



COMMERCIAL REALTY RESOLUTION LLC

KEVIN CAHILL, President

DISTRESSED REAL ESTATE MARKET OPPORTUNITY

“Commercial real estate at the precipice” – DB, March 2009

“Commercial real estate faces crisis” – WSJ, March 2009

- There are two main factors driving distress in real estate markets
 - 1) GDP contraction driving CRE fundamentals dramatically weaker across most major property segments and markets
 - 2) Lack of refinancing sources relative to size and amount of outstanding loans

- CRE Fundamentals:
 - Price declines of 35-45% (or more) expected from 2007 peak, exceeding those of early 1990s
 - Rent declines and vacancy rates may approach those of the early 1990s
 - Current downturn is demand shock induced versus over-supply induced downturn of early 1990s
 - How bad it gets depends on the performance of the broader economy

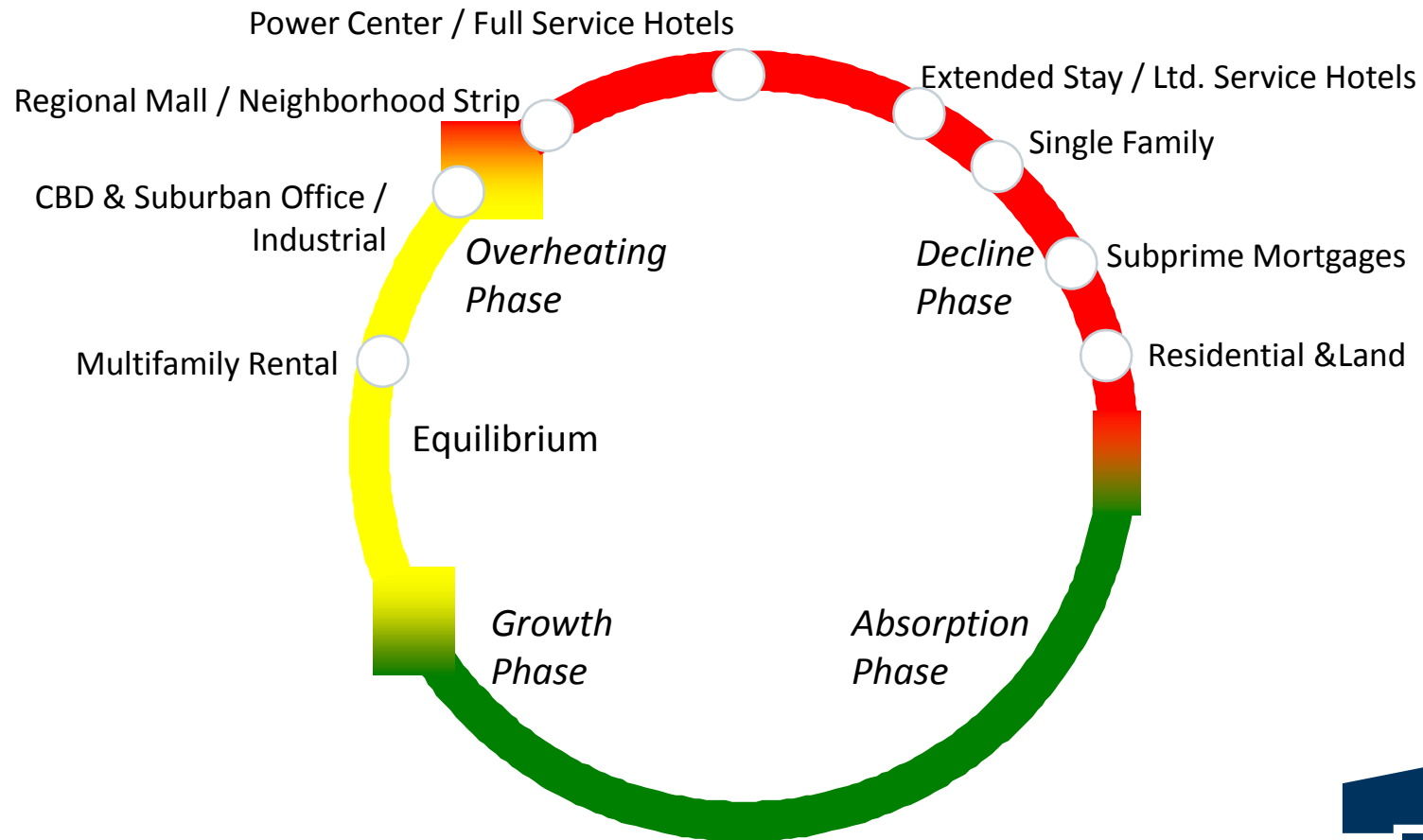
DISTRESSED REAL ESTATE MARKET OPPORTUNITY

Distressed commercial real estate is a +\$350bn market opportunity

- However, even with economic recovery, the greatest risk facing CRE loans is maturity default/extension risk
 - Large percentage of loans made in 2005-2008 will not qualify for refinancing without substantial equity injections due to:
 - Much tighter underwriting standards
 - Massive price declines
 - Cash flow declines
- Quantifying the market opportunity:
 - \$525bn of commercial whole loans come due through 2012; 50% of these won't qualify for refinancing
 - Approximately 2/3 of \$155bn of securitized loans that mature through 2012 may not qualify for refinancing
 - This equates to a \$365bn market opportunity over four years
 - Over \$1.2trn of commercial loans may need to be refinanced through 2016
- Recent estimates suggest loss rates could reach as high as 8% on loans outstanding
 - This equates to \$280bn of total losses on ~\$3.5trn CRE loans

WHERE WE ARE IN THE CYCLE BY PROPERTY TYPE

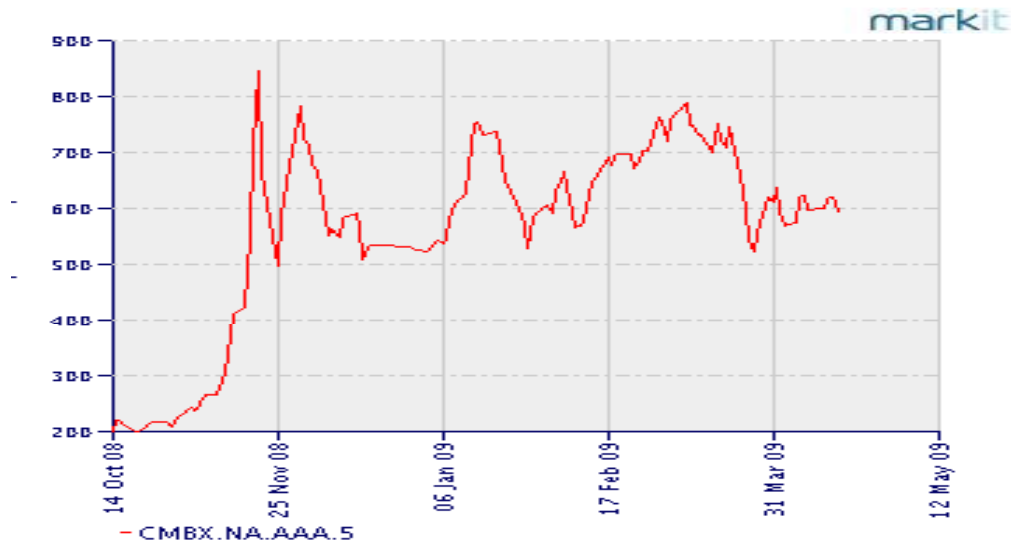
In contrast to the early 90's, when the downturn was supply-driven, the current downturn is demand-driven. As a result, all property types are being impacted



IMPACT OF GOVERNMENT INITIATIVES

Although additional clarity is needed, the PPIP had a modest positive effect on the real estate credit markets

- AAA CMBX spreads came in ~300bps after the March TALF and PPIP announcement, but remain wide



- The reduction in CMBS spreads is an a priori requirement to assets trading in the private markets
 - Although some investors have private vs. public investment mandates, that aside, it is difficult to justify purchasing CRE assets in the private markets when AAA CMBX spreads are at ~600bps
 - Such wide CMBX spreads make any comeback of the securitization market prohibitively expensive to borrowers

THE IMPACT OF GOVERNMENT INITIATIVES: PPIP

But will banks sell?

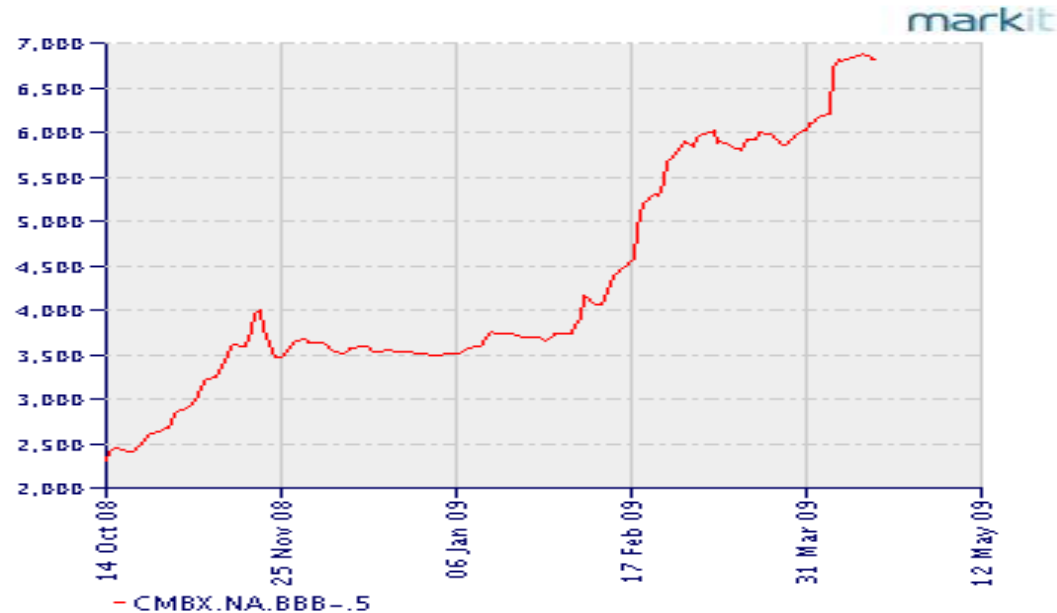
- CMBS spreads remain wide and its not clear the PPIP will help assets begin to trade
 - History of failed rescue plans keeping spreads wide
 - Assumption by government that CMBX levels are wide due to liquidity when, in fact, investors may believe underlying prices are in-line with CMBX prices
 - Wide bid-ask spread may continue to deter trading
 - Buying power of PPIP small relative to size of problem
 - PPIP will facilitate ~\$1.1trn of purchases relative to \$4.3trn of residential and commercial mortgage assets held by US banks

- Investors also waiting for clarity on compensation limits tied to receipt of PPIP financing

IMPACT OF GOVERNMENT INITIATIVES

BBB CMBX spreads were not impacted by the PPIP announcement and continue to increase

- BBB spreads indicate that investors see little value in subordinate tranches due to the precipitous decline occurring and expected to occur in real estate
- Deals are “upside down”



- Which leads us to the workout process.....

WORKING A DISTRESSED INVESTMENT

Working a distressed asset: It doesn't matter if they like you

-the management of good and bad loans requires fundamentally different skills. “Bankers want to keep their customers. That’s how you define success. If you’re running a ‘bad bank’, success is to get rid of your customers – and that means you have to have a different mindset when you deal with these issues.”
-Stefan Ingves, former head of Sweden’s Bank Support Authority



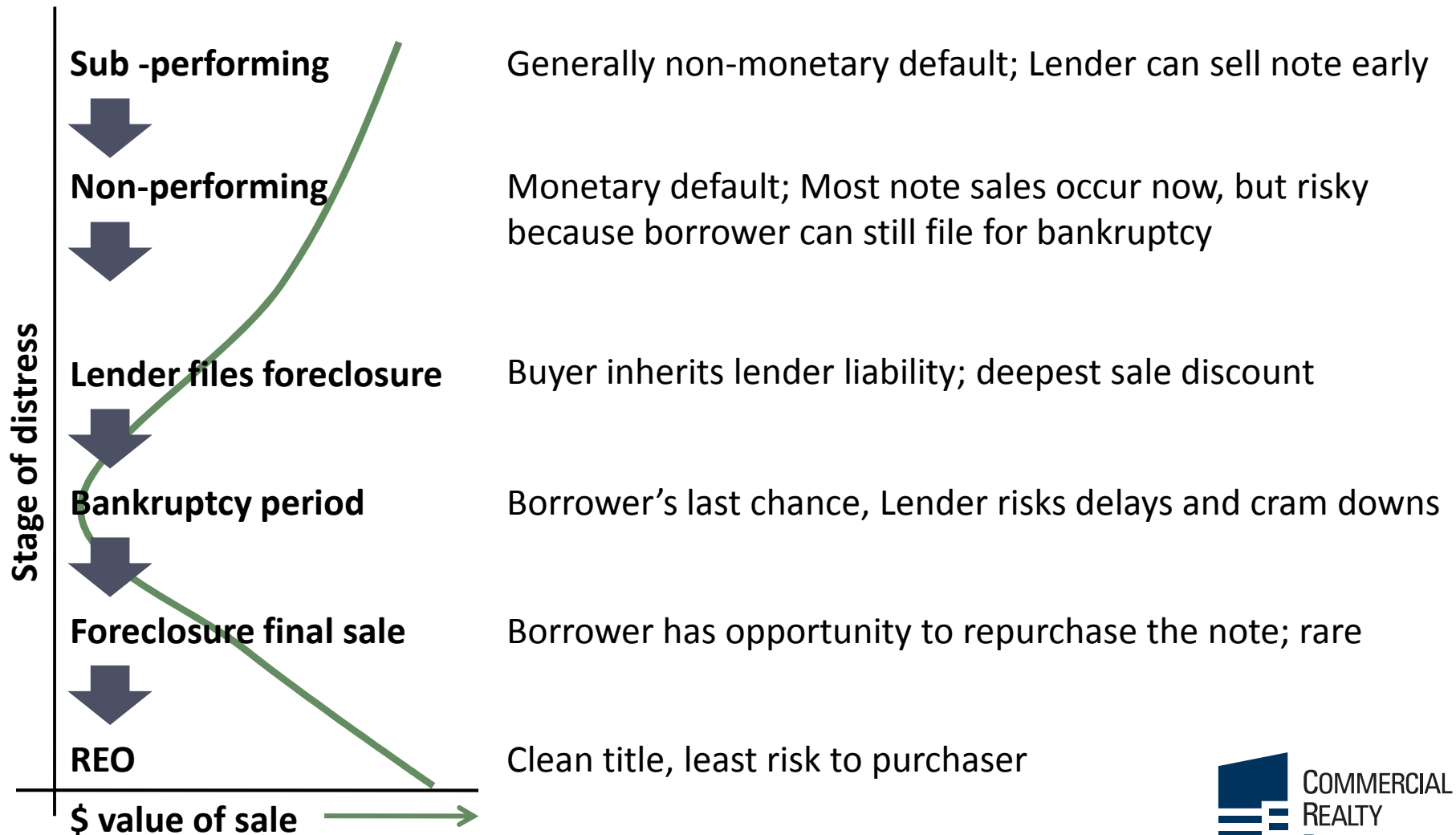
EVALUATING A DISTRESSED ASSET: VALUATION

Many investors underestimate the potential costs involved with distressed assets

- All loans
 - Restructure vs. repossess?
 - Good sponsor in good market, restructure
 - Ineffective, litigious sponsor, repossess
 - Underwrite time and cost for either outcome based on local custom
 - Litigation status
 - Environmental considerations
- Permanent loans
 - Re-underwrite at current rent, vacancy levels and cap rates
 - Consider lease-up costs (TI's, leasing commissions)
 - Evaluate likelihood of effective tax certiorari proceeding
 - Possible revenue enhancements
 - Cell towers, solar panels
- Construction loans
 - Costs to complete
 - Mechanics' liens, violations and tax liens
 - Stabilized value as rental vs. for-sale project

LIFE CYCLE OF A DISTRESSED ASSET

The value of the asset is impacted by the stage of distress and where it is in the litigation process



BRICKS AND MORTAR EXPERTISE

Investors with BOTH financial and bricks and mortar expertise will be the winners in this downturn

- Bricks and mortar expertise is key to unlocking asset values
 - Days of high LTVs are gone
 - PPIP financing terms levels the leverage playing field
 - Partner with a strong operator with workout experience

- Property and construction management in a downturn considerations:
 - Property security
 - Financial management
 - Liens
 - Hardball with contractors
 - Diplomacy with tenants
 - Local expertise

SHAMELESS PLUG: THE CRR VALUE-ADD

“No problem can be solved from the same level of consciousness that created it”

- Albert Einstein

- Fresh insight and objectivity
 - CRR comes into workout with no prior biases related to transaction
 - Brings fresh insight and new solutions

- Reduces burden on in-house asset management teams
 - In-house expertise takes time to train and hire
 - CRR brings over \$5bn of immediate workout experience
 - Reduces management distraction and employs industry best practices

- Integrated platform to unlock asset value
 - Workout advisory
 - Property and construction management
 - Financing
 - Receivership and trustee abilities

- Principal perspective
 - CRR’s incentives can be aligned with client’s

CONTACT US

Kevin Cahill

President

Commercial Realty Resolution LLC

P 646-520-4533, ext. 105

F 914-220-8277

kcahill@commercialrealtyresolution.com

CommercialRealtyResolution.com

