

**CresaPartners**  
THE TENANT'S ADVANTAGE

**Construction Institute I-95 Review**

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# Today's Topic and Agenda

- If you are in the construction industry where are the opportunities for 2010?
  - Review of current market conditions
  - What has happened to property value?
  - What's different about this cycle?
  - What are the trends: Tenant or Landlord favorable
  - Where are the opportunities
    - Tenants stay in place
    - Renovations
    - New Construction
  - Review some of the major projects along I-95

# What does CresaPartners do?

- We manage real estate and occupancy costs for Tenants by offering a full array of integrated services implemented to give clients the full advantage of our advisors' expertise, discipline and judgment.
  - Intimate market knowledge
  - Leverage our talent with other allied professionals
  - Relationships that connect with results
  - Track record of performance in the local markets
- 53 offices
- 740+ employees
- \$170,000,000 in gross sales
- Transaction value of \$4.5 Billion

# Market Statistics

	<u>2008</u>	<u>2009</u>	<u>Change</u>
<b><u>Total Inventory</u></b>			
Class A Space	34,539,489	34,898,100	1.038%
Class B Space	9,427,418	9,427,418	0.000%
<b><u>Available Space</u></b>			
Class A Available	4,591,056	7,245,187	57.811%
Class B Available	2,094,607	2,426,044	15.823%
<b><u>Vacancy Rate</u></b>			
Class A Space	13.300%	20.800%	56.391%
Class B Space	22.200%	25.700%	15.766%
<b><u>Asking Prices</u></b>			
Class A Space	\$ 39.64	\$ 38.84	-2.018%
Class B Space	\$ 29.17	\$ 27.93	-4.251%
<b><u>Gross Leasing</u></b>			
Class A Space			846,629
Class B Space			474,099
			1,320,728

# What are rents doing?

Will the owners cost basis determine the rent?

Or

Will the rent determine the buildings value?

Last time around building values were written down because of governmental banking regulations.

## The result:

- Significant reduction in an owners cost basis
- Huge reduction in rent as new owners filled vacancies
- Lower rents delayed justification of new construction.

# Property Value Comparison

2 yrs Ago



Acquisition Terms	
Purchase Price	\$325
Loan to Value	80%
Principal	\$260
Interest Rate	5.00%
Loan Constant	7.02%
Equity	\$65
Desired Return On Equity	8%
Cash Flow	
Debt Service	(\$18.24)
Operating Expenses	(\$12)
Return To Equity	(\$5.20)
Breakeven Gross Rent	(\$35.44)
Current Escalated Rent	\$42
Additional Cash to Equity	\$6.56
Total Cash to Equity	\$11.76
Actual Return On Equity	18.09%

This Year



Acquisition Terms	
Purchase Price	\$325
Loan to Value	60%
Principal	\$195
Interest Rate	8.75%
Loan Constant	9.87%
Equity	\$130
Desired Return On Equity	8%
Cash Flow	
Debt Service	(\$19.24)
Operating Expenses	(\$12)
Return To Equity	(\$10.40)
Breakeven Gross Rent	(\$41.64)
Current Escalated Rent	\$32
Additional Cash to Equity	(\$9.64)
Total Cash to Equity	\$0.76
Actual Return on Equity	0.59%

# Property Value Comparison

## New Terms to Support 8% ROE

Purchase Price	\$219.31
Loan to Value	60%
Principal	\$131.59
Interest Rate	8.75%
Loan Constant	9.87%
Equity	\$87.72
Desired Return On Equity	8%

## Cash Flow

Debt Service	(\$12.98)
Operating Expenses	(\$12)
Return To Equity	(\$7.02)
Breakeven Gross Rent	(\$32.00)
Current Escalated Rent	\$32
Additional Cash to Equity	\$0.00
Total Cash to Equity	\$7.02
Actual Return on Equity	8.00%

## Summary of Value Change

New Value	\$219.31
Change in Value	-32.52%
Initial Equity	\$65
New Equity	\$87.72
Change in Value	34.96%
Target ROE	8%
Initial ROE	18.09%
Current ROE	0.59%
Change in Value	-96.76%

# Why are rents trending down?

- There are fewer tenants willing to compete and “pay up” for choice locations
- Tenants are staying put, reducing Landlord transaction costs
  - Lower work letters
  - Less down time if a Tenant stays in place
  - Short term renewals
  - Interest rates are low (debt service)
  - Investors Return on Equity is lower (cap rates)
- There are many choices available for tenants

# So now what?

Everyone is waiting for the next adjustment

- Will it come?
- What if required equity returns remain low?
- What if interest rates stay low?
- What is the impact of Maturity Default?
  - Loan extensions
  - New equity
  - Current income services current debt

# When will rents increase?

- Tenants compete for choice locations
- Landlords cost basis increases
  - Tenants make longer term commitments and “finance” capital via the rent (new FASB ruling?)
  - New debt at higher interest rates
  - Cost of new construction (out of the ground)
  - Investment sale cap rates decrease causing values to increase (long term impact)

# What is different about this cycle?

## Before

- We overbuilt due to tax incentives
- Government forced huge write offs
- Tenants traded up in value with little change in cost

## Now

- The music stopped in the middle of a feeding frenzy
- Rents were in a steep incline before the drop
- Property selling at premium over replacement cost
- Values based on speculative income
- There is little new development

# What does the future bring?

- More space will come on the market
- Prices will continue to drop
- The good stuff will lease first
- Buildings will trade at a discount to replacement cost until supply diminishes
- Rents will stabilize at a number that justifies new construction, 9-11% cap on cost.

## So lets take a trip up the I-95 Corridor



- ✓ Greenwich Office Park
- ✓ Greenwich Plaza
- ✓ 1700 East Putnam

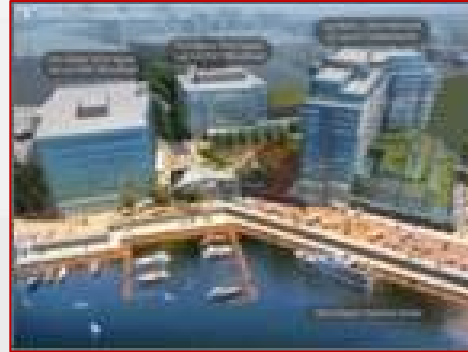
777 West Putnam  
1979 -130,000 sq.ft.  
100% Vacant  
Asking \$50 gross

600 Steamboat Road  
1972 -190,000 sq.ft.  
100% Vacant  
Asking ????

## So lets take a trip up the I-95 Corridor



695 East Main St.  
1984 -581,766 sq.ft.  
100% Vacant  
Asking ????



1&2 Harbor Point Square  
U/C -(2)-140,222 sq.ft.  
(1)-260,272 sq.ft.  
100% Vacant  
Asking \$52 NET

- ✓ South End BLT Portfolio
- ✓ Harbor Park
- ✓ Malkin Properties
- ✓ Long Ridge BLT Porfolio

## So lets take a trip up the I-95 Corridor



- ✓ Rt 7 Corridor
- ✓ Exit 9
- ✓ Darien Exit 11

1 Blachley Road  
1968 -711,000 sq.ft.  
100% Vacant ??  
Asking \$????

95/7 West Avenue  
U/C -256,000 sq.ft.  
-125,000 sq.ft.  
-125,000 sq.ft.  
100% Vacant  
Asking ????

## So lets take a trip up the I-95 Corridor



- ✓ Steel Point
- ✓ Lordship Blvd
- ✓ Milford

100-400 Black Rock Turnpike

Fairfield Metro Center

U/C -194,119 sq.ft.

-192,828 sq.ft.

-245,185 sq.ft.

-216,218 sq.ft.

Asking Price ??????

## So How Much Space Is This??

- 3,367,610 sq.ft. Not including the partially occupied
- Fairfield County Market is 44,000,000 sq.ft.
- Gross annual absorption is  $\pm 4,000,000$  sq.ft.
- Net absorption is about  $\pm 0$
  
- Conclusions
  - Make you money with tenants that stay in place.
  - Renovations of existing buildings
  
- New construction will make sense when tenants are willing to pay the rent!

Thank you for your time and attention!

# Questions???

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# What does rent consist of?

