The Times They are a Changin'

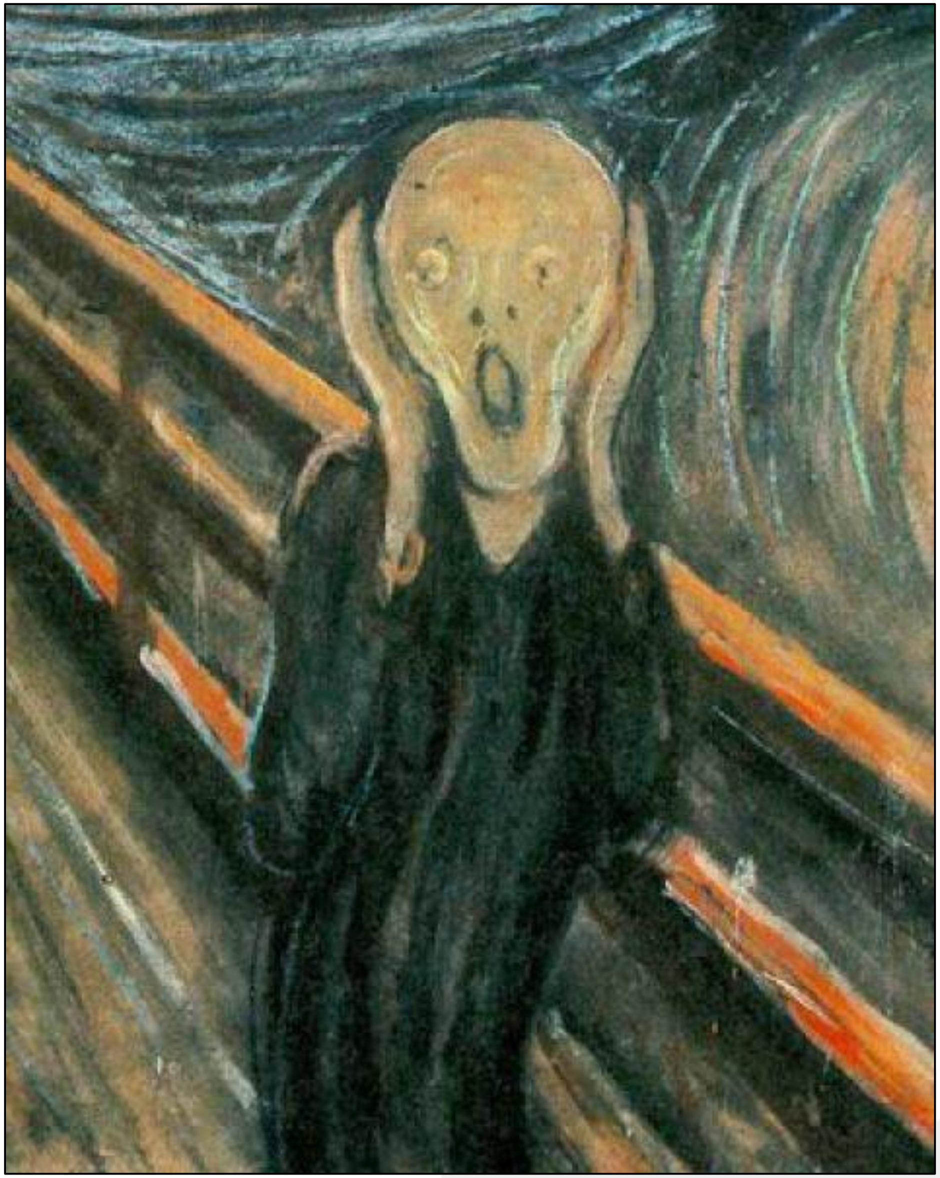
Q1 2016 Real Estate Market Update

Wall Street vs Main Street

A disconnect has emerged between real estate capital and Main Street owners and operators, leading to a liquidity squeeze and subsequent slow decline in commercial real estate values

Disclaimer: This presentation is prepared for JCR's non-advisory loan origination clients. All opinions regarding projections or forward looking statements are of the author and subject to change.

Wall Street is Nervous

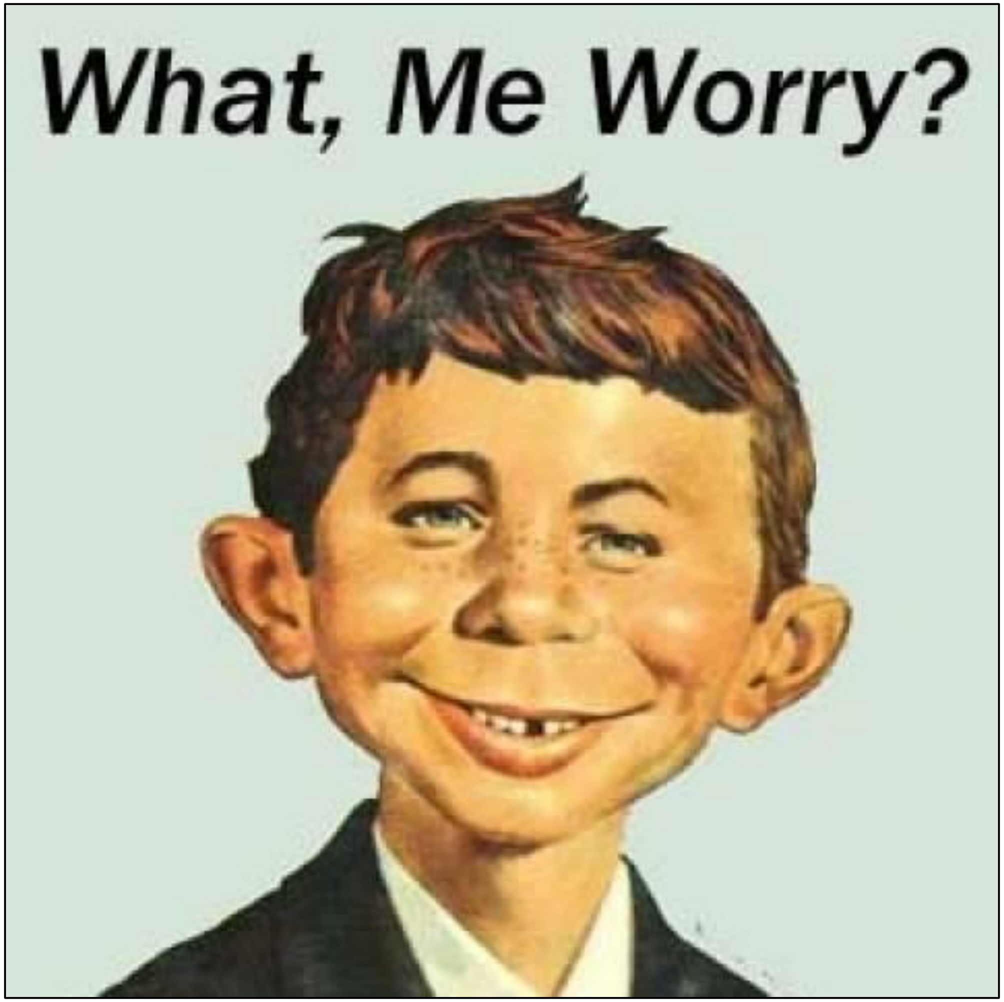


Wall Street is Nervous

There are plenty of reasons to be nervous:

1. Credit markets are weakening (bond defaults occurring)
2. U.S. stock prices: high forward 12-month P/E valuation of 16.7 times
3. CMBS market is in turmoil (risk retention)
4. Declining oil prices brings uncertainty
5. China slowdown
6. Real estate values are above peak in many markets
7. Federal Reserve is talking about raising rates as well as negative rates
8. Lack of confidence in the overall economy
9. Election year: more taxes, Wall Street bashing, the Trump factor

Main Street is Not Worried at All



Main Street is Not Worried at All

Main Street sees strong assets:

- Occupancies are strong
- Rents are stable to increasing
- Low debt rates are increasing returns

What is the Effect of this Disconnect

Prices are falling due to a mini-liquidity squeeze

- Sellers have been caught off guard
- Buyers/equity providers are saying no to seller pricing
- Many deals don't "work" with revised/new equity and debt metrics
- Transactions are not closing quickly, re-trades are occurring, the first and second buyer are falling out of escrow

In times like these, opportunities emerge

Opportunities

1. More rational asset pricing will begin to return

2. Sellers who are facing maturities that can't refinance will need to recapitalize or sell at lower pricing

3. New relationships with private debt and non-Wall Street equity should be a priority for sponsors

Who Wins and Who Loses in a Liquidity Squeeze

Winners

- Those with dry powder
- Those who have been on the sidelines
- Those who target middle market transactions, as these assets come to market due to ownership issues, not market issues

Losers

- Those who are "waiting" to sell – It will not be terrible, just not peak values (i.e., 3%-8% price declines)
- Those who are in the market now needing maximum financing
- Those who have maturing CMBS with assets that are not "clean"

Predictions

- **Not a Reset or Recession**
  - We do not see this as a great price reset, but more as a pull back from what was high and unsustainable peak values

- **New Price Discovery**
  - Ongoing, but typically a 3%-8% price decline for middle market assets

The Next New Things

1. "Creative", short-term financing to "gap" the liquidity squeeze
2. More attention to "stressed" exit cap rates
3. Qualified buyers hanging around the hoop and getting the deal

About JCR Capital

- JCR Capital is a leader in middle market commercial real estate finance
- JCR provides:
  - Bridge loans
  - Asset-based, quick-close loans
  - Mezzanine debt
  - Preferred equity
  - Joint venture equity
  - Programmatic joint venture equity
- JCR specializes in
  - Value-add
  - Opportunistic
  - Distressed
  - Special situations
- JCR is a national program and works with sponsors on a variety of asset classes

For more information, contact Jay Rollins (jayrollins@jcrcapital.com)