PRIVATEBANCORP INC.

REAL ESTATE CAPITAL MARKETS

KAREN CASE

JANUARY 18, 2013

AGENDA…

THE PRIVATEBANK

I. Who we are and what we do

II. Bank loans

III. Permanent market

IV. Odd and ends

V. Questions

WHO WE ARE AND WHAT WE DO…

THE PRIVATEBANK

•The PrivateBank is a $14 billion Chicago-based bank focused on delivering customized business and personal financial services to middle-market companies, and serving the personal banking & wealth management needs of business owners, executives, entrepreneurs and families in all of the markets and communities we serve.

•We understand the business philosophy and goals of our clients, rather than just chase "deals."

•Underwriting philosophy – No two deals look alike but for the consistency in (1) reliance on the integrity of the sponsorship; and (2) the discipline in our underwriting.

•Generally speaking, loans are structured to include at least two of these three attributes: equity, recourse, leasing.

THE GOOD NEWS…

➢ *There is capital available for real estate in today's market!*

Active capital sources include:

- **Commercial banks**
- **Life insurance companies**
- **CMBS**
- **Fannie and Freddie**
- **Finance companies**
- **Equity providers**
- **Mezzanine lenders**

BANKS ARE ACTIVELY LENDING IN COMMERCIAL REAL ESTATE…

➢ *Financing is being provided for*
- Construction
- Acquisition
- Redevelopment
- Refinancing
- Portfolio loans
- Note purchases

➢ *Property types include*
- Multi-family (including student housing)
- Industrial
- Office (especially medical office)
- Retail (especially grocery-anchored)
- For sale residential?

TYPICAL BANK LOAN STRUCTURE…

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•Single purpose entity as borrower

•12-30 month term (plus extension options?), with up to 5 years for cash-flowing properties

•Floating interest rate (typically Libor + a spread), sometimes with a floor. Swaps are an attractive alternative to fixed rates and are more flexible. Cancellable swaps are particularly popular.

•Commitment fee

•Recourse [completion and (partial) repayment]

•Up to xx% loan to appraised "stabilized" value

•Secured by a first mortgage, assignment of rents, leases and all contracts

•No takeout in place ("uncovered" or "open-ended")

WHY WE BREAK THE RULES…

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•Credit tenant(s)

•Substantial equity

•Substantial guaranty from a substantial guarantor

•Acceptable takeout (loan or purchase) in place

WHAT HAS CHANGED?

$1 mln NOI

Before:

6.5% cap => $15.4 mln value

80% ltv => *$12.3 mln loan*

During:

8% cap => $12.5 mln value

80% ltv => $10 mln loan

65% ltv => *$8.125 mln loan*

Now:

7% cap => $14.3 mln

65% ltv => *$9.3 mln*

SO WHAT ELSE HAS CHANGED?

More focused underwriting:

➢On the Property:
- Lease and tenant analysis
- Source of TILC and RE tax payments
- Sensitivity analysis (interest rates, cap rates, lease rates, concessions, occupancy)
- Underwriting of the contractor

➢On the Sponsor/Guarantor:
- Global cash flow (and how debt service is being paid)
- Debt maturities
- Liquidity
- Contingent liabilities
- In whose name(s) assets are held
- Pending litigation/foreclosures
- History of performance

PERMANENT DEBT OPPORTUNITIES…LIFE COMPANIES

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➢*Cherry-picking the best properties in the best locations and will give up rate to win those.*

•Leverage typically 50%-65%; will stretch up to 75% on multi-family and grocery-anchored or industrial portfolios

•Terms of up to 25 years, 10 years most common

•Fixed rates currently in the mid 3's to mid 4's (T+170-300 bp) at par

•Non-recourse except for carve-outs

•Reserves for taxes only (unless low leverage) unless there is an "event"

•May require 3% floors for shorter-term deals and 4% for 10 year funds

•Downtown office preferred over suburban; big box retail is underwritten very conservatively, and hotels are tough.

PERMANENT DEBT OPPORTUNITIES…CMBS

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➢ *Certainty of execution is greatest risk.*

•Leverage is capped at 80%, but rarely gets there unless it's great multi-family which is more likely to be won by life co or agencies

•Fixed rates currently high 3's to mid 4's for 10 years (down from the low 6's in mid 2011), sometimes higher for 5 years, all at par.

•Non-recourse except for carve-outs

•Tax, insurance and replacement reserves are required, with leasing reserves dependent on lease roll

•Retail and office are most prevalent (would like more multi-family!), and some hotel; rust belt states a challenge, but not off limits

FINANCE COMPANY LENDING PARAMETERS…

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- *Loan Size*
  - **Typically $10MM - $75MM (defined as the Middle Market)**
- *Loan Types*
  - **Generally first mortgages**
  - **Whole loans may be structured as A/B notes or Senior/Mezz**
- *Loan Term*
  - **Market standard of 3 year initial term, plus two one-year extension options**
- *Loan-to-Cost & Loan-to-Value*
  - **Up to 80% LTC for commercial (up to 85% LTC for multifamily – deemed "Full Leverage")**
  - **5% to 10% reduction in stabilized LTV to account for business plan execution**
- *Interest Rates & Spreads*
  - **Generally 5.50% to 6.5%**
  - **Libor-based, may include interest rate floor**
  - **May include interest rate protection (i.e. rate cap)**
- *Loan Fees*
  - **1.0% commitment fee**
  - **0.25% to 0.50% exit fees**
  - **Extension fees, as applicable**

FINANCE COMPANY LENDING PARAMETERS…

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- *Prepayment*
  - Yield Maintenance
  - ‘Make Whole’ provisions (i.e. minimum interest)
- *Amortization*
  - Typically I/O during the initial term
  - Mortgage-style amortization throughout the extension periods (25-yr commercial, 30-yr multifamily, 20-yr or less for specialty-use properties)
- *Recourse*
  - Generally non-recourse except for ‘bad acts’ carve-outs
  - Guarantors include warm body and/or entity-level guarantees
- *Reserves*
  - RE Taxes, Insurance, Replacement Reserves (as applicable)
- *Holdbacks*
  - Structured for each individual transaction
  - Typically includes ‘Good News’ dollars for Tenant Improvements and/or Leasing Commissions
  - Capital expenditures required per PCA and/or Sponsor specific business plan
- *DSCR Covenants*
  - Typically minimum 1.0x in-place for value-added transactions
  - New vintage product has been generally 1.15x of greater

ODDS AND ENDS…

•2013 allocation for most lenders is at least equal to 2012.

•Banks offer the most flexible terms for shorter term (<5 years) loans.

•Agency pricing and leverage are most attractive for multi-family.

•Life companies win on commercial property pricing and multi-family funding flexibility.

•CMBS provides the highest leverage and longest amortization for commercial properties.

•Source: Berkadia

ODDS AND ENDS…

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- Financing note acquisitions
  - Foreclosure risks (cost, timeframe and bankruptcy)
  - Entitlement risks
  - “unrecorded” documents

- Regulatory environment
  - Appraisals
  - Risk ratings
  - Exams

- Stressed loans
  - When the borrower stays involved and when it’s time to move on

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