
Trends in Commercial Real Estate

Everett (Allen) Greer
Greer Advisors, LLC

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Greer Advisors, LLC

Goals of Presentation

- Disclaimers
- Market Drivers
- Economic Trends
- Rents and Vacancy Trends
- Sale Volume and Price Trends
- CMBS and REITs Trends
- Financial Regulations (Dodd-Frank)
- Outlook & Forecast

Disclaimers

This presentation is being conducted by Everett Allen Greer of Greer Advisors, LLC who is not affiliated with Bank of America, Merrill Lynch and is solely responsible for the information presented in this program.

■ Market Drivers

Market Drivers

Supply / Demand – Not as bad as early 90's

- Non-Res. Supply Growth was Very Limited Growth
- Most Demand ties to Jobs, which is tied to GDP
 - Office – FIRE Employment, Portion of Service Employment
 - Retail – Household Formations, Income Growth
 - Industrial – Manufacturing vs Distribution
 - Multifamily – Households
 - Hotel – Corporate Travel – Office Employment
- Jobs & Retail Sales - Drive Supply & Demand!!!

Financing – Is the Most Important Fundamental

■ Leverage, Rate, Term, Recourse

■ Taxation – Fiscal Cliff

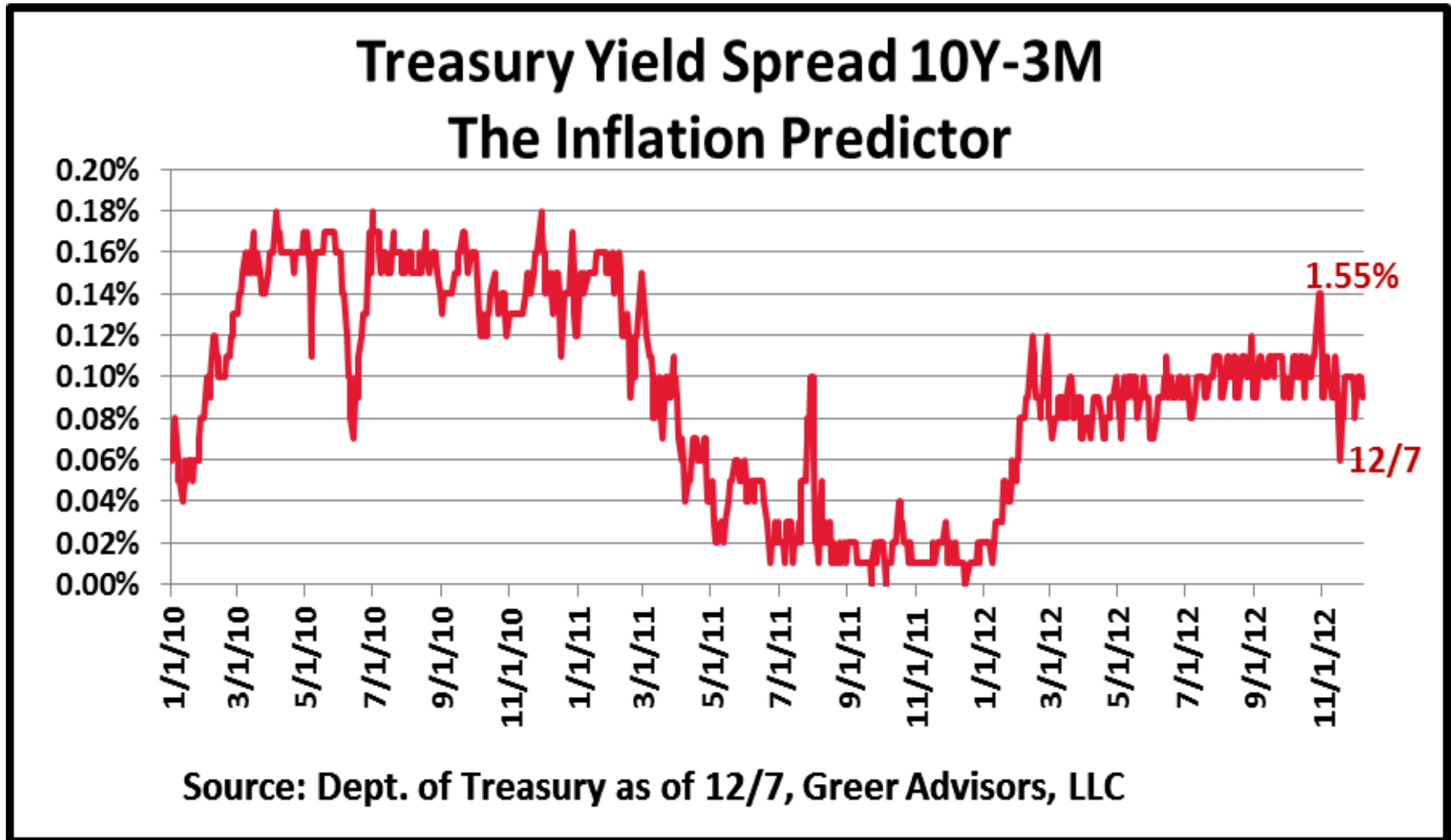
Interest & Inflation

10 Year Treasury Yields



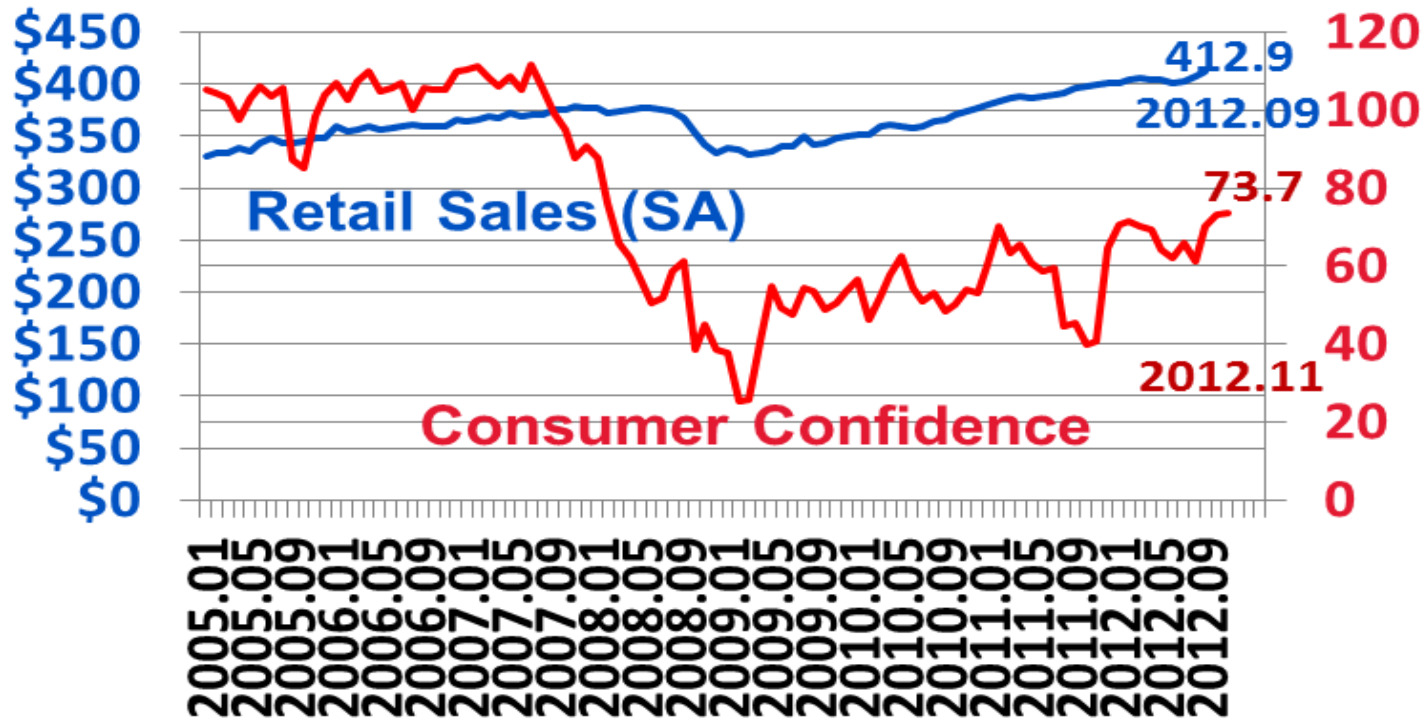
Source: Dept. of Treasury as of 12/7, Greer Advisors,

Interest & Inflation



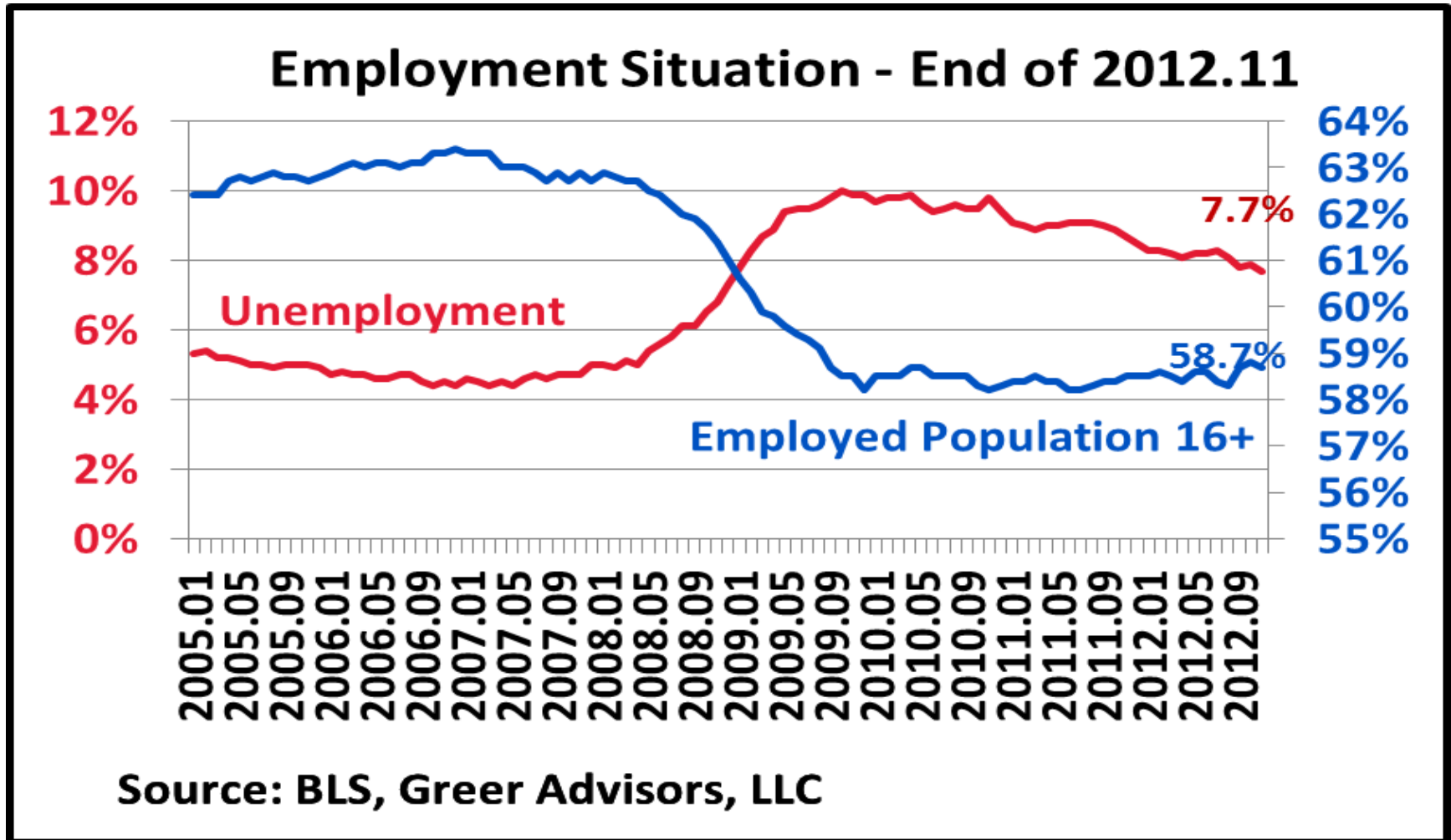
Economy – Consumer Confidence & Sales

Key Economic Indicators



Source: Conference Board, Census, Greer Advisors, LLC

Economy – Employment



Economy

Consumer Side

- Consumer Confidence is at 73.7 (Nov Conf. Board)
- Unemployment Getting Better 7.7% (Nov – BLS)
- Fiscal Cliff uncertainty
- Liquidity, Leverage, Interest (for non-AAA Debt) – Poor
- Retail Sales are OK, the Rest is near Flat Line

Investment Banks

- Capital IQ and Deal Logic show LBO's 😊 /M&A on the rise
- Record Profits – GS near 1,000 batting average every day since the Crisis Started
- IB's record profits – cost of taxpayer

- **Market Performance**

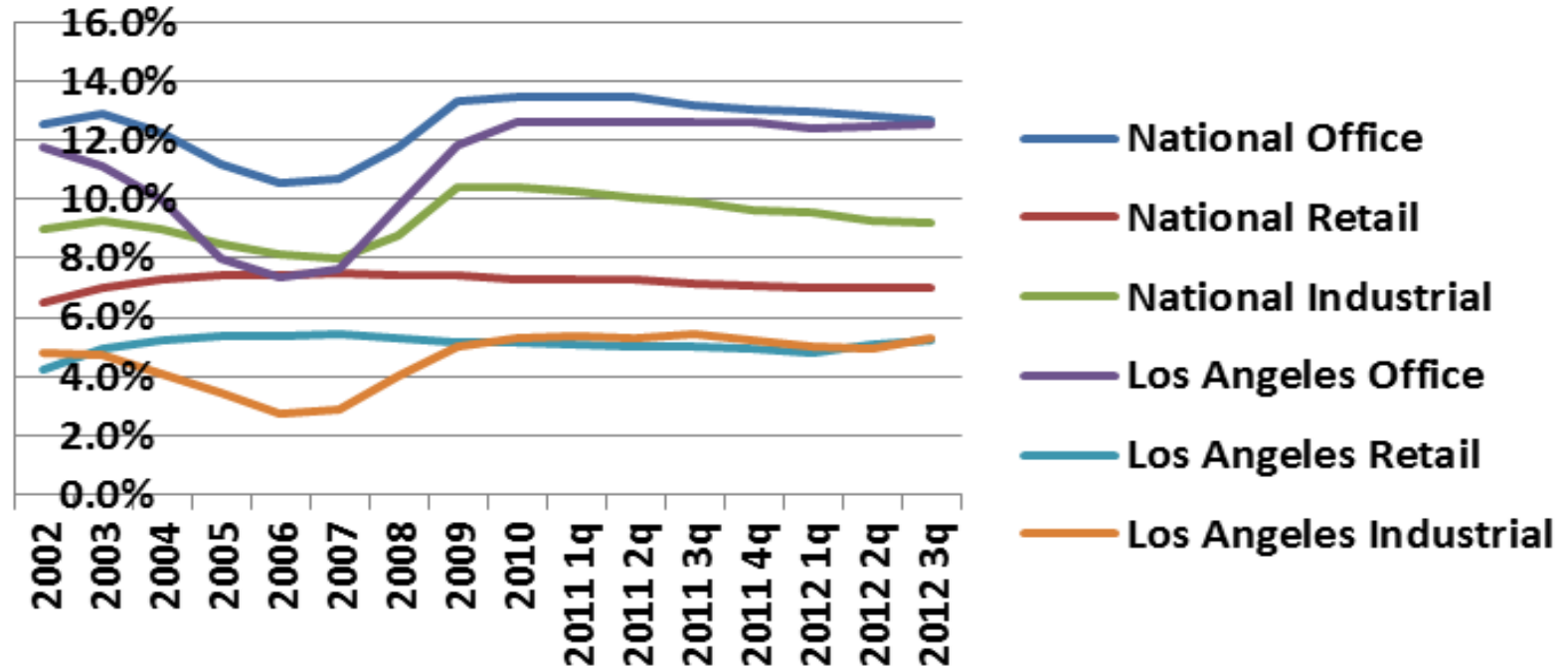
Top 5 - Bottom 5 U.S. Markets by Vacancy

| Industrial | | | | Office | | | | Retail | | | |
|------------|-----------------|-------|---------|--------|-----------------|-------|---------|--------|-----------------|-------|---------|
| | Metro | Vac % | Rent \$ | | Metro | Vac % | Rent \$ | | Metro | Vac % | Rent \$ |
| 1 | Salt Lake City | 4.9% | \$4.63 | 1 | Albany/Schenec | 7.1% | \$14.56 | 1 | San Francisco | 2.7% | \$28.73 |
| 2 | Los Angeles | 5.3% | \$7.10 | 2 | New York City | 7.5% | \$48.54 | 2 | Miami-Dade Cou | 4.0% | \$27.98 |
| 3 | Houston | 5.3% | \$5.43 | 3 | Salt Lake City | 7.5% | \$17.88 | 3 | Boston | 4.3% | \$15.41 |
| 4 | Orange County (| 5.5% | \$8.11 | 4 | Pittsburgh | 8.1% | \$18.73 | 4 | Washington | 4.7% | \$23.38 |
| 5 | Long Island (Ne | 5.9% | \$10.23 | 5 | Long Island (Ne | 8.2% | \$25.97 | 5 | Long Island (Ne | 4.8% | \$26.51 |
| 50 | Atlanta | 12.4% | \$3.78 | 50 | Dallas/Ft Worth | 15.7% | \$19.59 | 50 | Memphis | 9.4% | \$10.10 |
| 51 | Dayton | 12.9% | \$3.19 | 51 | Palm Beach Cou | 16.6% | \$25.61 | 51 | Sacramento | 9.9% | \$16.03 |
| 52 | Phoenix | 13.0% | \$6.29 | 52 | Sacramento | 16.7% | \$19.81 | 52 | Atlanta | 10.0% | \$12.86 |
| 53 | Memphis | 13.2% | \$2.69 | 53 | Detroit | 18.6% | \$17.79 | 53 | Detroit | 10.2% | \$12.02 |
| 54 | Las Vegas | 13.6% | \$5.98 | 54 | Las Vegas | 19.4% | \$19.95 | 54 | Las Vegas | 10.7% | \$16.15 |
| 55 | Sacramento | 13.7% | \$5.08 | 55 | Phoenix | 20.1% | \$20.01 | 55 | Phoenix | 11.8% | \$14.50 |
| | National Avg | 9.1% | \$5.14 | | National Avg | 12.1% | \$21.42 | | National Avg | 6.9% | \$14.49 |
| 2 | Los Angeles | 5.3% | \$7.10 | 34 | Los Angeles | 12.5% | \$27.81 | 12 | Los Angeles | 5.2% | \$23.93 |
| | Min | 4.9% | \$2.69 | | Min | 7.1% | \$12.41 | | Min | 2.7% | \$9.18 |
| | Max | 13.7% | \$12.69 | | Max | 20.1% | \$48.54 | | Max | 11.8% | \$28.73 |
| | Spread | 8.8% | \$9.99 | | Spread | 13.0% | \$36.13 | | Spread | 9.1% | \$19.56 |

Note: 1) Rents are Quoted Rents, 2) National Totals Cover all 140+ Markets, 3) Rankings limited to Top 55 Markets based on RBA
Source: CoStar Group, Inc. Greer Advisors, LLC

LA & National Vacancy Trends

Vacancy Trends - Nation & Market



Source: CoStar Group, Inc, Greer Advisors, LLC

Los Angeles Industrial Major Submarkets

| Total Industrial Market Statistics | | | Third Quarter 2012 | |
|------------------------------------|--------------------|-------------|--------------------|---------------|
| Market | Existing Inventory | Vacancy | YTD Net | Quoted |
| | Total RBA | Vac % | Absorption | Rates |
| Antelope Valley Ind | 9,526,541 | 4.5% | (3,802) | \$7.02 |
| Carson/Rancho Domingz Ind | 76,265,818 | 4.8% | 873,244 | \$6.17 |
| Central LA Ind | 97,466,510 | 4.6% | (970,856) | \$9.65 |
| Commerce Area Ind | 75,072,249 | 5.9% | (1,041,924) | \$5.76 |
| Conejo Valley Ind | 24,899,888 | 8.6% | 205,603 | \$8.19 |
| Eastern SGV Ind | 25,207,860 | 5.8% | 460,676 | \$5.41 |
| El Segundo/Hawthorne Ind | 26,325,863 | 3.8% | (144,737) | \$9.70 |
| Gardena/110 Corridor Ind | 36,313,112 | 3.9% | (114,005) | \$6.58 |
| Long Beach Area Ind | 28,480,203 | 9.2% | 15,304 | \$6.97 |
| Lower SGV Ind | 81,466,812 | 7.2% | 571,776 | \$6.06 |
| Lynwood/Paramount Ind | 13,102,253 | 5.2% | 154,767 | \$5.62 |
| Mid Counties-LA Ind | 94,570,292 | 5.0% | 328,949 | \$6.20 |
| Northwest SGV Ind | 22,490,644 | 4.9% | (17,236) | \$6.77 |
| SCV/Lancaster/Palmdale Ind | 22,954,751 | 5.7% | 184,255 | \$7.49 |
| SFV East Ind | 86,287,993 | 3.8% | 159,856 | \$8.85 |
| SFV West Ind | 46,705,380 | 6.6% | (219,877) | \$7.91 |
| Southwest SGV Ind | 10,667,037 | 4.5% | (18,079) | \$7.31 |
| Torrance/Beach Cities Ind | 36,782,978 | 7.7% | (304,397) | \$7.78 |
| Upper SGV Ind | 26,194,329 | 4.2% | 144,579 | \$6.82 |
| Ventura County Ind | 49,863,186 | 5.3% | 279,136 | \$7.20 |
| Vernon Area Ind | 82,047,940 | 3.3% | (834,438) | \$5.95 |
| Westside Ind | 20,431,958 | 4.2% | 84,114 | \$18.12 |
| Totals | 993,123,597 | 5.3% | (207,092) | \$7.10 |

Source: CoStar Inc, Greer Advisors, LLC

Los Angeles Office Major Submarkets

| Total Office Market Statistics | | | Third Quarter 2012 | |
|--------------------------------|--------------------|--------------|--------------------|----------------|
| Market | Existing Inventory | Vacancy | YTD Net | Quoted |
| | Total RBA | Vac % | Absorption | Rates |
| Antelope Valley | 3,783,402 | 10.4% | 2,040 | \$21.53 |
| Burbank/Glendale/Pasadena | 55,390,012 | 10.8% | 309,540 | \$28.75 |
| Downtown Los Angeles | 69,095,758 | 12.3% | (259,522) | \$31.01 |
| Mid-Cities | 10,002,043 | 7.8% | 35,716 | \$21.31 |
| Mid-Wilshire | 39,979,531 | 11.7% | (190,175) | \$25.39 |
| San Fernando Valley | 35,565,648 | 13.8% | 201,418 | \$23.53 |
| San Gabriel Valley | 29,704,749 | 9.0% | 24,356 | \$21.73 |
| Santa Clarita Valley | 4,792,192 | 18.2% | 126,187 | \$28.50 |
| South Bay | 62,286,013 | 15.1% | 19,752 | \$24.34 |
| Southeast Los Angeles | 8,178,228 | 8.0% | (1,743) | \$21.14 |
| Ventura North | 7,544,745 | 8.7% | 147,573 | \$21.56 |
| Ventura South | 21,164,047 | 16.5% | 187,945 | \$23.47 |
| West Los Angeles | 75,470,253 | 13.2% | 359,570 | \$38.37 |
| Totals | 422,956,621 | 12.5% | 962,657 | \$27.81 |

Source: CoStar Inc, Greer Advisors, LLC

Los Angeles Retail Major Submarkets

| Total Retail Market Statistics | | | Third Quarter 2012 | |
|--------------------------------|--------------------|-------------|--------------------|-----------------|
| Market | Existing Inventory | Vacancy | YTD Net | Quoted |
| | Total GLA | Vac % | Absorption | Rates |
| Antelope Valley | 15,461,927 | 8.1% | (106,995) | \$ 16.32 |
| Burbank/Glendale/Pasadena | 55,244,525 | 3.5% | (30,370) | \$ 27.76 |
| Downtown Los Angeles | 23,061,095 | 4.9% | (37,984) | \$ 23.94 |
| Mid-Cities | 43,569,130 | 6.6% | (224,824) | \$ 19.20 |
| Mid-Wilshire | 36,654,988 | 4.3% | (27,568) | \$ 35.21 |
| San Fernando Valley | 50,202,344 | 4.9% | (111,996) | \$ 21.81 |
| San Gabriel Valley | 58,163,588 | 6.5% | (145,497) | \$ 19.30 |
| Santa Clarita Valley | 12,440,863 | 6.8% | 61,399 | \$ 21.59 |
| South Bay | 67,450,189 | 4.2% | 10,570 | \$ 21.78 |
| Southeast Los Angeles | 17,920,521 | 5.1% | (101,362) | \$ 19.74 |
| Ventura North | 18,144,985 | 6.0% | (70,370) | \$ 18.62 |
| Ventura South | 25,166,233 | 6.2% | (152,476) | \$ 22.42 |
| West Los Angeles | 38,507,069 | 4.9% | (196,746) | \$ 41.77 |
| Totals | 461,987,457 | 5.2% | (1,134,219) | \$ 23.93 |

Source: CoStar Inc, Greer Advisors, LLC

■ Financial Regulations

Fiscal Cliff

Elimination of Capital Gains

Higher Tax Rates

Elimination of numerous economic measures put in years ago

Exotic Ways to Finance Government

FNMA/Freddie, last week, tapped for Student Loans, effect is new fees every homeowner will pay while politicians misuse money.

Financial Regulations

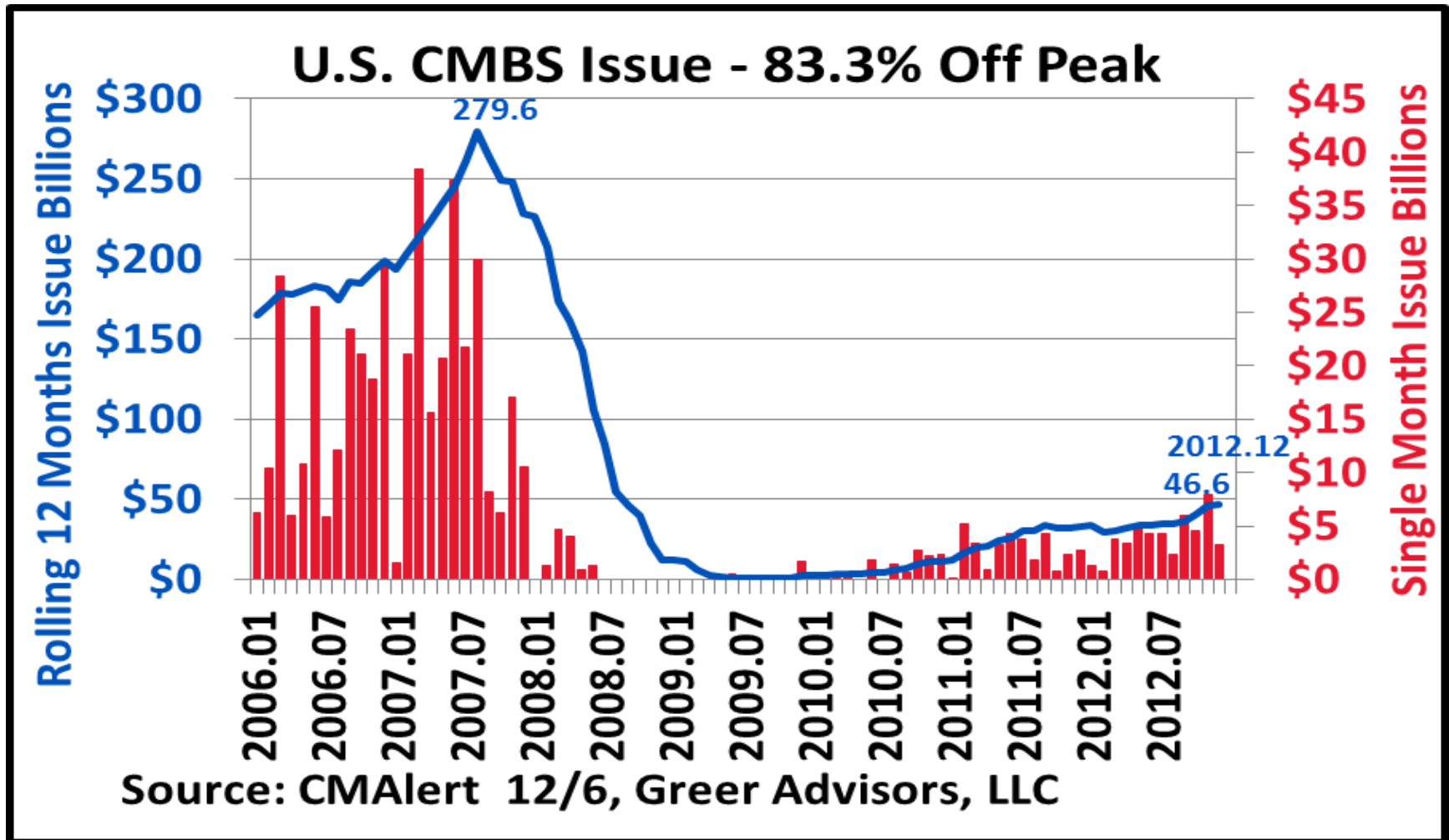
Dodd-Frank Wall Street Reform & Consumer Protection Act

- 16 Titles – See Summary on Wikipedia – Post TARP 😊
 - 243 Rules to be created (reportedly 62% not done)
 - 67 Studies required (most are not done)
 - 22 New Periodic Reports
- Restructure of Regulators, elimination of OTS
 - Financial Stability Oversight Council (New)
 - Office of Financial Research (New)
- Keys for Commercial Real Estate:
 - Rating Agency Reform
 - Securitization Reform (nominal change due to QIB clawbacks)
 - Derivatives – minimal change thus far due to “netting”

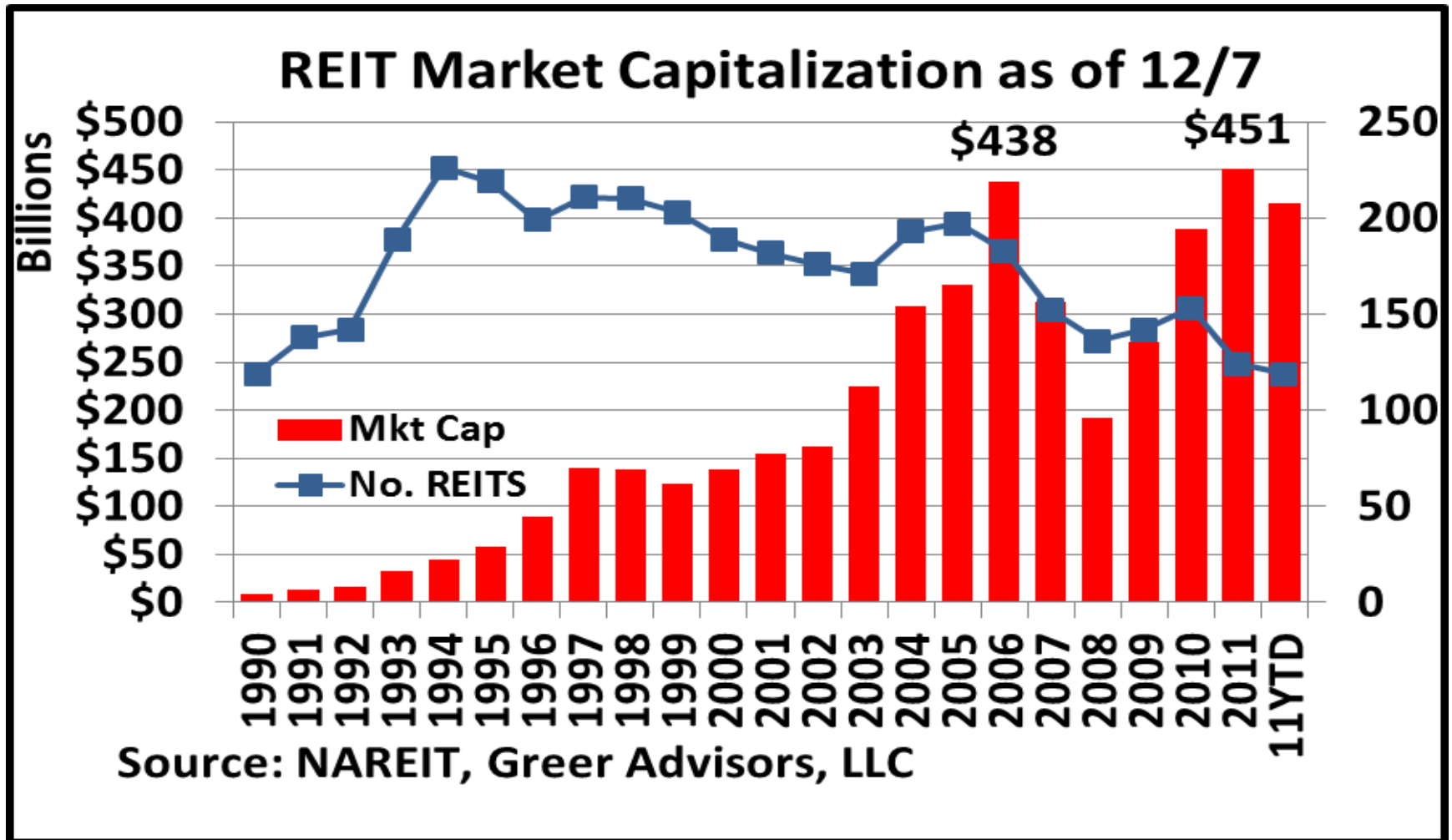
■ Troubled Asset Relief Program

- Real Estate Capital Markets

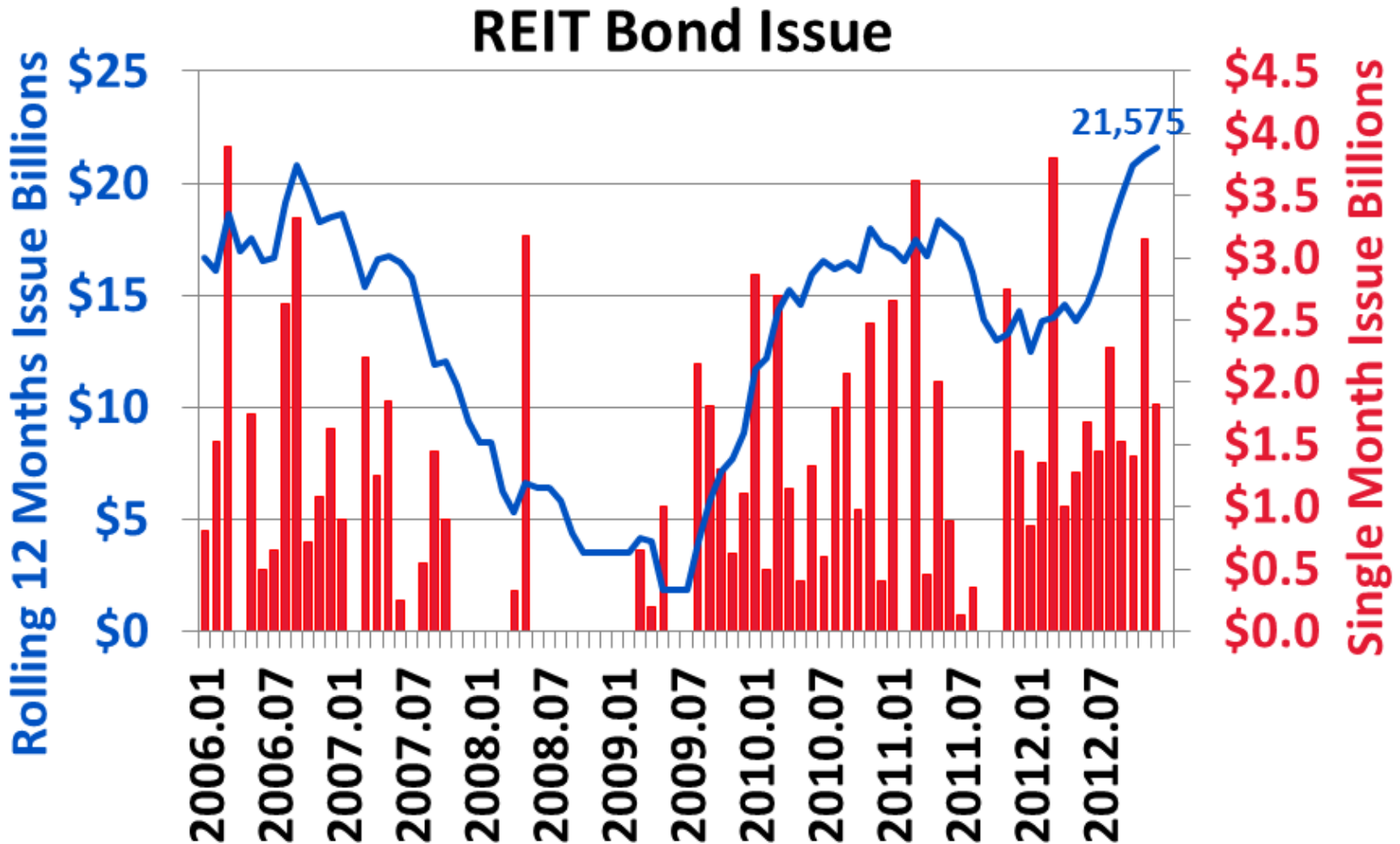
CMBS Issuance – Still Off



REIT Market Capitalization – Long Term



REIT Bond Issuance – New High



Source: CMAAlert 12/6, Greer Advisors, LLC

■ Outlook & Forecast

Conclusions

- Rates are at all-time lows
- Rents / Vacancies Remain better than early 1990s
- Los Angeles Office and Retail Rents/Vacancies are recovering
- Industrial Rents are Nearly Flat, Vacancies are recovering
- Los Angeles Price Growth has Outpaced the Nation
- Price Growth has Been due to Cap Rate Decline, Not Rent
- SBA will remain Top Source for Small Properties, especially with High Leverage
- MBS – Very Very Slow Return. Need New Business Model
- CASH WILL REMAIN KING!

Greer's 3-Year Forecast as of Dec. 10, 2012

- Barbell Modest Growth or Global Recession
 - Global Economy Heals or Not
- Credit Curve will steepen.
- Margins (to 10 Yr Treasuries or LIBOR) will remain low for quality credit., say 150-200, but grow for marginal credit.
- Cap Rates will Rise 0.5-1.5% during 2013 due to Capital Gains.
- Mostly in class B/C
 - Trophy Class A will remain low until Flight to Quality Stops
- Individual Market Performance will continue to vary widely.
 - 10-30% difference in Top vs Bottom
- Change Creates Opportunities – Build Businesses
- SBA remains very Active

Misquote of the Day

“...jack of all trades, master of none.”

Familiar with all subjects,
master of at least one.

Ben Franklin

Questions / Answers

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