Morgan Stanley

Morgan Stanley Real Estate Investing

Lamda Alpha Capital Markets Presentation

November 11, 2008

Section 1

Global Economy and Investment Markets

Unprecedented Financial and Economic Times

The Vicious Cycle

1. Losses on Leveraged Borrowing
2. Deterioration in Credit Quality
3. MTMs/Losses in Financials
4. De–leveraging / Reduction in Credit Availability
5. Asset Price Declines
6. Impact on the Real Economy
7. Repeat step 1

The Casualties

$591 billion Financial Sector Writedowns (1)

Market capitalization of equity markets has declined significantly (2):

- **World: $48Tr to $31Tr (35% decline)**
- **US: $18Tr to $11Tr (39% decline)**

$3.6Tr in lost home values(3)

Median existing single-family home prices expected to decline from $221,000 (2007Q1) to $180,000 (2009Q1), a decline of over 18%(4)

US Consumer spending, nearly 2/3 of the economy, dropped 0.3% in September, the sharpest decline for consumer spending in the last four years(5)

Consumer confidence dropped by a record to 57.6 in late October, from a reading of 70.3 in late September(6)

The CDS market with its rapid growth from $7.5Tr to over $60Tr notional during the past four years, has come to a close and poses a significant risk that remains to be unwound(7)

1. Asset writedowns and credit losses; Bloomberg as of September 29, 2008
2. FactSet aggregate market value calculations from January 1, 2007 to November 7, 2008
3. $20.3Tr in peak household real estate value (Federal Reserve) and 18% home value decline (Case-Schiller)
4. National Association of Realtors Estimate
5. Commerce Department
6. University of Michigan
7. Bank of International Settlements as of May 2008

Stress in All Corners of the Market

- S&P 500 volatility at record highs (VIX is key measure of market expectations of near-term volatility)
- Hedge fund performance down:
  - Monthly return for September (6.55%), the second worst monthly performance ever recorded by the index
  - YTD performance at (10.1%)
- Metals and Crude Oil down 31.8% and 27.9% YTD, respectively. Oil at $63.00 barrel
- Emerging Market Equities down 47.1% YTD

Volatility

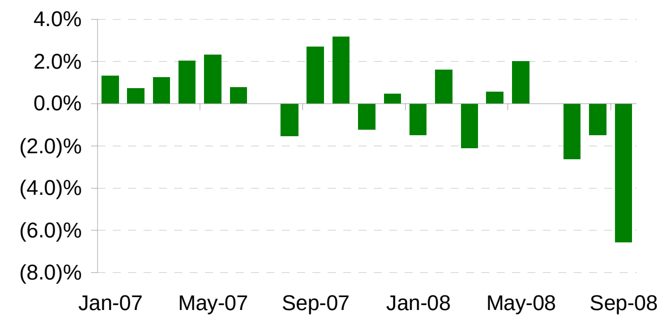
CBOE Volatility Index of S&P 500

Source: Bloomberg as of November 6, 2008

Hedge Fund Performance

Credit Suisse Tremont Hedge Fund Index (Monthly Returns)

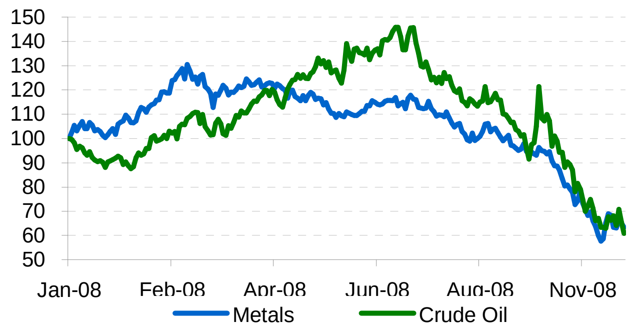
%



Source: HedgeFundIndex.Com

Commodities

Indexed to 100

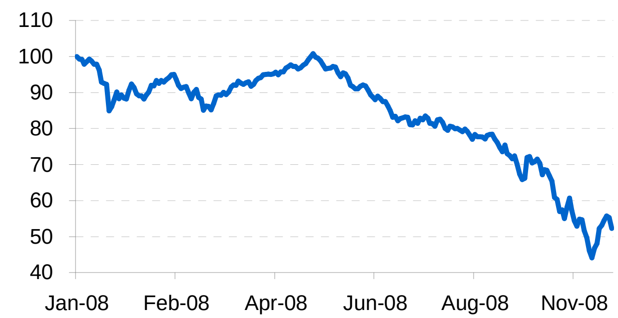


Source: Bloomberg as of November 6, 2008

Emerging Markets Index

MSCI Emerging Markets Index

Indexed to 100

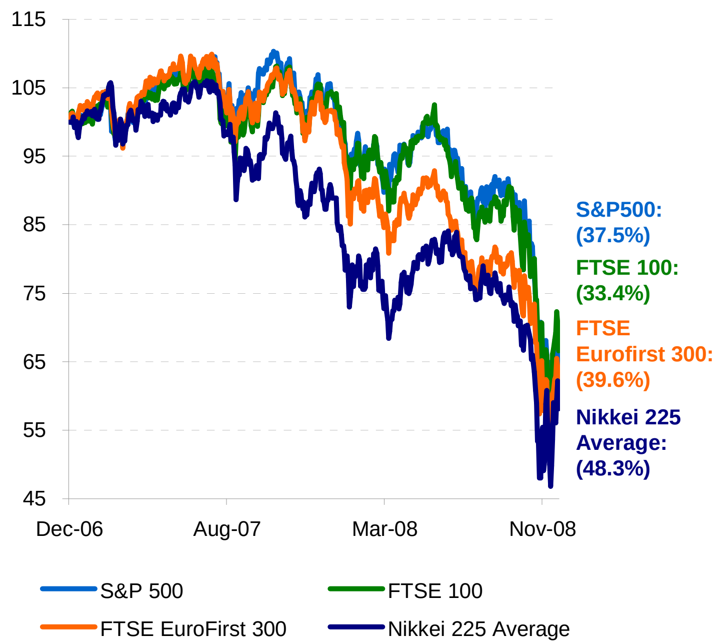


Source: FactSet as of November 6, 2008

Global Equity Capital Markets

Stock Market Indices for Major Global Markets

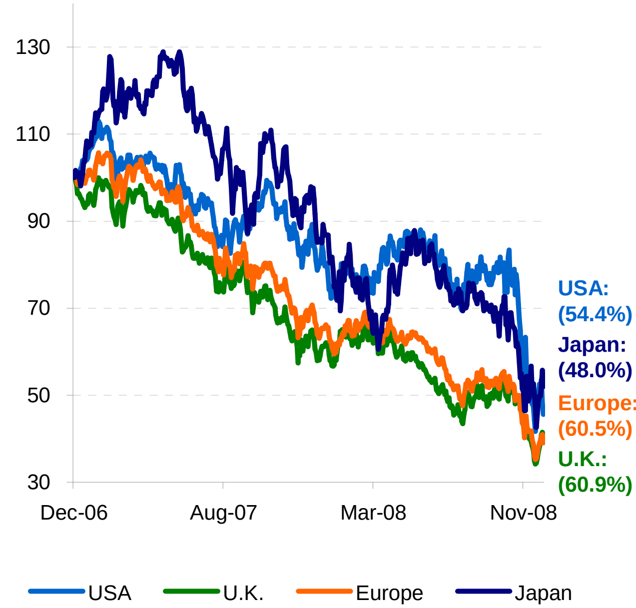
Indexed to 100



Source: FactSet as of November 6, 2008

Public Real Estate Indices

FTSE EPRA/NAREIT
Indexed to 100



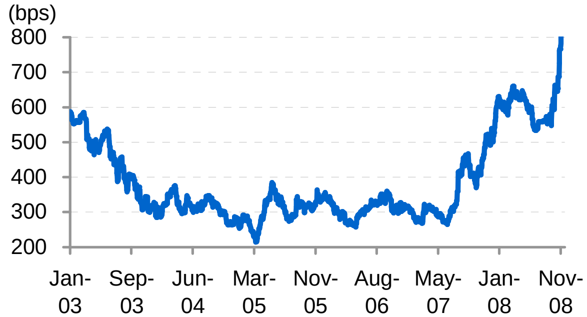
Source: FactSet as of November 6, 2008

Lending Markets Are Expensive, if Not Closed

- Lending markets have been virtually closed but recent signs of a slight thaw, with commercial paper sales the week ending November 5th rising by $50.5Bn of 3.3%, a five week high

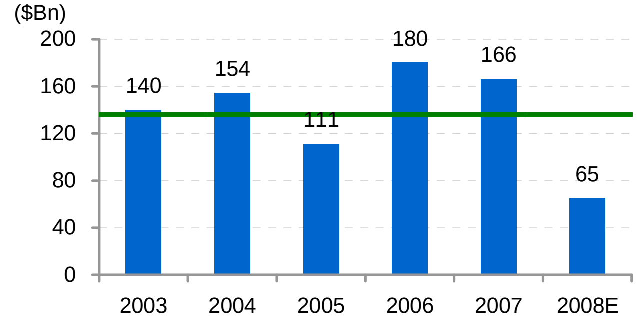
- Fed is actively trying to stimulate the commercial paper market, buying $144Bn through last week

Historical Non-Investment Grade Spreads



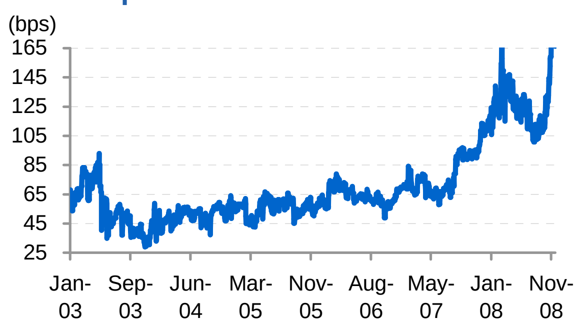
Source: Bloomberg as of November 6, 2008

Non-Investment Grade Debt Issuance



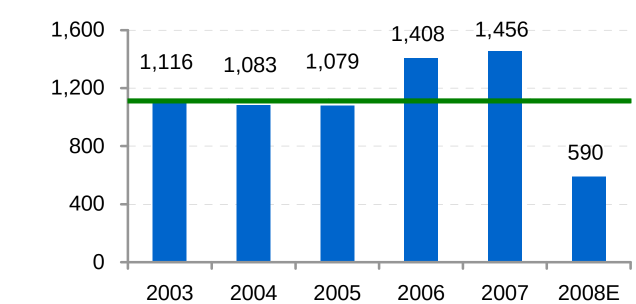
Source: Morgan Stanley

Historical Investment Grade Spreads



Source: Bloomberg as of November 6, 2008

Investment Grade Debt Issuance

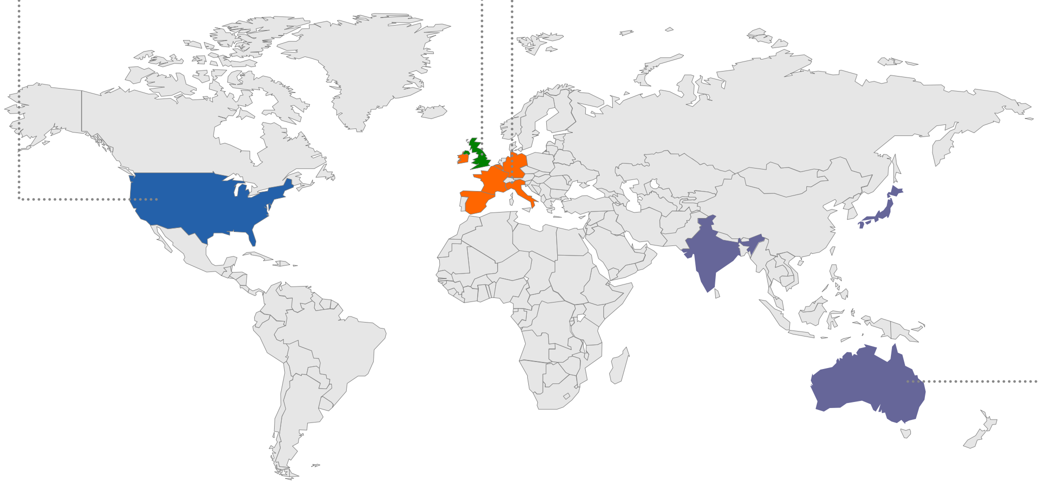


Source: Morgan Stanley

- Decoupling theory has been disproved – US may have led the slowdown but the entire world has followed
- The global response to the crisis has been fairly coordinated
  - 50 basis point rate cuts
  - Bank capital injections
  - Guarantees of deposits and interbank lending
- Cumulative announced bank bailouts globally exceed $500Bn and are continuing to grow weekly

Global Responses to Financial Crisis

United States	United Kingdom	Eurozone	Asia Pacific
• Treasury engages in recapitalizations or re-structurings of financial institutions • Treasury to invest $125Bn in 9 major U.S. banks, expectation of another $125Bn for smaller banks • Fannie/Freddie, Bear Stearns, AIG • FOMC cut fed funds rate by 50bps	• Announced £55Bn in bank recapitalizations (part of broader £400Bn bank stabilization package) • Royal Bank of Scotland, HBOS PLC, and Lloyds TSB to take government funding (Preferred shares), ceding controlling stakes to government • Bailout of troubled mortgage lender Northern Rock	• €72Bn in bank recapitalizations • Germany has provided a €50Bn credit line to Hypo Real Estate, the country's leading mortgage provider • Spain has emulated the U.S. strategy by setting up a fund to buy assets from struggling lenders • More than €1Tr in credit and loan guarantees • Iceland raised interest rates to 18%, a 6% increase • Norway's Norge Bank cut rates 50bps	• BOJ has pumped over ¥23Tr into its financial system over the past couple weeks • Bank of India cut rates by 100bps • Bank of Australia cut rates by 100bps • Bank of Japan cut rates by 20bps • Reserve Bank of India cut rates by 50bps • China cut rates by 27 bps and unveiled a $586Bn stimulus plan



Global Economic Outlook

Projection

- Morgan Stanley expects global growth of just 1.7%, down from 2.5% just a month ago, and a half point below the IMF's just-released outlook
  - Depth of the global downturn will be similar to the 1991 recession, when global GDP fell 1.5%
  - First synchronized full-year contraction of output in all the major advanced economies since World War II
  - GDP in the advanced economies shrinking by 0.9% next year and GDP forecast for the developing and emerging world cut 5.1% to 4.3% - the lowest level in 7 years

Rationale

- Shocks hitting the emerging market (EM) economies are likely to hobble growth in those countries by more than previous expectations
- Deepening financial crisis in September-October and the increasing economic difficulties in many emerging economies have started to appear in the US, European and Japanese data loudly
  - Recent indicators in most major advanced economies, such as the decline in October US payrolls and vehicle sales, suggest a much steeper-than-expected contraction in 4Q08 economic activity

Global Economic Outlook (Cont'd)

Recovery

- Morgan Stanley predicts that the global economy will trough in the course of next year, with a healing process setting in during the second half and in 2010
  - The coming recovery in late 2009 and 2010 will be anemic rather than dynamic
  - Morgan Stanley predicts 2010 global GDP growth to be 3.6%, below the trailing five-year and ten-year trend rates of 4.7% and 4.0%
  - 2010 advanced economy GDP growth by barely more than 1% in the Euro area and Japan, and scarcely more than 2% in the US
  - 2010 emerging economy GDP growth at 5.4%, up from 4.3% in 2009 but still less than in any single year during 2003-2008

Rationale

- State intervention in the financial sector in the form of capital injections and debt guarantees should prevent a further financial meltdown
- Unlimited liquidity provisions and, more recently, aggressive reductions in offical interest rates around the globe should bring borrowing rates such as Libor down further and ease the credit crunch
- Further significant fiscal easing in the form of higher public spending and tax reductions, as seems likely in the US and other major economies around the globe, should cushion the downdraft in aggregate demand

Global Economy - Conditions Quickly Weakening

- Global economic growth is expected to be well below trend in 2009
  - Tantamount to a global recession
- Unprecedented coordination of Central Banks globally helping limit downside risks
  - Nonetheless, growth in 2009 will be very limited
  - The recovery in 2010 is expected to be modest and contained

Global Growth

GDP Growth, Inflation Adjusted

Economic Forecast [1]

	GDP Growth, %			Change, 1 Month Ago, bp		
	2008	2009	2010	2008	2009	2010
World	**3.7**	**1.7**	**3.6**	**(30)** [1]	**(180)**	**na**
Industrial	1.0	(0.9)	1.6	(40)	(170)	na
Developing	6.4	4.3	5.4	(30)	(190)	na
North America	**1.2**	**(1.2)**	**1.9**	**(40)**	**(190)**	**na**
US	1.3	(1.3)	2.1	(40)	(190)	na
Canada [2]	0.5	0.4	na	(10)	(100)	na
Latin America [2]	**4.3**	**1.5**	**na**	**0**	**(200)**	**na**
Mexico [2]	1.8	0.0	na	(80)	(300)	na
Brazil [2]	5.0	2.0	na	70	(100)	na
Europe	**1.0**	**(0.7)**	**1.1**	**(40)**	**(170)**	**na**
France	0.9	(0.2)	0.9	(10)	(120)	na
Germany	1.4	(0.7)	0.9	(60)	(170)	na
UK	0.8	(0.3)	1.9	(30)	(120)	na
CEEMEA [2]	**5.3**	**3.4**	**na**	**(20)**	**(150)**	**na**
Asia [2]	**6.1**	**4.7**	**na**	**(30)**	**(110)**	**na**
Asia, ex-Japan [2]	7.8	6.4	na	(20)	(100)	na
Japan	0.4	(1.1)	1.1	(40)	(130)	na
China [2]	9.8	8.2	na	(20)	(80)	na
India [2]	7.6	6.4	na	20	(50)	na

Source Morgan Stanley Forecast as of 10 November 2008

Notes
1. The table presents Morgan Stanley's current GDP forecast (as of 10 November 2008) versus forecasts pre-sharp revisions roughly 6 weeks ago. That forecast is as of 26 September 2008. Expectations for 2010 growth are only now becoming available and are expected in the following week.
2. Updated forecast not yet available, as of 24 October 2008

Section 2

Global Real Estate Environment / Themes

How Has Our Market View “Evolved” Over Time?

	Fall 2007	Spring 2008	Fall 2008
Economic Growth	• US in recession, slower growth elsewhere – emerging markets will help rest of world	• Decoupling can still occur, although slower US hurting many other markets	• Global recession – downturn to be sharper in developed markets (US, Japan, UK, France and Germany) – distinctly slower growth in emerging markets
Capital Markets	• Credit crunch impacting transaction volumes, no recovery for 12+ months (late 2008) • Lack of CMBS hitting the US and Europe the most • MS more pessimistic than overall market	• Credit “crunch” evolves to credit “crisis”, no recovery for 12+ months (mid 2009) • Distinct slowing in all markets, with the US completely frozen • Global markets beginning to weaken	• Complete disarray, timing of recovery is unclear - 12 - 24 months
Real Estate Pricing	• Re-pricing underway, differentiation by asset quality and market. Prime office cap rates may adjust as follows: • US: +100bp • Western Europe: <50bp • Developed Asia: <25bp	• Re-pricing underway, differentiation by asset quality and market. Prime office cap rates may adjust as follows: • US: 100 to 125bp • Western Europe: 50 to 75bp • Developed Asia: 25 to 50bp	• All markets completely frozen, including Asia • Re-pricing underway, differentiation by asset quality and market. Prime office cap rates may adjust as follows: • US: 100 to 150bp+ • Western Europe: 75bp to 100bp+ • Developed Asia: 50bp to 100bp+
Real Estate Fundamentals	• Fundamentals are strong although risks exist • New supply is modest; only markets with weaker economies face risk	• Vacancies moving up, tenants gain pricing power • Greater weakness in growth to hit fundamentals • Landlords already capitulating in the harder hit markets	• Fundamentals globally beginning to weaken • Cash flows facing risks • Vacancies rising, downward pressure on rents

The Fall-Out … and the Resulting Spectrum of Opportunities

- We expect the best distressed / opportunistic environment we have seen since the early 90s
- Distressed opportunities globally will come from:
- Failed financial institutions will be forced sellers
- Corporate restructurings and non-core asset sales to generate liquidity and solidify balance sheets
- Public real estate companies needing to deleverage
- Overleveraged borrowers and bank debt sales

Most Stress	• REITS with excessive leverage and / or near-term maturities (Japan, Germany, UK, US) • Residential – Spain / US / UK / Ireland • Retail – US / UK / Spain • Office – Financial centers: Central London / NY / Hong Kong / Singapore • Land – China / India • Secondary assets – Purchases were debt driven • CEE – Office / Residential land • Australia – All asset classes
Least Stress (Relatively!)	• Japan – Tokyo office (supply only +2% thru 2011) • Germany – Munich / Hamburg / Berlin • Paris – Prime office • Italy – All asset classes • Asia Pacific – Prime office: Seoul / Shanghai • Prime Retail – Globally (after repricing) • Food Retail – planning constrained markets, e.g., UK / France • Prime, 5-star hotels in non-financial gateway cities

Best Opportunities

- **Credit:** Best risk adjusted returns
- **Distress:** Assets / markets with best recovery prospects / fundamentals
- **Quality at Discount:** Prime, income producing assets, below replacement cost, with high cash-on-cash yield, in developed / mature markets
- **Struggling Corporates**
  - RE: US, Germany, Italy, Japan, China, India, Australia
  - Industrial and financial: Japan, Spain, UK, selected Continental Europe

Silver Linings

- **Replacement / Construction Cost:** Rents do not justify construction despite significant recent pull back in commodity pricing
- **Supply / Demand Fundamentals:** Prime, class “A” vacancy in the 15 of the top 20 cities globally is below 6%
- **Opaque / Limited Market Data – the Local Game:** Expertise / knowledge adds significant value

Section 3

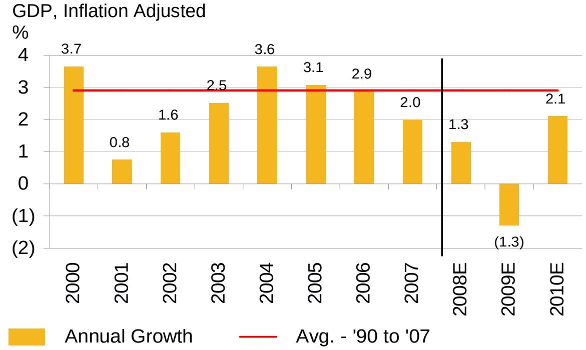
US Economic Environment

U.S. Economy - Growth to Slow Further, Downside Risks Increasing

- The US economy is on the edge of a deep recession
  - Conditions are anticipated to worsen before the improve
  - The consumer-led downturn may also lead to weaknesses for businesses
- The government has already been working hard to limit the depth of the downturn
  - Unprecedented capital markets intervention to stabilize financial conditions
  - The target interest rate is now 1.00%, down from 5.25% during the mid-2007
- The bottom table presents a collection of leading indicators that help indicate the severity of the downturn
  - Also will help indicate recovery as it begins
  - High historical volatility in these data suggest they can sometimes provide false signals (to account for this error, look for unison in the data as is occurring now)

Economic Growth

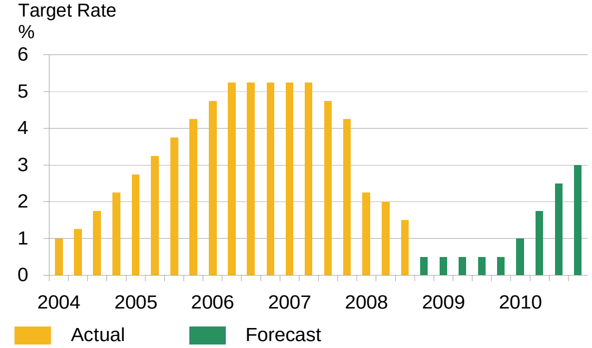
GDP, Inflation Adjusted



Source Morgan Stanley projection

Fed Funds Rate

Target Rate



Source Morgan Stanley projections

Review of Leading Indicators

	Latest Data Point	Trailing 3 Mo Avg.	as of	Economy Scenarios (Shading Reflects Current Point): Deep Recession	Recession	Flat Growth	Expansion
Monthly Job Growth	(240,000)	(217,000)	31 Oct	< (200,000)	(200,000) to (50,000)	(50,000) to 25,000	25,000+
Unemployment Rate	6.5	6.2	31 Oct	> 7.0	6.0 to 7.0	5.0 to 6.0	< 5.0
Unemployment Claims	481,000	465,000	01 Nov	> 450,000	350,000 to 450,000	325,000 to 350,000	< 325,000
Consumer Confidence	38	53	31 Oct	< 65	65 to 75	75 to 85	> 85
Industrial Production Growth	(4.5)	(2.1)	30 Sep	< (3.0)	(3.0) to 0.0	0.0 to 1.0	> 1.0
Manufacturing Index	39	44	31 Oct	< 42	42 to 48	48 to 55	> 55
Credit Spreads[1]	551	554	07 Nov	> 300	300 to 225	225 to 175	< 175

Source Moody's

Notes
1. Credit spread is the Baa corporate bond yield less the 10 Year Treasury Yield

"Worst Ever" U.S. Recessions Over the Past 40 Years

- Previous recessions have lasted from 3-17 months, typically last 9-12 months and job market continues to be weak for up to 2-3 years after
- GDP has declined from (.2%) to (3.5%) and unemployment has declined (.3%) to (3.1%)
- Recession from 1973 to 1975 was the steepest and 2001 the mildest

"Worst Ever" U.S. Recessions Over the Past 40 Years

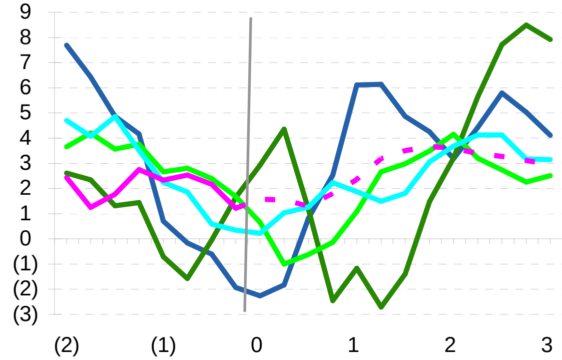
	Dec '69 - Nov '70	Nov '73 - Mar '75	Jan '80 - Mar '80	July '81 - Nov '82	July '90 - Mar '91	Mar '01 - Nov '01
Duration in Months	12	17	3	17	9	9
Change in GDP (%)	-0.4%	-3.5%	-0.7%	-2.7%	-1.4%	-0.2%
Change in Payroll Employment (%)	-1.2%	-1.6%	0.2%	-3.1%	-1.1%	-1.2%
Change in Real Household Net Worth (%)	1.7%	-10.1%	-1.8%	-1.4%	-3.5%	-3.4%
Change in Auto Sales (%)	-29.2%	-30.4%	-15.9%	-12.5%	-15.2%	-6.2%
Change in Industrial Output (%)	-7.1%	-15.0%	-0.8%	-8.5%	-4.4%	-4.0%
Change in Real Sales by Retail Stores (%)	-2.1%	-9.5%	-4.9%	-5.1%	-5.2%	-1.3%
Change in Construction Contracts for C&I Builidings (%)	-37.6%	-52.2%	-21.1%	-41.3%	-25.0%	-33.6%
Percent Real Return in S&P 500	-23.2%	-39.9%	-12.9%	-23.2%	-16.5%	-11.3%
Change in Real Median Home Price (%)	**-15.8%**	**-4.0%**	**-3.1%**	**-8.7%**	**-6.2%**	**-1.1%**
Change in Real After Tax Profit (%)	-13.3%	-30.4%	-12.7%	-6.8%	-12.3%	-8.3%
Lowest Consumer Confidence Level (Monthly)	72.4	57.6	62.1	65.7	65.1	88.6
Change in Housing Starts	**-17.5%**	**-30.5%**	**-32.7%**	**-25.1%**	**-31.6%**	**2.1%**
Highest Inflation Rate (Monthly)	6.4%	12.2%	14.6%	11.0%	6.4%	3.6%
Highest Unemployment Rate (Monthly)	5.8%	8.3%	6.3%	10.7%	6.8%	4.8%
Rank Order (7 is Worst; 1 is Best)						
Duration in Months	5.0	6.5	1.0	6.5	3.5	3.5
Change in GDP (%)	3	7	4	6	5	2
Change in Payroll (%)	4.5	6.0	1.0	7.0	3.0	4.5
Change in Real Household Net Worth (%)	1	7	4	3	6	5
Change in Auto Sales (%)	6	7	5	3	4	2
Change in Industrial Output (%)	5	7	1	6	4	3
Change in Real Sales by Retail Stores (%)	3	7	4	5	6	1
Change in Construction Contracts for C&I Builidings (%)	5	7	1	6	2	4
Percent Real Return in S&P 500	5.5	7.0	3.0	5.5	4.0	2.0
Change in Median Home Price (%)	**7**	**4**	**2**	**6**	**5**	**1**
Change in Real After Tax Profit (%)	6	7	5	2	4	3
Lowest Consumer Confidence Level (Monthly)	2	7	5	3	4	1
Change in Housing Starts	**3**	**5**	**7**	**4**	**6**	**1**
Highest Inflation Rate (Monthly)	3.5	6.0	7.0	5.0	3.5	1.0
Highest Unemployment Rate (Quarterly)	3	6	4	7	5	1
Total Rank Score	**62.5**	**96.5**	**54.0**	**75.0**	**65.0**	**35.0**
Number of Worsts	**1**	**10**	**2**	**3**	**0**	**0**
Number of Bests	**1**	**0**	**4**	**0**	**0**	**6**

Previous Recessions - Economic Cycles

- On average, the four previous recessions lasted 9 months
  - Sentiment becomes less negative and some businesses begin the recovery cycle
  - But, labor market weakness typically lasts longer, 2 to 3 years on average
  - Inflation usually slows after recessions

Annual Real GDP Growth

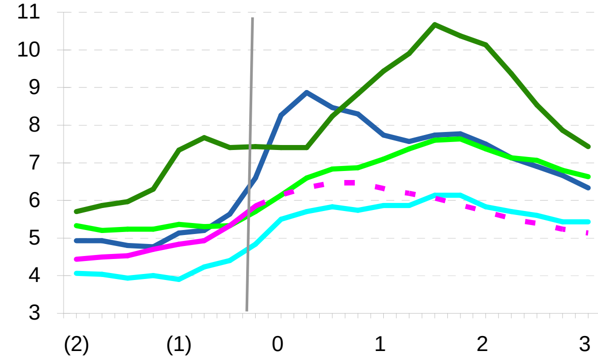
%, vs. Years from Recession [(1)]



Source: BLS, Moody's

Unemployment

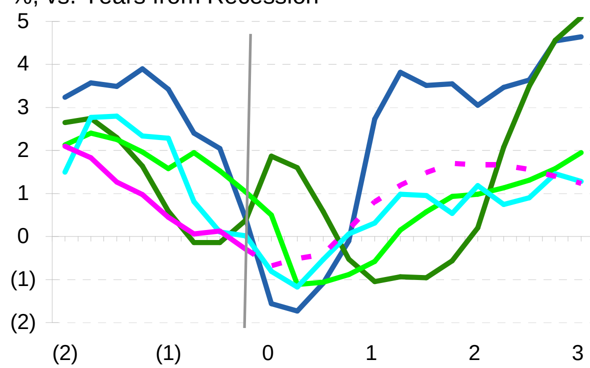
%, vs. Years from Recession [(1)]



Source: BLS, Moody's

Annual Employment Growth

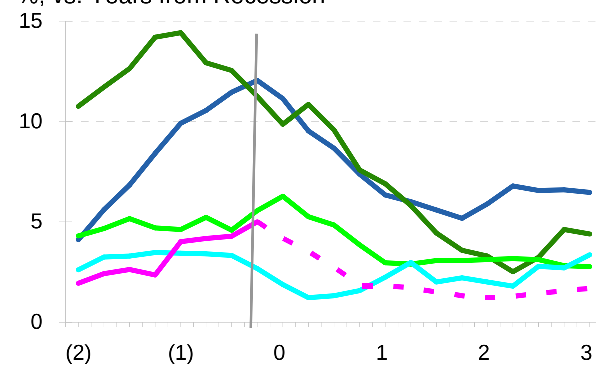
%, vs. Years from Recession [(1)]



Source: BLS, Moody's

Annual Inflation Growth

%, vs. Years from Recession [(1)]



Source: BLS, Moody's

1974 1981 1990 2001 2008

Notes

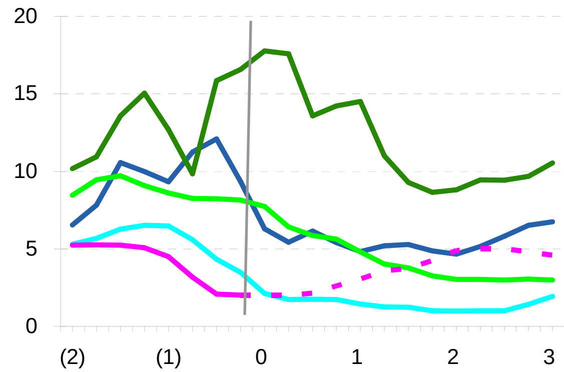
1. The chart presents two years preceding and three years after the recession. Recession begins at year zero, aligned with the vertical line. Hence, the red line for the 2008 cycle, starts in 2006 and runs through 2012 with the vertical line representing 2008

Previous Recessions - Capital Market Cycles

- Capital markets react more quickly and recover more quickly than economic activity
  - Short term interest rates decline, long-term Treasuries remain at roughly the same level
  - Risk spreads widen for roughly a year, which puts upward pressure on (non-risk-free) interest rates
  - Equity market performance is mixed with some cycles seeing further sharp declines, whereas others have experienced recoveries

Fed Funds Rate

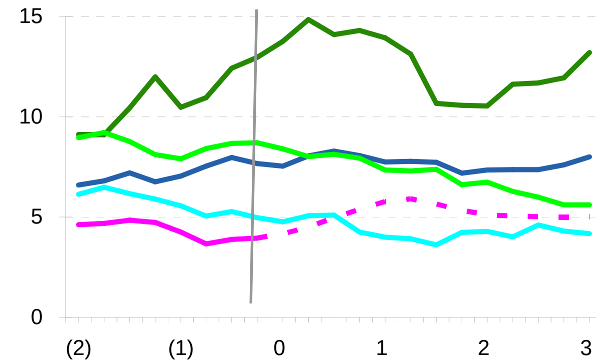
%, vs. Years from Recession (1)



Source: Federal Reserve Board, Moody's

Ten Year Treasuries

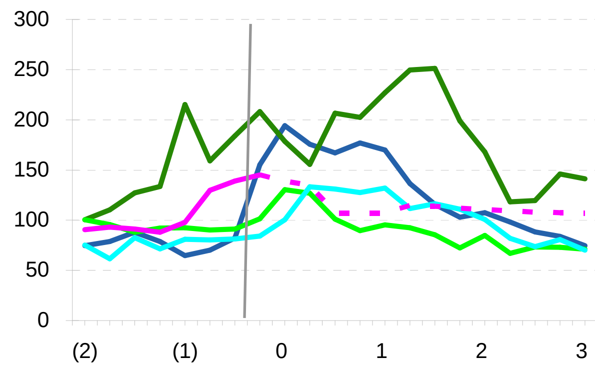
%, vs. Years from Recession (1)



Source: Federal Reserve Board, Moody's

Corporate Spreads: Aaa vs. Baa

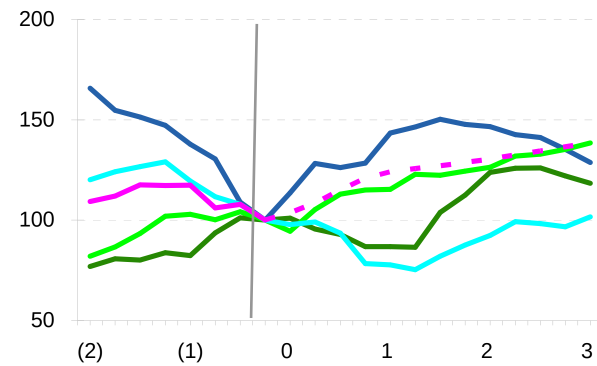
Bps, vs. Years from Recession (1)



Source: Federal Reserve Board, Moody's

S&P 500

Indexed to 100 at Recession, vs. Years from Recession (1)



Source: Standard and Poors, Moody's

1974 1981 1990 2001 2008

Notes

1. The chart presents two years preceding and three years after the recession. Recession begins at year zero, aligned with the vertical line. Hence, the red line for the 2008 cycle, starts in 2006 and runs through 2012 with the vertical line representing 2008

Morgan Stanley

Section 4

US Real Estate Capital Markets and Strategy

US Real Estate Market - Key Points

- Consumer spending is likely to be lower, and savings higher, for and extended period during the forecast view, which affects property types
- The mark-to-market on longer lease type will have ended by 2010/2011, limiting those sectors' growth potential
- Quality/location pricing spreads tend to gap out the most during periods of stress, recovering during the ensuing cycle
  - A trading strategy on quality may be a way to improve total retruns

- Capital market challenges dominate
  - Financing markets highly constrained, expensive and focused on mezz
  - Equity looking for distress can dictate terms
  - Capital markets are differentiating on quality with the best properties performing better

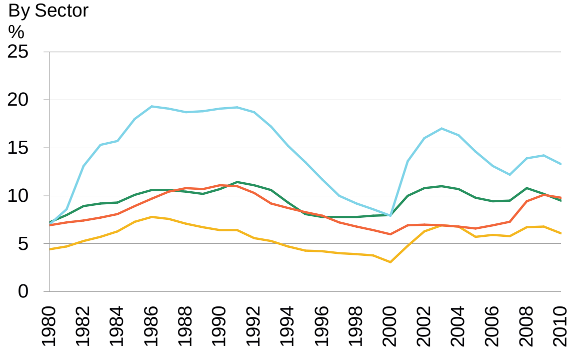
- Fundamentals beginning to worsen and will slide through 2009 at the least
  - Demand uniformly weakening due to slower growth and uncertainty regarding the economy
    - Office: vacancies slipping, sublease up - landlords beginning to accept lower rents
    - Retail: property quality matters, sales down in weak locations, flat in good ones
    - Apartment: job losses weighing on occupancies near-term, favorable demand trends once the economy stabilizes (strong demographics, tight credit, etc.)
    - Industrial: imports growth has slowed to near-zero, absorption flat to down in 2008/2009
    - Hotel: demand near-zero with healthy supply, occupancies continue to slip, weakening RevPAR growth (could turn negative)
    - Housing: prices still falling, unsold inventory on the decline, but markets still out of balance
  - Development now all but stopped, which helps on the margin
  - Differentiation in growth across markets helps, but capital market headwinds hitting all markets

Property Fundamentals - Property Conditions are Likely to Weaken

- Weak growth across most sectors in the US economy is expected to hit fundamentals for each real estate property type
  - Rising vacancies
  - Falling rents
- Development activity has been modest
  - New starts were constrained by high building costs
  - Once demand recovers, property fundamentals have the potential to recover strongly
- The outlook for income growth has deteriorated
  - Vacancy rate increases are leading to weakness in the near-term
  - Rent forecasts have been revised lower, leading to lower mark-to-market premiums

US Vacancy Rates

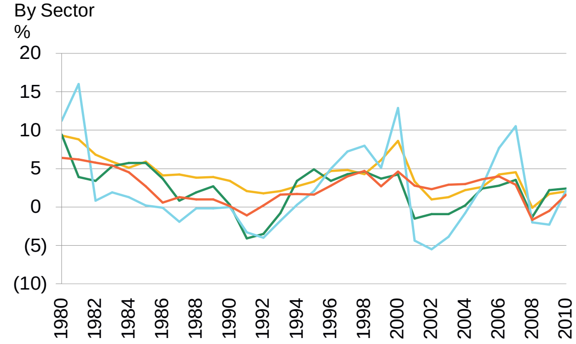
By Sector



Source Reis, PPR

US Rent Growth

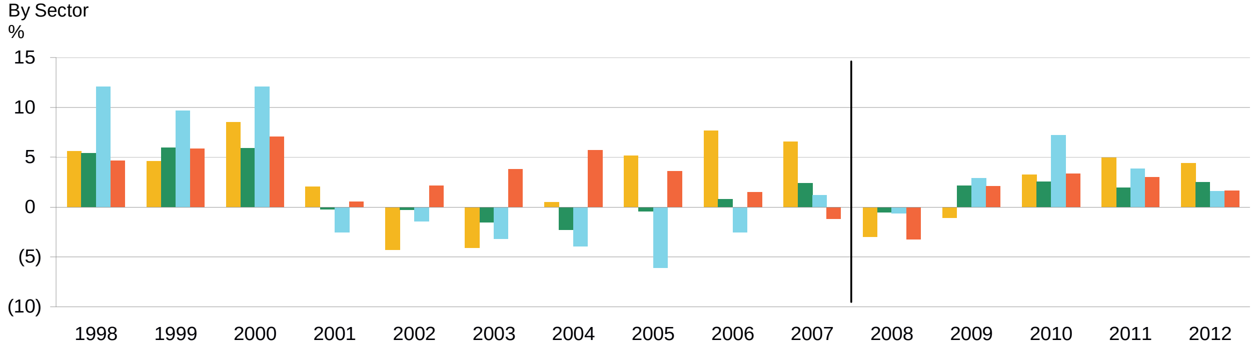
By Sector



Source Reis, PPR

Income Growth

By Sector



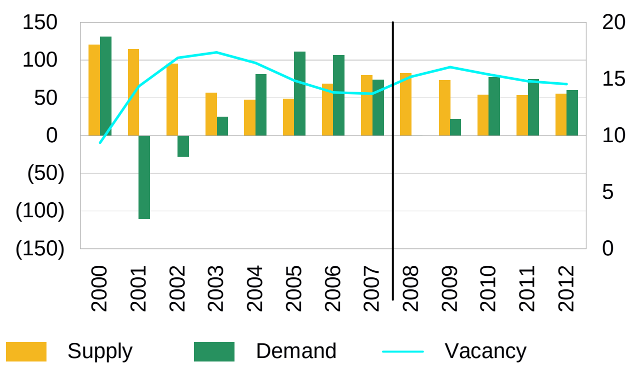
Source TWR, PPR, Reis, Morgan Stanley calculations

Apartment Industrial Office Retail

Office Conditions Slipping, Sizable Vacancy Increases Expected for 2009

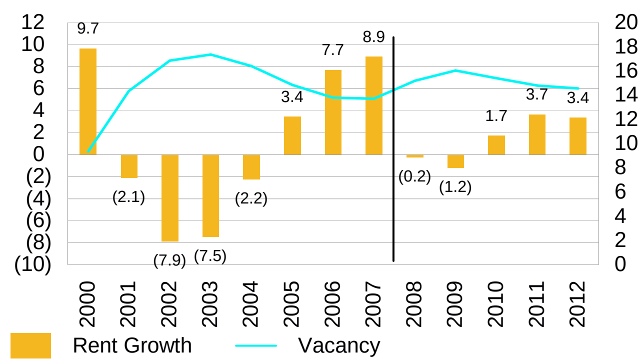
- The office outlook continues to deteriorate
  - Vacancies on the rise as absorption has dried up and sublease activity has increased
  - Headwinds to rental rate levels have increased as landlords begin to capitulate and cut rates
  - Weakness is likely to last through 2009 at the least given trends in office job growth

Office Market Fundamentals



Source TWR, PPR, RCG, Morgan Stanley calculations as of 2Q 2008

Office Market Fundamentals



Source TWR, PPR, RCG, Morgan Stanley calculations as of 2Q 2008

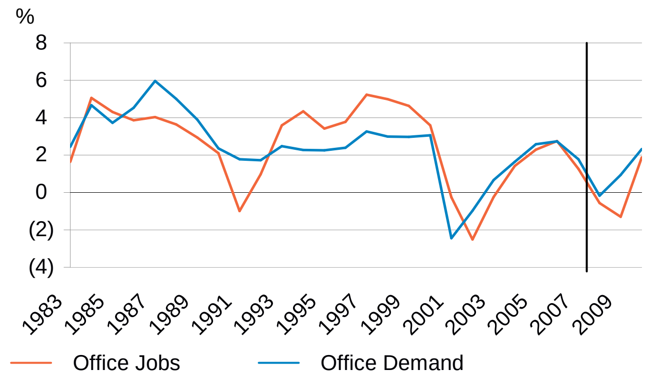
Vacancies for Major US Markets

	3Q 2007	3Q 2008		4Q 2009	
	%	%	Chng, bp	%	Chng, bp
New York	5.8	6.2	40	10.6	480
Boston	11.2	11.0	(20)	12.1	90
Washington, D	9.9	11.7	180	14.3	440
Atlanta	17.0	16.6	(40)	17.5	50
Dallas	21.8	20.3	(150)	20.2	(160)
Denver	14.2	15.6	140	20.2	600
Chicago	15.2	14.9	(30)	18.3	310
Los Angeles	9.8	11.7	190	13.8	400
San Francisco	9.6	9.7	10	11.9	230
Seattle	9.1	9.9	80	15.5	640
Nation	**12.5**	**13.4**	**90**	**16.4**	**390**

Source TWR, as of 3Q 2008

Review of Demand Driver

Office Job Growth vs. Absorption (as a % of Existing Demand)

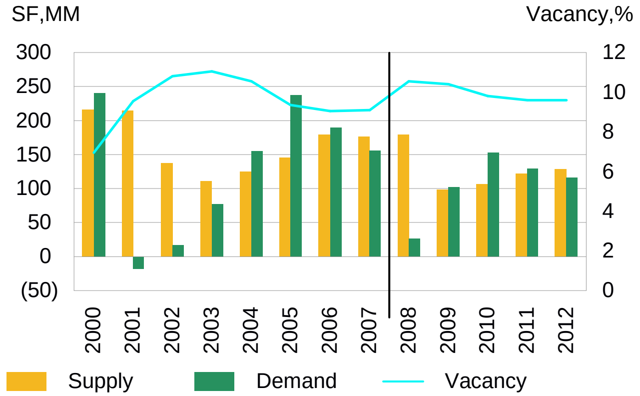


Source Moody's, PPR

Industrial Conditions Weakening, although More Stable than Other Sectors

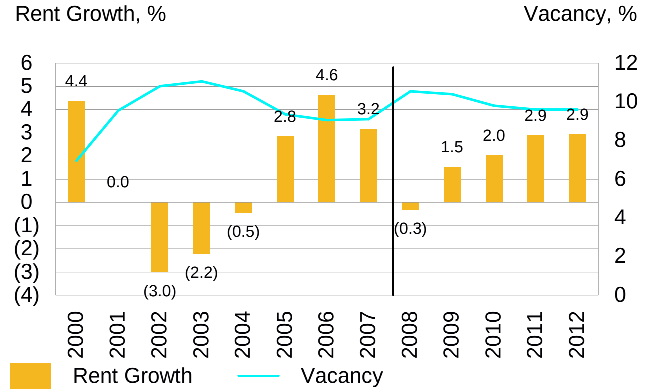
- Industrial property fundamentals are expected to weaken in the near-term
  - Demand for industrial is correlated with GDP growth, so the recession is anticipated to lead to weaker industrial conditions
  - Rent growth slowing, rents to fall
- Performance varies by market
  - Markets with high-supply or local recession face the largest headwinds

Industrial Market Fundamentals



Source TWR, PPR, RCG, Morgan Stanley calculations as of 2Q 2008

Industrial Market Fundamentals



Source TWR, PPR, RCG, Morgan Stanley calculations as of 2Q 2008

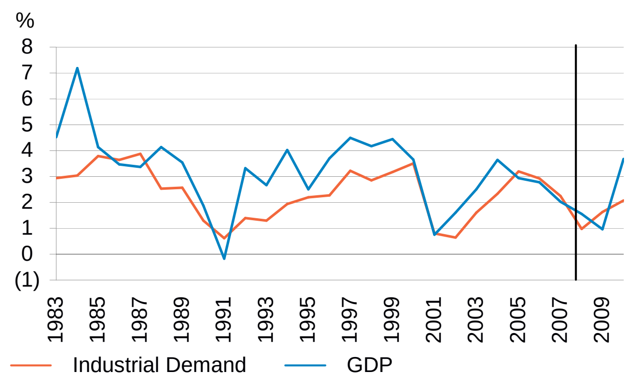
Vacancies by Major Markets

	3Q 2007	3Q 2008		4Q 2009	
	%	%	Chng, bp	%	Chng, bp
Los Angeles	4.6	5.4	80	5.5	10
Inland Empire	8.3	13.6	530	14.3	70
Oakland	10.0	10.7	70	10.6	(10)
Seattle	6.6	7.4	80	7.8	40
Chicago	10.3	12.0	170	13.5	150
Dallas	10.4	13.0	260	13.6	60
Houston	7.1	7.0	(10)	6.7	(30)
Atlanta	12.8	13.5	70	12.8	(70)
New Jersey	10.8	11.6	80	12.4	80
Nation	**9.3**	**10.7**	**140**	**11.1**	**40**

Source TWR, Morgan Stanley calculations as of 3Q 2008

Review of Demand Driver

Industrial Demand Growth vs. GDP Growth

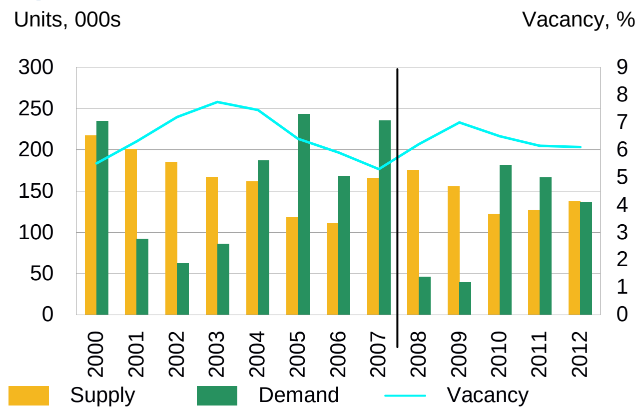


Source PPR, Moody's, Morgan Stanley calculations

Apartment Conditions Detail - Cyclical Headwinds Outweighing Demographics, for Now

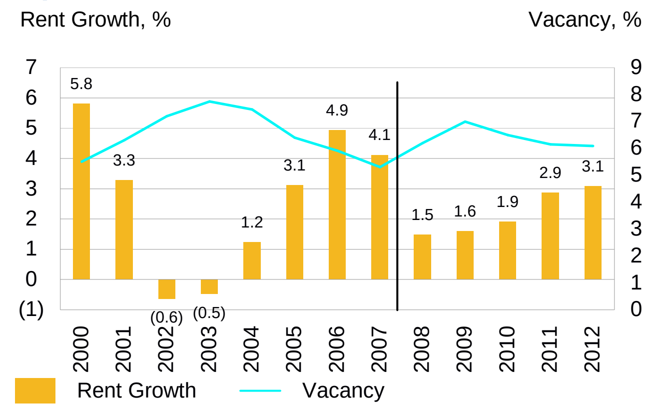
- Apartment conditions have been stable, although the recession increases risks
  - Weakness in job growth correlates to a downturn in absorption, irrespective of positive demographic trends
  - Consequently, vacancy rates are up from a year ago across many major US cities
  - Further, vacancies are expected to move markedly higher during the next year
- The near-term growth outlook is weak
  - Rent growth slowing sharply
  - Growth expectations have been revised lower throughout the year, and could continue to move lower as outlooks are updated

Apartment Market Fundamentals



Source TWR, PPR, RCG, Morgan Stanley calculations as of 2Q 2008

Apartment Market Fundamentals



Source TWR, PPR, RCG, Morgan Stanley calculations as of 2Q 2008

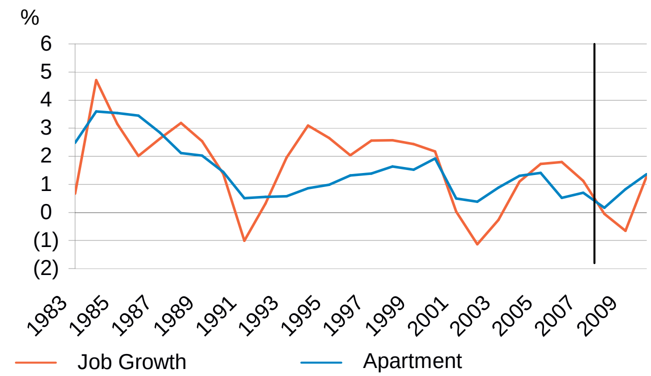
Vacancies for Major US Markets

	3Q 2007	3Q 2008		4Q 2009	
	%	%	Chng, bp	%	Chng, bp
New York	4.3	4.6	30	5.0	70
Boston	5.1	5.3	20	5.6	50
Washington, D	5.9	6.4	50	7.9	200
Atlanta	8.9	10.0	110	10.9	200
Dallas	7.2	7.7	50	9.3	210
Denver	6.4	6.0	(40)	8.0	160
Chicago	3.6	4.0	40	5.2	160
Los Angeles	4.9	6.2	130	7.5	260
San Francisco	4.4	4.4	0	5.0	60
Seattle	4.8	4.8	0	6.3	150
Nation	**5.8**	**6.6**	**80**	**7.9**	**210**

Source PPR, Morgan Stanley calculations as of 3Q 2008

Review of Demand Driver

Job Growth vs. Net Absorption (as a % of Existing Demand)



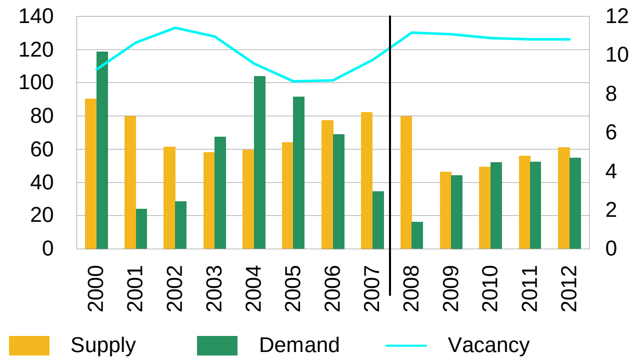
Source Moody's, PPR

Retail Conditions Detail - Accelerating Downturn of Consumers Leading to Retail Fundamentals Weakness

- Weakness in consumers has begun to affect retail properties
  - Vacancy has moved higher and rent growth is slowing
  - Sales have turned defensive, with an oorientation to grocery and discount retailers
  - Gas stations have experienced strong growth as well due to high gas prices
    –It is anticipated that the downturn in oil prices will reduce gas prices somewhat, and give consumers more latitude to allocate retail dollars elsewhere

Retail Market Fundamentals

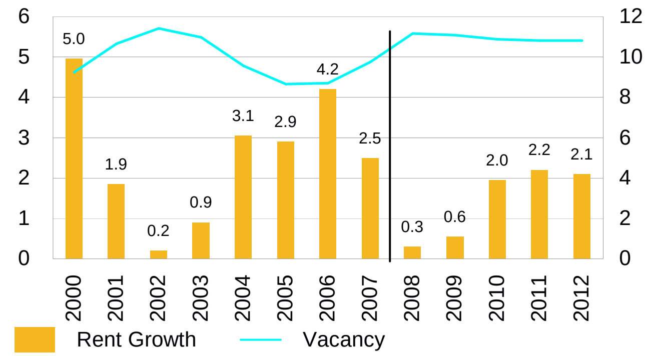
SF, MM Vacancy, %



Source TWR, PPR, RCG, Morgan Stanley calculations as of 2Q 2008

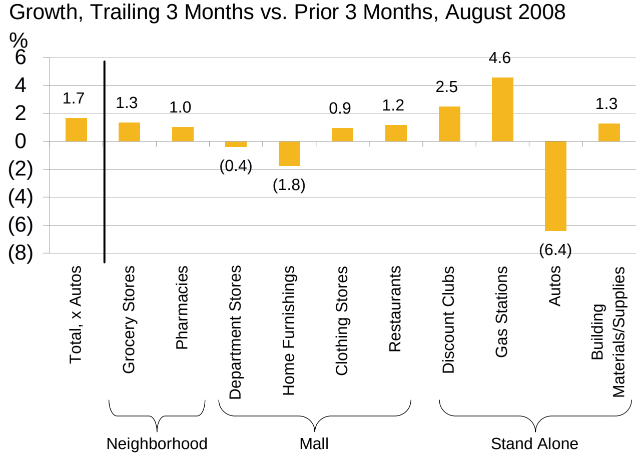
Retail Market Fundamentals

Rent Growth, % Vacancy, %



Retail Sales by Segment

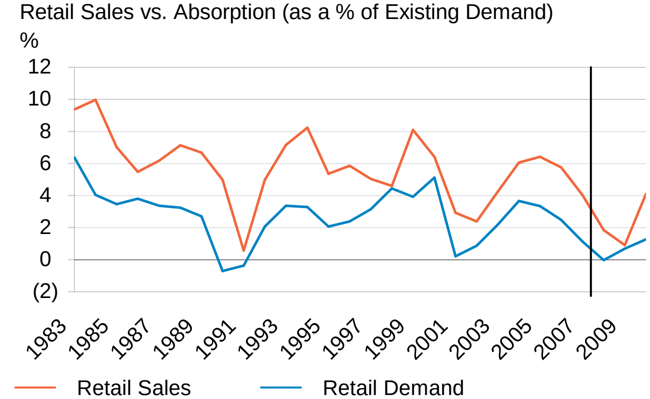
Growth, Trailing 3 Months vs. Prior 3 Months, August 2008



Source Moody's, as of August, 2008

Review of Demand Driver

Retail Sales vs. Absorption (as a % of Existing Demand)

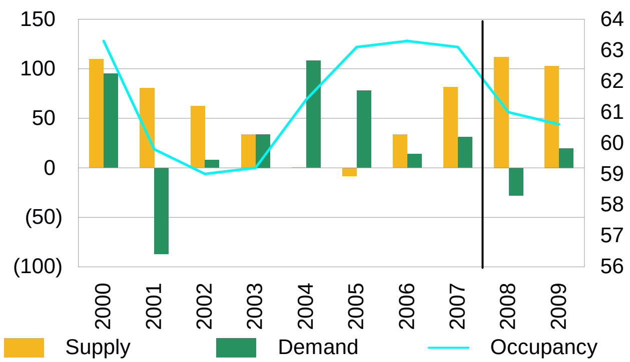


Source Moody's, PPR

Hotel Conditions Detail - Conditions Have Quickly Begun to Deteriorate

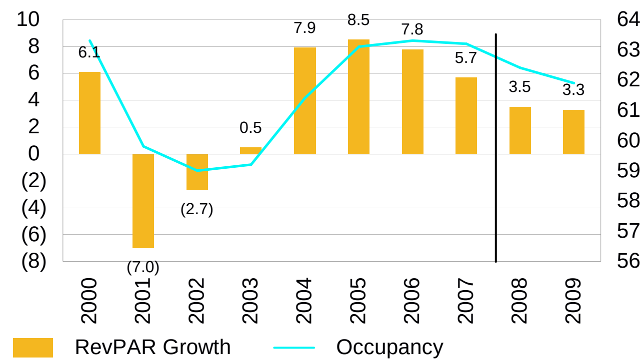
- Hotel conditions, which had been holding reasonably strong through this first part of the year, have begun to quickly deteriorate
  - New deliveries continue across the chain-scale spectrum
  - Weaker demand has led occupancies lower
  - RevPAR weak as a result
- Forward looking expectations had been reasonably optimistic, although have not yet been revised lower in recognition of headwinds to fundamentals[(1)]

Hotel Market Fundamentals

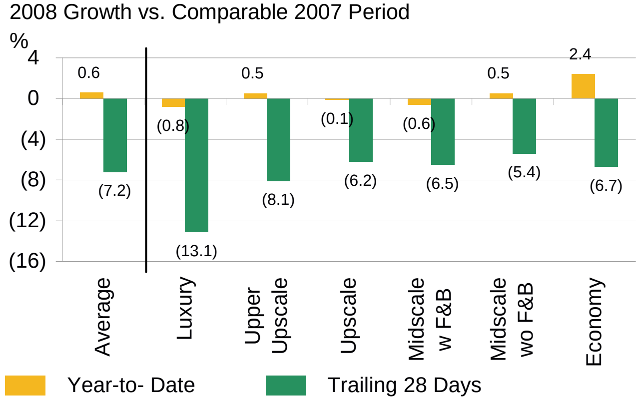


Source PwC as of September, 2008

Hotel Rate Details

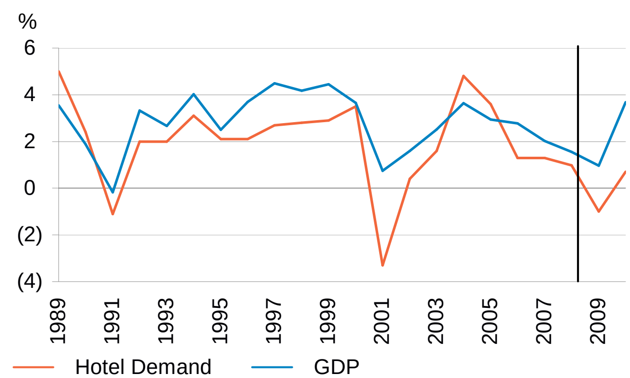


Recent RevPAR Performance by Chain Scale



Source Smith Travel Research, YTD through Sept, Trailing 28 through 1 Nov

Review of Demand Driver



Source PPR, Moody's, Morgan Stanley calculations

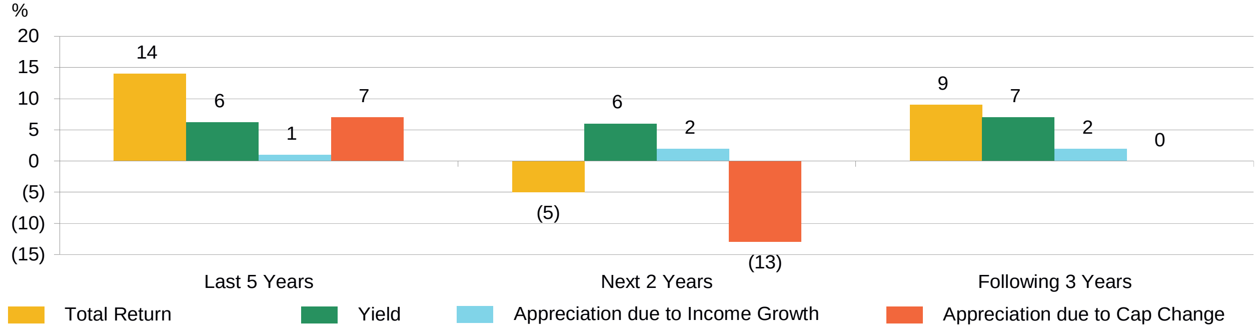
Notes
1. PwC Hospitality Directions, September 2008

Real Estate Performance Outlook

- Real Estate Values are under pressure
  - Real estate values are expected to fall +/-20% peak to trough
  - Capital markets distress and a period of excessive pricing is putting upward pressure on yields
  - Weakening economic growth is leading to a reduced outlook for cash flow growth
- Cap rates are forecast to rise 200bp peak to trough (i.e., rise from 5% to 7%)
  - Forecasting capital markets is especially uncertain with risks to the outlook
  - For example, as spreads revert, they could move through historical normal levels
- Performance will vary depending upon market, location, and asset quality

Annual Real Estate Return Performance by Attribute

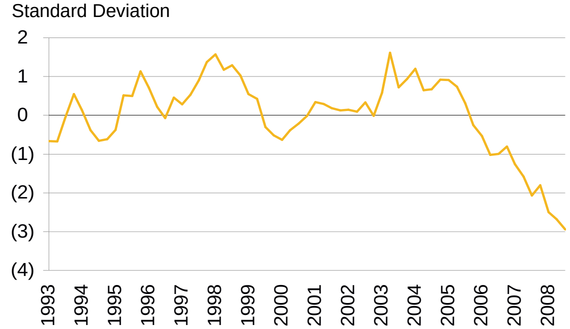
Stabilized Assets, Unleveraged



Source NCREIF, Morgan Stanley calculations

Real Estate Yield vs. Baa Corp. Bond Spread

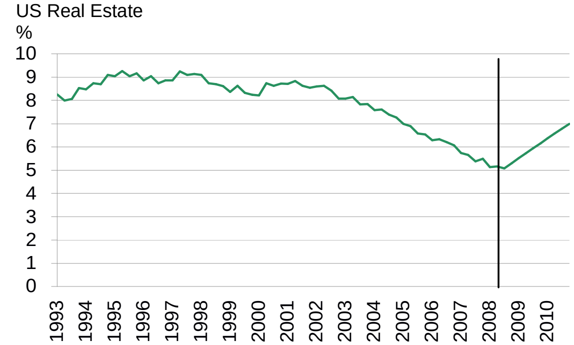
Spread, Re-Basised as Standard Deviation Event



Source Moody's, NCREIF, Morgan Stanley calculations

Cap Rate Forecast

US Real Estate



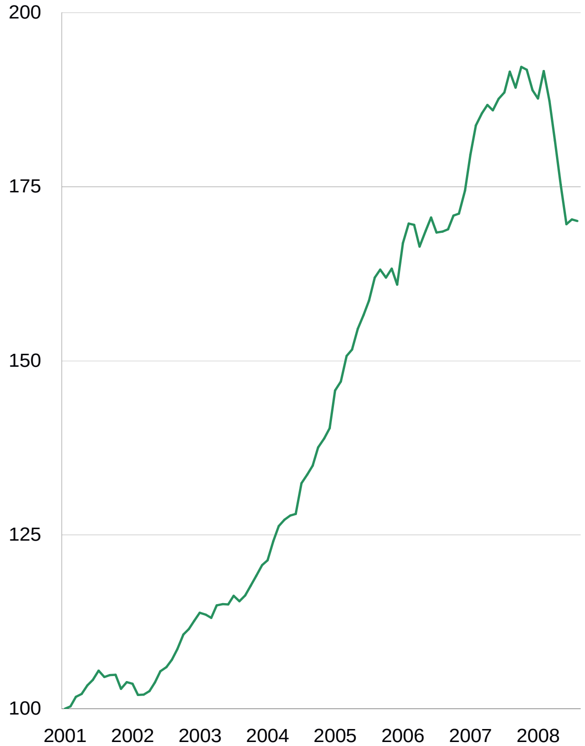
Source NCREIF, Morgan Stanley calculations

Commercial Pricing Expectations – Priced for a +/-20% Decline

- Market commentators are looking for a +/-20% price adjustment
  - Prices have already declined 12% through August according to Moody's Commercial Property Price Index (CPPI)

Commercial Property Price Index

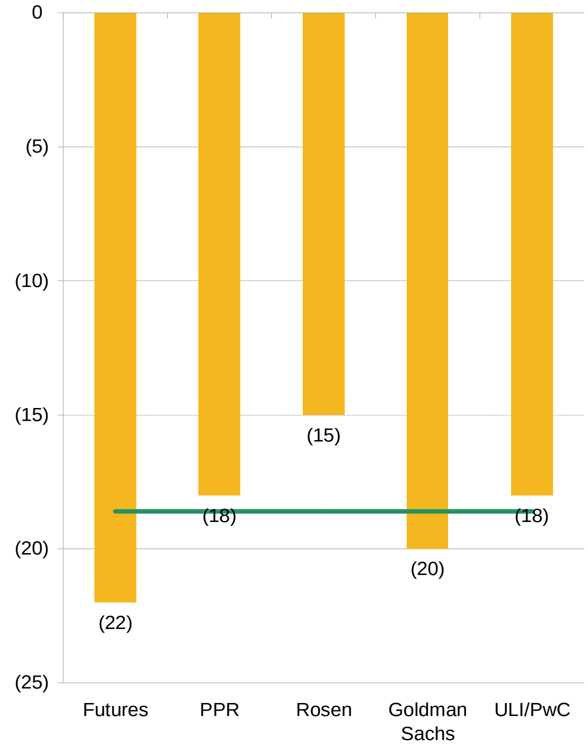
Repeat Sales Price Index
Index



Source Moody's, RCA, MIT

Commercial Real Estate Price Forecasts

Cumulative Price Decline by Forecast Group
%



Source Various sources as listed, Markit

JPM Estimate - Potential CRE Loan And Bond Losses Under Different Stress Scenarios

- $17Bn of Fixed Rate and $17Bn of Floating Rate securitized loans need to refinance in 2009, with limited visibility on capital markets
- Over $3.7Tr of total real estate debt outstanding, with $160-220Bn of potential losses depending on values

Commercial Real Estate Expected Losses

	Outstanding ($Bn)	Better Case Expected Loss (%)	Stress Case Expected Loss (%)	Better Case Expected Loss ($)	Stress Case Expected Loss ($)
Commercial Banks	1,463	3.5%	5.0%	51.2	73.2
Life Insurance Companies	313	3.5%	5.0%	11.0	15.7
Savings Institutions	230	3.5%	5.0%	8.1	11.5
GSEs and Federal-Related	314	3.5%	5.0%	11.0	15.7
Federal, State & Local Gov't	151	3.5%	5.0%	5.3	7.5
All Others	208	3.5%	5.0%	7.3	10.4
Fixed-Rate CMBS					
'06 / '07 Vintage	325	6.5%	7.75%	21.1	25.2
'05 Vintage	140	3.0%	4.0%	4.2	5.6
Other CMBS	300	2.0%	3.0%	6.0	9.0
Floating-Rate CMBS	25	5.0%	10.0%	1.3	2.5
Financial Sponsor Loans	120	10.0%	15.0%	12.0	18.0
CRE CDOs	**160**				
Repack / B-piece	50	-	-	-	-
Loan / B-note / Mezz	60	15.0%	20.0%	9.0	12.0
Synthetic	50	25.0%	30.0%	12.5	15.0
Total	**3,746**			**159.8**	**221.2**

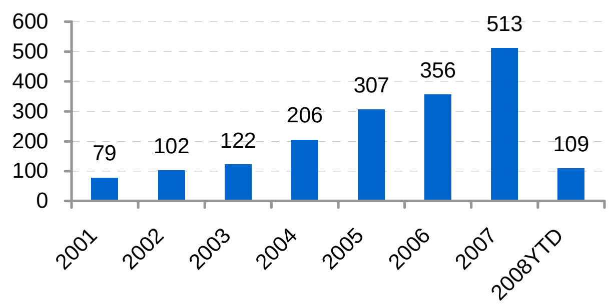
Source Flow of Funds Accounts, Federal Reserve Board of Governors, Commercial Mortgage Alert, J.P. Morgan

A Review of What Normal Levels May Be

- Normalized activity levels can be inferred from historical trends (looking at 2003 / 2004)
  - Annual transaction volume of roughly $150Bn
  - CMBS issuance of $75Bn
  - CMBS pricing of 33bp and 45bp over swaps for AAA and AA respectively
- FFO multiples, 2003/2004 average vs. current
  - Office: 10.8x vs. 12.8x
  - Malls: 10.6x vs. 8.8x
  - Apartment: 13.3x vs. 15.6x
  - Industrial: 12.3x vs. 11.3x

Annual U.S. Transaction Volume

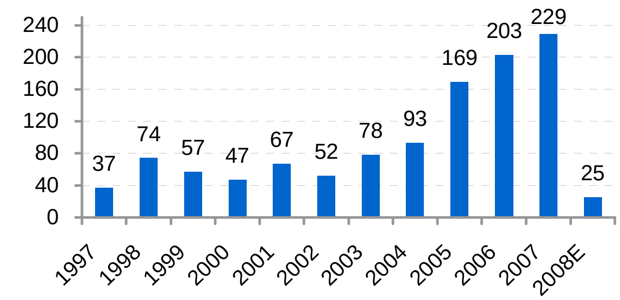
($Bn)



Source: RCA Analytics as of 24 September 2008

Annual U.S. CMBS Issuance Volume

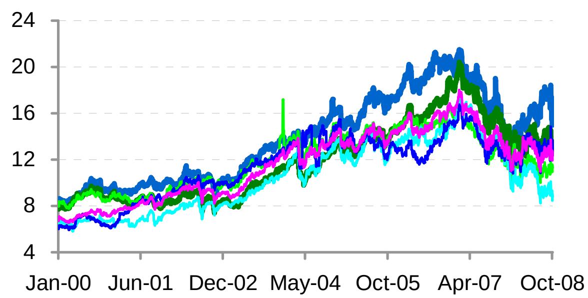
($Bn)



Source: Commercial Mortgage Alert

Historical FFO Multiples

(x)



Source: FactSet, as of Oct. 1, 2008

Cap Rate Averages

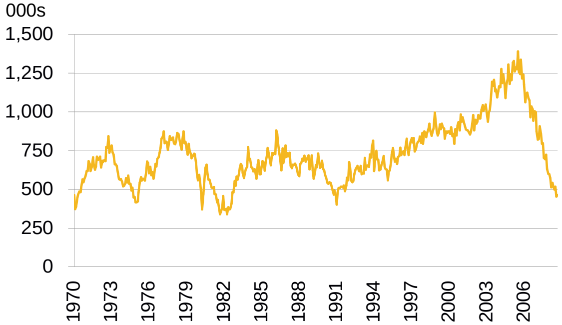
Office	7.0% – 7.5%
Retail	70% – 7.5%
Apartment	6.25% – 6.75%
Industrial	7.0% – 7.5%
Hotel (full srv)(3)	7.5% – 8.0%
Hotel (ltdl srv)(3)	8.5% – 9.0%

Housing Detail - Housing Remains in Distress, Market has not yet Found Bottom

- The US housing markets remain in recession
  - Sales volumes have not yet bottomed
  - The inventory of new homes for sale has begun to decline, although remains well above normal levels
  - The supply/demand balance, as measured by months of supply, remains near peak levels
- Prices remain under pressure
  - Prices have declined 20% in total
  - But, the pace of decline has slowed

New Home Sales

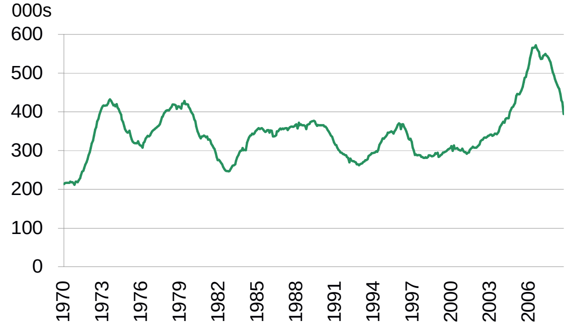
Seasonally Adjusted Annual Rate



Source The Census, Moody's

Inventory: New Homes for Sale

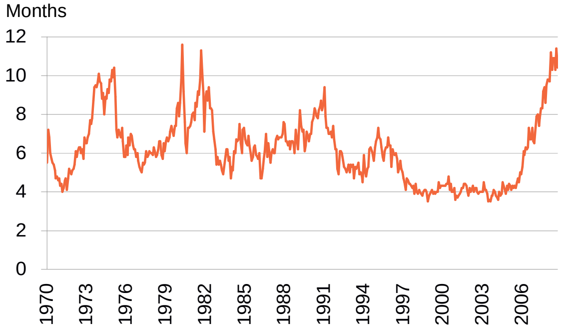
Seasonally Adjusted Annual Rate



Source The Census, Moody's

Months of Supply

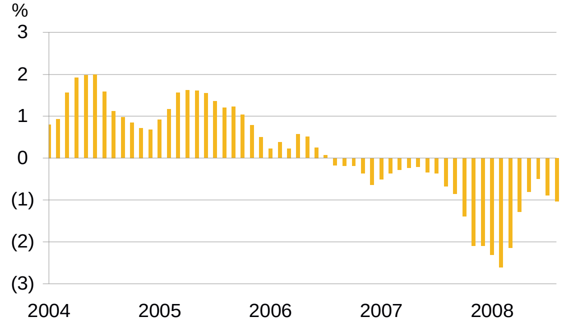
Seasonally Adjusted Annual Rate



Source The Census, Moody's

Home Price Appreciation

Monthly Change, Case Schiller 20 City Index



Source Case Schiller, Moody's

Rosen - Median Single Family Home Prices – Peak to Trough Declines in CA

- Rosen projections as of September 2008 indicate that bulk of price declines will occur in California in 2008, with exception of Bakersfield
- Projections likely to be revised again given recent market turmoil but thesis should remain that we are through the worst of the correction, at least in terms of pricing

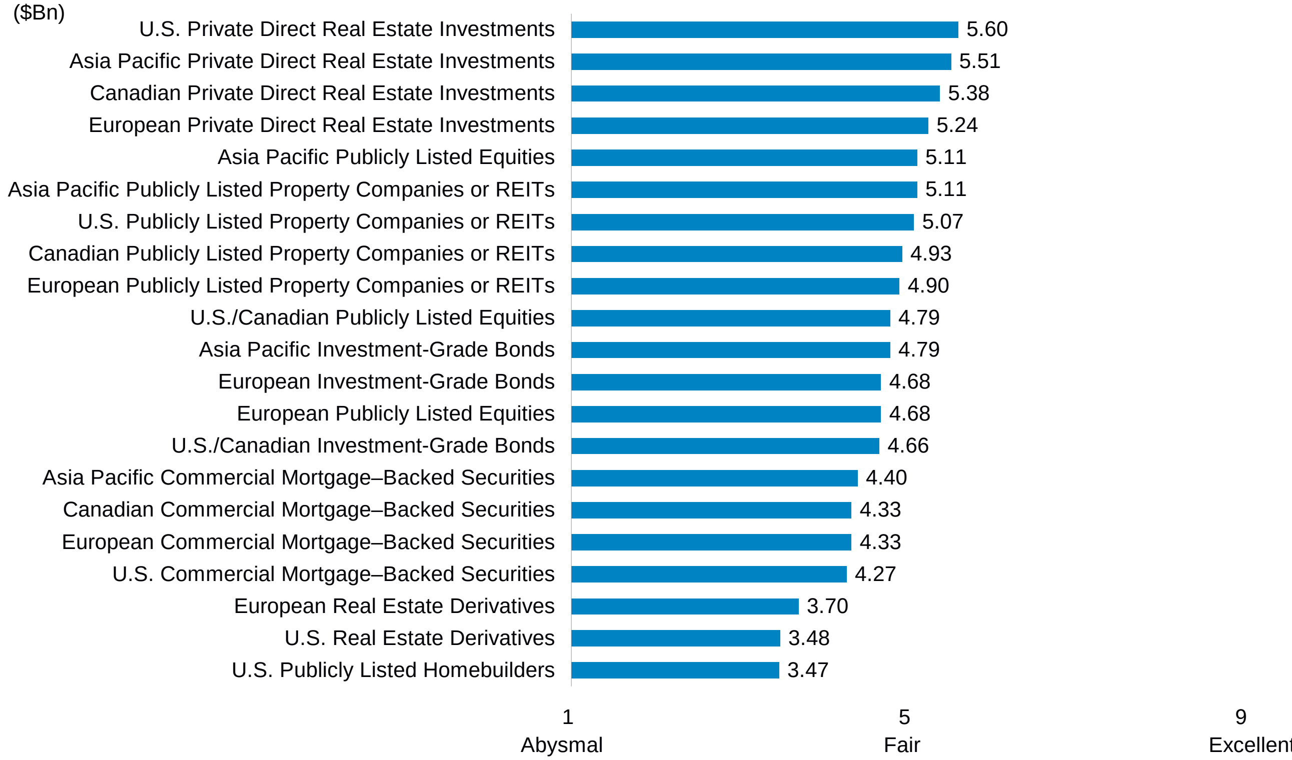
Median Single Family Home Prices
Peak to Trough

Metropolitan Area	% Change 2008f	% Change 2009f	Cumulative Peak to Trough
Stockton	-22.9%	-2.3%	-46.2%
Modesto	-25.2%	-3.9%	-46.1%
Bakersfield	-21.9%	-15.0%	-43.4%
Sacramento	-24.7%	-3.7%	-43.3%
Inland Empire	-25.0%	-6.6%	-41.6%
Vallejo	-13.7%	-4.5%	-39.6%
Salinas	-33.9%	-1.8%	-37.3%
Santa Barbara	-32.9%	-1.4%	-37.3%
Santa Rosa	-13.4%	-4.3%	-33.7%
San Diego	-18.3%	-4.5%	-32.8%
Fresno	-11.4%	-6.1%	-28.7%
Ventura	-22.1%	-0.2%	-28.0%
Los Angeles	-18.3%	0.7%	-27.9%
Orange County	-16.6%	-1.5%	-22.8%
San Jose	-13.9%	-6.7%	-19.6%
Oakland	-13.9%	-5.2%	-18.4%
San Francisco	-6.6%	-4.6%	-10.9%

ULI Emerging Trends Investment Outlook for 2009

Investment Prospects by Asset Class for 2009

($Bn)



Source: Emerging Trends in Real Estate 2009 survey