Wall Street and Commercial Real Estate

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Bank of America

Goals of Presentation

- Sub-Prime News
- CMBS / CDO / REIT Industries
- Size / Impact of Capital Markets
- Deal Structure – CMBS Example
- Capital Market Yields
- Rating Agencies / Risk Rating Trends
- Real Estate Trends
- Capitalization Rate — Interest Rate Lag
- What's New? What's Next?

What is a CMBS?

Commercial Mortgage Backed Security

- Type of pass-through security
- Commercial Mortgages are securitized into a pool. Rights to the revenue from the mortgages are divided into many smaller pieces (tranches, strips, slices), each with differing priorities. Proceeds are distributed to investors based on the priority of their tranche.
- During the last few years, has accounted for slightly less than 40% of all commercial real estate lending.

What is a CDO?

Collateralized Debt Obligation

- Type of pass-through security
- CDOs are securitized debt pools, similar to CMBS, but debts can be CMBS/CDO paper, car/boat/plane loans, credit cards, or virtually any type of debt obligation. Rights to the revenue from the obligations are divided into many smaller pieces (tranches, strips, slices), each with differing priorities. Proceeds are distributed to investors based on the priority of their tranche.
- Tough to gauge accurately, but most experts believe these have accounted for 5-10% of all commercial real estate lending the past few years.

What is REIT?

Real Estate Investment Trust

- Type of Pass-through Security
- Effectively a corporation
- 95% of income passed through to shareholders. No "corporate" tax. All earnings single-taxed at shareholder level.
- Current "Industry" Issues:
  Definition of Assets, Max Debt Load, Yield

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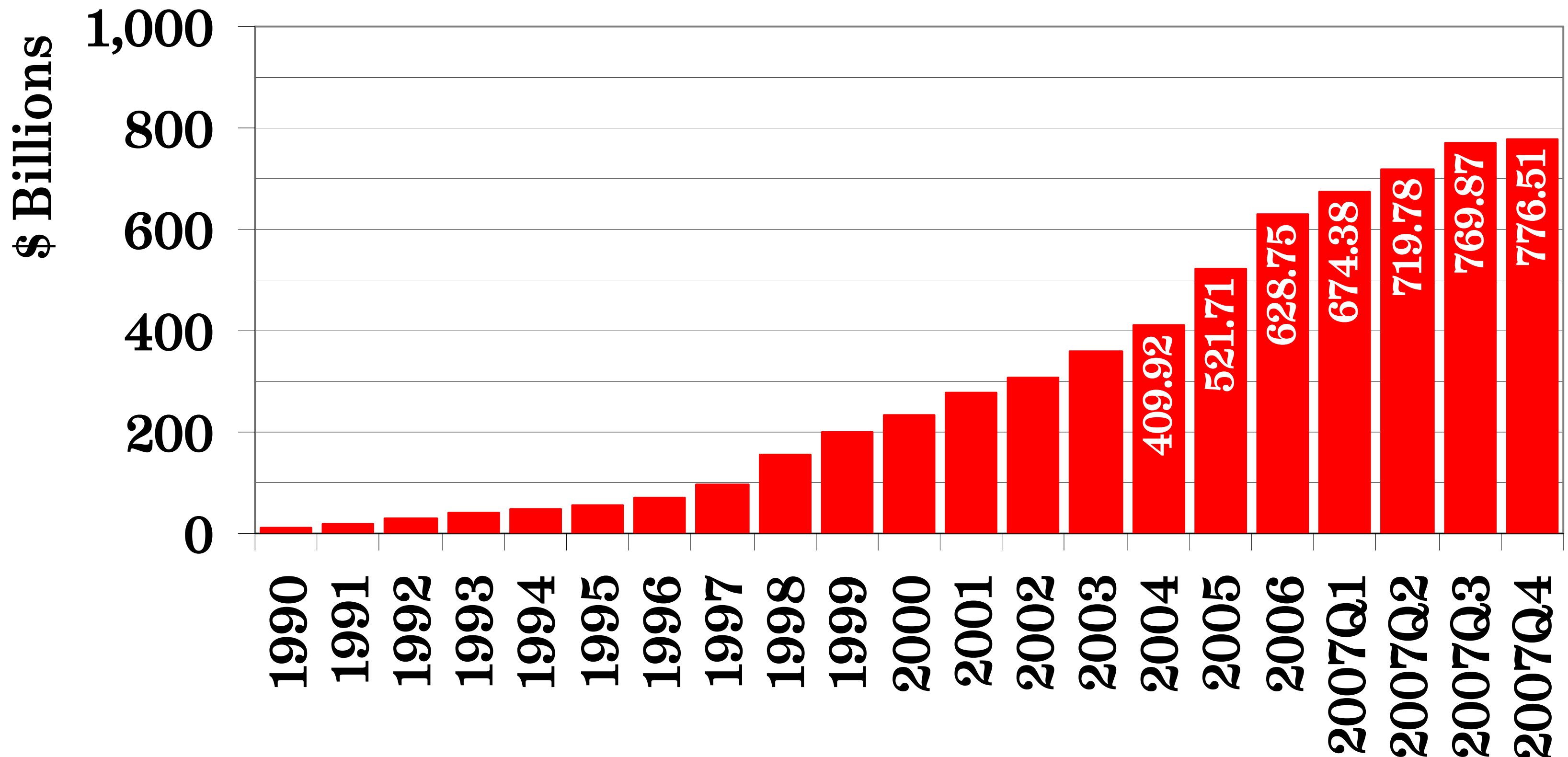
CMBS Outstandings in U.S.



Source: Federal Reserve, Flow of Funds, Z1-L.126-NSA, BAC - Real Estate Research

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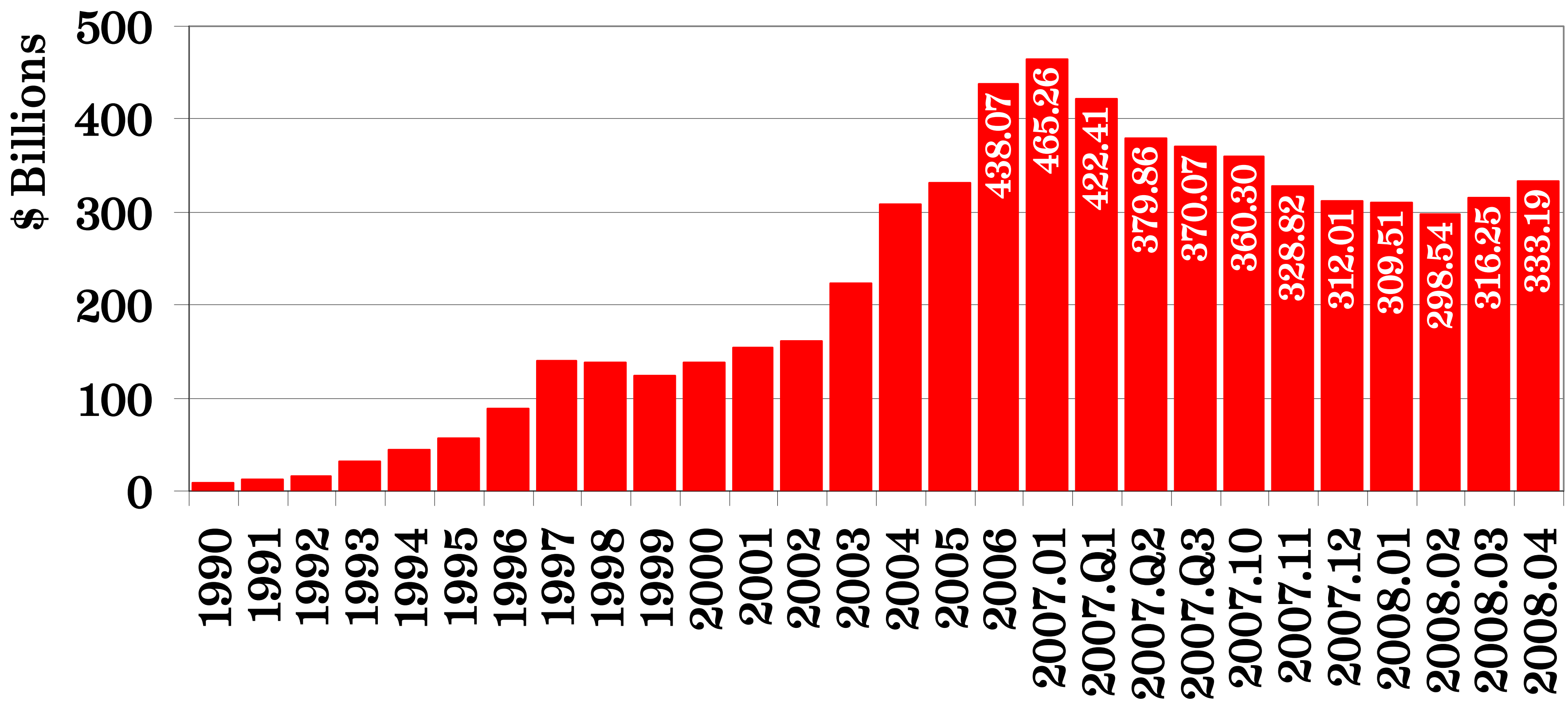
REIT Market Capitalization



Source: NAREIT, Bank of America Real Estate Research

Note: Includes Equity, Debt and Hybrid REITS

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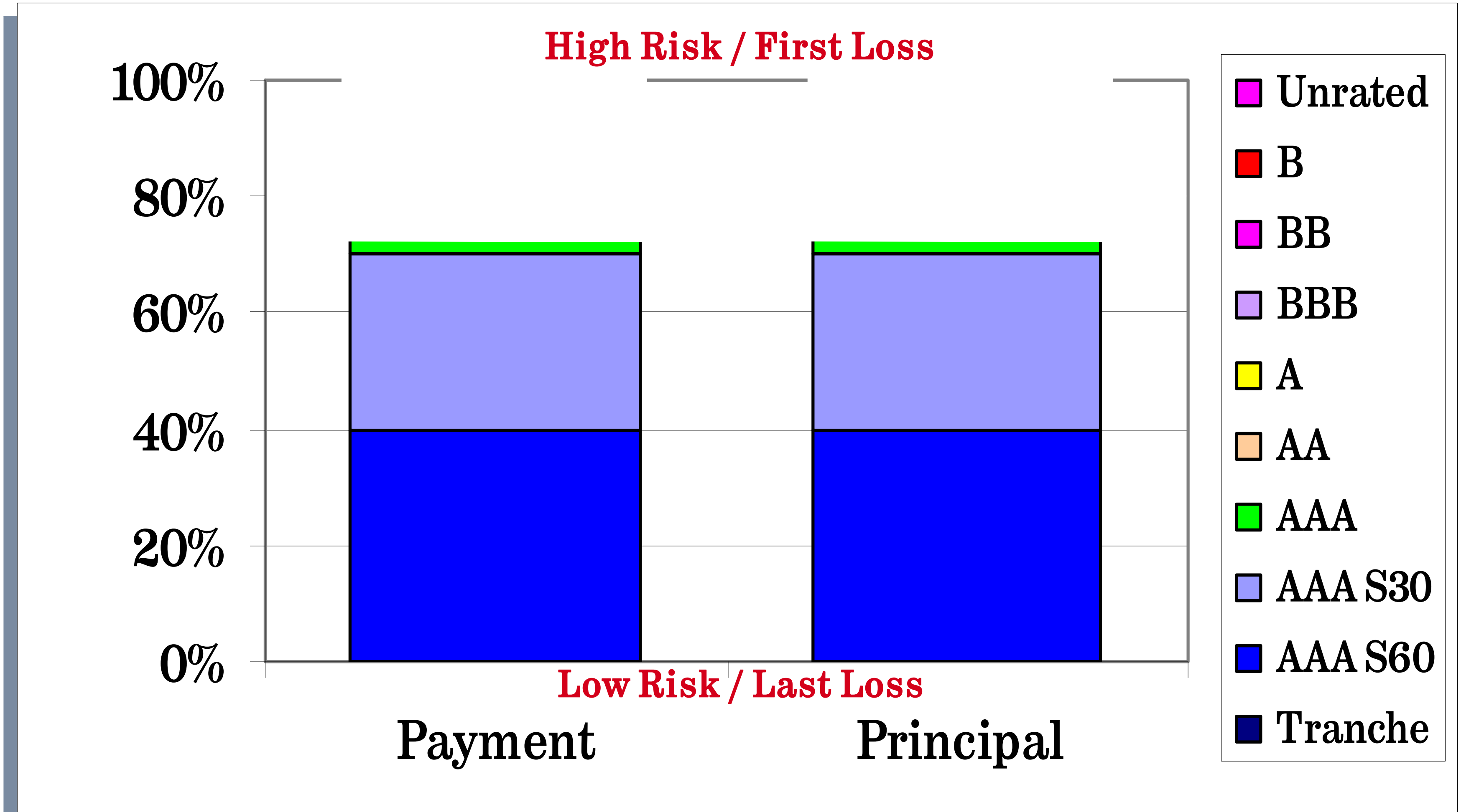
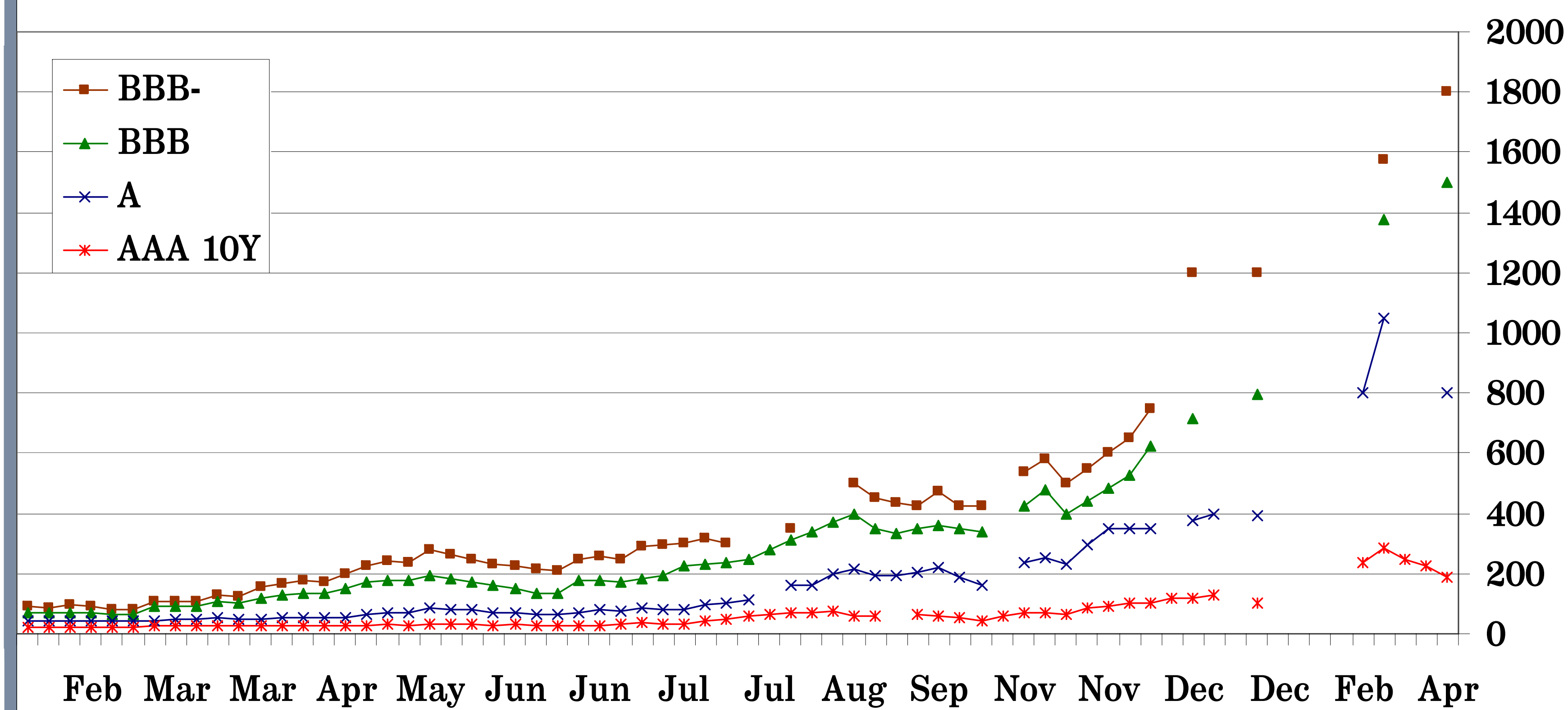
Example of a “Typical” CMBS

		No. Loans	250		
		Avg. Loan Size	$10,000,000		
		Total Loan Amt.	$2,500,000,000		
		Index Name	10-Year Treasury		
		Index Rate	5.000%		
		Avg. Margin	1.750%		
		Avg Yield	6.750%		
2007.01	2008.01	Tranche	Approximate	2007.01	2008.01
0.0020	0.0200	AAA S60	60.0%	5.200%	7.000%
0.0025	0.0210	AAA S30	30.0%	5.250%	7.100%
0.0030	0.0220	AAA	12.5%	5.300%	7.200%
0.0040	0.0450	AA	9.0%	5.400%	9.500%
0.0100	0.0700	A	8.0%	6.000%	12.000%
0.0175	0.1315	BBB	5.0%	6.750%	18.150%
0.0250	0.1450	BB	4.0%	7.500%	19.500%
0.0400	0.1600	B	2.5%	9.000%	21.000%
0.0500	0.2000	Unrated	0 to <2.5%	10.000%	25.000%
			Weighted Average Yield	5.494%	8.322%
		Implied Annual Excess Return		0.256%	-2.572%
Note: Assumes 1% swap, agency, trust, servicer and other fees.				$6,400,000	-$64,300,000

Subordination Graph



CMBS Yield Spreads (Spread to Swap)



Source: CM Alert, Bank of America - Real Estate Research.
Note: X-axis not to scale. Spreads are "over swaps" for 10-year Treasuries.

CMBS Spreads —Yield Rate Implications

Tranche	Rise in Yield	Weight	Debt v Equity	Total Weight	Impact
AAA	180	90%	75%	67.50%	121.50
A	600	4%	75%	3.00%	18.00
BBB	1200	3%	75%	2.25%	27.00
BBB-	1400	2%	75%	1.50%	21.00
Unrated	1750	1%	75%	0.75%	13.13
Class A Prop.	1750	100%	25%	25.00%	437.50
Note: Class A assumed to have no "unrated" traunche				Total	646.00
Class B- Prop.	2250	100%	25%	25.00%	562.50
Note: Class B- assumed 250 bps above "unrated"				Total	763.13

Note: Market for < BBB paper is gone! Pricing is uncertain!
Higher subordination = even greater impact.

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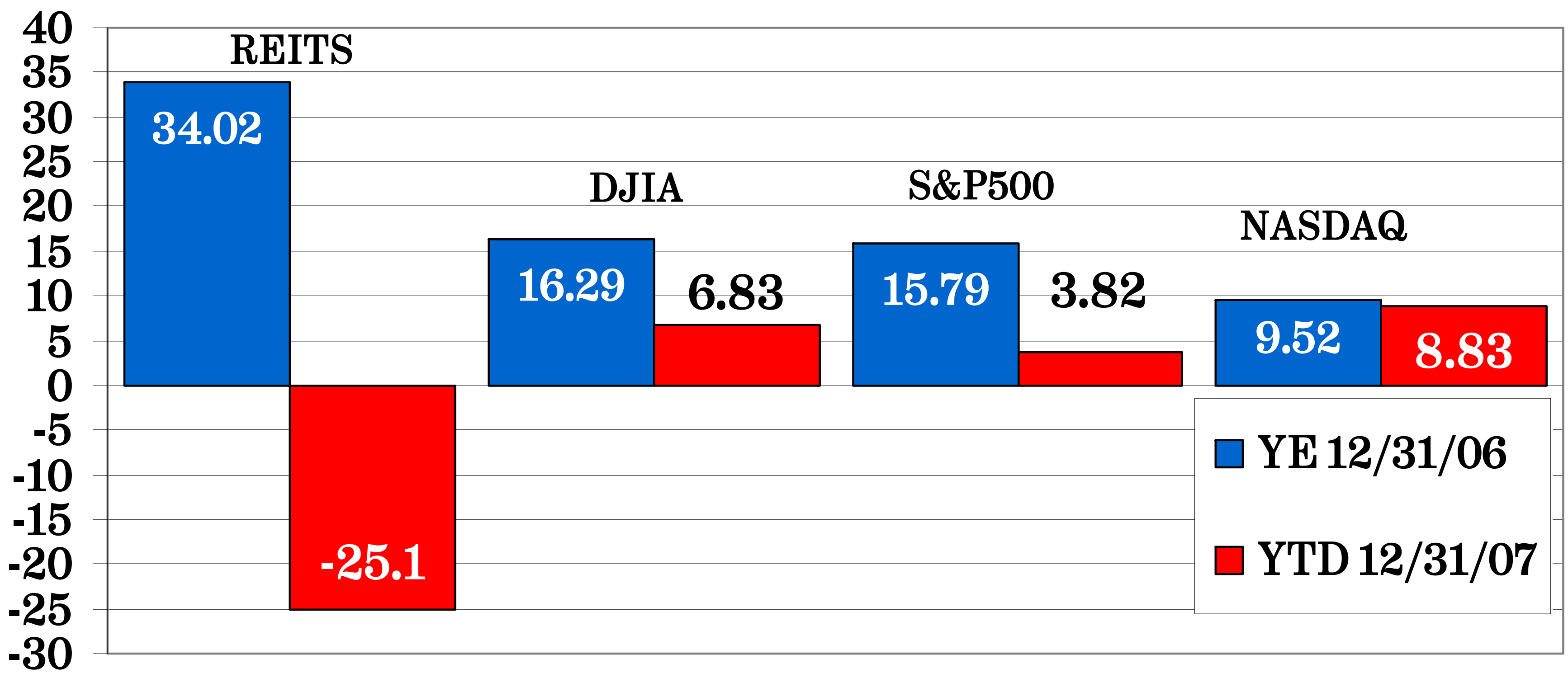
Benchmark Returns — Changes so Fast!

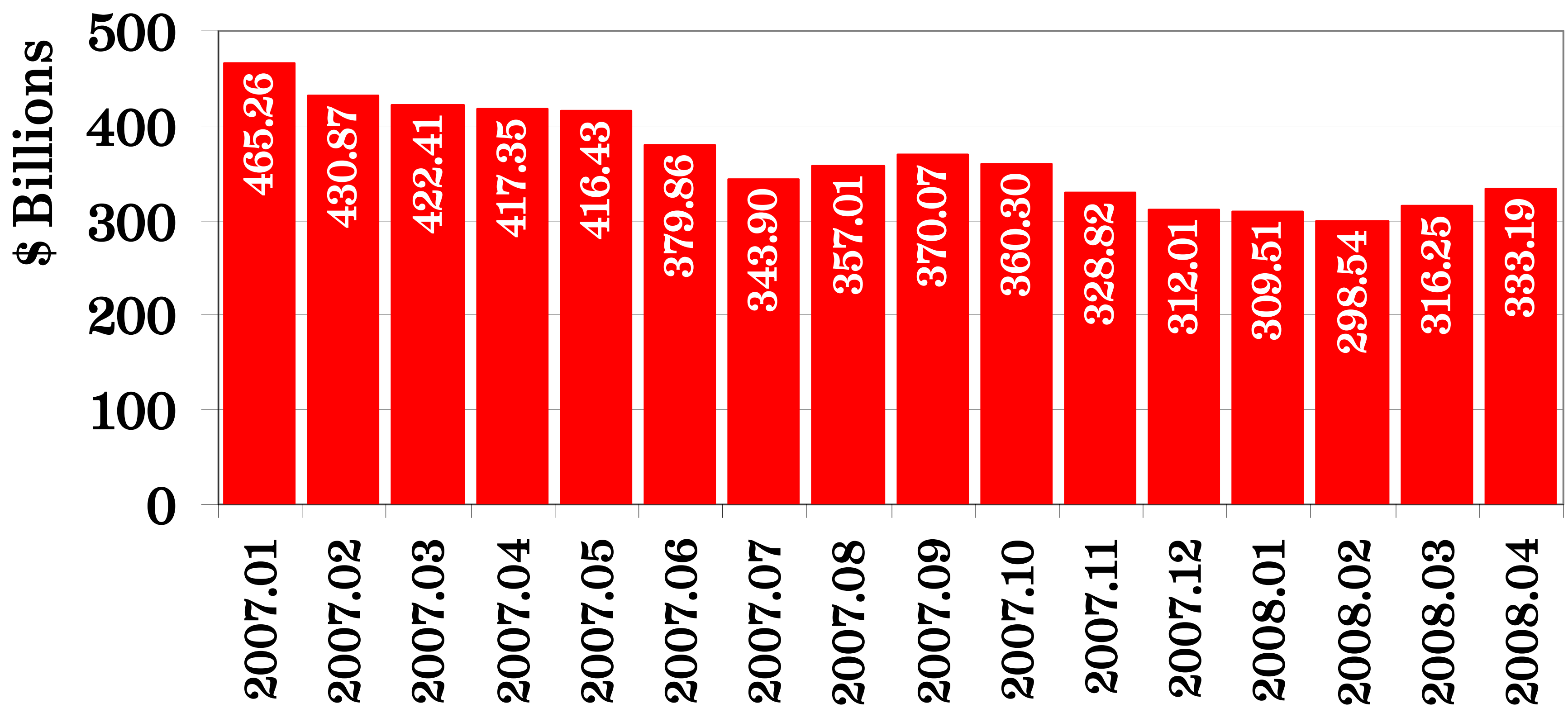


Source: NAREIT, Bank of America Real Estate Research.

Note: "Price Only" returns, excludes dividends.

YTD = REIT = 11/30/07; Dow, NASDAQ, S&P = 12/3/2007

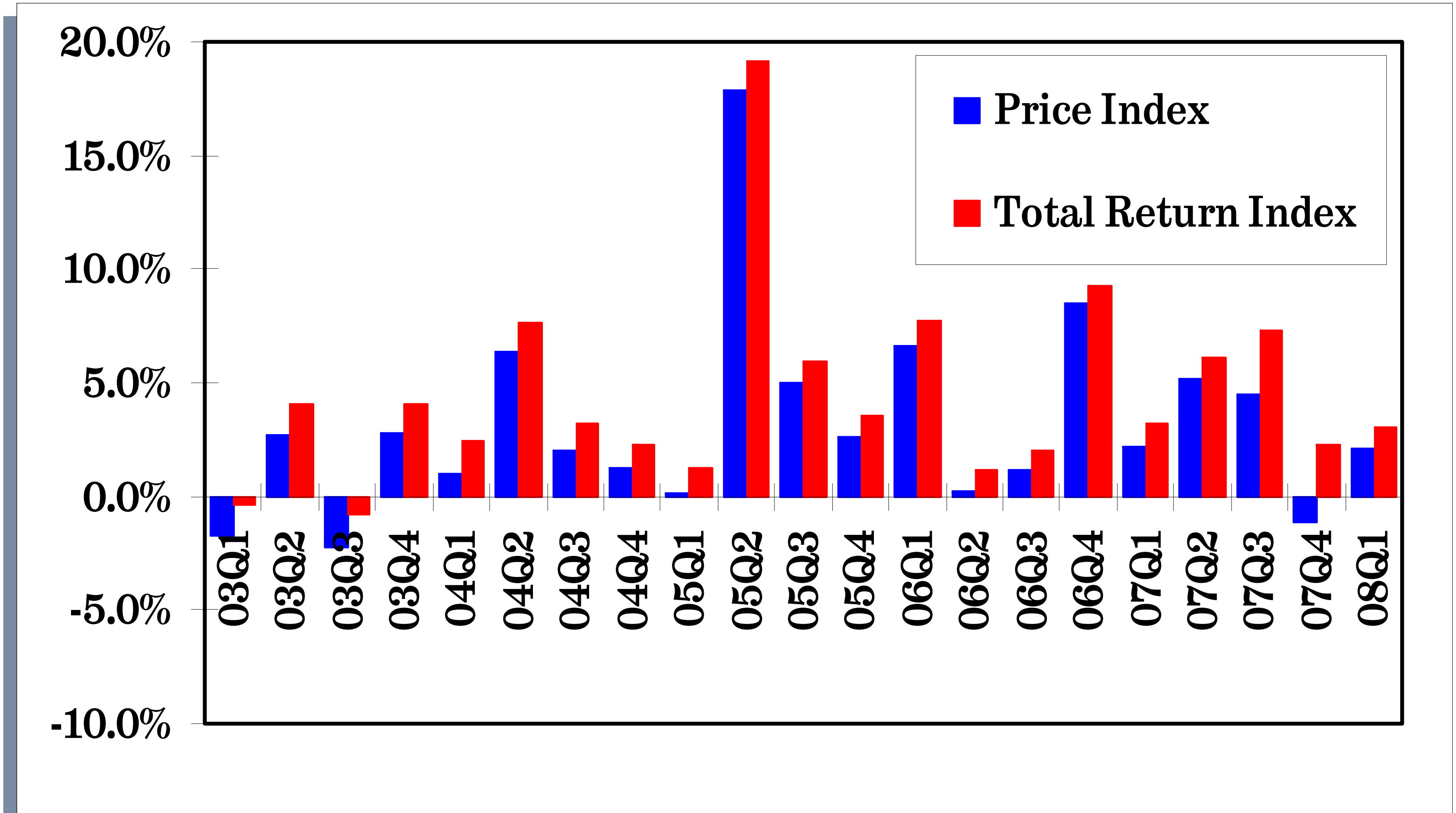
REITs Lose $132 Billion or 29% of value



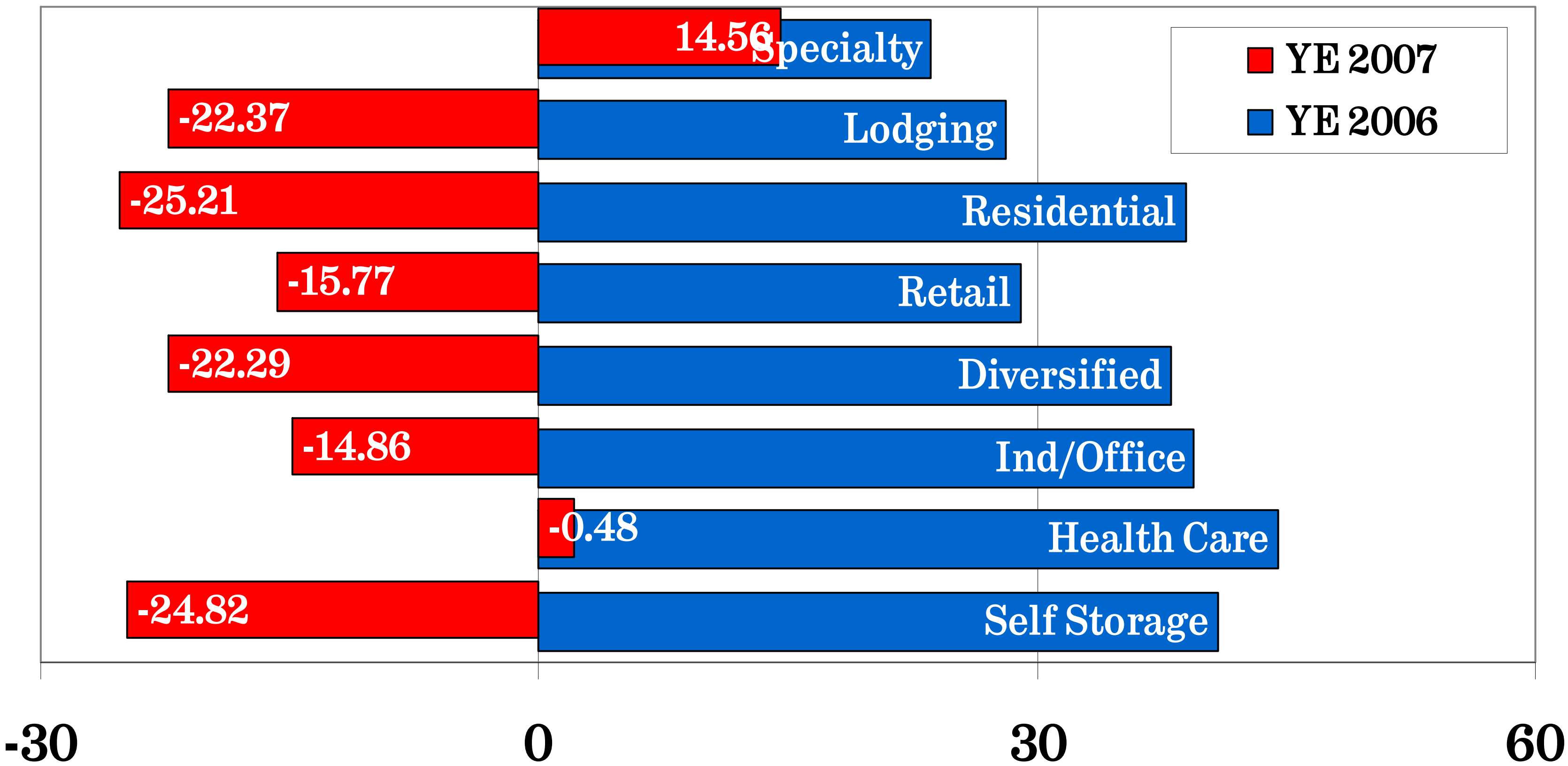
Source: NAREIT, Bank of America - Real Estate Research

Note: Includes Equity, Debt and Hybrid REITS

NCREIF 08.Q1 Price Up/ Total Up



REIT Property Type Returns — Old vs. New



Source: NAREIT, Bank of America Real Estate Research.
Note: "Price Only" returns, excludes dividends.

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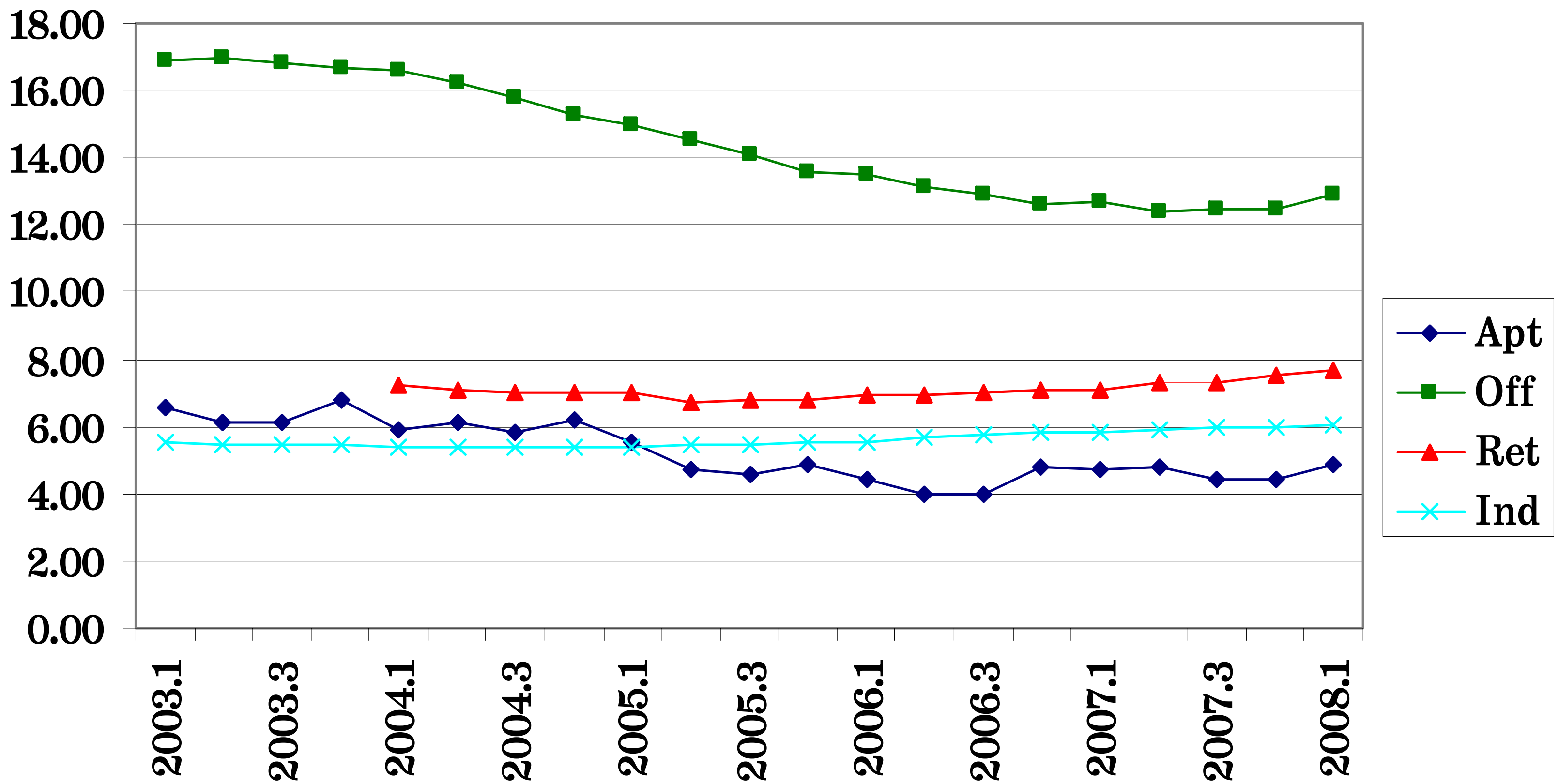
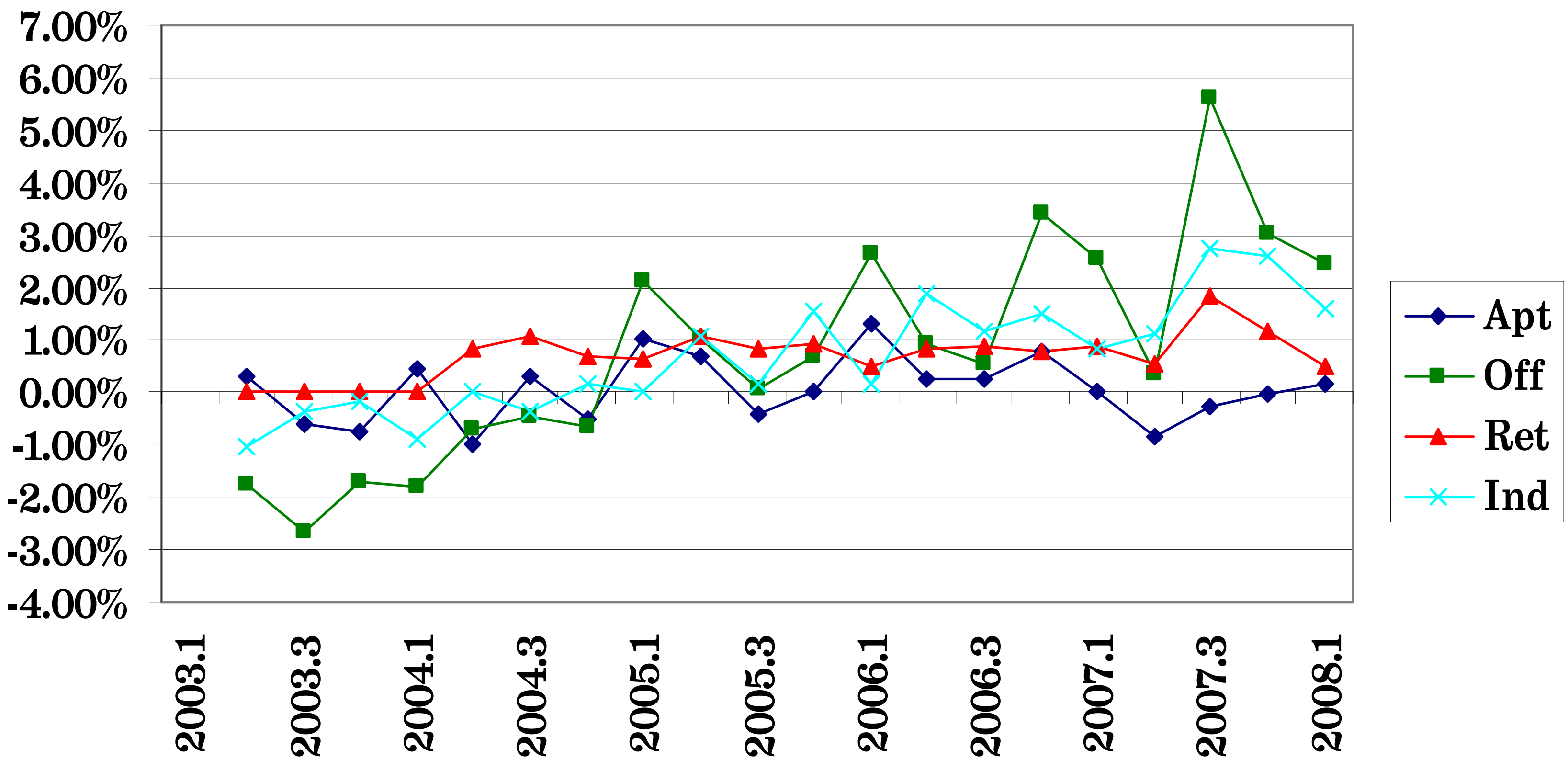
National Trend — Vacancy



Source: Torto-Wheaton Research, REIS, BAC Real Estate Research

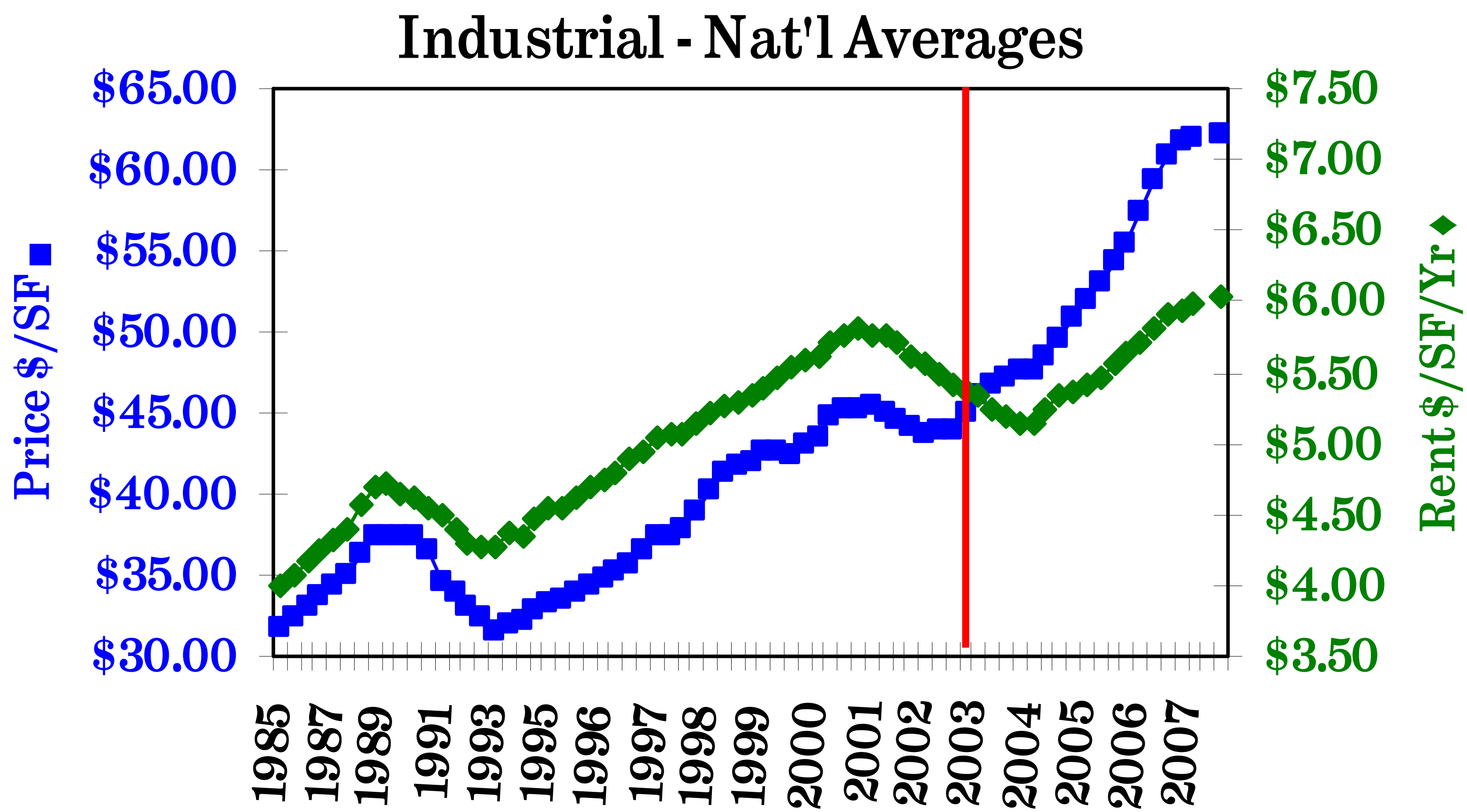
Realized Rent Growth



Source: Torto-Wheaton Research, REIS, BAC Real Estate Research

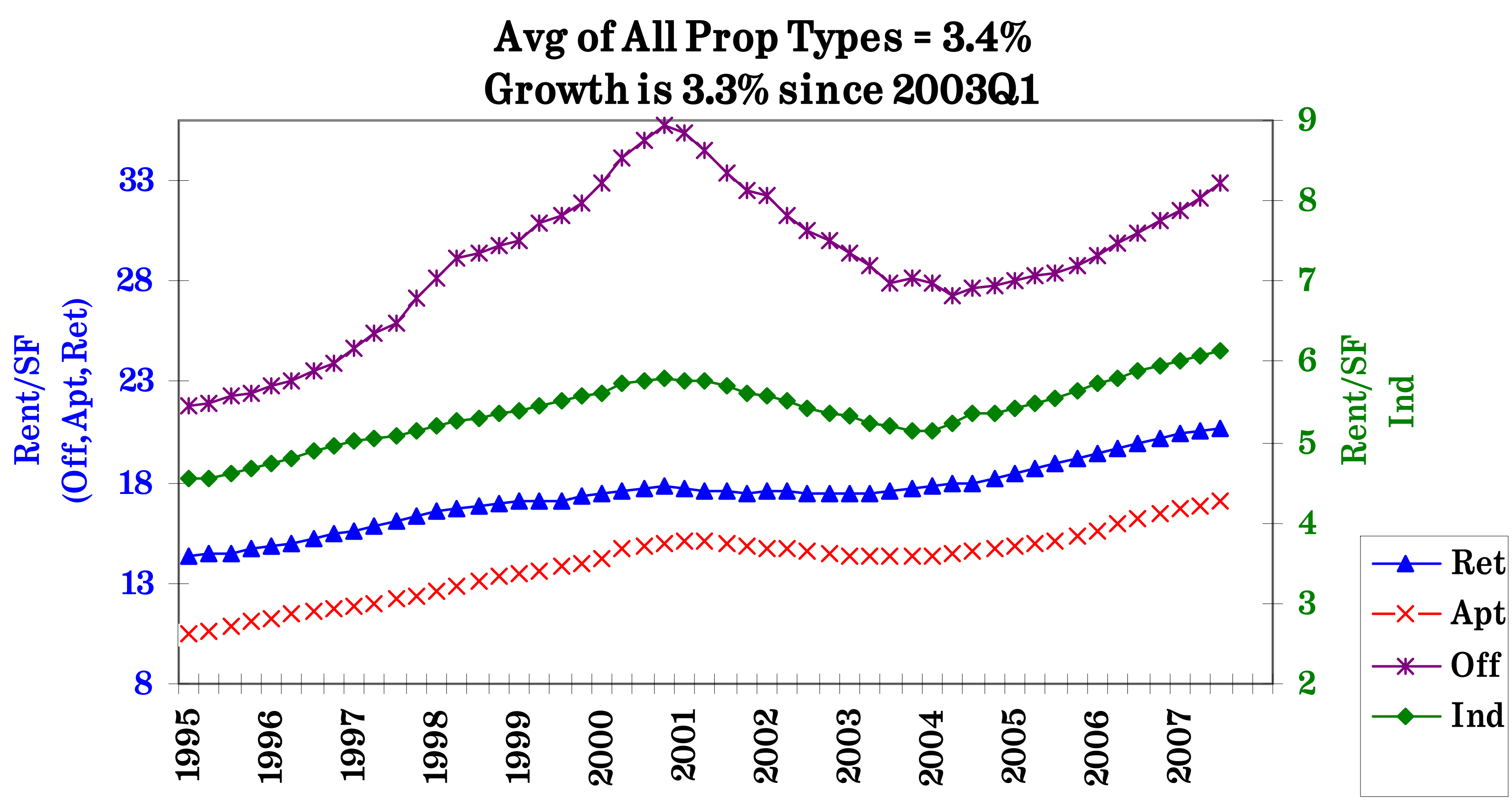
*Realized rent is area occupancy times area rent.

The Relationship Breaks in 2003



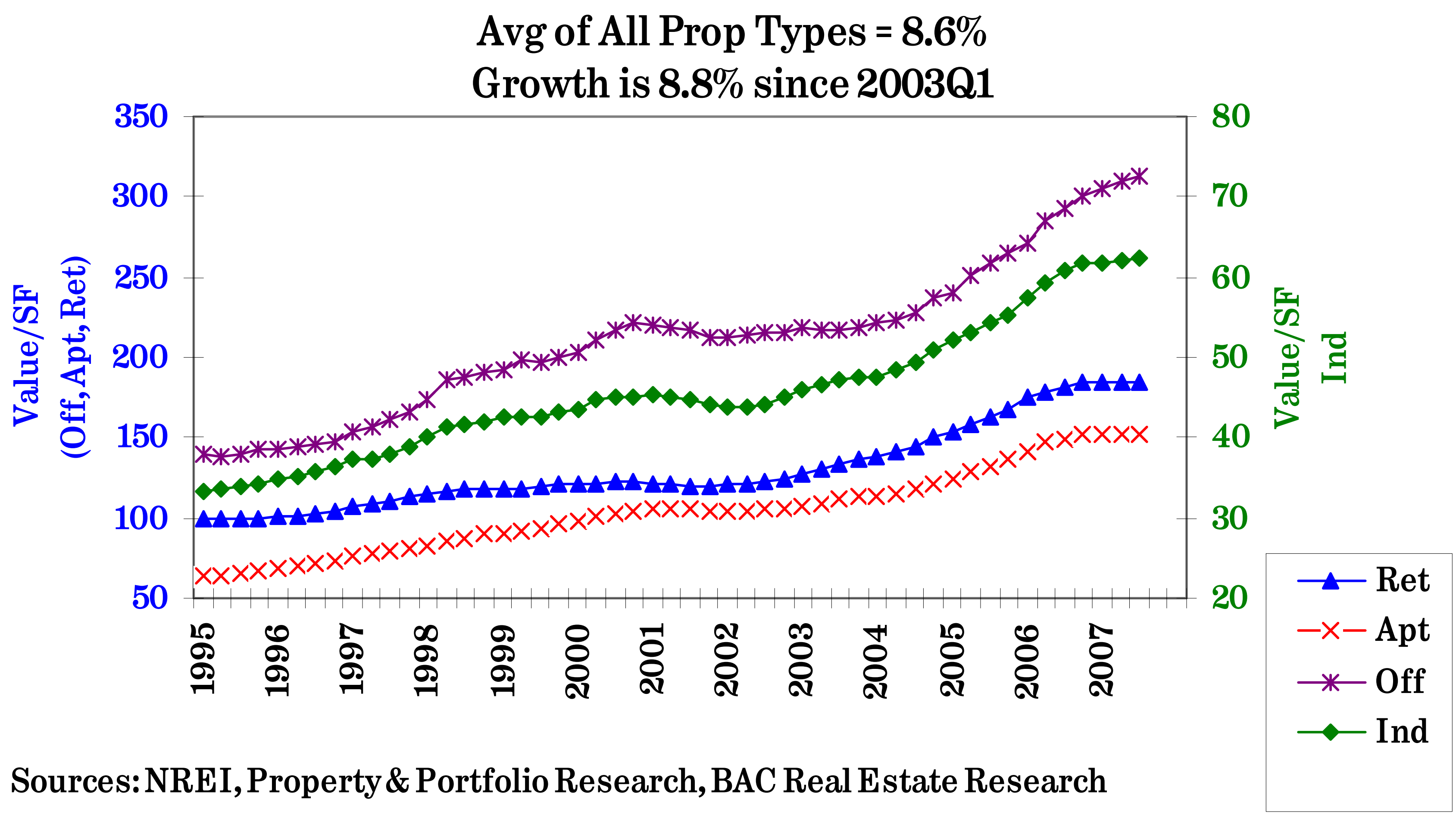
Source: NREI, PPR, and BAC – R.E. Research

Market Trends — National Rents



Sources: National Real Estate Index, Property & Portfolio Research, BAC Real Estate Research

Market Trends — National Values



Sources: NREI, Property & Portfolio Research, BAC Real Estate Research

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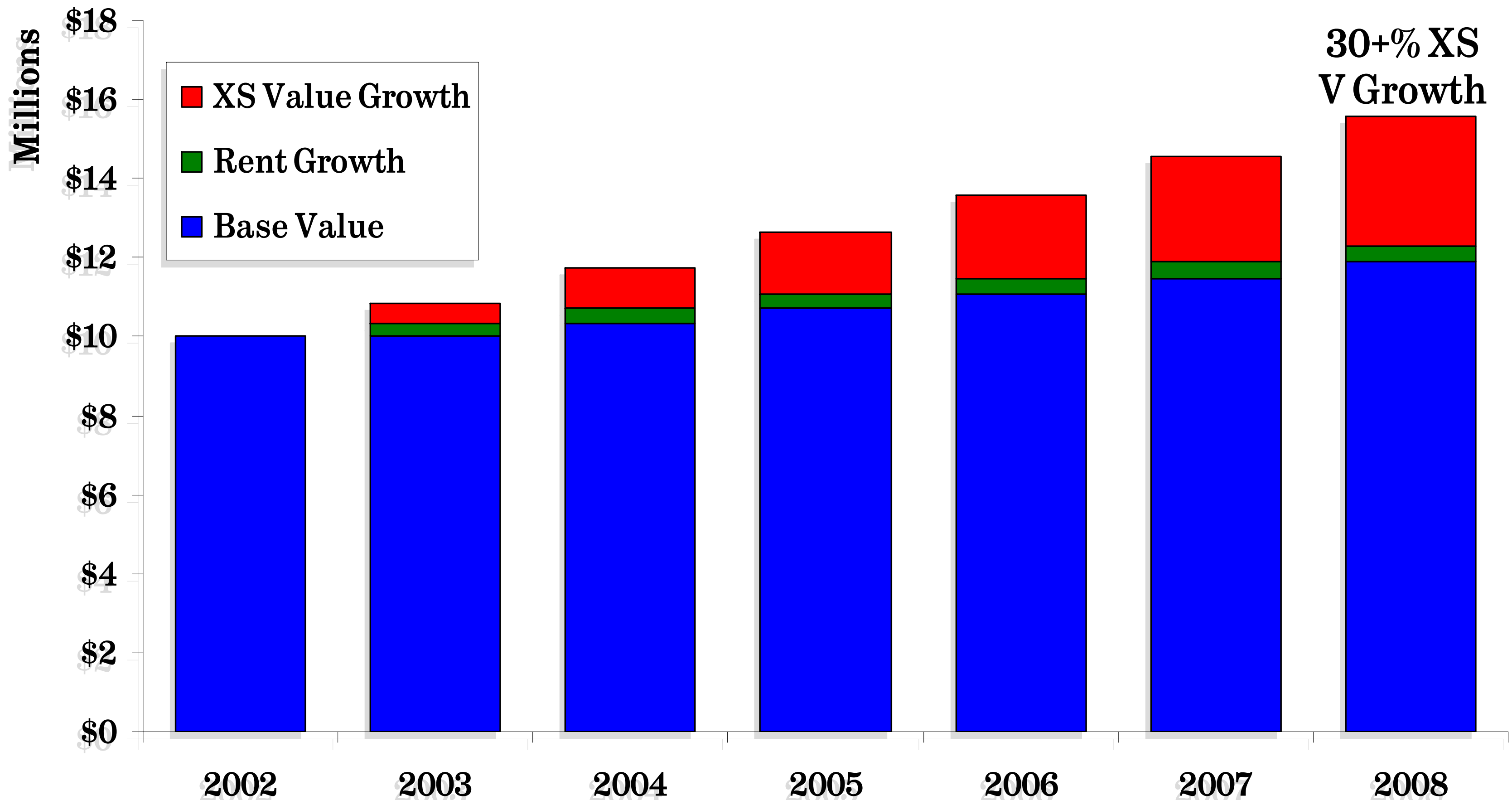
Growth Example — Value vs. Income

Year	Rent	RentG	Ind Cap	Value
2002	750,000	3.30%	7.50%	$10,000,000
2003	774,750	3.30%	7.12%	$10,880,000
2004	800,317	3.30%	6.76%	$11,837,440
2005	826,727	3.30%	6.42%	$12,879,135
2006	854,009	3.30%	6.09%	$14,012,499
2007	854,009		5.60%	$15,245,598
	average	3.30%		8.80%

- Increase in value was only “interest rates” first 2 years.
  Momentum effect carried it further.
  What happens when it stops?

Rent versus Value Growth



Source: Bank of America Real Estate Research

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Vacancy - Top / Bottom Markets – '08Q1….

U.S.		Off - 12.9%		Ind - 9.8%		Apt - 4.9%		Ret - 7.7%	
Top	1	New York	6.0	Los Angeles	4.9	Newark	1.7	Orange County	2.9
	2	San Francisco	8.6	Tucson	5.2	San Jose	1.7	Suburban Virginia	3.0
	3	Honolulu	9.6	San Francisco	5.9	Miami	2.0	Los Angeles	3.1
	4	Long Island	9.7	Seattle	6.2	Salt Lake City	2.1	San Jose	3.2
	5	Seattle	9.8	Long Island	6.4	Edison	3.3	Seattle	3.3
Bottom	5	Phoenix	18.1	Pittsburgh	14.1	Cleveland	6.9	Syracuse	13.8
	4	Wilmington	18.2	Boston	14.7	St. Louis	7.1	Birmingham	13.9
	3	Edison	19.9	Detoit	17.3	Memphis	7.3	Cincinnati	14.1
	2	Dallas	21.6	Memphis	19.0	Dayton	9.7	Dayton	14.6
	1	Detroit	21.6	Ann Arbor	21.0	Jacksonville	9.9	Columbus	14.6
Spread			15.6		16.1		8.2		11.7

Source: Torto Wheaton Research (Off, Ind, Apt), REIS (Ret)
BAC-Real Estate Research

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Vacancy Performance - 08Q1

Prop Type	08Q1 National	08Q1 Los Angeles	LA Rank
Office	12.9%	10.6%	8 : 58
Industrial	9.8%	4.9%	1 : 59
Retail	7.7%	3.1%	3 : 82
Apartment	4.9%	3.9%	11 : 60
Hotel	63.6%	72.5%	9 : 53

Source: Torto Wheaton Research, REIS, BAC-Real Estate Research

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News

- Sub Prime Losses May Reach $400 Billion (Bloomberg)
- CDO Losses May Reach $260 Billion (Bloomberg)
- Citi, Deutsche, JP Morgan, Merrill, UBS, Wachovia, Wells, HSBC, SunTrust, Bear Stearns, Bank of America and more
- Moody's Announces layoffs
- Credit Suisse Pulls Plug on Canadian Operation
- Moody's Reports Decline in US Property Values
- Artesia Mortgage Closes Atlanta & New Orleans
- Goldman Sachs Consolidates (5 regions to 3)

Source: CM Alert, Bloomberg.com, Various Papers.

Quote of the Day

"…prediction is very difficult, especially when it's about the future...

Niels Bohr, Nobel Laureate

Conclusions

- CMBS Market – New Market Pricing
- REIT Industry – Down 25+ Percent
- NACREIF – Mixed Signals
- Many Lenders are Closing or Reducing Volume
- Financing Costs Have Risen; Capitalization / Yield Rates
- CASH IS KING
- Spread Between Rent vs Value Growth
- Rents/Vacancies Should continue to Perform OK.
- Value(s) Will Undergo Correction

……………….see next slide!

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Greer - 3 Year Forecast as of 5/2008

- Borrowing Rates for Commercial Real Estate will Rise
- Margins (to Treasury) will rise up to 200 bps 2008-09, and settle around 300 bps over 10 year
- Rent Growth will equal CPI, around 3% per year
- Value Growth will lag Rent Growth 30% over 2-3 years
- Values (National Average) will Fall 5-15% per year for next 2-3 years. Individual market performance will vary widely, with "extreme" markets performing several times better (or worse) compared to the National Average.
- Capitalization Rates will Rise 2.0-2.5% over next 3 years (eg 6.0% become 8.25% = 30%+/- decline in value)
- Retail will get hurt most. Office and Apartment Least.

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