Real Estate Capital Markets: How do they work and how do they impact liquidity and value
Introduction

Presented by
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Agenda

- Introduction
- Capital Markets Overview
  - The Four Quadrants (Public Debt/Public Equity/Private Debt/Private Equity)
- Public Debt
  - CMBS /CDO’s (CLO’s)
    - How large is the market? Brief History – Liquidity found, lost found, lost again…
    - How does the market work? How are CMBS Bonds Structured? What’s the Process?
    - Rating Agencies - What do they do in the process? How do they use appraisal reports?
  - Mortgage REITS
  - Case Study - CMBS – 245 Park Avenue - NYC
- Public Equity
  - REITS (Traded and Non-traded)
  - Case Study – Vornado-JBG Smith Properties Spin-merger
- Private Debt and Equity Markets
  - Non-Bank balance sheet lenders
  - Private Equity
  - Institutional equity / Separate Accounts
  - Eb5 Financing
  - Crowdfunding
- Recap – Bringing it together
- Addenda
Capital Markets Regulation

I miscalculated the GFE by 3 cents! How about you?

I looked directly at an appraiser

Mortgage Origination Crimes

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Capital Markets Overview

THE FOUR QUADRANTS
What are the Capital Markets?

• Capital markets are markets for buying and selling equity and debt instruments.

• Capital markets channel savings and investment between suppliers of capital such as retail investors and institutional investors, and users of capital like businesses, government and individuals.

• Capital markets are vital to the functioning of an economy, since capital is a critical component for generating economic output.

• Capital markets include primary markets, where new stock and bond issues are sold to investors, and secondary markets, which trade existing securities.
A classical approach to the real estate capital markets considers a simple “debt” and “equity” construct “4 quadrants of capital”.

Credit ratings are a very important part of the credit markets and are used by investors; issuers; commercial banks; investment banks/broker-dealers; government agencies.
Capital Markets: Commercial Real Estate

Public Debt & Public Equity:
- Commercial Mortgage-Backed Securities (CMBS)
- Collateralized Debt Obligations (CDOs)
- Real Estate Investment Trusts (REITs)
- Mutual Funds

Private Debt & Private Equity:
- Whole Loans
- Mezzanine Loans
- B-Notes (Subordinate to I-grade portion of mortgage debt)
- Limited Partnerships
- Private REITs
- Separate Accounts

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
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<tbody>
<tr>
<td>&gt; High liquidity</td>
<td>&gt; High volatility</td>
</tr>
<tr>
<td>&gt; High transparency</td>
<td>&gt; Less leverage</td>
</tr>
<tr>
<td>&gt; High Diversification</td>
<td>&gt; High Diversification</td>
</tr>
<tr>
<td>&gt; High degree of current income</td>
<td>&gt; Difficult to project CF with CMBS</td>
</tr>
<tr>
<td>&gt; Investors can &quot;select&quot; risk</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; More &quot;leveragable&quot;</td>
<td>&gt; Low liquidity</td>
</tr>
<tr>
<td>&gt; Customizable Investment Strategies</td>
<td>&gt; Requires greater initial capital investment</td>
</tr>
<tr>
<td>&gt; Low volatility</td>
<td>&gt; Investment periods are longer</td>
</tr>
<tr>
<td></td>
<td>&gt; More difficult to customize diversified portfolios</td>
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</table>
Cyclical linkage between sectors

- In order to successfully navigate the CRE markets, we need to understand the dynamic between sectors (“funds flow”)
- All news matters...because it influences investor sentiment... so does technology
What Drives Capital to CRE?

What influences capital or “funds flow” (aka “the pricing and availability of capital”)?

- Return on Alternative Investments
- Inflation Expectations

Why do real estate investors/capital providers care about inflation?

- What is inflation?
  - A rise in the general level of prices. Equivalent to a fall in the value or purchasing power of money
- What causes inflation?
  - Higher prices (costs) of “inputs”
- How does inflation impact commercial real estate?
  - Treasuries yields and debt costs
  - Capitalization rates / valuation
  - Equity yield requirements
  - Operating costs
  - Demand for space; tenant credit

Diagram:

- Interest Rates
- Inflation
- Real Estate
Public Debt

CMBS AND MORTGAGE REITS
What is a CMBS Bond?

- Commercial mortgage-backed securities (CMBS) are a type of mortgage-backed security backed by commercial mortgages rather than residential real estate. CMBS tend to be more complex and volatile than residential mortgage-backed securities due to the unique nature of the underlying property assets.
What is a REMIC? (US)

• A real estate mortgage investment conduit (REMIC) is "an entity that holds a fixed pool of mortgages and issues multiple classes of interests in itself to investors" under U.S. Federal income tax law and is "treated like a partnership for Federal income tax purposes with its income passed through to its interest holders". REMICs are used for the pooling of mortgage loans and issuance of mortgage-backed securities and have been a key contributor to the success of the mortgage-backed securities market over the past several decades.
Creation of the CMBS Market

- Real estate recession in the late 1980s and early 1990s severely limited commercial real estate lending
- Many traditional lenders exited the market due to large losses on commercial loan portfolios
- CMBS began as vehicle to package and sell loans from failed banks and savings institutions (RTC)
- CMBS structure and ratings stability yielded investor confidence creating a permanent source of capital
- The CMBS market grew to over $800 billion in the US, with approximately $230 billion issued in 2007
- Q2-Q4 2008 and Q1-Q2 2009 no new issuance; Q3-Q4 2009 issuance limited to single borrower deals
- Issuance re-emerged in 2010 with CMBS 2.0. Industry faced with ongoing challenges due to regulatory changes and market volatility
- Provides capital for managing balance sheet risk; can increase near term profit
- Investors match risk, return and duration
US CMBS Issuance since 2000
# Canadian CMBS Issuance

## Historical CMBS Issuance

<table>
<thead>
<tr>
<th>Rank</th>
<th>Program</th>
<th>Deals</th>
<th>Balance</th>
<th>Mkt Share</th>
<th># Loans</th>
<th>Recourse</th>
<th>NCF DSCR</th>
<th>LTV</th>
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<tbody>
<tr>
<td>1</td>
<td>Merrill Lynch sponsored transactions</td>
<td>28</td>
<td>10,035.8</td>
<td>42%</td>
<td>1,488</td>
<td>55%</td>
<td>1.47</td>
<td>68%</td>
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<tr>
<td>2</td>
<td>TD sponsored transactions</td>
<td>12</td>
<td>4,738.4</td>
<td>20%</td>
<td>840</td>
<td>64%</td>
<td>1.46</td>
<td>68%</td>
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<tr>
<td>3</td>
<td>RBC sponsored transactions</td>
<td>8</td>
<td>3,495.9</td>
<td>15%</td>
<td>567</td>
<td>75%</td>
<td>1.57</td>
<td>66%</td>
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<tr>
<td>4</td>
<td>Caisse de Depot sponsored transactions</td>
<td>8</td>
<td>2,828.9</td>
<td>12%</td>
<td>259</td>
<td>50%</td>
<td>1.55</td>
<td>62%</td>
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<tr>
<td>5</td>
<td>Credit Suisse/Column sponsored transactions</td>
<td>3</td>
<td>1,245.1</td>
<td>5%</td>
<td>55</td>
<td>19%</td>
<td>2.00</td>
<td>63%</td>
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<tr>
<td>6</td>
<td>CIBC sponsored transactions</td>
<td>2</td>
<td>854.9</td>
<td>4%</td>
<td>174</td>
<td>84%</td>
<td>1.64</td>
<td>62%</td>
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<tr>
<td>7</td>
<td>Scotia sponsored transactions</td>
<td>3</td>
<td>585.4</td>
<td>2%</td>
<td>191</td>
<td>98%</td>
<td>1.82</td>
<td>64%</td>
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<td>8</td>
<td>GMAC (Capmark) sponsored transaction</td>
<td>1</td>
<td>232.0</td>
<td>1%</td>
<td>18</td>
<td>16%</td>
<td>2.05</td>
<td>55%</td>
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Total: 65 Deals, 24,014.3 Balance, 3,592 # Loans, 1.53 NCF DSCR, 66% LTV

## 2011-2016 CMBS Issuance

<table>
<thead>
<tr>
<th>Rank</th>
<th>Program</th>
<th>Deals</th>
<th>Balance</th>
<th>Mkt Share</th>
<th># Loans</th>
<th>Recourse</th>
<th>NCF DSCR</th>
<th>LTV</th>
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<tbody>
<tr>
<td>1</td>
<td>IMC sponsored</td>
<td>7</td>
<td>2,016.6</td>
<td>36%</td>
<td>244</td>
<td>76%</td>
<td>1.46</td>
<td>62%</td>
</tr>
<tr>
<td>2</td>
<td>RBC sponsored</td>
<td>4</td>
<td>1,437.9</td>
<td>26%</td>
<td>182</td>
<td>83%</td>
<td>1.50</td>
<td>62%</td>
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<tr>
<td>3</td>
<td>CCMO sponsored</td>
<td>3</td>
<td>1,212.5</td>
<td>22%</td>
<td>109</td>
<td>67%</td>
<td>1.51</td>
<td>60%</td>
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<tr>
<td>4</td>
<td>Starwood sponsored</td>
<td>1</td>
<td>400.0</td>
<td>7%</td>
<td>1</td>
<td>0%</td>
<td>2.36</td>
<td>51%</td>
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<tr>
<td>5</td>
<td>CMLS sponsored</td>
<td>1</td>
<td>283.8</td>
<td>5%</td>
<td>37</td>
<td>83%</td>
<td>1.47</td>
<td>58%</td>
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<td>6</td>
<td>MCAP sponsored</td>
<td>1</td>
<td>224.0</td>
<td>4%</td>
<td>32</td>
<td>60%</td>
<td>1.36</td>
<td>64%</td>
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</tbody>
</table>

Total: 17 Deals, 5,574.8 Balance, 605 # Loans, 1.54 NCF DSCR, 61% LTV
Canadian CMBS Outstanding

Sources: DBRS and CMBS.com.
CMBS Historical Delinquent and Special Servicing Rates

Sources: DBRS and CMBS.com.
Simple Capital Structure

Sample Property Capital Structure

Mortgage

Total Property Value = 100%

Mortgage LTV = 80%

Borrower Equity

Source: Blackrock Solutions
CMBS Transactions Flow of Investments & Securities

Source: CREFC
Where the Money Goes

- **Loan Originator / Loan Seller (Lender)**
- **Trustee - Distribution Account**
- **Servicer - Collection Account**
- **Borrowers**
- **Securities**
- **Investors**

**Flow of Money**
- **Loan Proceeds** → **Servicer - Collection Account** → **Debt Service & Escrows** → **Borrowers**
- **Debt Service Less Servicer Fee Plus Advances** → **Trustee - Distribution Account** → **Mortgage Notes**
- **Mortgage lien and Assignments of Rents and Leases** → **Loan Originator / Loan Seller (Lender)**
- **Securities Sale Proceeds at Closing** → **Securities** → **Investors**

**Other Financial Details**
- **Monthly Bond Coupon & Principal**
- **Securities Sale Proceeds at Closing**
- **CMBS Bonds**
What are Mortgage REITS?

Mortgage Real Estate Investment Trusts, also known as Mortgage REITs or MREITs, are companies that, like their Equity REIT cousins, were made possible through legislation passed by Congress in 1960 to help enable individuals from all walks of life to gain the benefits of investment in real estate debt and equity.

Congress specifically noted that these beneficial characteristics include “greater diversification of investment,” “expert investment counsel” and the means of “collectively financing projects which the investors could not undertake singly.”

A key part of the original REIT legislation requires REITs to distribute most of their income each year to their shareholders in the form of dividends. REITs are permitted to deduct from their corporate taxable income every dollar they pay out, while shareholders pay tax on the dividend income they receive, generally at ordinary income tax rates. This dividend distribution requirement is fundamental to the ability of REITs to deliver the continuing income and performance benefits characteristic of real estate debt and equity investment.
SASB Deal – 245 Park Avenue

**Property and Loan Overview**

- **Collateral SF / Property SF:** 1,723,993 SF
- **Trust Loan Balance:** $1,200,000,000
  - $ 696 / SF
- **Total Debt Balance:** $1,768,000,000
  - $1,026 / SF
- **Appraised Value:** $2.2B ($1,282/SF)
- **Loan Purpose:** Acquisition
- **Loan Term:** 10 years IO
- **Coupon rate (fixed):** 3.67%
245 Park Avenue Trust 2017-245P, a CMBS single-borrower (SASB) securitization, which is secured by a $500.0 million portion of a $1.2 billion whole loan.

The $500.0 million trust collateral consists of five pari passu A notes totaling $380.0 million and five subordinate B notes totaling $120.0 million.

The remaining portion of the whole mortgage loan, which is not trust collateral, consists of 14 pari passu A notes totaling $700.0 million. The non-trust A notes are expected to be securitized in multiple future CMBS transactions.
245 Park Avenue Trust
Basic Securitization Structure

245 Park Avenue Property, LLC (Mortgage Loan Borrower)

First Priority Mortgage

$1.2 billion mortgage loan

JPMorgan Chase Bank, NA; Natixis Real Estate Capital, LLC; Barclays Bank PLC; German American Capital Corporation; and Société Générale (Loan Sellers)

$500.0 million trust loan

J.P. Morgan Chase Commercial Mortgage Securities Corp. (Depositor)

$500.0 million trust loan

245 Park Avenue Trust-245P (Issuing Entity/Trust)

Initial Purchasers

Certificates

$
245 Park Avenue Trust
Distribution / Capital Structure

**Distribution of Funds**
- Principal
- Interest
  - Pari Passu & Pro Rata

**Capital Structure**
- Class X-A: notional
- Class X-B: notional
- Class A: P&I
- Class B: P&I
- Class C: P&I
- Class D: P&I
- Class E: P&I
- Class HRR: P&I
- Class R: residual

**Losses**
- Reverse Sequential
## 245 Park Avenue – Tenant Information

| #  | Direct Lease Tenant | Sublease Tenant | Headquarters | HQCWT | Square Footage | % of Total | Base Rent ($000s) | % of Total | Lease Expiration
<table>
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<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>JPMorgan Chase &amp; Co.</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
<td>787,785</td>
<td>45.7%</td>
<td>$46,402</td>
<td>36.8%</td>
<td>2022</td>
</tr>
<tr>
<td></td>
<td>Société Generale</td>
<td>Y</td>
<td>Y</td>
<td></td>
<td>562,347</td>
<td>32.6%</td>
<td>$34,584</td>
<td>27.4%</td>
<td>2032</td>
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<tr>
<td></td>
<td>Houlihan Lokey</td>
<td>Y</td>
<td>N</td>
<td></td>
<td>90,562</td>
<td>5.3%</td>
<td>$3,836</td>
<td>3.0%</td>
<td>2022</td>
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<td></td>
<td>The Nemec Agency</td>
<td>N</td>
<td>N</td>
<td></td>
<td>45,010</td>
<td>2.6%</td>
<td>$3,106</td>
<td>2.5%</td>
<td>2022</td>
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<tr>
<td></td>
<td>Pierpont Capital</td>
<td>N</td>
<td>N</td>
<td></td>
<td>34,058</td>
<td>2.0%</td>
<td>$2,084</td>
<td>1.7%</td>
<td>2022</td>
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<tr>
<td></td>
<td>JLL</td>
<td>N</td>
<td>N</td>
<td></td>
<td>15,939</td>
<td>0.9%</td>
<td>$797</td>
<td>0.6%</td>
<td>2022</td>
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<td>2</td>
<td>Major League Baseball</td>
<td>Y</td>
<td>N</td>
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<td>220,565</td>
<td>12.8%</td>
<td>$27,515</td>
<td>21.8%</td>
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<td></td>
<td>National Bank of Australia</td>
<td>N</td>
<td>Y</td>
<td></td>
<td>37,385</td>
<td>2.2%</td>
<td>$3,066</td>
<td>2.4%</td>
<td>2022</td>
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<tr>
<td></td>
<td>Houlihan Lokey</td>
<td>Y</td>
<td>N</td>
<td></td>
<td>24,840</td>
<td>1.4%</td>
<td>$1,615</td>
<td>1.3%</td>
<td>2022</td>
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<td></td>
<td>Athos U.S.A.</td>
<td>N</td>
<td>N</td>
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<td>10,525</td>
<td>0.6%</td>
<td>$736</td>
<td>0.6%</td>
<td>2022</td>
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<tr>
<td>3</td>
<td>Angelo, Gordon &amp; Co.</td>
<td>Y</td>
<td>N</td>
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<td>113,405</td>
<td>6.6%</td>
<td>$9,186</td>
<td>7.3%</td>
<td>2026</td>
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<td>4</td>
<td>Rabobank Nederland</td>
<td>N</td>
<td>Y</td>
<td></td>
<td>109,657</td>
<td>6.4%</td>
<td>$15,133</td>
<td>12.0%</td>
<td>2026</td>
</tr>
<tr>
<td>5</td>
<td>Ares Capital Corporation</td>
<td>Y</td>
<td>N</td>
<td></td>
<td>98,095</td>
<td>5.7%</td>
<td>$8,231</td>
<td>6.5%</td>
<td>2026</td>
</tr>
<tr>
<td>6</td>
<td>HNA Capital US LLC</td>
<td>N</td>
<td>Y</td>
<td></td>
<td>38,383</td>
<td>2.2%</td>
<td>$2,840</td>
<td>2.3%</td>
<td>2026</td>
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<tr>
<td>7</td>
<td>Regus Business Centre</td>
<td>N</td>
<td>N</td>
<td></td>
<td>38,382</td>
<td>2.2%</td>
<td>$3,224</td>
<td>2.6%</td>
<td>2021</td>
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<td>8</td>
<td>WisdomTree Investments</td>
<td>Y</td>
<td>N</td>
<td></td>
<td>37,923</td>
<td>2.2%</td>
<td>$2,768</td>
<td>2.2%</td>
<td>2029</td>
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<tr>
<td>9</td>
<td>The Norinchukin Bank</td>
<td>N</td>
<td>Y</td>
<td></td>
<td>36,346</td>
<td>2.1%</td>
<td>$3,598</td>
<td>2.9%</td>
<td>2022</td>
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<tr>
<td>10</td>
<td>Vestar Capital Partners</td>
<td>Y</td>
<td>N</td>
<td></td>
<td>22,502</td>
<td>1.3%</td>
<td>$1,597</td>
<td>1.3%</td>
<td>2020</td>
</tr>
</tbody>
</table>

### Top Five Tenants

- **Total Tenants**: 1,329,507
- **Square Footage**: $106,467
- **Occupied**: 95.5%

### Top Ten Tenants

- **Total Tenants**: 1,503,043
- **Square Footage**: $120,495
- **Occupied**: 95.5%

### Remaining Tenants

- **Total**: 67,035
- **Square Footage**: $5,682

### Vacant

- **Total**: 153,915
- **Square Footage**: -

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*Note: Société Générale has a sublease that expires in October 2022, but has executed a 10-year direct lease that commences on that date.*
## Property Financials

<table>
<thead>
<tr>
<th>245 Park Avenue ($000's, except PSF)</th>
<th>Appraisal</th>
<th>PSF/%</th>
<th>TTM 3/2017</th>
<th>PSF/%</th>
<th>Issuer</th>
<th>PSF/%</th>
<th>KBRA</th>
<th>PSF/%</th>
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<tbody>
<tr>
<td><strong>Revenues</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Base Rent</td>
<td>$133,896</td>
<td>$77.67</td>
<td>$129,096</td>
<td>$74.88</td>
<td>$152,945</td>
<td>$88.72</td>
<td>$145,145</td>
<td>$84.19</td>
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<td>Recoveries</td>
<td>38,605</td>
<td>22.39</td>
<td>37,903</td>
<td>21.99</td>
<td>40,919</td>
<td>23.73</td>
<td>45,063</td>
<td>26.14</td>
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<td>Gross Potential Rent</td>
<td>$172,501</td>
<td>$100.06</td>
<td>$166,999</td>
<td>$96.87</td>
<td>$193,864</td>
<td>$112.45</td>
<td>$190,208</td>
<td>$110.33</td>
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<tr>
<td>Vacancy / Credit Loss</td>
<td>(3,864)</td>
<td>-2.2%</td>
<td>-</td>
<td>-</td>
<td>(16,426)</td>
<td>-8.5%</td>
<td>(20,449)</td>
<td>-10.8%</td>
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<tr>
<td><strong>Net Rental Revenue</strong></td>
<td>$168,638</td>
<td>$97.82</td>
<td>$166,999</td>
<td>$96.87</td>
<td>$177,438</td>
<td>$102.92</td>
<td>$169,759</td>
<td>$98.47</td>
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<tr>
<td>Other Income</td>
<td>378</td>
<td>0.22</td>
<td>1,889</td>
<td>1.10</td>
<td>319</td>
<td>0.18</td>
<td>319</td>
<td>0.18</td>
</tr>
<tr>
<td><strong>Effective Gross Income</strong></td>
<td>$169,016</td>
<td>$98.04</td>
<td>$168,887</td>
<td>$97.96</td>
<td>$177,757</td>
<td>$103.11</td>
<td>$170,078</td>
<td>$98.65</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management Fee</td>
<td>$890</td>
<td>0.5%</td>
<td>$3,885</td>
<td>2.3%</td>
<td>$1,000</td>
<td>0.6%</td>
<td>$1,000</td>
<td>0.6%</td>
</tr>
<tr>
<td>Utilities</td>
<td>2,766</td>
<td>1.60</td>
<td>2,338</td>
<td>1.36</td>
<td>2,338</td>
<td>1.36</td>
<td>2,338</td>
<td>1.36</td>
</tr>
<tr>
<td>Repairs &amp; Maintenance</td>
<td>8,584</td>
<td>4.98</td>
<td>8,587</td>
<td>4.98</td>
<td>8,587</td>
<td>4.98</td>
<td>8,587</td>
<td>4.98</td>
</tr>
<tr>
<td>General &amp; Administrative</td>
<td>659</td>
<td>0.38</td>
<td>589</td>
<td>0.34</td>
<td>589</td>
<td>0.34</td>
<td>589</td>
<td>0.34</td>
</tr>
<tr>
<td>Payroll</td>
<td>2,049</td>
<td>1.19</td>
<td>1,972</td>
<td>1.14</td>
<td>1,972</td>
<td>1.14</td>
<td>1,972</td>
<td>1.14</td>
</tr>
<tr>
<td>Other</td>
<td>480</td>
<td>0.28</td>
<td>58</td>
<td>0.03</td>
<td>58</td>
<td>0.03</td>
<td>243</td>
<td>0.14</td>
</tr>
<tr>
<td>Real Estate Taxes</td>
<td>45,195</td>
<td>26.22</td>
<td>42,665</td>
<td>24.75</td>
<td>46,542</td>
<td>27.00</td>
<td>46,542</td>
<td>27.00</td>
</tr>
<tr>
<td>Insurance</td>
<td>1,116</td>
<td>0.65</td>
<td>1,117</td>
<td>0.65</td>
<td>1,362</td>
<td>0.79</td>
<td>1,362</td>
<td>0.79</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td>$61,740</td>
<td>$35.81</td>
<td>$61,211</td>
<td>$35.51</td>
<td>$62,449</td>
<td>$36.22</td>
<td>$62,634</td>
<td>$36.33</td>
</tr>
<tr>
<td><strong>Net Operating Income</strong></td>
<td>$107,277</td>
<td>$62.23</td>
<td>$107,677</td>
<td>$62.46</td>
<td>$115,308</td>
<td>$66.88</td>
<td>$107,444</td>
<td>$62.32</td>
</tr>
<tr>
<td>Tenant Improvements</td>
<td>$6,942</td>
<td>$4.03</td>
<td>-</td>
<td>-</td>
<td>$2,596</td>
<td>1.51</td>
<td>$2,596</td>
<td>1.51</td>
</tr>
<tr>
<td>Leasing Commissions</td>
<td>5,673</td>
<td>3.29</td>
<td>-</td>
<td>-</td>
<td>$2,596</td>
<td>1.51</td>
<td>$2,596</td>
<td>1.51</td>
</tr>
<tr>
<td>Replacement Reserves</td>
<td>534</td>
<td>0.31</td>
<td>-</td>
<td>-</td>
<td>552</td>
<td>0.32</td>
<td>552</td>
<td>0.32</td>
</tr>
<tr>
<td><strong>Total Capital Expenses</strong></td>
<td>$13,149</td>
<td>$7.63</td>
<td>-</td>
<td>-</td>
<td>$5,743</td>
<td>3.33</td>
<td>$5,743</td>
<td>3.33</td>
</tr>
<tr>
<td><strong>Net Cash Flow</strong></td>
<td>$94,127</td>
<td>$54.60</td>
<td>$107,677</td>
<td>$62.46</td>
<td>$109,565</td>
<td>$63.55</td>
<td>$101,701</td>
<td>$58.99</td>
</tr>
</tbody>
</table>
Public Equity

TRADED AND NON-TRADED REITS
What is a REIT?

A REIT, or Real Estate Investment Trust, is a company that owns or finances income-producing real estate. Modeled after mutual funds, REITs provide investors of all types stable income streams, diversification and long-term capital appreciation. REITs typically pay out all of their taxable income as dividends to shareholders. In turn, shareholders pay the income taxes on those dividends.

REITs allow anyone to invest in portfolios of large-scale properties the same way they invest in other industries – through the purchase of stock. In the same way shareholders benefit by owning stocks in other corporations, the stockholders of a REIT earn a share of the income produced through real estate investment – without actually having to go out and buy or finance property.
REIT Industry Financial Snapshot

REIT Industry Monthly Data for April 2017

Industry Size

- FTSE NAREIT All REITs equity market capitalization = $1.073 trillion
- FTSE NAREIT All Equity REITs equity market capitalization = $986.1 billion
- 224 REITs are in the FTSE NAREIT All REITs Index
- 191 REITs trade on the New York Stock Exchange
- NYSE listed REITs equity market capitalization = $971.1 billion
Canadian REIT Market Cap
Total market cap as of June 7, 2017 - $2.67B

Canadian REIT Market Cap Chart

For advanced charting, view our full-featured Fundamental Chart

Canadian REIT Historical Market Cap Data
How does a company qualify as a REIT?

- Invest at least 75 percent of its total assets in real estate
- Derive at least 75 percent of its gross income from rents from real property, interest on mortgages financing real property or from sales of real estate
- Pay at least 90 percent of its taxable income in the form of shareholder dividends each year
- Be an entity that is taxable as a corporation
- Be managed by a board of directors or trustees
- Have a minimum of 100 shareholders
- Have no more than 50 percent of its shares held by five or fewer individuals
Public Non-Listed REITs (PNLRs)

- Many REITs (whether equity or mortgage) are registered with the Securities and Exchange Commission (SEC) and are publicly traded on a national stock exchange. These are known as stock exchange-listed REITs. In addition, there are REITs that are registered with the SEC, but do not trade on major securities exchanges. These are known as publicly registered, non-exchange traded REITs, or simply public non-listed REITs (PNLRs).
- Like stock exchange-listed REITs, PNLRs own, operate and/or finance real estate and are subject to the same IRS rules requiring them to distribute all of their taxable income to shareholders so as to not pay taxes at the corporate level. In addition, PNLRs are required to make regular SEC disclosures, including quarterly and yearly financial reports. All of these PNLR filings are publicly available through the SEC’s EDGAR database.
- PNLRs do not offer the same liquidity that stock-exchange listed REITs provide. Redemption programs for shares vary by company and are limited. Generally a minimum holding period for PNLR investment exists.
# Traded vs. Public Non-Listed REITs

<table>
<thead>
<tr>
<th></th>
<th>Traded REITS</th>
<th>Non-Traded REITS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment Objective</strong></td>
<td>Current income and share price appreciation</td>
<td>Current income and eventual capital appreciation</td>
</tr>
<tr>
<td><strong>Liquidity</strong></td>
<td>May be bought and sold at any time. Either listed on an exchange or traded over-the-counter (OTC)</td>
<td>Investors should plan to hold through planned exit event</td>
</tr>
<tr>
<td><strong>Volatility</strong></td>
<td>Daily share price volatility based on supply and demand</td>
<td>No daily share price volatility until re-pricing 18 months after close of offering period, when underlying value of real estate holdings may fluctuate up or down</td>
</tr>
<tr>
<td><strong>Investors</strong></td>
<td>Available to any person or entity with a brokerage account</td>
<td>Available only to qualified investors through a professional financial advisor</td>
</tr>
<tr>
<td><strong>Fees</strong></td>
<td>Trading commissions at purchase; annual asset-based management fees</td>
<td>Front-end fees of 12% to 15% of investment; acquisition, asset management, disposition, and incentive fees during term</td>
</tr>
</tbody>
</table>
On Oct. 10, 2014, the U.S. Securities and Exchange Commission (SEC) approved amendments proposed by FINRA to promote greater transparency for shareholders of certain non-traded investments. The amendments, known as FINRA Regulatory Notice (RN) 15-02, modify National Association of Securities Dealers Rule 2340 regarding customer account statements and FINRA Rule 2310 regarding direct participation programs (DPPs). The amended rules also impact the handling of customer account statements for publicly registered non-traded real estate investment trusts (REITs) and other DPPs, such as non-traded business development companies (BDCs).

As mandated by FINRA, 15-02 allows for an implementation period of at least 18 months after the SEC’s approval. This means that customer account statements sent after April 11, 2016 will be required to comply with the requirements of the amended rules.
Non-Traded REITS - FINRA RN 15-02

KEY FEATURES OF 15-02

FINRA RN 15-02 calls for a modification of how the estimated per-share value of a non-traded BDC and non-traded REIT is reported and shown on customer account statements. This move is being undertaken to increase transparency surrounding the costs associated with these types of investments and to improve the valuations reflected on customer account statements.

Upon implementation, 15-02 will apply to all existing and future non-traded REITs and non-traded BDCs. The intention of the amended rules is to reinforce investor protection with respect to REIT and BDC non-traded securities by increasing the transparency of estimated values on customer account statements. As a result, it is believed that investors will be given a more accurate assessment of the investment’s estimated value.

FINRA RN 15-02 also prohibits firms from participating in a public offering of a non-traded REIT unless the issuer has agreed to disclose a per-share estimated value in its periodic filings that has been developed in a manner reasonably designed to ensure its reliability.
Net Investment & Appraised Value Methods

FINRA RN 15-02 provides two specific methodologies firms can use to determine a per-share estimated value that will be deemed to have been developed in a reasonable manner: the net investment method and the appraised value method. The application of these methodologies will increase the consistency, frequency and accuracy of valuations and estimated share values across non-traded products.

- **The net investment method** — which will likely be used by early life-cycle, non-traded REITs — establishes the net value of an investment by deducting sales commissions and related charges, such as organizational and offering costs. Statements will then report an account value based on the estimated net value per share multiplied by the number of shares. Under the net investment method, 15-02 requires firms to add additional disclosures informing investors that a distribution will have the effect of reducing the estimated per-share value shown on the account statement, in the event any portion of the investor’s distribution represents a return of capital. Requiring the net value per share on customer account statements will provide greater transparency to investors about the offering’s commissions, fees and expenses.

- Alternately, **the appraised value method** can be used at any time, but no later than 150 days after the second anniversary of breaking escrow. This method — which will likely be employed by middle and late life-cycle, non-traded REITs — requires independent third parties to determine or provide material assistance in the process of determining the estimated NAV of a portfolio. While different third parties may perform appraisals in different ways, the estimated NAV is most commonly determined by using generally accepted accounting principles (GAAP) in the case of REITs.
Private REITs

In addition to publicly traded REITs and non-traded REITs, there are also private REITs. Similar to non-traded REITs, private REITs are not listed making them hard to value and trade. Private REITs also do not regularly file disclosure reports with the SEC possibly making it difficult for you to keep informed of your investment. Instead, private REIT offerings are private placements and rely on an exemption from the obligation to register with the SEC. Investors are typically limited to accredited investors.
Vornado Realty Trust
Vornado Realty Co – Before & After

RELENTLESS FOCUS ON SHAREHOLDER VALUE CREATION

In the past few years, we have exited multiple business lines and non-core holdings - $14.6 Billion of total transactions
- Sold $5 Billion of non-core assets including regional malls, the Mart business (retaining the Chicago Mart building) and other non-core investments
- Spun off strip shopping centers into Urban Edge Properties (NYSE: UE) in a $3.6 Billion transaction
- Upon completion of the DC spin-merger ($6 Billion transaction value for Vornado), we will have created three best-in-class, highly focused REITs

URBANEDGE PROPERTIES

- Focused, pure-play Northeastern shopping center business with strong growth profile
- Irreplaceable portfolio of properties concentrated in dense, high barrier to entry markets with attractive demographics
- Embedded growth opportunities from redevelopment and anchor repositioning projects
- Proven management team

VORNADO REALTY TRUST REMAINCO

- Peerless NYC focused real estate company with premier office assets and the only publicly investable high street retail portfolio of unique quality and scale
- Trophy assets in best NYC submarkets
- Attractive built-in growth from recently signed leases
- Best-in-class management team, now with singular NYC focus, with proven record of value creation
- Fortress balance sheet

JBG SMITH PROPERTIES

- Largest¹, pure-play, mixed-use operator focused solely on Washington, DC
- Best-in-class Washington, DC focused management team with proven record of success
- Premier portfolio of mixed-use (office, multifamily and retail) assets in Metro-served, urban infill submarkets
- Significant near-term embedded growth prospects as well as substantial pipeline of future development opportunities

¹. Based on Commercial SF as reported per latest financial statements for public office REITs with Washington, DC exposure.
**JBG Smith Properties - Tax-Free Spin-Merger**

<table>
<thead>
<tr>
<th>Deal Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Vornado to combine its Washington, DC business with The JBG Companies and a select pool of their assets via a tax-free spin-merger to form a new publicly traded REIT named JBG SMITH Properties (NYSE: JBGS)</td>
</tr>
</tbody>
</table>
| • Total transaction value of ~$8.4 Billion

<table>
<thead>
<tr>
<th>Expected Pro Forma Ownership¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>• VNO Shareholders: 74%</td>
</tr>
<tr>
<td>• JBG Limited Partners: 20%</td>
</tr>
<tr>
<td>• JBG Management: 6%; management will have complete alignment with shareholders</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management and Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>Will be led by JBG’s senior management team with the best talent from both companies across the overall platform</td>
</tr>
<tr>
<td>• 12 member Board of Trustees; Vornado and JBG to each designate six Trustees</td>
</tr>
<tr>
<td>• Chairman of the Board: Steven Roth (VNO Chairman and CEO)</td>
</tr>
<tr>
<td>• CEO and Trustee: W. Matt Kelly (JBG Managing Partner)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>JBG SMITH Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>JBG SMITH will be the largest owner / operator in the DC market with critical mass in the best submarkets</td>
</tr>
<tr>
<td>• High quality asset base – 98% of the portfolio will be Metro served; 12.4 MM SF of commercial real estate and 4,451 multifamily units</td>
</tr>
<tr>
<td>• Unrivaled development pipeline – can add 20 MM SF of additional density</td>
</tr>
<tr>
<td>• JBG SMITH will be well-capitalized to execute on its growth plans</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expected Closing</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Transaction expected to close in 2Q 2017, subject to certain closing conditions</td>
</tr>
<tr>
<td>• The distribution is expected to be made on a pro rata 1:2 basis to Vornado common shareholders and Vornado Realty L.P. common unitholders as of the distribution record date</td>
</tr>
</tbody>
</table>
Creating Value through focused REITs

Vornado believes that creating two separate, market-leading, focused REITs will greatly enhance shareholder value.

### Benefits to Vornado Shareholders
- Creates the premier, pure-play New York City real estate company
- Sharpens focus on Vornado’s unique New York City franchise and irreplaceable portfolio
- Allows investors to more fully appreciate the industry-leading metrics of the New York business

### Rationale for DC Separation
- Enables investors to decide upon relative allocation between the two geographies
- Improves transparency and better highlights the attributes of both companies
- Allows investors to participate more directly and meaningfully in Washington, DC’s market recovery
- Allows for independent, highly focused management teams with their own report cards

### Rationale for Combination with JBG
- The industry-leading Washington, DC operator with superior capital allocation skills
- Greater geographic diversification within Washington, DC and concentration in the best submarkets
- Increased scale provides competitive market advantages and improved G&A efficiency

---

**Vornado**

- **Largest** / Peerless New York City Focused REIT
  - Premier Office Buildings
  - Prime High Street Retail
  - Penn Plaza Opportunity
  - Fortress Balance Sheet

**JBG SMITH Properties**

- **Powerhouse Washington, DC Focused REIT**
  - Urban, Metro-served Portfolio
  - High-Barrier-to-Entry Submarkets
  - Substantial Development Pipeline
  - Strong Balance Sheet
## Transaction Overview

### Total transaction value of ~$8.4 billion\(^1\) creating the market-leading, pure-play Washington, DC real estate platform

**Deal Summary**
- Vornado to spin off its Washington, DC business consisting of 10.1 MM SF\(^2\) of commercial real estate, 3,175 multifamily units and a future development pipeline with estimated development potential of 9.2 MM SF\(^3\).
- JBG simultaneously to merge its management company and a selected portfolio consisting of 2.4 MM SF of commercial real estate, 1,276 multifamily units, 0.8 MM SF under construction and a future development pipeline with estimated development potential of 10.5 MM SF\(^3\).
- JBG SMITH will be well-capitalized to execute on its growth plans.

**Expected Pro Forma Ownership\(^1\)**
- VNO Shareholders: 74%
- JBG Limited Partners: 20%
- JBG Management\(^4\): 6%

**Management and Board**
- Will be led by JBG’s senior management team with the best talent from both companies across the overall platform
- 12 member Board of Trustees; VNO and JBG to each designate six Trustees
- Chairman: Steven Roth (VNO Chairman and CEO)
- CEO: W. Matt Kelly (JBG Managing Partner)
- Executive Vice Chairman: Rob Stewart (JBG Managing Partner)
- Mitchell Schear (Vornado DC President) and Michael Glosserman (JBG Managing Partner) to be Trustees

**Overhead Cost Structure**
- Pro forma overhead cost structure to be in line with best-in-class peers

**Impact on Vornado**
- Remaining Vornado will be the premier, pure-play New York City real estate company with irreplaceable office and high street retail assets
- Vornado anticipates that the aggregate pro forma Vornado and JBG SMITH dividends will be at least equal to Vornado’s current annualized dividend of $2.52 per share

**Expected Closing**
- 2Q 2017, subject to certain closing conditions
Transaction Overview – by the numbers
Vornado Remain Co

Peerless NYC focused real estate company with premier office assets and the only publicly investable high street retail portfolio of scale

- Following the spin-off, Vornado will be a pure-play New York City real estate company, with an irreplaceable NYC portfolio generating 88% of the Company’s pro forma EBITDA²
- Own 81 properties totaling 24.0MM SF² in New York City with blue chip tenant roster
- NYC office business includes trophy assets in best submarkets spanning 18.7MM SF² in 35 properties
- NYC high street retail is amongst the rarest and most valuable real estate in the world – 31% of Vornado RemainCo EBITDA
  - Portfolio encompasses 3.1 MM SF¹ in 72 properties
  - Vornado owns some of the best assets on the best streets: 23% of upper Fifth Avenue, both sides of the Times Square Bowtie, and on Madison Avenue, SoHo, Union Square, and the 34th Street Penn Plaza district
  - Vornado is the only REIT with significant NYC high street retail holdings and the sole vehicle for public ownership
- In addition, Vornado will continue to own the prime franchise assets in San Francisco (555 California) and Chicago (theMART) - 11% of Vornado RemainCo EBITDA

Vornado RemainCo EBITDA¹
The Private Side of the Balance Street

PRIVATE DEBT AND EQUITY
New Entrants – New Money

New Competition

Several New Players and alternative sources have entered the market

- Foreign institutional money (Japanese Life Co investing through Acore)
- Developers (Related Companies, Mack Real Estate)
- Private Equity (KKR, TPG, Blackstone)
- Smaller bridge financing shops (Calmwater, Thorofare)
- Unsecured debt Bond raises on the Tel-Aviv Exchange
- E-b5
- Crowd funding
## The Billion Dollar Club

### Largest Institutional Investors by Current Allocation to Real Estate

<table>
<thead>
<tr>
<th>Rank</th>
<th>Investor</th>
<th>Location</th>
<th>Current Allocation to Real Estate (bn)</th>
<th>Current Allocation to Real Estate (As a % of AUM)</th>
<th>Assets under Management (bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Abu Dhabi Investment Authority</td>
<td>United Arab Emirates</td>
<td>50 USD</td>
<td>6.3%</td>
<td>792 USD</td>
</tr>
<tr>
<td>2</td>
<td>APG - All Pensions Group</td>
<td>Netherlands</td>
<td>41 EUR</td>
<td>10.0%</td>
<td>443 EUR</td>
</tr>
<tr>
<td>3</td>
<td>Ivanhoe Cambridge</td>
<td>Canada</td>
<td>55 CAD</td>
<td>100.0%</td>
<td>55 CAD</td>
</tr>
<tr>
<td>4</td>
<td>DekaBank</td>
<td>Germany</td>
<td>28 EUR</td>
<td>12.2%</td>
<td>234 EUR</td>
</tr>
<tr>
<td>5</td>
<td>Sun Life Financial</td>
<td>Canada</td>
<td>41 CAD</td>
<td>4.6%</td>
<td>903 CAD</td>
</tr>
<tr>
<td>6</td>
<td>California Public Employees’ Retirement System (CalPERS)</td>
<td>US</td>
<td>30 USD</td>
<td>9.4%</td>
<td>320 USD</td>
</tr>
<tr>
<td>7</td>
<td>Assicurazioni Generali</td>
<td>Italy</td>
<td>27 EUR</td>
<td>5.2%</td>
<td>521 EUR</td>
</tr>
<tr>
<td>8</td>
<td>Swiss Life</td>
<td>Switzerland</td>
<td>28 CHF</td>
<td>15.8%</td>
<td>180 CHF</td>
</tr>
<tr>
<td>9</td>
<td>Government Pension Fund Global</td>
<td>Norway</td>
<td>233 NOK</td>
<td>3.1%</td>
<td>7,542 NOK</td>
</tr>
<tr>
<td>10</td>
<td>PGGM</td>
<td>Netherlands</td>
<td>24 EUR</td>
<td>12.0%</td>
<td>206 EUR</td>
</tr>
</tbody>
</table>

*Source: Preqin Real Estate On-Line*
Capital Allocated to Real Estate by $1bn Club Investors by Investor Type

- Public Pension Fund: 29%
- Insurance Company: 15%
- Private Sector Pension Fund: 15%
- Sovereign Wealth Fund: 15%
- Bank: 15%
- Superannuation Scheme: 7%
- Asset Manager: 4%
- Other: 2%
- 2%

Source: Preqin Real Estate Online
EB-5 and Crowdfunding
EB-5 Visa Program for Real Estate

EB-5 is a United States immigration program that offers citizens of other countries the opportunity to seek permanent U.S. residency through job creation in the U.S.

The EB-5 Regional Center Program began in the early 1990’s to spur economic growth by giving immigrants a way to obtain permanent U.S. residency through job creation. Administered by the United States Citizenship and Immigration Services (USCIS), the EB-5 program directs foreign investment into projects that revitalize local economies; investors whose money creates at least 10 full-time jobs for U.S. workers become eligible for a U.S. green card. Regional Centers, designated by the U.S. government, promote job creation in a defined geographic area.

There are 10,000 EB-5 immigrant visas available annually, of which 3,000 EB-5 visas are set aside for foreign nationals who invest in Regional Centers designated by USCIS based on proposals for promoting economic growth.

For investments in areas other than "targeted employment areas," the minimum amount of investment is $1 million. Investments in "targeted employment areas," which include most regional center projects, can qualify with a minimum of $500,000.
EB-5 Visa (Continued)

A targeted employment area is a rural area or a geographical area that has experienced unemployment at a rate of at least 150% of the national average rate. Individual states are authorized to designate geographical areas within the state that qualify as targeted employment areas.

Each EB-5 investor must create 10 direct or indirect permanent jobs for U.S. workers in order to obtain a “Green Card”.

All investments are subject to risk and Regional Center projects are not exceptions. Under the law, the Regional Center cannot guarantee profit or the return of an investor’s principal investment. The project has limited operating history and is subject to financing risk. There are no assurances that a member’s petition will be granted or that a member will be able to obtain an immigrant visa or unconditional lawful permanent resident status. Laws, regulations and interpretations of the EB-5 Program are subject to change at any time.
Crowdfunding

Real estate is one of the fastest growing markets to take on the concept of crowdfunding and apply it in a new way. Whether you’re participating in the real estate market in an institutional capacity or as a solo investor, you may have been told that real estate is an investment that always appreciates. Those who invested prior to 2008 know, unfortunately, that’s not always the case. However, what is true is that a diversified portfolio should, if possible, potentially contain a real estate play. Why? Some say it’s because land is one of the most precious and scarce resources. But this argument has been falling on deaf ears, particularly amongst millennials who simply don’t feel the same pull to own things as their parents and grandparents. As a result real estate was, and is, a prime market segment poised for change, especially with the growth of real estate crowdfunding.

According to Massolution’s crowdfunding report, money raised by individuals, budding brands and even established companies through crowdfunding platforms exceeded $34.4 Billion in 2015. Analysts even predict that crowdfunding will surpass VC funding this year.

Here are four emerging trends in real estate crowdfunding

Regulation Brings Crowdfunding to Maturity
The JOBS Act was signed into law by President Obama in 2012 with the intent to encourage funding of small businesses in the U.S. by easing various securities regulations. But most critical to the crowdfunding world, this act, or more specifically Titles II and III of the legislation, gave the SEC the ability to adopt clear and defined rules surrounding equity crowdfunding. It legitimized the industry and it has been growing ever since.
Crowdfunding (Continued)

Foreign Investment in Real Estate Is Booming
A recent U.S. real estate study showed that Chinese investors have poured $110 billion dollars into the U.S. market in the last 5 years (both commercial and residential). This investment is set to double in the next 5 years.

Wealthy Millennials Are Investing Their Money Differently
In a world where we can livestream at the touch of a button and the largest real estate company in the world doesn’t own any property (Airbnb), the on demand world has seemingly taken the desire to own out of this generation. However, with the influx of unicorn technology companies and the increase of millennial millionaires, the need to put their money somewhere is still very much on their minds. Real estate crowdfunding has the potential to help them share the wealth while staying true to their sensibilities.

Crowdfunding for Retirement
Those considering real estate investing, especially through crowdfunding platforms, could potentially improve their rate of return with tax efficient strategies, more specifically IRA’s. An article on BiggerPockets puts it this way: “the number one financial need in retirement is passive income.” Real estate crowdfunding platforms allow those saving for retirement to invest in real estate right from the golf course, with just a few clicks on their phone or tablet.

Source: Forbes  Feb 21, 2017
Israel’s Bond Market for Capital Raises
Israel Bond Market – Long Term Unsecured Debt

Sophisticated, transparent and liquid, the Israeli bond market offers real estate companies, attractive terms to raise subordinate, unsecured, corporate debt, in the Tel Aviv Stock Exchange. The money raised in TASE could replace a mezzanine loan or be used as equity for existing or future projects.

Two main factors enable such a transaction:
• The credit rating arbitrage between Israel (A+) and the U.S (AA+), provides U.S. companies with preferable rating in Israel, when certain conditions are met.
• Israeli asset accounting shows market value, based on IFRS accounting, vs. book value in the US GAAP method, the difference often results in higher asset valuation.

• Non-recourse offerings are market norm
• Attractive financing costs
• Relatively simple process and short closing timeline
• Lower transaction execution and maintenance costs
• Issuer-friendly covenant structure
Israel Bond Market – Debt Characteristics

• The bonds can have a term of 5-8 years with CPI linked interest rates in the 3%-8% range, depends on the company local rating, with a possibility for a grace in the principal payments of 2-3 years.

• Interest & Principal payments are expected to be made from the portfolio’s existing and future cash flow.

• The bonds are unsecured and no collateral is provided.

• The proceeds from the Bond issuance can be used as equity to purchase additional income producing real estate or develop new income producing assets (ground up) or to refinance mezzanine or preferred equity in the existing portfolio or purchase partners rights in the existing portfolio.
## Credit Rating Scale global - Israel

<table>
<thead>
<tr>
<th>Moody’s</th>
<th>Midroog (Local)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A2</td>
<td>Aaa</td>
</tr>
<tr>
<td>Baa1 - A3</td>
<td>Aa1</td>
</tr>
<tr>
<td>Baa2 - Baa3</td>
<td>Aa2</td>
</tr>
<tr>
<td>Ba1 - Baa3</td>
<td>Aa3</td>
</tr>
<tr>
<td>Ba2</td>
<td>A1</td>
</tr>
<tr>
<td>Ba3</td>
<td>A2</td>
</tr>
<tr>
<td>B1</td>
<td>A3</td>
</tr>
<tr>
<td>B2</td>
<td>Baa1</td>
</tr>
<tr>
<td>B3</td>
<td>Baa2</td>
</tr>
<tr>
<td>Caa1</td>
<td>Baa3</td>
</tr>
<tr>
<td>Caa1 - Caa3</td>
<td>Ba1 - Caa3</td>
</tr>
<tr>
<td>Ca</td>
<td>Ca</td>
</tr>
<tr>
<td>C</td>
<td>C</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>S&amp;P</th>
<th>S&amp;P Maalot (Local)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBB and higher</td>
<td>AAA</td>
</tr>
<tr>
<td>BB / BBB</td>
<td>AA</td>
</tr>
<tr>
<td>B / BB</td>
<td>A</td>
</tr>
<tr>
<td>B</td>
<td>BBB</td>
</tr>
<tr>
<td>CCC</td>
<td>BB</td>
</tr>
<tr>
<td>CCC</td>
<td>B</td>
</tr>
<tr>
<td>CCC</td>
<td>CCC</td>
</tr>
<tr>
<td>CC</td>
<td>CC</td>
</tr>
<tr>
<td>SD</td>
<td>SD</td>
</tr>
<tr>
<td>D</td>
<td>D</td>
</tr>
</tbody>
</table>
## Better Pricing: Dutch Auction & Local Credit Rating

### Public Tender Pricing Method
- Bond’s interest rate is determined by a tender
  - Public
  - Non-discriminatory
  - Fully transparent
  - Allocation is subject to pricing only
  - Issuer determines min. price (or max. coupon rate)
- Better value to the issuer than common Book Building method
- Better pricing and lower debt cost

### Local Credit Rating
- Israel’s market dominated by S&P and Moody’s, each with a local office
- The rating methodology used for rating real estate companies in Israel, favors activity in stable, higher rated countries.
- US companies can benefit from the Israeli rating methodology by receiving a higher rating.

Source: Rosario Capital Ltd
Israel Bond Market – Typical Transaction Structure

A Typical Transaction Structure

The Company founds a New Company, which issues the bonds and to which selected assets of the Company are transferred.

Before bond raise

Parent Company

LLC1  LLC2  LLC3  LLC4  LLC5

After bond raise

Parent Company

Issuing Company

New Company

NEW LLC6  LLC5  LLC4  LLC3  LLC2  LLC1
# Israel Bond Market – Illustrative Transaction

<table>
<thead>
<tr>
<th>Pre-transaction</th>
<th>Transaction (Phase 1)</th>
<th>Transaction (Phase 2)*</th>
<th>Post transaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Assets Value (US GAAP)</td>
<td>$2,000M</td>
<td>NewCo Assets value (US GAAP)</td>
<td>$600M</td>
</tr>
<tr>
<td>Equity Value</td>
<td>$800M</td>
<td>Equity Value</td>
<td>$240M</td>
</tr>
<tr>
<td>Senior Debt</td>
<td>$1200M</td>
<td>Senior Debt</td>
<td>$360M</td>
</tr>
<tr>
<td>LTV</td>
<td>60%</td>
<td>LTV</td>
<td>60%</td>
</tr>
</tbody>
</table>

* NewCo Israeli credit rating determines its leverage level and maximum debt amount
### Bond raising in Israel - US Companies

<table>
<thead>
<tr>
<th>Company</th>
<th>Amount Raised</th>
<th>Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>BROOKLAND UPREAL</td>
<td>120 Million NIS</td>
<td>6.4%</td>
</tr>
<tr>
<td>THE ZARASAI GROUP</td>
<td>340 Million NIS</td>
<td>4.95%</td>
</tr>
<tr>
<td>THE LESSER GROUP</td>
<td>950 Million NIS</td>
<td>4.95%</td>
</tr>
<tr>
<td>Delshah</td>
<td>400 Million NIS</td>
<td>6.9%</td>
</tr>
<tr>
<td>GFI</td>
<td>225 Million NIS</td>
<td>7.9%</td>
</tr>
<tr>
<td>EXTELL</td>
<td>945 Million NIS</td>
<td>4.95%</td>
</tr>
<tr>
<td>All Year series III</td>
<td>537 Million NIS</td>
<td>3.95%</td>
</tr>
<tr>
<td>Spencer Equity Group</td>
<td>291 Million NIS</td>
<td>6.9%</td>
</tr>
<tr>
<td>Namco Realty</td>
<td>450 Million NIS</td>
<td>5.9%</td>
</tr>
<tr>
<td>Strawberry Fields</td>
<td>265 Million NIS</td>
<td>6.4%</td>
</tr>
<tr>
<td>Related</td>
<td>850 Million NIS</td>
<td>5.1%</td>
</tr>
<tr>
<td>Moinian Group</td>
<td>1.4 Billion NIS</td>
<td>4.2%</td>
</tr>
</tbody>
</table>
## Israel Bond Market – Selected Transactions

<table>
<thead>
<tr>
<th>Company and bond series **</th>
<th>Issuance Date</th>
<th>Local Rating</th>
<th>Duration</th>
<th>Coupon</th>
<th>Maturity</th>
<th>linkage</th>
<th>Capital Raised (USD millions)</th>
<th>Activity area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spencer</td>
<td>11/30/2014</td>
<td>A</td>
<td>4.9</td>
<td>6.90%</td>
<td>11/30/2023</td>
<td>Not linked</td>
<td>154.6</td>
<td>NY-Bronx and Brooklyn</td>
</tr>
<tr>
<td>Extell B</td>
<td>4/6/2015</td>
<td>A2</td>
<td>5.29</td>
<td>6.00%</td>
<td>12/31/2021</td>
<td>Not linked</td>
<td>153.8</td>
<td>Manhattan and premier cities across the US</td>
</tr>
<tr>
<td>Leser E</td>
<td>5/26/2015</td>
<td>A</td>
<td>6.45</td>
<td>6.90%</td>
<td>05/15/2026</td>
<td>Not linked</td>
<td>72</td>
<td>NY (mainly Brooklyn)</td>
</tr>
<tr>
<td>Strawberry</td>
<td>11/26/2015</td>
<td>A</td>
<td>3.98</td>
<td>6.4%</td>
<td>07/01/2024</td>
<td>Not linked</td>
<td>67.9</td>
<td>Illinois, Ohio, Texas</td>
</tr>
<tr>
<td>Klein</td>
<td>11/30/2015</td>
<td>A3</td>
<td>3.83</td>
<td>5.65%</td>
<td>08/31/2021</td>
<td>Not linked</td>
<td>60.5</td>
<td>New York and New Jersey</td>
</tr>
<tr>
<td>Brookland 2</td>
<td>12/8/2015</td>
<td>BBB+</td>
<td>4.0</td>
<td>8.85%</td>
<td>12/31/2021</td>
<td>Not linked</td>
<td>18.7</td>
<td>Brooklyn, NY</td>
</tr>
<tr>
<td>Delsha 2</td>
<td>01/10/2016</td>
<td>A3</td>
<td>5.76</td>
<td>4.6%</td>
<td>10/01/2023</td>
<td>Not linked</td>
<td>61.5</td>
<td>New York</td>
</tr>
</tbody>
</table>

*With our participation  ** In case of several transactions, only the later is mentioned
Extra Stuff

ADDENDA
Inland Real Estate Income Trust, Inc.
Inland Real Estate Income Trust, Inc.

Long-Term Strategy

- Focus on Multi-Tenant Retail Real Estate
- Potential Tax Deferral Strategy
- Geographic Diversification

There is no guarantee that these strategies will be achieved or maintained.

Portfolio Summary

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>$1,357,560,000</td>
</tr>
<tr>
<td>Debt to Total Assets*</td>
<td>45%</td>
</tr>
<tr>
<td>Total Number of Properties</td>
<td>56</td>
</tr>
<tr>
<td>Total Square Feet</td>
<td>6,345,578</td>
</tr>
<tr>
<td>Economic Occupancy¹</td>
<td>94.6%</td>
</tr>
<tr>
<td>Physical Occupancy</td>
<td>93.6%</td>
</tr>
<tr>
<td>Distributions Paid (YTD through 12/31/16)</td>
<td>$52,358,000</td>
</tr>
<tr>
<td>Annualized Distribution Rate²</td>
<td>6.65%</td>
</tr>
</tbody>
</table>

*Excludes Mortgage Premium
Where are they located?

Geographic Locations

No Assets  0.3-5%  5.01-10%  10.01% or Greater

Based on Annualized Base Rent (ABR)
Tenant composition

Diversification

Tenant Diversification (Based on Gross Leaseable Area)

- Discount & Department Stores: 23.3%
- Grocery: 15.1%
- Lifestyle, Health Clubs, Books & Phones: 12.7%
- Home Goods: 12.4%
- Restaurant: 8.9%
- Apparel & Accessories: 8.1%
- Sporting Goods: 5.7%
- Consumer Services, Salons, Cleaners, Banks: 4.5%
- Pet Supplies: 4.5%
- Health, Doctors & Health Foods: 2.5%
- Other: 2.3%
## Tenancy and Debt

### Top 5 Tenants

<table>
<thead>
<tr>
<th>Tenant</th>
<th># of Leases</th>
<th>% of ABR</th>
<th>Credit Rating&lt;sup&gt;3&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dick’s Sporting Goods</td>
<td>6</td>
<td>3.9</td>
<td>NR</td>
</tr>
<tr>
<td>Kroger</td>
<td>3</td>
<td>3.3</td>
<td>BBB</td>
</tr>
<tr>
<td>T.J.Maxx/HomeGoods/Marshalls</td>
<td>12</td>
<td>3.2</td>
<td>A+</td>
</tr>
<tr>
<td>PetSmart</td>
<td>9</td>
<td>2.8</td>
<td>NR</td>
</tr>
<tr>
<td>Ulta Salon, Cosmetics &amp; Fragrance Inc.</td>
<td>10</td>
<td>2.4</td>
<td>NR</td>
</tr>
</tbody>
</table>

### Debt Maturity & Principal Payments

<table>
<thead>
<tr>
<th>Year</th>
<th>Mortgages and Credit Facility Payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$6,510,000</td>
</tr>
<tr>
<td>2018</td>
<td>$15,465,000</td>
</tr>
<tr>
<td>2019</td>
<td>$183,665,000</td>
</tr>
<tr>
<td>2020</td>
<td>$898,000</td>
</tr>
<tr>
<td>2021</td>
<td>$84,271,000</td>
</tr>
<tr>
<td>Thereafter</td>
<td>$317,027,000</td>
</tr>
<tr>
<td>Total</td>
<td>$607,836,000</td>
</tr>
</tbody>
</table>
## Portfolio Metrics

<table>
<thead>
<tr>
<th>Metric</th>
<th>As of December 31, 2016</th>
<th>As of December 31, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of properties</td>
<td>56</td>
<td>54</td>
</tr>
<tr>
<td>Purchase price</td>
<td>$1,337,827</td>
<td>$1,249,345</td>
</tr>
<tr>
<td>Total square footage</td>
<td>6,345,578</td>
<td>6,025,330</td>
</tr>
<tr>
<td>Weighted average physical occupancy</td>
<td>93.6%</td>
<td>96.2%</td>
</tr>
<tr>
<td>Weighted average economic occupancy</td>
<td>94.6%</td>
<td>97.2%</td>
</tr>
<tr>
<td>Weighted average remaining lease term (years)</td>
<td>6.8</td>
<td>7.1</td>
</tr>
</tbody>
</table>
Inland’s Business

Inland Real Estate Income Trust, Inc. was incorporated on August 24, 2011 as a Maryland corporation.

- They were formed to acquire, directly or indirectly, a diversified portfolio of commercial real estate located throughout the United States.
- They are permitted to acquire retail properties, office buildings, multi-family properties and industrial/distribution and warehouse facilities.
- They have focused on acquiring retail properties. They may acquire these properties directly or through joint ventures.
- They also may invest in real estate-related equity securities as well as commercial mortgage-backed securities.
- Their sponsor, Inland Real Estate Investment Corporation, is an indirect subsidiary of The Inland Group, Inc. Various affiliates of their Sponsor provide services to them.
- They are externally managed and advised by IREIT Business Manager & Advisor, Inc., an indirect wholly owned subsidiary of their Sponsor.
- Their Business Manager is responsible for overseeing and managing day-to-day operations.
- Their properties are managed by Inland National Real Estate Services, LLC and Inland Commercial Real Estate Services LLC, indirect wholly owned subsidiaries of their Sponsor.
Inherent Conflicts of Interest

- IREIC may face a conflict of interest in allocating personnel and resources among the various entities. In addition, conflicts exist to the extent that we acquire properties in the same geographic areas where properties owned by other IREIC-sponsored programs are located.

- A conflict may arise in the acquisition or leasing of properties if we and another IREIC-sponsored program are competing for the same properties or tenants in negotiating leases, or a conflict may arise in connection with the resale of properties if we and another IREIC-sponsored program are selling similar properties at the same time.

- The charter contains provisions setting forth our ability to engage in certain related party transactions. Our board of directors reviews all of these transactions and, as a general rule, any related party transactions must be approved by a majority of the directors, including a majority of the independent directors, not otherwise interested in the transaction. Further, we may not engage in certain transactions with entities sponsored by, or affiliated with, IREIC unless a majority of our board of directors, including a majority of our independent directors, finds the transaction to be fair and reasonable and on terms no less favorable to us than those from an unaffiliated party under the same circumstances.
Inherent conflicts (continued)

The board has adopted a conflicts of interest policy prohibiting the REIT from engaging in the following types of transactions with IREIC-affiliated entities:

• purchasing real estate assets from, or selling real estate assets to, any IREIC-affiliated entities (excluding circumstances where an entity affiliated with IREIC, such as Inland Real Estate Acquisitions, Inc. (“IREA”), from time to time may enter into a purchase agreement to acquire a property and then assign the purchase agreement to us);

• making loans to, or borrowing money from, any IREIC-affiliated entities (this excludes expense advancements under existing agreements and the deposit of monies in any banking institution affiliated with IREIC); and

• investing in joint ventures with any IREIC-affiliated entities.

This policy does not impact agreements or relationships between us and IREIC and its affiliates, including, for example, agreements with our Business Manager or Real Estate Managers that relate to the day-to-day management of our business.
Risk Factors – key considerations

The amount and timing of distributions, if any, may vary. We may pay distributions from sources other than cash flow from operations, including the proceeds of our DRP.

We may not generate sufficient cash flow from operations to fund any distributions to our stockholders. The actual amount and timing of distributions, if any, is determined by our board of directors in its discretion, based on its analysis of our actual and expected cash flow, capital expenditures and investments, as well as general financial conditions. Actual cash available for distribution may vary substantially from estimates made by our board.

If we cannot generate sufficient cash flow from operations, determined in accordance with U.S. GAAP, to fully fund distributions during any given period, we may pay all or a substantial portion of our cash distributions from retained cash flow, from borrowings, from cash flow from investing activities, including the net proceeds from the sale of our assets or our DRP. We have not limited the amount of monies from any of these sources that may be used to fund distributions except as limited by Maryland law.

Funding distributions from the proceeds of our DRP, borrowings or asset sales will result in us having fewer funds available to acquire properties or other real estate-related investments. As a result, the return our stockholders realize on their investment may be reduced. Doing so may also negatively impact our ability to generate cash flows. Likewise, funding distributions from the sale of additional securities will dilute our stockholders interest in us on a percentage basis and may impact the value of their investment especially if we sell these securities at prices less than the price our stockholders paid for their shares.
Risk Factors – key considerations

Our Business Manager is under no obligation, and may not agree, to continue to forgo or defer its business management fee and acquisition fee.
In the past, IREIC or its affiliates have forgone or deferred a portion of the business management fee due them from the other REITs previously sponsored by IREIC to ensure that the REIT generated sufficient cash from operating activities to pay distributions. Through December 31, 2016, affiliates of IREIC have forgone our business management fees and acquisition fees of $0.7 million and $4.8 million, respectively.

There is no established public trading market for our shares, and our stockholders may not be able to sell their shares under our SRP, or otherwise.
There is no established public trading market for our shares and no assurance that one may develop. This may inhibit the transferability of our shares. There is no assurance the board will pursue a listing or other liquidity event at any time in the future. In addition, even if our board decides to seek a listing of our shares of common stock, there is no assurance that we will satisfy the listing. Thus, holders of our common stock should be prepared to hold their shares for an unlimited period of time.

The Estimated Per Share NAV of our common stock is based on a number of assumptions and estimates that may not be accurate or complete and is also subject to a number of limitations.
On April 7, 2016, we announced an Estimated Per Share NAV of our common stock as of December 31, 2015 equal to $9.02 per share. To assist our board of directors in establishing the Estimated Per Share NAV, we engaged a third party specializing in providing real estate financial services. As with any methodology used to estimate value, the methodology employed by this third party was based upon a number of estimates and assumptions that may not have been accurate or complete.
Risk Factors – key considerations

*Our charter authorizes us to issue additional shares of stock, which may reduce the percentage of our common stock owned by our other stockholders, subordinate stockholders’ rights or discourage a third party from acquiring us.*

Existing stockholders do not have preemptive rights to purchase any shares issued by us in the future. Our charter authorizes us to issue up to 1,500,000,000 shares of capital stock, of which 1,460,000,000 shares are classified as common stock and 40,000,000 shares are classified as preferred stock. We may, in the sole discretion of our board:

- sell additional shares in any future offerings including pursuant to the DRP;
- issue equity interests in a private offering of securities;
- classify or reclassify any unissued shares of common or preferred stock by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications, or terms or conditions of redemption of the stock;
- amend our charter from time to time to increase or decrease the aggregate number of shares or the number of shares of any class or series that we have authority to issue; or
- issue shares of our capital stock in exchange for properties.
Risk Factors – key considerations

Our charter authorizes us to issue additional shares of stock, which may reduce the percentage of our common stock owned by our other stockholders, subordinate stockholders’ rights or discourage a third party from acquiring us.

Existing stockholders do not have preemptive rights to purchase any shares issued by us in the future. We may, in the sole discretion of our board:

• sell additional shares in any future offerings including pursuant to the DRP;
• issue equity interests in a private offering of securities;
• classify or reclassify any unissued shares of common or preferred stock by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications, or terms or conditions of redemption of the stock;
• amend our charter from time to time to increase or decrease the aggregate number of shares or the number of shares of any class or series that we have authority to issue; or
• issue shares of our capital stock in exchange for properties.

Market disruptions may adversely impact many aspects of our operating results and operating condition.

We may suffer from delays in selecting, acquiring and developing suitable assets.

Our board of directors may change our investment policies without stockholder approval, which could alter the nature of our stockholders’ investment.
About us

BERKELEY RESEARCH GROUP, LLC
Berkeley Research Group (BRG) is a leading global strategic advisory and expert consulting firm that provides independent advice, data analytics, authoritative studies, expert testimony, investigations, and regulatory and dispute consulting to Fortune 500 corporations, financial institutions, government agencies, major law firms, and regulatory bodies around the world.

BRG experts and consultants combine intellectual rigor with practical, real-world experience and an in-depth understanding of industries and markets. Their expertise spans economics and finance, data analytics and statistics, and public policy in many of the major sectors of our economy, including healthcare, banking, information technology, energy, construction, and real estate.

BRG is headquartered in Emeryville, California, with offices across the United States and in Asia, Australia, Canada, Latin America, the Middle East, and the United Kingdom.
BRG Real Estate Advisory Services

BRG provides real estate investors with the leverage needed to execute on their business plan. Whether its debt or equity, financial reporting, litigation or transaction related we provide superior due diligence, experienced valuation, capital markets, and regulatory advisory services.

Debt & Equity Diligence and Advisory Services
Advisors to investors, banks and financial institutions in both single asset and portfolio level diligence

- Origination due diligence and underwriting support for securitized and balance sheet debt
- Large single asset and Loan portfolio underwriting for CMBS and Balance Sheet lenders
- Lease and Loan agreement abstraction and review
- CMBS B-Piece underwriting support, modeling and third party review
- Warehouse Finance re-underwriting, due diligence, and valuation in support of balance sheet lenders financing loans secured by commercial real estate
- Commercial real estate stress test modeling for regulated institutions
- Property level due diligence and agreed upon procedures
- Asset summaries, Prospectus and Term Sheet creation

Valuation Advisory and Financial Reporting Services
Valuation support for asset acquisitions, loan originations and financial reporting

- Real estate portfolio valuation services for Private Equity, Non-traded REITS, Hedge Funds and Sovereign Wealth funds
- Financial reporting valuation review support
- Argus and Excel cash flow modeling
- Real estate valuation litigation support
- Purchase price allocation work for financial reporting
- Appraisal reviews and outsourced appraisal management function
- Third party report reviews (Appraisals, Property condition reports and Environmental reports)
- CMBS surveillance and re-underwriting for new and existing investments
BRG Real Estate Advisory Services

Our Real Estate Debt, Equity and Valuation Track Record

*Our Team has Served as an asset manager for a global insurance company’s real estate investments*

- **Asset managed** multi-tenant office, industrial and retail equity investments for a global insurance company’s general account portfolio. Services including budgeting, capital expenditure approval, lease approval, service contract negotiation and tax
- **Asset managed and valued** on a quarterly basis, a portfolio of credit lease investments for a global insurance company

*Our Team has been involved in the origination, underwriting, credit and distribution of over $70 Billion of CMBS*

- **Underwrote**, inspected, managed the ratings and bond distribution of a $6+ Billion hospitality portfolio
- **Underwrote**, inspected, managed the ratings and bond distribution of a $1.7 Billion resort portfolio for acquisition and post renovation refinance
- **Underwrote**, managed the ratings and distribution of the securitized, mezzanine and preferred equity for a $4 Billion multifamily investment
- **Managed** the underwriting, structuring, rating and distribution of almost two dozen large loan floating rate CMBS transactions with an aggregate balance in excess of $15 Billion, with bonds distributed to US and European investors
- **Rated** more that $20 Billion of Fixed and Floating Rate CMBS transactions for a Global Credit Rating Agency
- **Served as a member of the real estate credit committee for a Global Investment Bank**

*Our Team has Extensive Experience Supporting institutions with stress testing and asset valuation*

- Team Managing Directors have advised money center, regional banks and large community banks with the design, model creation and data collection for their commercial real estate stress test models
- **Provided real estate valuation marks for private equity funds, non-traded REITs, REITs and insurance companies**
- **Supported the valuation and diligence for several distressed real estate loan portfolios in the US and Caribbean**