



Lee Associates

Bank of America

Trends in the  
Real Estate Industry

**Bank of America.**



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# Goals of Presentation

- **Hottest Issue in Commercial Real Estate**
- **Trends in Interest Rates**
- **Investor (Cap Rate) Trends**
- **Real Estate Market (Rents, Prices) Trends**
- **Trends in Lending**
- **Market Data Sources**

(email Nhienle Mac, Matt Parrish or Allen for copy of this presentation)



# Hot Issue in Commercial Real Estate - Cap Rate

$$R_0 = Y_0 - \Delta$$

**Cap Rate = Yield Rate minus Growth**

**Growth – what are drivers?**

**No rental Growth**

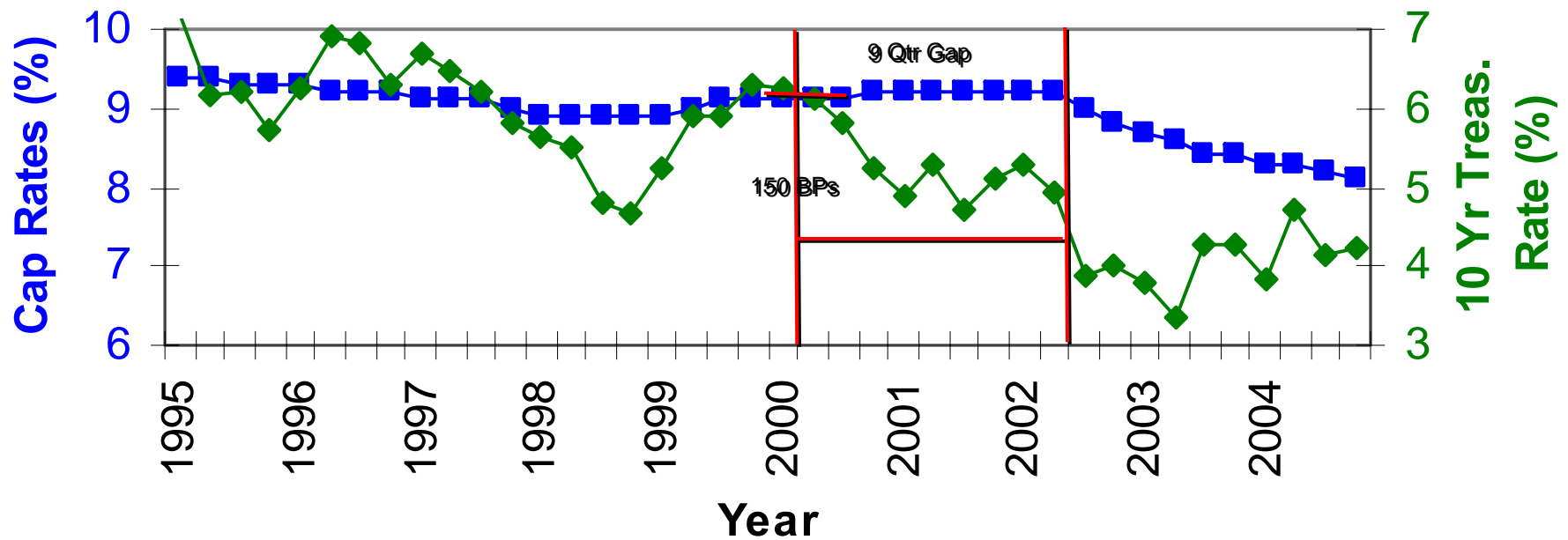
**Only interest rate change**

**Lag Effect**

**What happens when rates stop declining?**

# Interest Rate & Investor Trends - National Industrial Market

## Interest Rates vs. Industrial Cap Rates National Average

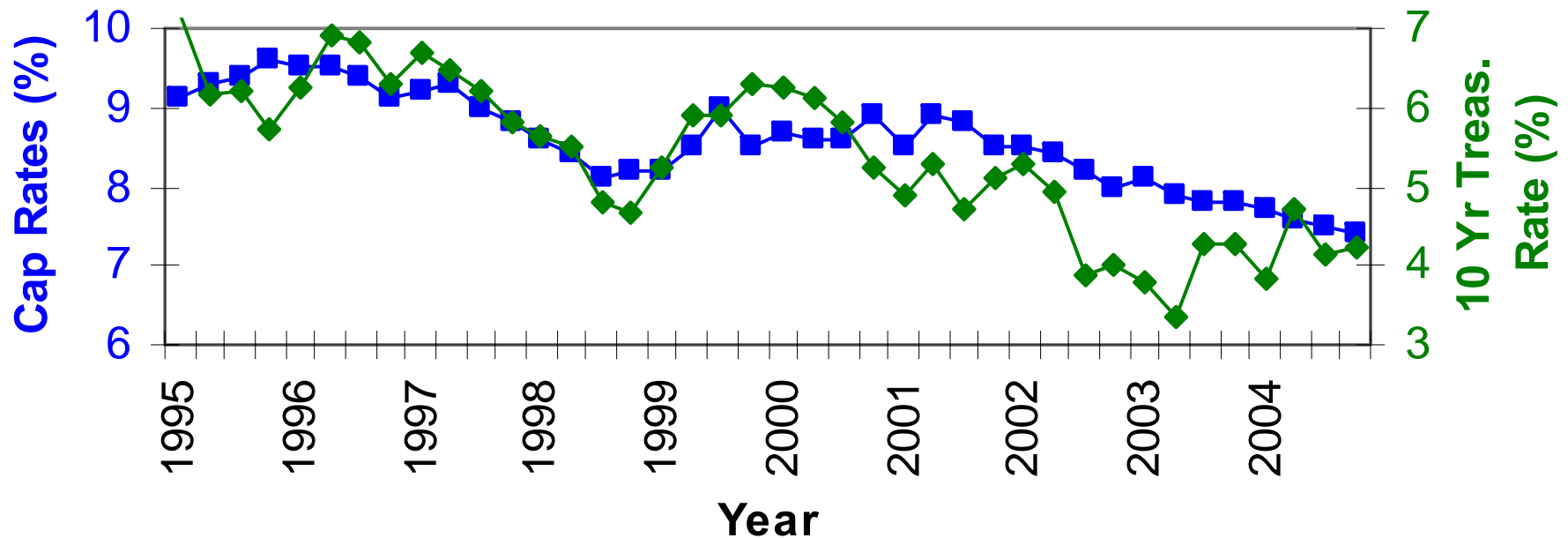


Source: National Real Estate Index, and Bank of America - Real Estate Research

# Interest Rate & Investor Trends

## - Los Angeles Industrial Market

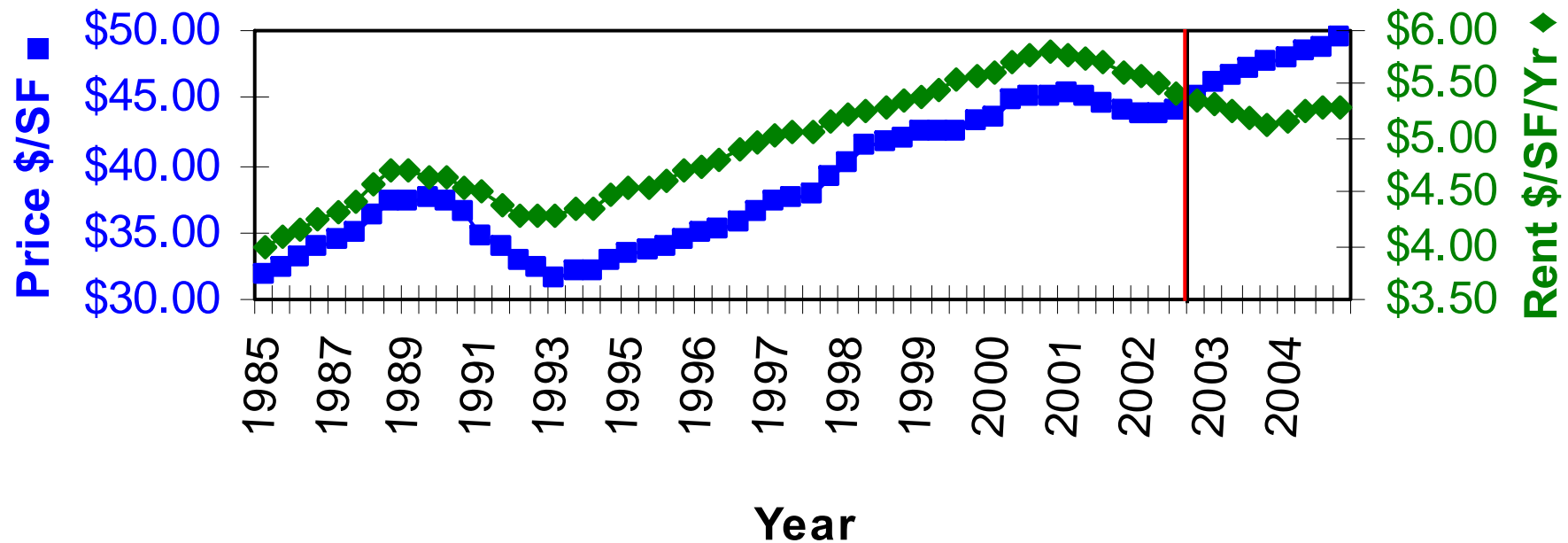
### Interest Rates vs. Industrial Cap Rates Los Angeles



**LA tracks 10Yr much better than National data**

# Trends in Industrial Real Estate - National

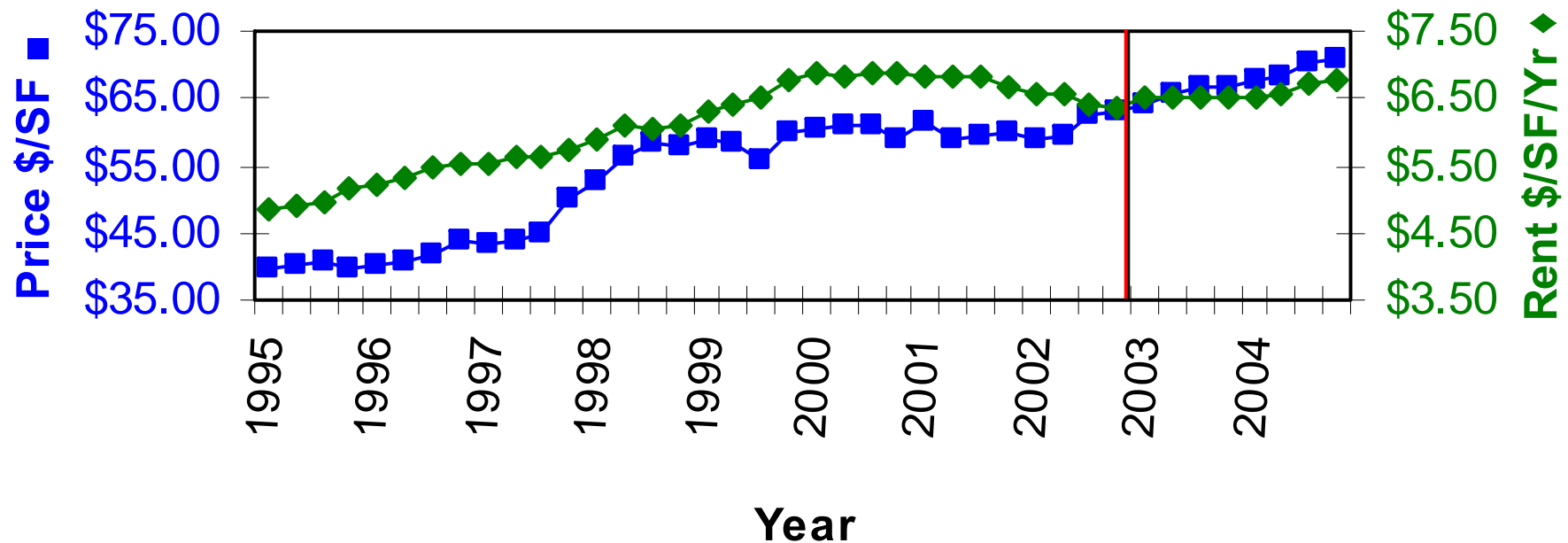
## Industrial Performance National Averages



Source: National Real Estate Index, and Bank of America - Real Estate Research

# Trends in Industrial Real Estate - Los Angeles

## Industrial Performance Los Angeles Market

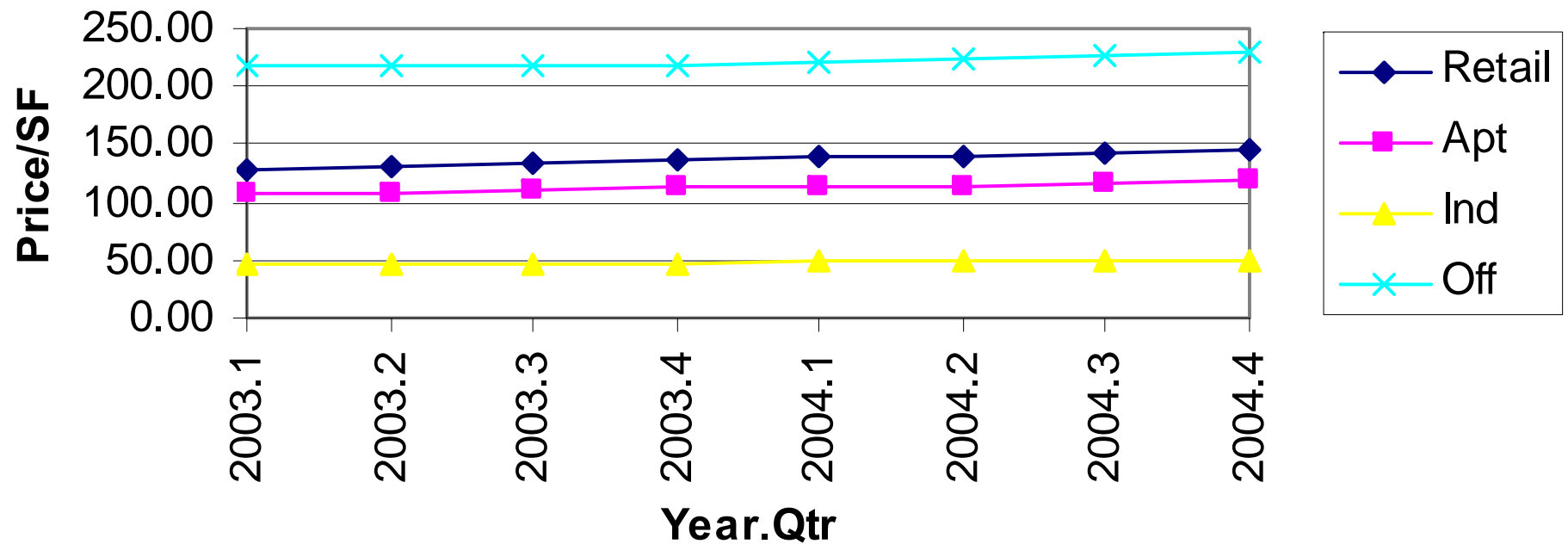


Source: National Real Estate Index, and Bank of America - Real Estate Research



# Market Trends - National - Value by Property Type

## Value Trends National Averages

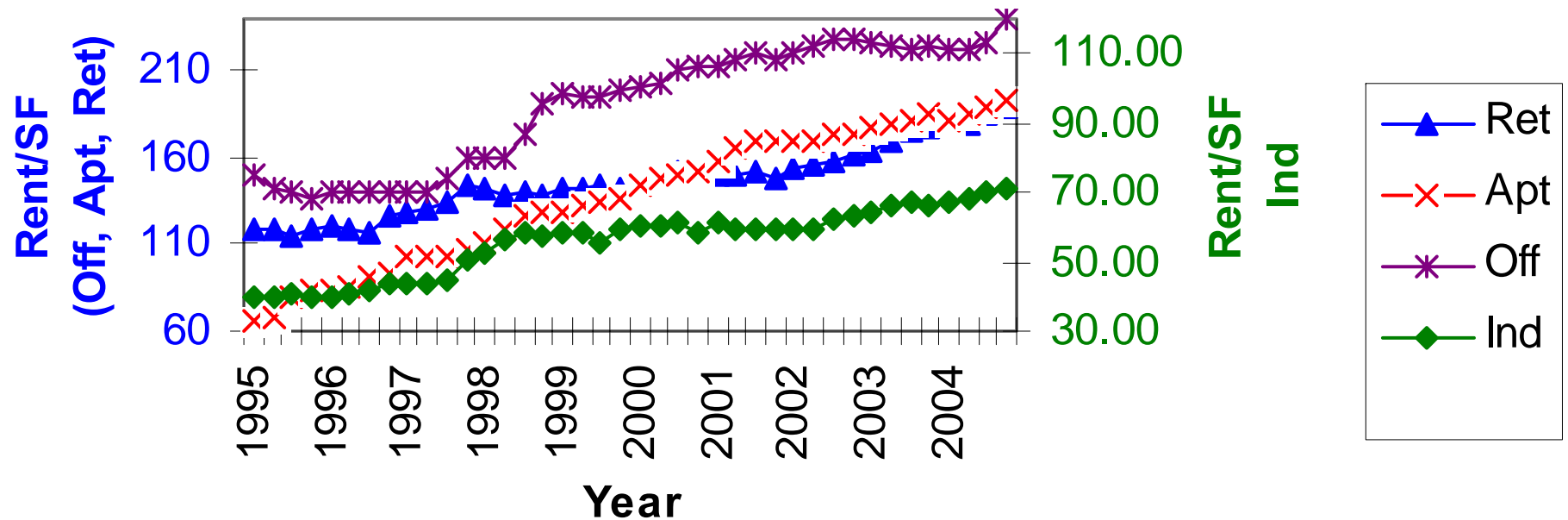


Source: National Real Estate Index, and Bank of America - Real Estate Research

# Market Trends - Los Angeles

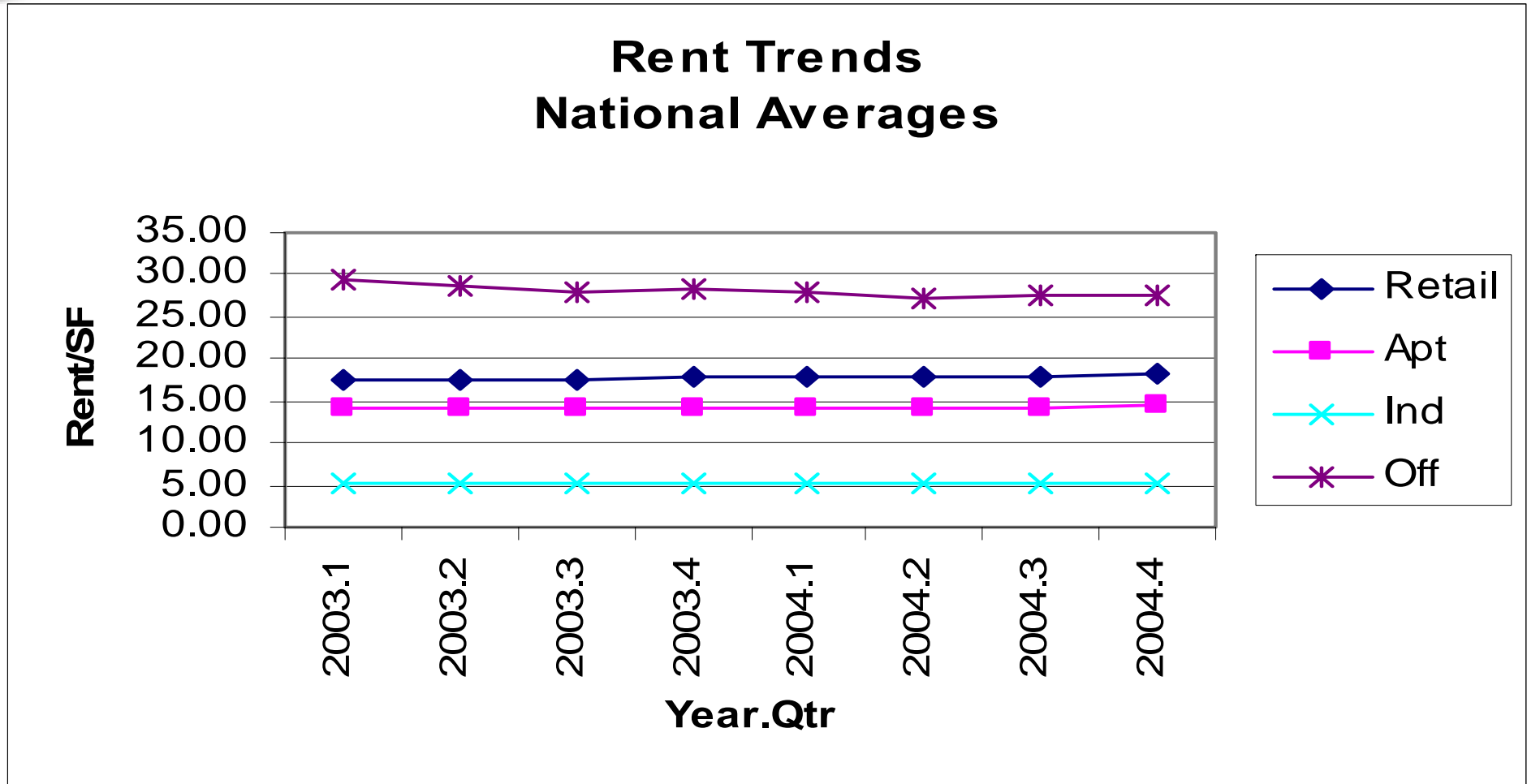
## - Value by Property Type

### Market Trends - Value/SF Los Angeles



Source: National Real Estate Index, and Bank of America - Real Estate Research

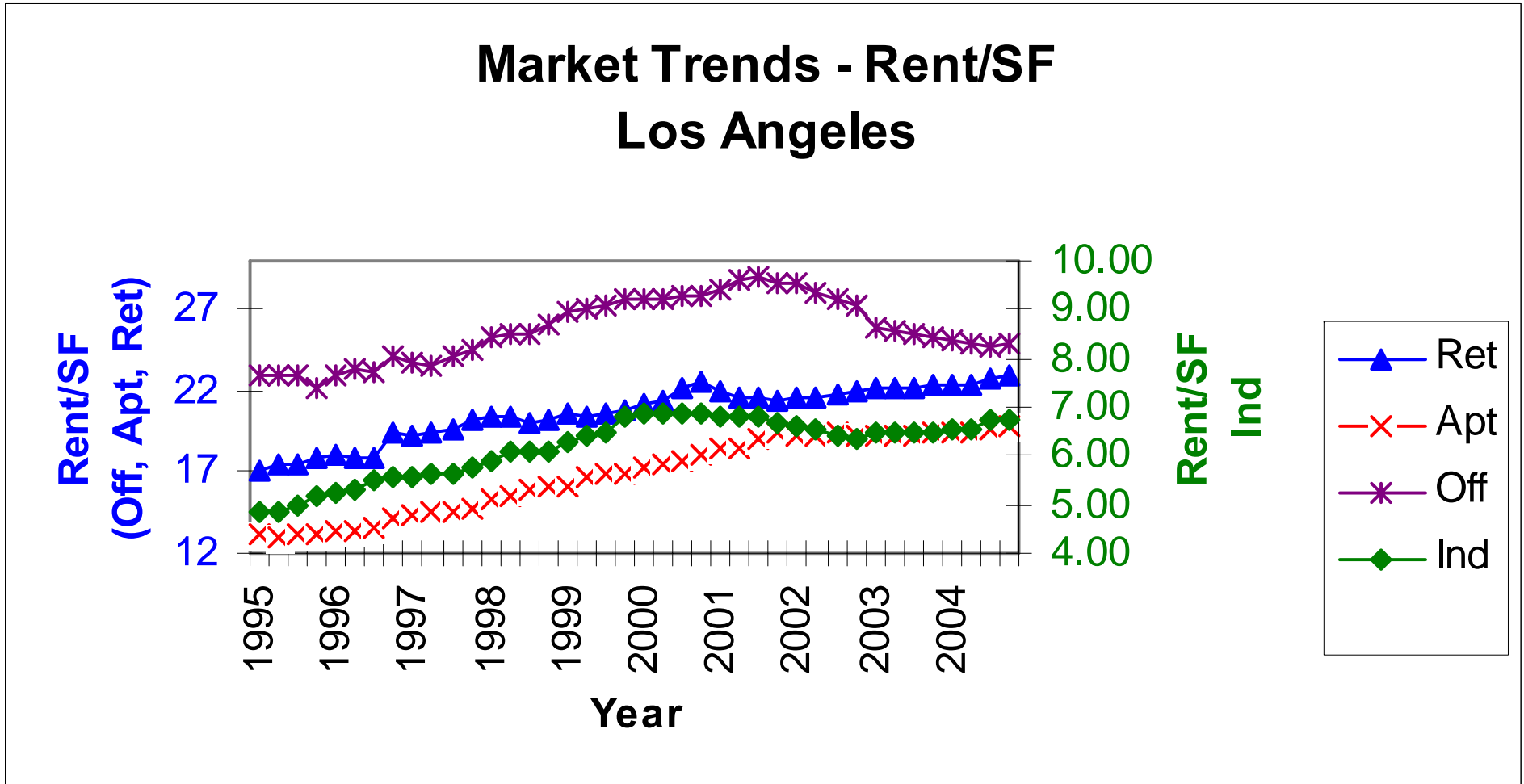
# Market Trends - National - Rent by Property Type



Source: National Real Estate Index, and Bank of America - Real Estate Research

# Market Trends - Los Angeles

## - Rent by Property Type



Source: National Real Estate Index, and Bank of America - Real Estate Research

# Coming Change in Lending - New Risk Rating Platforms

## ▪ Basel Accord - Risk Based Lending

$$\begin{array}{ccccc} \text{Estimated} & & \text{Loss} & & \text{Expected} \\ \text{Default} & & \text{Given} & & \text{Loss} \\ \text{Frequency} & \times & \text{Default} & = & \\ (\text{EDF, DP, PD}) & & (\text{LGD, LR,...}) & & (\text{EL...}) \end{array}$$

**What are the drivers?**

**Your answer is your Risk Rating Model**

**Risk-based pricing will create  
borrower/property specific interest rate**

# Types of Risks Impacting Loan Loss

- **Market Risk**
- **Banking Industry**
- **Real Estate Industry**
- **Interest Rate Risk**
- **Operational Risk**
- **Originator Bias**
- **Property Type**
- **Location of Collateral**
- **Strength of Borrower**
- **Guarantee**
- **Ability to Exit**

# CMBS Delinquencies – By Vintage

**Figure 1: Performance Distribution by Vintage (%)**

Current Raw Delinq. Data	Delinquency Status					Delinquency			Factor	Forecasted Additional Losses	Losses to Date	Proj'd Total Losses
	1 Mo.	2 Mo.	3 Mo.	Forecl.	REO	Total	Adj. Total	Adj. Total Pct of Orig				
1995	0.00%	0.00%	0.56%	0.00%	5.55%	6.10%	6.82%	1.02%	14.98%	0.56%	2.24%	2.80%
1996	0.07%	0.15%	3.57%	0.26%	1.72%	5.77%	5.09%	2.03%	39.87%	1.12%	2.10%	3.21%
1997	0.69%	0.30%	1.78%	0.56%	1.44%	4.77%	4.17%	2.62%	62.84%	1.44%	1.44%	2.88%
1998	0.37%	0.19%	0.47%	0.21%	0.74%	1.98%	2.32%	1.85%	79.77%	1.02%	1.12%	2.14%
1999	0.27%	0.13%	0.86%	0.29%	1.01%	2.57%	2.84%	2.48%	87.39%	1.37%	0.57%	1.94%
2000	0.66%	0.09%	1.01%	0.14%	1.03%	2.93%	2.88%	2.64%	91.56%	1.45%	0.59%	2.04%
2001	0.30%	0.18%	0.66%	0.11%	0.46%	1.70%	2.05%	1.94%	94.94%	1.07%	0.25%	1.32%
2002	0.06%	0.10%	0.24%	0.10%	0.23%	0.73%	1.50%	1.45%	96.92%	0.80%	0.05%	0.85%
2003	0.10%	0.09%	0.04%	0.02%	0.01%	0.26%	1.10%	1.08%	98.25%	0.59%	0.00%	0.59%
2004	0.00%	0.00%	0.01%	0.00%	0.00%	0.01%	1.00%	1.00%	99.25%	0.55%	0.00%	0.55%
All Deals	0.22%	0.11%	0.47%	0.12%	0.46%	1.37%	1.91%	1.70%	88.94%	0.93%	0.47%	1.41%

Notes: The adjusted delinquency measure is calculated by applying a likelihood of REO to each delinquency category as follows: Current or less than 1 mo (1%), 30 day (20%), 60 day (40%), 90 day (60%), in foreclosure (80%), and REO (100%). Forecasted additional losses equal 55% of adjusted delinquencies as a percentage of original balance.

Source: Intex and BAS Real Estate Research, LLC

Data / analysis from James Stouse, CFA



# CMBS Delinquencies – Property Type

**Figure 2: CMBS Delinquency by Property Type**

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	All Deals	Forecasted Future Losses	Losses to Date	Projected Total Losses
Hotel	15.47%	20.33%	10.65%	2.95%	2.47%	2.54%	2.62%	1.21%	1.00%	1.00%	3.69%	0.02%	2.37%	2.38%
Industrial	1.00	1.38	3.61	5.68	2.55	3.26	1.89	1.22	1.00	1.00	2.34	0.01	0.34	0.35
Multifamily	1.21	1.61	2.13	1.51	2.77	3.61	4.20	2.63	1.48	1.03	2.27	0.01	0.23	0.24
Manufactured Housing	1.00	1.00	1.85	1.11	2.67	1.12	1.27	2.02	1.00	1.00	1.27	0.01	0.11	0.11
Office	1.00	2.59	2.21	2.52	3.88	3.39	1.22	1.21	1.04	1.00	1.70	0.01	0.25	0.26
Retail	8.74	2.34	3.97	2.24	2.31	2.13	1.25	1.07	1.00	1.00	1.55	0.01	0.35	0.35
Senior Housing	1.00	18.24	4.74	2.09	4.07	1.96	1.00	1.00	1.00	1.00	4.12	0.02	5.32	5.34
Self Storage	1.00	1.00	1.00	1.50	1.00	1.22	1.04	1.12	1.00	1.00	1.09	0.01	0.04	0.04

Source: Intex and BAS Real Estate Research, LLC  
Data / analysis from James Stouse, CFA





# Interest Rates

## Treasury Yields - Recent Spot Rates

Date	1 mo	3 mo	6 mo	1 yr	2 yr	3 yr	5 yr	7 yr	10 yr	20 yr	10-1	20-1
5/2/2005	2.68	2.93	3.19	3.34	3.64	3.71	3.88	4.02	4.21	4.61	0.87	1.27
5/3/2005	2.65	2.91	3.19	3.35	3.68	3.73	3.90	4.03	4.21	4.60	0.86	1.25
5/4/2005	2.59	2.87	3.17	3.32	3.63	3.70	3.87	4.01	4.20	4.64	0.88	1.32
5/5/2005	2.60	2.81	3.14	3.29	3.58	3.65	3.82	3.98	4.19	4.64	0.90	1.35
5/6/2005	2.64	2.87	3.19	3.37	3.73	3.80	3.95	4.09	4.28	4.69	0.91	1.32
5/9/2005	2.66	2.91	3.22	3.40	3.76	3.83	3.99	4.11	4.29	4.69	0.89	1.29
5/10/2005	2.60	2.90	3.20	3.37	3.69	3.79	3.93	4.04	4.23	4.65	0.86	1.28

Source: Federal Reserve Board



# Rent – Vacancy Data Sources

- **Torto-Wheaton Research**
- **REIS**
- **Property & Portfolio Research**
- **CoStar**
- **CB Commercial**
- **Grubb & Ellis**
- **Cushman Wakefield**
- **RealFacts (Apt Only)**



# Rent/Vacancy – Who has Projections?

- **Torto-Wheaton Research - YES**
- **REIS - YES**
- **Property & Portfolio Research - YES**
- **CoStar - NO**
- **CB Commercial - YES**
- **Grubb & Ellis - YES**
- **Cushman Wakefield – YES**
- **RealFacts (Apt Only) - NO**



# Sale Comps - Data Sources

- **CoStar Comps**
- **REIS**
- **Real Capital Analytics**
- **LoopNet**
- **Your Firm's Files**

# Expense - Data Sources

- **IREM (Office, Retail, Apt)**
- **NAIOP**
- **CoStar Comps**
- **REIS**
- **Your Firm's Files!**

# Cap Rate - Data Sources

- **Real Capital Analytics**
- **RERC Investor Survey**
- **CB National Investor Survey**
- **Cushman Wakefield**
- **Grubb & Ellis - Outlook**
- **CoStar Comps**

# Rent Vacancy Sources – Strong Suits

**IREM (Office, Retail, Apt)**

**CoStar Comps**

**REIS**

**Real Capital Analytics**

# Real Estate Loss - Data Sources

- **FDIC – Whole Portfolios Only**
- **Peer Groups Annual Reports**
- **Trepp – CMBS data**
- **Conquest – CMBS data**
- **Intex – CMBS data**