

# **Fifth Annual Booth Real Estate Conference: Capital Markets Panel**

**Joseph L. Pagliari, Jr.**

**Clinical Professor of Real Estate**

**November 10, 2011**

**Gleacher Center | Chicago, Illinois**

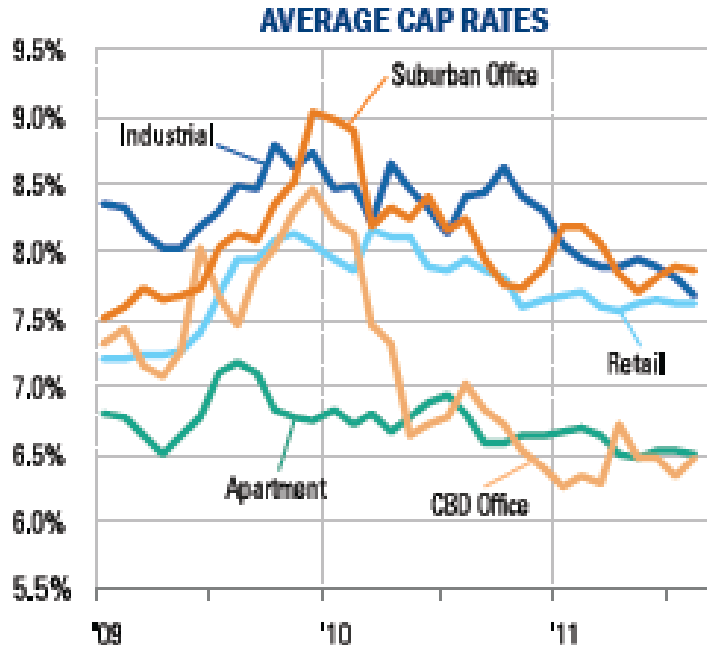
- **Moderator: Joe Pagliari**
- **Panelists:**
  - **Andy Bruce '02, Senior Vice President of Capital Markets, Behringer Harvard**
  - **Louis Conforti, Global Head of Real Estate, UBS O'Connor**
  - **Christopher Merrill, President & CEO, Harrison Street Real Estate Capital**
  - **Michael Medzigian, Chairman, Watermark Capital Partners**
  - **David Schwartz '90, Managing Member, Waterton Associates, LLC**

# Before We Begin with Our Panelists

2

- Two observations:
  - Recent path of capitalization rates,
  - “Gateway” v. non-gateway markets
- Two warnings:
  - Significant CMBS overhang
  - New due-diligence item: State & local finances.

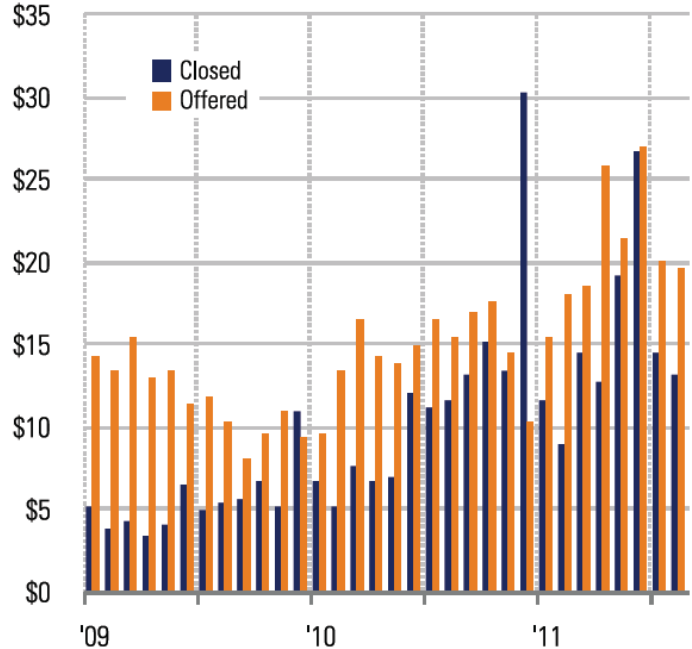
- As cap rates rise, property values fall and *vice versa*.
- Note: Apts & CBD office v. all others:  
 $\Delta \sim 125$  bps



Source: Real Capital Analytics, "U.S. Capital Trends, Q3 2011"

- As property values fall, sales volume declines
- As property values rise, sales volume rebounds

**US PROPERTY SALES**  
 OFFICE, APARTMENT, RETAIL, INDUSTRIAL, HOTEL  
 AND DEV SITES  
 BY MONTH

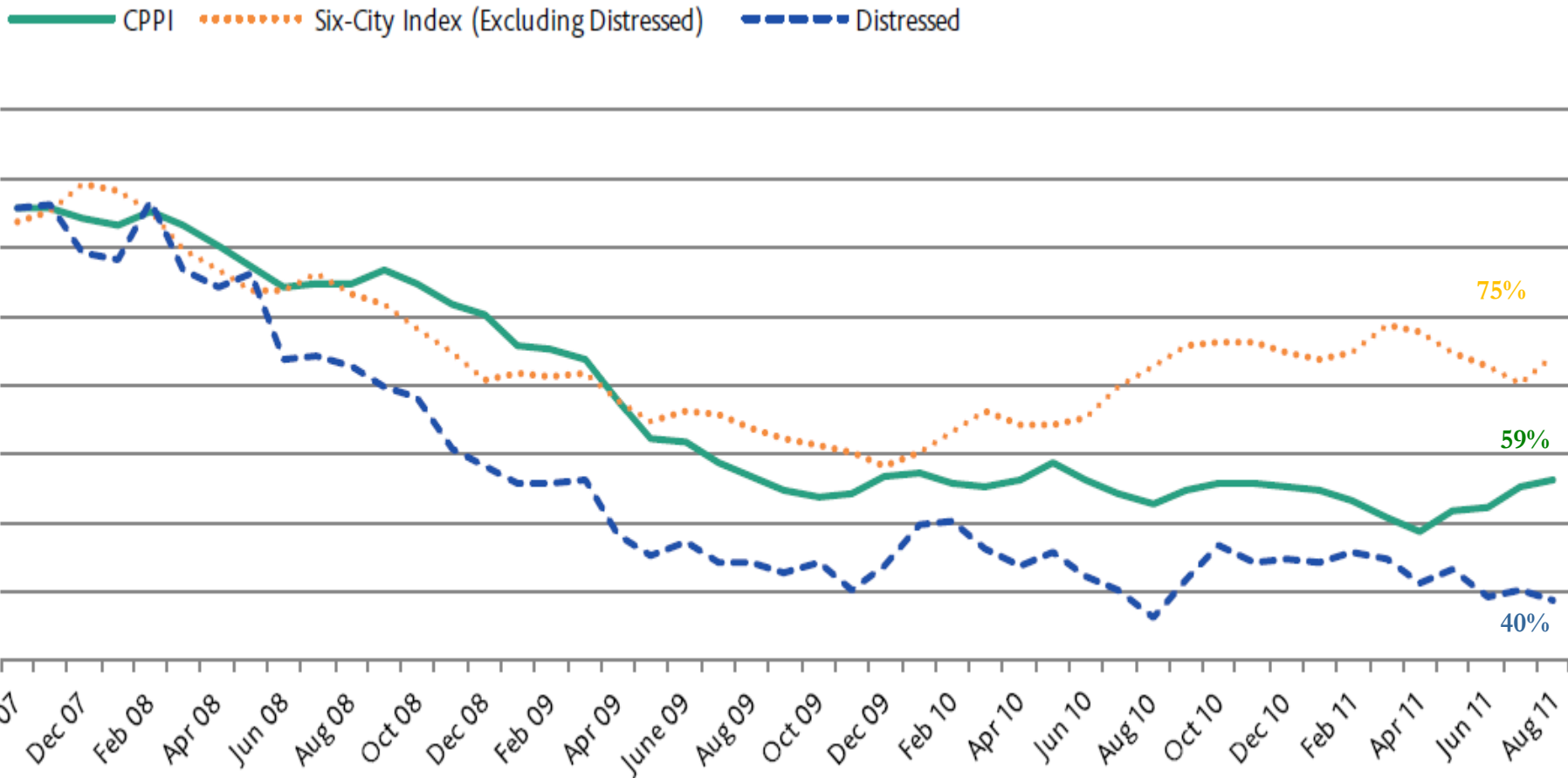


Source: Real Capital Analytics, "U.S. Capital Trends, Q3 2011"

# Averages Can Be Misleading

- Significant differences by quality:

## Divergent Pricing Trends: Trophy v. CPPI v. Distressed for the Period October 2007 through August 2011

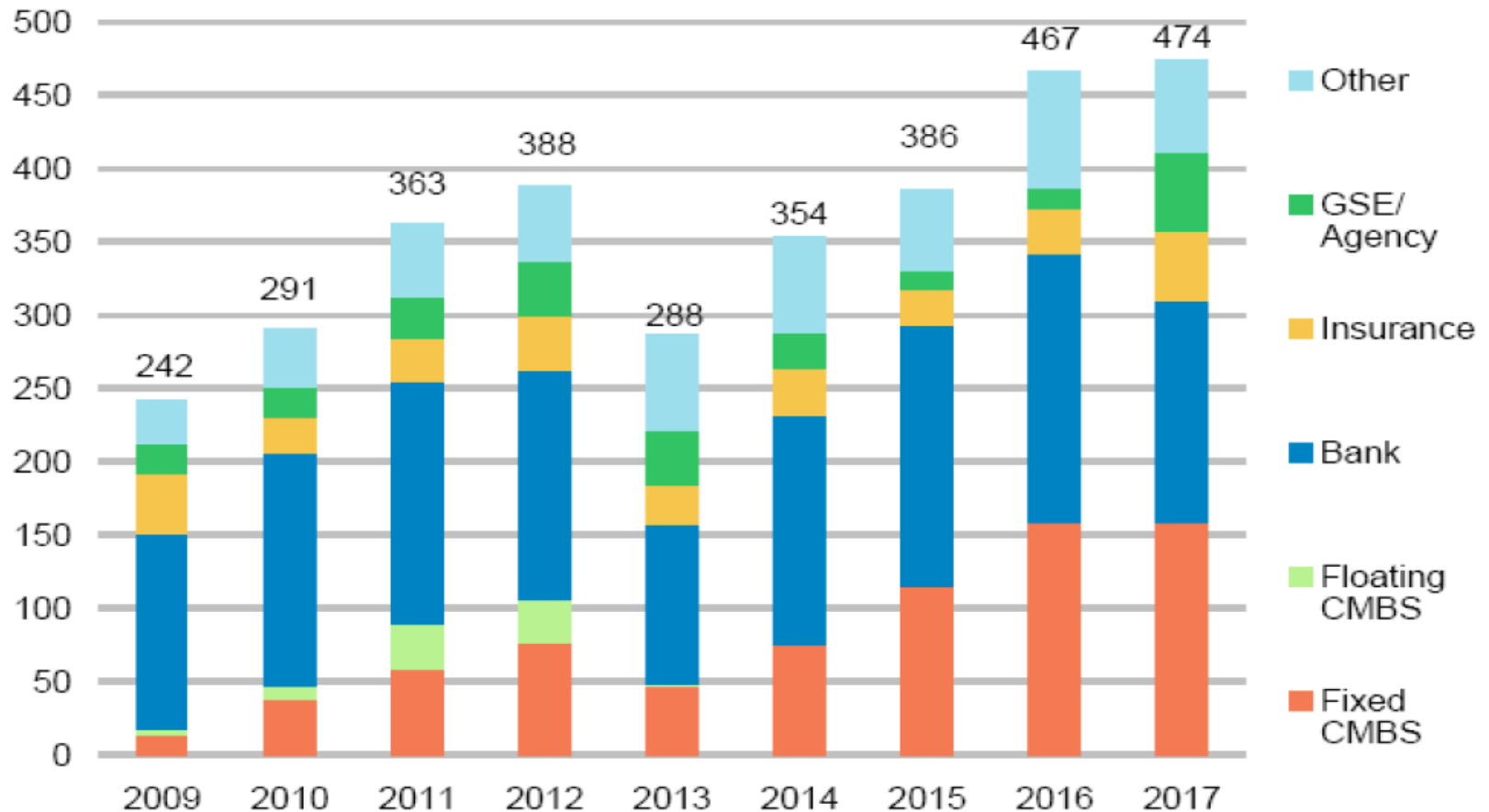


Sources: Moody's, Real Capital Analytics and Geltner Associates.

\* CPPI Trophy => \$10M, Non-Troubled, 6-City = NY, DC, SF, LA, Chicago & Boston

# A Wave of Refinancings: ~\$3.0 trillion Coming Due

## Commercial Mortgage Maturities (\$Bn)

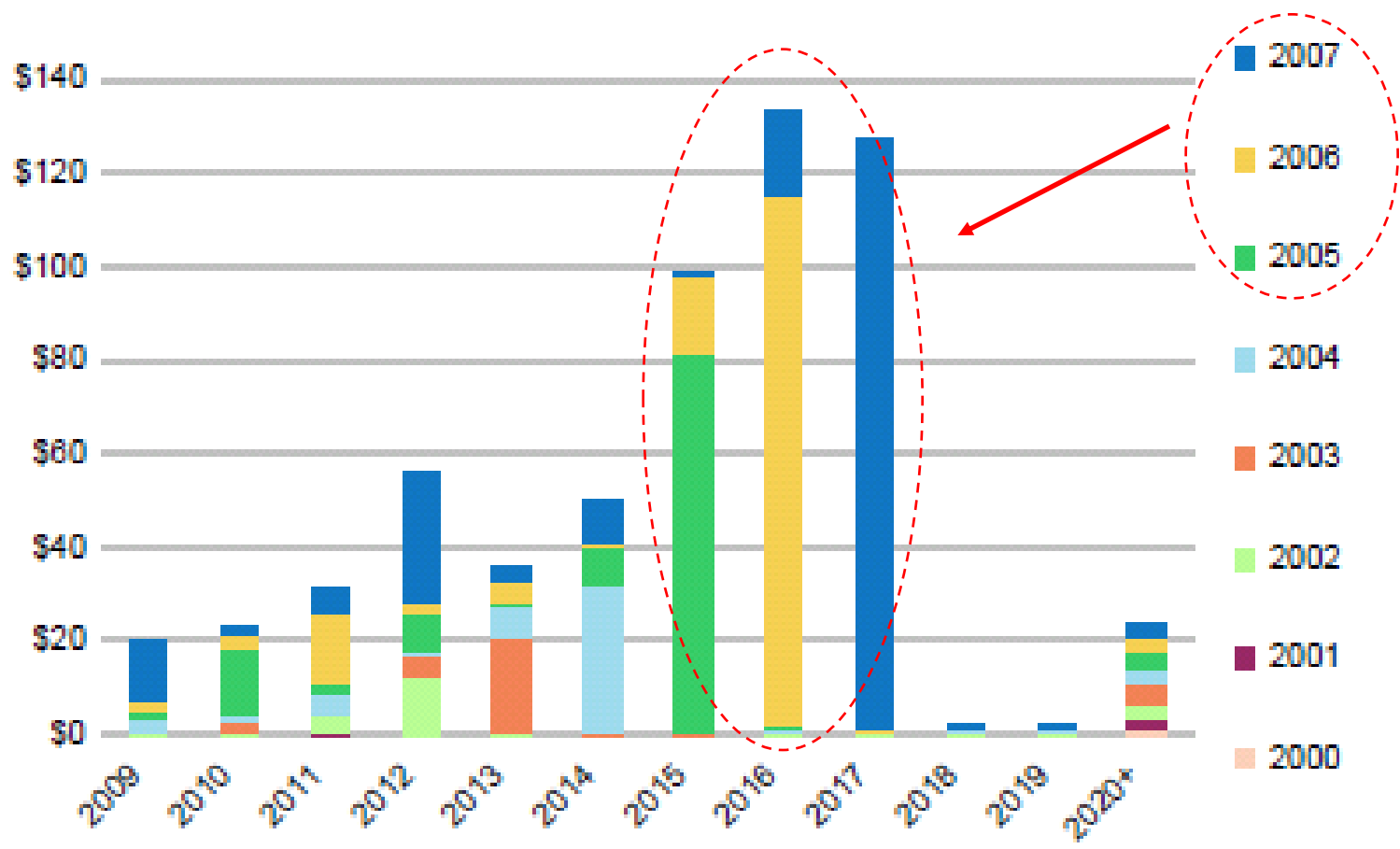


Floating-rate CMBS run to maximum extension  
Source: Morgan Stanley Research estimates

See: "PPIP: Secondary Becomes Primary," Morgan Stanley Research, March 31, 2009.

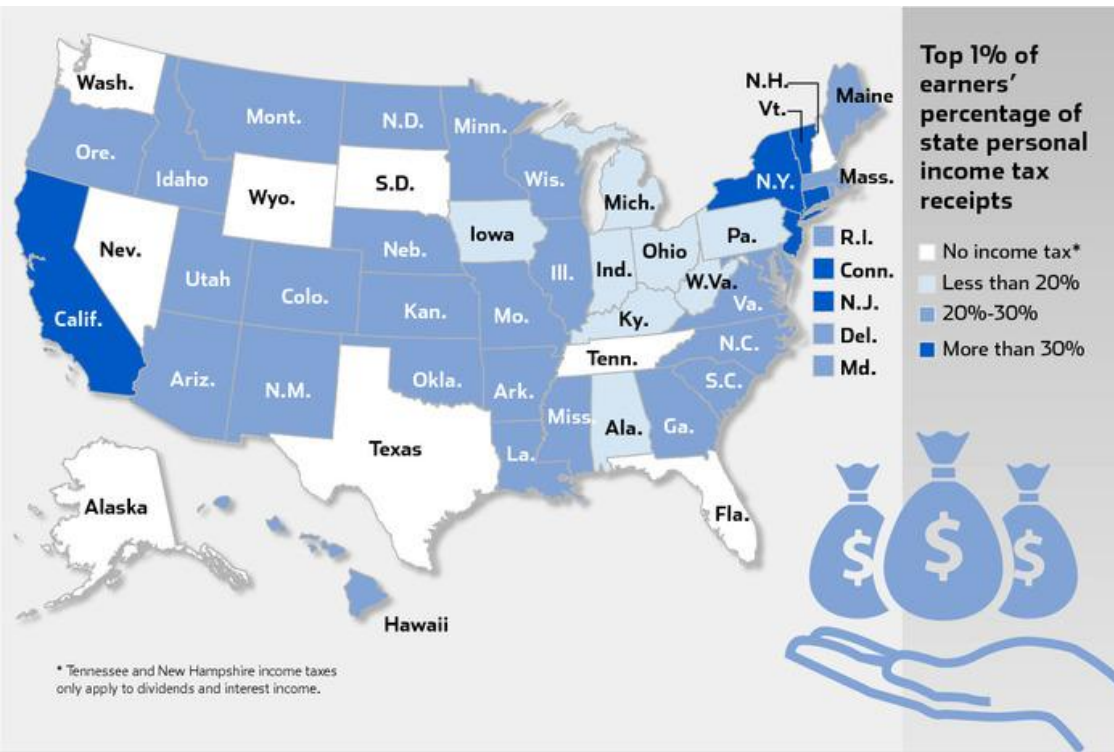
# The Aggressive Vintages Coming Due Later

CMBS Annual Maturities (\$Billion)



Source: Trepp, MIT, Morgan Stanley Research. Includes Conduit and Floating Rate CMBS Transactions

Source: Morgan Stanley Research, "Commercial Real Estate 2010."



\* Tennessee and New Hampshire income taxes only apply to dividends and interest income.

**Taxing the Top** | How high-earners fare in selected states

STATE	PERCENTAGE OF STATE REVENUE MADE UP BY INCOME TAXES	HIGHEST INCOME TAX RATE	INCOME LEVEL WHERE IT KICKS IN	PERCENTAGE OF INCOME TAX RECEIPTS PAID BY TOP 1%
California	43.9%	10.3%	\$1 million	45%
Connecticut	49.3	6.5	500,001	40
Hawaii	28.4	11.0	200,001	20
Illinois	31.4	5.0	All income	25
Maryland	42.8	5.5	500,001	25
New Jersey	39.2	8.97	500,000	41
New York	56.7	8.97	500,001	41
Vermont	21.3	8.95	373,651	34

Sources: Institute on Taxation and Economic Policy; Federation of Tax Administrators; Tax Policy Center, Urban Institute and Brookings Institution

- At the state & local levels, “tax the rich” policies are increasingly problematic:
  - The income of the rich is more variable than lower brackets
  - The rich move to other states (e.g., Florida and Texas) with lower income taxes
- Calls for “broadening the (income) tax base” will be met with political resistance.
- In order to cope, state & local authorities considering a range of service cuts &/or increasing other forms of taxation (e.g., property and transfer taxes)
  - Both the cuts and the tax increases adversely affect commercial real estate values