

Wealth Management Research–Americas Risks & Opportunities in Residential & Commercial Real Estate Presentation to the Southern California Market

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Executive Director & Co-Head of Sector Research

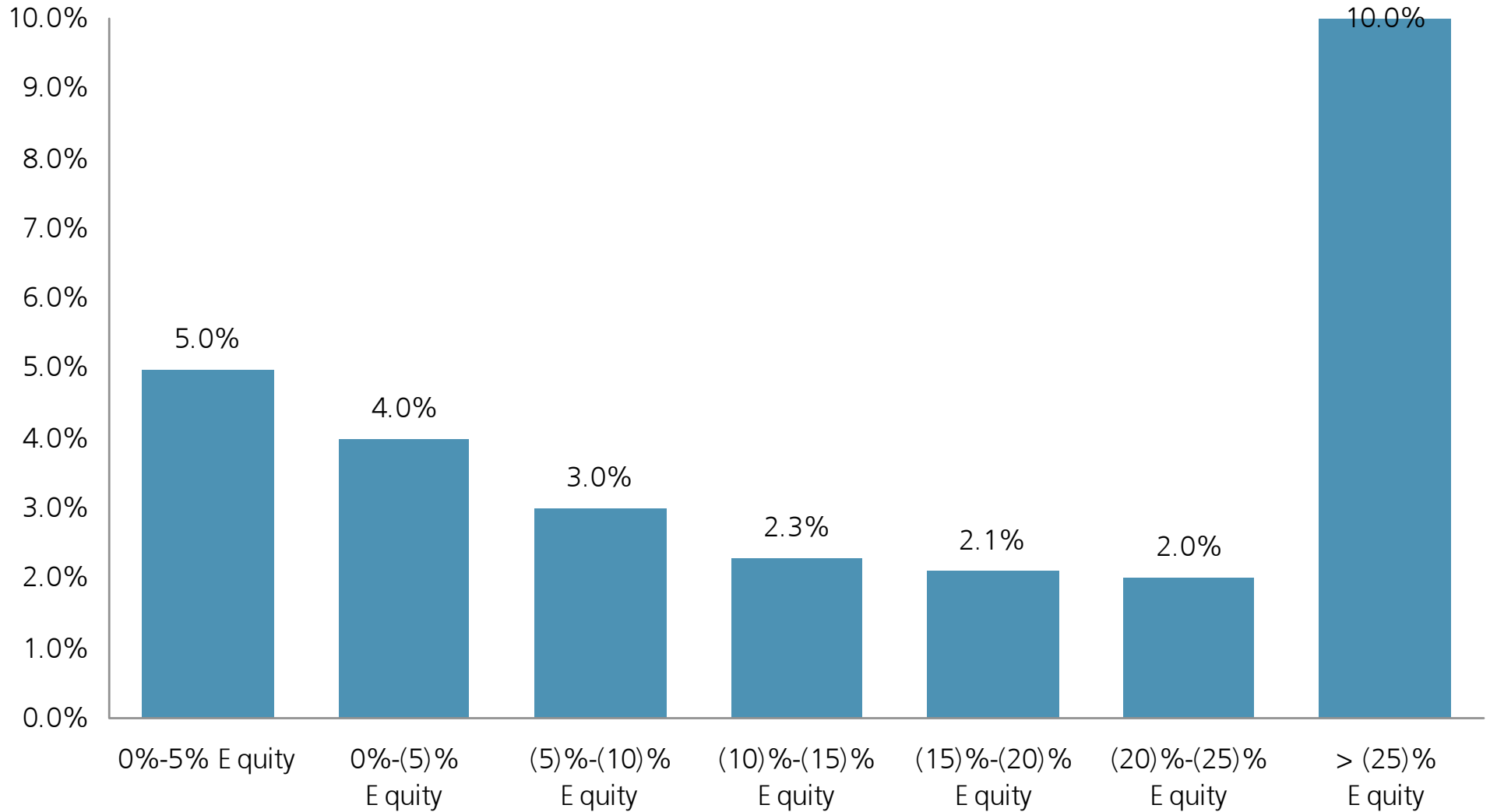
This report has been prepared by UBS Financial Services, Inc.

Analyst certification and required disclosures begin on 169

November 2011

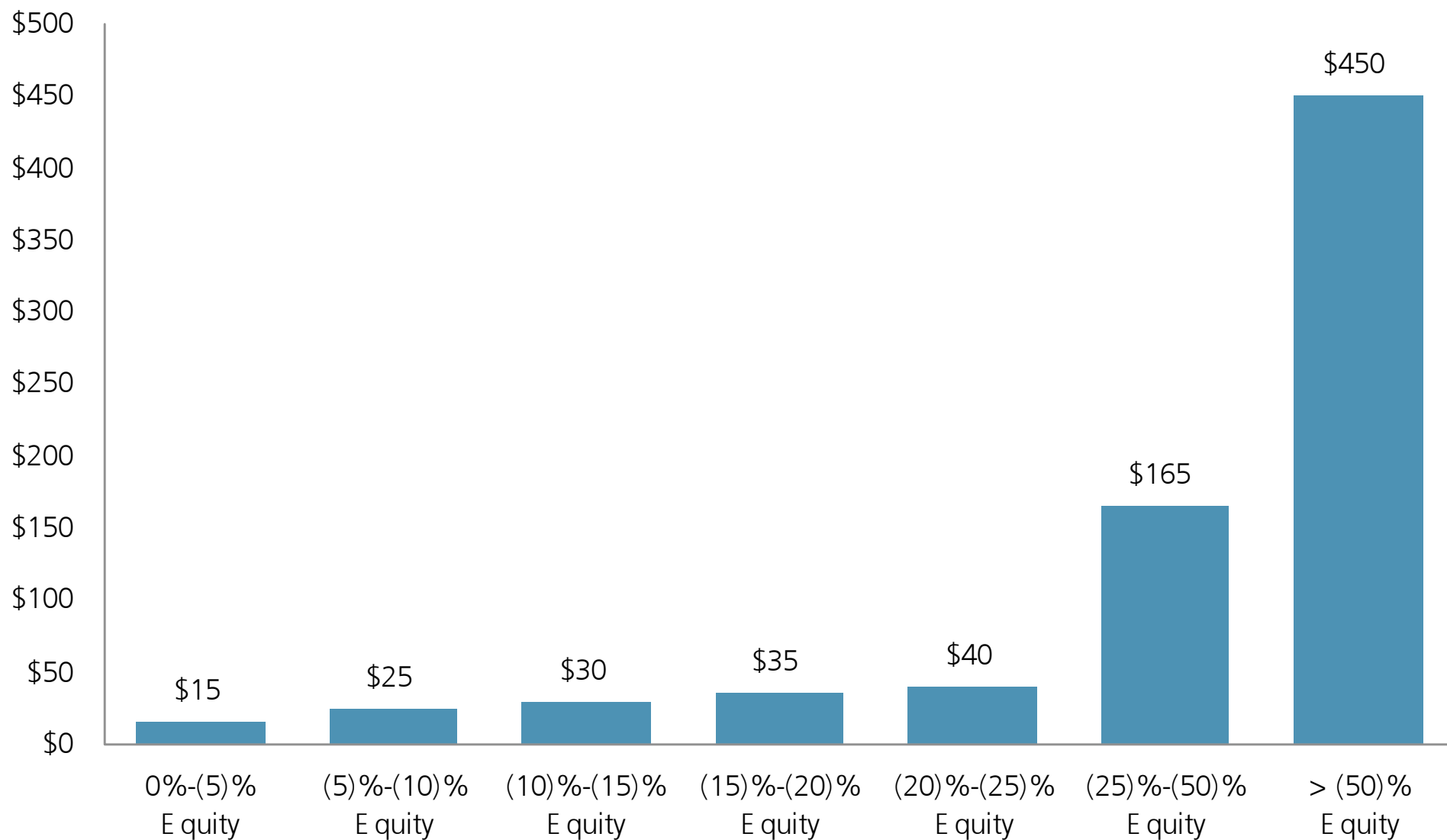


Distribution of Negative Equity



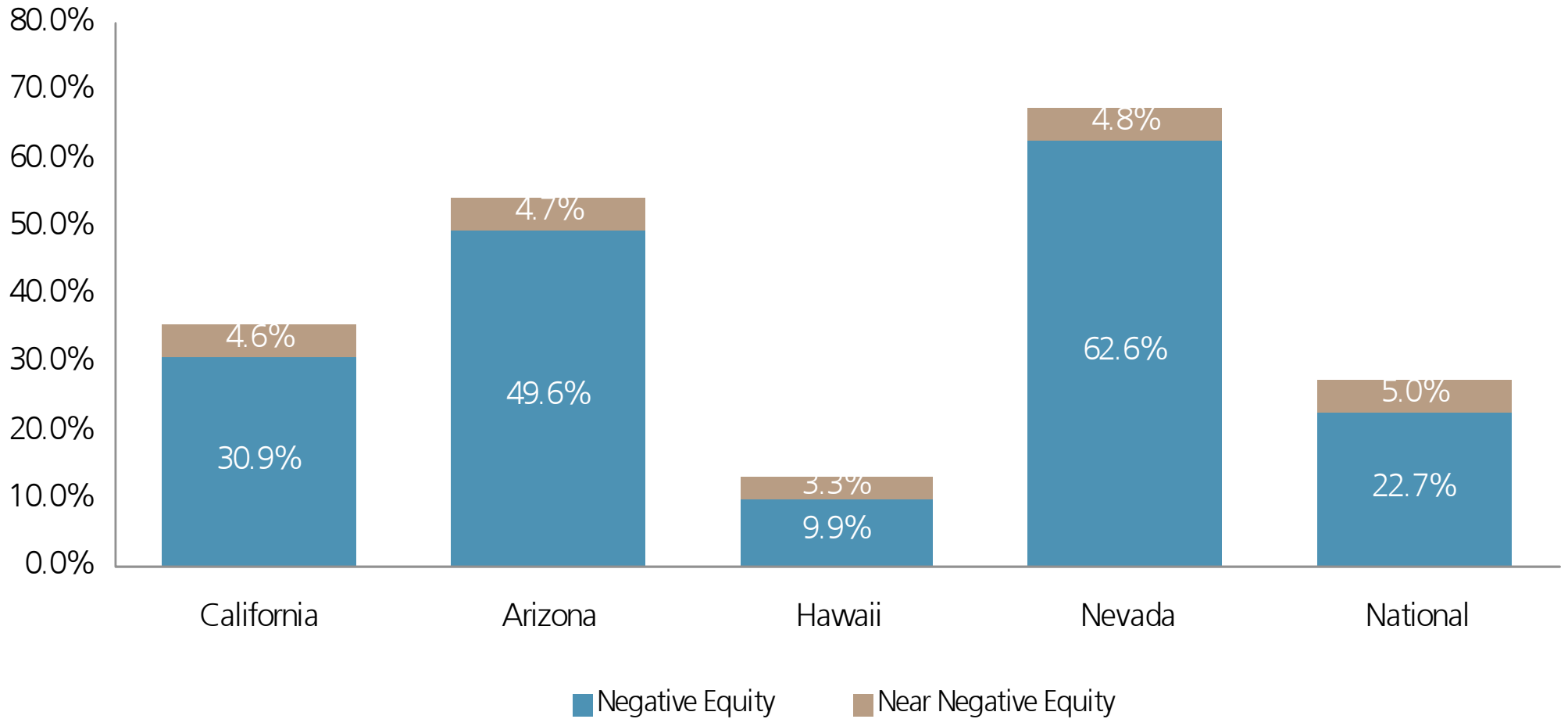
Source: First American Core Logic

Distribution of Negative Equity by Dollars (\$BN)



Source: First American Core Logic

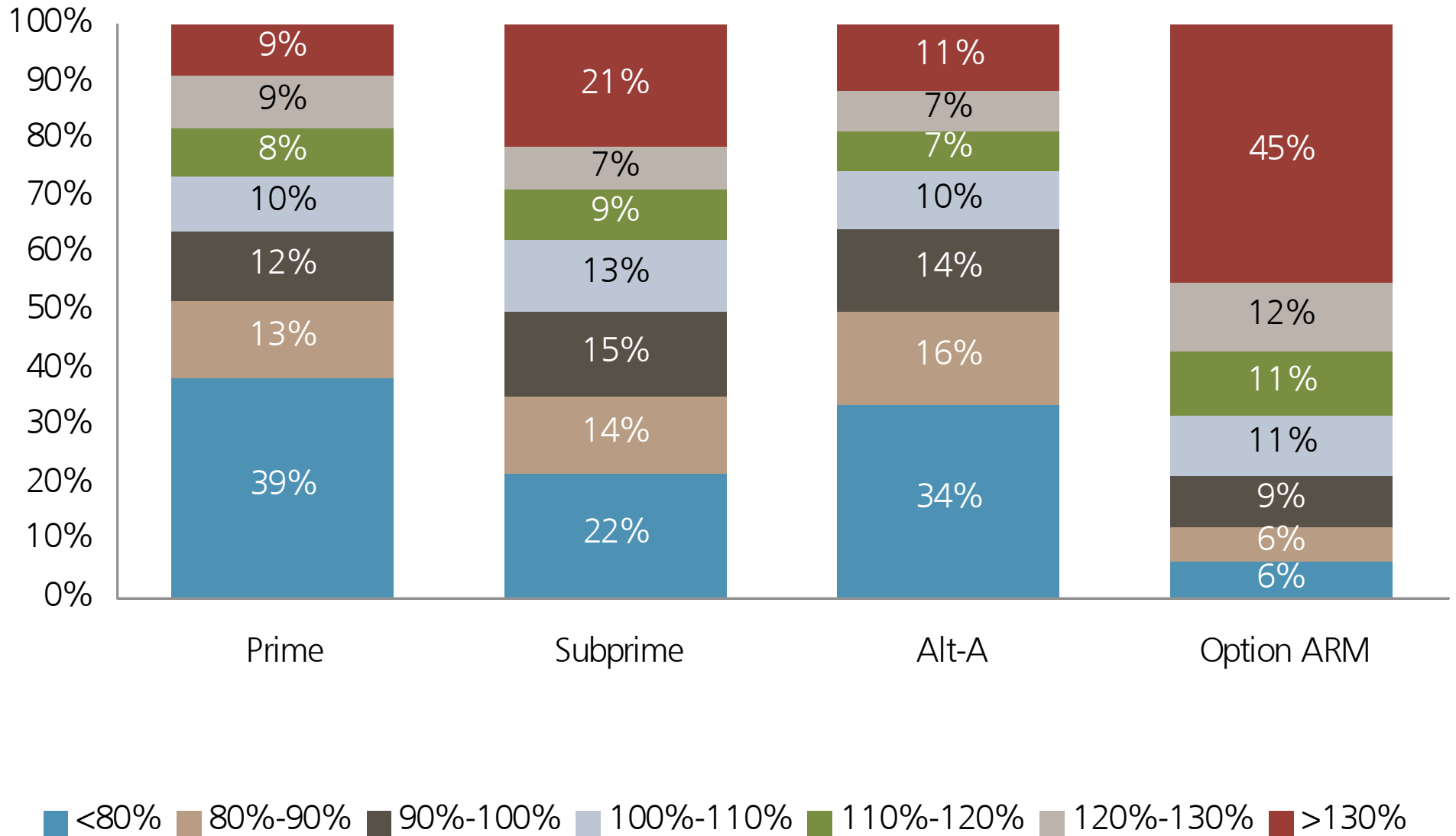
Negative Equity for Selected States



Source: First American Core Logic



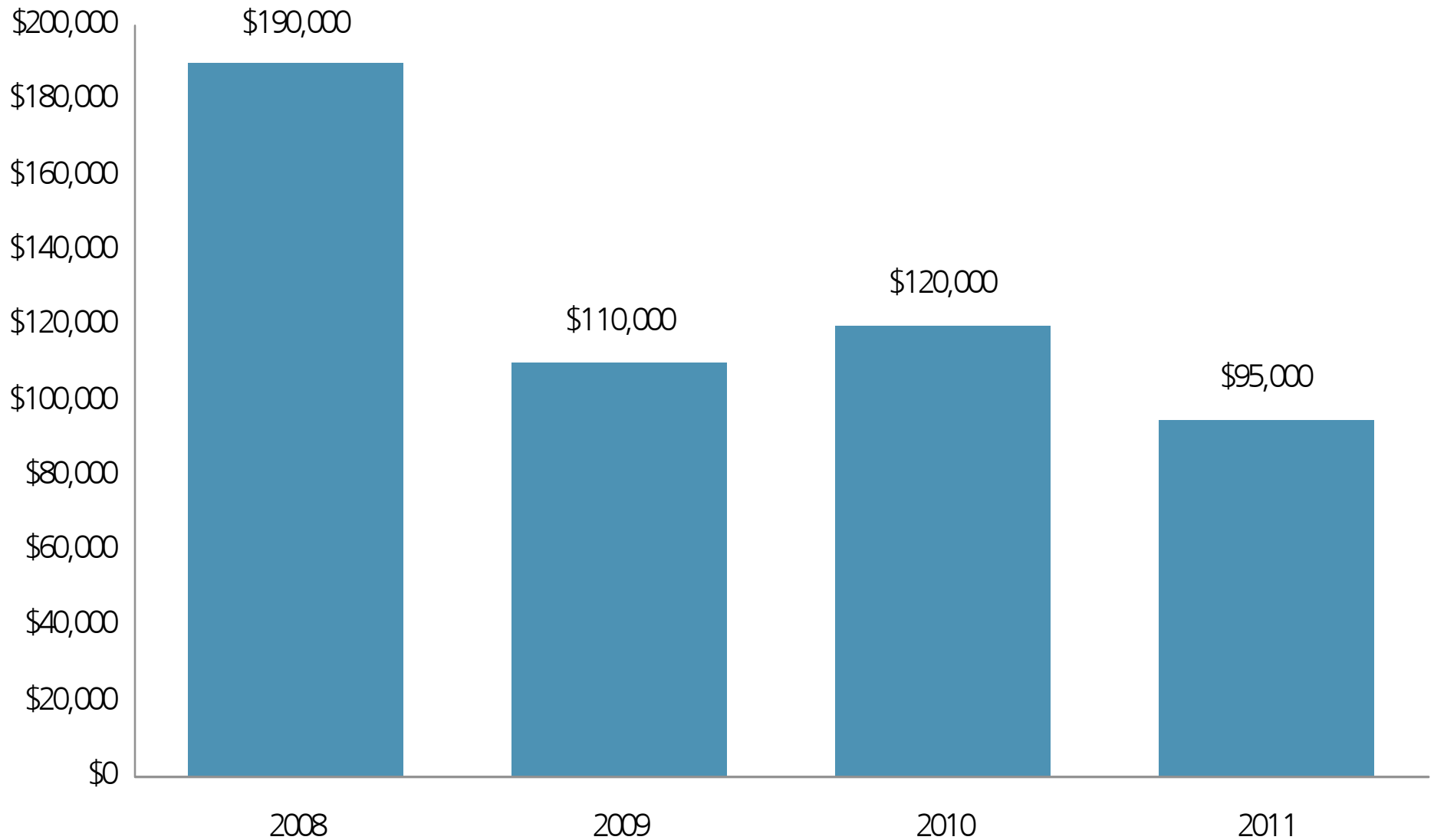
Loan-to-Value by Mortgage Type



Source: LoanPerformance

Foreclosures & Loan Delinquency: Impacts & Implications

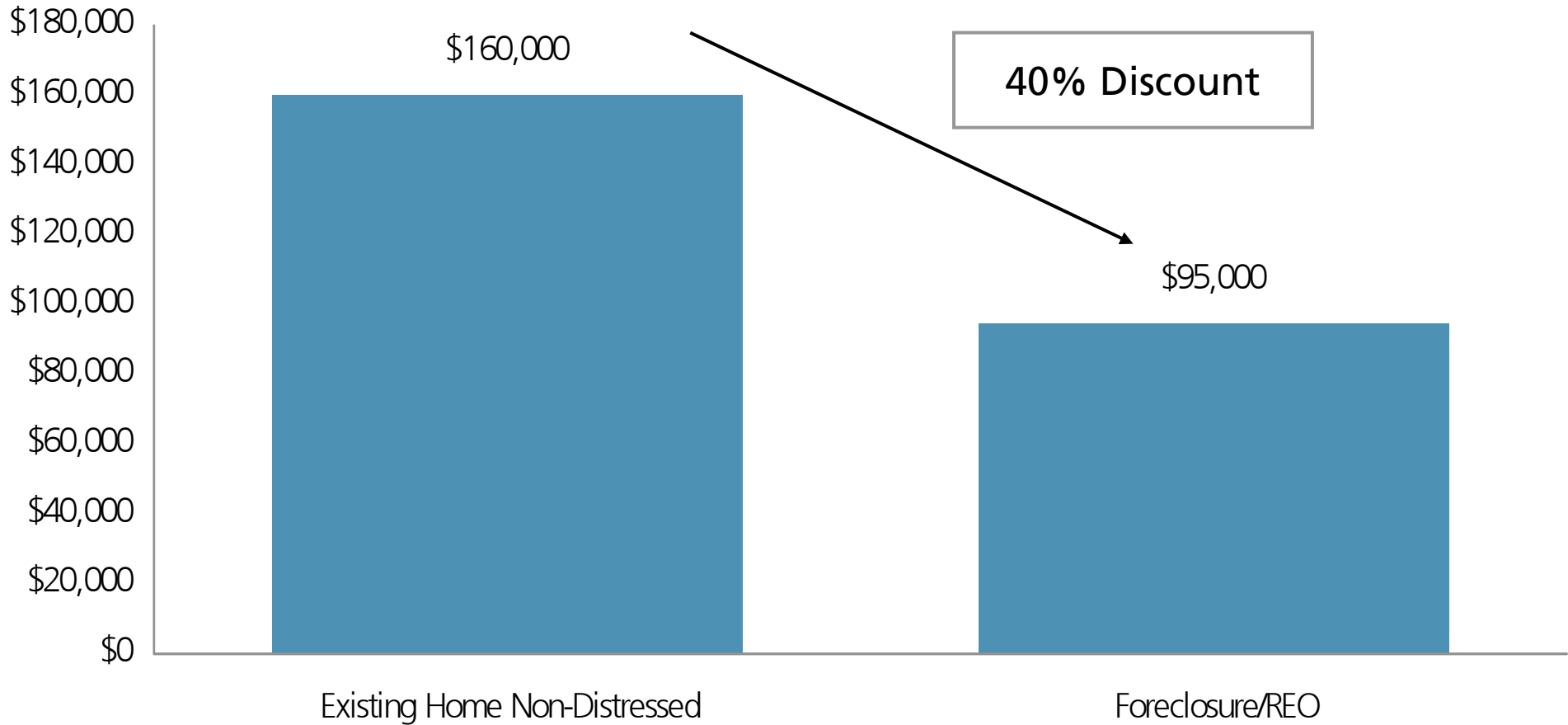
National Median REO Prices



Source: Corelogic

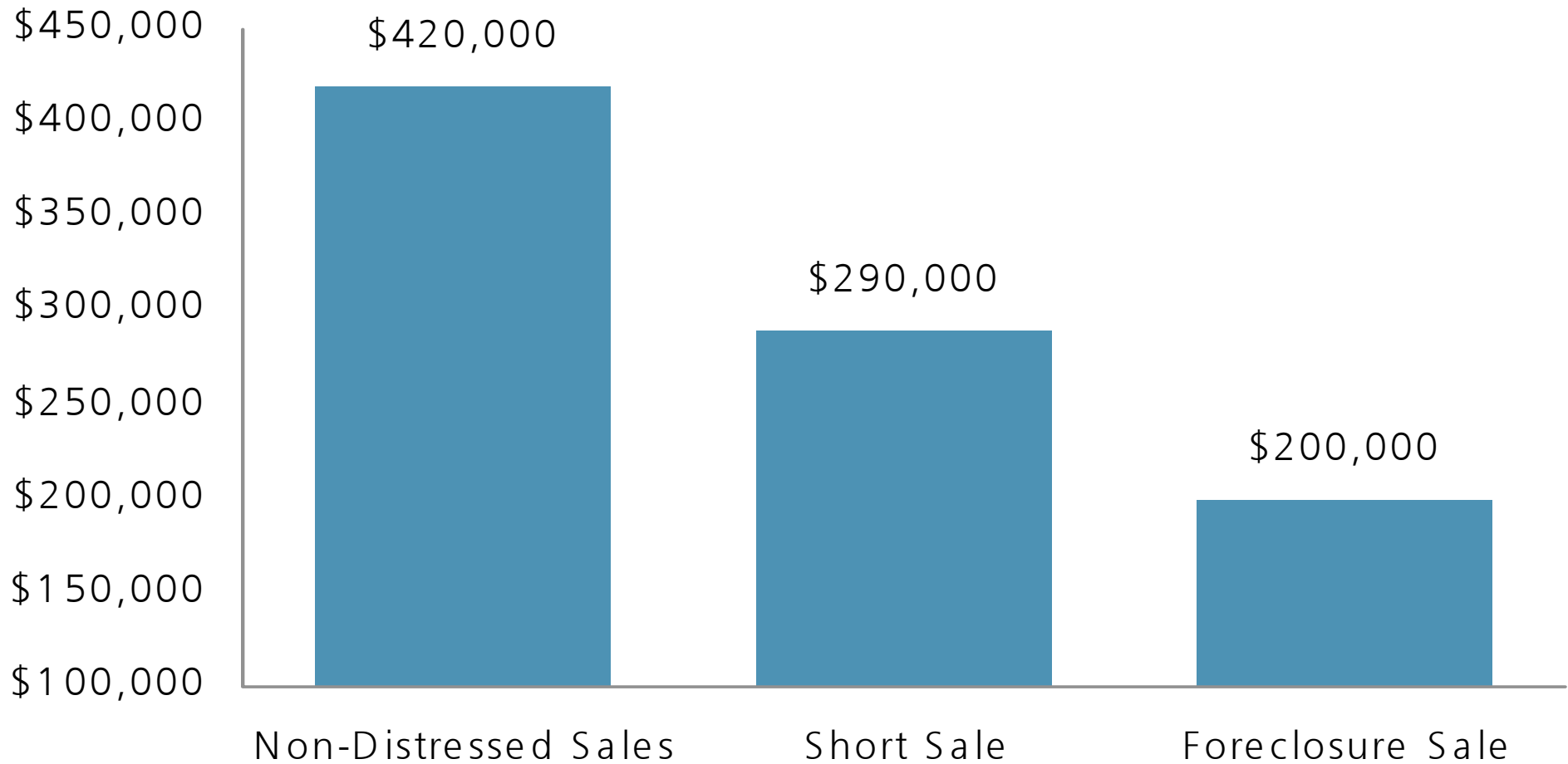


REO Price Discount to Non-Distressed Sales



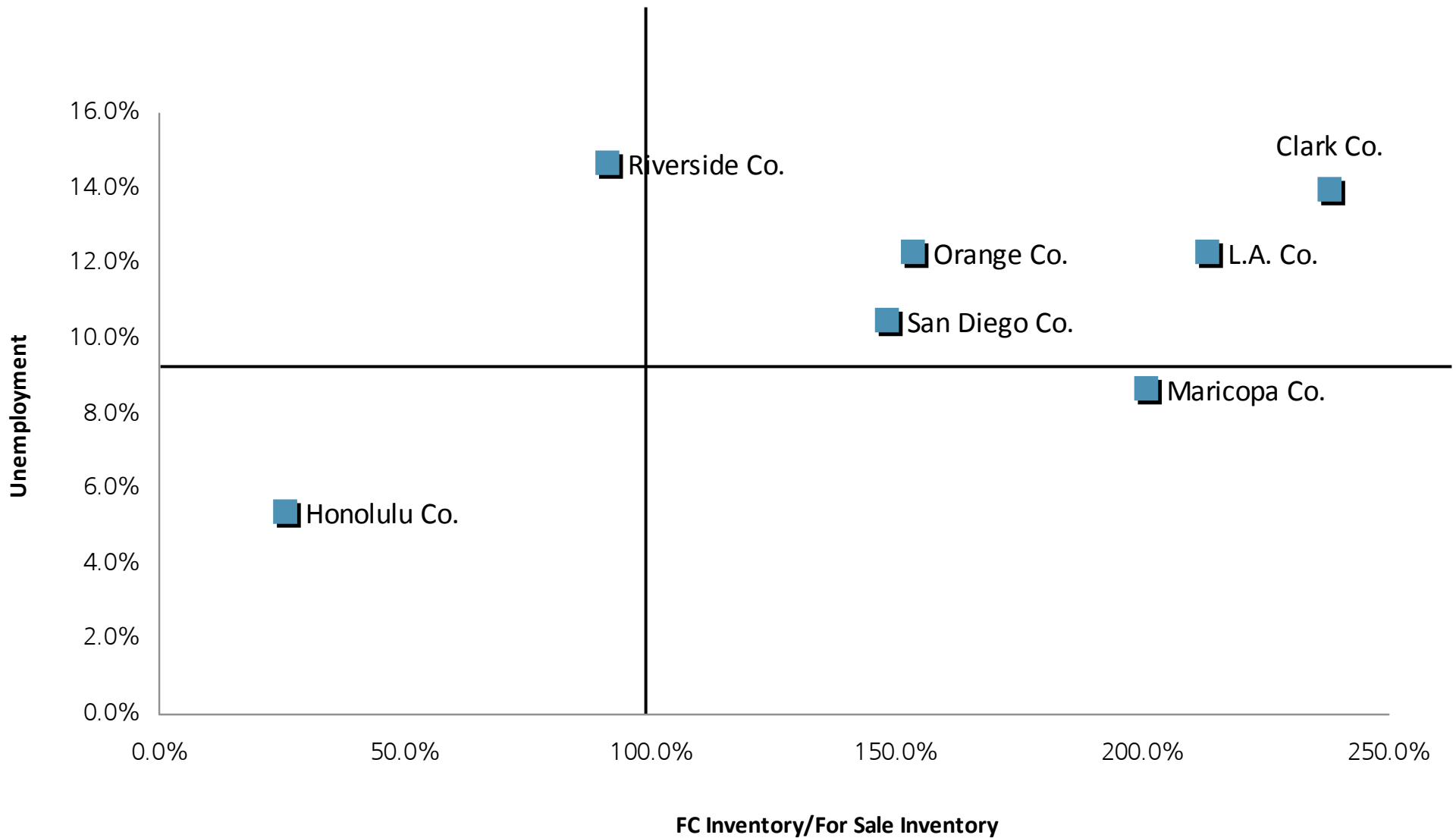
Source: Corelogic

California Median Distressed Price Discounts to Non-Distressed Sales – As of August 2011



Source: California Association of Realtors

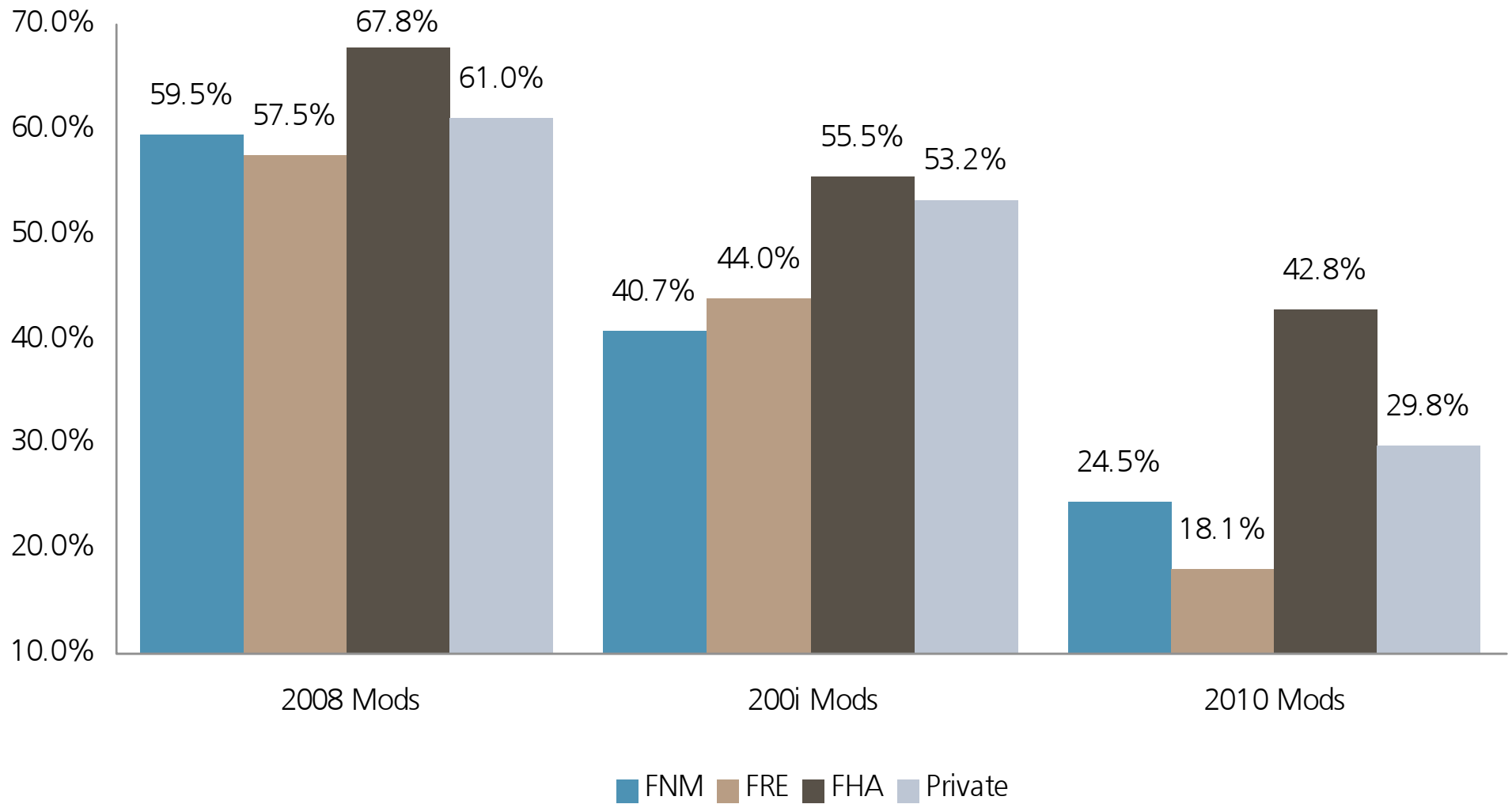
Unemployment vs Distressed Inventory for Selected MSAs



Source: HousingTracker, BLS, Foreclosure Radar, Foreclosure.com

Mortgage Modifications – A Deep Dive

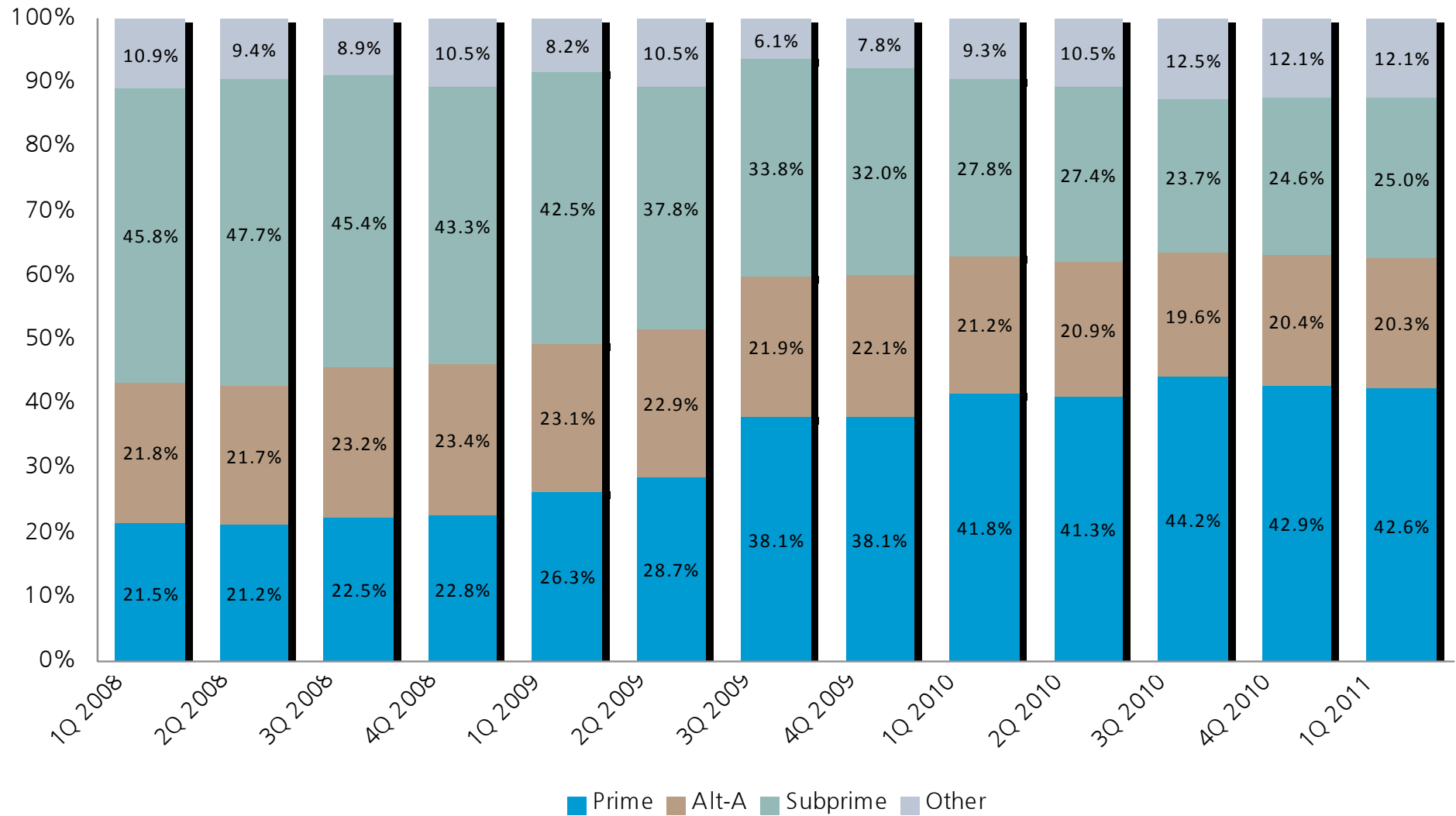
Re-Default Rates on Modified Loans



Source: OCC/OTS



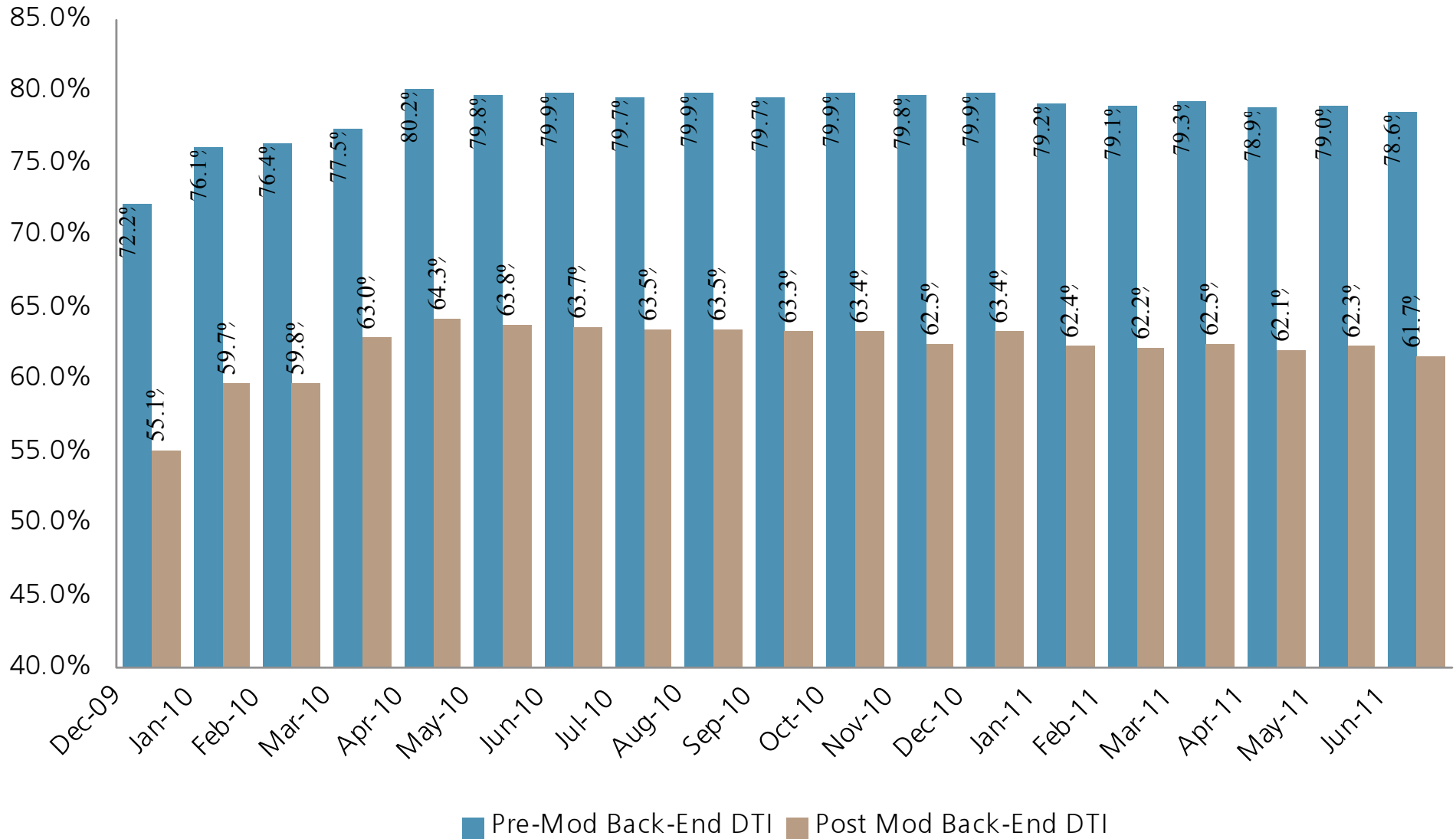
Composition of Mortgage Modifications



Source: OCC/OTS



Mortgage Modification Impact on Back-End DTI Ratios



Source: US Treasury

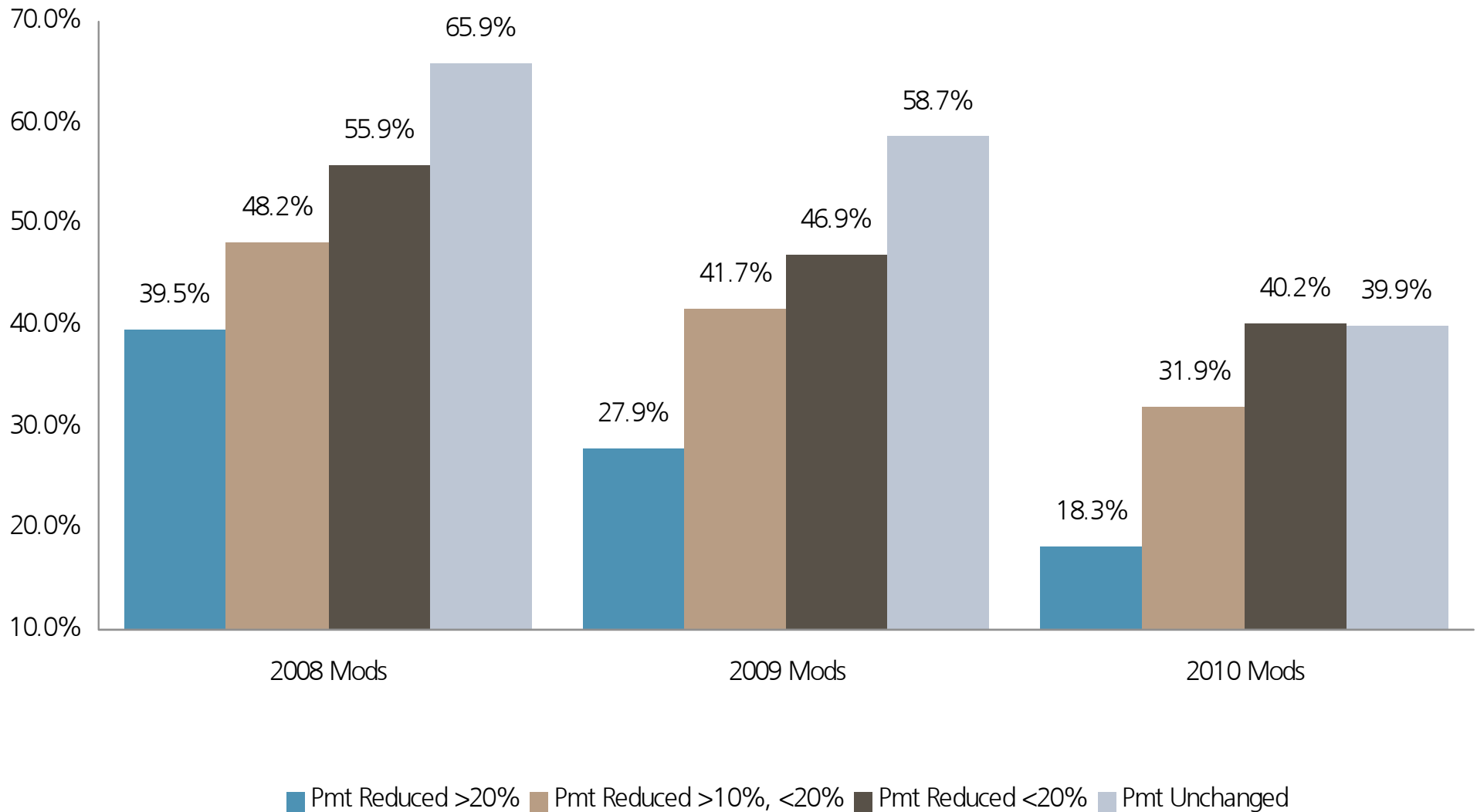


Mortgage Modification Actions



Source: OCC/OTS

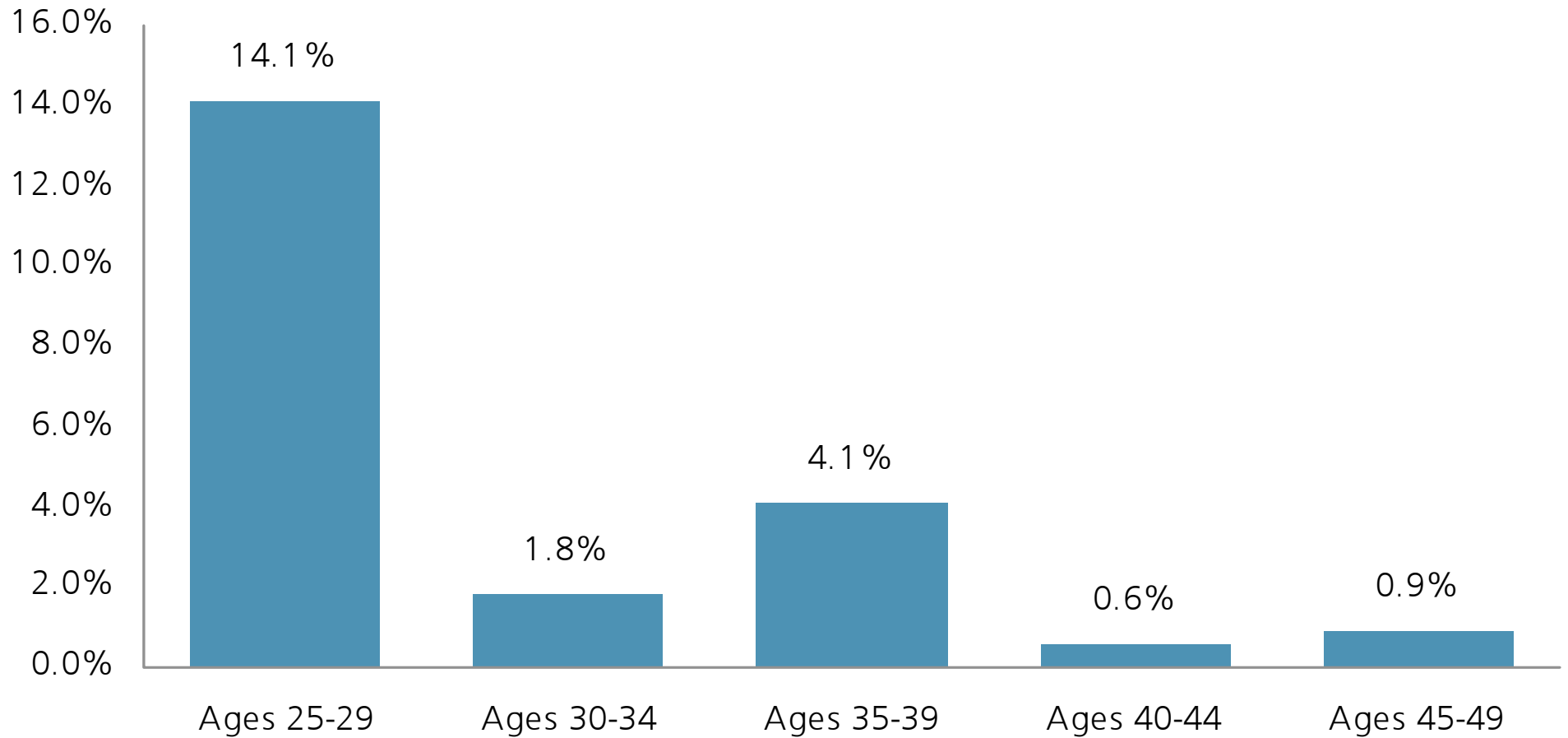
Re-Default Rates With Payment Reduction



Source: OCC/OTS

Demographic Considerations

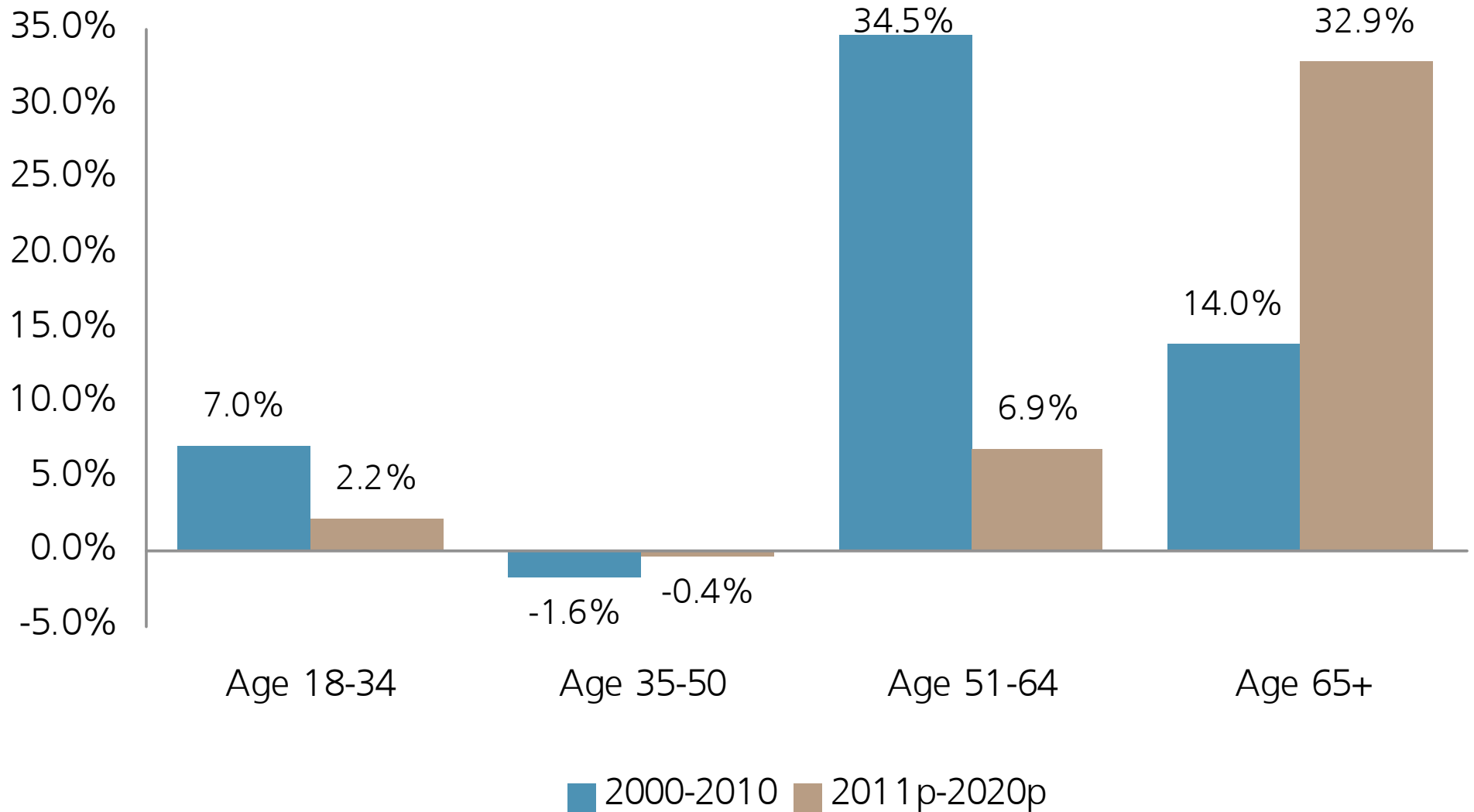
Growth in Homeownership by Age Range



From 1Q 2000-3Q 006

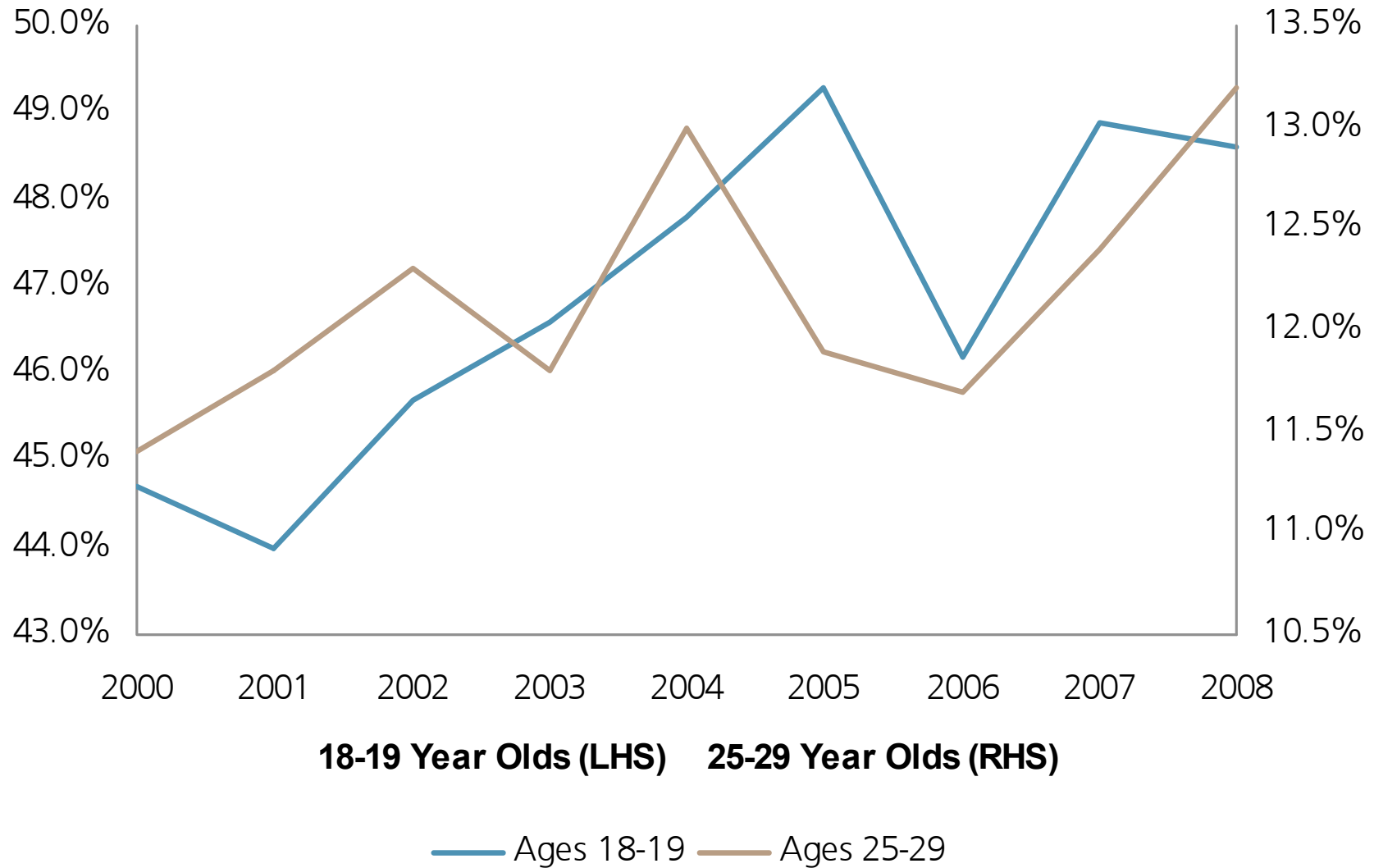
Source: US Census

Population Growth Rate by Age Range



Source: US Census

College Enrollment Population Trends

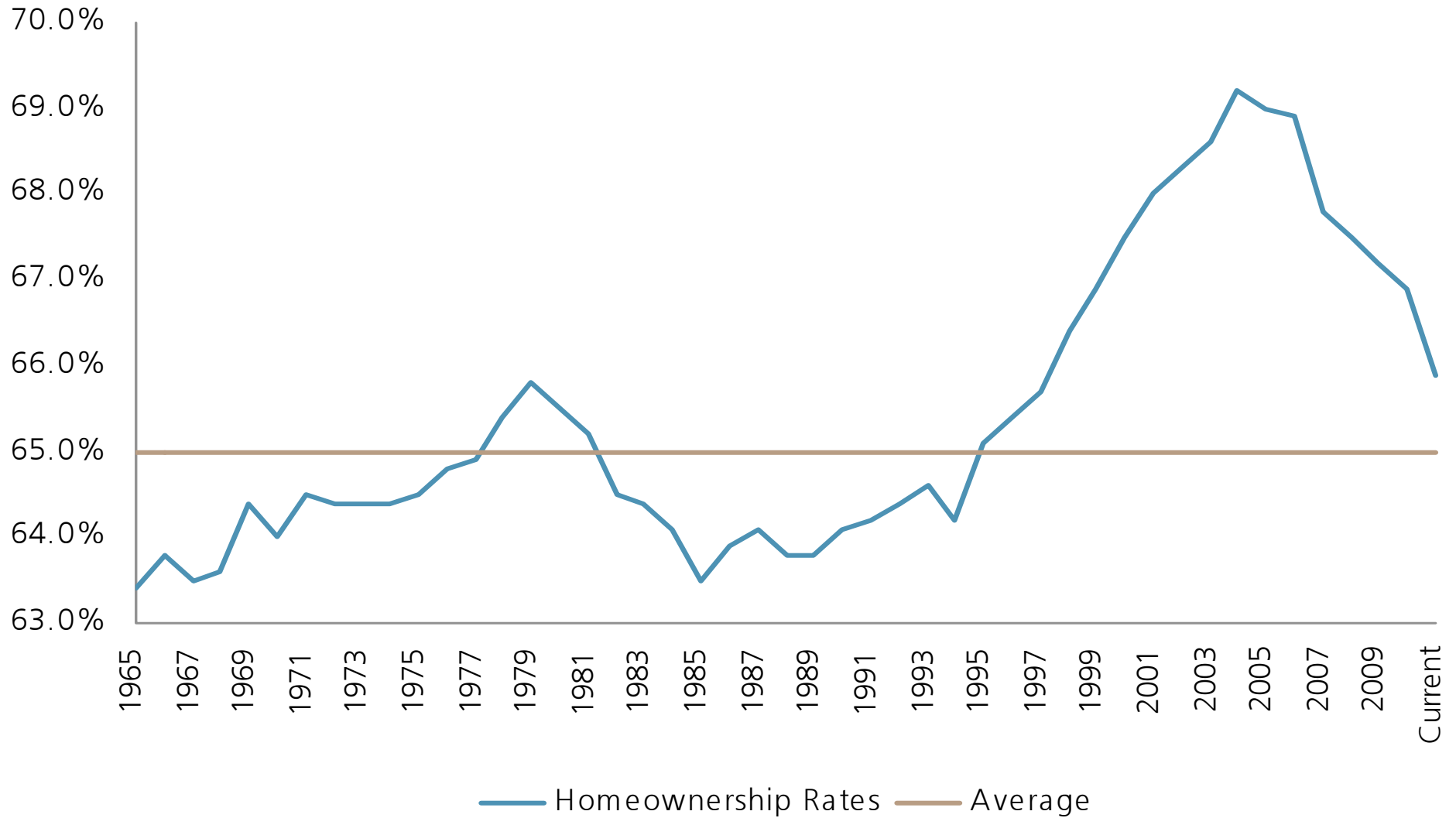


Source: US Census, Commerce Dept.



The Desire & Need For Mobility

Homeownership Rate Trends

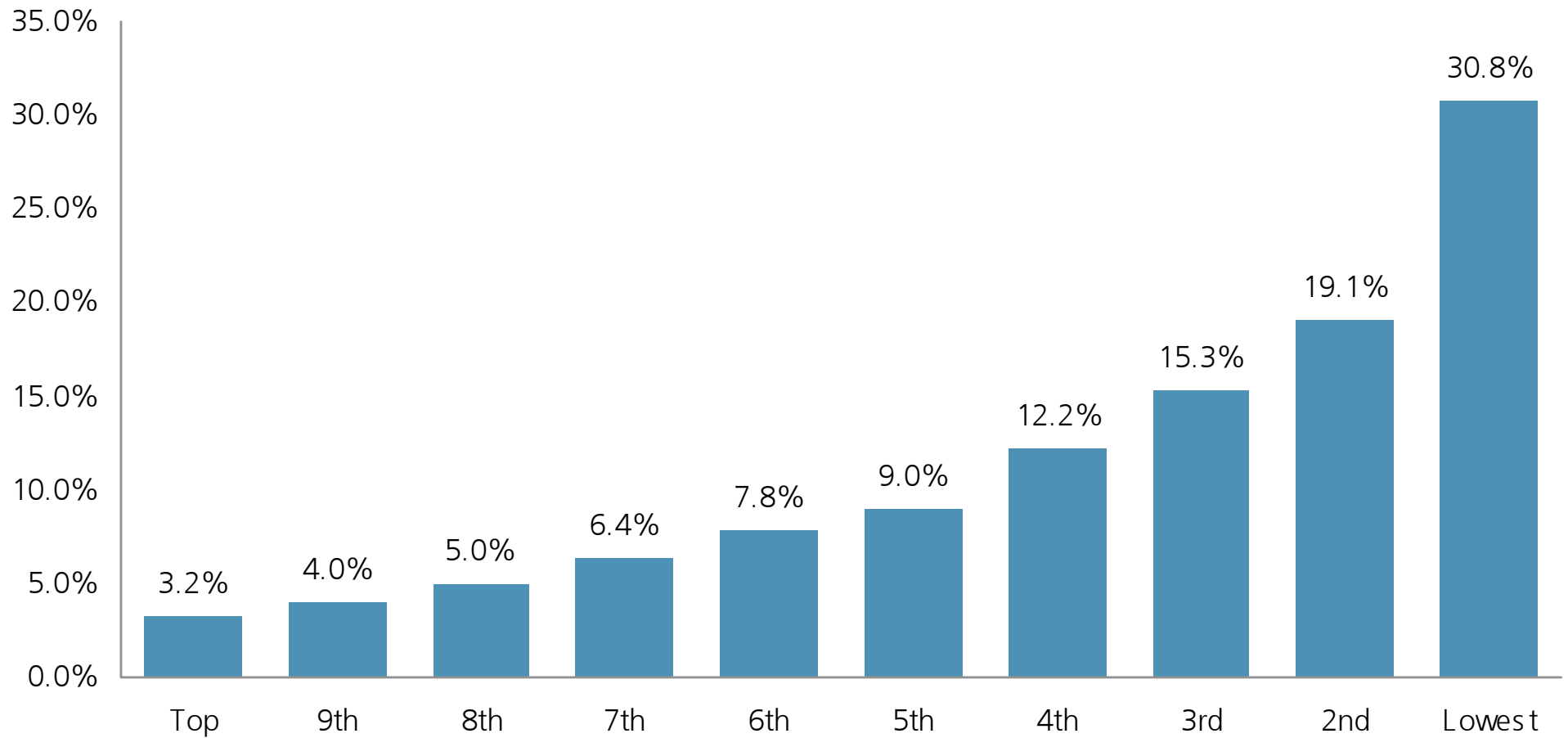


Jobs, Home Prices & Access to Credit

"Look, John's last-minute economic plan does nothing to tackle the number one job facing the middle class, and it happens to be, as Barack says, a three-letter word: jobs. J-O-B-S,"

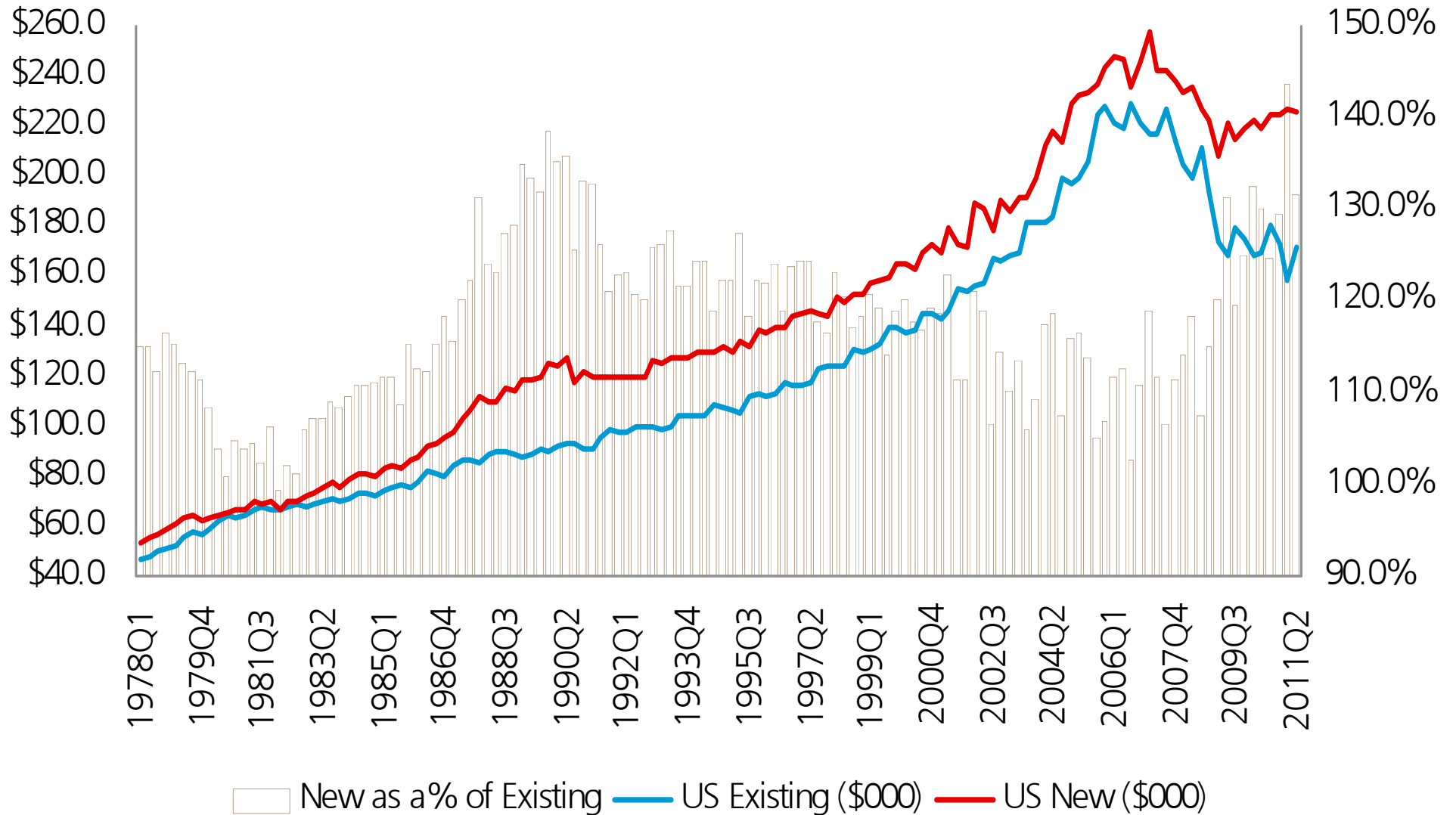
Joe Biden – October 15, 2008

Unemployment by Income Decile



Source: US Census

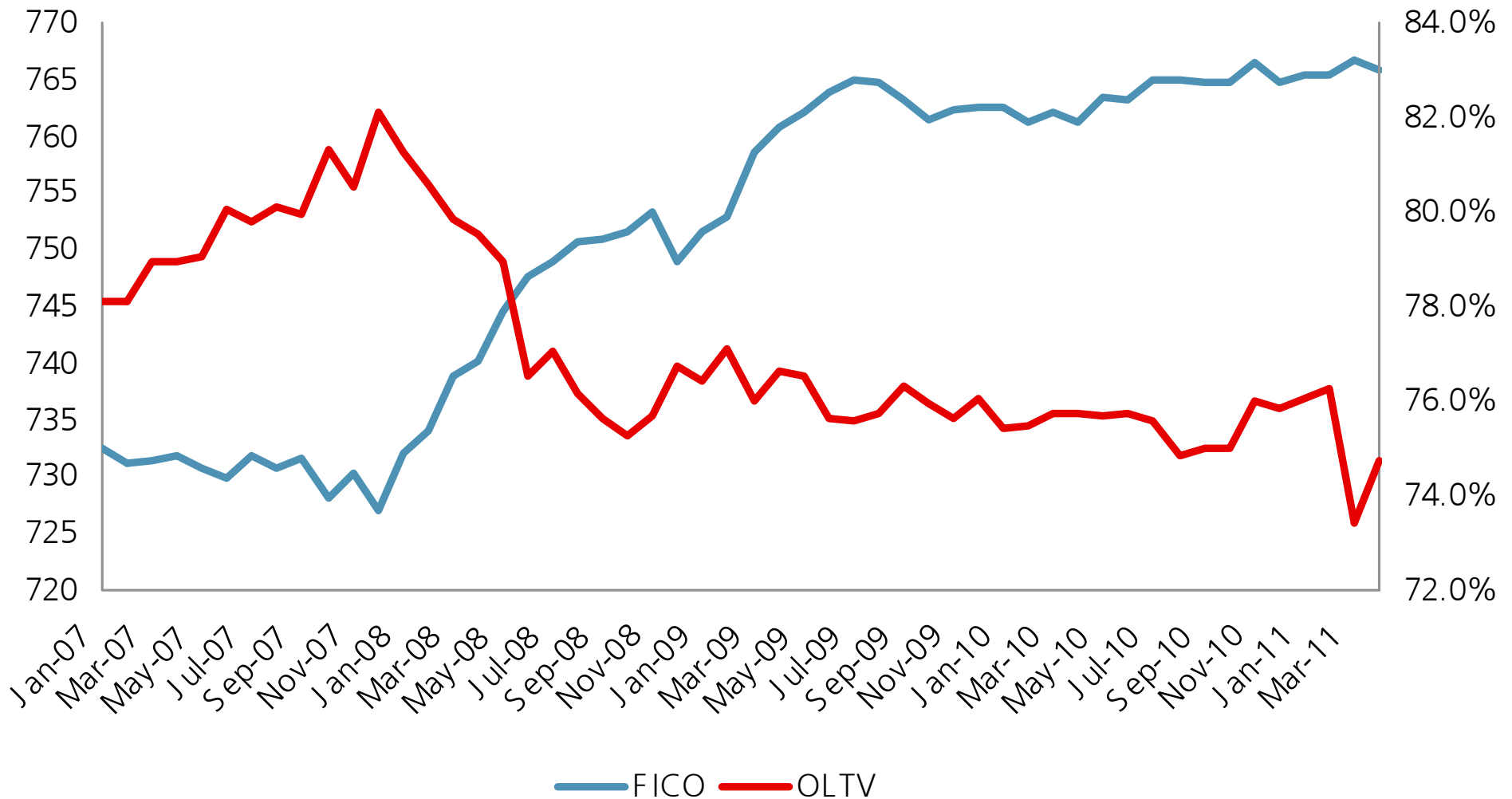
National Home Prices – New Construction vs. Existing Homes



Source: Realtor.org, US Census



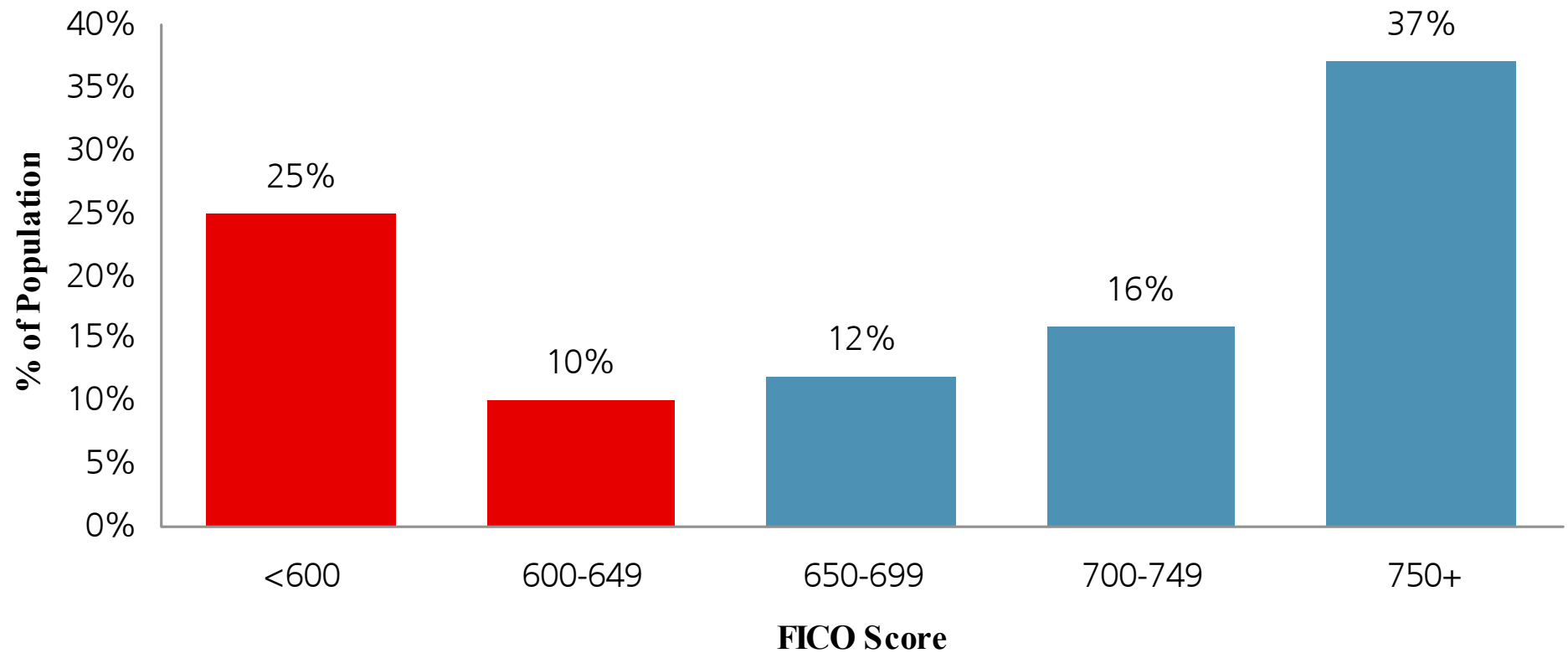
Underwriting Standards Getting Tougher (Towards Normal?)



Source: FRE, CPR& CDR Technologies

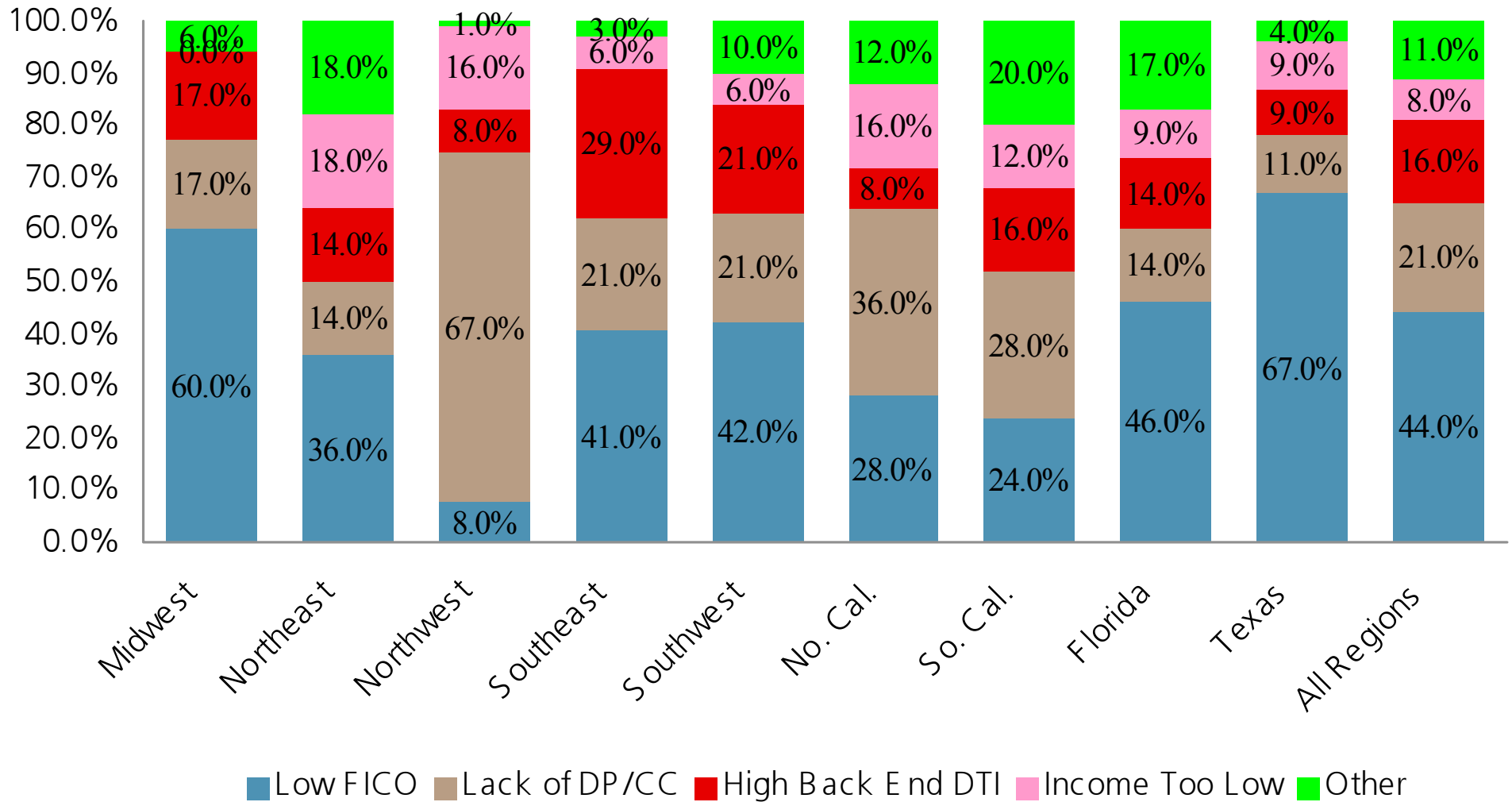


U.S. Population Segmented by FICO Score



Source: FICO

Why Aren't People Buying Homes?

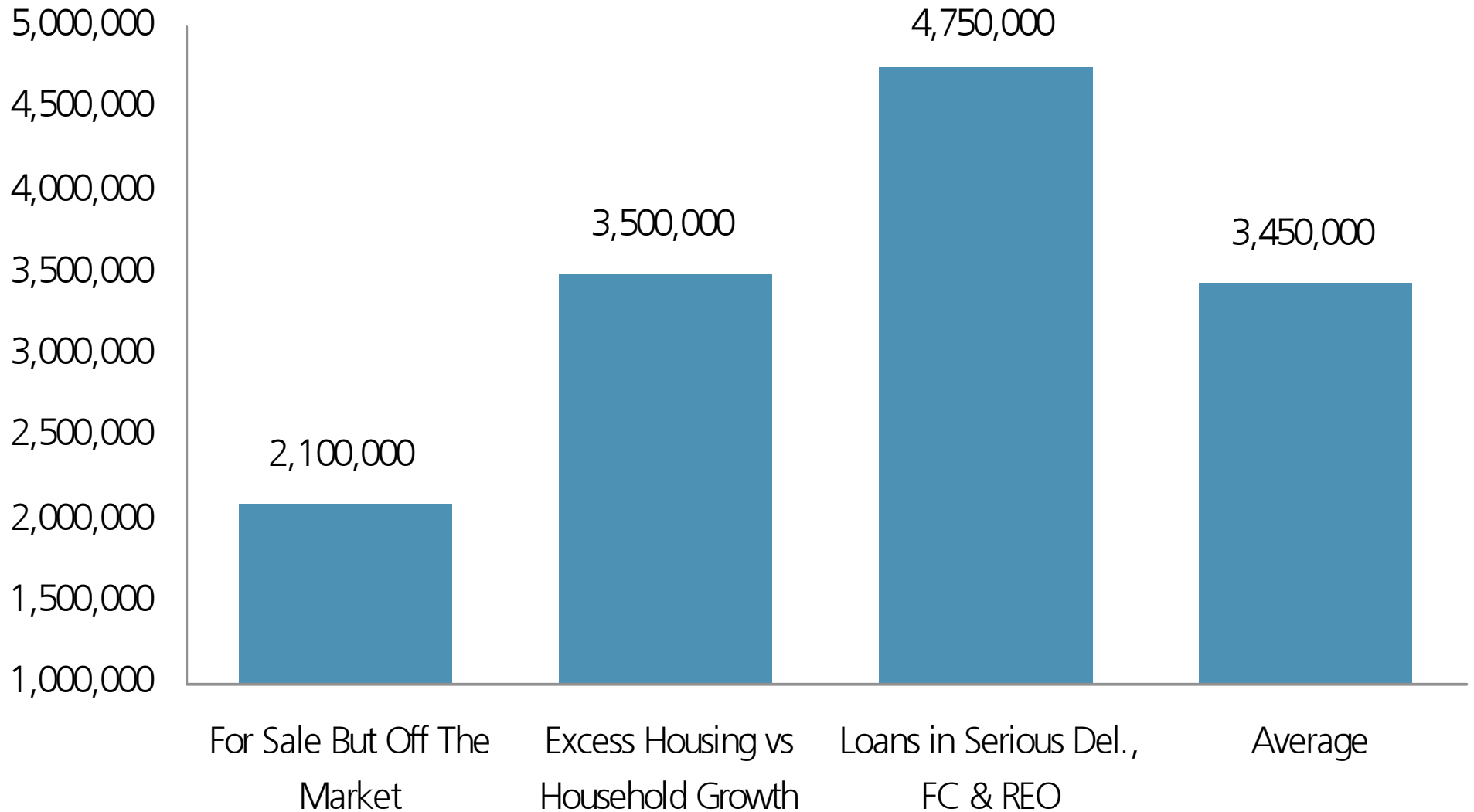


Source: John Burns Consulting



Excess Supply & Shadow Inventory

Estimated Current Excess Housing Inventory



Source: US Census, UBS Estimates

Potential Shadow Supply – Cure Rate Model

Based on Average Cure Rates 2005-Current & 55 MM Total Mortgages Outstanding

Default Rates of Mortgages Delinquent:

	<u>30 Days</u>	<u>60 Days</u>	<u>90 Days</u>	<u>Foreclosure</u>	
Avg Cure Rates	1.54%	1.28%	6.05%	4.79%	
New Distressed Inv.	845,865	706,367	3,328,806	2,634,940	Total 7,515,978

Based on Current Cure Rates 2005-Current & 55 MM Total Mortgages Outstanding

Default Rates of Mortgages Delinquent:

	<u>30 Days</u>	<u>60 Days</u>	<u>90 Days</u>	<u>Foreclosure</u>	
Current Cure Rates	3.04%	1.71%	6.91%	4.79%	
New Distressed Inv.	1,670,583	938,459	3,798,755	2,634,940	Total 9,042,737

Source: MBA, LoanPerformance, UBS Estimates

Potential Shadow Supply – Default Rate Model

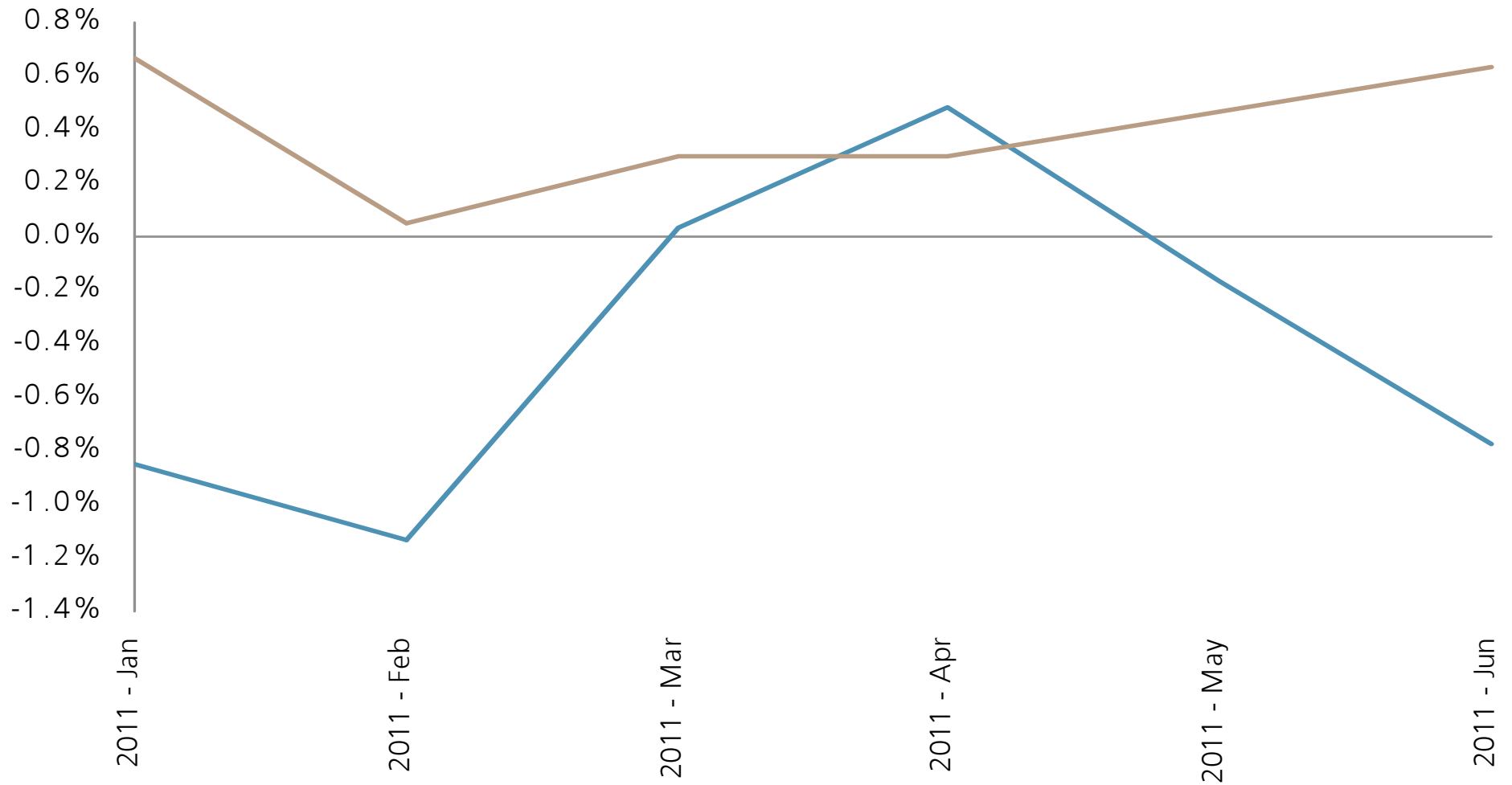
	Est. Loan Count	Projected Default Rate		Projected Loan Defaults	
		Low	High	Low	High
Performing LTV < 100%	38,400,000	1.0%	5.0%	384,000	1,920,000
Performing LTV 100%-120%	5,510,000	10.0%	15.0%	551,000	826,500
Performing LTV > 120%	2,750,000	25.0%	45.0%	687,500	1,237,500
Restructured & Currently Performing	3,840,000	50.0%	65.0%	1,920,000	2,496,000
Non-Performing	4,500,000	75.0%	90.0%	3,375,000	4,050,000
Total Loans	55,000,000			6,917,500	10,530,000

Source: Corelogic, UBS Estimates

It's Not All Dire

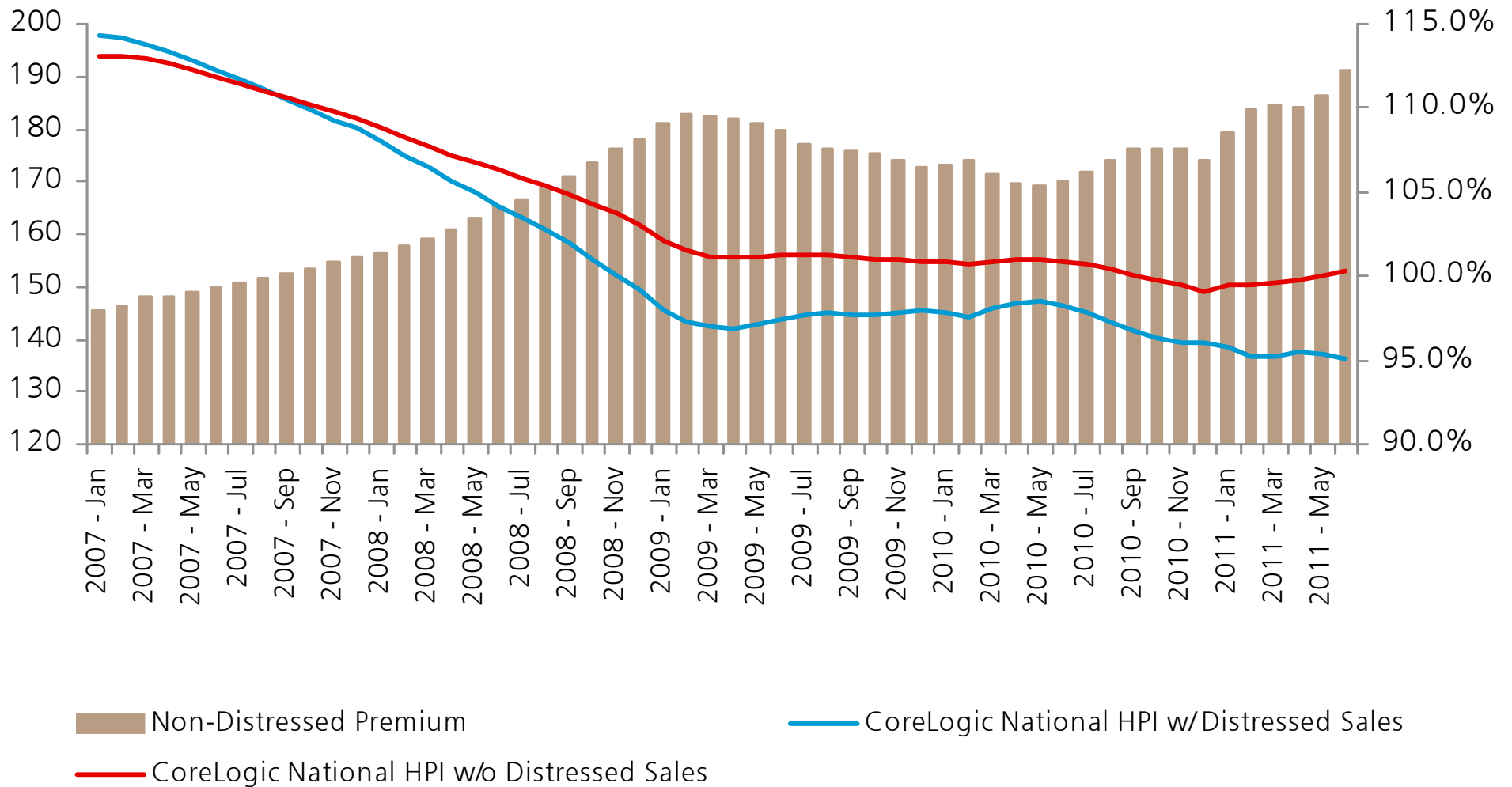
Chaos Breeds Opportunity

The Impact of Distressed Sales



Source: First American Core Logic

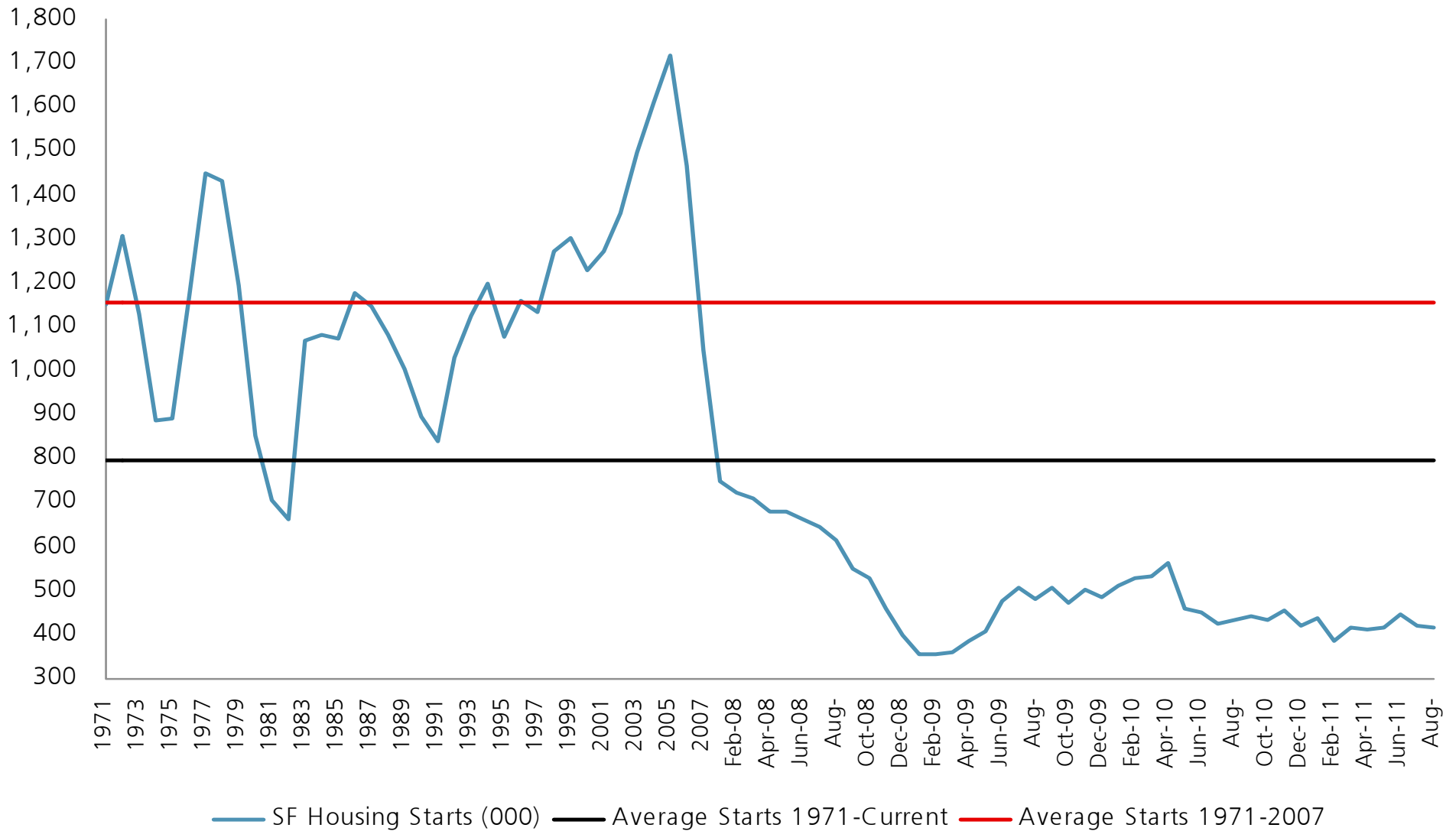
The Impact of Distressed Sales



Source: First American Core Logic



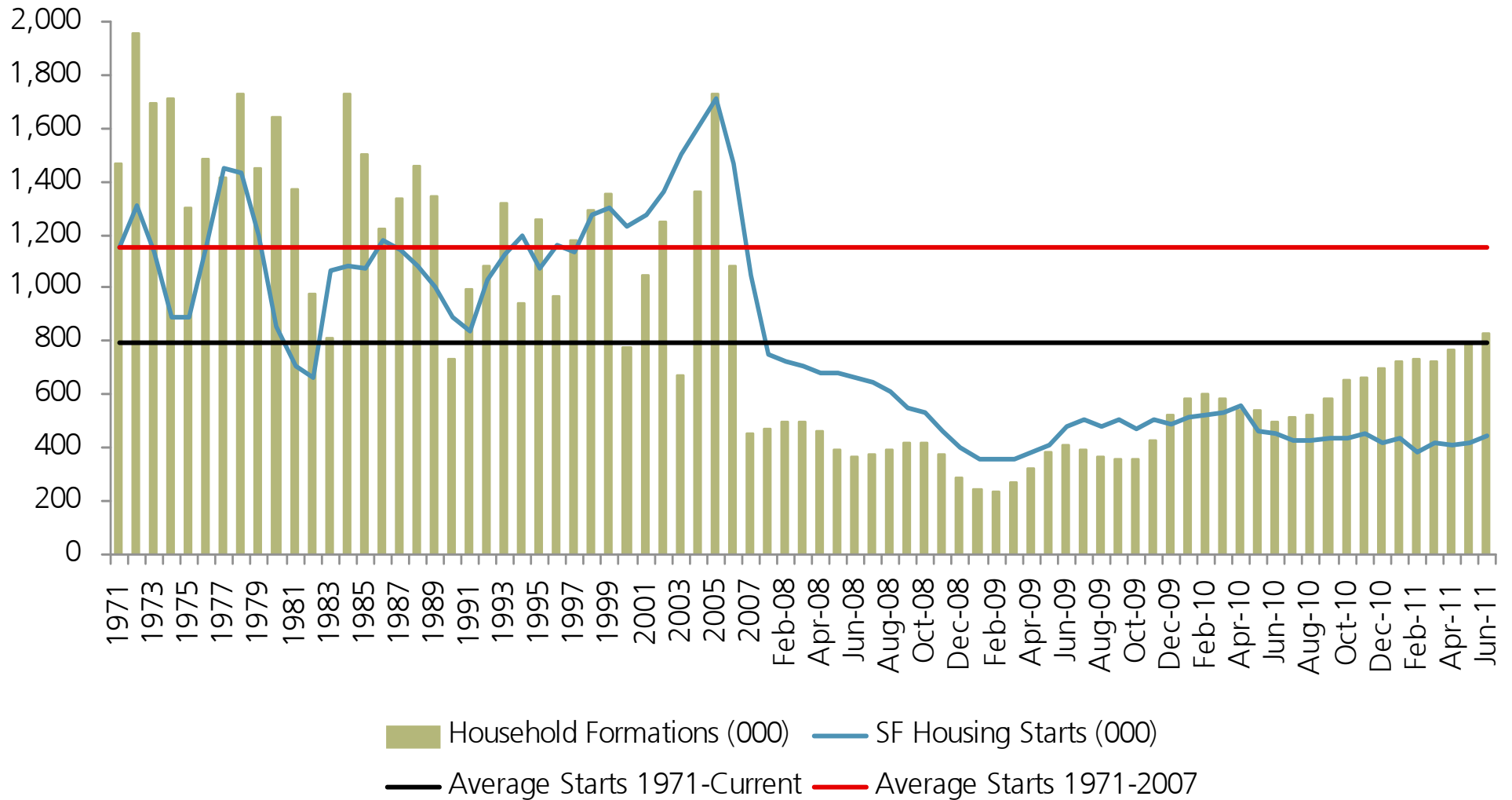
Housing Starts Severely Depressed



Source: US Census

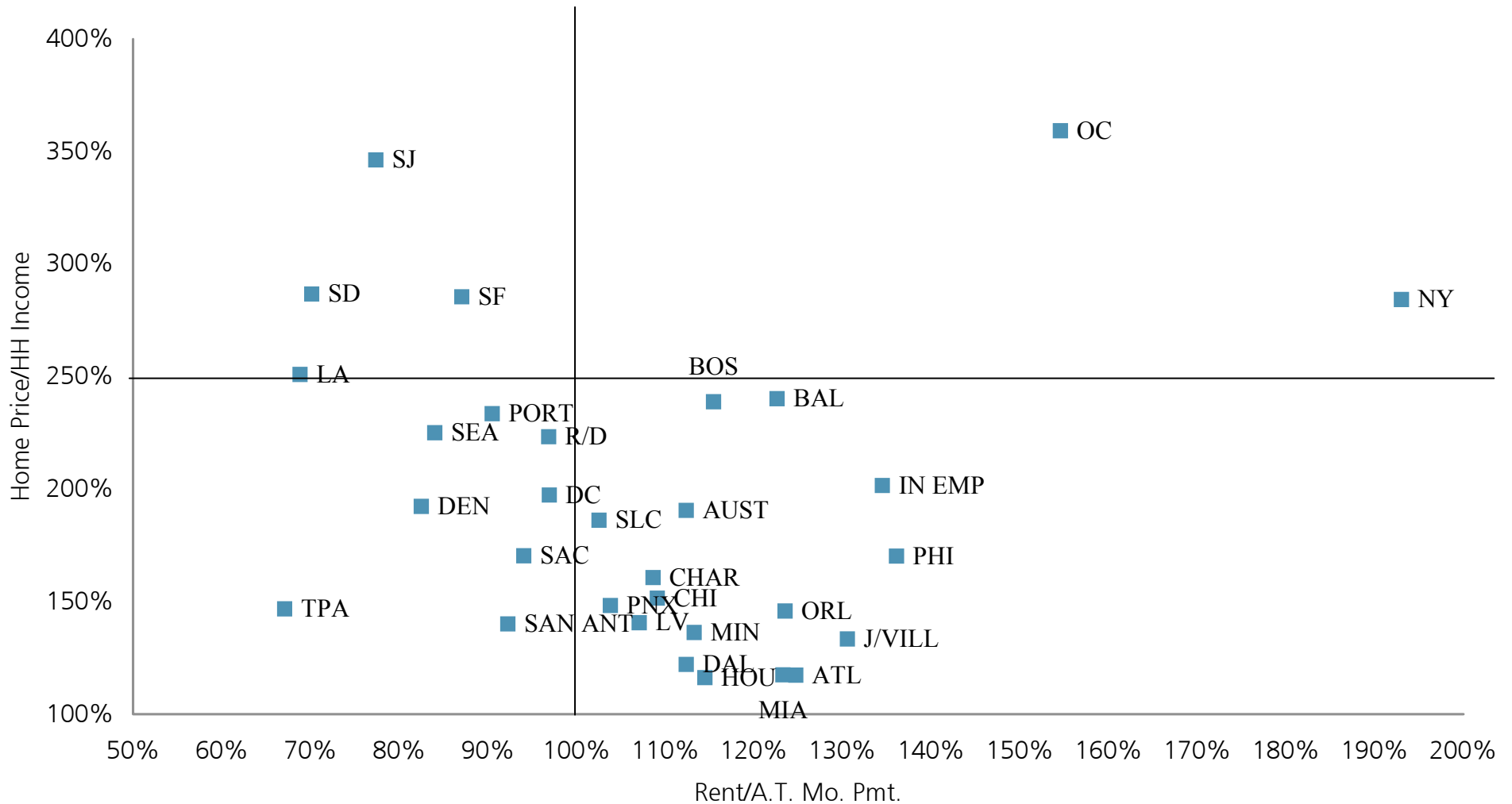


Housing Starts & Household Formations



Source: US Census

Rent vs. Own – Some MSAs Favor Ownership



Source: UBS Estimates

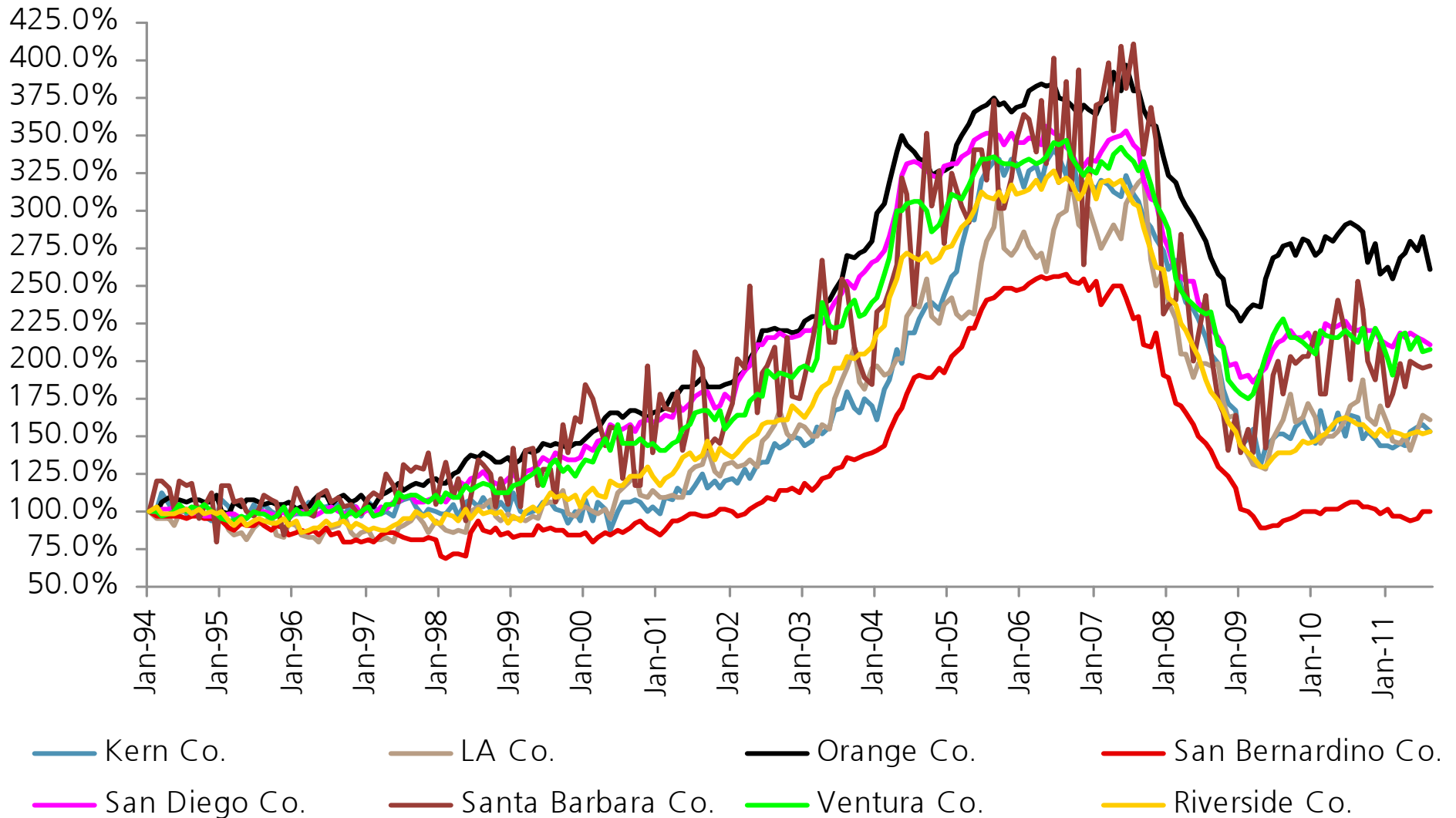


Capitalizing on Housing Distress

- Direct Purchase of Distressed Homes for Rental
- Invest in Distressed Paper Directly or in a Managed Fund
- Mortgage REITs
- Trade Homebuilder Volatility

Local Housing Data

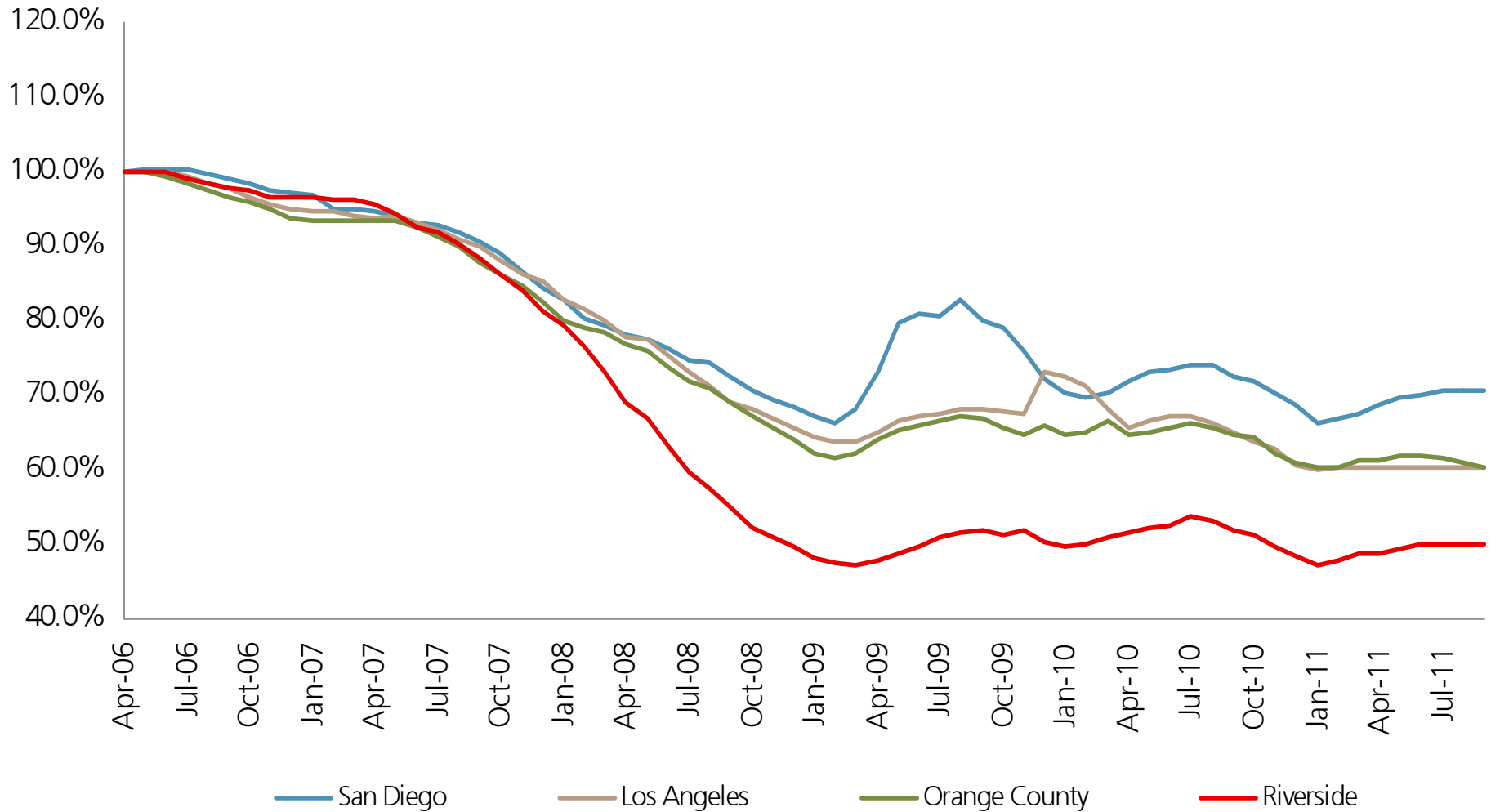
Southern California Indexed Median Home Prices



Source: California Association of Realtors



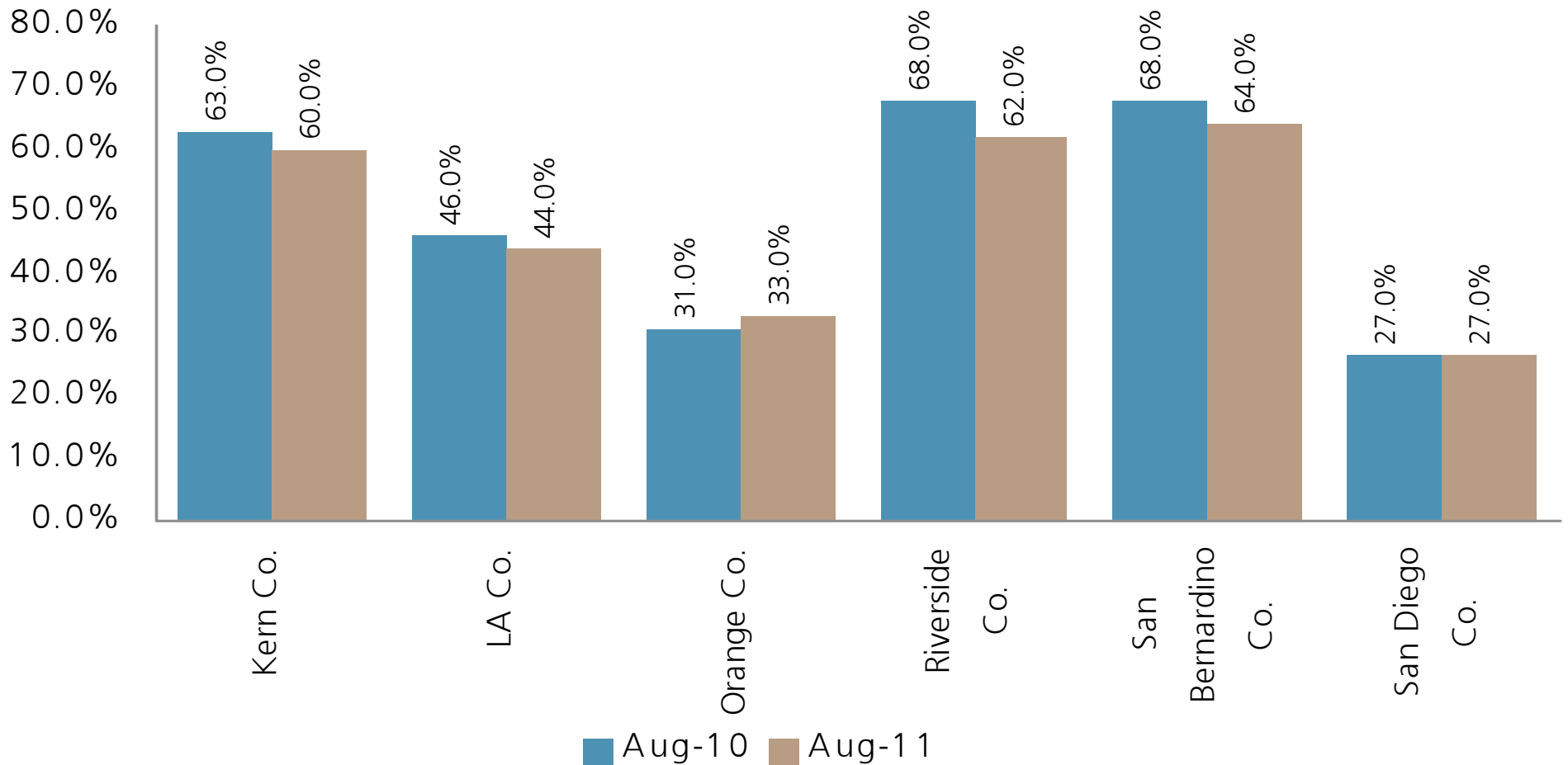
Southern California Indexed Inventory



Source: California Association of Realtors

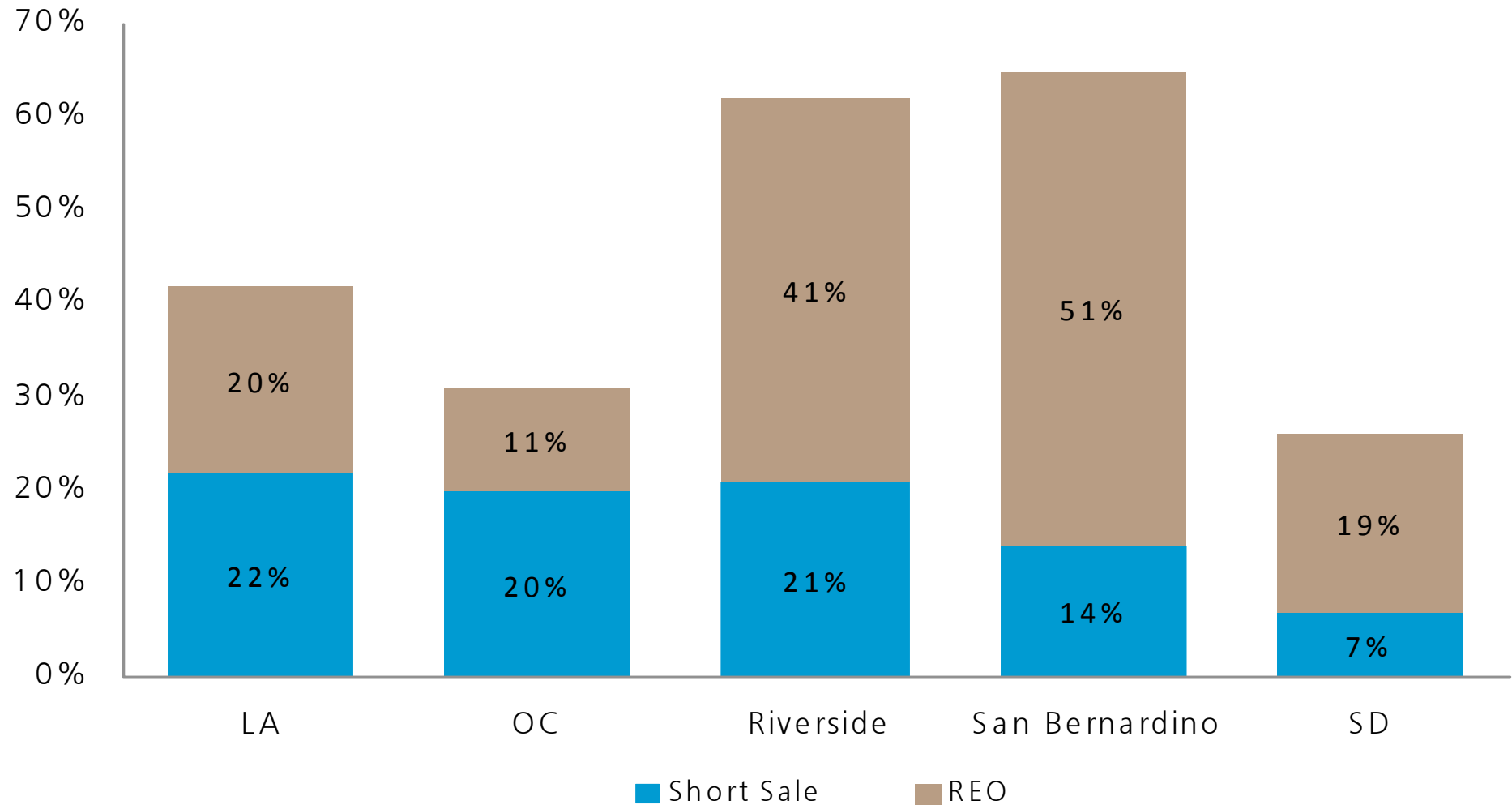


Southern California Distressed Sales Shares



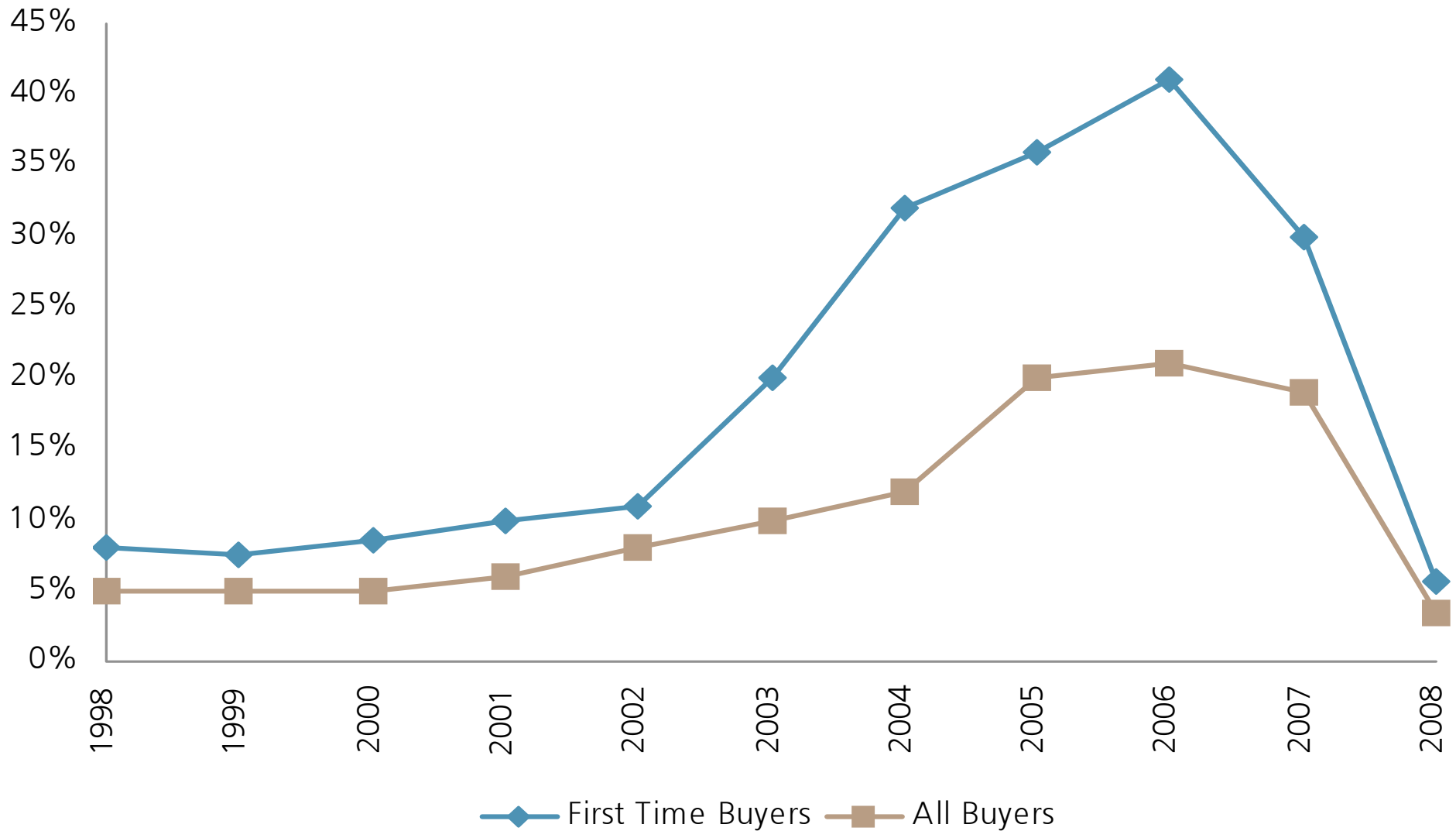
Source: California Association of Realtors

Southern California Distressed Sales Composition



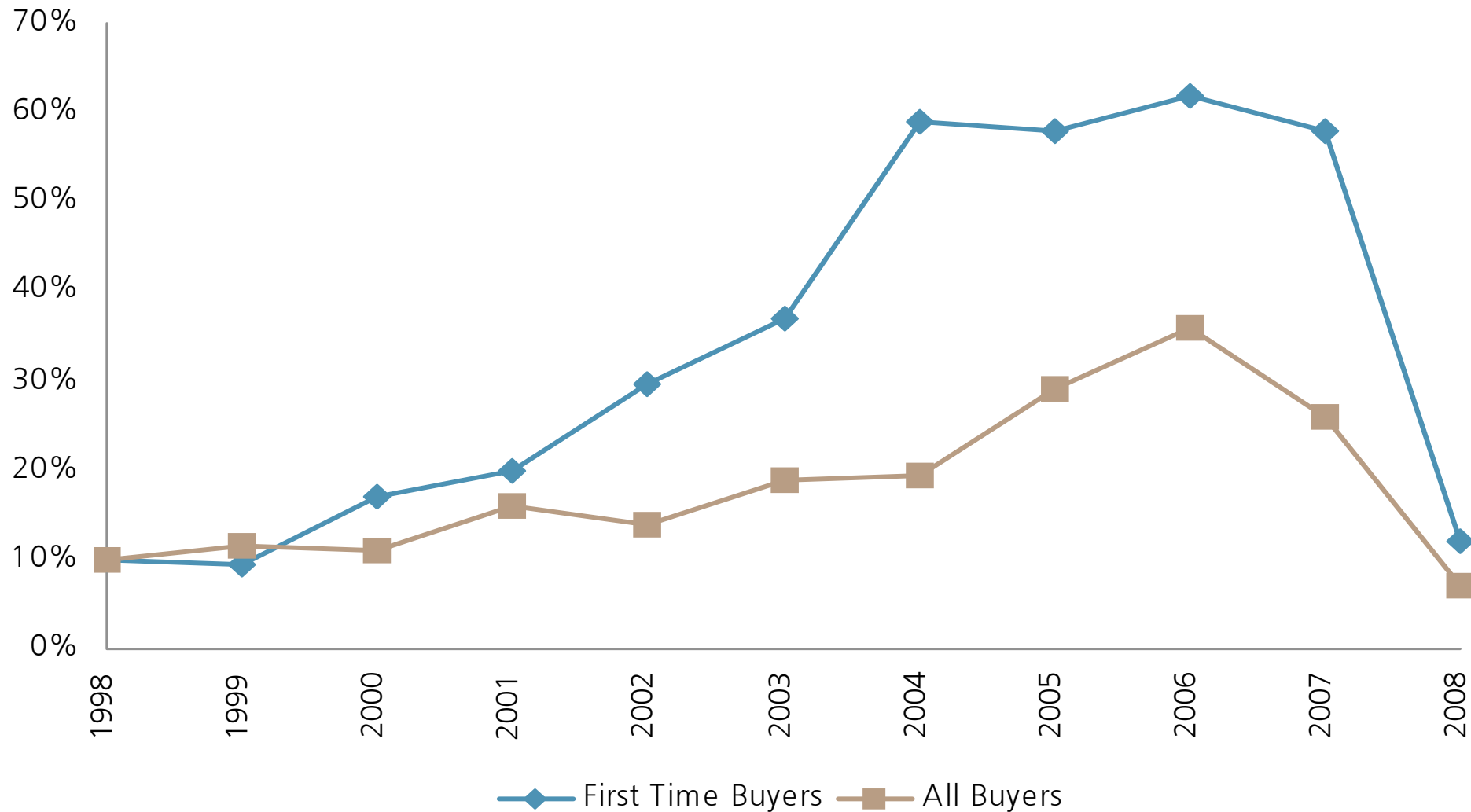
Source: California Association of Realtors

Total California – Buyers With Zero Down-payment



Source: California Association of Realtors

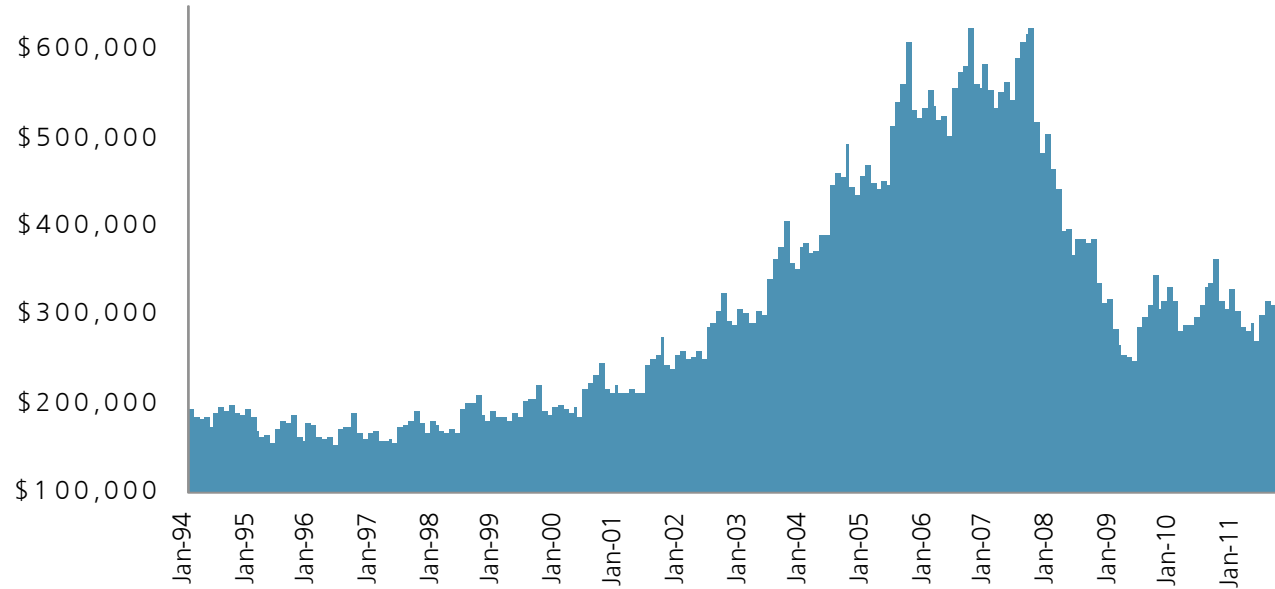
Total California – Buyers With Multiple Liens @ Closing



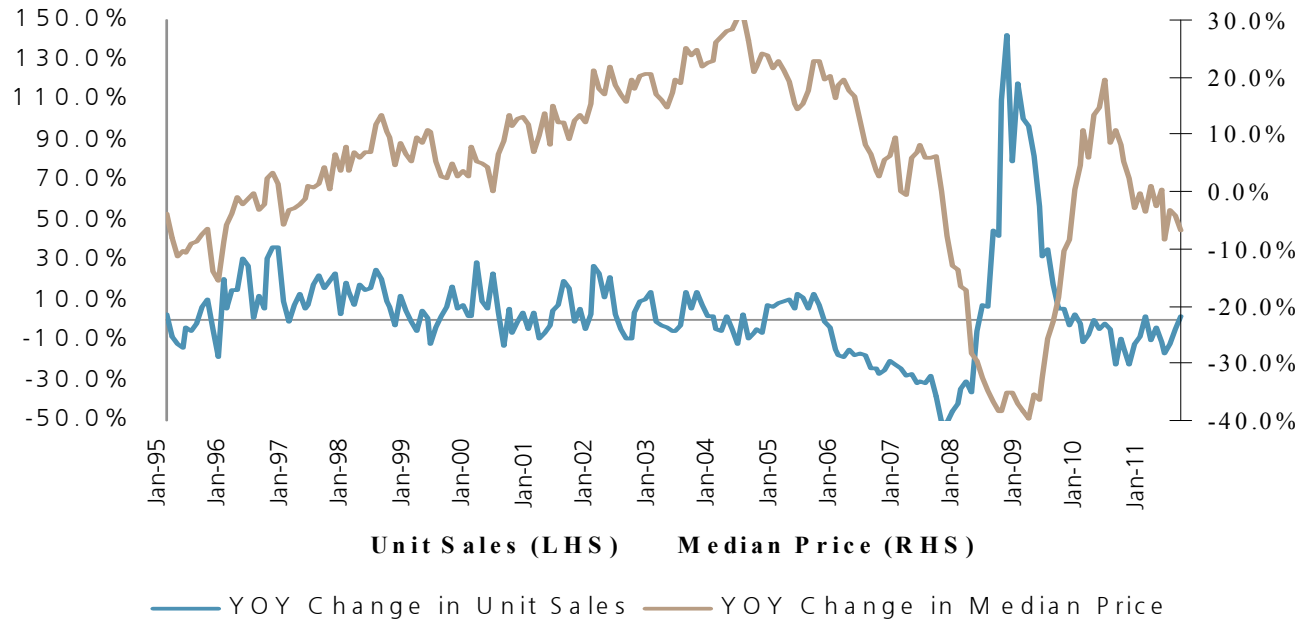
Source: California Association of Realtors

Los Angeles County

Annual Median Prices

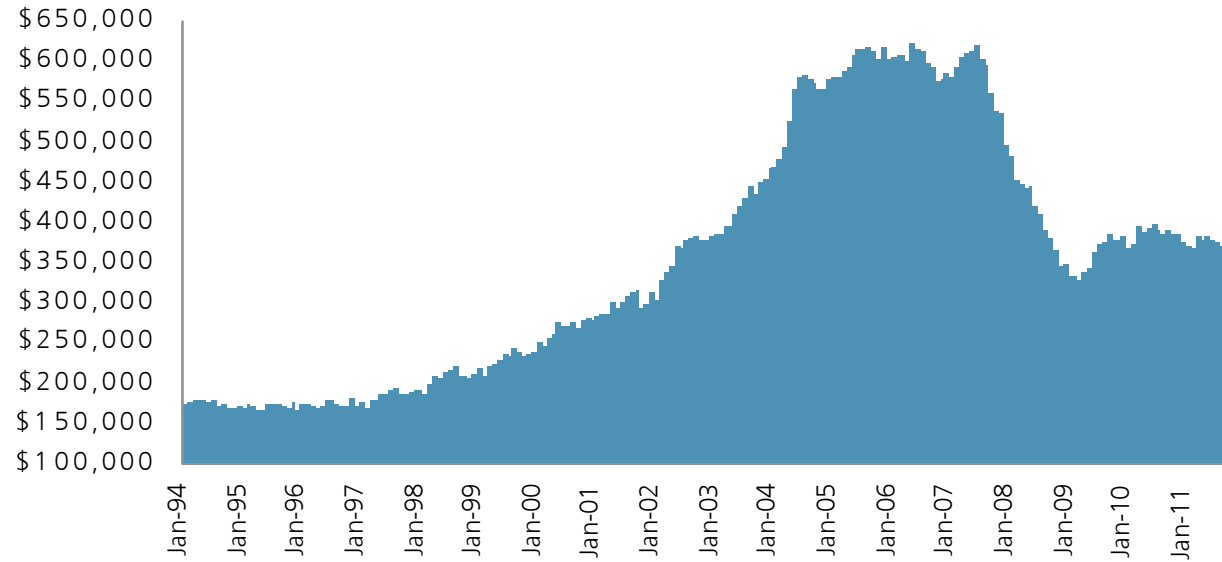


Annual Median Price and Unit Sale Changes

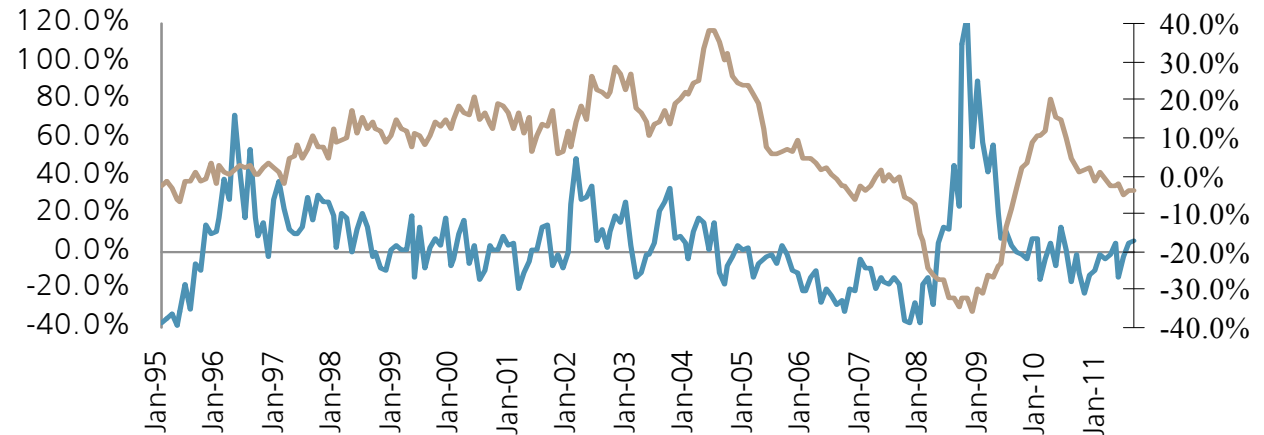


San Diego County

Annual Median Prices



Annual Median Price and Unit Sale Changes



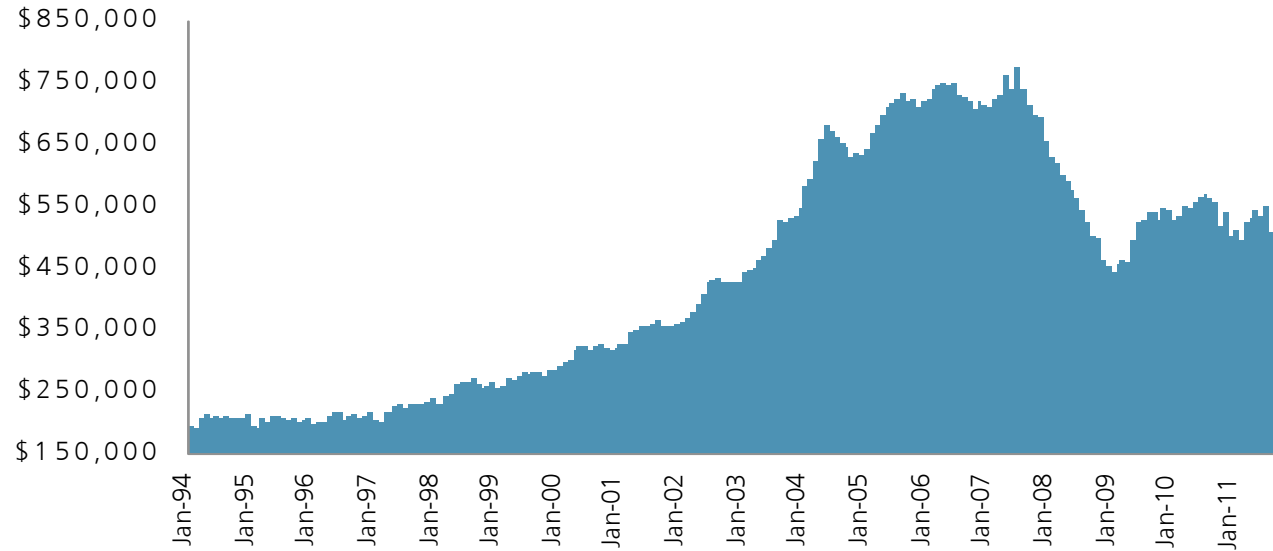
Unit Sales (LHS) Median Price (RHS)

— YOY Change in Unit Sales — YOY Change in Median Price

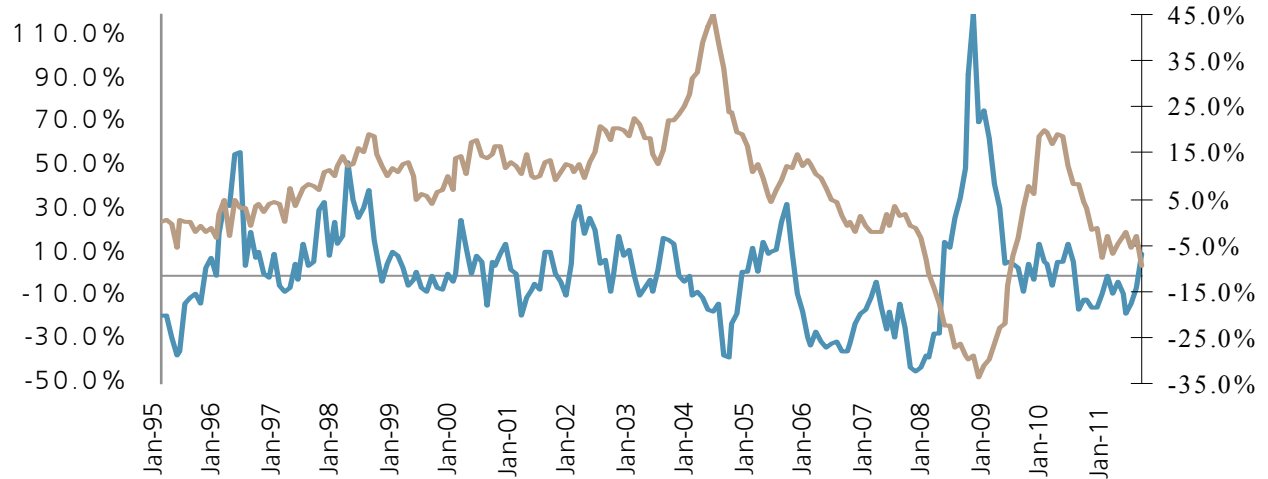


Orange County

Annual Median Prices



Annual Median Price and Unit Sale Changes



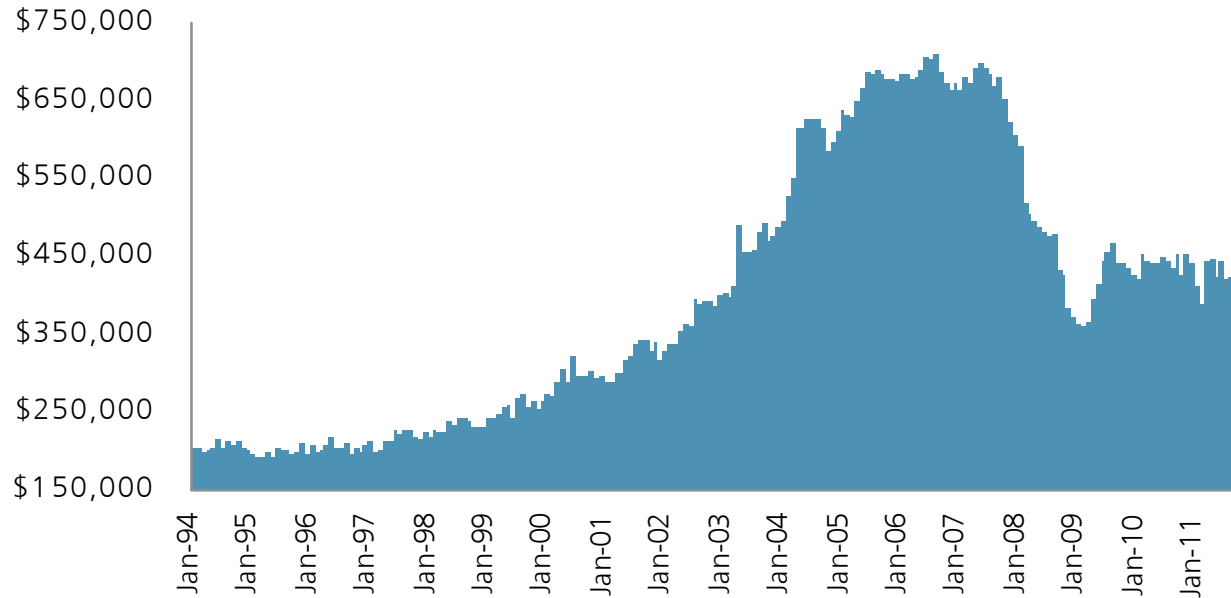
Unit Sales (LHS) Median Price (RHS)

— YOY Change in Unit Sales — YOY Change in Median Price

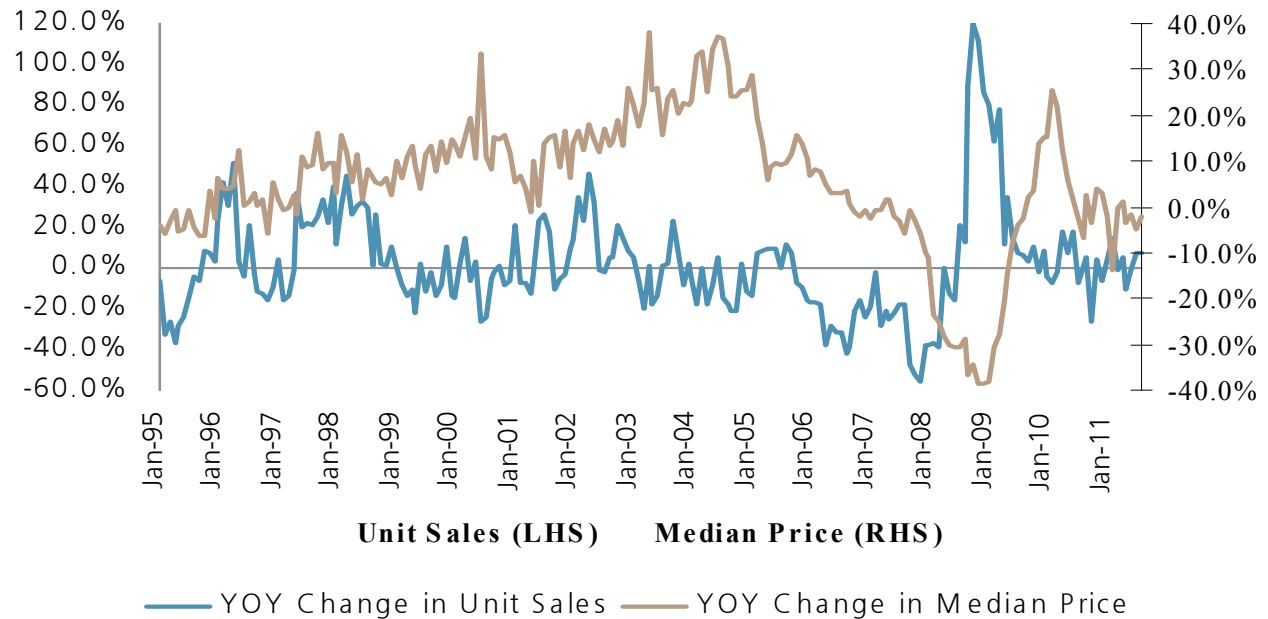


Ventura County

Annual Median Prices

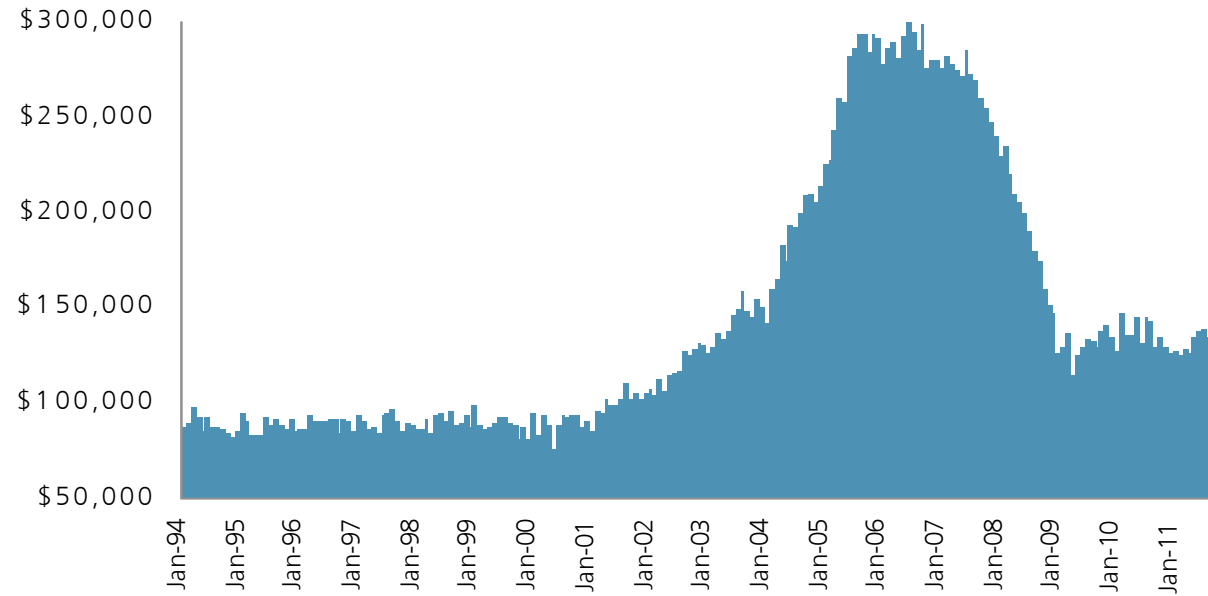


Annual Median Price and Unit Sale Changes

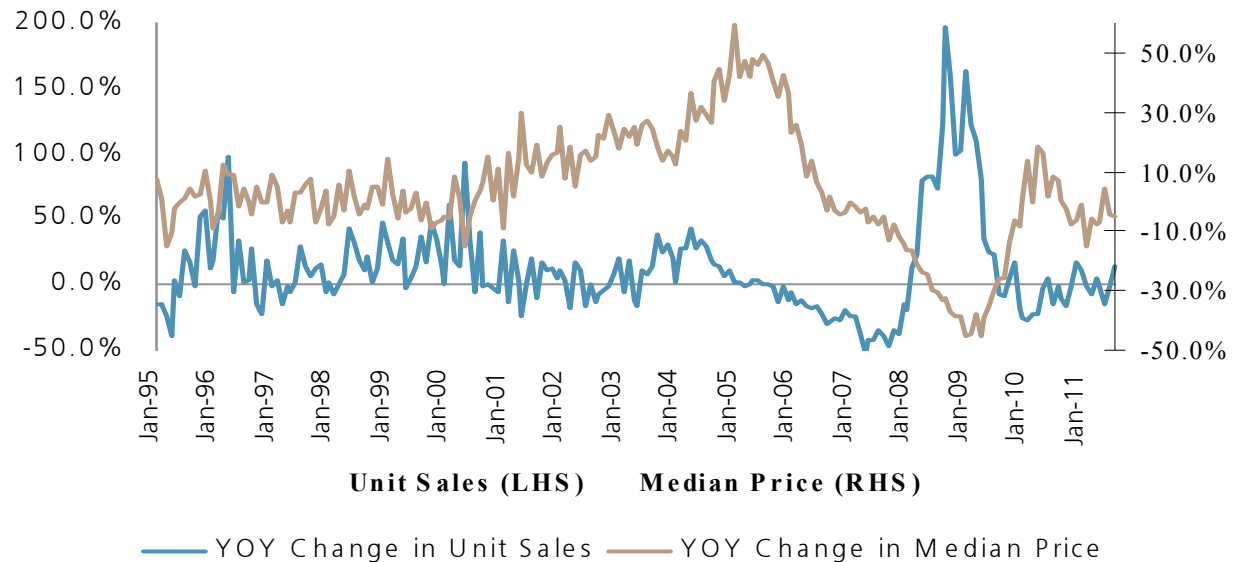


Kern County

Annual Median Prices

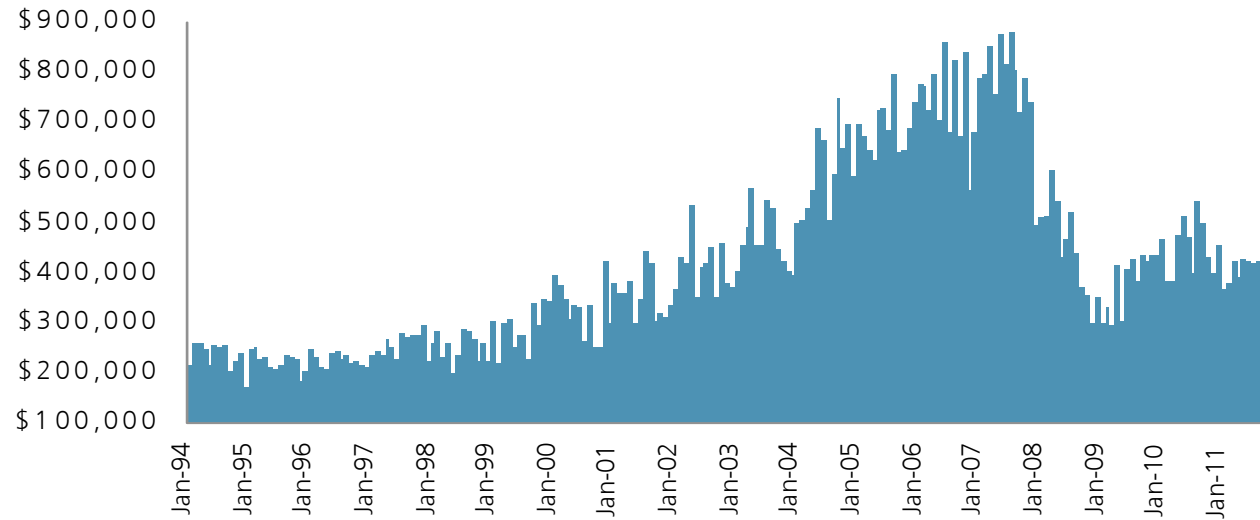


Annual Median Price and Unit Sale Changes

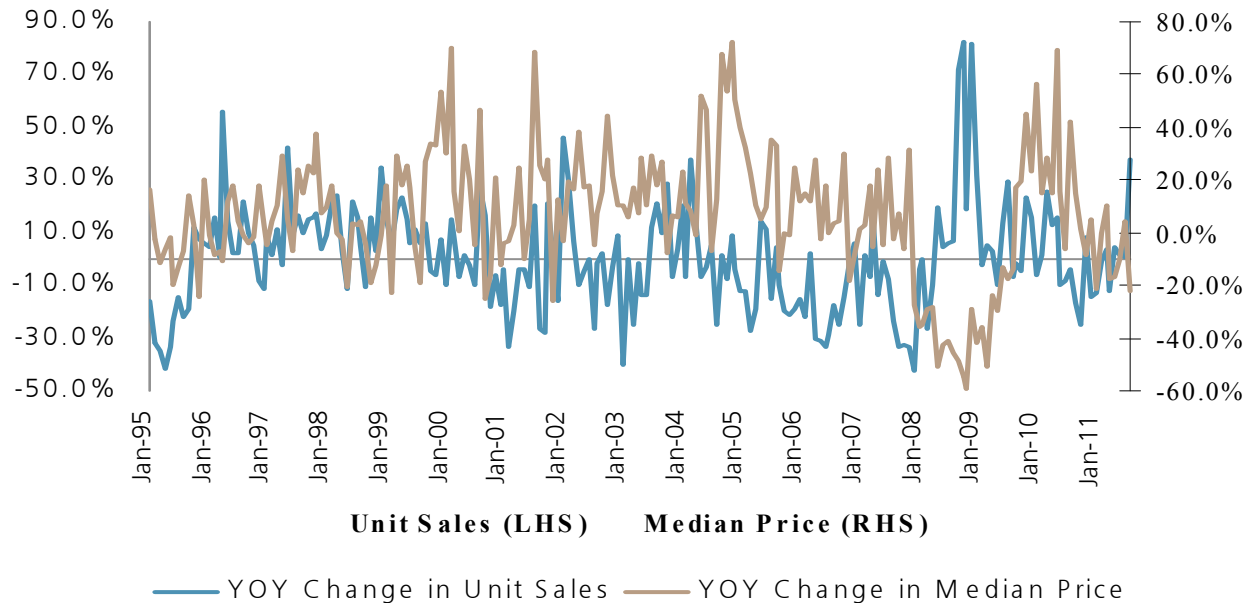


Santa Barbara County

Annual Median Prices

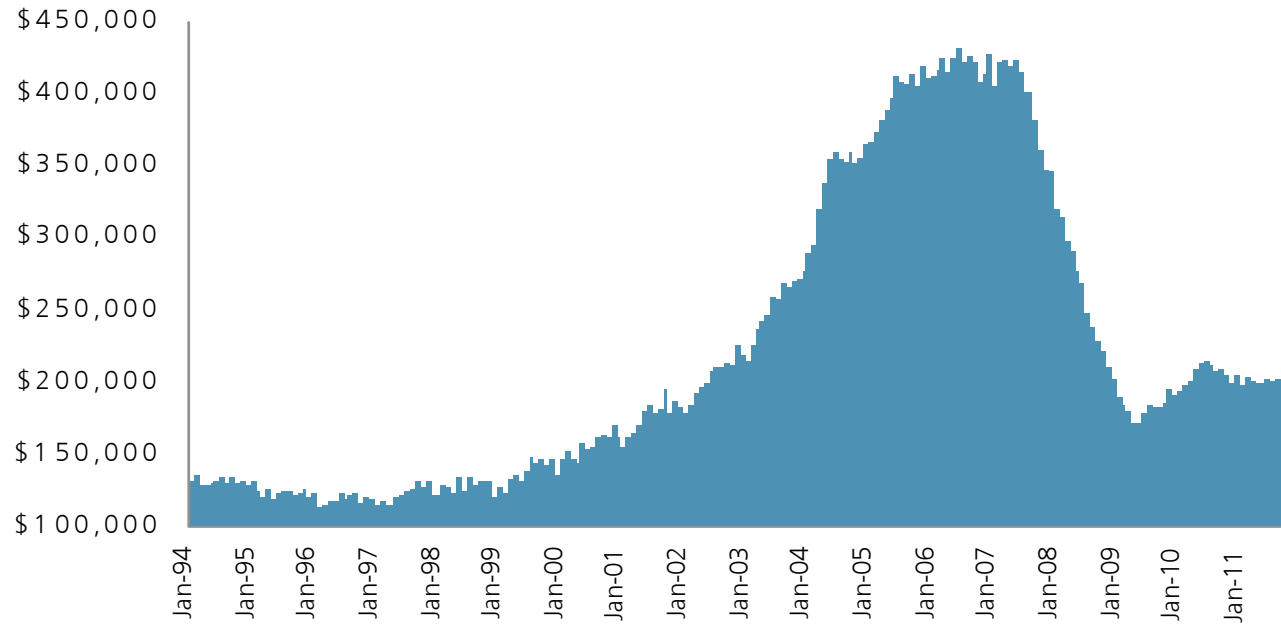


Annual Median Price and Unit Sale Changes

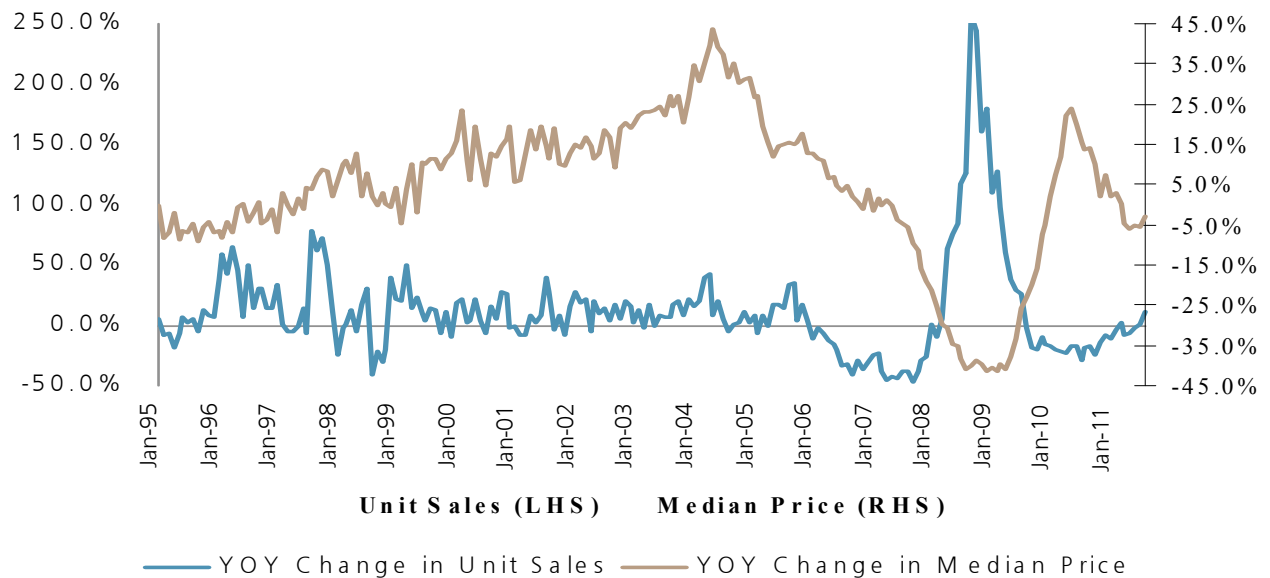


Riverside County

Annual Median Prices

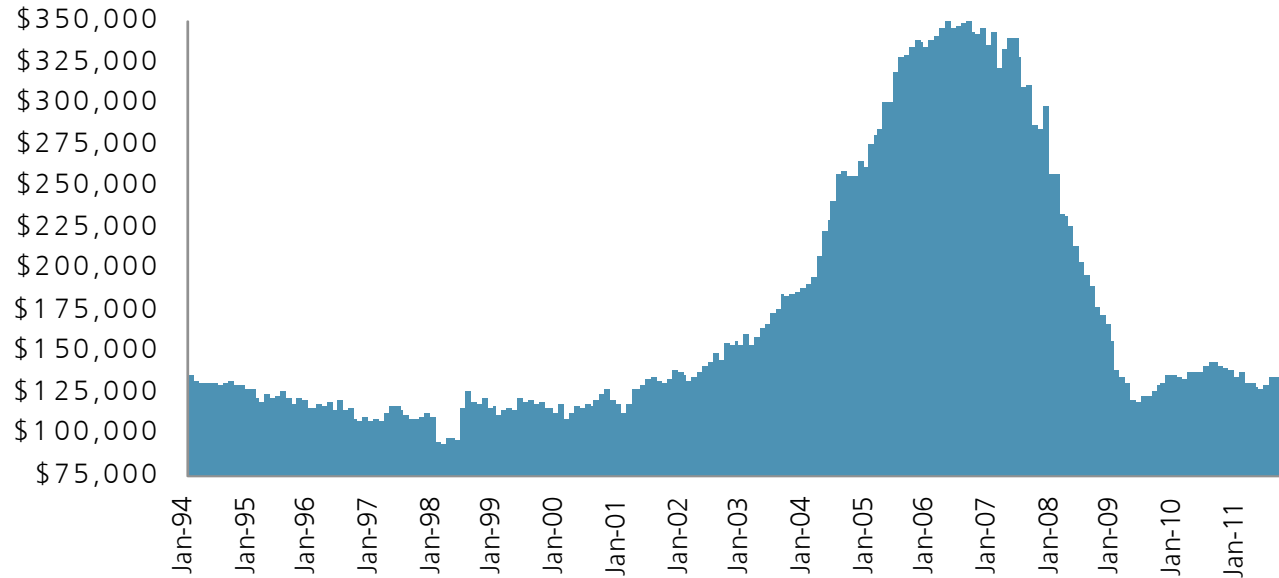


Annual Median Price and Unit Sale Changes

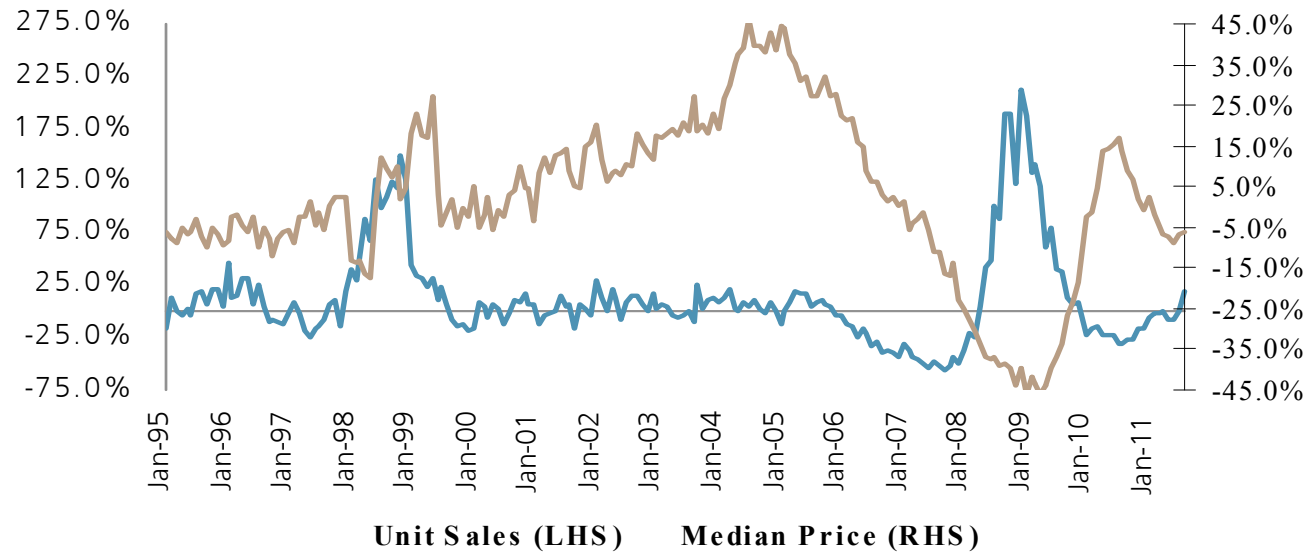


San Bernardino County

Annual Median Prices



Annual Median Price and Unit Sale Changes

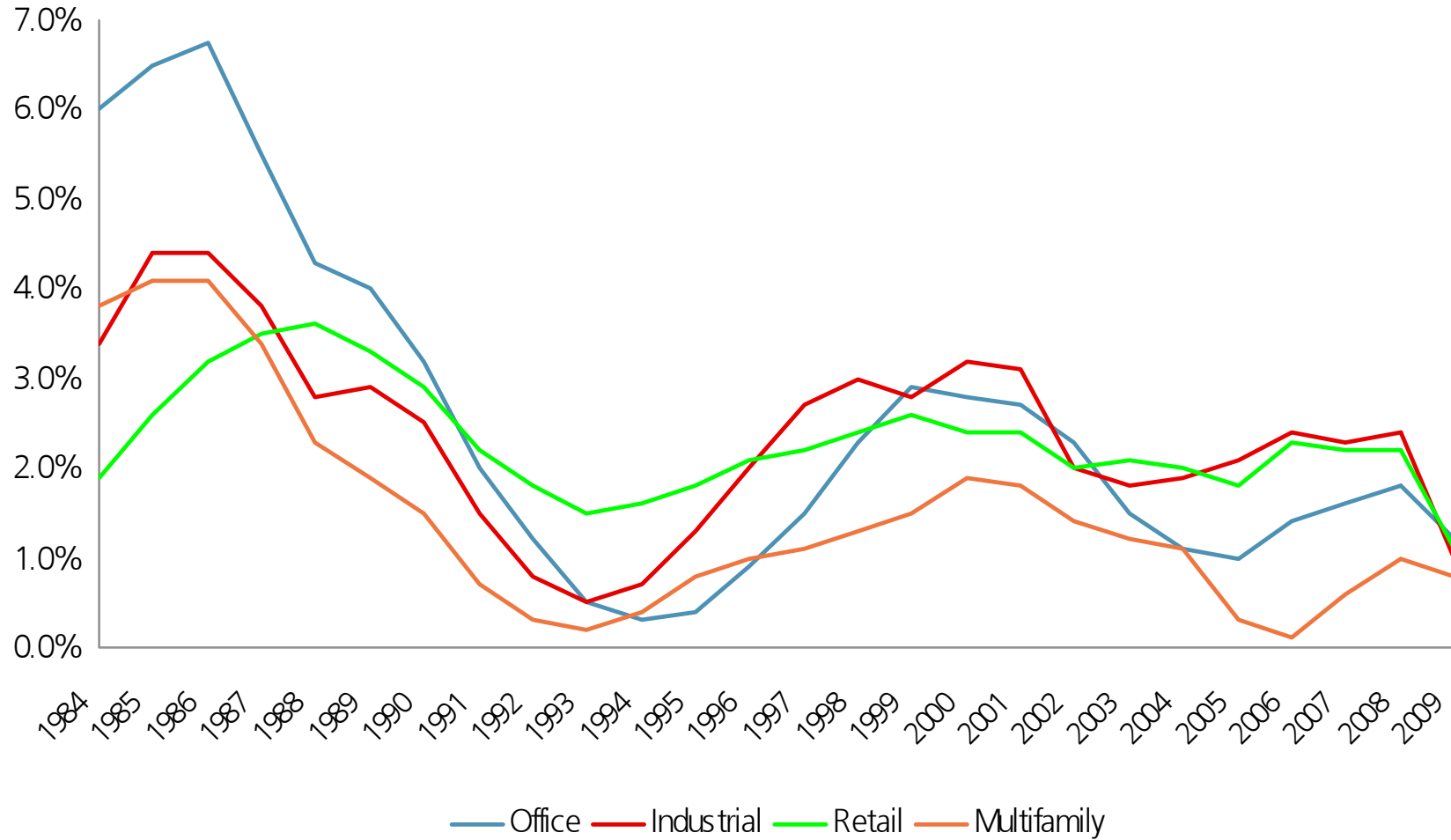


— YOY Change in Unit Sales — YOY Change in Median Price



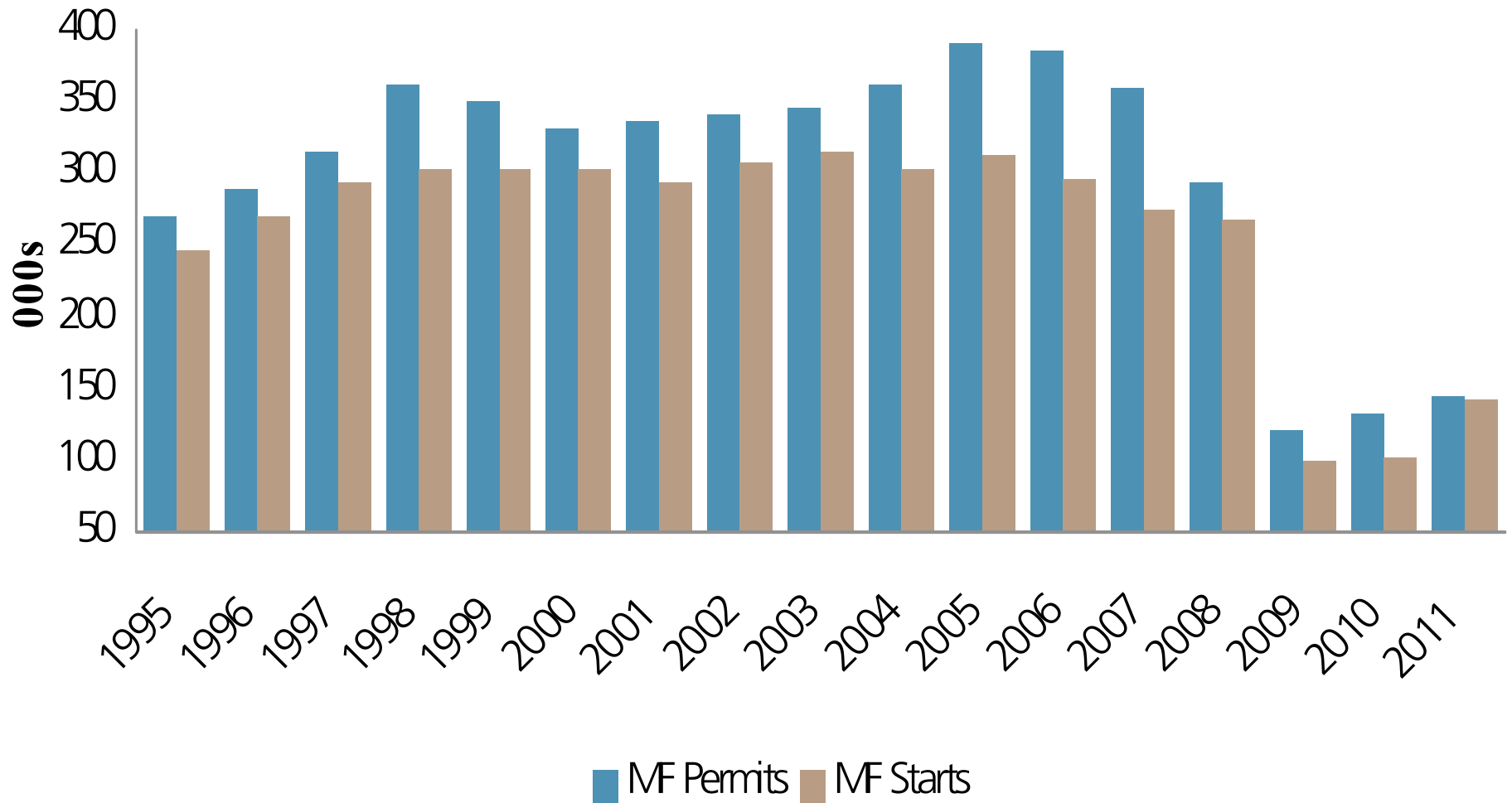
Commercial Real Estate

Capacity Additions - % of Existing Stock



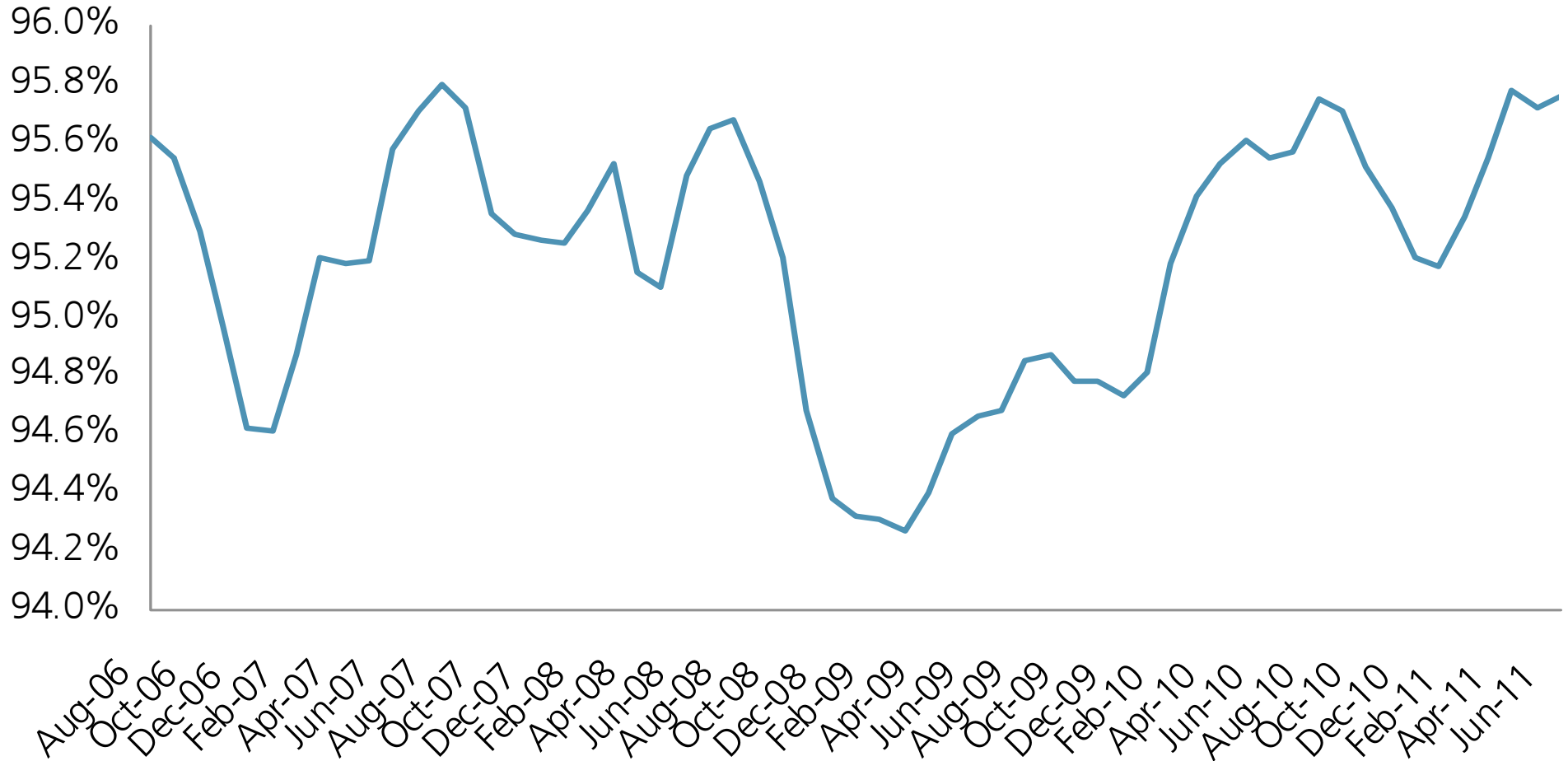
Source: SNL Financial, NAREIT

Multifamily Starts & Permits (5+ Units)



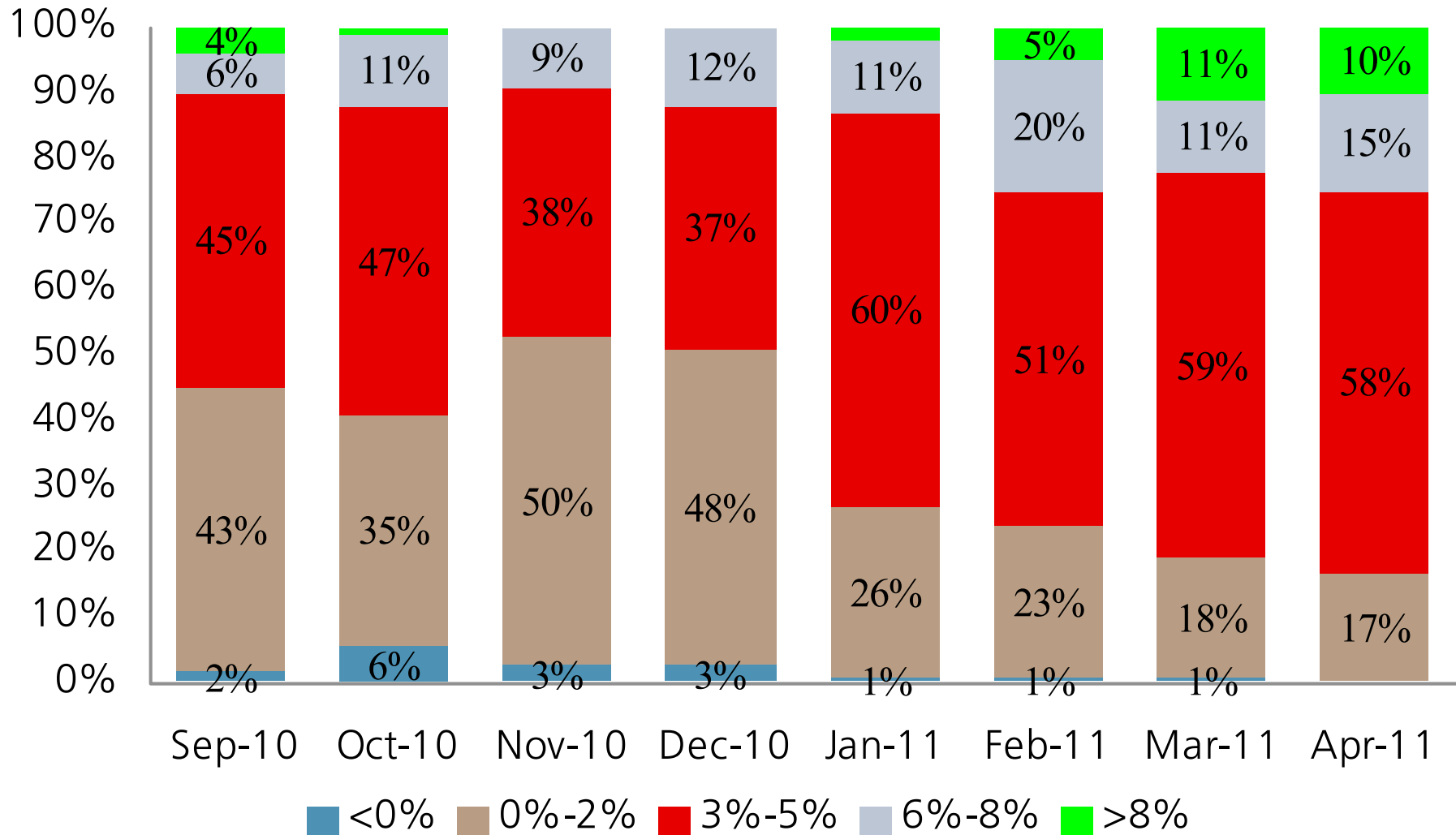
Source: US Census

REIT Multifamily Occupancy Rates



Source: Axiometrics

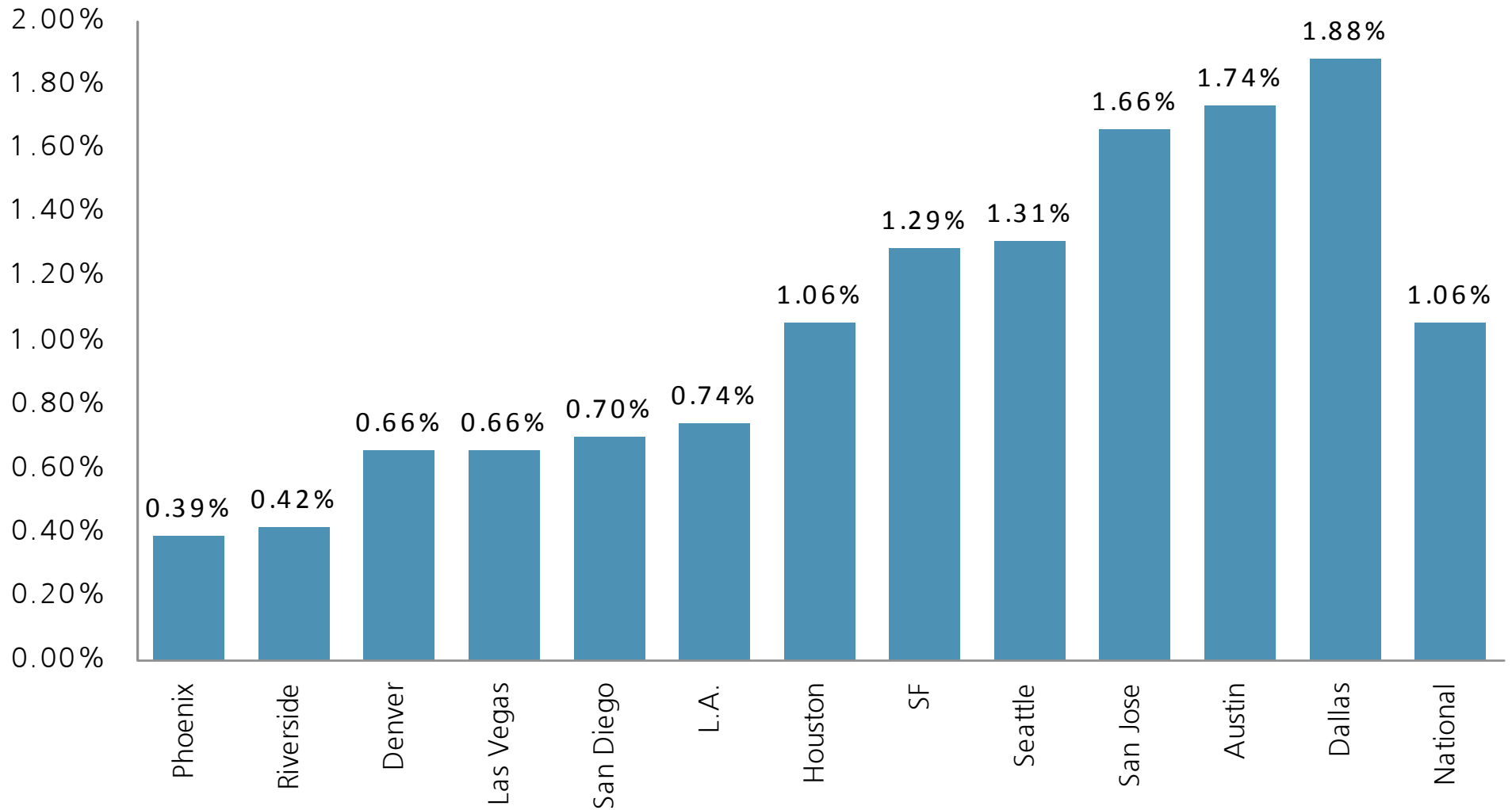
Renewal Lease Rent Growth vs. Expiring Leases



Source: UBS Research



Multifamily Permits as a % of Existing Inventory (TTM)

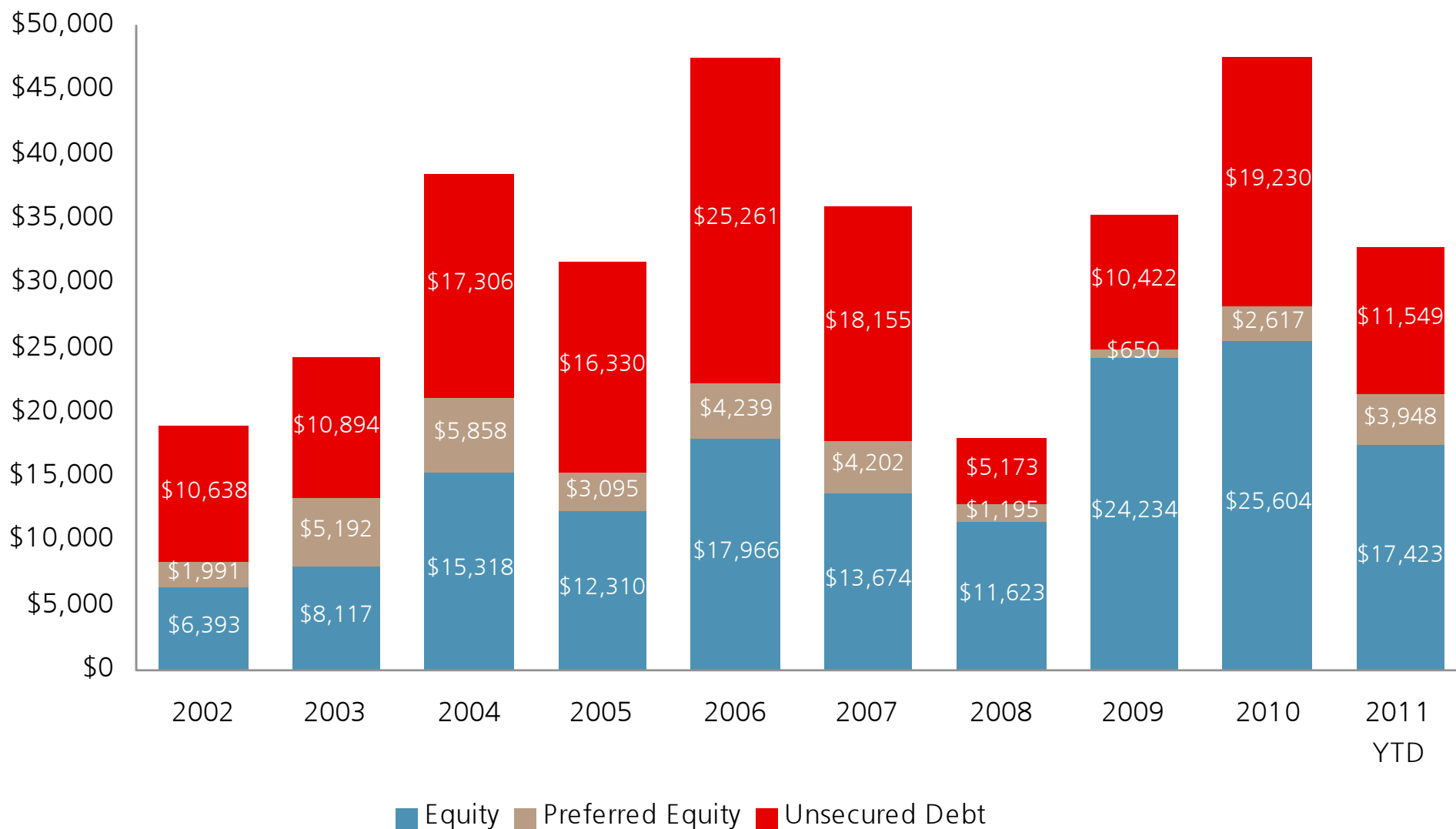


Source: US Census, CBRE, UBS Estimates



Capital Markets to the Rescue

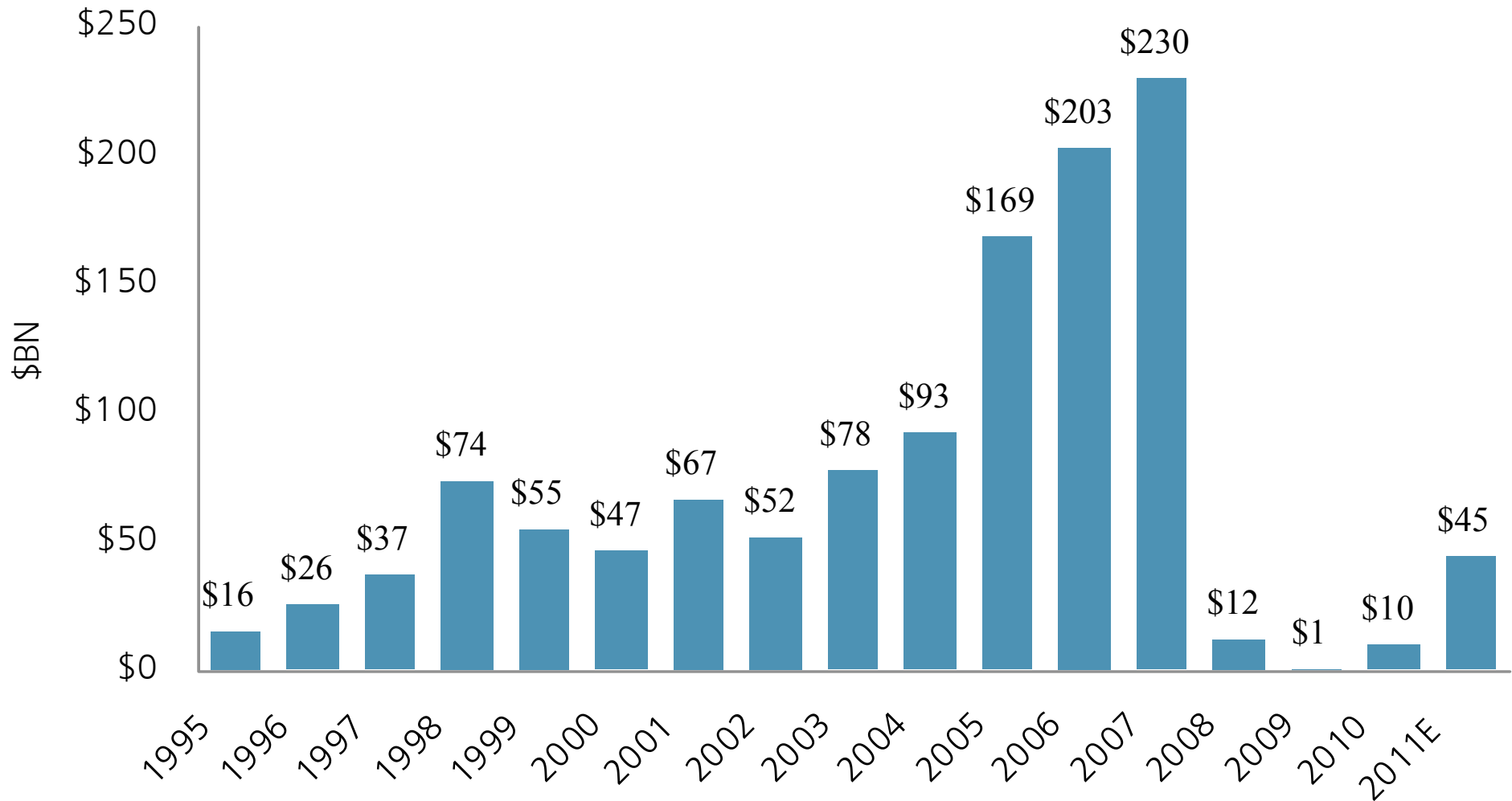
REIT Capital Raises (\$MM)



Source: SNL Financial, NAREIT



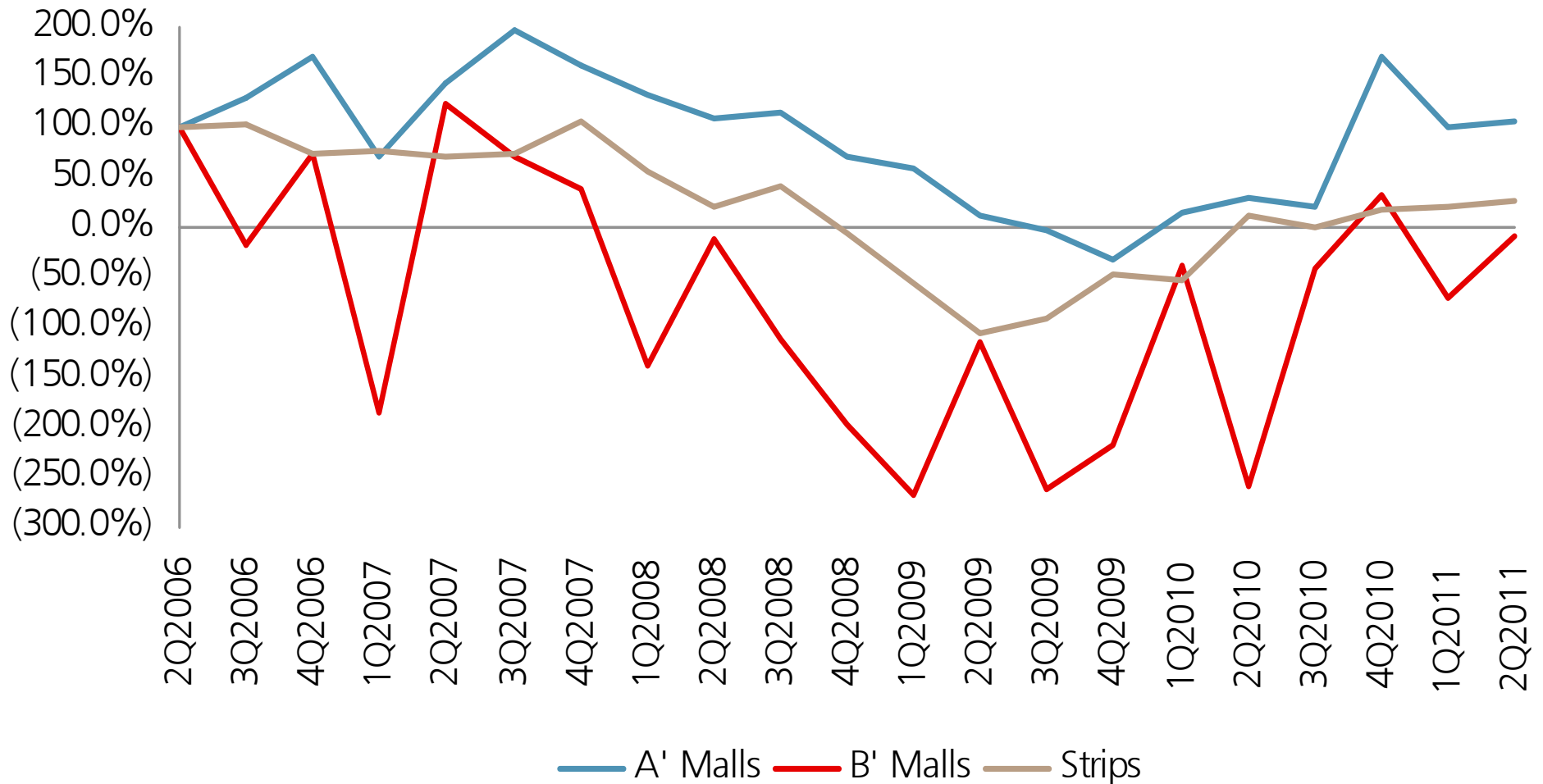
CMBS Issuance – Domestic



Source: Commercial Mortgage Alert, UBS Estimates

Size, Location & Quality Matter

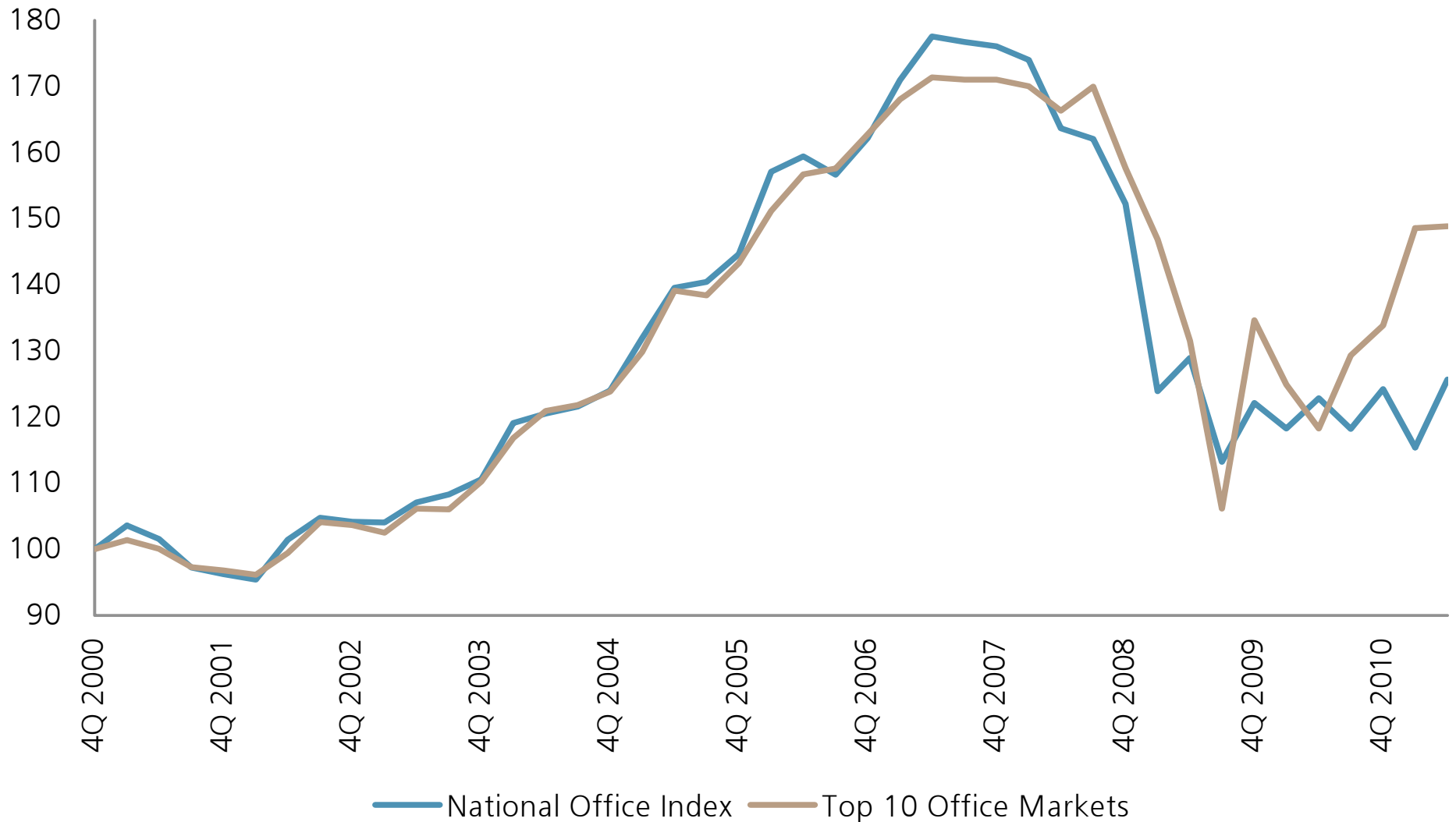
Retail REITs Same Store NOI Growth (Indexed)



Source: SNL Financial, Company Filings



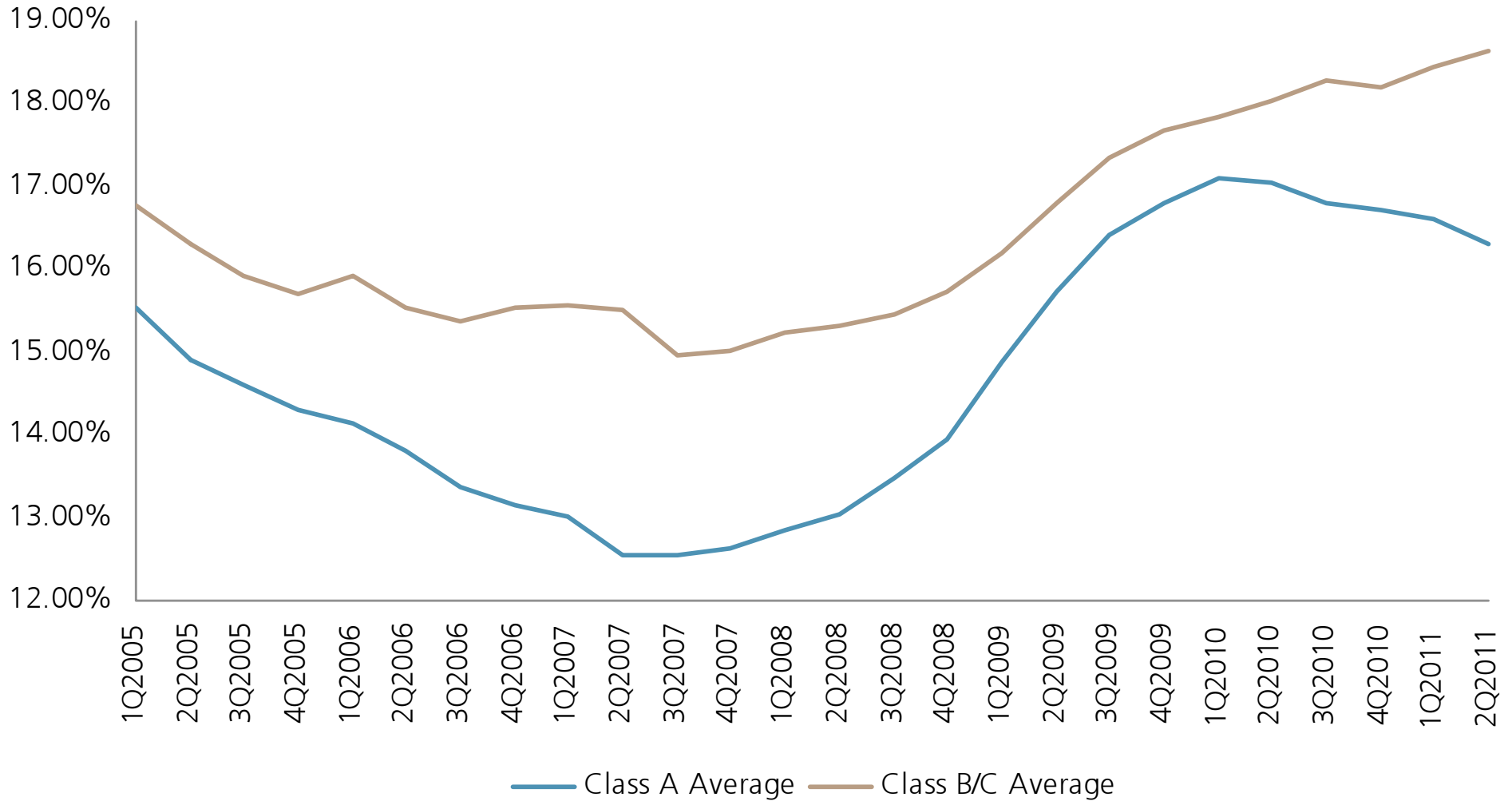
Top 10 Office Markets vs. National Office Market



Source: MIT, RCA,, Moody's



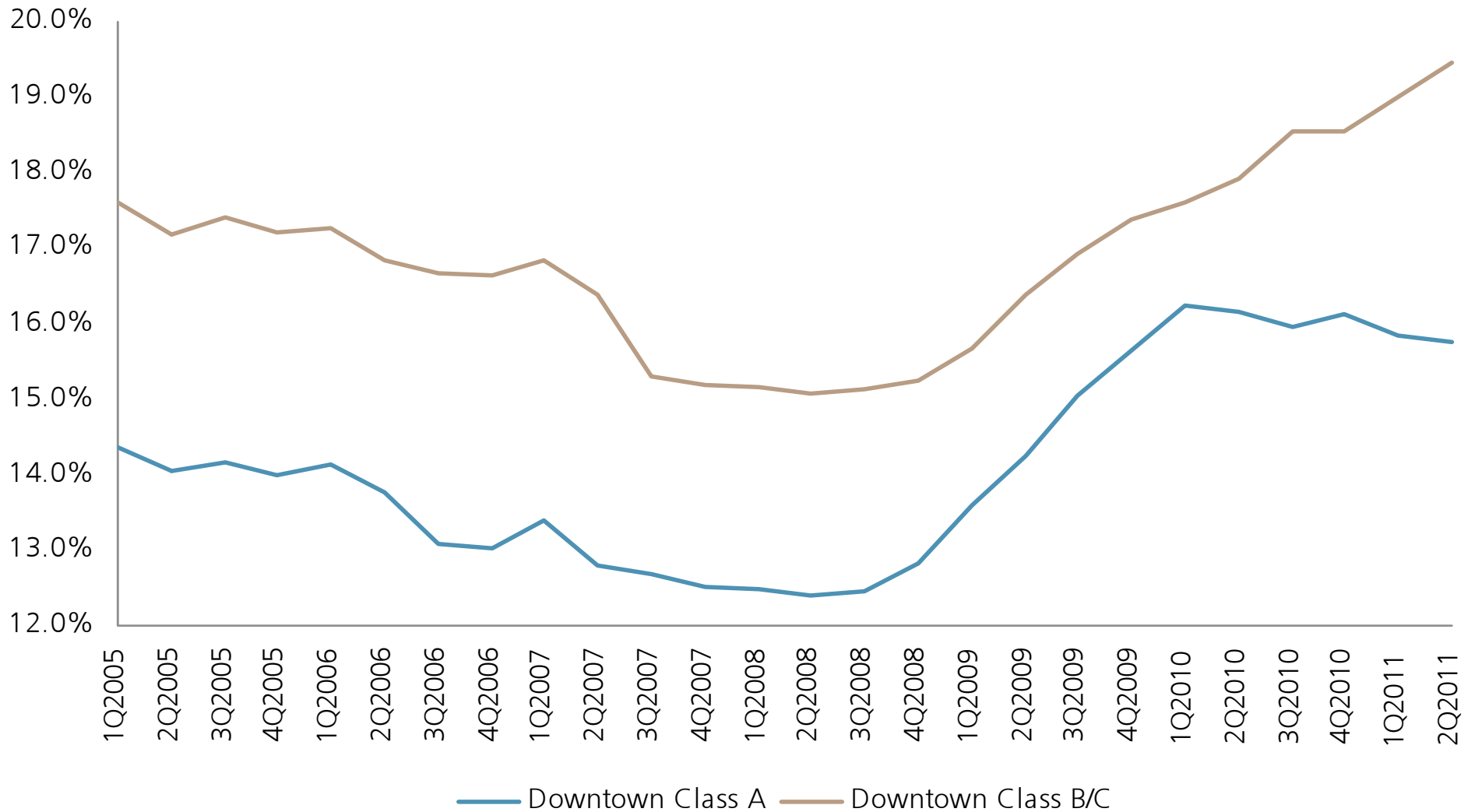
Office Vacancy – Class ‘A’ vs Class ‘B/C’



Source: CBRE



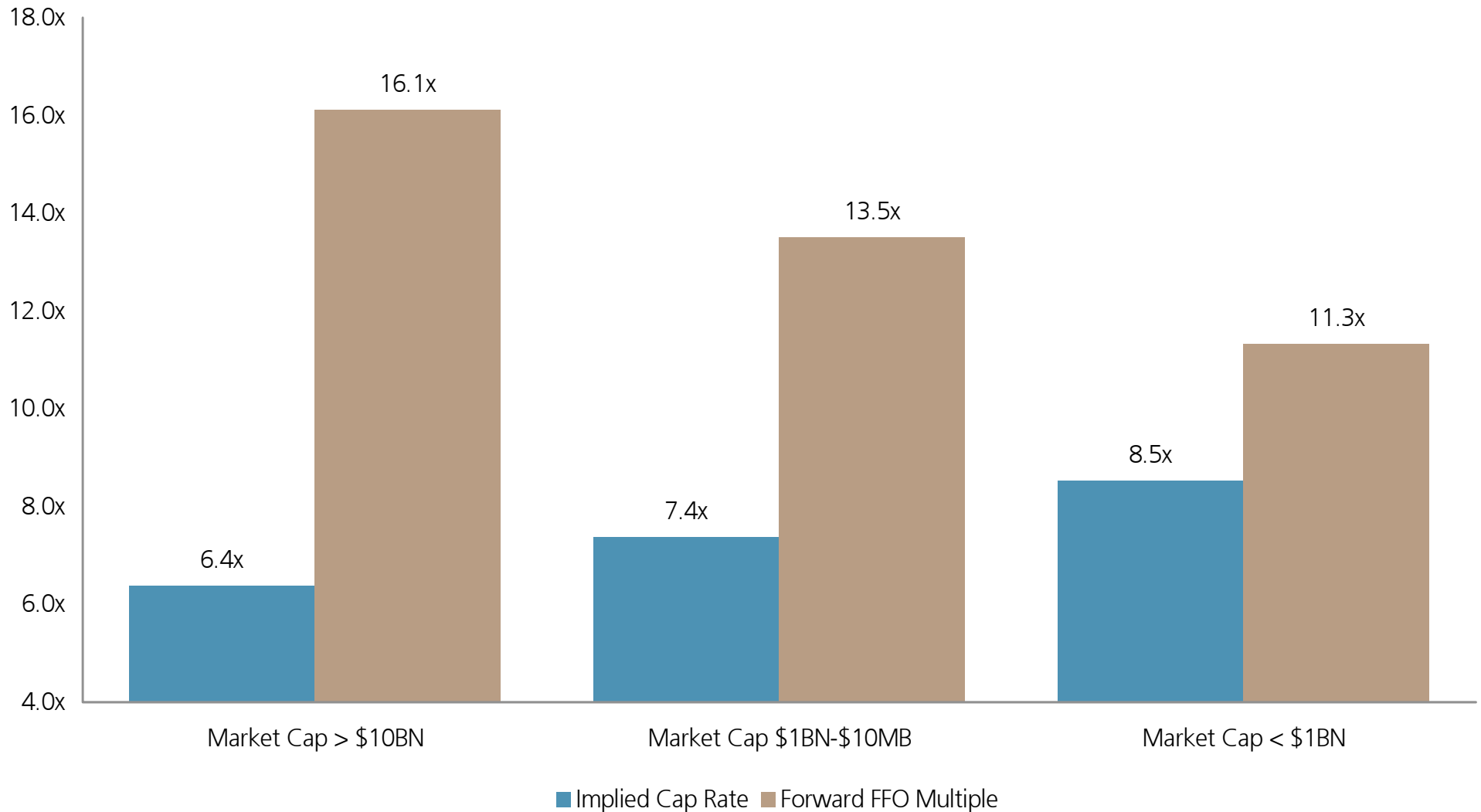
CBD Office Vacancy – Class ‘A’ vs Class ‘B/C’



Source: CBRE



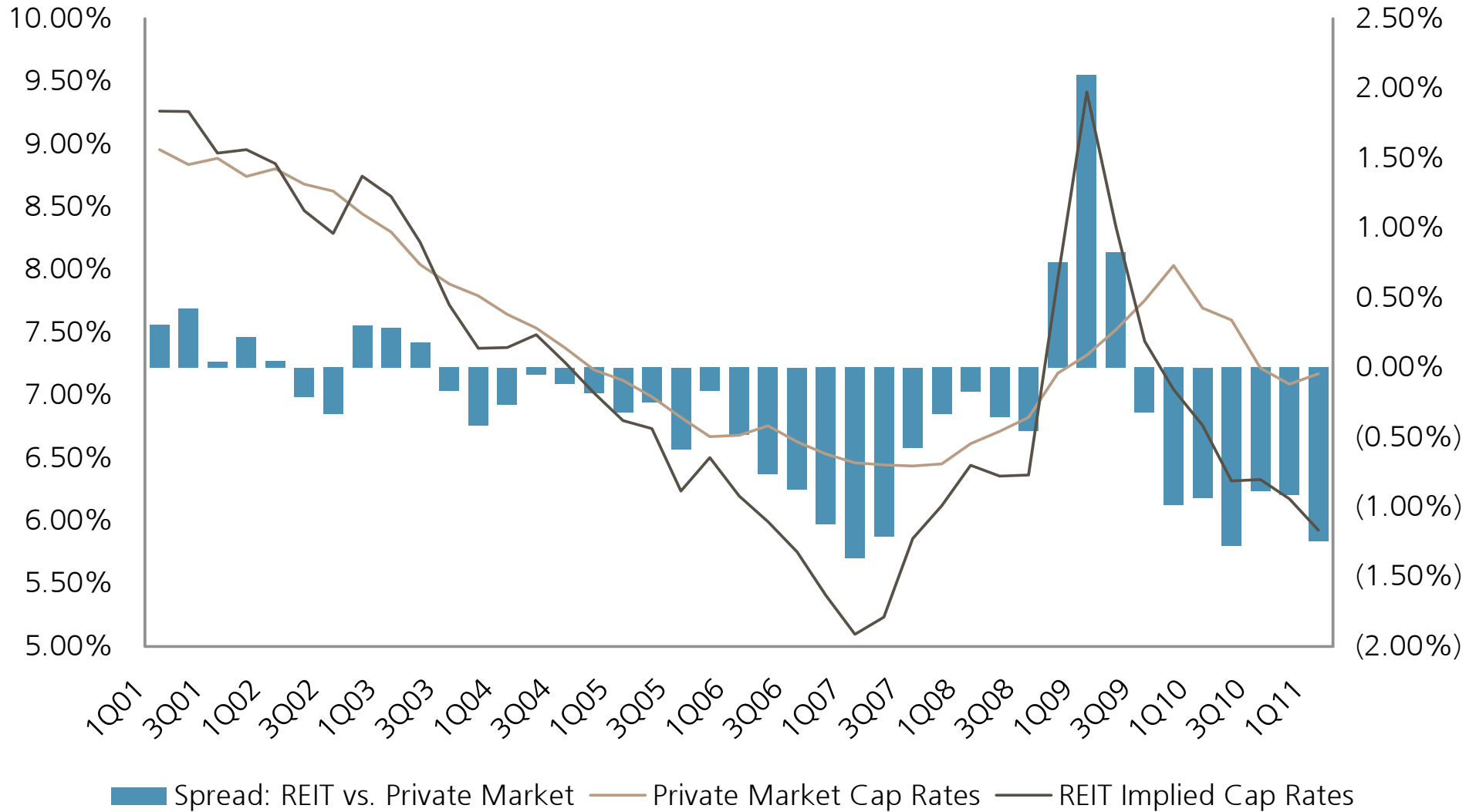
Cap-Weighted Implied Cap Rates & Forward FFO Multiples



Source: SNL Financial



REIT Cap Rates – Public vs. Private Markets

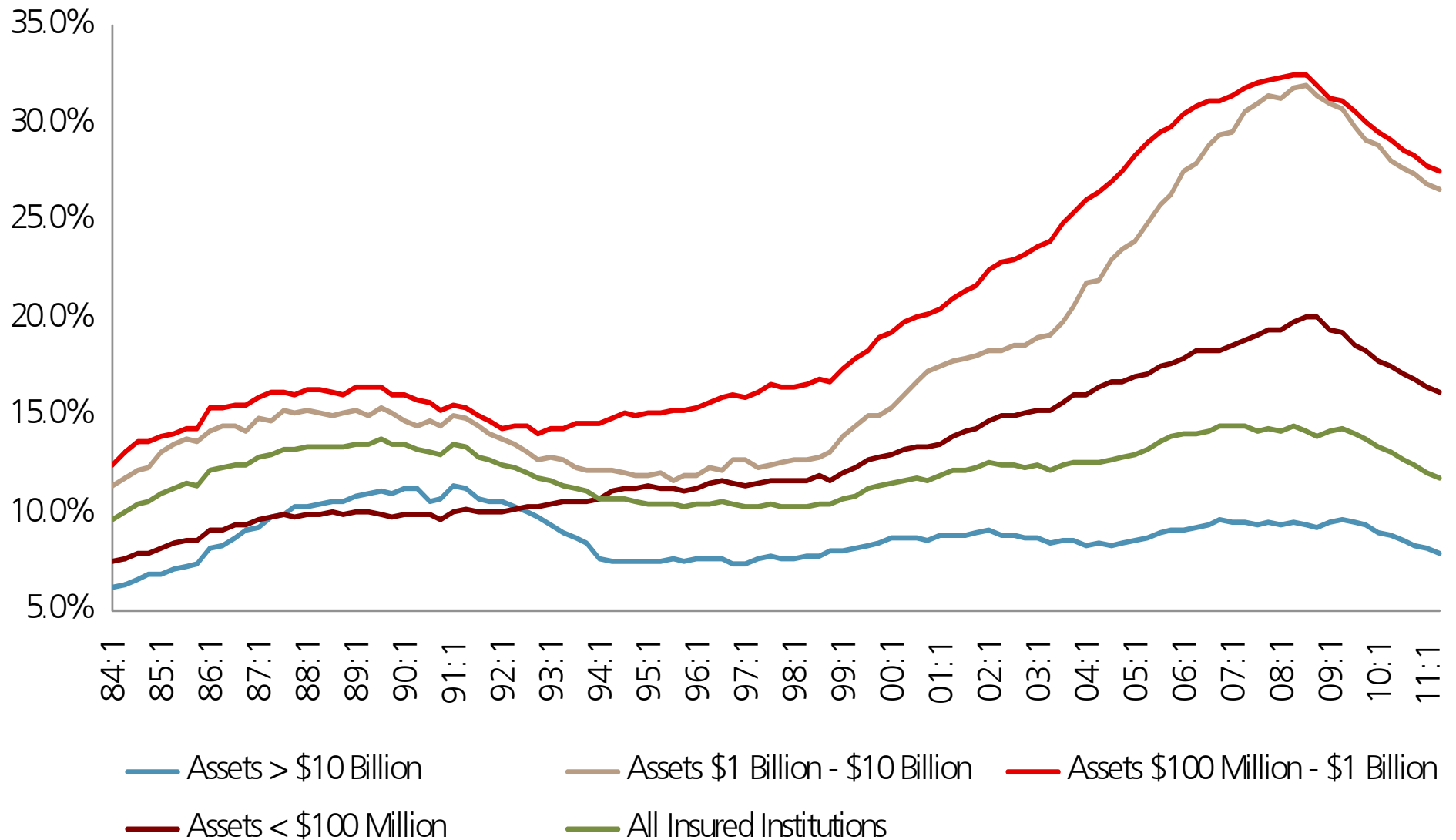


Source: SNL Financial, Real Capital Analytics, UBS Estimates



Seeking Capital Beyond the Banks

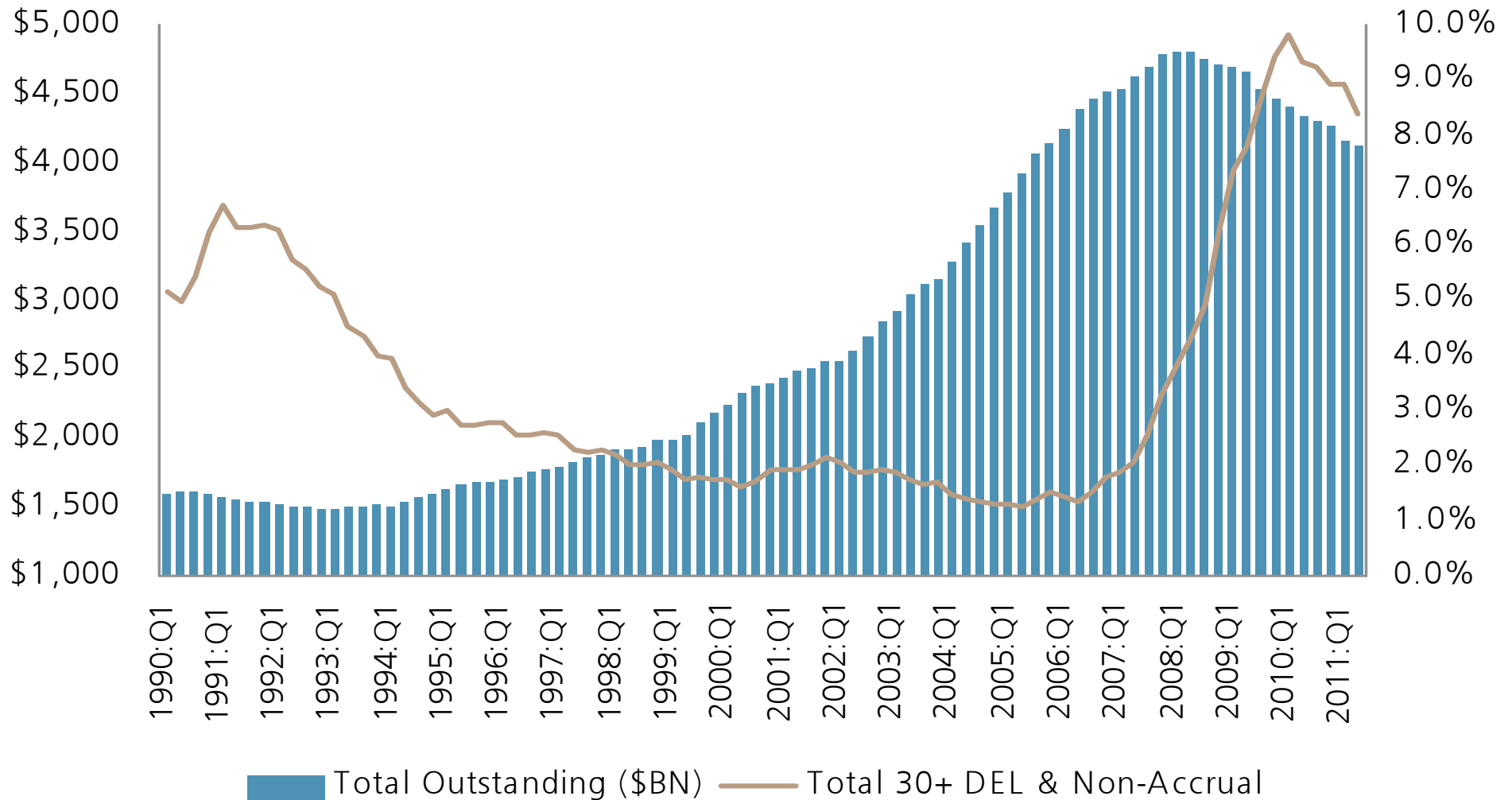
Bank CRE Loans as a % of Total Loans – By Bank Size



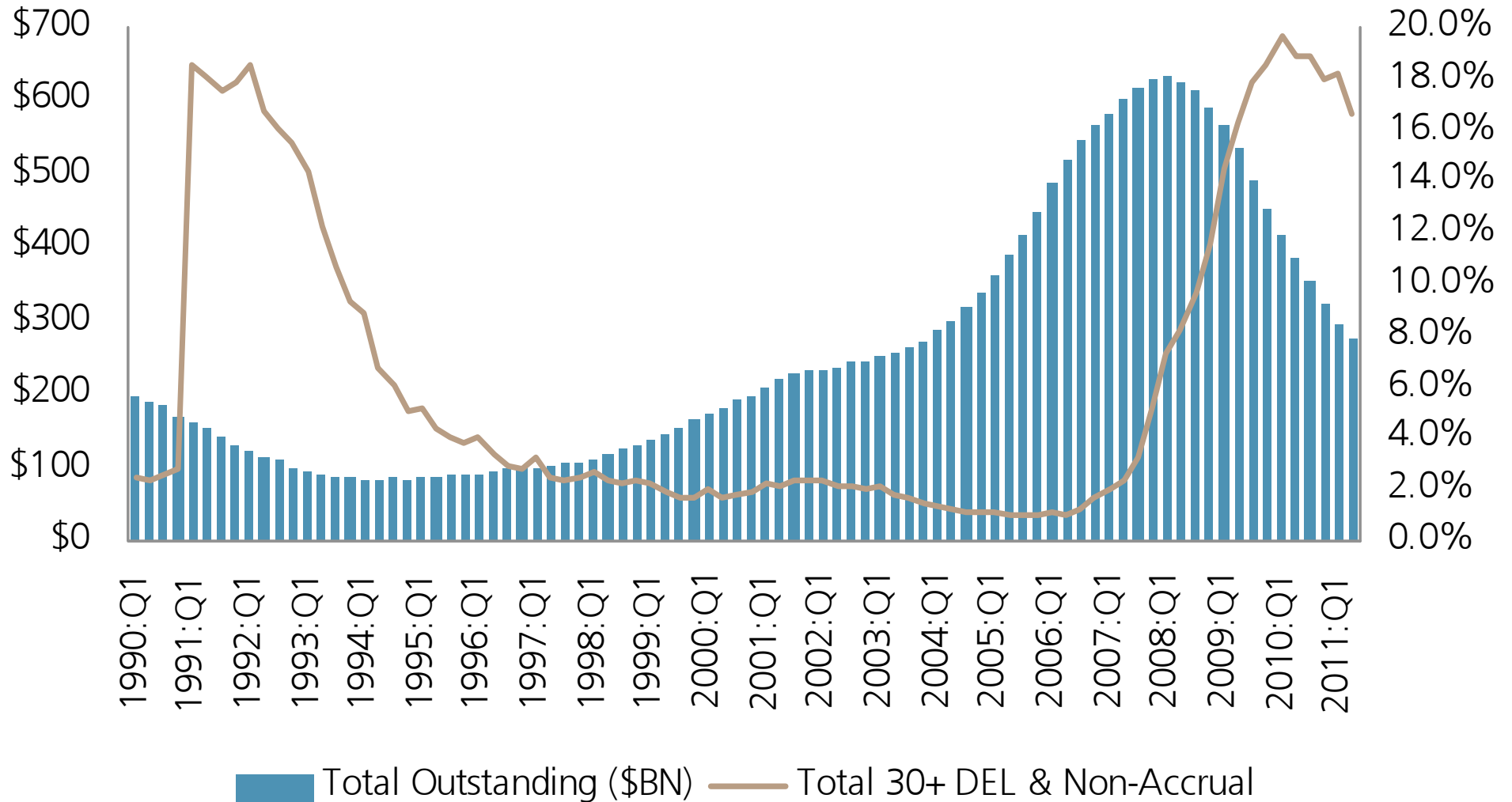
Source: FDIC



Total Real Estate Loans – All FDIC Insured Institutions



Construction & Development Loans – All FDIC Insured Institutions

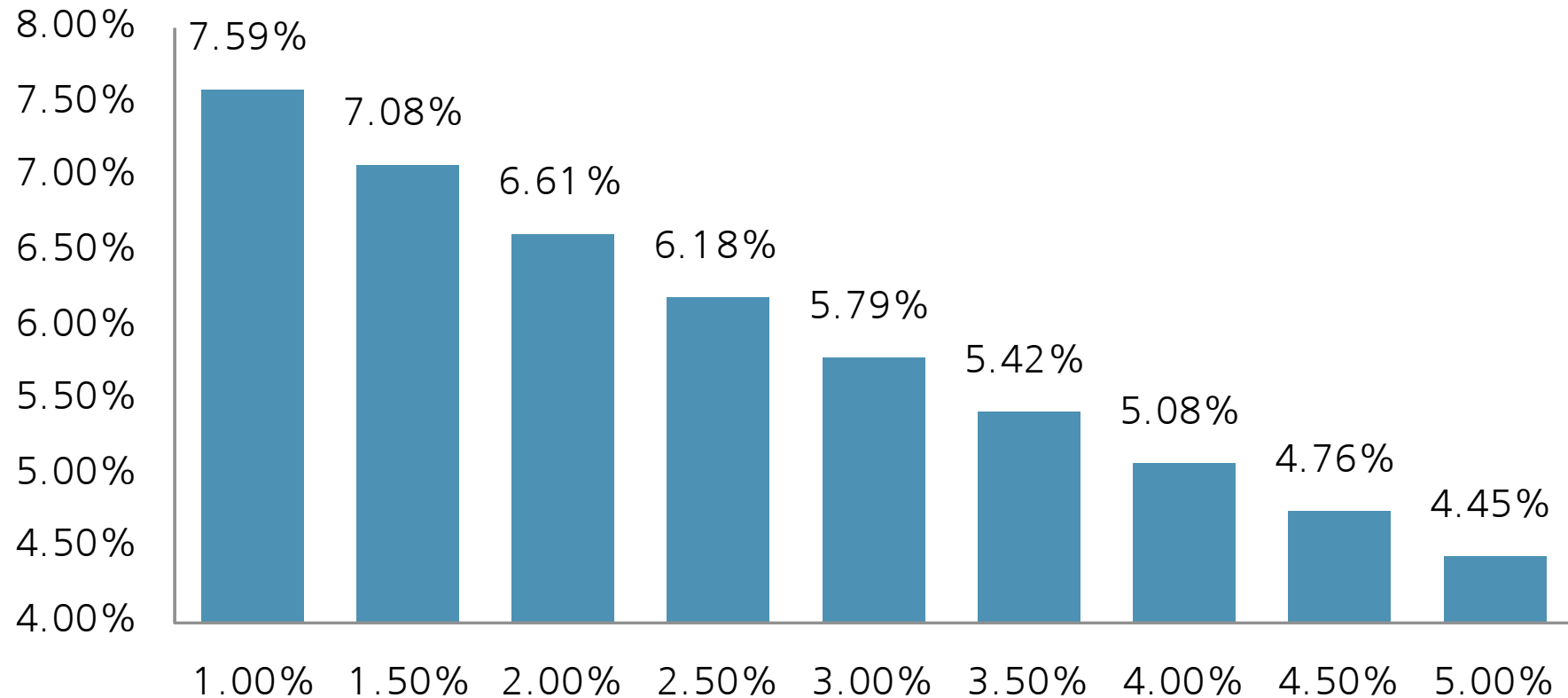


Source: FDIC



The Importance of Interest Rates and Risk Analysis

The Impact of Rising Interest Rate on Un-Leveraged CRE Investment Returns

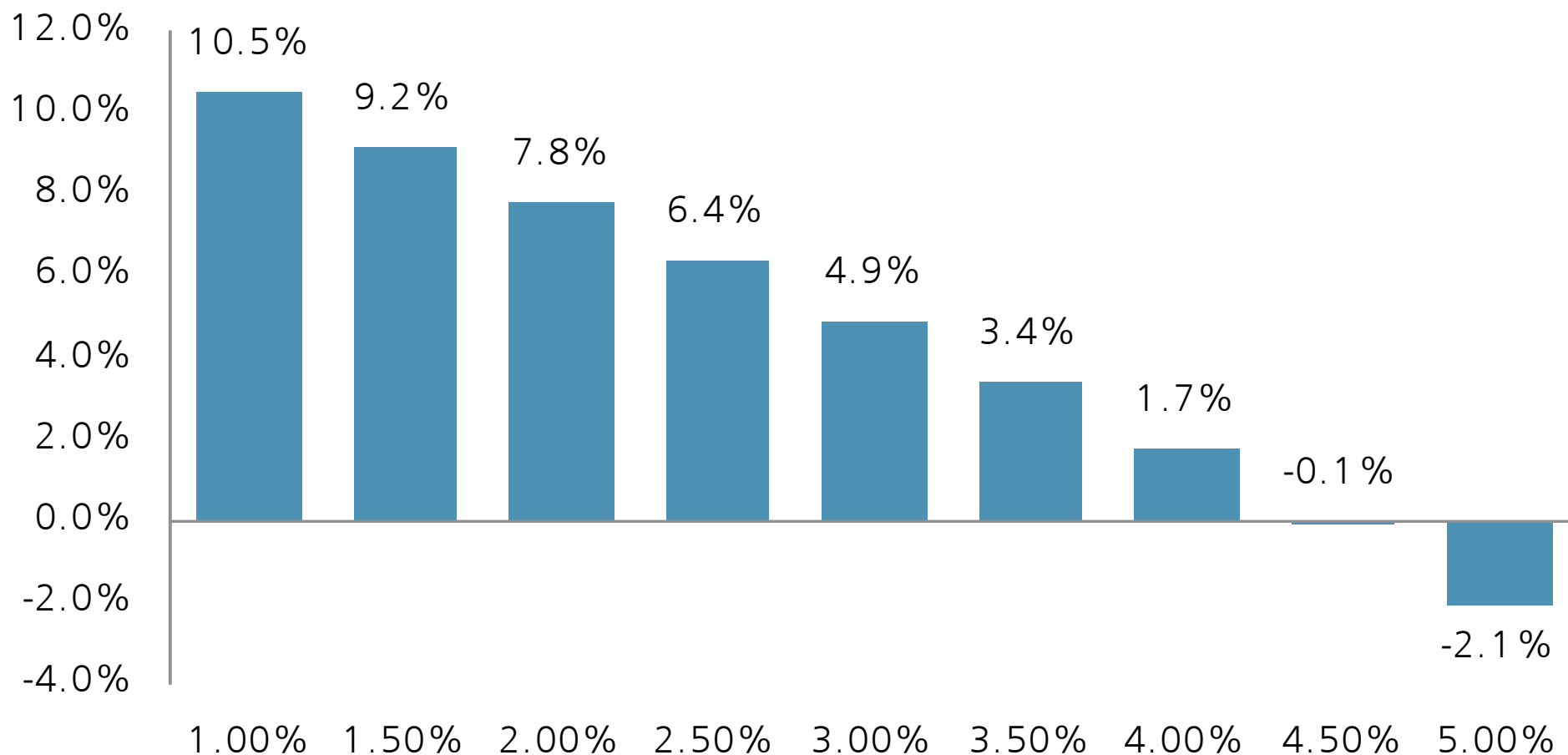


Exit Cap Rate Premium to Going in Cap Rate
■ Unlevered IRR

Source: UBS Estimates



The Impact of Rising Interest Rate on Leveraged CRE Investment Returns



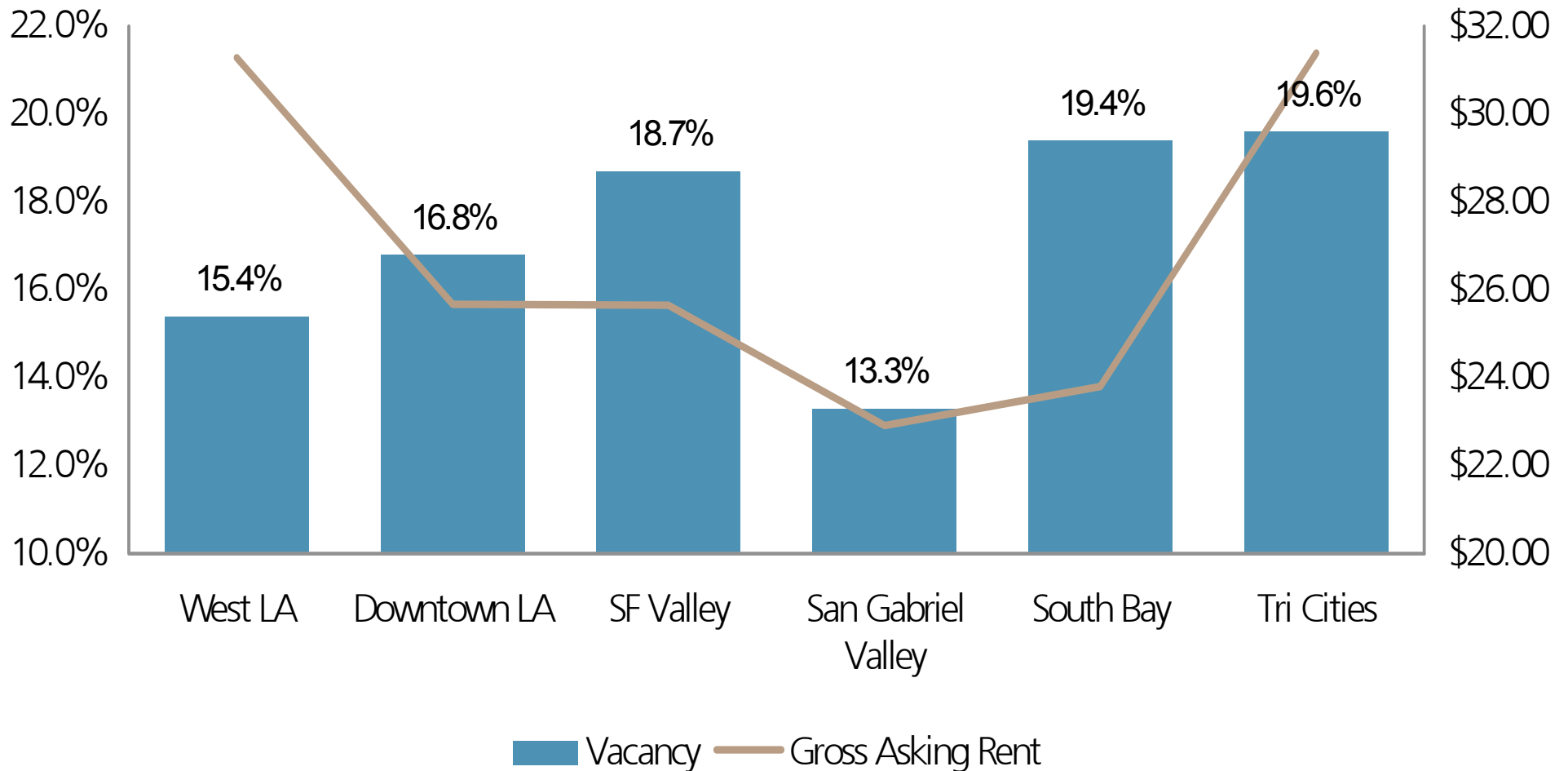
Exit Cap Rate Premium to Going In Cap Rate & Years 6-10 Interest Rate Premium to Years 1-5 Interest Rate

Source: UBS Estimates

Local Commercial Real Estate Data

Los Angeles County Office Data

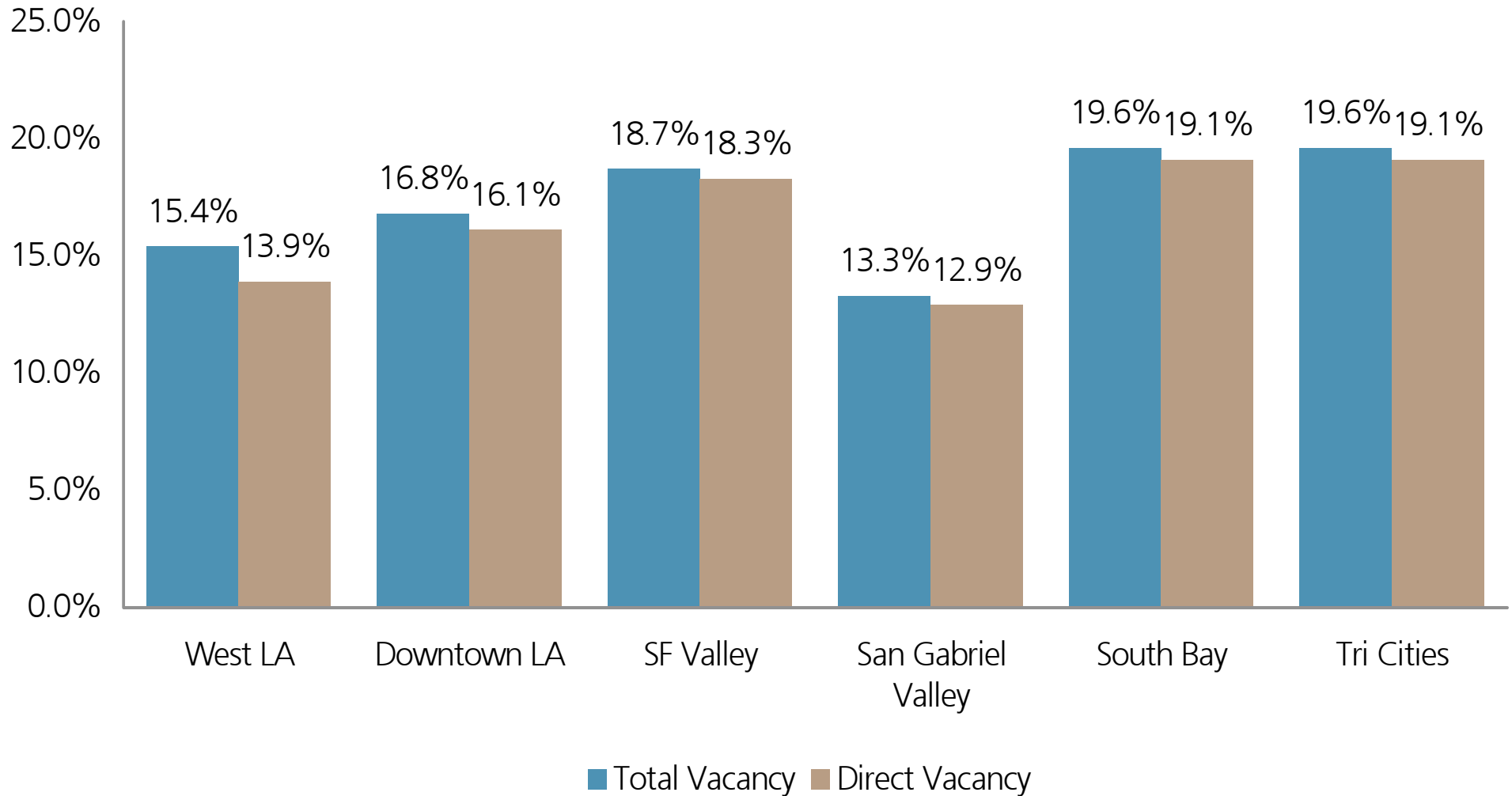
L.A. County Office Data – 3Q 2011 Summary



Source: CBRE



L.A. County Office Data – 3Q 2011 Vacancy Summary

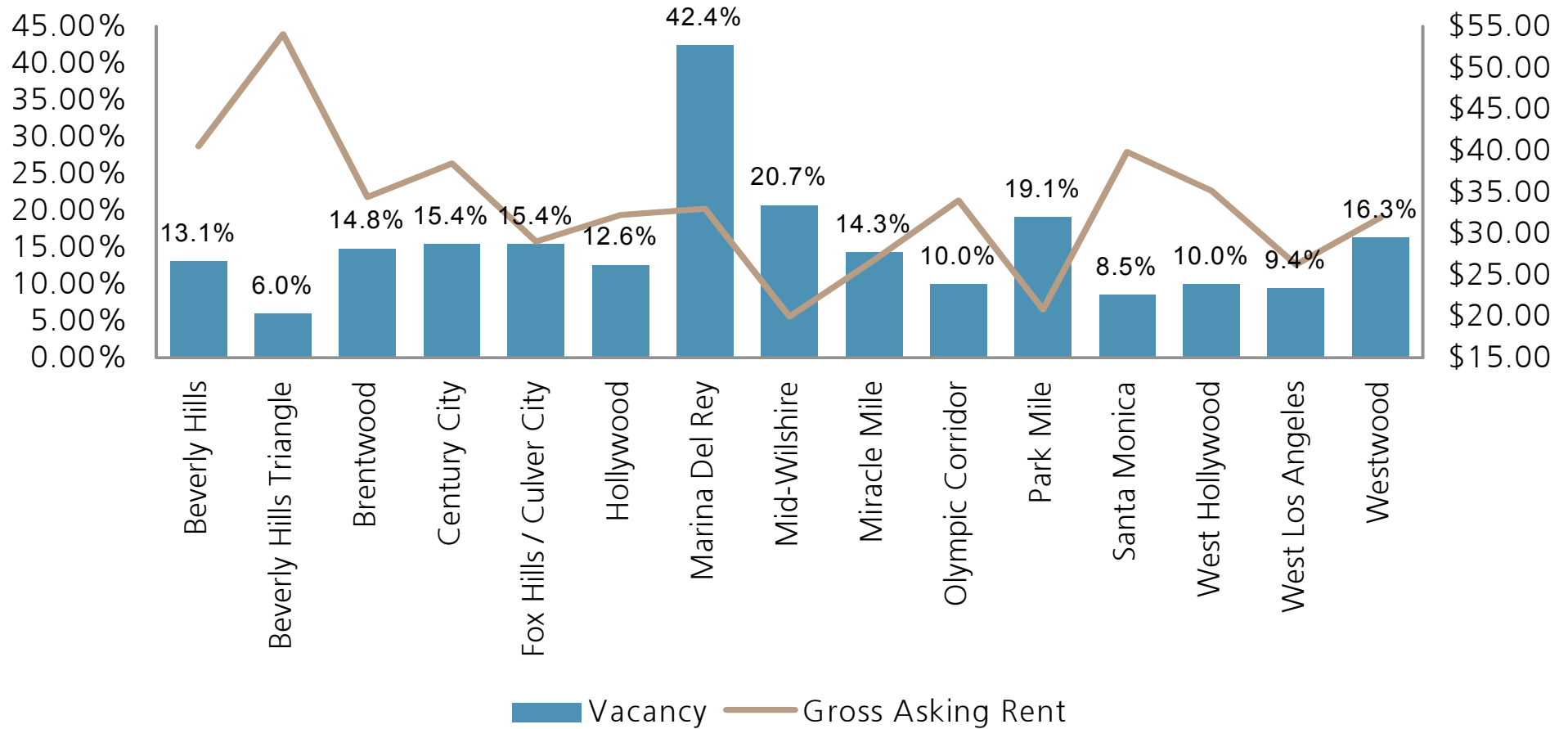


Source: CBRE



West L.A. Office Data – 3Q 2011 Summary

West L.A.

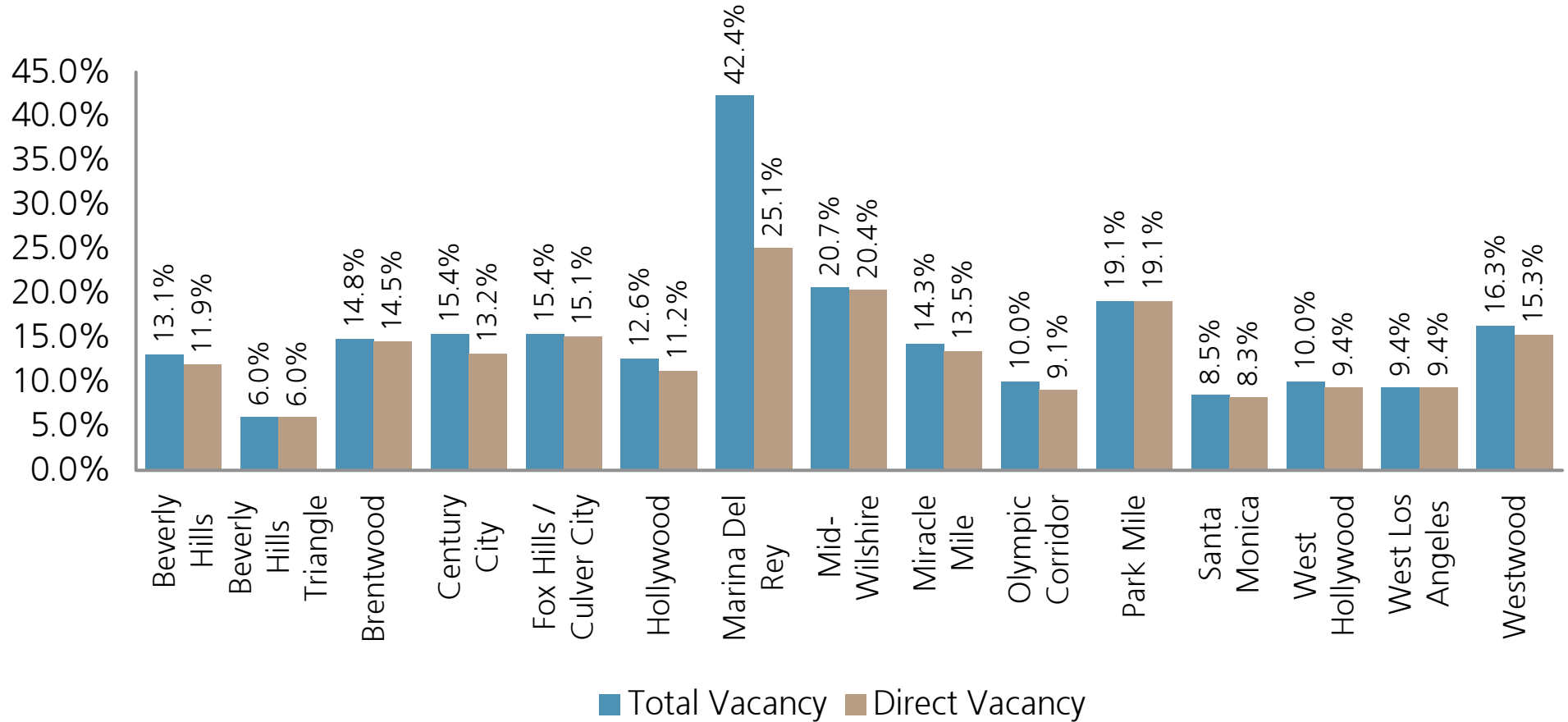


Source: CBRE



West L.A. Office Data – 3Q 2011 Vacancy Summary

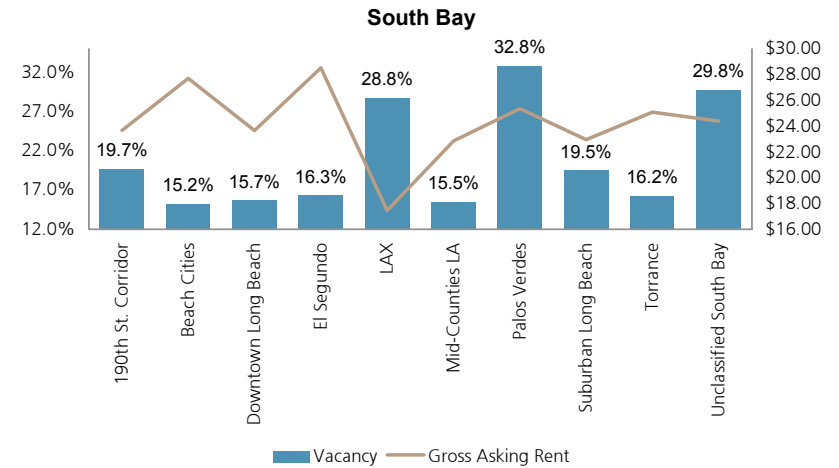
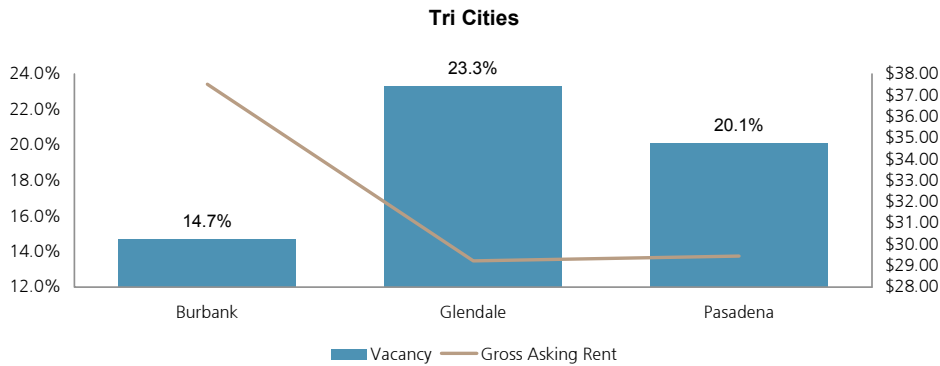
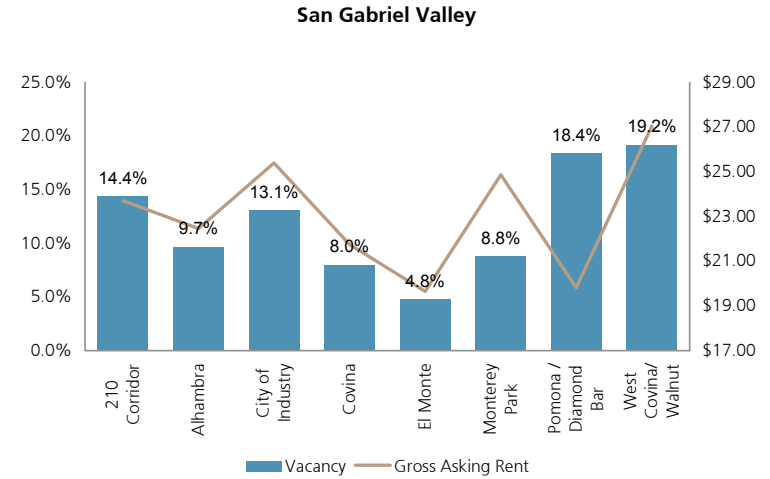
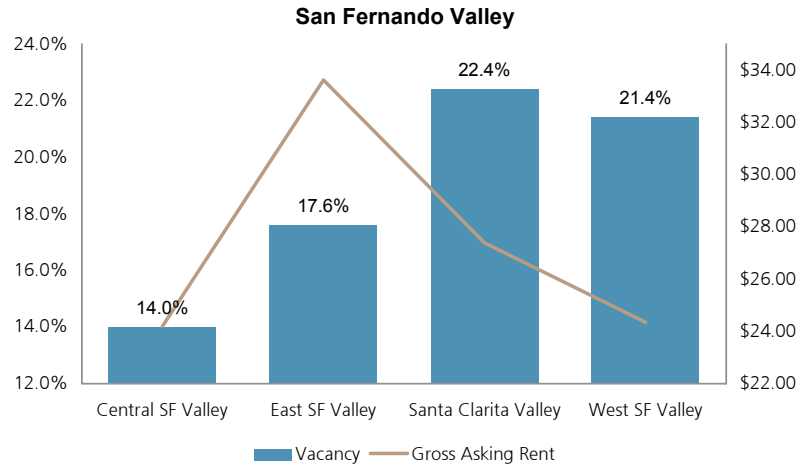
West L.A.



Source: CBRE



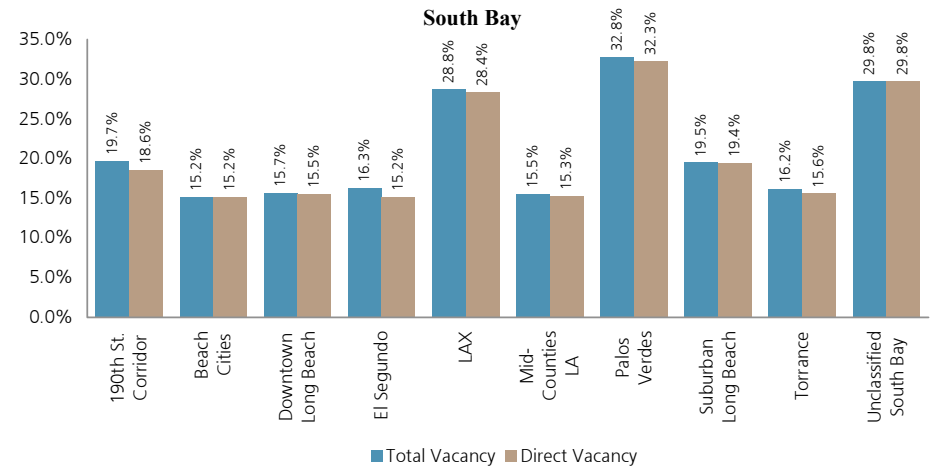
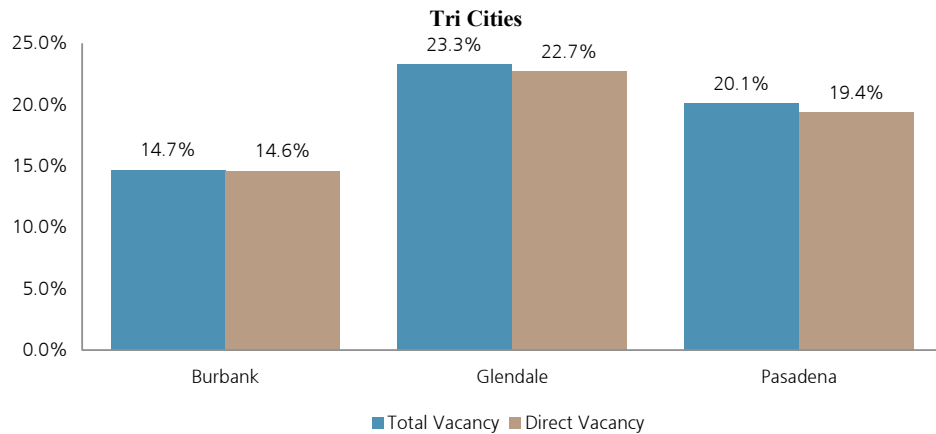
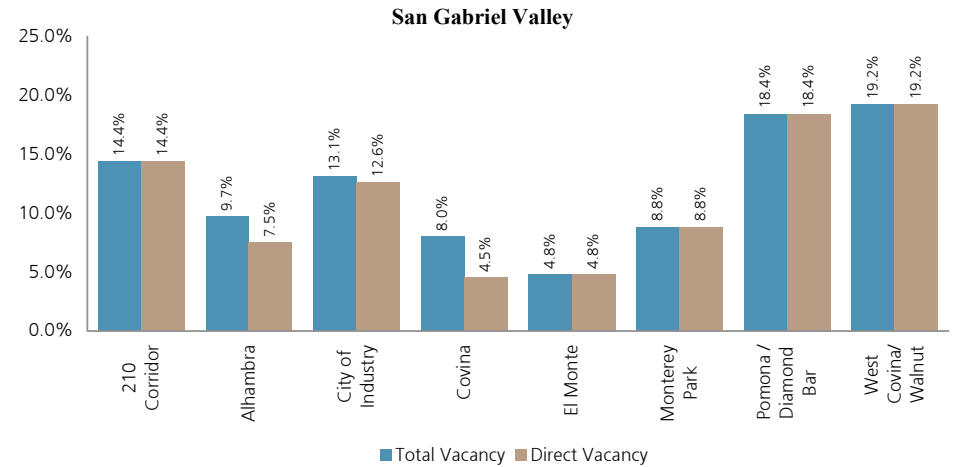
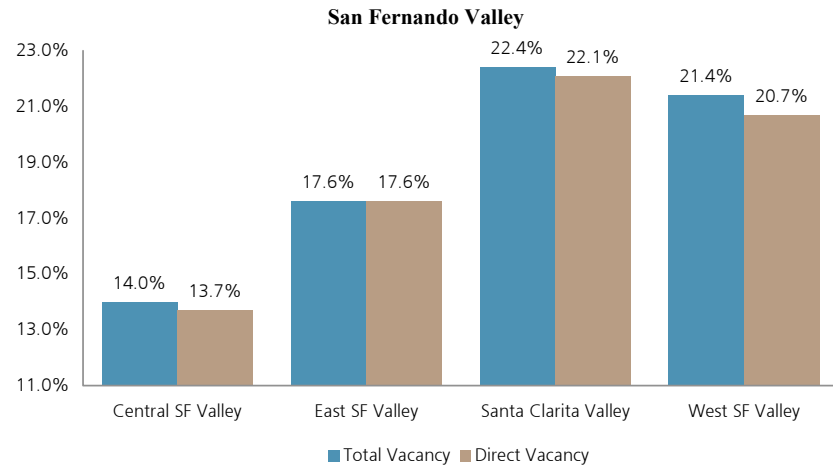
Other L.A. County Submarket Office Data – 3Q 2011 Summary



Source: CBRE



Other L.A. County Submarket Office Data – 3Q 2011 Vacancy Summary

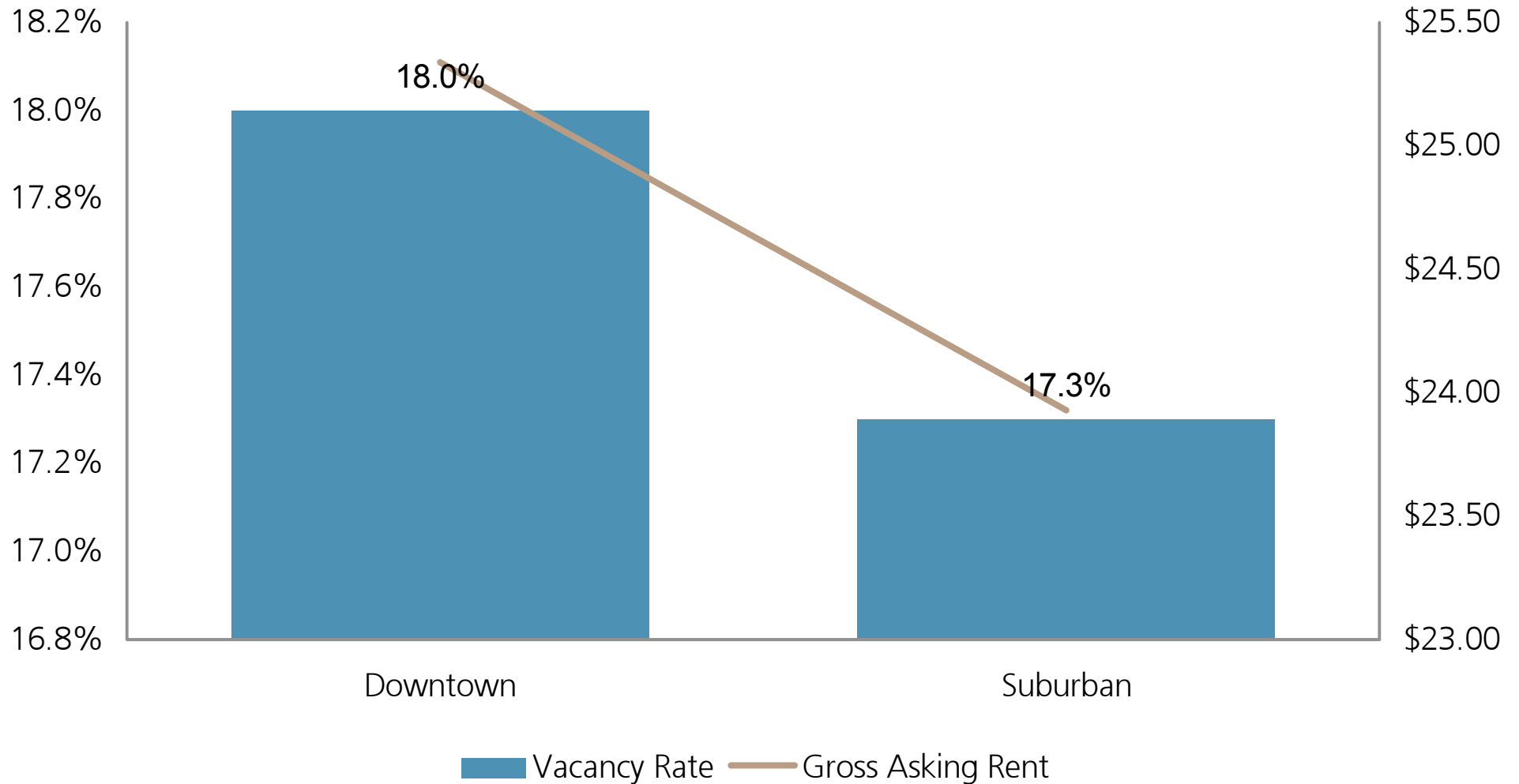


Source: CBRE



San Diego County Office Data

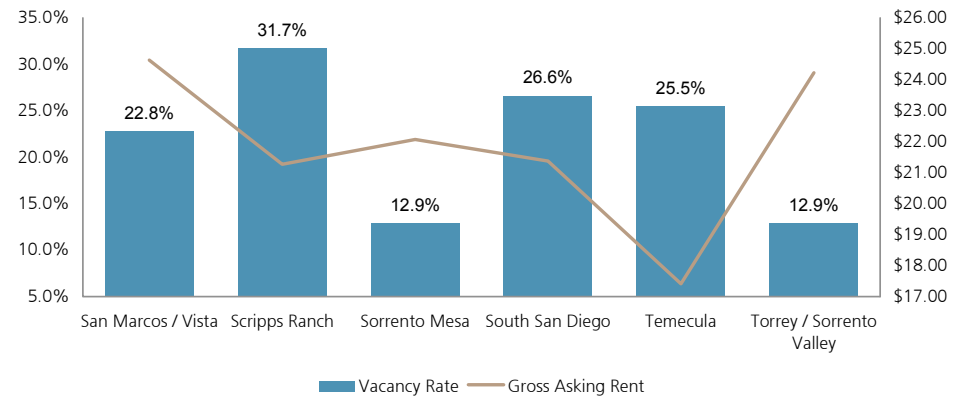
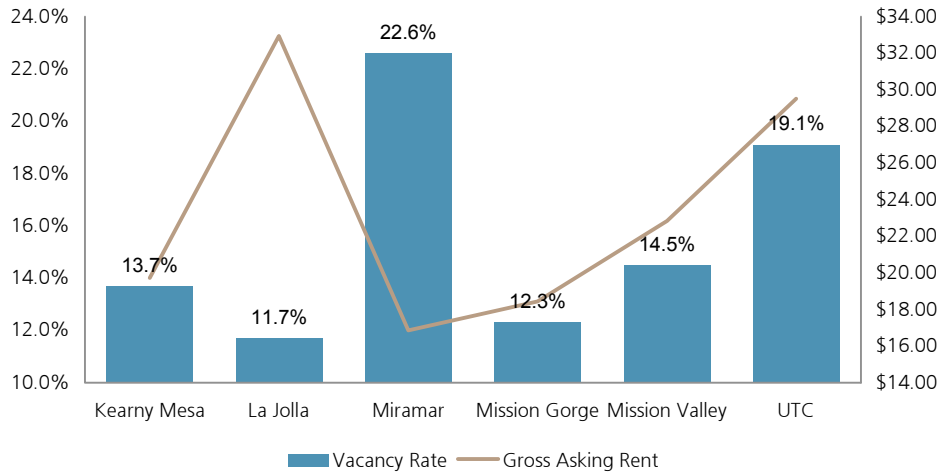
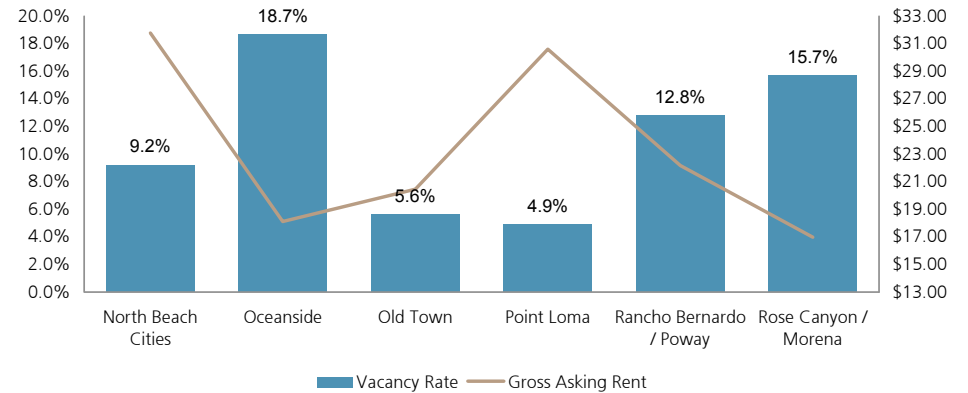
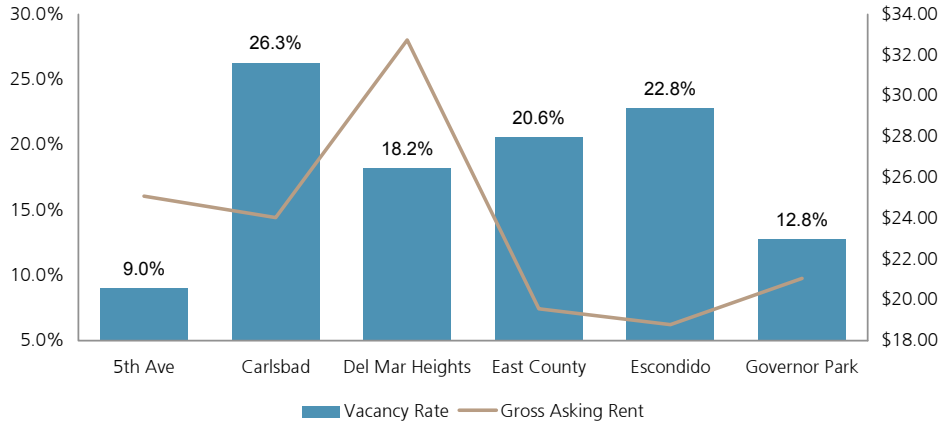
San Diego County Office Data – 3Q 2011 Summary



Source: CBRE



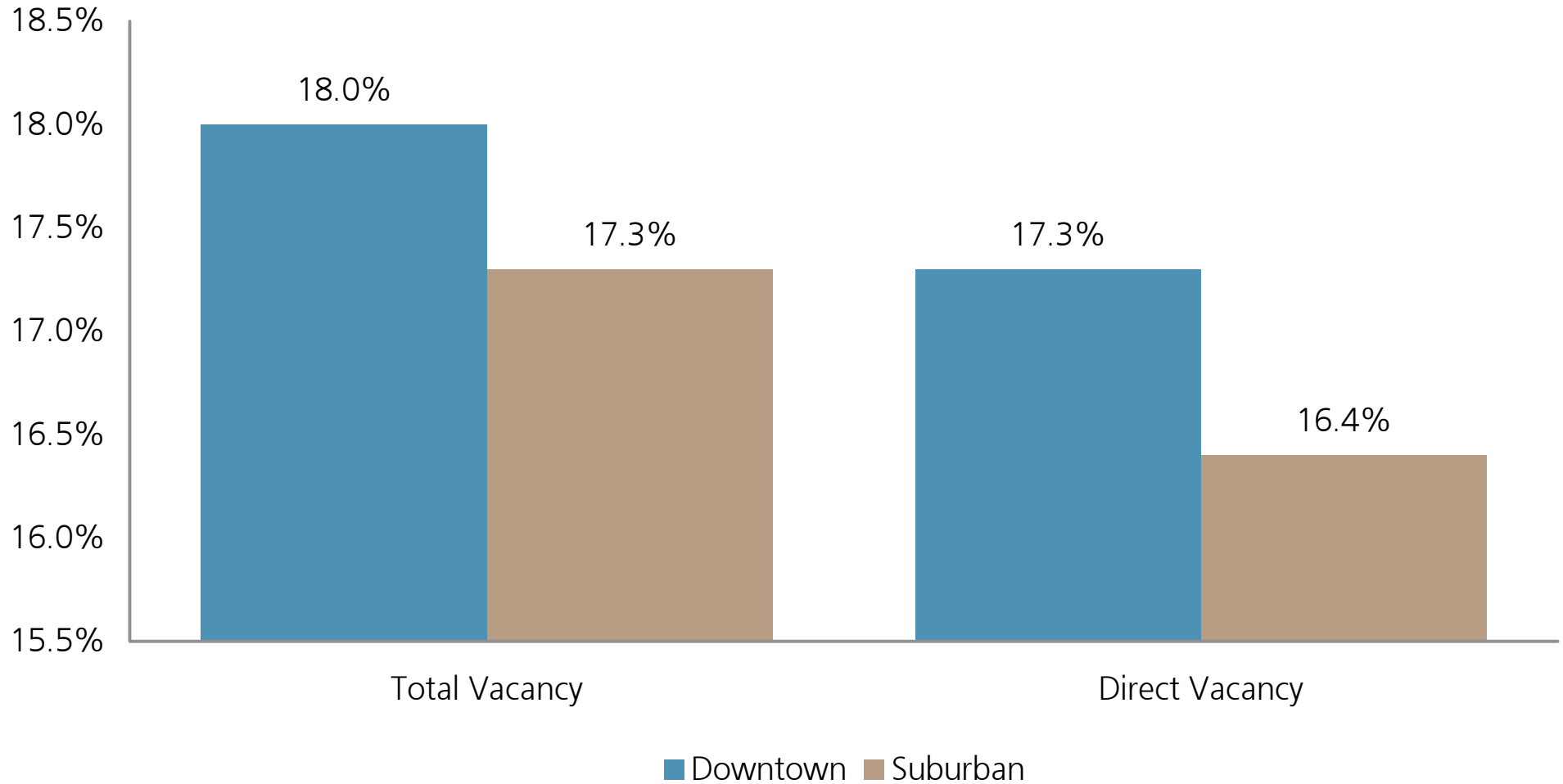
San Diego County Submarket Office Data – 3Q 2011 Summary



Source: CBRE

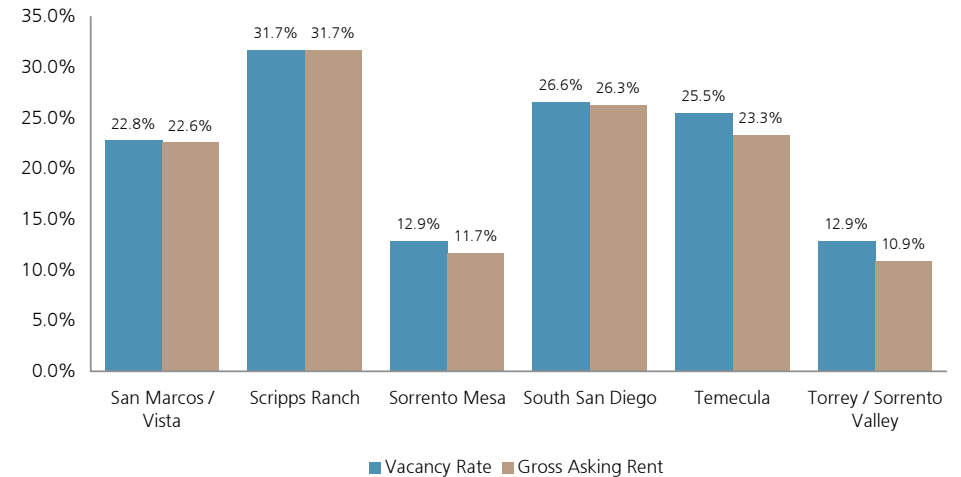
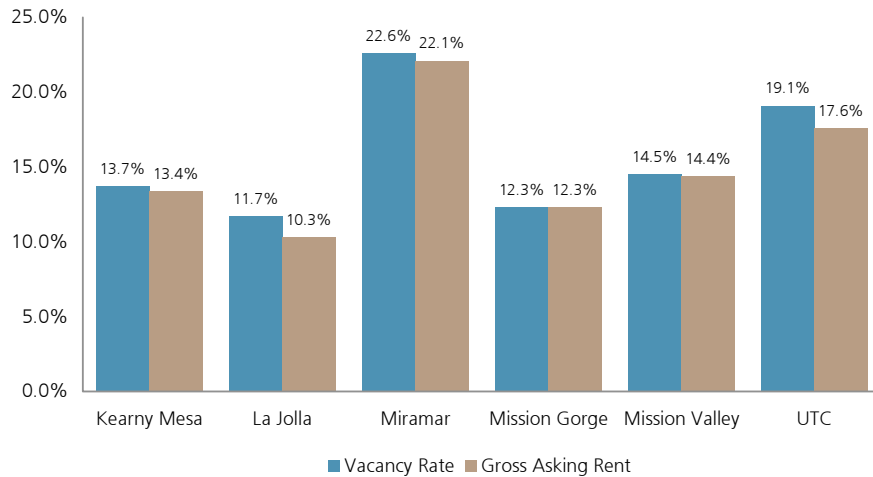
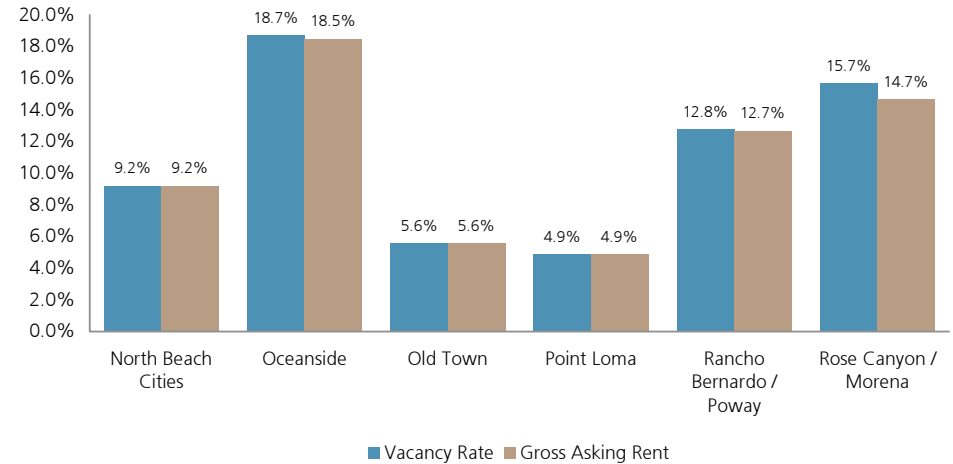
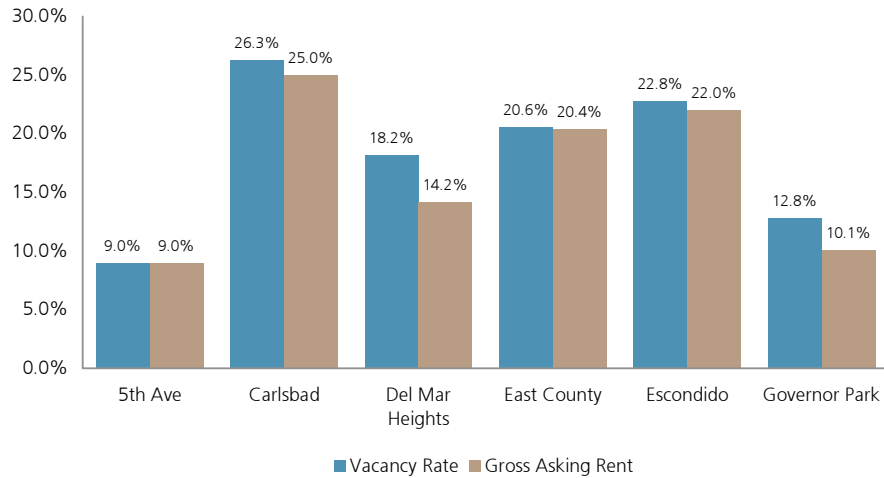


San Diego County Office Data – 3Q 2011 Vacancy Summary



Source: CBRE

San Diego County Submarket Office Data – 3Q 2011 Vacancy Summary

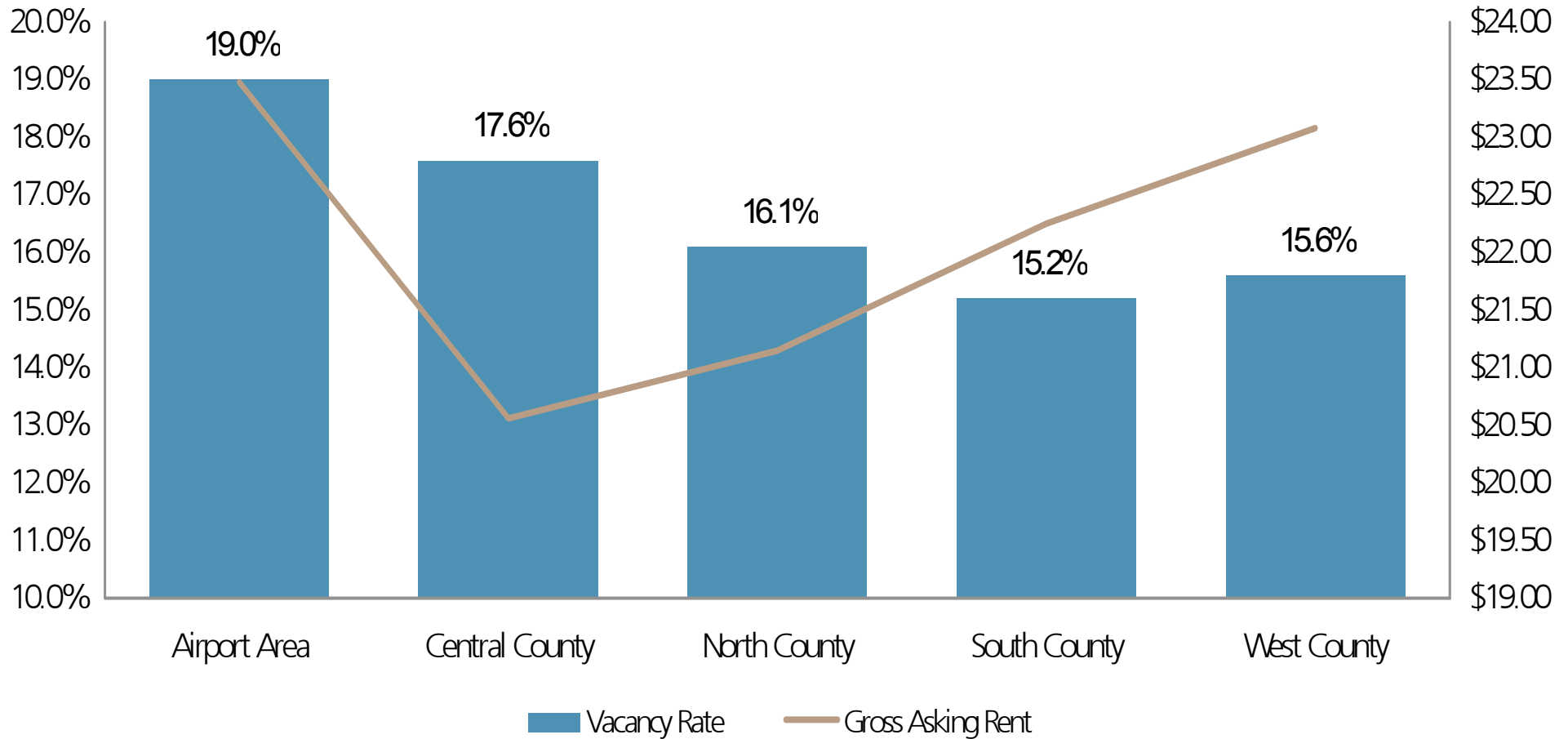


Source: CBRE



Orange County Office Data

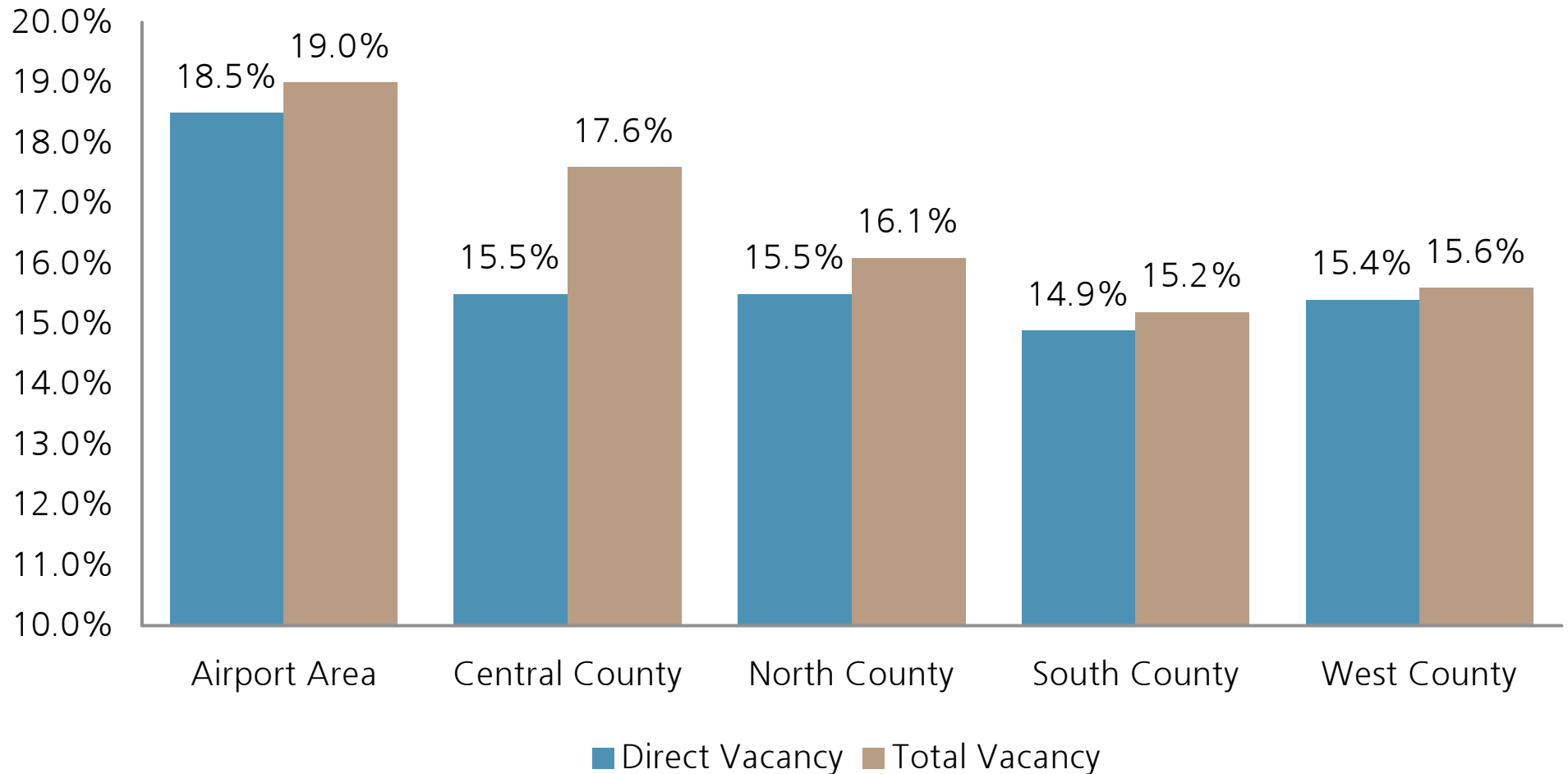
Orange County Office Data – 3Q 2011 Summary



Source: CBRE



Orange County Office Data – 3Q 2011 Vacancy Summary

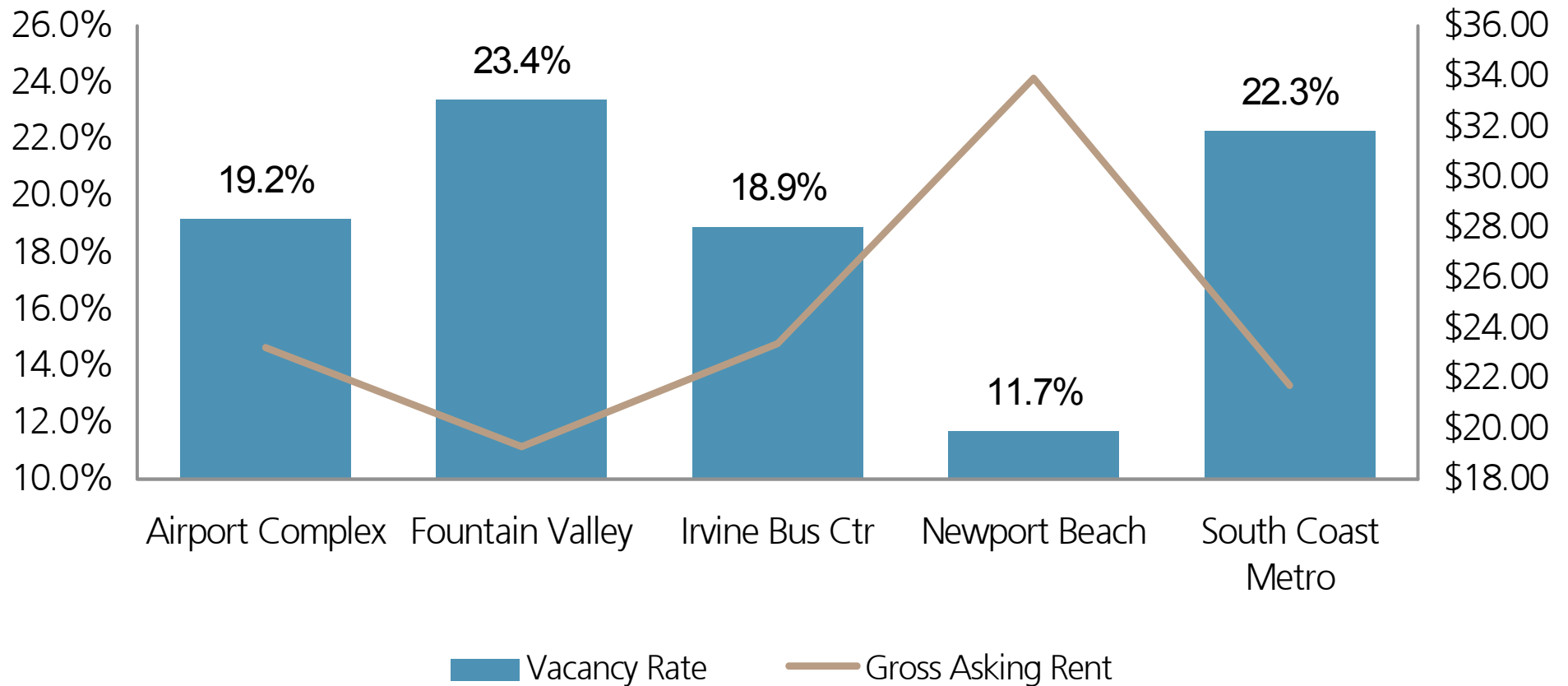


Source: CBRE



Orange County Airport Area Submarket Office Data – 3Q 2011 Summary

Airport Area



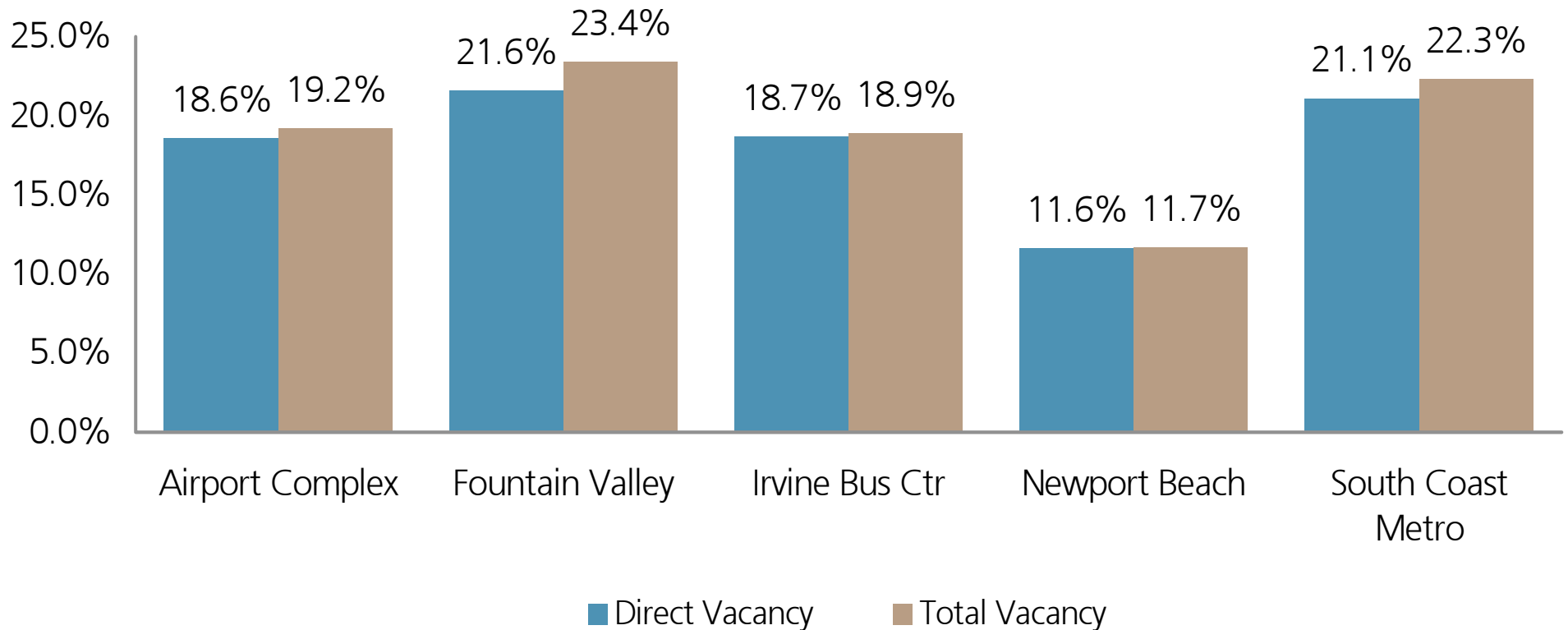
Source: CBRE



Orange County Airport Area Submarket Office Data – 3Q 2011

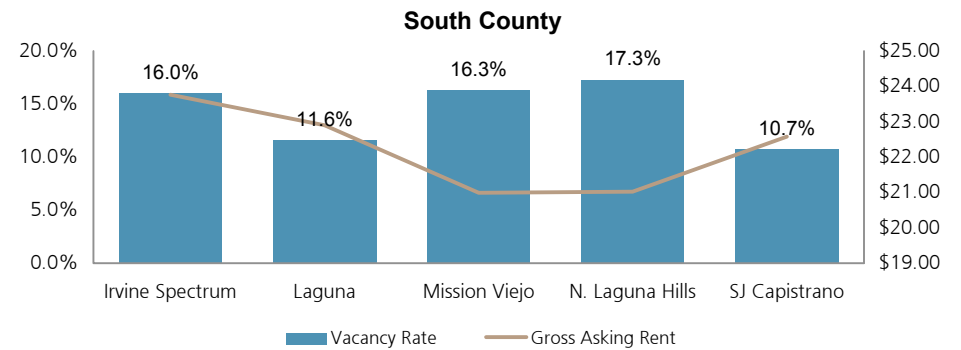
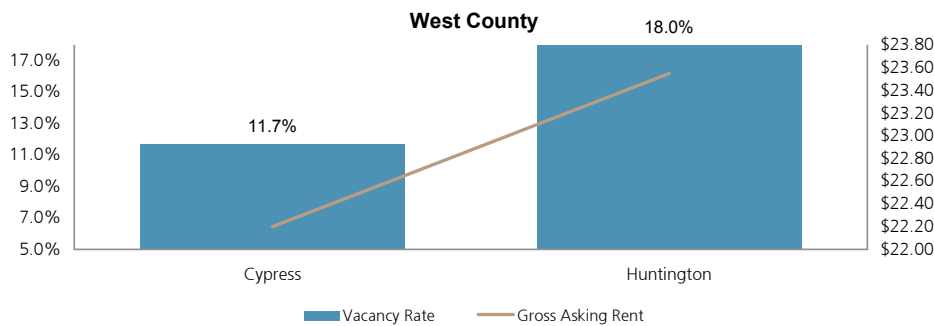
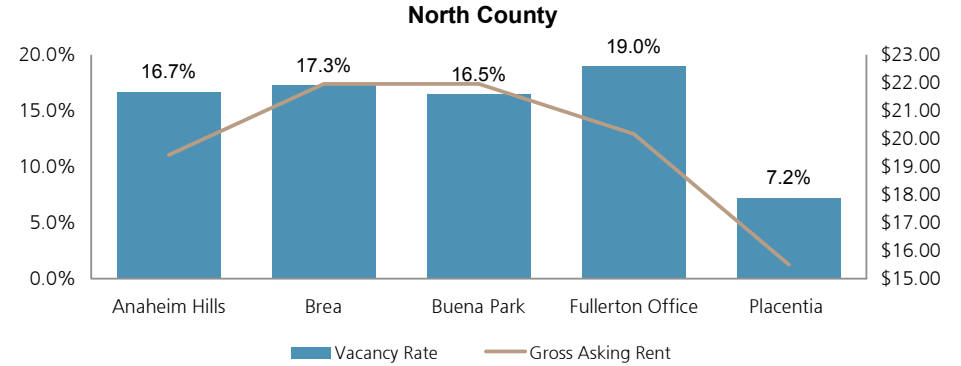
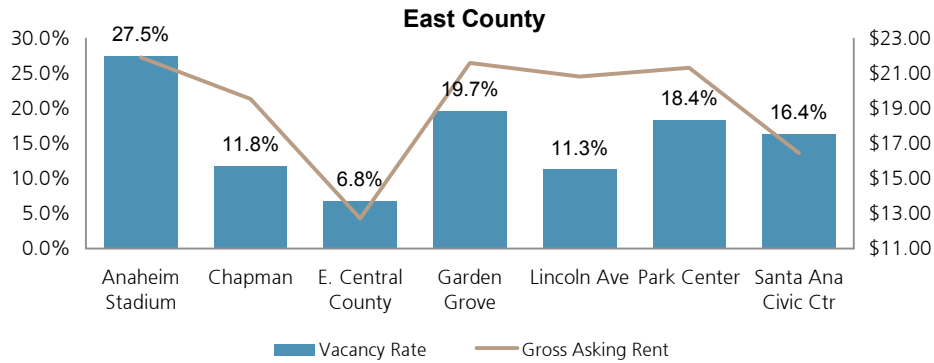
Vacancy Summary

Airport Area



Source: CBRE

Orange County Other Submarkets Office Data – 3Q 2011 Summary



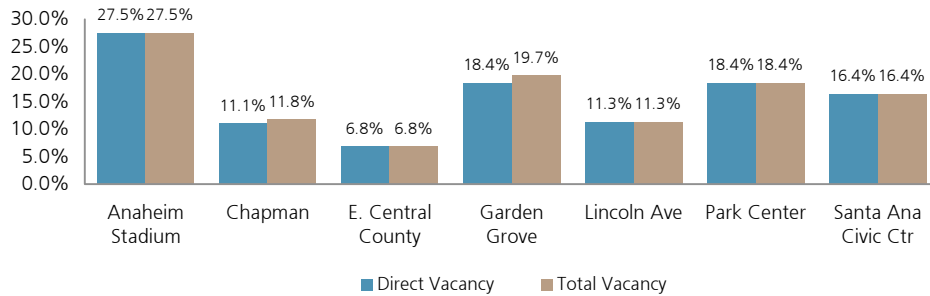
Source: CBRE



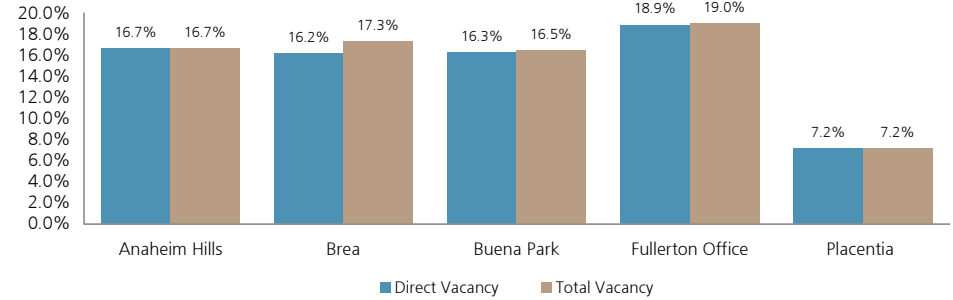
Orange County Other Submarkets Office Data – 3Q 2011

Vacancy Summary

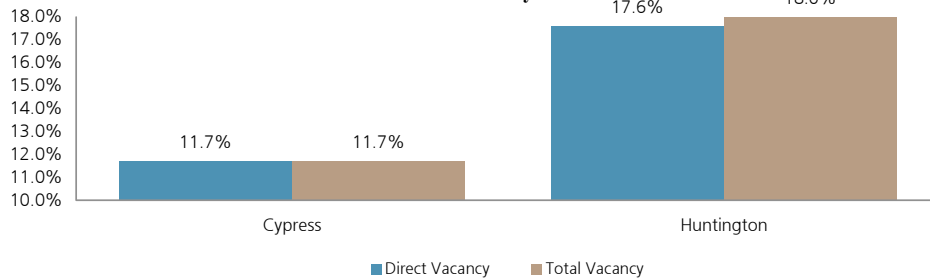
East County



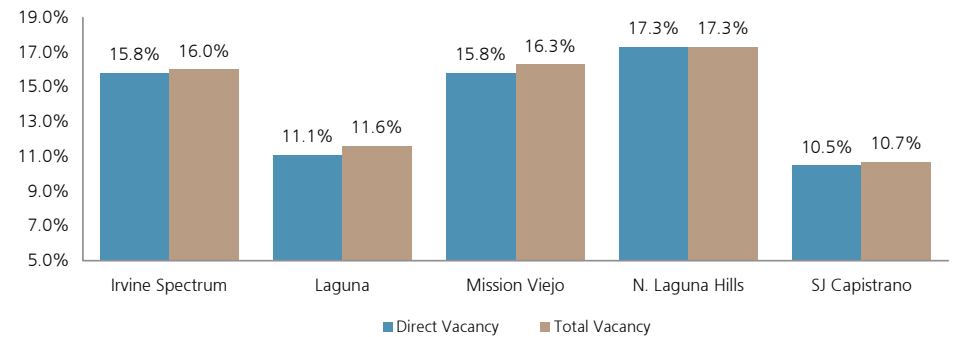
North County



West County



South County

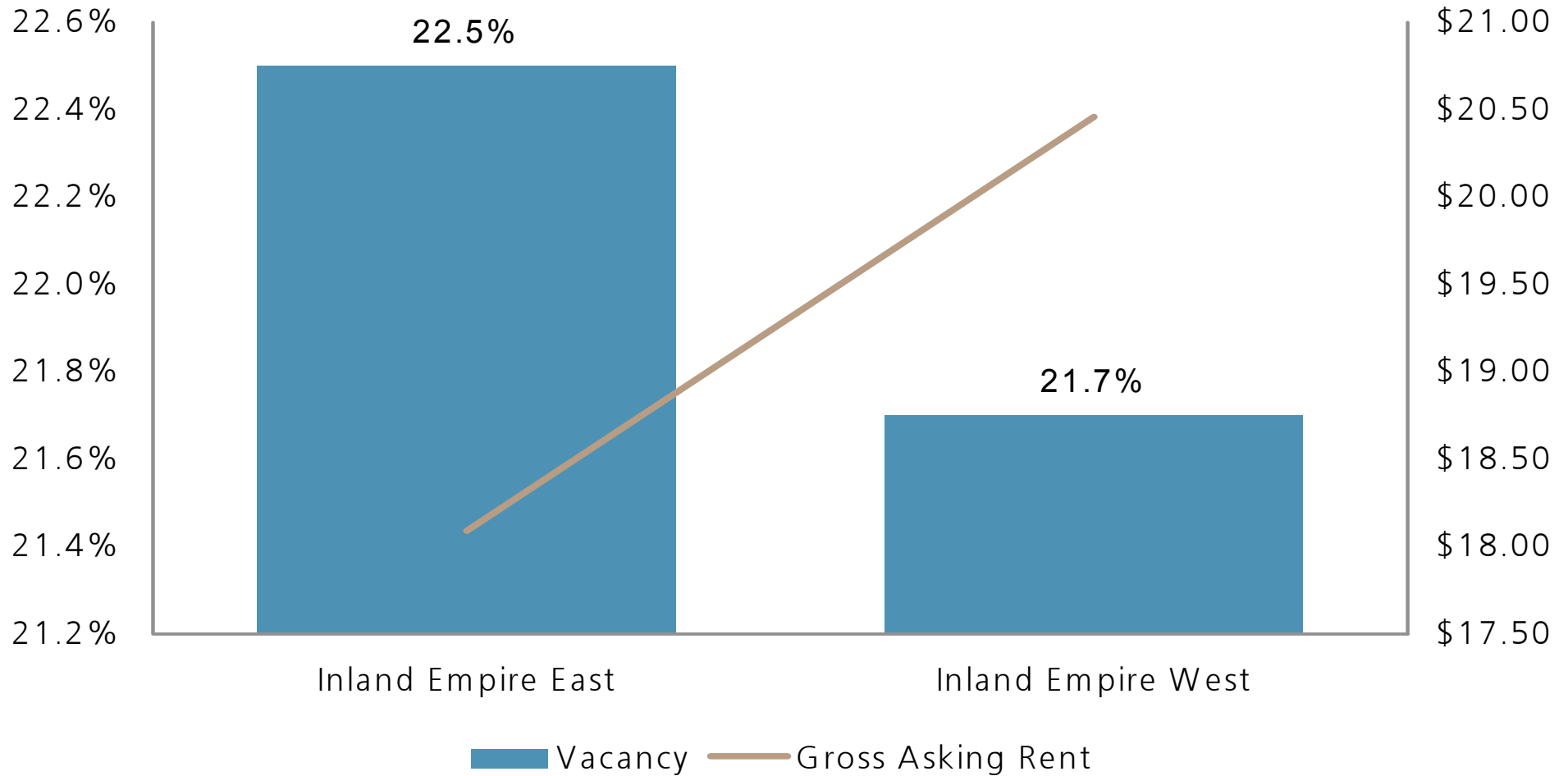


Source: CBRE



Inland Empire Office Data

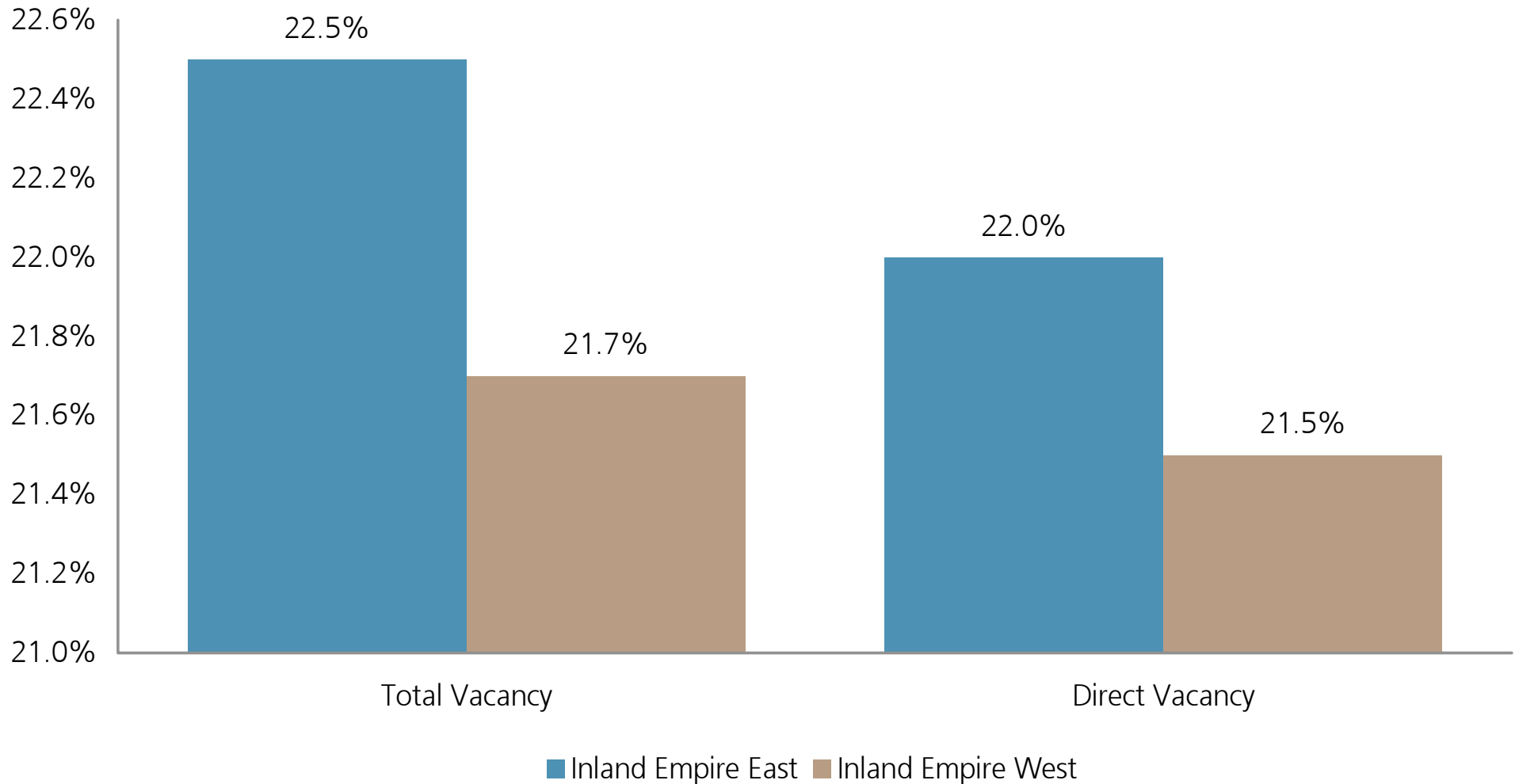
Inland Empire Office Data – 3Q 2011 Summary



Source: CBRE



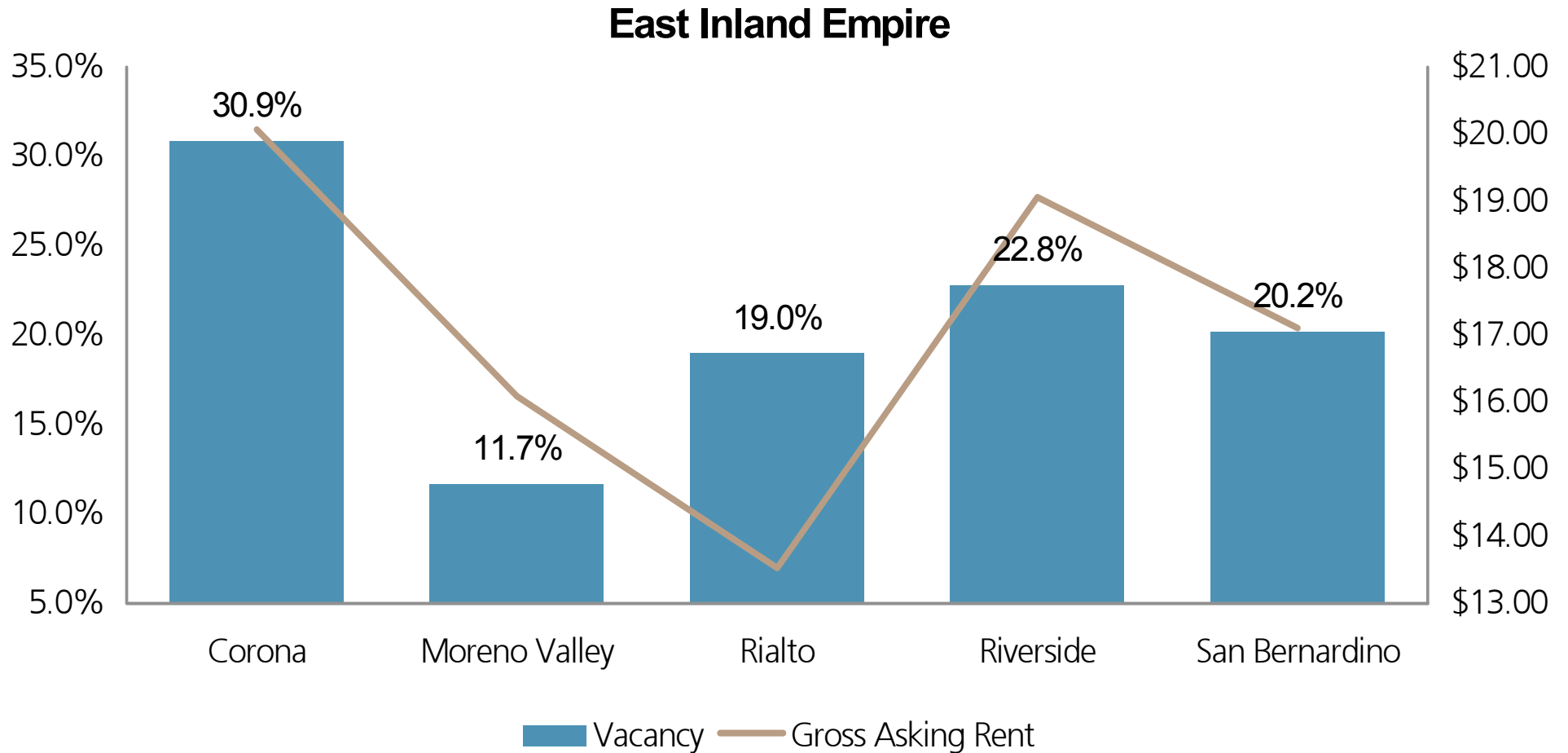
Inland Empire Office Data – 3Q 2011 Vacancy Summary



Source: CBRE



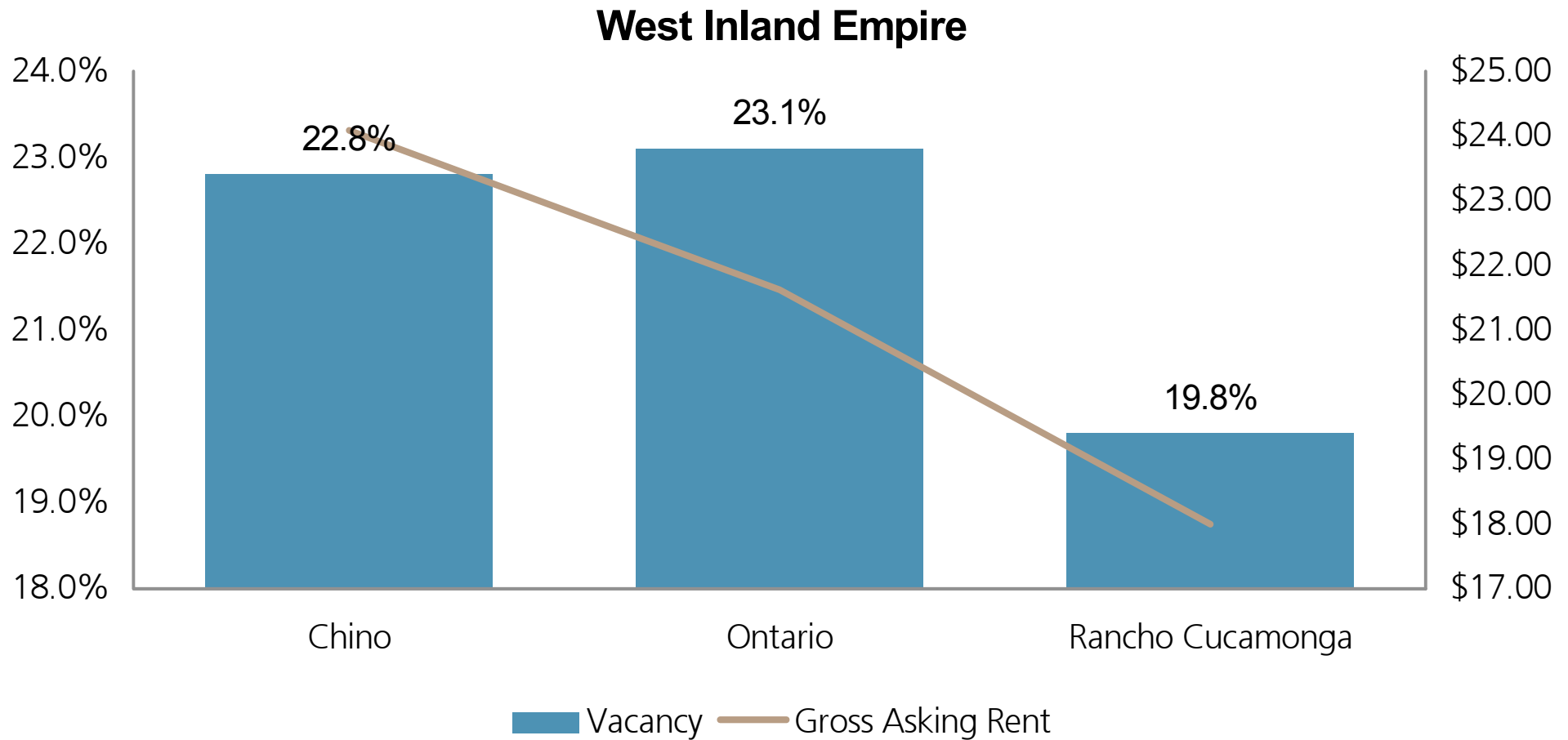
East Inland Empire Office Data – 3Q 2011 Summary



Source: CBRE



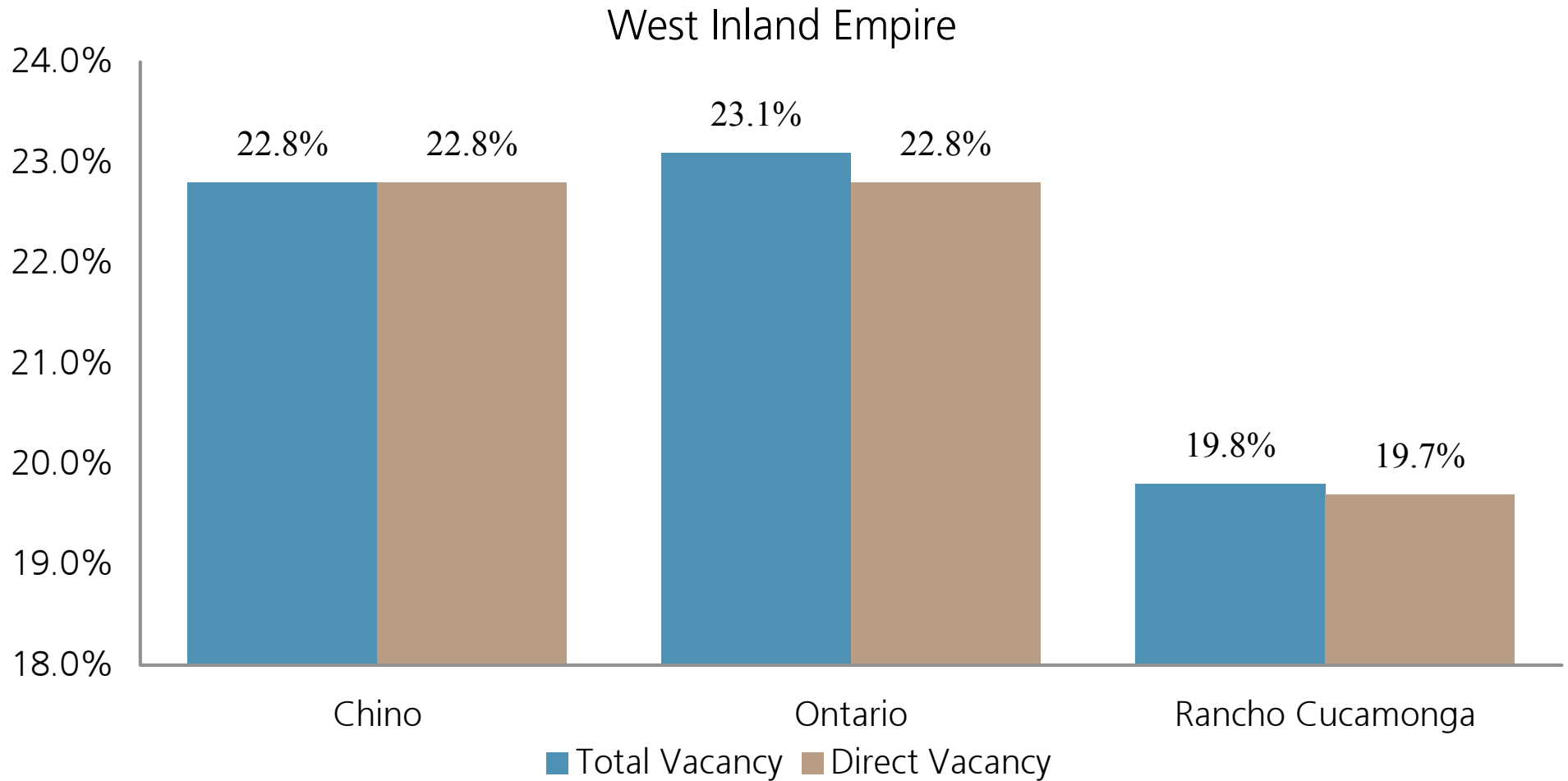
West Inland Empire Office Data – 3Q 2011 Summary



Source: CBRE



West Inland Empire Office Data – 3Q 2011 Vacancy Summary

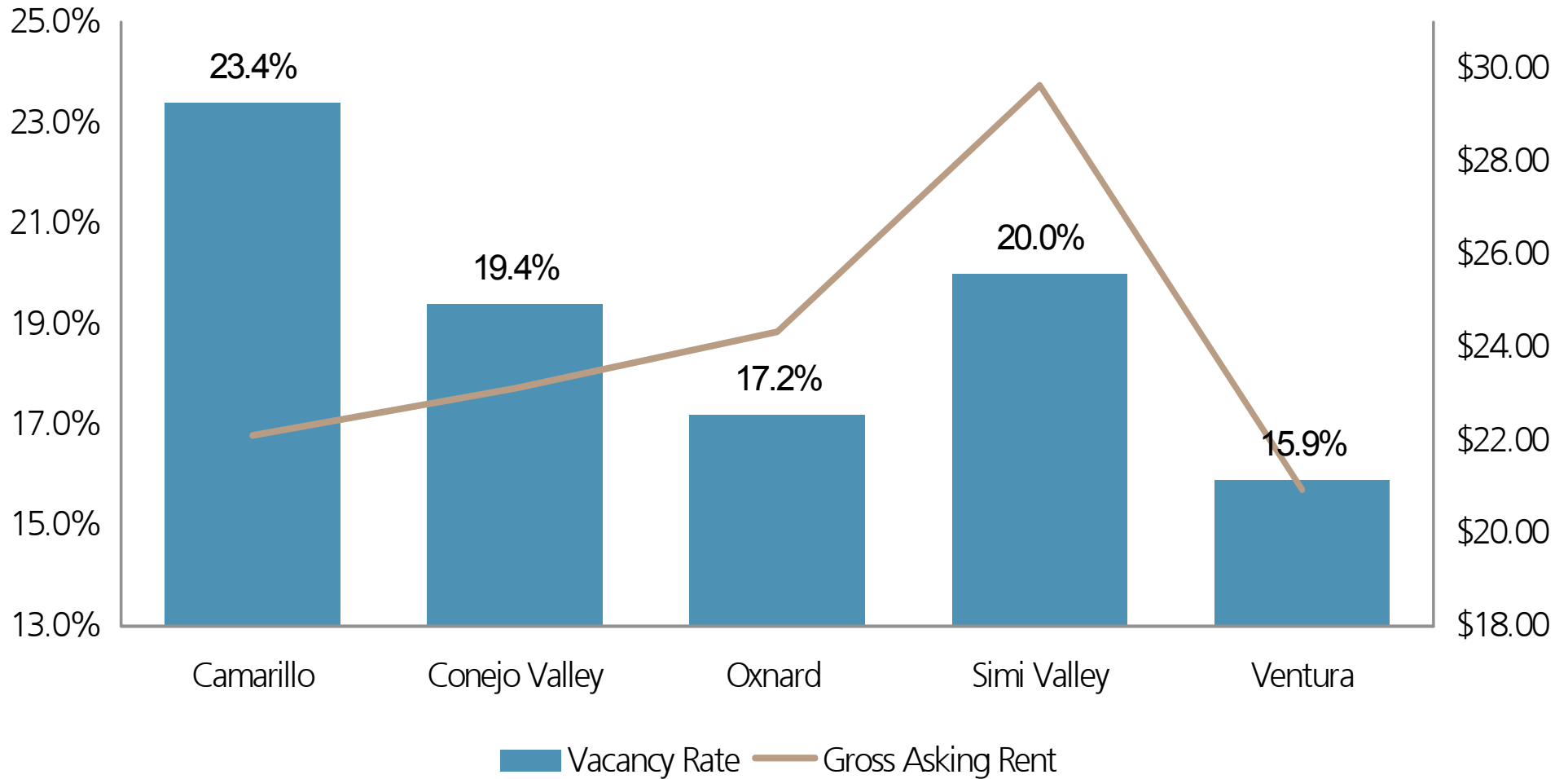


Source: CBRE



Ventura County Office Data

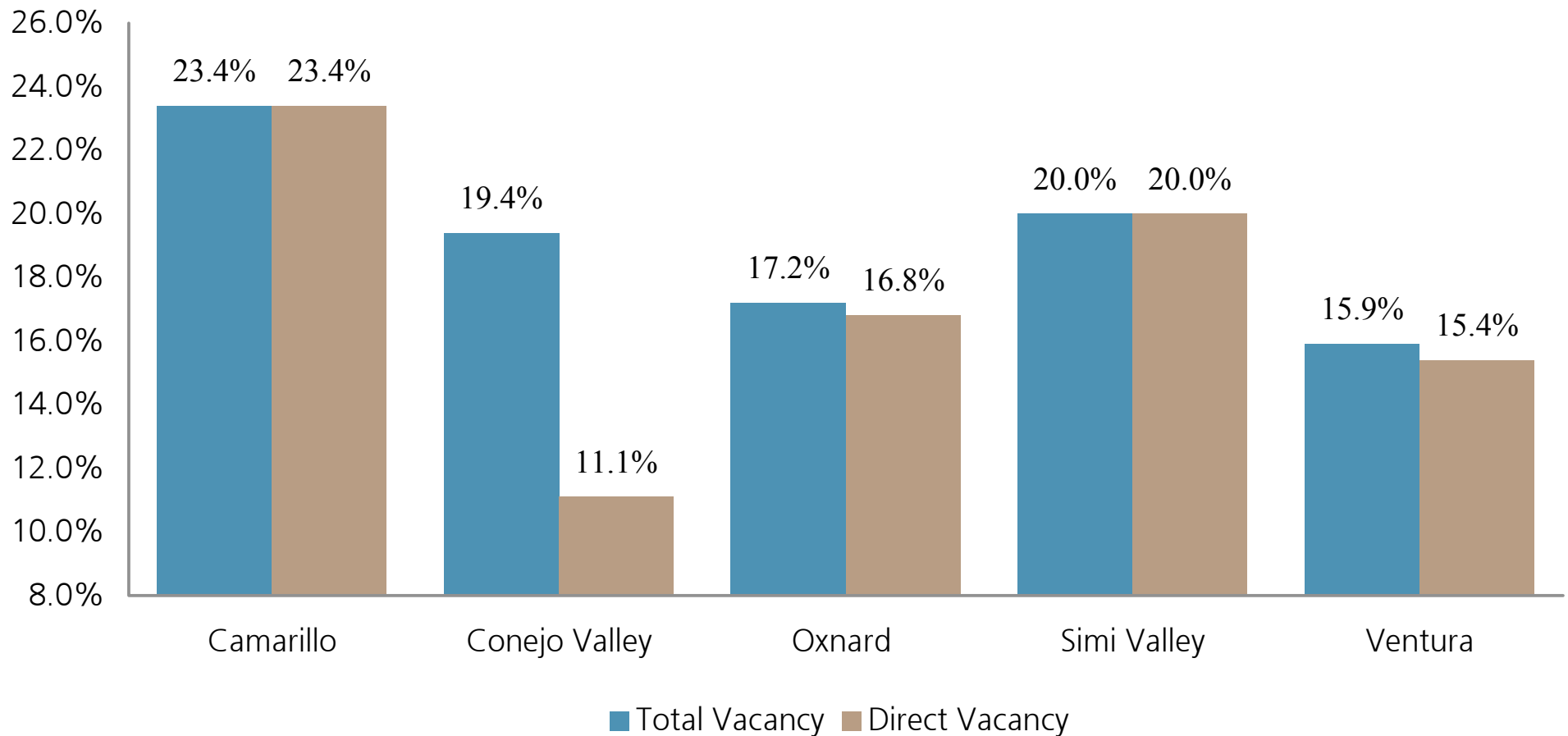
Ventura County Office Data – 3Q 2011 Summary



Source: CBRE



Ventura County Office Data – 3Q 2011 Vacancy Summary

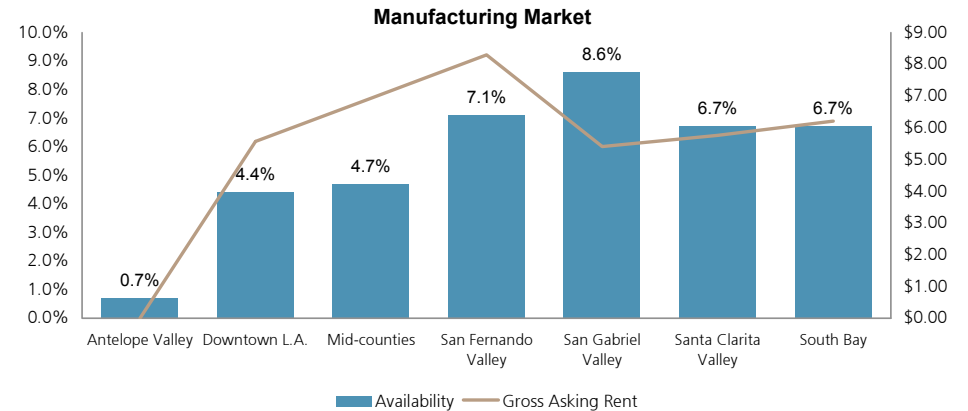
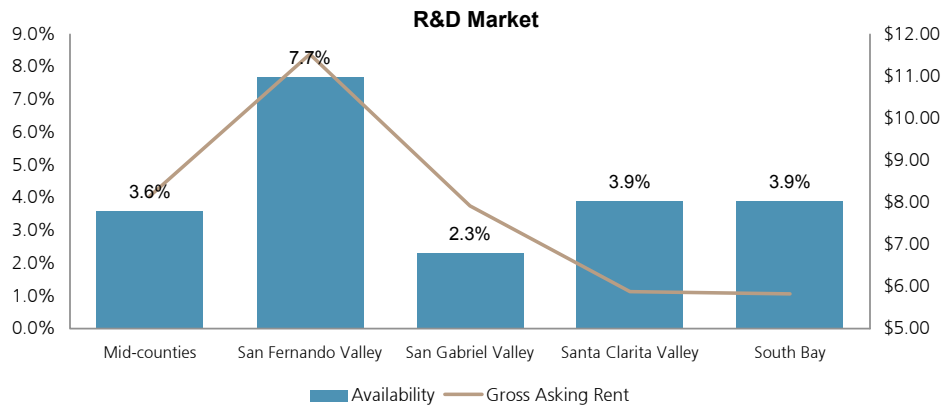
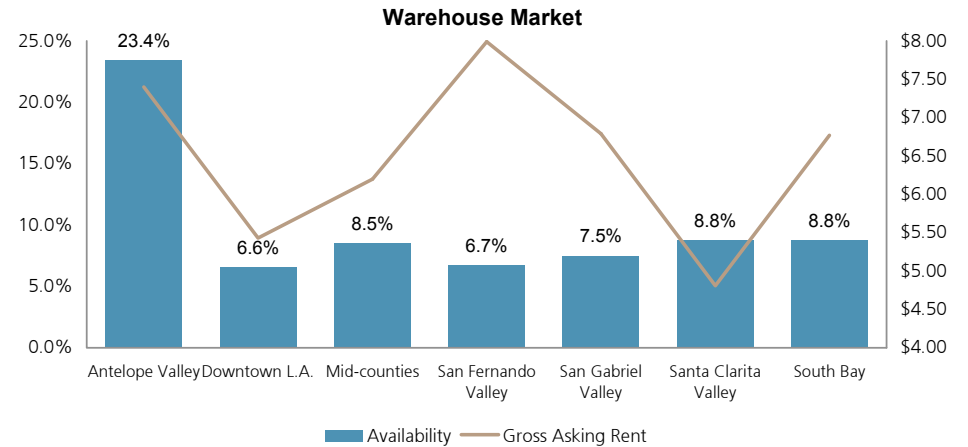
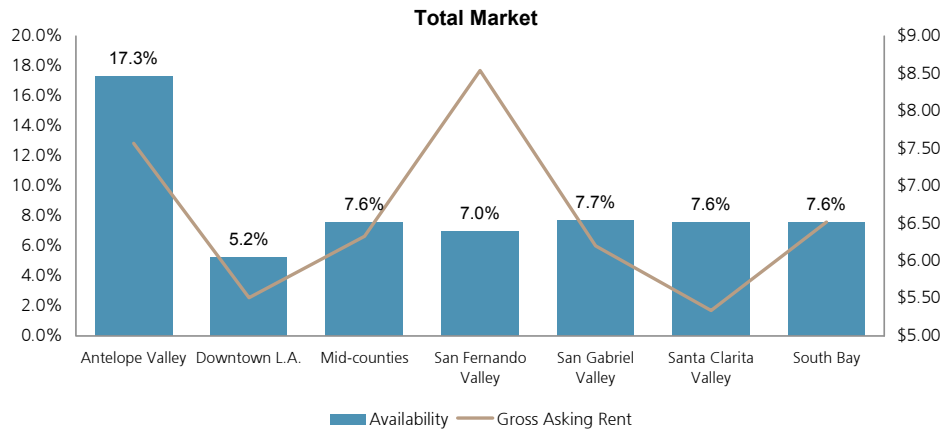


Source: CBRE



Los Angeles County Industrial Data

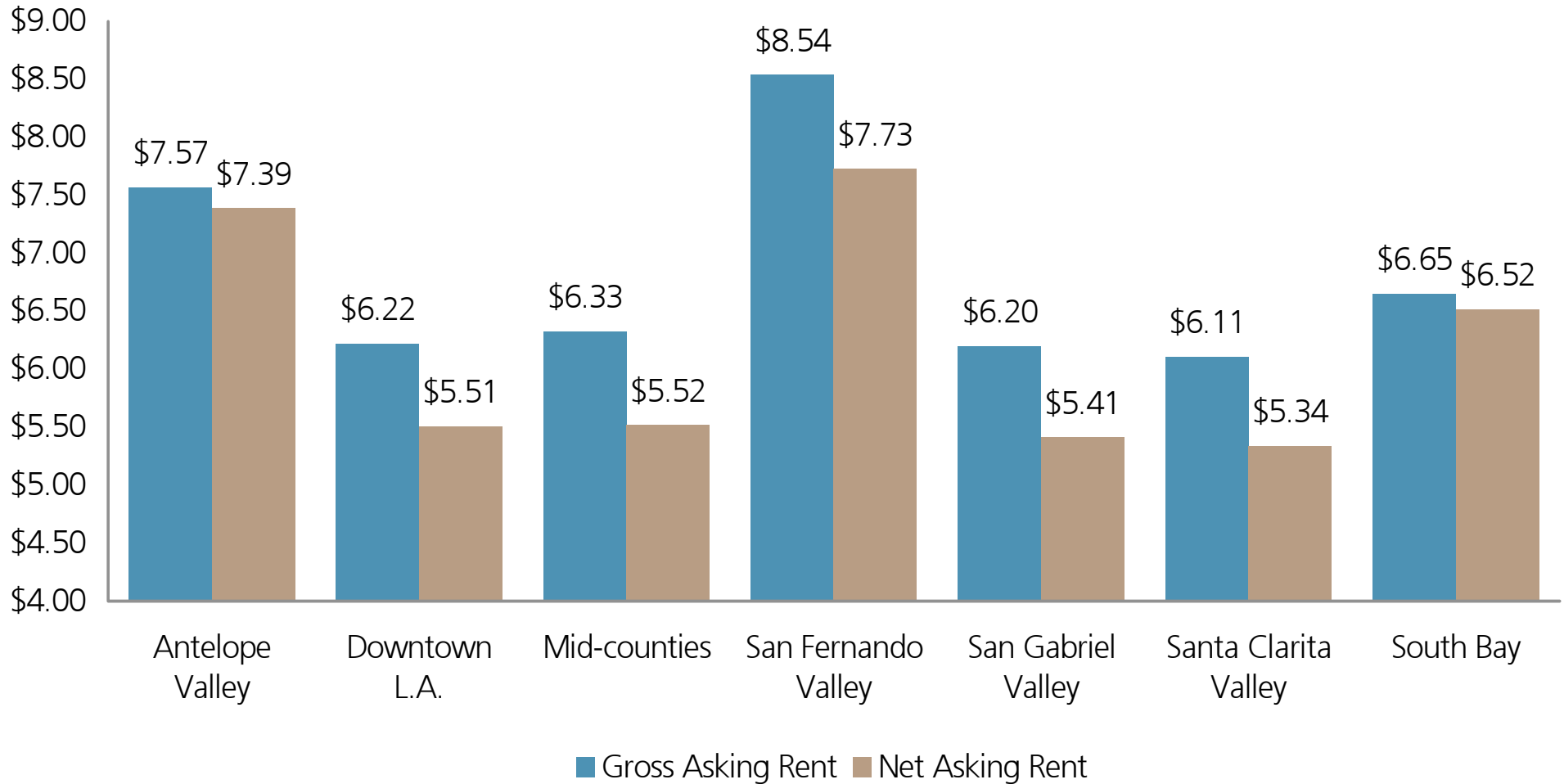
Los Angeles County Industrial Data – 3Q 2011



Source: CBRE



Los Angeles County Industrial Data – 3Q 2011 Rent Summary

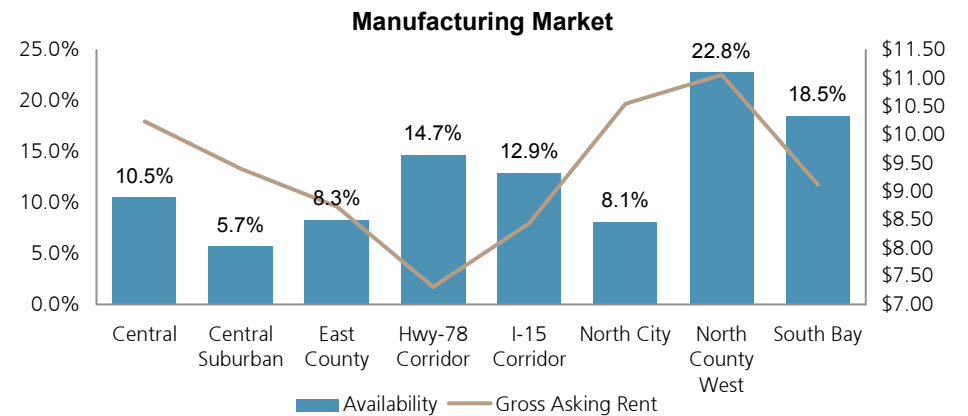
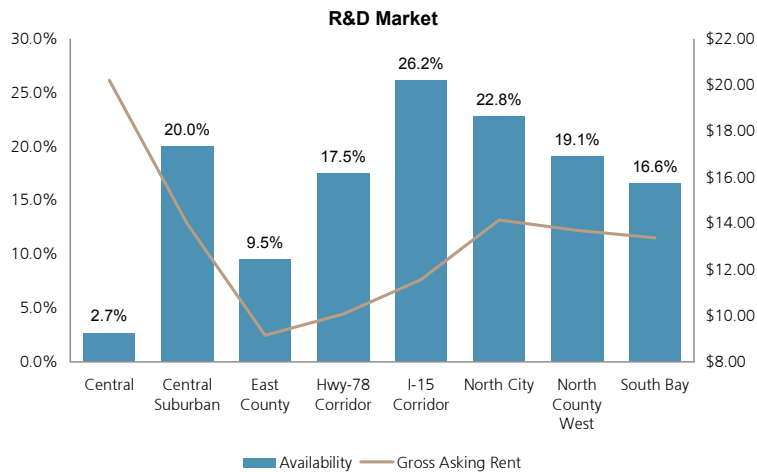
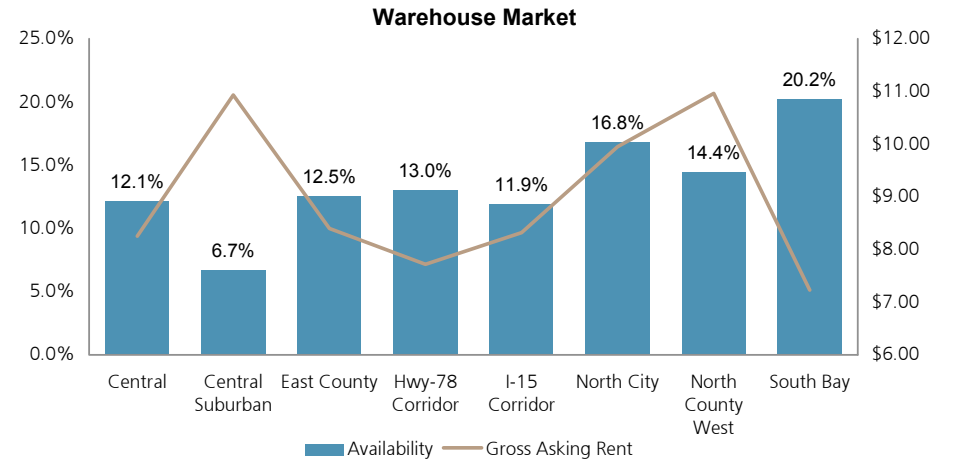
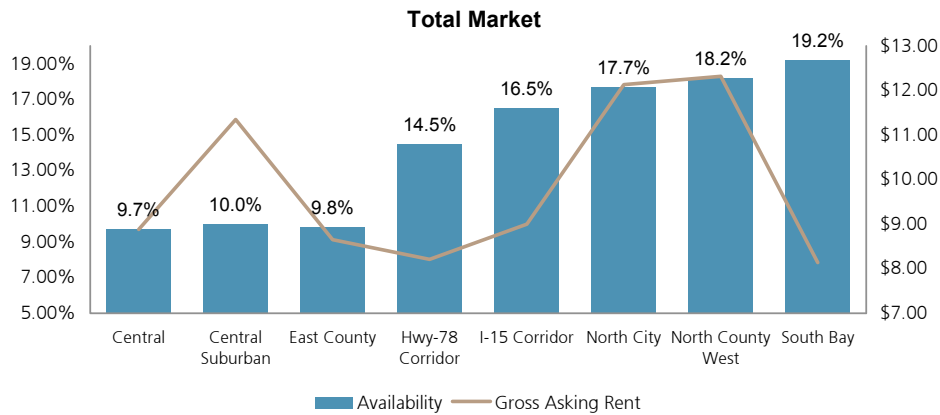


Source: CBRE



San Diego County Industrial Data

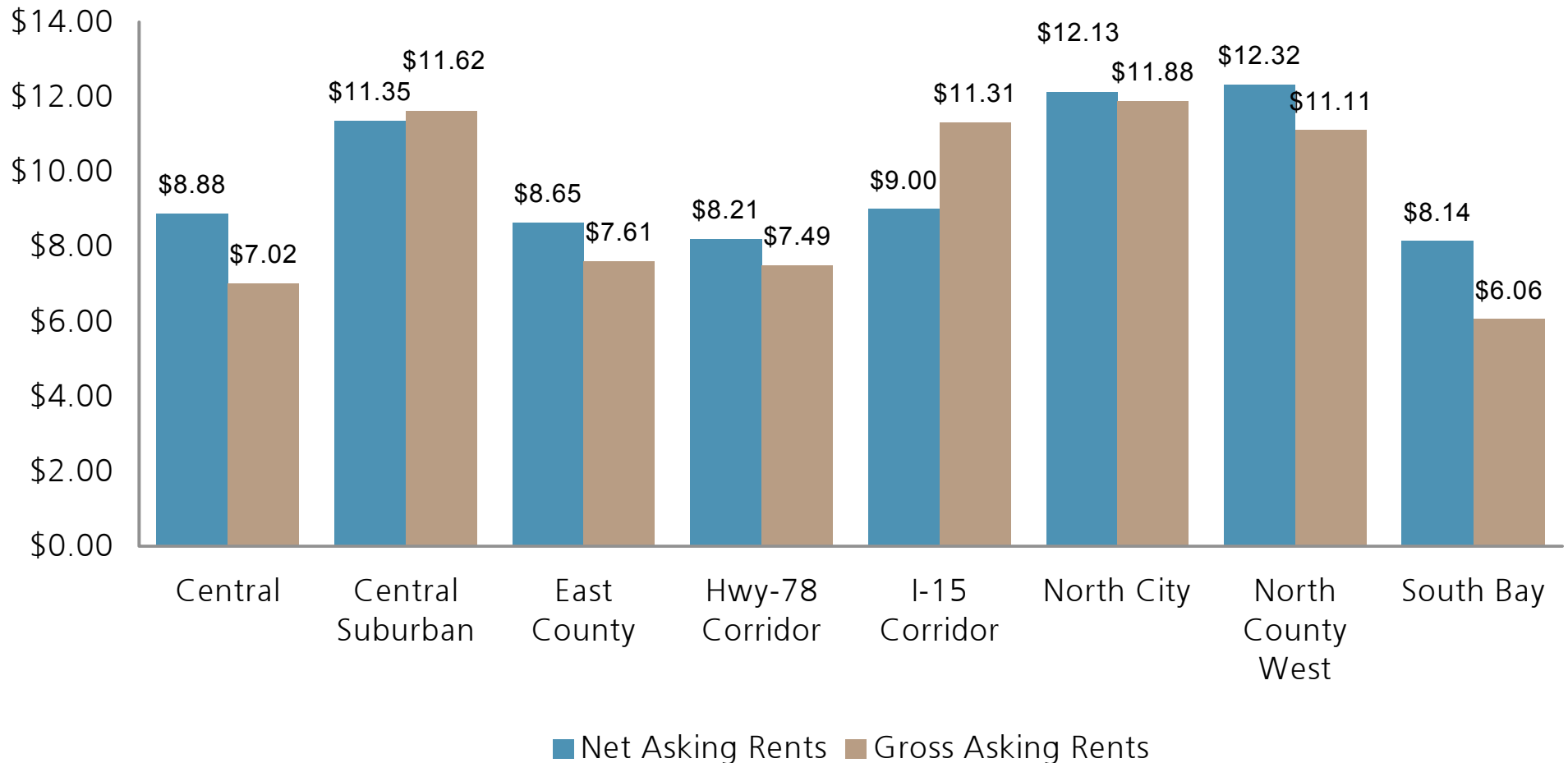
San Diego Industrial Data – 3Q 2011



Source: CBRE



San Diego County Industrial Data – 3Q 2011 Rent Summary

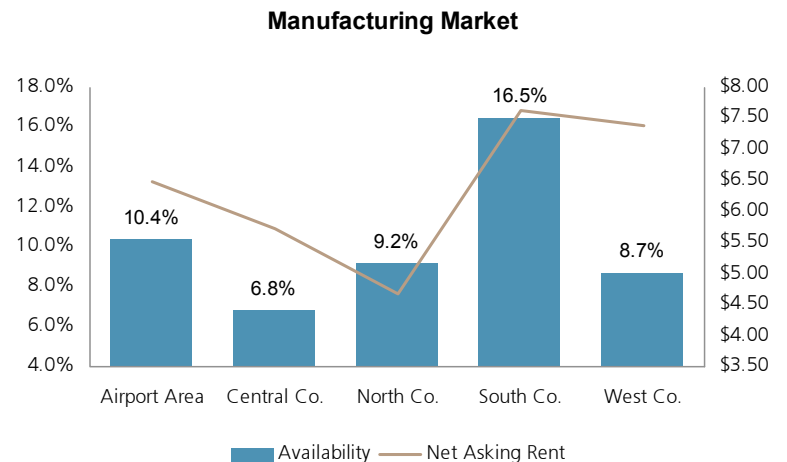
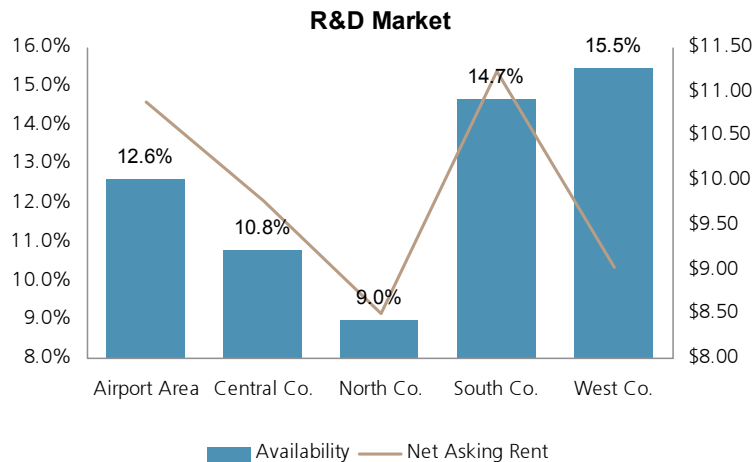
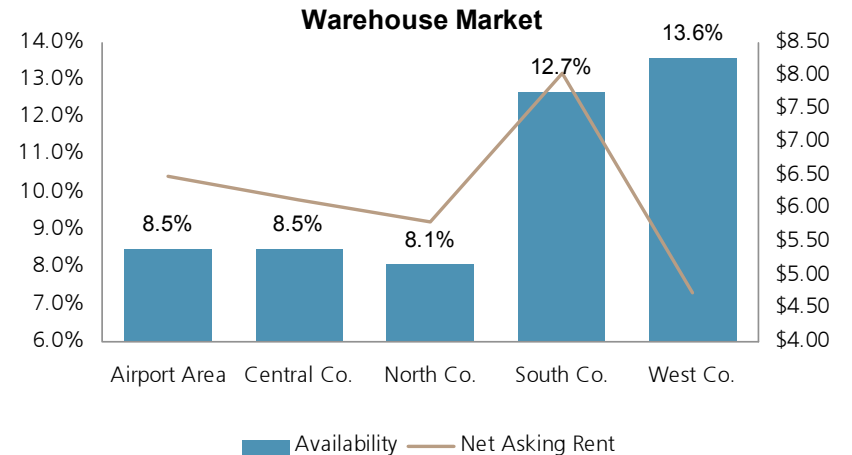
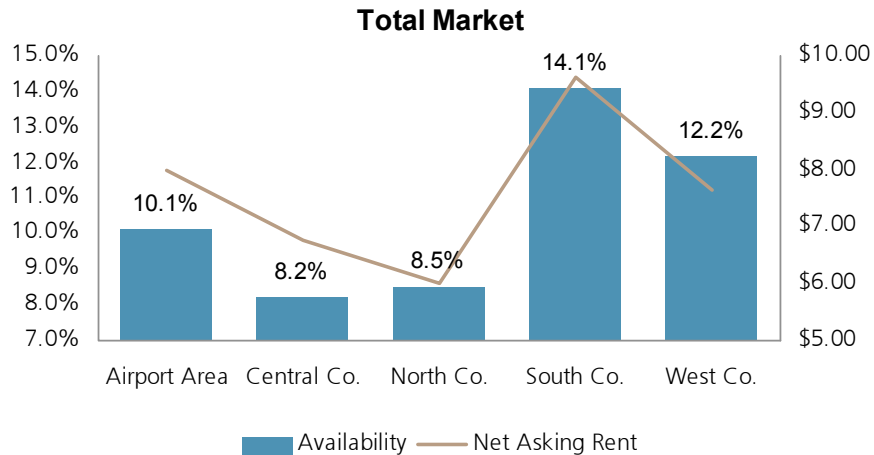


Source: CBRE



Orange County Industrial Data

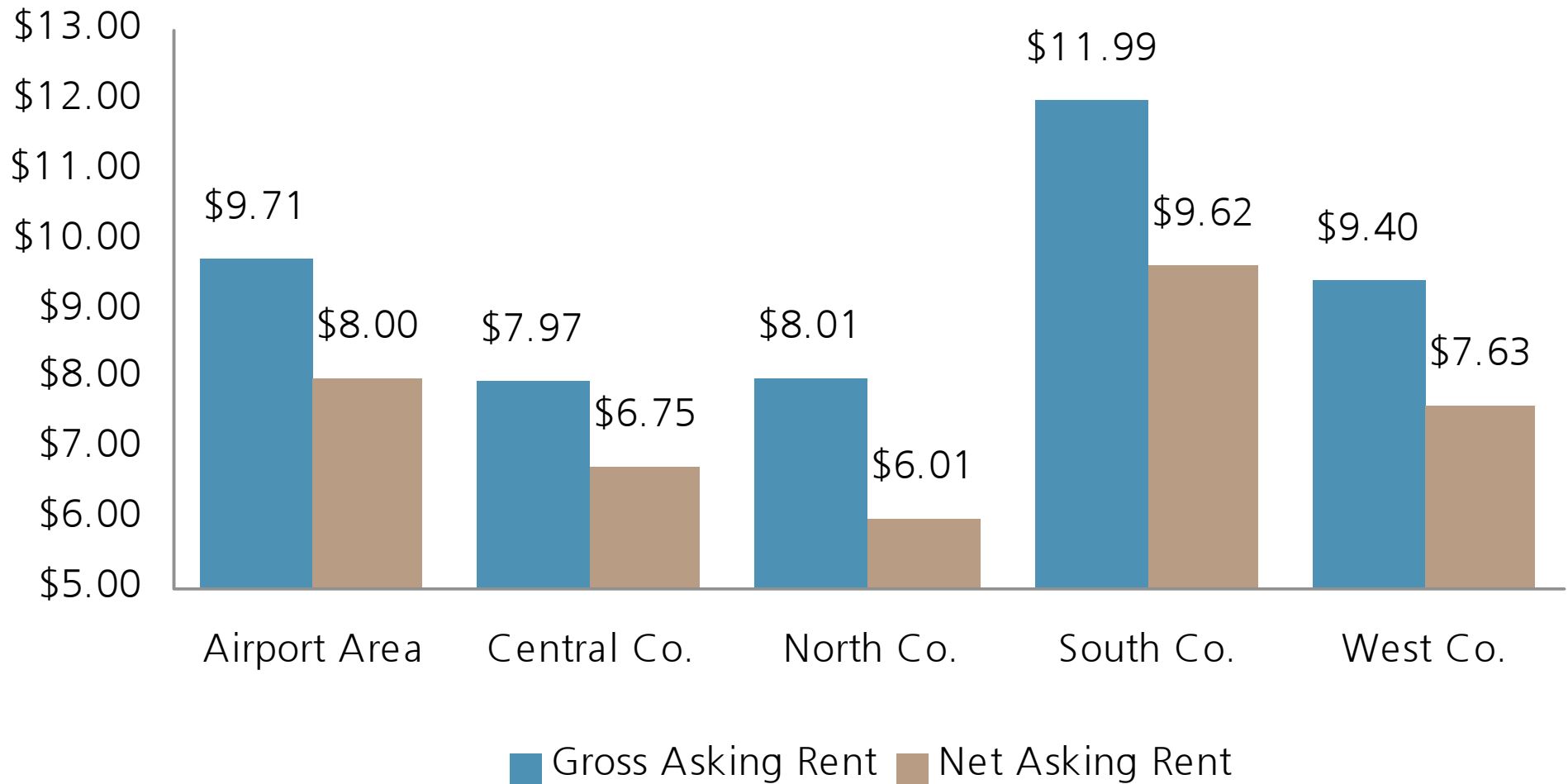
Orange County Industrial Data – 3Q 2011



Source: CBRE



Orange County Industrial Data – 3Q 2011 Rent Summary

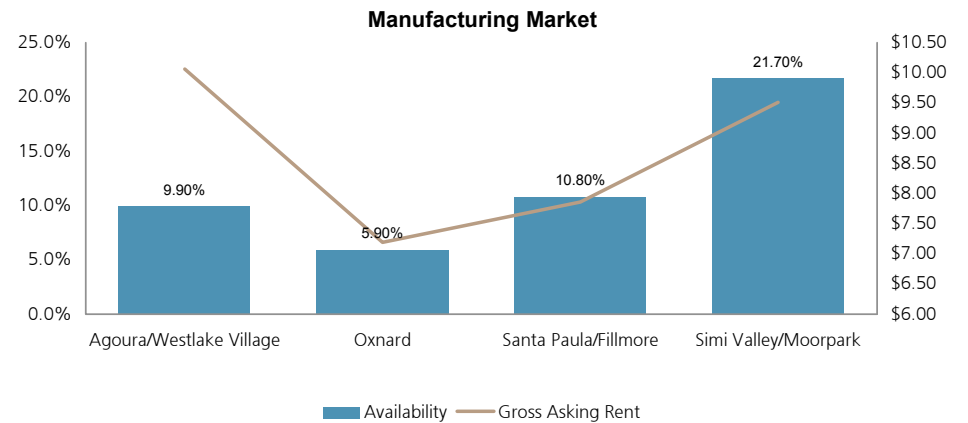
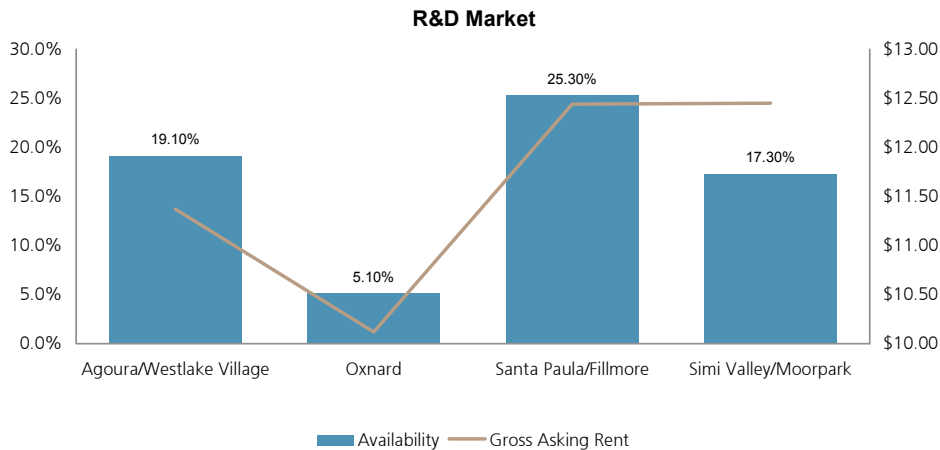
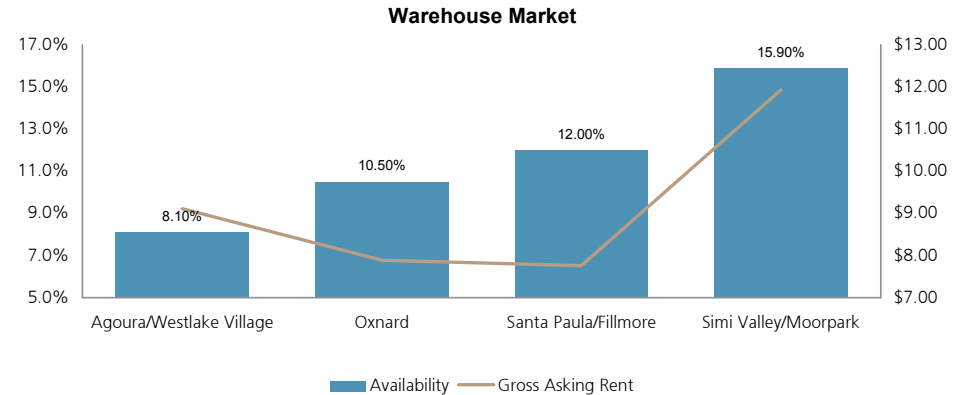
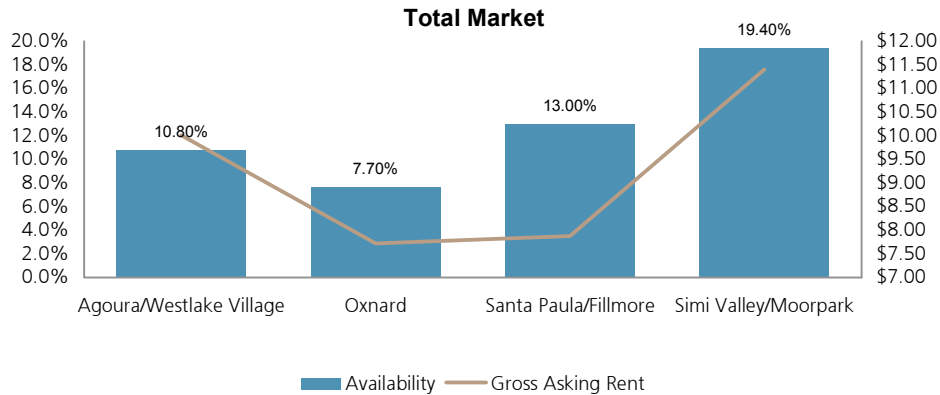


Source: CBRE



Ventura County Industrial Data

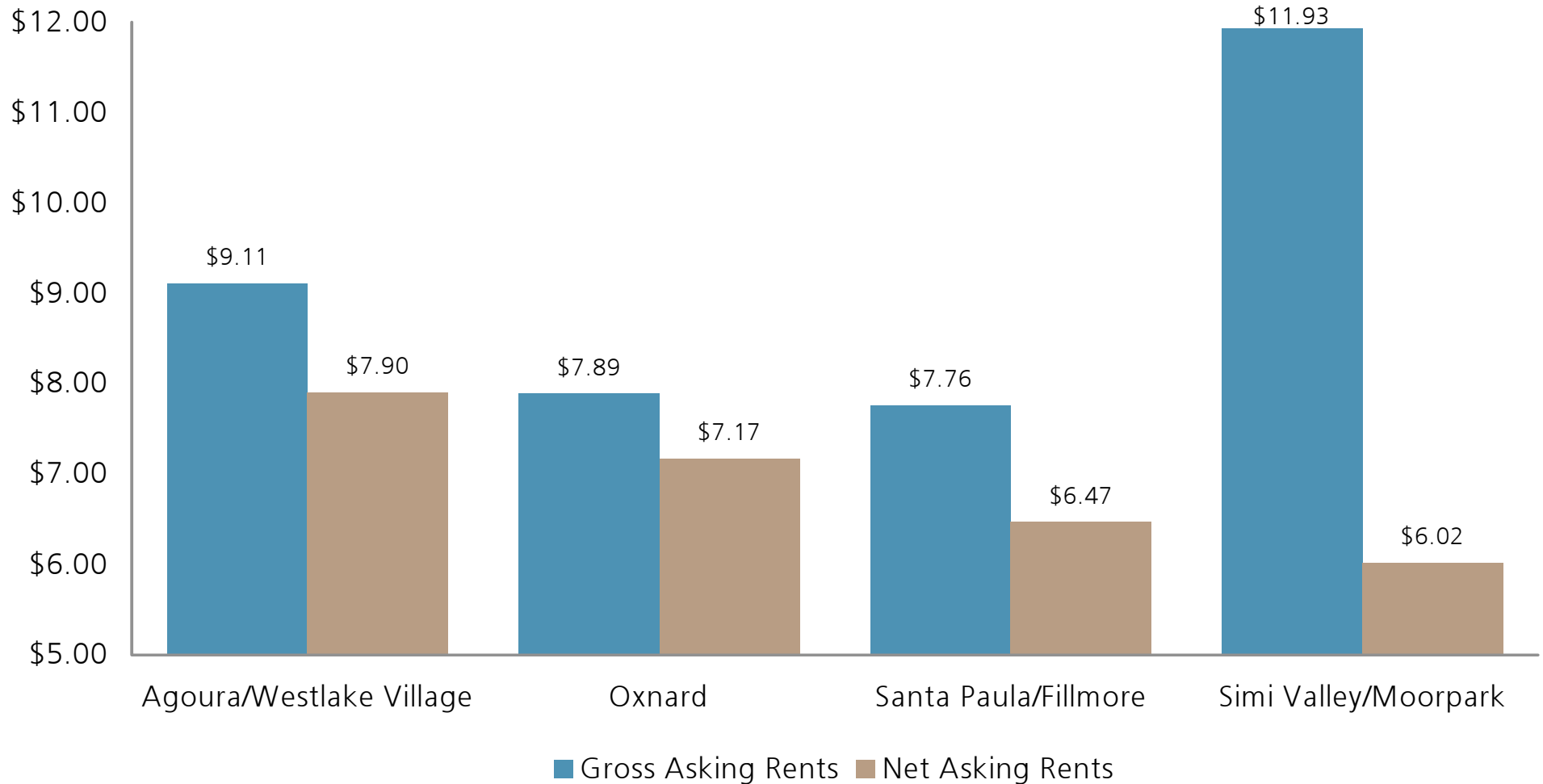
Ventura County Industrial Data – 3Q 2011



Source: CBRE



Ventura County Industrial Data – 3Q 2011 Rent Summary

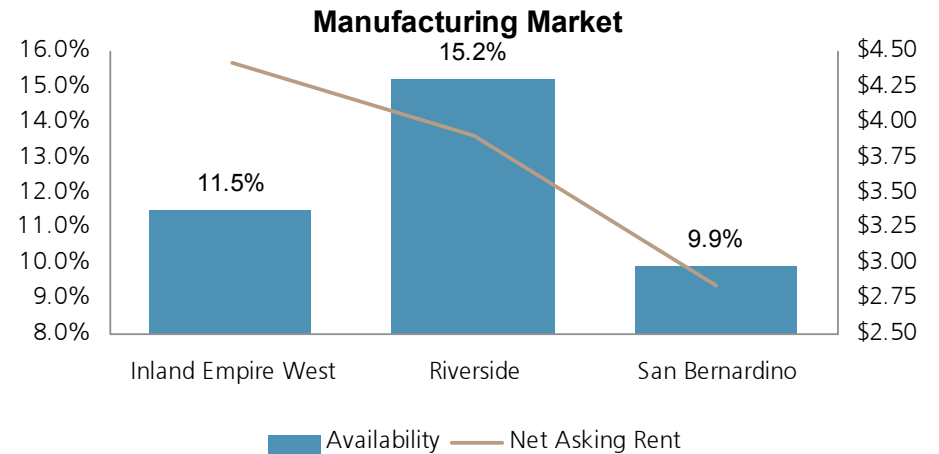
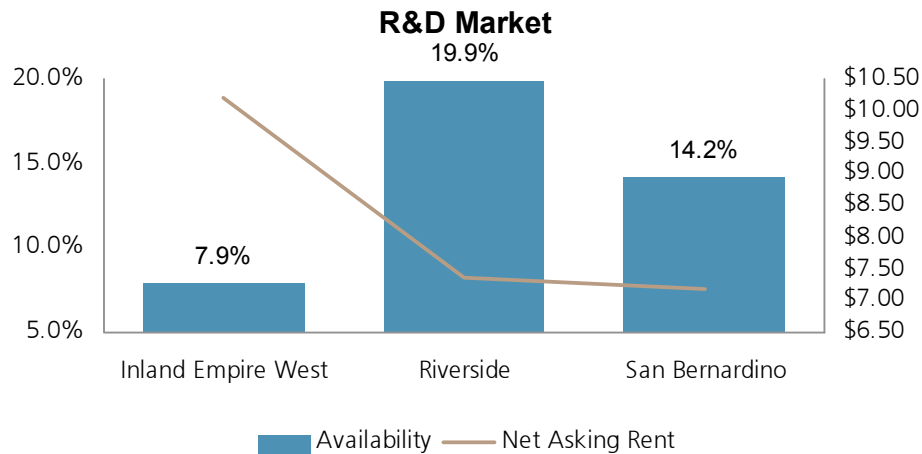
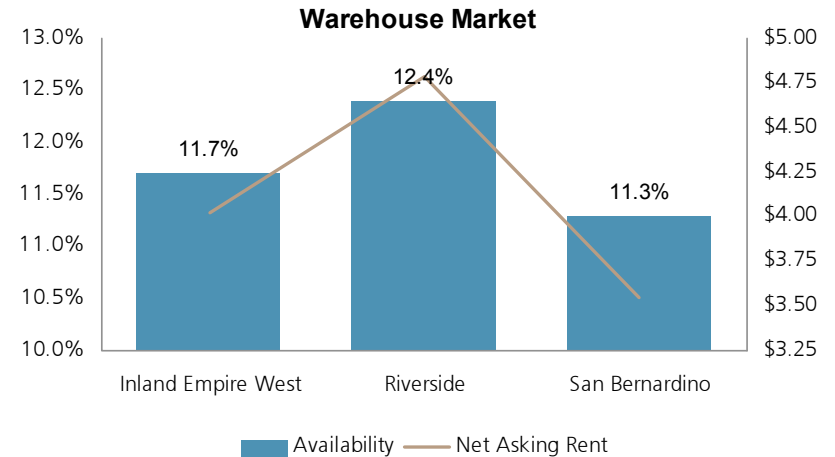
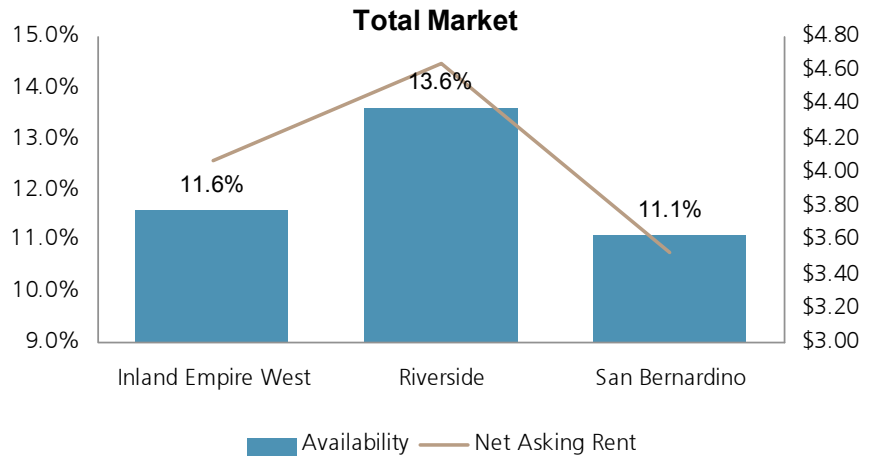


Source: CBRE



Inland Empire Industrial Data

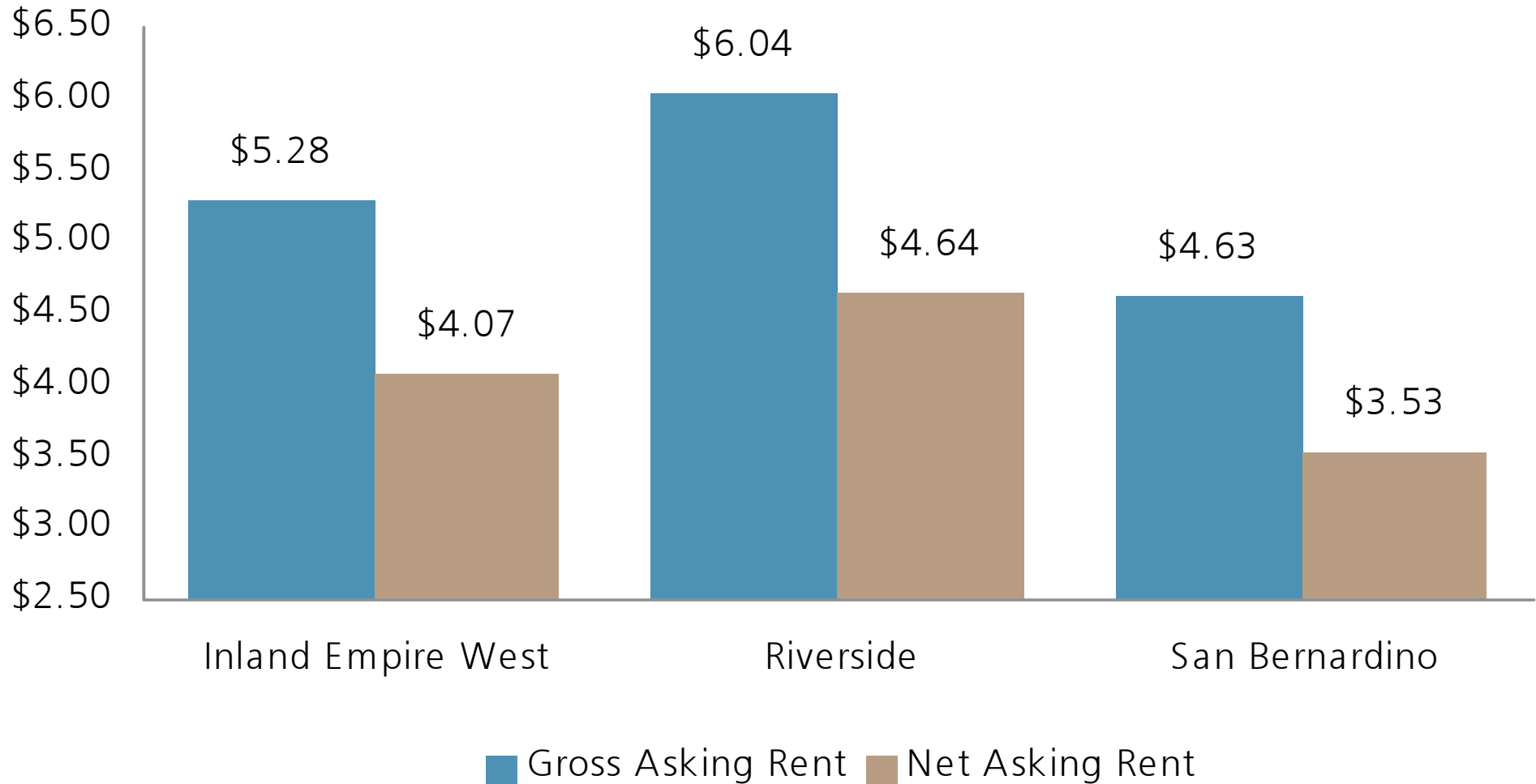
Inland Empire Industrial Data – 3Q 2011



Source: CBRE



Inland Empire Industrial Data – 3Q 2011 Rent Summary

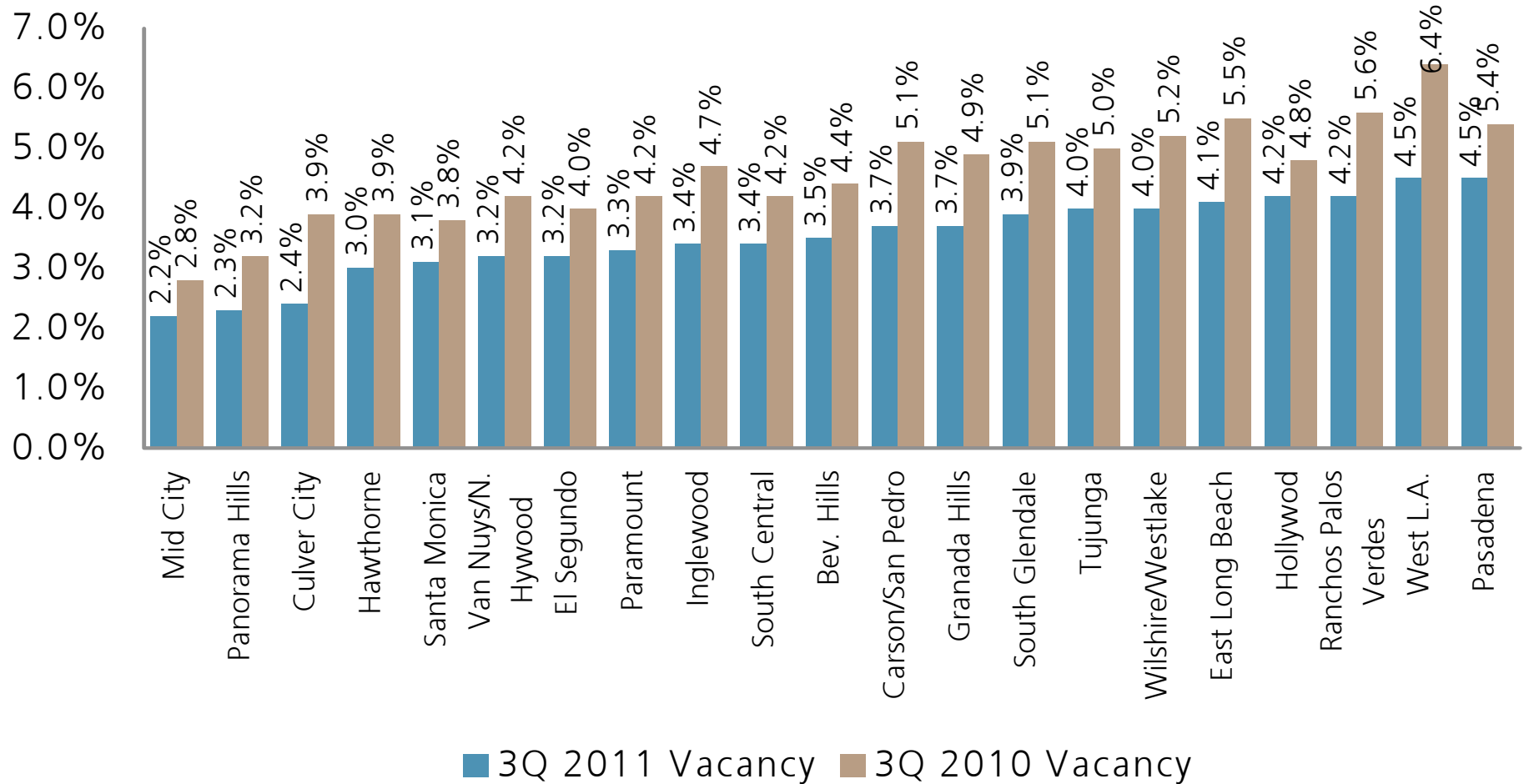


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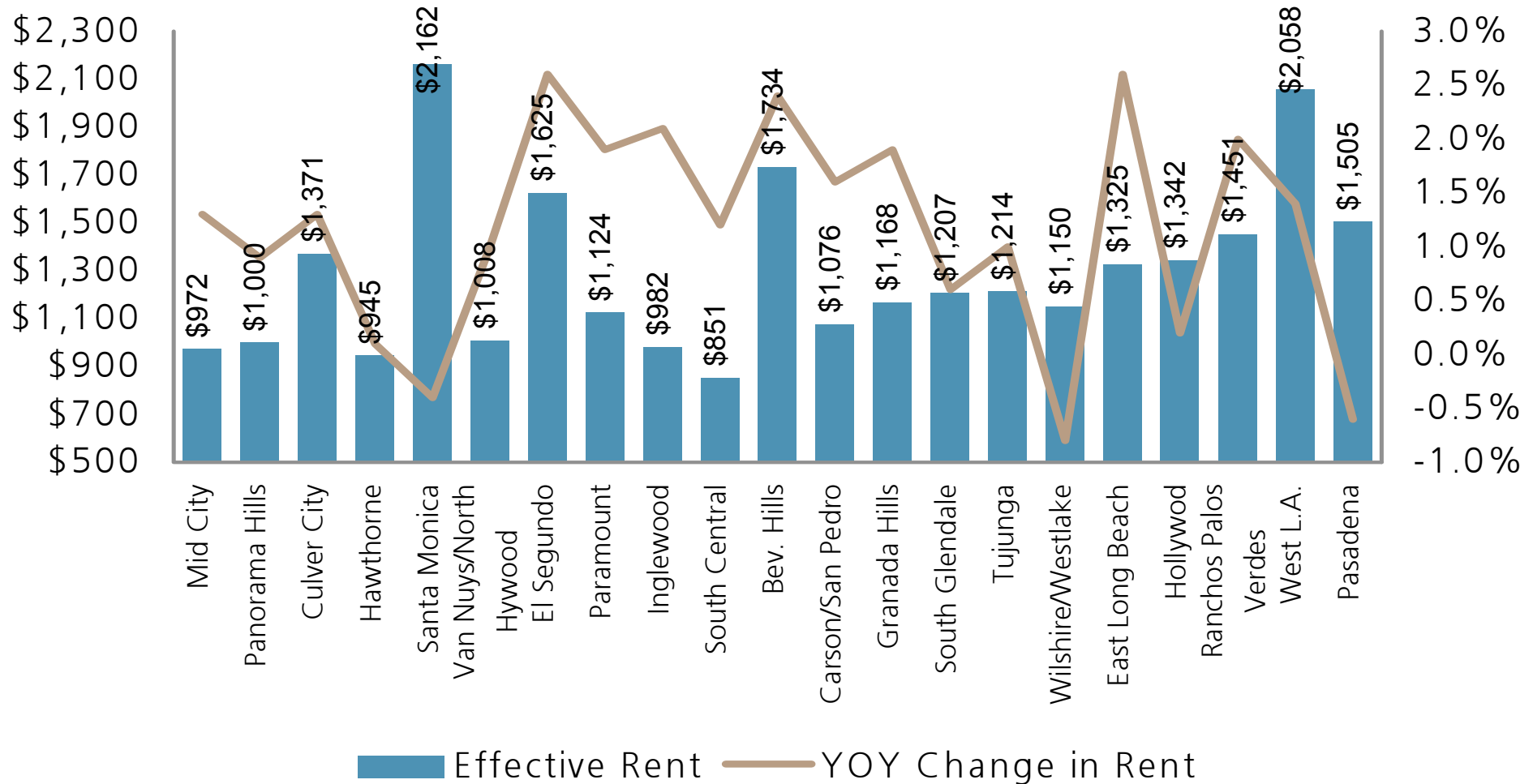
Los Angeles County Multifamily Data

L.A. County Multifamily Data – 3Q 2011 Vacancy Summary



Source: Marcus & Miichap

L.A. County Multifamily Data – 3Q 2011 Rent Summary

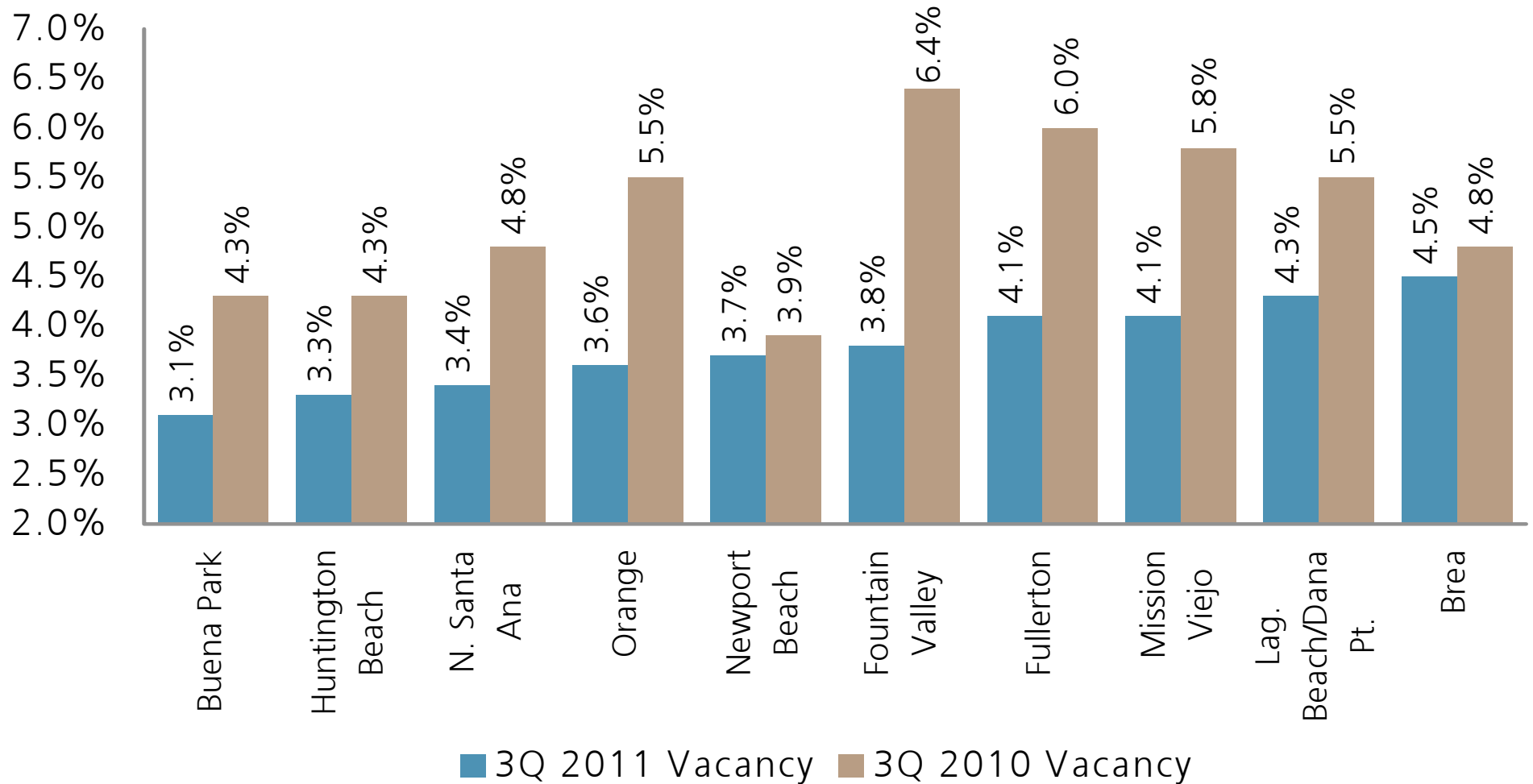


Source: Marcus & Miichap



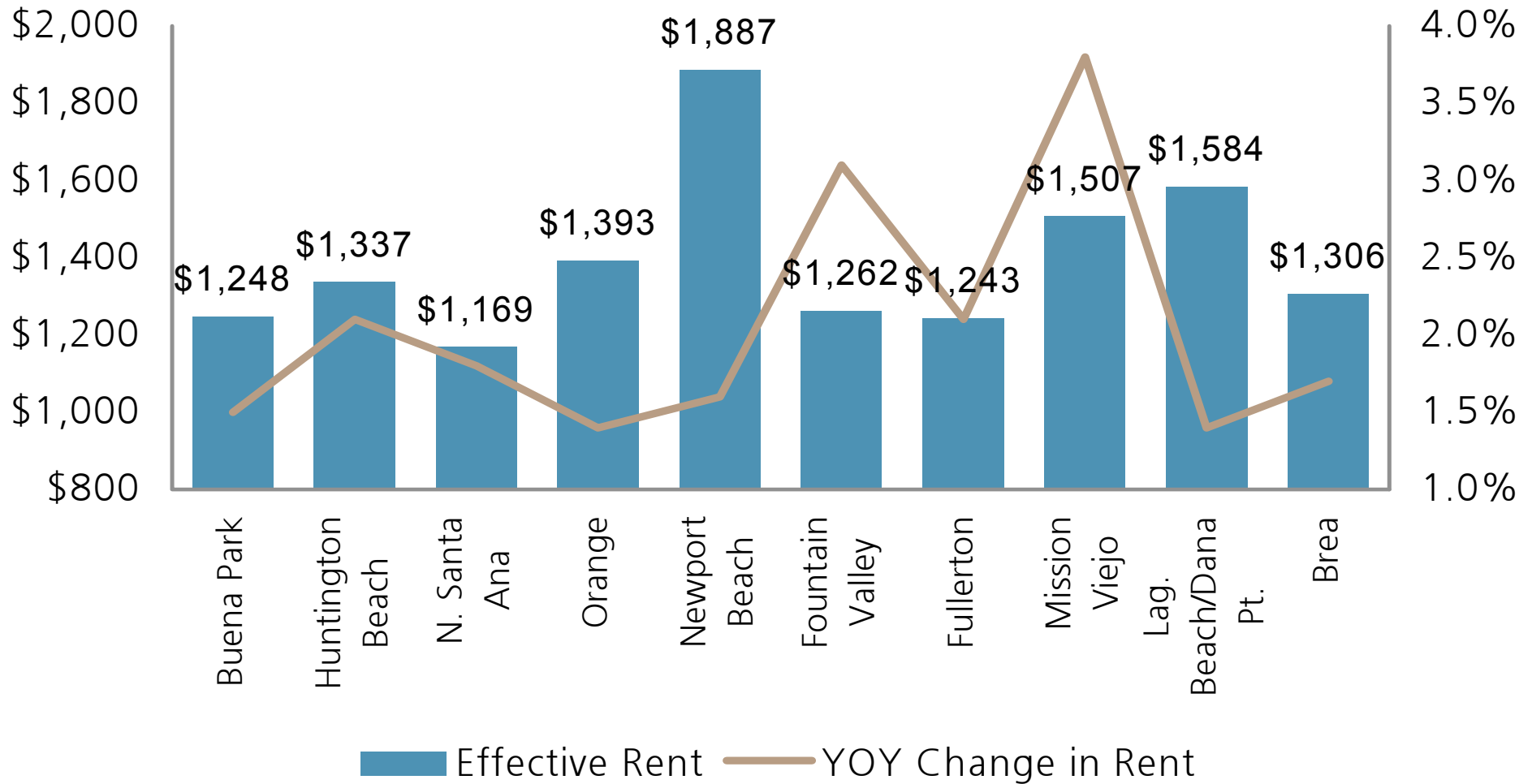
Orange County Multifamily Data

Orange County Multifamily Data – 3Q 2011 Vacancy Summary



Source: Marcus & Miichap

Orange County Multifamily Data – 3Q 2011 Rent Summary

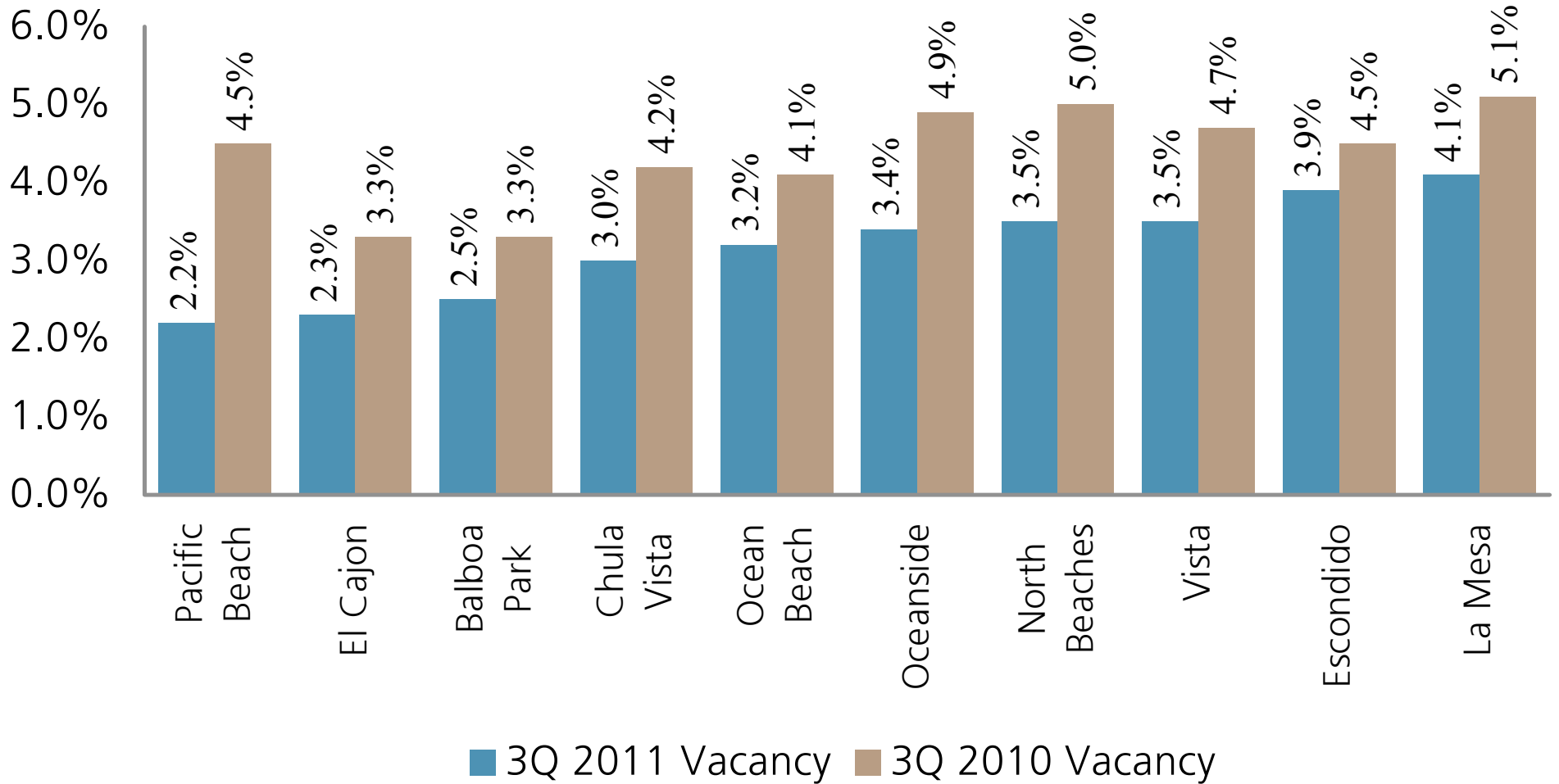


Source: Marcus & Miichap



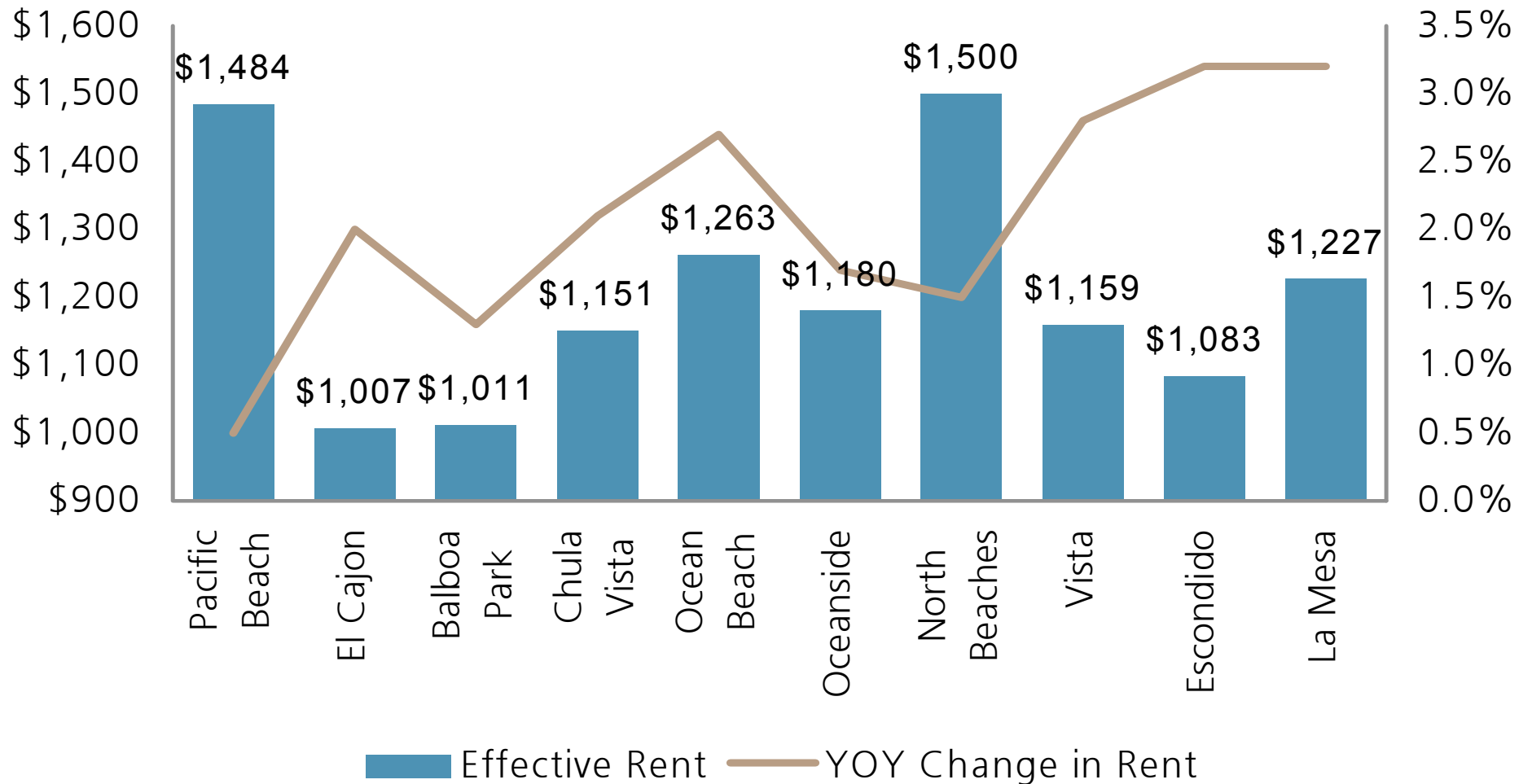
San Diego County Multifamily Data

San Diego County Multifamily Data – 3Q 2011 Vacancy Summary



Source: Marcus & Miichap

San Diego County Multifamily Data – 3Q 2011 Rent Summary

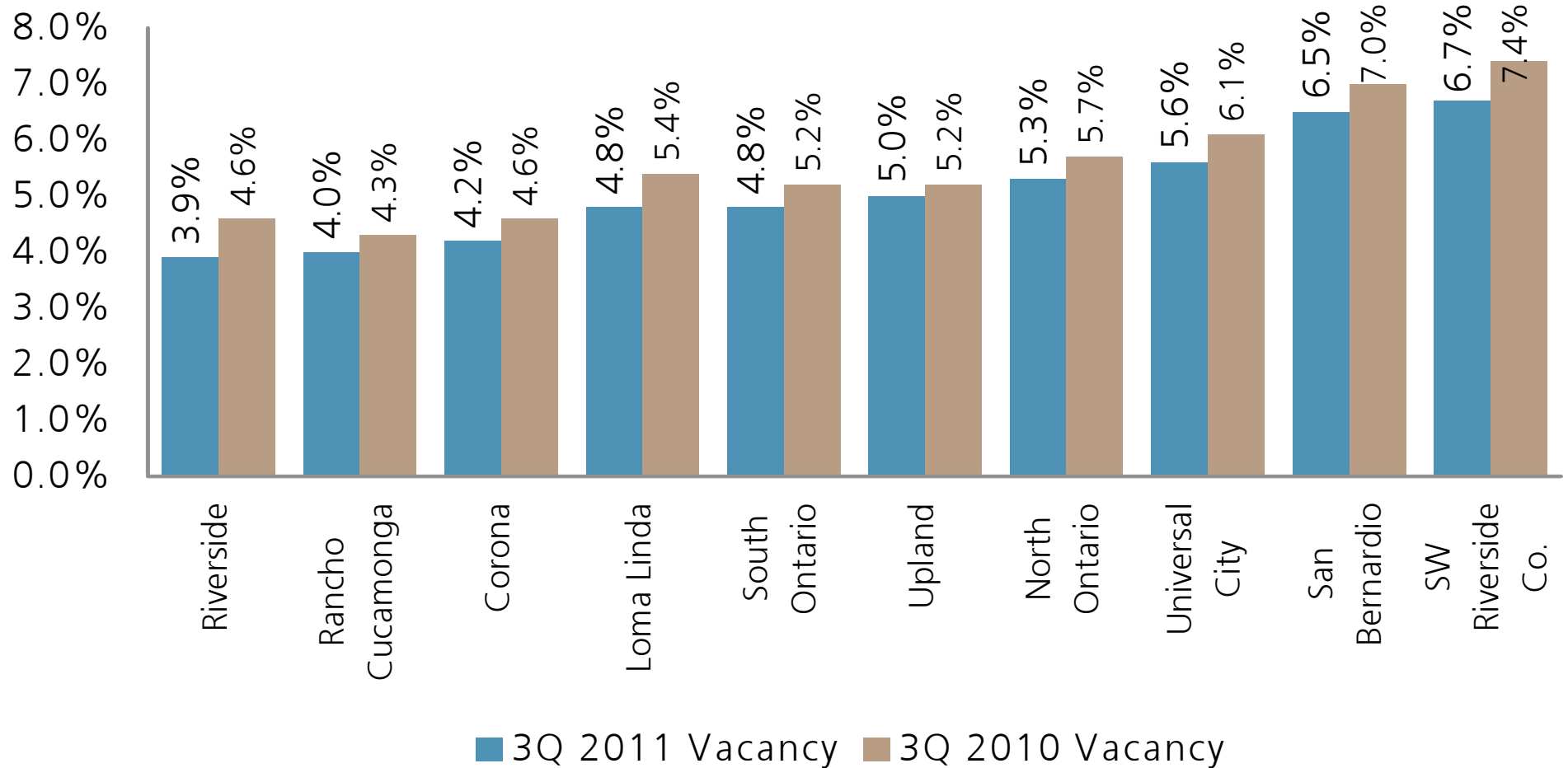


Source: Marcus & Miichap



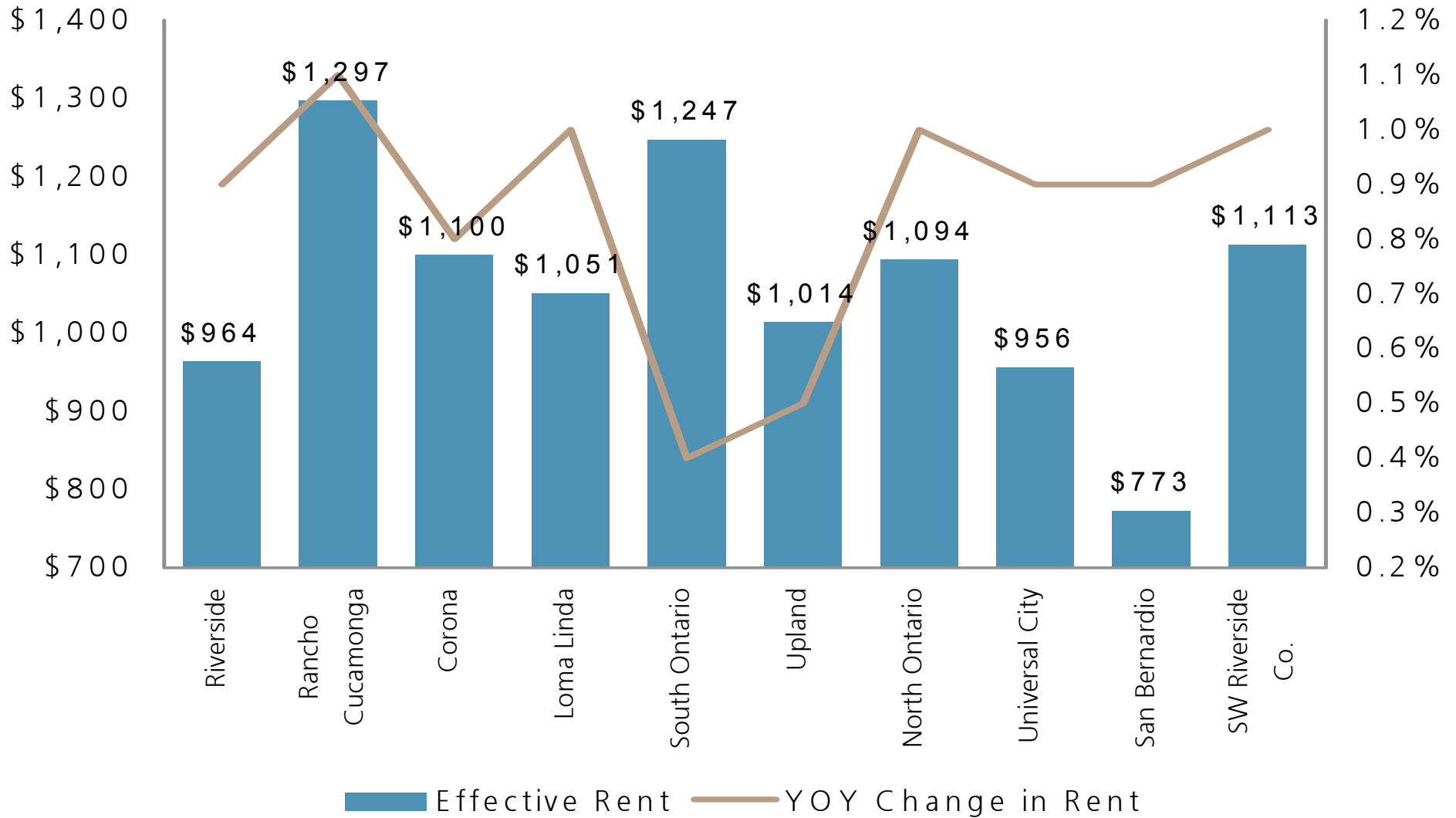
Inland Empire Multifamily Data

Inland Empire Multifamily Data – 3Q 2011 Vacancy Summary



Source: Marcus & Miichap

Inland Empire Multifamily Data – 3Q 2011 Rent Summary

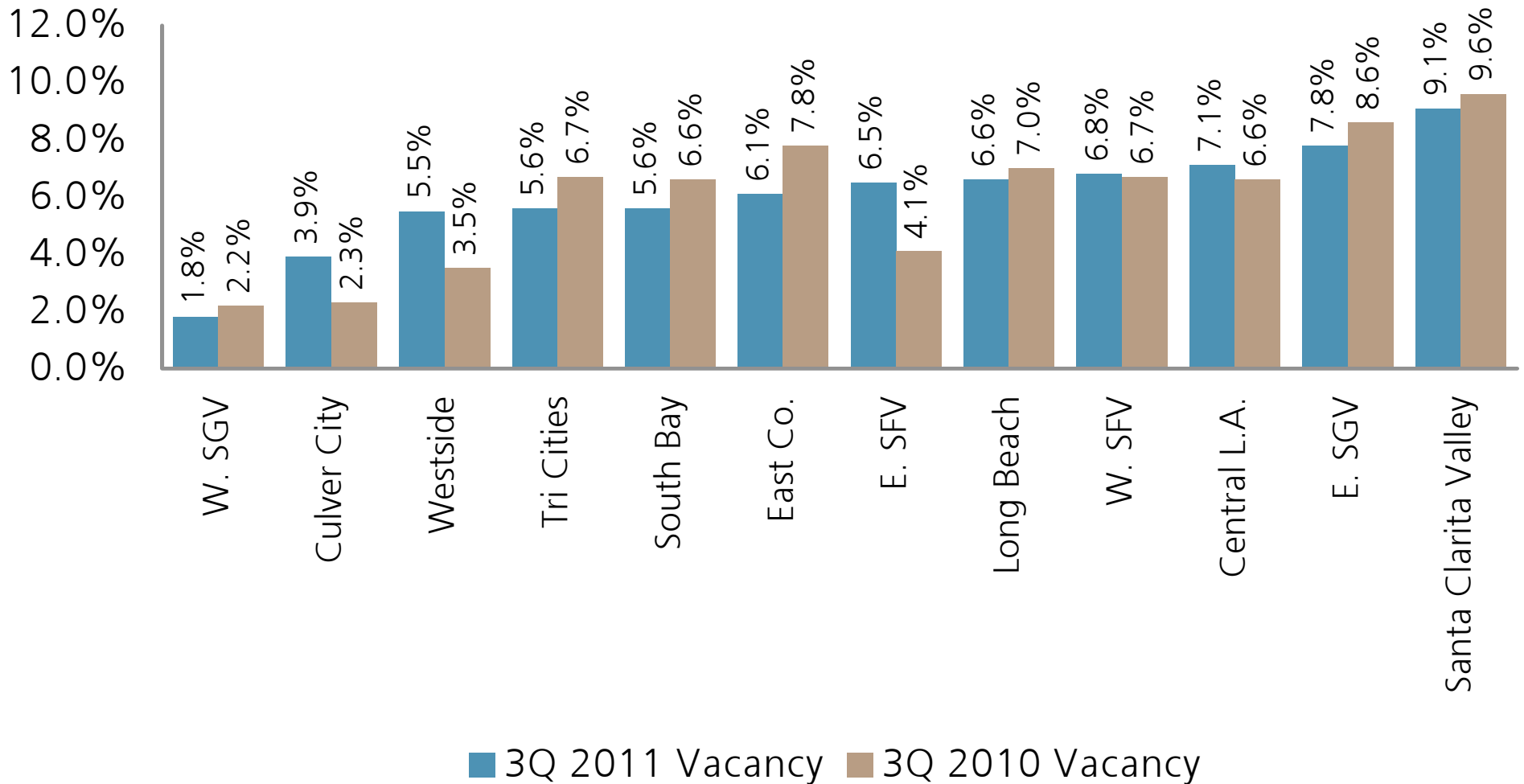


Source: Marcus & Miichap



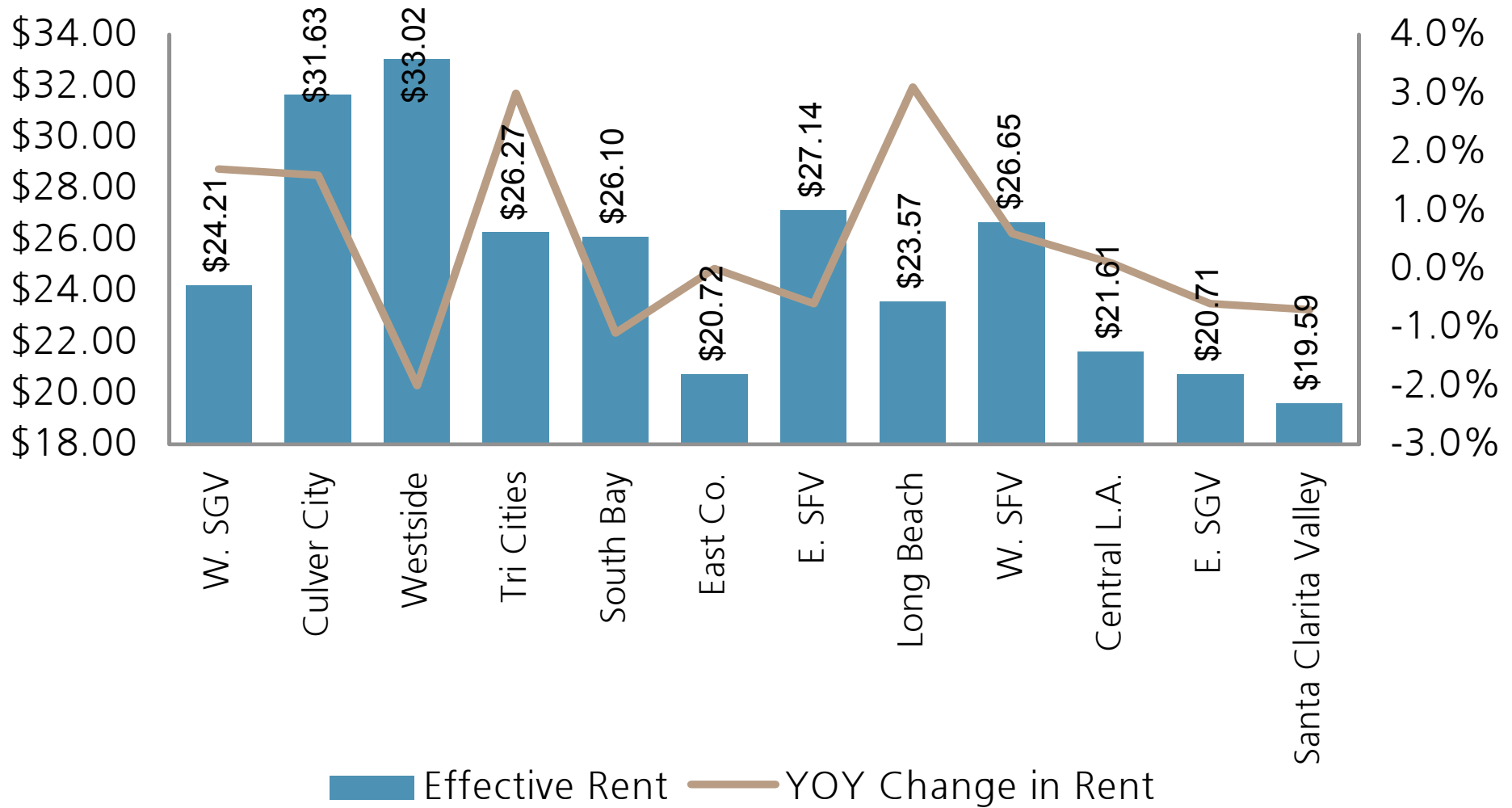
Los Angeles County Retail Data

Los Angeles County Retail Data – 3Q 2011 Vacancy Summary



Source: Marcus & Miichap

Los Angeles County Retail Data – 3Q 2011 Rent Summary

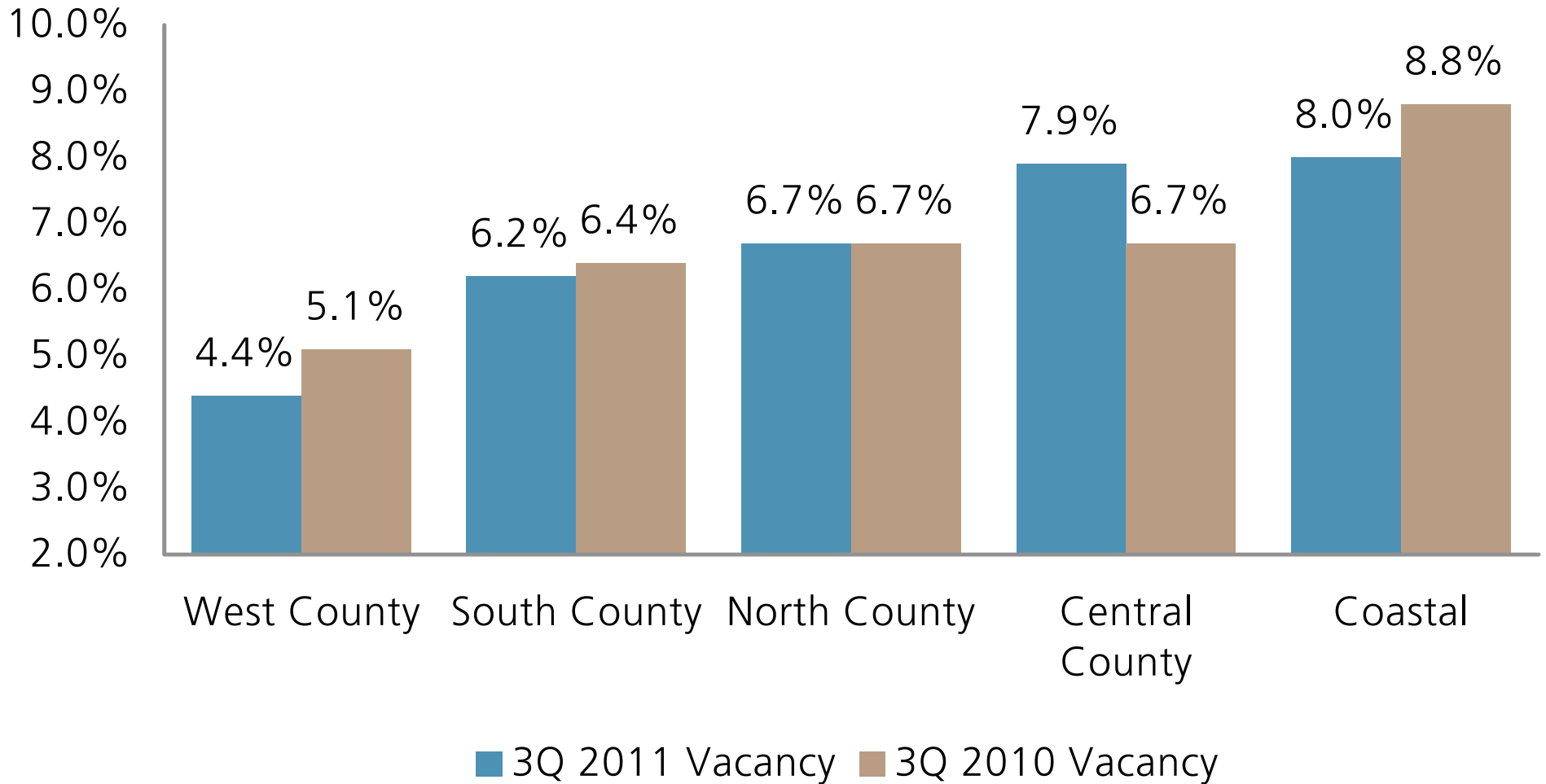


Source: Marcus & Miichap



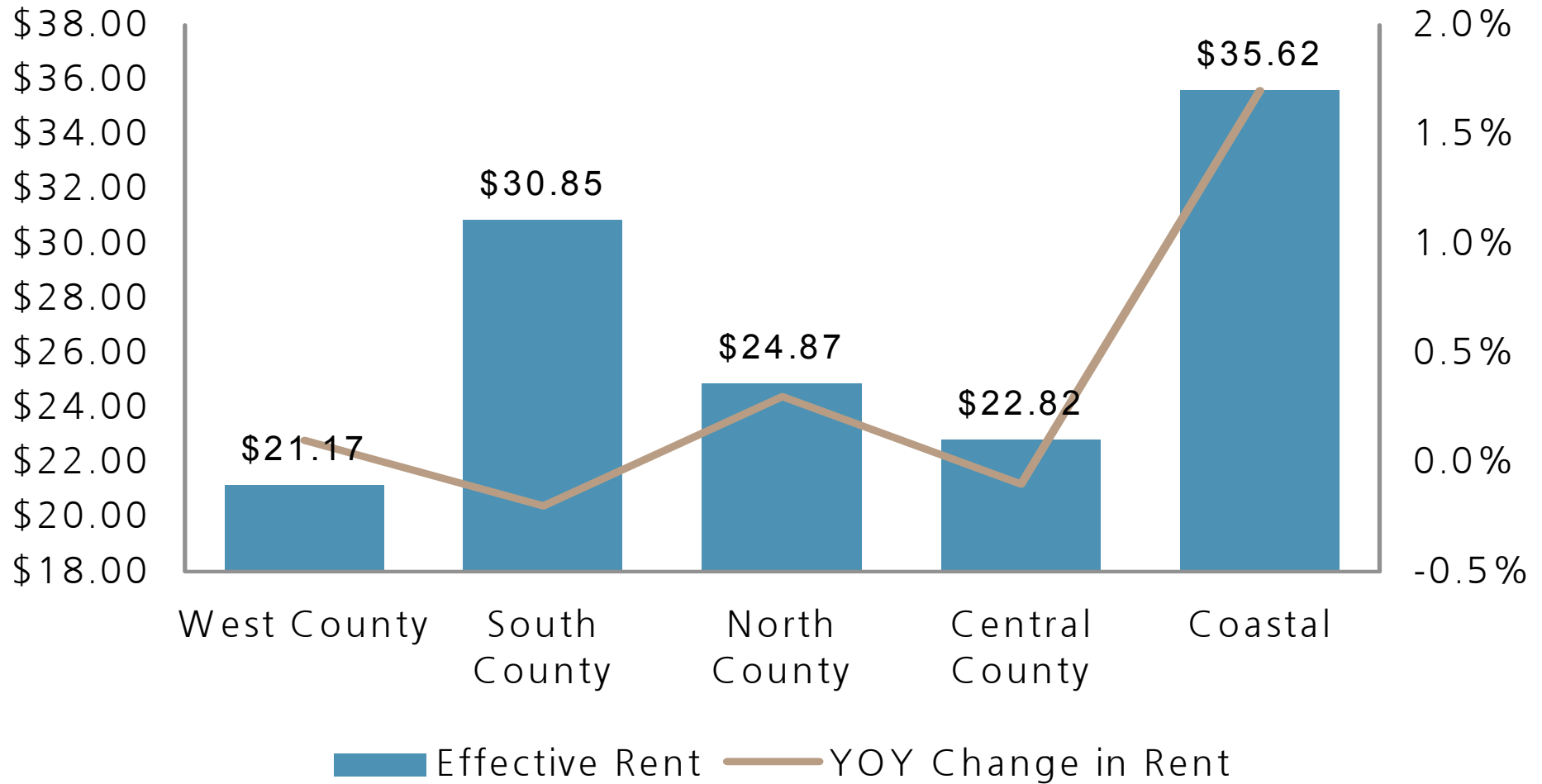
Orange County Retail Data

Orange County Retail Data – 3Q 2011 Vacancy Summary



Source: Marcus & Miichap

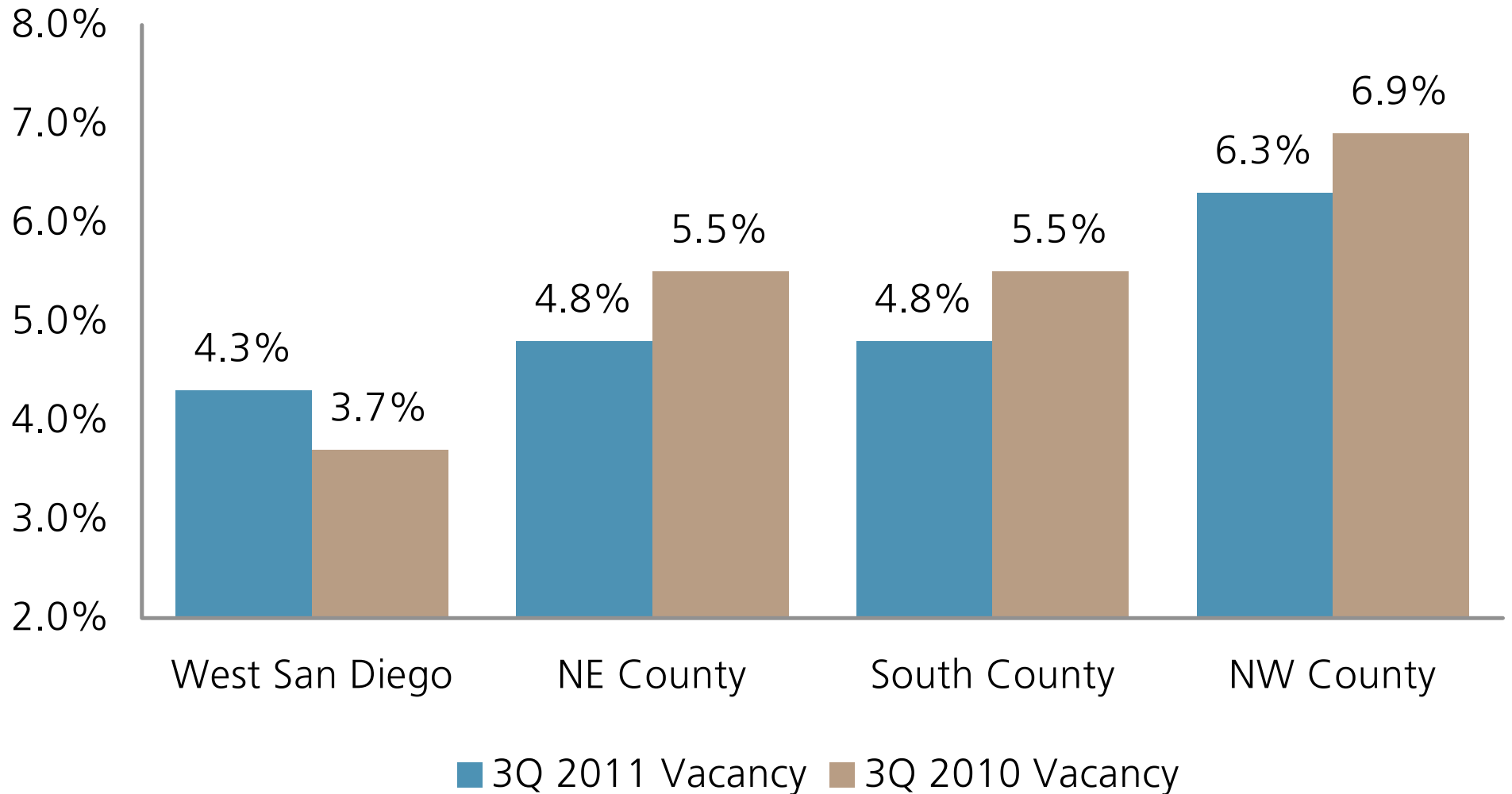
Orange County Retail Data – 3Q 2011 Rent Summary



Source: Marcus & Miichap

San Diego County Retail Data

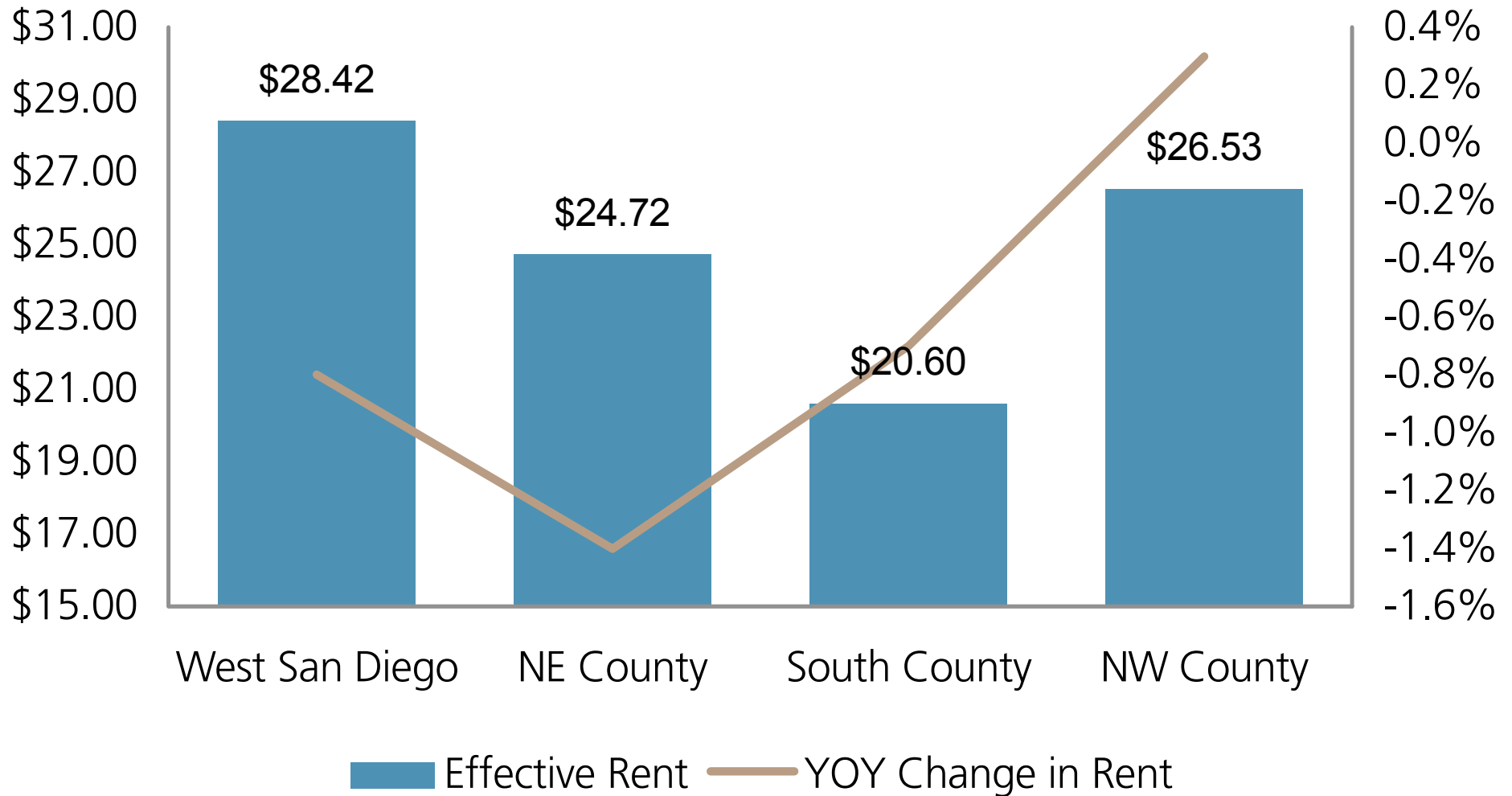
San Diego County Retail Data – 3Q 2011 Vacancy Summary



Source: Marcus & Miichap



San Diego County Retail Data – 3Q 2011 Rent Summary

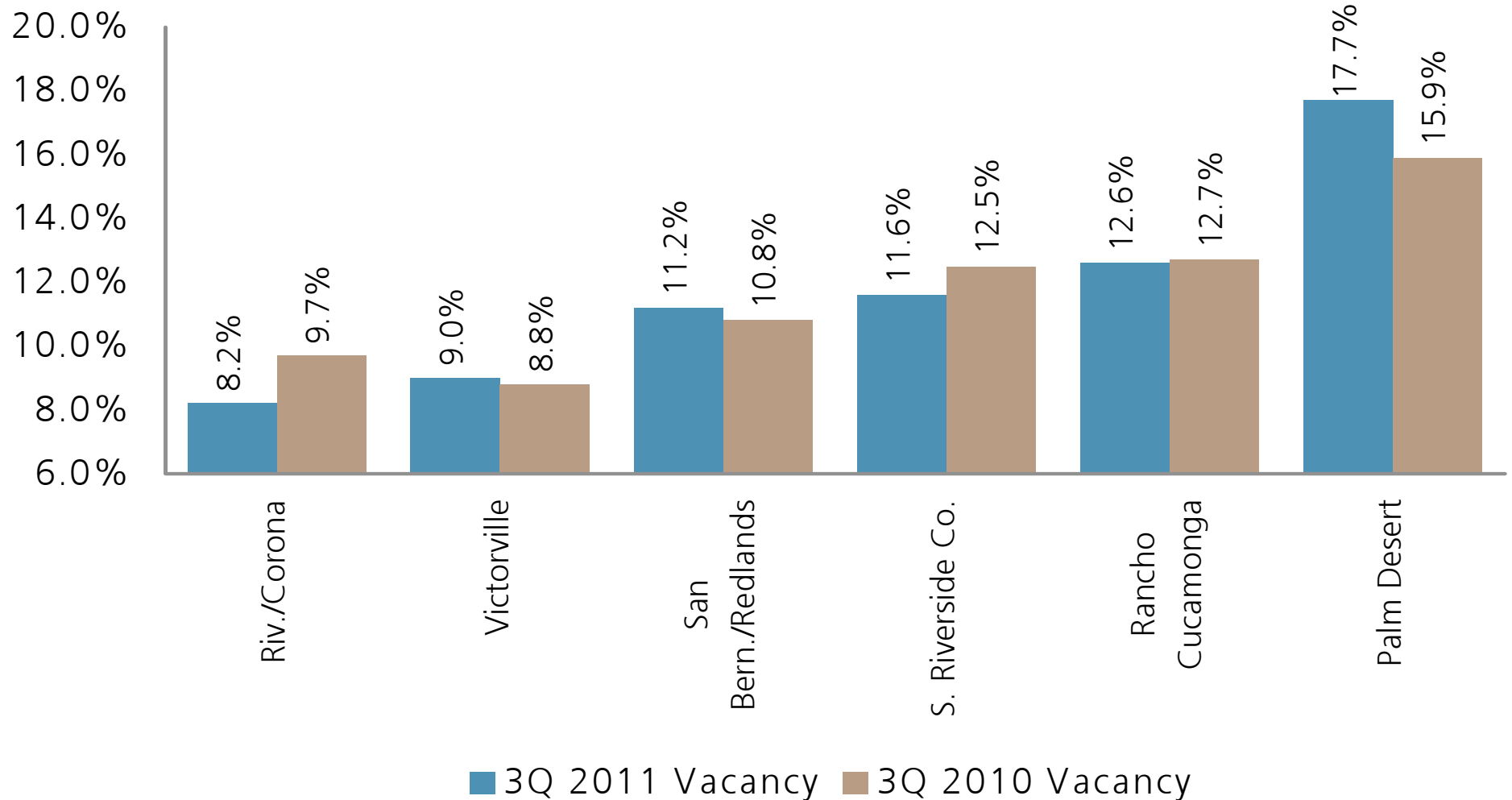


Source: Marcus & Miichap



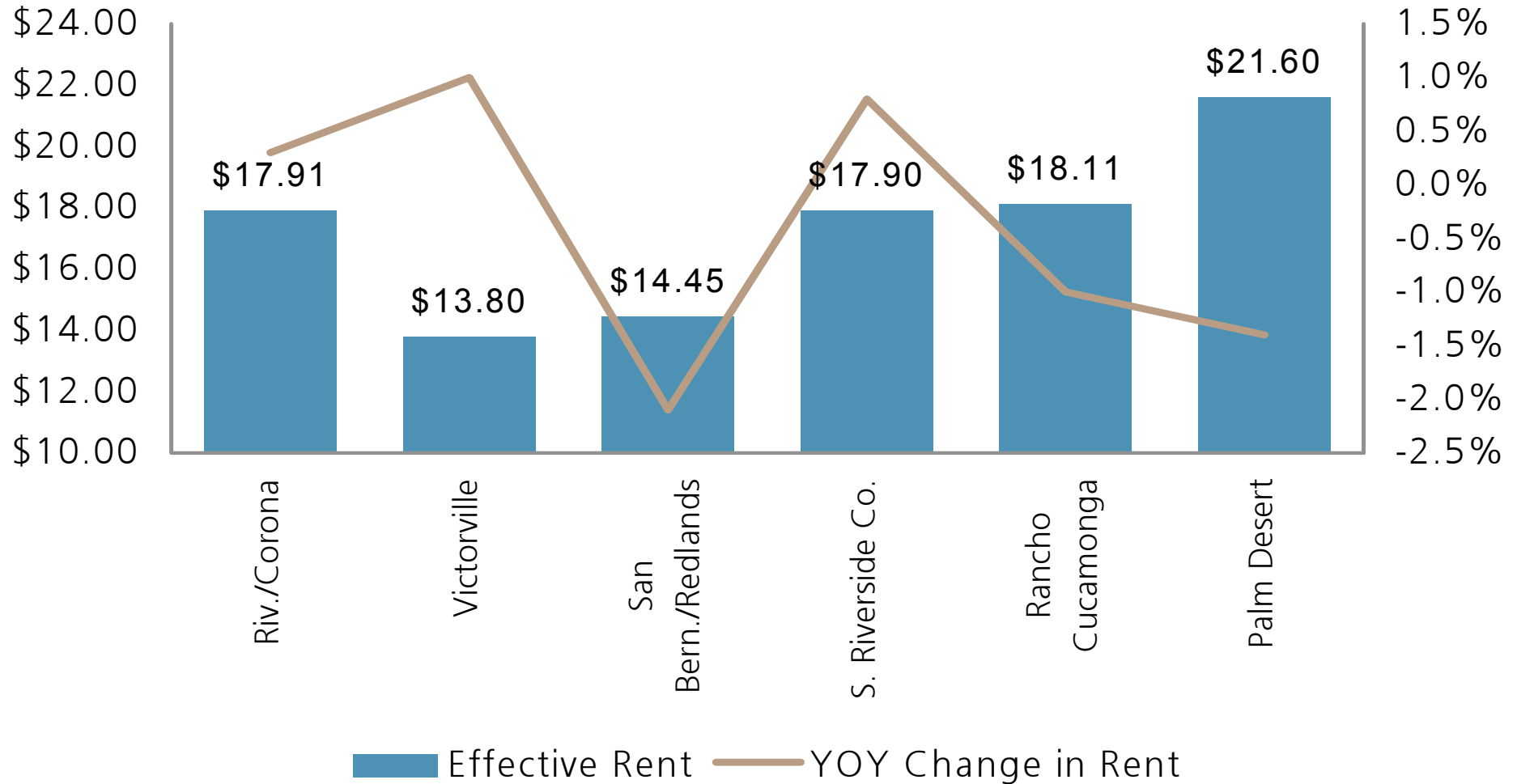
Inland Empire Retail Data

Inland Empire Retail Data – 3Q 2011 Vacancy Summary



Source: Marcus & Miichap

Inland Empire Retail Data – 3Q 2011 Rent Summary

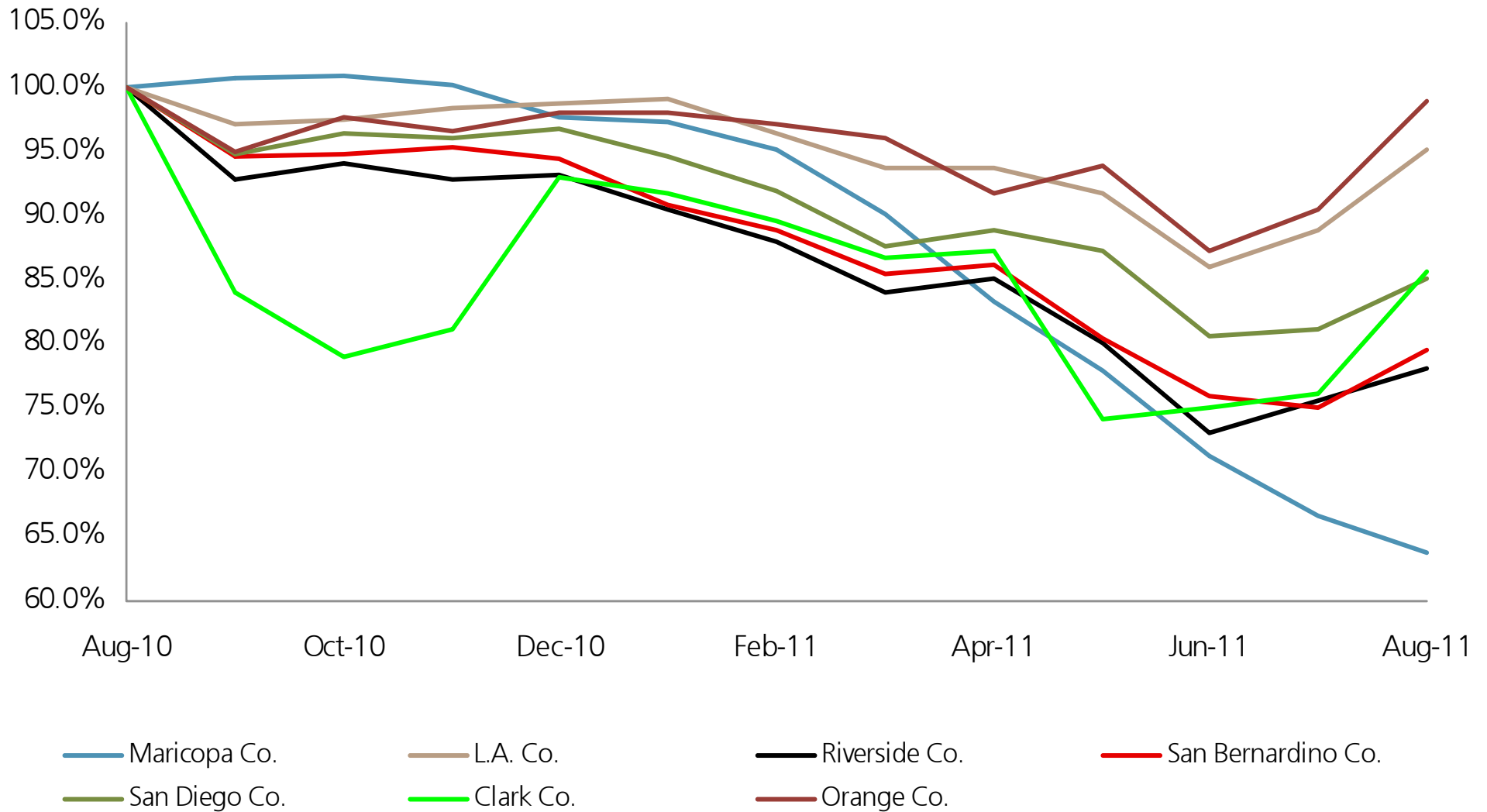


Source: Marcus & Miichap



Supplemental Data

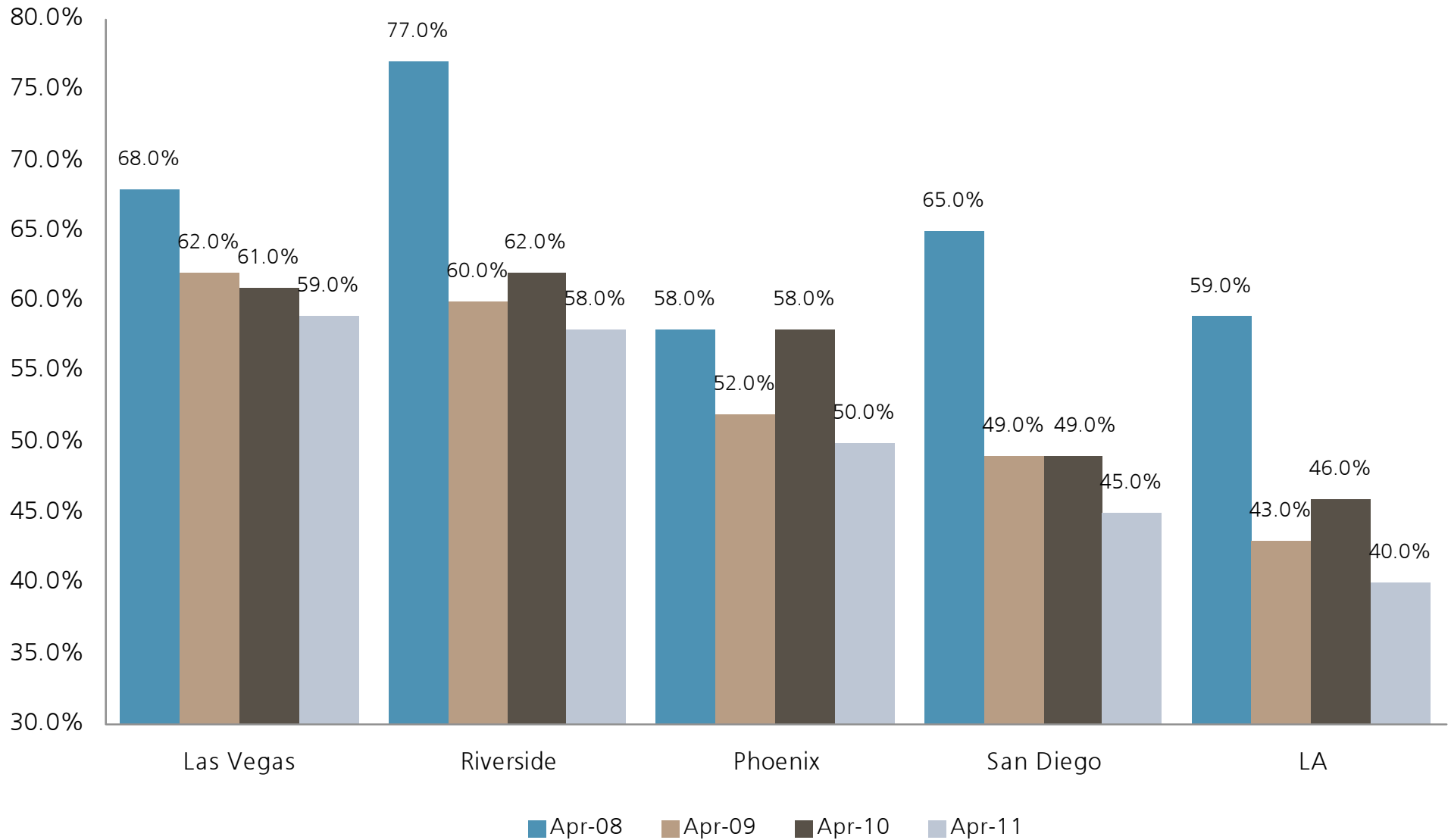
Foreclosure Trends for Selected Metro Areas



Source: Foreclosure Radar



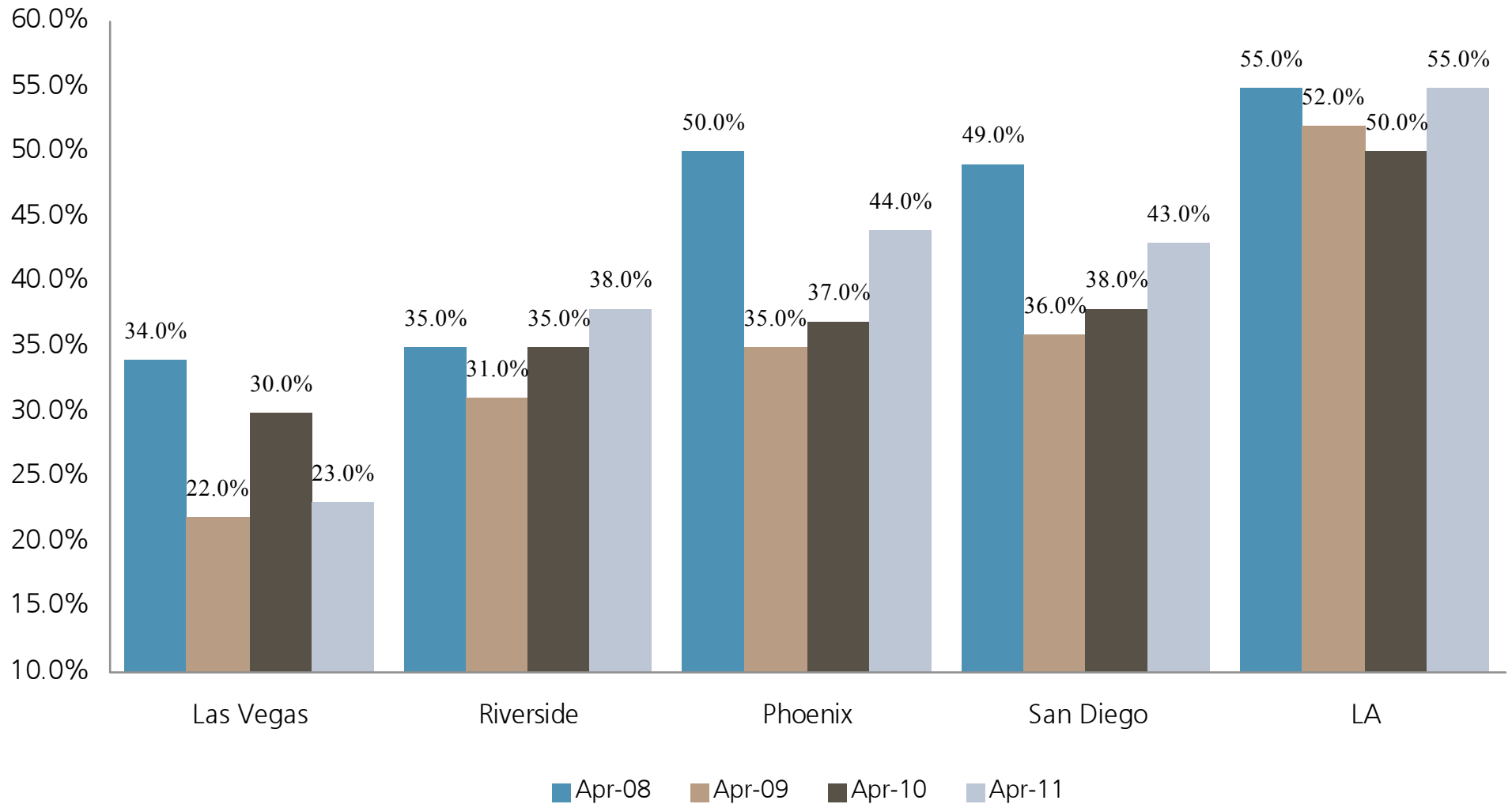
Distressed Sale Share for Selected Metro Areas



Source: Corelogic



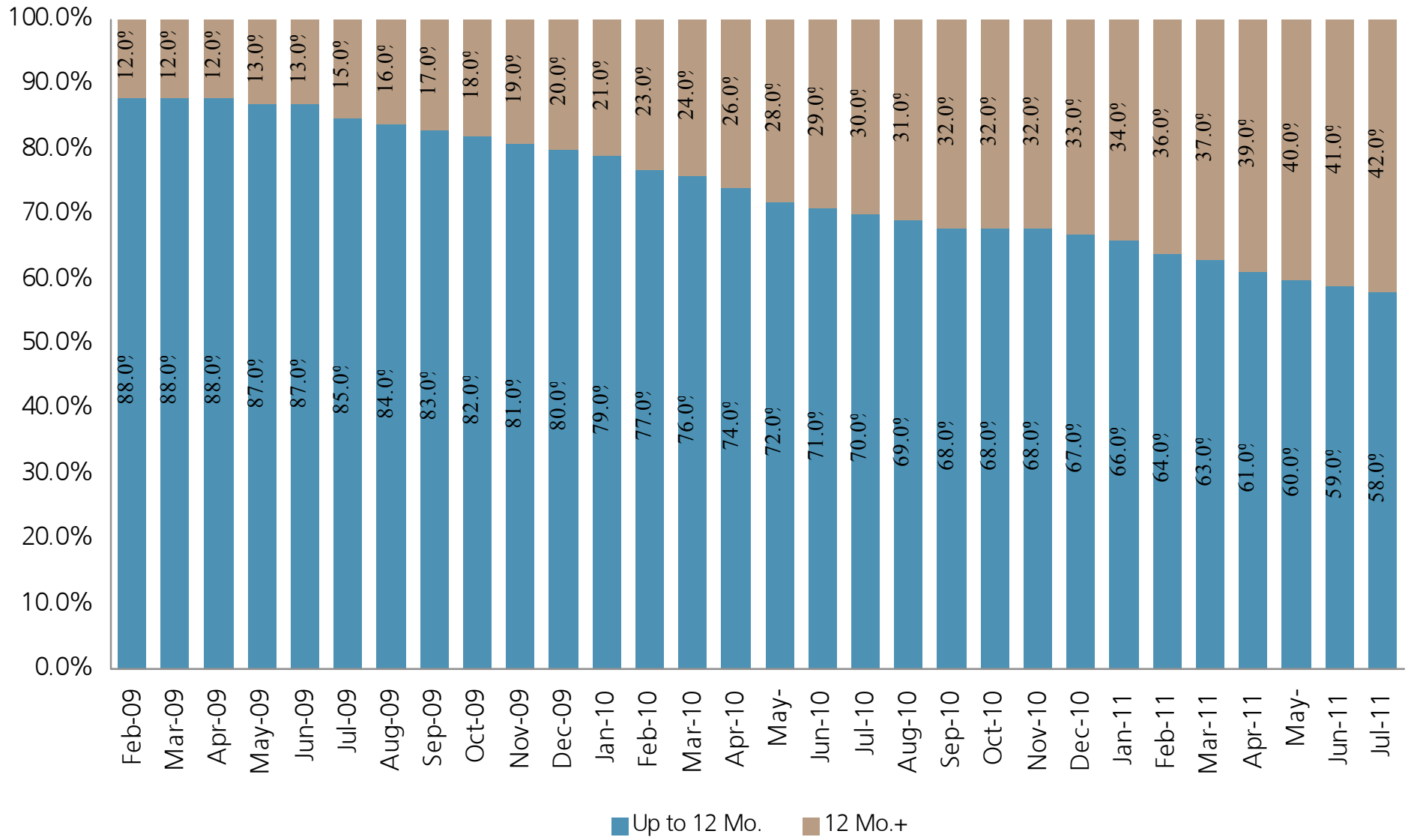
REO Price Discount to Non-Distressed Sales for Selected Metro Areas



Source: Corelogic



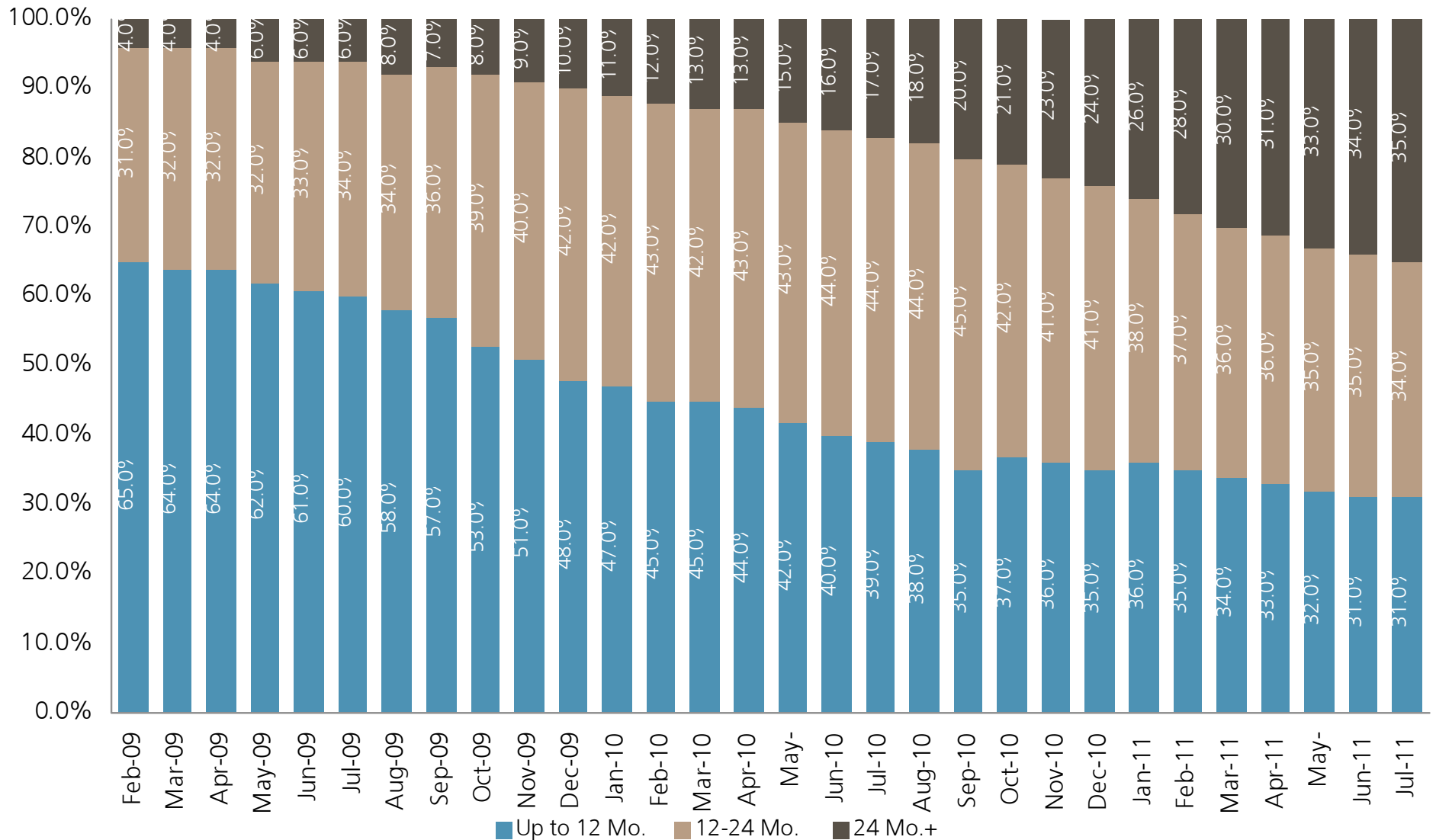
Validating the Foreclosure Process – Loans 90+ Days Delinquent That Have Not Made a Payment For:



Source: LoanPerformance



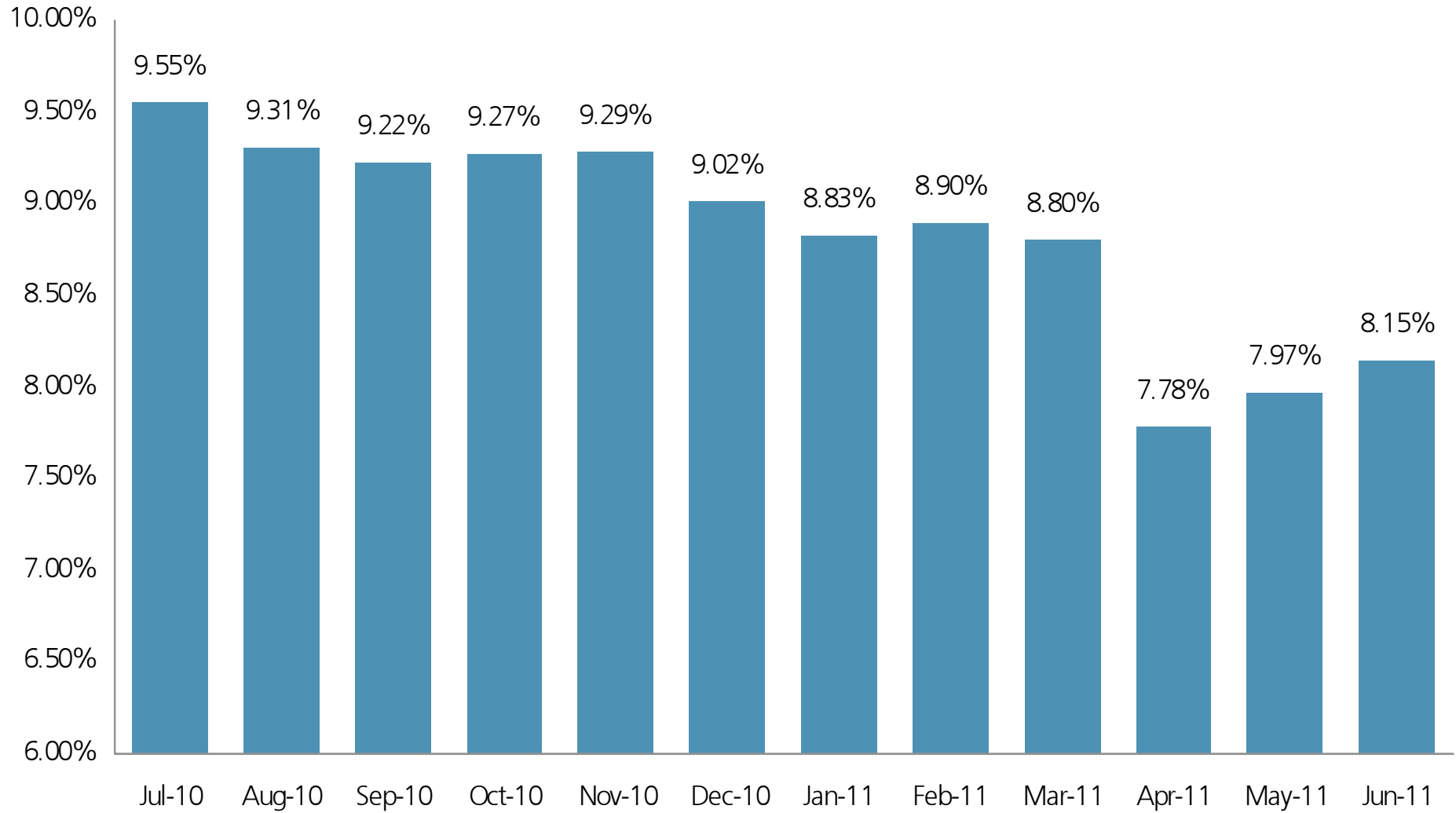
Validating the Foreclosure Process – Loans in Foreclosure That Have Not Made a Payment For:



Source: LoanPerformance



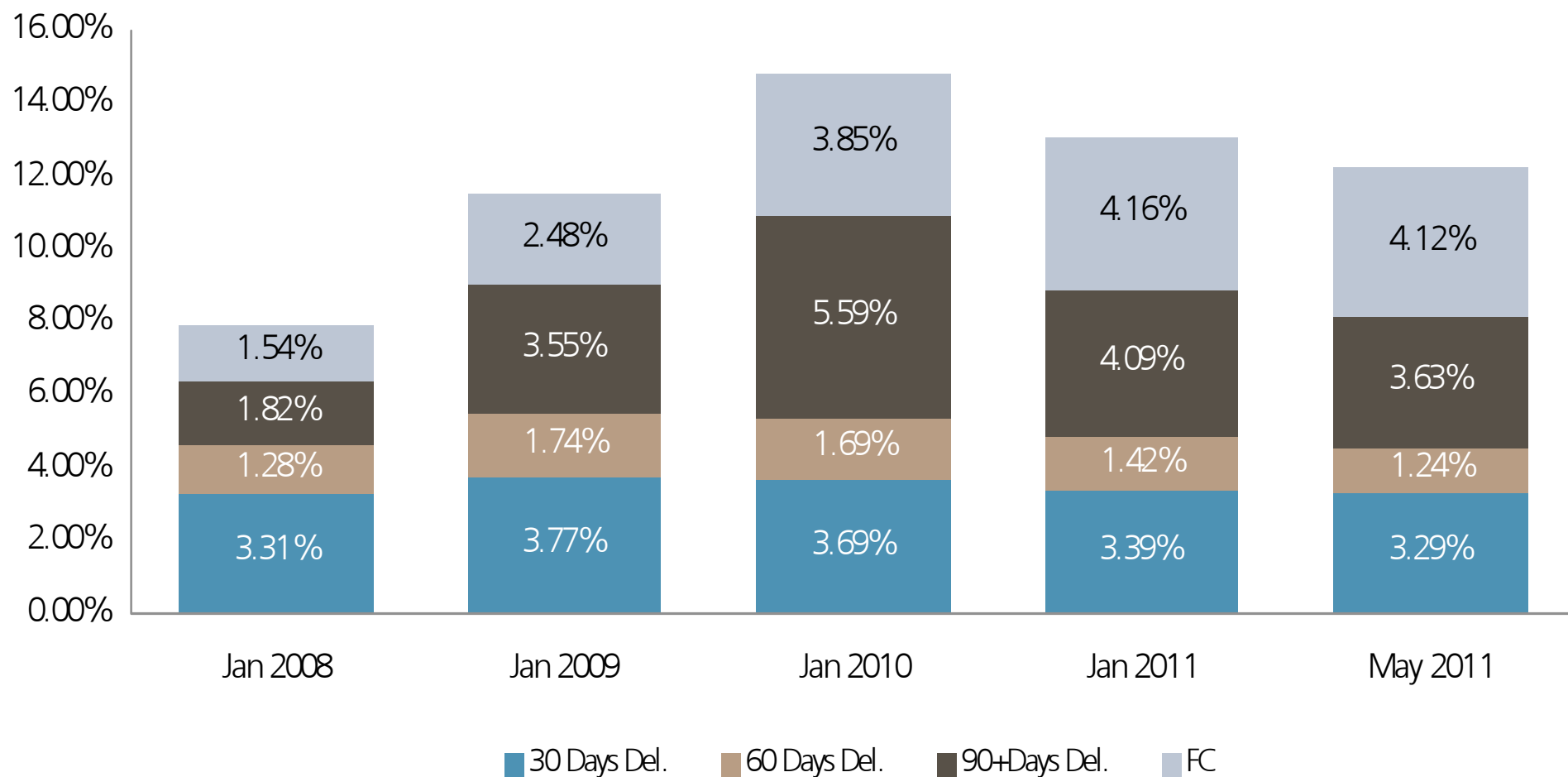
Serious Delinquency Rates – National Basis



Source: LoanPerformance



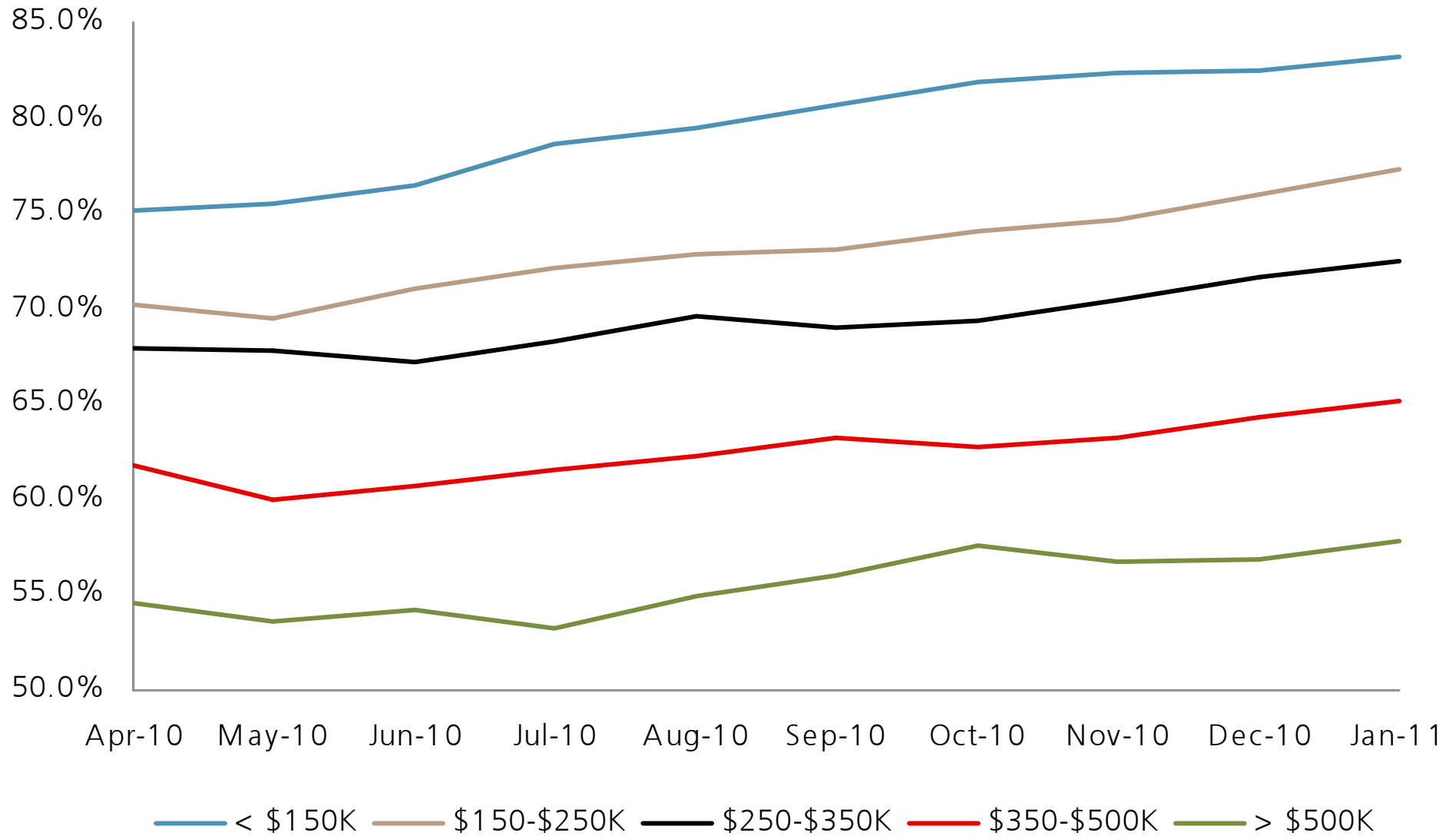
Loan Delinquency Stratification



Source: LoanPerformance



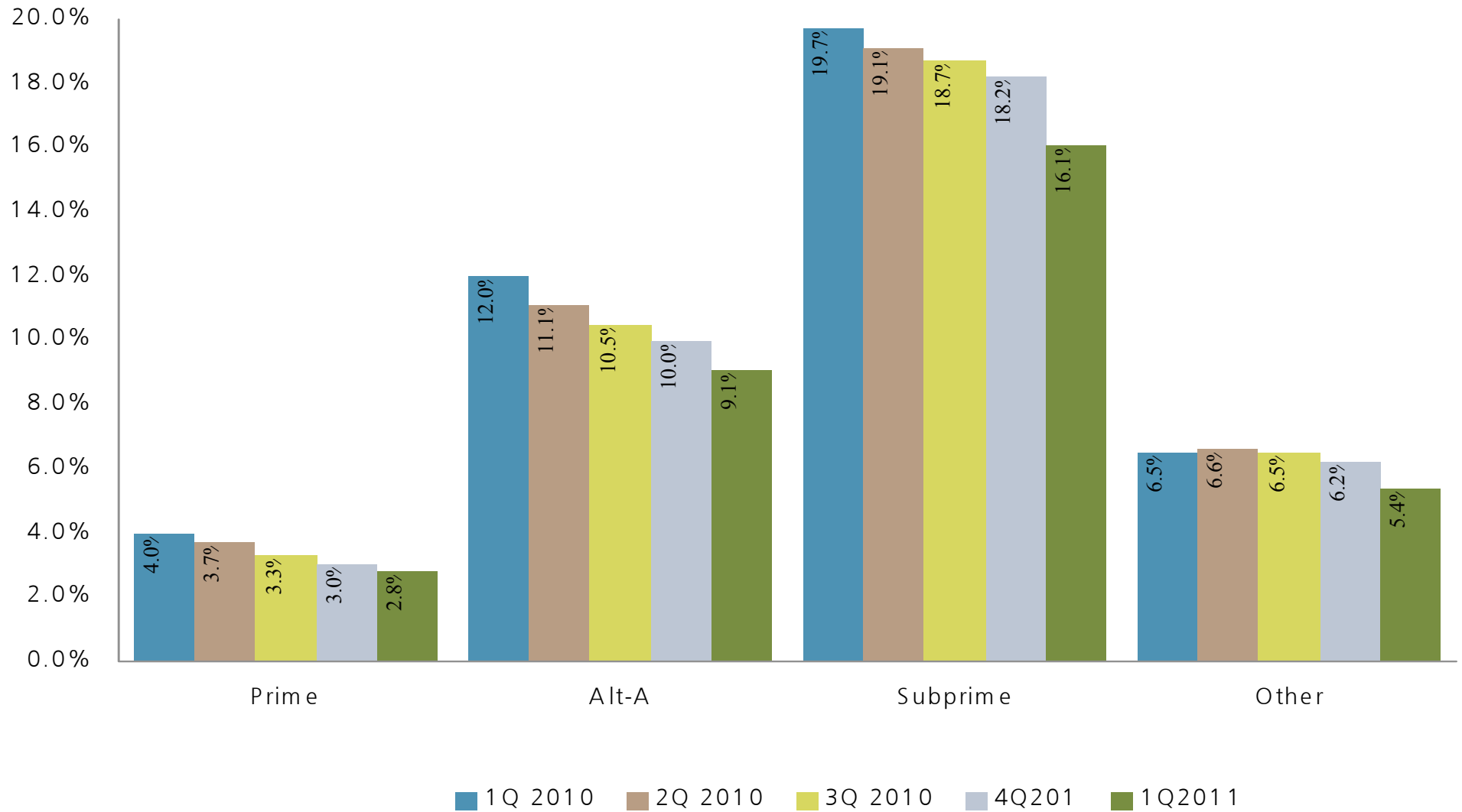
Loss Severity by Loan Size



Source: LoanPerformance



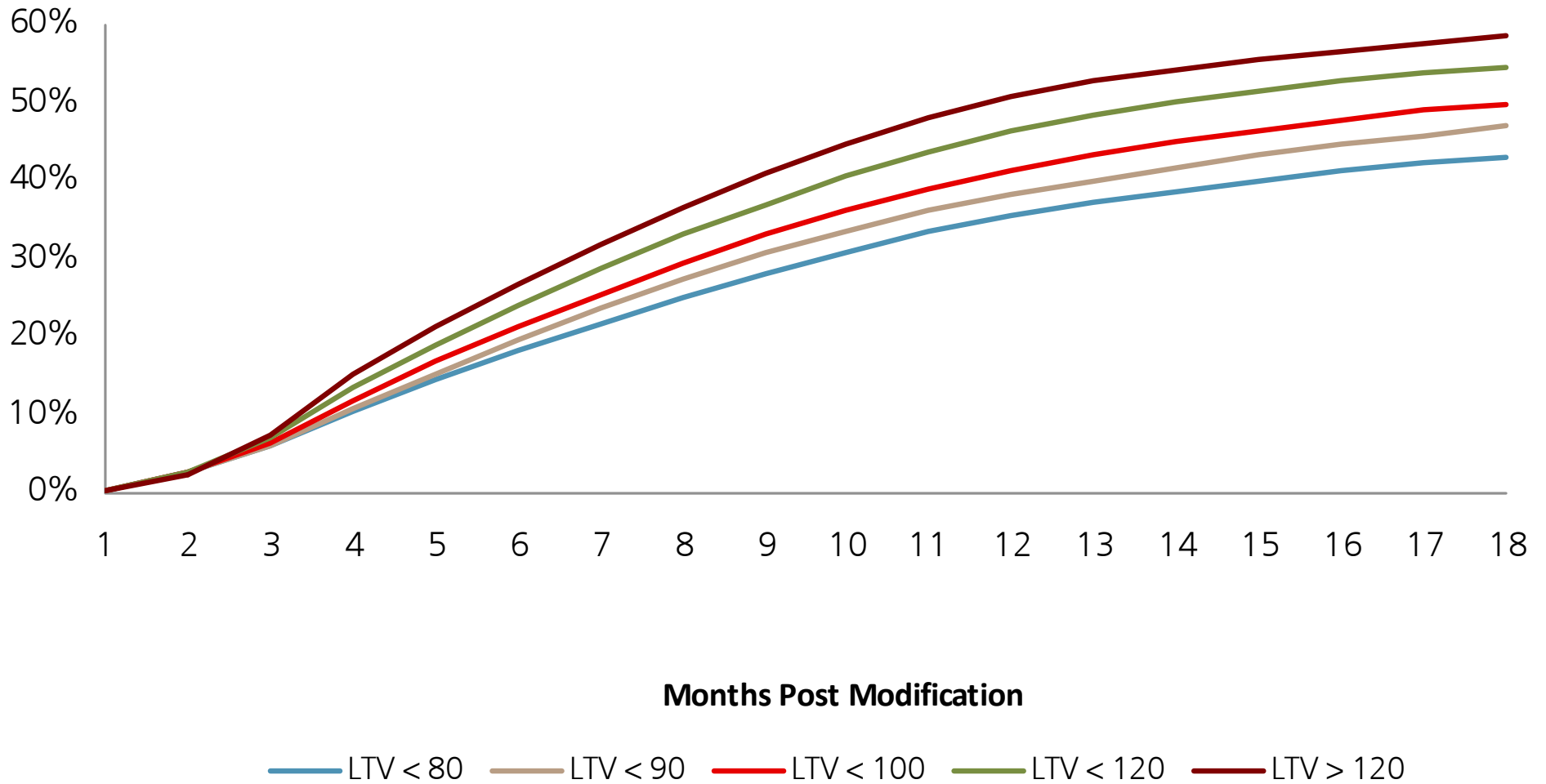
Serious Delinquency Rates



Source: OCC/OTS



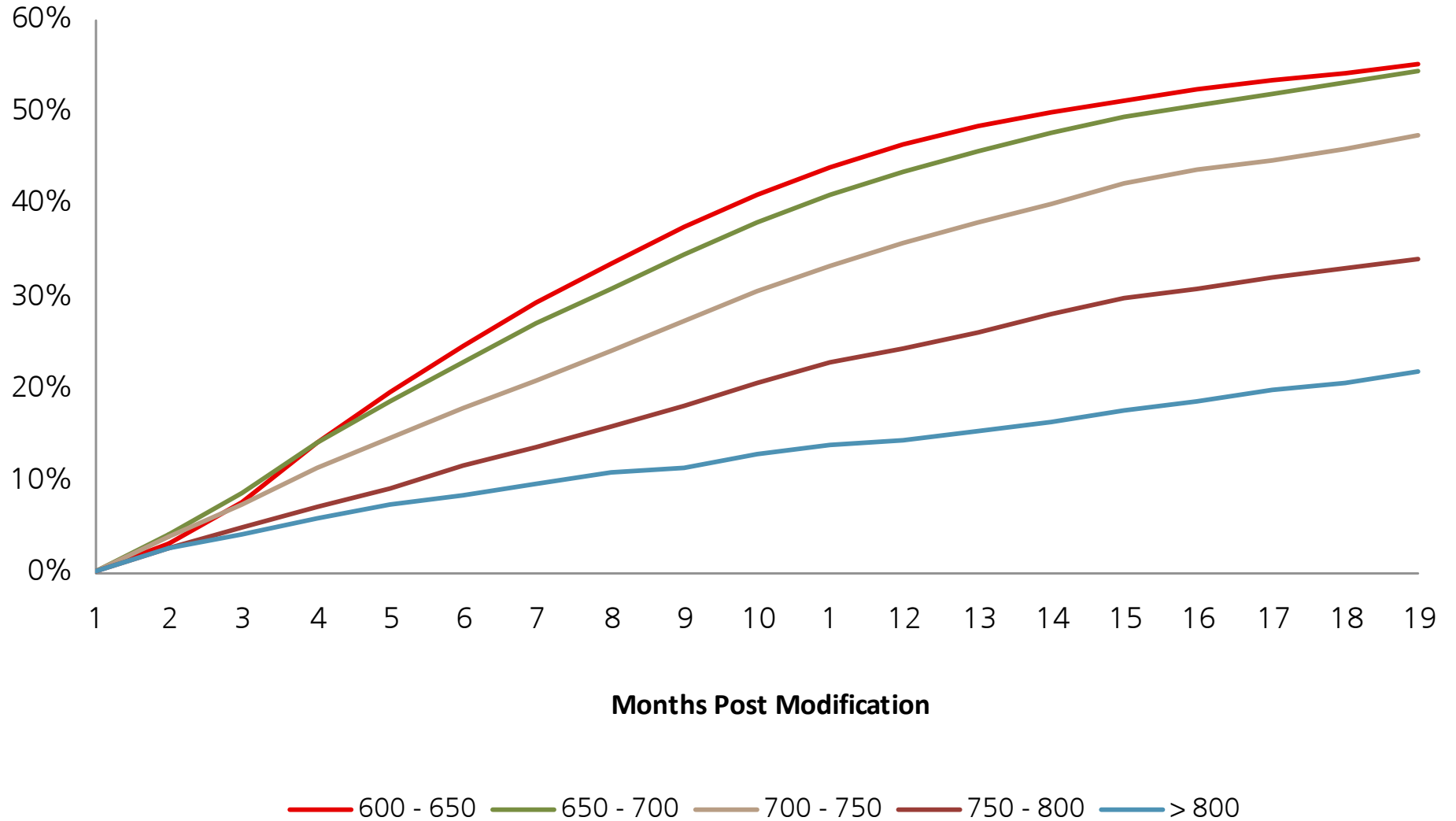
Re-Default Rates by Loan-to-Value



Source: LoanPerformance

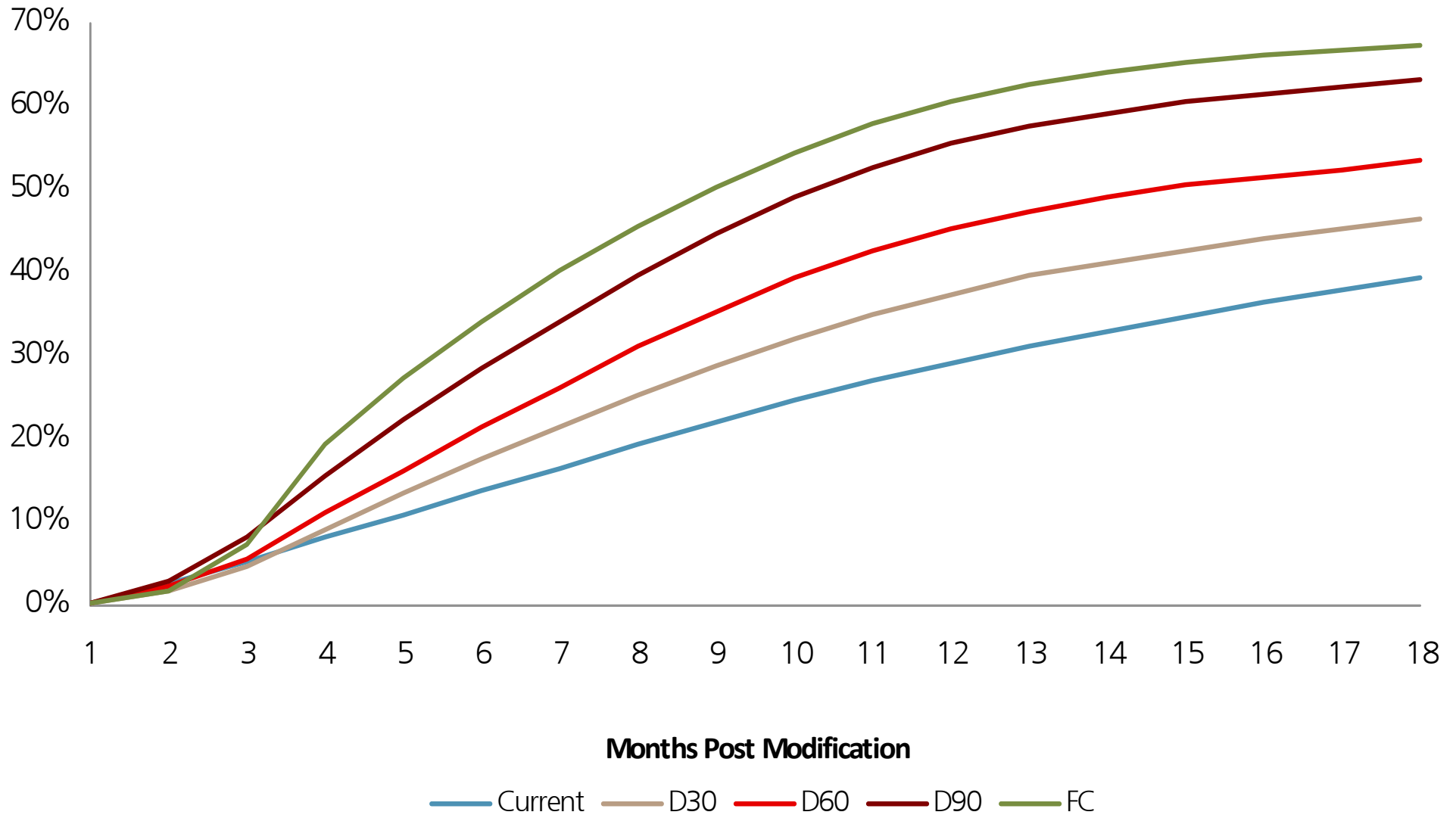


Re-Default Rates by FICO Score



Source: LoanPerformance

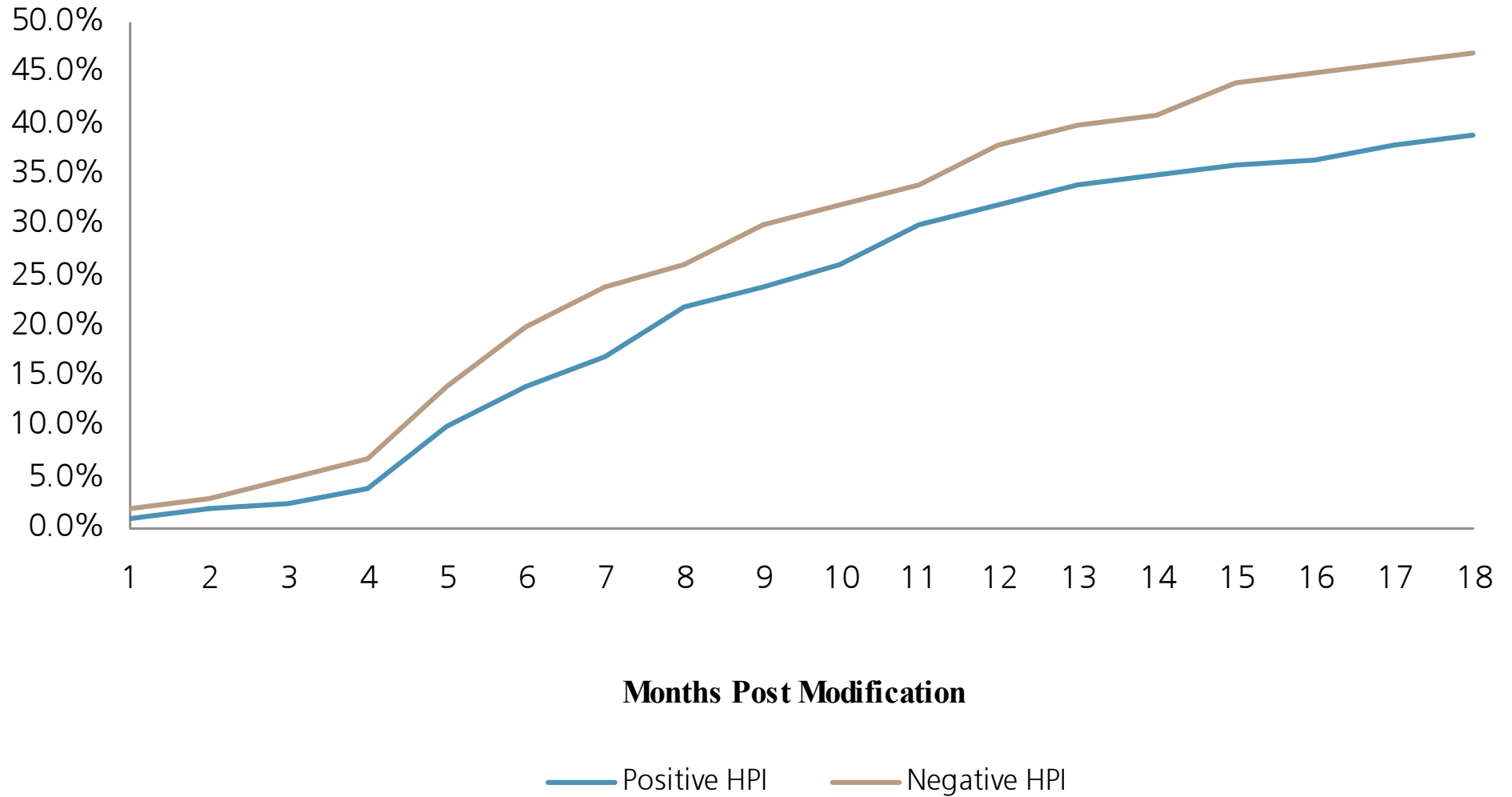
Re-Default Rates by Initial Delinquency Status



Source: LoanPerformance

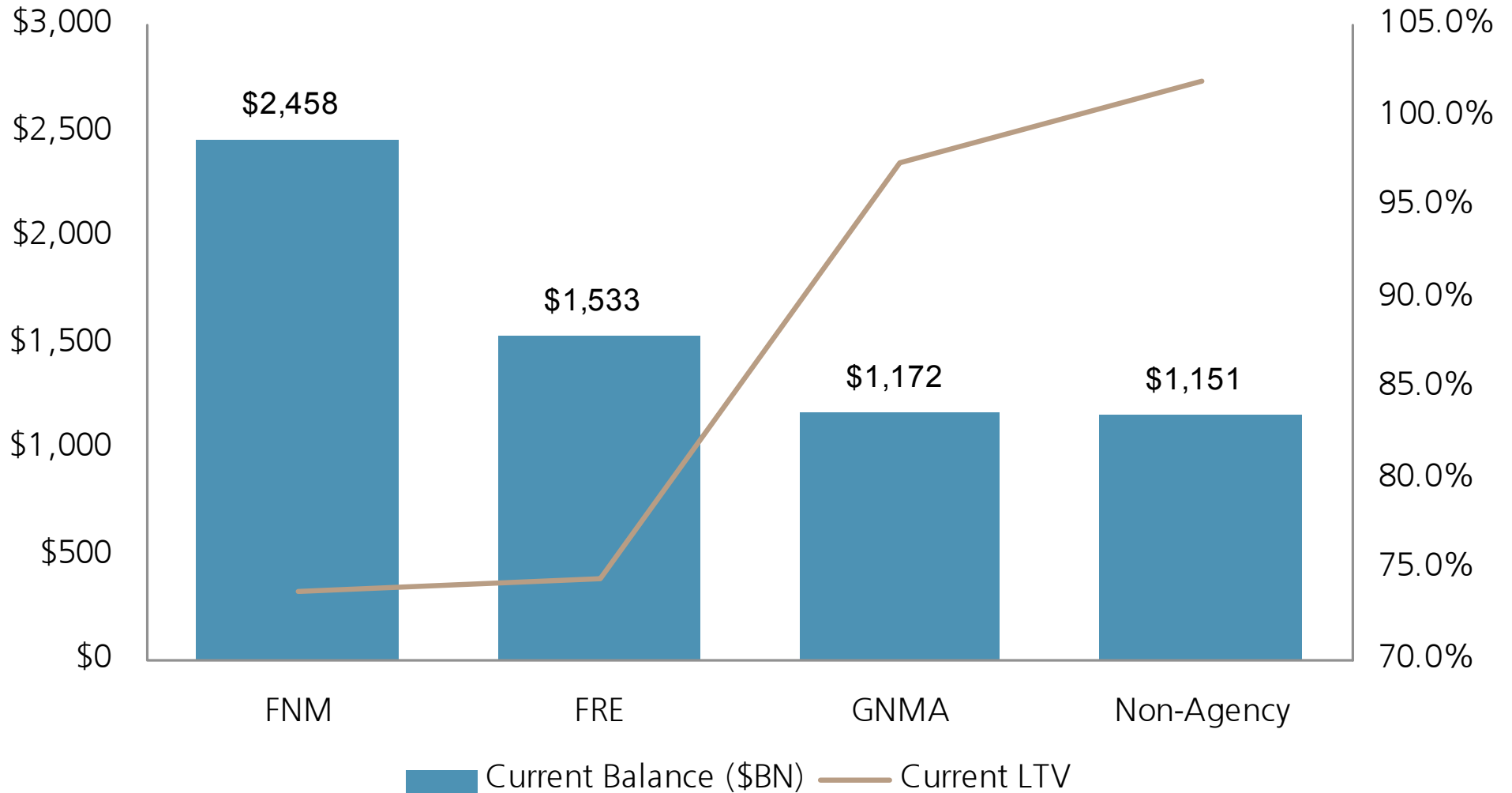


Re-Default Rates by Home Price Performance



Source: LoanPerformance

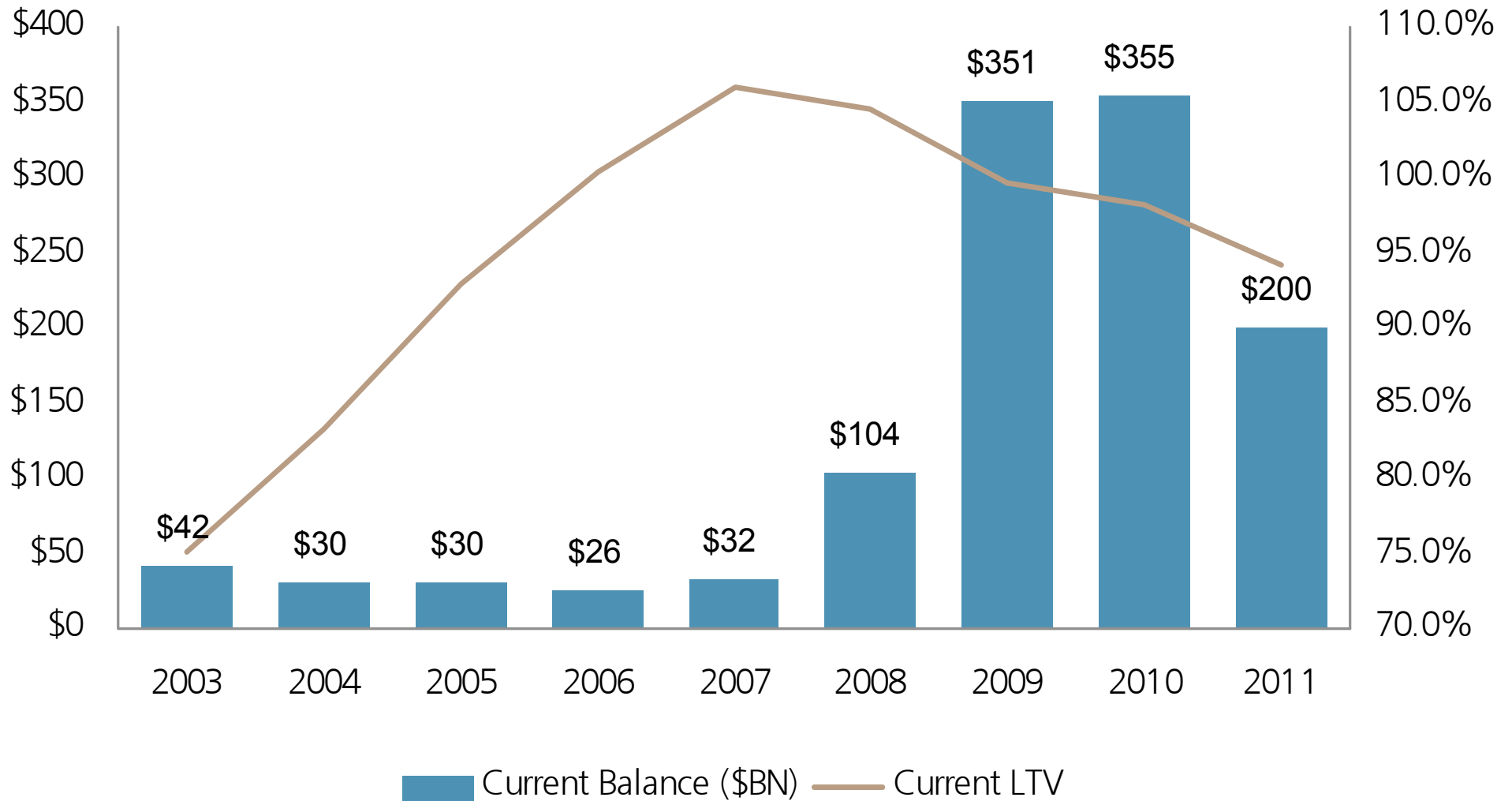
Outstanding Mortgage-Backed Securities by Issuer



Fannie Mae, Freddie Mac, FHA, Corelogic



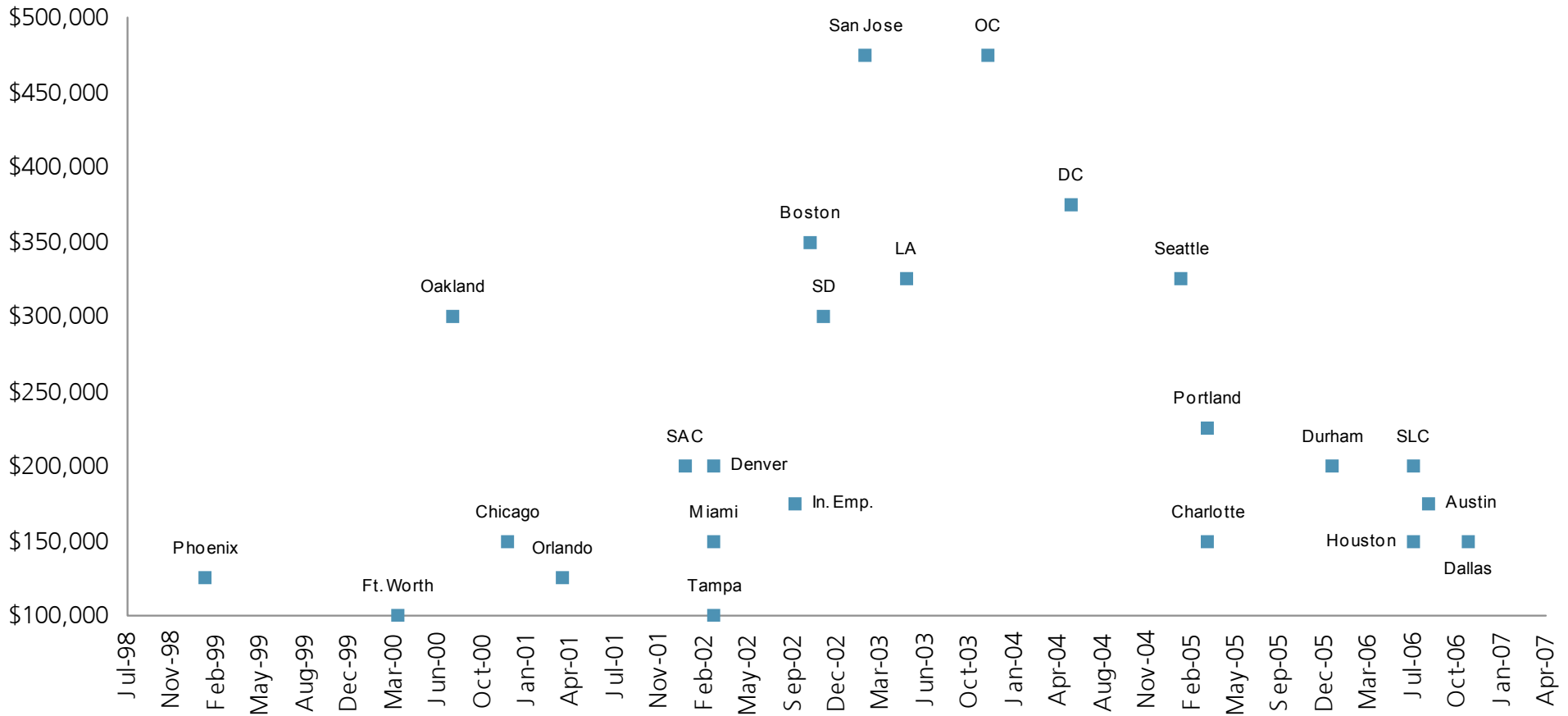
GNMA MBS Issuance 2003-2011



Fannie Mae, Freddie Mac, FHA, Corelogic



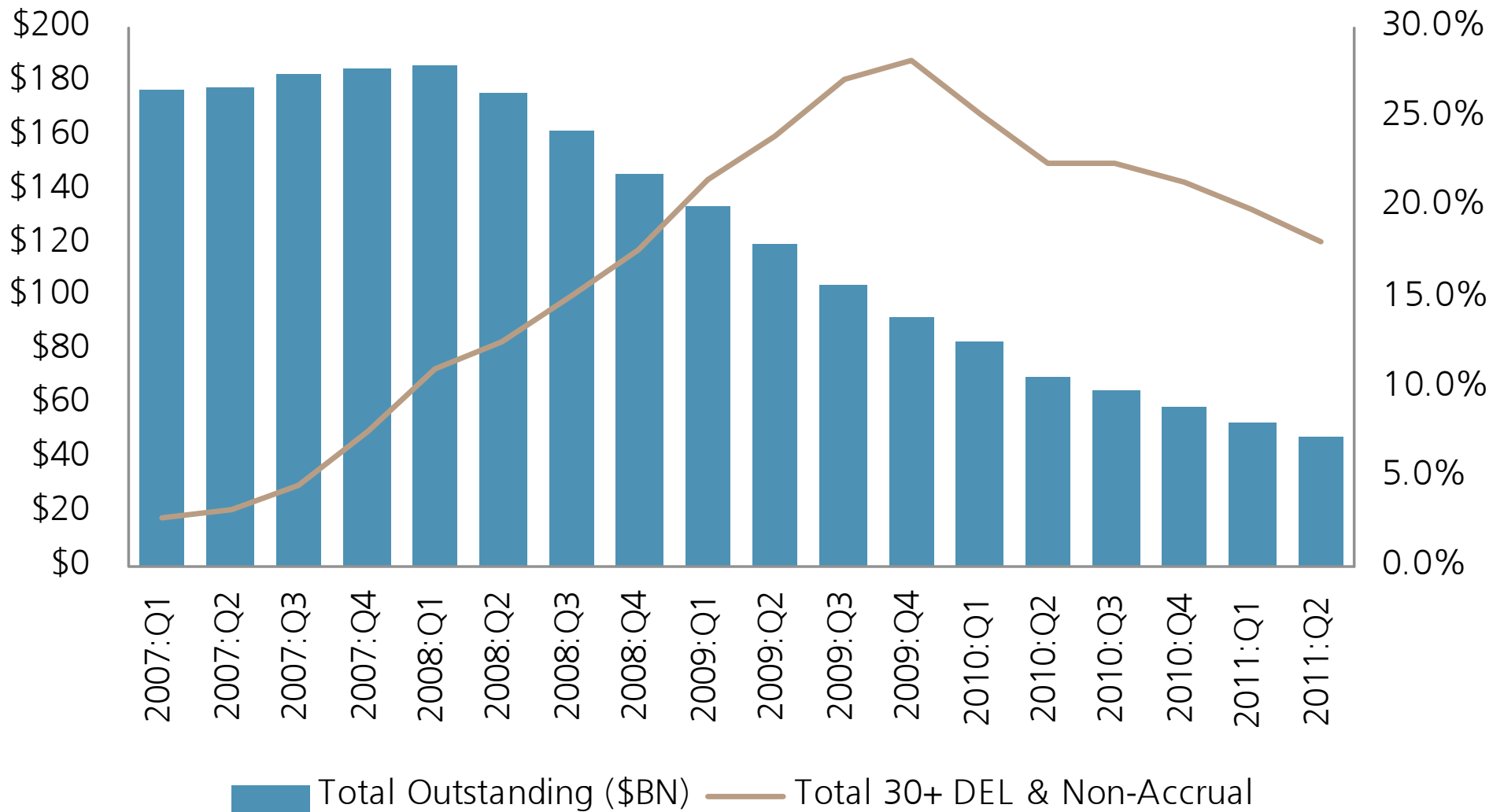
Price Corrections for Select Markets – The Last Month Current Median Prices Were Achieved (Pre-2007)



Source: John Burns Consulting



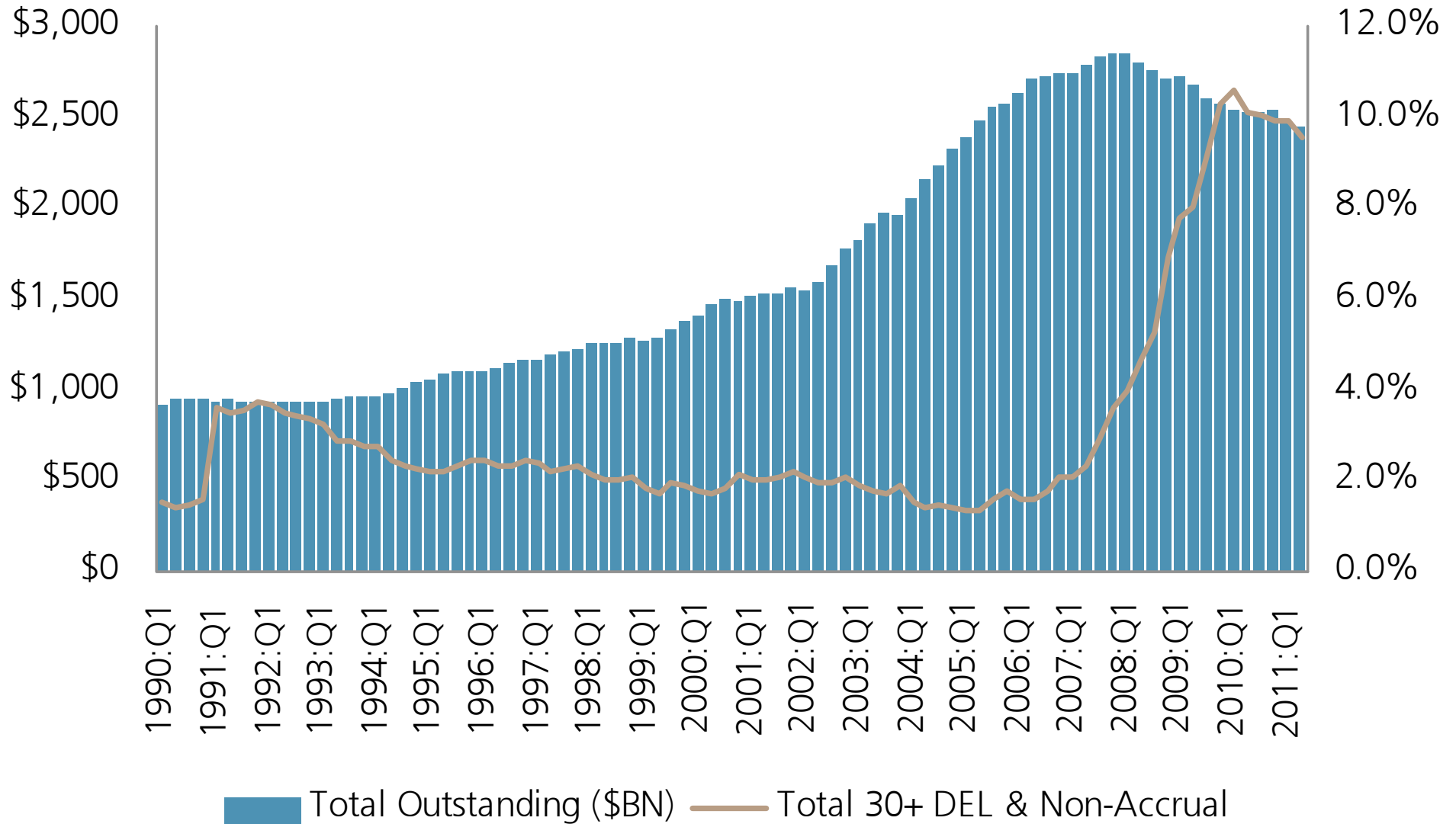
1-4 Family Residential Construction Loans – All FDIC Insured Institutions



Source: FDIC



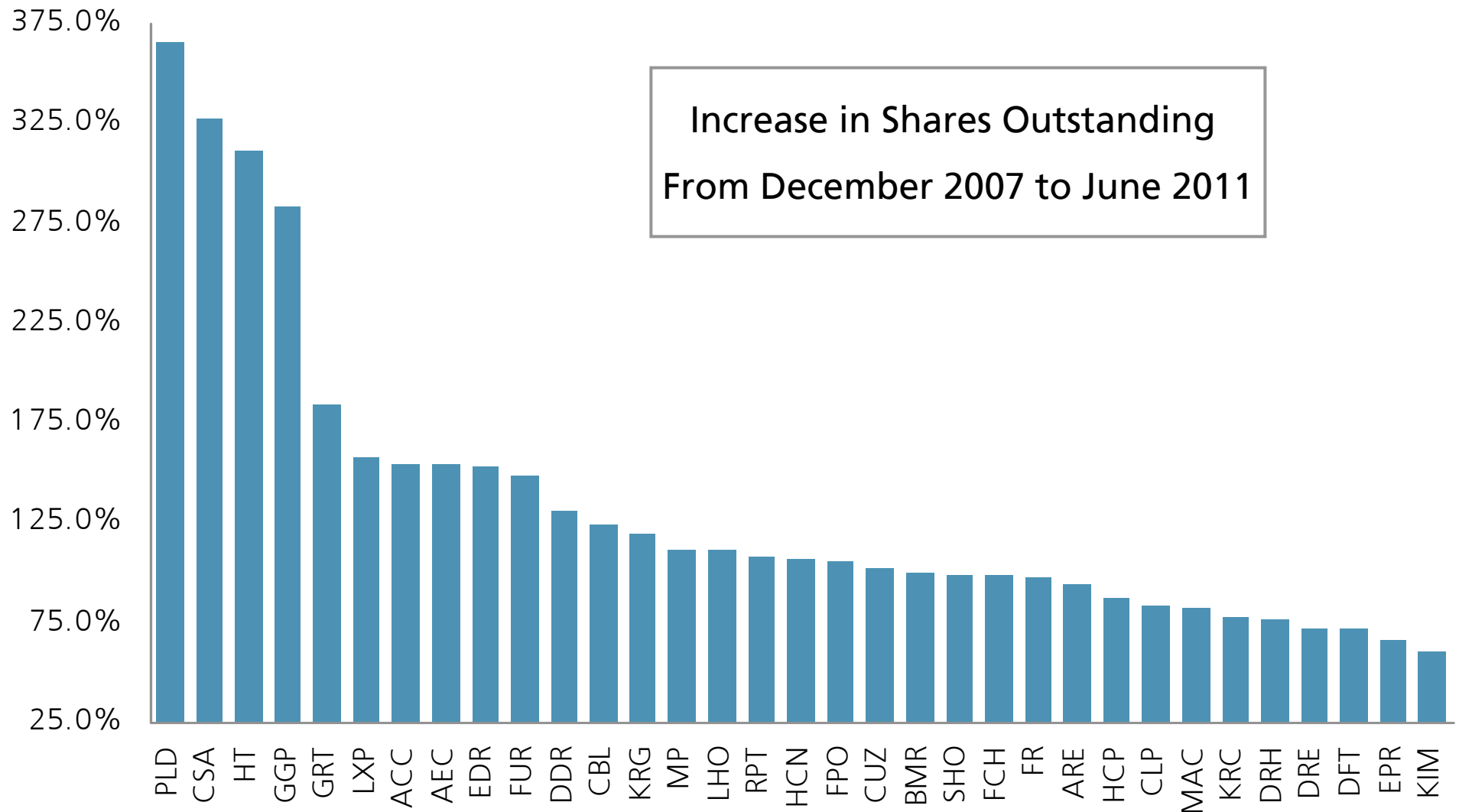
1-4 Family Residential Real Estate Loans – All FDIC Insured Institutions



Source: FDIC

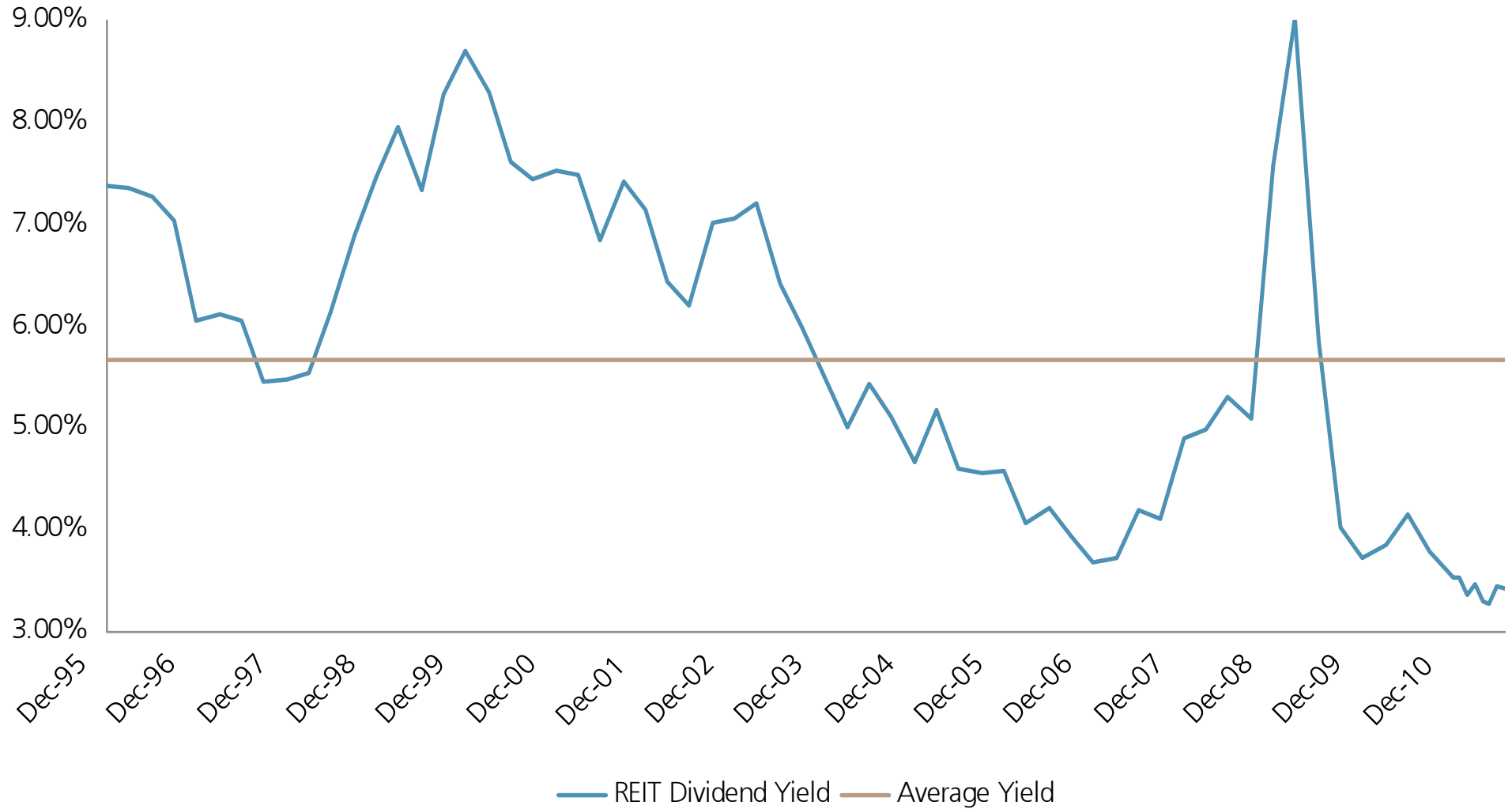


The Downside of Equity Issuance – Dilution is Forever



Source: SNL Financial

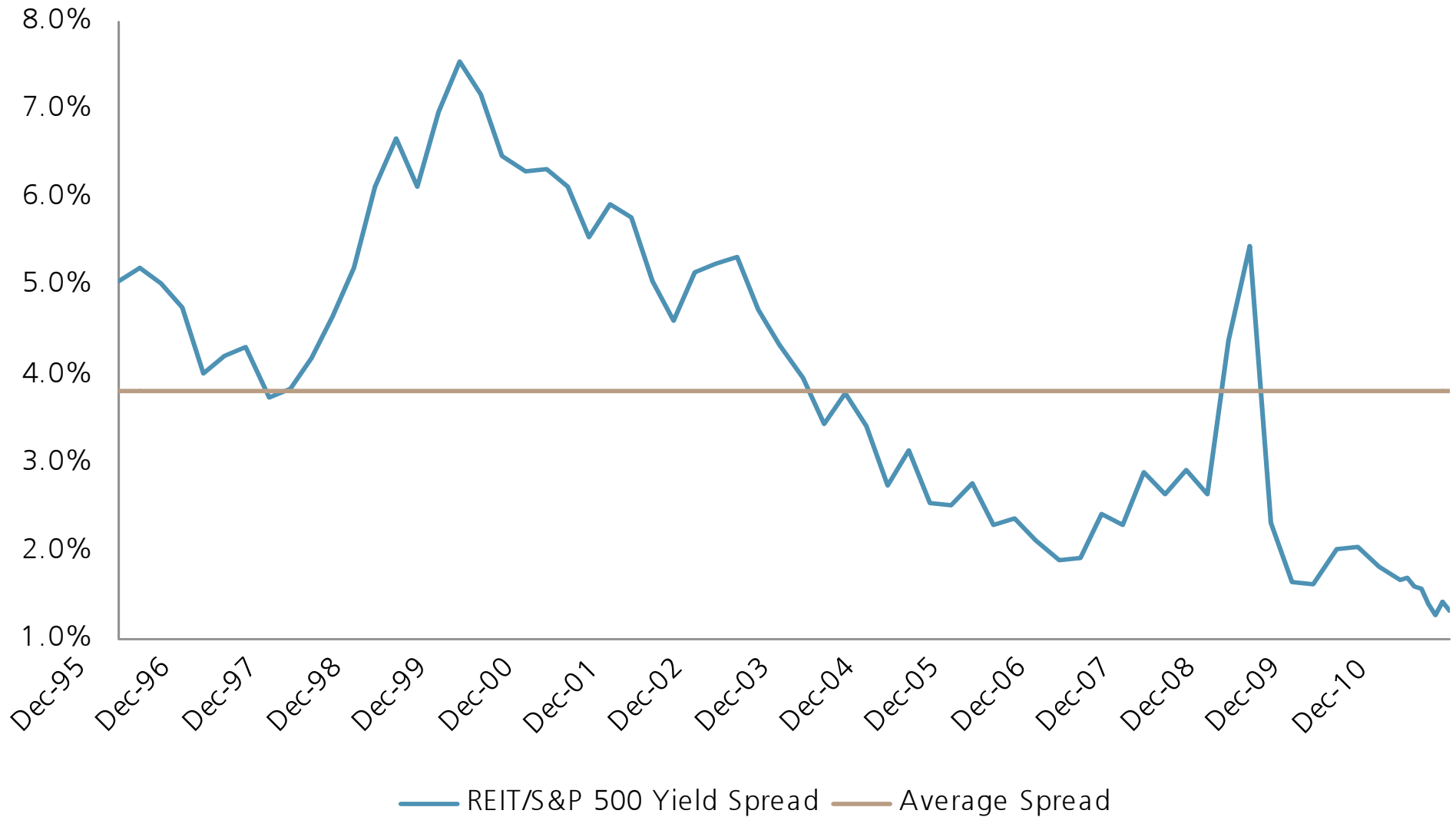
REIT Dividend Yields



Source: SNL Financial, NAREIT, Factset, UBS Estimates



REIT Dividend Yield Spreads – S&P 500



Source: SNL Financial, NAREIT, Factset, UBS Estimates

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