

# 7<sup>th</sup> Annual EDC Real Estate Forecast

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Fresno, California  
April 2010

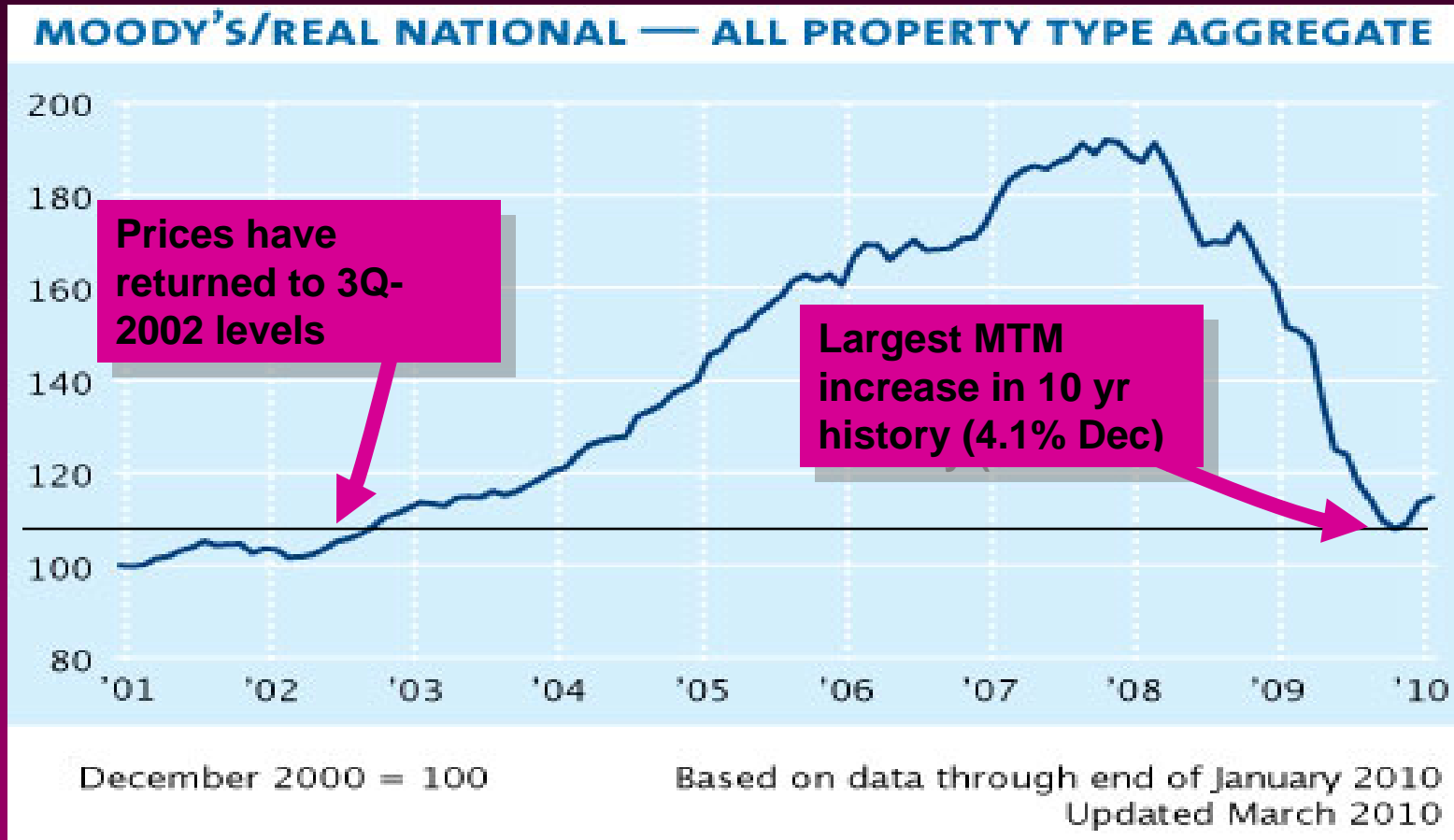
# 2010- Getting Back to Even

- **Different mindset today**
  - From Capital Preservation (fear) to Capital Appreciation (greed)
- **Clear signs of Market Bottom in 2009 (Local/Nat)**
  - A return to historical norms (both Comm and Resid)
- **Huge amount of capital raised (REITS- \$37B in 09')**
  - **Today's Investor profile**
    - Private Capital –High Net Worth Individuals
    - Local Buyers/Owners- exploiting mkt knowledge
    - Builders/Developers seeking asset classes that can get financing
- **Far more \$\$\$ chasing deals than in the early 90's**
  - Estimates range from \$80B to \$100B seeking to invest in US CRE
  - RTC 2.0 - In search of the "good" deal (Buyers from early 90's returning)
  - Lenders & Sellers have long memories too!
    - Selling too quick only drove prices down in 90's
    - Much more accommodative environment to hold out
- **BOTTOMLINE: The Recovery is not as good as Owners and Sellers are hoping for BUT not as bad as Buyers would like it to be**

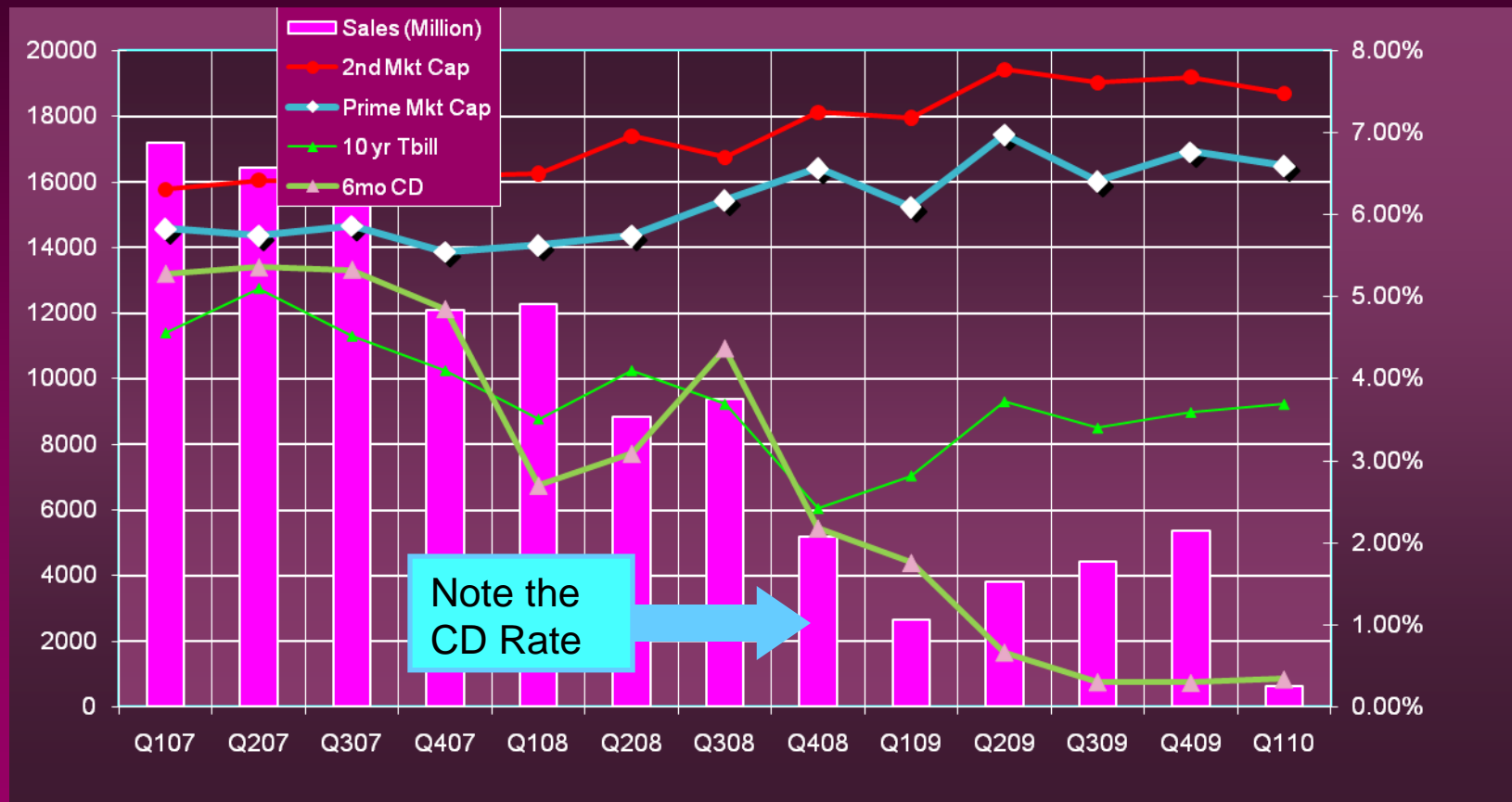
# The State of Commercial Real Estate Lending

- **The desire to lend is strong but the numbers are weak**
- **Banks are Back- Learning to “walk before running”**
  - Refinance >>Loaning to who/where/what they know>>core/trophy
- **CMBS are re-emerging**
  - Avg. \$83B/yr, 08'- \$12.1B, 09'-1<sup>st</sup> 9 months-nothing, 4Q-\$5.2B
  - Current rates needed to make it work are too high and unattractive
- **Life Companies are back- competing with GSE's on MF**
  - But Life Co's only average \$40B/year in a market that needs \$300B+/year
- **Loan coming due? Better news every day**
  - FDIC, IRS- issued rules for loan restructuring- Extend / Pretend
  - FHLMC/FNMA Mezz Program- for 65 to 80% LTV Gap
  - ALERT: Your loan may have been sold to a hostile party (Loan to Own)
- **Future Concern: Will there be enough lending to meet rising demand?**

# National - Moodys/REAL Commercial Property Price Index (2001-1Q-2010)

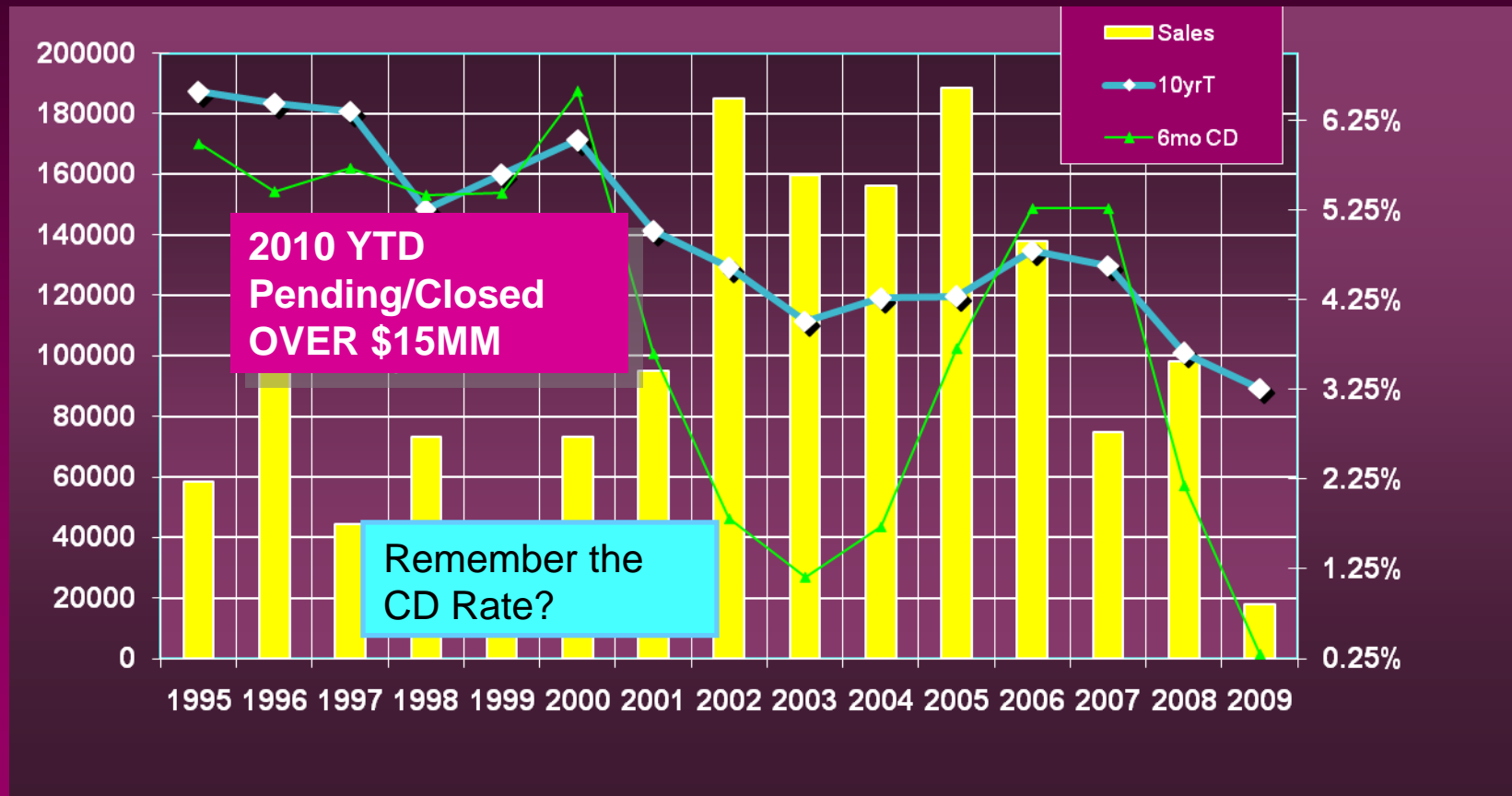


# National Apt Sales Q107-Q110 (w/ Cap Rates & 10yr T-Bill)



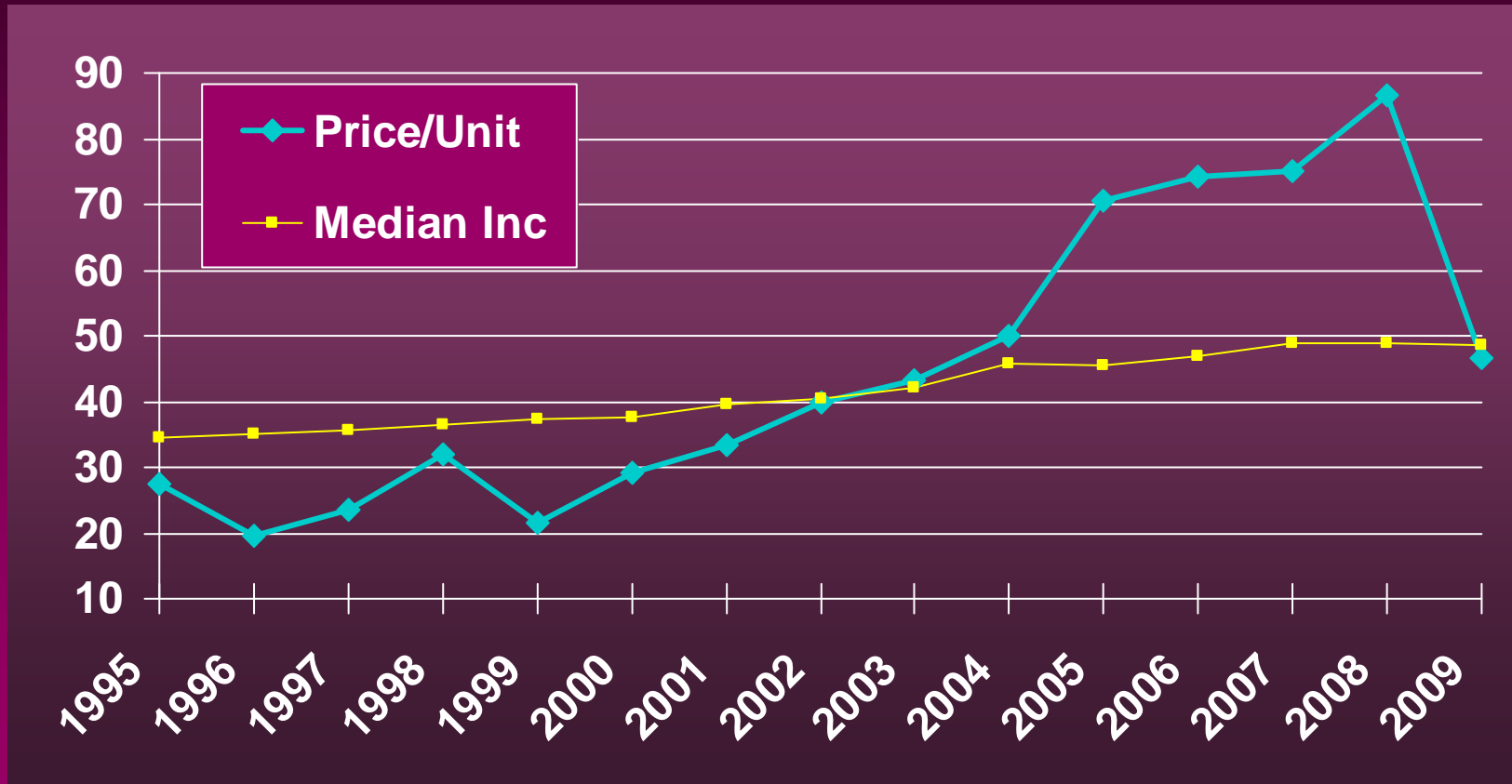
Source: Property and Portfolio Research, CoStar, Real Capital Analytics

# Cent Cal Apt Sales 1995-2009 (w/ 10 Yr T & 6 mo CD rates)



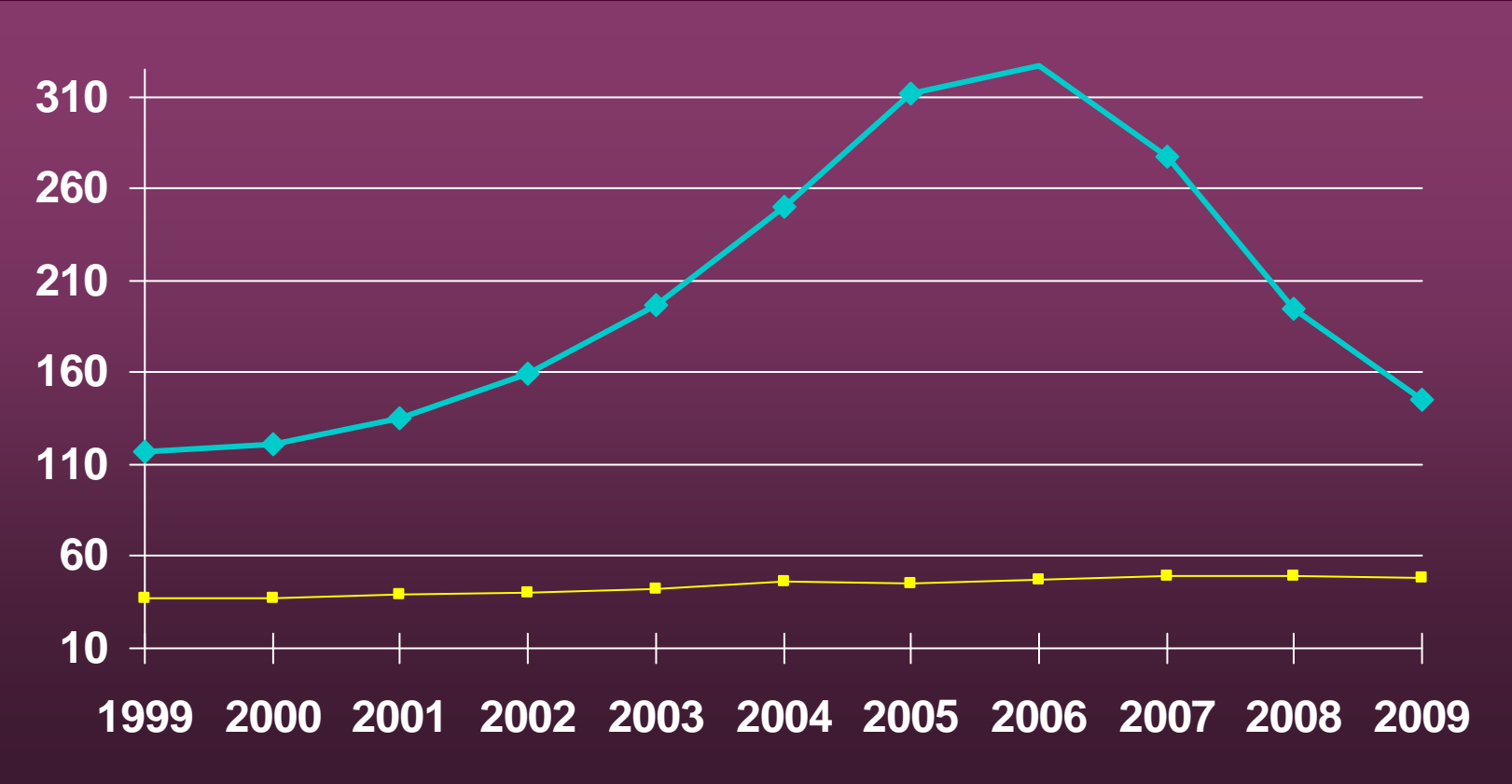
Source: RCK ORGANIZATION, Federal Reserve

# Cent Cal Apt. Price/Unit & FC HH Median Income -1995-2009



Source: RCK ORGANIZATION, California DOF

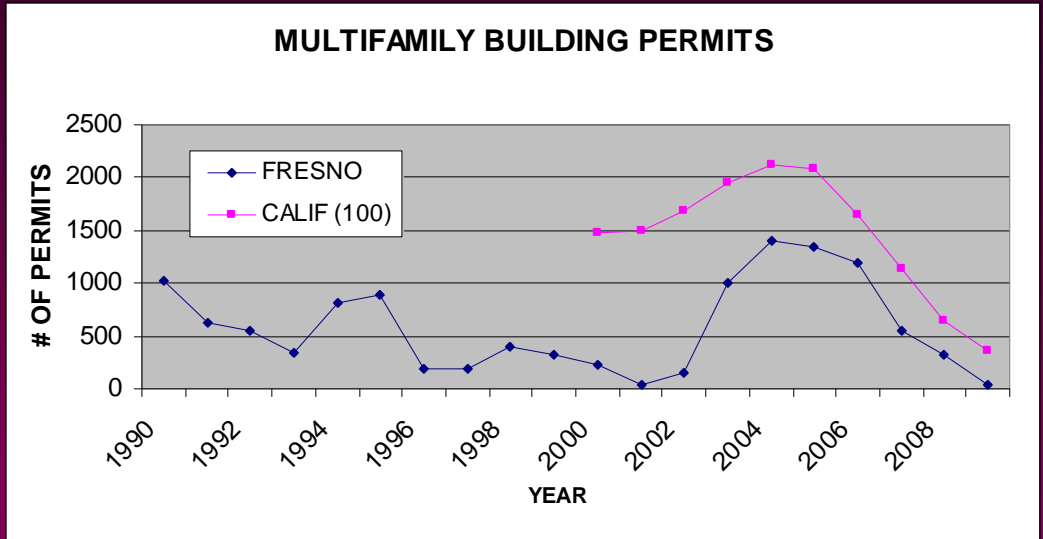
# Home Sales Price & FC HH Median Income -1999-2009



Source: Terradatum, California DOF

# Ingredients for MF Recovery- Aging Inventory & Minimal Construction

**Only 33 Permits  
were issued  
In 2009**



**More than 80% of  
Fresno Apts are over  
20 years old**

<b>BUILT BEFORE 1970</b>	<b>5%</b>
<b>1970- 1979</b>	<b>36%</b>
<b>1980-1989</b>	<b>40%</b>
<b>1990-1999</b>	<b>15%</b>
<b>AFTER 1999</b>	<b>4%</b>

# WHAT'S OUT & WHAT'S IN

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## OUT

- Buying in far-off mkts/exotic investments
- Feeding “Black Hole”
- Seeking the cheapest price
- Market Growth
  - Wait for glass to fill

## IN

- Buy the house next door (at ½ price)
- Strategic Defaulting
- Upgrade-better location, product or service
- Market Share
  - Take a bigger Gulp!

# Brave New World

1. **Speed of change** unprecedented, impact is dramatic
  - Internet, unlimited # of info sources, 24/7 news
2. **Strategic Defaults- result of broken link –Borrower/Lender**
  - Consumer spending up/ foregoing mortgage/ rent payment
3. **Impact of REO Inventory** >>market (both Res/Comm on rents, values & building)
4. **Impact of Tax cuts ending** this year PLUS new legislation (Cap Gains Tax will rise 69%!!!)
5. What will happen when **Feds withdraw** (FNMA/FHLMC, CMBS, Bank Stocks)
6. What will happen to % rates when credit demand increases
  - Competing with massive Government borrowings
7. **Recovery Cycle-** Thru pricing, market share is increased (Strong get stronger, Weak get weaker)
8. **Explosion of low cost \$\$\$** seeking a return (Remember the 6 month CD Rate??) **Where is next bubble?**