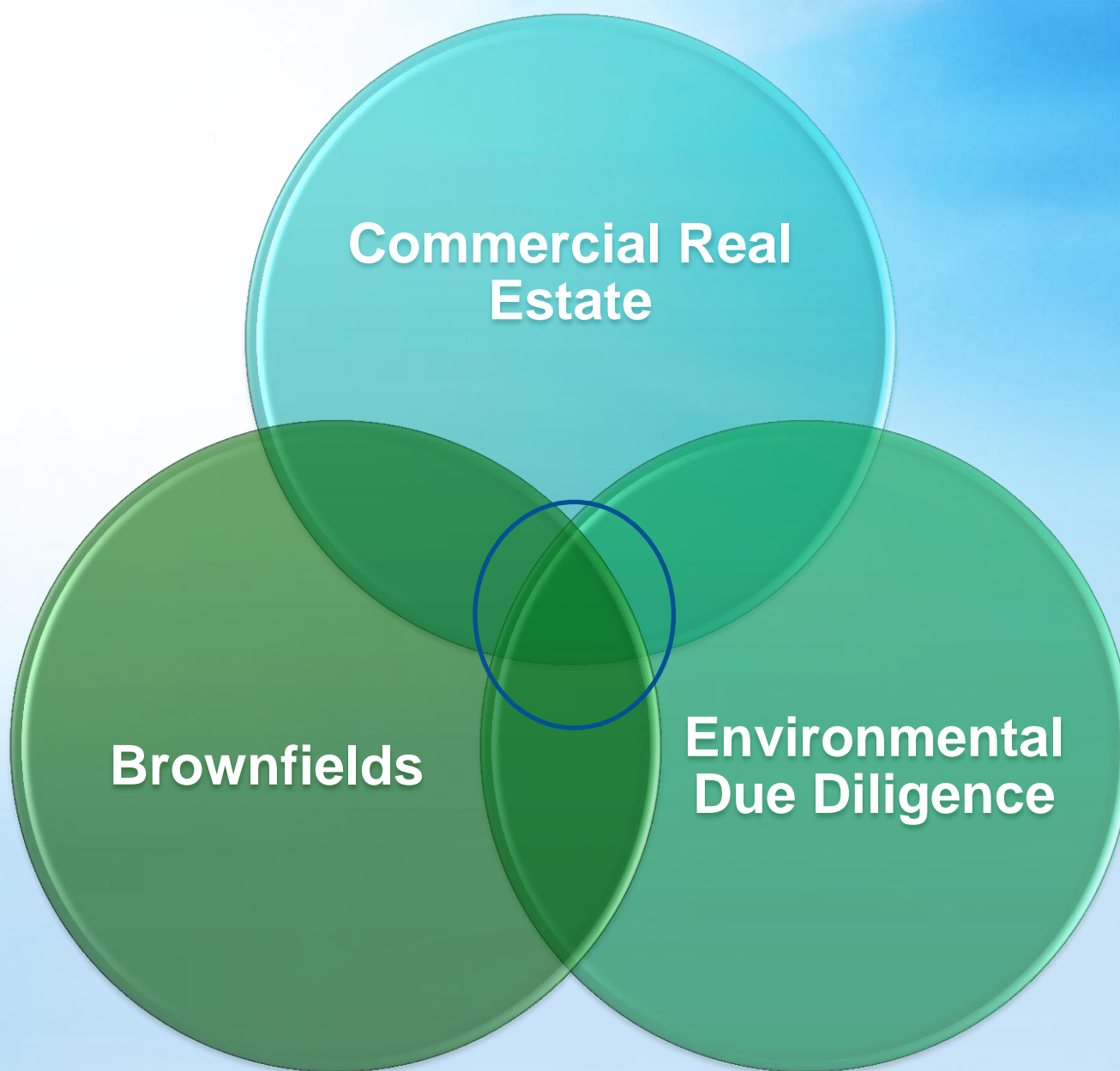


State of Commercial Real Estate Industry, Capital Markets and Due Diligence Trends



Cambridge, MA
May 1, 2012

Dianne P. Crocker, Principal Analyst
EDR Insight



Commercial Real Estate

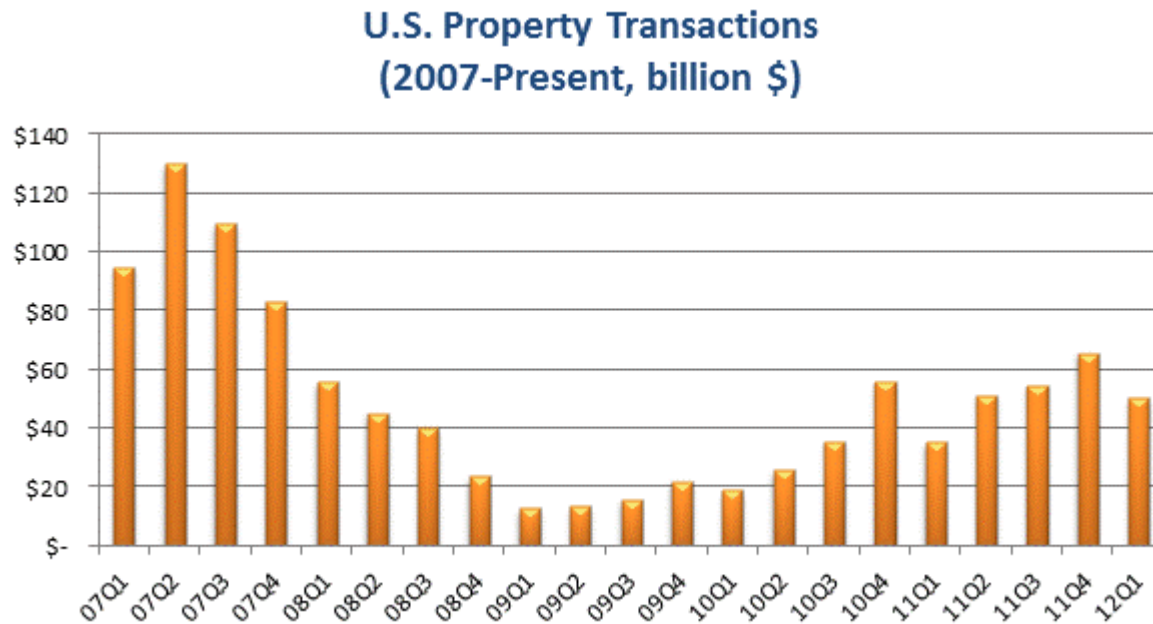


“After the market gave us a rocky ride in 2011, commercial real estate is back in the saddle for 2012.”

~John Levy, founder of John B. Levy & Company

Property Transactions on Upward Trajectory

- 1Q12 volume increased 40% over a year ago.
- Portfolio activity, particularly in the retail sector, drove much of the gains.



Source: Real Capital Analytics

Multifamily Attracting the Most Demand...

- **Fundamental shift away from home ownership.**
- **Freddie Mac, Fannie Mae, lenders showing more willingness underwriting apartment buildings than any other property type.**

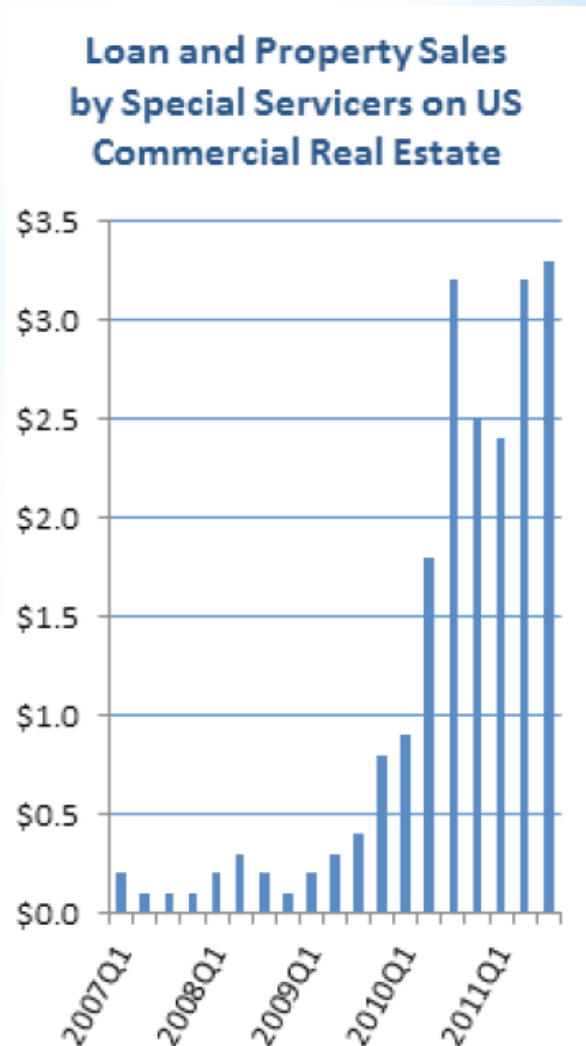


...Retail in Flux

- Major retail chains are downsizing.
- 6,000-9,000 store closings expected in 2012.
- More strategic acquisitions by retailers.
- More expansion by dollar stores, pharmacies.

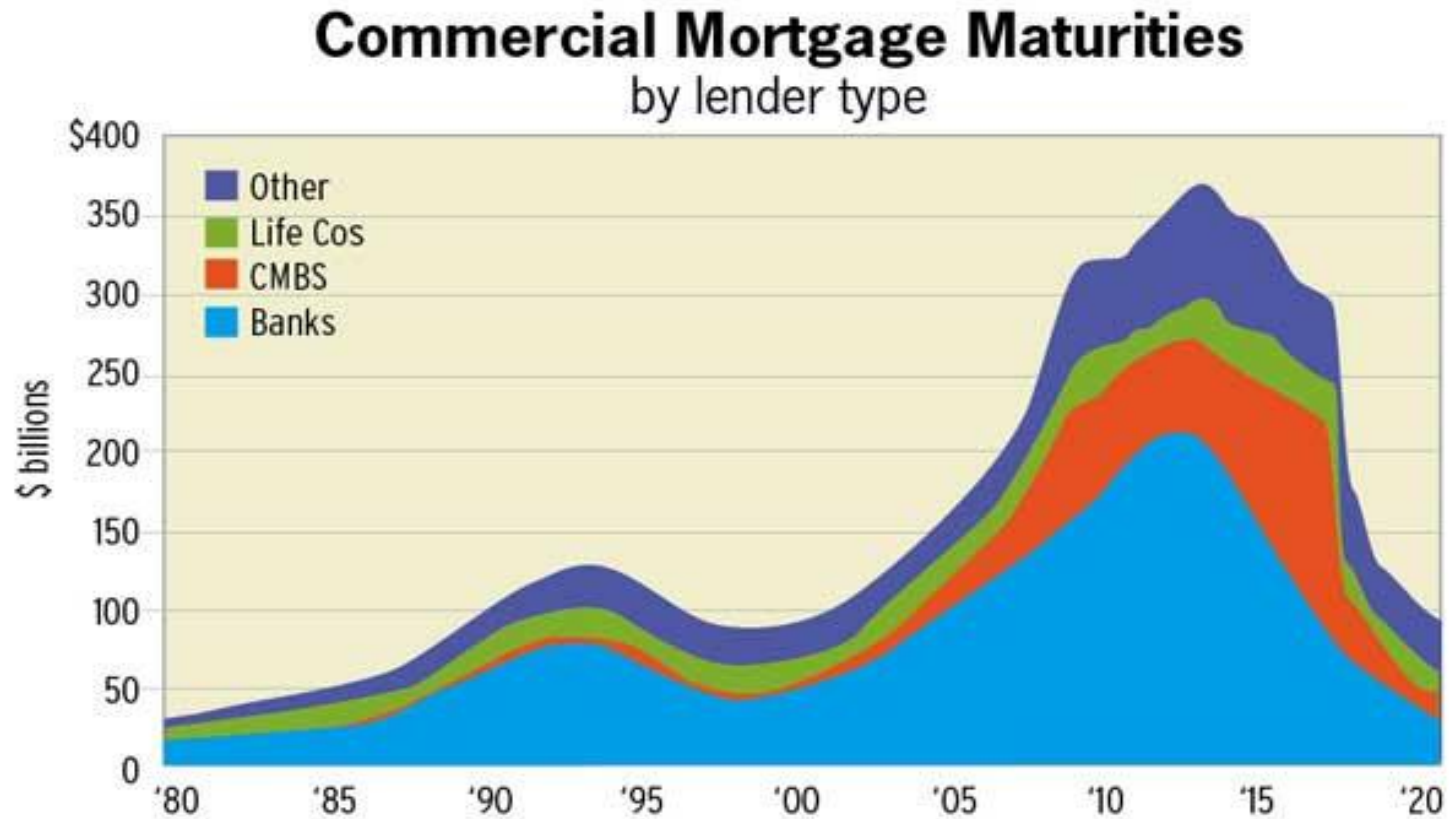


Loan Dispositions Are Up



- **Banks' asset disposition plans picked up momentum in 2011.**
- **Unlike 2010 when FDIC was the only seller in town:**
 - **Sell-off of distressed loans, properties involves broader base of lenders**
 - **Can involve large portfolios in multiple states**
 - **Good news for investors**

The Refi Heartache



Source: Trepp LLC

Maturities Bring Environmental Issues to Surface



Refi Heartache

- **Prospects for refinancing all of these loans are pretty grim.**
- **Good news for distressed asset investors, bringing life to “zombie properties.”**
- **Major re-evaluation of properties ahead.**
- **Driver for services that will inform the process of estimating property value.**

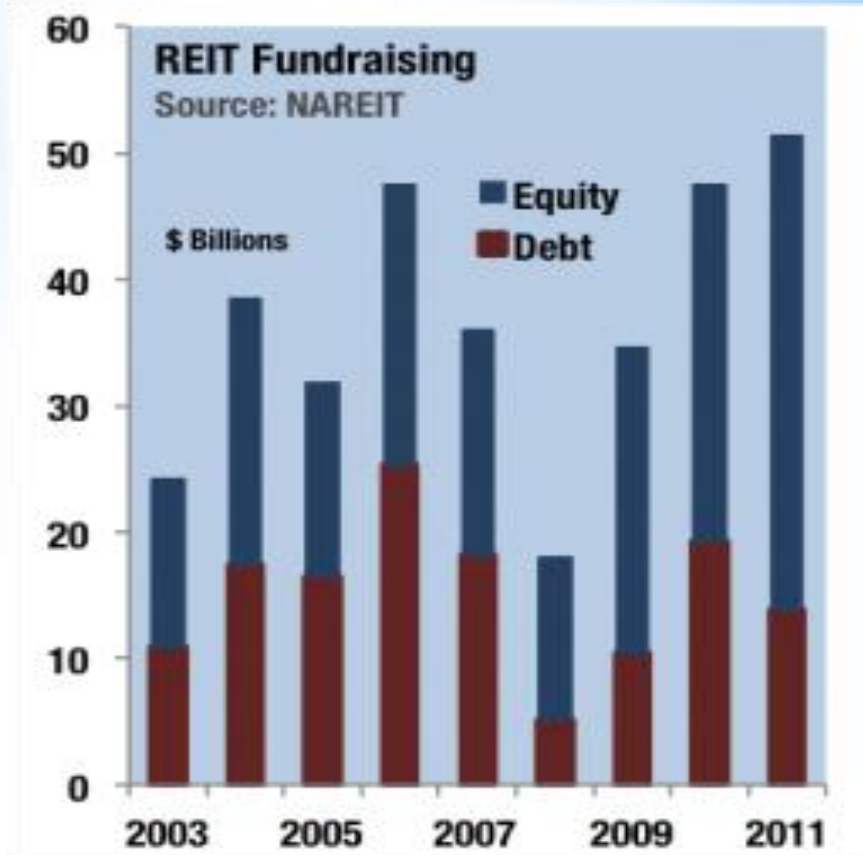
Lending Thaw Underway

Status of CRE Lending by Source:	
Commercial banks	Improving slowly
Government (Fannie/Freddie)	Active
Credit Unions	Active
CMBS	Improving
Life Insurance companies	Robust

Who's Lending?

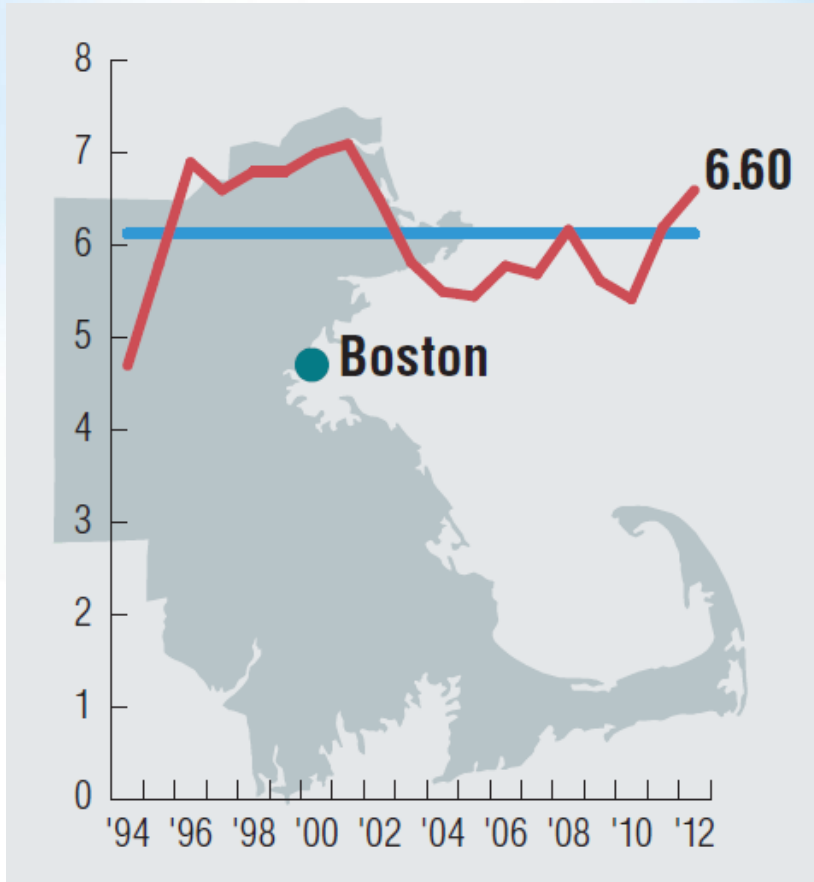
- **Originations expected to increase in 2012**
- **Stiff competition for underwriting small volume of viable, low-risk loans**
- **Expect more underwriting on construction loans in 2012, particularly resuscitated multifamily projects**

The War Chests of REITs



- Fundraising up 32% in 2011
- Very strong market position
- \$51B to place in CRE
- Skittishness giving way to confidence

Boston's Real Estate Climate



- **6th highest** CRE transaction volume in U.S. in 2011
- **5th** on PwC's list of metros to watch for CRE investment
- Phase I environmental site assessment activity:
 - **8th highest** in U.S.
 - 1Q on 1Q Growth: **33%**

PwC Investment Prospect graph


Boston's Real Estate Climate

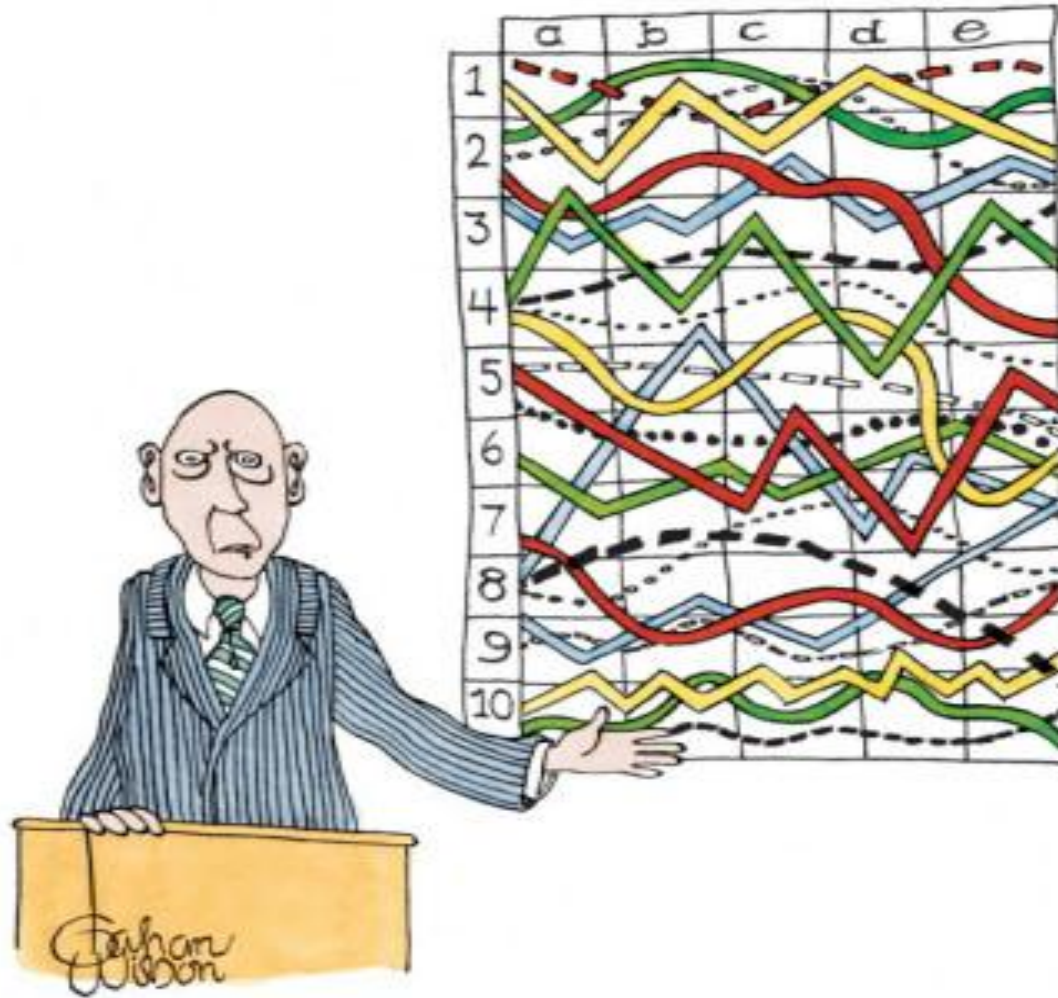
- **Growth markets here in Boston for redevelopment are:**
 - **Cambridge**
 - **South Boston Waterfront**
 - **Developments in suburbs like Salem w/ an industrial past**
 - **Major multi-use development projects**
- **Maryland-based REIT heading up a major multi-use development project in Somerville**

Boston and Distressed Real Estate

Northeast Market Stats - Current Known Distress

Current Known Distress through 3/21/2012		Office # Prop	Industrial # Prop	Retail # Prop	Multifam # Prop	Hotel # Prop	Other # Prop	TOTAL \$ Mil.	# Prop
Northeast	Boston	39	28	22	12	9	14	\$2,569.8	124
	Hartford	7	4	5	26	5	0	457.0	47
	Long Island	36	69	11		7	1	1,524.1	124
	Manhattan	32		7	134	15	23	11,965.7	211
	No NJ	48	37	29	24	14	12	3,016.5	164
	NYC Boroughs	6	41	10	90	3	22	1,830.9	172
	Stamford	17	5	3	15	1	5	561.6	46
	Westchester	12	2	16	2	1	3	464.7	36
	All Others	25	16	40	25	27	19	\$1,519.9	152
	Northeast	222	202	143	328	82	99	\$23,910.3	1,076





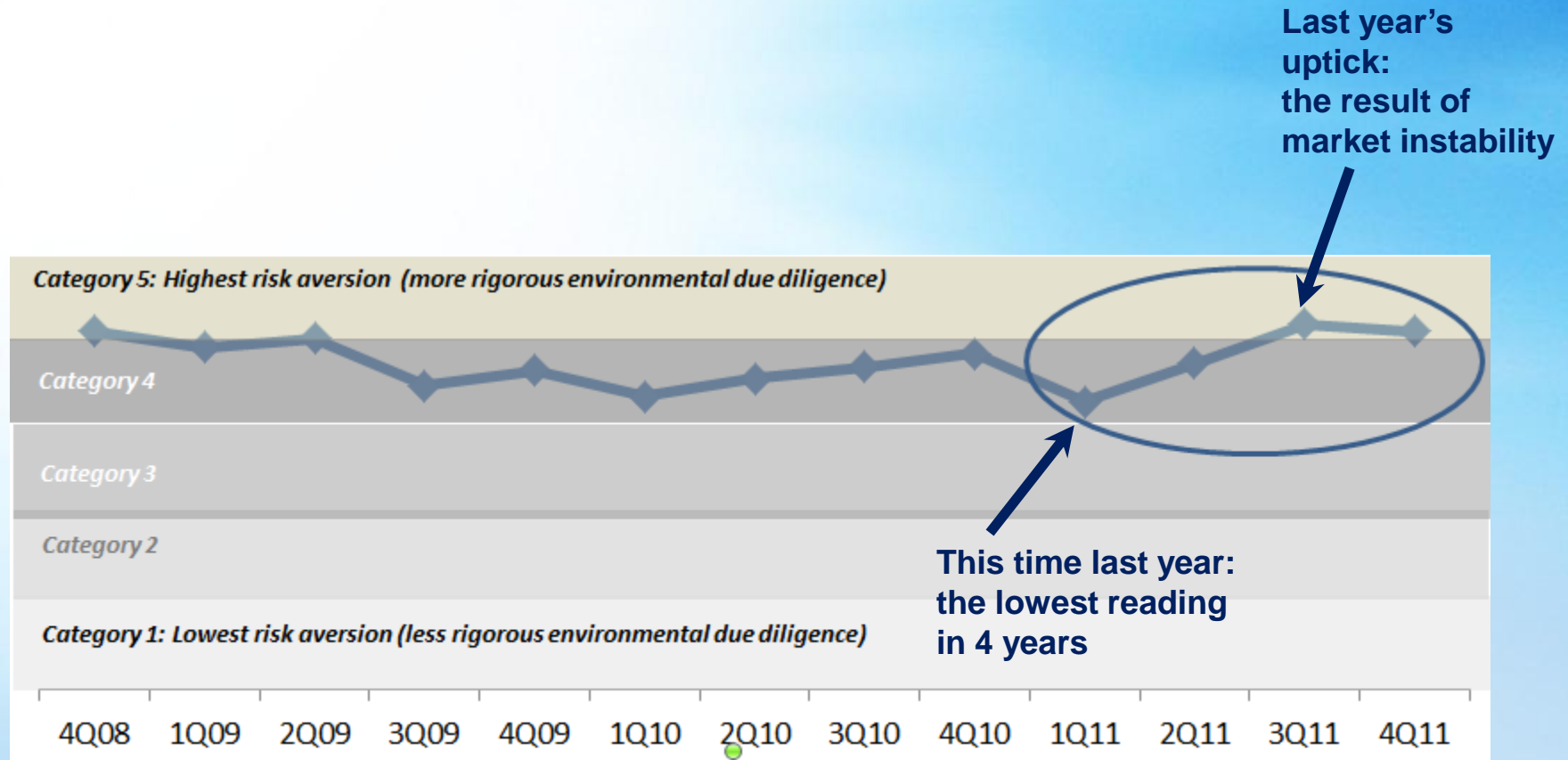
*"I'll pause for a moment so you can
let this information sink in."*



Commercial
Real Estate

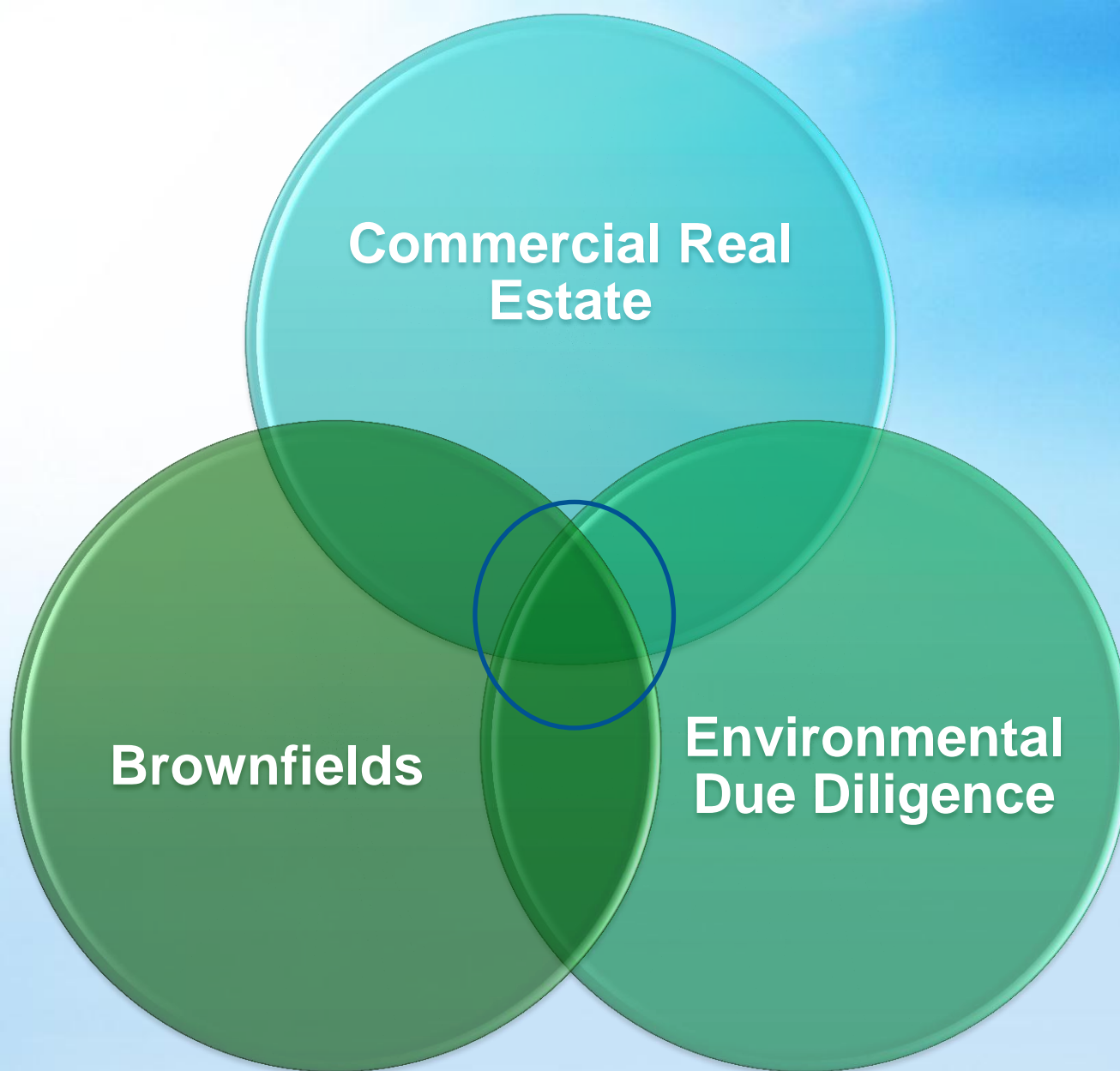
Environmental
Due Diligence

Risk Aversion Index Up in '11



Due Diligence and CRE

- **Investors can no longer assume price appreciation.**
- **Every dollar counts.**
- **Risk aversion high, relic of '11 roller coaster**
- ***“There are no dumb investors out there.”***



Trends in Brownfields

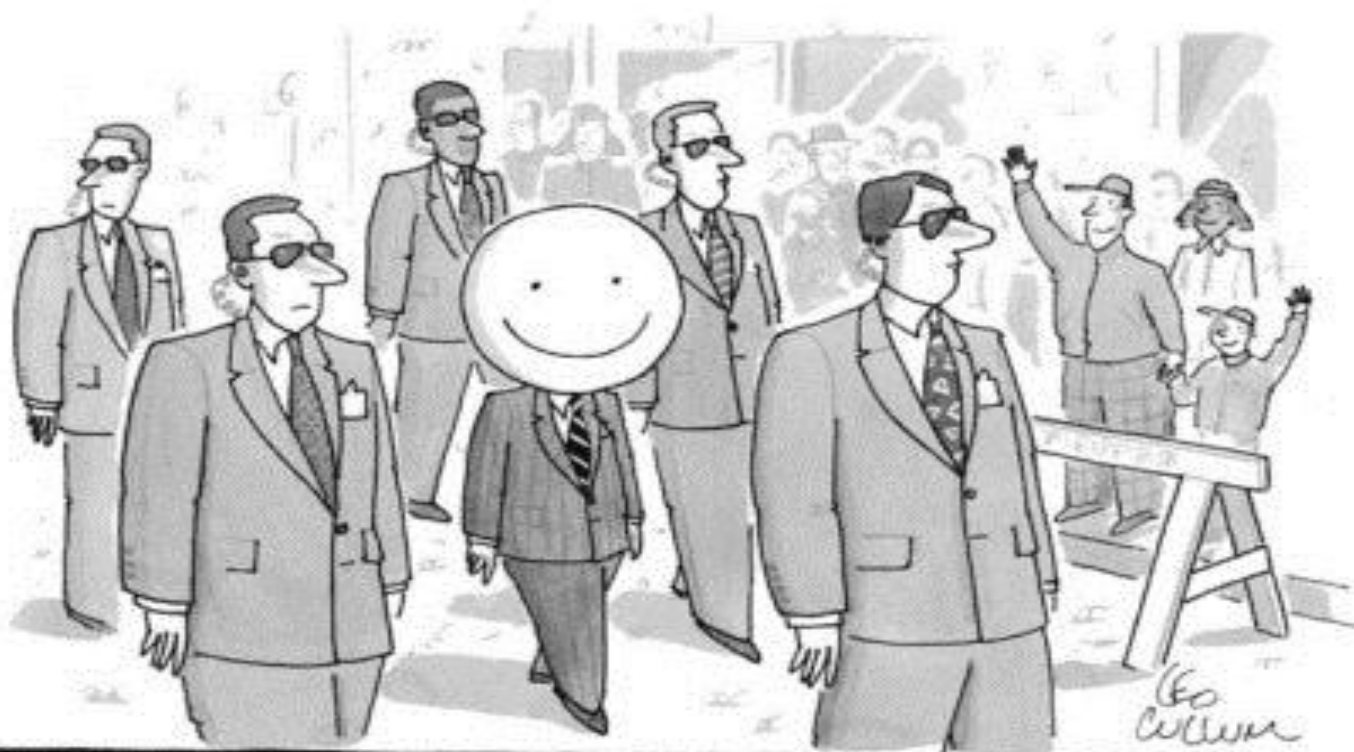
1. **Tight local funding constraints, dissolution of local agencies.**
2. **Not many, if any, private deals happening yet, but early planning acquisition up.**
3. **Forces are mobilizing to move forward on brownfield projects when the market's ready:**
 - **alternative energy projects**
 - **non-financial incentives**
 - **local economic redevelopment councils**

Trends in Brownfields (cont'd)

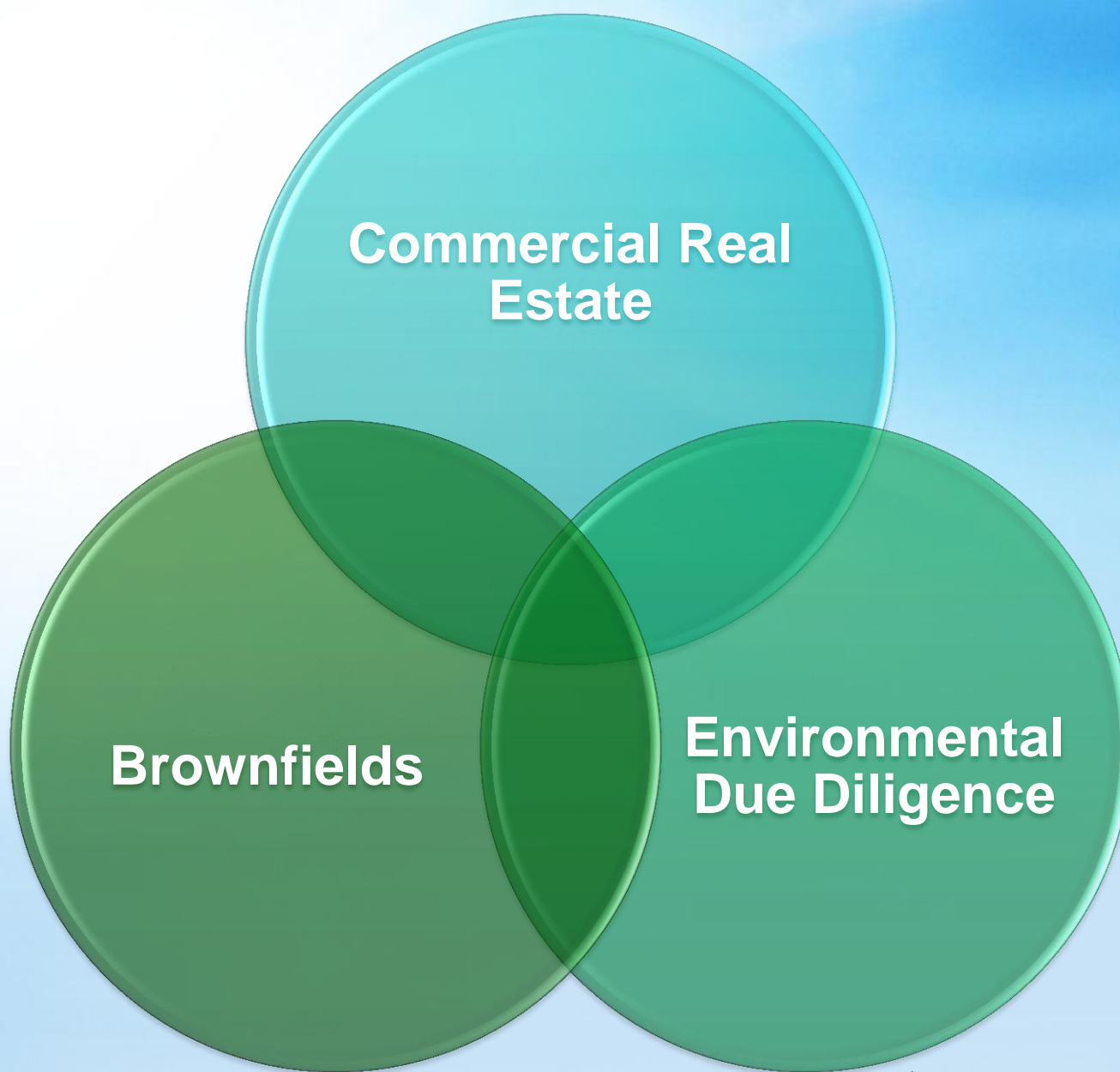
4. **Emphasis on job creation.**
5. **Resolution of debt crisis moves brownfields back into play.**
6. **Developers, municipalities gravitating toward adaptive reuse.**
7. **Companies relocating headquarters in urban areas:**
 - **Biogen Inc. left Weston, CT to return to Cambridge**

Year of ‘Brake and Throttle’

- **Ingredients for a busy year.**
 - **Property transactions forecast to increase by 50 percent “with a good chance for a surprise to the upside.”**
 - **Maturing loans will drive deal volume.**
 - **Equity capital, led by REITs, will be more plentiful and more motivated this year.**
 - **Originations by lending institutions should increase gradually.**
- **Market fragility will magnify setbacks.**
- **Environmental due diligence has important role to play.**



THE RETURN OF GUARDED OPTIMISM



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