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November 19, 2012

CCIM Investment Trends Q3 2012

Courtesy: CCIM

Fiscal cliff concerns, global economy slowing, possible US recession.. IMF, FED anticipating slower growth and concerns related to the $1.2 trillion in spending cuts and tax cut expiration. Consumer confidence, job growth slowing, and slower existing home sales are indicators of the choppy waters ahead.

We can see apartments are rated the highest among investors, with hotels/industrials coming in at 2nd. Apartment vacancy rate is 4.7% and rental revenue growth is 3.1%, the lowest and highest among the sub-classes. Also, NCREIF realized returns were 13.2%, top of the sub-classes. Realized and implied cap rates ranged from 5.5% to 7% among all the different property types. Apartment median sales price was about $100K/unit.

Exhibit 3. Real Estate Investment Conditions Ratings

	2Q 2012	1Q 2012	4Q 2011	3Q 2011	2Q 2011
Office	4.7	4.9	4.7	4.4	4.5
Industrial	5.3	5.6	5.6	5.0	5.1
Retail	5.2	5.3	5.1	4.5	4.8
Apartment	7.3	7.5	7.5	7.2	7.0
Hotel	5.6	5.8	5.5	5.0	5.0

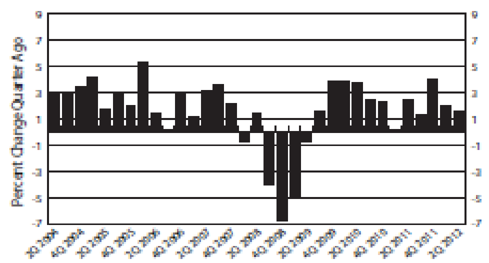
Ratings are based on a scale of 1 to 10, where 1 is poor and 10 is excellent.
Source: RERC/CCIM Investment Trends Quarterly Survey, 2Q 2012

Historically, even with the real estate market collapse in 2007-2009, real estate investments have performed better than any other asset class.

Consumer Price Index[1]	0.70%	1.93%	2.15%	1.98%	2.44%	2.40%
10-Year Treasury Bond[2]	1.93%	2.08%	2.86%	3.20%	3.78%	4.36%
Dow Jones Industrial Average	6.83%	6.63%	18.25%	2.00%	6.02%	5.85%
NASDAQ Composite[3]	12.66%	5.82%	16.95%	2.43%	7.21%	4.85%
NYSE Composite[3]	4.34%	-6.22%	9.73%	-4.60%	3.30%	3.16%
S&P 500	9.49%	5.45%	16.40%	0.22%	5.33%	4.77%
NCREIF Property Index	5.34%	12.04%	8.82%	2.51%	8.29%	9.42%
NCREIF ODCE	5.47%	12.43%	8.39%	-0.90%	6.56%	8.29%
NAREIT Index (Equity REITS)	14.91%	12.48%	32.40%	2.60%	10.32%	9.52%

GDP at 1%, trend is a slow down. Fed has kept rates at their lows since beginning of 2009. They have also conducted quantitative easing. Unemployment has improved since reaching peak at Sept 2009, but still not budging below 9%. CPI peaks in the summer and winter, with higher energy prices, and in the summer, with the drought news affecting food prices. Retail sales are dipping again to 4% YoY growth, after rising from -10% in Apr 2009, and peaking at Dec 2010. 2011 was the unfolding of the European financial crisis, and 2012 was the resolution year.

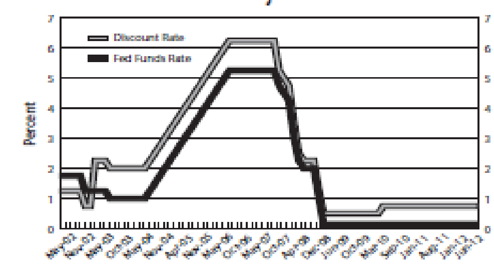
GDP



Source: Bureau of Economic Analysis.

According to the Bureau of Economic Analysis (BEA), real gross domestic product (GDP) grew 1.5 percent on an annualized basis during second quarter 2012. This was a decline from the previous quarter, and the slowest growth since third quarter 2011. This was largely a result of the shift from the growth in consumer spending to a small decline.

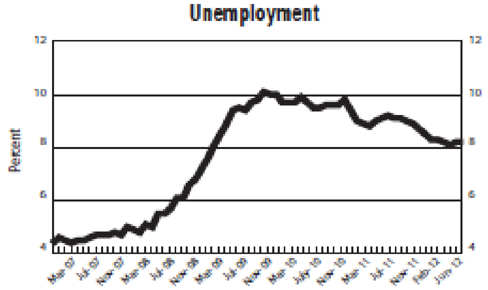
FOMC Policy Decisions



Source: Federal Reserve.

As of June 2012, the Federal Open Market Committee (FOMC) kept the federal funds rate in the 0.0-percent to 0.25-percent range, and the discount rate at 0.75 percent. The FOMC is clearly worried about the recovery, but has not announced what it will do if the economy does not improve over the next few months.

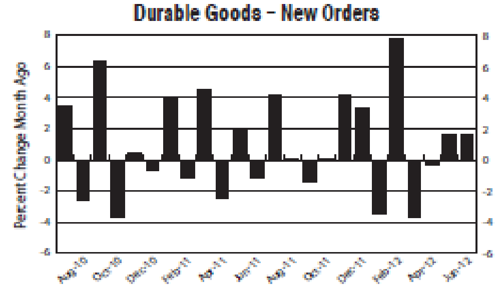
Unemployment



Source: Bureau of Labor Statistics.

The unemployment rate remained unchanged at 8.2 percent in June 2012. With only 80,000 jobs added in June, payroll gains were weaker than expected. This was the third consecutive disappointing month for the labor market. Furthermore, there was an increase in the number of workers who lost jobs.

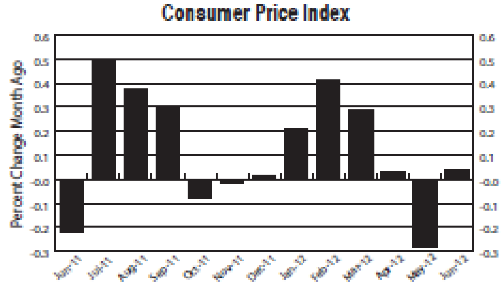
Durable Goods – New Orders



Source: Census Bureau.

New orders for durable goods increased 1.6 percent in June 2012. Although this is good news, new orders for durable goods have fallen in three of the last four months. In addition, core capital goods fell in May, while shipments rose, indicating slow business investment next quarter.

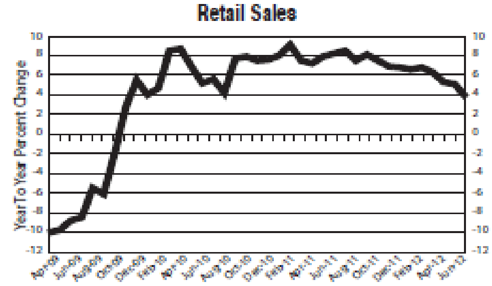
Consumer Price Index



Source: Bureau of Labor Statistics.

The Consumer Price Index (CPI) declined slightly through second quarter 2012, reaching 228.62 in June 2012, while core CPI increased 0.20 percent. Lower energy prices continued to weigh on headline inflation, with food prices and weather concerns taking a toll.

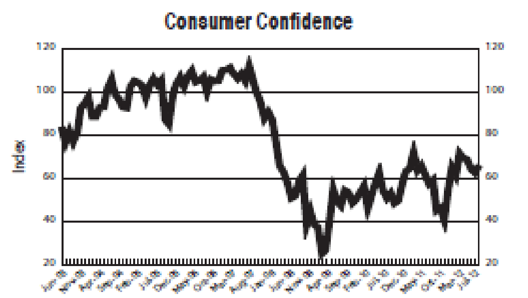
Retail Sales



Source: Census Bureau.

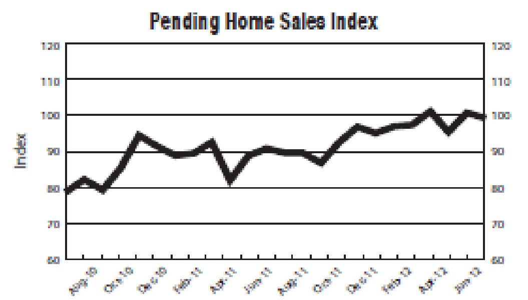
Retail sales fell 0.5 percent in June 2012, the third consecutive month sales have declined. Sales fell more steeply and broadly than expected, and downward revisions to growth in April put the level of sales for the second quarter below the first quarter level. Sluggish consumer spending is expected to continue with slow job and wage growth.

Consumer confidence was at +100 up to mid 2007, but crashed to 20 at April 2009, then picked up again until it reached 80 at Dec 2010, but dipped in 2011 (Europe) and in the short-run, is dipping again. The curious economic index is related to real estate. Why is home sales stronger as of late when unemployment still weak, Europe, fiscal cliff in the headlines? The fact is the economy has improved over the past 5 years, people saved up, apartment prices are expensive, rates are cheap, home prices are down, and different asset classes not returning favorable returns.



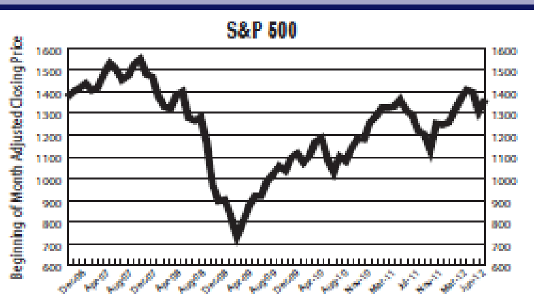
Source: The Conference Board.

Consumer confidence increased to 65.7 points in July 2012, the first increase in five months according to the Conference Board. However, this gain is in contrast to most all other gauges of consumer sentiment.



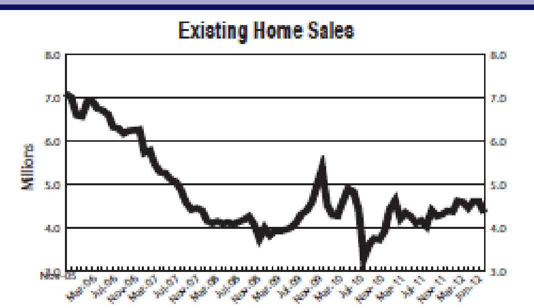
Source: NAR.

The Pending Home Sales Index was up 9.5 percent from a year ago, although it decreased 1.4 percent in June 2012. Similar to the other housing statistics, improvement is uneven. However, since pending home sales are a leading indicator of the housing market, the generally upward growth is encouraging.



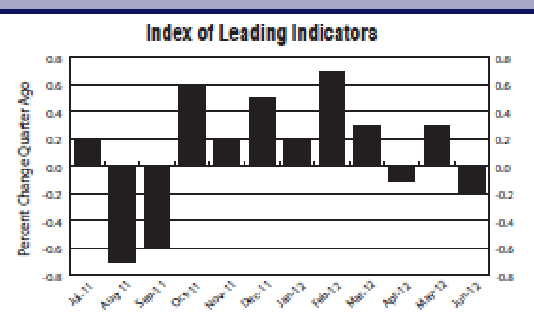
Source: S&P.

The S&P 500 declined before rising slightly during second quarter 2012, ending June 2012 with a reading of 1,362.16. Volatility was attributed to weak economic fundamentals and the uncertainty associated with the European debt crisis.



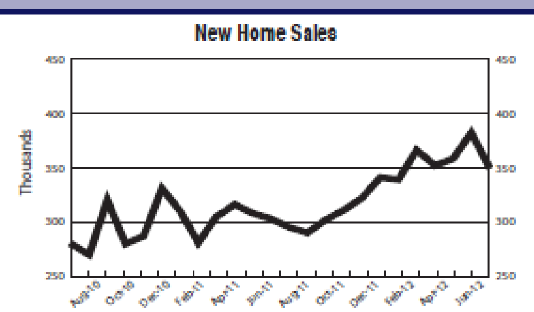
Source: NAR.

Existing home sales continued to struggle and decreased to an annualized rate of 4.37 million units in June 2012. The June pace of sales is the slowest since October 2011. The housing market recovery will remain slow and uneven until job growth accelerates.



Source: The Conference Board.

The Conference Board's Index of Leading Indicators fell 0.3 percent to 95.6 in June 2012. The



Source: NAR.

Sales of new homes decreased 8.4 percent in June 2012 to 350,000 units, with year-over-year