
Wall Street and Commercial Real Estate

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Greer Advisors, LLC

December 8, 2011 – Las Vegas

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Goals of Presentation

- Disclaimers
- Recap 12/2/2010
- Market Drivers – Economy, Interest Rates
- Capital Market Trends - CMBS, REITs, CDS
- Financial Regulations (Dodd-Frank)
- Investment Banking
- Market Conditions (Sales Volume, Price PSF, Cap Rates)
- Rents, Vacancies
- 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.

- Recap Last Year's Event
December 2, 2010

Last Year's Conclusion – from 12/2/2010

Conclusions

- CMBS Market – Yield Spreads are 10-100x higher than 1/07
- CMBS – New Business Model will Arise
- REITs – Down +/- 50%
- NCREIF – Down, but not as much
- 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

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Last Year's Conclusion

Greer's 3-Year Forecast as of 12/02/2009

- Borrowing Rates will Continue to Rise. More banks will fail
- Margins (to 10 Yr Treasuries or LIBOR) will rise and settle at 300±50 bps over 10 year Treasuries, but might over-correct in the short run, say 10Yr 400+ bps. If country defaults occur (eg Dubai, rates will rise due to default risk.
- Rent Growth will Lag CPI growth by 0-5%
- Values will continue to fall 5-25%/yr thru 2012. Individual Market Performance will vary widely (10-30% difference in Top vs Bottom)
- Capitalization Rates will Rise 2-5% during 2010-2012 (eg 5.0% to 7.25% = 30% decline in value)
- Declines: #1=Retail; #2=Industrial & Office; then Apartment
- Change Creates Opportunities

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What Happened Over Past Year

- Financial System did NOT Collapse
- QE3 (or similar) Still Unknown
- European Union Financial Crisis
- Central Banks Drive Down Rates
- Flight to Quality

■ Market Drivers

Market Drivers

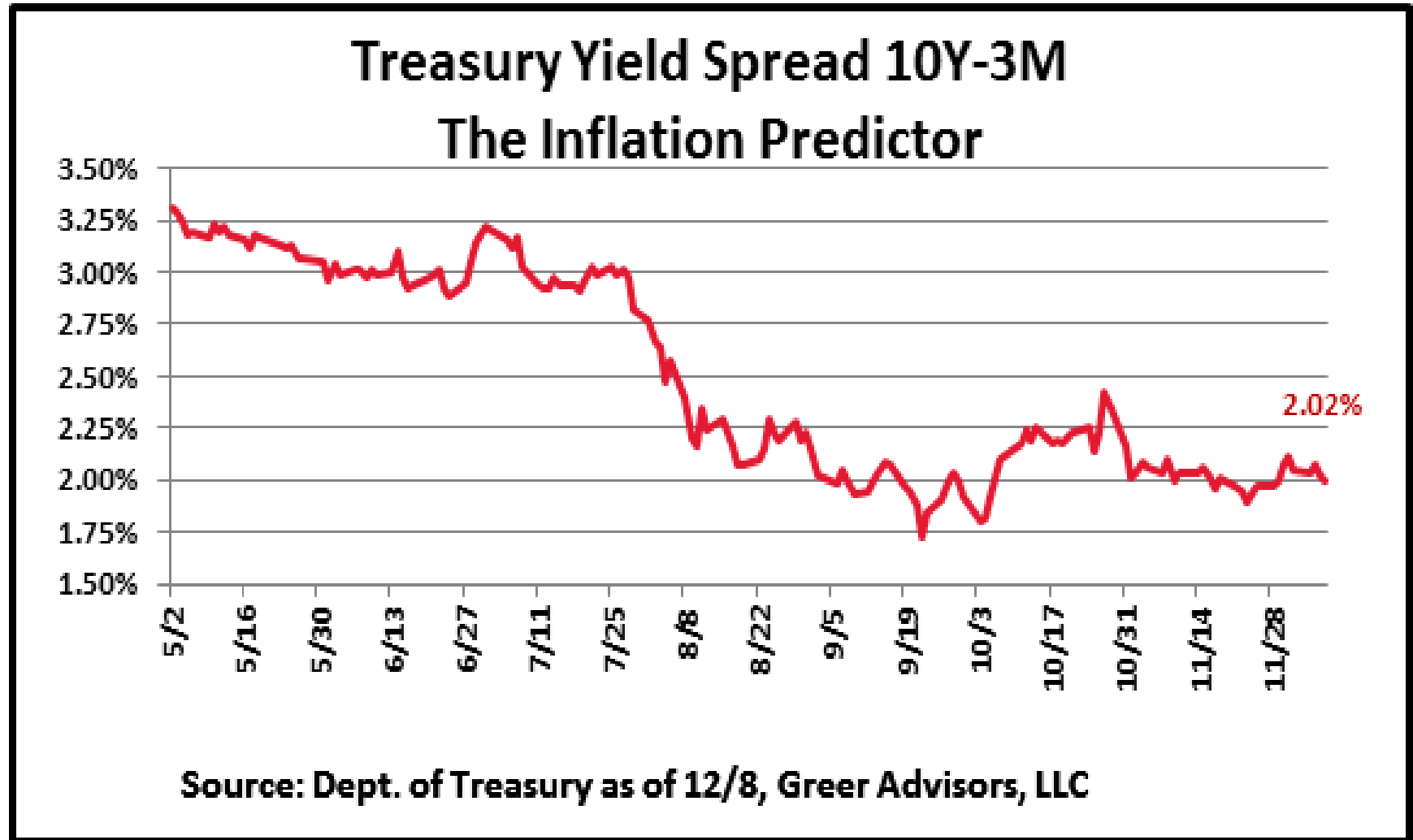
Supply / Demand – Not as bad as early 90's

- 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

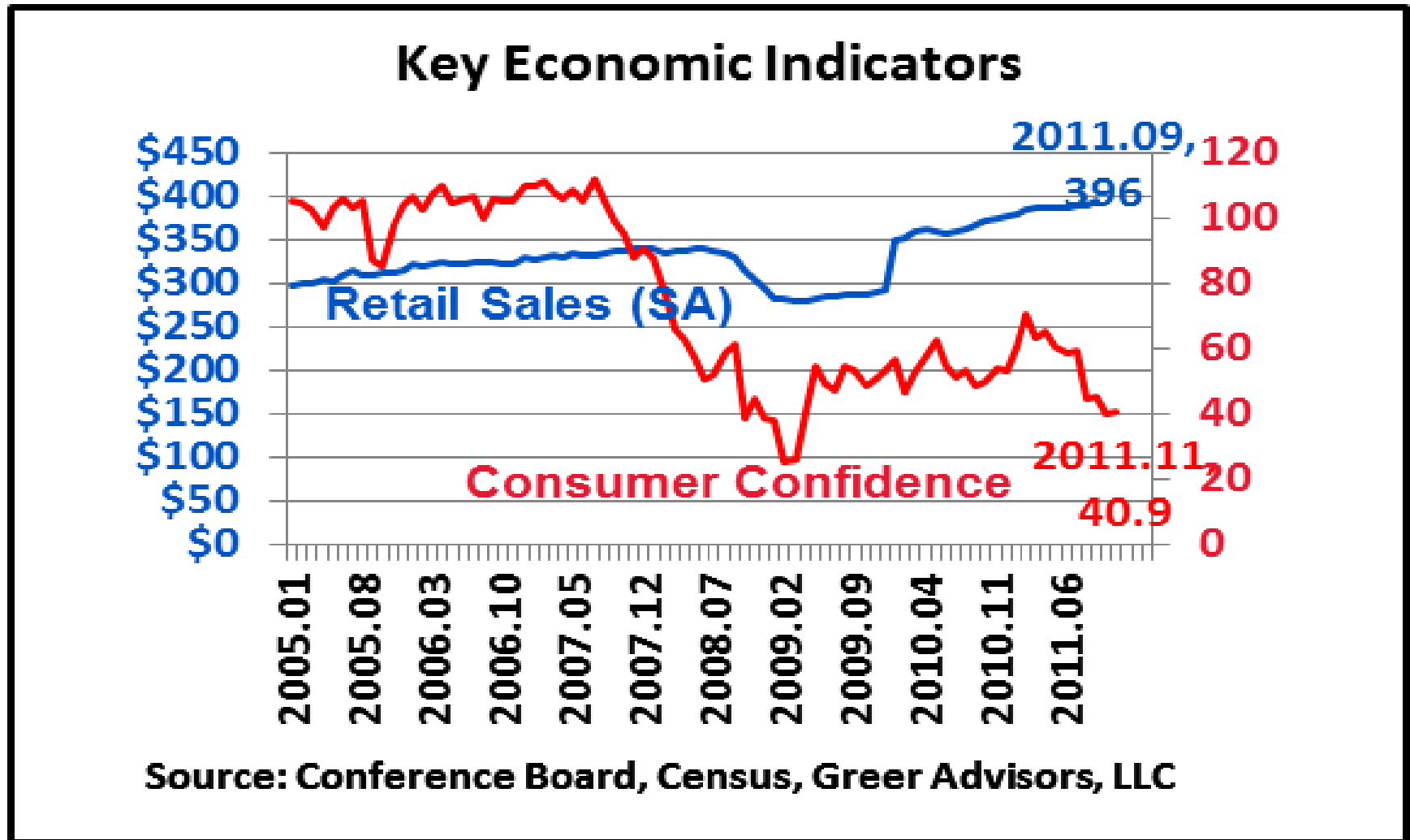
Interest & Inflation



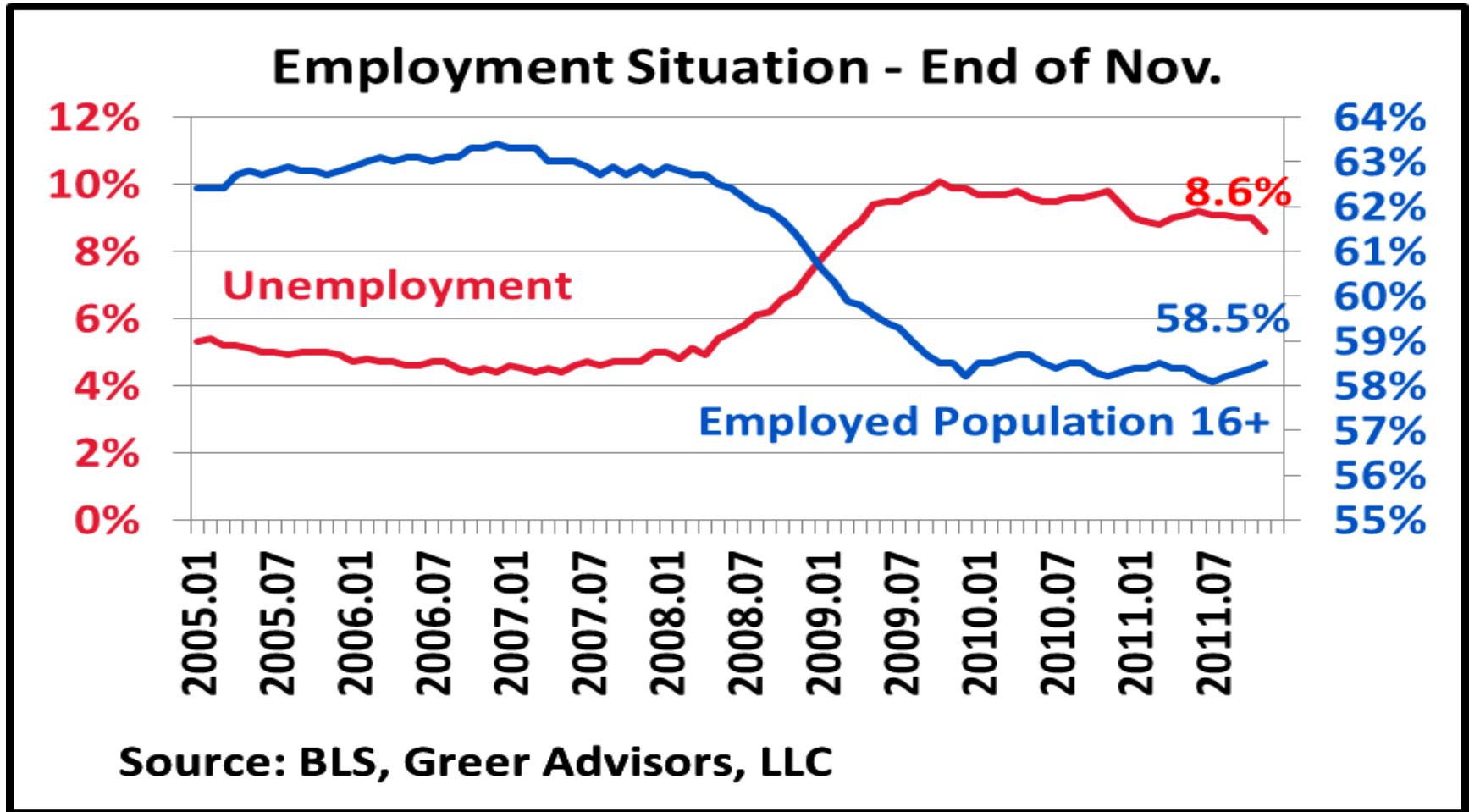
Interest & Inflation



Economy – Consumer Confidence & Sales



Economy – Employment



Economy – Employment

2010 Employed Population 16+ by Industry					
	Las Vegas	Las Vegas	North Las Vegas	Nevada	United States
Total					
Agriculture/Mining	0.2%	0.2%	0.1%	1.1%	1.8%
Construction	9.1%	9.1%	11.1%	8.6%	6.5%
Manufacturing	2.7%	2.7%	2.9%	3.8%	9.6%
Wholesale Trade	2.2%	2.2%	2.1%	2.5%	3.2%
Retail Trade	9.8%	9.8%	9.0%	9.9%	11.4%
Transportation/Utilities	3.6%	3.6%	3.6%	4.0%	4.9%
Information	1.9%	1.9%	1.6%	1.8%	2.3%
Finance/Insurance/Real Estate	7.9%	7.9%	6.4%	7.0%	7.1%
Services	58.8%	58.8%	58.8%	56.8%	48.0%
Public Administration	3.8%	3.8%	4.4%	4.5%	5.1%
Employment Base Index (to Nation)					
Agriculture/Mining	11.1	11.1	5.6	61.1	100
Construction	140.0	140.0	170.8	132.3	100
Manufacturing	28.1	28.1	30.2	39.6	100
Wholesale Trade	68.8	68.8	65.6	78.1	100
Retail Trade	86.0	86.0	78.9	86.8	100
Transportation/Utilities	73.5	73.5	73.5	81.6	100
Information	82.6	82.6	69.6	78.3	100
Finance/Insurance/Real Estate	111.3	111.3	90.1	98.6	100
Services	122.5	122.5	122.5	118.3	100
Public Administration	74.5	74.5	86.3	88.2	100

Source: ESRI, U.S. Census Bureau, Greer Advisors, LLC

Economy

Consumer Side

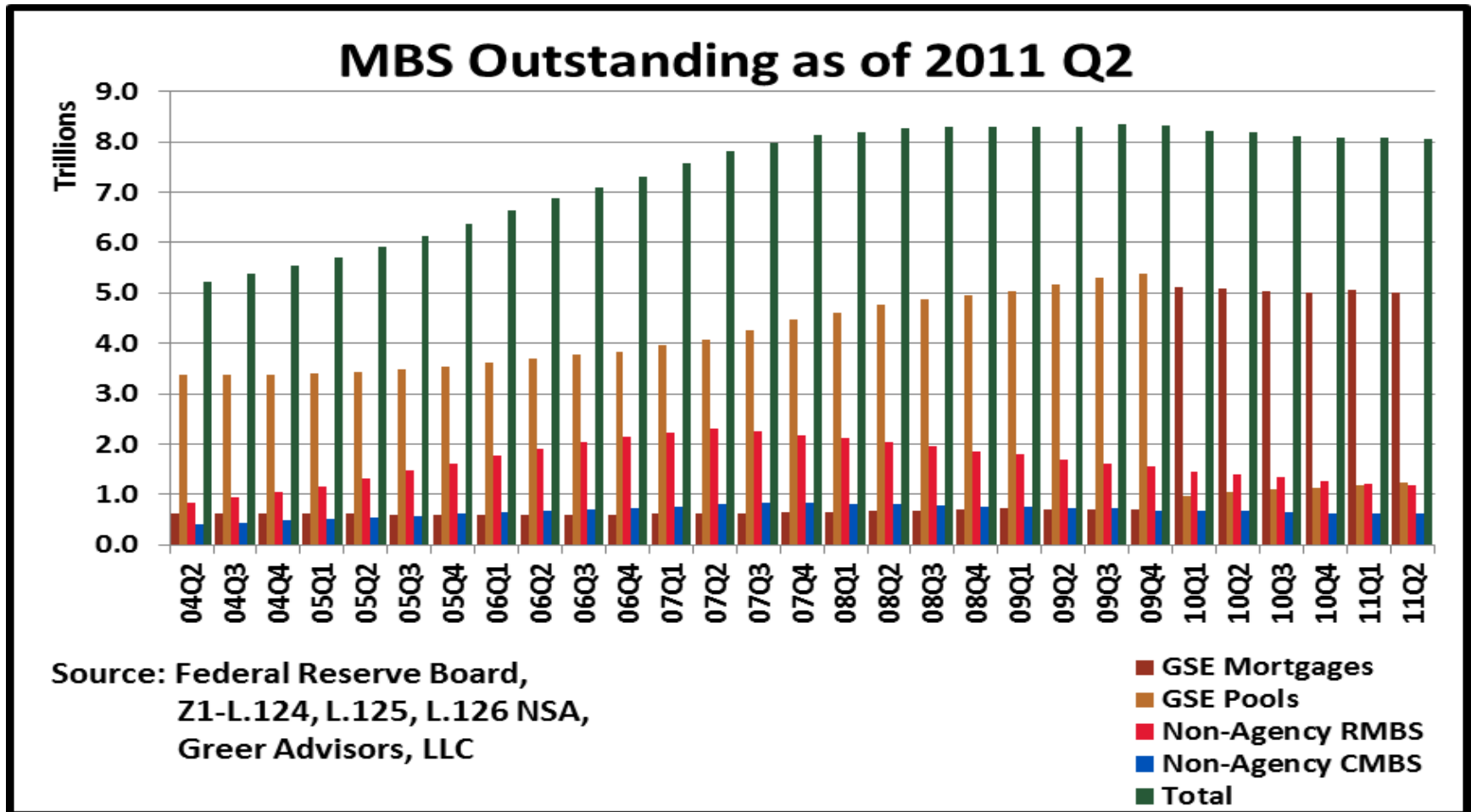
- Consumer Confidence is Poor at 40.9 (Nov Conf. Board)
- Unemployment Remains High 9.0% (Oct. 2011 – BLS)
- Potential Sovereign Defaults (PIGS)
- Liquidity, Leverage, Interest (for non-AAA Debt) – Poor
- Retail Sales are OK, the Rest is near Flat Line

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

- Real Estate Capital Markets

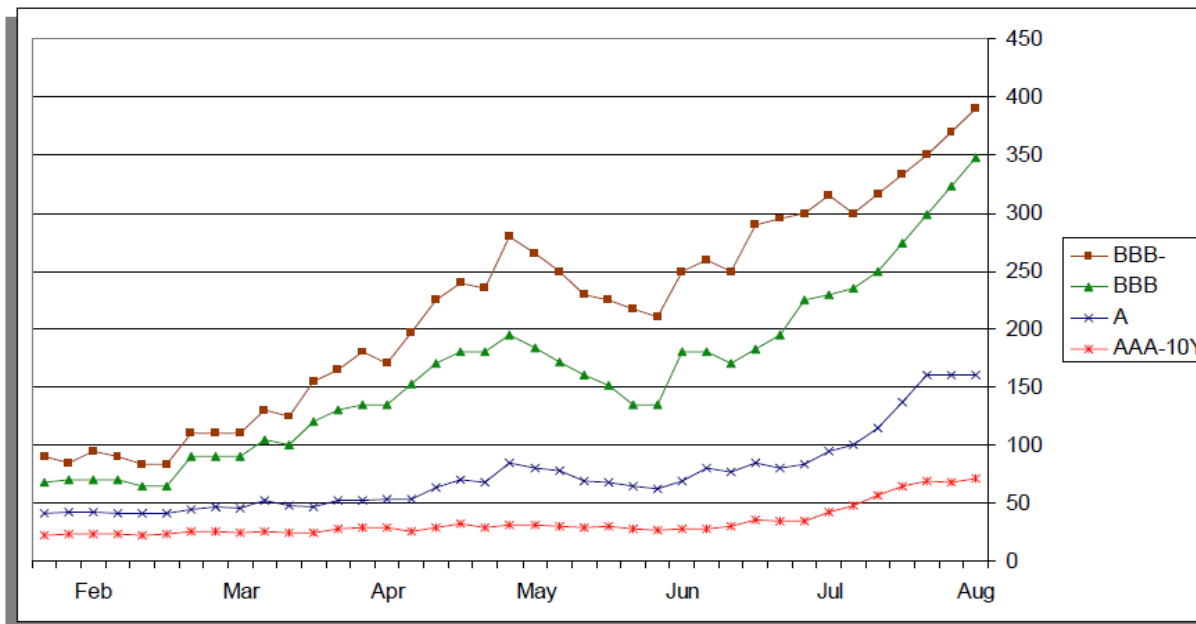
MBS Outstanding's in U.S. - Dropping



What Broke – CMBS Yield Rates Rose

- Slide from 8/3/2007 Presentation

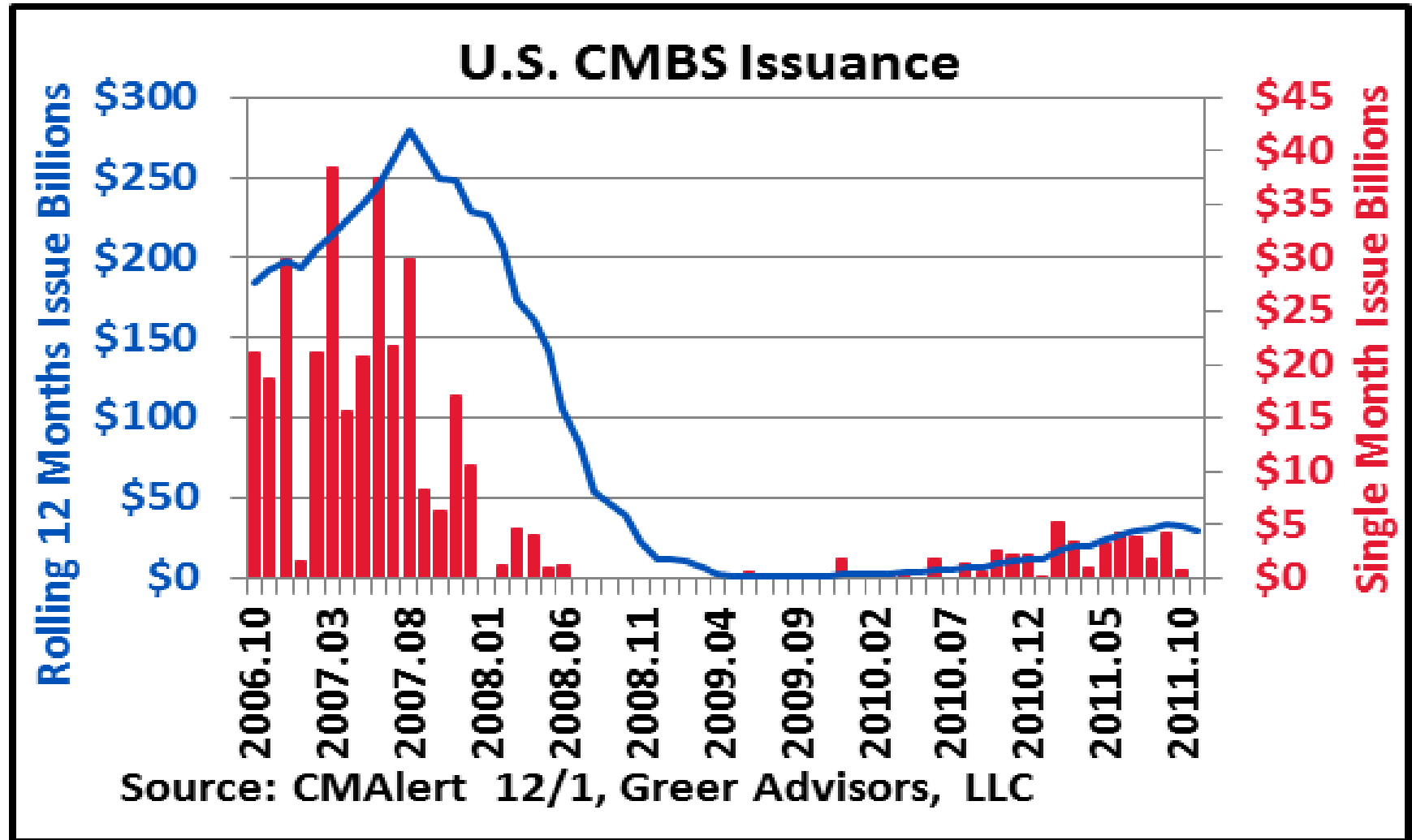
CMBS Spreads are Widening - Pricing Trends



Source: CMAalert 8/10/07, CMAalert-Morgan Stanley 8/8/07, Bank of America - Real Estate Research

15 Note: All Spreads are quoted as "Spreads over Swap Rates"

CMBS Issuance



Interest – What Broke - AAA vs BB Spreads

Greer CMBS / CMBx Yield Rate TM				
Tranche	Yield	Suboord	Weight of Debt	Contribution to Total
AAA	2.57%	29.76%	70.24%	1.80%
AJ	3.44%	12.70%	17.06%	0.59%
AA	5.06%	10.63%	2.07%	0.10%
A	9.49%	8.00%	2.63%	0.25%
BBB	27.16%	4.72%	3.28%	0.89%
BBB-	28.50%	3.68%	1.04%	0.30%
BB	102.20%	2.69%	0.99%	1.01%
Unrated	176.00%	0.00%	2.69%	4.73%
Implied Overall Debt Yield			100.00%	9.68%
Loan to Value Ratio				75.00%
Class-A Equity Yield Total Yield			29.00%	14.51%
Class-B Equity Yield Total Yield			102.00%	32.76%

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 MarkitTM Data and Calculations based on close of 12/1. Swap (10Yr) as of 12/7.

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.

Bubble Creation & Bursting - Causes

Drivers Leading Up to Bubble

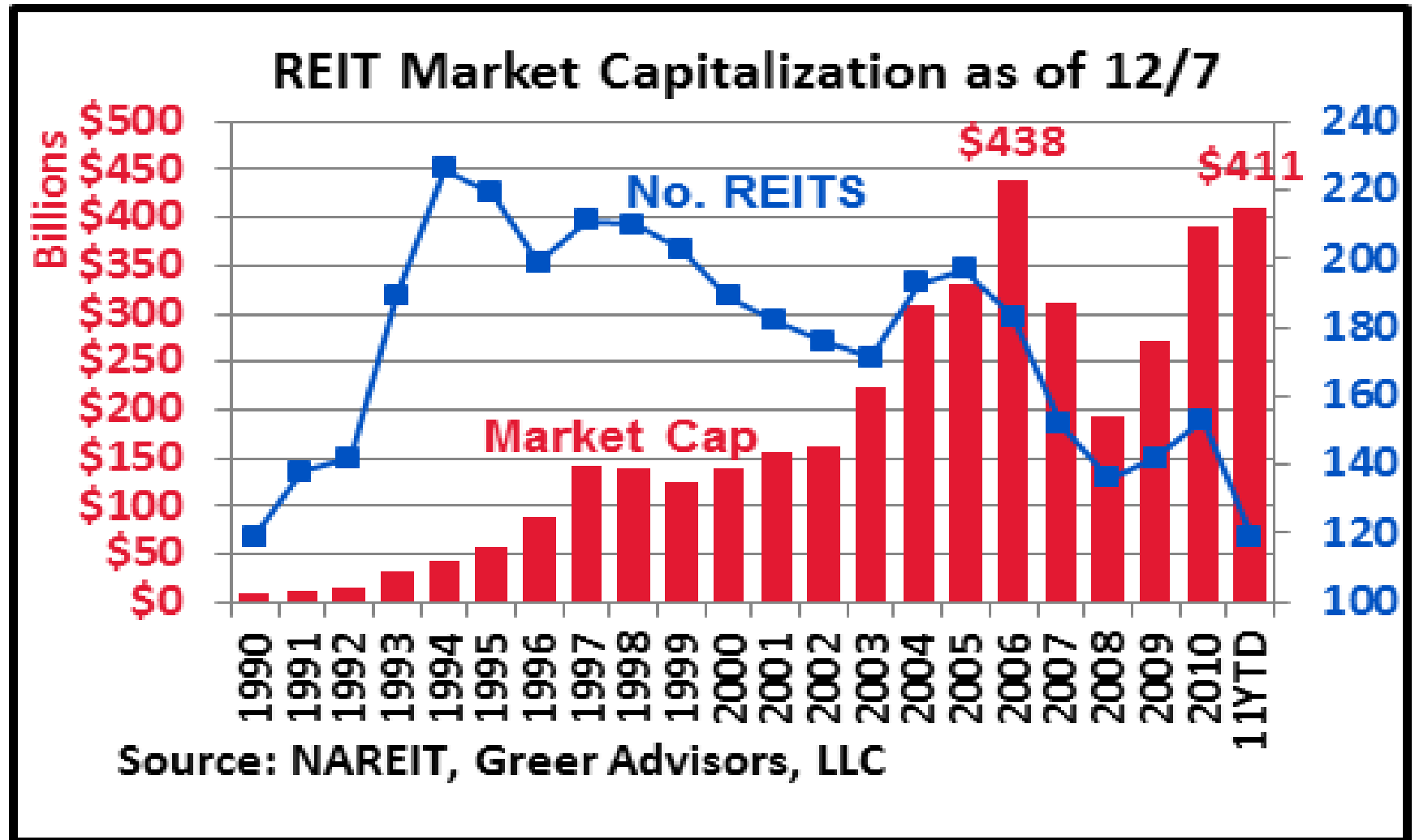
- Vicious Upward Cycle of Growth Created Buyer Greed
- Cheap Supply of Capital to Fund Loan Demand
- Unrealistic Growth & Profit Incentives Across Industry
- NSROs 😊 , Issuers, Originators – Misaligned Incentives

Drivers Causing Bubble to Burst

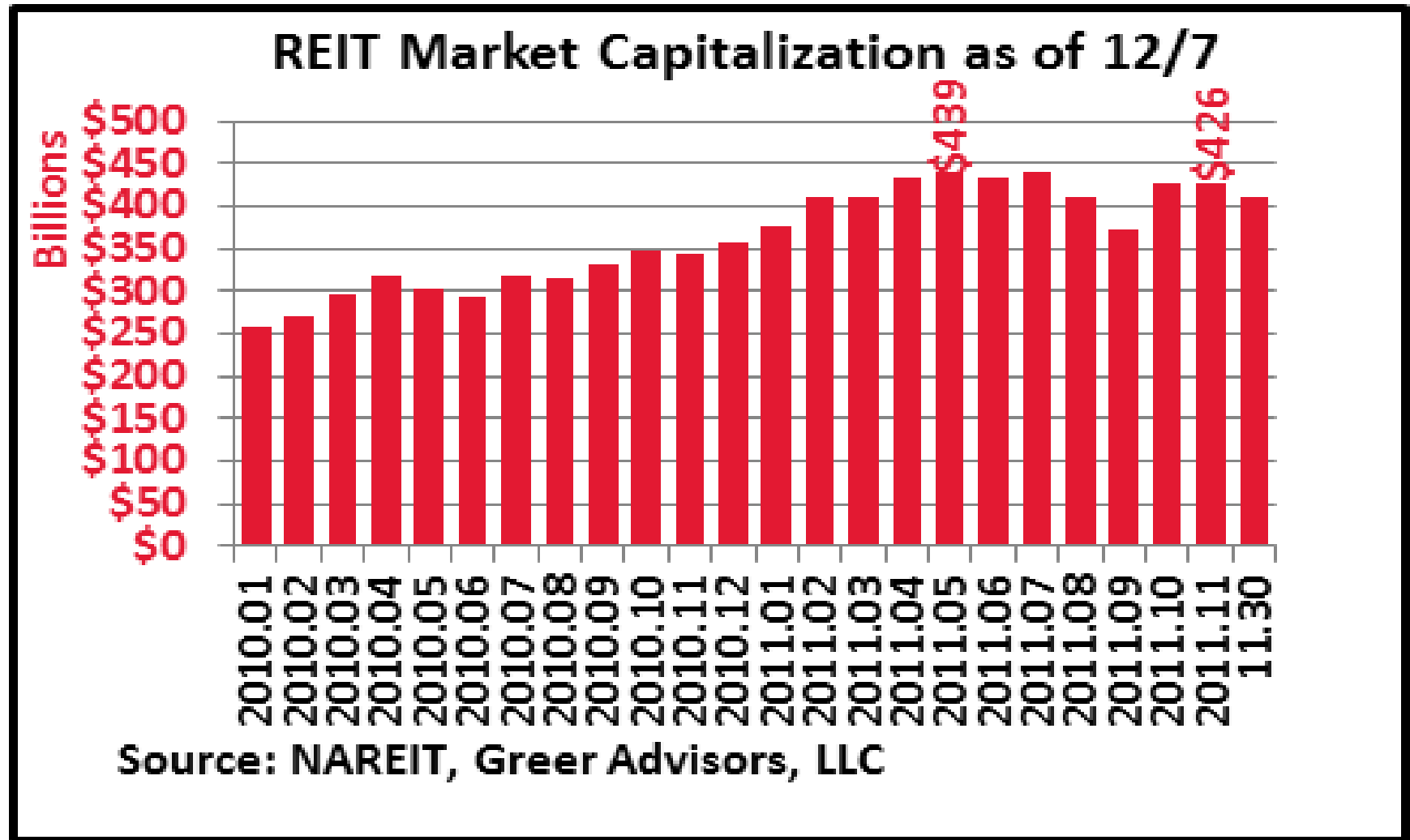
- “Never Before” Rise in Delinquency & Loss Rates
- Faith in Ratings Lost
- Risk went from “Under-priced” to “Over-priced”

■ National Statistical Rating Organization

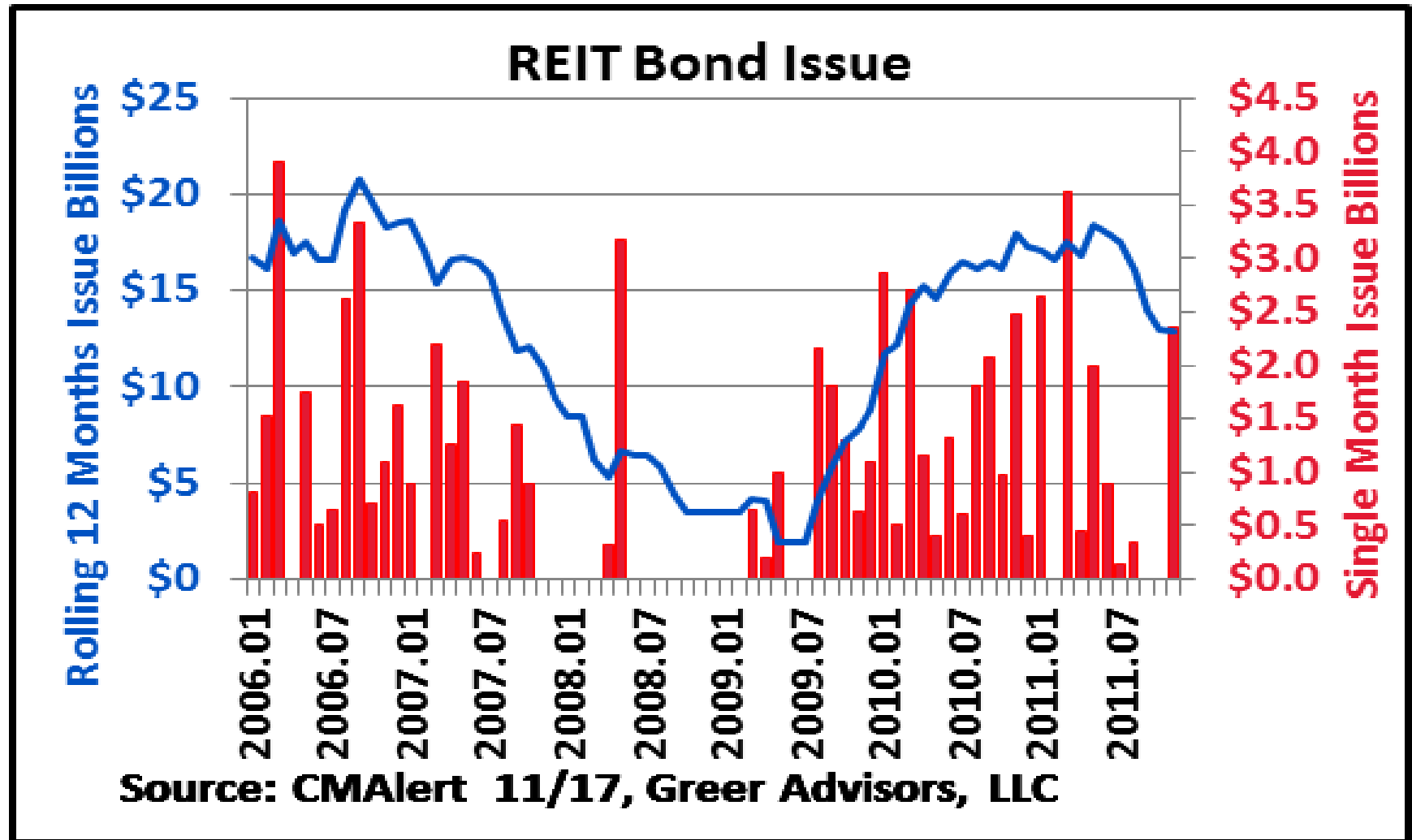
REIT Market Capitalization – Long Term



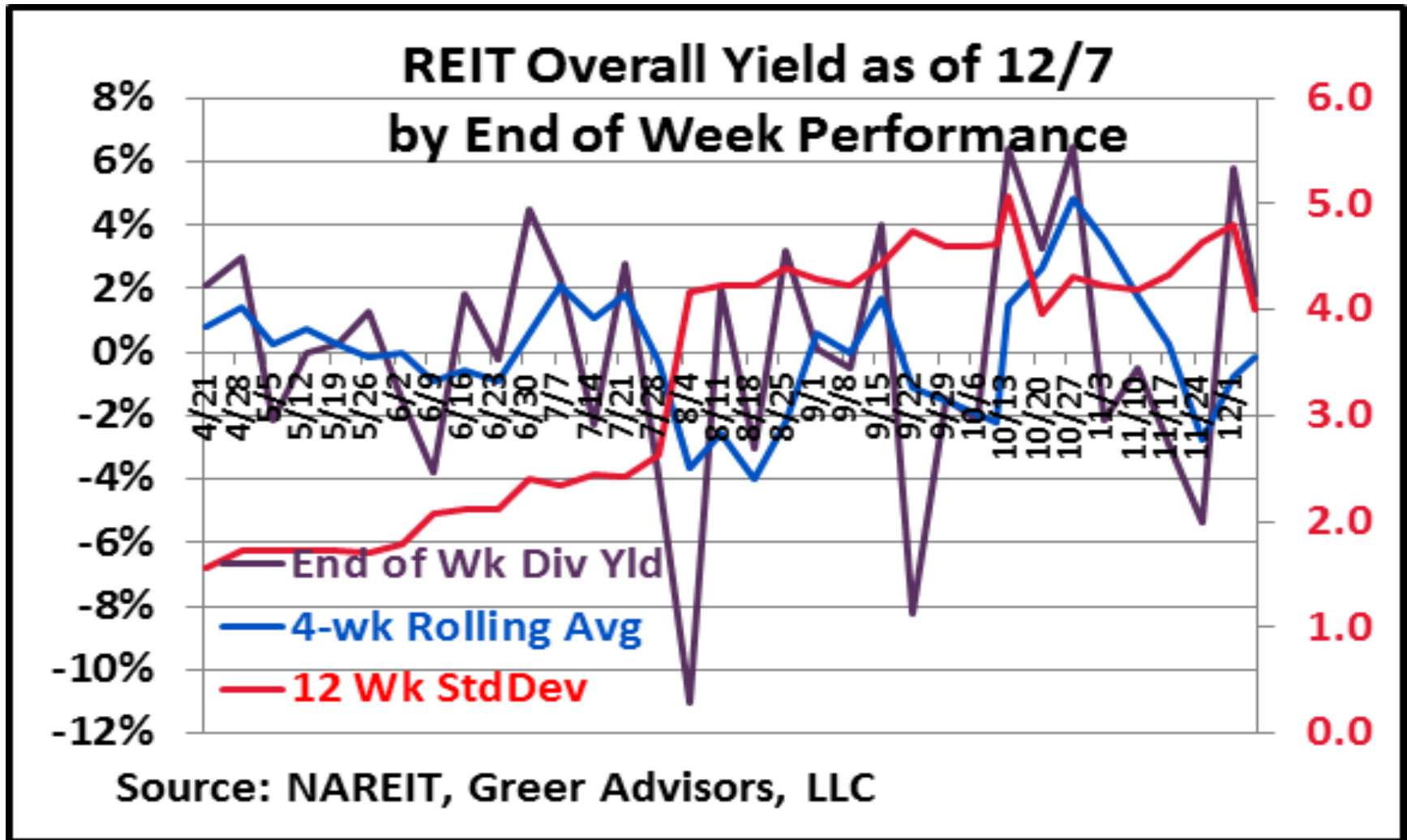
REIT Market Capitalization – Short Term



REIT Bond Issuance



REIT Dividend Yield - Volatility



■ Financial Regulations

Financial Regulations

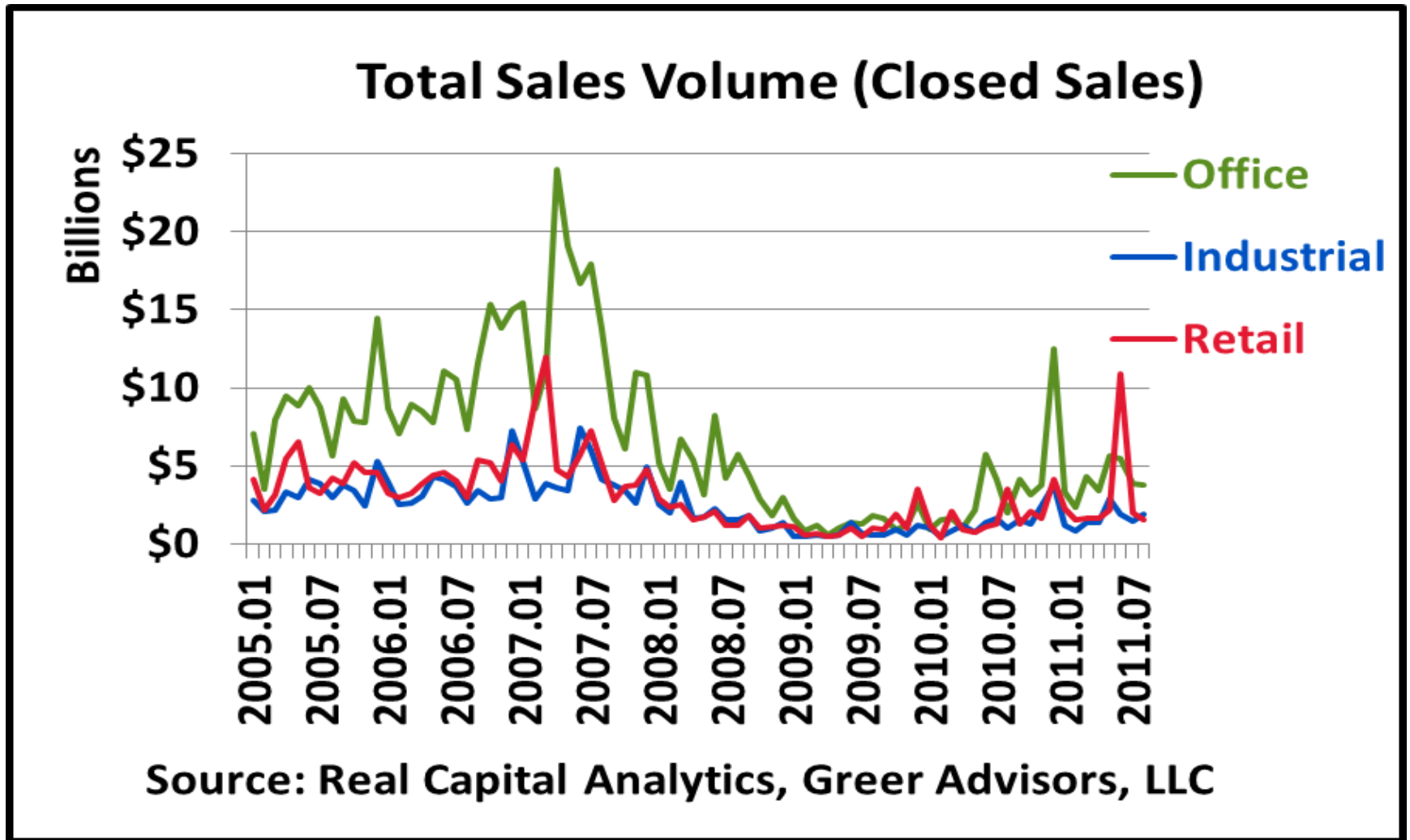
Dodd-Frank Wall Street Reform & Consumer Protection Act

- 16 Titles – See Summary on Wikipedia – Post TARP 😊
 - 243 Rules to be created (reportedly 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

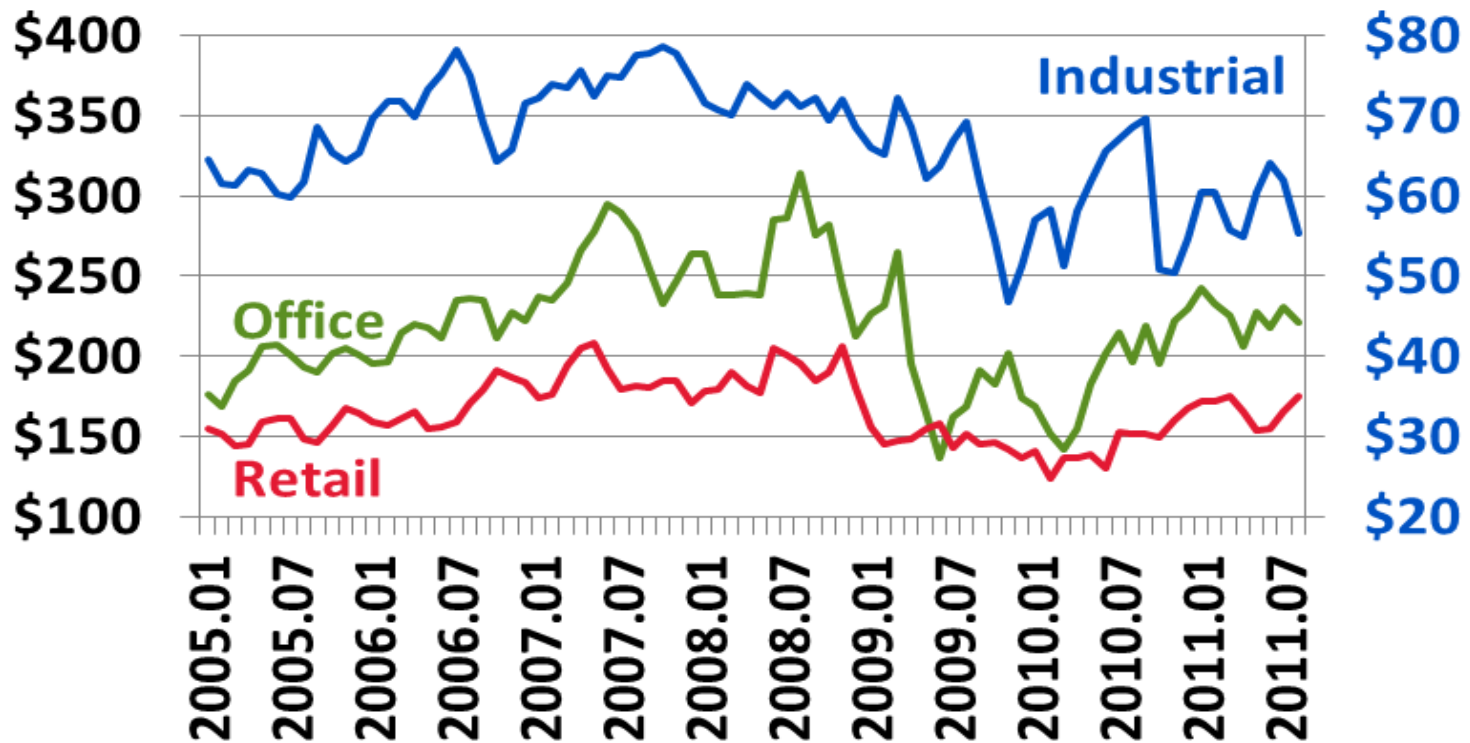
- **Market Performance**

Commercial Real Estate Sales Volume



Commercial Real Estate Prices \$\$ PSF

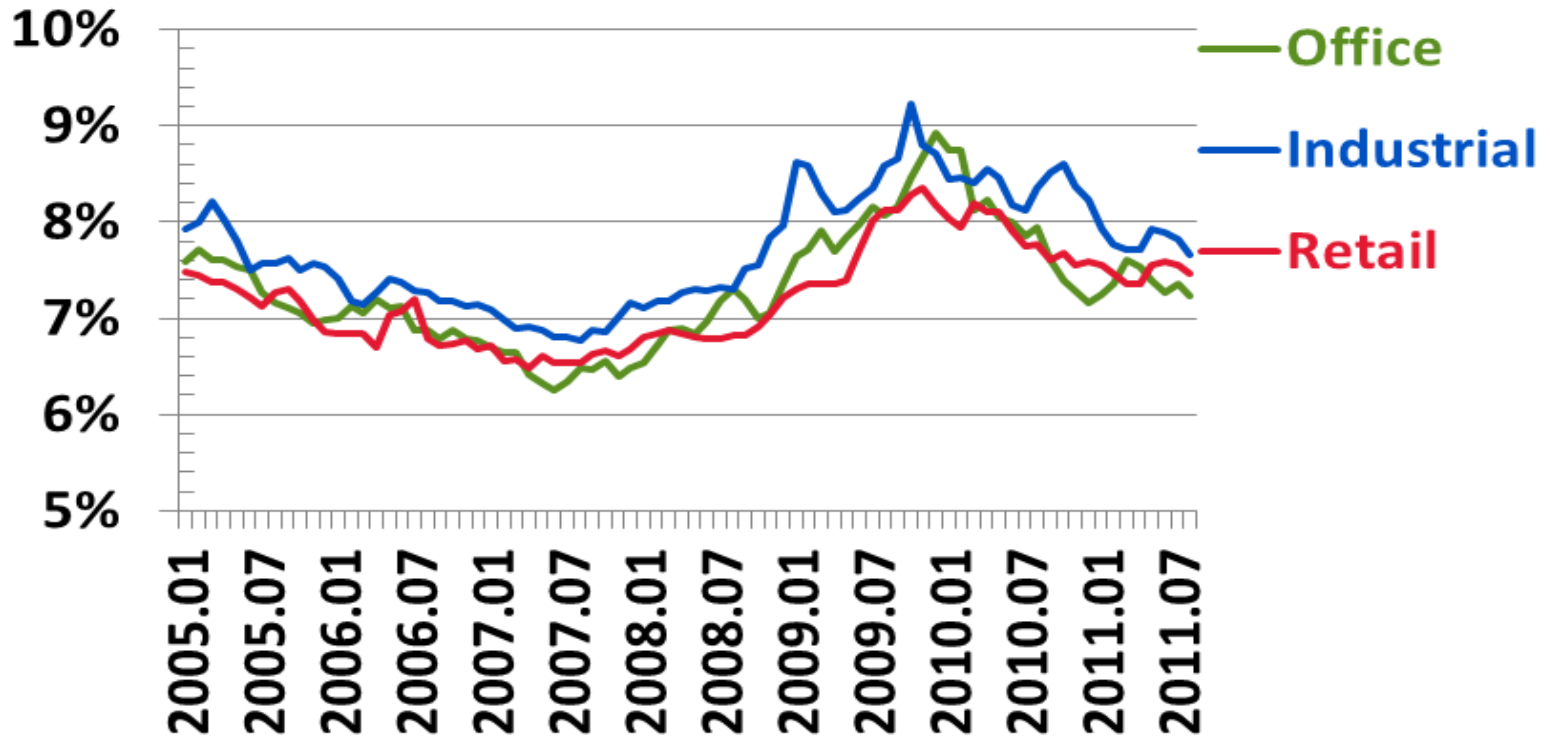
Prices per SF (Closed Sales)



Source: Real Capital Analytics, Greer Advisors, LLC

Commercial Real Estate Cap Rates

Commercial R.E. Cap Rates (Closed Sales)



Source: Real Capital Analytics, Greer Advisors, LLC

Top - Bottom Market Stats – as of 2011 Q3

INDUSTRIAL - 2011.Q3				OFFICE - 2011.Q3				RETAIL - 2011.Q3			
Vac	Metro	Vac %	Eff Rent \$	Vac	Metro	Vac %	Eff Rent \$	Vac	Metro	Vac %	Eff Rent \$
1	Los Angeles	6.8%	\$6.43	1	Albany	7.9%	\$15.62	1	San Francisco	3.7%	\$29.84
2	Salt Lake City	7.9%	\$4.92	2	Honolulu	8.8%	\$23.48	2	Fairfield County	4.9%	\$24.99
3	San Francisco	9.8%	\$7.78	3	New York	9.8%	\$55.46	3	Long Island	5.6%	\$22.68
4	Orange County	10.0%	\$8.40	4	Long Island	11.3%	\$20.88	4	Northern New J	5.7%	\$24.39
5	Houston	10.2%	\$5.66	5	Oklahoma City	11.5%	\$15.11	5	San Jose	6.0%	\$26.59
6	Portland	10.6%	\$6.12	6	Pittsburgh	11.5%	\$17.81	6	Oakland-East Ba	6.4%	\$24.97
7	Kansas City	10.7%	\$6.48	7	Trenton	12.0%	\$24.66	7	Orange County	6.4%	\$26.72
8	Long Island	11.0%	\$5.44	8	Stamford	12.5%	\$27.00	8	Suburban Virgin	6.4%	\$24.33
9	Minneapolis	11.4%	\$5.09	9	Washington, DC	13.1%	\$35.63	9	Los Angeles	6.5%	\$25.21
10	Gary	11.5%	\$2.93	10	Boston	13.2%	\$28.05	10	Boston	6.8%	\$19.55
50	Phoenix	16.9%	\$4.65	56	West Palm Beac	21.5%	\$21.44	71	Wichita	14.7%	\$10.41
51	Hartford	17.0%	\$5.83	57	Edison	21.6%	\$18.18	72	Colorado Spring	14.8%	\$11.85
52	Sacramento	18.0%	\$4.44	58	San Jose	21.6%	\$25.84	73	Syracuse	14.8%	\$10.54
53	Atlanta	18.1%	\$3.34	59	Jacksonville	21.9%	\$16.35	74	Dallas	14.9%	\$14.09
54	Boston	18.4%	\$5.71	60	Tampa	21.9%	\$19.50	75	Indianapolis	15.1%	\$12.38
55	Stamford	18.5%	\$5.91	61	Dallas	22.4%	\$18.40	76	Cleveland	15.3%	\$12.77
56	Memphis	18.7%	\$2.32	62	Riverside	22.4%	\$19.38	77	Tulsa	15.8%	\$9.75
57	Detroit	19.7%	\$3.15	63	Las Vegas	24.6%	\$22.70	78	Birmingham	15.9%	\$12.18
58	Trenton	20.1%	\$3.71	64	Detroit	24.9%	\$15.69	79	Columbus	16.0%	\$10.71
59	Ann Arbor	24.2%	\$6.37	65	Phoenix	26.1%	\$19.53	80	Dayton	17.0%	\$8.81
	National Avg	12.5%	\$5.28		National Avg	17.1%	\$21.05		National Avg	11.1%	\$15.82
12	Las Vegas	11.7%	\$5.62	63	Las Vegas	24.6%	\$22.70	55	Las Vegas	12.7%	\$18.13
	Min	6.8%	\$2.32		Min	7.9%	\$15.09		Min	3.7%	\$8.81
	Max	24.2%	\$8.40		Max	26.1%	\$55.46		Max	17.0%	\$31.85
	Spread	17.4%	\$6.08		Spread	18.2%	\$40.37		Spread	13.3%	\$23.04
Source: CBRE Economic Advisors, Greer Advisors, LLC				Source: REIS, Greer Advisors, LLC				Source: REIS, Greer Advisors, LLC			

Source: CBRE Econometric Advisors,
REIS, Inc., Greer Advisors, LLC

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Las Vegas - IND – as of 2011 Q3

Submarket	Availability Rate		Asking Rents	
	Current Qtr. (%)	YTD Chg (BPS)	Net (\$)	Gross (\$)
Airport	13.50	-250	6.36	10.67
Central	5.60	50	5.73	7.38
Henderson	8.80	-410	5.53	na
North Las Vegas	13.70	-250	4.27	4.50
Northw est	13.40	-450	6.67	na
Southw est	11.80	40	6.73	8.78
Total: Las Vegas	11.70	-150	5.66	8.89

Source: CBRE Econometric Advisors,
Greer Advisors, LLC

Las Vegas - OFF – as of 2011 Q3

Submarket	Vacancy Rate		Asking Rents	
	Current Qtr. (%)	YTD Chg (BPS)	Net (\$)	Gross (\$)
Downtown	25.50	490	16.03	26.11
Subtotal: Downtown	25.50	490	16.03	26.11
Airport	25.90	-20	11.42	22.25
Central East	26.10	10	9.69	15.58
Central West	23.40	460	15.67	16.02
North Las Vegas	28.70	1,330	12.18	22.42
Northwest	28.20	70	14.55	22.29
Southeast	23.20	-60	15.24	17.81
Southwest	26.20	50	17.61	23.50
West	18.80	70	15.36	18.25
Subtotal: Suburban	24.80	120	14.63	19.14
Total: Las Vegas	24.80	130	14.64	19.44

Source: CBRE Econometric Advisors,
Greer Advisors, LLC

Las Vegas - RET – as of 2011 Q3

Submarket	Anchor / Nonanchor	Asking Rent \$	Vac %
Northwest	A	\$12.15	4.6
Northwest	N	\$21.44	18.0
Northeast	A	\$14.09	12.2
Northeast	N	\$18.10	18.6
Southwest	A	\$14.49	9.8
Southwest	N	\$20.72	18.4
Southeast	A	\$12.61	9.0
Southeast	N	\$19.55	15.0
Henderson	A	\$14.76	6.9
Henderson	N	\$25.62	13.0

Source: REIS, Inc., Greer Advisors, LLC

■ Outlook & Forecast

Conclusions

- Real Estate Sales Volume and Prices have Risen
- Central Banks Continue to Drive Rates Down
- What Rate Can Countries Afford?
- Flight to Quality Benefits Class A Trophies and REITs
- Class B/C Capitalization Rates are Worlds Apart from REITs
- Poor Consumer Confidence has not Impacted Retail Sales, Yet

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 11/29/11 (last report) index at 40.9 (1985=100)
- Risk Curve (AAA Sr. vs BB) flattens to under 500 bps. As of 12/8/11, CMBx spread stands nearly 100 pts (2.60 v 102.23)

Greer's 3-Year Forecast as of 12/08/2011

- Barbell Modest Growth or Global Recession
- Cap Rates will Rise 0.5-2% during 2011-13
 - Mostly in class B/C. If Risk Spread Drops, B/C will Rise Fast
 - Trophy Class A will remain low until Flight to Quality Stops
- Margins (to 10 Yr Treasuries or LIBOR) will rise and settle at 300 ± 50 bps over 10 year Treasuries, dependent Upon Risk Spread / Flight to Quality
- Values have Recovered, Should Continue Unless Rates Rise
- Market Performance Spreads Will Rise
 - 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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