SummerStreetAdvisors

Look Beyond `bricks and sticks' to Fix CRE's Future

March 27, 2013

AGENDA

- Summer Street Advisors
- Where Do We Stand?
- A Wave of Loan Maturities – What will be the Resolution?
- CMBS Restructuring “Poster Child”

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 (Facts)?

Market Environment

Early 90's Market Environment → Today's Market

		1990's	Current Market
Macro:	GDP	-1.75% (1991)	2.2% (Jan – Dec '12)
	Unemployment	6.3% (Q4 '91)	7.7% (February '13)
	10 Yr. Treasury	7.9%/8.4% Ave/High (1991)	1.96%/2.07% (Ave/High) (Jan-March '13)

		Vacancy	Ave Annual Supply Growth '84-'89		Current Vacancy Q4 '12	Ave Annual Supply Growth '07-'12
RE Industry: U.S.	Office	18.7%	5.5%	Office	17.7%	0.4%
	Multi-family	7.2%	3.2%	Multi-family	4.5%	0.9%
	Warehouse	10.7%	3.7%	Warehouse	8.7%	0.8%
	Retail	18.7%	3.1%	Retail	10.7%	0.5%

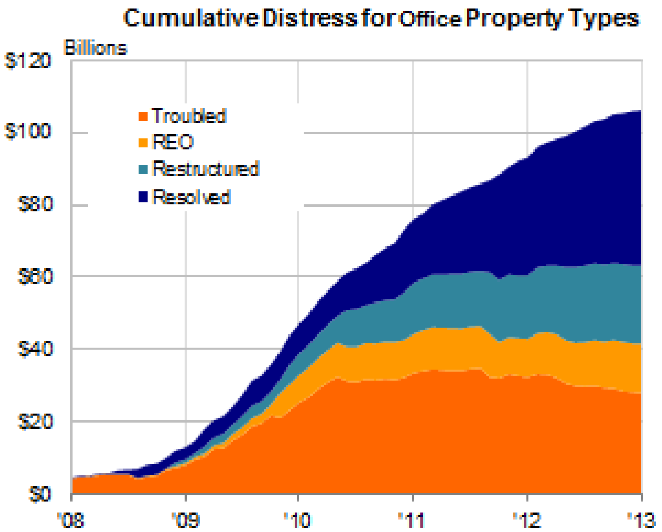
Source: REIS

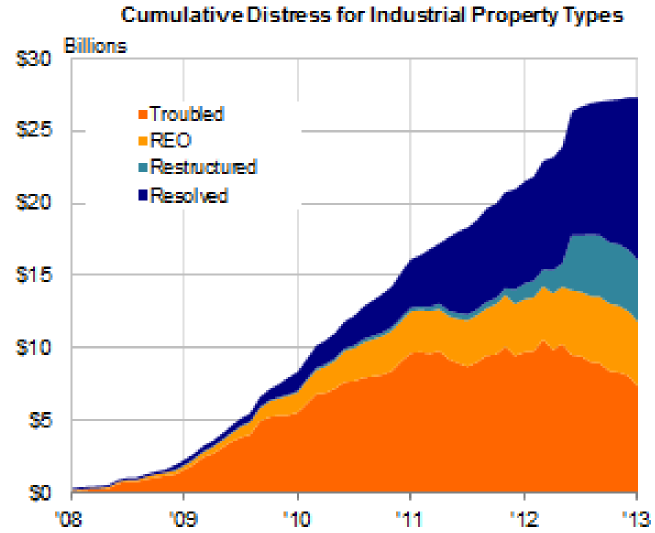
Real Estate Market Characteristics:

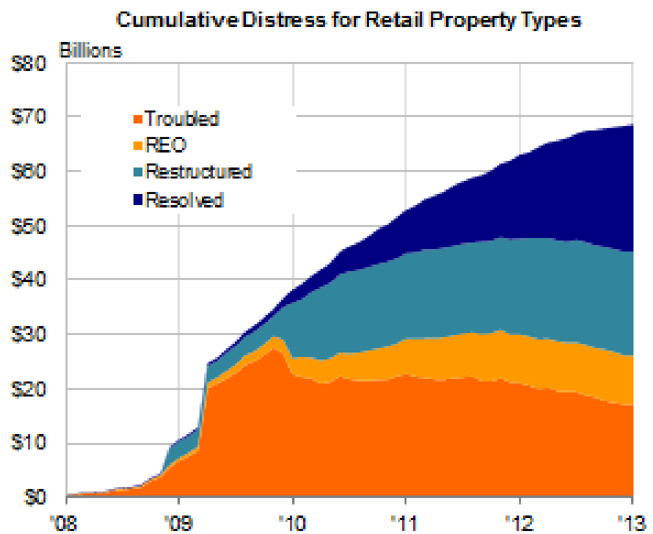
- Increased Supply
- Tax Law Changes
- Inflation, Interest Rates, Deregulation of Thrifts
- Competition among Lending Institutions
- Lax Lending Practices & Faulty Appraisals

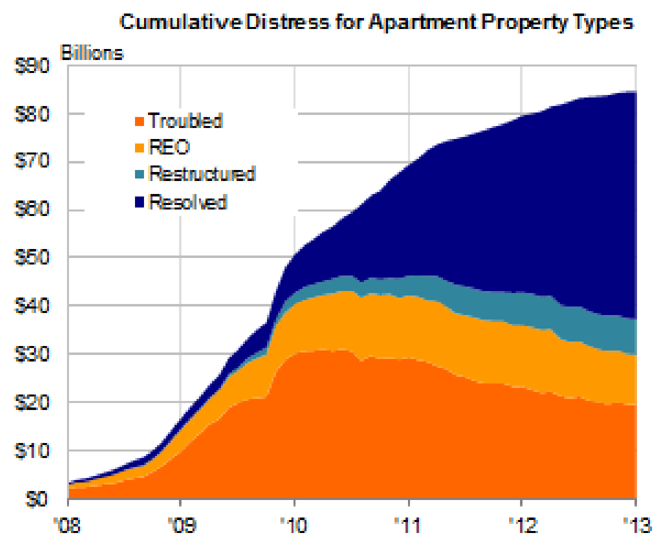
- Residential real estate shows widespread improvement
- Commercial real estate remains mixed
- Loan demand increased slightly – residential refinance
- Availability of credit remains tight
- Consumer spending remains flat
- Uncertainty and Deleveraging continues

RCA Cumulative Distress - January 2013





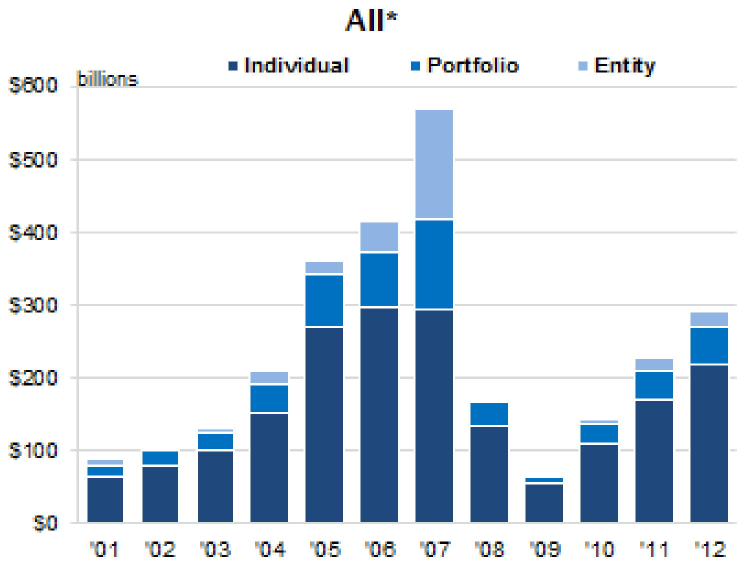




Source: RCA

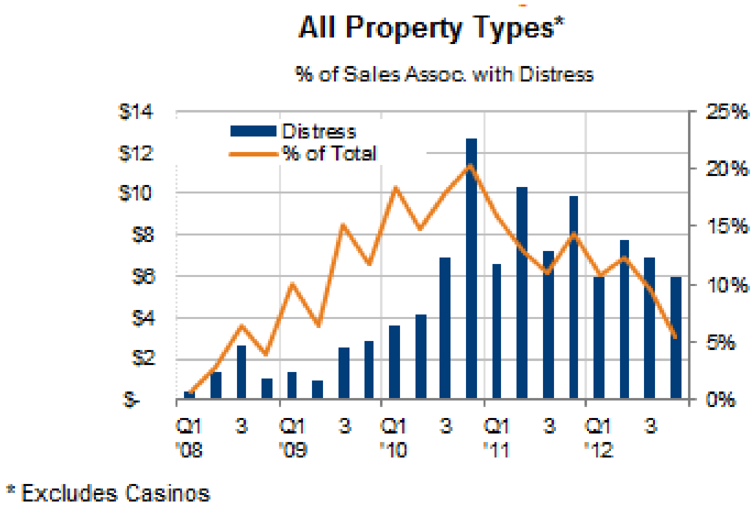
U.S. transaction volume up – $290B

27% increase in transaction volume YOY



Source: RCA

$26.5B - U.S. distressed assets traded



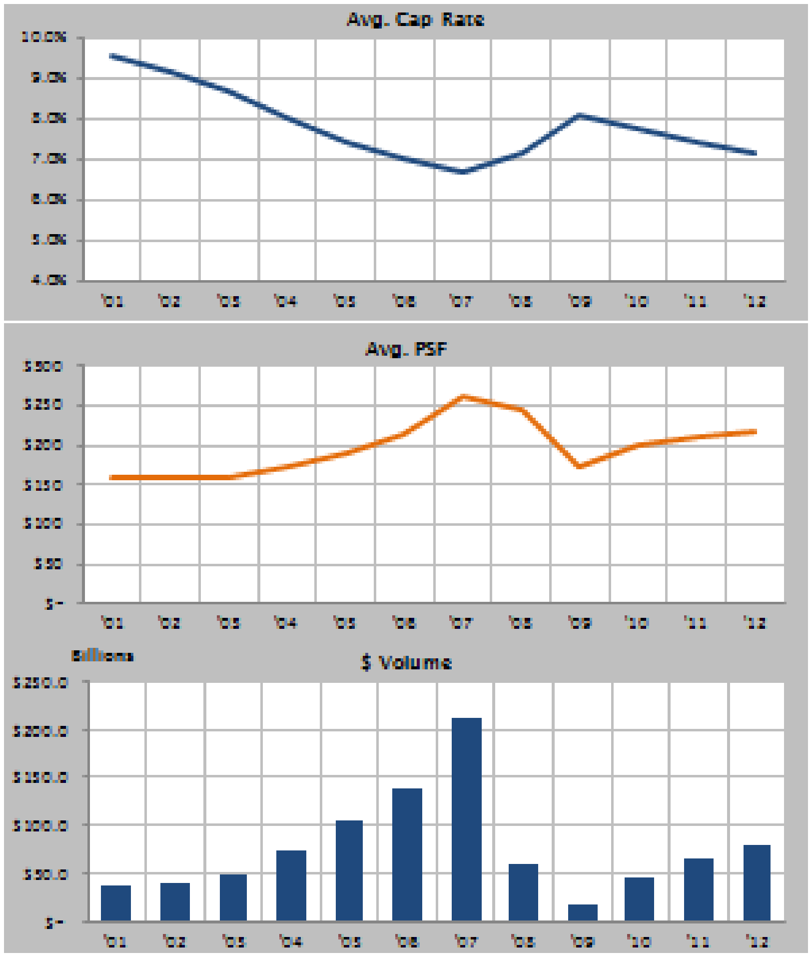
Source: RCA

- U.S. recorded total transaction volume of $290B for 2012 a 27% increase from the prior year.
- Transaction activity by property class: multi-family - $86.5B (30%), office –$79.1B (27%), retail - $54.2 (19%) and industrial - $37.7B (13%).

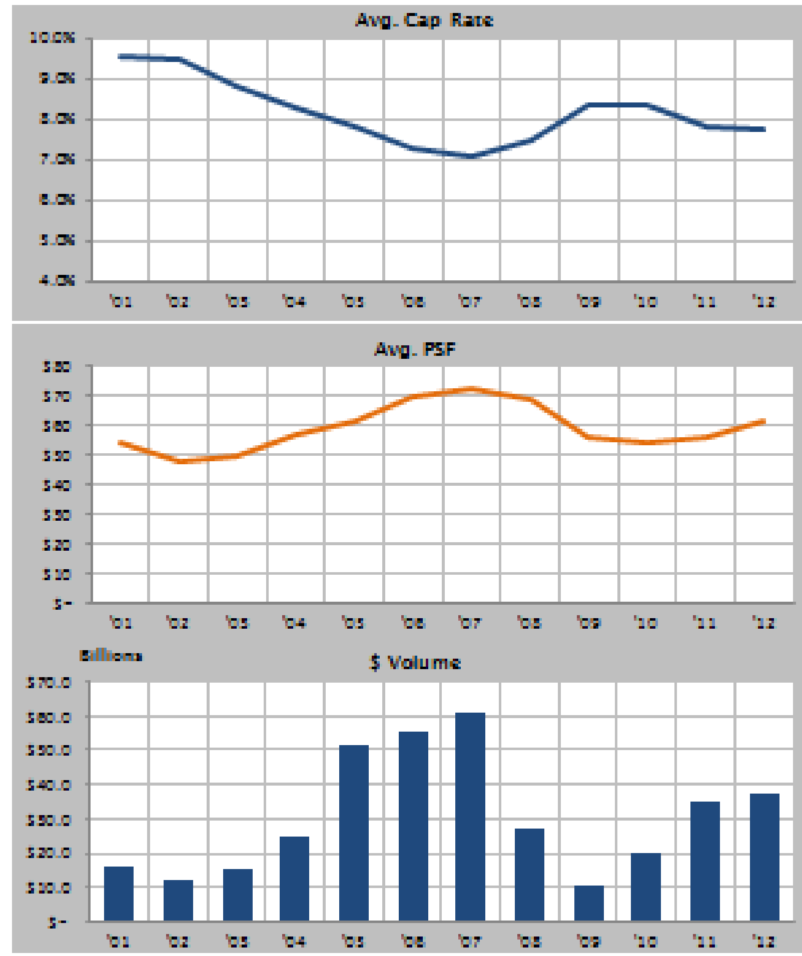
- Total distress sales are down - $26.5B vs. $34B in 2011. Distress as a percentage of total transaction activity is down for the 4th Quarter 2012 to 5% ($5.6B) vs. 14% ($9.9B) for the same period last year.
- Workout activity also slowed in Q4 to $10.4B vs. $8.3B for the prior quarter. New loan workout activity also slowed to $4.8B vs. $8.3B in the prior quarter.

Volume and Pricing - Yearly

All Office

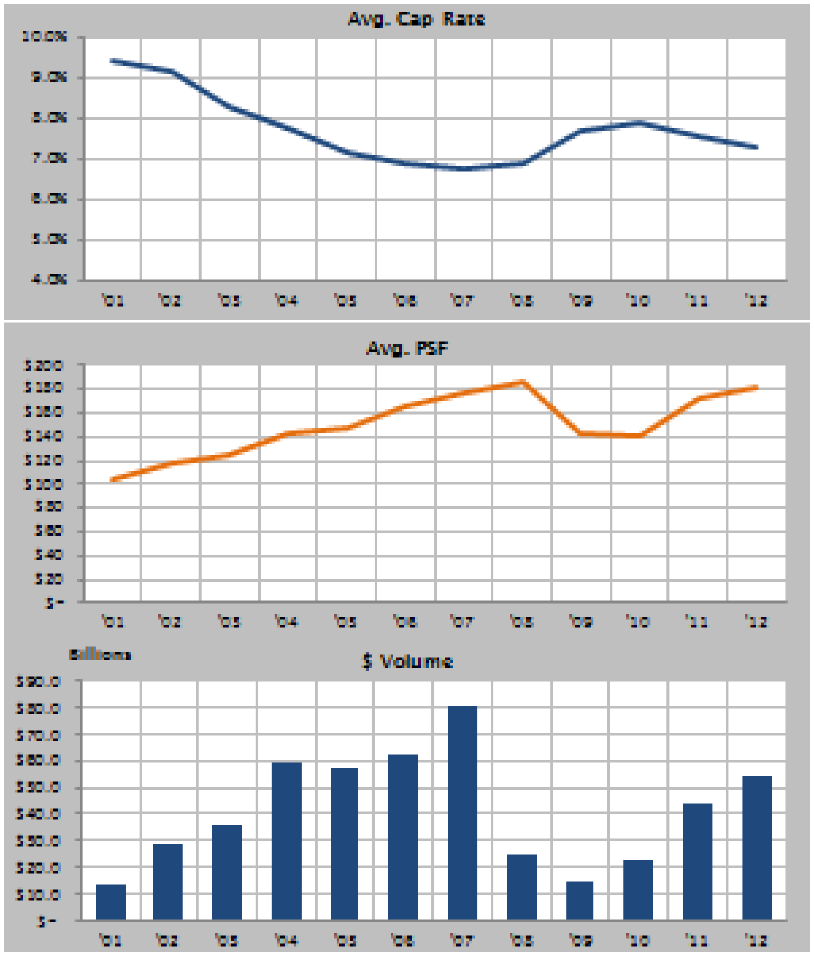


All Industrial

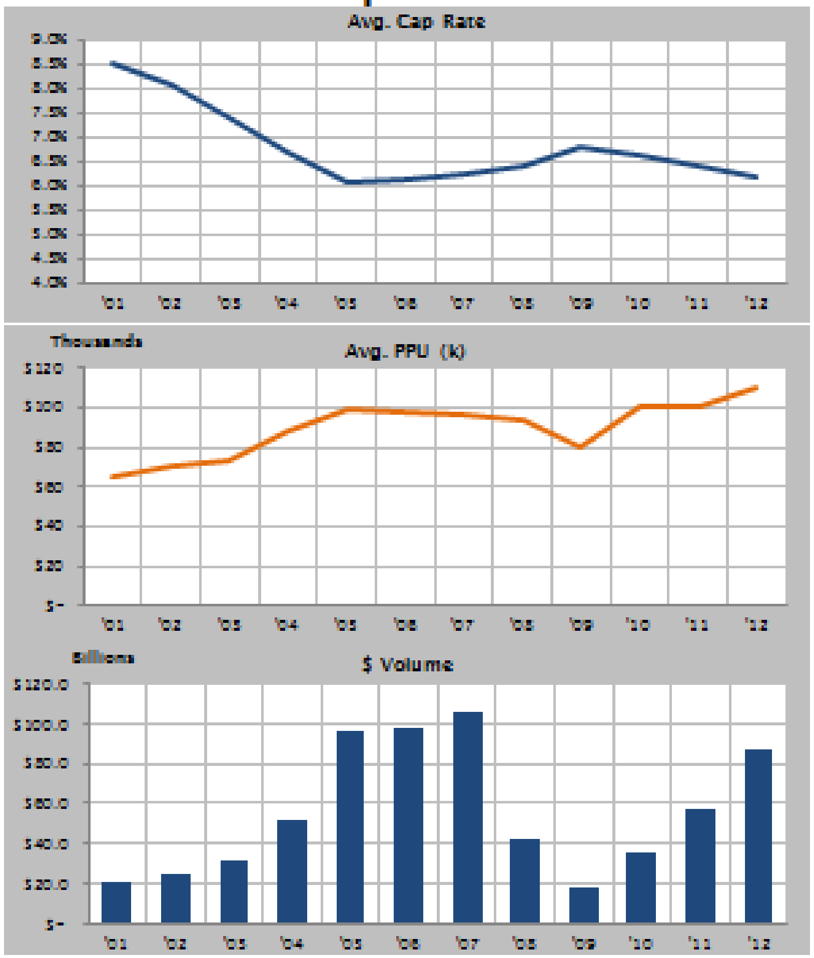


Volume and Pricing - Yearly

All Retail

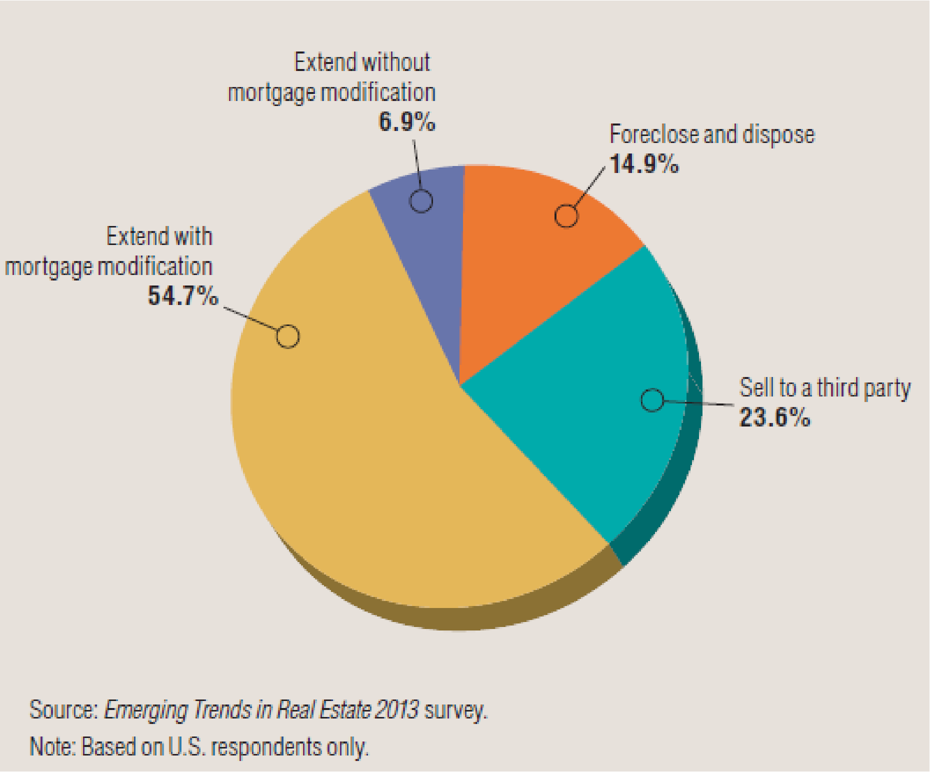


All Apartment



A Wave of Loan Maturities – What will be the Resolution?

Matured Loans – Preferred Strategy



- "Extend and pretend" remains to be the preferred strategy (61.6%).
- Banks need to "clear the decks" before they can lend on a meaningful basis.

A Wall of Maturities

Source: Trepp LLC, August 2012

Resolution Strategy

- Restructure/Modify & Rescue Capital
  - Evaluation of status - current losses
  - Ability to reset value
  - Market viability
  - Human capital resource availability
- Foreclosure/Deed-in-Lieu
  - Judicial v non- judicial ($$$$ & Time)
  - Court systems (Judge) vs. default/sale
- Loan Sale
  - Small Loan in a large portfolio v large loan (in proportion to portfolio)
  - Universe of prospective buyers
- Refinance

Refinanceable?

- 60% of 2006 & 2007 vintage CMBS 5-year loans which have matured in the last 2 years have not been able to refinance

	CMBS 2010 - Present	
	Average First Lien Debt Yield	Bottom Decile Average First Lien Debt Yield
	11.60%	8.70%
% of 2006 & 2007 CMBS Average First Lien Debt Yield Less Than Corresponding 2010 Debt Yield:	85%	55%

- Assuming similar yield distribution of CMBS and non-CMBS loans, then somewhere between $495 billion (at 8.7%) and $765 billion (at 11.6%) will need some sort of alternate structure in order to refinance

Source: TCW Group – Fixed Income Commentary: January 7, 2013

What has to Happen?

- Market continues to relax its underwriting standards
- Net Operating Income of CRE improves
- Current loan-to-value ratios need to be reduced through write-downs from modifications or equity infusion

Common Issues Faced Beyond the Real Estate

- Cash Flow Waterfalls (interest applied prior to operating expenses)
- Mismatch of lease terms to maturity
- Non-credit tenants
- Opportunistic assets financed as if stabilized
- “Fund” lenders now own equity
- No performance benchmarks/covenants
- Lease renewals at below current rates
- No recourse to any “warm” body – ability to steal cash
- Technical defaults which have no leverage

Resolution Issues

- Role of 3rd party
- Cash reserves
- Performance benchmarks
- Emotions get in the way from lender’s and borrower’s side
- Able to mediate and resolve present issues between parties
- Exit, Exit, Exit

CMBS Restructuring “Poster Child”

PJ Finance

$475,000,000

CMBS RESTRUCTURING – PJ ALLIANCE PORTFOLIO

32 Multi-Family Properties – 9,500 Units

Arizona, Texas, Florida, Georgia, Tennessee

Transaction:

- 2007 First mortgage loan secured by 32 Class “B” and “C” multi-family properties across 5 states (multijurisdictional concerns)
- Loan also secured (originally) by 2 subordinate mezzanine loans
- Borrower filed for bankruptcy
- Guarantor a “shell” entity with no assets
- Deteriorating properties (need for capital, decreasing tenant quality, poor management, many adversarial parties)
- Borrower inexperienced in operating real estate (affiliate of mezzanine lender which foreclosed and stepped into ownership position)
- Lockbox “broken” in bankruptcy and borrower using cash to sustain (not improve property) and pay its professionals
- Borrower attempts to force Lender to accept its own equity and restructured debt proposal

PJ Finance

Resolution:

- Engaged by Special Servicer 9 months after borrower bankruptcy
- Reviewed property operations to reveal deteriorating tenant credit quality and inaccurate reporting
- Negotiated for appointment of independent restructuring officer
- Created transparent auction structure to cause increased exposure and interest in project
- Auction guided framework for bids, including, restructured/re-trenched debt, injection of upfront equity, cash flow to provide for increased (ongoing) capital reserves, new sponsorship with adequate capitalization management expertise in asset class – and payment of Lender professionals and expenses incurred during default period
- Resolution achieved 7 months after engagement by Special Servicer – projection for near full recovery
- Properties now (and to be) recapitalized to permit value enhancement with experienced operating team
- Loan returned to Trust as performing loan