



Real Estate Capital Markets

Presentation to

Lambda Alpha International

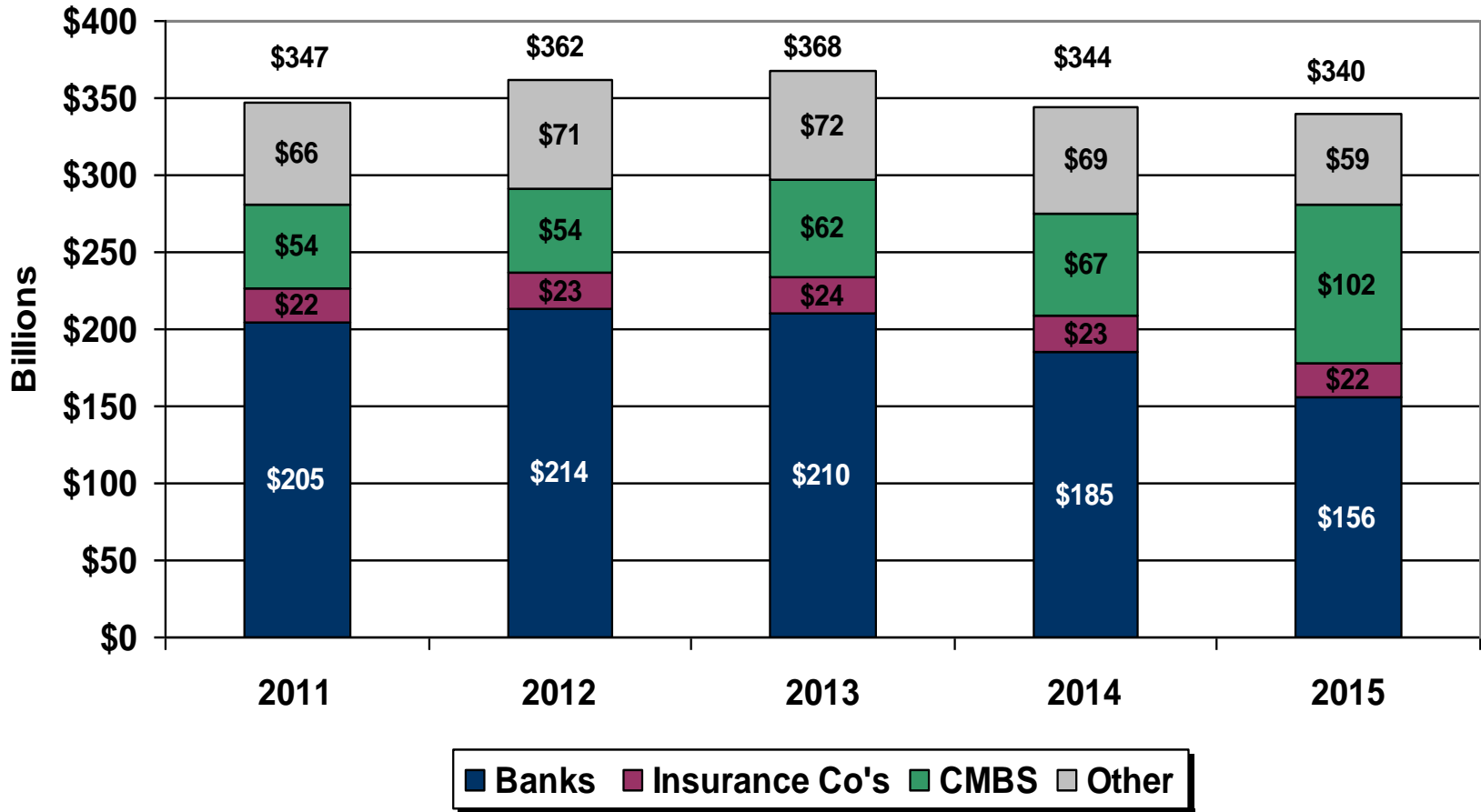
July 2011

State of the Debt Markets

Current Themes in the Debt Markets

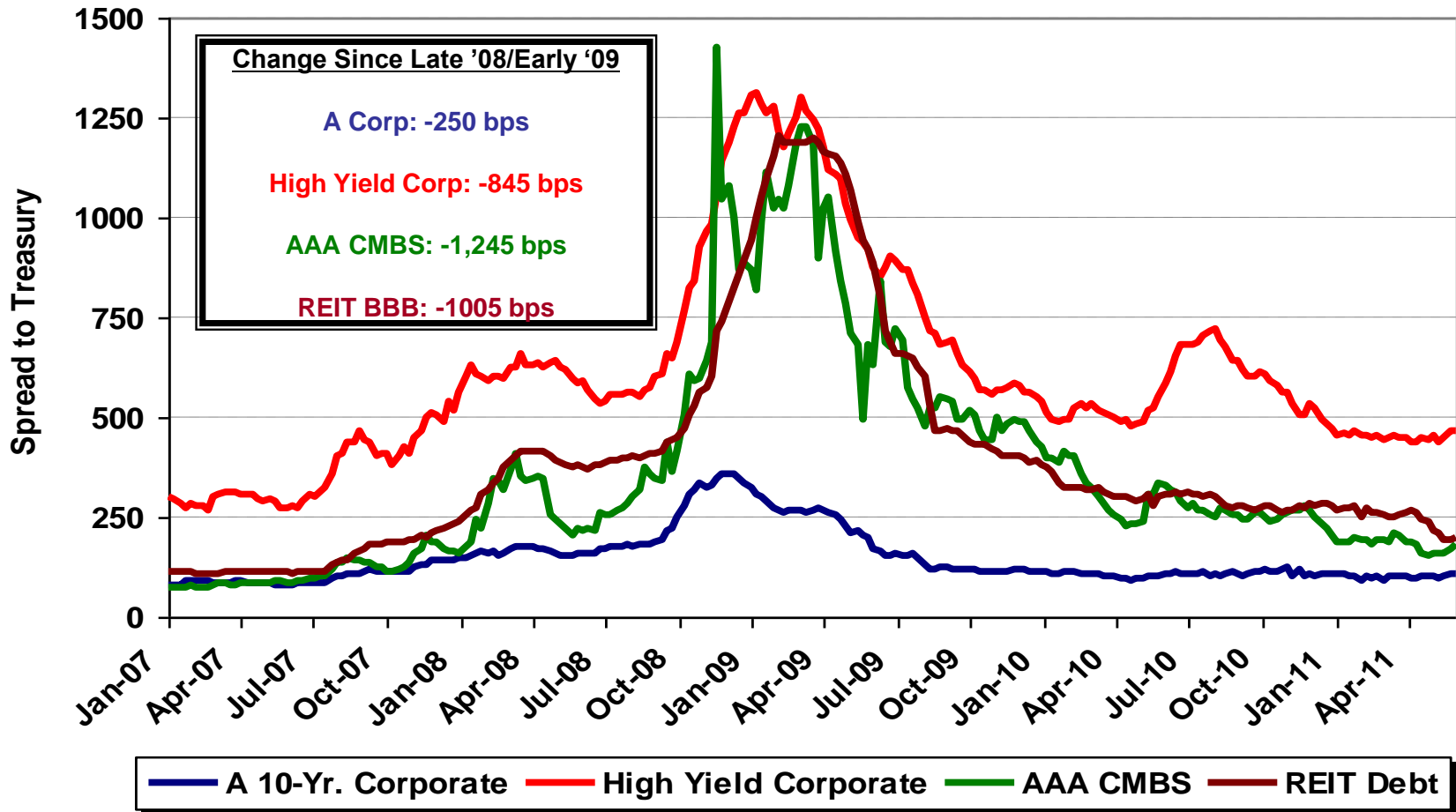
- ◆ Unrest in Africa/Middle East (et. al), Sovereign debt, and job growth challenges are our friend (for now...)
- ◆ Liquidity and lack of yield have pushed **spreads tighter** in every asset class – **even with** record low treasury yields.
- ◆ Reduced ABS, MBS, CMBS issuance has pushed fixed income accounts into corporate bonds, further reducing spreads.
- ◆ CMBS has re-emerged and is positioned to grow, hampered only by lack of property sale volume and forced recaps.
- ◆ **Multiple lenders are aggressively quoting deals with 5 year quotes in “high 3’s/very low 4’s” and 7 year quotes in “low to mid 4’s” for quality 55-60% LTV deals.**

Upcoming Maturities



Source: Foresight Analytics

All Fixed Income Spreads Tightening



Source: Bloomberg

Current Loan Pricing – Class A Office; 75% + Leased; Top 15 Market

Fixed Rates

CREDIT SPREADS to TREASURY

LTV:	<u>50.0%</u>	<u>60.0%</u>
5 Year Fixed	2.10%	2.25%
10 Year Fixed	1.65%	1.80%

COUPONS

LTV:	<u>50.0%</u>	<u>60.0%</u>
5 Year Fixed	3.50%	3.65%
10 Year Fixed	4.50%	4.65%

Floating Rates

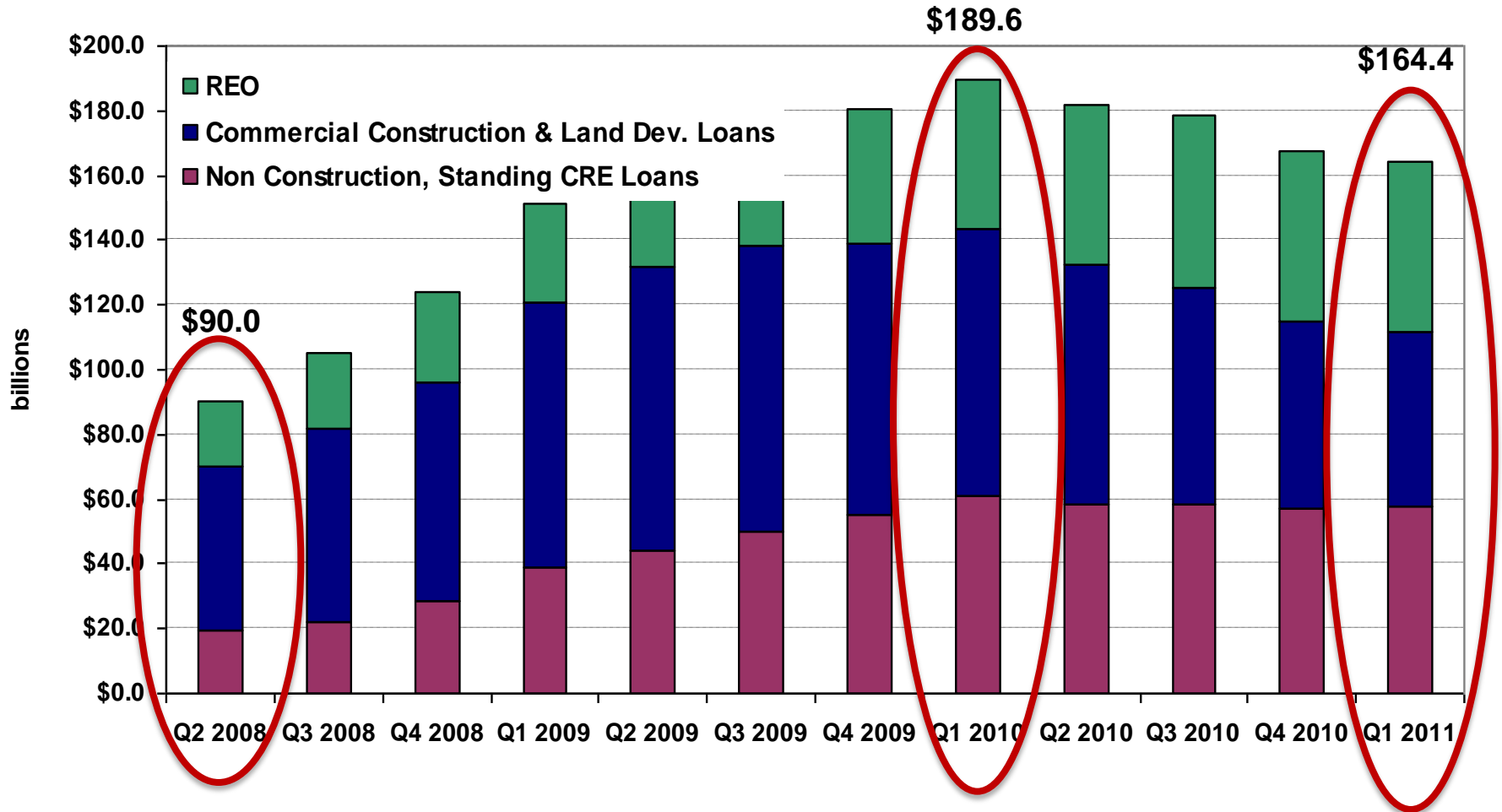
CREDIT SPREADS AND COUPONS

	<u>50.0%</u>	<u>60.0%</u>
5 Year Floating	1.65%	1.95%
5-Year Swapped to Fixed	3.45%	3.55%

Treasury/Swaps: 5 year at 1.40%/1.75%; 10 year at 2.85%/3.00%, 1 Mo. LIBOR at 0.20%

Future Supply - Banks

Commercial Banks & S&Ls 30+ Days Past Due & Nonaccrual Commercial, Construction & Land Development Loans



Source: FDIC – Insured Institutions

State of the Equity Markets

Current Themes in the Equity Capital Markets

- ◆ Trophy or Trauma is still primary theme.
- ◆ Activity growing. Expect 2004 levels (double).
- ◆ Public and Private REIT's continue to be some of the most active capital in the market, but core pension fund capital and private equity fund activity has increase as well.
- ◆ Cap Rates vs. Baa Corporate bond yields at 65 bps. spread vs. 80 bps. average since 1994)
- ◆ Pricing has increased by 50%+ from the bottom with cap rates tightening 100-150 bps for yield profile deals – but still down 10%-20% from the peak values (unless fully leased to credit tenants).
- ◆ Sellers drawn back to the market as liquidity has increased.
- ◆ Lack of return in other asset classes is a primary driver right now.

Have's

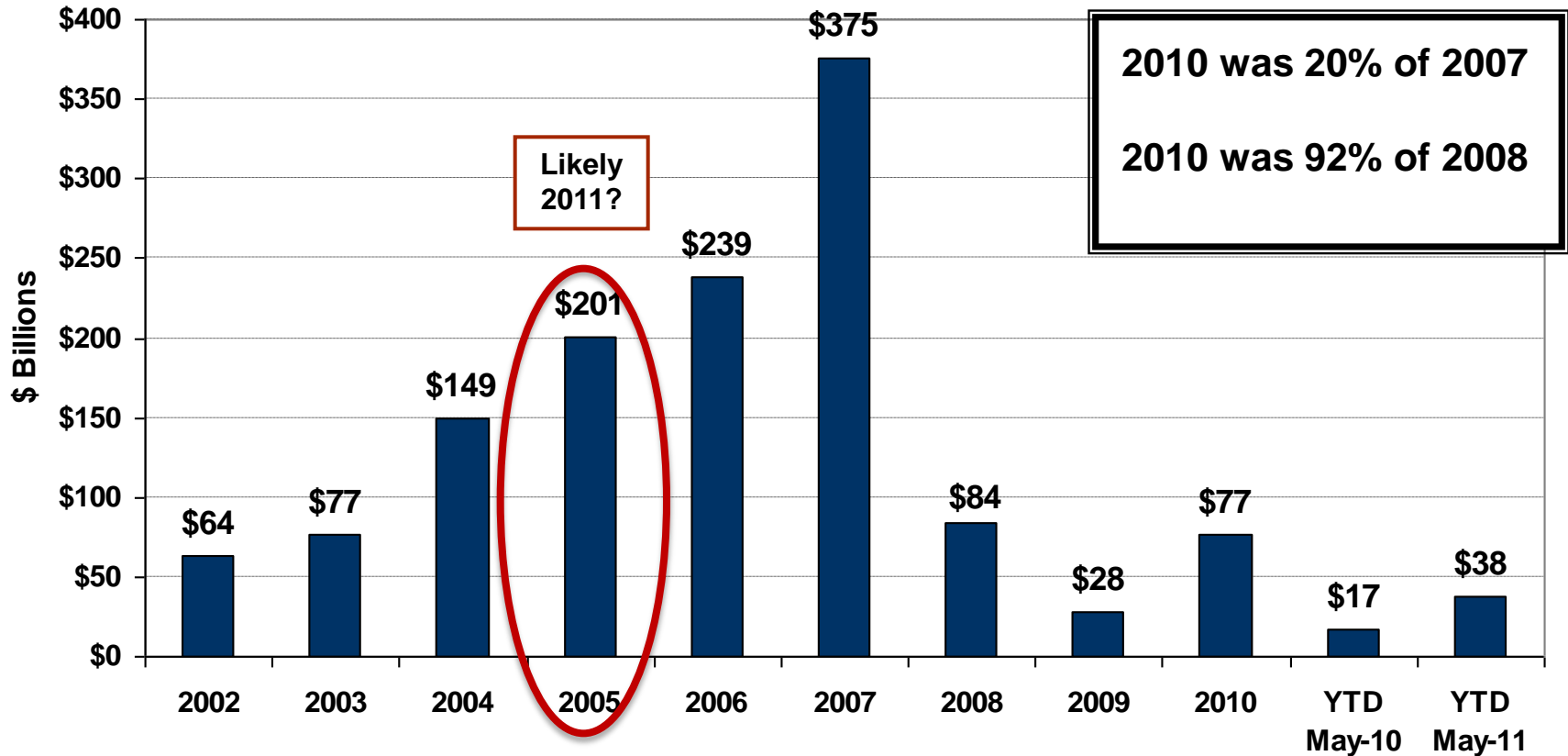
- ◆ 90%+ leased with limited roll over next 3 years; however, appetite for risk increasing more dynamic markets
- ◆ Assets with good “current yield”
- ◆ Trophy Assets
- ◆ “Core” Investments
- ◆ “Price/Pound” plays in the top 15 markets
- ◆ A & B+ quality assets

Have Nots

- ◆ Significant rollover or lease up over next 2 years with non-compelling asset or market
- ◆ B- or worse quality
- ◆ Tertiary Markets
- ◆ Typical “Value Add” lease up play unless basis/foot is cheap

U.S. Sales Volume

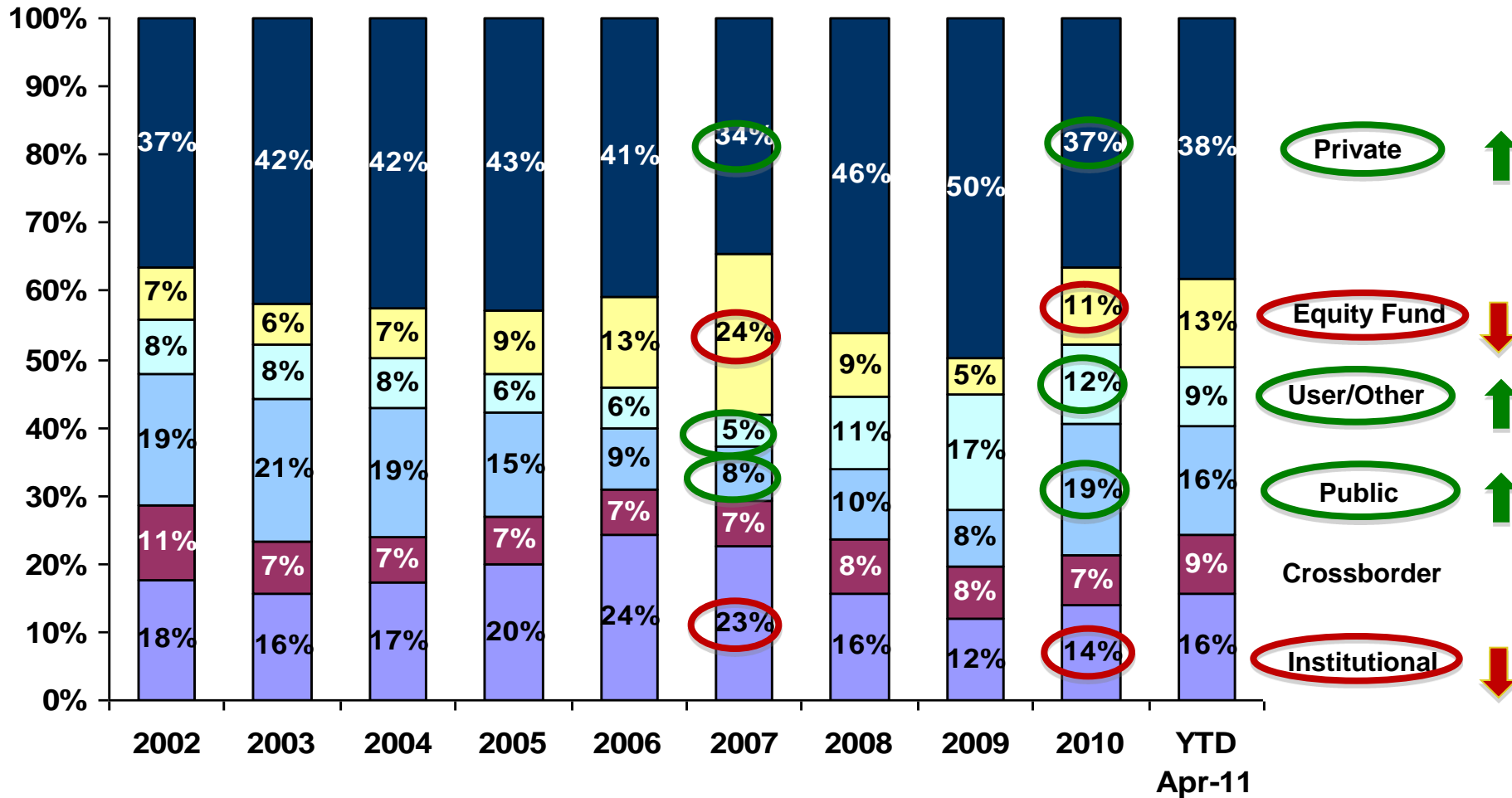
January - December >\$25 Million



Source: Real Capital Analytics

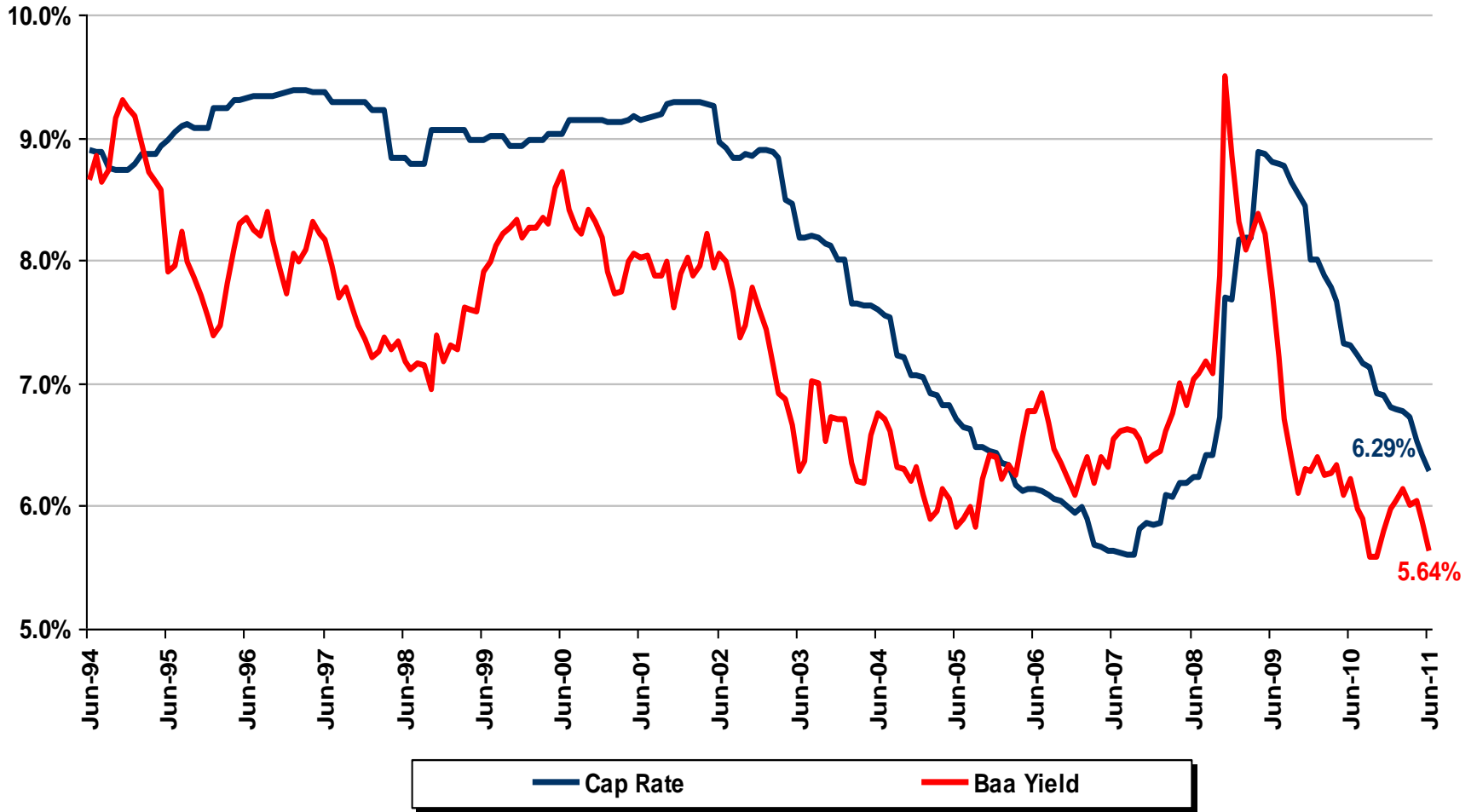
U.S. Sales Volume

Buyer Composition of U.S. Real Estate



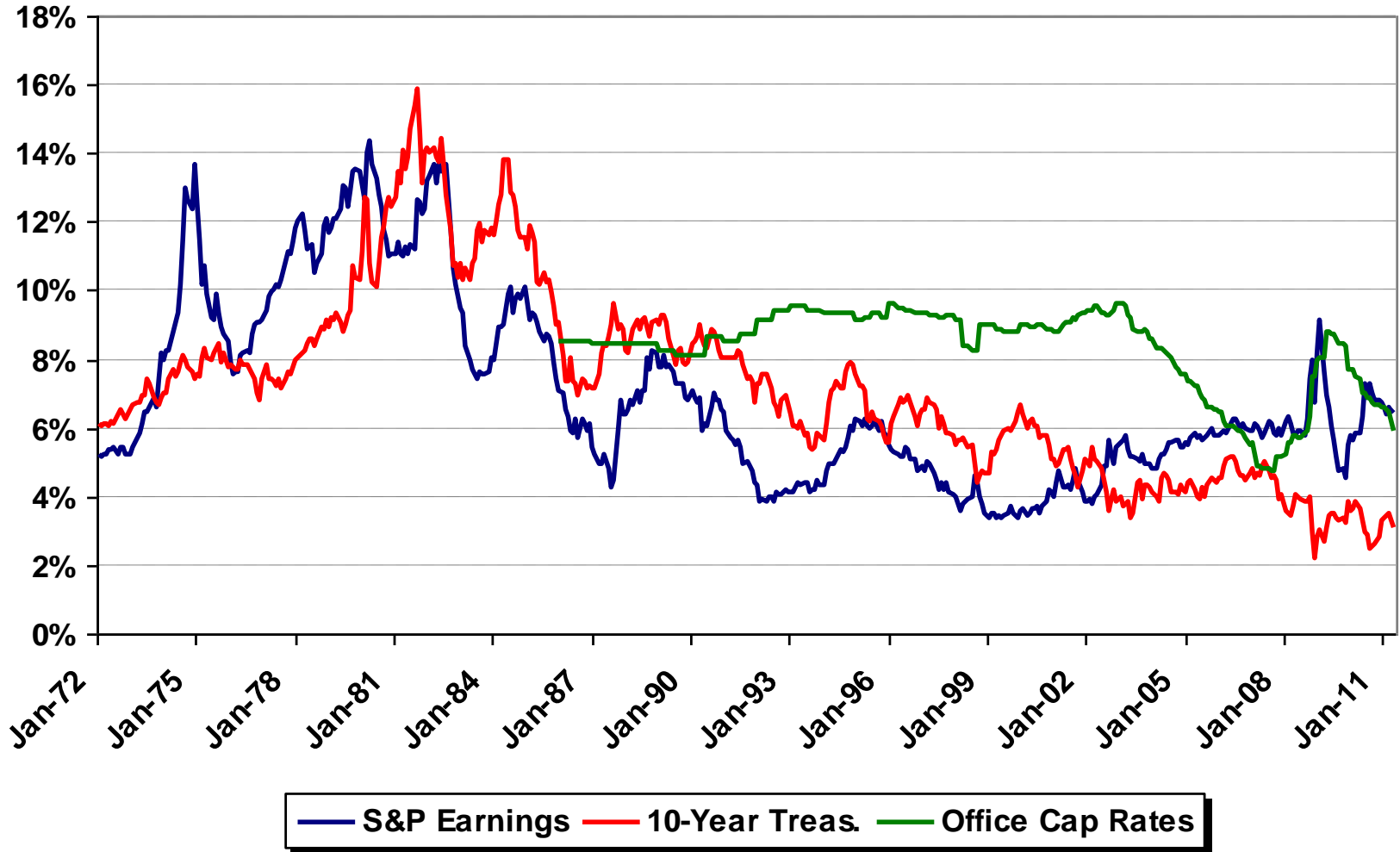
Source: Real Capital Analytics

Cap Rates vs. Corporates



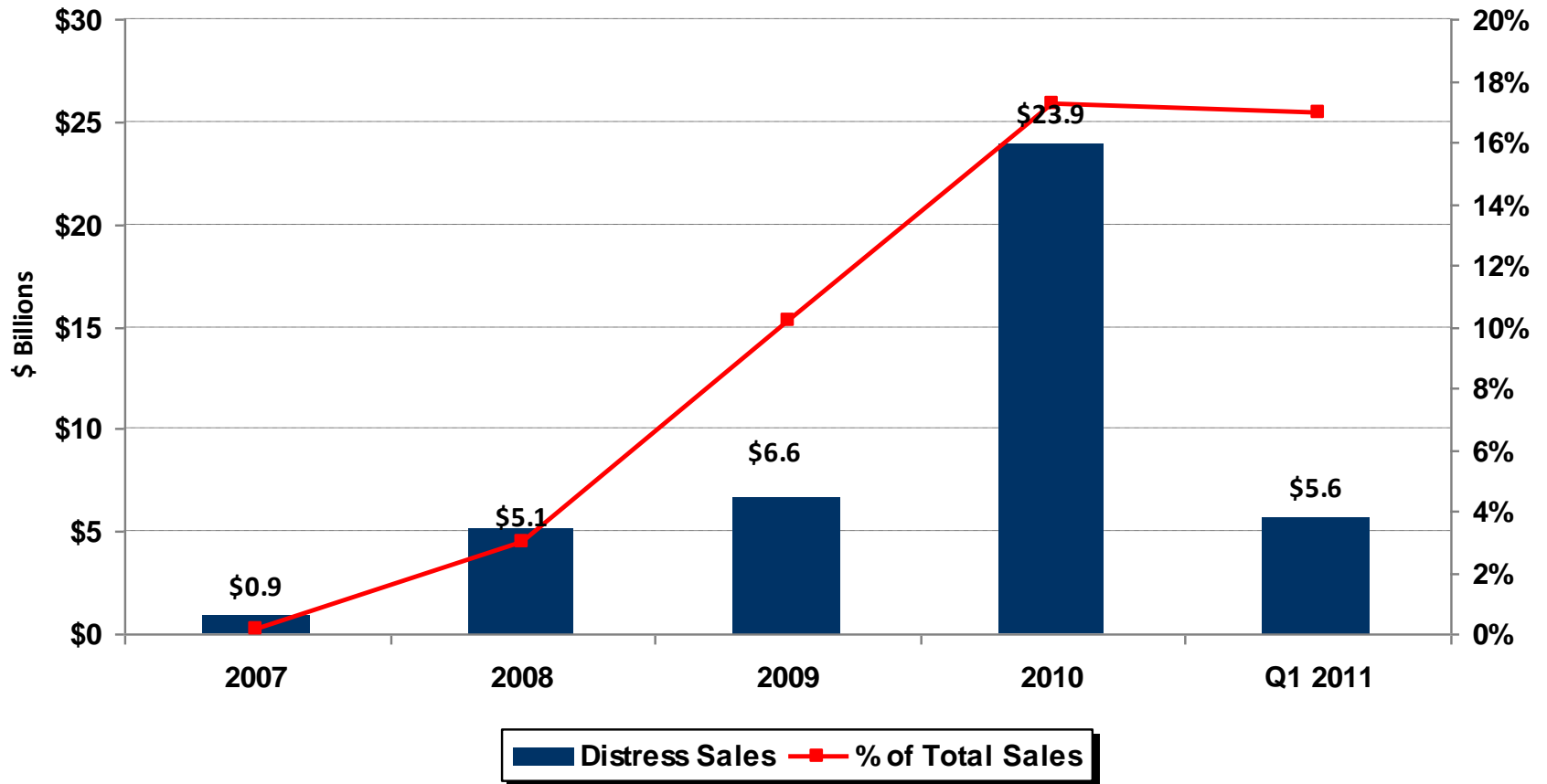
Source: Green Street Advisors
As of 6-1-2011

S&P, 10-Year Treasury & Cap Rates



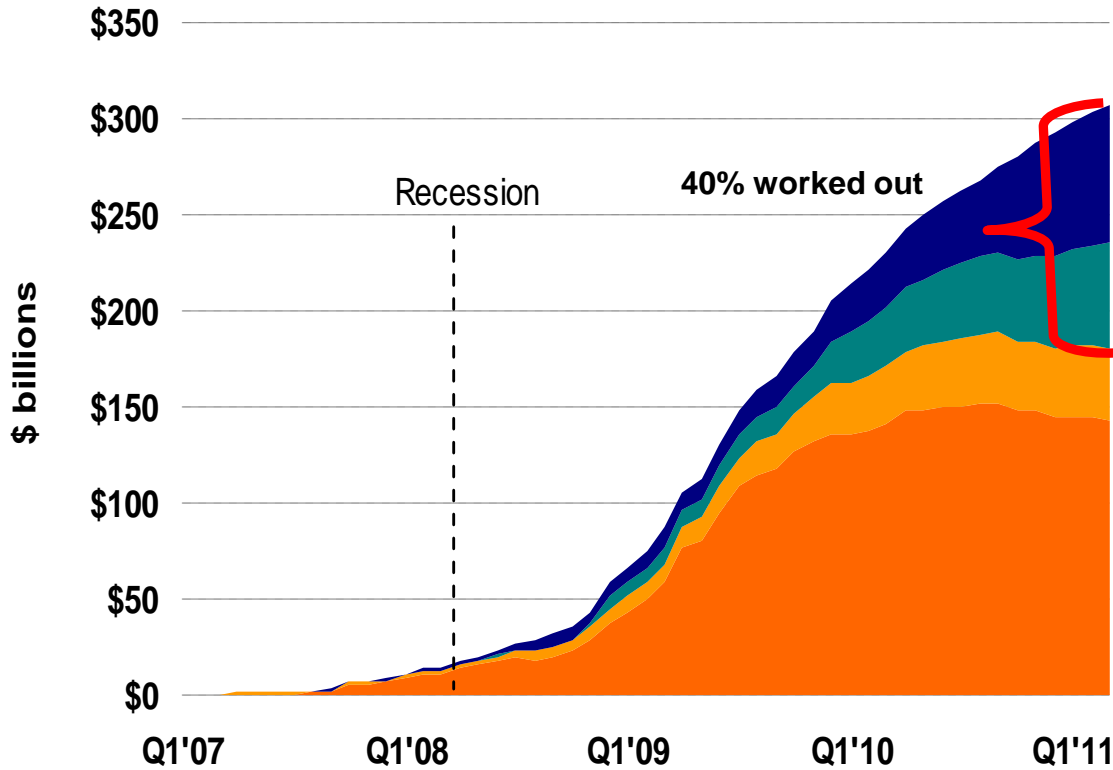
Source: Bloomberg & Green Street

Distressed Property Sales



Source: Real Capital Analytics

Cumulative Outstanding Distress Volume (\$bil)



■ Troubled
 ■ REO
 ■ Restructured
 ■ Resolved

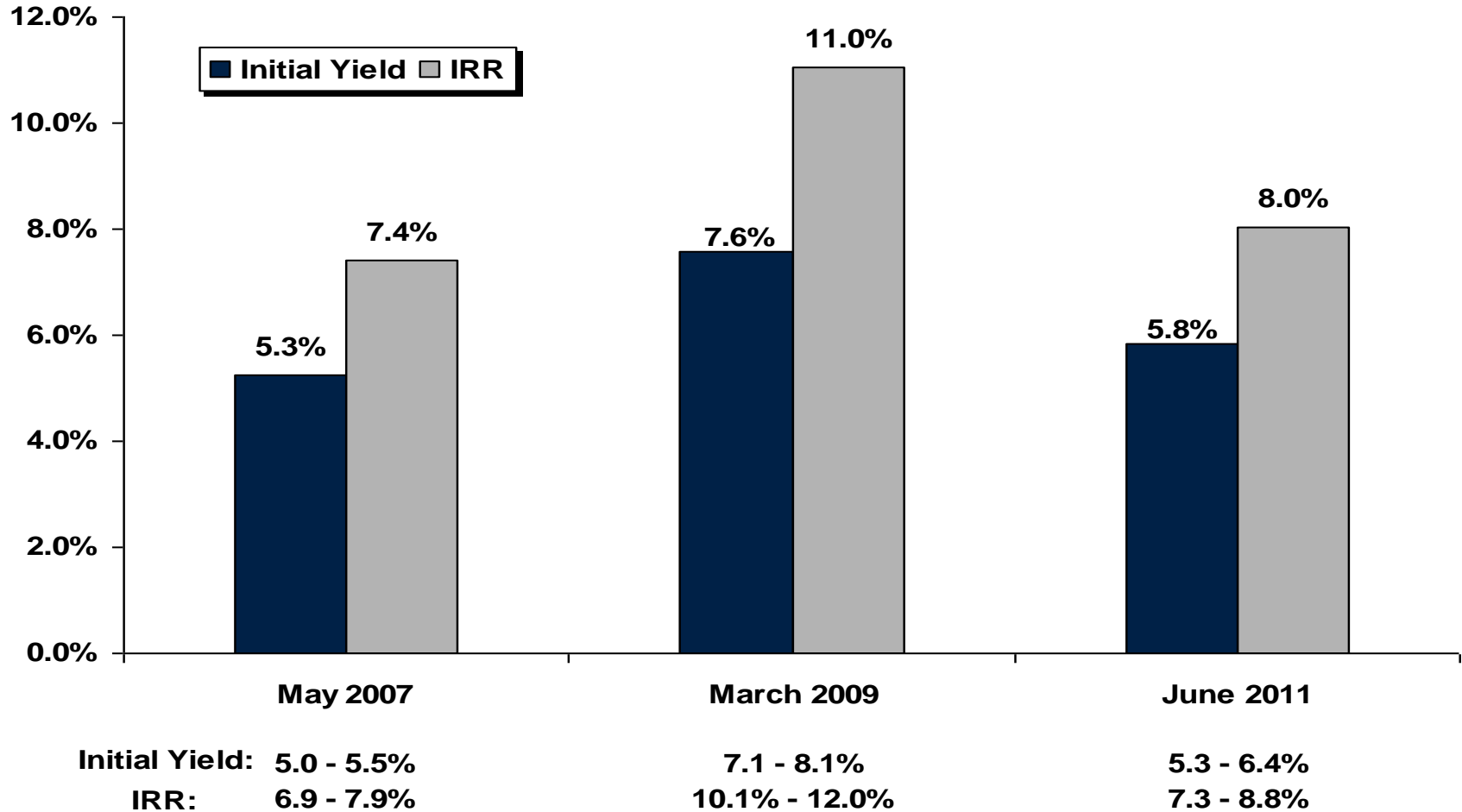
Cumulative Distress Since 2007

Resolved: \$72.6
 Restructured: \$54.2
 REO: \$38.3
 Troubled: \$142.4

Total: \$307.5

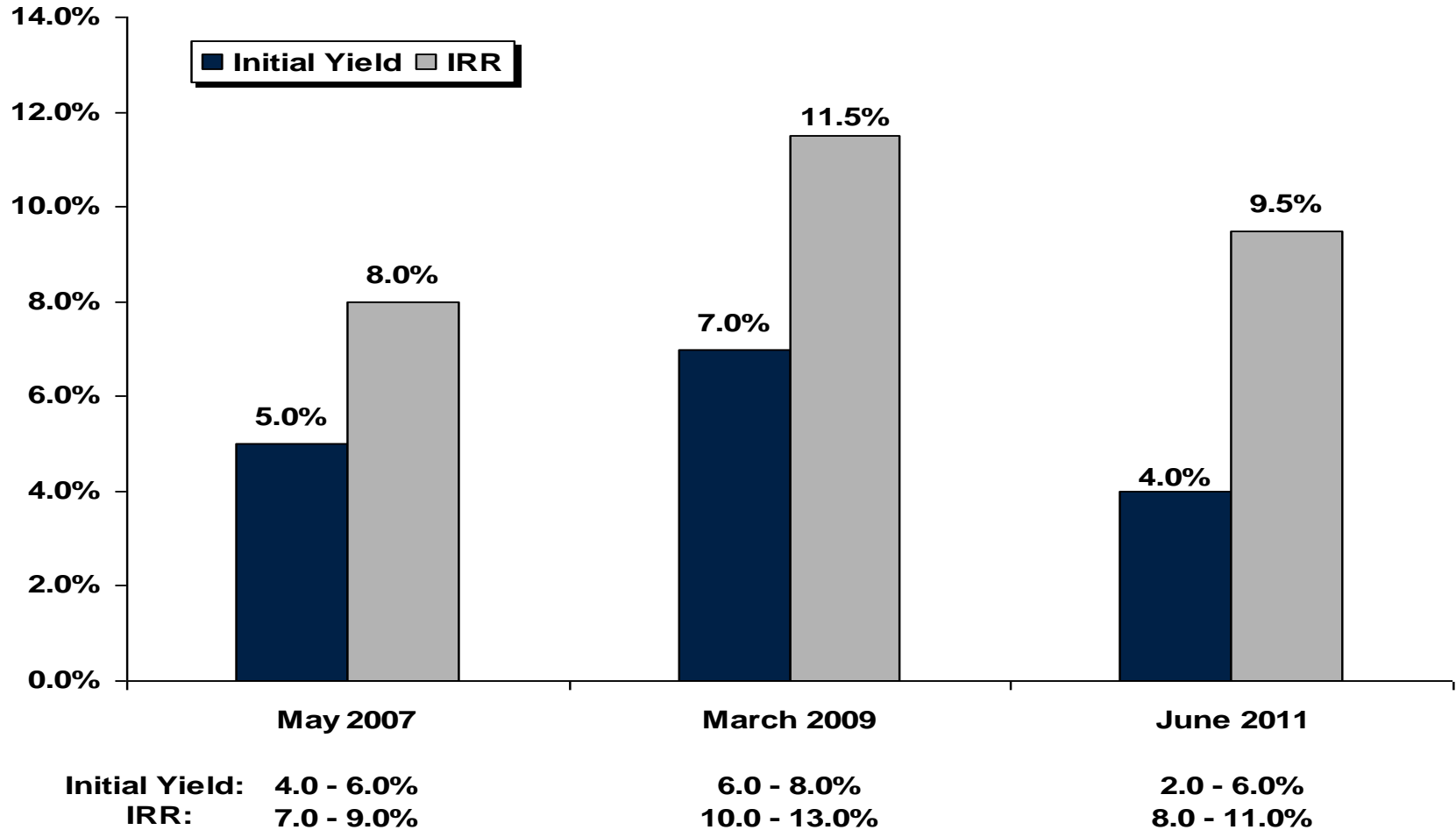
Pricing

Gateway Market Pricing - Office



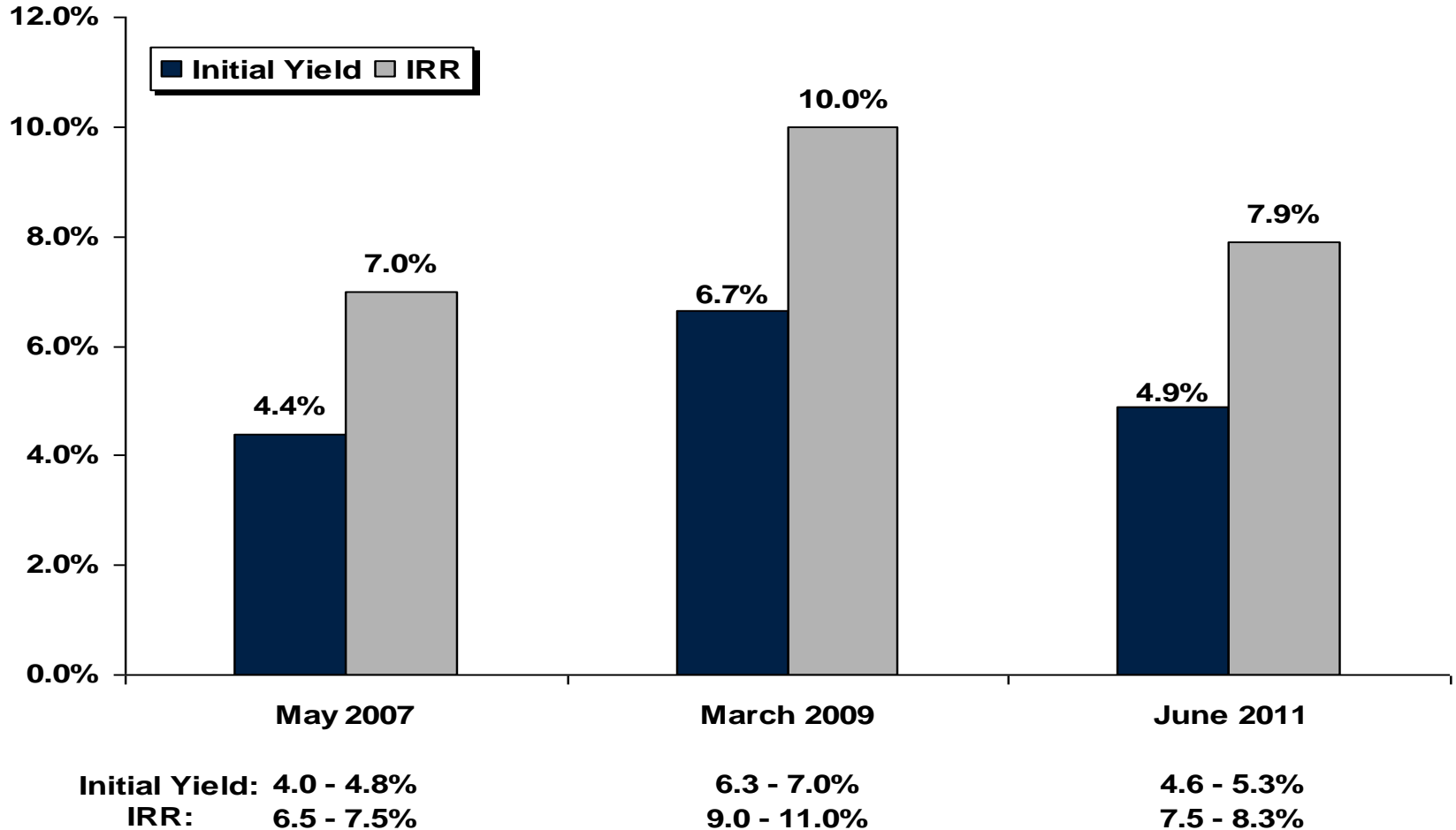
Source: Eastdil Secured

Gateway Market Pricing - Hotel



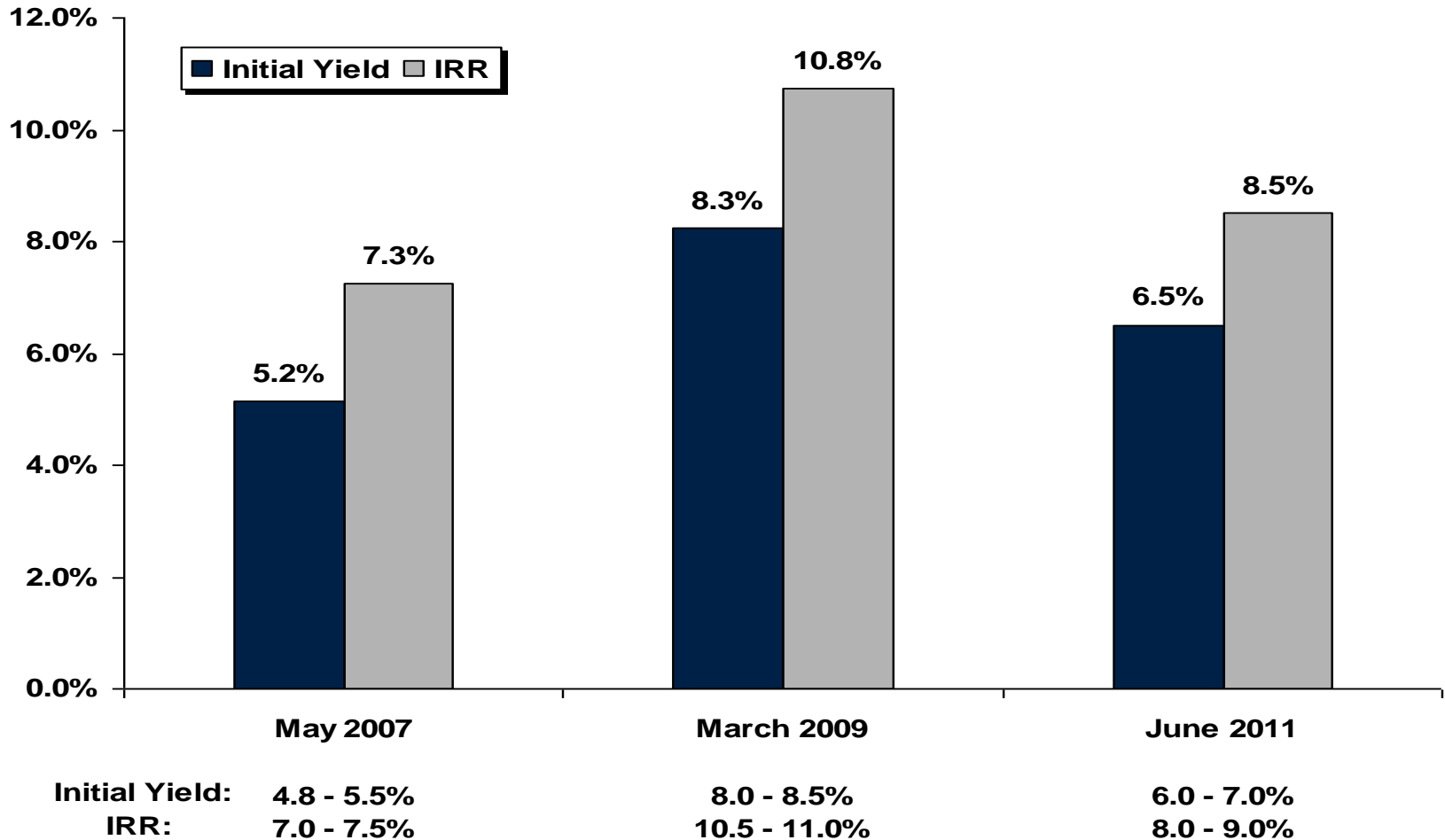
Source: Eastdil Secured

Gateway Market Pricing - Multifamily



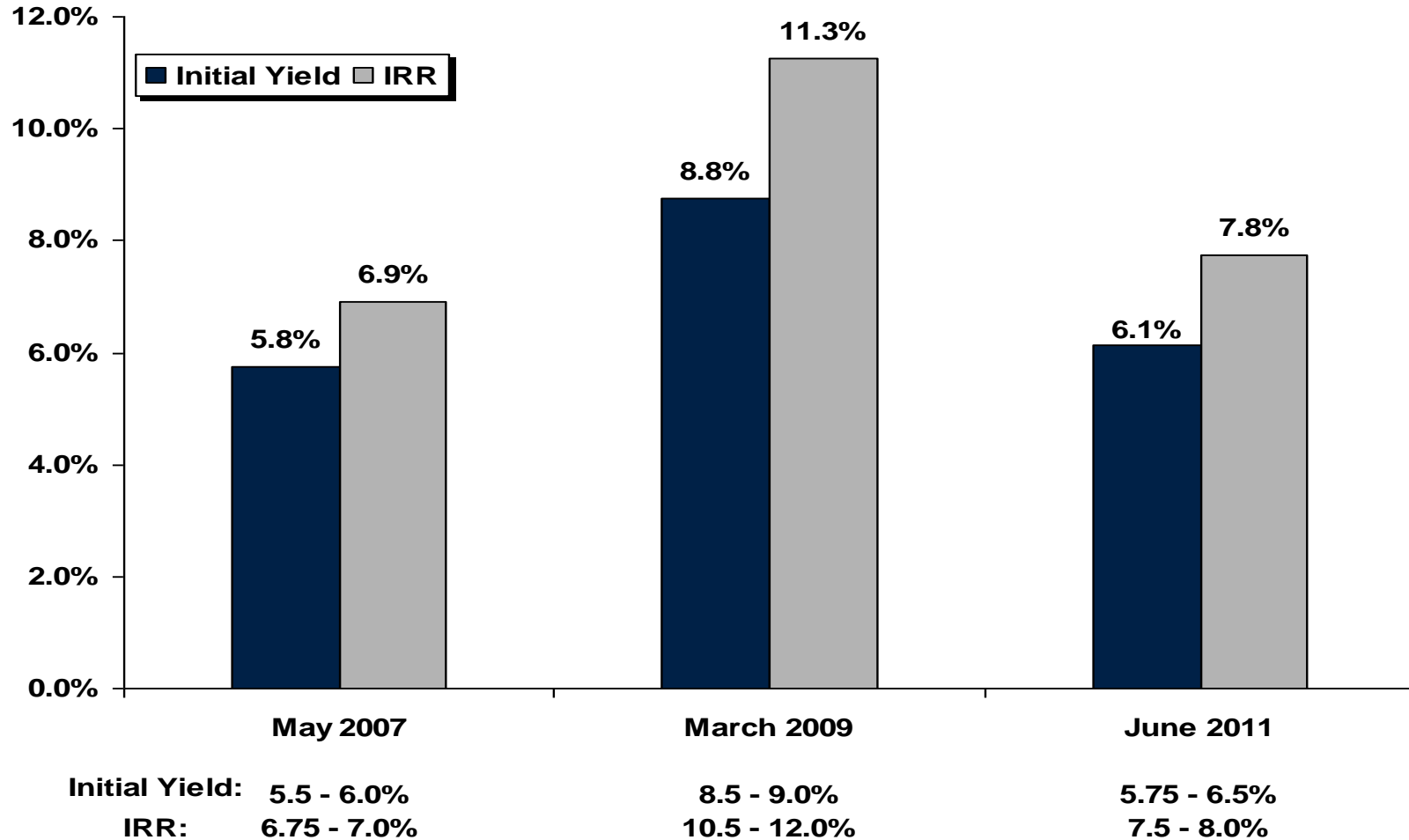
Source: Eastdil Secured

Gateway Market Pricing - Industrial



Source: Eastdil Secured

Gateway Market Pricing – Open Air Retail

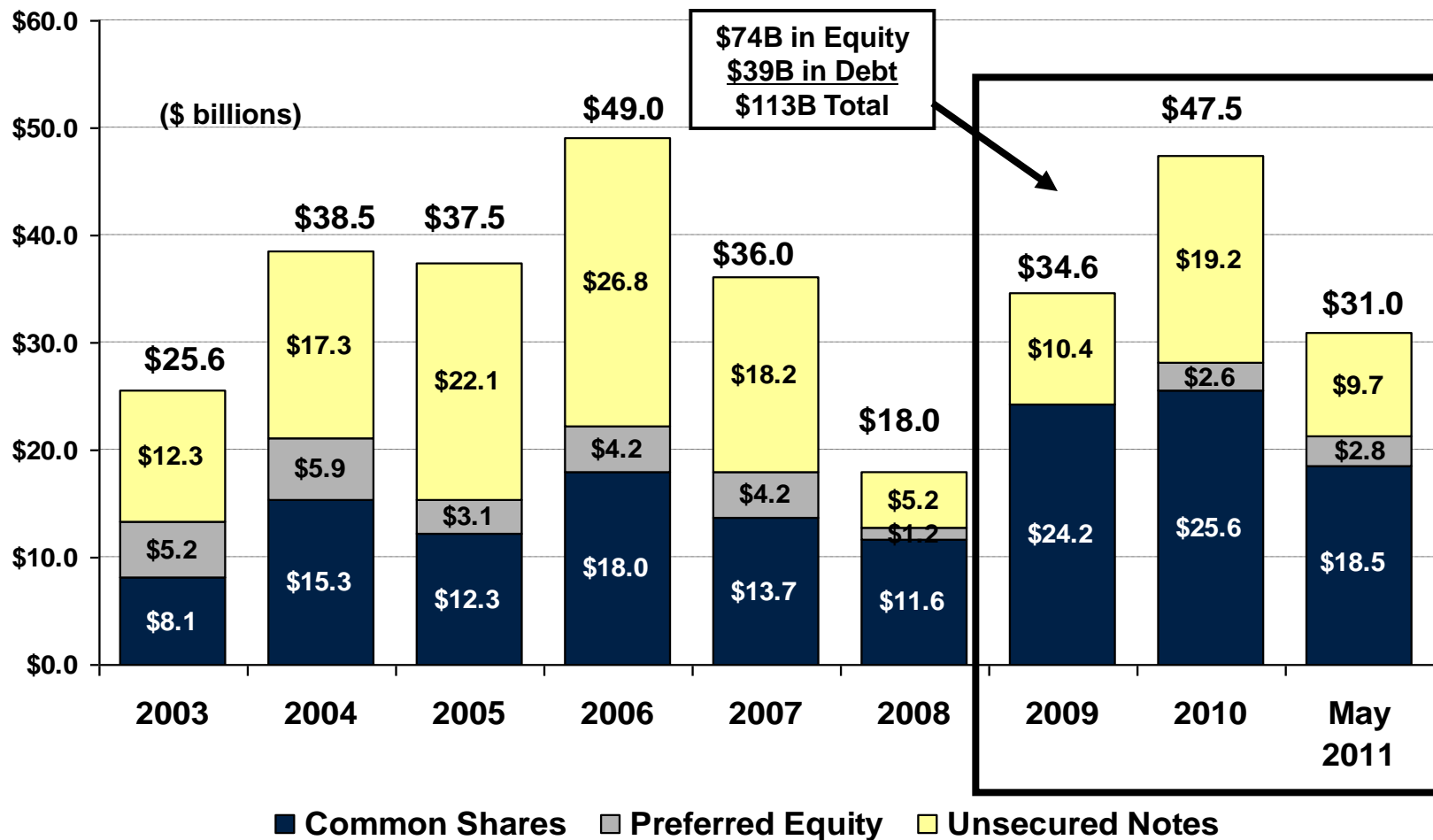


Source: Eastdil Secured

Public Markets

Historical REIT Issuance - Common Equity and Unsecured Notes

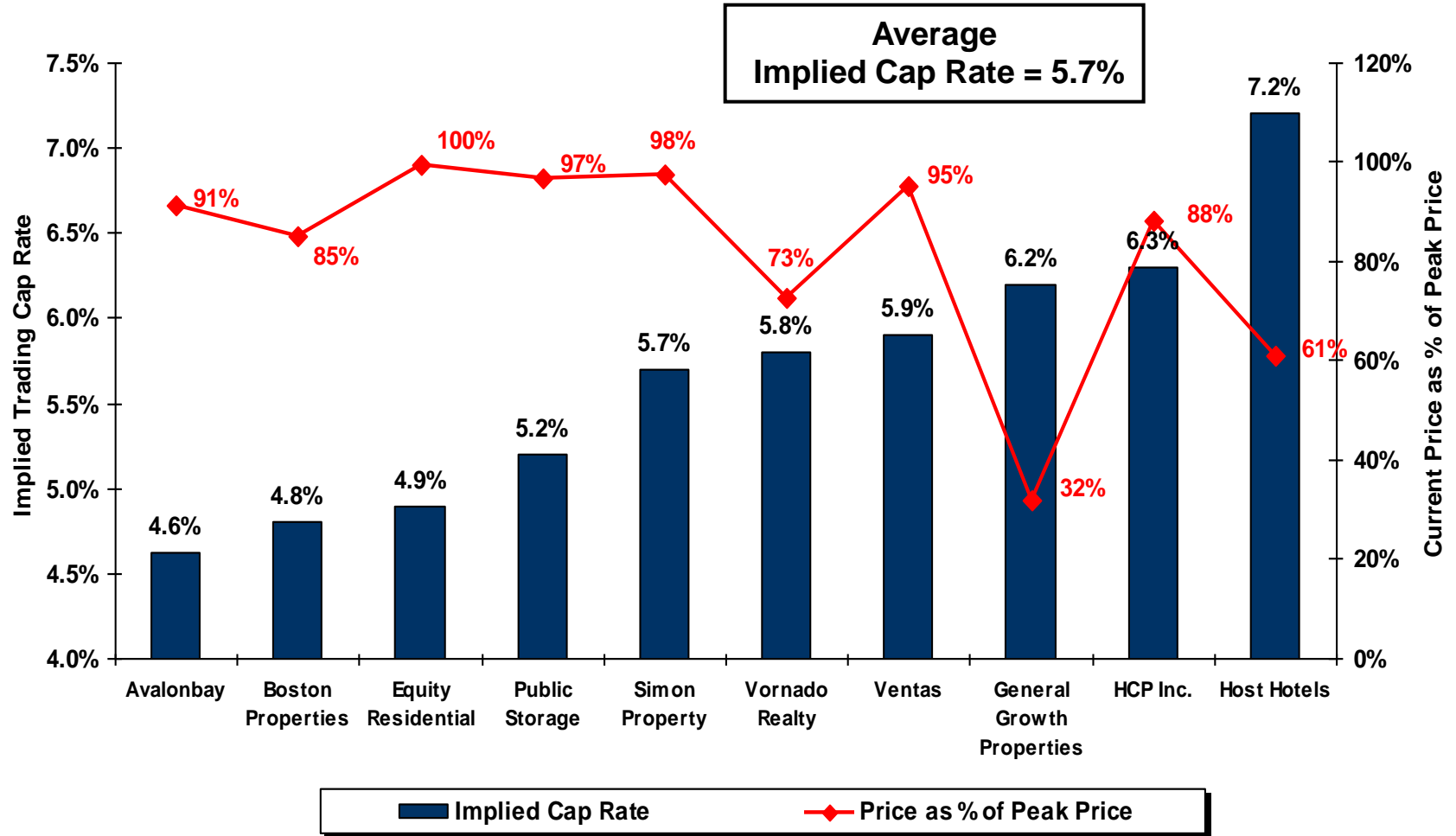
Total Dollar Amount of Debt Equity Issuance (\$ billions)



\$74B in Equity
\$39B in Debt
\$113B Total

\$47.5
\$34.6
\$19.2
\$10.4
\$2.6
\$24.2
\$25.6
\$9.7
\$2.8
\$18.5

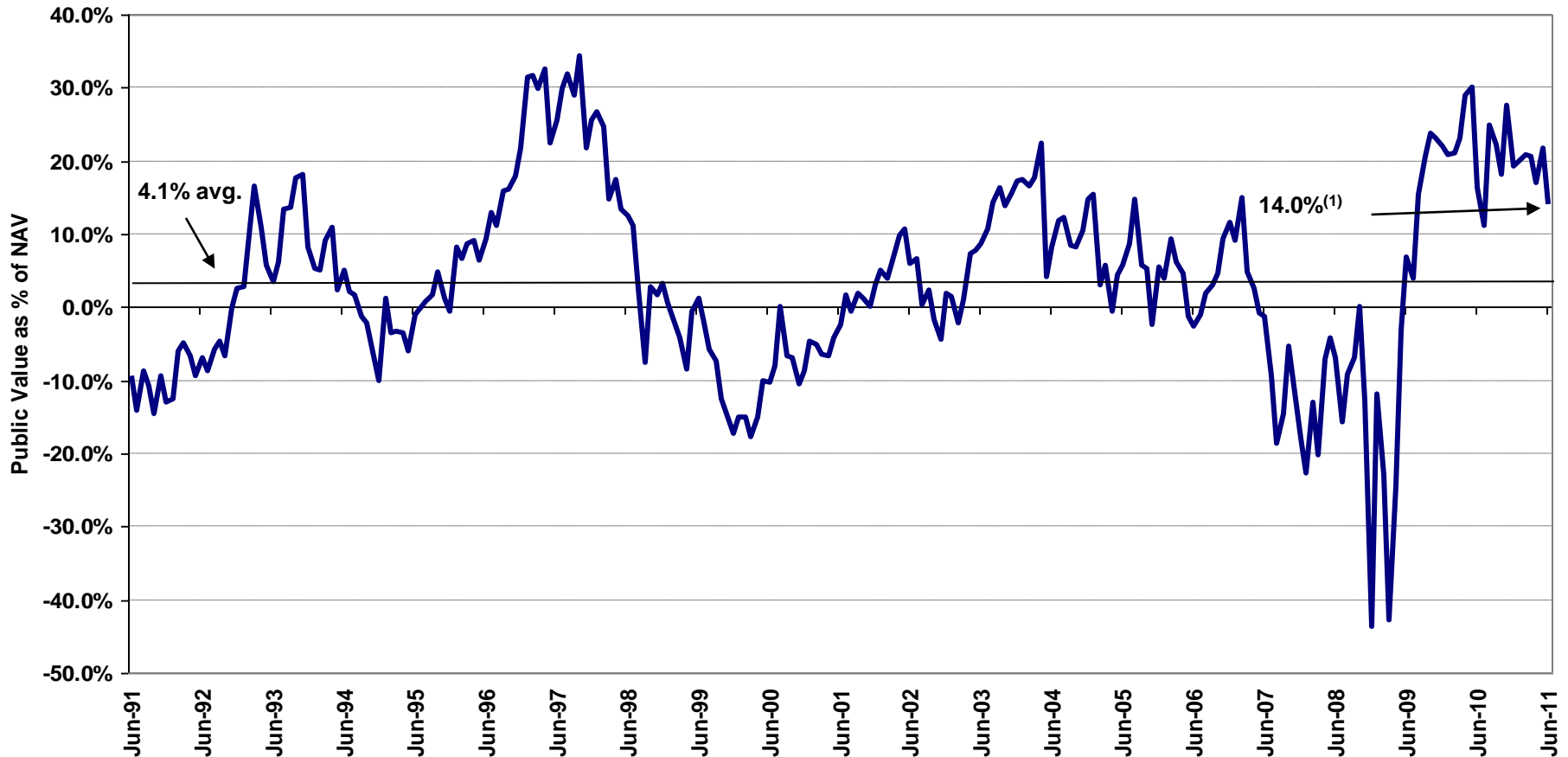
Top 10 REITs based on Total Market Capitalization



Source: Green Street Advisors
 As of June 3, 2011

REITs vs. Private Market Real Estate

Public Markets are Anticipating Improvement

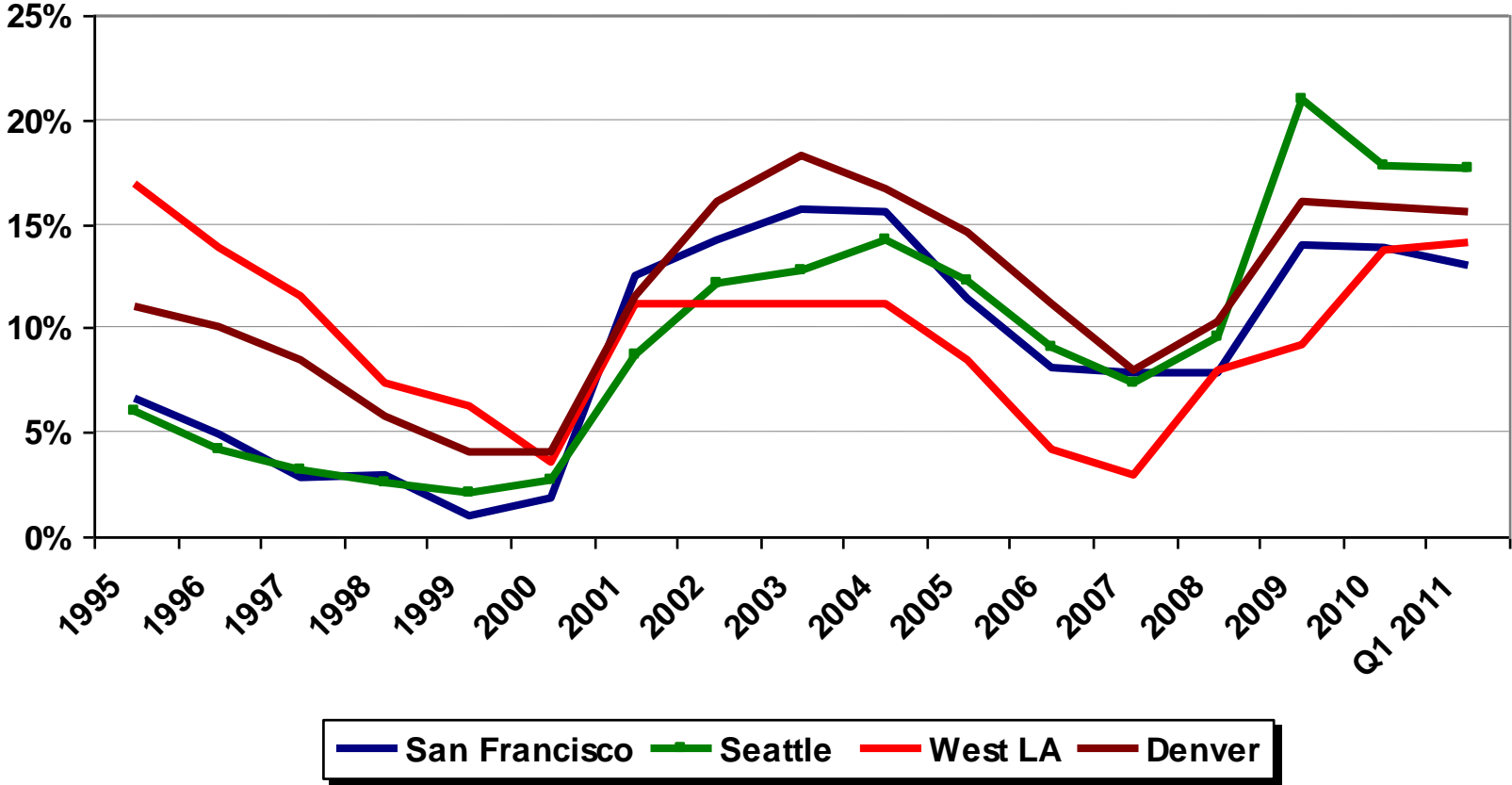


(1) Current premium to asset value is **9.2%** on an unlevered basis.

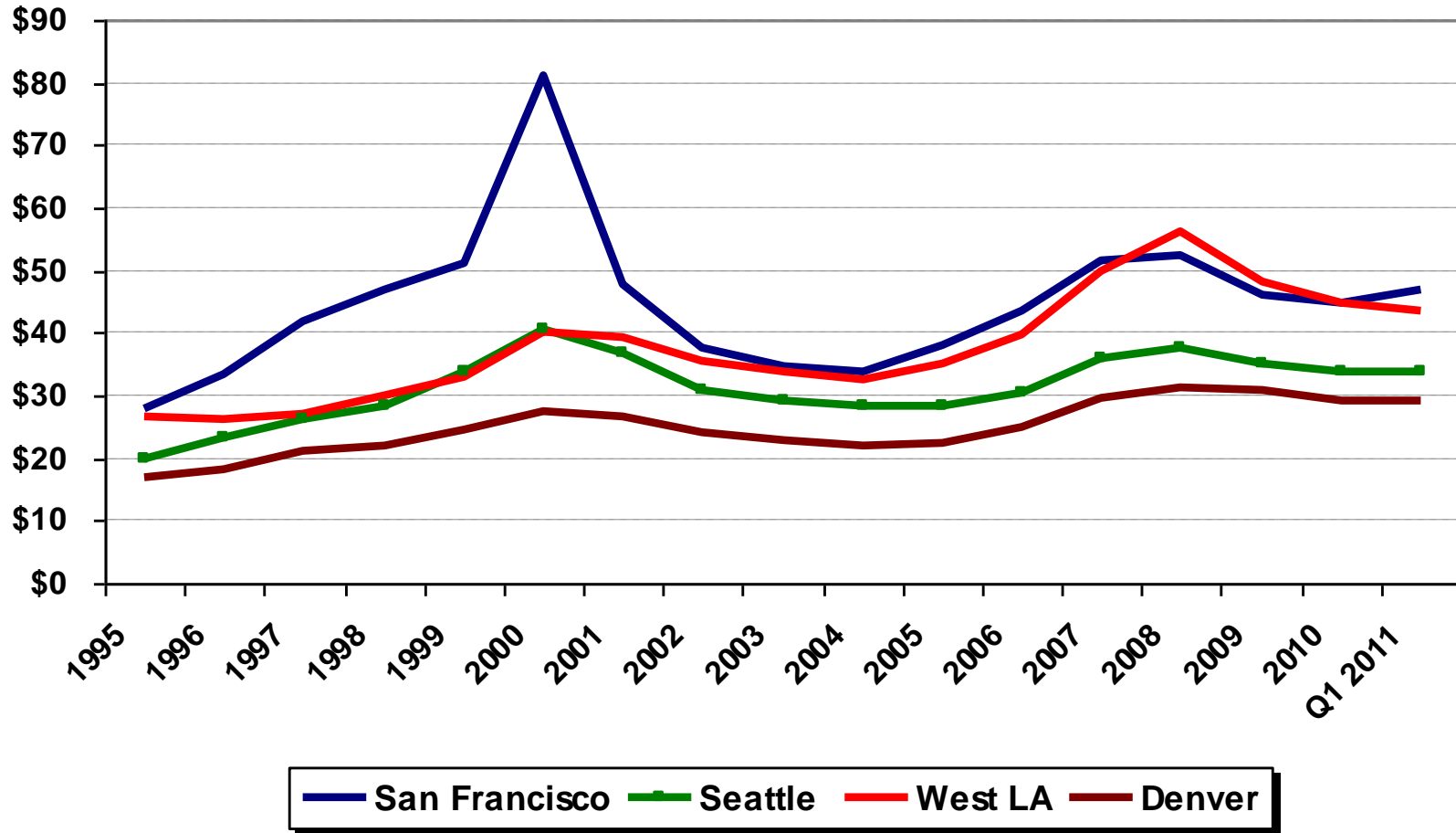
Source: Green Street Advisors, As of 6-3-11

Market Fundamentals

Class A Vacancy Rates (West Coast CBD Submarkets)

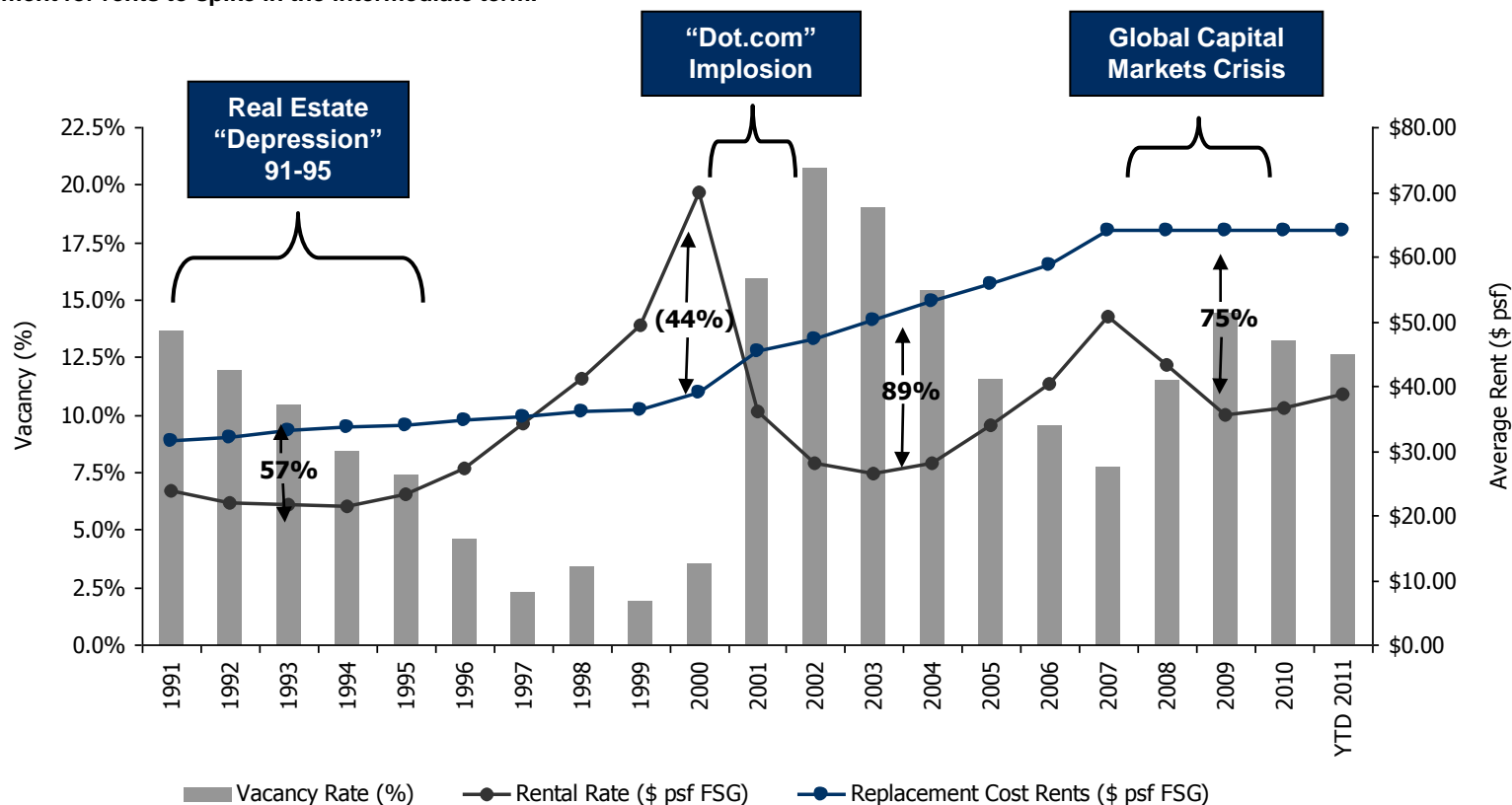


Class A Rental Rates (West Coast CBD Submarkets)

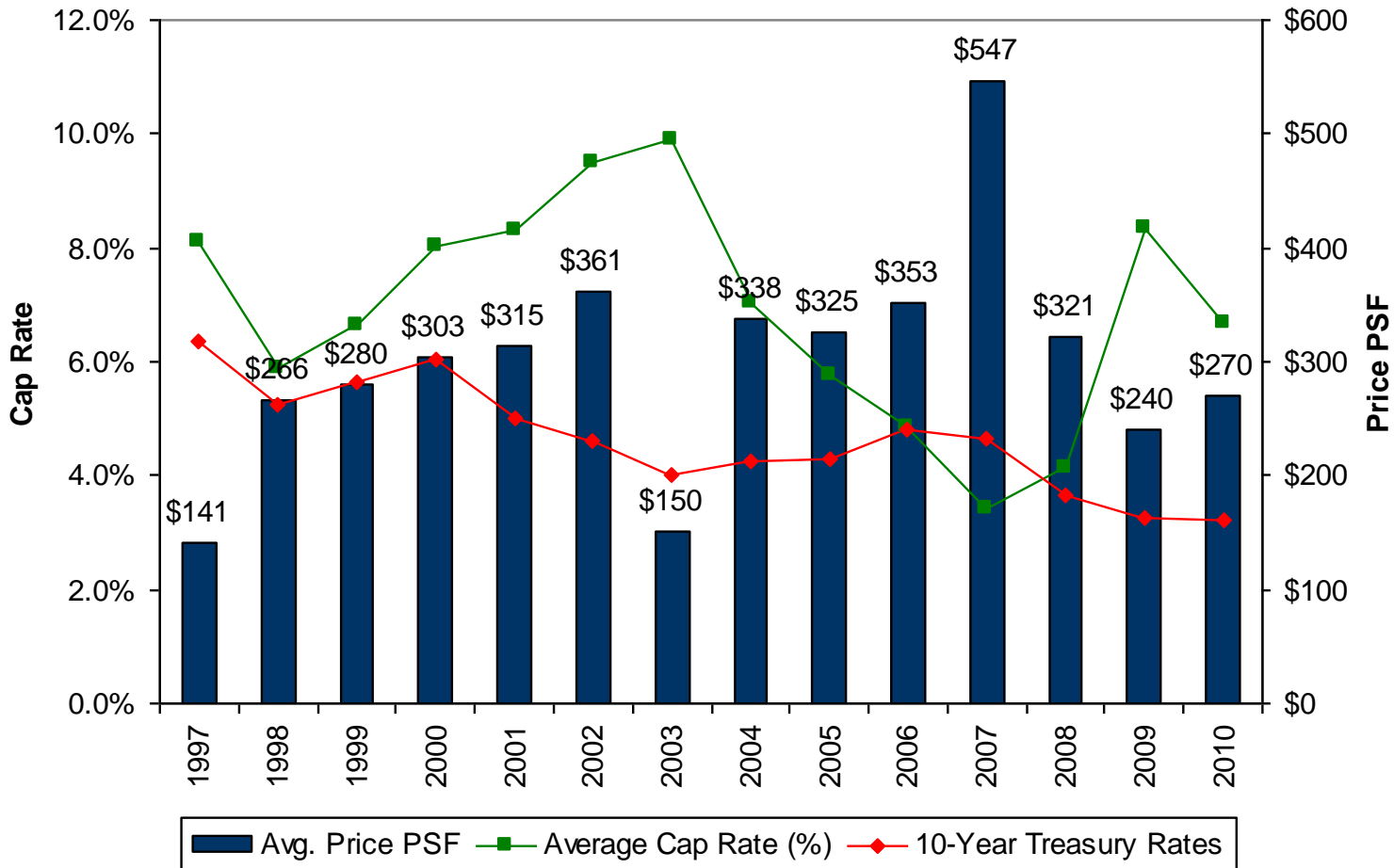


San Francisco CBD Office Market Historical Overview

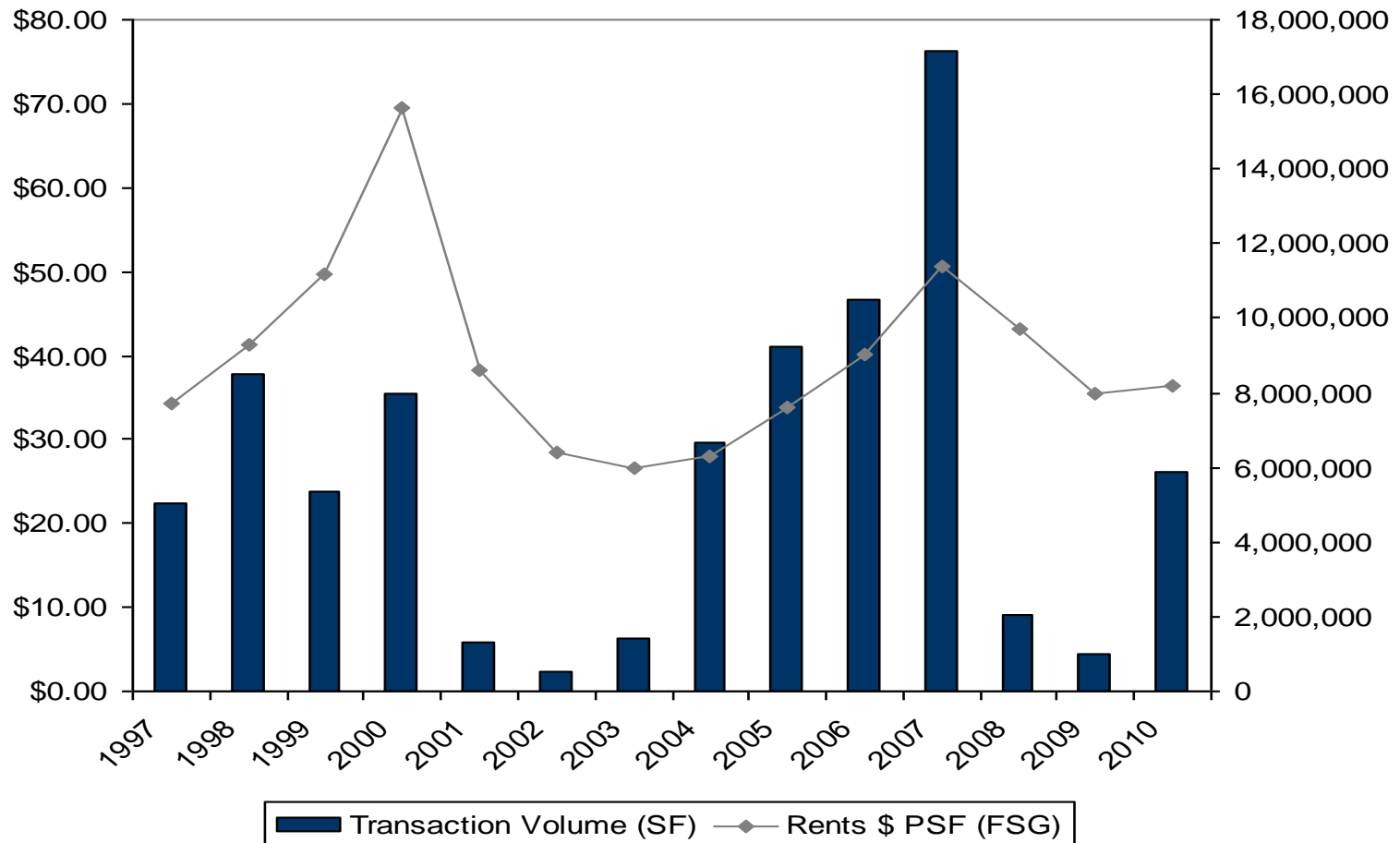
- ◆ As of Q1 2011, rents were 45% lower than they were in 2000.
- ◆ Rents need to increase by approximately 65% today to close the gap with replacement cost rents.
- ◆ **With the significant gap between current and replacement cost rents and virtually no new office supply in the foreseeable future, there is a strong argument for rents to spike in the intermediate term.**



San Francisco Historical Cap Rates and Avg. Price PSF



San Francisco – Correlation of Rents & Transaction Volume



Recent Pricing Progression – Case Study

12-month Pricing Progression -- SF CBD			
	Q3 2010	Q3 2011	% +/-
Class A Wtd. Avg. Mkt Rents	\$35.00	\$42.00	20.0%
<i>Less 5% General Vacancy</i>	(\$1.75)	(\$2.10)	
Market Op Ex	<u>(\$16.00)</u>	<u>(\$16.48)</u>	
Net Rents	\$17.25	\$23.42	35.8%
Price Senitivity			
5.50% Cap Rate	\$100,000,000	\$135,768,116	
5.75% Cap Rate	\$95,652,174	\$129,865,154	35.8%
6.00% Cap Rate	\$91,666,667	\$124,454,106	
\$ psf	\$288 psf to \$314 psf	\$398 psf to \$434 psf	
% Leased	~95.0%	~95.0%	