



The Real Estate Roundtable

National Policy Challenges for Real Estate:
Sustainability and The Path to Liquidity

The Real Estate Roundtable

Washington, DC

www.rer.org



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- Roundtable founded in 1999
- Goal: Change perception of real estate among national policymakers
- Former view of real estate:
 - No sense of “industry”
 - Collection of wealthy individuals focused on tax avoidance
 - Developers just wanted to “pave over paradise”
 - No environmental sensitivity



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- Goal: demonstrate that real estate is vital component of the overall economy
- Establish industry identity
 - U.S. CRE worth approximately \$5 trillion
 - 9 million jobs, one third U.S. GDP
 - Investment – an increasing number of Americans own investment real estate than ever before
 - Real estate taxes - support many essential services such as education, police/fire, roads, schools
 - 70% of these services funded by real estate taxes

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- Develop a more coordinated message about our industry's place in the overall economy
- Bring together a wide range of industry and economic perspectives to research, analyze and advocate national policy issues
- Interconnectivity of industry with other industries such as finance, energy, telecommunications and health care

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- Work to inform policymakers and public about today's vast and diverse real estate market
- Positive energy and environmental actions of our industry
- Paint real estate *GREEN*
- Continue to move real estate from an unfavorable to a much more preferred image



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- Represent CEOs of nation's top private and publicly-held real estate entities - top owners and financiers of major hotels, office buildings, apartments, retail and industrial space
- Membership includes elected heads of the 16 major real estate trade associations
- Serve as a Roundtable for Nation's real estate industry on National Policy Issues
- Coordinate Policy Positions with Major National Real Estate Organizations

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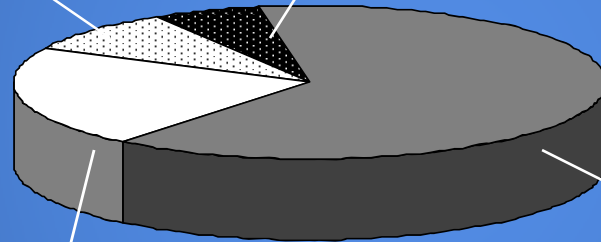
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12% – Real Estate Trade Organizations

- AHLA
- AFIRE
- ARDA
- BOMA
- CMSA
- ICSC
- MBA
- NAHB
- NAIOP
- NAR
- NAREIM
- NAREIT
- NMHC
- NAA
- PREA
- ULI

3% – Asset Managers



21% – Financial Services

- 44% Investment Bank
- 4% Commercial Bank
- 24% Insurance
- 4% Credit Company
- 24% Mortgage Banker

64% - Owners
Public – 50%
Private – 50%

- 52% Mixed
- 14% Office
- 10% Retail
- 12% Apartments
- 4% Hotel
- 8% Industrial

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- Policy focus –
 - Credit and capital markets
 - Energy and environment - Sustainability
 - Homeland security
 - Tax
- Implement policy positions by working with lawmakers and building coalitions
- Manage industry's political risk in Washington



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Roundtable Priorities

- Sustainability and Real Estate
- Credit Crisis and The Five Point Plan

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The Greening of Real Estate

- U.S. CRE today accounts for
 - 40% of energy consumption
 - 70% of electrical energy consumption
 - 30% GHG emissions (*indirectly*)
- EPA's Energy Star Program has
 - Reduced CO2 emissions by equivalent of taking 8-12 million cars off the road annually
- LEED and energy-related tax incentives



Stimulus and Energy Efficiency

- \$5 billion low-income weatherization programs
- \$250 million enhance energy efficiency for HUD low-income housing
- \$4.5 billion to modernize GSA buildings, with emphasis on energy efficiency
- \$8 billion to advance development of high speed rail and improve intercity passenger rail

Cap and Trade

- Incentivize “green” investments by
 - CRE should own and trade CO2 reductions instead of allocating 100% carbon-trading energy efficiency benefit to utilities
 - Energy end users –building owners – should participate in this emerging market
 - Monetizing CO2 reductions created through energy efficiency investments by *users* of energy such as buildings



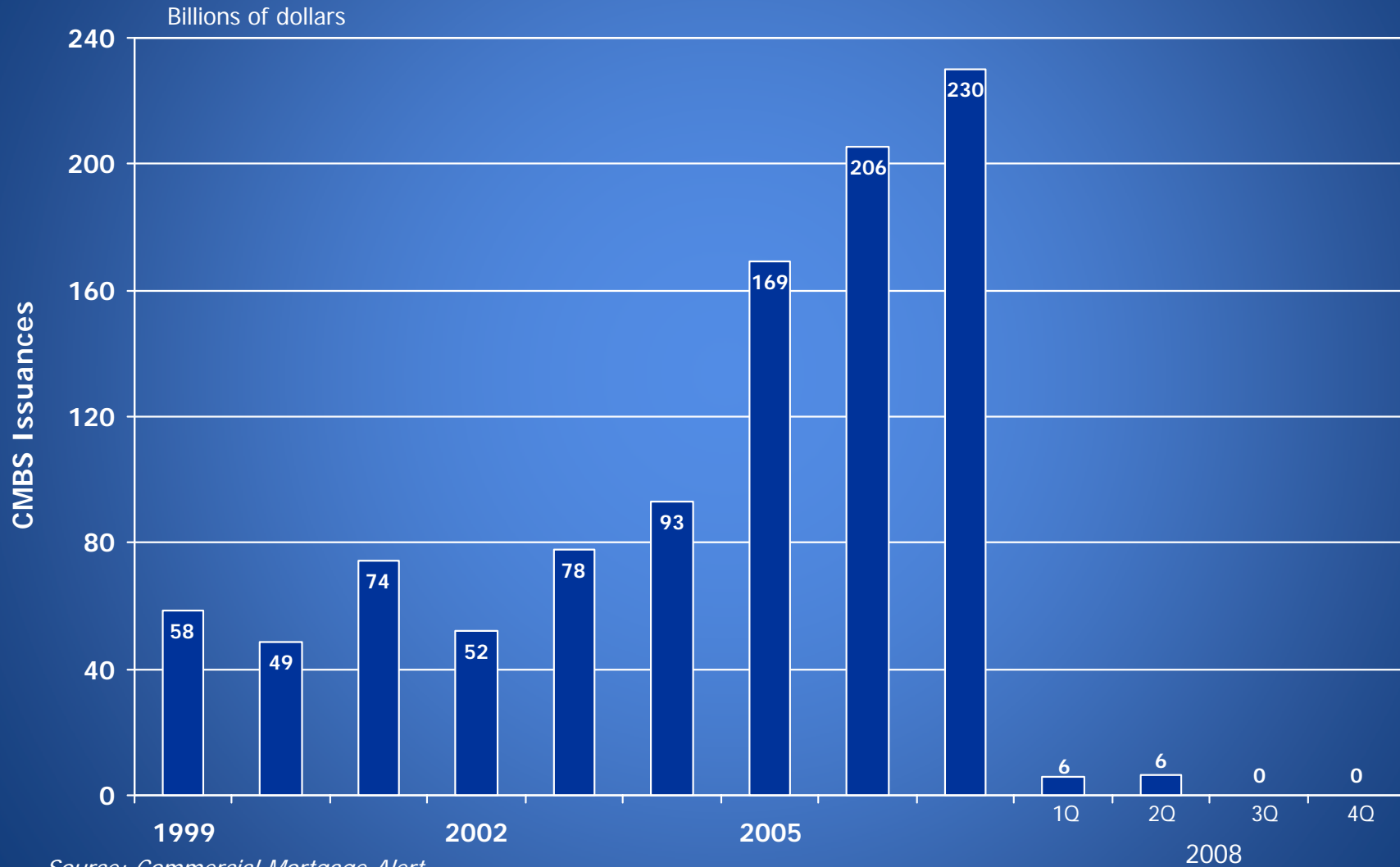
Credit Market Tsunami

- \$6.5 trillion U.S. property market faces worst liquidity challenge since Great Depression
- Of \$3.1 trillion in CRE debt, estimated \$400 billion CRE loans mature in 2009
- Maturities increase next few years
- Focus to restore market confidence
- Strategies to stop the falling knife



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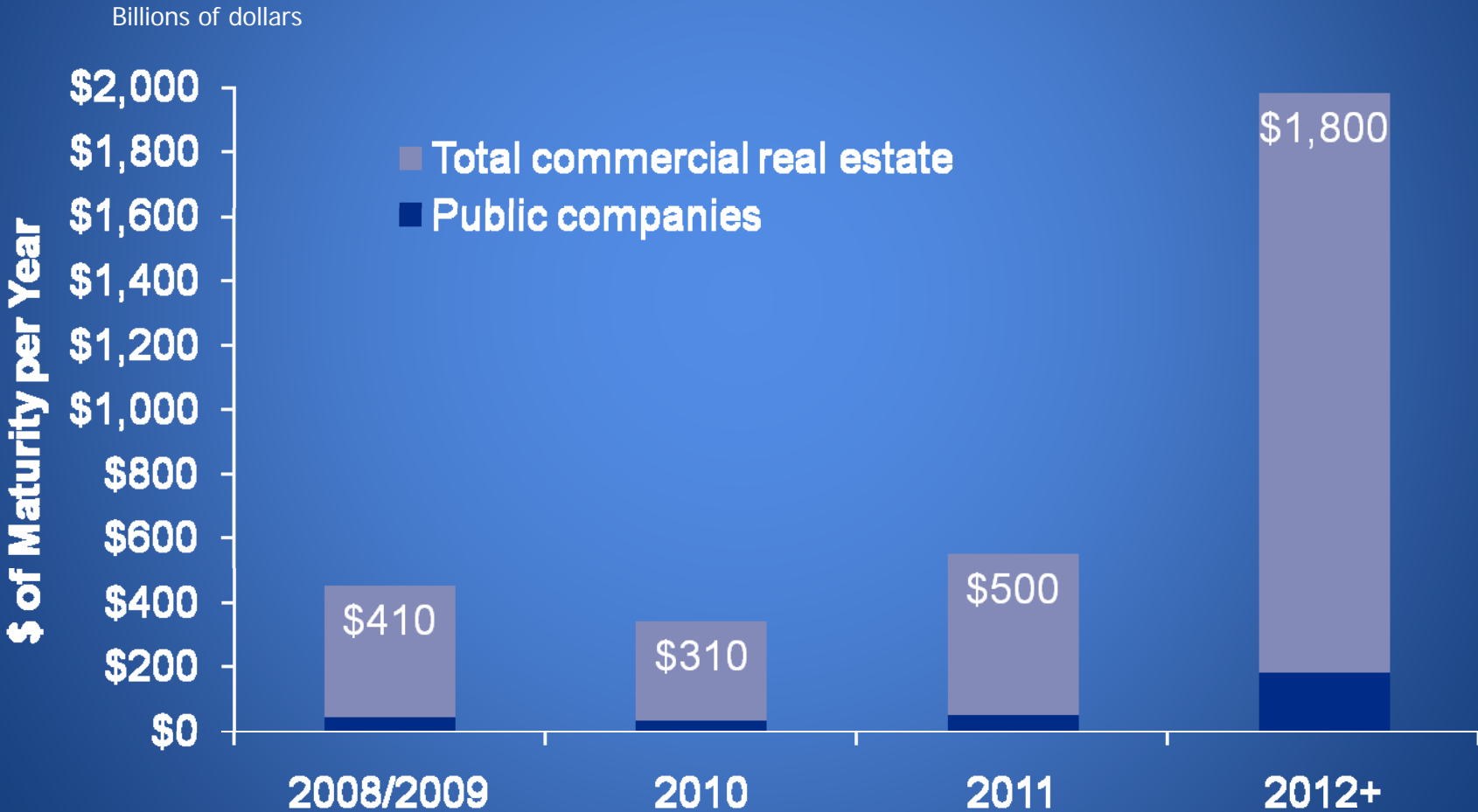
CMBS Issuance



Commercial Real Estate Debt Maturities

Including secured and unsecured debt

Debt Maturities by Year



Source: Goldman Sachs and REIT filings



Five Point Plan

1. Restart credit markets and enhance liquidity for CRE markets
 - Utilize TALF and PPIP
2. Encourage foreign investment in U.S. real estate – revise Foreign Investment in Real Property Tax Act (FIRPTA)
3. Modify *mark-to-market* accounting rules



Five Point Plan

4. Encourage lenders to extend and restructure CRE loans
 - Amend real estate mortgage investment conduit (REMIC) rules
 - Suspend *cancellation of indebtedness income tax rules*
5. Reject new anti-real estate investment taxes (e.g., capital gains, like-kind exchanges and proposed tax hike on partnership “carried interest”)



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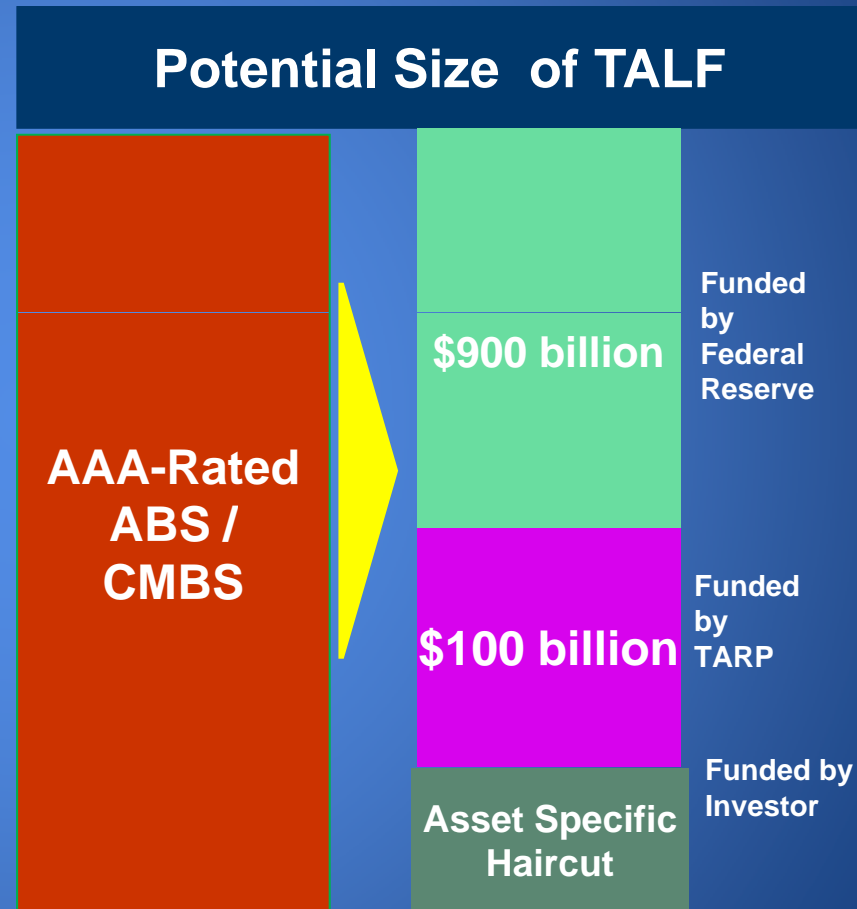
Term Asset-Backed Securities Loan Facility (TALF)

- Provides direct support to credit markets
- TALF provides up to \$1 trillion in financing to investors through primary dealers to purchase, AAA-rated securities backed by eligible ABS
- TALF encourages new loan origination by supporting market for securities
- Expansion to include CMBS



TALF Objectives

- TALF supports revival of credit markets
- Significant investment opportunity for levered funds
- Helps drive new issuance of ABS, ultimately CMBS
- Simultaneously tighten spreads
- Allow companies to resume borrowing
- Restore credit flows to key sectors of the economy





TALF – Impact on ABS Spreads

- Original TALF announcement narrowed auto ABS spreads
- TALF implementation further tightened credit spreads as shown by differential between TALF and non-TALF eligible credit spreads
- Combined with low-rate financing by Fed, TALF has cut cost of auto ABS financing significantly
- Concerns remain about effectiveness

Source: Barclays Capital Live, IFR Markets



Impact on CMBS

- Single borrower or pool of assets
- Positive impact on:
 - Mortgage rates
 - Unsecured REIT debt
 - Valuations
 - Existing security levels
- Issues remain for TALF to work for CMBS
 - Term, Subordination



Public-Private Investment Program

- Supported by Fed and FDIC, PPIP puts public and private capital side-by-side, using public financing to leverage private capital with initial scale of \$500 billion, potential up to \$1 trillion
- Will encourage private investors to acquire illiquid assets from troubled financial institutions and help restructure balance sheets
- Facilitate price discovery, restore liquidity by unlocking capital



Public-Private Investment Program

Legacy Loans Program

- PPIFs created with 1:1 equity from private investors + USG
- Funds will raise FDIC guaranteed debt
- Leverage up to 6:1
- Banks identify pools to be sold
- USG determine eligible assets
- Private partners retain asset management control

Legacy Securities Program

- Builds on existing TALF framework
- Legacy assets include CMBS and RMBS
- Combines private capital with USG capital and potential USG leverage
- Leverage from Fed



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Legacy Loans Program

- TARP resources will be combined with private capital to fund purchases of legacy loans and assets from banks
- Debt financing provided by LLP could reach up to six times equity capital guaranteed by FDIC leverage with total buying power of \$700 billion
- Eligible loans and assets will be auctioned by FDIC and managed by private fund managers after the sale

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Legacy Loans Program

Merits

- USG subsidy meant to provide investors with low cost financing to bridge gap between buyers and sellers of legacy assets
- Will help set market price for these assets
- Will help financial institutions get non-performing loans off their balance sheet

Considerations

- Pricing may not be high enough to induce banks to sell assets
 - Initial focus may be non-performing loans
- Investors concerned about future compensation restrictions for participating in any USG program
 - No compensation restrictions associated with this program



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Legacy Securities Program

- LSP expands TALF to make non-recourse loans to private investors to help fund purchases of *legacy* securities from banks, insurance companies, pension funds
- Eligible legacy securities will include:
 - Outstanding CMBS
 - non-agency RMBS originally rated AAA
 - ABS rated AAA

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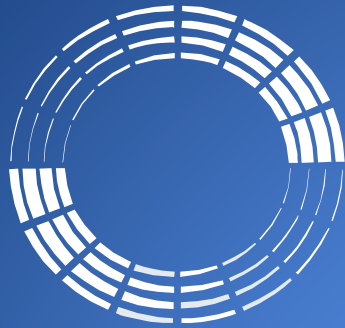
Legacy Securities Program

- Five (or more) fund managers to be selected
- Fund manager puts up 50% of the equity – USG matches private capital
- With USG financing of 50% of total equity, 33% implied leverage
- USG to consider increasing financing up to 100% of total equity
- Managers could also benefit from expanded TALF financing once it is launched



Five Point Plan

- Recent actions are important
- Important for financial institutions to restructure balance sheets, discard toxic assets and start lending again
- Additional measures necessary to stabilize financial institutions and restore confidence to the credit markets
- Important to foster market forces



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