

Comprehensive transaction-based research and analysis  
*by* CCIM members *for* CCIM members.



Presenter:

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Presented To:

**CCIM Partners Event  
New Orleans, Louisiana**

June 8, 2006



RERC-CCIM

Investment Trends  
Quarterly

## The Dynamics of Global Imbalances

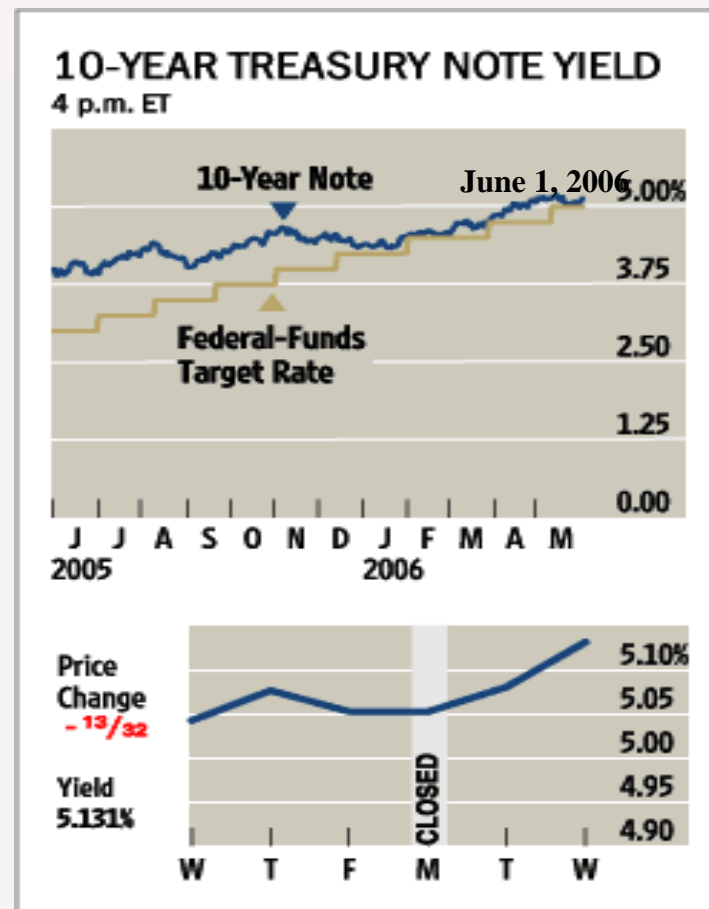
### Real estate is still a local business, but...

- Increasingly influenced by and intertwined with global capital markets
- Various dynamics have led to global and domestic imbalances
- Magnitude and potential interconnectivity of imbalances pose concerns





- Although the housing market is weakening, NAR Chief Economist David Lereah expects a soft landing with 2006 projected to be the third-strongest year for home sales
- Bond yields have increased to 5.11% as of June 1, 2006
- Stocks have been rising despite record oil prices, although prices are down slightly from the beginning of April

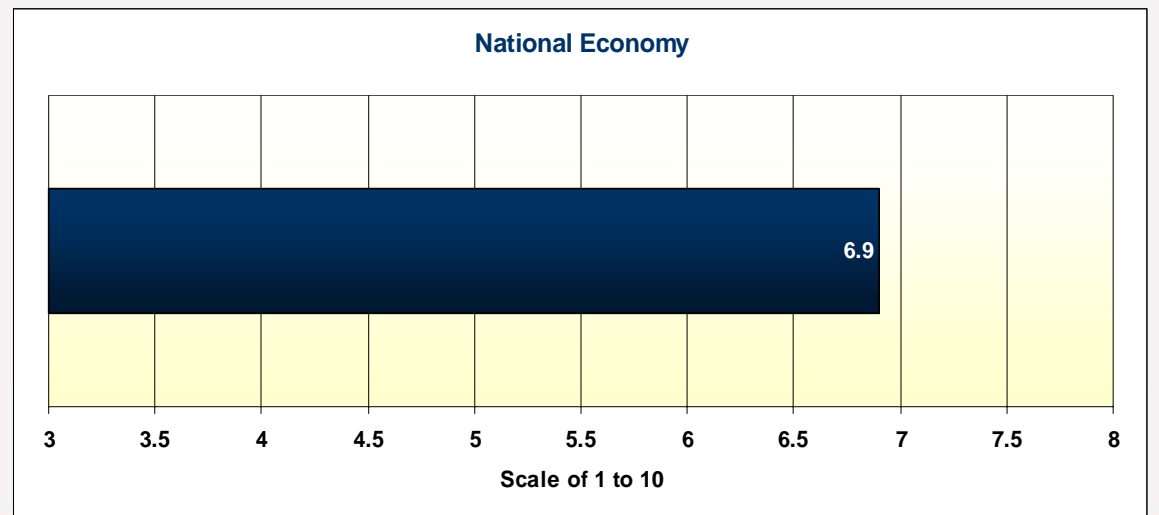
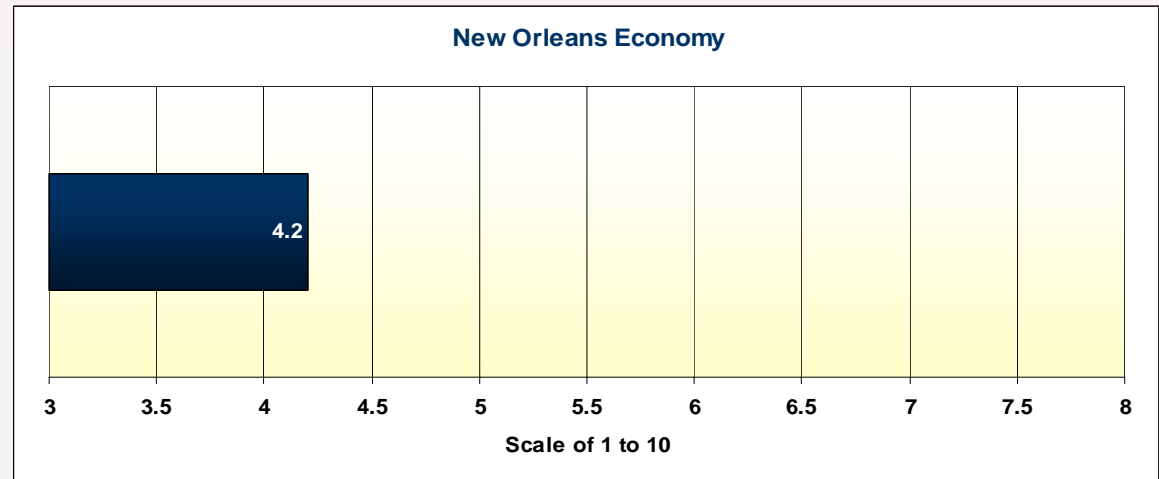


Source: Wall Street Journal



## How do respondents rate the economy (post-Katrina)?

Answered on a scale of 1-10, with 1 being very weak and 10 being very strong



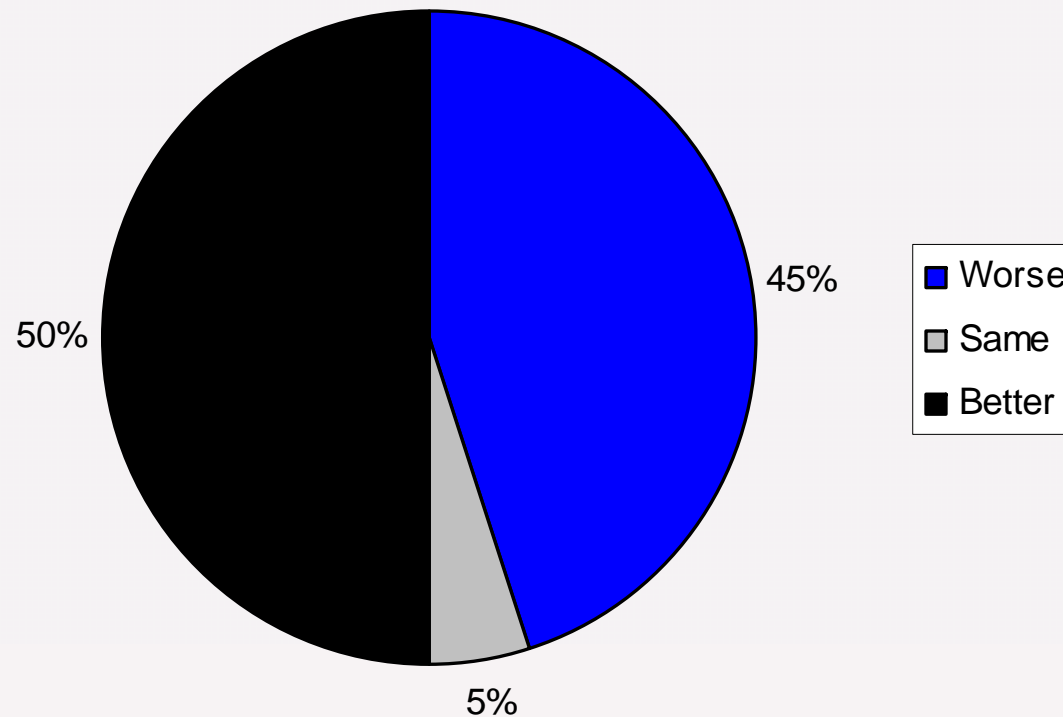


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## RERC Special New Orleans Investment Conditions Survey

**What is the general outlook for  
the New Orleans economy (post-  
Katrina)?**





### What Do The Financial Markets Tell Us?

Compounded Annual Rates of Return as of 3/31/2006

Market Indices	1-Year	3-Year	5-Year	10-Year	15-Year
Consumer Price Index	2.73%	2.37%	2.70%	2.79%	2.90%
10-Year Treasury Bond*	4.36%	4.25%	4.42%	5.16%	5.70%
Dow Jones Industrial Average	5.77%	11.60%	2.54%	7.11%	9.33%
NASDAQ Composite	13.29%	19.48%	2.97%	7.73%	11.18%
NYSE Composite	13.16%	20.34%	5.23%	8.43%	9.36%
S&P 500	9.68%	15.14%	2.22%	7.21%	8.61%
NCREIF Index	20.19%	15.15%	11.80%	12.30%	8.72%

\*Based on Average End of Month T-Bond Rates

Sources: Economy.com, NCREIF, compiled by RERC



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## The Outlook for Real Estate Returns

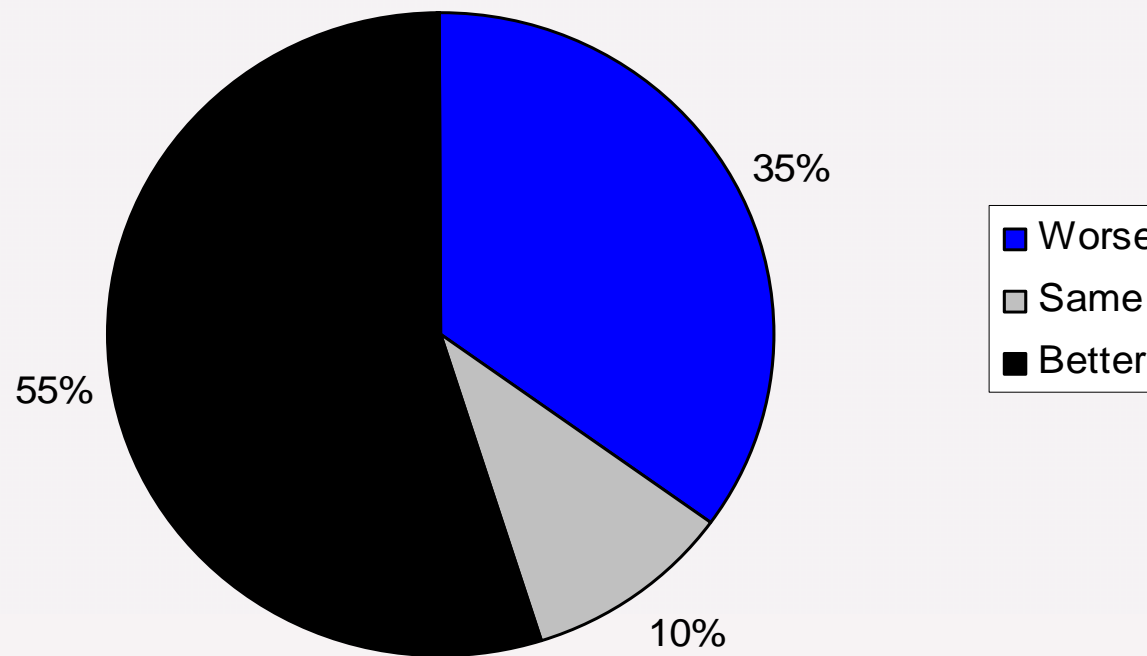
- **Total returns of 7.0 to 8.5 percent\* over the next 7-10 years**
- **About 200-300 basis points lower than the past decade**
- **Why lower returns going forward?**
  - **Low going-in yields**
  - **Limited room for further cap rate compression**
  - **High prices relative to reproduction costs**



\*Unleveraged pre-fee return on core assets

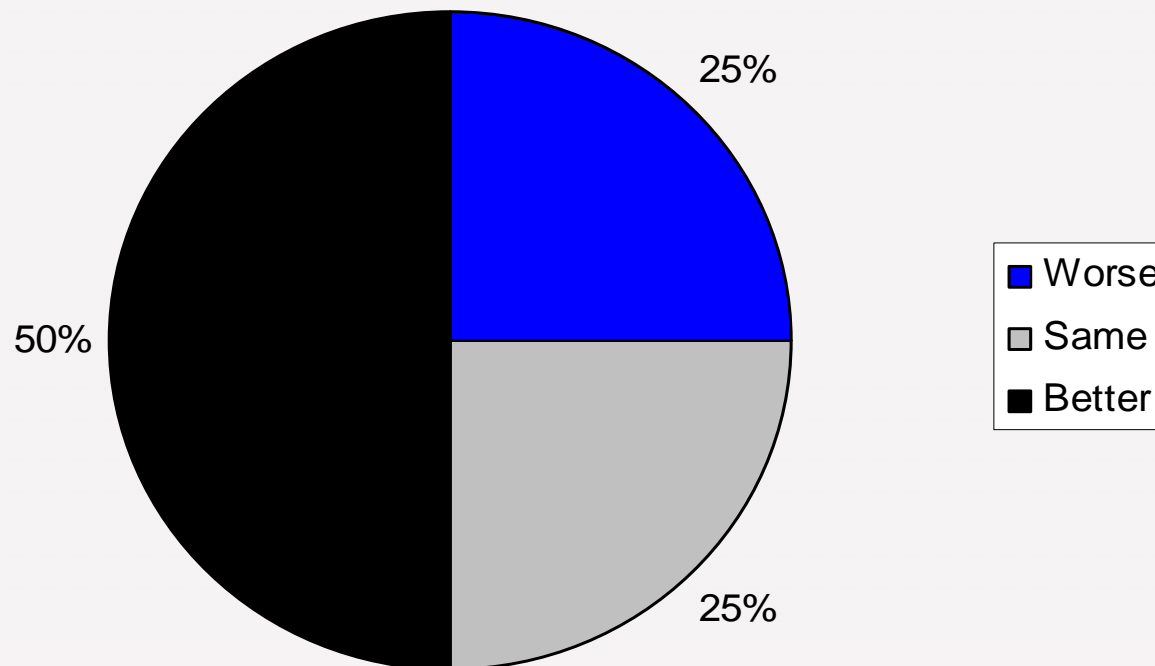


## What is the general outlook for the New Orleans residential/housing market (post-Katrina)?



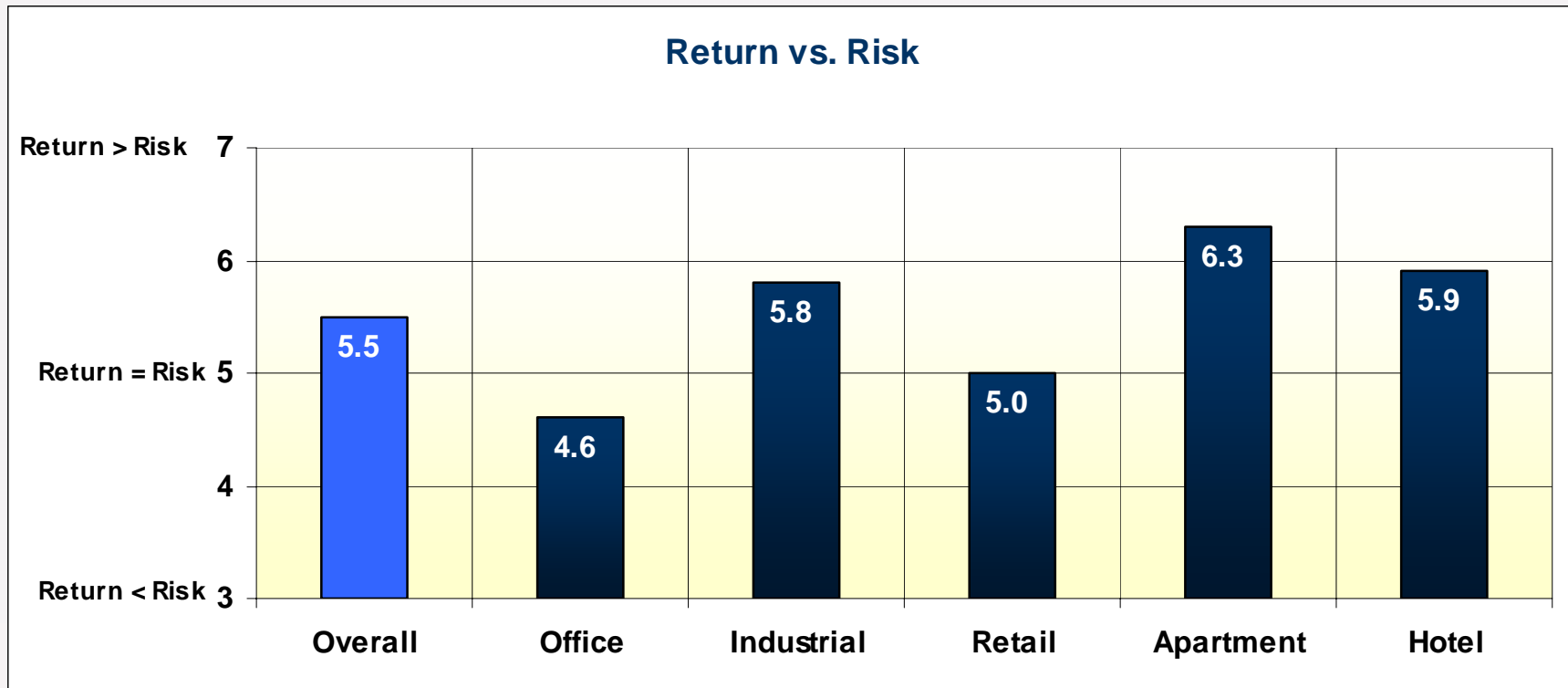


**What is the general outlook for the New Orleans commercial market with respect to investment conditions (post-Katrina)?**





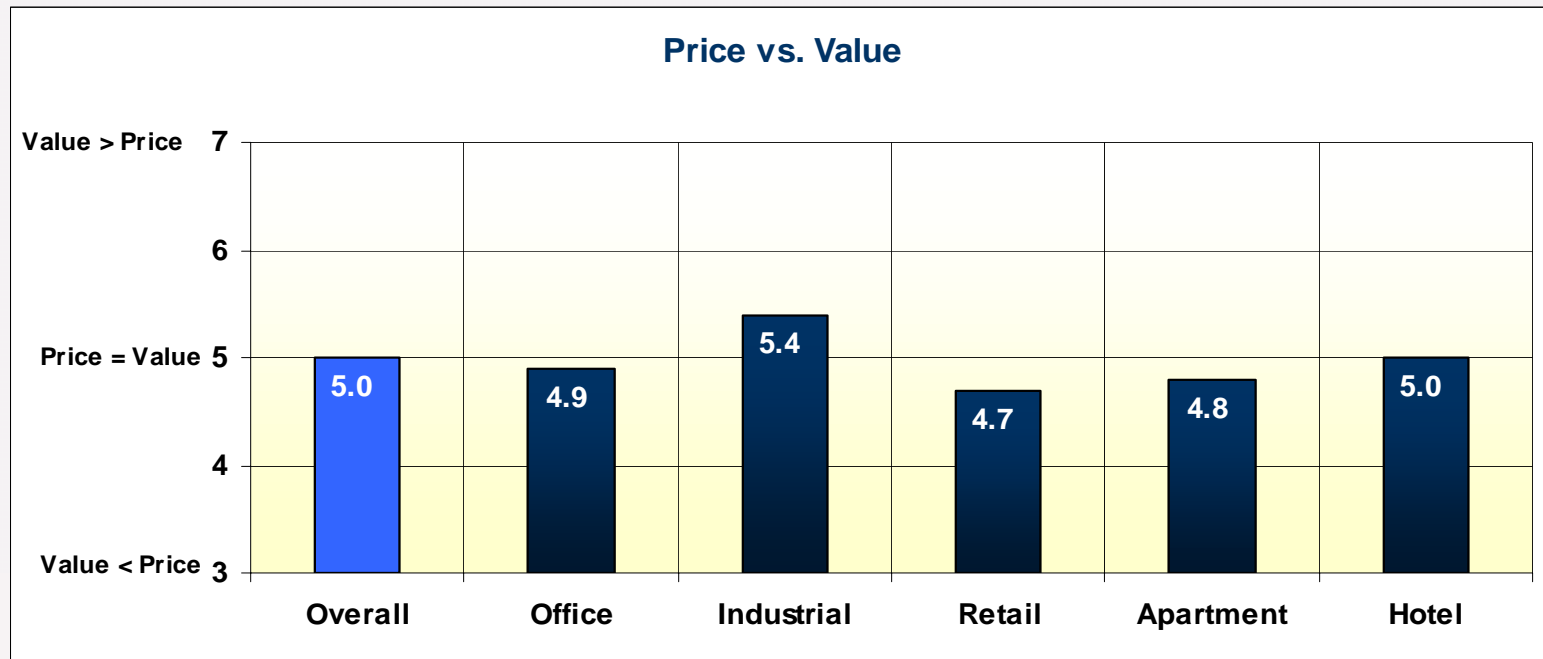
•Rating the relationship between return and risk by property type on a scale of 1-10





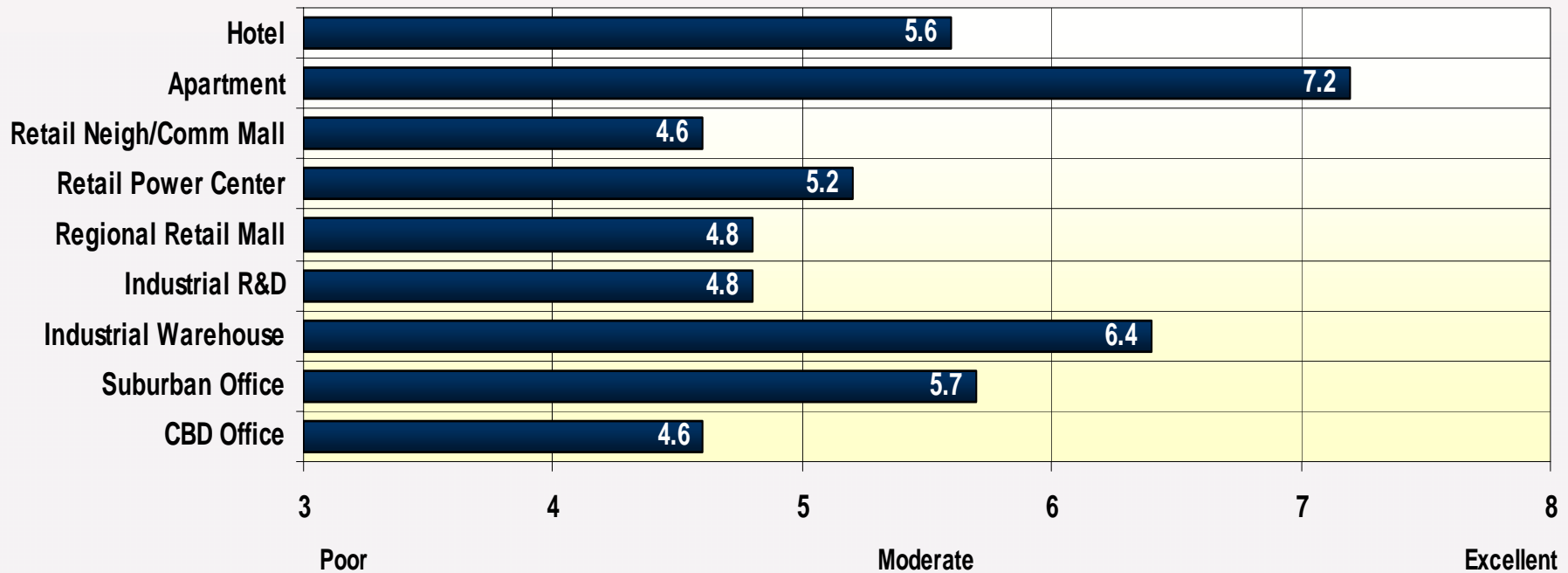
## Rating the relationship between price and value on a scale of 1-10

- Respondents view that prices are slightly above value in the case of the office, retail and apartment sectors





## New Orleans Current Investment Conditions

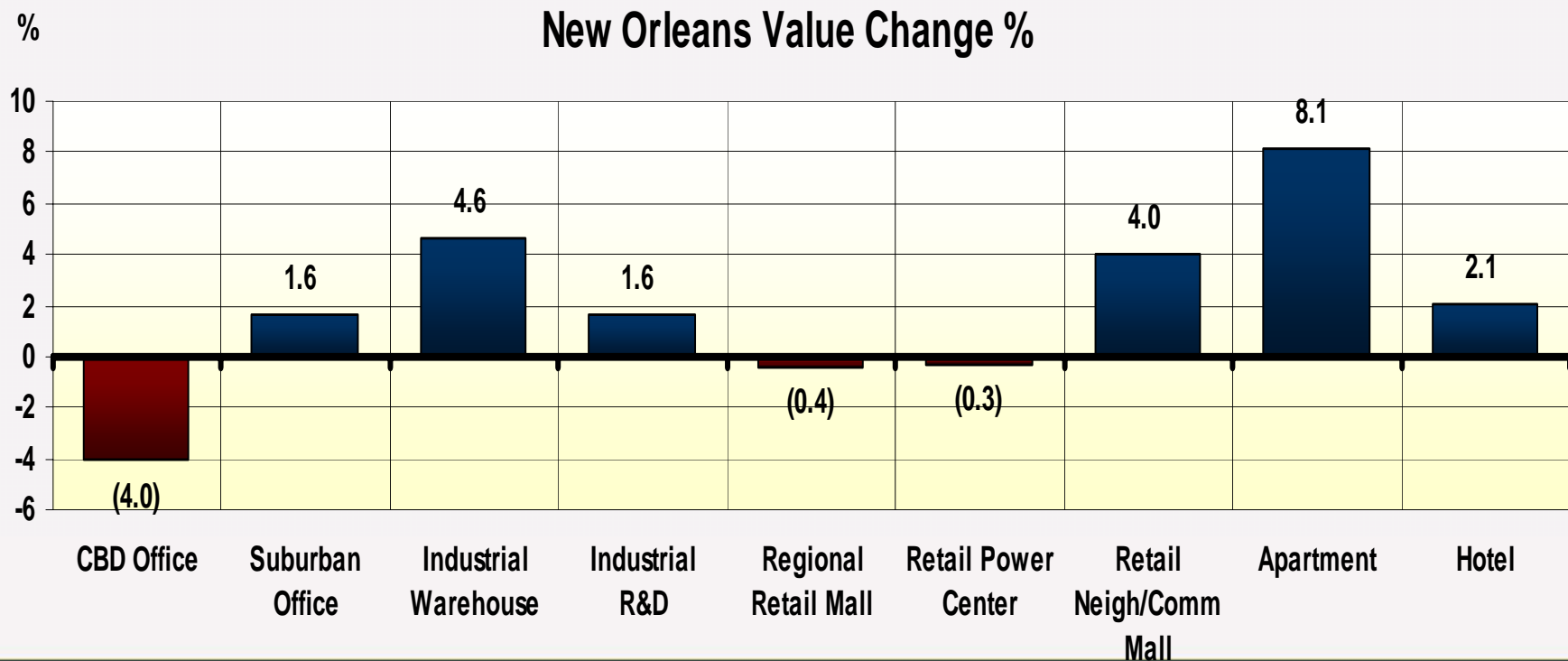


- Apartments provide the strongest investment conditions (post-Katrina)
- Hotel, retail power center, industrial warehouse and suburban office are all experiencing better than average investment conditions
- Neigh/Comm Malls and CBD Office are the weakest investment markets



## What will happen to values for specific property types in New Orleans over the next year?

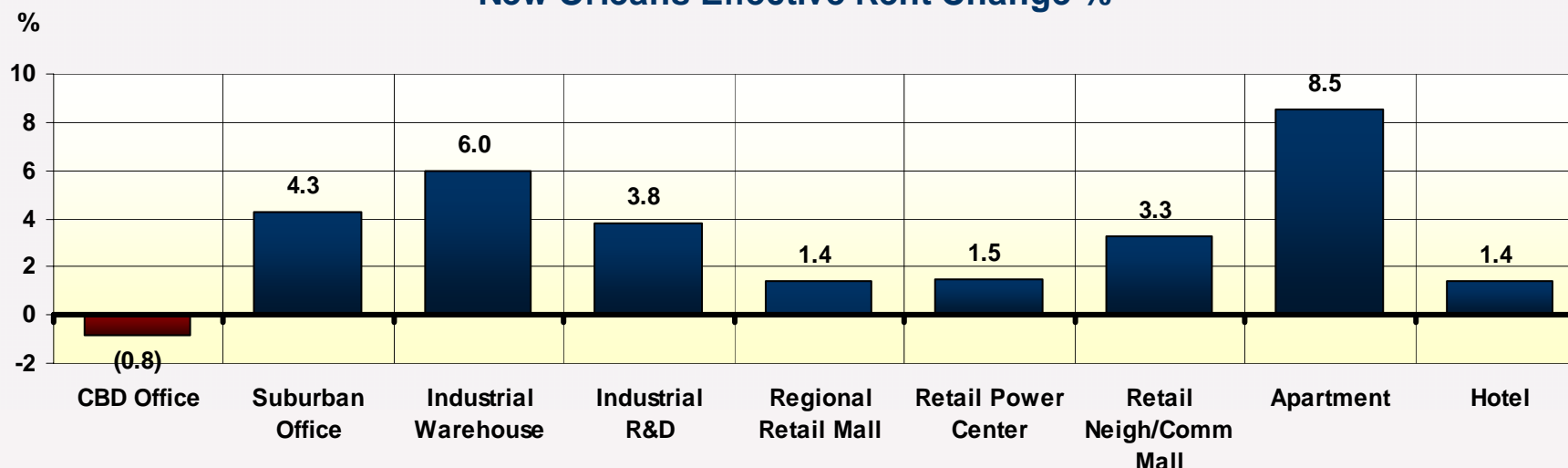
- CBD Office is expected to take the largest loss in value, while Apartment values are expected to grow 8.1%





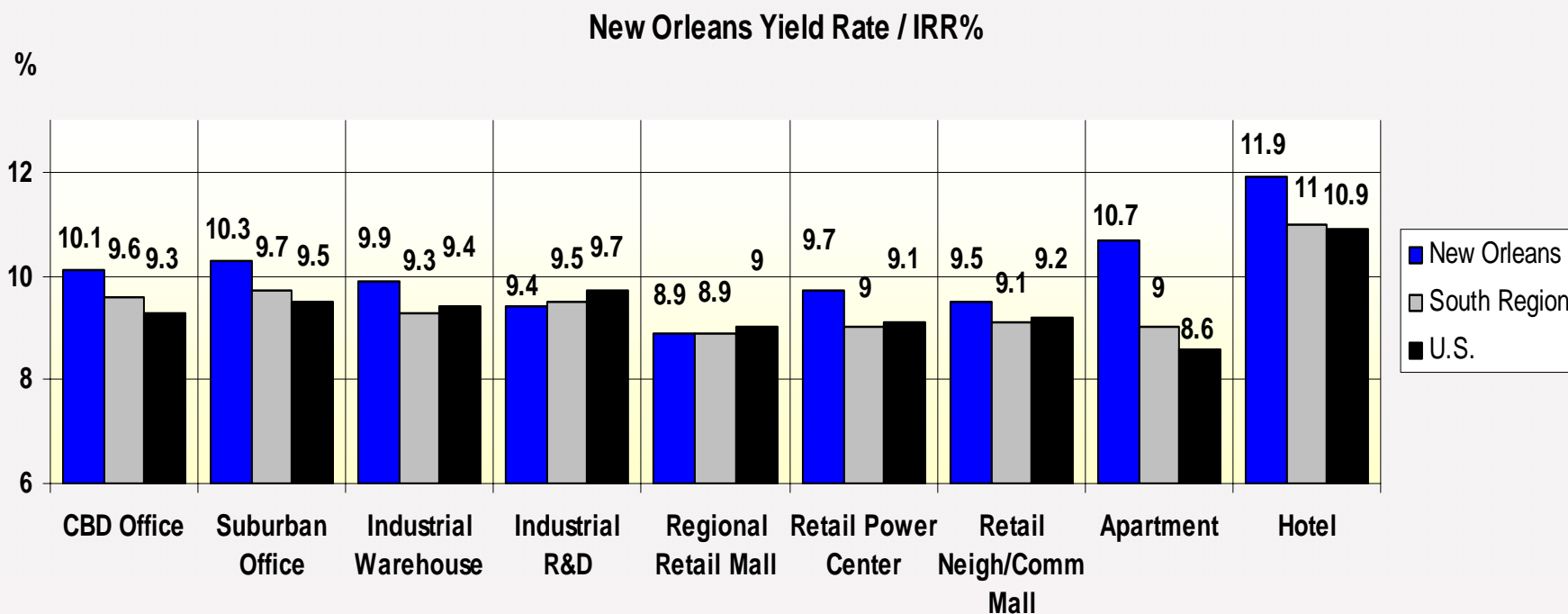
- What will happen to effective rents over the next year? Largest increases are expected in apartment and industrial warehouse rents
- Why are neigh/comm. mall rents increasing at more than twice the rate of retail power centers and regional retail malls?

New Orleans Effective Rent Change %





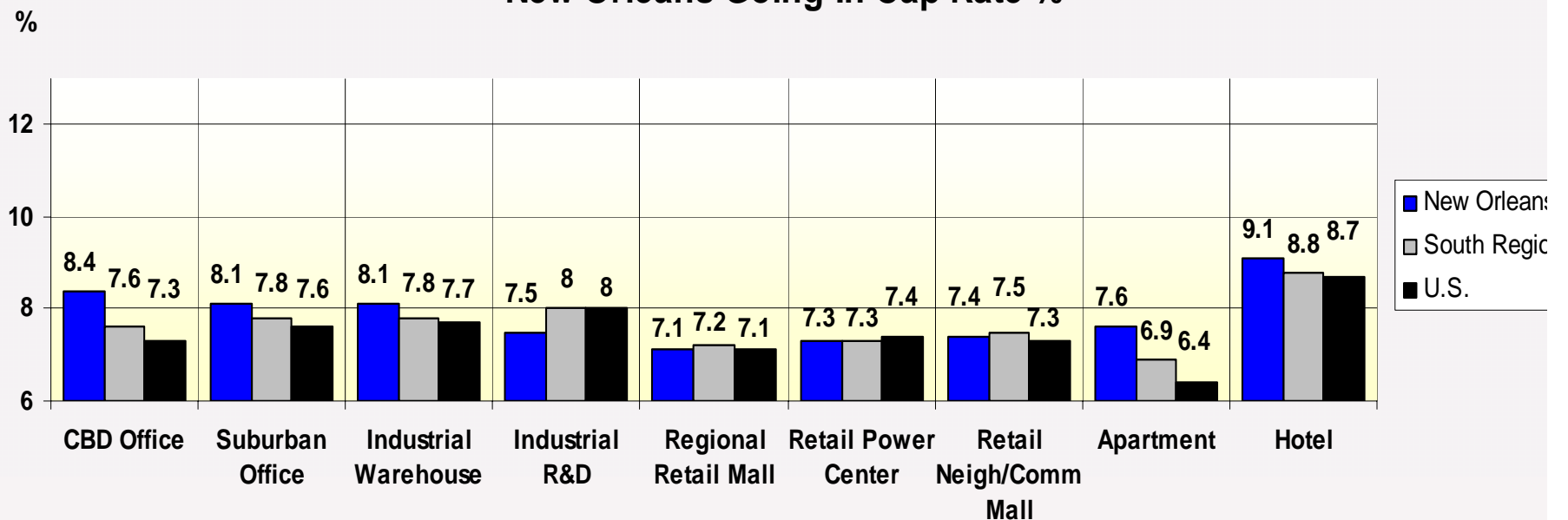
**Required returns are the highest for hotels and apartments, while apartments are also expected to provide the best investment conditions and highest value growth**





- **Retail is still showing equal or lower cap rates for post-Katrina New Orleans than the Southern Region**
- **Industrial R&D cap rates are 50bps lower than the Southern and National averages**

New Orleans Going-In Cap Rate %





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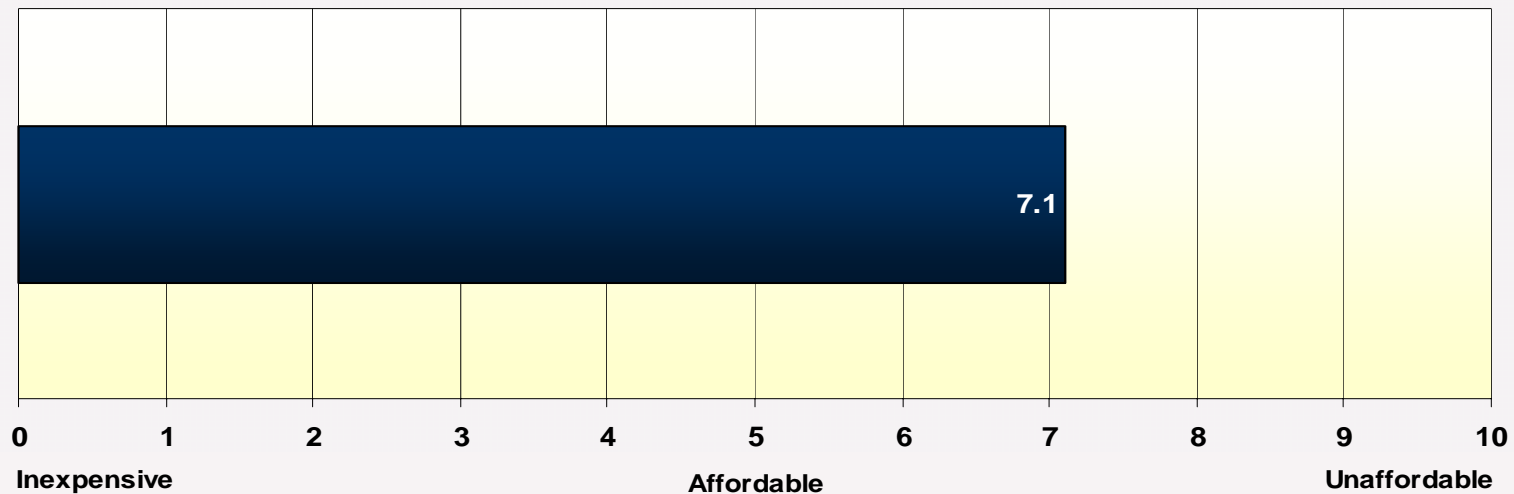
**At nearly \$40 Billion, Hurricane Katrina was the most expensive hurricane for insurance companies in U.S. history. This is approximately twice that of Hurricane Andrew, ranking second among the most expensive hurricanes in 2005 dollars.**



## How will Hurricane Katrina impact the affordability of insurance?

- Respondents believe insurance rates will become significantly unaffordable

Property Insurance Affordability





## How will increased premiums affect the New Orleans investment market?

- Respondents believe insurance rates will have a significantly negative effect on returns and investments

### Impact of Insurance Availability and Cost on Returns & Investments

