Commercial Real Estate
Current Market Overview

Presented By:
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May 2008
Timeline of Structured Credit Markets Devolution

Feb 2007
- Rating Agencies downgrade securities backed by subprime mortgages

September 2007
- Northern Rock nationalized
- IKB nationalized

December 2007
- Citigroup props up SIVs with $58B debt infusion as the CP market erodes

July 2007
- Bear Stearns has two of its hedge funds file for bankruptcy
- American Home Mortgage files for bankruptcy
- Massive Rating Agency downgrade of CMBS

October 2007
- First major losses announced associated with credit crisis
  - Citigroup $6.2B
  - UBS $3.4B
  - Merrill Lynch $5.6B

March 2008
- JP Morgan buys Bear Stearns after receiving a $29B guaranty from the US Federal Reserve

2007 – 2008 Credit Crisis Timeline
Effects of the Credit Crisis

CUMULATIVE IMPACT (through 5/9/2008)

- Credit Losses: $323B
- Jobs Lost: 65,000
- Capital Raised: $231B

PROJECTED IMPACT

- Total Credit Losses: $700B
- Total Capital Required: $400B
- New architecture of the financial system
With pricing gapping out…

… issuance projected to be down as much as 90% in 2008

Source: Rosen Consulting Group, U.S. Outlook April 2008
Where are we now

- Very limited transactional activity
  - 71% drop in transaction volume in Q1 2008 vs Q1 2007
- Dramatic decrease in senior debt availability
- Lower advance rates
- Higher pricing
- Global deleveraging
- CMBS locked up with all structured debt products
- Continued disconnect between buyers and sellers
- Tremendous amount of capital on the sidelines
  - 2006 Pension Fund Target Allocation of 8%
Where’s the Distress in Real Estate

• CMBS
• Condos
• Homebuilders
• Residential land
Positive Influences on Commercial Real Estate

- Equity capital remains abundant
- Continuity of portfolio lenders
- Property fundamentals remain relatively strong
- Limited new construction
- Low interest rate environment
Establishment of Permanent Liquidity

Source: Emerging Trends in Real Estate 2008, Urban Land Institute & PricewaterhouseCoopers
Democratization of Capital

Commerical Real Estate Lenders
$3.2 Trillion @ 6/30/2007

- Banks, S&Ls, Mutual Savings Banks 57%
- Life Insurance Companies 9%
- REIT Unsecured Debt 6%
- Pension Funds 1%
- CMBS 23%
- Mortgage Government Credit Agencies 3%
- Public Untraded Funds 0%
- REITs 1%

Commerical Real Estate Owners
$719 Billion @ 6/30/2007

- Private Investors 44%
- REITs (Equity & Hybrid) 32%
- Foreign Investors 4%
- Life Insurance Companies 3%
- Private Financial Institutions (REO) 1%
- Pension Funds 13%
- Public Untraded Funds 3%

Source: Emerging Trends in Real Estate 2008, Urban Land Institute & PricewaterhouseCoopers
## Commercial Real Estate Property Fundamentals

- Property Fundamentals remain strong
- Market forecasts project stable fundamentals through 2008/2009

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Occupancy</th>
<th>Growth in Rental Rates</th>
<th>Cap Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office – CBD</td>
<td>90.6%</td>
<td>89.9%</td>
<td>90.3%</td>
</tr>
<tr>
<td>Office - Sub</td>
<td>84.5%</td>
<td>85.0%</td>
<td>85.7%</td>
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<tr>
<td>Industrial</td>
<td>91.9%</td>
<td>92.2%</td>
<td>92.8%</td>
</tr>
<tr>
<td>Multifamily</td>
<td>89.8%</td>
<td>89.0%</td>
<td>89.7%</td>
</tr>
<tr>
<td>Hotel</td>
<td>62.9%</td>
<td>62.1%</td>
<td>63.2%</td>
</tr>
<tr>
<td>Retail</td>
<td>92.3%</td>
<td>92.5%</td>
<td>92.7%</td>
</tr>
</tbody>
</table>

Source: Rosen Consulting Group, U.S. Outlook April 2008

Notes: The RCG data does not break out cap rates between Office – CBD and Suburban Office

The Retail Rental Growth Rates are an average of the reported figures for Neighborhood Strip Centers, Power Centers & Regional Malls
Rosen Consulting: U. S. Real Estate Cycle Clock

Source: Rosen Consulting Group, U.S. Outlook April 2008
Potential Pitfalls

- Further deterioration of the economy
- Bank Failures
- Regulatory Overreaction
- Exogenous Shock
Strengths of Real Estate as an Investment

• High current return

• Transparent business model

• Favorable tax treatment

• Low correlation with other asset classes

• Diversified capital flows provide permanent liquidity
2008 & Beyond – A Look Ahead

• Increased activity as we move into 2009
• Simpler capital structures requiring more equity
• More conservative underwriting
• Reengineering of the financial markets
• Introduction of Alpha