

Situs RERC™ Valuation Advisory Services

Any Property.
Any Capital Investment.
Any Level of Complexity.
We Do It All.

When it comes to commercial real estate valuation advisory services, Situs RERC does it all. From conducting basic appraisals on individual properties, to delivering valuation consulting services on sophisticated portfolios for all layers of the capital stack, to providing expert witness testimony for the most complex litigation cases—investors increasingly use **Situs RERC as their one-stop valuation advisory service provider.**

Valuation Management & Fiduciary Services

- Independent Fiduciary Services
- Fairness Opinions
- Fair Valuing Debt and Equity
- Debt Valuation
- Daily Mark-to-Market Valuation
- Portfolio Analysis and Valuation
- Web-based Valuation Management Systems
 - End-to-end Process & Document Management
 - Reporting
 - Audit Support
 - ARGUS 15 and ARGUS Enterprise Integration

Valuation, Consulting & Litigation Support

- Appraisals
- Market Studies
- Appraisal Reviews
- Due Diligence
- Litigation Support
- Financial Portfolio Valuation
 - Purchase Price Allocation
 - IFRS Valuation
- Expert Witness Services

Commercial Real Estate Research & Analytics

- Statistical Analysis
- Cash Flow Modeling
- Econometric Modeling
- Quantitative Forecasting
- Risk Analysis
- Survey-based Research Publications
 - Situs RERC Real Estate Report (U.S. & Europe Editions)
 - Expectations & Market Realities in Real Estate

Valuation Advisory Services Expertise



Situs RERC's valuation advisory services clients include retirement funds, banks and lending institutions, REITs, insurance companies, accounting firms, CMBS investors, corporations, foreign investors, and many other private, public, and governmental agencies.

- Our client portfolios in aggregate **exceed \$100 billion**
- We are committed to valuation **best practices** for commercial real estate.
- Our experts have MAI, CFA, CRE, FRICS, MRICS, CCIM designations.
- We are **AMC-licensed** in the majority of states.
- We are an **SEC-registered** investment advisor.



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Starting to Feel Like 2007!

Really...Kidding, Right?

Presented by:

Ken Riggs, CFA, CRE, MAI
President, Situs RERC

- **Stuyvesant Town and Peter Cooper Village, the 11,200-apartment-unit complex in Manhattan's east side, was acquired by Blackstone Group and Ivanhoe Cambridge for \$5.3 billion.** The 56-acre property was purchased in 2006 for \$5.4 billion in a venture led by Tishman Speyer Properties, then the most ever paid for a single property. (WSJ, Oct. 25, 2015)
- **Blackstone's September 2015 purchases**, including: Strategic Hotels & Resorts for \$6 billion; A free-market rental-housing portfolio in Manhattan for \$690 million; 49% interest in Market Square East and West office complex in Washington, DC for \$291.6 million (IREI, Sept. 14, 2015)
- **U.S. pension funds were reported to have increased their assets invested in property to 7.7% in 2q 2015**, up from 6.3% in 2011, (WSJ, Aug. 13, 2015)
- **Zell's Chicago-based Equity Residential recent sale of 23,000 apartment units for \$5.27 billion to Starwood Capital.** (Oct. 31 Crain's Chicago Business)

- **Hyatt Hotels is in talks to purchase Starwood Hotels & Resorts Worldwide Inc., which according to most experts, is expected to be one of the largest-ever hotel deals when actually transacted.** (Oct. 28 and Oct. 30 Wall St. Journal)
- **REIT performance has been sidelined and investment remains quiet following the recent U.S. stock market dip,** according to the MSCI U.S. REIT index. (WSJ, Sept. 9, 2015)
- **The number of mergers and acquisitions is the largest it has been since 2007. The merger between commercial real estate firms Cushman & Wakefield and DTZ was finalized** on Sept. 1, 2015, with the firm still primarily known as Cushman & Wakefield.
- **GE Capital shed their huge mortgage portfolio comprised of 313 loans secured by more than 450 U.S. properties.** Largest piece to Deutsche Bank AG...46 performing and sub-performing loans... \$1.59 billion. **This was one of the largest U.S. portfolio loans sales since the credit crisis.** (Commercial Property Executive, Sept. 22, 2015)

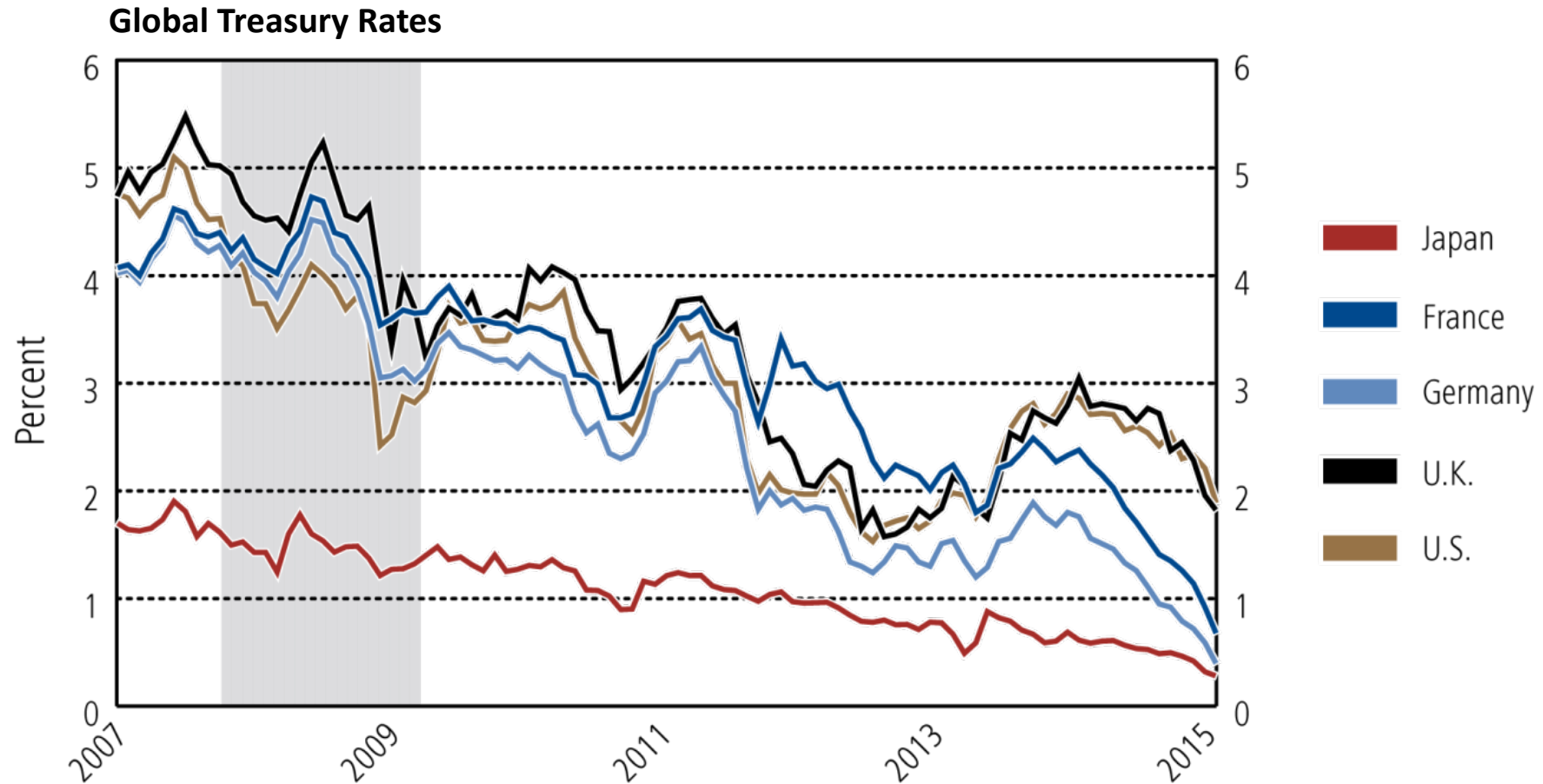
Déjà Vu or Vuja De...?

"Not deja vu; vuja de.

It's the distinct sense that, somehow, something that just happened has never happened before...And then suddenly the feeling is gone. Vuja de."

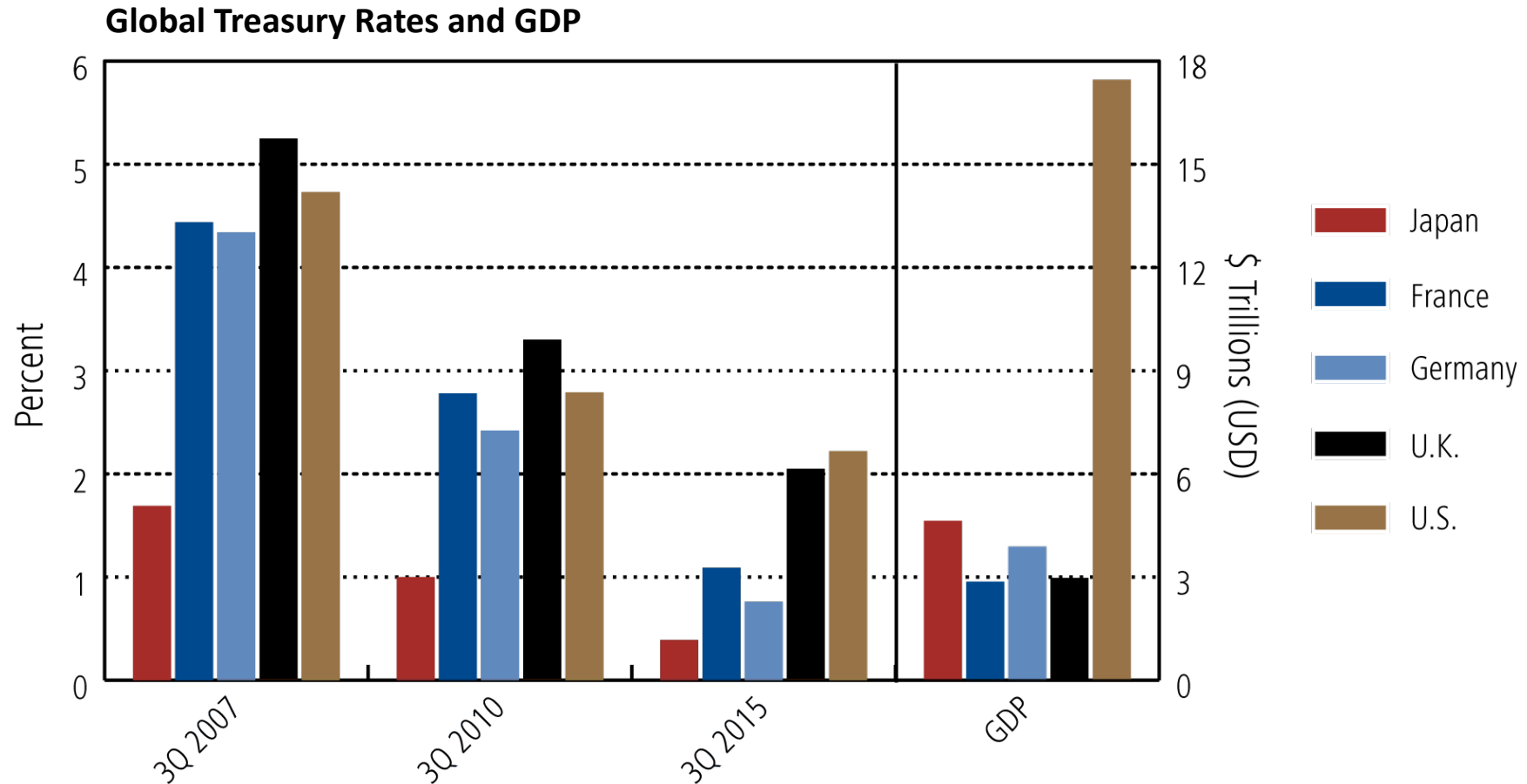
George Carlin

Global Risk Free Rates



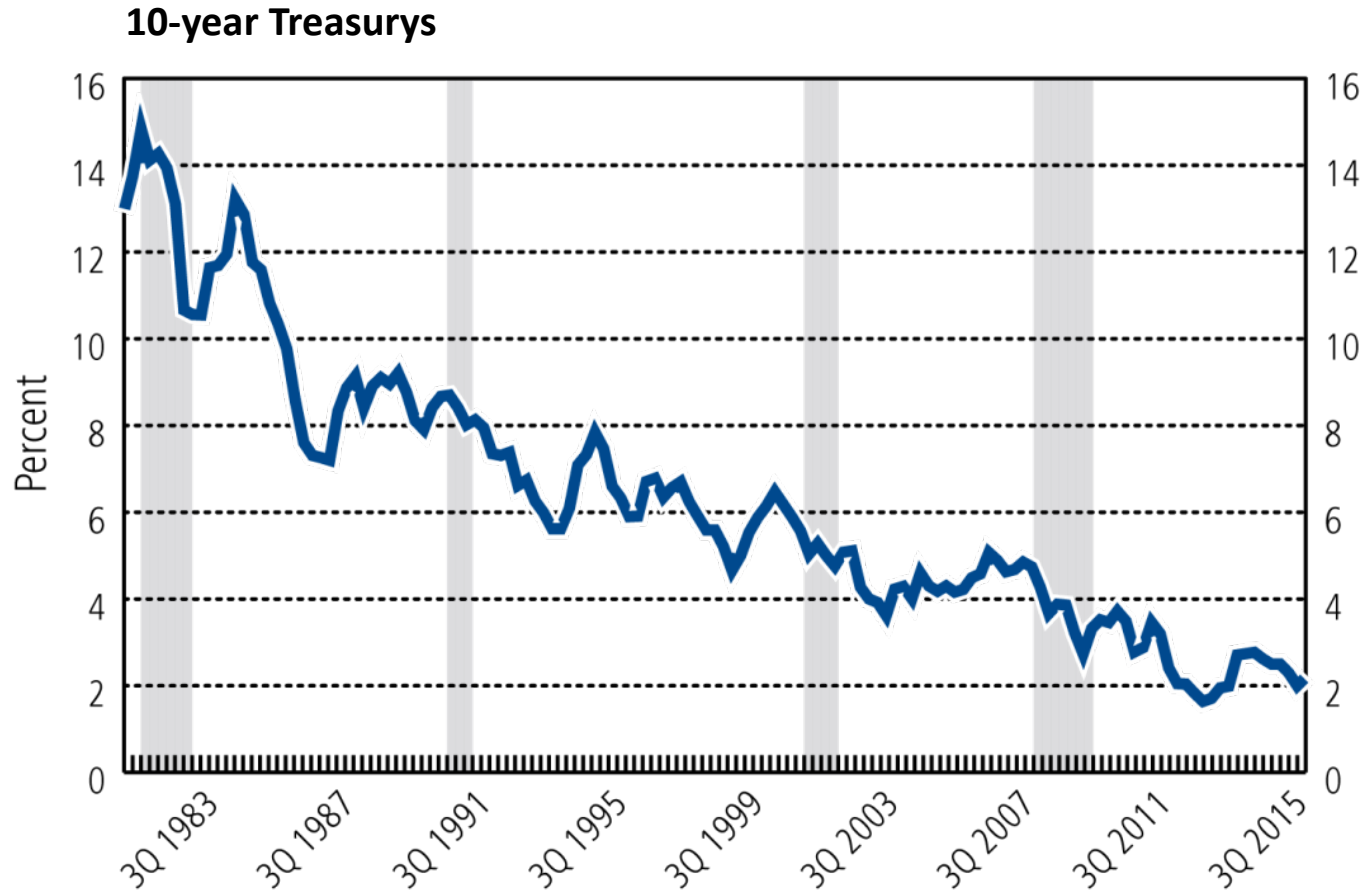
Source: Federal Reserve Bank of St. Louis, October 2015.

Global Risk Free Rates and GDP



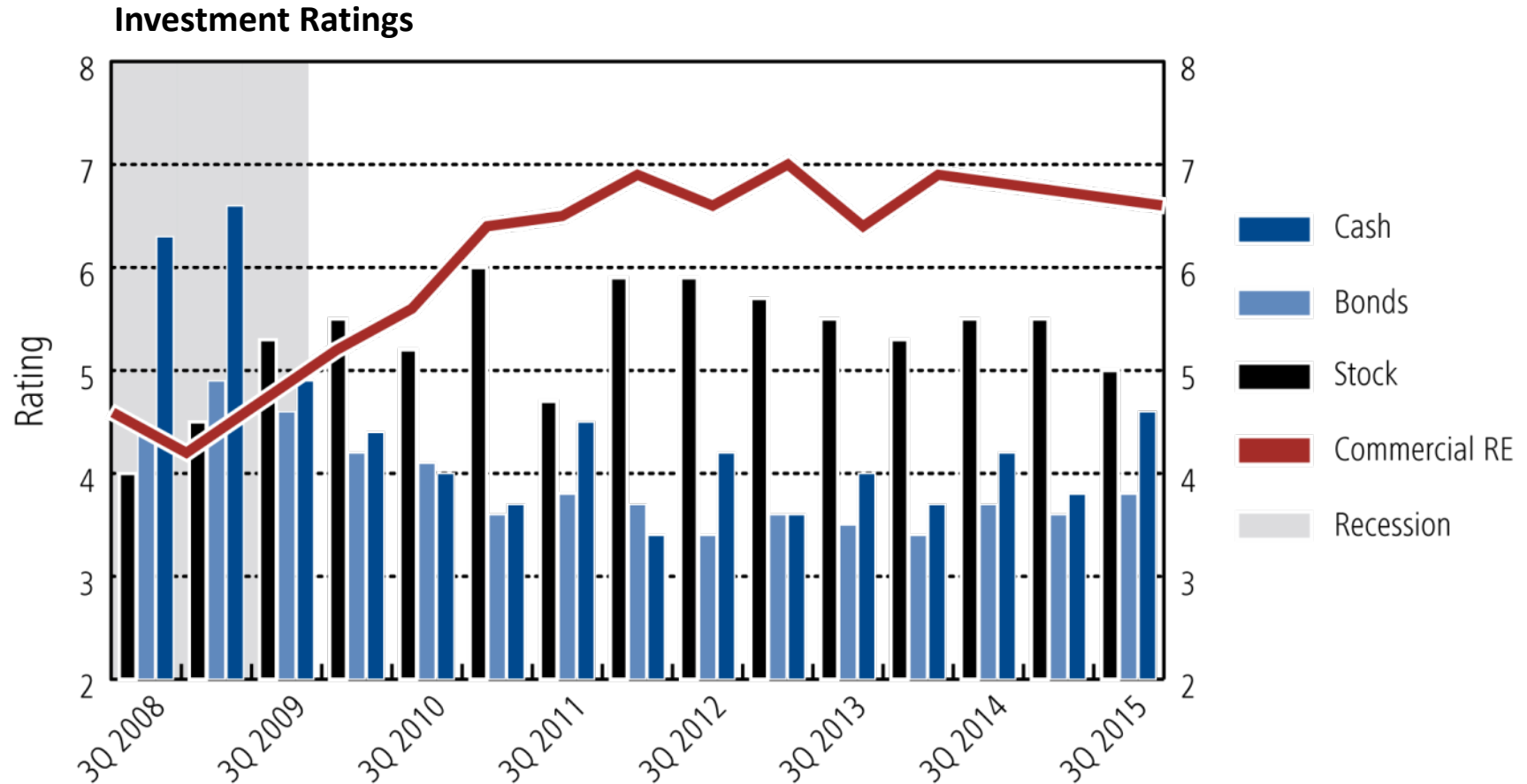
Sources: Federal Reserve Bank of St. Louis, Deutsche Bundesebank, Agence France Tresor, World Bank, October 2015.

Treasurys Still Very Low



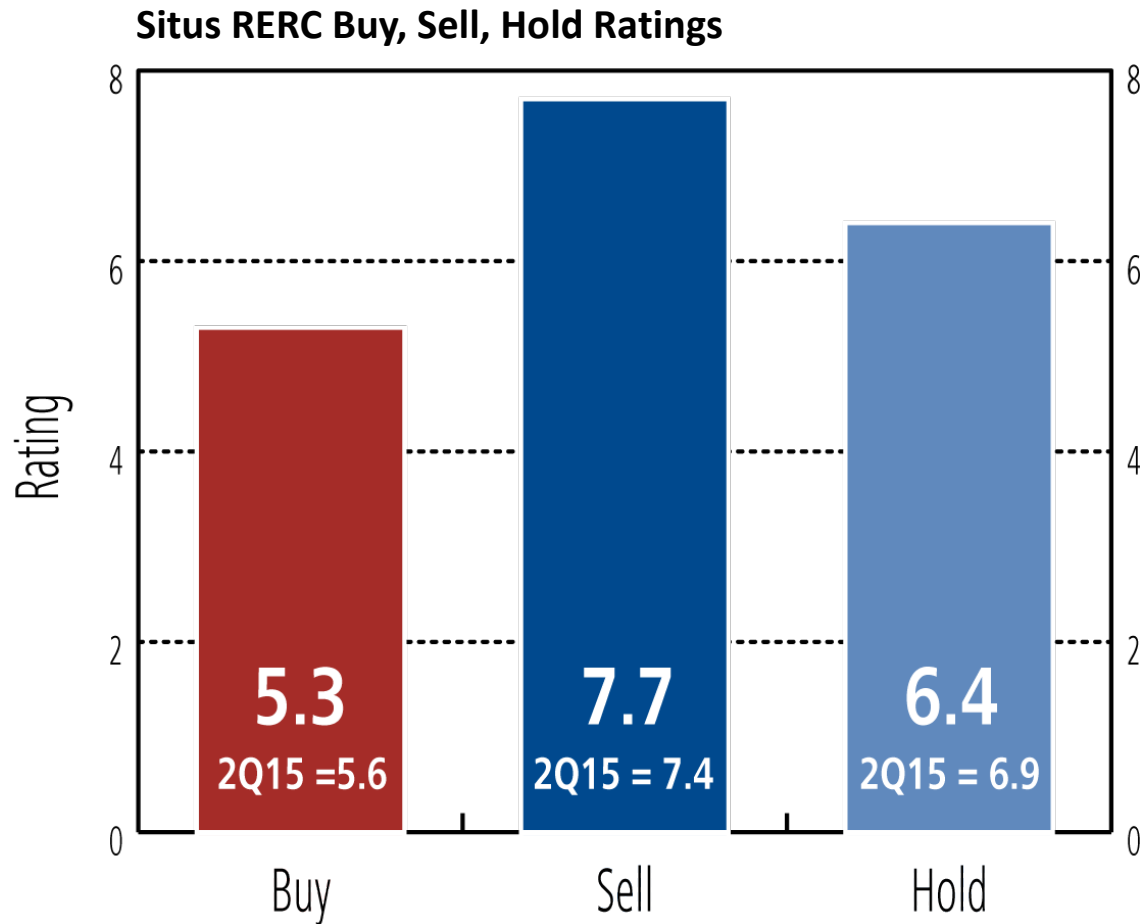
Source: Federal Reserve, 3Q 2015.

CRE Very Attractive



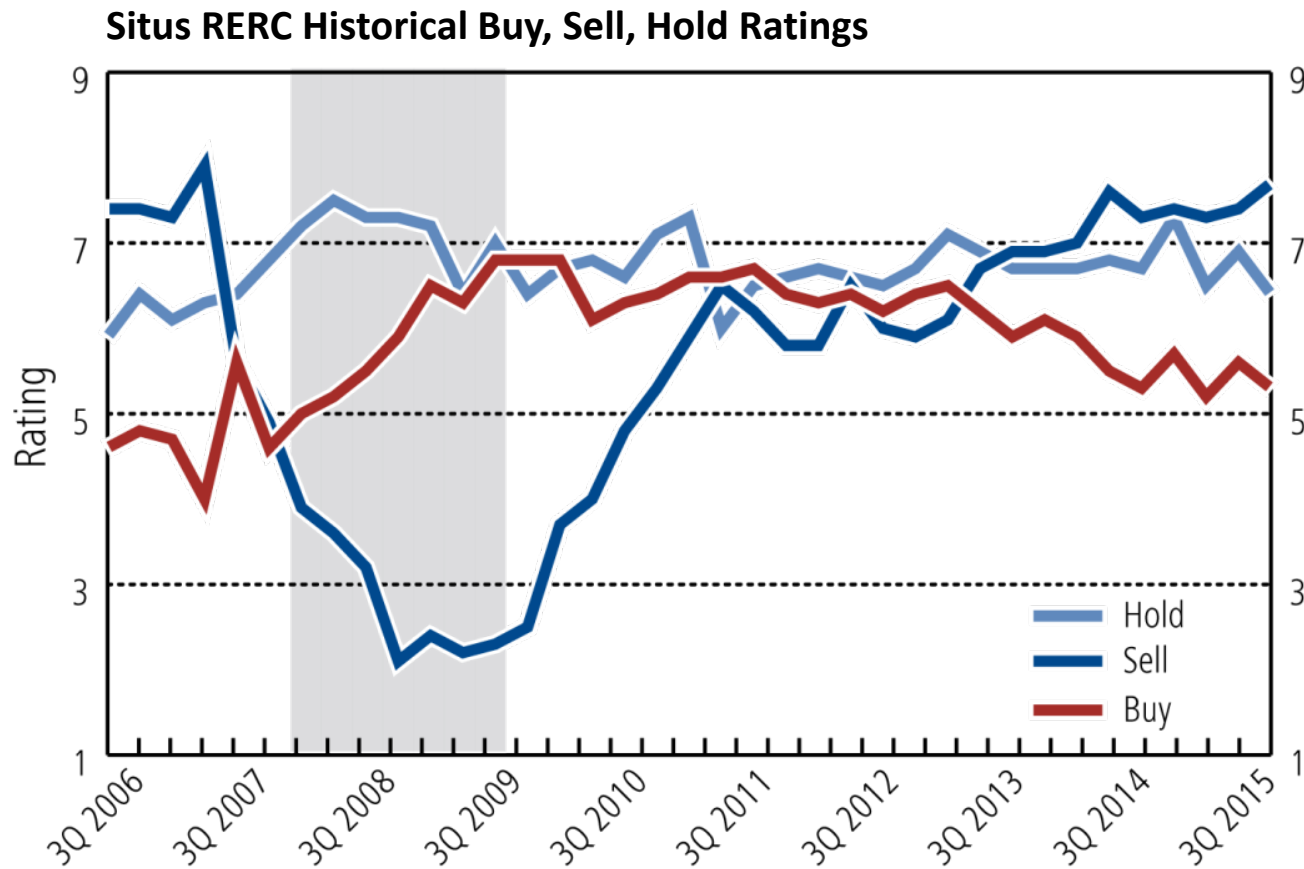
Source: Situs RERC, 3Q 2015.

A Time to Sell



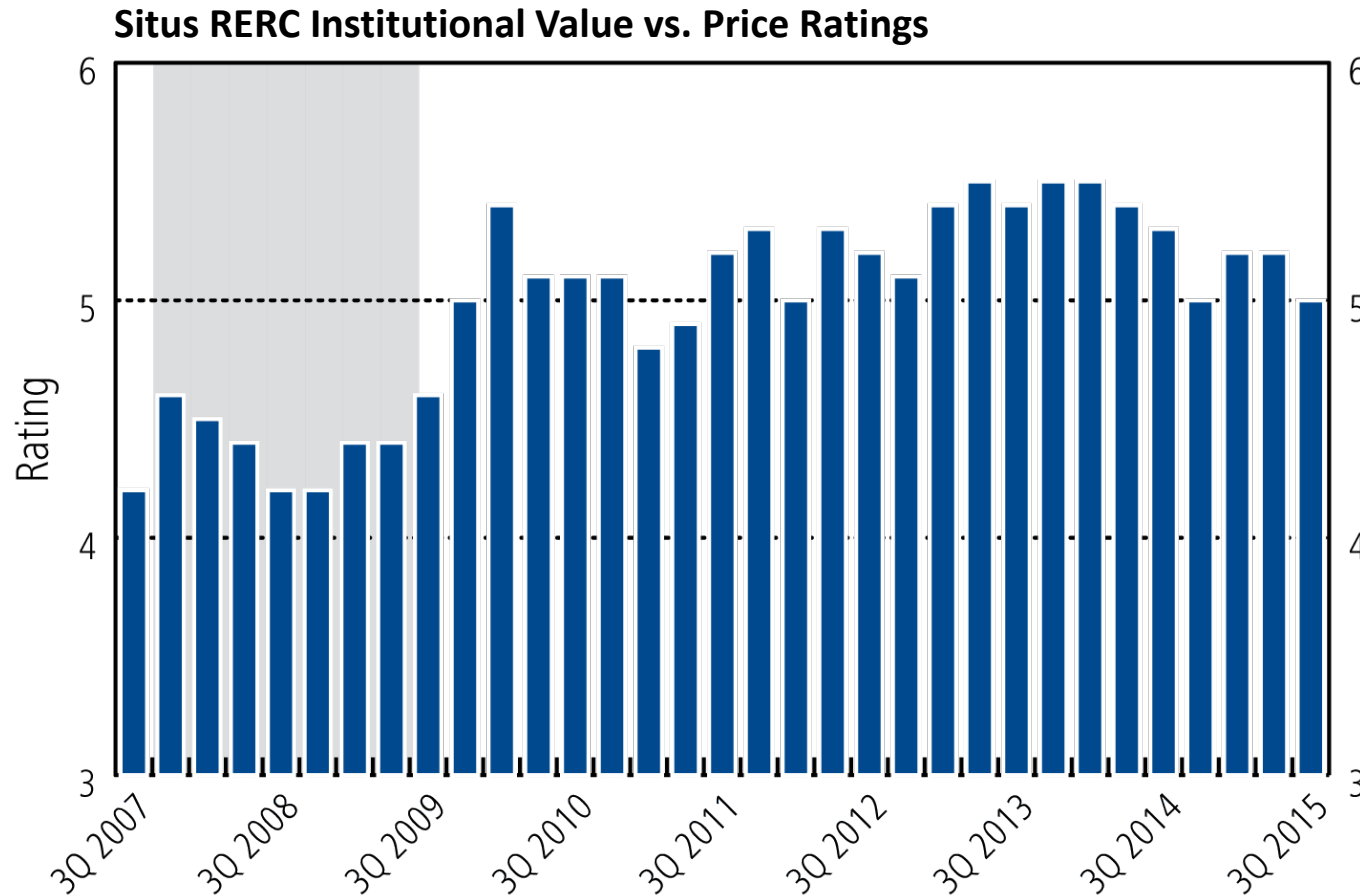
Source: Situs RERC, 3Q 2015.

Now Versus Then



Source: Situs RERC, 3Q 2015.

Value vs. Price Ratings Above Average



Source: Situs RERC, 3Q 2015.

- **Value vs. Price and Return vs. Risk Observations:**
 - The **industrial and office property sectors** offered more value to investors in **3q 2015** than during the previous quarter.
 - The **apartment sector in general** was overpriced compared to the value.
 - The **industrial sector** received the highest return vs. risk rating among the individual property sectors in 3q 2015.
 - The **apartment sector return vs. risk rating** increased from the previous quarter and indicated that return was equal to risk for this quarter or neutral.

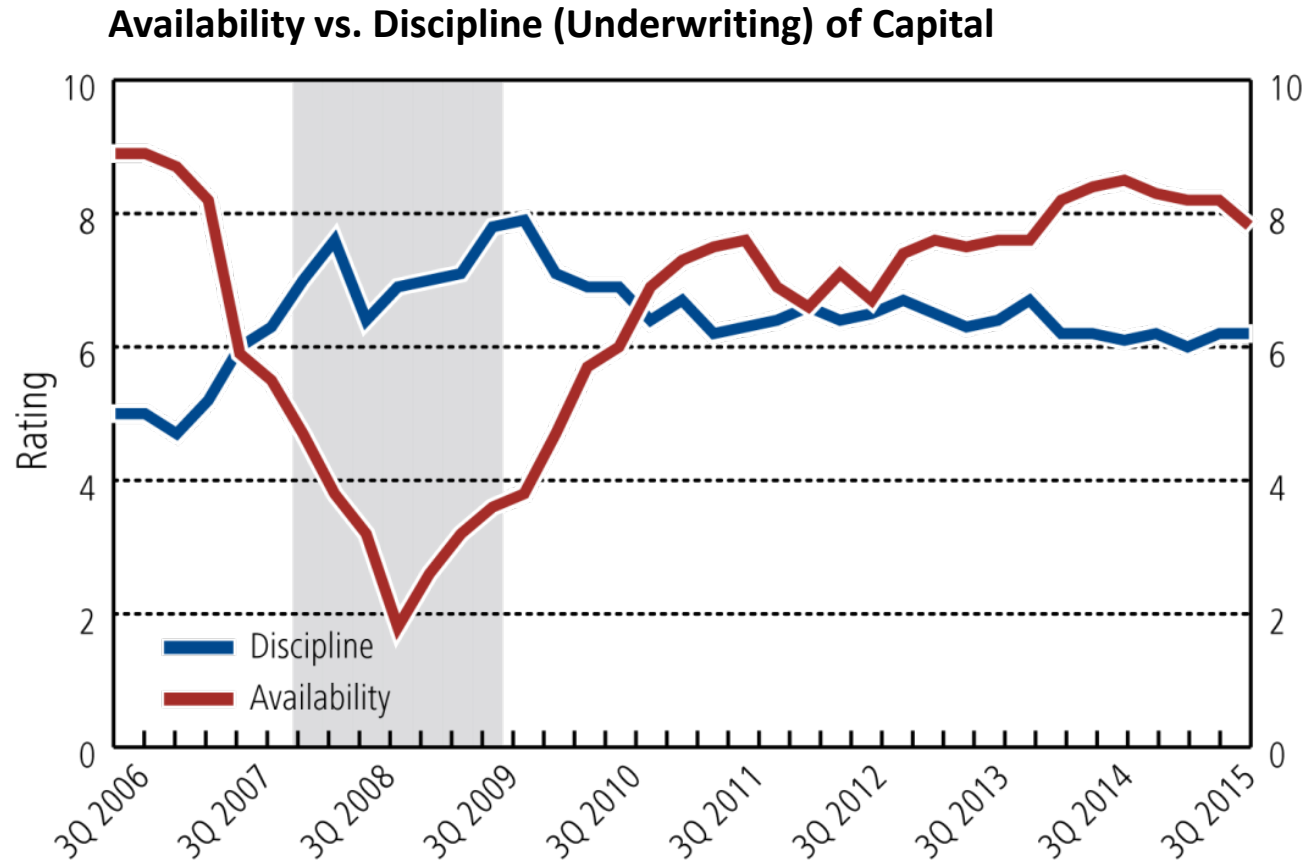
Effective rent growth

- Effective **rent in the office sector grew for the 20th consecutive quarter**, according to preliminary third quarter data from Reis, Inc. While quarterly growth did not accelerate, year-over-year growth rate did accelerate.
- With robust preliminary growth on both a quarterly and yearly basis, **apartment sector effective rent has not been this strong (on a year-over-year basis) since 2007.**
- The **industrial warehouse and distribution sector maintained steady rent growth** in 3q 2015.

	Vacancy Rate (3q 2015)	Effective Rent (2q 2015)
Office	16.6%	\$30.43/sf
Industrial	10.7%	\$4.93/sf
Retail	10.1%	\$19.89/sf
Apartment	4.3%	\$1,146/unit

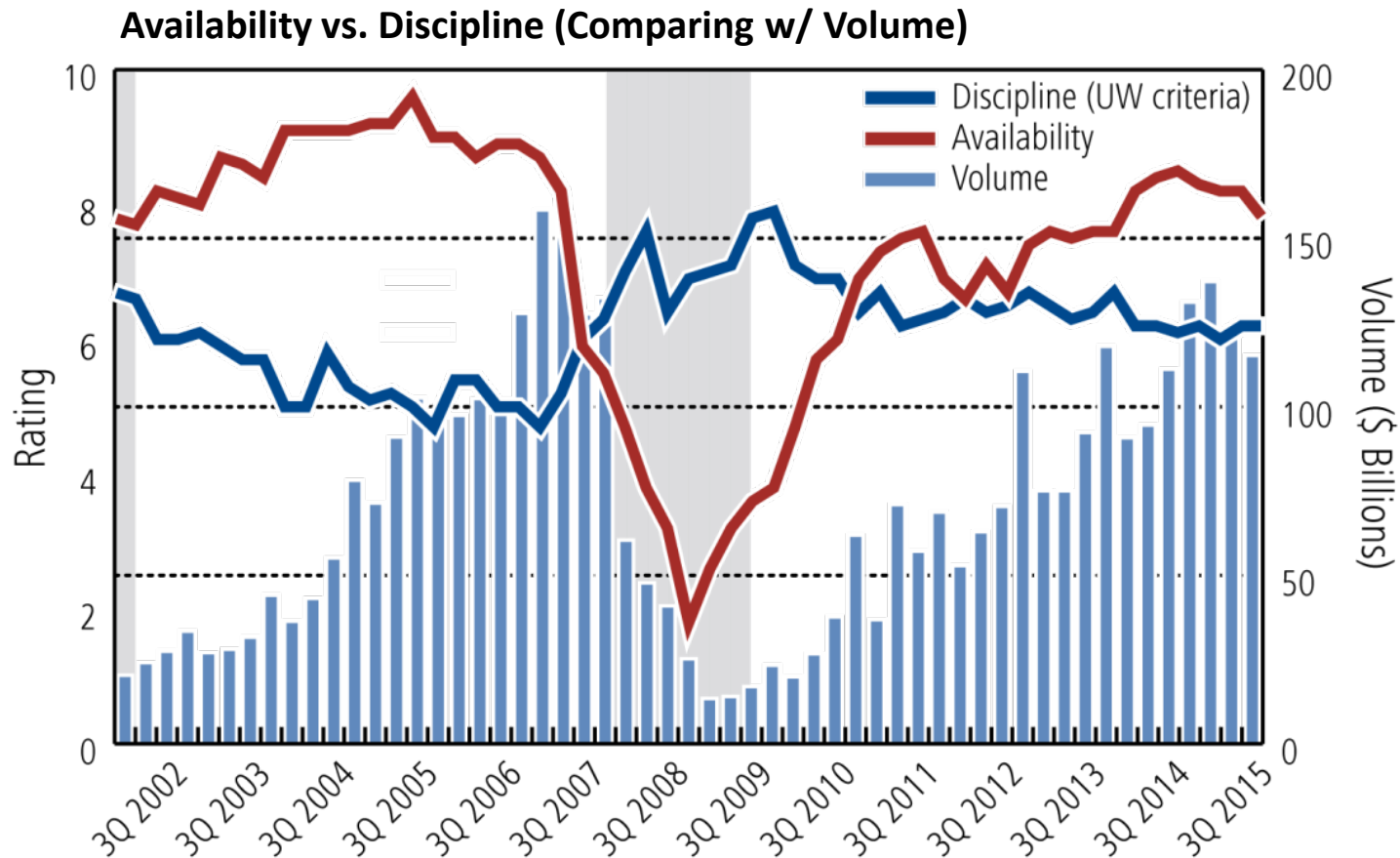
Source: Reis, Inc., 3q 2015

Underwriting Still Holding



Source: Situs RERC, 3Q 2015.

Underwriting Still Holding

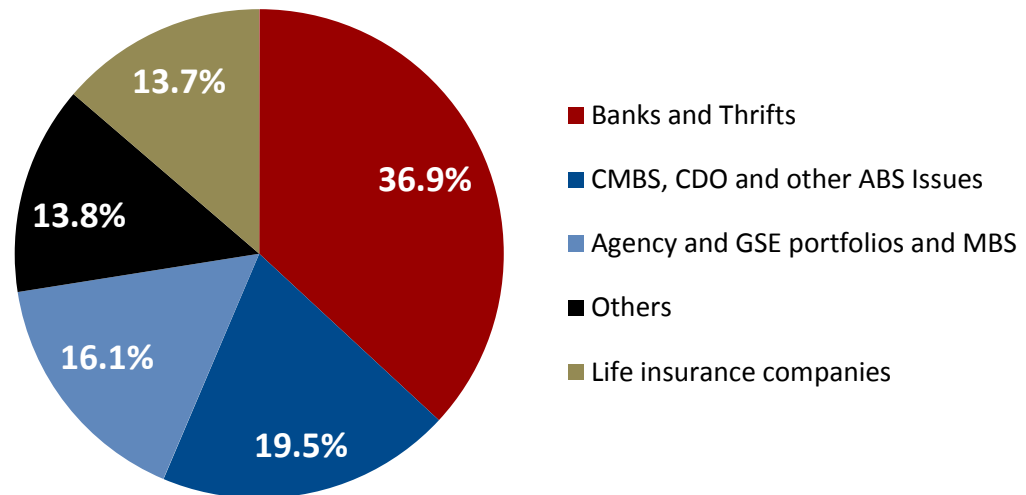


Sources: Real Capital Analytics, Situs RERC, 3Q 2015.

- Total loans outstanding for commercial real estate increased by 1.66% from the previous quarter to \$3.48 trillion, per the Federal Reserve's Flow of Funds.
- U.S. CMBS issuance dipped to \$23.1 billion in 3q 2015, down from an average of \$27.2 billion for the first two quarters this year and from \$28.1 billion in the year-earlier period, according to *Commercial Mortgage Alert*.

Commercial Multifamily Mortgage Debt Outstanding

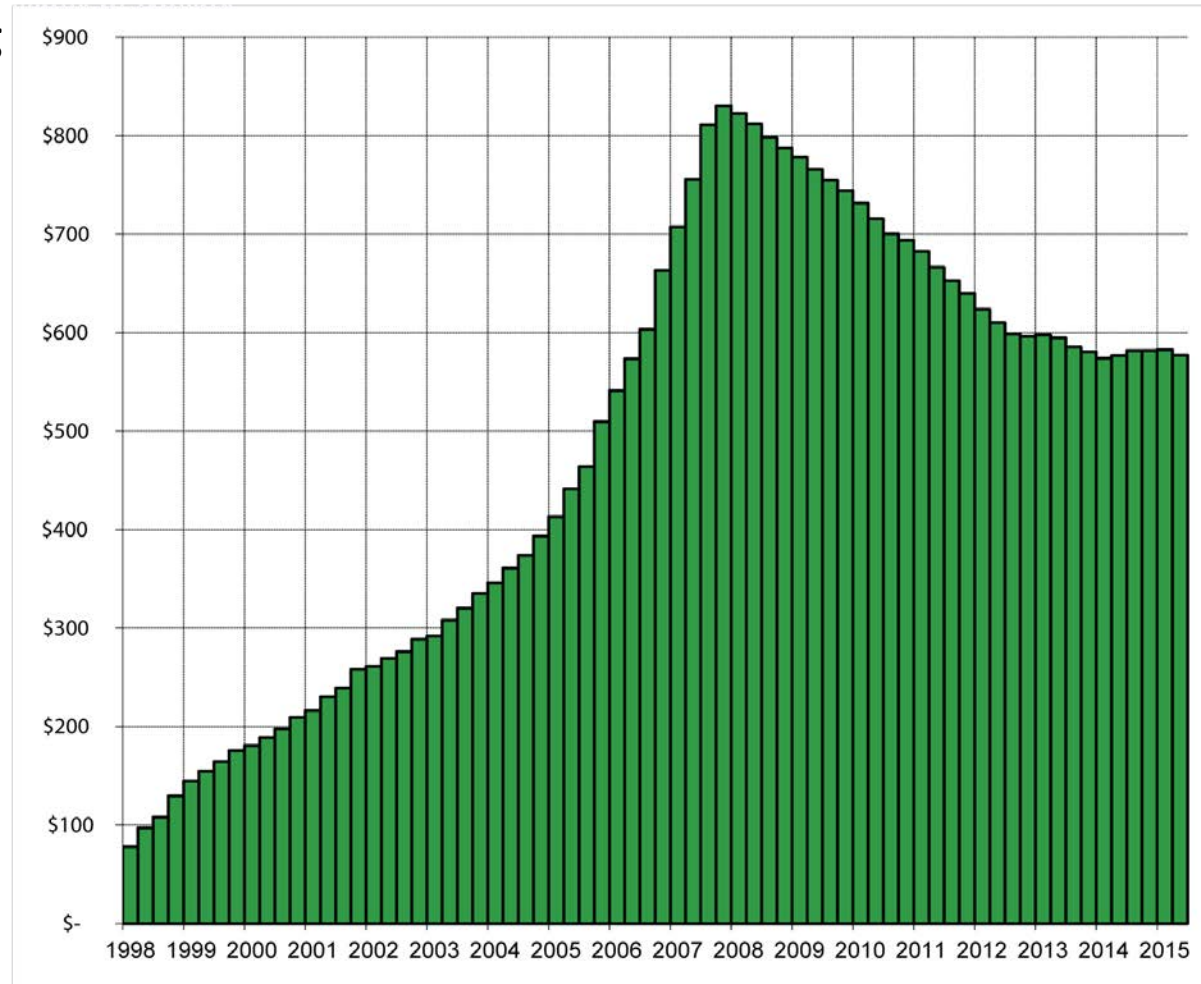
By Investor Group, Second Quarter 2015



Source: Mortgage Bankers Association, September 2015

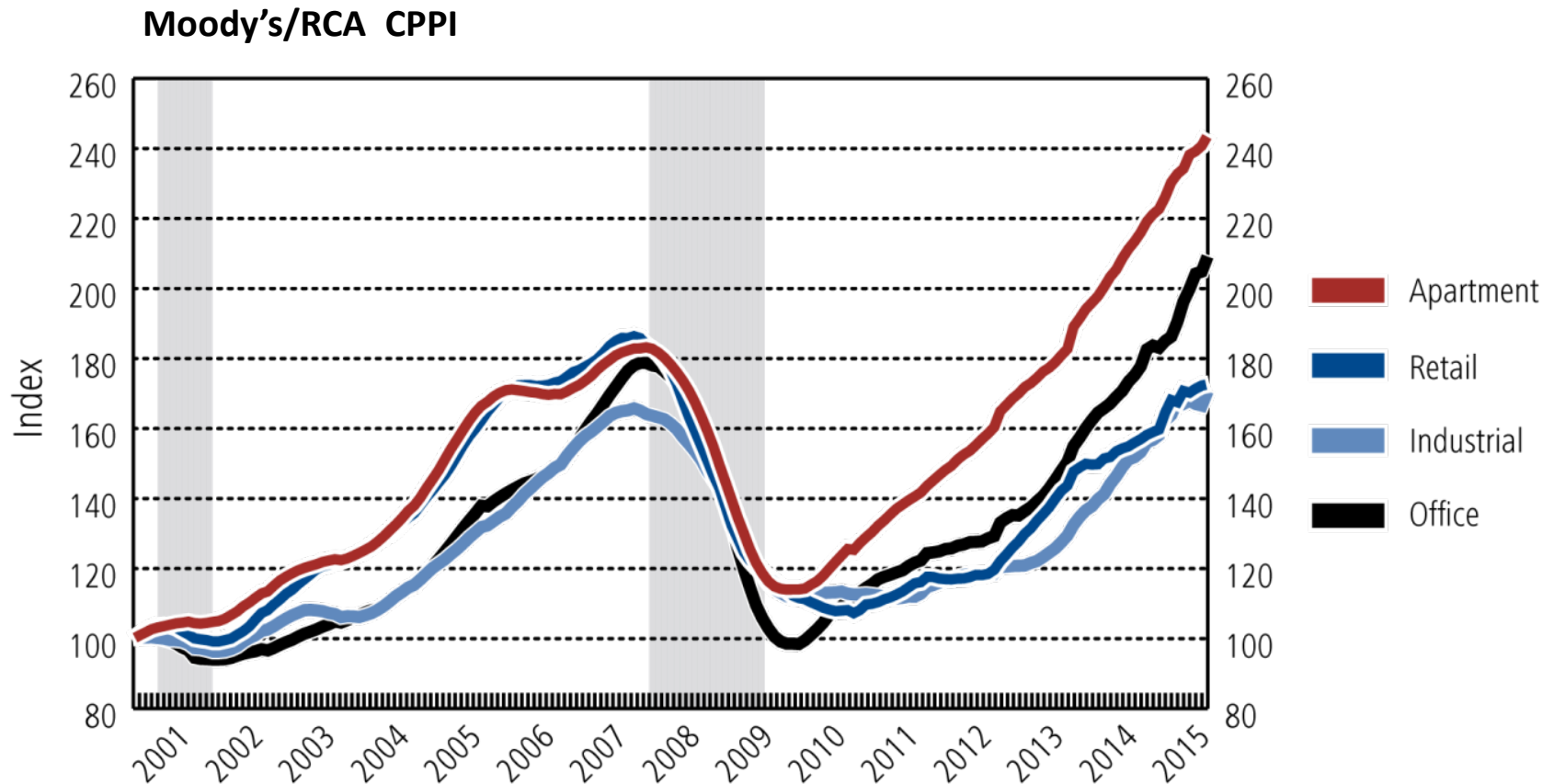
Billions of Dollars

- **Total U.S. CMBS outstanding was \$577.1 billion in 2q 2015, lower than the previous quarter and much less than the peak of \$830.1 billion in 4q 2007.**



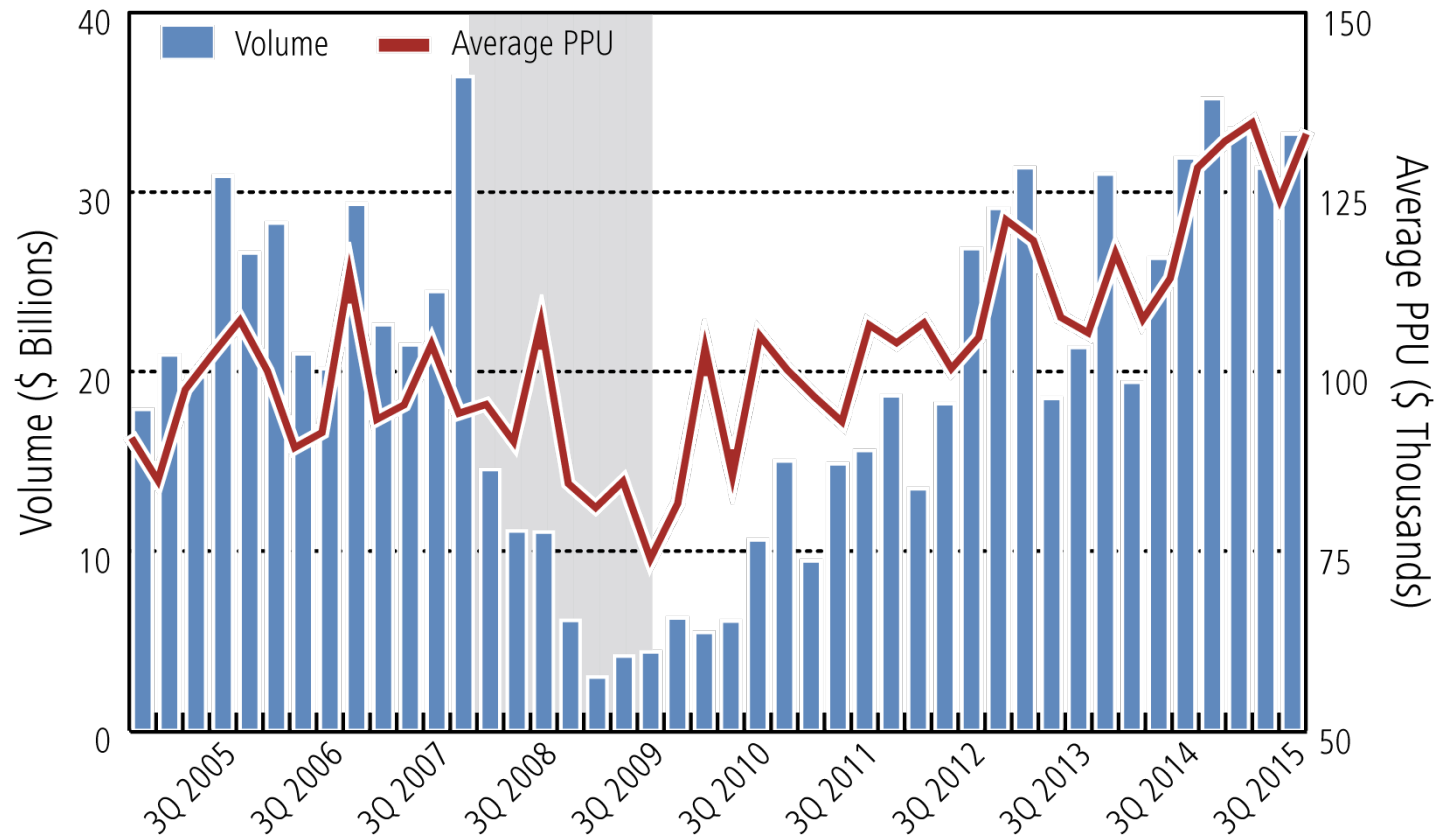
Source: Wells Fargo Securities, LLC, and Intex Solutions, Inc.

Prices Continue to Rise



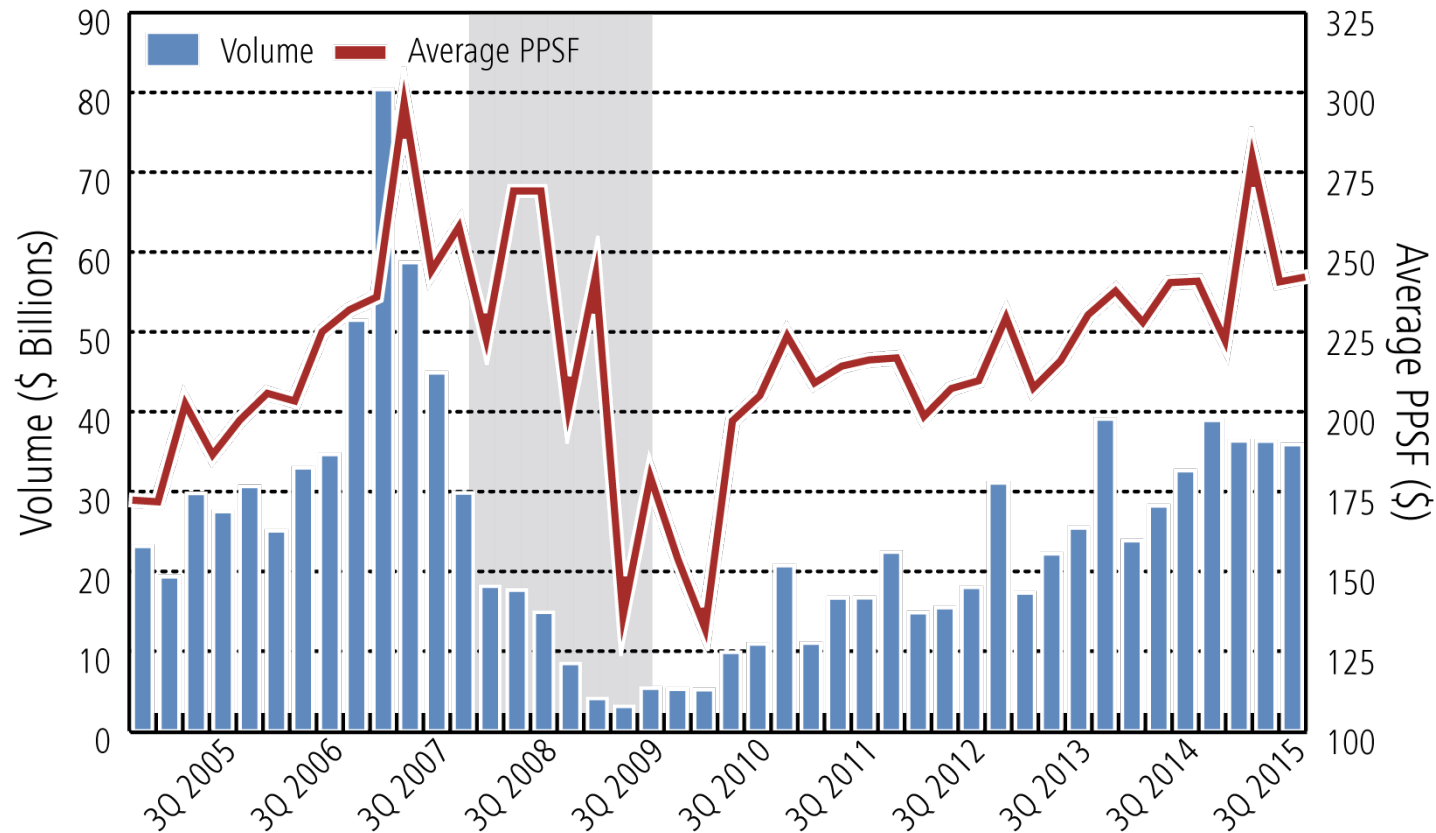
Source: Moody's/Real Capital Analytics, August 2015.

Apartment Volume/PPU



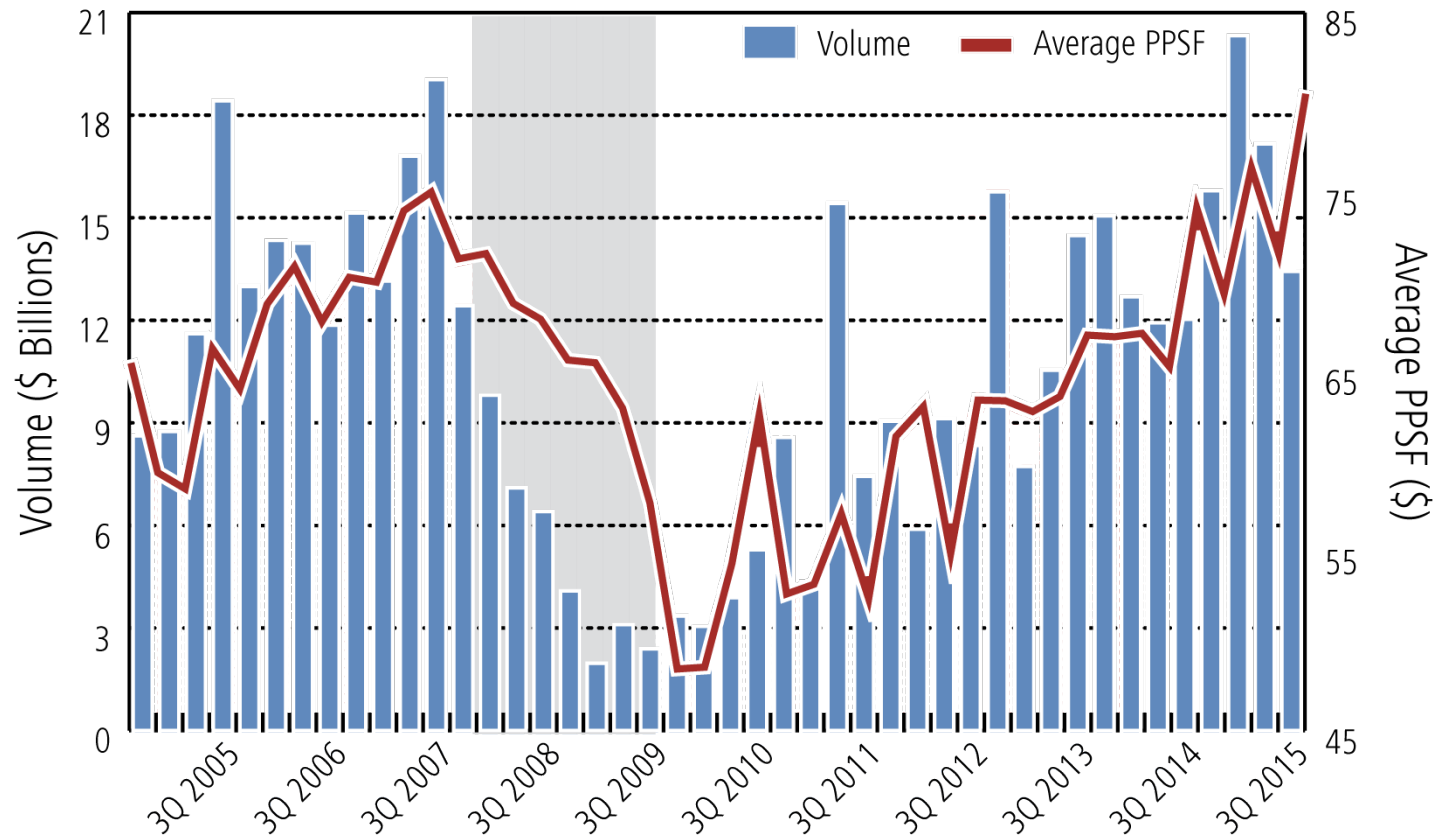
Source: Real Capital Analytics, 3Q 2015.

Office Volume/PPSF



Source: Real Capital Analytics, 3Q 2015.

Industrial Volume/PPSF



Source: Real Capital Analytics, 3Q 2015.

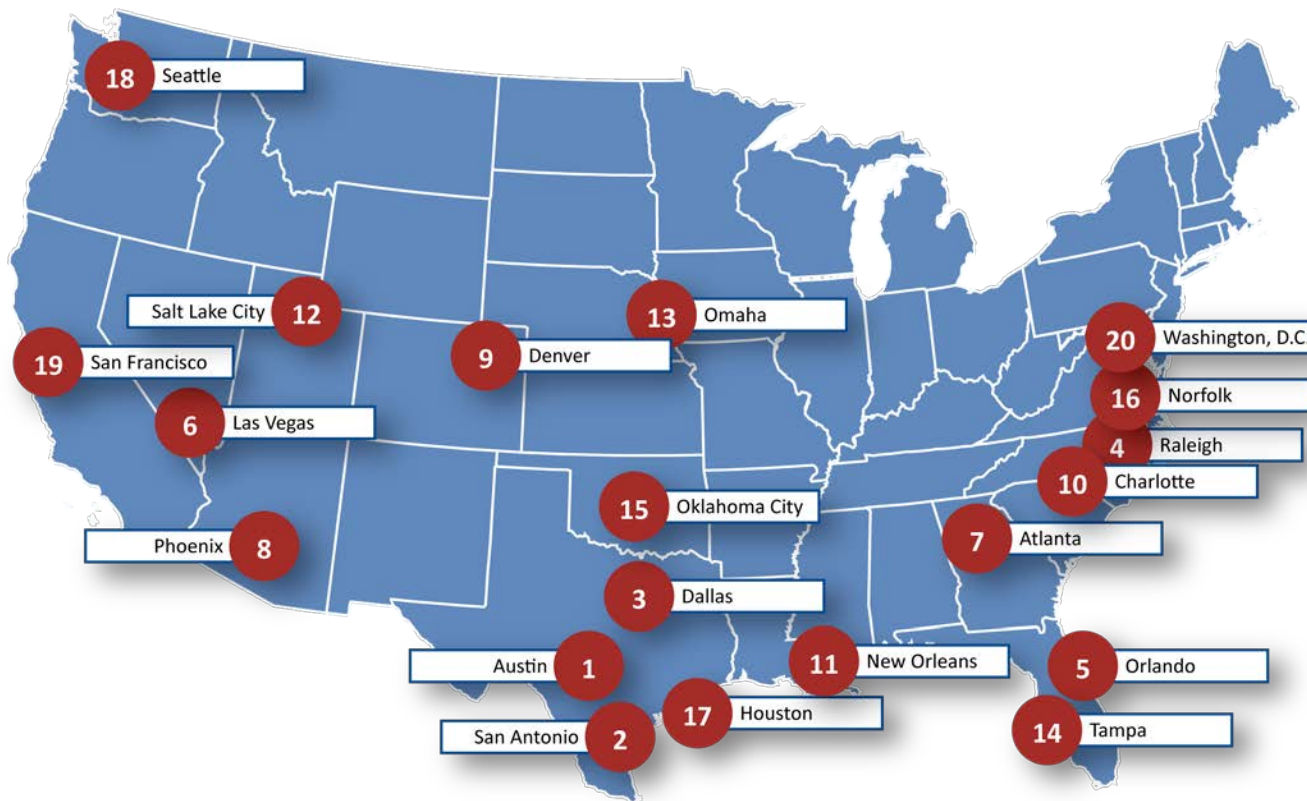
Price versus Value

“Price Is What You Pay, Value Is What You Get”

Warren Buffet

Price is an observation...Value is a Probable Outcome...

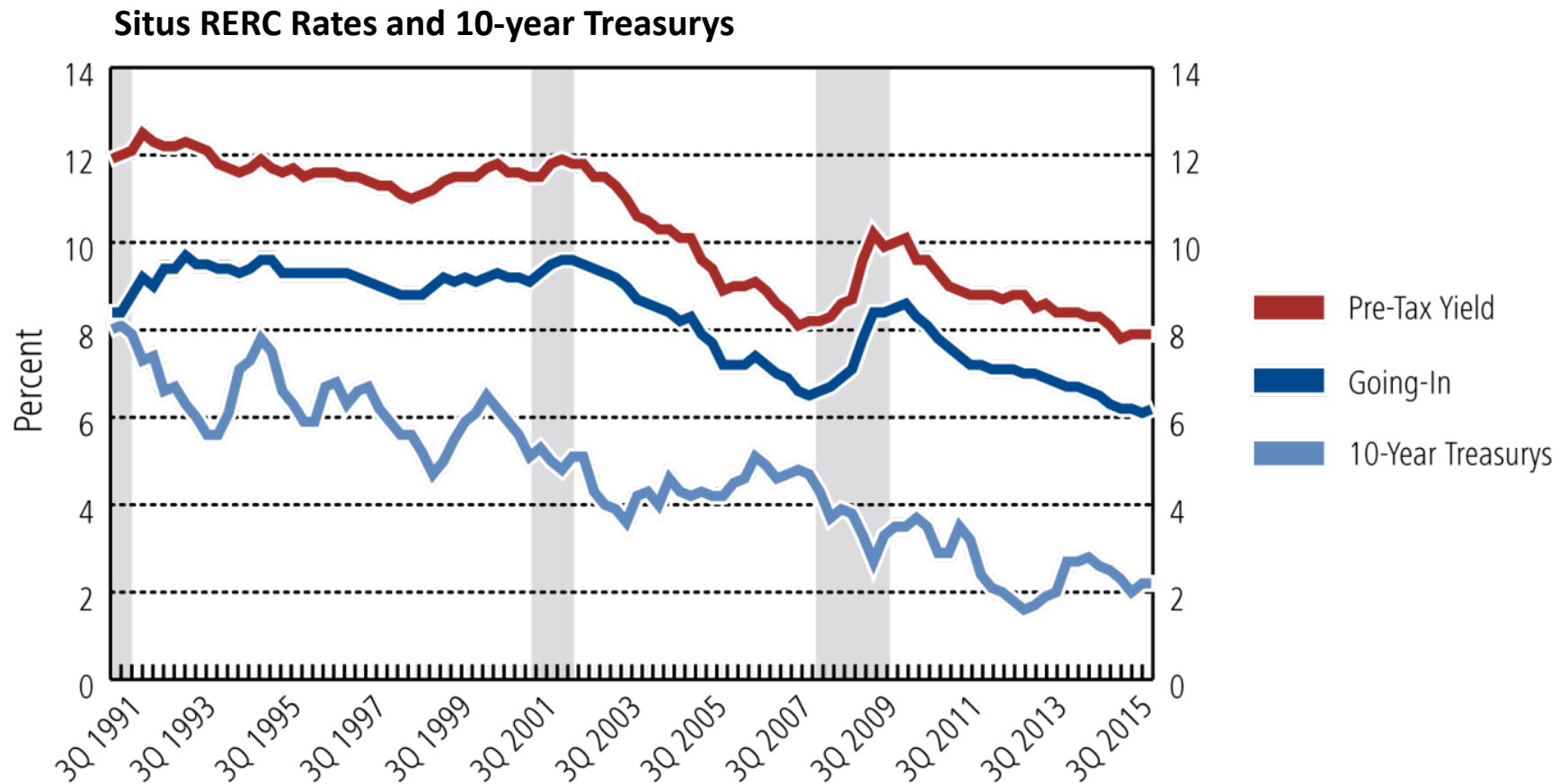
RERC Overall Relative Value vs. Price Index



Source: Situs RERC, 3Q 2015.

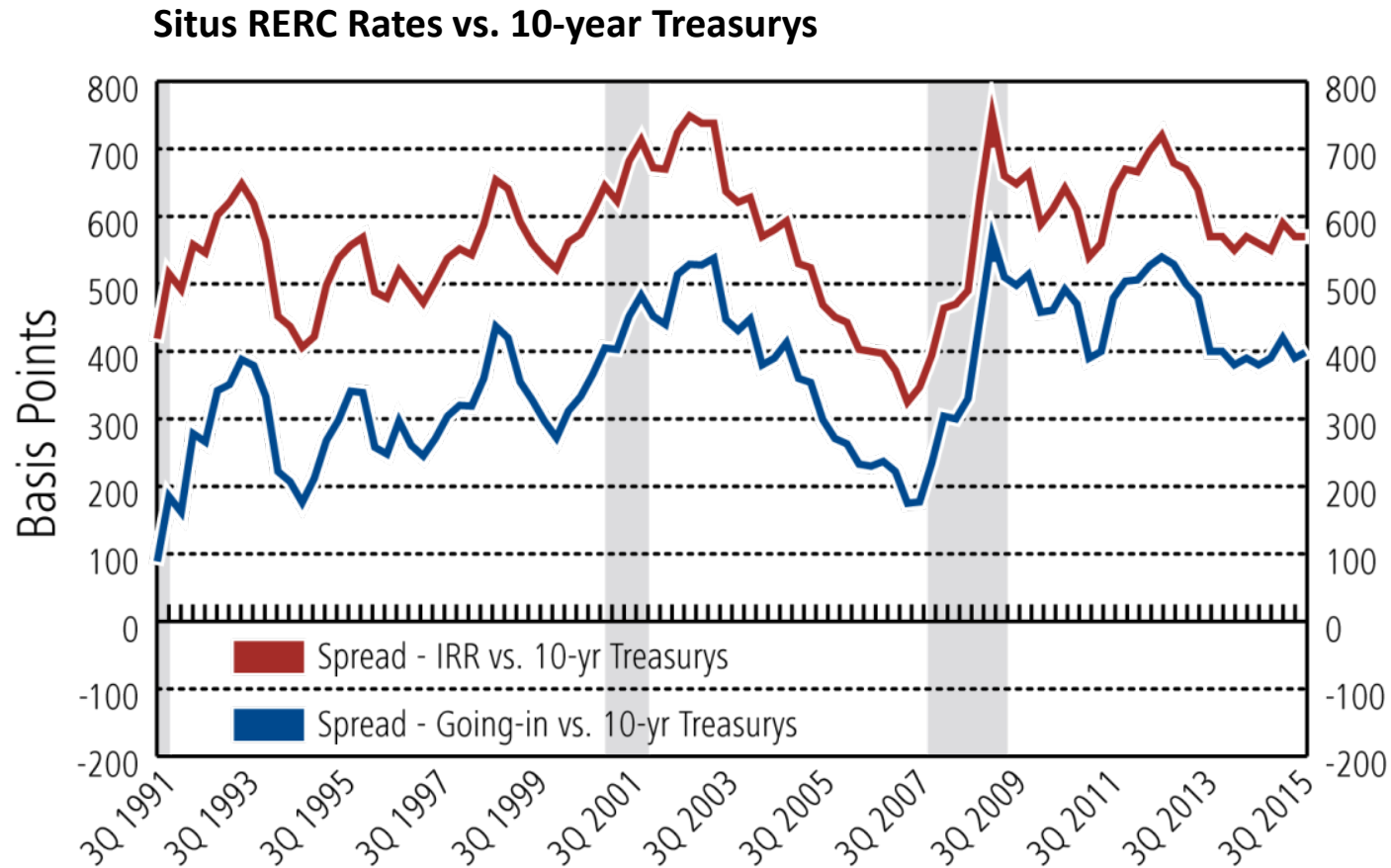
1. Austin
2. San Antonio
3. Dallas
4. Raleigh/Durham
5. Orlando
6. Las Vegas
7. Atlanta
8. Phoenix
9. Denver
10. Charlotte
11. New Orleans
12. Salt Lake City
13. Omaha
14. Tampa
15. Oklahoma City
16. Norfolk
17. Houston
18. Seattle
19. San Francisco
20. Washington, D.C.

Historical Rates & Today



Sources: Situs RERC, Federal Reserve, 3Q 2015 preliminary.

Spreads Over Treasuries



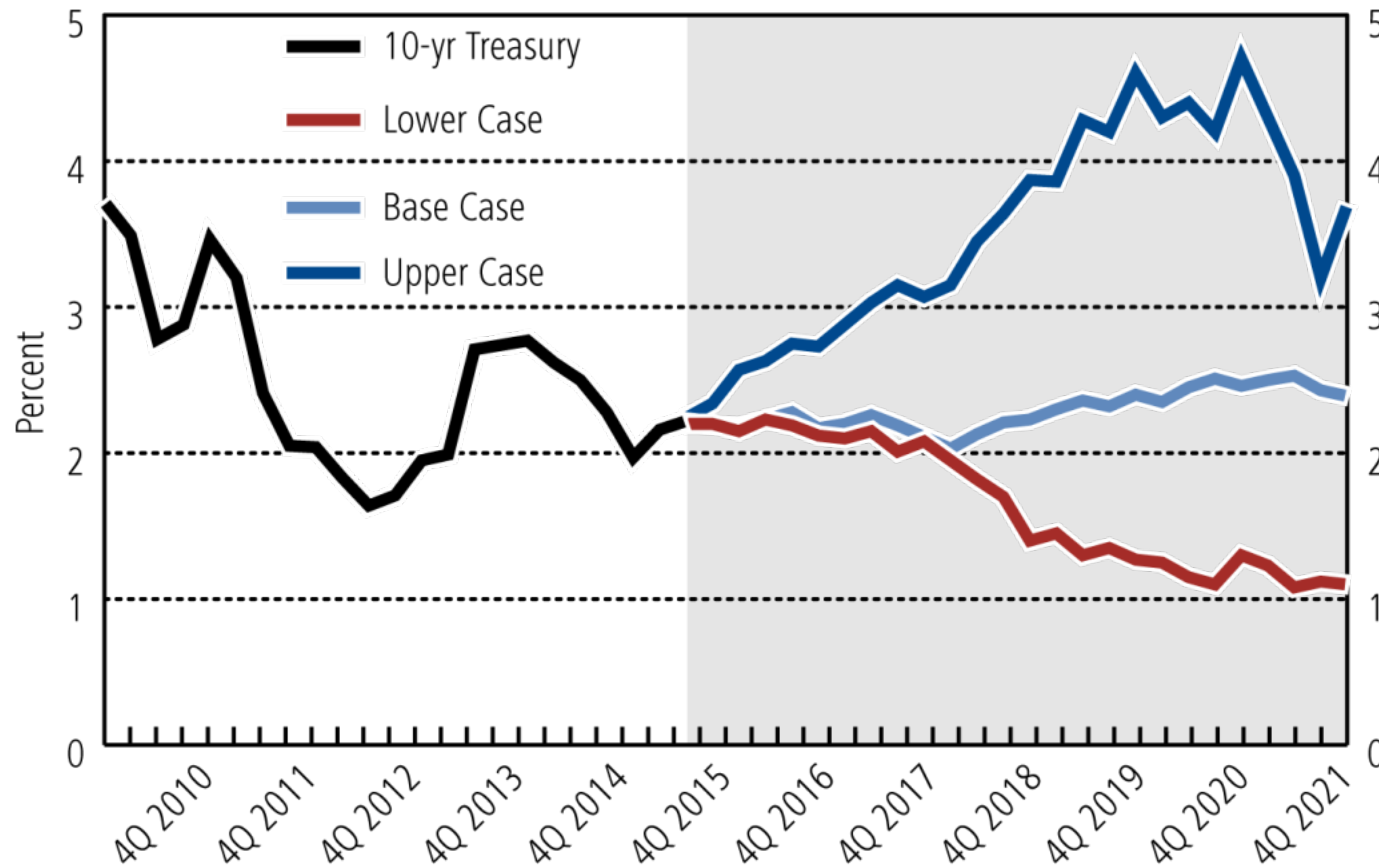
Sources: Situs RERC, Federal Reserve, 3Q 2015 preliminary.

10-Year Treasury Forecast 2015-2021

We have examined three paths or scenarios for interest rates – Excess Profits Case, Constrained Growth Case, and Financial Repression Case. Based on our views, the probabilities of three scenarios would be 20%/60%/20%, respectively. Further insights into these scenarios include:

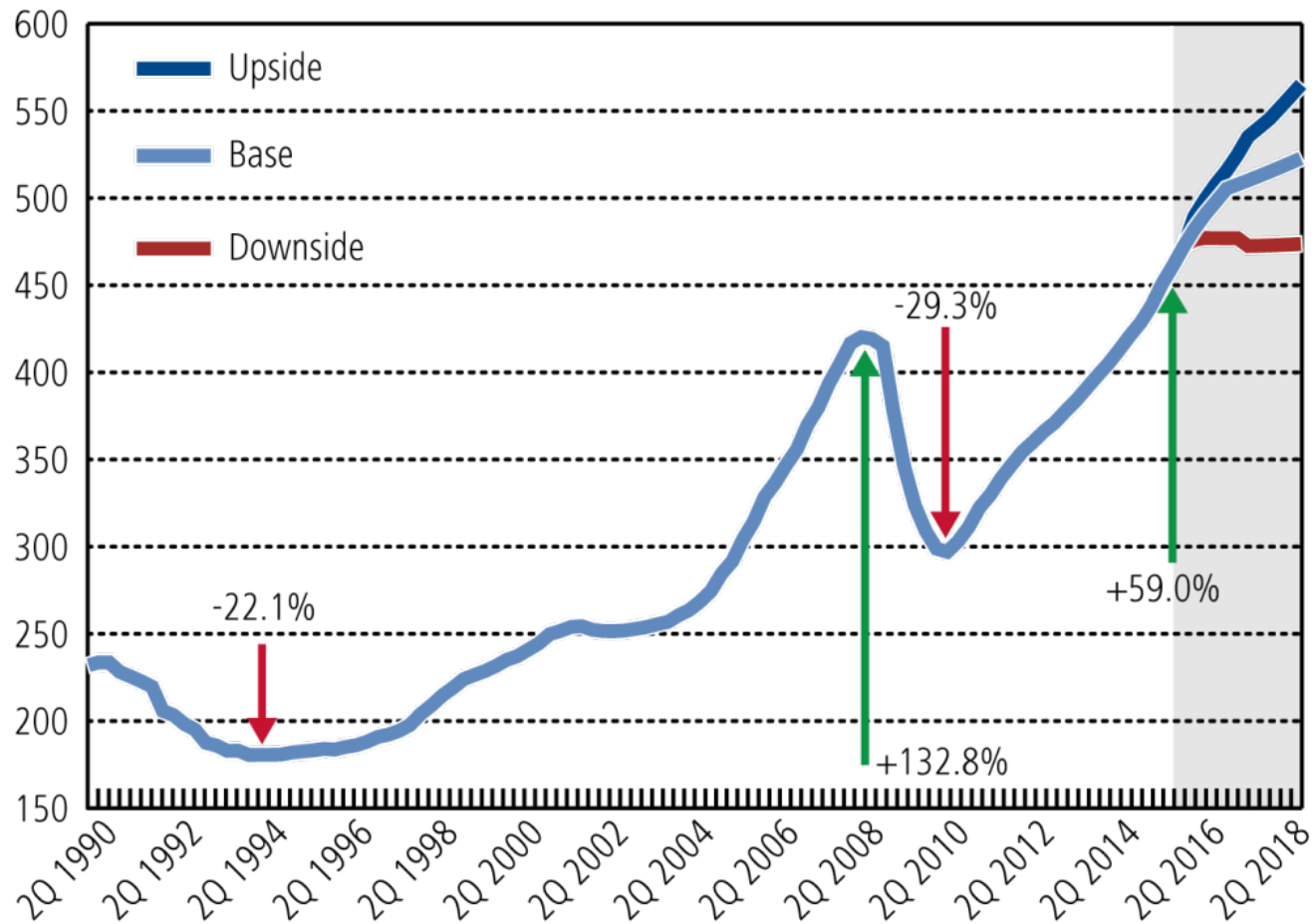
- **Upper Case or Excess Profits:** This is a scenario in which the economy begins expanding as a result of a strong global economic recovery at a faster rate than expected, and the Federal Reserve raises short-term rates gradually over the next few years and then more drastically in 2019 to stave off inflation.
- **Baseline or Constrained Growth:** This is a scenario in which the economy continues to grow slowly and the Federal Reserve raises rates less significantly than the scenario above. In the constrained growth case over the next 5 years, we will see an economic climate and rates very similar to the past 5 years.
- **Lower Case or Financial Repression:** Due to the substantial government debt-to-GDP of both the U.S. and other developed economies, it is plausible that we will see 10-Year Treasury rates actually decline as the U.S. seeks to reduce its debt in real terms by keeping government bond yields below the rate of inflation. This policy has precedent, as it was used over the 20 years following World War II (the most recent time period when developed debt-to-GDP was as high as it is now).

10-Year Treasury Forecast 2015-2021



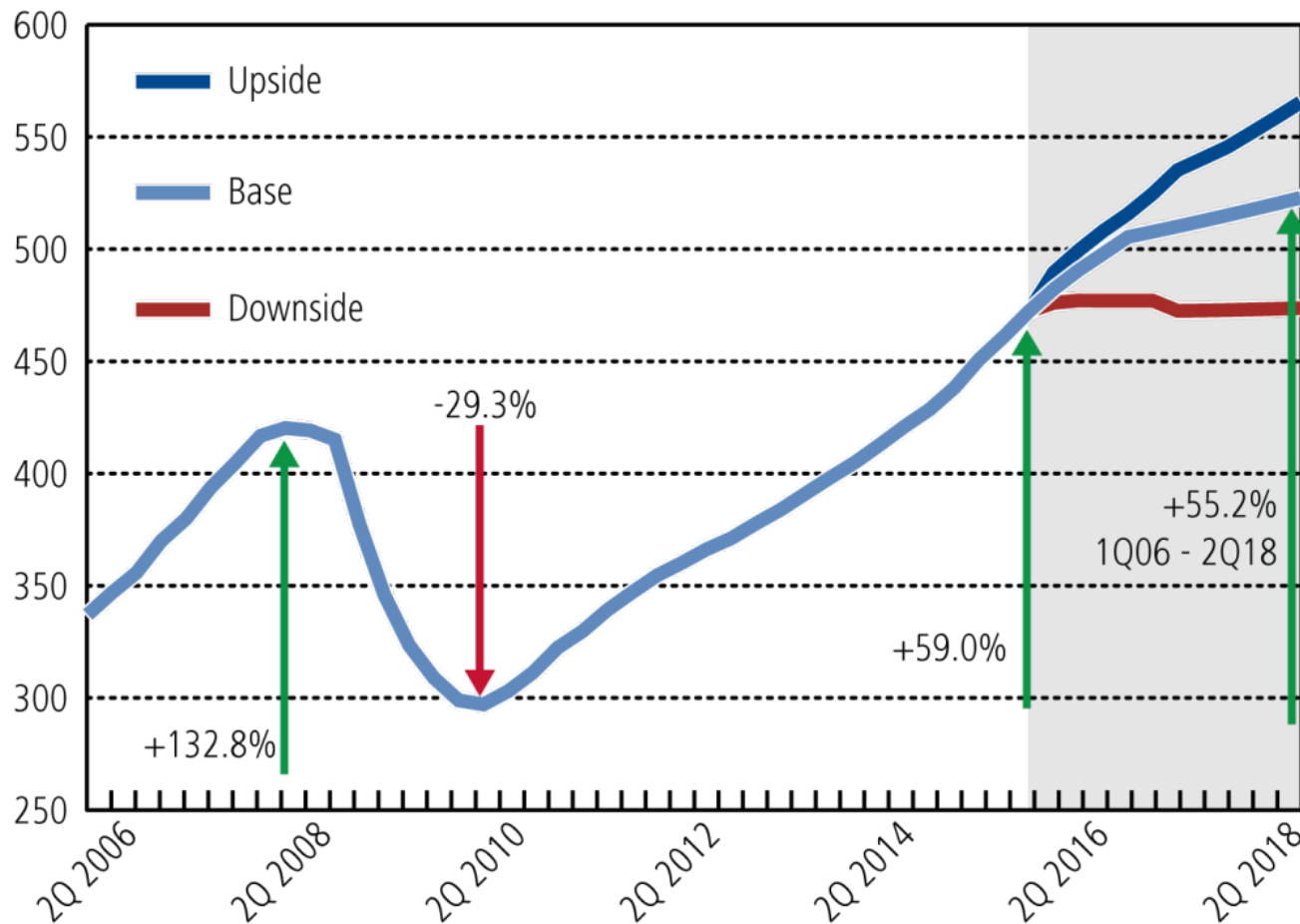
Source: Federal Reserve, compiled and forecasted by Situs RERC, September 2015.

CRE Gross Value (Appreciation + CapEx)



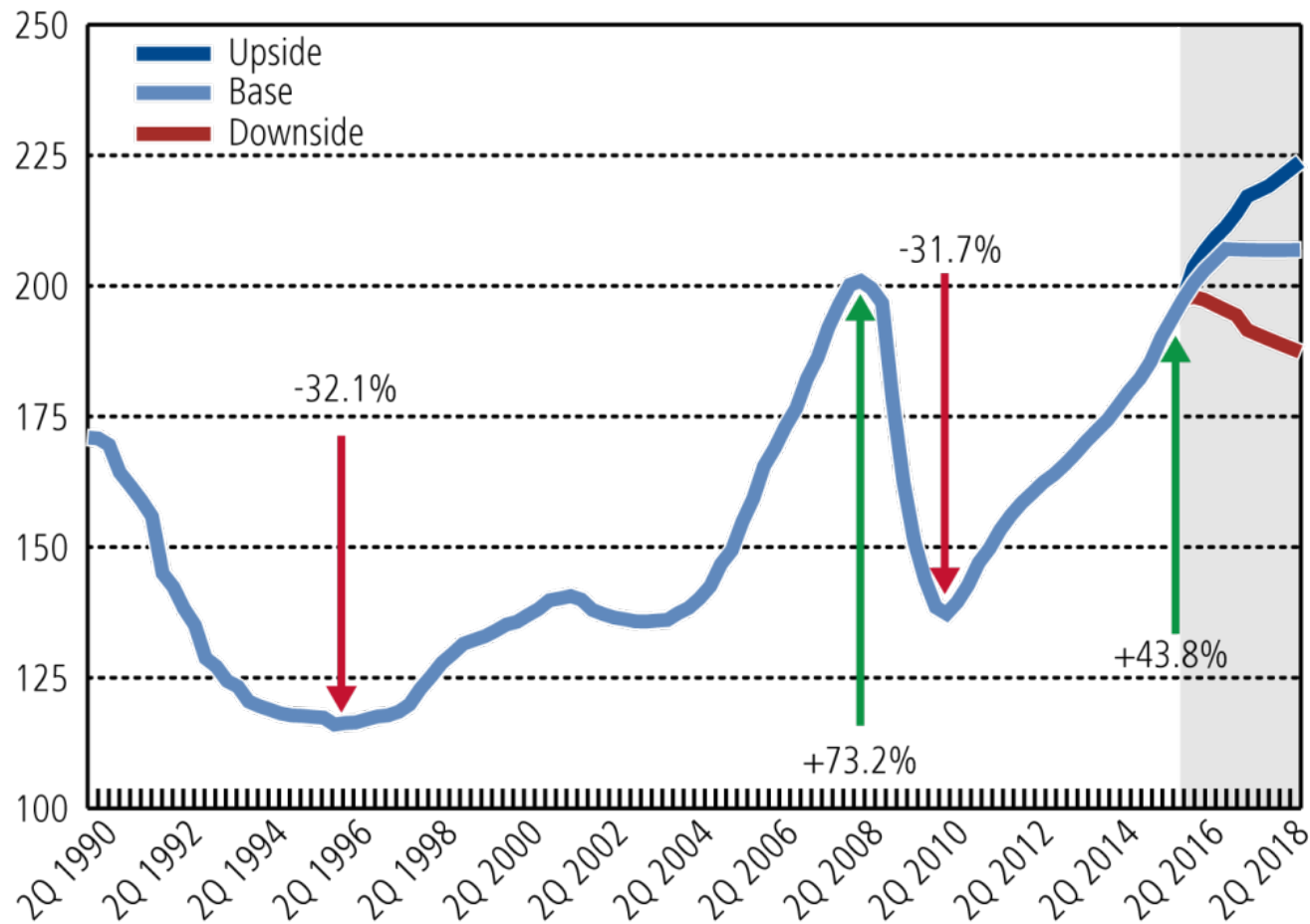
Sources: NCREIF, Situs RERC, 3Q 2015.

CRE Gross Value (Appreciation + CapEx)



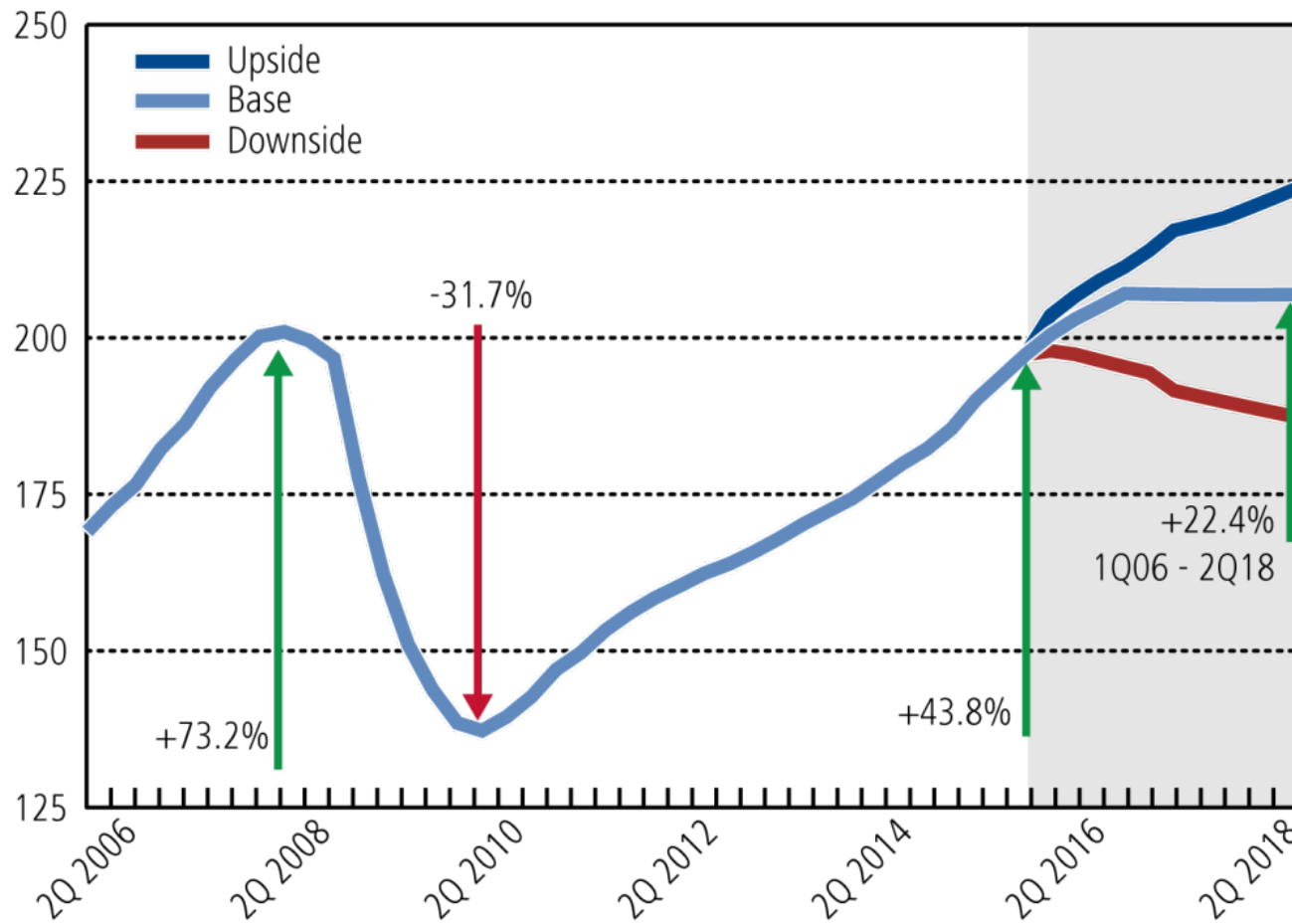
Sources: NCREIF, Situs RERC, 3Q 2015.

CRE Net Value (Appreciation Only)



Sources: NCREIF, Situs RERC, 3Q 2015.

CRE Net Value (Appreciation Only)



Sources: NCREIF, Situs RERC, 3Q 2015.

Outlook for 2016

- Commercial real estate values are fully priced to low long-term interest rates.
- Values and prices are *unlikely* to increase at the same pace in 2016. Unless underwriting criteria is compromised.
- Investment climate is not conducive to a major correction in the commercial real estate market for 2016.
- Longer Term Challenge: Will high Valuation that allow high Leverage be offset by Income Growth..., or does a major correction loom?

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