

Presented by



*Private
Wealth*



Robert A. Stanger & Co. LLC

2ND ANNUAL

Innovative REAL ESTATE STRATEGIES

HOW ADVISORS CAN ACHIEVE PORTFOLIO
DIVERSIFICATION THROUGH REAL ESTATE

PANELISTS

Vijay J. Marolia, MBA, CFP

Chief Investment Officer
Private Wealth Management

Tom Silvia

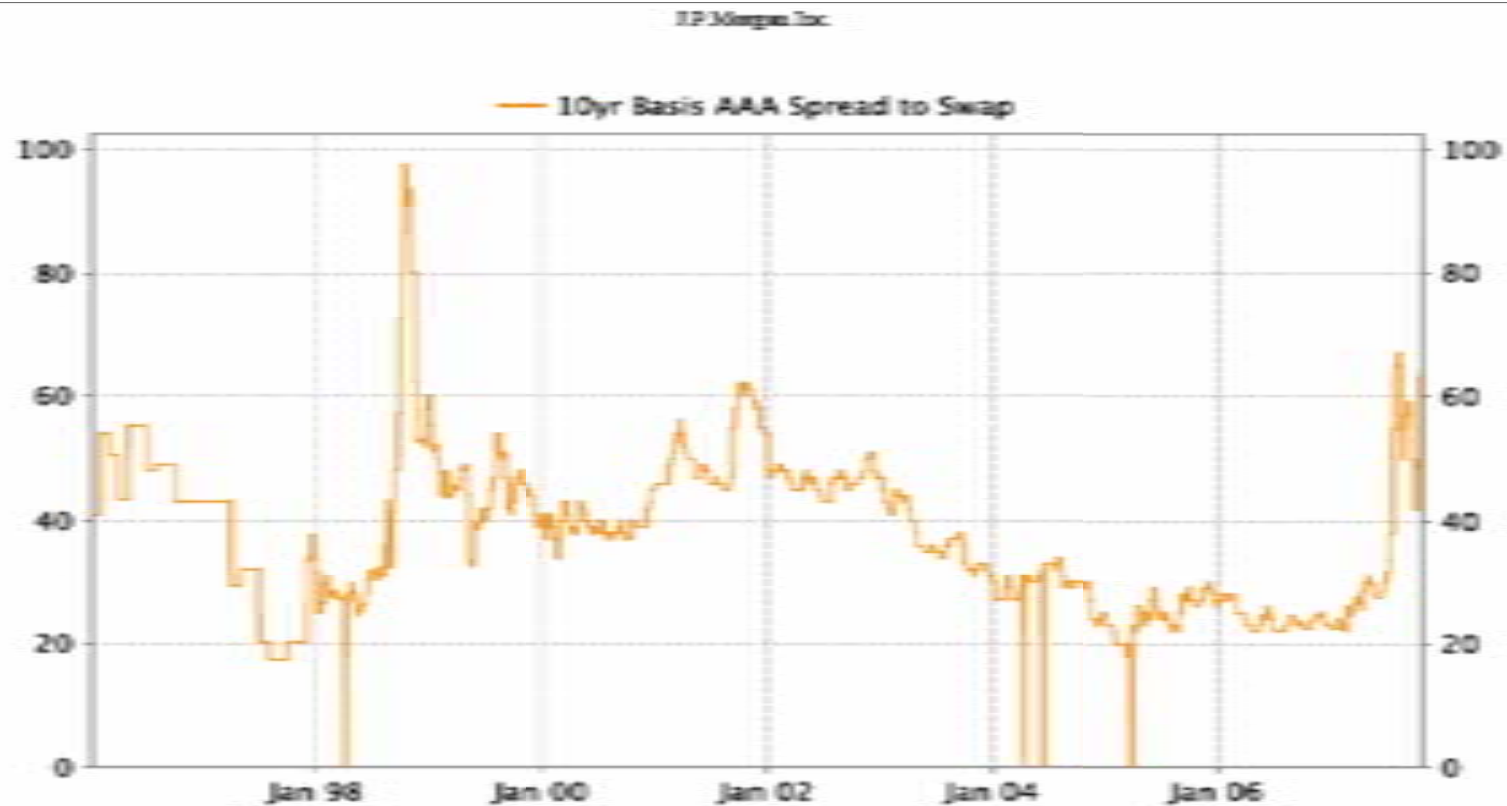
CFO
VineBrook Partners

W. Timothy Toole

President
NorthStar Realty Securities, LLC

**Understanding
Real Estate-
Related Debt
Investments
and Current
Market
Opportunities
in Distressed
Debt**

A Picture is Worth a Thousand Slides



Presented by



Private
Wealth

Robert A. Stanger & Co. LLC



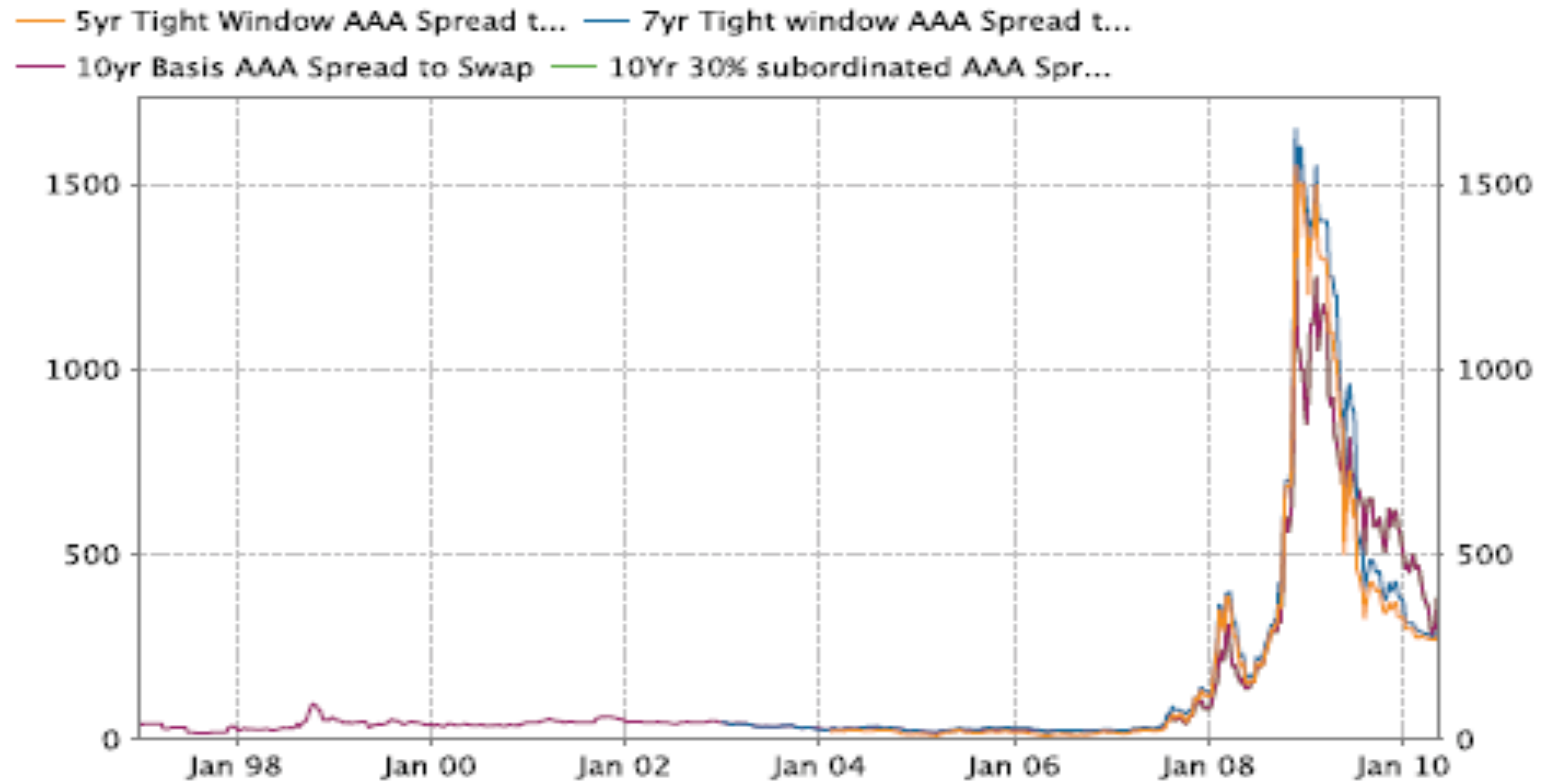
2ND ANNUAL

Innovative REAL ESTATE STRATEGIES

HOW ADVISORS CAN ACHIEVE PORTFOLIO DIVERSIFICATION THROUGH REAL ESTATE

AAA Cash Spreads

Sub-Prime Crash-2007



Presented by



*Private
Wealth*

Robert A. Stanger & Co. LLC



2ND ANNUAL

Innovative **REAL ESTATE STRATEGIES**

HOW ADVISORS CAN ACHIEVE PORTFOLIO DIVERSIFICATION THROUGH REAL ESTATE

Presented by



*Private
Wealth*



Robert A. Stanger & Co. LLC

2ND ANNUAL

Innovative REAL ESTATE STRATEGIES

HOW ADVISORS CAN ACHIEVE PORTFOLIO
DIVERSIFICATION THROUGH REAL ESTATE

PANELISTS

Vijay J. Marolia, MBA, CFP

Chief Investment Officer
Private Wealth Management

Tom Silvia

CFO
VineBrook Partners

W. Timothy Toole

President
NorthStar Realty Securities, LLC

**Understanding
Real Estate-
Related Debt
Investments
and Current
Market
Opportunities
in Distressed
Debt**

Understanding Real Estate-Related Debt Investments & Current Market Opportunities in Distressed Debt

Debt Pricing – What Goes Into Yield?

- 🍃 *Inflation*
- 🍃 *Real yield*
- 🍃 *Maturity*
- 🍃 *Structure*
- 🍃 *Credit*
- 🍃 *Liquidity*

Presented by



*Private
Wealth*

Robert A. Stanger & Co. LLC



2ND ANNUAL

Innovative **REAL ESTATE STRATEGIES**

HOW ADVISORS CAN ACHIEVE PORTFOLIO DIVERSIFICATION THROUGH REAL ESTATE

Understanding Real Estate-Related Debt Investments & Current Market Opportunities in Distressed Debt

Historic & Current Pricing of Debt & Equity:

	Long-Term Historic Rate	Standard Deviation	Current Pricing
Inflation	3.0%	3.0%	2.0%
Treasury Bills	0.7%	3.1%	-1.9%
5-Yr Treasury	2.3%	5.7%	-1.1%
Intermediate Corporate Bonds	2.8%	8.6%	0.2%
Large Cap Stocks	7.0%	20.4%	5.5%
Small Cap Stocks	9.3%	33.0%	7.0%

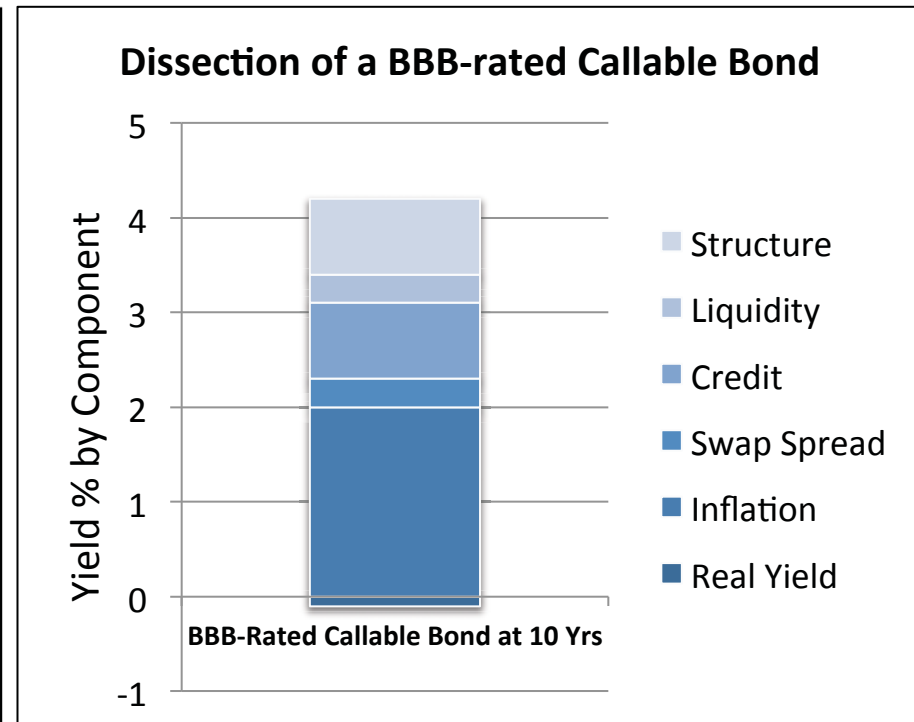
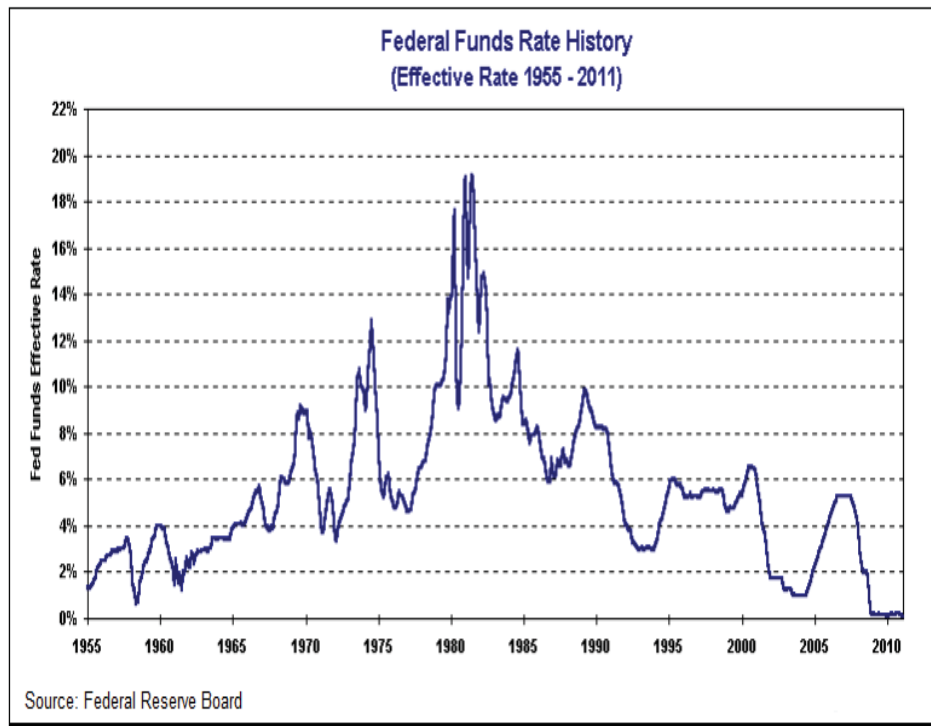
Other Markets	
FNM Current Coupon	2.84%
CMBS AAA 5-Yr	2.75%
Equity Res. BBB+	2.60%

The debt markets are very expensive. Searching for alternative strategies is highly worthwhile.

All numbers except inflation are real returns

Understanding Real Estate-Related Debt Investments & Current Market Opportunities in Distressed Debt

The Foundation for Debt Pricing is the Federal Funds Overnight Rate: **0.00%**



Presented by



Private
Wealth

Robert A. Stanger & Co. LLC



2ND ANNUAL

Innovative REAL ESTATE STRATEGIES

HOW ADVISORS CAN ACHIEVE PORTFOLIO DIVERSIFICATION THROUGH REAL ESTATE

Understanding Real Estate-Related Debt Investments & Current Market Opportunities in Distressed Debt

- ***Innovative Strategies*** – Equity like returns with bond volatility
- ***Focus on Sectors That Have Been Disrupted, Regulated, and That Are Small***
- ***Direct Lending*** – Bank oversight and risk taking has moved away from the sector: 12%
- ***Mezzanine Finance*** – Traditional financing is still challenging: 8-10%
- ***Orphan Sectors*** – Non-Agency RMBS: 10%
- ***Replace Debt with Similar Cash Flow & Volatility*** – Single family REO-to-rent

Presented by



*Private
Wealth*

Robert A. Stanger & Co. LLC

2ND ANNUAL

Innovative REAL ESTATE STRATEGIES

HOW ADVISORS CAN ACHIEVE PORTFOLIO
DIVERSIFICATION THROUGH REAL ESTATE

PANELISTS

Vijay J. Marolia, MBA, CFP

Chief Investment Officer
Private Wealth Management

Tom Silvia

CFO
VineBrook Partners

W. Timothy Toole

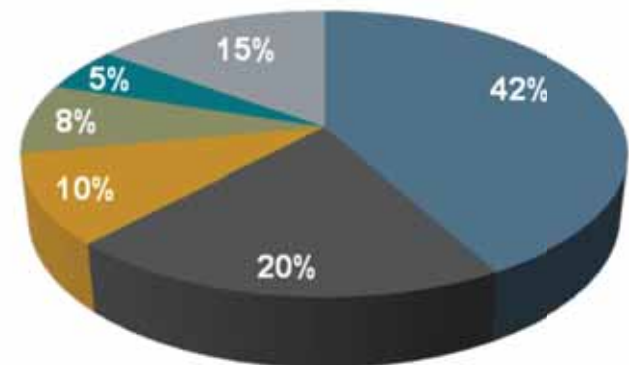
President
NorthStar Realty Securities, LLC

**Understanding
Real Estate-
Related Debt
Investments
and Current
Market
Opportunities
in Distressed
Debt**

Sources of Debt

- ▶ Traditional sources of CRE debt capital remain under stress and are not functioning at their historical capacity.
- ▶ Commercial banks estimated to hold \$1.5 trillion or 42% of commercial mortgages and have limited capital to make new loans.
- ▶ Life insurance companies are also beginning to come back into the market but only for specific asset types.
- ▶ Although 2010 origination volume increased when compared to 2009 (the decade's trough), 2010 was still 77% lower than 2007 (the decade's peak).

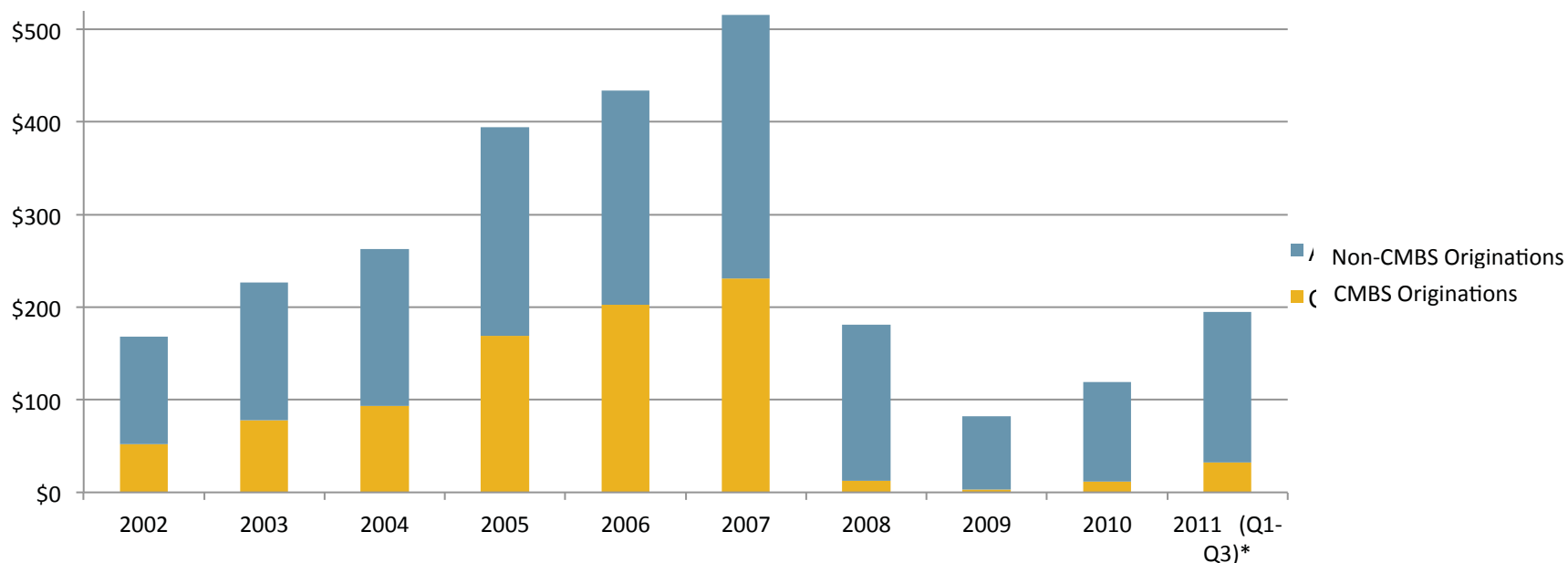
Total of \$3.1 Trillion CRE Debt Outstanding



U.S. Commercial Real Estate Originations

- ▶ US Commercial Real Estate Originations peaked in 2007 with low-cost, CMBS lending as a key driver.
- ▶ 2007 to 2009 (peak to trough), total origination volume declined by 84%; CMBS issuance nearly shut-off while decreasing by 99%.

Total Annual Originations (\$ in billions)



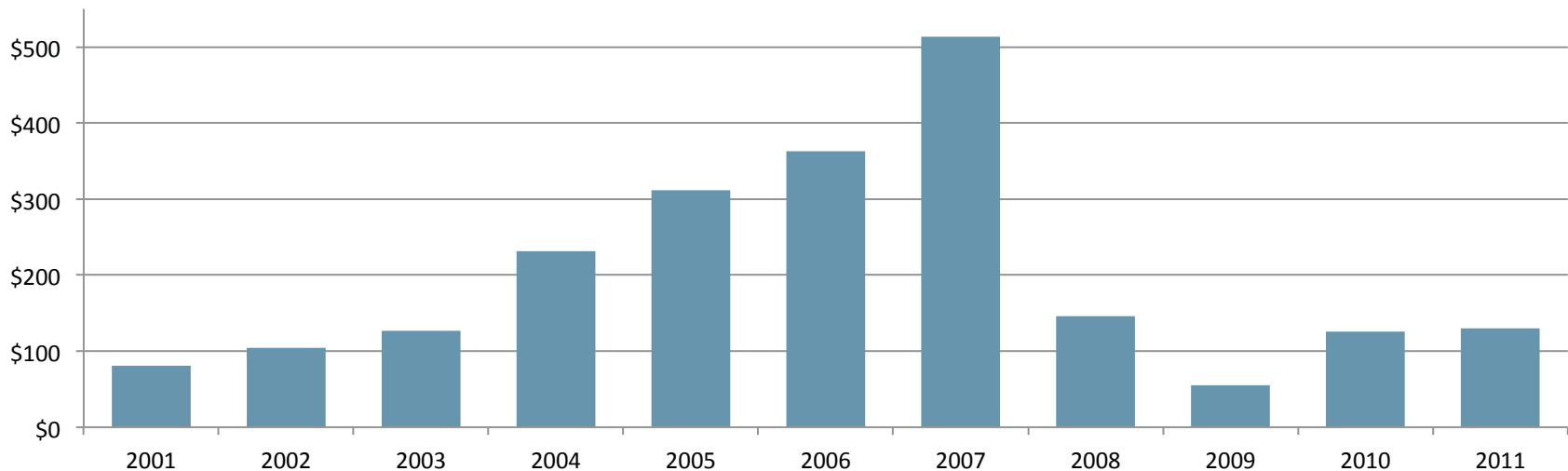
Source: Mortgage Bankers Associations Annual Origination Volume Summation 2010 . This information was received from sources believed to be reliable and accurate. However, no representation or warranty is made as to such accuracy. Readers should consult primary sources where appropriate.

* Mortgage Bankers Origination Index estimates quarterly origination volume, which was extrapolated against actual historical originations.

CRE Transaction Volume

- ▶ Severe and prolonged decline in CRE transaction volume.
- ▶ Valuations are 46% higher than the lows of second quarter of 2009, but are very market/asset specific.

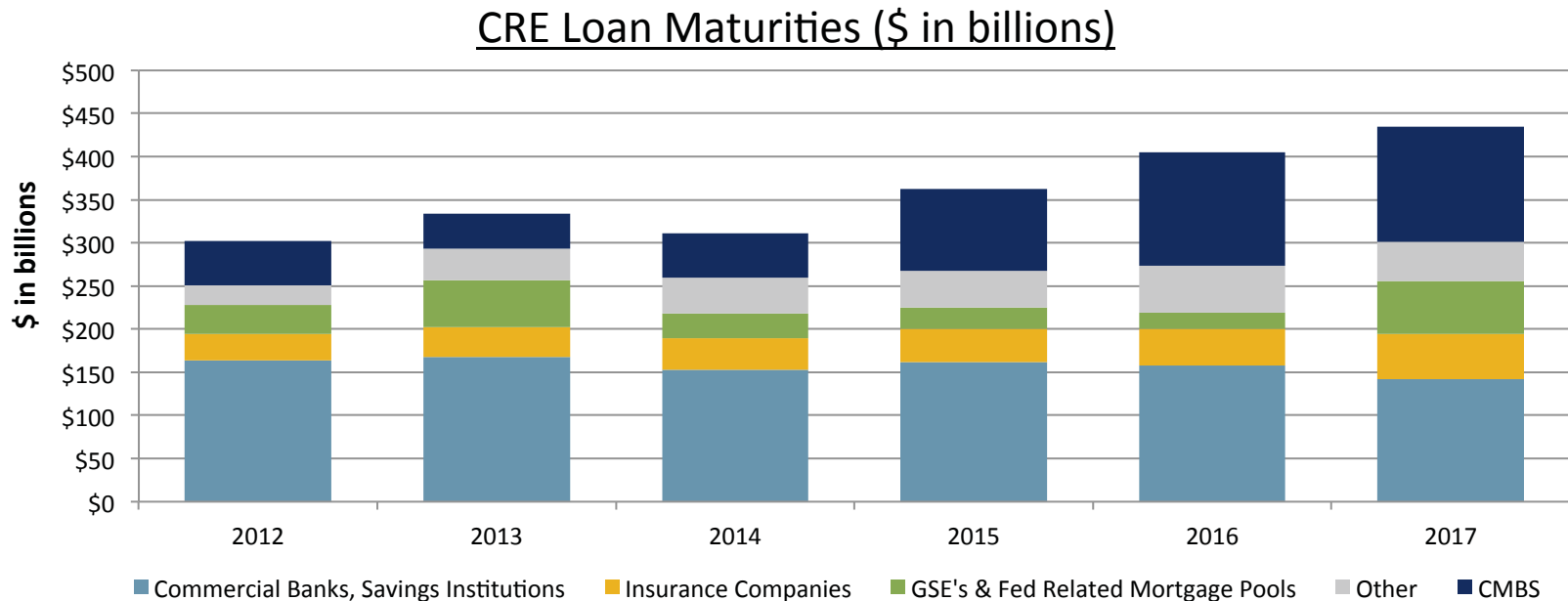
CRE Transaction Volume (\$ in billions)



Source: Real Capital Analytics (www.rcanalytics.com). As of November 2011. Based on independent reports of properties and portfolios \$5 million and greater. This information was received from sources believed to be reliable and accurate. However, no representation or warranty is made as to such accuracy. Readers should consult primary sources where appropriate.

CRE Loan Maturities

- ▶ Large volume of near-term CRE loan maturities with historically limited sources of new capital (unchanged)
- ▶ Maturity extensions continue to be a common theme for lenders – delaying rather than removing demand from the system
- ▶ Over the next three years approximately \$7 trillion of CRE loans will require resolution providing ample opportunity for NSREIT to selectively offer capital to strong sponsors / high quality properties



Source: Source: Barclays Capital U.S. Securitized Products: Outlook 2012. Compiled using data from US Federal Reserve, Index, and Barclays Capital.

Understanding Real Estate-Related Debt Investments & Current Market Opportunities in Distressed Debt

CMBS

- ▶ CMBS originators manufacture loans specifically to be sold off to investors, and are hedged during this period
- ▶ When markets are volatile hedging strategies can be ineffective

Commercial Banks

- ▶ Primary focus is on cleaning up portfolios of existing loans
- ▶ New origination activity is targeted at low-leverage loans with strict terms (i.e. full recourse)
 - ▶ Are only able to address a small sub-set of potential borrowers that require new debt capital

Presented by



*Private
Wealth*

Robert A. Stanger & Co. LLC



2ND ANNUAL

Innovative **REAL ESTATE STRATEGIES**

HOW ADVISORS CAN ACHIEVE PORTFOLIO DIVERSIFICATION THROUGH REAL ESTATE

Understanding Real Estate-Related Debt Investments & Current Market Opportunities in Distressed Debt

- ▶ A significant imbalance between commercial real estate debt capital supply and demand has created a compelling investment environment
- ▶ The Sponsor has the specific expertise and track record in making commercial real estate debt investments
- ▶ Taken together, we believe a significant opportunity exists to make investments for NorthStar REIT with risk-return characteristics that are potentially favorable to our shareholders



2ND ANNUAL
Innovative REAL ESTATE STRATEGIES
HOW ADVISORS CAN ACHIEVE PORTFOLIO DIVERSIFICATION THROUGH REAL ESTATE

Understanding Real Estate-Related Debt Investments & Current Market Opportunities in Distressed Debt

Follow-Up & Questions

Presented by



Private
Wealth

Robert A. Stanger & Co. LLC



2ND ANNUAL

Innovative **REAL ESTATE STRATEGIES**

HOW ADVISORS CAN ACHIEVE PORTFOLIO DIVERSIFICATION THROUGH REAL ESTATE