

Economic and Commercial Real Estate Market Outlook

A Servicing View

May 2011

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1. Eye on DSCR

Property Operations

2. Eye on LTV

Property Sales and Values

3. Eye on troubled loans

Mortgage Performance

4. Eye on pay-offs, new loans & servicing balances

Mortgage Maturities & Originations:

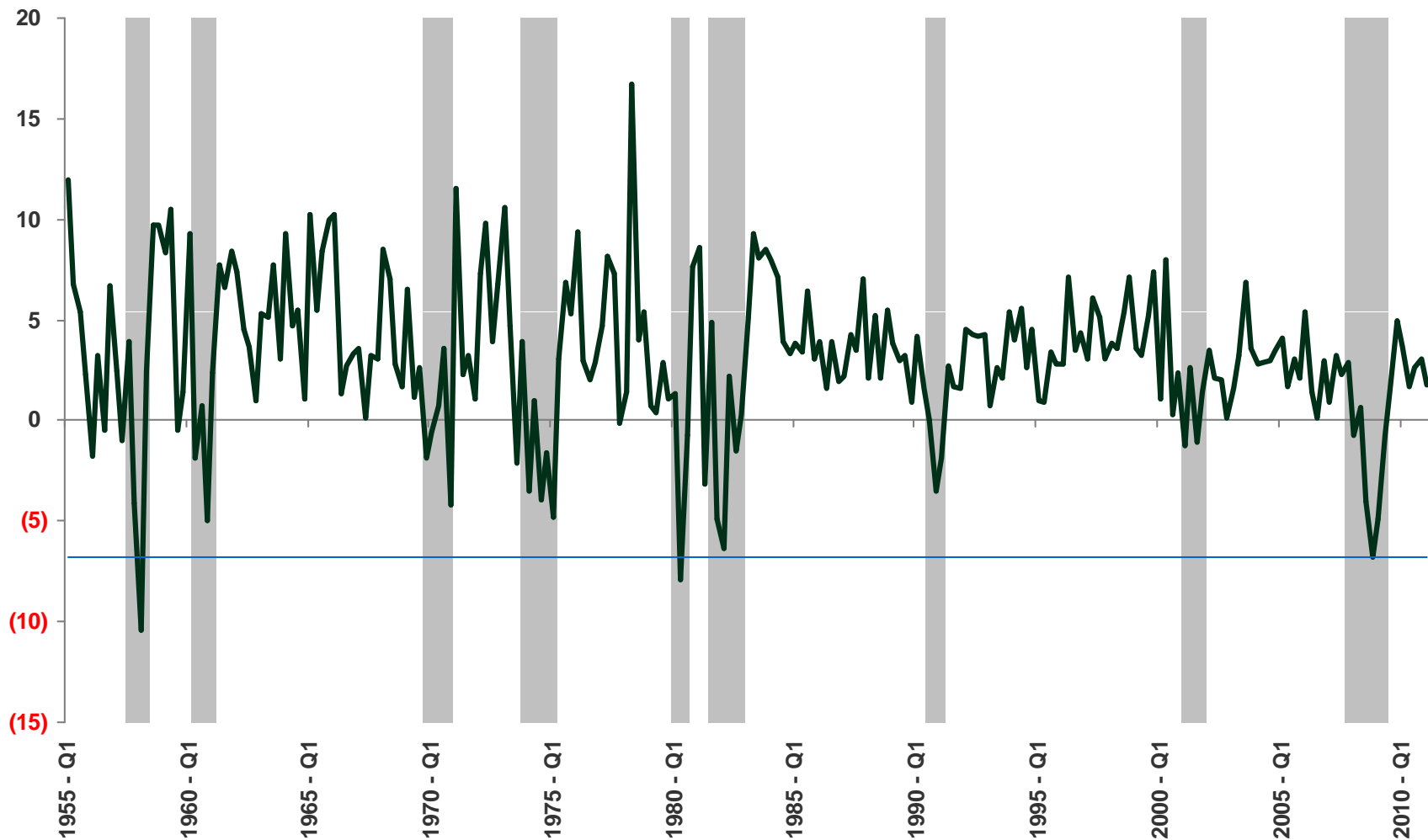
5. Outlook

The Economy

The 2007/2008/2009 recession saw the largest quarterly drop in production since the early 1980s and the largest overall drop in production since the Great Depression



Quarterly Percent Change in Real GDP, at an Annual Rate (% , seasonally adjusted annual rate)



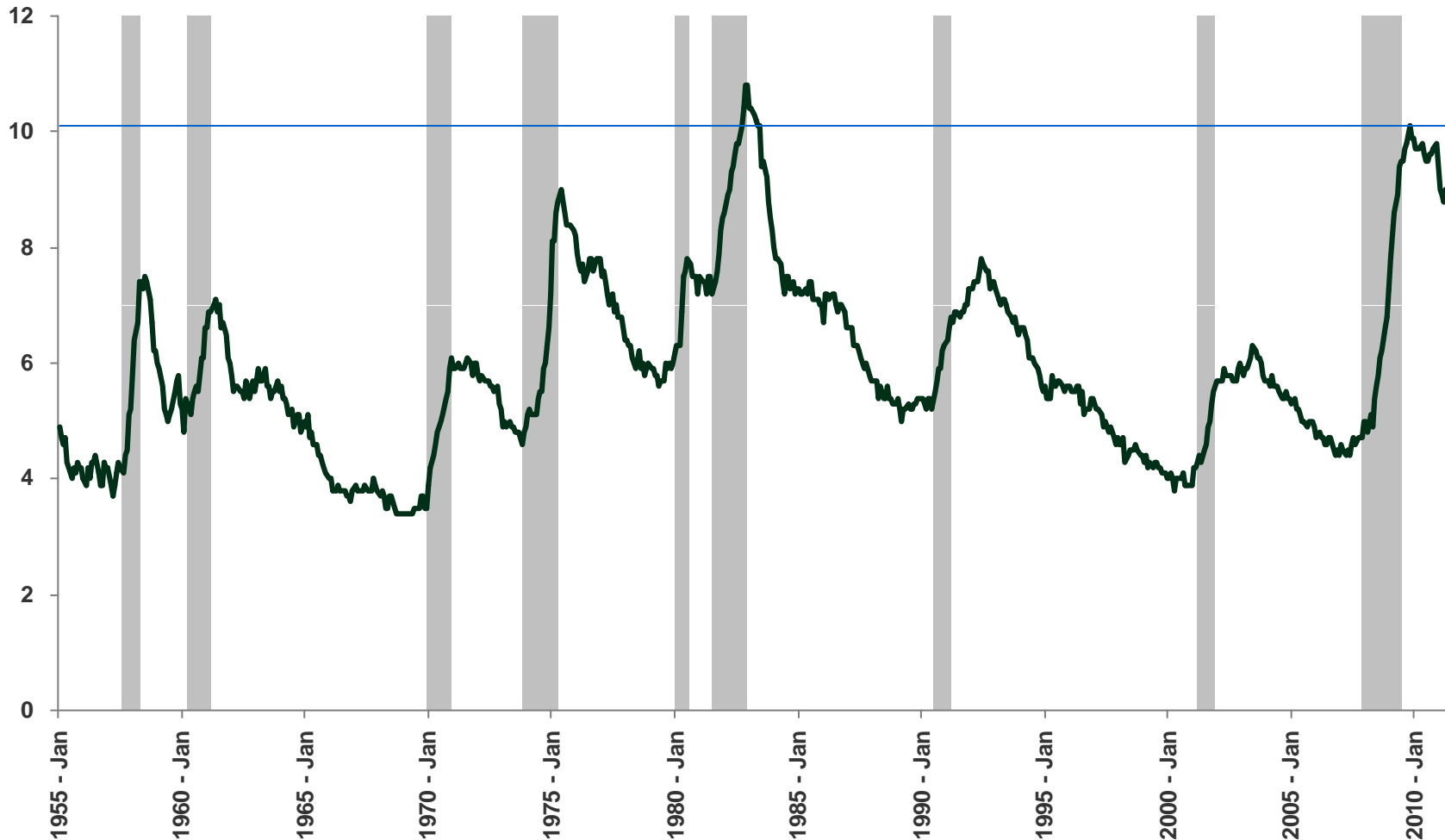
Source: Bureau of Economic Analysis

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Since the Great Depression, the unemployment rate during this recession is second only to the early 1980s



Unemployment Rate (% , Seasonally-adjusted)

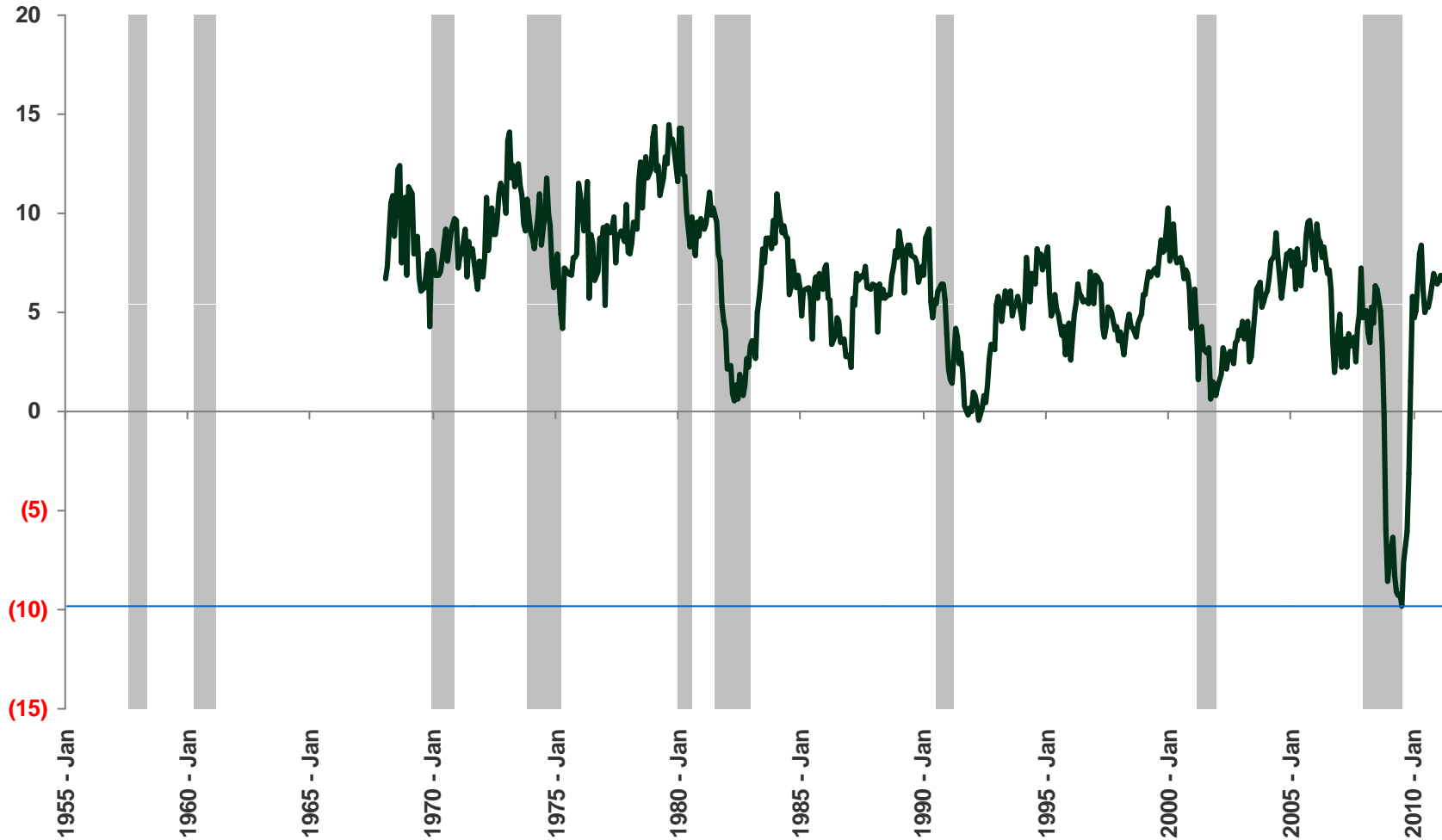


Source: Bureau of Labor Statistics

Retail sales saw largest percentage drop in recorded history; Sales have bounced back and are now back at pre-recession levels



Year-over-year Percent Change in Retail Sales, Excluding Motor Vehicle and Parts Dealers (Seasonally-adjusted)

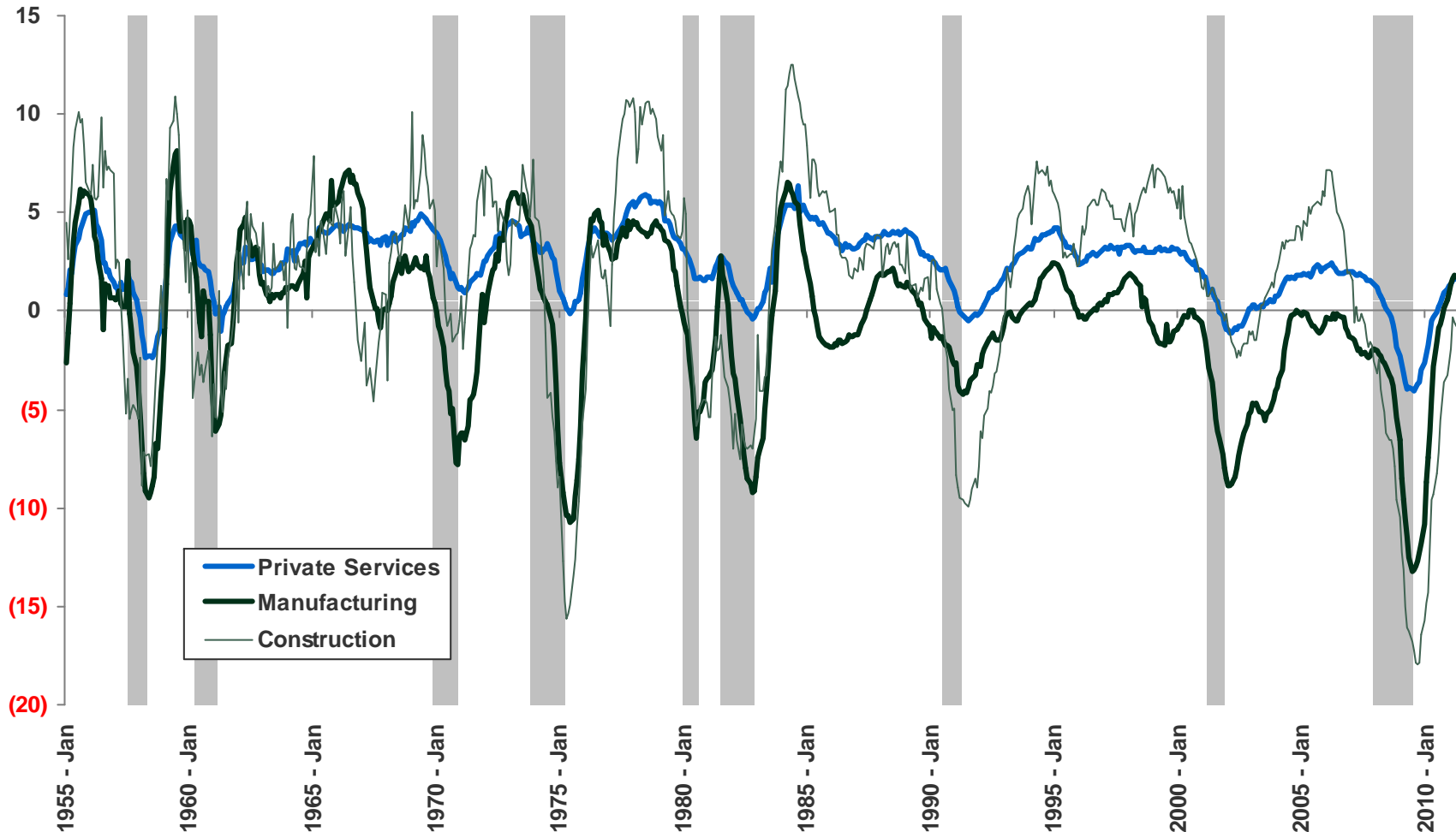


Source: Census

Construction and manufacturing saw historic job losses – both seeing post-war record declines. Services job losses, while more moderate, also set a record



Year-over-year Percent Change in Selected Sector Employment (%)

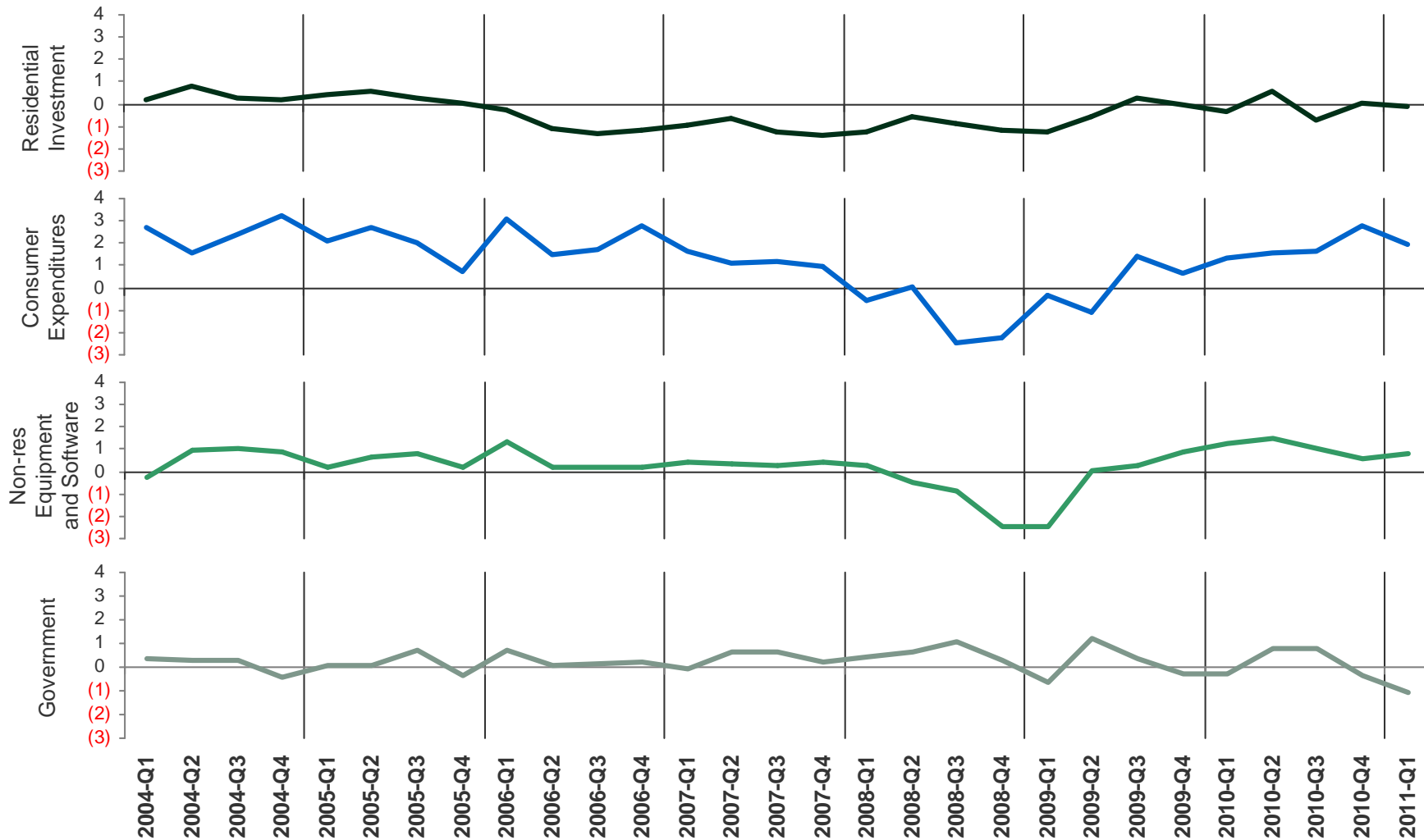


Source: Bureau of Labor Statistics

A decline in investment in residential properties began to drag on GDP in 2006, other sectors followed in 2008; Consumer expenditures and Non-res are now net positive, Resi roughly neutral



Selected Components' Percentage Point Contribution to Changes in Real GDP

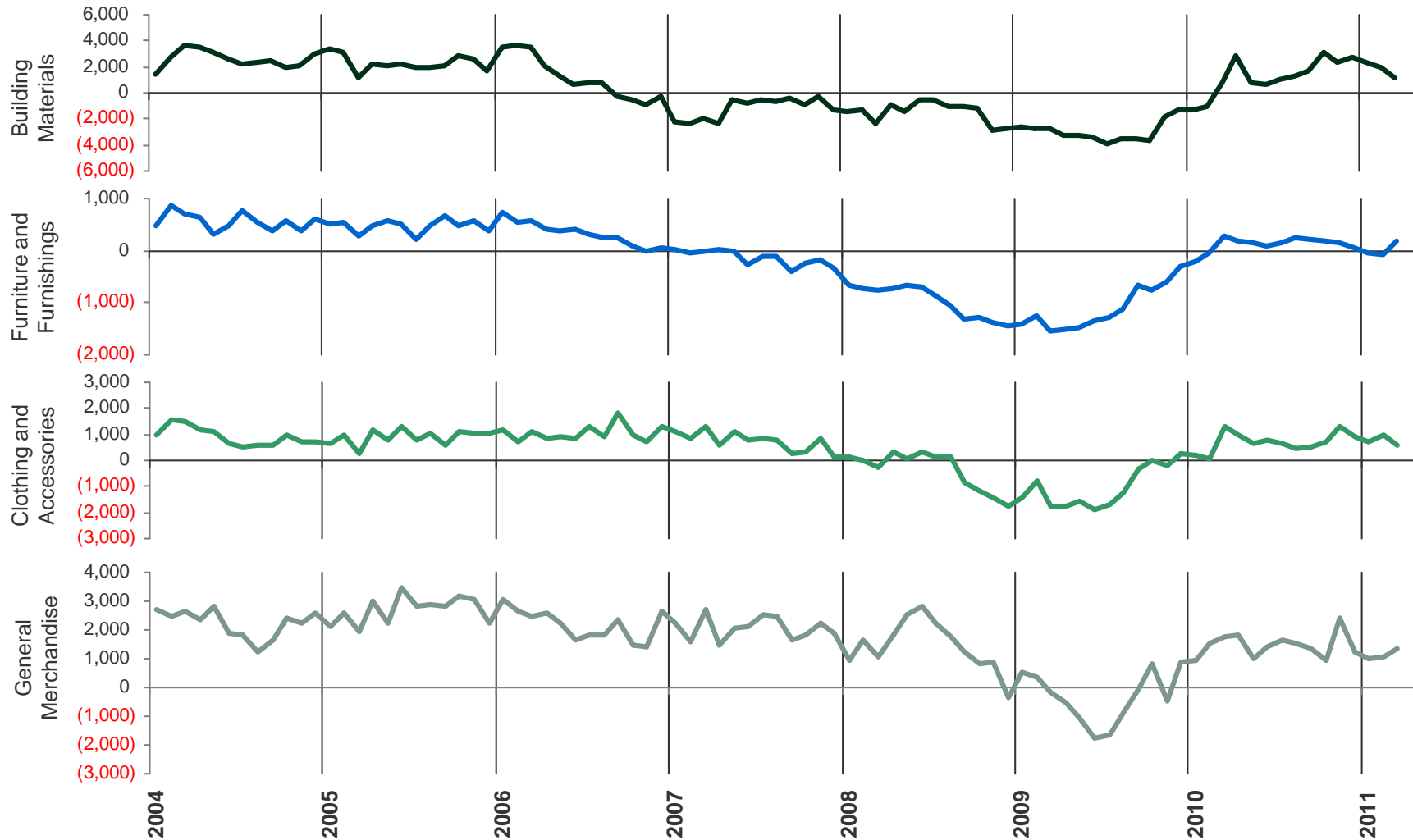


Sources: Bureau of Economic Analysis

Retail sales were initially pulled down by housing-related stores, then more general categories; General categories have returned to growth; Some housing-related still flat



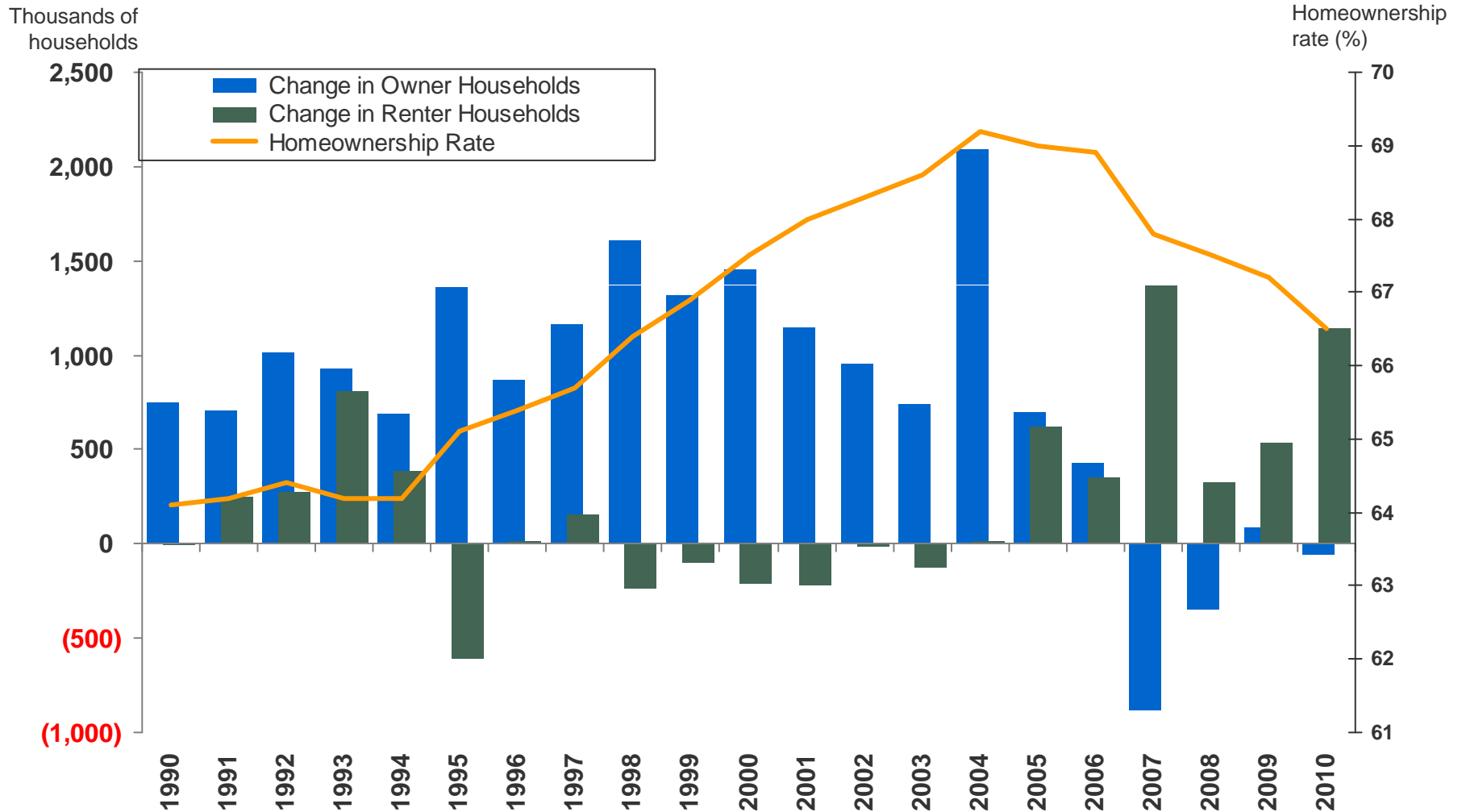
Year-over-year Changes in Selected Categories of Monthly Retail Sales (Seasonally adjusted, \$millions)



Since the end of 2005, the US has added 3.0 million HHs; Drop in homeownership means 766,000 homeowner HHs lost, rental demand increased by 3.7 million households, or 11%



Year-over-year Changes in the Number of Owner- and Renter-occupied Households, and Homeownership Rate



Source: Census Bureau and MBA

What's Next for Commercial Real Estate?



2006/2007: The Perfect Calm

2007/2008: Detour to Disequilibrium

2008/2009: Welcome to the Stress Test

2009/2010: Drivers Wanted!

2010/2011: Viva el Cycle

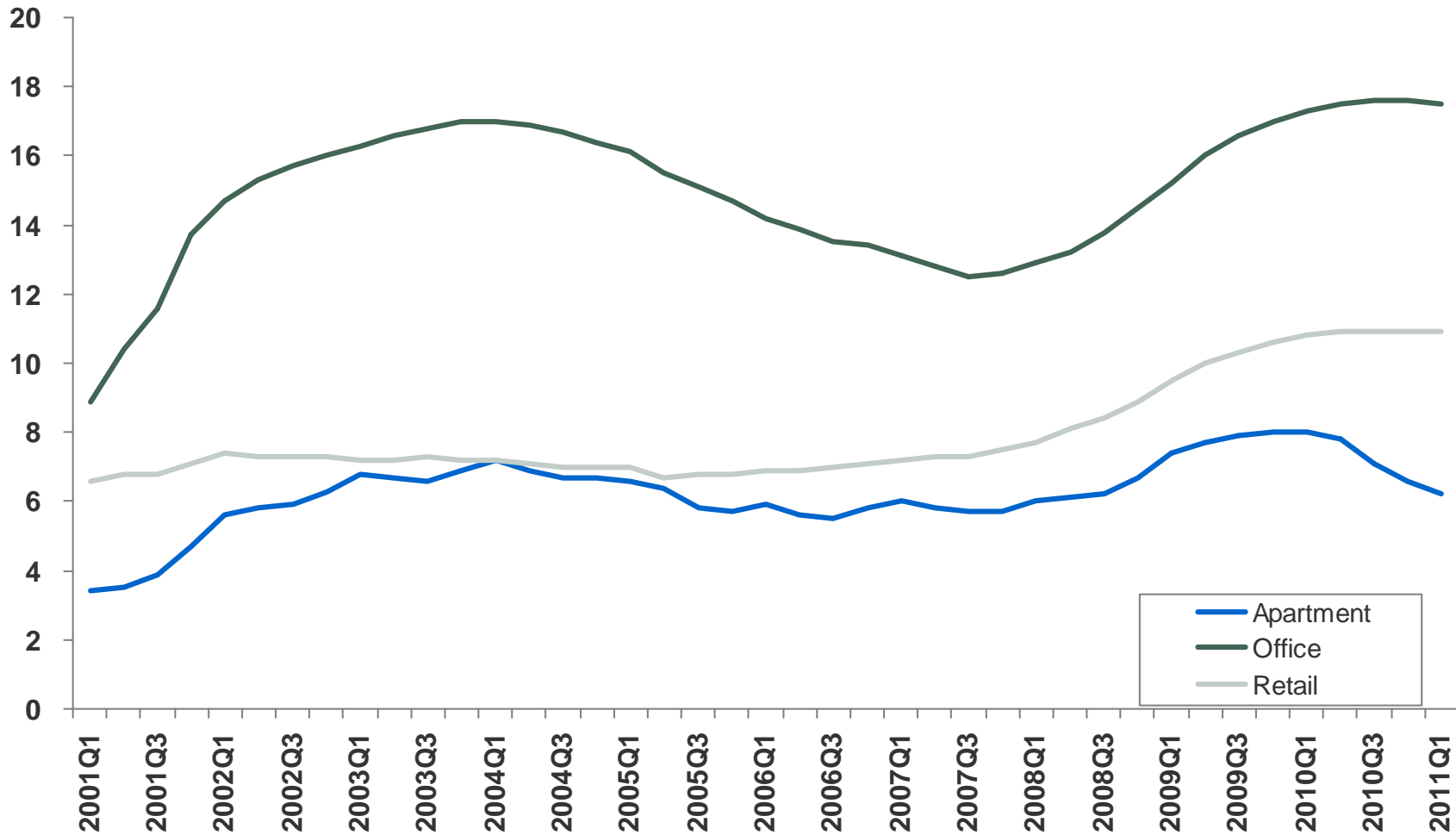
Property Operations: Eye on DSCR

Vacancy rates have peaked across most property types, exceeding the highs of the early 1990s



Commercial/Multifamily Vacancy Rates, by Property Type by Quarter

Percent

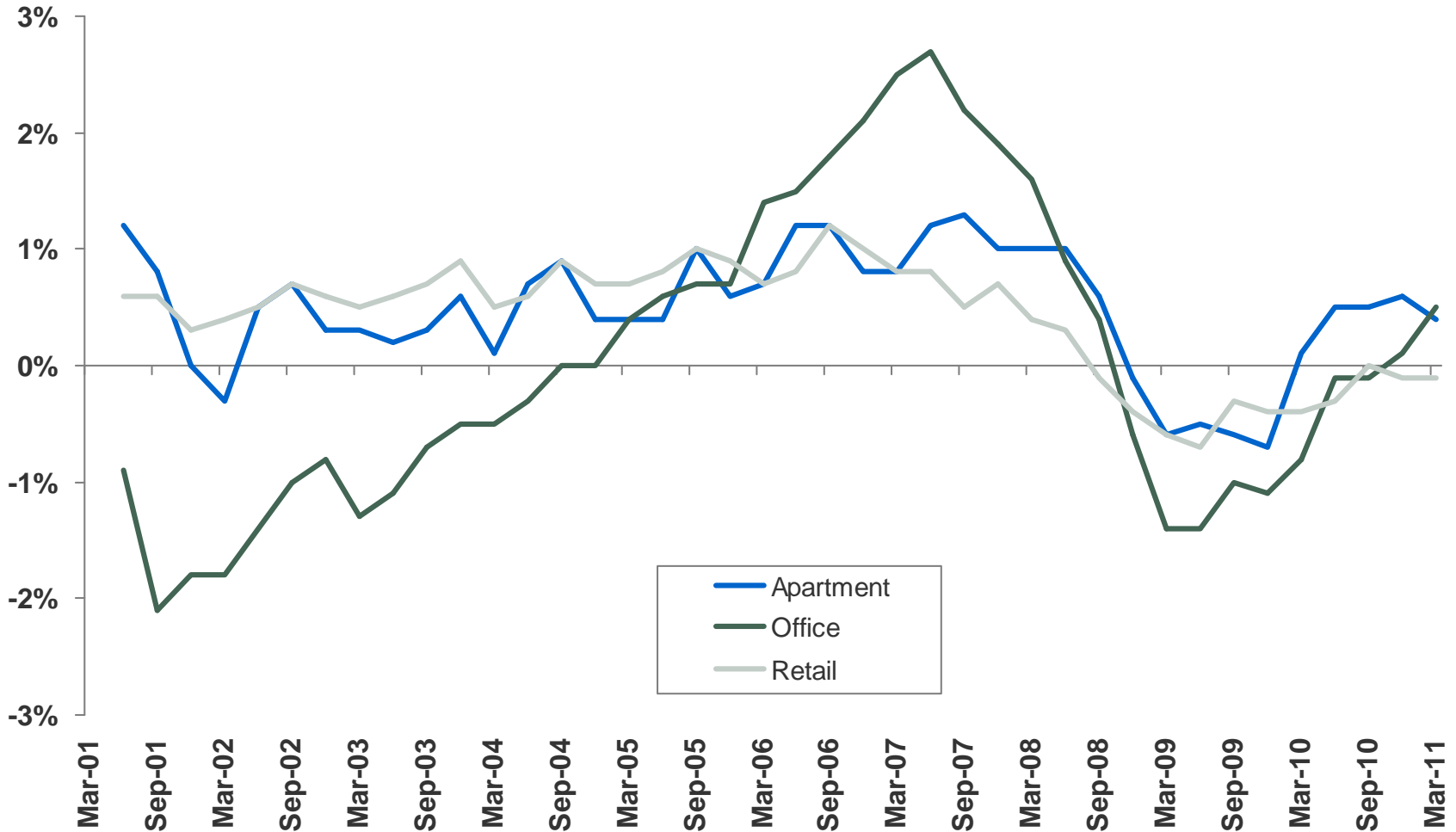


Source: REIS

Properties are faced with rent pressures; Asking rents for most properties continued to fall, but at slower paces



Quarter-over-quarter Asking Rent Growth, by Property Type by Quarter

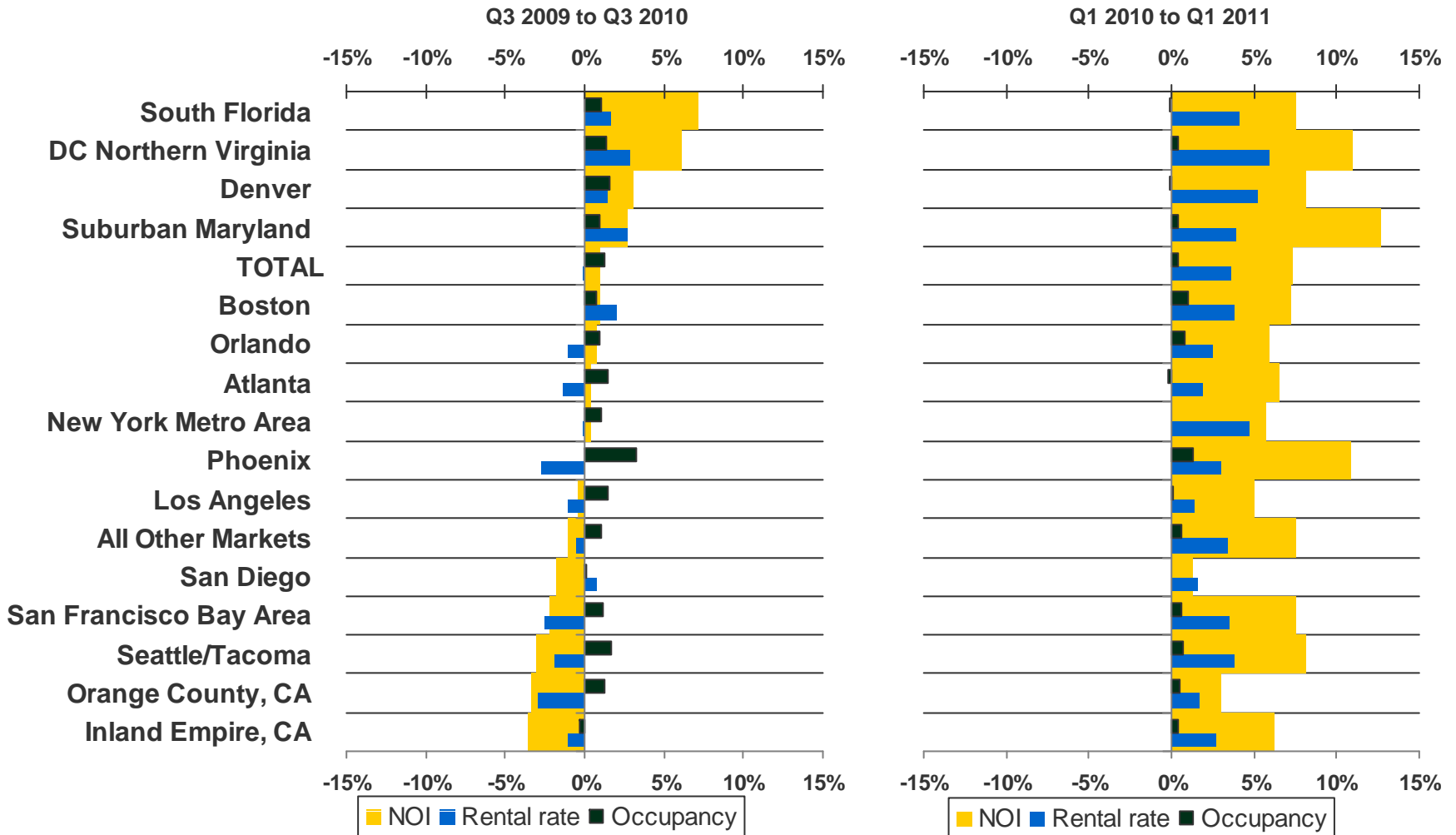


Source: REIS

Apartment rental markets have improved strongly with the surge in rental demand



Equity Residential “same store” results, percentage change

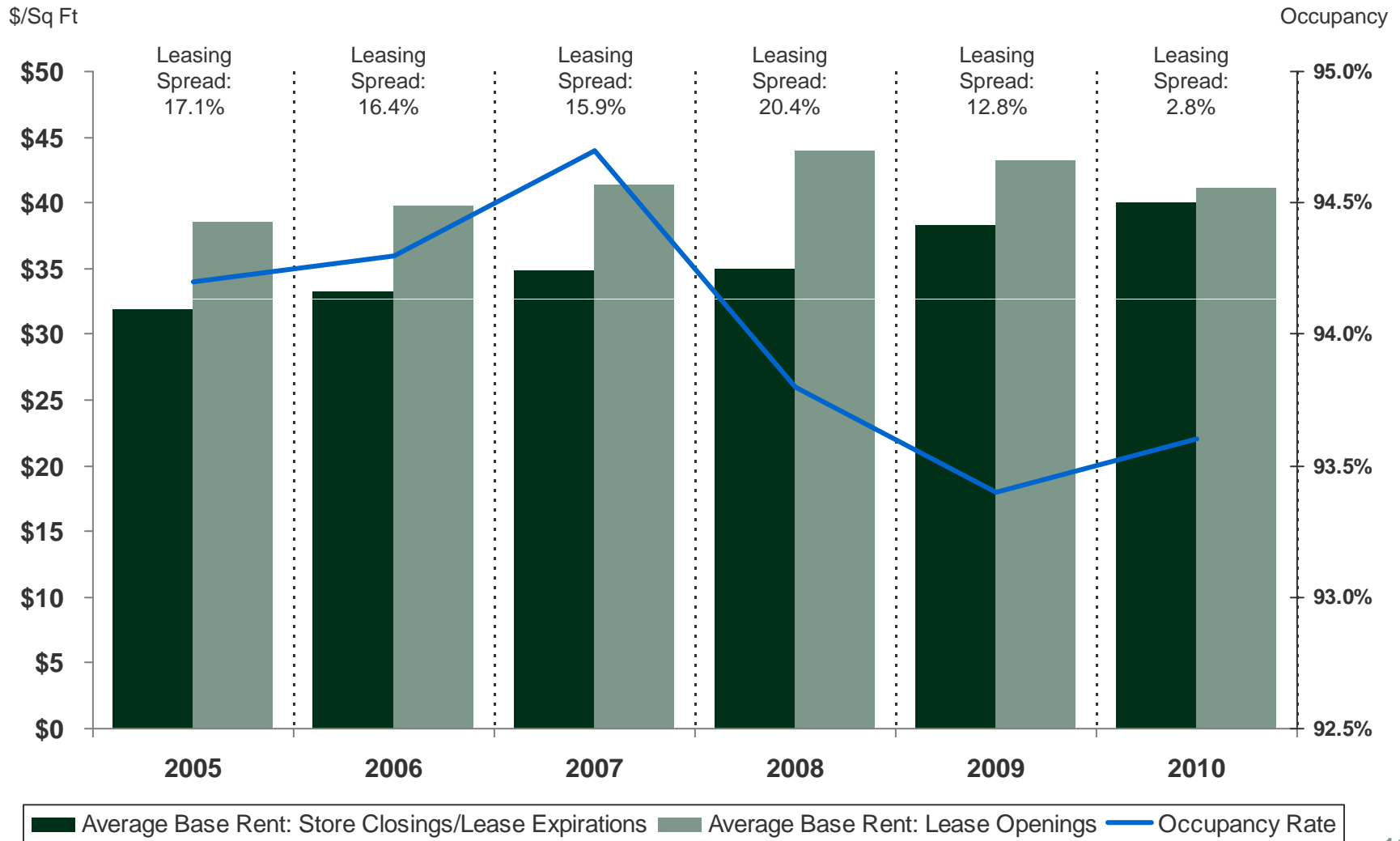


Source: Equity Residential

Among many properties, vacancies are far bigger factor in NOI changes than are rents



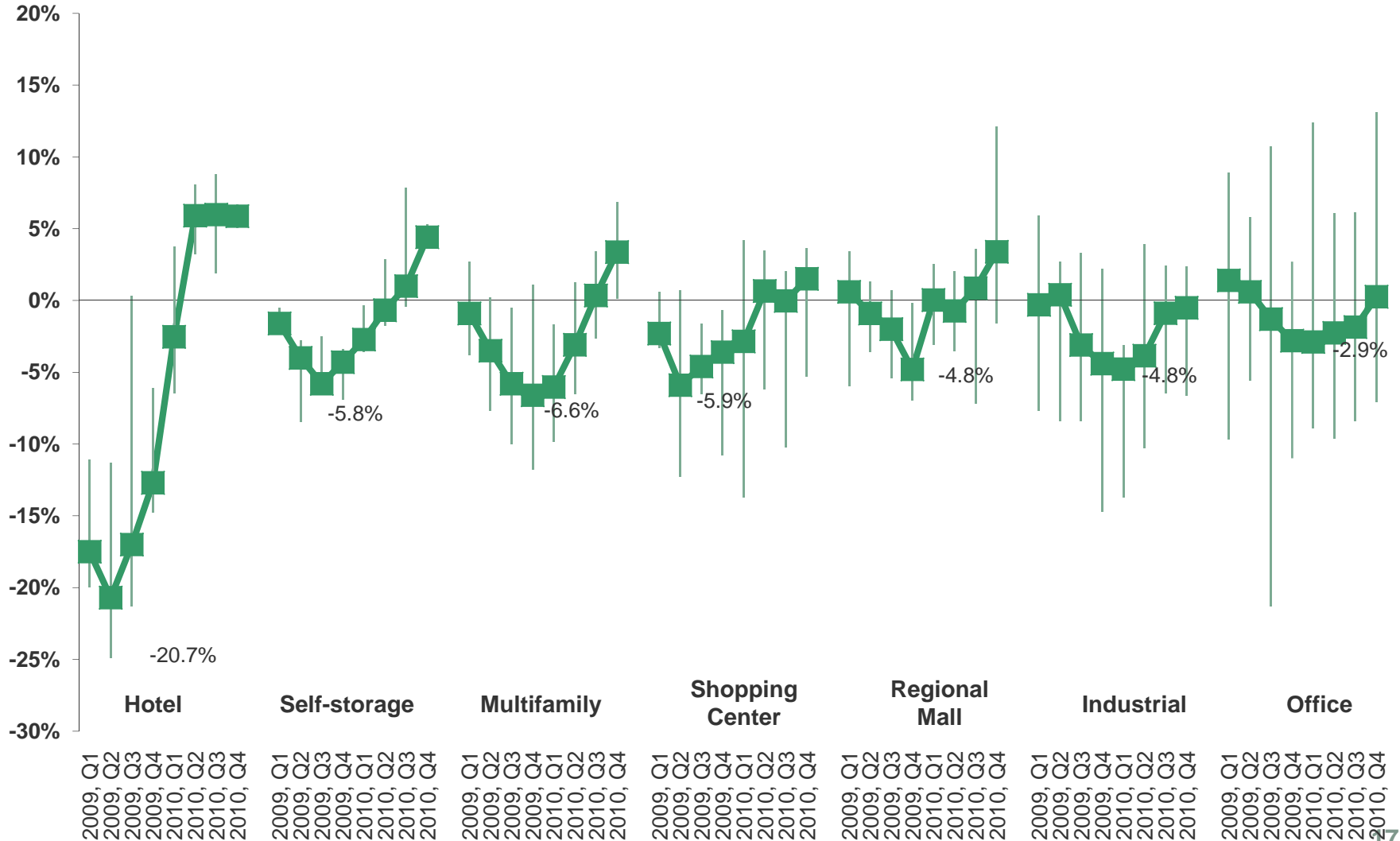
Simon Property Group Small Shop Base Rents and Historical Occupancy Rates



Lease structures are having a profound impact on the ways different property types experience the recession



Year-over-Year Change in REIT "Same Store" NOIs and Hotel REVPAR (Q1 2009 – Q4 2010)
[High/Low/Avg]



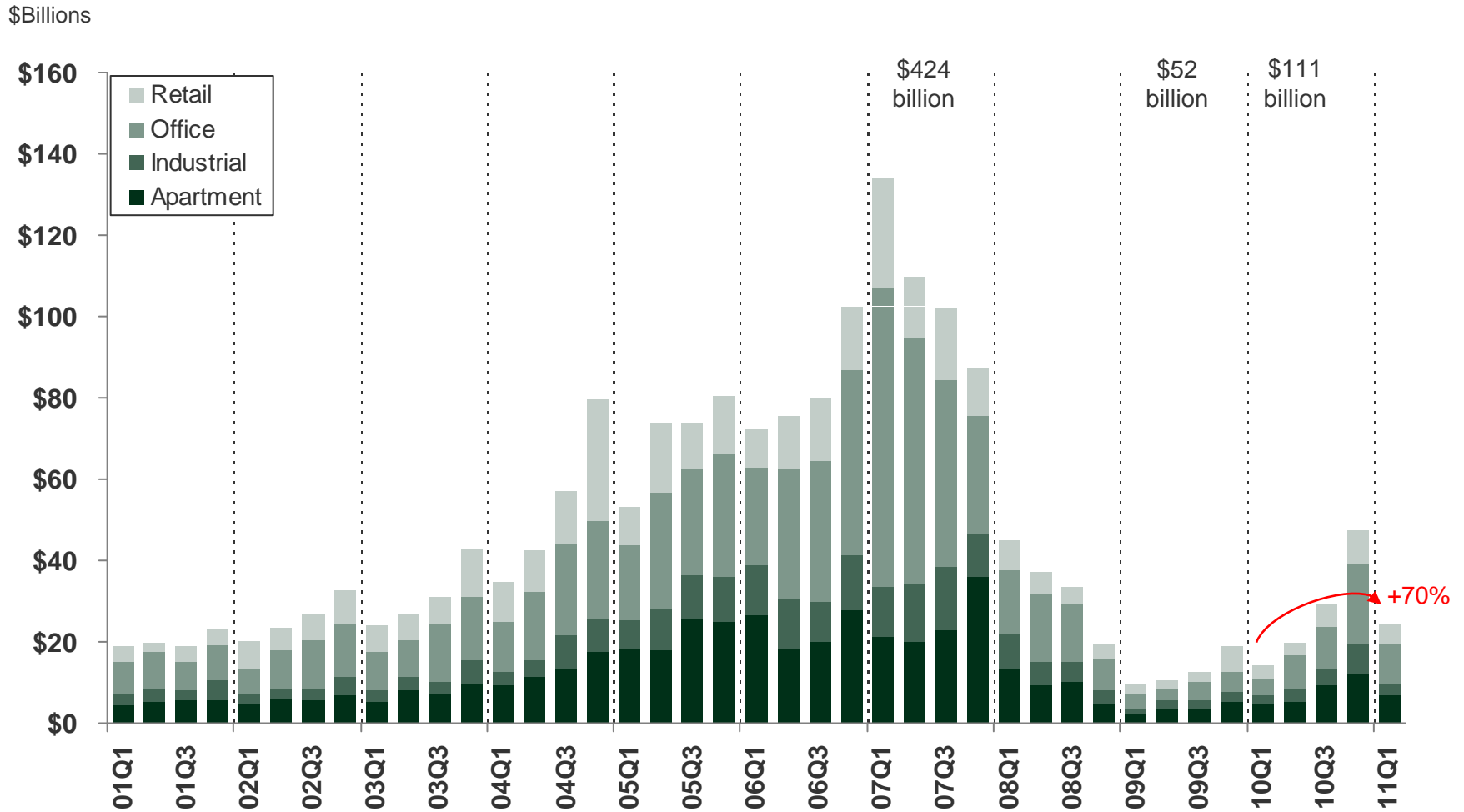
Source: SNL Financial and MBA

Property Sales and Values: Eye on LTV

Little incentive for most owners to sell in the current environment; A lack of transaction volume means a lack of meaningful comps



Commercial/Multifamily Property Sales Volume, Properties and Portfolios \$5 million and greater

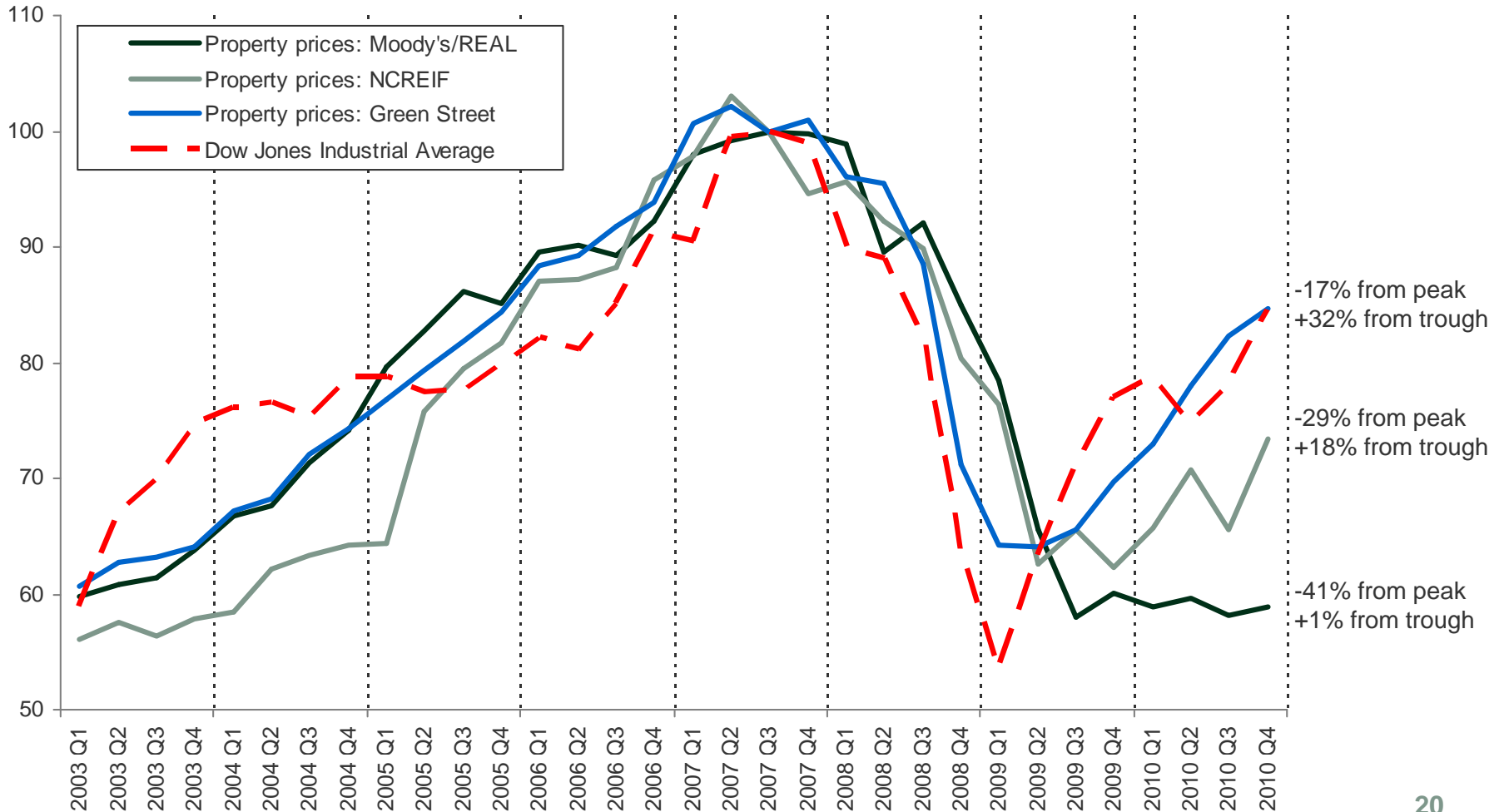


Source: Real Capital Analytics

Property prices generally tracked other equity prices in their rise; appear to have lagged in their fall and return



Indexes of Commercial/Multifamily Property Prices and the Dow Jones Industrial Average (2007Q3 = 100)

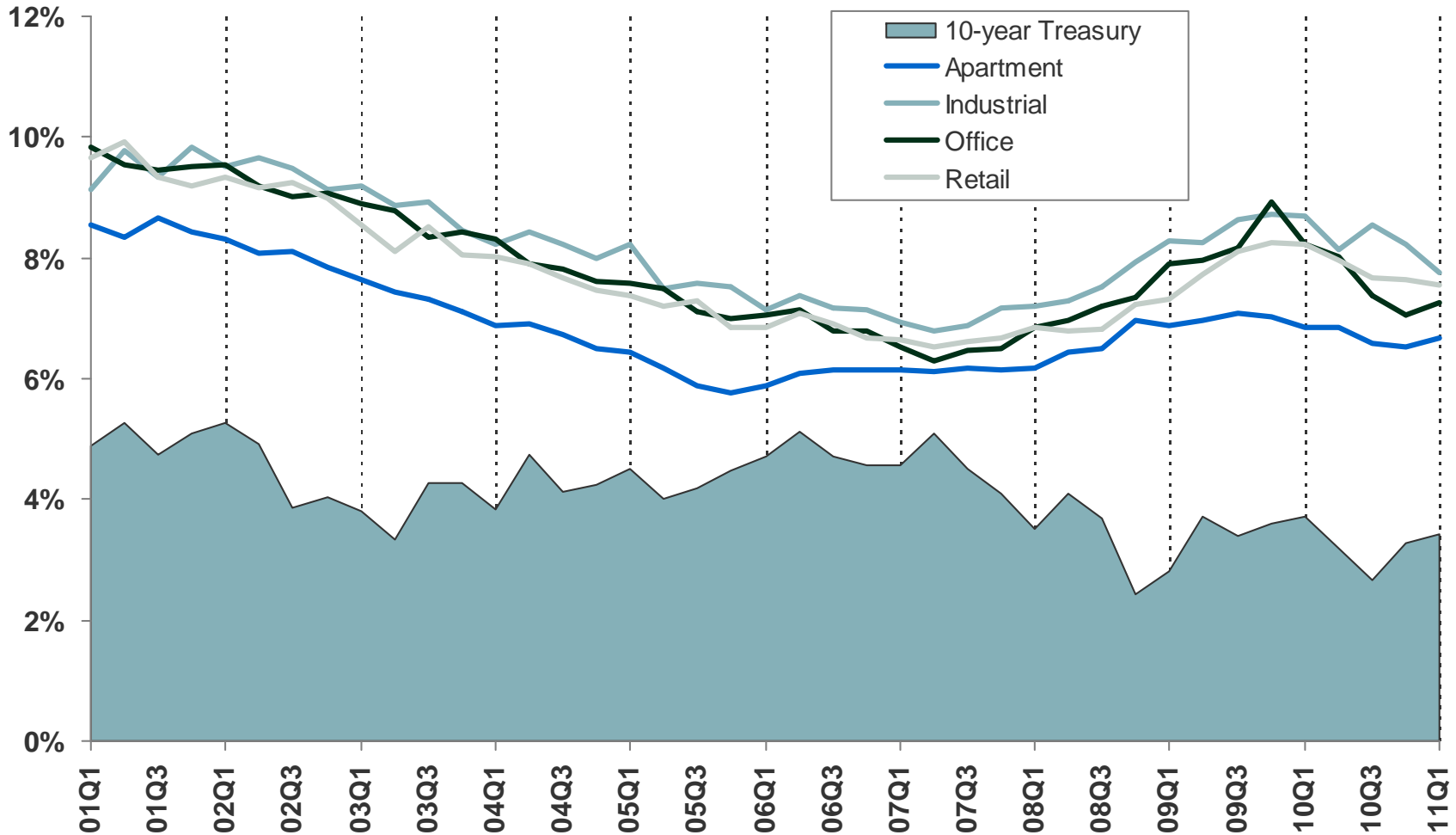


Source: MBA and Moody's/REAL, MIT, Green Street Advisors and Wall Street Journal

Cap rates trended up as investors increased required yields and as expectations of revenue growth were reduced; now trending down with growth potential, competition and Treasury spread



Commercial/Multifamily Capitalization Rates, Properties and Portfolios \$5 Million and Greater



Source: Real Capital Analytics and Federal Reserve Board

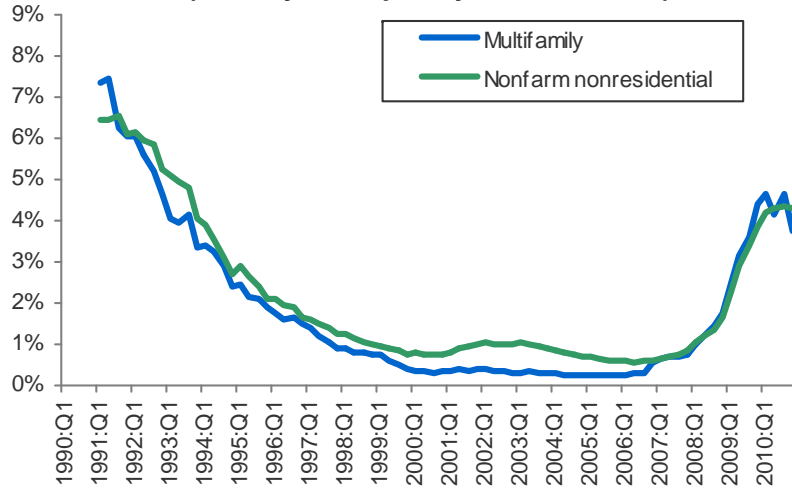
Mortgage Performance: Eye on troubled loans

Large variations in delinquency rates by mortgage investor group (since 1990); multifamily performance generally tracks other property types, except in CMBS

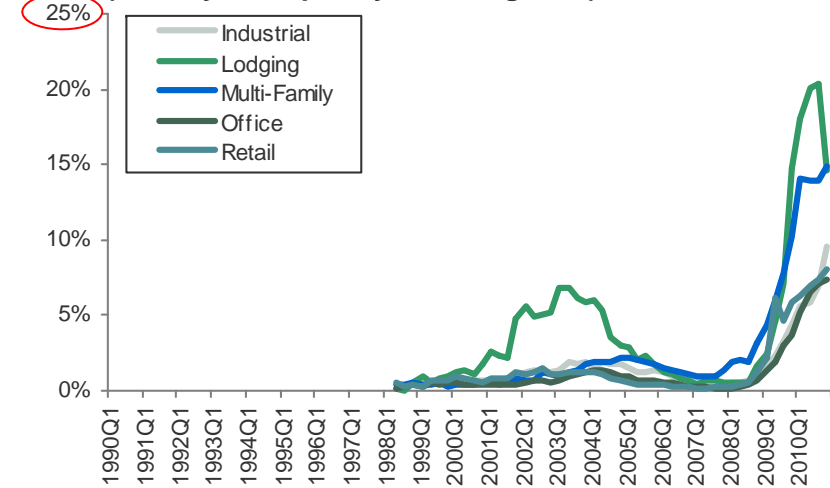


Multifamily and Other Commercial Mortgage Delinquency Rates Among Major Investor

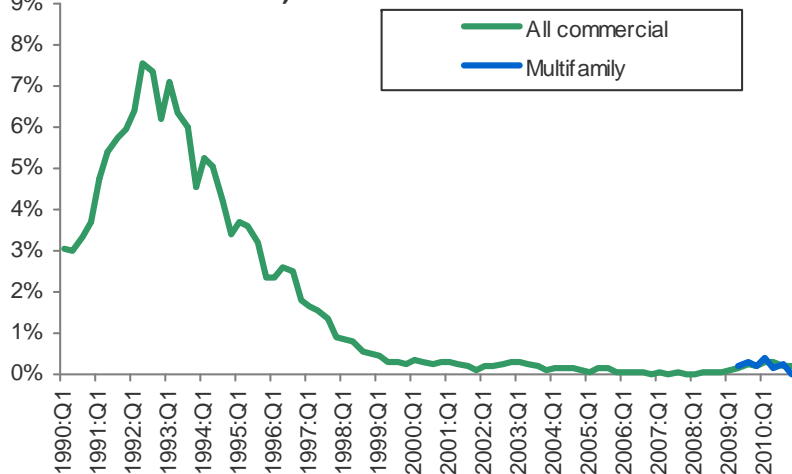
Bank & Thrift (90+ day delinquency or nonaccrual)



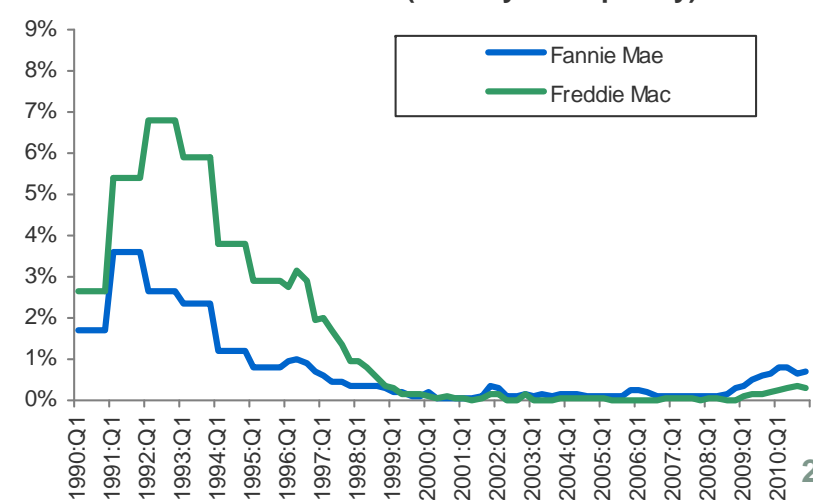
CMBS (30+ day delinquency including REO)



Life Companies (60+ day delinquency including in process of foreclosure)



Fannie Mae and Freddie Mac (60+ day delinquency)



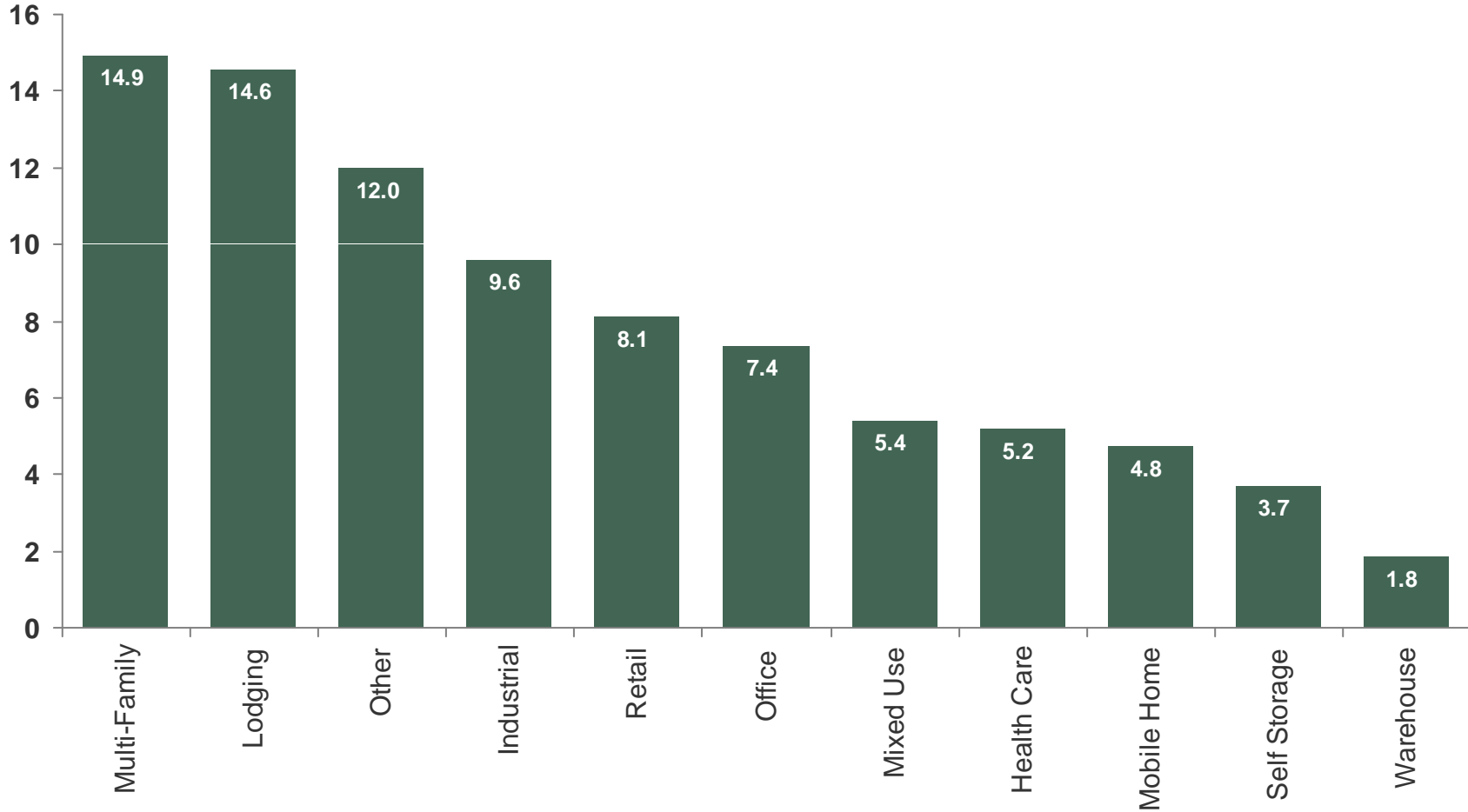
Sources: MBA, FDIC, Trepp, ACLI, Fannie Mae and Freddie Mac

Large variations in delinquency rates (CMBS) by property type



Delinquency Rate (Total) of Loans Held in CMBS, by Property Type, December 2010

CMBS Delinquency Rate (%)



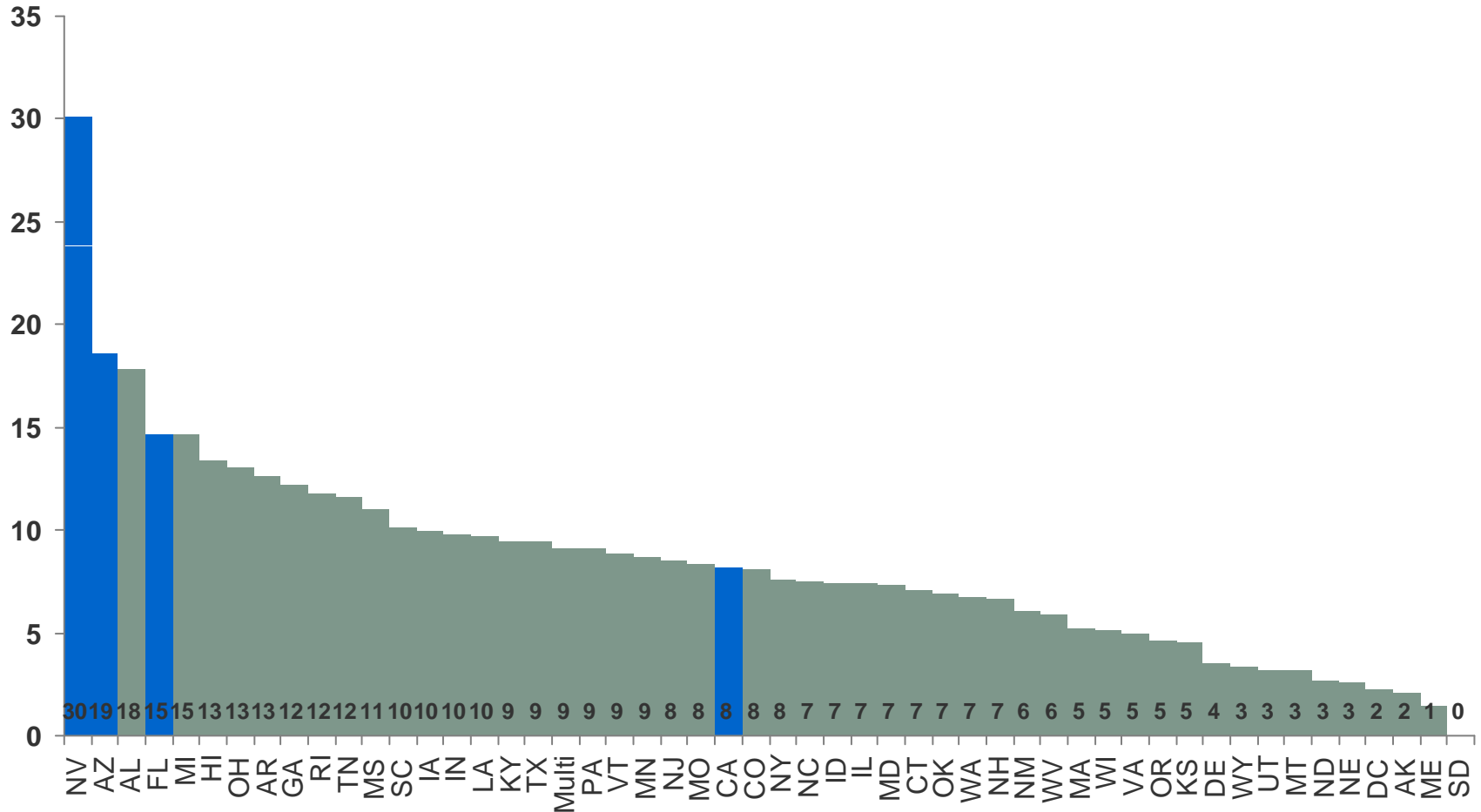
Source: Trepp LLC

Large variations in delinquency rates (CMBS) by state



Delinquency Rate of Loans Held in CMBS, by State, December 2010

CMBS Delinquency Rate (%)

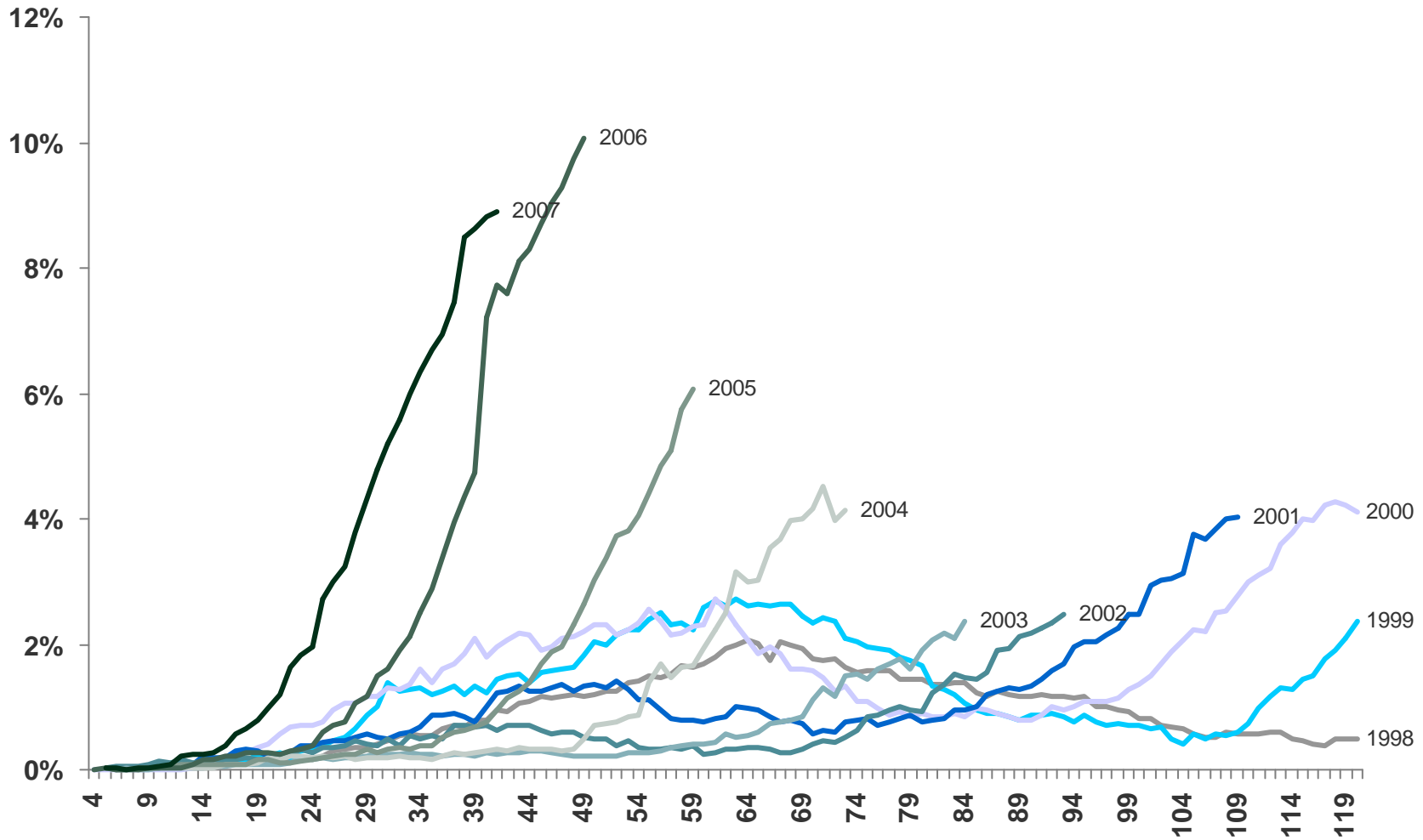


Source: Trepp LLC

Defaults and Aging: Delinquency Rates for CMBS Loans by Year Originated and Age (Months)



60+ Day Delinquency Rate, by Year of Origination and Loan Age (months), as of March 2011

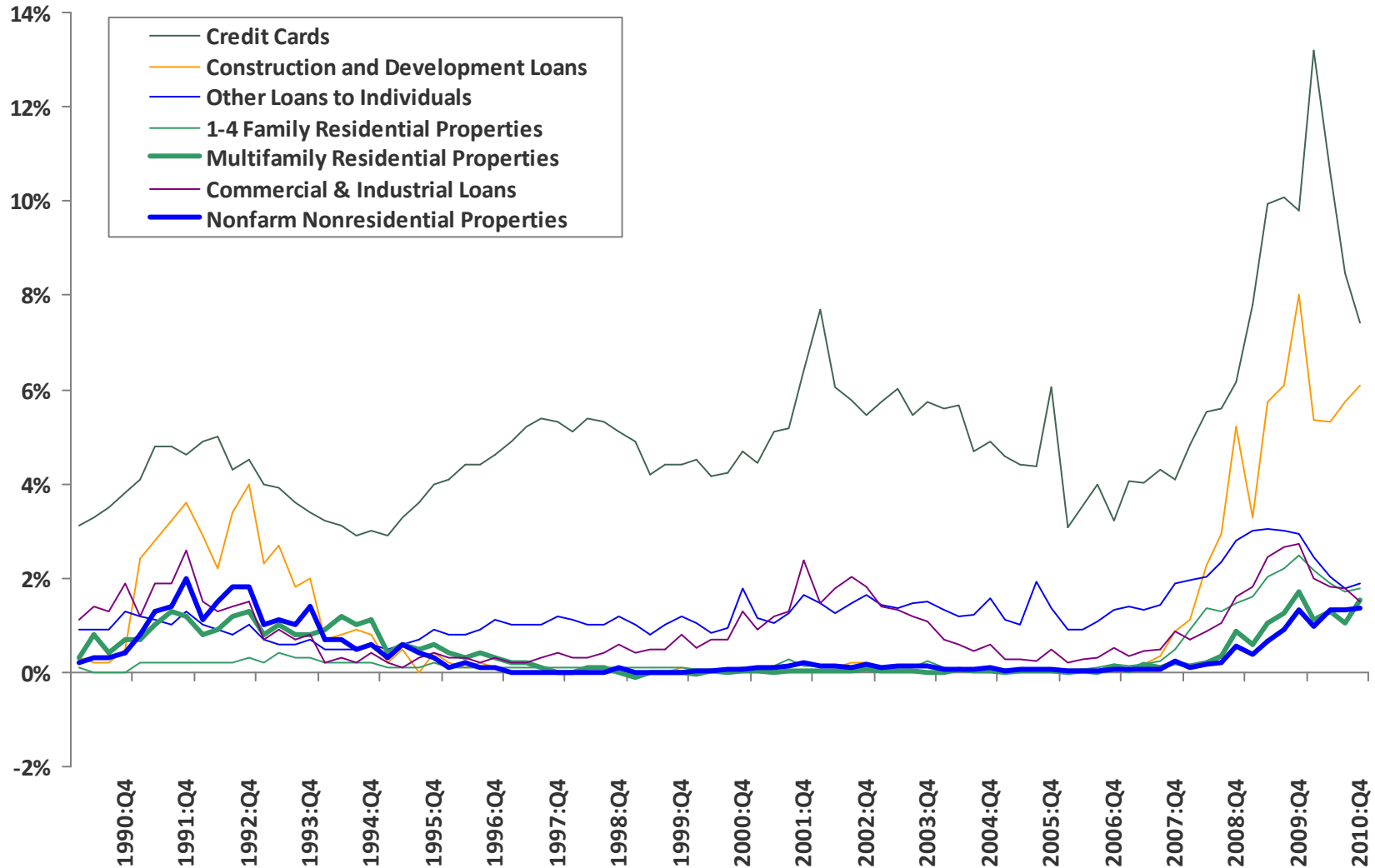


Source: JPMorgan

In percentage terms, charge-offs of commercial and multifamily mortgages have been relatively modest, and roughly in line with the late-'80s/early-'90s



BANKS & THRIFTS: Annualized charge-off rates of bank loans

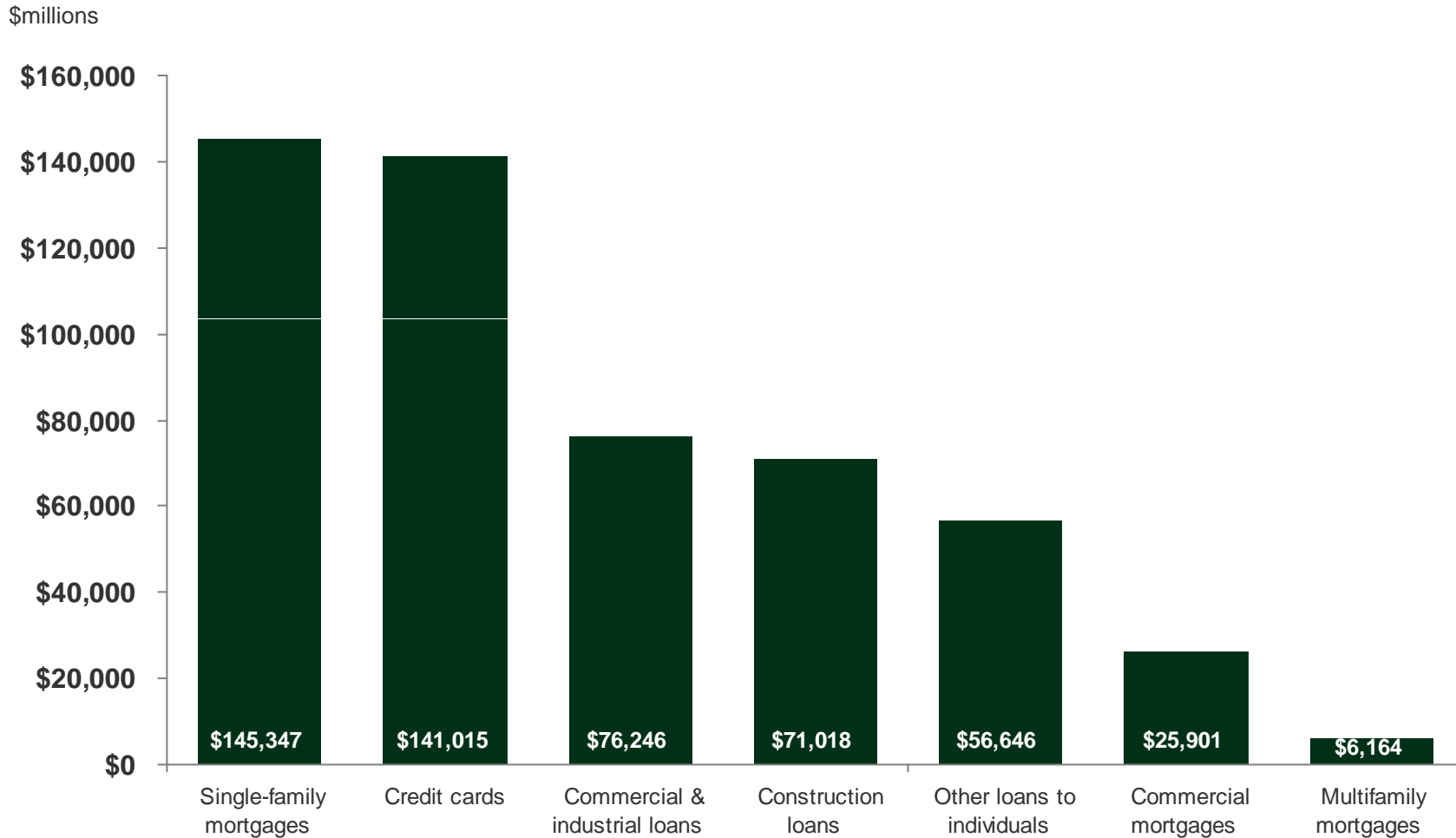


Sources: MBA and FDIC

In dollar terms, charge-offs of commercial and multifamily mortgages have been a fraction of the overall charge-offs at banks and thrifts



Aggregate Net Bank and Thrift Charge-offs, 2007 through 2010



Source: MBA and FDIC

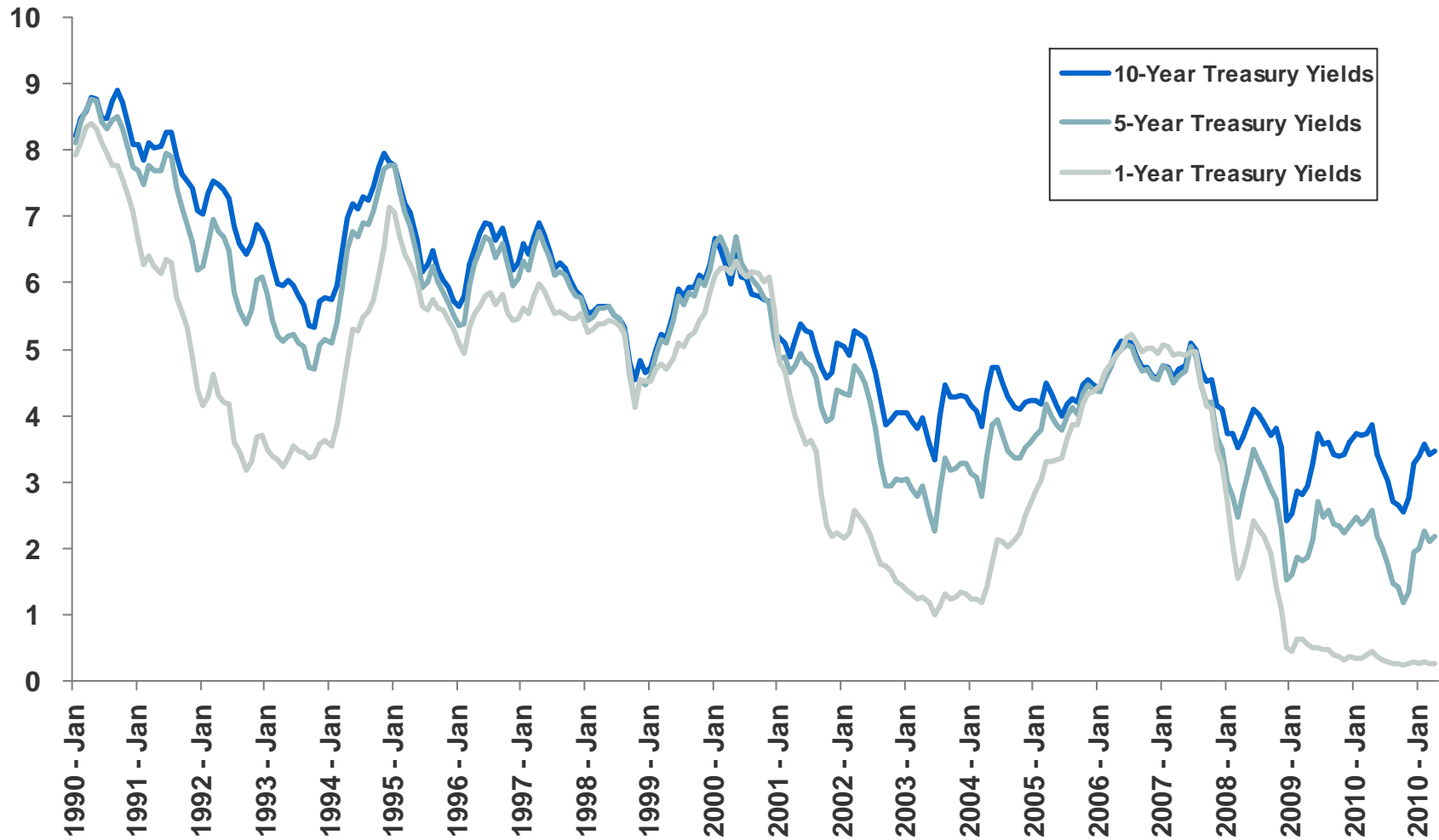
Mortgage Maturities & Originations: Eye on pay-offs, new loans & servicing balances

Interest rates are at extremely low levels, with a steep yield curve



Yields on Treasury nominal securities at constant maturity

Percent



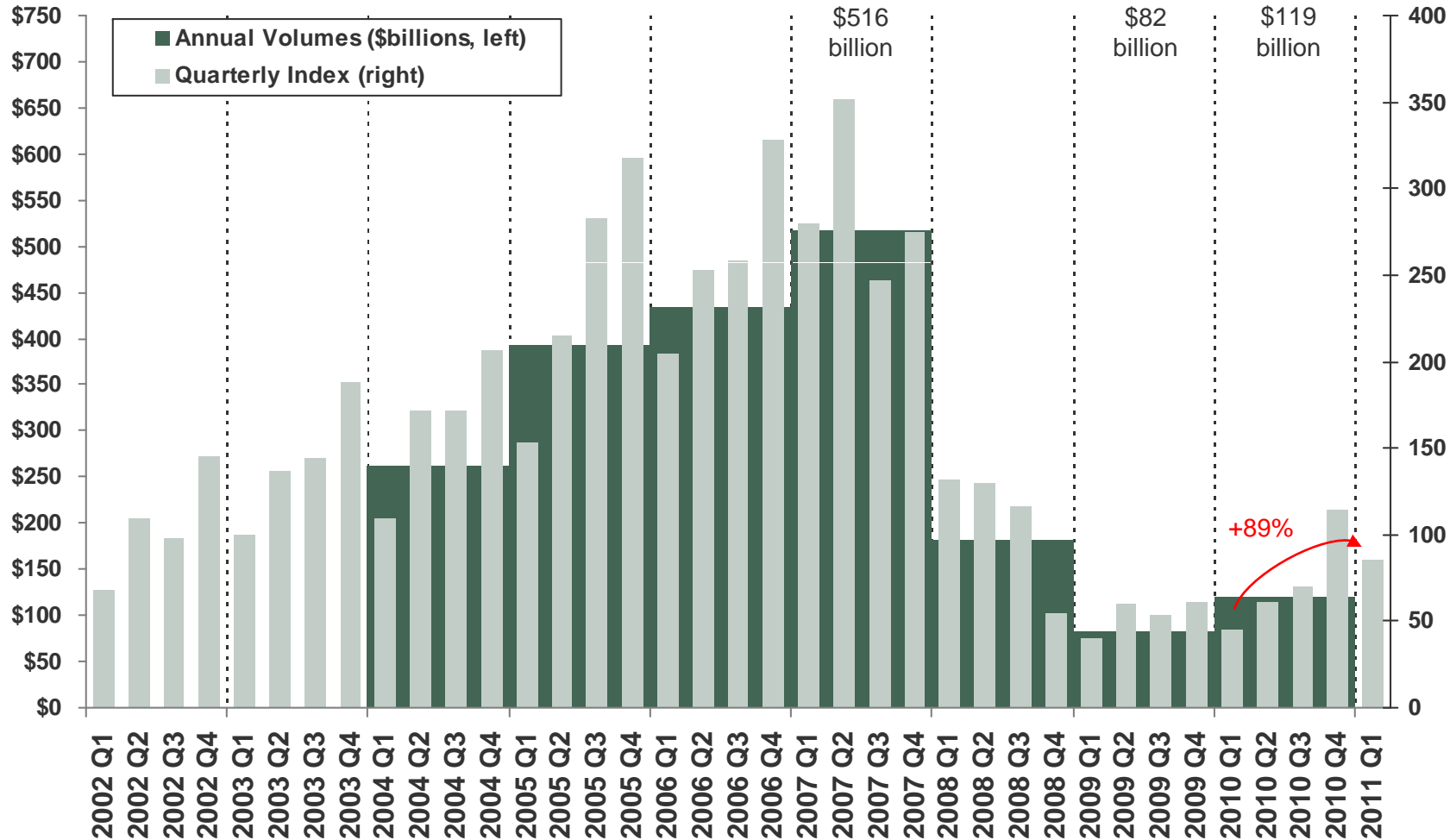
Source: Federal Reserve Board

Mortgage Bankers Association

Originations were pushed downward by lackluster demand as well as by the recession and overall credit crunch; 2010 started to show growth



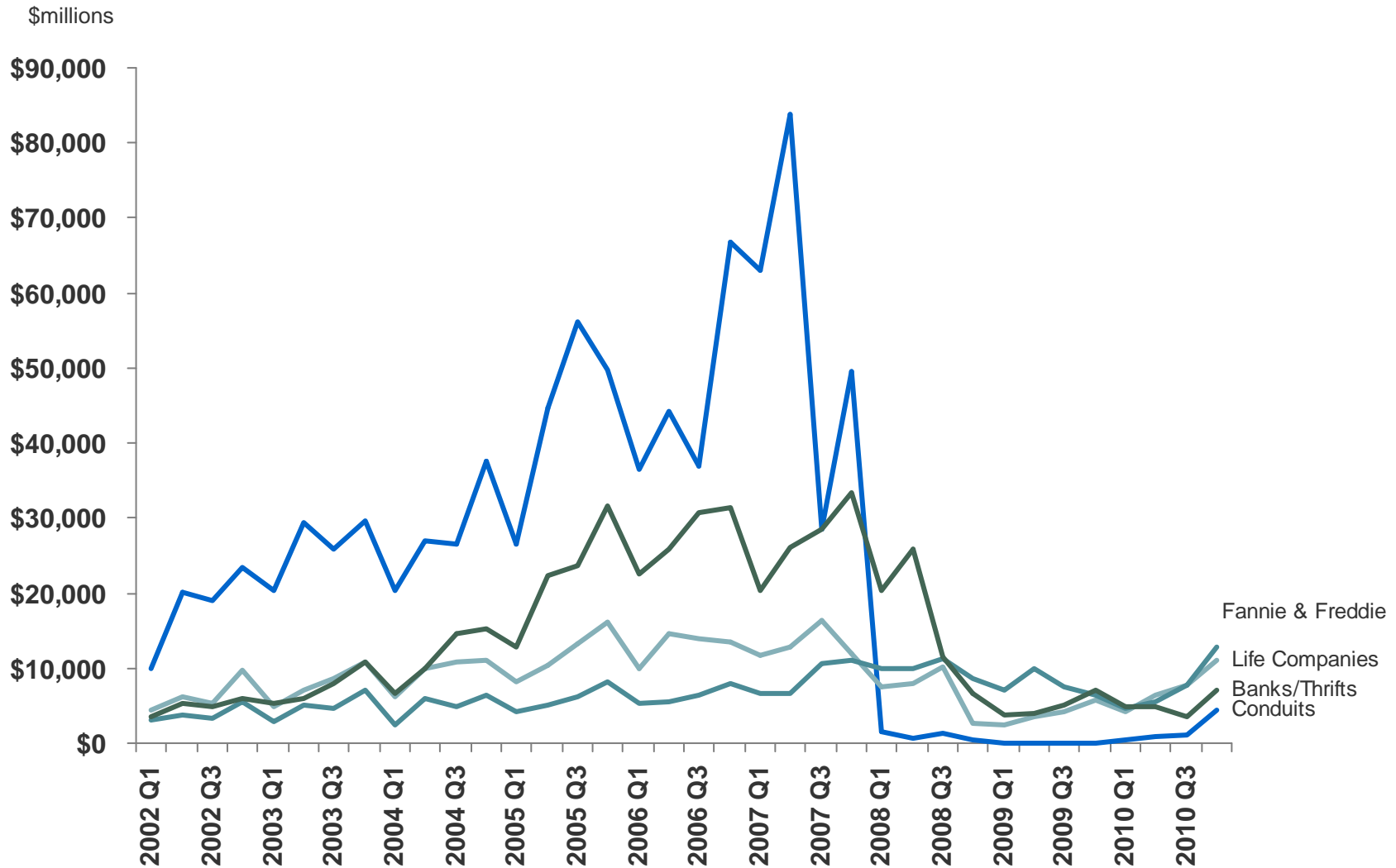
Commercial/Multifamily Annual Origination Dollar Volumes (\$billions, left) and Mortgage Bankers Origination Index (index value, 2001 avg quarter = 100, right)



Every major investor type saw a pick up in originations in the fourth quarter



Estimated Quarterly Commercial/Multifamily Mortgage Bankers' Originations, by Investor Group



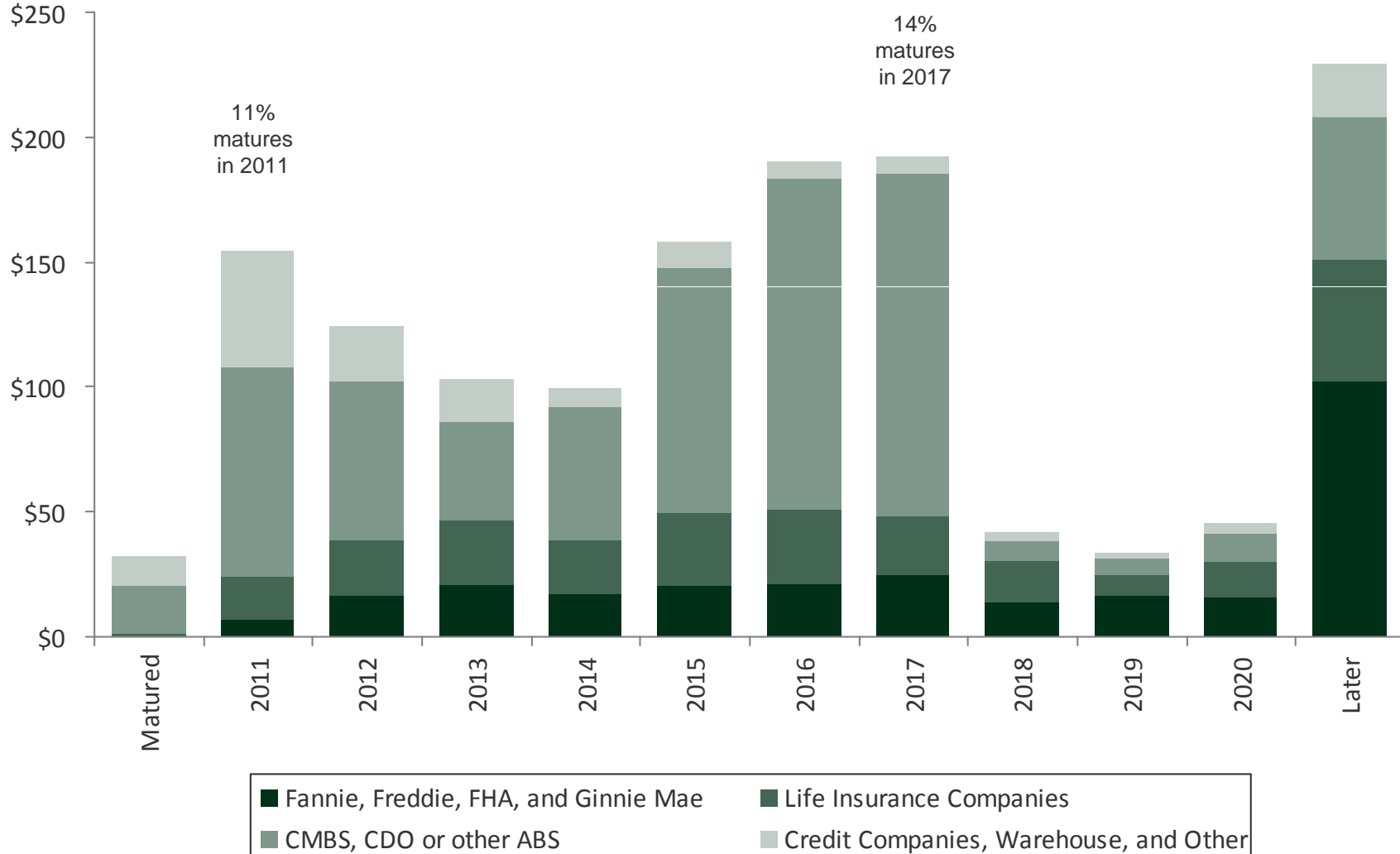
Source: Mortgage Bankers Association

Non-bank mortgage maturities are spread out over coming years, with 2015, 2016 and 2017 seeing the largest volumes; Large differences between different investor groups



Non-Bank UPB of Outstanding Commercial/ Multifamily Mortgages, by Year of Maturity, as of Dec. 31, 2010

\$Billions

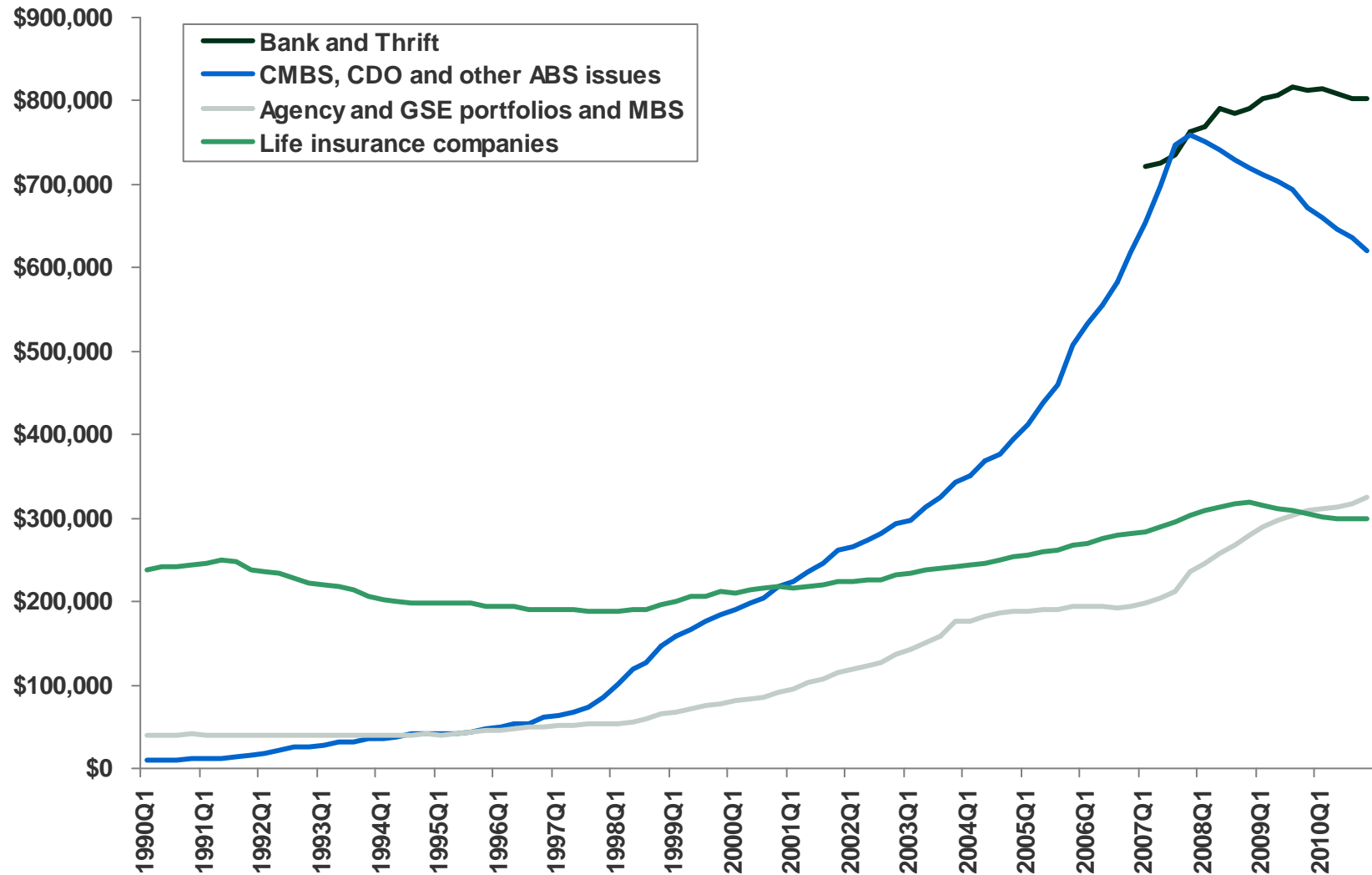


Source: MBA

Commercial and multifamily mortgage debt outstanding has grown at Fannie, Freddie and FHA and banks/thrifts; fallen slightly at life insurance companies; fallen dramatically in CMBS



Commercial and Multifamily Mortgage Debt Outstanding (\$millions)

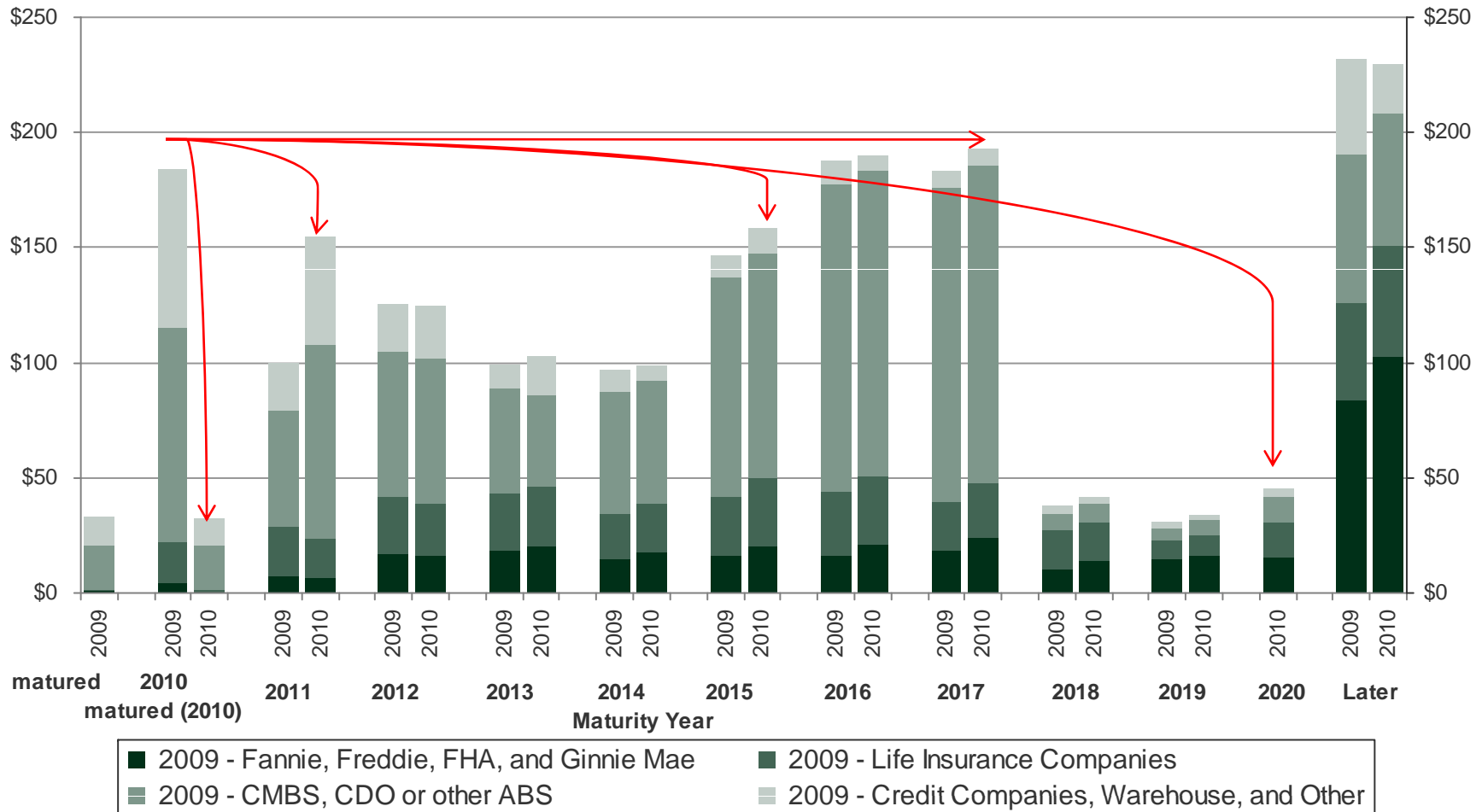


Sources: MBA, Federal Reserve Board and FDIC

Refinancing and extension of mortgages that matured in 2010 can be seen in the increase of loans maturing in 1, 5, 7 and 10 years; some matured loans remain outstanding



Current unpaid principal balance of non-bank commercial/multifamily loans maturing, by year (\$billions), as of year-end 2009 and year-end 2010

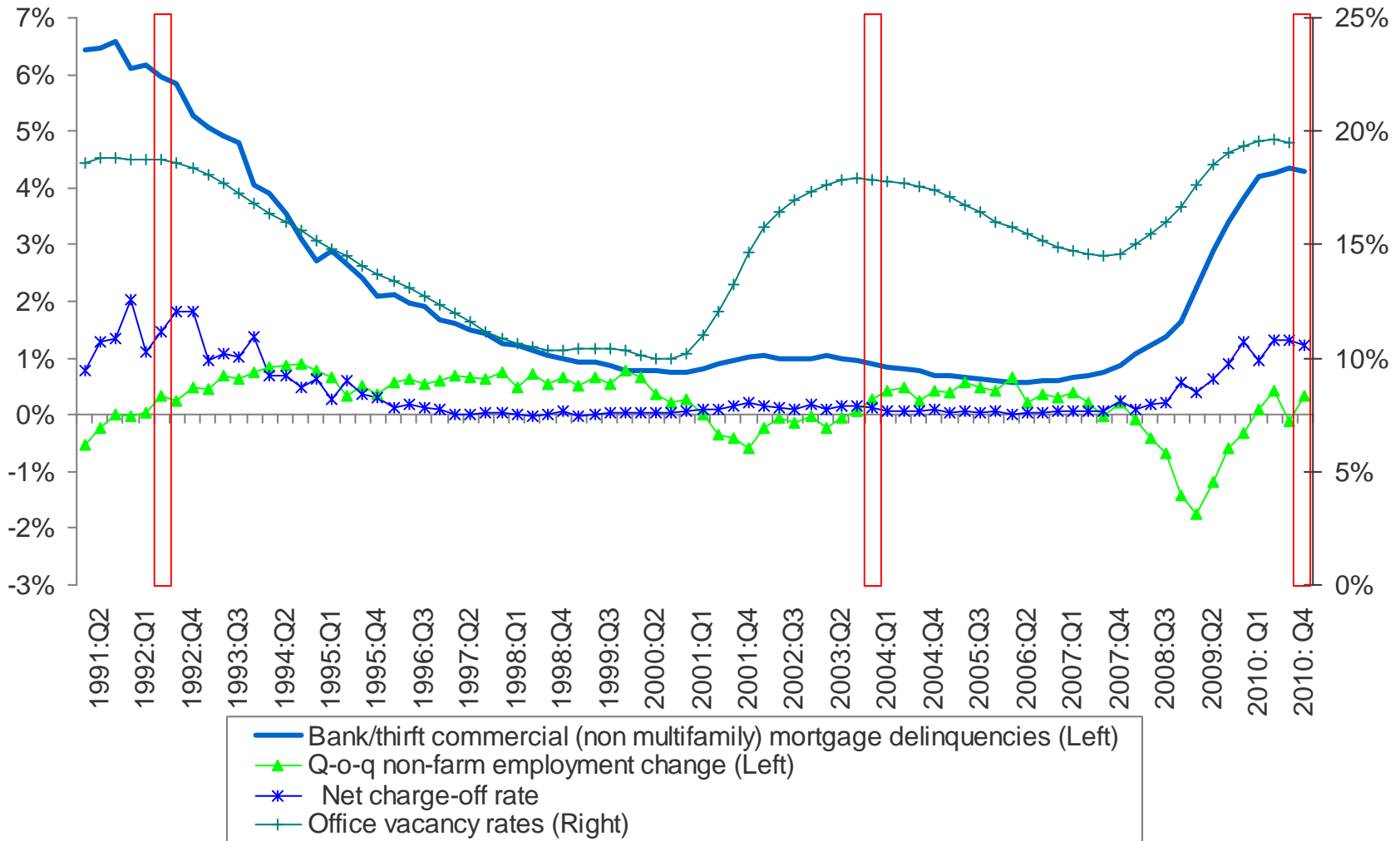


Outlook

It does not appear that commercial mortgage performance has lagged job growth in past recessions; The depth of this recession may bring a different outcome



90+ Day delinquencies rates on commercial mortgages held by banks/thrifts, quarter-over-quarter percentage change in private sector employment, and office vacancy rates



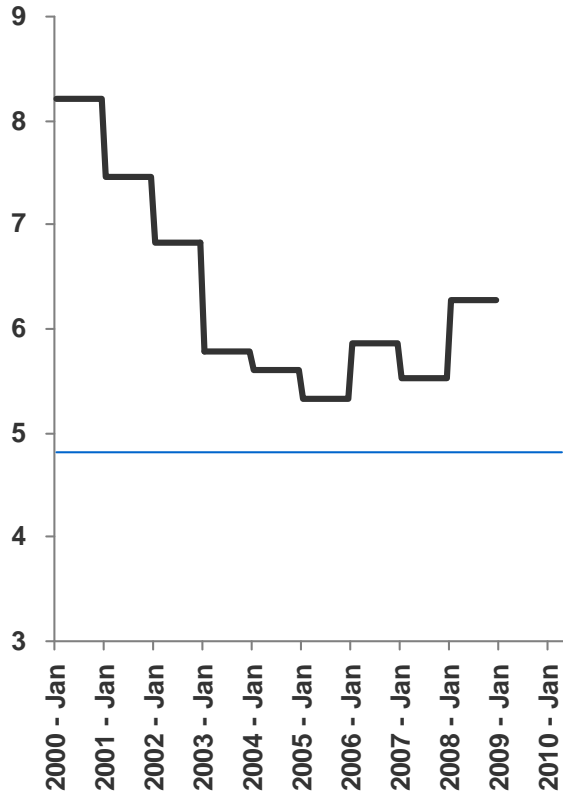
Source: MBA, FDIC, BLS and PPR

Refinancing challenges will depend on the mix of conditions at maturity and how significantly they differ from conditions when the loan was initially made



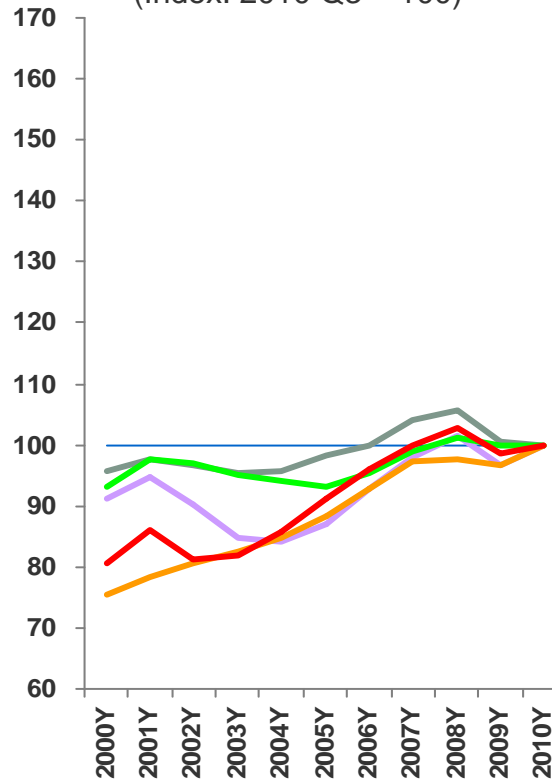
Historical Mortgage Rates, Property Prices and REIT Median NOIs Relative to Current Levels

Mortgage Rates



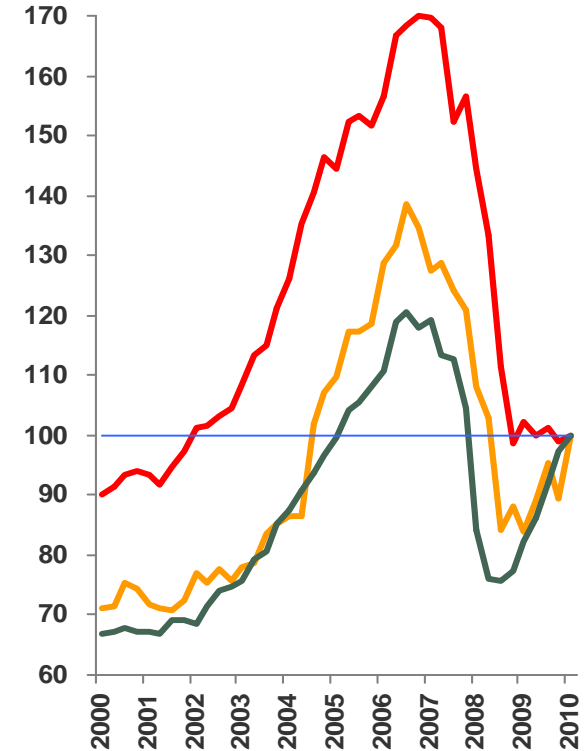
— Contract Interest Rate on Life Co. Commitments Q4 2010
 — Avg. Loan Coupon on Outstanding CMBS Loans Originated in Given Year

REIT NOIs
(Index: 2010 Q3 = 100)



— Q4 2010 Level
 — Industrial Median
 — Multi-Family Median
 — Office Median
 — Regional Mall Median
 — Shopping Center Median

Property Prices
(Index: 2010Q4 = 100)



— Moodys/REAL
 — NCREIF TBI
 — Green Street
 — 2010Q4 level

MBA Economic Forecast

April 14, 2011



	2010				2011				2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Percent Change, SAAR												
Real Gross Domestic Product	3.7	1.7	2.6	3.1	2.6	3.2	3.5	3.4	2.9	2.9	2.8	3.0
Personal Consumption Expenditures	1.9	2.2	2.4	4.0	2.2	3.3	3.2	3.2	2.6	2.6	2.8	2.9
Business Fixed Investment	7.8	17.2	10.0	7.7	5.1	8.8	11.4	11.0	4.6	6.3	5.9	5.5
Residential Investment	-12.3	25.7	-27.3	3.3	5.9	2.5	7.5	12.3	18.2	21.7	22.7	19.4
Govt. Consumption & Investment	-1.6	3.9	3.9	-1.7	-3.8	-3.2	-1.2	0.8	0.1	0.0	-0.9	-0.6
Net Exports (Bil. Chain 2005\$)	-338.4	-449.0	-505.0	-397.7	-387.4	-380.2	-367.1	-372.7	-364.1	-359.1	-356.4	-350.8
Inventory Investment (Bil. Chain 2005\$)	44.1	68.8	121.4	16.2	46.3	59.4	55.7	52.7	50.3	47.6	42.3	39.6
Consumer Prices	1.3	-0.5	1.4	2.6	5.0	3.8	2.1	1.9	2.0	2.1	2.1	2.2
Percent												
Unemployment Rate	9.7	9.6	9.6	9.6	8.9	8.7	8.6	8.5	8.4	8.2	8.0	7.9
Federal Funds Rate	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.4	0.9	1.2	1.4
10-Year Treasury Yield	3.7	3.5	2.8	2.9	3.5	3.7	3.9	4.1	4.3	4.4	4.5	4.6

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