

2009

U.S. Commercial Real Estate Market Overview Distressed Asset Trends

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Marcus & Millichap
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Distressed Commercial Real Estate Drivers

September 2007- August 2008: Serious Credit Crunch but Relatively Moderate Recession; Healthy Commercial Property Fundamentals Outside of Retail, Busted Condos, Spec. Development

September/October 2008: Freezing of Interbank Lending and Commercial Paper Market Escalated Recession Into a Global Financial Crisis

Distressed Commercial Real Estate Drivers

Commercial Real Estate Impact:

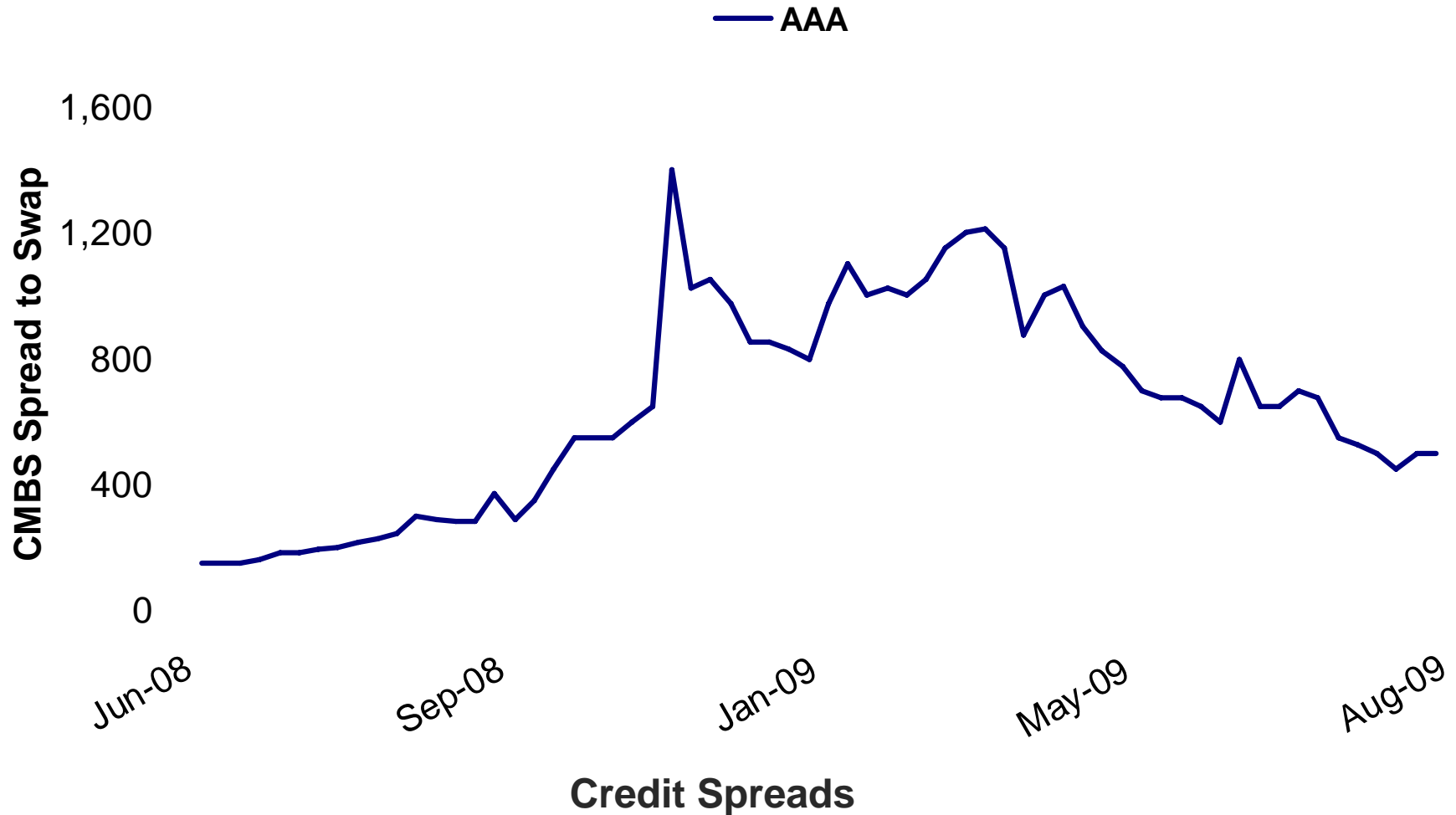
- **Worst of Capital Market Crisis Has Passed**
 - Inter bank lending, commercial paper market normalized
 - Improved bank capital position, core business profitability
- **Extreme Job Cuts Rapidly Weakening Property Fundamentals**
- **Financing Remains Constrained:**
 - Maturing Debt
 - Underwriting tightened further – even in the past 90 days
 - Assumable/seller financing playing a pivotal role
- **Local/regional banks still active – concentrated in smaller assets**

Capital Markets Outlook

Cautious Optimism Emerging – Normalized CRE Financing Will Take Time

1. Banks' financial position has improved significantly – Today's profits will support future lending. When.....?
 - Banks' market participation will be choppy as they heal
2. Fannie, Freddie, HUD should remain active (regardless of format)
3. Life companies will re-enter market – capacity limited
4. Govt. programs (TALF/PPIP) to gradually re-start CMBS market:
 - New REMIC rules should facilitate more CMBS extensions
5. Mortgage rates will be range bound with underwriting staying tight
 - Value, operations continues to be a concern
6. Unwise to hope for loosening credit markets as your “major strategy”

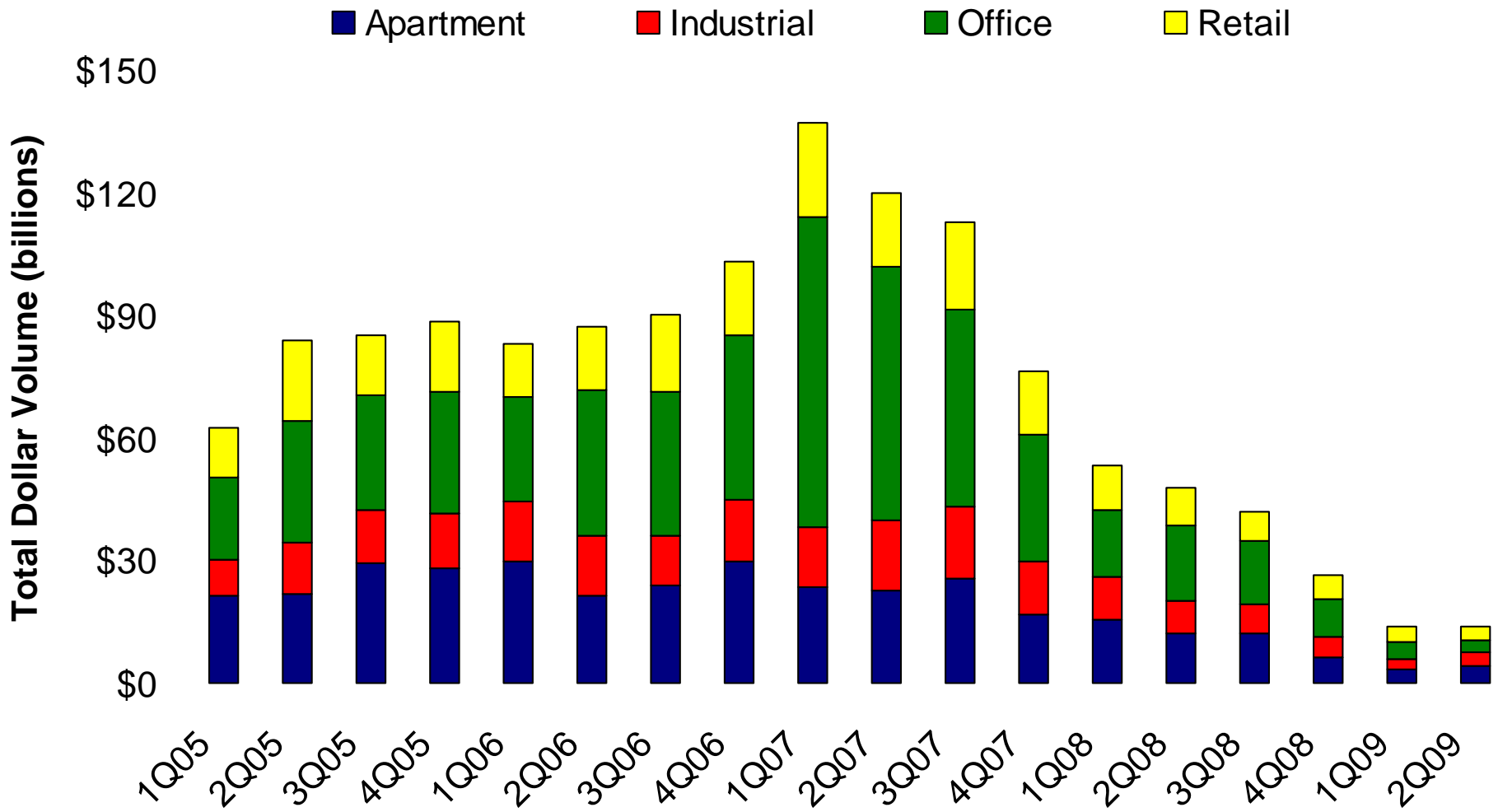
CMBS Spreads Reflect Capital Markets Stabilization – Still Somewhat Volatile



Commercial Real Estate Sales

Hampered After Achieving Record Levels

Dollar Volume of Sales by Sector



Sales \$1 million and above

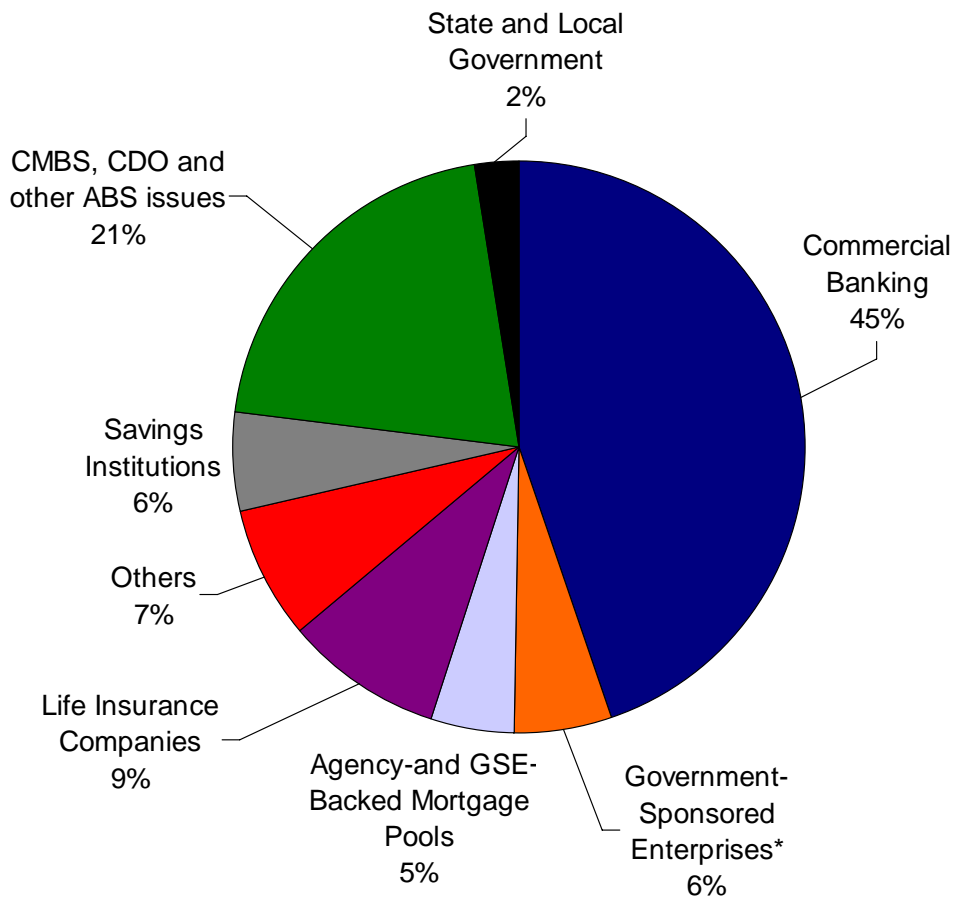
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Real Capital Analytics

U.S. Commercial/Multi-Family Debt Outstanding

Total Debt Outstanding = \$3.47 Tril.

By Lender Types (\$Bil):

Commercial Banks	\$1,552
CMBS, CDO, and Other ABS	\$714.3
Life Insurance Companies	\$312.6
Savings Institutions	\$194.9
Gov.-Sponsored Enterprises	\$194.6
Agency- and GSE Backed	\$157.2
State and Local Gov.	\$85.6
Other	\$255.5

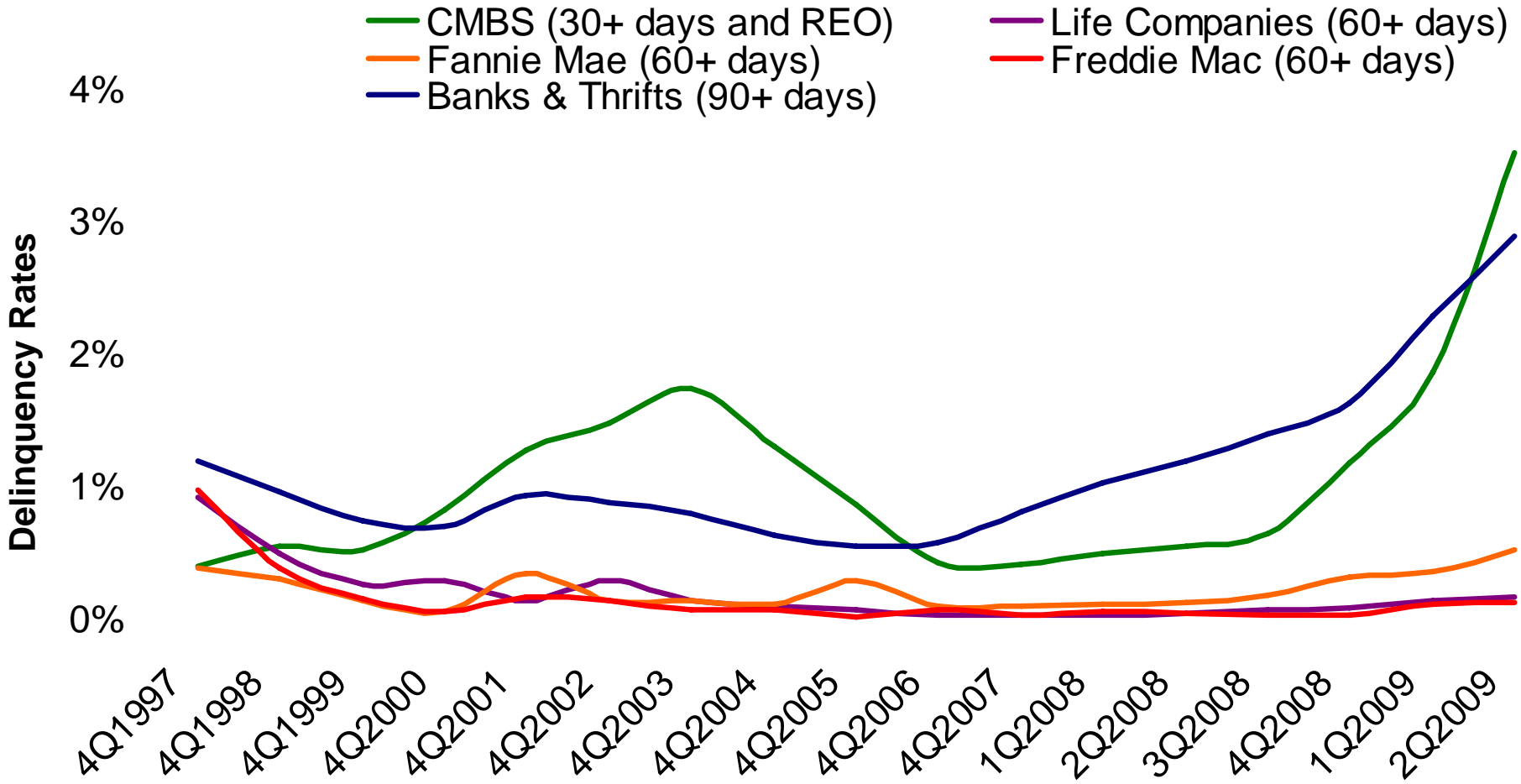


Note: Figures as of 2Q09

* Includes Fannie Mae, Freddie Mac, and Ginnie Mae

Sources: Marcus & Millichap Research Services, MBA

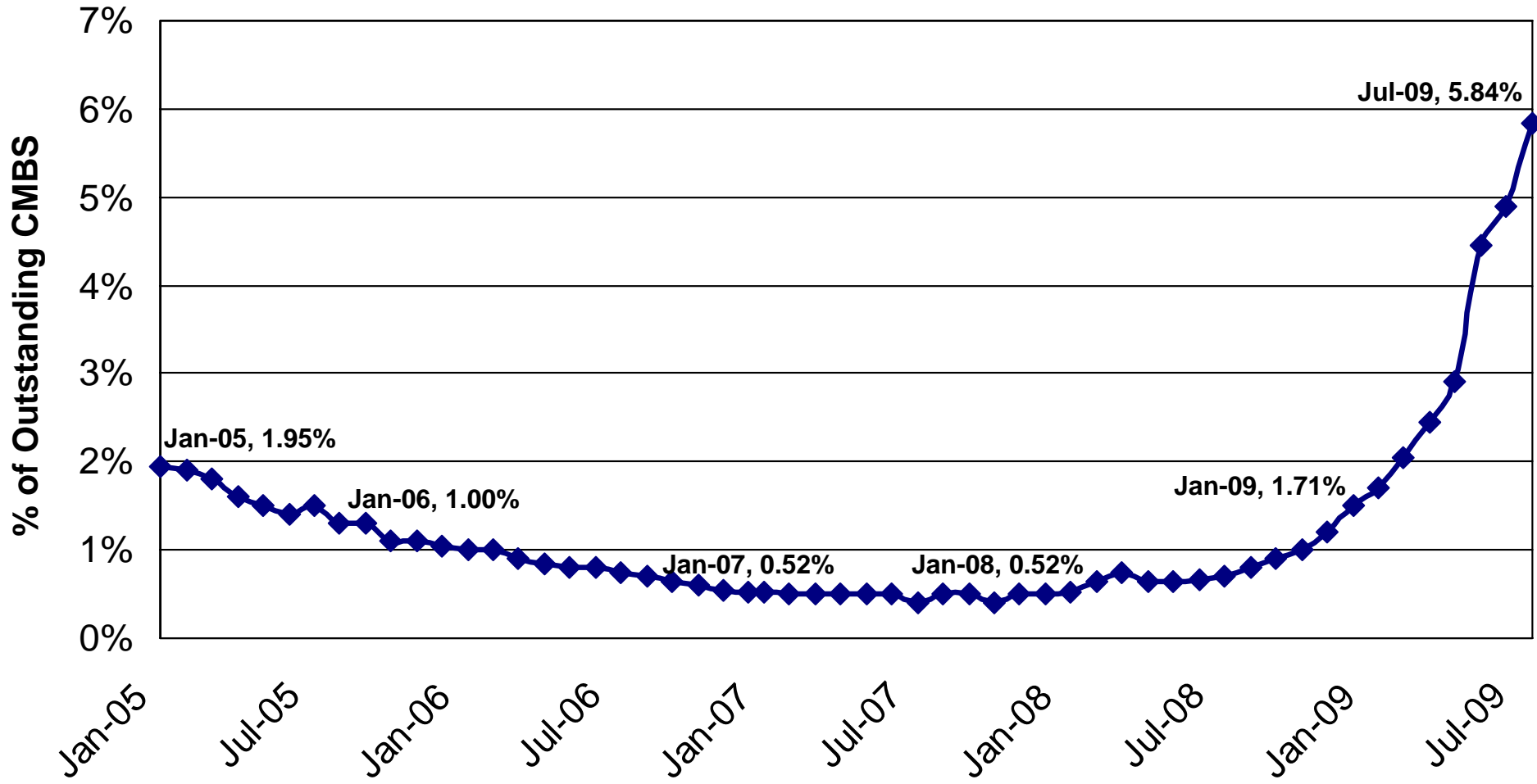
Commercial Mortgage Delinquency Rates by Group



Delinquency rates at the end of each period

Sources: Marcus & Millichap Research Services, Mortgage Bankers Association

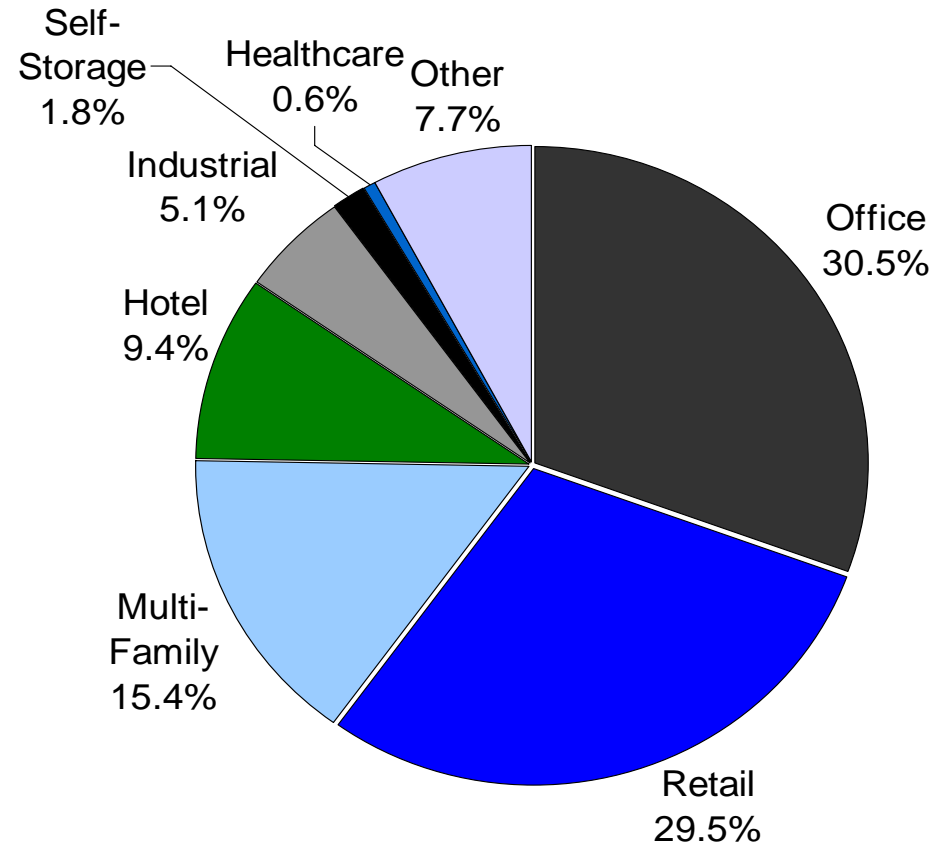
CMBS Special Servicing Exposure by Unpaid Balance Rising Significantly



Total CMBS Outstanding: \$779.6 billion

By Property Types (\$Bil.):

Office	\$237.8
Retail	\$230.0
Multi-Family	\$120.1
Hotel	\$73.3
Industrial	\$39.8
Self-Storage	\$14.0
Healthcare	\$4.7
Other	\$60.0



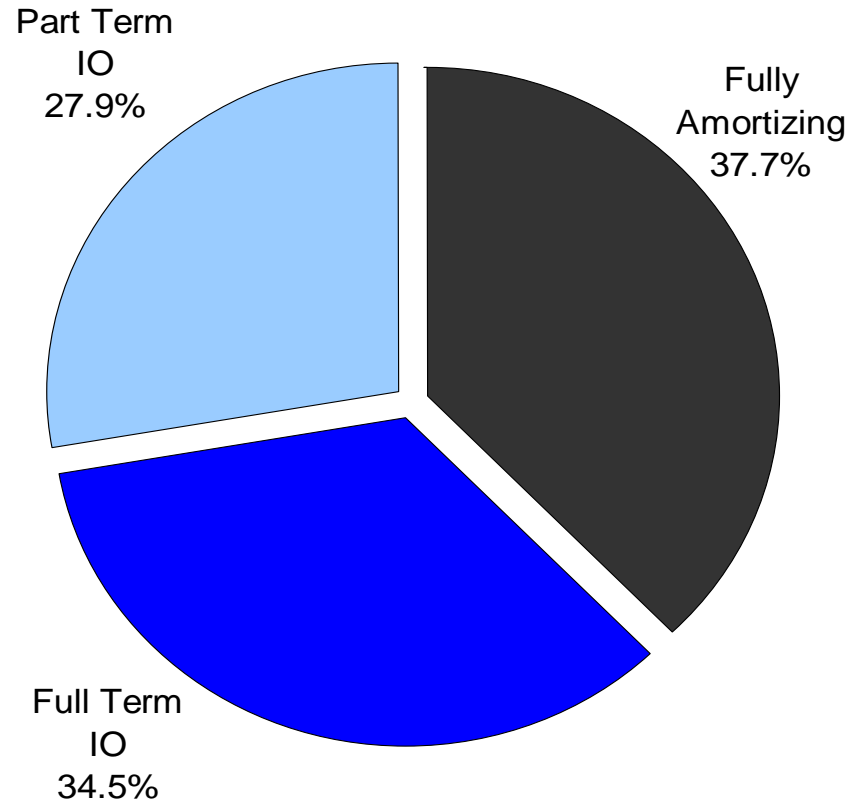
* As of 1Q09

Sources: Marcus & Millichap Research Services, MBA

Outstanding CMBS by Amortization

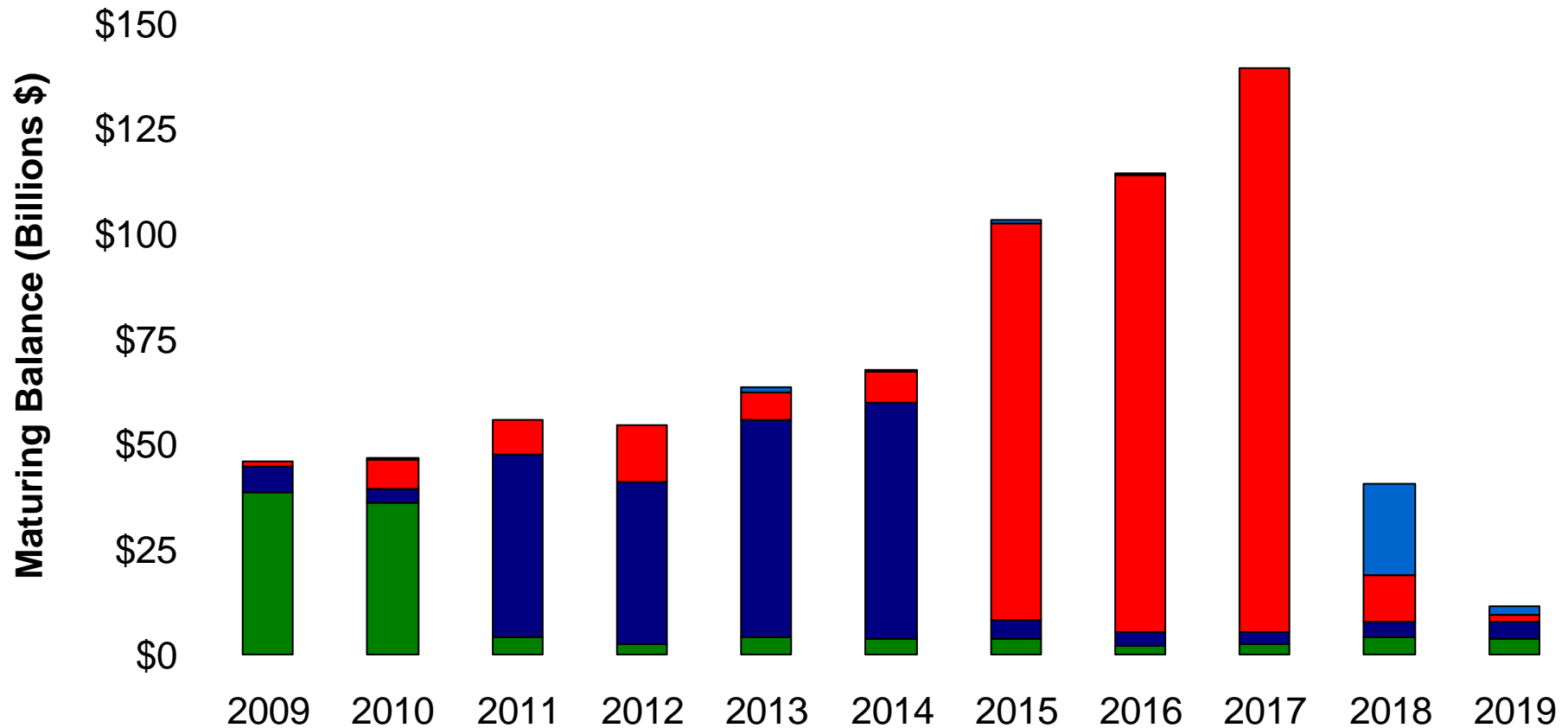
Amortization Type:

Fully Amortizing	37.7%
All Interest-Only (IO)	62.3%
Full-Term IO	34.5%
Part-Term IO	27.9%



Commercial Mortgage Backed Securities (CMBS) Maturities by Vintage

■ Pre-2001 ■ 2001-2004 ■ 2005-2007 ■ 2008



Estimated Distressed Assets Summary By Region

	Distressed	
	\$ in Bil.	# of props
West	\$32.9	1,502
Southeast	\$24.5	1,498
Northeast	\$17.2	595
Southwest	\$16.8	1,087
Midwest	\$14.4	963
Mid-Atlantic	\$8.4	341
Grand Total	\$114.2	5,986

* As of August 1, 2009

Note: Some portfolio deals may not be allocated to a single market

Sources: Marcus & Millichap Research Services, Real Capital Analytics

Estimated Distressed Assets Summary By Property Type – U.S.

	Distressed	
	\$ in Bil.	# of props
Retail	\$31.6	1,527
Development Site	\$22.1	771
Apartment	\$19.0	1,299
Hotel	\$18.0	1,060
Office	\$17.6	678
Industrial	\$3.1	430
Other	\$2.9	221
Grand Total	\$114.2	5,986

* As of August 1, 2009

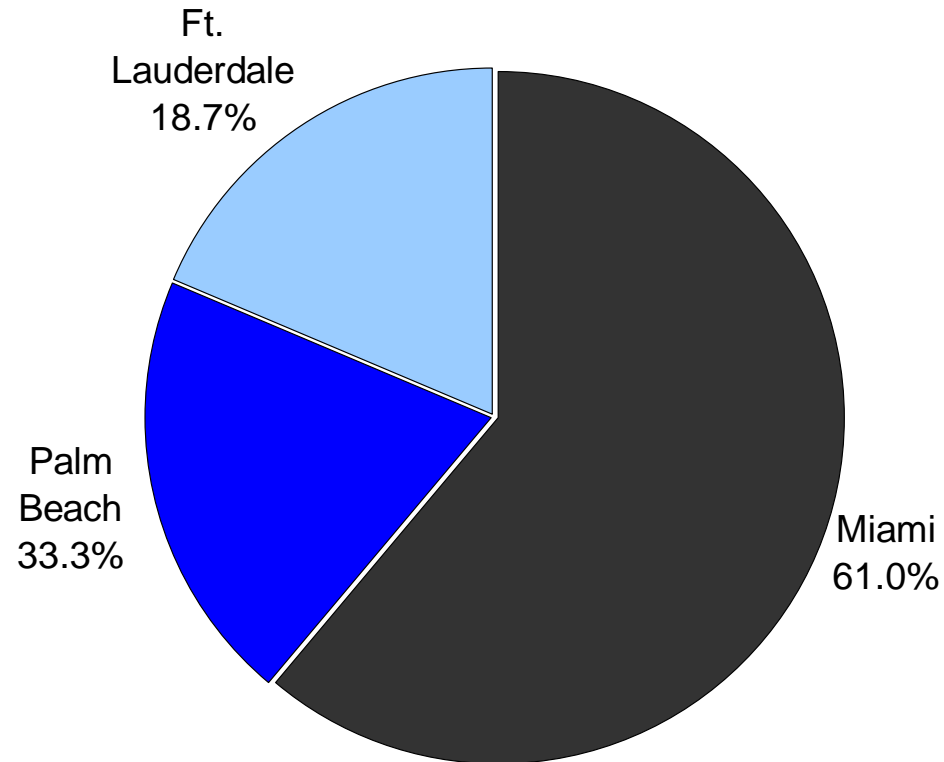
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Sources: Marcus & Millichap Research Services, Real Capital Analytics

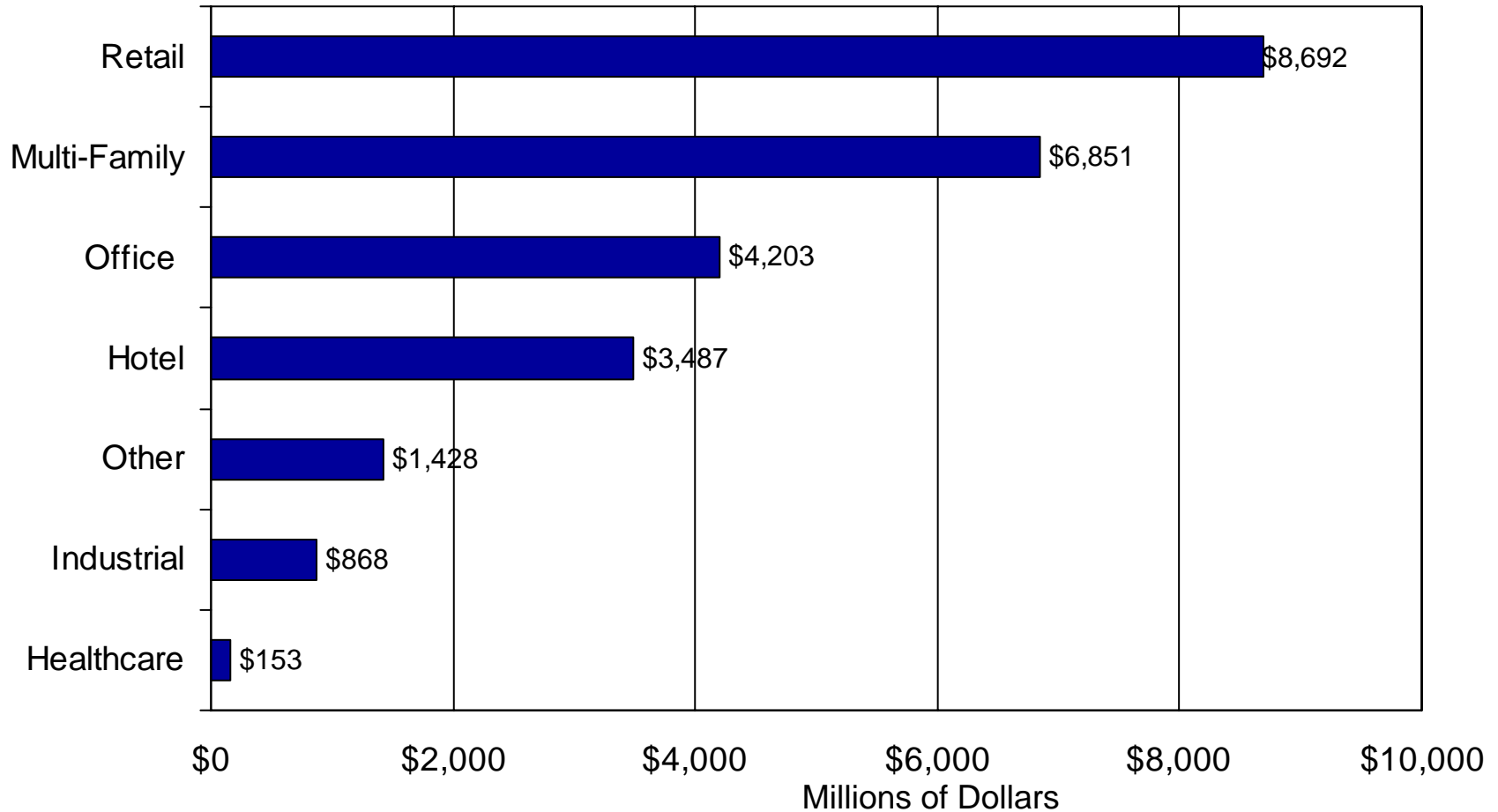
South Florida Estimated Distressed Assets Summary By Market: Total \$8.0 Billion

By Market (\$mil):

Miami	\$4,887
Palm Beach	\$1,627
Fort Lauderdale	\$1,498



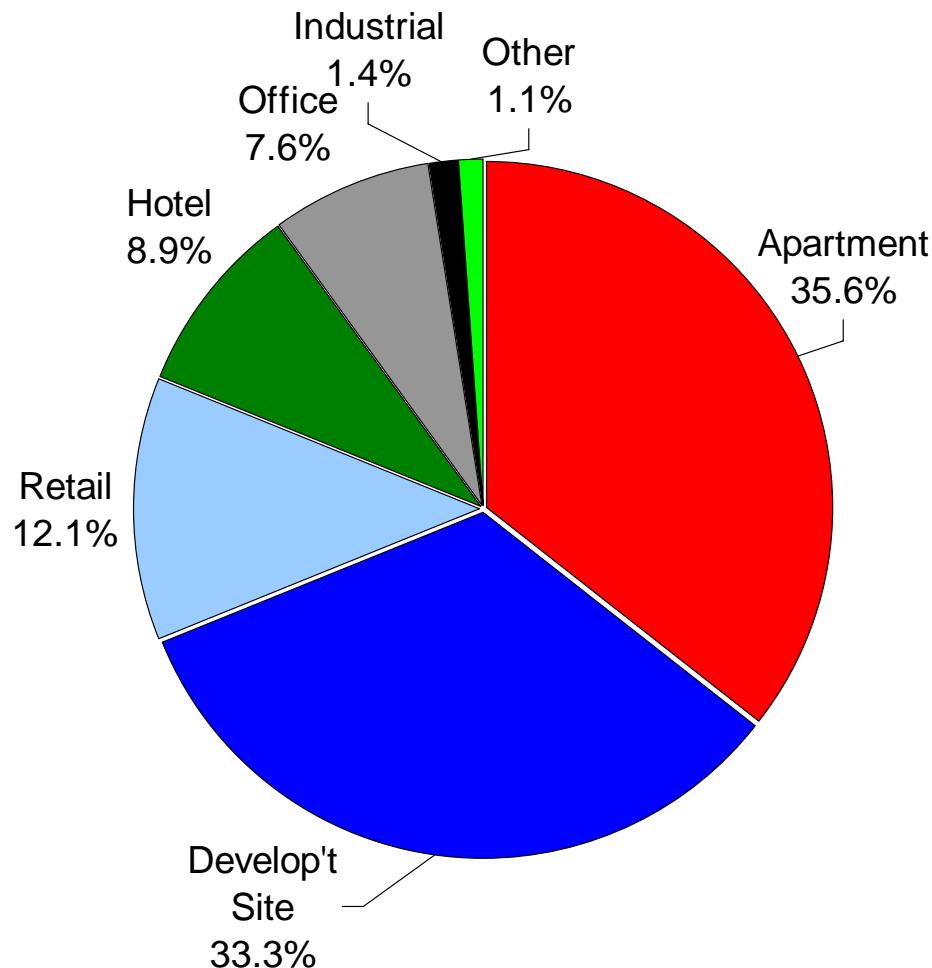
July 2009 Delinquent CMBS Loan Balance by Property Type



South Florida Estimated Distressed Assets Summary By Property Type: \$8.0 Billion

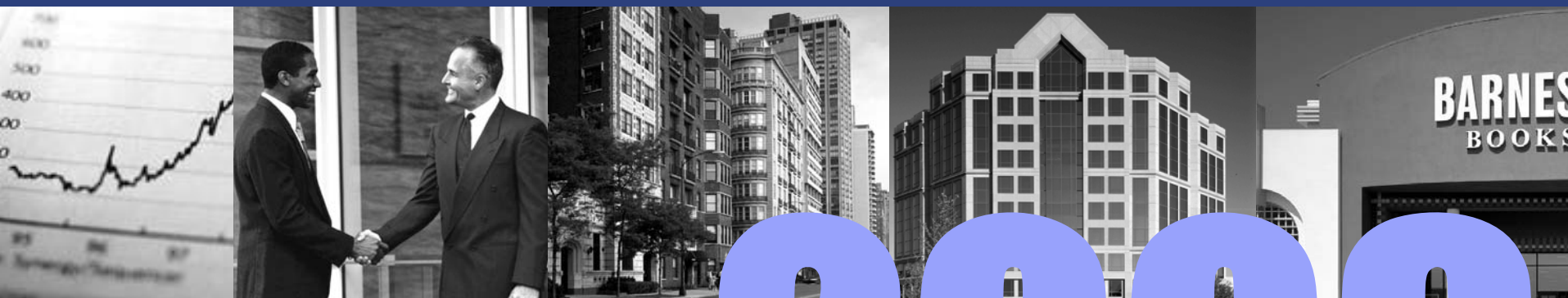
By Property Types (\$mil):

Apartment	\$2,852
Development Site	\$2,667
Retail	\$973
Hotel	\$713
Office	\$609
Industrial	\$114
Other	\$85



Investment Strategy

- **Distressed Inventory Set to Rise**
- **Significant Capital on the Sideline**
- **Handling of Distressed Inventory Different Than 1990s:**
 - **Complex Loan Structures/Ownership**
 - **Phased Series of Government Solutions Likely to Continue**
 - **Lenders Focusing on Workouts, Delaying Write-Downs**
 - **Access to Specific Local, Regional Lenders Most Productive**
- **Investment Strategy by Product, Market, Value-Add Strategy Should Drive Acquisition Focus**
 - **Values are Adjusting by Quality**
 - **There are Attractive Buying Opportunities in the Market Now**
 - **Florida Recovery Opportunity Significant**



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