

From Recovery to Expansion / Interest Rates and Commercial Real Estate in 2014

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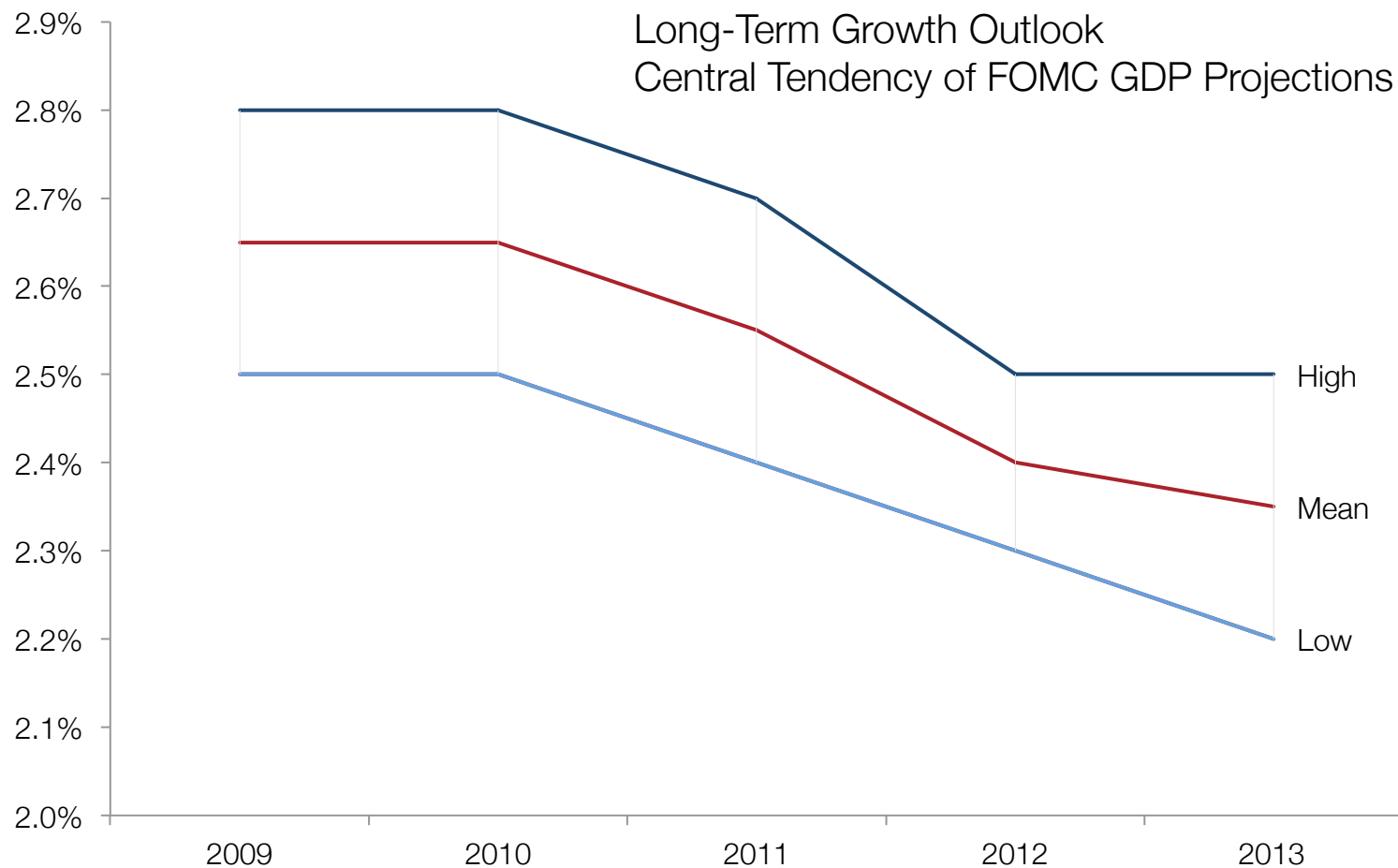
Agenda

The Economy & Interest Rates

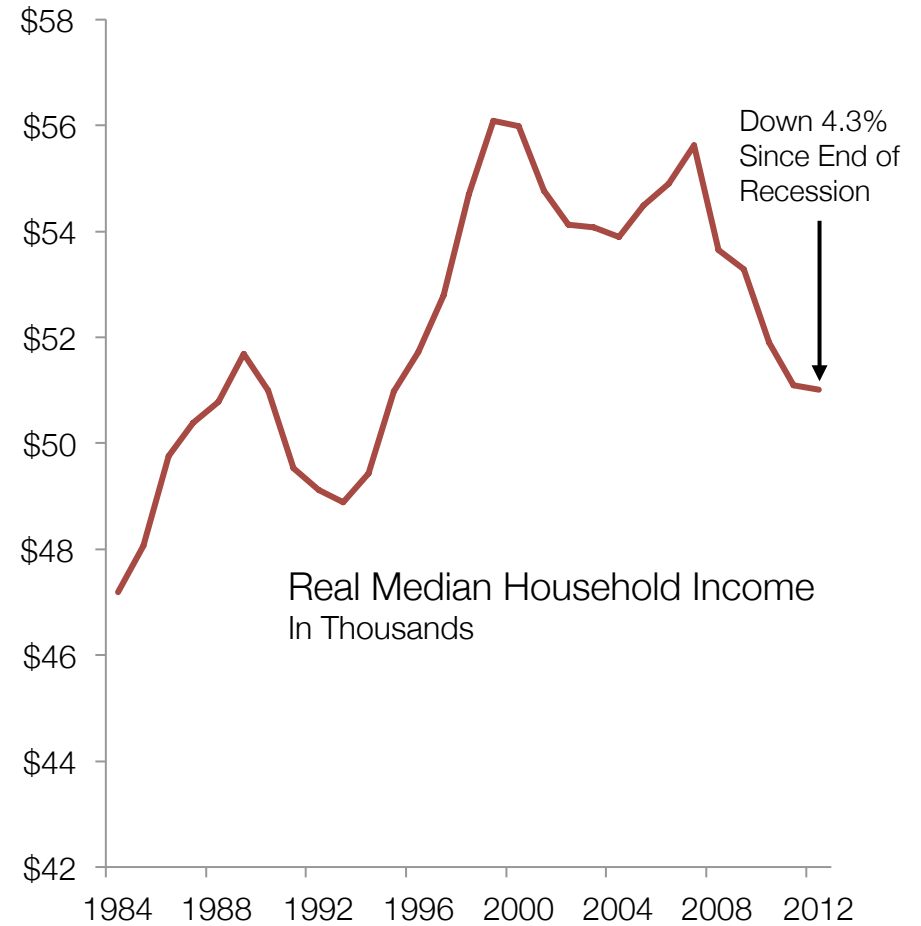
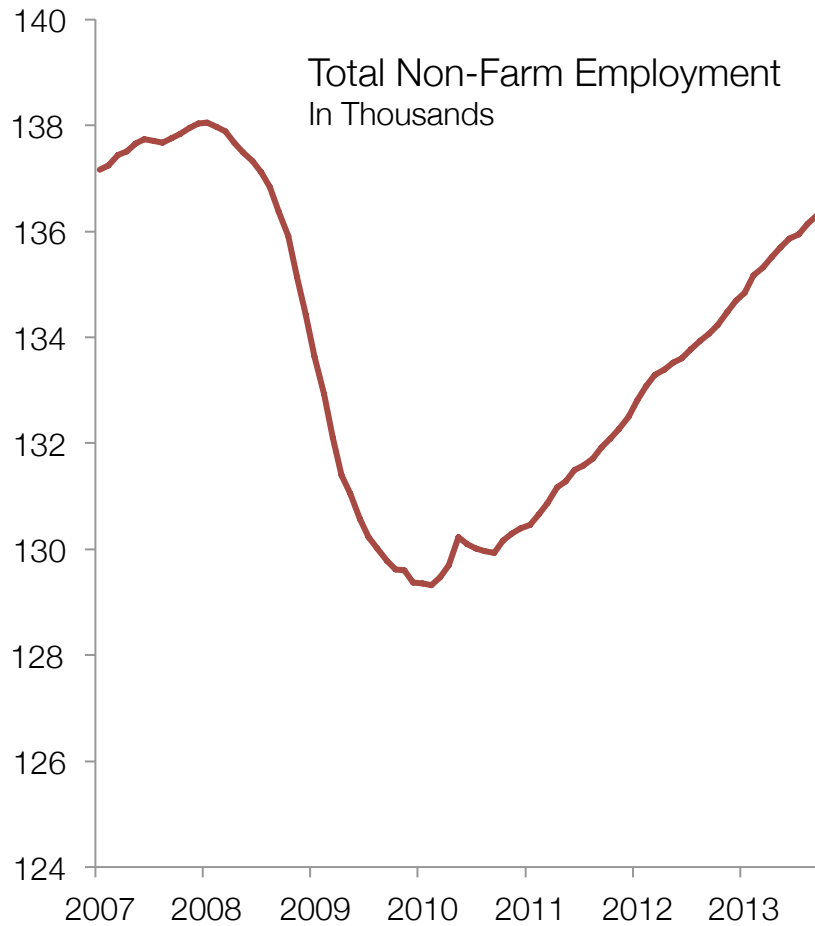
Property Investment & Financing

Forward Look

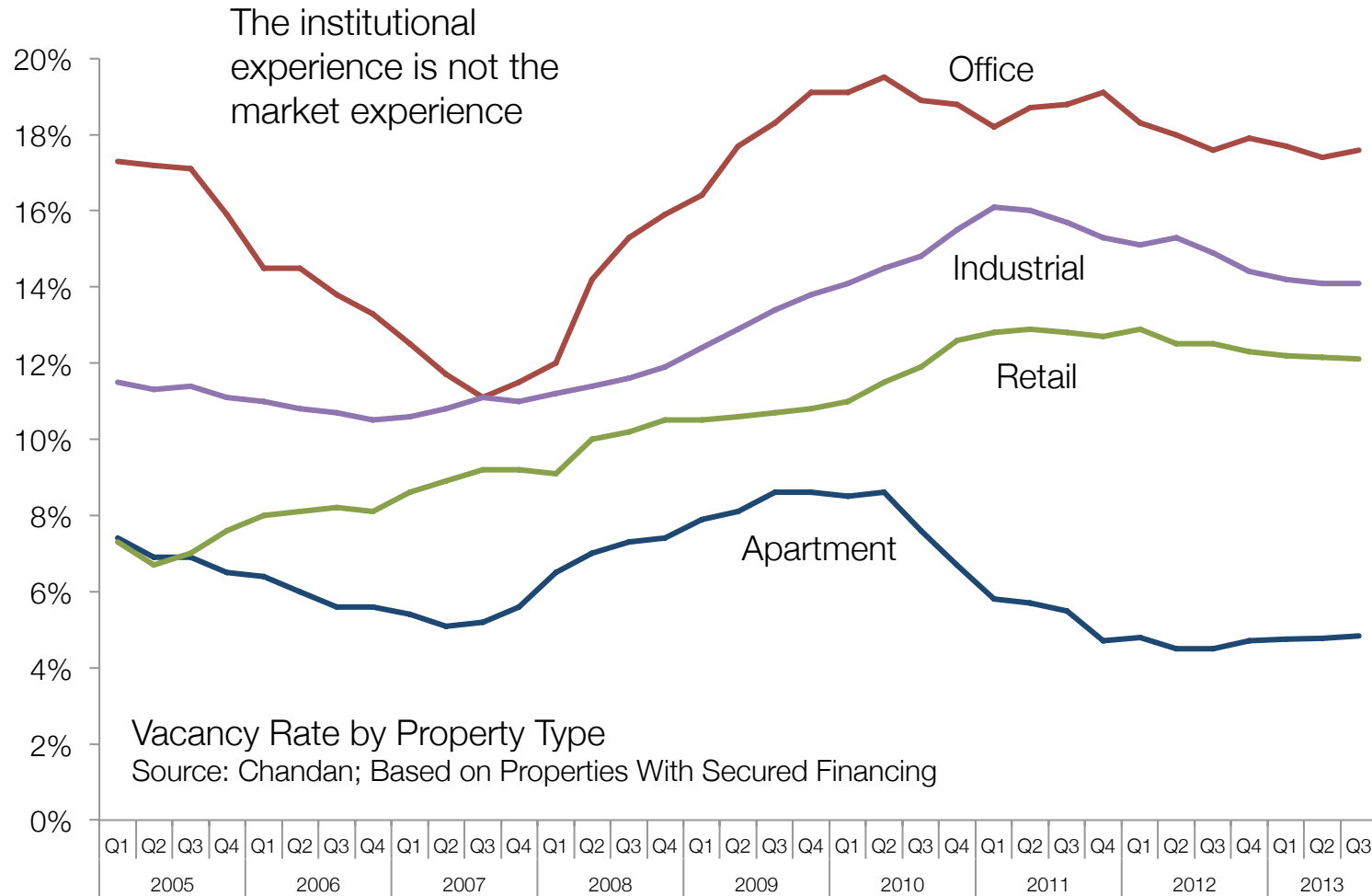
Diminished Growth Prospects



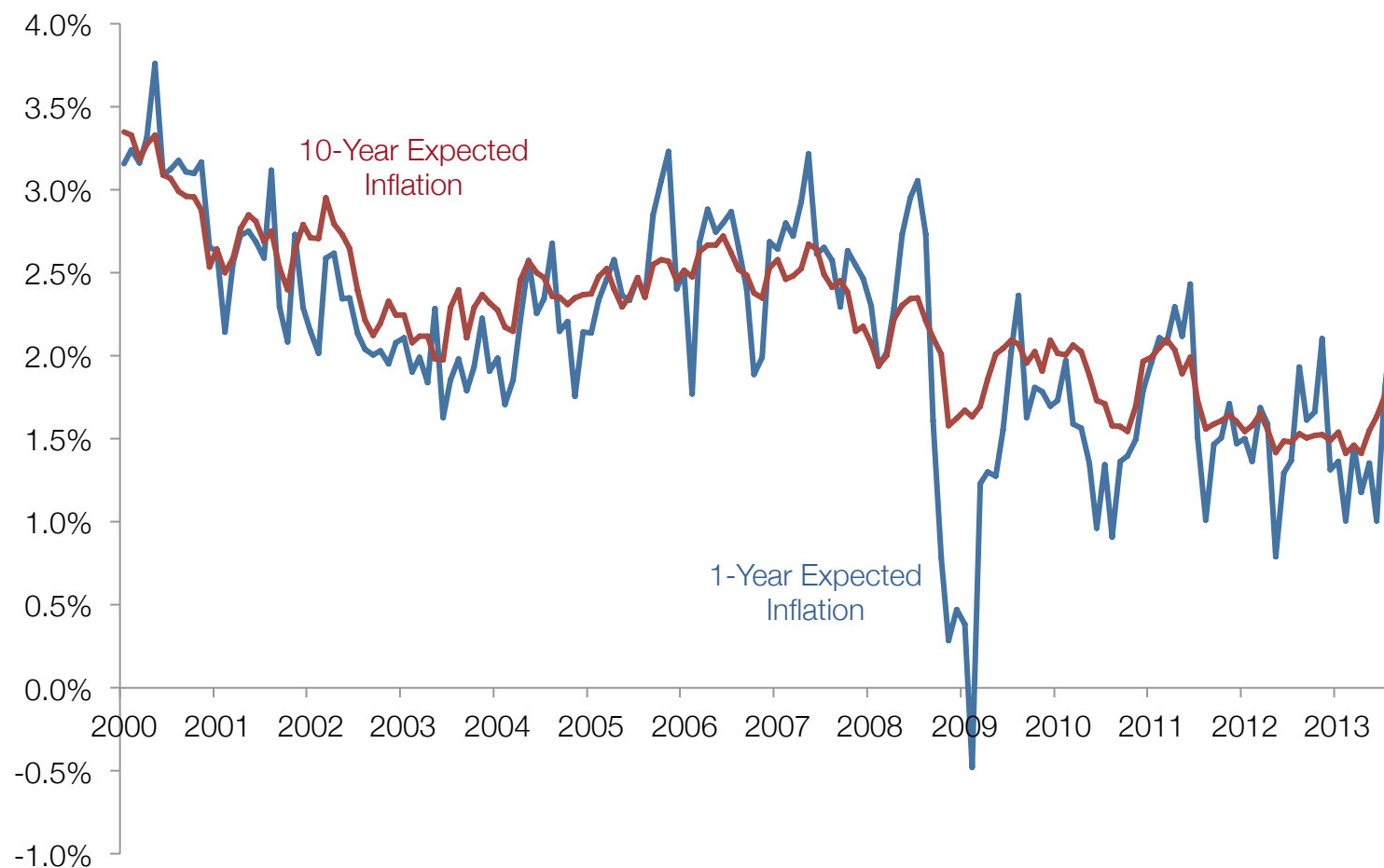
Qualified Jobs Recovery



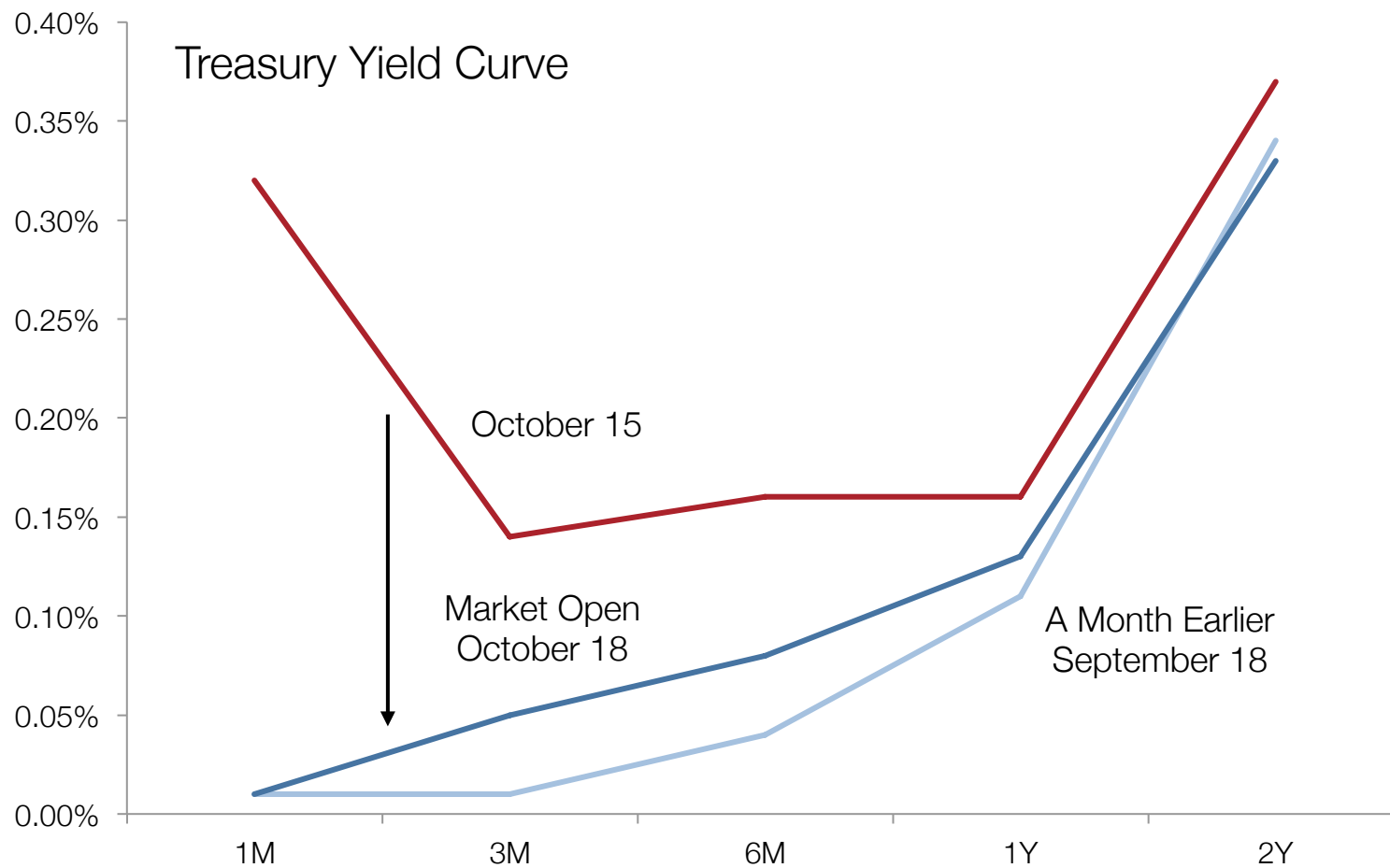
Weak Fundamentals Trends / Q3 Prelims



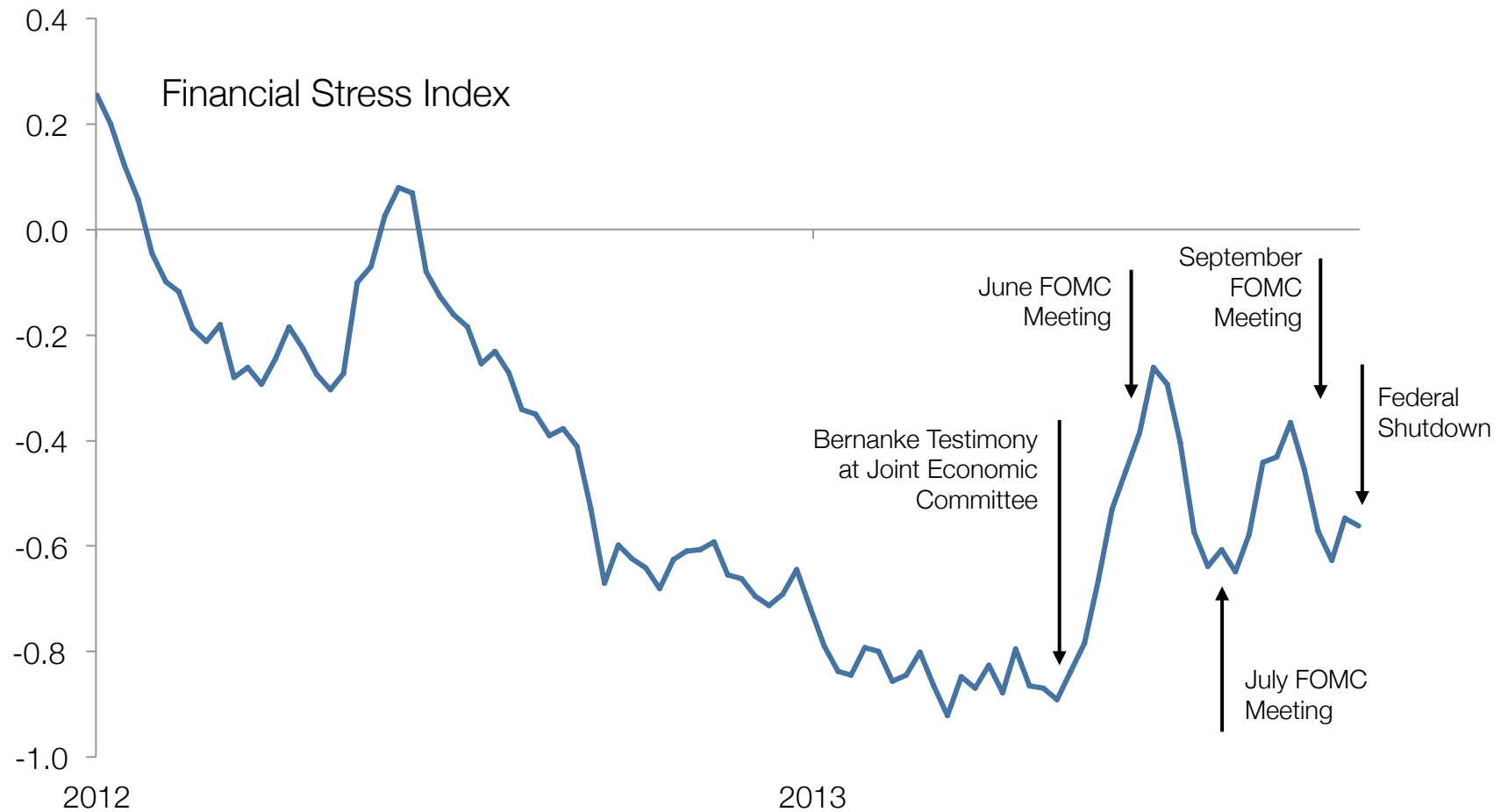
Policy Unconstrained by Inflation



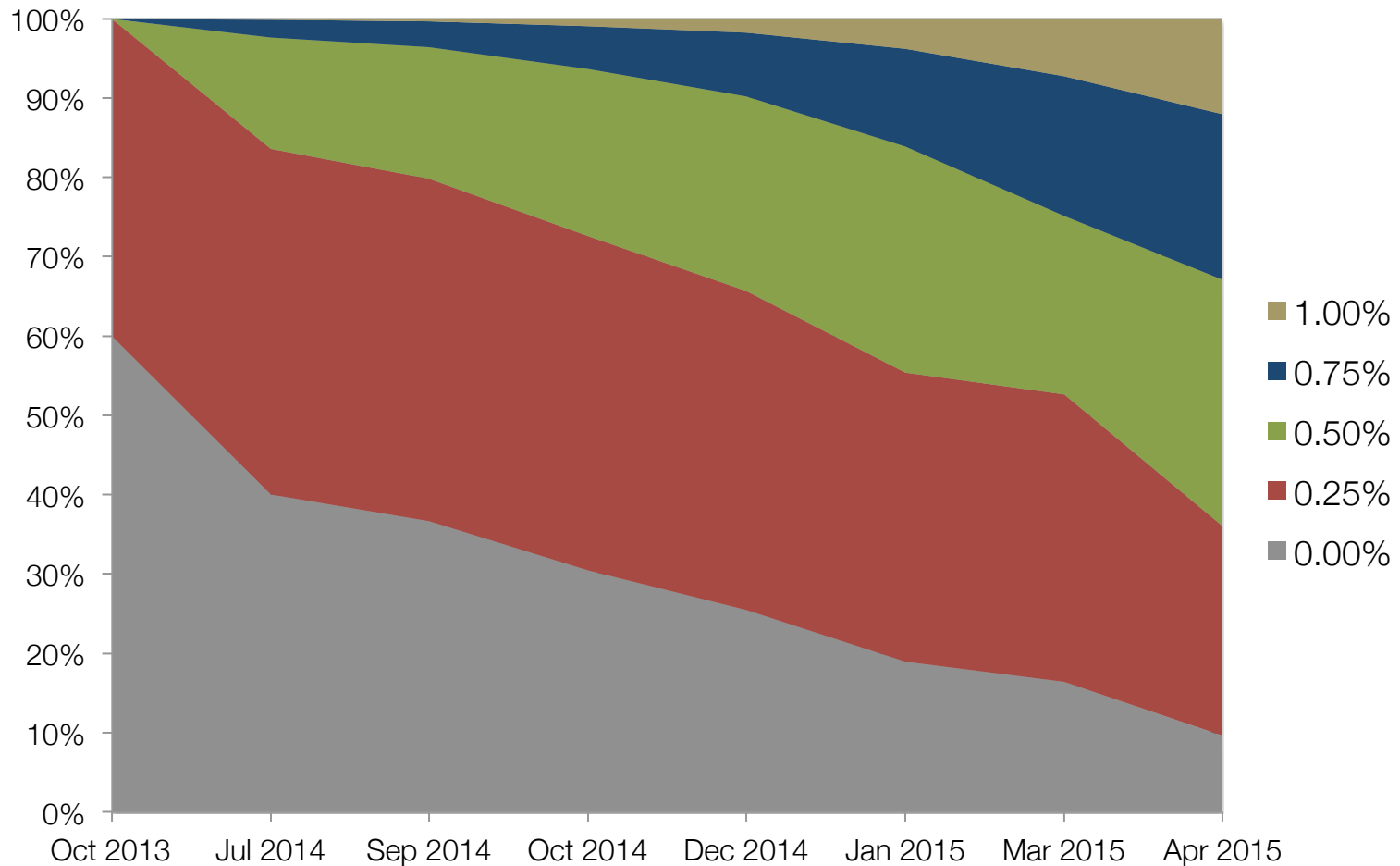
Hedging Default



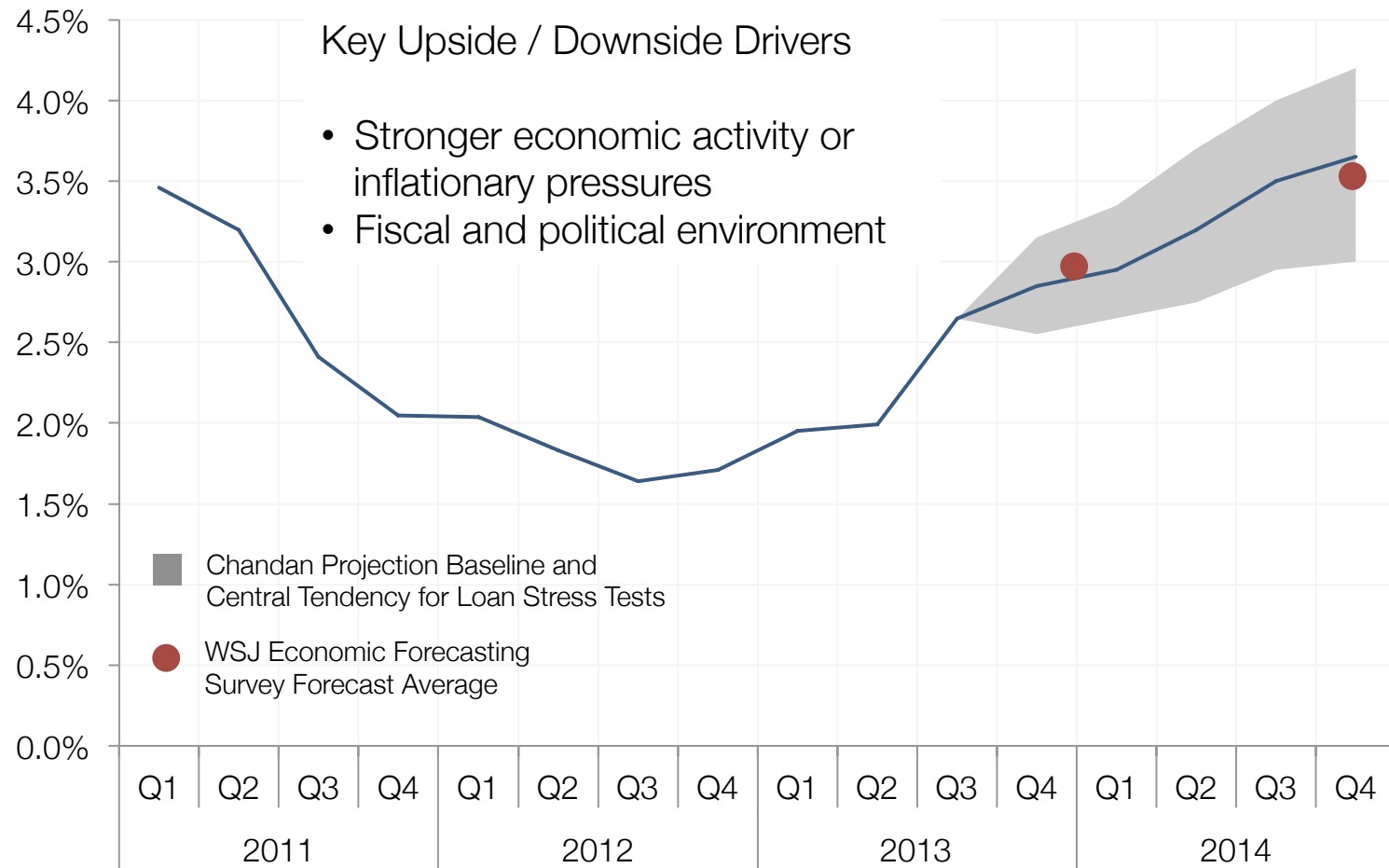
Sources of Financial Market Stress



Fed Funds Target Outlook



Rising Long-Term Rates



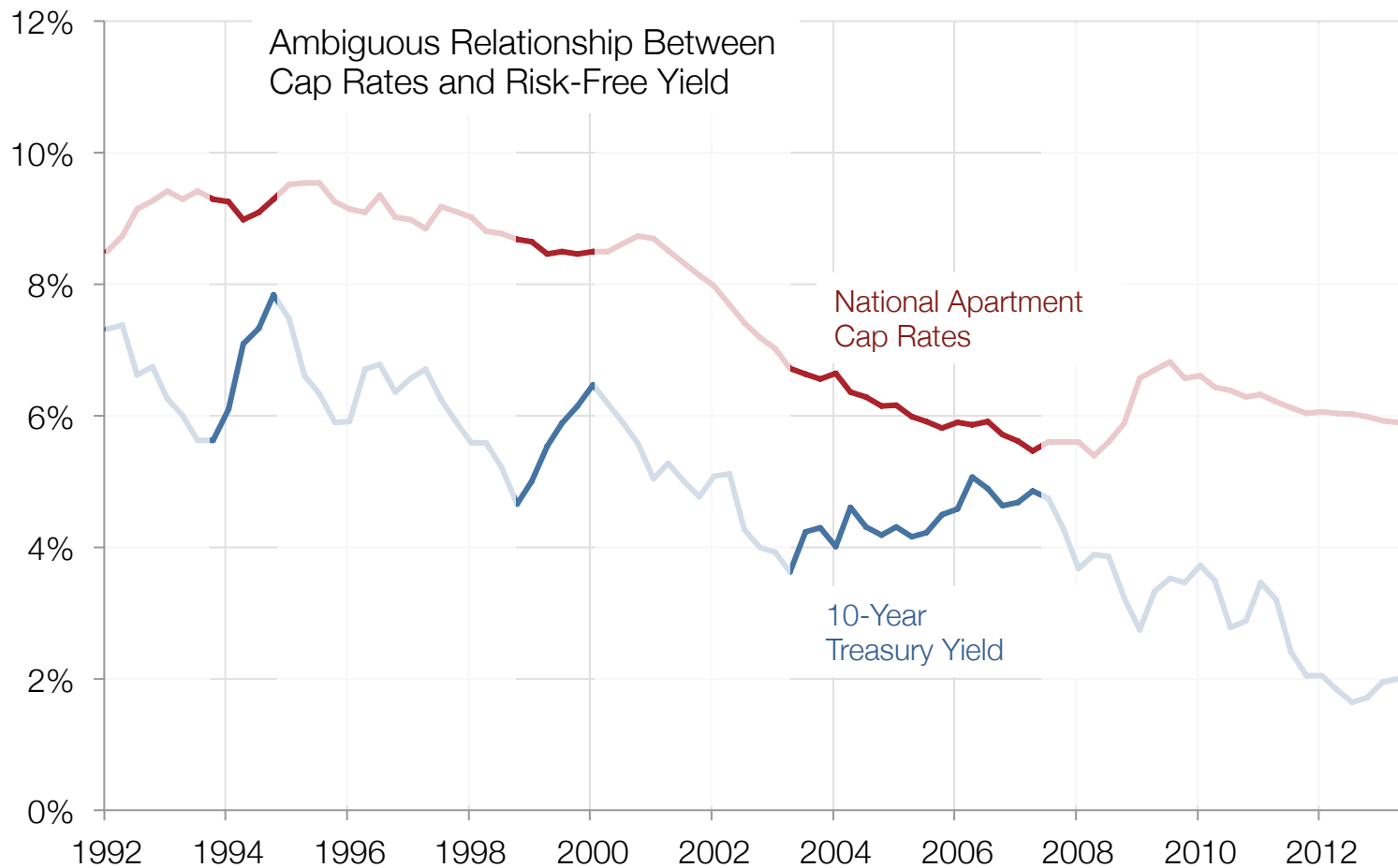
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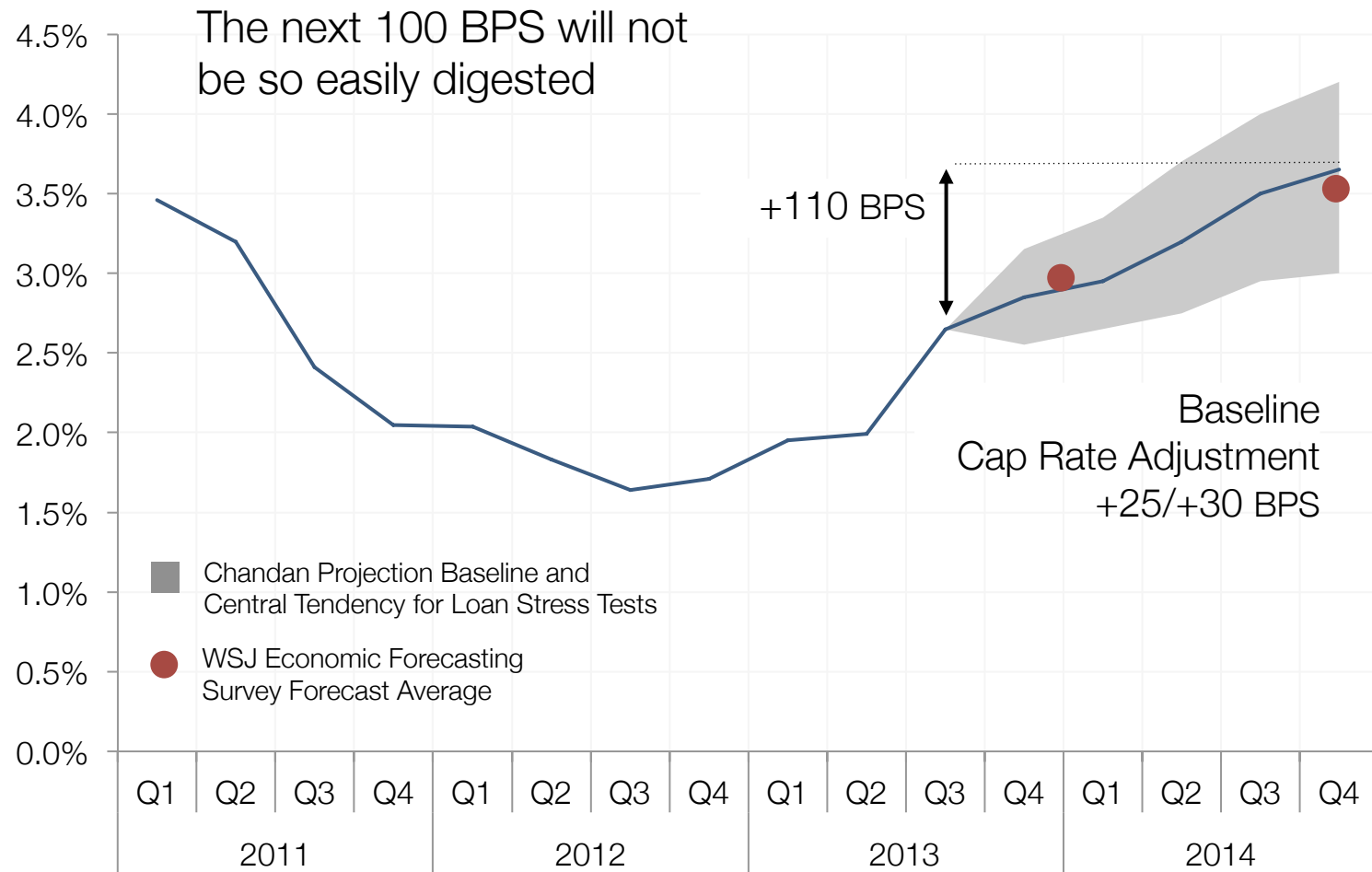
Property Investment & Financing

Forward Look

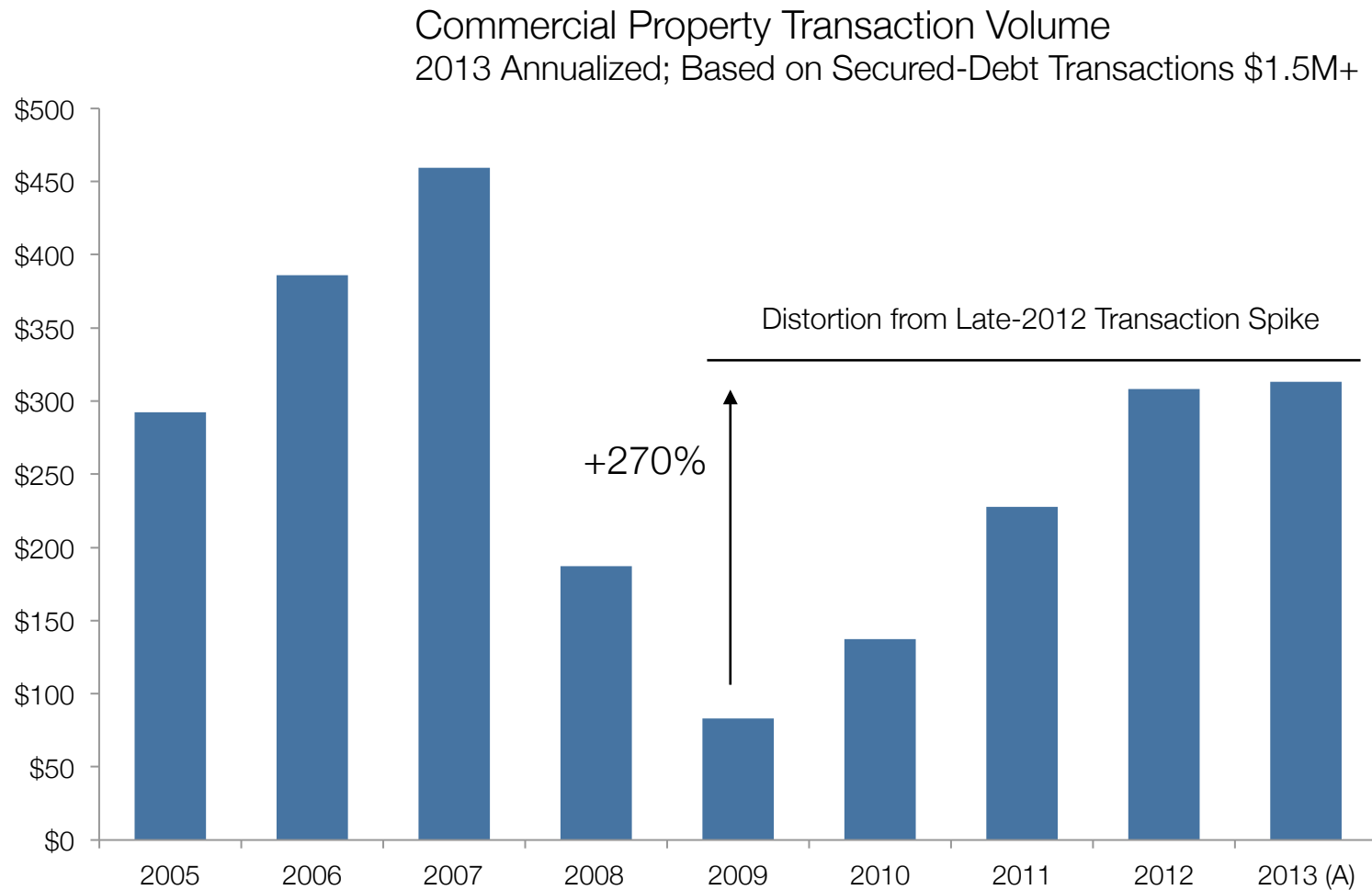
Interest Rates & Apartment Cap Rates



Interest Rate Projections / Long Rates

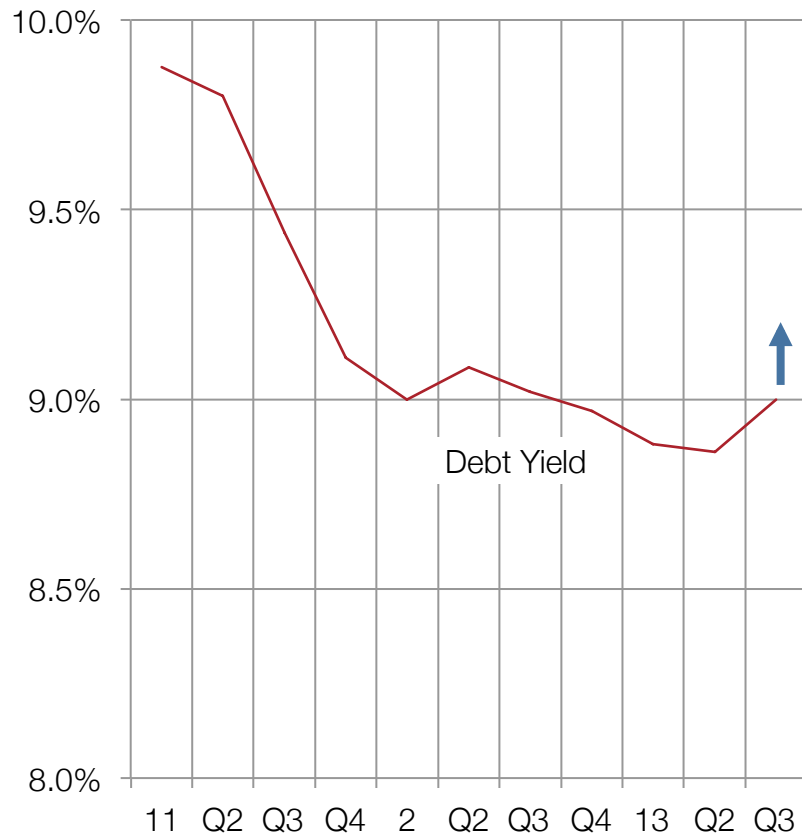


Commercial Property Investment Trends

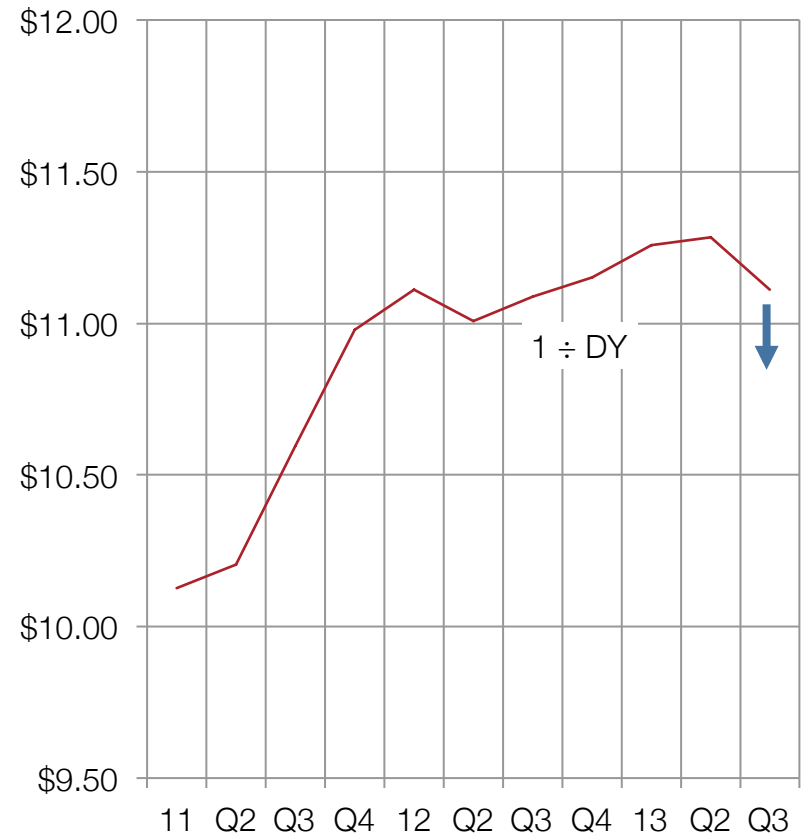


Apartment Financing Trends / Q3 Prelims

Debt Yield Trends

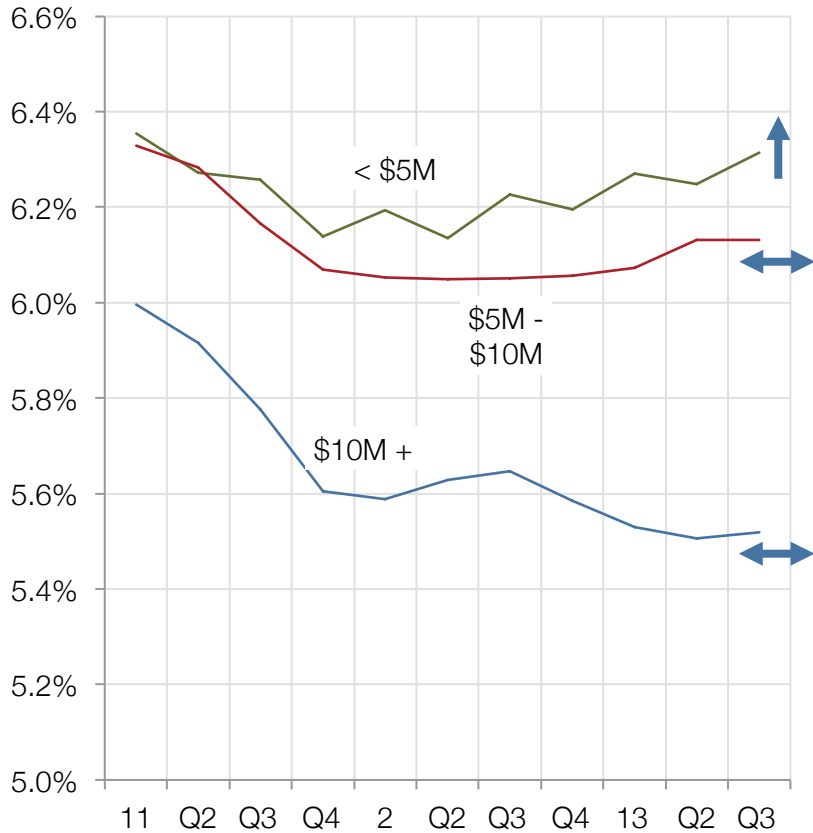


Encumbrance Trends
Borrowing Per \$ NOI

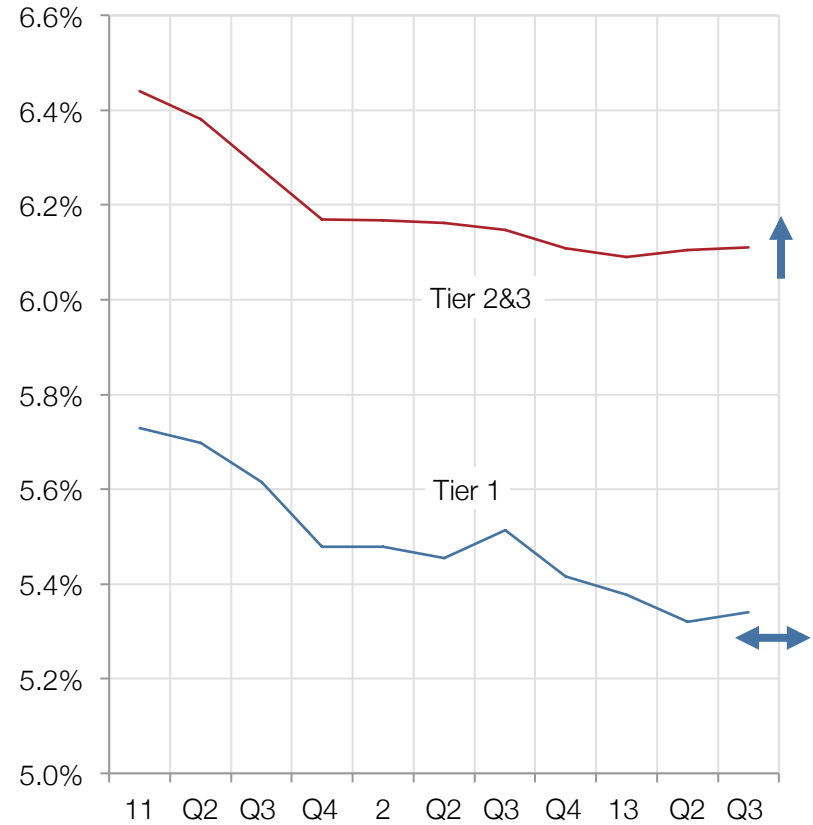


Apartment Financing Trends / Q3 Prelims

Cap Rate Trends by Value Tier



Cap Rate Trends by Market Tier



Apartment Gap Analysis

Super Prime Markets

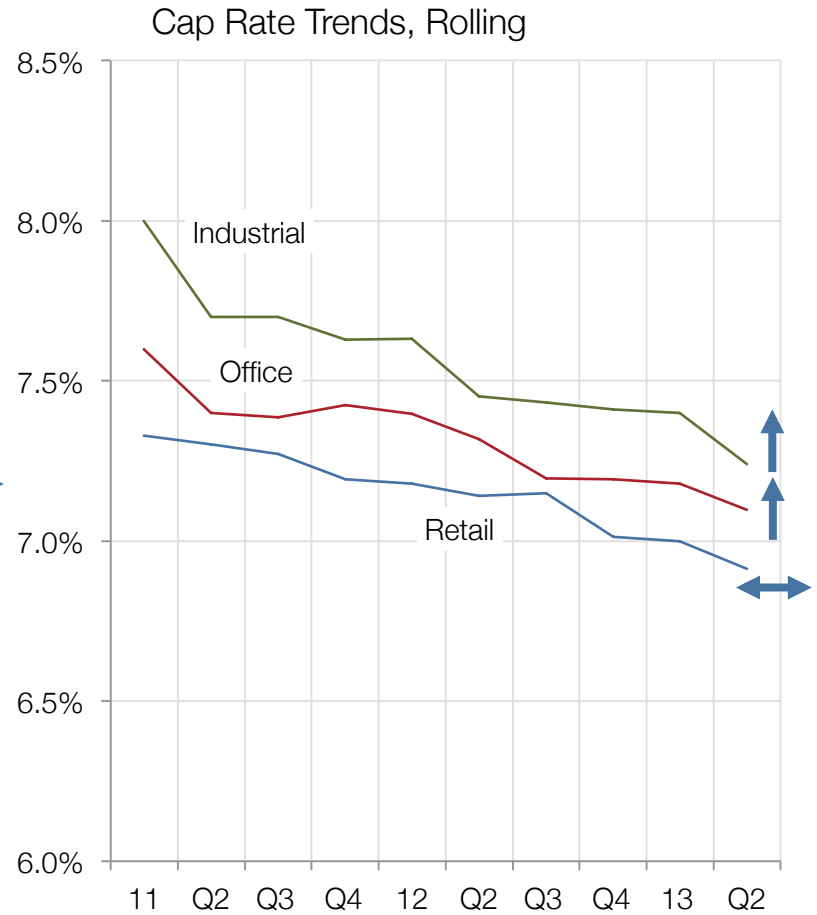
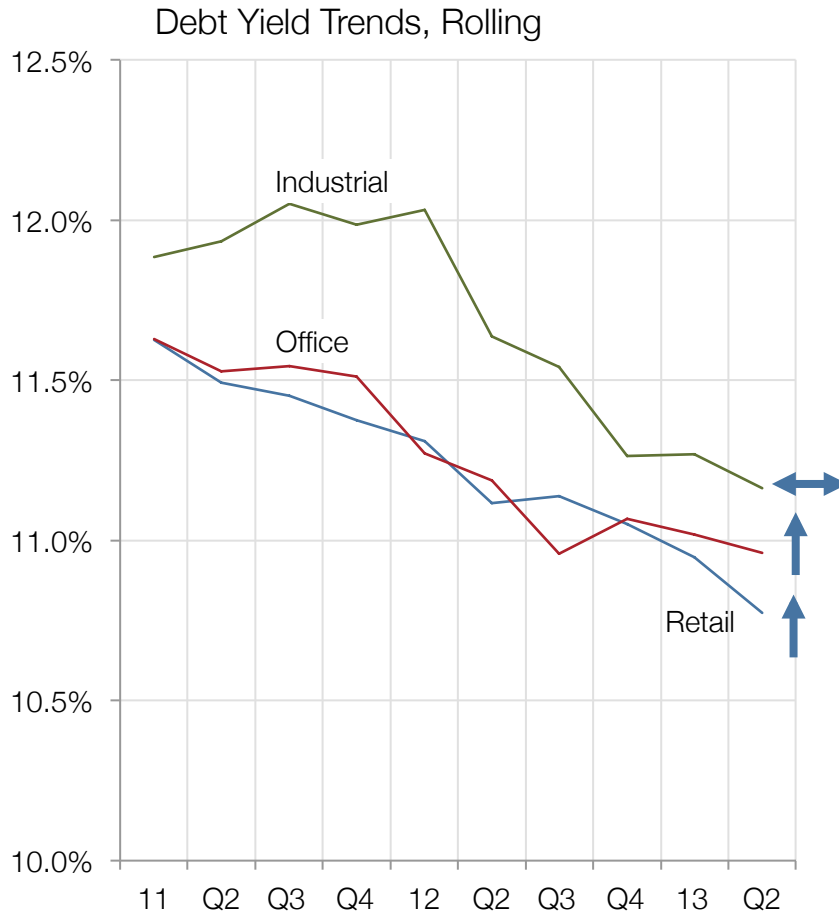
Washington DC	Largest Gap
Chicago	
Boston	
San Francisco	
Manhattan	Smallest Gap

Gap Analysis —
Where do underwriting
assumptions diverge from
property fundamentals
performance

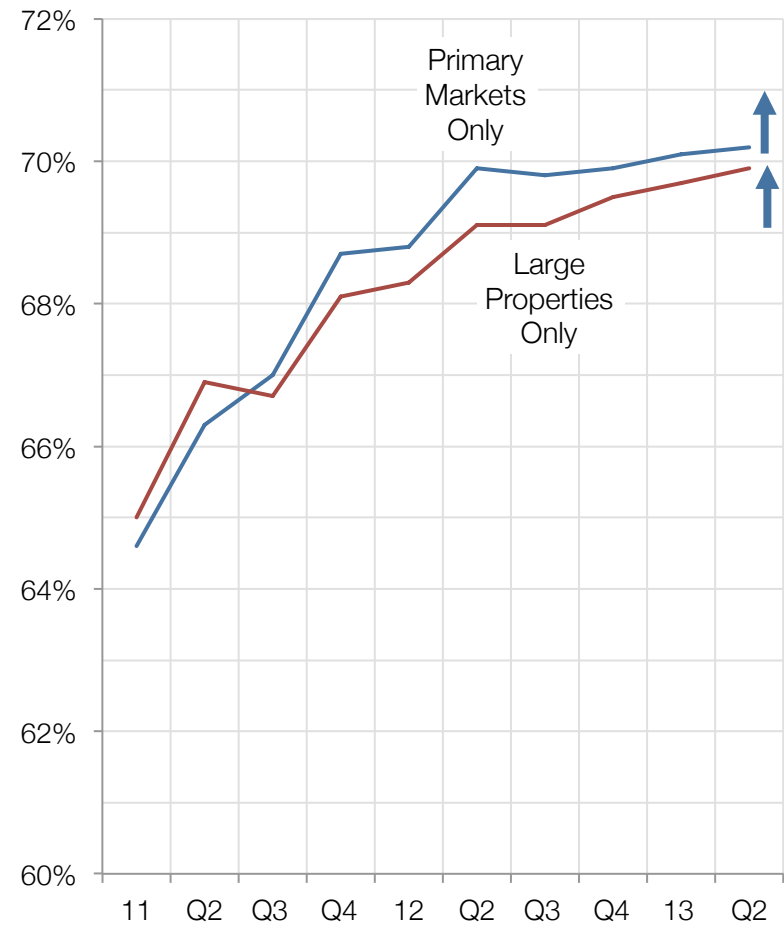
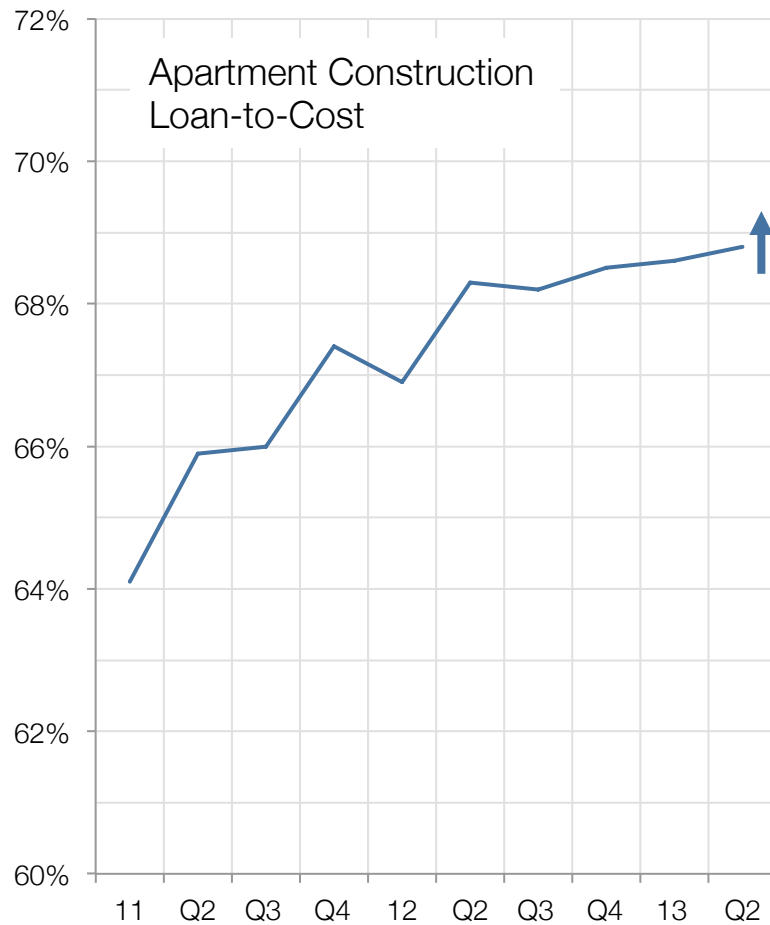
Tier 1 & 2 Markets

Charlotte	Largest Gap
Phoenix	
Austin	
San Jose	
....	
....	
Inland Empire	
Miami	
Seattle	
Manhattan	Smallest Gap

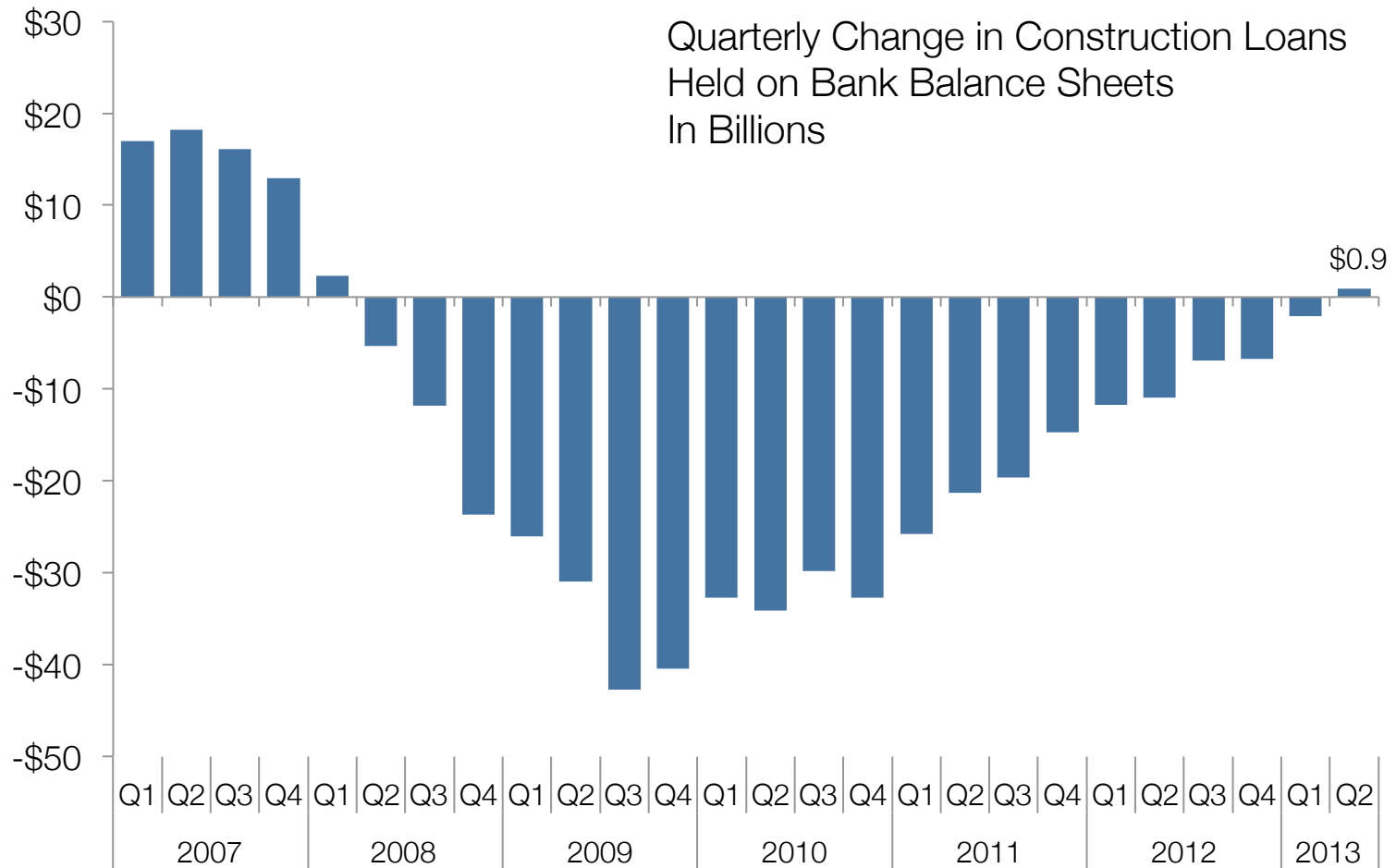
Commercial Financing Trends / Q3 Prelims



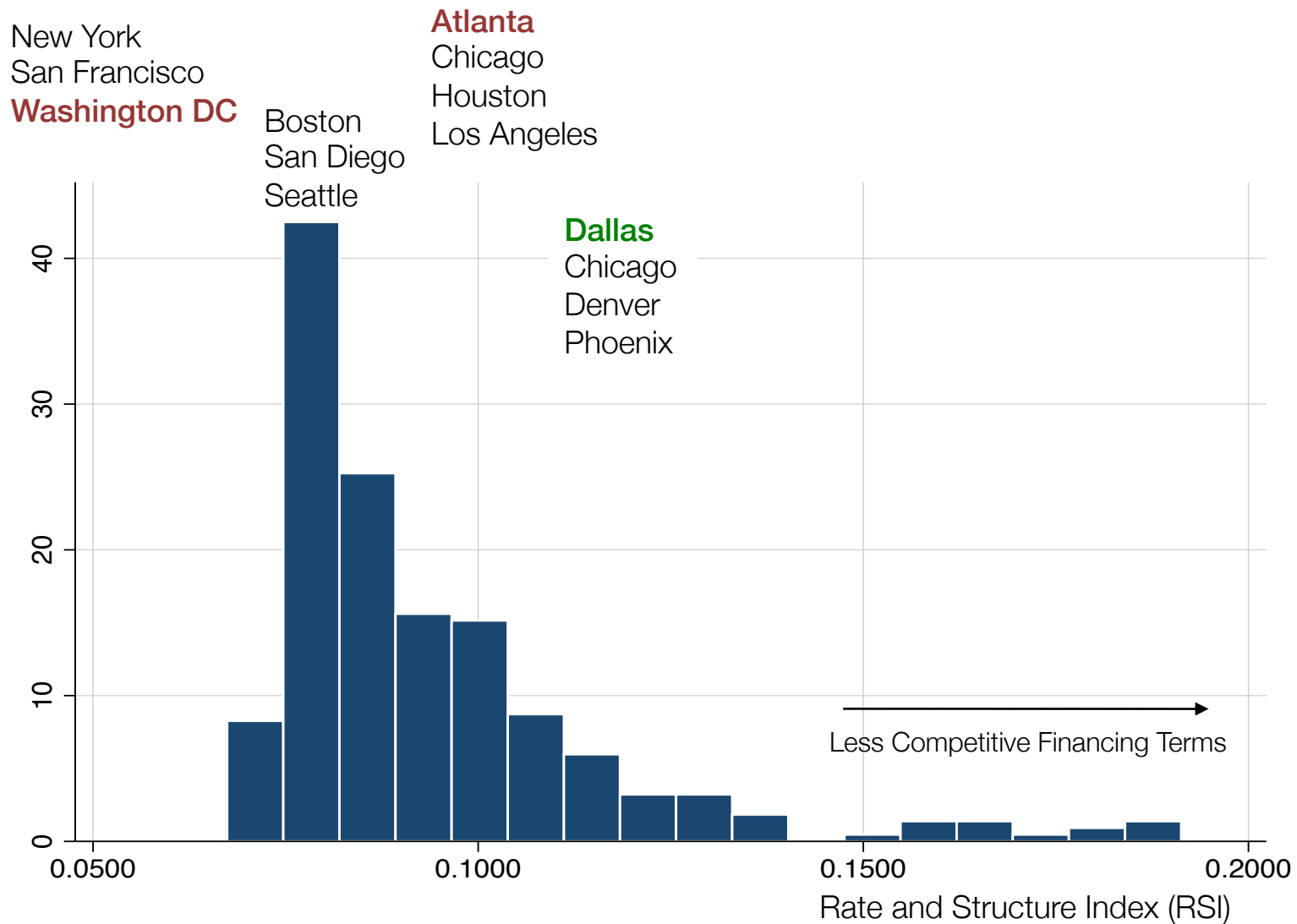
Apartment Financing Trends / Q3 Prelims



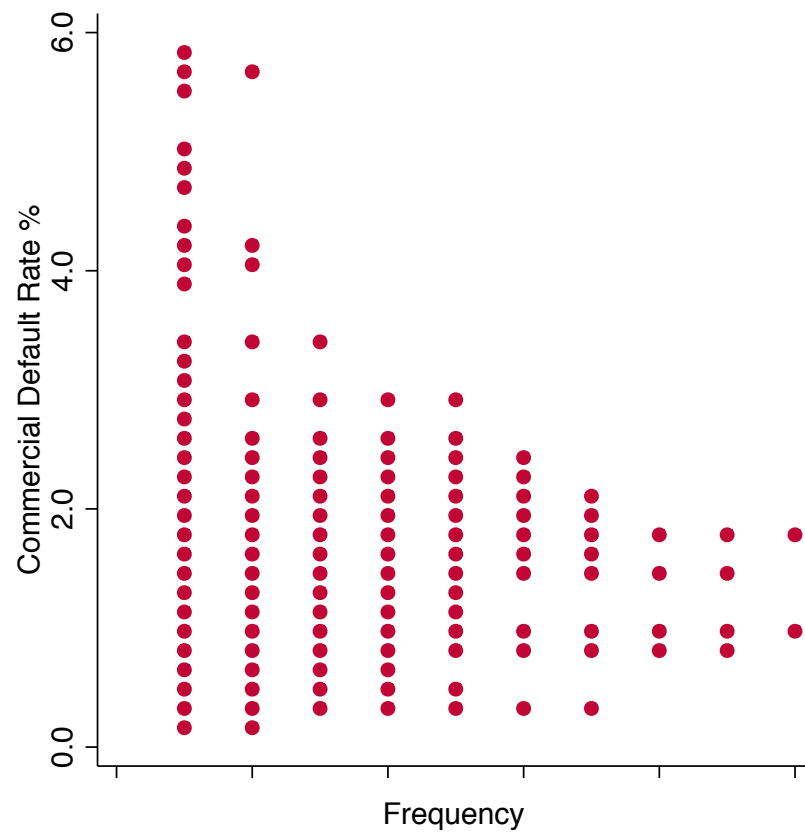
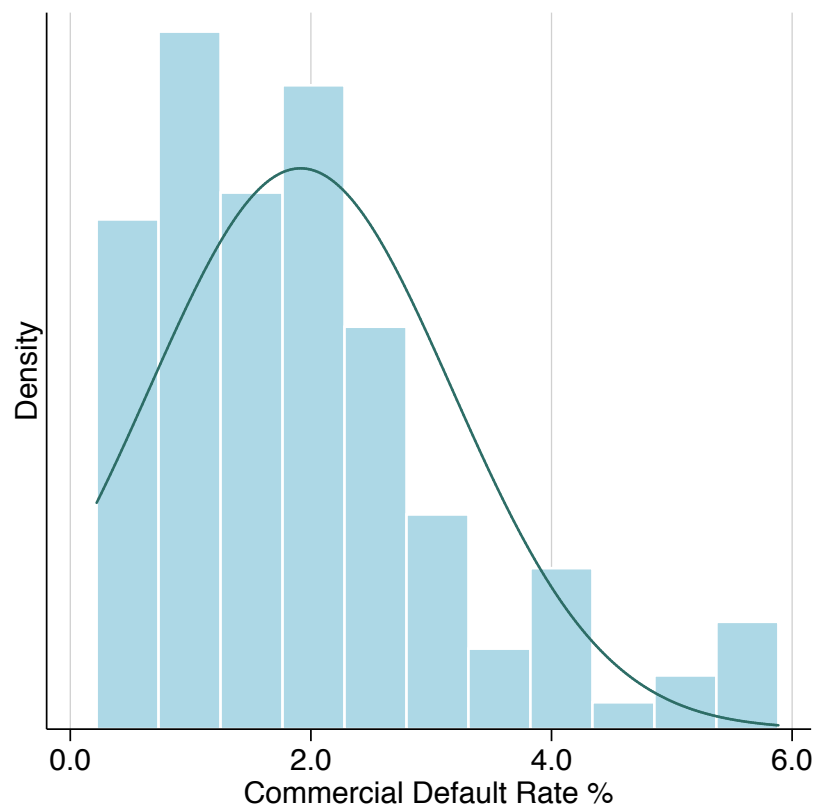
Net Construction Lending Activity



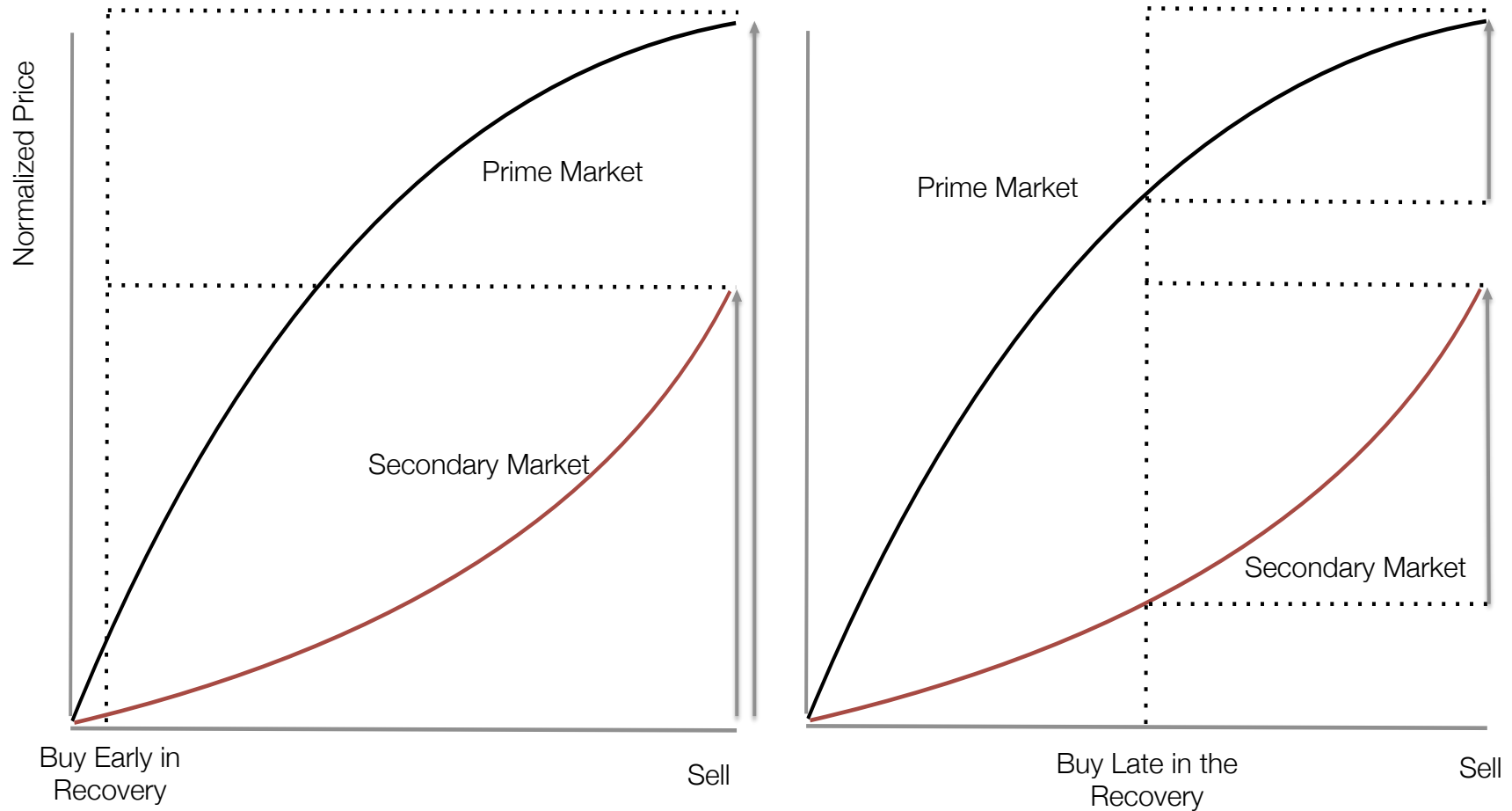
Competitive Financing



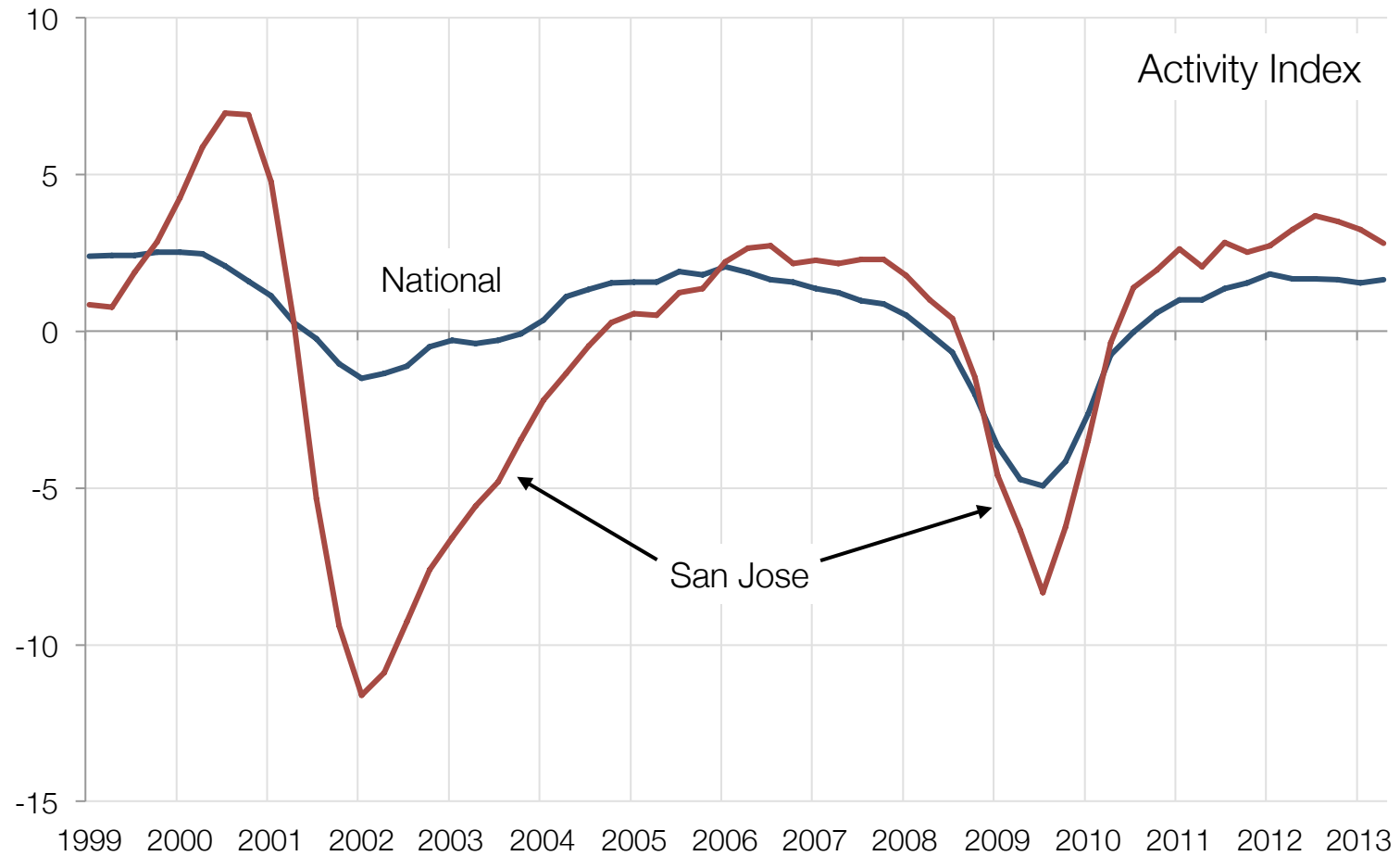
Legacy Debt Distribution



Secondary Markets & the Lagging Recovery



Secondary Markets & the Real Estate Cycle



Primary & Secondary Markets

	Secondary Market Peak Leads (Quarters)	Secondary Market Trough Lags (Quarters)	Longer Secondary Market Downturn (Quarters)
Apartment	0	2	2
Office	1	5	6
Industrial	2	2	4
Retail	3	3	6

Primary & Secondary Markets

Metro Apartment Market Averages

	Maximum Occupancy	Minimum Occupancy	Mean Amplitude	Recovery Mean Effective Rent Growth
Prime	96.4%	94.4%	2.1%	5.8%
All Others	96.6%	91.5%	3.9%	3.7%

Agenda

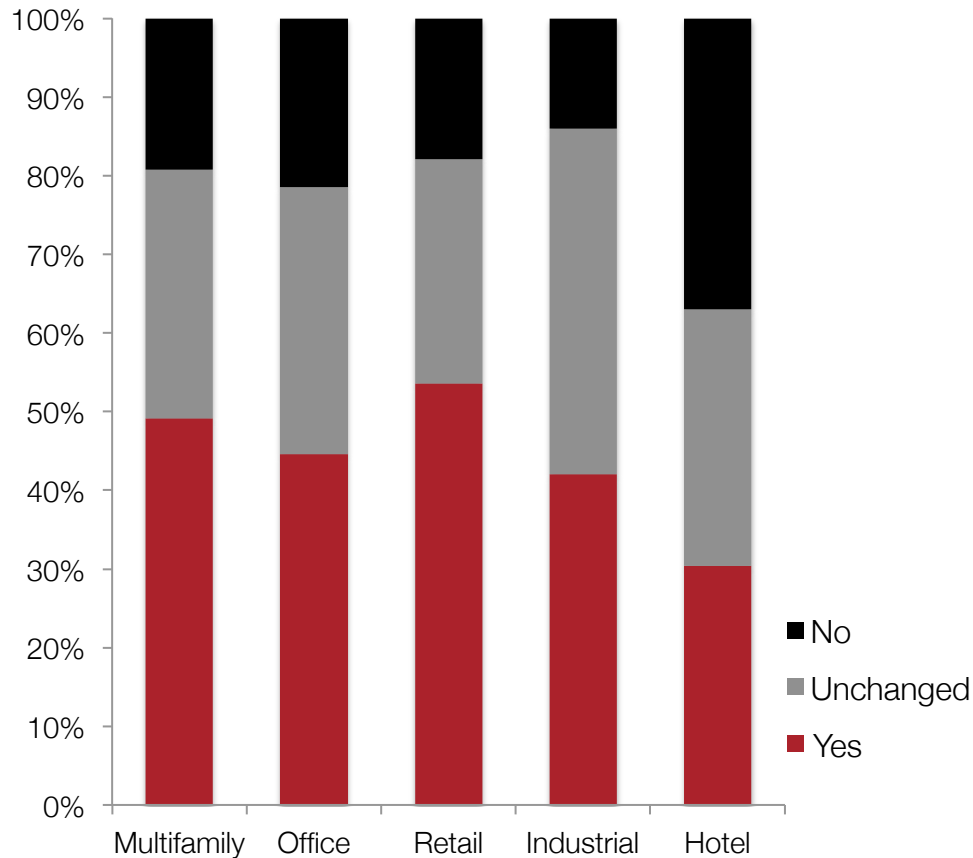
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Property Investment & Financing

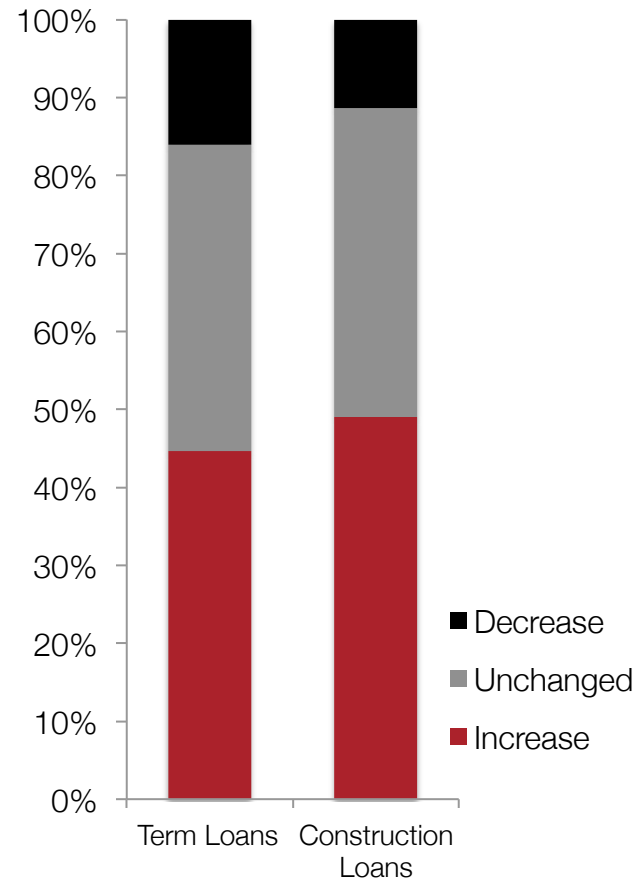
Forward Look

RELA–Chandan Survey of Lender Sentiment

Will increase loan commitments
over the next 12 months

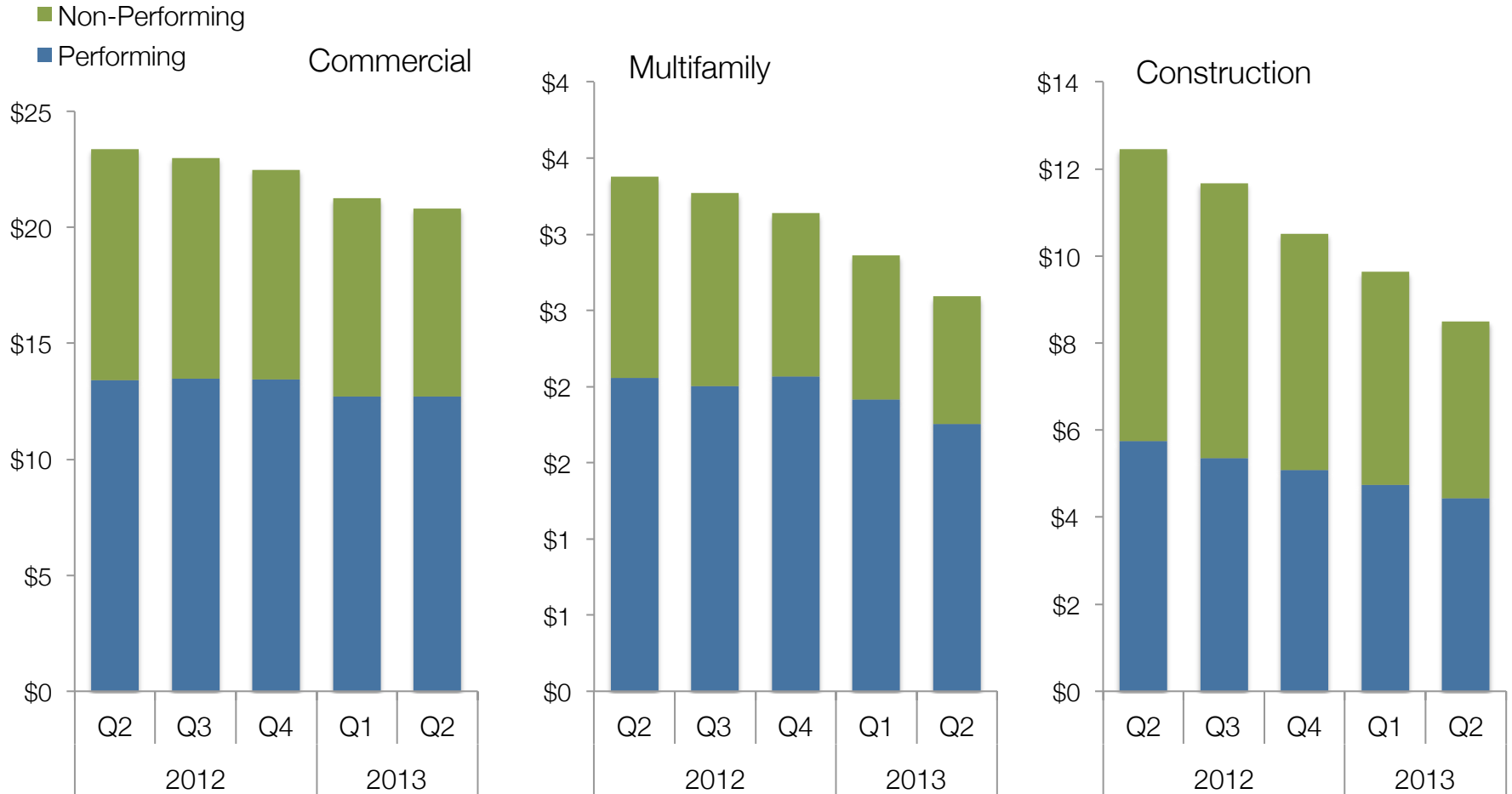


Change in borrowers meeting or
exceeding underwriting standards



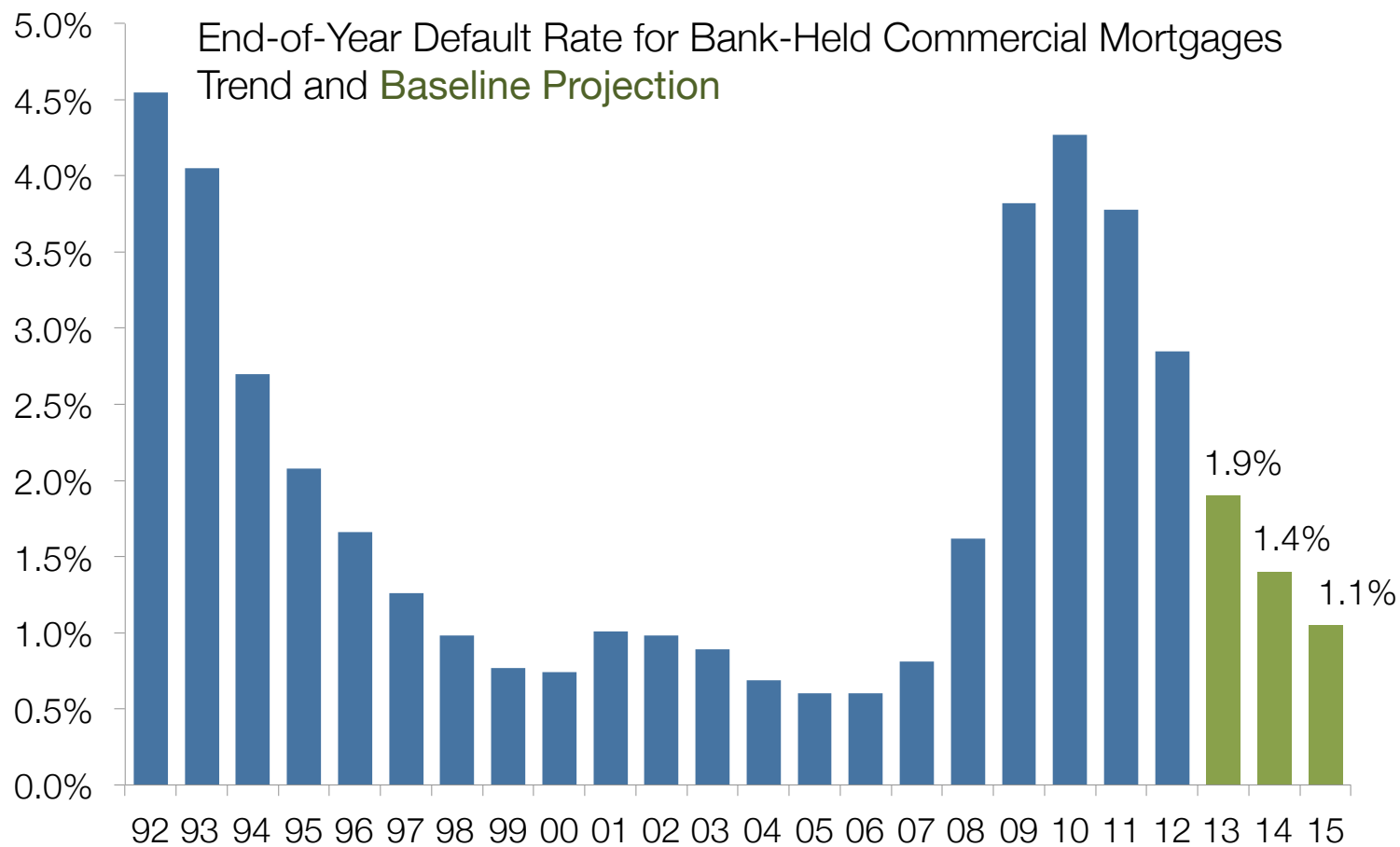
Legacy Debt Management

Declining Recidivism in Troubled Debt Restructurings

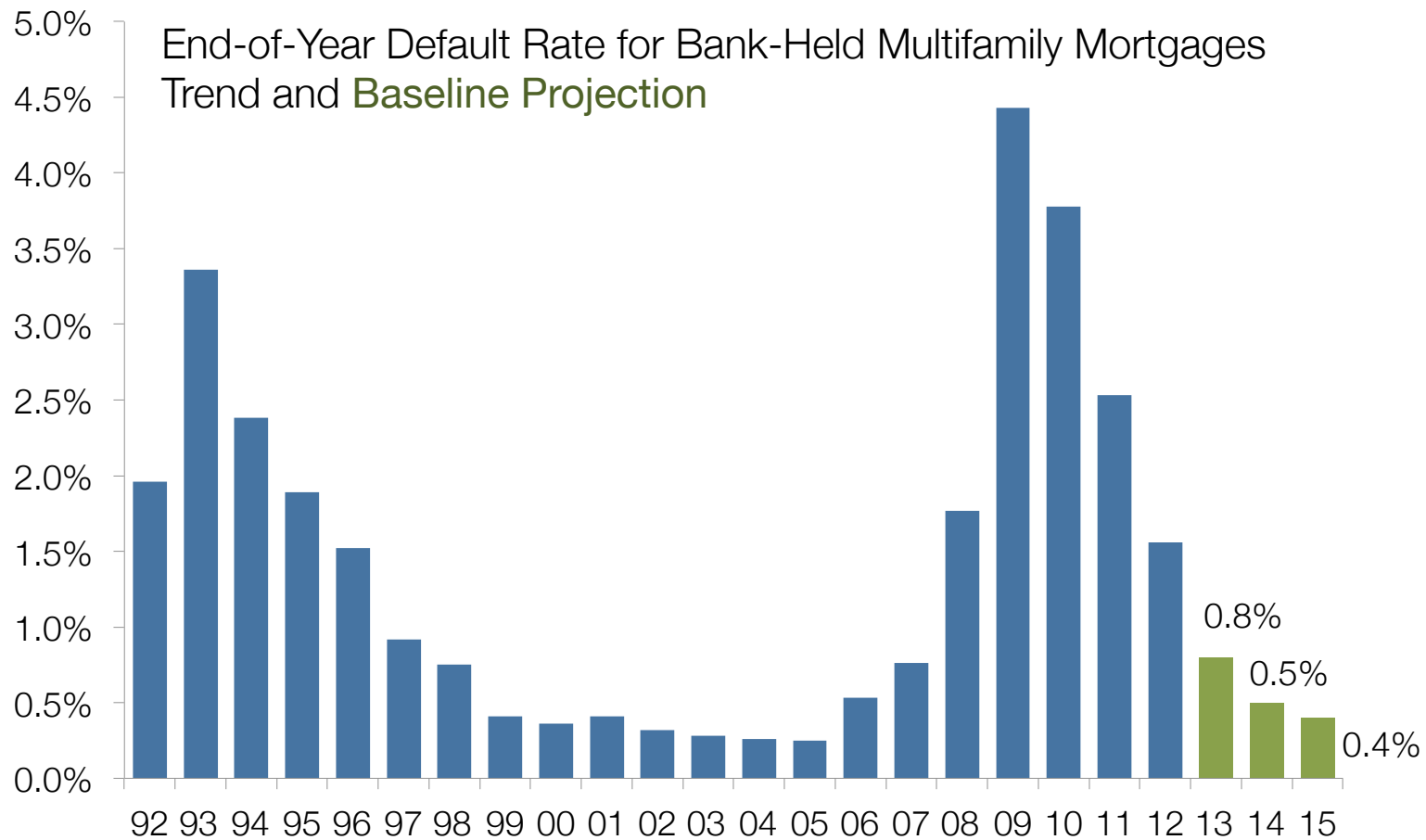


Source: Chandan, Bank Call Reports as of Q2 2013

Legacy Performance Projection



Legacy Performance Projection



Forward Look

- Moderate economic growth and higher interest rates imply more limited appreciation
- Adaptation to changing space use patterns across all property types, including apartments
- More lending in more places to more borrowers
- Lenders cede on underwriting as competitive overlaps increase, seasoned loans mature
- Analysis of pending maturities ignores quality and underwriting challenges of seasoned CMBS

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