



*“Get Ready For The Age Of Real Estate”*

**BOMA Metro Detroit  
Special Presentation  
Livonia, Michigan  
November 12, 2009**

**Presented By:  
Christopher Lee, President & Chief Executive Officer  
CEL & ASSOCIATES, INC.  
(310) 571-3113**

# TODAY'S PRESENTATION

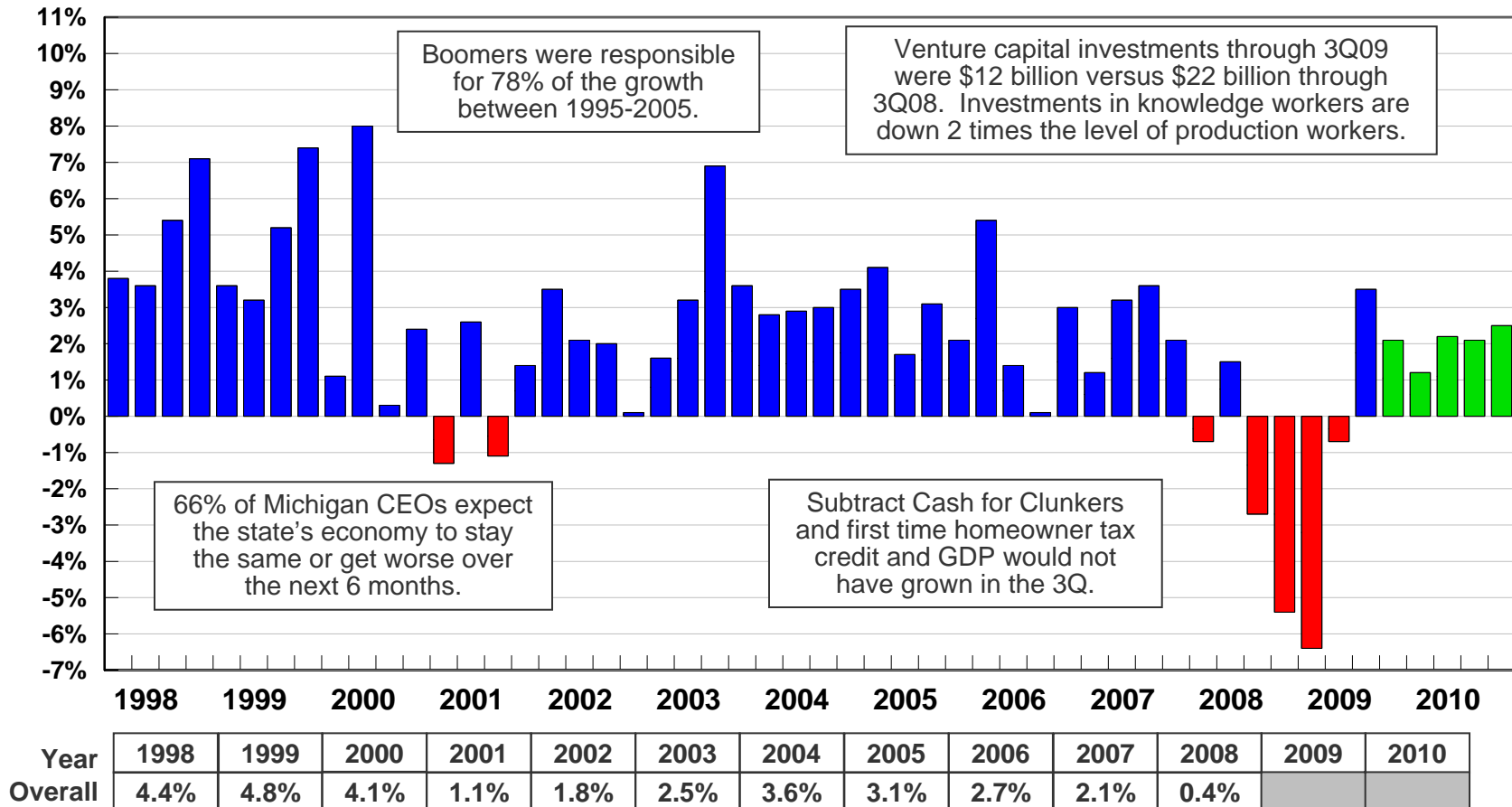
- Economic Outlook
- Real Estate Capital Markets Outlook
- Real Estate Outlook
- Real Estate Cycles – 1973 – 2032
- Preparing For The New Normal



# ECONOMIC OUTLOOK

# GROSS DOMESTIC PRODUCT

## (Percent Change, Seasonally Adjusted Annual Rate)

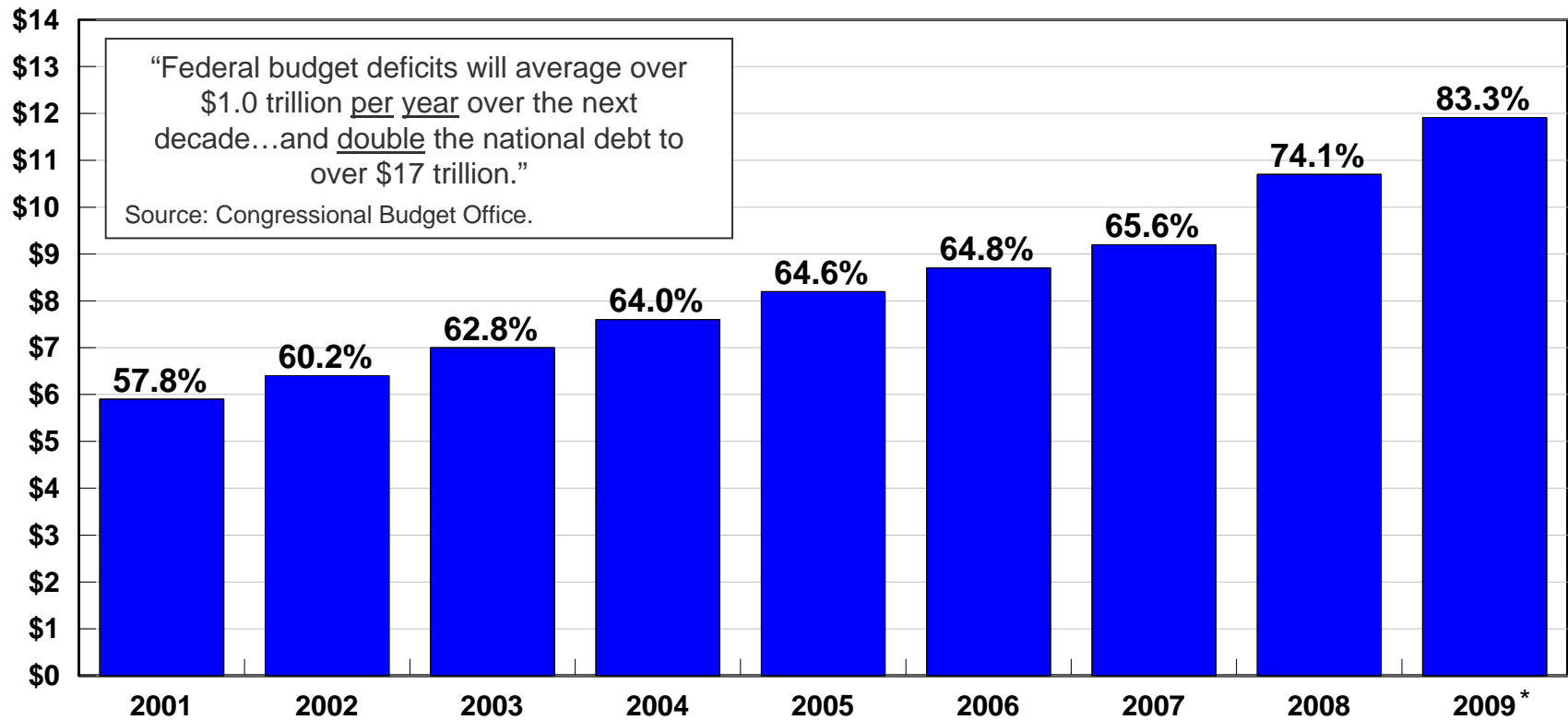


Source: Bureau Of Economic Analysis. (Green denotes projections.)

# FEDERAL DEBT PERSPECTIVE

## (Debt As A % Of GDP)

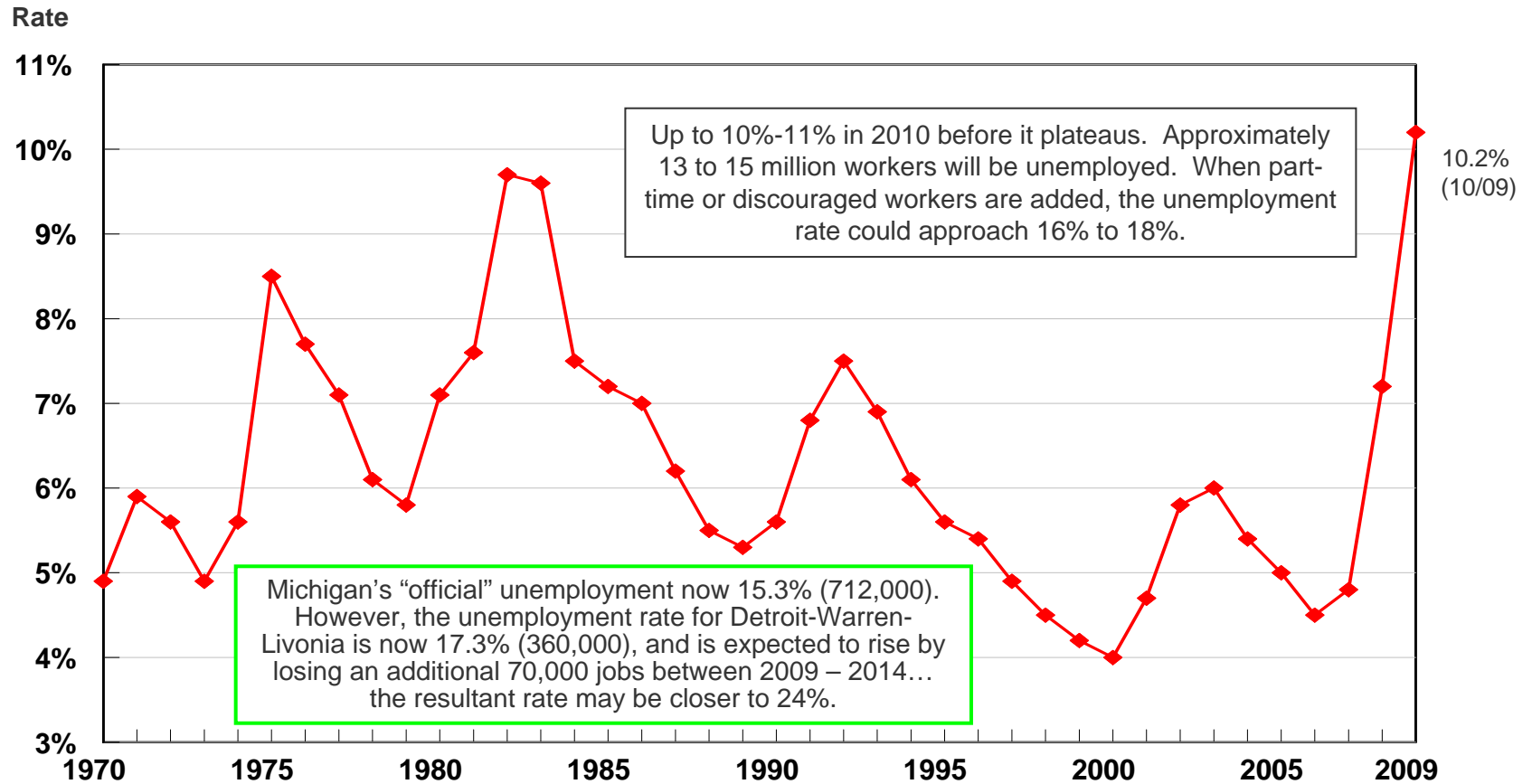
\$Trillions



\* 3Q 2009.

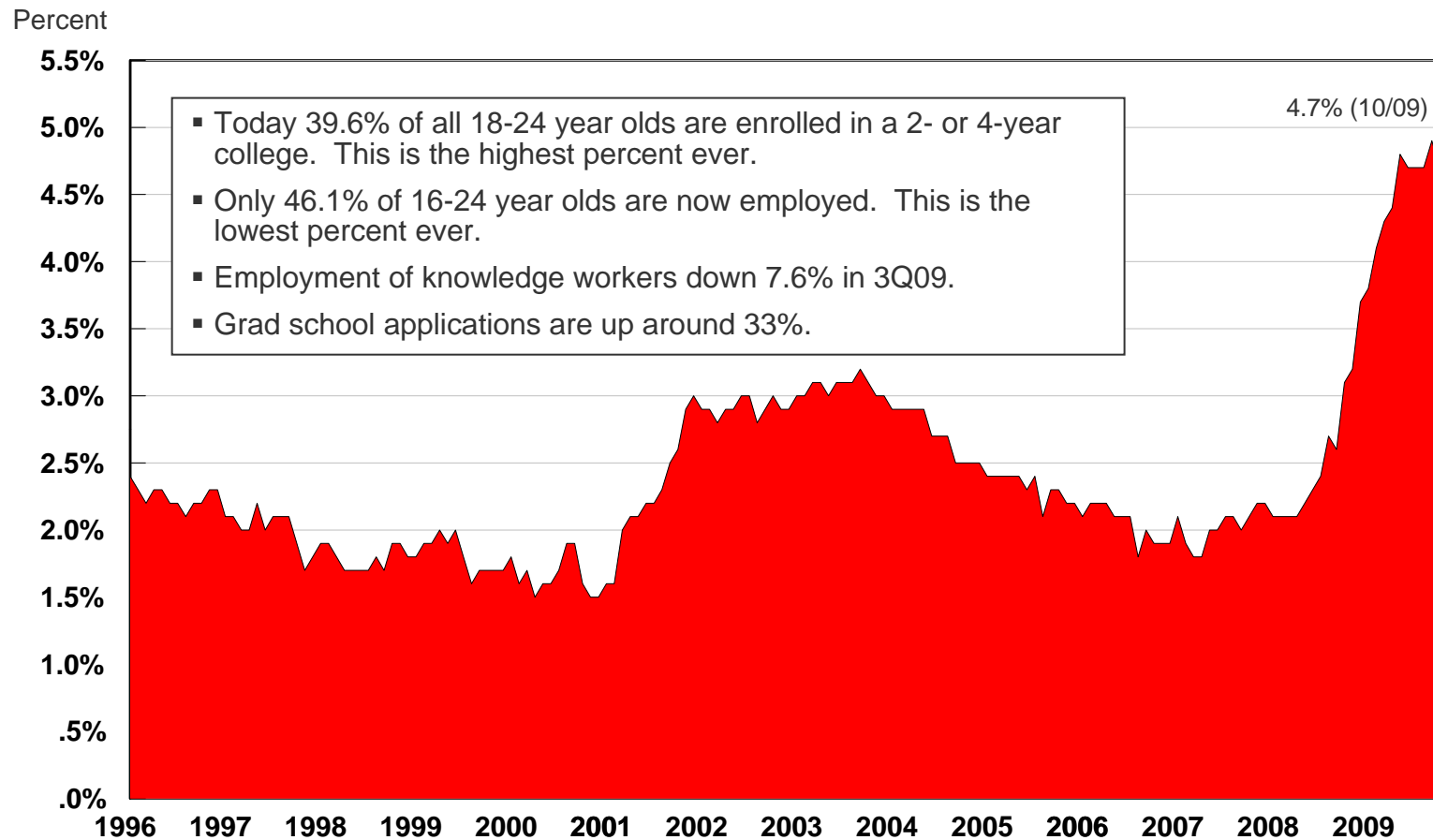
Source: Bureau of Economic Analysis.

# UNEMPLOYMENT RATE REMAINS HIGH



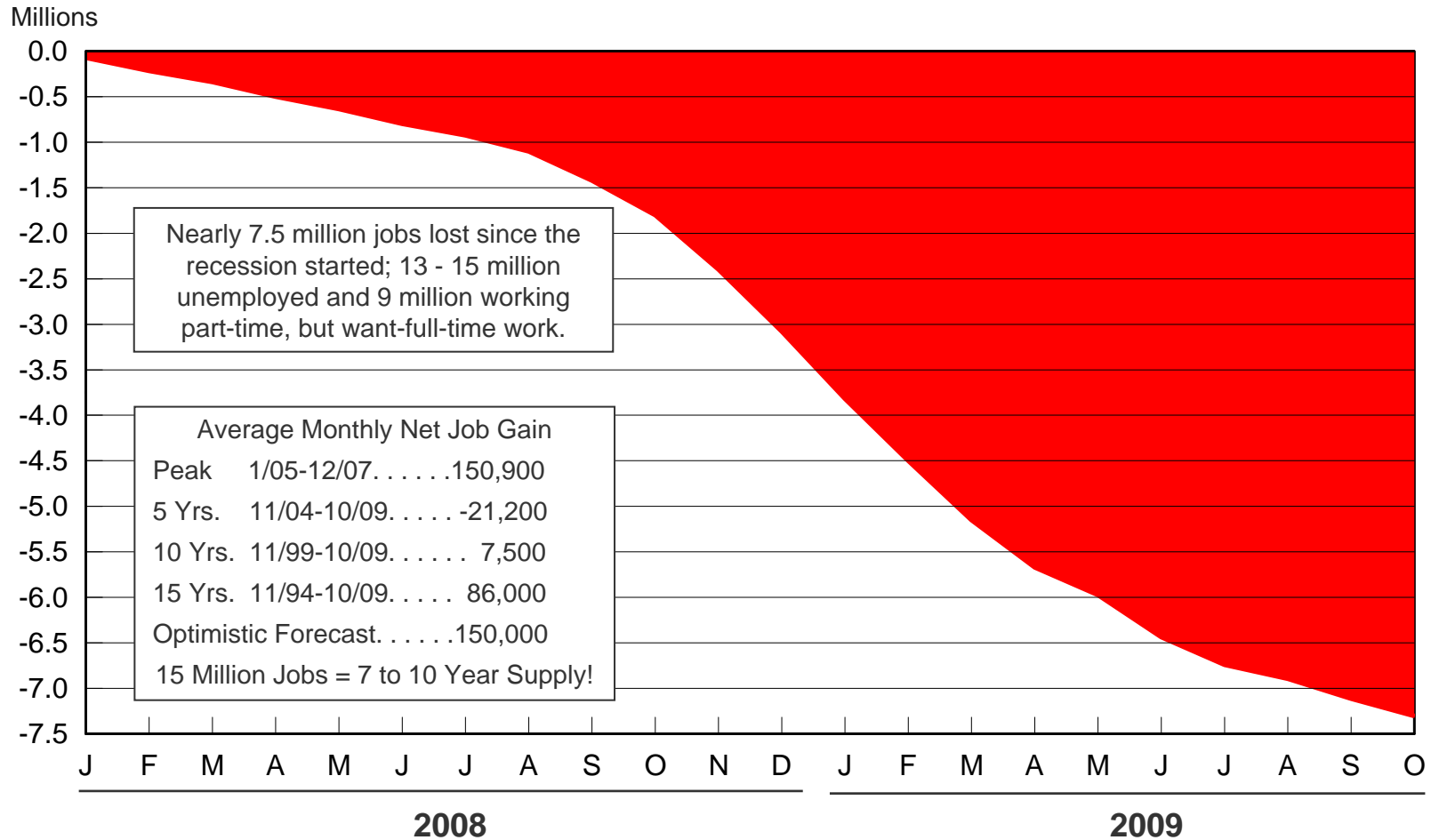
Source: U.S. Bureau of Labor Statistics.

# UNEMPLOYMENT RATE COLLEGE GRADUATES



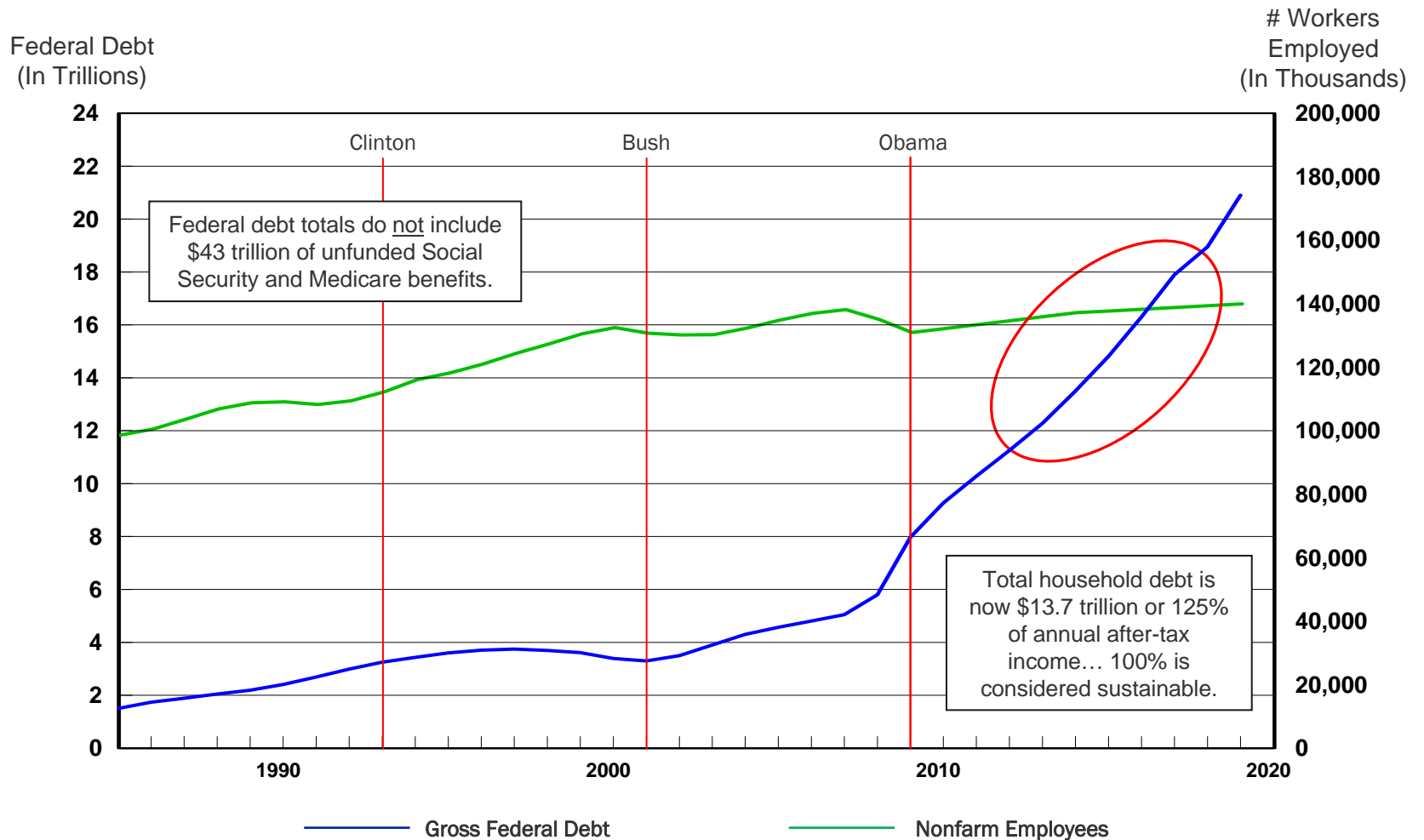
Source: U.S. Bureau of Labor Statistics.

# CUMULATIVE JOB LOSSES SINCE JANUARY 2008



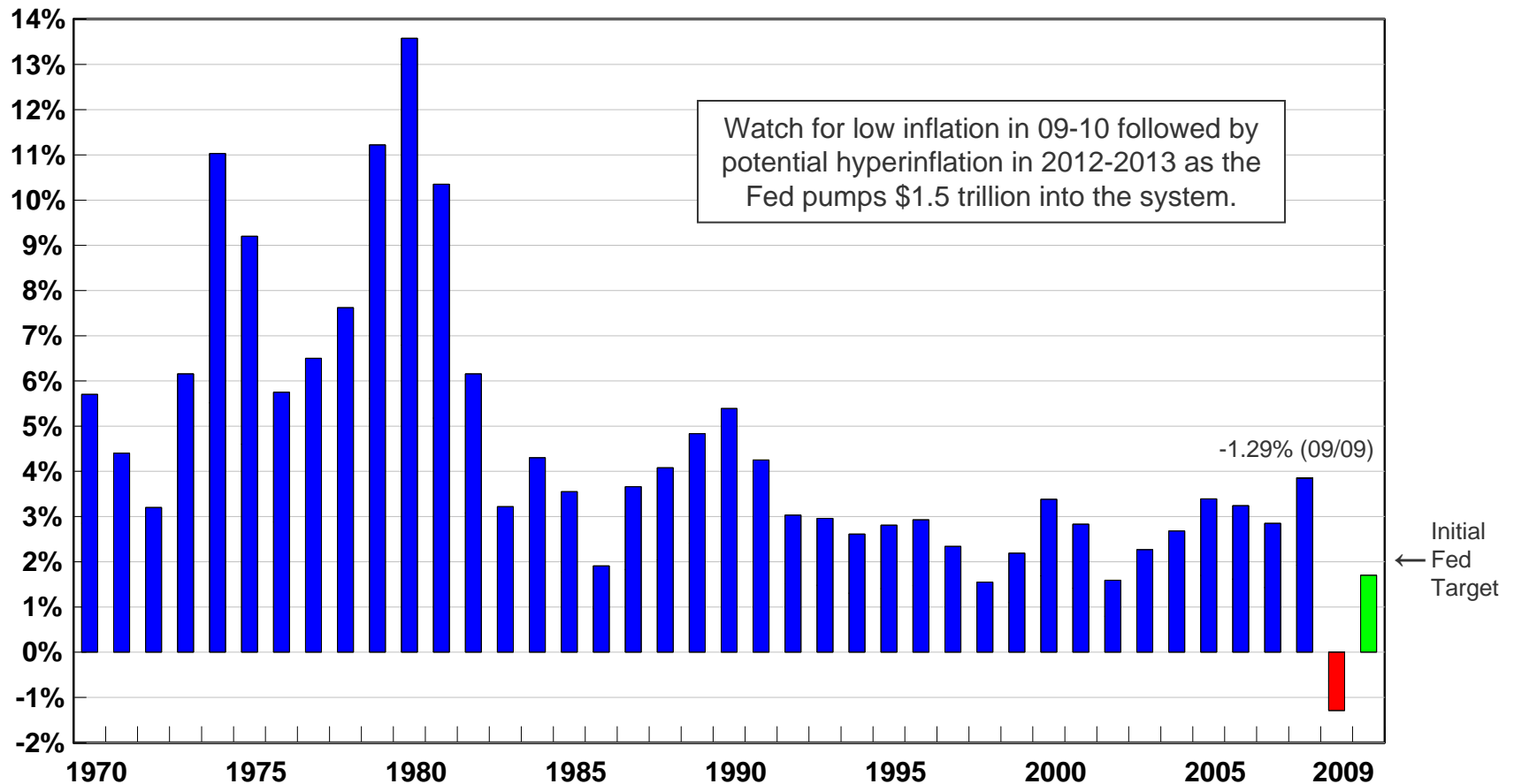
Source: U.S. Bureau of Labor Statistics.

# RATIO U.S. WORKERS TO FEDERAL DEBT



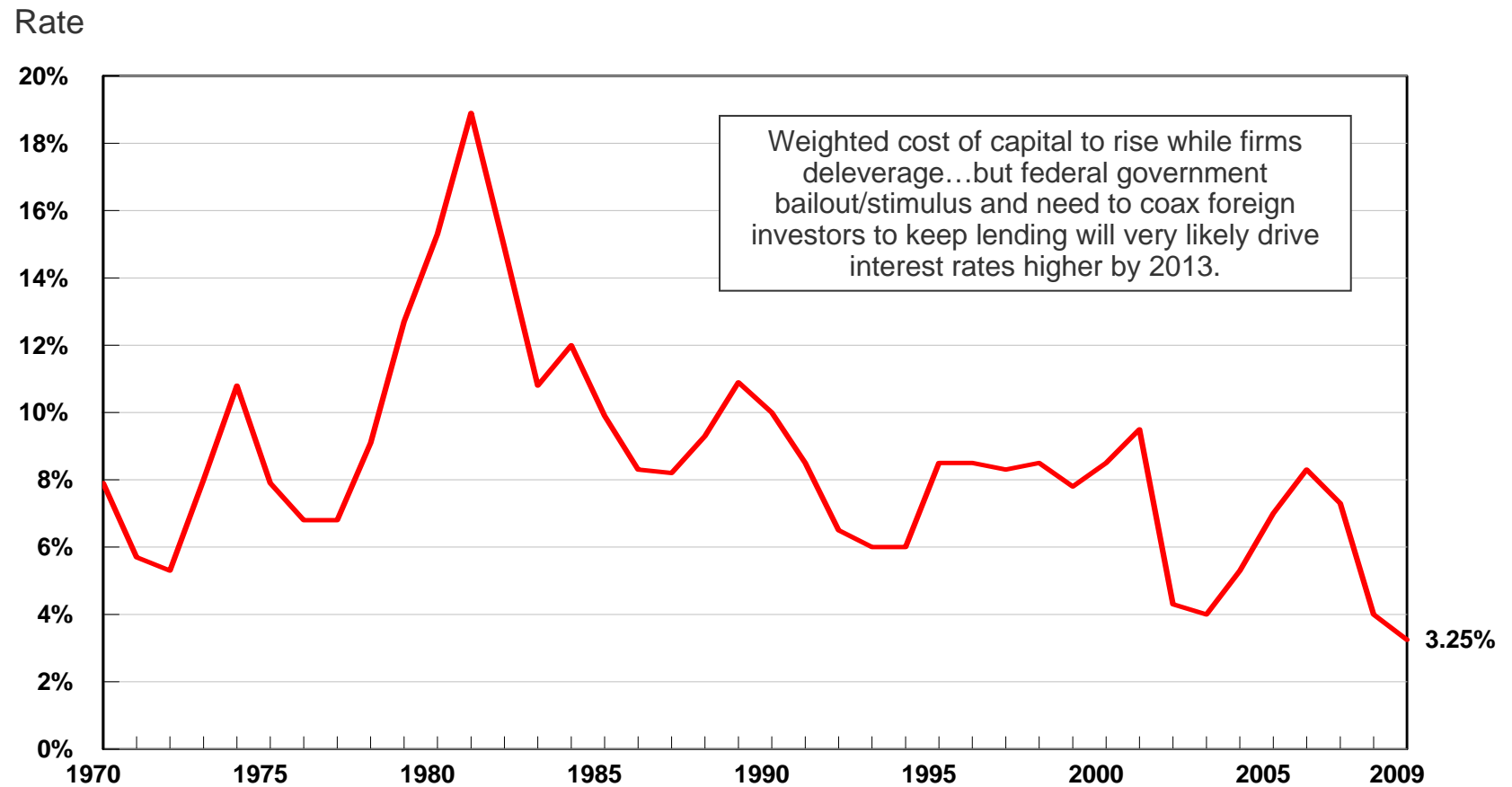
Source: U.S. Department Of Treasury, U.S. Office Of Management And Budget, Heritage Foundation and Congressional Budget Office.

# U.S. ANNUALIZED INFLATION RATE



Green denotes projections.  
Source: Bureau of Labor Statistics.

# PRIME INTEREST RATE 1970 - 2009

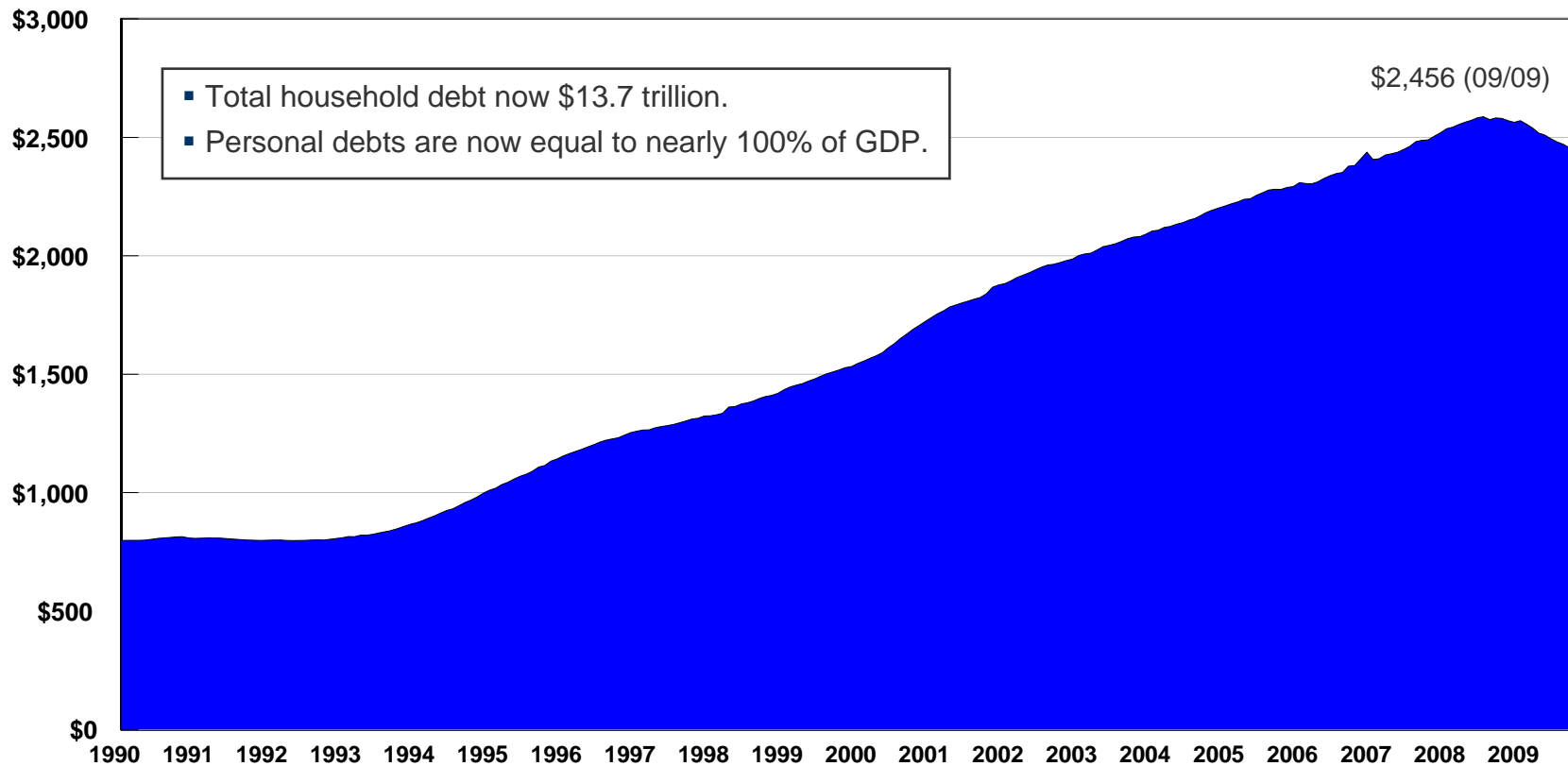


Source: U.S. Federal Reserve. November 2009.

# RISING CONSUMER DEBT

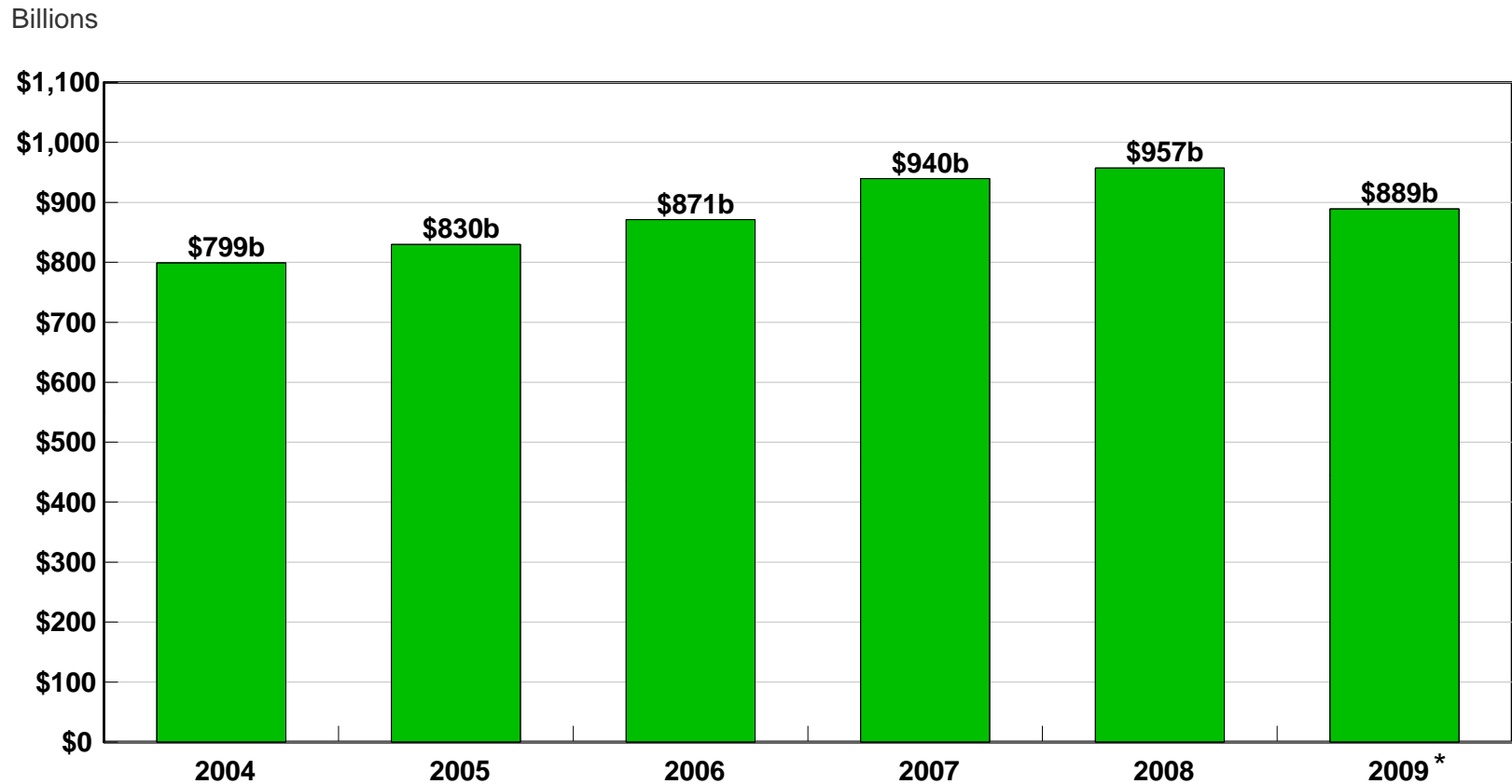
## 1990 - 2009

(Billions \$)



Source: U.S. Federal Reserve.

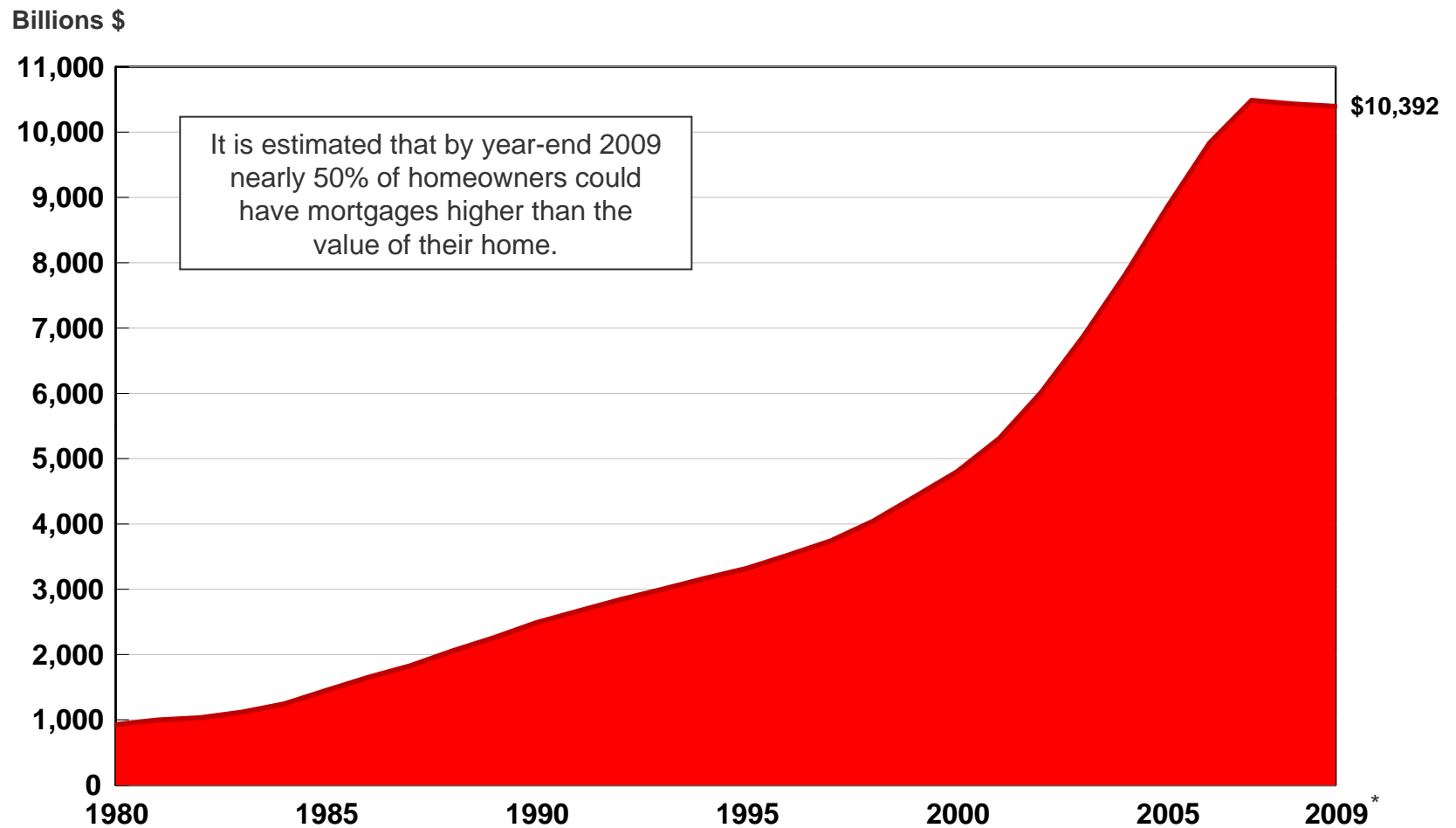
# “FRUGAL” NOW DESCRIBES REVOLVING CONSUMER CREDIT DEBT



\* September 2009.

Source: U.S. Federal Reserve.

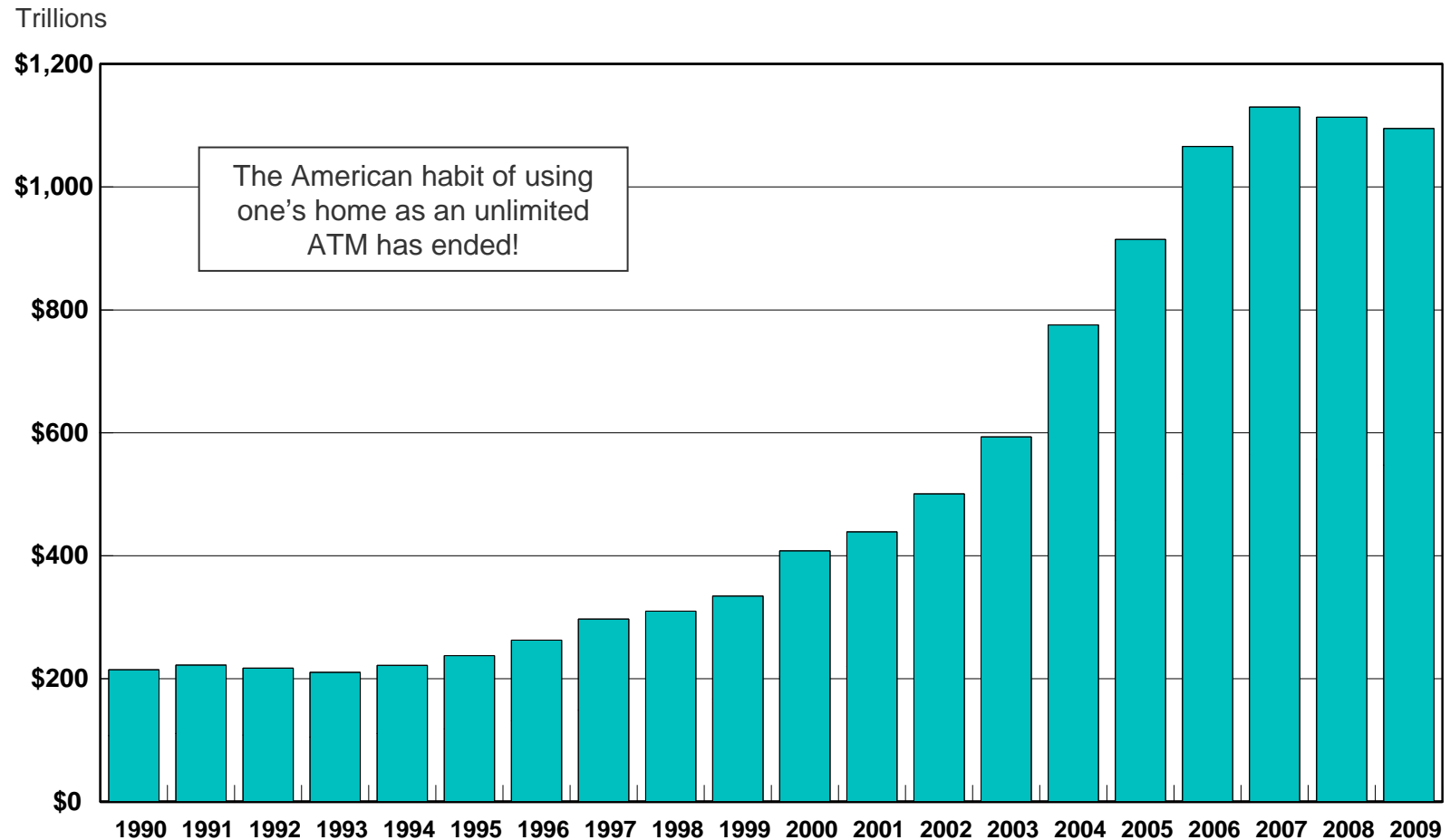
# HOME MORTGAGE DEBT



\* 2Q 2009.

Source: U.S. Federal Reserve.

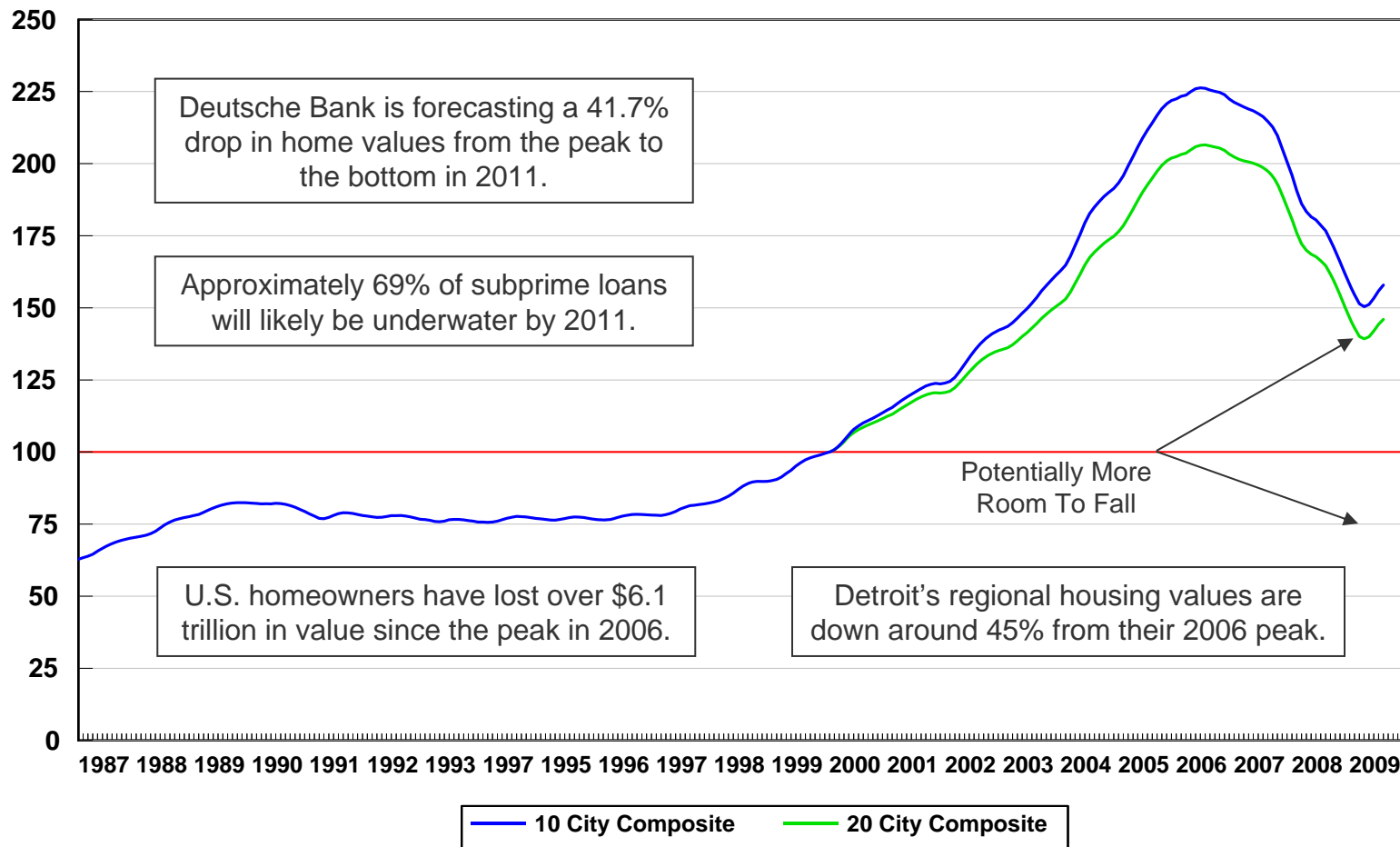
# TOTAL HOME EQUITY LOANS OUTSTANDING



Loans made under home equity lines of credit and home equity loans secured by junior liens. Excludes home equity loans held by individuals.

Source: U.S. Federal Reserve.

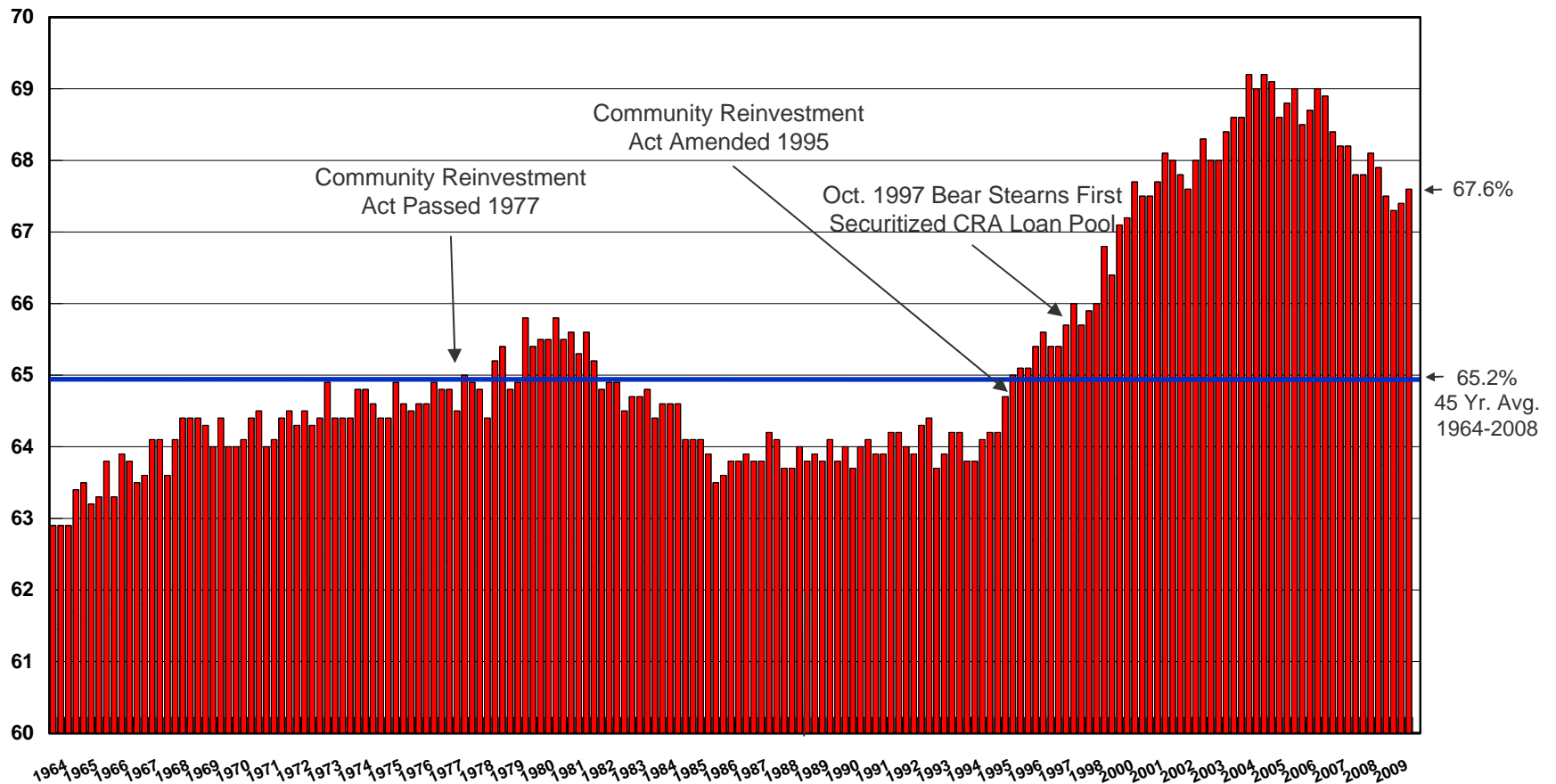
# S&P/CASE-SHILLER HOME PRICE INDICES



August 2009. (Both indices have base value of 100 in January 2000.)  
Source: Standard & Poor's.

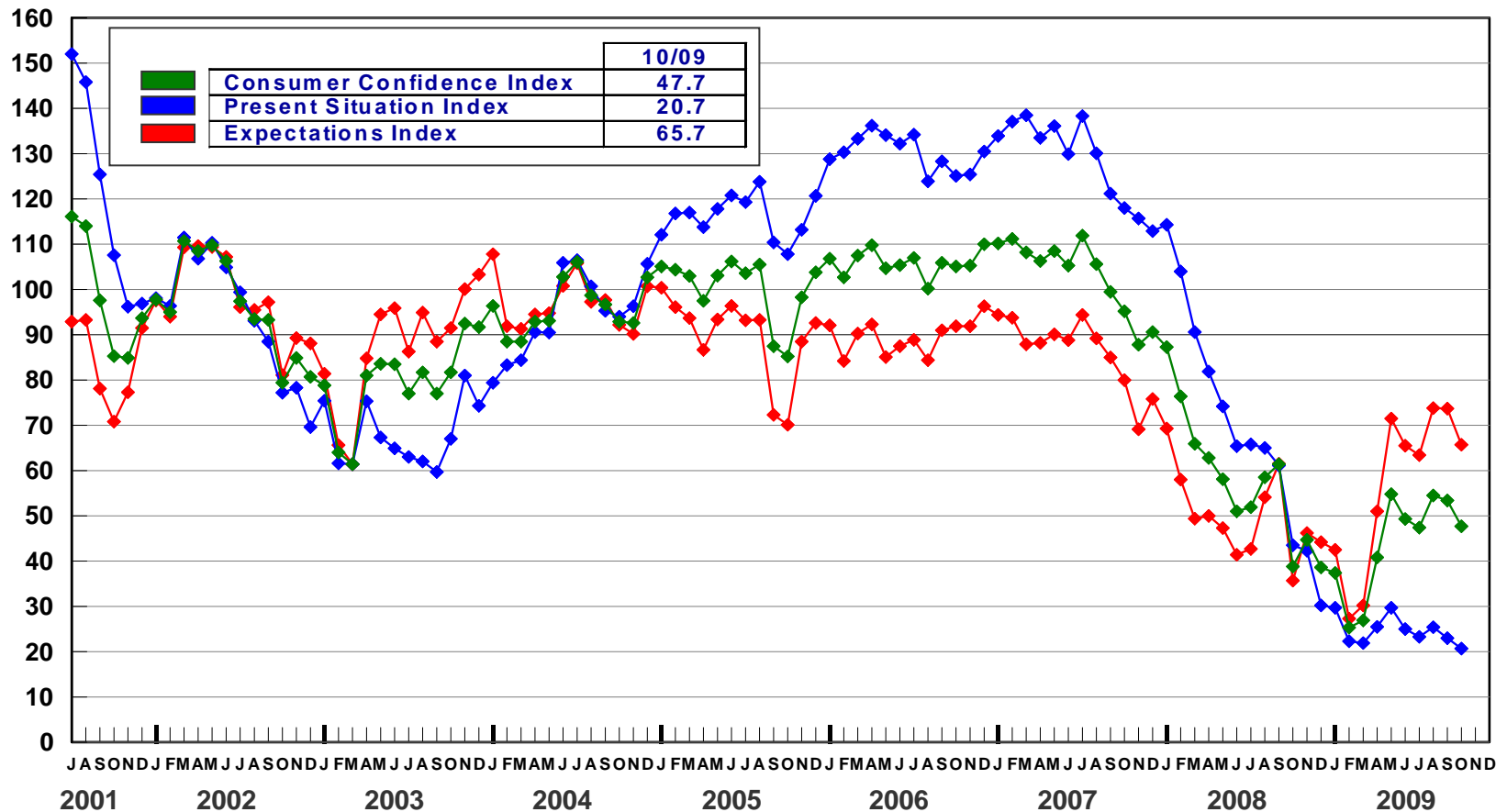
# U.S. HOME OWNERSHIP 1964 - 2009

Percent



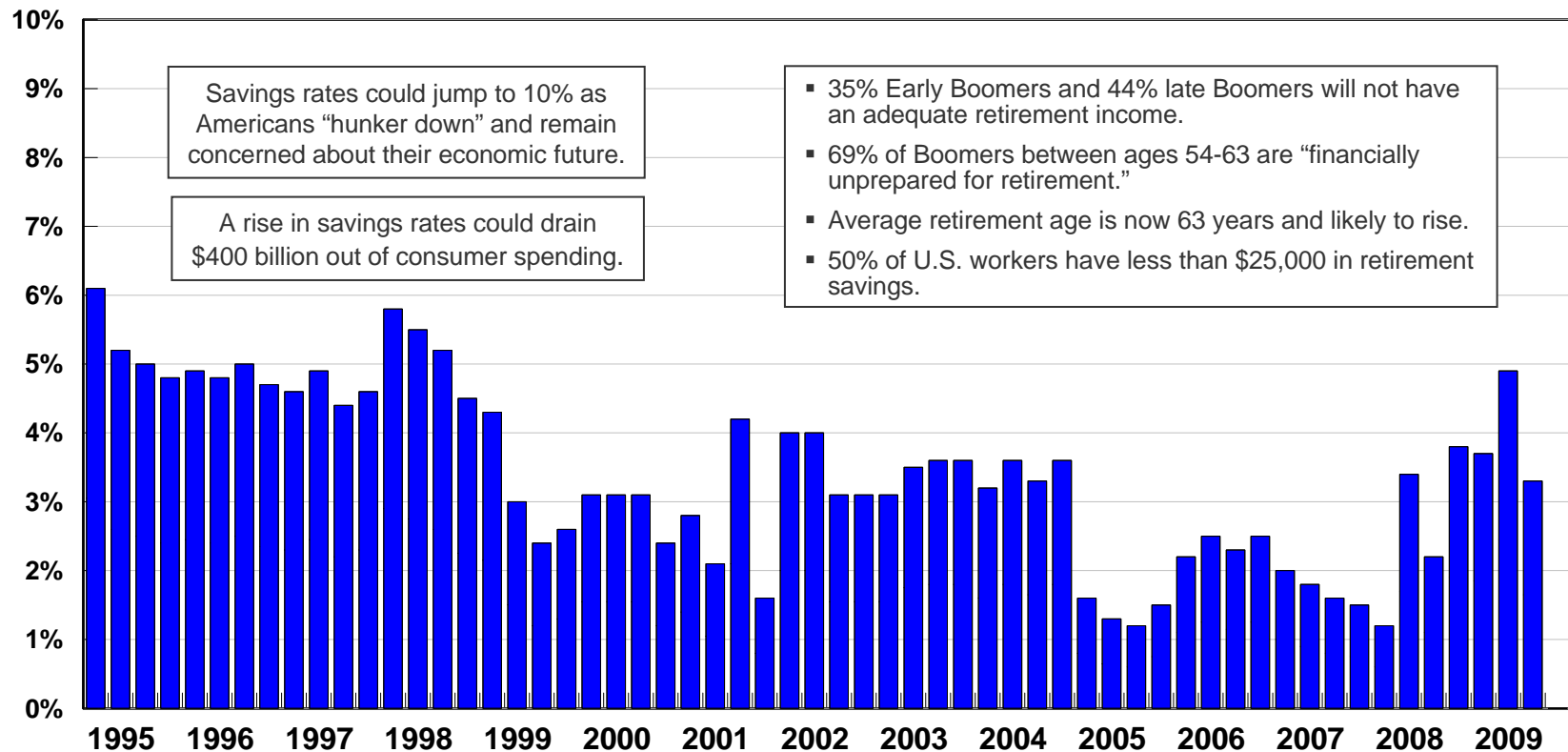
Source: Current Population Survey/Housing Vacancy Survey, Series H-111 Reports, U.S. Bureau of the Census. 3Q 2009.

# CONSUMER CONFIDENCE CONTINUES TO WAIVER



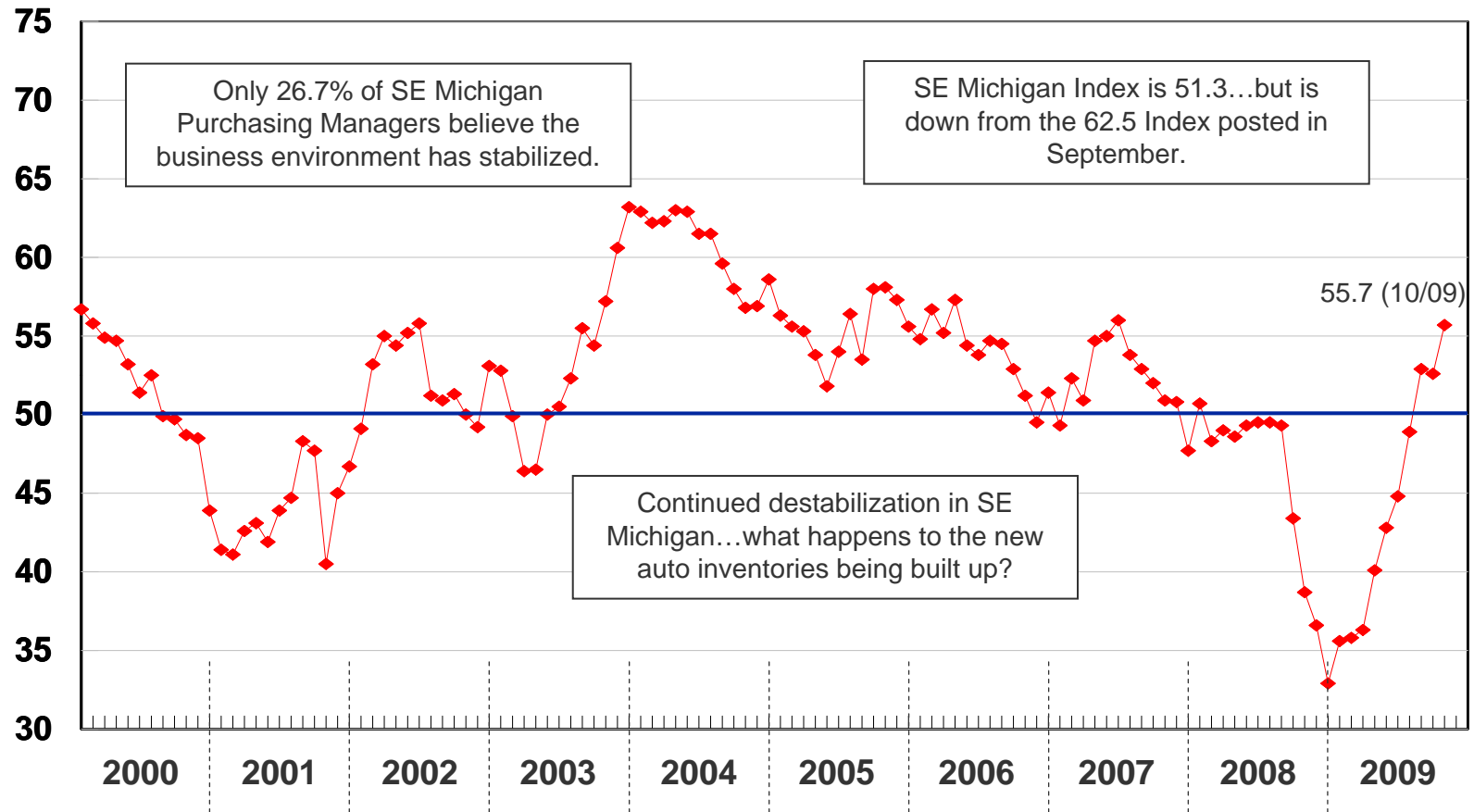
Source: The Conference Board.

# PERSONAL SAVINGS RATE CONTINUES TO RISE



Source: Bureau Of Economic Analysis. 3Q 2009. Represents percent of disposable income.

# PURCHASING MANAGERS INDEX IMPROVING



• Over 50 = growing economy, Under 50 = declining economy.

Source: Institute for Supply Management.

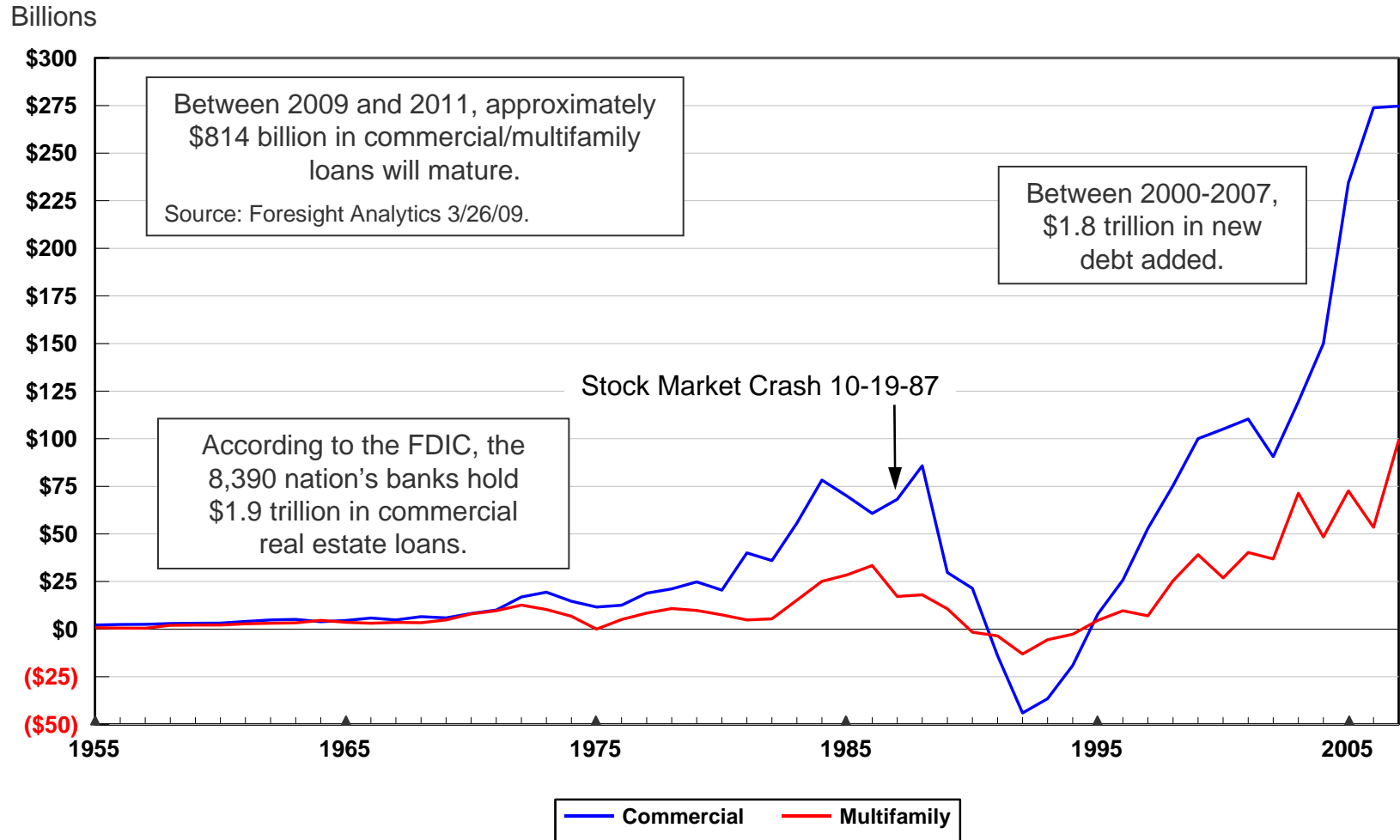
# OF NOTE...

- The likelihood of a massive tax increase in 2010 could reduce and delay the pace of economic recovery.
- The manufacturing capacity utilization level (70.5) is very low by historical standards.
- Wages and incomes are flat or declining.
- From the peak in 2007, household wealth has dropped nearly \$14 trillion through the 1Q of 2009.
- Moody's estimates that U.S. banks will need to write off \$400 billion in 2010...credit will be in very limited supply.
- Approximately 1,000 banks are likely to fail (only 100 or so have failed YTD) and these failures will cost \$300 billion...trouble is...the FDIC only has \$10 billion in reserves today.
- All GDP and employment assumptions by the government do not include the impact of another 9/11, another natural disaster or an interruption of oil supplies from the Middle East.
- This is very likely going to be a long, long jobless recovery.



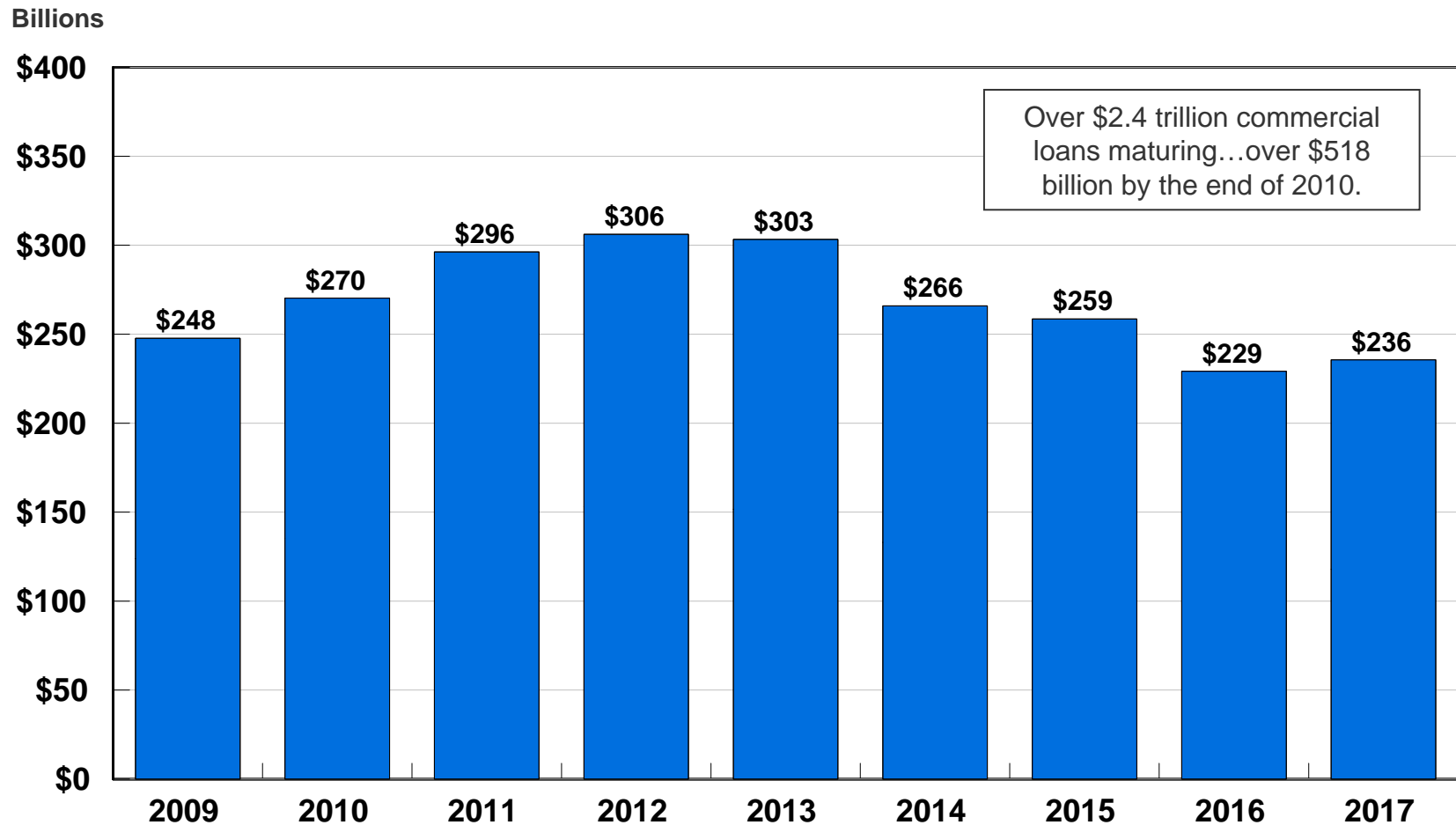
# REAL ESTATE CAPITAL MARKETS OUTLOOK

# COMMERCIAL & MULTIFAMILY BORROWING



Source: U.S. Federal Reserve.

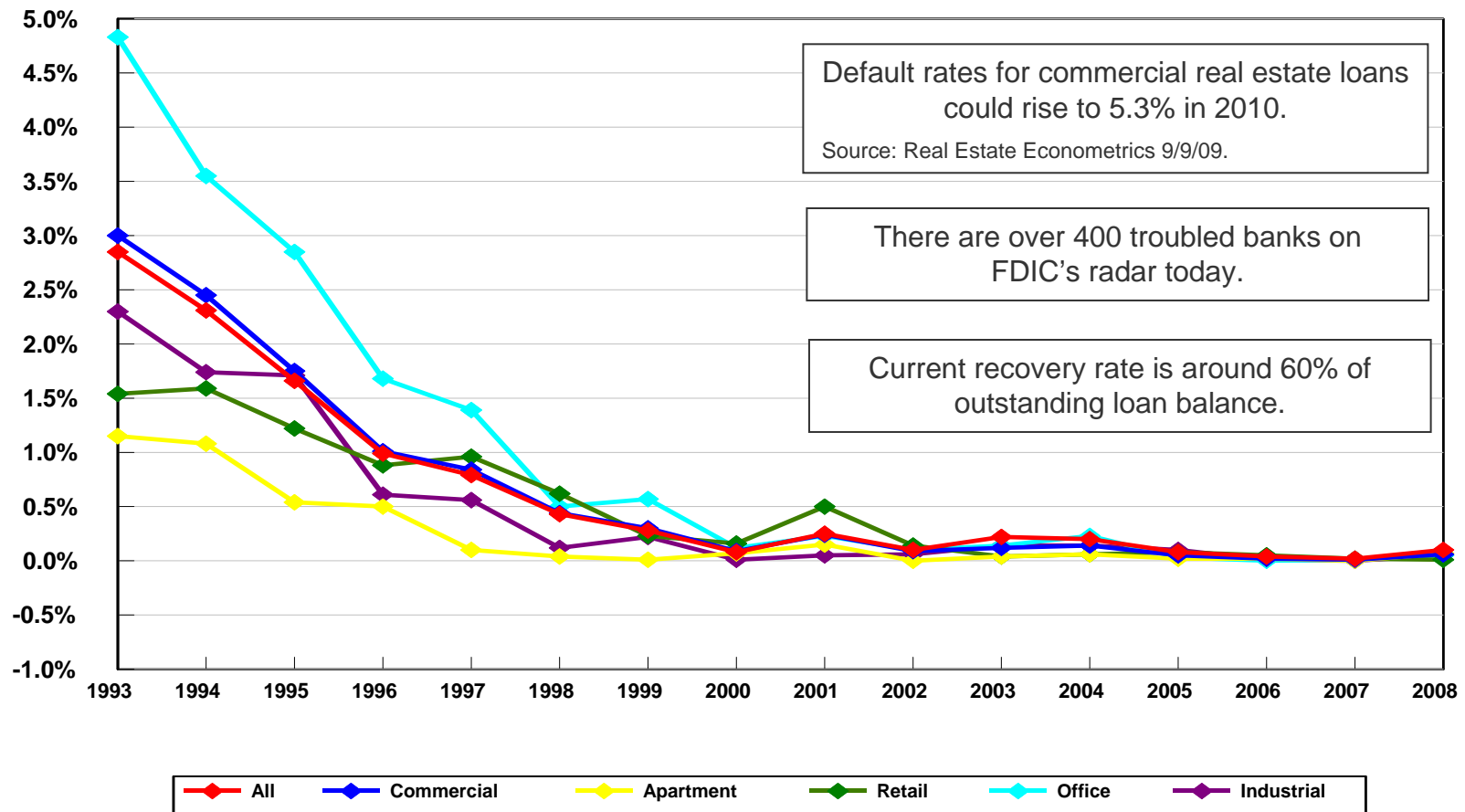
# COMMERCIAL LOAN MATURITIES



Source: U.S. Federal Reserve.

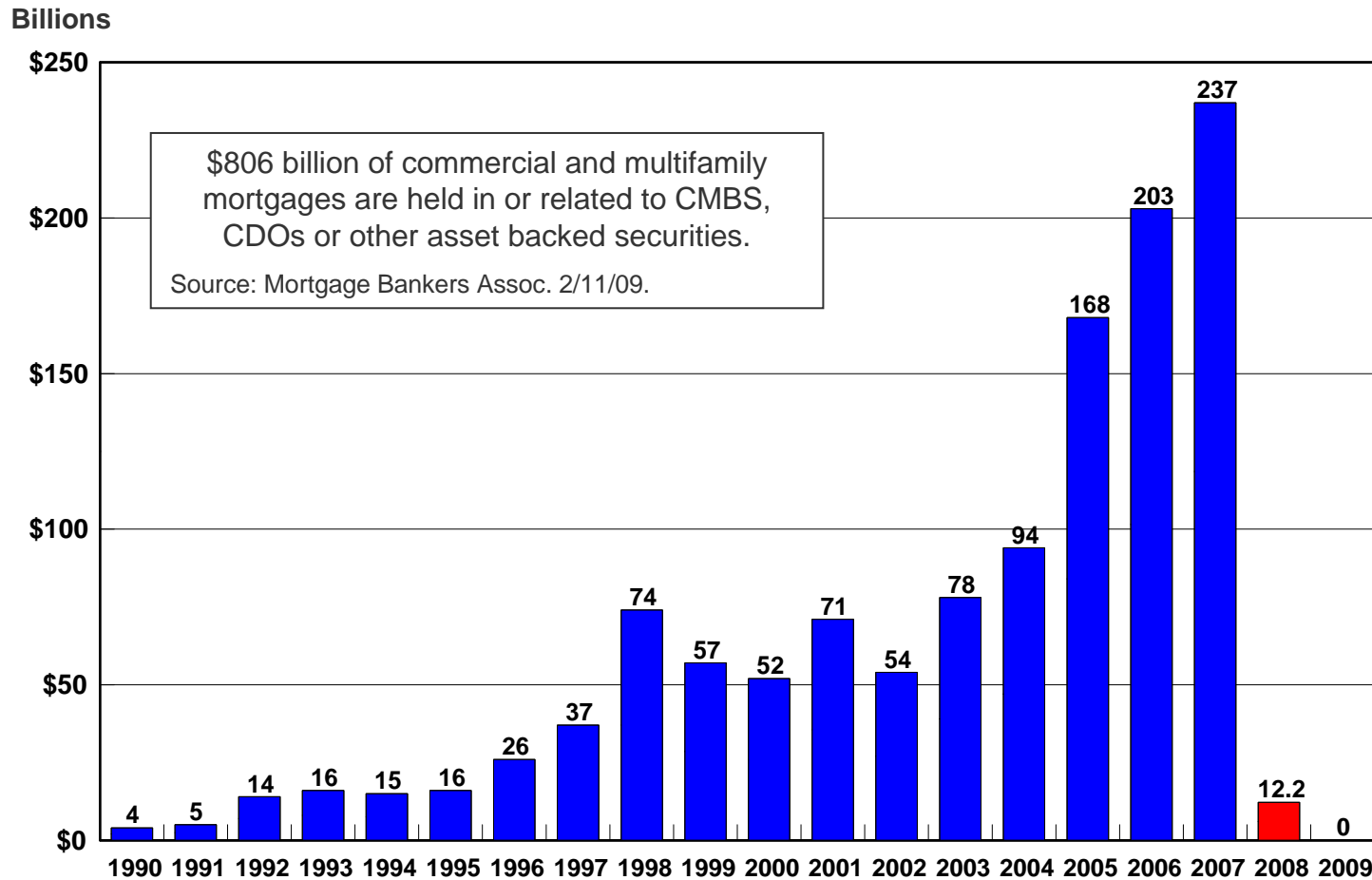
# MORTGAGE DELINQUENCY RATE

Annual Rates Of Completed Foreclosures



Source: American Council of Life Insurers.

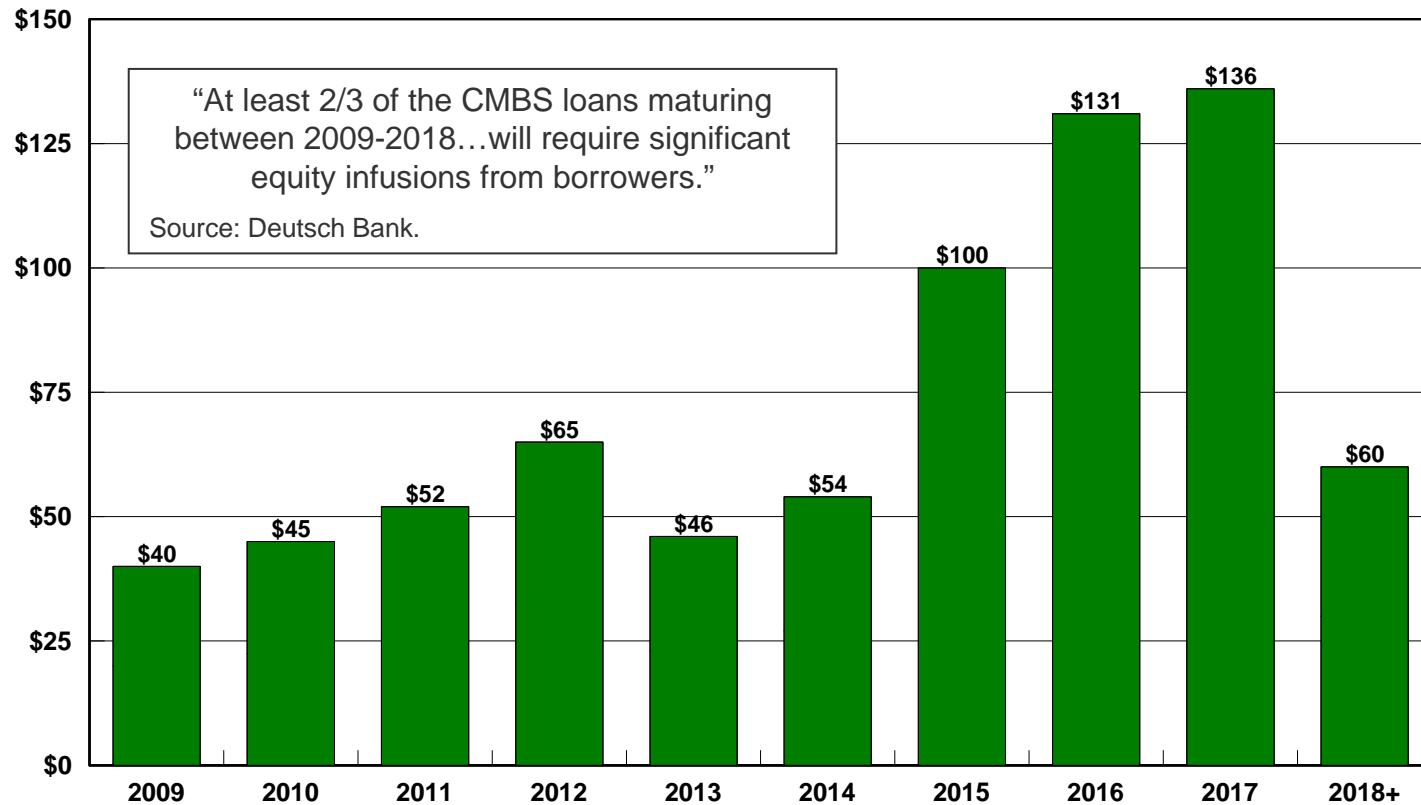
# CMBS ORIGINATION



Source: Mortgage Bankers Association, Wells Fargo, Eastdil Secured, Commercial Mortgage Alert and CEL & Associates, Inc.

# U.S. CMBS MATURITIES

Billions



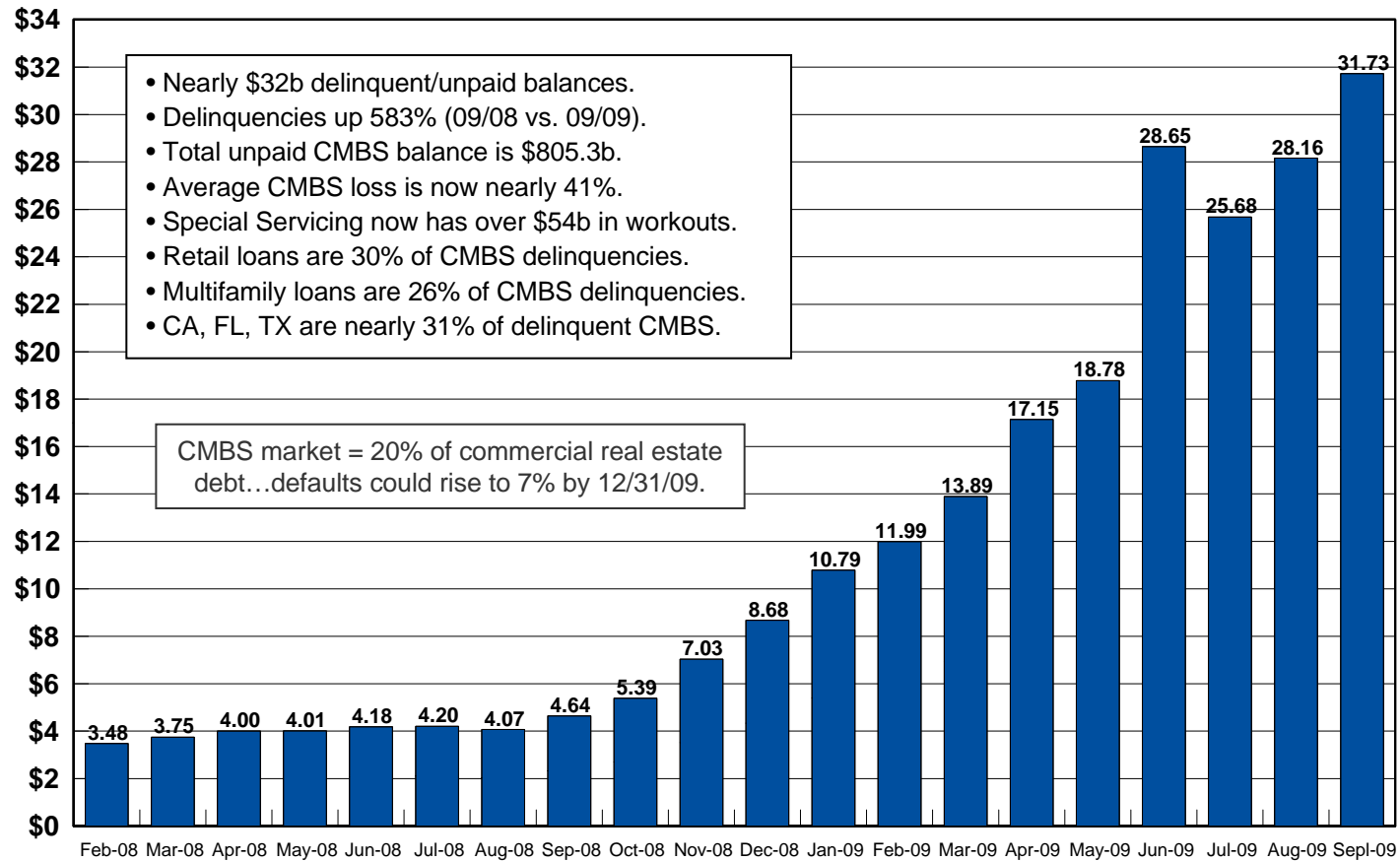
“At least 2/3 of the CMBS loans maturing between 2009-2018...will require significant equity infusions from borrowers.”

Source: Deutch Bank.

Source: Goldman Sachs.

# MONTHLY CMBS DELINQUENCIES

Billions



Source: Realpoint. September 2009.

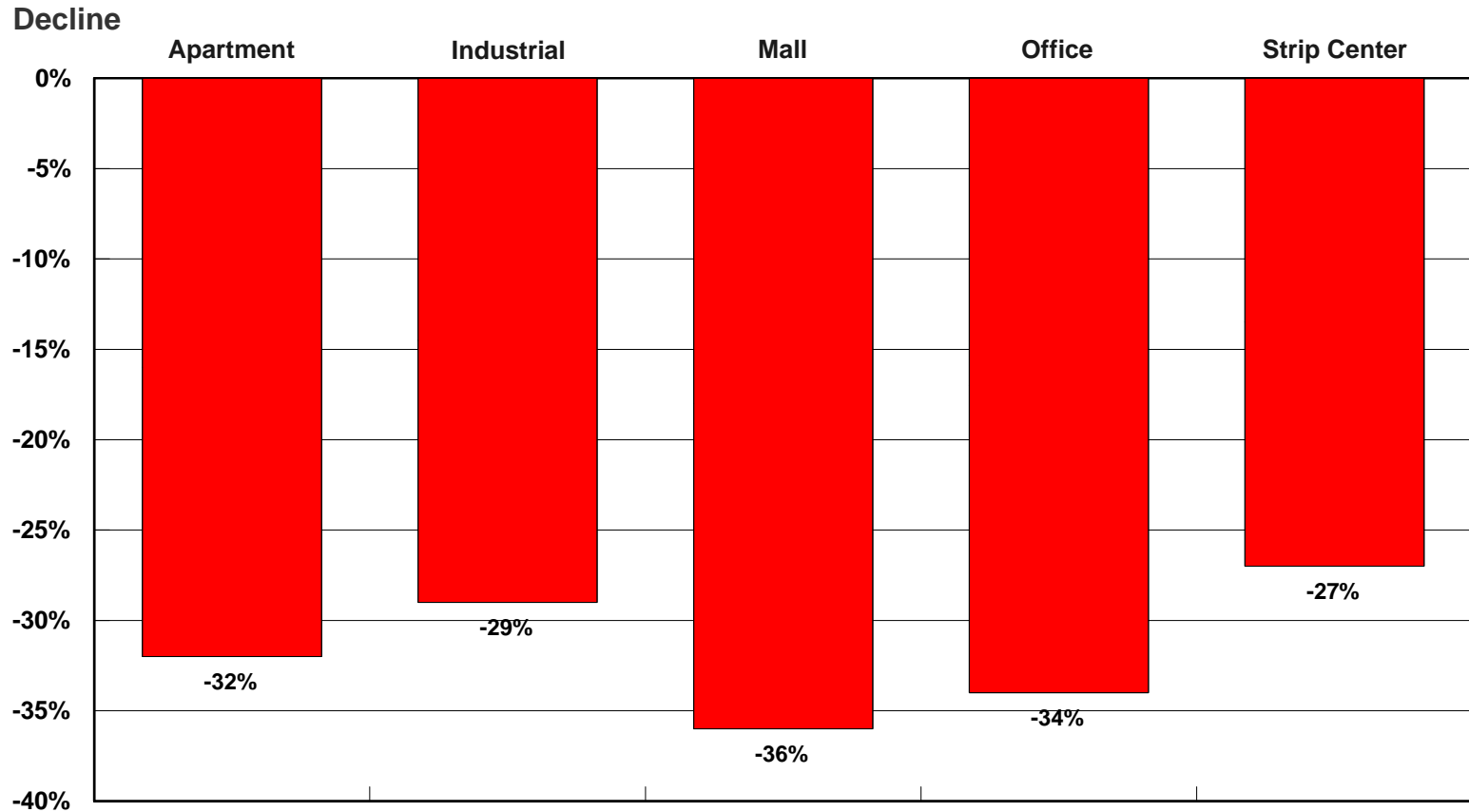


# REAL ESTATE OUTLOOK

# LESSONS LEARNED OVER THE PAST 5 YEARS

- While the real estate industry remains a “local” business...it is impacted by national events/policy and governed by global capital markets.
- Many of the players who shaped or influenced the fate of the real estate industry will not likely be among the major players in defining the future of the real estate industry.
- The real estate industry is undergoing a transformation, not a transition...with new rules, new business practices, new talent and new strategies.
- The real estate industry and our economy continue to exhibit cyclical characteristics...however real estate asset values will continue to decline in 2010.

# PROJECTED VALUE DECLINES 2008 - 2011



Real estate value declines will bottom out in 2010...  
reaching a 40%-45% drop from their peak in 2007.

Source: Green Street Advisors.



# OFFICE OUTLOOK

# OFFICE LOOKS GRIM BEFORE RECOVERY

Category	2008	2011
National Vacancy Level	14.7%	19.0%
Space Per Employee	175 sf	167 sf
Office Job Growth – Annual	2.0%	1.8%
Government Job Growth – Annual	1.0%	1.0%
Professional Services Job Growth – Annual	2.0%	1.7%
Net Completions – Annual	60 - 70 msf	40 - 50 msf
New Construction (% Of Supply)	1.8%	1.6%
Rent Growth	2.8%	0.5%
TI As % Of Rents	11.7%	12.0%
Cap Rate – CBD	6.2%	8.8%
Cap Rate – Suburban	7.1%	9.1%
NOI Margin	58.8%	59.8%

Source: Bank of America, Real Capital Analytics, SNL Financial and CEL & Associates, Inc., CoStar and CB Richard Ellis.

Detroit's CBD vacancy now 29.3%...suburban vacancy now 28.3% vs. 16.1% nationally.

The office vacancy levels will not attain equilibrium until 2013 or later.



# INDUSTRIAL/WAREHOUSE OUTLOOK

# INDUSTRIAL IMPACTED BY GLOBAL TRADE COLLAPSE

Category	2008	2011
National Vacancy Level	12.1%	12.9%
U.S. GDP Growth	2.2%	2.0%
Global Trade	6.7%	5.1%
Global Air Cargo	6.1%	4.4%
Regional Air Cargo	4.3%	3.9%
Port Volume	6.7%	6.2%
Net Completions – Annual	115 msf	130 msf
Rent Growth	3.5%	1.8%
Cap Rate – Warehouse	7.5%	8.7%
Cap Rate – Flex	7.2%	9.0%
Capacity Utilization	81.5%	80.7%
NOI Margin	57.3%	62.6%

Source: Bank of America, Real Capital Analytics, SNL Financial and CEL & Associates, Inc., CoStar and CB Richard Ellis.

Detroit's vacancy now 15.7% vs. 13.5% nationally.

10 of the top 11 U.S. ports are expected to reach/exceed capacity by 2012!



# RETAIL OUTLOOK

# RETAIL...INCREASED CAUTION

Category	2008	2011
National Vacancy Level	10.0%	13.1%
Rent Growth	3.1%	1.9%
Retail Sales Growth	3.1%	-1.4%
New Construction Starts	300 msf	100 msf
Net Absorption – All Types	62 msf	60 msf
Cap Rate – Strip	7.2%	9.0%
Cap Rate – Mall	6.6%	9.2%
NOI Margin	61.5%	60.2%

Source: Bank of America, Real Capital Analytics, SNL Financial and CEL & Associates, Inc.

U.S. retail space is now 38 sq. ft./person vs. 29 sq. ft. in 1983.

By 2010 credit card companies are expected to have reduced  
“available” credit lines by \$1.0 trillion.

Source: Kiplinger Letter 3/27/09.



# MULTIFAMILY OUTLOOK

# MULTIFAMILY TO BENEFIT THRU RECESSION INTO RECOVERY

Category	2008	2011
National Vacancy Level*	7.8%	7.2%
National Home Ownership	67.5%	65.8%
Unemployment Rate (Annualized)	5.8%	7.0%
Multifamily Permits (5+)	192,000	250,000
Multifamily Starts	180,300	190,000
Multifamily Net New Completions	299,700	80,000
Rent Growth	-0.3%	3.0%
Cap Rate – Mid/Highrise	5.8%	7.7%
Cap Rate – Garden	6.6%	8.2%
NOI Margin	54.4%	58.7%

\* Investment Grade Apartments.

Source: Bank of America, Real Capital Analytics, SNL Financial, CEL & Associates, Inc., Wall St. Journal, M/PF Yield Star, NMHC. Data as of 12/31/08.

Lack of development activity in 2008 and 2009 will result in a strong 2010 and an even stronger 2011 recovery for apartments.

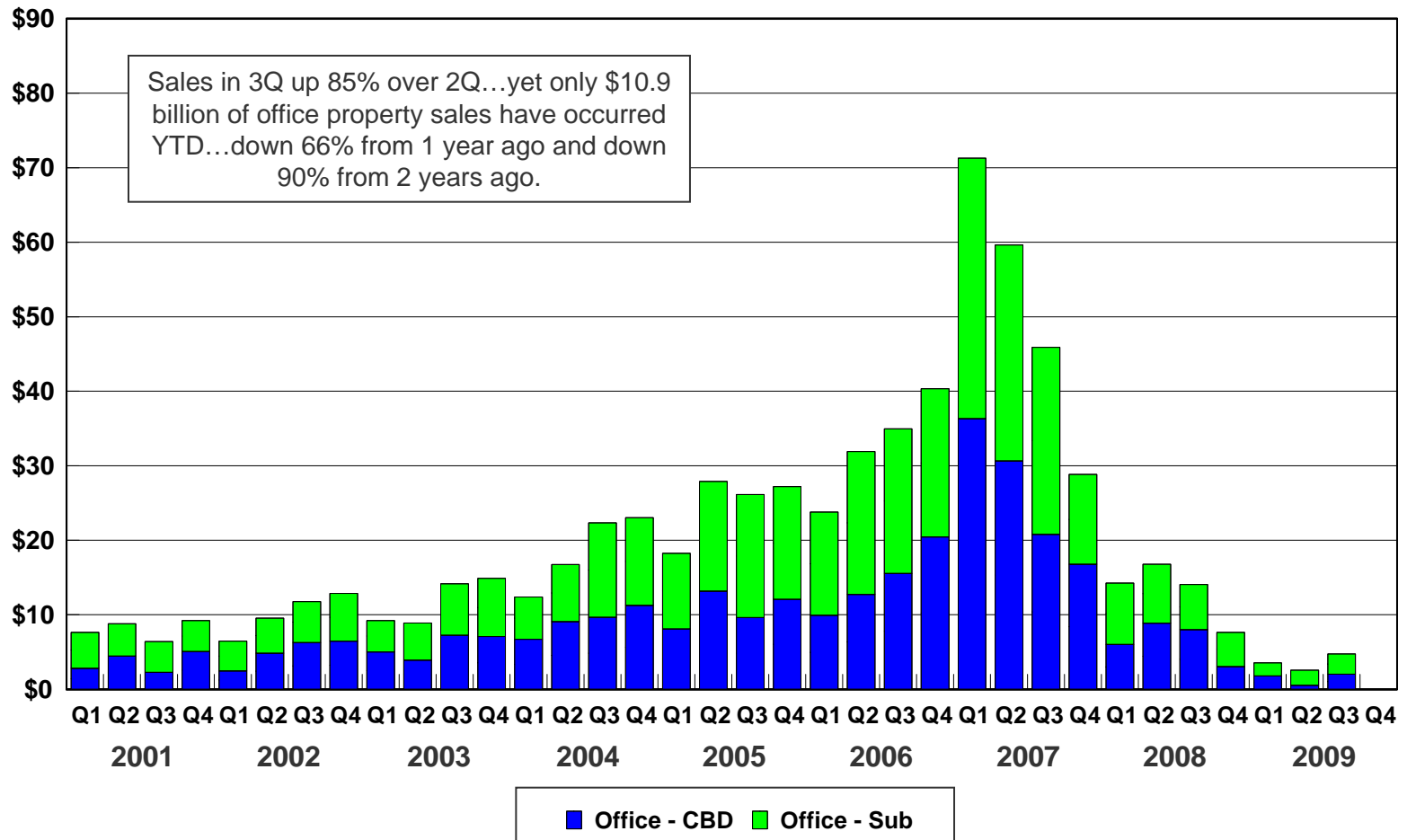
Every 1% decline in home ownership creates approximately 1.0 million renters.



# INVESTMENT OUTLOOK

# SALES VOLUME - OFFICE 2001 - 2009

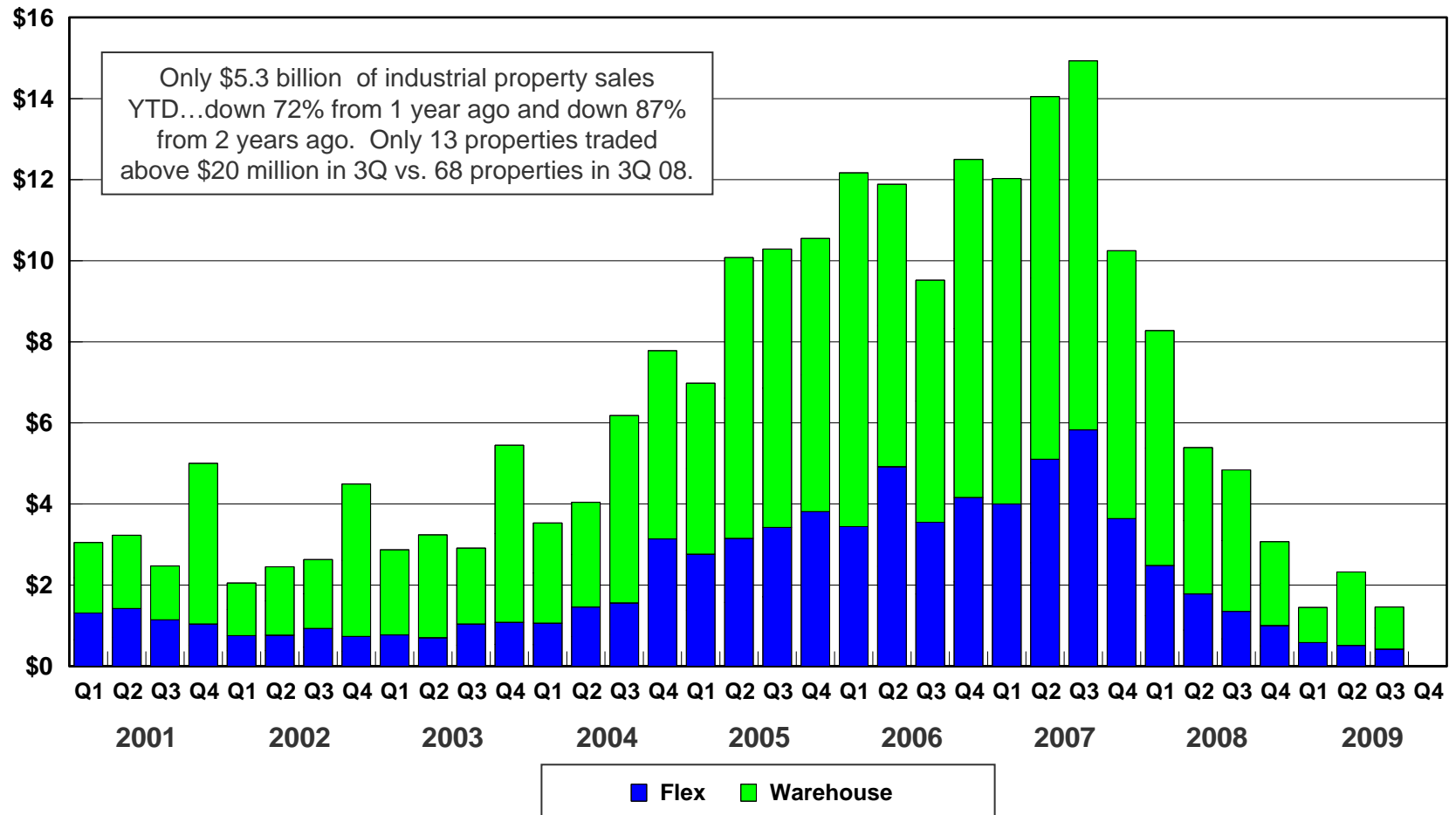
Sales (in billions)



Source: ©2009 Real Capital Analytics, Inc. All rights reserved.

# SALES VOLUME – INDUSTRIAL 2001 - 2009

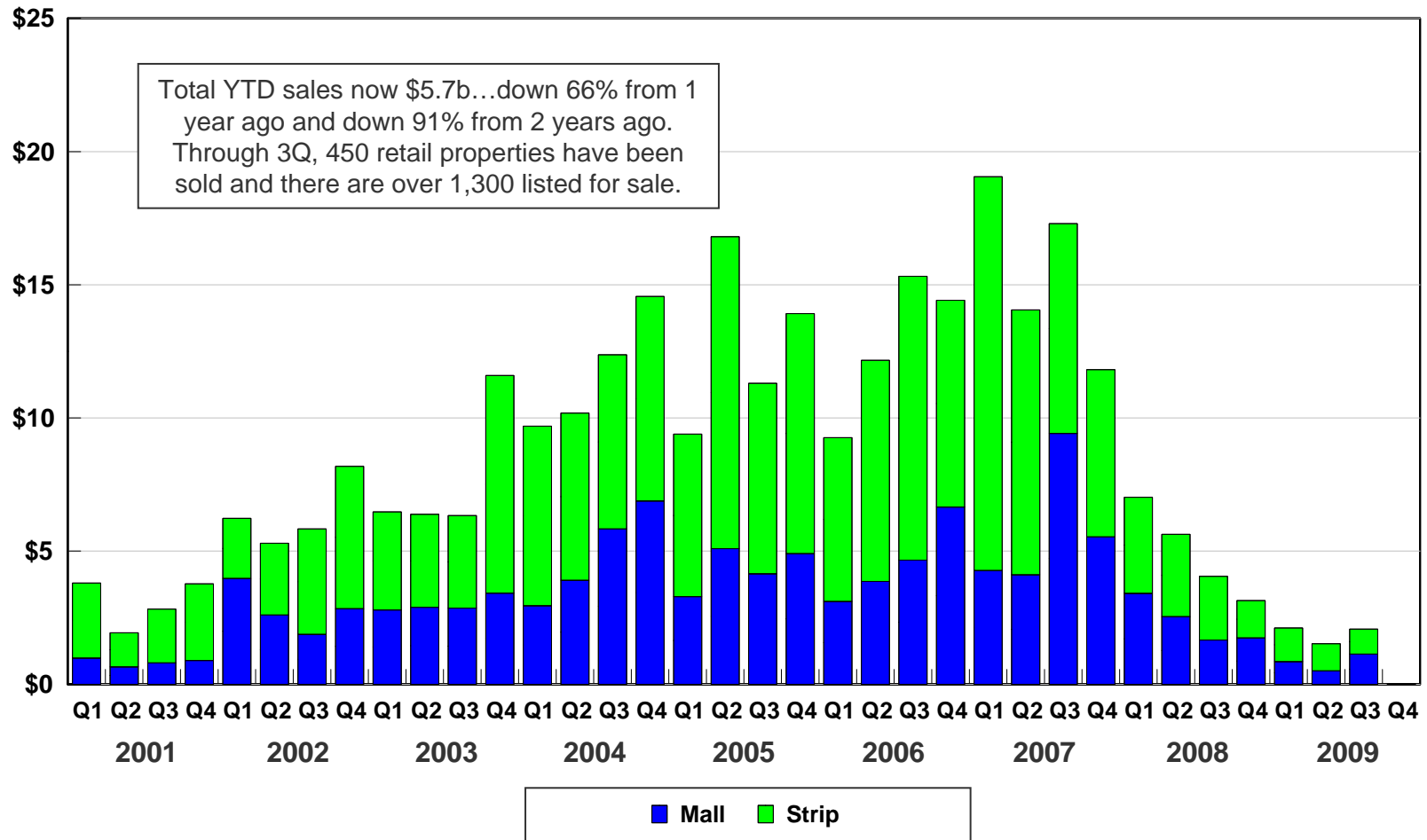
Sales (in billions)



Source: ©2009 Real Capital Analytics, Inc. All rights reserved.

# SALES VOLUME – RETAIL 2001 - 2009

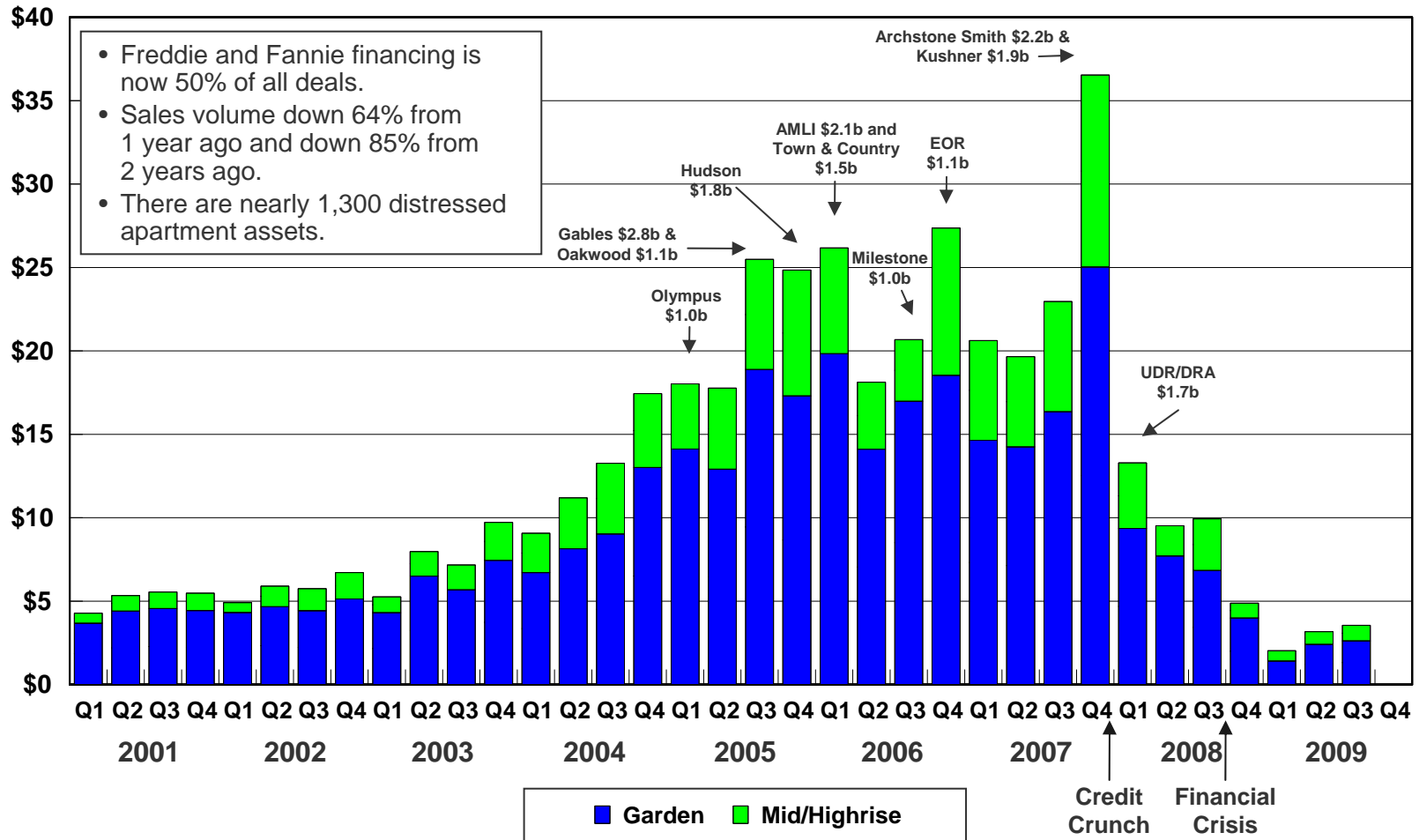
Sales (in billions)



Source: ©2009 Real Capital Analytics, Inc. All rights reserved.

# SALES VOLUME – APARTMENTS 2001 - 2009

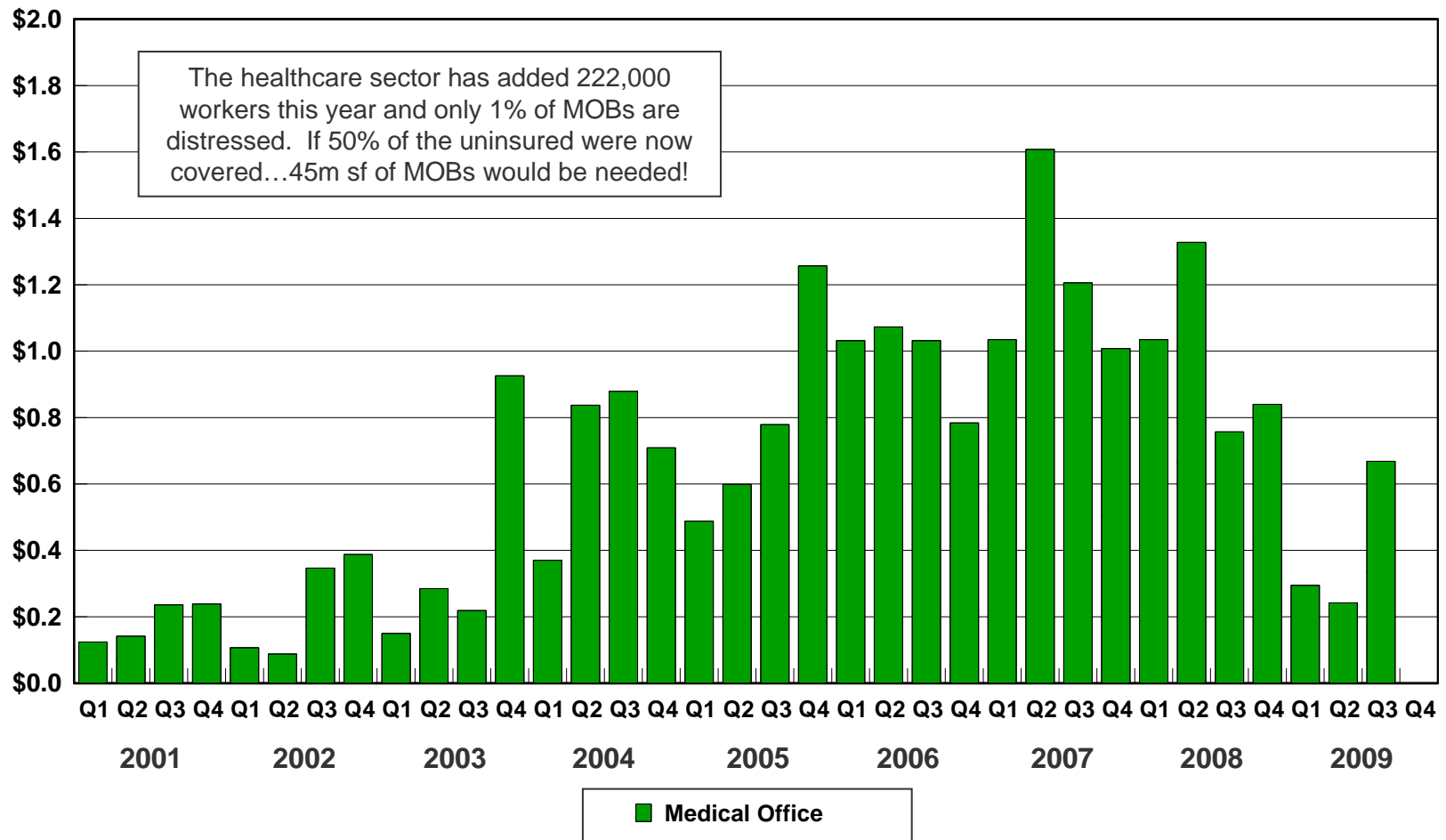
Sales (in billions)



Source: ©2009 Real Capital Analytics, Inc. and Holliday Fenoglio Fowler, L.P. All rights reserved.

# SALES VOLUME – MEDICAL OFFICE 2001 - 2009

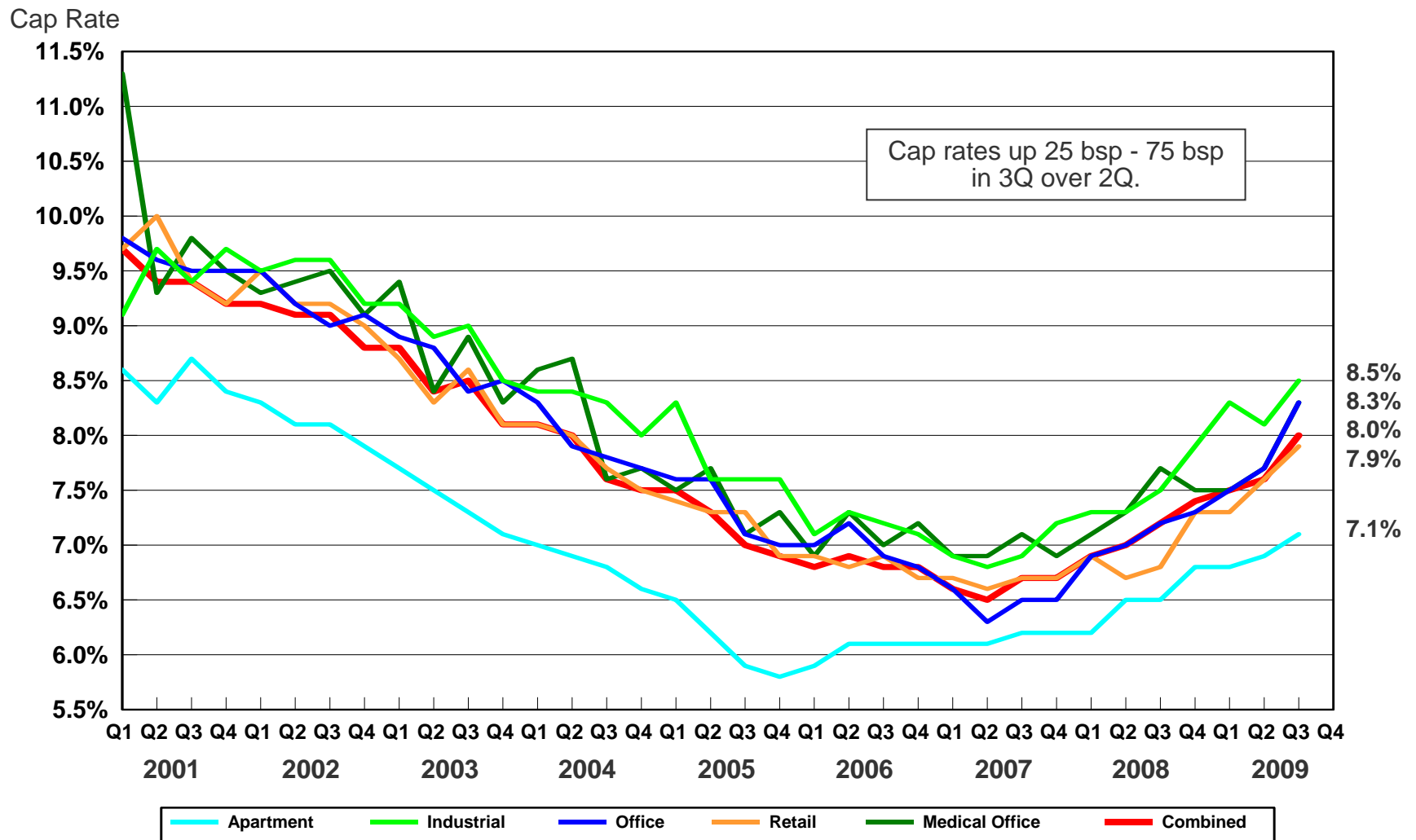
Sales (in billions)



Source: ©2009 Real Capital Analytics, Inc. All rights reserved.

CEL & Associates, Inc.

# CAP RATES – U.S. OVERVIEW 2001 - 2009

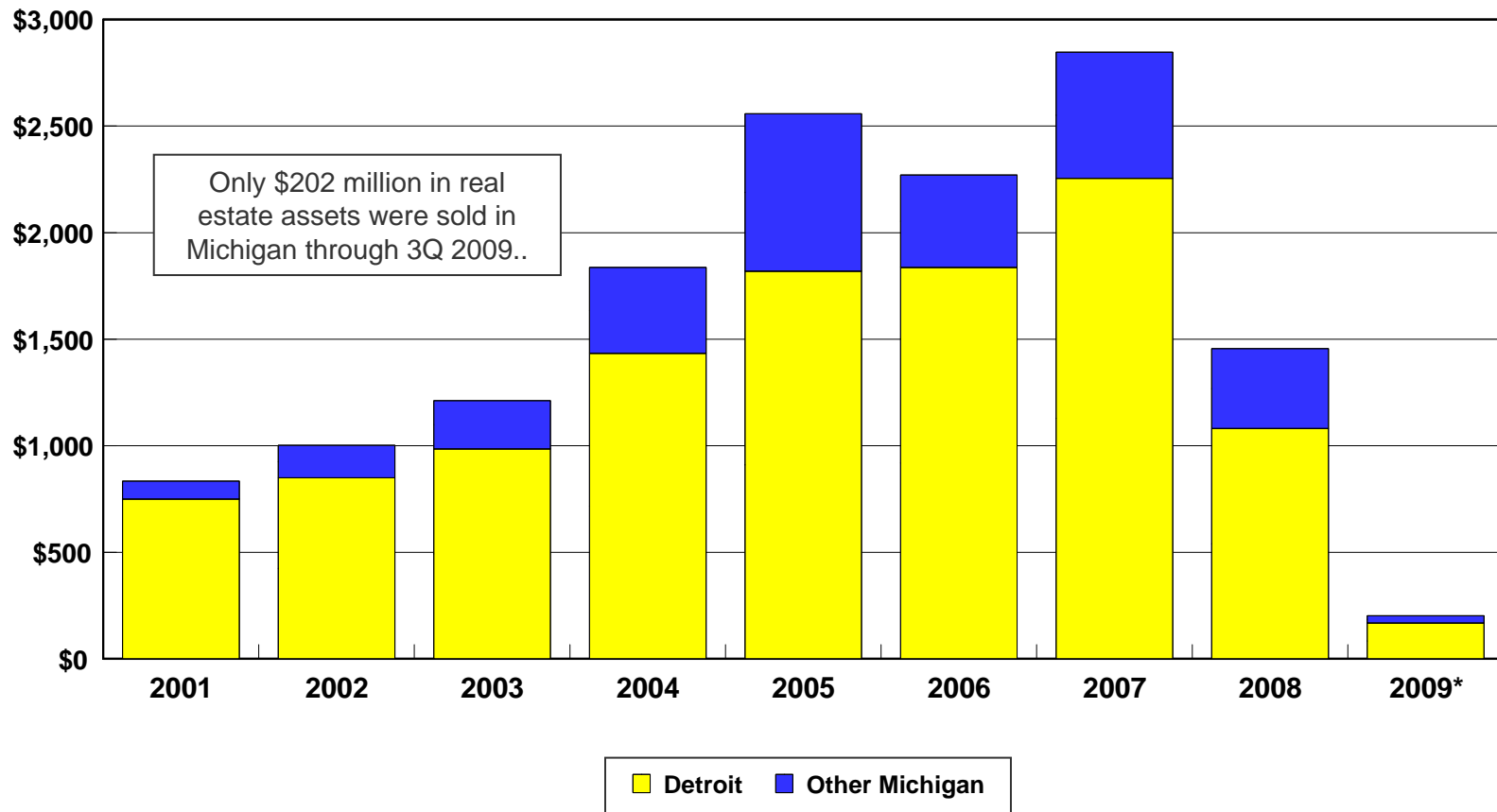


Source: ©2009 Real Capital Analytics, Inc. All rights reserved.

CEL & Associates, Inc.

# SALES VOLUME – COMBINED MICHIGAN

Sales (in millions)

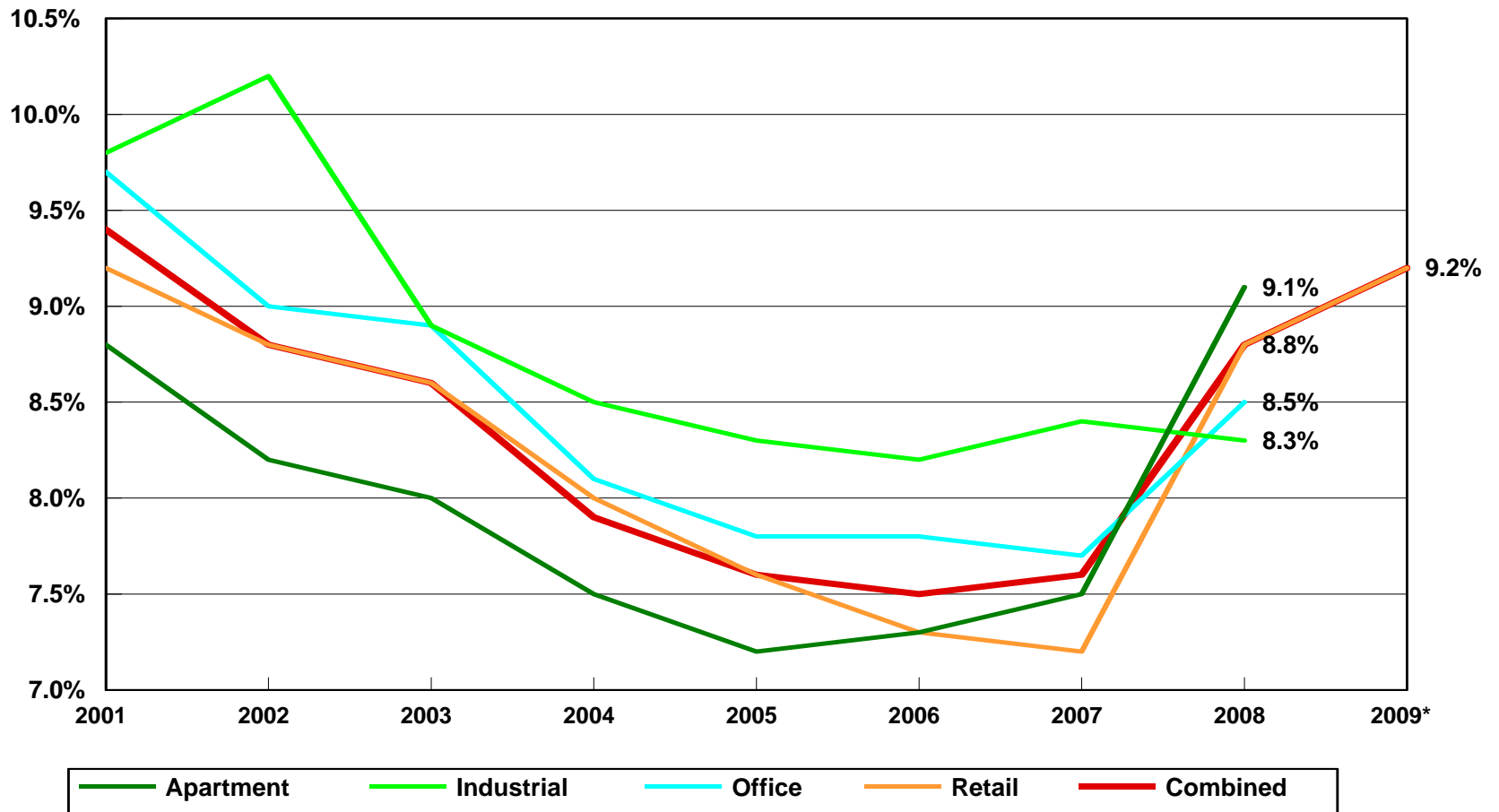


\* 3Q 2009.

Source: ©2009 Real Capital Analytics, Inc. All rights reserved.

# CAP RATE – OVERALL MICHIGAN

Cap Rate



\* 3Q 2009.

Source: ©2009 Real Capital Analytics, Inc. All rights reserved.



# REAL ESTATE CYCLES 1973 – 2032

“Over the past 30+ years,  
there has never been a time  
one could not make  
money in real estate!”

# IN 3 YEAR PERIODS OF TRANSITION...

- Cash is king.
- Opportunities created by competitor troubles.
- Talent and entities are under-valued.
- Opportunities created by dramatic market shifts.
- Increasing recurring income becomes a high priority.
- Cocooning or hunkering down is a prescription for failure.
- A great time to *do different things* not do things differently.

# REAL ESTATE GROWTH CYCLES

## Historical

1973-1978	<b>Growth From Pent-Up Demand Caused By Oil Embargo &amp; Stagnation</b>
1979-1982	Transition Period
1983-1988	<b>Growth From The Abundance Of Capital &amp; Financial Engineering</b>
1989-1992	Transition Period
1993-1998	<b>Growth From Consolidation, Securitization &amp; The Digital Economy</b>
1999-2002	Transition Period
2003-2008	<b>Growth From Customer Connectivity, Talent &amp; Capital Shifts</b>

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## Forecast

2009-2012	Transition Period
2013-2018	<b>Growth From Recapitalization, Generational Shifts, New Urbanism &amp; Greening</b>
2019-2022	Transition Period
2023-2028	<b>Growth From Life Sciences, Suburban Recycling &amp; Retirees</b>
2029-2032	Transition Period

Source: CEL & Associates, Inc.


CEL & Associates, Inc.



# PREPARING FOR THE NEW NORMAL

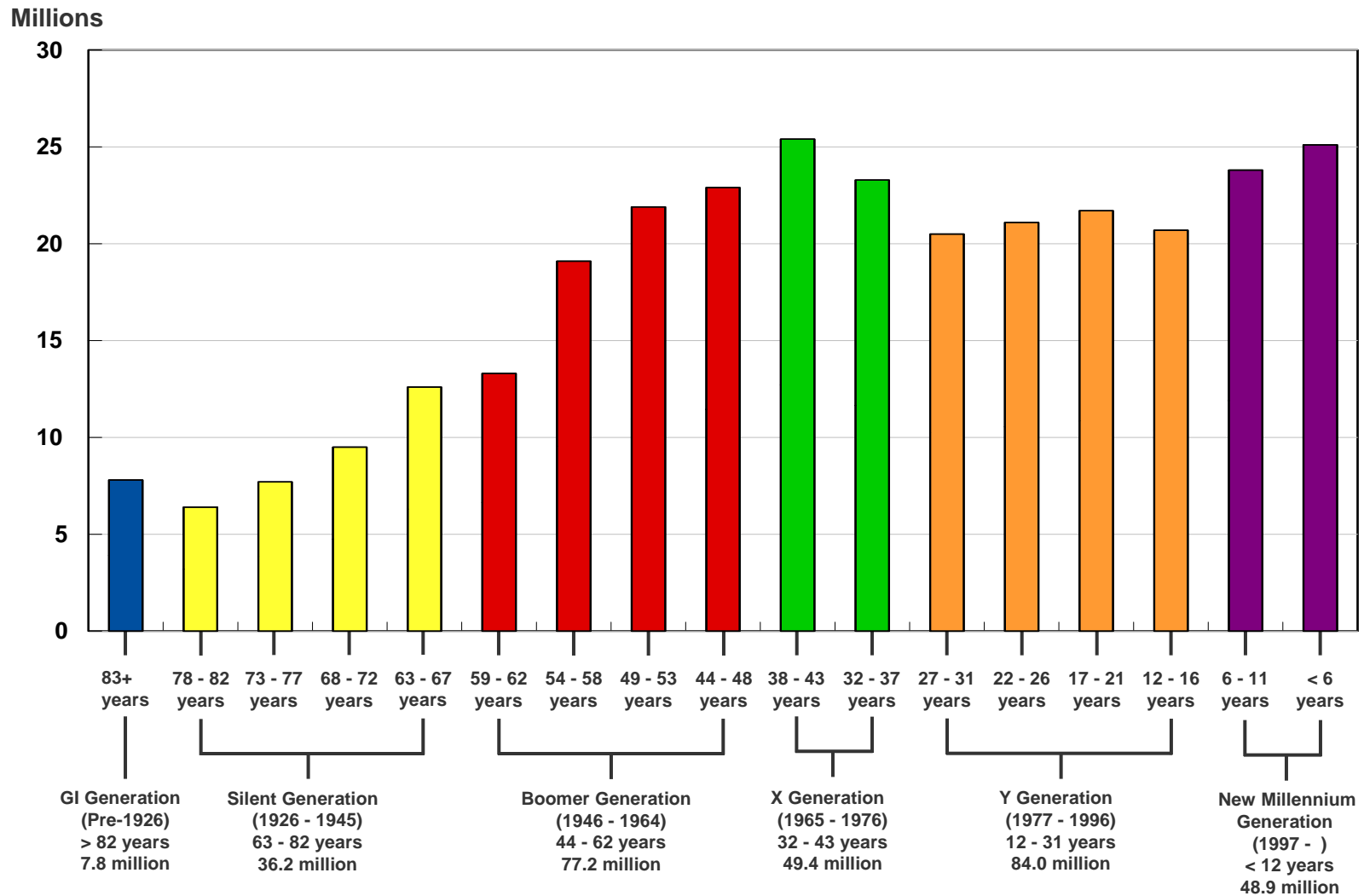
# THE NEW NORMAL REQUIRES NEW PERCEPTIONS

- Detroit is not just a City...it is an integral member of a four-state region (Michigan, Illinois, Ohio, Indiana), and a gateway to Canada.
- Detroit's real estate should be valued and managed not by square footage but by the workplace environments created inside the four walls.
- Detroit's real estate leaders and professionals must focus on creating value rather than simply protecting value. Accept today's brutal realities...and move on.
- Detroit's real estate community must focus on the quality of workplace, living and shopping experiences...not quantitative measures of accumulation.



**1<sup>st</sup> Indicator:  
Emerging Demographic Trends**

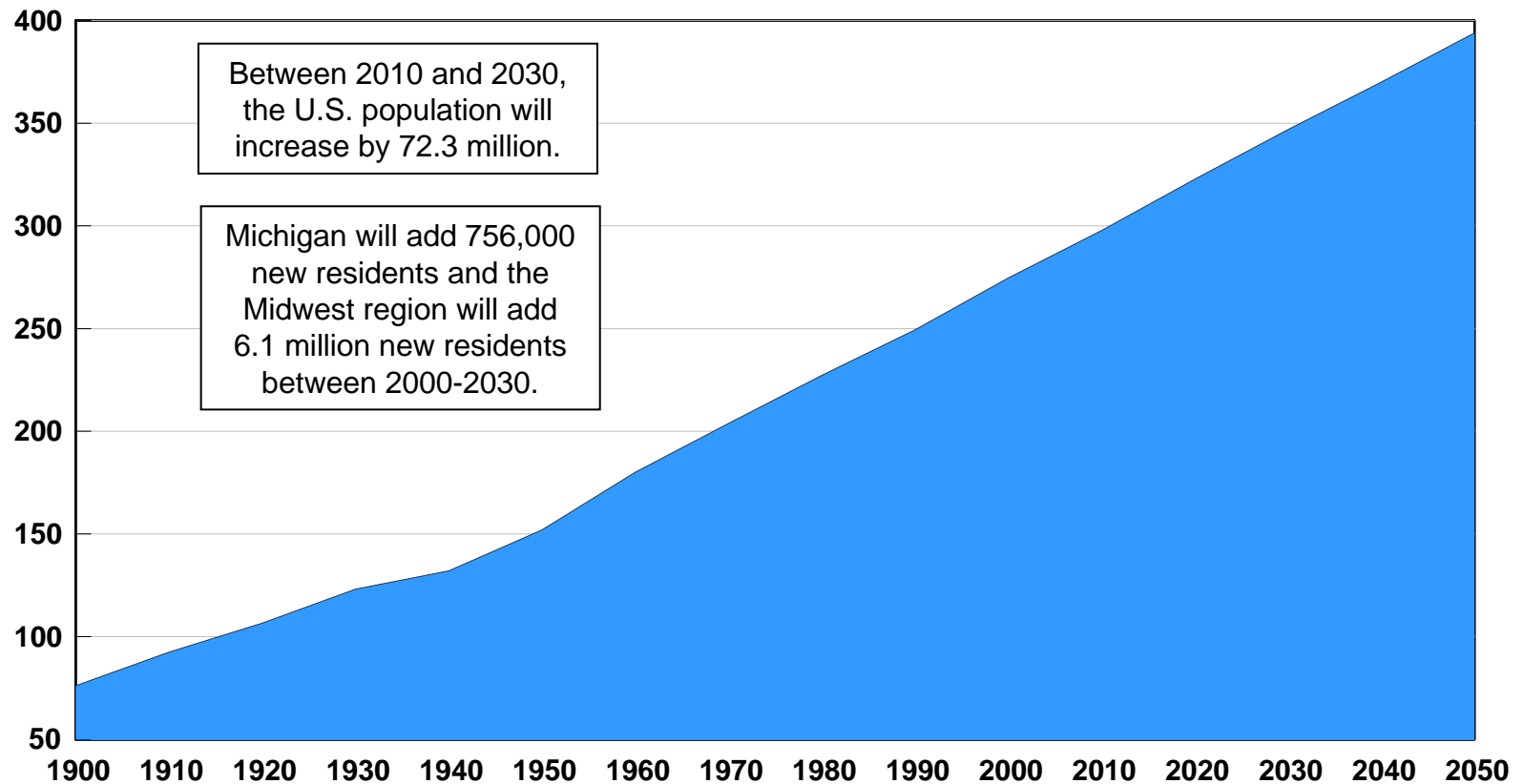
# GENERATION GROUPINGS 2009



Source: CEL & Associates, Inc., 2005 Projected U.S. Census data.

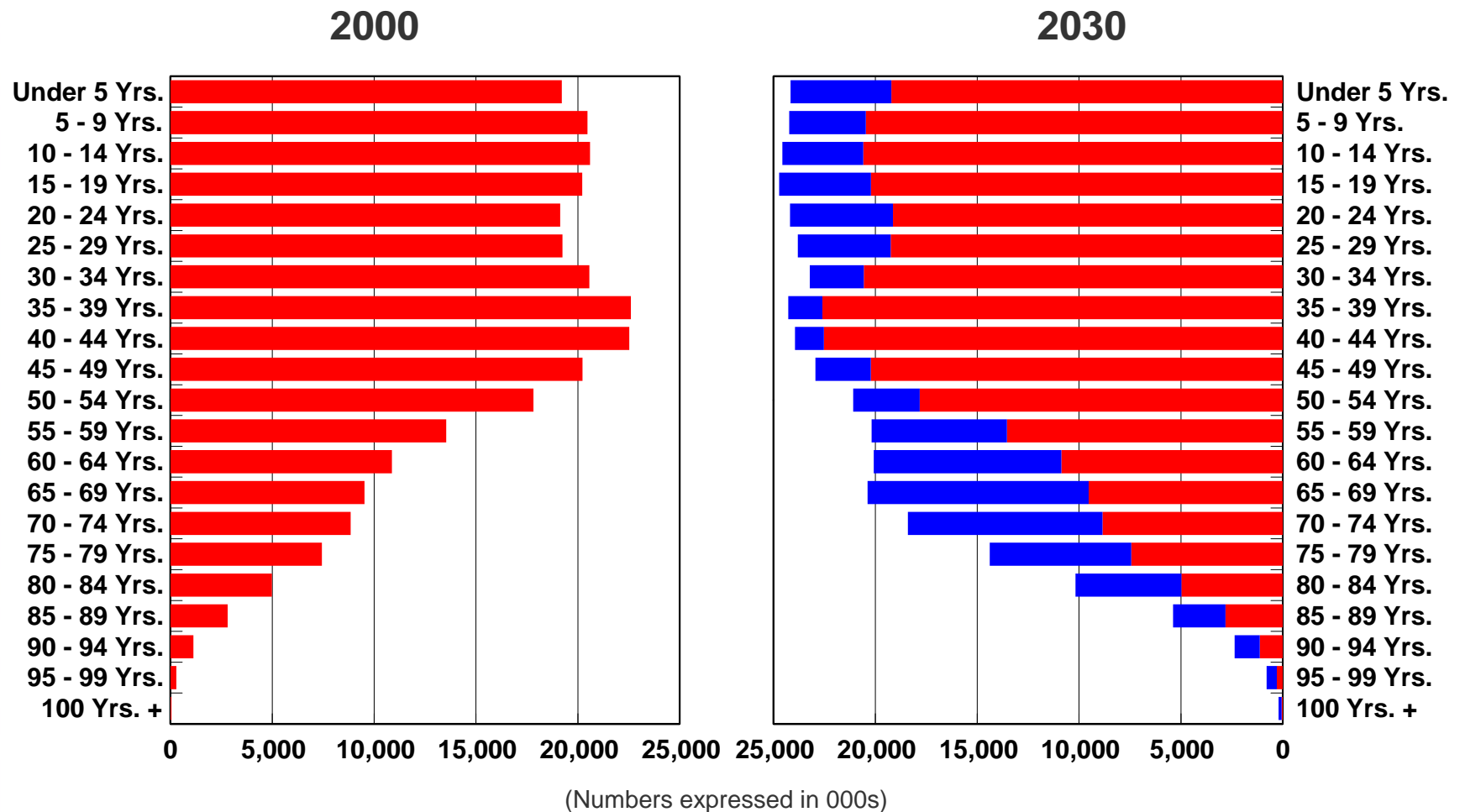
# U.S. POPULATION CONTINUES TO GROW

Millions



Source: U.S. Census Bureau, Middle Series.

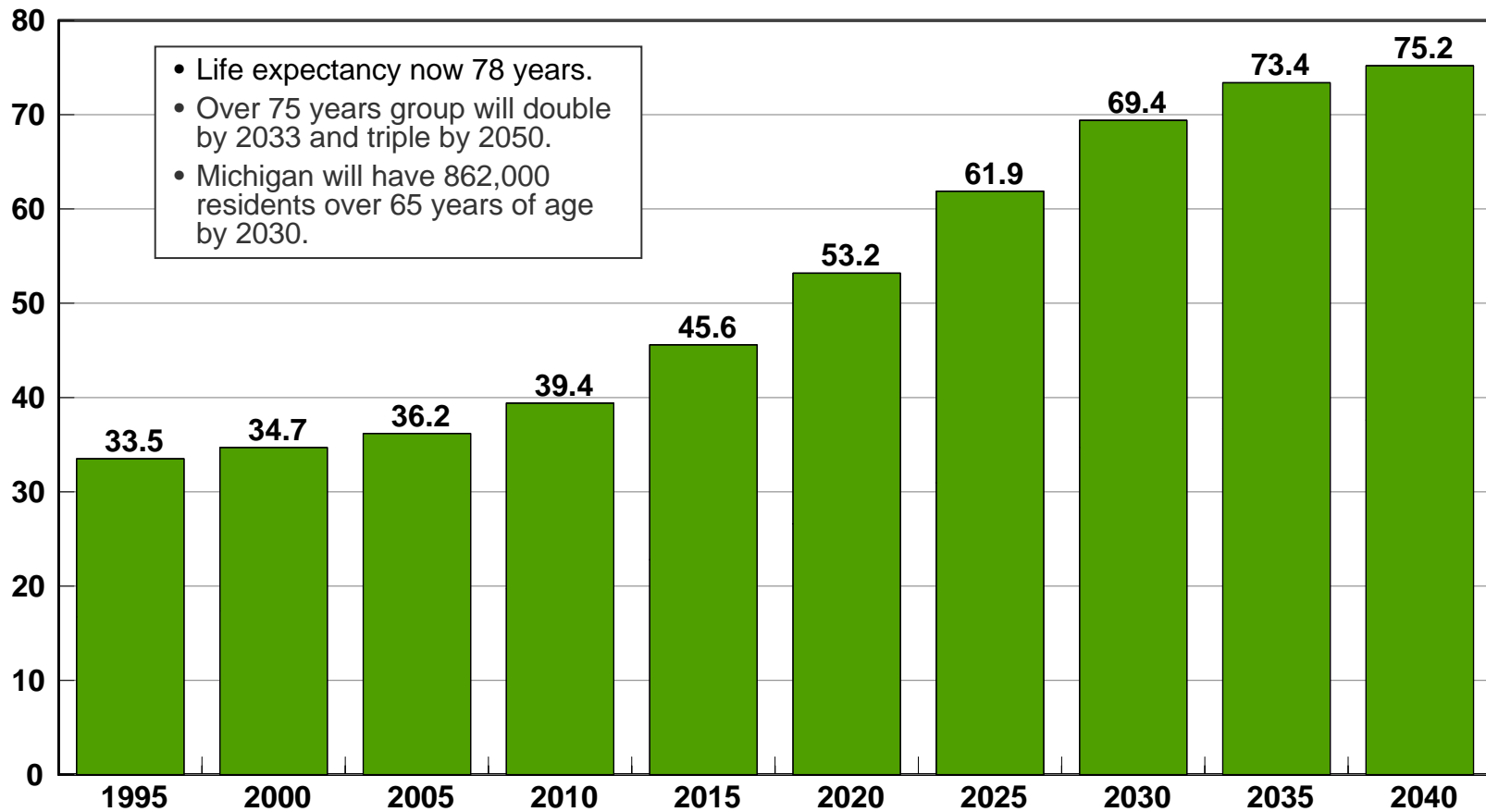
# U.S. POPULATION BY AGE COHORTS



Source: U.S. Census Bureau.

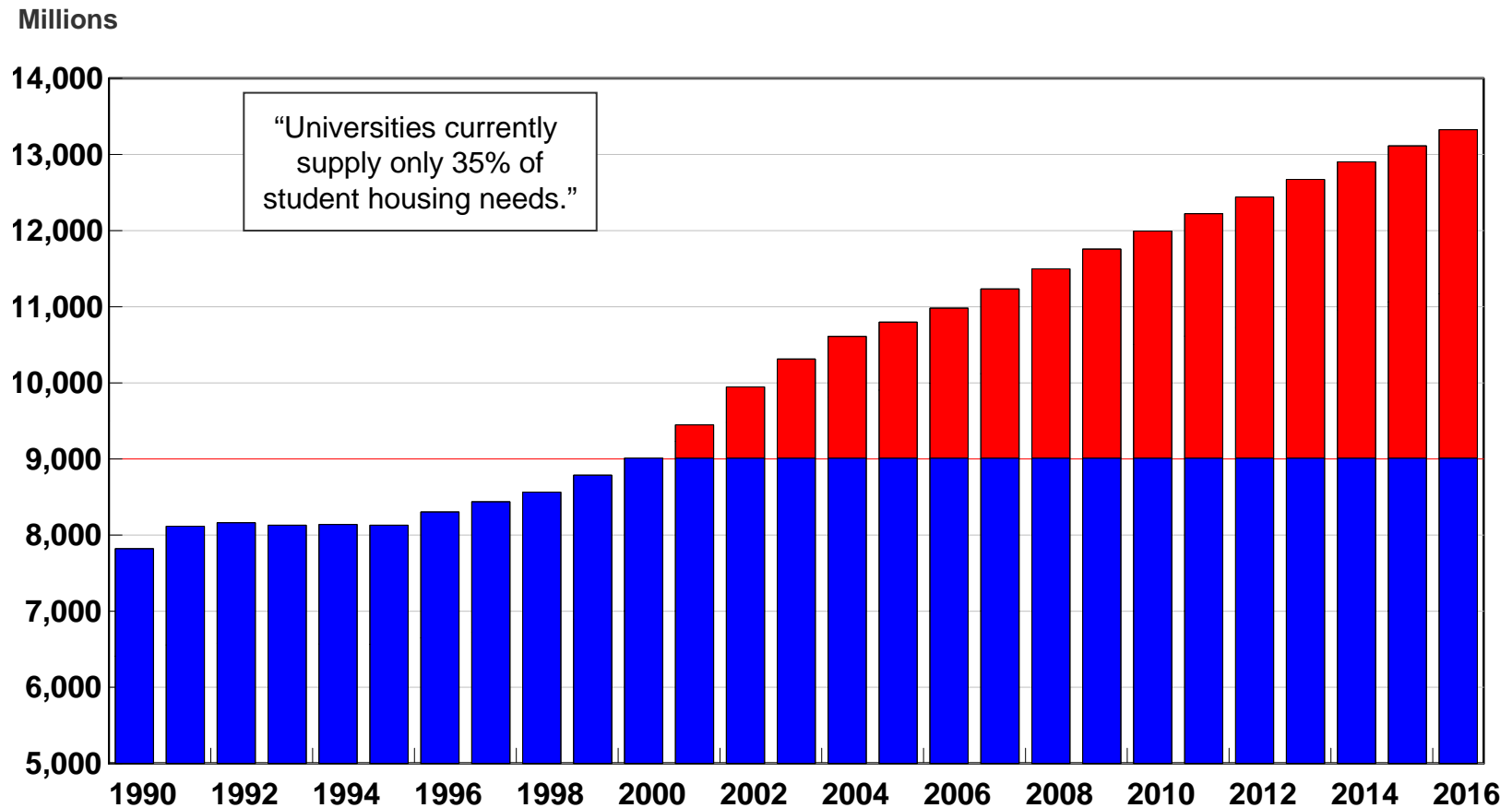
# POPULATION 65 YEARS AND OLDER

Millions



Source: U.S. Census Bureau, February, 1996.

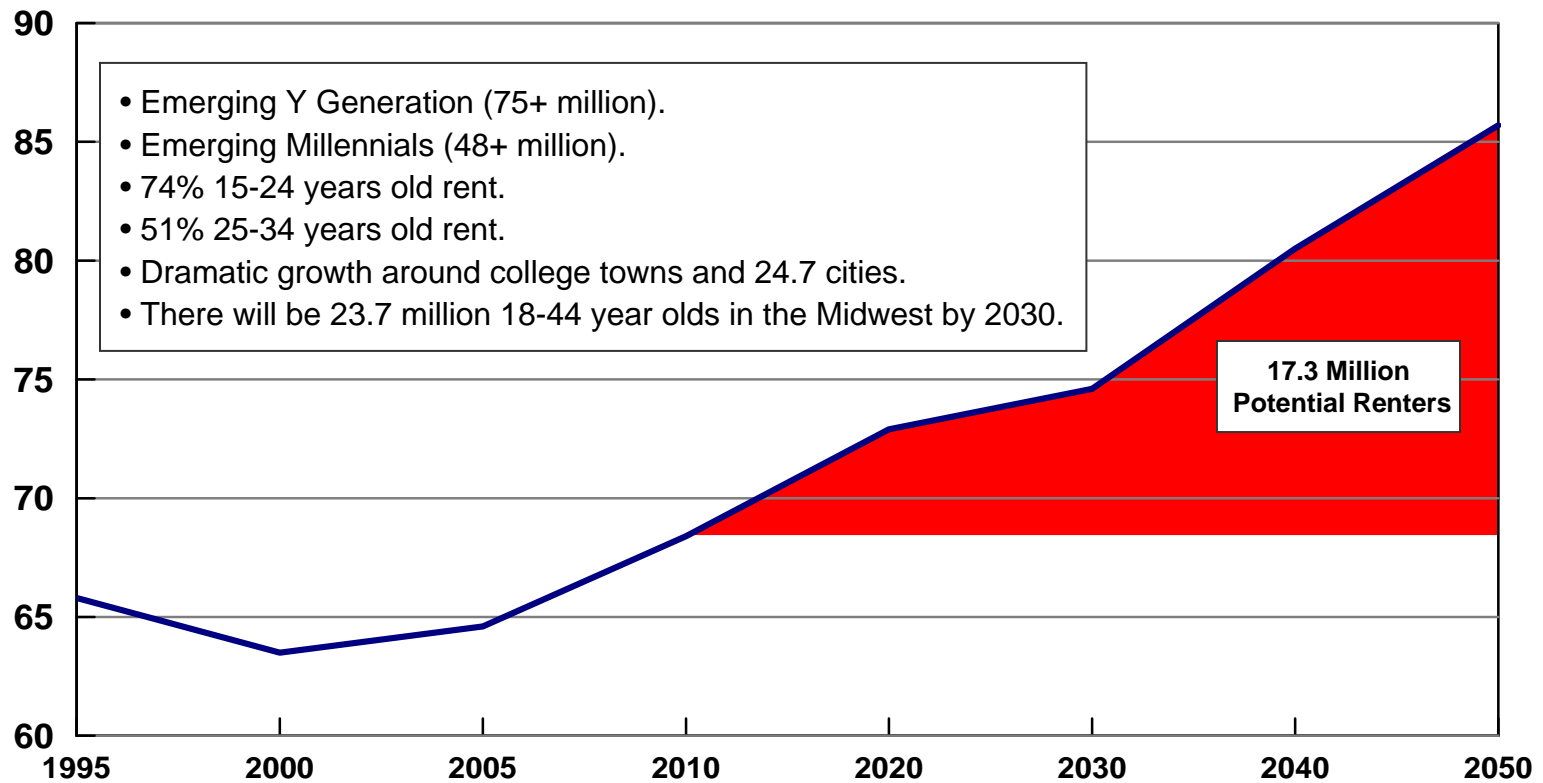
# GROWING NUMBER OF FULL-TIME STUDENTS



Source: National Center For Educational Studies.

# GROWING PRIMARY RENTER GROUP 18 – 34 YEARS OF AGE

Millions



1995	2000	2005	2010	2020	2030	2040	2050
65.8m	63.5m	64.6m	68.4m	72.9m	74.6m	80.5m	85.7m

Source: U.S. Census Bureau.



2<sup>nd</sup> Indicator:  
Shifting Employment &  
Market Trends

# GROWING NUMBER OF JOBS OCCUPYING SPACE

Area	Projected Employment (Millions)*					
	2000	2010	2020	2030	Total Change 00 - 30	% Change 00 - 30
U.S.	166.8	177.8	193.3	209.3	42.5	25.5%
Northeast	31.0	31.9	33.3	34.8	3.8	12.3%
East N. Central	27.0	27.6	29.5	31.4	4.4	16.3%
West N. Central	12.7	13.5	14.6	15.8	3.1	24.4%
South Atlantic	30.7	33.7	37.3	40.9	10.2	33.2%
East So. Central	9.7	10.3	11.2	12.2	2.5	25.8%
West So. Central	18.2	19.9	22.2	24.5	6.3	34.6%
Mountain	11.1	12.7	14.8	16.9	5.8	52.3%
Pacific	26.4	28.2	30.4	32.8	6.4	24.2%

\* Numbers are rounded.  
Source: Arthur Nelson, FAICP.

# GROWING TOTAL SPACE NEEDS 2000 – 2040

Region	Total Growth & Non-Residential Space Needed	
	(billions s.f.)	%
Northeast (CT, MA, ME...)	11.7	10%
East North Central (IL, OH, MI...)	16.2	14%
West North Central (MN, NE, MO...)	7.4	7%
South Atlantic (FL, GA, NC...)	27.6	25%
East South Central (KY, IN, AL...)	7.0	6%
West South Central (TX, OK, AR...)	17.0	15%
Mountain (NV, CO, UT, NM...)	9.2	8%
Pacific (CA, OR, WA, AK...)	16.1	14%
<b>U.S.</b>	<b>112.2</b>	<b>100%</b>

62%  
Of  
Total

In 2030, 50% of all space in America will have been built AFTER 2000 and only 25-50% will be conventional sprawl.

Source: Arthur Nelson, FAICP.

# GROWING INDUSTRY SECTORS

- ◆ Industries Serving Seniors
- ◆ Software Development
- ◆ Healthcare
- ◆ Life Sciences/Biotech
- ◆ Technology
- ◆ Government
- ◆ Defense/Security
- ◆ Communications
- ◆ Trade/Logistics
- ◆ Data Centers
- ◆ Research & Development
- ◆ Advanced Manufacturing
- ◆ Waste Management
- ◆ Emerging Technologies
- ◆ Colleges/Universities
- ◆ Gaming
- ◆ Science
- ◆ Green Industries
- ◆ Pharmaceutical
- ◆ F.I.R.E.
- ◆ Entertainment
- ◆ Energy & Alternative Energy

“Regional economic growth is driven by the locational choices of creative people.”  
*Richard Florida*

# CAN'T MISS OPPORTUNITIES

## Anything Around:

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- ◆ Colleges/Universities
- ◆ Transportation Hubs
- ◆ Ports/Coastal Cities
- ◆ Biotechnology Enterprises
- ◆ Lifestyle Locations
- ◆ Government Centers
- ◆ Digital/High Tech Enterprises
- ◆ Healthcare
- ◆ Medical Supplies
- ◆ Public/Private Partnerships

## Anything Involving:

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- ◆ Grocery
- ◆ Corporate Campuses
- ◆ High Security Business Parks
- ◆ Affordable/Workforce Housing
- ◆ Troubled Assets
- ◆ Mixed-Use
- ◆ Urban/Suburban Redevelopment
- ◆ Infrastructure Improvements
- ◆ Pharmaceuticals
- ◆ Strategic Joint Ventures



**3<sup>rd</sup> Indicator:  
Shift To Sustainability**

# SHIFT TO SUSTAINABLE ASSETS

- U.S. buildings consume 39% of U.S. energy...a \$222 billion energy bill.
- U.S. buildings account for 70% of U.S. electricity consumption.
- Less than 5% of all commercial buildings are LEED certified...conversely approximately 250 billion square feet of buildings need to be retrofitted!
- Average Productivity increase is 4.9% in a LEED building and 2.9 fewer sick days per year.
- Green buildings can generate a 12%-15% return on cost, and achieve a 90% tenant retention rate.

# INCREASING GOVERNMENT FOCUS

- Michigan's focus on battery manufacturing will create jobs and real estate opportunities.
- All existing GSA leases beginning in 2010 must be in an Energy Star-designated building (impacting 100 million square feet of privately-owned buildings).
- All new GSA leases after 2011 must be in a LEED certified building.
- All GSA, sole tenant, build-to-suit leases over 10,000 square feet are required to be in a LEED Silver building.



4<sup>th</sup> Indicator:  
An Abundance Of Capital

# REAL ESTATE STOCKS OUTPERFORM THE BROADER MARKET

Year	NAREIT Equity REIT Index Of Total Returns					Stocks		
	Office	Industrial	Retail	Apt.	All Equity REITs	S&P 500	Russell 2000	NASDAQ
1996	51.8%	37.2%	34.6%	28.9%	35.3%	22.7%	16.5%	23.0%
1997	29.0%	19.0%	17.0%	16.0%	20.3%	33.1%	22.4%	22.1%
1998	17.4%	-11.7%	-4.9%	-8.8%	-17.5%	28.6%	-2.5%	39.6%
1999	4.3%	3.9%	-11.8%	10.7%	-4.6%	21.0%	21.3%	85.6%
2000	35.5%	28.6%	18.0%	35.5%	26.4%	-9.0%	-3.0%	-39.3%
2001	6.7%	7.4%	30.4%	8.7%	13.9%	-11.8%	2.5%	-21.1%
2002	-6.8%	17.3%	21.1%	-6.2%	3.8%	-22.0%	-20.4%	-31.2%
2003	34.0%	33.1%	46.8%	25.5%	37.1%	28.7%	47.3%	50.0%
2004	23.3%	34.1%	40.2%	34.7%	31.6%	10.8%	18.3%	8.6%
2005	13.1%	15.4%	11.8%	-14.7%	12.2%	4.9%	4.5%	1.4%
2006	45.2%	28.9%	29.0%	40.0%	35.1%	15.8%	18.4%	9.5%
2007	-19.0%	0.4%	-15.8%	-25.4%	-15.7%	5.5%	-1.6%	9.8%
2008	-41.1%	-67.5%	-48.4%	-25.1%	-37.7%	-37.0%	-33.8%	-40.5%
2009	22.5%	4.0%	15.4%	16.3%	16.4%	23.6%	19.1%	36.4%
<b>Avg. Annual Return</b>	<b>15.4%</b>	<b>10.7%</b>	<b>13.1%</b>	<b>9.7%</b>	<b>11.2%</b>	<b>8.2%</b>	<b>7.8%</b>	<b>11.0%</b>

Total Return: A stock's dividend income plus capital appreciation, before taxes and commissions. 11/10/09.

Source: NAREIT and CEL & Associates, Inc.



5<sup>th</sup> Indicator:  
Emerging Customer  
Expectations

# WHAT BUILDING OWNERS ARE TELLING US

- 69% know three or fewer points of contact.
- 54% know two or fewer points of contact.
- 71% are “satisfied” with their service provider, but are “always open to change.”
- Only 64% are “very satisfied” with the level and frequency of communications from their service provider.
- Only 22% of Building Owners think their service provider is “Best In Class.”



## 6<sup>th</sup> Indicator: Industry Shifts

# EMERGING REAL ESTATE SERVICE COMPANY TRENDS

- 30% - 40% of real estate service companies that exist today will be gone by 2017.
- The emergence of the Big 3 or Big 4 will create 3 - 4 niche opportunities for everyone else.
- By 2017, 50% of today's Brokers will be replaced by collaborative teams of professionals and Advisors. A new Brokerage Model will emerge.
- Renewed focus on Asset and Property Management.

# REAL ESTATE SERVICE COMPANY PERFORMANCE

Category	Percent Change Over Prior Year		
	2008	2009	2010
Leasing	-9.0% to -17.0%	-7.0% to -11.0%	+6.0% to + 9.0%
Investment Sales	-50.0% to -65.0%	-20.0% to -35.0%	+5.0% to + 8.0%
Property Management	+7.0% to +10.0%	+9.0% to +12.0%	+8.0% to +11.0%
NOI	-10.0% to -14.0%	-8.0% to -11.0%	+7.0% to +10.0%

Source: CEL & Associates, Inc.

# OPPORTUNITIES

- Maslow's hierarchy of needs.
- Asset/portfolio optimization.
- Appraisal valuation services.
- Anything healthcare-related.
- Distressed asset services.
- Special servicers/REO departments/receivers.
- Entity acquisitions.
- Anything government-related.
- Corporate solutions/Corporate outsourcing.
- Integrated facility management.
- Anything "Green" related.

# FINAL THOUGHTS

- Detroit and Michigan are reinventing their future legacy...the real estate community must be an integral part of that transformation...so everyone needs to get involved.
- Detroit and Michigan are at the “tipping point”...each needs to make sure that entrepreneurship, focus on value creation and quality are the foundations going forward.
- It is hard to move ahead if you are looking back...it’s time to let go of yesterday and take positive steps toward tomorrow.
- Always remember that real estate is the unfinished business of society. You create the places where people want to live, work, shop and stay. So go out and start your new journey...Detroit’s new journey...today!



*“Get Ready For The Age Of Real Estate”*

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Livonia, Michigan  
November 12, 2009**

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