



# Today's Lending Environment... A New Reality

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# Debt & Equity Finance Colorado Team

Who we are:

The Debt & Equity Finance group for CBRE Capital Markets

What we do:

- Serve as a trusted advisor for owners of commercial real estate and provide capitalization for their projects
- Focus primarily on arranging financing for income producing properties:
  - **Property types:** Office, Industrial, Multifamily, Retail, Hospitality, Owner occupied
  - **Financing types:** Long term fixed rate, Short term floating & fixed rate financing, Construction financing
  - **Other Services:** Loan Sales, Loan Assumption Consulting, Restructuring Services
- Loan sizes of \$3 million and up
- Represent over 200 sources of capital (Banks, Life Insurance Companies, Agencies, Pension Funds)

2008 Production			
Companywide	\$10 Billion	642 Loans	\$15.6MM Average Loan Size

# Why are Values Going Down?

	<u>July 2007</u>	<u>February 2009</u>	
Net Operation Income	\$2,400,000	\$2,400,000	
Capitalization Rate	6.50%	6.50%	
Value	\$36,923,077	\$36,923,077	
Treasury	4.63%	2.90%	
Spread	1.20%	4.50%	
Rate	5.83%	7.40%	
Years of Amortization	<u>0</u>	<u>30</u>	
Loan Constant	5.83%	8.31%	
<b>Minimum Coverage</b>	<b>1.15x</b>	<b>1.45x</b>	
Max Proceeds based on Coverage	\$35,796,853	\$19,921,297	
Maximum Loan to Value	80%	60%	
Max Proceeds based on Value	\$29,538,462	\$22,153,846	
Ultimate Loan Amount (Lesser amount)	\$29,538,462	\$19,921,297	54%
Cash Flow After Debt Service	\$677,908	\$744,828	
Equity	\$7,384,615	\$17,001,780	
<b>Cash on Cash Return</b>	<b>9.18%</b>	<b>4.38%</b>	

# Why are Values Going Down?

	<u>July 2007</u>	<u>February 2009</u>	<u>February 2009</u>	<u>February 2009</u>
Net Operation Income	\$2,400,000	\$2,400,000	\$2,400,000	\$2,400,000
<b>Capitalization Rate</b>	<b>6.50%</b>	<b>9.00%</b>	<b>9.50%</b>	<b>10.00%</b>
Value	\$36,923,077	\$26,666,667	\$25,263,158	\$24,000,000
<b>Change in Value</b>		<b>28%</b>	<b>32%</b>	<b>35%</b>
Treasury	4.63%	2.90%	2.90%	2.90%
Spread	1.20%	4.50%	4.50%	4.50%
Rate	5.83%	7.40%	7.40%	7.40%
Years of Amortization	0	30	30	30
Loan Constant	<u>5.83%</u>	<u>8.31%</u>	<u>8.31%</u>	<u>8.31%</u>
Minimum Coverage	1.15x	1.45x	1.45x	1.45x
Max Proceeds based on Coverage	\$35,796,853	\$19,921,297	\$19,921,297	\$19,921,297
Maximum Loan to Value	80%	60%	60%	60%
Max Proceeds based on Value	\$29,538,462	\$16,000,000	\$15,157,895	\$14,400,000
Ultimate Loan Amount (Lesser amount)	\$29,538,462	\$16,000,000	\$15,157,895	\$14,400,000
Cash Flow After Debt Service	\$677,908	\$1,070,631	\$1,140,598	\$1,203,568
Equity	\$7,384,615	\$10,666,667	\$10,105,263	\$9,600,000
<b>Cash on Cash Return</b>	<b>9.18%</b>	<b>10.04%</b>	<b>11.29%</b>	<b>12.54%</b>

# 2009 Loan Samples

	Office	Industrial Warehouse	Retail Center	Apartment	Apartment
<b>Market</b>	Major MSA	Small MSA	Small MSA	Major MSA	Major MSA
<b>Purpose</b>	Acquisition	Acquisition	Refinance	Refinance	Acquisition
<b>Lender Type</b>	Bank	Life Company	Life Company	Agency	Agency
<b>Loan to Value</b>	65%	65%	54%	64%	83%
<b>Size</b>	\$17MM	\$5MM	\$34MM	\$27.2MM	\$3.3MM
<b>Term</b>	3 Years	5 Years	3 Years	5 Years	7 Years
<b>Amortization</b>	25 Years	25 Years	25 Years	Interest Only	30 Years
<b>Interest Rate</b>	5.50% Floating	6.50% Fixed	5.95% Fixed	3.53% Floating	6.38% Fixed
<b>Recourse</b>	Recourse	Non-Recourse	Non-Recourse	Non-Recourse	Non-Recourse



# Commercial Real Estate Financing In Today's Environment



## Characteristics of a good loan

- Cash-in of at least 25%
- DCR minimum 1.20
- LTV 65% or less
- Colorado-based borrower
- Must be a relationship (deposits)
- 20 – 25 year amortization
- Strong sponsors – will accept limited guarantees in some cases



## Example of Recent Loan #1

- Loan Size: \$5MM
- Type: Self Storage Units
- Location: Texas
- Equity: 30%
- LTV: 65%
- Recourse: Corporate & Personal
- 20 year am, 4 year call
- 5 year CMT + 350 bp (6.0% floor)





## Example of Recent Loan #2

- Loan Size: \$17MM
- Type: Hospitality
- Location: DIA
- LTV: 51%
- Recourse: Personal, unlimited
- 25 year am, 5 year call
- 6.5% fixed
- 50% participation required
- Credit Enhanced

## What types of loans are attractive?

- Strong sponsorship with personal or substantial corporate recourse.
- In-place or reasonably achievable cash flow (1.25x on 8.5% constant).
- Equity in transactions  $\geq 30\%$
- Deposits to help off-set funding requirement – at least 10% of loan.
- Under \$30MM or “club” deal – syndication market is non-existent.
- Consider all product types with the exception of land.
- Prefer loans in BBVA Compass footprint of Colorado, Arizona, New Mexico, Texas, Alabama or Florida.

## Loan Samples Closed - 1<sup>st</sup> Quarter 2009

	Medical Office	Apartments	Retail
Market	Out-of-Market Small MSA	In-Market Major MSA	In-Market Small MSA
Type	Refinance	Construction	Construction
Size	\$5 - \$20MM	>\$20MM	\$1 - \$5MM
Equity	N/A	39%	35%
Recourse	Corporate	Corporate	Personal
Loan to Appraisal Value	<50%	65%	<65%
Pre-Leased	Yes	No	Yes
New Client	Yes	Yes	Yes

## Sponsorship:

- Liquidity and net worth as a percentage of loan amount is not an important indicator.
- Cash Flow, Cash Flow, Cash Flow!!!
  - Withstand 20% decrease in rents
- Limited scheduled maturity dates.
- Contingent liabilities as a percentage of assets.
- Portfolio leverage at stressed cap rates.

## Sample Terms:

- Spreads over LIBOR starting @ 350BPS.
- Floors on LIBOR of 2%.
- Amortization of 20, 25 or 30 years – depending on product type & lease term. Begins at pre-determined stabilization date.
- Terms limited to 5 years with annual debt service coverage covenants.
- Loan amounts with holds of \$3MM - \$35MM.



**NAIOP Meeting  
March 10, 2009**

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# Company Overview

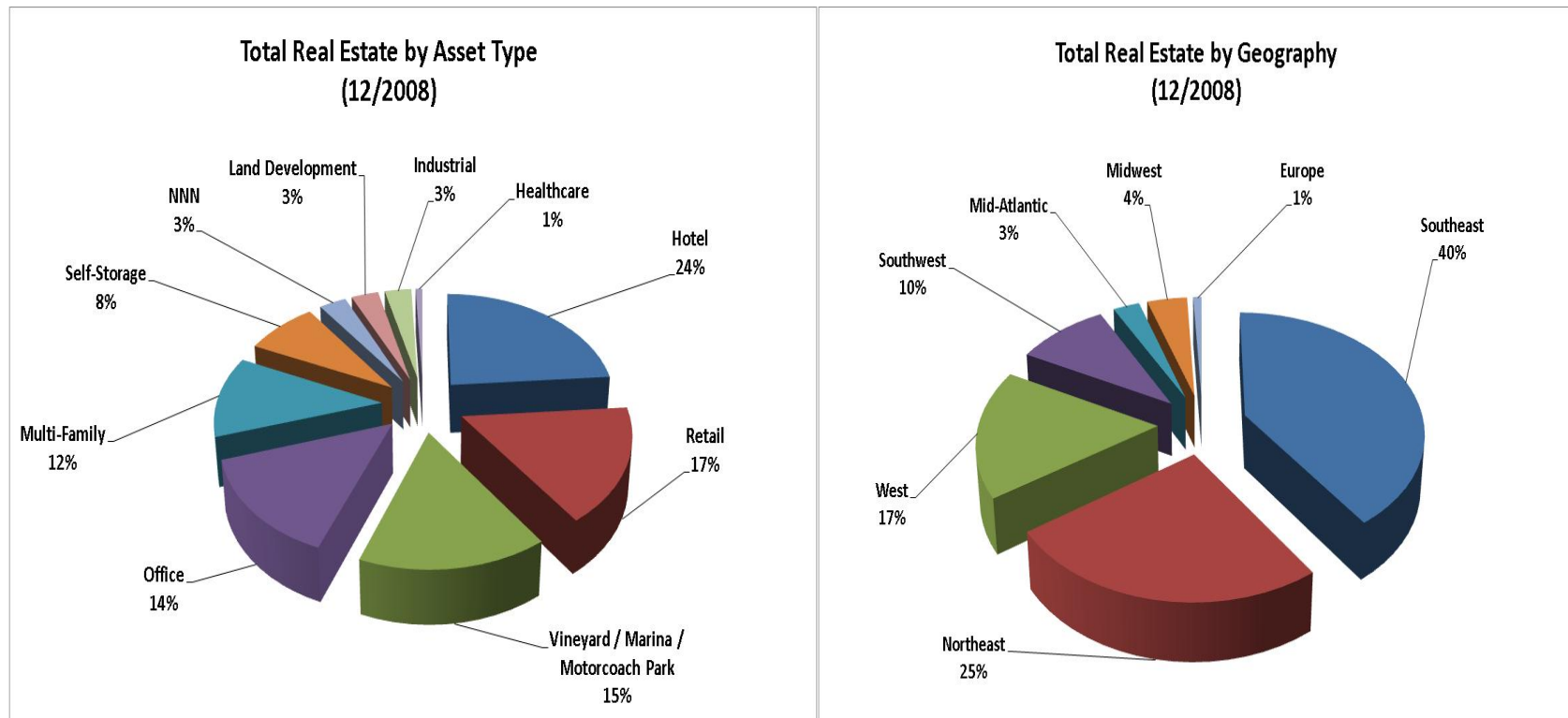


- Madison Capital Management, LLC (“Madison”) is an alternative investment management firm specializing in niche distressed, real estate, natural resource, and special situation financial assets
- Madison focuses on niche alternative investment opportunities—unconventional investments that pose significant hurdles for most institutional investors to identify, underwrite, acquire and manage
- Since its founding in 1996 through the end of 2008, Madison had invested approximately \$1 billion in capital.
- Madison had approximately \$600 million of assets under management as of December 31, 2008.
- Over the years, Madison has developed an investment process combining the expertise of its 70 professionals with a proprietary technology system, operating platform and compliance culture unrivalled in the alternative investments industry.
- Madison is a Registered Investment Advisor with the Securities and Exchange Commission.

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# Real Estate Group

- Madison's Real Estate Group has invested over \$400 million in the last three years.
  - Financial instruments include various types of debt and equity.
  - Portfolio is diversified by both asset type and geography.





# Geographic Presence



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# Investment Focus

- Investment sizes typically range between \$3-\$30 million, with terms of 6 months to 5 years.
- Typical transactions include: property acquisitions, refinancings, recapitalizations, partnership buyouts and note purchases.

## Targeted Geographies

- Denver
- California
- Pacific Northwest
- Southeast
- Washington DC
- Boston
- Other Growth Markets

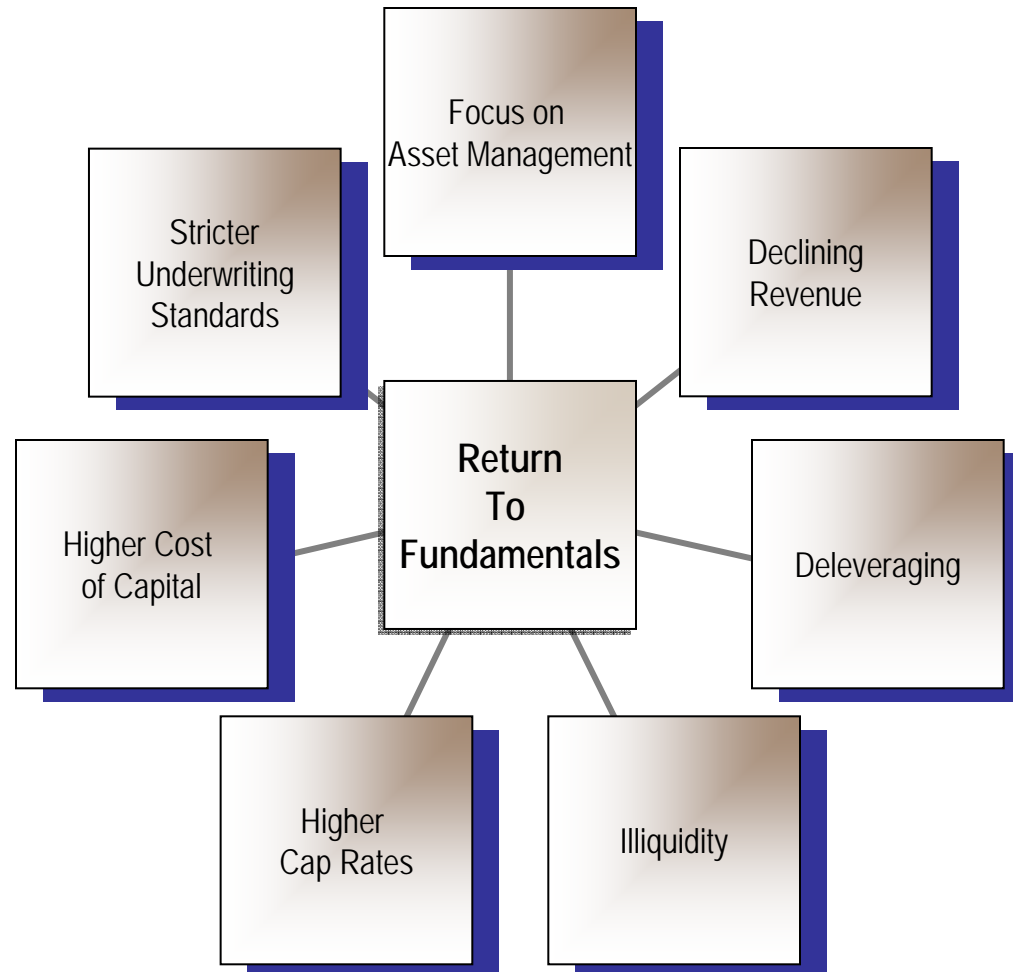
## Asset Types

- Multi-Family
- Self Storage
- Medical Office
- Office
- Retail
- Hospitality
- Specialty Uses (e.g. Senior & Student Housing, Data Centers, etc...)

## Types of Investments

- Preferred Equity
- Partnership Interests
- Mezzanine Debt
- Senior Bridge Debt
- Note Purchases

# Real Estate Capital Market Trends



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