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## Part 2 - Torto speaks to CRE: Market outlook is positive

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Sales Price Stabilizing

for Core v. Value

Torto stated that there is a 38% decline since 2Q '07 in valued added real estate. There is ample capital. The market has stabilized and pricing is increasing for the first time in the last two years. There is a 30% total decline in size since 2Q'08. The bulk of mortgage maturities are with banks and not the CMBS market

Commercial Mortgage

Maturities

The problem within the commercial banks is with the banks under \$100 billion. They hold the majority of maturing commercial mortgagees. 50% of the problem is with community and smaller banks, construction and development loans. Smaller banks will have a difficult time giving business loans because they have to take care of its mortgage problem

Job market Improvements

Torto stated that the job market will grow but we may be in for a bumpy ride. As compared to 1990 and the 2001 recessions, 1980 was actually a worst recession. We dropped off the table with job losses and now are slowly growing. The economy went 12 months of job losses.

What to Expect?

The economic cycle peak to peak lasted 66 months. At the peak we had 138 million jobs. By the end of 2007 and now we have crashed and lost 8.4 million jobs. The 2Q of '10 Torto sees positive growth. There is a correlation between jobs and the demand for real estate. It's all job related for real estate demand. By 2Q 2013, Torto sees the job market peaking. From 3Q '07 to 4Q '09, it took 30 months from peak to bottom of the cycle. This is now the "new normal." Torto expects to see positive job growth by the 2Q '10 but it will be a long haul to the peak. It is the first time since the end of WWII that a decade went by without any job growth. The U.S. economy is headed for a "U" shaped recovery over the next 4 year period. The economy has lost 8 million jobs but there are also 2 million jobs unfilled.

The Feds

Torto feels the Feds has done a good job so far with the housing issue and depressing interest rates. But we still have issues with the national debt and inflation. Banks are increasing their cash position, not lending but positioning themselves for any looming mortgage losses. FDIC may have to step in, Torto believes, to bail out any smaller banks once the collapse starts while the large banks are better positioned to survive. Many of the maturing mortgages are being extended by smaller banks in hopes that with positive cash flow properties, these mortgages will survive another 10 years.

## New Capital

Torto sees fresh money coming from the Middle East and high net worth individuals. The goals for these investors is strictly capital appreciation and bequeath these properties to their children; it is not for resale purposes. The capital is not coming from institutional investors.

## Occupancy Issues

Rents are still moving downward. All commercial properties are historically high with vacancy rates. It will take until 2011-15 to return to a "natural rate". The leasing market will stabilize this year and its causing prices to rise ahead of any surge in the market. Investors are trying to buy near this bottom of the cycle.

The 4Q '09 vacancy rates were as follows: office: 16.3%; industrial 13.9%; retail 12.2%; multi-family 7.4% and hotels 41.1%.

Boston is doing better than the U.S. has a whole due to its educational and medical industries. Industrial real estate is the only property not doing well. Overall we are in better shape now than one year ago. There will be very little new development in the next few years. There just are too many existing building out there to buy and to fill with tenants.

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