

# GE Capital

## Real Estate's return to profitability

-Mark Begor

August 8<sup>th</sup>, 2012

Credit Suisse 2012 Industrial conference

### Caution Concerning Forward-Looking Statements:

This document contains "forward-looking statements" - that is, statements related to future, not past, events. In this context, forward-looking statements often address our expected future business and financial performance and financial condition, and often contain words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "see," or "will." Forward-looking statements by their nature address matters that are, to different degrees, uncertain. For us, particular uncertainties that could cause our actual results to be materially different than those expressed in our forward-looking statements include: current economic and financial conditions, including volatility in interest and exchange rates, commodity and equity prices and the value of financial assets; potential market disruptions or other impacts arising in the United States or Europe from developments in the European sovereign debt situation; the impact of conditions in the financial and credit markets on the availability and cost of our funding and on our ability to reduce our asset levels as planned; the impact of conditions in the housing market and unemployment rates on the level of commercial and consumer credit defaults; changes in Japanese consumer behavior that may affect our estimates of liability for excess interest refund claims (GE Money Japan); pending and future mortgage securitization claims and litigation in connection with WMC, which may affect our estimates of liability, including possible loss estimates; our ability to maintain our current credit rating and the impact on our funding costs and competitive position if we do not do so; our ability to pay dividends to GE at the planned level; the level of demand and financial performance of the major industries we serve, including, without limitation, air transportation, real estate and healthcare; the impact of regulation and regulatory, investigative and legal proceedings and legal compliance risks, including the impact of financial services regulation; strategic actions, including acquisitions, joint ventures and dispositions and our success in completing announced transactions and integrating acquired businesses; the impact of potential information technology or data security breaches; and numerous other matters of national, regional and global scale, including those of a political, economic, business and competitive nature. These uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. We do not undertake to update our forward-looking statements.

"This document may also contain non-GAAP financial information. Management uses this information in its internal analysis of results and believes that this information may be informative to investors in gauging the quality of our financial performance, identifying trends in our results and providing meaningful period-to-period comparisons. For a reconciliation of non-GAAP measures presented in this document, see the accompanying supplemental information posted to the investor relations section of our website at [www.ge.com](http://www.ge.com)."






"In this document, "GE" refers to the Industrial businesses of the Company including GECC on an equity basis. "GE (ex. GECC)" and/or "Industrial" refer to GE excluding Financial Services."



imagination at work

# Capital businesses

(\$ in billions)

	<u>Business</u>	<u>2Q'12 assets</u>	<u>Domain + expertise</u>
	Commercial Lending & Leasing	\$185	<ul style="list-style-type: none"><li>• Entered in the 60's</li><li>• ~100% secured loans and leases</li><li>• Support mid-market customers</li></ul>
	Consumer <ul style="list-style-type: none"><li>- U.S. PLCC</li><li>- Global</li></ul>	\$135	<ul style="list-style-type: none"><li>• Entered in the 30's</li><li>• Store cards and sales finance for retailers</li><li>• Broad spread of risk</li></ul>
	Real Estate <ul style="list-style-type: none"><li>- Debt</li><li>- Equity</li></ul>	\$58	<ul style="list-style-type: none"><li>• Entered in the 70's</li><li>• Secured loans against diversified properties</li><li>• Own/operate high quality properties</li></ul>
	Aviation Services	\$50	<ul style="list-style-type: none"><li>• Entered in the 60's</li><li>• GE domain</li><li>• Broad product set with full life cycle management</li></ul>
	Energy Financial Services	\$20	<ul style="list-style-type: none"><li>• Entered in the 80's</li><li>• GE domain</li><li>• Essential assets; secure cash flows</li></ul>

**Businesses we know... deep domain...  
decades of performance**

# What we do...

## Finance real estate assets

Office  
\$6B



Multi-family  
\$4B



Retail/mix  
\$4B



Owner occupied  
~~\$8B~~ ~\$2B

\$5B Business Properties sale ANNOUNCED



- ✓ Senior secured first mortgage
- ✓ 4,600+ investments... ~\$7MM avg
- ✓ 75% LTV, 2.1x DSC
- ✓ 2% ROI originations
- ✓ Core Capital business

### Other collateral types

- ✓ Hotel \$3B
- ✓ Industrial 3B
- ✓ Other 4B

# What we do...

## Own, manage, add value to real estate

Office  
\$13B



Multi-family  
\$3B



Industrial  
\$3B



Retail/mix  
\$3B



- ✓ Well diversified A/B quality assets
- ✓ 2,400 properties... ~\$11MM average
- ✓ Running off... optimizing values and selling in improving markets

### Other collateral types

✓ Other \$3B

# Where we operate

## Global GE platform

Japan, Australia, other  
\$10B assets



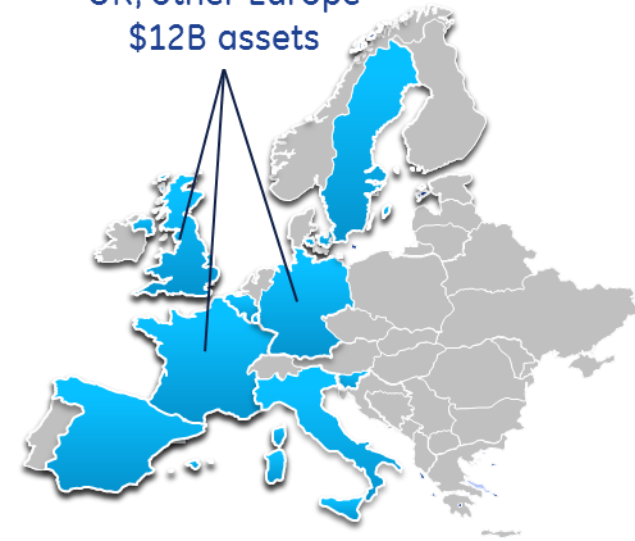
Canada  
\$4B assets

United States  
\$28B assets

Mexico  
\$4B assets



UK, other Europe  
\$12B assets



- ✓ \$58B global assets
- ✓ Deep domain... 30+ years in real estate
- ✓ 400+ asset managers, 225+ risk, 375+ finance

# Real Estate Strategy

(\$ in billions)

1 Drive back to profitability

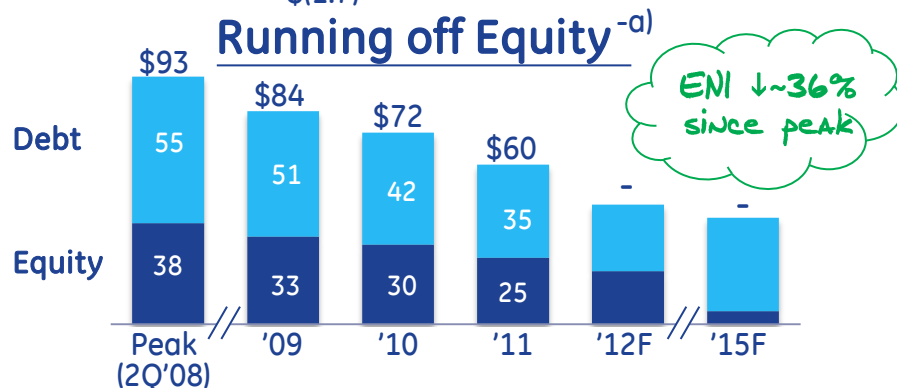
2 Optimize and shrink equity

3 Safe & secure debt originations

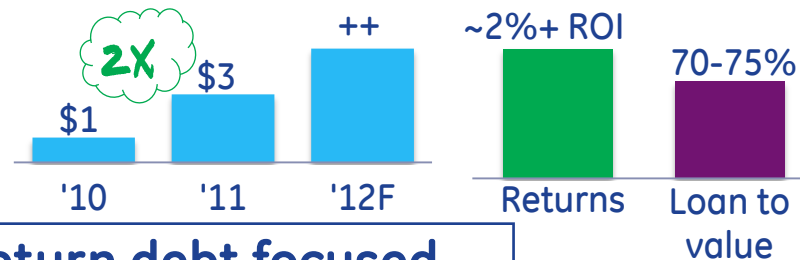
## Net Income improving



## Running off Equity<sup>-a)</sup>



## Attractive originations

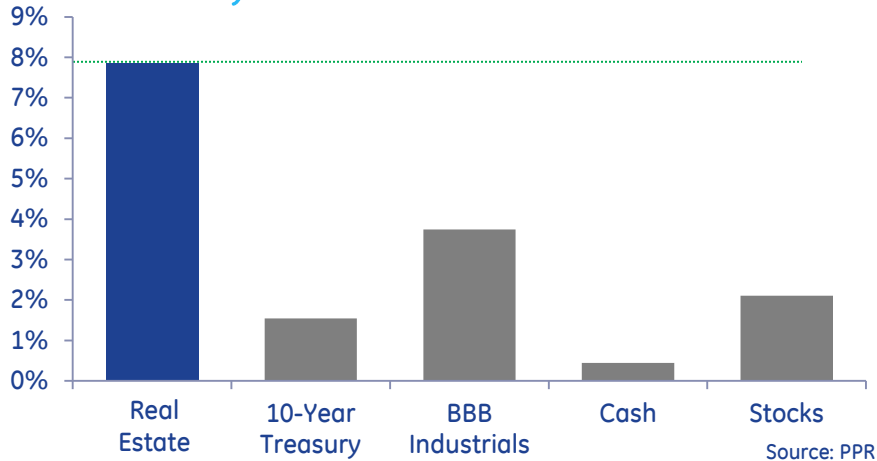


Smaller, high return debt focused business... returning capital to GE

# Real estate fundamentals strong and improving

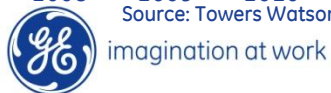
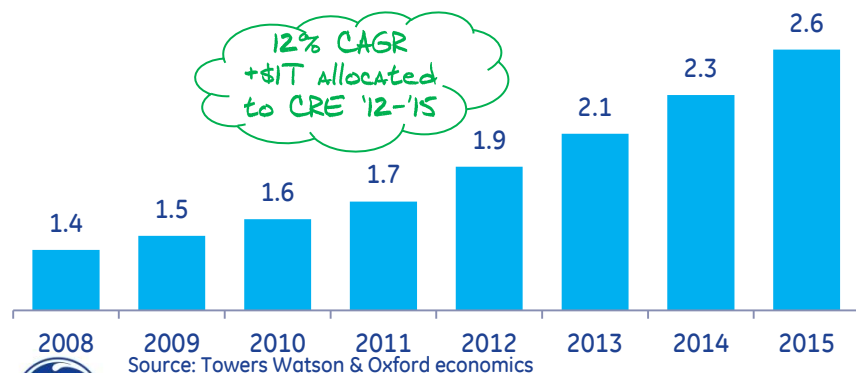
## CRE attractive versus alternatives

US yields for alternative asset classes



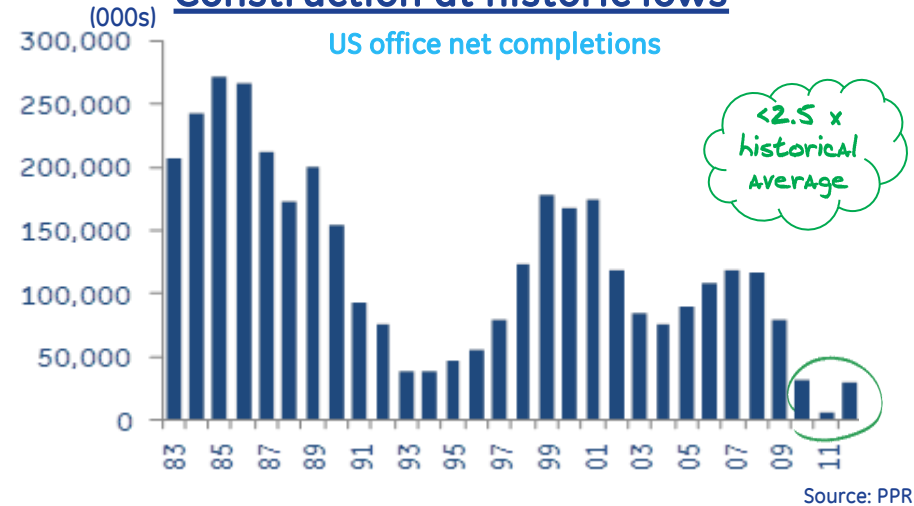
## Strong investor demand

Global pension fund and SWF CRE allocation

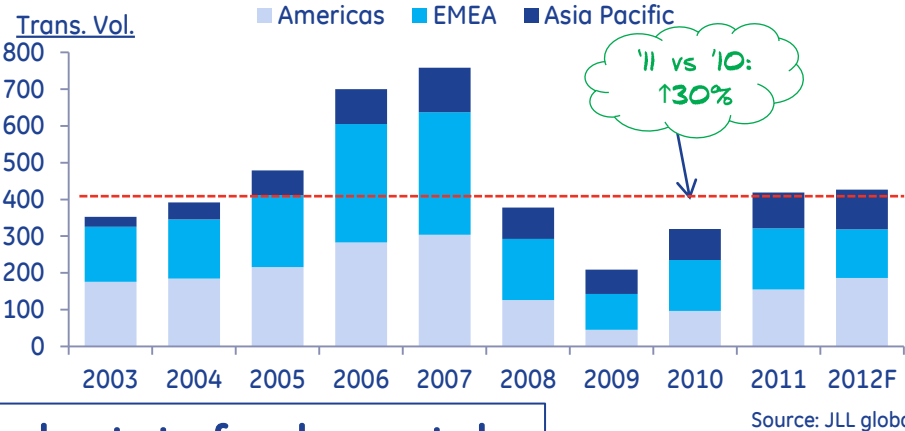


## Construction at historic lows

US office net completions



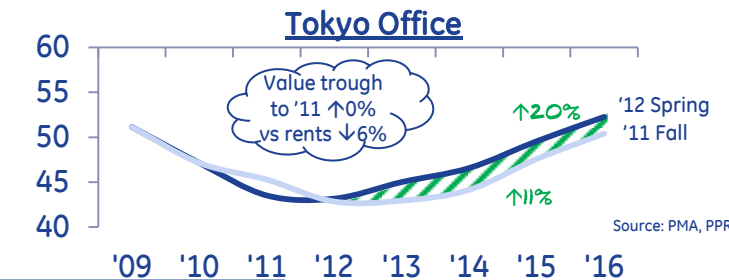
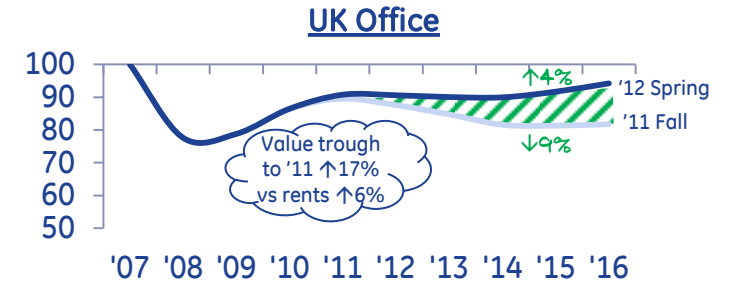
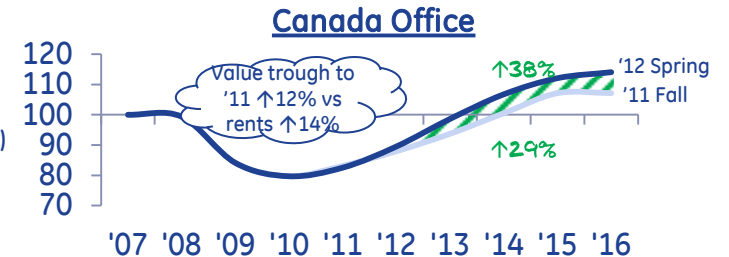
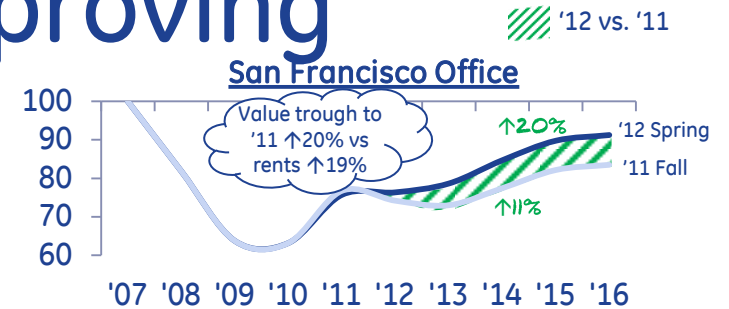
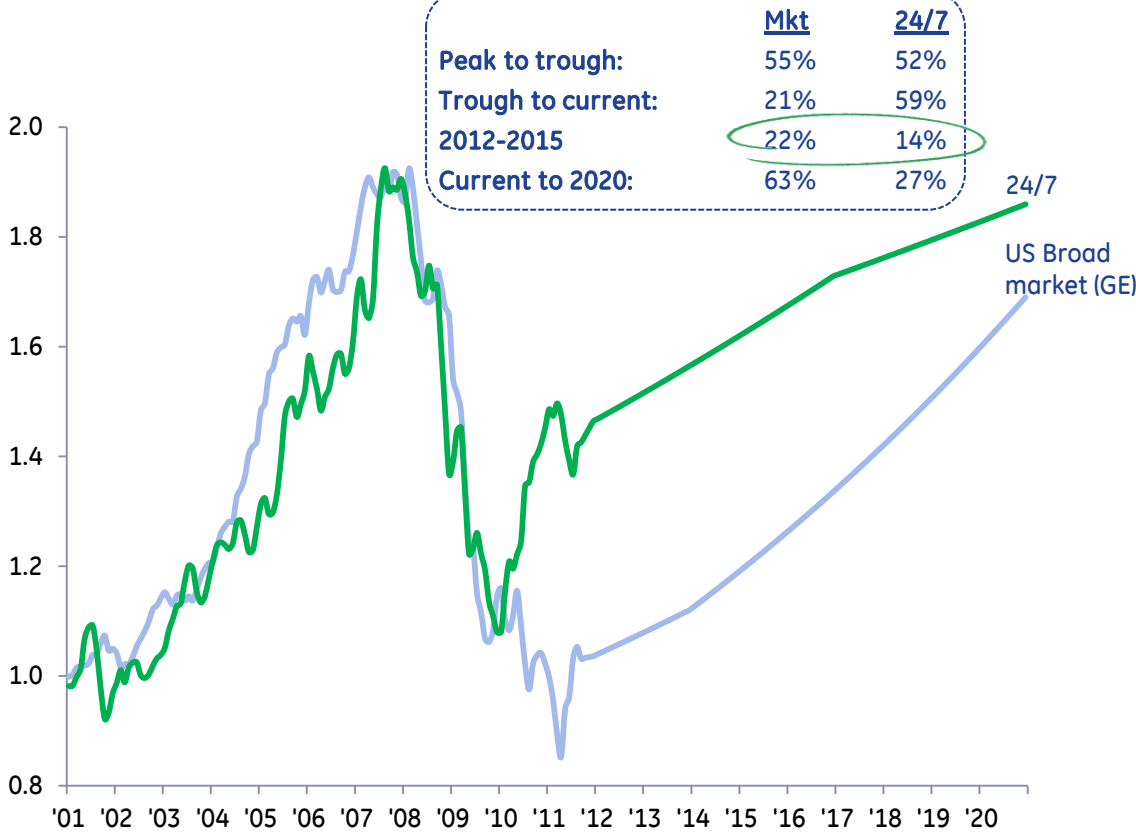
## Liquidity back to 2003 levels



Attractive commercial real estate fundamentals

# Market environment improving

## Moody's commercial property price index (US) (Same property price changes, realized transactions only)



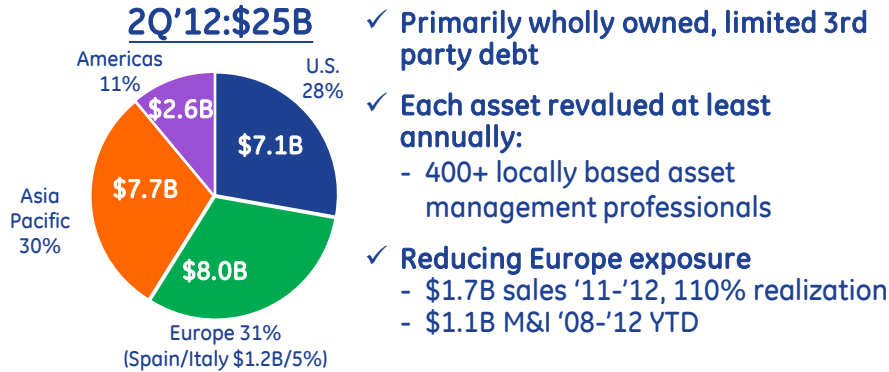
Real estate market values improving



# Continue Equity runoff

(\$ in billions, pretax)

## Equity Ending Net Investment



## Reducing ENI



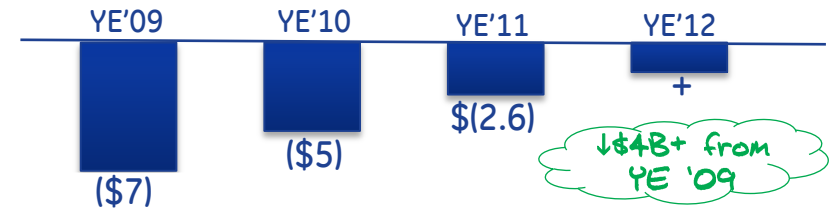
## Asset sales



## Marks & impairments behind us

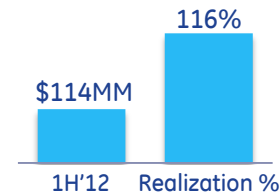


## Unrealized loss improving

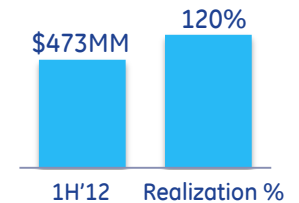


## Market supporting GERE values

### Foreclosure Sales



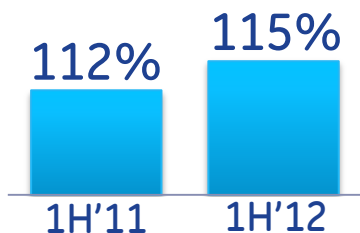
### Asset Sales



Accelerating asset sales in improving market

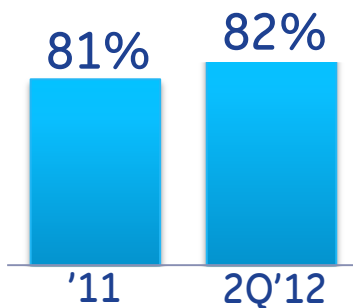
# Drive equity values

## Positive absorption



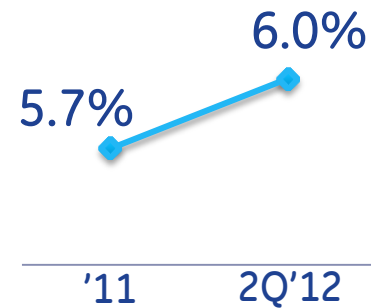
Leased 13MM sf YTD

## Occupancy Up



↑ Occupancy 100bps

## Yield improving



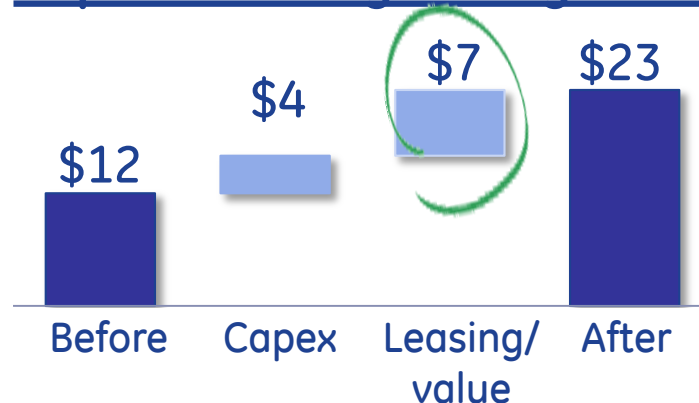
↓ expenses (20)bps

# Driving value - Munich office



## Capex & leasing adding value

Market value (\$MM)



- ✓ Empty for 3 years
- ✓ Capex to improve exterior & common areas
- ✓ Signed 15-year lease
- ✓ Sold in 2Q'12 for **\$4MM gain**

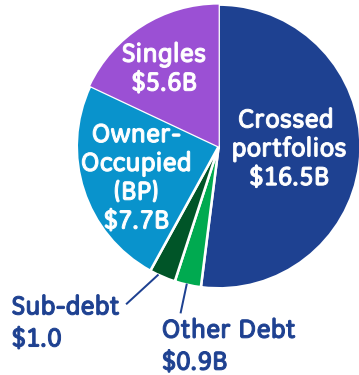
**GE operations focus drives 40% value improvement**

# Debt profitability improving

(\$ in billions)

## Debt Ending Net Investment

2Q'12 : \$32B



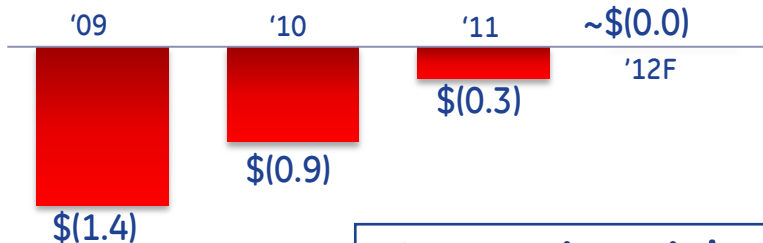
### What we typically avoid

- ✓ Construction lending
- ✓ Single family development
- ✓ Malls/resorts/brownfield

## Net income



## Losses abated



## ENI



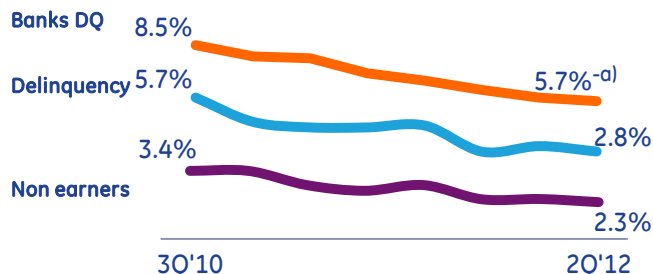
## Attractive originations



Attractive risk profile and returns...  
Core Capital business

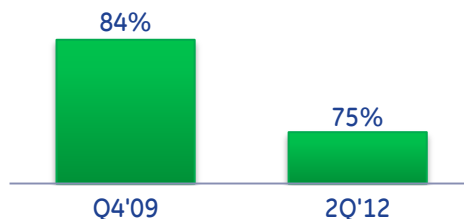
# Strong debt operational execution

Asset quality improving



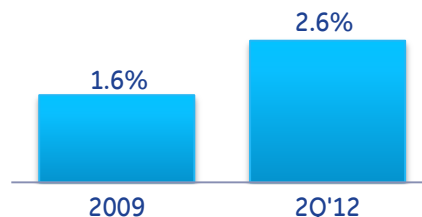
- Strong execution on 1H'12 maturities

LTV improving



- Exiting high LTV loans

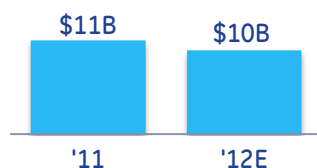
Debt Margin Improving



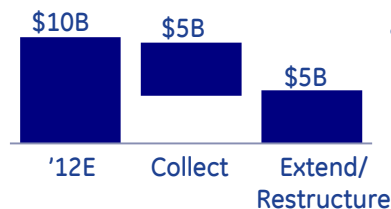
- New debt volume at 2%+ ROI

Managing Maturities

Maturities coming down



Managing maturities



- \$2.7B modifications in 1H'12... averaging 2.1% ROI

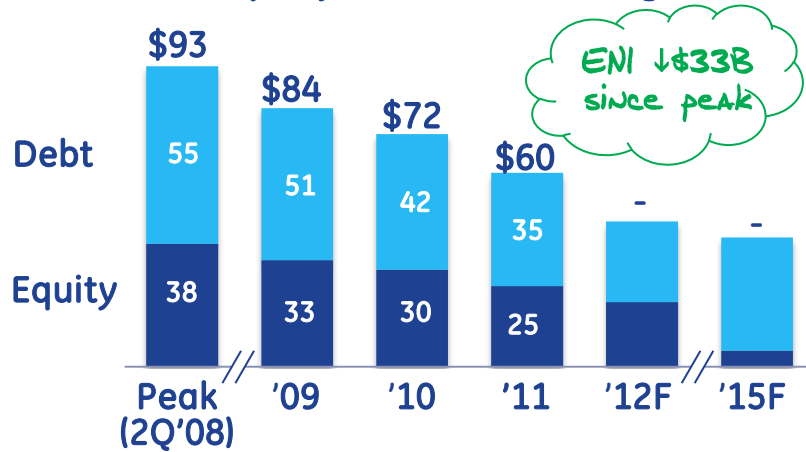
**Strong GE operations focus**



# Real Estate priorities

(\$ in billions)

Shrink equity, safe debt originations<sup>a)</sup>



Earnings improving



- ✓ Strong turnaround in '12... \$277MM in 1H'12
- ✓ Losses behind us...+\$1B vs. 2011
- ✓ Safe and attractive debt originations... 2% ROI, 70-75% LTV
- ✓ Continue shrinking equity in improving market to support return of capital to GE
- ✓ Leasing & capex driving equity values
- ✓ Embedded value improving

- ✓ Profitable in 2012
- ✓ Shrinking Equity in improving market
- ✓ Debt focused with high returns
- ✓ Returning capital to GE