

# Commercial Real Estate Conditions & Trends:

## A Servicing Perspective

May 2010

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1. Property Operations:

Eye on DSCR

2. Property Sales and Values:

Eye on LTV

3. Mortgage Performance:

Eye on troubled loans

4. Mortgage Maturities & Originations:

Eye on pay-offs

5. Debt Outstanding:

Eye on servicing balances

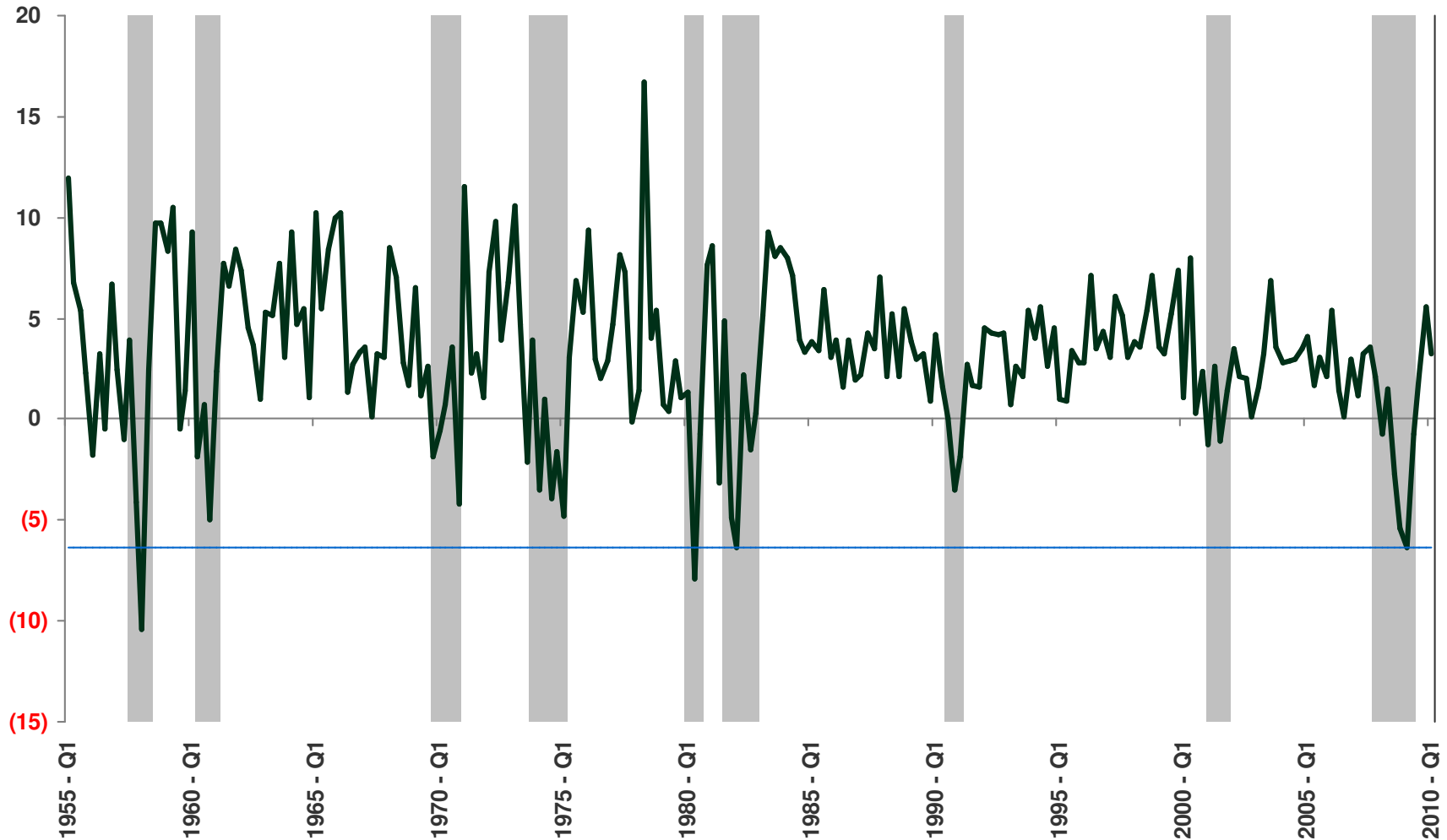
# 1. Property Operations:

## Eye on DSCR

# 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 GDP, at an Annual Rate (% , seasonally adjusted annual rate)



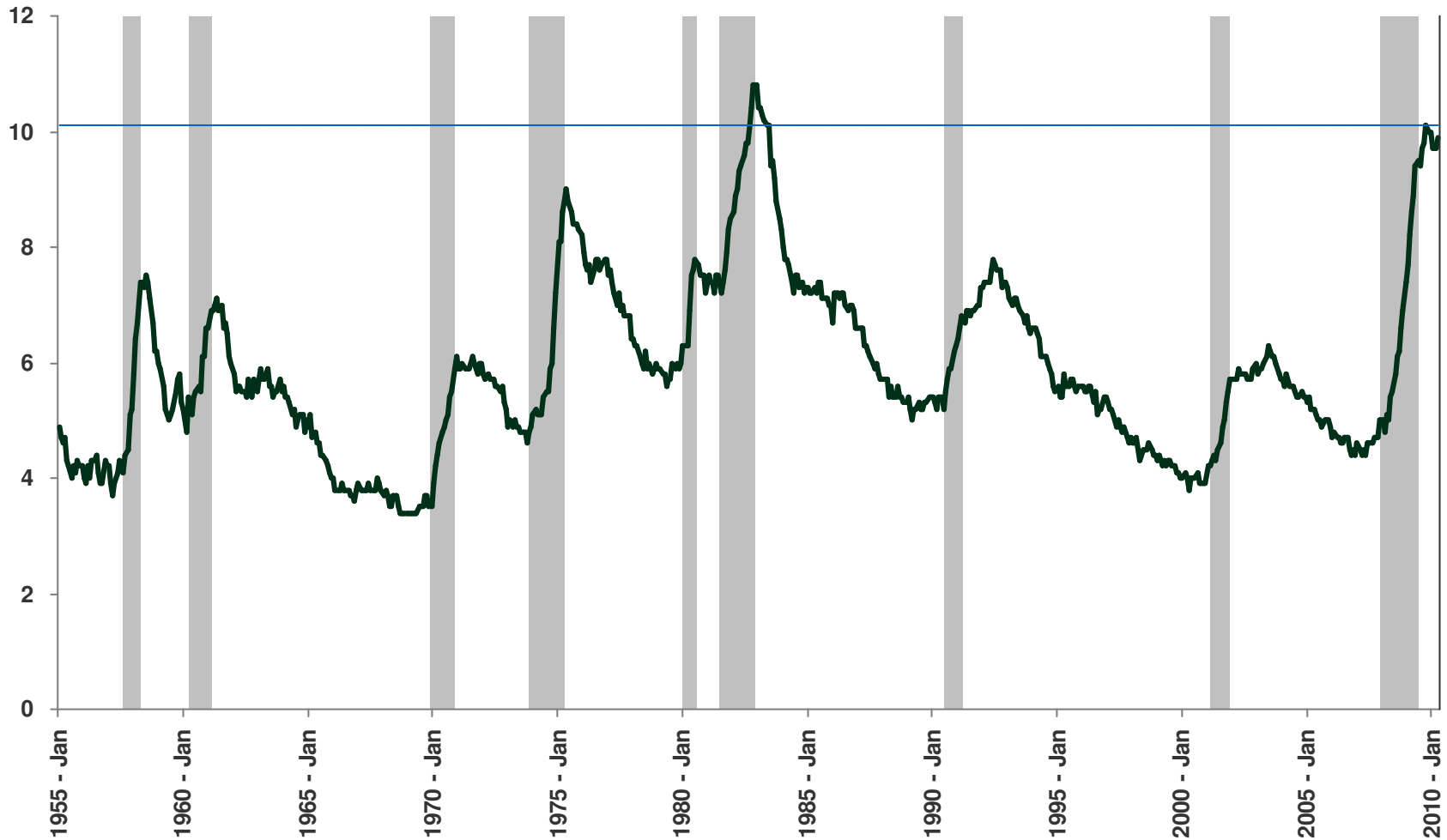
Source: Bureau of Economic Analysis

Mortgage Bankers Association

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



Unemployment Rate (% , Seasonally-adjusted)

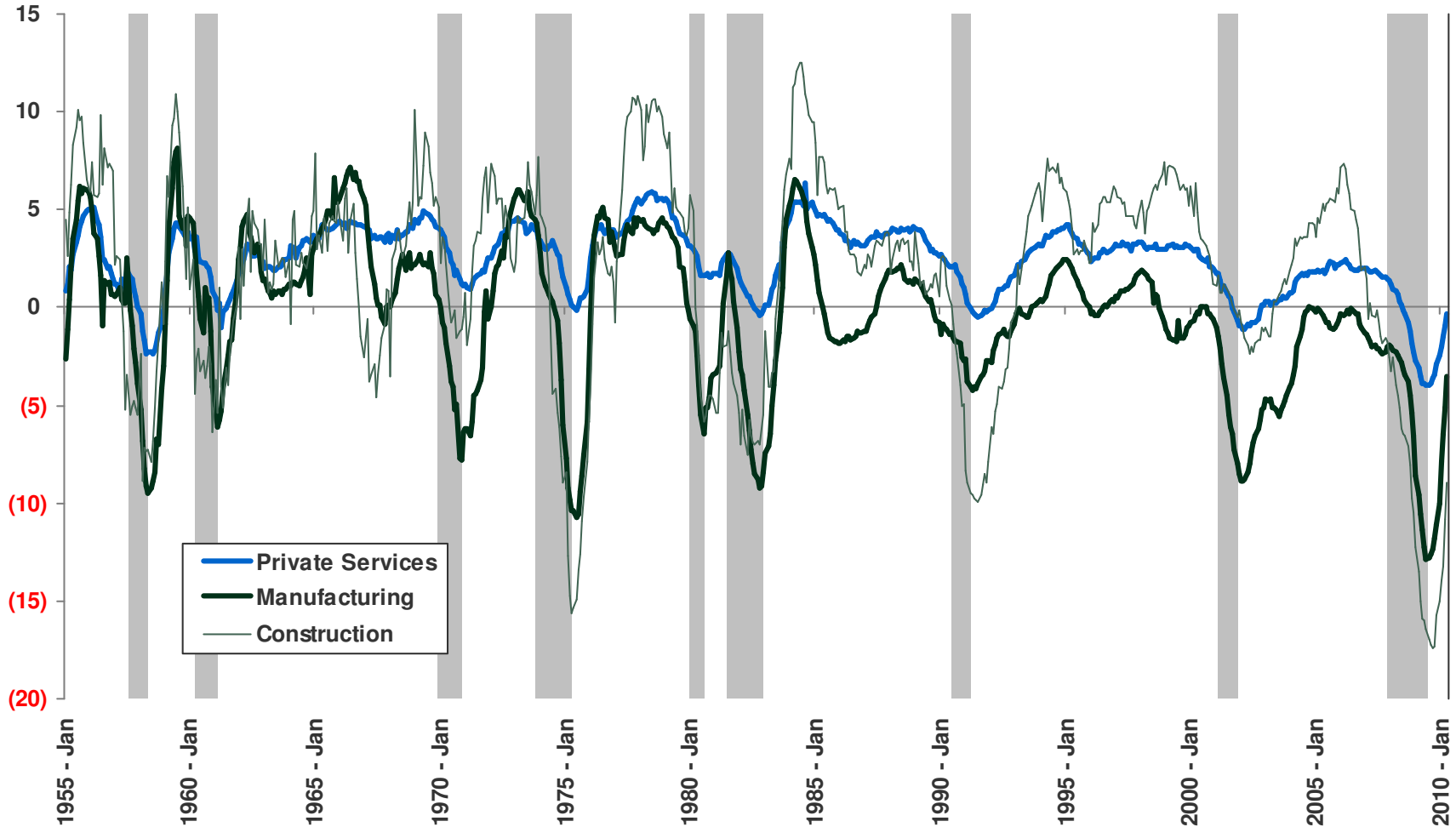


Source: Bureau of Labor Statistics

# 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 (%)

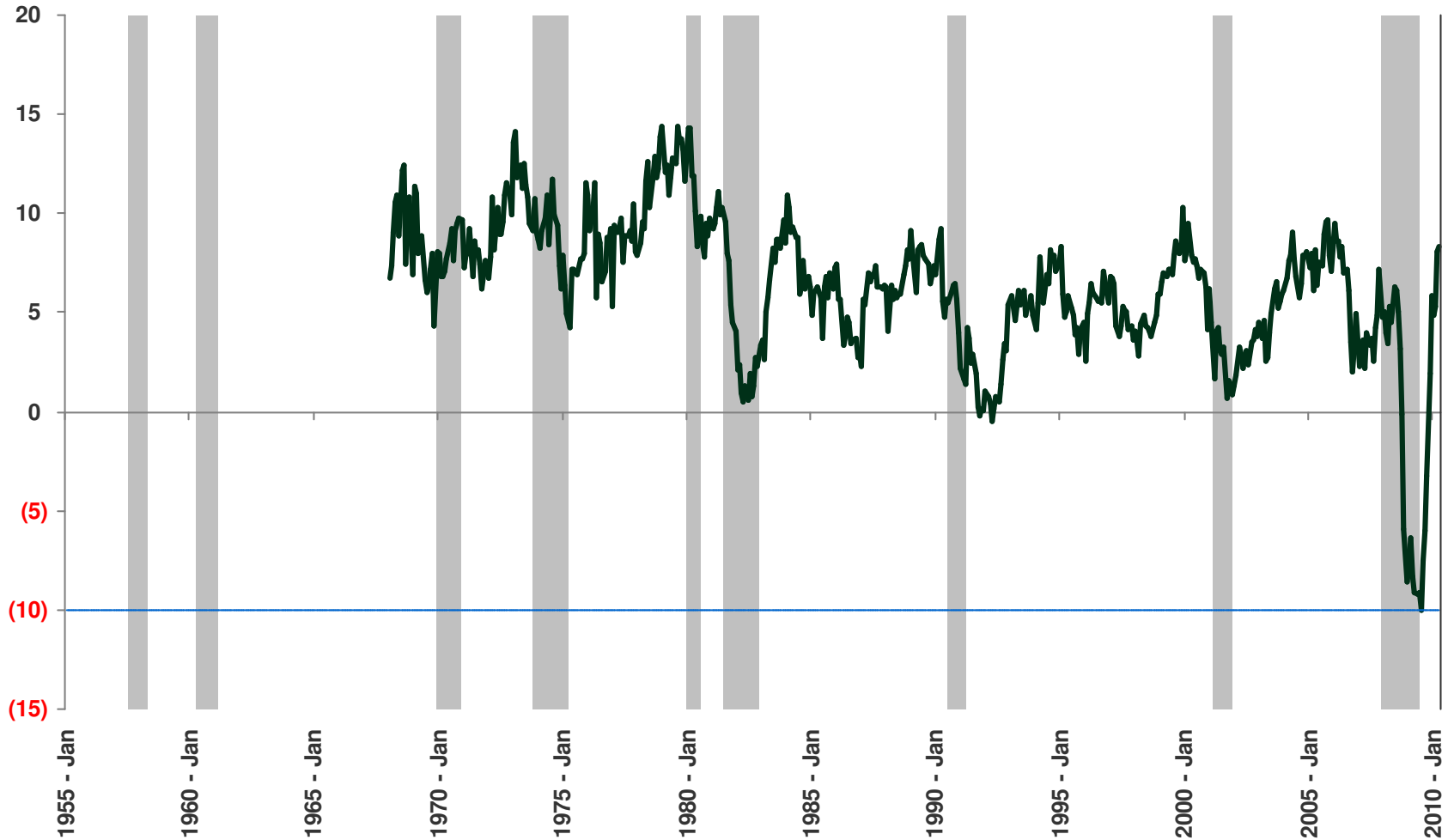


Source: Bureau of Labor Statistics

# Retail Sales saw largest percentage drop in recorded history



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

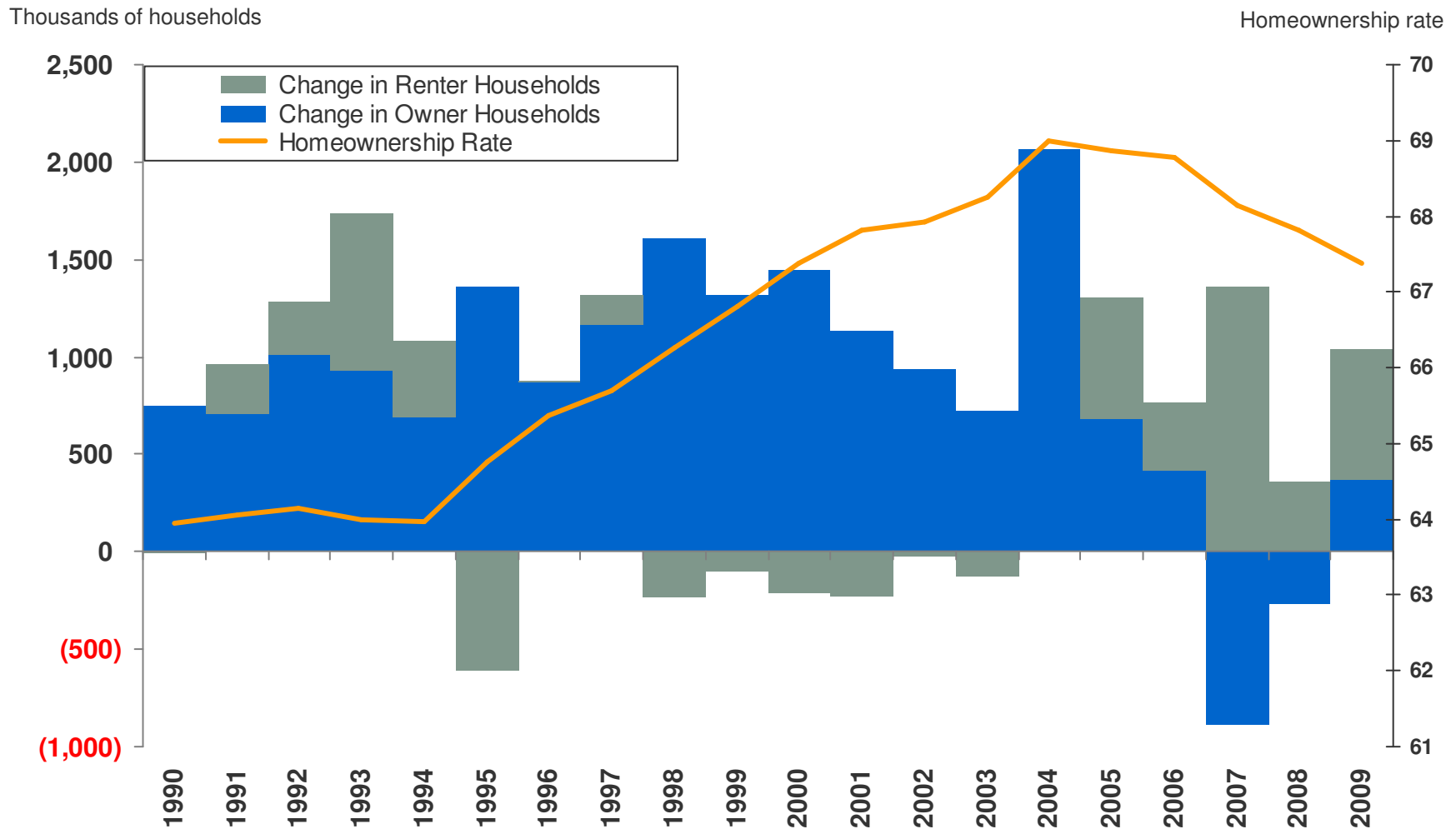


Source: Census

# Renter demand has been impacted much more by changes in the homeownership rate than by household growth



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

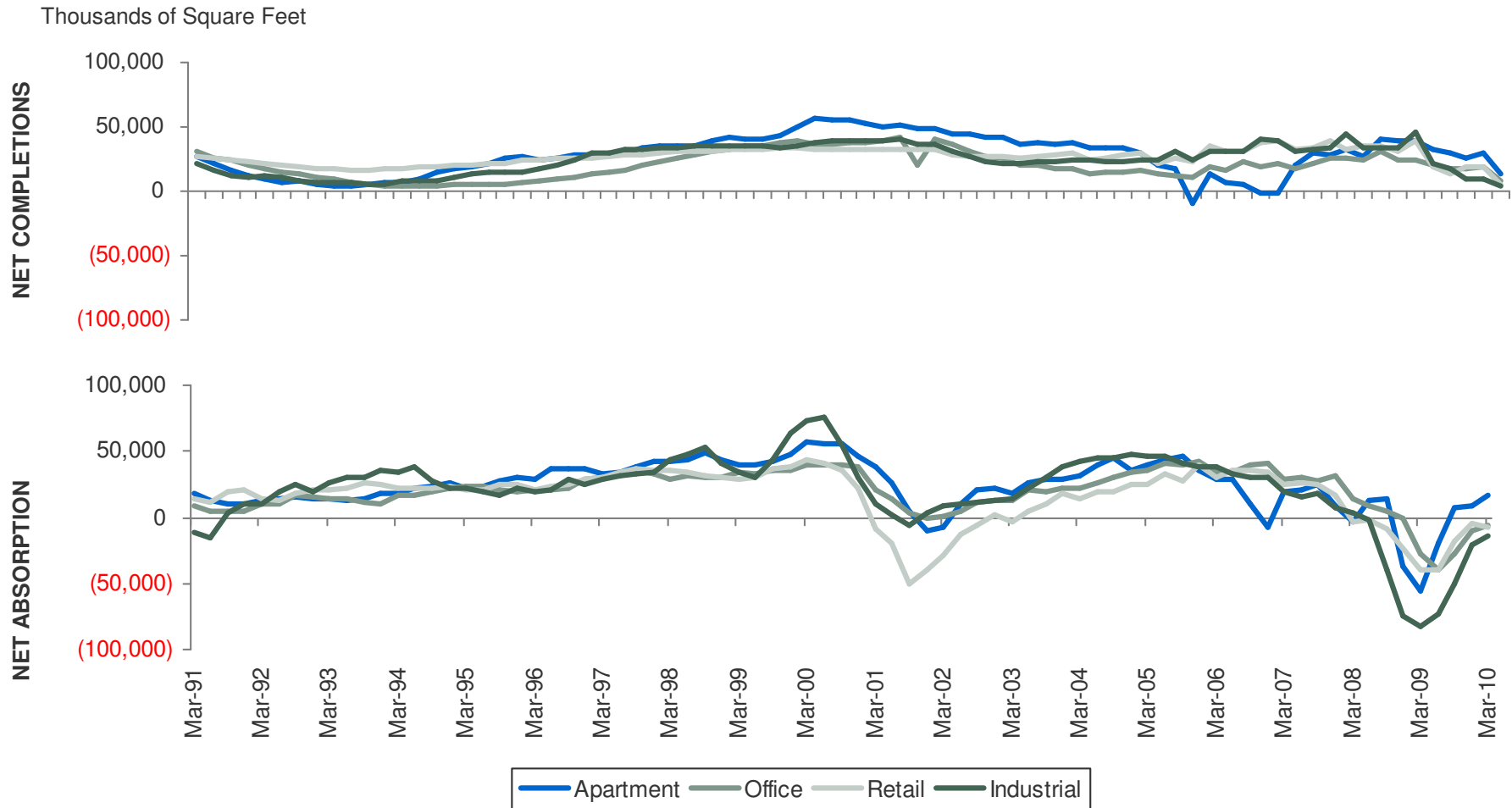


Source: Census Bureau and MBA

The current commercial/multifamily downturn is driven by a steep fall-off in demand, not the “traditional” increase in supply. Either way, there is a significant amount of excess supply.



Completions And Absorption, by Property Type by Quarter

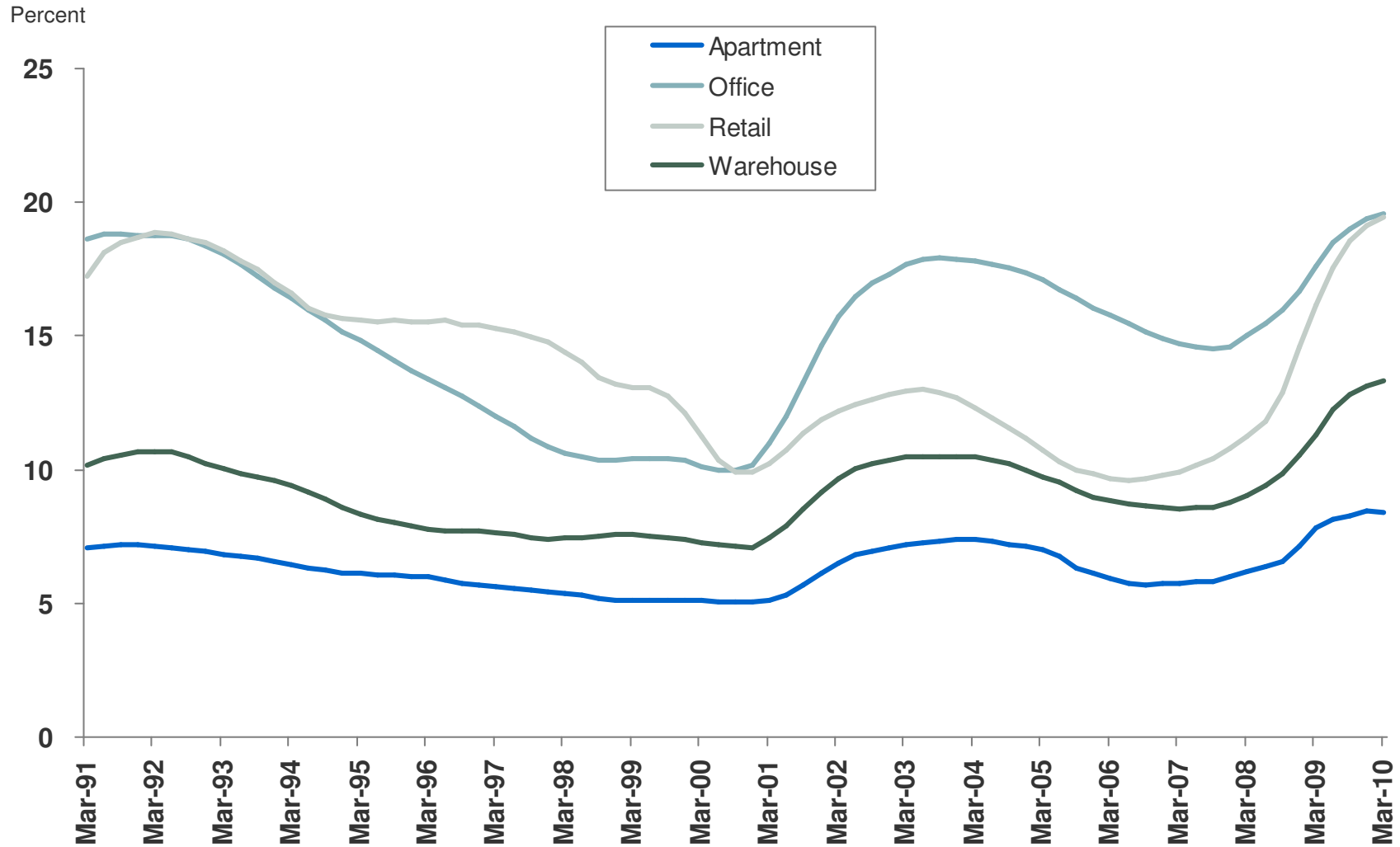


Source: Property and Portfolio Research

# Vacancy rates are plateau-ing across most property types, exceeding the highs of the early 1990s



Commercial/Multifamily Vacancy Rates, by Property Type by Quarter



Source: Property and Portfolio Research

# Vacancy trends vary by market



## Selected Apartment Vacancy Rates, Q1 2010

### 1Q 2009 to 1Q 2010 Change in Apartment Vacancy

Top 10 Markets by Least Change in Vacancy		
Metro	1Q 2010	Y-O-Y Chg. (bps)
San Jose	4.5%	-110
New Haven-Fairfield County	4.6%	-70
New York City	2.8%	-60
Sacramento	7.4%	-40
Denver	8.3%	-30
Tucson	11.4%	-30
Philadelphia	6.3%	0
Washington, D.C.	6.0%	0
Boston	6.5%	10
San Diego	4.8%	10
<b>U.S. Metro Average</b>	<b>8.0%</b>	<b>60</b>

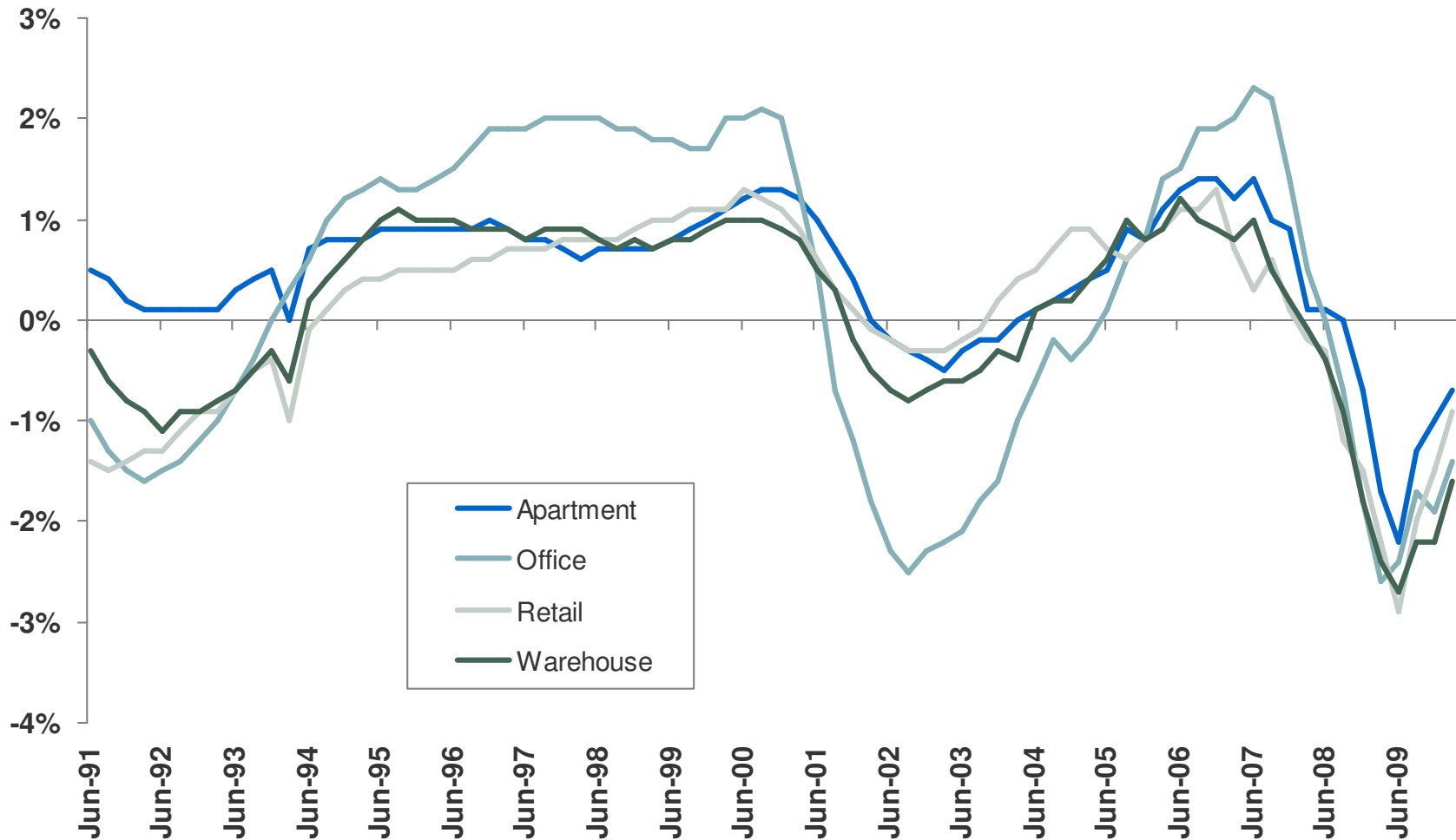
Top 10 Markets by Greatest Change in Vacancy		
Metro	1Q 2010	Y-O-Y Chg. (bps)
Dallas-Fort Worth	10.6%	270
Las Vegas	11.5%	270
Houston	12.9%	240
Charlotte	10.6%	170
Kansas City	10.3%	170
Indianapolis	10.0%	160
Salt Lake City	7.0%	160
Columbus	9.5%	120
Oklahoma City	10.1%	120
Orlando	11.5%	120
<b>U.S. Metro Average</b>	<b>8.0%</b>	<b>60</b>

Sources: Marcus & Millichap Research Services, Reis

# Properties are faced with rent pressures; Asking rents continue to fall, but at slower paces



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

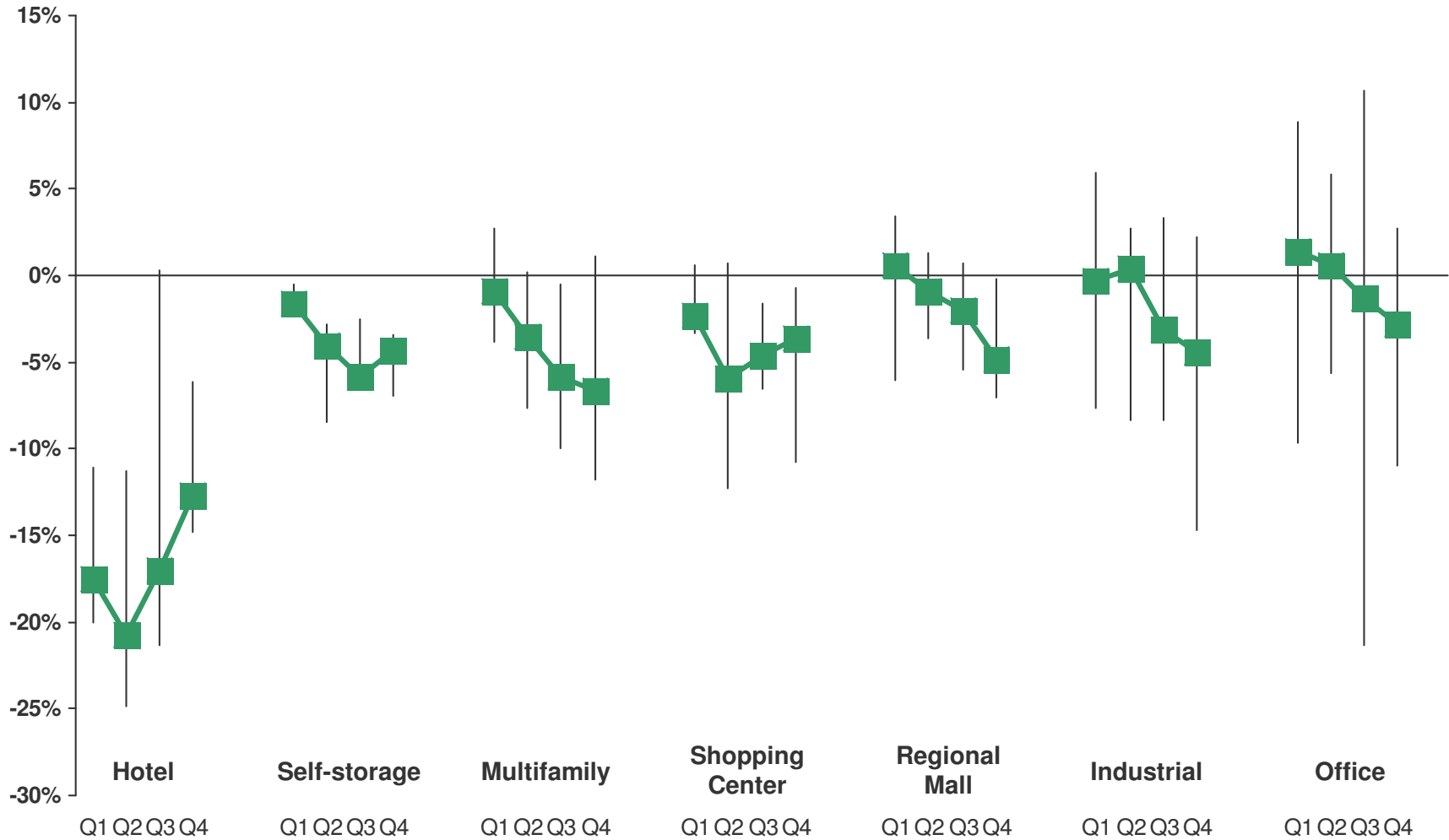


Source: Property and Portfolio Research

# 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 (Q1 - Q4 2009) [High/Low/Avg]



Source: SNL Financial

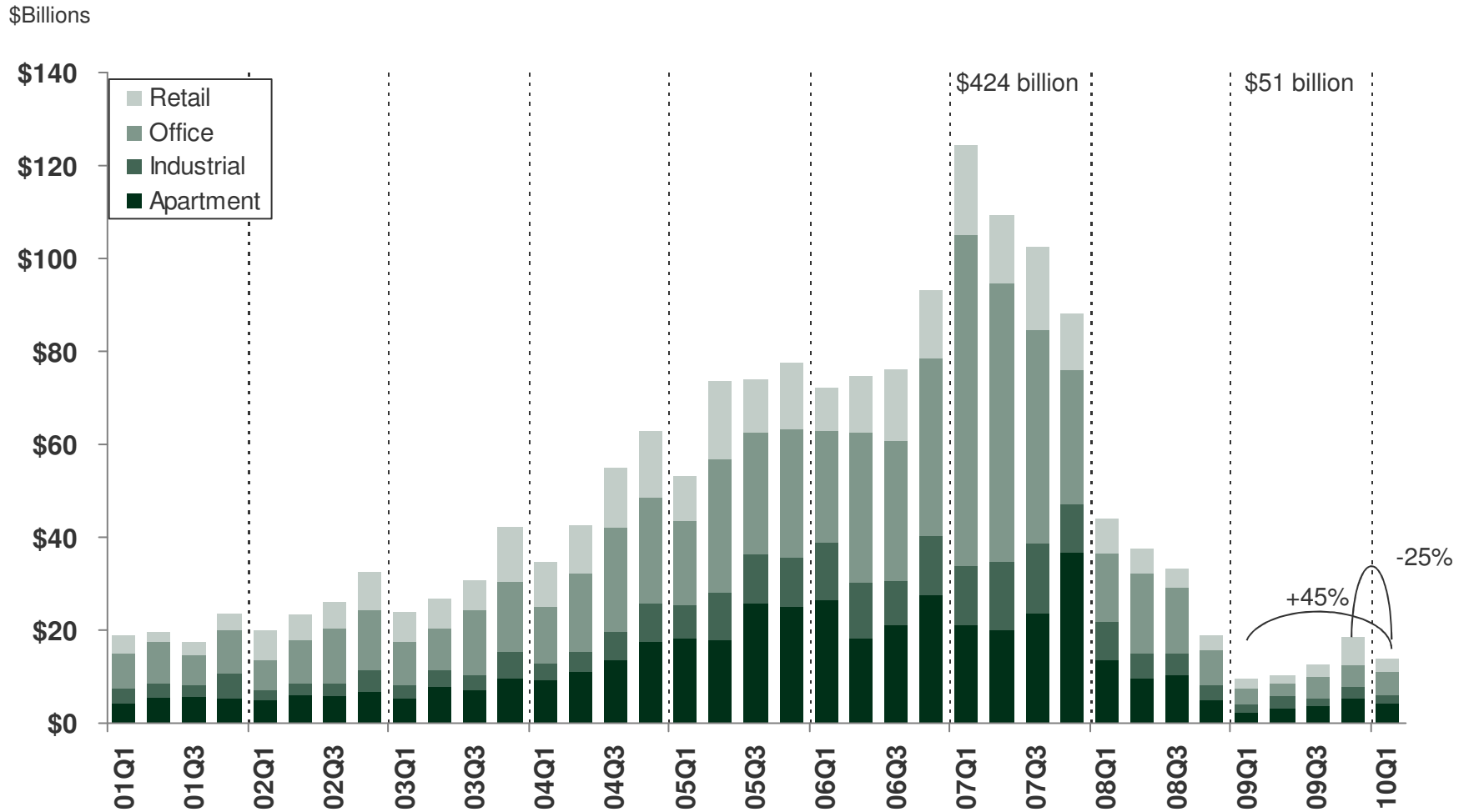
## 2. Property Sales and Values:

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

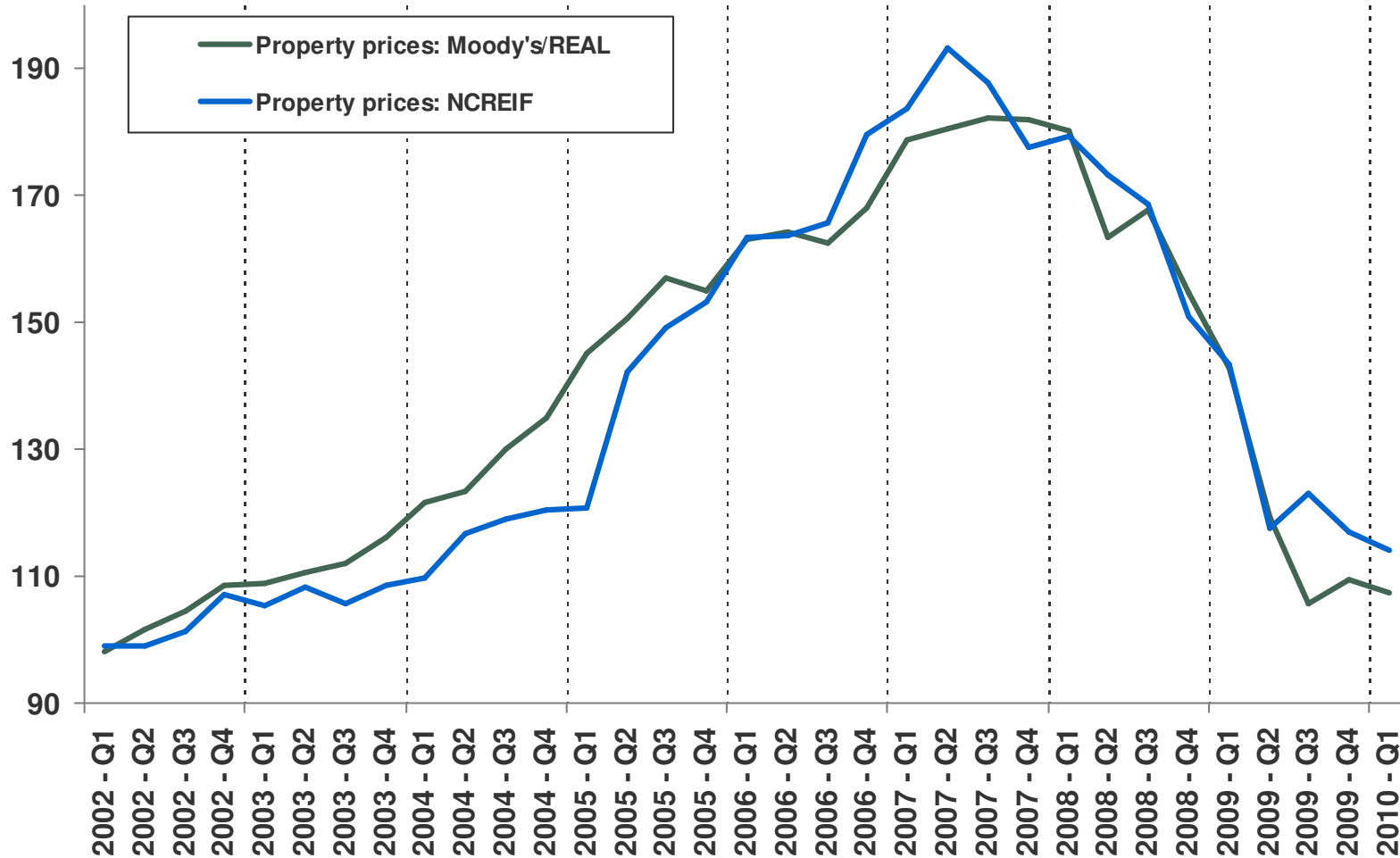
# Property prices grew rapidly during the '00s, then fell even more rapidly



Index of Commercial/Multifamily Property Prices (2001 Q4 = 100)

Commercial Property Price Changes (Moody's):  
 Q4 2001 – Q2 2007: +81 percent  
 Q2 2007 – Q4 2009: - 41 percent  
 Q4 2001 – Q4 2009: +15 percent

Index Value

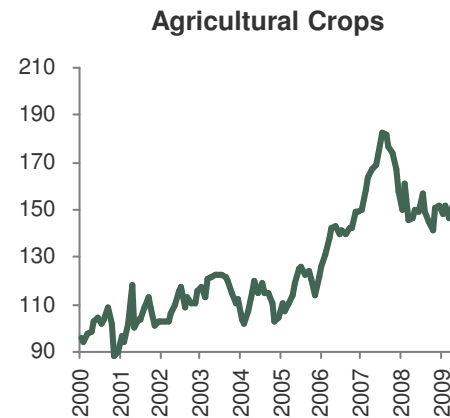
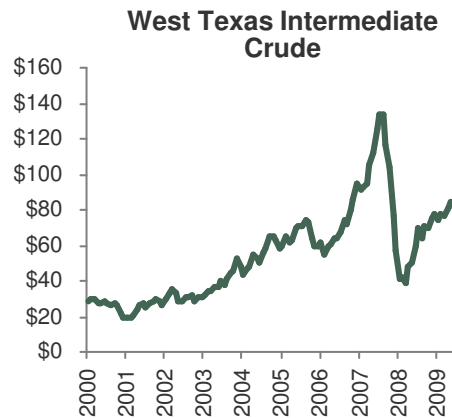
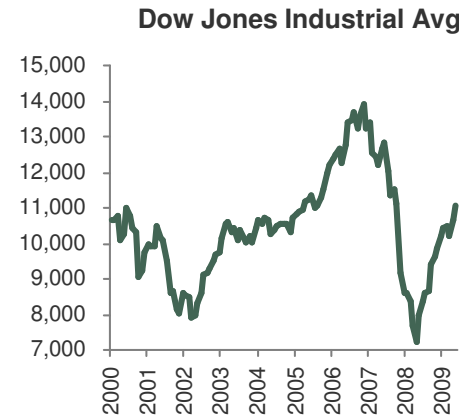
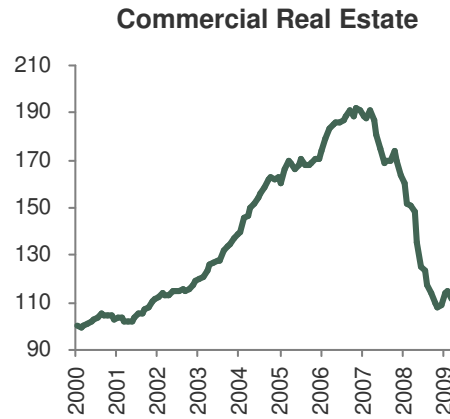
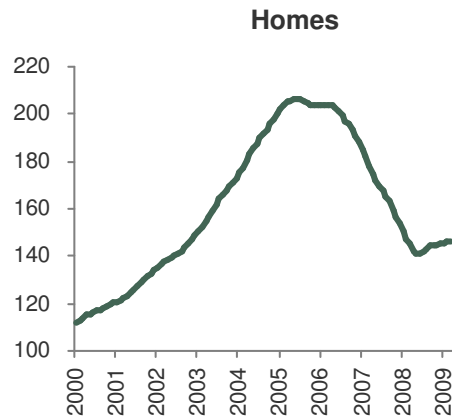


Source: MBA and Moody's/REAL, MIT

# Selected Prices During the Boom and Bust



## Indices of Selected Prices



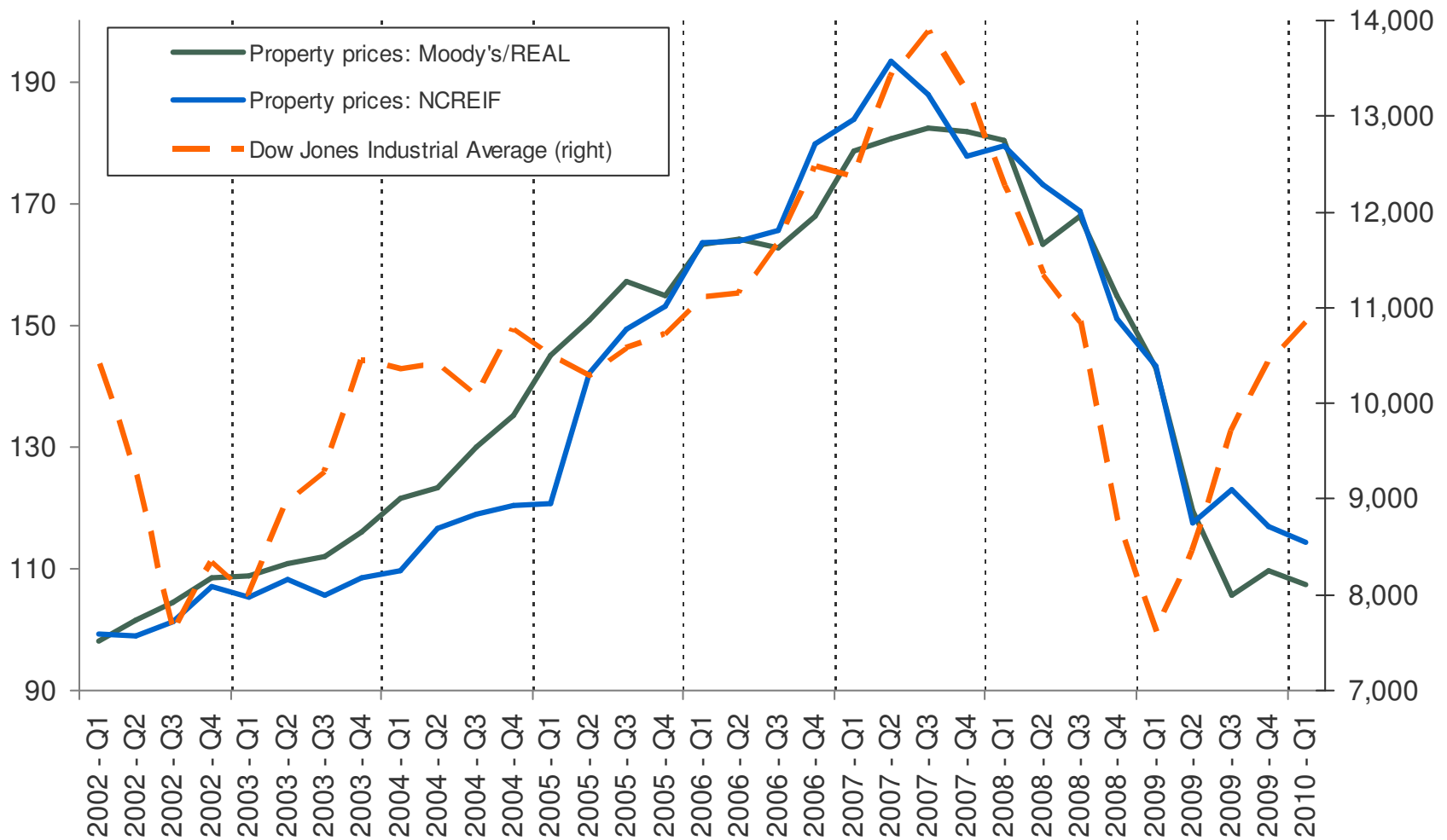
Source: Wall Street Journal, Standard & Poor's, Fiserv and MacroMarkets LLC, Moody's/REAL, Department of Agriculture, Goldman Sachs

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



Index of Commercial/Multifamily Property Prices (2001 Q4 = 100)

Index Value



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

### 3. Mortgage Performance:

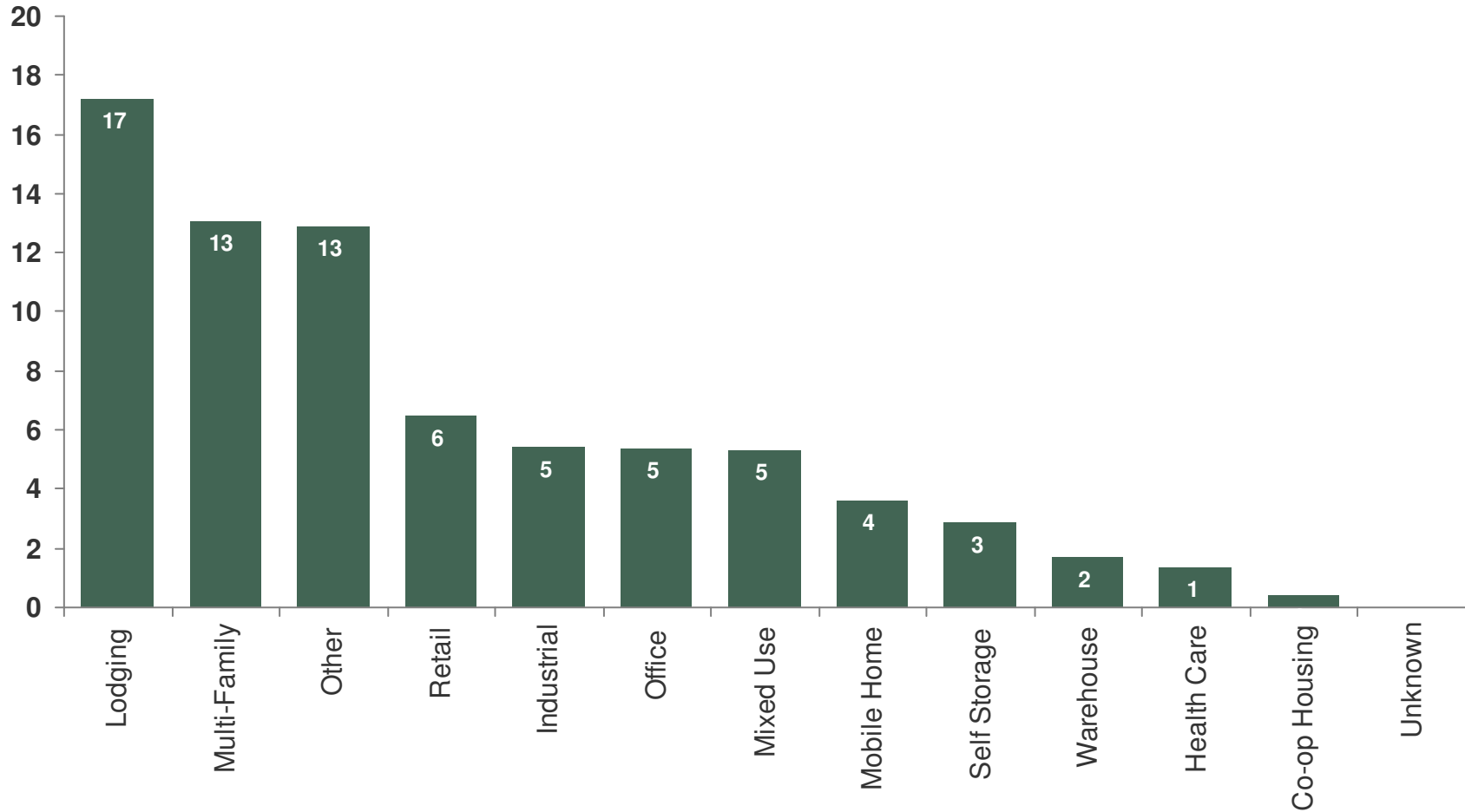
Eye on troubled loans

# Large variations in delinquency rates (CMBS) by property type



Delinquency Rate of Loans Held in CMBS, by Property Type, April 2010

CMBS Delinquency Rate



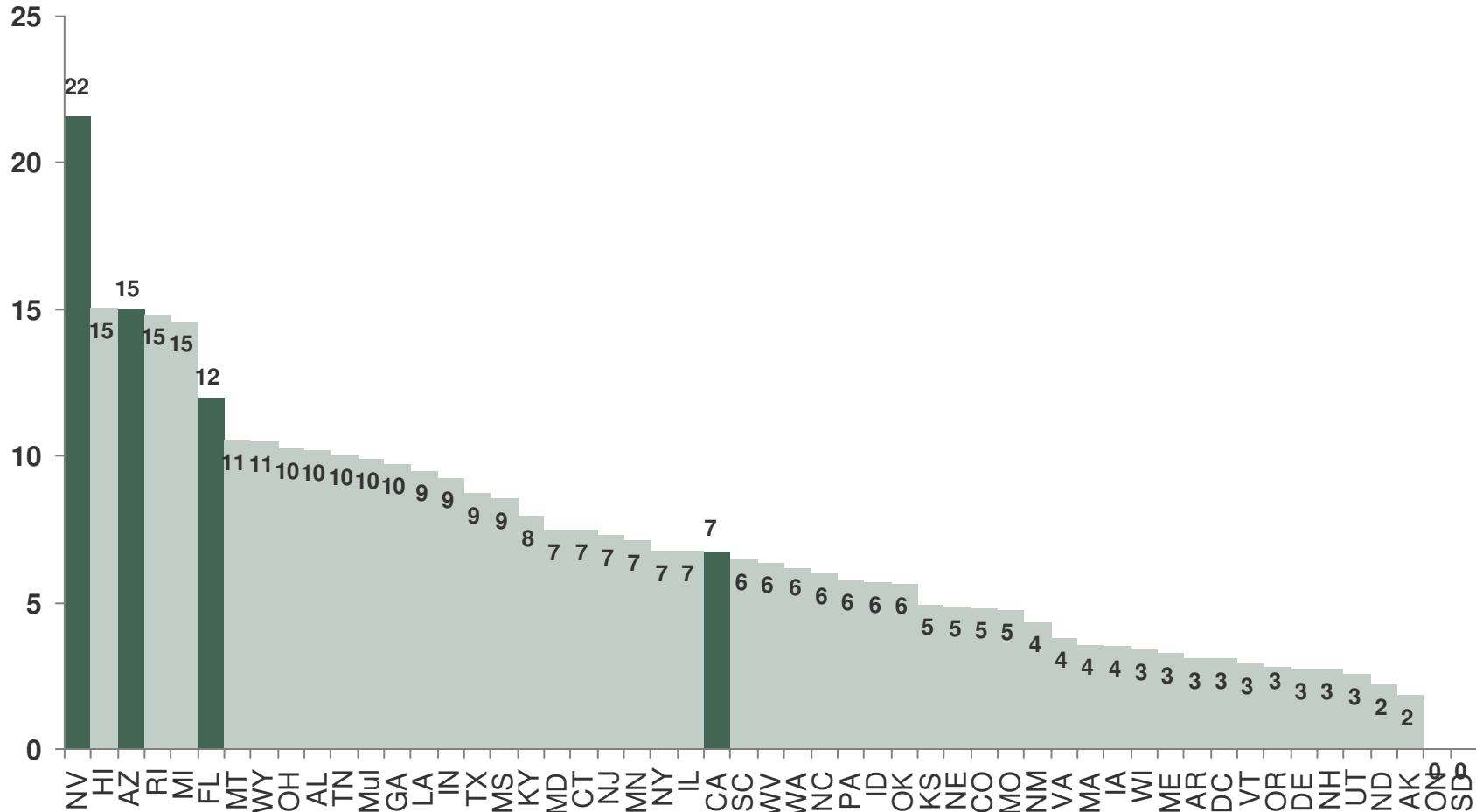
Source: Trepp LLC

# Large variations in delinquency rates (CMBS) by state



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

CMBS Delinquency Rate

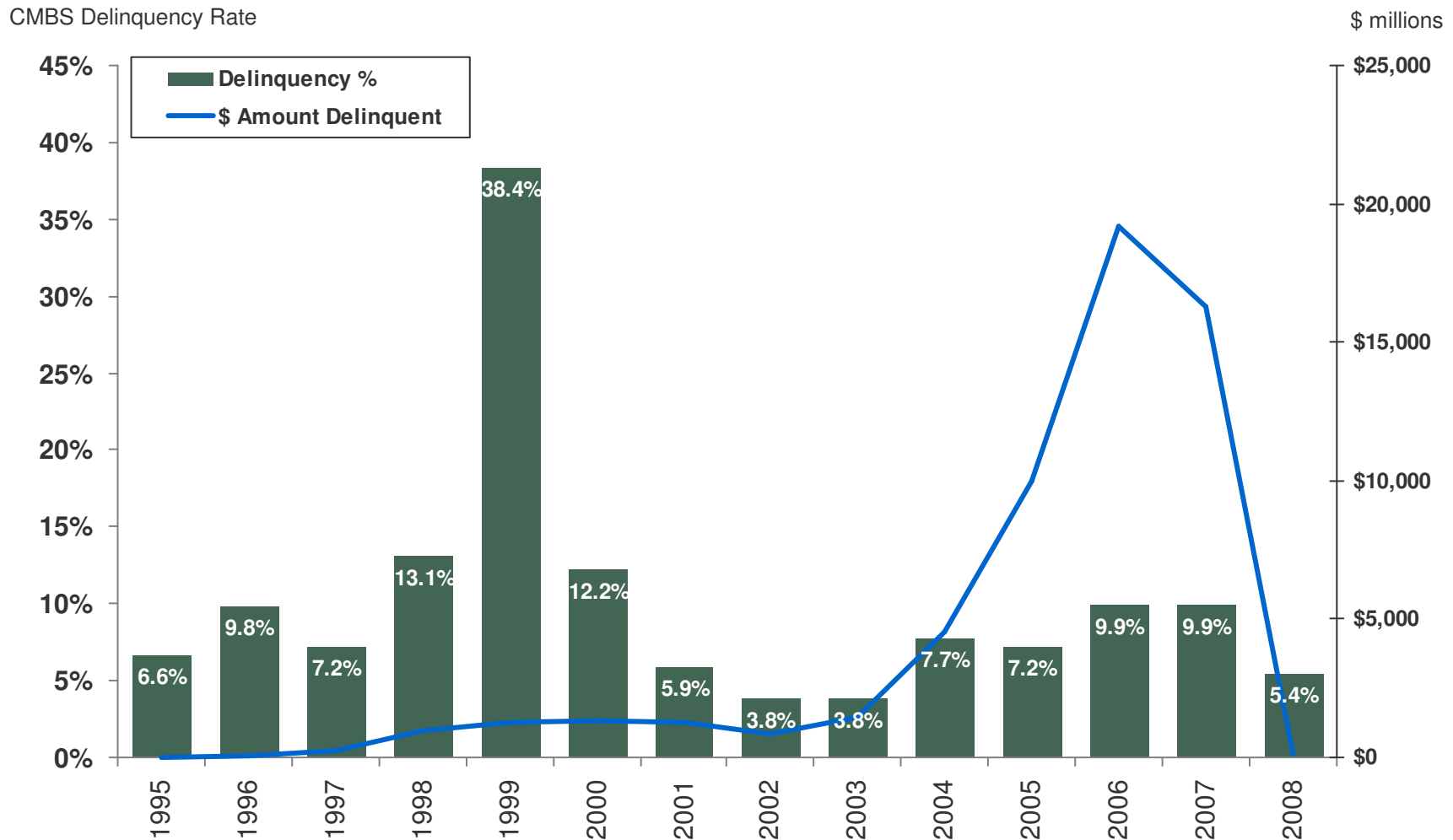


Source: Trepp LLC

# Large variations in delinquency rates (CMBS) by year originated



Percent and Dollar Amount of Delinquent Loans Held in CMBS, by Year Originated, April 2010



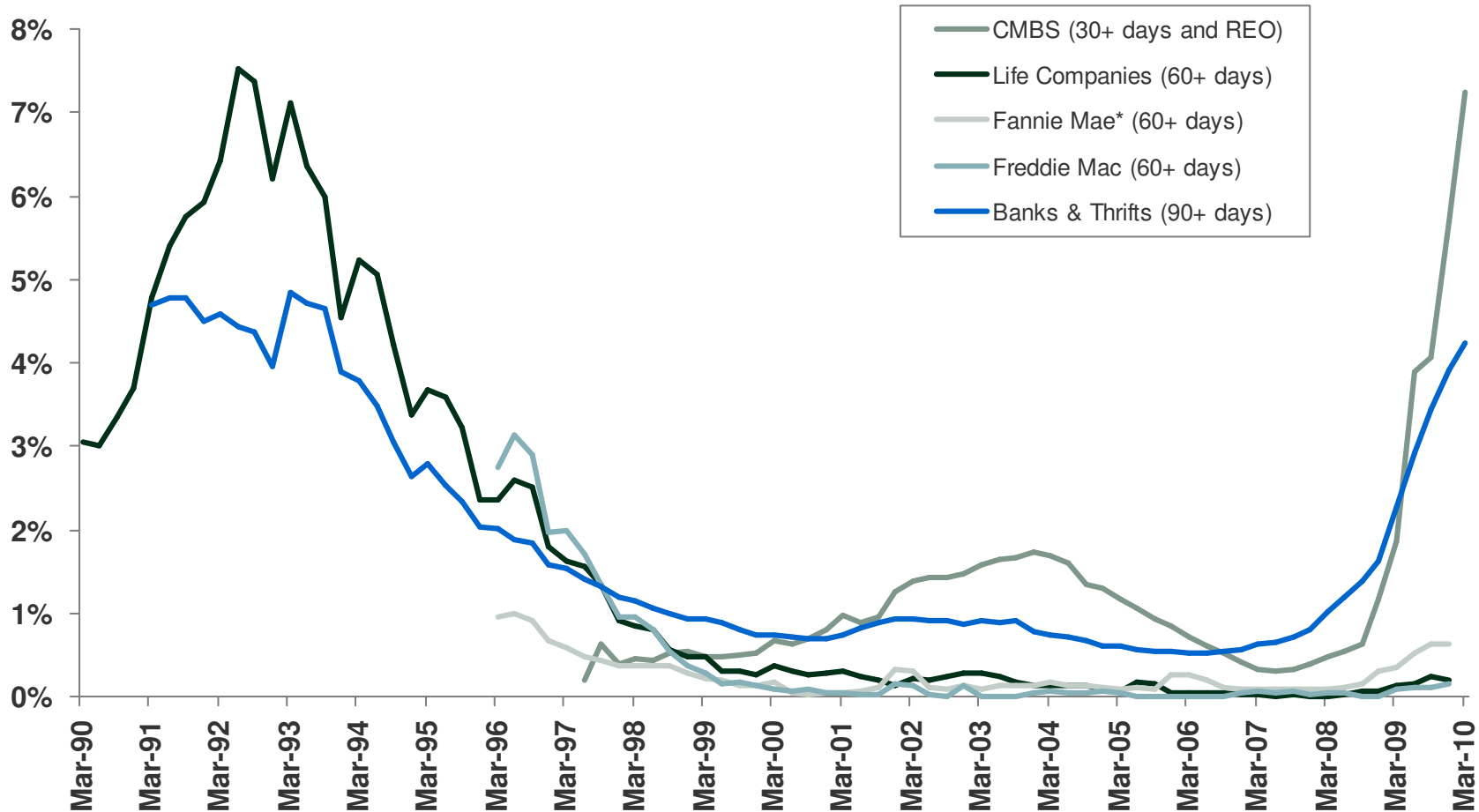
Source: Trepp LLC

# Large variations in delinquency rates by mortgage investor group



## Commercial/Multifamily Mortgage Delinquency Rates Among Major Investor

NOTE: Delinquency rates shown are NOT comparable between investor groups. These rates show how performance of loans for each investor groups has varied over time, but cannot be used to compare one investor group to another.



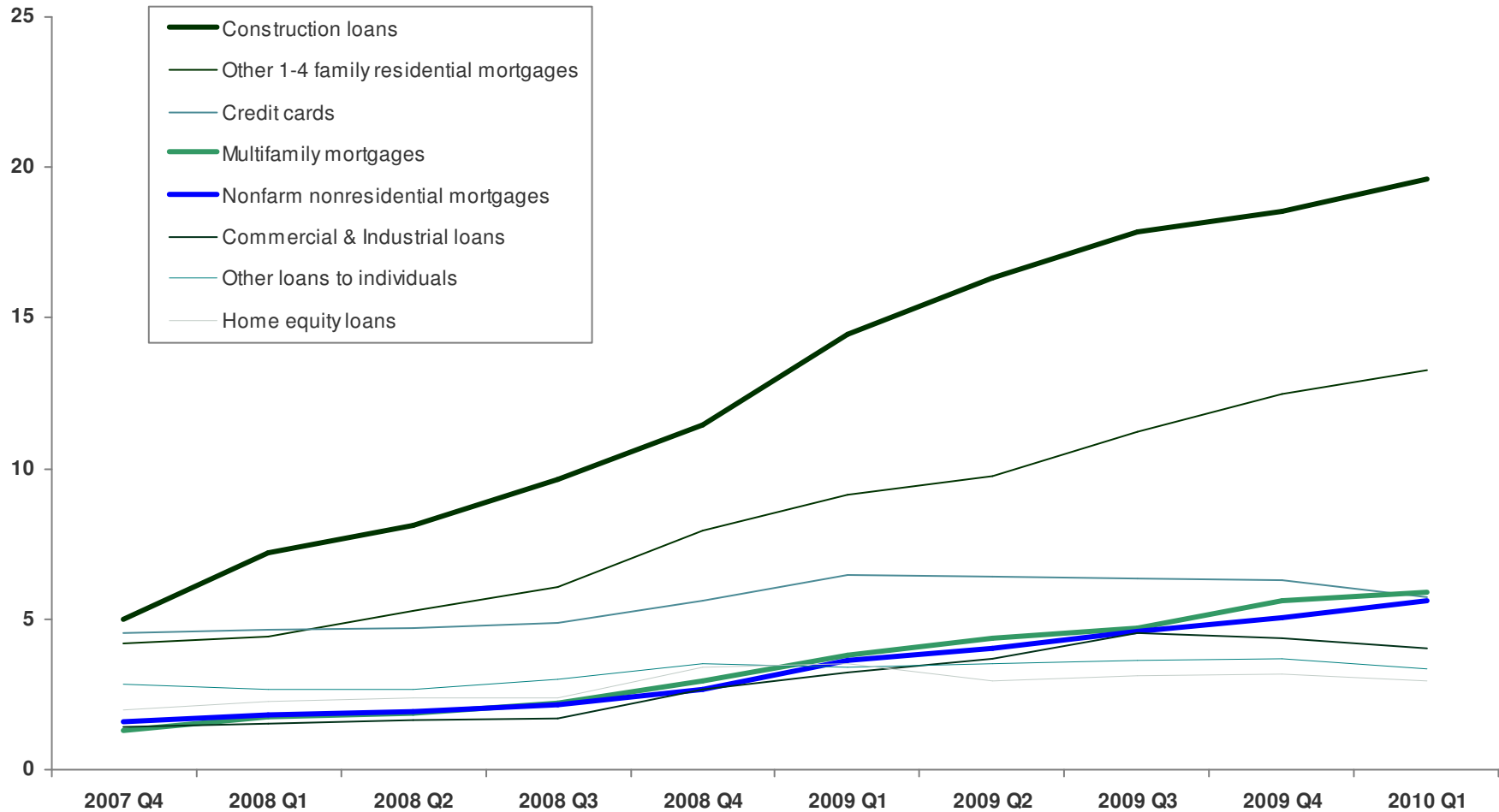
Sources: Mortgage Bankers Association Wachovia Capital Markets, LLC and Intex Solutions, Inc., American Council of Life Insurers, Fannie Mae, Freddie Mac, OFHEO and Federal Deposit Insurance Corporation. Data are available for life companies and FDIC-insured banks and thrifts since 1990 and 1991, Fannie Mae and Freddie Mac since 1996 and CMBS since 1997. December figures are not available from Fannie Mae for the years 2000 to 2004. Figures for November are used instead.

# Commercial and multifamily mortgages are seeing increased pressure in line with other loan types, construction loans are performing much worse than other loan types



## BANKS & THRIFTS: 30+ Day Delinquency Rates of Loans and Leases

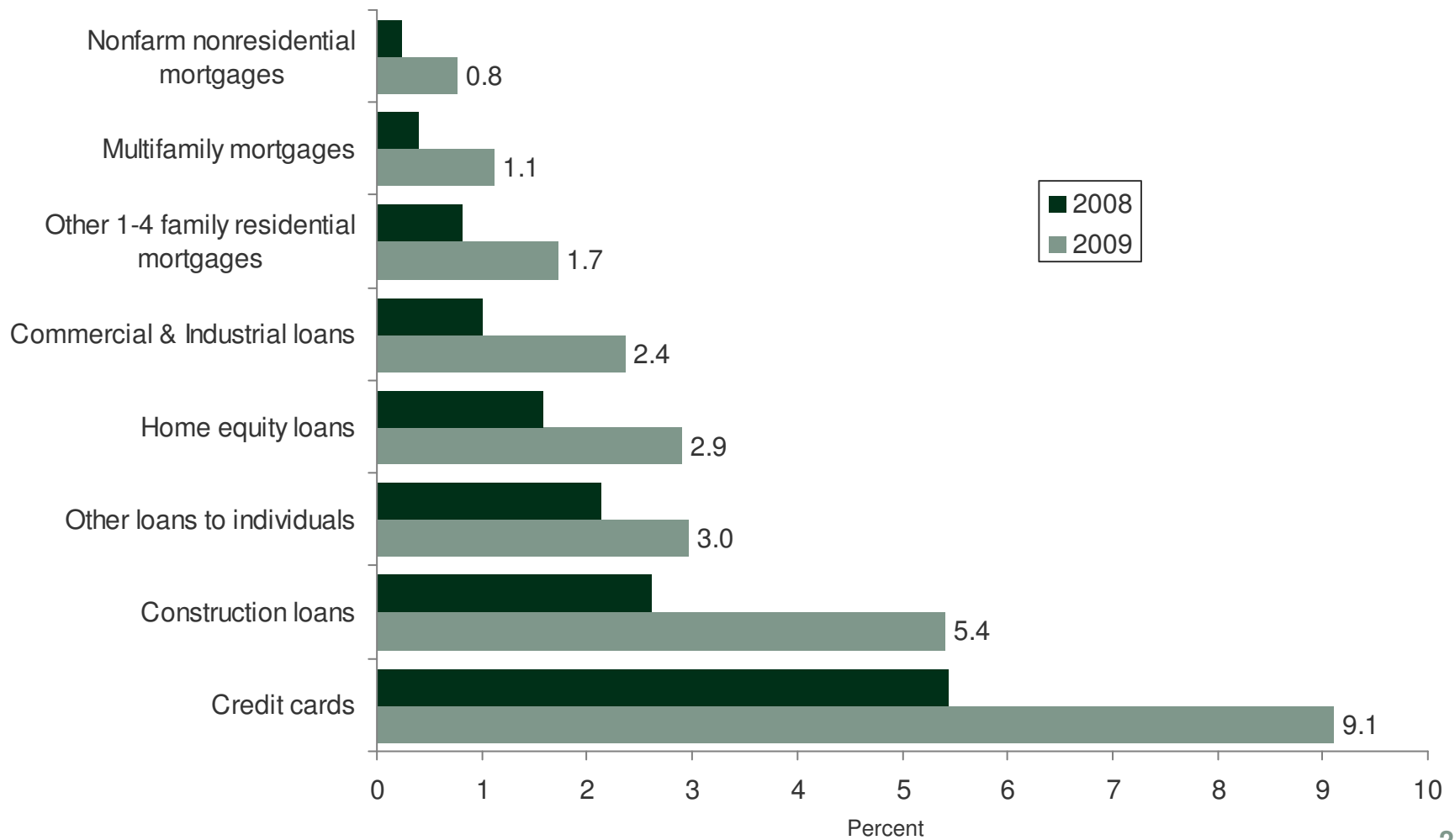
Percent



# With collateral backing the loans, and income generated by rents and leases, commercial/multifamily mortgages see relatively low charge-off rates



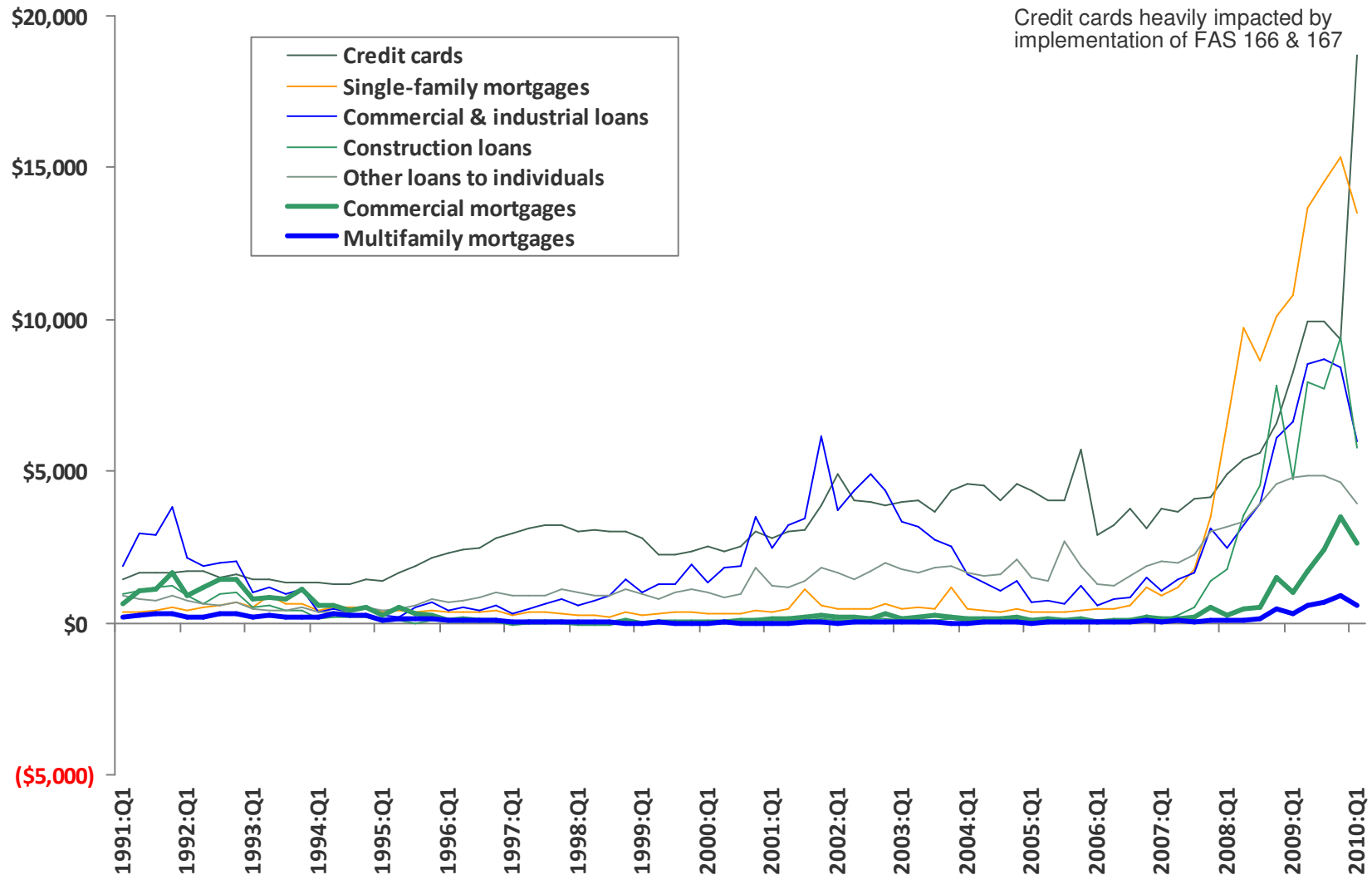
## BANKS & THRIFTS: Charge-off Rates of Loans and Leases



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



## BANKS & THRIFTS: Charge-offs of bank loans

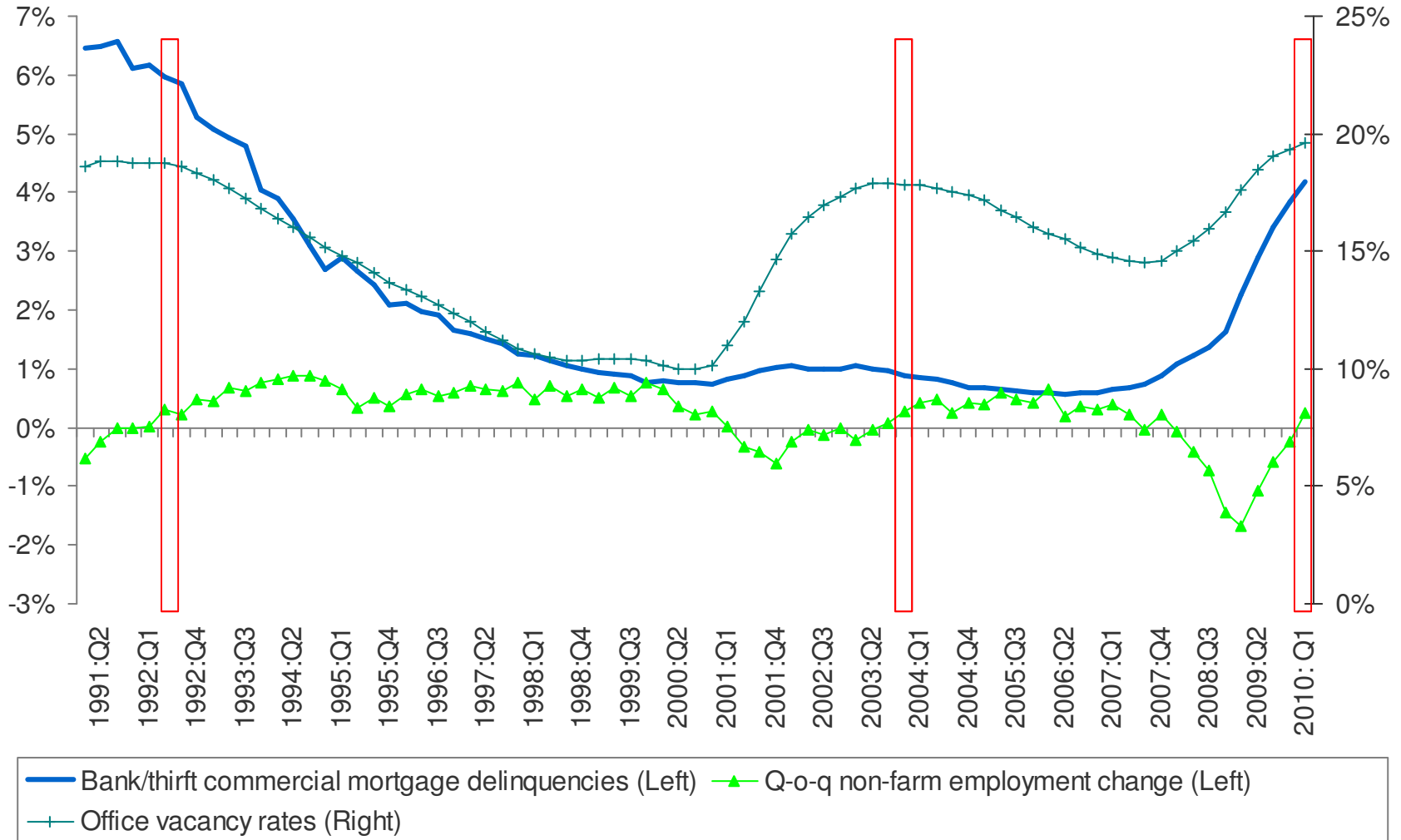


Sources: MBA and FDIC

# 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

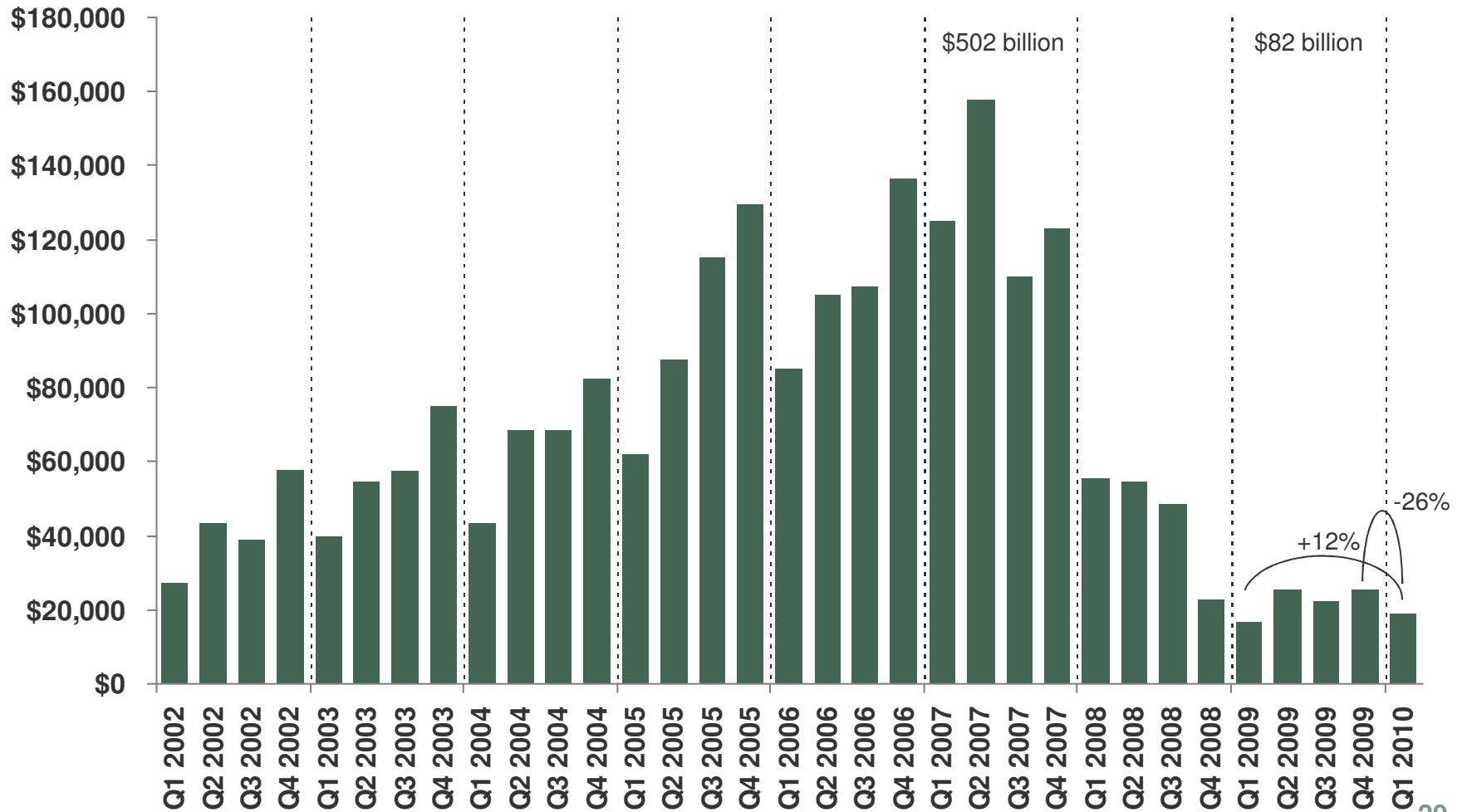
## 4. Mortgage Originations & Maturities:

Eye on pay-offs

# Originations have been pushed downward by lackluster demand as well as by the recession and overall credit crunch



Estimate of Commercial/Multifamily Mortgage Bankers Origination Volumes (\$millions)



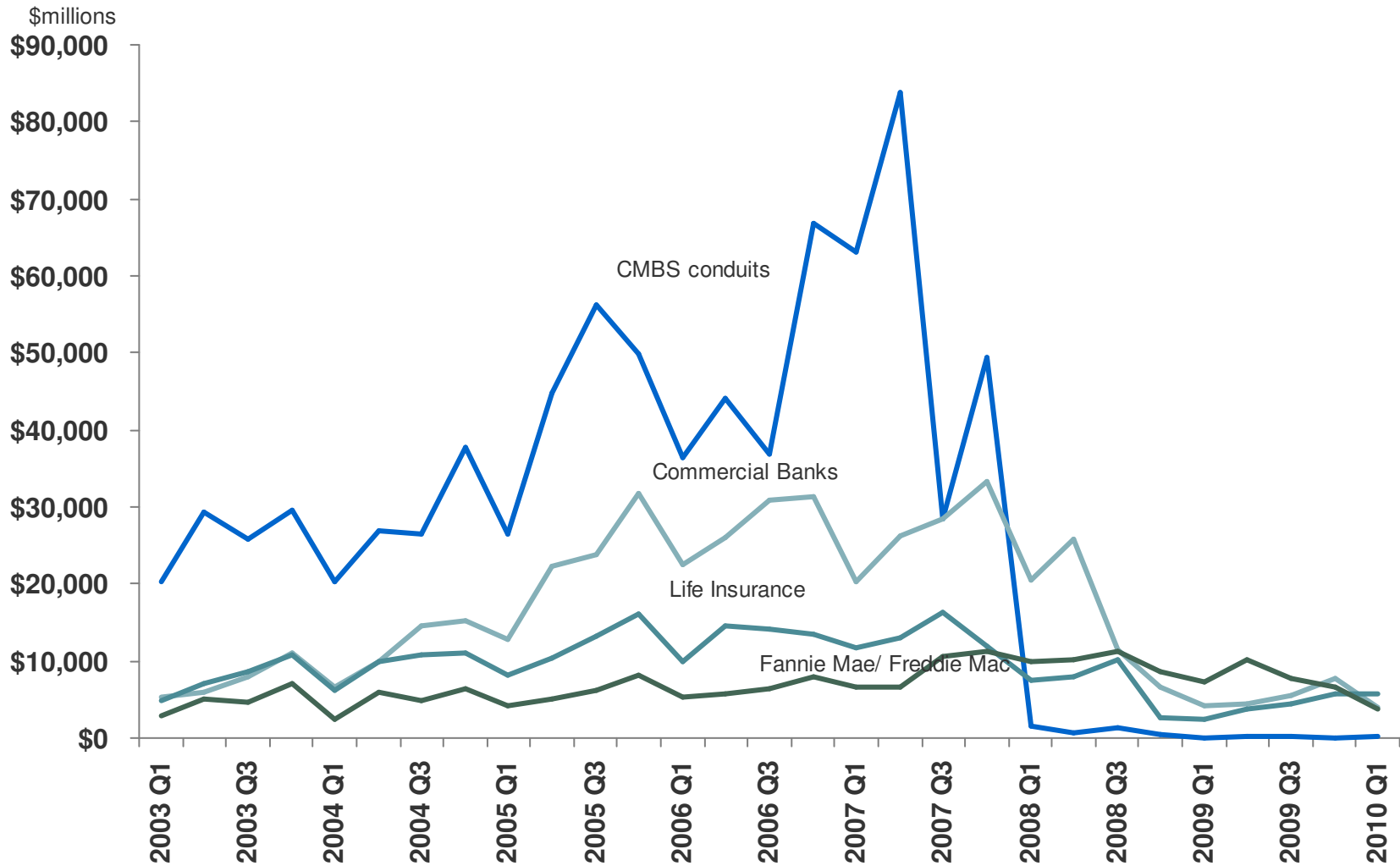
Source: Mortgage Bankers Association

Mortgage Bankers Association

# CMBS originations have essentially disappeared; life company and bank originations have stabilized; and Fannie Mae and Freddie Mac have started to trend downward



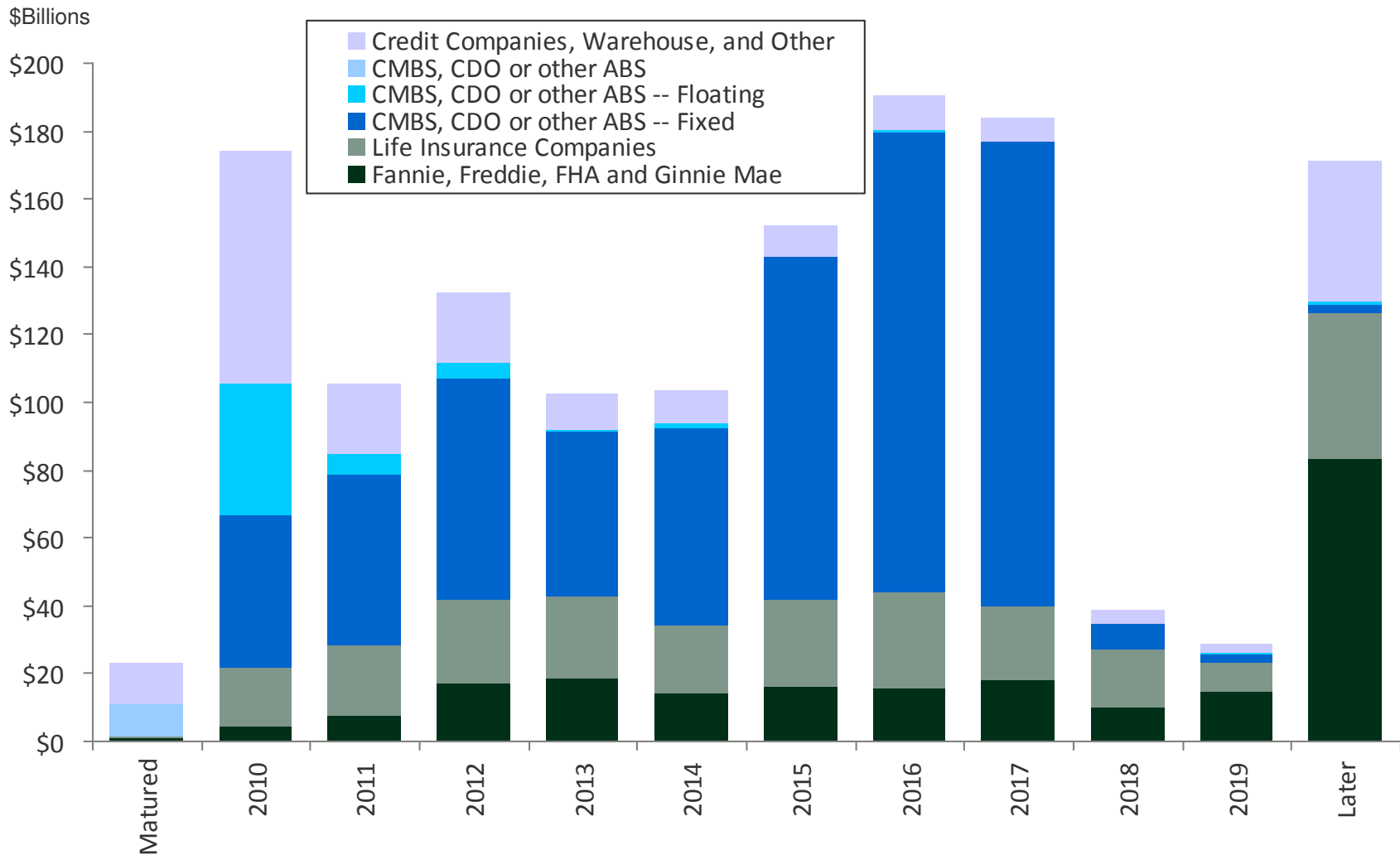
Estimated Quarterly Commercial/Multifamily Mortgage Bankers' Originations, by Investor Group



# Non-bank mortgage maturities are relatively low in the 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, 2009

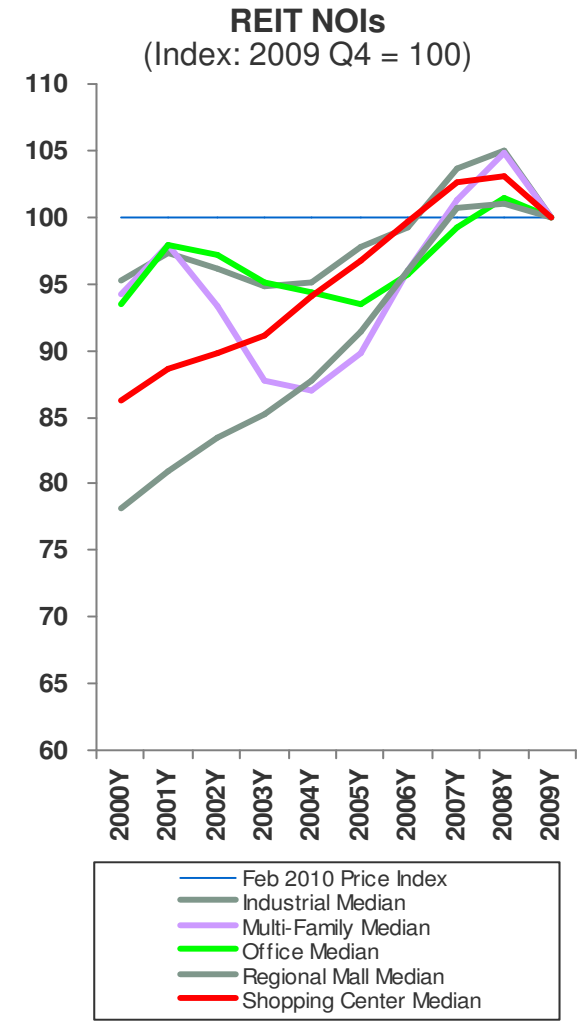
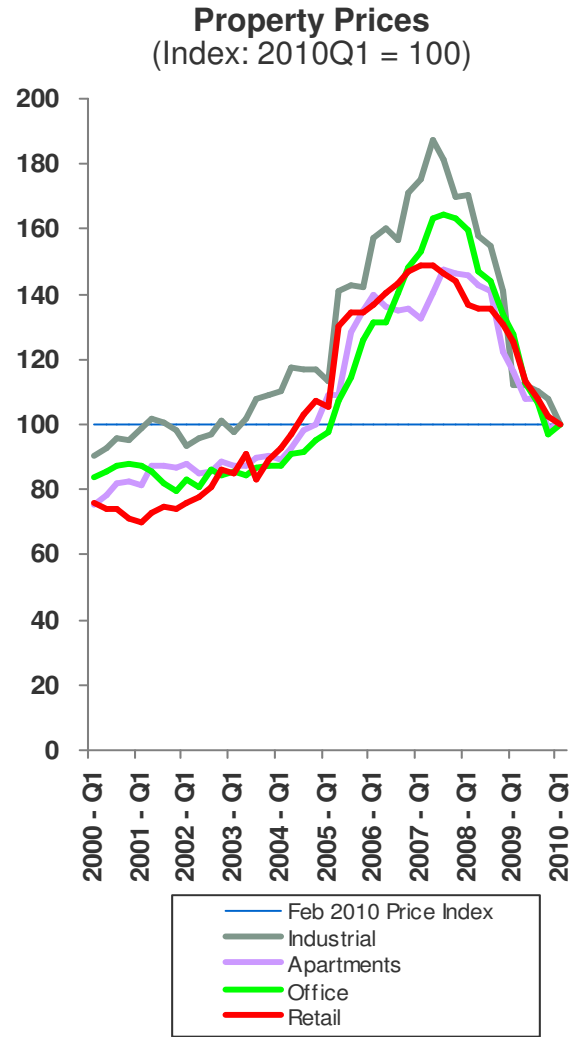
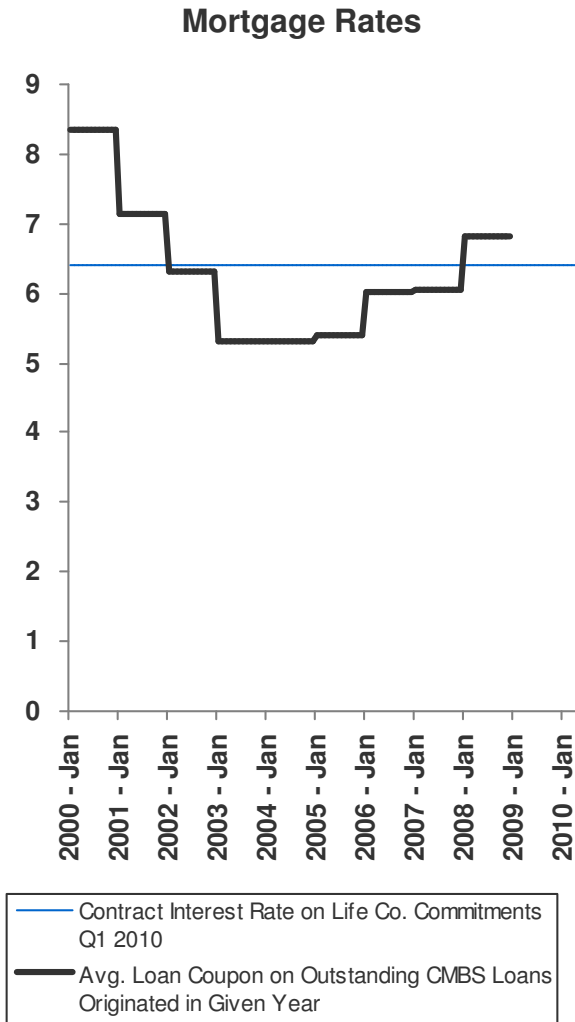


Source: MBA

# 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



Source: JP Morgan, ACLI, MIT, SNL Financial

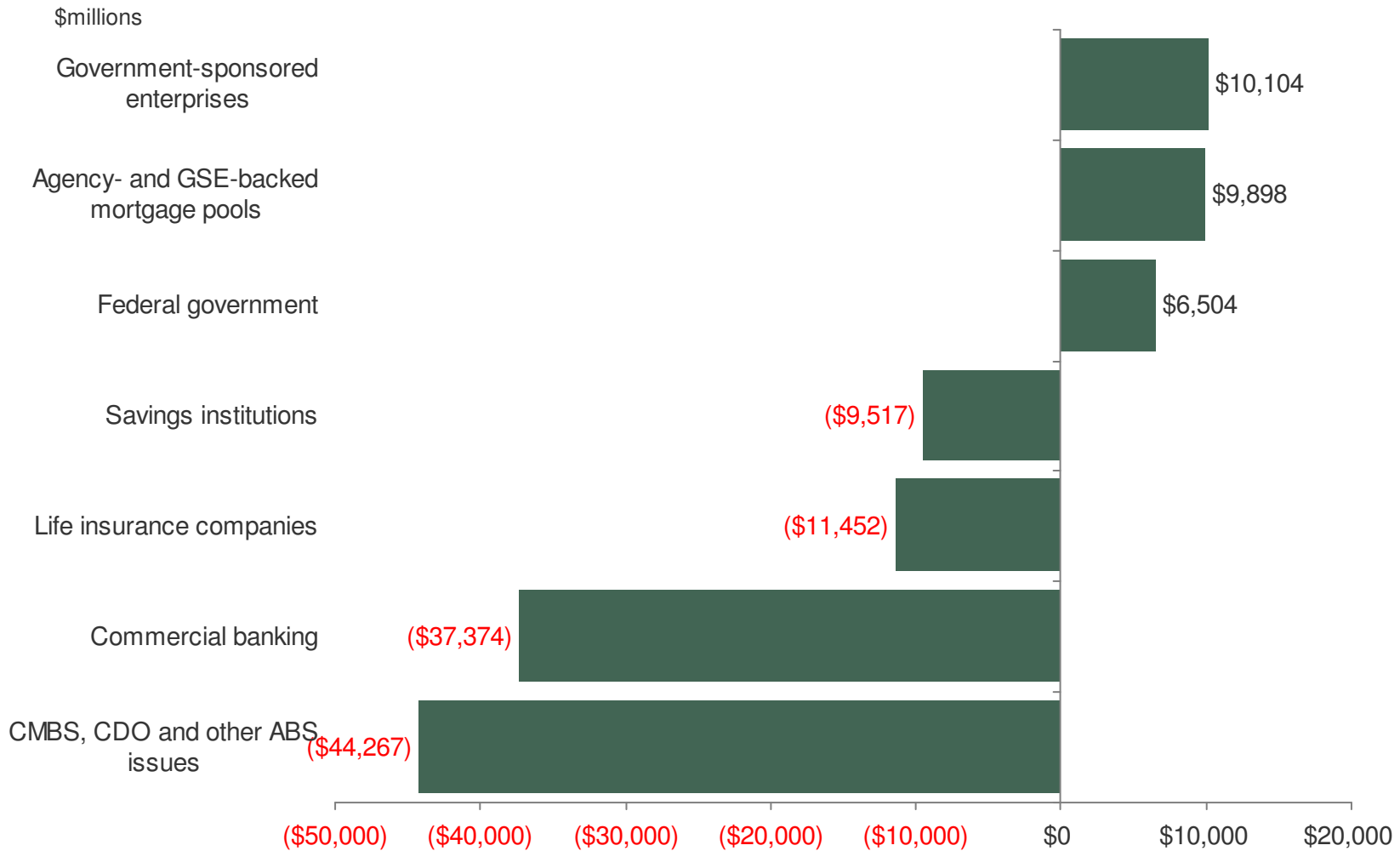
## 5. Debt Outstanding:

Eye on servicing balances

# Drop in mortgage debt outstanding driven by declines in CMBS and banks/thrifts (construction loans)



Net Change in Commercial/Multifamily Mortgage Debt Outstanding, by Investor Group, Q4 2008 to Q4 2009

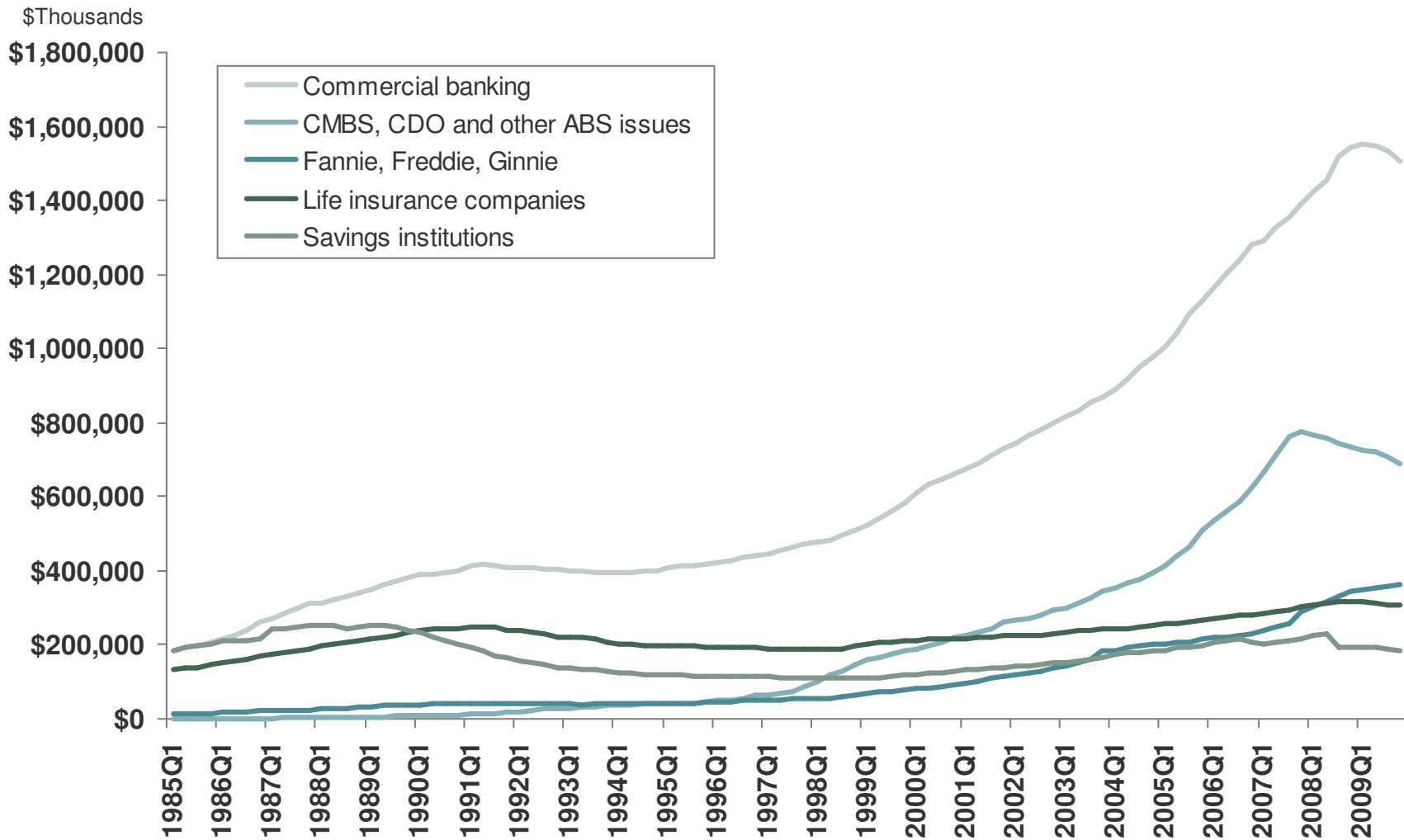


Source: Federal Reserve Board

In the late-80s/early-90s, S&Ls immediately saw reductions in holdings (like CMBS today), followed two-years later by drops among others as maturing mortgages commanded lower loan amounts



Commercial/Multifamily Mortgage Debt Outstanding



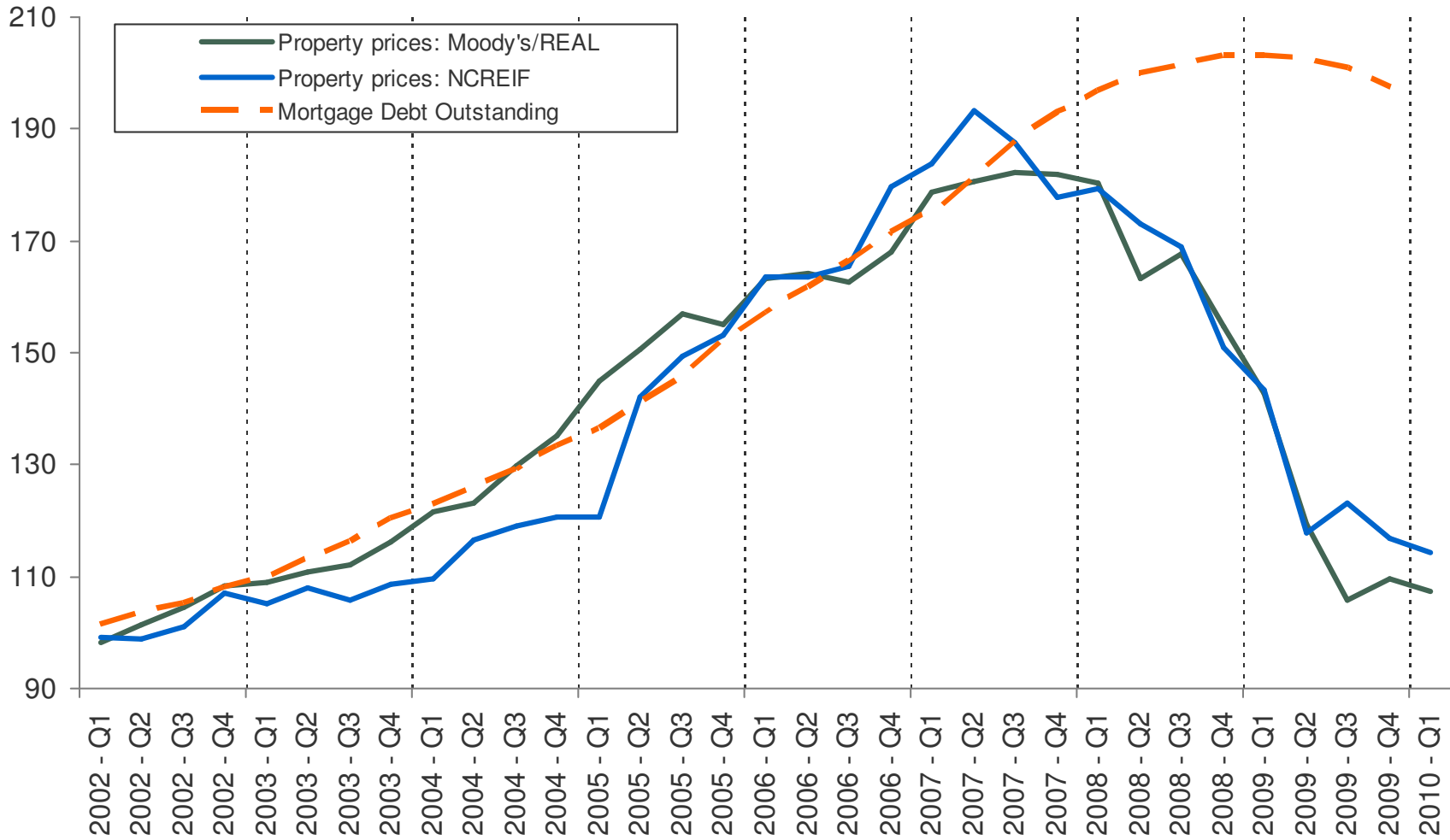
Source: Federal Reserve Board

# Mortgage debt levels tracked property prices on the way up; MDO is much “stickier” on the way down



Index of Commercial/Multifamily Property Prices and Mortgage Debt Outstanding (2001 Q4 = 100)

Index Value



Source: MBA and Moody's/REAL, MIT, Federal Reserve Board

# What Next?



2007: The Perfect Calm

2008: Detour to Disequilibrium

2009: Welcome to the Stress Test

2010: Drivers Wanted!

2011: \_\_\_\_\_

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