

# Solano EDC Real Estate Roundup 2009

Deleveraging Real Estate and what it means



# Lets Get it Started !

The events of 2008 defied all expectations. A seismic disruption to the global financial system has triggered potentially the sharpest and longest global economic recession that most people will have experienced. We have embarked on a period that is becoming known as 'The Great Deleveraging'

Price Waterhouse Coopers



# De\*lev\*er\*age

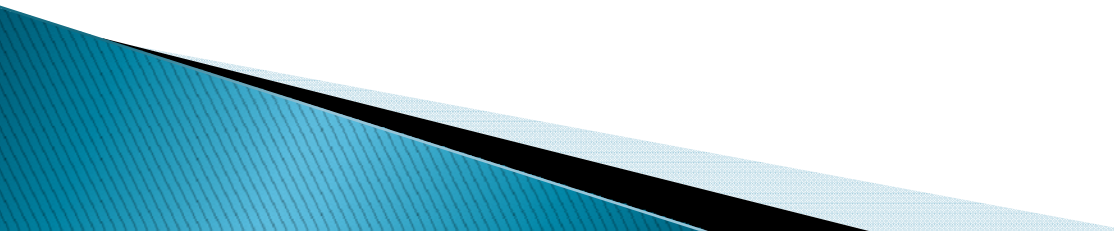
(transitive and intransitive verb)

- ▶ to reduce the amount of debt that a company owes, usually by laying off workers, selling off unprofitable divisions, and other cost-cutting measures

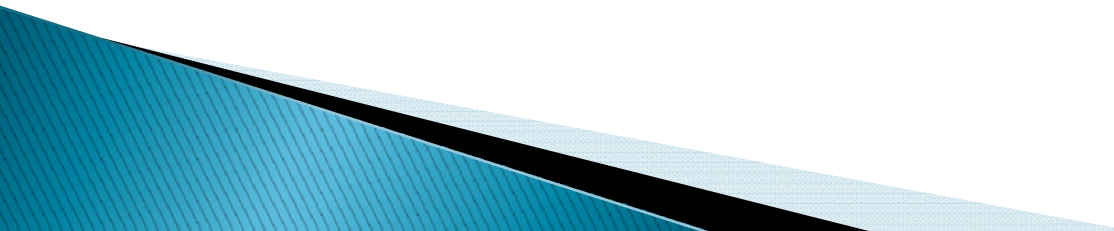
# Home Deleveraging

- ▶ 2006 Purchase Price                   \$500,000
- ▶ Loan Amount @ 80%                   \$400,000
  
- ▶ 2009 Value 30% reduction\$ 350,000
- ▶ LTV 114%

# Commercial Real Estate

- ▶ Purchase in 2006 \$350,000,000
  - ▶ LTV 50%
  - ▶ Size 800,000 square feet
  
  - ▶ Current Loan Balance      \$150,000,000
  - ▶ Current Projected Value    \$150,000,000
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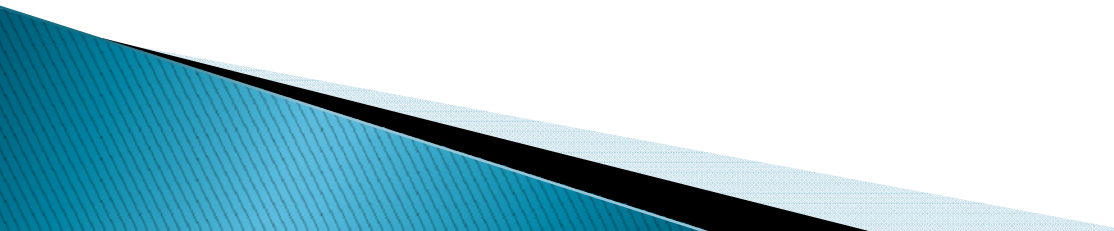
# What?????

- ▶ 2006 Income = \$21 million
  - ▶ 2006 Cap Rate = 6%
  - ▶ Value = \$350 Million
  
  - ▶ 2009 Income = \$14.7 million
  - ▶ 2009 Cap Rate = 9.5%
  - ▶ 2009 Value = \$154 million
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# Watergate Office Towers



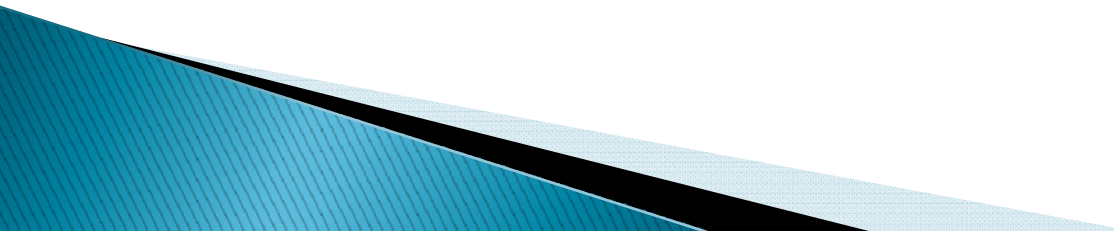
# Deleveraging

- ▶ Extreme loss of value
  - ▶ Owners/Investors lose all equity
  - ▶ Lenders have +100% LTV
  - ▶ Lenders are stressed by regulators to boost reserves to offset “Balance Sheet Issues”
  - ▶ No additional Capital for Tenant Improvements, Commissions or Capital Improvements
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# Zombie Buildings

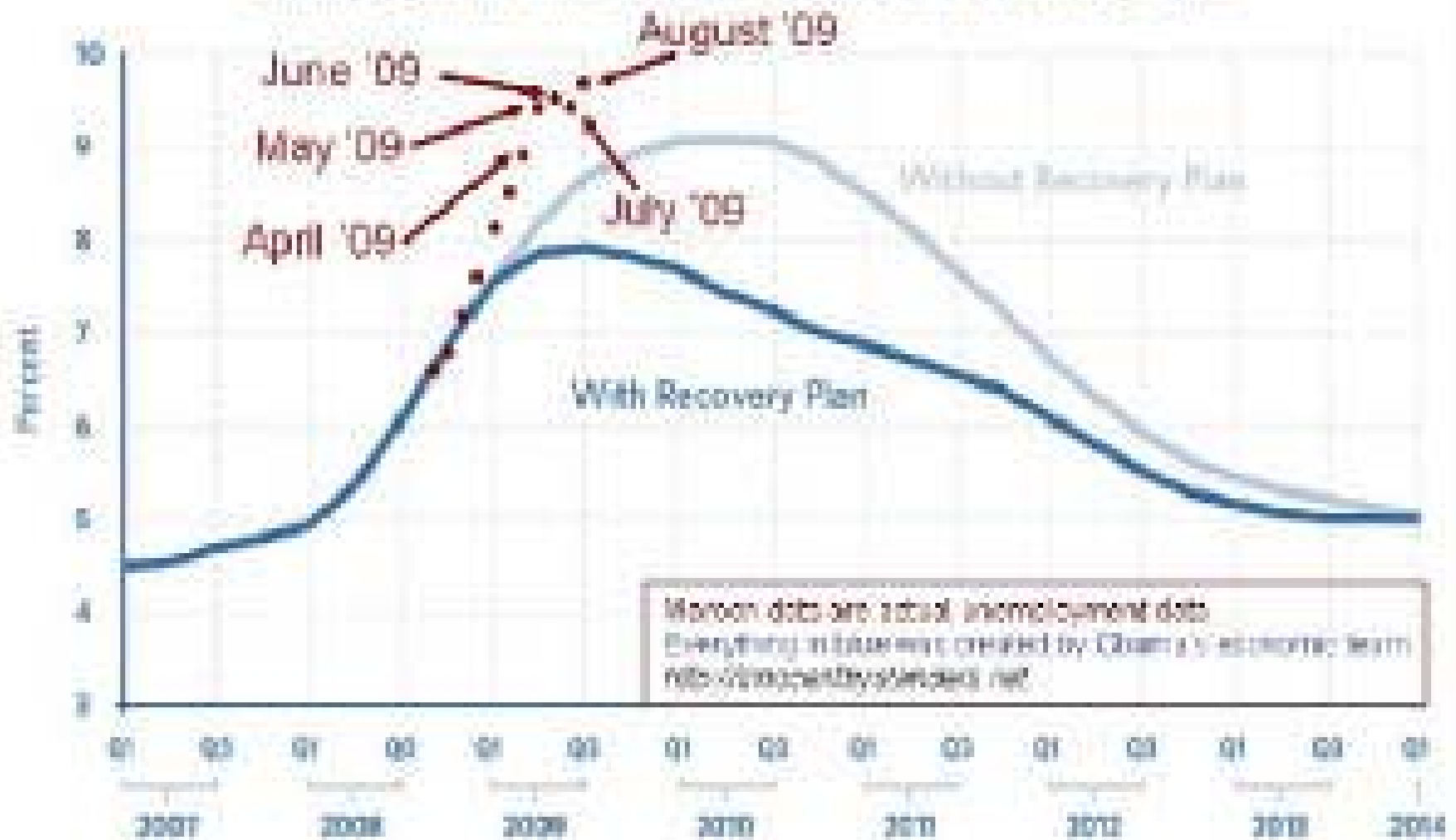


# Local Effects of Deleveraging

- ▶ County Loss of Property Tax Revenue
  - ▶ County spending must decrease
  
  - ▶ Collapse of housing market – Spending comes to a halt
  - ▶ Loss of Sales Tax Revenue
  
  - ▶ City/Counties/States lose revenue
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# How Long will this last?

Unemployment Rate With and Without the Recovery Plan



# How Long?

\$NIKK (Tokyo Nikkei Average (EOD)) INDX

@ StockCharts.com

20-Jun-2009

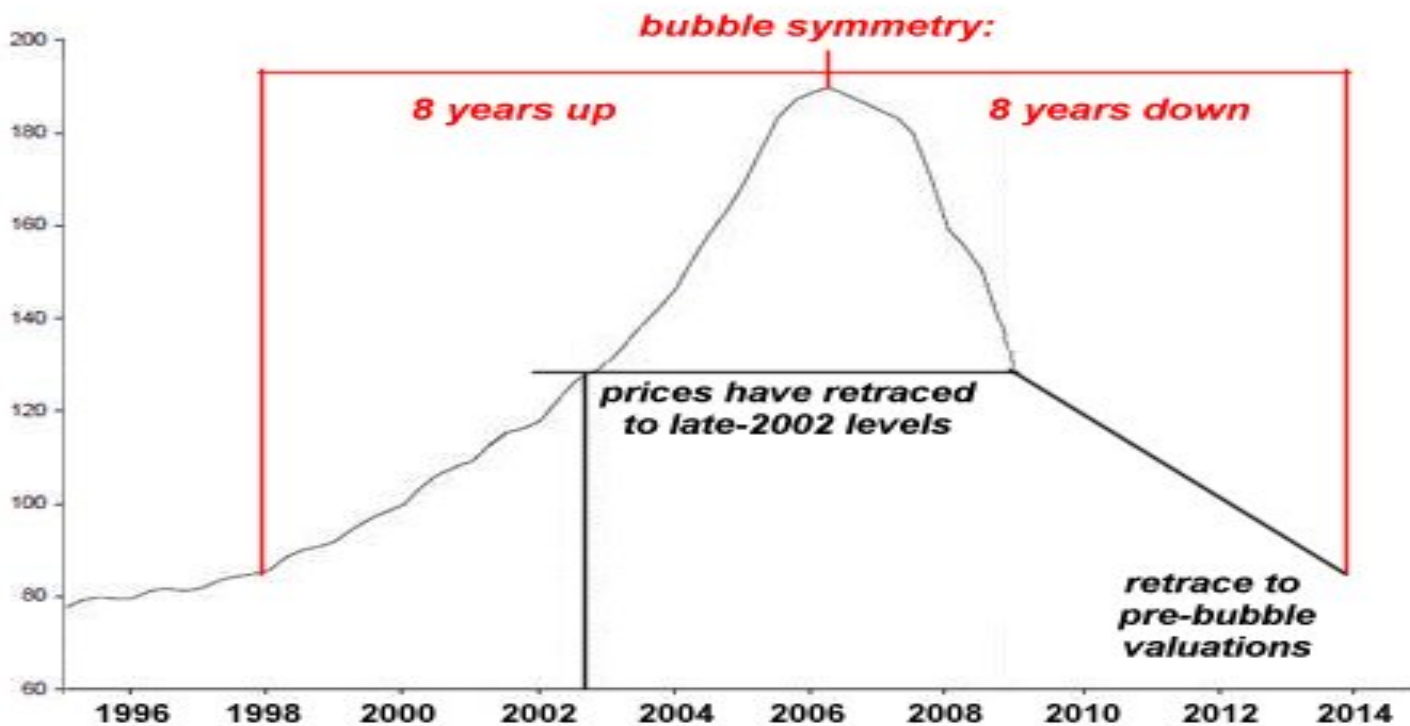
Open 9517.40 High 10170.02 Low 9401.25 Close 9540.01 Chg +22.11 (+0.23%) ▲

\$NIKK (Monthly)

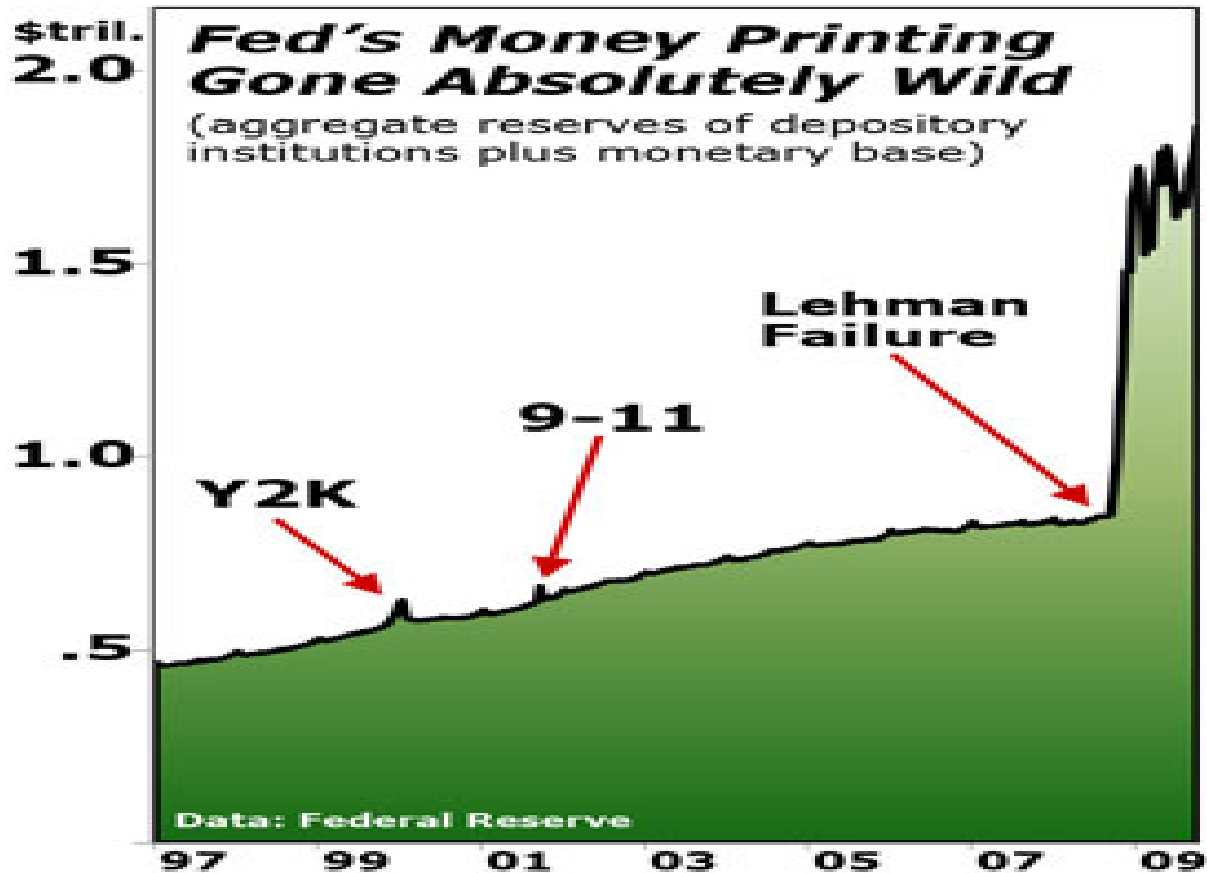


# No Way Jose!!

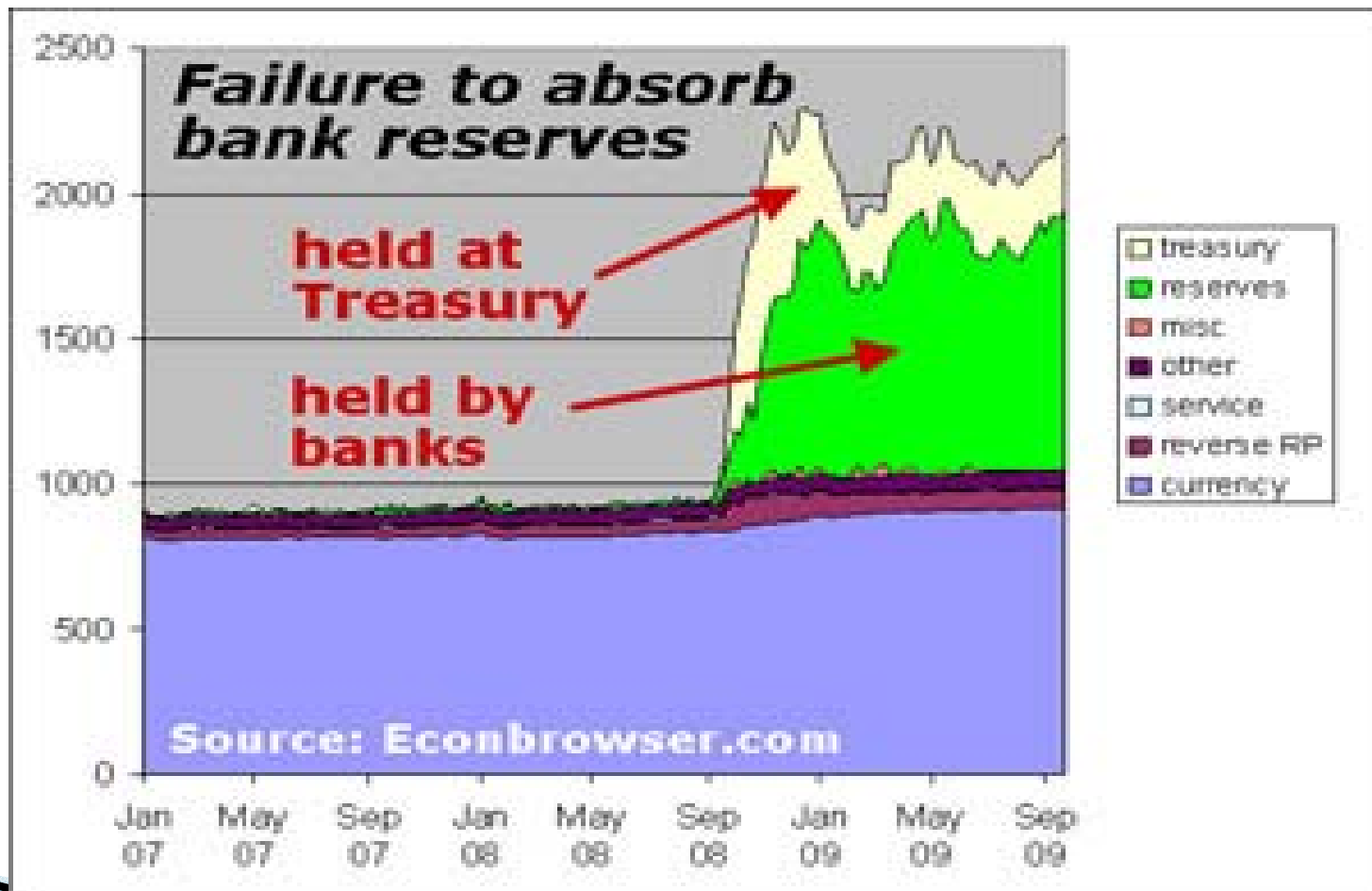
## U.S. National Home Prices



# Money Supply



# Show me the Money!

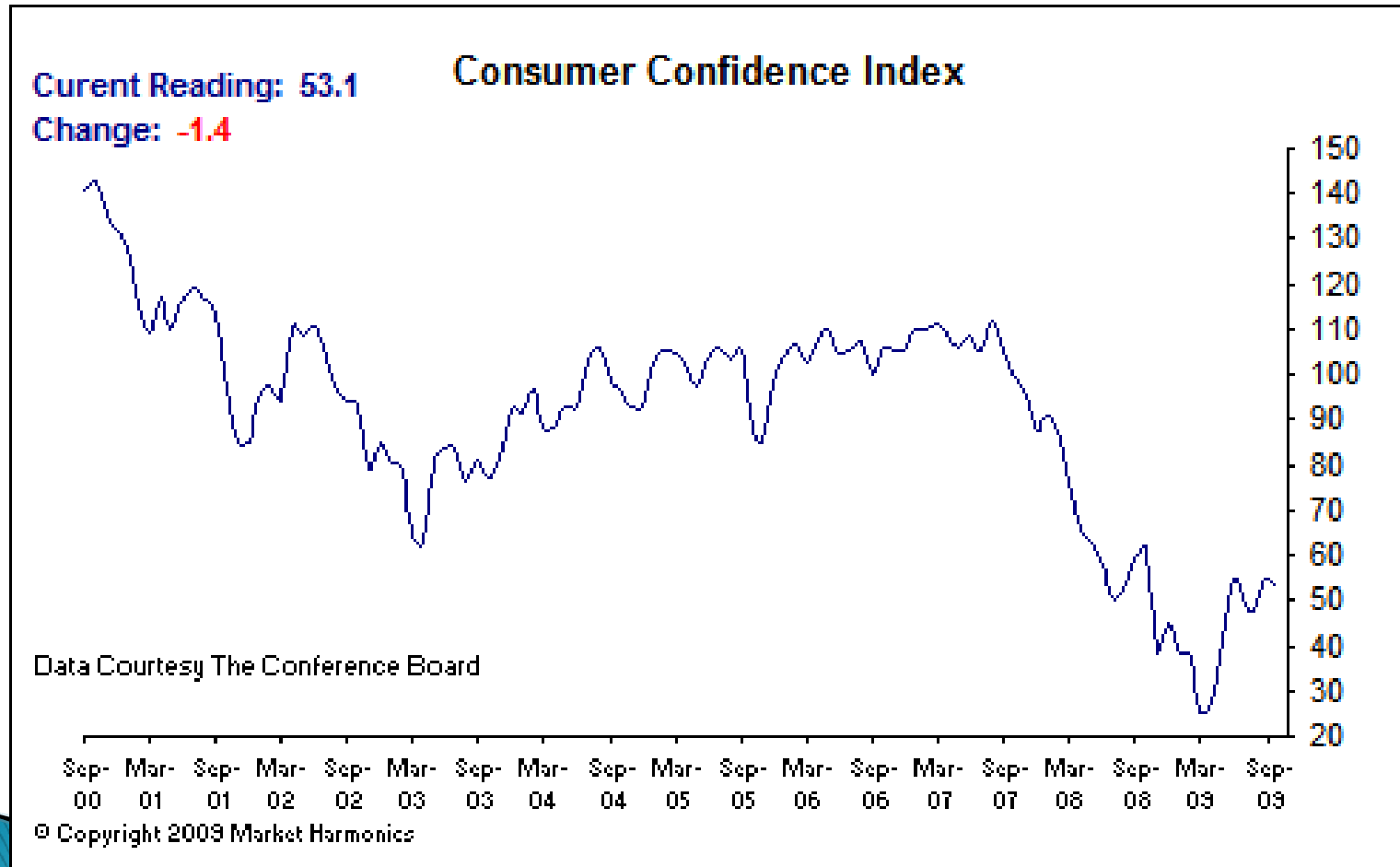


# So what you are saying...

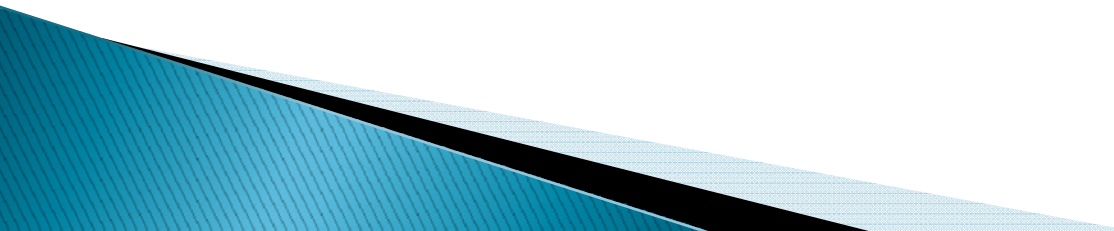
- ▶ **The Consequences**
- ▶ This overabundance of high-powered money flooding into the nation's banking system and money supply can have only one consequence: *To cheapen the value of each dollar you own.*
- ▶ Yes, Mr. Bernanke has temporarily tamped down the Wall Street debt crisis. And yes, he has managed to replace fear with greed ... convert the flight to safety into the lust for risk ... and transform falling markets into rising markets.
- ▶ But look at the price we are paying:
- ▶ The solvency concerns regarding major financial institutions have now been replaced by looming solvency threats to *the U.S. government itself.*
- ▶ The debt crisis of 2007–2008 has been transformed into the *dollar* crisis of 2009–2010.
- ▶ Clearly, in this environment, following traditional investment norms with conventional investment vehicles could be dangerous; and evidently, an entirely different approach to investing is now a must.
- ▶ For specific instructions, stand by for your regular issues or flash alerts.
- ▶ Good luck and God bless!
- ▶ Martin D. Weiss, Ph.D.  
[Money and Markets](#)

# Do you feel like I do?

## -Peter Frampton



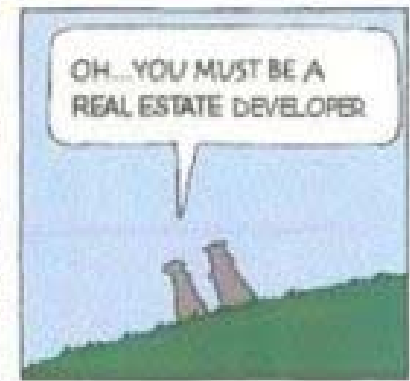
# Do you know the way, Jose?

- ▶ Anywhere with “stability” and Growth
  - ▶ But next year China will grow by nine percent, and India by 6.4 percent, according to the IMF forecast.
  - ▶ Their growth is being supported by large policy stimulus that are bolstering domestic demand, the Fund's World Economic Outlook report said.
  - ▶ "The rebound in emerging and other developing economies is being led by a resurgence in Asia, most notably in China and India, fuelled by policy stimulus and a turn in the global manufacturing cycle," the report said.
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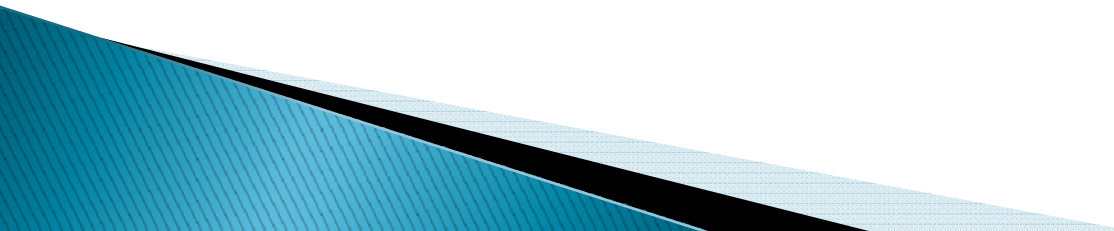
# A Lost Industry

**DILBERT**

**BY SCOTT ADAMS**



# Take Aways

- ▶ Cash is back to driving deals
  - ▶ Conflict between Buyers and Sellers
  - ▶ Strong Tenants can drive deals
  - ▶ Landlords/Lenders –Blend, Extend and Pretend
  - ▶ No new commercial development for 3 years
  - ▶ Existing buildings will be only supply
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# He said what?

- ▶ The economic miracle that has been the United States was not produced by socialized enterprises, by government–union–industry cartels or by centralized economic planning. It was produced by private enterprises in a profit–and–loss system. And losses were at least as important in weeding out failures as profits in fostering successes. Let government succor failures, and we shall be headed for stagnation and decline.
- ▶ – *Milton Friedman*