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**Presentation to:**

***Graaskamp on the Road***

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# Resiliency – Reasons for Optimism

- Relative US economic performance 2 -2.5%, GDP growth, 200-250k per month job growth (except last month)
- Very few markets with supply issues
- Balance sheet strength among borrowers and tech companies
- Low oil prices are normally a good thing
- Strong demographics driven by millennials and Gen Z behind them

# Risk – Reasons for Concern

- Cycle Risk – Length of current expansion vs. most recent cycles
- Capital Market Volatility: China, CMBS, Oil
- Transaction velocity/valuations
- Geopolitical: Isis, Currency Rate Wars
- Governmental – Gridlock, Regulatory, Entitlements

# Global Bond Rates

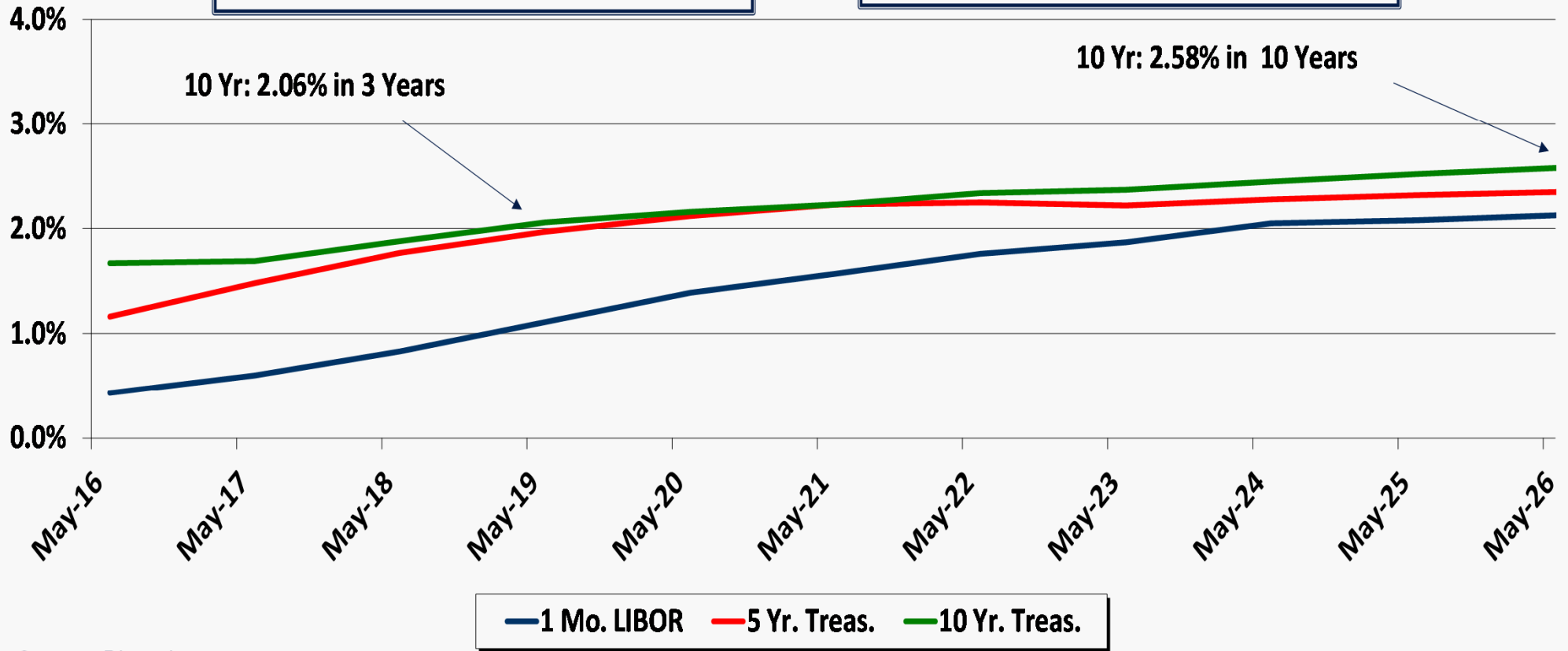
	Japan 	Germany 	U.S. 
1 Month	-0.40%	-0.60%	0.20%
5 Years	-0.25%	-0.45%	1.15%
7 Years	-0.25%	-0.30%	1.45%
10 Years	-0.15%	0.05%	1.65%

Source: Bloomberg, rounded to the nearest 5 bps

# The Bond Markets Predict Low Rates for Some Time

**10 Yr. Treas. less than 2.10%  
for 3 years**

**2004 - 2006 10 Yr. Avg:  
4.45%**



Source: Bloomberg

## Yield Environment has Pushed Values for all Asset Classes – Just Less For CRE

<u>Index</u>	<u>Feb. 2007*</u>	<u>June 2016*</u>	<u>% Change in Value</u>
S&P 500 (Price Only)	1,445	2,069	+43%
10-Yr. Treasury	4.70%	1.80%	+62%
Green Street CPPI	100	124	+24%

\*30 day average

# CIO Conundrum Today

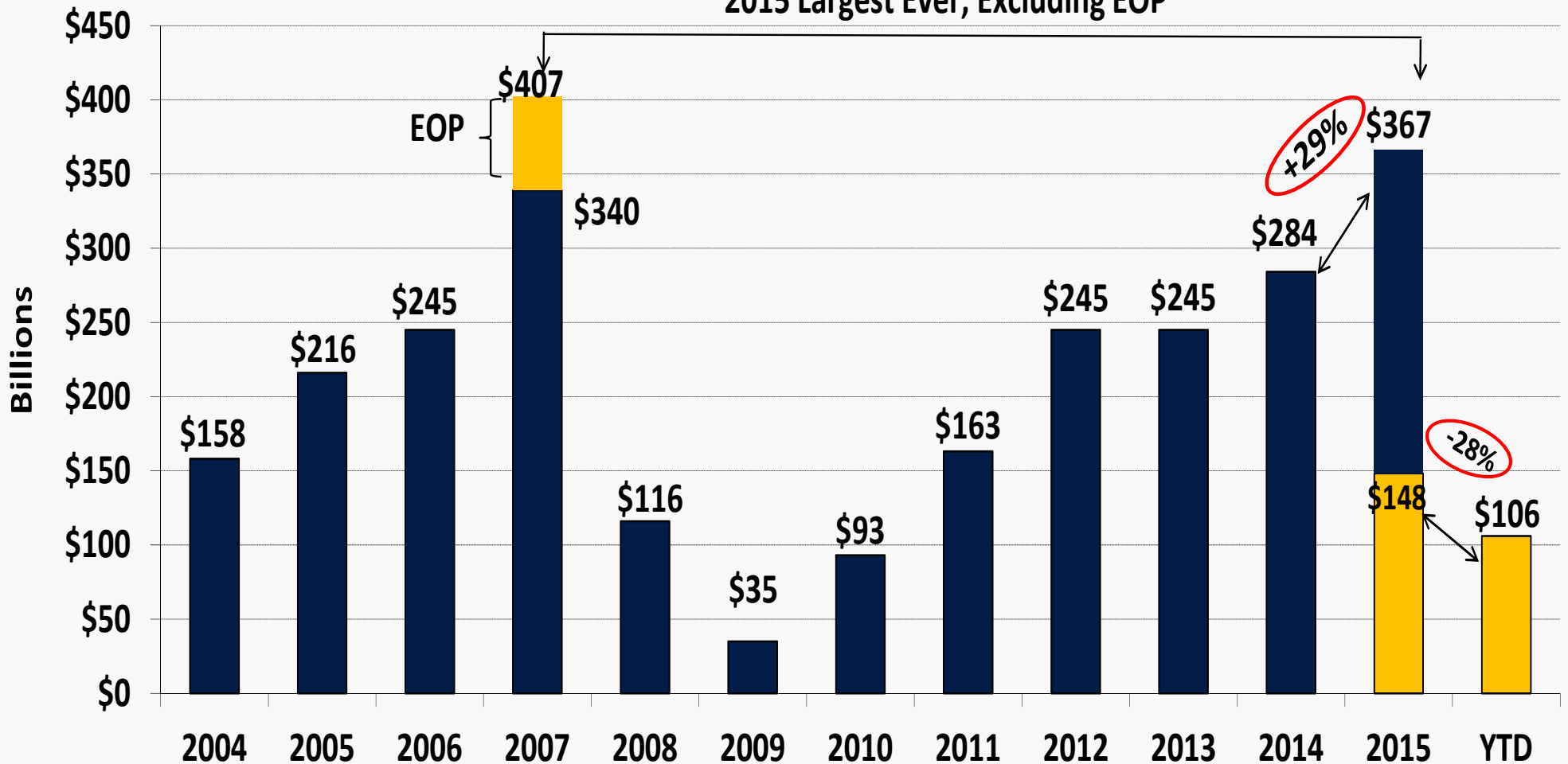
## Annual Returns on \$100 MM Invested

	Annual Return (%)	Annual Return (\$)	
5 Year Treasury	1.15%	\$1.15 MM	
10 Year Treasury	1.65%	\$1.65 MM	
AAA 10 year CMBS	2.75%	\$2.75 MM	1.7x T's
Class A Core Real Estate (Unlevered)	6.00%*	\$6.00 MM	3.6x T's
Class A Core Real Estate (Levered)	8.00%*	\$8.00 MM	4.8x T's

\*IRR

# US Sales & JV's Volume Transactions >\$25 Million

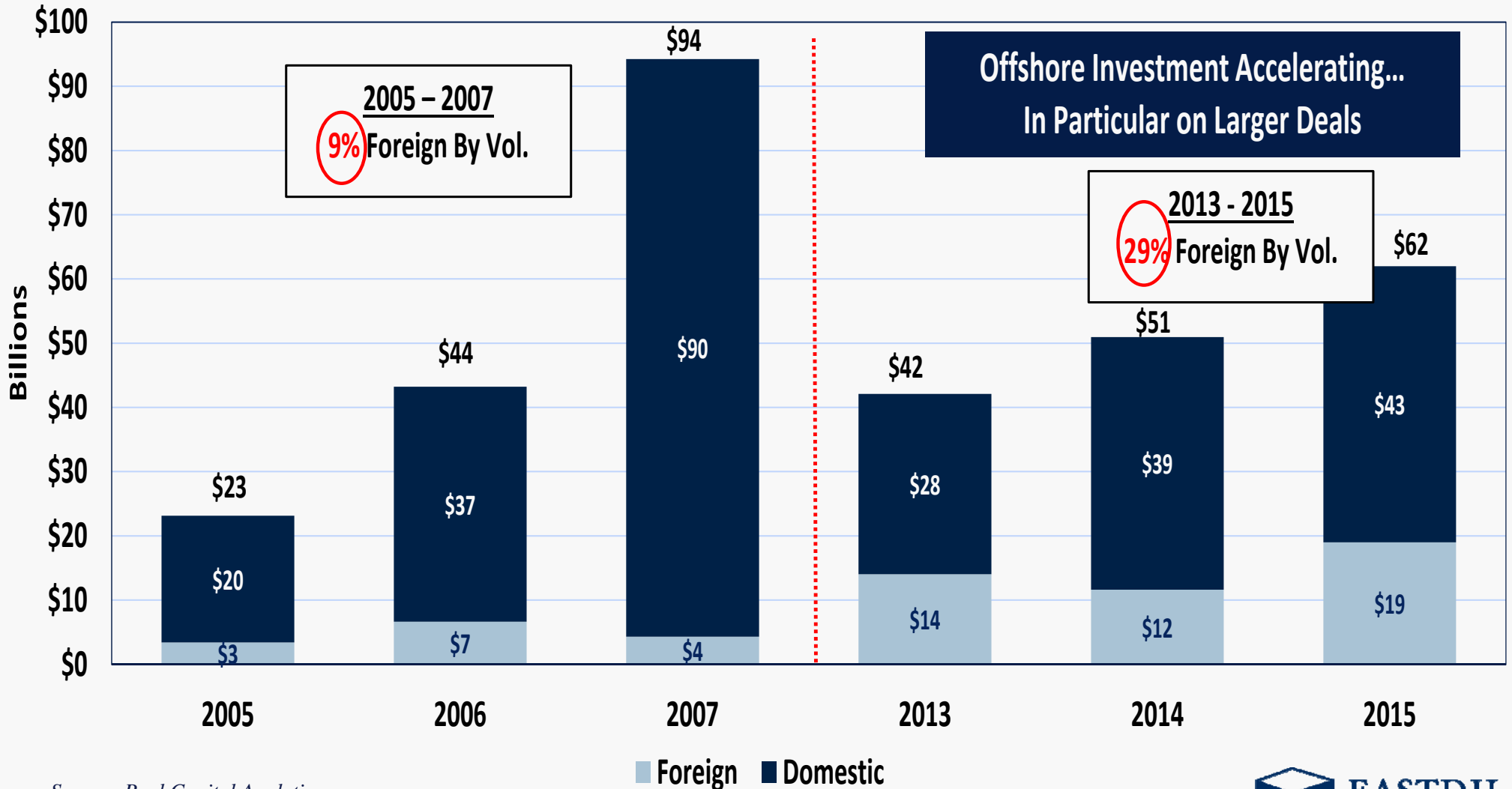
2015 Largest Ever; Excluding EOP



Source: Real Capital Analytics



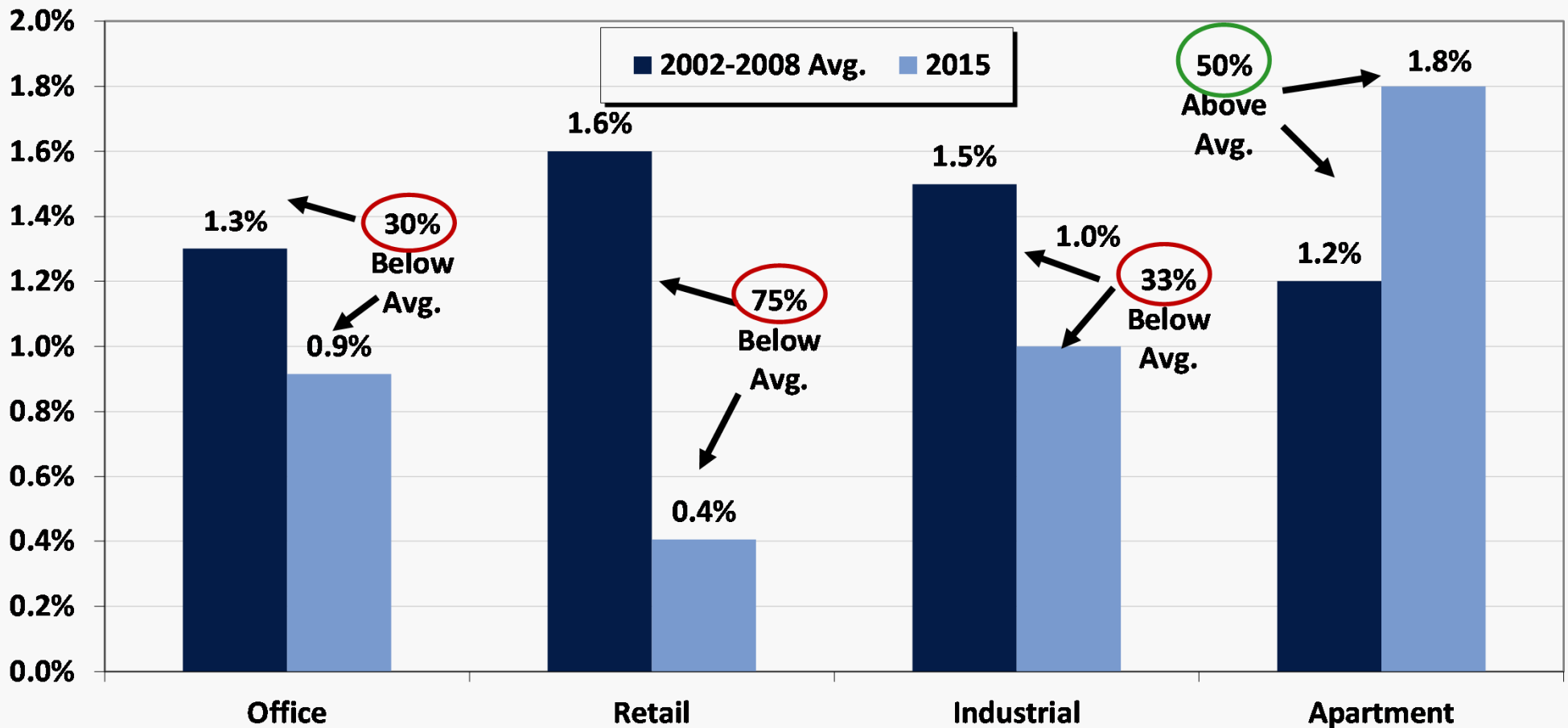
# U.S. Office Sales & JV's Volume by Buyer Type, Transactions >\$200 Million



Source: Real Capital Analytics

# US Supply Fundamentals Remain Healthy

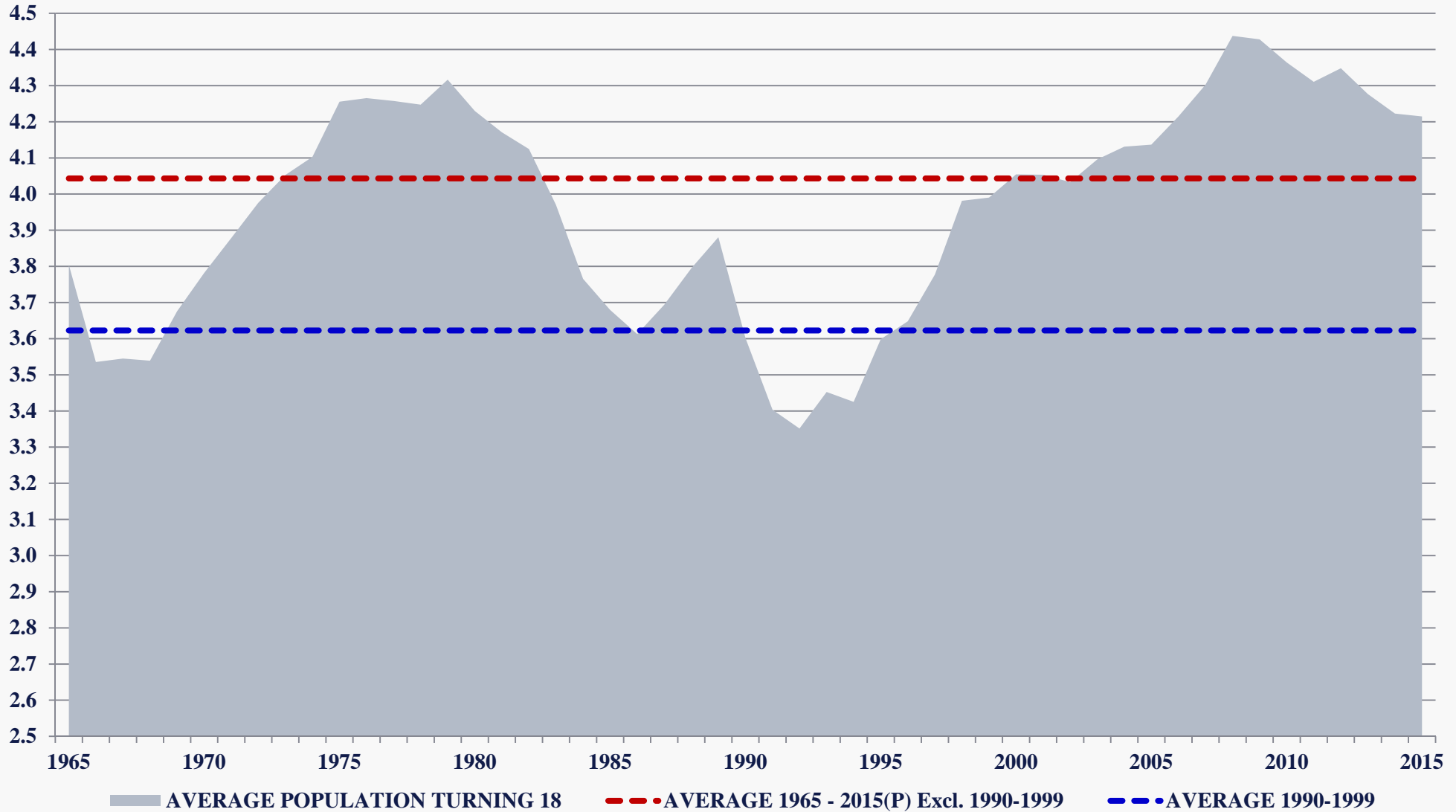
New Supply is Generally Below Long-Term Averages



All sectors (multifamily being one exception) are 30%+ below their long-term avg. supply levels

Source: REIS

# Population turning 18 from 1965 to 2015(P)



Source: U.S. Census

# Why Today's Pricing Doesn't Feel Like 2006

## Capital Stack (2006)



## Capital Stack (2015)



### 2006 Capital Stack - 80% LTV

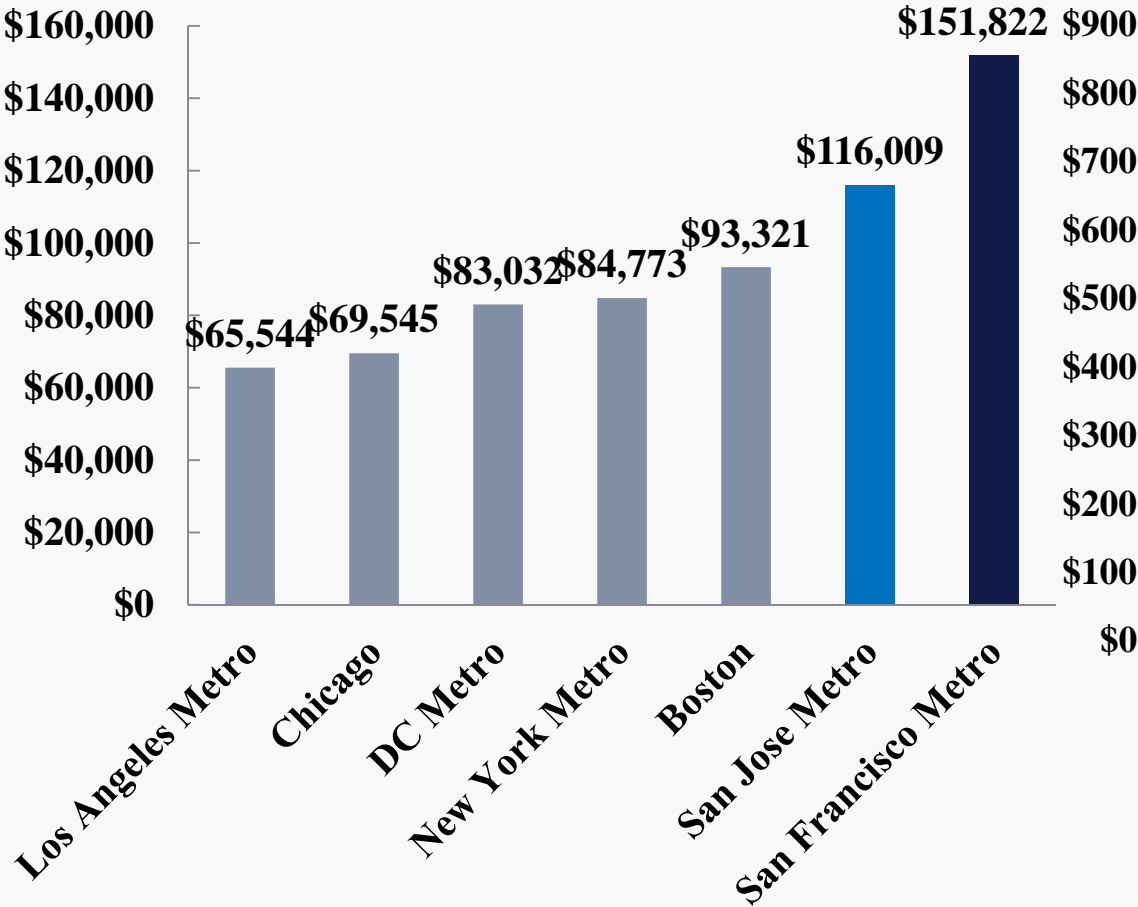
<u>LTV</u>	<u>Cap Rate</u>	<u>Debt Cost</u>	<u>DSC</u>	<u>Lev. COC</u>
80.00%	5.00%	6.00%	1.04x	1.00%

### 2015 Capital Stack - 50% LTV

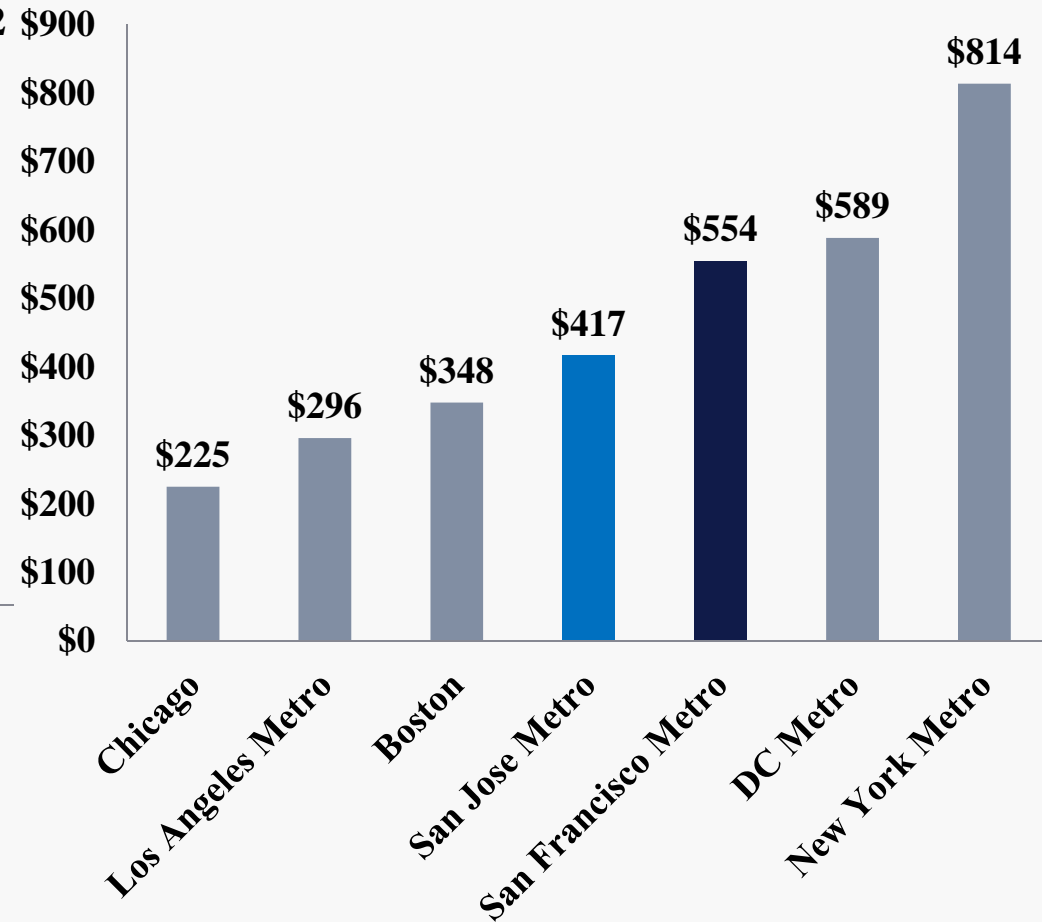
<u>LTV</u>	<u>Cap Rate</u>	<u>Debt Cost</u>	<u>DSC</u>	<u>Lev. COC</u>
50.00%	4.50%	3.85%	2.40x	5.25%

# Current Gross Income Levels vs CRE Pricing

## 2015 GDP PER CAPITA



## OFFICE CRE VALUE 2015 (\$PSF)

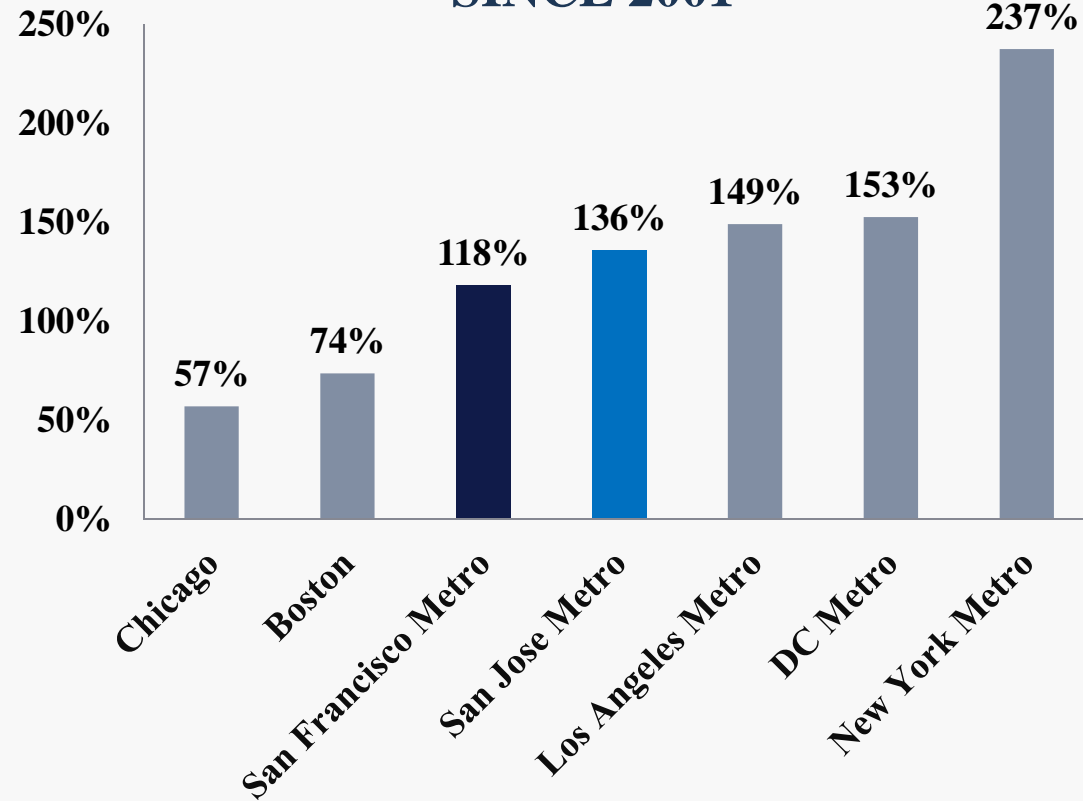
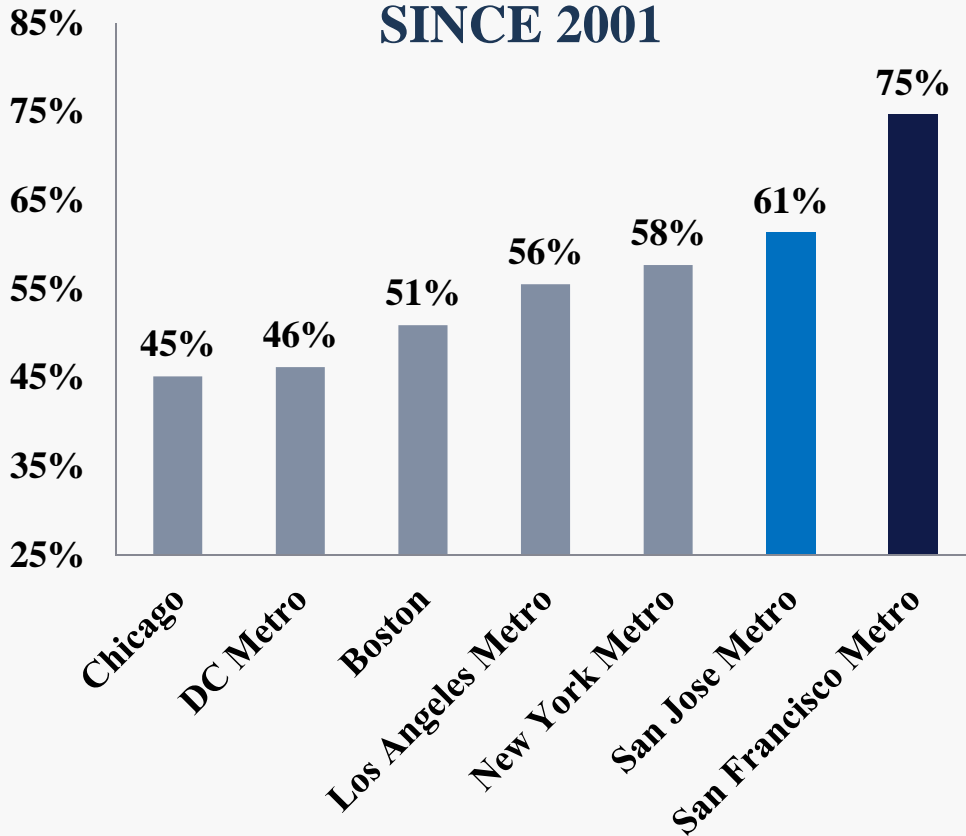


Current Commercial Real Estate pricing PSF relative to per capita GDP in the Bay Area is approximately 36% lower than other major US markets.

# Income Growth vs CRE Value Growth


## GDP PER CAPITA GROWTH SINCE 2001

## CRE VALUE GROWTH (CPPI) SINCE 2001



Average Commercial Real Estate value growth relative to GDP per capita income appreciation in the Bay Area is approximately 26% lower than other major gateway metro

# Profiling San Francisco's Largest Tech Users

	RSF	TTM REV.	YE 2017 PROJ.	CASH	ADJ. EBITDA	Net Debt to ADJ. EBITDA
	2.3M	\$7,073 (35% YoY Growth)	\$9,839 (39% Proj. Growth)	\$2,031	\$1,162	0.0x
	768K	\$2,377 (15% YoY Growth)	\$3,298 (28% Proj. Growth)	\$3,576	\$583	(3.4x)
	727K	\$77,988 (25% YoY Growth)	\$100,025 (39% Proj. Growth)	\$73,450	\$31,062	(2.1x)
	450K	\$3,214 (50% YoY Growth)	\$4,456 (39% Proj. Growth)	\$3,160	\$819	(2.5x)

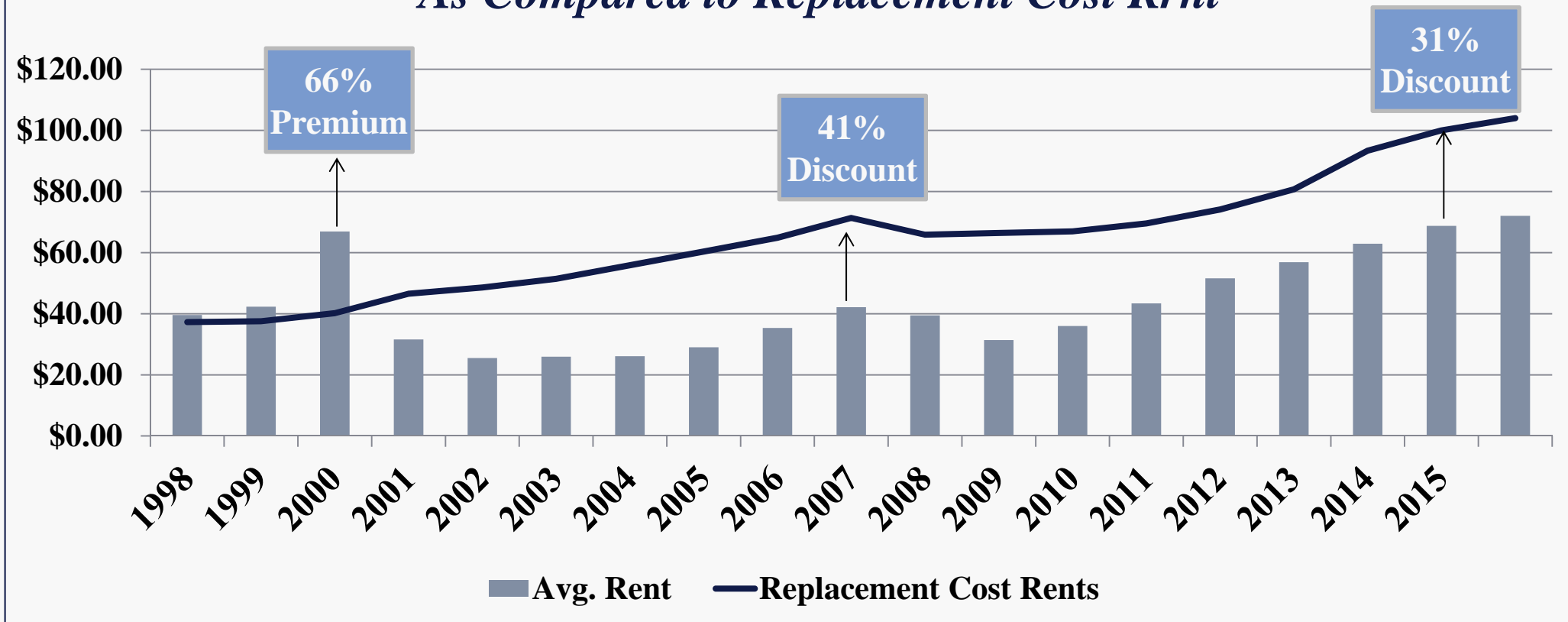
(1) LTM Revenues are as of March 31, 2016 for LinkedIn, Alphabet and Twitter. LTM Revenues are as of April 30, 2016 for Salesforce.

(2) YE Revenues are as of December 31 for LinkedIn, Alphabet and Twitter. YE Revenues are as of January 31 for Salesforce.

(3) Adjusted EBITDA excludes stock based compensation and includes equity income from affiliates.

# San Francisco Office Rents Relative to Replacement Cost Rents

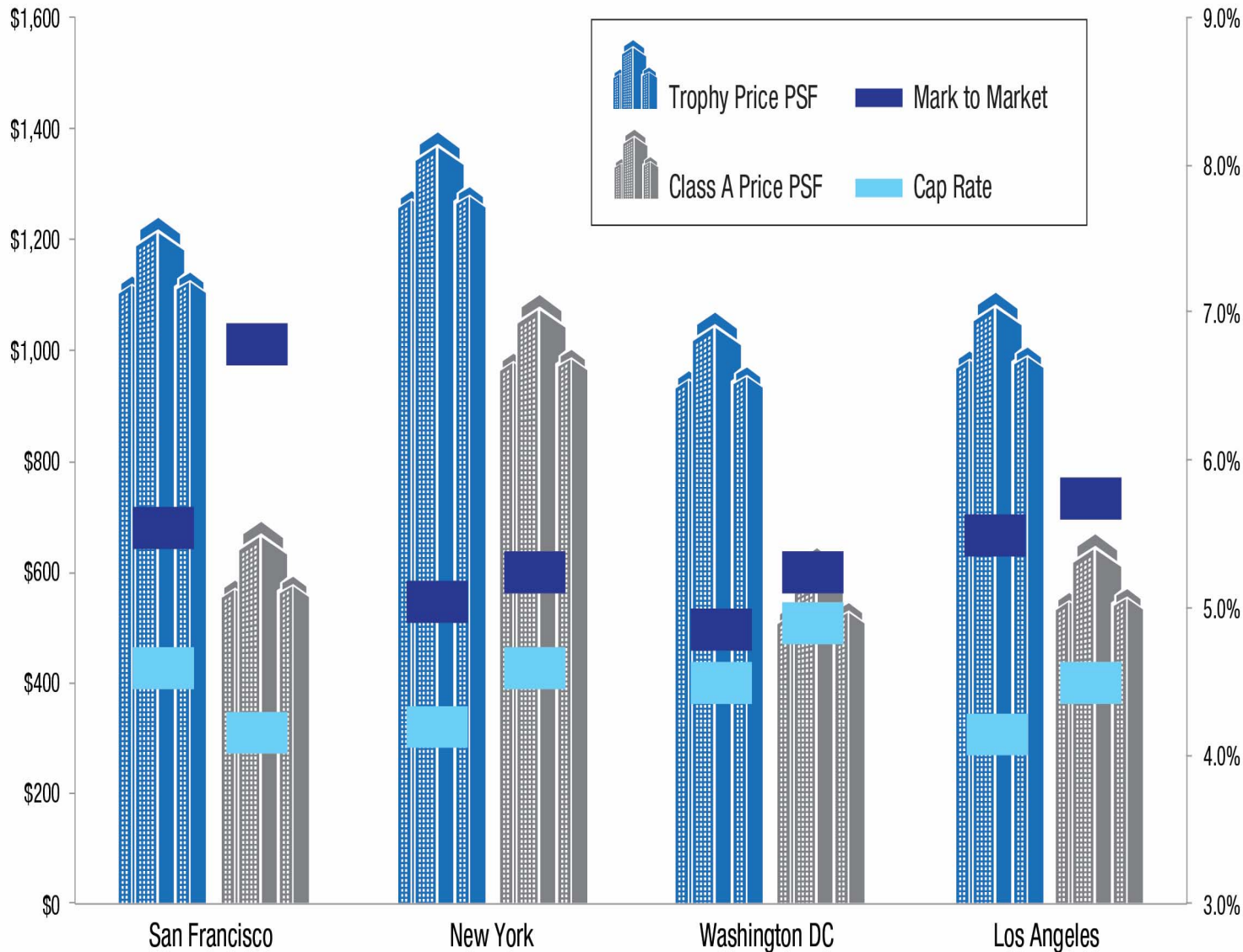
**Avg. San Francisco Office Rent  
As Compared to Replacement Cost Rents**



**19-year Average Discount to Replacement Cost Rents is 30%**

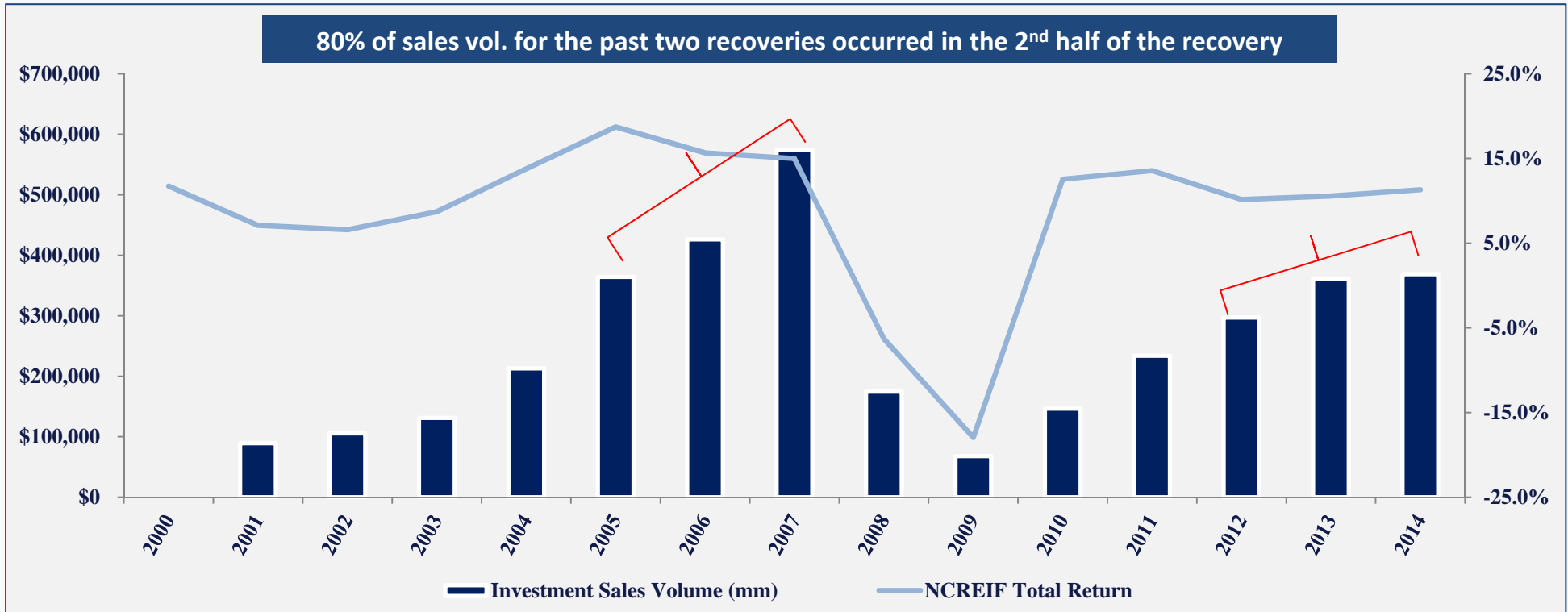


# National Class A & Trophy Pricing



- 50-100 BPS mark to market premium for San Francisco trophy assets
- 150+ BPS premium for San Francisco class A assets

# It's Extremely Hard to Time the Market...



2006 – 2014 Investment Returns		
Cash Investment	Real Estate Investment	IRR
-	2006 - 2014	7.6%
2006 - 2010	2011 - 2014	4.7%

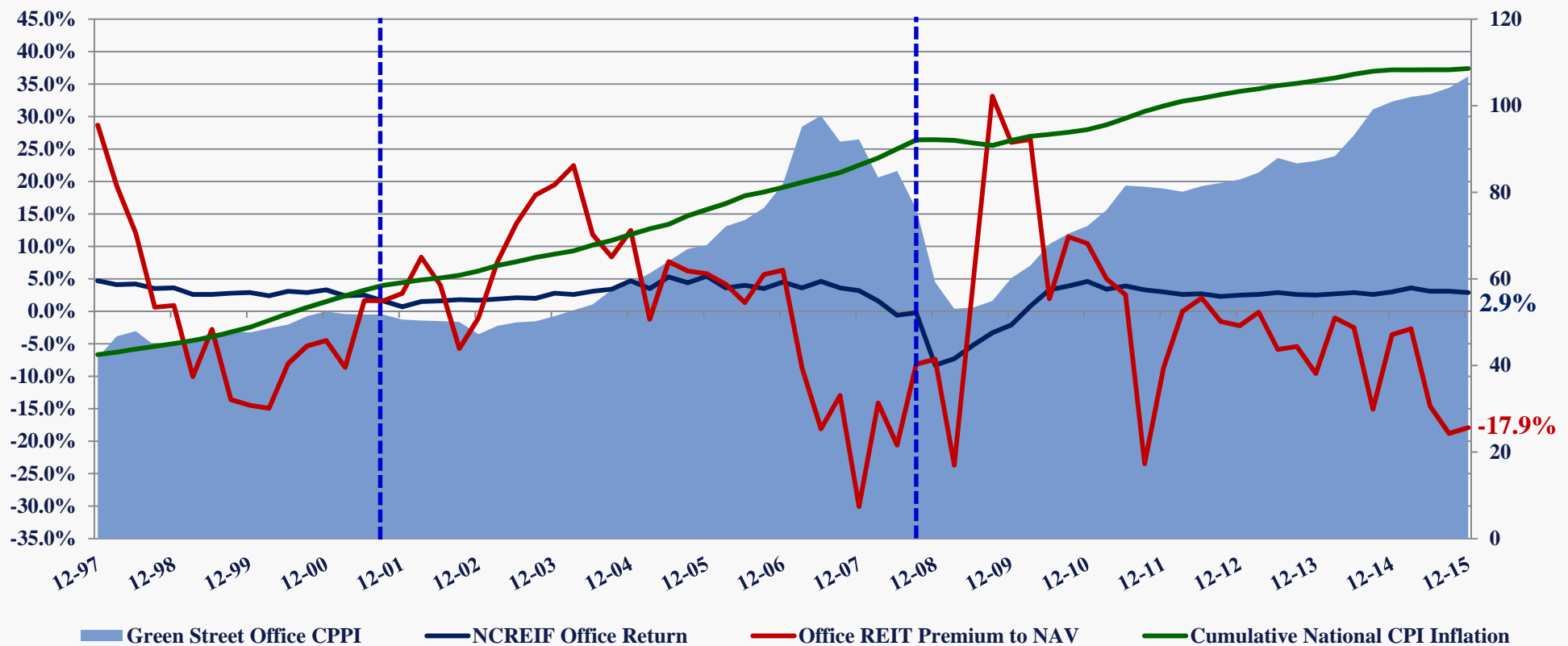
2006 – 2014 Investment Returns		
Cash Investment	Real Estate Investment	IRR
-	2007 - 2014	5.9%
2007 - 2010	2011 - 2014	5.4%

And in a 0% cash return environment, not necessarily profitable.

[1] 2006-2014 NCREIF returns reflect actual returns. [2] Cash returns held at 0% to reflect current rate environment. [3] Sources: NCREIF and Real Capital Analytics

# Private vs. Public Market Office CRE Valuation

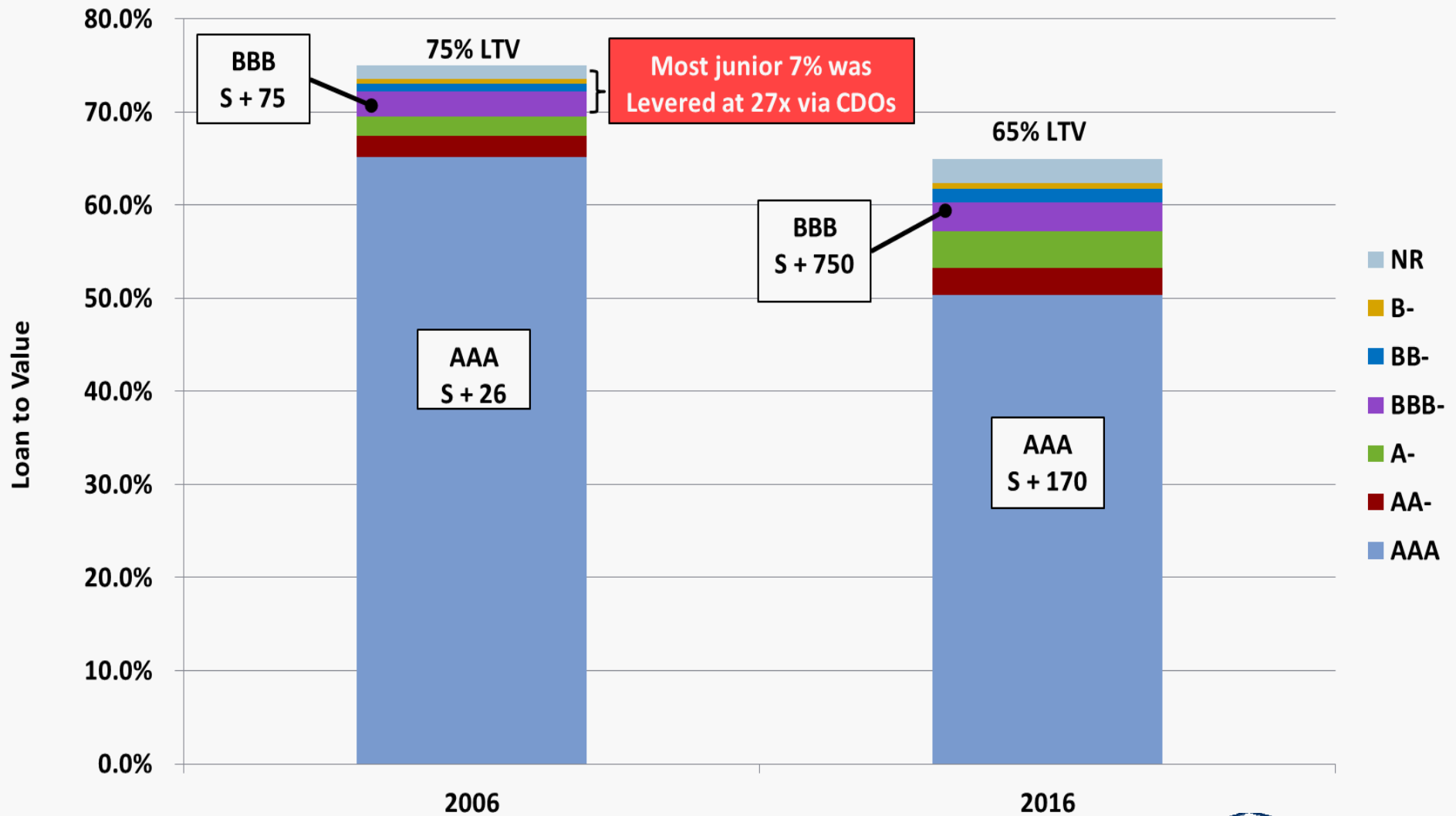
- Large persistent public market discounts to NAV were a pretty good leading indicator for 2001 and 2008 downturns... **however, recent data is not as conclusive.**
- Not all economic downturns create significant discounted buying opportunities.**



Source: Green Street Advisors & NCREIF ; \*Not adjusted for inflation;  
 \*bmv = NCREIF Quarterly Beginning Market Value; Green Street CPPI is indexed to 100 in August '07

# CMBS Capital Stack – 2006 vs. 2016

## Producing Better Spreads for Less Risk



Source: Eastdil Secured