

## Regulators Back Reduced Cap Levels

A working group of the **National Association of Insurance Commissioners** approved a proposal May 27 that reduces capital charges for insurers' real estate investments.

The **American Council of Life Insurers** and the **Mortgage Bankers Association** had been seeking the relief for more than three years, arguing that the capital reserves that life insurers are required to hold against equity investments are set higher than necessary.

Before the latest action, the NAIC, the standard-setting organization for state insurance regulators, required life companies to hold reserves of 15% against direct investments in real estate, and 23% for indirect investments via joint ventures and limited liability corporations. The final change lowers reserves to 11% and 13%. The industry groups had sought reductions to 10% in both cases. The groups have argued that the requirements didn't consider insurers' track record of conservative investment, which has resulted in minimal historical losses.

The Life Risk-Based Capital Working Group, which was

charged with overseeing the proposal last year, approved key provisions of a plan that NAIC unveiled in April. That means the relief is in effect for annual portfolio reviews conducted near yearend that inform capital charges for each firm. The issue is important to lenders because insurers often seek debt financing on their commercial-property investments.

Current rules also don't credit insurers for property appreciation, paper gains that they argue should provide a buffer against future losses. The groups asked that two-thirds of gains be factored into and weighed against capital reserves. The proposal reduced that to 50%, but the LRBC working group did not act on that part of it.

"This has been years in the making, and in the end, they decided it was an important project to get done for yearend reporting and they managed to get it over the finish line," said **Bruce Oliver**, associate vice president for commercial real estate policy at the MBA.

The MBA and the ACLI have worked closely with the LRBC group throughout the pandemic, securing NAIC approval for relief extensions that have allowed lenders to work with borrowers without taking capital hits. ♦



**Green Street's  
Automated Valuation Model\***

Value Extrapolation  
NOI Capitalization  
SmartComps™

\*Patent Pending

**WELLS FARGO BUILDING** NEW

4931 CAMDEN DR, BEVERLY HILLS, CA 90210, USA

**\$191,017,400**

GS Estimated Value

**4.74%**

GS Cap Rate

MARKET: **LOS ANGELES**

SUBMARKET: **BEVERLY HILLS**

SECTOR: **OFFICE**

**PROPERTY OVERVIEW**

- Value Extrapolation
- NOI Capitalization
- SmartComps™



Est. Value: **\$191M**  
Est. Cap Rate: **4.7%**



Inputs

Sector: Office  
Units / Square Feet: 181,479  
LTM NOI: \$7,720,000  
Average Occupancy over LTM: 94.0%  
Average Asking Rent: \$80

Edit Inputs

AUTOMATED VALUATION MODEL		NOI CAPITALIZATION - 13% WEIGHTING		SMARTCOMPS - 12% WEIGHTING	
VALUE EXTRAPOLATION - 75% WEIGHTING					
Effective Date	8/27/2018	LTM NOI	\$7,720,000	Number of Camps	
Estimated Value	\$1,910,174,000	Next-12-Month NOI Growth	-0.3%	Camp Quality	
Estimated Value Per Sq. Ft.	\$1,053	Next-12-Month NOI	\$7,742,239	Average Price	
Assessment Date	12/29/2003	Los Angeles Cap Rate	5.4%	Range of Prices	
Assessment Firm		Location Adjustment (Bps)	-34	Average Price Per Sq. Ft.	
Assessment FIRM 2018		Quality Adjustment (Bps)	-34	Range of Price Per Sq. Ft.	
Assessment FIRM 2019		Wells Fargo Building Cap Rate	4.7%	Average Age of Camp (months)	
Assessment FIRM 2020				CFR Growth since SmartComps	
Estimated Value	\$191,017,400	Estimated Value	\$191,017,400	Estimated Value	
Estimated Value Per Sq. Ft.	\$1,053	Estimated Value Per Sq. Ft.	\$1,053	Estimated Value Per Sq. Ft.	

**NEW PROPERTY VALUATION MODEL:  
QUALITY DATA IN, ACCURATE VALUATIONS OUT**

Green Street's Automated Valuation Model (AVM) is fueled by our best-in-class and proprietary data sets on cap rates, market grades, Commercial Property Price Indices (CPPIs), and a robust transaction comp database. Generate instant and accurate valuation estimates for assets and explore our full suite of easy-to-use Portfolio Tools:

**AVM | PORTFOLIO ANALYTICS | LOAN ANALYTICS**




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