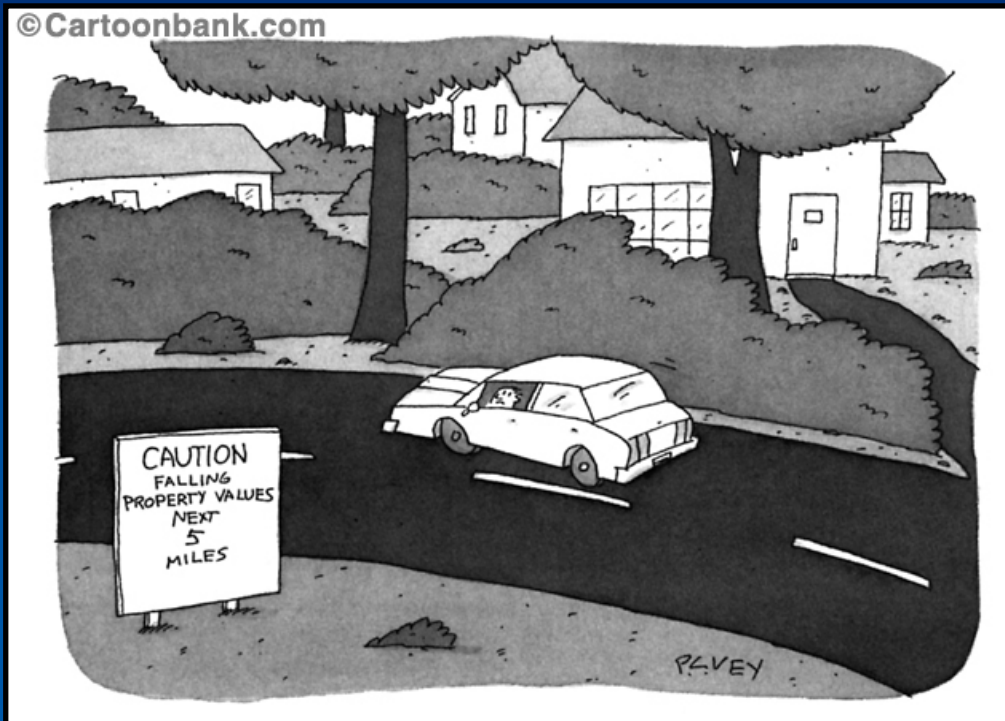


The Great Asset Re-Pricing of 2008/2009

TEXPERS – Real Estate for Pension Professionals, Winter 2009



Michael J. Acton, CFA
Managing Director
AEW Capital Management, L.P.

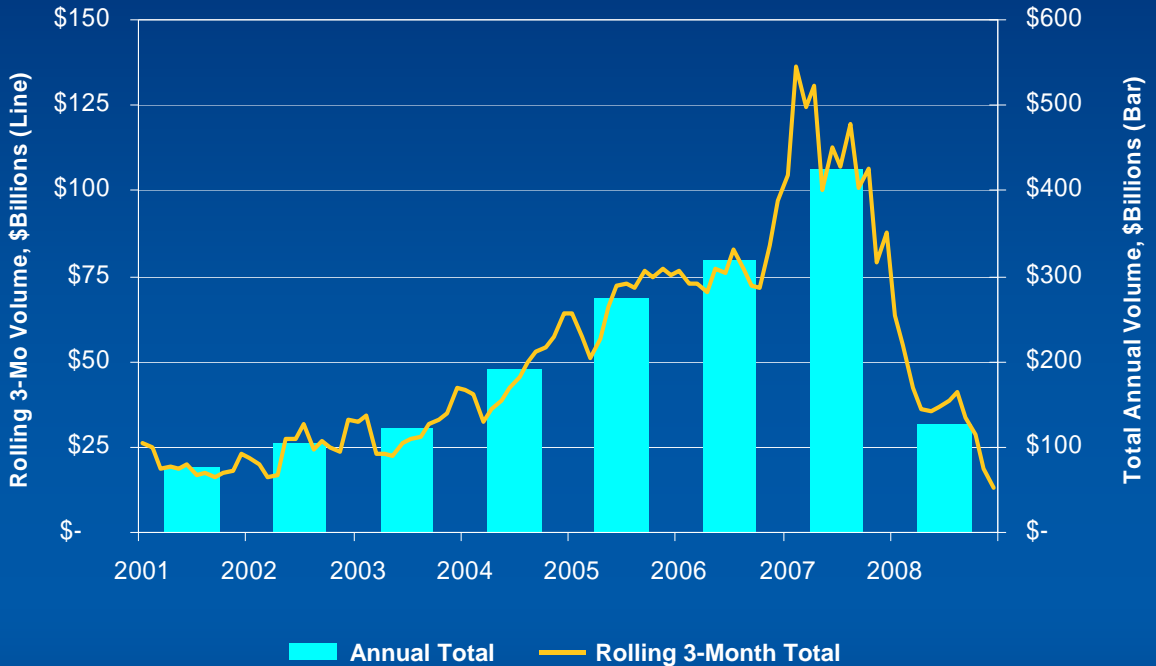


Introduction

- **A broken credit system is now compounded by rapid economic contraction**
- **Asset values across the globe are in free fall**
- **Publicly traded real estate (REITs) have re-priced dramatically**
- **Private market pricing is just beginning the process**
- **Does property have value independent of price?**

Pricing in a World Without Trades

QUARTERLY VOLUME \$ BILLIONS



Transaction volume is down more than 80% from peak

How do you value assets without trades?

Source: Real Capital Analytics, Inc.
Includes office, industrial, retail, apartments



What is the Derivative Market Saying?

NCREIF Swaps

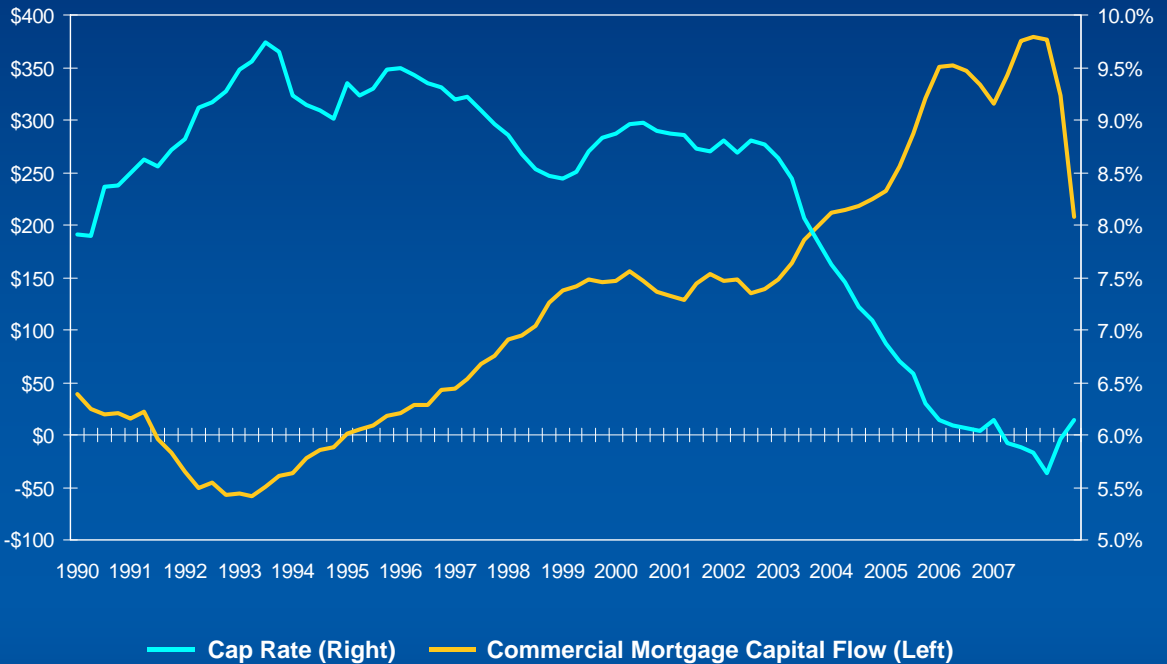
				Implied Returns				
				Projected income per year:	Cumulative total return	Total return in year	Cumulative capital return	Capital return in year
National:								
<i>Dec-08 to</i>	Bid		Offer					
Dec-09:	-13.50%	/	-11.50%	:	4%	-13%	-17%	-17%
Dec-10:	-11.00%	/	-9.00%	:	4%	-20%	-28%	-14%
Dec-11:	-8.00%	/	-6.00%	:	4%	-21%	-33%	-7%
Dec-12:	-5.50%	/	-3.50%	:	4%	-18%	-34%	-1%
Dec-13:	-3.50%	/	-1.50%	:	4%	-13%	-33%	2%

Source: VYAPAR Capital Market Partners LLC.

Debt Drives Real Estate Pricing (and There isn't Much Debt)

BILLIONS

Availability of debt is more important than the cost



As of September 30, 2008
Source: Federal Reserve, NCREIF

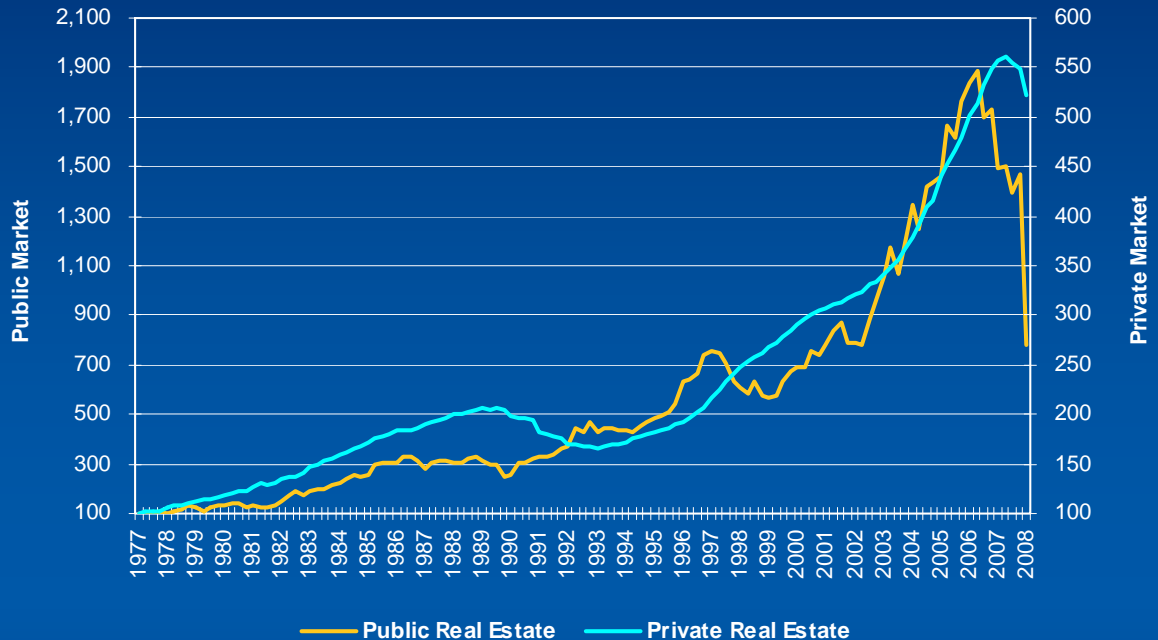


The REIT Market is Showing the Way

REAL RETURN INDEX, DEC. 1977 = 100

REIT
market has
dramatically
re-priced

Private market
has not (yet)



Source: NAREIT, NCREIF, AEW Research



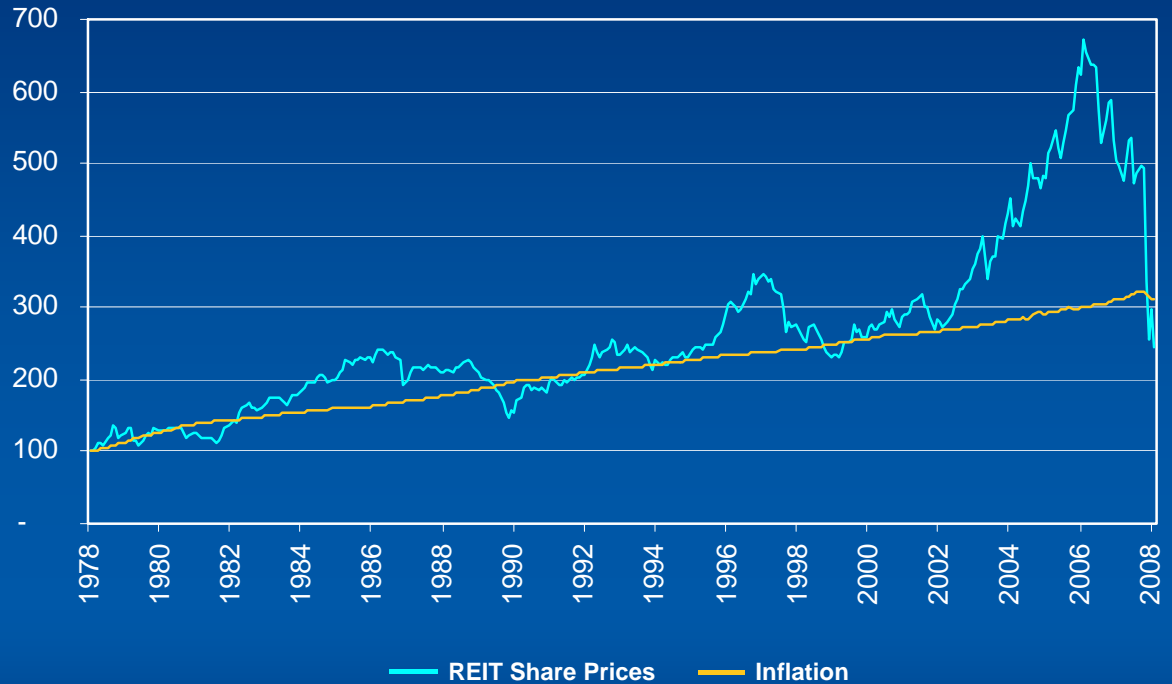
Have REITs Re-Priced Enough?

INDEX = 100 (1978)

REIT prices tend to track inflation over time and have over-corrected

REIT yields now above corporate bonds

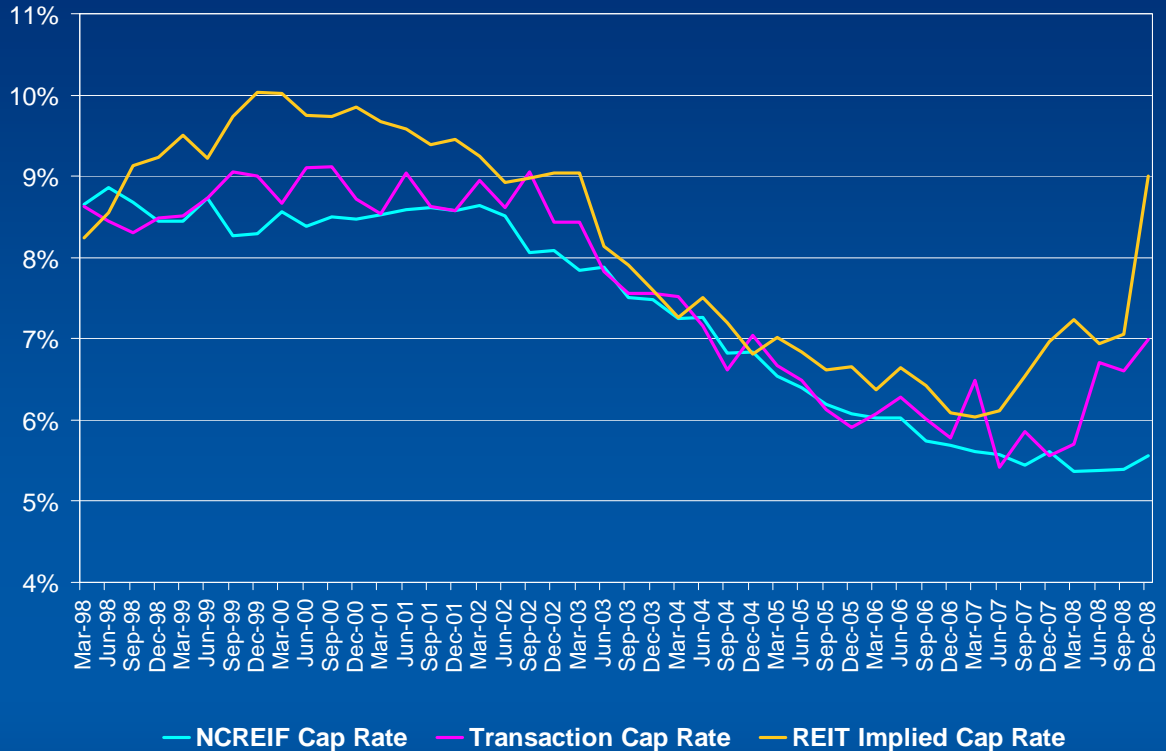
REITs trading at big discounts to NAV



Source: NAREIT, NCREIF, AEW Research

The Great REIT Re-Pricing

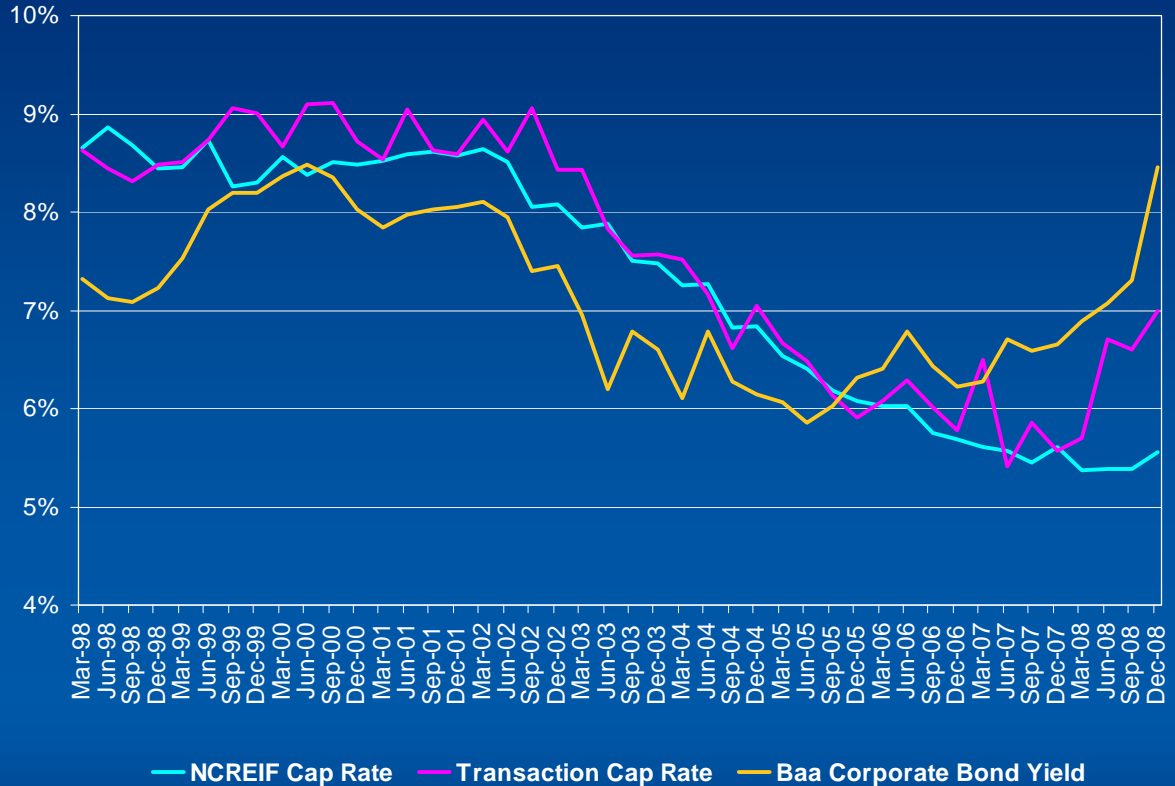
With zero NOI growth, a 350 bp increase in average cap rates equates to a near 40% decline in property value



Source: NAREIT, NCREIF, AEW Research

What Does the Bond Market Say?

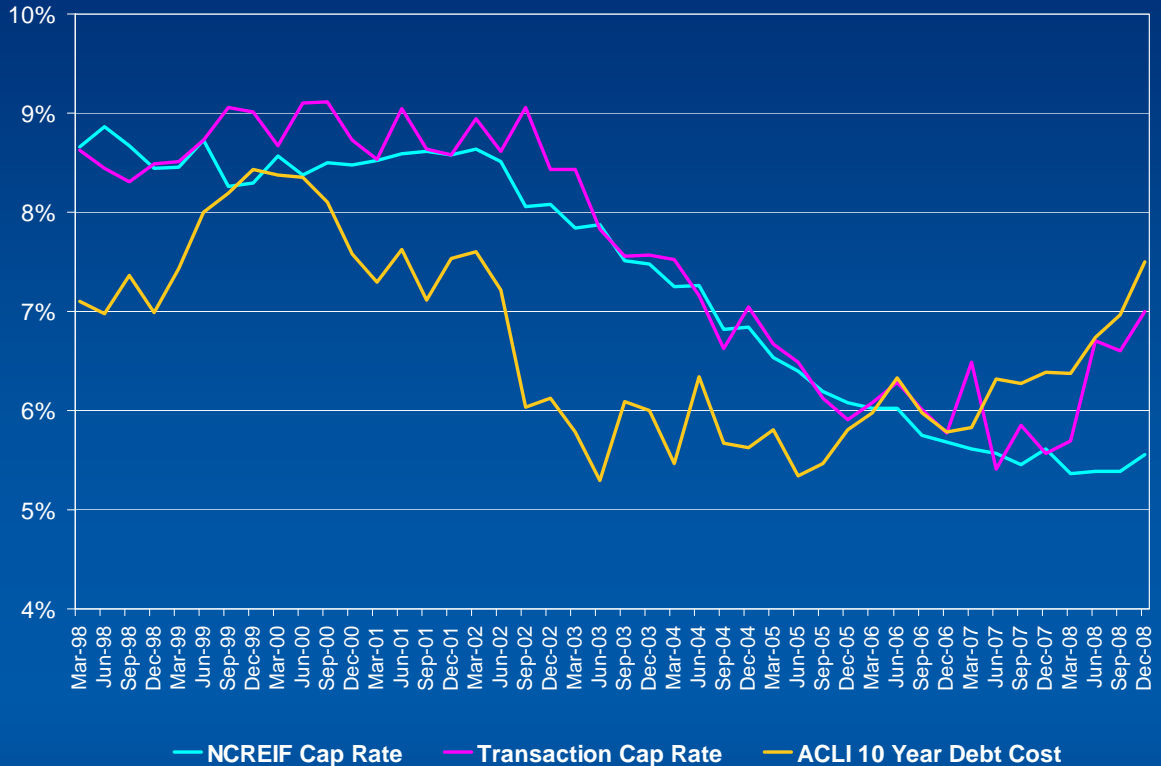
With zero NOI growth, a 300 bp increase in average cap rates equates to a 35% decline in property value



Source: Bloomberg, NCREIF, AEW Research

Equity Yields vs. Debt Costs

With zero NOI growth, a 200 bp increase in average cap rates equates to a >25% decline in property value



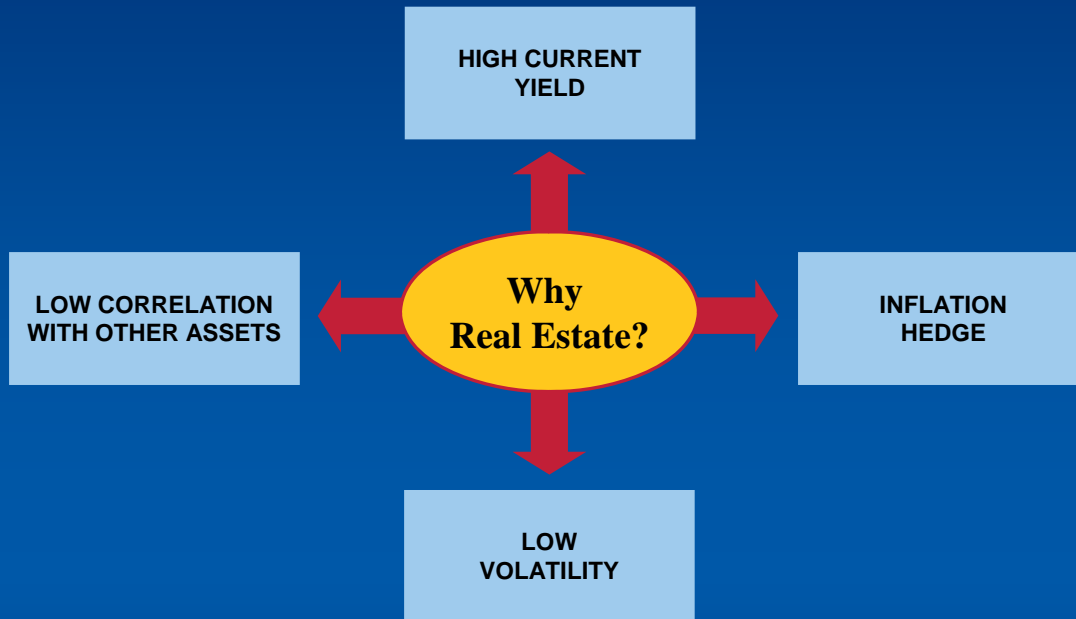
Source: ACLI, NCREIF, AEW Research

Conclusions

- **If “other markets” are correct, direct property prices will decline an additional 20% to 40%**
- **The degree of decline is not carved in stone – better than expected NOI performance and/or a decline in risk yields would mitigate price declines**
- **Even with the coming write-downs, there is still “value” to real estate**
- **The stage is being set for perhaps the best property investment market in a generation**
- **Remember why we hold real assets in our portfolios**

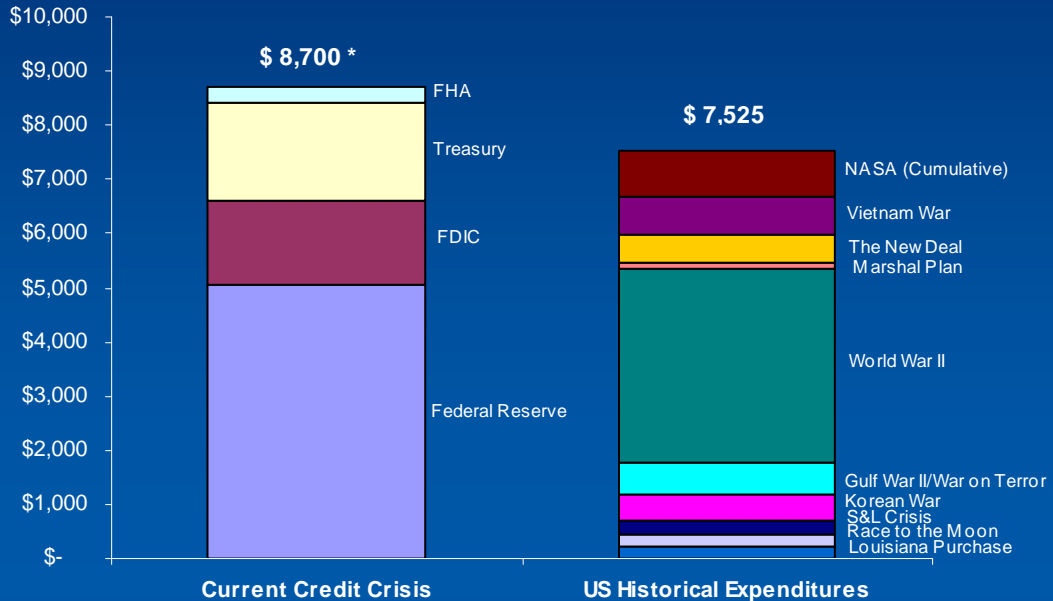
The Value of Real Estate

THE CHARACTERISTICS OF REAL ESTATE RETURNS



Will All of This Be Inflationary? Let's Hope So!

BILLIONS, INFLATION-ADJUSTED



* Does not include proposed stimulus package
Sources: Arbor Research, Bloomberg

Biographical Information



MICHAEL J. ACTON, CFA
Managing Director

Michael J. Acton, CFA, is Director of Research for AEW Capital Management, L.P. with responsibility for directing the activities of AEW Research, the firm's highly regarded in-house research group. Mike joined the firm in 1990 and has over 20 years of experience as an economic analyst and forecaster. He chairs AEW's Investment Policy Group and is a standing member of the firm's Investment Committee and Management Committee. The resources of AEW Research are an integral part of AEW's investment process and Mike works closely with senior professionals in all areas of the firm to develop investment strategies that match clients' risk/reward objectives with market opportunities. Mike is also a member of the firm's Compliance Committee and Risk Management Committee. Prior to joining AEW, he was with DRI/McGraw-Hill where he managed the Metropolitan Area Forecasting Service. He is a graduate of Bates College (B.A.) and a Chartered Financial Analyst.

Please feel free to contact Mike regarding any of the information contained herein

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