
Distressed Assets Where are they?

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Greer Advisors, LLC

Questions for Today's Presentation

- How big is the problem?
- Who are the major players with the problem?
- When can we expect to see the bulk of the problem begin?
- What will be the government's role (another RTC)?
- Who are the leaders with the most problem?

Problems

Supply / Demand Fundamentals....not bad

- Supply Growth – Development has Stopped
- “Big Picture” ties to Gross Domestic Product
 - 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!!!

#1 - Financing – Currently Most Important Fundamental

#2 – Expectation Gap

Problem 1 = Lack of Financing

Capital Markets Drive Financing

CMBS / REITs are Benchmarks

Capital Markets Have Dried Up or Risen Many-fold

Banks are in DEEP Credit Crunch

Deleveraging – Lower LTV / Higher DSC

Put \$\$ on deposit, lend it back

Few Banks are “In the Game” of Lending

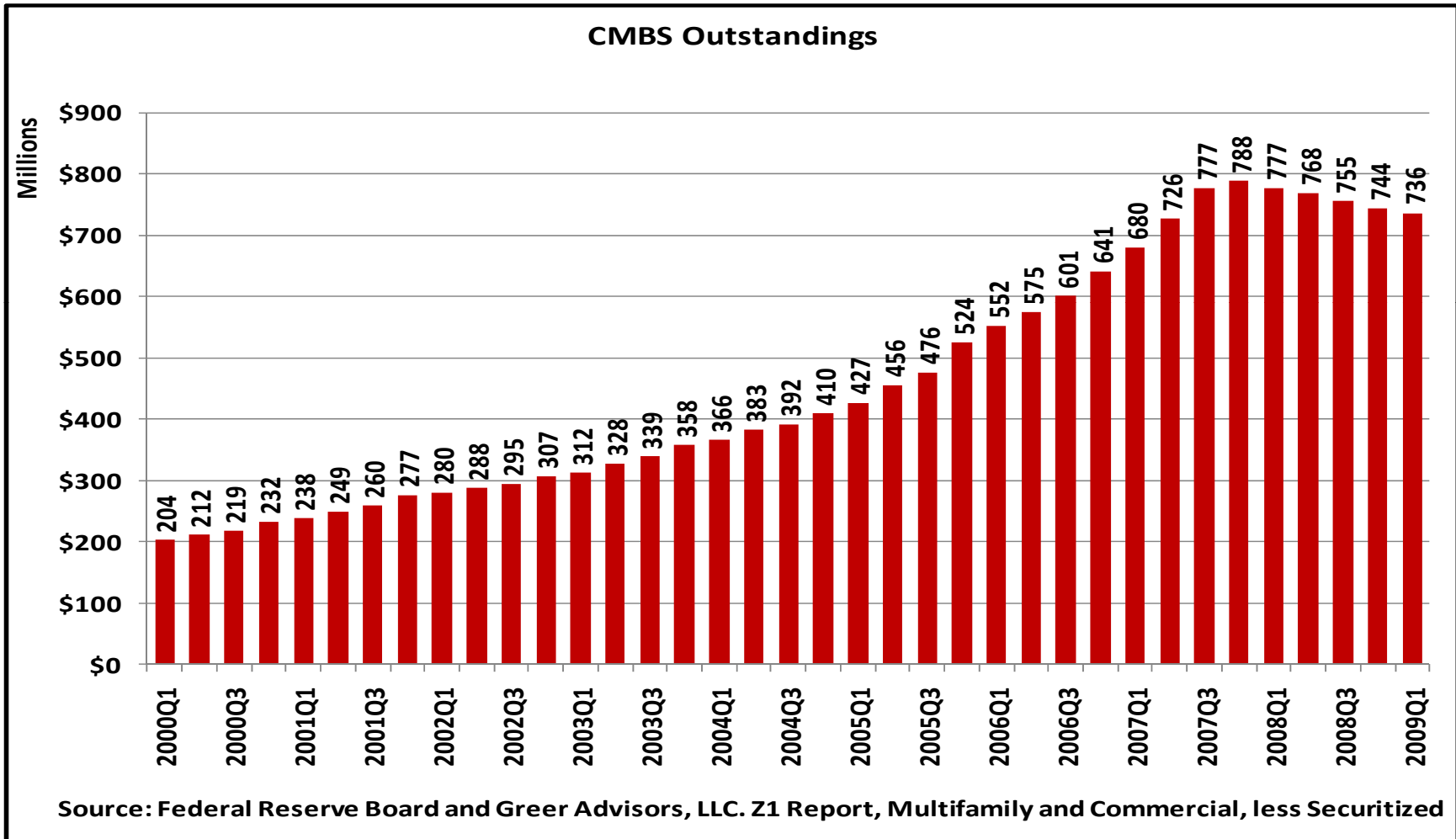
Rates Across the Spectrum Have Risen

Many “former” borrowers can’t get loans today

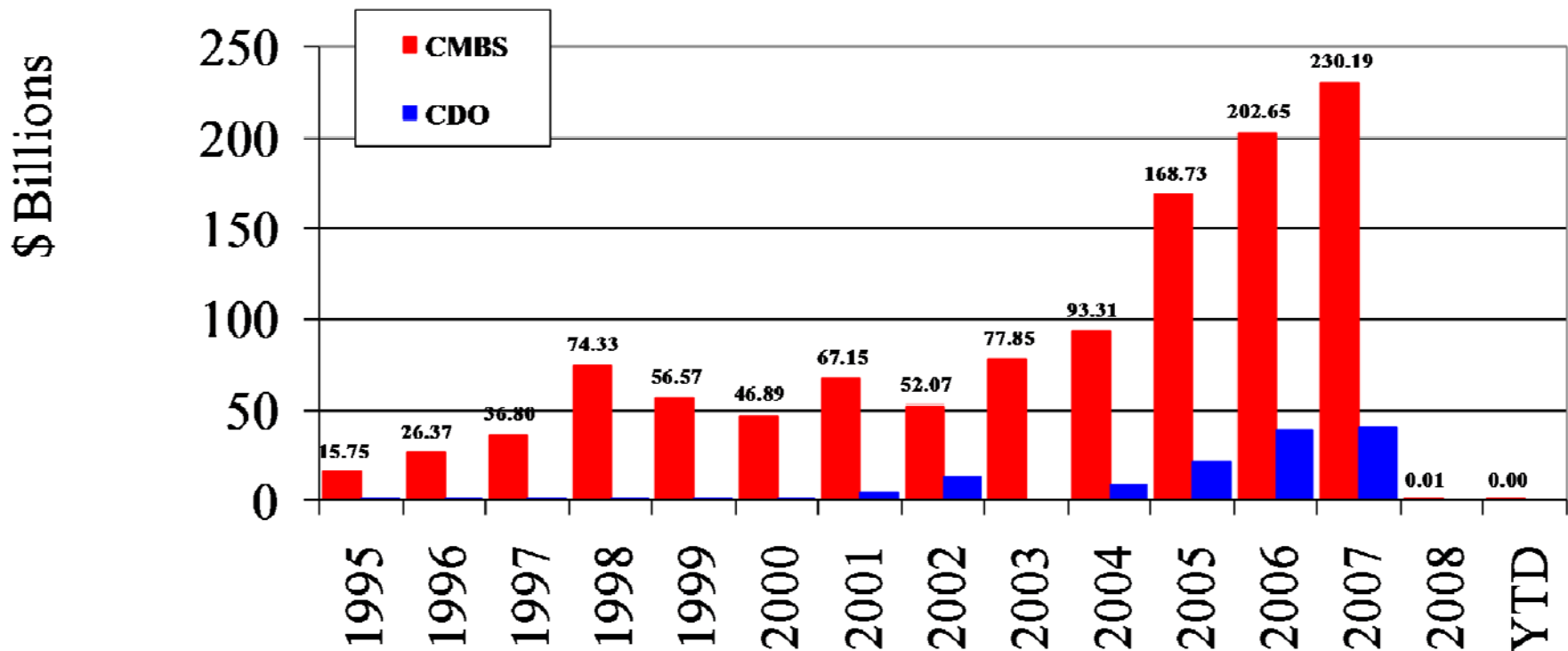
Equity, Mezzanine, Debt

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CMBS Outstandings in U.S. - Grows

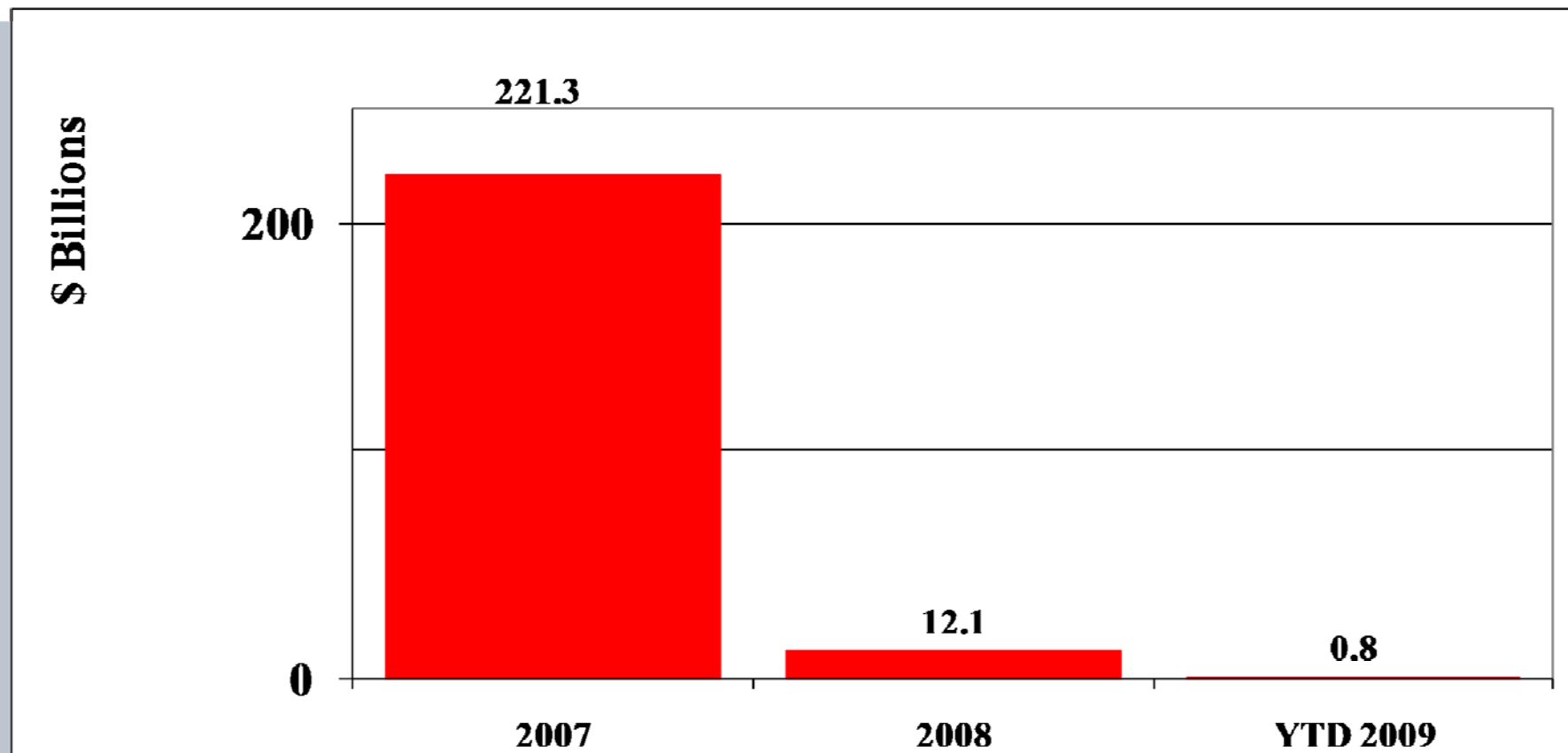


CMBS Issuance in U.S. - Skyrockets



Source: CM Alert 20090911 and Greer Advisors, LLC

CMBS Issuance in U.S. – 2008 Off 99% YTD

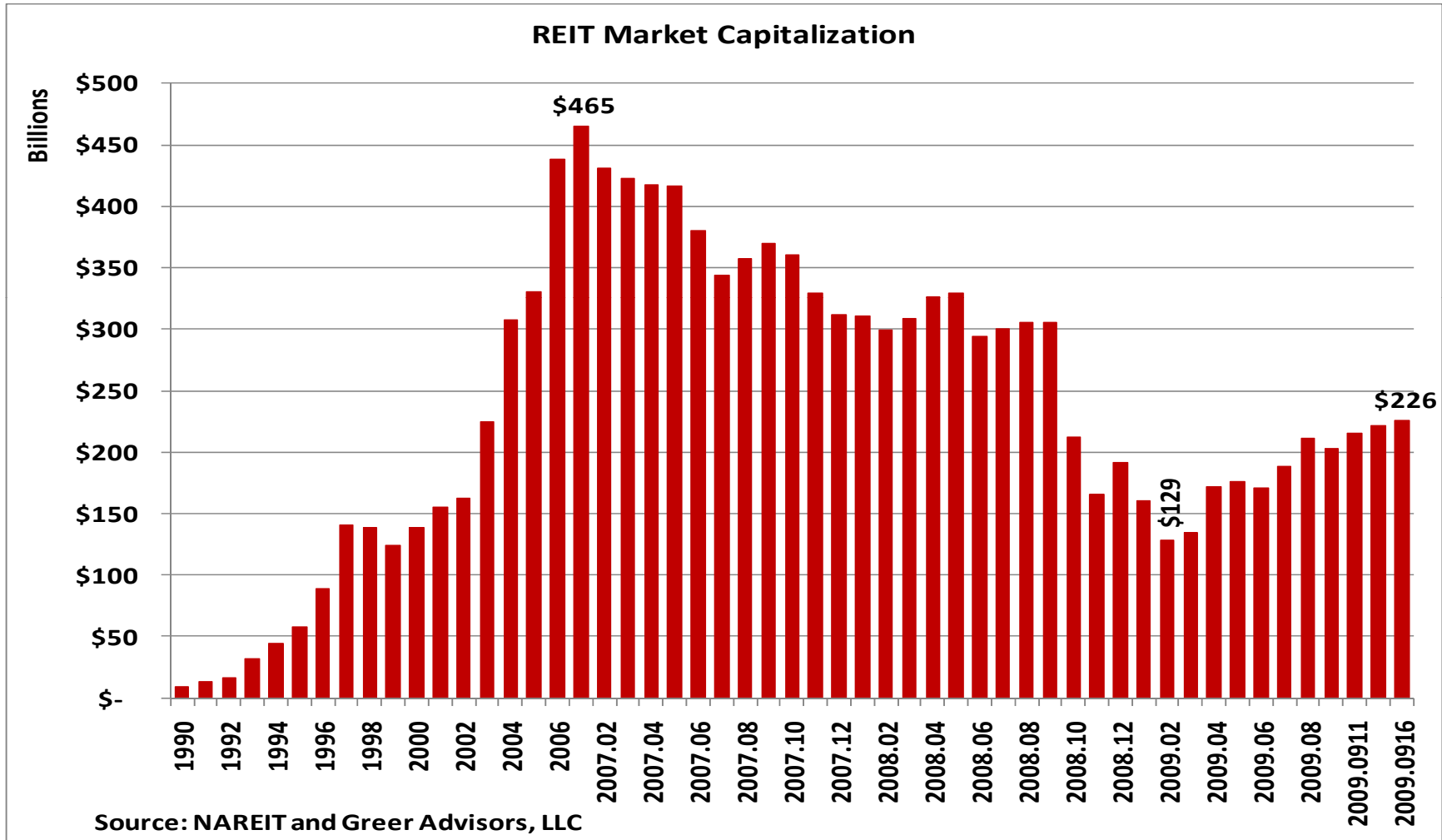


Source: CM Alert 20090918, Greer Advisors, LLC

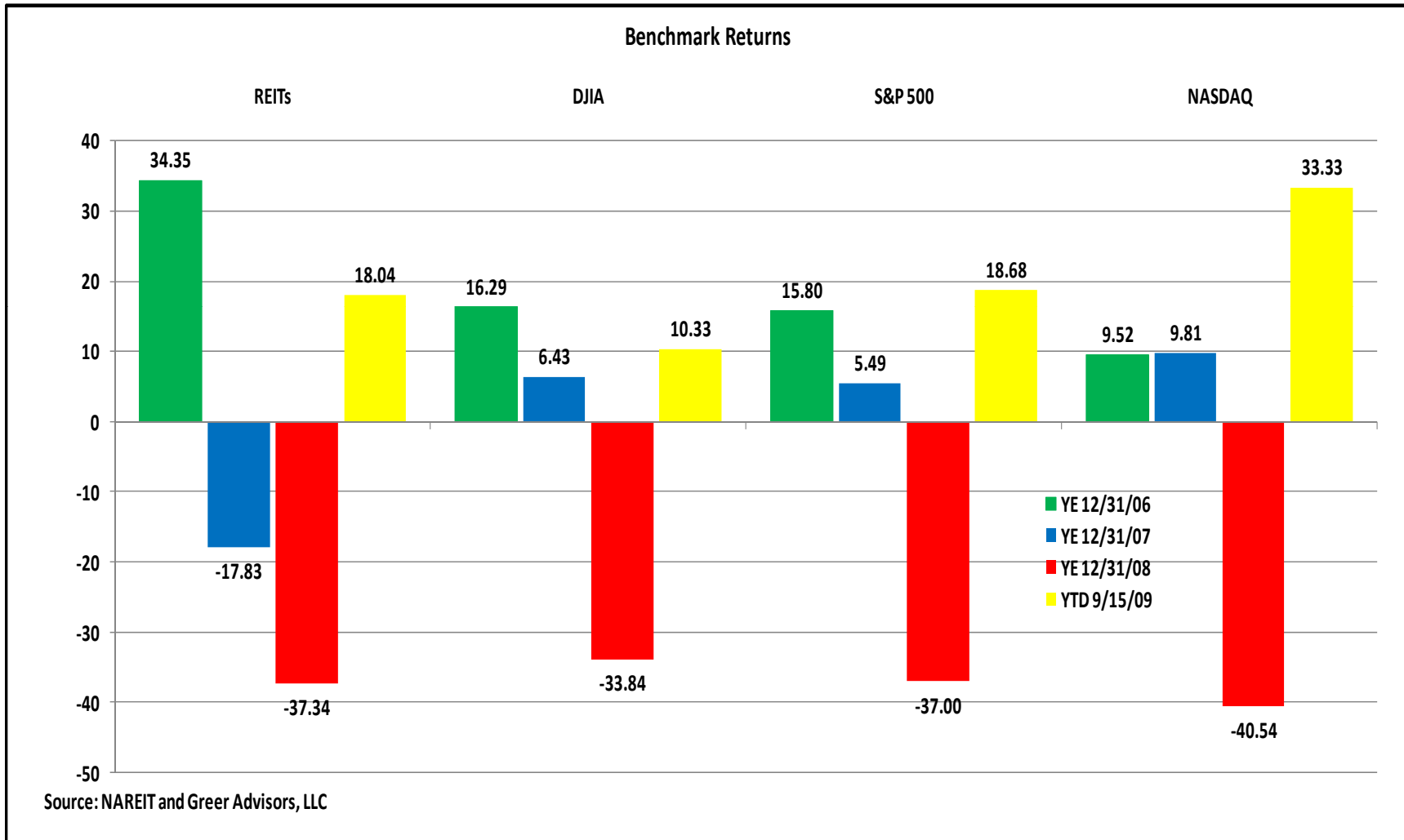
Size of the Problem: “Typical” CMBS

No. Loans	250		
Avg. Loan Size	\$10,000,000		
Total Loan Amt.	\$2,500,000,000		
Index Name	10-Year Treasury		
Index Rate	3.480%		
Avg. Margin on Loans	1.750%		
Avg Yield on Loans	5.230%		
		THEN	NOW
Tranche Rating (10Y)	Approximate Subordination	01/07	9/16/09
AAA Sr	30.0%	3.250%	4.705%
AAA Jr	12.5%	3.300%	8.202%
AA	9.0%	3.350%	15.654%
A	8.0%	3.450%	26.898%
BBB	5.0%	3.700%	44.098%
BB	4.0%	3.950%	48.652%
B	2.5%	4.450%	138.336%
Unrated	0.0%	5.450%	318.000%
	Weighted Average Yield	3.358%	17.380%
Implied Annual Excess Return		0.872%	-13.150%
Note: Markit Data and Calculations were based on close of 09/16/2009. Treasury Yield as of close of 09/16/2009 at 3.48%.			
Source: Coupon and Price data from Markit for AAA Senior through BB bonds were used to calculate Spreads.			
Source: Subordination levels were from Markit.			
Source: The Calculations to determine Spreads were from Greer Advisors.			
Notes: Interest Rate Swap (variable to fixed) fees were ignored. Spreads were assumed over 10-Year Treasury, not swap rate Profit / arbitrage opportunity for the Issuer was ignored.			
The yield spread for the "Unrated" class was based on (BBB- yield minus BB yield) times 2.00, rounded to 100 bps.			
Class-A property equity yield was assumed equal to the BBB- (last investment-grade piece) yield, rounded to 100 bps.			
Class-B property equity yield was assumed equal to the Unrated yield, rounded to 100 bps.			

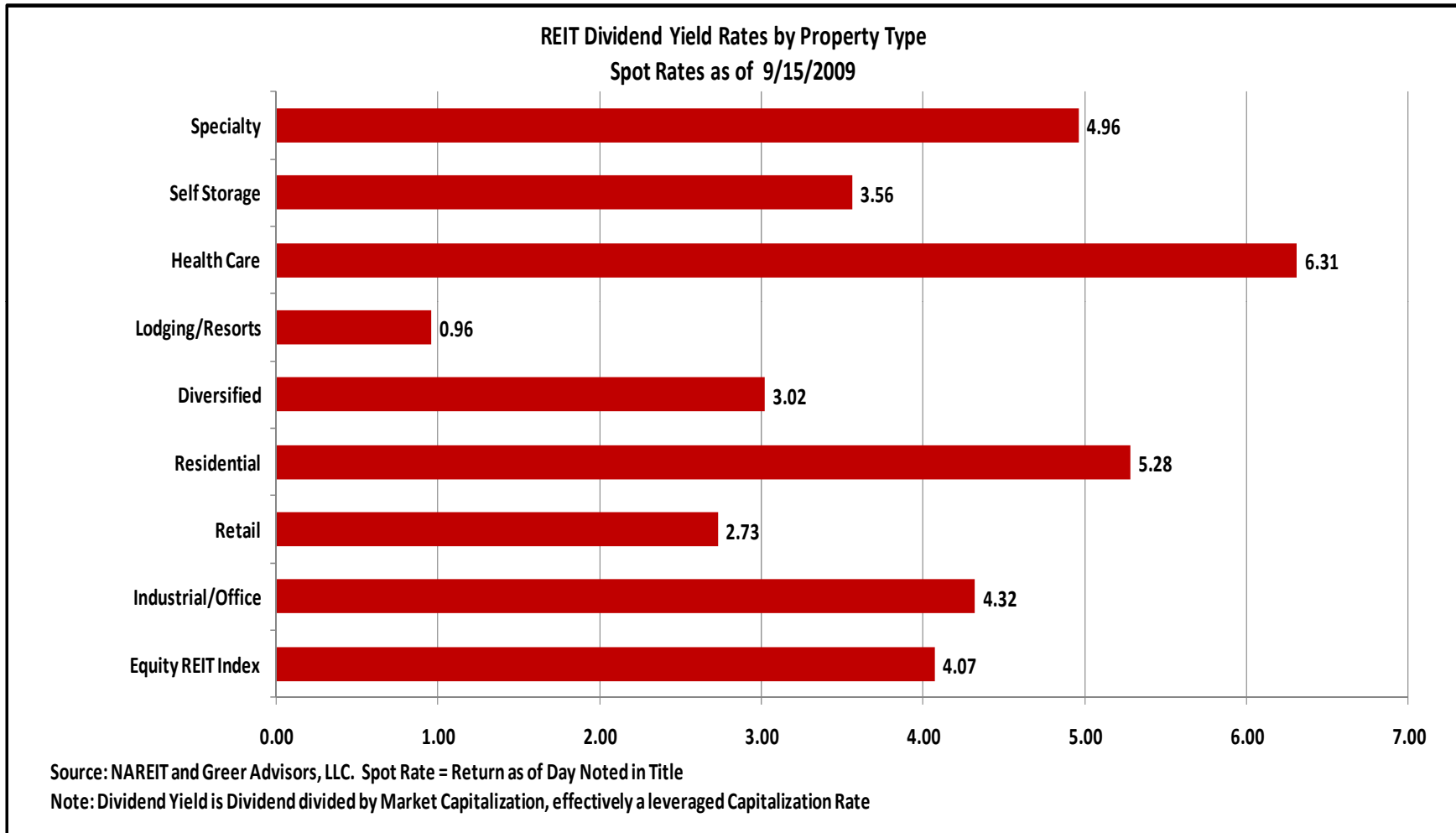
REIT Market Capitalization Trends



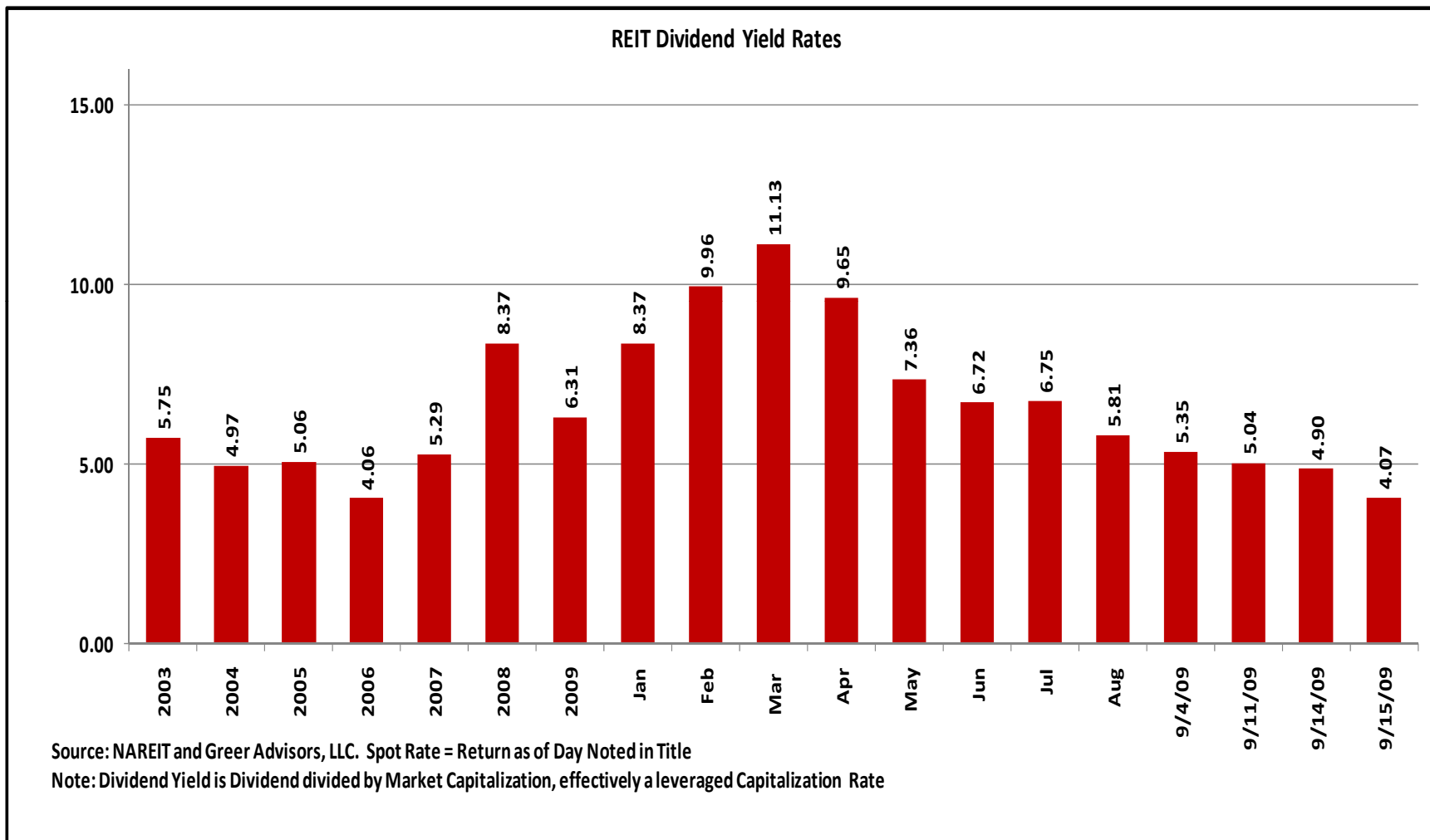
Benchmark Returns — Changes so Fast!



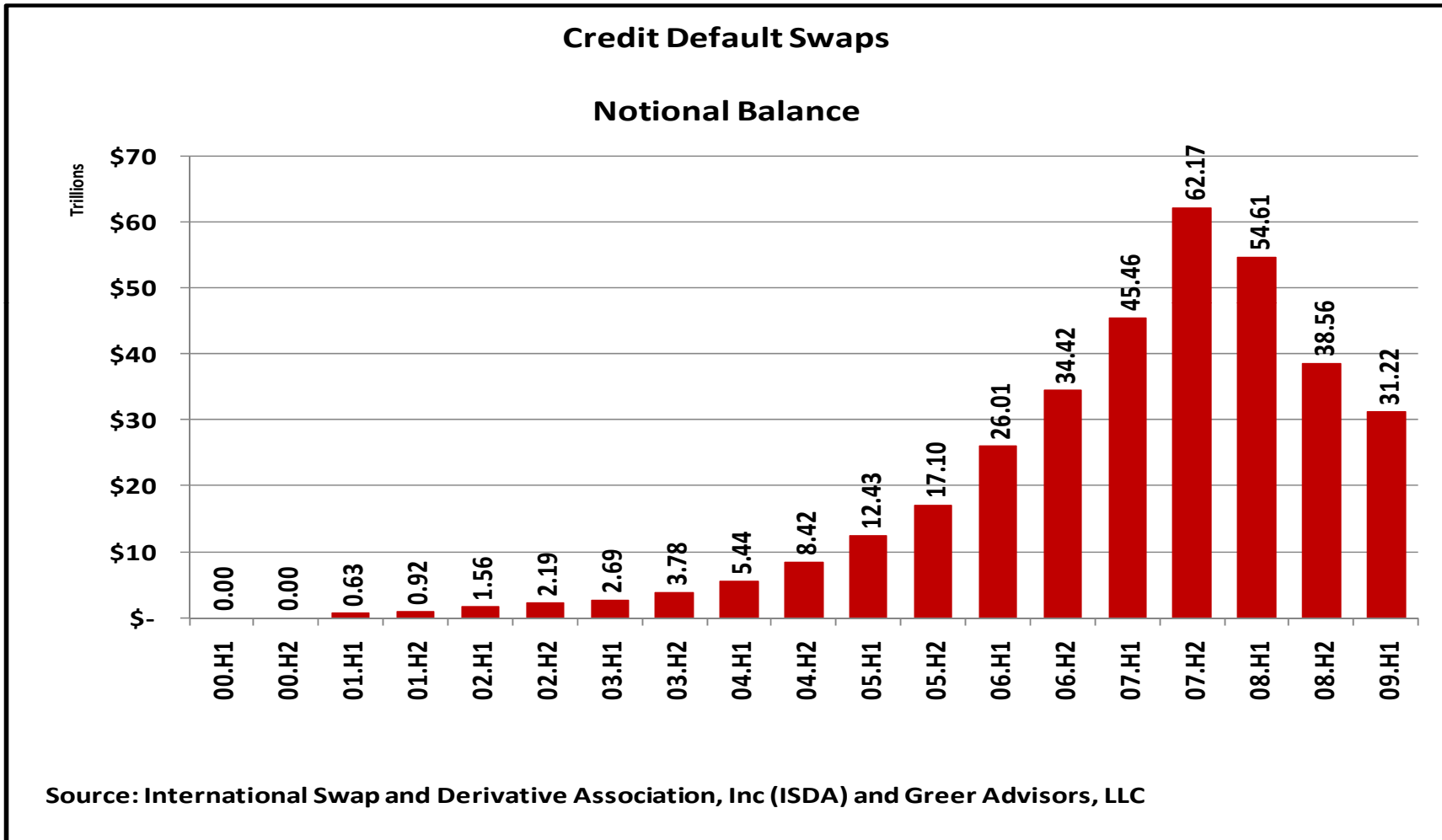
REIT Dividend Yields by Property Type



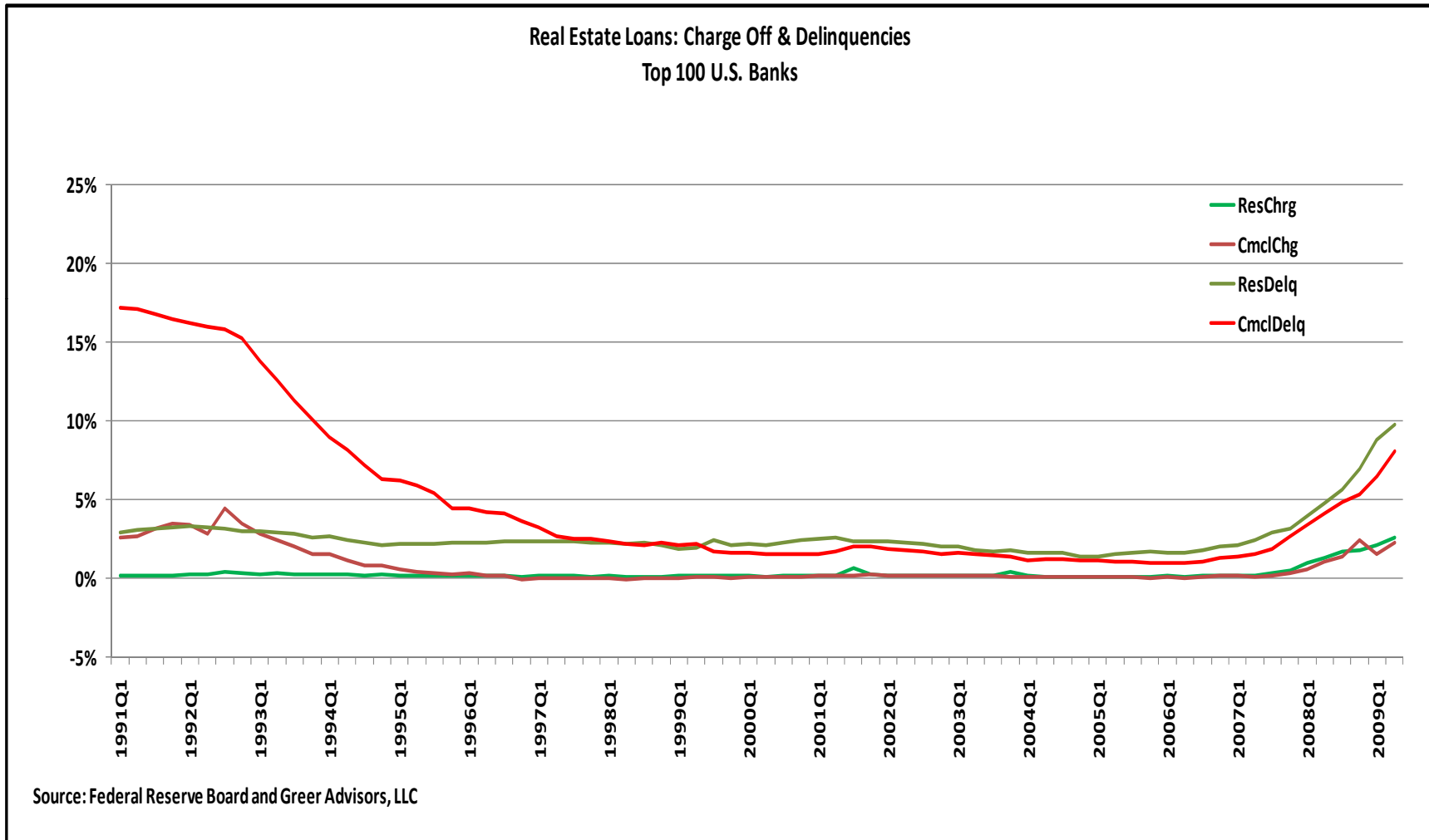
REIT Dividend Yield (Cap Rate) Trends



Credit Default Swaps



Real Estate Loans



Problem 2 - Buyer / Seller Expectation Gap

Without Motivation, neither Party will Move

Six Sigma – Change Formula (must create movement)

Vision > (Dissatisfaction + Cost to Change)

What Motivates Sellers

Appealing Price

Balloon is Due

Terms Work (eg timing, 1031, carry back, etc)

Players

Every Major Bank

Every Investment Bank (CMBS Issuer)

All REITs

All Insurance / Life Companies

Private Money

Sources for Real Estate Loans / Properties

- Bank Loan (Regulated Bank)
- Mortgage Banker (held or managed)
- CMBS Loan
- REIT (Equity, Debt, Hybrid)
- Insurance / Life Company
- Private Funds

Who to Contact?

- Owner With Balloon Coming
- Lender with Balloon Coming
- Special Servicers (CMBS) – LIST TO FOLLOW
- Receivers
- OREO Officers at Banks
- Insurance / Life Companies – LIST TO FOLLOW
- Private Lenders

Insurance Companies – Top 10

Company	2008 Originations (MM)
1. Prudential	\$4,663.8
2. Met Life	4,151.9
3. Northwestern Mutual	2,659.5
4. John Hancock	2,432.6
5. New York Life	2,391.0
6. TIAA – CREF	3,332.3
7. Principal Life	1,815.1
8. ING	1,606.2
9. MassMutual	1,549.3
10. Standard Insurance	1,502.5
Source: CMAAlert 6/5/09 – Top 30	

Special Servicers

US Servicers	Contact	Number
1 Aegon USA Realty Advisors	Lindsay Schumacher	319-355-8000
2 Arbor Commercial Mortgage	Rick Herbst	516-832-7408
3 Archon Group	Michael Dalton	972-368-2329
4 Babson Capital Management	Joanne Denver	413-226-1411
5 Bank of America	Janice Smith	704-317-0747
6 Bayview Loan Servicing	Matthew Sovic	305-646-3926
7 Bank of New York Mellon	Steve O'Neal	972-401-8516
8 CapitalSource	Thomas Fink	301-841-2866
9 Capmark Finance	Mark McCool	215-328-1258
10 Centerline Servicing	Christopher Crouch	972-868-5333
11 Cohen Financial	Timothy Mazzetti	312-602-6144
12 Crown Northcorp	Ron Roark	614-485-1505
13 CT Investment Management	Tom Ruffing	212-655-0216
14 CWCcapital	Michael Berman	781-707-9333
15 DB Mortgage Services	Al Reese	617-722-5077
16 Deutsche Bank Undisclosed Undisclosed	Amy Sinensky	212-469-4063
17 Fifth Third Bank	Joyce Horner	513-358-8720
18 GE Capital Realty	Michael Hudspeth	972-447-2550
19 GEMSA Loan Services	Joseph Beggins	713-458-7200
20 Grandbridge Real Estate Capital	Joe Lovell	704-379-6998
21 Green Loan Services	Andrew Falk	212-216-1656
22 Greystone Servicing	Betsy Vartanian	540-341-2100
23 Helios AMC	Michelle Heisler	415-374-2823
24 HSBC Bank USA	Gavin Wellington	212-525-4640

Source: CM Alert 6/12/09, Greer Advisors, LLC

Special Servicers

US Servicers
25 Hudson Advisors
26 Imperial Capital Bank
27 ING Clarion Capital Loan Services
28 iStar Asset Services
29 J.E. Robert Cos.
30 KeyBank Real Estate Capital
31 Litton Loan Servicing
32 LNR Partners Strong
33 M&T Realty Capital
34 Midland Loan Services
35 National Cooperative Bank
36 Newmark Realty Capital
37 NorthMarq Capital
38 Ocwen Loan Servicing
39 ORIX Capital Markets
40 Pacific Life
41 Principal Global Investors
42 Protective Life
43 Prudential Asset Resources
44 Situs Asset Management
45 TriMont Real Estate Advisors
46 Wachovia Securities
47 Wells Fargo Bank
48 Wrightwood Capital

Contact	Number
Brian Lauper	214-754-8432
Ken Mobeck	800-927-2442
Bruce Morrison	212-883-2500
Barbara Rubin	860-815-5900
Keith Belcher	703-714-8000
Marty O'Connor	816-460-2170
Shane Ross	713-966-8948
Ronald Schrage	305-695-5649
Robert Shean	410-545-2463
Stacey Berger	301-986-5818
Kathleen Luzik	703-302-1902
Michael Heagerty	415-956-9854
Michael Myers	612-356-0100
William Stolberg	561-682-8275
Mark Pakes	214-237-2050
Michelle Stickles	800-800-7646
Steve Johnson	515-246-7095
Charles Windham	205-268-3590
Catherine Rodewald	214-721-6000
Donna Teague	713-328-4366
Ernest Davis	404-420-5966
Leslie Fairbanks	704-715-1143
Daniel Bober	248-723-3110
Henry Bieber	312-324-5955

Source: CM Alert 6/12/09, Greer Advisors, LLC

Data Sources

- CMBS – Trepp
 - Title Company (eg First American)
 - Servicers Trade
 - Receivers
-
- Google / Trade Groups / Conferences / Network

Loan Sales – How Deep is the Market



Adobe Acrobat
Document

Future - Mortgage Backed Security

- Until MBS Returns, markets WILL NOT fully recover
- Most banks ARE NOT in the business of holding long term debt
- New MBS WILL EMERGE with terms as follows
 - No “quick buck” investment banks/mortgage bankers
 - Issuer will hold 1-5% of pool as “1st Loss / Good Faith” position
 - 60-70% of pool will be AAA, not 90+%
 - Buyers of paper will “re-underwrite” pools, regardless of SRA

Value Fundamentals

CMBS Market is Effectively Broken = Opportunities

CMBS/CMBX Industry – Imply R.E. Yields Doubled

REITS are “Off” more than 50% = Opportunities

NCREIF is nearly Flat (down 2-3%)

Market Change brings Opportunities!

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



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Conclusions

- CMBS Market – Yield Spreads are 10-100x higher than 1/07
- CMBS – New Business Model will Arise
- REITs – Down 60%
- NCREIF – Mixed / Marginal Changes
- Most Lenders Closed, Stopped or Reduced Lending
- Financing Cap/Yield Rates Have RISEN
- CASH IS KING!
- Value Growth will Lag Rent Growth
- Rents / Vacancies Remain better than early 1990s
- Values Undergoing Correction

Greer's 3-Year Forecast as of 9/21/2009

- Borrowing Rates will Rise Dramatically
- Margins (to 10 Yr Treasuries or LIBOR) will rise 200+ bps in 2009 and settle 350±50 bps over 10 year Treasuries, but might over-correct in the short run, say 10Yr+500 bps
- Rent Growth will Lag CPI growth by 0-5% for next 3 years
- Values will fall 5-15% from 2008-2012+. Individual Market Performance will vary widely (10-30% difference in Top vs Bottom)
- Capitalization Rates will Rise 2-5% during 2008-2012+ (eg 5.0% to 7.25% = 30% decline in value)
- Declines: #1=Retail; #2=Industrial & Office; then Apartment
- Change Creates Opportunities

Greer's Recovery Signs

- CDS Exposure under \$25 Trillion (i.e. under 50% of peak)
- Decline in CMBx Yield Spreads for 6 straight 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
- REIT Market Capitalization (Total Value) Stabilizes or Increases for 6 months
- Consumer Confidence Rises and stays above 70 for 6 months
 - As of 8/25/09 index stands at 54.1 (1985=100)
- Risk Curve (AAA Sr. vs BB) flattens to under 500 bps. As of 9/16/08, spread stands near 13,000 bps.

Questions / Answers

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