

Morgan Stanley Real Estate

Global Real Estate Markets – Ring Speaker Session

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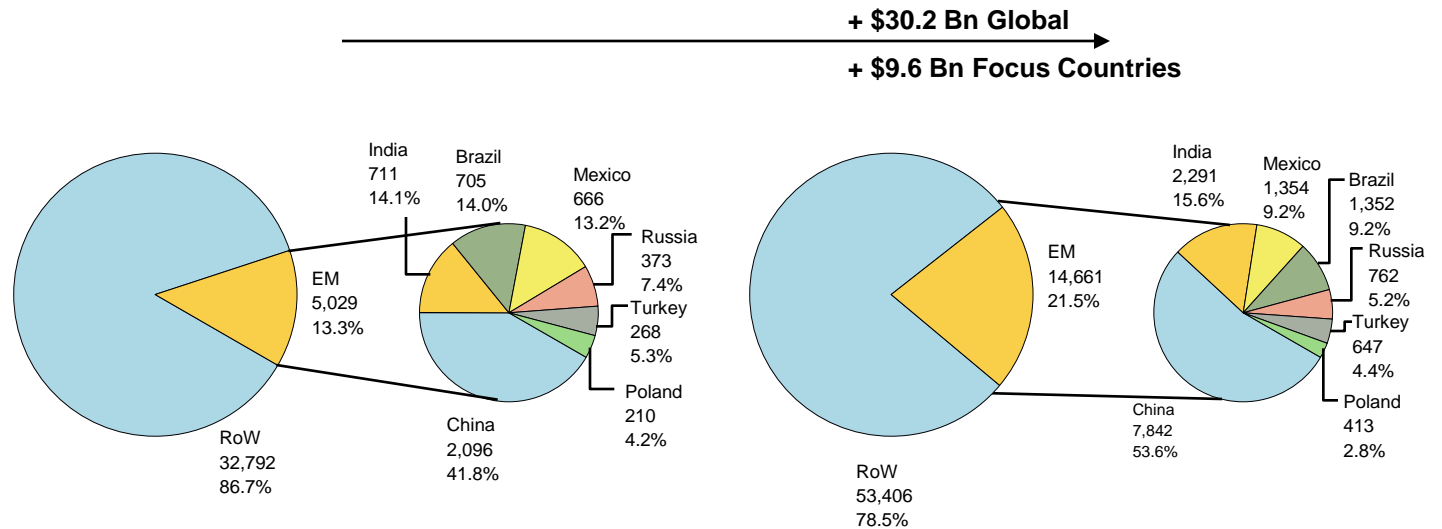
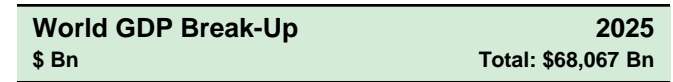
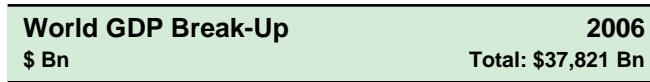
Section 1

Trends

GDP Growth

- From 2006 to 2025 emerging market share of world GDP increases from 13.3% to 21.5%

Share of 2006 World GDP	
Country	% Share
USA	30
Japan	11
Germany	7
UK	5
France	5
Italy	4
Total	62



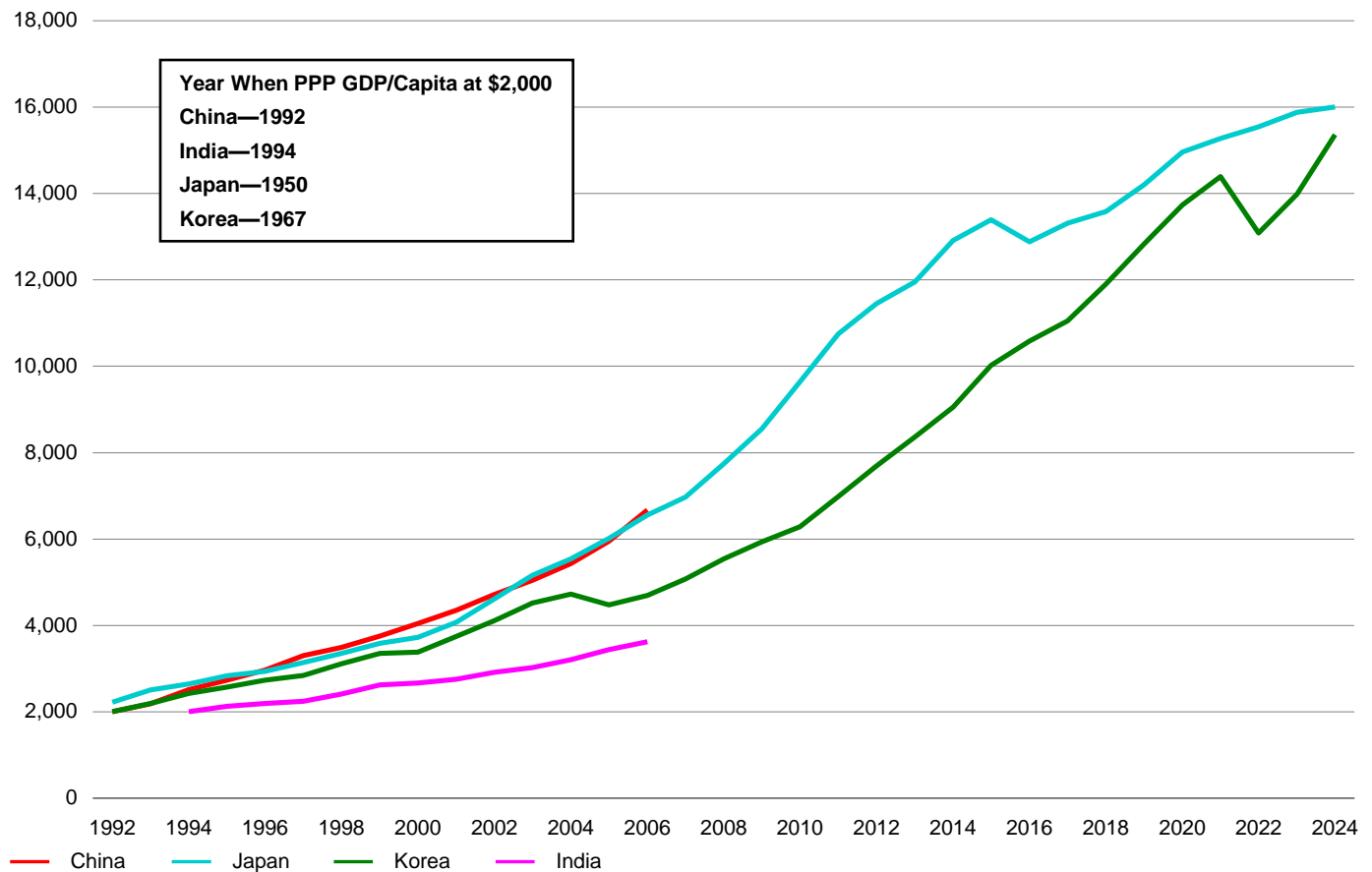
Source Global Insight World, 2007

Source Global Insight World, 2007

China: Lessons from History

- China's GDP per capita growth is on the same trajectory as Japan

GDP per Capita Growth Trajectories



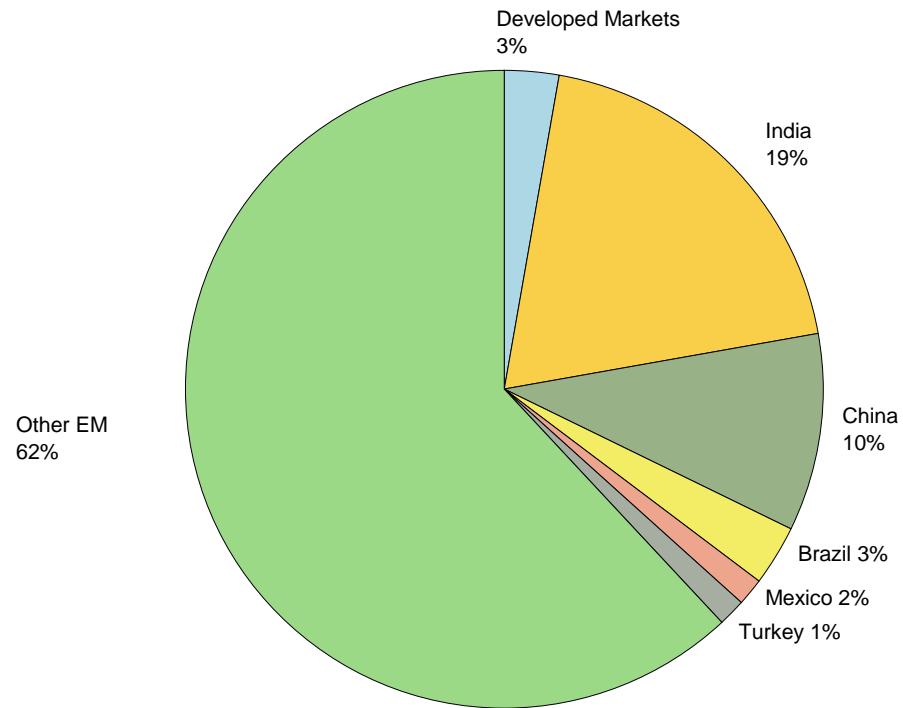
Source Morgan Stanley Research, IMF

Population Growth Break-Up (2006–2025)

- 97% of world population growth to 2025 is taking place in the emerging markets

World Population Growth
MM

2006-2025
Total: 1,307 MM

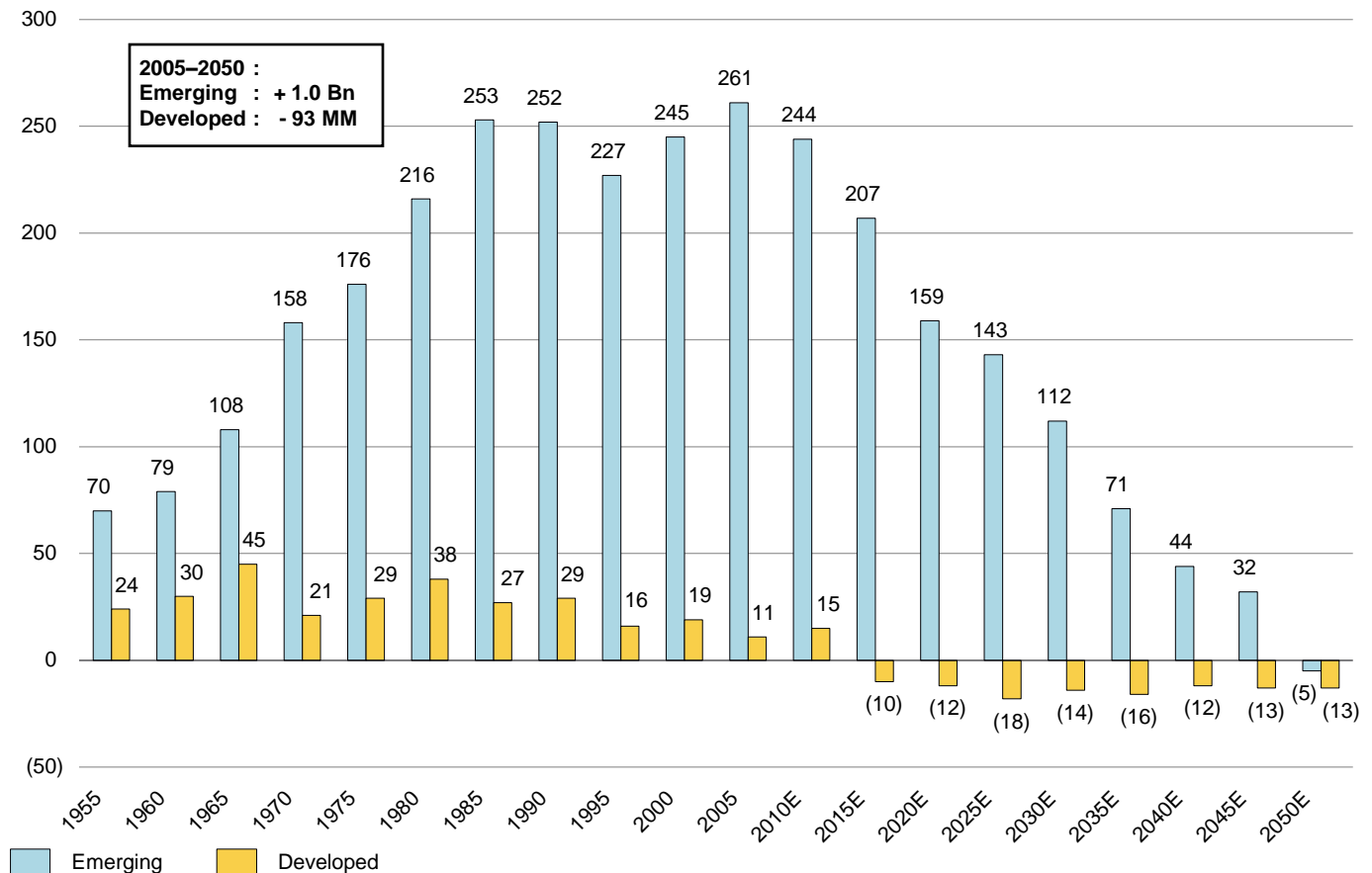


Source Global Insight World, 2007, United Nations Population Database

Growth of Working Age Population (1955–2050E)

- From 2005 to 2050 working age population expands in the emerging markets by more than 1 Bn people
- Over the same period the developed world is set for a decline in working age population of 93 MM people

Growth of Working Age Population (1955–2050E) ⁽¹⁾
No. of Additional 15-Year–64-Year Olds (MM)



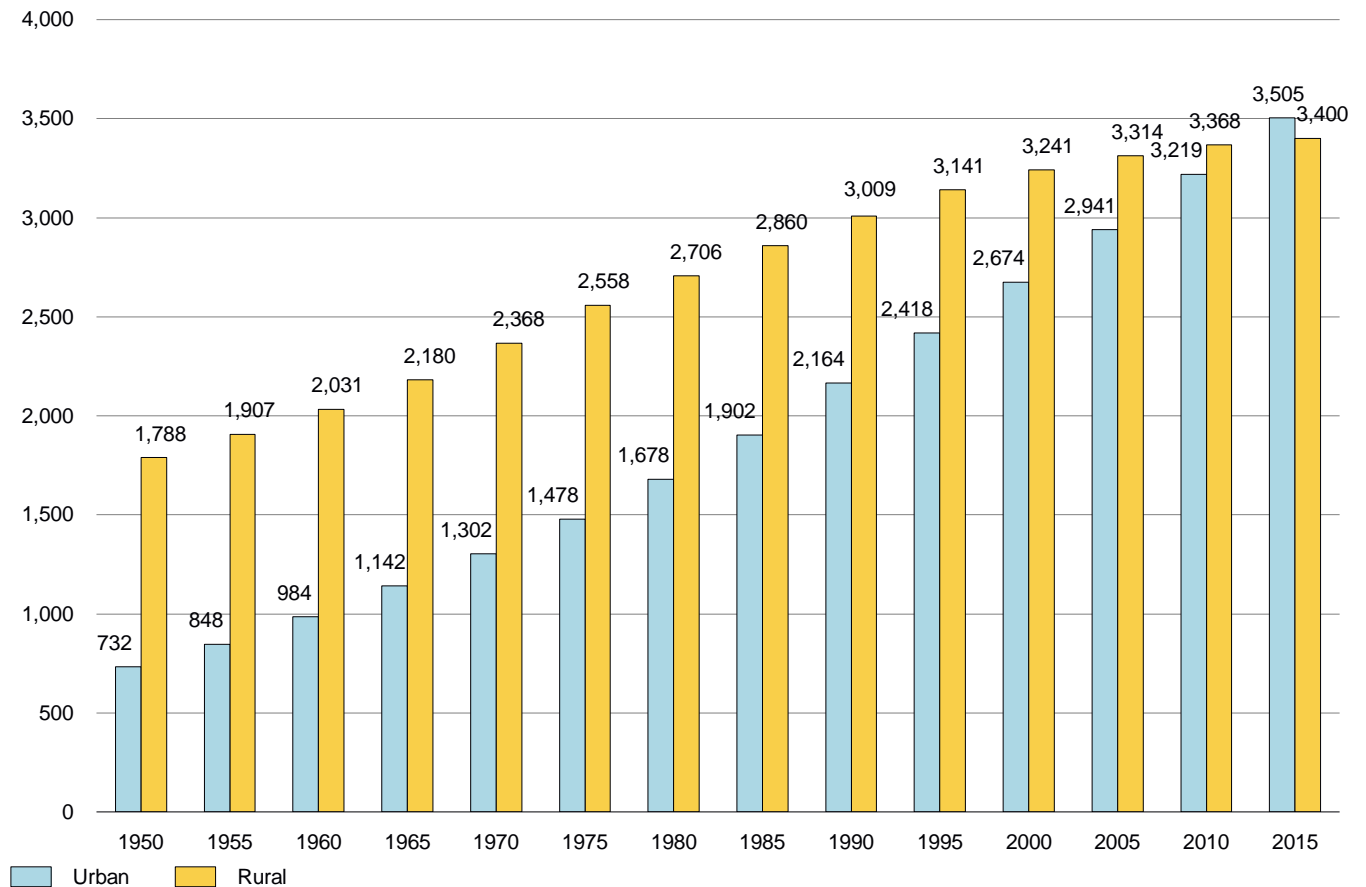
Source UN, Morgan Stanley Research. Excludes the least developed sub-Saharan African countries

Note
1. E = UN Estimates

Global Population, Urban vs. Rural

- By 2015 more people globally will be living in urban than rural settlements

Breakdown of Global Population, Urban vs. Rural
1950–2015 (MM)

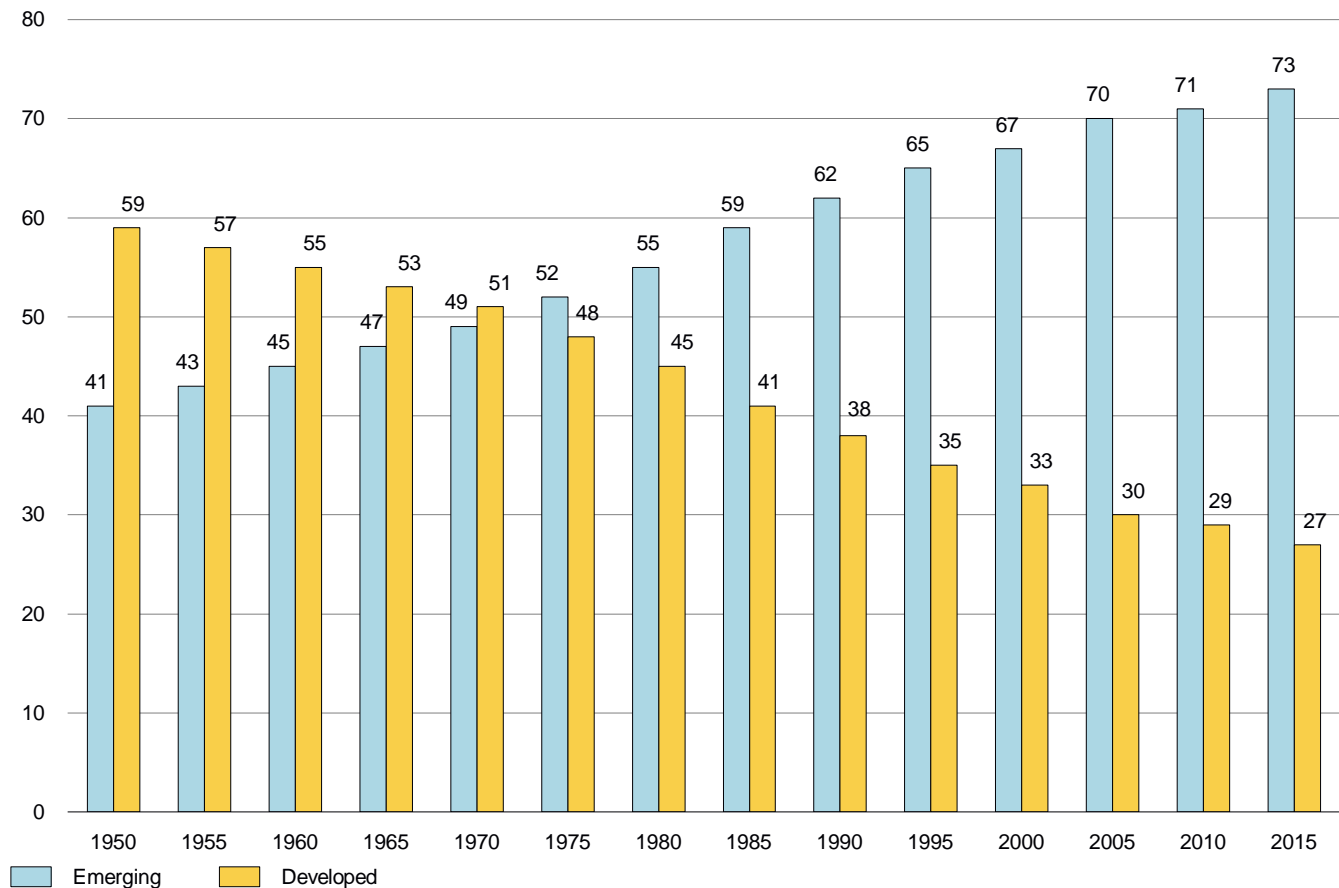


Source Morgan Stanley Report, 11 December 2006, United Nations Population Database

Global Urban Population

- By 2015 global urban population amounts to 3.5 Bn
- 2.6 Bn live in emerging markets and 900 MM live in developed markets

Breakdown of Global Urban Population
1950–2015 (%)

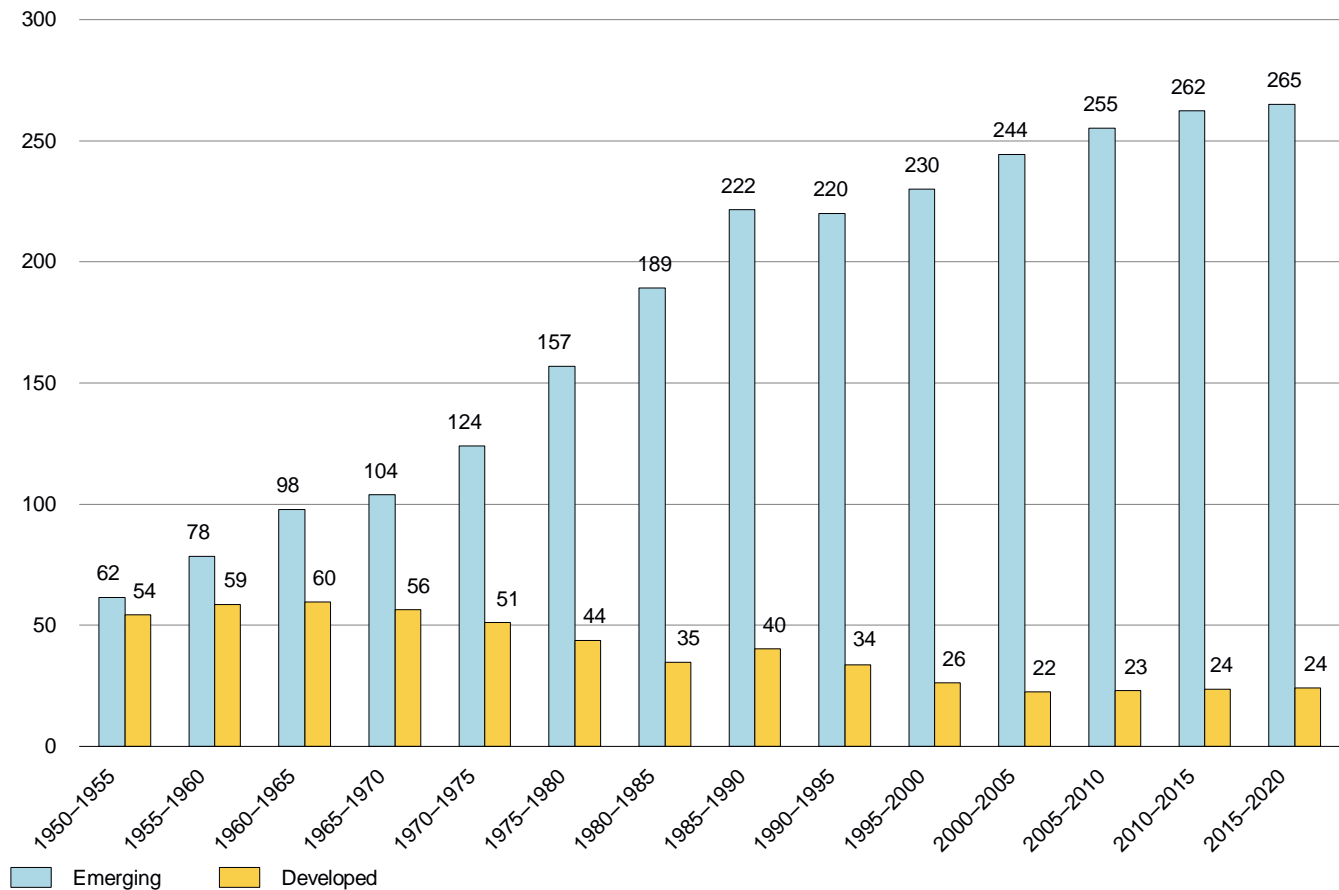


Source Morgan Stanley report, 11 December 2006

Global Urban Population (cont'd)

- From 2005 to 2020 more than 750 MM people are expected to urbanize in the emerging markets
- In the developed world the figure is less than 75 MM people

Growth in Urban Population
1950–2015 (MM)



Source Morgan Stanley Report, 11 December 2006

Section 2

Environment

Global Economic and Capital Market Themes

- **Credit markets beginning to stabilize**
- **Global growth still strong**
- **Will likely slow though in tandem with the U.S.**
- **The significant dislocation in capital markets experienced in August is beginning to stabilize**
 - Has led to repricing of risk and opportunities, especially in the U.S.
 - Need for capital for public and private companies with inability to access the capital markets
 - Illiquidity in financing markets for asset transactions
 - Distressed debt potential at financial institutions concentrated in the U.S.
 - U.S. and Western Europe Public Equity Capital Markets for real estate companies may not return for some time (12-24 months)
- **Global growth does remain vibrant, although 2008 growth projections reduced by 30-50 bps**
 - Economic growth in developed economies expected to fall to 2.1% in 2008, but to normalize towards a sustainable pace in 2009
 - Emerging markets, and those countries and companies driven by them, appear to be decoupled from the U.S./U.K. (though sustainability of that decoupling is, as yet, untested)
- **Economic expansion has been broad-based⁽¹⁾**
 - Euro zone currently undergoing its strongest expansion since 2000 with growth expected to average 2.3% from 2007 to 2009 led by Germany
 - Asia Pacific continues to enjoy rapid expansion with growth expected to average 7.6% from 2007 to 2009 led by China and India
 - Japan expected to expand at an annual average of 2.4% from 2007 to 2009, its strongest expansion since 1991
 - Growth also occurring across the Americas; U.S. growth is expected to average 2.5% from 2007 to 2009 adjusted for current credit market; Brazil and Mexico expected to continue strong growth

Global Growth, Now Revised Lower for 2008

- Recent financial market turmoil has led to the revision of growth expectations
 - Nonetheless, certain areas of the globe remain vibrant and growth expectations have been increased, particularly emerging markets
 - Growth is expected to strengthen in 2009 as headwinds begin to dissipate

Morgan Stanley GDP Growth Forecast	2007E			2008E			2009E ⁽¹⁾
	Previous ⁽²⁾ Forecast	Current ⁽³⁾ Forecast	Change bps	Previous ⁽²⁾ Forecast	Current ⁽³⁾ Forecast	Change bps	Current ⁽³⁾ Forecast
World	4.8	5.0	20	4.8	4.5	(30)	4.9
Industrial World	2.5	2.3	(20)	2.6	2.1	(50)	2.7
Developing World	6.8	7.3	50	6.8	6.6	(20)	6.9
Europe							
Germany	2.6	2.4	(20)	2.3	1.9	(40)	2.2
U.K.	2.4	2.8	40	2.2	2.0	(20)	2.3
France	1.9	1.8	(10)	2.2	2.0	(20)	2.6
Emerging Europe	6.0	6.2	20	5.7	5.5	(20)	6.4
Americas							
U.S.	2.2	2.0	(20)	2.9	2.0	(90)	2.9
Mexico	3.3	2.9	(40)	3.6	3.2	(40)	3.5
Brazil	4.5	4.9	40	4.6	4.3	(30)	4.5
Asia							
Japan	2.8	1.9	(90)	2.5	2.1	(40)	2.6
China	10.5	11.3	80	10.0	10.0	0	9.5
Hong Kong	5.0	5.0	0	5.5	5.2	(30)	5.0
India	8.2	8.4	20	6.9	7.3	40	8.3

Source Morgan Stanley

Note

- 2009 forecast not yet created as of July
- July 6, 2007
- October 12, 2007

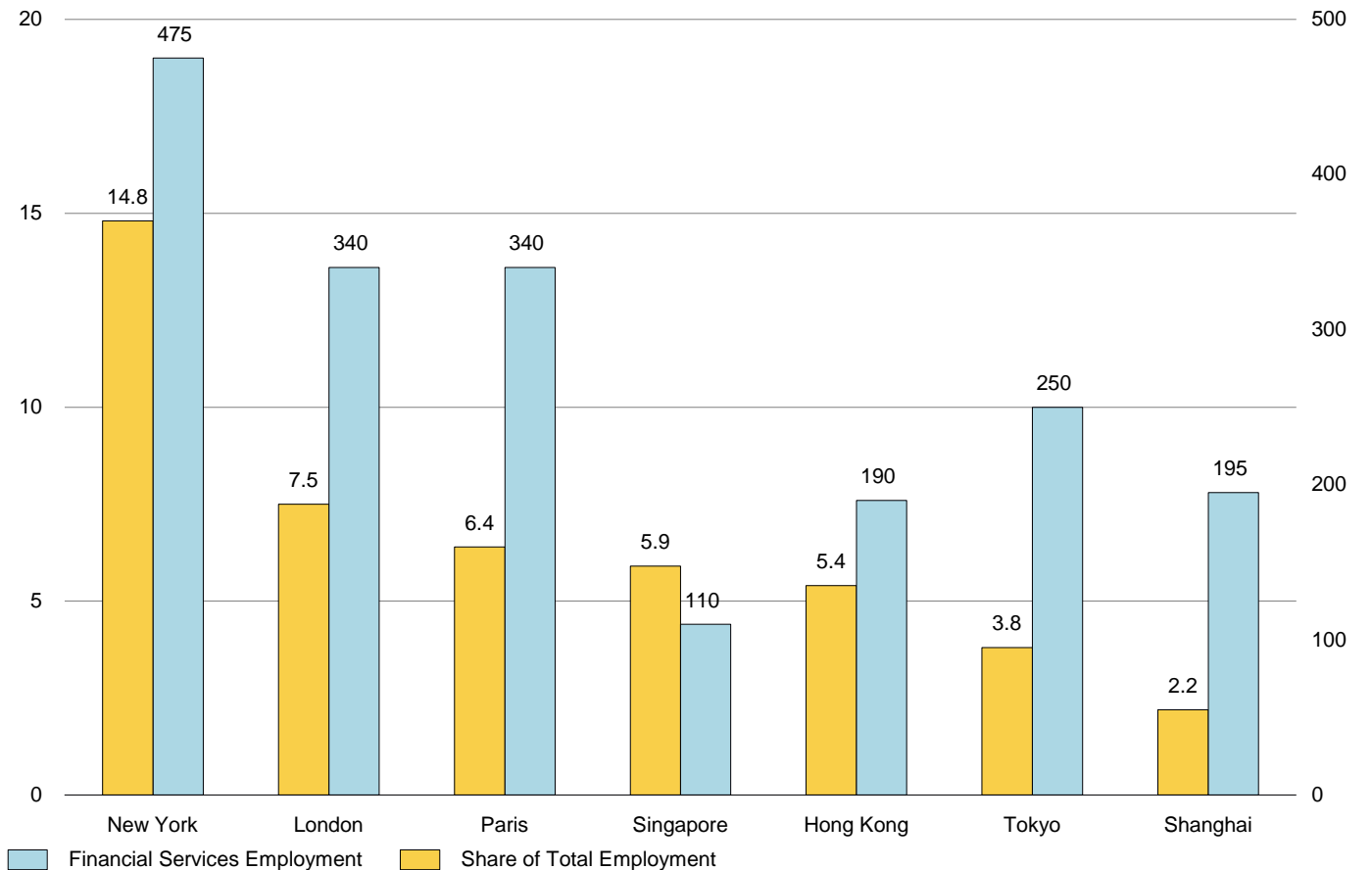
Risk of Fallout from Financial Turmoil Varies

- Economic activity may face added risk with the presence of an outsized share of financial services employment

Financial Services Employment and its Concentration

Share of Total Employment, %

Financial Services Employment, 000's of Jobs

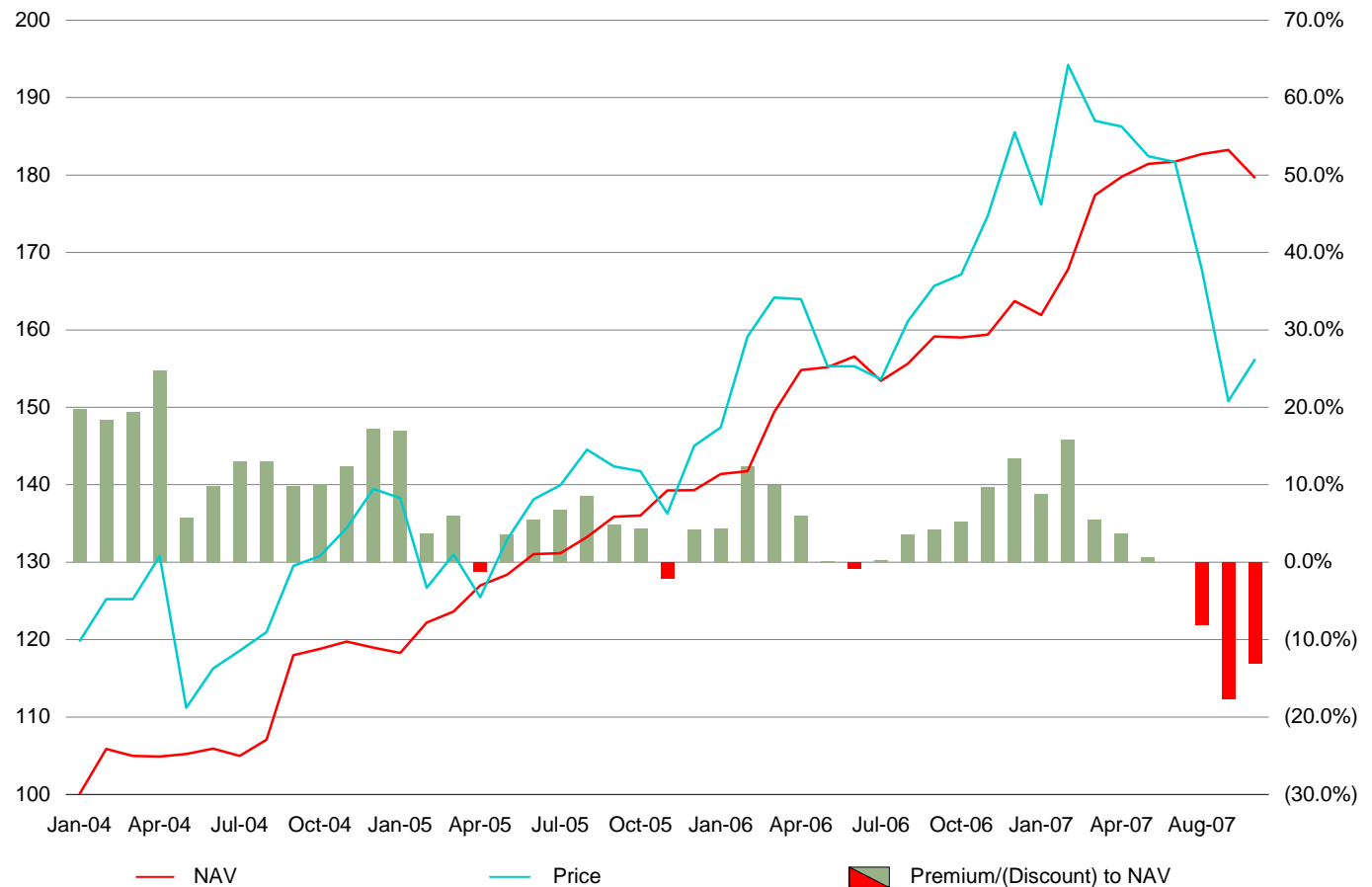


Source The Economist, "Magnets for Money", 13 September 2007

Public/Private Arbitrage May Re-Emerge

- REITs in aggregate now trading at a discount to estimated net asset value
 - NAVs have been adjusted down to reflect the challenged markets
- Public market pricing has corrected more than appears justified by fundamentals
- Certain public companies facing debt maturities or management challenges which may precipitate a transaction
- Public to private opportunities likely to become available again once boards/management “embrace” new valuations and financing markets settle down, though financing will put greater constraints on deal sizes

Net Asset Value vs. Stock Prices



Source Green Street Advisors

Homebuilder Share Price Performance

- Housing market correction likely to present significant opportunity, including a significant number of distressed situations
 - Residential land NPLs
 - Homebuilder/private land owners shedding land positions
 - Homebuilder privatizations
- Issues particularly acute in California, Florida and Arizona

Indexed Price Performance ⁽¹⁾
Since 1 October 2002 (%)



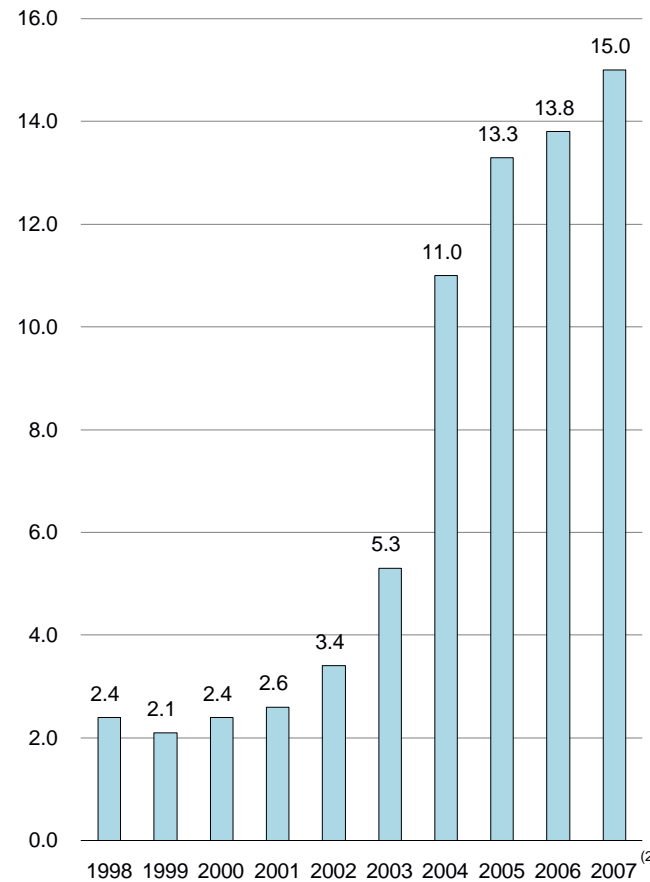
Note

1. Homebuilding index includes CTX, DHI, KBH, LEN, NVR, PHM, TOL, BZH, HOV, MDC, RYL, SPF, WCI, BHS, DHOM, MHO, MTH, OHB, TOA and WLS (market cap weighted)

Mortgage Markets Also Are Challenged

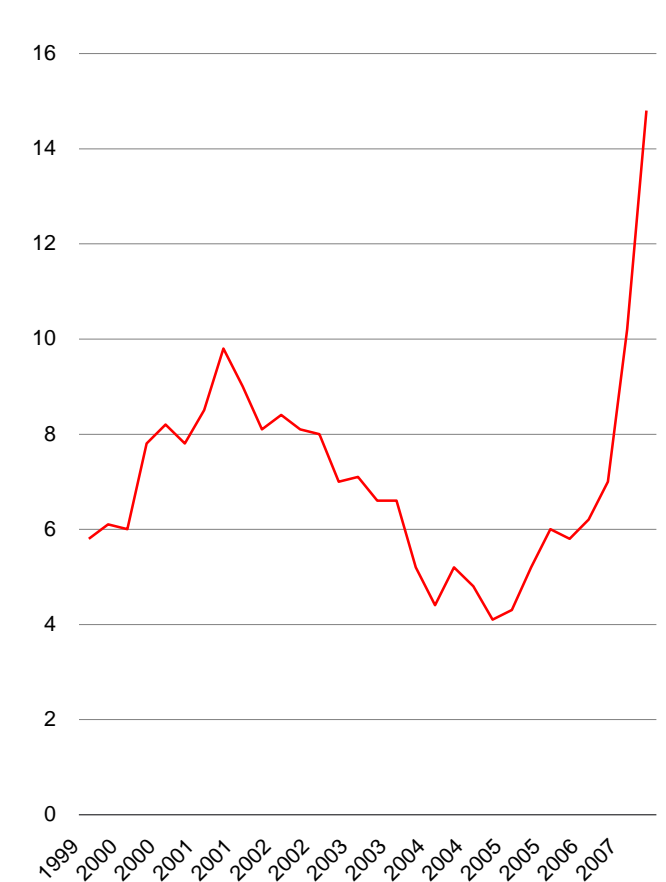
- Rising default rates are leading to foreclosures
 - There are 5.9 MM outstanding subprime loans, up from 1.2 MM in 2002 ⁽¹⁾
- ARMs are beginning to reset, with the bulk of the adjustments schedule to occur in 2007 and 2008
 - The payments for 40% of adjustable-rate loans made since 2004 are expected to rise by 25% to 50% ⁽¹⁾
 - 20% will see monthly payments rise by 50% or more ⁽¹⁾

Subprime Loans as a Share of Outstanding Loan %



Source Mortgage Bankers Association of America

Loans Delinquent Over 60 Days %



Source Rosen Consulting, Mortgage Bankers Association

Notes

1. Published in The Economist on 22 May 2007, calculation provided by Christopher Cagan, an economist at First American CoreLogic
2. Year to Date

U.S. Economic Challenges

- **The consumer vs. corporate growth?**
- **Can the rest of the world bail the U.S. out of this?**
- Consumer-led downturn versus continuing business-sector growth
 - Ability to resist a recession
- Macro U.S. headwinds
 - Tighter financial conditions
 - Housing recession and negative buyer psychology
 - Sharply decelerating home prices and impact on consumer spending
 - Collateral damage to employment and output
- Macro U.S. tailwinds
 - Still-sustainable income gains and corporate earnings
 - Global growth still strong
 - Pent-up capex demand
- Inflation

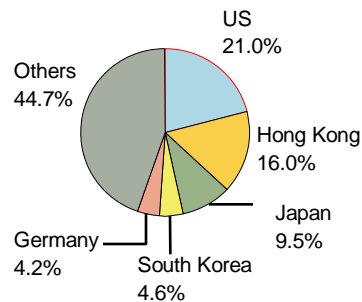
Asia Pacific's Dependence on the US

Trading Partners

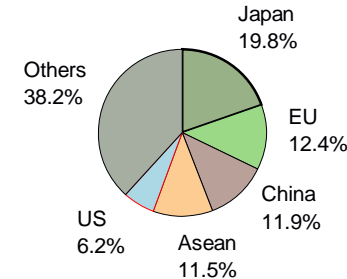
- Asia Pacific's dependence on the US has decreased over the past few years due to the emergence of the EU and strong domestic consumption in Asia Pacific
- US contribution to total exports in 2002
 - China: 21.5%
 - Australia: 7.4%
 - India: 19.4%
 - South Korea: 20.2%
 - Hong Kong: 21.3%
 - Singapore: 14.7%

Export Destinations—2007

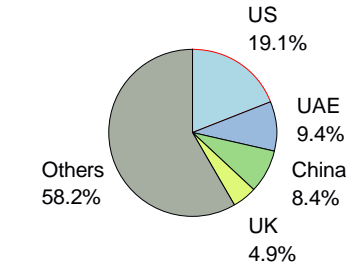
China



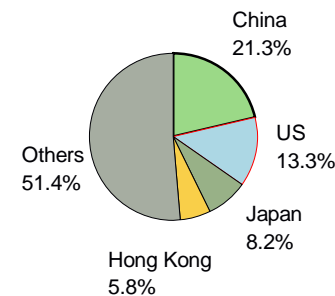
Australia



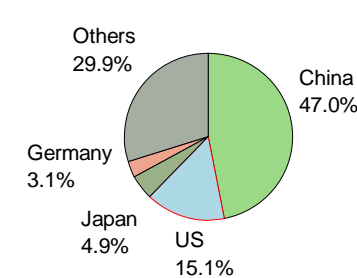
India



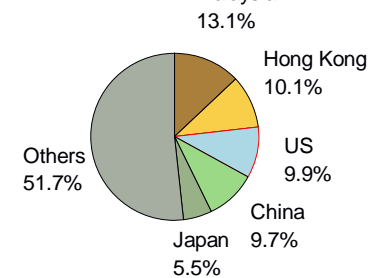
South Korea



Hong Kong



Singapore



Source Economic Intelligence Unit Country Report 2007

Summary

So What Does It Mean?

- **Overall reasons to worry**

- Significant financial and psychological damage has occurred in the property space
- U.S. residential issue will get worse before it gets better
- Economic downturn is worse than expected outside the U.S.; impacting NOI growth more than anticipated
- Potential for additional crisis in the credit/capital markets which causes the re-emergence of evaporation of liquidity
- Lack of transaction activity in many markets means it will be a while before people get their “mojo” back

- **Overall reasons not to worry**

- Tremendous continuing liquidity for real estate from new sources of capital, including Middle East, Norway, China, Canada, Russia and Texas!
- Many real estate fundamentals (ex U.S. and Spain for-sale residential) at all time best levels
- China, India and other Emerging Markets are on fire
- Interest rates are going back down around the world
- Replacement cost continues to go up

Summary (cont'd)

So What Does It Mean?

- **United States – “Liquidity is a state of mind”**
 - Credit markets will stabilize as CMBS and Leveraged Loan inventories currently held by banks are sold off: **MSREI Expectation:** 6-9 months
 - Real estate transaction activity will return to levels seen in late 2005 and early 2006 once sellers and buyers accept new market dynamics and lenders begin to lend: **MSREI Expectation:** second half 2008
 - Spot market cap rates to increase 50-100 bps with lower increases on higher quality assets in supply constrained markets: **MSREI Expectation:** evidence in 1Q 2008
 - Income growth to still be attainable in high growth markets for high quality assets; U.S. recession and financial services industry pull back would be a major headwind!: **MSREI Expectation:** watch this space in 2008

Summary (cont'd)

So What Does It Mean?

- **Europe – “What is going on with the Yanks! (and will they please keep us out of it!)”**
 - Credit markets will likely follow the U.S. and recover along the same time line:
MSREI Expectation: 6-9 months
 - Real estate transaction activity is mixed across the region; dead in U.K., mixed in France, still kicking in Germany: **MSREI Expectation:** back on track by second half 2008
 - Values to be under pressure from cap rate expansion but helped by income growth, especially in growth/recovering markets such as Germany and Emerging Europe:
MSREI Expectation: 2Q 2008 for real visibility
- **Asia – “What credit crunch?”**
 - Credit market dislocation caused some ripples in Asia but local banks absorbed much of the pullback of CMBS lenders; mezzanine markets less deep due to foreigner pullback but not “out of business”: **MSREI Expectation:** back to normal by 1Q 2008
 - Real estate transaction activity has not slowed down in the region, from Japan, to China, to Singapore to India: **MSREI Expectation:** transaction activity will remain robust
 - Similarly, values have not pulled back in the region: **MSREI Expectation:** values will remain strong

Section 3

Strategy

Investment Opportunities

Key Themes for 2008

- **United States**

- Distressed situations particularly with for sale residential and “bridge equity” deals
- Attractively priced fixed income securities
- After a pause, continued demographically driven opportunities
- Eventually, public to private activity once financing markets reopen and boards “embrace” their new valuations

- **Japan**

- Continued spread investing
- Supply constrained markets with strong demand
- P2P “finally” arrives?

- **Germany**

- The restructured “growth” engine of Europe
- Attractive relative valuations
- Export to Emerging Markets

Investment Opportunities (cont'd)

Key Themes for 2008

- **China, India, Russia, Turkey, Brazil, Mexico**
 - Attractive relative yields
 - “Consumer driven” asset classes as the middle class grows
 - residential
 - malls/retail
 - affordable hospitality
- **Emerging market derivatives**
 - Australia—“natural resources”
 - Singapore—“trade”
 - South Korea—“exports”
- **Other Europe**
 - UK—is it oversold?
 - France—strong real estate fundamentals
 - Central/Eastern Europe growth may present JV development opportunities
 - Public to private?

Heatmap of Relative Opportunities

- A highly subjective view of how that might look visually
- Green is good

Heatmap
As of 3Q07

	Macro Economics	Real Estate Capital Markets	Real Estate Market Fundamentals	Restructuring/ Distress	Overall
Japan	Green	Green	Green	White	Green
China	Green	Green	Green	Yellow	Green
India	Green	White	Green	White	Green
Germany	Green	White	Green	Yellow	Green
Emerging Europe	Green	Red	Green	White	Green
Latin America	Green	Red	Green	White	Green
U.S.	Yellow	Red	Yellow	Red	Yellow
France	Yellow	Yellow	Yellow	White	Yellow
U.K.	Yellow	Red	Yellow	Red	Red
Spain	Yellow	Yellow	Red	Red	Red

Source Morgan Stanley

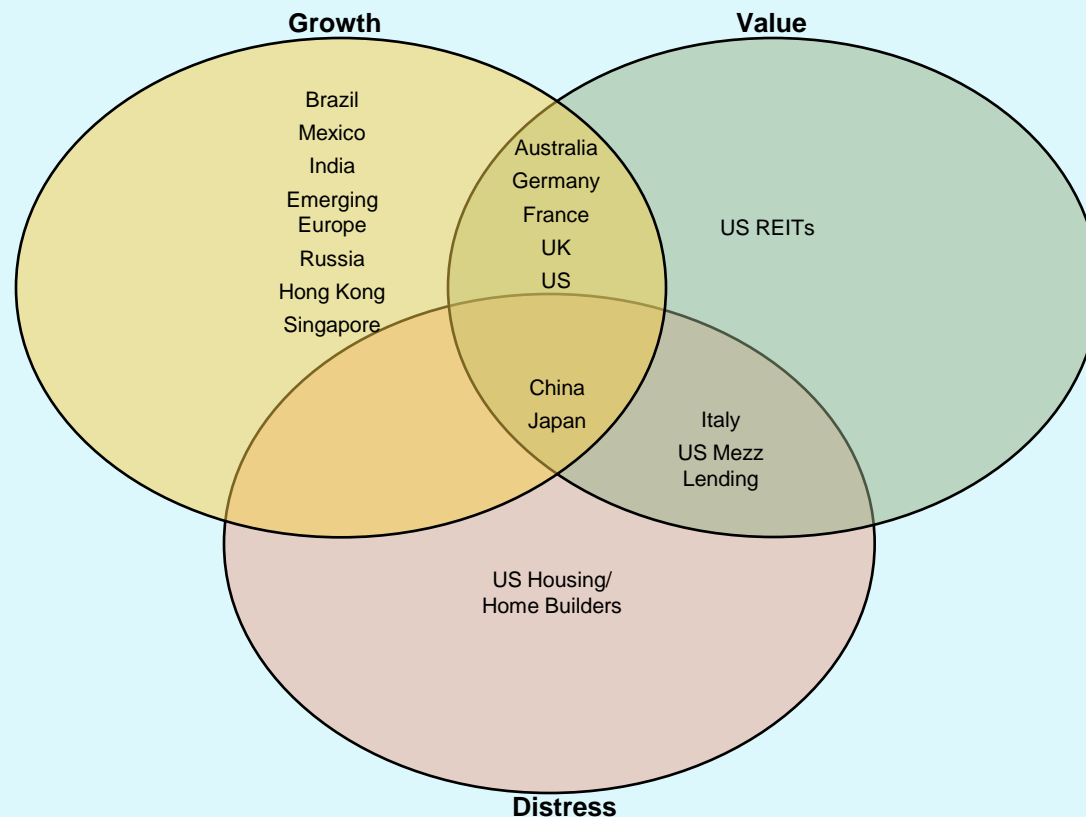
Investment Game Plan

- Recognize that the world has changed in terms of asset pricing and availability and pricing of debt
- Focus on strong and diligent asset, risk and financial management
 - Good position (in general) on debt financings
 - Limited overall exposure to hardest hit areas of U.S. for-sale residential
 - Know where our issues are and we are focused
 - Bottom line we feel good about our book and have been employing the best known risk management – monetizations!
- Selectively consider opportunities in the U.S. as the market begins to stabilize; believe we will get early looks at deals and best possible financing terms – “flight to quality”
- Keep pursuing attractive deals in markets such as Germany and France; consider whether U.K. psychology is “oversold”
- Continue to press in Asia and generally in the Emerging Markets – full speed ahead!

Global Investment Strategy

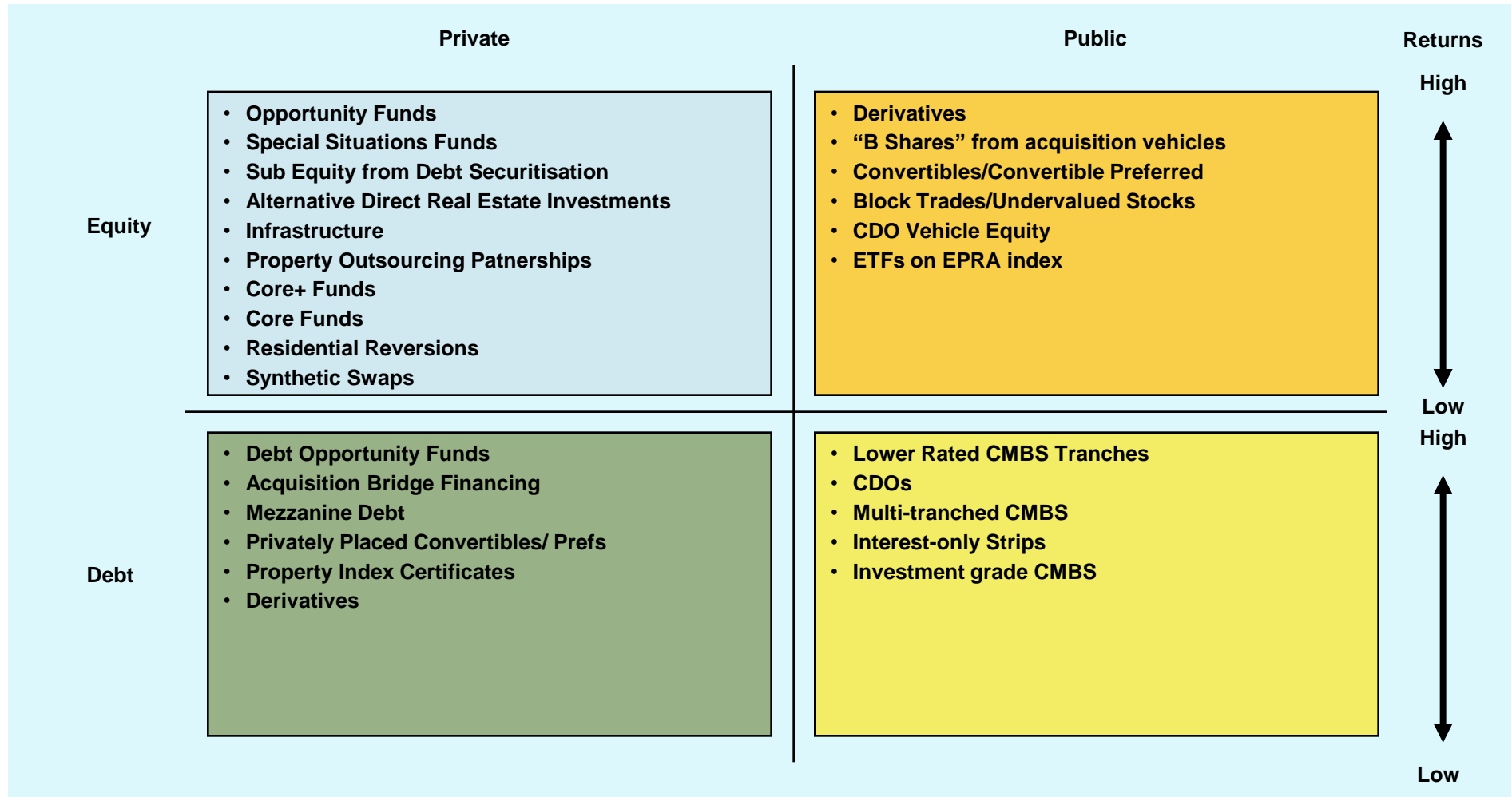
- Identify/transact with nontraditional real estate landlords (corporates, states, financial institutions)
- “Focus on “Gateway” cities; US coasts
- Focus on “operational” value-added opportunities
- Explore opportunities presented by global capital markets dislocation and exploit capital markets arbitrage
- Opportunities result from differences in global economic and business cycles
 - Moderate growth in developed markets
 - Continued expansion of emerging markets albeit at a slower pace

Market Themes Drive Investment Strategies



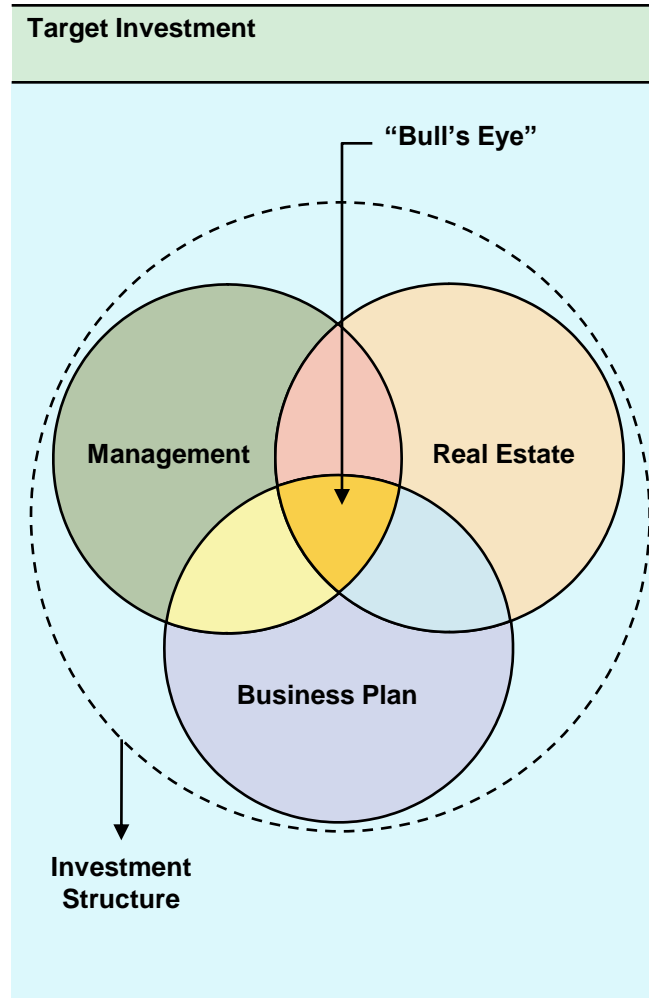
4 Quadrant Investment Strategy

Public vs. Private Markets



Entity Level Investment Strategy

- Seeking to generate returns through four distinct components:
 - Real estate market return (beta)
 - Allocation to real estate markets with above average returns
 - Selection of “best of breed” local management teams
 - Capturing of arbitrage opportunities between public and private real estate capital markets



Explanation

- Take advantage of investment opportunities in the real estate sector with strong management in place and sound business plan
- Provide (growth) capital to real estate operating companies and make minority investments with influence
- For investors, this strategy can provide:
 - Allocations towards indirect real estate holdings
 - Real estate investments with greater diversification
 - Global investment platform
- A “triple lift” in valuation can be achieved by investing in:
 - The right real estate cycle
 - Best of breed management teams
 - Private to public real estate capital market arbitrage