REAL ESTATE CAPITAL MARKETS SNAPSHOT 2012:
A Survey of Opinion Leaders

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INTRODUCTION

Goodwin Procter's Real Estate Industry Practice recently surveyed clients and other industry participants on their views relating to specific aspects of both capital raising and capital deployment. With responses from almost 300 industry leaders, the survey results present an interesting snapshot of some key market thinking at the turn of the new year.

As you would expect from Goodwin, our survey took a holistic view of the industry, focusing thematically on:

- capital raising, including flows of funds, sources of funds and popularity of different vehicle formats
- capital deployment, including investment strategies, return expectations and cap rates
- perceived impact of economic drivers and changes in the regulatory landscape

We continue to believe that real estate will be capitalized and play a meaningful role in investors' portfolios. Contrary to some 2008-era prognostications, we also continue to believe that the various models for capitalizing real estate will remain fundamentally unchanged (e.g., REITs, commingled funds, joint ventures, club deals and separate accounts).

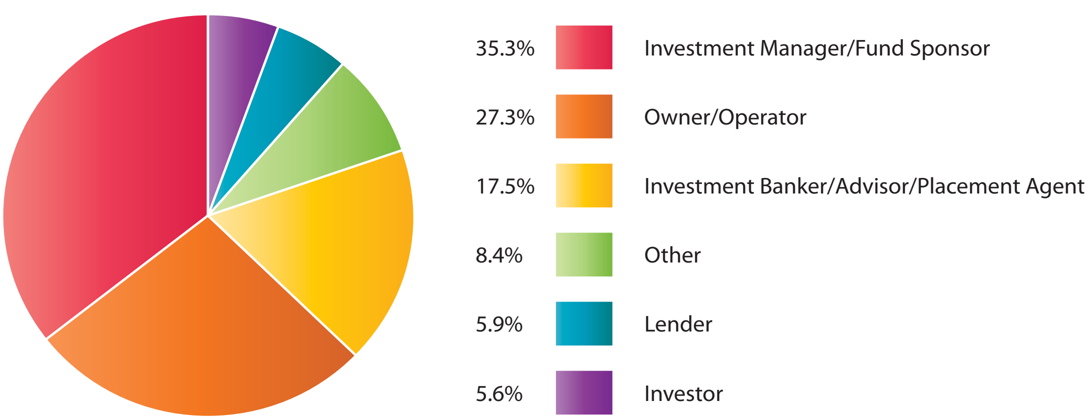
The jury, however, may still be out in other areas. For example, over 36% of our total respondents and almost 65% of responding lenders believe the CMBS loan and securitization structure is fundamentally flawed.

While we're well aware of the downside of over-stating or over-extrapolating from the feedback received, we think it contains some interesting and worthwhile market intelligence. We hope you do as well.

SURVEY RESPONDENTS

Survey respondents represented a broad cross-section of real estate capital market participants, with the largest segment of respondents identifying themselves as investment managers/fund sponsors (35%), followed by owner/operators (27%) and investment banker/advisor/placement agents (18%). Lenders and investors each represented approximately 6% of the total respondent group, with roughly 8% of respondents identifying themselves as "other."

Which one of the following categories best describes your role within the real estate industry?



EXECUTIVE SUMMARY

- Survey respondents represented a **broad cross-section of real estate capital market participants,** with the largest segment of respondents identifying themselves as investment managers/fund sponsors (35%), followed by owner/operators (27%) and investment banker/advisor/placement agents (18%).
- Overall, respondents clearly feel that **pension plans** (directly or through investment advisors) will represent the **largest source of equity capital** for the sector in 2012, followed by U.S. opportunity funds, publicly traded sources and sovereign wealth funds, in that order.
- Almost half (46%) of investment manager/fund sponsors responding see **sovereign wealth funds** as their #1 or #2 source of 2012 new equity capital.
- Almost 54% of market leaders surveyed agree that **new and proposed legislation**, such as Dodd-Frank, the Volcker Rule, carried interest legislation, etc., **will not impact the flow of capital** into overall real estate capital markets, but 37% feel these initiatives **will impact transaction and fund structures**.
- Respondents overall (46%) see recapitalization of existing investments as their greatest commercial real estate investment opportunity in 2012, followed by property acquisitions from third parties (29%) and distressed debt acquisitions (21%).
- While **one-off joint ventures** are seen as the **most likely capitalization alternative** across all respondent categories, investment manager/fund sponsors indicate a clear preference for commingled funds (56%).
- Overall, the largest group of respondents (41%) believes that the **failure of CMBS markets to reach predicted levels of activity** in 2011 was **due to lender and servicer loan modifications** that eliminated payoffs that would have prompted increased capital market activity. But, a significant portion of the overall group (36%) believes that the CMBS structure is **fundamentally flawed.**
- A clear majority of all responding groups believes that **capitalization rates will remain flat in 2012**, but a significant subset of respondent groups (between 25% and 35%, depending on the category) sees rates increasing moderately in the coming year.
- Respondents overwhelmingly believe that **job creation** is the single most important economic factor required to drive improved U.S. commercial real estate values in 2012.

SOURCES OF POTENTIAL 2012 U.S. REAL ESTATE EQUITY CAPITAL

Rank the following sources of potential 2012 U. S. real estate equity from high to low, with #1 representing your view of the largest source of 2012 new equity capital and #8 representing your view of the smallest source of new equity capital in 2012.

	Rank	Rating Average
Pension plans (directly or through investment advisors)	1	2.80
U.S. opportunity funds	2	3.48
Publicly traded sources	3	3.77
Sovereign wealth funds	4	3.93
Non-U.S. investors or non-U.S. banks	5	4.47
Insurance companies	6	4.85
U.S. banks	7	5.97
Other	8	6.73

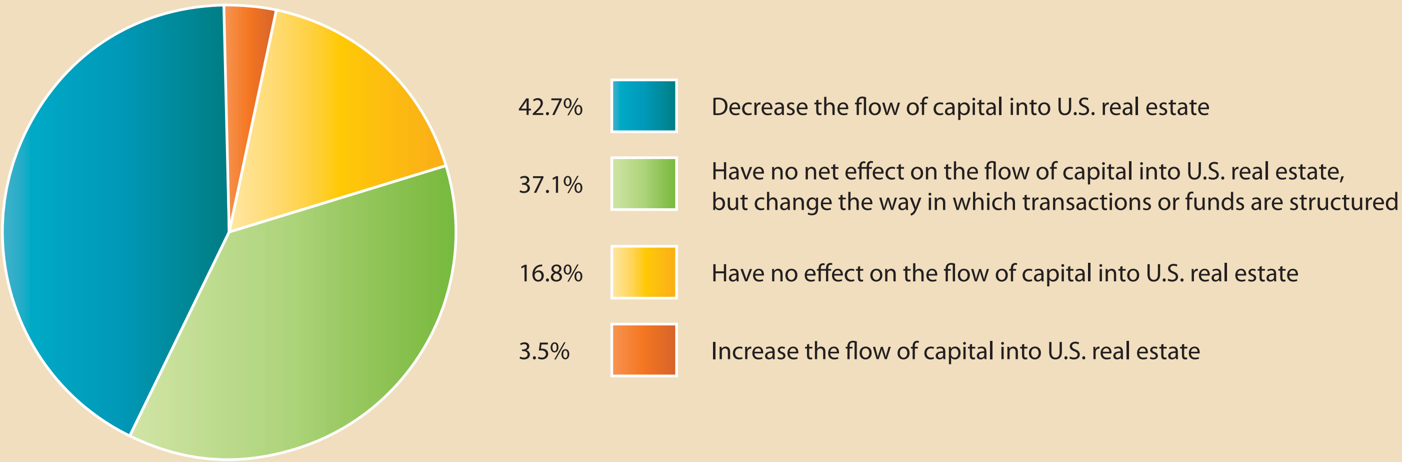
Overall, respondents clearly feel that pension plans (directly or through investment advisors) will represent the largest source of equity capital for the sector in 2012, followed by U.S. opportunity funds, publicly traded sources and sovereign wealth funds, in that order.

While pension plans were ranked overall as the largest expected source of 2012 new equity capital, almost half (46%) of investment manager/fund sponsors responding see sovereign wealth funds as their #1 or #2 source of 2012 new equity capital.

The respondents in all categories agree that U.S. banks will not be a significant player in these markets in the short term.

IMPACT OF U.S. LEGISLATIVE AND REGULATORY INITIATIVES ON U.S. REAL ESTATE INVESTMENT

Do you believe new and proposed U.S. legislative and regulatory initiatives (e.g., Dodd-Frank, the Volcker Rule, carried interest legislation, etc.) will:



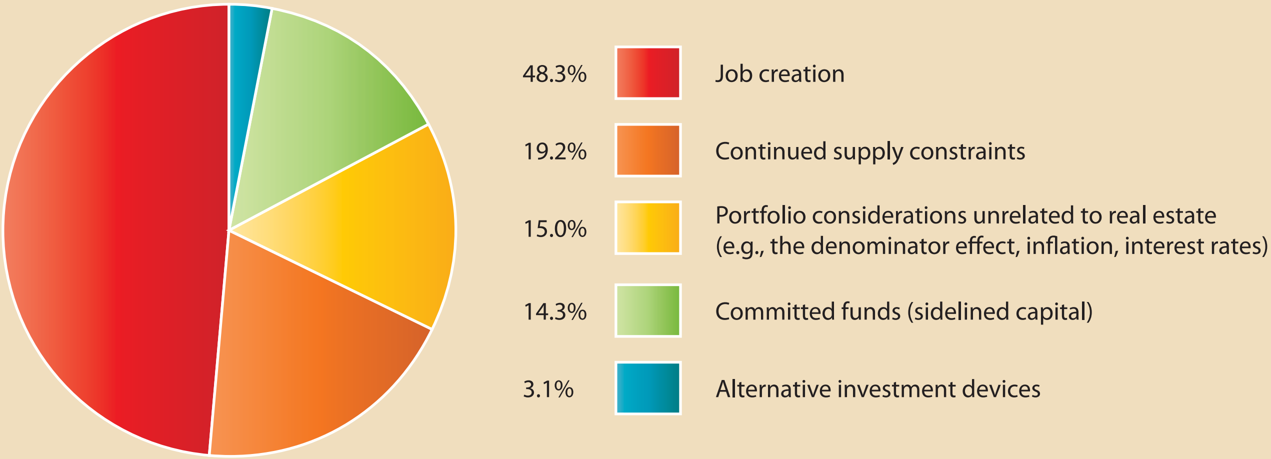
Almost 54% of market leaders surveyed agree that new and proposed legislation, such as Dodd-Frank, the Volcker Rule, carried interest legislation, etc., will not impact the flow of capital into overall real estate capital markets, but 37% feel these initiatives will impact transaction and fund structures.

Almost 43% of overall respondents believe these measures will decrease the flow of capital into the U.S. real estate market.

This division of opinion was reflected in two major survey categories. Both a significant portion of responding owner/operators (32%) and investment manager/fund sponsors (41%) feel that these legislative initiatives will change the way transactions or funds are structured.

ECONOMIC FACTORS INFLUENCING MARKET VALUES IN 2012

Which of the following factors is **most** likely to drive improved U.S. real estate values in 2012?



Overall, respondents overwhelmingly believe that job creation is the single most important economic factor required to drive improved U.S. commercial real estate values in 2012. Continued supply constraints, other portfolio considerations and sidelined capital are all viewed as significantly less important to the marketplace.

While almost half of all respondents (just over 48%) feel job creation was the most likely factor to drive improved real estate values, responding lenders view continued supply constraints as the second most important factor, while owner/operators view sidelined capital as an equally important secondary factor.

CAPITALIZATION STRUCTURE PREFERENCES

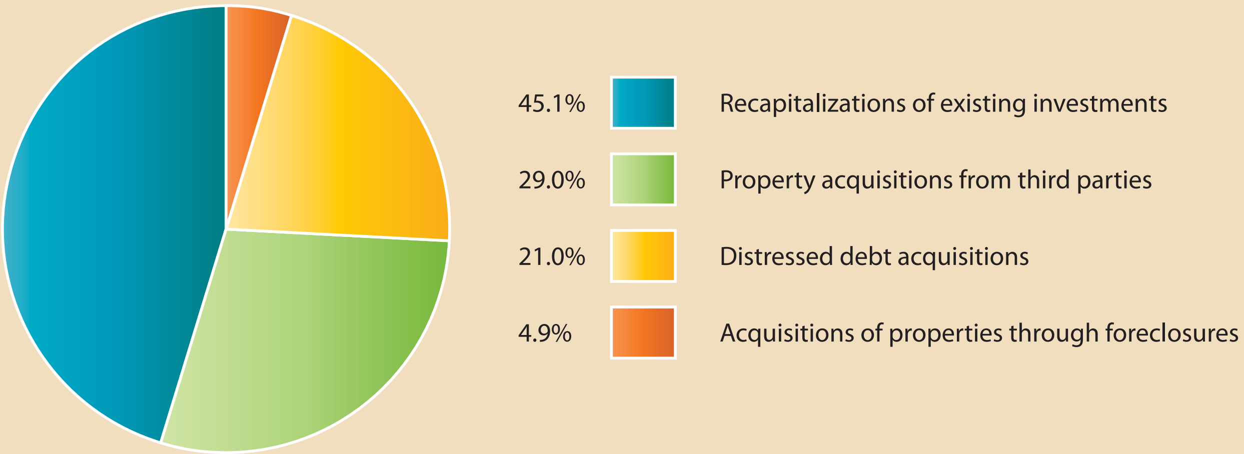
Rank the following capitalization alternatives based on the likelihood of your participation (as an investor, operating partner, or issuer) over the course of 2012, with #1 being the most likely and #6 being the least likely:

	Rank	Rating Average
One-off Joint Venture (i.e. a venture involving an operating partner, a financial partner, and a single investment)	1	2.34
Programmatic Joint Venture (i.e. a venture involving an operating partner, a financial partner, and multiple investments)	2	2.86
Commingled Fund (i.e. a sponsor and multiple investors in which the sponsor generally has discretion over the deployment of capital)	3	3.22
Club Deal (i.e. a venture involving an operating partner and multiple financial partners in which each financial partner has discretion over the deployment of capital on an investment-by-investment basis)	4	3.49
Raising publicly traded equity	5	4.38
Raising publicly traded debt	6	4.72

While one-off joint ventures are seen as the most likely capitalization alternative across all respondent categories, investment manager/fund sponsors indicate a clear preference for commingled funds (56%).

2012 COMMERCIAL REAL ESTATE INVESTMENT OPPORTUNITIES

Where do you see your greatest commercial real estate investment opportunities in 2012?

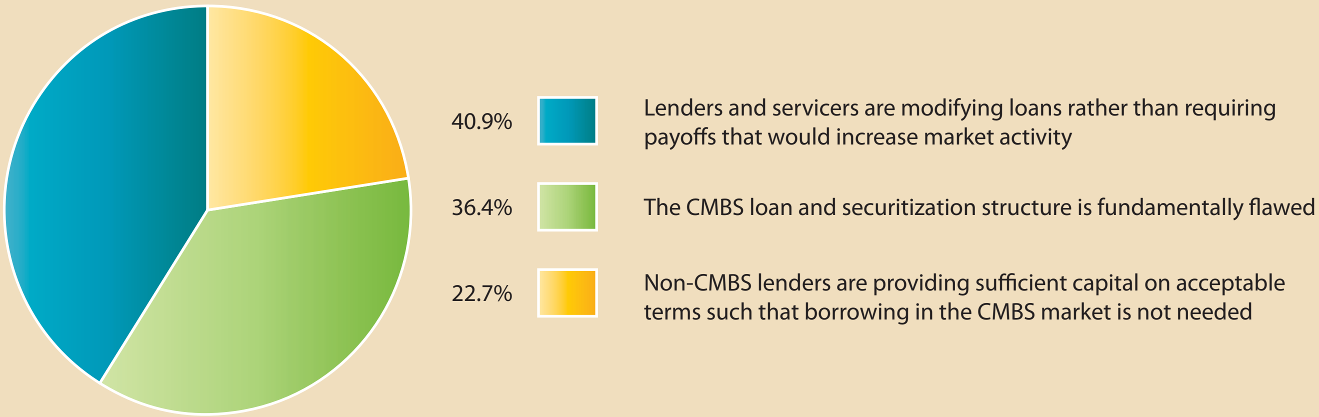


Respondents overall (45%) see recapitalization of existing investments as their greatest commercial real estate investment opportunity in 2012, followed by property acquisitions from third parties (29%) and distressed debt acquisitions (21%).

Almost 50% of owner/operators, however, see property acquisitions from third parties as their greatest opportunities, while 35% of responding lenders favor distressed debt acquisitions.

COMMERCIAL MORTGAGE BACKED SECURITIES MARKET ACTIVITY

Why do you think the CMBS market did not reach activity levels predicted for 2011?

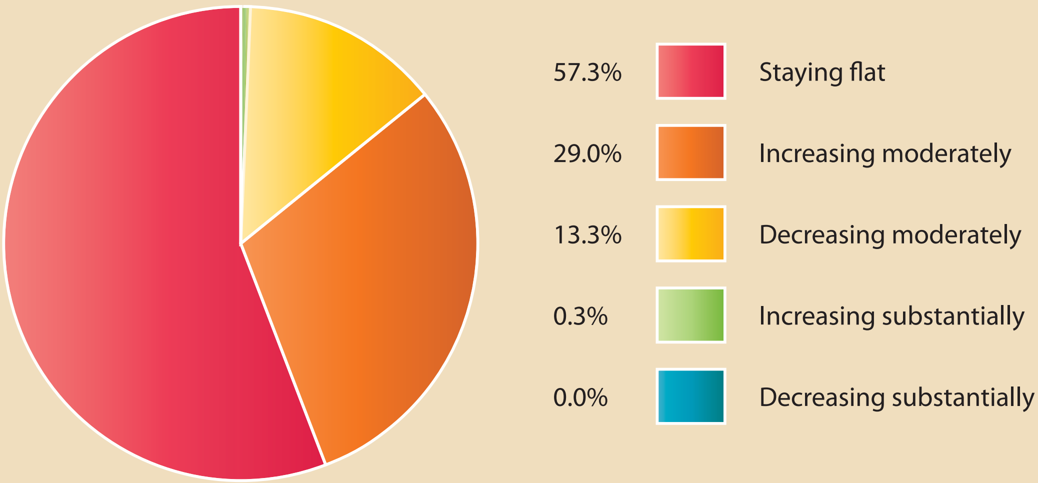


Overall, the largest group of respondents (41%) believes that the failure of CMBS markets to reach predicted levels of activity in 2011 was due to lender and servicer loan modifications that eliminated payoffs that would have prompted increased capital market activity. But, a significant portion of the overall group (36%) believes that the CMBS structure is fundamentally flawed.

Almost 65% of responding lenders believe the CMBS loan and securitization structure is fundamentally flawed and that opinion is shared by almost 44% of responding investors and roughly 35% of responding owner/operators and investment manager/fund sponsors.

CAPITALIZATION RATE TRENDS IN 2012

Where do you see capitalization rates trending in 2012?



A clear majority of all responding groups believe that capitalization rates will remain flat in 2012, but a significant subset of respondent groups (between 25% and 35%, depending on the category) see rates increasing moderately in the coming year.

SURVEY TABLES: DATA INSIGHTS BY REAL ESTATE INDUSTRY ROLE

Do you believe new and proposed U.S. legislative and regulatory initiatives (e.g., Dodd-Frank, the Volcker Rule, carried interest legislation, etc.) will:

	Owner/ Operator	Investment Manager/ Fund Sponsor	Investor	Lender	Investment Banker/ Advisor/Placement Agent	All Responses
Increase the flow of capital into U.S. real estate	1.3%	2.0%	0.0%	11.8%	6.0%	3.0%
Decrease the flow of capital into U.S. real estate	43.6%	43.1%	43.8%	52.9%	50.0%	45.2%
Have no effect on the flow of capital into U.S. real estate	23.1%	13.7%	25.0%	5.9%	8.0%	15.6%
Have no net effect on the flow of capital into U.S. real estate, but change the way in which transactions or funds are structured	32.1%	41.2%	31.3%	29.4%	36.0%	36.1%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Which factor is most likely to drive improved U.S. real estate values in 2012:

	Owner/ Operator	Investment Manager/ Fund Sponsor	Investor	Lender	Investment Banker/ Advisor/Placement Agent	All Responses
Continued supply constraints	19.2%	16.7%	12.5%	29.4%	22.0%	19.0%
Committed funds (sidelined capital)	19.2%	10.8%	6.3%	0.0%	16.0%	13.3%
Job creation	48.7%	52.0%	50.0%	52.9%	44.0%	49.4%
Alternative investment devices	1.3%	5.9%	6.3%	0.0%	0.0%	3.0%
Portfolio considerations unrelated to real estate (e.g., the denominator effect, inflation, interest rates)	11.5%	14.7%	25.0%	17.6%	18.0%	15.2%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Why do you think the CMBS market did not reach activity levels predicted for 2011?

	Owner/ Operator	Investment Manager/ Fund Sponsor	Investor	Lender	Investment Banker/ Advisor/Placement Agent	All Responses
The CMBS loan and securitization structure is fundamentally flawed	34.6%	34.3%	43.8%	64.7%	36.0%	37.3%
Lenders and servicers are modifying loans rather than requiring payoffs that would increase market activity	39.7%	42.2%	37.5%	29.4%	38.0%	39.5%
Non-CMBS lenders are providing sufficient capital on acceptable terms such that borrowing in the CMBS market is not needed	25.6%	23.5%	18.8%	5.9%	26.0%	23.2%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Where do you see your greatest commerical real estate investment opportunities in 2012?

	Owner/ Operator	Investment Manager/ Fund Sponsor	Investor	Lender	Investment Banker/Advisor/Placement Agent	All Responses
Recapitalizations of existing investments	29.5%	49.0%	43.8%	58.8%	62.0%	46.0%
Property acquisitions from third parties	50.0%	24.5%	31.3%	0.0%	20.0%	30.0%
Distressed debt acquisitions	15.4%	20.6%	25.0%	35.3%	18.0%	19.8%
Acquisitions of properties through foreclosures	5.1%	5.9%	0.0%	5.9%	0.0%	4.2%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Where do you see capitalization rates trending in 2012?

	Owner/ Operator	Investment Manager/ Fund Sponsor	Investor	Lender	Investment Banker/Advisor/ Placement Agent	All Responses
Increasing substaintially	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Increasing moderately	25.6%	28.4%	31.3%	35.3%	34.0%	29.3%
Staying flat	61.5%	56.9%	56.3%	58.8%	52.0%	57.4%
Decreasing moderately	12.8%	14.7%	12.5%	5.9%	14.0%	13.3%
Decreasing substantially	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

METHODOLOGY

An invitation to participate in the 2012 Real Estate Capital Markets Survey was sent, via email, to a cross section of approximately 3,400 industry participants. The email included a link to the online survey form. Completed survey responses were submitted electronically by almost 290 participants. Results were tabulated and analyzed by Goodwin Procter attorneys and professional staff.

GOODWIN PROCTER REAL ESTATE & REAL ESTATE CAPITAL MARKETS PRACTICE

Goodwin Procter has one of the nation's leading real estate industry practices. From large-scale development and public finance projects, to portfolio acquisitions and dispositions, to the most complex REIT structures and investment management strategies, Goodwin represents many of the nation's leading public and private real estate investment managers, real estate fund sponsors, public and private REITs, and municipalities in all aspects of raising and deploying capital. Goodwin also advises owners, managers, operators, developers, lenders and investors in acquiring, developing, financing, managing and selling real estate.

Goodwin is a vertically integrated real estate practice with expertise in the most sophisticated aspects of fund formation, real estate finance, joint ventures, workouts and restructurings, hospitality, development and leasing. In recent years we have assisted clients in real estate focused acquisitions, joint ventures, and other investments, structuring and restructuring debt, and public and private capital raised in excess of US$250 billion. In addition, Goodwin Procter has one of the most sophisticated real estate fund formation practices in the US, helping clients raise in excess of US$60 billion through private investment funds, including the formation of targeted hospitality investment funds. The firm has been honored for four consecutive years (2007 - 2010) as North American Law Firm of the Year (Fund Formation) by PERE (Private Equity in Real Estate) News. The firm represents clients in transactions and on projects throughout the world, from our offices in Boston, New York, Los Angeles, San Francisco, Silicon Valley, San Diego, Washington DC, Hong Kong and London.

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