

# US Commercial Real Estate

## Capturing a Once-in-a-Generation Opportunity

APRIL 2010

- The global financial crisis has led to severe dislocations in commercial real estate. Although the US economy is recovering, unemployment remains high and commercial real estate fundamentals remain under pressure.
- A flood of real estate loans will reach maturity in the coming years, with limited funds available for refinancing. Even in a stronger economy, many of these loans will likely prove to be unviable in the longer term.
- The refinancing needs will offer investors a once-in-a-generation opportunity to enter the commercial real estate market at attractive valuations.



# Introduction

While the origins of the recent credit crisis lie in the US residential subprime mortgage market, commercial real estate has not been spared. After some of the strongest years ever seen in commercial real estate—characterized by falling vacancy rates and rising rents and property values—the sector is still in the midst of one of its severest downturns on record.

US commercial property values have dropped approximately 40% from their peaks on average (*Display 1*), and in select cases by significantly more. Rents are falling across all property types, contributing to downward pressure on asset values and depressing cash flows. These deteriorating fundamentals are severely impacting a broad range of property owners, many of whom purchased assets in the boom years based on aggressive assumptions about the outlook for rent increases and leasing demand, while employing high leverage.

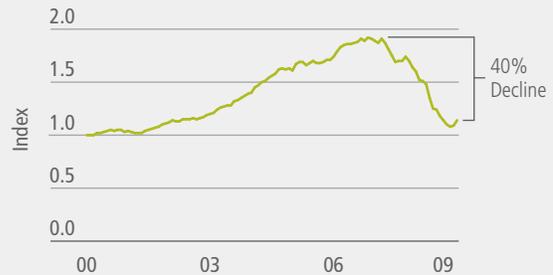
In early 2010, the sector is showing some signs of stabilization. Access to equity and debt capital is improving, and broad price indices suggest that commercial real estate prices may have bottomed in late 2009. However, commercial real estate fundamentals remain highly uneven, and the prices of many distressed properties continue to fall.

Furthermore, due to unprecedented amounts of financing issued in the 2005–2007 period, a flood of commercial real estate loans—including securitizations and direct loans by banks and insurers—will reach maturity in the coming three years (*Display 2*). Many of these loans were underwritten based on optimistic rent assumptions that are unlikely to materialize even in a stronger economy. As a result, and given the deterioration in property values since these loans were issued, many owners will be unable to refinance their debts and may be forced to relinquish assets to lenders.

These dislocations are creating significant investment opportunities across the capital structure. AllianceBernstein offers a diverse range of solutions to take advantage of these opportunities according to the investment horizon and the required risk/return and liquidity needs of the investor.

Display 1

## US Commercial Real Estate Property Index\*



Through December 31, 2009

\*Moody's/REAL Commercial Property Price Index  
Historical analysis is not a guarantee of future results. Individuals cannot invest in an index.

Source: Moody's Investors Service

Display 2

## Estimated Value of Maturing Commercial Real Estate Loans



As of September 28, 2009

\*Commercial mortgage-backed securities  
Estimates are subject to change.

Source: American Council of Life Insurers, Federal Reserve and Wells Fargo Securities

# Why Invest in Commercial Real Estate?

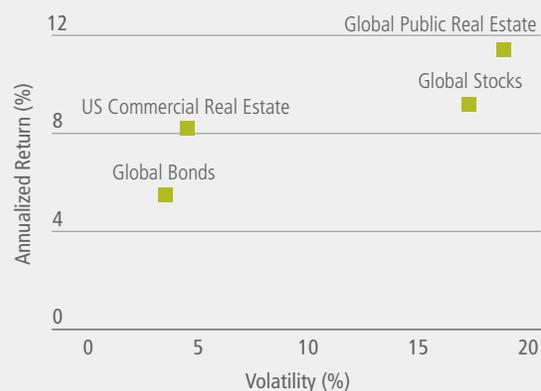
Compared with other asset classes, commercial real estate offers investors some attractive benefits. In addition to potential capital appreciation, real estate provides strong income potential. This income can act as a useful hedge against inflation in the longer term, since, over time, rents tend to adjust to nominal price levels. For example, certain properties have rents that are regularly adjusted to reflect movements in broad price measures such as the consumer price index (CPI). In many retail properties, a component of the rent is tied to tenant sales, which also affords some protection against the risk of inflation.

Furthermore, commercial real estate has delivered competitive long-term returns. Globally, publicly traded real estate equities—which include real estate investment trusts (REITs)—have outperformed stocks over the past three decades, albeit with slightly higher volatility. And in the private markets, US commercial real estate has delivered average annualized returns of more than 8%, with observed volatility similar to that of bonds (*Display 3*).

Finally, real estate offers some compelling diversification benefits for stock and bond investors. It is little surprise that the decline in property prices was highly correlated with price declines in many other asset classes in 2008—the peak of the global credit crisis—as investors fled en masse from risk and embraced the safety of government bonds. But over longer time periods, US commercial real estate returns have displayed low correlations with diversified bond portfolios, and less than perfect correlations with returns on stocks, acting as a useful source of portfolio diversification (*Display 4*).

Display 3

## Long-Term Characteristics: Risk and Return



Data are from January 1, 1980, through December 31, 2008, except for MSCI World, which starts January 1, 1985, and global bonds, which starts January 1, 1990.

US commercial real estate is represented by the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index; global bonds represented by Barclays Capital Global Aggregate Bond Index; global stocks represented by MSCI World Index. Global real estate index is Bernstein Research database, cap-weighted return from January 1, 1980, to February 28, 2005, and FTSE EPRA/NAREIT Developed Index thereafter. All global indices are hedged into US dollars.

Past performance is not a guarantee of future results. Individuals cannot invest directly in an index.

Source: Barclays Capital, FTSE, MSCI, NCREIF and AllianceBernstein

Display 4

### US Commercial Real Estate\* Correlations

January 1, 1980–December 31, 2009



Global bonds are represented by Barclays Capital Global Aggregate Bond Index; data from January 1, 1990. MSCI World Index is hedged into US dollars and is from January 1, 1985.

Global real estate index is Bernstein Research database, cap-weighted return from January 1, 1980, to February 28, 2005, and FTSE EPRA/NAREIT Developed Index thereafter (hedged).

\*Uses the NCREIF Property Index, which measures the performance of a large pool of individual commercial real estate properties acquired in the US private market. NCREIF data are pushed forward by one year to allow for appraisal lags in the private market.

Past performance is not a guarantee of future results. Individuals cannot invest directly in an index.

Diversification does not eliminate the risk of loss.

Source: Barclays Capital, FTSE, MSCI, NCREIF and AllianceBernstein

Display 5

### Major Real Estate Investment Strategies



For illustrative purposes only  
Source: AllianceBernstein

### How to Access the Opportunity

The commercial real estate sector has been of broad interest to investors since the mid-1970s, when US pension funds were mandated to diversify their investments under the Employee Retirement Income Security Act (ERISA). Four main property types represent the majority of the commercial real estate market: office buildings, retail properties (such as shopping malls), apartments and industrial properties.

A variety of investment strategies in commercial real estate have evolved over the years to meet the risk/return preferences of different classes of investors (*Display 5*). The most conservative of these strategies is referred to as “core”—characterized by the ownership of high-quality properties that provide stable and predictable cash flows and income. The use of leverage in such strategies is generally limited, while the majority of the return component of core real estate is income, which generally makes up two-thirds or more of the total return.

Further along the risk/return spectrum, “value added” strategies aim to outperform core strategies by purchasing properties in need of improvement or repositioning, with the goal of adding value and therefore raising the potential for capital appreciation. Value-added strategies can include the redevelopment of a building or part of a building, re-tenanting to improve tenant quality, or the addition of square footage to an existing property. Value-added strategies often use moderate amounts of leverage to enhance returns.

Occupying the highest position in the risk/return spectrum, “opportunistic” strategies seek to generate capital gains by buying properties that are often distressed, but may have an unrecognized value that can be unlocked over time. Opportunistic private equity funds first emerged in the late 1980s and early 1990s as the Resolution Trust Company (RTC) seized the assets of failing US financial institutions and resold many of these firms’ distressed loans to institutional investors. Opportunistic funds often use leverage to actively enhance returns, while their strategies can include real estate repositioning and taking control of distressed situations such as non-cash-flow-generating assets.

One of the biggest challenges of investing in real estate is that unlike stocks or bonds, real properties are not liquid investments and diversification can be difficult to achieve. For this reason, the primary suppliers of capital in the sector have traditionally been large institutional players such as lenders and insurance companies. But with the advent of securitization, a variety of investment instruments and strategies have evolved over the years to meet the varying risk and return requirements of a broader base of investor types. In accordance with these needs, the investment horizon, and individual investors' desire for liquidity, investors today can choose between four broad means of accessing the market: public equity, public debt, private equity and private debt (Display 6).

Display 6

#### Four Main Approaches to Real Estate Investing

	Privately Traded	Publicly Traded
Equity	<b>Direct Equity Ownership</b> <ul style="list-style-type: none"> <li>Office buildings, retail properties, hotels and other property types</li> </ul>	<b>Real Estate Equities</b> <ul style="list-style-type: none"> <li>REITs</li> <li>Real estate operating companies (REOCs)</li> </ul>
Debt	<b>Mortgage Loans</b> <ul style="list-style-type: none"> <li>Includes distressed debt</li> </ul>	<b>Mortgage-Backed Securities</b> <ul style="list-style-type: none"> <li>Commercial mortgage-backed securities (CMBSs)</li> </ul>

Source: AllianceBernstein

**Public equity** includes the publicly traded shares of real estate investment trusts (REITs) and real estate operating companies (REOCs). These are securities whose underlying assets are real estate such as shopping malls, office buildings, apartments and hotels. Some of these companies also invest in loans and other obligations that are secured by real estate collateral. REITs, which constitute approximately 70% of the global public universe, must pay out 90% of their taxable income to shareholders, and, as such, they can act as a significant and reliable source of income for investors. REOCs have real estate as their core competency, but their dividend yield is lower, as they tend to reinvest a portion of their earnings, rather than redistributing them to shareholders, as REITs do.

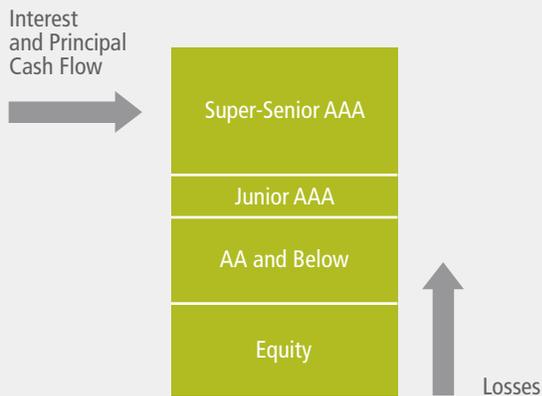
By investing in varying property types in different geographies, public real estate companies can provide diversified exposure to the commercial real estate market. Prior to the creation of publicly listed real estate equities, access to commercial real estate equity as a core asset was available only to institutions and wealthy individuals with the financial wherewithal to undertake direct real estate investment.

Public real estate companies typically employ a variety of strategies; some invest exclusively in core properties and aim to generate regular income with relatively low volatility. Value-added strategies are also widely used by public real estate companies to increase the returns they deliver to shareholders; many sell mature, stable core properties where growth in income is limited and reinvest in value-added strategies that have a positive impact on earnings growth. Finally, some real estate companies aim for higher returns and dedicate a meaningful portion of their capital to focus on redevelopment opportunities or even distressed situations.

Because public real estate equities are traded on major stock exchanges, they are more readily convertible to cash than direct property investments. In addition, they can offer valuable diversification to stock and bond investors due to their less-than-perfect correlations with these asset classes. However, publicly traded equity represents only around 7% of the total commercial real estate market, both in the US and globally.

Display 7

### Typical CMBS Structure



*For illustrative purposes only  
Source: AllianceBernstein*

**Public debt** markets offer investors a way to access the commercial real estate market with fixed-income attributes. Commercial mortgage-backed securities (CMBSs) are bonds backed by diversified pools of mortgages on commercial real estate. Securitization allows for the commingling or amalgamation (tranching) of these pools into securities of varying creditworthiness—ranging from AAA-rated to nonrated—depending on the appetite for yield and risk tolerance of the investor.

The securitization process creates significant protection from losses for investors in the highest-quality, AAA-rated tranches, since these tranches have first priority on the cash flow from mortgage payments; any losses are first absorbed by those investors lowest in the capital structure, starting with borrower's equity (*Display 7*). For this reason, the lower-rated CMBS tranches typically offer significantly higher yields to compensate for their greater risk of default.

While CMBSs generally do not offer the same upside potential as public equity investments, the downside risk is also more limited. In the event of default on any individual mortgage, the CMBS security holders have a claim on the underlying property, and they can recover some or all of their principal through the foreclosure process. CMBSs are also marked to market on a daily basis and are more liquid than whole loans.

**Private equity** investing is taking direct ownership of commercial real estate properties such as office buildings, industrial facilities, retail properties and apartments, with the general expectation of capital appreciation over time. Strategies span the risk/reward spectrum, ranging from core to opportunistic.

Private equity investments in real estate can be structured through pooled investment vehicles such as limited partnerships. The prime constraint of this real estate investment strategy is illiquidity; unlike more liquid securitized investments, it can take a long time to exit a private equity position; thus, holding periods tend to be longer. These strategies are therefore suited for long-term, patient investors who are under no immediate pressure to show earnings accretion, dividends, or track an index.

**Private debt** investing typically involves the direct purchase or origination of whole mortgage loans, and can also include defaulted, out-of-favor or distressed bank loans and debt securities. Given the recent financial crisis, a large amount of distressed debt remains on the books of banks, insurers, and other financial institutions, creating opportunities today for opportunistic investors. Like private equity, private debt investments tend to be illiquid and are therefore suited to patient, longer-term investors.

# Current Market Conditions: Signs of Stabilization

While commercial real estate fundamentals remain under severe pressure, in early 2010 there were signs of stabilization in the market. Importantly, the access to and cost of capital are gradually improving, particularly for higher-quality real estate properties. According to a recent survey by the Federal Reserve, loan officers' stance toward commercial real estate lending is becoming more positive (*Display 8*).

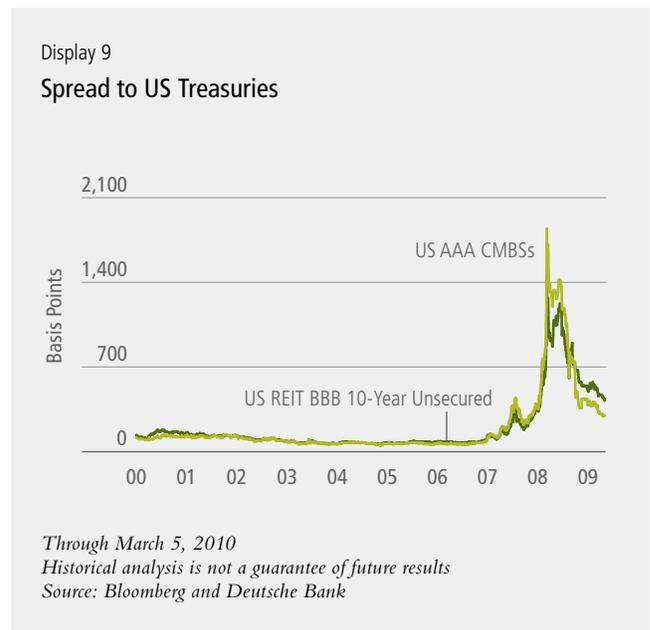
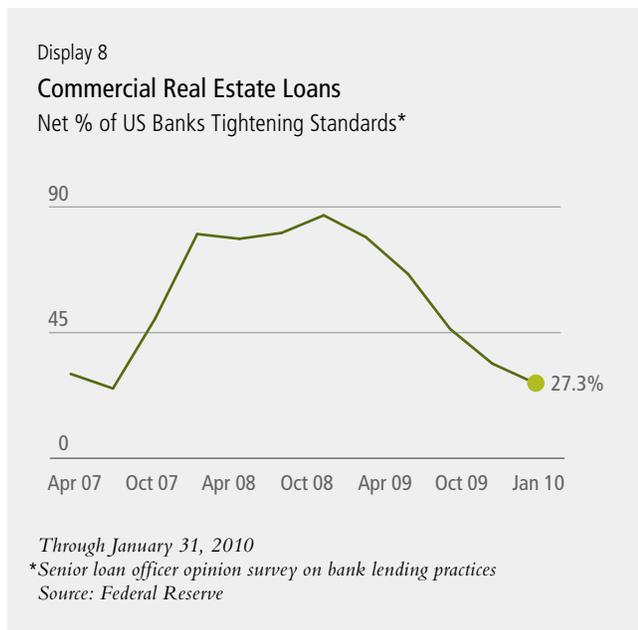
As shown earlier, by some measures, property prices have begun to stabilize. But the recovery is highly uneven, and dependent on the leasing term and the quality of the property.

Prices for types of properties with short-term lease structures, such as multifamily residential complexes, could show signs of a sustainable recovery by later this year, in our view, while some other property types with longer leasing terms

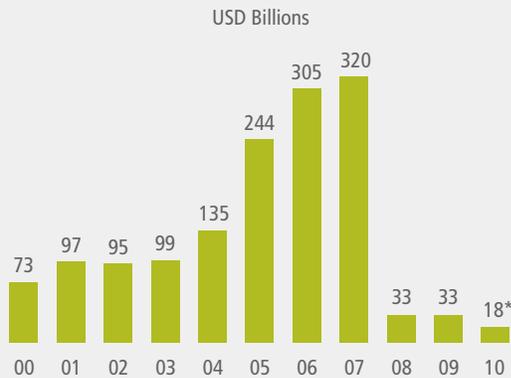
may take several more years to reach a bottom. Investment opportunities are likely to emerge as the ownership of these assets is restructured.

Similarly, there has been some stabilization in the prices of unleveraged core properties with positive cash flows, and properties where debt levels are manageable given the underlying cash flows. But prices of the most distressed commercial real estate assets could yet fall further, as investors are still reluctant to refinance projects or buildings where there is little visibility on ultimate cash flows or values.

In the public markets, US REIT unsecured credit spreads and CMBS spreads continue to narrow from the record wide levels hit in the crisis (*Display 9*), while in the US and other developed countries, real estate companies are refinancing and extending maturities. However, new issuance in



Display 10  
**CMBS Issuance**

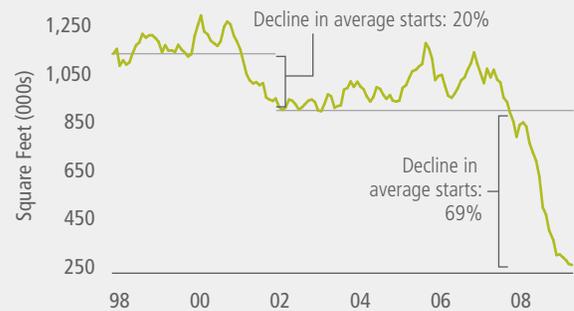


As of February 26, 2010  
 \*Annualized  
 Historical analysis is not a guarantee of future results.  
 Source: Barclays Capital

the CMBS market—an important source of commercial real estate financing during the boom years—remains depressed (*Display 10*). Securitizations are currently limited to single-borrower issues, and the volume of issuance remains at a fraction of its most recent peaks.

One hopeful sign for the broad sector is that on the whole, commercial real estate was not characterized by the same kind of unsustainable growth in supply that was true of the single-family residential sector. The financial crisis had a significant impact on funding for real estate developments, and in the US, we have seen a meaningful decline—to below scappage levels—in the construction of new offices, retail centers and apartment buildings (*Display 11*).

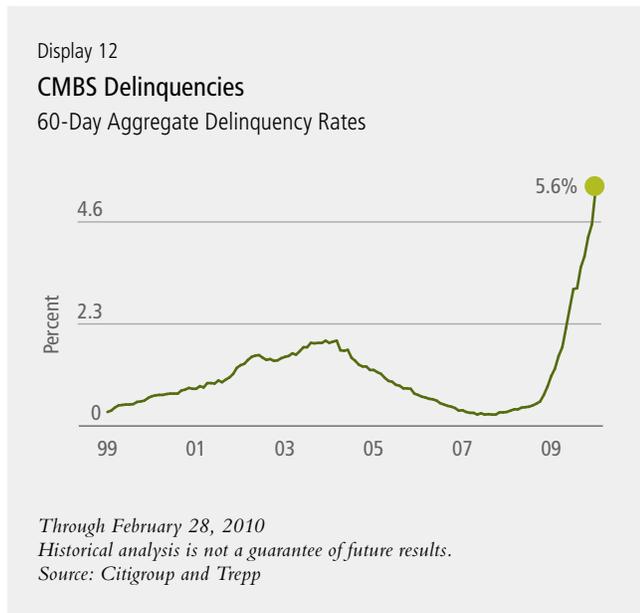
Display 11  
**US Commercial Real Estate: Average Starts**  
 Main Property Types, US Total Three-Month Moving Average



Through October 30, 2009  
 Historical analysis is not a guarantee of future results.  
 Source: Citigroup, McGraw-Hill, RISMedia, US Census Bureau and AllianceBernstein

As a result, we expect limited supply of new space over the coming two to three years, and possibly beyond. Hence, we believe commercial real estate fundamentals are likely to significantly improve as demand recovers. Across geographies, we are already seeing a stabilization in vacancy rates, and we expect asking rents to bottom out in 2010.

Nevertheless, many difficult issues remain. Persistently high unemployment continues to crimp demand for most types of commercial real estate space, and commercial mortgage delinquencies are still rising (*Display 12*). Negative headlines about rising vacancies and other issues in the sector are keeping investor anxiety high. Even under improved economic conditions, the ownership of many properties will have to be restructured, and additional capital will be needed to achieve sustainable debt and equity financing levels on specific properties.



Meanwhile, although the cost of capital has receded from crisis levels, it remains relatively high, and financing is still scarce for some borrowers. Transaction volumes have plummeted with the financial crisis and are not yet recovering, as buyers and sellers find it difficult to agree on prices. And finally, while there has been a pickup in refinancing activity for higher-quality properties, there is still a long way to go to meet the needs of more leveraged real estate owners. This will create significant opportunities for experienced real estate investors who know how to apply research and have the network of contacts to identify the right properties and the appropriate place in the capital structure to invest for maximum risk-adjusted returns.

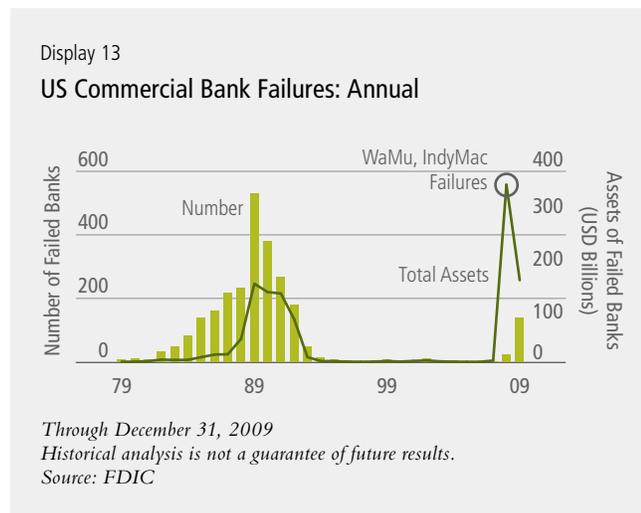
In some cases, debt-for-equity swaps will position new owners for attractive returns in the future. We believe there will be opportunities in all property types. The driver of these opportunities will be the long-term economics behind the income of the particular property, the amount of remaining equity in the deal, and the ability or willingness of the original owners to add additional capital to ensure the debt in place is viable.

In short, the uncertainties in the commercial real estate market today are generating a dynamic set of opportunities for active managers to help their clients profit from the dislocations. AllianceBernstein uses its deep research resources to take advantage of opportunities across the capital structure in both the public and private markets. This enables us to offer a range of solutions to our clients, tailored to their individual risk/return preferences, liquidity needs and investment horizons.

# A Compelling Investment Opportunity

## Direct Real Estate Investing

Some of the most attractive opportunities in commercial real estate today, in our view, are for opportunistic investors in the US private markets. The pressure to refinance and restructure overlevered and undercapitalized investments will thrust many incumbent lenders and borrowers into distress. In turn, this will likely lead to further increases in nonperforming loans, foreclosures, bankruptcies, forced asset sales, and industry-wide recapitalization and restructuring.



Importantly, some of the natural sources of capital in the commercial real estate market—such as banks—are unable to take advantage of the opportunities. Many of these institutions are reluctant to commit new capital due to their current exposure to commercial real estate, or are busy restructuring their existing loan portfolios. Meanwhile, many hedge funds—which are generally drawn to more liquid asset types—are exiting the real estate business, which in most cases was never core to their strategies. Private equity funds, too, are burdened with legacy portfolio issues, and the performance-driven compensation structures behind many of these struggling funds has led to a talent drain as key personnel look for more lucrative opportunities elsewhere.

Consequently, as a huge volume of real estate loans matures in the coming several years, refinancing is likely to remain a major issue.

The capital void will create a compelling opportunity for experienced investors with cash, a long-term view and a broad network of relationships to uncover investment opportunities. Due to the coming refinancing wave, such investors will have the financial ability to dictate highly advantageous terms, and they can expect to realize compelling risk-adjusted returns when the commercial real estate market eventually normalizes.

The distress will likely generate multiple sources of opportunities in the following areas:

### Bank Failures

Banks continue to feel the impact of the economic downturn as loan losses mount. Almost 200 banks have already failed during this economic downturn, and the rate of failures continues to rise (*Display 13*). As a result, many banks will likely be forced to dispose of assets at distressed prices as they attempt to generate liquidity and protect their balance sheets.

### Nonperforming Loans

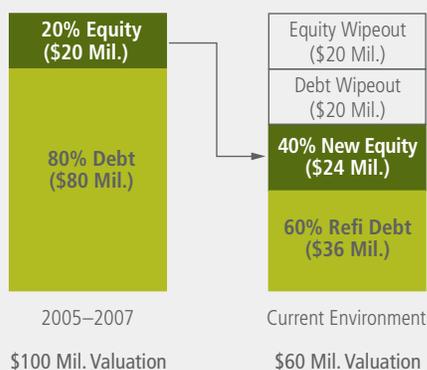
As property values fall and cash flows deteriorate, an increasing number of borrowers will miss interest payments or fail to repay principal at maturity, and some will slide into default. These nonperforming loans will be sold at distressed prices as their holders seek liquidity and act to avoid the complexities of loan workouts.

### Unnatural Real Estate Holders

Many holders of real estate assets—including hedge funds, banks, distressed-debt investors and CMBS trading desks—are inexperienced with direct asset ownership. These holders are insufficiently staffed to operate and manage real estate assets, often uninterested in the distraction from their core businesses, and lack the partnership relationships needed

Display 14

### Recapitalization of Real Estate Assets



*For illustrative purposes only  
Source: AllianceBernstein*

to add value to the assets. Some purchased securitized debt instruments during the boom years with an insufficient understanding of the quality of the underlying collateral or the liquidity of the securities. Many of these unnatural holders will be looking to sell real estate assets to more natural holders of real estate.

### CMBS Special Servicers

As delinquencies and defaults of CMBS loans continue to mount, thousands of securitizations have come under the management of special servicers—companies that specialize in the resolution and disposition of nonperforming loans. Facing a glut of such loans and a lack of resolution alternatives, special servicers are likely to sell many of these troubled loans at compelling valuations.

### Rescue Finance

During the commercial real estate run-up of 2005 and 2007, many transactions were financed with significant leverage, sometimes in excess of 80% loan-to-value (LTV) ratios. Since then, asset prices have fallen by approximately 40%, wiping out the owners' entire equity stake and part of the debt stake of lenders on the property as well (Display 14). As industry-wide deleveraging continues and lenders remain cautious, many borrowers will likely be unable to refinance

all of their existing debt. This creates a significant capital void—and an opportunity for those who have the ability to provide “rescue” infusions of fresh debt and equity.

### Securitized Real Estate Equity

In the public markets, we continue to see attractive investment opportunities in securitized real estate. Valuations have recovered, but still remain attractive compared with long-term averages (Display 15). We expect REIT earnings to trough in 2010–2011. Persistent concerns about the commercial real estate market in general and negative headlines are prolonging investor anxiety, and generating a target-rich environment for our fundamental analysts to uncover undervalued opportunities.

Display 15

### Public Real Estate Looks Attractively Valued



*As of March 15, 2010  
December 2000–current, based on SNL Global Real Estate Index.  
Leverage defined as net debt to gross assets; cash levels as percentage of assets  
Historical analysis is not a guarantee of future results.  
Source: SNL Financial and AllianceBernstein*

We believe that public real estate companies are well positioned in the medium term. Public real estate companies are, in many markets, the best real estate sponsors with the strongest balance sheets. This is because under the watchful eye of public investors, they did not take on debt to the extent that their private counterparts did. Furthermore, during the downturn, public companies accessed the equity markets and reduced leverage to levels more consistent with the current economic reality.

Public real estate companies also enjoy advantages that position them well to participate in the restructuring of developed-world real estate. This is likely to take place over a multiyear period. Public companies have the financial transparency required by public markets, access to equity and, in many cases, access to unsecured debt. This makes them less dependent on balance sheet lenders. With these competitive advantages, public real estate companies should benefit from acquiring assets that are sold and refinanced to new underwriting standards. A low-interest-rate environment and access to equity capital should allow many public companies to invest at attractive spreads and grow their earnings.

Over the course of this downturn, the best public real estate companies can be expected to continue to gain market share. This is because re-leasing properties often requires customizing a space, which in turn requires capital. As private companies and owners are more leveraged and face more significant capital constraints, they are often unable to re-lease space that requires upgrades and customization. Finally, the strongest public real estate companies are cutting costs and gaining efficiencies. Such best practices should enable these public companies to deliver sustainable cash flows to investors in the future.

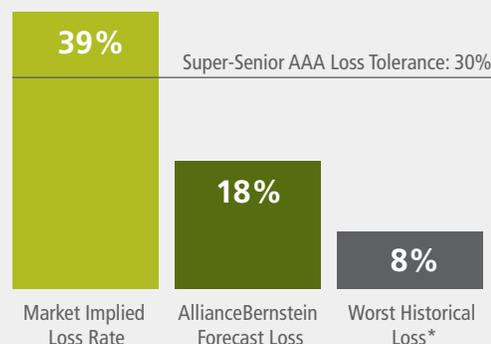
## US CMBSs

Extraordinary opportunities have also arisen in the CMBS market over the course of the recent financial crisis. We entered the crisis with a modest CMBS overweight in our fixed-income portfolios in late 2007; as investor anxiety grew, spreads widened dramatically, and we took advantage of the opportunity by steadily increasing our exposure to super-senior AAA-rated CMBSs through mid-2008. We maintained this heavy overweight through mid-2009, as we viewed the pricing of AAA-rated CMBSs as a classic value opportunity where risk-averse investors were discounting losses for the highest-quality tranches of commercial real estate securitizations that our research indicated would not materialize.

Since then we have taken the opportunity to reduce the overweight as the sector has rallied dramatically, partially spurred by support from US government programs such as the Term Asset-Backed Securities Loan Facility (TALF) and the Public-Private Investment Program (PPIP). In fact, spreads on AAA-rated CMBSs have narrowed some 1,100 basis points

Display 16

### AAA CMBS Loss Rates



As of February 25, 2010

The market implied loss rate is derived from the CMBX 4.AAA contract for early 2007 vintage collateral. The AllianceBernstein forecast is an average projected loss for the 2007 vintage.

\*Worst historical loss for commercial real estate lending includes pre-CMBS years and occurred in 1986

Historical analysis and current forecasts do not guarantee future results.

Source: Esaki, Howard, and Masumi Goldman, "Commercial Mortgage Defaults: 30 Years of History," CMBS World—Winter 2005 (CMSA); Wachovia Capital Markets; and AllianceBernstein

from their peaks of late 2009, and the sector rallied 27% in 2009, the best year on record.

The commercial real estate market continues to face fundamental headwinds as delinquency rates are rising and a large volume of debt maturities lies ahead. Nevertheless, we expect CMBSs to continue to gain support as liquidity gradually returns to the sector, largely thanks to government backing. And, most important, the credit enhancement—or ability to withstand losses—of the super-senior CMBSs that we hold significantly exceeds the loan losses that we anticipate (*Display 16*). While the prices of these securities may remain volatile, we remain confident that they will realize highly attractive returns.

We also continue to see select opportunities in certain CMBS tranches that appear attractively valued relative to corporate bonds. For example, the two classes of CMBS bonds with the lowest seniority within the AAA debt structure are currently yielding 10% and 14%, respectively, compared with roughly 5% and 7%, respectively, for BBB and BB corporate bonds.

# Conclusion

As a wave of commercial real estate debt matures over the coming few years—some underwritten assuming income levels that are unlikely to materialize for many years—borrowers will search for replacement capital, and significant infusions of fresh debt and equity will be required.

However, many of the traditional sources of real estate capital are busy restructuring their legacy portfolios and are reluctant or unable to put new capital to work. In short, these investors have little capacity to take advantage of the extraordinary opportunities.

This void will create an ideal environment for opportunistic investors with cash, know-how and relationships to profit from the distress and realize outsize risk-adjusted returns. Patient investors with a long-term view will have the opportunity to generate sizable premiums for providing liquidity to the myriad illiquid and complex situations that are likely to arise in the private markets in the coming one to three years.

Such investors are likely to be rewarded with attractive returns, as economies are recovering, capital remains relatively constrained and the development pipeline is at a very low level. Investment opportunities across the capital structure are likely to continue to emerge over time due to restructuring.

Similarly, opportunities look very compelling for securitized real estate assets, which in many cases appear undervalued and will likely realize attractive returns over time as occupancy levels rebound and rents recover. Public real estate companies will also benefit by utilizing their access and low cost of capital in acquisitions where their active management will help generate attractive returns.

Over a longer time span, investors in commercial real estate should also benefit as some of the traditional characteristics of the asset class reassert themselves: namely, diversification benefits due to the less-than-perfect return correlation between real estate investments and other asset classes; some protection against inflation; and competitive returns with relatively low volatility compared with bonds and even with equities.

Across the risk/return spectrum and catering to investors' individual needs for liquidity, we believe there are a variety of attractive investment opportunities in the real estate market today, and AllianceBernstein offers a full range of solutions in accordance with these needs.

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