

This document was presented during the 2010 NCREIF Summer Conference.

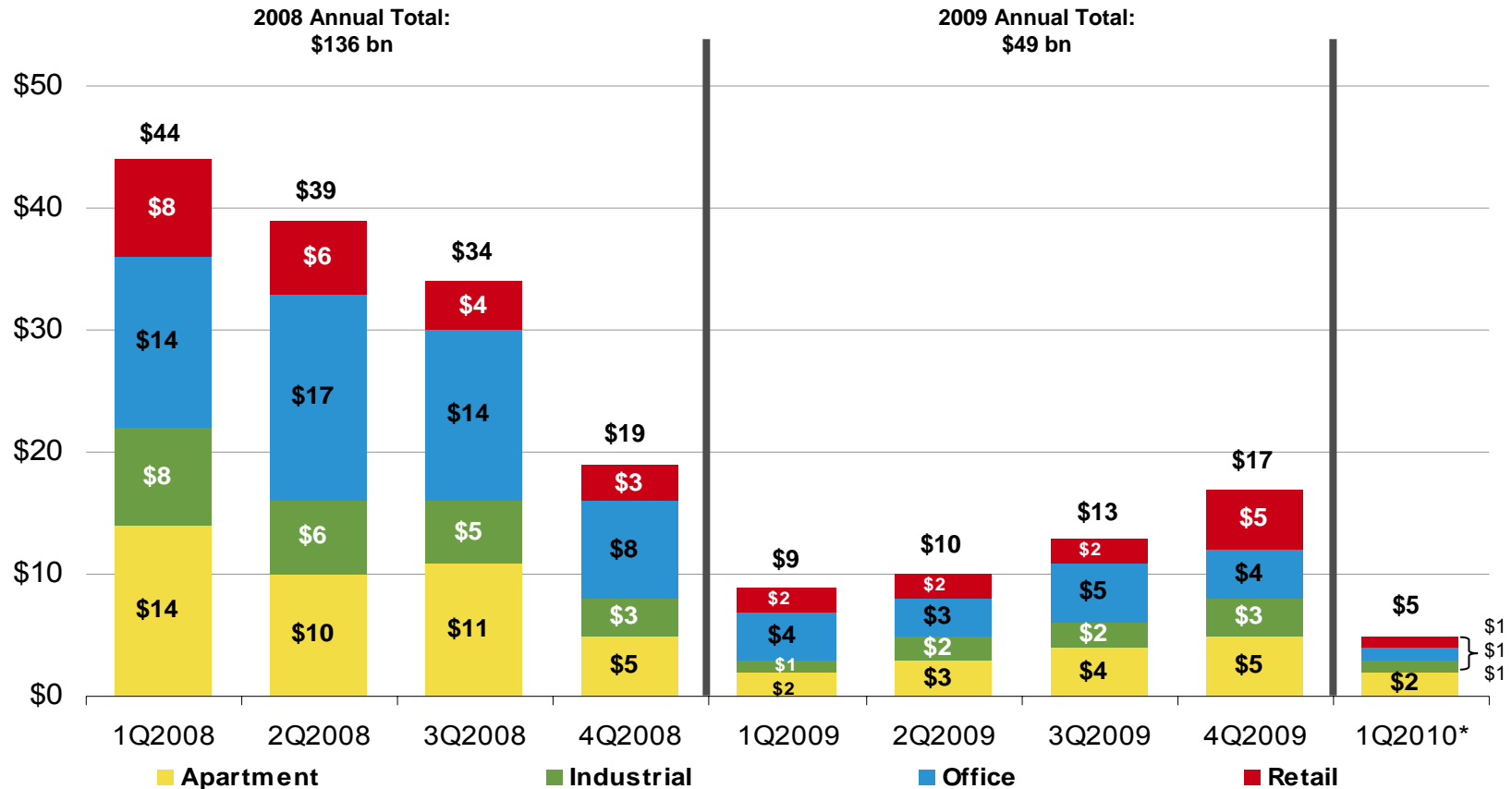
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Real Estate Debt Market Overview



Quarterly Transaction Volumes: 1Q2008 – 1Q2010*

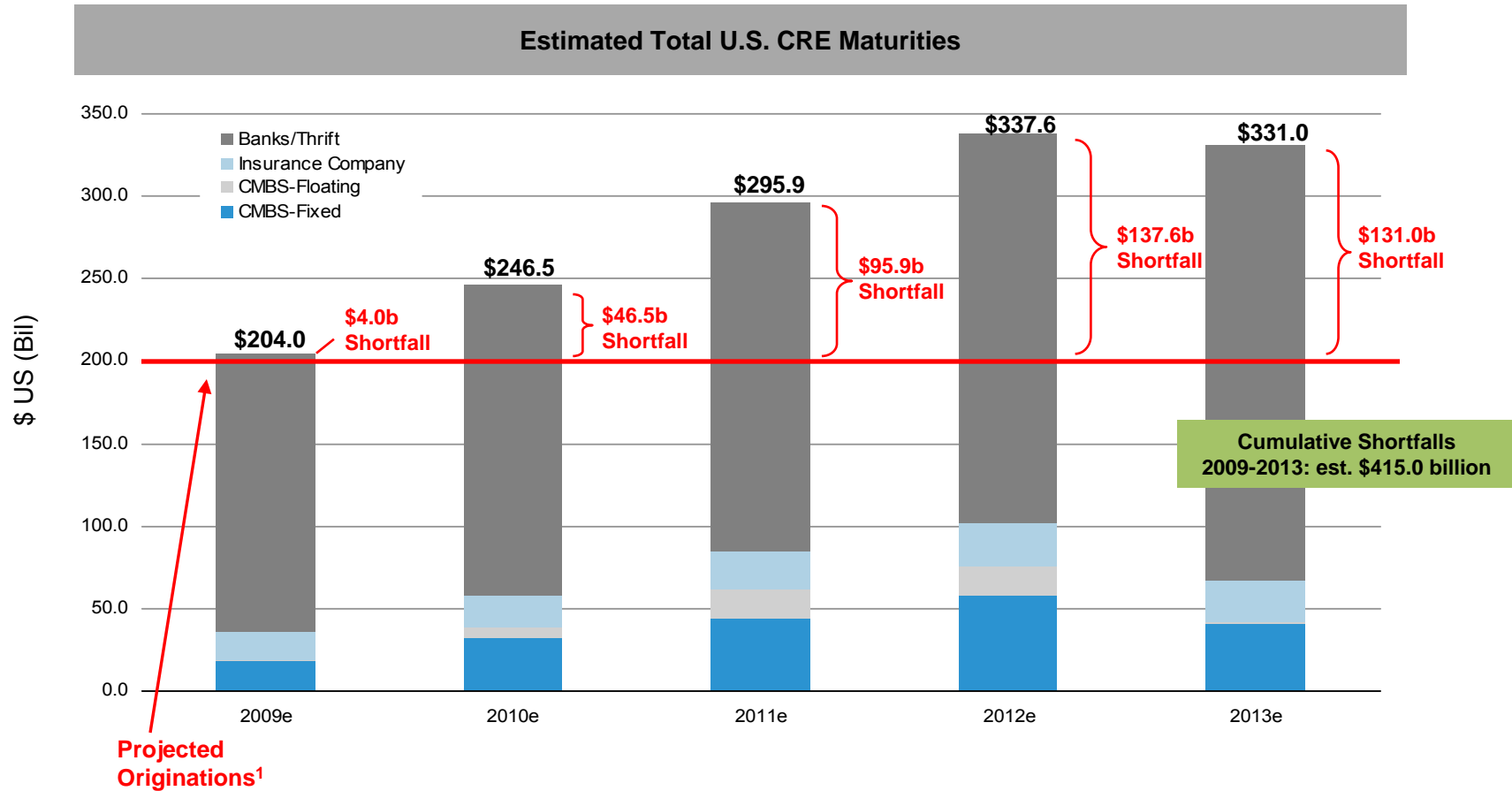


\$ in billions. Source: Real Capital Analytics.

* Preliminary as of 1Q 2010.



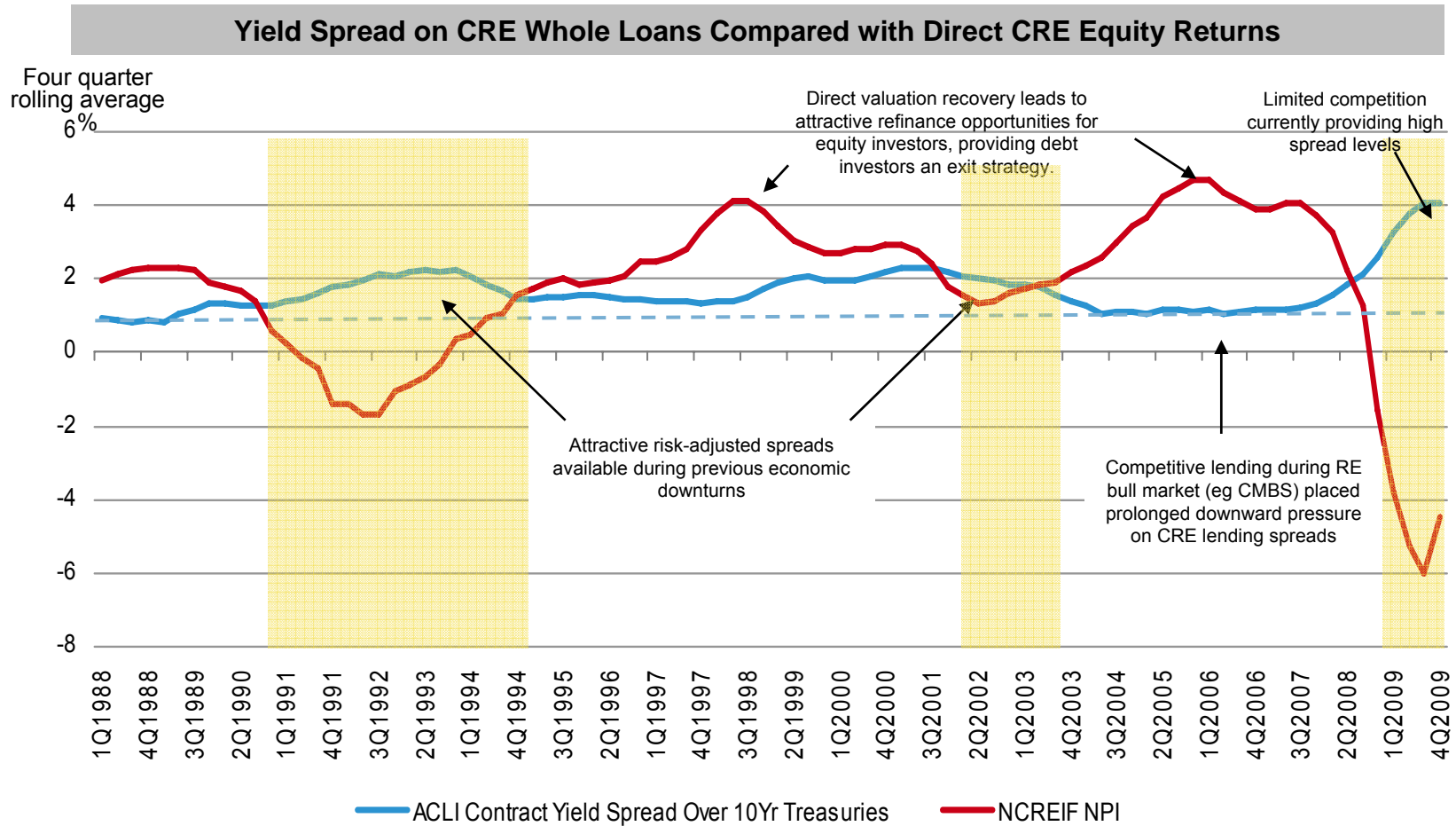
Loan maturities will continue deleveraging trend



¹ Origination projections based on the average 3-year historical gross originations from all non-commercial CMBS lenders.
 Source: Deutsche Bank, Intex, Trepp, Mortgage Bankers Association, Federal Reserve.
 As of August 2009.



Out-performance of CRE loans made immediately following a recession



Source: ACLI, NCREIF, economy.com,



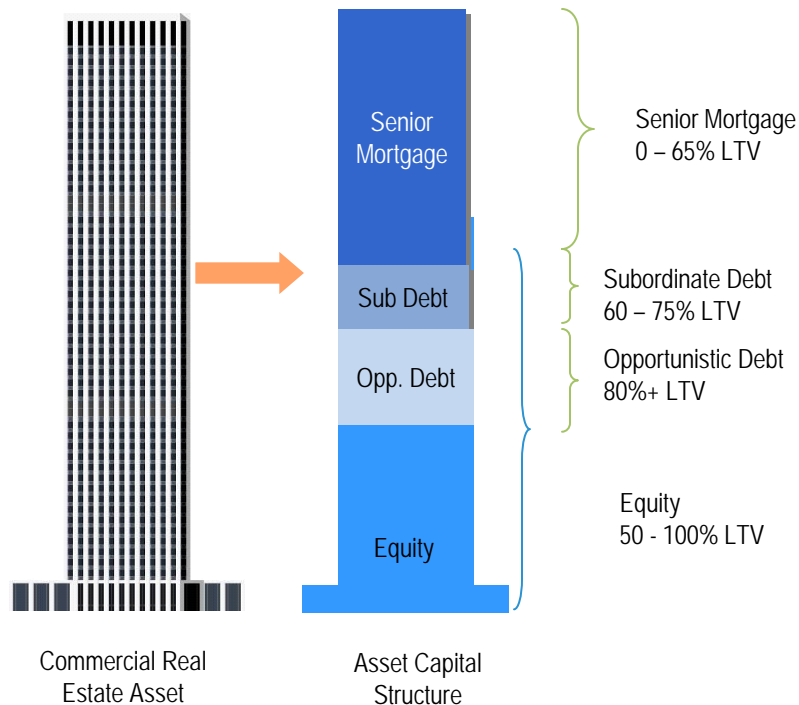
Real Estate Debt Summary

- ❑ Dislocation in the global real estate and credit markets have presented compelling investment opportunities, as property owners face liquidity issues and loan maturities
- ❑ Real estate debt investments will continue to be attractive because it offers investors excellent risk-adjusted returns, current income, manageable credit risk and predictable duration
- ❑ Life companies and other portfolio lenders are lending again, albeit mostly on high quality, stabilized assets
- ❑ Although many banks indicate they are back in the market, it remains to be seen whether they will make a significant impact given their existing issues. Banks are only lending selectively on high quality assets, require some level of recourse and construction loans are scarce
- ❑ Borrowers, taking the cue, begin to return as well as they seek “reasonable” financing that was unavailable over the last two years
- ❑ While there has been a discernible increase in the availability of real estate debt capital available to borrowers, there remains a tremendous shortfall in the amount available and the projected amount necessary to refinance maturing debt over the next 4 to 5 years



Strategies Up and Down the Risk Return Spectrum

Depending on investor's risk-return profile, real estate provides a range of investment strategies



Senior Mortgages

- Senior Mortgage loans secured by stable, cash flowing real estate assets
- Strong credit structures and transparency
- Up to ~65% LTV; interest rate of 5-7%; fixed and floating; term of 3-7 years

Subordinate Debt

- Subordinate debt investments in real estate assets and real estate companies
- Mezzanine loans, B notes, or low-leveraged preferred equity
- Selected commercial mortgage back securities
- 60-75% LTV; return of 8-15% (mostly current income; some accrual); fixed or floating; term of 3-7 years

Opportunistic Debt

- Debt instruments secured by real estate and related assets where there is an opportunity to gain control and/or receive high debt returns
- Purchase loans, positions or assets from distressed debt holders including banks, funds, insurance companies, owners etc
- Provide debt to operating companies, capital-constrained PE funds, cash-strapped borrowers; various levels of repositioning
- 80%+ LTV; returns of 16%+ (some current income); 2-7 year terms

For illustrative purposes only. Not to scale.



Senior Lending

- ❑ The collapse of financial markets, ensuing credit crunch and pronounced economic recession will continue to have a profound impact on the commercial real estate financing markets.
- ❑ Maturing real estate debt shortfall of approximately \$415 billion from now until 2013 provide great opportunities for loan originations
- ❑ Newly originated loans on today's values provide lenders with the ability to choose from the highest quality collateral, sponsors and credit structures
- ❑ Senior mortgage strategies have potential to deliver excellent risk adjusted returns.
 - Asset classes include office, industrial, residential, retail, and mixed use; target properties that are predominantly stable, cash-flowing.
 - Loan size of \$10-\$30 million; well-structured loans at lower leverage (~65% LTV), strong DSCR (min. 1.30x) and debt yield (min. 10%); interest rates of 5-7%.
 - Well-located properties in major metropolitan markets or stable regions near major markets.



Opportunistic Debt

Opportunistic plays that provide investors with attractive risk-adjusted returns, oftentimes, with the prospect of eventually controlling the asset or situation.

- ❑ Purchase discounted or distressed positions in the capital structure
 - Purchase performing and non-performing loans, assets or positions from banks, funds, insurance companies, owners etc.
 - Distressed loans of banks and debt holders can be in form of Senior Mortgages, Mezzanine loans, sub-debt notes, or participations
- ❑ Rescue Capital (e.g. gap equity, “white knight” capital, LIFO)
 - Provide capital (in the form of debt or preferred equity) to cash-strapped individual borrowers, capital-constrained funds, and operating companies to meet capital requirements for loan covenant breaches, construction completion, lease up, etc.
 - Provide capital (as debt or preferred equity) to property owners who want to execute a debt purchase or Discounted Pay Off (DPO).



Current Challenges facing Debt Holders

- Operational
 - Debt service payments cease/reserves run out
 - Extensions and Modifications
 - Discounted Payoffs (DPO)
 - Discounted Sales
 - Foreclosure
 - Loss of ability to influence or consent to major decisions, including terms of debt modifications
- Accounting
 - Unrealized Losses (FV) or Valuation allowances (Historical Cost)
 - Income recognition/Non-accrual status
 - Write off of investment
 - Bring on property and senior debt onto books