Capital Market Update

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Overview

The Macro Picture
  Lenders
  Investors
  Fundamentals
An Appreciation of Risk and Return
  Income
  Capital Returns
  Extremes
The Outlook
  Jobs picture
  Space Demand
Large Bank Loan Portfolio

C&I coming back? Mortgage not yet
Small Bank Loan Portfolio

Regional banks Under pressure to Reduce RE loans

Source: Federal Reserve Board 2012
Note: The shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research.
The Securitized Mortgage Pools are Shrinking

Federal Reserve; Saltash Partners

Multi-Family & Commercial Mortgages Outstanding from Agencies, GSEs and ABS Issuers

$ Billions

2006: 813.4
2007: 993.4
2008: 1000.9
2009: 980.8
2010: 945.4
2011Q3: 944
The Scale of the Problem: the Bank Portfolio

Multi-Family & Commercial Mortgages in U.S. Banks: Excluding Agency, GSE or ABS Issuers

Federal Reserve; Saltash Partners
Banking Sector Response: Still Tight?

FRB Senior Loan Officer Opinion Survey: Net Percentage of Domestic Respondents Tightening Standards for Commercial Real Estate Loans

- Recession recovery
- Long Term Capital Management
- 2000 Recession and 9/11
- Asian Liquidity Crisis
- Federal Reserve Crisis
- Meltdown
Borrowers Back in the Market?

Quick recovery
Because it was a Non-real estate problem

Extended recovery
Matched job recovery

What's driving It now?

FRB Senior Loan Officer Opinion Survey: Net Percentage of Domestic Respondents Reporting Stronger Demand for Commercial Real Estate Loans
Core Transactions Volume Recovering

NCREIF Property Index Annualized Sales Volume

Early cycle volume

Craziness Ensues

Back at Early-Cycle Level

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Apartment Pricing Reflects Fundamentals

NCREIF Current Value Apartment Cap Rates

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Multi-Family is Strong

Apartment Vacancy and Effective Rent Change

- Apartment Vacancy
- Effective Rent Change annualized rate

Concessions easing already

REIS: Saito & Partners LLC
Office Market has Bottomed

Office Vacancy and Effective Rent Change Annualized

- Office Vacancy
- Effective Rent Change annualized rate


REIS; Saltash Partners
Are Cap Rates too Low or too High?

Core Equity Risk Premium as% of T-Rate
(Cap Rate - T-Rate)/T-Rate

Average 55%
1991-2007
NCREIF: Income Return and Volatility by Property Type

Annual Income Return vs. Standard Deviation

Property Types:
- IND R&D
- IND Warehouse
- IND
- RTL Neighborhood
- OFF Suburban
- RTL Regional
- OFF
- RTL
- OFF
- APT
- IND Flex
- IND
- HTL
- APT HiRise

Source: NCREIF; Saltash Partners

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NCREIF Appreciation Return and Volatility by Property Type

- NCREIF Appreciation Return
- Standard Deviation

Property Types:
- APT
- APT HiRise
- IND
- IND Flex
- IND R&D
- IND Warehouse
- RTL
- RTL Community
- RTL Neighborhood
- RTL Regional
- OFF
- OFF Suburban
- HTL

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Core Property’s Capacity for Surprise

NCREIF Risk Experience
Mean, SemiDeviation, Previous Low and 2008/2009 Low

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When Will Space Demand Return?

Recent Post-Recession Employment Recovery

- 12/2007 peak
- 98.6%
- 98.0%
- 7/2008 peak
- 96.9%
- 95.8% of peak
- January 2012
- 95.8% of peak

This is the sharpest employment decline in the modern era

Bottom:
February, 2010
93.8% of peak

Bureau of Labor Statistics; Saltash Partners LLC
Establishment Data

Months to Recover Peak Employment

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Watch for the “Household Yawn”

HH Establishment as % of HH

- Feb. '70 - Nov. '71
- Jan. '73-May '75
- Apr. '80 - Aug. '83
- Jun. '85 - Jun. '86
- Jan. '91 - Jul. '92
- Oct. '99 - Nov. '03
- False Start?

Household Share grows in Recession

NBER Business Cycle Trough

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What Will it Take to get to Equilibrium?

• Apartments are there
• Office at 17% needs about 700,000 more office jobs or another 3 million in total jobs.
• The 243,000 job rate in January would get us there in a year – two years is more likely
• Retail will lag until those jobs get replaced
• Industrial is firming up nationally – lots of uncertainty about the Panama Canal widening – Battle of the Port Authorities
• Hotels are back in major cities – still room to recover in resorts and meetings properties
Connecticut Housing Picture is Still Mixed

2011Q4 (p) Change in Constant Quality Mid-Price Home Index
Central Connecticut Towns

- SOMERS: 4.94%
- TRUMBULL: 2.17%
- WEST-HARTFORD: 1.57%
- GASTONBURY: 1.14%
- HEBRON: 0.78%
- HARTFORD: 0.12%
- MANCHESTER: -0.45%
- ENFIELD: -0.29%
- FARMINGTON: -1.27%
- WETHERSFIELD: -1.46%
- NEW-BRITAIN: -1.82%
- BRISTOL: -1.5%
- WINDSOR: -2.13%
- ROCKYHILL: -2.32%
- VERNON: -2.49%
- NEWINGTON: -5.2%
- SOUTH-WINDSOR: -5.3%
- EAST-HARTFORD: -5.42%

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• Thanks for your time!