

Capital Markets and Commercial Real Estate

Columbus Board of Realtors

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CRE Overview

- **Vacancy Rates**

- It would appear that vacancy rates are seeing some decline across all products albeit at a slow pace
- Multifamily has seen the steepest decline due to a decrease in homebuyers and lack of supply; this combination has caused vacancy rates to drop below 5% overall making the market favorable to landlords
- An increase in capital in this sector has made new construction of apartment projects feasible which will introduce more supply into the market
- It is expected that vacancy will continue to slowly decline with increased consumer confidence, GDP, and consumer spending

- **New Construction**

- There has been a noticeable increase in the construction of multifamily units so far 2012
- The limited development in other sectors has been beneficial in increasing occupancy

- **Sources of Capital**

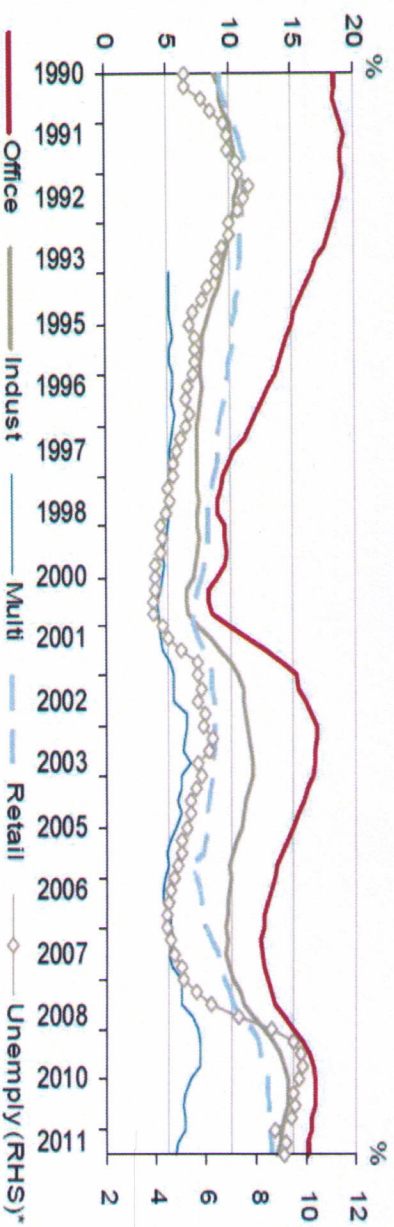
- CMBS, regional and local banks, Insurance companies, private equity, and government financing have all been trying to negotiate the uncertainty in the financial markets
- Foreign debt troubles slowed sources of financing in mid 2011

- **Cap Rates**

- Cap rates have compressed and are hovering near a normalized number
- Again, due to the strength of the residential rental market and increase in property level cash flow, multifamily continues to benefit from decreased cap rates. All other products are expected to remain relatively stagnant in value

Current Status of Commercial Real Estate

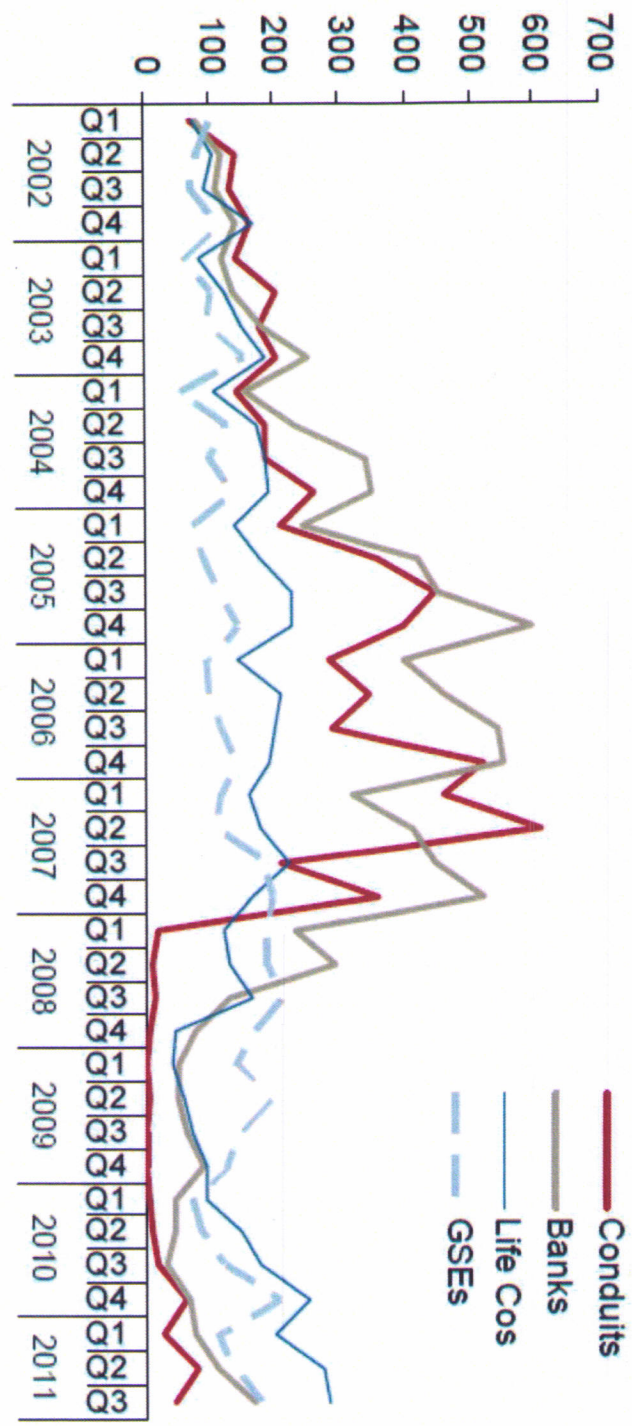
Vacancy Rates



*Non-seasonally adjusted, quarter-end
Source: CBRE-EA, Bureau of Labor Statistics, Credit Suisse

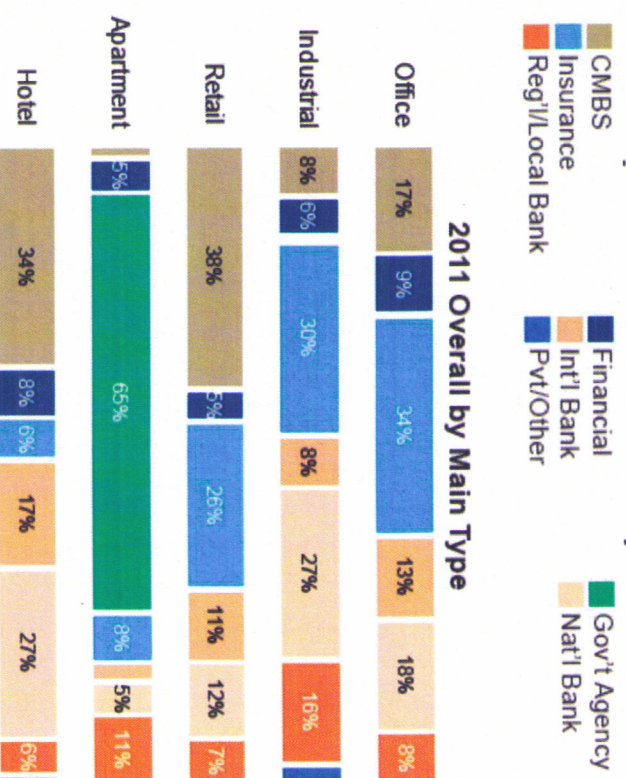
	1Q 2011	1Q 2012	1Q 2013 (Projected)	Current for Columbus
Office	16.5%	16.4%	16.0%	16.9%
Industrial	14.2%	11.7%	10.9%	13.0%
Retail	13.0%	11.9%	11.0%	16.0%
Multifamily	5.8%	4.7%	4.5%	5.2%

Originations by Lender Type



What are the sources of capital?

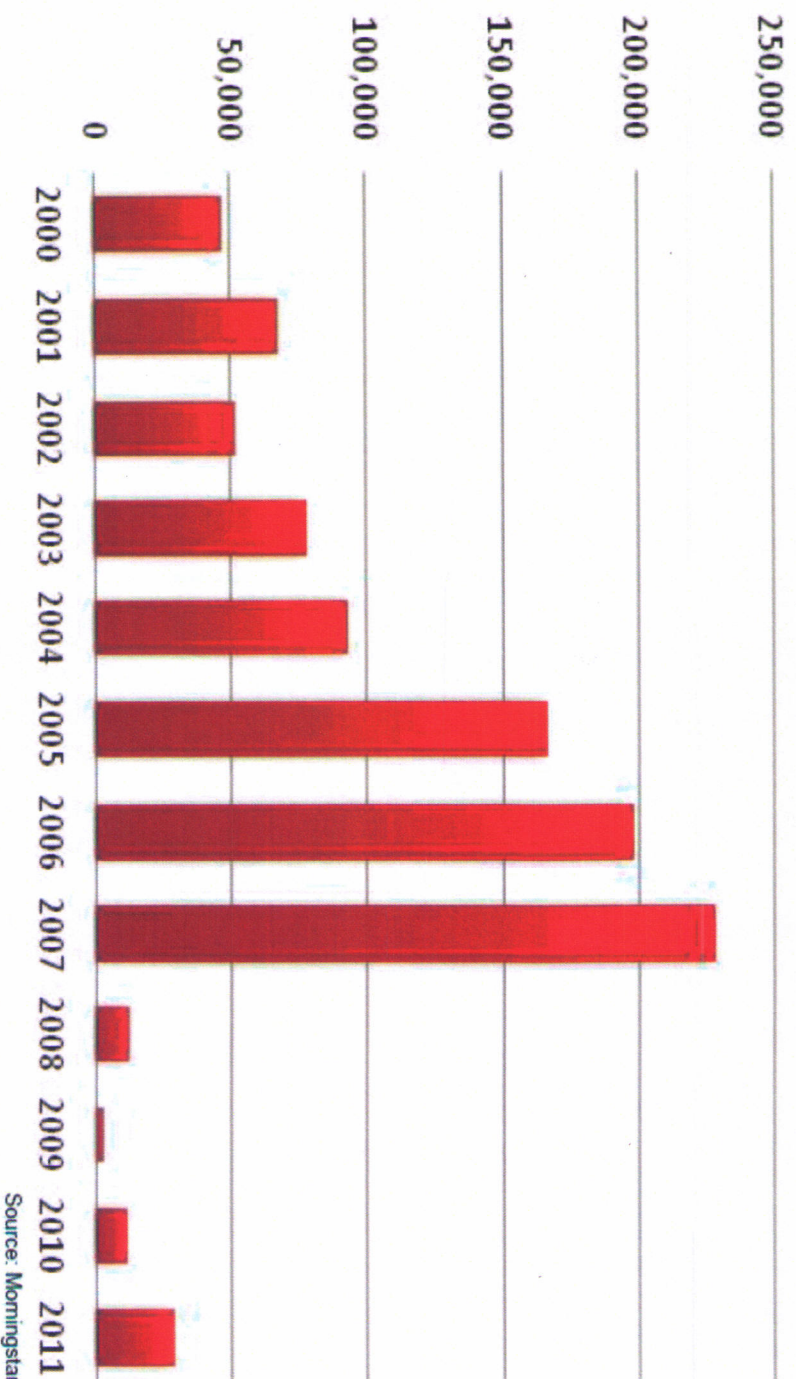
- While CMBS has become active again, securitized loans have yet to be a significant source in the apartment sector
- Funds sourced through government agencies and insurance companies have maintained focus on stabilized assets, while regional and national banks have been active in construction financing



Source: RealCapitalAnalytics

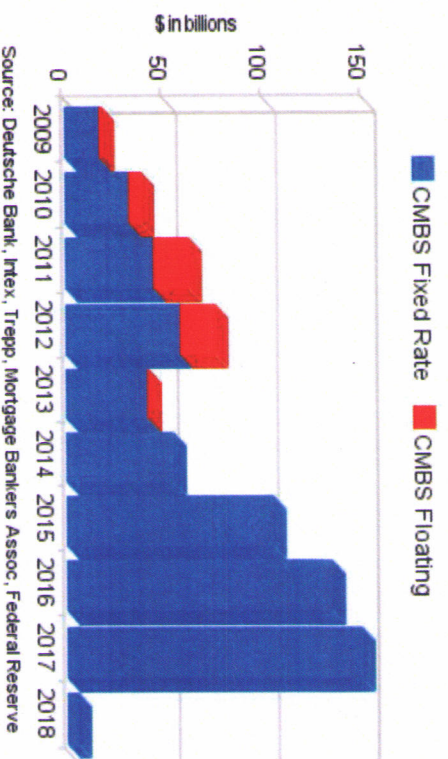
Historical CMBS

U.S. CMBS Issuance

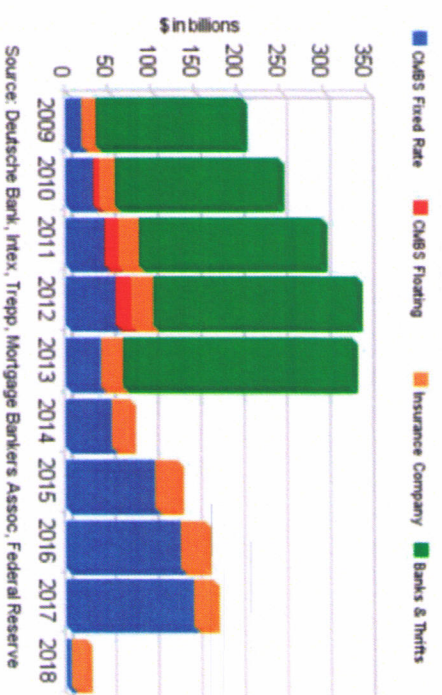


Loan Maturities

CMBS Loan Maturities



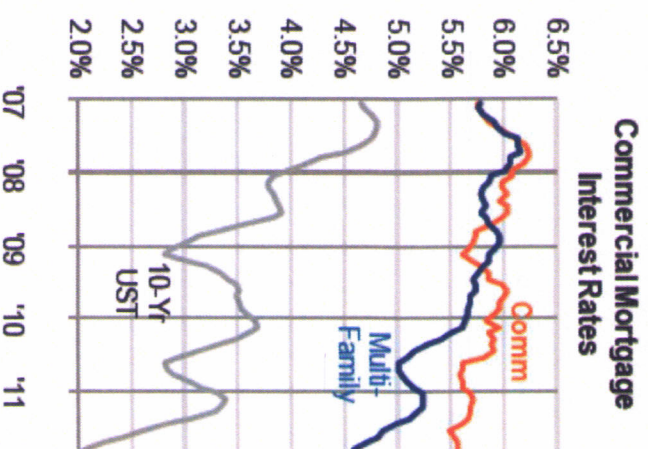
All Commercial Loan Maturities



Current Status of Commercial Real Estate

Multi-Family

- Two factors have played significant roles in the rebound of the multifamily sector; leasing fundamentals and the composition of capital markets
- Government financing options including Freddie, Fannie, and HUD accounted for 65% of mortgage originations in 2011 for the apartment sector
- Governmental financing and financing provided by insurance companies has focused on stabilized properties while banks have become more active in construction financing
- Mortgage rates for the multifamily product type are, on average, 100 bps below other commercial mortgages

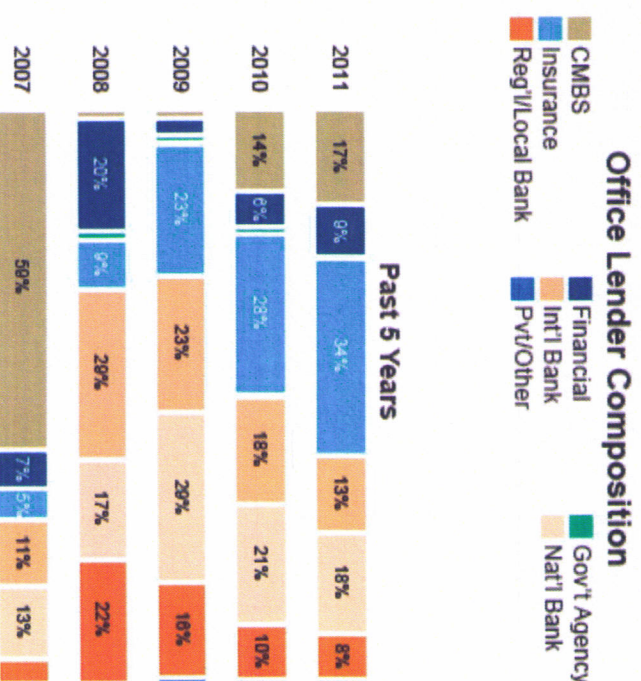


Source: RealCapitalAnalytics

Current Status of Commercial Real Estate

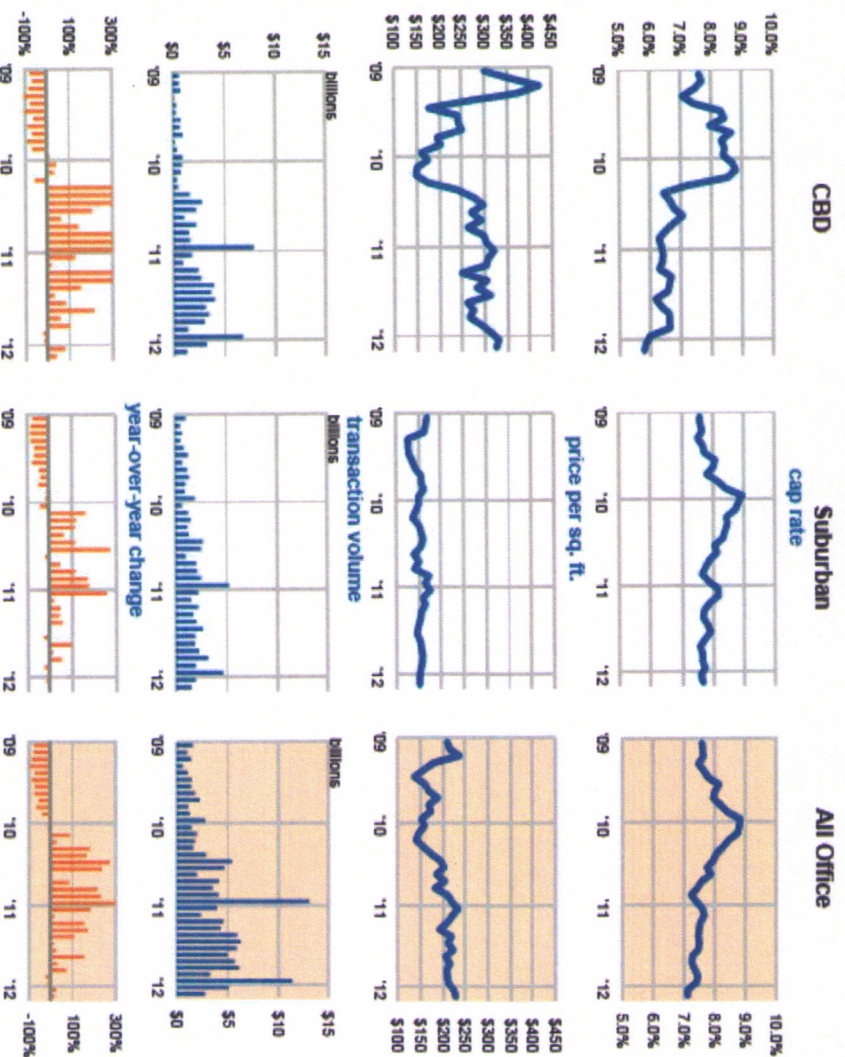
Office

- CMBS more than doubled it's share of lending on office which resulted in 17% of all originations in the office sector for 2011
- Regional banks continue to hold only a small portion of market share at 8% but have proven to be a critical source of financing for the tertiary markets
- While insurance companies and foreign banks are more active in this product type than any other, they are also the most selective sources of debt in terms of asset quality and location



Source: RealCapitalAnalytics

Office continued...



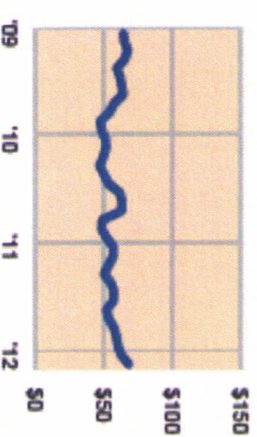
Source: RealCapitalAnalytics

Current Status of Commercial Real Estate

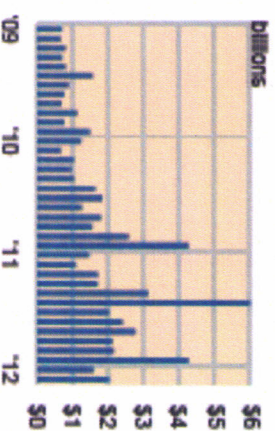
Industrial

- CMBS has lagged behind in originations in the industrial product type in 2011
- This sector relies heavily on community and regional banks as their sources for funds though insurance companies have increased their lending in this sector in 2011
- Insurance companies are responsible for 30% of 2011 originations up from 24% in 2010 and as low as 6% in 2007
- Though CMBS originations slowed in 2011, they have exceeded 1Q expectations for 2012. It is expected that the increase in lending in this sector by national banks means that some of the recent originations are slated for future securitization

Price per Square Foot



Transaction Volume

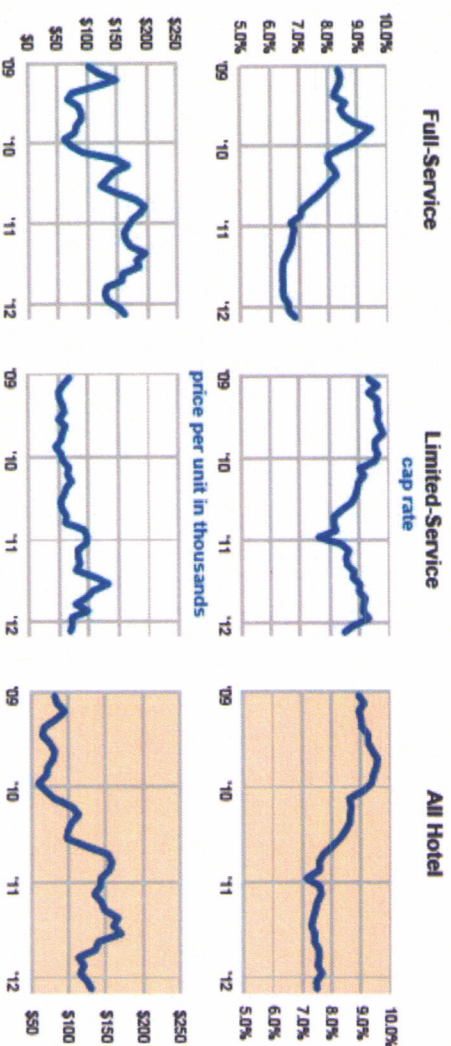


Source: RealCapitalAnalytics

Current Status of Commercial Real Estate

Hotel

- The hotel sector has benefitted the most from the increased activity by CMBS in 2011, which accounted for more than half of the hotel originations throughout the year
- Financial market volatility lead to increased loan spreads in the summer months, the decrease in treasuries resulted in lower spreads only in the multifamily sector



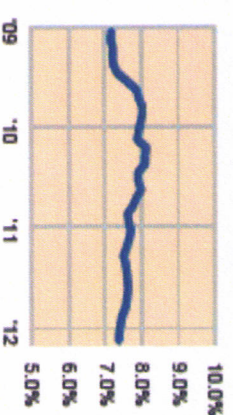
Source: RealCapitalAnalytics

Current Status of Commercial Real Estate

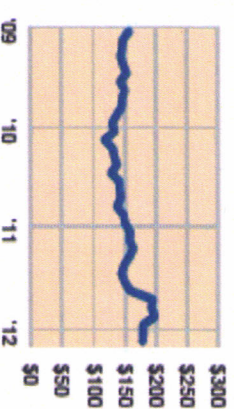
Retail

- Retail is another sector that has benefitted from the revival of the CMBS market
- 38% of originations in 2011 in retail were from CMBS; additionally, CMBS conduits have shown a willingness to provide financing in tertiary markets. In 2011 CMBS conduits were responsible for 60% of originations in tertiary markets
- Borrowers are still having difficulty finding financing for unanchored strip centers and distressed centers as banks and insurance companies do not feel that the market is stable enough to mitigate the associated risk

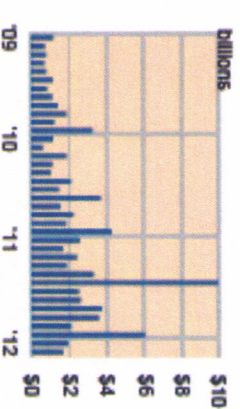
Cap Rates



Price /Square Foot



Transaction Volume



Source: RealCapitalAnalytics

What are banks requiring?

- Bank lending parameters revolve around risk, exit strategy, and strength of borrower:

Product Type	LTV	LTC	Min. DSCR	Amortization (Years)
<u>Multi family</u>	80%	85-90%	1.2	30
<u>Retail</u>				
<u>Anchored</u>	80%	85-90%	1.2	25
<u>Unanchored</u>	70-75%	80%	1.4	20
<u>Office</u>	75%	85-90%	1.25	25
<u>Industrial</u>	75%	85%	1.25	25
<u>Hotel</u>	65%	70%	1.5	20
<u>Land</u>	65%	N/A	N/A	20

- In addition to project specific metrics, banks also evaluate the sponsor of the transaction. While there is not necessarily a magic number or ratio for all banks, many want to see a certain level of liquidity, recurring cash flow, and net worth. Additionally, banks will look at the experience of the sponsor, their success in the industry, and their overall relationship with the bank.

Potential Closing Pitfalls

1. Equity contribution

- How much?
- Hard or soft equity?

2. Property Type

- What are the preferred property types?

3. Financial Package

- Is the package complete?
- Are all questions answered?

4. Liquidity

- How much does the sponsor have?

5. Sponsor Experience and Track Record

- Number of years?
- Specialty?