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# Commercial Real Estate Market Opportunities in 2011

Everett Allen Greer

February 9, 2011 – San Diego

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**Greer Advisors, LLC**

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**Los Angeles**  
213.985.3800

**New York**  
646.867.1600

**San Francisco**  
415.233.6300

**Dallas**  
214.347.7500

**Miami**  
786.629.9600

**San Diego**  
619.618.2500

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# Goals of Presentation

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Disclaimers

Macro Economic Trend

Opportunity Drivers

Trends & Opportunities

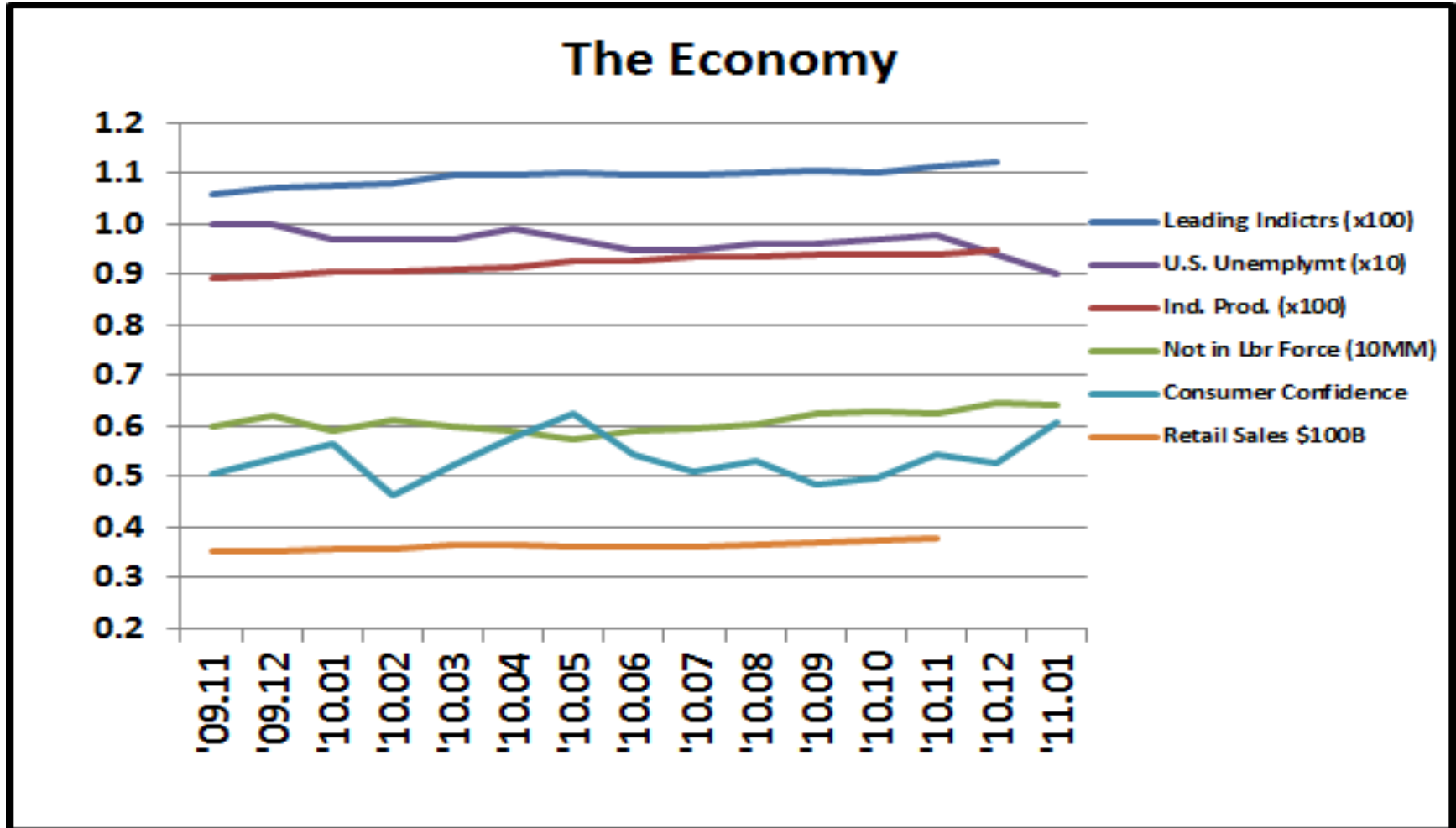
- Regulations and Lending
- Performance – REITs & CMBS
- Performance by Property Type
- Performance by Market

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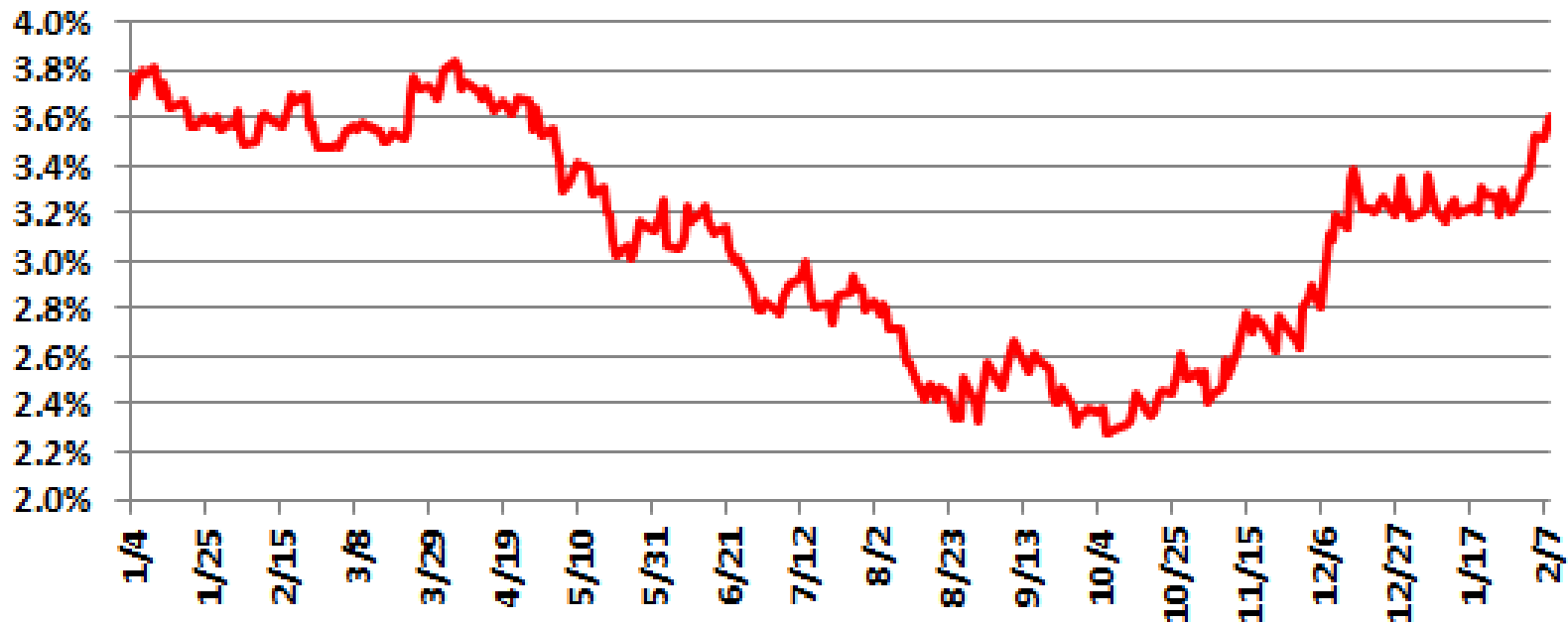
# ■ Macro Economic Trends

# Economic Trend = Flatline



# Treasuries and Inflation

## Treasury Yield Spread 10Y-3M



Source: Dept. of Treasury as of 2/8, Greer Advisors, LLC

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- Opportunity Drivers

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# Opportunity Drivers

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# CHANGE

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# Aspects of Change

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## **Not all Markets Perform the Same**

**If the National Average Vacancy is 10%, the “low” will be 5-10% under the average, and the “high” will be 5-10% over the average. A 10-20% high-low spread is normal.**

**Four Quarter Performance differentials are much more pronounced.**

**The ability to effectively communicate and act on this information will create opportunities.**



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- Regulations and Lending

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# Financial Regulations – Largely Unresolved

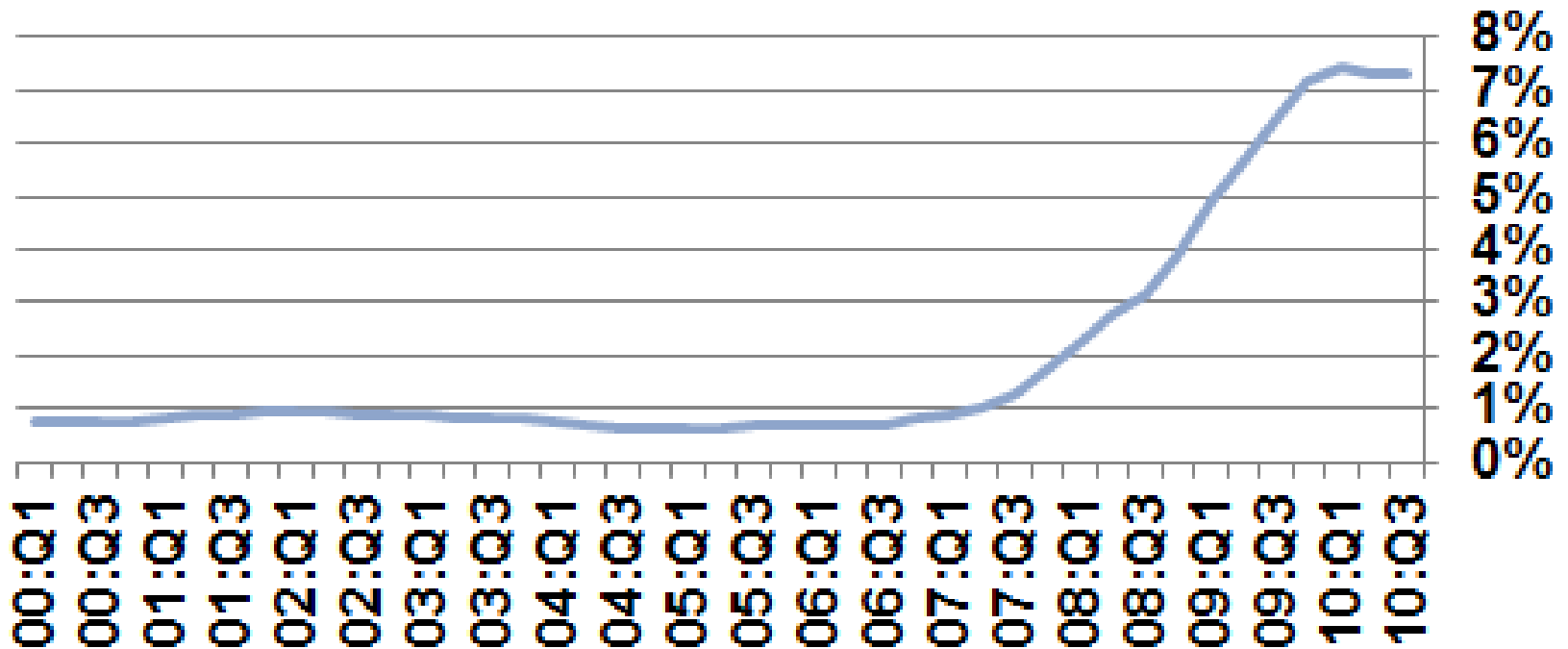
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## **Dodd-Frank Wall Street Reform & Consumer Protection Act**

- 16 Titles – See Summary on Wikipedia
    - 243 Rules to be created
    - 67 Studies required
    - 22 New Periodic Reports
- } (about ½ done)
- Restructure of Regulators, elimination of OTS
    - Financial Stability Oversight Council (New)
    - Office of Financial Research (New)
  - Keys for Commercial Real Estate:
    - Rating Oversight Lack of Funding = Virtually No Reform
    - QIB carve outs = Nominal Securitization (MBS) Reform
    - Derivatives “Net” Exposure Calc’s = Minimal Change

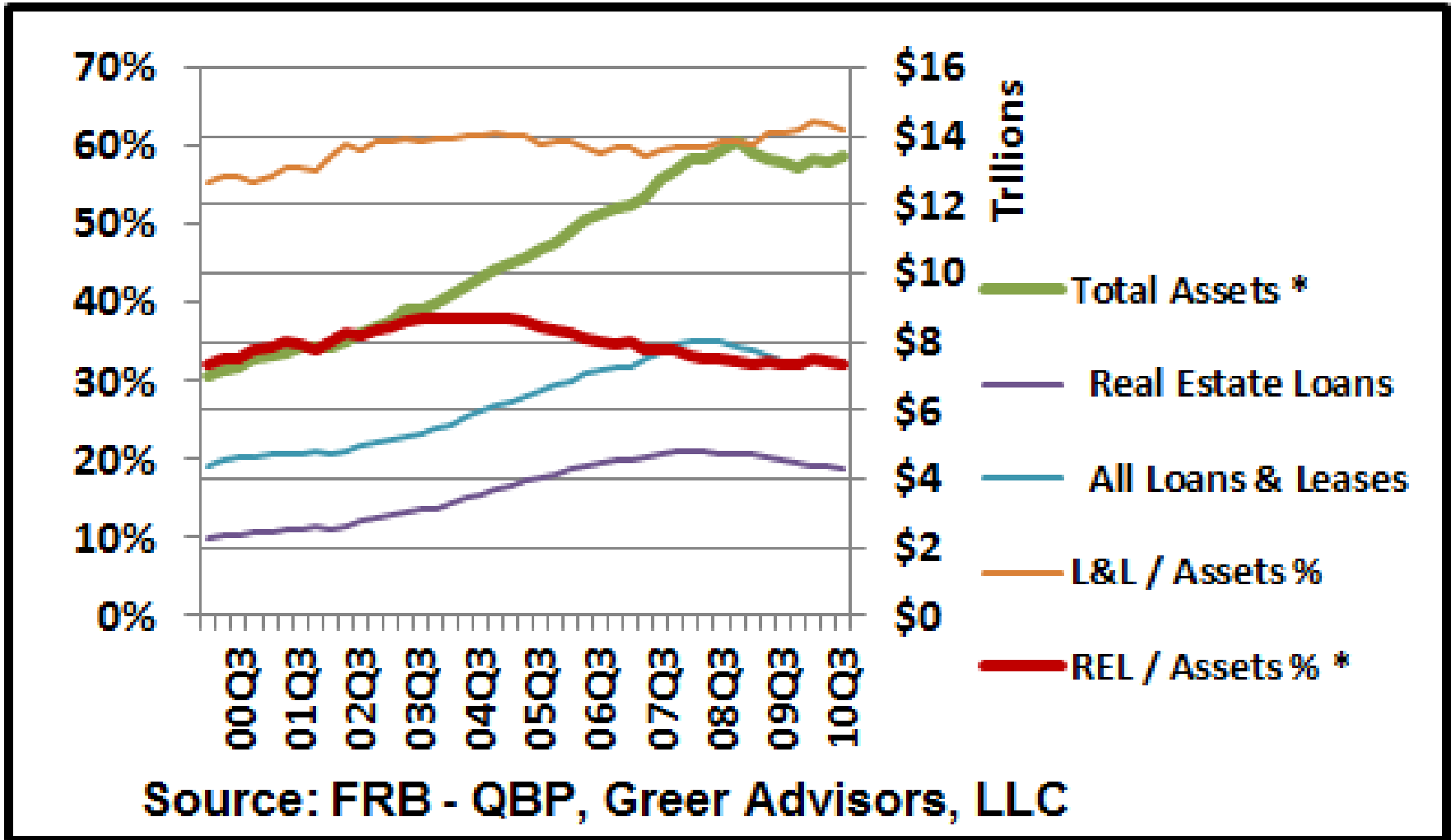
# Depository Institutions - Non Current Status

## Total R.E. Loans: Noncurrent rate



Source: FRB - QBP, Greer Advisors, LLC

# Depository Banking Trends



# Future of Banking

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**Past 3-4 Years have Shown largest lending decline in history - see FDIC QBP**

**Loan Loss Rates – Still Near All-Time Highs**

**Separation of “Best of Best” Class A vs. Class B/C**

**Deleverage – Expect More for Class B/C**

**Applies to Individual Loans AND Securitization**

**More Restrictive Covenants for REITs, CMBS**

**“R” word for Loans (recourse)**

**Capital Ratios – Leverage – QE2**

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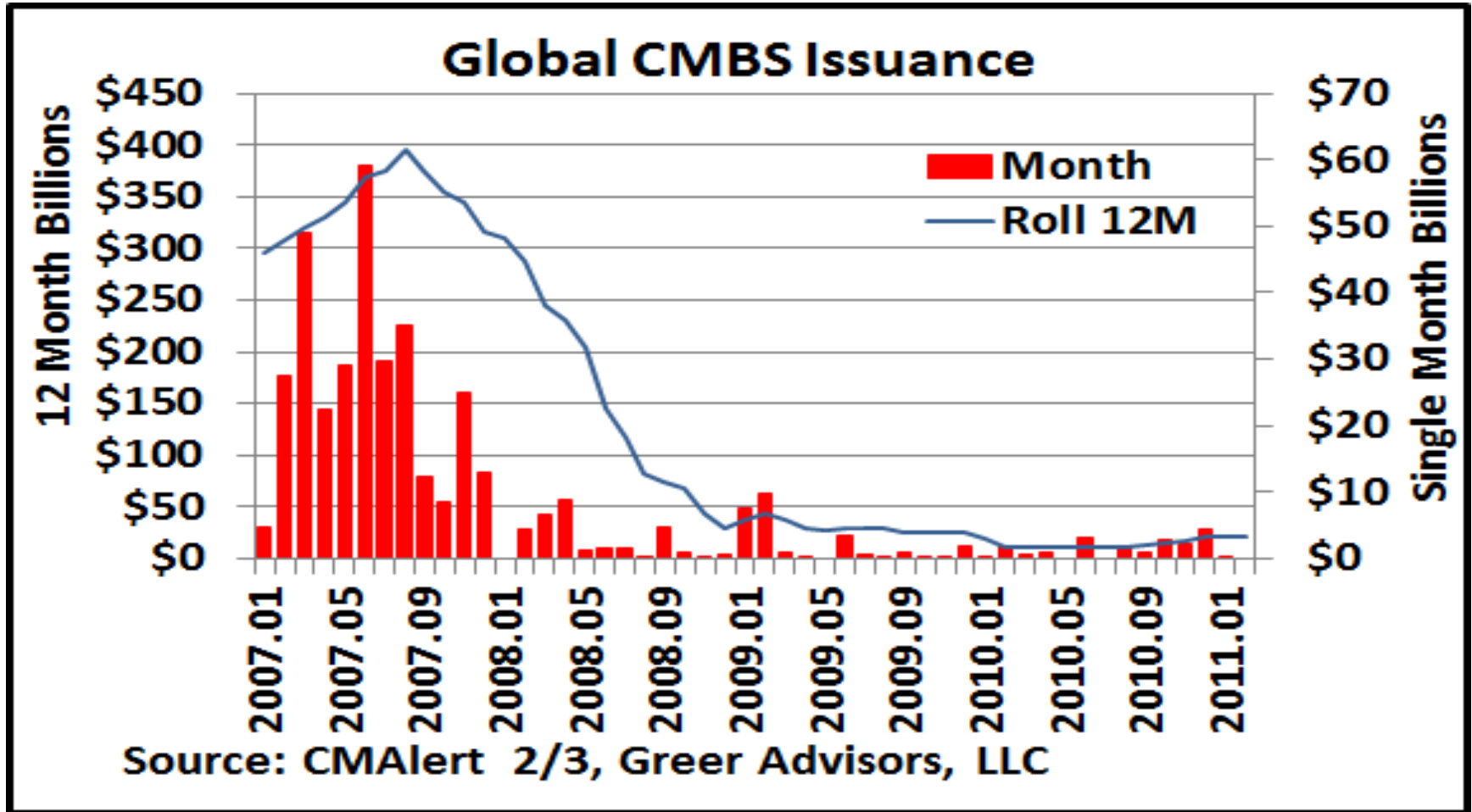
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- Performance - REITs & CMBS

# CMBS Delinquencies

<b>CMBS Delinquency - All CMBS Loans - &gt; 30 days</b>				
<b>Property Type</b>	<b>% by Balance</b>			
	<b>Including Defeased</b>		<b>Excluding Defeased</b>	
	<b>10-Dec</b>	<b>9-Dec</b>	<b>10-Dec</b>	<b>9-Dec</b>
<b>Multi-Family</b>	<b>13.97</b>	<b>9.29</b>	<b>14.91</b>	<b>10.18</b>
<b>Lodging</b>	<b>13.88</b>	<b>13.85</b>	<b>14.57</b>	<b>14.72</b>
<b>Other</b>	<b>11.50</b>	<b>4.51</b>	<b>11.99</b>	<b>4.70</b>
<b>Industrial</b>	<b>8.92</b>	<b>3.98</b>	<b>9.59</b>	<b>4.33</b>
<b>Retail</b>	<b>7.75</b>	<b>5.49</b>	<b>8.11</b>	<b>5.81</b>
<b>Source: Trepp, LLC, Greer Advisors, LLC</b>				

# CMBS Issuance





# CMBx – Capital Stack Indicators

<b>Greer CMBS / CMBx Yield Rate<sup>TM</sup></b>				
<b>Tranche</b>	<b>Yield</b>	<b>Suboord</b>	<b>Weight of Debt</b>	<b>Contribution to Total</b>
AAA	4.15%	29.76%	70.24%	2.91%
AJ	5.02%	12.70%	17.06%	0.86%
AA	6.64%	10.63%	2.07%	0.14%
A	11.07%	8.00%	2.63%	0.29%
BBB	28.74%	4.72%	3.28%	0.94%
BBB-	30.08%	3.68%	1.04%	0.31%
BB	103.78%	2.69%	0.99%	1.03%
Unrated	177.00%	0.00%	2.69%	4.76%
<b>Implied Overall Debt Yield</b>			<b>100.00%</b>	<b>11.24%</b>
<b>Loan to Value Ratio</b>				<b>75.00%</b>
<b>Class-A Equity Yield   Total Yield</b>			<b>30.00%</b>	<b>15.93%</b>
<b>Class-B Equity Yield   Total Yield</b>			<b>104.00%</b>	<b>34.43%</b>

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 much greater than loan rates in the marketplace, the CMBS market CAN NOT recover because the required 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 required yields for each layer in the capital stack.

② Markit<sup>TM</sup> Data and Calculations based on close of 2/8. Swap (10Yr) as of 2/7.

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

④ Profit / arbitrage opportunity for the issuer was ignored.

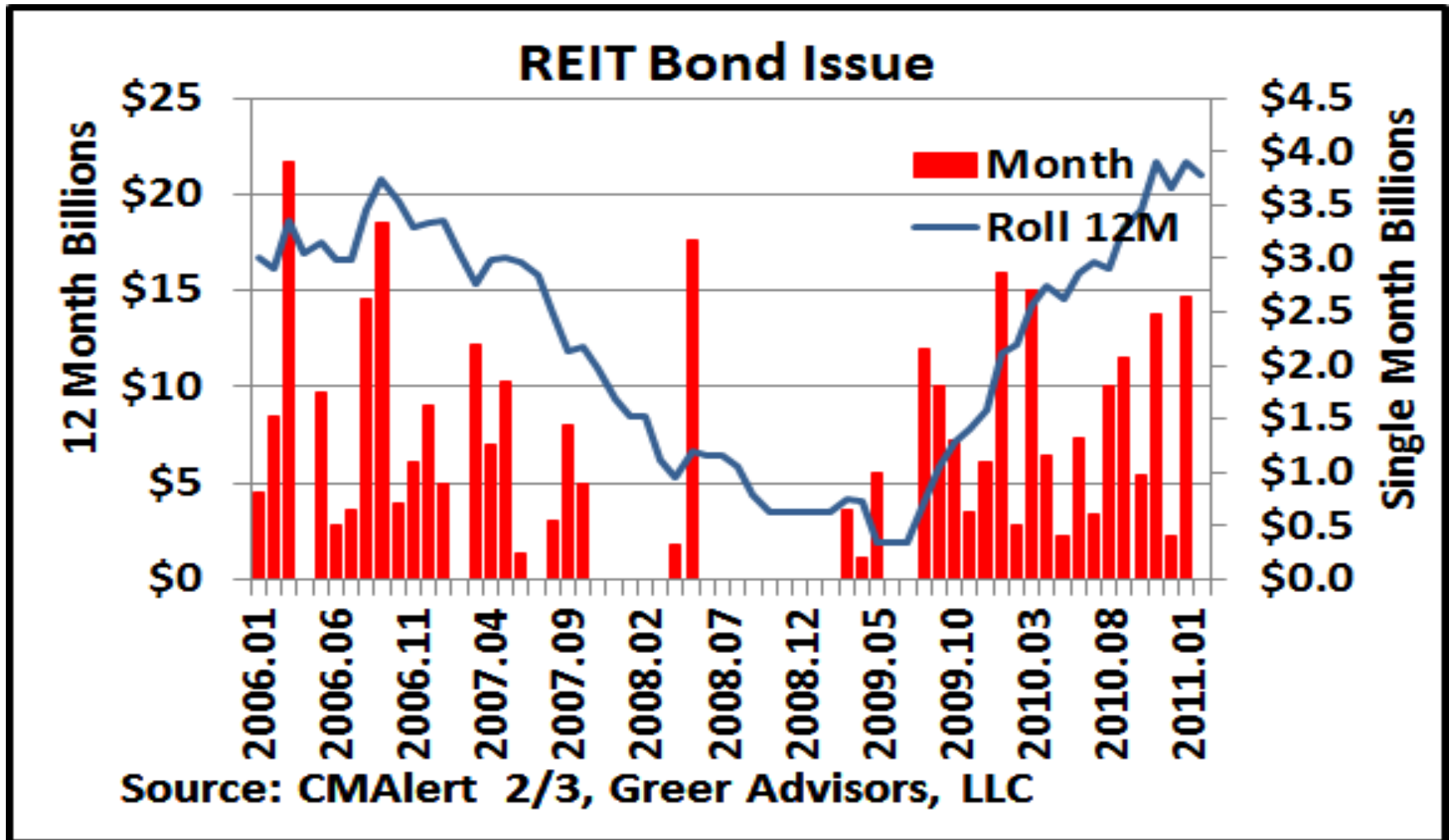
⑤ The yield spread for "unrated" classes were based on (BBB-yield minus BB yield) times 1.0, round to the nearest bp. Class-A property equity yield was assumed equal to the BBB- (last investment-grade piece) yield rounded to the nearest 100 bp. Class B property equity yield was assumed equal to the BB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

# Future - Mortgage Backed Security

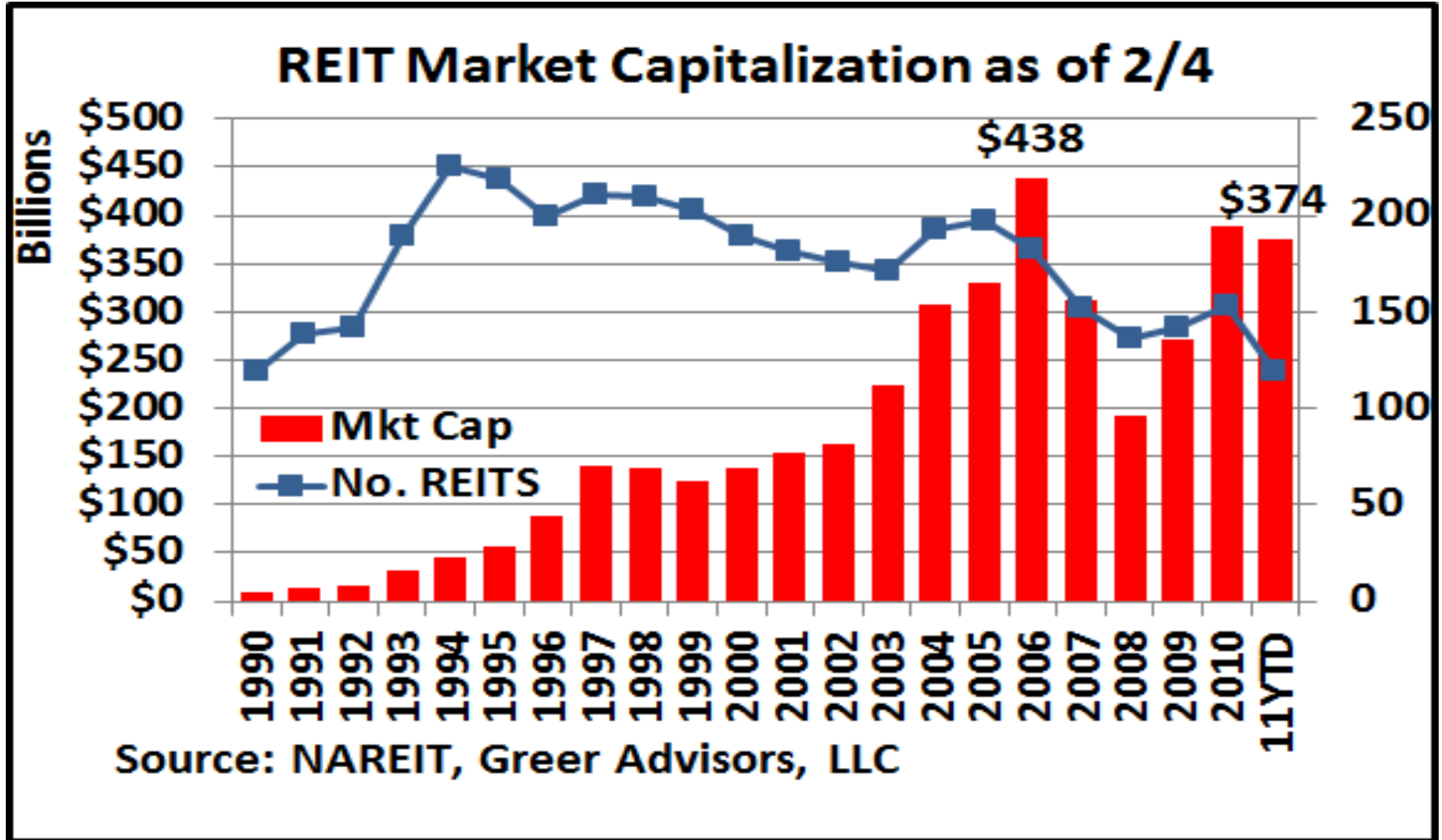
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- If NSROs don't "**Get It**" Feds could replace them
- 'til MBS Returns, Real Estate markets **WILL NOT** recover
- Most banks ARE NOT in the business of holding debt
- New MBS WILL EMERGE with terms as follows
  - No "quick buck" investment banks/mortgage bankers
  - Issuer holds 1-5% of pool as "1<sup>st</sup> Loss / Good Faith" position
  - 60-80% of pool will be AAA, not 90+%
  - Buyers of paper will "re-underwrite" pools, regardless of

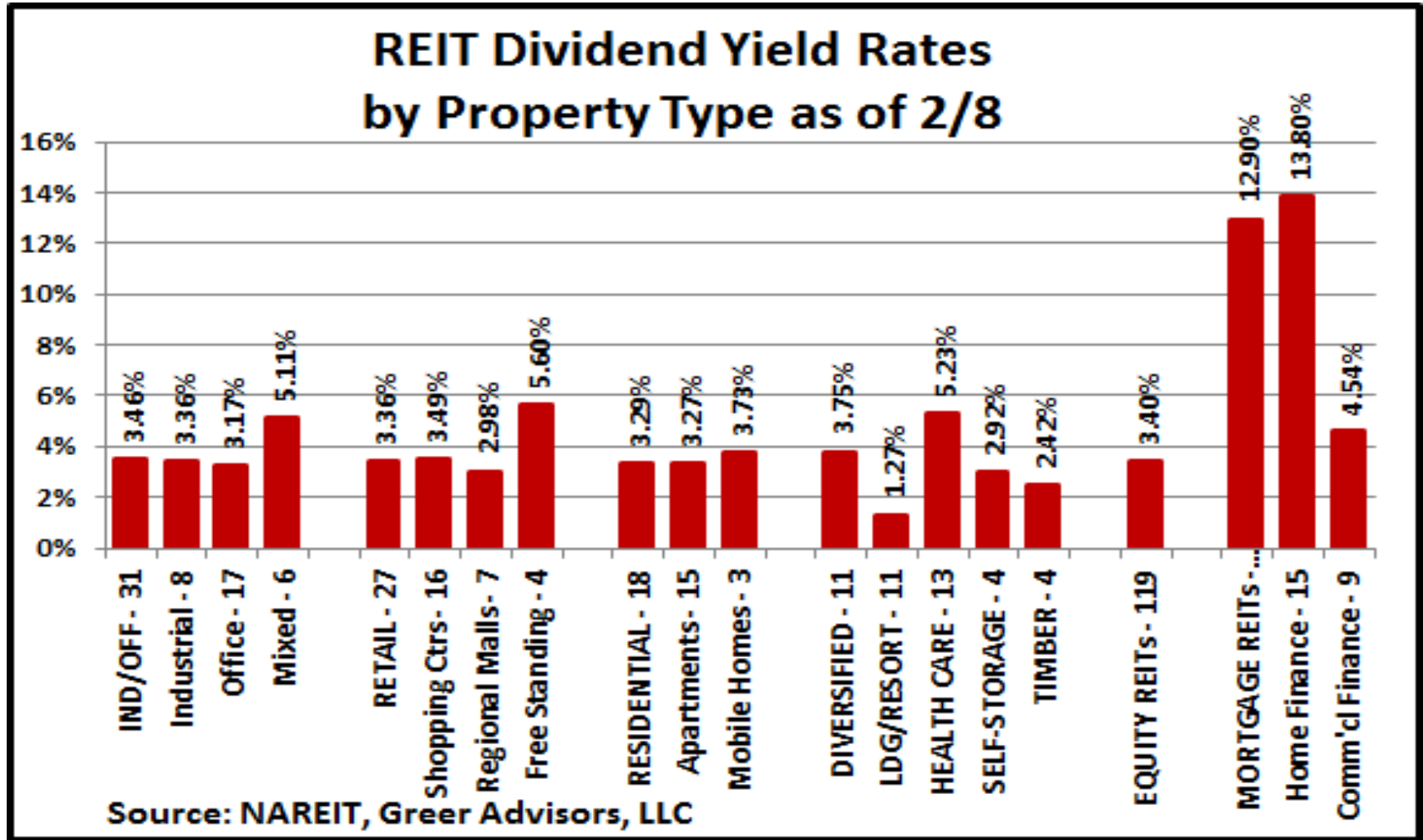
# REIT Bond Issue = Effective Full Recovery



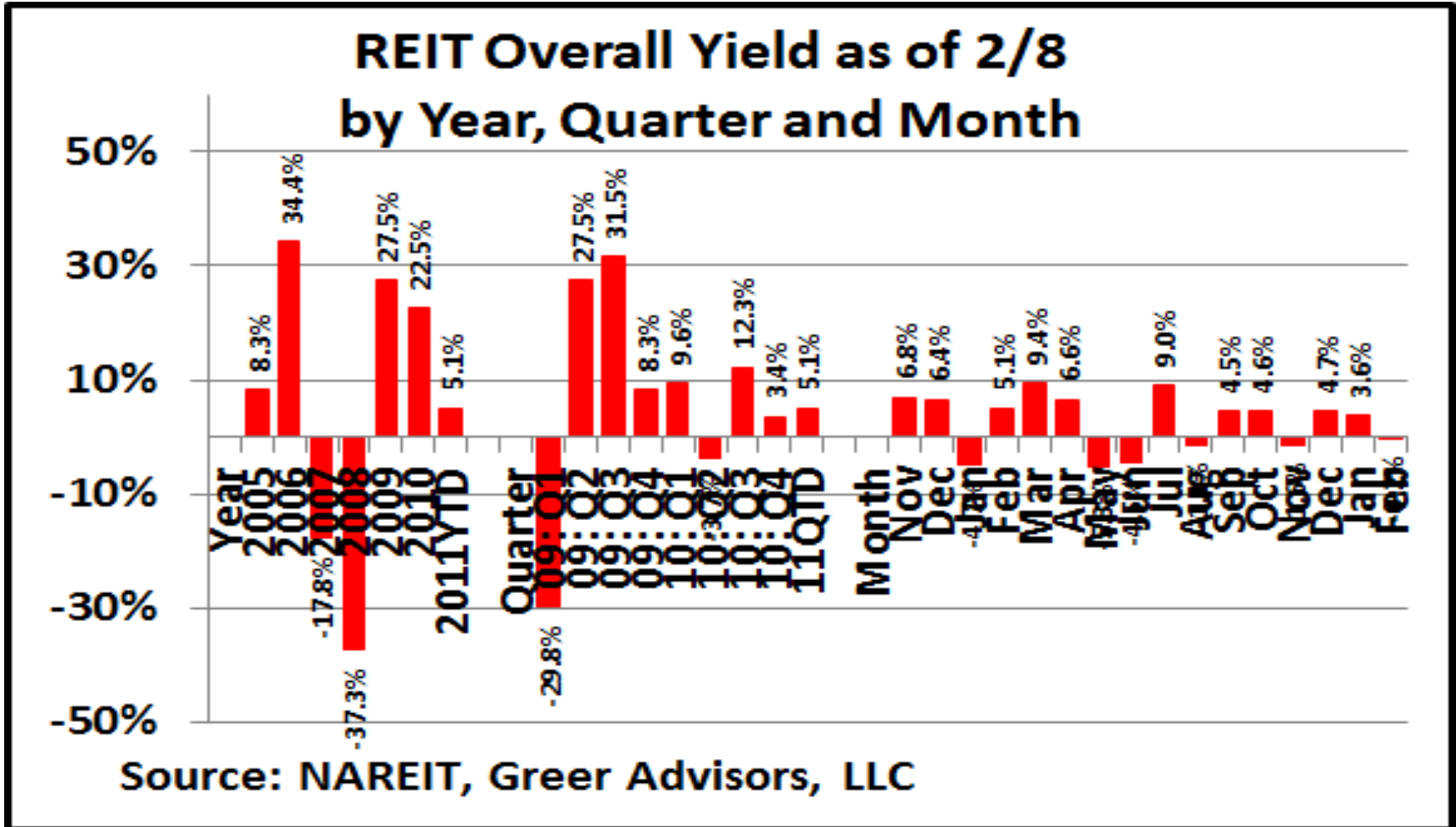
# REIT Market Capitalization



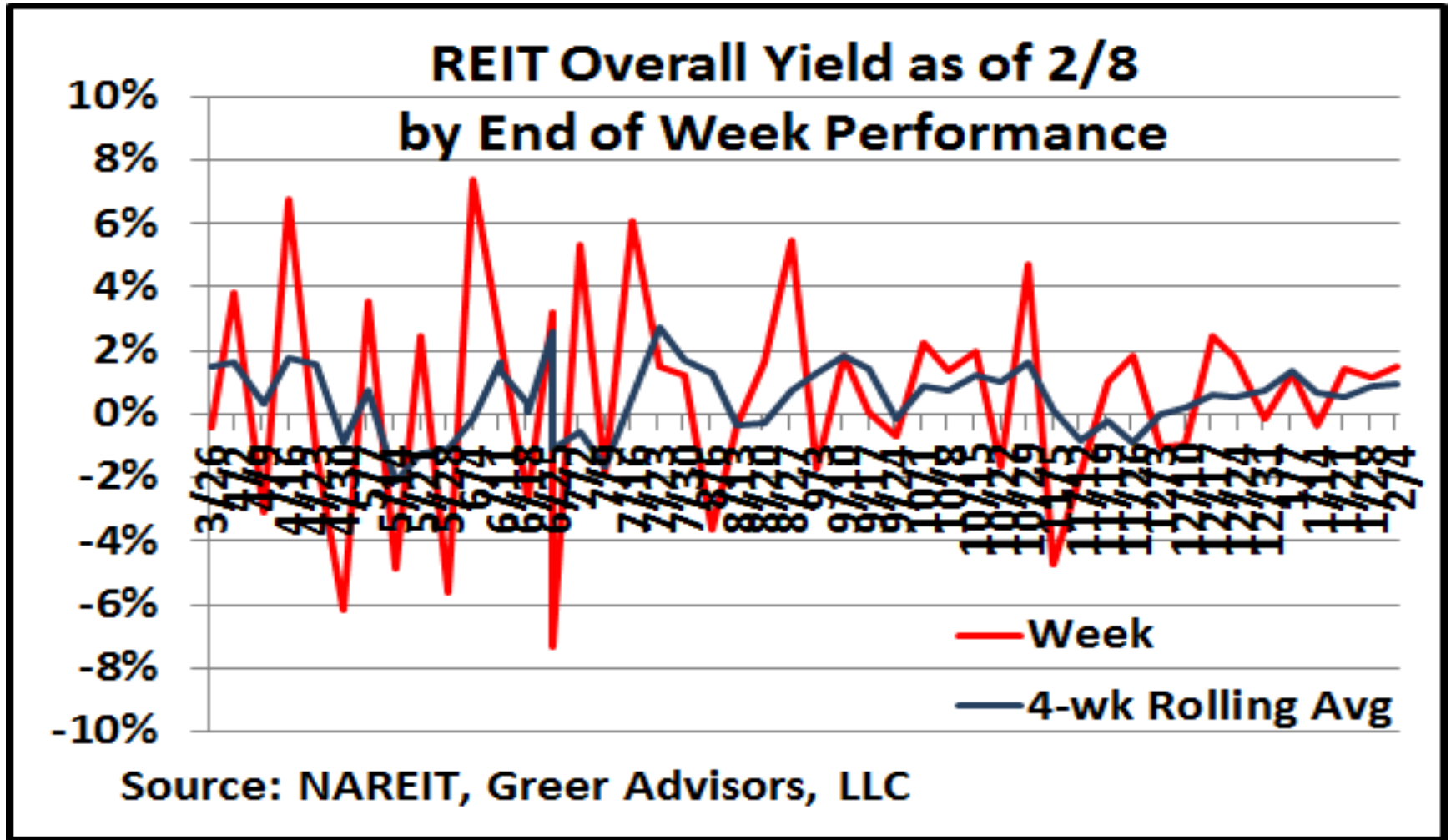
# REIT Dividend Yield by Property Type



# REIT Dividend Yield – YQM - Stabilizing



# REIT Dividend Yield – Weekly - Stability



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# ■ Performance by Property Type



# Property Type Returns – National Markets

2010 Q3 data with Look Backs – National Averages

	APT	IND	OFF	RET
3 Yr	-30.15%	-34.77%	-30.87%	-32.73%
2 Yr	-22.14%	-30.20%	-27.78%	-28.63%
1 Yr	15.53%	-1.20%	4.38%	-11.63%
Q-Q	1.78%	-17.37%	-15.17%	22.73%

Source: Moody's / REAL CPPI , Greer Advisors, LLC

Note: White space should be red.

# Property Type Returns – Top 10 Markets

2010 Q3 data with Look Backs – National Averages

	APT	IND	OFF	RET
3 Yr	-32.16%	-34.40%	-23.02%	-26.55%
2 Yr	-28.61%	-32.92%	-22.24%	-24.79%
1 Yr	3.49%	-9.62%	21.85%	-6.75%
Q-Q	-16.72%	-39.77%	37.50%	39.37%

Source: Moody's / REAL CPPI , Greer Advisors, LLC

Note: White space should be red.

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# ■ Performance by Market

# OFF Metro Performance – Market Monitor

OFFICE - 2010.Q3								
	Metro	Size 1,000 SF	Vac %	Eff Rent \$	Realized Rent	Chg Q-3Yr	Realized Rent %Chg Q-Q	Realized Rent %Chg 3Yr
1	Honolulu	10,650	8.8%	\$26.44	\$6.48	-4.6%	2.8%	7.4%
2	Trenton	11,719	12.0%	\$23.82	\$3.09	-4.1%	-0.1%	4.0%
3	Trenton	11,719	12.0%	\$23.82	\$3.09	-4.1%	-0.1%	4.0%
4	Charlotte	44,336	16.5%	\$17.05	\$3.88	-3.2%	-4.5%	-1.3%
5	Houston	147,818	16.1%	\$20.11	\$4.76	-1.1%	0.5%	1.6%
6	Cincinnati	36,319	18.0%	\$16.04	\$2.51	0.1%	-2.1%	-2.2%
7	Cleveland	36,984	18.1%	\$18.73	\$4.19	0.2%	-6.6%	-6.8%
8	Albuquerque	12,757	18.1%	\$16.72	\$4.55	0.7%	0.2%	-0.4%
9	Nashville	31,716	14.2%	\$19.85	\$3.72	0.7%	0.2%	-0.5%
10	Pittsburgh	76,732	11.5%	\$17.10	\$4.51	1.1%	2.1%	1.0%
51	San Jose	39,621	21.7%	\$25.93	\$5.00	18.2%	0.6%	-17.6%
52	New York	440,969	8.7%	\$55.62	\$4.95	19.3%	-0.2%	-19.5%
53	West Palm Beach	26,391	21.5%	\$20.87	\$4.57	19.8%	-0.3%	-20.1%
54	Riverside	23,653	22.4%	\$18.57	\$3.87	25.4%	-2.0%	-27.4%
55	Miami	44,672	20.4%	\$26.12	\$5.77	25.5%	0.3%	-25.2%
56	San Diego	57,231	18.9%	\$25.02	\$6.30	27.9%	3.5%	-24.4%
57	Orange County	68,901	19.8%	\$23.14	\$7.59	29.6%	1.0%	-28.6%
58	Phoenix	77,821	26.1%	\$18.73	\$4.09	29.8%	0.3%	-29.5%
59	Ventura	6,406	17.8%	\$18.85	\$7.38	30.4%	1.2%	-29.1%
60	Las Vegas	31,666	24.6%	\$21.07	\$4.86	31.6%	-3.5%	-35.2%
	<b>Min.</b>		8.7%	\$14.57	\$1.87	-4.6%	-6.6%	-35.2%
	<b>Max.</b>		26.1%	\$55.62	\$8.18	31.6%	3.5%	7.4%
	<b>Spread</b>		17.4%	\$41.05	\$6.31	36.2%	10.1%	42.6%
	<b>Average</b>		17.4%	\$21.11	\$4.62	10.1%	-0.2%	-10.3%
Source: CBRE Economic Advisors, Greer Advisors, LLC								

# IND Metro Performance – Market Monitor

INDUSTRIAL - 2010.Q3								
	Metro	Size 1,000 SF	Vac %	Eff Rent \$	Realized Rent	Chg Q-3Yr	Realized Rent %Chg Q-Q	Realized Rent %Chg 3Yr
1	Gary	48,631	13.3%	\$3.00	\$2.60	-8.4%	1.2%	9.6%
2	Pittsburgh	144,461	13.9%	\$5.24	\$4.51	-4.1%	-0.2%	3.9%
3	Memphis	184,302	20.7%	\$2.36	\$1.87	-2.7%	-2.6%	0.1%
4	Kansas City	243,012	10.3%	\$6.10	\$5.47	-2.4%	1.1%	3.5%
5	Portland	195,525	11.0%	\$6.25	\$5.56	-0.4%	-0.5%	-0.2%
6	Nashville	166,927	15.2%	\$4.39	\$3.72	1.8%	-3.5%	-5.3%
7	Seattle	280,610	11.2%	\$9.21	\$8.18	2.5%	6.5%	4.0%
8	Denver	235,333	12.5%	\$5.41	\$4.73	2.6%	5.2%	2.6%
9	Ann Arbor	24,176	16.0%	\$6.88	\$5.78	5.2%	2.5%	-2.7%
10	Cleveland	317,512	12.0%	\$4.76	\$4.19	5.2%	-0.2%	-5.4%
51	Trenton	38,342	21.2%	\$3.92	\$3.09	23.4%	-0.5%	-23.9%
52	Edison	265,640	14.9%	\$5.23	\$4.45	23.7%	0.1%	-23.6%
53	Orange County	291,713	11.1%	\$8.54	\$7.59	24.7%	2.5%	-22.2%
54	Tucson	36,918	12.7%	\$4.62	\$4.03	27.5%	0.0%	-27.5%
55	West Palm Beach	56,700	14.6%	\$5.35	\$4.57	29.0%	-2.3%	-31.3%
56	Tampa	172,204	13.5%	\$5.31	\$4.59	30.6%	-1.7%	-32.3%
57	Phoenix	287,564	18.7%	\$5.03	\$4.09	34.6%	-2.9%	-37.5%
58	Las Vegas	90,440	13.6%	\$5.62	\$4.86	35.3%	-4.8%	-40.1%
59	Orlando	161,631	16.0%	\$4.41	\$3.70	37.2%	-2.1%	-39.3%
60	Riverside	440,147	15.4%	\$4.58	\$3.87	39.0%	-1.6%	-40.6%
	<b>Min.</b>		8.1%	\$2.36	\$1.87	-8.4%	-7.4%	-40.6%
	<b>Max.</b>		21.2%	\$9.21	\$8.18	39.0%	6.5%	9.6%
	<b>Spread</b>		13.1%	\$6.85	\$6.31	47.4%	13.9%	50.2%
	<b>Average</b>		14.4%	\$5.24	\$4.50	14.3%	-0.6%	-15.0%
	Source: CBRE Economic Advisors, Greer Advisors, LLC							

# RET Metro Performance – Market Monitor

<b>RETAIL - 2010.Q3</b>								
	<b>Metro</b>	<b>Size 1,000 SF</b>	<b>Vac %</b>	<b>Eff Rent \$</b>	<b>Realized Rent</b>	<b>Chg Q-3Yr</b>	<b>Realized Rent %Chg Q-Q</b>	<b>Realized Rent %Chg 2Yr</b>
1	Ventura County	10,896	9.7%	\$24.69	\$22.30	-2.1%	-2.1%	-9.5%
2	Tucson	12,056	10.7%	\$14.38	\$12.84	-1.1%	-1.1%	-10.5%
3	Portland	22,791	8.3%	\$17.32	\$15.88	-1.1%	-1.1%	-7.0%
4	Richmond	13,990	10.2%	\$13.88	\$12.46	-1.1%	-1.1%	-8.0%
5	Tulsa	12,049	15.8%	\$9.76	\$8.22	-1.0%	-1.0%	-3.8%
6	Las Vegas	28,896	12.5%	\$18.45	\$16.14	-0.8%	-0.8%	-18.5%
7	Albuquerque	10,234	12.1%	\$12.66	\$11.13	-0.8%	-0.8%	-6.3%
8	Baltimore	35,911	7.5%	\$19.10	\$17.67	-0.8%	-0.8%	-6.6%
9	Miami	24,668	7.4%	\$20.33	\$18.83	-0.8%	-0.8%	-10.1%
73	Fairfield County	8,644	3.8%	\$25.20	\$24.24	0.9%	0.9%	-6.0%
74	Long Island	23,967	5.8%	\$22.66	\$21.35	0.9%	0.9%	-4.1%
75	Greenville	12,952	13.5%	\$9.90	\$8.56	0.9%	0.9%	-7.7%
76	Northern New Jersey	21,429	5.6%	\$24.61	\$23.23	1.0%	1.0%	-8.2%
77	Tacoma	7,047	10.3%	\$16.65	\$14.94	1.0%	1.0%	-11.3%
78	Kansas City	25,649	13.4%	\$11.97	\$10.37	1.1%	1.1%	-6.8%
79	Charleston	9,733	12.9%	\$11.41	\$9.94	1.1%	1.1%	-8.8%
80	Chattanooga	4,385	11.3%	\$10.96	\$9.72	1.2%	1.2%	-3.1%
81	San Francisco	9,601	3.6%	\$29.92	\$28.84	1.4%	1.4%	-4.9%
82	Hartford	14,403	10.7%	\$14.84	\$13.25	1.5%	1.5%	-6.3%
	<b>Min.</b>		3.6%	\$8.79	\$7.30	-2.1%	-2.1%	-18.5%
	<b>Max.</b>		17.0%	\$32.11	\$30.02	1.5%	1.5%	-0.5%
	<b>Spread</b>		13.4%	\$23.32	\$22.73	3.6%	3.6%	18.0%
	<b>Average</b>		11.0%	\$15.76	\$14.15	0.0%	0.0%	-8.0%
Source: REIS, Greer Advisors, LLC								

# APT Metro Performance – Market Monitor

APARTMENT - 2010.Q3								
	Metro	Size Units	Vac %	Eff Rent \$	Realized Rent	Chg Q-3Yr	Realized Rent %Chg Q-Q	Realized Rent %Chg 3Yr
1	El Paso	44,270	3.1%	\$695	\$674	-12.1%	2.4%	14.5%
2	Pittsburgh	135,680	2.8%	\$897	\$872	-7.0%	0.4%	7.4%
3	Providence	101,826	4.9%	\$1,155	\$1,099	-5.1%	0.2%	5.3%
4	Washington D.C.	527,933	3.6%	\$1,403	\$1,352	-3.7%	1.6%	5.3%
5	Hartford	83,079	4.5%	\$1,044	\$997	-3.5%	0.8%	4.3%
6	Louisville	78,941	4.5%	\$753	\$720	-3.4%	0.6%	4.0%
7	Baltimore	189,531	4.5%	\$1,108	\$1,058	-3.2%	0.7%	3.9%
8	Oklahoma City	77,438	5.0%	\$599	\$569	-3.1%	1.5%	4.6%
9	Albuquerque	53,156	4.6%	\$693	\$661	-2.3%	1.2%	3.5%
10	Cincinnati	159,893	5.9%	\$706	\$664	-1.9%	0.7%	2.7%
51	Tucson	75,650	8.7%	\$633	\$578	7.1%	1.0%	-6.1%
52	Greensboro	77,620	7.2%	\$653	\$606	7.4%	1.0%	-6.4%
53	Orlando	186,566	7.1%	\$835	\$776	7.6%	0.0%	-7.7%
54	Charlotte	125,202	7.3%	\$731	\$678	8.0%	0.3%	-7.8%
55	Riverside	178,827	6.0%	\$1,033	\$971	8.2%	-0.4%	-8.6%
56	Atlanta	435,383	9.3%	\$765	\$694	9.2%	-0.5%	-9.7%
57	Los Angeles	1,084,270	4.7%	\$1,471	\$1,402	9.9%	0.3%	-9.6%
58	Ventura	38,940	4.2%	\$1,412	\$1,352	10.7%	0.8%	-9.9%
59	Phoenix	323,506	9.6%	\$708	\$640	15.4%	0.2%	-15.2%
60	Las Vegas	203,241	8.5%	\$737	\$675	16.0%	-1.7%	-17.7%
	<b>Min.</b>		2.8%	\$578.53	\$529.93	-12.1%	-1.7%	-17.7%
	<b>Max.</b>		9.6%	\$2,138.59	\$2,014.55	16.0%	2.4%	14.5%
	<b>Spread</b>		6.8%	\$1,560.06	\$1,484.62	28.2%	4.0%	32.2%
	<b>Average</b>		5.6%	\$967.02	\$915.16	2.7%	0.6%	-2.1%
Source: CBRE Economic Advisors, Greer Advisors, LLC								

# Conclusions

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- Government will keep SBA Going Strong
- GSE's will Continue Low Rates for Apartments
- Banks will get Government Pressure to Lend
- BofA, Deutsche, Key and others are doing CMBS deal(s)
- CASH IS KING for Non-Trophy Deals!
- Cost of Capital Stack is King for “Best of the Best” Trophies
- MBS – New Business Model is Arising
- REITs – Virtually Recovered
- Rents / Vacancies Remain Much Better than Early 1990s
- Real Estate Cost is **NOT** the Largest Cost of Business!!!



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# Quote of the Day

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

~~NY Yankees #8, Yogi Berra~~

Niels Bohr

Nobel Laureate, 1922

Atomic Structure /

Quantum Mechanics



# Questions / Answers

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## **Greer Advisors, LLC**

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