

The Outlook for Commercial Real Estate

December 4, 2008



WACHOVIA

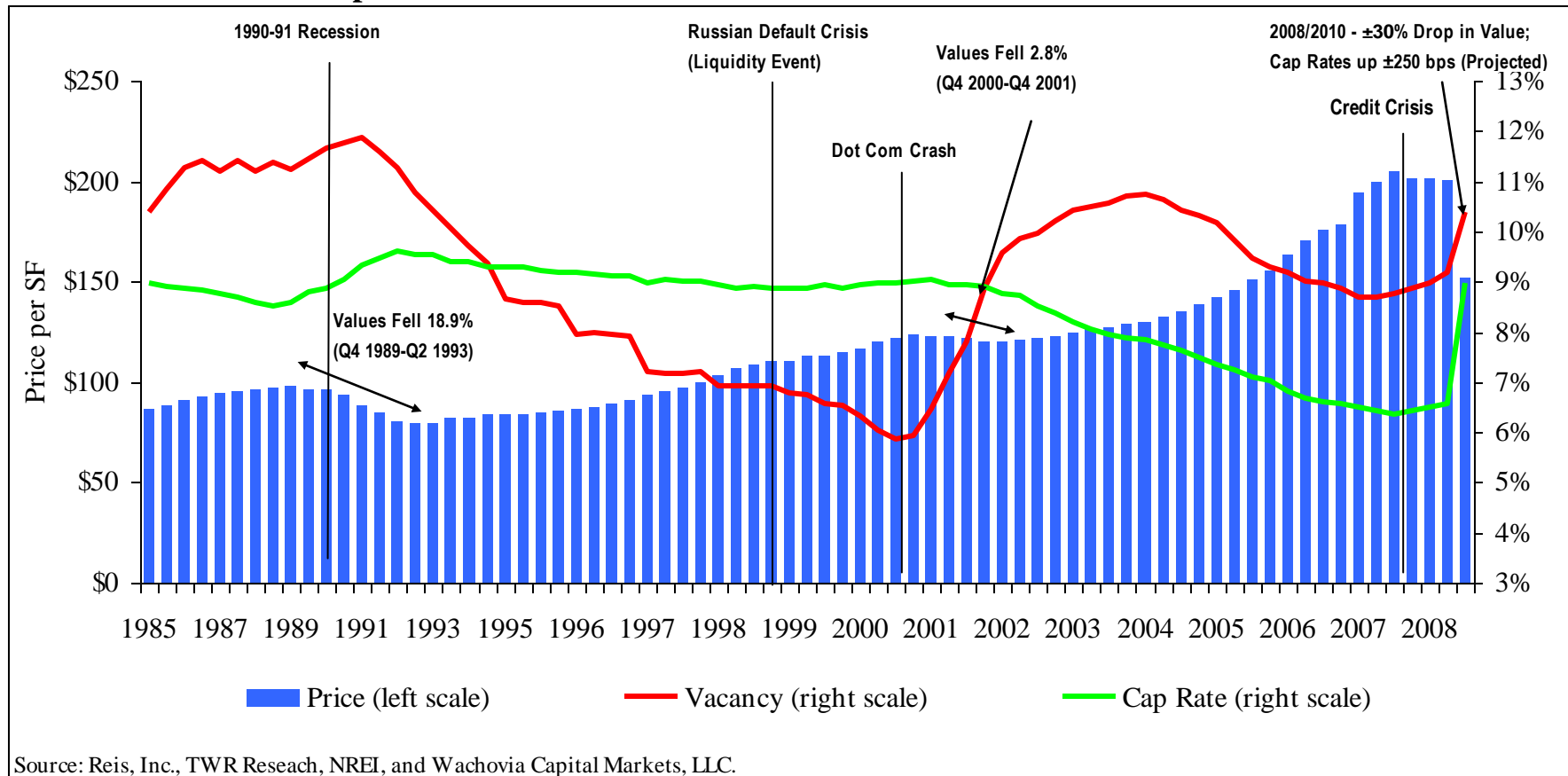
Brian P. Lancaster
Chief Investment Officer and Head of Portfolio Strategy
704-715-1864 brian.lancaster@wachovia.com

Please see the disclosure appendix of this publication for disclaimers

CRE Has Gone from a “Perfect Calm” to a “Perfect Storm”; Value Decline to Likely Surpass Early-1990’s Decline



CRE - Historical View Cap Rates & Fundamentals



- The commercial property market cycle has transitioned from a “perfect calm” (2004 to early 2007) with cap rates falling and fundamentals improving to a “perfect storm” with cap rates rising and fundamentals softening.
- **We expect prices per unit to fall roughly 30% peak to trough, which would eclipse the 18.9% decline in values experienced in the early-1990’s.**

CRE Summary –Lack of Take-Out Financing, Deteriorating Fundamentals Point to a 30% Decline Peak to Trough

Back of the Envelope – CMBS/Balance Sheet - REITs

<u>Method</u>	<u>Implied Change in Property Value</u>	<u>Incremental Change in Capitalization Rates</u>
	<u>Feb-07 to Current</u>	<u>Feb-07 to Current</u>
Back of the Envelope - CMBS/Balance Sheet Markets		
- Assume Same Return Requirement; Modify Lending Terms	(23%)	187 bps
- Increase Return Requirement 100 bps; Modify Lending Terms	(26%)	222 bps
- Assume Same Return Requirement; Modify Lending Terms; NOI down 5%	(26%)	232 bps
- Increase Return Requirement 100 bps; Modify Lending Terms; NOI down 5%	(29%)	269 bps
- Increase Return Requirement 100 bps; Modify Lending Terms; NOI down 7.5%	(31%)	294 bps
Back of the Envelope - CMBS/Balance Sheet Range	(30%)	± 225-275 bps
REIT Market		
- Apartments	(26%)	165 bps
- Office	(31%)	210 bps
- Retail	(43%)	442 bps
- Warehouse	(42%)	443 bps
- Hotels	(34%)	385 bps
Equity REITs	(30%)	244 bps
Wachovia's Forecast	(-27% - 32%)	± 225-275 bps

Source: Bloomberg LP, Wachovia Capital Markets, LLC estimates, Current as of 11/13/08

Few considerations:

- 1) Peak values in multifamily, office and hotels were likely skewed high by consolidation rumors and activity in early-2007
- 2) The high value was used for Feb-07 data; Q1 2007 average values were less

• We expect prices per unit to fall roughly 30% peak to trough with cap rates increasing 225-275 bps on average depending on the property type.

Property Fundamental Forecast – Decidedly Negative; Expect Negative NOI Growth in +90% Office & Retail Markets

Comparison of Forecast Results

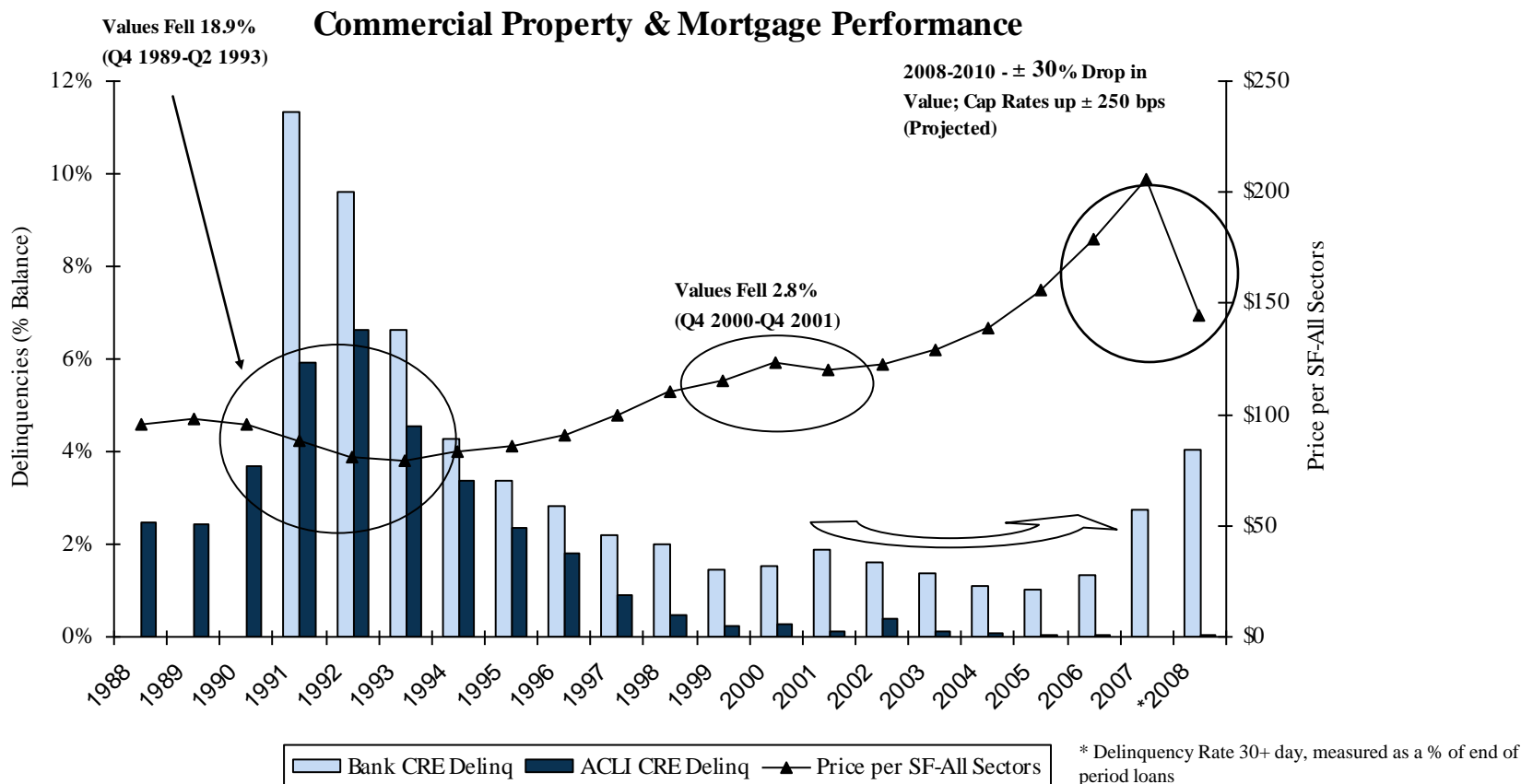
Sector	Previous Forecast (Q2 2007)				Current Forecast (Q2 2008)			
	Overall Rating	No. of Metros with Revenue			Overall Rating	No. of Metros with Revenue		
		Declining	Stable	Growing		Declining	Stable	Growing
Office	Growth	1	14	39	Decline	50	4	0
Retail (SC)	Growth	1	26	24	Decline	47	5	0
Apartment	Growth	1	19	34	Decline	23	31	0
* Industrial	Growth	4	12	27	Decline	43	7	0
Hotel	Growth	NA	NA	NA	Decline	NA	NA	NA
Totals		7	71	124		163	47	0

Source: Wachovia Capital Markets, LLC

* Note that we increased our Industrial coverage from 42 metros to 50 metros in Q4 2007.

- Overall, the number of markets with a forecast of positive near term revenue growth fell to 22% (Q2 2007) from 97% (Q2 2008), while the number of markets forecast for negative near-term revenue growth increased from 3% (Q2 2007) to 78% (Q2 2008).
- We expect **+90% of office and retail markets will experience negative annual effective revenue growth** through '09.
- Effective revenue will fall and vacancy will increase** more significantly (outside of the hotel sector) in the **Office, Industrial, and Retail sectors** with both expected to see vacancy increase by more than 100 bps by YE 2009.

Bank CRE Delinquencies Escalating; Delinquency Rate Likely to Exceed Early-1990's Levels

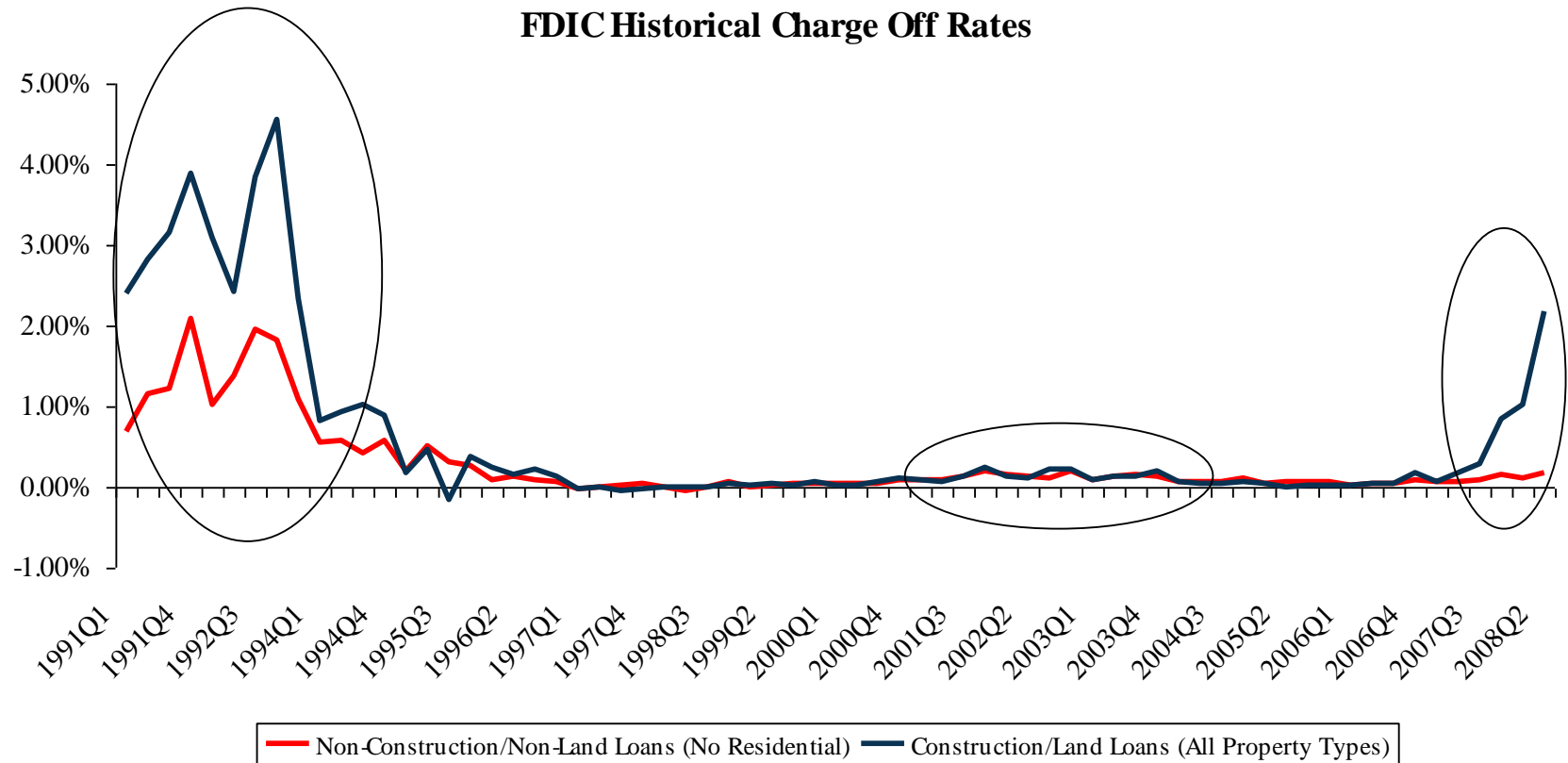


Source: Federal Reserve, ACLI, NREI, Real Capital Analytics, LLC, Wachovia Capital Markets, LLC

- Bank CRE delinquencies (4.03% as of Q2 2008) **have increased 47%, or over 125 bps since YE 2007**, and 291%, or 300 bps since YE 2005.
- We expect that going forward CRE property values will fall approximately 30% peak-to-trough through 2010, outpacing the 18.9% drop in values experienced in the early-1990's. **The drop in values will likely push delinquency rates to above 1990s levels.**

Real Estate Financial & Market Analysis: CRE Bank Charge-off Rates During Times of Stress

WACHOVIA

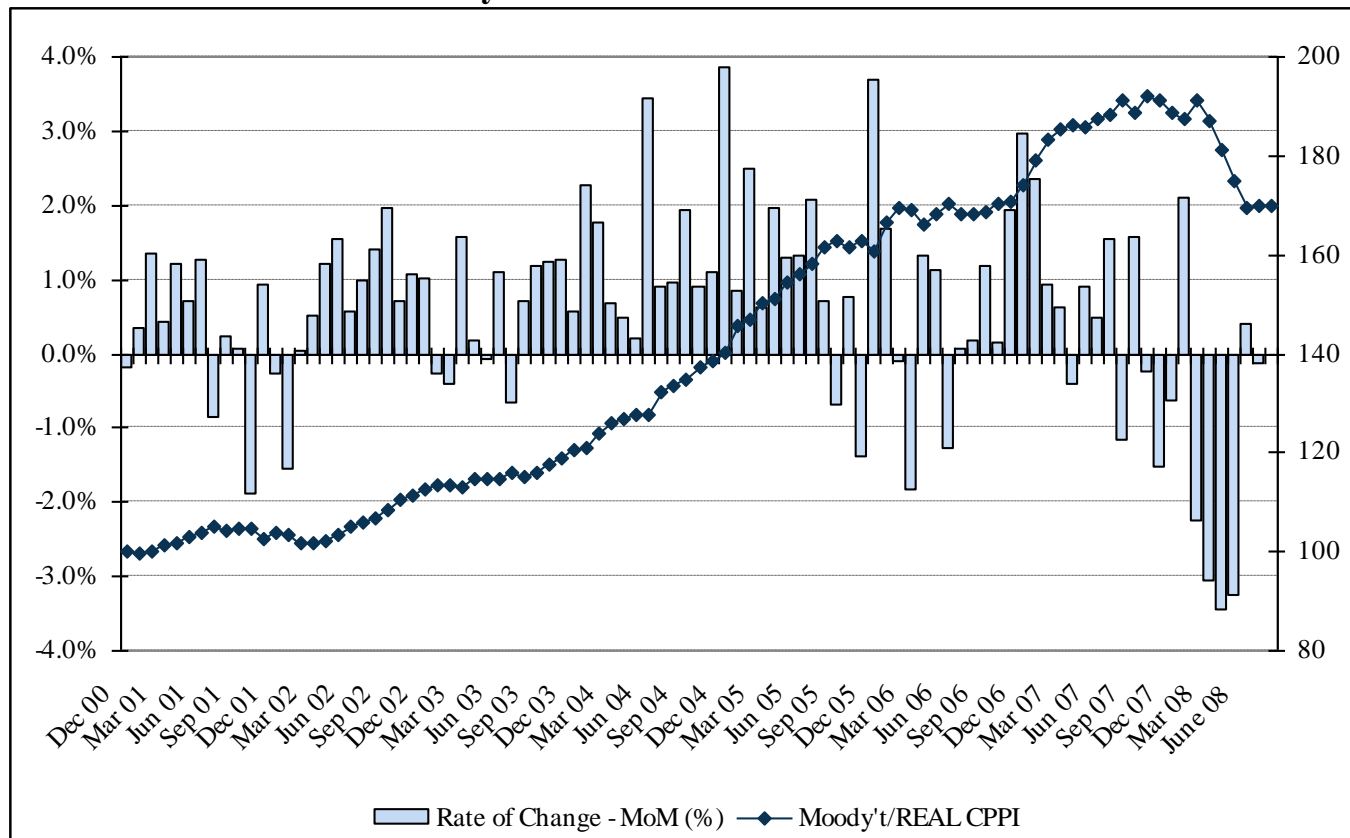


- Based on historical data for non-residential income property, the net annualized quarterly charge-off rate during the RTC period ranged between 1% and 2% for non-construction/non-land lending and between 3.5% and 4.5% for construction/land loans.

CRE Summary – Moody's/CPPI Index Down 11.5% from Peak; Continued Financing Restriction, Deteriorating Fundamentals Point to a $\pm 30\%$ Decline Peak to Trough

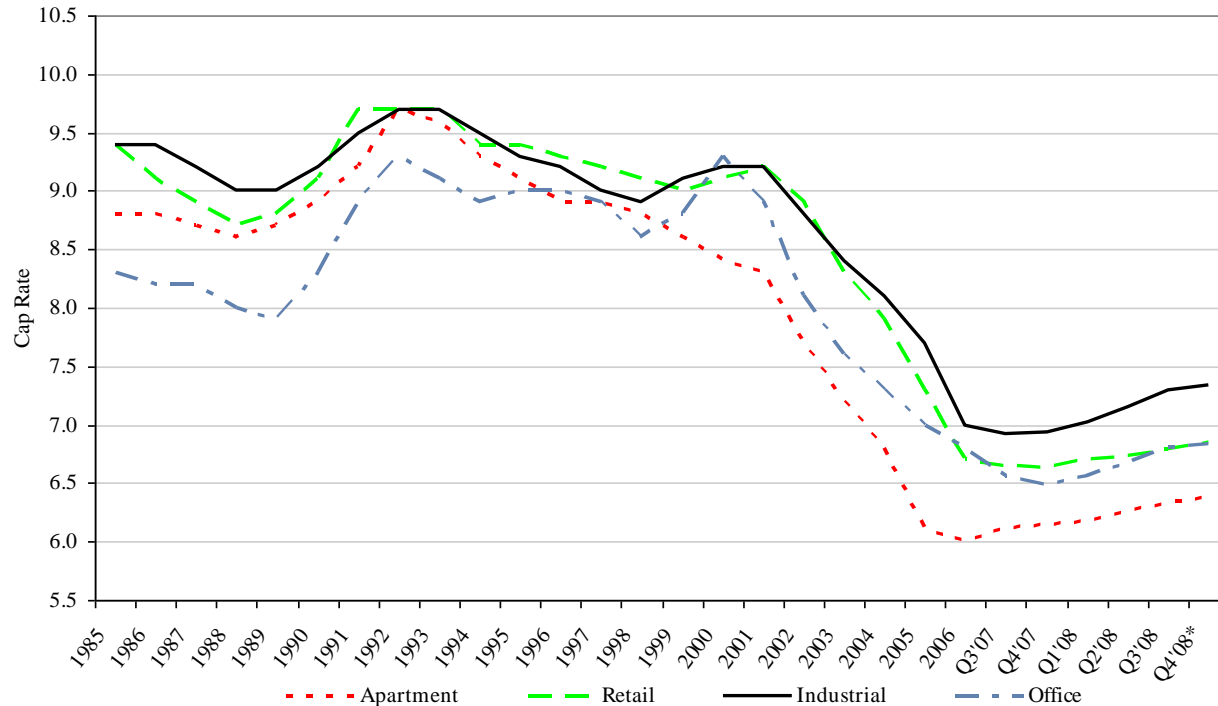


Moody's/CPPI - National Index



- At present CRE prices have only dropped about 11.5% since their peak according to the Moody's/CCPI index (same store sales) or about 1/3 of the way to their forecasted decline.
- The rate of change stabilized in July and August however we believe this to be a “headfake” and that it will reaccelerate downwards as the economy weakens and the fundamentals continue to deteriorate.

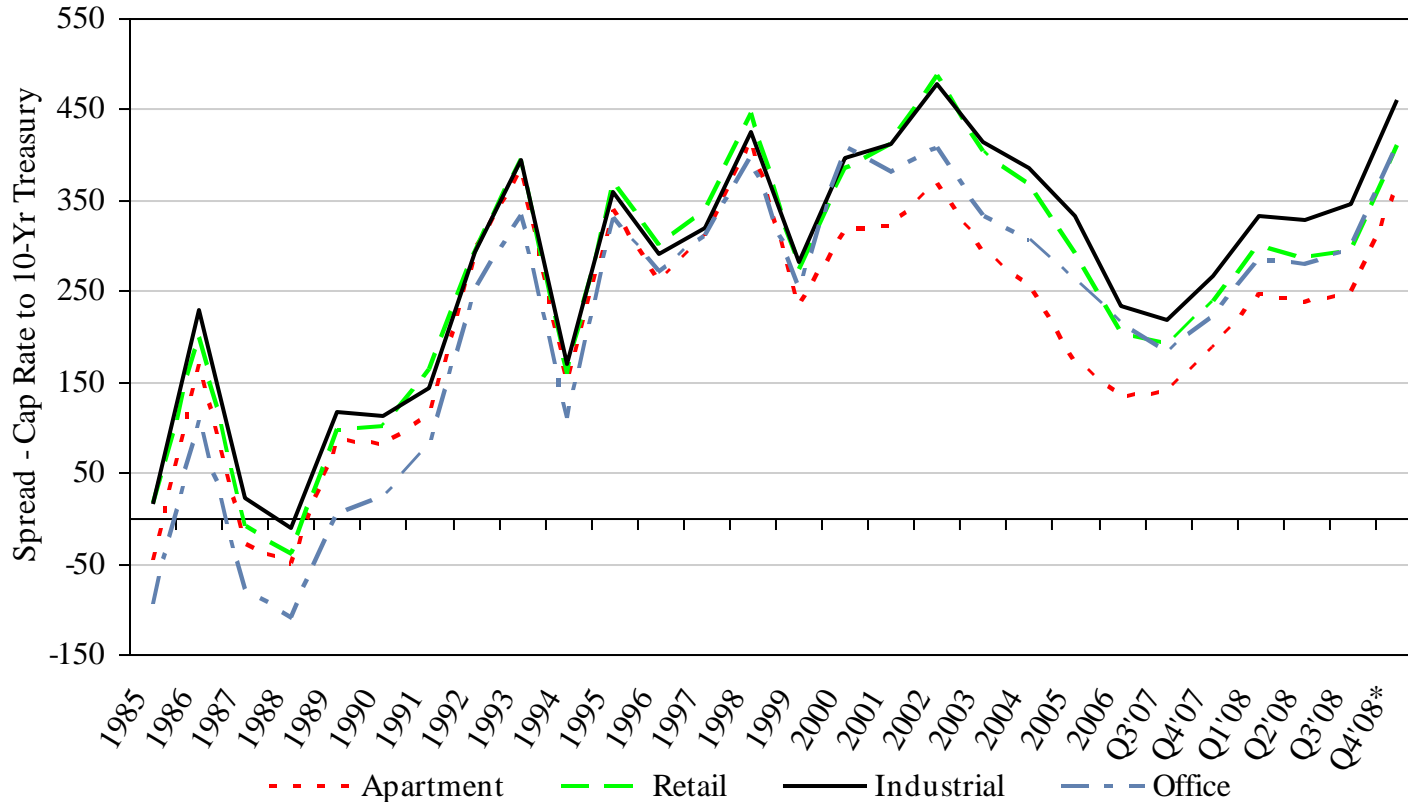
U.S. Cap Rate



Source: NREI, RCA, Wachovia Capital Markets, LLC.
 * 12-month moving average cap rate (through October 2008)

- Cap rates are escalating: one of the two key drivers of commercial real estate prices and credit performance.
- **Cap rates have moved moderately higher.** Office up 30-40 bps, Retail up 20-30 bps, Industrial up 30-40 bps, and Apartment up roughly 30-40 bps (apartment is up from 2006, all others from late-2007 levels).
- Cap rates will **increase more in secondary and tertiary markets**; less so in core, primary markets.

Risk Premium by Sector



Source: NREI, Global Insight, Real Capital Analytics, and Wachovia Capital Markets, LLC.

* Current 10-Yr Treasury (Dec 3); 12-month moving average cap rate

The Fed's announcement that it might buy long term Treasuries has caused Treasuries to rally significantly pushing CRE risk premiums at least to where they need to be

DISCLAIMERS

Prepared by Wachovia Capital Markets, LLC.

About Wachovia Capital Markets

WCM is a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the New York Stock Exchange, the Financial Industry Regulatory Authority and the Securities Investor Protection Corp. Wachovia Securities International Limited is a U.K. incorporated investment firm authorized and regulated by the Financial Services Authority.

Important Information for Non-U.S. Recipients

The securities and related financial instruments described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. For certain non-U.S. institutional readers (including readers in the EEA), this report is distributed by Wachovia Securities International Limited. For the purposes of Section 21 of the U.K. Financial Services and Markets Act 2000, this report has been approved by Wachovia Securities International Limited. This research is not intended for, and should not be relied on by, private customers. Please consult your Financial Advisor or the Wachovia Securities office in your area for additional information. U.S. residents are directed to wachovia.com for investment and related services. For Wachovia Securities International Limited's policy for managing conflicts of interest in connection with research, please go to www.wachoviaresearch.com/conflicts

Important Information for Japanese Recipients

This material is distributed in Japan by Wachovia Securities (Japan) Co., Ltd., a foreign securities company registered with the Financial Services Agency in Japan.

Important Information for Australian Recipients

WCM is exempt from the requirements to hold an Australian financial services license in respect of the financial services it provides to wholesale clients in Australia. WCM is a registered broker-dealer registered with the U.S. Securities and Exchange Commission, a member of the New York Stock Exchange, the National Association of Securities Dealers, Inc. and the Securities Investor Protection Corp. WCM is regulated under U.S. laws which differ from Australian laws. Any offer or documentation provided to you by WCM in the course of providing the financial services will be prepared in accordance with the laws of the United States and not Australian laws.

Important Disclosures Relating to Conflicts of Interest and Potential Conflicts of Interest

WCM may sell or buy the subject securities to/from customers on a principal basis or act as a liquidity provider in such securities.

This report is for your information only and is not an offer to sell, or a solicitation of an offer to buy, the securities or instruments named or described in this report. Interested parties are advised to contact the entity with which they deal, or the entity that provided this report to them, if they desire further information. The information in this report has been obtained or derived from sources believed by Wachovia Capital Markets, LLC, to be reliable, but Wachovia Capital Markets, LLC, does not represent that this information is accurate or complete. Any opinions, estimates or forward looking statements contained in this report represent the judgment of Wachovia Capital Markets, LLC, at this time, and are subject to change without notice. Performance analysis is based on certain assumptions with respect to significant factors that may prove not to be as assumed. You should understand the assumptions and evaluate whether they are appropriate for your purposes. Performance results are often based on mathematical models that use inputs to calculate results. As with all models, results may vary significantly depending upon the value of the inputs given. Models used in any analysis may be proprietary making the results difficult for any third party to reproduce. The securities referenced herein are more fully described in offering documents prepared by the issuers, which you are strongly urged to request and review. Wachovia Capital Markets, LLC, and its affiliates may from time to time provide advice with respect to, acquire, hold, or sell a position in, the securities or instruments named or described in this report. If you are subject to ERISA, this report is being furnished on the condition that it will not form a primary basis for any investment decision. For the purposes of the U.K. Financial Services Authority's rules, this report constitutes impartial investment research. Each of Wachovia Capital Markets, LLC, and Wachovia Securities International Limited is a separate legal entity and distinct from affiliated banks. Copyright © 2008 Wachovia Capital Markets, LLC.

SECURITIES: NOT FDIC-INSURED * NOT BANK-GUARANTEED * MAY LOSE VALUE