



# “Where Do We Go From Here?”

Market Forecast Breakfast

**CBRE** | The Boulos Company  
CB RICHARD ELLIS

**PERKINS THOMPSON**  
ATTORNEYS & COUNSELORS AT LAW

# WELCOME

Melissa Hanley Murphy, Shareholder & Director

**PERKINS|THOMPSON**  
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# WELCOME

Morris Fisher, President





# Keynote Address: Global Perspective

Jon Southard

Principal and Director of Forecasting

Global Research and Consulting  
Econometric Advisors



# Economic and Real Estate Outlook: The National View

Presented by:

**Jon Southard, Principal and Director of Forecasting**

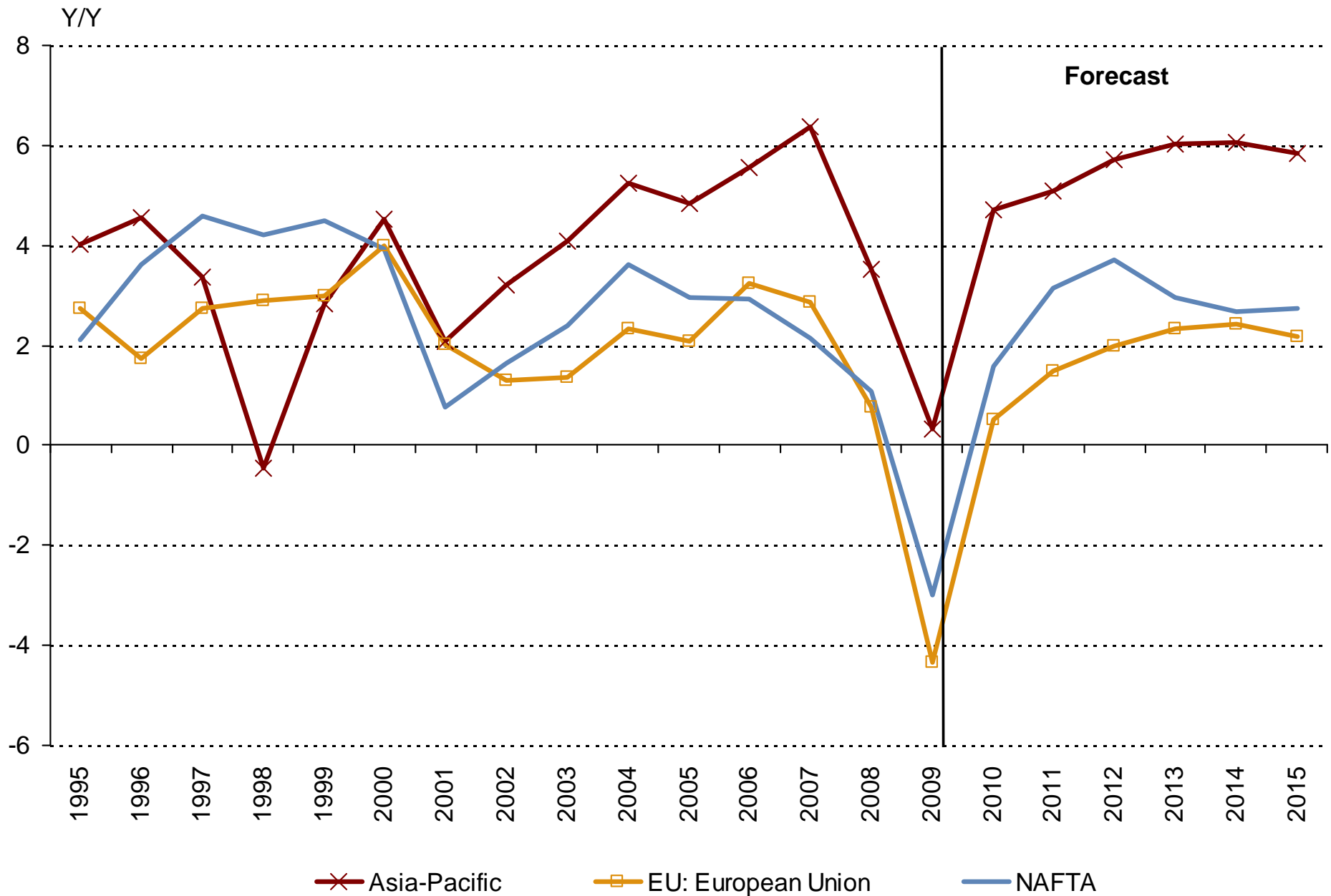
10/13/2009

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- “Great Recession” began with housing, so has stabilization
- Think U, U, U shaped recovery!
- Some measures rounding the first bend of the U

# Long Term GDP Growth : World Regions



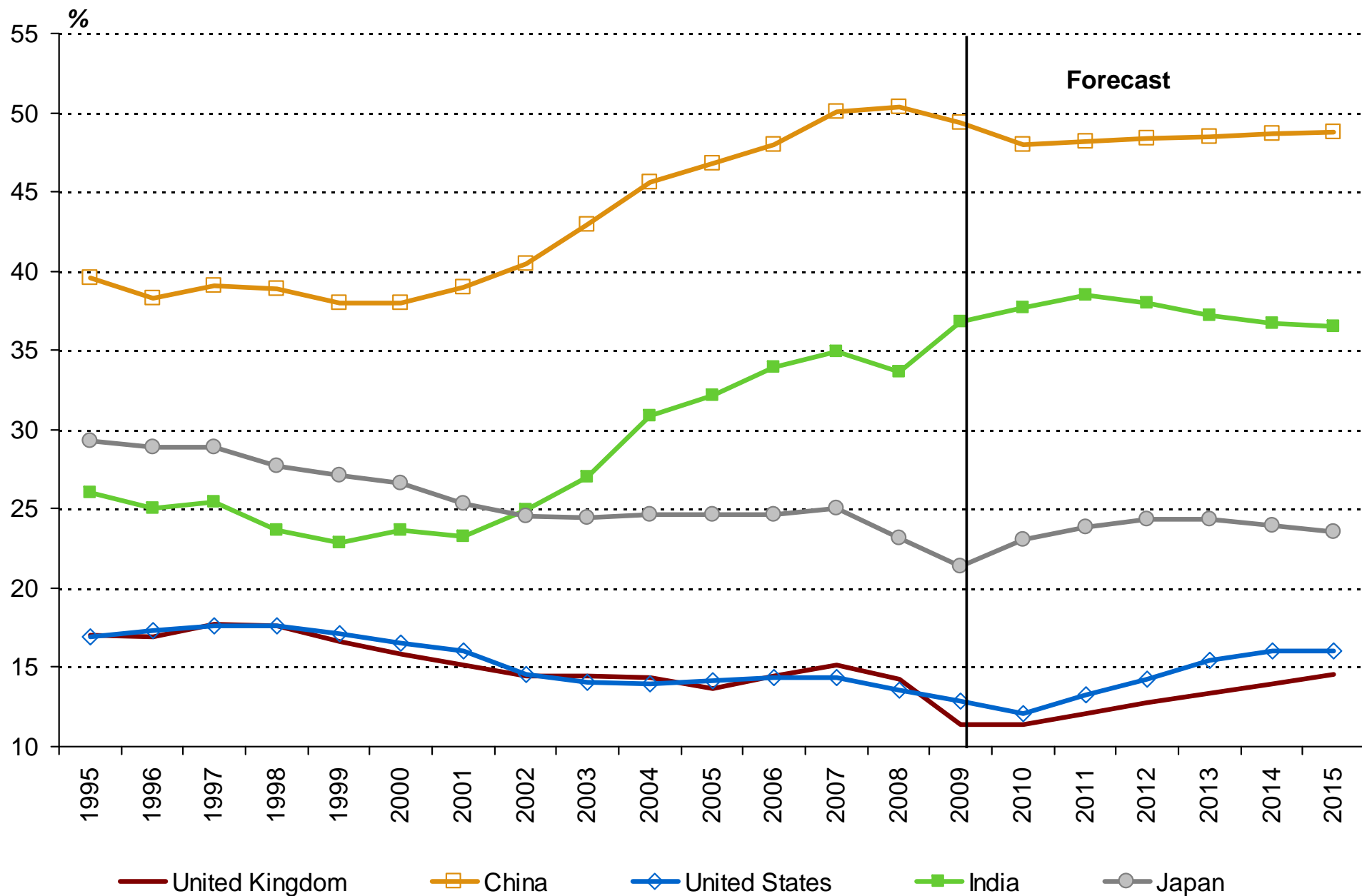
Source: IHS Global Insight, August 2009

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# Total Savings Rates: Developing, Developed



Source: IHS Global Insight, August 2009

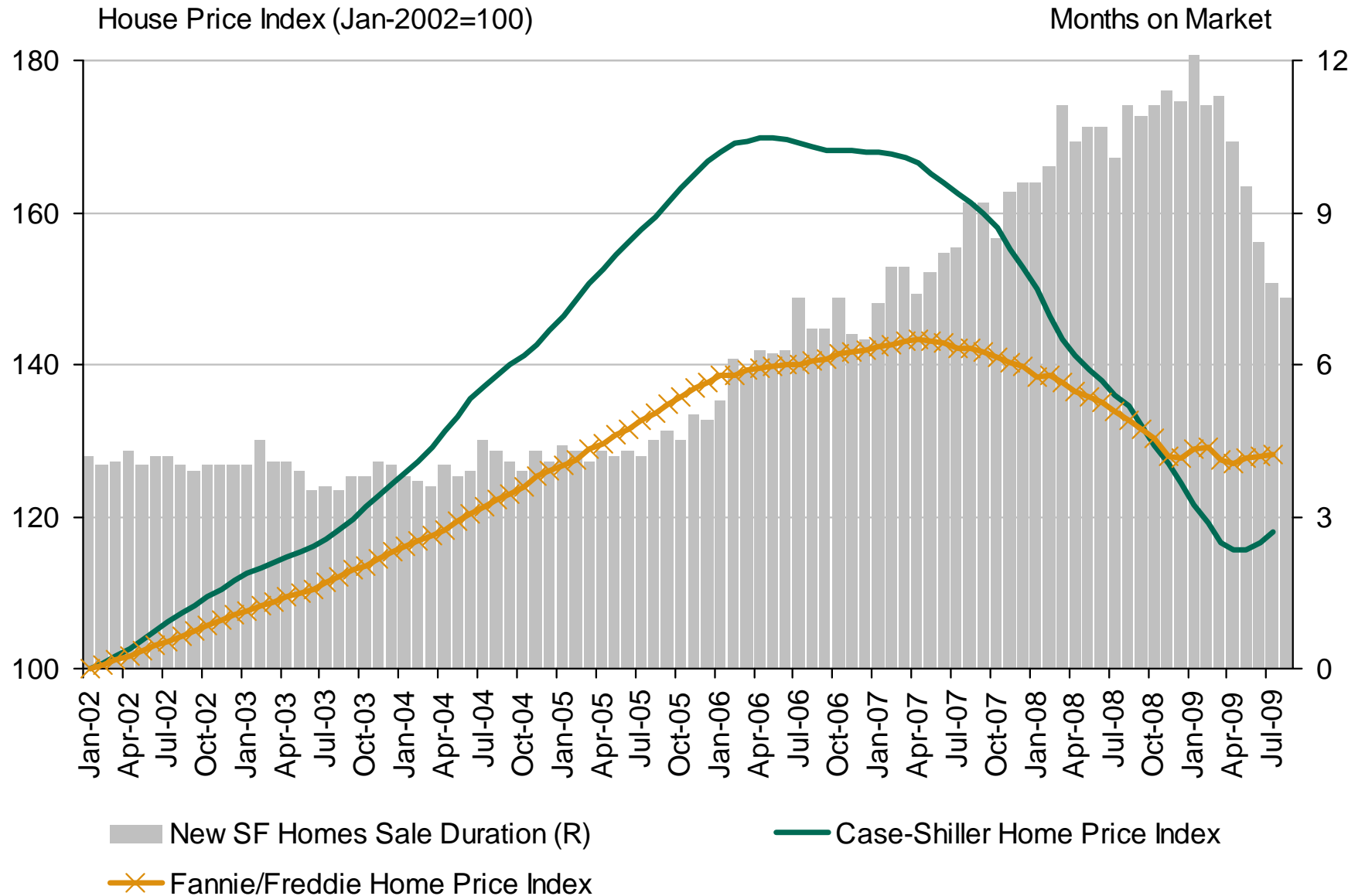
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# Sales Duration Points to a Stabilizing Market

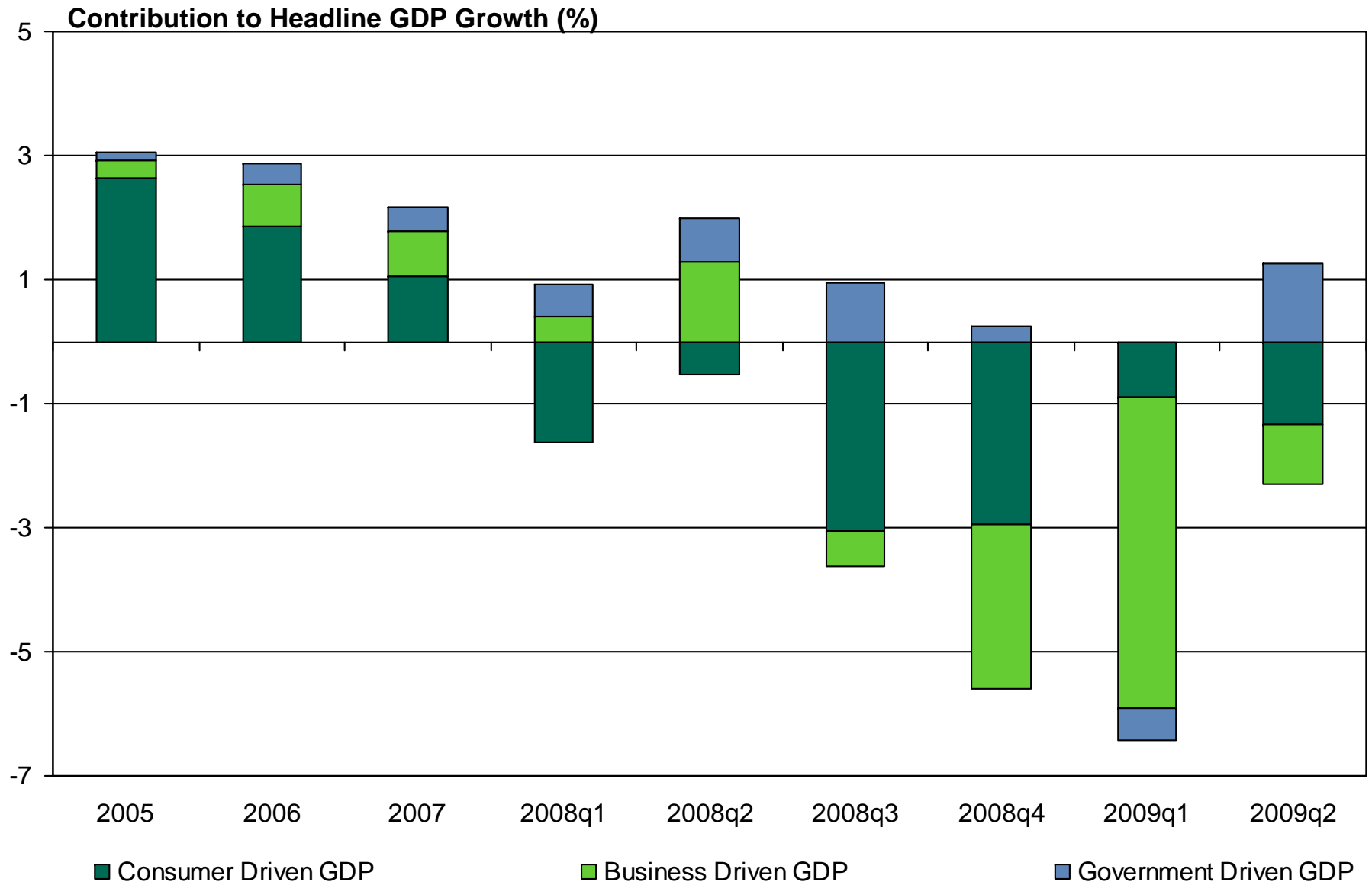


Sources: BOC, S&P Case Shiller, FHFA

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# Business-Driven Economy: Trailing Indicator?

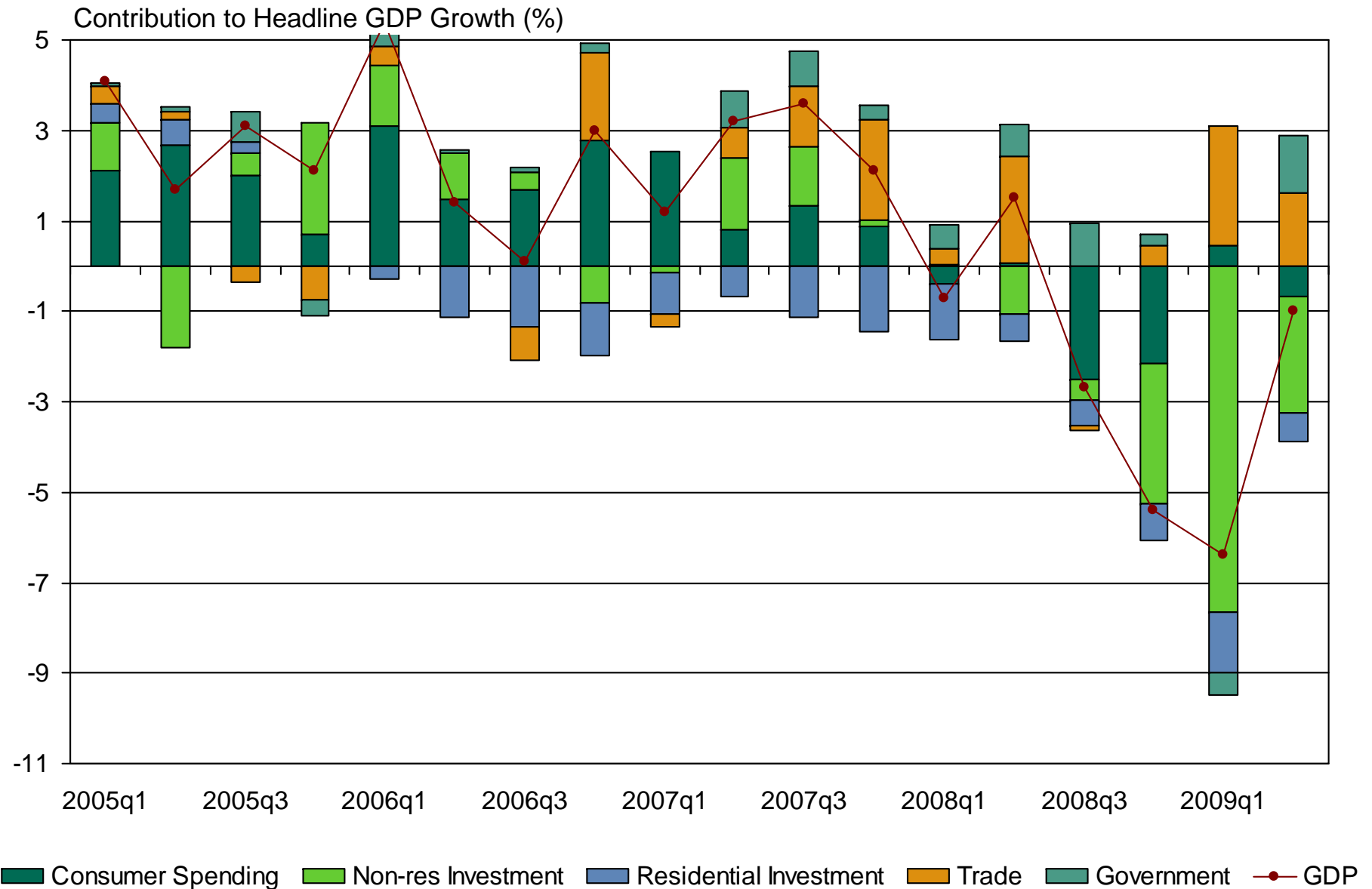


Source: BEA and CBRE Econometric Advisors

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# Business-Driven Economy: Trailing Indicator?

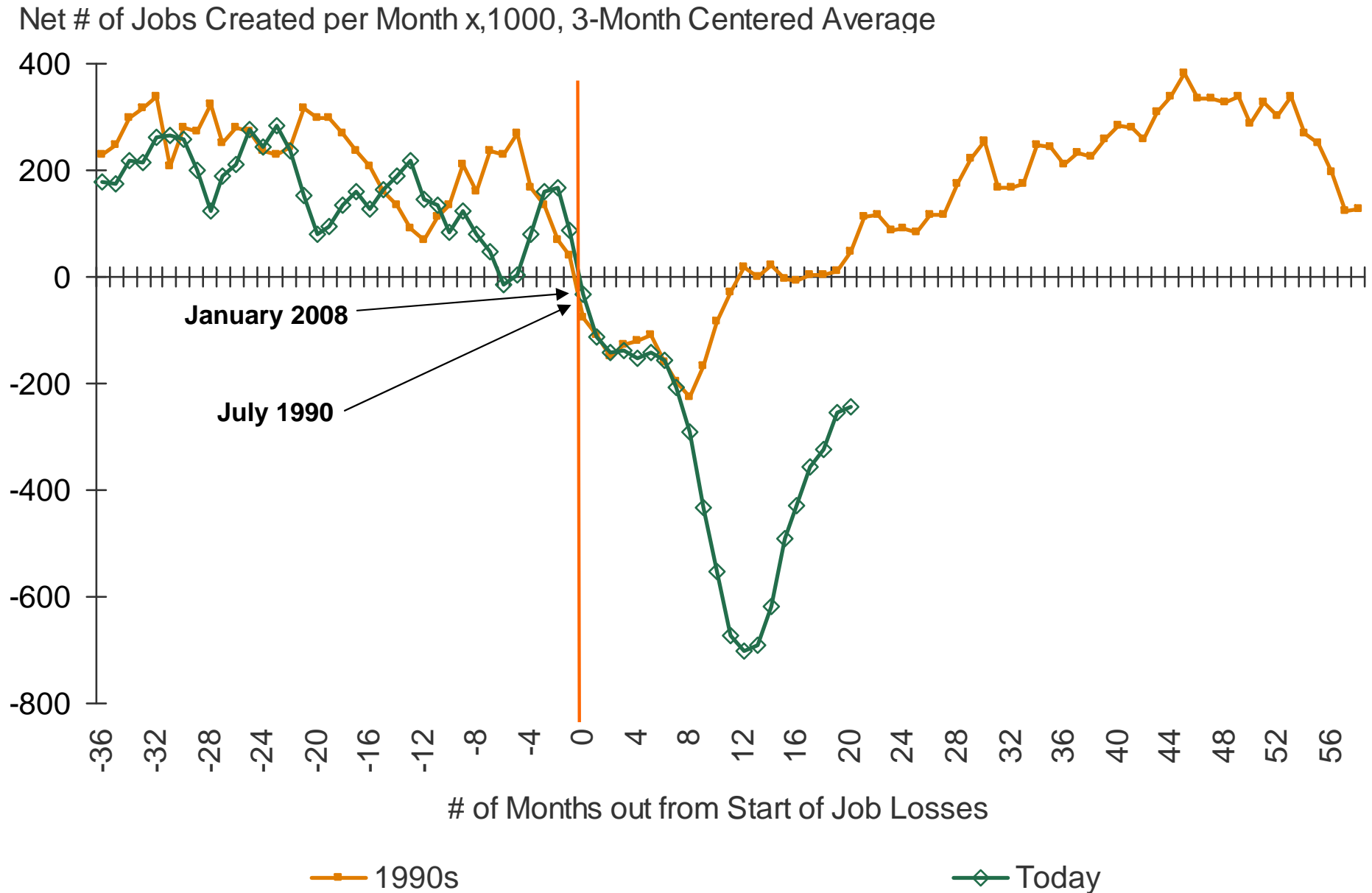


Source: BEA and CBRE Econometric Advisors

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# Job Losses Back to a More Familiar Level

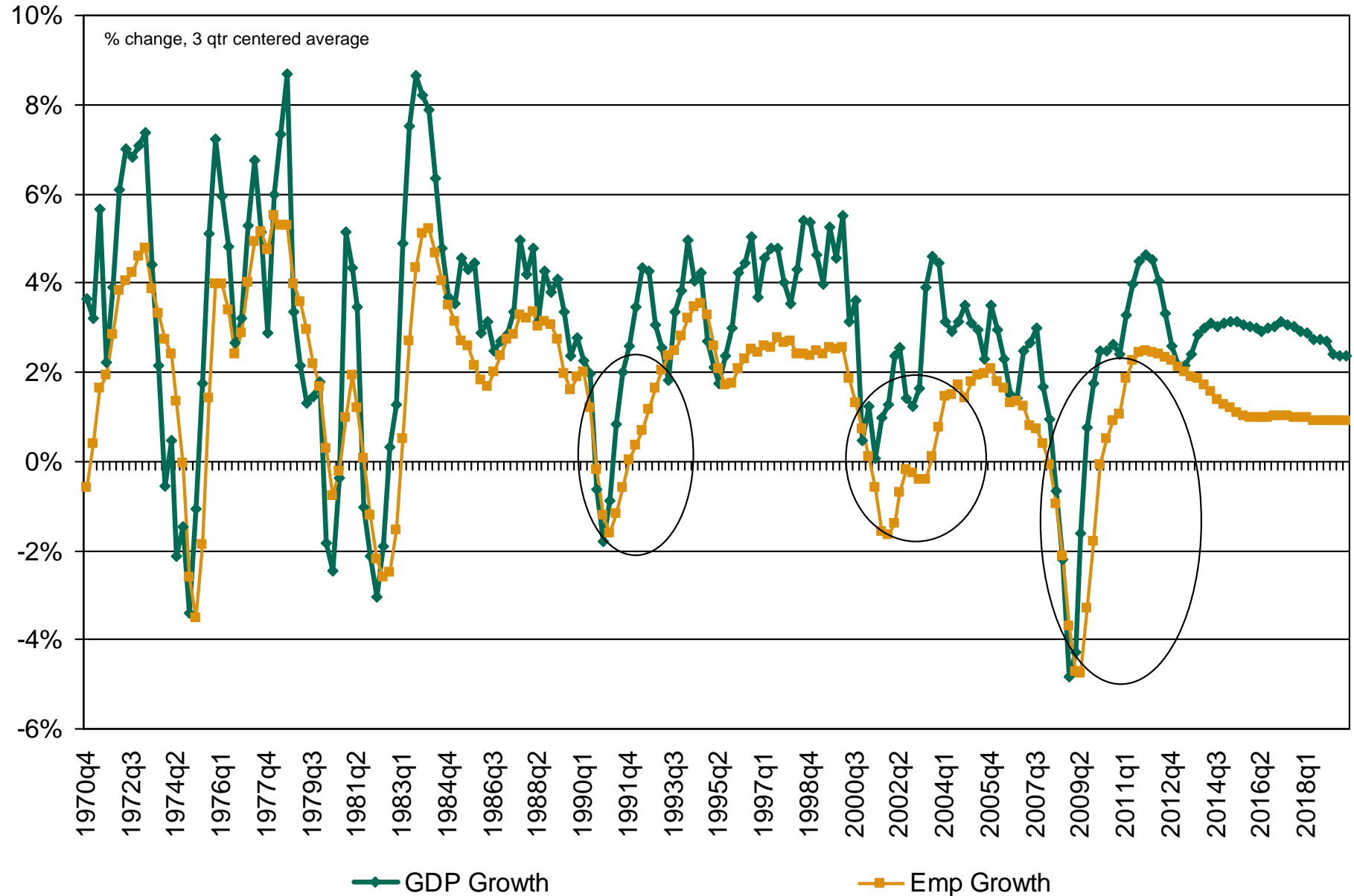


Sources: CBRE-EA, Bureau of Labor Statistics.

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# Traditional / Job Loss / Jobless Recoveries



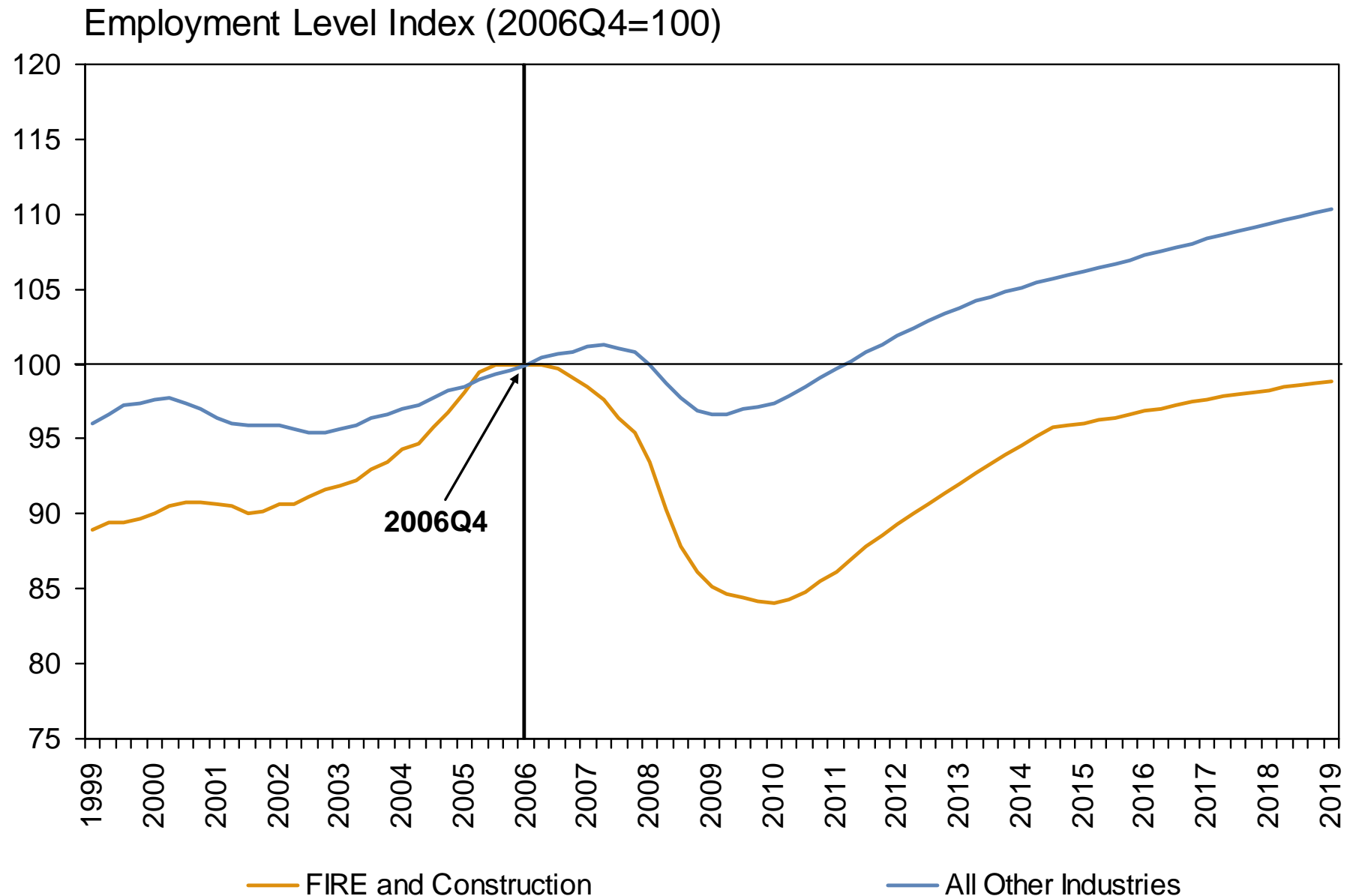
Sources: CBRE-EA, Economy.com

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# Financial and Housing Crisis Led into the Recession...and will Slow the Recovery

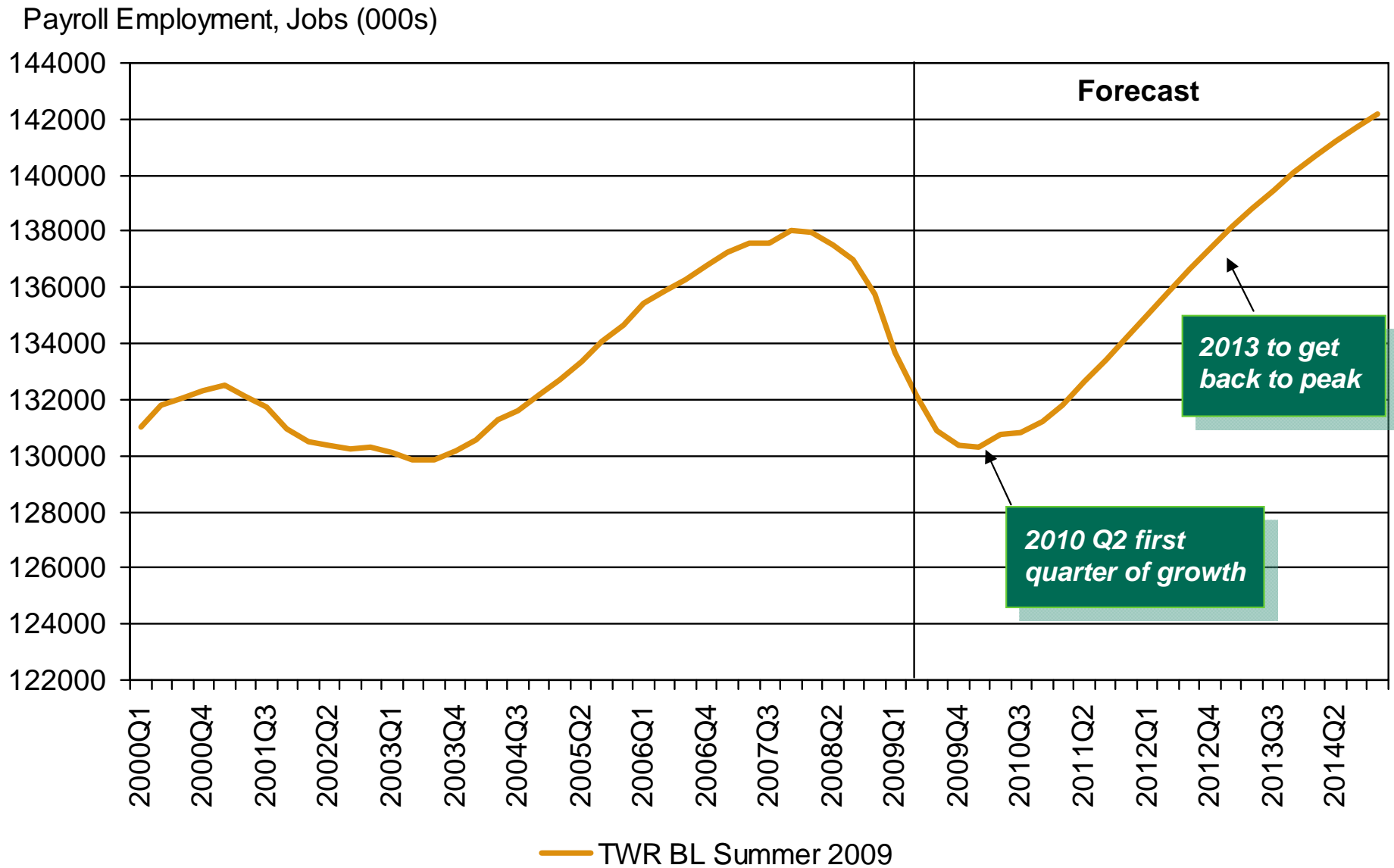


Source: Bureau of Labor Statistics.

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# The Employment Outlook



Sources: CBRE-EA, Economy.com



# Office Outlook

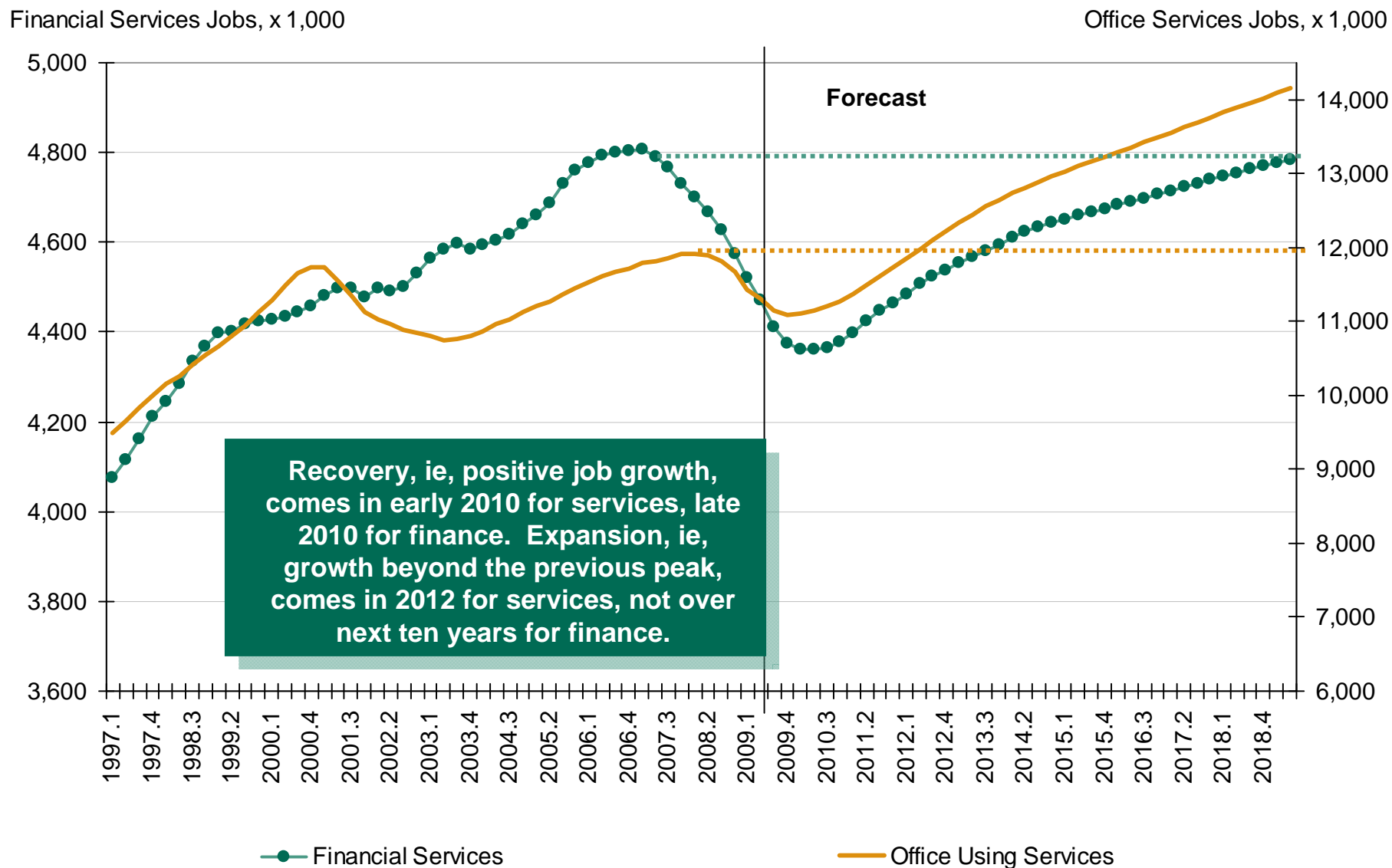
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# Office Property Market Drivers

## Job Growth in the Office Market will come from Service Sector

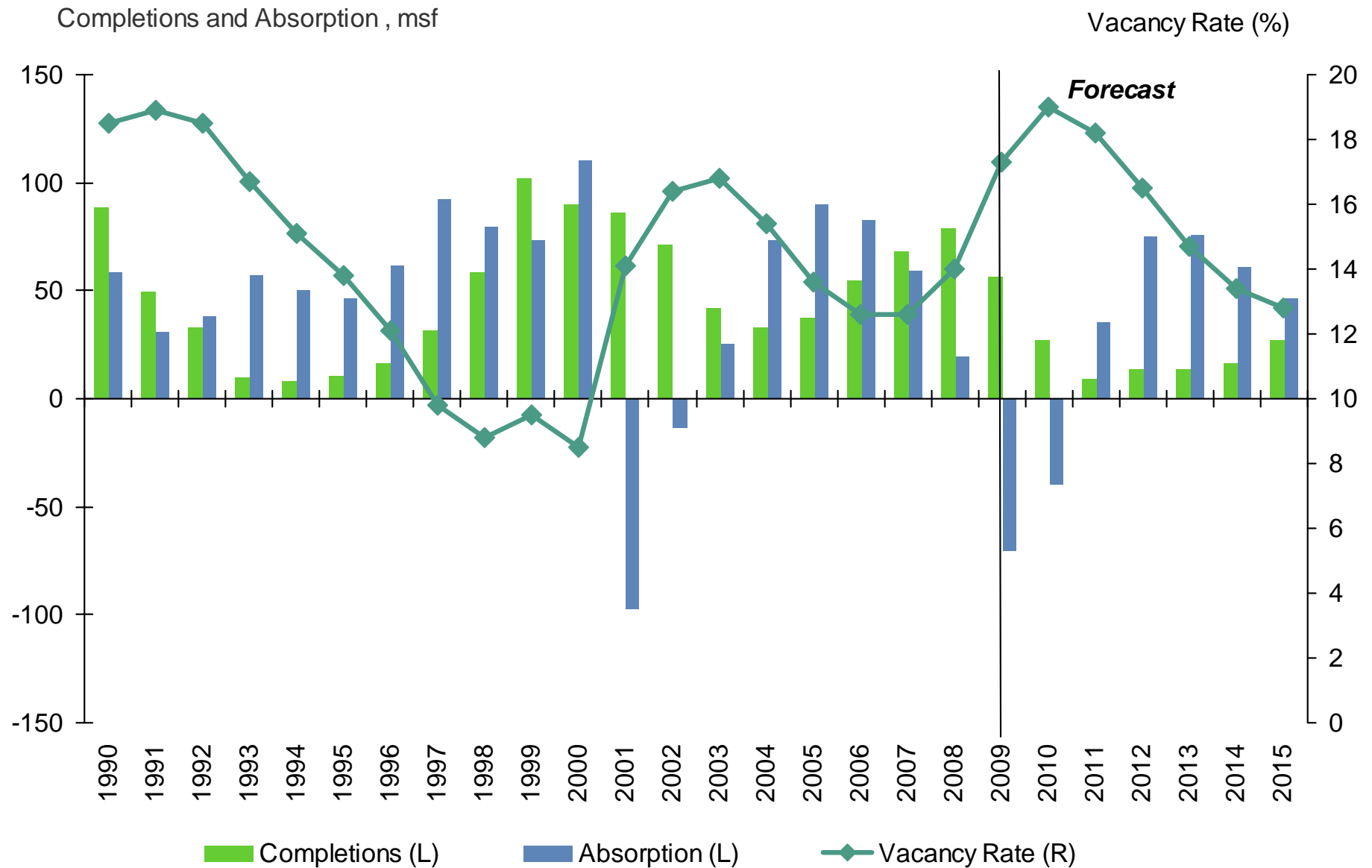


Source: Office Outlook XL, Fall 2009

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# Another Painful Year



Source: Outlook XL, Fall 2009.

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# A Different Story This Time

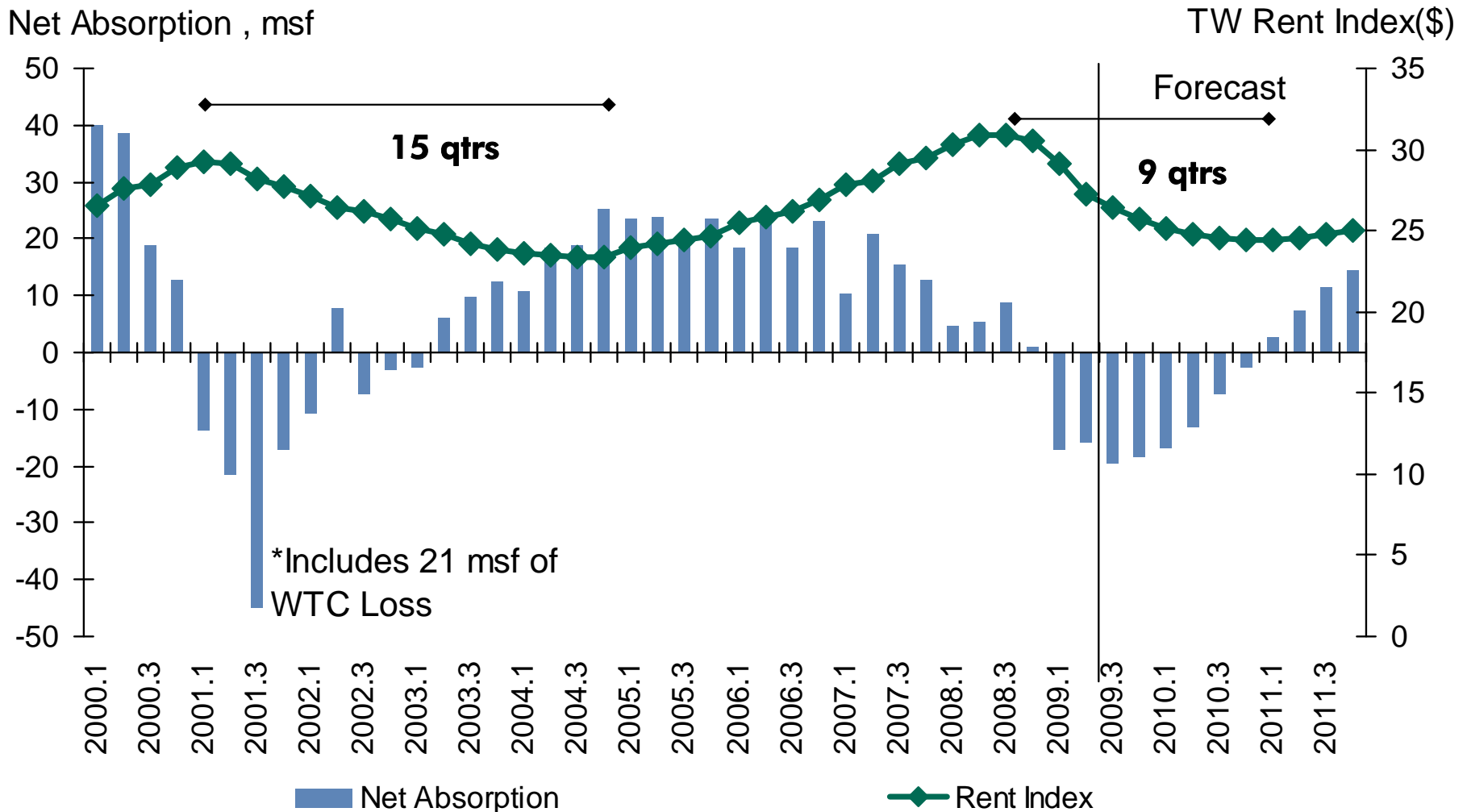


Source: CBRE Econometric Advisors

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# Comparatively Precipitous Rent Decline Shortens Time to Bottom



Source: CBRE Econometric Advisors

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# Industrial Outlook

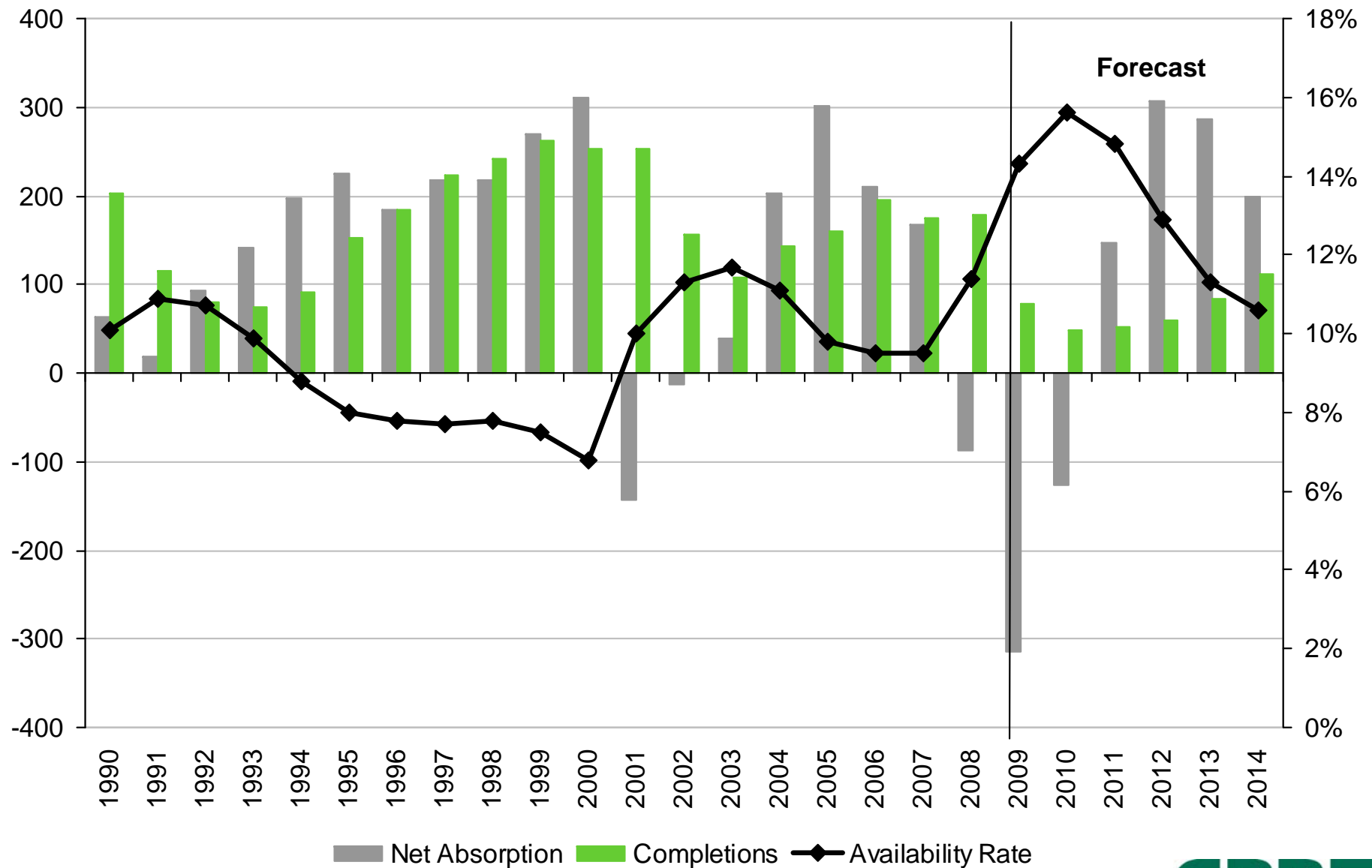
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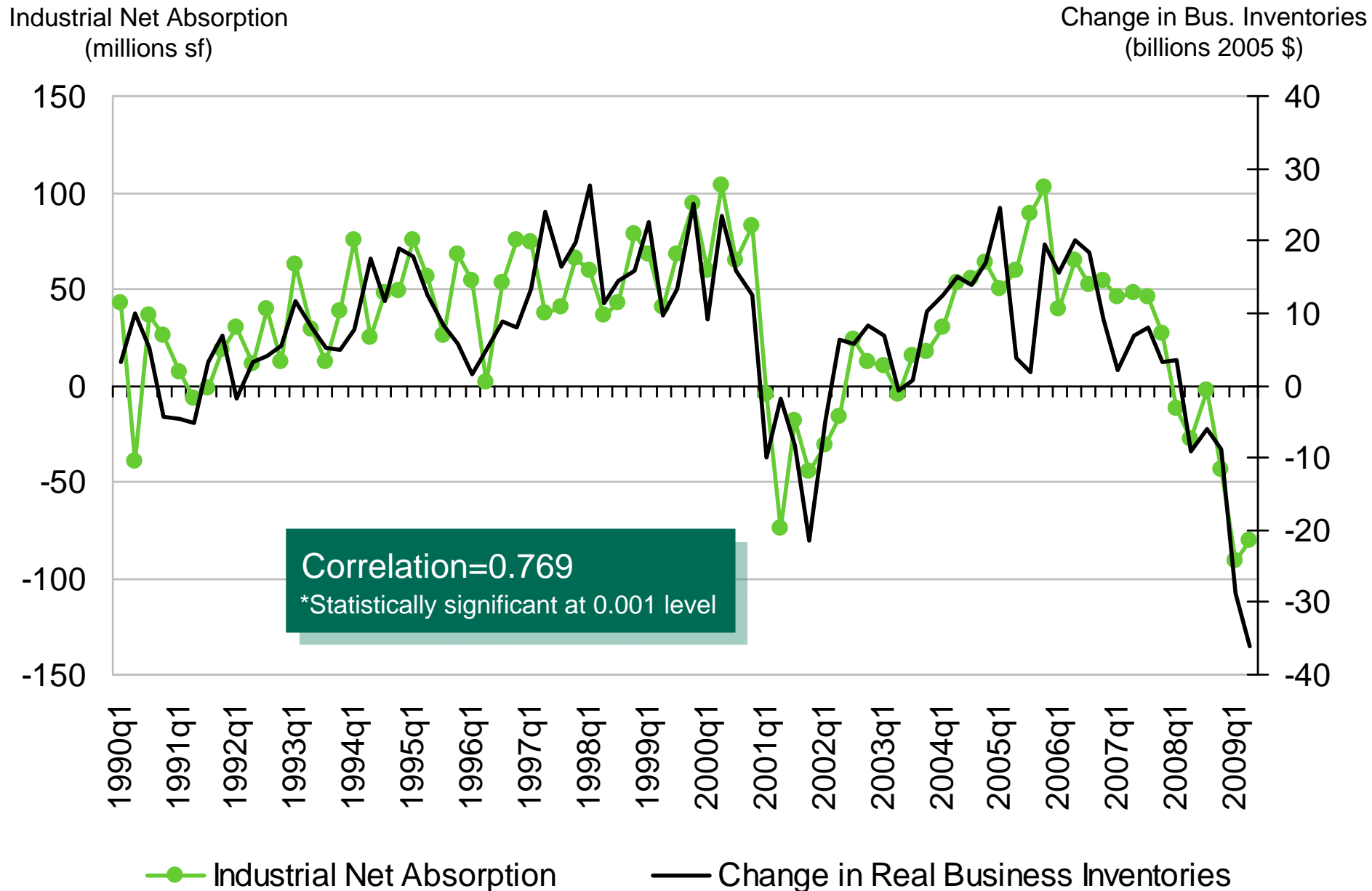
# 2009: At Least It's Half Over

Net Absorption, Completions  
(millions sf)

Availability Rate



# Inventories and Industrial RE Demand



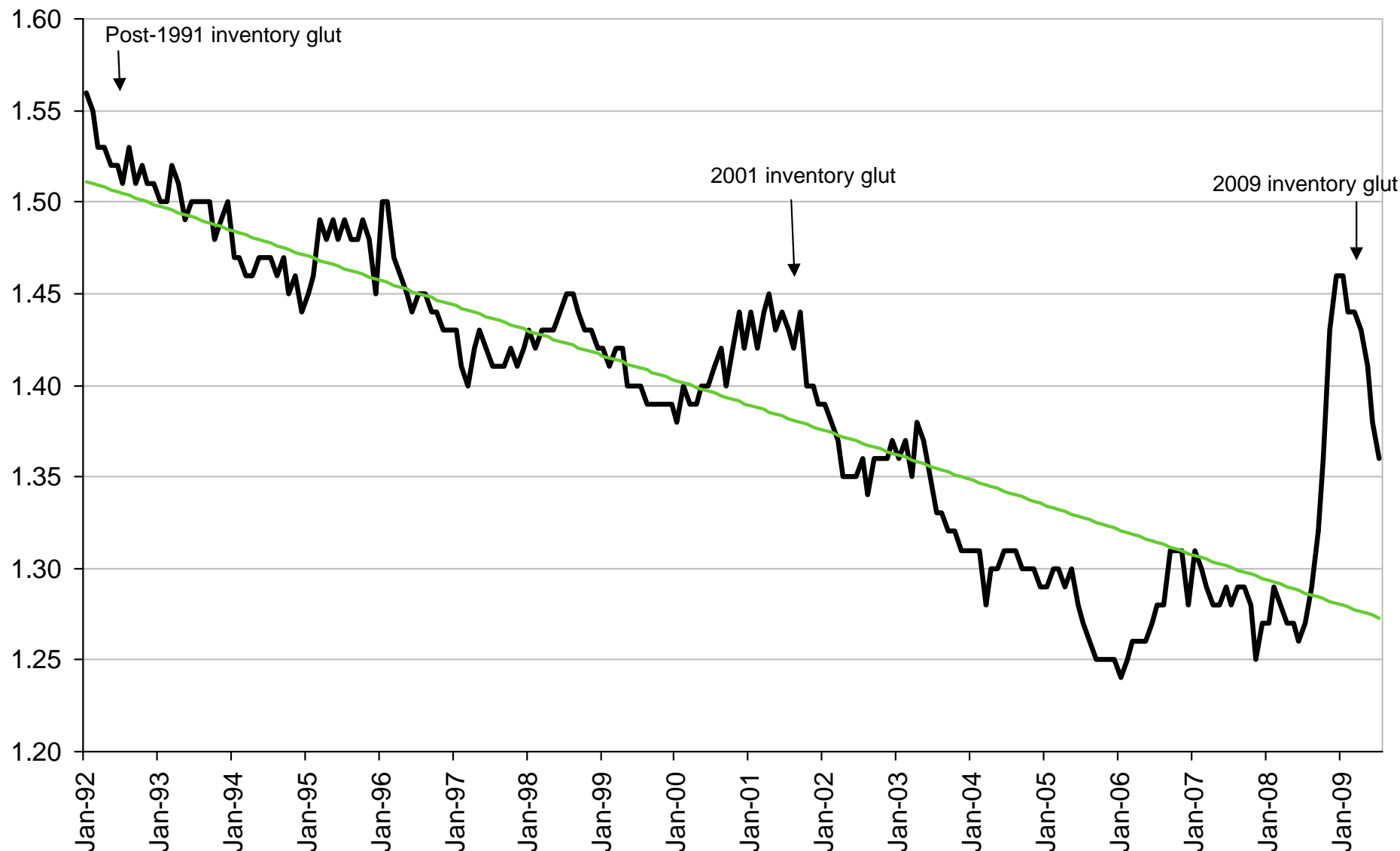
Source: Bureau of Economic Analysis; Industrial Outlook XL, Fall 2009.

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# Inventory Correction Isn't Over Just Yet...

Ratio of Inventories to Sales  
(Total Business)



Source: U.S. Census Bureau.

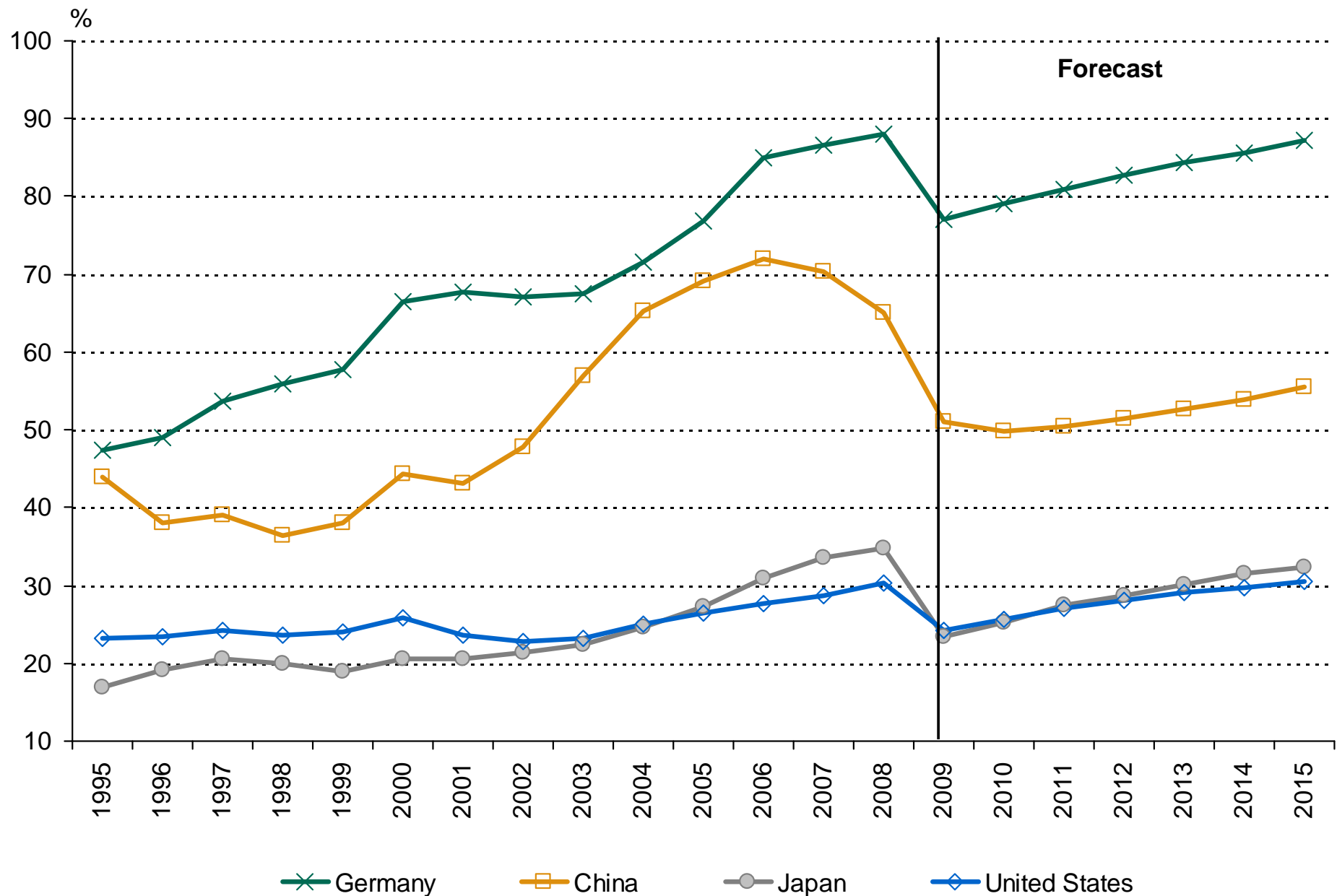
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# Total Trade (I&M) as Percentage of GDP: Major Traders

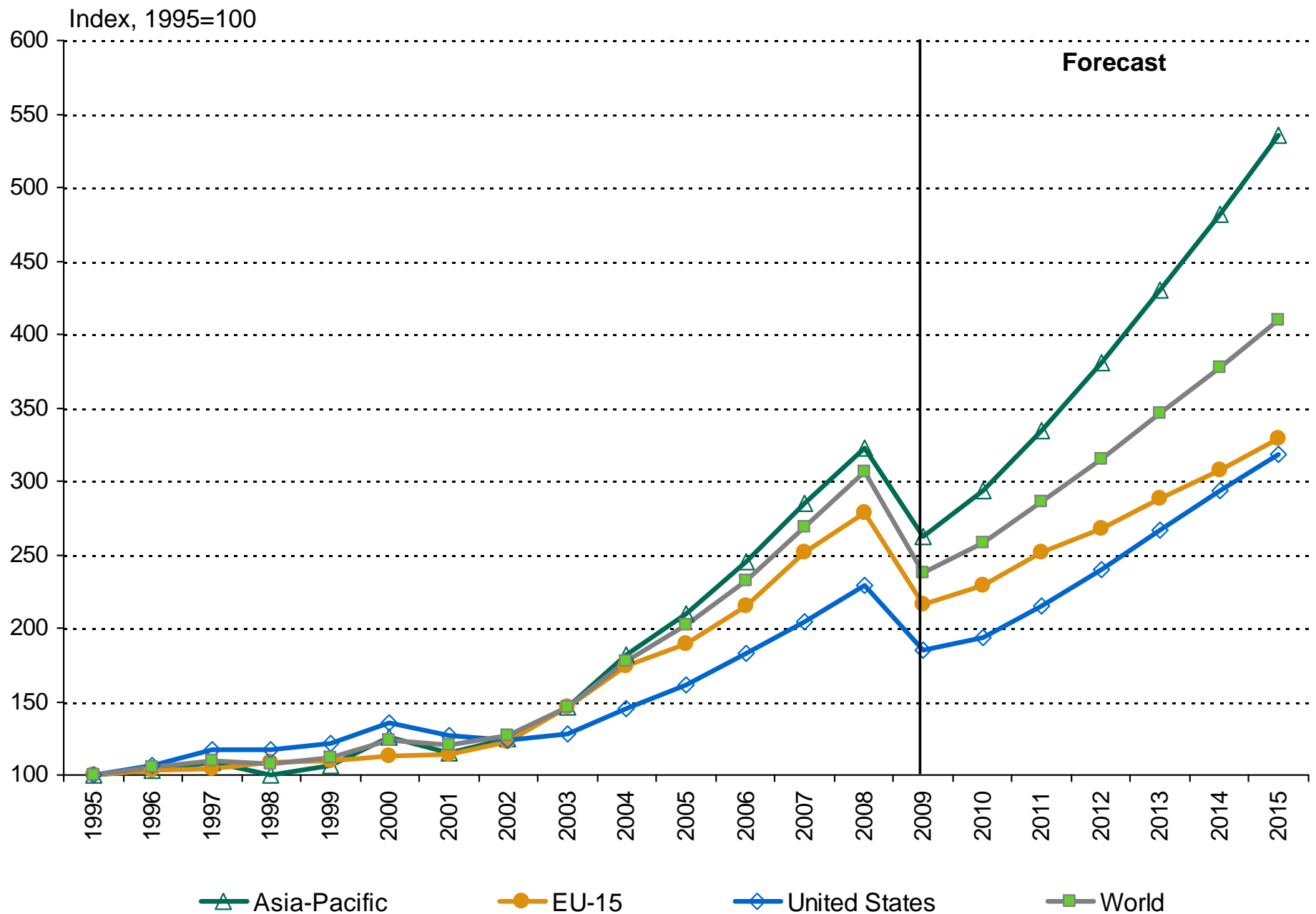


Source: IHS Global Insight, August 2009

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# Export Growth, Major Regions



Source: IHS Global Insight, August 2009

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# Capital Markets Outlook

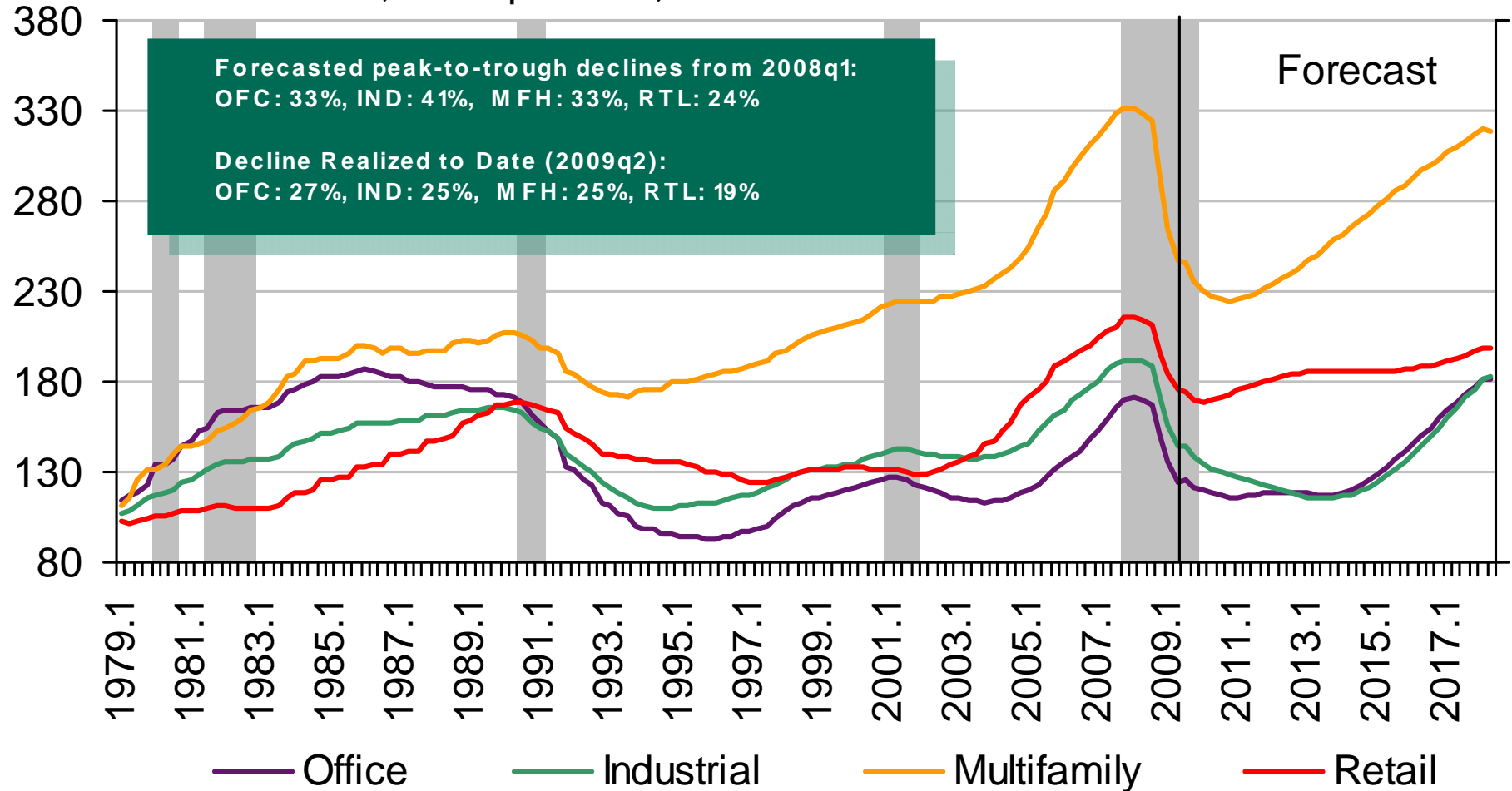
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# Institutional Quality Asset Values

More than a decade before we are back to peak values.

NCREIF Value Index, 1978q1 = 100; base case outlook



Source: CBRE-EA, Investment Outlook Fall 2009, NCREIF

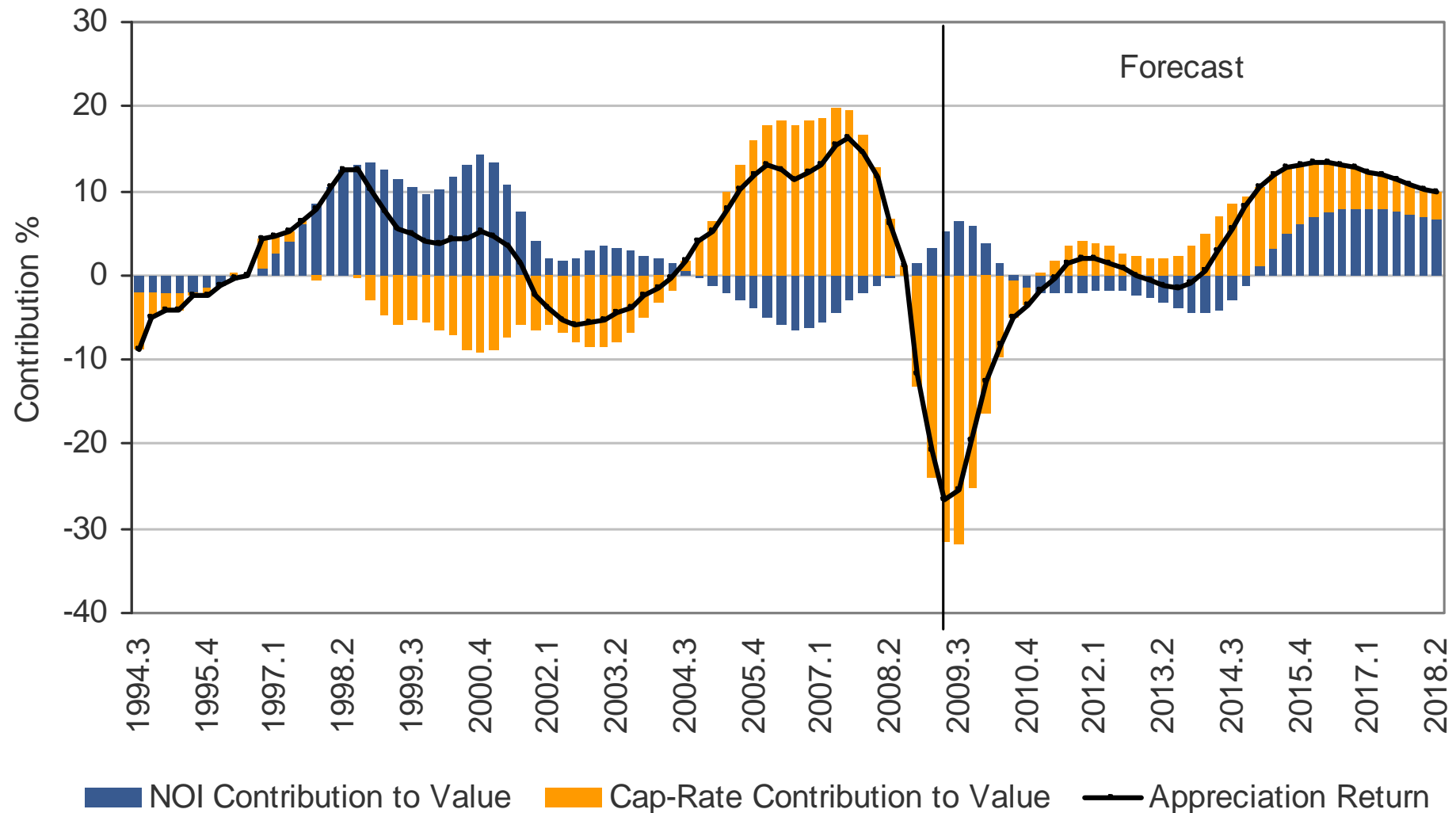
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# Value Drivers: NOI vs. Cap Rate: Office

Cap rates have a strong initial impact, NOI hurts through 2015.

Annualized Contribution to Appreciation Return %

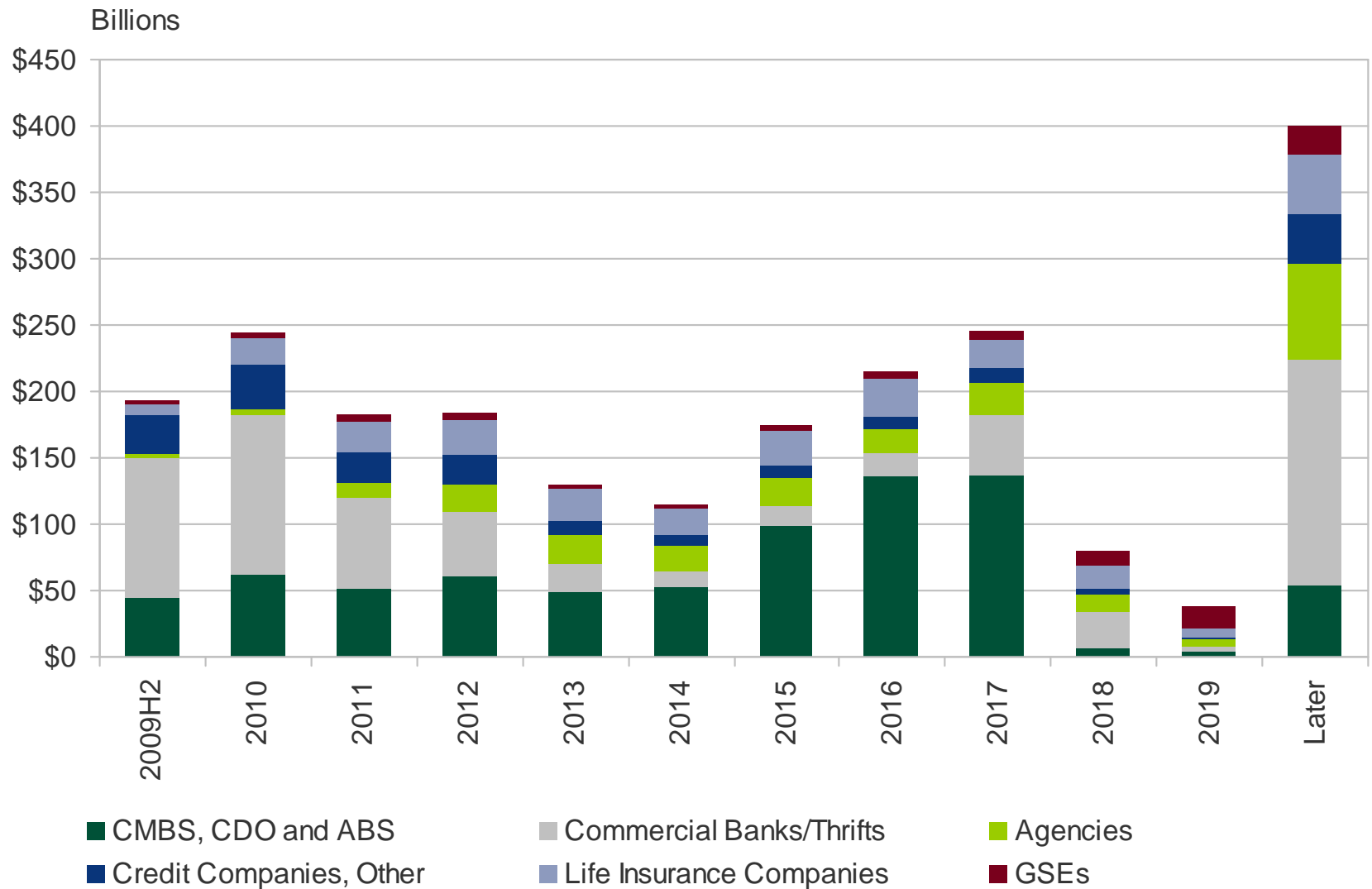


Source: CBRE-EA, Investment Outlook Fall 2009, NCREIF; Base Case Scenario

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# The Wave of Refinancings: Short-term Problems Loom



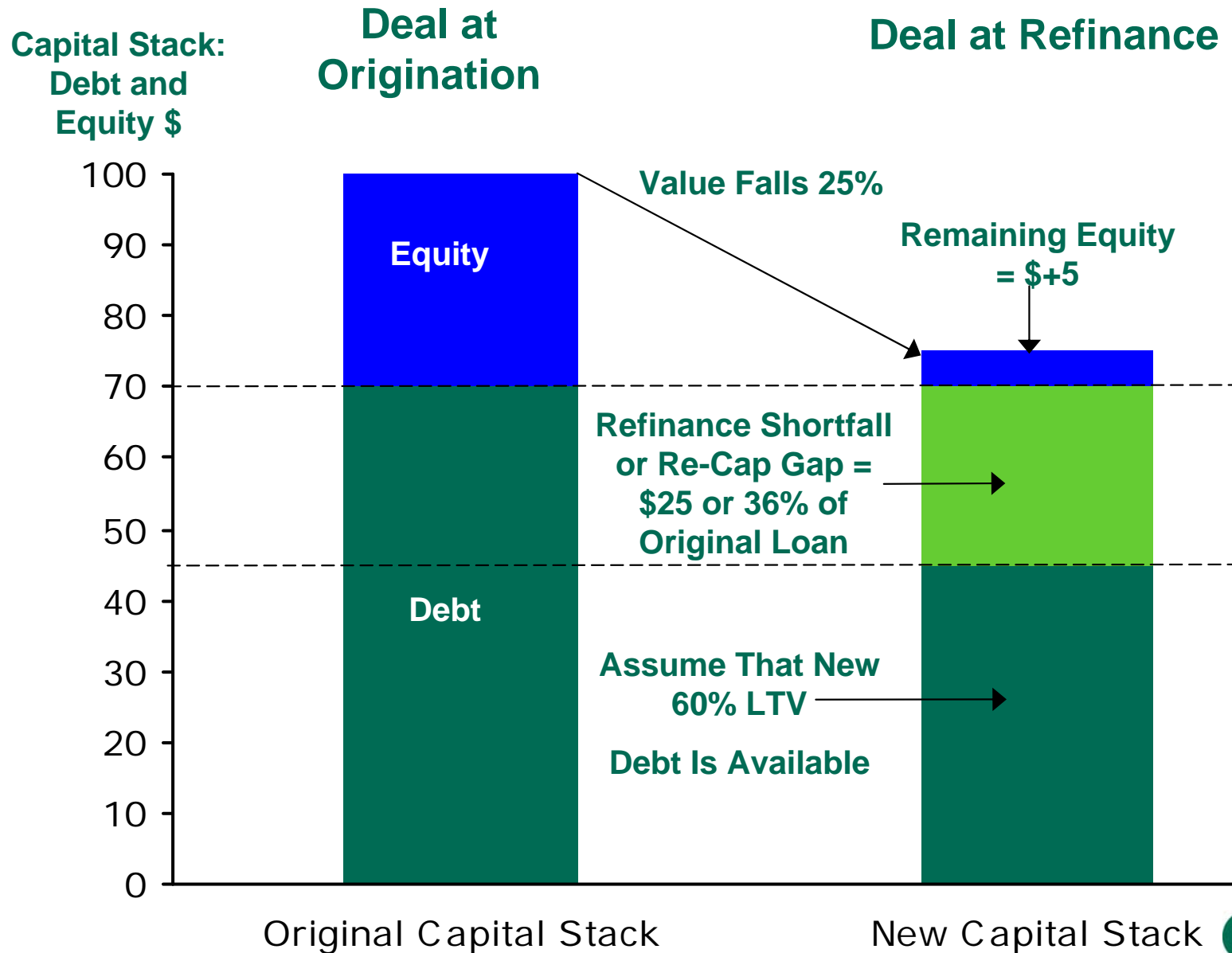
Source: MBA Loan Maturity Survey, CBRE-EA Calculations

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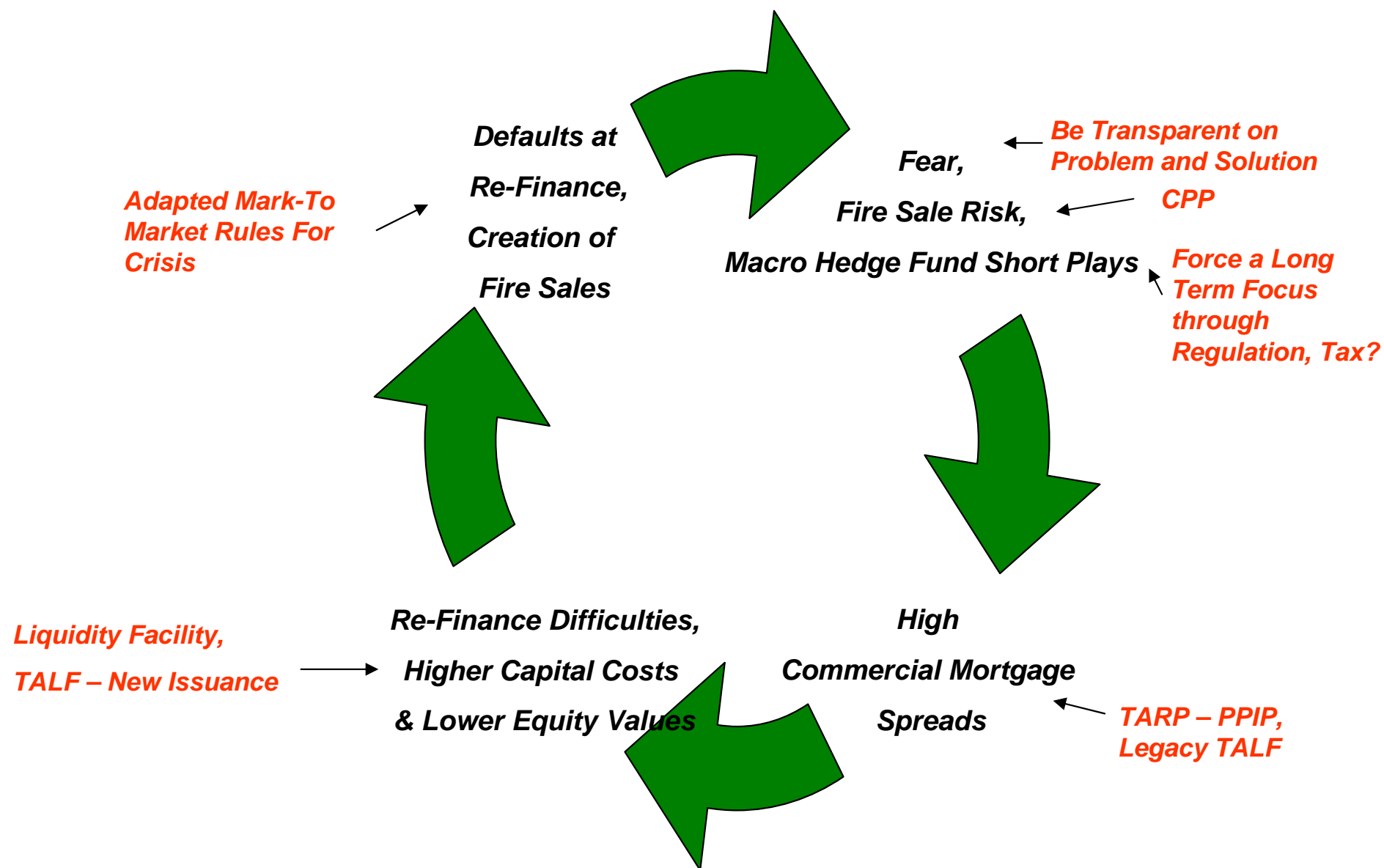
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# Impact of De-Leveraging On CMBS: \$89 B Equity Need

We're measuring the **Light Green** Amount



# Points For Government Intervention To Break Spiral



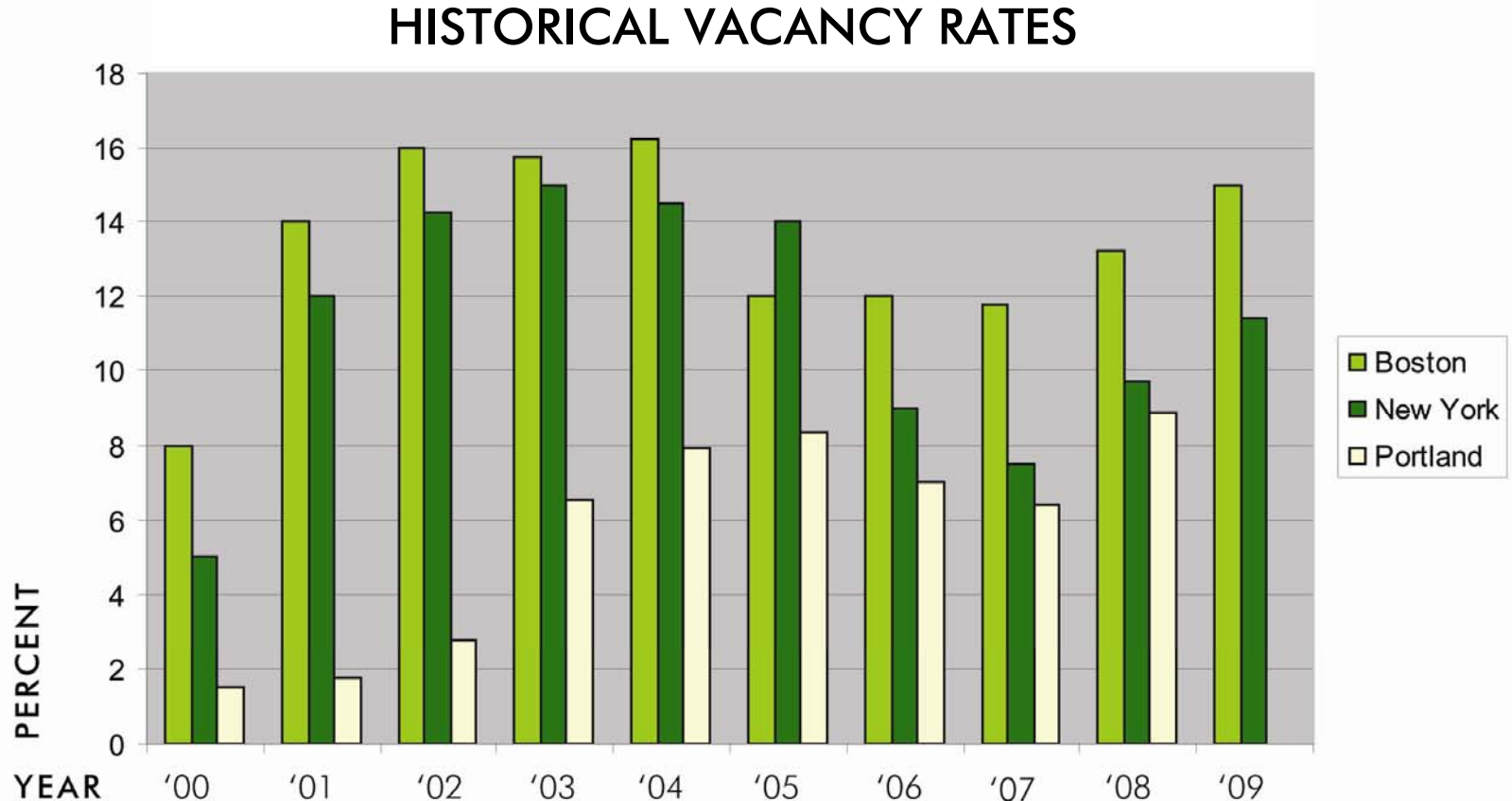




# Local Market Perspective

C. Anthony McDonald, CCIM/SIOR, Partner  
CBRE | The Boulos Company

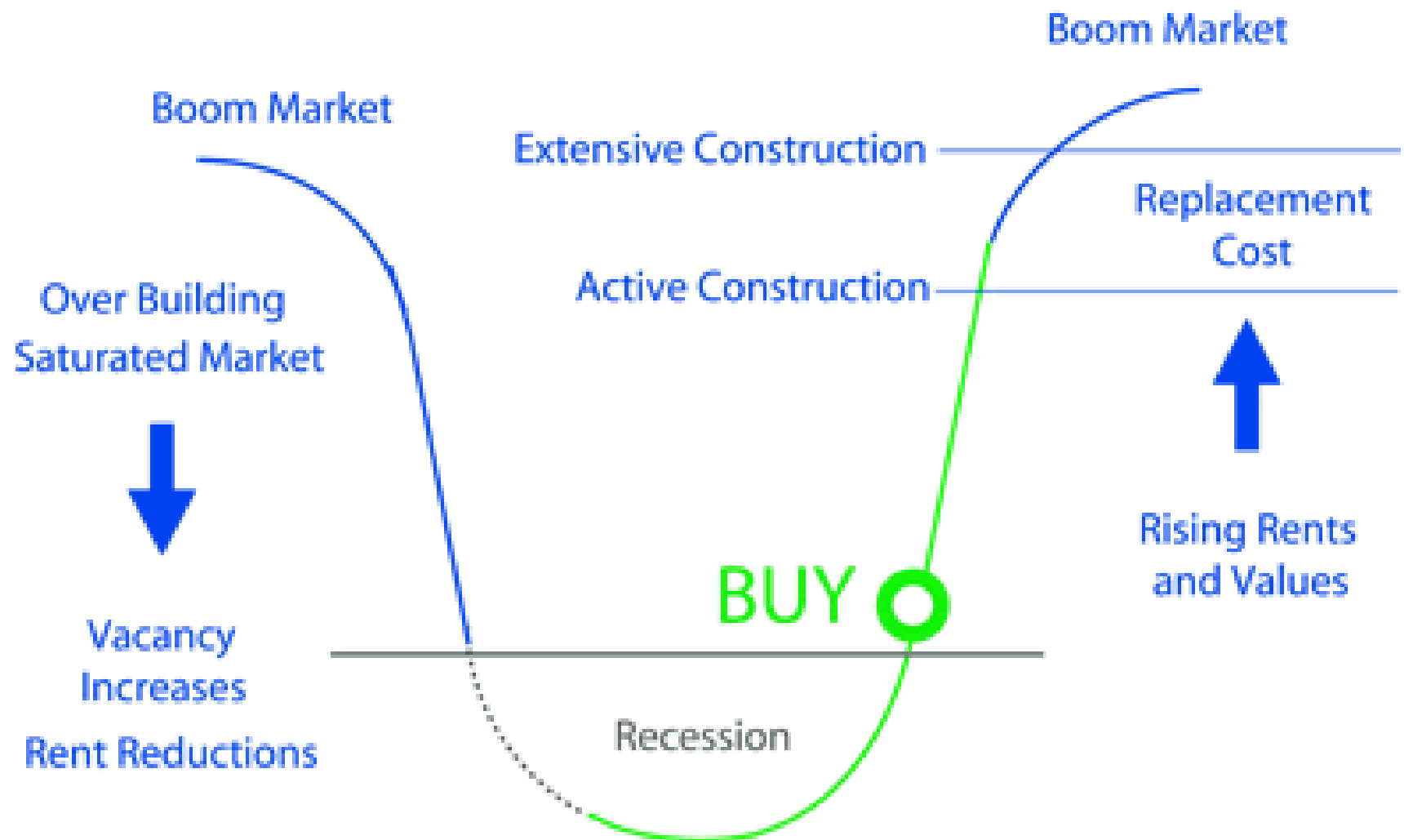
# PORTLAND VACANCIES



	Average	Hi / Lo Spread
New York	11.24%	10.00%
Boston	13.40%	8.25%
Portland	5.67%	7.36%

- Our overall vacancy rates are low historically and our swings are restrained.
- A very stable market from an investor perspective.

# REAL ESTATE CYCLE



# DEALS ARE HAPPENING

## 110 Free Street, Portland



85,470 SF building

327 parking spaces

(43 on-site plus 284 across Spring Street)

- Sold to Trammell Crow in June 2007 for \$8.0 million.
- Investment made in property.
- Sat vacant for two years.
- Sold in August 2009 (26 months later) for \$3.5 million.

## WHAT HAPPENED?

- Large floor plates not easily subdividable.
- Large users in market? – few to none
- Owner determined that even with lease up looking more positive they would not achieve their target yields.
- Not a foreclosure; a conscious decision by owner to redeploy capital elsewhere for better returns.

## WHAT HAPPENS NOW?

- MaineHealth will occupy entire building after substantial renovation.
- Spring Street garage swapped to Holiday Inn by the Bay for Free Street parking lot.

# DEALS ARE HAPPENING

## 300 Southborough Drive, South Portland



117,193 SF building with ample parking

- Sold by Unum in October 2003 with 5-year leaseback in place for \$15,575,000.
- Unum vacated shortly thereafter and building was available for direct lease or sublease.
- Sat vacant for over 4 years.
- Sold in June of 2009 for \$9,600,000.

## WHAT HAPPENED?

- Designed as single tenant building.
- Prior owners unwilling to accept market realities on leasing (price subdivision).
- Not a foreclosure – seller decision to cut and run.

## WHAT HAPPENS NOW?

- New owner undertaking improvements to improve energy efficiency and support subdividability.
- Space now properly priced for lease.
- Building will lease up.

However, this is not to be viewed as a \$9.6million deal as new owner will invest substantial funds in preparing building for leasing.





## HOW ARE THINGS DIFFERENT THIS TIME?

- Real Estate depression of the late 80's early 90's was truly a real estate and finance crash.
- Market was overbuilt and over financed.
- The overall economy was not affected the way it is this time – this recession has decimated demand for space.
- Regulators stepped in with a “take no prisoners” stance and crushed banks and borrowers which led to widespread foreclosures and “blood in the streets.”

## NOT THIS TIME

- Mark to market is not occurring. If borrowers are making payments, leave them alone.
- Pretend and Extend. Restructure debt with borrower to “survive for 5.”
- Feds and banks realize there is no real benefit in crushing banks or borrowers. Banks do not want to own properties BUT, as securitized loans come due – look out!!

## UNDERWRITING THEN – 2007

- 70,000sf Class A Suburban Office Building
- Leasing at \$16/sf NNN providing income of \$1,120,000
- Investor Capitalization Rate (CAP Rate) of 8.5%
- Resulting Value of \$13,176,470

## DEAL STRUCTURE

80% Financing	\$10,541,176
20% Equity	\$ 2,635,294

Financed on 25-year amortization at 6.0% with annual debt service of \$815,003

Income of	\$1,120,000
Less Annual Debt Service	<u>(\$815,003)</u>

Leaves Equity Return of \$ 304,997

Return on Equity: 11.57%

## UNDERWRITING NOW – 2010

- Still 70,000sf Class A Suburban Office Building
- Leasing at \$14.00/sf providing income of \$980,000
- Investor CAP Rate of 10.0%
- Resulting Value of \$9,800,000

## DEAL STRUCTURE

65% Financing	\$ 6,370,000
35% Equity	\$ 3,430,000

Financed on 20-year amortization at 7.0% with annual debt service of \$592,639

Income of	\$ 980,000
Less Annual Debt Service	<u>(\$ 592,639)</u>

Leaves Equity Return of \$ 387,361

Return on Equity: 11.29%

## MY LOAN IS UP!!

Maturing Debt: \$ 9,942,832

Available New Debt: \$ 6,370,000

**New** Equity Required: \$ 3,572,832

- My original \$2,635,294 equity is not “currently recoverable.”
- Do I have \$3,572,832 in **new** equity available?
- If I do have it, do I want to invest it in this deal? The \$387,361 cash flow after debt service will represent a 10.84% return on my **new** equity and at some point in the future I will likely recover some or all of my original \$2,635,294 in equity as property values increase once again.
- What if “I” am a REIT, Partnership or other structured entity? Who comes up with the cash?

## CLOSING OBSERVATIONS

- Market will not “crash” but there will be some great opportunities.
- These opportunities will be very “situational” in nature and dependent on owner’s particular scenario and nature of lender.
- Banks do not want to take properties back, unlike previous downturns.
- As a result, many opportunities will be based on “negotiated sales” whereby owner and lender will negotiate based on buyer’s offers.
- Great time to buy, even without “fire sale” prices experienced in last crash:
  - *Interest rates low*
  - *Plenty of available debt*
  - *Improving economic horizon coinciding with low point in the market.*



Thank you for attending the  
***Market Forecast Breakfast***

A copy of today's presentation  
will be available for download

October 14, 2009

at

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