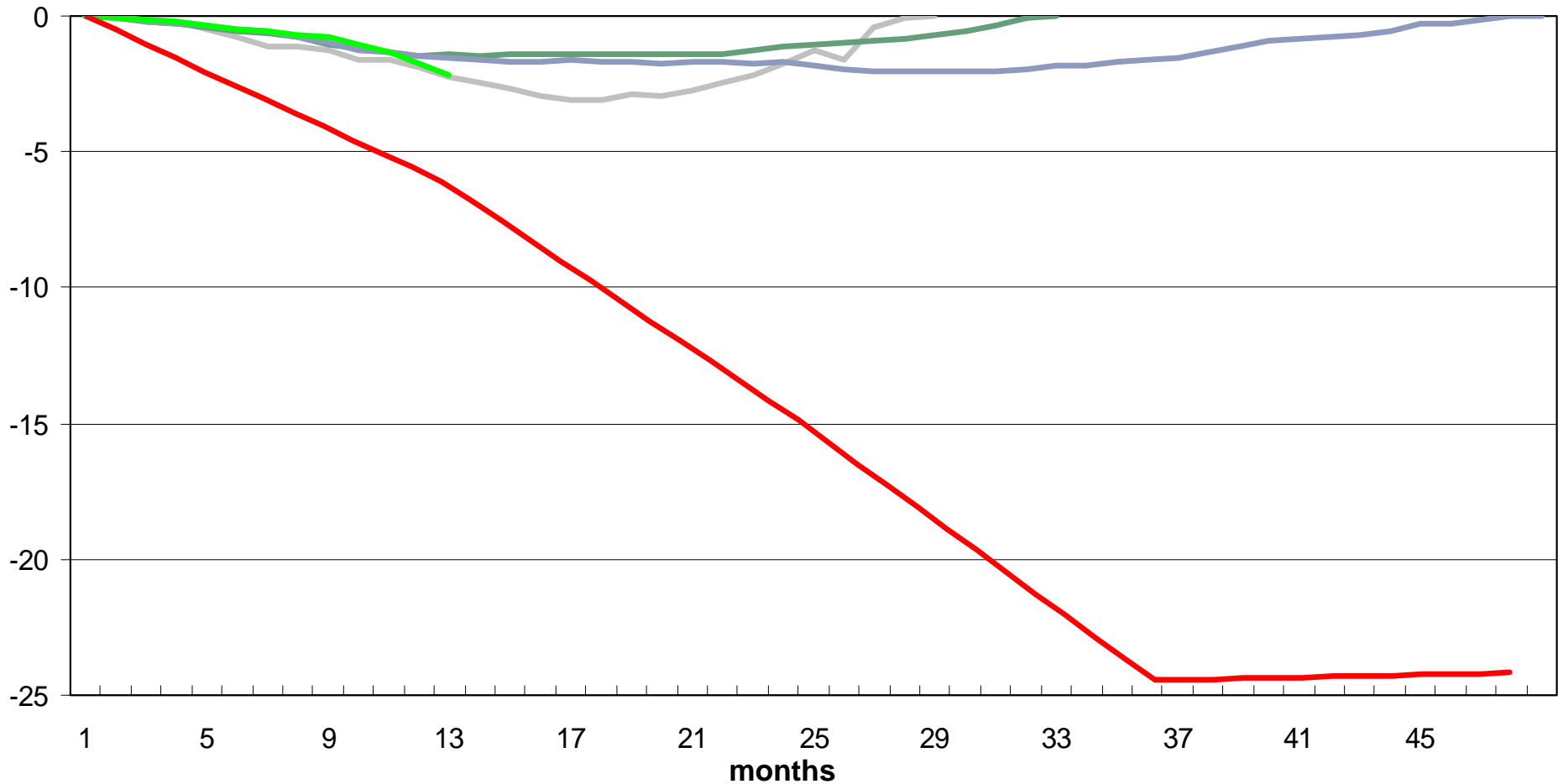
# United States: Cumulative Decline in Employment



Source: Minneapolis Federal Reserve

# But Measured in Jobs, It Is Not THE Great Depression!

Cumulative % chg



— 1981 Recession

— 1991 Recession

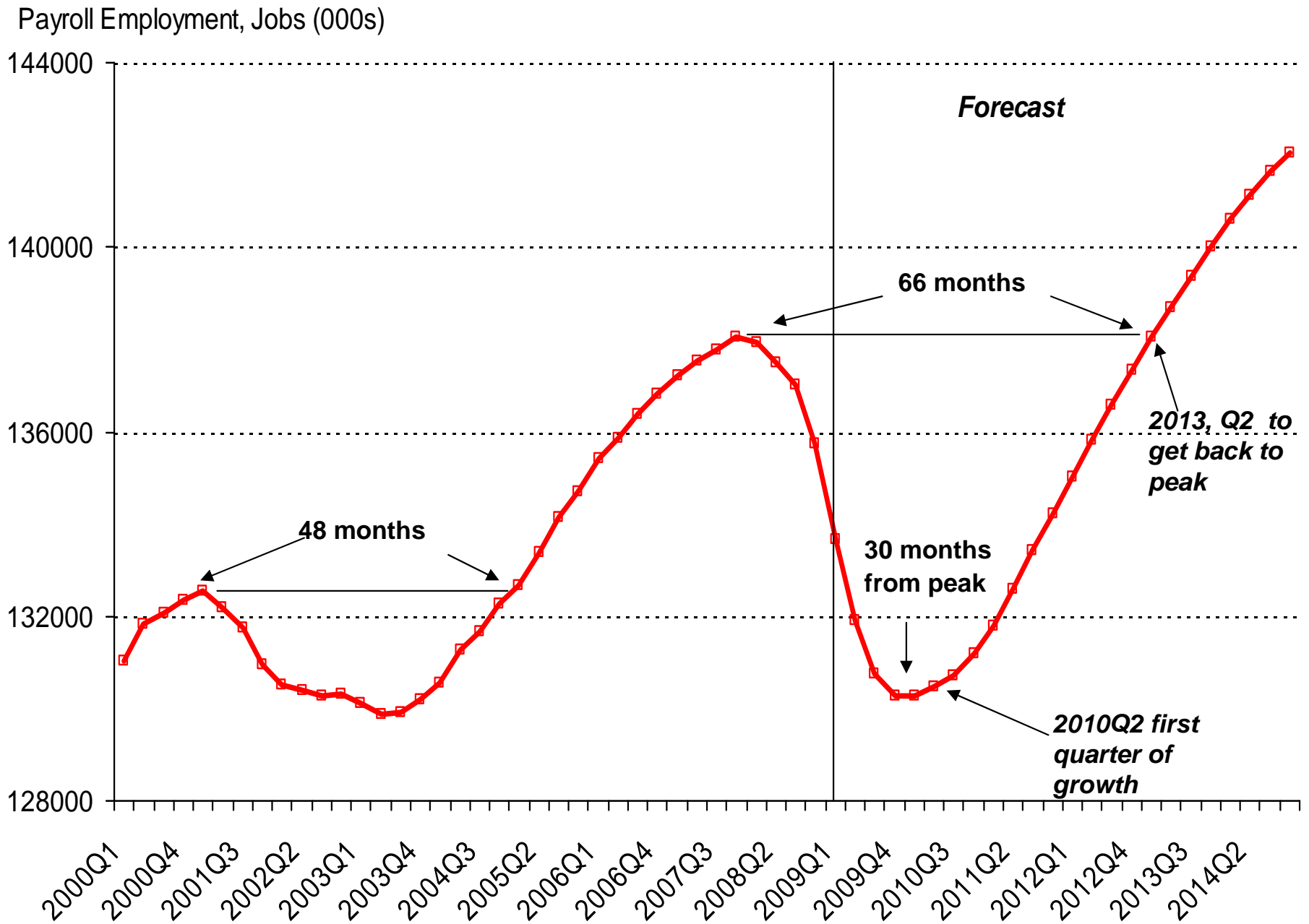
— 2001 Recession

— Current Recession

**Great Depression**

Source: Bureau of Labor Statistics, Feb 2009

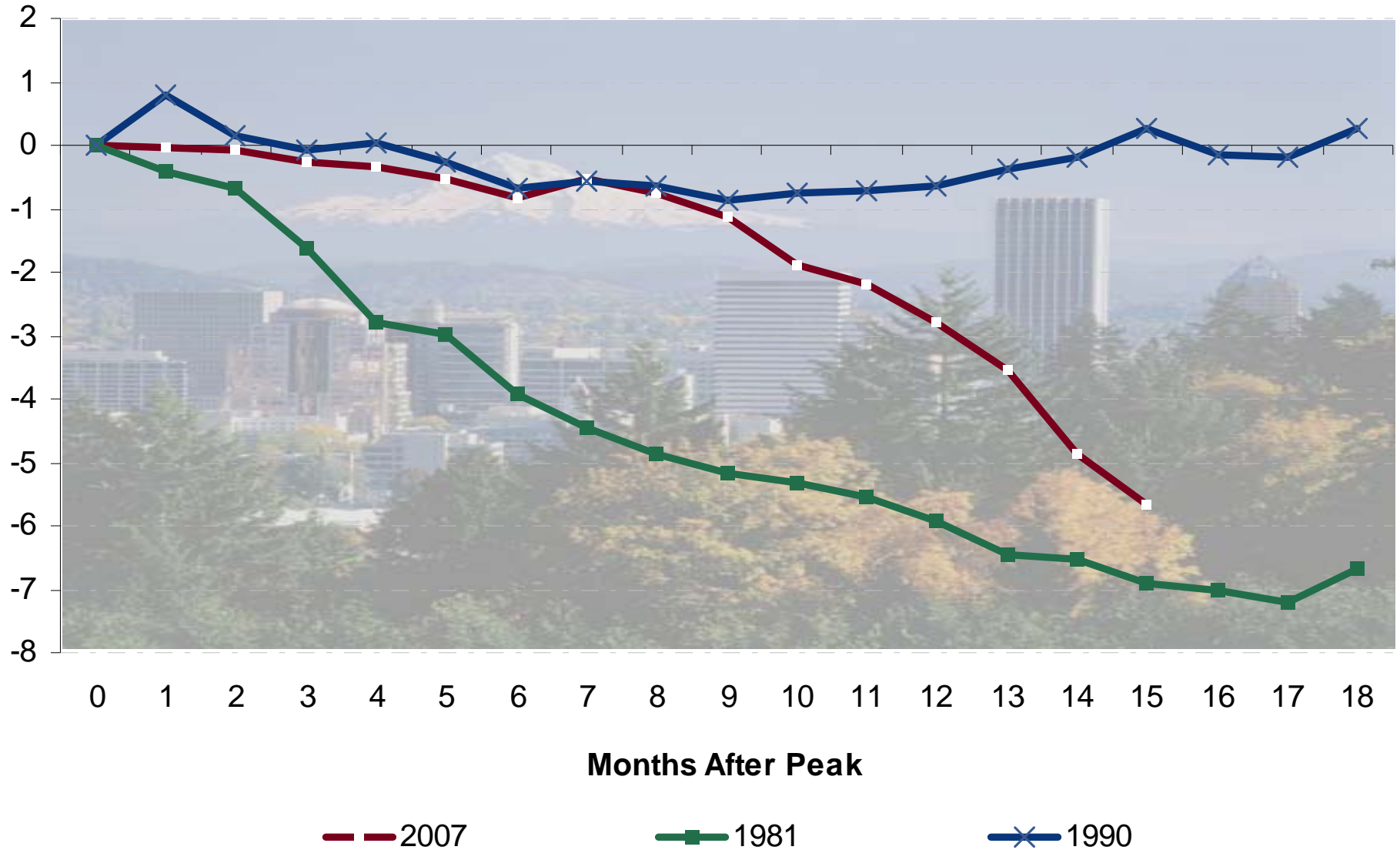
# What to Expect in Jobs: Peak to Peak-- 66 Months



Sources: CBRE Torto Wheaton Research, Economy.com

# Oregon: Cumulative Decline in Employment

Cumulative % Change

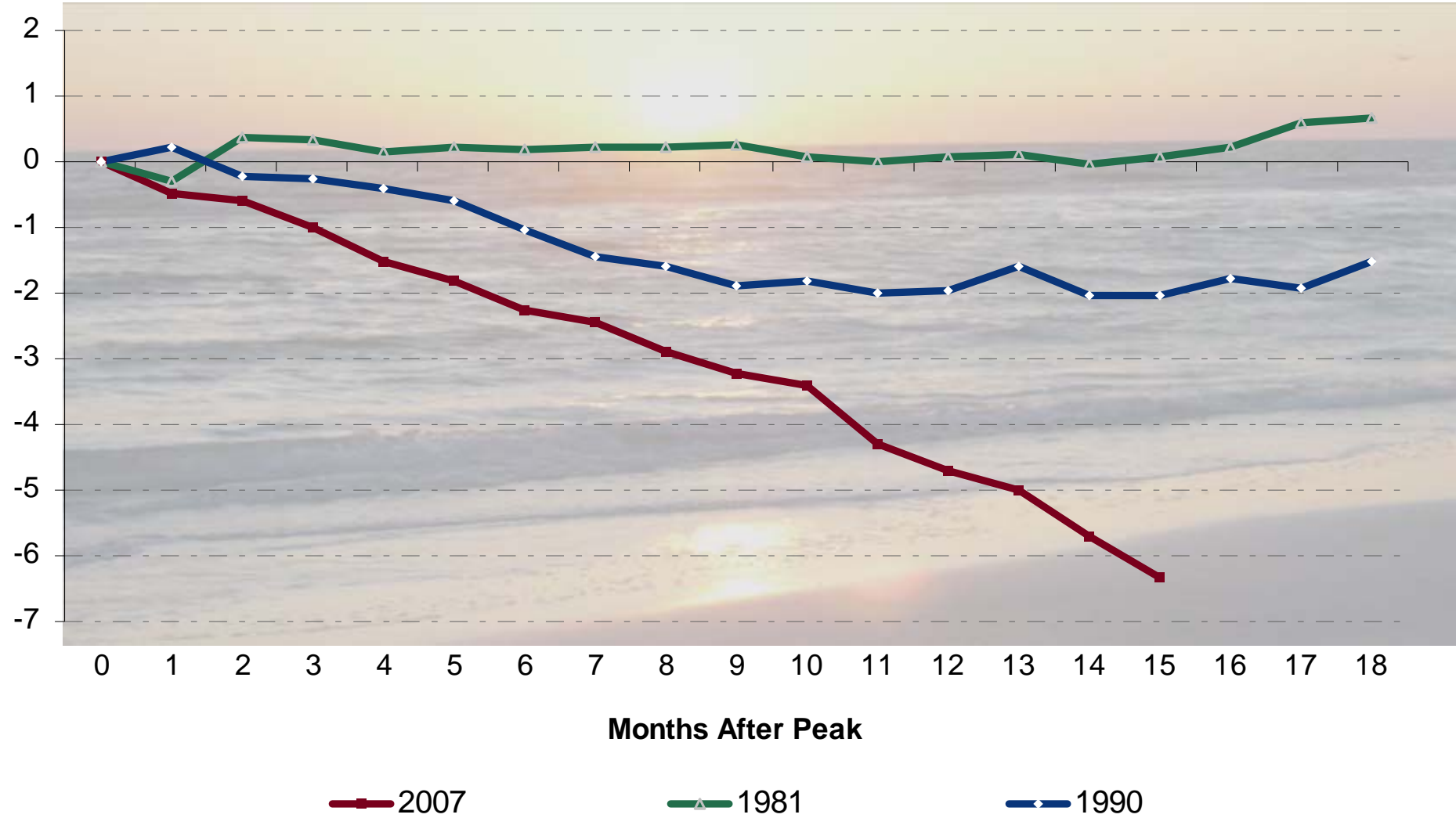


Source: Minneapolis Federal Reserve

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# Florida: Cumulative Decline in Employment

Cumulative % Change



Source: Minneapolis Federal Reserve

# It Is Not the Great Depression, But There is No Hiding

*“The hallmark of this down turn will be **its breadth** across industries, occupations and regions. More than 300 of the nation's 381 metropolitan areas will be in recession; unlike in past recessions, which were regionally concentrated, there is **no obvious place to move for better prospects** in this downturn.”*

**Mark Zandi – The Darkest Hour, January 6, 2009  
Moody's Economy.com**

# The Implications for Commercial Leasing Markets



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# US Fundamentals in the Danger Zone-Vacancy

	2009Q1	Previous Peak	"Natural Rate"
Office	14.7	19.1/1991	13 to 15
Industrial	12.2	11.8/2004	9 to 10
Retail	11.5	11.4/1992	9 to 10
Multifamily	7.3	6.8/2003	5 to 6
Full Service Hotels	43.1	44.2/2001	32 to 34

Source: CBRE Torto Wheaton Research Baseline, Summer update 2009

# US: How Will it Compare? History vs. Forecast!

United States	Office	Industrial	MH (Units)	Retail
<b>Current</b>	<b>14.7%</b>	<b>12.2%</b>	<b>7.3%</b>	<b>11.5%</b>
<b>Historic High Vacancy Rate (Quarter)</b>	<b>19.1%</b> (1991.2)	<b>11.8%</b> (2004.1)	<b>6.8%</b> (2003.4)	<b>11.3%</b> (1992.1)
<b>CBRE Forecast Peak Vacancy Rate (Quarter)</b>	<b>19.7%</b> (2011.3)	<b>15.4%</b> (2010.3)	<b>7.9%</b> (2010.4)	<b>12.7%</b> (2010.3)

Source: CBRE Torto Wheaton Research Baseline, Summer update 2009

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# Portland: How Will it Compare? History vs. Forecast!

Portland	Office	Industrial	MH (Units)	Retail
<b>Current Vacancy</b> (Q1)	<b>12.9%</b>	<b>8.9%</b>	<b>5%</b>	<b>8.7%</b>
<b>Historic High Vacancy Rate</b> (Quarter)	<b>21.7%</b> (1986.1)	<b>11.8%</b> (2004.1)	<b>8.4%</b> (1999.1)	<b>11.6%</b> (1992.3)
<b>CBRE Forecast Peak Vacancy Rate</b> (Quarter)	<b>21.5%</b> (2012.2)	<b>14.5%</b> (2011.2)	<b>7.5%</b> (2010.3)	<b>12.8%</b> (2010.4)

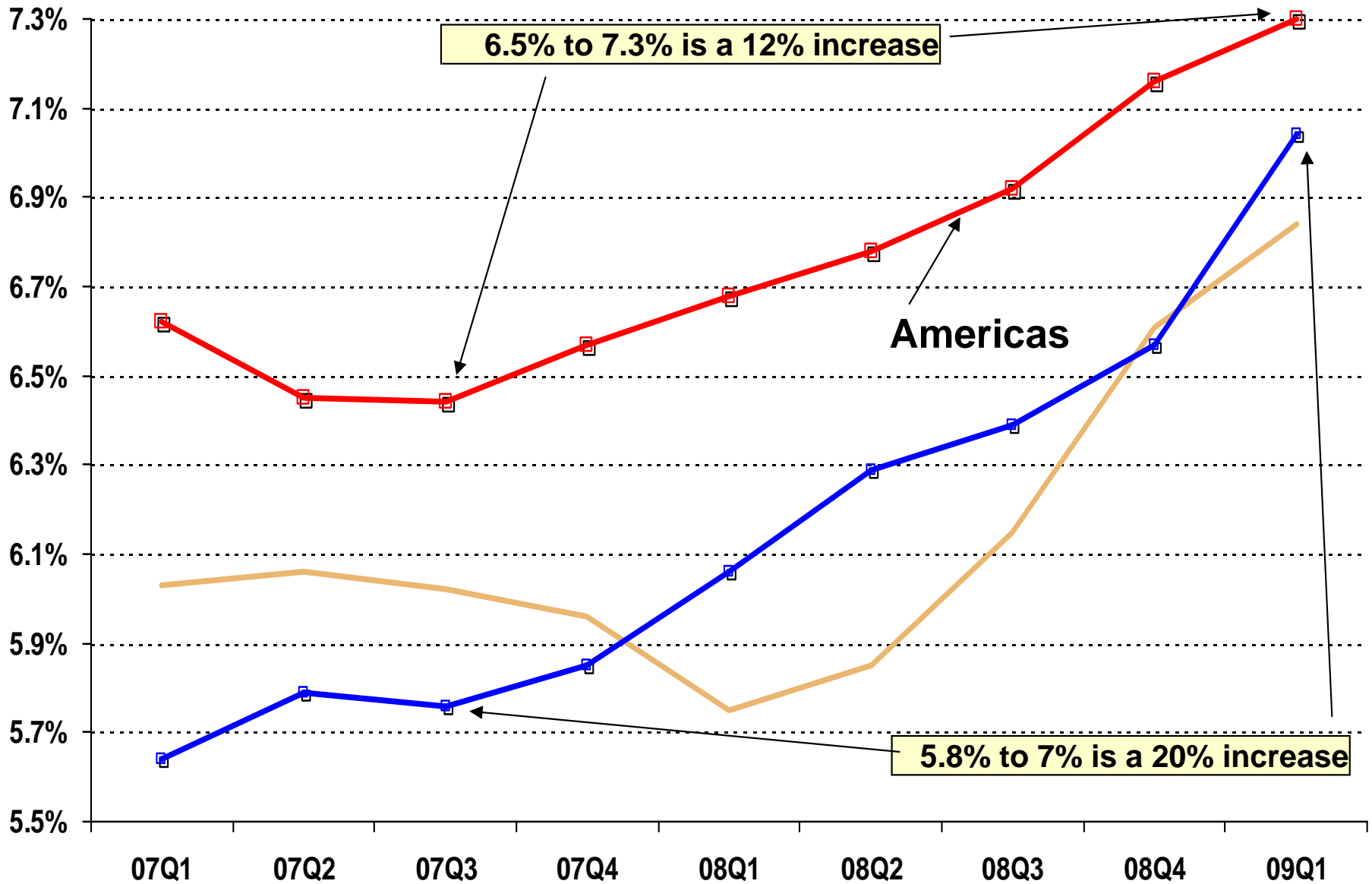
Source: CBRE Torto Wheaton Research Baseline, Summer update 2009

# The Implications for Commercial Property Values



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# Cap Rates All Rising: Office



—■— Americas

—■— AsiaPac

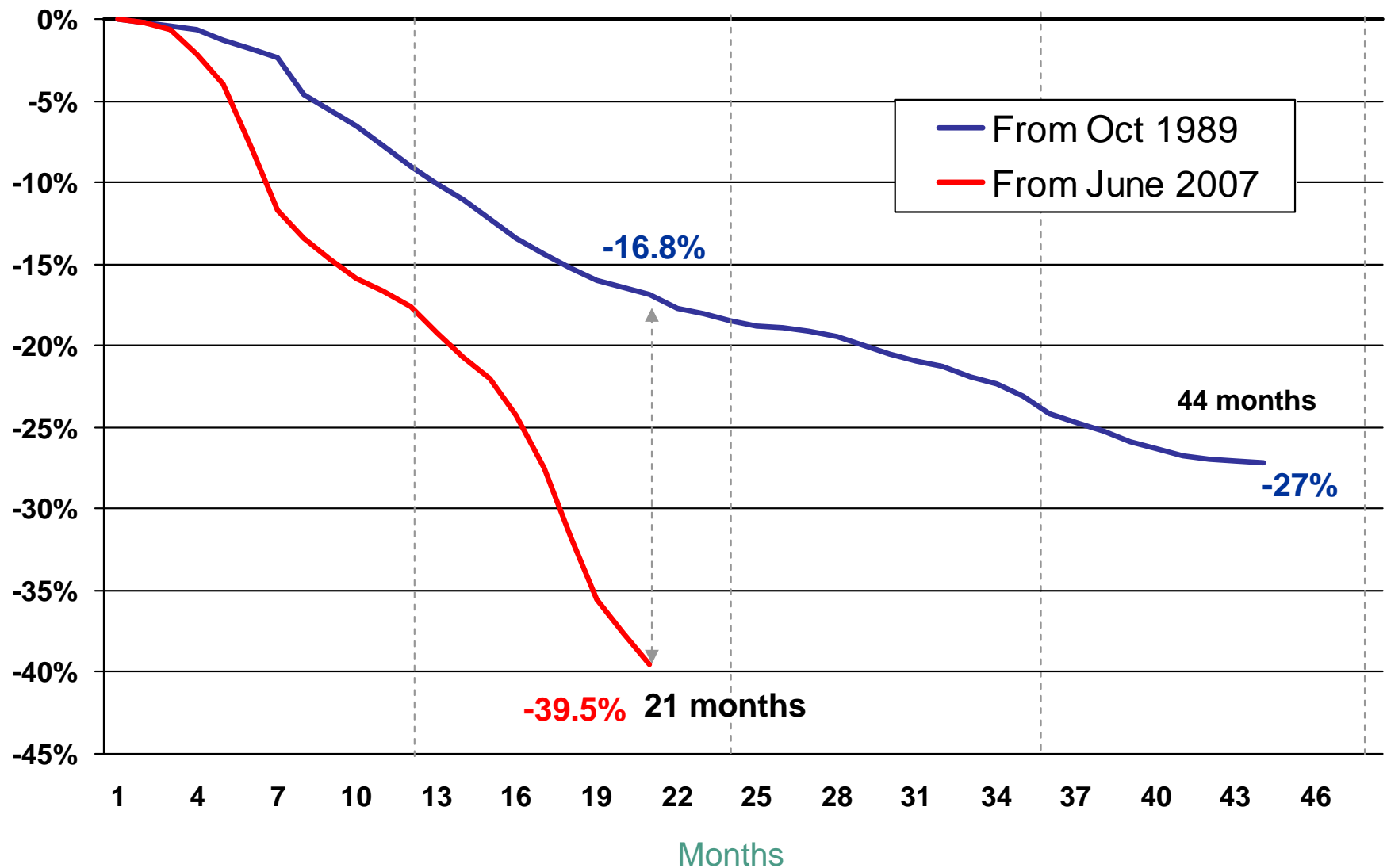
—■— EMEA

Source: Real Capital Analytics, April 2009

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# In the UK the Decline is Faster This Time

All UK Property, Monthly Capital Value Index (Cumulative % change)



Source: IPD Monthly Index (February 2009)

# Capital Value Change Equals

$$\begin{aligned} \% \text{chg Value} = & \% \text{chg NOI} - \% \text{chg Cap Rate} \\ & + (\% \text{chg NOI}) * (\% \text{chg Cap Rate}) \end{aligned}$$

Source: Conner and Liang, Journal of Portfolio Management , September 2005

# NOI Changes from Earlier Downturns

	<b>1990s</b>	<b>2001s</b>
<b>Office</b>	<b>-10%</b>	<b>-13%</b>
<b>Industrial</b>	<b>-11%</b>	<b>-14%</b>
<b>Multi-Family</b>	<b>-10%</b>	<b>-13%</b>
<b>Retail</b>	<b>-5%</b>	<b>-3%</b>
<b>Average</b>	<b>-12%</b>	<b>-12%</b>

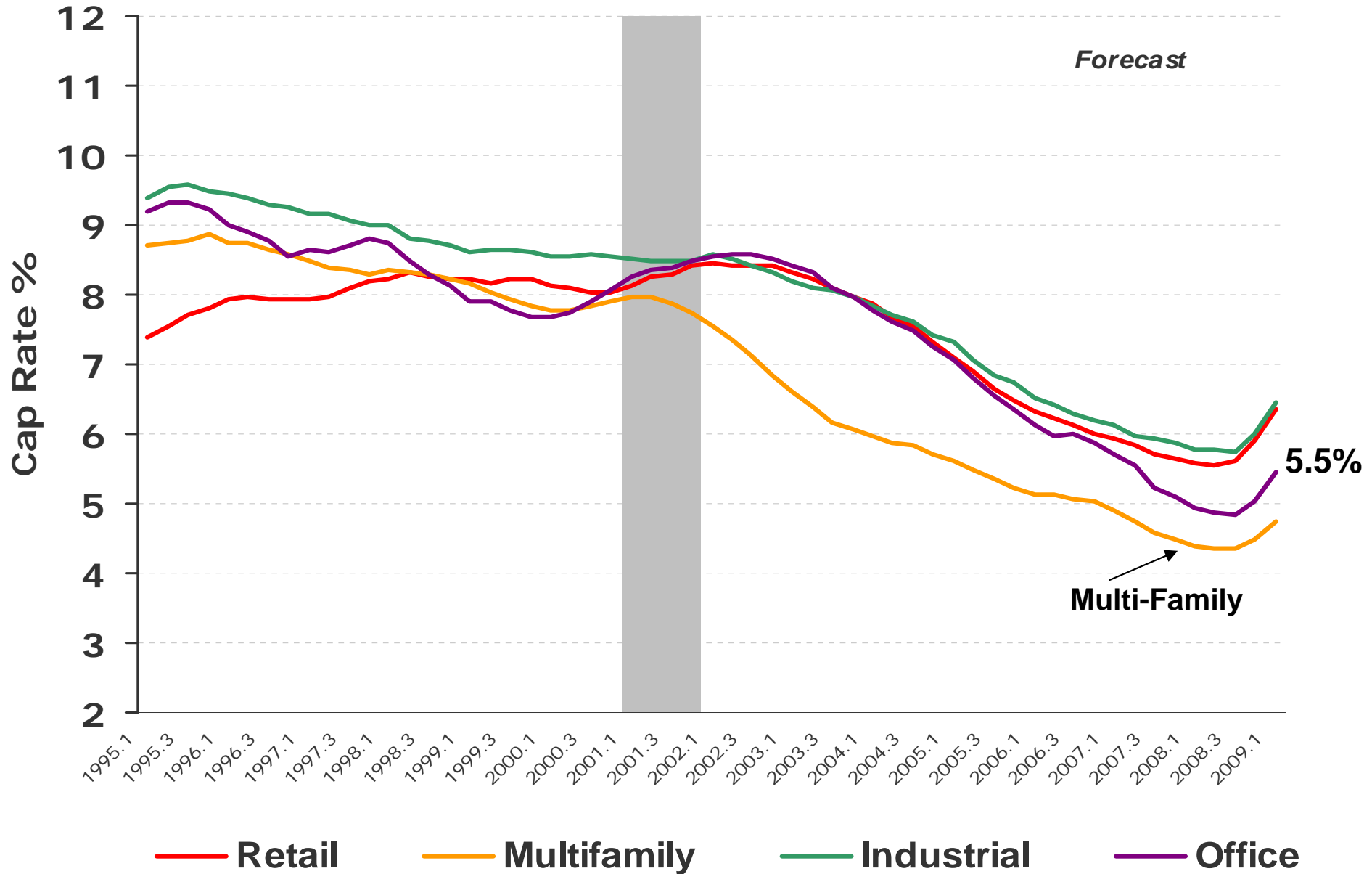
Source: NCREIF

# Percentage Change in Gross Income

	<b>05-'08 %chg</b>	<b>09-11 %chg</b>
<b>Office</b>		
<b>National</b>	<b>30%</b>	<b>-22%</b>
<b>Portland</b>	<b>20</b>	<b>-24</b>
<b>Seattle</b>	<b>41</b>	<b>-21</b>

**Source: CBRE Econometric Advisors, summer 09, updated**

# NCREIF Cap Rate Trends



Source: CBRE, NCREIF, Spring, 2009

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# Summary: the Good and the Bad

## For Current Owners:

- 2009 will be the worst year for CRE historically, both for leasing and property values
- It is too late to sell
- Cash is king...preserve capital, prepare for the unexpected!
- Near term debt maturity will be difficult, at best, to refinance

## For Buyers:

- It is too early to buy—the market is coming to you!
- Cash and execution is King!
- Engage the Bear! Re-pricing will set stage for best investment environment in decades!



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# Thank you

**Raymond G. Torto, PhD, CRE**  
**Global Chief Economist**

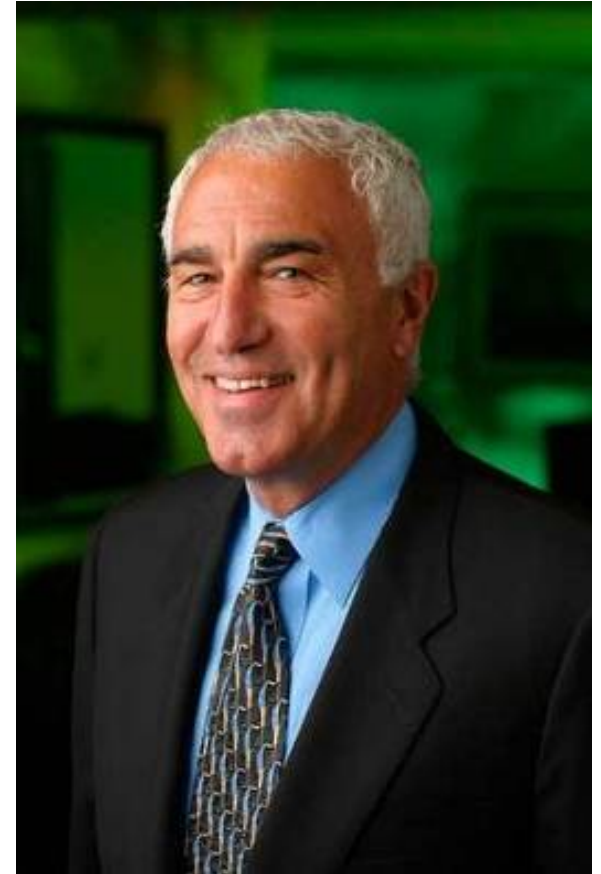
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# Raymond Torto, PhD, CRE

- **Ray Torto is CBRE's Global Chief Economist. He directs CBRE's worldwide team of commercial real estate market analysts and serves as the firm's primary spokesperson on macro economic issues and the global commercial real estate market.**

**He earned a PhD in economics, is active in many organizations, including the PREA Board and ULI. A former Professor, and author, he teaches Executive Education in the Harvard School of Design.**

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# Disclosures: Raymond G. Torto

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