

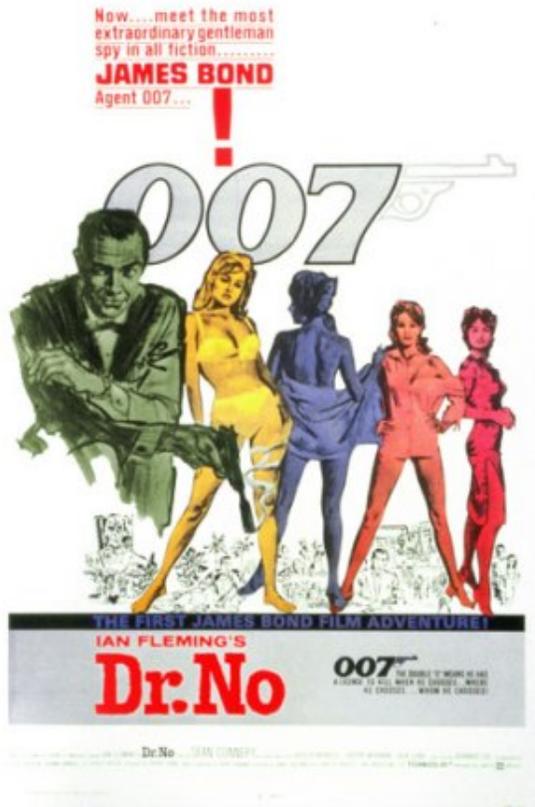
# Challenges in Real Estate Market in 2008 & Beyond

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# A. Types of financial crisis

- Banking crisis
- Speculative bubbles and crisis
- International financial crisis
- Wider economic crisis

## B. Causes and consequences of financial crises

- Strategic complementarities in financial market
- Leverage
- Asset-liability mismatch: short term liability & long term asset
- Regulatory failures: transparency: reserve & capital investments, limit leverage
- Fraud
- Contagion
- Recessionary effects

## C. Chronicle, major financial crises since 1980

- 1980s: Latin American debt crisis, beginning in Mexico
- 1987: Black Monday-DJIA declined 31%, October 19, 1987
- 1989-91: United State Savings and Loan Crisis
- 1990s: Collapse of the Japanese asset price bubble
- 1992-3: Speculative attacks on currencies in the European Exchange Rate Mechanism

# Continued

- 1994-5: Economic Crises in Mexico: speculative attack and default on Mexican debt
- 1997-8: Asian Financial Crisis: devaluation and banking crises across Asia, International Monetary Fund (IMF)
- 1998: Russian financial crisis: devaluation of the ruble and default on Russian debt, moratorium
- 2001-2002: Argentine economic crisis: breakdown of banking system
- 2008: USA, Europe: spread of the U.S. subprime mortgage crisis and collapse of Investment Bank (IB): Countrywide, Fannie Mae and Freddie Mac nationalized, Bear Stearns, Lehman Brothers & Merrill Lynch

## D. Saving & Loan crisis in 1989

- Background
- Causes
  - TRA 1986
  - Deregulation
  - Imprudent real estate lending
  - Keeping insolvent S&Ls open
  - Brokered deposited
  - Misc
- Consequences
  - More than 1,600 FDIC insured banks were closed or received FDIC's financial assistance 1980-1994
  - 3,214 S&L in 86 became 1,645 at end of 1995, primarily due to unsound real estate lending
  - US General Accounting Office estimates: total cost \$160.1 billion, about \$124.6 paid by tax payers
  - 1990-1991 economic recession
  - The government bail-out may create moral hazard and encourage lenders to make similar higher loans during 2007 sub-prime mortgage financial crisis.
- Resolution Trust Corporation (RTC)
- Chrono-Bibliography by FDIC

# Resolution Trust Corporation (RTC)

- The RTC
  - Financial Institutions Reform Recovery and Enforcement Act (FIRREA 89)
  - US Government-Owned asset management company
    - Liquidating assets owned by S&Ls/real estate related assets including mortgage loans
  - Transferred duties to Savings Association Insurance Fund of the Federal Deposit Insurance Corporation (FDIC) in 1995
- Equity Partnership
  - Multiple Investor Fund (MIF)
  - N-Series and S-Series Mortgage Trusts
  - Land Fund
  - JDC (Judgments, Deficiencies & Charge-offs) Program
- What did we learn from the response?

# New Challenges in Real Estate Market

- Not the perfect world
- *Tomorrow Never Dies*
- The new paradigm for financial & real estate market
  - Transitional stage
    - Financial market
      - New Global Regulation
      - Enhancement of the derivative products
    - Real estate market
      - Supply & Demand (supply pulled devaluation & lack of money supply)
      - Creation of the derivatives
- Threat & opportunity as a team
  - S.W.O.T Analysis
- Financial Goal
  - Long term vs. short term
- Strategies
  - Offensive and/or defensive

# Case Study: Santa Maria Commons

- Back Ground
  - Regency Centers Corporation (NYSE: REG)
  - First California Holdings, LLC
- The SMC
  - Building Area: 117,364 Sq.Ft.
  - Land: 444,747 Sq.Ft. (10.21 acres)
  - Parking Ratio: 4/1,000
  - The Tenants
  - Built in 2008



# Continued, Regency Center Corp. (NYSE:REG)

## REGENCY CENTERS CORP (NYSE: REG)

NEW Real-time: 38.82 ↓ 0.64 (1.62%) 12:11PM ET

Last Trade:	<b>38.92</b>	Day's Range:	37.99 - 39.49
Trade Time:	11:57AM ET	52wk Range:	30.50 - 81.75
Change:	↓ 0.54 (1.37%)	Volume:	260,660
Prev Close:	39.46	Avg Vol (3m):	1,237,240
Open:	39.22	Market Cap:	2.72B
Bid:	N/A	P/E (ttm):	18.59
Ask:	N/A	EPS (ttm):	2.093
1y Target Est:	52.05	Div & Yield:	2.90 (7.30%)

- Regency is a REIT, national RE owner, operator, and developer of grocery /department store anchored community shopping centers. At June 30, 2008, the Regency owned 443 retail centers. The portfolio encompasses 58.9 million Sq.Ft. through out the United Stated.
- Since 2000 Regency has developed 191 shopping centers, representing an investment at completion of apx. \$3.0 billion.

# Continued, Regency Center Corp. (NYSE:REG)



# Continued, Regency Center Corp. (NYSE:REG)

## ■ Challenges

### □ Seller

- Pending constructions
- Lack of liquidity & supply in money market
- Financial statements/3<sup>rd</sup> Quarter
- Marketing Period
- Capitalization
  - Poor Matrix, but what else?

### □ Buyer

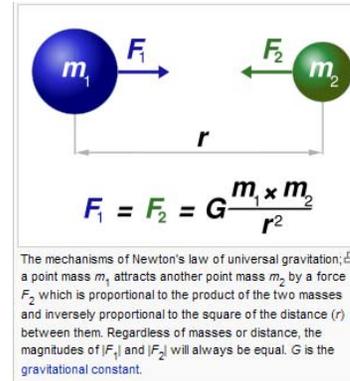
- Escrow & due diligence
- Purchase money finance
- Capitalization
- Statistics and probabilities

### □ Spectrum of the Capitalizations

- NOI: \$1.2Mil
- 5.000%-\$24M vs. 8.000%-\$15M vs. 10.000%-\$12Mil vs. 10.250-\$11.7M

# Law of Universal Gravitation

- Universal gravitation & general relativity
- Correlations between a falling apple and movements of the shining stars in the sky
- Correlation analysis & forecast between Economic Crisis 2008 & the S&L crisis
- Different magnitudes & substances?
- What did we learn from the crisis?



**General relativity**

$$G_{\mu\nu} + \Lambda g_{\mu\nu} = \frac{8\pi G}{c^4} T_{\mu\nu}$$

**Einstein field equations**

Introduction to...  
 Mathematical formulation of...  
 Resources

**Fundamental concepts** [show]

**Phenomena** [show]

**Equations** [hide]

Linearized Gravity  
 Post-Newtonian formalism  
 Einstein field equations  
 Friedmann equations  
 ADM formalism  
 BSSN formalism

**Advanced theories** [show]

**Solutions** [show]

**Scientists** [show]

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# Thanks for listening...

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Q & A Session