Brake & Throttle...

Where is the Friction & Where is the Acceleration?
Disclaimer: Upfront and Not in fine print…

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Always take a good look at where you’re about to go.
(Gainesville, FL airport)
Start of 2012 is eerily similar to Start of 2011…
ADP sets a record, Unemployment drops & ISM expands

Jan 2011 Headline Economic News
- ADP: +275k Private Jobs (a record)
- BLS: 50bp drop in Unempl/+100k jobs
- ISM: Manufacturing growing 17 months

Jan 2012 Headline Economic News
- ADP: +325k Private Jobs (a record)
- BLS: 20bp drop in Unempl/+200k jobs
- ISM: Manufacturing growing 29 months

WHAT HAPPENED?
- GDP at just 1.6% (0.4% + 1.3% + 1.8% + 2.8%)
- Sendai, Japan earthquake; US Debt downgrade, EU, etc.

Source: Colliers “Weekly Market Recap”
KC’s Forecasts (past & present)
2011 average was Bearish...2012 Bullish start is tempered.

<table>
<thead>
<tr>
<th>PERIOD</th>
<th>BULLS</th>
<th>BEARS</th>
<th>BEWILDERED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Week Ending Jan-27</td>
<td>5</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Prior WMR (Jan 20)</td>
<td>7</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Jan '12 4-Week Avg</td>
<td><strong>6.0</strong></td>
<td>4.5</td>
<td>5.0</td>
</tr>
<tr>
<td>CY 2012 YTD Avg</td>
<td><strong>6.0</strong></td>
<td>4.5</td>
<td>5.0</td>
</tr>
<tr>
<td>CY 2011 Avg</td>
<td>3.9</td>
<td>4.3</td>
<td>3.9</td>
</tr>
</tbody>
</table>

*Note: A Tie "Bulls/Bears" Score results in a "Bewildered"*

K.C.’s forecast at beginning of 2011:
“Light growth (<2% GDP) as we cut Big Debt”
2011 = 1.6% (Q1 =0.4%; Q2 =1.3%; Q3 =1.8%; **Q4 = 2.8% “Advance”**)  

K.C.’s forecast for 2012:
“Modest or No growth (<1.5% GDP) while government can’t act.”
Government that Can’t Act…
…is no longer an option, and it’s toxic to CRE…

…The antidote to Dodd-Frank…

A Cowboy’s Guide to Life
By: Texas Bix Bender

“Control your generosity when dealin’ with a chronic borrower”
Government & Consumer Debt in the U.S.
Americans owe $99.141 trillion or $322,843 per man-woman-child

Is the new U.S. fiscal plan “99 bottles of debt on the wall…”

Total U.S. Debt - All Sources (Federal, State, Municipal and Consumer)

<table>
<thead>
<tr>
<th>Debt Category</th>
<th>U.S. Total</th>
<th>Per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mid-2011 Incurred U.S Debt</td>
<td>$14,300,000,000,000</td>
<td>$46,567</td>
</tr>
<tr>
<td>GAO Committed/Unfunded Debt</td>
<td>64,000,000,000,000</td>
<td>$208,410</td>
</tr>
<tr>
<td><strong>Subtotal:</strong></td>
<td><strong>78,300,000,000,000</strong></td>
<td><strong>$254,977</strong></td>
</tr>
<tr>
<td>All 50 States Incurred Debt</td>
<td>1,004,000,000,000</td>
<td>$3,269</td>
</tr>
<tr>
<td>All 50 States Unfunded Pension Debt</td>
<td>3,137,000,000,000</td>
<td>$10,215</td>
</tr>
<tr>
<td><strong>Subtotal:</strong></td>
<td><strong>4,141,000,000,000</strong></td>
<td><strong>$13,485</strong></td>
</tr>
<tr>
<td>Total Outstanding Municipal Bond Debt</td>
<td>3,000,000,000,000</td>
<td>$9,769</td>
</tr>
<tr>
<td>Total Consumer Debt (auto and credit cards)</td>
<td>2,400,000,000,000</td>
<td>$7,815</td>
</tr>
<tr>
<td>Total Home Mortgage Debt (Source: BEA)</td>
<td>10,300,000,000,000</td>
<td>$33,541</td>
</tr>
<tr>
<td><strong>Subtotal:</strong></td>
<td><strong>12,700,000,000,000</strong></td>
<td><strong>$41,356</strong></td>
</tr>
<tr>
<td>Student Loan Debt (Occupy Wall Street)</td>
<td>1,000,000,000,000</td>
<td>$3,256</td>
</tr>
<tr>
<td><strong>Total U.S. Debt (Gov, Municipal, Consumer)</strong></td>
<td><strong>$99,141,000,000,000</strong></td>
<td><strong>$322,843</strong></td>
</tr>
</tbody>
</table>

Update: Exceeds $15 trillion
Top-10 Alternative Eco & R.E. Metrics to Monitor?
“KC’s Guide to the Economy”

Advice concerning government economic data:

“Treat it like wine; let it age before you partake of it.”

1. Bank Failures – Exempt Community Banks from Dodd-Fr& Credit Union
2. Chicago FED National Activity Index (cfNAI – Alternative to LEI )
3. GDP – Not just for U.S. but bell-weather global economies – Honk Kong
4. NFIB Small Business Optimism Index – Big time relevant to Retail R.E.
5. National Restaurant Performance Index – common sense indicator
6. CESI – Citi Eco. Surprise Index: Economists’ report card & Bias Trend
7. Real Estate New Supply Metric: How much new construction remains?
8. CRE Debt maturities: 2012 and 2013 are peak years with $350 billion/yr
9. CMBS Market: Delinquency, Loss Severity, &Ratio of Loans able to Refi
10. “Muscle Car “ Index – something with real acceleration
Bank Failures
What should we have learned?

First: “Good judgment comes from experience, and ... 
a lot of that comes from bad judgment”
CRE over-leverage lesson

Second: “Never try to run a bluff when your pockets are empty.”
Under Capitalized Lesson
Bank Failures – Are we done? 
Historical Perspective 
CY 2011’ 92 compare well to 2009 & 2012, but…

**History of U.S. Bank Failures**

- Bank Failures 1929-1933 23,674 (Gr. Depression)
- Bank Failure 1986-1994 2,369 (S&L Crisis)
- Bank Failures 2008 25 (Onset of Fin Crisis)
- Bank Failures 2009 250 (Height of Fin Crisis)
- Bank Failures 2010 157
- Bank Failures 2011 92 (FDIC Chair change)
- Bank Failures 2008-2011 524 (Fin & Debt Crises)

*Source: FDIC*

**But…Bank Failures in Jan 2012 equal those in Jan 2011 (7)**

<table>
<thead>
<tr>
<th>Bank Name</th>
<th>City</th>
<th>State</th>
<th>CERT #</th>
<th>Acquiring Institution</th>
<th>Closing Date</th>
<th>Updated Date</th>
</tr>
</thead>
</table>

* 2012: Who is #1 in Bank Failures? Phew – not GA.
* 380 banks haven’t repaid TARP & Treasury hired a collection agency
### Hong Kong:

<table>
<thead>
<tr>
<th>Period</th>
<th>GDP Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3 2011 (most recent)</td>
<td>0.1%</td>
</tr>
<tr>
<td>Q2 2011</td>
<td>0.4%</td>
</tr>
<tr>
<td>Q1 2011</td>
<td>2.8%</td>
</tr>
<tr>
<td>High past Decade</td>
<td>6.3%</td>
</tr>
<tr>
<td>Low past Decade</td>
<td>-3.6%</td>
</tr>
<tr>
<td>Historic Avg.</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

- **Slowing from 2.8% GDP in Q1 2011 to just 0.1%**

Source: TradingEconomics.com
National Restaurant Performance Index
A good macro indicator for retail, hospitality and restaurant R.E.

National Restaurant Performance Index:
Next Release Jan 27 2012
Current Release 100.6 Nov-11
Prior Period 100.0 Oct-11
Sep-11 100.1 Sep-11
Aug-11 99.4 Aug-11

Trend: Volatile
Aug was 13-mo low
Sept was >100 (1st in 3 mos)

Key Note: A reading >100 indicates growth

Back in “growth” territory!
Bullish for Retail R.E.
Citi Economic Surprise Index (CESI):

The CESI is an ingenious mathematical concoction that measures the variations in the gap between economists’ expectations and the real economic data. **Essentially, it is a measurement of the accuracy of economists’ estimates of key economic measures against the actual result after release.** In other words, it is a combination of both:

i. A report card on economists’ advance estimates; and

ii. A sort of sentiment survey of economists. Are they more bullish or bearish in their estimates?

A positive reading suggests that economic releases have on average been better than expected and the economic forecasts have been more bearish than what the key economic indicators are reporting.
CRE Supply Metric

“If you’re riding ahead of the herd, take a look back every now and then to make sure it’s still there.”

### Total U.S. Warehouse Construction @ YE 2011

<table>
<thead>
<tr>
<th>Rank</th>
<th>State</th>
<th>Sq. Ft. (000s)</th>
<th>Construction Value ($million)</th>
<th>Per Sq Ft</th>
<th>Single Largest Project (Name/Sf)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>TX</td>
<td>2,100</td>
<td>$135</td>
<td>$64</td>
<td>Sysco Foods/San Antonio/635k sf</td>
</tr>
<tr>
<td>2</td>
<td>NY</td>
<td>1,700</td>
<td>188</td>
<td>111</td>
<td>Sysco Foods/NY-LI/400k sf</td>
</tr>
<tr>
<td>3</td>
<td>GA</td>
<td>1,600</td>
<td>100</td>
<td>63</td>
<td>Lowes Hm Impr/Rome/1.4msf</td>
</tr>
<tr>
<td>4</td>
<td>IL</td>
<td>1,100</td>
<td>159</td>
<td>145</td>
<td>Center Pt Props/Chicago/675k sf</td>
</tr>
<tr>
<td>5</td>
<td>LA</td>
<td>1,000</td>
<td>68</td>
<td>68</td>
<td>Assoc Wh Grocers/New Orl/730k sf</td>
</tr>
<tr>
<td>5</td>
<td>AL</td>
<td>1,000</td>
<td>56</td>
<td>56</td>
<td>Dollar General/B-ham/1.0 msf</td>
</tr>
<tr>
<td></td>
<td>Total US</td>
<td>20,690</td>
<td>$706</td>
<td>$83</td>
<td>Lowes Hm Impr/Rome, GA/1.4msf</td>
</tr>
</tbody>
</table>

**Note:** States with most warehouse construction are all port markets

Source: Dodge Pipeline as of Dec 31, 2011 (Warehouse Distr Space)

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**Note:** A big change. There just isn’t much new construction underway.

There is no herd of new construction behind us. We are out of beef!
IDI Begins 650,000 SF Spec Facility in Atlanta’s I-20 West Submarket

IDI will begin construction on Building A, a 650,000-square-foot speculative building at the Riverside Business Center in the I-20 West submarket of Atlanta. IDI’s ultimate plans for Riverside Business Center include five buildings totaling 1.2 million square feet.

This is the first substantial speculative land acquisition and speculative building start by any industrial real estate company in the Metro Atlanta market since 2008, according to IDI, which purchased 254 acres of land from Crescent Resources, LLC for the new site.

The I-20 West submarket of Metro Atlanta is a Southeast logistics market offering proximity to downtown Atlanta, Hartsfield-Jackson International Airport, I-20, I-75 and I-85. In addition, the area offers infrastructure in terms of roads and utilities. "The I-20 West submarket is relatively healthy with very few class-A buildings over 500,000 square feet available currently," said Lisa Ward – VP of leasing.

Building what is needed - The speculative building at Riverside Business Center will be include:

- 36' clear ceiling height, compared to the market standard of 30' to 32', which allows tenants to stack inventory one level higher, increasing space efficiency

- 60' column spacing, which can increase efficiency up to 15% in terms of use of floor space, compared to the market standard of 50' to 54'

- 7' slab instead of the market standard 6' slab, allowing for heavier stacking
CRE Debt Maturities

“You can just about always stand more than you think you can.”

or

So you thought you could…
CRE Debt Maturities

2012 & 2013 are the peak years with >$350 billion each year!

Sources: Federal Reserve, Trepp LLC
CMBS will not play out equally across the U.S.

CMBS Delinquencies by GEO


“No matter where you ride to, that’s where you are.”

Source: TREPP
The “Muscle Car Index”
It has outperformed the DOW the past 5 years.
Go Buy a “Muscle Car, and a broker will lease you the warehouse space.

Haggerty’s Muscle Car Index (2007-2011)

Poised for a Recovery
With prices at approximately
50%-60% their 2007 peak, 2012
presents a buying opportunity.

Haggerty’s “Blue Chip” Index, which averages the values of
25 of the most sought-after collectible automobiles of the
post-war era, has substantially outperformed the Dow
Jones Industrial Average and home prices over the past
five years, with a nearly 100-percent return.
It’s time to re-examine our market perceptions…
The Economy in Manufacturing, AG, Port and 2nd-Tier MSAs

Percent increase in employment, June 2010-11

<table>
<thead>
<tr>
<th>Top10 U.S. Counties</th>
<th>Percent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ottawa, Mich.</td>
<td>4.7</td>
</tr>
<tr>
<td>Montgomery, Texas</td>
<td>4.1</td>
</tr>
<tr>
<td>Utah, Utah</td>
<td>4.0</td>
</tr>
<tr>
<td>Washington, Pa.</td>
<td>3.9</td>
</tr>
<tr>
<td>Webb, Texas</td>
<td>3.9</td>
</tr>
<tr>
<td>Elkhart, Ind.</td>
<td>3.8</td>
</tr>
<tr>
<td>Weld, Colo.</td>
<td>3.5</td>
</tr>
<tr>
<td>Oakland, Mich.</td>
<td>3.3</td>
</tr>
<tr>
<td>Travis, Texas</td>
<td>3.3</td>
</tr>
<tr>
<td>Saginaw, Mich.</td>
<td>3.2</td>
</tr>
<tr>
<td>Washington, Ore.</td>
<td>3.2</td>
</tr>
</tbody>
</table>

Before today, how many in our industry knew:

- The top ranked county for jobs was Ottawa, MI?
- 4 of top-10 ranked counties for job are in the MW?
- Traditional growth states, such as AZ, CA, FL and GA, have no counties among the top-10 ranked U.S. counties for job growth?
- Minneapolis has the lowest unemployment @ 5.1%?
- For the first time since United Van Lines began keeping statistics in 1977 regarding “move-ins” and move-outs for U.S. states, the Midwest region is no longer ranked number one for “move-outs.”
- Retail companies now comprise 5 of the 6 largest private U.S. employers and pose a greater risk for employment loss than autos or manufacturing?

This same story is true in key US Port MSAs and AG states – Go FL!
NC becoming a key Energy state

Charlotte looks beyond financial sector in effort to become ‘energy capital’

By Paul Glader, Published: September 9

By the end of this year, a tower built as a home for Wachovia will be the new headquarters of Duke Energy.

That switcheroo in one downtown building highlights a change sweeping Charlotte in the wake of the 2008 financial crisis. While the tidy North Carolina city of 730,000 people still counts itself as the nation’s No. 2 financial center and is looking to expand in a number of arenas—including health, motor sports and defense—the area’s energy sector is showing particular promise.

Meanwhile, since 2007 Charlotte has announced about 5,600 new energy-related jobs, taking the total to roughly 27,000 at 250 energy-oriented firms, according to economic development officials. About 2,000 energy jobs were added in 2010, with another 765 this year.
U.S. Port Markets
A “Bullish” story not understood… Where is GA!
Where FL can remake its image - #1 in Trade Vs Retirees

What are the vital statistics?
What is the impact of the E.U. Debt crisis on U.S. ports?

Overview

According to the American Association of Port Authorities (www.aapa-ports.org), the U.S. has 126 public seaport agencies with jurisdiction over 185 public ports. In addition, there are another one-dozen island ports under U.S. jurisdiction located in Hawaii, Guam, Puerto Rico and the Virgin Islands. These public port authorities exist primarily as catalysts for economic development through the enactment of state law. And, their economic impact is noteworthy. These ports support in excess of 13.2 million U.S. jobs (approximately the same number of unemployed Americans in the November 2011 BLS jobs report – 13.3 million or 8.6% of U.S. labor force), and in CY 2010 they handled 2 billion tons of cargo via 7,500 ocean-going vessels making 62,750 calls (www.marad.dot.gov).
Savannah Port has surpassed Oakland, CA as 4th busiest in TEU container traffic.
Real Estate Compass settings for 2012

2012 is the year for Warehouse…not so much for Retail

North:
Warehouse
Smooth Sailing

East:
US & EU Debt
Danger Zone
Banks?

West:
Office & Multifamily
Measured re-balancing of supply & demand…
Market-by-Market analysis

South:
Retail & Housing
Let’s just have a drink – a long road to recovery and very BIFURCATED
Warehouse CRE
Why “Smooth Sailing” for 2012?

- Absence of Cap Rate Compression
- Absence of New Construction
- Port Readiness: Post-Panamax containerships
- Less Distressed than other CRE property types
- US Trade to Emerging Markets
7. Warehouse Will Be the New Star Performer

• There is less distressed warehouse debt than other property types.

• The least amount of new construction still underway among the major CRE property types.

• Has yet to see major cap rate compression. Cap rates are still above 6% for even Class A in core port markets.

Prediction made by: KC Conway, Executive Managing Director, Market Analytics
Retail CRE:
Strong Holiday Sales had poor “margins.”
Payless Shoes, Famous Footwear, Sears, Food Lion = 650+

<table>
<thead>
<tr>
<th>No. of 2011 Store Closings</th>
<th>Retailer</th>
<th>No. of 2011 Store Closings</th>
<th>Retailer</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Borders</td>
<td>16</td>
<td>Big Lots</td>
</tr>
<tr>
<td>2</td>
<td>Blockbuster</td>
<td>17</td>
<td>Family Dollar</td>
</tr>
<tr>
<td>3</td>
<td>GameStop</td>
<td>18</td>
<td>Select Comfort</td>
</tr>
<tr>
<td>4</td>
<td>GAP</td>
<td>19</td>
<td>Sonic Drive-In</td>
</tr>
<tr>
<td>5</td>
<td>f.y.e</td>
<td>20</td>
<td>Denny's</td>
</tr>
<tr>
<td>6</td>
<td>Anchor Blue</td>
<td>21</td>
<td>A&amp;P Grocer</td>
</tr>
<tr>
<td>7</td>
<td>Footlocker</td>
<td>22</td>
<td>Ultimate Electronics</td>
</tr>
<tr>
<td>8</td>
<td>Talbot's</td>
<td>23</td>
<td>Dominos</td>
</tr>
<tr>
<td>9</td>
<td>A.J. Wright</td>
<td>24</td>
<td>Superfresh (A&amp;P)</td>
</tr>
<tr>
<td>10</td>
<td>MetroPark</td>
<td>25</td>
<td>Lowe's</td>
</tr>
<tr>
<td>11</td>
<td>Friendly's</td>
<td>26</td>
<td>Sears</td>
</tr>
<tr>
<td>12</td>
<td>Rite Aid</td>
<td>27</td>
<td>Stride-Rite</td>
</tr>
<tr>
<td>13</td>
<td>Destination Maternity</td>
<td>28</td>
<td>Basset Home Furn.</td>
</tr>
<tr>
<td>14</td>
<td>Abercrombie &amp; Fitch</td>
<td>29</td>
<td>Sony Style</td>
</tr>
<tr>
<td>15</td>
<td>Hot Topic</td>
<td>30</td>
<td>Staples</td>
</tr>
</tbody>
</table>
Believe it or not, there is a lot of retail expansion underway! Note the growth in Auto Parts & Food...not so much in apparel & electronic.
What does the future of urban/infill retail look like? (Services vs Goods: It could be colorful - Ladies with Pink Hair Eating out)

E-tailing will result in more vacant retail space being utilized for SERVICES Hair Salon, Pet Grooming, Karate & Gymnastics schools, live theatre, medical, etc.

Bachelorette party in downtown Charleston
Retail Owner Innovation to Lease-Up

How will appraisers treat these leases? Engage a dialogue now!

DDR launches tenant incubation program

DDR Corp. is launching a retailer incubation program it hopes will help create a new generation of small-shop tenants for its centers. The program, called Set Up Shop, will initially launch at specific locations within 24 Atlanta-area shopping centers and will seek out and nurture local entrepreneurs interested in expanding a business or in starting a new one. Set Up Shop participants will get flexible lease terms, a courtesy intended to remove some of the barriers associated with starting a business, according to Paul Freddo, DDR’s senior executive vice president of leasing and development.

The program’s Web site offers six months free rent at many locations. Freddo says Set Up Shop will allow DDR to reduce asset-level expenses such as property taxes and insurance, to make vacant space profitable and fill small-shop space at a time when few mom-and-pop tenants are growing. DDR has teamed up with Score, a national nonprofit association dedicated to educating entrepreneurs. Score’s network of experienced volunteers will offer free consulting services to these retailers.

“The first few months of a new business venture are critical to long-term success,” Freddo said. “The Set Up Shop program reduces the entrepreneur’s start-up expenses and provides a platform for long-term viability. Considering how critical small-business growth will be to sustainable economic recovery, DDR intends to evaluate the success of the Atlanta initiative and consider expansion of Set Up Shop in other markets throughout 2012.” Click here for more information.

Will lenders and appraisers punish retail owners for the good deed?

How will appraisers treat these “Set Up Shop” leases, and how will lenders underwrite them?
American Banker
http://www.americanbanker.com/

Wednesday, January 4, 2012 | as of 10:52 AM ET
By Brian Olasov and KC Conway
DEC 29, 2011 4:34pm ET

 Faulty Appraisals Kill Banks
By Brian Olasov and KC Conway
DEC 29, 2011 4:34pm ET

If you read through enough material loss reviews prepared by the FDIC’s Inspector General — essentially autopsies on failed banks — certain common themes emerge. One of the recurring themes is that many closed banks overconcentrated in commercial real estate and development loans. The rapid decline in property values, reflected by appraisals, then rendered the bank undercapitalized.

Banks often tell the story of a downward spiral in the carrying value of their property loan portfolios as examiners require updated appraisals followed by a series of re-appraisals. In most cases, these dwindling values involve GAAP accounting and valuation definitions (market value versus fair or liquidation value) and appraisal assumptions.

Regulators fostered this confusion by not regularly updating interagency appraisal guidance. Between 1994 and December 2010, the respective regulators failed to update interagency appraisal guidance once.

Why is this point so pivotal to banks? Each downward revision and additional loan loss provision tightens the noose as loan value markdowns whittle away the bank’s capital position.
Where are we with respect to housing?
A key link to Retail (Judicial vs Non-Judicial Foreclosure states)
(Building pent-up demand via doubling-up of Households)

- 2004-2007 we built approximately 1.8 million housing units per year
- 2004-2007 organic demand for new housing was approx. 800k units/yr
  That is an over addition to supply of 4.0 million housing units
- 69% homeownership to 62% homeownership is 4.0 million extra homes
  That is a return of 4.0 million housing units to the market

\[
\frac{4.0 \text{ million} + 4.0 \text{ million}}{800k \text{ demand per year}} = 10 \text{ years}
\]

28 million “doubled-up H.Holds
22 million >age 35

6 million age 24 to 34 (Occupy WS)

\[
28 \text{ million}/2 = 14 \text{ million built-up H.Hold demand}
\]

Vs.
8 million excess homes today

We are short 6 million homes?
What is the Solution?

“Un-Dam” it Capital

“Un-Dam” it Regulation
Section 165: Dodd-Frank

“Un-Dam” it Unemployment

Thank You

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Colliers International
KC.Conway@Colliers.com