

# AFIRE comes to EXPO REAL

## Macro and Real Estate Investment Outlook

Jacques Gordon  
LaSalle Investment Management  
October 5, 2004

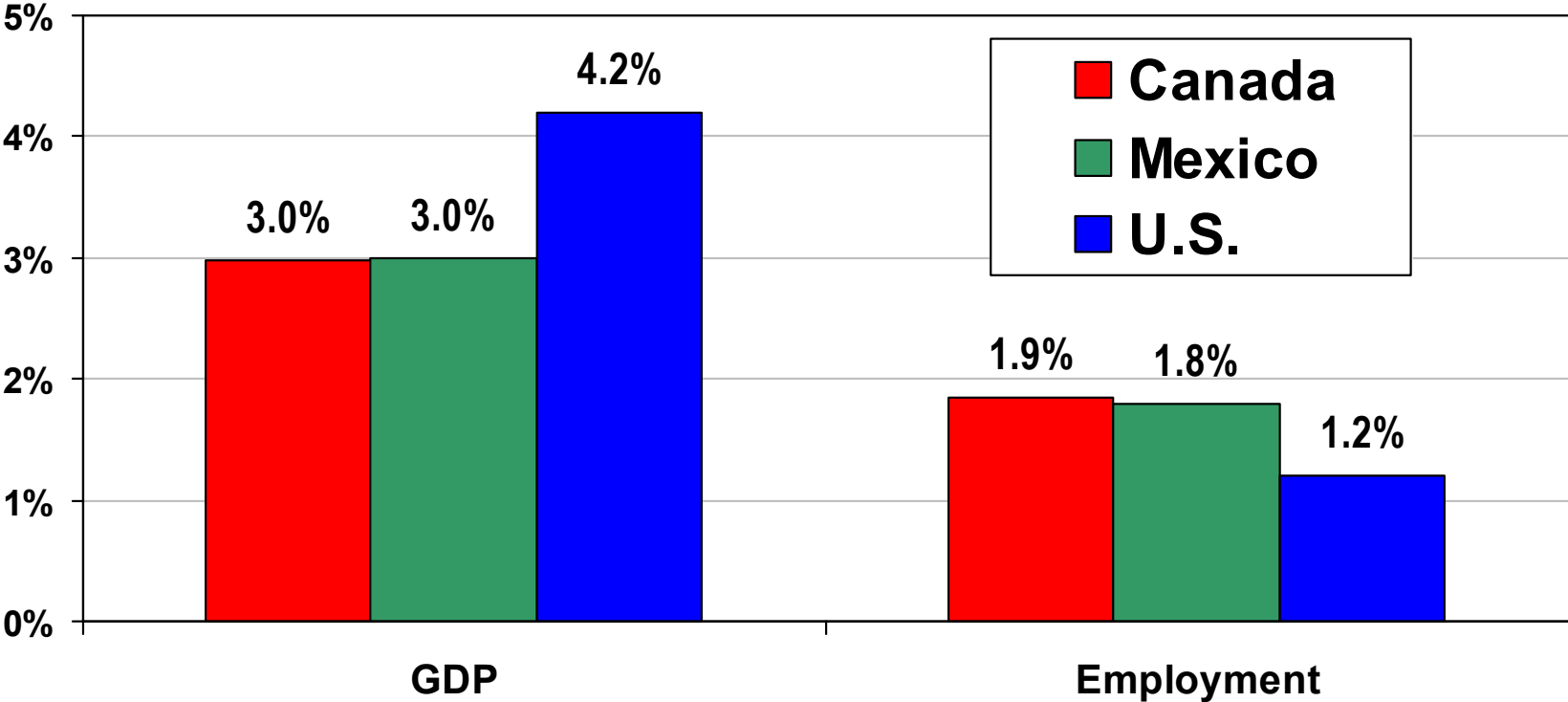
# Global Economic Outlook

| <b>GDP Forecasts</b>                  |                            |             |
|---------------------------------------|----------------------------|-------------|
| <b>Region</b>                         | <b>2004<br/>(as of Q3)</b> | <b>2005</b> |
| <b>North America</b>                  | <b>4.1%</b>                | <b>3.1%</b> |
| <b>Euro Zone</b>                      | <b>2.2%</b>                | <b>2.3%</b> |
| <b>Asia Pacific</b>                   | <b>5.6%</b>                | <b>4.0%</b> |
| <b>Asia Pacific (excluding Japan)</b> | <b>6.7%</b>                | <b>6.2%</b> |

Source: EIU

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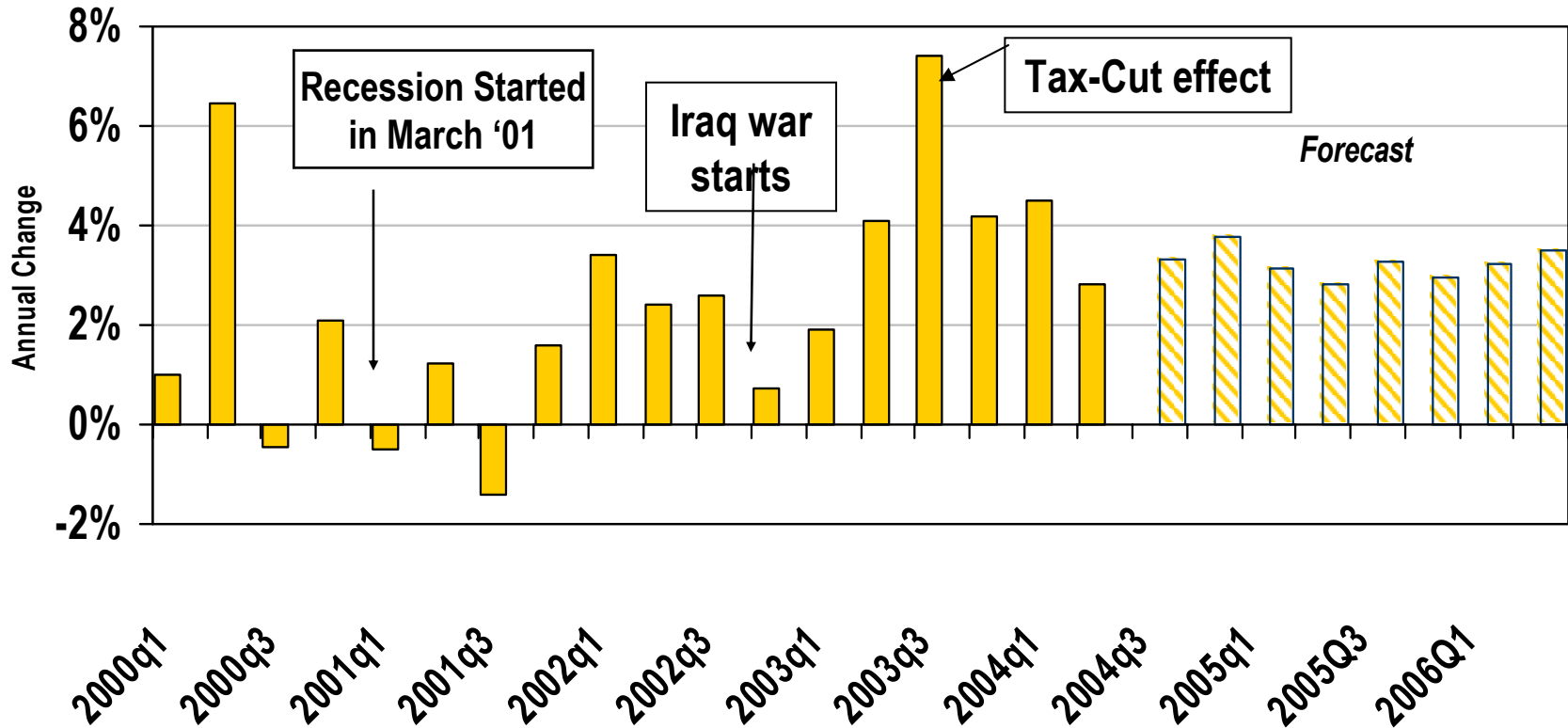
# North American Growth Forecasts for 2004



Source: EIU, Consensus Economics, The Conference Board of Canada, LaSalle Investment Management

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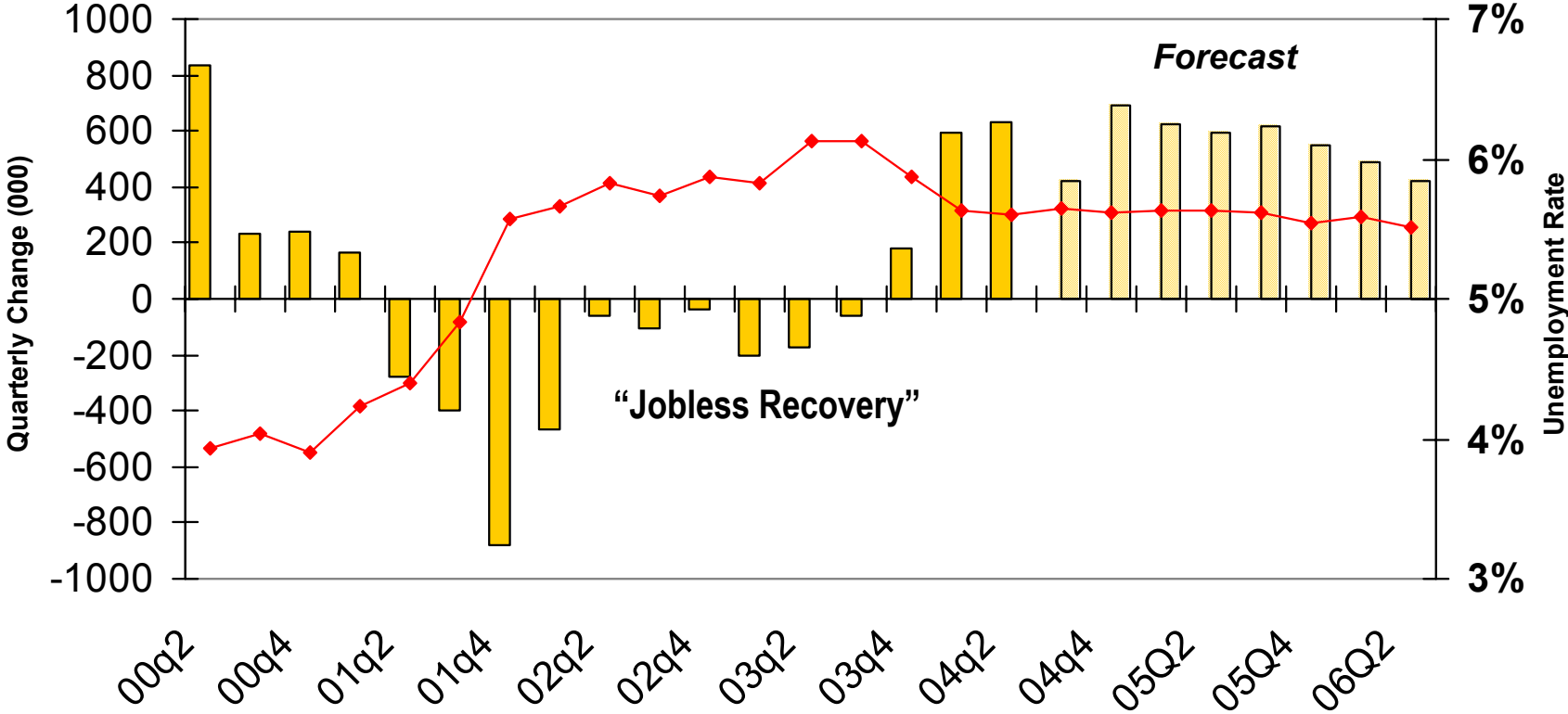
# U.S. GDP Growth Has Slowed but Should be Steady



Source: Economy.com

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# U.S. Finally Adding Jobs, Unemployment Low

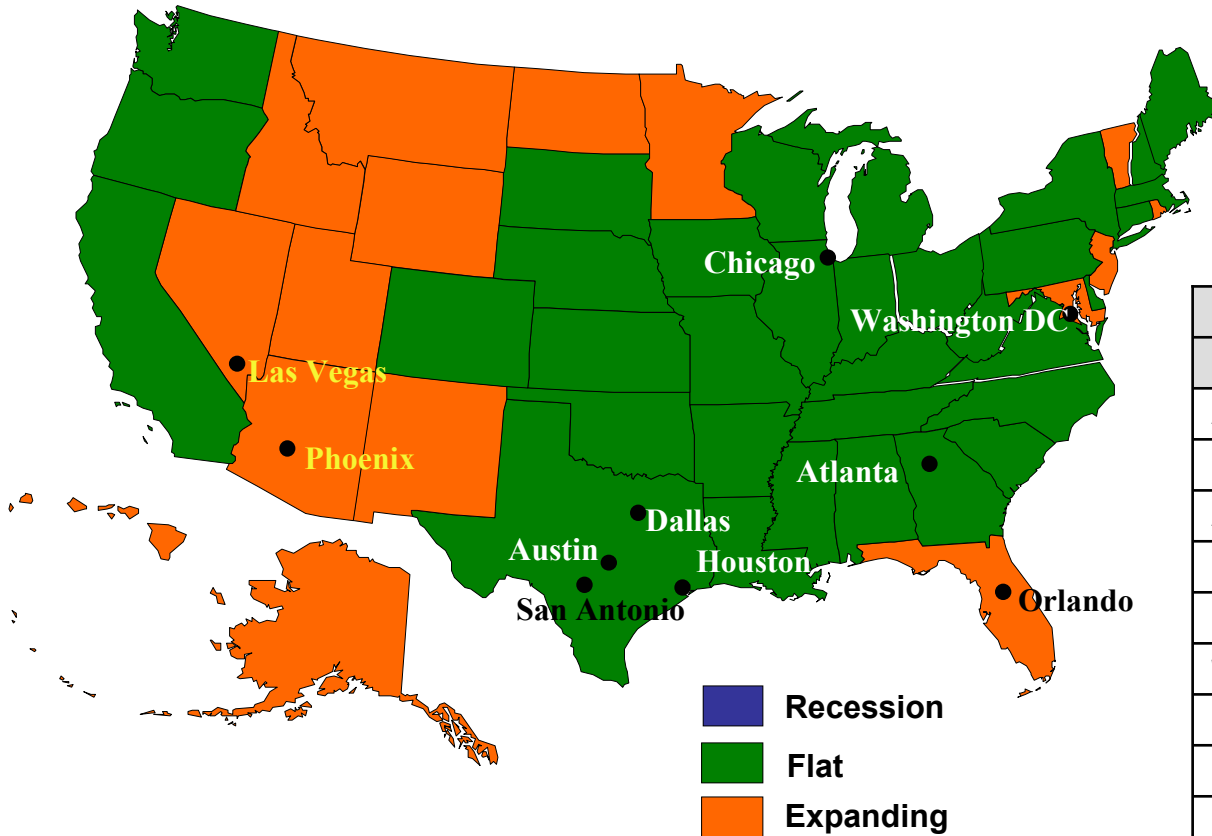


Source: Economy.com, LaSalle Investment Management

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# All U.S. States Out Of Recession, But Still Face Fiscal Problems

## Top Growth Cities: Great for Developers, Not for Buy and Hold Investors



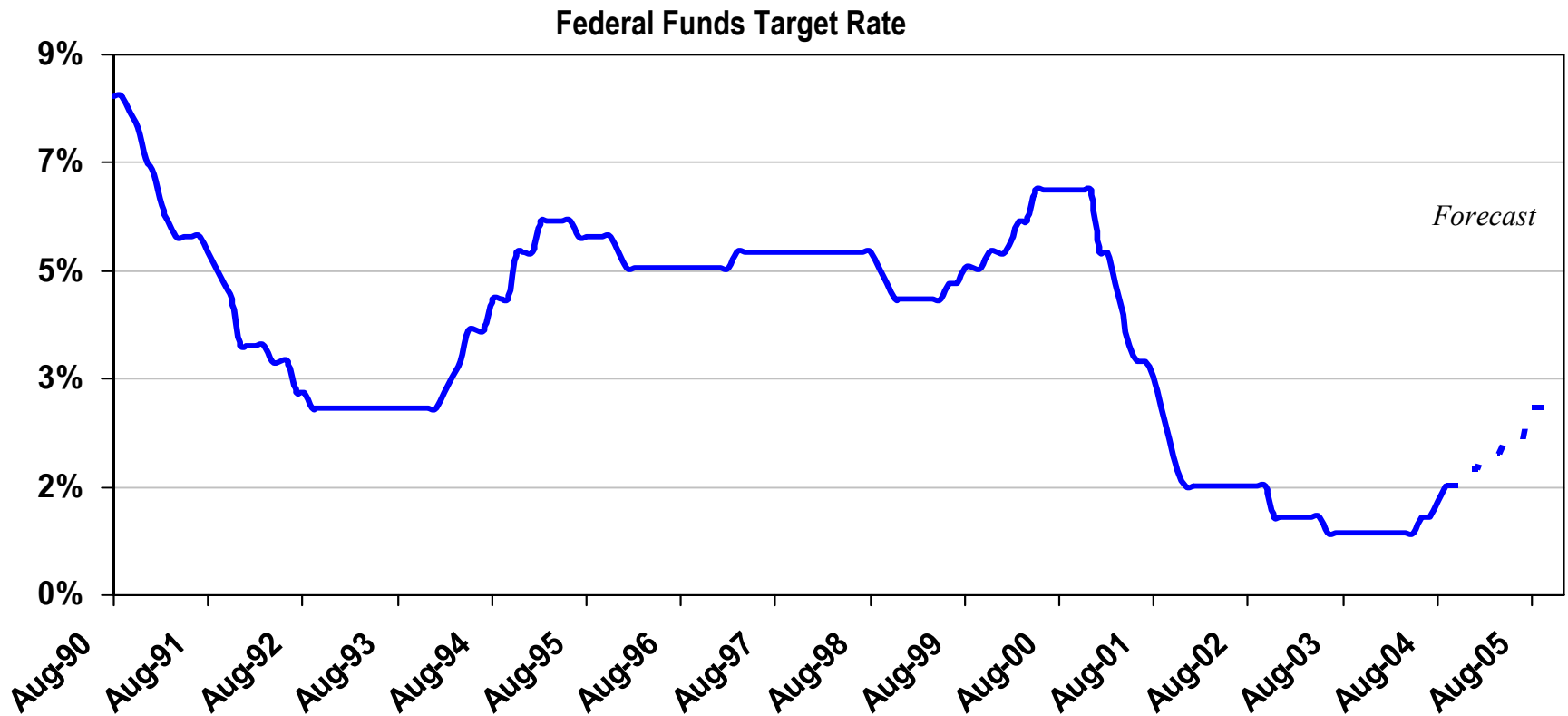
| FASTEST GROWING METROS |            |      |
|------------------------|------------|------|
| MSA                    | REGI Score | Rank |
| Atlanta, GA            | 1.46       | 1    |
| Phoenix, AZ            | 1.42       | 2    |
| Austin, TX             | 1.32       | 3    |
| Dallas, TX             | 1.30       | 4    |
| Las Vegas, NV          | 1.28       | 5    |
| Washington, DC         | 1.25       | 6    |
| San Antonio, TX        | 1.25       | 7    |
| Houston, TX            | 1.24       | 8    |
| Chicago, IL            | 1.23       | 9    |
| Orlando, FL            | 1.23       | 10   |

Source: Economy.com, LaSalle Investment Management

As of 2Q2004

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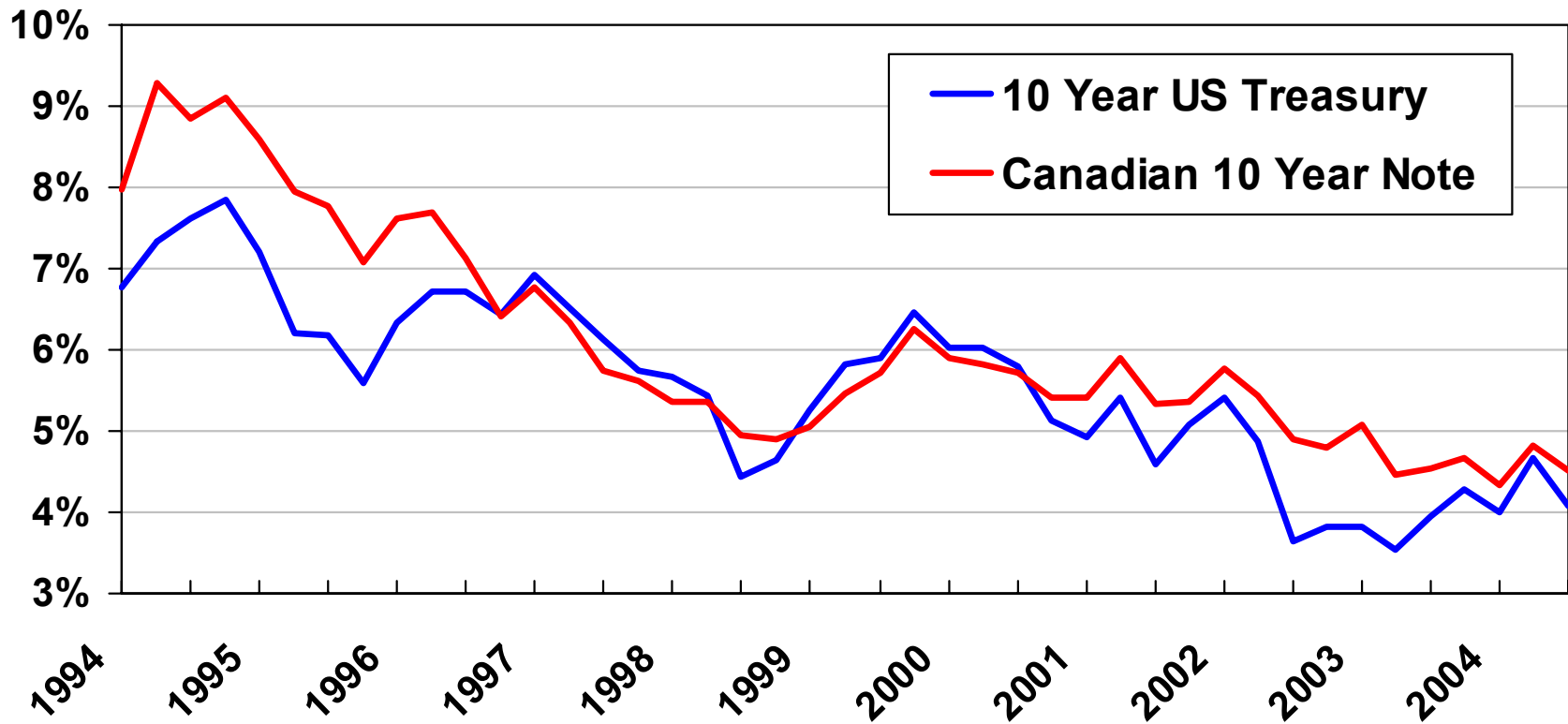
# Fed Funds Rate Now at 1.75%, Due to Move Up



Source: Federal Reserve, Economy.com, LaSalle Investment Management Research

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# Long Term Interest Rates Remain Low



Source: Economy.com, Bank of Canada, LaSalle Investment Management Research

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# Who's Better for the U.S. Economy?



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**Answer: It may not matter**

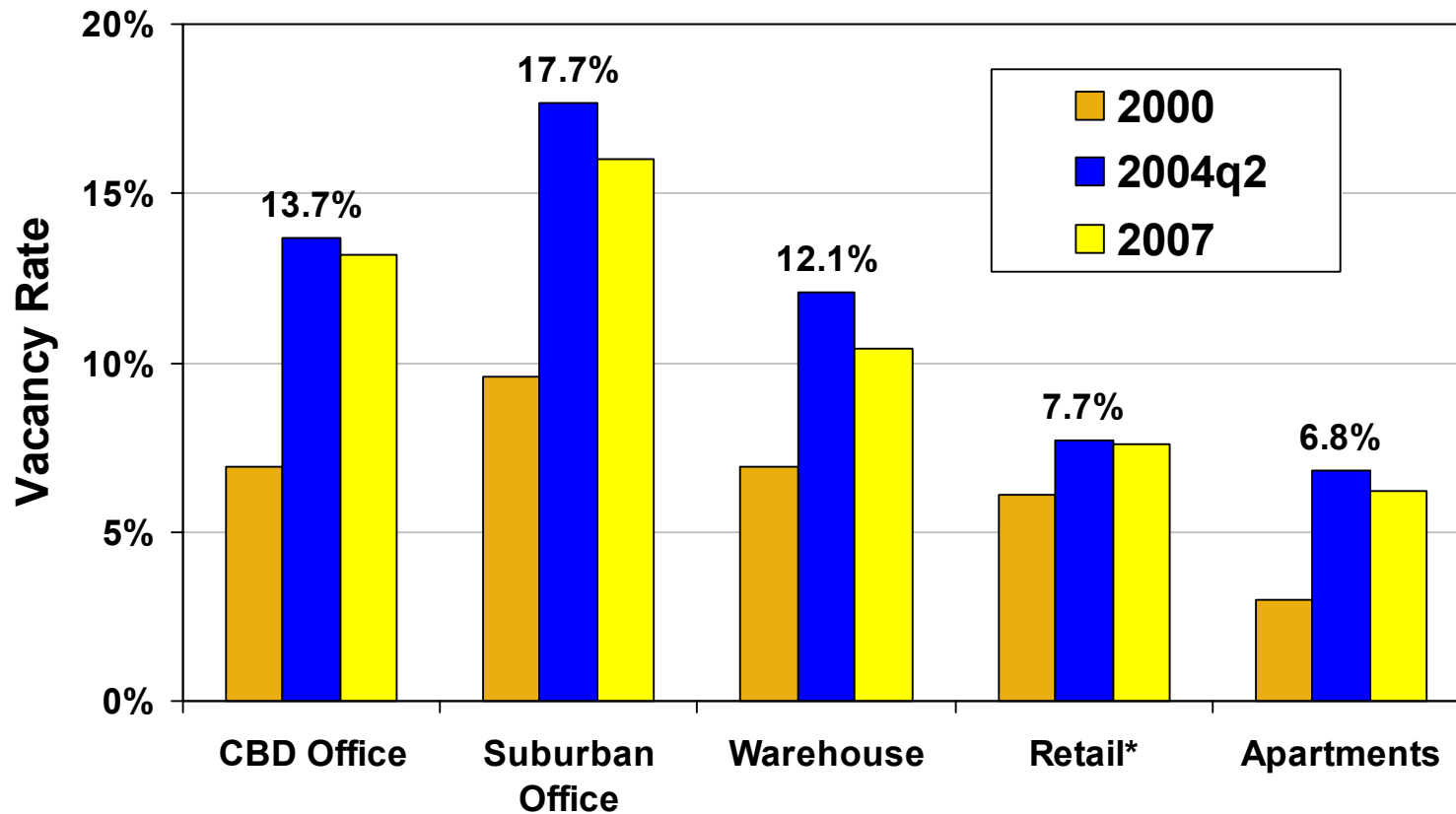


Alan Greenspan

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# U.S. Retail Markets in Balance

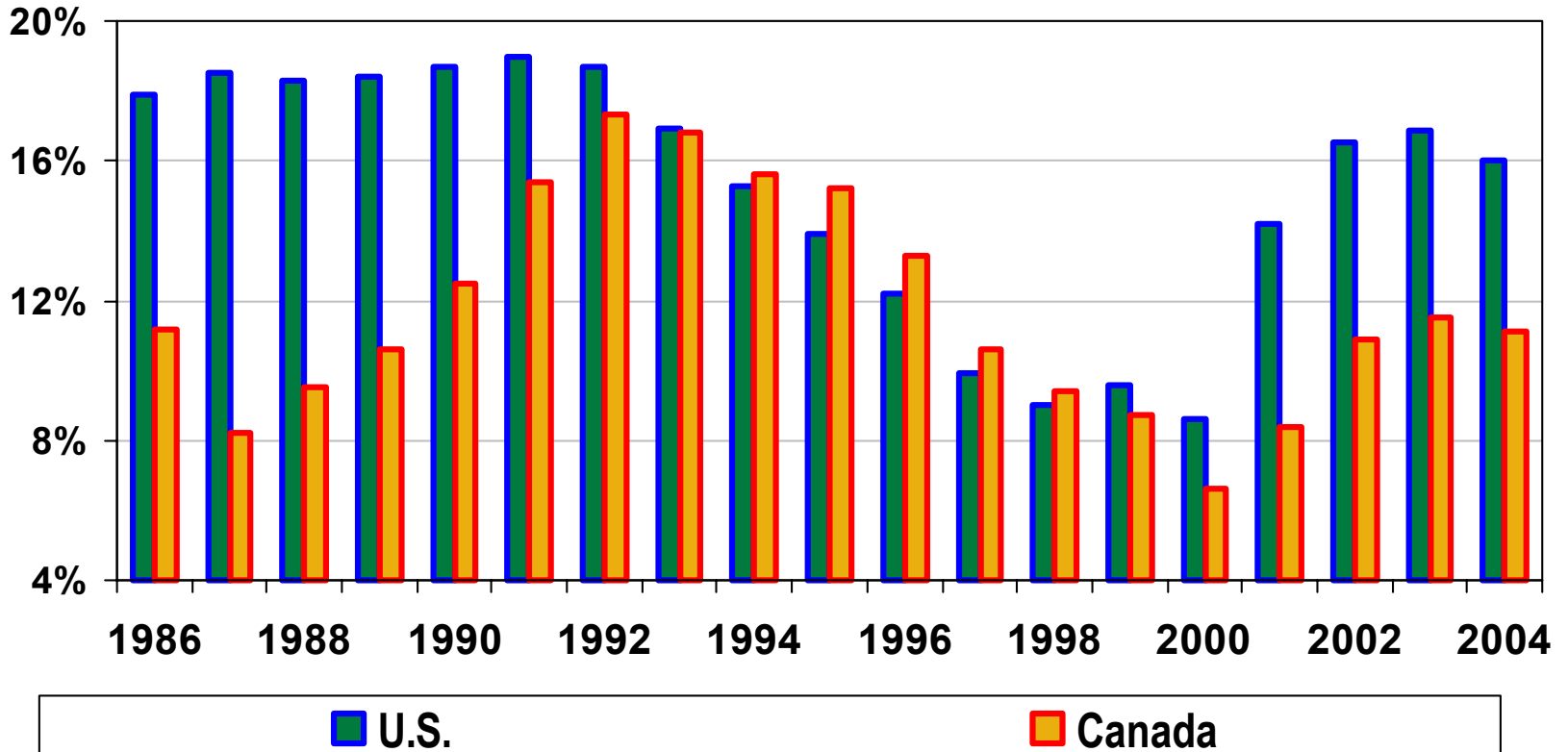
## Other Property Types Soft but Improving



Source: Torto Wheaton, REIS, LaSalle Investment Management

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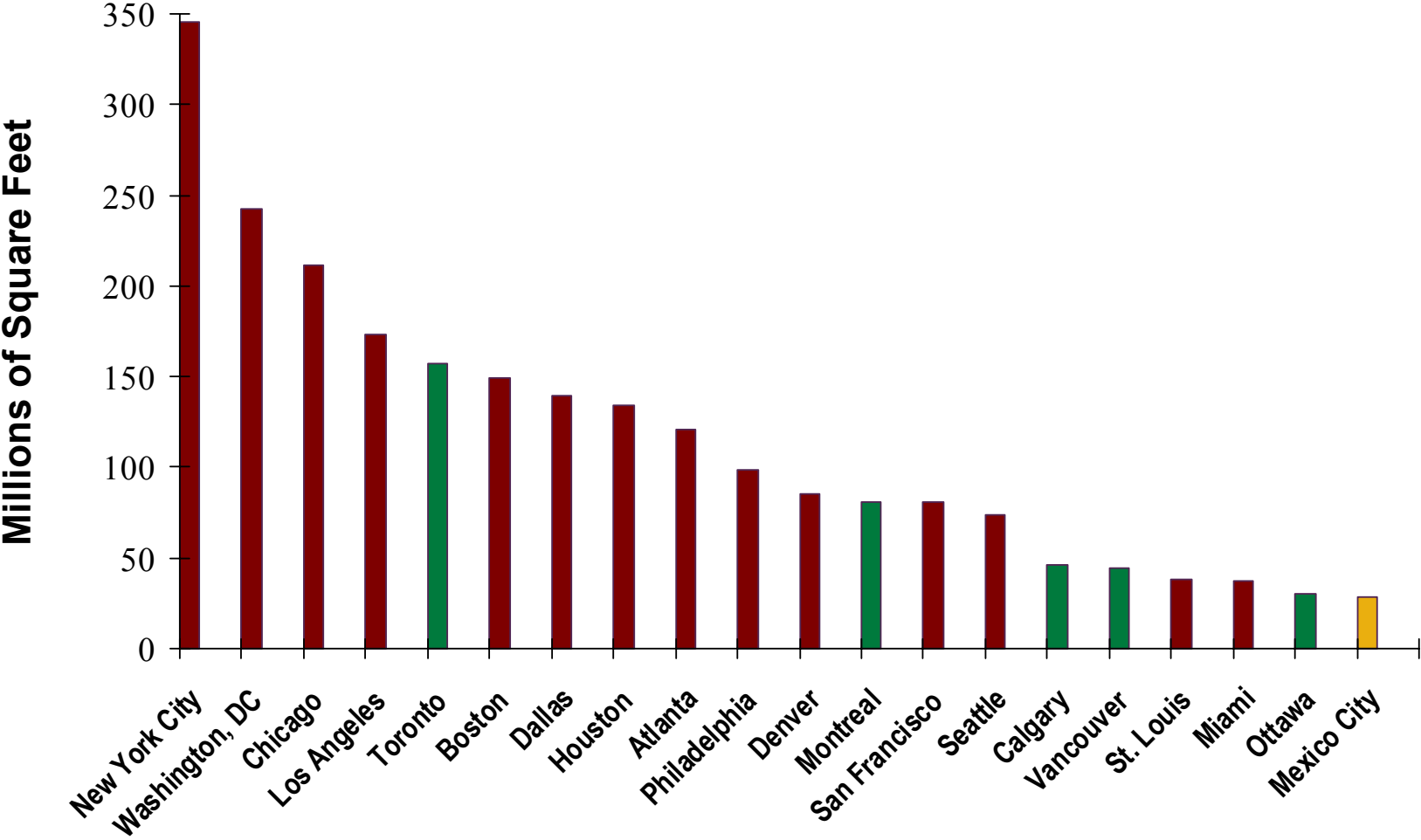
# Office Vacancy Rates Higher in U.S.



Source: Torto Wheaton, Royal LePage

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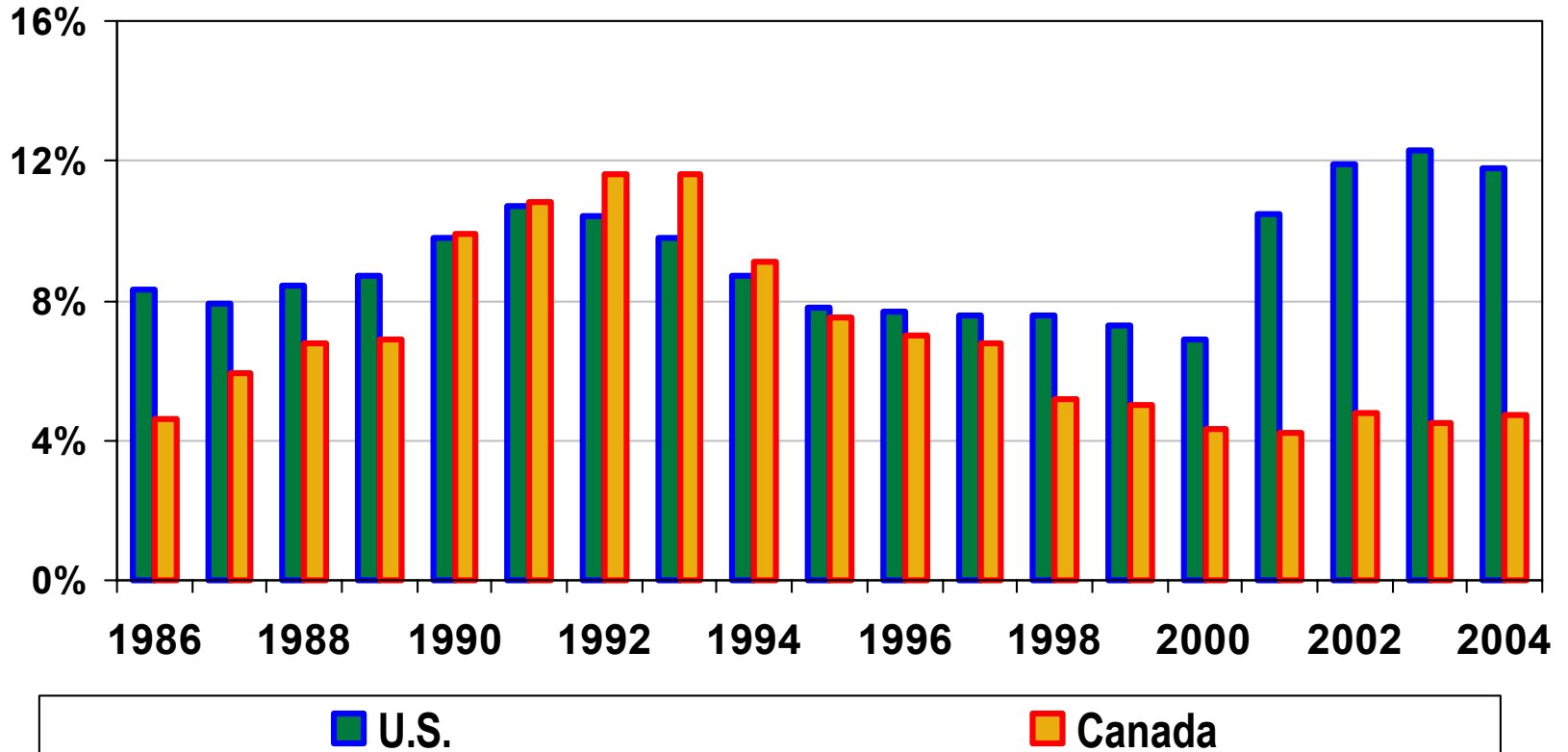
# Largest Office Markets in North America



Source: Jones Lang LaSalle, Torto Wheaton, Royal LePage, LaSalle Investment Management Research

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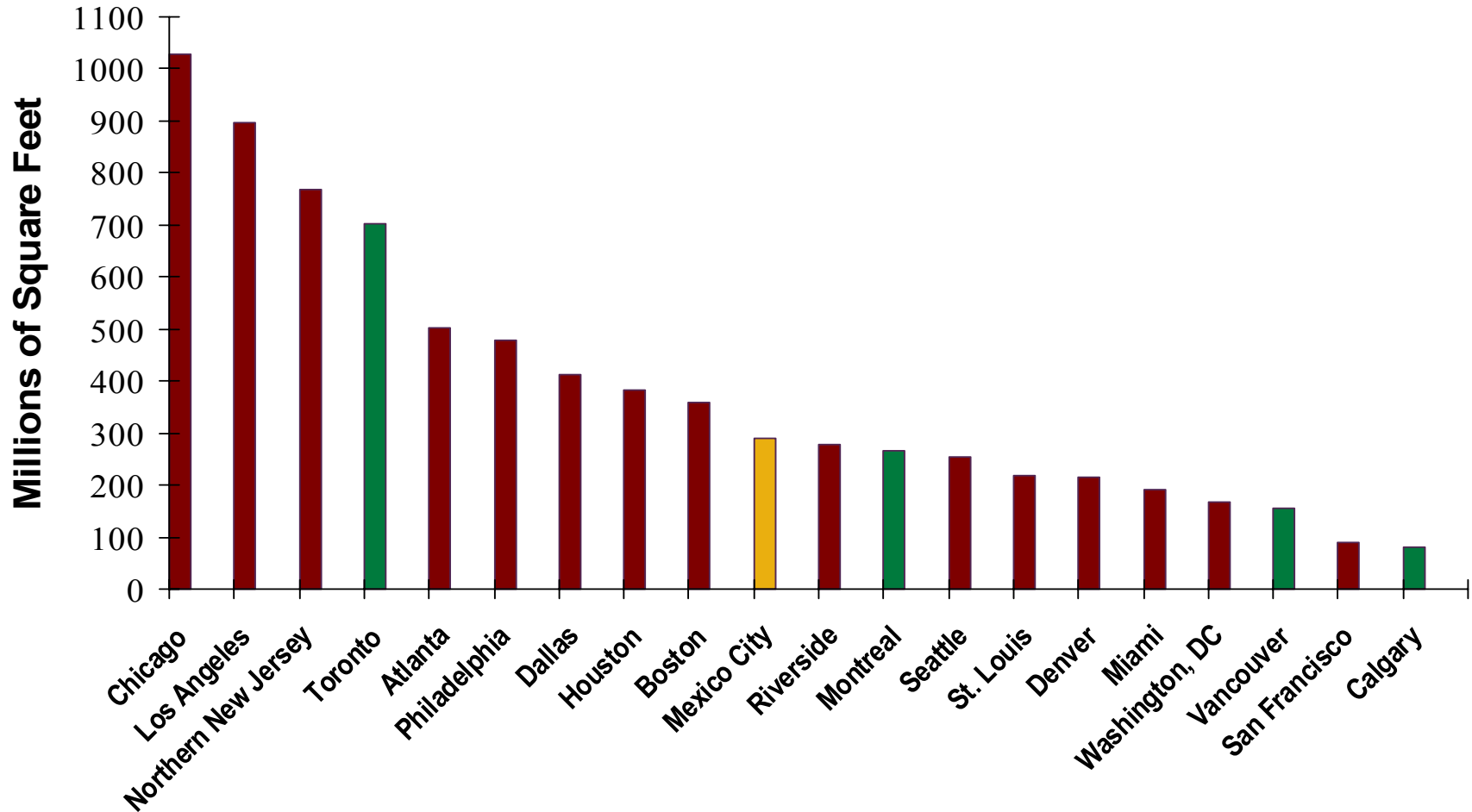
# Warehouse Vacancy Rates Stayed Low



Source: Torto Wheaton, Royal LePage

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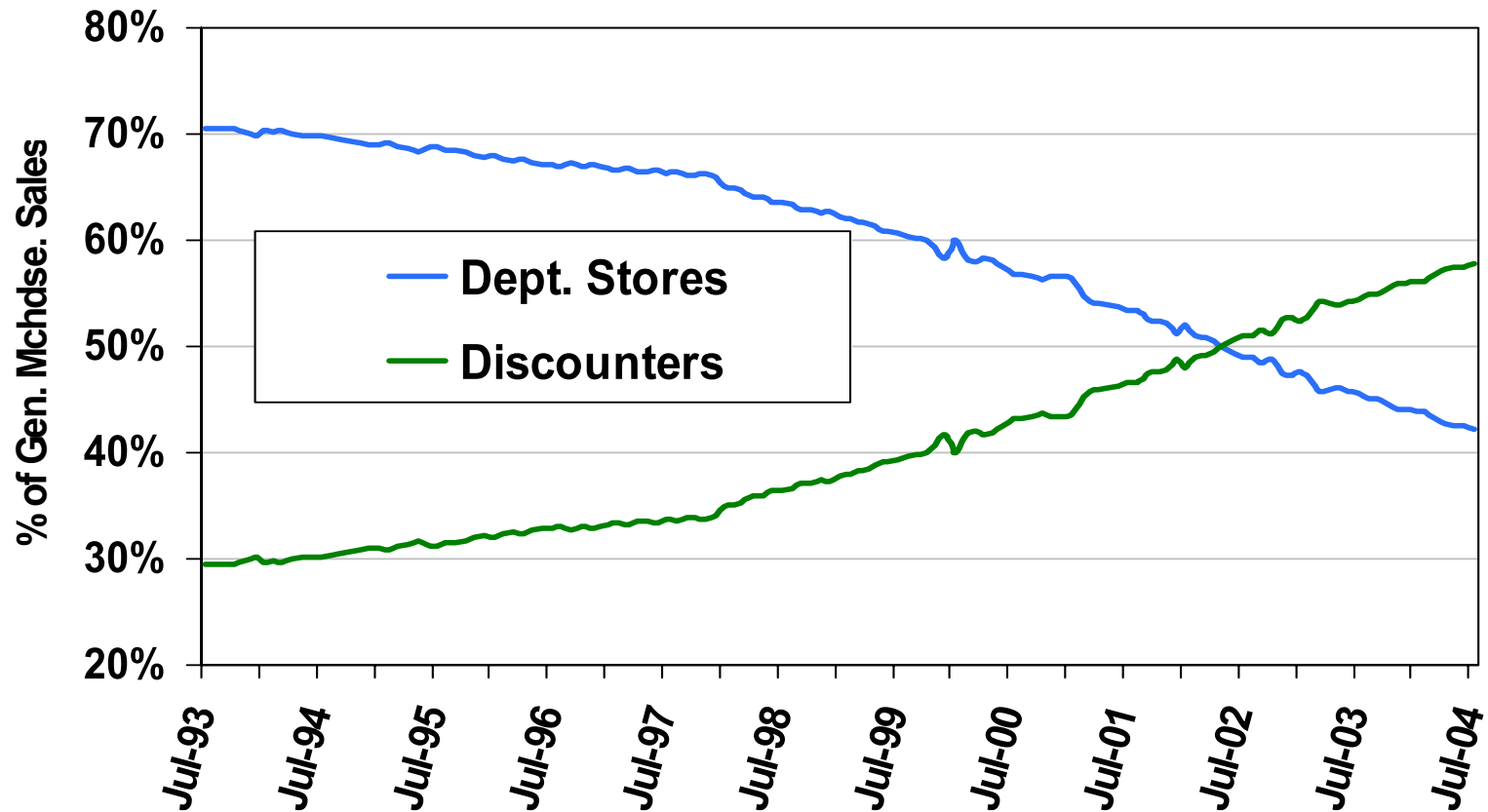
# Largest Warehouse Markets in North America



Source: Torto Wheaton, Royal LePage, Colliers, LaSalle Investment Management Research

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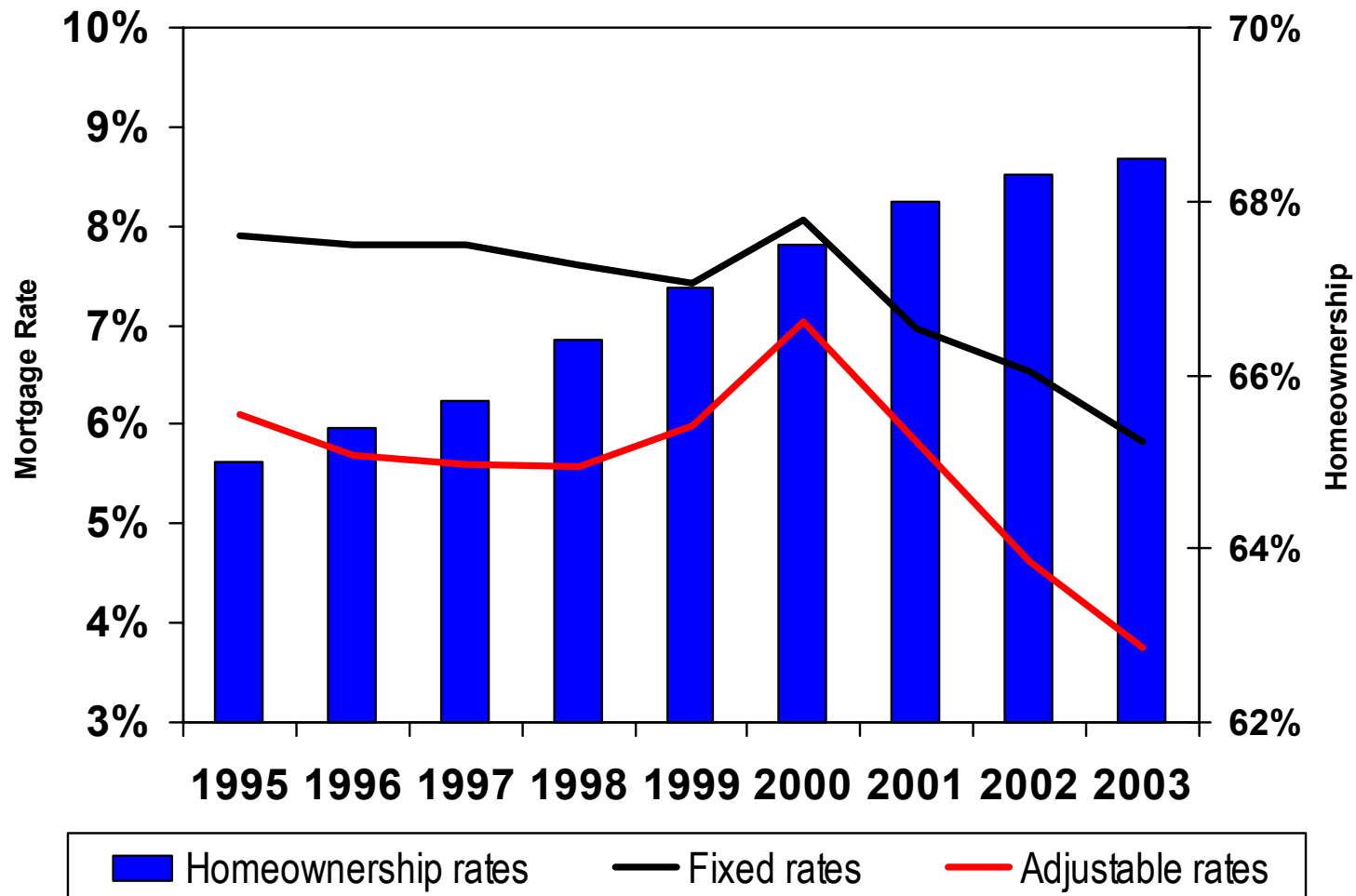
# U.S. Discounters Taking Share From Department Stores



Source: Economy.com, LaSalle Investment Management

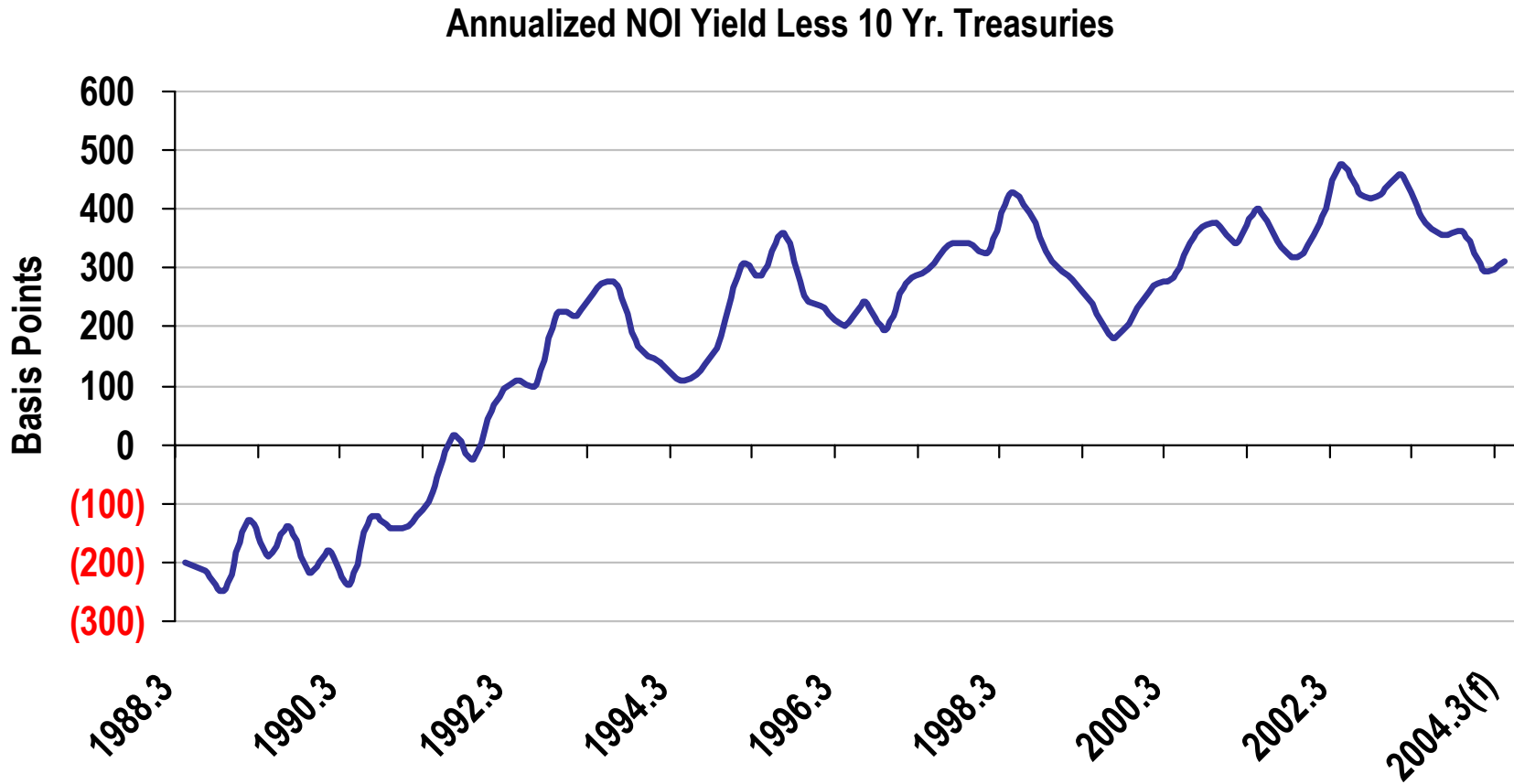
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## Low Mortgage Rates Have Spurred U.S. Homeownership



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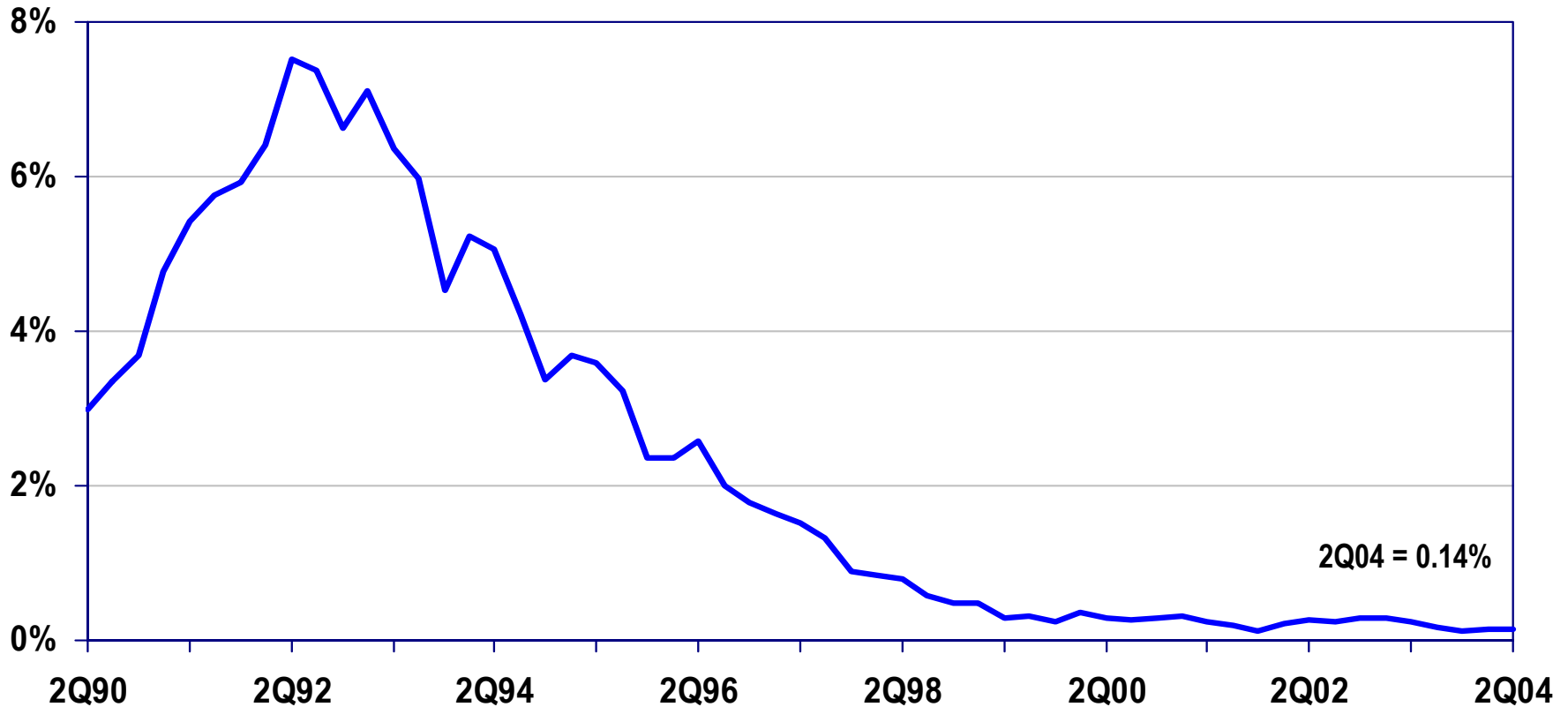
# Spreads Down From All-Time High but Still Attractive



Source: NCREIF, Economy. Com, LaSalle Investment Management Research

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# U.S. Mortgage Delinquencies Remain Historically Low



Source: American Council of Life Insurers (whole mortgages held by life insurers).

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# US Real Estate Returns are Compelling, But not easily repeated

## Average Annual Returns\*

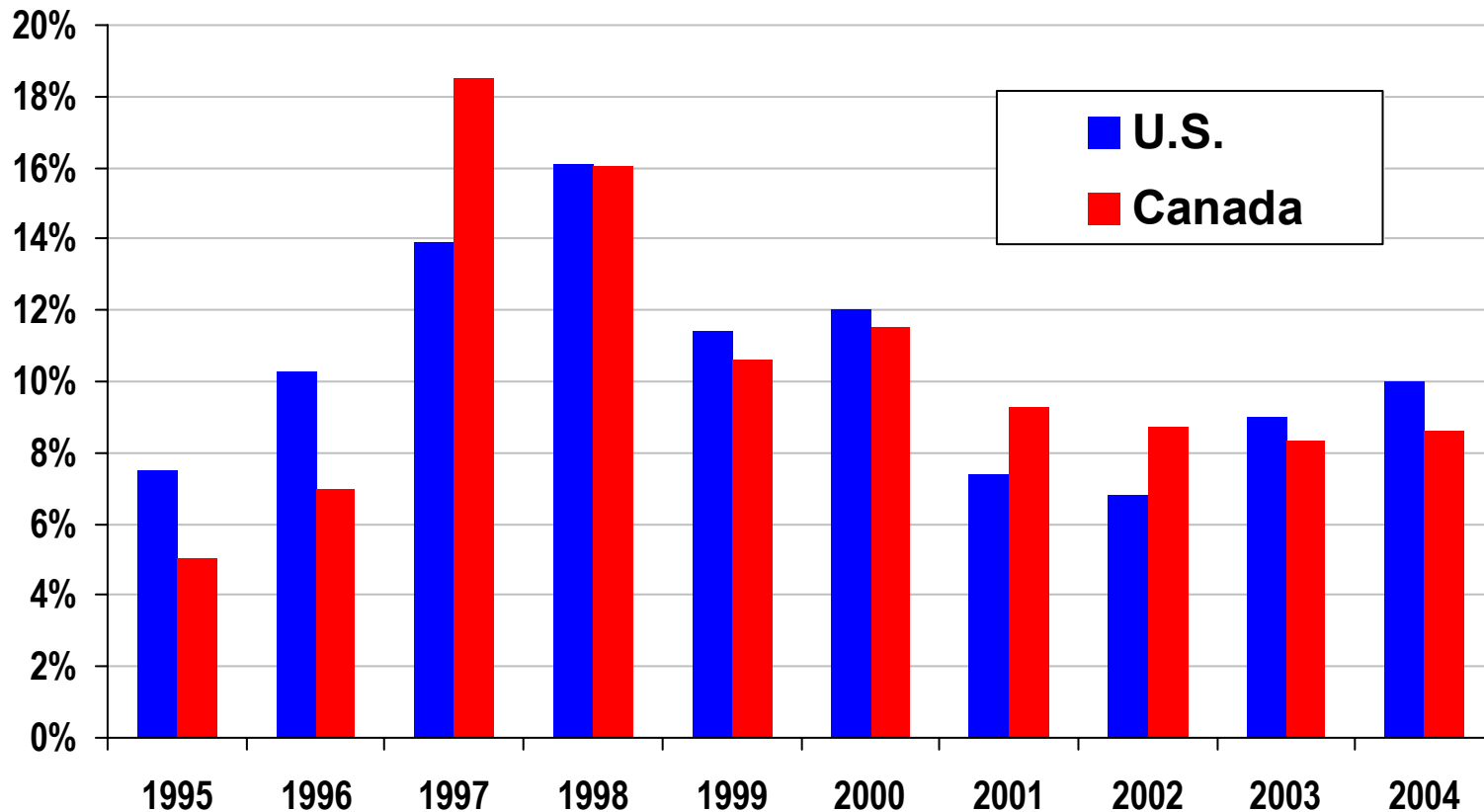
|  | 5 Year       | 10 Year      |
|--|--------------|--------------|
| <b>Private Real Estate<br/>(Unleveraged)</b> | <b>9.4%</b>  | <b>10.4%</b> |
| <b>Public Real Estate</b>                    | <b>16.0%</b> | <b>12.5%</b> |
| <b>Large Cap Stocks</b>                      | <b>-2.3%</b> | <b>11.0%</b> |
| <b>Small Cap Stocks</b>                      | <b>5.8%</b>  | <b>9.6%</b>  |
| <b>Corporate Bonds (Lehman)</b>              | <b>7.9%</b>  | <b>7.5%</b>  |

Source: NAREIT (Equity REITs), NCREIF, Bloomberg, Ibbotson, LaSalle Investment Management

As of 2Q2004

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# Real Estate Returns Strong in Both U.S. and Canada

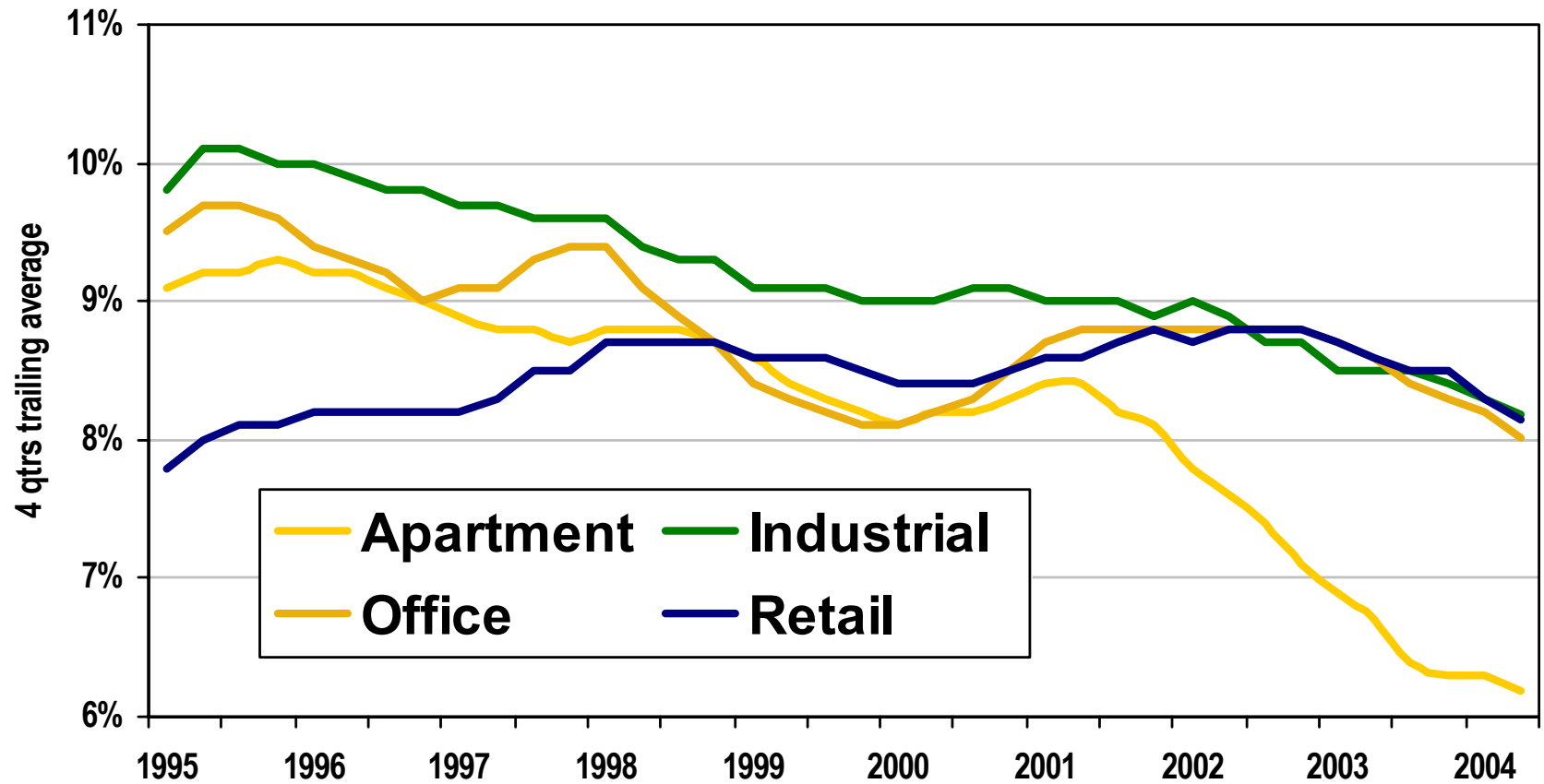


Source: NCREIF, IPD, Russell Canada

As of 2Q2004

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# U.S. Income Yields/Cap Rates Continue To Fall



Source: NCREIF

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# Key Drivers of Real Estate Performance - U.S./Canada

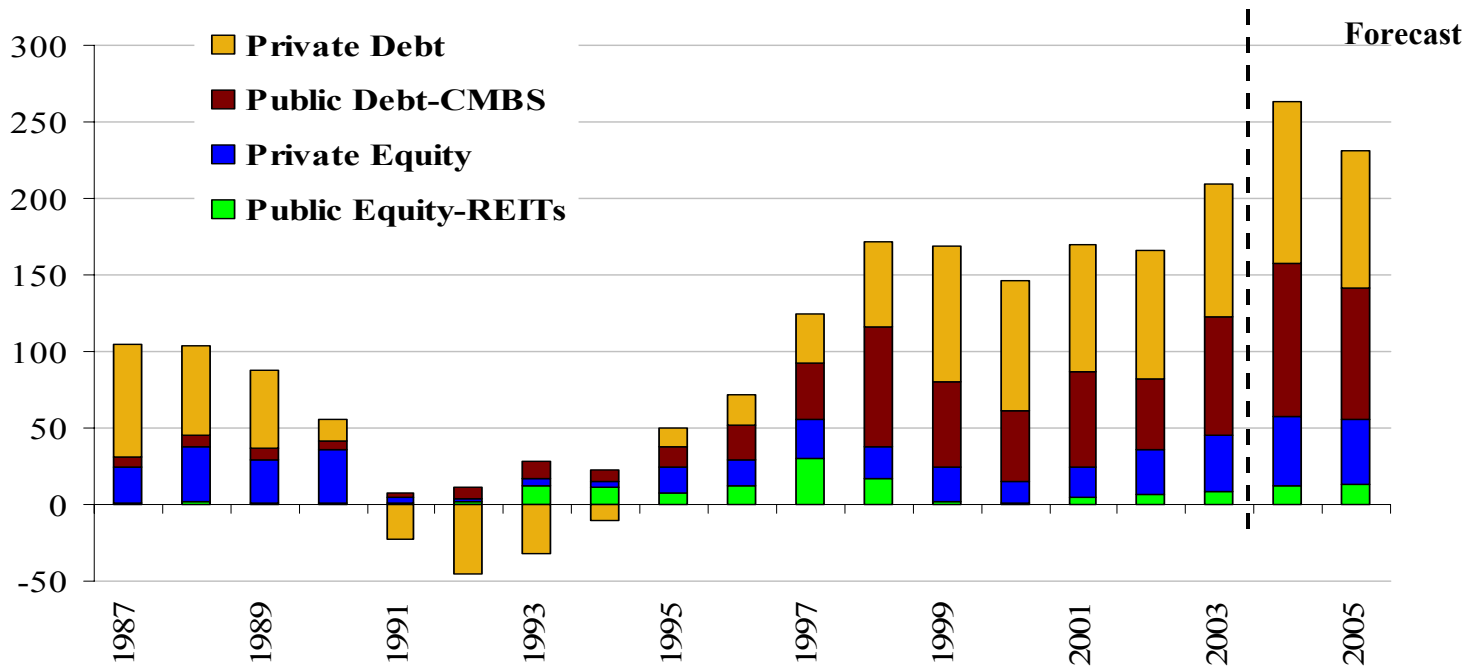
|                               | Forecast – Next 12-24 Months | Impact on Real Estate Returns |
|-------------------------------|------------------------------|-------------------------------|
| Economy & Job Growth          | ↑                            | ↑                             |
| Real Estate Market Conditions | ↑                            | ↑                             |
| New Construction/Supply       | ↔                            | ↑                             |
| Interest Rates                | ↑                            | ↓                             |
| Capital Flows to Real Estate  | ↑                            | ↔                             |

**“North American Real Estate will benefit from improving economy and strong investor interest”**

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# Debt and Equity Flows to Real Estate will Remain High in 2004 and 2005

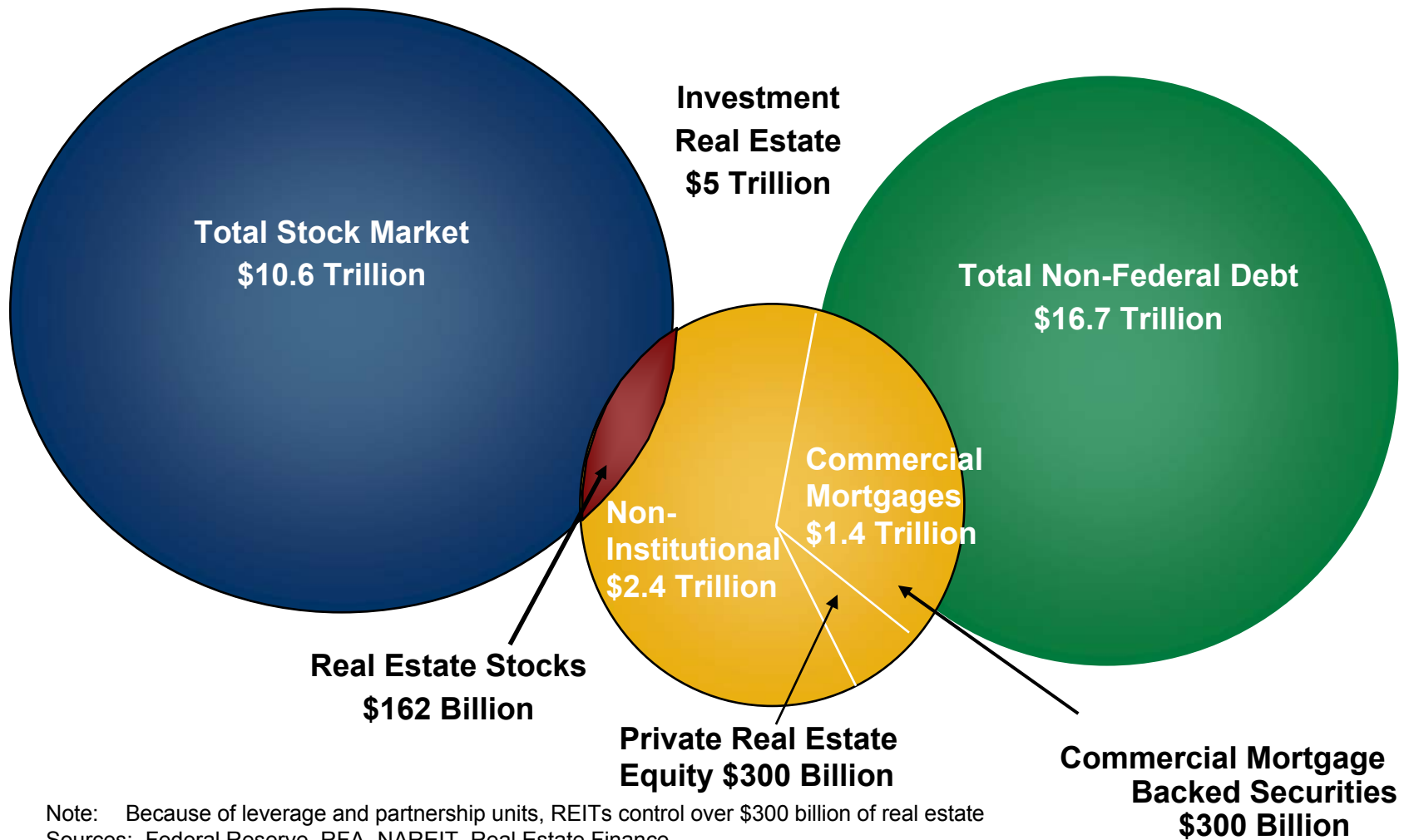
\$ Billions  
(Nominal)



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# Problem: Market Cap of Real Estate Needs to Grow

## Solution: Owner-occupied shifts to Investor-owned



Note: Because of leverage and partnership units, REITs control over \$300 billion of real estate  
 Sources: Federal Reserve, RFA, NAREIT, Real Estate Finance

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## Who's Buying in 2004? (How much money have they got?)

- Private REITs (\$8 to 10 billion)
- US Pension Funds (\$12 to \$15 billion)
- Public REITs (\$8 to 10 billion)
- German Funds (\$3 to 5 billion)
- 1031 Exchange Buyers (\$2 to 3 billion)
- Endowments and Foundations (\$2 to 3 billion)
- It all adds up to another frothy year for equity capital!

# Who's Selling in 2004?

- **Developers/owners looking for JV money**
- **Opportunistic Funds**
- **Public REITs (in non-strategic markets)**
- **Pension Funds and Advisors (to take profits)**
- **Owner-Occupiers (sale lease-back market is strong)**

