

**Survey Respondents Cite Opportunity for
Commercial Real Estate Investors to Buy at Cyclical Lows in 2010,
According to Emerging Trends in Real Estate® 2010 Forecast from
PricewaterhouseCoopers and the Urban Land Institute**

Focusing on Premium Assets in Top Performing Markets will be Key to Investor Success

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SAN FRANCISCO (November 5, 2009) – Commercial real estate industry investors and professionals remain decidedly negative, colored by distress over prospects for an extended period of anemic demand and costly de-leveraging, according to respondents of the *Emerging Trends in Real Estate® 2010* report, released today by PricewaterhouseCoopers LLP and the Urban Land Institute (ULI).

Survey respondents predict that commercial real estate vacancies will continue to increase and rents will decrease across all property sectors before the market hits bottom in 2010 and projects value declines of 40 percent to 50 percent off 2007 market peaks. Survey participants also believe that 2010 and 2011 will present generational opportunities for investors to buy at or near cyclical lows.

"Our report participants find that a sense of nervous euphoria is growing among liquid investors who can make all-cash purchases," said ULI Senior Resident Fellow for Real Estate Finance Stephen Blank. "Those that are patient, daring and selective could score generational bargains on premium properties from both distressed sellers and banks that are clearing out unwanted bad loan and real estate owned portfolios. However, once the property market recovery begins and gains traction -- likely before 2012 -- any rebound could be restrained by a lackluster economy and rising interest rates."

Capital will begin to flow back into commercial real estate by the end of 2010

The survey data also indicates that investors believe that capital will slowly begin to flow back into commercial real estate markets by the end of 2010, led by all cash investors seeking quality assets. The debt markets will start to rebound too, but remain "far from normalized" in the wake of unprecedented de-leveraging. Any lending will be conservative, expensive, and extended only to the most-favored banking relationships. REITs, private equity funds, and even refashioned mortgage REITs will start to provide loans to battered borrowers but at a steep price.

"For 2010, our report finds that investors will need to time the cycle and only cash-buyers will benefit from the emerging opportunities," said Tim Conlon, partner and U.S. real estate sector leader, PricewaterhouseCoopers. "Investors will need to be patient and transaction trigger points will be improving job numbers, visibility into asset pricing and stepped up tenant deals. Equity investors will need to focus on quality assets and expect to hold for at least a five to seven year period during the recovery, allowing fundamentals to slowly improve."

Respondents to the *Emerging Trends* cite the best investor bets for 2010 which include:

- Deal with cash – Cash is the only way to operate and only the most liquid can take advantage of the emerging opportunities.
- Patience will be rewarded - Early is the new wrong as the economic uncertainty will hamper the recovery and absence of ready refinancing in comatose debt markets adds more risks.
- Focus on quality and be selective – Seek irreplaceable Class A properties with debt maturity in places like New York, San Francisco and Washington, DC.
- Stick to global pathways where recovery will happen more quickly.
- Buy cash flow and real yield – Anticipate creating value by filling vacancy and increasing rents over time.
- Provide financing as three to five year loans can deliver low teen returns.
- Implement asset management triage – Focus capital and resources on retaining and attracting tenants in properties with better long-term value.

Markets to Watch

Survey participants believe that the markets performing well before the crash should perform better coming out of it and the laggard markets will continue to suffer. The report finds that investors will continue to favor global gateway markets on the East and West Coasts. Cities and urbanizing infill suburbs with 24-hour attributes, brainpower centers that offer universities and high-paying industries, as well as 'barrier to entry' markets where geographic constraints limit development and help control overbuilding will be top market performers.

According to the survey, Washington, D.C. ranks number one as the "recession-proof" city. Value declines have been less than other markets as employment is buffered by the federal government. Long-term confidence holds for New York and Boston despite financial industry downsizing. West Coast gateways-- San Francisco, Seattle and Los Angeles – have all suffered ratings declines, but remain among the survey's top 10 major markets. Texas markets continue to show strength after years languishing in the survey basement.

A snapshot of the top five markets ranked by survey respondents:

Washington D.C. scores the highest marks during a recession. While hard-pressed lenders pull back in most cities, major insurers and big banks have taken a long term view and are actually providing financing for new deals. Bethesda, home to the National Institutes of Health, should benefit from increased bio-medical spending and Virginia markets, inside the Beltway, are expected to suffer only modest erosion relative to past downturns. Survey respondents expect suburban vacancies to advance well into the high teens further out.

San Francisco. Despite its formidable barrier to entry attributes, this 24-hour gateway will take investors on a ride of volatile pricing, occupancies, and rents. An expanding regional tech industry, fed by nearby Silicon Valley, should help. The report ranks this city one of the top buys for apartments, warehouse, office and hotels.

Austin. A Texas growth bastion, Austin's low state taxes and a pro business environment are expected to contribute to future growth and continuing corporate relocations. Austin fits the "brainpower" model with its state capital, large state university, and offshoot tech and software businesses.

Boston is a solid market as compelling economic drivers—premier educational institutions, life science companies, and high tech business—reinforce investors' long-term conviction. Downtown apartment vacancies remain well under 10 percent and condo/house pricing "remains stiff."

New York offers savvy investors opportunity and more affordable costs over the long term. Midtown availability rates are predicted to skyrocket from mid single digits into the mid-teens as office rents plummet 40 percent or more. Co-op pricing is expected to sink 25 percent and a shakeout continues among condo developers who built million dollar plus apartments in fringe districts— sales of those units likely won't close without substantial markdowns. The pace of market recovery depends on the hammered banking industry, the report cites.

Rounding out the top ten markets to watch:

- **Houston** provides consistently strong population growth making it a leading market for apartment developers and homebuilders. The city now banks on a global economic recovery pushing up energy demand.
- **Seattle**. Recession and bank woes harpooned Seattle, last year's number one market. In the view of survey respondents, apartments stand out as a relative bright spot and the city's global pathway positioning should accelerate a market bounce back once the U.S. economy recovers.
- **Raleigh/Durham** overcomes its one-step from major gateway city removed status by enhancing its research and development incubator.
- **Denver** avoided the financial industry implosions and its local economy is boosted from green initiatives—the city is a national hub for companies in alternative energy, wind farm manufacturing, and natural gas.
- **San Jose**. As a secondary city, high tech San Jose in the Silicon Valley borders the San Francisco gateway.

Among property sectors, the survey finds declines or near low record lows in investment sentiment for almost every property type. Only rental apartments register fair prospects and all other categories sink into the fair to poor range. Hotel and retail record the most precipitous falls. Development prospects are "largely dead" and drop to new depths and practically to "abysmal" levels for office, retail and hotels. Warehouse and apartments score only marginally better at "modestly poor."

Now in its 31st year, *Emerging Trends* is the oldest, most highly regarded annual industry outlook for the real estate and land use industry and includes interviews and survey responses from more than 900 leading real estate experts, including investors, developers, property company representatives, lenders, brokers and consultants.

A copy of *Emerging Trends in Real Estate*® 2010 is available at www.uli.org/emergingtrends or www.pwc.com/us/realestate.

About the Urban Land Institute

The Urban Land Institute (www.uli.org) is a nonprofit education and research institute supported by its members. Its mission is to provide leadership in the responsible use of land and in sustaining and creating thriving communities worldwide. Established in 1936, the Institute has more than 33,000 members representing all aspects of land use and development disciplines.

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