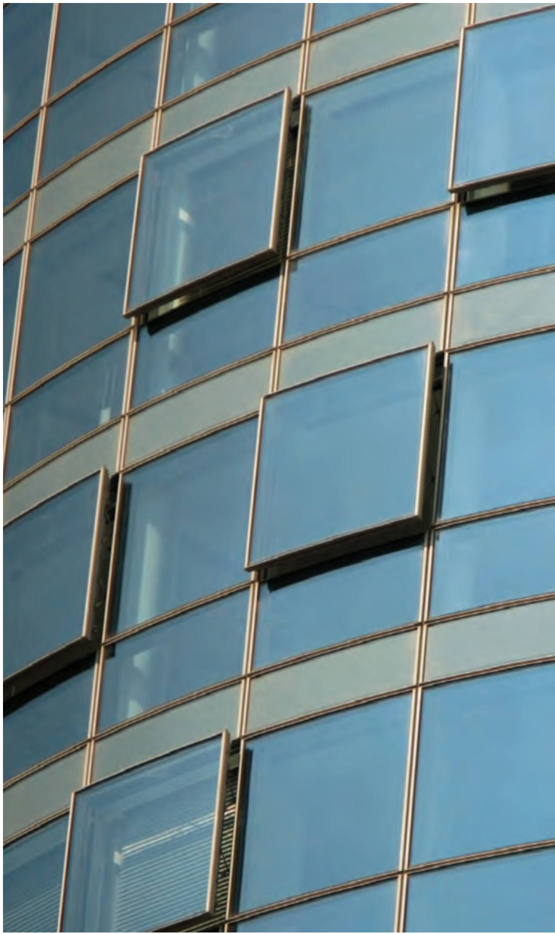

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ASSET MANAGEMENT

The Great Recapitalization: Maturing Mortgage Debt Wave Creates Value Opportunities

By

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Executive Summary

Investment professionals at Urdang Capital Management, Inc., discuss historic opportunities in the commercial real estate (CRE) market as about $1.7 trillion in CRE debt is set to mature over the next four years. They argue that amid substantial property value declines and high delinquency rates in commercial mortgage-backed securities (CMBS), there are likely to be especially favorable buying opportunities at attractive valuations. They trace the evolution of the CRE market over the last 20 years and discuss why they believe current conditions create a favorable market entry point for value-conscious investors.

The financial crisis and Great Recession of 2008/2009 created a perfect storm for commercial real estate market fundamentals and values. After beginning to stabilize in 2010, broad market commercial property price indices remain 35% to 46% below market peak levels.[1] Weighed down by increasing sales of distressed assets, values have barely begun to recover outside of high-end core/trophy properties in a handful of top tier U.S. markets.

In all, $1.7 trillion of commercial real estate debt is set to mature from 2011 through 2015;[2] much of it originated at the peak of the past market cycle in 2005 through 2007. Lenders' "extend and pretend" approach helped to avert a 1990s-like massive transfer of distressed assets at the bottom of the market. Eventually, however, deferred capital expenditures will require owners to invest additional equity or dispose of their assets. With banks increasingly willing to negotiate and CMBS delinquencies at an all-time high, we believe there will be increasing opportunities to purchase or recapitalize over-leveraged assets, as "extend and pretend" gives way to "put up or shut up".

The reset basis at which such properties may be acquired will likely enable the new ownership to offer lower rental rates and better improvement/concession packages than comparable properties with greater debt burdens — a significant competitive advantage in periods of weak demand.

We believe value-conscious investors willing to broaden geographic emphasis and property risk profiles are likely to have the opportunity to be rewarded with excess risk-adjusted returns, as the possibility of higher interest rates and inflation in the coming years might make fully-priced core assets with limited income growth potential less valuable, and as investors' perceptions of risk evolve.

1 CoStar Investment Grade Price Index and Moody's/REAL Commercial Property Price Index (each as of May 2011).

2 Trepp LLC, April 2011.

We believe some of the keys to success in value-oriented real estate investing are:

- Access to over-leveraged quality properties directly from lenders and motivated sellers, or from owners in need of an infusion of equity to refinance maturing debt
- Deep local market knowledge needed to properly underwrite investment opportunities, along with the operational capabilities necessary to execute a property turnaround
- Prudent use of leverage
- Sale discipline

The explosive growth of mortgage securitization fueled an unprecedented increase in commercial property transaction volume in the 2000s.

How Did We Get Here?

Over the past two decades the commercial real estate capital markets have evolved dramatically. In the wake of the infamous savings and loan crisis and resulting real estate crash of the early 1990s, the financing of commercial property was transformed. Among other things, the fallout of that crisis gave rise to the modern Real Estate Investment Trust (REIT) era and became the catalyst for the emergence of real estate opportunity funds, providing the industry with greatly expanded access to capital — private and public, domestic and global, institutional and retail. The explosive growth of mortgage securitization fueled an unprecedented increase in commercial property transaction volume in the 2000s.

While originally regarded as a comparatively stable, income-oriented investment expected to perform between fixed income and public equities, real estate was now in the high return business, morphing from an alternative or tactical category into a strategic asset class with its own seat at the allocation table, offering a menu of risk/return and investment vehicle options. As interest rates fell during the 1990s and 2000s and confidence in real estate as an asset class grew, capitalization rates compressed (i.e., multiples increased) and risk premiums narrowed.

With an expanding economy and growing capital flows, times were good: from 1996 through 2008, the NCREIF Property Index, a commonly cited proxy for the U.S. institutionally-held commercial real estate market, reported valuation increases in 42 of 49 quarters. The 12-year bull market was interrupted only by valuation decreases from late 2001 through early 2003 — coinciding with 9/11, the ensuing mild recession and its aftermath — which ultimately totaled a modest 3.5%. NCREIF's cumulative net valuation increase for the cycle was 72%.[3]

But like the increasingly distant memory of a favorite team's championship season of days gone by, the real estate equity market never forgot those 20%+ equity returns of the 1990s — and spent the next decade attempting to wring similar returns from an asset class not equipped to produce them. With the aid of an obliging credit market, increasingly greater leverage and asset risk were employed in pursuit of unsustainable performance targets.

3 Based on data from the NCREIF Property Index, July 2011.

The forces set in motion by the implosion of the credit markets in 2007/2008 combined with the sharpest economic downturn in over half a century, had a devastating impact on property market fundamentals.

The Perfect Storm

The forces set in motion by the implosion of the credit markets in 2007/2008 combined with the sharpest economic downturn in over half a century, had a devastating impact on property market fundamentals. Rental rates and occupancy levels declined significantly across all major property sectors as tenant demand evaporated.

After a record issuance of $230 billion in 2007,[4] the CMBS market, which had pumped hundreds of billions of dollars of inexpensive and often poorly underwritten debt into the real estate markets over the previous cycle, completely shut down. Balance sheet lenders such as commercial banks and life insurance companies tightened underwriting standards and slashed production. As a result, commercial property transaction activity fell to 10% or less than that of the market peak, to levels not seen since the early 1990s.[5] Bid/ask spreads between distress-seeking buyers and stunned owners ballooned.

The perfect storm of severe recession and capital market shutdown brought an abrupt and dramatic end to the era of falling capitalization rates and rising property values. According to transactional data from CoStar,[6] average capitalization rates increased from 5.9% in Q4 2007 to approximately 8.0% in Q4 2009, representing a 26% reduction of earnings multiple.

The U.S. commercial real estate market endured perhaps the worst year in its modern history in 2009. The NCREIF Property Index registered the largest annual valuation decline in its 32-year history. Its capital return of -22.0% was almost twice its previous largest annual valuation loss, and its total return of -16.8% (including income) was by far the worst in its history. As measured by the NCREIF Property Index, property values ultimately dropped by 32% from the market peak in Q1 2008 to the bottom in Q1 2010, equal to the decline of the 1990s real estate crash but recognized in one-third of the time.[7]

4 *Institutional Investor,* May 2011.

5 Real Capital Analytics, May 2011.

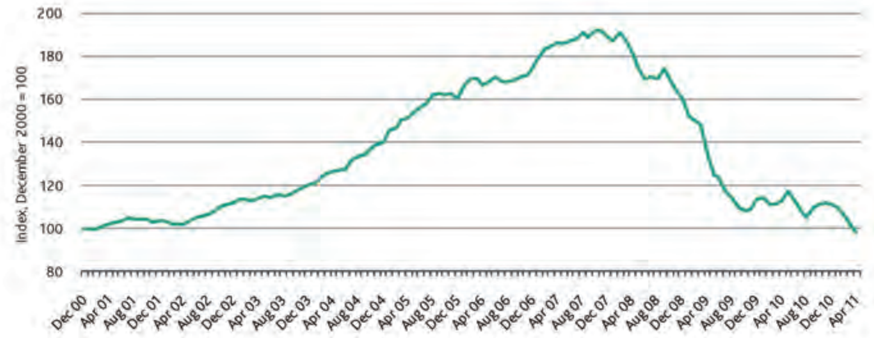
6 Urdang and CoStar Comps Database, March 2011.

7 Based on data from the NCREIF Property Index, July 2011.

Transaction-based indices, such as the Moody's/REAL Commercial Property Index (Exhibit 1) and the CoStar Investment Grade Property Index (April 2011), have reported value losses of 40% or more, fully reflecting the impact of distressed transactions that have occurred. Highly leveraged investors have had their equity wiped out, and even moderately leveraged investors have suffered severe — if as yet largely unrealized, losses.

Fearful of the damage to the banking system if these loans were marked to realizable value in a barely functioning market, the government supported "extend and pretend" with regulatory liberalization.

Exhibit 1 – Moody's/REAL Commercial Property Price Index (CPPI)
National: All Property Type Aggregate



Based on data through the end of April 2011.
Source: Moody's Investors Service

Extend and Pretend

Depending upon the degree of value loss and the level of leverage employed, lenders were often absorbing losses as well. In the face of these staggering declines, and seeking to avert a 1990s-like massive transfer of distressed assets at the bottom of the market, lenders quickly adopted the "extend and pretend" approach, i.e., providing extensions for maturing "underwater" yet performing loans, in the hope that property values will recover over the next several years. Fearful of the damage to the banking system if these loans were marked to realizable value in a barely functioning market, the government supported "extend and pretend" with regulatory liberalization.

The Bottom

Led by a revival of the credit markets, the U.S. commercial real estate market began a tentative and uneven recovery in 2010.

Led by a revival of the credit markets, the U.S. commercial real estate market began a tentative and uneven recovery in 2010. Loan origination activity increased by 36% over that of 2009, in spite of a decline in production from Fannie Mae and Freddie Mac and microscopic issuance in the CMBS market. Life insurance companies, traditionally the most conservative underwriters of real estate debt based on their low default rates, led the way, originating over 2.5 times the volume of loans as in 2009.[8] Overall activity accelerated in the fourth quarter, with originations up 63% over that of the third quarter and 88% over the fourth quarter of 2009.[9]

Transaction activity gained momentum as the year 2010 progressed. According to transactional data from the CoStar Group,[10] volume increased each quarter for the four primary property types (apartments, office, industrial, and retail), reaching approximately $38 billion in Q4 2010, more than triple that of the market lows of Q1/Q2 2009, and the highest level since Q4 2007. For the year as a whole, transaction volume of approximately $94 billion represented an increase of 68% over the 2009 total.

On the fundamental side, national occupancy rates increased for each of the four major property types during 2010. Rental rates increased nationally for apartments, and briefly turned upward for office properties in Q4 2010. National rental rates for industrial and retail properties have yet to rebound.[11]

The Trophy Bubble

Mirroring the "flight to safety" of the broader capital markets in the wake of the financial crisis, which saw 10-year U.S. Treasury yields decline from 5.2% in June 2007 to 2.2% in December 2008,[12] as capital began to return to real estate in 2010 it did so primarily in the upper-end core/ trophy category. Commercial properties with long-term in place and creditworthy tenants as well as high quality apartments have attracted a disproportionate amount of capital flows. Open-ended core funds turned 180 degrees, shifting from exit queues in 2009 to entry queues in 2010.

8 Source: Mortgage Bankers Association, February 2011.

9 Source: Mortgage Bankers Association, February 2011.

10 Urdang and CoStar Comps Database, March 2011.

11 Urdang and CoStar Property Database, July 2011.

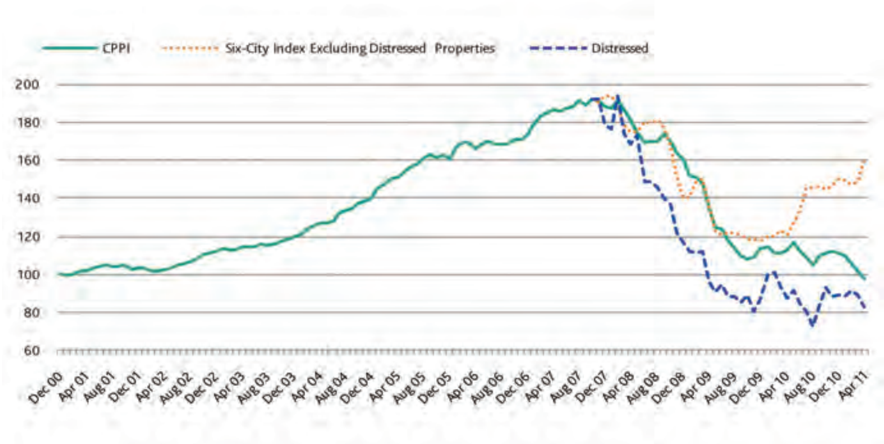
12 Federal Reserve, July 2011.

This phenomenon gave rise to a bifurcated — some would say trifurcated — transaction market: vast quantities of dollars chasing stable core and trophy properties in select markets, capital on the sidelines waiting for distressed transactions to become available, and little interest in non-stabilized properties or secondary markets.

This phenomenon gave rise to a bifurcated — some would say trifurcated — transaction market: vast quantities of dollars chasing stable core and trophy properties in select markets, capital on the sidelines waiting for distressed transactions to become available, and little interest in non-stabilized properties or secondary markets. Recent data from the Moody's/REAL Commercial Property Price Index (Exhibit 2) indicates that non-distressed major assets in the top six U.S. markets (New York, Washington, D.C., Boston, Chicago, San Francisco, and Los Angeles) have recovered more than 50% of their peak-to-trough losses, while the overall market remains mired at or near bottom at roughly half of peak value.

Anecdotally,[13] recent Manhattan transactions have featured the highest price paid for a condominium conversion opportunity since 2007, a 43-story apartment building that sold for 42% more than it did in 2009, and a 36-story office building that sold for an eye-popping $845 per square foot at a quoted capitalization rate of 4%.

Exhibit 2 – From the Lab: Performance Comparison Between CPPI, Six-City Index and Distressed Since Peak



Based on data through the end of April 2011.
Source: Moody's Investors Service

13 "Bubble Trouble?," http://therealdeal.com, *New York Real Estate News,* July 1, 2011.

Lest we forget, the downturn began with the bursting of the single-family housing bubble, which had propped up an overextended economic expansion, and the related implosion of the subprime residential mortgage market.

U.S. Economy: The Not-So-Great Recovery

The National Bureau of Economic Research (NBER, September 2010) determined that the "Great Recession" ended in June 2009, making it the longest as well as the deepest economic downturn of the post-World War II era. As evidence of the uncertainty that lingers in the wake of the recession, the NBER's determination came in September 2010, 15 months after the declared end of the downturn.

Real GDP[14] increased by 2.9% in 2010, above the long-term trend rate of 2.5% and a nice reversal of the 2.6% decrease of 2009, but considerably less robust than the pace of recoveries from previous severe recessions. GDP, employment data and forecasts released as of August 2011 suggest that, in spite of accommodative monetary and fiscal policy, the U.S. economy is not likely to grow considerably hotter in 2011.

This might be just the beginning of a multi-year period of uninspiring growth. The International Monetary Fund (IMF, June 2011) projects that U.S. real GDP growth will be under 3% each year through 2016. First on the IMF's list of five top risks facing the U.S. economy over that period: continuing housing market weakness.

Lest we forget, the downturn began with the bursting of the single-family housing bubble, which had propped up an overextended economic expansion, and the related implosion of the subprime residential mortgage market. As of the date of this paper, new and existing home sales continue to decline, housing starts are at historical lows, and median home prices are still trending lower, as the prolonged slump drags on with no apparent end in sight. The housing industry is a critical component of both employment and household wealth. We believe robust GDP growth and consumption are unlikely to resume in the absence of a revival of the housing market.

The future direction of interest rates is the subject of much discussion, debate and concern. In the near term, it is certainly in the government's best interest for rates to stay low, and the Fed has clearly indicated that it will do what it takes to keep them low. However, with rates lingering near historic lows as of July 2011, it seems probable that rates will increase in the coming years, particularly as the economy recovers and the Fed normalizes its unprecedentedly accommodative monetary policy. With the growth in global demand for energy and natural resources, commodity-driven inflation also has to be considered a threat over the mid to long term.

14 Bureau of Economic Analysis, March 2011.

Commercial Real Estate (CRE) Fundamentals

As it relates to the recovery of property market fundamentals, which generally lag the overall economy, the bottom line is simple: demand is dependent upon jobs. Other than perhaps in the apartment sector, which benefitted from the collapse of the housing market, we believe fundamentals will not recover meaningfully until the economy is consistently adding jobs. Approximately 1.1 million net new jobs were created in 2010. Property and Portfolio Research (January 2011) projects that at least 1.5 million new jobs will be added in 2011, still leaving a huge remaining gap toward replacing the more than 7 million jobs lost during the recession, plus workforce growth. The U.S. unemployment rate remains stubbornly high at above 9% as of June 2011.[15]

As it relates to the recovery of property market fundamentals, which generally lag the overall economy, the bottom line is simple: demand is dependent upon jobs.

At least one of the key causes of the last major real estate downturn was not repeated. Unlike the crash of the 1990s, which was fueled in large part by excessive development, supply additions have been minimal for each of the major property types over the past several years. The development pipeline has been choked off: projected completions are at historically low levels. With distressed properties trading at deep discounts to replacement cost, it is likely that the disruption of the CRE supply chain will largely continue as the market resolves underwater loans over the next several years. That may enable occupancy and rental rates to improve promptly as demand increases.

The Great Recapitalization

"Extend and pretend" helped to avert a massive 1990s-like transfer of assets at the bottom of the market, which would have wreaked havoc on an already badly strained U.S. banking system and further harmed the ailing economy. With their balance sheets healthier thanks to the Federal Reserve's accommodative monetary policy of the past several years, banks are now better able to absorb losses on asset dispositions. Even the regulators have changed sides: in October 2009, the FDIC[16] adopted a policy supporting "prudent commercial real estate workouts."

According to data compiled by Trepp LLC,[17] approximately $1.7 trillion of commercial real estate debt is scheduled to mature through 2015 (Exhibit 3), much of it originated during the frothy years of 2005 through 2007. Broad market commercial property price indices remain at or near the market bottom. Values have barely begun to recover outside of high-end core/trophy properties in top-tier markets. As a result, Trepp estimates that 60% of the loans scheduled to mature over the coming five years are "underwater" (Exhibit 3), i.e., the realizable value of the collateral is less than the amount owed to the lender.

15 Bureau of Labor Statistics, July 8, 2011.

16 FDIC press release dated October 30, 2009.

17 Trepp LLC, April 2011.

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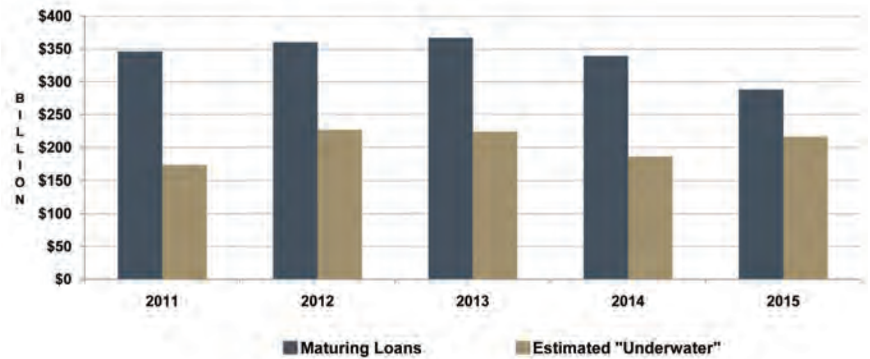
With banks ready to negotiate, CMBS delinquencies at all-time highs, and special servicers overwhelmed with volume, we believe there have been and will continue to be increasing opportunities to purchase distressed properties and mortgage loans. Also, with the drop in values, many otherwise healthy properties that are not "underwater" will nevertheless need an infusion of additional equity in order to refinance maturing mortgages. Distressed transaction activity is on the rise: CoStar[18] reports that the percentage of distressed sales of investment-grade properties has increased from 35% in 2010 to 42% this year amid increasing volume.

Exhibit 3 – Commercial Real Estate Mortgages Loan Maturities 2011-2015



Source: Trepp LLC, April 2011.

It's All About the Basis

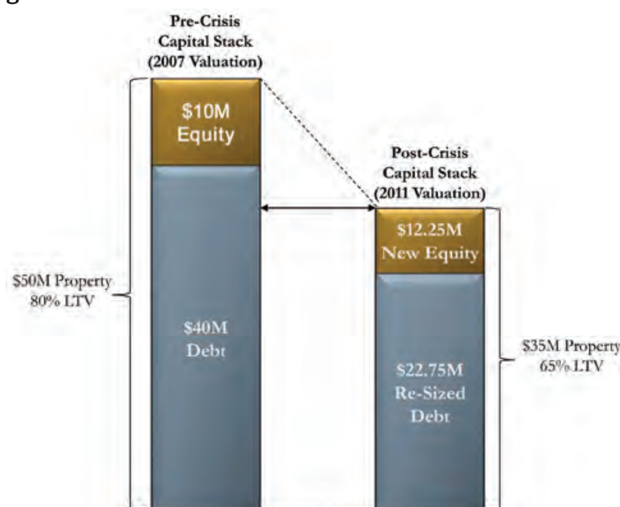
The reset basis at which distressed properties are acquired enables the new ownership to invest capital to cure deferred maintenance needs and upgrade systems and finishes while offering lower rental rates than comparable properties with greater debt burdens — a critical competitive advantage in periods of weak demand. Whereas high-basis owners may not be willing (or able) to fund leasing costs needed to retain or attract tenants, such costs are economically viable for post-distressed properties.

18 CoStar National News, June 8, 2011.

We believe this basis disparity — and the inherent competitive advantage that it creates — makes it possible for today's purchaser to add value to properties even as rental rates are flat or declining. We believe adding value to low basis properties will be the operational cornerstone of real estate investment performance over the next several years.

Unlike during the days of the Resolution Trust Corporation of the early 1990s, however, readily available "low hanging fruit" has thus far been in limited supply.

Exhibit 4 – Illustration of Pre and Post Crisis Property Valuations and Leverage Ratios



This graphic illustrates the impact of a 30% value decline on a hypothetical asset purchased at the market peak and leveraged at 80% loan-to-value. The value loss entirely wipes out the owner's equity and impairs the loan. Assuming a new loan can be obtained at a 65% loan-to-value ratio, a significant infusion of new equity capital will be required.
Source: Urdang

Implementing a Value-Oriented Real Estate Investment Strategy

The opportunity unfolding before value conscious real estate investors takes a variety of forms, including:

- Bank-held properties ("REO")
- "Short" (pre-foreclosure) sales
- Motivated sales by distressed owners
- Mortgage note purchases ("loan-to-own")
- Recapitalizations of overleveraged but otherwise healthy properties
- Excess corporate real estate

Unlike during the days of the Resolution Trust Corporation of the early 1990s, however, readily available "low hanging fruit" has thus far been in limited supply. Distressed assets being liquidated by large money center banks are typically widely marketed and competitively bid upon, while those held by local and regional banks are often handled quietly without exposure to the market at large. As a result, the first key to success in today's less kind, less friendly real estate market is access to over-leveraged quality properties directly from lenders and motivated sellers, or from owners in need of an infusion of equity to refinance maturing debt.

We believe the essence of a value-added business plan is two-fold: increase income, decrease risk.

Boots on the Ground

As discussed above, over the past two decades the real estate asset class has established its place in the global capital markets. In contrast, property operation and management remains very much a local business, requiring deep knowledge of economic drivers, preferred locations, and rental rates. We believe well-aligned joint ventures with proven local operating companies can be a highly efficient and effective way for institutional investors to gain access to quality investment opportunities, along with the operational capabilities needed to implement the turnaround of formerly underperforming properties.

Through their relationships with local and regional lenders, brokers, and service providers, well-established operators are generally able to secure opportunities to acquire desirable properties at favorable off-market pricing. The track record and reputation of the operator and its capital partner, specifically the demonstrated ability to perform, are essential to gaining control of non-marketed properties.

As a general statement, the operating partner's interests are aligned through meaningful capital investment, "carve-out" guarantees to mortgage lenders, and through back-end economic incentives. The capital partner retains control through approval over operating and capital budgets, financing, and sale, and through the ability to replace property management and leasing teams (including when provided by the operating partner's affiliate).

Manufacturing Core

We believe the essence of a value-added business plan is two-fold: increase income, decrease risk. By improving a property's physical condition and competitive position, leasing vacant space, and stabilizing the rent roll — in short by fixing the property's capital and/or operating problems — formerly distressed assets may be restored to "core" status. Upon completion of the business plan, the property may be sold into the high demand for core investments or held for several years in order to enjoy its enhanced cash return.

Target Markets

At most points in the cycle, we believe the overweighting/underweighting of property sectors within a diversified real estate portfolio can make or break overall performance. For example, the performance of the office sector is highly cyclical; in our view, properly gauging the prospects for that sector is critical to portfolio construction, particularly for finite life investment vehicles. In the current environment, however, value-conscious real estate investors are more focused on the degree of distress, discount to replacement cost and peak pricing of each asset acquired, than to relative value among sectors.

On the other hand, the market's recent affinity for a small number of top-tier markets creates geographic pricing disparities that can be exploited. While generally avoiding overheated markets flush with domestic and foreign capital, other primary and select secondary markets can offer a better blend of favorable pricing, population/employment growth, and liquidity. Metro areas with well-educated workforces and diversified economies driven by growth industries such as energy, technology, and healthcare are particularly desirable from a top down perspective.

Don't rely exclusively on loan-to-value ratios in sizing or evaluating leverage. As the past several years have shown, values can drop quickly when the economy weakens or liquidity dries up.

Exhibit 5 – Sample Targets Market Summer 2011

Other Primary	Select Secondary
Denver	Austin
Houston	Charlotte
Orange County, CA	Nashville
Phoenix	Portland
Seattle	Salt Lake City

Source: Urdang

Tertiary markets typically have spotty liquidity even in the best of times, and generally will be the last to recover from a pricing perspective. Other than in special cases, we believe they are best avoided.

Leverage

Unpleasant fact #1: Our belief is that real estate will not consistently produce the double-digit net equity returns that investors seek without the use of leverage. Unpleasant fact #2: Our belief is that both of the great real estate market down-cycles of the past 20 years were caused primarily by the overuse of leverage.

How can this critical performance tool be utilized prudently and managed effectively? Here are some of our beliefs:

- Don't rely exclusively on loan-to-value ratios in sizing or evaluating leverage. As the past several years have shown, values can drop quickly when the economy weakens or liquidity dries up.
- Consider debt service coverage ratios as a more relevant, easily measured, and less volatile metric.
- When purchasing assets without income in place, consider doing so on an unleveraged basis. Obtain financing on better terms upon stabilization.

- Should there be a problem, engage the lender early. Be prepared for a lot of "no's" on the way to negotiating an extension, restructuring, or discounted payoff.
- Discretion is the better part of valor: if lender negotiations fail to reach an acceptable loan modification, move on. We believe there is perhaps no greater asset management sin than to double down on a bad investment.

Discretion is the better part of valor: if lender negotiations fail to reach an acceptable loan modification, move on. We believe there is perhaps no greater asset management sin than to double down on a bad investment.

Sale Discipline

Our mission is not accomplished until the properties have been sold, the proceeds distributed, and the realized returns tabulated. The sale decision with respect to any asset is ultimately a function of expectations: will this property increase in value going forward, and if so, does the expected incremental return justify the risk of continuing to hold?

In our experience, quantitative tools such as forward-return projections and exception reports can be particularly effective for monitoring investments and determining sale timing. Regularly updating projections and valuations based on market conditions and activity forces an ongoing reevaluation of the hold/sell position. Exception reports and "red-flag" tests can clearly identify underperforming investments early, which we believe is key to adjusting the business plan and, if necessary, selling and moving on.

The Road Ahead

Though still in the early stages of what we expect will be a gradual recovery, we believe the U.S. commercial real estate market is much closer to "normal" than it was a year ago, well removed from the dismal days of late 2008/ early 2009, and more rational than it was in 2006/2007. Having reached what we believe to be the bottom of an historic slide, to us today's real estate investment market resembles the stock market of March 2009, with broad price indices down by roughly half or more from their peaks (without accounting for differences in underlying leverage).

As the financial crisis of 2009 moves further into the rear view mirror and confidence in the sustainability of economic recovery grows, yield-starved investors' risk tolerance will likely increase. Non-core real estate investments will likely increasingly gain favor, as the probability of higher interest rates and the threat of inflation in the coming years make fully-priced assets with limited net operating income growth potential less attractive, and as investors' perceptions of relative risk evolve.

We believe the opportunity presented to value-conscious real estate investors today is perhaps the best kind of all: making money on the buy side. During the gradual recovery of the U.S. economy and commercial real estate market from the financial crisis and Great Recession, the ability to offer lower rental rates and pay the freight to win price-sensitive tenants is in our view the ultimate competitive advantage.

David Blum

David Blum serves as Managing Director, Portfolio Management at Urdang Capital Management, Inc. He has 24 years of institutional real estate investment experience, having joined Urdang at its inception in 1987. He manages a fully committed closed-end private real estate fund and is a member of Urdang's Investment Committee, which is responsible for all property acquisition, disposition, and financing decisions. His responsibilities include client relations and reporting. A former CPA, David developed Urdang's accounting, reporting, and performance measurement processes.

He is an active member of the Pension Real Estate Association (PREA) and serves on PREA's Publications Committee and Valuation and Reporting Affinity Group. Prior to joining Urdang, David was a real estate and partnership tax specialist with Laventhol & Horwath. He received a B.S. degree in Accounting and an M.S. degree in Taxation from The American University.

David Rabin

David Rabin serves as Managing Director, Private Real Estate at Urdang and is responsible for all activities relating to the direct investment in real estate, including acquisitions, asset management, financing, dispositions, and client reporting. He also is a member of Urdang's Investment Committee.

David has 26 years of real estate investment management experience, including extensive experience in acquisition, disposition, asset management and portfolio management roles. Prior to joining Urdang in 2003, he was a Principal and Director of Investments for PMRealty Advisors, a wholly-owned subsidiary of Pacific Life Insurance Company. In this position, he directed and managed all of the transactional activity for the firm. David was also a member of PMRealty Advisors' Policy and Investment Committees. During the 12 years prior to joining PMRealty, he was responsible for acquisitions, dispositions and portfolio management on behalf of National Life of Vermont and its separate account clients. David holds a B.S. in Business Management from the University of Maryland and a J.D. from the Columbus School of Law, Catholic University of America. He is a member of the Bar in both Maryland and the District of Columbia.

Index Definitions

The following indices were included for illustrative purposes only and have been selected as they are well known and are easily recognizable by investors. The indices have volatility and other material characteristics that may differ from actual investments, are unmanaged, are not available for direct investment , and are not subject to management fees. Because of these differences, benchmarks should not be relied upon as an accurate measure of comparison.

Moody's/REAL Commercial Property Price Index (CPPI): The CPPI Index published by Moody's is based on actual transactions of commercial real estate that sell in excess of $2,500,000 as compiled by Real Capital Analytics. The CPPI Index measures the change in actual transaction prices for commercial real estate assets based on the repeat sales of the same assets at different points in time.

NCREIF Property Index: The National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index is unleveraged, includes various real estate property types, and excludes cash and other non-property related assets and liabilities, income, and expenses. The Index includes income, appreciation, and total return components.

CoStar Investment Grade Property Index: The CoStar Investment Grade Property Index is based on transactional data for commercial property sales regardless of price. The Index measures the change in actual transaction prices for investment grade commercial real estate assets based on the repeat sales of the same assets at different points in time.

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