

Defining the Bid/Ask Spread

CCIM Symposium

February 23, 2010

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2006 Building Underwriting



- **Leverage**
80% LTV
- **Pro forma Cap Rate**
8.00%
- **Market Rental Rate**
\$20.00 NNN
- **IRR Hurdle**
20.00%

BUILDING VALUE = \$228 /SF



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2010 Building Underwriting



- Leverage
80% LTV → 0% LTV
- Pro forma Cap Rate
8.00%
- Market Rental Rate
\$20.00 NNN
- IRR Hurdle
20.00%

BUILDING VALUE = \$228 /SF

↓
\$160 /SF



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2010 Building Underwriting

(39% Decline)



- Leverage
80% LTV → 0% LTV
- Pro forma Cap Rate
8.00% → 10.00%
- Market Rental Rate
\$20.00 NNN
- IRR Hurdle
20.00%

BUILDING VALUE = \$160 /SF



\$138 /SF



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2010 Building Underwriting

(34% Decline)



- **Leverage**
80% LTV → 0% LTV
- **Pro forma Cap Rate**
8.00% → 10.00%
- **Market Rental Rate**
\$20.00 NNN → \$15.00 NNN
- **IRR Hurdle**
20.00%

BUILDING VALUE = \$138 /SF



\$105 /SF



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Then we should be offering \$105/sf...Right?

Not exactly..... Tenants cost money

| | |
|----------------------------------|--------------------|
| “New” Building value | \$105.00/ sf |
| Less: | |
| Tenant Improvements | \$40.00/ sf |
| Commissions (7 year deal) | <u>\$12.00/ sf</u> |
| “New, New” Building Value | \$52.00/ sf |

Then we should be offering \$52/sf...Right?

Not exactly.....finding tenants takes time

| | |
|---------------------------------------|-------------------|
| “New, New” Building value | \$52.00/ sf |
| Less: | |
| Carry Costs (w/o Debt Service) | <u>\$7.00/ sf</u> |
| “New, New, New” Building value | \$45.00/ sf |

So let's bid \$45.00/ sf



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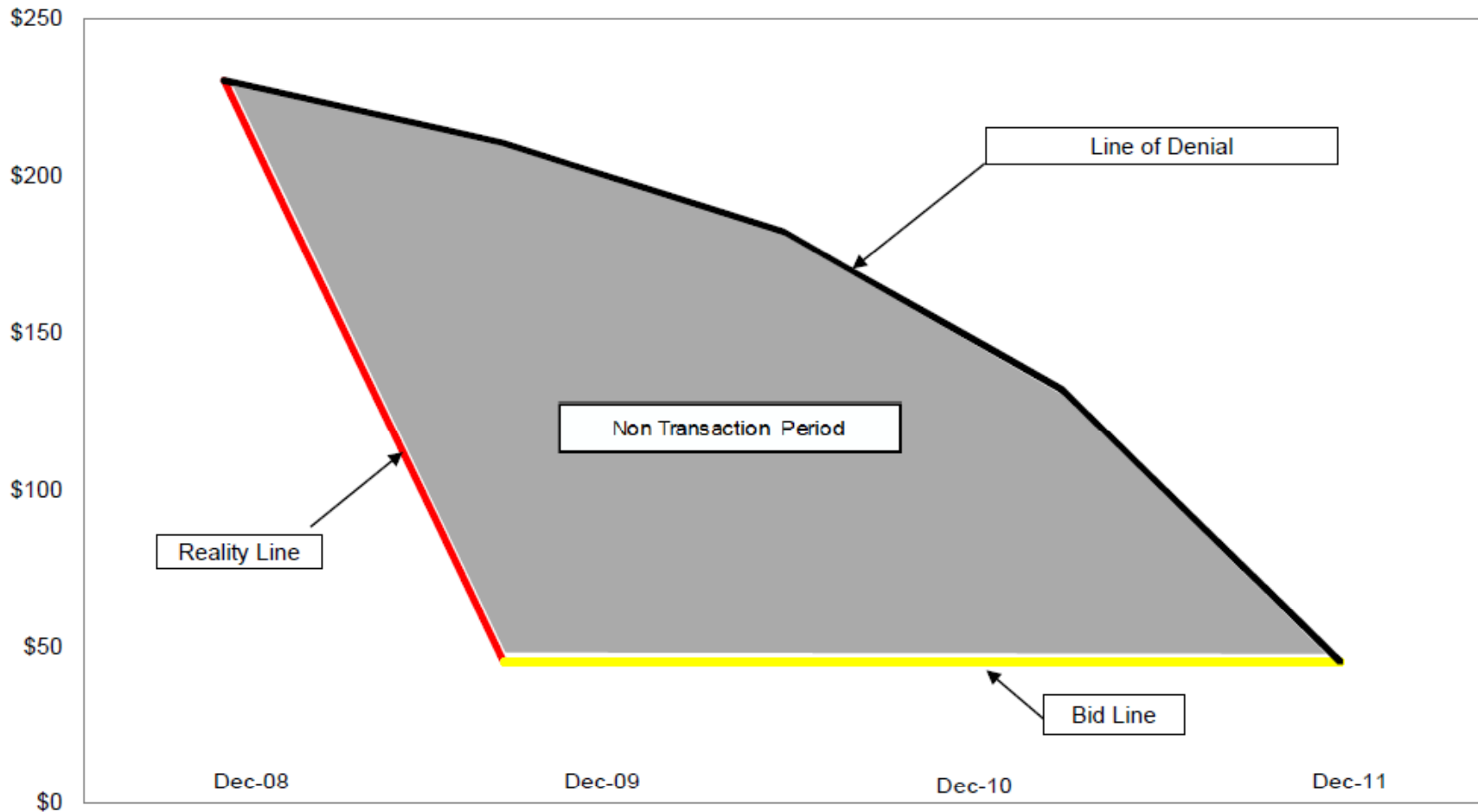
Why are we not buying anything?



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Today's Bid/ Ask Spread Reality

Building Value



What Will Close the Spread?

Increase in Bid Price

- Debt financing returns - Economics / Politics
- Decrease in interest rates - Economics / Politics
- Lower Buyer return expectations - Economics
- Increase in demand / rental rates - Economics / Politics

Decrease in Asking Price

- Pressure to sell (FDIC, shareholders, bond holders) - Politics
- Book basis in-line with current underwriting - Politics
- Current loss position in-line with current underwriting - Economics



Questions?



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