



Market Meltdown Investment Opportunities in the U.S.

Back to the Future

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CBRE
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- U.S. Apartment Market and Capital Market Overview
 - What's Hot / What's Not
 - Opportunities
 - Positioning

- Credit Crunch has not yet affected Multi Housing Starts and completions. However, development is expected to drop significantly in 2009 and 2010.
- Completion of Multi Housing Units has remained steady at 300,000 units per year, of which 120,000 are market rate apartments.
- Supply / demand is generally in balance with the exception of Miami. However, cities to watch for potential imbalance are:
 - Phoenix
 - Houston
 - Dallas
 - Austin

- Condo converters and highly leveraged private buyers were the rabbits in the apartment real estate race.
- 67% of total returns on Apartments over the last 5 years has come from cap rate compression.
- Fundamentals in most markets remain sound although rental rate increases on average are expected to grow from 0-3%.
- Rent growth is slowing and vacancies modestly rising due to the weakening economy.

- Breakeven CMBS spreads are estimated to be 500 bps over Treasuries (8.70% rate). CMBS is unlikely to return in 2009.
- Life Insurance Co.'s have a limited appetite for loan production due to allocation limitations, denominator affect, balance sheet management and more attractive alternative investments.
- Fannie Mae and Freddie Mac have been placed in conservatorship by the Treasury to support market liquidity and stability. Result has been more or less business as usual with rates declining (6.20% for 10 year fixed). They provide 80% of permanent financing for apartments in the U.S.
- Banks have pulled back from real estate lending due to balance sheet needs.

Capital Markets Feeds Sales Volume Growth

	CMBS Issuance	Sales Volume of Multi	Avg. Price
2001	\$65B	\$20B	62,000
2002	\$55B	\$20B	62,000
2003	\$80B	\$25B	70,000
2004	\$90B	\$32B	70,000
2005	\$165B	\$57B	90,000
2006	\$200B	\$95B	97,000
2007	\$230B	\$97B	90,000
2008	\$20B?	\$40B?	??

- Seller Psychology – Grieving for the loss of the dearly departed – their value / net worth.
- Five stages of grieving – 18 month process
 - Denial
 - Anger / Frustration
 - Bargaining
 - Depression
 - Acceptance
- Buyer Psychology is mixed.
- Institutional Investors are fearful of making a mistake.
- Private Investors believe they have the upper hand and are waiting for values to drop further.

What's Hot / What's Not - From Arbitrage to Triage

Hot

Cap rate Differentiation
 Fannie Mae / Freddie Mac
 Operations / Marketing
 Equity

 Primary Locations
 Intrinsic Value Buyers
 True Value Add
 Jerry Maguire

Not

Cap Rate Compression
 CMBS
 Trading Mentality
 Financial Engineering/
 Leverage
 Marginal Locations
 Relative Value Buyers
 Merchant Builders
 Rod Stewart

Sellers

- It's all about Seller Motivation
 - Stable Sellers / Performing Real Estate
 - Stable Sellers / Underperforming Real Estate
 - Distressed Sellers / Performing Real Estate
 - Distressed Sellers / Distressed Real Estate

Who are the Motivated Sellers?

- Wall Street Firms
- Regional Construction Loan Banks
- Merchant Builders
- Financial / Institutional Owners Managing their Balance Sheet
- Mezz Debt Providers
- Condo Developers
- Condo Converters
- Single Family Developers

Who are the Buyers? How is it Financed?

- Private Investors
- Hedge Funds
- Funds Managers

Financing

- All cash
- Long Standing Bank Relationships

Opportunities

- Vacant condo properties +100 – 150bps to cap rate
- Secondary Markets 7% - 8%+ cap rates
- Performing Note Sales T + 350
- Nonperforming Note Sales 10% – 14%+ IRR
- REO 25%+ IRR
- Fractured Condo deals 35% – 50%+ discount
- Land 50% - 80% discount

Market Opportunities

- Orange County California
- Las Vegas
- Orlando
- Miami
- Phoenix
- Detroit

Deal Specific Opportunities

- Boston
- Washington D.C.
- Chicago
- Atlanta
- Minneapolis
- San Diego

Positioning Yourself to Win

- Know your true risk tolerance and hold period
- Understand what value you bring to a transaction
- Be focused and disciplined in looking at opportunities
- Commit to a handful of markets
- Partner up either with a local player or open your own office; know the market like a local
- Determine if you like the “play” before you focus on the return
- Have your equity really lined up
- Bring your bank with you
- Prepare to go recourse on the debt
- Get into the bidding process now
- Stay involved in the deal; the deal often sells to the second or third highest bidder