

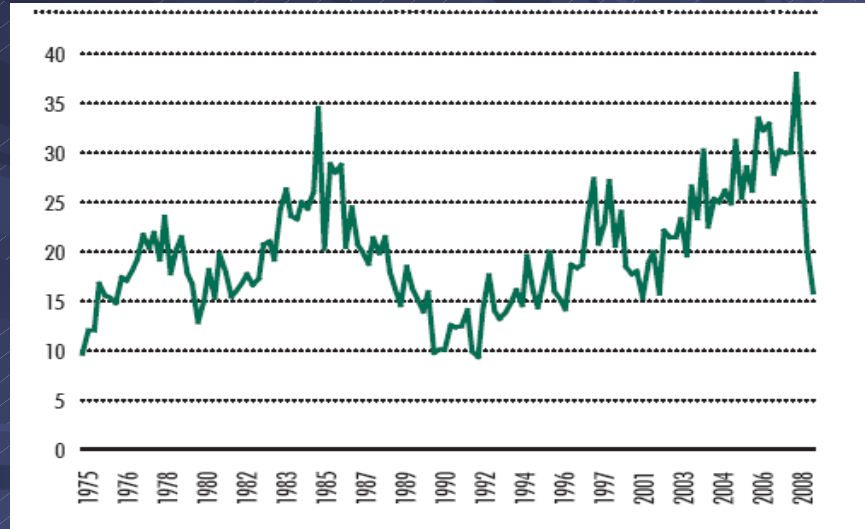
*The Perfect Storm -
the economy in crisis
October 28, 2008*

Northern California Chapter of Appraisal Institute
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CIO, North Point Global Investors, LP

“Sure, we have mortgage money.
It’s just that you can’t have any”



Net borrowings as % of GDP



Why aren't the banks lending?

- Counterparty (other banks) risk
- Fear they will need the cash themselves

Libor: the world runs off it

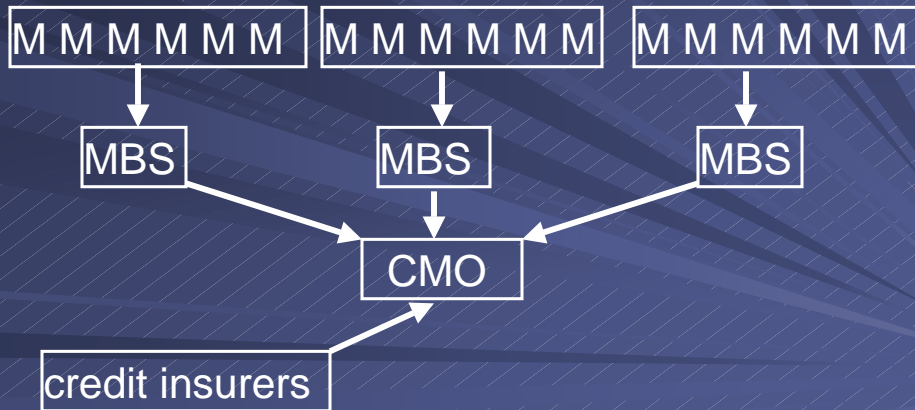


TedSpread:3m Libor - 3m Treasury (decline means credit is returning)

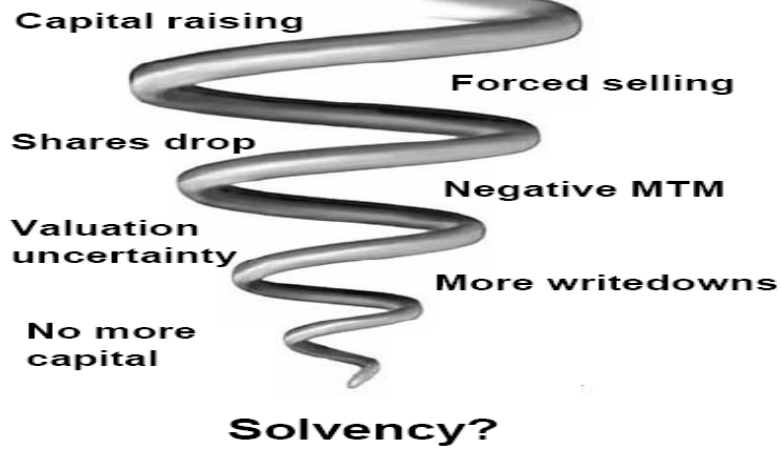


Some history: MBS and CMO's

Basic Structure



This is what happened to investment banks leveraged CMOs

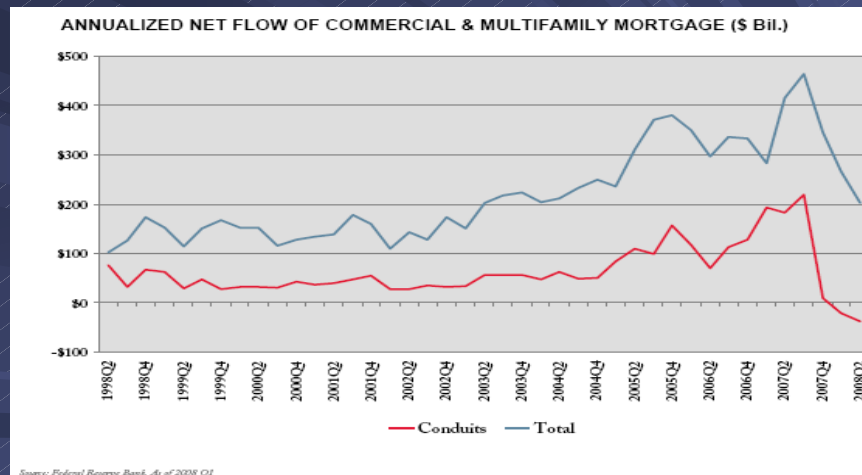


Source: Citi.

What caused the problem?

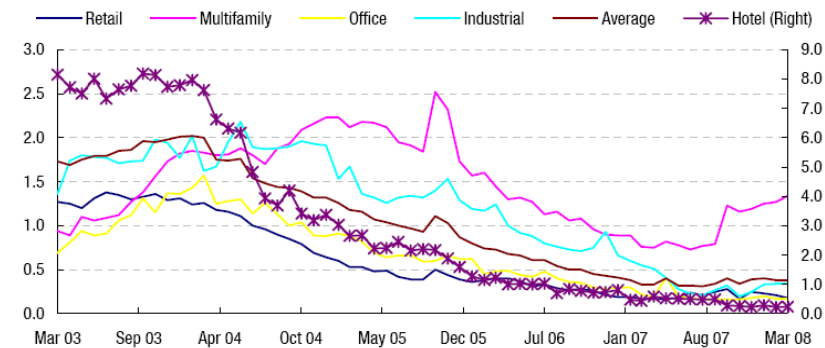
- Too much leverage: when you leverage 20/1 a 5% mistake will wipe you out
- Lack of transparency (what really is mark-to-market when there is only one distressed sale?)
- Credit agency conflicts of interest
- Investor lack of due diligence
- Lack of regulation?

CMBS was 50% of all lending



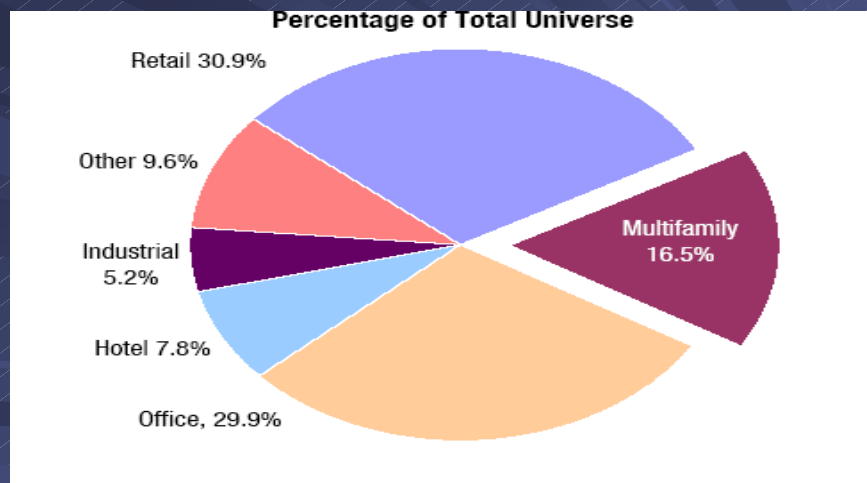
Delinquency rates are relatively low

Figure 2. CMBS Historical Delinquency Rates by Property Sector, Mar 08

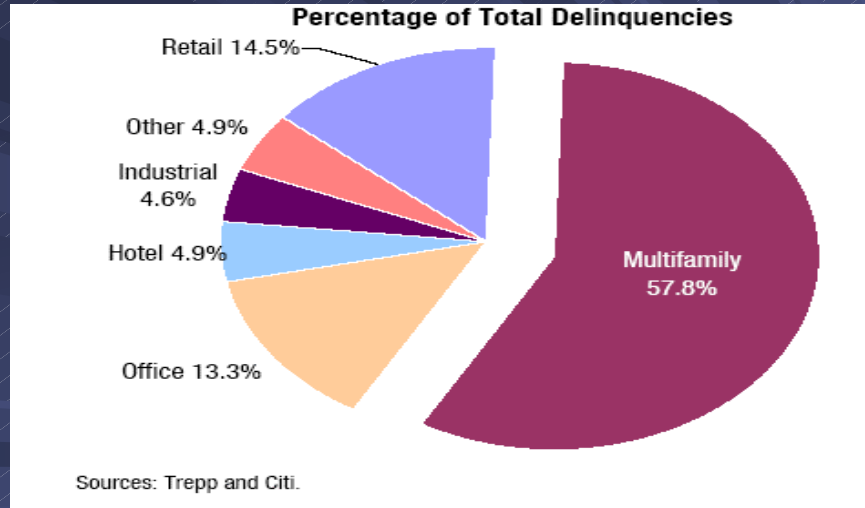


Note: Includes all loans 30 days or more delinquent. Numbers based on total fixed-rate balance, which is currently \$731.3 billion.
Sources: Trepp and Citi.

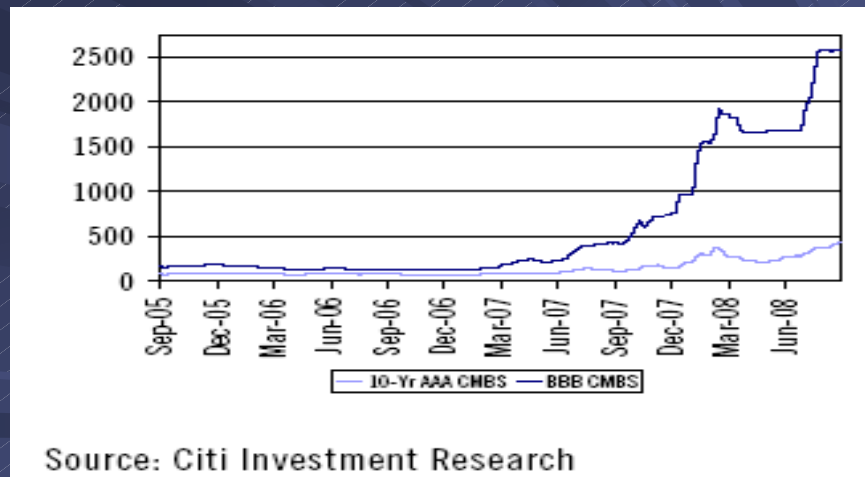
CMBS Property Type as % of Total CMBS



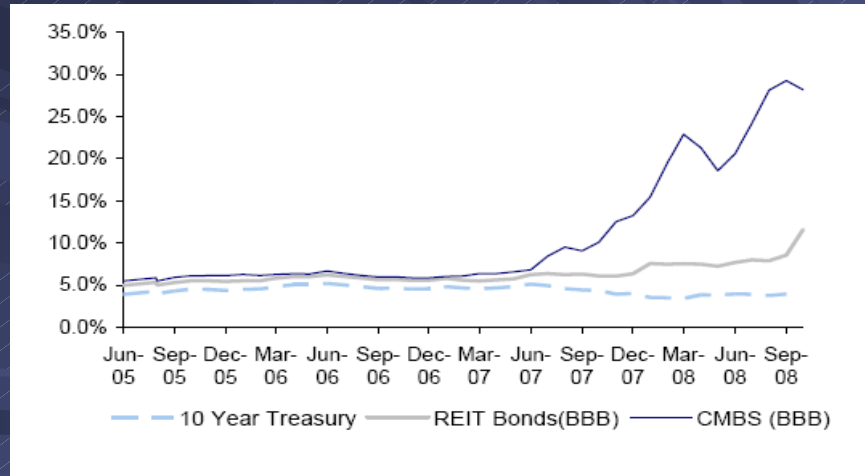
Property Type Share of Delinquencies



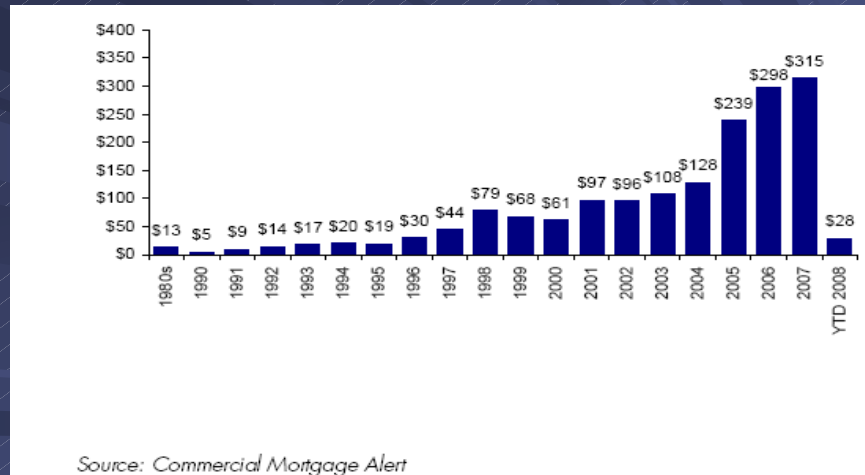
CMBS Spread to 10 Y Treasury



Investors hate real estate; even AAA CMBS yield > BBB corp



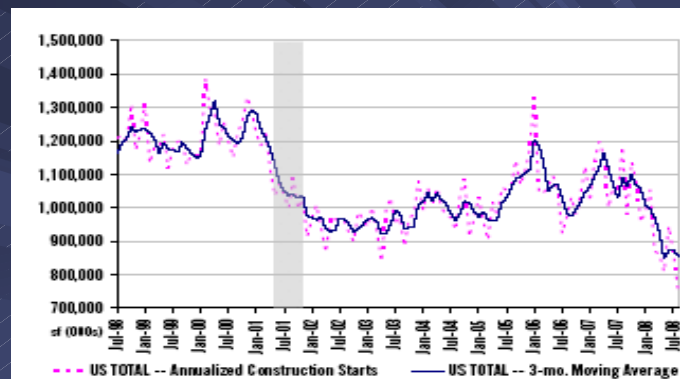
CMBS issuance drops off the cliff



Source: Commercial Mortgage Alert

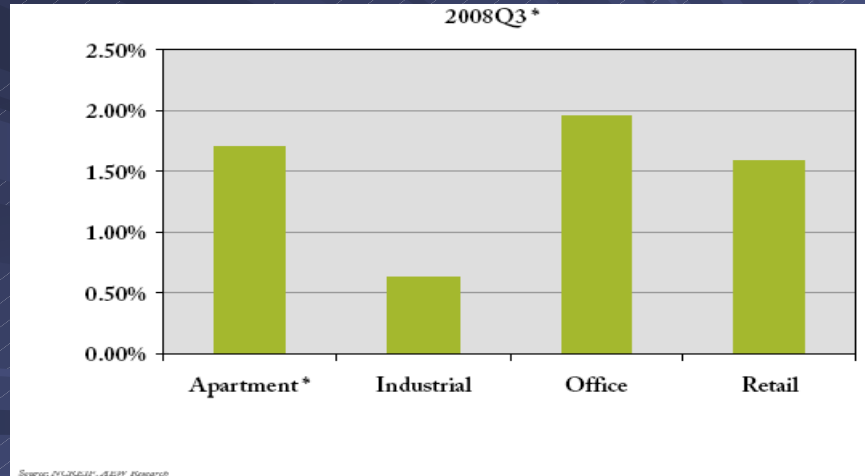
	PRE-CREDIT CRISIS	Week of October 6th
MAX LOAN TO VALUE/	70%-75%	50% - 60%
MIN DEBT SERVICE COVERAGE RATIO	1.05x	1.20x - 1.40x
NOI UNDERWRITING	Borrowers Pro forma NOI	Current in-Place NOI
SPREADS	85-125 bps	350 - 500+ bps (no transparency)
LOAN PROCEEDS	Sized using I/O DSCR	Sized using Amortizing DSCR
AMORTIZATION	10 Years I/O	3 Years I/O on 10 Year Loan
LOAN REQUIREMENTS	Minimal	Requires Structuring (holdbacks, earn outs, TI escrows, recourse)

Construction Starts: all time low

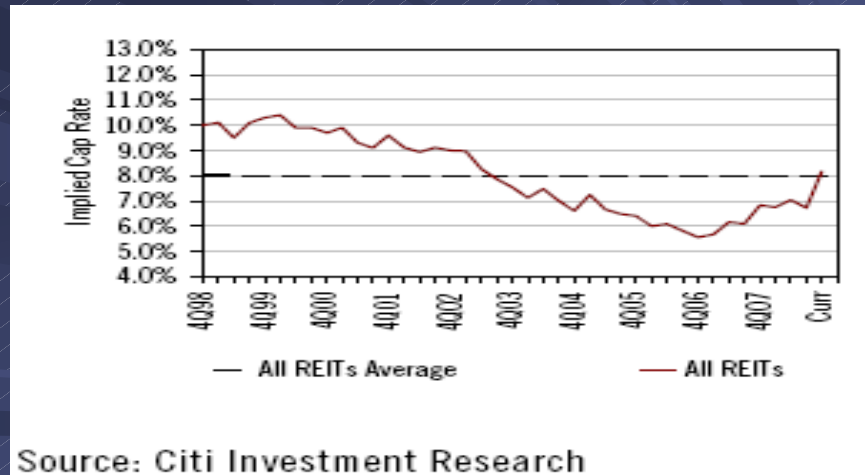


Source: McGraw-Hill, Economy.com, and Citi Investment Research, as of 8/30/08

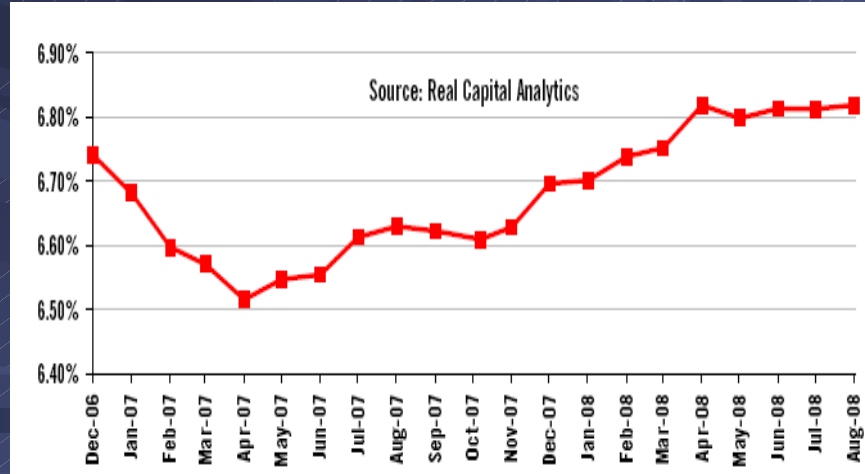
Projects under construction as % of Total Supply



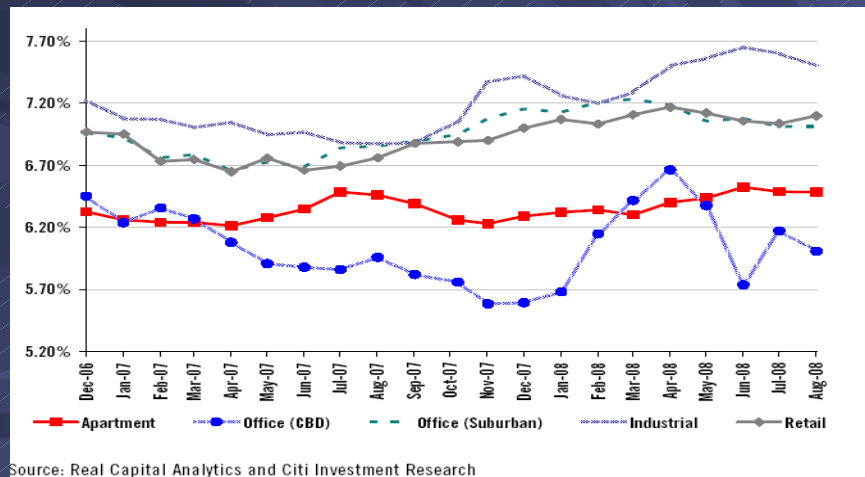
REIT Cap Rate (NOI divided by sum of stock price times # shares + debt)



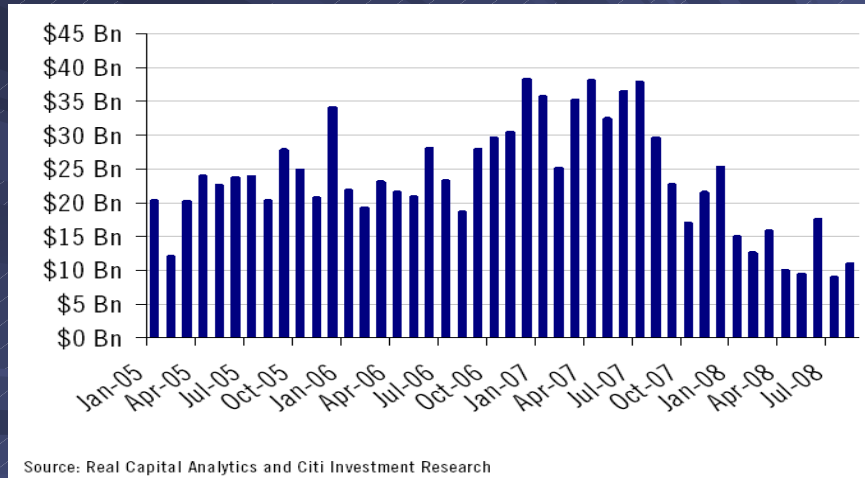
Is 8% Cap Rate coming soon to a private transaction near you?



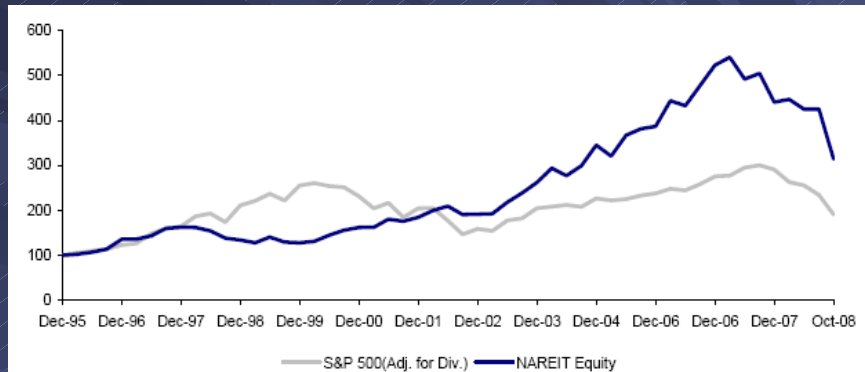
Private Market Cap Rates by Sector



Transaction Volume



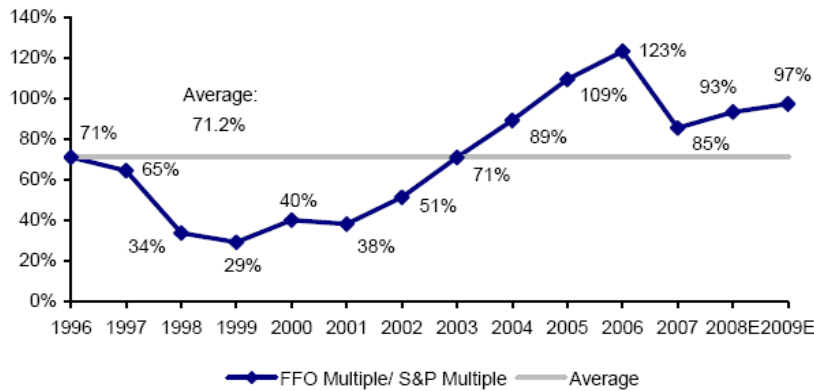
REIT Equity Index down about 50% since Feb 2007



Note: S&P=615.9 and NAREIT EQUITY=1,856.57, as of December 29, 1995

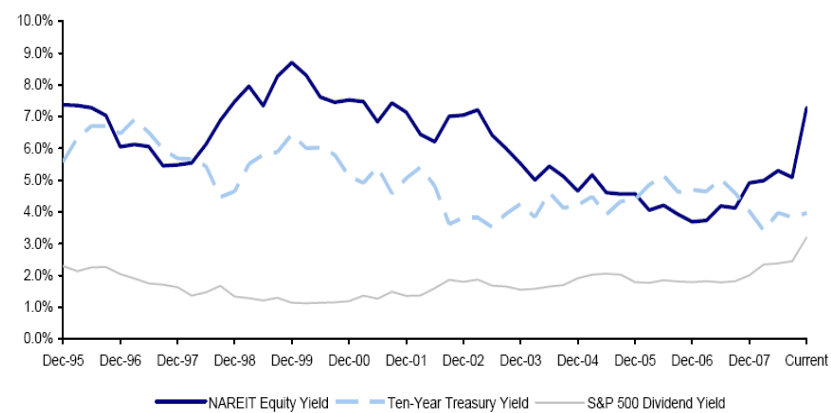
Source: Barclays Capital and FactSet Research Systems Inc.

REIT Multiple vs S&P 500 Multiple



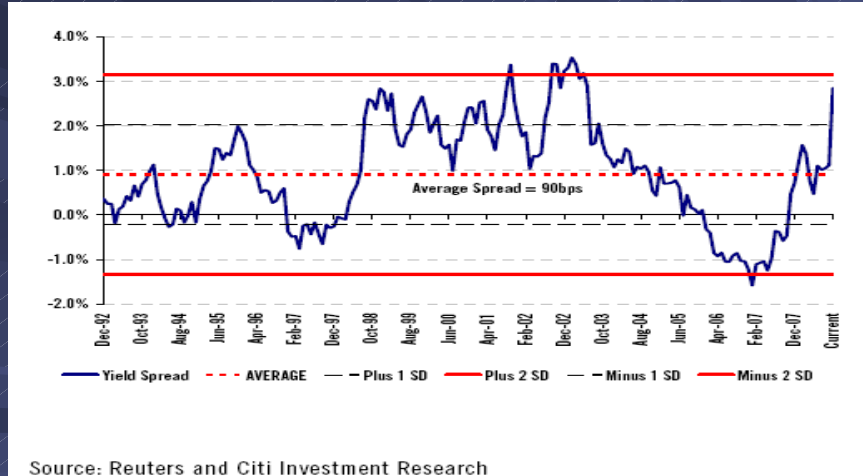
Source: Barclays Capital, Thomson Financial, and SNL Securities

Dividend Yield Comparisons



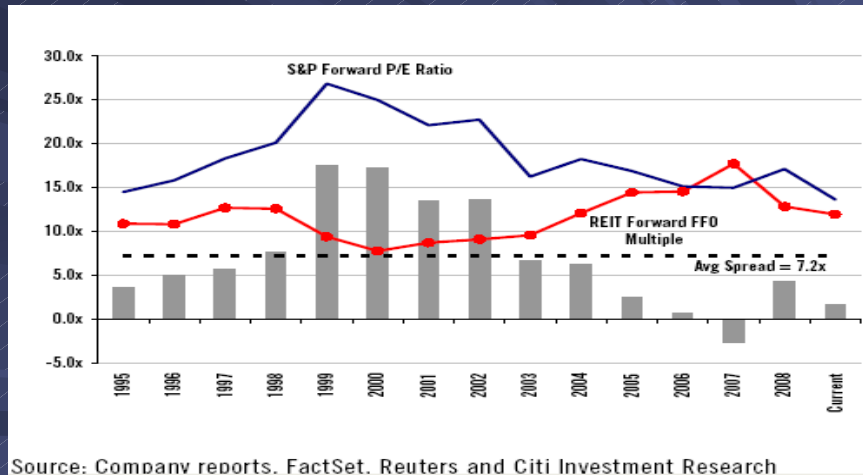
Source: Bloomberg and NAREIT

REIT dividend yield less 10 Year Treasury yield near historical high



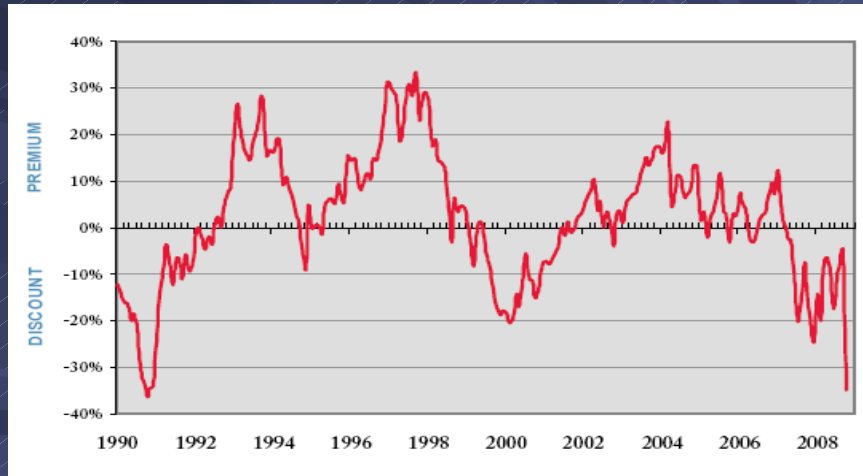
Source: Reuters and Citi Investment Research

REIT multiple vs S&P multiple

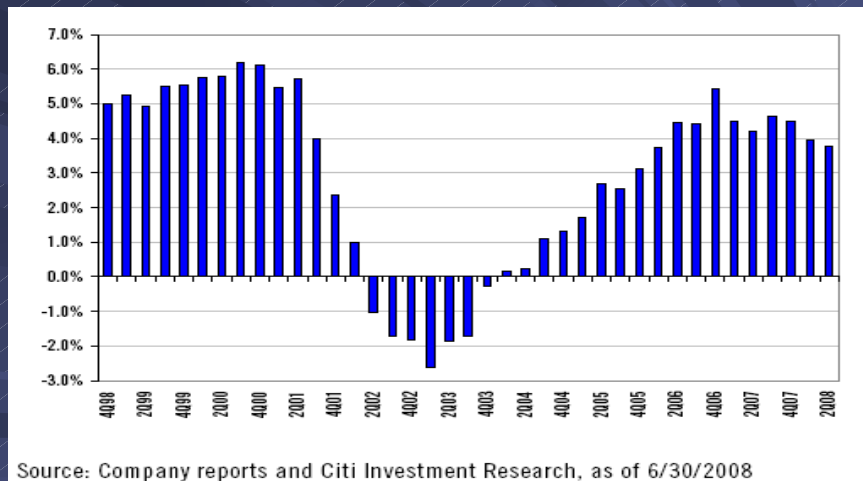


Source: Company reports, FactSet, Reuters and Citi Investment Research

REIT premium or discount to NAV

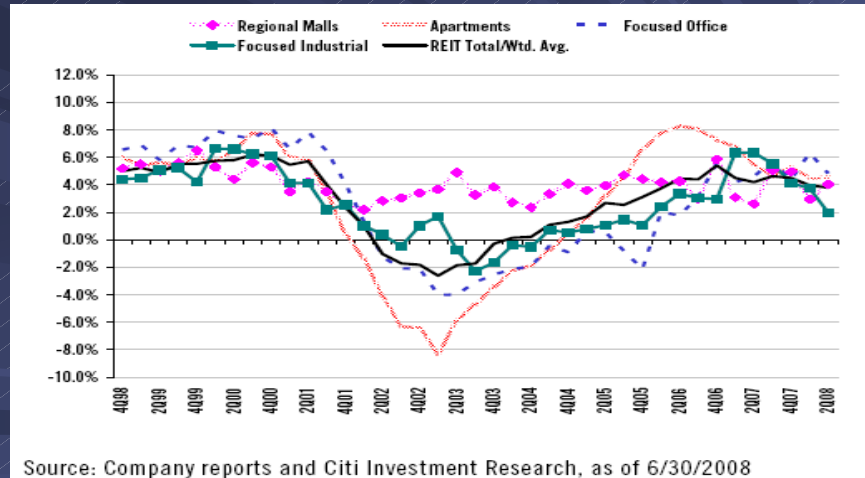


NOI growth slowing



Source: Company reports and Citi Investment Research, as of 6/30/2008

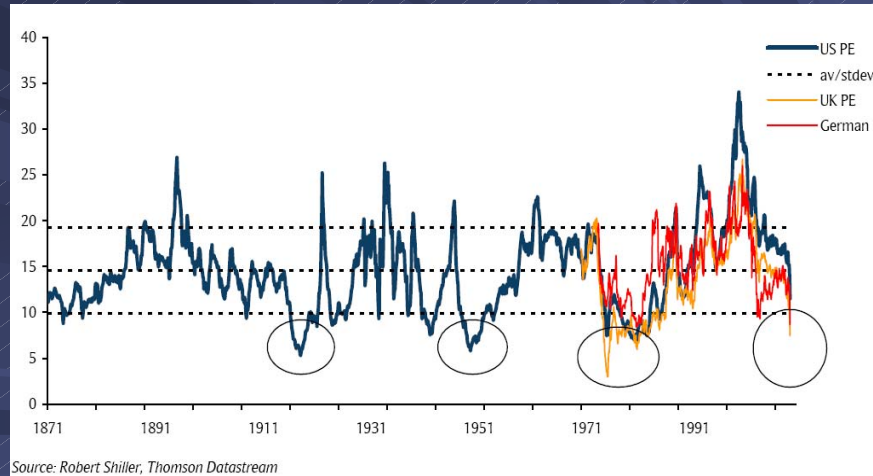
Same store NOI growth by sector



Torto Wheaton Q3 2008

	VACANCY RATE			
	Office	Industrial	Retail	Multi-Family
Oakland, CA	14.7%	10.0%	9.0%	3.7%
San Francisco, CA	9.8%	6.7%	3.0%	4.8%
San Jose, CA	14.3%	10.5%	3.9%	3.5%

Is this the buying opportunity of a generation?



Source: Robert Shiller, Thomson Datastream