

Daniel Lawrence  
Ernst & Young Global PR  
+44 (0)20 7980 0504  
daniel.lawrence@uk.ey.com

Andrew Neilly  
Gallen/Neilly PR  
+1 925 930 9848  
andrew@gallen.com

## **Ernst & Young Global Real Estate Center Offers Outlook for 2008**

*NEW YORK, 28 JANUARY 2008* – In the wake of last year’s dramatic dislocation of global credit markets and the ongoing deterioration of mortgage markets in the US and abroad, Ernst & Young’s Global Real Estate Center today announced highlights from its soon to be released Global Real Estate Market Outlook 2008. “The distress facing many in the US residential and commercial real estate market is very market-specific; some markets remain strong, while others have weakened,” said Dale Anne Reiss, Global Real Estate Director for Ernst & Young. “The situation isn’t likely to ease in 2008 and, with the lack of available financing and the specter of recession in the US, we expect real estate market conditions both here and abroad to be difficult through this year.”

The Outlook offers key global trends in real estate and offers insight into how these trends might impact real estate development, investment, financing and use in the year ahead. Top ten trend highlights include:

**Expansion of Global Capital:** With many US investors still on the sidelines following the credit market dislocation in August 2007, foreign buyers are likely to step into the vacuum for commercial assets and will continue to do so – especially in ‘gateway’ US markets such as New York, Washington DC, Miami, Chicago, San Francisco, Los Angeles, and other coastal markets.

**Growth in Infrastructure Investment:** According to Ernst & Young polling research, the credit crunch has had little discernible impact so far on the fledgling infrastructure investment sector and, in fact, many think it will spur greater investment in infrastructure because of the attraction of stable cash flows. This is especially likely in the US where most states are bracing for further revenue declines in 2008 and 2009 as a result of the housing downturn.

**Housing Markets: More Pain to Come in the US and Abroad:** What started as a problem in the relatively small subprime mortgage market has spread quickly to affect housing markets in the US and abroad, demonstrating just how inter-connected real estate around the world has become. Although no one knows the magnitude of the housing and subprime problem, defaults and foreclosures in the US are likely to continue well into 2008 – when adjustments on ARM and other variable rate mortgages peak. When the residential markets do eventually recover, the landscape of the housing market is likely to look very different.

**Commercial Loan Delinquencies and Defaults Anticipated:** Our analysis suggests the likelihood of increasing loan delinquencies and defaults in the commercial sector in 2008. There are upwards of \$50 billion in loans still in the Commercial Mortgage Backed Securities pipeline following August’s bombshell, and it remains to be seen how many of those deals will stay in place. It will be important

for lenders to “stress test” their loan portfolios, enhance their underwriting practices and come to grips with their risk.

**Pain in Residential Land Development Business Triggers Opportunity:** While homebuilders and land developers look set to suffer through 2008 while the housing sector works through its deep-seated problems, knowledgeable, patient investors holding cash are likely to find a few bargains, especially in residential land and lots they can hold for the recovery. And, with interest rates once more nearing historic lows, and credit markets likely to ease in the mid-term, even land purchases are likely to be more readily financeable for borrowers with good credit.

**Sovereign Investment Funding to Surge:** Sovereign funds investing on behalf of national governments are rising rapidly with investments that may soon surpass private equity funding. Sovereign acquisitions are likely to range from luxury properties in major markets such as New York and San Francisco, to distressed US assets and emerging market properties.

**Spreading the Investment Wealth Through Global REITs:** The rate of growth in REIT markets is growing stronger and will continue on a global level through 2008. While the pace of privatization is slowing down in the US, a global privatization wave is showing strength in more mature global markets.

**Private Equity Goes Global:** New waves of private equity capital will continue to spread around the world as institutional investors and larger real estate operators enter into global joint ventures involving collaboration to invest in countries or entire regions. And private equity funds are carefully watching for distressed property acquisitions.

**Water – The Oil of the 21st Century:** With growing concerns about adequate water supplies, countries and municipalities are looking to better leverage their resources and take advantage of private sector expertise and efficiencies. Significant privatization of water supplies and water treatment systems are becoming a trend globally and are likely to be followed by sanitation system privatization.

**New, Significant Regulations Ahead:** The real estate industry should pay close attention to several major regulatory developments that will impact accounting and financial reporting. Impacting real estate transactions, two new accounting standards will come into force in 2008 that focus on how assets are booked. These new rules change the use of fair value accounting and shake up the very concept of “fair value.” Even more daunting for US companies will be International Financial Reporting Standards, which are standard in Europe but under consideration by the US Securities and Exchange Commission to potentially replace Generally Accepted Accounting Principles.

“The real estate appetites of private equity funds and sovereign governments combined with broader, global real estate dynamics could help guide the market out of this gray period,” said Reiss.

*-ends-*

### ***About Ernst & Young***

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 130,000 people are united by our shared values and an unwavering commitment to quality. For more information, please visit [www.ey.com](http://www.ey.com).

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients.

This news release has been issued by EYGM Limited, a member of the global Ernst & Young organization that also does not provide any services to clients.