Appraisal Institute

2010 Economic Forecast

2009 East Bay Commercial Real Estate Review

January 21, 2010

Appraisal Institute™

COLLIERS INTERNATIONAL

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Research provided by Brian Landes

OUTLINE

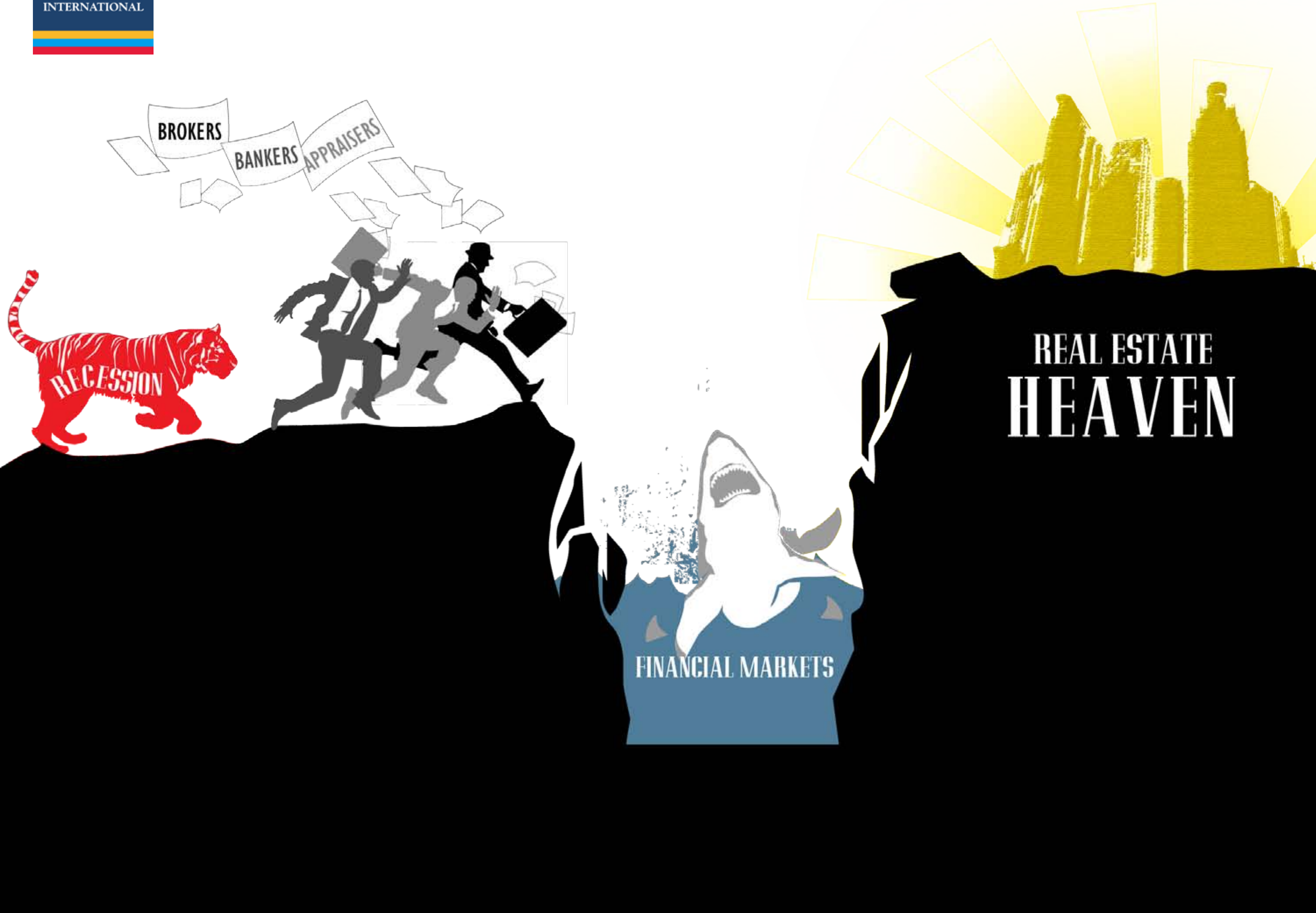
- East Bay Real Estate Market update
- Fourth Quarter 2009 Quarter Market Review
- Office, Industrial, Retail & Apartments
- East Bay Velocity of Commercial Sale & Lease

    Transaction Trends : 2009/ 2000 Decade
- East Bay Apartments 2009 Review
- East Bay Submarket Market Fourth Quarter Review
- Current Market Conditions 2009 (continues into first half 2010)
- 2010 is the Year of Distress Properties/Loan Sales
- 2010 Market Predictions

WHERE ARE THE EAST BAY MARKETS?

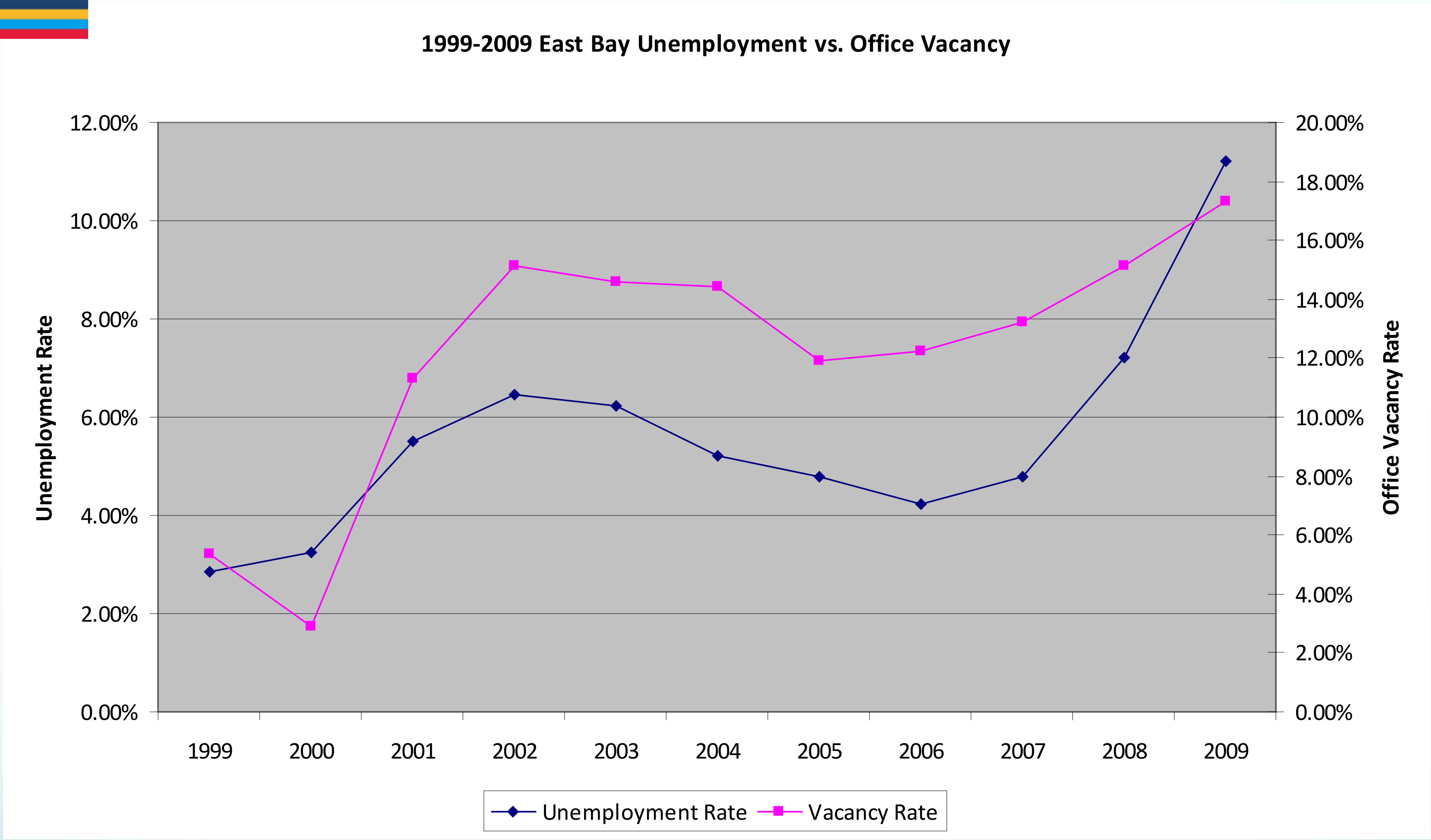
- ↓ OFFICE
- ↓ INDUSTRIAL
- ↓ RETAIL
- ↓ SUBURBAN HOTELS
- ↓ MULTI-FAMILY

"Which Comes Back First?"


BROKERS
BANKERS
APPRAISERS
RECESSION
FINANCIAL MARKETS
REAL ESTATE
HEAVEN

THE CURRENT PROBLEM (2009 CONTINUES)

- Recession officially ended October 2009 !! (did you know??)
- 11.2% East Bay Jobless Rate – Jobless Claims up this morning
- Vacancies are directly tied to job creation or lack thereof
- East Bay Velocity of Lease Transactions Down 52% 2007-2009
- East Bay Velocity of Sale Transactions Down 39% 2007-2009 (December 2007 to December 2009)
- Cap Rates rising 8-10 % for Commercial (20% delta between Seller/Bank and Buyer expectations)
- 35 to 40% % of Real Estate Equity disappeared in 2008/2009
- Foreclosures/Distressed Properties/Loans /CMBS loans



Source: Colliers International Market Data, California Economic Development Department

Prepared by: Colliers International Research – Walnut Creek

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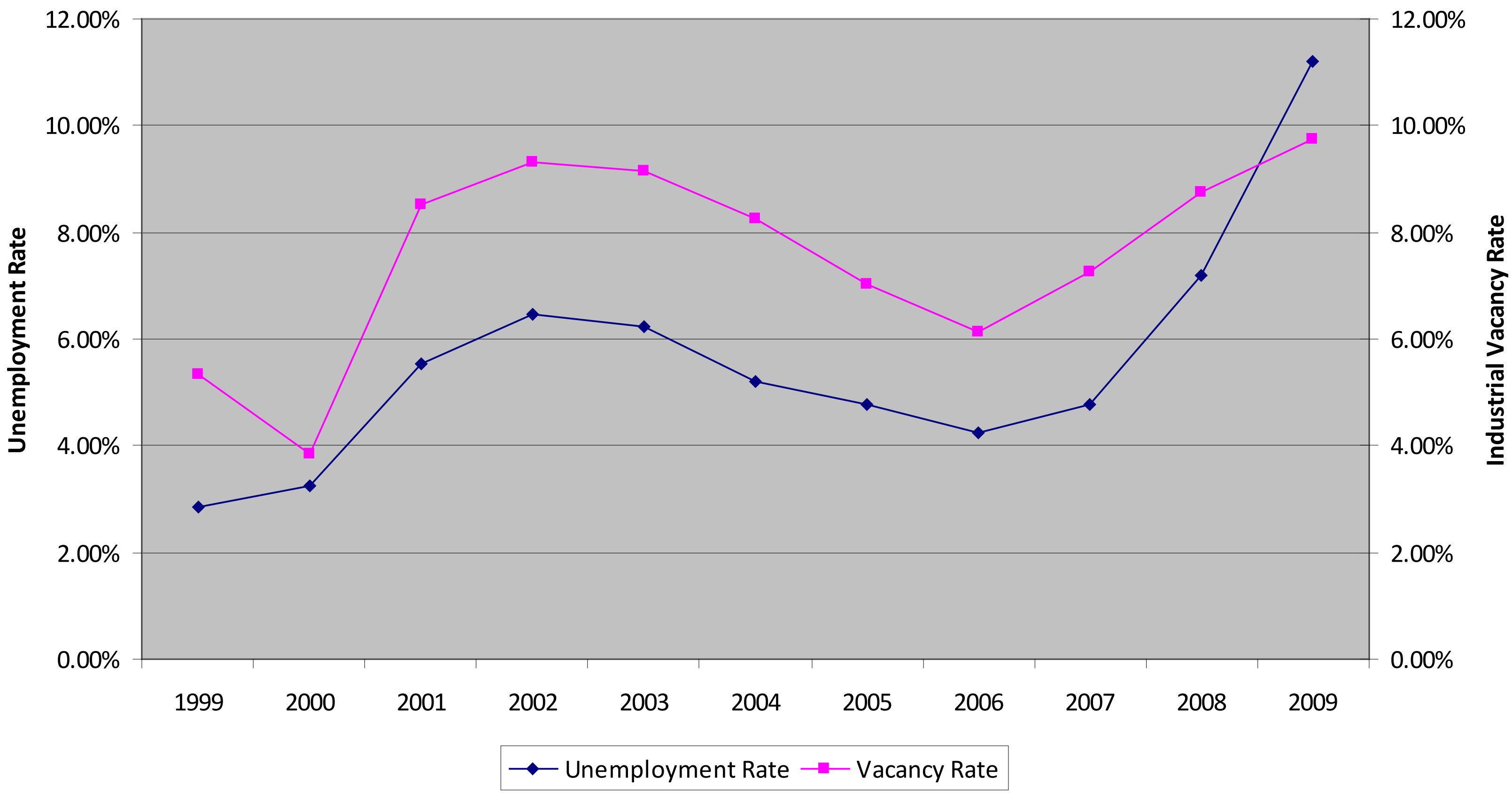
1999-2009 East Bay Unemployment vs. Industrial Vacancy



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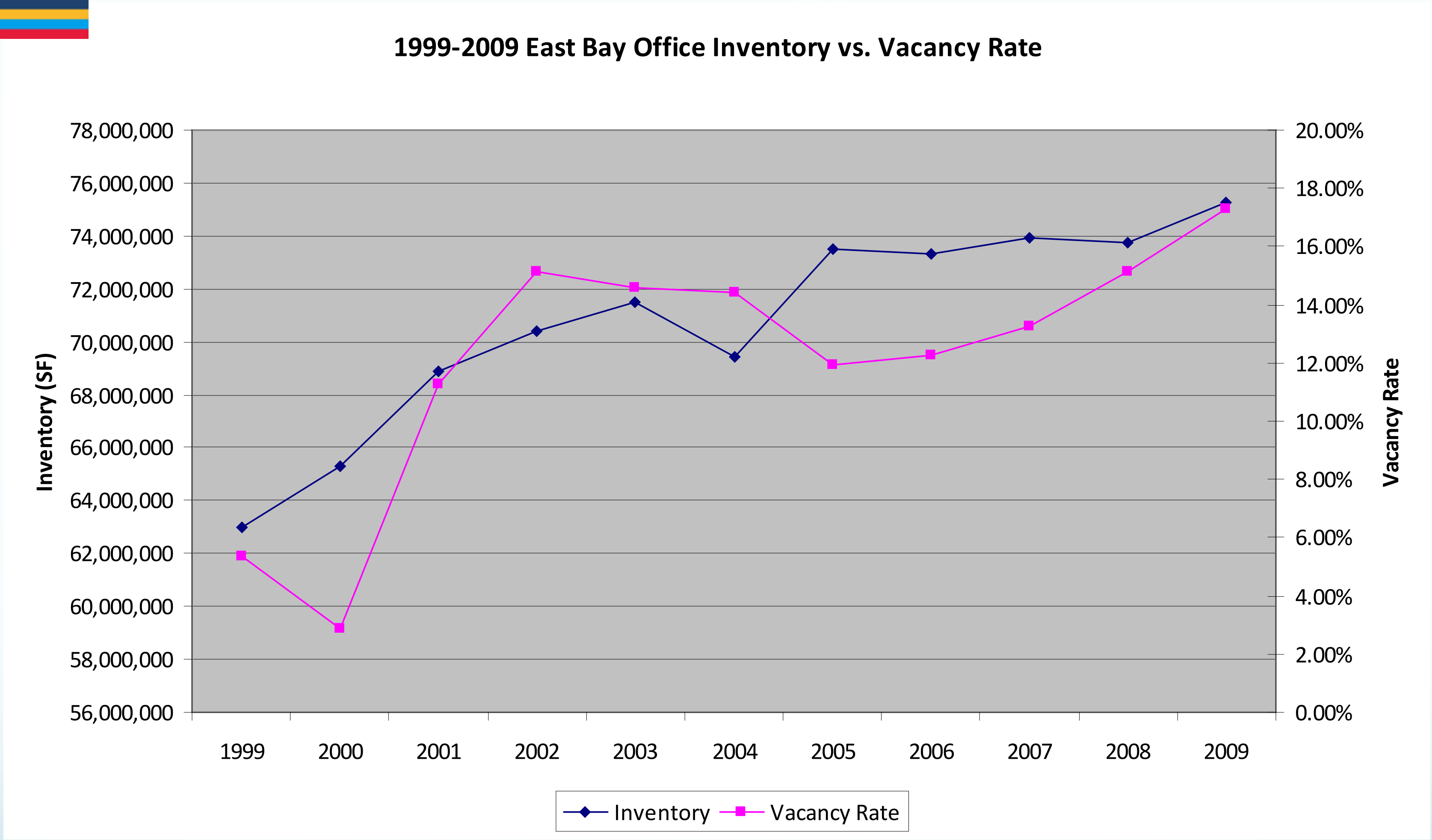

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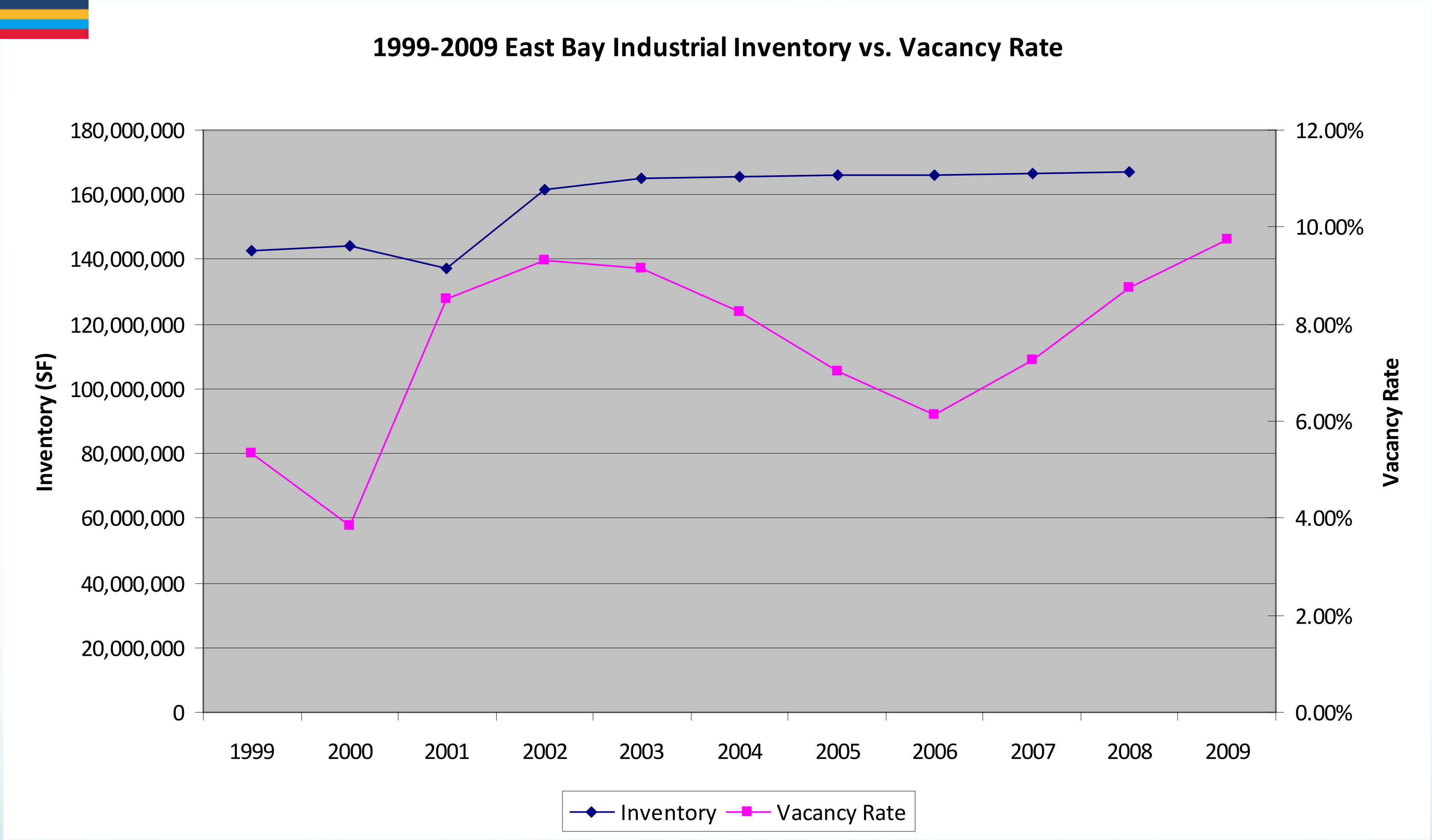

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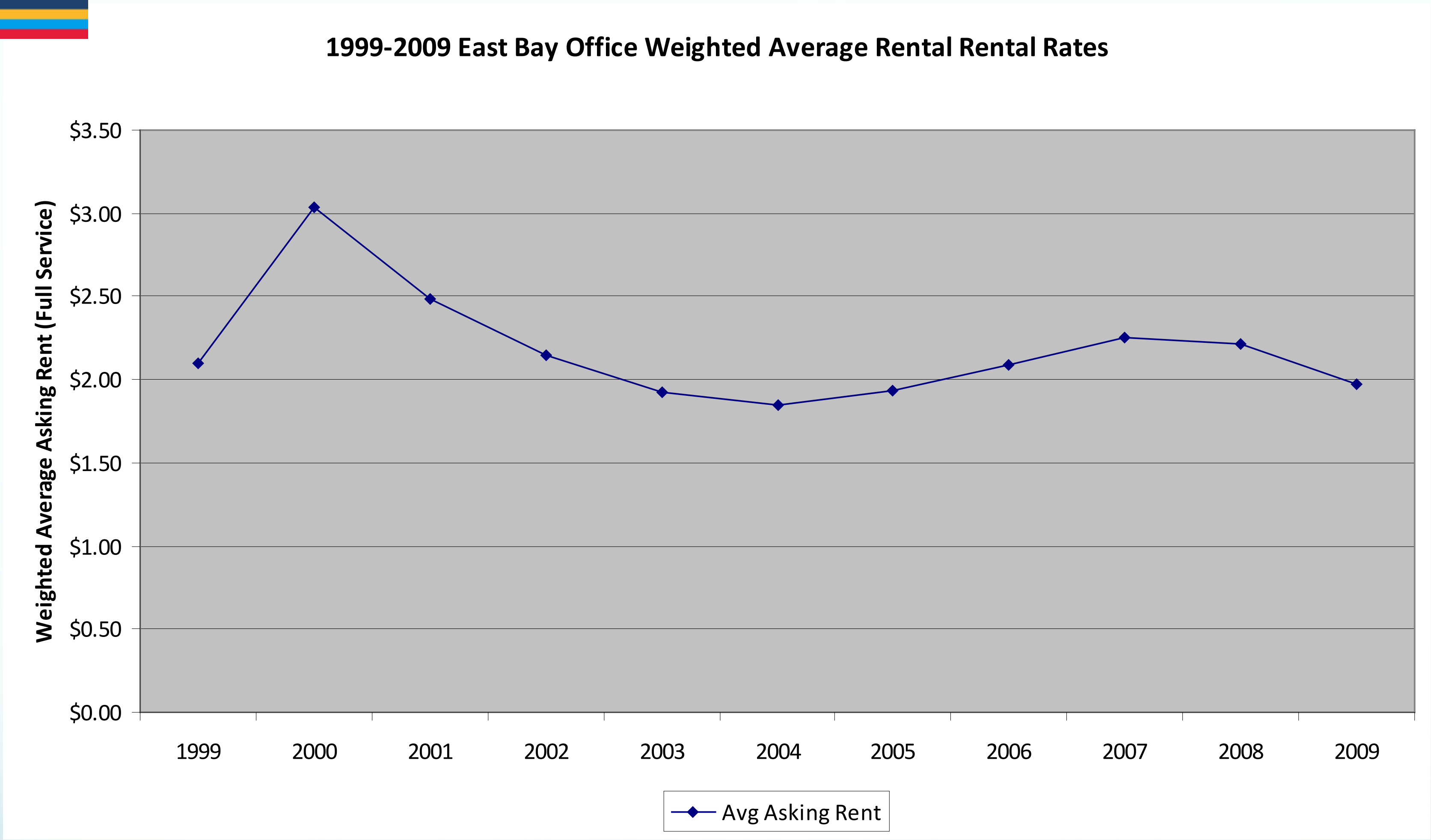

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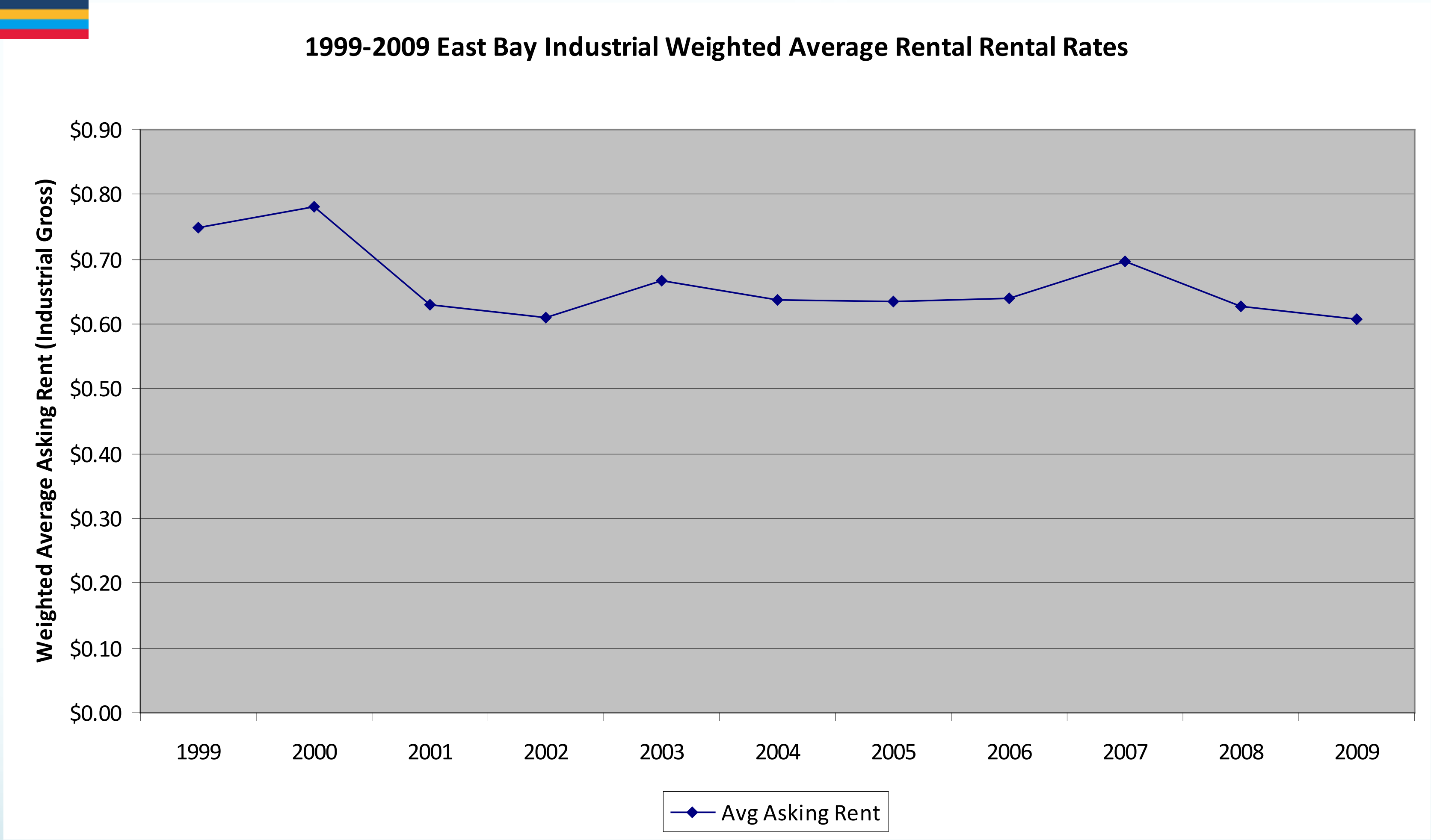

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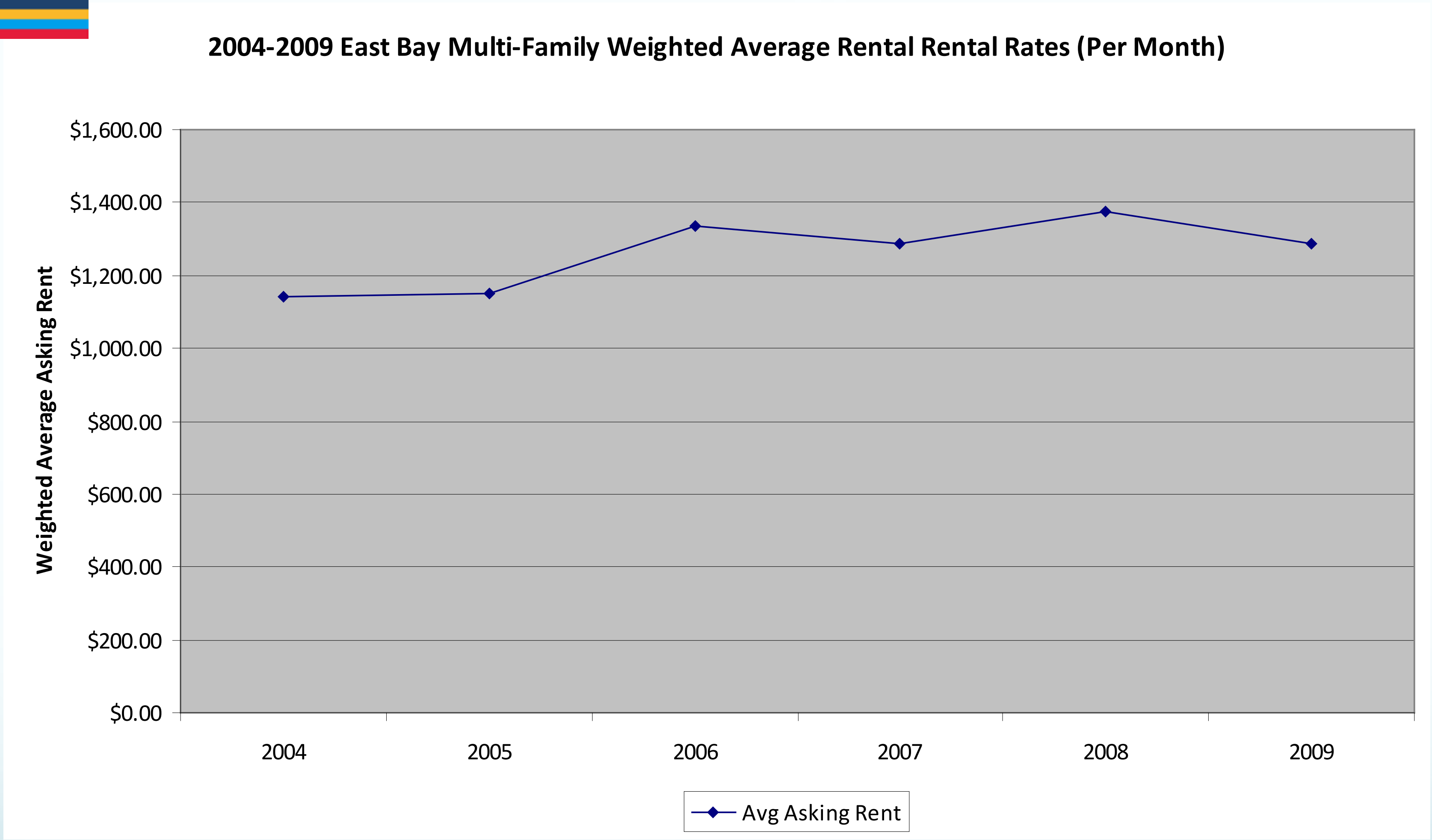

Source: Colliers International Market Data, Pierce-Eislen

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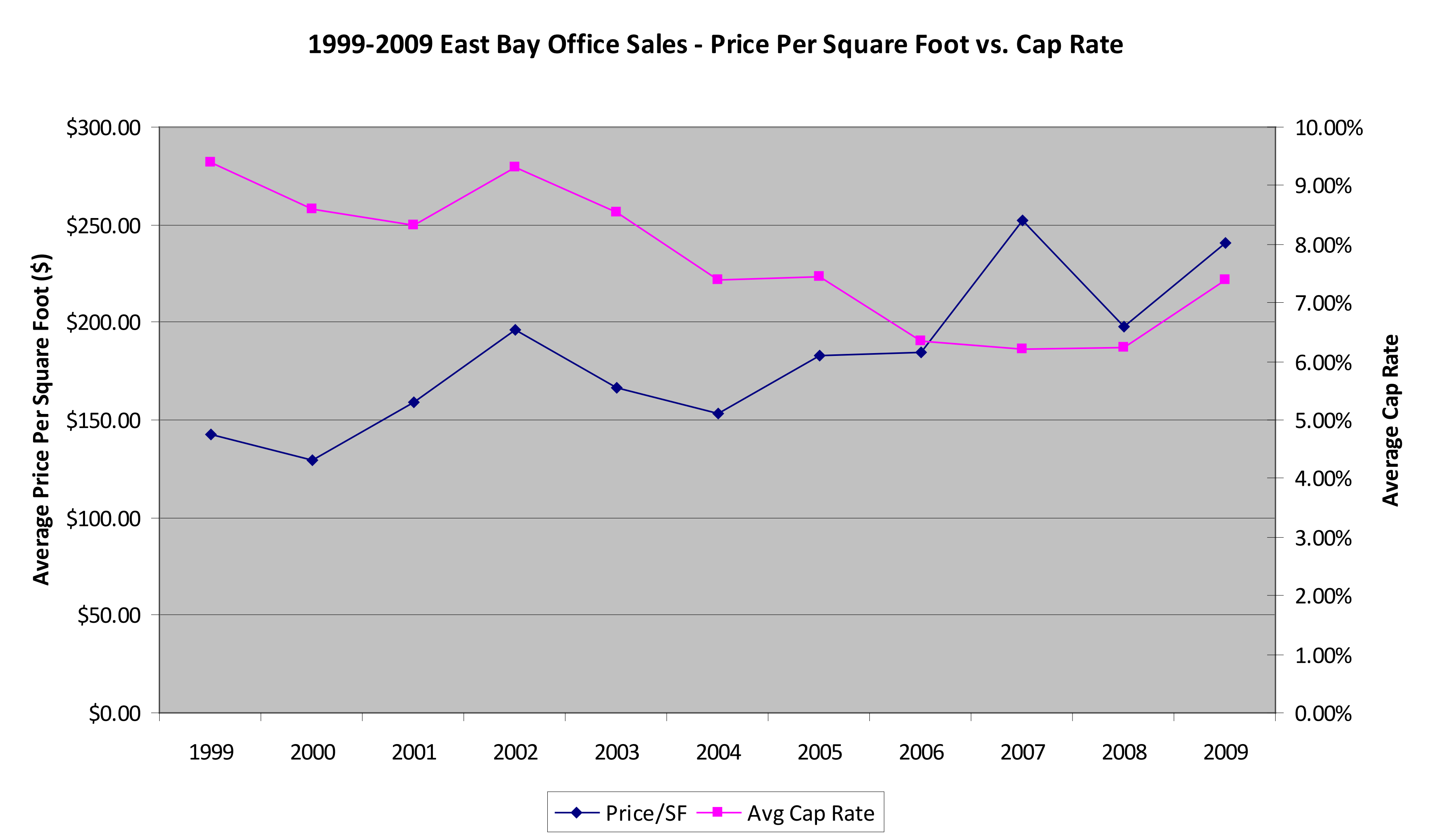

Source: Colliers International Market Data, Costar Analytics

*Based on Actual Sales

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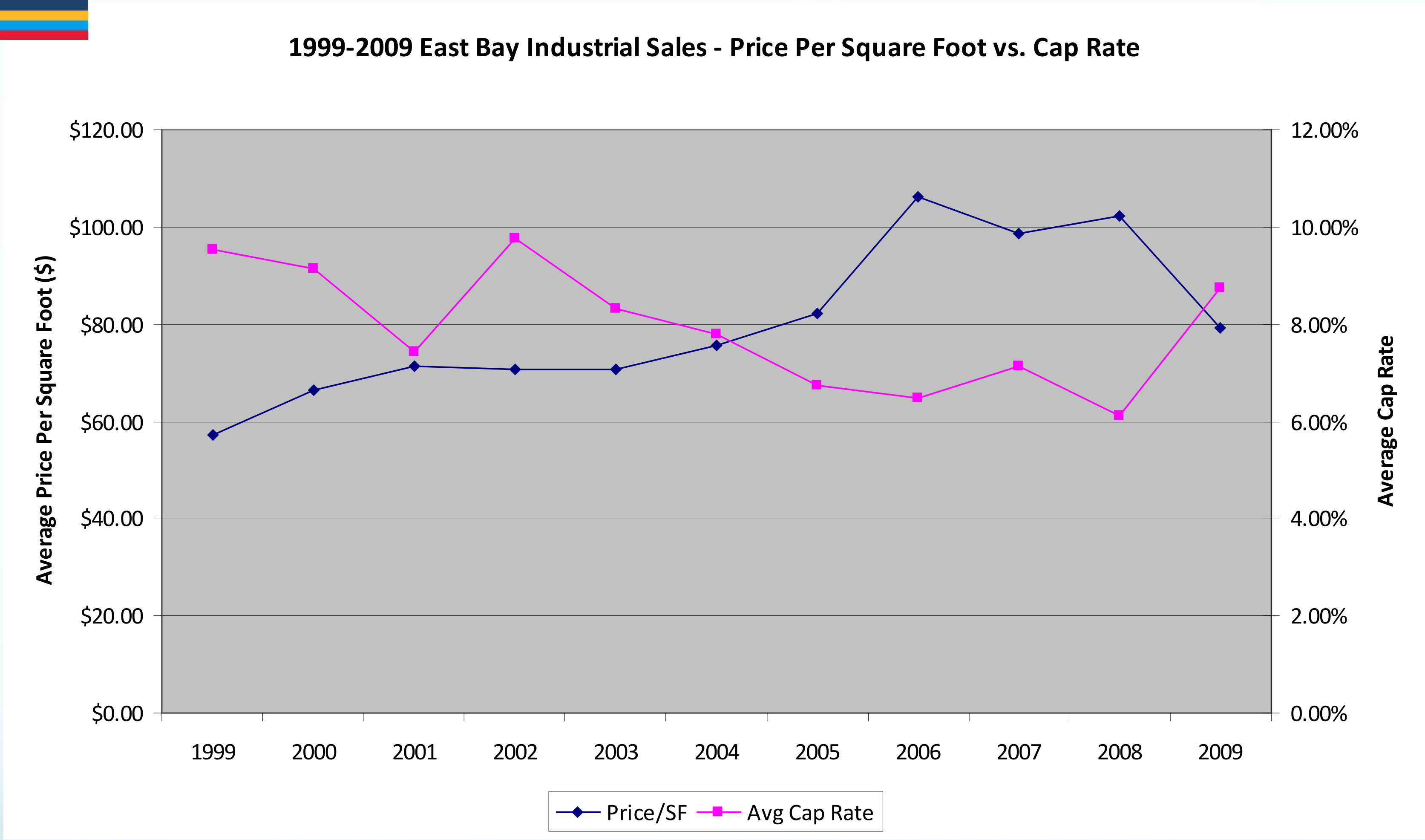

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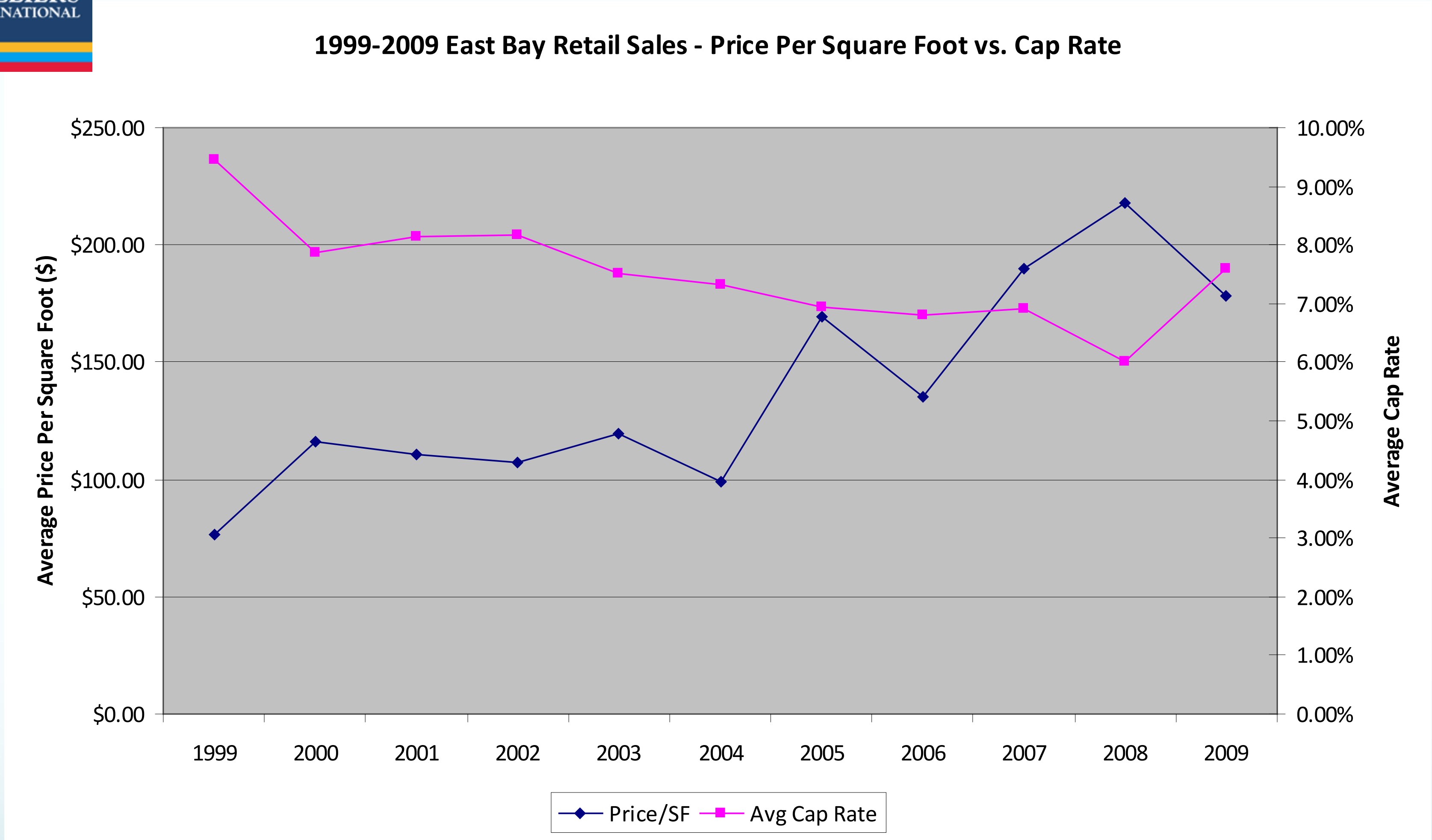

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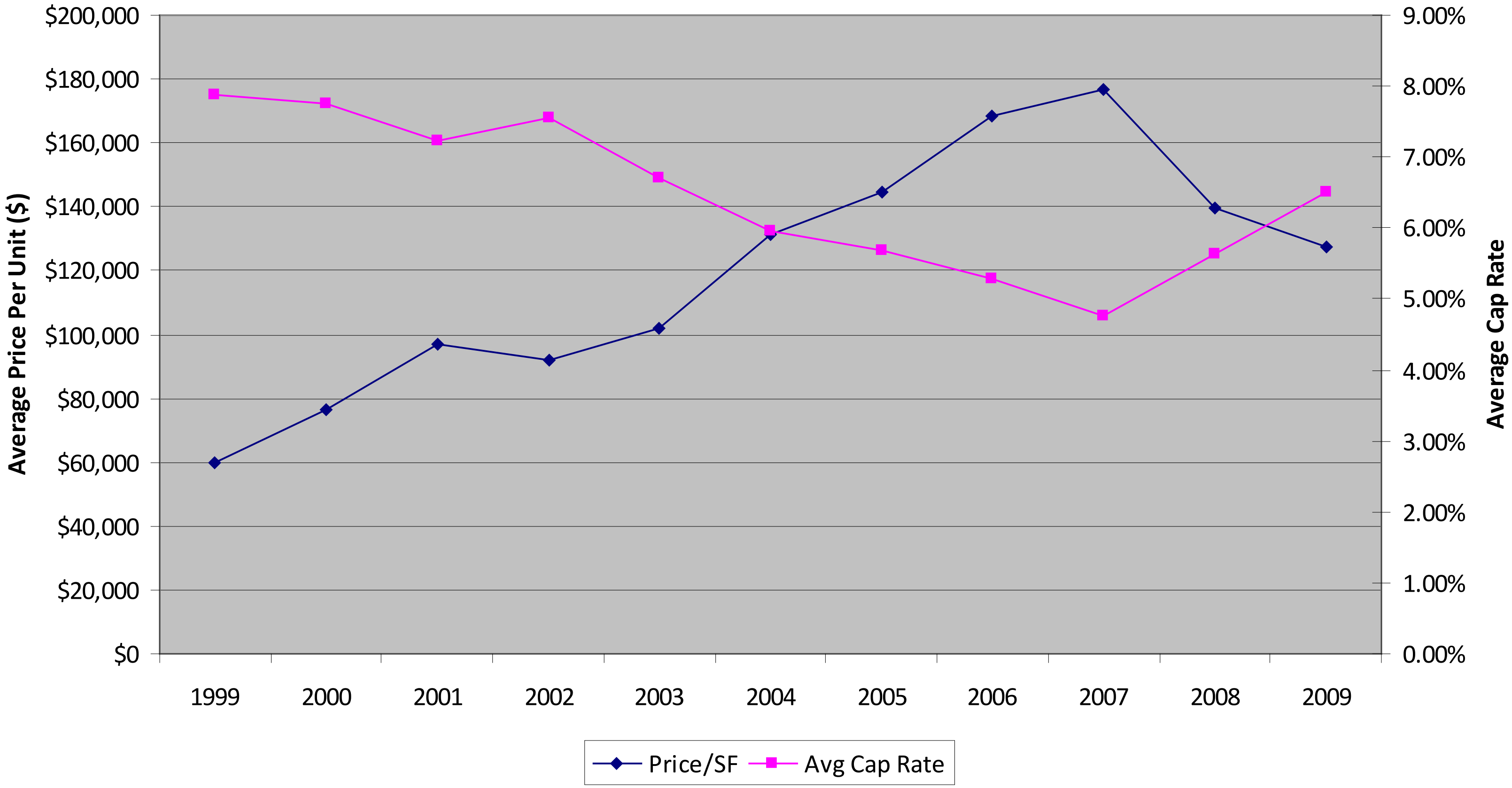
1999-2009 East Bay Multifamily Sales - Price Per Residential Unit Foot vs. Cap Rate



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*Based on Actual Sales

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East Bay Office

4th Quarter 2009

EXISTING PROPERTIES									ABSORPTION		RENT
Class	Bldgs	Total Inventory SF	Direct Vacant SF	Direct Vacancy Rate	Sublease Vacancy Rate	Total Vacant SF	Total Vacancy Rate	Vacancy Rate Prior Qtr	Net Absorption Current Qtr SF	Net Absorption YTD SF	Avg Asking Rate (Full Service)
OAKLAND/I-880 CORRIDOR											
TOTAL	538	32,899,473	32,899,473	13.3%	1.7%	4,930,825	15.0%	15.4%	143,478	(599,944)	$ 2.04
N I-680 CORRIDOR											
TOTAL	324	15,406,333	2,586,603	16.8%	2.2%	2,922,923	19.0%	18.9%	(55,892)	(367,099)	$ 2.12
TRI VALLEY											
TOTAL	412	27,088,758	4,877,915	18.0%	1.1%	5,179,151	19.1%	18.5%	(172,797)	(585,071)	$ 1.69
EAST BAY											
TOTAL	1274	75,394,564	40,363,991	16.6%	1.6%	13,032,899	18.7%	17.8%	(85,211)	(1,552,114)	$ 1.97

Source: Colliers International Market Data

Prepared by: Colliers International Research – Walnut Creek

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East Bay Industrial

4th Quarter 2009

EXISTING PROPERTIES									ABSORPTION		RENT
Class	Bldgs	Total Inventory SF	Direct Vacant SF	Direct Vacancy Rate	Sublease Vacancy Rate	Total Vacant SF	Total Vacancy Rate	Vacancy Rate Prior Qtr	Net Absorption Current Qtr SF	Net Absorption YTD SF	Avg Asking Rate (IG)
OAKLAND/I-880 CORRIDOR											
TOTAL	3358	131,232,701	9,586,653	7.3%	1.11%	11,039,238	8.4%	9.3%	1,120,046	(598,008)	$ 0.44
N I-680 CORRIDOR											
TOTAL	599	16,619,249	2,158,210	13.0%	0.89%	2,306,623	13.9%	14.3%	28,062	(575,660)	$ 0.65
TRI VALLEY											
TOTAL	561	17,494,871	2,207,161	12.6%	0.46%	2,286,948	13.1%	14.5%	242,144	(518,158)	$ 0.50
EAST BAY											
TOTAL	4518	165,346,821	13,952,024	12.9%	0.74%	4,593,571	9.7%	14.3%	1,390,252	(1,691,826)	$ 0.61

Source: Colliers International Market Data

Prepared by: Colliers International Research – Walnut Creek

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East Bay Retail Market

Sales Data, 1999-2009

Period	Number of Transactions	Average Price Per Bldg SF	Average Price Per Acre	Average Cap Rate	Building SF	Average Bldg SF	Land Acres	Average Acres
Survey	351	$134.33	$2,228,002	7.41	8,751,240	25,004	498.2	1.5
2009	20	$178.27	$2,820,444	7.6	537,741	28,302	31	1.5
2008	24	$217.82	$3,605,306	6.02	1,273,692	53,070	51.3	2.2
2007	39	$189.97	$2,642,745	6.92	1,075,569	27,579	71.3	1.8
2006	39	$135.22	$2,246,318	6.79	863,045	22,129	58.5	1.5
2005	35	$169.41	$3,271,551	6.94	827,713	23,649	49.9	1.4
2004	35	$99.16	$2,249,359	7.33	1,062,259	30,350	46.4	1.5
2003	30	$119.60	$1,604,213	7.52	521,400	17,380	28.1	1.2
2002	41	$107.29	$1,757,160	8.18	911,186	22,224	54.3	1.4
2001	30	$110.36	$2,552,331	8.15	525,669	17,522	25.5	0.9
2000	46	$116.35	$1,665,185	7.86	858,162	18,656	59.3	1.3
1999	12	$76.48	$994,530	9.46	294,804	24,567	22.7	1.9

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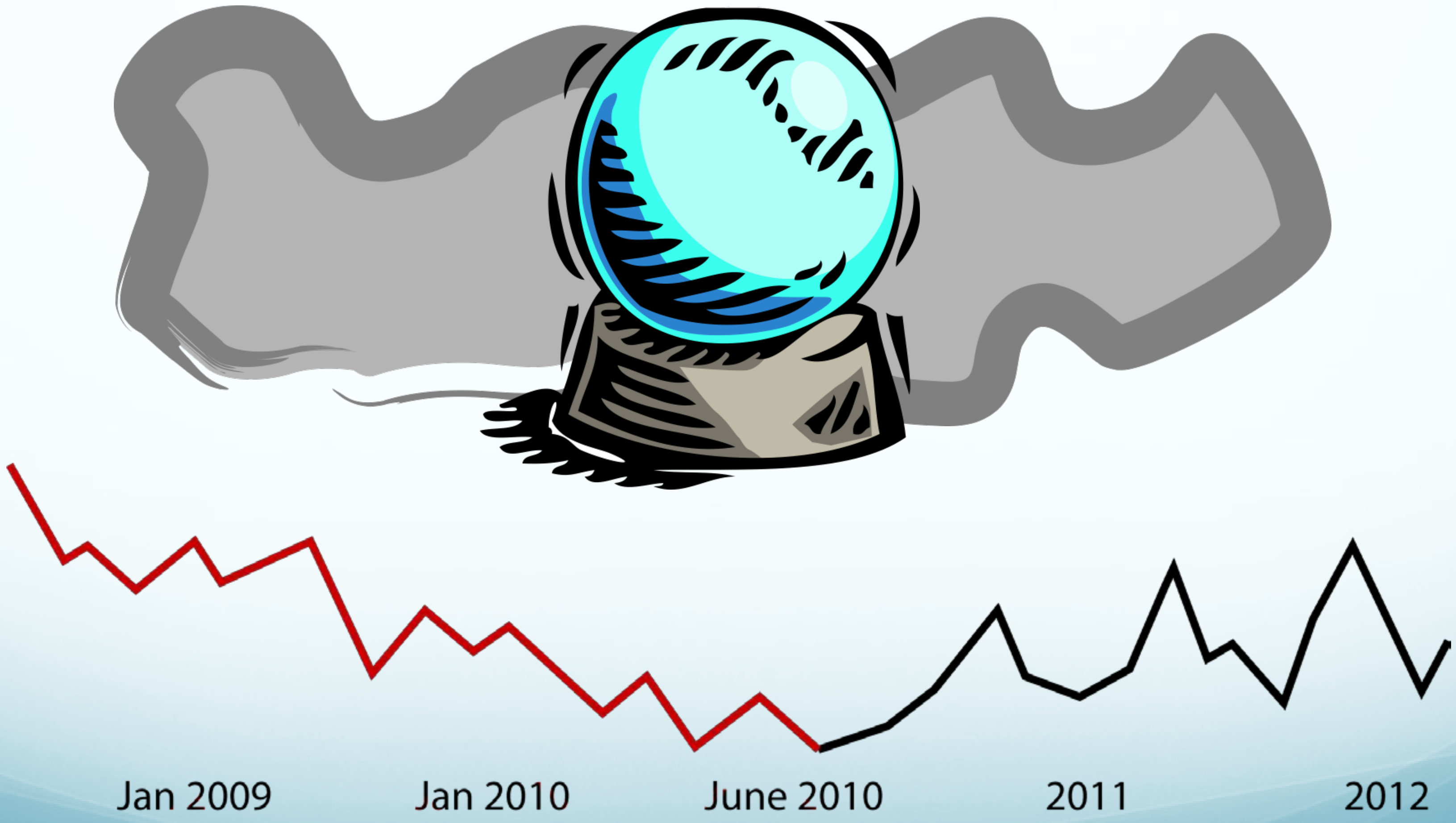
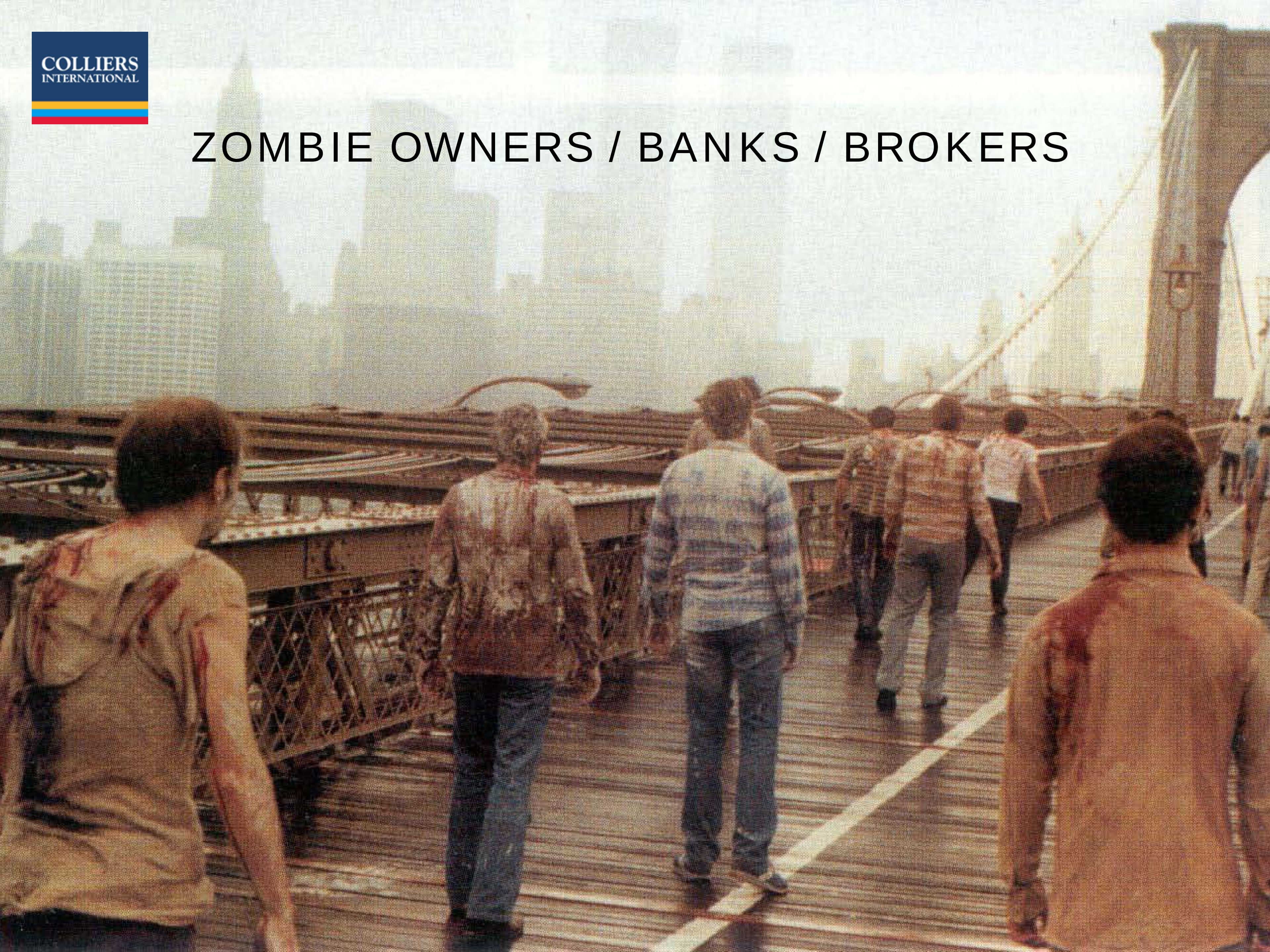
THE CRYSTAL BALL



ZOMBIE OWNERS / BANKS / BROKERS



OR

- Banks will:
  - Improve Balance Sheets
  - Pretend & Extend Loans
  - Increase Loan Loss Reserves
  - Real Estate Loan Workouts
  - Earlier Appointment of Receivers
  - Ask for Borrower Business Plan Updates
  - Proactive Borrower BK Avoidance Plans
- Owners Should:
  - Scrub Current Loans
  - Review Rent Rolls & Debt coverage ratios
  - Work Renewals with Tenants (Discount & Extend)
  - Lease Furnished Suites/Keep Used Furniture
  - Full Leasing Commissions To Procuring Broker
- Broker Survival Plan
  - Real Estate Note Sales
  - White Knight Liquidators
  - Learn Short Sale Process
  - Broker Opinion of Values
  - Advisory Brokerage
  - Be Friendly to Appraisers
- Appraisers
  - Make the Broker/Banker/RE Attorney your Friend
- Get used to 9 to 10 cap rates
- Do Not Expect Market to Rescue
- Watch for Inflation in Late 2011 !!

WHAT PROPERTY OWNERS ARE DOING

Protecting and/or Enhance Entitlements

Seeking Equity Partners

Renewing Tenants

- Cash Flow Rental Deals/Creative Lease Terms
- Cutting Operating Costs

Reviewing Loans

- Buying Back their Own Loans from Lender
- Meeting Lenders

Buying Neighbors

Becoming Brokers, Receivers and Asset Advisory Services

(Note: Not Qualified to be Appraisers)

2010 Predictions:

- First Quarter 2010 Slow as 2009 Real Estate Trends Continue
- Silicon Valley/San Francisco Create Jobs 2nd Half 2010
- Job Creation Anemic Throughout 2010 in East Bay
- The Entrance of Opportunity/Hedge Fund Buyers
- Second Quarter Distress Property and Loan Sales Pick Up
- East Bay Rents & Equity Values Drift Down Further 5- 10%
- Apartments/Neighborhood Shopping Centers Recover First
- Expect Major Land Use Changes as result of Recession
- Adaptive Reuse: (dealership sites, big box retail, gas stations, government buildings change use)

Market Rents will not recover in time to Help Loans Due in 2010/2011

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STAY CONNECTED

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