



MBA's **COMMERCIAL REAL ESTATE FINANCE/
MULTIFAMILY HOUSING** Convention & Expo
FEBRUARY 1-4, 2010, LAS VEGAS

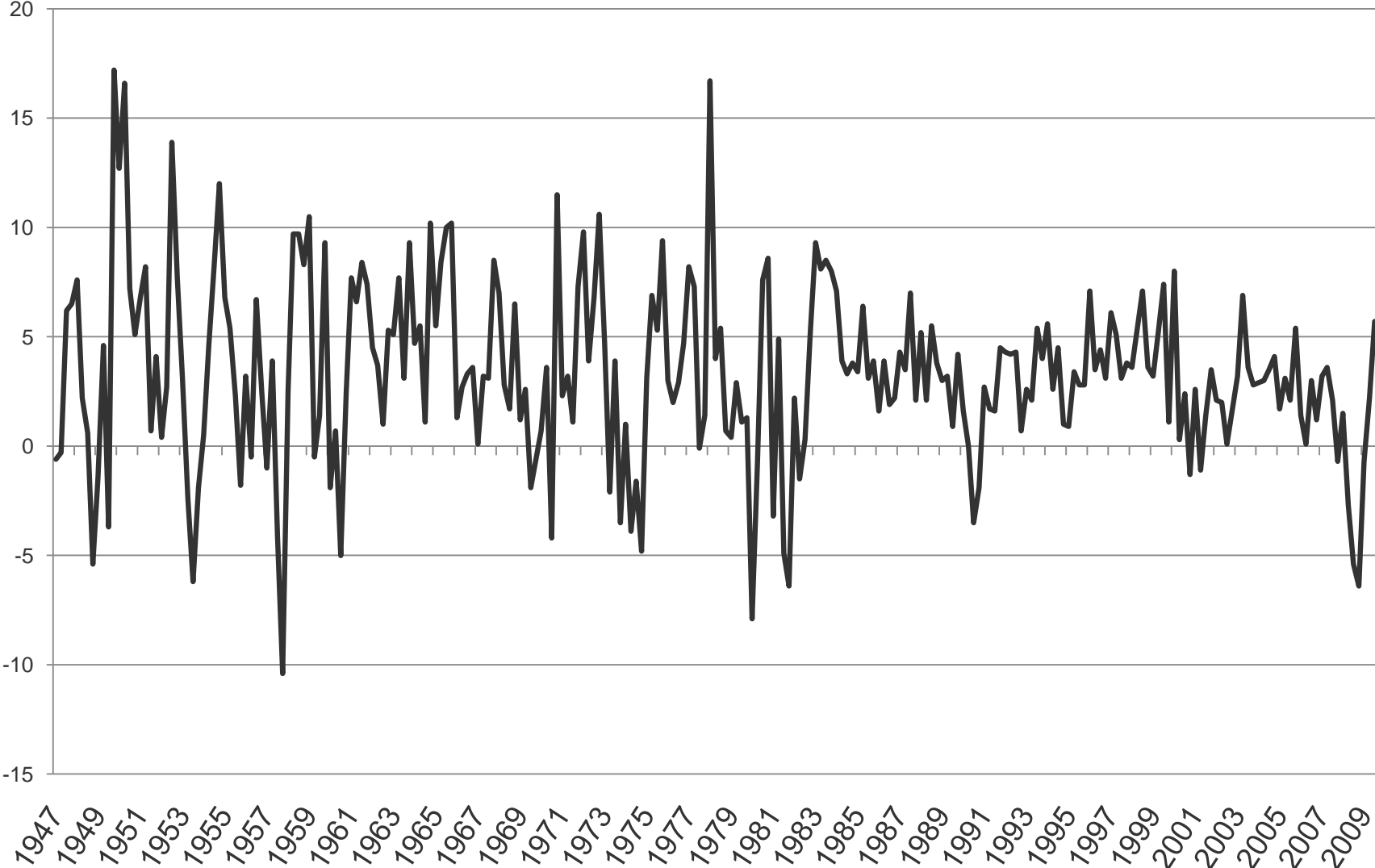
The Economic Outlook

February 2010

Jay Brinkmann
Chief Economist & Senior Vice President
Research and Economics
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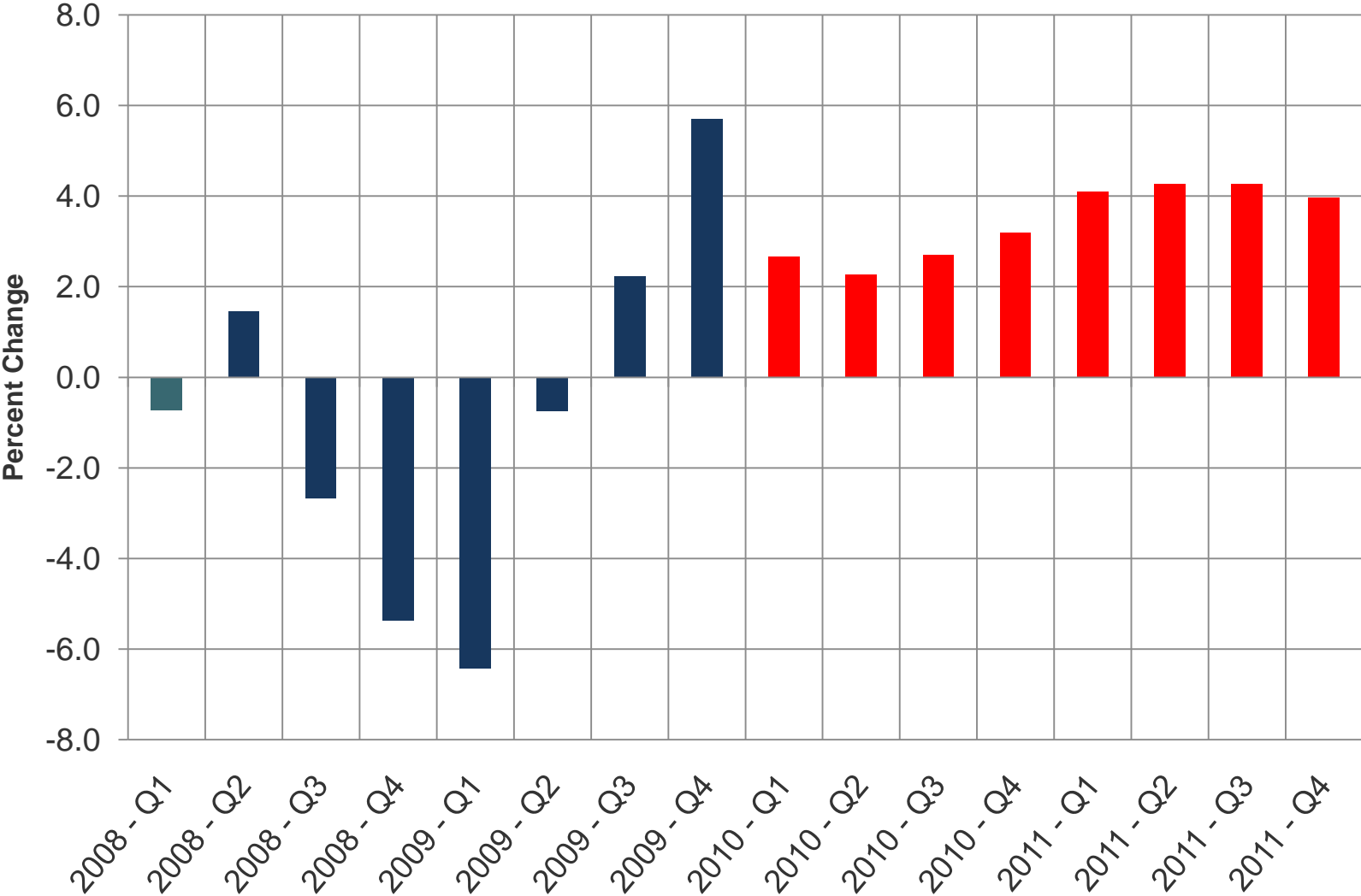
Jamie Woodwell
Vice President
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Mortgage Bankers Association

The Recession – How Bad Was It?



Quarterly percentage change in GDP

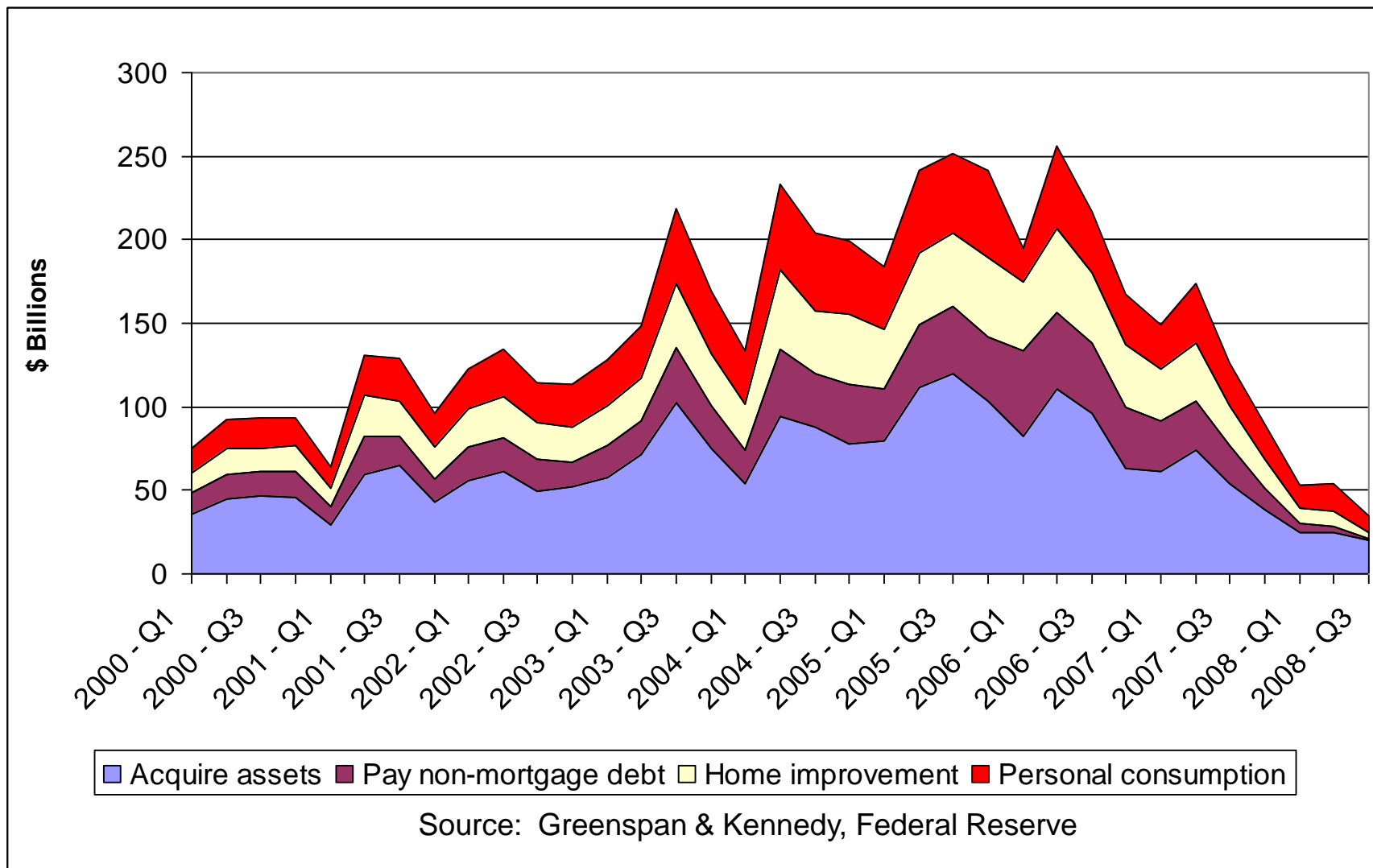
Actual and Forecast Changes in GDP 2008 - 2011



But What is Normal Growth?



Size and Use of Home Equity Extraction 2000- 2008



Job Losses by Sector – Dec. 2007 to Dec. 2009 (thousands)



Manufacturing	-2,086	-15%
Construction	-1,564	-21%
Transportation	-397	-9%
Retail & Wholesale Trade	-1,405	-6%
Leisure & Hospitality	-446	-3%
Professional & Business Services	-1,221	-7%
Financial Services	-527	-6%
Information	-219	-7%
Other	-164	-2%
Education	125	4%
Health Care & Social Assistance	772	5%
Federal	68	2%
State	37	1%
Local	-27	0%
Total	-7,054	-5%

} -1,967
28% of total

Ranking of States by Percentage of Jobs Lost, Dec. 2007 to Dec. 2009



Rank			Rank		
1	Nevada	-10.7%	32	Massachusetts	-3.9%
2	Arizona	-9.8%	33	New Mexico	-3.8%
3	Michigan	-9.7%	34	Montana	-3.8%
4	Florida	-7.6%	35	Pennsylvania	-3.7%
5	Georgia	-7.6%	36	Iowa	-3.6%
6	Rhode Island	-7.1%	37	Maryland	-3.4%
7	Idaho	-7.0%	38	Missouri	-3.3%
8	Oregon	-7.0%	39	Virginia	-3.0%
9	California	-6.9%	40	West Virginia	-3.0%
10	Hawaii	-6.5%	41	Arkansas	-2.9%
11	Indiana	-6.4%	42	New Hampshire	-2.8%
12	Illinois	-6.3%	43	New York	-2.6%
13	Delaware	-6.2%	44	Nebraska	-2.6%
14	Alabama	-6.2%	45	South Dakota	-2.0%
15	Ohio	-6.1%	46	Louisiana	-1.8%
16	Wisconsin	-6.1%	47	Texas	-1.7%
17	Tennessee	-6.1%	48	Oklahoma	-1.1%
18	North Carolina	-5.9%	49	Alaska	0.4%
19	Kentucky	-5.7%	50	North Dakota	1.5%
20	Vermont	-5.3%	51	DC	1.8%

US Total : -5.1%

Half of US Job Losses Between Dec 2007 and Dec 2009 Were in Eight States



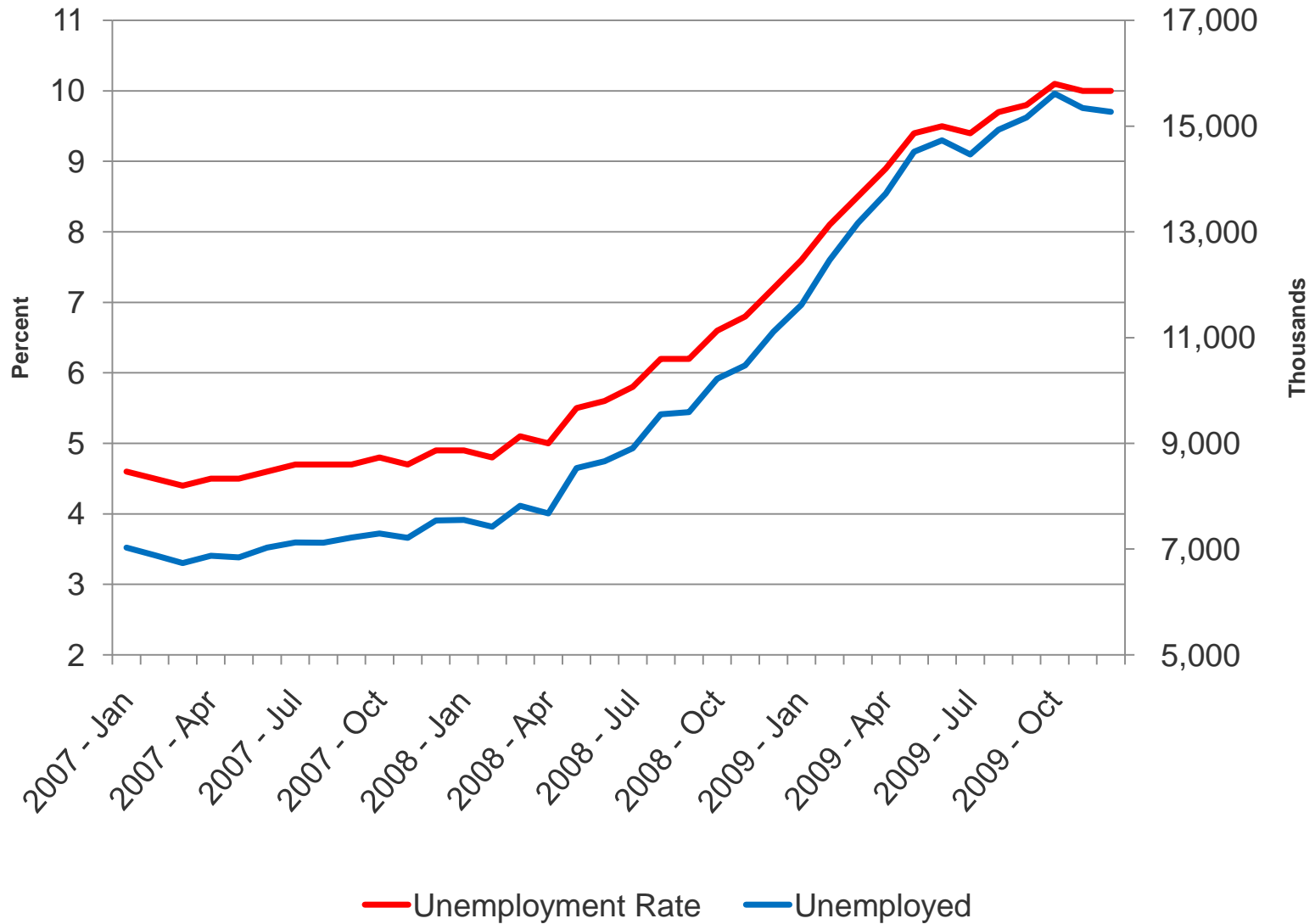
	Jobs Lost	Percent of US Total
California	-1,041.3	14.8%
Florida	-607.6	8.6%
Michigan	-411.0	5.8%
Illinois	-379.0	5.4%
Ohio	-331.8	4.7%
Georgia	-314.5	4.5%
Arizona	-261.6	3.7%
North Carolina	-248.0	3.5%
	Percent of US Total:	51.0%

Service Jobs Lost by State



Rank	(thousands)			Rank	(thousands)		
1	Arizona	-77.9	-12.4%	32	Massachusetts	-45.3	-5.7%
2	Michigan	-102.2	-11.9%	33	Washington	-33.2	-5.5%
3	Nevada	-26.5	-11.2%	34	South Dakota	-3.2	-4.8%
4	Georgia	-96.5	-10.5%	35	Arkansas	-9.1	-4.8%
5	Florida	-184.1	-9.6%	36	West Virginia	-4.7	-4.5%
6	Mississippi	-15.0	-9.6%	37	Montana	-3.1	-4.4%
7	Hawaii	-10.7	-9.0%	38	Oklahoma	-11.8	-4.0%
8	Illinois	-125.6	-9.0%	39	Texas	-84.0	-3.8%
9	Oregon	-30.4	-9.0%	40	Iowa	-9.2	-3.5%
10	Connecticut	-34.3	-8.7%	41	Maine	-3.4	-3.4%
11	Delaware	-10.0	-8.7%	42	Virginia	-31.9	-3.4%
12	Alabama	-29.8	-8.4%	43	Louisiana	-10.6	-3.2%
13	Wisconsin	-41.1	-8.2%	44	Missouri	-16.1	-2.8%
14	Colorado	-48.0	-8.2%	45	Kentucky	-8.8	-2.8%
15	Ohio	-85.4	-8.0%	46	DC	-5.6	-2.8%
16	Kansas	-21.1	-8.0%	47	Maryland	-16.4	-2.7%
17	New Jersey	-75.4	-7.6%	48	South Carolina	-5.0	-1.4%
18	California	-275.0	-7.5%	49	Alaska	-0.5	-1.1%
19	Vermont	-3.1	-7.5%	50	New Hampshire	-1.0	-0.8%
20	North Carolina	-57.7	-7.3%	51	North Dakota	-0.2	-0.3%
	US Total	-2018.5	-6.9%				

Unemployment Rate and Number of Unemployed

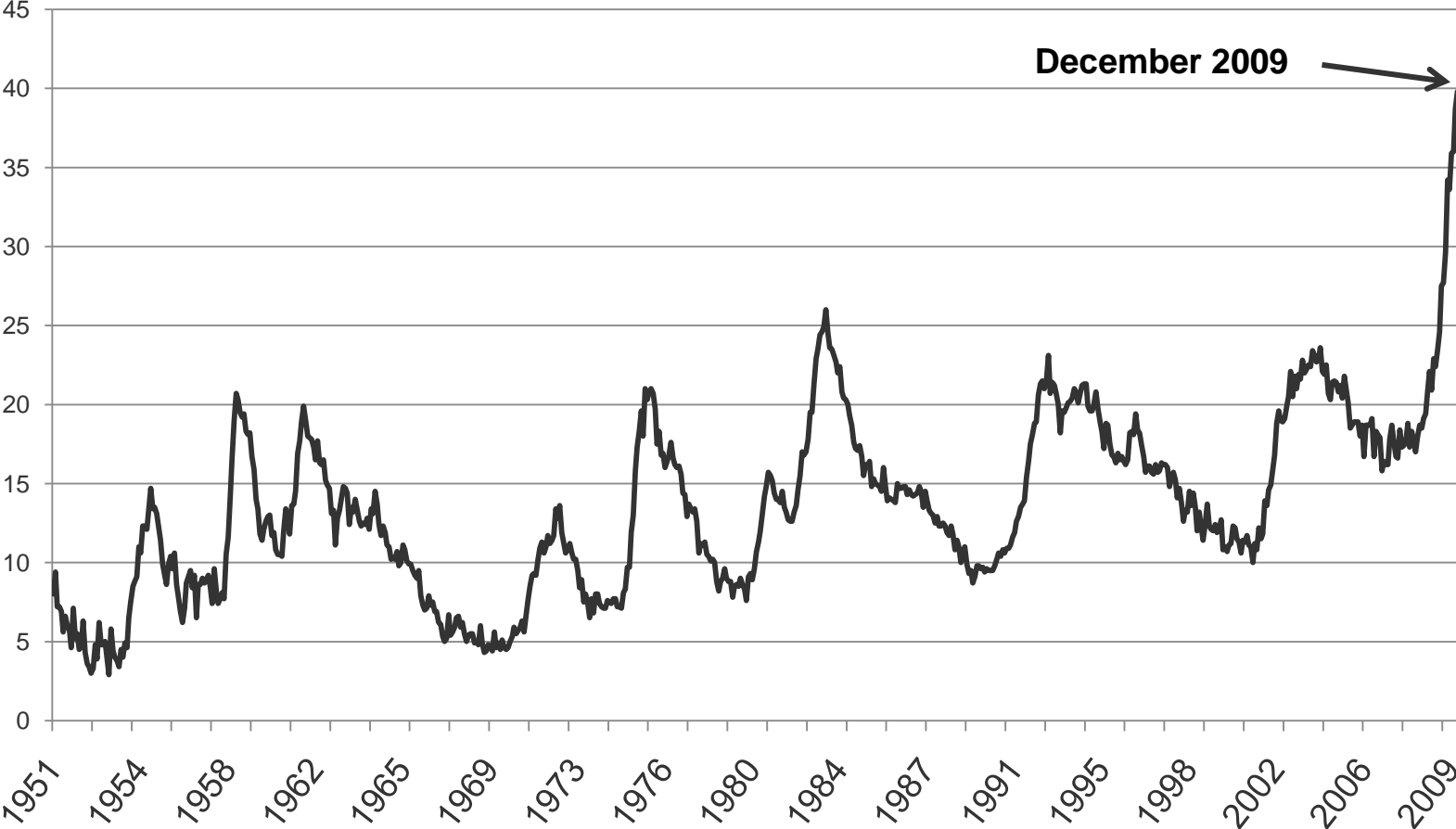


Initial Claims for Unemployment Insurance (Seasonally Adjusted)



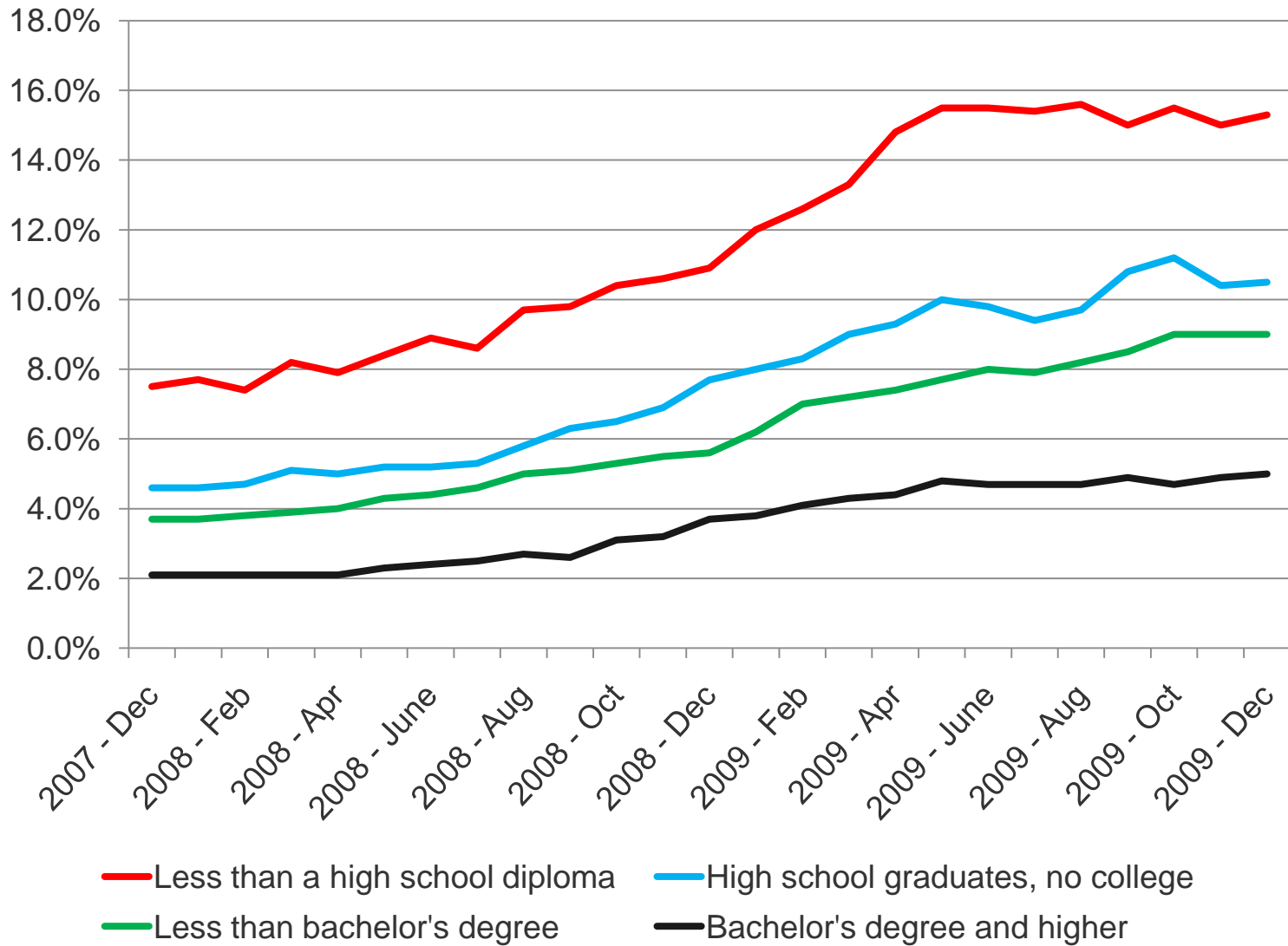
Source: Bureau of Labor Statistics

Percent Unemployed More than 6 Months

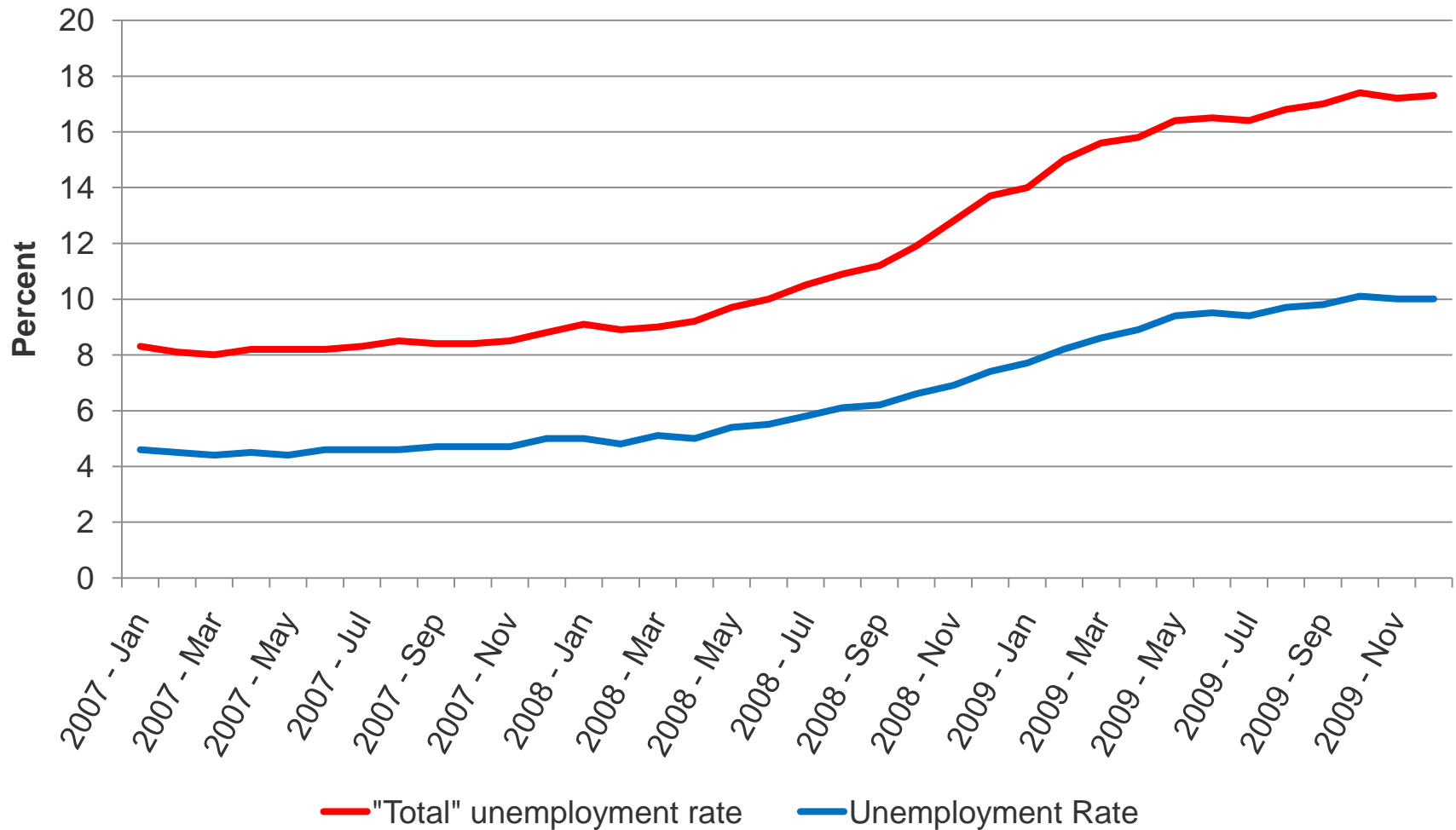


Percent of unemployed who have been out of work more than 27 weeks.
Source: Bureau of Labor Statistics

Unemployment Rate by Education



Unemployment Rate plus Marginally Employed



Includes those unemployed but looking for work, discouraged workers no longer looking, those marginally attached to the work force and those forced to take part-time positions while seeking full-time.

Official versus “Total” Unemployment Rate by State

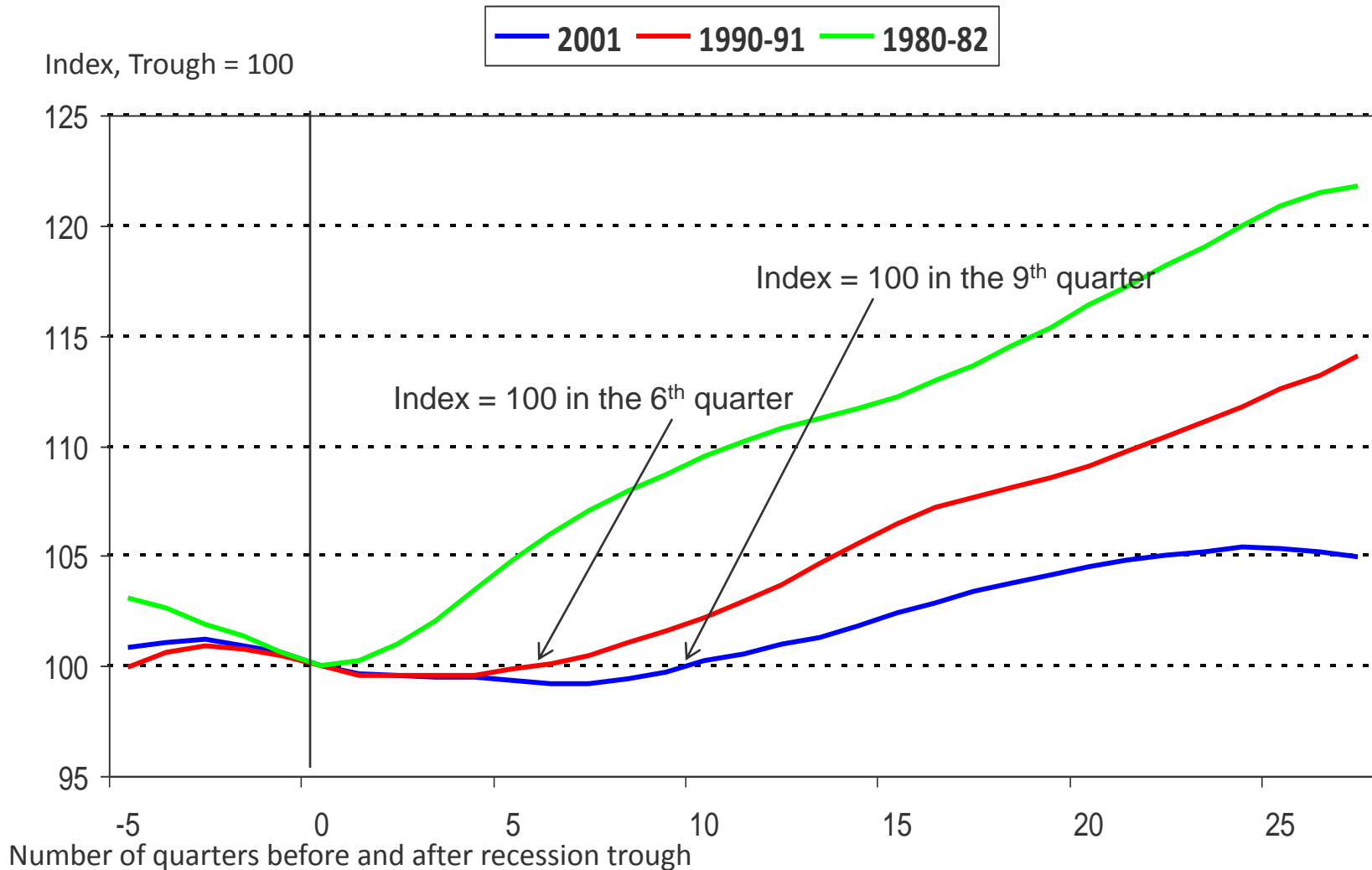


	Unemployment Rate - Dec 2009	Estimated "Total" Unemployment Rate - Dec 2009
Michigan	14.6	23.5
Nevada	13.0	20.9
Rhode Island	12.9	21.1
South Carolina	12.6	21.0
California	12.4	22.2
Florida	11.8	20.2
North Carolina	11.2	18.6
Oregon	11.0	20.5
Alabama	11.0	17.5
Tennessee	10.9	19.0
Ohio	10.9	18.4
Kentucky	10.7	17.9
Georgia	10.3	17.6
Indiana	9.9	17.9
Arizona	9.1	17.4
US	10.0	17.3

The “total” unemployment rate includes those looking for work, discouraged workers no longer looking, marginally attached workers who have recently looked and those working part-time for economic reasons.

Source: BLS and MBA estimates of state level “total” unemployment based on historical patterns in BLS U6 data.

Payroll Employment – Time to Recovery after End of Recession



Since the trough of the most recent recession, we have lost approximately 2.7 million jobs.

But what about the stimulus package?



Amount appropriated:	\$787 Billion
Amount spent through 12/31/09:	\$263 Billion
Percent spent:	33.4%

Estimated spending by fiscal year:

\$184 billion in FY2009

\$399 billion in FY2010

\$91 billion in FY2011-2015

How is the stimulus package being spent?



The limited impact on employment is tied to how money has been spent:

Payments for state Medicaid obligations and other state grants	23%
Extension of unemployment benefits and COBRA subsidy	22%
Tax credits, including expansion of child tax credit and homebuyer tax credit	21%
Spending on transportation and other infrastructure needs	16%
Expanded net loss carrybacks and other business-related tax breaks	12%
Alternative Minimum Tax relief for one year	6%

Fed Funds

No increase in the Fed Funds rate until December or early 2011

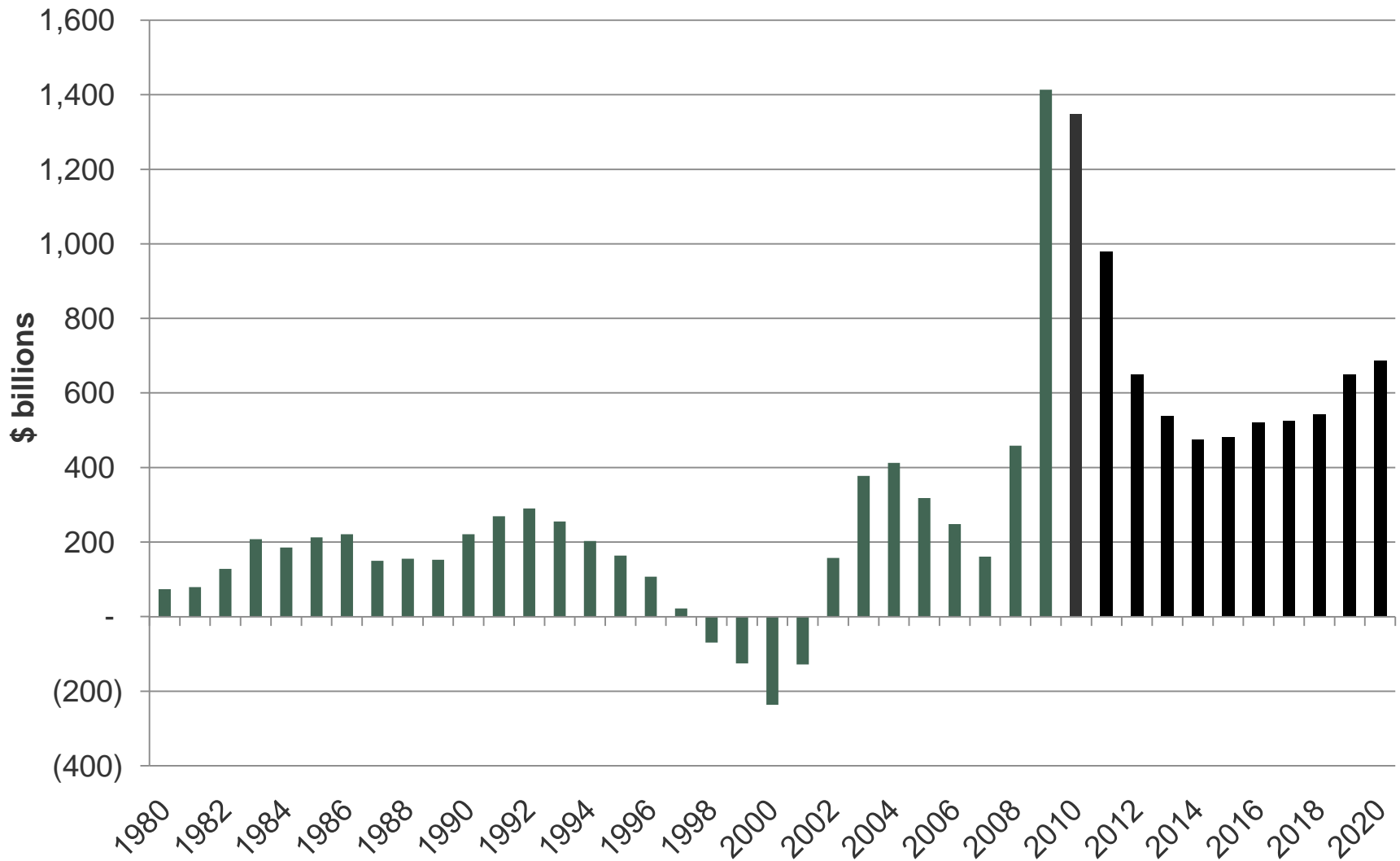
- No evidence of inflation, particularly wage inflation.
- May need to move earlier to protect the dollar.
- Absent some new crisis with the major banks, LIBOR spreads should remain near current levels.

10-Year Treasury

Increasing through 2010 to about 4.25% by December, with considerable volatility:

- Flights to quality
- Economic headlines (particularly any positive jobs reports)
- Auction dates

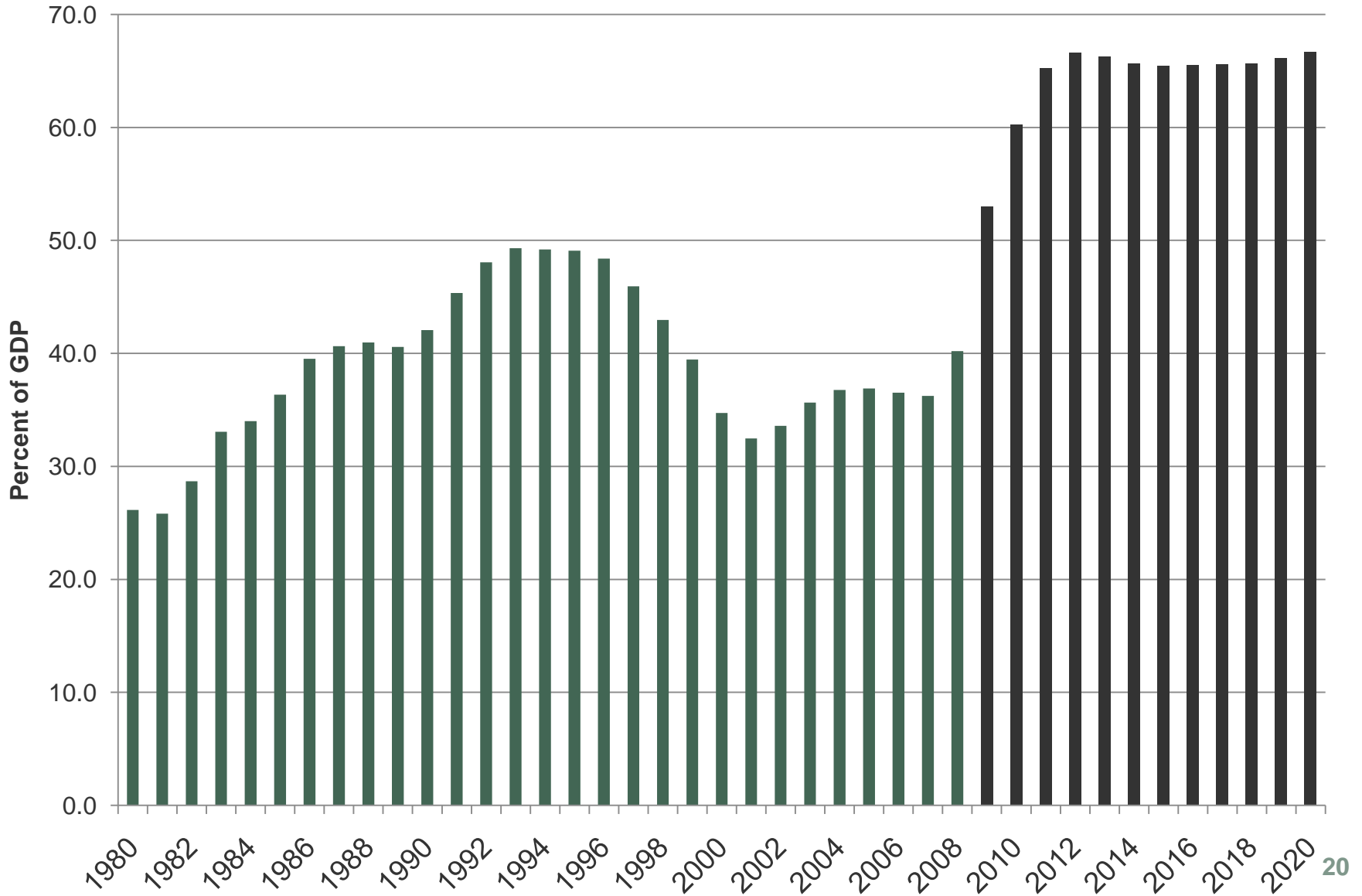
Historical and Projected Federal Deficit Projections Under Current Law



Source: Congressional Budget Office

Federal Debt as Percent of GDP

CBO Projections Under Current Law



Source: Congressional Budget Office

Two Quotes from the Head of the Congressional Budget Office



“If the [Bush] tax cuts were made permanent, the AMT was indexed for inflation, and annual appropriations kept pace with GDP, ...debt held by the public would equal nearly 100 percent of GDP [by 2020].”

“Those are numbers that are not very common among developed countries. We are pushing our way toward debt levels that we don’t have experience with in this country, [and that raises the risk that] people will be concerned enough not to want to buy so much U.S. debt at current interest rates.”

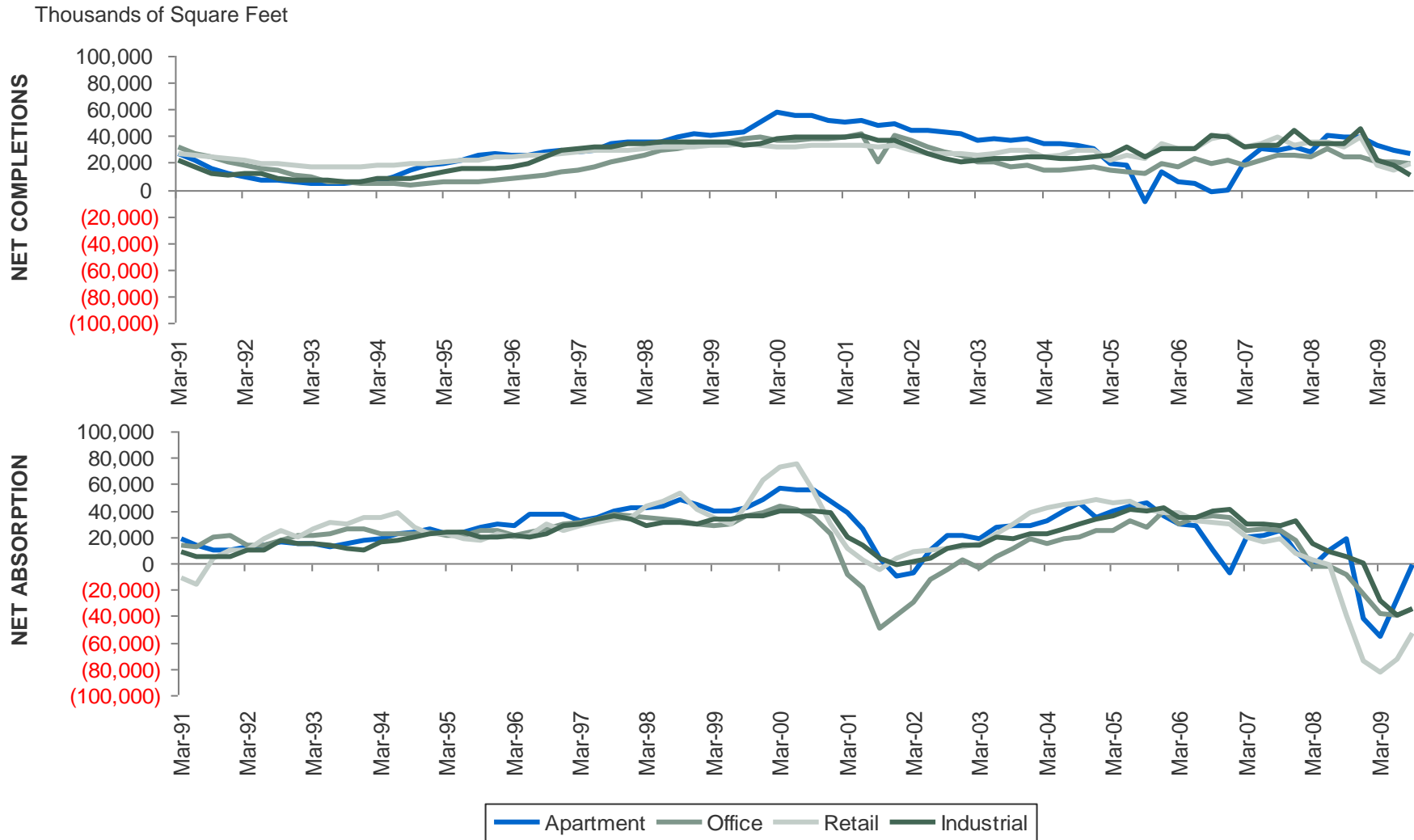
-- Douglas Elmendorf, Director, Congressional Budget Office,
January 26, 2010

Property Fundamentals

The current commercial/multifamily downturn is driven by a steep fall-off in demand, not the “traditional” increase in supply. Either way, there is a significant amount of excess supply.



Completions And Absorption, by Property Type by Quarter

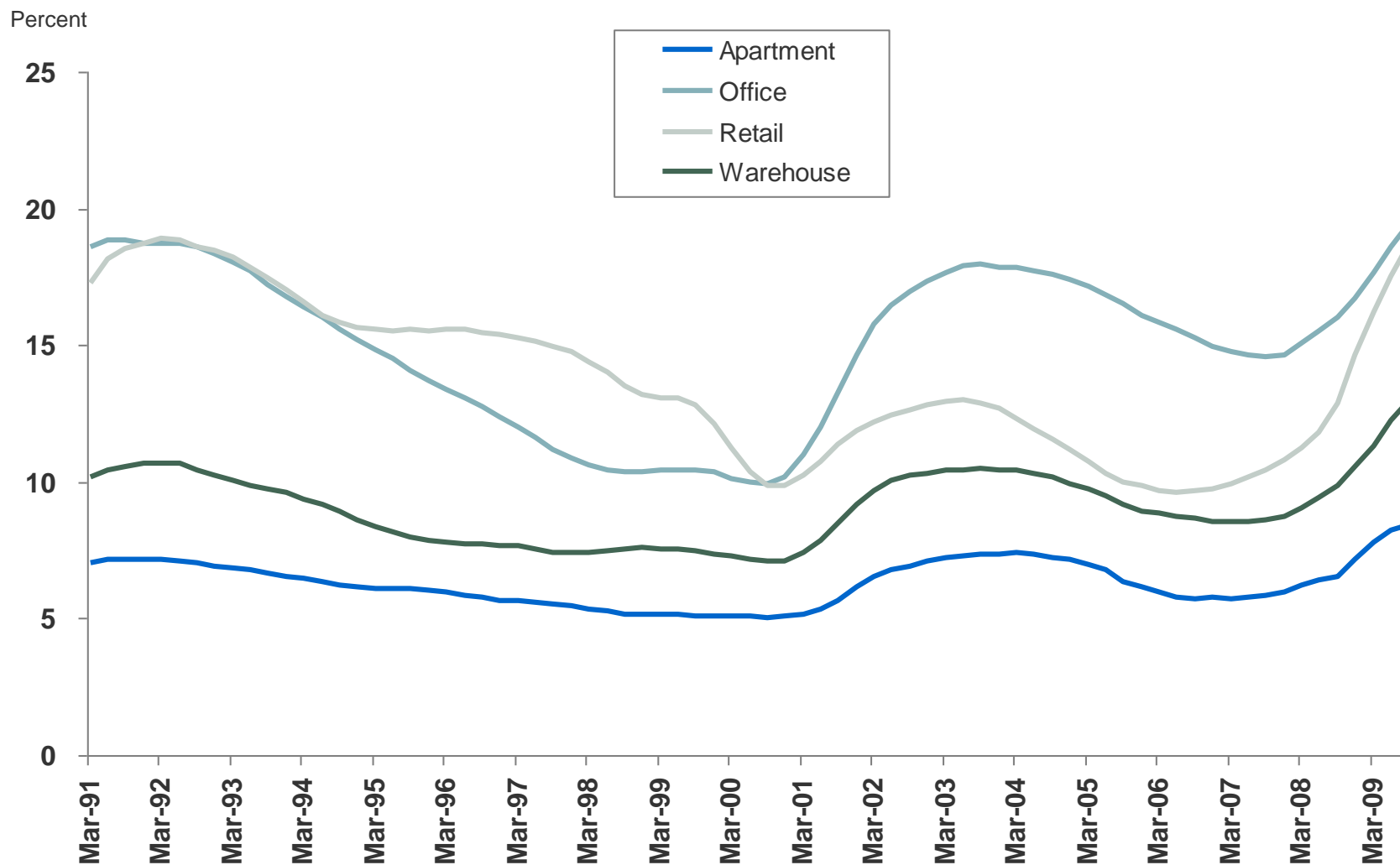


Source: Property and Portfolio Research

Vacancy rates are rising across all property types, hitting or exceeding the highs of the early 1990s



Commercial/Multifamily Vacancy Rates, by Property Type by Quarter

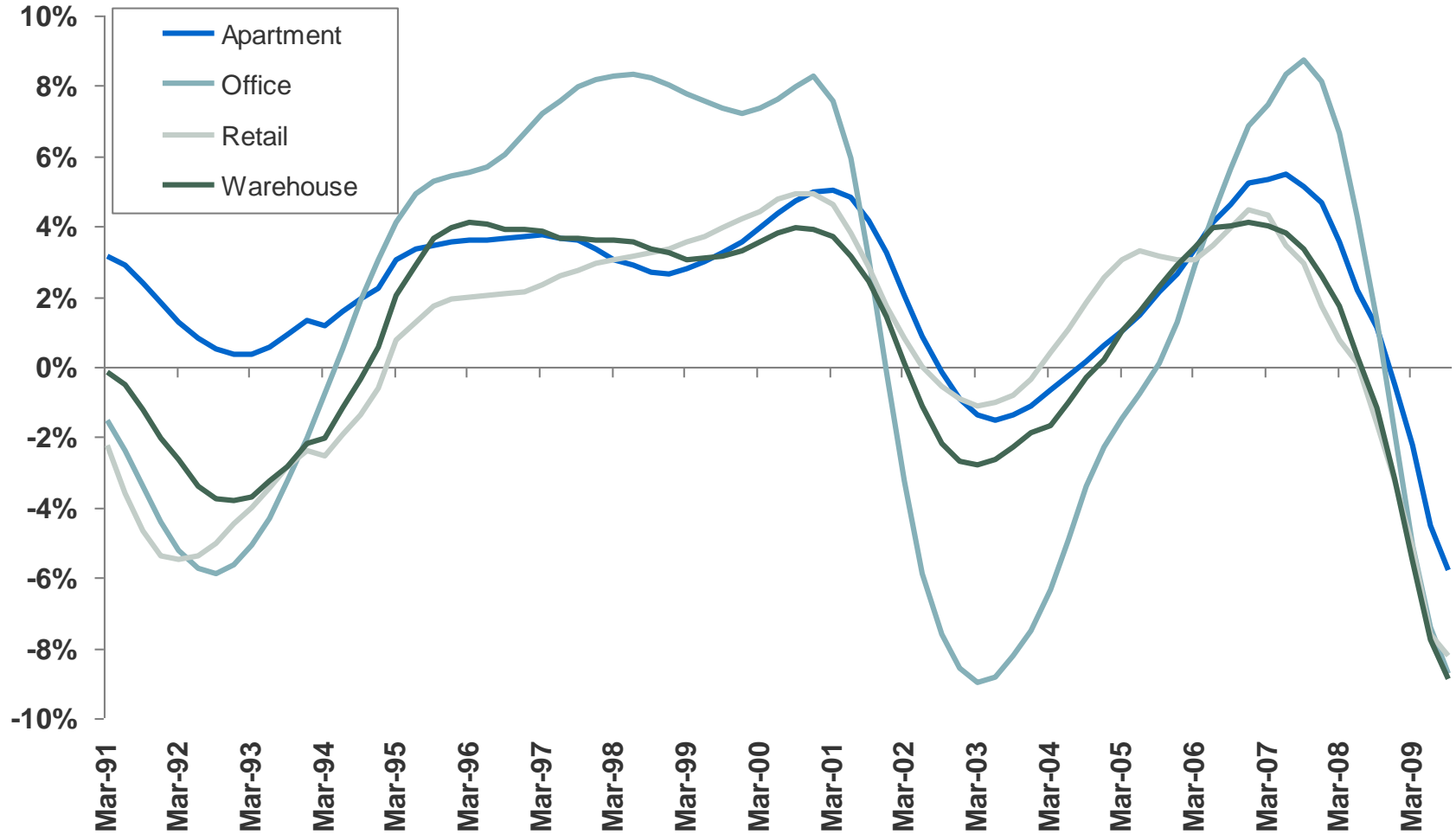


Source: Property and Portfolio Research

Properties are faced with rent pressures



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

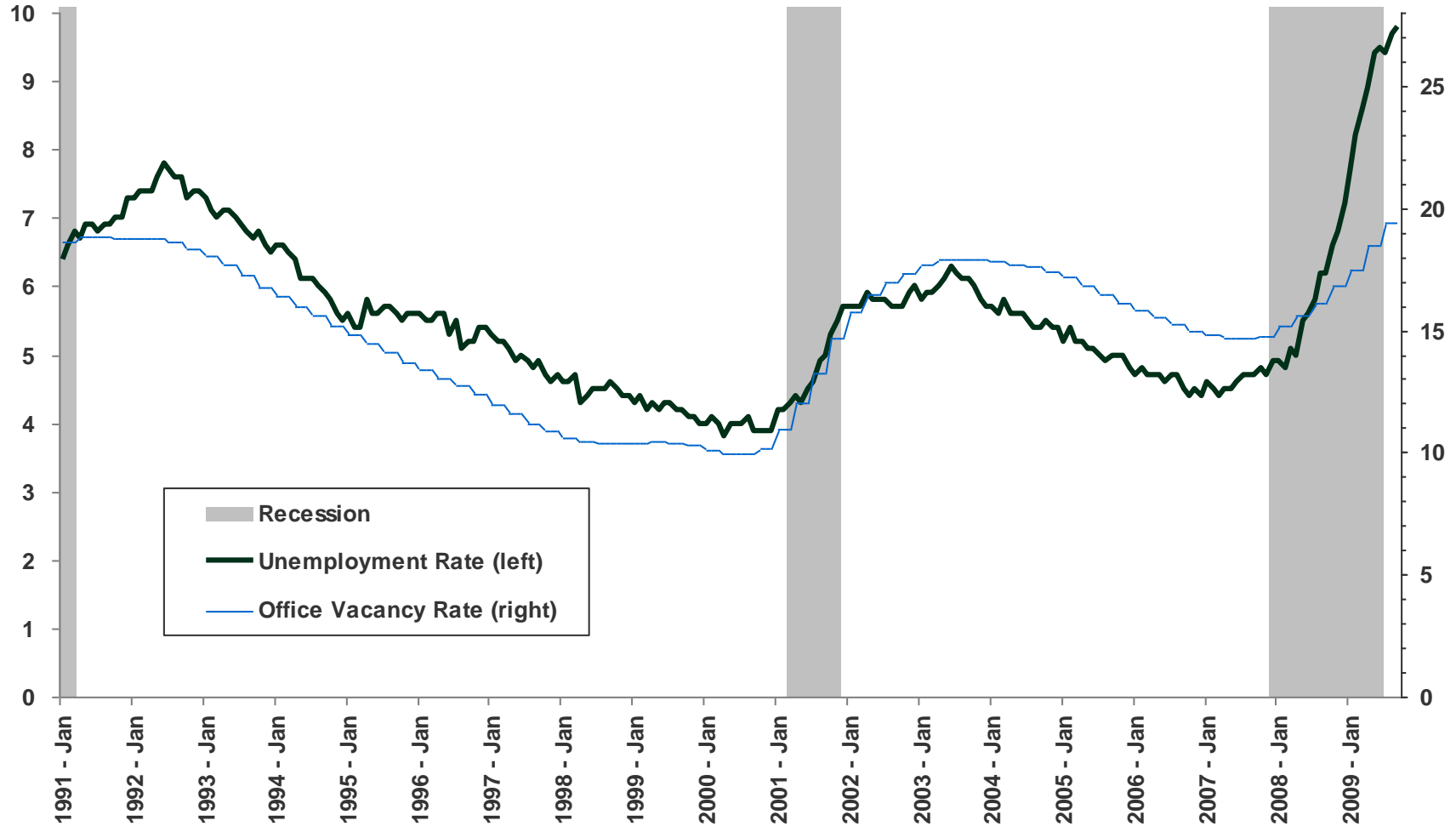


Source: Property and Portfolio Research

Real estate markets are reacting very differently to this downturn than to the last



Unemployment Rate (% , Seasonally-adjusted) and Office Vacancy Rate (% , Not seasonally-adjusted)



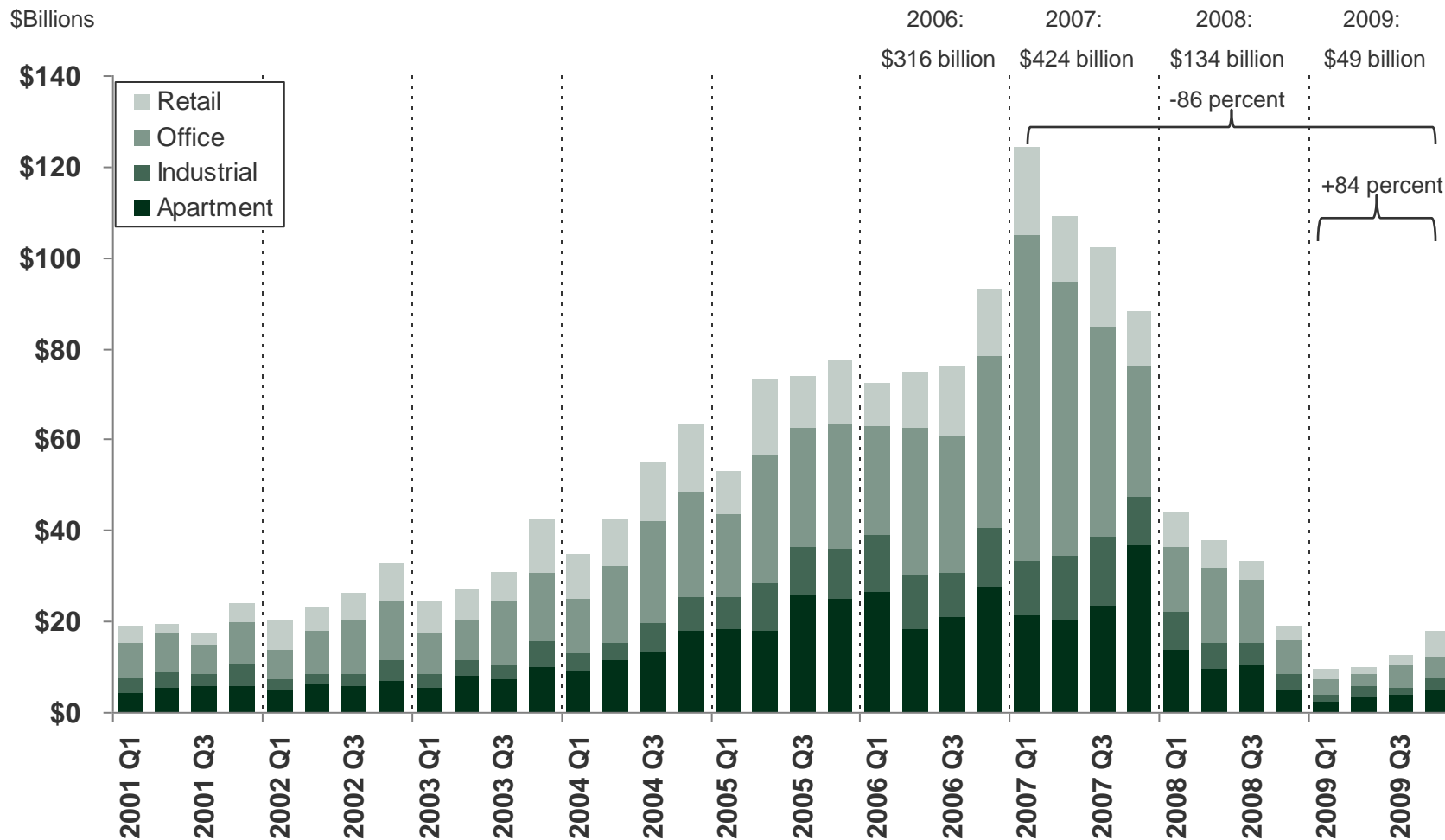
Source: Bureau of Labor Statistics and PPR

Property Transactions

Little incentive for most owners to sell in the current environment; A lack of transaction volume means a lack of meaningful comps



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



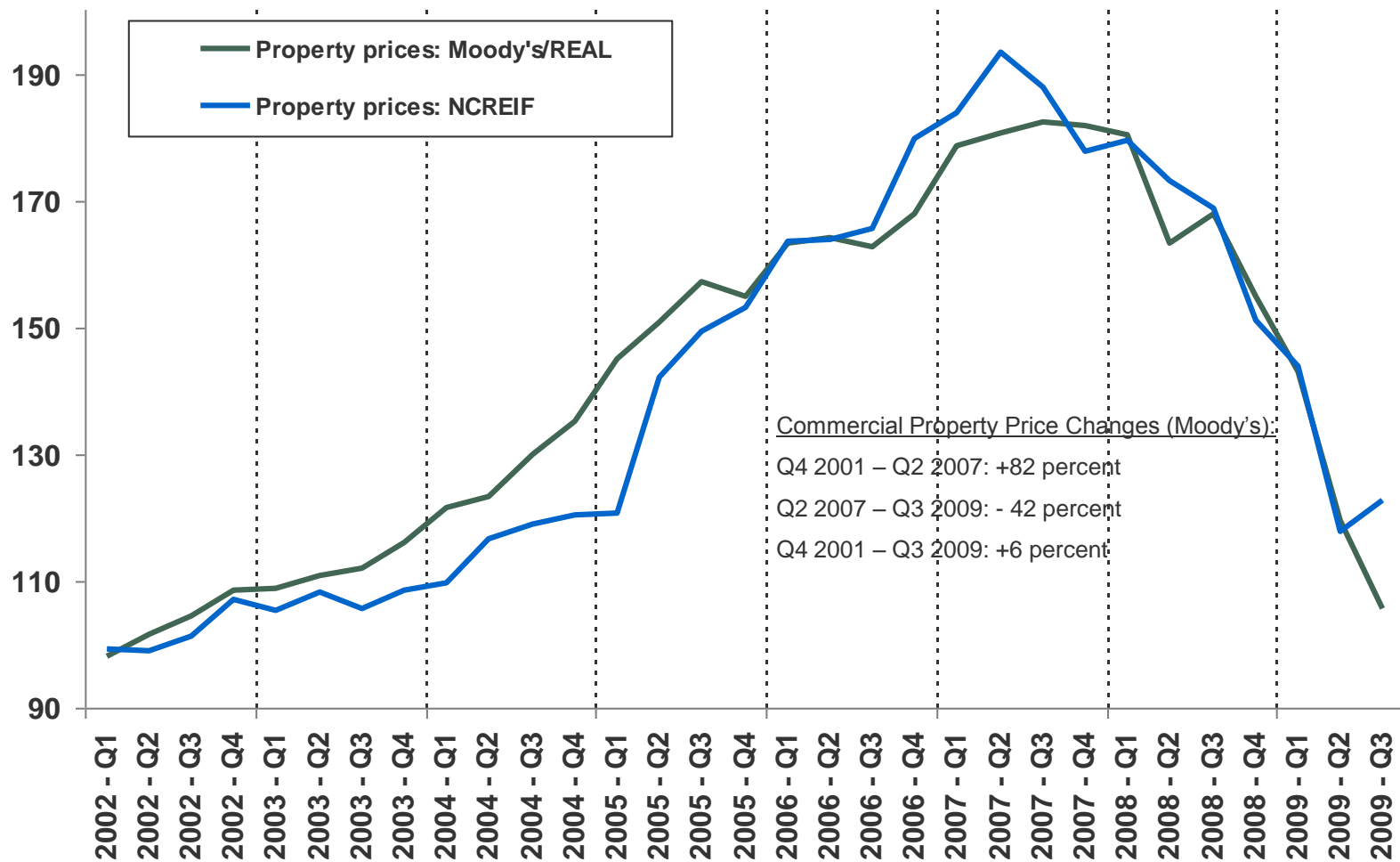
Source: Real Capital Analytics

Property prices grew rapidly during the '00s, then fell even more rapidly



Index of Commercial/Multifamily Property Prices (2001 Q4 = 100)

Index Value



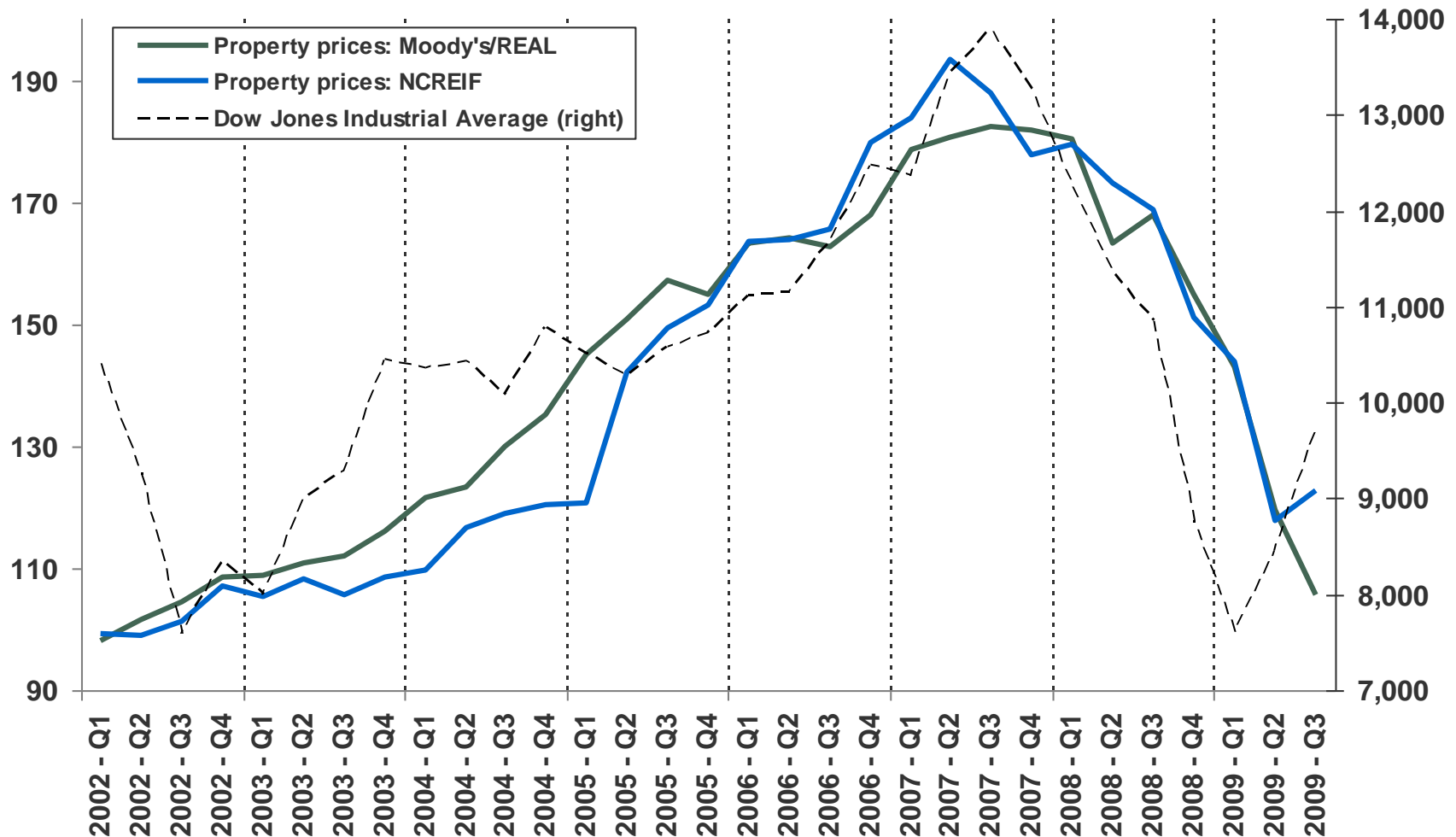
Source: MBA and Moody's/REAL, Wall Street Journal

Property prices grew rapidly during the '00s, generally tracking gains in other equity prices



Index of Commercial/Multifamily Property Prices (2001 Q4 = 100)

Index Value

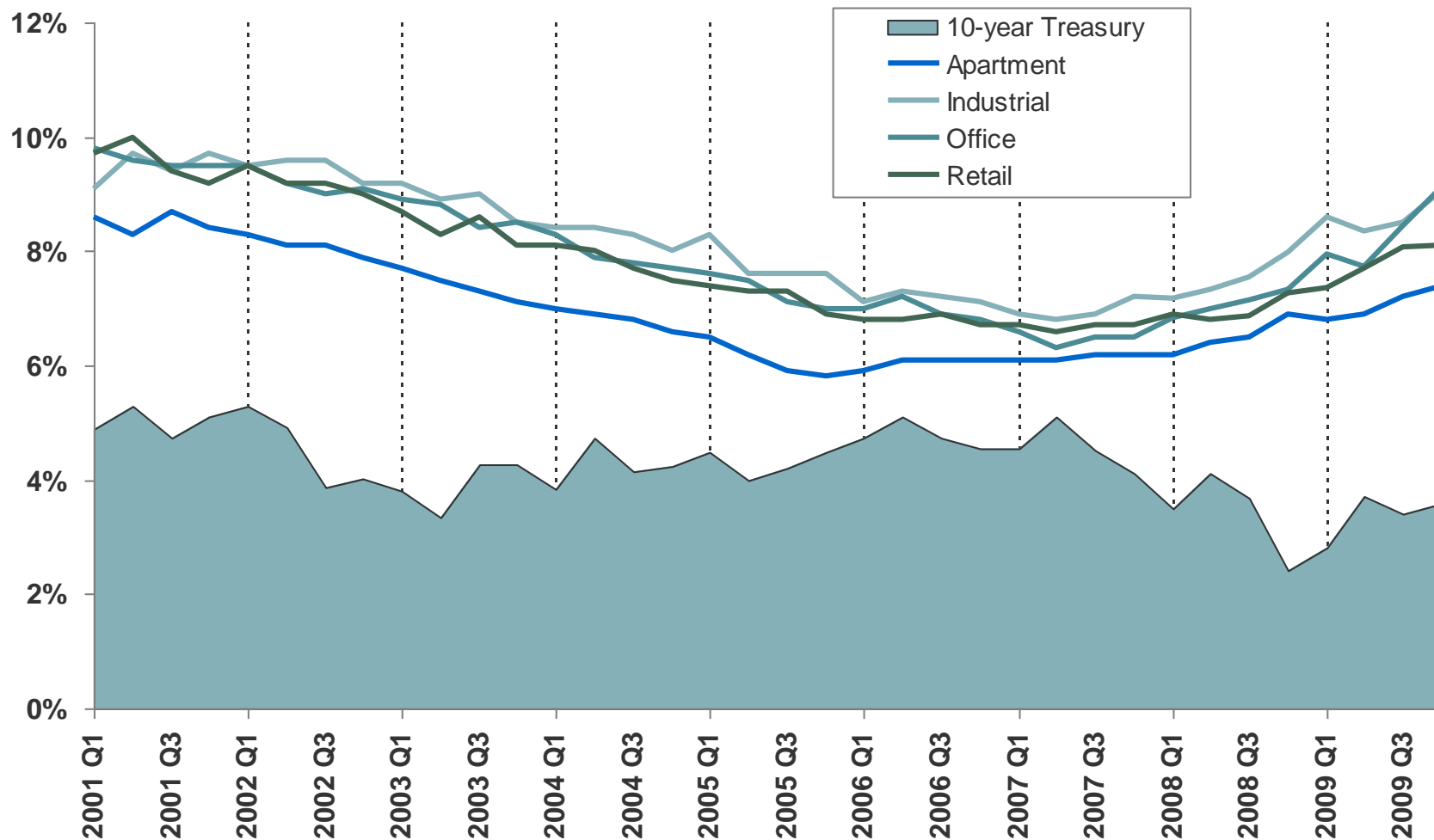


Source: MBA and Moody's/REAL, Wall Street Journal

A big part of the price adjustments have been cap rates, which now trend upward as investors increase their required yields and as expectations of revenue growth are reduced



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

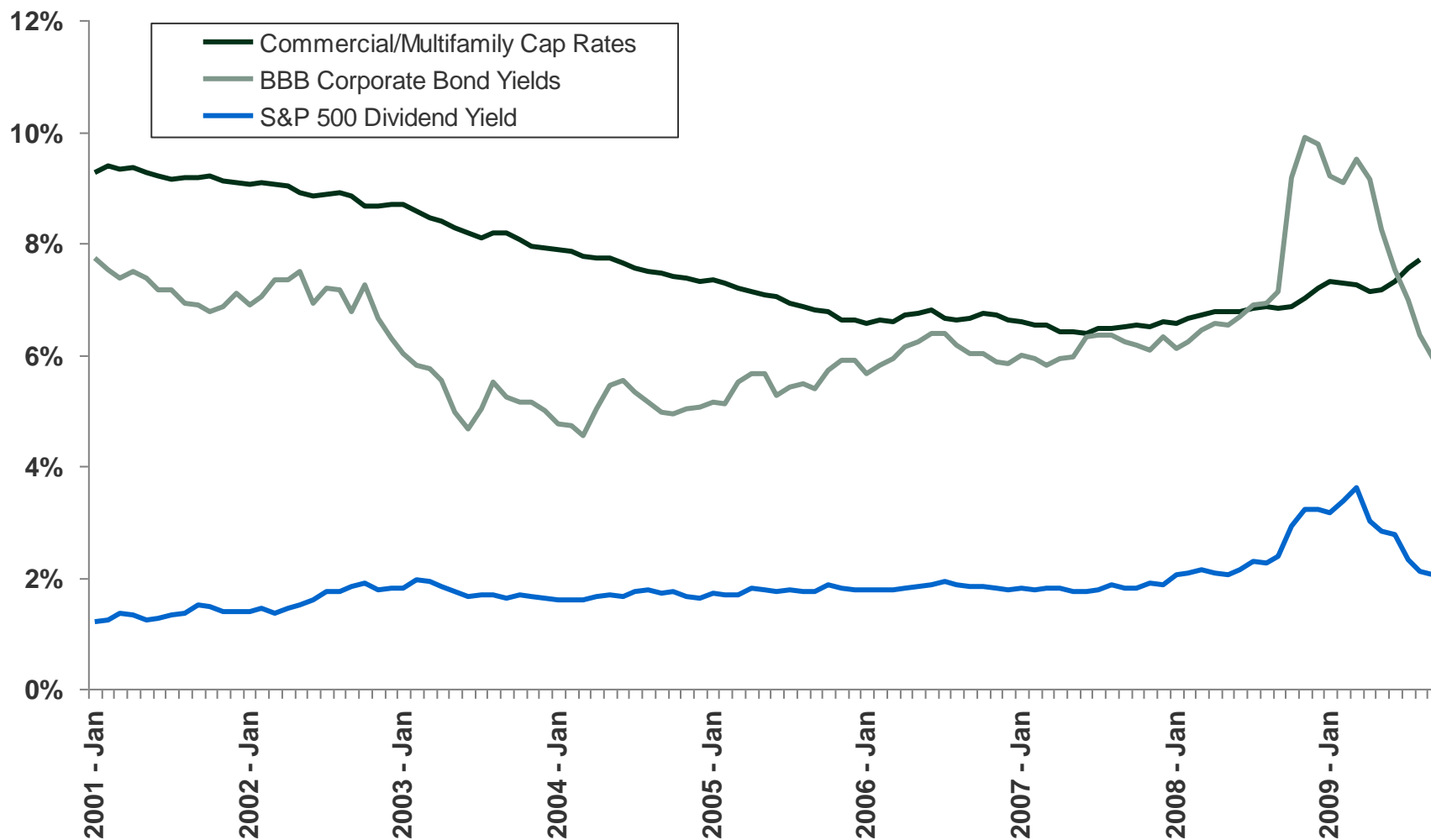


Source: Real Capital Analytics and Federal Reserve Board

Longer-term nature of commercial properties meant fewer spikes in demanded returns than other investments; gradual adjustment still taking place



Selected Yields and Equivalents



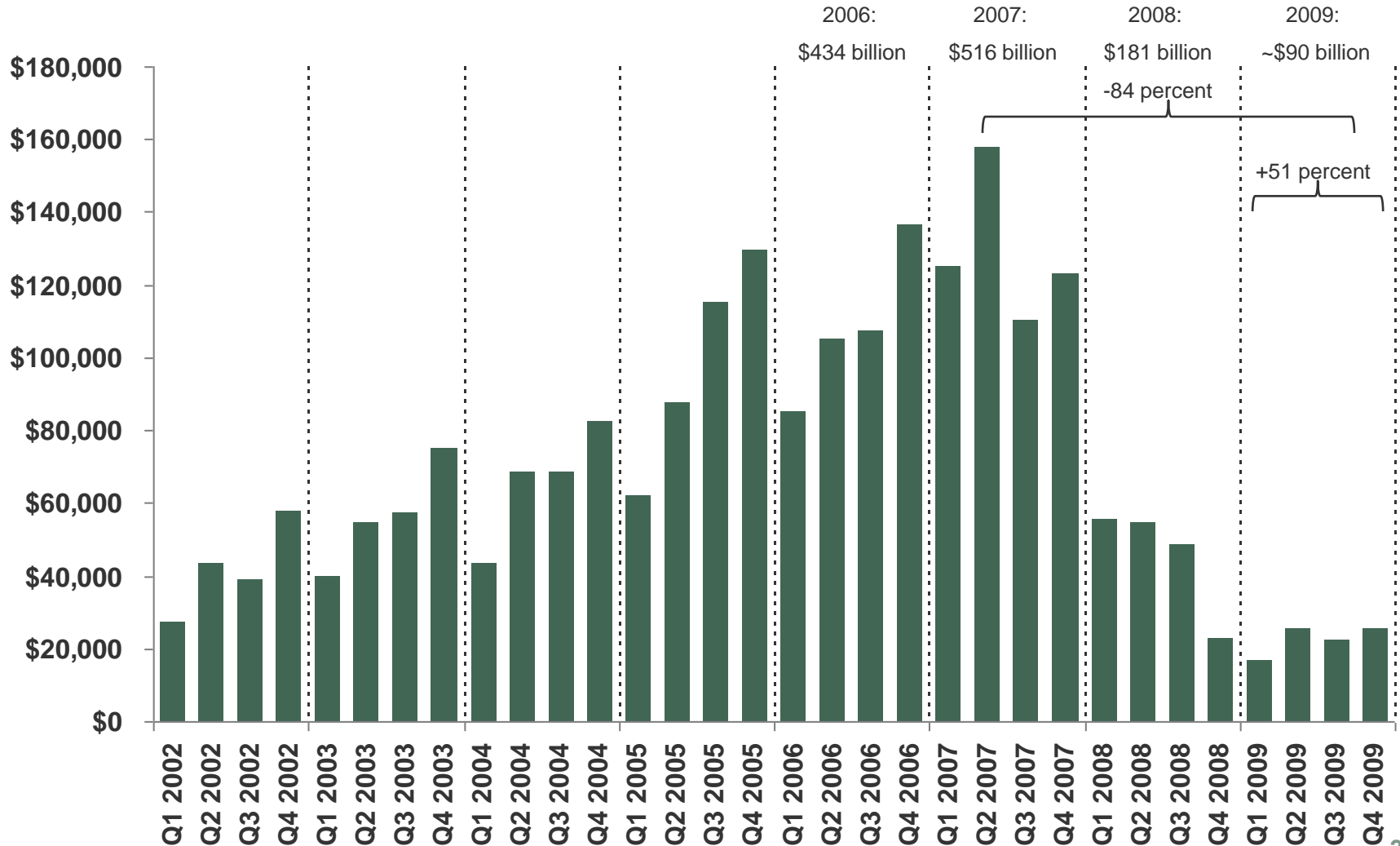
Source: Real Capital Analytics, Merrill Lynch, S&P

Mortgage Originations

Originations have been pushed downward by lackluster demand as well as by the recession and overall credit crunch



Estimate of Commercial/Multifamily Mortgage Bankers Origination Volumes (\$millions)

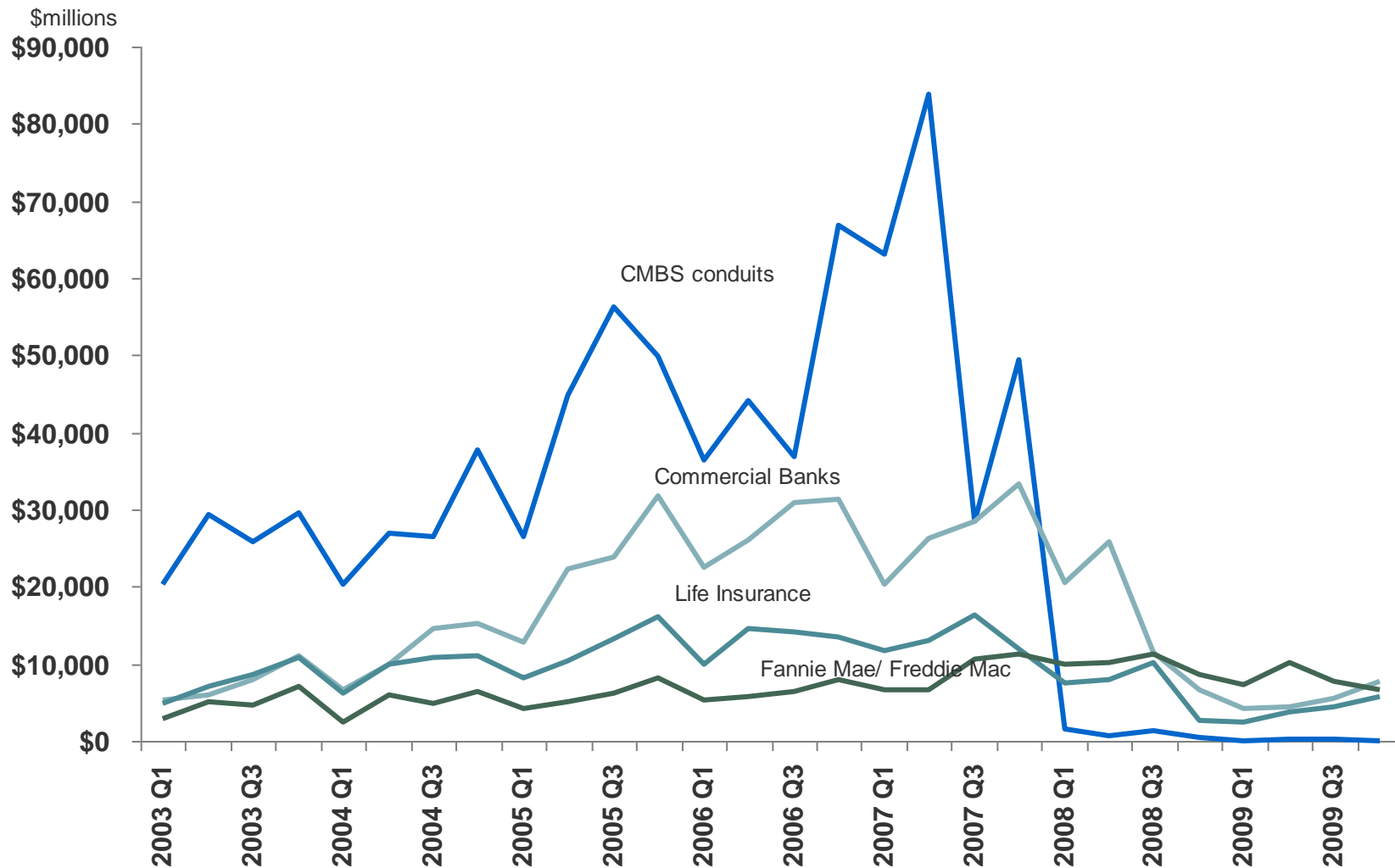


Source: Mortgage Bankers Association

CMBS originations have essentially disappeared; life company and bank originations have stabilized; and Fannie Mae and Freddie Mac have remained strong



Estimated Quarterly Commercial/Multifamily Mortgage Bankers' Originations, by Investor Group

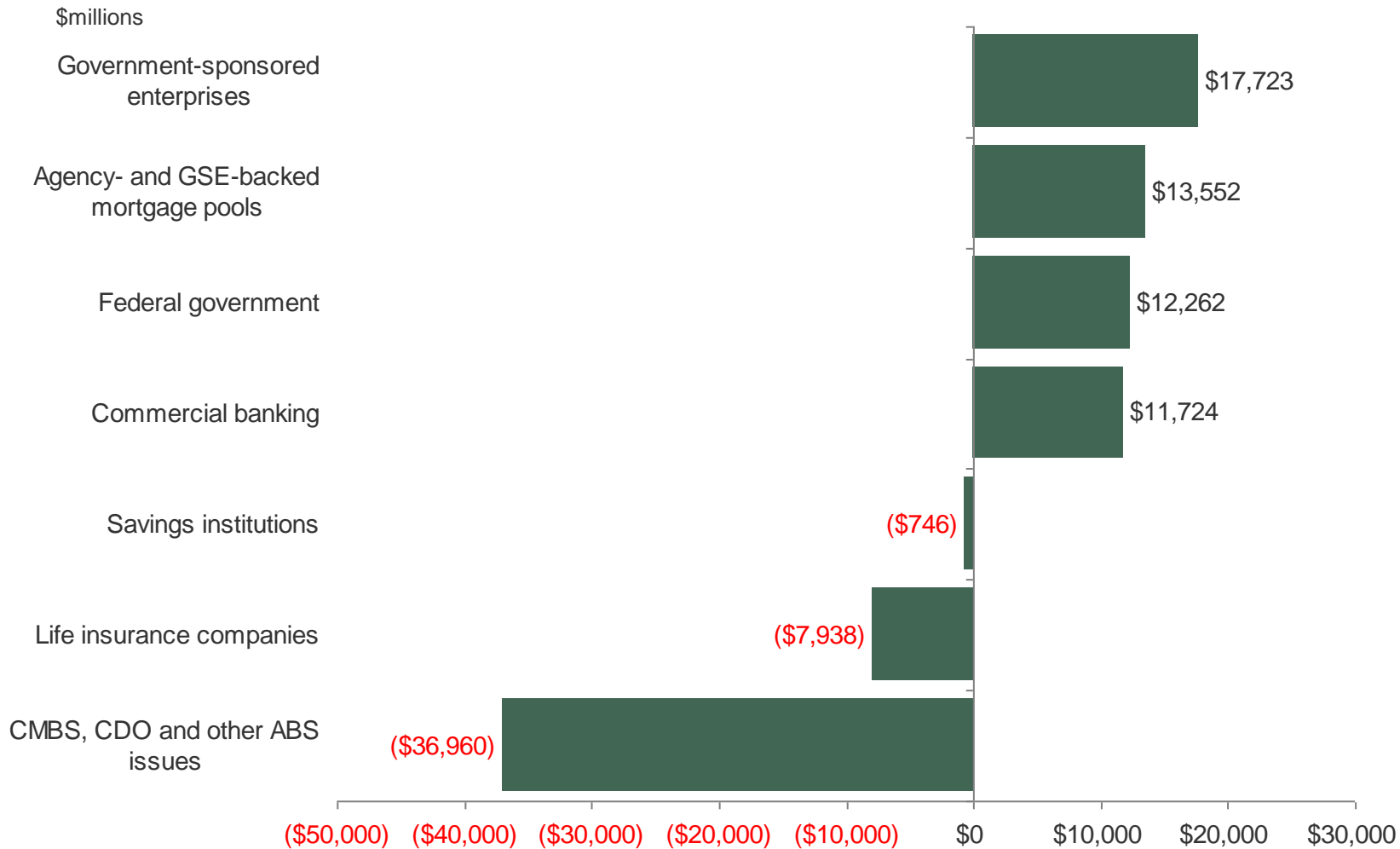


Source: Mortgage Bankers Association

Despite drop in originations, most investor groups increased their holdings of commercial and multifamily mortgages over the last year; Large drop in CMBS



Net Change in Commercial/Multifamily Mortgage Debt Outstanding, by Investor Group, Q3 2008 to Q3 2009

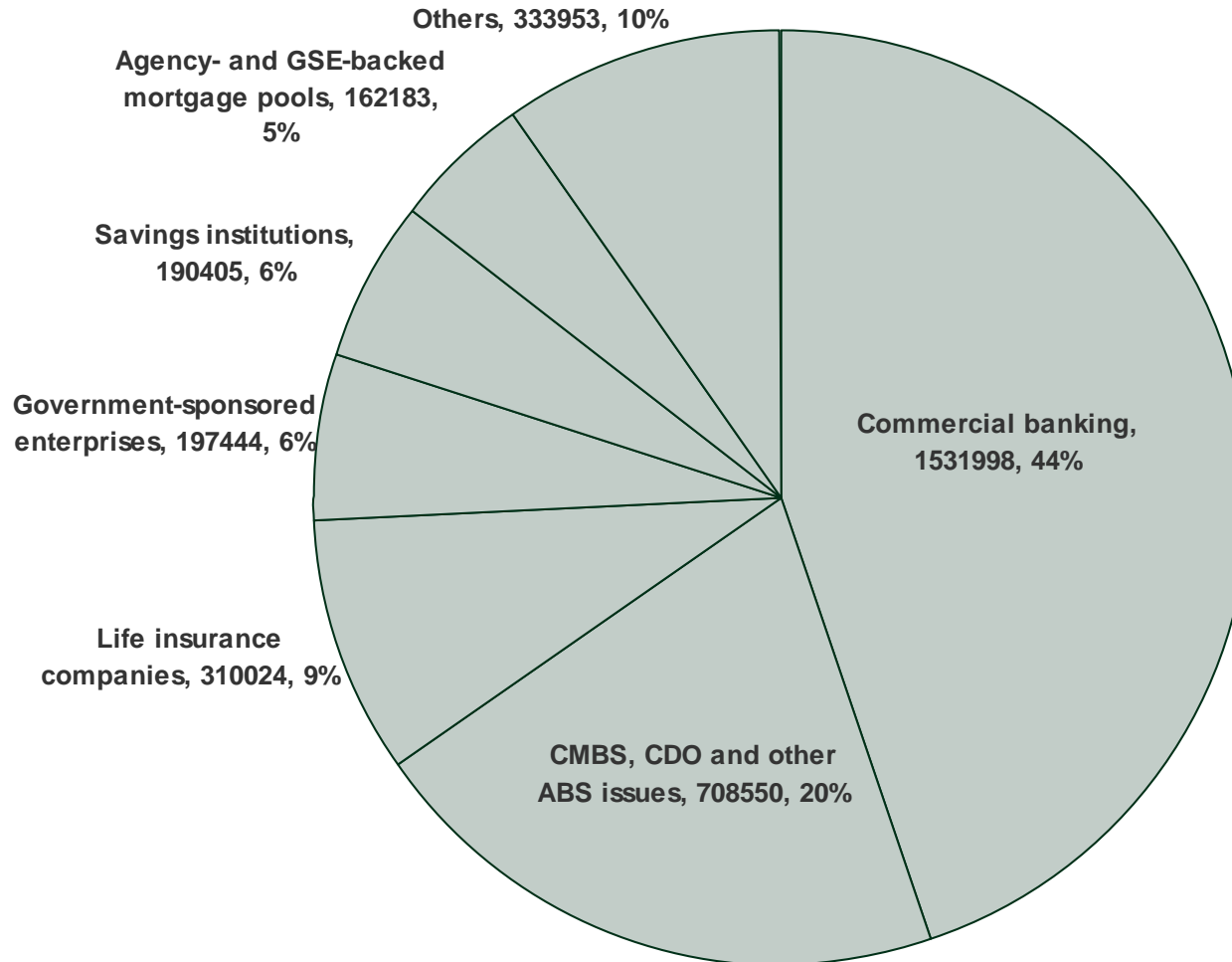


Source: Federal Reserve Board

At the end of Q3 2009, Banks and thrifts held half of commercial/multifamily mortgage debt outstanding, but numbers include a significant number of construction and owner-occupied properties



Commercial/Multifamily Mortgage Debt Outstanding (\$millions)

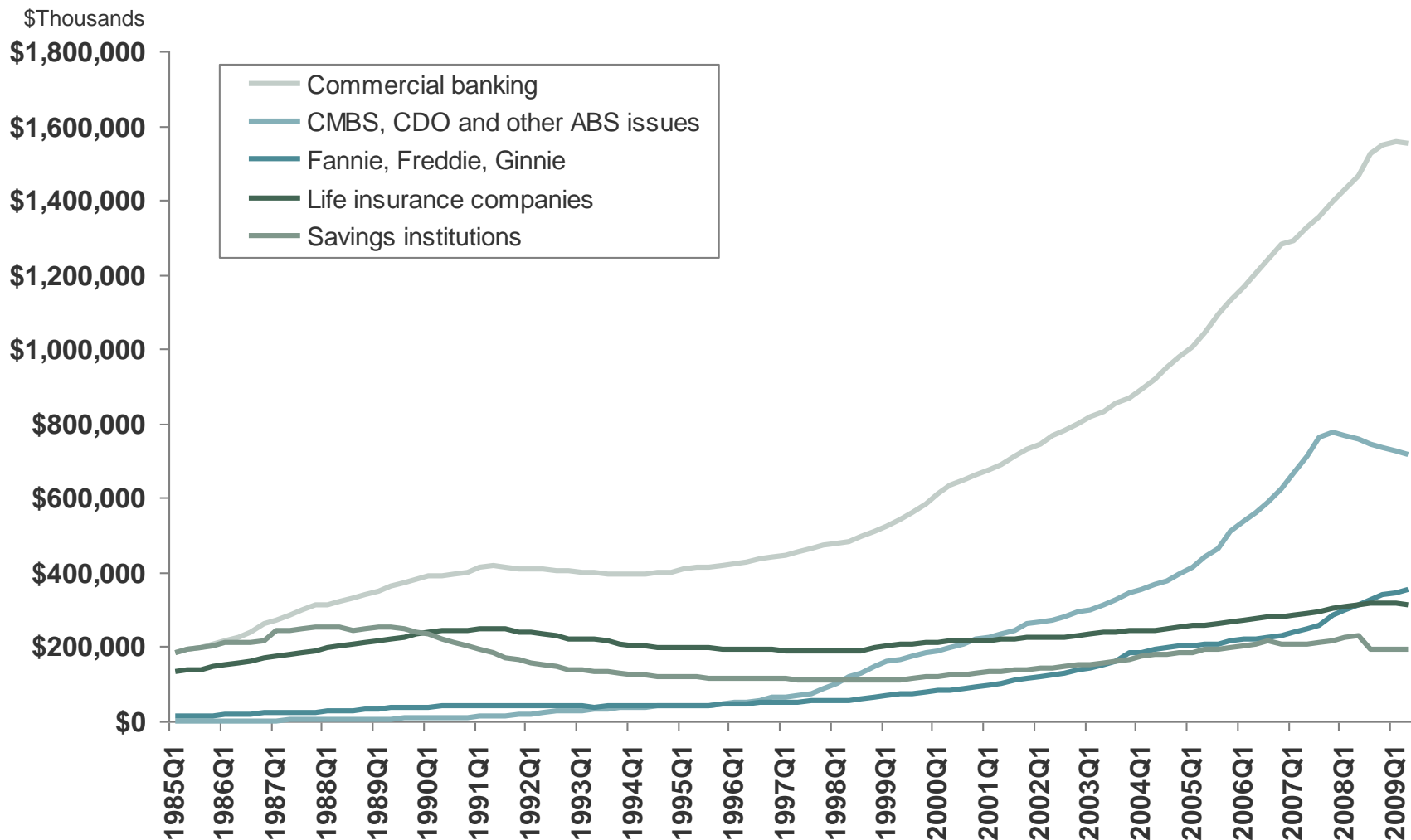


Source: Federal Reserve Board

In the late-80s/early-90s, S&Ls immediately saw reductions in holding (like CMBS today), followed two-years later by drops among others as maturing mortgages commanded lower loan amounts



Commercial/Multifamily Mortgage Debt Outstanding



Source: Federal Reserve Board

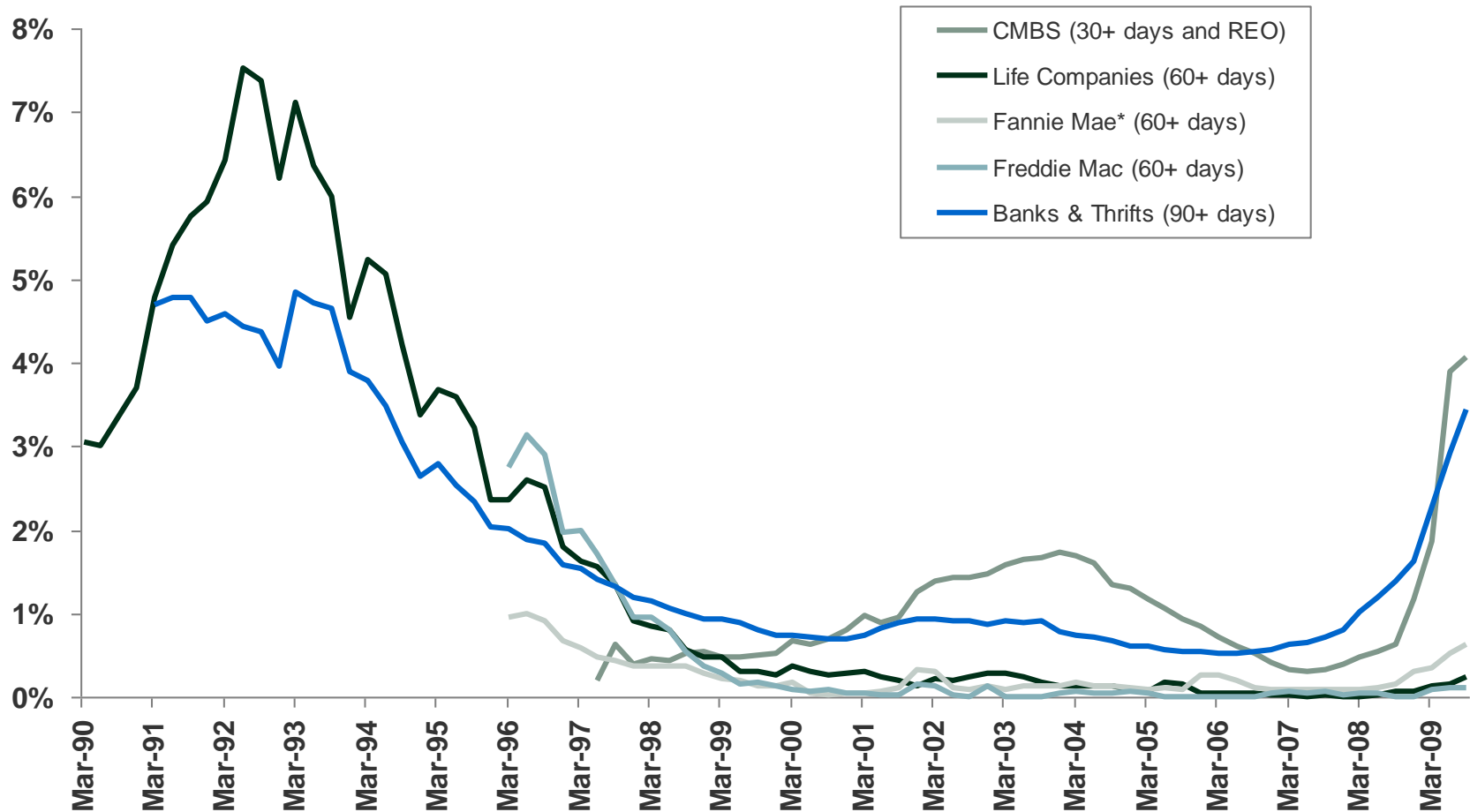
Mortgage Performance

Delinquency rates have been rising for commercial mortgage, particularly among CMBS and bank loans; Some now reaching levels of late-1980s/early-1990s, some still well below



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.

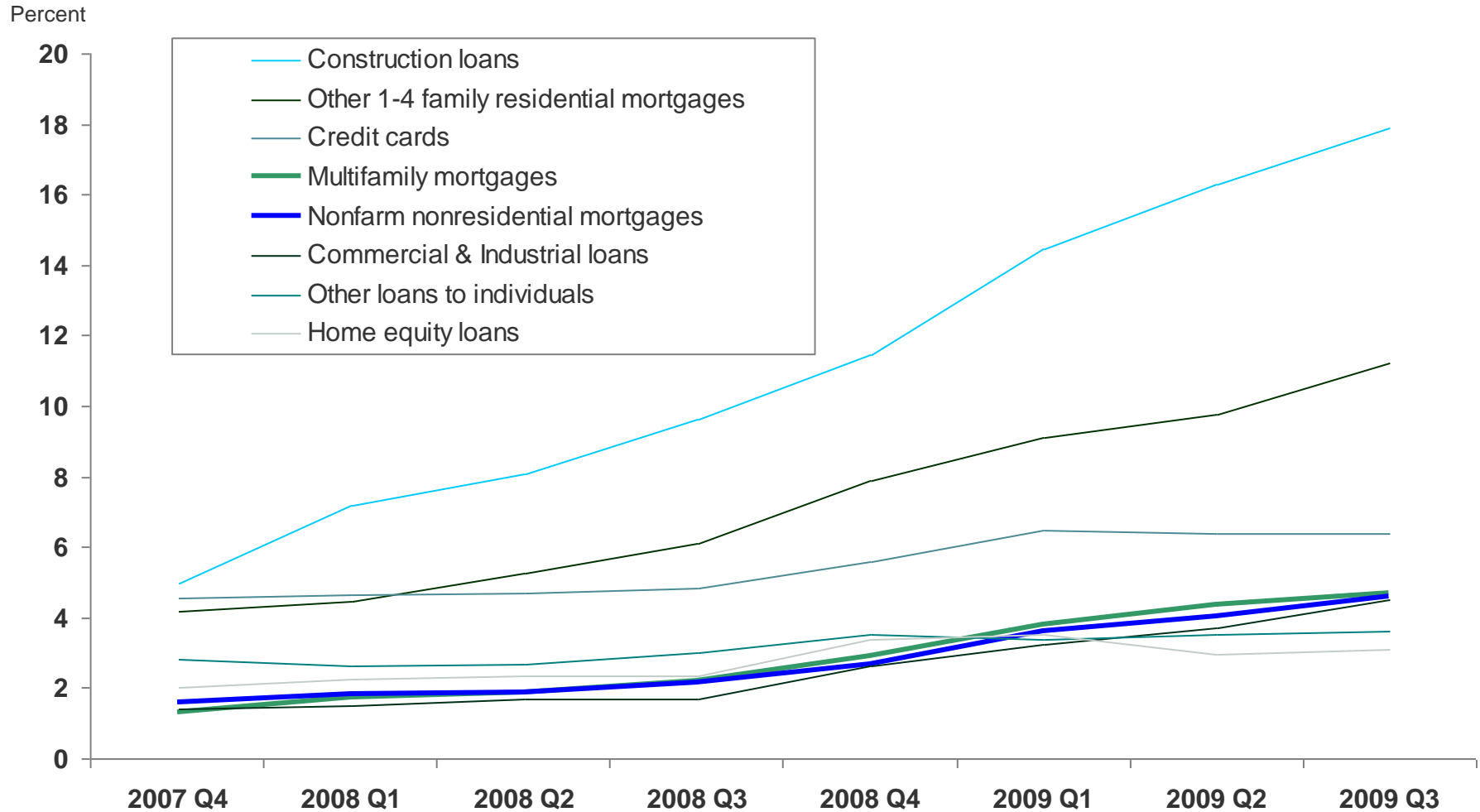


Sources: Mortgage Bankers Association Wachovia Capital Markets, LLC and Intex Solutions, Inc., American Council of Life Insurers, Fannie Mae, Freddie Mac, OFHEO and Federal Deposit Insurance Corporation. Data are available for life companies and FDIC-insured banks and thrifts since 1990 and 1991, Fannie 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.

The economy is putting pressure on all loan types



BANKS & THRIFTS: 30+ Day Delinquency Rates of Loans and Leases

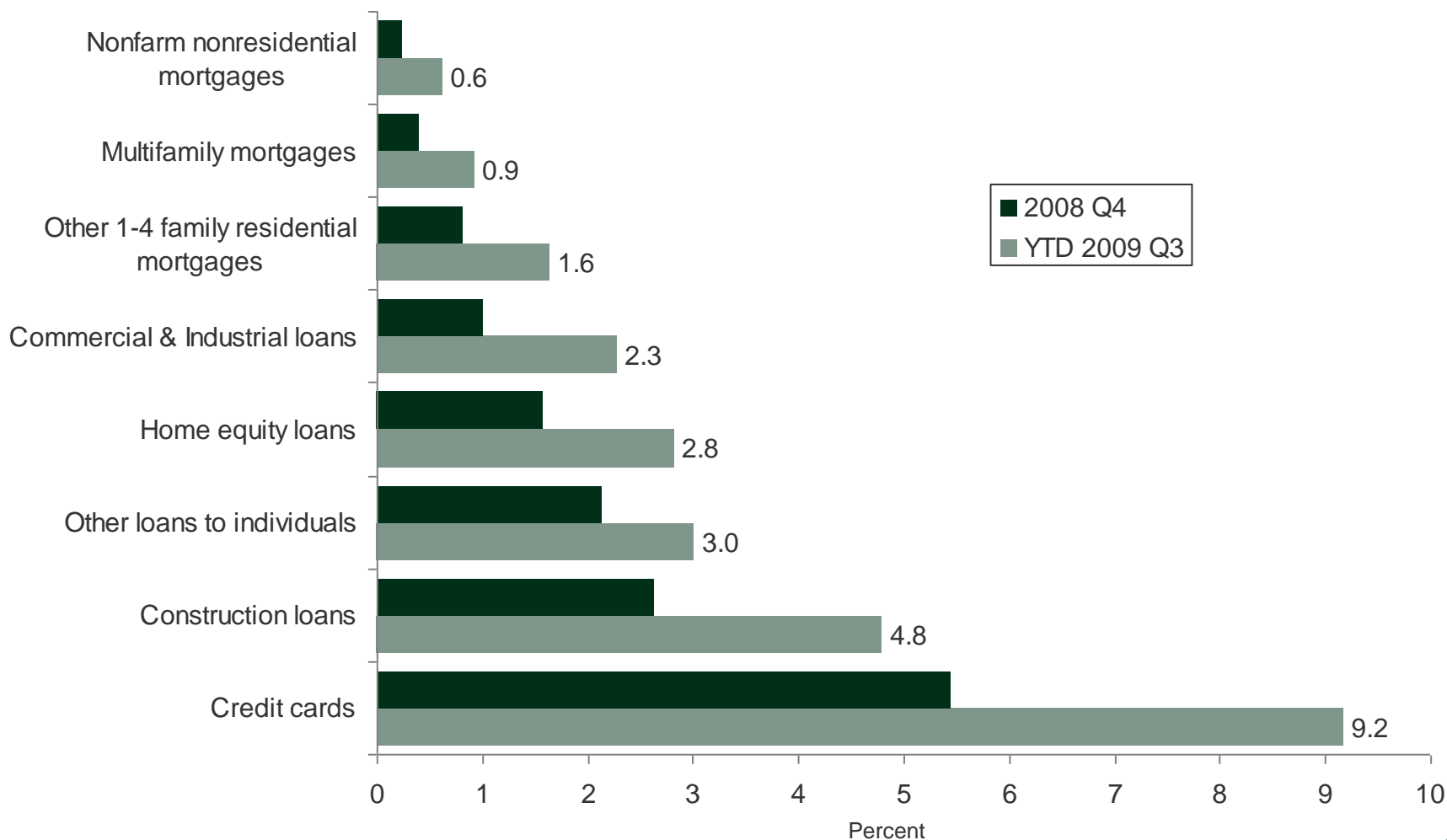


Sources: MBA and FDIC

With collateral backing the loans, and income generated by rents and leases, commercial/multifamily mortgages see relatively low charge-off rates



BANKS & THRIFTS: Charge-off Rates of Loans and Leases

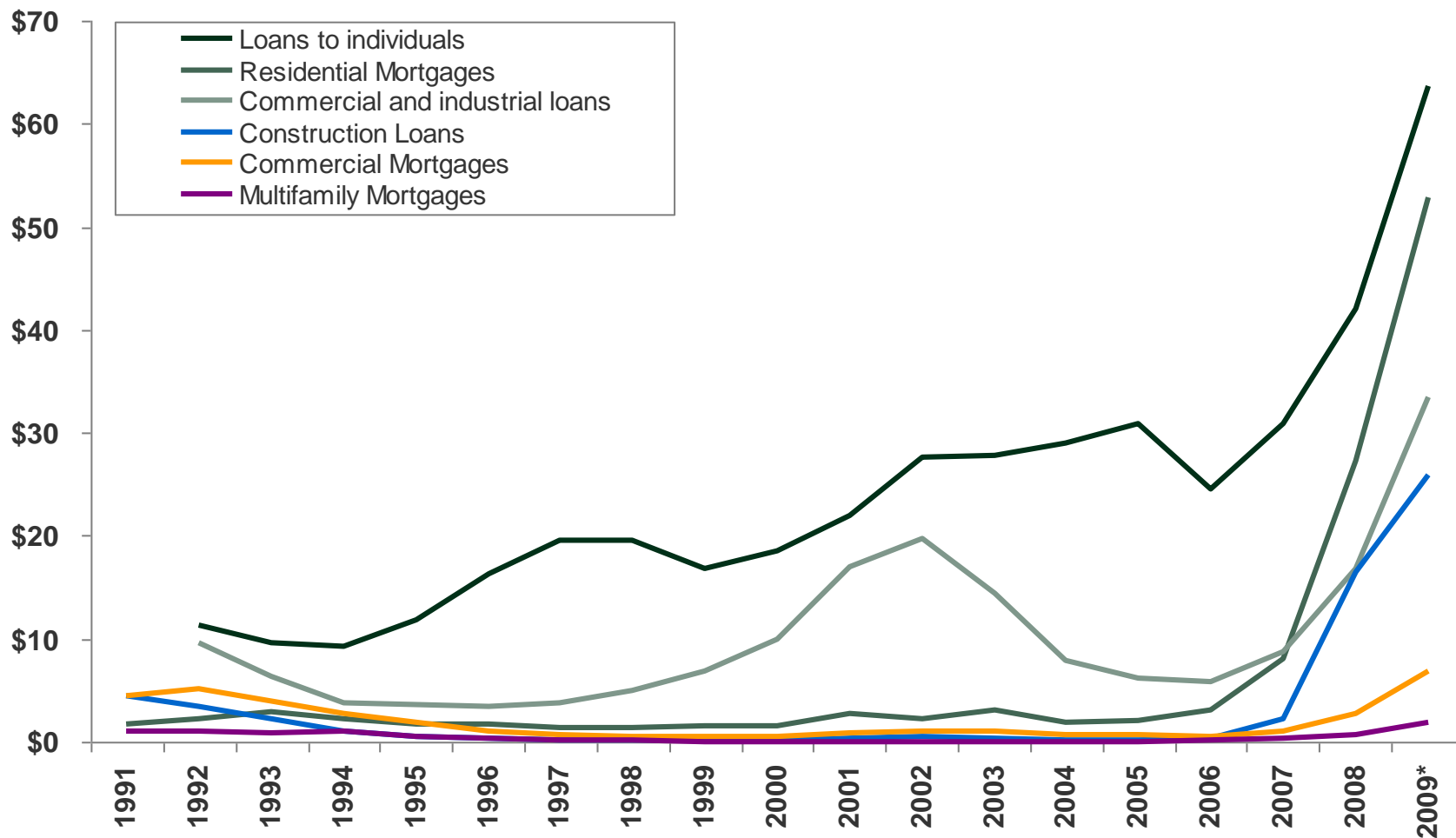


Sources: MBA and FDIC

Commercial/multifamily mortgages have offered relatively little pain to the banking sector through 2007, 2008 and 2009, particularly relative to other loan types



Charge-offs at Banks and Thrifts (\$billions)



Source: Property and Portfolio Research

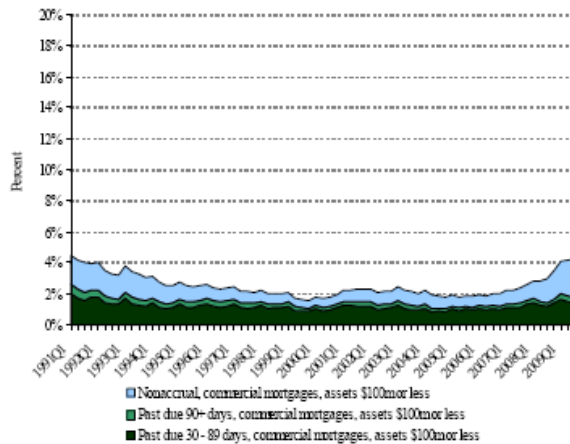
* 2009 figure is annualized YTD Q3 figure.

Bank of different sizes have experienced similar trends thus far

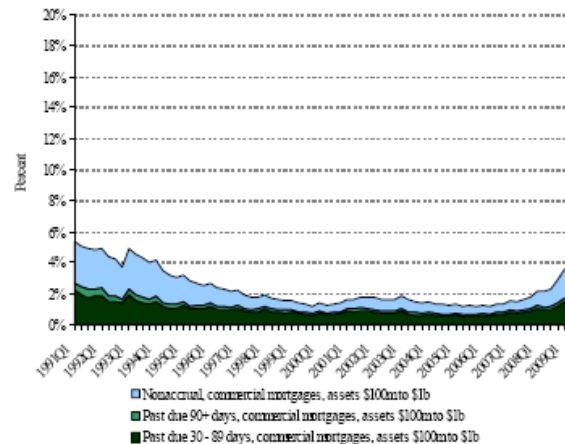


Delinquency rates on nonfarm nonresidential mortgages at banks and thrifts (\$billions)

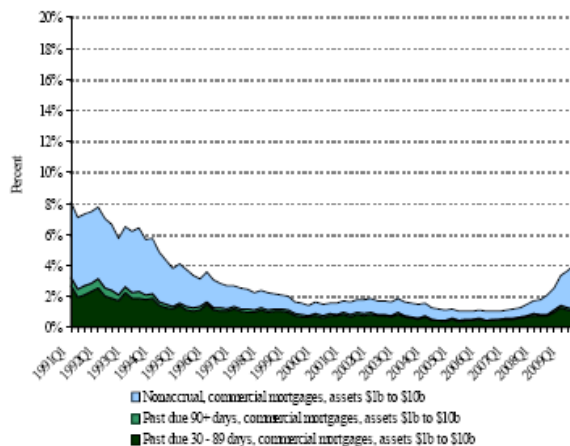
Institutions with assets of \$100 million or less



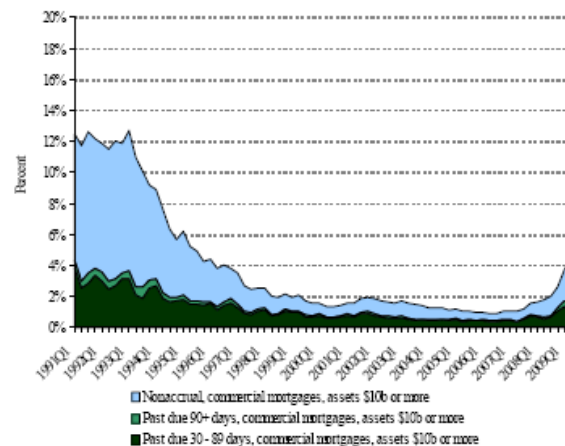
Institutions with assets of \$100 million to \$1 billion



Institutions with assets of \$1 billion to \$10 billion



Institutions with assets of \$10 billion or more

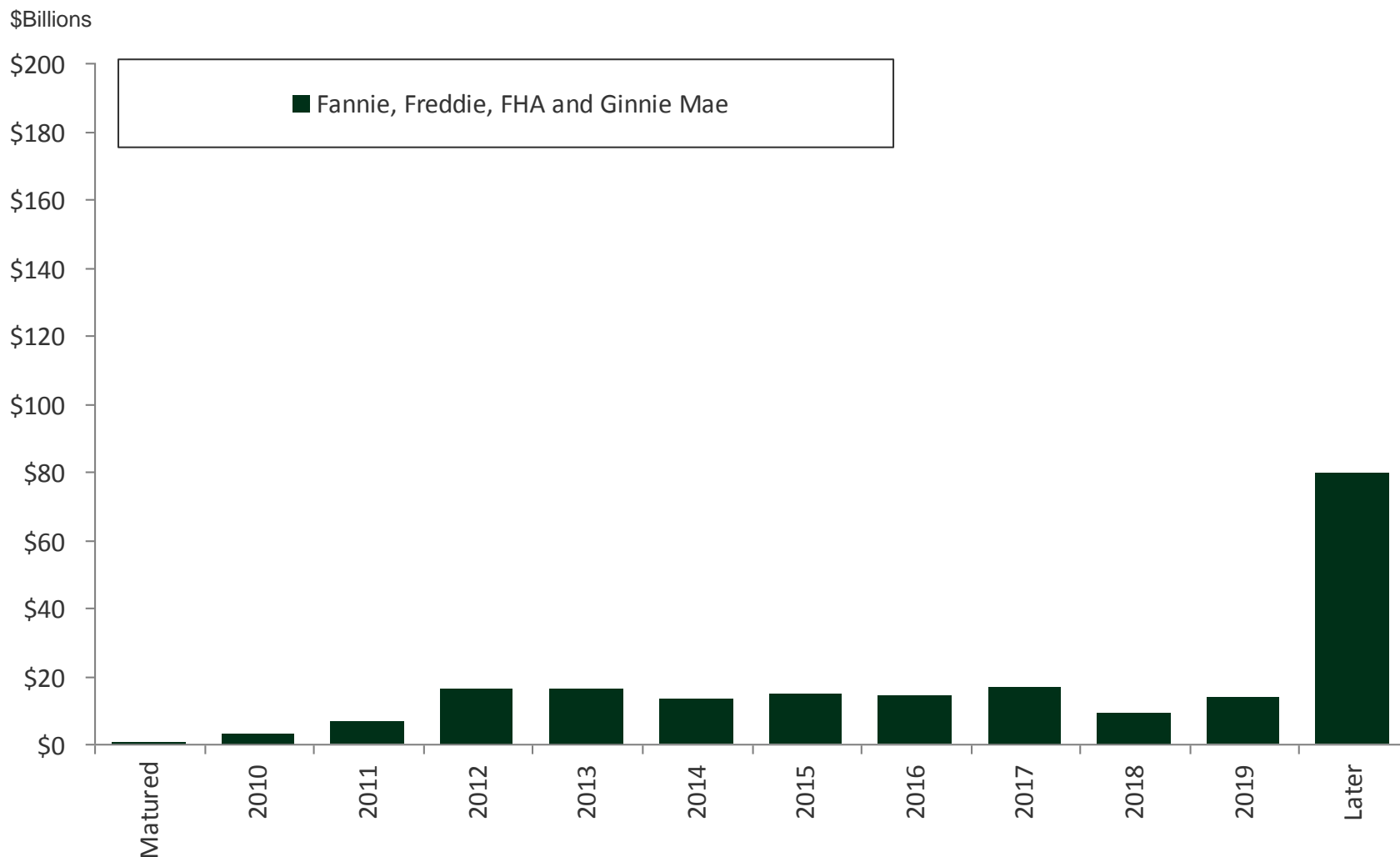


Source: MBA and FDIC

Non-bank mortgage maturities are relatively low in the coming years, with 2015, 2016 and 2017 seeing the largest volumes; Large differences between different investor groups



Non-Bank UPB of Outstanding Commercial/ Multifamily Mortgages, by Year of Maturity, as of Dec. 31, 2009

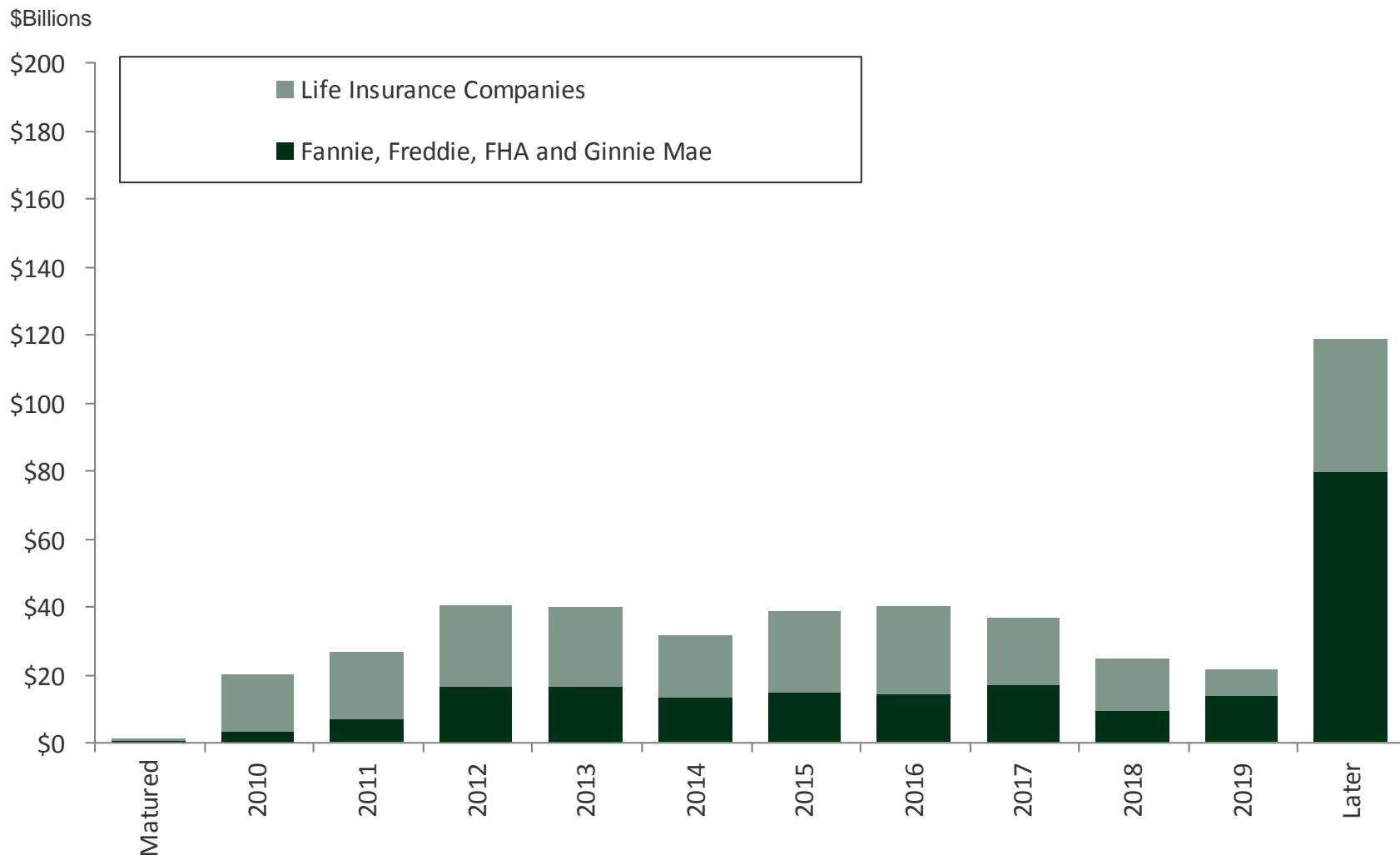


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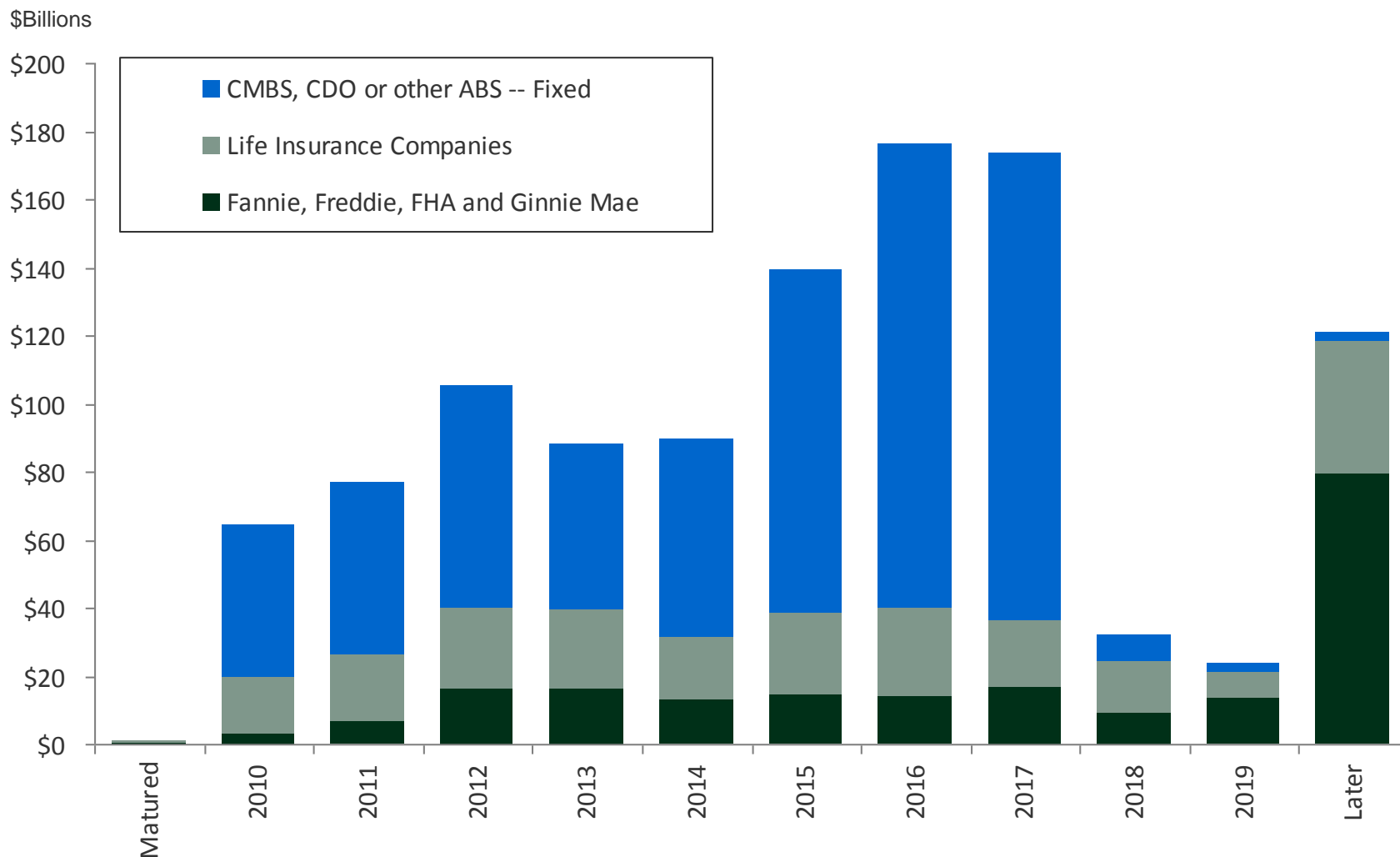


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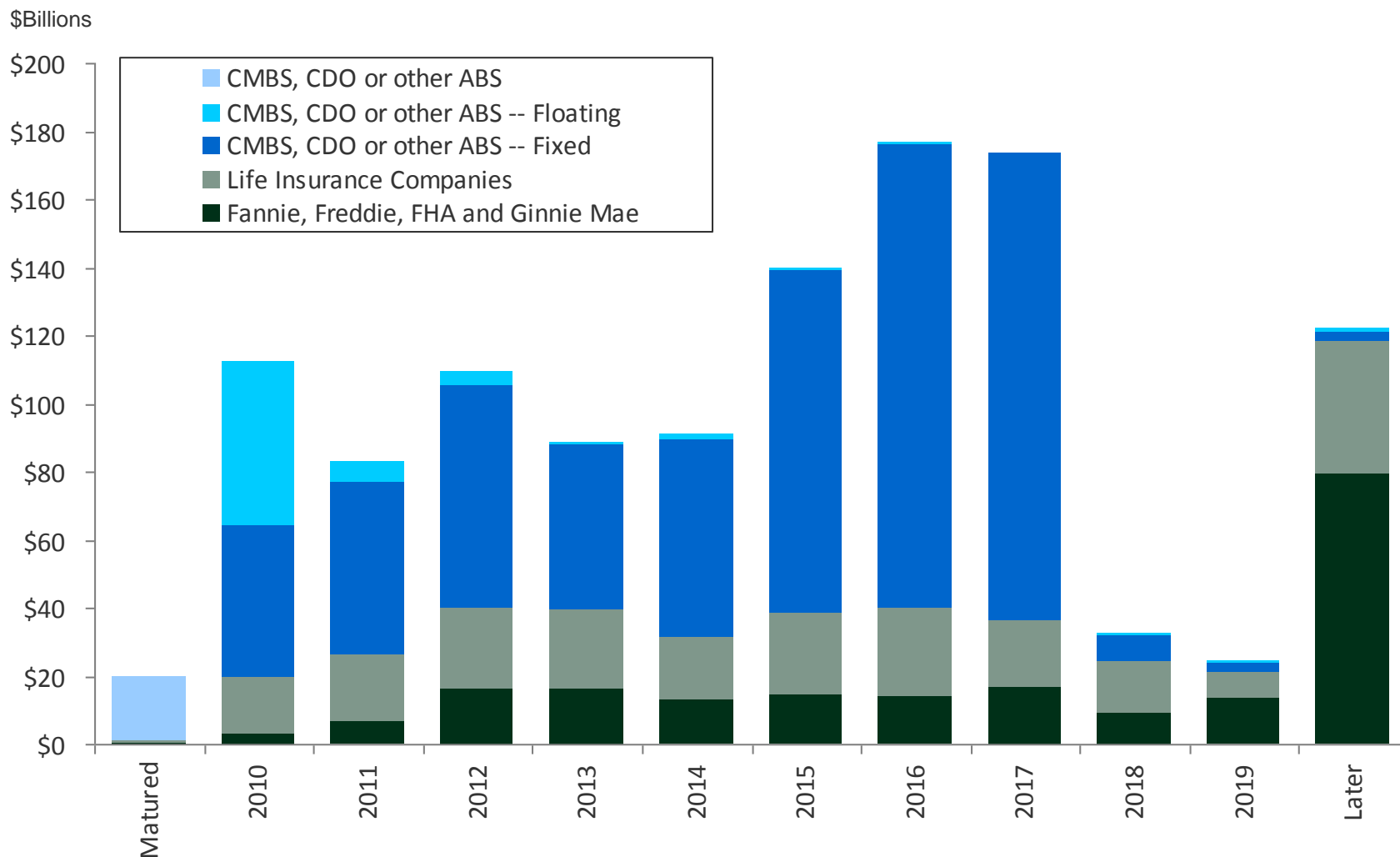


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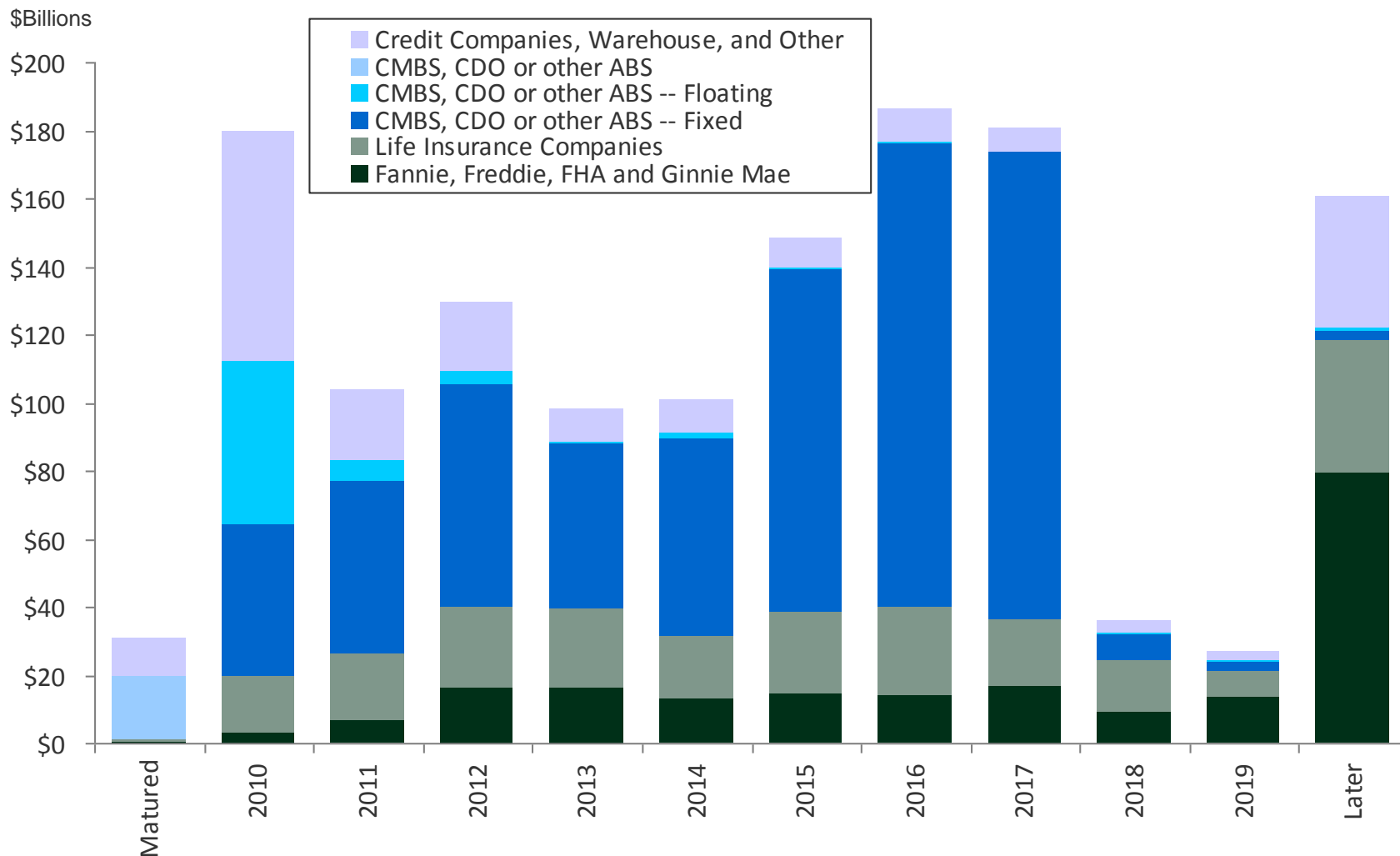


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Non-Bank UPB of Outstanding Commercial/ Multifamily Mortgages, by Year of Maturity, as of Dec. 31, 2009



Source: MBA

The Crystal Ball



On Unemployment (and other economic factors):

The biggest problems have already been seen

On Recovery:

Regional differences will differentiate recovery

On CRE Fundamentals:

CRE will follow the economy;

Different property types will follow different aspects

On Prices & Cap Rates:

Cap rates won't revert to "Heyday" levels;

Are likely to follow broader equity prices

On Originations:

Given relatively low maturities and the recession "hang-over"

Mortgage originations will remain weak

Geaux Saints!



NFL WALLPAPER
ZONE
nflwallpaperzone.blogspot.com



2009 NFC

CHAMPIONS



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www.mortgagebankers.org/research

Research Institute for Housing America:

<http://www.housingamerica.org>

MBA Newslink:

<http://www.mortgagebankers.org/NewsandMedia/MBANewsLink>