
Wall Street and Commercial Real Estate

Everett (Allen) Greer
Greer Advisors, LLC

September 12, 2012 – Los Angeles, CA

Greer Advisors, LLC

Goals of Presentation

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

■ 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!!!

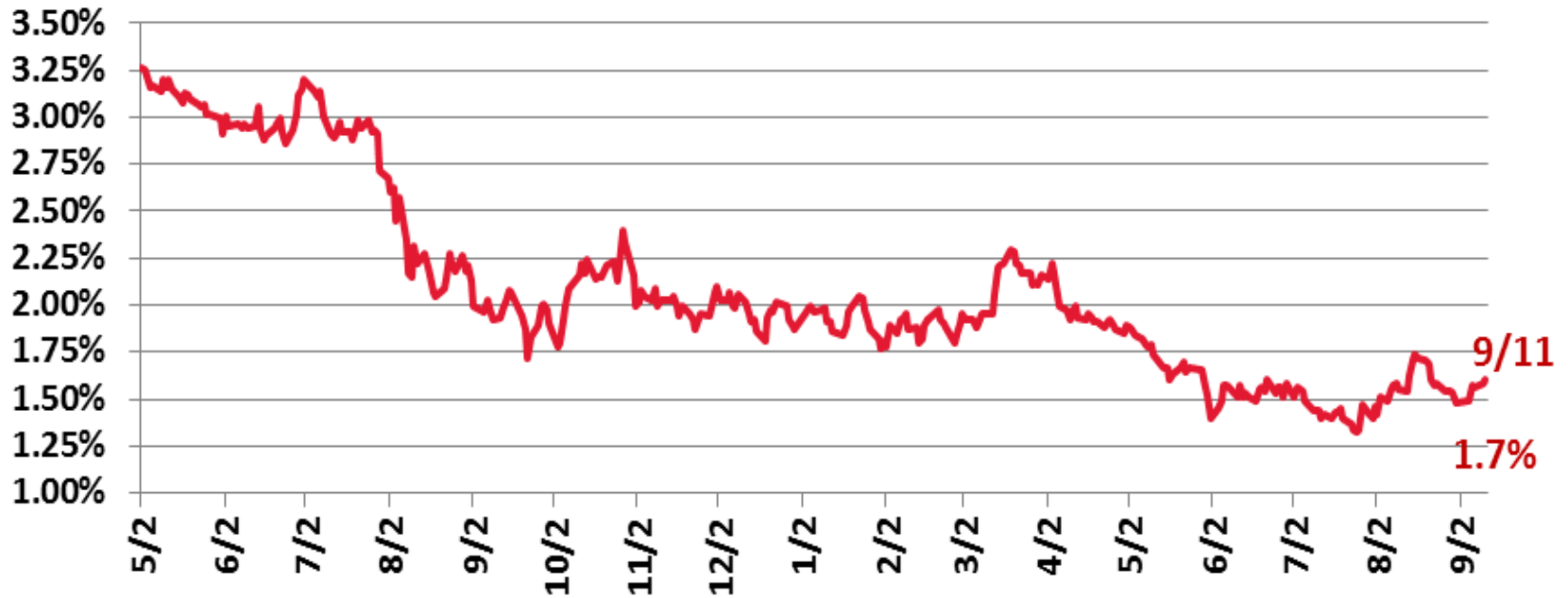
Financing – Is the Most Important Fundamental

- Leverage, Risk, Rate, Term, Recourse

4 LBO ☺

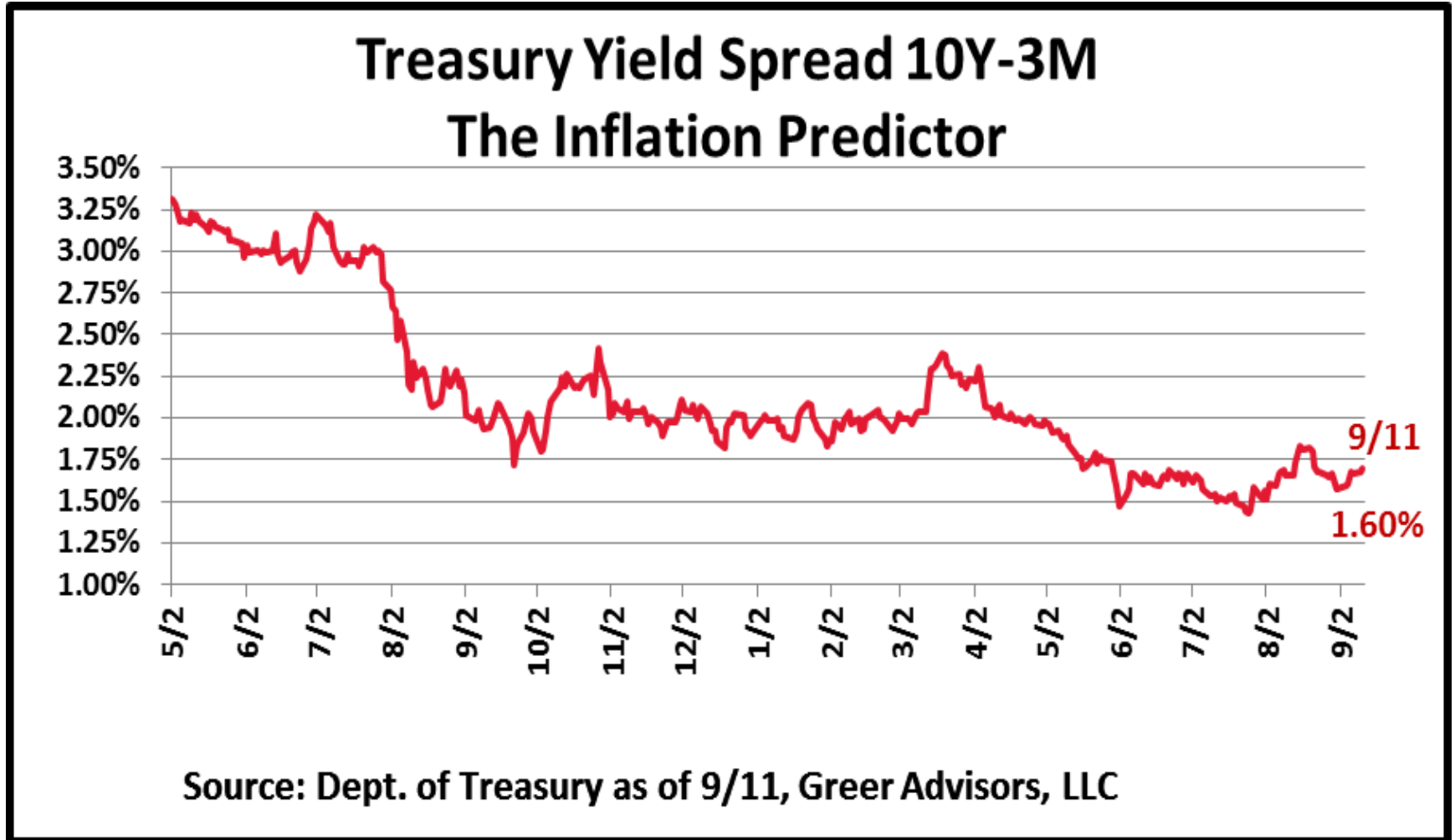
Interest & Inflation

10 Year Treasury Yields

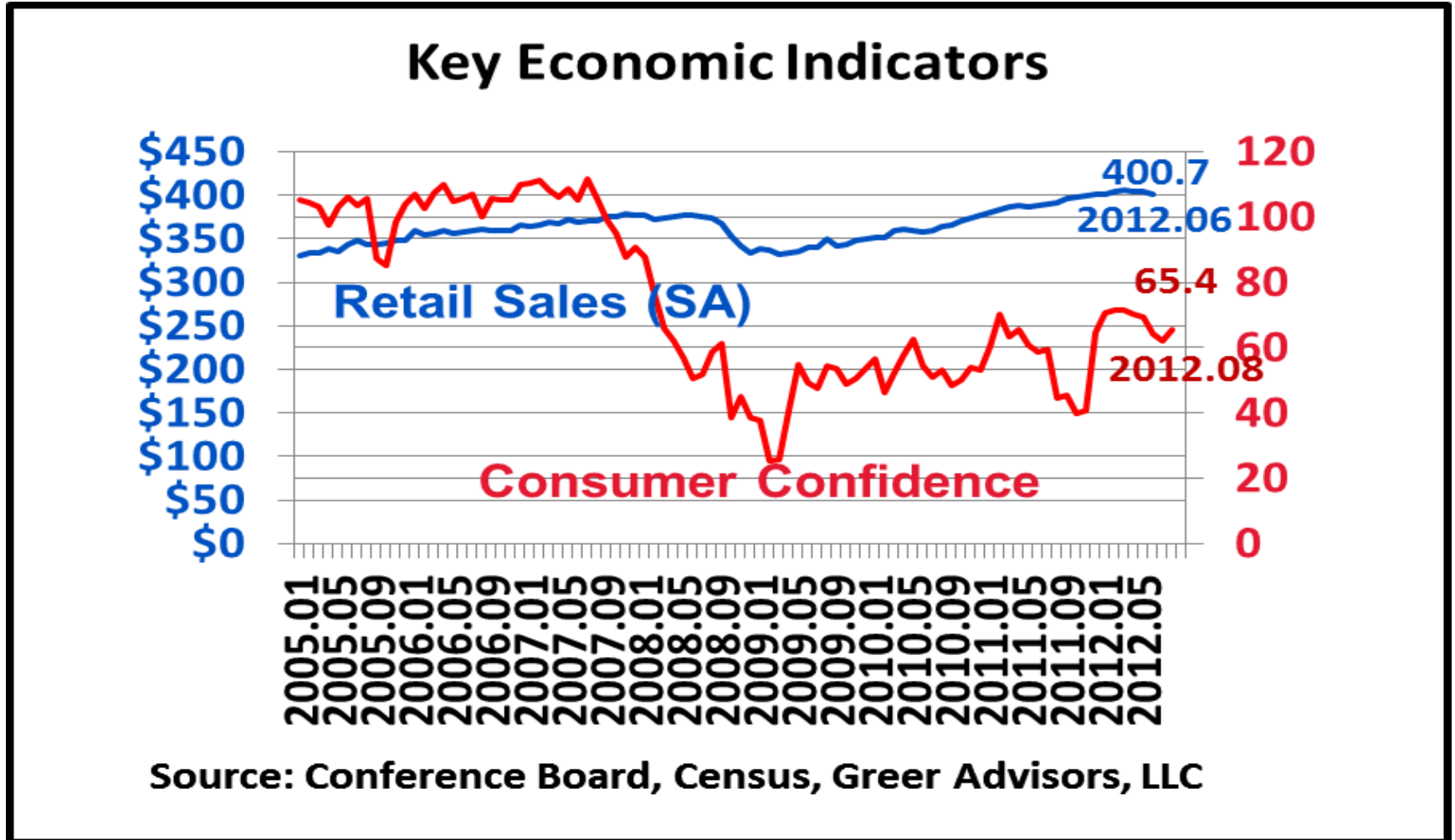


Source: Dept. of Treasury as of 9/11, Greer Advisors, LLC

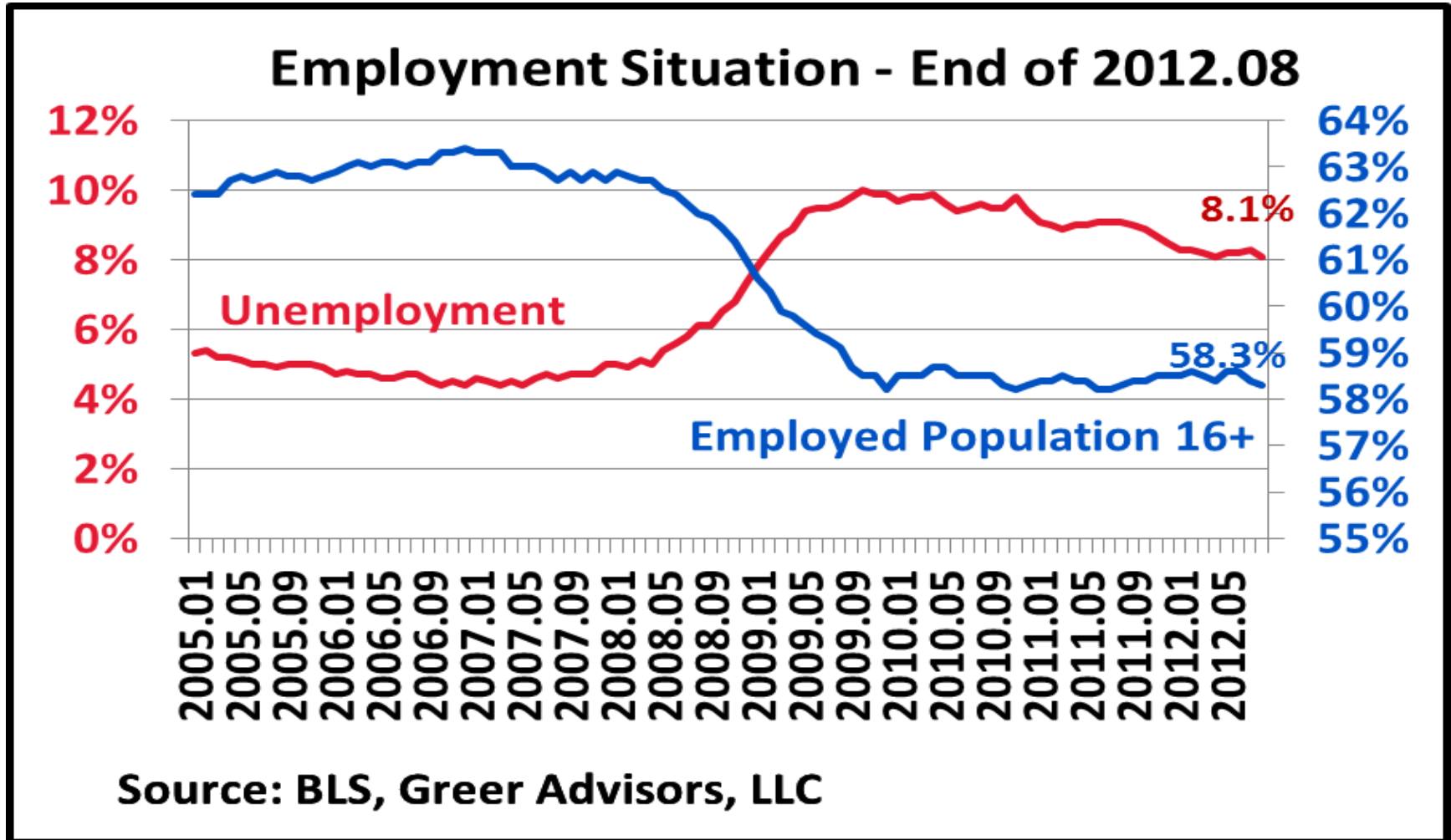
Interest & Inflation



Economy – Consumer Confidence & Sales



Economy – Employment



Economy

Consumer Side

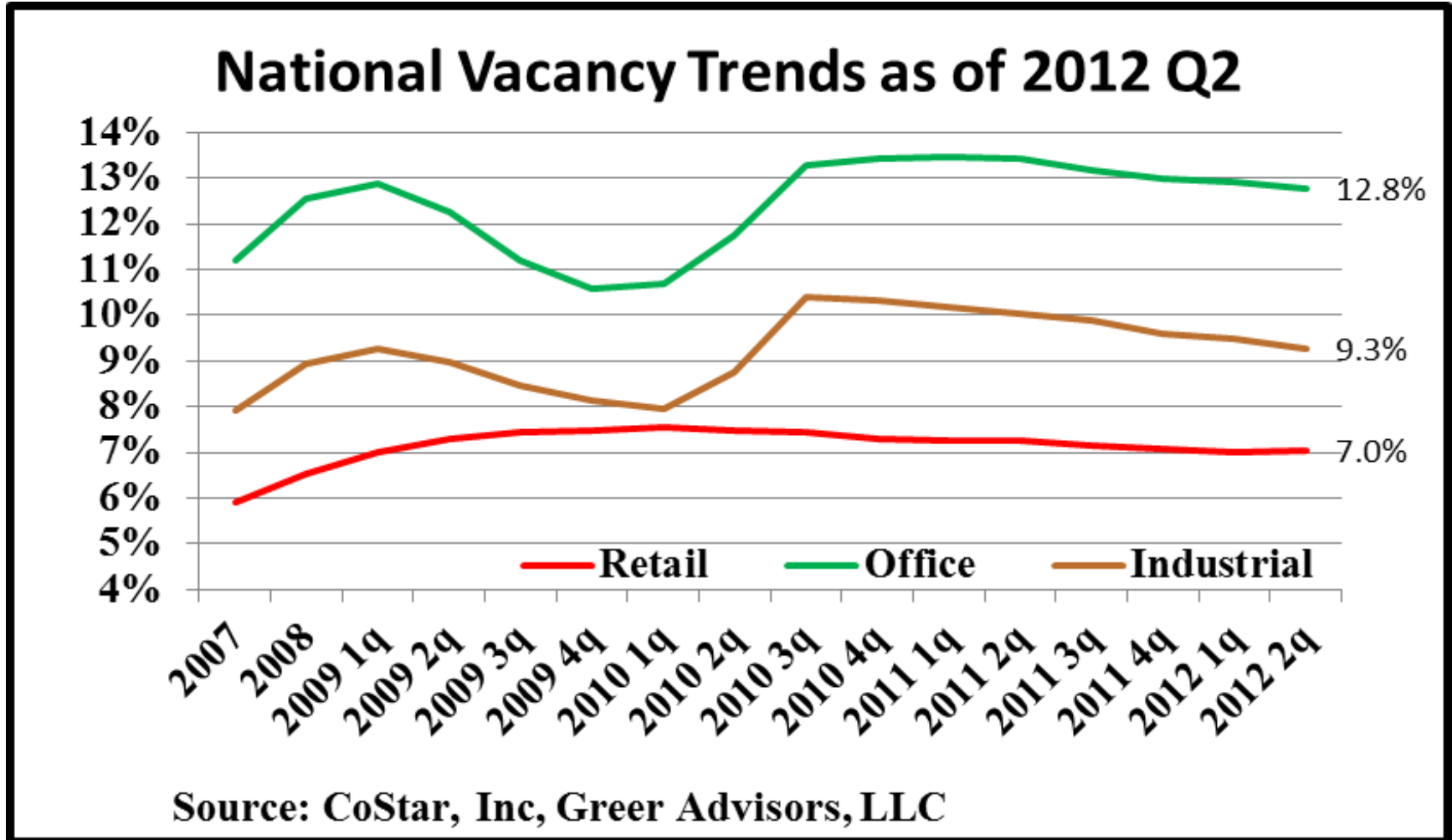
- Consumer Confidence is Poor at 65.4 (Aug Conf. Board)
- Unemployment Remains High 8.1% (Aug – BLS)
- Potential Sovereign Defaults (PIGS)
- Liquidity, Leverage, Interest (for non-AAA Debt) – Poor
- Retail Sales are OK, the Rest is near Flat Line

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

■ Market Performance

Commercial Vacancy Rates

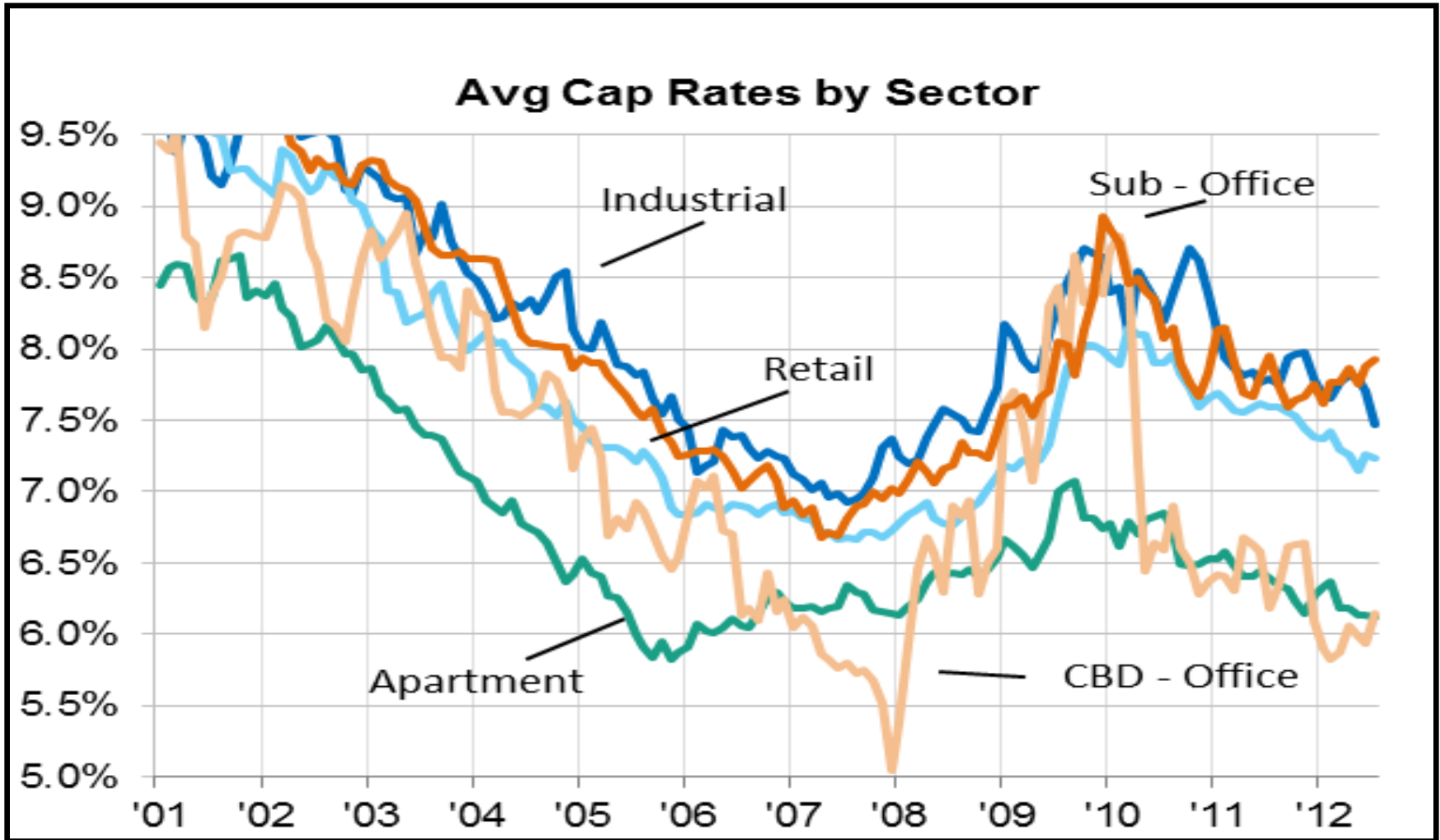


Top & Bottom 5 Vacancy Markets

Retail Vacancy		Office Vacancy		Industrial Vacancy	
Market	Vac %	Market	Vac %	Market	Vac %
Hawaii	3.13%	Lubbock	2.88%	Killeen/Temple/Fort Hood	1.14%
San Luis Obispo/Paso Robles	3.11%	San Luis Obispo/Paso Robles	3.97%	Anchorage	3.21%
San Francisco	2.78%	Utica/Rome	3.97%	Charleston WV	3.29%
Anchorage	2.66%	Hawaii	4.17%	Hawaii	3.33%
New York City	2.20%	Anchorage	4.33%	Huntington/Ashland	3.57%
Los Angeles	5.06%	Los Angeles	12.45%	Los Angeles	5.07%
National	6.91%	National	12.11%	National	9.16%
Detroit	10.25%	Palm Beach County	16.82%	Montgomery	20.65%
Las Vegas	10.80%	Sacramento	16.98%	Evansville	20.68%
Baton Rouge	11.47%	Detroit	18.71%	Shreveport/Bossier City	21.07%
Phoenix	11.82%	Las Vegas	19.77%	Wilmington	21.47%
Reno/Sparks	13.40%	Phoenix	20.35%	Brownsville/Harlingen	24.95%
Max-Min	10.27%	Max-Min	17.47%	Max-Min	23.82%

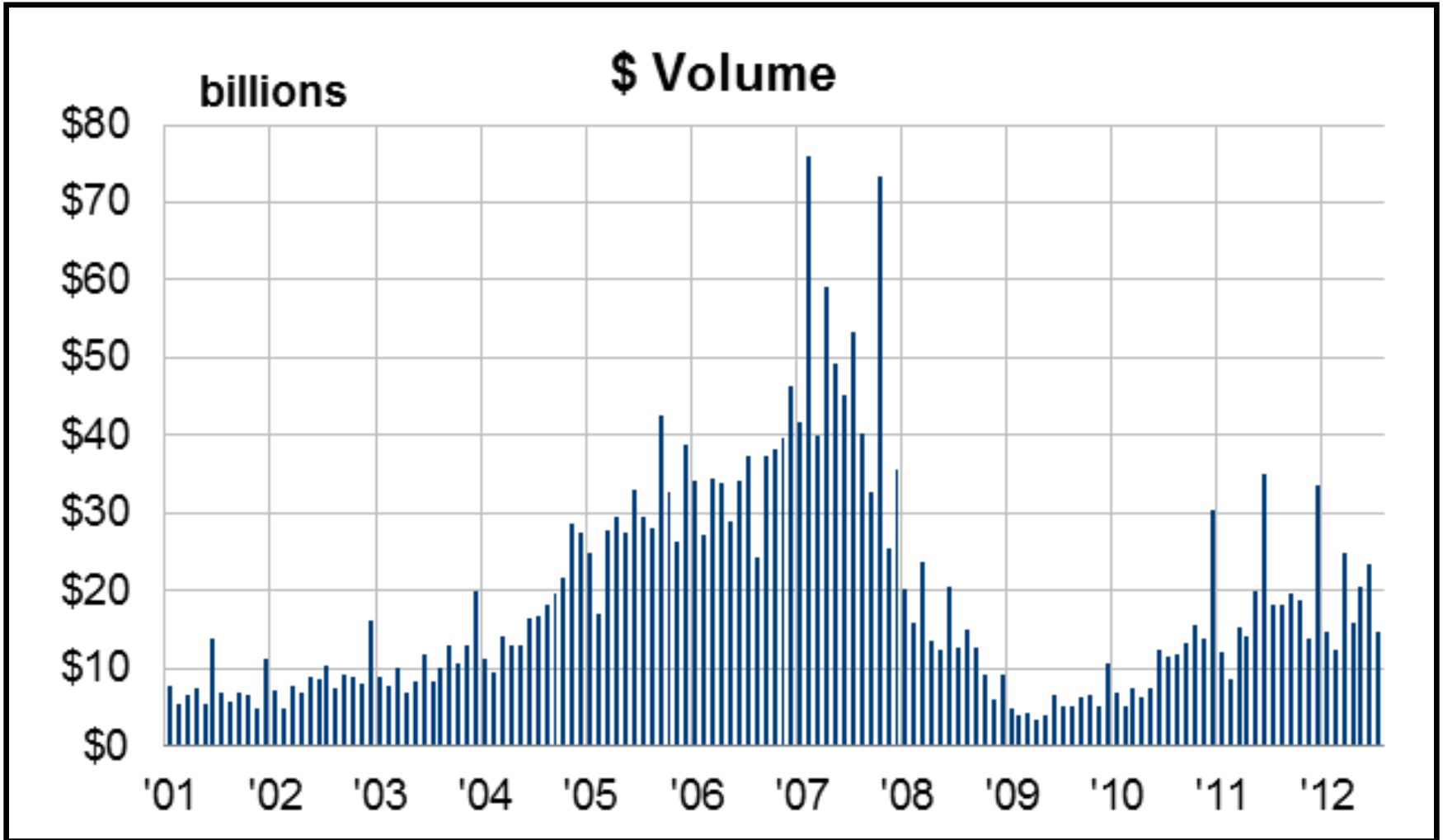
Source: CoStar, Inc., Greer Advisors, LLC

Capitalization Rate Trends – Thru 08/2012



Source; Real Capital Analytics

Sales Volume – All Coml Prop's thru 8/12



Source; Real Capital Analytics

Los Angeles Office Vacancy by Submarket

Total Industrial Submarket Statistics (>5MM SF Submarkets)						Mid-Year 2012	
Market	Existing Inventory		Vacancy			YTD Net	Quoted
	# Blds	Total RBA	Direct SF	Total SF	Vac %	Absorption	Rates
La Mirada Ind	223	13,963,323	1,350,856	1,528,856	10.9%	(381,489)	\$5.75
Long Beach North Ind	292	6,934,633	515,099	515,099	7.4%	(45,338)	\$7.40
Long Beach SE Ind	316	6,454,079	1,412,711	1,442,018	22.3%	67,549	\$6.52
Long Beach SW Ind	463	5,026,581	116,630	116,630	2.3%	21,684	\$6.26
Lynwood Ind	174	5,606,311	429,131	429,131	7.7%	260,210	\$4.58
Montebello/Whittier Ind	680	27,673,053	1,183,563	1,342,153	4.9%	(192,966)	\$5.67
Moorpark/Simi Val Ind	420	12,183,465	1,340,237	1,352,129	11.1%	139,016	\$6.93
North Hollywood Ind	469	7,555,262	267,390	267,390	3.5%	(41,049)	\$7.93
Northridge Ind	901	18,223,853	919,912	939,530	5.2%	(98,117)	\$8.12
Norwalk/Bellflower Ind	207	7,277,848	160,685	160,685	2.2%	29,750	\$7.53
Oxnard/Pt Hueneme Ind	840	23,676,811	1,144,679	1,180,590	5.0%	180,995	\$6.73
Pomona SE Ind	357	10,225,260	856,823	900,038	8.8%	309,646	\$4.39
Rancho Dominguez Ind	322	20,949,971	1,236,111	1,352,211	6.5%	(281,084)	\$5.81
Santa Clarita/Lancstr Ind	667	22,922,800	1,098,484	1,133,242	4.9%	364,105	\$7.02
Santa Fe Springs Ind	1,600	51,520,457	2,351,550	2,411,656	4.7%	14,895	\$6.36
Signal Hill Ind	322	5,026,871	188,241	188,241	3.7%	(2,674)	\$9.08
South El Monte NE Ind	535	6,085,742	236,652	236,652	3.9%	62,259	\$7.45
Torrance NE Ind	283	14,944,164	1,074,374	1,095,364	7.3%	(154,458)	\$7.54
Torrance NW Ind	210	8,340,150	619,496	643,861	7.7%	(56,363)	\$7.66
Torrance South Ind	287	7,257,899	177,996	177,996	2.5%	30,106	\$7.75
Ventura Ind	824	12,145,039	547,059	585,046	4.8%	(41,968)	\$8.26
Vernon Ind	2,214	82,767,538	1,899,611	2,072,045	2.5%	(186,785)	\$5.76
Westside Ind	1,112	20,998,246	763,230	819,508	3.9%	167,172	\$17.54
Totals	36,850	998,830,831	48,039,805	50,652,508	5.1%	890,260	\$7.03

Source: CoStar Property®, Totals will not foot due to small markets not shown.

Los Angeles Retail Vacancy by Submarket

Total Retail Submarket Statistics >5MM SF Submarkets						Mid-Year 2012	
Market	Existing Inventory		Vacancy			YTD Net Absorption	Quoted Rates
	# Blds	Total GLA	Direct SF	Total SF	Vac %		
Antelope Valley	1,086	15,421,901	1,200,615	1,200,615	7.8%	(61,610)	\$ 16.67
Beach Cities/Palos Verdes	947	10,037,301	395,744	405,828	4.0%	39,918	\$ 24.82
Burbank	890	7,831,465	184,111	184,111	2.4%	11,630	\$ 28.83
Culver City	1,117	10,772,026	235,094	235,094	2.2%	43,275	\$ 25.89
Eastern SFV	1,959	18,682,607	857,854	1,063,582	5.7%	(135,856)	\$ 18.62
Eastern SGV	2,739	40,049,190	2,678,861	2,761,668	6.9%	68,321	\$ 18.66
Glendale	1,864	16,465,747	580,170	719,778	4.4%	(75,347)	\$ 21.25
Greater Downtown	1,746	22,715,725	867,893	887,883	3.9%	99,399	\$ 24.07
Hawthorne/Gardena	1,233	10,990,778	437,819	441,813	4.0%	45,038	\$ 20.12
Hollywood/Silver Lake	1,448	12,947,683	488,470	498,852	3.9%	24,281	\$ 29.34
LAX	740	5,934,791	252,533	254,937	4.3%	(40,551)	\$ 15.84
Long Beach: Downtown	920	6,823,264	417,813	427,813	6.3%	(39,594)	\$ 21.91
Long Beach: Suburban	1,178	12,322,855	579,783	582,783	4.7%	(65,332)	\$ 20.45
Mid-Cities	4,665	43,261,811	2,598,461	2,704,286	6.3%	(62,996)	\$ 19.13
Mid-Wilshire	700	10,367,722	292,019	292,019	2.8%	14,784	\$ 27.38
Moorpark/Simi Valley	518	7,943,849	527,944	583,788	7.3%	7,293	\$ 19.12
North Hollywood	907	6,896,096	185,788	185,788	2.7%	(16,056)	\$ 25.16
Oxnard/Port Hueneme	792	10,370,944	741,369	793,543	7.7%	(159,602)	\$ 19.58
Pasadena/Arcadia/Monrovia	1,929	20,475,145	760,824	780,949	3.8%	89,416	\$ 28.35
Santa Clarita Valley	683	12,320,027	789,491	815,713	6.6%	86,375	\$ 22.54
Santa Monica	663	7,389,238	211,688	230,558	3.1%	(28,046)	\$ 54.11
Southeast Los Angeles	1,439	17,726,765	822,952	829,863	4.7%	(8,388)	\$ 19.59
Thousand Oaks/SE County	478	7,793,893	470,810	591,221	7.6%	(90,777)	\$ 25.39
Torrance	900	16,613,502	684,635	686,235	4.1%	80,679	\$ 23.74
Ventura	743	7,489,680	299,956	299,956	4.0%	1,995	\$ 18.62
West Hollywood	1,066	9,799,117	421,168	429,081	4.4%	114,549	\$ 48.72
Western SFV	1,335	15,592,089	724,877	783,279	5.0%	30,463	\$ 20.99
Western SGV	1,935	17,786,205	883,878	891,367	5.0%	(148,537)	\$ 20.96
Woodland Hills/Warner Ctr	386	8,773,812	222,680	222,680	2.5%	(2,596)	\$ 22.11
Totals	41,694	460,343,383	22,244,506	23,292,500	5.1%	(42,1661)	\$ 24.12

Source: CoStar Property®, Totals will not foot due to small markets not shown.

Los Angeles Office Vacancy by Submarket

Total Office Submarket Statistics >5MM SF Submarkets						Mid-Year 2012	
Market	Existing Inventory		Vacancy			YTD Net Absorption	Quoted Rates
	# Blds	Total RBA	Direct SF	Total SF	Vac %		
190th Street Corridor	72	5,153,809	780,804	793,776	15.4%	(35,498)	\$23.45
Beach Cities/Palos Verdes	451	6,597,728	815,513	825,151	12.5%	(6,420)	\$28.53
Beverly Hills	322	11,012,431	1,323,800	1,417,644	12.9%	89,366	\$42.96
Burbank	584	13,656,876	1,525,609	1,607,918	11.8%	(120,828)	\$32.57
Calabasas/Westlake Vill	211	7,403,405	1,250,346	1,275,471	17.2%	3,241	\$24.47
Century City	38	11,550,214	1,750,947	1,944,616	16.8%	57,338	\$46.90
Culver City	460	8,300,003	1,083,483	1,167,026	14.1%	32,082	\$29.90
Eastern SFV	589	8,234,637	796,282	803,273	9.8%	21,376	\$21.08
Eastern SGV	1,149	17,595,786	1,928,238	1,973,441	11.2%	17,087	\$21.48
El Segundo	172	14,677,739	1,784,878	1,797,178	12.2%	202,244	\$29.10
Glendale	709	12,252,052	1,626,566	1,658,913	13.5%	106,741	\$28.41
Greater Downtown	680	69,264,685	8,091,698	8,299,188	12.0%	(125,038)	\$31.17
Hollywood/Silver Lake	690	10,918,105	678,180	725,032	6.6%	89,292	\$32.44
LAX	246	6,626,517	1,800,367	1,800,367	27.2%	(18,271)	\$18.43
Long Beach: Downtown	264	7,366,531	1,251,335	1,254,987	17.0%	(96,381)	\$22.64
Long Beach: Suburban	417	8,966,917	1,180,420	1,184,597	13.2%	(35,129)	\$22.31
Marina Del Rey/Venice	342	8,677,636	1,612,111	2,029,930	23.4%	61,384	\$33.15
Mid-Cities	956	9,724,063	695,411	698,706	7.2%	93,755	\$21.76
Mid-Wilshire	311	14,010,108	2,191,241	2,205,141	15.7%	(77,910)	\$20.12
Miracle Mile	99	5,826,759	698,746	755,185	13.0%	26,648	\$29.51
Pasadena/Arcadia/Monrovia	1,108	21,692,450	2,238,162	2,263,051	10.4%	(16,903)	\$27.50
Santa Monica	554	15,189,856	1,139,289	1,183,606	7.8%	(45,339)	\$43.53
Southeast Los Angeles	536	8,197,503	665,992	668,155	8.2%	(18,057)	\$20.53
Thousand Oaks/SE County	310	7,179,366	1,141,316	1,154,760	16.1%	157,886	\$24.24
Torrance	405	8,574,211	971,463	974,136	11.4%	92,812	\$24.31
West Hollywood	402	7,336,084	477,938	485,638	6.6%	2,074	\$34.40
Western SFV	395	7,211,776	1,354,679	1,367,445	19.0%	81,181	\$22.90
Western SGV	745	12,093,158	579,330	620,282	5.1%	(69,618)	\$22.21
Westwood	176	8,209,018	844,899	890,364	10.8%	16,200	\$36.44
Woodland Hills/Warner Ctr	206	10,097,790	1,633,580	1,655,116	16.4%	13,181	\$23.91
Totals	17,306	422,709,885	50,898,864	52,640,024	12.5%	987,928	\$27.79

Source: CoStar Property®, Totals will not foot due to small markets not shown.

■ Financial Regulations

Financial Regulations

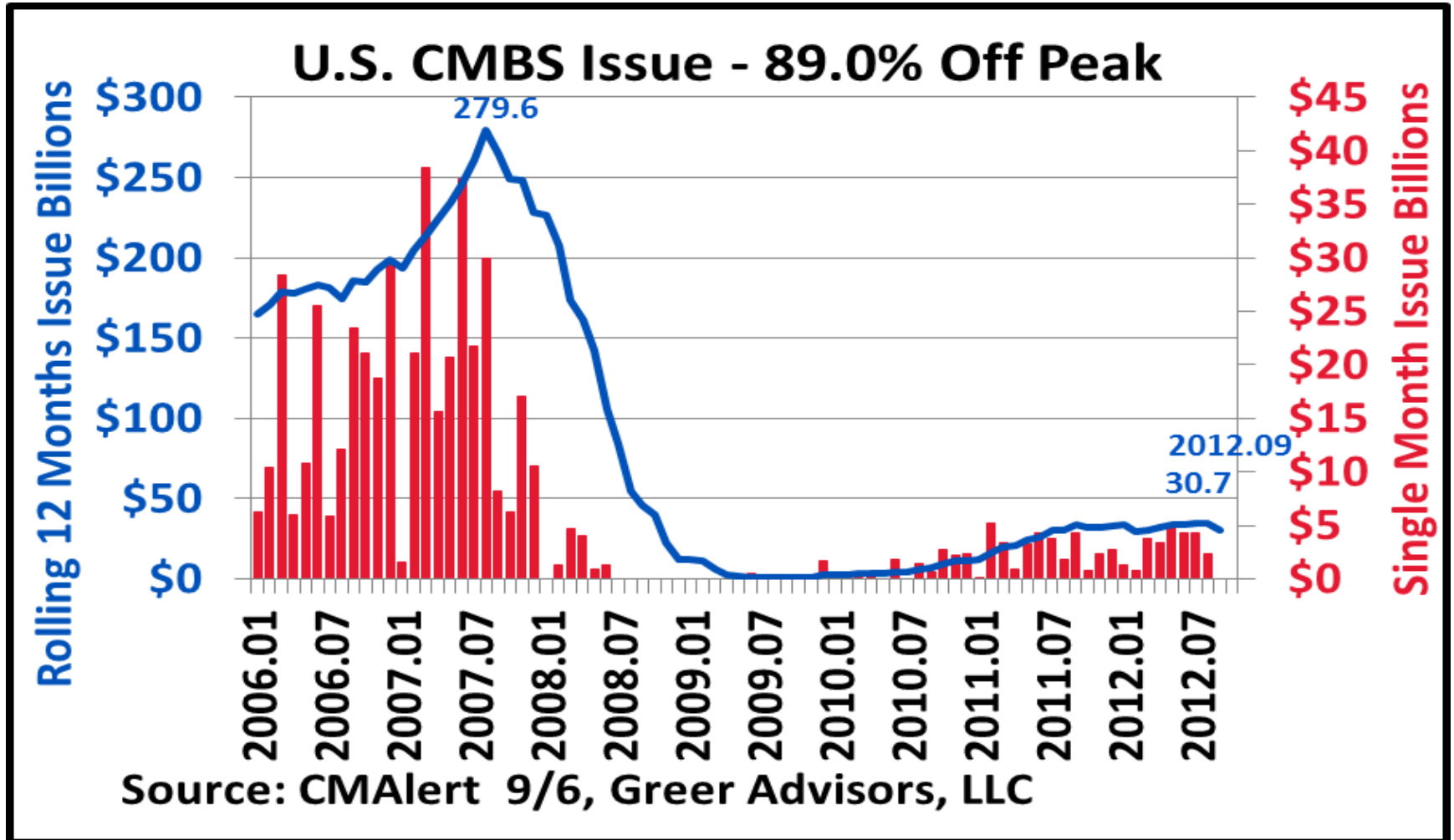
Dodd-Frank Wall Street Reform & Consumer Protection Act

- 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”

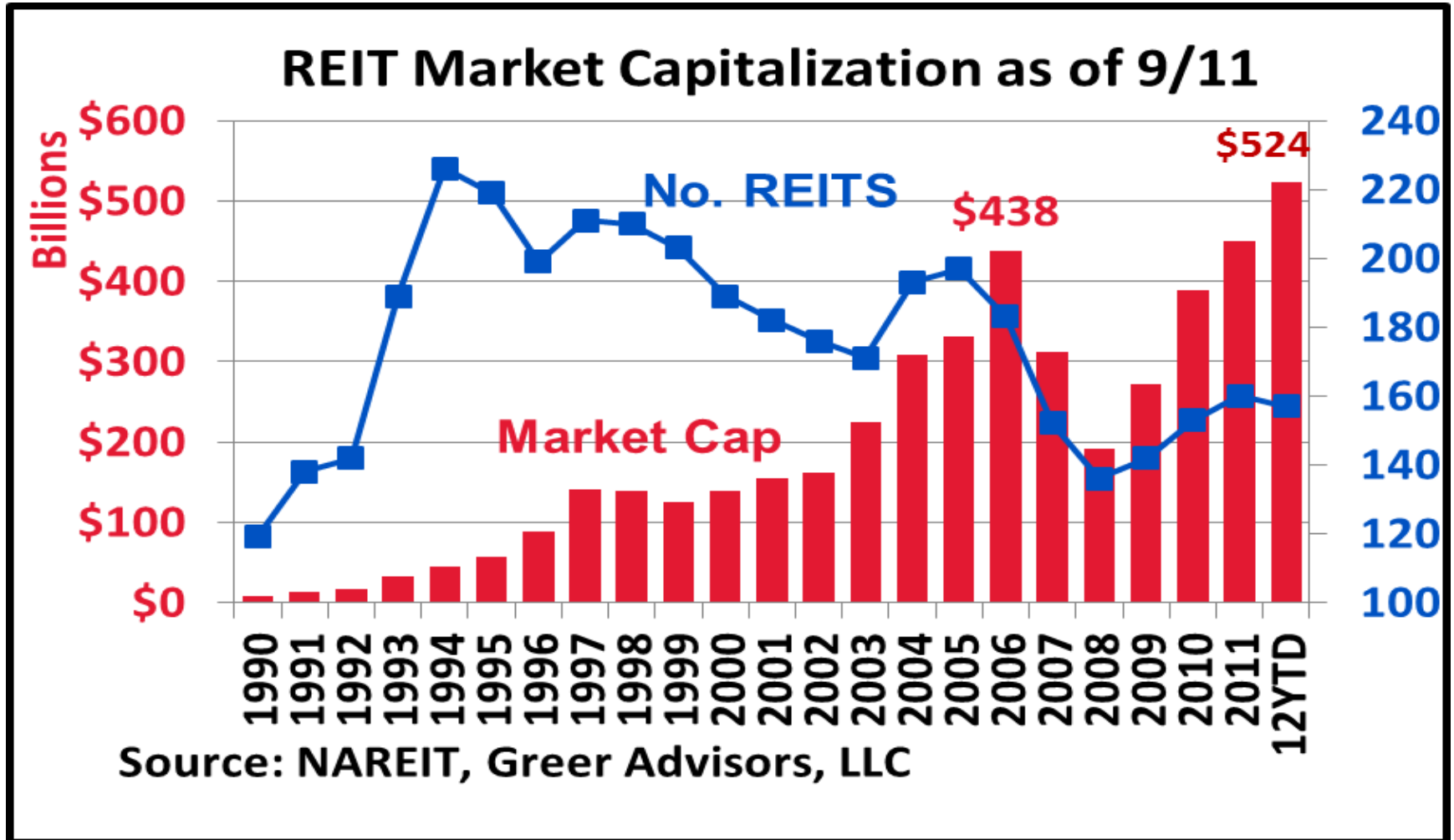
▪ Troubled Asset Relief Program

- Real Estate Capital Markets

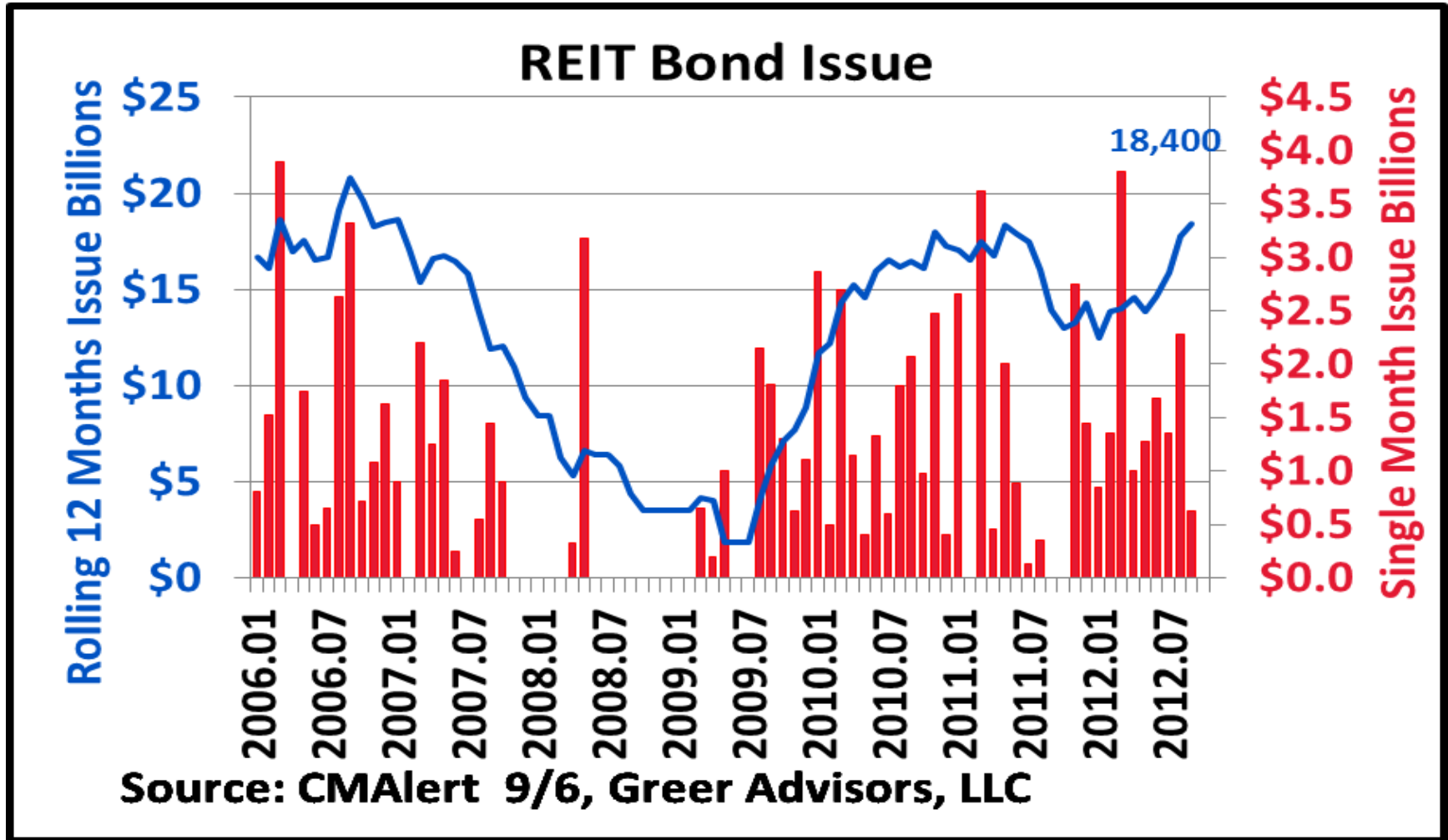
CMBS Issuance



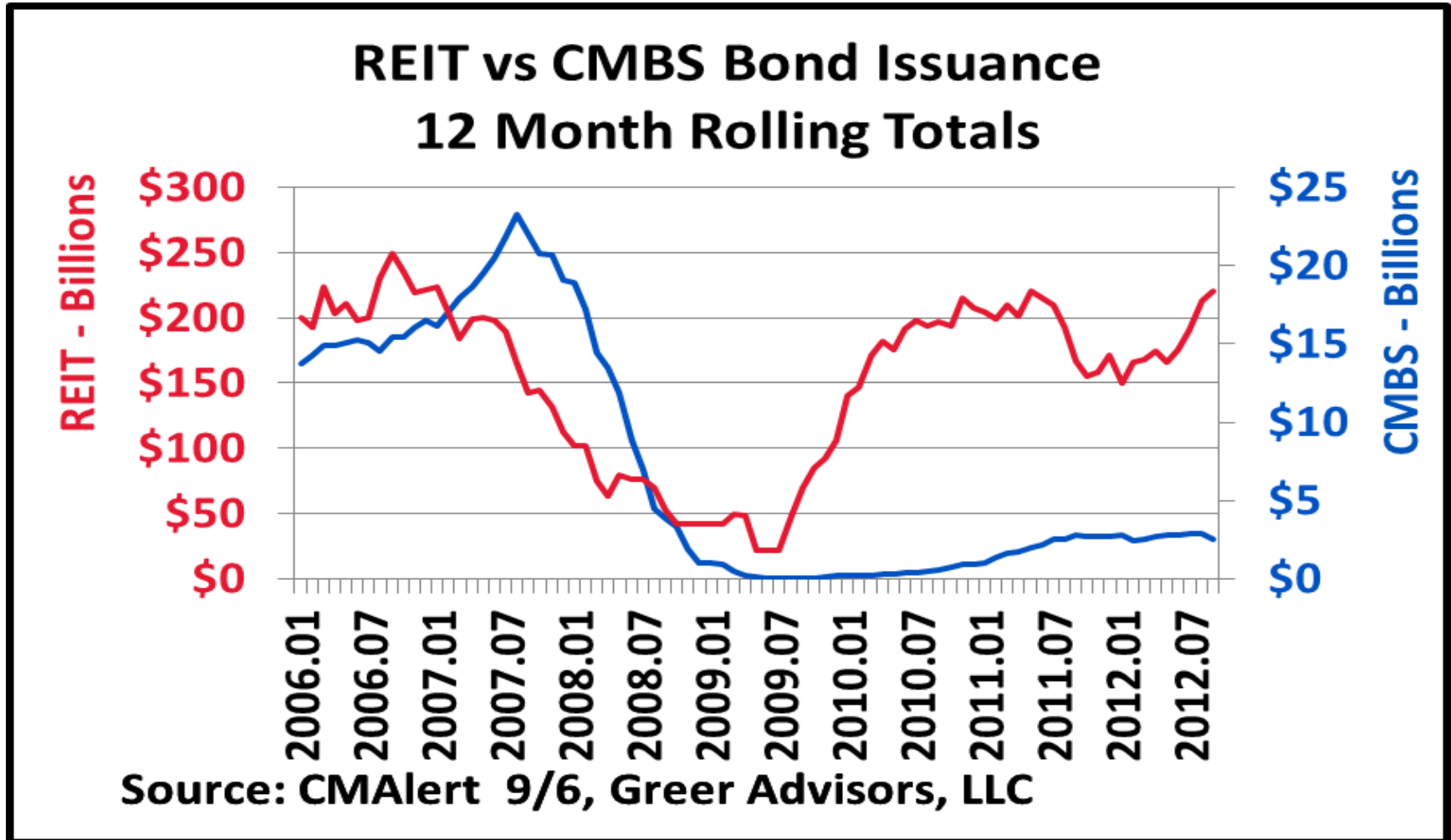
REIT Market Capitalization – Long Term



REIT Bond Issuance



REIT Bond vs. CMBS – Tale of Quality



■ Outlook & Forecast

Conclusions

- Rates are at all-time lows
- Rents / Vacancies Remain better than early 1990s
- 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 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 August 28, 2012 index at 65.4 (1985=100)
- Risk Curve (AAA Sr. vs BB) flattens to under 500 bps. As of 9/11/12, CMBx spread stands nearly 10,000 bps.

Greer's 3-Year Forecast as of Sept. 12, 2012

- Barbell Modest Growth or Global Recession
 - Global Economy Heals or Not
- Cap Rates will Rise 0.5-1.0% during 2012-13
 - Mostly in class B/C
 - Trophy Class A will remain low until Flight to Quality Stops
- Margins (to 10 Yr Treasuries or LIBOR) will rise and settle at 250-300±50 bps over 10 year Treasuries, but might over-correct in the short run
- Values have recovered slightly.
- Individual Market Performance will continue to vary widely.
 - 10-30% difference in Top vs Bottom
- Change Creates Opportunities – Build Businesses

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

Greer Advisors, LLC

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