



The Real Estate Roundtable

Challenges Facing Commercial Real Estate: A Five Point Plan to Liquidity

The Real Estate Roundtable
Washington, DC
www.rer.org



The Real Estate Roundtable

Washington Policymakers Face Significant Challenges

- **Economy**
 - Credit Crisis, Recession, Jobs, Budget
- **Global Security**
 - War on Terror –Afghanistan, Iraq, Iran
 - Rise of Asia – China, India
- **Sustainability and the carbon footprint**
 - Rational energy strategy

The Real Estate Roundtable



The Real Estate Roundtable

Political Climate Shifting?

- POTUS – Approve 51.8; Disapprove 41.4
- Generic Congressional – D. 42; R. 38.7
- Congress – Approve 26.8; Disapprove 64
- Right Direction 39; Wrong Track 53.6
- Rs ahead in NJ, VA, NH, AR, DE, PA, NY
- Too soon to call

Source: Real Clear Politics - RCP Average 9/12 - 10/1

The Real Estate Roundtable



The Real Estate Roundtable

Roundtable Agenda ***Year of Living Dangerously***



Critical Issues

- Restoring Liquidity
- Filling Equity Gap
- FIRPTA, ECI
- Carried Interest
- Sustainability
- Infrastructure
- Card Check

The Real Estate Roundtable



The Real Estate Roundtable

The Credit Crisis: Staring into the Abyss

- Real estate faces most challenging credit market environment in decades
- Credit markets remain closed to commercial real estate creating systemic risks
- Lack of liquidity has paralyzed markets
- Job losses hurting property fundamentals

The Real Estate Roundtable



The Real Estate Roundtable

Credit Market Tsunami

- \$6.7 trillion U.S. property market faces worst liquidity challenge since Great Depression
- Of \$3.5 trillion in CRE debt, average \$400 billion CRE loans mature annually
- Credit markets shut down for CRE
- Strategies to stop the falling knife

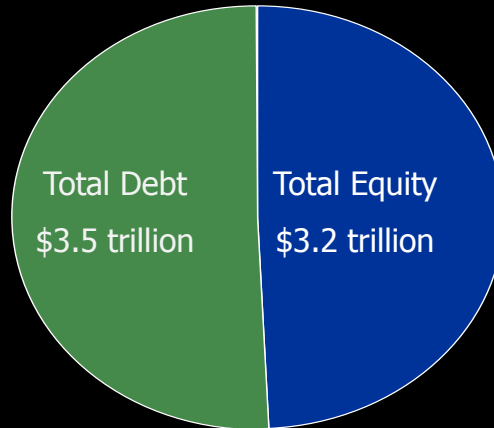
The Real Estate Roundtable



The Real Estate Roundtable

Commercial Real Estate Debt and Equity

Investment-grade, income-producing real estate
\$6.7 trillion as of June 2008



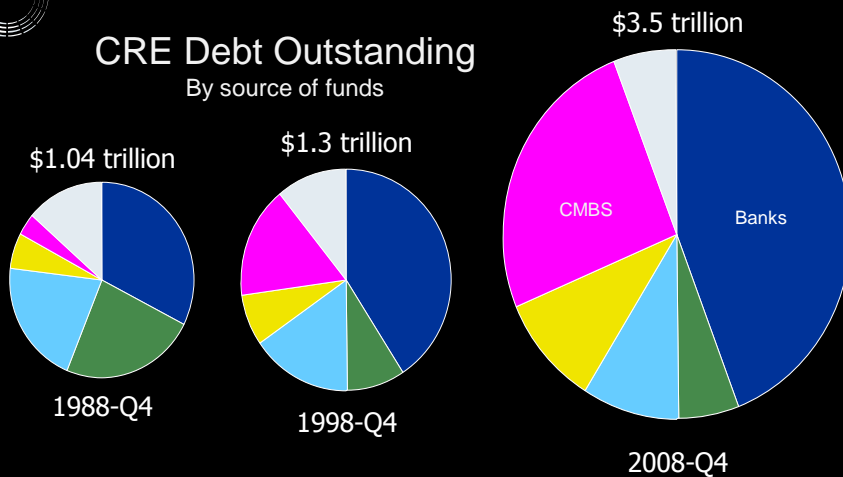
Source: JPMorgan Asset Management



The Real Estate Roundtable

CRE Debt Outstanding

By source of funds

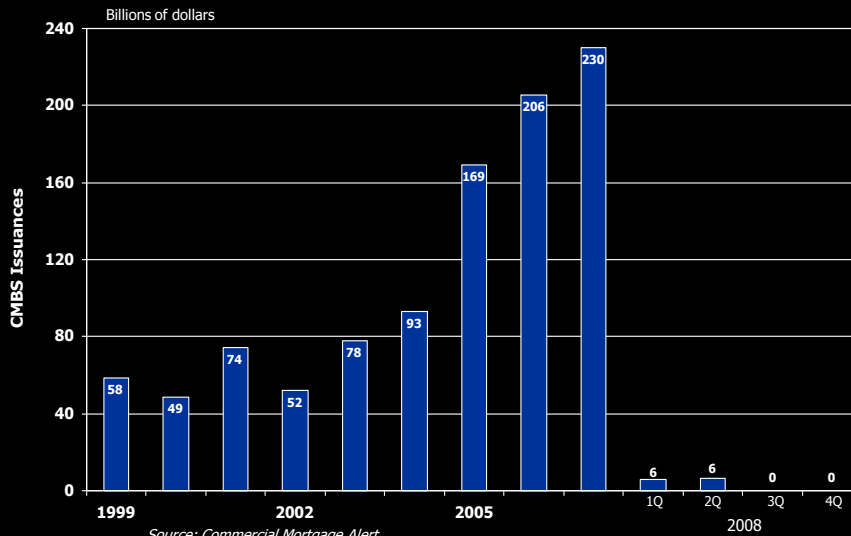


Banks Thrifts Insurance Government CMBS
Other

Source: Federal Reserve Flow of Funds Accounts of the United States

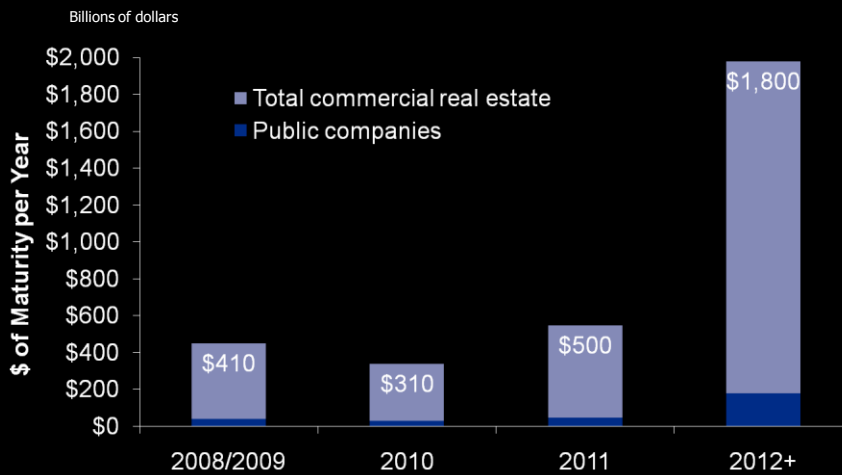


CMBS Issuance



Commercial Real Estate Debt Maturities Including secured and unsecured debt

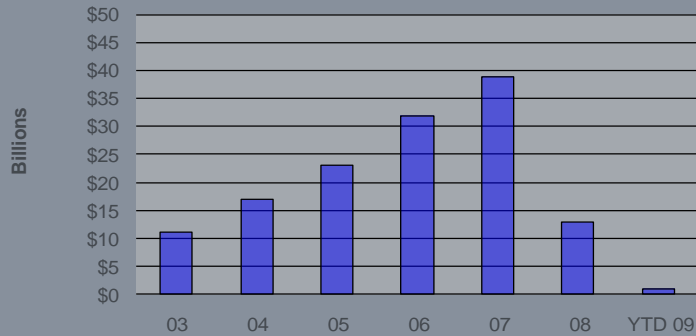
Debt Maturities by Year



Source: Goldman Sachs and REIT filings
The Real Estate Roundtable



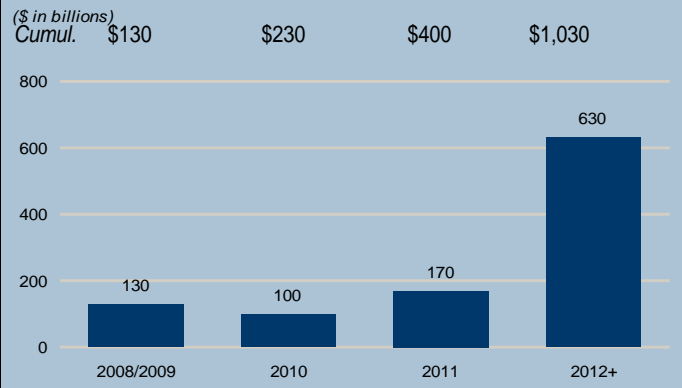
Foreign Investment In US Real Estate



Source: Real Capital Analytics



Required Equity for Commercial Real Estate Debt Maturities



Note: Assumes conservative valuation decline of 20%, original LTV of 70% and refinancing LTV of 60%. Required equity increases if value decline is higher or LTV is lower.



The Real Estate Roundtable

CRE Markets

- Limited transactions since Sept. 2008
- Pricing down 40% +/- from peak
- Most recent deals had assumable debt, seller financing, or lender facilitating sale
- Cap rates have increased 300 bp +/- while rents have declined 15%+
- Loans in special servicing are growing \$2-3 billion per month

The Real Estate Roundtable



The Real Estate Roundtable

Securitization Markets Essential

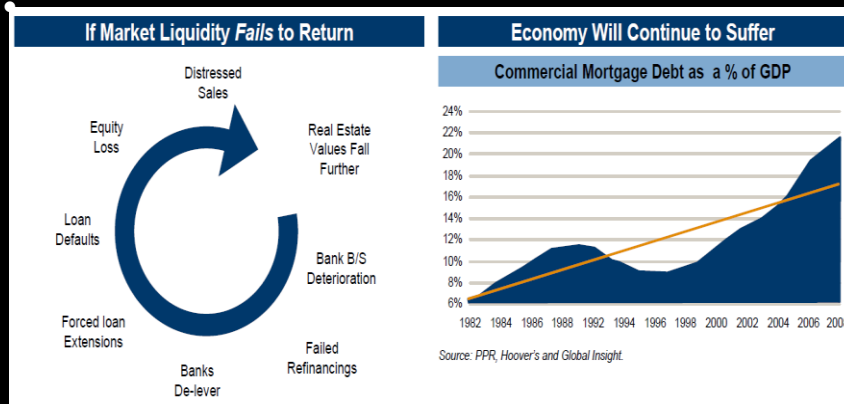
- Record \$1.2 trillion of private RMBS were issued in 2005 and 2006 –
- CMBS peaked in 2007 at \$237 billion
- No private new RMBS or CMBS have been created since early 2008
- Critical to restore integrity of securitization markets

The Real Estate Roundtable



The Real Estate Roundtable

Renewed Liquidity Essential



The Real Estate Roundtable



The Real Estate Roundtable

Recent Accomplishments

- Extension of the TALF through June, 2010
- Key provision of “ARRA” (HR 1) provides important COD income relief until 2014
- New Treasury guidance allows servicers to modify securitized loans “at any time” without triggering REMIC tax consequences – permits problems to be addressed before loans default

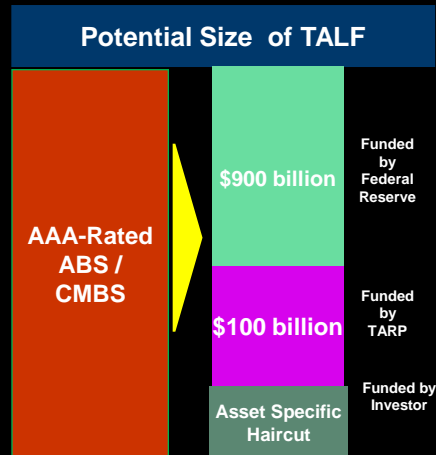
The Real Estate Roundtable



The Real Estate Roundtable

TALF Objectives

- Supports revival of credit markets
- Investment opportunity for levered funds
- Catalyze new issuance of ABS, CMBS
- Tighten spreads
- Restore credit flows to key sectors of the economy



The Real Estate Roundtable



The Real Estate Roundtable

TALF Aiding Markets

- TALF “has shown early success in reducing risk spreads and stimulating securitization activity”
- Responsible for \$124 billion of new ABS backed by auto leases, credit cards and small-equipment loans
- \$8 billion in Legacy CMBS
- New Issue CMBS eligible for TALF – June
- Legacy CMBS eligible for TALF – July
- TALF extended through June 30, 2010

The Real Estate Roundtable



The Real Estate Roundtable

Key TALF Issues

- Low leverage does not fill liquidity gap
- Warehousing credit still not available
- TARP restrictions create investor concerns
- Fed concerns about:
 - Extracting liquidity at right time
 - Exposure to large single borrowers
- June 30, 2010 expiration
- No new CMBS model has emerged

The Real Estate Roundtable



The Real Estate Roundtable

Good News

- REITs have raised \$15.2 bn equity YTD and \$2.6 bn unsecured debt
- Banks have raised over \$100 bn in capital
- Since February enactment of Cancellation of Indebtedness (COD) provision, over \$1 trillion in debt restructuring and deleveraging

The Real Estate Roundtable



The Real Estate Roundtable

Public-Private Investment Program (P-PIP)

- Public-Private Investment Funds (PPIFs) created with 1:1 equity from private investors + USG
- Combines private capital with USG capital
- Potential USG leverage up to 6:1
- Private partners retain asset management control

The Real Estate Roundtable



The Real Estate Roundtable

PPIP – A Slow Start

- Legacy Securities Program
 - Five firms have raised \$3.07bn
 - Matched by USG equity
 - \$9.02bn of additional debt capital
 - Total \$12.27bn of purchasing power
- Legacy Loans Program
 - \$64.2m paid for 50% equity stake in LLC comprised of portfolio of residential mortgage loans with \$1.3bn in unpaid principal balance

The Real Estate Roundtable



The Real Estate Roundtable

Five Point Plan

1. Enhance and extend the Term Asset-Backed Securities Loan Facility (TALF) program for CMBS
2. Establish federally-sponsored credit facility for originating new CRE loans: adapt P-PIP structure; guaranty program based on FDIC insurance model; covered bonds

The Real Estate Roundtable

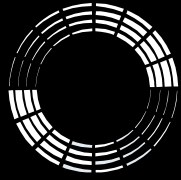


The Real Estate Roundtable

Five Point Plan

3. Encourage foreign investment in U.S. real estate – revise Foreign Investment in Real Property Tax Act (FIRPTA) and ECI
4. Encourage banks and servicers to extend performing loans
5. Reject new anti-real estate investment taxes (e.g., capital gains, like kind exchanges and proposed tax hike on partnership “carried interest”)

The Real Estate Roundtable



The Real Estate Roundtable

www.rer.org

The Real Estate Roundtable