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SYMPOSIUM 2010



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
Apartment Development Proforma**



Advisory Real Estate Services

7/15/10 1:30 PM	Land Area:	5.00	Units:	120
Weather Center Area	Land SF:	130,390	Rentable Sq.Ft.:	105,750
Site/Unit Density	Density:	46.0 units/acre	Parking Spaces:	270

Construction Costs		
Construction Loan	65.0%	15,423,700
Equity Investor	(60%)	5,644,100
Equity Developer	(20%)	1,661,000
Total	\$22.5 /sf	23,729,000

Uses		
Property Purchase	\$35,000 /unit	4,203,000
Permits & Fees	\$12,000 /unit	1,440,000
Hard Costs \$113 /sq.ft.	\$140,000 /unit	12,000,000
G.C. Fee \$6 /sq.ft.	5.0%	603,000
Contingency \$6 /sq.ft.	5.0%	603,000
Taxes ⁽¹⁾	\$125 /sq.ft.	
Dev. Fee	3.0%	711,064
Architects & Engineers	\$5,000 /unit	1,000,000
Other Soft Costs ⁽²⁾	\$4,500 /unit	540,000
CC/Closing/Legal	\$2,500 /unit	300,000
Entitlement Consulting	\$2,000 /unit	240,000
Interest Reserve	7.00%	1,619,489
Loan Fee	1.00%	154,237
Financing Costs	0.50%	77,119
Equity Fee	2.40%	166,103
Total	\$197,740/unit	23,720,000

(1) Includes: F&E, taxes & ins. during construct on.

Stabilized Cash Flow (2.5 Years)		
Rent Income	\$1.98 /sf/mo	2,476,500
Other Income	\$25 / unit	30,000
Utility Rec. ⁽¹⁾	\$24 / unit	28,800
Vac. & Loss	7.0%	(170,332)
Effective Gross Income		2,365,268
Expenses:		
Taxes	1.00%	237,286
Insurance	\$250 /unit	30,000
MGMT. Fee	3.0%	71,078
Payroll	\$800 /unit	96,000
G & A	\$150 /unit	18,000
R & M	\$700 /unit	84,000
Utilities	\$650 /unit	78,000
Rest. / Adv.	\$150 /unit	18,000
Reserves	\$200 /unit	24,000
Total Expenses	\$2,076 /unit	896,360
NDI		1,712,902

Return on Total Cost 7.2%

(1) Based on 90% of water & sewer - s.e. included.

Proposed Unit Mix

Size	Square Feet	Number of Units	Total Sq.Ft.	Monthly Rent	Rent Per SF	Total Monthly
Single	600	15	9,000	\$1,350	\$2.25	20,250
1Bd 1Ba	750	20	15,000	\$1,613	\$2.15	32,260
1Bd 1.5Ba	850	20	17,000	\$1,700	\$2.00	34,000
2Bd 2Ba	950	35	33,250	\$1,805	\$1.90	63,175
2Bd 2Ba	1,050	30	31,500	\$1,890	\$1.80	56,700
TOTAL		120	105,750	\$1,720	\$1.96	206,376

Amenities include, club house, fitness center, pool, spa. View of other items included in above cost.



**Sample Apartment - Wrap
Conventional Construction Loan
Apartment Development Proforma**

ARES Partners
Advisory Real Estate Services

7/15/10 1:30 PM	Unit Acres:	2.00	Units:	120
Warner Center Area	Land SF:	97,120	Rentable Sq.Ft.:	105,780
CONTRACT TO BE SIGNED BY THE BORROWER FROM A WRAP CONSTRUCTION LOAN	Lottery:	63.0 UNITS/ACRE	Parking Spaces:	270

Sources		
Construction Loan	50.0%	15,695,500
Equity Investor	(20%)	12,557,100
Equity Developer	(30%)	3,139,300
Total	\$297 /SF	31,392,900

Costs		
Property Purchase	\$35,000 /unit	4,200,000
Permits & Fees	\$12,000 /unit	1,440,000
Hard Costs \$172 /sq.ft.	\$152,000 /unit	18,240,000
GC Fee \$8 /sq.ft.	5.3%	912,000
Contingency \$9 /sq.ft.	9.0%	912,000
Total	\$193 /sq.ft.	
Dev. Fee	3.0%	941,787
Architects & Engineers	\$8,500 /unit	1,140,000
Other Soft Costs (1)	\$4,500 /unit	540,000
DD/Closing/Legal	\$2,500 /unit	300,000
Entitlement Consulting	\$2,000 /unit	240,000
Interest Reserve	7.00%	1,977,759
Loan Fee	1.00%	156,965
Financing Costs	0.50%	78,483
Equity Fee	2.50%	353,928
Total	\$261,630/unit	31,392,900

(1) Includes: FR&E, taxes & ins. during construction.

Stabilized Cash Flow (6 Years)		
Rent Income	\$135 /sf/mo	2,476,500
Other Income	\$25 / unit	36,000
Utility Rec. (1)	\$71 / unit	35,100
Vac. & Loss	7.0%	(578,832)
Effective Gross Income		2,369,268
Expenses:		
Taxes	1.00%	313,929
Insurance	\$250 /unit	30,000
Mgmt. Fee	3.0%	71,078
Payroll	\$800 /unit	96,000
G & A	\$150 /unit	18,000
R & M	\$700 /unit	84,000
Utilities	\$600 /unit	78,000
Mkt. / Adv.	\$150 /unit	18,000
Reserves	\$200 /unit	24,000
Total Expenses	\$6,108 /unit	733,907
NOI		1,636,261
Return on Total Cost		6.2%

(1) Based on 90% of water & sewer - sub metered.

Proposed Unit Mix

Size	Square Feet	Number of Units	Total Sq.Ft.	Monthly Rent	Rent Per SF	Total Monthly
Single	600	15	9,000	\$1,350	\$2.25	20,250
1Bd 13a	750	20	15,000	\$1,613	\$2.15	32,260
1Bd 1.55a	850	20	17,000	\$1,700	\$2.00	34,000
2Bd 28a	950	35	33,250	\$1,805	\$1.90	63,175
2Bd 28a	1,050	20	21,000	\$1,890	\$1.80	56,700
Total	881	120	105,750	\$1,720	\$1.95	206,775

Amenities include: clubhouse, fitness center, pool, spa. View and other premiums included in above rent.



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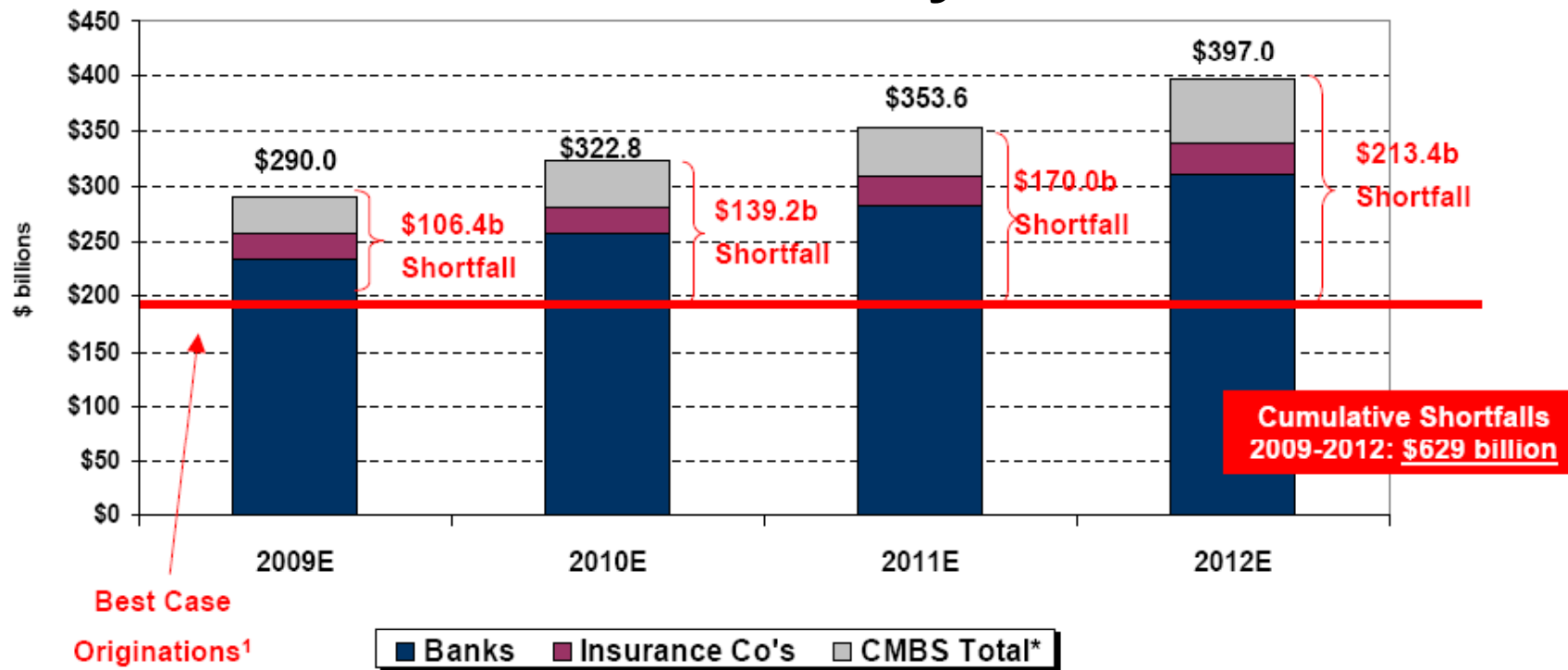


Reality Check: Where Is The Market Today?

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).

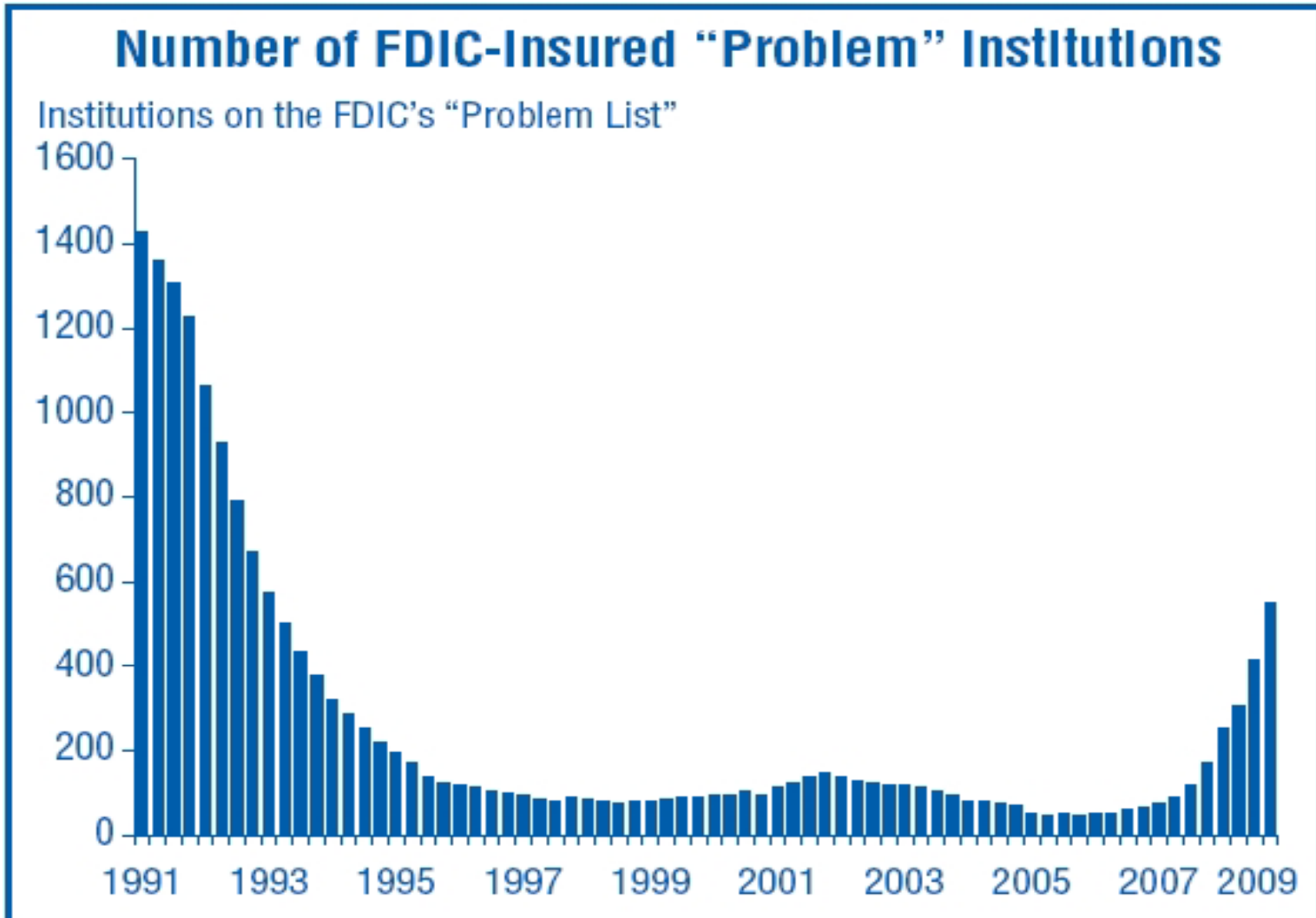
* CMBS total includes both fixed and floating rate loans to first maturity.

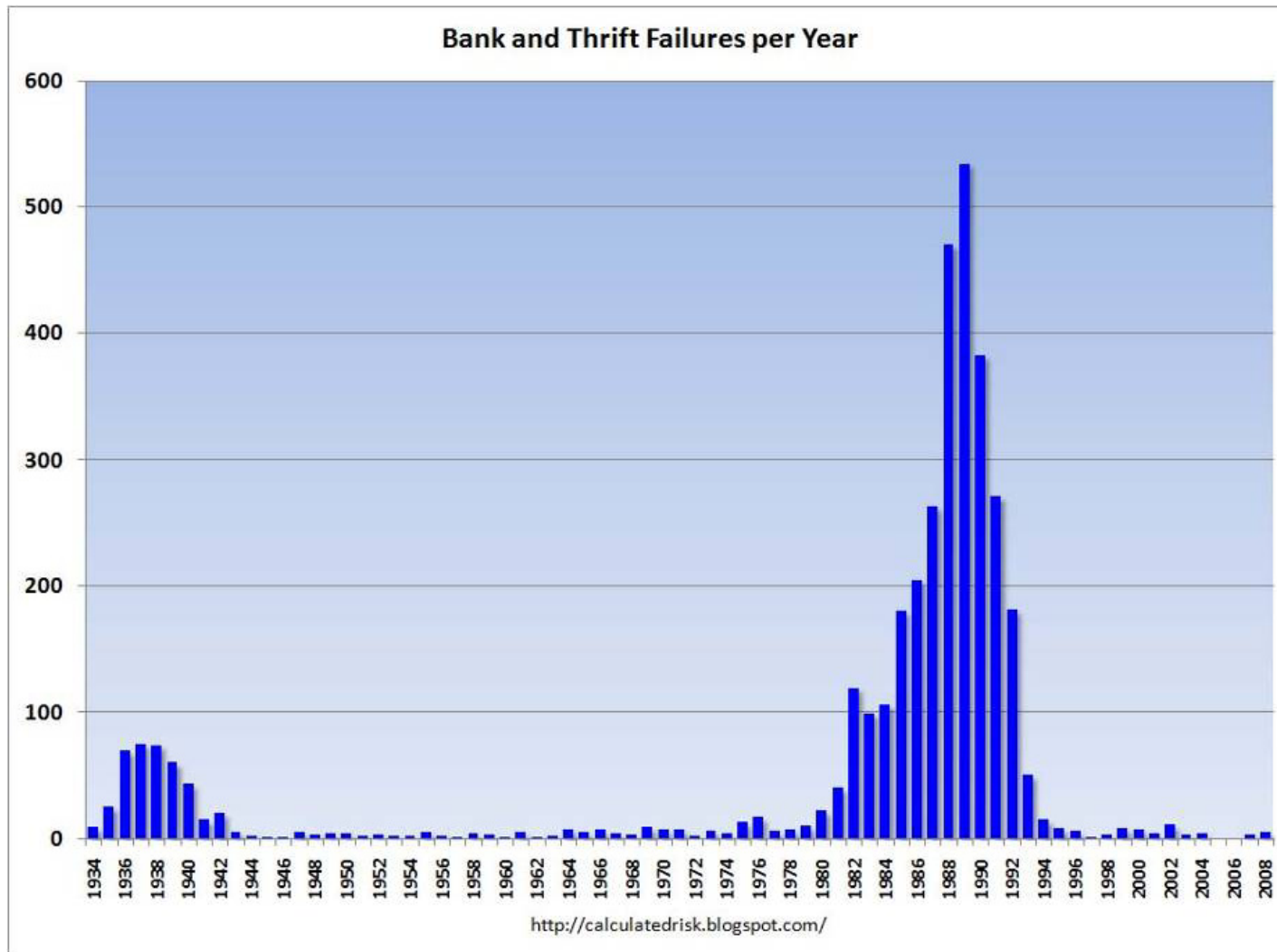
Source: Wachovia



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%

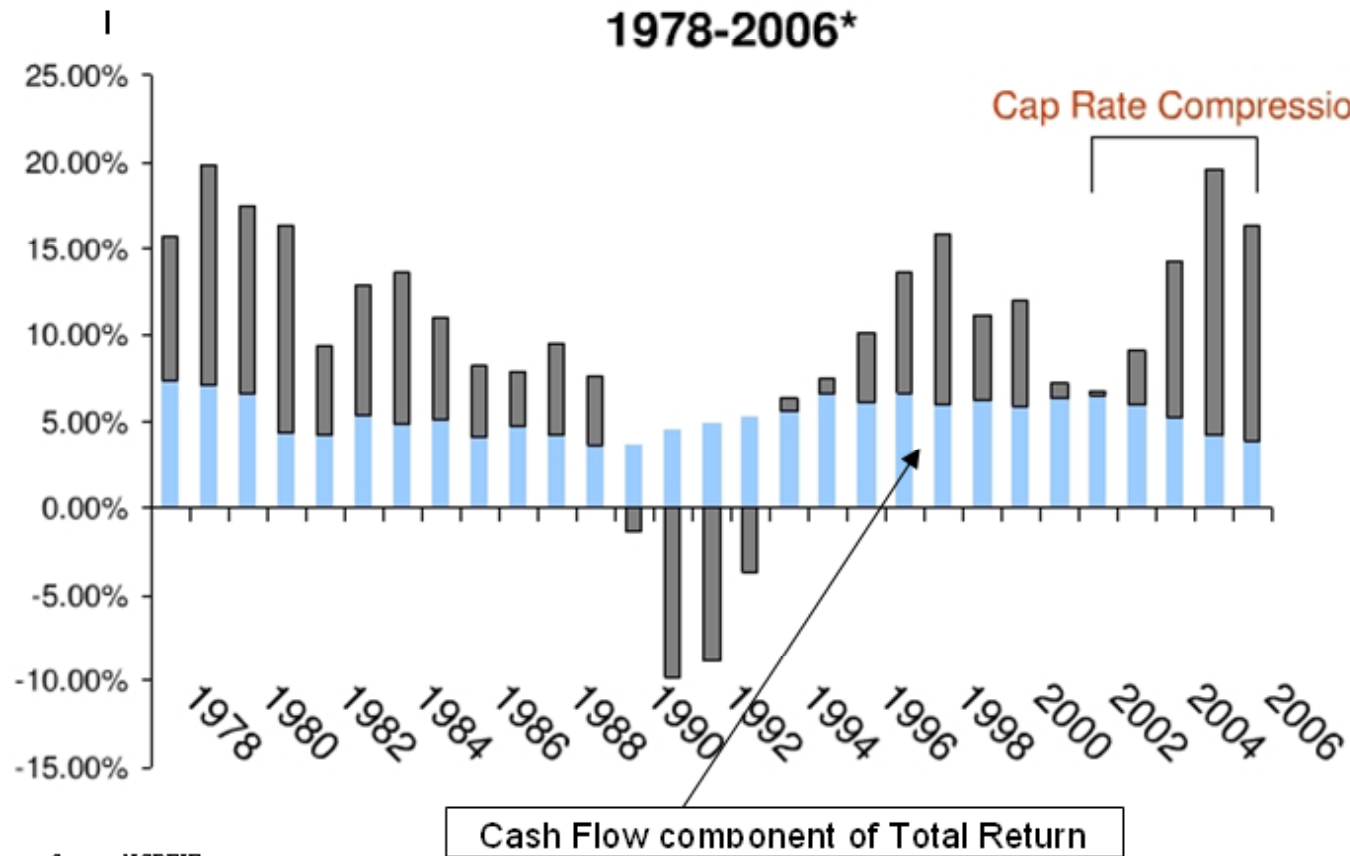






NCREIF NPI Annual Returns

1978-2006*



Source: NCREIF



Looking to the Future:

Lessons Learned to Avoid Another Bubble?



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Questions?

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