



SummerStreetAdvisors

Feeding The Elephant In
The Room: Capital Flows,
CMBS and CRE

June 6, 2012

Agenda

- Summer Street Advisors
- Where Do We Stand? Capital Flows to Restructure CMBS 1.0 and Distressed Bank Debt
- Historical Snapshots: Capital Flows and Market Recovery in Perspective
- What Does the Future Hold? Feeding the Elephant

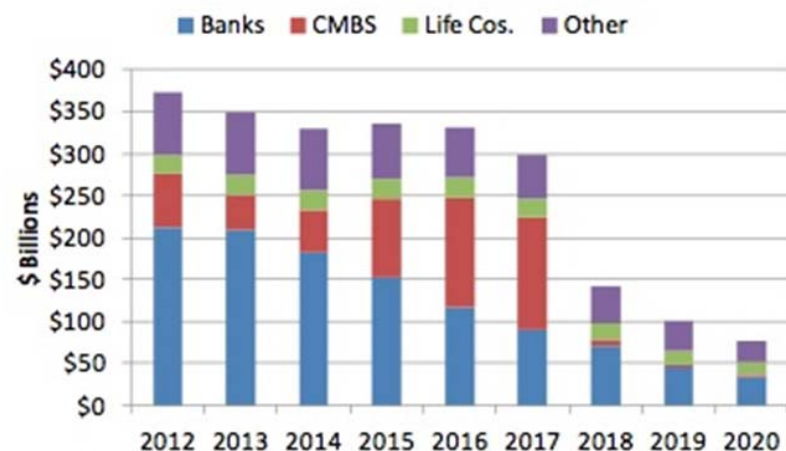
Summer Street Advisors, LLC

- Loan and Real Estate Investment Advisory
 - Investment Analysis and Valuation
 - Risk and Opportunities Assessment
 - Portfolio Analytics and Risk Mitigation Strategies
- Transaction Due Diligence
 - Loan File Review, Document Abstracting, Site Inspections
 - CMBS – B Piece
- Bank & REIT Advisory
 - Bank Valuation
 - Forecasting Expected Loan Losses
 - REIT Private Market Value based on fundamental real estate analysis
- Asset and Portfolio Management
 - Loan and Real Estate Asset Management
 - Loan Resolution Strategies

Where Do We Stand?

Refi Demand: Echoes of the Boom

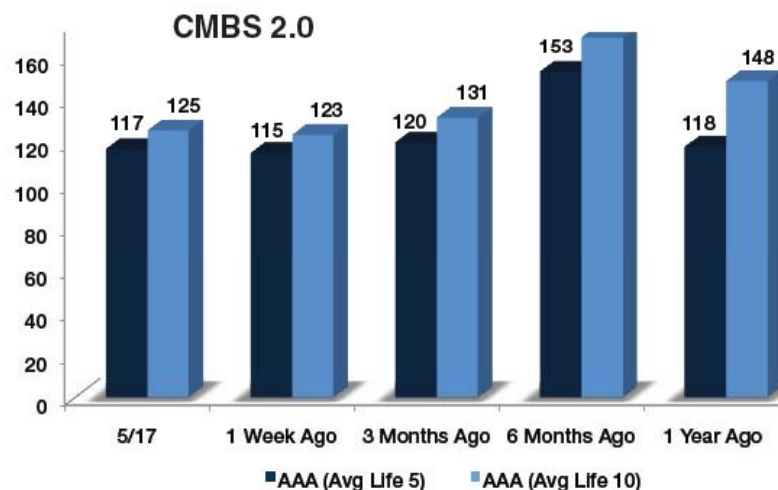
Maturities of CMBS 1.0



Source: Morgan Stanley, Foresight Analytics, Trepp, Intex

- Resolution of bad debt from CMBS 1.0 requires roughly \$50-100 billion in 2012.
- Capital flows to legacy CMBS will be slightly less, but the same order of magnitude in 2013 and 2014.

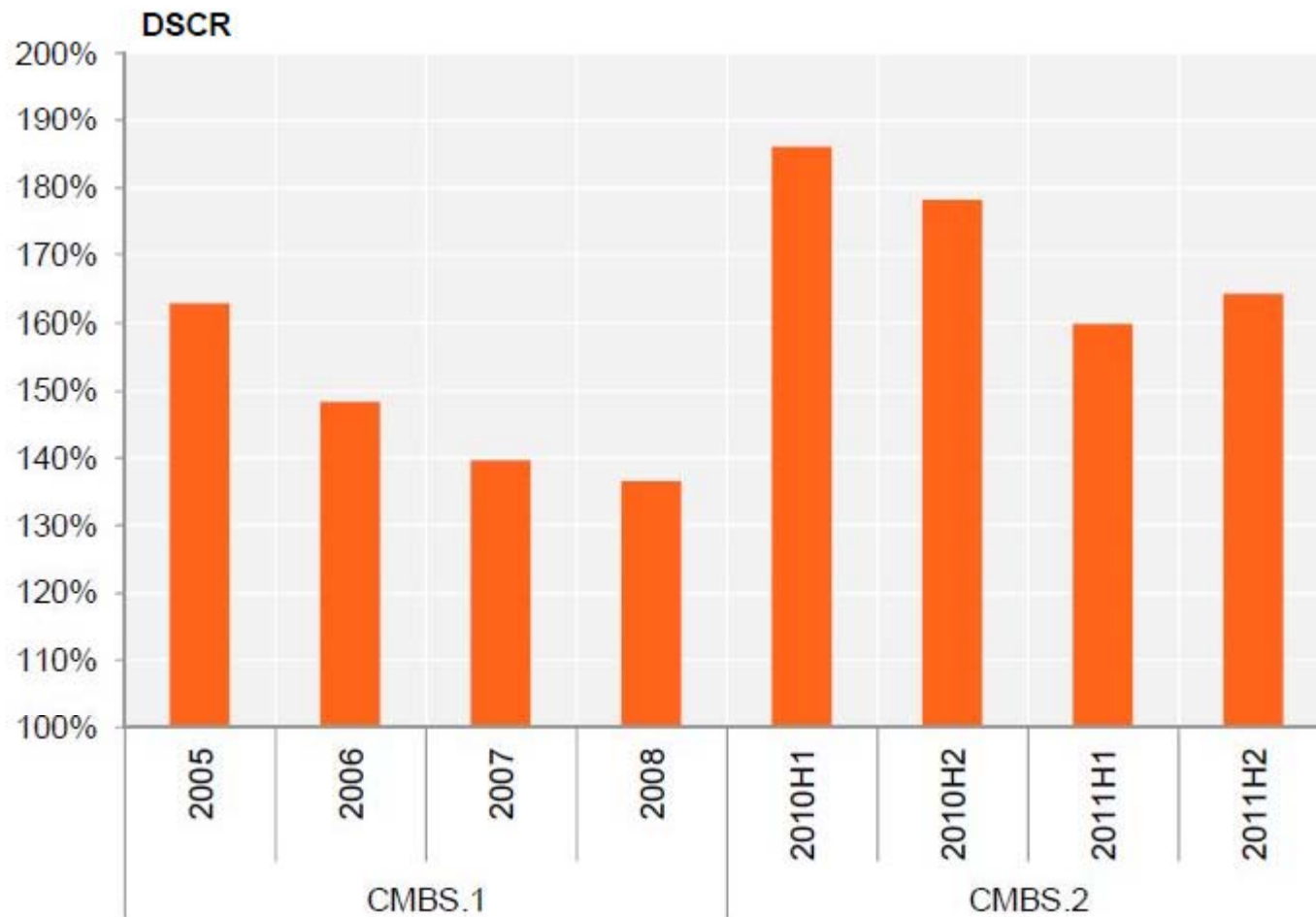
Modest Spreads in CMBS 2.0



Source: REFI

- Spreads remain modest despite increasing delinquency rates in CMBS 1.0.
- Are new CMBS issues benefiting from a “flight to quality”? Survivor bias for assets included in new issuance is consistent with cap rate compression observed in major metros.

Average DSCR by Issuance Date – Getting More Aggressive

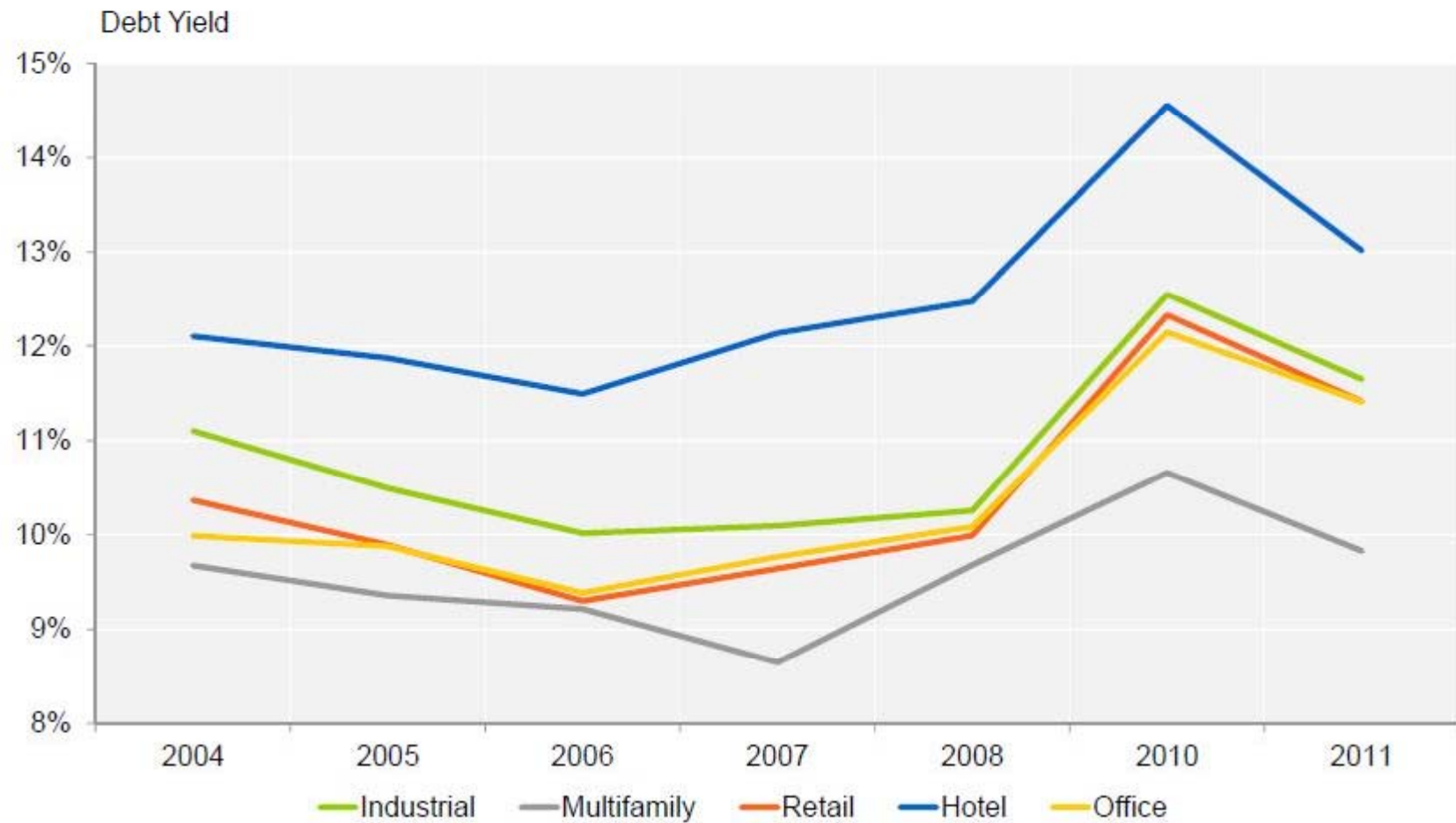


Source: PPR; Trepp

As of 11Q4

Confidential and Proprietary

Debt Yield by Vintage – Getting More Aggressive

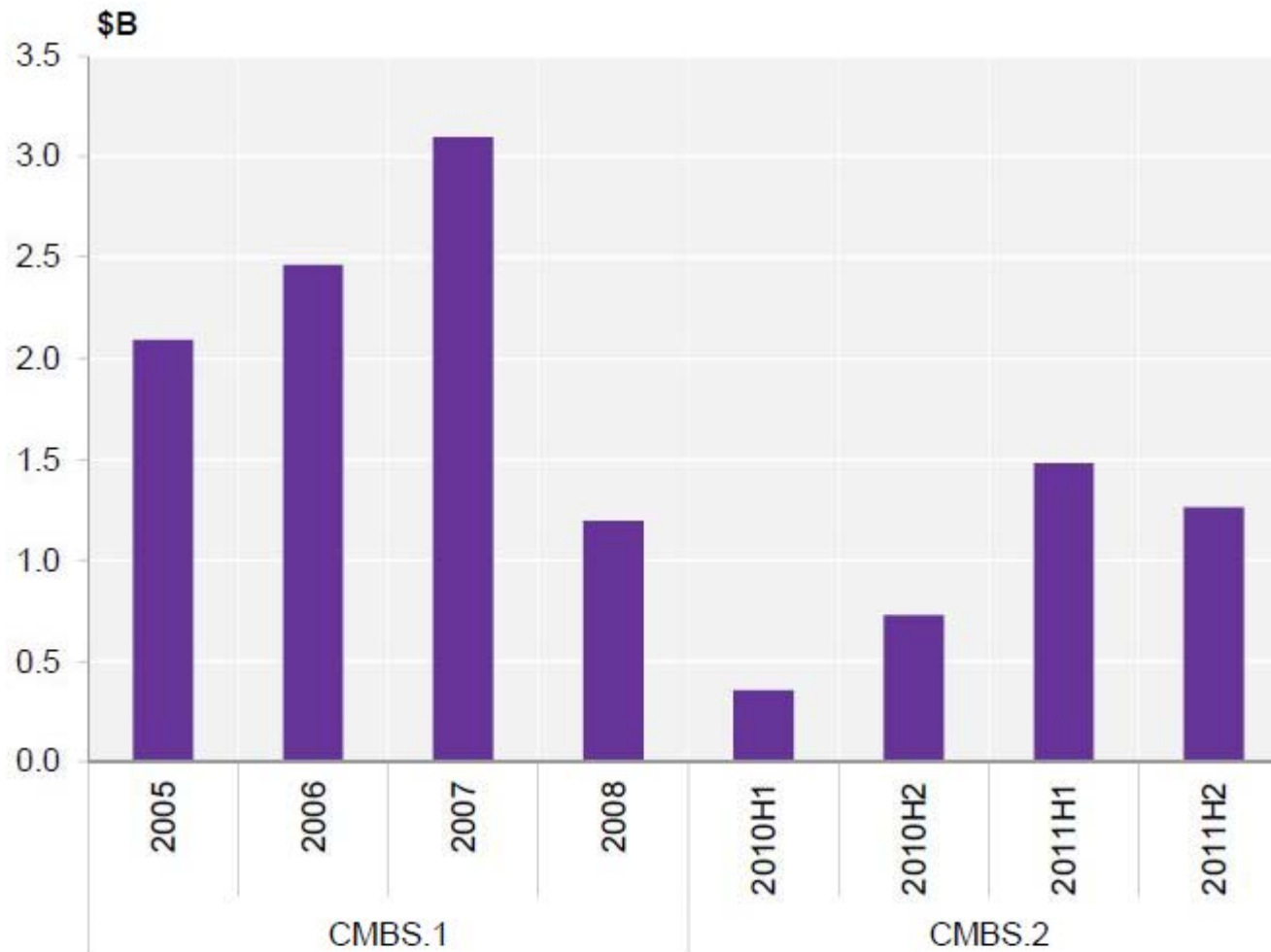


Sources: PPR; Trepp

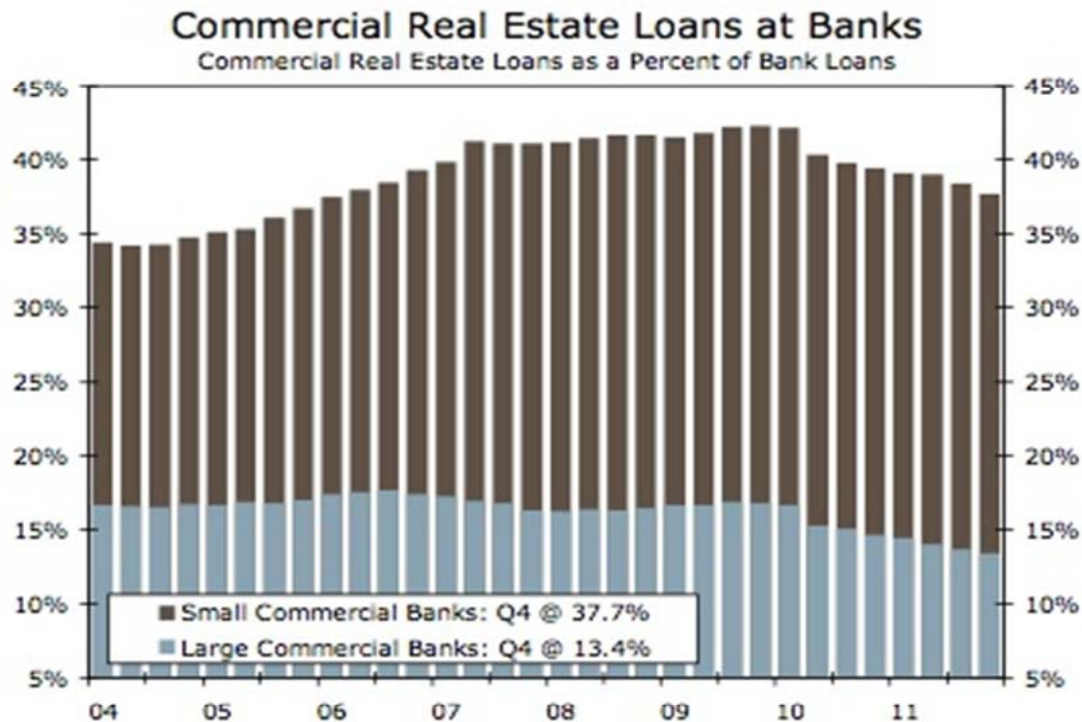
As of Dec-11

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Average Deal Size by Issuance Date – On the Upswing

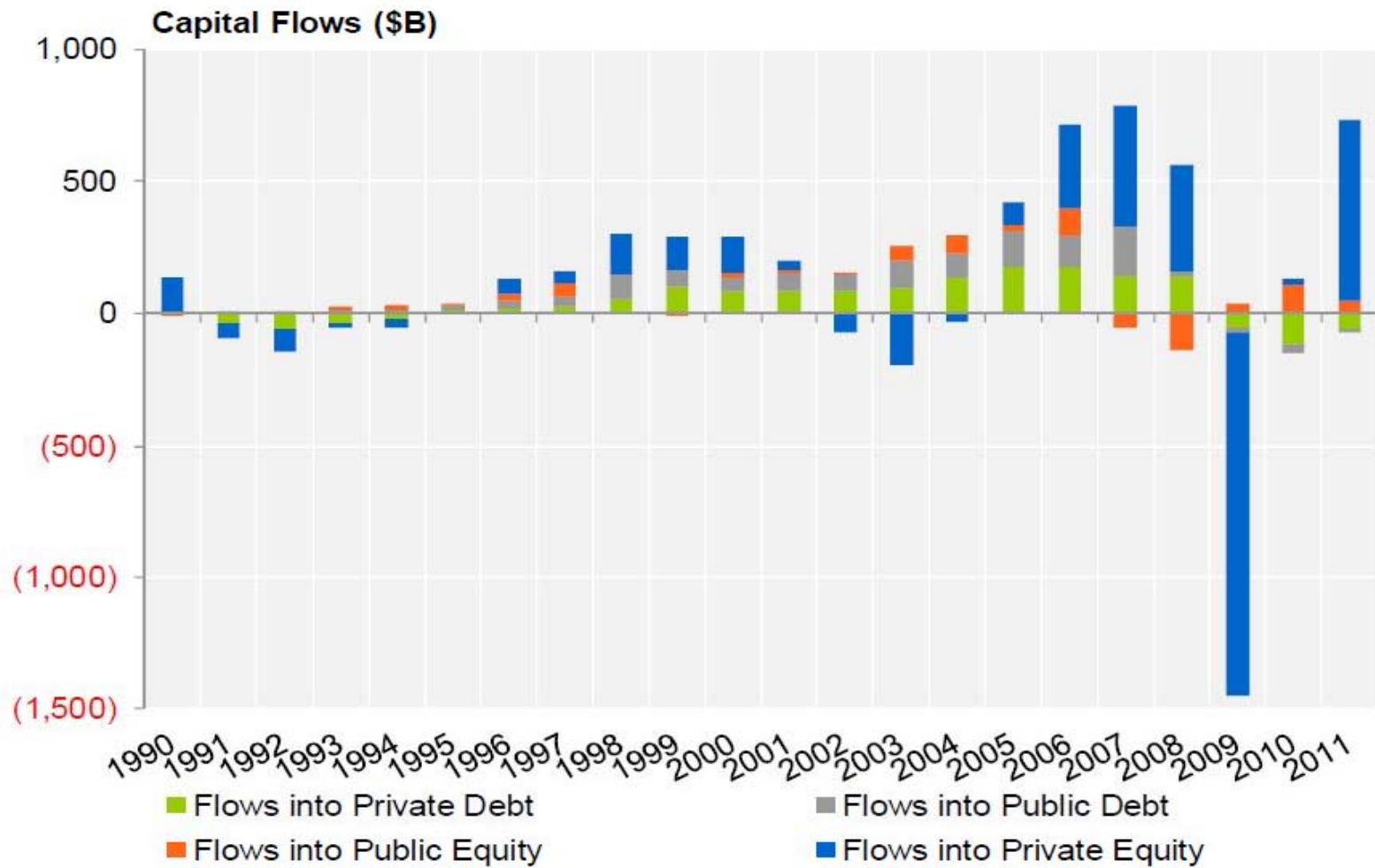


Bank Debt Market Also in Workout Mode



- Resolution progress is disproportionately advanced on the balance sheets of large commercial banks – see “Tale of Two Markets”.
- Workout of CMBS 1.0 will attract yield-seeking capital that would otherwise be available for resolution of distressed bank loans.
- Transaction costs and timing remain high and constrain pace of resolution.

Positive RE Capital Flows, Led by Private Equity

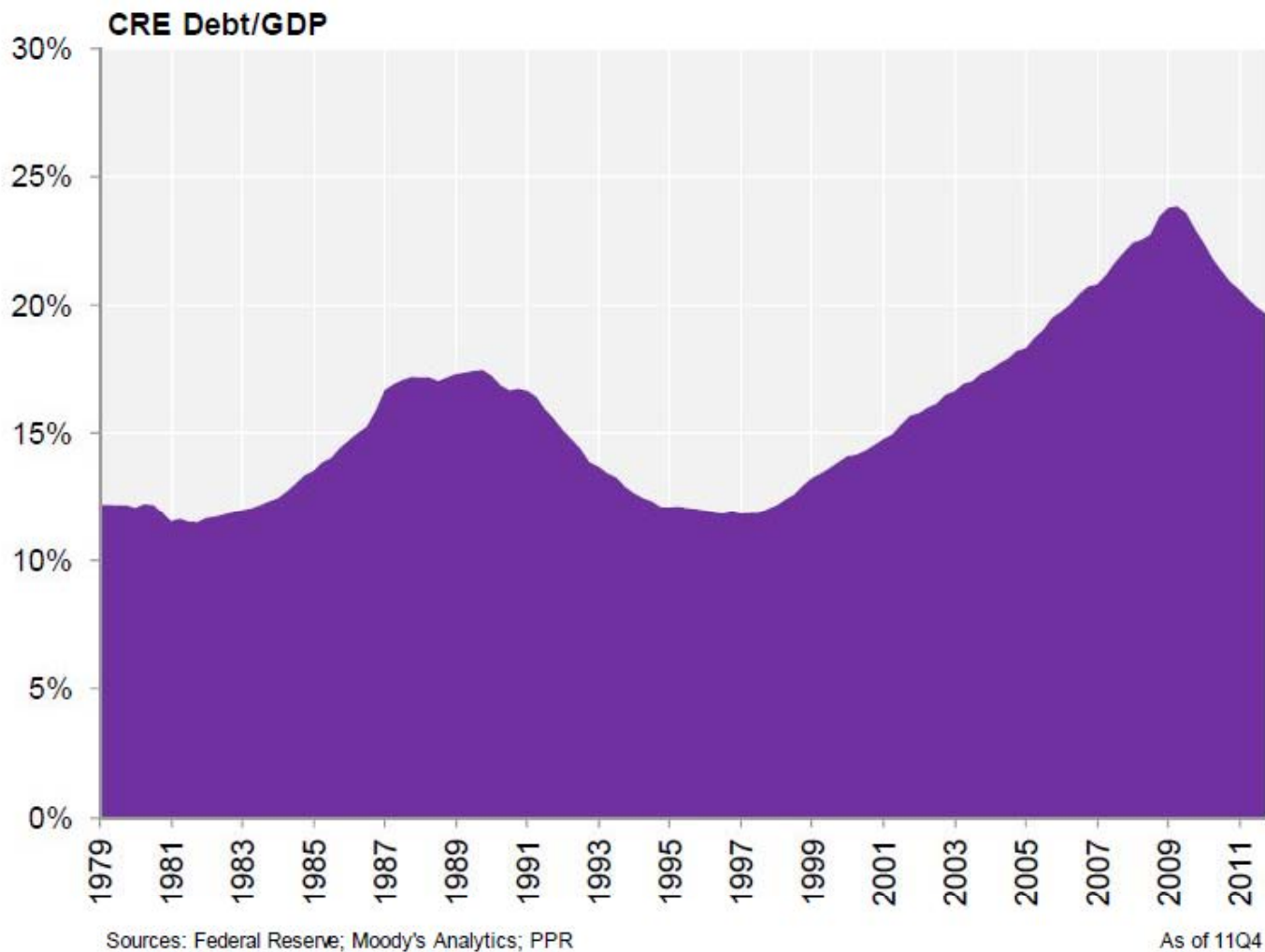


Sources: Federal Reserve; NCREIF; NAREIT; PPR

As of 11Q4

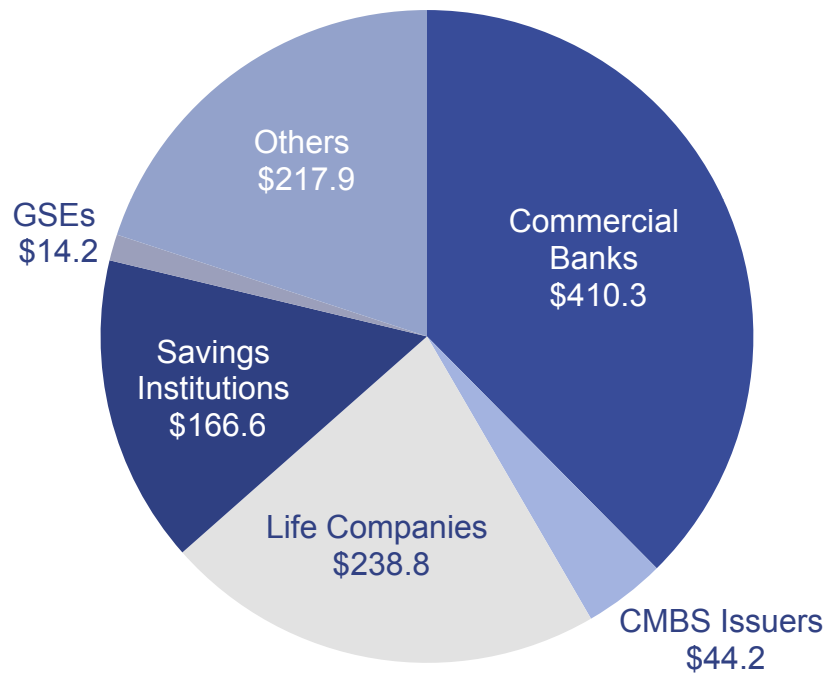
Historical Snapshots

Deleveraging Continues, But the Bottom Could Be Over Horizon



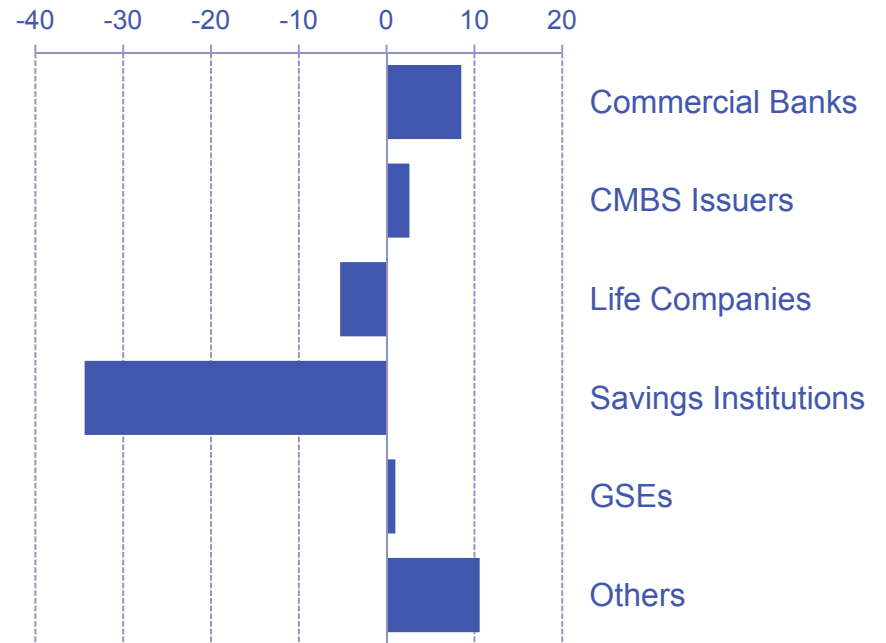
Snapshot: 1991

Outstanding CRE Debt by Holder, 1991



All figures in \$B.

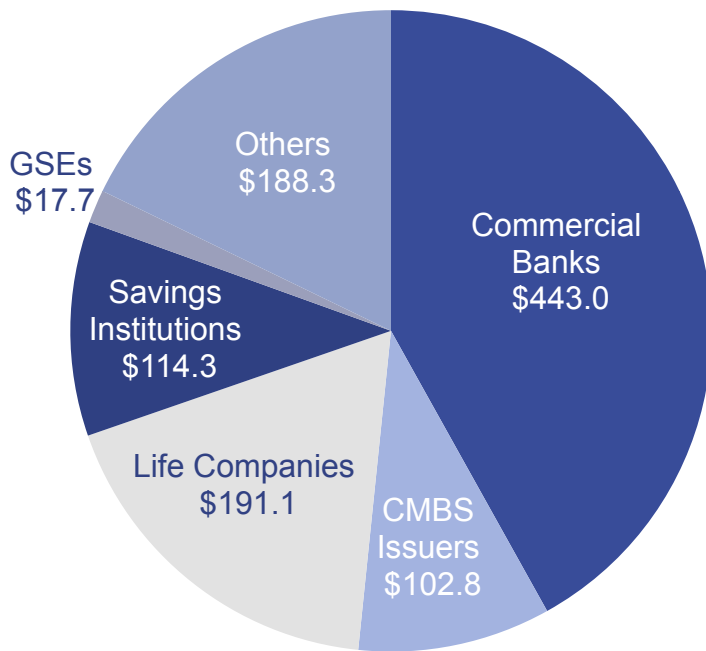
Net CRE Debt Issuance, YOY, 1991



Total CRE Debt	US GDP	S&P 500 Capitalization
\$1,092	\$5,992	\$2,824

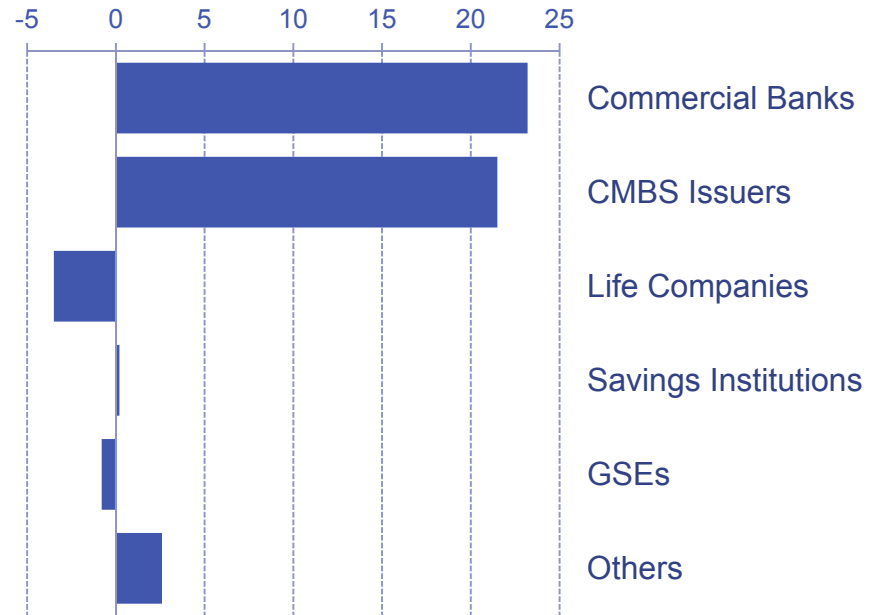
Snapshot: 1996

Outstanding CRE Debt by Holder, 1996



All figures in \$B.

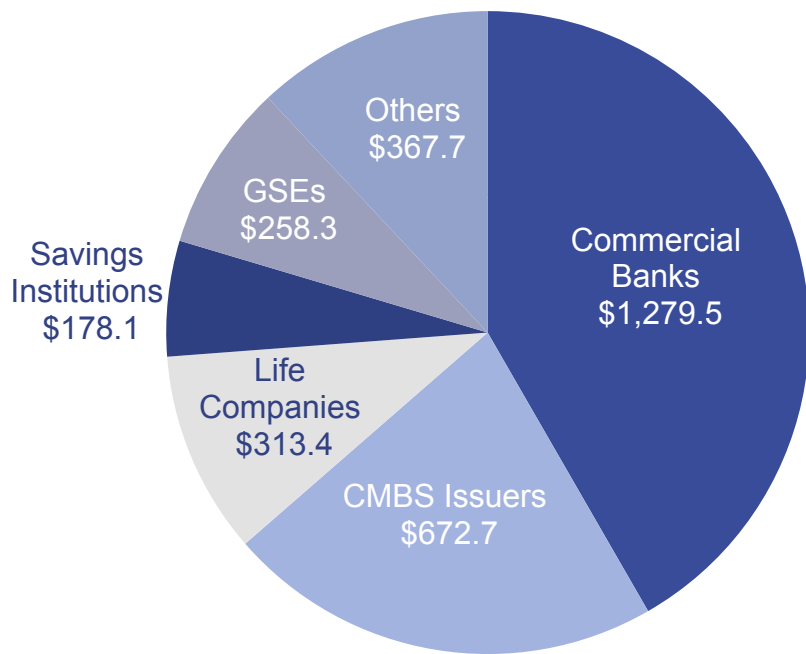
Net CRE Debt Issuance, YOY, 1996



Total CRE Debt	US GDP	S&P 500 Capitalization
\$1,057	\$7,839	\$5,619

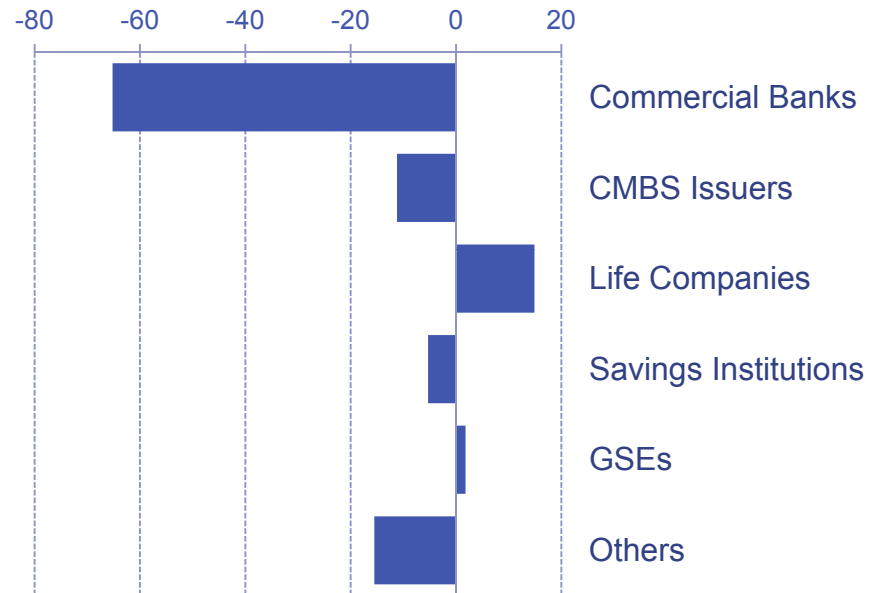
Snapshot: Right Now

Outstanding CRE Debt by Holder, 2011



All figures in \$B.

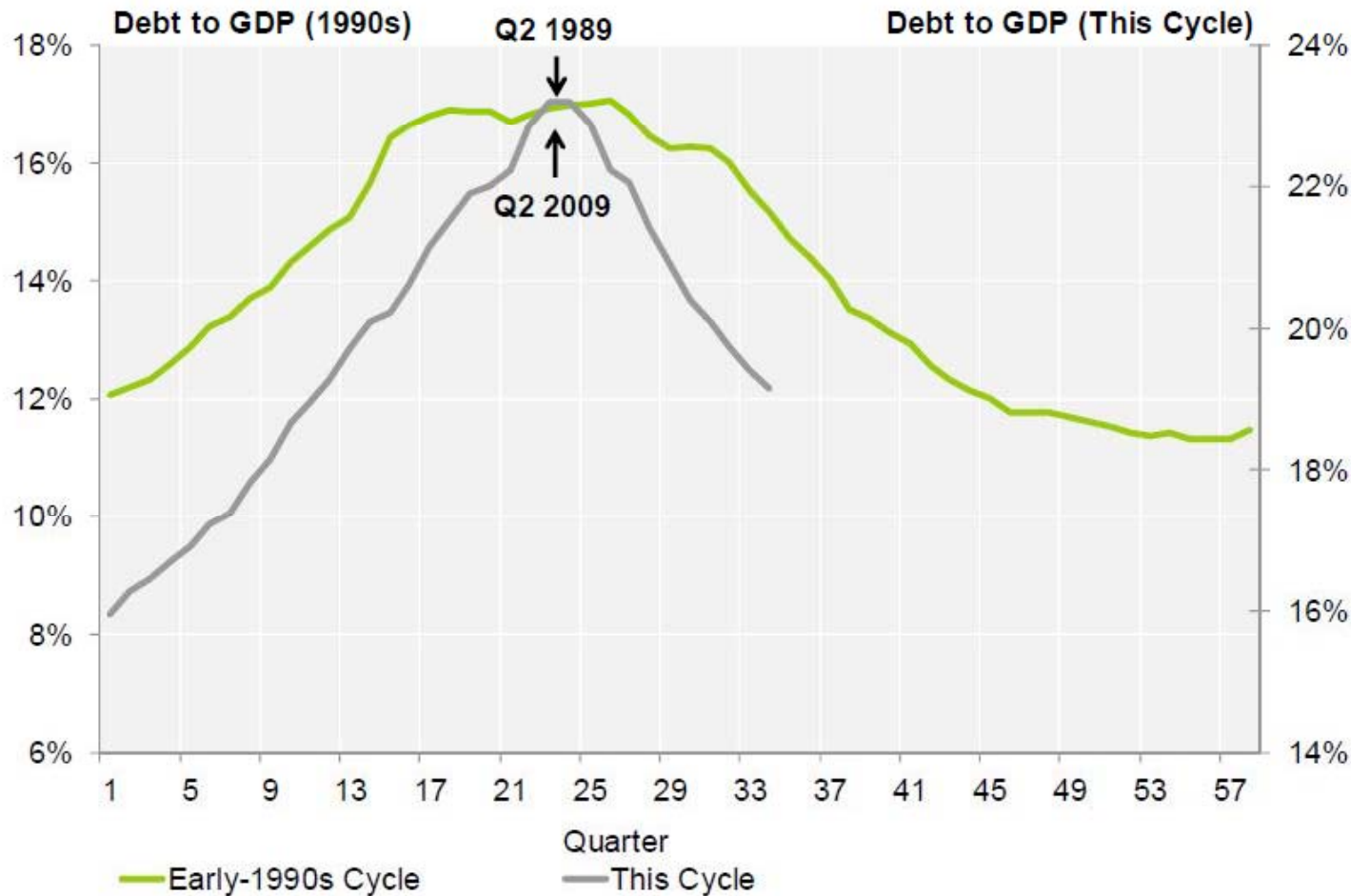
Net CRE Debt Issuance, YOY, 2011



Total CRE Debt	US GDP	S&P 500 Capitalization
\$3,070	\$15,060	\$11,373

Feeding the Elephant

Comparison to Last Cycle Shows How Far Horizon Could Be



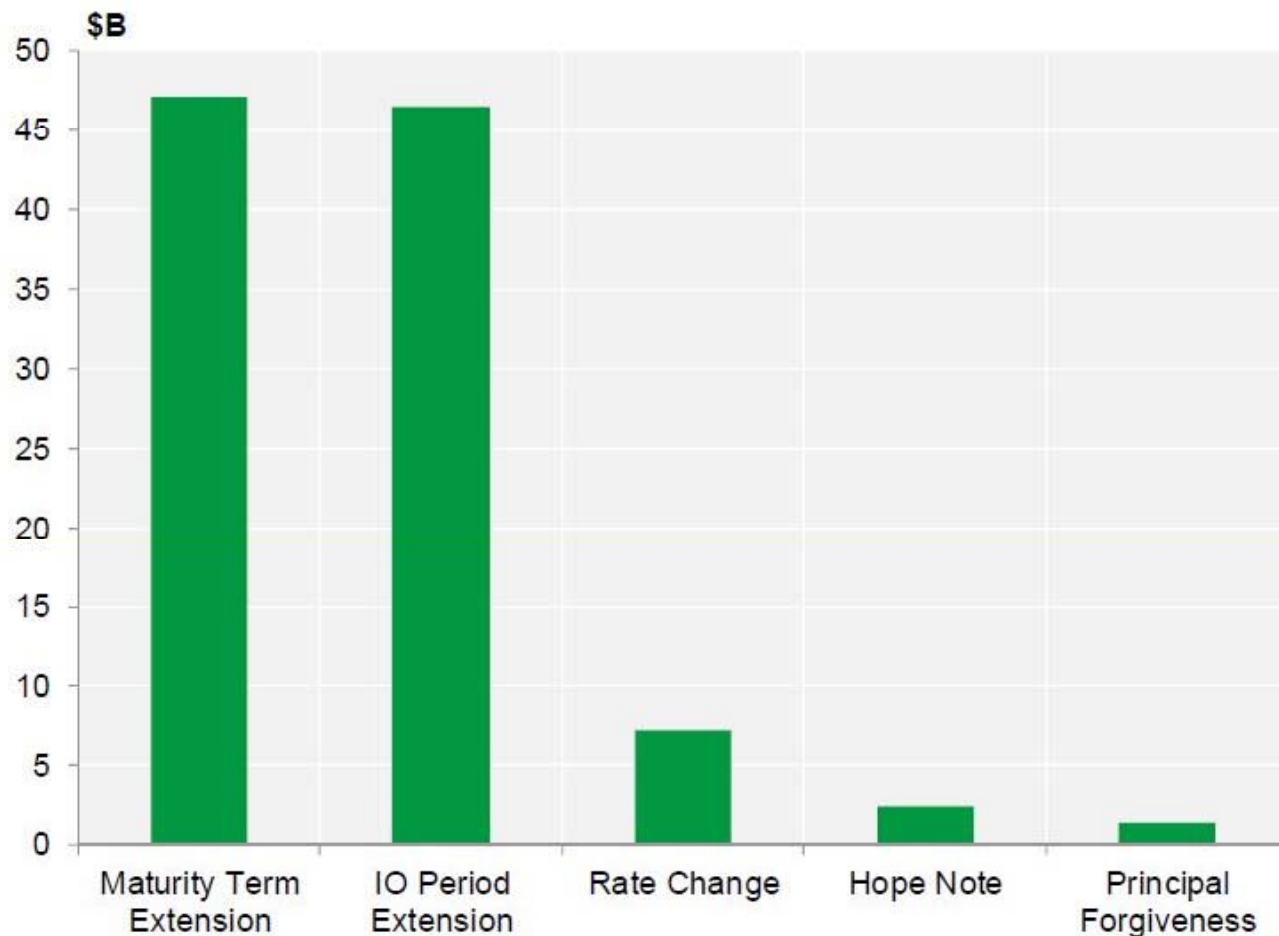
Sources: Federal Reserve; Moody's Analytics; PPR

As of 11Q4

Full recovery and the beginning of a new cycle occurs when CRE deleveraging stops and re-leveraging starts.

Considering a similar timeline to the last resolution cycle, full recovery is approximately five years away, or 2017-2018.

Special Servicing Continues to Look Over that Horizon



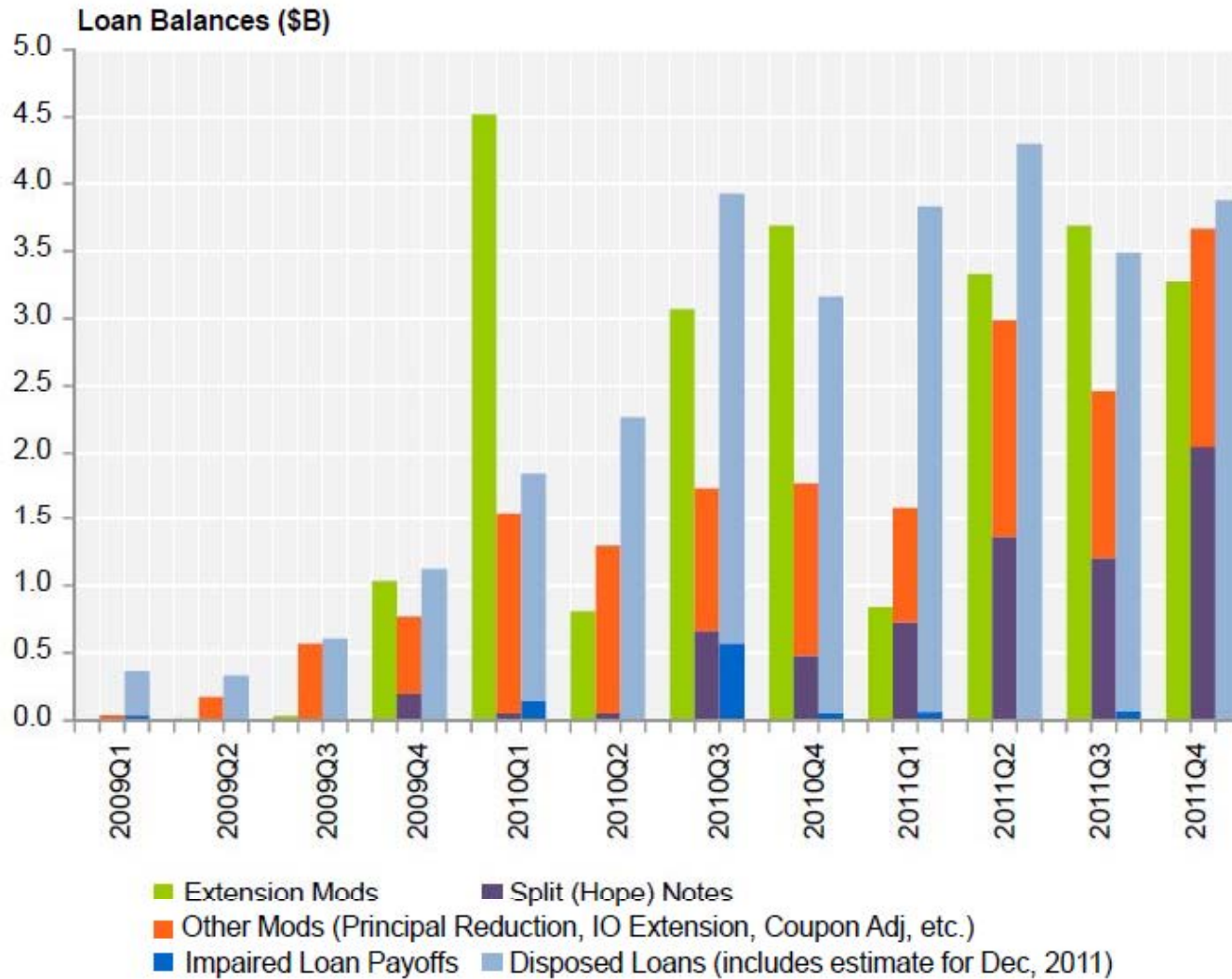
Sources: PPR; Trepp

As of 11Q2

Special Servicer Action in the 30 months through June 2011 shown at left. Maturity extension continues to dominate the landscape.

While net capital flows to the sector are positive and yields remain modest, the previous cycle suggests that special servicer action is falling well short of fully marking down troubled assets.

CMBS Special Servicing Trends – Still Looking Over the Horizon



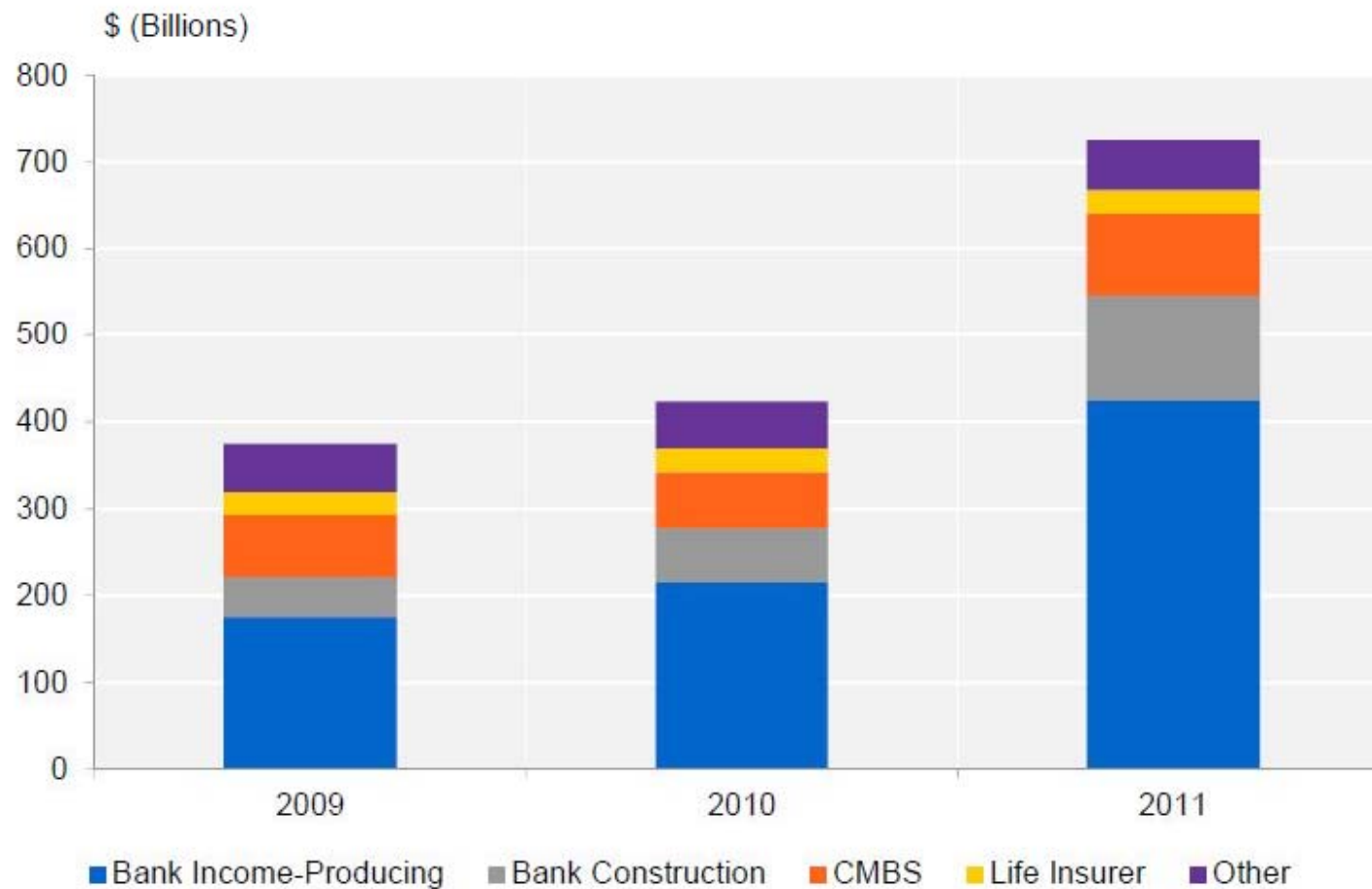
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Summary Thoughts

- Net capital flows inflows to the sector heavily weighted to new equity; deleveraging continues.
- Given actual default rates of CMBS 1.0, CMBS 2.0 senior spreads are quite modest, benefiting from “flight to quality” from other asset classes.
- Yields in CMBS restructuring transactions are diverting capital from the resolution of distressed bank loans.
- History indicates we could be five years away from the inflection point in CRE leverage; prevailing CMBS restructuring modes seem inconsistent with this scenario.

Appendix

Forecasted Maturities Continue to Accelerate



Sources: PPR; Federal Reserve; Trepp; ACLI

As of 12Q1

CMBS Loans in Special Servicing, an Asset Class Unto Itself

