



TOOLS FOR PROPERTY ACQUISITION

ROBERT FORDI, NORTHAMERICAN TERMINALS MANAGEMENT, INC.

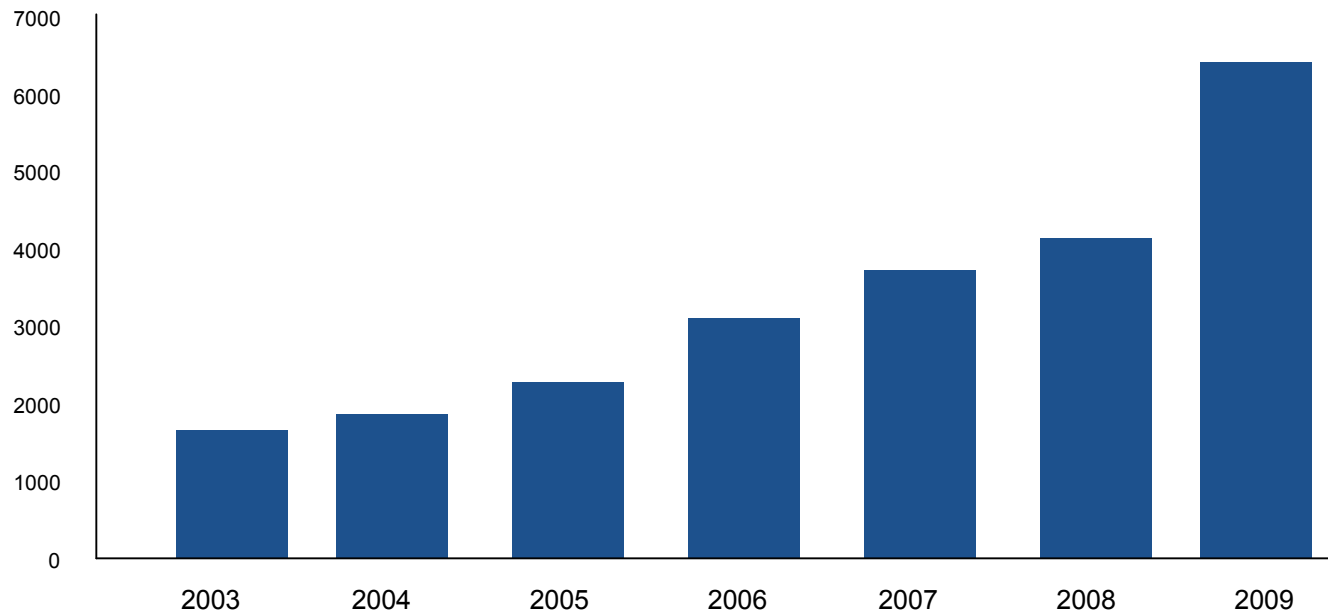
Institutional Owner Perspective



Presentation
May 5th, 2010

EXPERIENCE - NAT PORTFOLIO GROWTH

NAT Doors Under Management



REAL ESTATE AS AN ASSET CLASS

- Offers a premium to the “risk-free” rate
- A hedge to financial (versus real) asset investments
 - Financial assets are:
 - Stocks
 - Bonds
 - Derivatives
 - Cash
 - Foreign Exchange
 - Real assets are:
 - Commercial Real Estate
 - Residential Real Estate
 - Natural Resources (mining, timber)
 - Manufacturing Equipment
 - Commodities



WHY TRUCK TERMINALS AS AN INVESTMENT CLASS?

- Industrial, as an asset class, has achieved high returns and low volatility compared to other real estate types.
- Valuations below replacement cost create value opportunities.
- Triple net lease structures insulate property owners from fluctuating operating costs, limiting costly cap-ex and continual TI budgeting.

AVERAGE RETURNS		
	Average Annual % Return	Standard Deviation
Industrial	10.29%	6.73
Retail	10.13%	6.16
Hotel	9.79%	9.79
Apartment	9.59%	5.59
Office	9.46%	9.49

Source: NCREIF



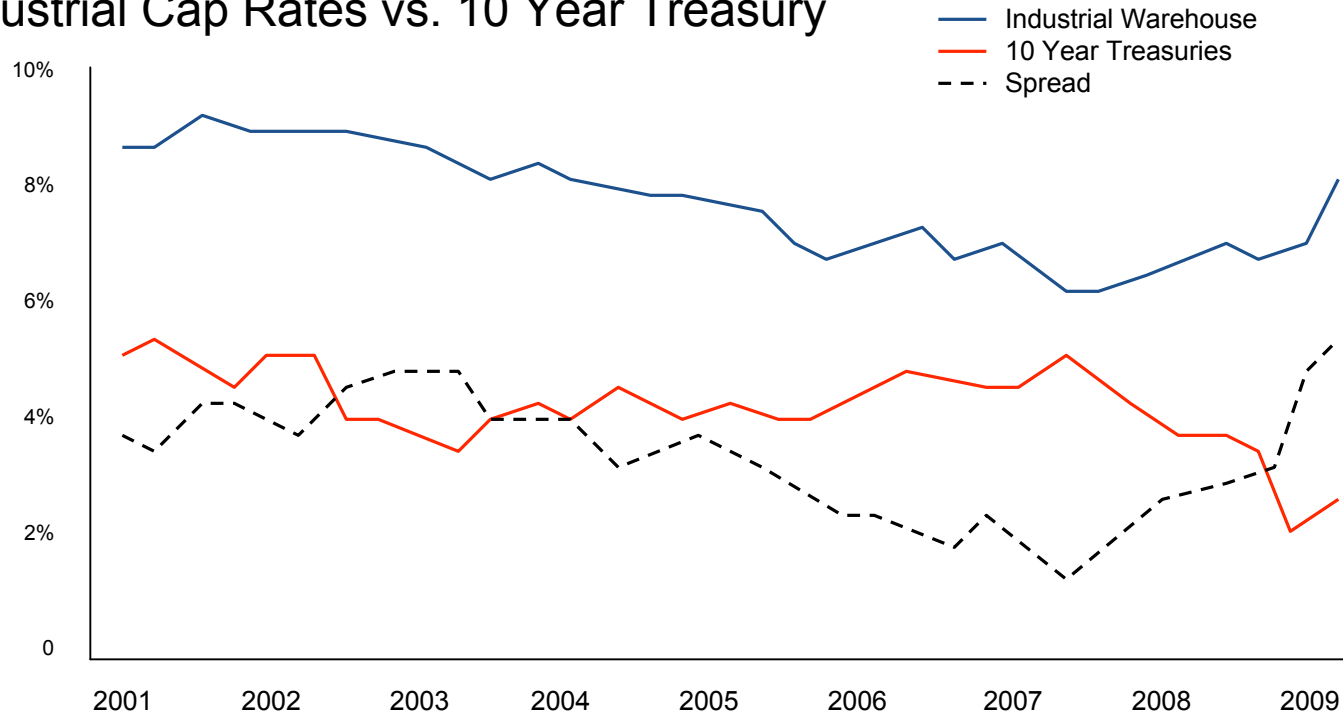
REAL ESTATE VALUATION – CAP RATES

- Capitalization Rate: The expected rate of return on a real estate investment assuming an all-cash purchase
- Formula: Net operating income (EBITDA) ÷ investment cost
- Traditionally, capitalization rates have 4 distinct components:
 - Required return:**
 - the expected rate of inflation over the life of the investment
 - Real return:**
 - the amount above the required return resulting in a monetary benefit equivalent to the “risk free rate”
 - Risk premium:**
 - based on tenant credit, lease term, location, physical quality, occupancy, etc.
 - Liquidity premium:**
 - to account for the illiquid nature of the asset class and the unpredictability of disposition pricing



INVESTMENT ALTERNATIVES

Industrial Cap Rates vs. 10 Year Treasury

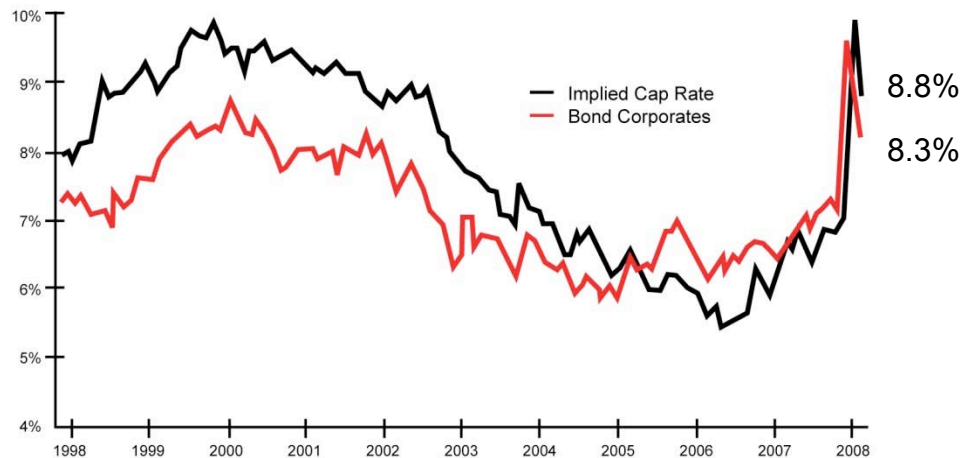


Source: Colliers



INVESTMENT ALTERNATIVES

Implied Cap Rates and Long-Term Bond Yields



Source: Green Street Advisors

- The implied cap rate at which REITs trade has historically tracked corporate bond yields.
- Unlike corporate bonds, real estate offers a hedge against inflation as leases can adjust upon expiration to reflect higher costs.
- Unlike fixed income investments which return par upon maturity, real estate may be sold for an appreciated value (or loss).



SPREADS OVER CORE INDUSTRIAL CAPITALIZATION RATES

Spreads depend on:

1. Market
2. Credit
3. Construction Quality
4. Lease Terms
5. Business/Investment Cycle
6. Property Functionality



OTHER VALUE FACTORS

- Zoning – Protection from competition.
- Neighborhood – Drive it, know it, understand context.
- Competitive Building Landscape – Top 25% of quality & utility.
- Replacement Cost – Buy property at a discount to replacement cost to protect from speculative development competition.



LET'S ZERO IN ON MARKETS

The Gateways

- New York/New Jersey
- Los Angeles
- Miami
- Chicago

Top Cargo Markets

- Boston
- San Francisco
- Dallas/Ft. Worth
- Houston
- Philadelphia
- Atlanta
- Seattle
- Memphis
- Louisville

Dense Urban/Suburban Populations

- Tampa
- Charlotte
- Cincinnati
- Long Island
- Las Vegas
- Baltimore/Washington DC
- Phoenix
- Austin
- Cleveland



LOOK FOR DIFFERENTIATION

If not a “Top Institutional Market,” look for fact patterns influencing attractiveness:

- Density
- Market Control
- Freight Patterns
- Historic Vacancy
- Credit
- Renewal Probability (shorter-term leases but high renewal probability and lower vacancy than overall industrial)



COMPETITIVE SET REVIEW

- Where are the terminal nodes?
- Are there “old” nodes and “new” nodes?
- Which locations offer more value?
- Catalogue and chart properties
- Availability of land?
- New development difficulty?
- Mid-bandwidth size?
- Capacity at other terminals in market?



BUILDING & SITE UNDERWRITING

Physical Review

- Land to Building Ratio (10:1)
- Site Layout
- Environmental
- Engineering Inspection

Contractual Review

- Zoning
- Title & Survey
- Lease Form & Terms
- Tenant Interviews



GUIDEPOSTS TO A SUCCESSFUL TRANSACTION

- Seek common ground.
- Determine “must haves” early in the process.
- Commit to being hard on problems, not people.
- Communicate the process openly and fully.
- Undertake the current transaction with the next one in mind.



WRAP-UP / DISCUSSION

QUESTIONS

