

# Commercial/Multifamily Real Estate Finance Update

May 14, 2008

**Jamie Woodwell**

Mortgage Bankers Association

## Single-family Housing Market

### Impact on CREF New Business

- » Credit markets
- » Originations
- » Property sales

### Commercial Real Estate Finance Performance & Value

- » Mortgage performance
- » Maturities
- » Property performance
- » Property values

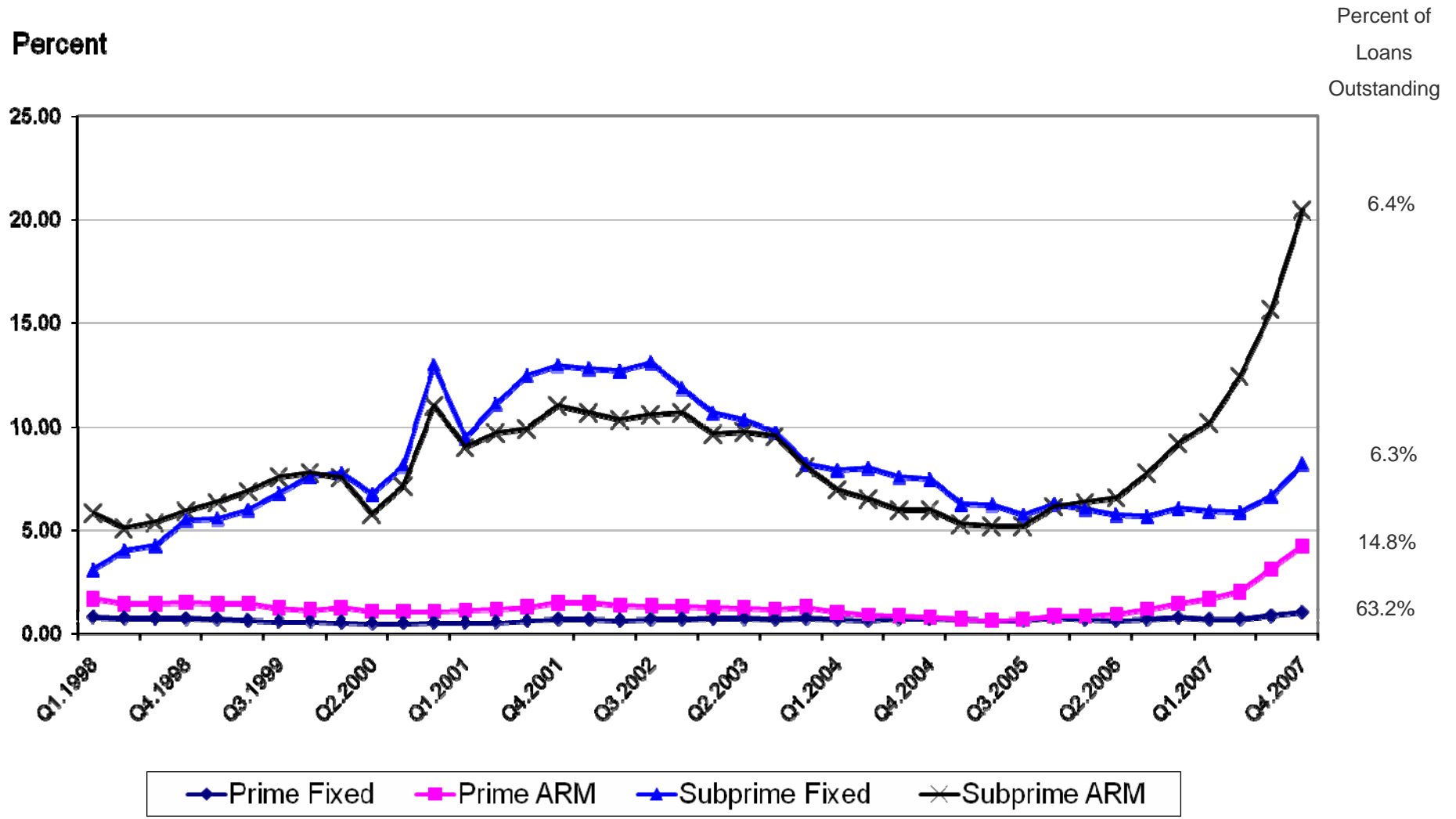
### Economic Outlook

- » Economic indicators
- » Regional variations
- » CRE demand drivers

### A Quick Look at the Servicing Industry

# Single-family Housing Market

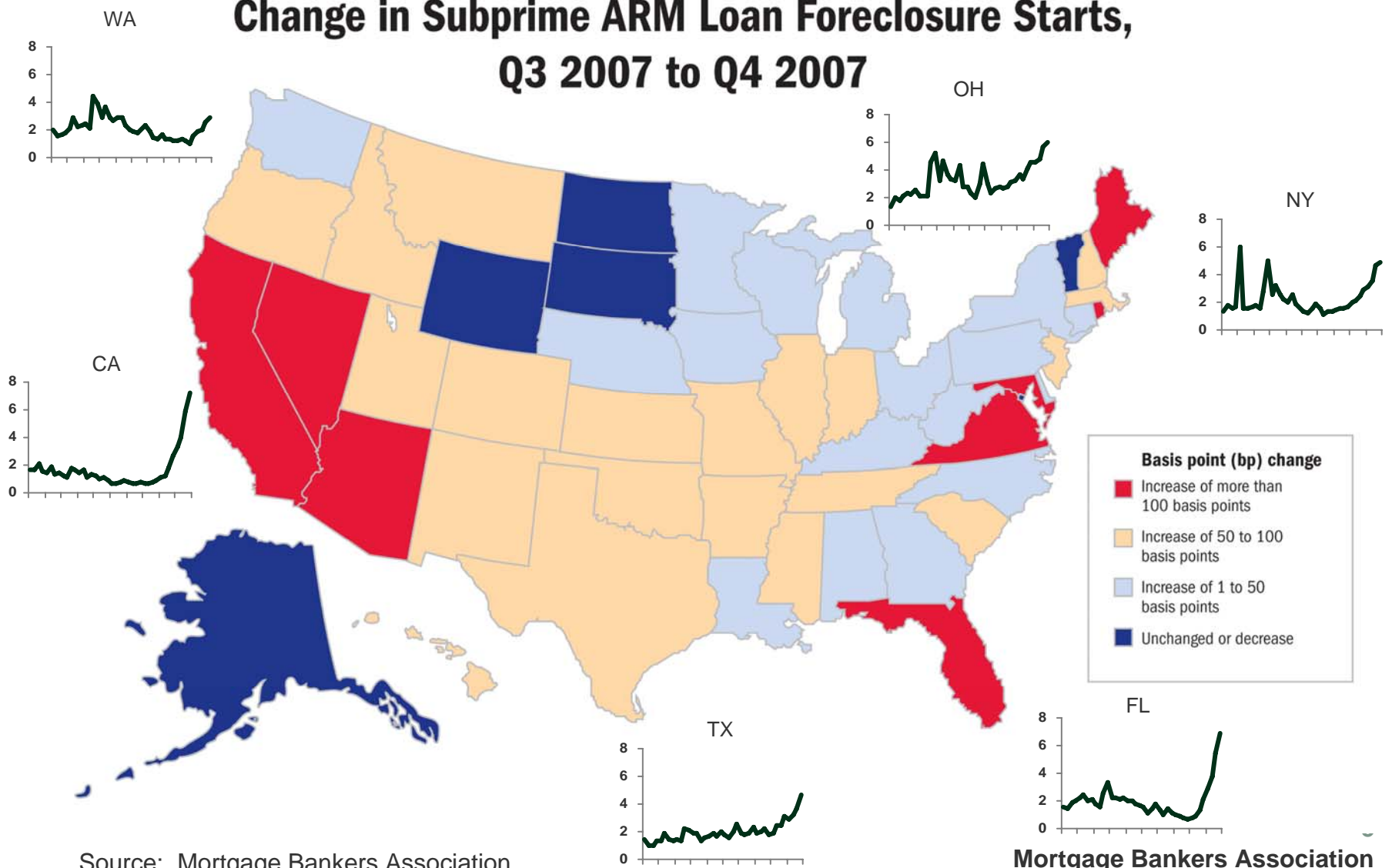
# Seriously Delinquent Rate by ARM and Fixed



Source: MBA National Delinquency Survey

Mortgage Bankers Association

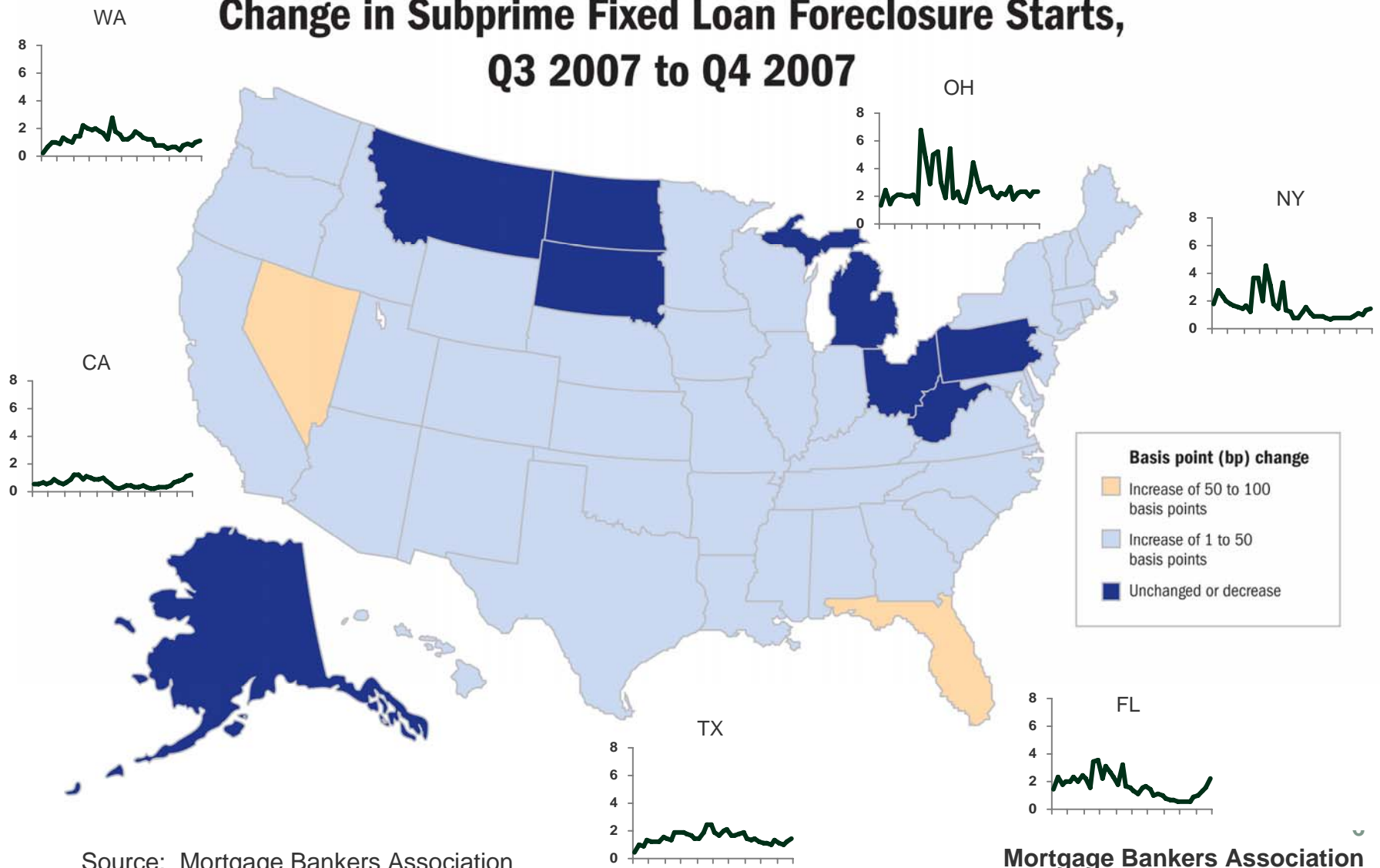
## Change in Subprime ARM Loan Foreclosure Starts, Q3 2007 to Q4 2007



Source: Mortgage Bankers Association

Mortgage Bankers Association

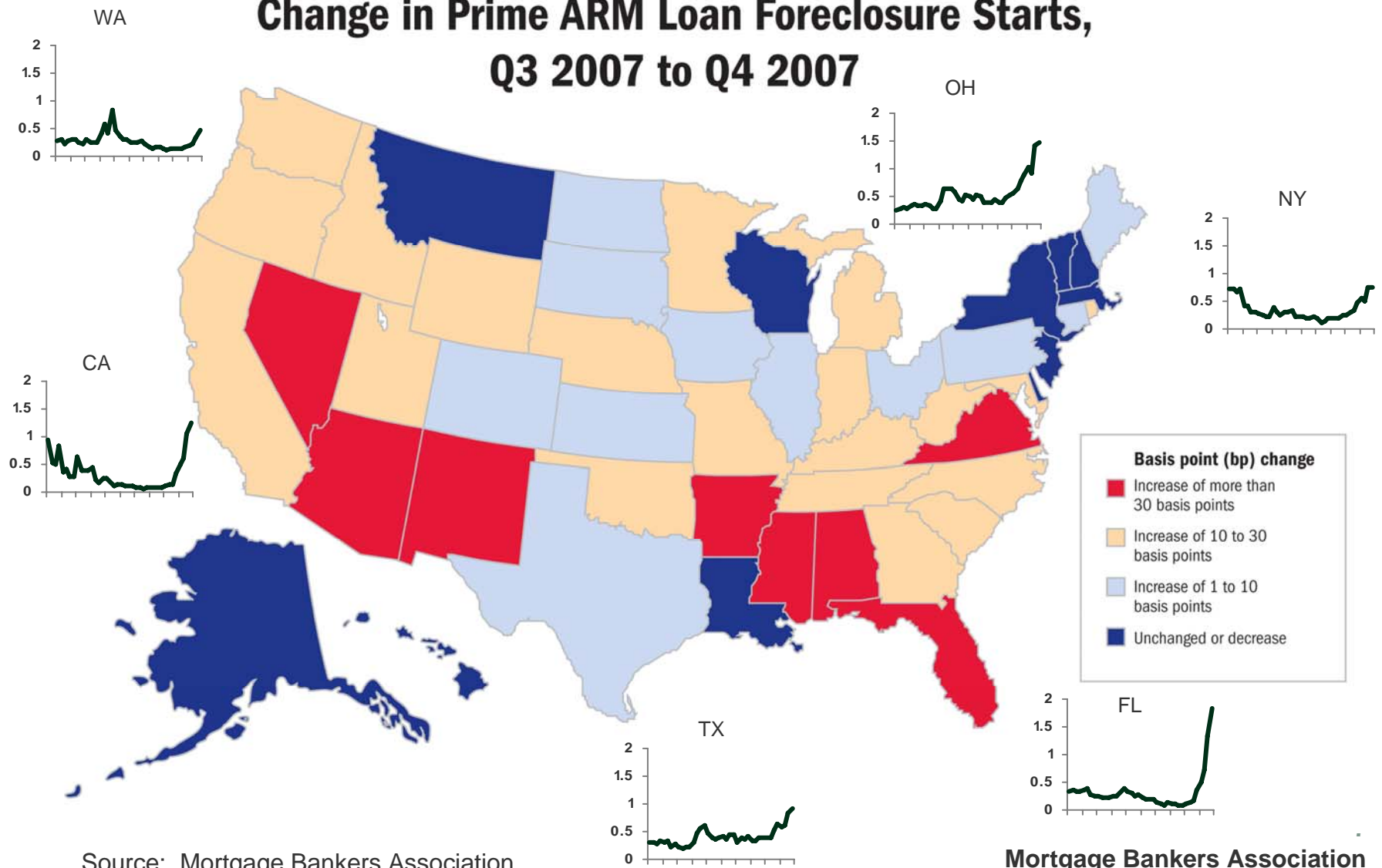
## Change in Subprime Fixed Loan Foreclosure Starts, Q3 2007 to Q4 2007



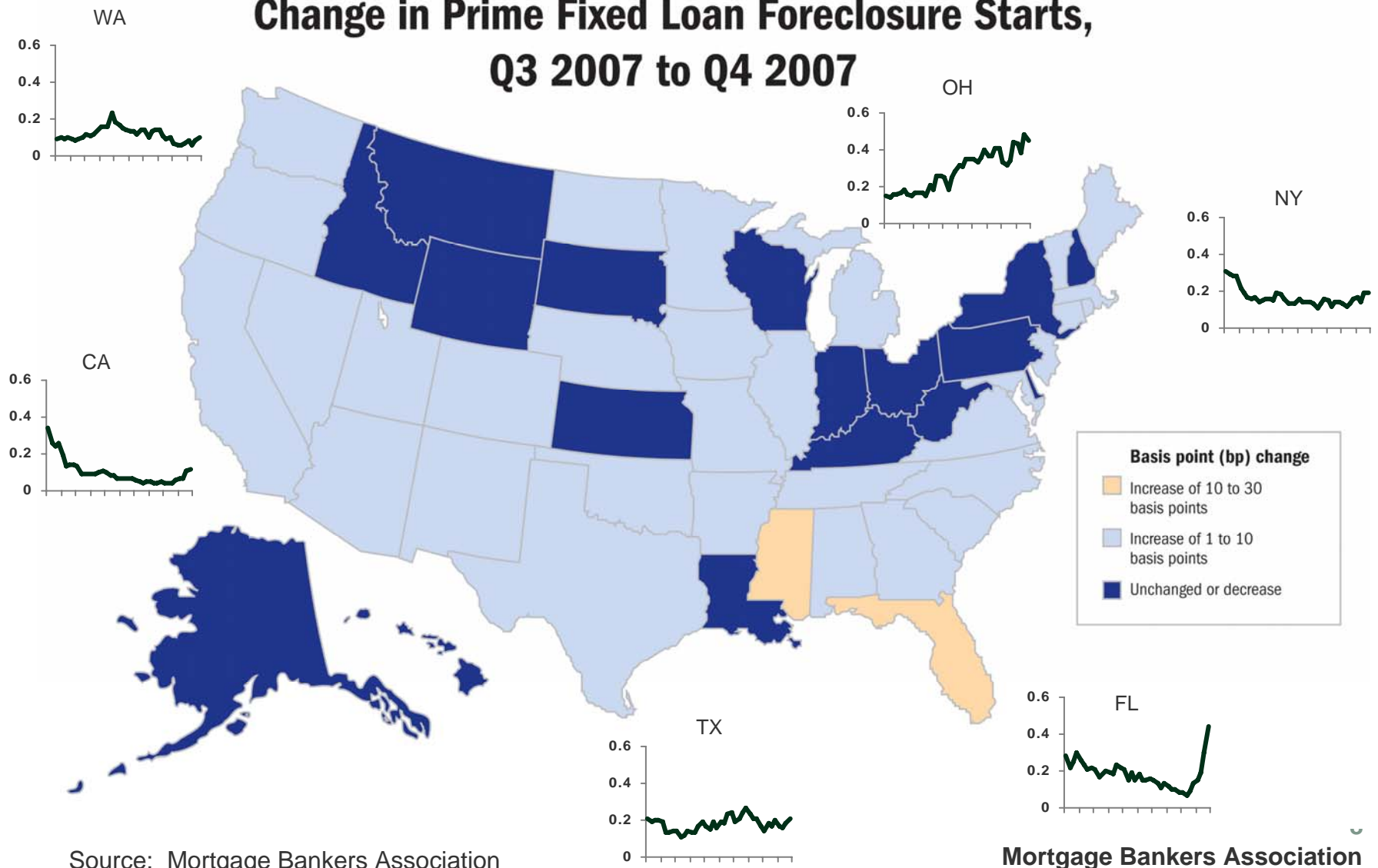
Source: Mortgage Bankers Association

Mortgage Bankers Association

## Change in Prime ARM Loan Foreclosure Starts, Q3 2007 to Q4 2007



## Change in Prime Fixed Loan Foreclosure Starts, Q3 2007 to Q4 2007



Source: Mortgage Bankers Association

Mortgage Bankers Association

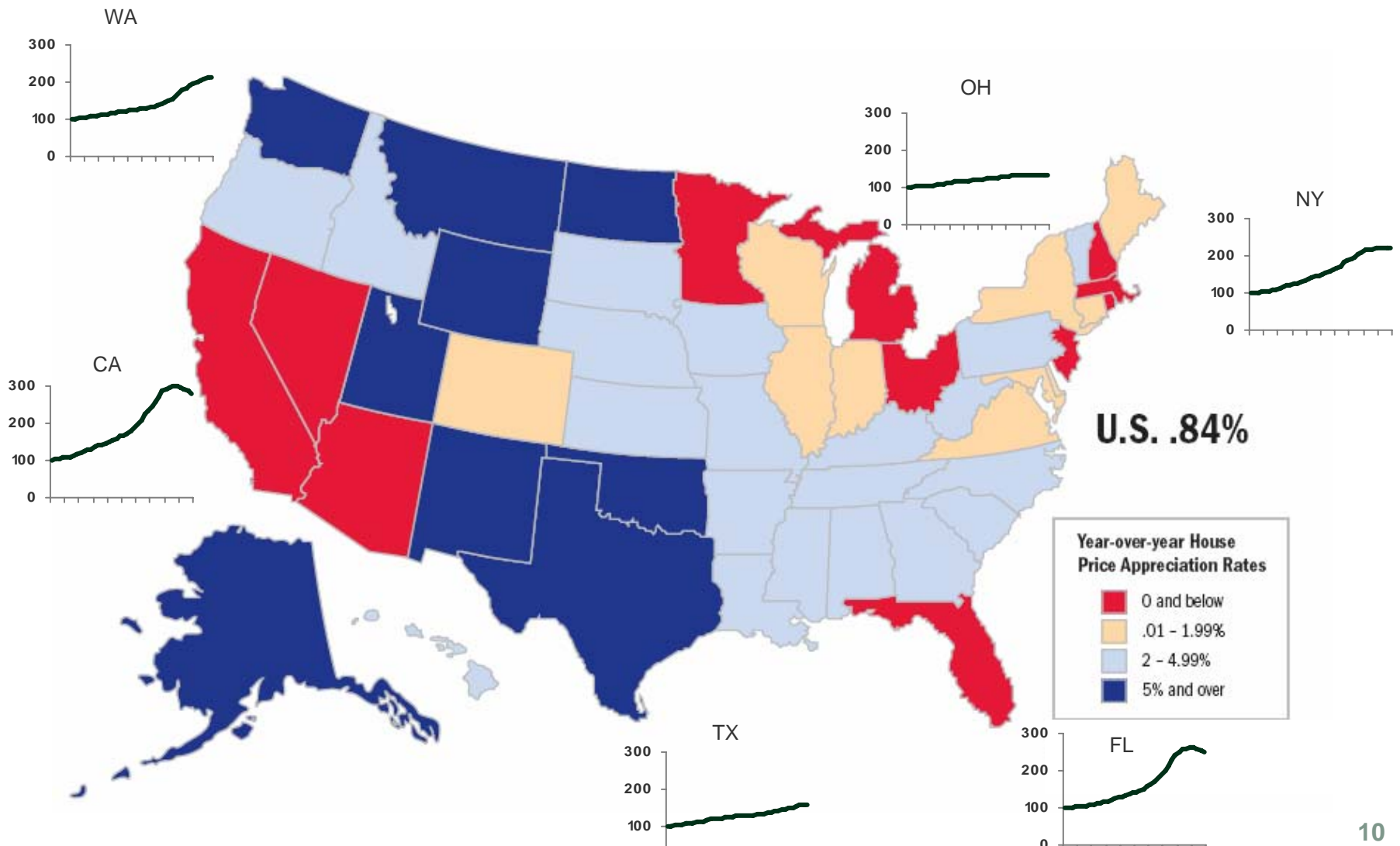
# State Share of Loans Serviced, 90+ Day Delinquencies and Foreclosure Starts



	% of Loans	90 Day	% of Foreclosures Started
<b>All Loans</b>			
CA, FL, AZ, NV	25.2%	27.7%	35.6%
MI, OH	6.8%	10.1%	9.6%
Combined	32.1%	37.7%	45.2%
<b>Prime ARM</b>			
CA, FL, AZ, NV	44.6%	50.8%	53.4%
MI, OH	4.7%	6.4%	6.6%
Combined	49.2%	57.2%	60.0%
<b>Subprime ARM</b>			
CA, FL, AZ, NV	36.2%	34.4%	43.6%
MI, OH	7.4%	10.3%	8.0%
Combined	43.6%	44.7%	51.7%

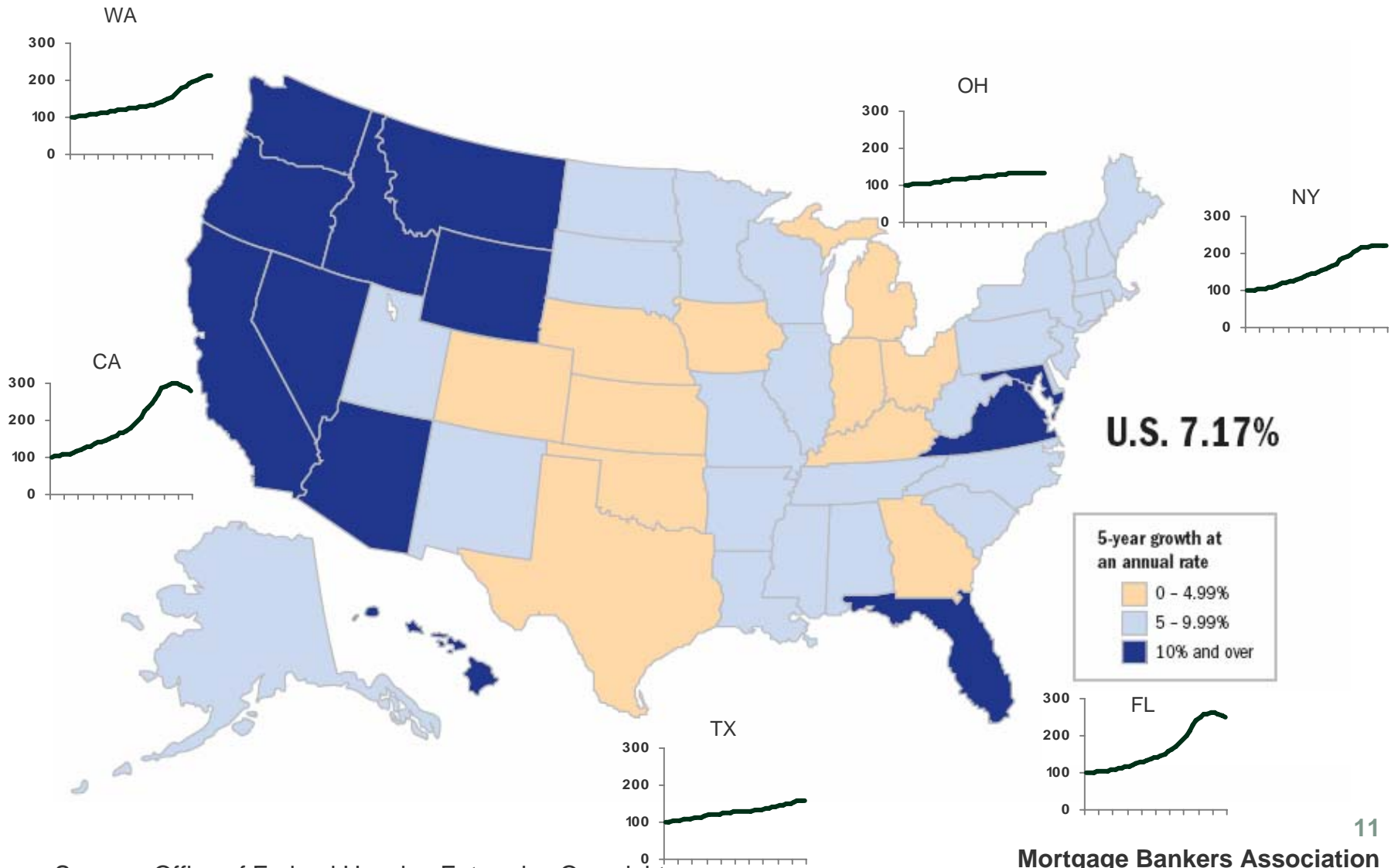
Source: The Mortgage Bankers Association

# State-Level Home Price Growth Rate: 2006Q4 to 2007Q4



Source: Office of Federal Housing Enterprise Oversight

# 5-Year Average Home Price Growth, Yearly: 2002Q4 to 2007Q4

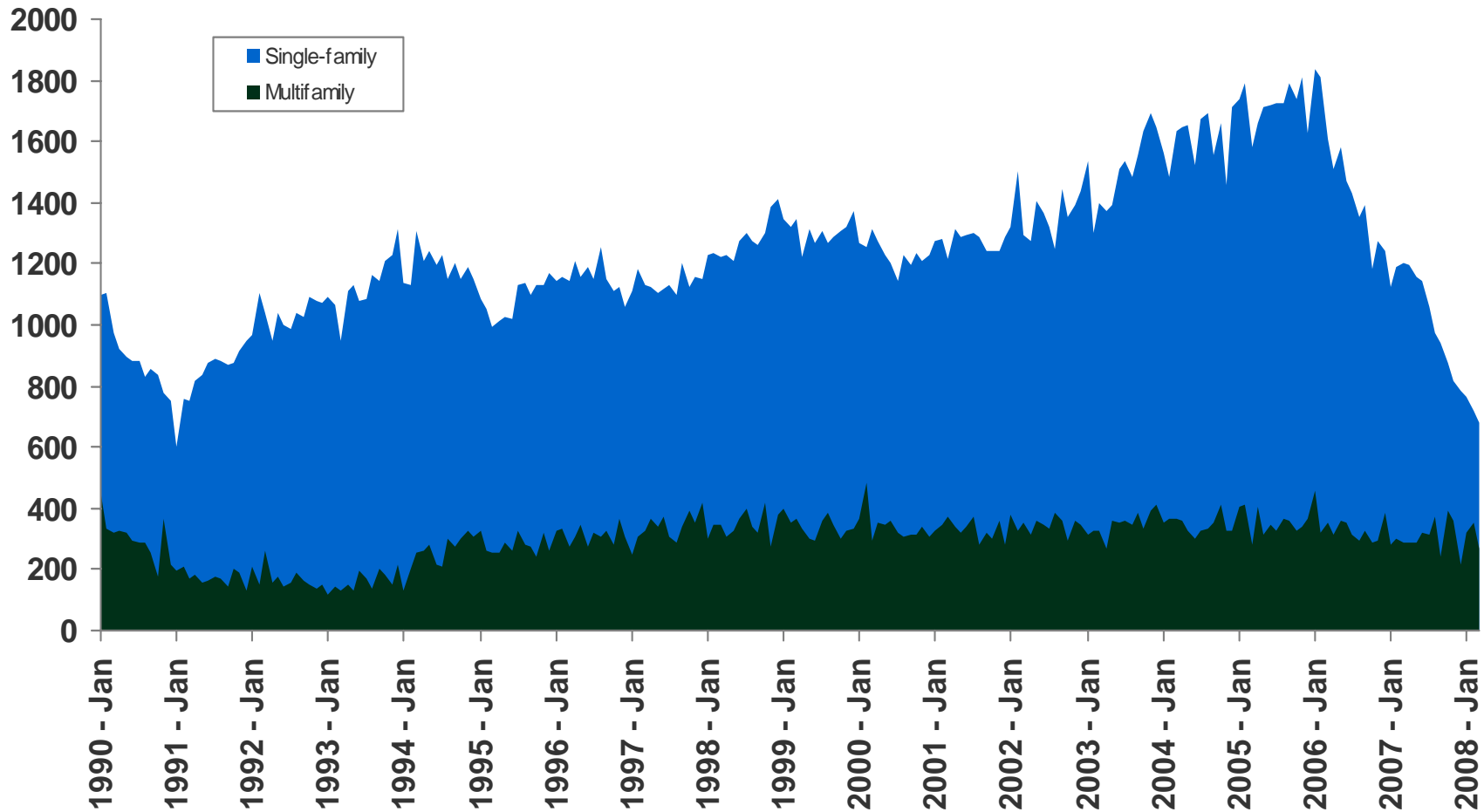


Source: Office of Federal Housing Enterprise Oversight

# Housing Starts

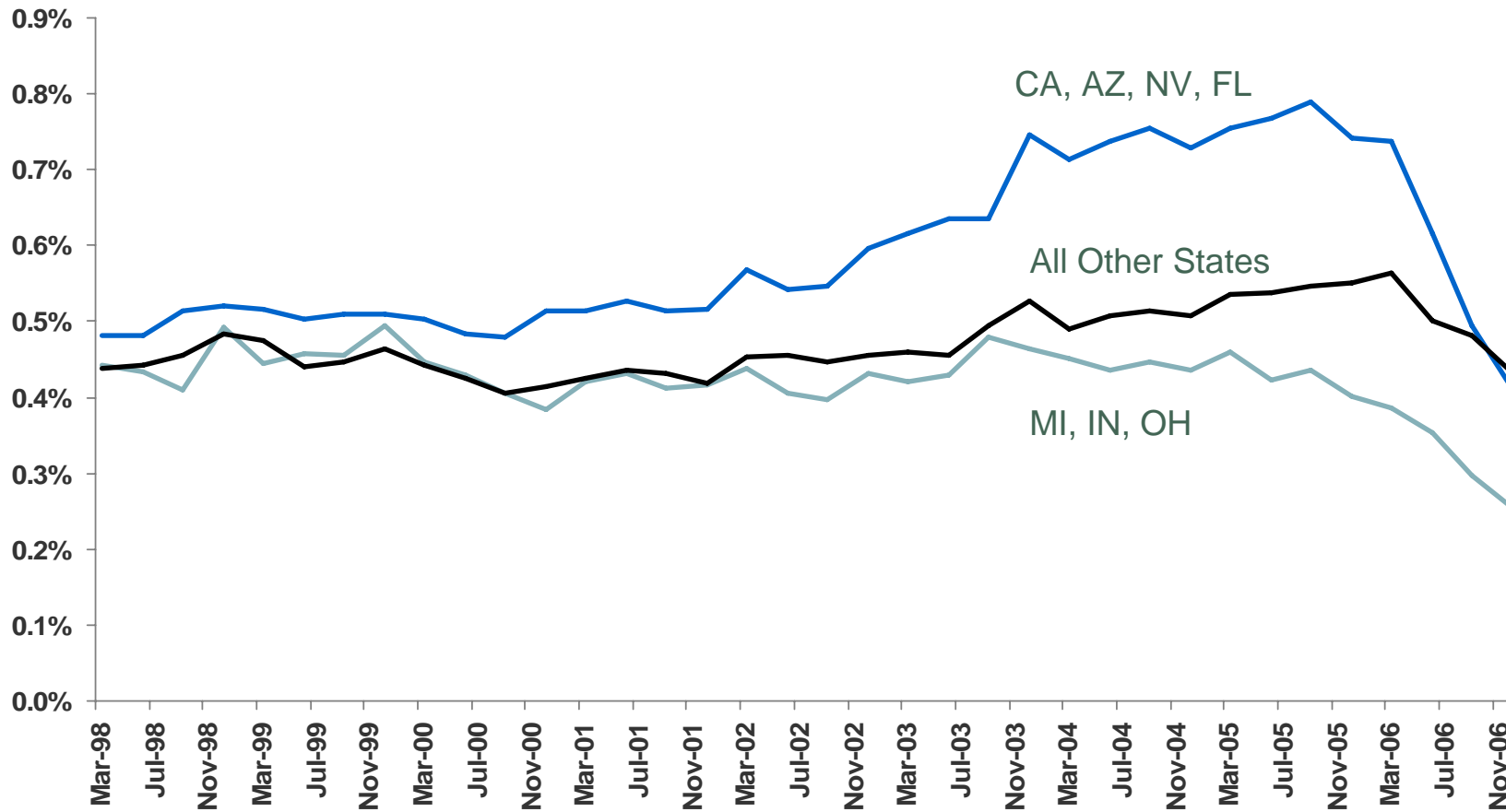


Thousands of Units



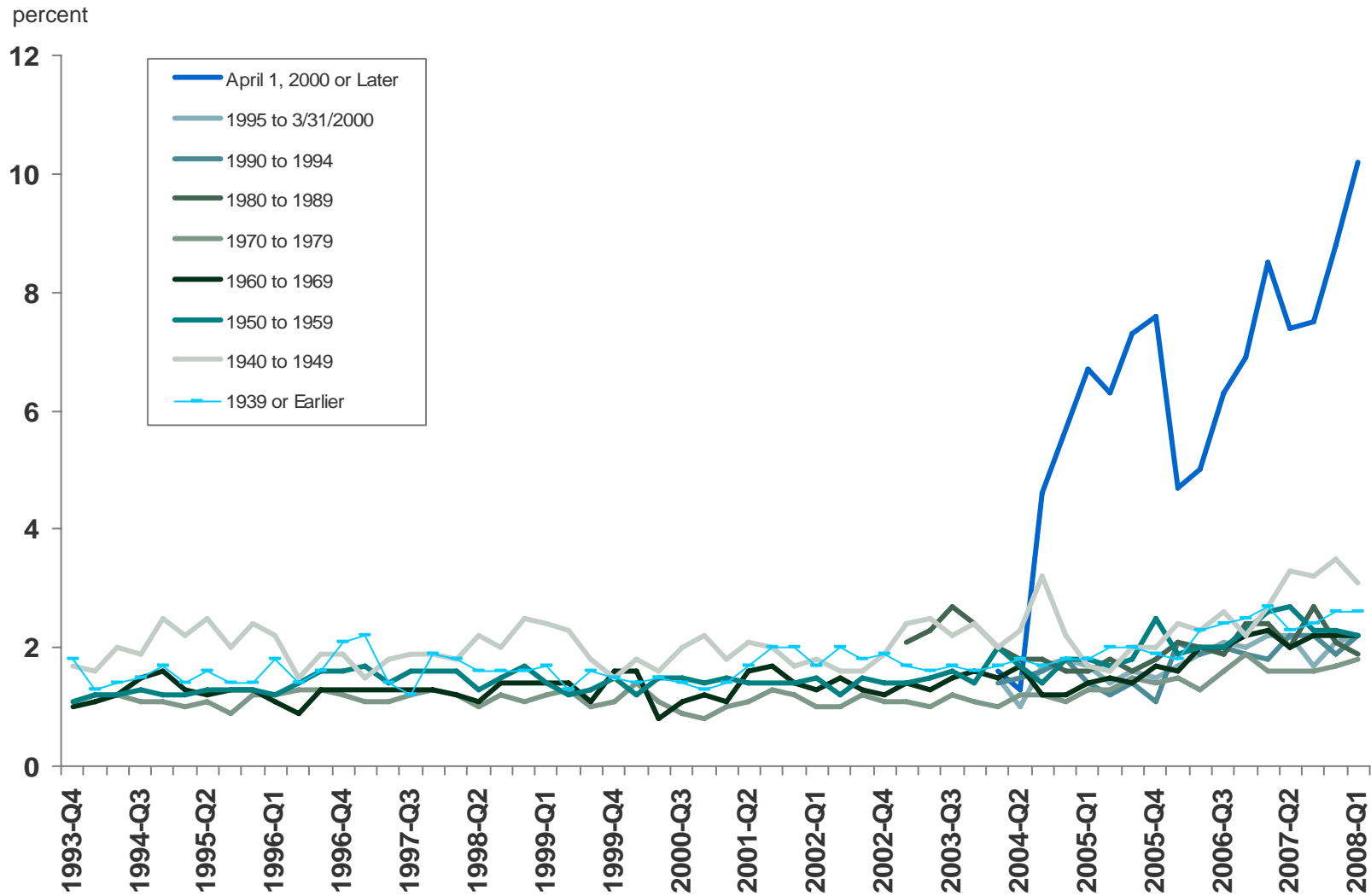
Source: Bureau of the Census

# Housing Starts Per Capita



Source: The Federal Reserve Bank of New York and Economy.com

# Homeowner Vacancy Rate, by Year Structure Built

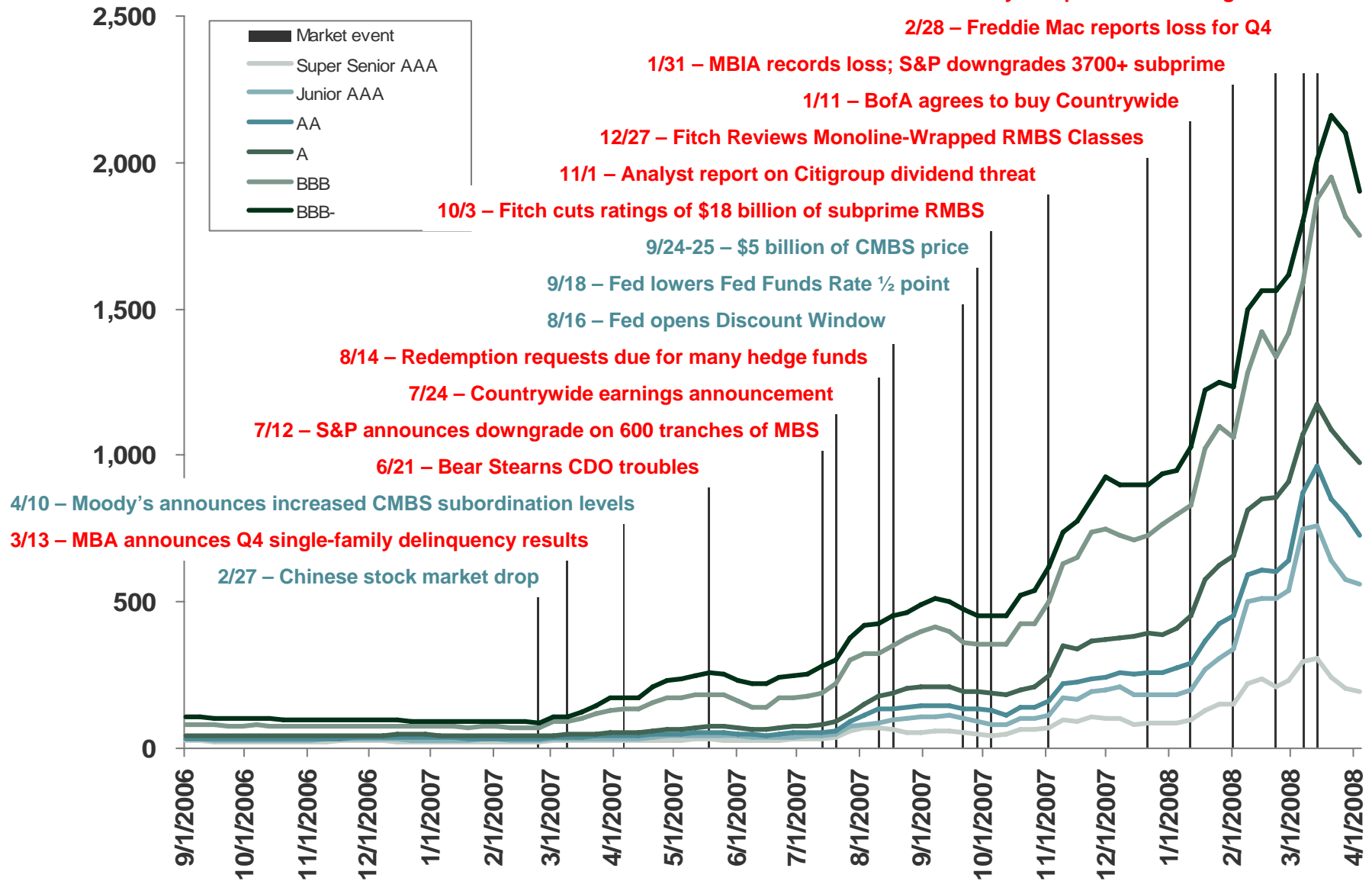


Source: Census

Mortgage Bankers Association

## **Credit Markets**

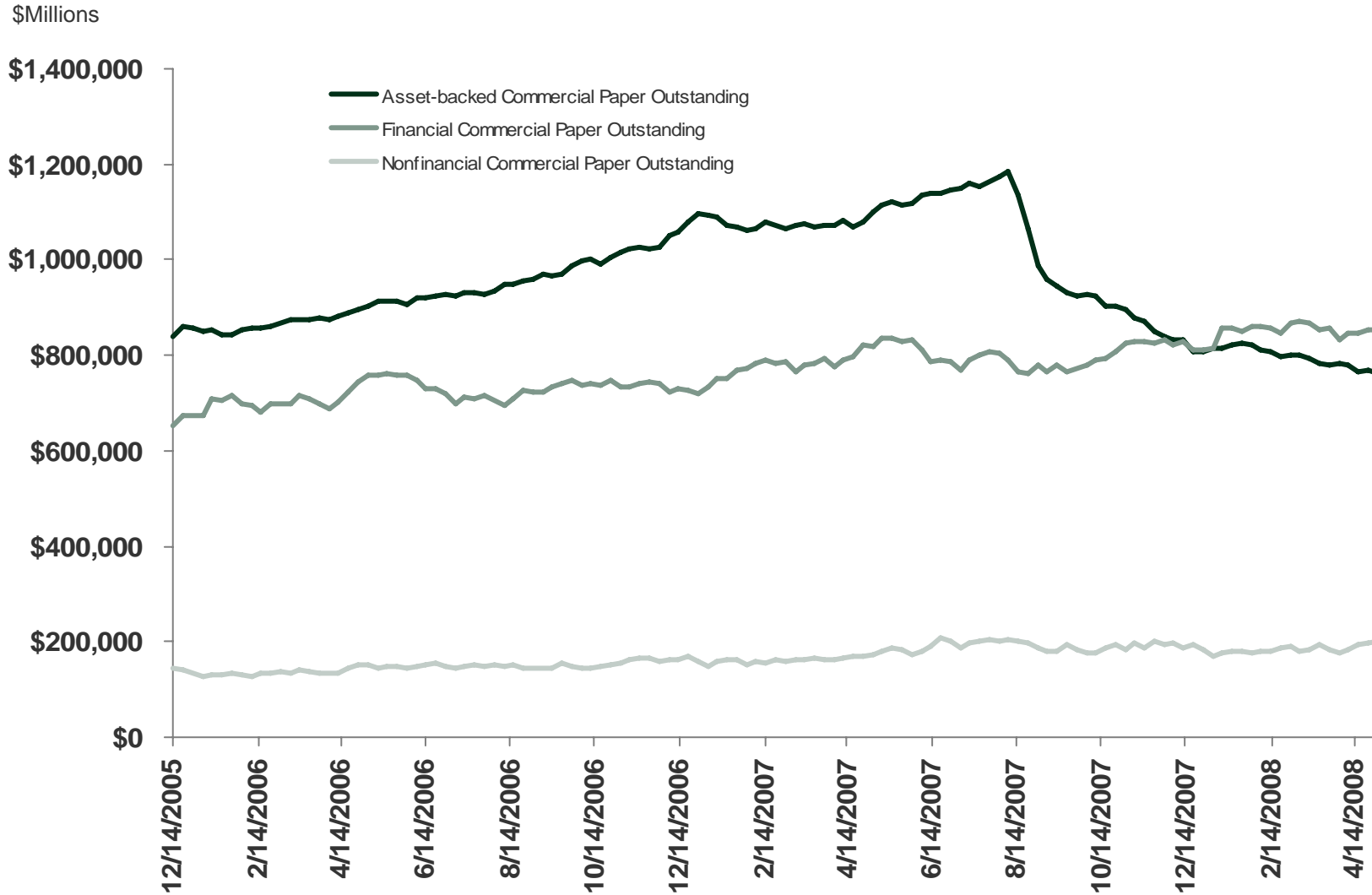
# CMBS Spreads to Swaps (in Basis Points)



Source: MBA and Commercial Real Estate Direct

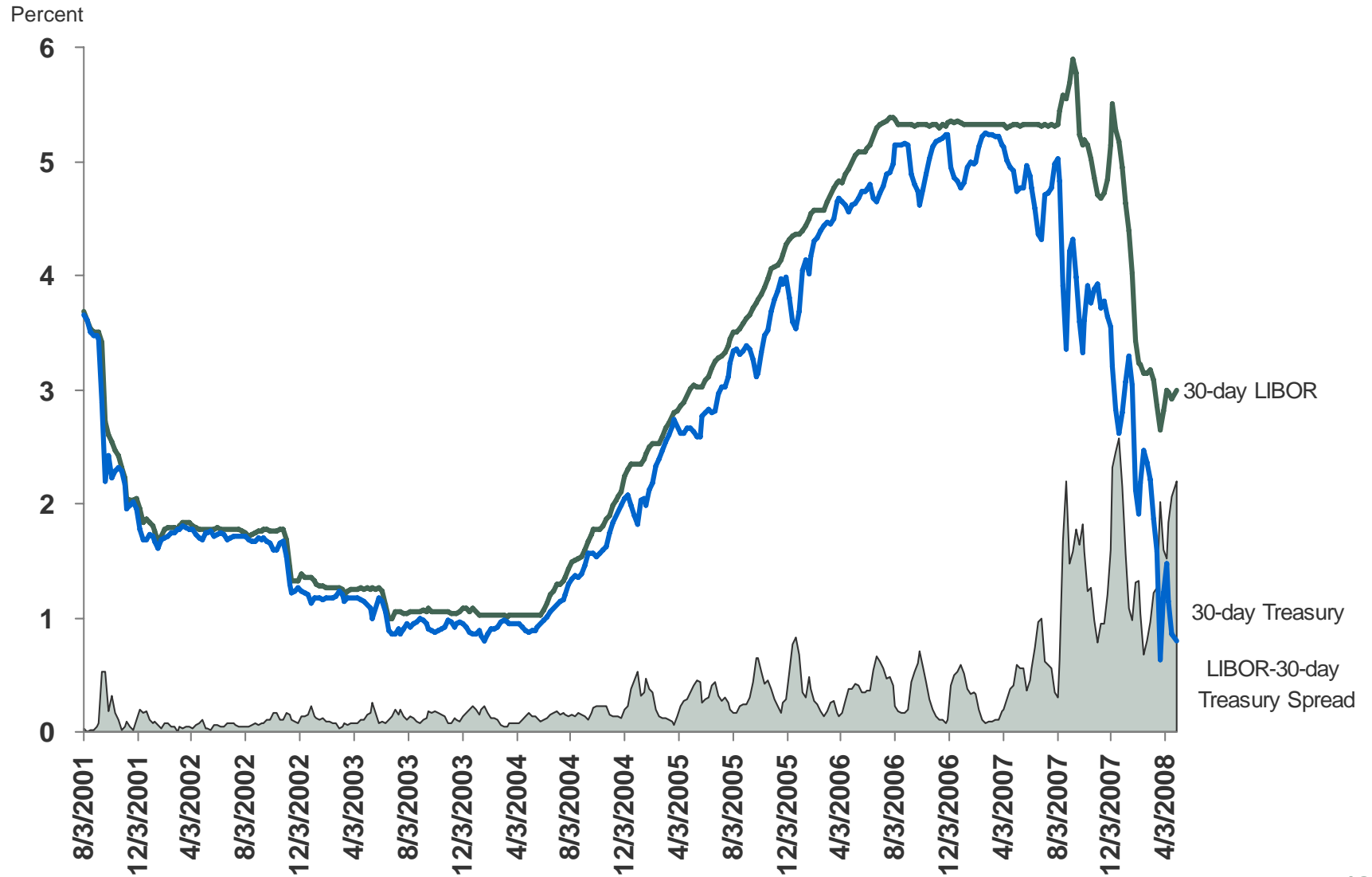
Mortgage Bankers Association

# Commercial Paper Outstanding; not seasonally adjusted



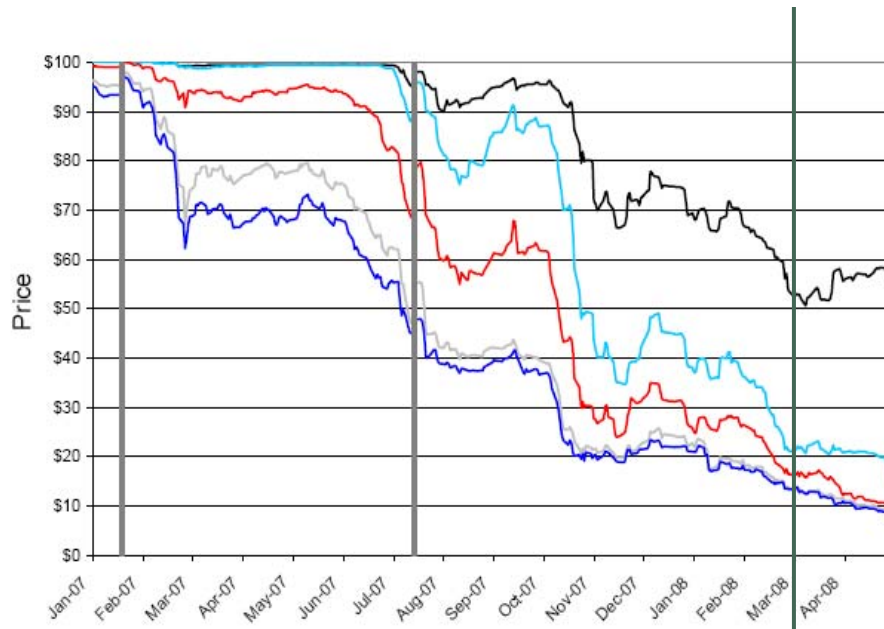
Source: Federal Reserve Board

# 30-day LIBOR and 30-day Treasury

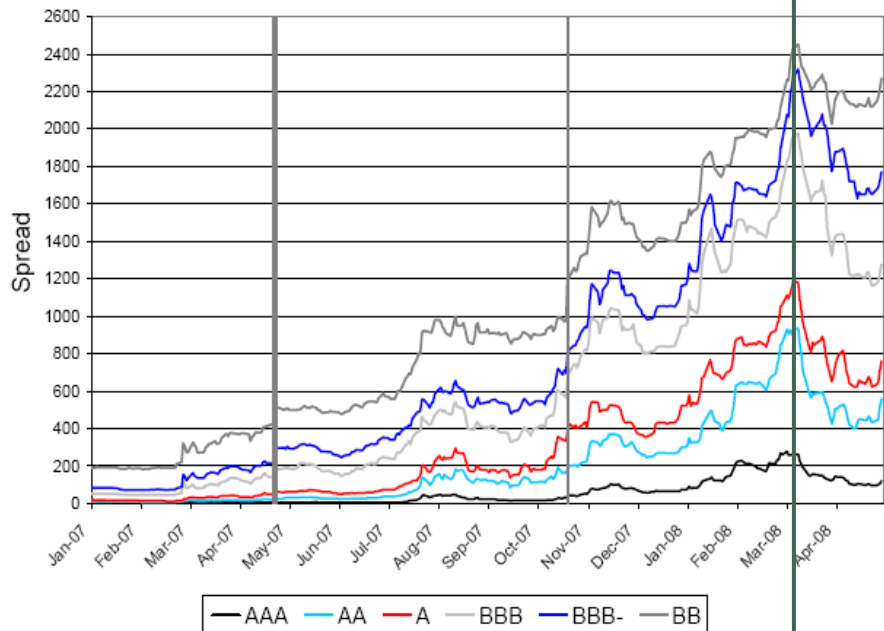


Source: Federal Reserve Board

ABX on-the-run dollar prices



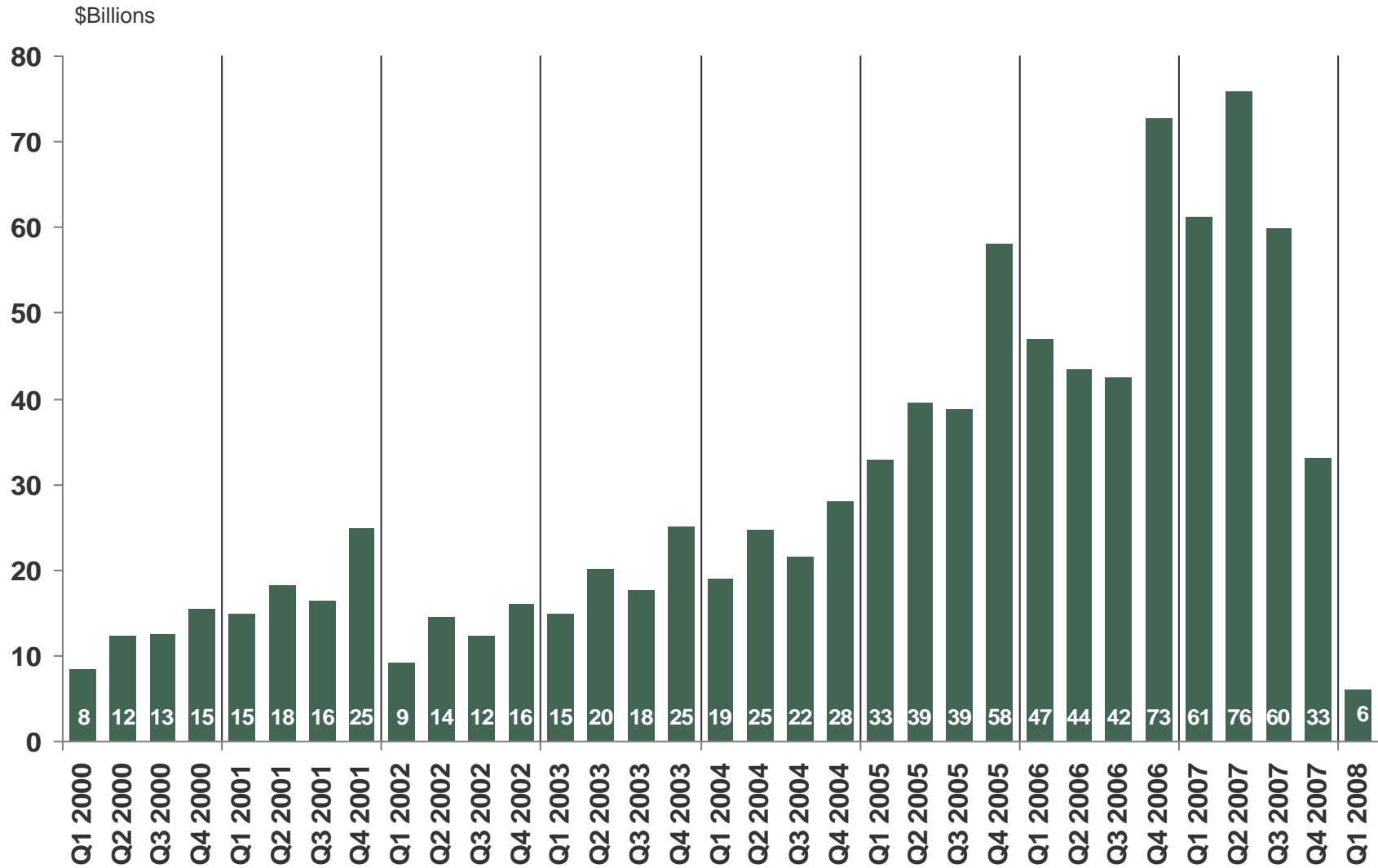
CMBX on-the-run spreads



## ABX Prices and CMBX Spreads

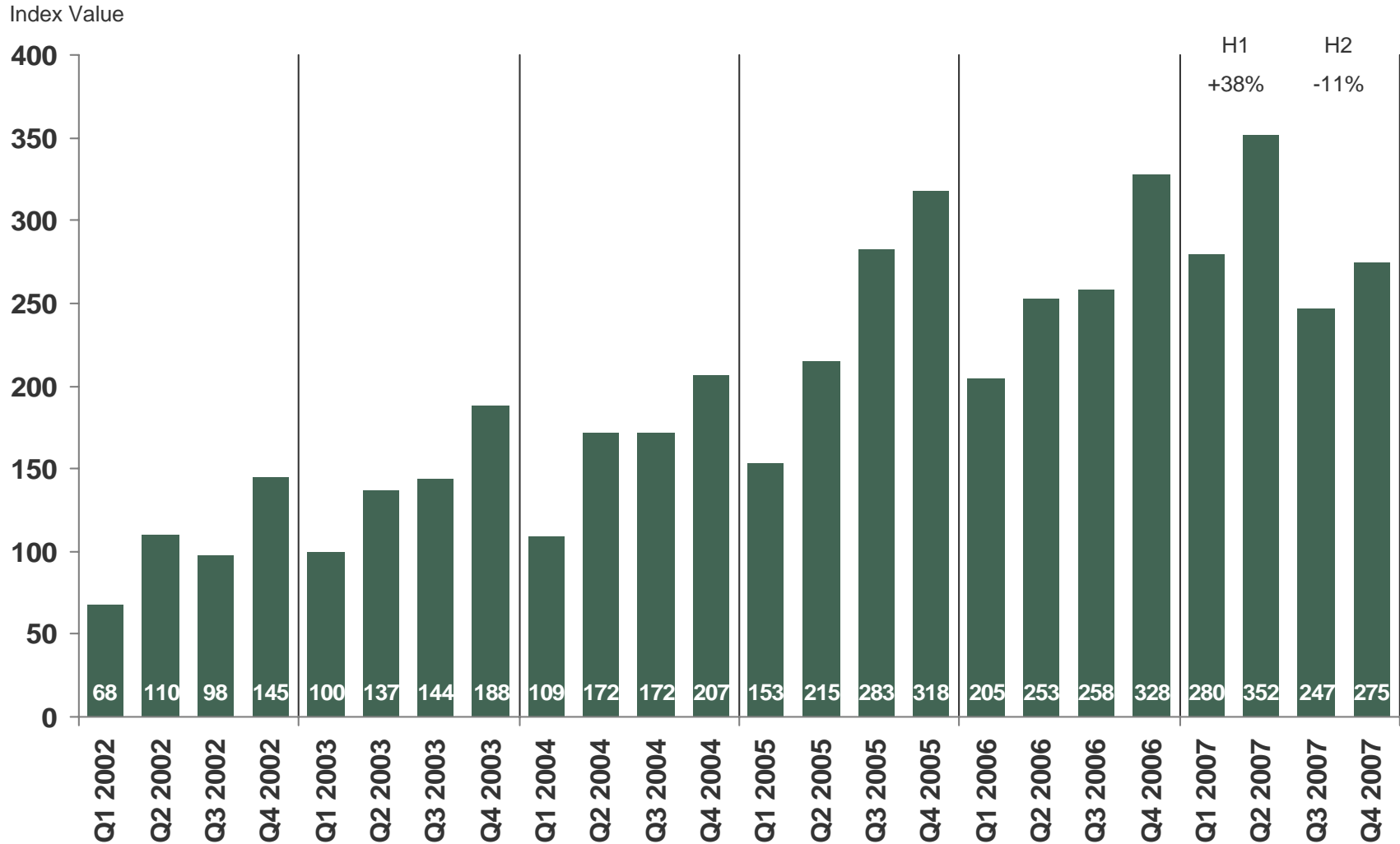
Sources: Markit, Banc of America Securities LLC.

# CMBS Issuance



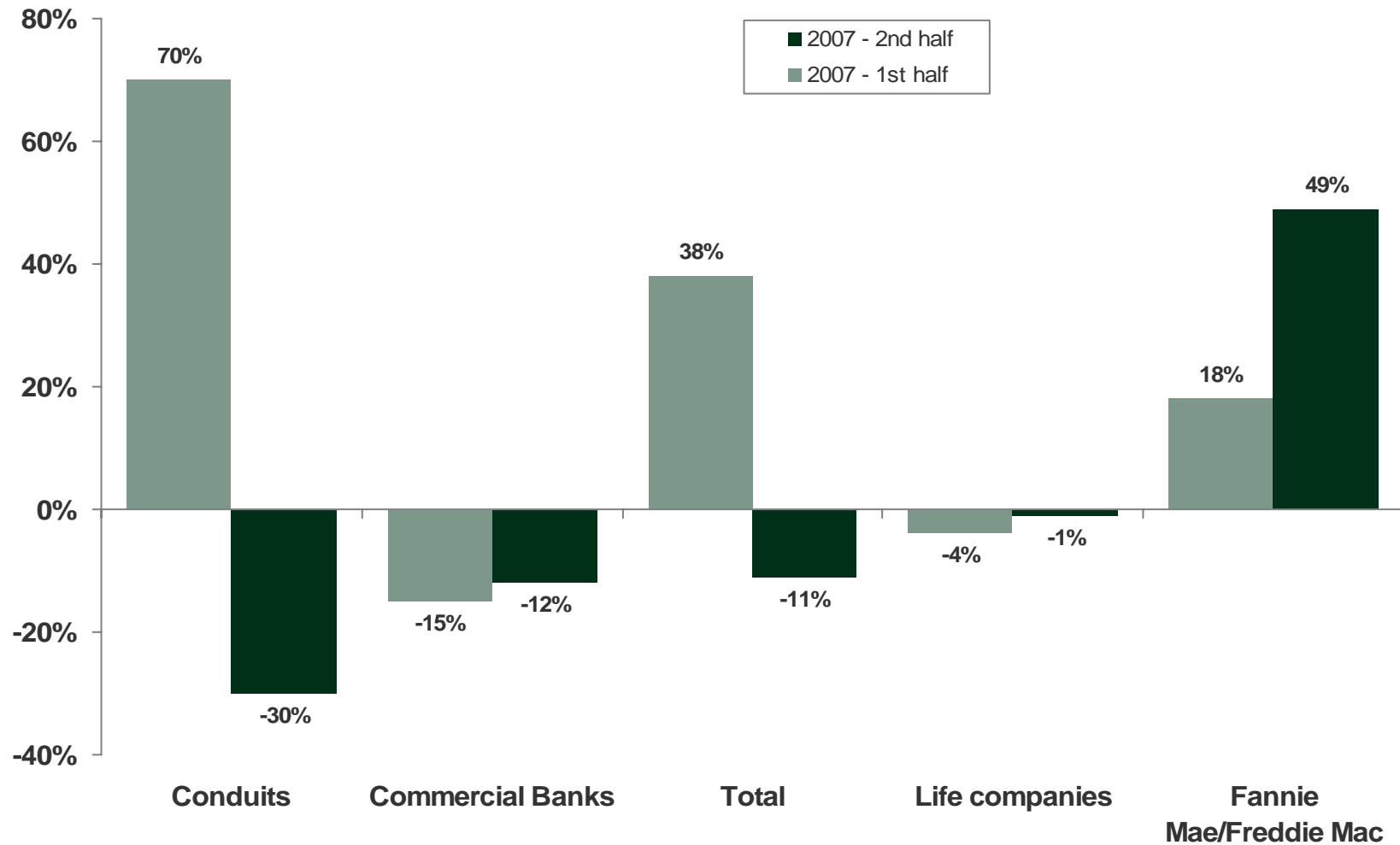
Source: CMAAlert.com

# Index of Commercial/Multifamily Mortgage Bankers Origination Volumes (2001 avg. Qrt = 100)



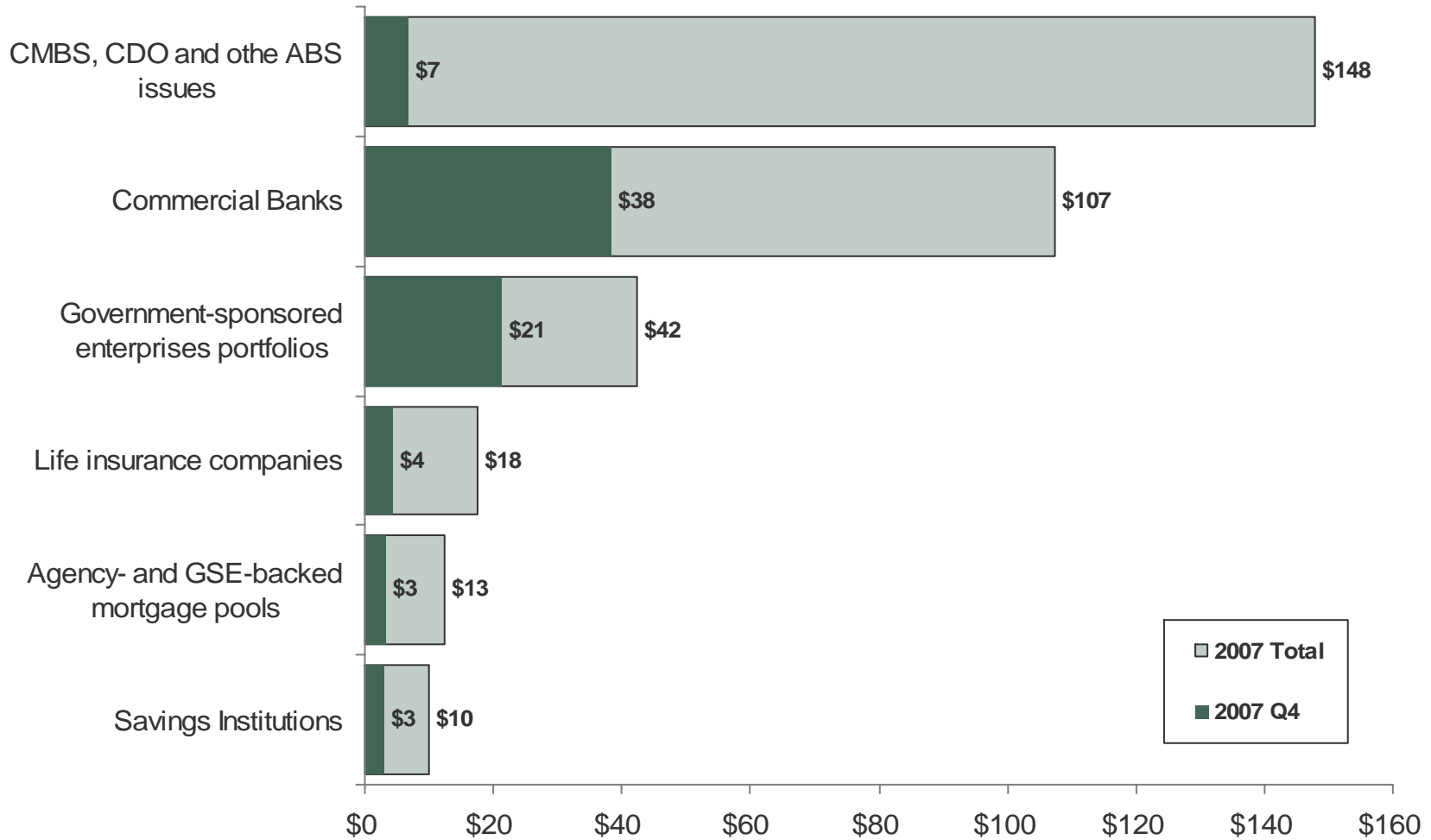
Source: Mortgage Bankers Association

# Year-over-year Percent Change in Commercial/Multifamily Mortgage Origination Volumes



Source: Mortgage Bankers Association

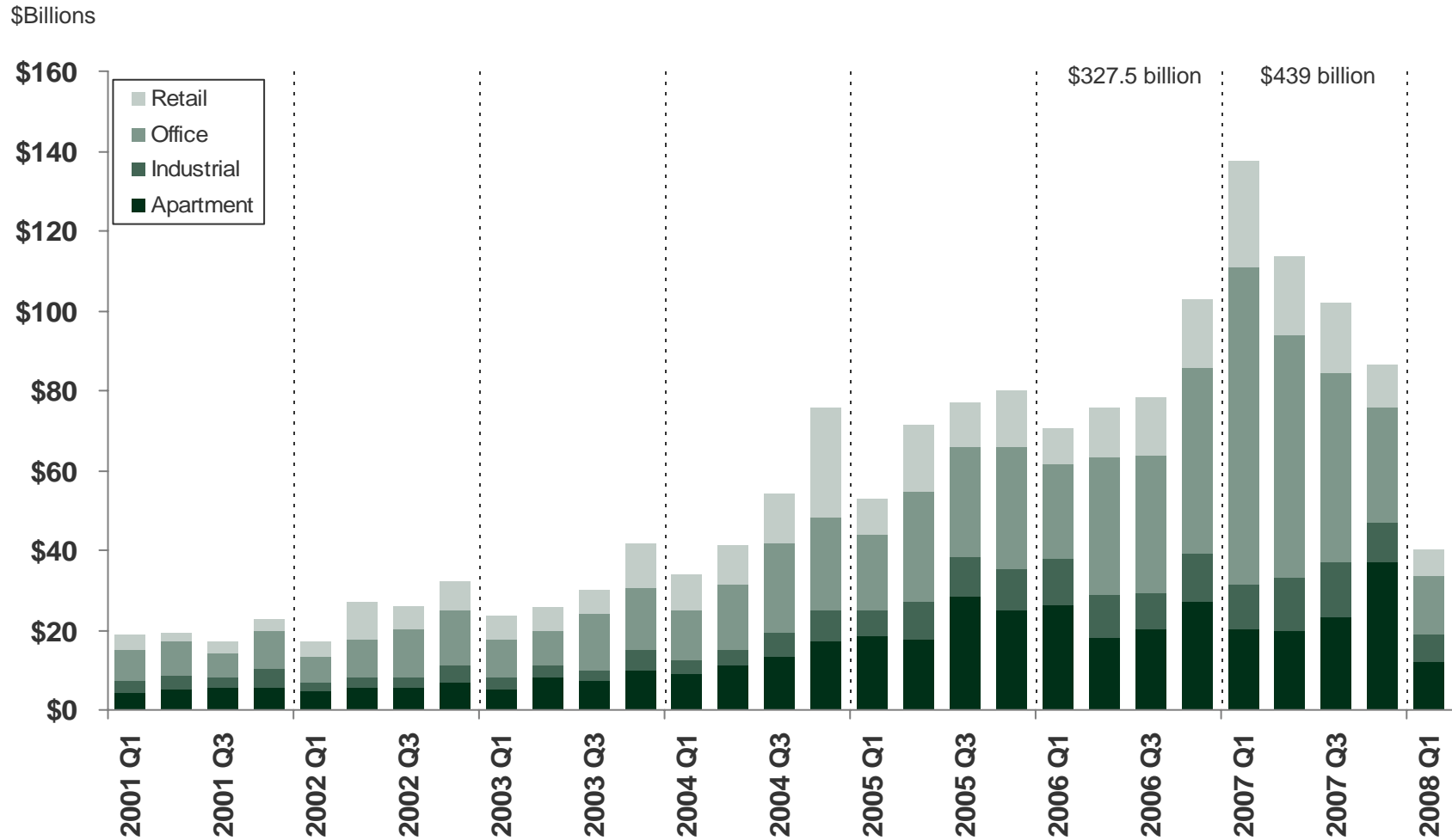
# Net Change in Commercial/multifamily Mortgage Debt Outstanding, by Investor Group, Q4 and Full year 2007



Source: Federal Reserve Board

# **Commercial Real Estate Values & Performance**

# Commercial/Multifamily Property Sales Volume Properties and portfolios \$5 million and greater



Source: Real Capital Analytics

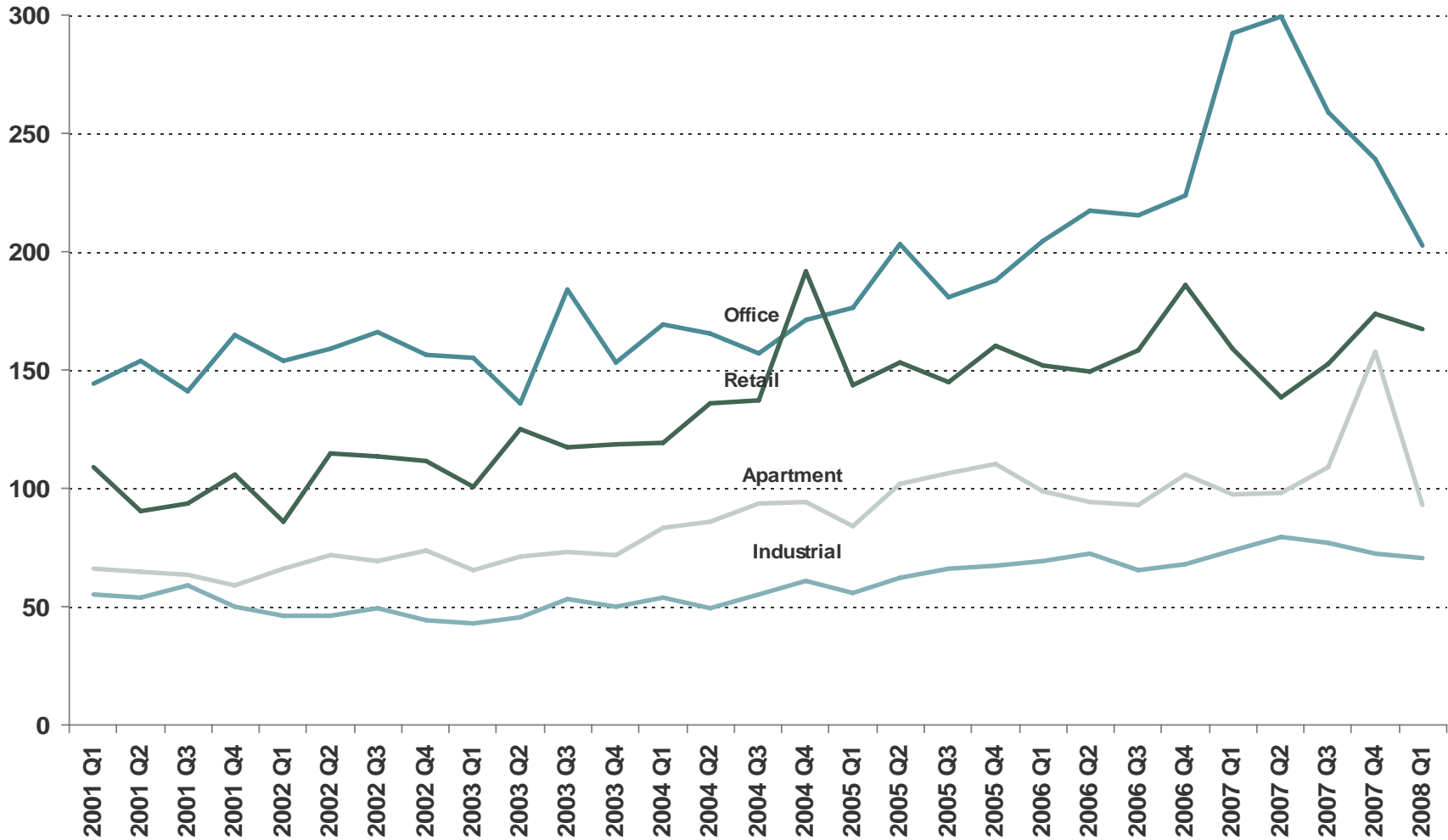
## 2007 REIT Merger & Acquisition Activity



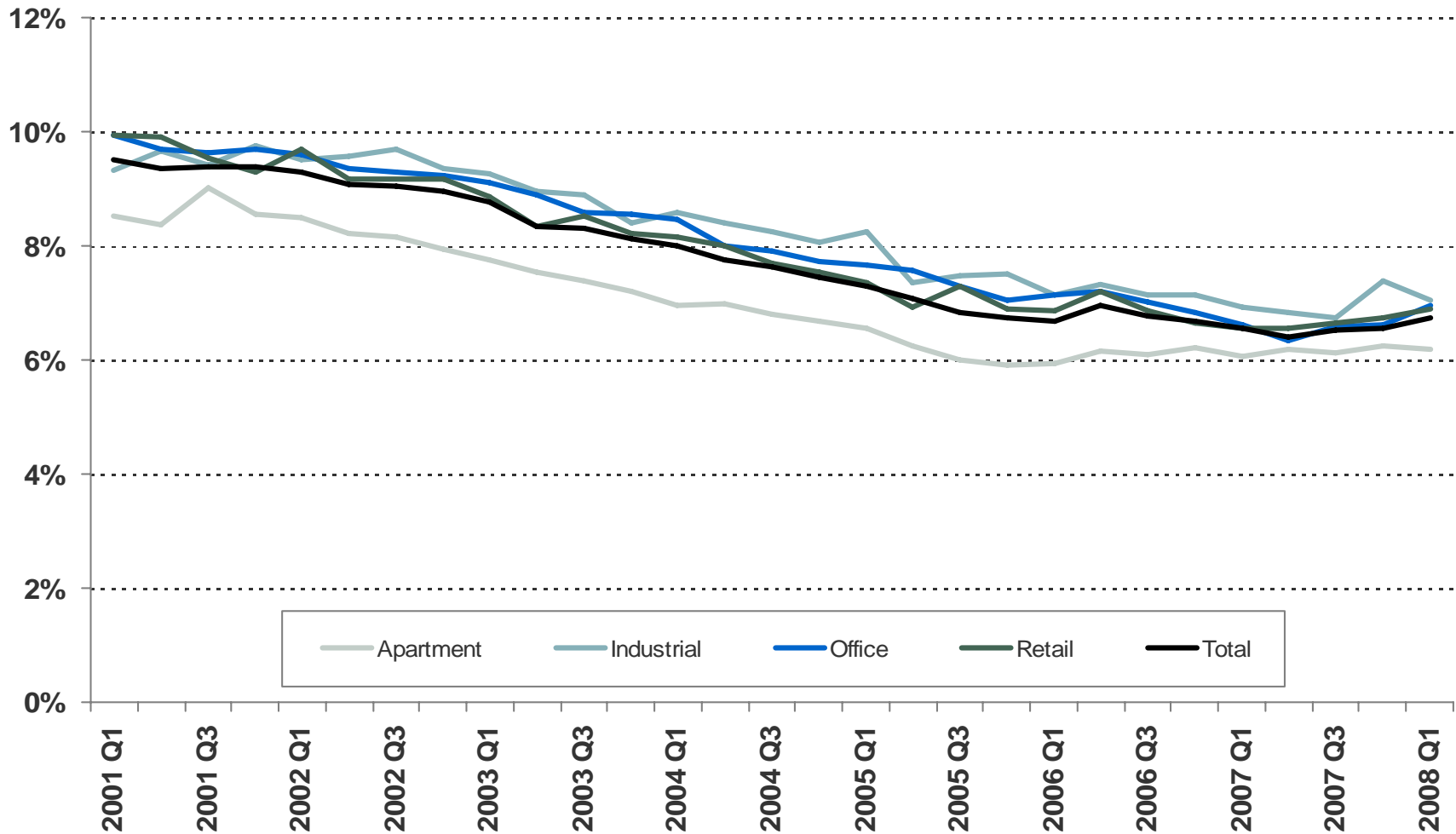
Date	Buyer	Seller	Price (\$M)	# of props	Main Type
Feb-07	Blackstone	Equity Office Properties Trust	\$39,000	539	Office
Nov-07	Blackstone	Hilton	\$26,000	263	Hotel
Oct-07	Tishman Speyer/Lehman/BofA	Archstone Smith	\$22,200	344	Apartment
Jan-07	SL Green/RexCorp/Marathon	Reckson Associates Realty	\$8,025	141	Office
Apr-07	Simon Property/ Farallon Capital	Mills Corporation	\$7,900	37	Retail
Apr-07	Ashford Hospitality/Morgan Stanley	CNL Hotels & Resorts	\$6,600	59	Hotel
Aug-07	Morgan Stanley	Crescent RE Equities	\$6,500	70	Office
Apr-07	Centro Properties Group	New Plan Excel	\$6,200	476	Retail
Aug-07	Macquarie Bank	Spirit Finance	\$3,500	1034	single tenant
Oct-07	Whitehall RE Fund	Equity Inns	\$2,200	138	Hotel
Jul-07	JER Partners	Highland Hospitality	\$2,000	27	Hotel
Dec-07	Behringer Harvard	IPC US REIT	\$1,400	35	Office
Jan-07	Lexington Realty Trust	Newkirk RealtyTrust, Inc	\$1,080	162	single tenant
Oct-07	Liberty Property Trust	Republic Property Trust	\$900	11	Office
May-07	ING Clarion Partners	Apple Hospitality	\$877	64	Hotel
Jul-07	Inland Real Estate Corp	Winston Hotels	\$850	47	Hotel
Feb-07	Babcock & Brown	BNP Residential Properties	\$833	32	Apartment
Jul-07	Apollo RE Advisors	Innkeepers USA Trust	\$800	75	Hotel
Aug-07	Apollo/Aimbridge/JF Capital	Eagle Hospitality Properties Trust	\$680	13	Hotel
Sep-07	Sentinel Real Estate	America First Apartment Investors	\$532	24	Apartment
Apr-07	Record Realty	Government Properties Trust	\$512	22	Office
	<b>TOTAL</b>		<b>\$138,589</b>		

Source: Real Capital Analytics

# Property Prices Per Sq. Ft. (or \$1000/unit) Properties and Portfolios \$5 Million and Greater

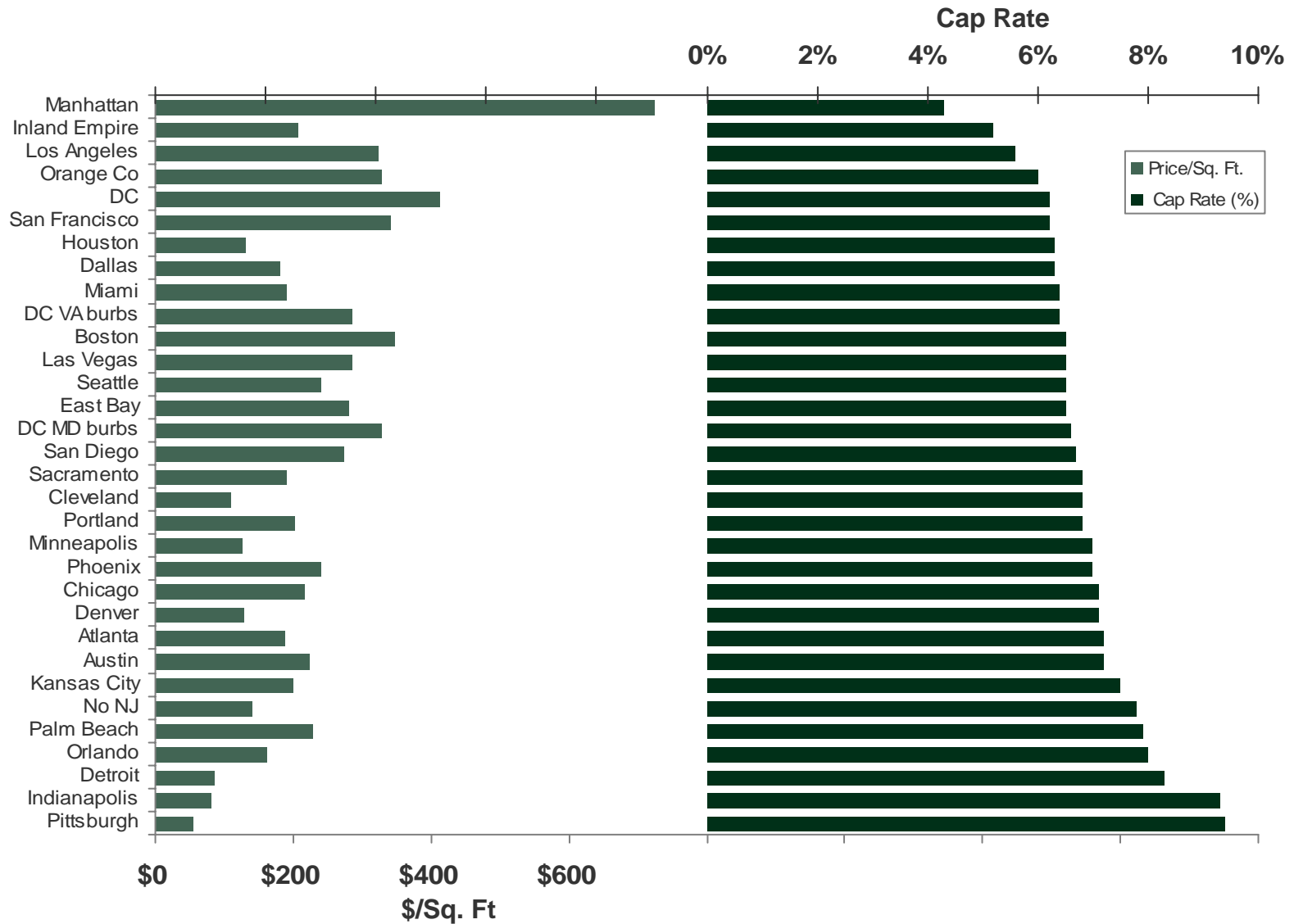


# Commercial/Multifamily Capitalization Rates Properties and Portfolios \$5 Million and Greater



Source: Real Capital Analytics

# Price per Sq. Ft and Cap Rate on Office Property Sales Over previous 6 months, April 2008



Source: Real Capital Analytics

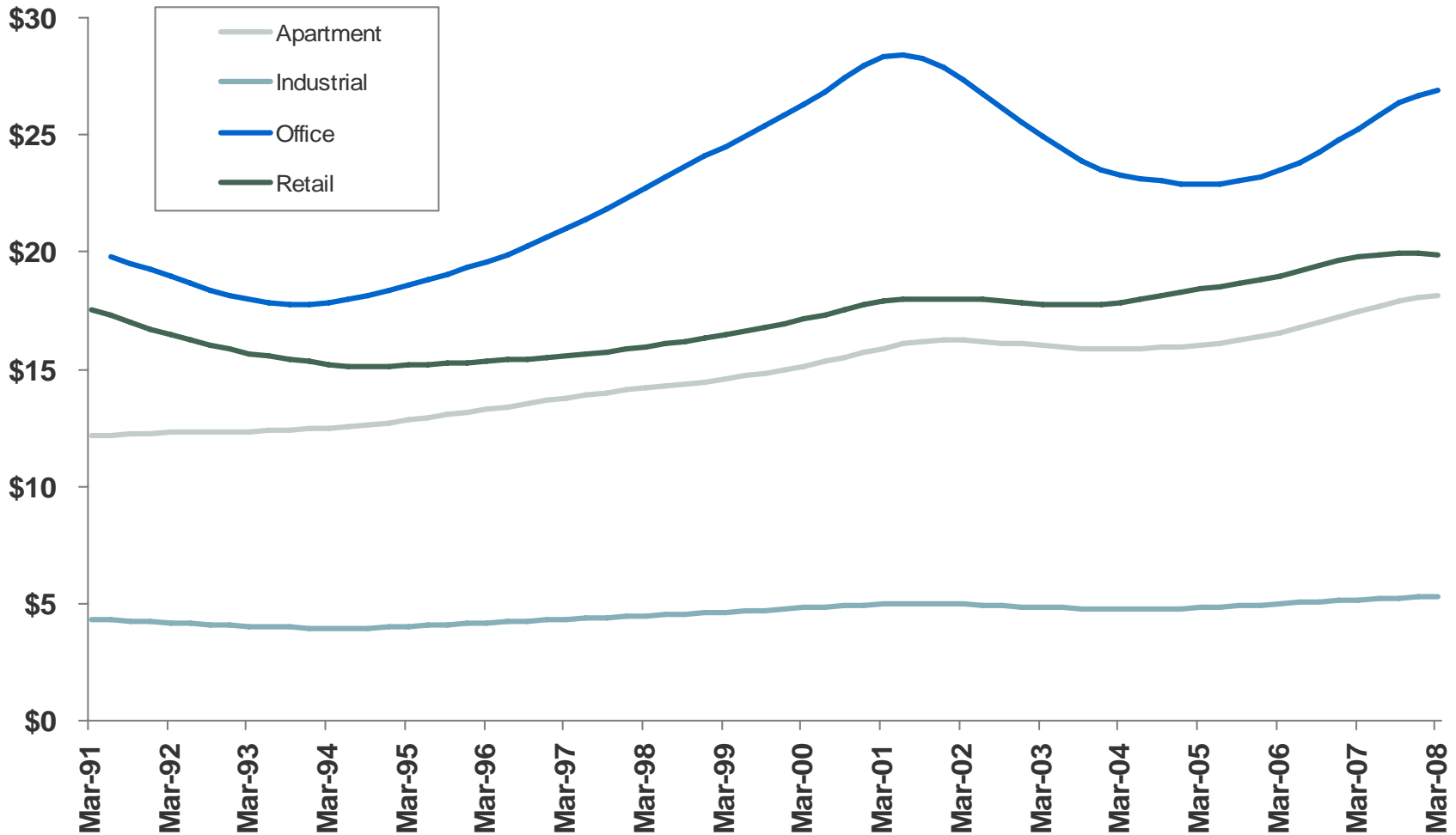
Office property transactions reported closed or in contract  
Properties \$5 mil. or more.

Mortgage Bankers Association

# Average Asking Rents, by Property Type by Quarter

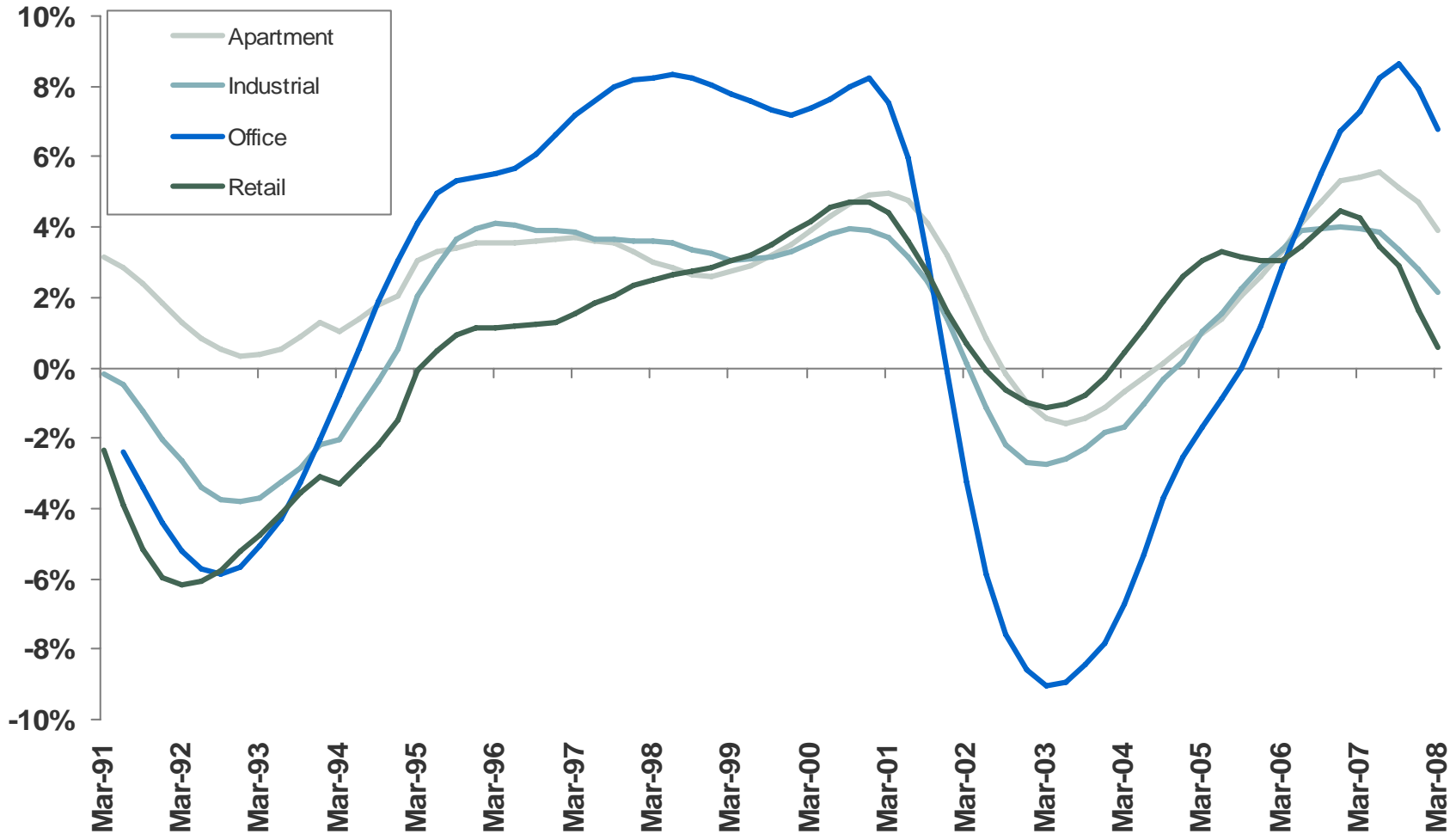


\$/SF



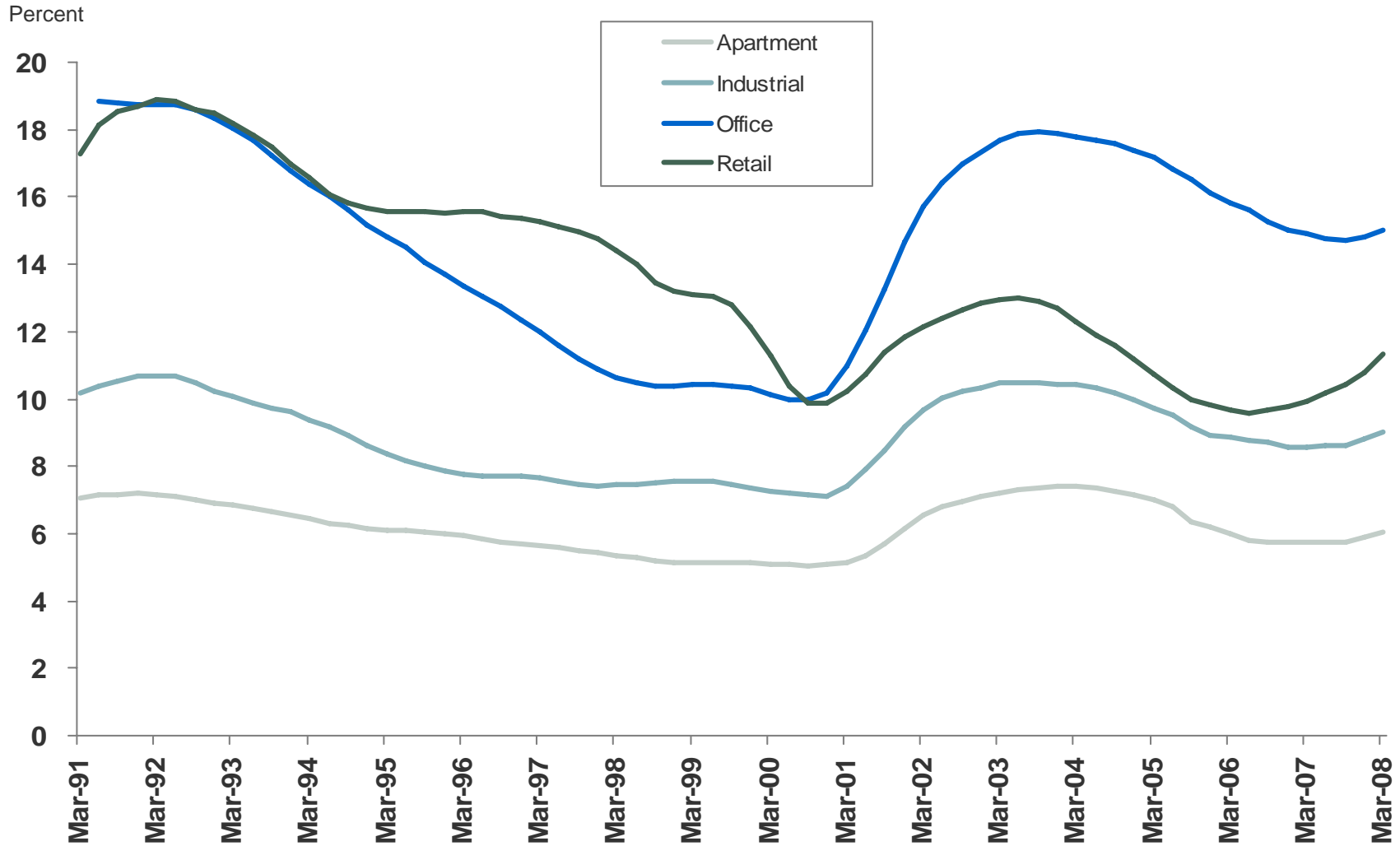
Source: Property and Portfolio Research

# Year-over-year Rent Growth, by Property Type by Quarter



Source: Property and Portfolio Research

# Commercial/Multifamily Vacancy Rates, by Property Type by Quarter

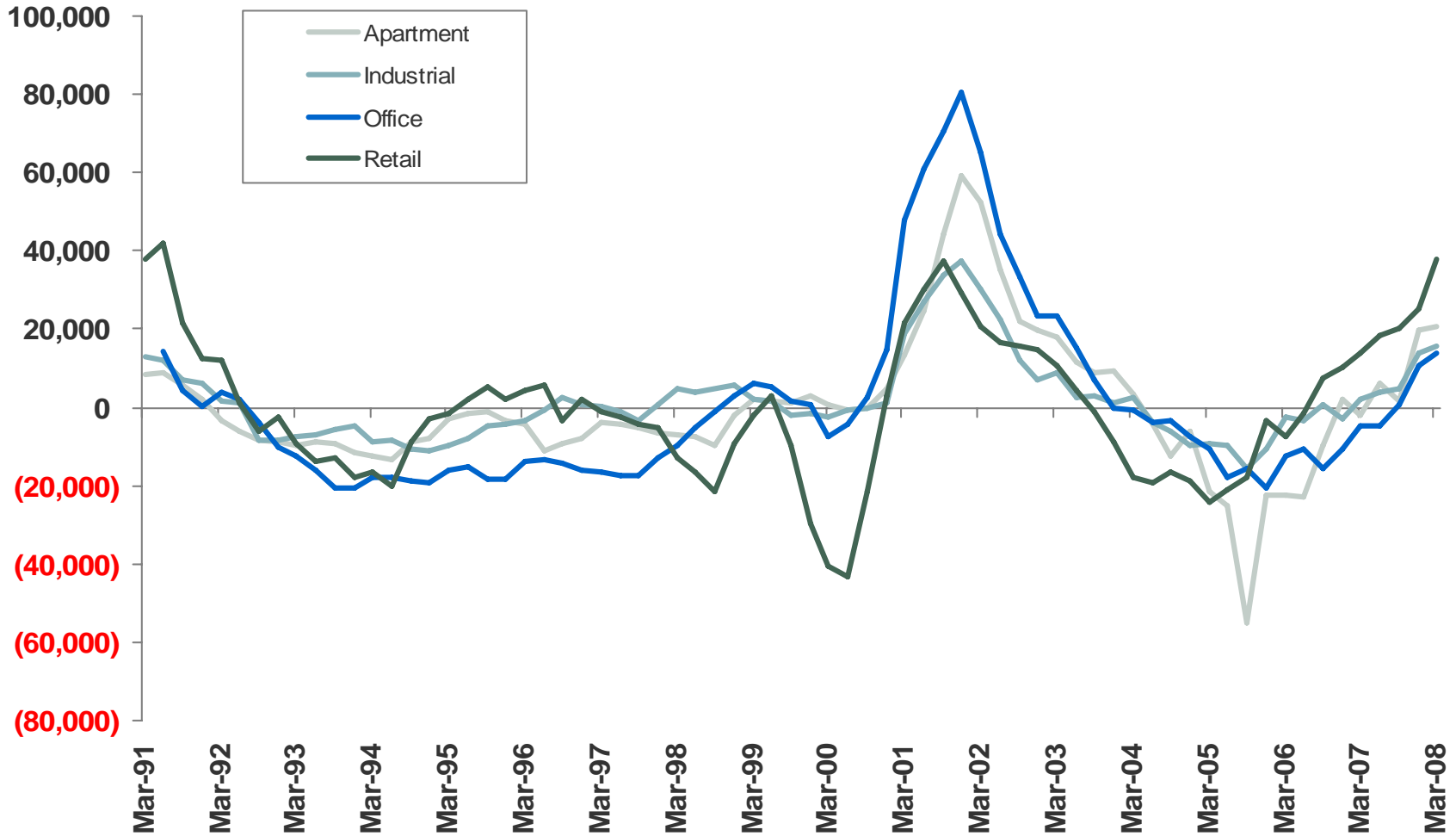


Source: Property and Portfolio Research

# Completions Less Absorption, by Property Type by Quarter



Thousands of Square Feet



Source: Property and Portfolio Research

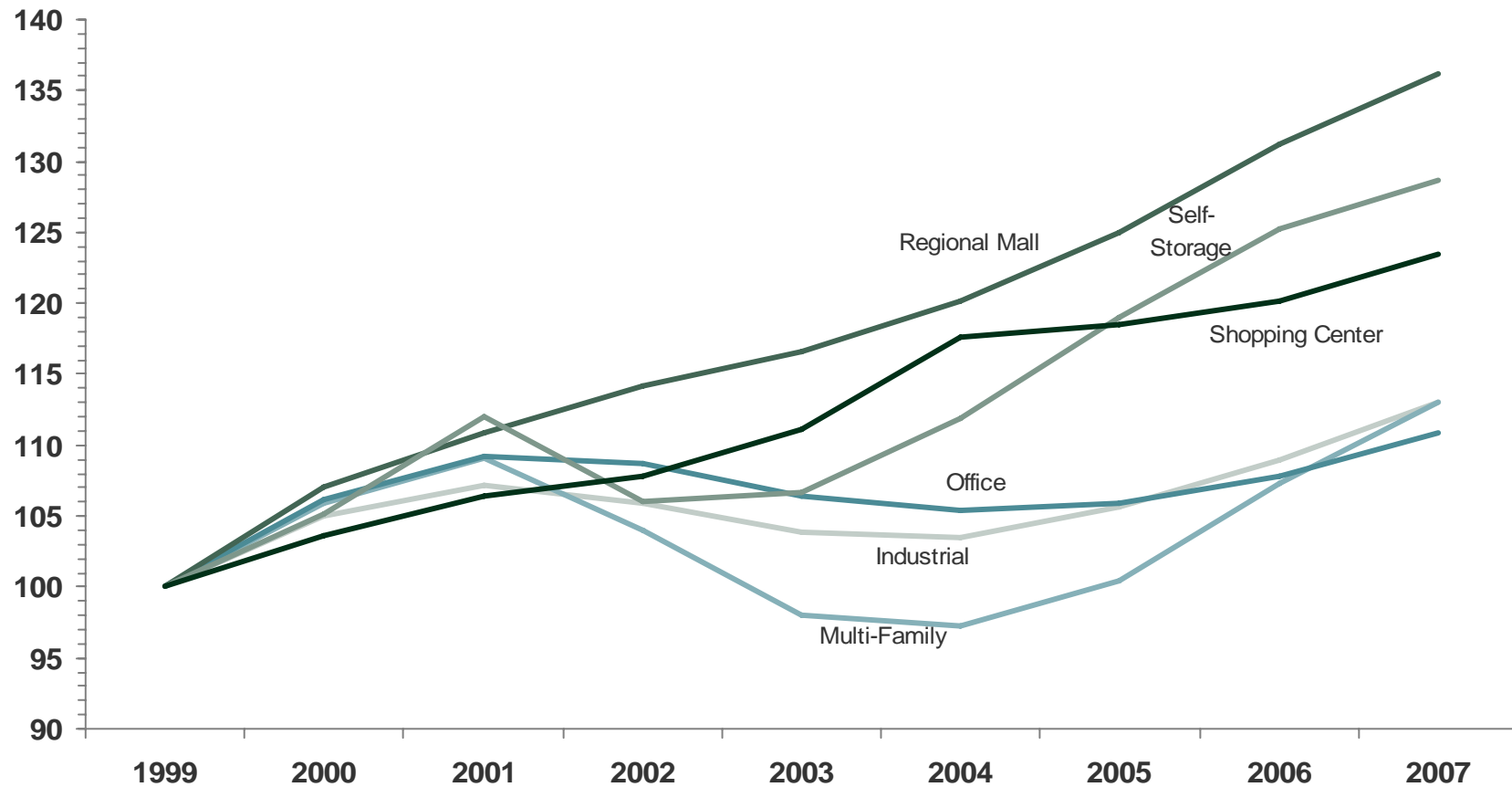
"Real estate is a very cyclical business, especially right now,"

President of the Board of Major Pension Fund

# Indexed Median REIT/REOC “Same Store” Net Operating Income (NOI) by Property Focus

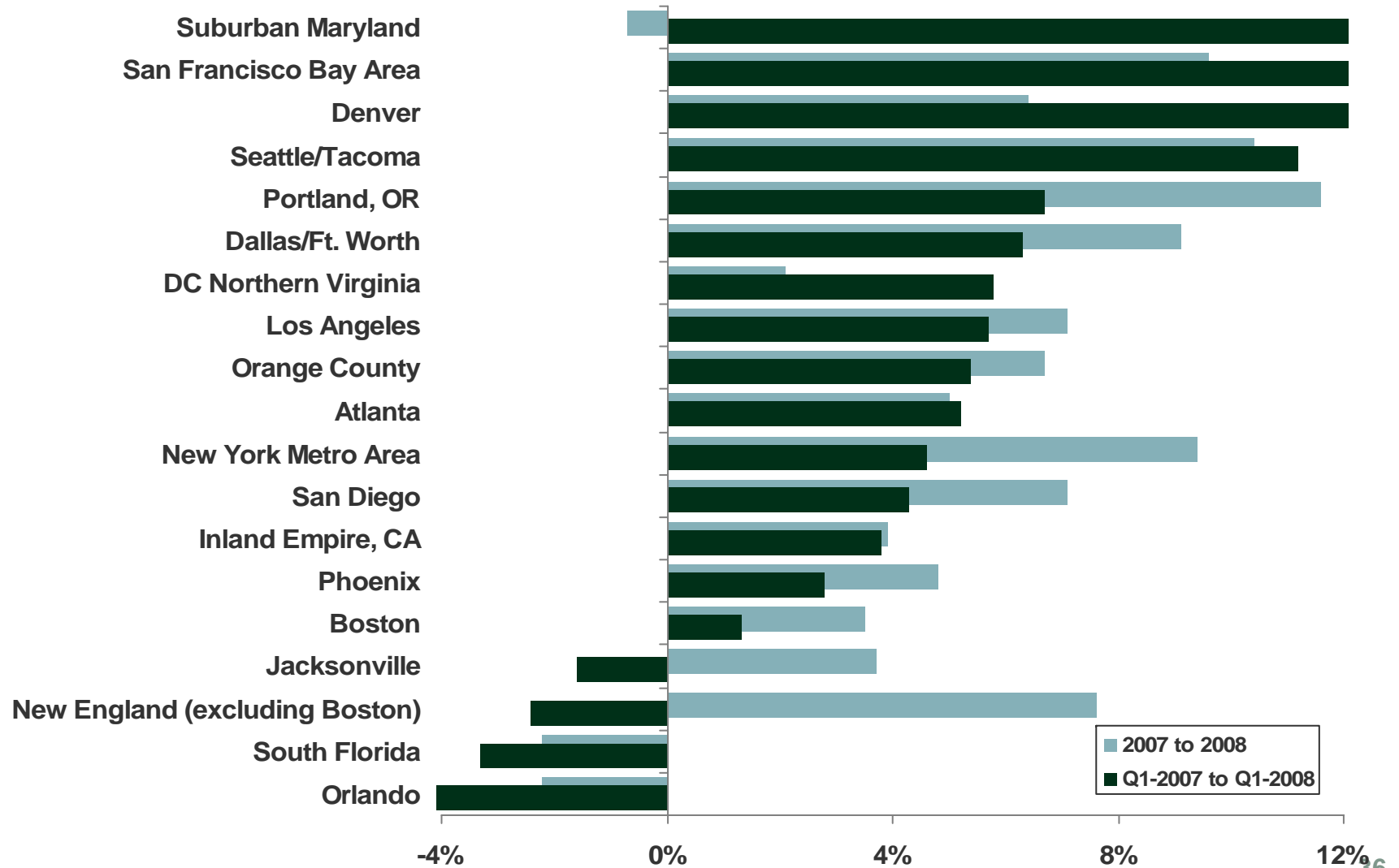


1999 NOI = 100



Source: MBA and SNL Financial, Charlottesville, VA  
434.977.1600, [http://www.snl.com/real\\_estate/](http://www.snl.com/real_estate/)

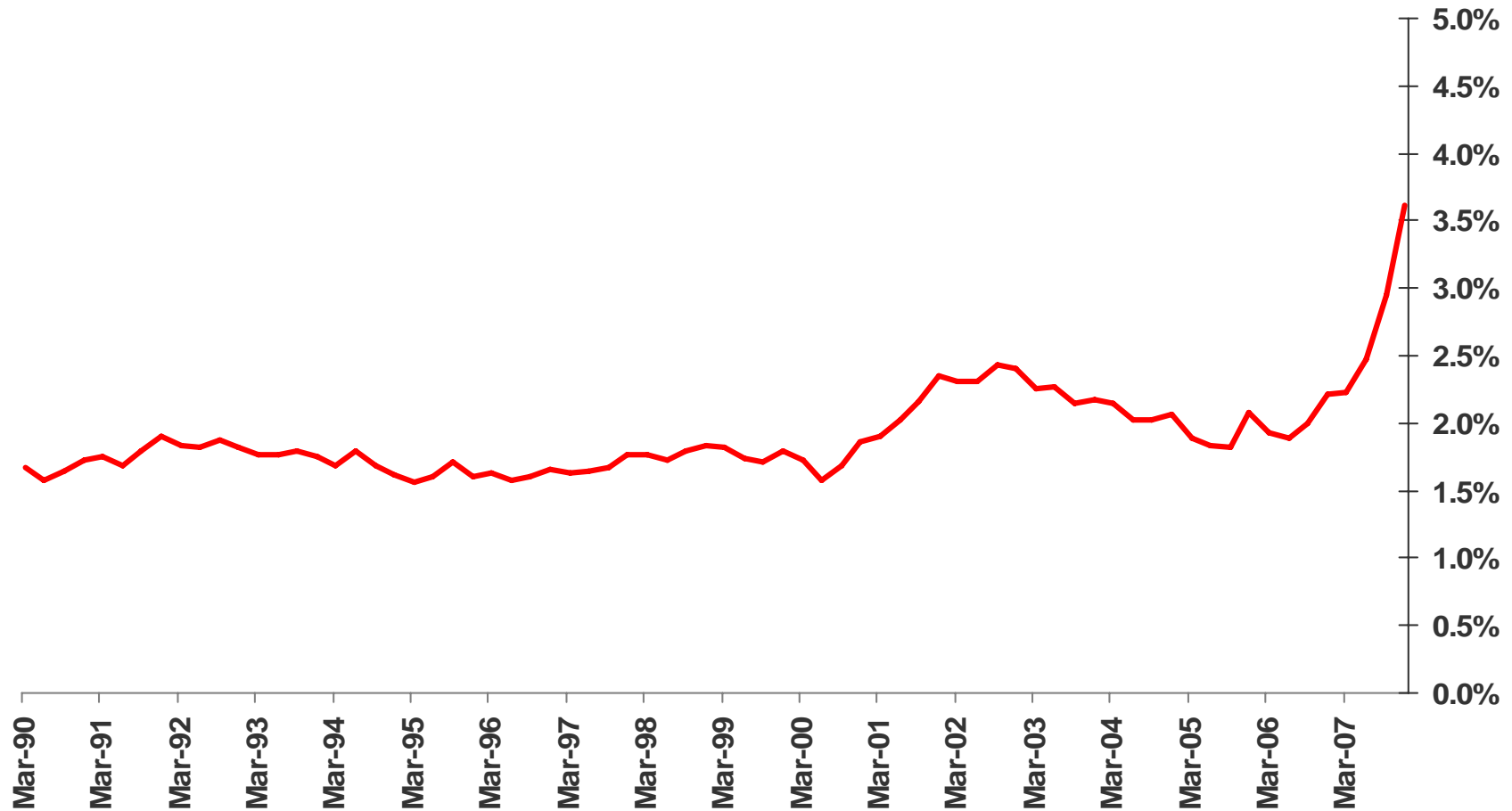
# Equity Residential REIT – Percent Change in Same Store NOI 2008 vs. 2007



Source: Equity Residential

Mortgage Bankers Association <sup>36</sup>

# Percent of Single-family Mortgages 90+days Delinquent Rate or in Foreclosure

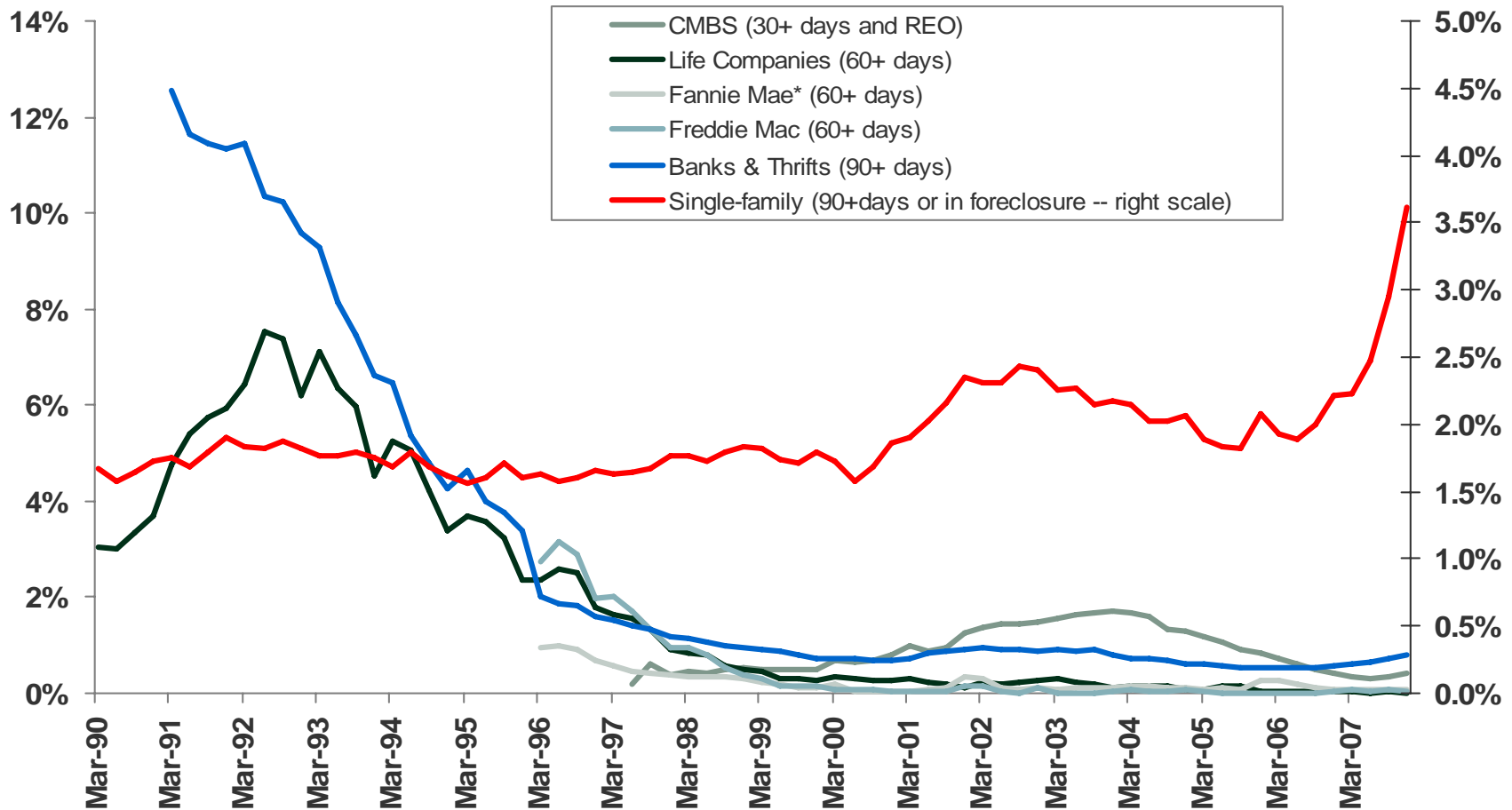


Sources: Mortgage Bankers Association

# Commercial/Multifamily Mortgage Delinquency Rates Among Major Investor Groups and Single-family Delinquency Rate



NOTE: Delinquency rates shown are NOT comparable between investor groups. These rates show how performance of loans for each investor groups has varied over time, but cannot be used to compare one investor group to another.



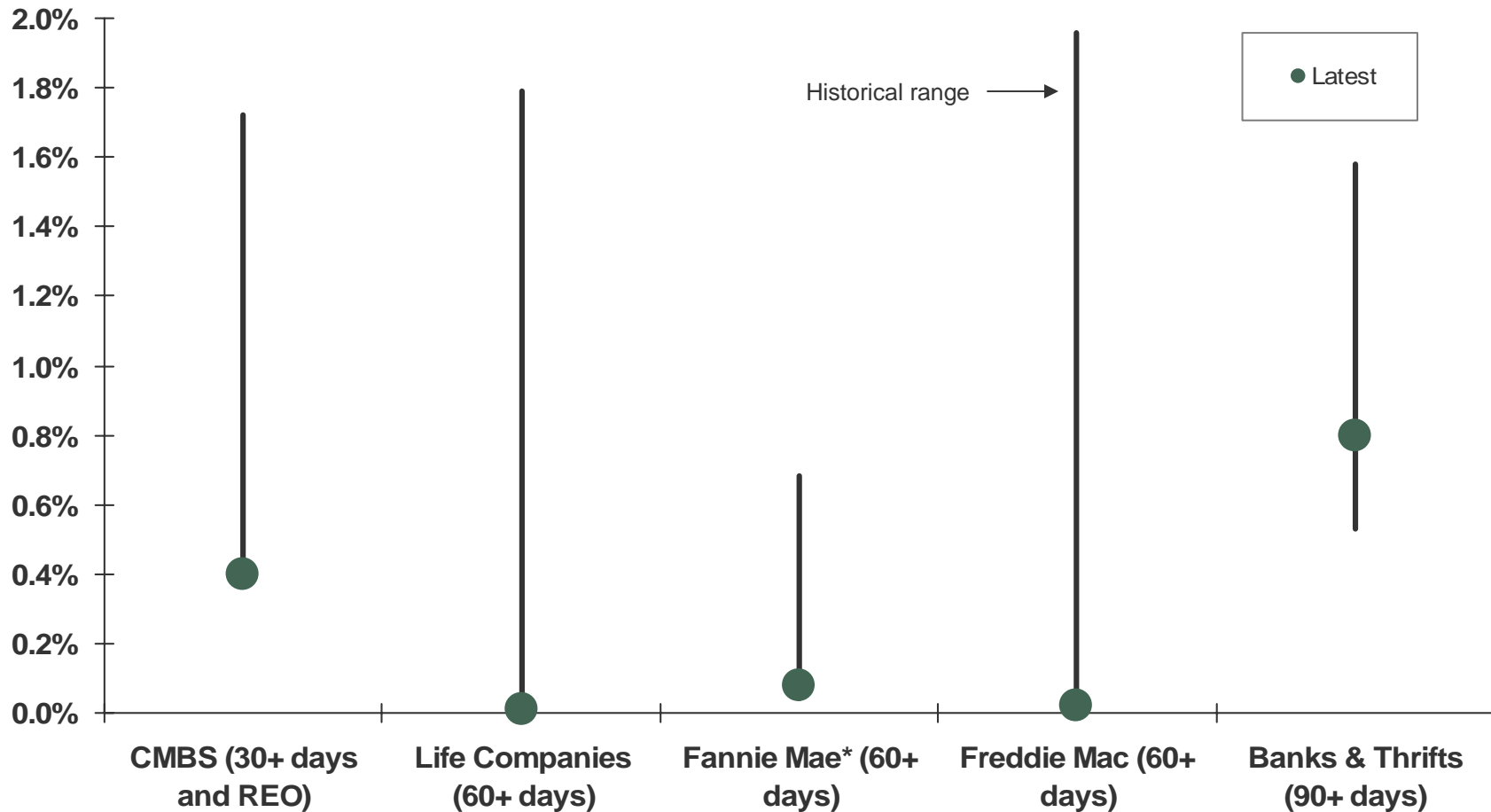
Sources: Mortgage Bankers Association Wachovia Capital Markets, LLC and Intex Solutions, Inc., American Council of Life Insurers, Fannie Mae, Freddie Mac, OFHEO and Federal Deposit Insurance Corporation.

Data are available for life companies and FDIC-insured banks and thrifts since 1990 and 1991, Fannie Mae and Freddie Mac since 1996 and CMBS since 1997. December figures are not available from Fannie Mae for the years 2000 to 2004. Figures for November are used instead. Prior to 1996, bank and thrift figures are for banks only and also include construction and land loans.

# Historical (Generally Ten-year\*\*) Range of Commercial/Multifamily Mortgage Delinquency Rates Among Major Investor Groups



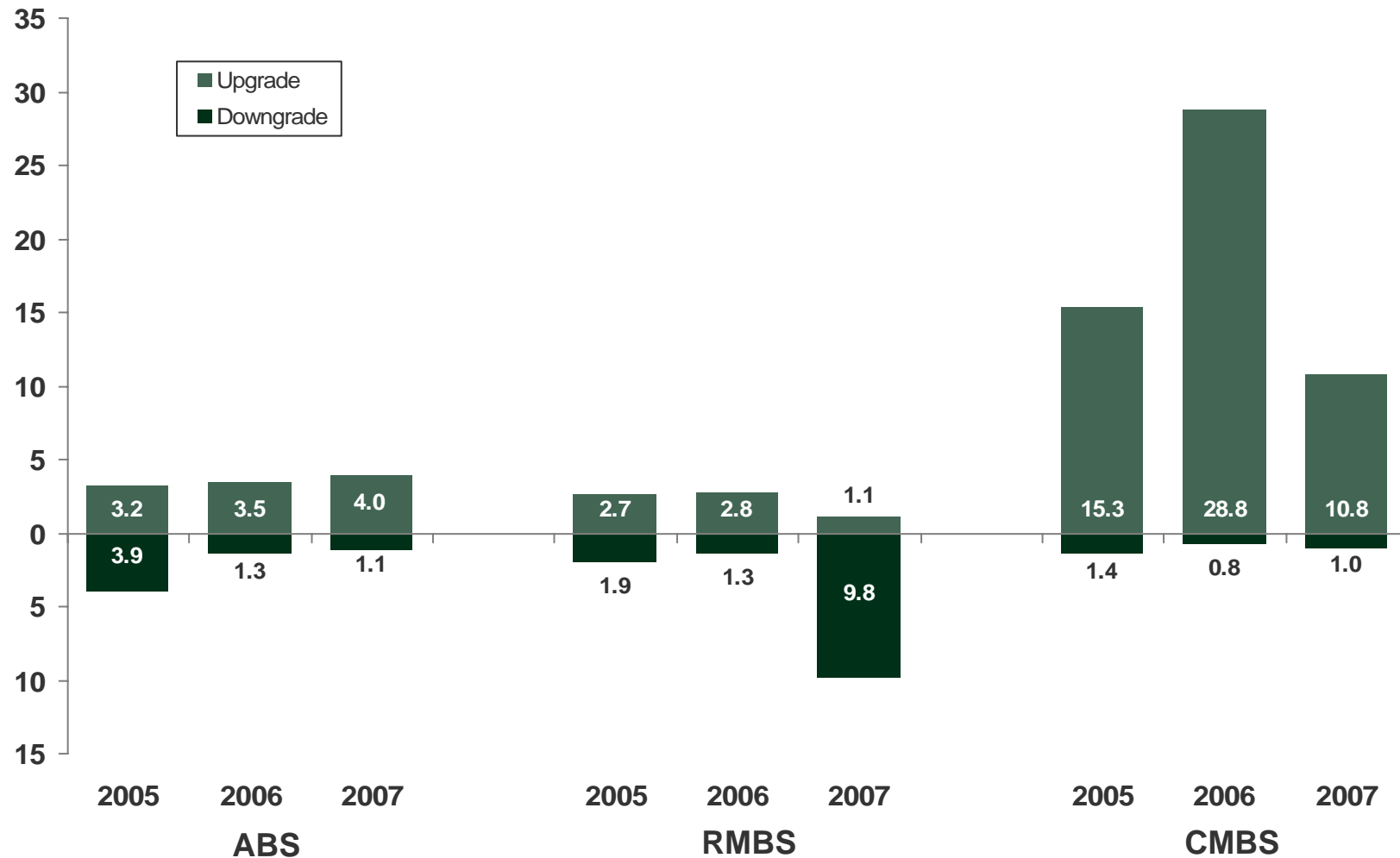
NOTE: Delinquency rates shown are NOT comparable between investor groups. These rates show how performance of loans for each investor groups has varied over time, but cannot be used to compare one investor group to another.



Sources: Wachovia Capital Markets, LLC and Intex Solutions, Inc., American Council of Life Insurers, Fannie Mae, Freddie Mac, OFHEO and Federal Deposit Insurance Corporation.

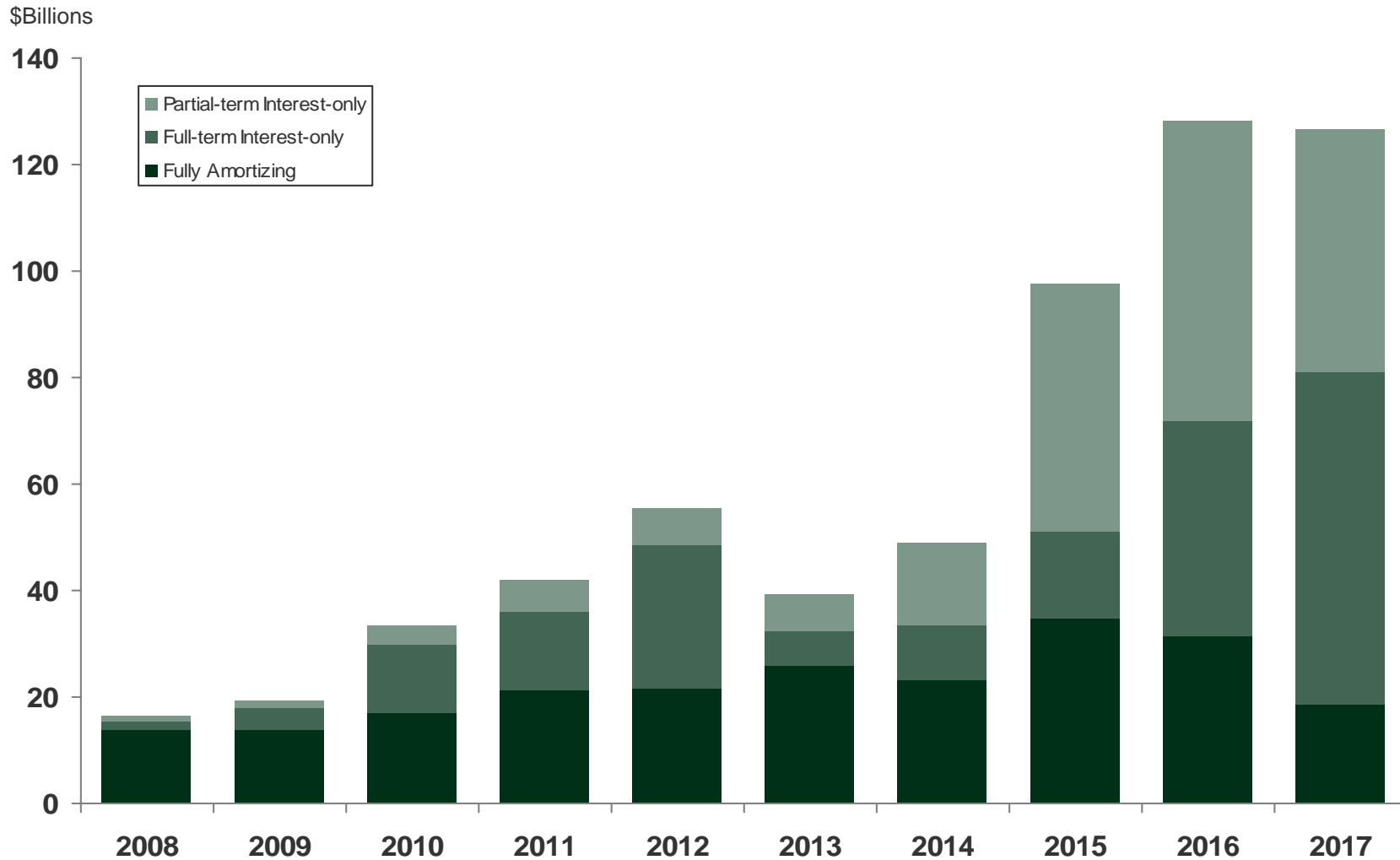
Data are for the period 1996 to present, except CMBS which is from 1997 to present. December figures are not available from Fannie Mae for the years 2000 to 2004. Figures for November are used instead.

# Percent of Total Tranches Outstanding Upgraded/Downgraded by Fitch Ratings, by Year of Action and Asset Type



Source: Fitch Ratings

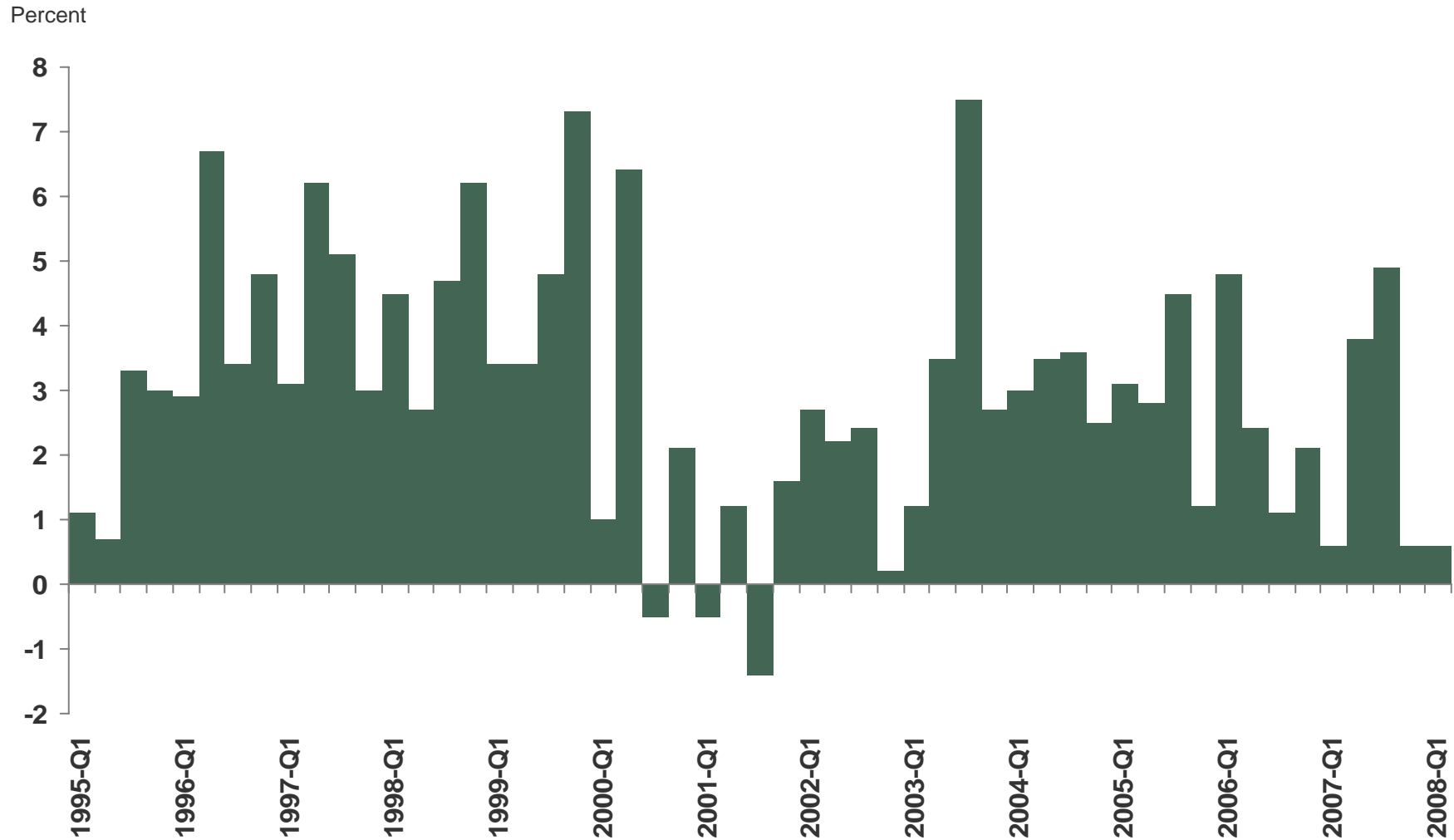
# Volume of Maturing CMBS Fixed-rate Conduit Mortgages



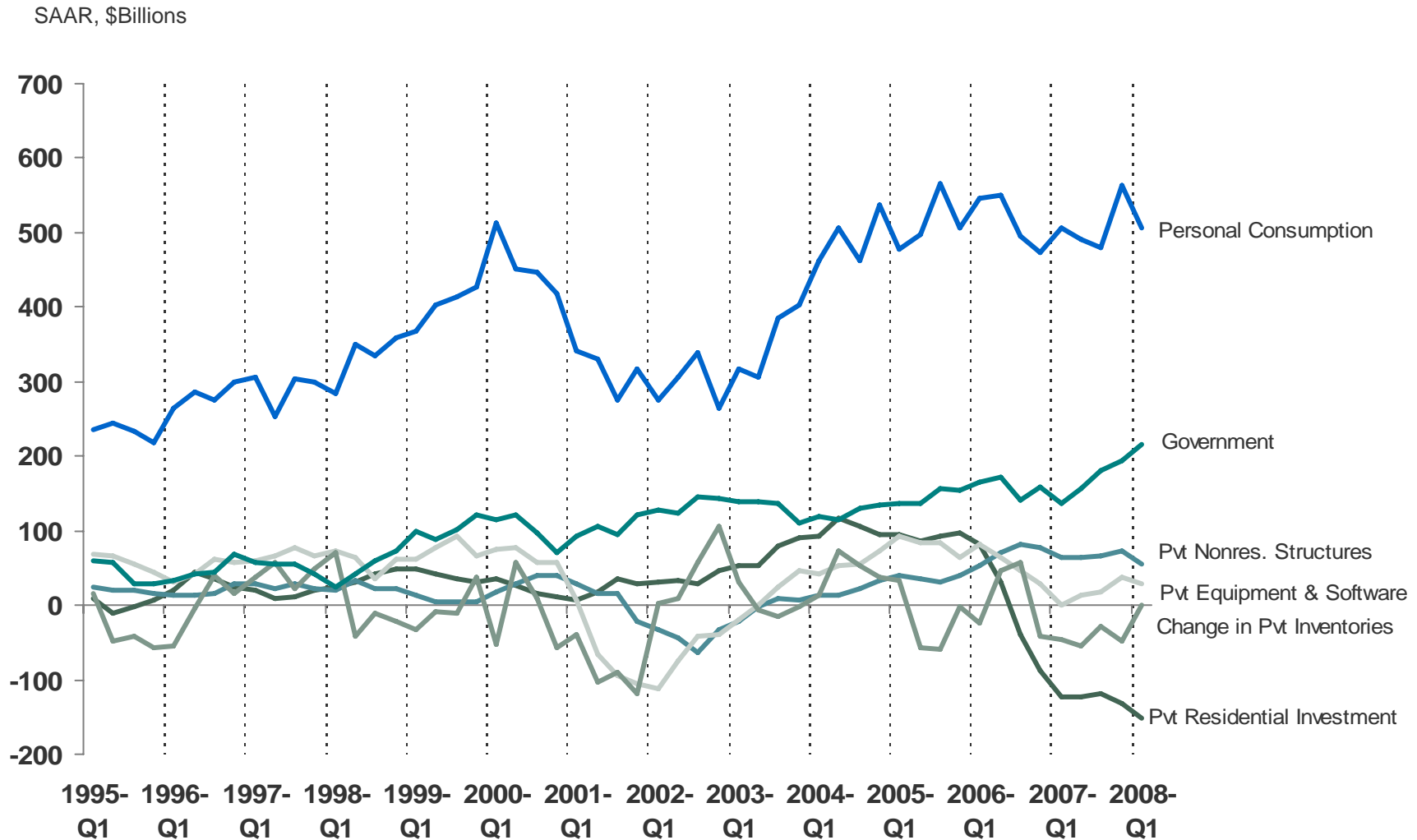
Source: JPMorgan

# Economic Outlook

# Real Gross Domestic Product, Quarterly Percent Change at an Annual Rate



# Selected Year-over-Year Contributions to Changes in Real Gross Domestic Product

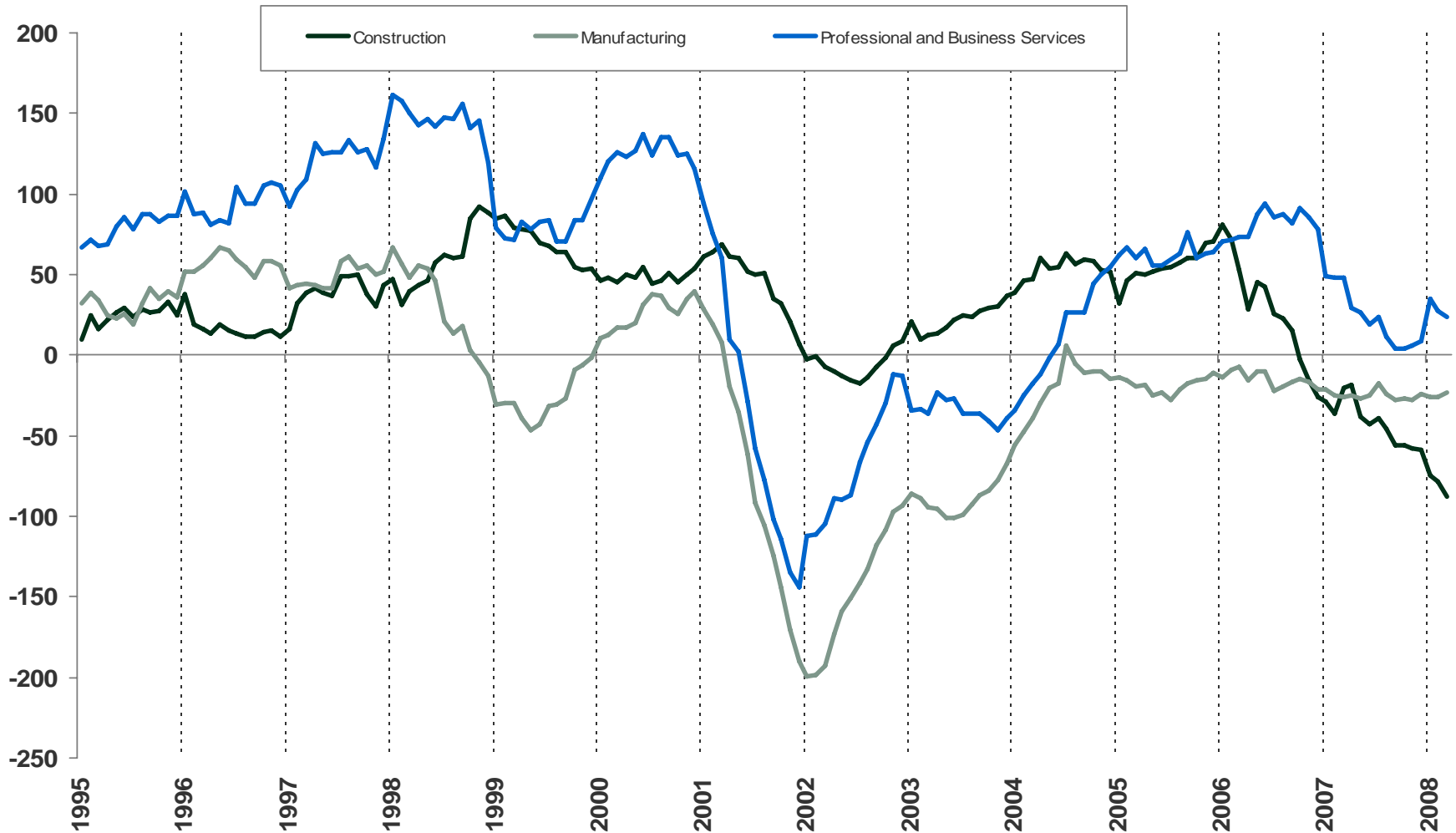


Source: Bureau of Economic Analysis

# CALIFORNIA: Year-over-year Change in Seasonally-adjusted Number of Jobs



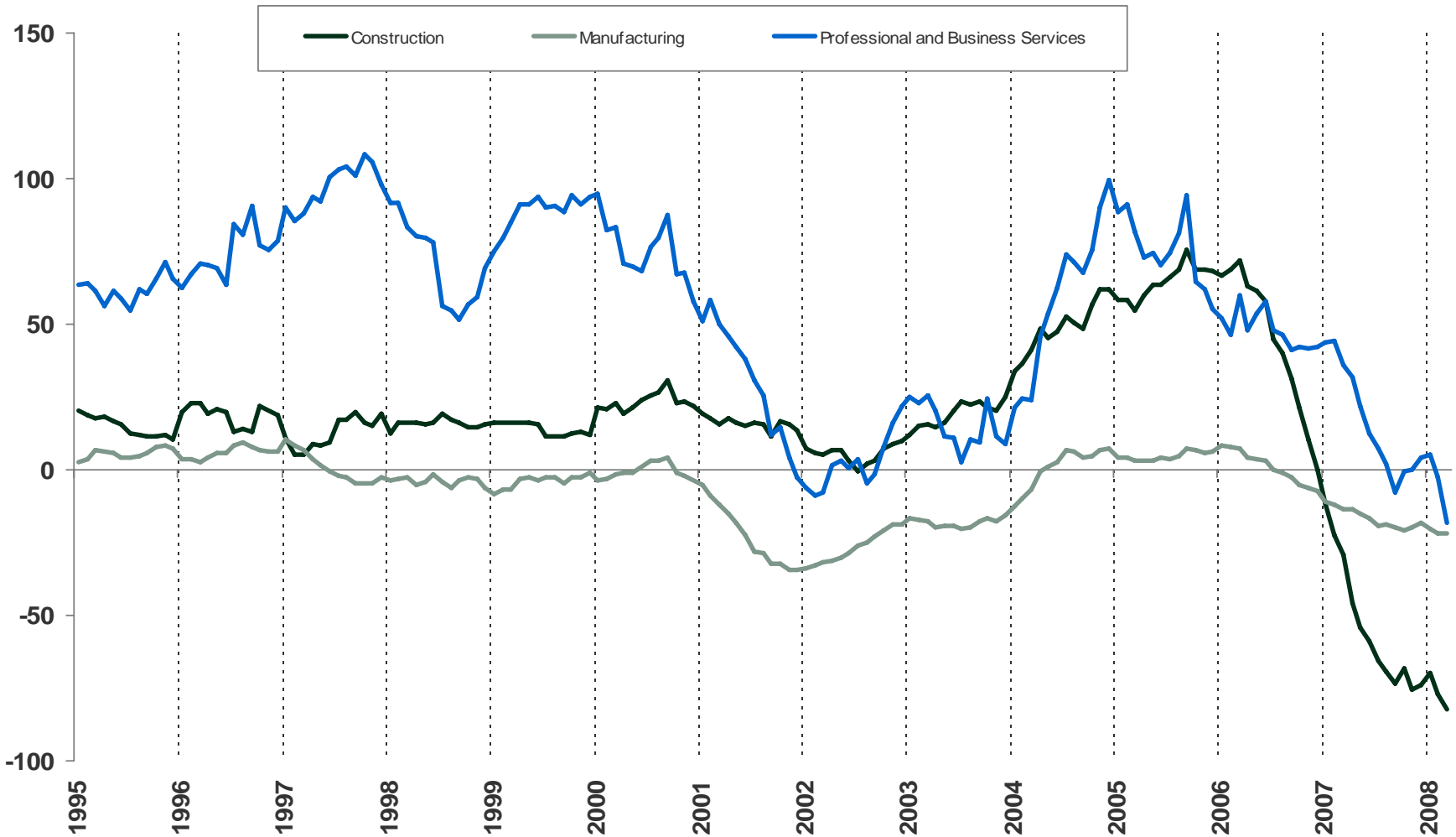
Thousands



# FLORIDA: Year-over-year Change in Seasonally-adjusted Number of Jobs



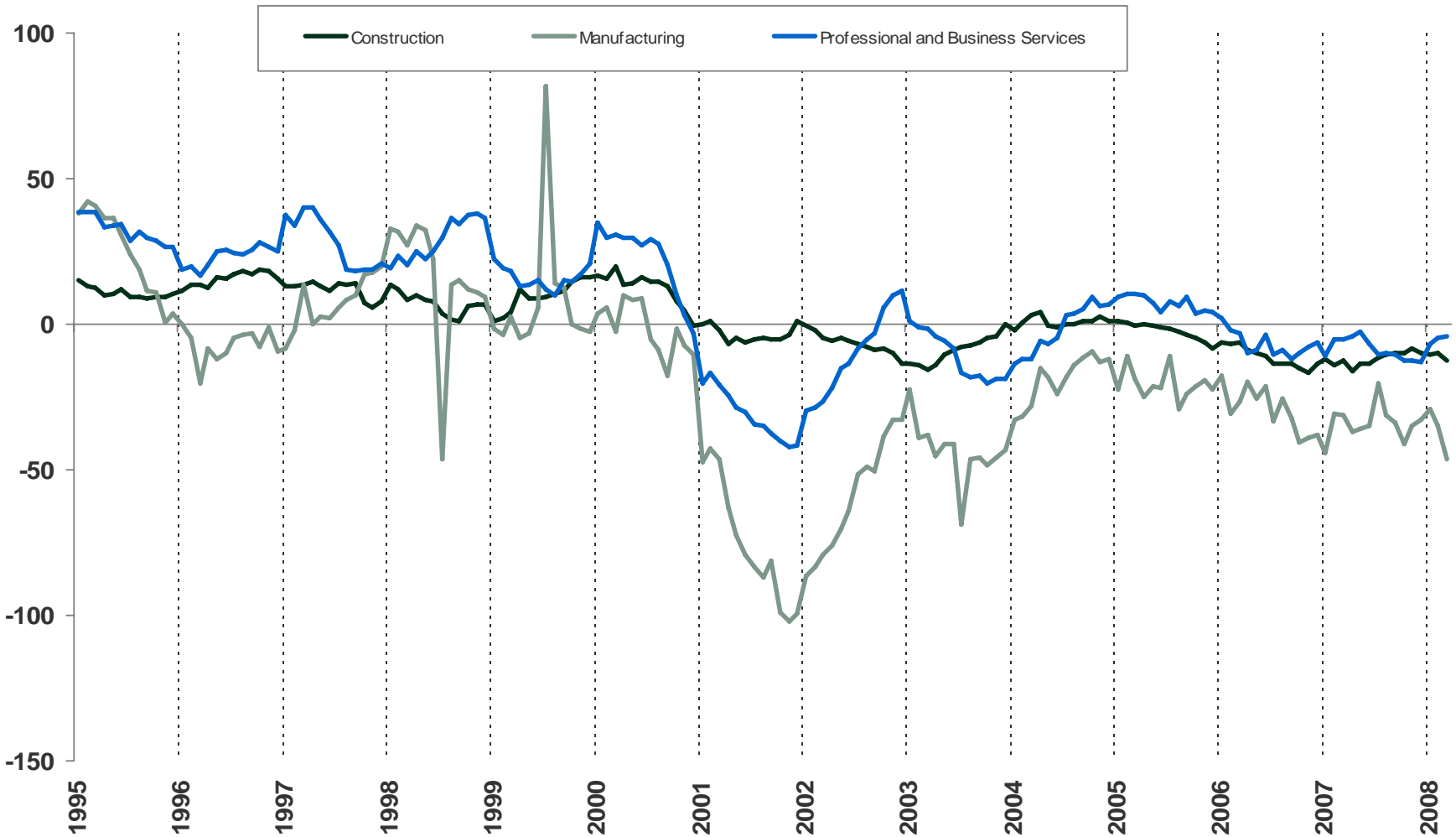
Thousands



# MICHIGAN: Year-over-year Change in Seasonally-adjusted Number of Jobs



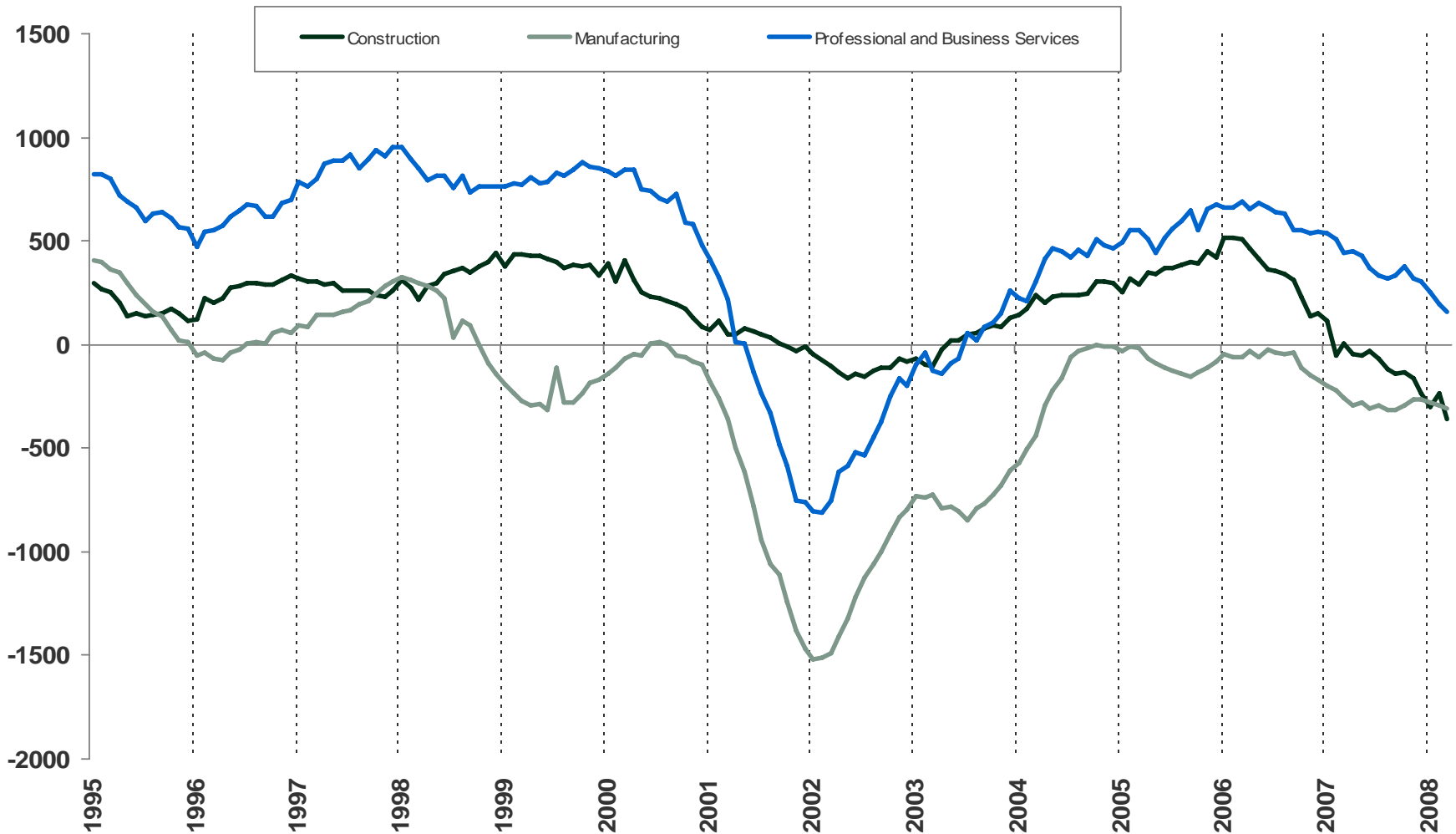
Thousands



# UNITED STATES: Year-over-year Change in Seasonally-adjusted Number of Jobs



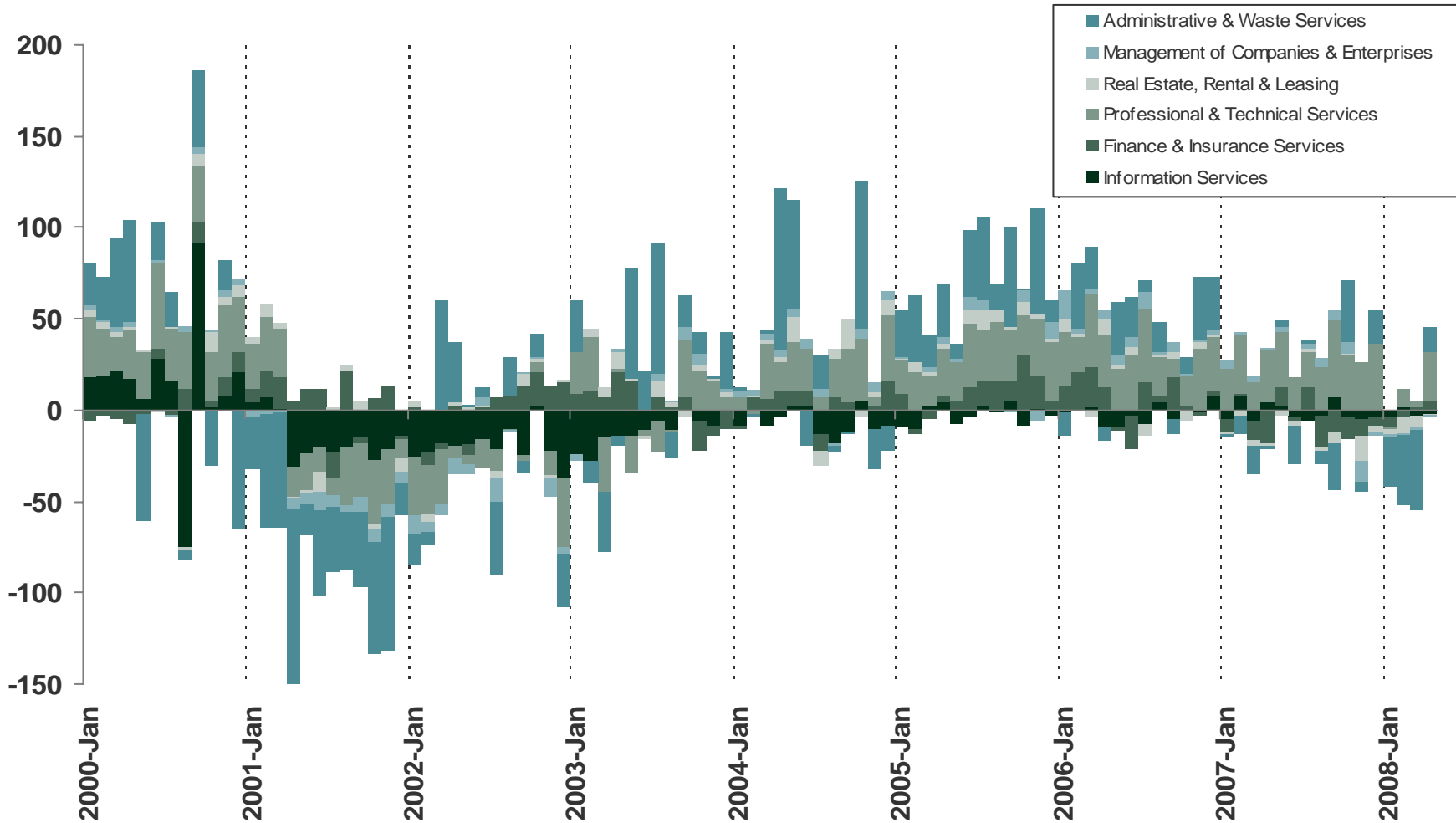
Thousands



# Month-over-month Change in Selected Office-demanding Industries



Thousands of jobs, Seasonally adjusted

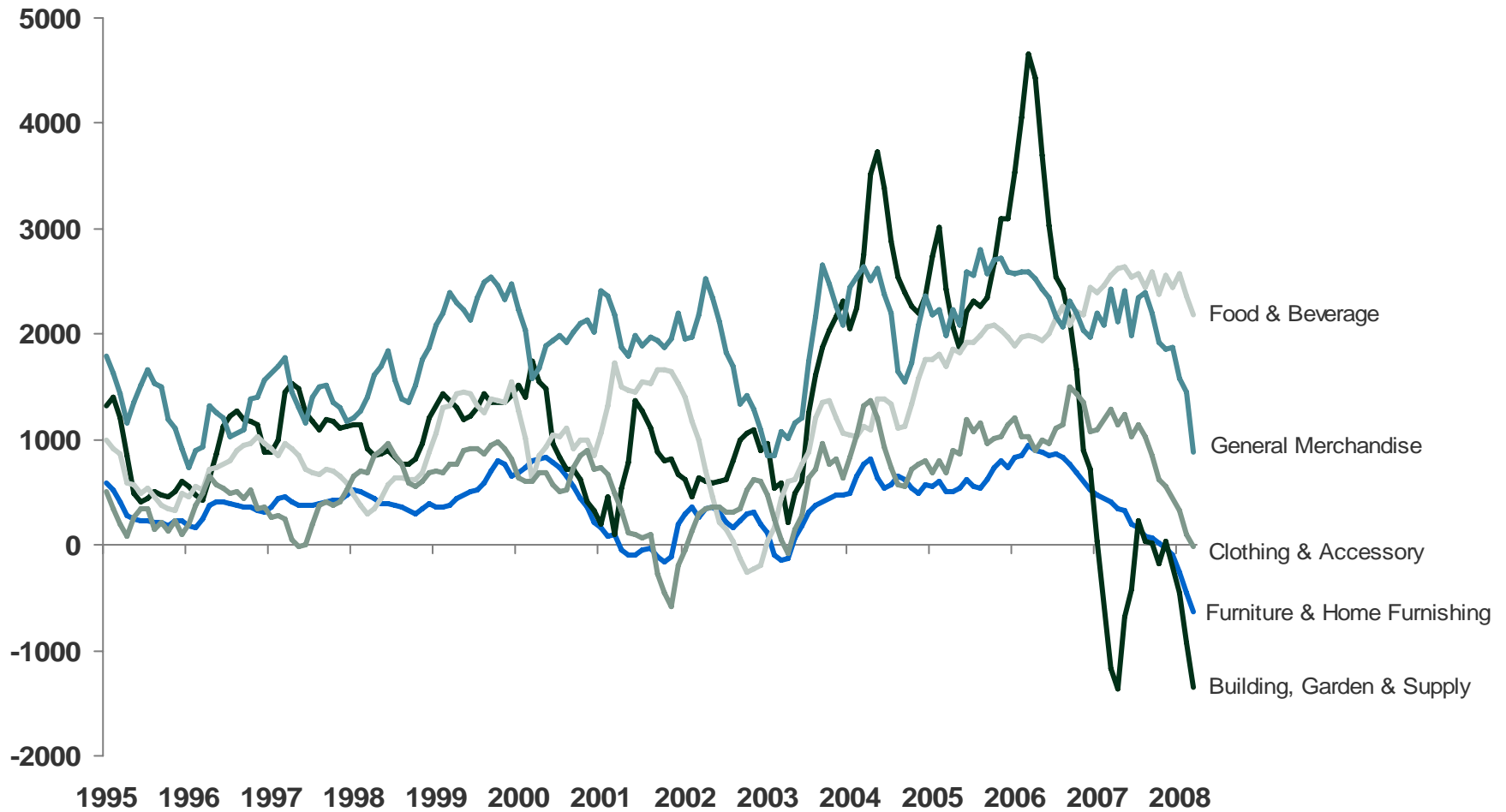


Source: Bureau of Labor Statistics.

# Year-over-Year Change in Three Month Moving Average Retail Sales, by Selected Kind of Business



\$Millions, Seasonally adjusted

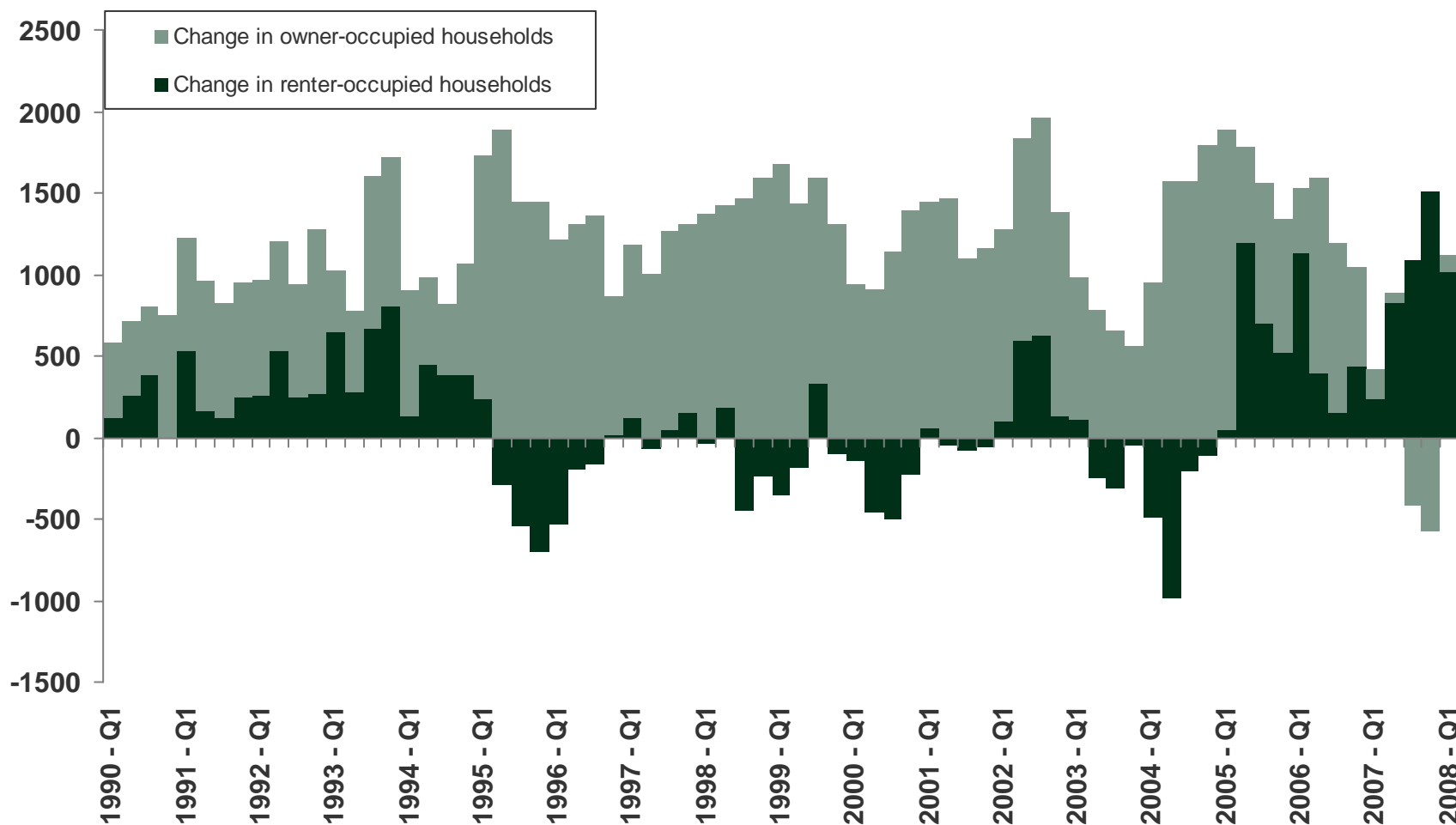


Source: Census Bureau

# Change in Number of Owner- and Renter-occupied Households, Year-over-year (additive)



Thousands of households



Source: Census Bureau and MBA

## US Market Statistics

	US Vacancy				US Absorption Trends (in millions of square feet)			
	2006	2007	2008 PF	2008 CF	2006	2007	2008 PF	2008 CF
Office	12.6%	12.6%	13.7%	14.7%	79.8	56.1	13.6	-5.2
Industrial	9.4%	9.4%	9.9%	10.2%	208.0	160.7	94.0	47.6
Retail	8.2%	9.2%	8.7%	9.3%	10.1	13.3	12.0	18.8

Source: TWR Outlooks Summer 2008 – preliminary data  
 Note: PF is prior forecast from Q4 2007 earnings call. CF is current forecast

### Cap Rates Remain Steady At Lower Volumes

	1Q07	4Q07	1Q08
<b>Office</b>			
Volume (\$B)	34.2	27.7	13.1
Cap Rate	6.7%	6.5%	6.9%
<b>Industrial</b>			
Volume (\$B)	10.9	9.8	7.1
Cap Rate	6.9%	7.4%	7.1%
<b>Retail</b>			
Volume (\$B)	18.6	11.0	6.5
Cap Rate	6.7%	6.7%	6.9%

Source: RCA April 2008

### Cap Rate Growth<sup>1</sup>

2008 / 2009 F
+60 to 100 bps
+60 to 80 bps
+20 to 60 bps

1. TWR estimates

# MBA Economic Forecast

## April 10, 2008

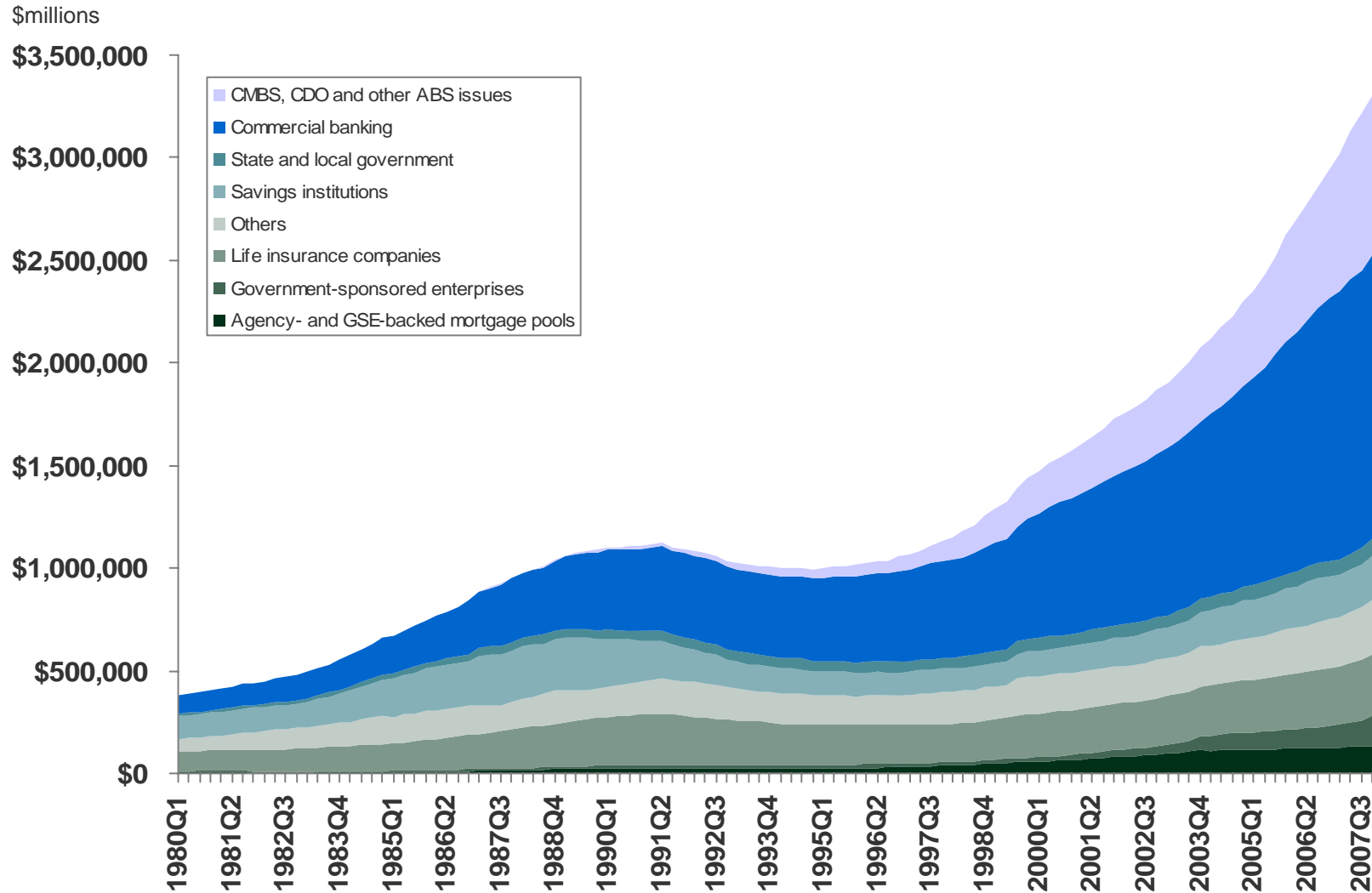


	2007				2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i><u>Percent Change, Annual Rate</u></i>												
Real Gross Domestic Product	0.6	3.8	4.9	0.6	0.4	-1.1	2.4	1.7	2.2	2.4	2.5	2.5
Personal Consumption Expenditures	3.7	1.4	2.8	2.3	0.4	-1.4	1.8	0.9	1.4	1.5	1.6	1.9
Business Fixed Investment	2.1	11.0	9.3	6.0	-4.9	-9.0	0.5	-0.1	0.9	2.6	2.9	3.3
Residential Investment	-16.3	-11.8	-20.5	-25.2	-24.5	-22.9	-18.0	-11.7	0.8	9.2	8.6	12.4
Govt. Consumption & Investment	-0.5	4.1	3.8	2.0	1.6	1.2	1.7	2.0	2.0	1.9	1.7	1.6
Net Exports (Bil. Chain 2000\$)	-612	-574	-533	-503	-479	-436	-395	-368	-352	-344	-337	-338
Inventory Investment (Bil. Chain 2000\$)	0	6	31	-18	0	2	0	2	7	11	17	23
GDP Deflator	4.2	2.6	1.0	2.4	2.7	1.9	2.7	2.4	2.5	2.0	1.8	1.4
Consumer Prices	3.7	4.6	2.8	5.0	4.3	2.1	2.8	2.5	2.1	2.0	2.1	2.0
<i><u>Percent</u></i>												
Unemployment Rate	4.5	4.5	4.7	4.8	4.9	5.3	5.7	5.8	5.8	5.9	5.9	5.8
Federal Funds Rate	5.3	5.3	5.1	4.5	3.2	2.1	2.0	2.0	2.0	2.3	2.5	3.0
10-Year Treasury Bond Rate	4.7	4.8	4.7	4.3	3.7	3.6	3.8	4.0	4.2	4.2	4.3	4.3

Source: Mortgage Bankers Association

# The Servicing Industry

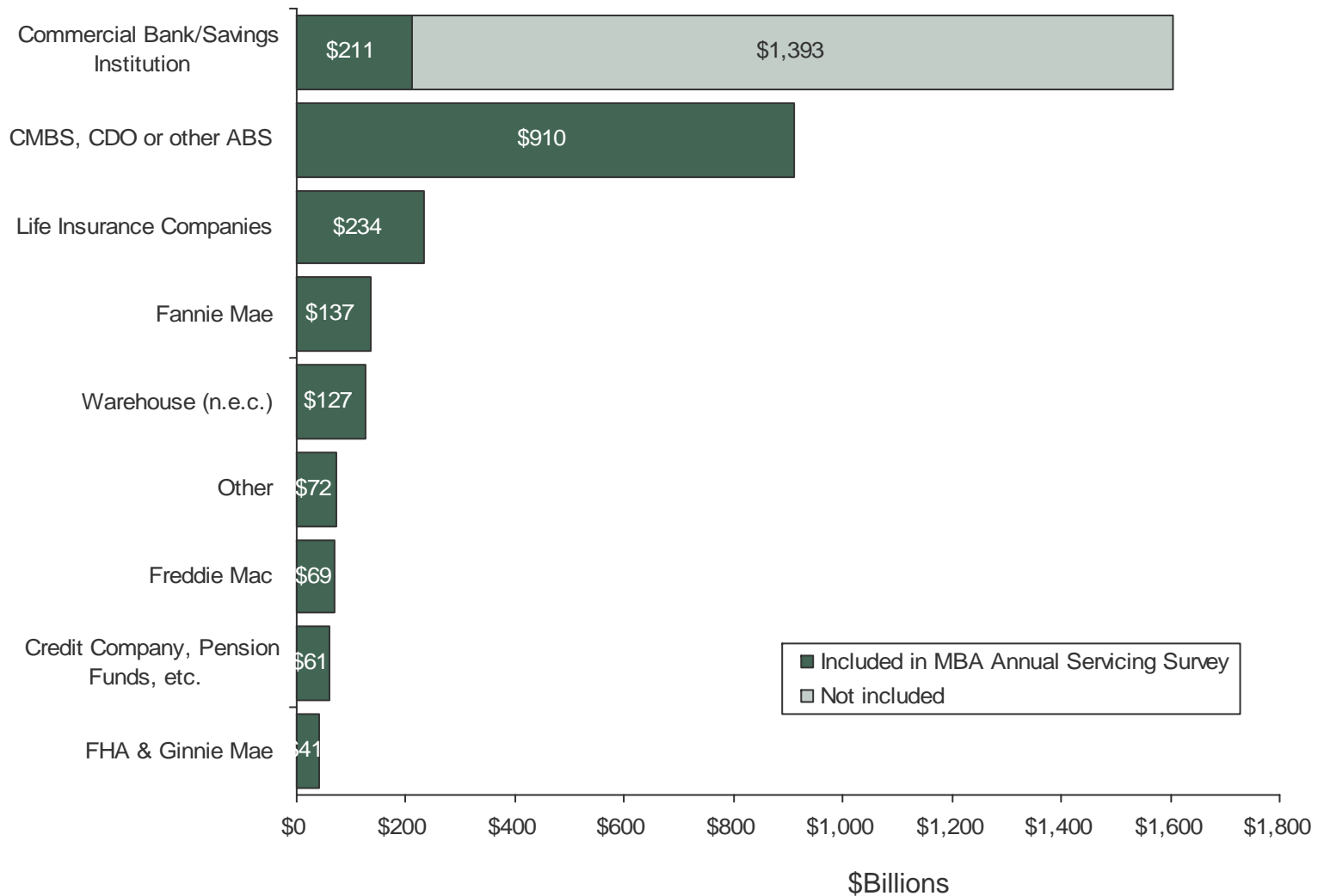
# Commercial/Multifamily Mortgage Debt Outstanding



Source: Federal Reserve Board

Mortgage Bankers Association

# 2007 Year-end Primary Cashier Servicing Volumes

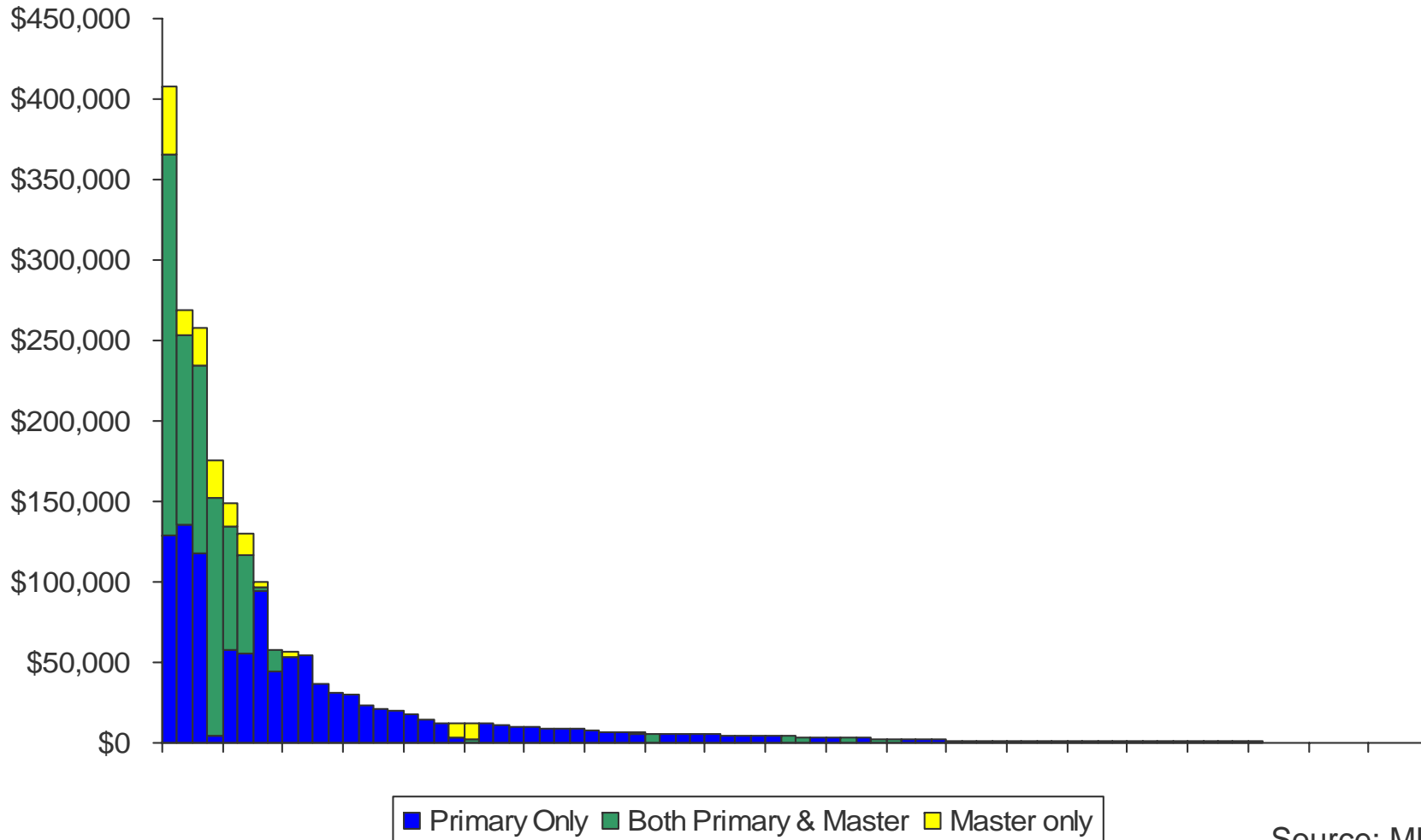


Source: MBA

# Commercial/Multifamily Servicers Roles, Master and Primary Servicing, Year-end 2007



Servicing Loan Volume by Role (\$thousands)



Source: MBA

**Specialization:** Wide Disparity in Roles -- Top 10 servicer's share of activity

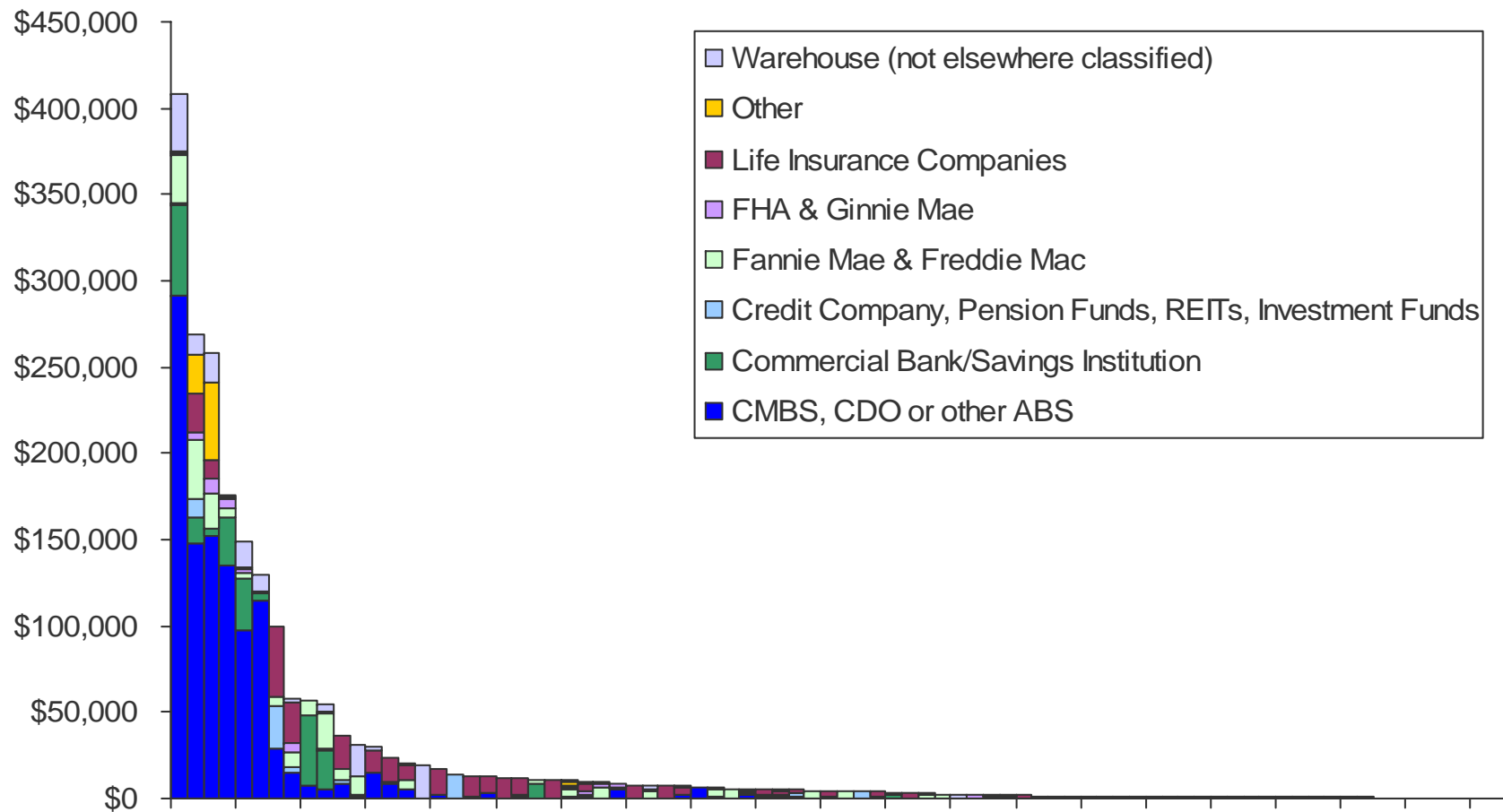
- Primary only: 70%
- Primary & Master: 97%
- Master only: 85%

- Total Primary: 79%
- Total Master: 95%

# Commercial/Multifamily Servicers Roles, Master and Primary Servicing, Year-end 2007



Servicing Loan Volume by Investor Group (\$thousands)



**Concentration:** Top 10 firms = 80% of volume

**Diversification:** Top investor-group servicers have become less focused on that group

-Top 10 CMBS servicers: 60% of their portfolios are CMBS loans (was 63% in 2001)

-Top 10 GSE servicers: 12% of their portfolios are GSE loans (was 33% in 2001)

-Top 10 Life Co. servicers: 22% of their portfolios are Life Co. loans (was 47% in 2001)

Source: MBA

## **Q&A**

### **Jamie Woodwell**

jwoodwell@mortgagebankers.org  
1919 Pennsylvania Ave - Washington, DC 20006  
202-557-2936

### **MBA homepage:**

[www.mortgagebankers.org](http://www.mortgagebankers.org)

### **MBA research page:**

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### **Research Institute for Housing America:**

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### **Home Loan Learning Center:**

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