



Exploring the Uncharted Waters of Valuation in Today's Commercial Real Estate Market

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Looking Backward:

Valuation Issues and the Creation of the Bubble





• Podium

- Replacement cost with conventional financing is \$286,000 per unit with \$35,000 / unit land
- Market rents do not justify building this product type
- Rents need to be \$2.75 to justify building podium apartments with \$35,000 per unit land to a 7.5% ROC
- On grade 40 unit per acre density produce is justified by current rents with land costs of \$35,000 / unit building to a 7.5% ROC





Sample Apartment - On grade parking

Conventional Construction Loan



Advisory Real Estate Services

Apartment Development Pr	ofol'ma			
2/15/10 1:30 PM	Land Acres:	5,00	Units	120
Washer Cantor Area	Land SP:	130,590	Rentable Sq.FL:	105,750
C Nucley Si S In preside a business (I prime Lagon of 1106 Active lagon)	we Densky:	46.0 units/scre	Parking Scapes	270
Sector and the sector of the sector is a sector of the sector of the sector is a sector of the secto				

	autors of state	R492060
Construction Loan	65.0%	15,423,700
Soully Investor	(69%)	6,644,100
quity Developen	(20%)	1,661,000
otel	\$224 /SF	<u>23,729,800</u>
an a	Uses and a local	1
roperty Purchase	\$35,000 Aunit	4,203,000
onalts & Fees	\$12,000 /unit	1,940,000
land Costs \$113 /aq.ft.	s100,000 Junit	12.003.000
Clifee 36 /sq.ft	5.0%	GD3,000
contingency is 6 /sq.4t.	5.0%	609,000
osa 5125 /so.fb.		
Jev. Fee	3.0%	711,064
wohitects & Engineers	\$5,000 Junit	1,000,000
When Soft Costs 19	\$4,500 /molt	540,000
xDyClosing/Logal	\$2,500 /001K	306,030
in Utlement Consulting	\$2,000 yunit	240,000
ntorest Reserve	7.00%	1,619,489
osn Fee	1.00%	154,237
Inancing Costs	0.5036	77,119
guay Fee	2,60%	165,103
otal	\$197,740/unit	23,728,000

Rena Shoome	\$1.95 /s[/mo	2,476,500
Othar Income	425 / unit	36,000
URINY Rec. ^{1D}	\$24 / onl:	35,100
Vac. & Lost	7.055	(178,3 <u>33</u>
Effective Gross In	ICOME	2,369,260
Eleptonizosi		
Taxes	1.005>	237,286
Insurance	\$250 /unit	30,000
Mgm.L. Fee	3.0%	72,078
Payeoli	4800 Junit	96, C OC
G&A	\$150 yunit	16,000
R&M	\$700 Vanit	84,000
Ullfifes	\$650 /unit	78,000
Mist. / Adv.	\$150 /onll	18,000
Reserves	\$200 Junit	24,000
Totel Expenses	\$5,476 (MILL_	656,300
NDI		1,712,902
Return on Total	Cost	7.29

Proposed Unit Mix

	ber in the second	Square 🖓	Wumber '	Total	Monthly	itent 🦾	Totel
260	50 55 500 60 7,000	CARGE FORDER AND	con Uniter a	systempleter and	The REPORT Price	2344/08/DF	 Mentility
	Single	600	15	000 ,9	\$1,350	\$2.25	20,250
	165 18a	750	20	15,000	\$1,613	\$7,15	32,250
	1Bd 1.53&	859	ZD ,	17,009 י	\$1,70D	\$2.00	34,003
	2136 218a	950	35	33,250	\$1,805	\$1 .00	63,173
	26d 28 a	1,050	30	34,500	\$1,890	\$ 3 ,80	56,203
100	to the second	RAT	200 n 6 10	3.0.0105.750 ^{%.3}	ើងនិងដំ ទី១០ ។	Contacting and the second	···· 205.376

Amerilles Include, dubt case, filmess center, polit, spall. Yow and other promotios included to above rent.





Sample Apartment - Wrap

Conventional Construction Loan



Apartment Developmon	t Protorma			
Names of the second sec	And a second			
7/15/10 \;30 FM	Land Actes:	2.00	Units;	120
Warner Centor Area	Land SF:	\$7,120	Rentable Sq. Hu	105,750
техникциона на вла запел Бейлендијенију Россел, ШП Аз	r⇔rane > Lien'sity:	60.0 units/aore	Parking Spaces:	270

1.6.0.04	15 (0) 500
50.0%	15,696,500
	12,557,100
	3,139,300
\$297 /SF	31,392,900
Uses 🐨 🔊	
\$35,000 /unit	4,200,000
\$12,000 Junli	1,440,000
\$152,000 /unit	18,240,000
5.0%	912,0DD
5.0%	912,000
3,036	941,787
\$9,500 /0/alt	1,140,000
\$4,500 /unit	540,000
\$2,508 Aunit	300,000
\$2,000 /unit	240,000
7.00%	1,977,759
1,00%	156,965
0.50%	78,483
2.50%	353, <u>928</u>
\$261,636/on#L	31,392,900
	(209%) (2)9%) \$297 /SF \$25,000 /unft \$12,000 /unft \$152,000 /unft \$152,000 /unft \$,99% 3,0% \$9,500 /unft \$4,500 /unft \$2,506 /unft \$2,506 /unft \$2,506 /unft \$2,00% 1,30% 0,50% 2,50%

Rent Income	\$1.\$5 /st /mo	2,476,509
Other Income	\$25 / vall	36,000
Julity Rec. ⁽¹⁾	524 / Ualt	35,100
Vac, R, Loss	7.0%	(376 _r 332)
Effective Gross In	come	2,369,268
Expensest		
TEGGE 5	1.00%	313,929
insurance	\$250 /unit	30,000
Mgmt, Fee	3.0%	71,078
Payroll	\$800 /unit	96,000
GÂA	\$150 /unit	
R & M	\$700 /unit	84,000
Utirties	\$669 /unit	78,000
Mkt. / Adv.	\$150 /unit	
Reserves	\$200 /unit_	24,000
Total Expenses.	\$5,10B /unit	
NOI		1,636,261
Return on Tota	l Cost	5.2%

Proposed Unit Mix

t SF Monthly	Rent Par SF	Mont Ren	* Total Souft	ber	Nµnib of Un	Square 77	Sino 4
5 20,25	\$2.25	 \$	9,630		15	600	Single
5 32,25	\$2.15	\$	15,000	1	20	750	LBd 13a
10 34,00	\$2.00	\$	17,000)	20	850	18d 1.55a
10 63,17	st1.90	\$	33,250		35	950	28d 28a
10 56,70	\$1.60	\$	31,500)	30	1,850	20d 2Ba
	1 .						

Amenities include, clubhouse, Rhoese center, pool, spe. View and other premiums included in above rent.





Sample Apartment - Podium **Conventional Construction Loan**



Advisory Real Estate Services

Apartment Developme	nt Proforma			
2/15/10 0:30 FM	Lano Acres:	1.50	Uplise	120
Wather Center Area	Land SF:	65,340	sientable Sy.Ft.:	105,750
((And)/555 2+4nex3.nex.bu/kcs/b03/kg Pic(19/QPO)	Astronomy Denelby:	Bit)(Clunits/ucre	Parking Spotos:	270
the summer of the local division of the loca	And a second sec	The second s		

	ILLICES CONTRACTOR	17,100,500
Construction Loan	50-0%	17,180,500
Equily Investor	(67%)	13,744,300
Equity Developer	(20%)	3,436,100
Total	\$325 /SF	34,360,900
	lacs of the set	We the sec
Property Purchase	\$35,000 Amit	4,200,000
Pormita & Fees	\$12,000 /imit	1,440,000
Bard Costs: \$195 /sq.ft.	\$172,000 /unit	20,640,000
GC fee \$10 /sq.ft.	5.0%	1,032,000
Continuency 510 /sq.ft.	5.0%	1,032,000
Total :#215 /sq.ft.		
Dov. Fee	3,0%	1,030,827
Architects & Engineers	59,500 /tan't	1,140,000
Other Solt Costs "1	\$4,500 /UNK	540,000
DD/Closing/Legal	\$2,500 /unit	300,000
Entitionent Consulting	\$2,000 /unit	740,000
Interest Reserve	7.00%5	2,164,743
Loan Fee	1.00%	171,805
Financing Costs	0.50%6	85,903
Equity Fee	2.50%	343,6 <u>08</u>
Total	\$286,343/unit	34,360,900

	Cash Flow (3	
Rapt Iscome	s 1.55 /si/m o	2,476,500
Other Income	\$75 / imit	35,000
Otility Kec. ⁽¹⁾	\$24 / ualt	35,100
Vac. & Loss	7.0%	(178,332)
Effective Gross In	come	2,369,268
Expenses:		
Taxes	2,08%6	349,609
Josulance	\$250 Junit	30,000
Mgrat, Fee	3,055	71,078
Payroll	\$000 /unit	96,000
G&A	\$150 Junit	18,000
18 S. M	\$70B /neit	84,000
Ublities	\$650 /colt	78,000
Mkt. / Adv.	\$150 /unit	18,000
Recorves	\$280 /orð:	24,000
Total Expenses	\$5,356 /unit	762,587
NOJ		1,606,581
Return on Tota	l Cast	4.7%

(1) Bosed on SG& of Weter & sever - sub-function.

Includes: FF&S, taxes 6, ins. during construction.

Proposed Unit Mix

2000-2019-2020-2019 2010-2019	Feet	of Units	Sa.FL	Ront	Per SF	Monthly
Single	600	15	9,000	\$1,350	\$2.25	20,25
5 31 b81	750	20	15,000 i	\$1,613	\$2.15	32,25
18d 1.5Ba	850	20	17,000	\$1,700	\$2.00	31,00
2Bd 28a	950	35	33,250 :	\$1,805	\$1.90	63,17
28d 28a	1,050	ЭC	31,500	\$1,690	\$1.80	j 5 6,7 0

Amendies sorlide, clubhouse. Receivicenter, pool, eps. Wew and other premiums included to above rent.





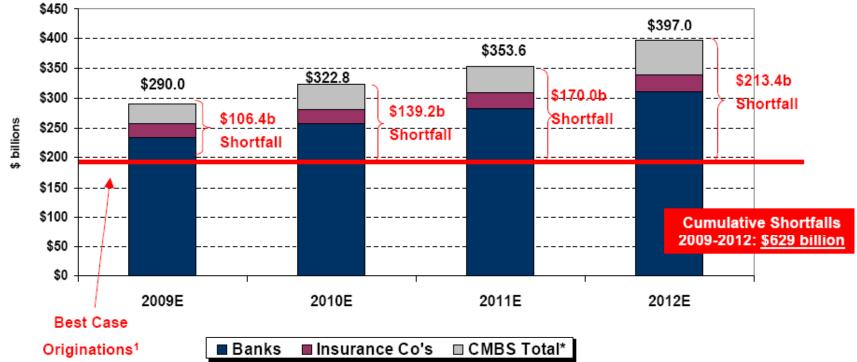
Reality Check: Where Is The Market Today?

Looking at opportunities from the crossroads of valuation and market uncertainty





The CRE Loan Maturity Tidal Wave ...



¹ Origination projections based on the average 4-year historical **gross** originations from all non-CMBS lenders (excludes HUD/Gov't).

* CMBS total includes both fixed and floating rate loans to first maturity.

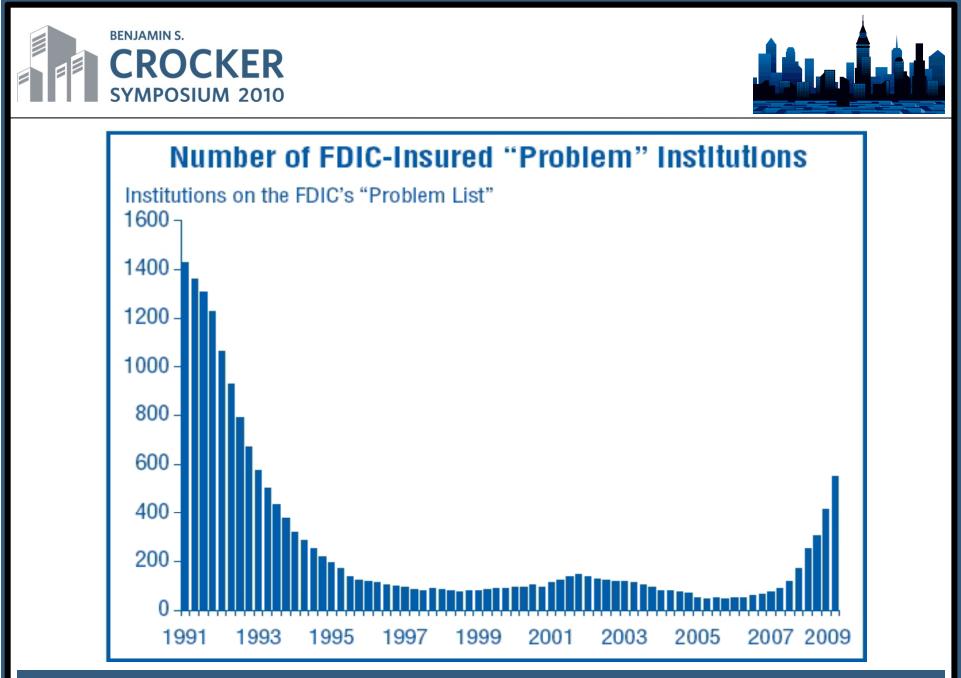
Source: Wachovia





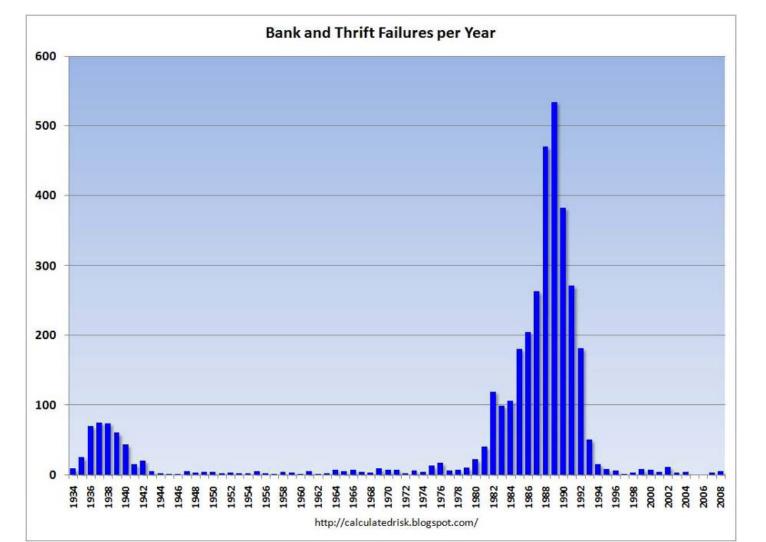
Smaller banks have dangerous CRE exposures ...

Bank Size (Total Assets 9/30/09)	All Commercial Banks		
	More than \$10B	\$1B to \$10B	\$500M to \$1B
Number of institutions	85	440	557
Loans and leases, gross	52%	68%	70%
All real estate loans	28%	47%	53%
Construction and land development	3%	9%	10%
Commercial real estate	5%	20%	23%
Multifamily residential real estate	1%	2%	2%
1-4 family residential	18%	14%	16%



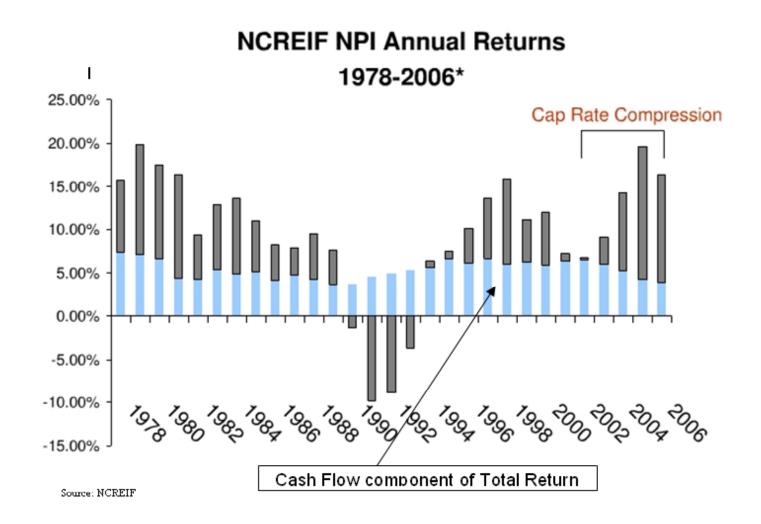
















Looking to the Future:

Lessons Learned to Avoid Another Bubble?





Questions?

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