



Hawaii Developers' Council Real Estate Capital Markets

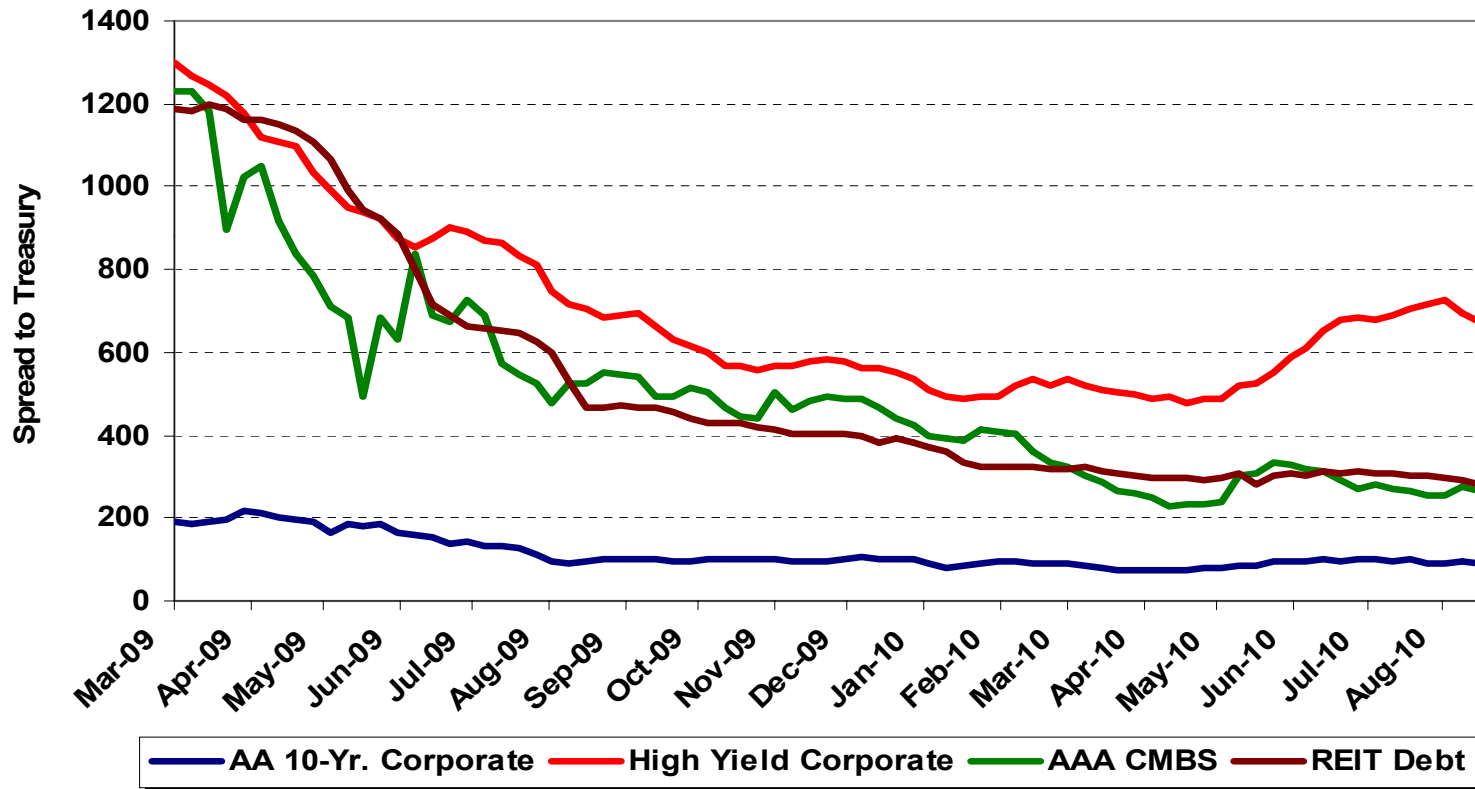
September 8, 2010



State of the Debt Markets

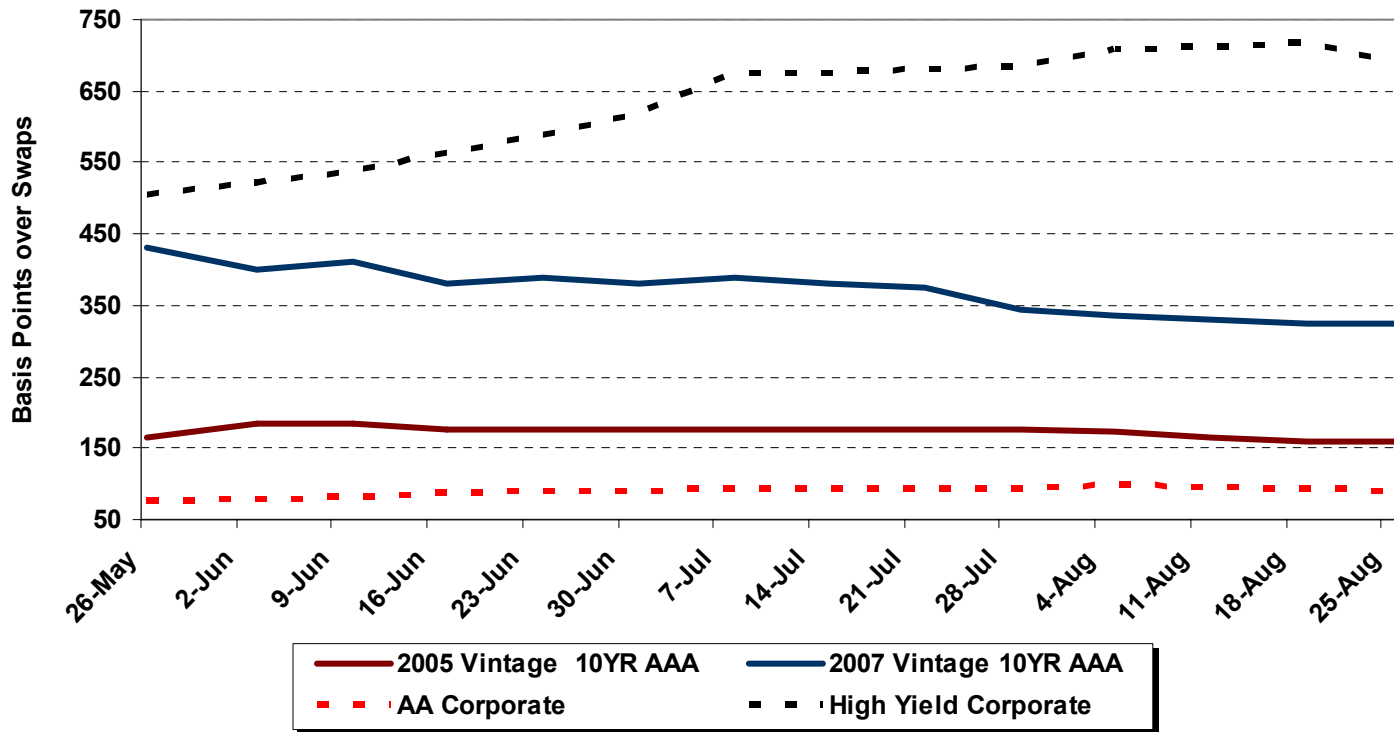
- ◆ Europe challenges are our friend (for now...)
- ◆ Liquidity and lack of yield have pushed spreads tighter in every asset class.
- ◆ CMBS has re-emerged and is positioned to grow, although volatility over the past few weeks has slowed demand.
- ◆ Multiple lenders are aggressively quoting deals with 5 year quotes in “low 4’s” and 7 year quotes in “high 4’s” for quality 55-60% LTV deals.

Fixed Income Spreads Were Tightening Until Mid-May 2010



Source: Bloomberg

2005 & 2007 Vintage CMBS Spreads over last 90 Days



Source: Wells Fargo Securities & Bloomberg

Current Loan Pricing – Class A Office; 85% + Leased; Top 15 Markets

Fixed Rates

CREDIT SPREADS to TREASURY

LTV:	<u>55.0%</u>	<u>65.0%</u>	<u>70.0%</u>	<u>75.0%</u>
5 Year Fixed	2.45%	2.80%	3.05%	3.80%
10 Year Fixed	1.90%	2.30%	2.65%	3.65%

COUPONS

LTV:	<u>55.0%</u>	<u>65.0%</u>	<u>70.0%</u>	<u>75.0%</u>
5 Year Fixed	3.85%	4.25%	4.50%	5.25%
10 Year Fixed	4.50%	4.90%	5.25%	6.25%

Floating Rates

CREDIT SPREADS AND COUPONS

	<u>55.0%</u>	<u>65.0%</u>	<u>70.0%</u>	<u>75.0%</u>
5 Year Floating	2.10%	2.35%	3.00%	4.00%
Current Rate	2.35%	2.60%	3.25%	4.25%

Treasury/Swaps: 5 year at 1.42%/1.65%; 10 year at 2.60%/2.63%, 1 Mo. LIBOR at 0.25% (September 1, 2010)

Lenders that are Actively Quoting Deals

AIG	Buchanan	Eurohypo	Mesa West	PNC Bank
Archon	Calyon	Goldman Sachs	MetLife	Principal
Apollo	Cal Bank & Trust	Guardian Life	Morgan Stanley	Prudential
Allianz	Capital One	Helaba	Nord LB	Quadrant
Aviva	Capital Source	HSBC	Northwestern Mutual	Sovereign Bank
AXA Equitable	CBREI	ICBC	NY Community Bank	Starwood REIT
Bank of America	Citigroup	John Hancock	NY Life	TD Banknorth
Bank of China	Cornerstone	JP Morgan Chase	NYSTRS	TIAA-CREF
Barclays	DekaBank	Ladder Capital	Pacific Life	West Immo
Beal Bank	Deutsche Bank	M&T Bank	PB Capital	Wells Fargo

Current Financing Market Takeaways

- ◆ Balance sheet lender activity is growing
- ◆ The market for conduit style refinance and acquisition loans is growing.
- ◆ Rates are at levels we never expected to see again.
- ◆ The CMBS market is moving away from agented deals to principal deals.
- ◆ Volatility associated with Sovereign debt concerns is the biggest challenge.

Current Financing Market Takeaways - 2

- ◆ Surprisingly most lenders are removing floors on rate
- ◆ Starting to see more interest in quoting forward rates on fixed debt – 5bps/month for 9 – 12 months
- ◆ Flight to Quality, as leverage declines and spreads widen on lower quality, tertiary market assets
- ◆ Construction Financing still very challenging



State of the Equity Markets

Current Themes in the Equity Capital Markets

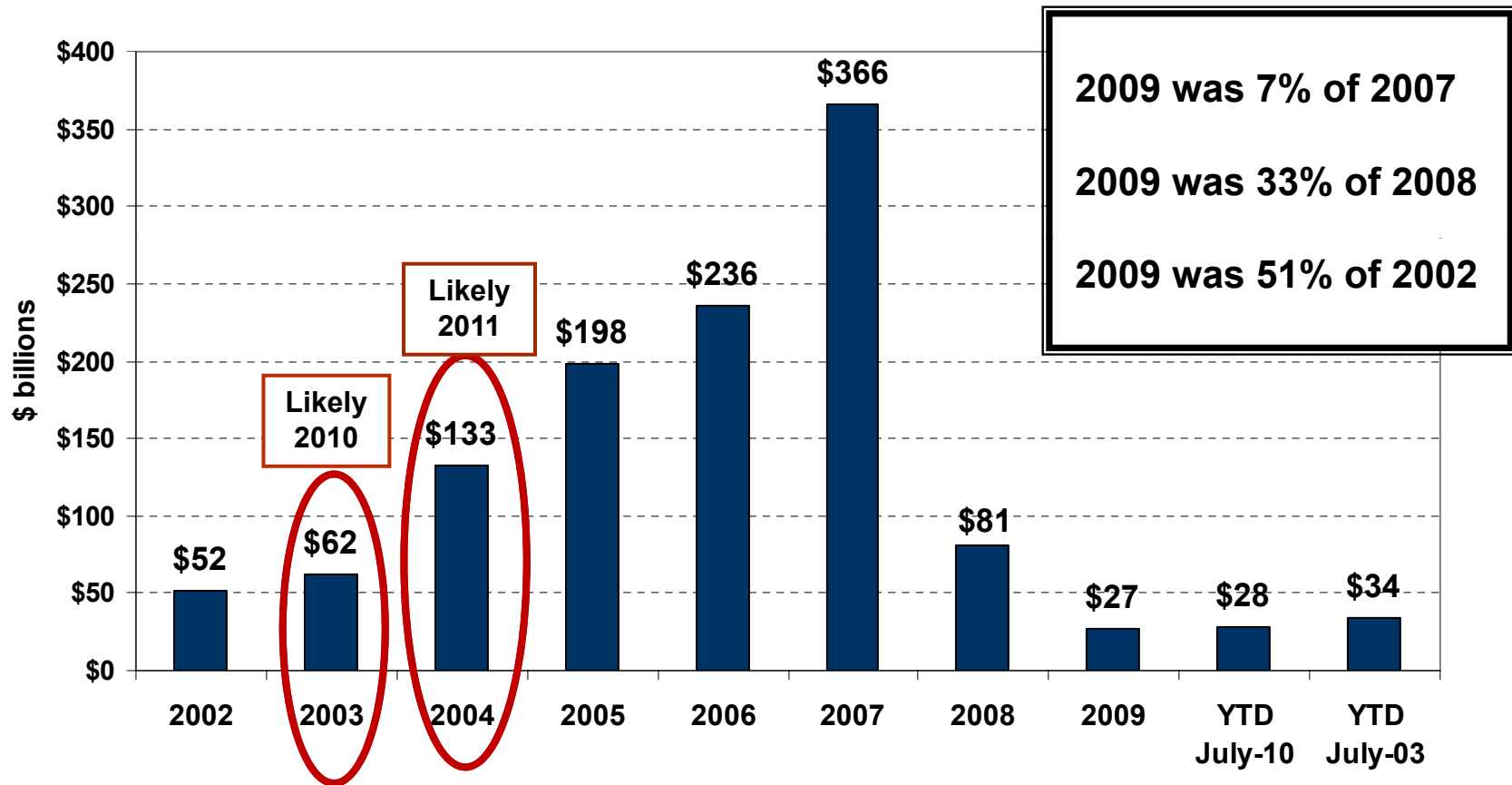
August 2010

- ◆ Trophy or Trauma is still primary theme.
- ◆ Activity began to increase in Summer 2009 & has doubled in the past 8 months, but still not a “flood”.
- ◆ Public markets continue to drive capital to our market, although over the summer volatility has caused concern.
- ◆ Pricing has increased by 10%-15% from the bottom with cap rates tightening 100-150 bps for yield profile deals – but still down 20%-35% from the peak values.
- ◆ Sellers drawn back to the market as liquidity has increased.
- ◆ Availability of cheap debt has assisted in engineering more attractive pricing.
- ◆ Lack of return in other asset classes is a primary driver right now.

Supply of Deals

U.S. Sales Volume

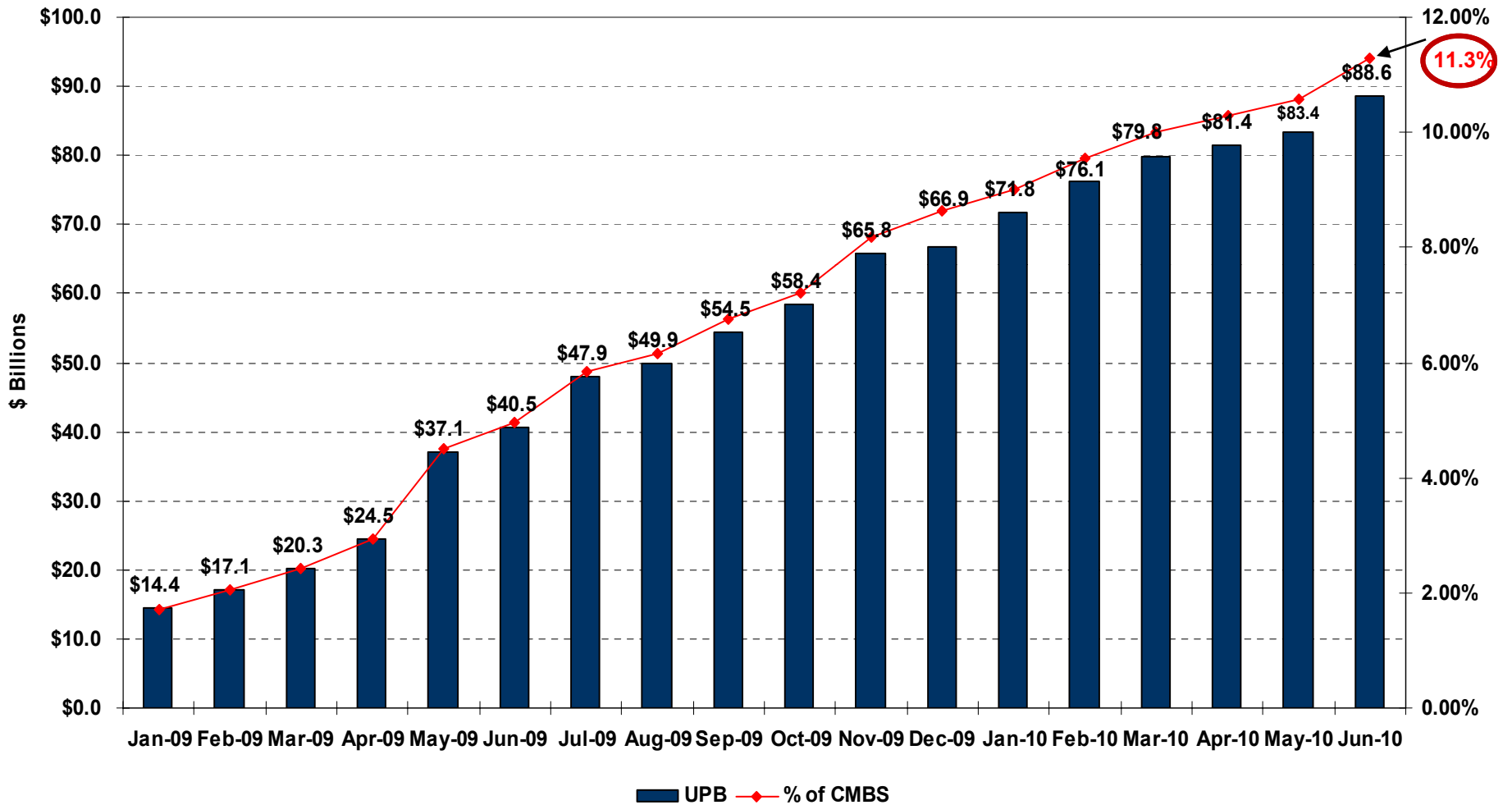
January - December >\$25 Million Deal Size



Source: Real Capital Analytics

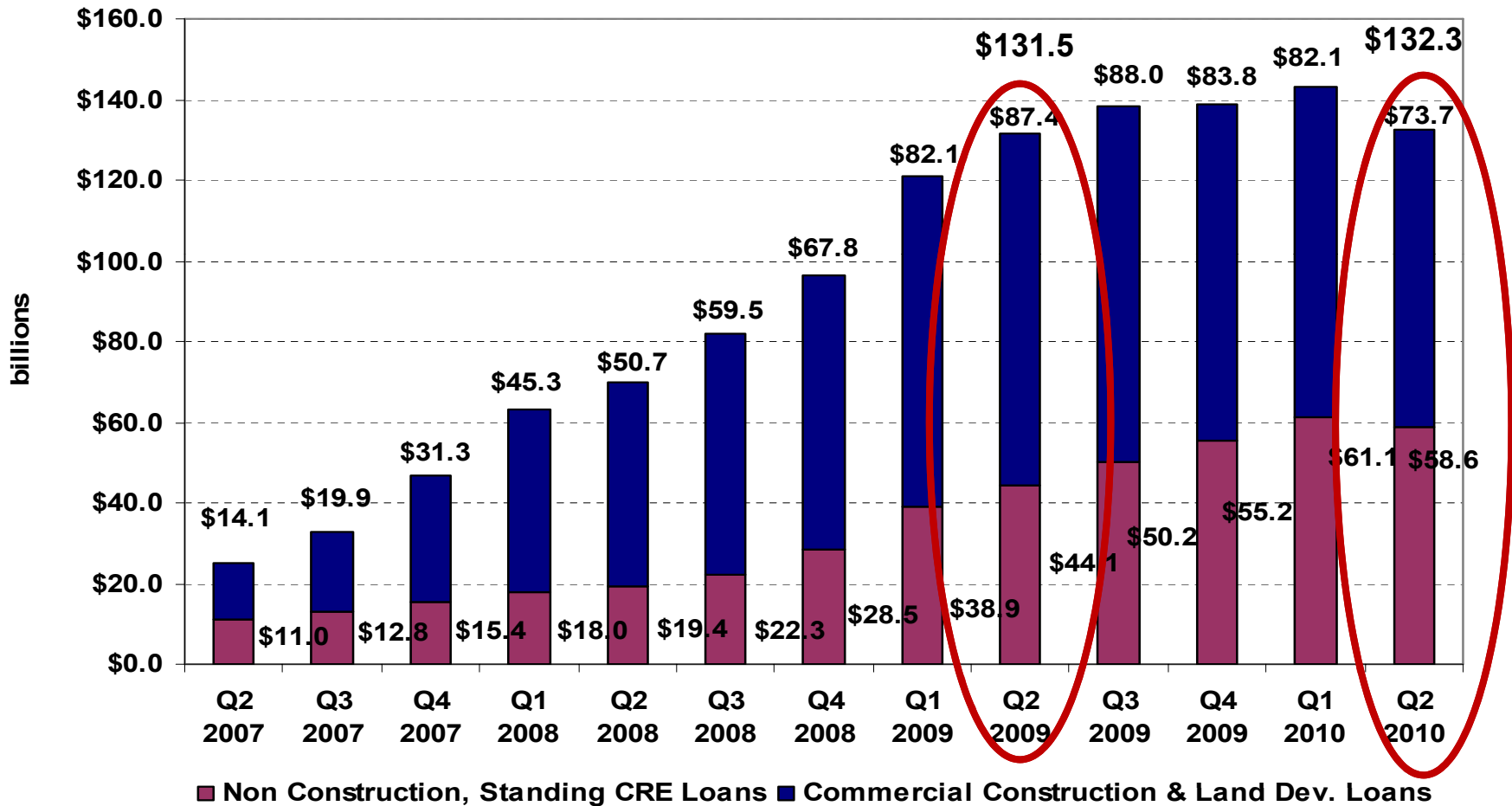
Future Supply

Loans in Special Servicing as % of CMBS Outstanding



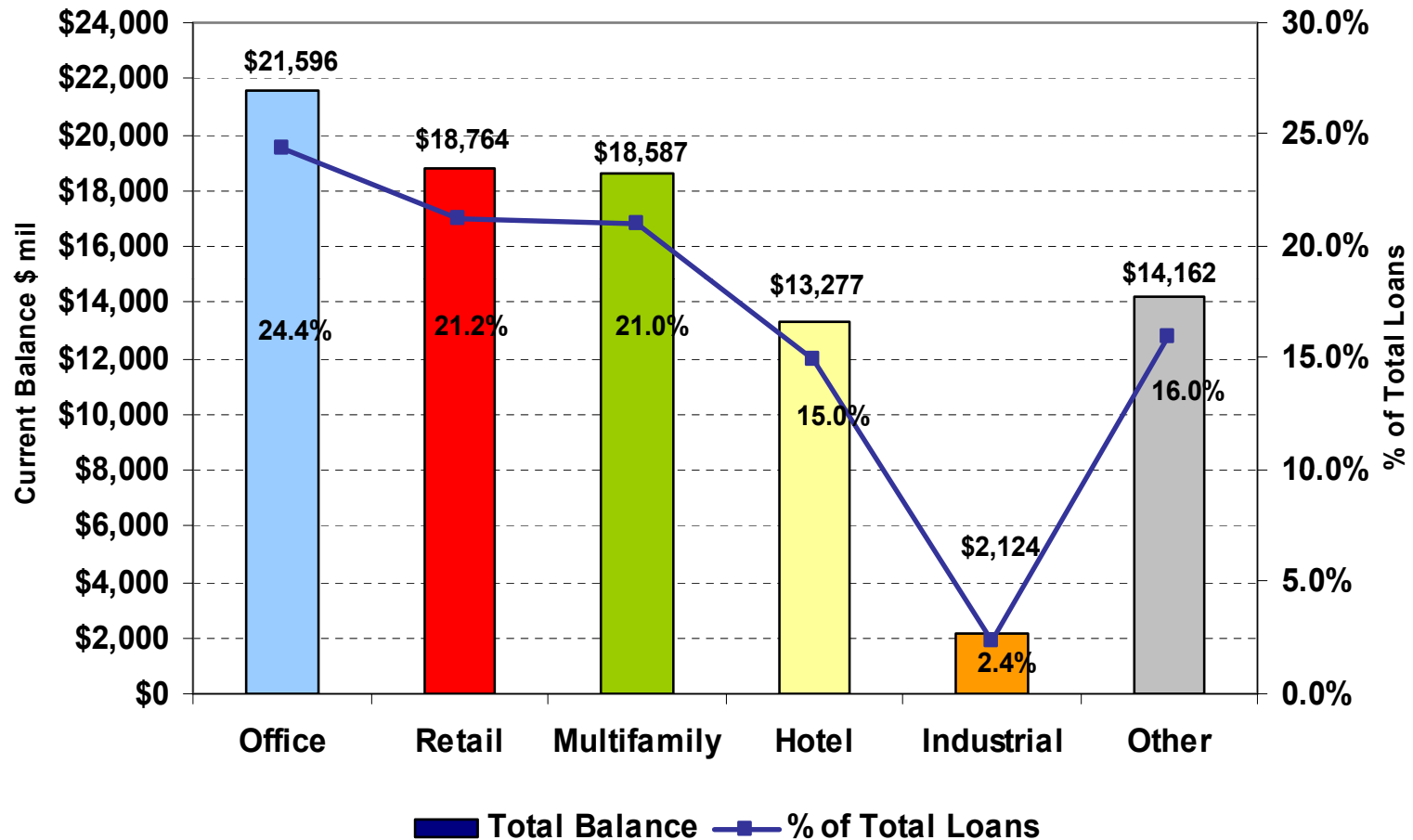
Source: Realpoint

Future Supply Commercial Banks & S&Ls 30+ Days Past Due & Nonaccrual Commercial, Construction & Land Development Loans



Source: FDIC – Insured Institutions

Loans in Special Servicing by Property Type As of July 2010 - Total: \$88.5 Billion



Source: Realpoint



Sellers

Commercial Banks & Life Companies

◆ Weaker Regional Banks

- Unlikely sellers due to capital constraints
- FDIC seizures likely to peak over next 12 months

◆ Larger Banks

- Should be close to fully reserved by mid 2011
- Sales of REO, Loans, Mezzanine will increase in late 2010
- Becoming more aggressive with borrowers to force recaps or sales given market liquidity

Special Servicers – Fixed Rate

- ◆ Increased selling of loans and properties < \$20mm
 - Selectively looking at portfolio sales
- ◆ Willingness to restructure and extend larger loans
 - “ABC” structure for cash flowing assets
- ◆ Likely to trigger a significant number of recapitalization opportunities
- ◆ May not trigger as much institutional sale opportunities
 - Typically smaller (<\$20MM) in size

FDIC

- ◆ Market seller focused on structured transactions
- ◆ Requires large asset management platforms
 - ◇ Managing numerous Investors/Managers has become a recent challenge
- ◆ Pilot programs for Securitization are underway
- ◆ Difficult for smaller investors to acquire real estate loans

Commingled Funds

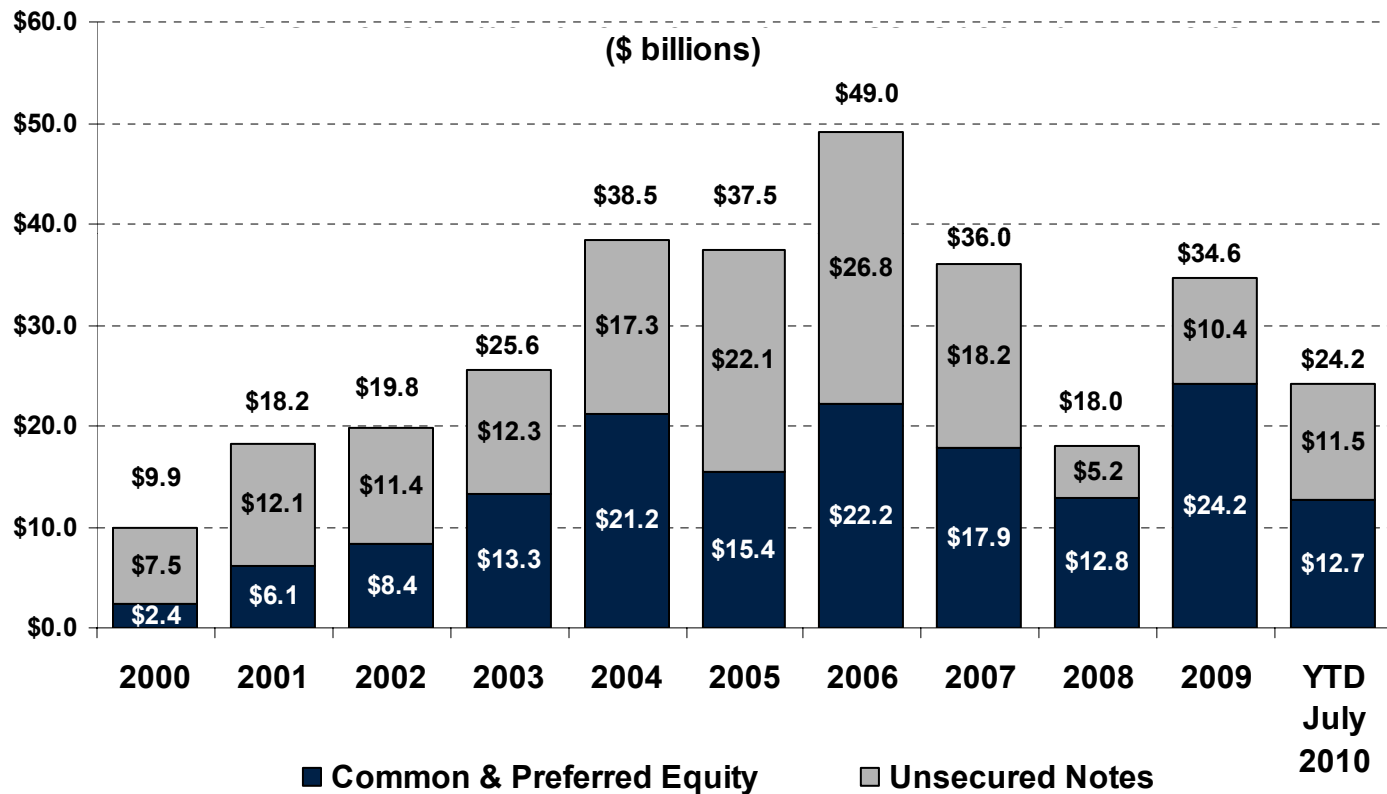
- ◆ Primarily driven by
 - a. Fund Life
 - b. Redemptions
 - c. Leverage
 - d. 2009 Write Downs
- ◆ Debt Funds selling Mezzanine & B Notes
- ◆ Certain funds are taking advantage of “scarcity of product” to sell while rates are low.



Public Markets

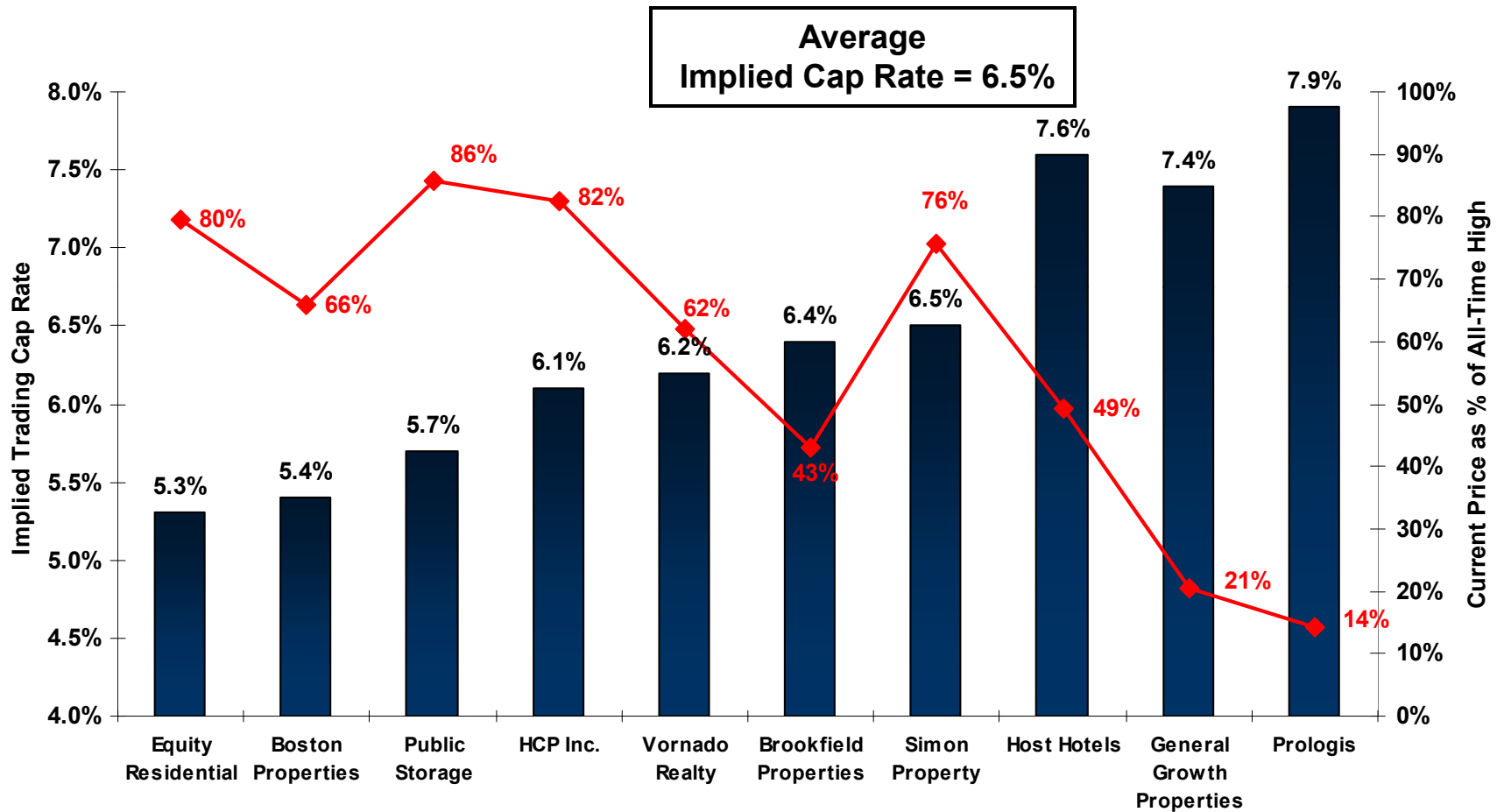
Historical REIT Issuance - Common Equity and Unsecured Notes

- ◆ 2010 is poised to be an active year for REIT IPOs – currently 19 real estate companies have filed IPOs, seeking to raise \$6.3 billion in proceeds.



Source: NAREIT, Data as of 7/31/2010.

Top 10 REITs based on Total Market Capitalization



Source: Green Street, SNL Financial
As of August 13, 2010

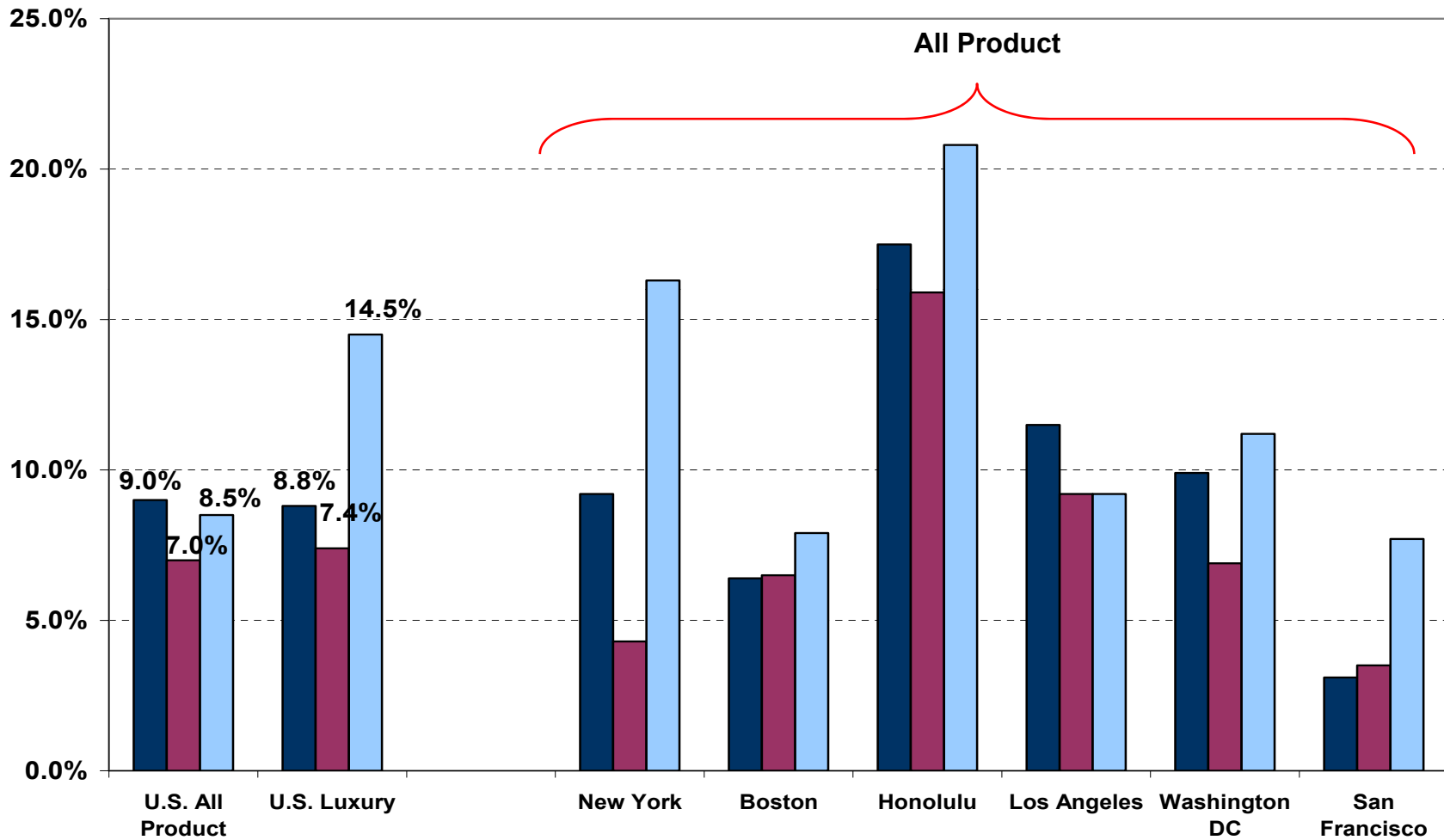


Fundamentals

Fundamentals – Real Estate

- ◆ Improving Hospitality with significant rebound in REVPAR
- ◆ Leasing velocity still weak with continued pressure on lease rates
- ◆ Retail sales starting to recover over summer; although consumer confidence is fragile
- ◆ Glut of housing stock has muted recovery in MF
- ◆ Low interest rates have supported real estate values

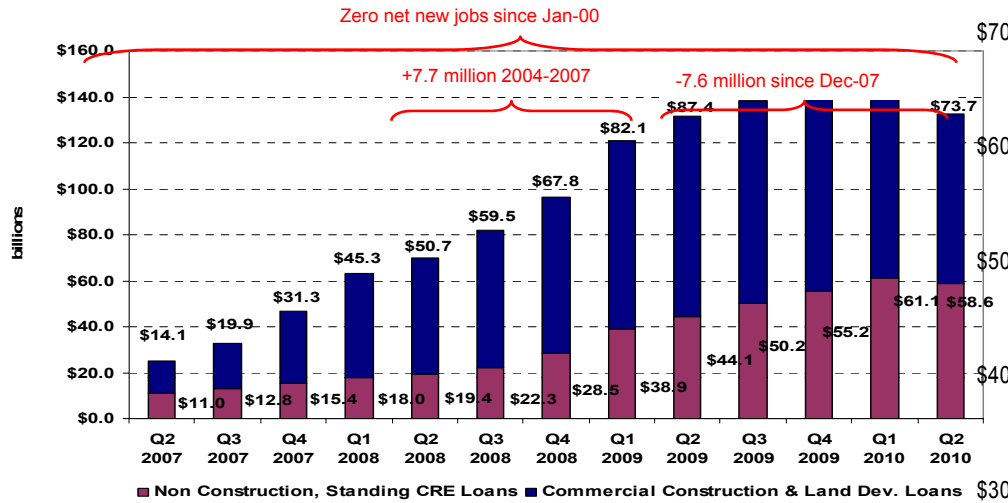
Hotel Performance July 2010 vs. July 2009



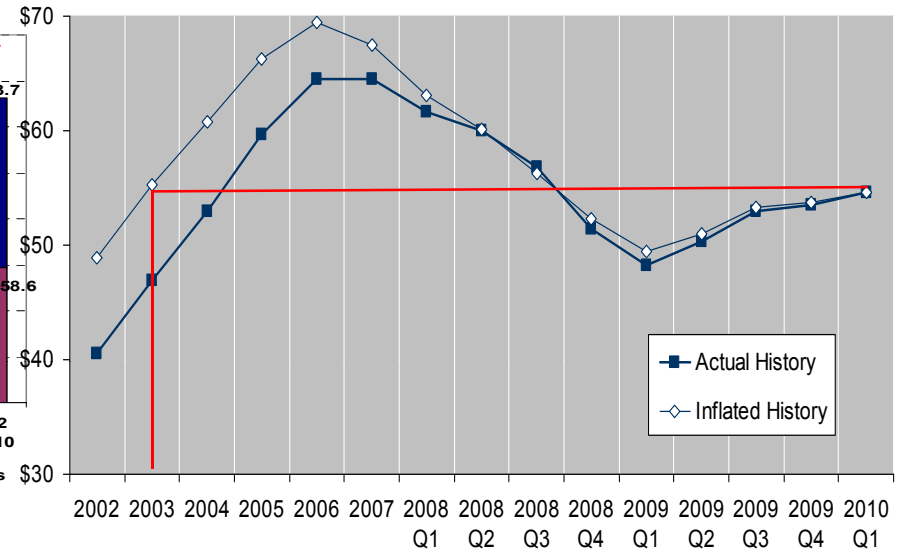
Source: STR

■ Demand ■ Occupancy ■ RevPAR

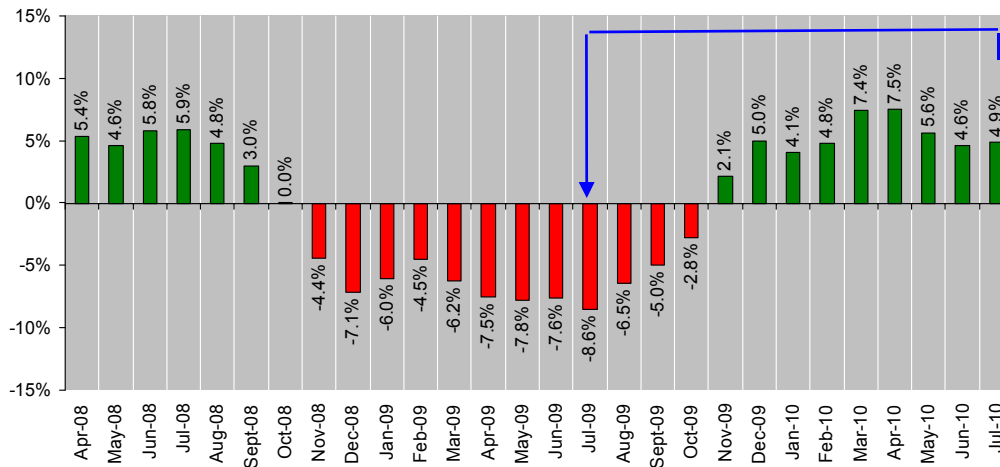
Monthly Change in Nonfarm Payroll Employment (000's)



Net Worth (\$ in trillions)

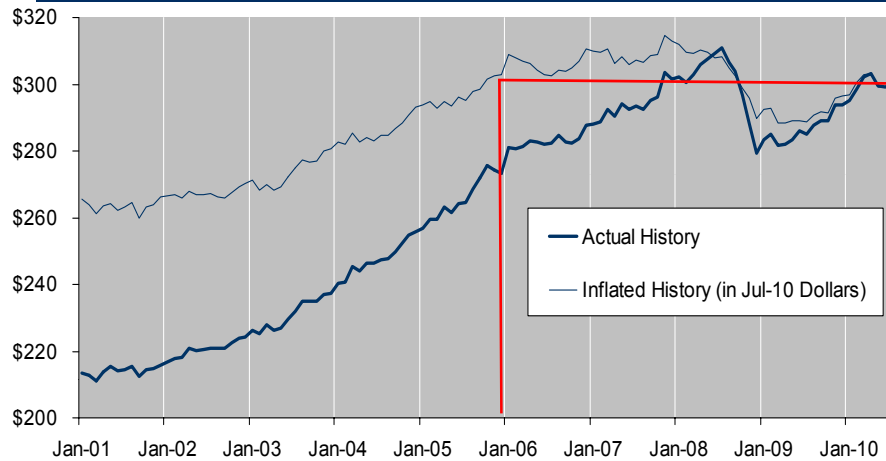


Retail Sales Growth - Monthly (Excl. Auto)

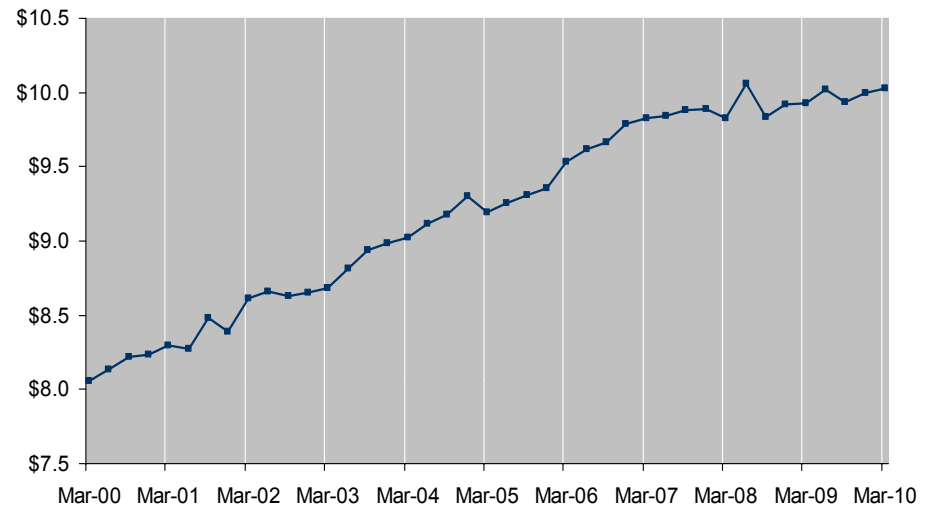


- Total Employment unchanged for over a decade
- Net worth back to 2003 levels
- Yet sales growth has clearly come off the bottom
- In fact, it's back to 2006 levels!

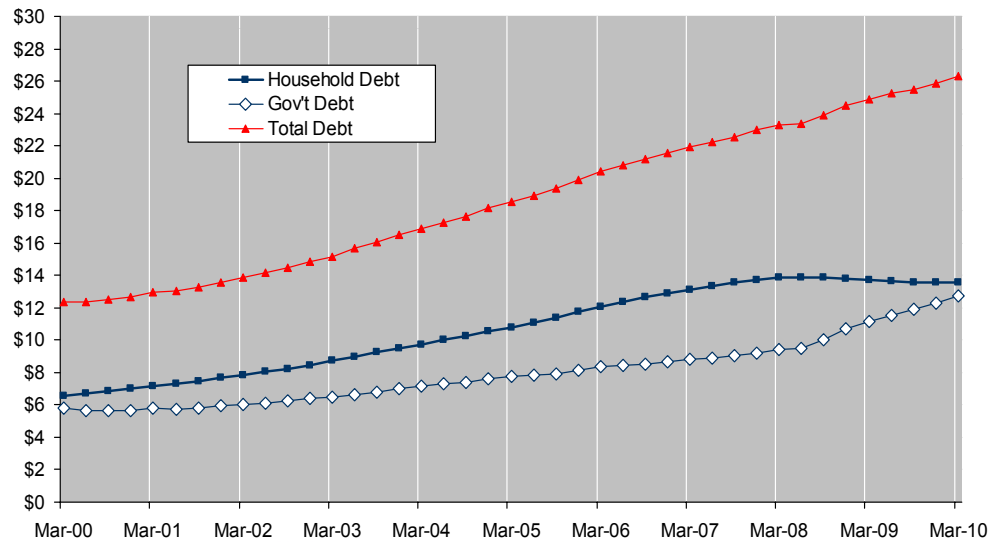
Monthly Retail Sales (Excl. Auto, in \$ billions)



Household Disposable Income (\$ trillions)



Debt Outstanding (\$ trillions)

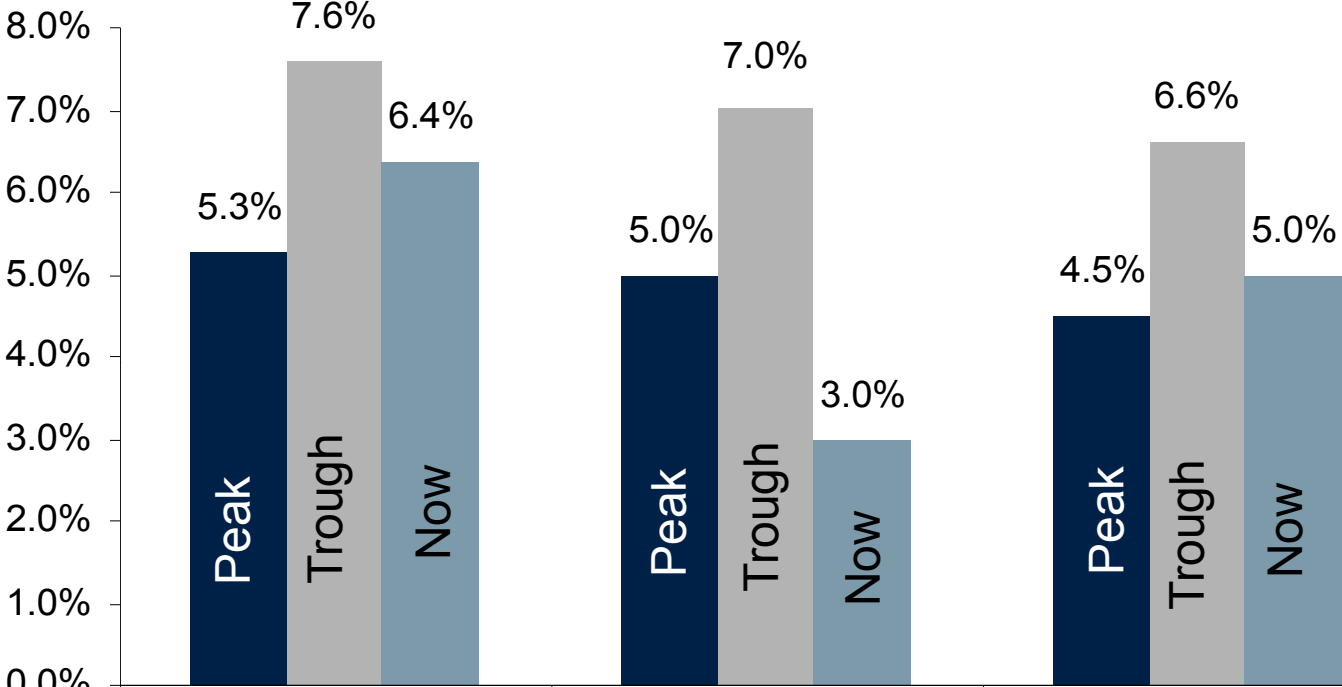


- So, how is it that consumption can be at '06 levels and disposable income can actually be at an all-time high?
- The answer lies in the incredible expansion in the public debt, which dwarfs the amount of household debt reduction.



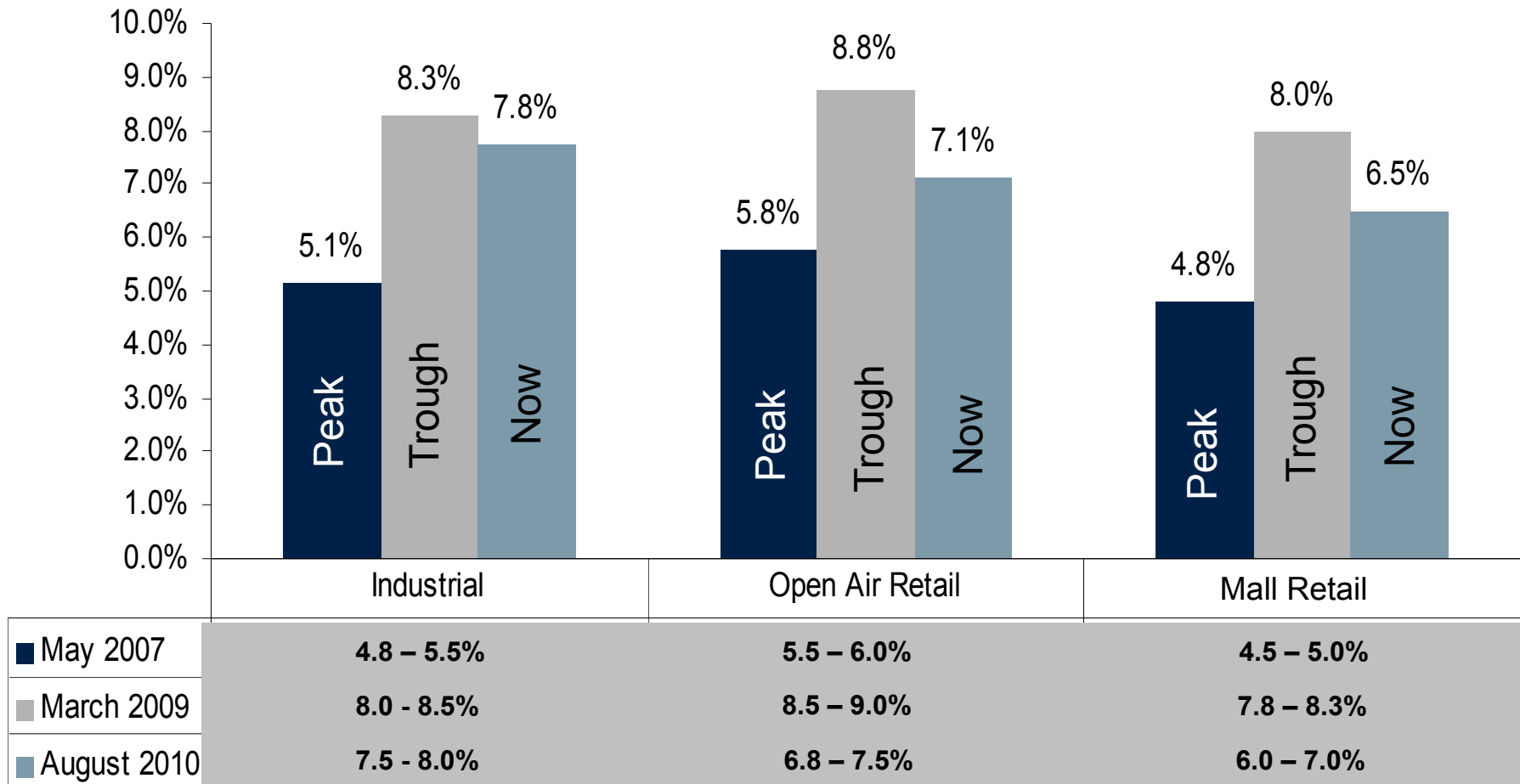
Pricing

Gateway Market Pricing (Initial Yield)



	Office	Hotel	Multifamily
■ May 2007	5.0 - 5.5%	4.0 - 6.0%	4.0 - 4.8%
■ March 2009	7.1 - 8.1%	6.0 - 8.0%	6.3 - 7.0%
■ August 2010	5.8 - 7.0%	0.0 - 6.0%	4.8 - 5.3%

Gateway Market Pricing (Initial Yield)



Conclusions

- ◆ 2010 & 2011 = peak defaults leading to increased sales activity
- ◆ Tone in the debt market has been very positive in the last 4 months – tempered only by Europe challenges.
- ◆ Fundamentals are still flat to declining, but investors anticipate a recovery over the next 12-24 months and looking to buy now.
- ◆ Trophy investors focused on cash yield/ IRR .
- ◆ Trauma investors focused on basis and stabilized return on cost.
- ◆ Lack of quality assets on the market is leading to “**scarcity of premium**” in some markets.
- ◆ Equity Sales transaction volume expected to reach 2003 levels, as activity accelerates during the second half of 2010.