



NAIOP – New Mexico Where Are We In The Cycle?

Stephen J. Duffy
Albuquerque Marriott
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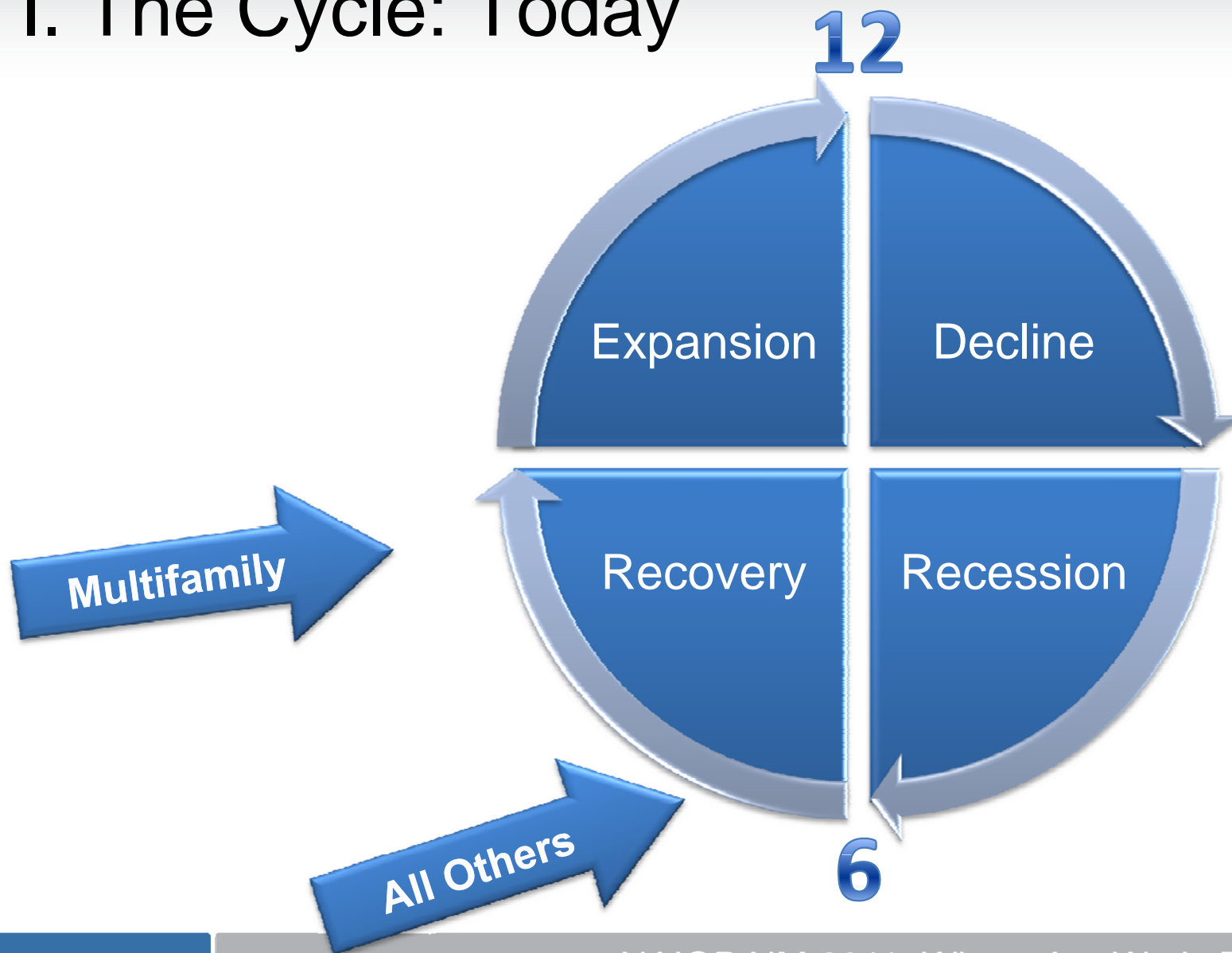
MOSS-ADAMS CAPITAL LLC

Agenda



- I. The Cycle: Today
- II. Flight to Core
- III. Product Type Snapshot
- IV. Underwriting Targets
- V. Equity and Debt Biases
- VI. The Local Sharpshooter
- VII. The Cycle: Your Exit

I. The Cycle: Today



I. The Cycle: Today

GDP

- Non-recessionary but 70%± consumer
- 1Q11: 1.8% vs. 2.6% annual rate in 4Q11
- Savings rate 8% vs. 2% in '07
- Personal consumption growth: 1.4% through '15

Unemployment

- 9.2% vs. 9.5% ('10)
- 6 more years to absorb 8.4 million lost jobs

Interest Rates

- 10 year T: 2.90's
- Fed Funds: 0.09

I. The Cycle: Today

Housing

- Previously Owned Homes For Sale: 3,770,000 vs. 3,650,000 (May)
- Months to Sell: 9.5 vs. 9.1 (May)
- Homeowners in Default: 6,350,000
- Homeowners in Foreclosure: 2,160,000
- Days to Foreclose: 580
- New Home Purchases: 320,000 annual pace vs. 323,000 in 2010 (record low)

II. Flight to Core

Core:	Locked in base revenues and low NOI volatility
Value Add:	CapEx drives revenue
Opportunistic:	Discounted purchase / low basis with high upside potential

II. Flight to Core

General Pension Fund Perspective

AT PEAK	GREAT RECESSION	Now
<ul style="list-style-type: none">• 10%+ Allocations to alternative investments<ul style="list-style-type: none">– Real Estate– Private Equity / Venture Capital• Opportunistic: low yield; low liquidity	<ul style="list-style-type: none">• Equities crash• Interest rates dive• Alternative investments are hammered• Deep layoffs• Pension liquidity requirements increase	<ul style="list-style-type: none">• Focus on safety and yield• Shift towards core real estate<ul style="list-style-type: none">– Core Requests: 1Q09: 1.8 bn vs 1Q11: 10 bn

III. Product Type Snapshot

Industrial

- Fighting through oversupply
- Asset size is everything (shortages in big boxes versus smaller asset oversupply)
- Investment flight to quality

Office

- Fundamentals remain sluggish due to lagging job growth
- Demand for trophy acquisitions remains strong, led by REITs

III. Product Type Snapshot

Healthcare

- Positive; weathered the Great Recession
- REITs growing assets
- Supply increase half of peak
- MOB's outperforming professional office



III. Product Type Snapshot

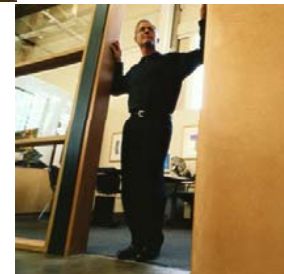
Multifamily

- Two major demand strengths: operating fundamentals and institutional investors



Retail

- Strengthening occupancy and rents
- Low transaction volume; investment flight to quality



III. Product Type Snapshot

Lodging

- Rapid growth in operating fundamentals
- Fifth straight quarter of occupancy growth
- Prior NOI peak reached in 2013
- Stable cap rates now (after compression)

Gaming

- Freefall from '09 peak
- Massive distress and default rates
- Tribal sovereign status reaffirmed in courts; big challenge for lenders

III. Product Type Snapshot

CRE Debt

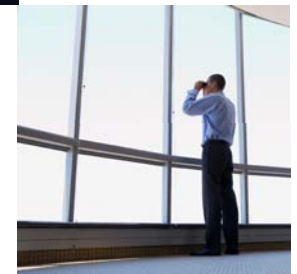
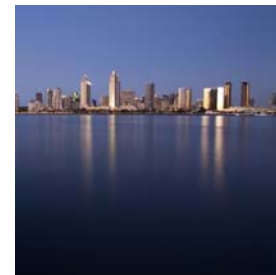
- Wall of maturities: \$1.7 tn through '15
- \$150 bn troubled loans; \$5 to \$6 bn per month defaulting
- “Pretend and extend” starting to wear thin.
- Growing view of a new phase of distressed supply coming to market (finally).



III. Product Type Snapshot

CMBS

- '11 issuance forecast at \$40 bn vs. \$240 bn at peak
- Search for yield is the market driver
- Fewer loans, full asset due diligence, buyers in governance
- \$62.4 bn delinquent vs. \$2.8 bn in '07 (28x)



IV. Underwriting Targets

Revenue Assumptions

- It's demand, demand, demand!
- Most scrutinized line items
- Nail the support (actuals, comps, market studies).

Cap Rates

- What's your interest rate forecast for 3, 5, 10 years?
- Cap rates will float up, obviously!
- Returns must come from low basis acquisition and operating cash flow (not cap rate compression).

V. Equity and Debt Biases

Equity

- Focus near term on “in-market” investors.
- Shift / weight promotes to higher performance hurdles to reduce investor risk.
- Underwrite asset investments to 250 – 300+ spreads over primary markets

	Core	Value Add	Opportunistic
Primary	8	12	18
Non-Primary	11 / 12+	14 / 15+	20+

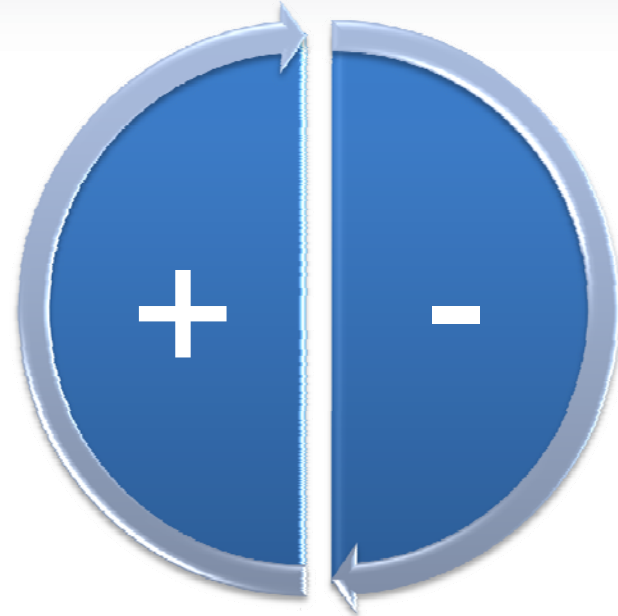
Debt

- Borrow max on coverage with a bias to fix soon.

VI. Local Sharpshooters

- Clear investment strategy
- Strong track record
- Integrated skills and strong team
- Cash for co-invest
- Exceptional deal sourcing capability
- Local / regional bank support

VII. The Cycle: Your Exit



- How long until the peak?
- When is your exit?
- What is your plan?
 - Cash to invest
 - Guaranties
 - Leverage
 - Hold periods
 - Going concern versus entity sale

Stephen J. Duffy

Steve is the leader of the real estate consulting and investment banking business in Moss Adams Capital LLC (“MAC”). Moss Adams Capital LLC is the investment banking affiliate of Moss Adams LLP.

Steve has over 28 years of real estate consulting and capital markets experience. He has been a partner at both Kenneth Leventhal & Company and Ernst & Young LLP. In addition, Steve has operating executive experience as a chief operating officer, principal and managing principal in the multifamily industry and the institutional real estate private equity sector.

Steve has worked with a wide variety of the leading private and public real estate operating companies across product types, the capital stack (equity investors and lenders) and domestic and international markets. He has significant experience in restructuring, capital markets and strategic planning and he has been involved in numerous capital transactions as well as mergers and acquisitions within the industry over a number of real estate cycles. He has spoken on these topics in a variety of industry forums over his career.

Steve is a full member of the Urban Land Institute and the National Multi Housing Council. He is an advisory board member for the USC Lusk, Marshall School of Business Center for Real Estate as well as for the UCI, Paul Merage School of Business Center for Real Estate. He has a B.S. in Economics as well as an MBA from Fordham University.

Contact Us

Stephen J. Duffy, Managing Director
Moss Adams Capital LLC
2030 Main Street Suite 1400
Irvine, California 92614
(949) 623-4178
steve.duffy@mossadams.com

Richard Gabaldon, Partner
Moss Adams LLP
6100 Uptown Blvd. NE Suite 400
Albuquerque, NM 87110
(505) 878-7242
richard.gabaldon@mossadams.com

Brandon Valentini, Partner
Moss Adams LLP
6100 Uptown Blvd. NE Suite 400
Albuquerque, NM 87110
(505) 837-7616
brandon.valentini@mossadams.com