
Trends in Real Estate

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Greer Advisors, LLC

Goals of Presentation

- Market Drivers
- Economic Trends
- Capital Markets for Real Estate
- Rents and Vacancy Trends
- Sale Volume and Price Trends
- Financial Regulations (Dodd-Frank)
- Outlook & Forecast

■ Market Drivers

Market Drivers

Supply / Demand – Not as bad as early 90's, Better than 2008

- 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

Residential News

- CorLogic shows 12% Y-o-Y appreciation, May 2013
- MBA lowered economic growth forecast (2.0% to 1.8%), but maintained loan volume forecast, 7/25/2013
- Job growth, roughly 175,000 per month, has been mostly part time jobs. Full time job still very bad.
- Underemployment (U-6) is above 14%, and still near all time high.
- Home inventory remains low, <4 month supply most of U.S.
- #1 News – Availability of Credit has been growing!!!
- Purchase originations expected to be \$615B, up over 2012
- Refinancing expected to be \$970B, up over 2012

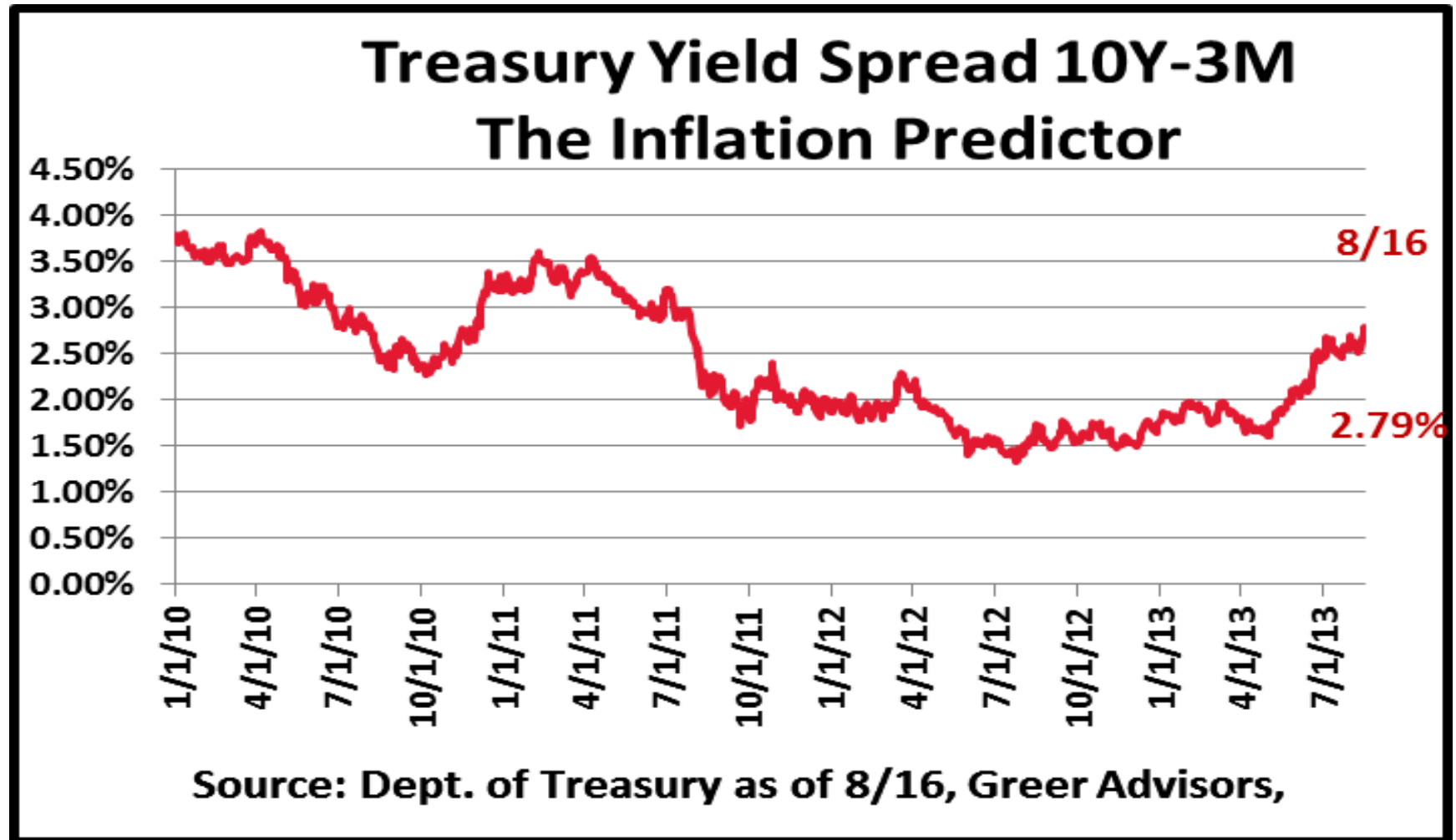
Interest & Inflation

10 Year Treasury Yields



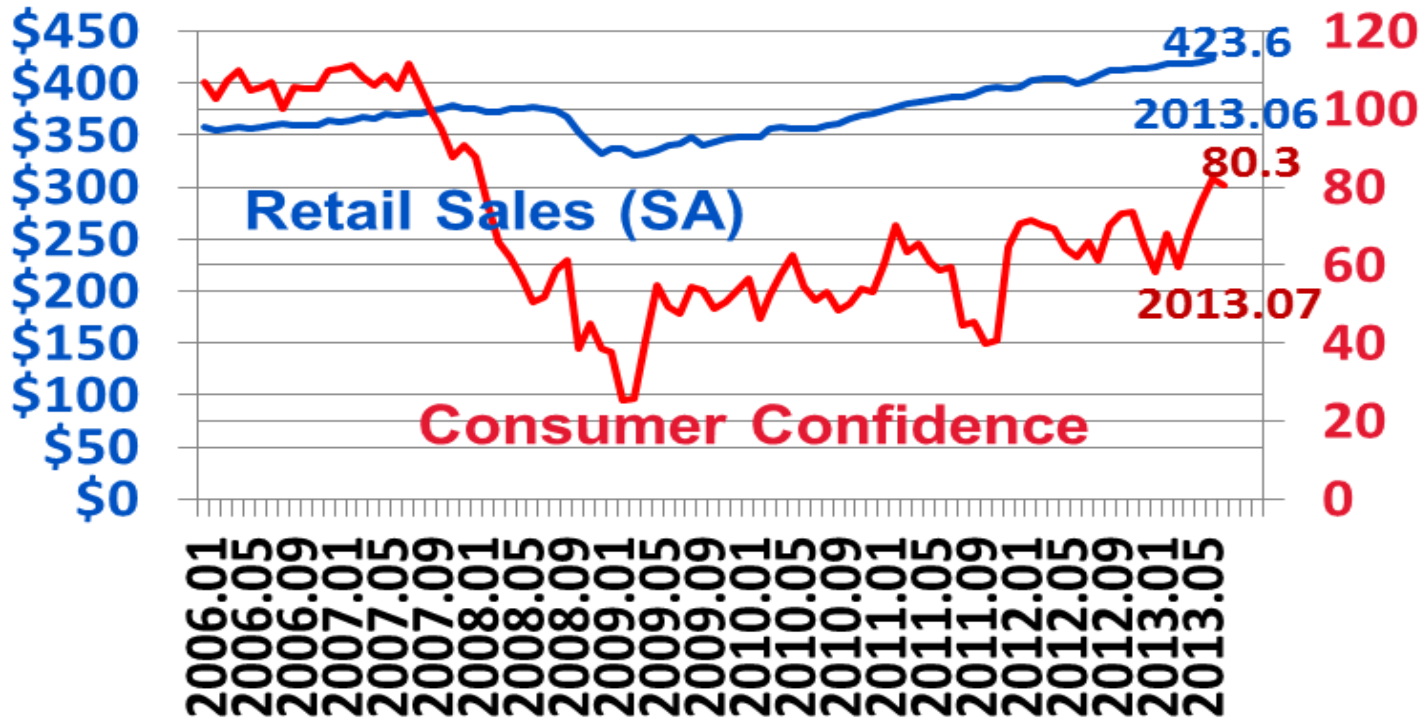
Source: Dept. of Treasury as of 8/16, Greer Advisors,

Interest & Inflation



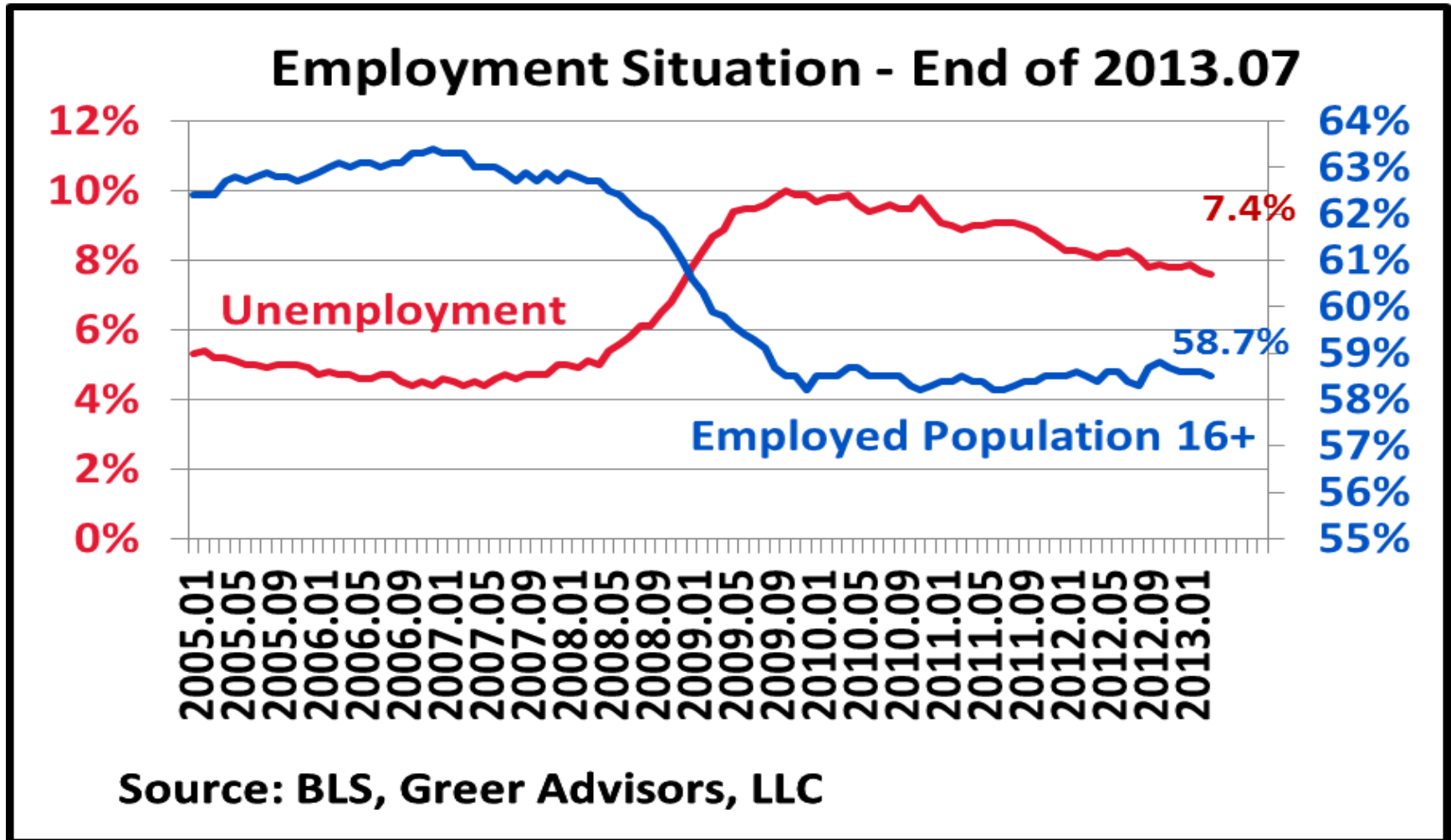
Economy – Consumer Confidence & Sales

Key Economic Indicators

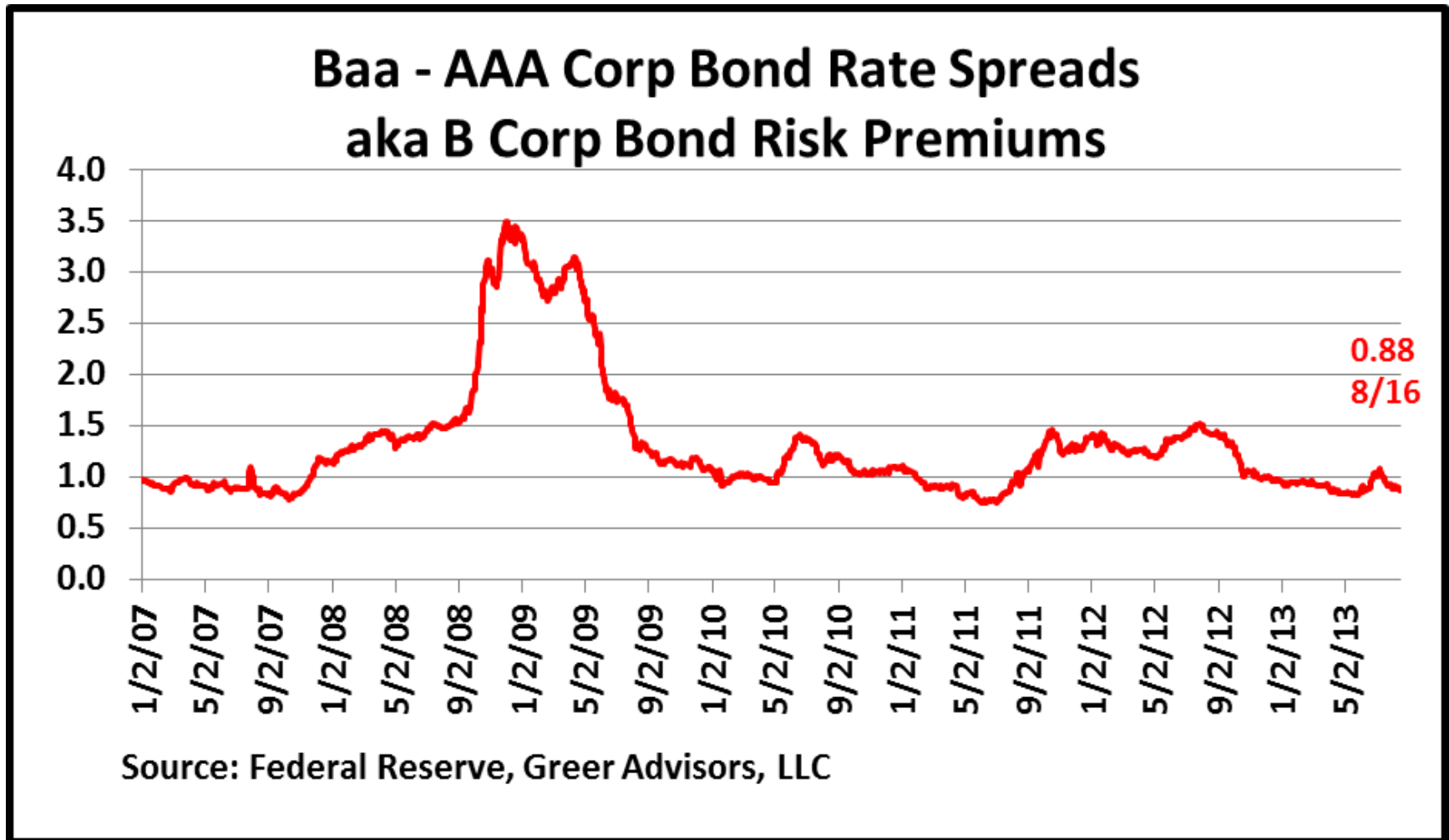


Source: Conference Board, Census, Greer Advisors, LLC

Economy – Employment



Corp Bond Spread – Risk Indicator



Economy

Consumer Side

- Consumer Confidence Finally Up 80.3 (July Conf. Board)
- Unemployment Improving 7.4% (July – BLS)
- Potential Sovereign Defaults - “Negotiating” (PIGS)
- Event Threats Growing – run on guns, ammo, EMP threat
- Liquidity, Leverage, Interest (for non-AAA Debt) – Poor
- Retail Sales are Growing, the Rest is Mixed

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

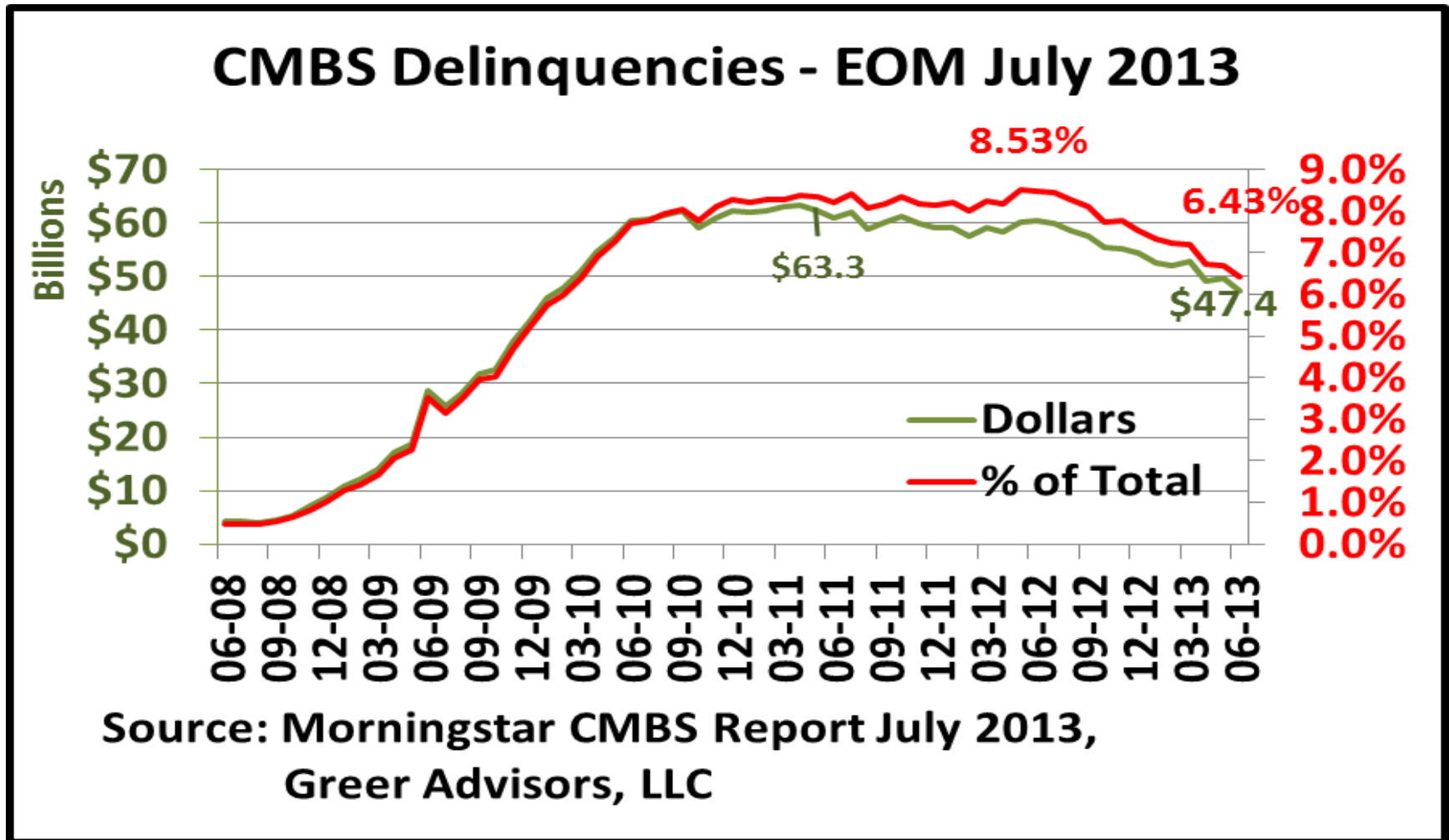
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Leveraged Buy Out

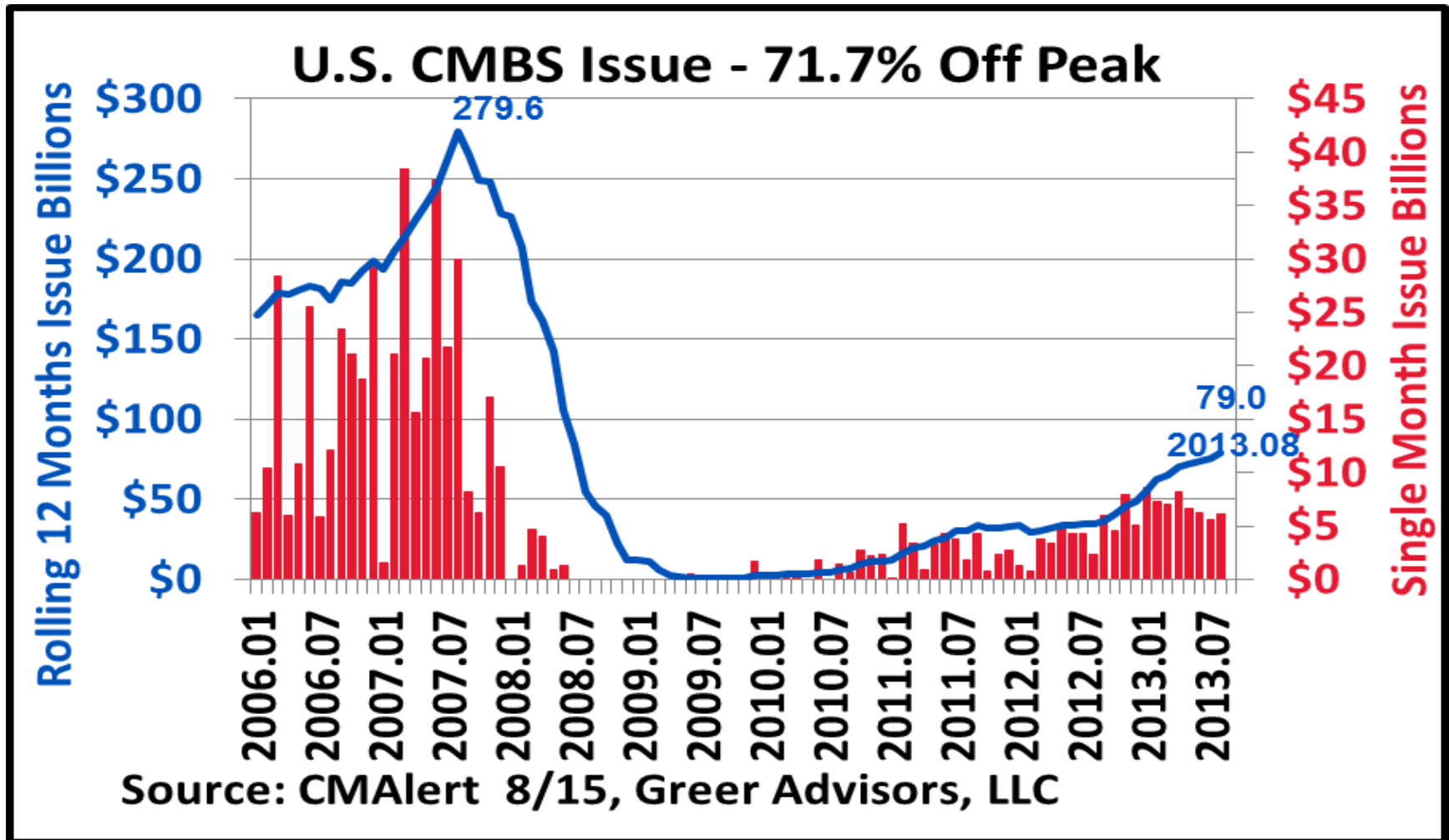
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- Real Estate Capital Markets

CMBS Delinquency – Coming Down



CMBS Issuance – Still Off, but better



CMBS / CMBx Pricing Model – Break Even

Greer CMBS / CMBx Yield RateTM				
Tranche	Yield	Suboord	Weight of Debt	Contribution to Total
AAA	3.32%	29.76%	70.24%	2.33%
AJ	4.19%	12.70%	17.06%	0.71%
AA	5.81%	10.63%	2.07%	0.12%
A	10.24%	8.00%	2.63%	0.27%
BBB	27.91%	4.72%	3.28%	0.92%
BBB-	29.25%	3.68%	1.04%	0.30%
BB	102.95%	2.69%	0.99%	1.02%
Unrated	177.00%	0.00%	2.69%	4.76%
Implied Overall Debt Yield			100.00%	10.43%
Loan to Value Ratio				75.00%
Class-A Equity Yield Total Yield			29.00%	15.07%
Class-B Equity Yield Total Yield			103.00%	33.57%

Notes: ① The table is somewhat complicated, as evidenced by the numerous footnotes. Several conclusions can be drawn. 1) If the 'Implied Overall Debt Yield' is greater than loan rates in the marketplace, the CMBS market CAN NOT recover because the required bond yields are too high to make debt affordable to borrowers. 2) When the spread between AAA and BB tranches is above 500 bps (now at 9,963 bps), the market can't recover because of risk aversion for lower-rated tranches. As a point of reference, January '07 AAA-BB CMBS spreads were around 65 bps. Lastly, the yields for each tranche provide tremendous insight into the pricing of risk premiums for each layer in the capital stack.

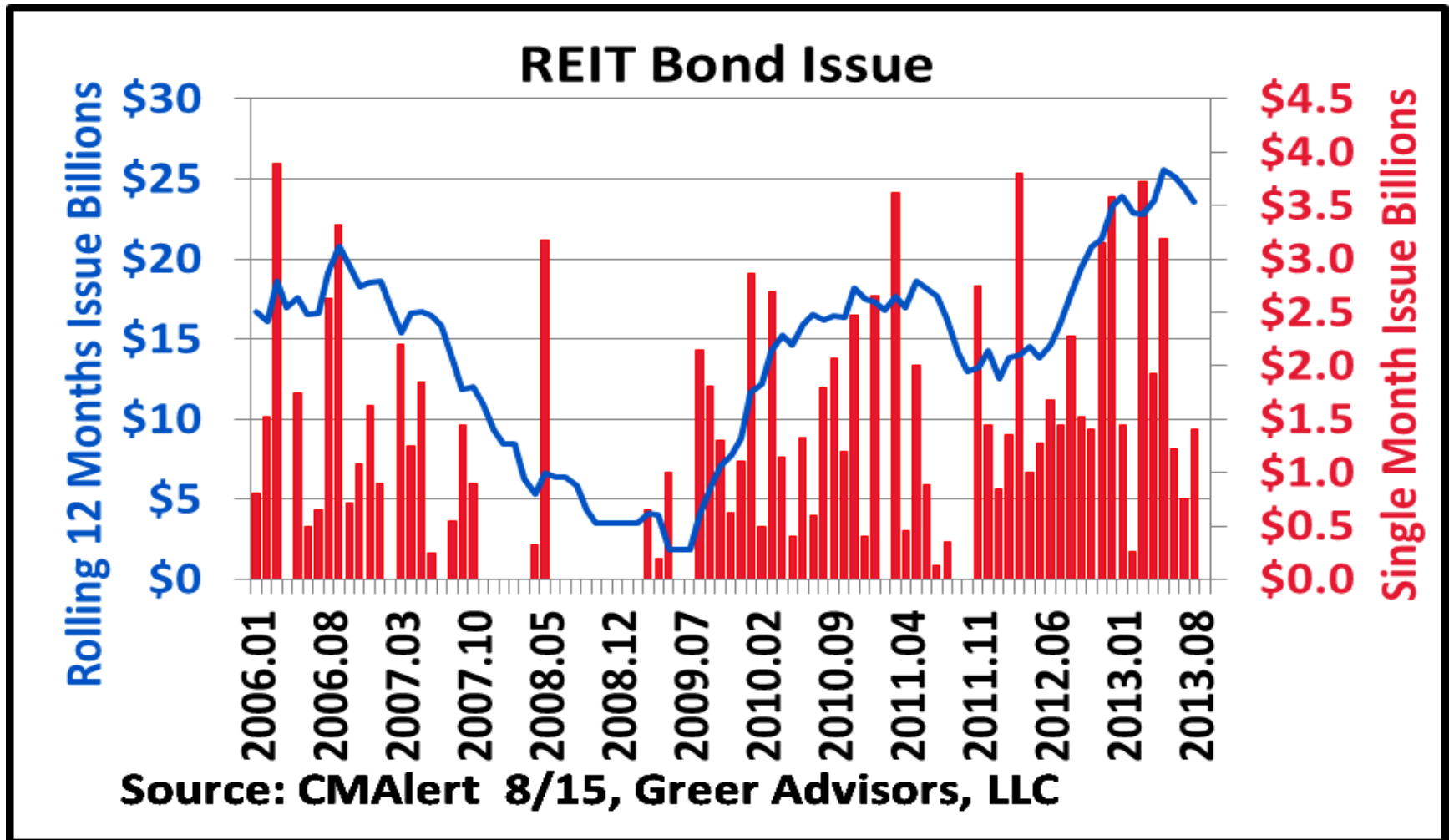
② MarkitTM Data and Calculations based on close of 8/19. Swap (10Yr) as of 8/16.

③ Coupon and Price data were from MarkitTM for AAA Senior through BB bonds. MarkitTM data was used as part of the calculations by Greer Advisors, LLC to determine Spreads. Subordination levels were from MarkitTM.

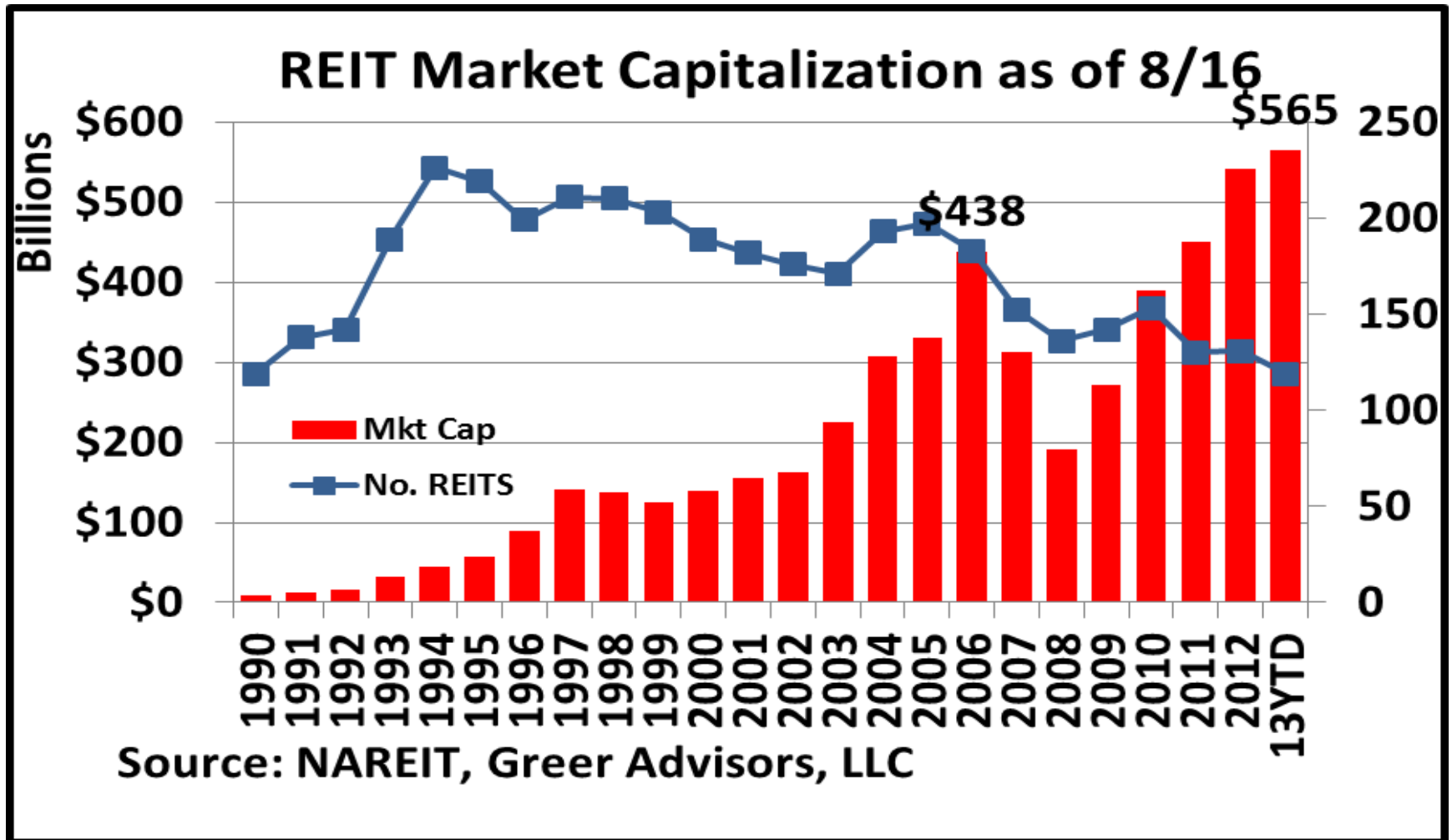
④ Profit / arbitrage opportunity for the issuer was ignored.

⑤ The yield spread for "unrated" classes were based on (BBB-yield minus BB yield) times 1.0, round to the nearest bp. Class-A property equity yield was assumed equal to the BBB- (last investment-grade piece) yield rounded to the nearest 100 bp. Class B property equity yield was assumed equal to the BB yield, rounded to 100 bps.

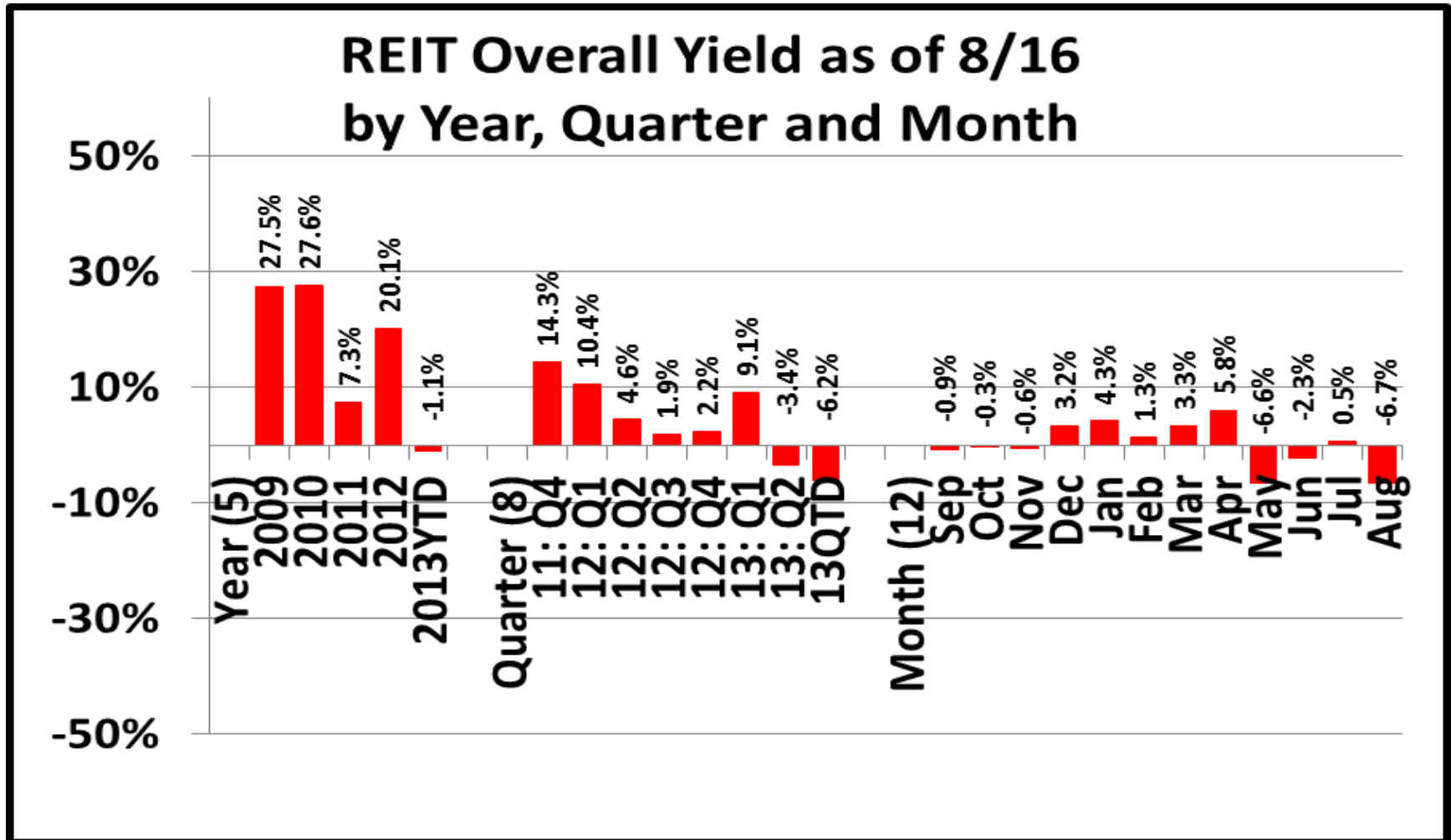
REIT Bond Issuance – Never Better



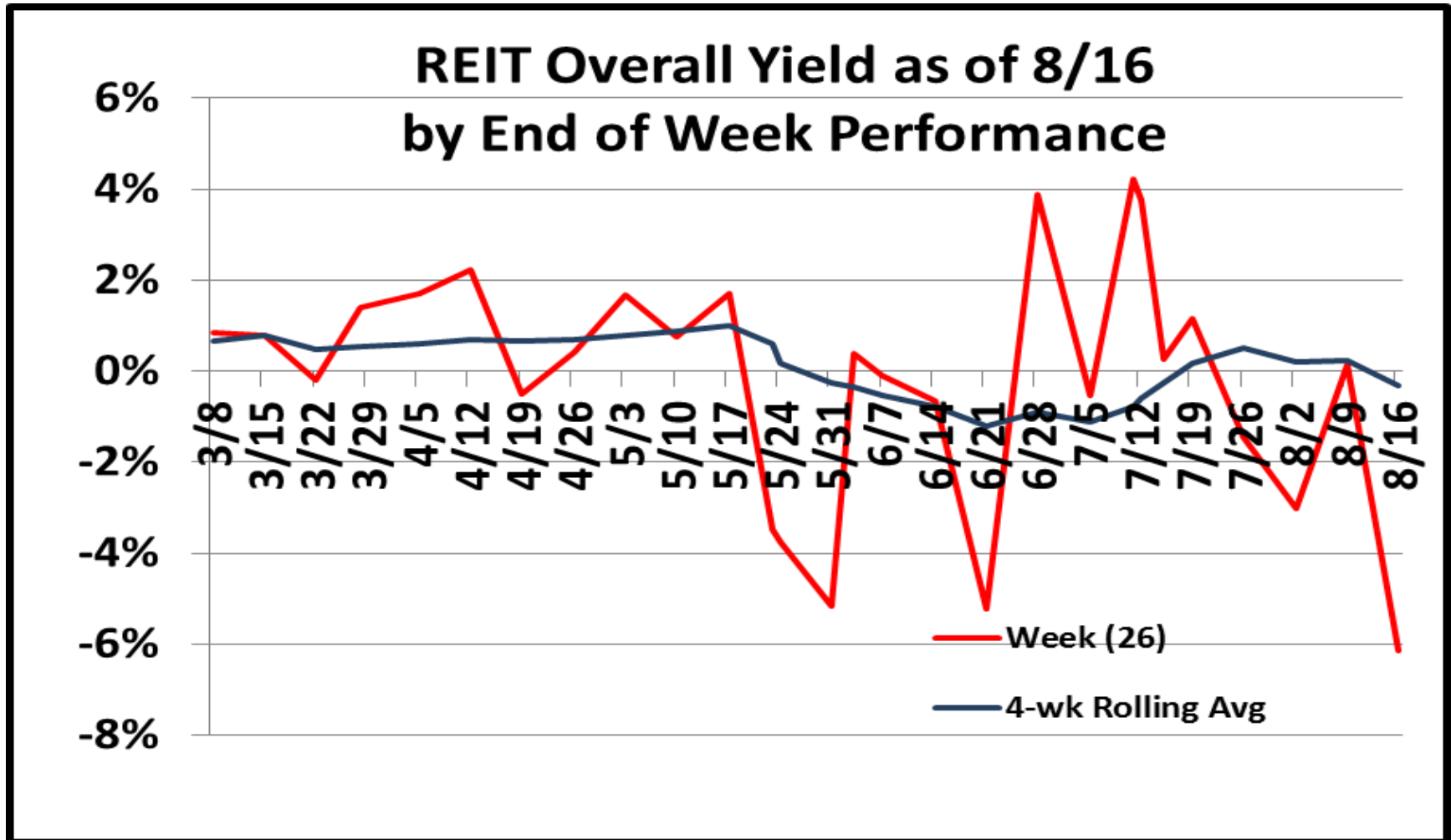
REIT Market Capitalization – New Records



REIT Dividend Yield – Negative Territory

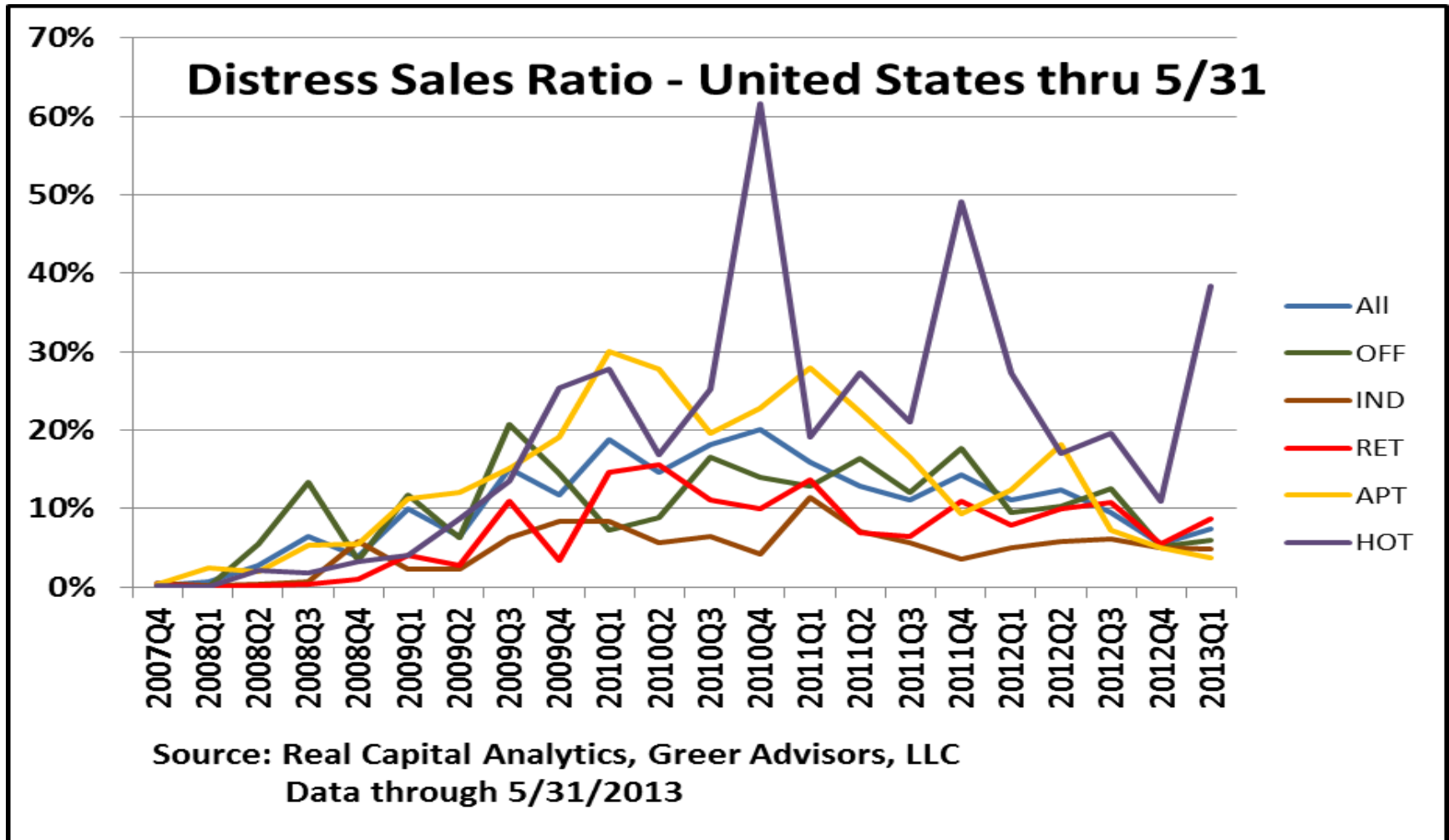


REIT Dividend Yield - Volatility

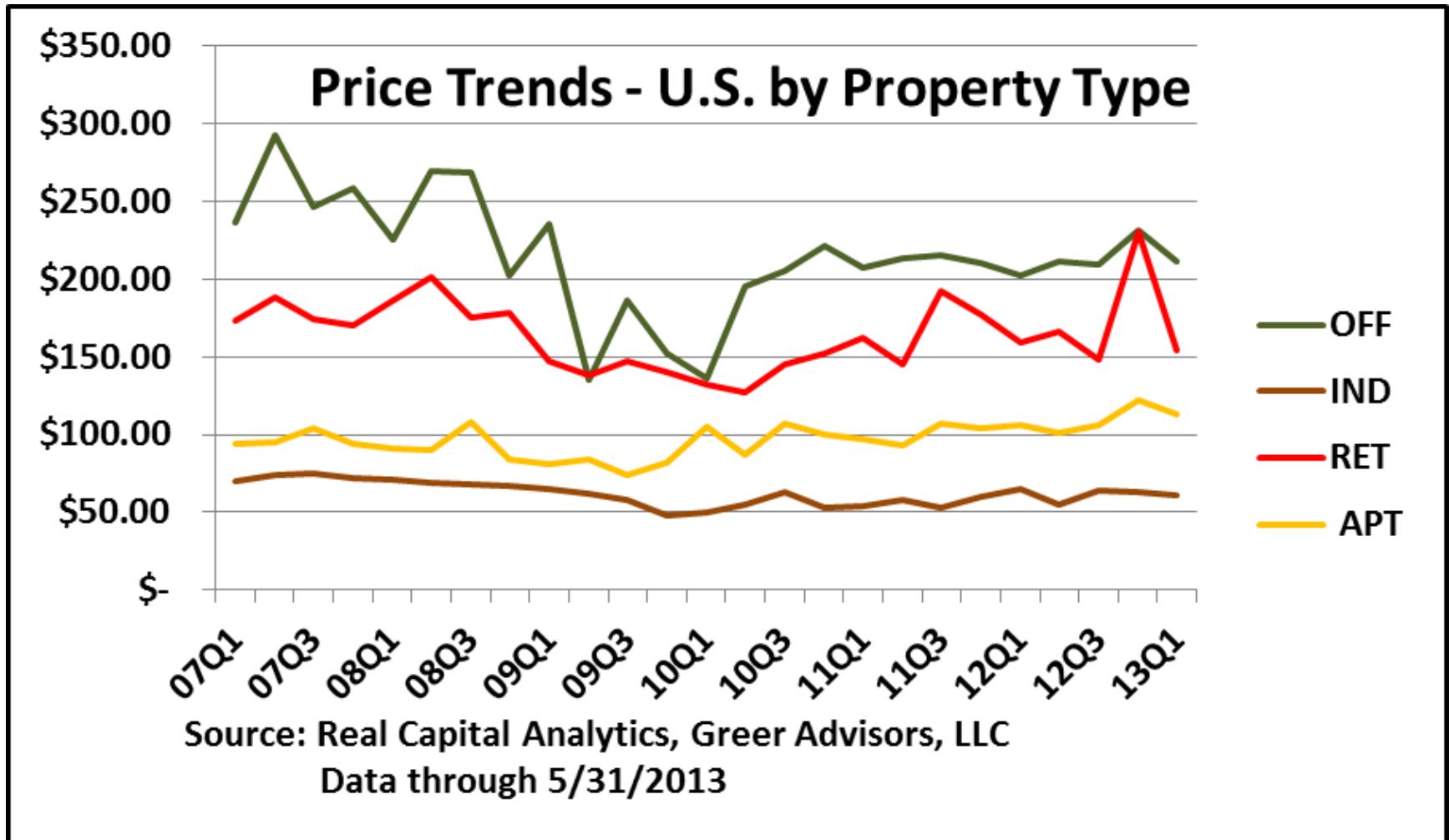


- **Market Performance**

National Distressed Sale Ratio



National Price per SF Trends



Source: Real Capital Analytics, |Greer Advisors, LLC

²² Note: Apt price based on 1,000 SF Apt.

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■ Financial Regulations

Financial Regulations

Dodd-Frank Wall Street Reform & Consumer Protection Act

- 16 Titles – See Summary on Wikipedia – Post TARP 😊
 - 243 Rules to be created (reportedly over half 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 Real Estate:
 - Major for Residential, Minor for Commercial
 - Rating Agency Reform
 - Securitization Reform (nominal change due to QIB clawbacks)
 - Derivatives – minimal change thus far due to “netting”

■ Outlook & Forecast

Conclusions

- Financing Drives Value – Financing is the new “Fundamental”
- Rates (Debt / Capitalization / Yield) are at all-time lows
- Rents / Vacancies Remain better than early 1990s
- Price Growth has Been due to Cap Rate Decline more than 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 Recovery Signs – Prereq's to Recovery

- \sqrt CDS Exposure under \$25 Trillion (i.e. under 50% of peak)
- Stable or Decline in CMBx Yield Spreads for 6 weeks
- Re-emergence of CMBS market
 - New CMBS Market will include:
 - Issuer Keeps 1-5% 1st-loss piece
 - AAA Subordination near 30%....
 - AAA is 70%, not 90% of issue
- \sqrt REIT Market Capitalization (Total Value) Stabilizes or Increases for 6 months
- Consumer Confidence Rises and Stays Above 70 for 6 months
 - As of July 2013 index at 80.3 (1985=100) Almost....
- Risk Curve (AAA Sr. vs BB) flattens to under 500 bps. As of 8/19/13, CMBx spread has remained near 10,000 bps.

Greer's 3-Year Forecast as of August 19, 2013

- Barbell Modest Growth or Global Recession
 - Global Economy Heals or Not
- Cap Rates will Remain Where They Stand
 - Trophy Class A will remain low until Flight to Quality Stops
 - Class B/C will maintain Risk Premium 'til Future Gets Brighter
- Margins (to 10 Yr Treasuries or LIBOR) will rise and settle at 200-250±50 bps over 10 year Treasuries, but might over-correct in the short run
- Values have recovered slightly, and will continue
- Individual Market Performance will continue to vary widely.
 - 10-30% difference in Top vs Bottom
- Change Creates Opportunities – Build Businesses
- SBA remains very Active

Quote of the Day

“...prediction is very difficult, especially when it’s about the future...”

~~NY Yankees #8, Yogi Bera~~

Niels Bohr

Nobel Laureate, 1922

Atomic Structure /

Quantum Mechanics



Questions / Answers

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