



2010 Market Forecast: Executive Summary

Executive Summary

- **2010: This will be the year of “acceptance” and the year of “separation”**
 - **Acceptance:**
 - New valuations
 - New underwriting
 - Less capital available
 - **Separation:** The “haves” and the “have nots” will become clear. Properties will be separated by asset class, market, rent roll, and sponsor.

- **The new opportunity set in 2010**
 - Distressed debt financing
 - Short sales (loan buy backs)
 - Gap financing/restructures

- **The “real issue:” The lack of predictable, reliable first trust mortgage loans.**

- **New thinking on exit strategies:**
 - Small is the new big - big deals are harder to get done
 - Underwriting to recourse take-outs (bank, life companies)
 - Underwriting to “debt yields” versus LTV’s or DSC
 - Sales exit: Stressed exits will be using double digit cap rates
 - Investment basis below the “equity bid”

- **Underwriting assumptions:**
 - Vacancy – trending up
 - Rents – trending down

- **Rent roll – the new deep dive:**
 - Tenant quality
 - Tenant term
 - Rates marked to market
 - Durability of cash flows

- **CMBS defaults:** The big unknown. How will special servicers react? Was not designed to “extend & pretend.” Extensions are costly and short term.

- **Bank failures and the great asset chase:** Not as many as you’d think. Prediction: The Administration will support ailing community banks. For those that do fail, the assets will not be readily available to you. The FDIC will structure “loss sharing” with existing banks, before they let you buy them at a deep discount.