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# The Capital Markets - The Return of Risk and Return

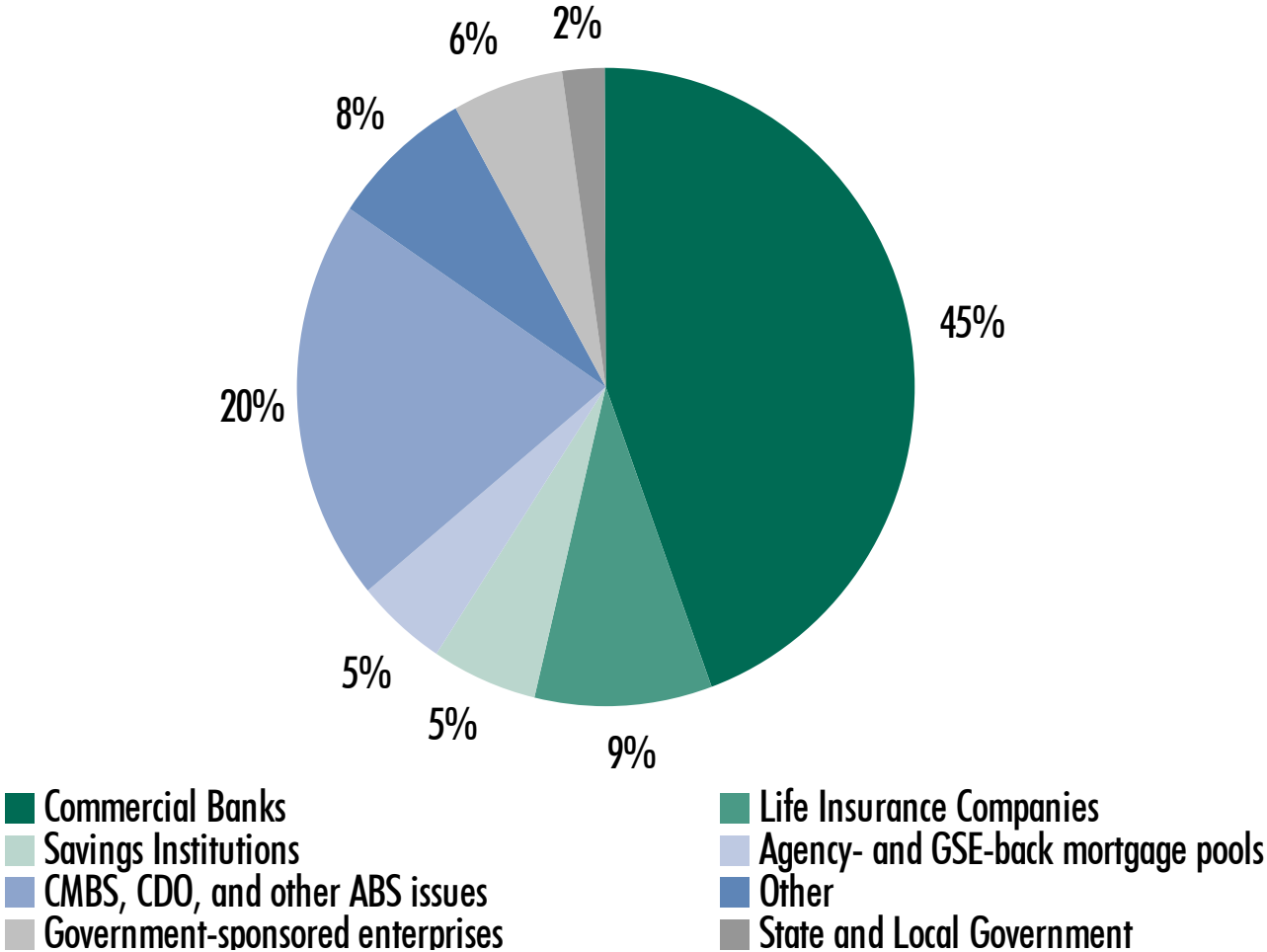
Murray Kornberg, Senior Vice President  
CBRE Capital Markets  
Appraisal Institute Trends Seminar 2010  
May 26, 2010

# Debt Market Overview

# U.S. Commercial & Multifamily Outstanding

Total \$3.4 Trillion

BY CAPITAL SOURCE

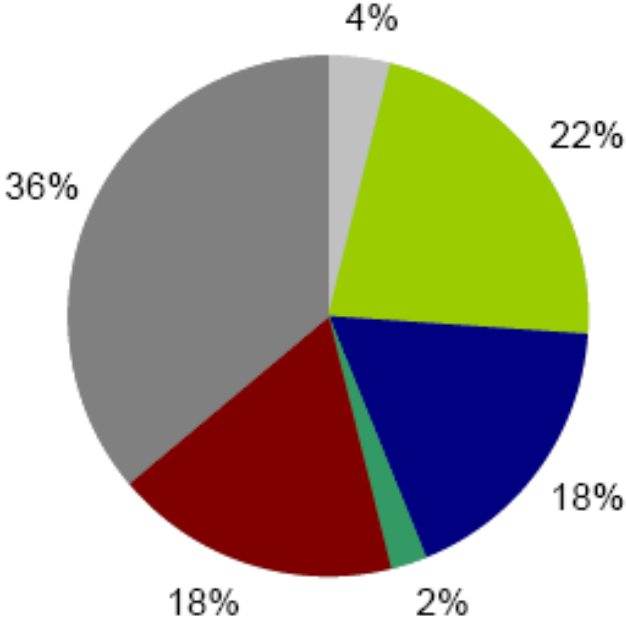


Source: Mortgage Bankers Association Q4 2009

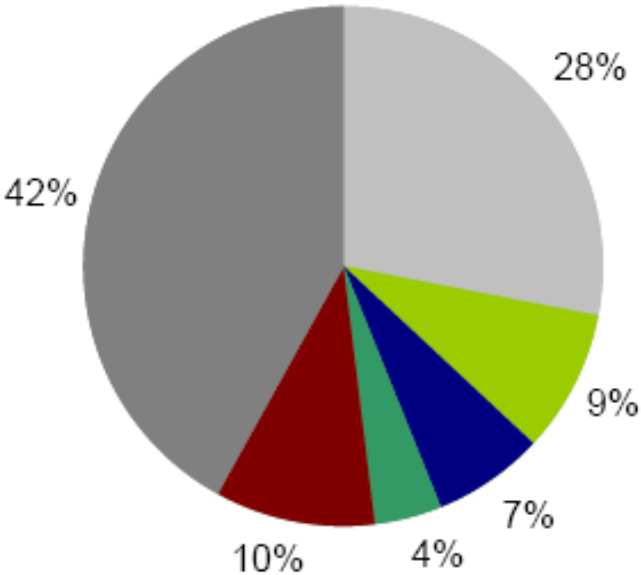


# Holders of Commercial Real Estate

1990



3Q 2007



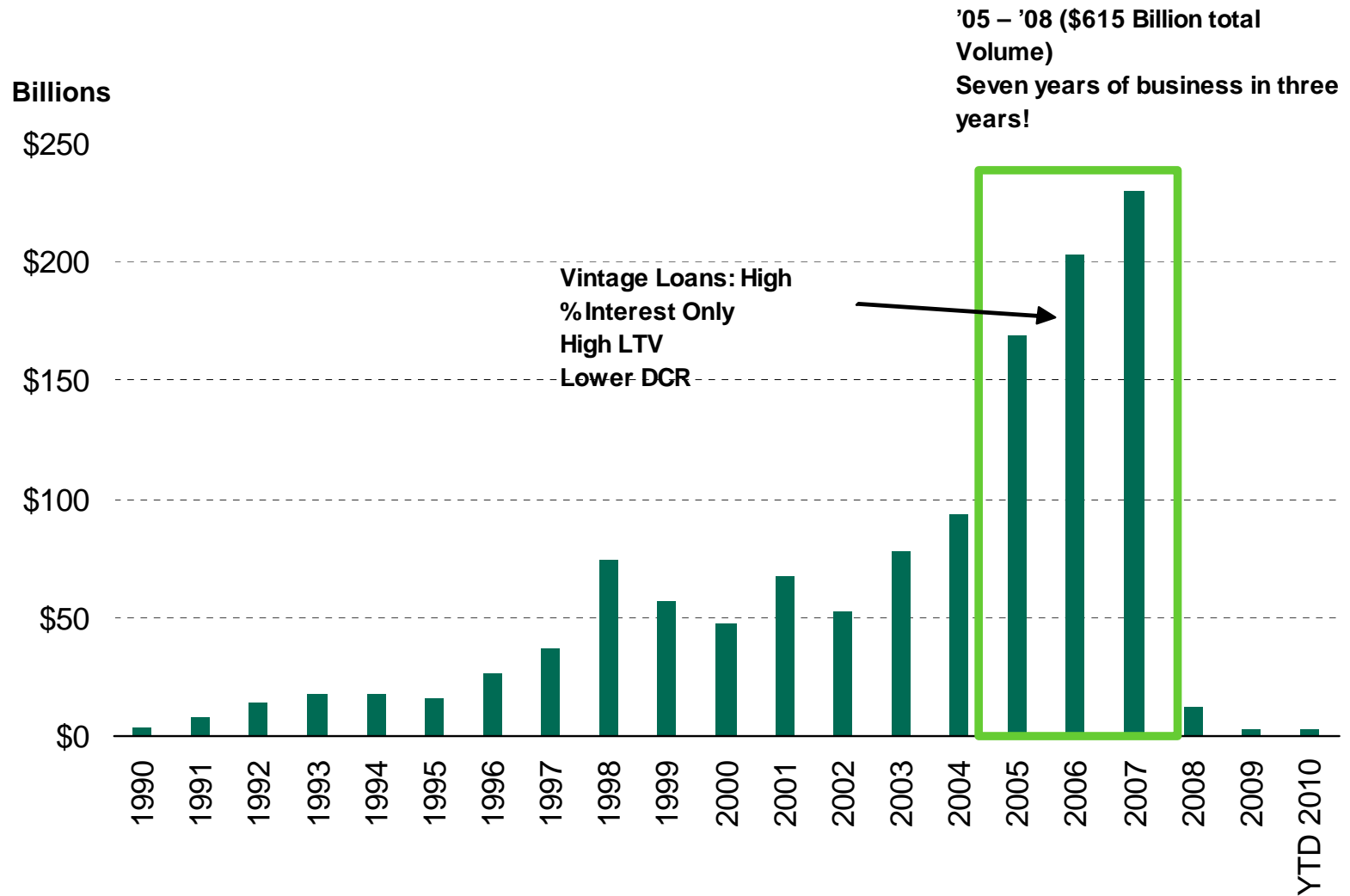
- CMBS Issuers
- Savings Institutions
- Others

- Life Insurance Cos
- Government Sponsored Enterprises
- Commercial Banks

Source: MBA 2008  
 CB Richard Ellis | Page 4



# The Boom n' Bust Led by CMBS Issuance

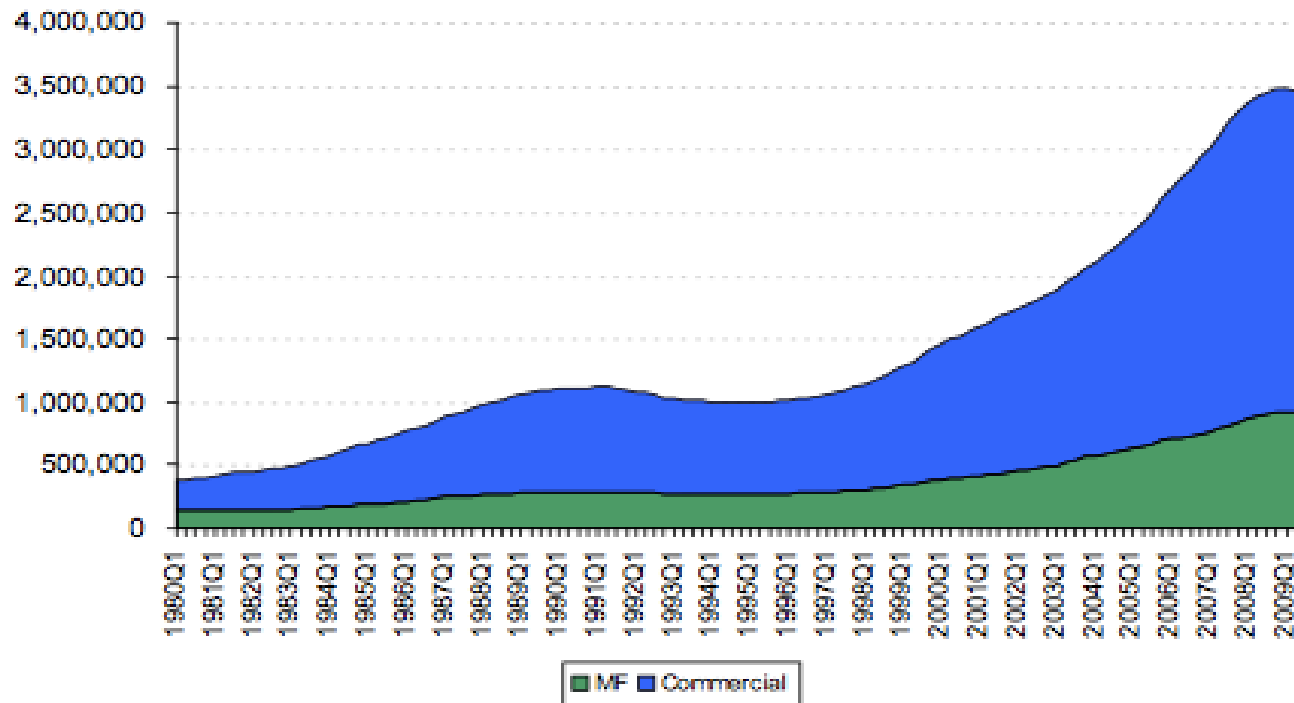


Source: Commercial Mortgage Alert March 2010

# Explosion of Commercial Debt

## COMMERCIAL AND MULTIFAMILY MORTGAGE DEBT OUTSTANDING

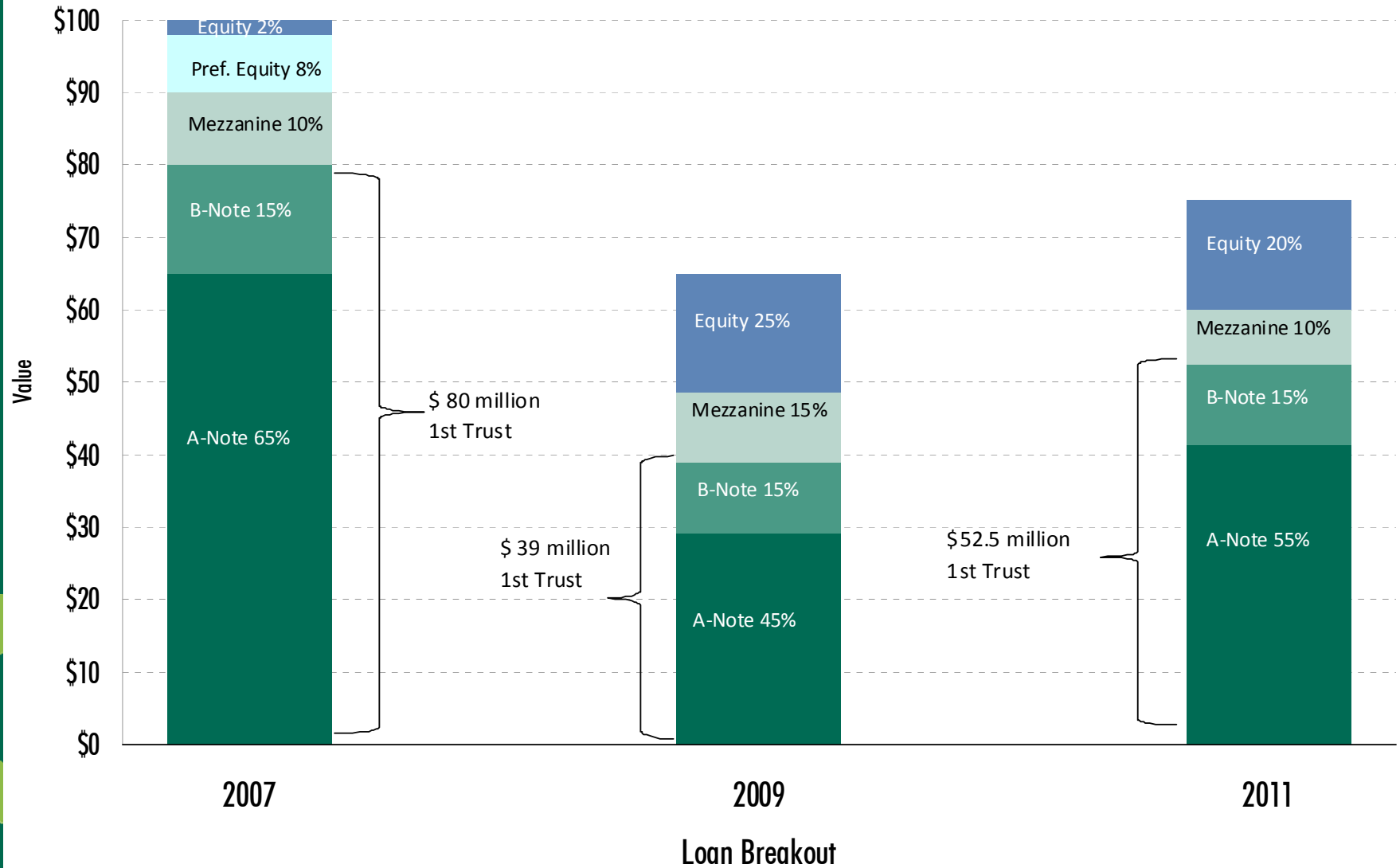
Total Commercial and Multifamily Mortgage Debt Outstanding, by Quarter  
(\$millions)



Source: Flow of Funds Accounts, Federal Reserve Board of Governors

# Yesterday, Today and Tomorrow

Market is De-Leveraging: What will 2011 Look Like?



Source: Mortgage Bankers Association, CBRE EA



## Less Credit Available: More Equity Required

	<u>2007 Peak</u>	<u>2009 Trough</u>	<u>2010-11 Outlook</u>
Net Operating Income	\$ 2,400,000	\$ 2,400,000	\$ 2,400,000
Capitalization Rate	6.00%	8.00%	7.00%
Asset Value	\$ 40,000,000	\$ 30,000,000	\$ 34,285,714
10-year Treasury Rate	4.63%	3.62%	4.25%
Spread	1.20%	3.00%	2.25%
Rate	5.83%	6.62%	6.50%
Years of Amortization	<u>0</u>	<u>25</u>	<u>30</u>
Loan Constant	5.83%	8.19%	7.58%
Maximum Loan to Value	80%	65%	65%
Minimum DSCR	<u>1.15</u>	<u>1.30</u>	<u>1.25</u>
Maximum Loan Proceeds based on Valuation	\$ 32,000,000	\$ 19,500,000	\$ 22,285,714
Maximum Loan Proceeds based on DSCR	\$ 35,796,853	\$ 22,534,143	\$ 25,313,731
Maximum Loan Proceeds (lesser amount)	\$ 32,000,000	\$ 19,500,000	\$ 22,285,714
Cash Flow after Debt Service	\$ 534,400	\$ 802,424	\$ 709,670
Equity Required	\$ 8,000,000	\$ 10,500,000	\$ 12,000,000

# What's In & What's Out

<b>IN</b>	<b>OUT</b>
Life Company/Agency Lending	TALF
Vanilla CMBS Lending	Aggressive CMBS Issuance
Conservative Leverage	High Octane Capital Stack
Equity In-Deal	Cash Out Financing
Risk Based Pricing	Inefficient Pricing of Capital
Correspondent & Relationship Lending	Loan Brokerage
High Touch Loan Servicer	Securitized/Impersonal Servicer
Amortization- 25-30 Year Schedule	Interest Only
Reserves Funded in Cash	No Funded Escrow
250+/- Spreads	100+/- Spreads
Floor Rates	Unlimited Float
DCR's In-Place	Proforma DCR's
Partial Recourse	Non-recourse

## Why is Real Estate Back in Vogue?

Balance Sheets have Cash back on them

Relative Value compared to Alternative Investments

Portfolios have been rebalanced

## BUT

Concern about performance relative to peer group

Concern about non-performing loans

Rates – 5.5% - 7%

Terms – 5, 7, 10, amortization up to 25 or even 30

## The Biggest Source of Lending for CRE

If you thought CMBS lenders were crazy...

Still more work to do

Regulatory vs. Political Pressures

Ticking Time Bombs that no one wants to acknowledge

## Why is this so difficult?

Special Servicer fiduciary responsibilities

Tranche Warfare

Alignment of Interests

## NEW CMBS ISSUES

“Debt Yield” is the real benchmark for sizing

Pricing in the 7% range, 30 year amortization

Expect all of the CMBS structure (lock boxes, independent directors, collected reserves, etc.)

## The Lowest Cost of Capital

Concerned about regulatory pressures

Weakening portfolios, increasing defaults

Delivery model has lenders at risk

Rates – 5%-6%, depending on leverage, and loan term

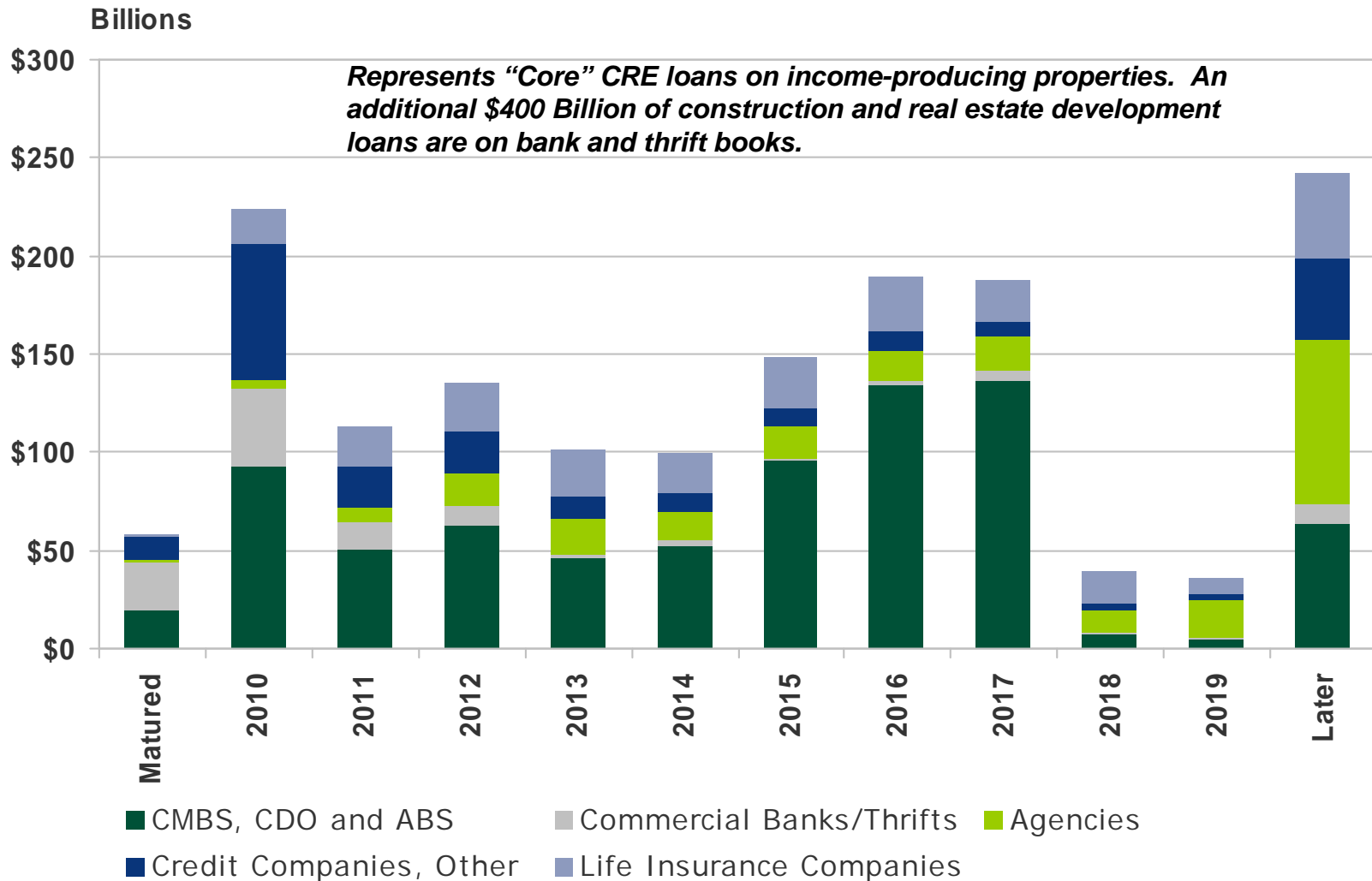
1.25 X's DSCR, 30 year amortization



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# The Distressed Market Overview

# The Wave of Refinancings: Short-Term Problems Loom



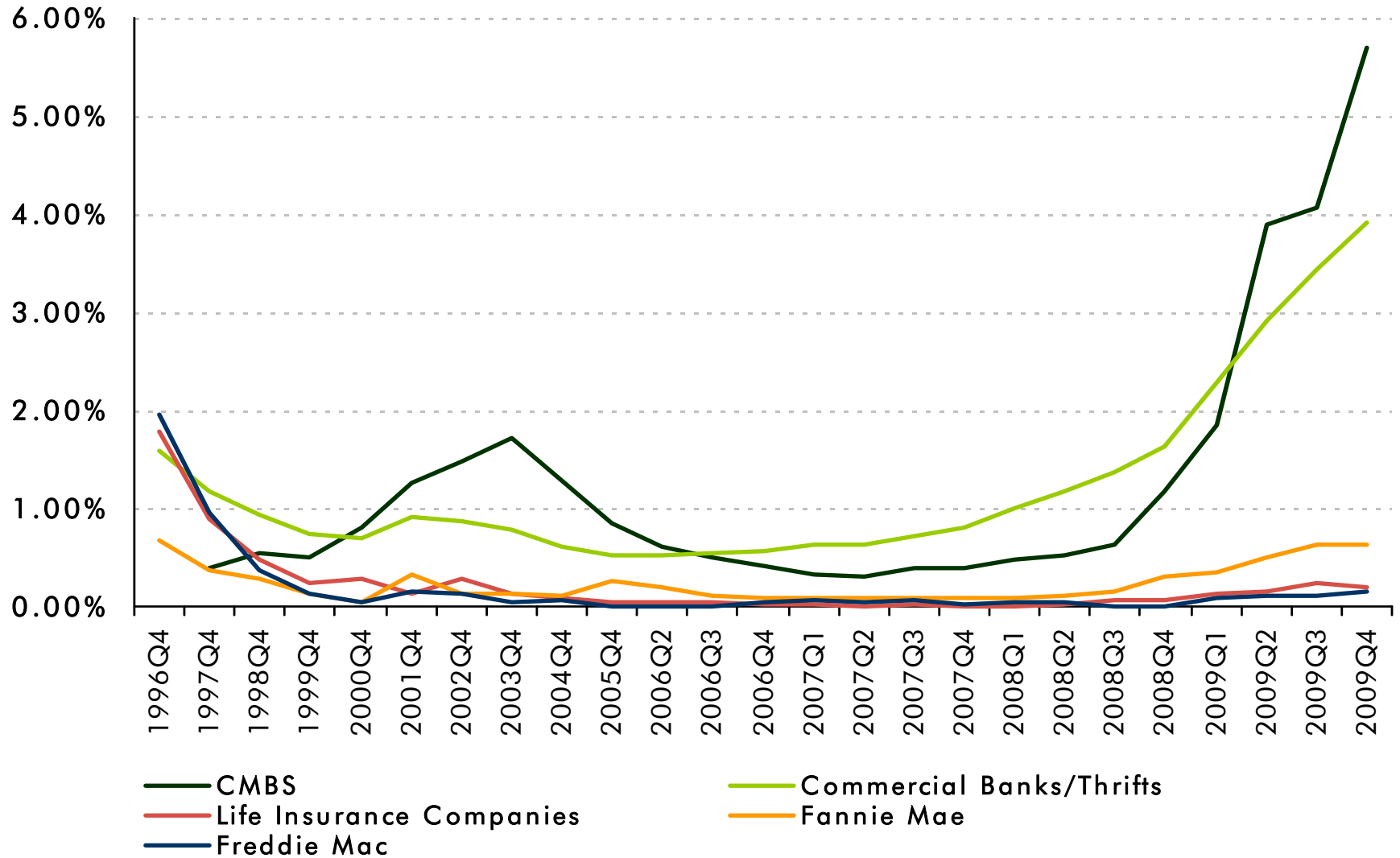
**Note: Bank/thrift survey covers \$113 billion of \$821 billion in total income-producing commercial and multifamily loans.**

Source: MBA Loan Maturity Survey, CBRE Econometric Advisors YE 2009



# Delinquency Rates

Banks and CMBS Issues Likely to Face Highest Delinquencies Near-Term

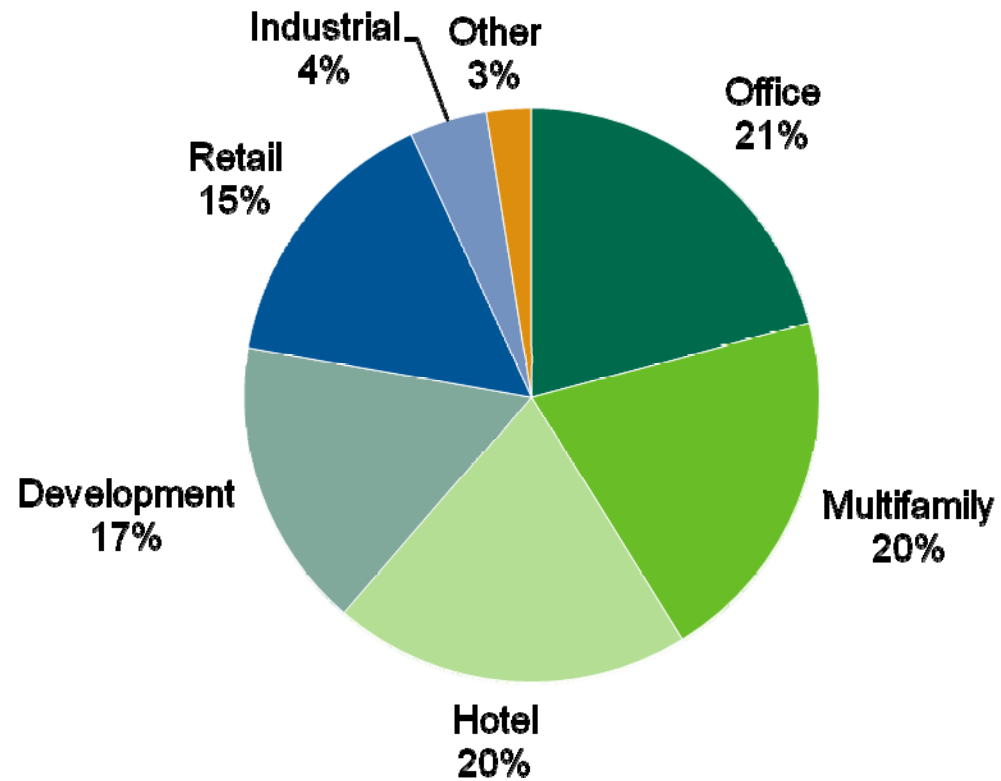


Source: MBA, ACLI, Wells Fargo, Fannie Mae, Freddie Mac, OFHEO and FDIC



# Office Takes Lead in Distressed Market

Total Estimated Value of 159.9B (8,529 Properties)

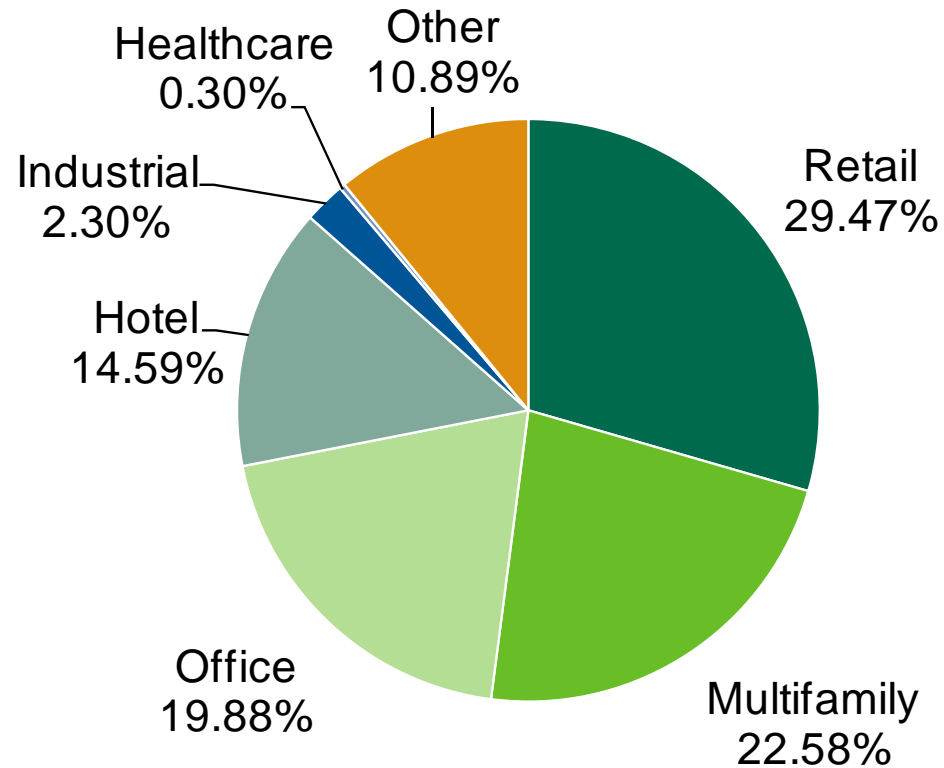


Source: RCA Troubled Assets Radar, May 2010

# Loans in Special Servicing by Property Type

4,380 Loans, \$76.13 Billion

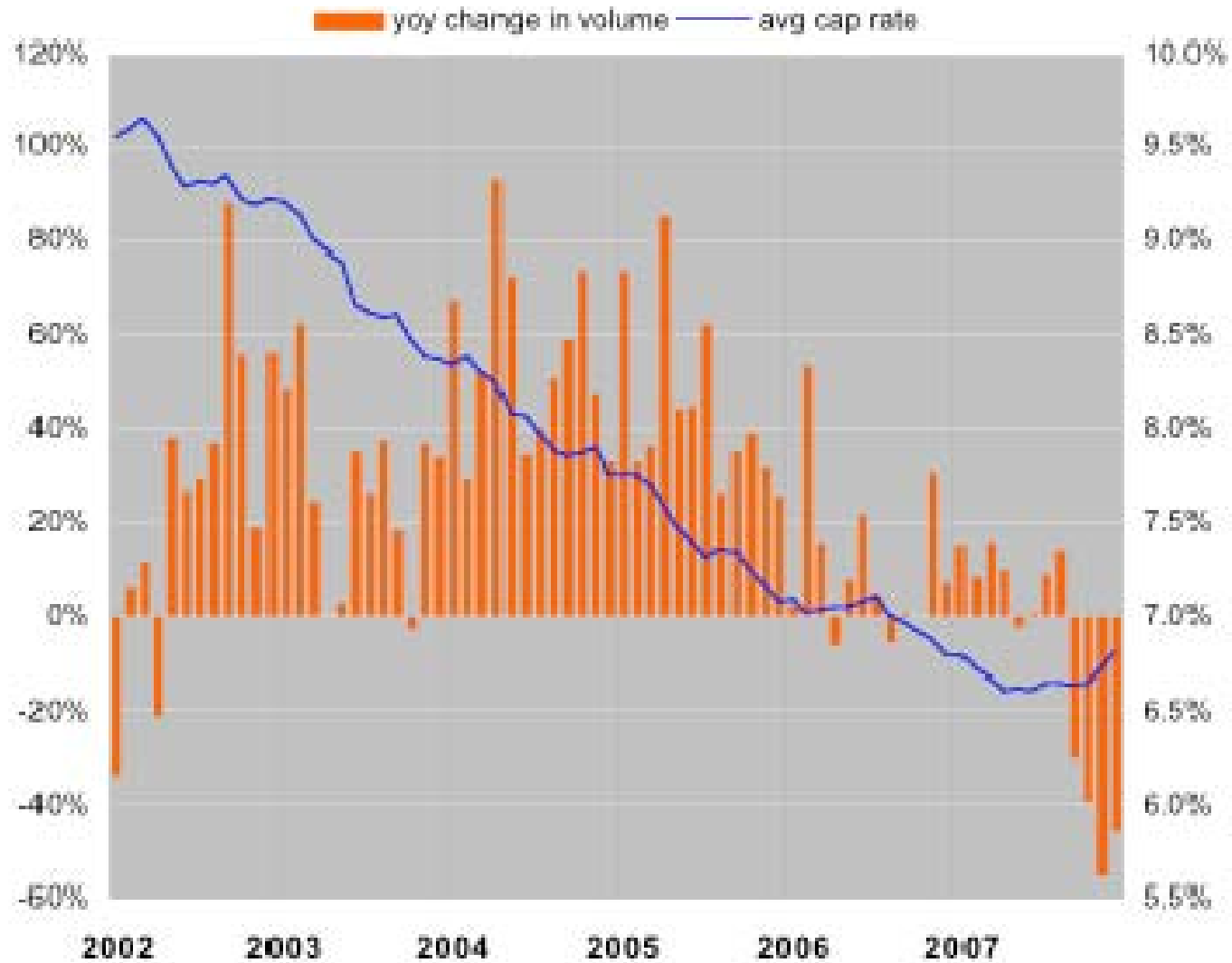
Total volume has increased every month for the last 22 months



Source: Realpoint Monthly Delinquency Report – April 2010

# Equity Market Overview

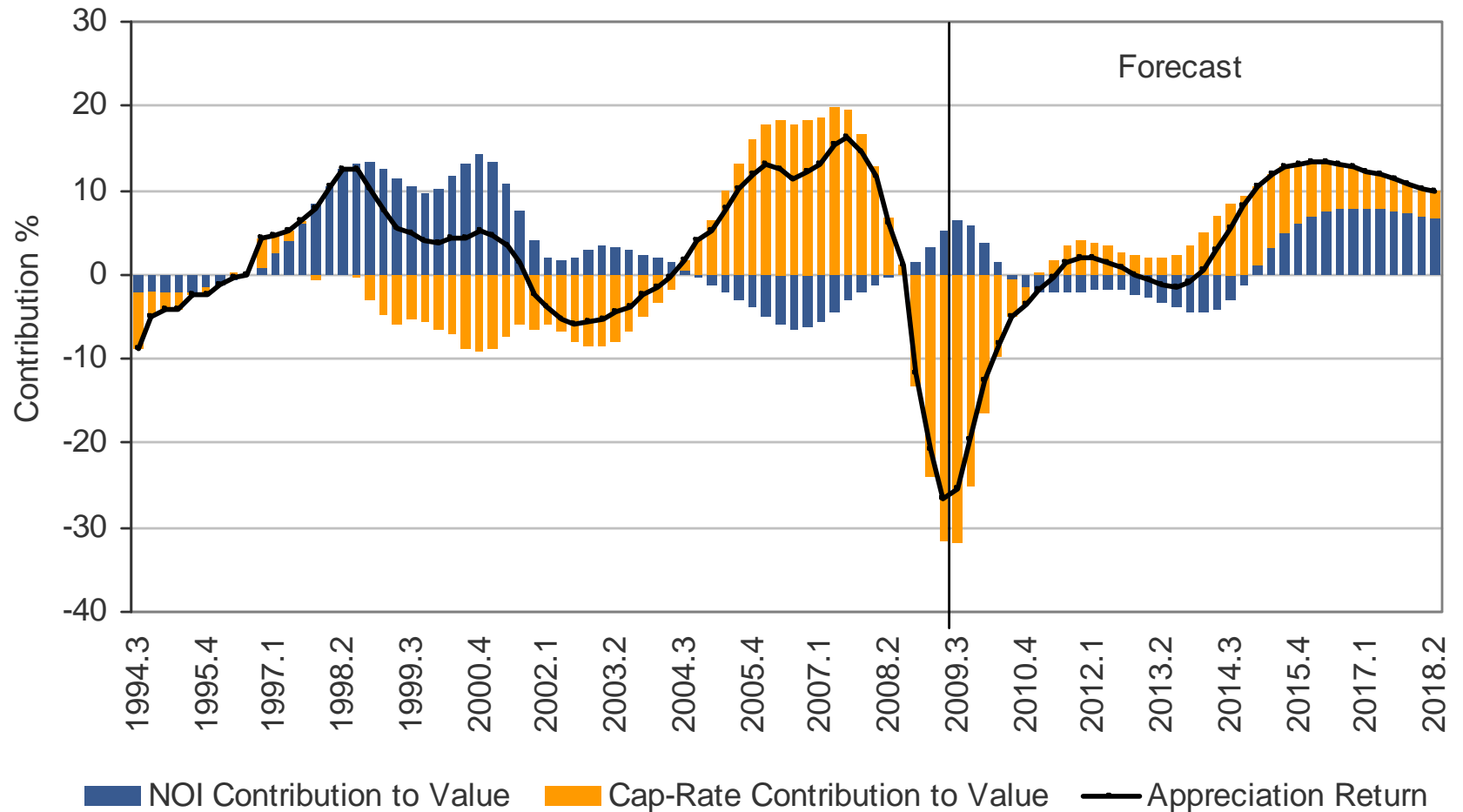
# 02' - 07' Bull Market for Commercial Real Estate



Source :Real Capital Analytics

# Cap rates have a strong initial impact, NOI hurts through 2015

Annualized Contribution to Appreciation Return %



Source: CBRE-EA, Investment Outlook Fall 2009, NCREIF; Base Case Scenario



# Vacancy Moving toward Cyclic Highs

With vacancy high relative to long-term trends, rents moving downward.

## Vacancy and Availability Rates

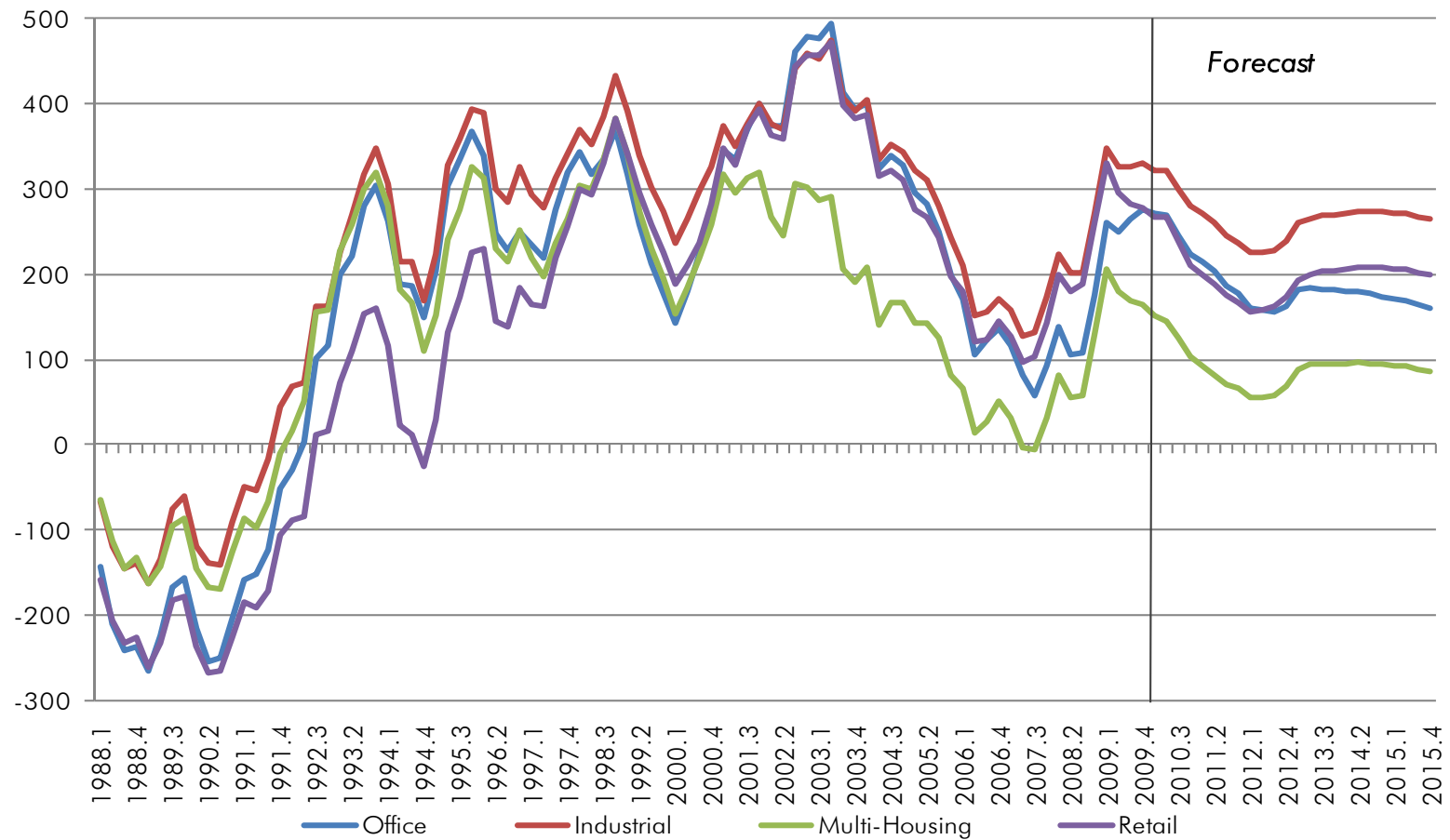
	2010Q1	Peak/Year	Previous Peak Year	"Natural Rate"	Year Back to "Natural Rate"
<b>Office</b>	16.6	17.2 / 2011	19.0 / 1992	13 to 14	2013
<b>Industrial</b>	14.0	14.5 / 2010	11.8 / 2004	9 to 10	2015
<b>Retail</b>	12.6	12.8 / 2010	11.4 / 1992	9 to 10	2014
<b>Multifamily</b>	6.6	7.4 / 2009	6.8 / 2003	5 to 6	2011
<b>Hotels*</b>	38.6	38.6 / 2009	39.1 / 2003	32 to 34	2012

\* Data as of 2009Q4

Sources: CBRE-EA Summer 2010 Outlook Report

# Another Perspective on Cap Rates

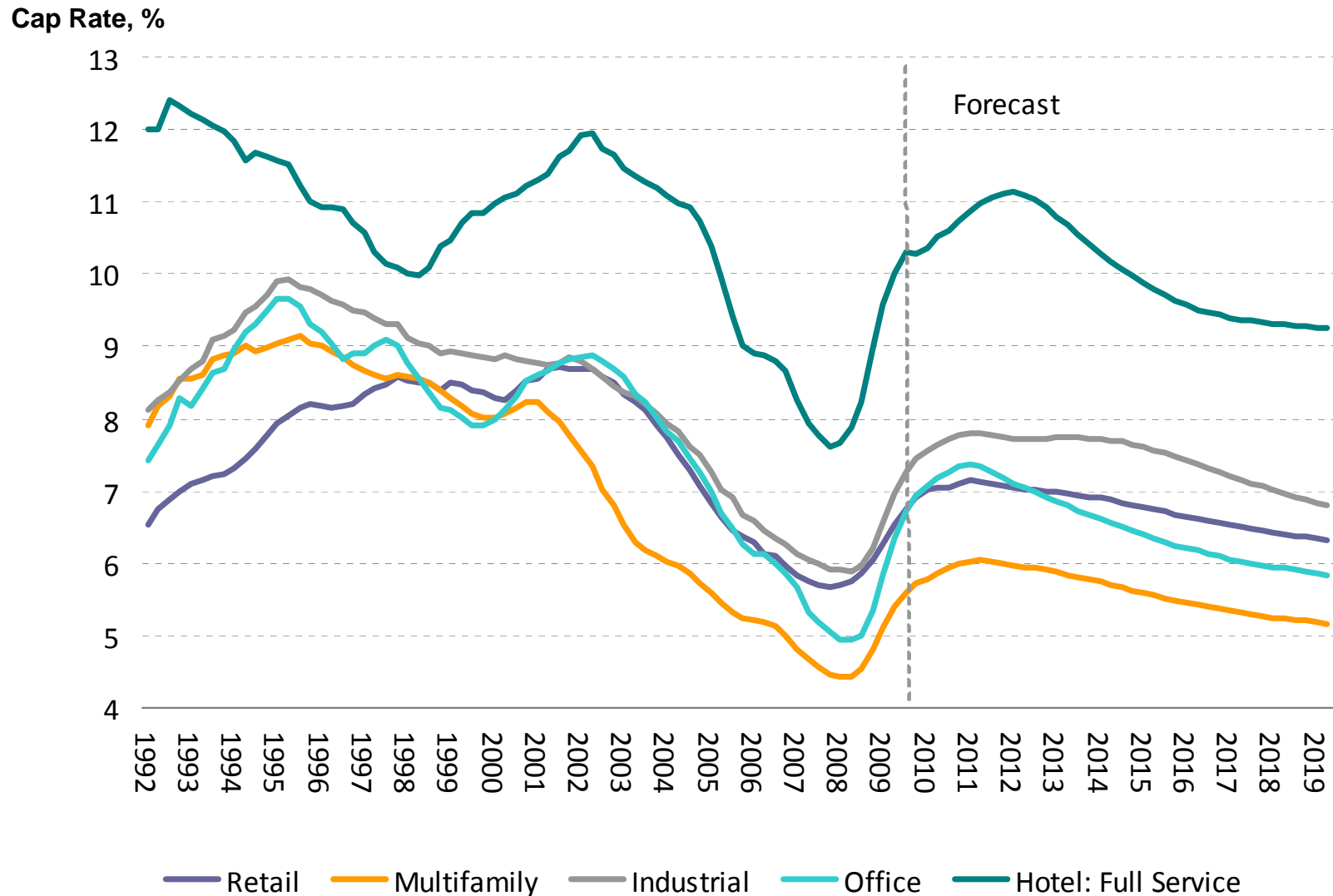
BPS Spread, Cap Rates to Ten Year Treasury



Sources: CBRE-EA, Moody's Economy.com, NCREIF



# Cap Rate Forecast by Property Type



Source: CBRE Econometric Advisors, Q4 2009

