Urban Land Institute

2082 Business Center Drive
Suite 280
Irvine, CA 92612

OrangeCounty@uli.org
www.orangecounty.uli.org

Urban Land Institute
1025 Thomas Jefferson Street, NW
Suite 500 West
Washington, DC 20007-5201

ULI Orange County/Inland Empire

"TOP 10 TAKEAWAYS"

The Money Chase III – Feb. 16, 2012

1. When most people in our business look at deals, they see the real estate, but PIMCO sees a stream of risk-adjusted cash flows. They are "agnostic" about assets if they are cheap enough ("everything has a price").
2. More distressed assets have not hit the market from banks for several reasons:
   a. Government learned from RTC (selling failed banks to healthy banks with loss-sharing agreements vs. fire-selling of failed bank assets).
   b. Carry cost for sub/non-performing assets is very low due to extremely low interest rates (would be different if banks were paying 5% on deposits).
   c. Not much regulatory pressure for the first 18 months after the market turned (this has changed recently).
   d. Many smaller banks would be broke if they were forced to "mark-to-market" (not required if an asset is intended to be held to maturity vs. held for sale). But an actual sale forces the recognition of these losses in any case.
3. Where distressed deals have come to market, it is usually because "someone has had to write a check" (for TI's, LC's, CapEx, etc.) and neither borrower nor lender was willing to provide the additional funds necessary.
4. The flow of distressed assets is "a trickle not a flood" and such assets will come to market in a "very gradual process". Especially since regulators are benign. "Everything takes a really long time" - it can often take a year to complete the purchase of a distressed asset from an institution. Talk to banks right after the regulators leave as they may be more inclined to dispose of assets.
5. An ideal local partner/sponsor needs to have:
   a. "Skin in the game" that is a meaningful equity commitment from them (10% of total equity?) only a portion of which can be "syndicated" to friends and family.
   b. Local market knowledge and track record ("an inch wide and a mile deep").
6. Most US Banks today are stronger than their European counterparts however if a US Bank hasn't paid back TARP, they are probably in trouble.
7. Lenders generally agreed that sponsorship ("people") is critical in determining how the lender proceeds when there is a problem, though availability of cash to contribute helps too.
8. The GDP of Greece is only slightly larger than the GDP of Orange County…so, if the world were totally rational, a Greek default should not be that big an event for the global economy.
9. CMBS lending will fill the void in refinancing the tremendous amount of debt that is maturing over the coming years; the revival of this market is the key to more deal activity.
10. "Extend-and-Pretend" will continue to be the norm for cash-flow positive properties in a low interest rate environment as banks wait out price appreciation to avoid taking a loss