

---

---

# Lending and Real Estate

Everett Allen Greer

January 20, 2011 – Cerritos

---

---

**Greer Advisors, LLC**

---

---

**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**

---

---

# Goals of Presentation

---

- Banking Industry Overview
- Depository vs. Investment Banking
- Depository Banking
- Investment Banking
  - REIT / MBS / CDO / CDS
- Financial Regulations – Dodd Frank Act (DFA / WSRCPA)
- Market Stat's – National Overview of Top Four Prop. Types
- Expected Changes / Forecast

---

---

# Banking Industry – Two Segments

---

## **Depository Banks (Primary Function) -**

**Takes Deposits (liabilities) and Makes Loans (assets)**

## **Investment Banks (Primary Function) –**

**Acts as Agent with Raising of Capital, i.e. Issuance of  
IPOs, Stocks, Bonds, etc.**

**Acts as Agent with Mergers & Acquisitions**

---

---

# Depository Banking - Overview

---

## **Number of Institutions:**

**2010.Q3 @ 7,760**

**2005.Q1 @ 8,931**

**Note: Peak 1986.Q1 = 18,083**

## **Total Assets (note: asset definition changes, mark to market):**

**2010.Q3 @ \$13.383T**

**2005.Q1 @ \$10.286T**

**Note: Peak 2008.Q4 @ \$13.841 (=TARP/TALF peak)**

## **Employees (FTEs):**

**2010.Q3 @ 2.042M**

**2005.Q1 @ 2.105M**

**Note: Peak 2007.Q1 @ 2.223M**

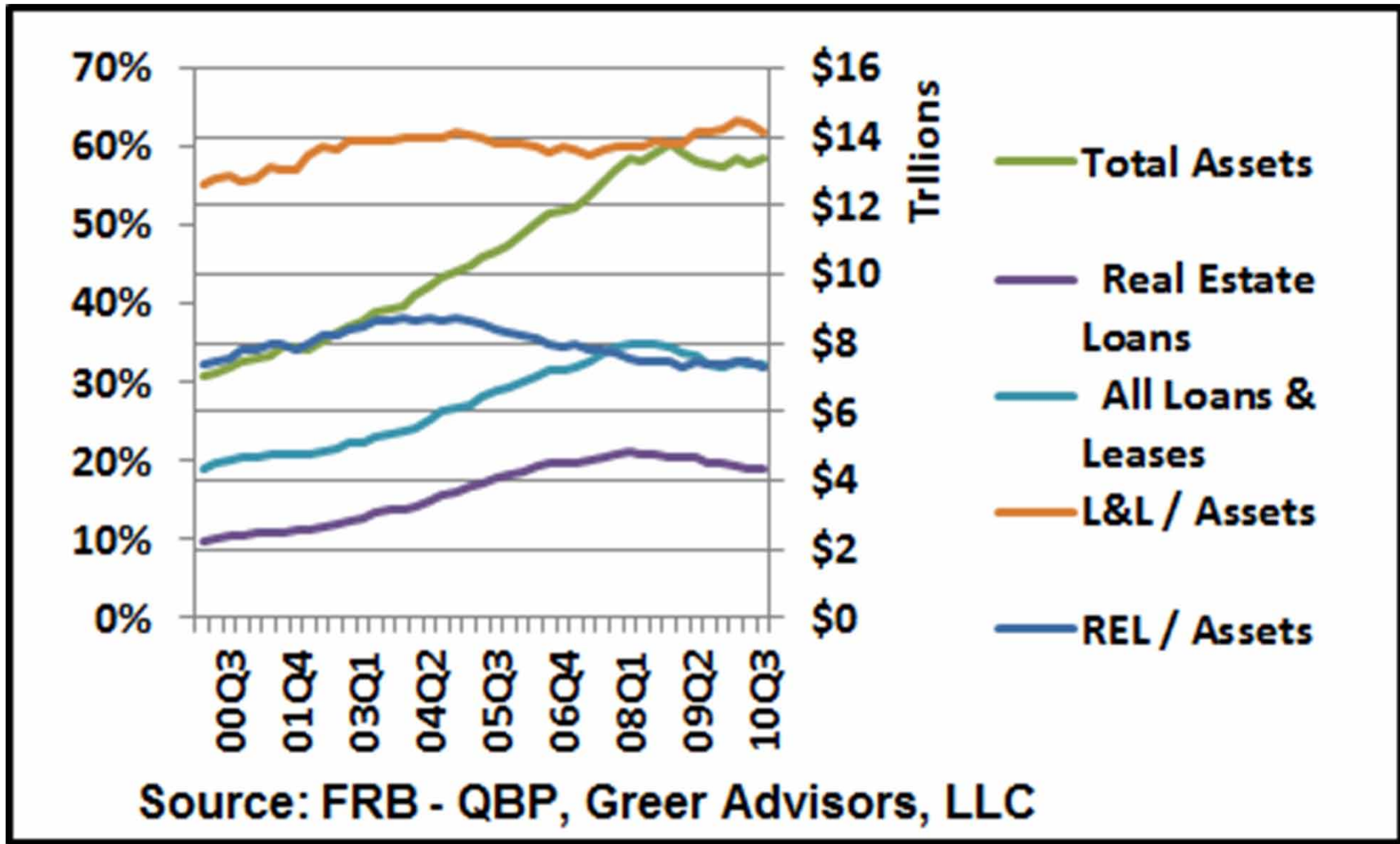
## **All Loans & Leases (note: Synthetics, SPE/SPV, Off balance):**

**2010.Q3 @ \$7.389T (55.2%) / 2005.Q1 @ \$6.201T (60.3%)**

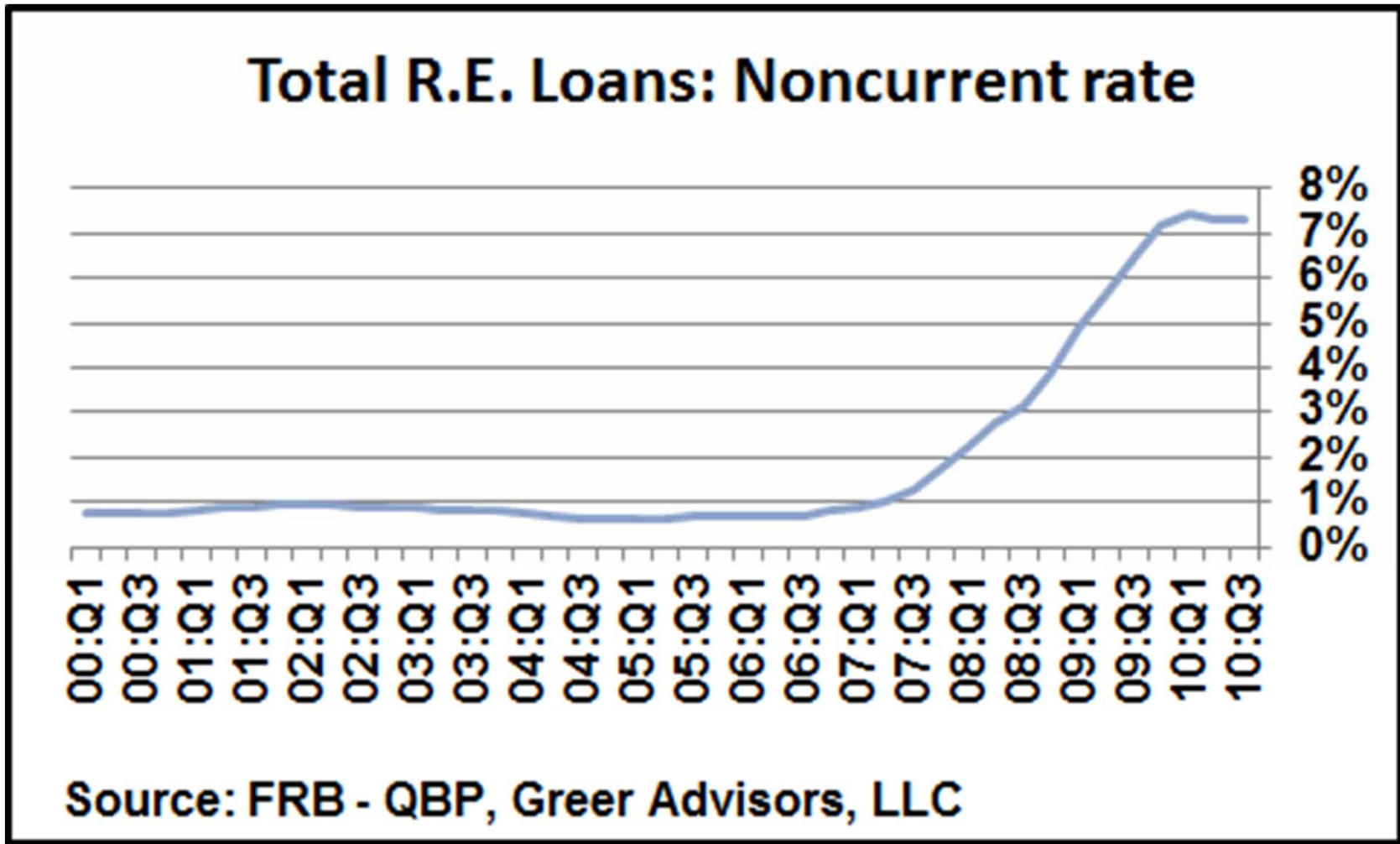
## **Real Estate Loans and Leases:**

**2010.Q3 @ \$4.302T (32.1%) / 2005.Q1 @ \$3.787T (36.8%)**

# Depository Banking Trends



# Depository Institution - Non Current Status



---

---

# Investment Banking - Overview

---

**Originates RMBS (see charts)**

**Originates CMBS (see charts)**

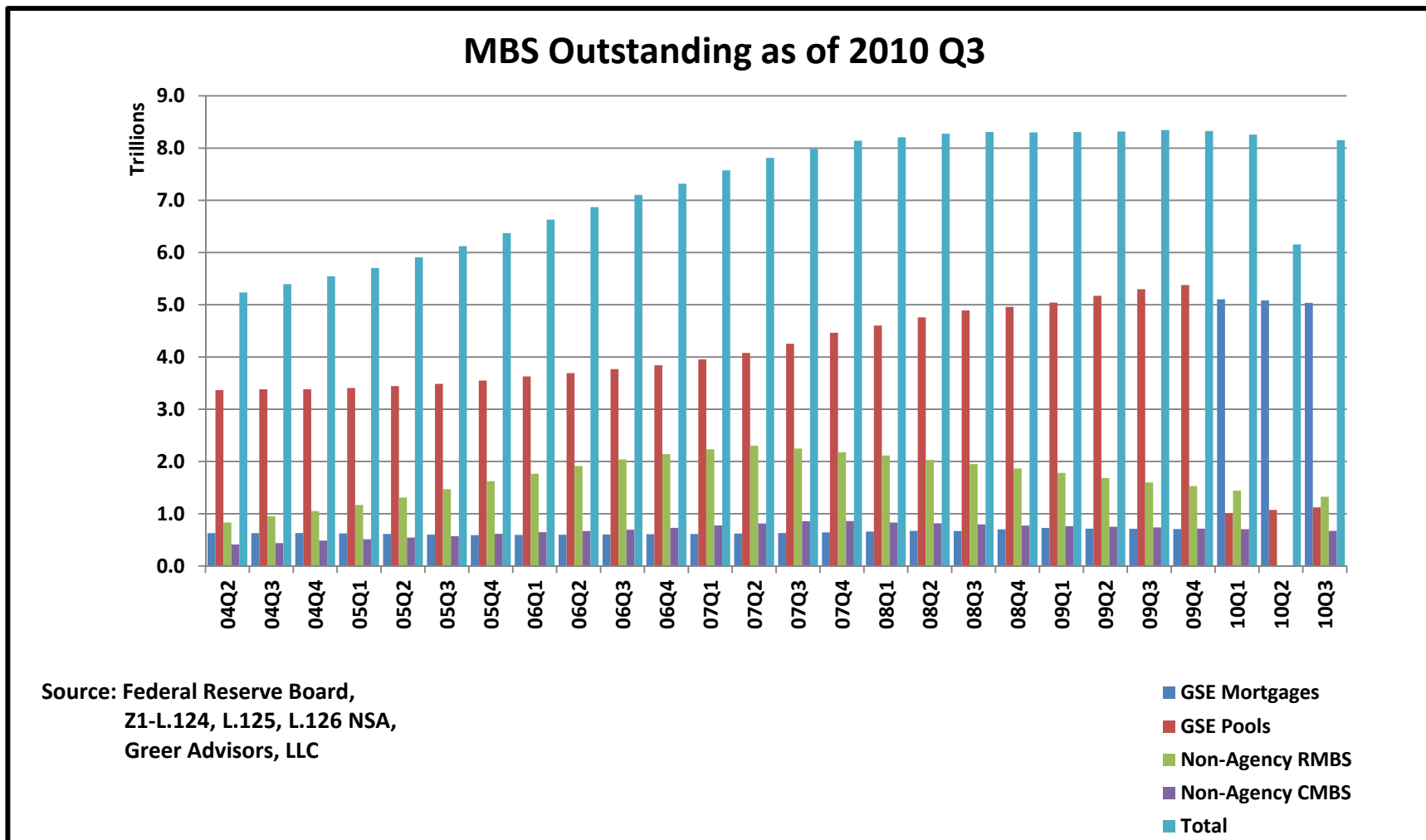
**Originates REITS (see charts)**

**Originates Municipals, Stocks, Bonds, etc (no charts)**

**Originates SWAP contracts and many other Derivatives  
(see CDS & Interest/Currency charts)**

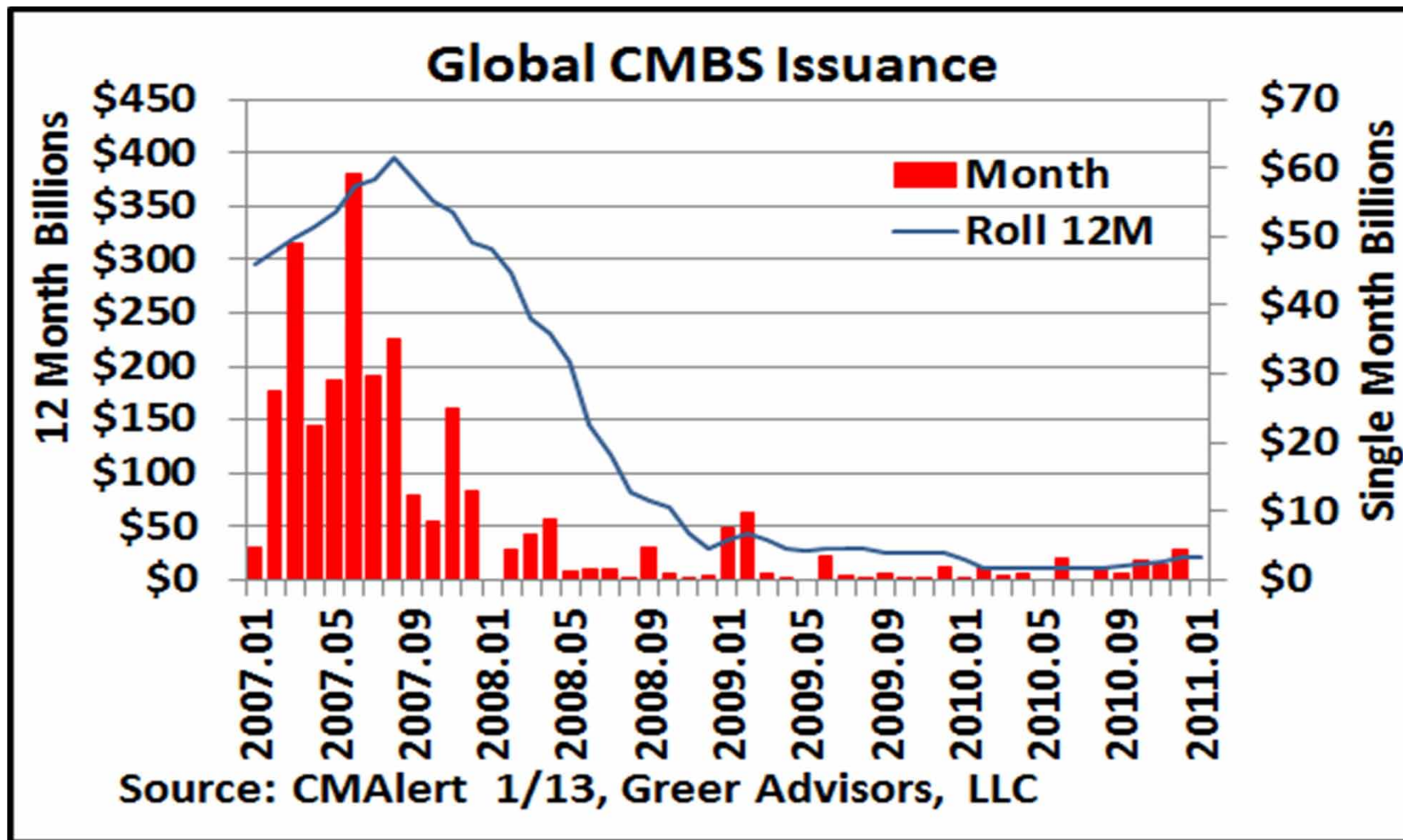
**Exotic Financial Products Continue to Increase**

# MBS Outstanding's in U.S. - Dropping





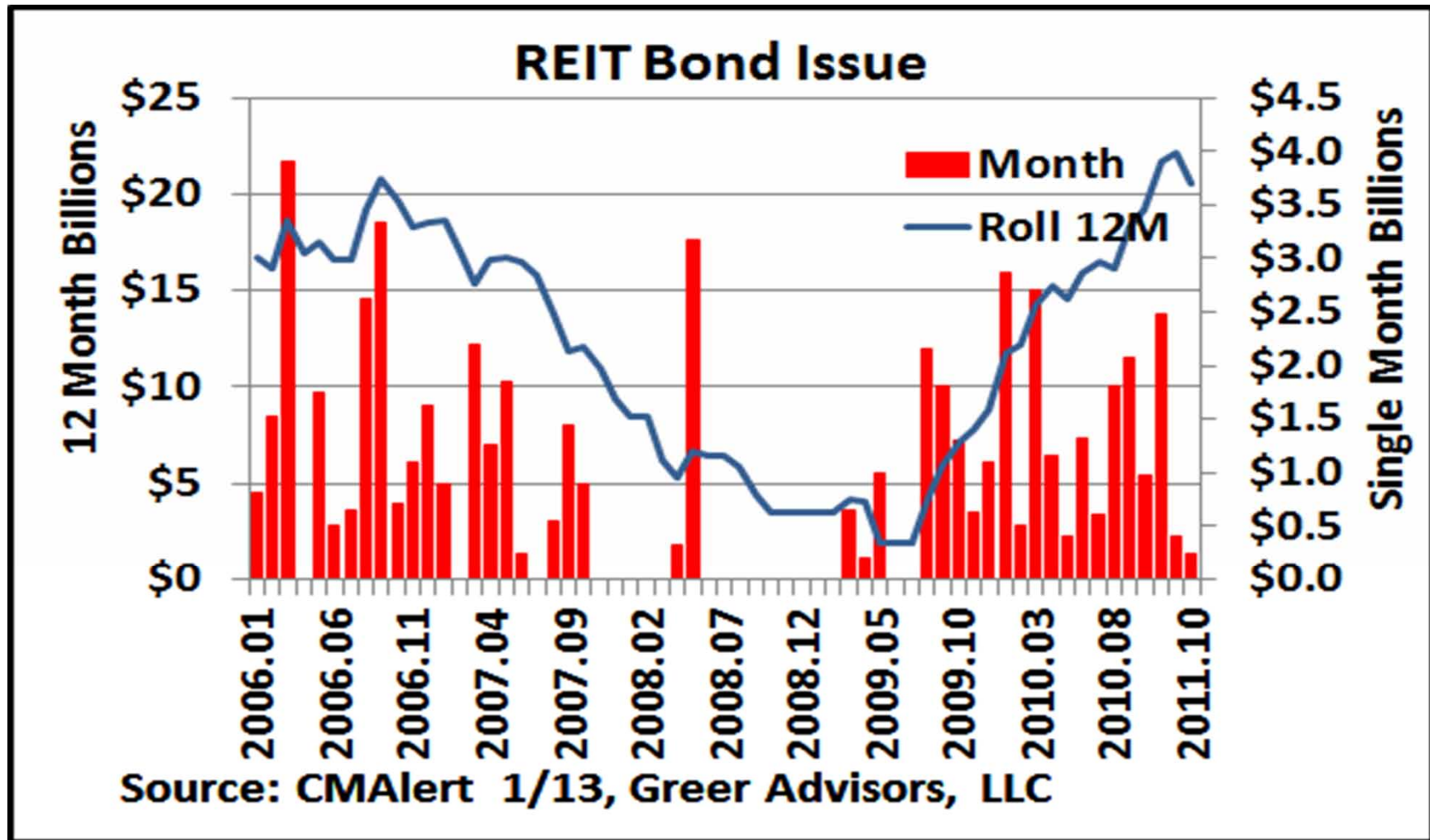
# Global CMBS Issuance



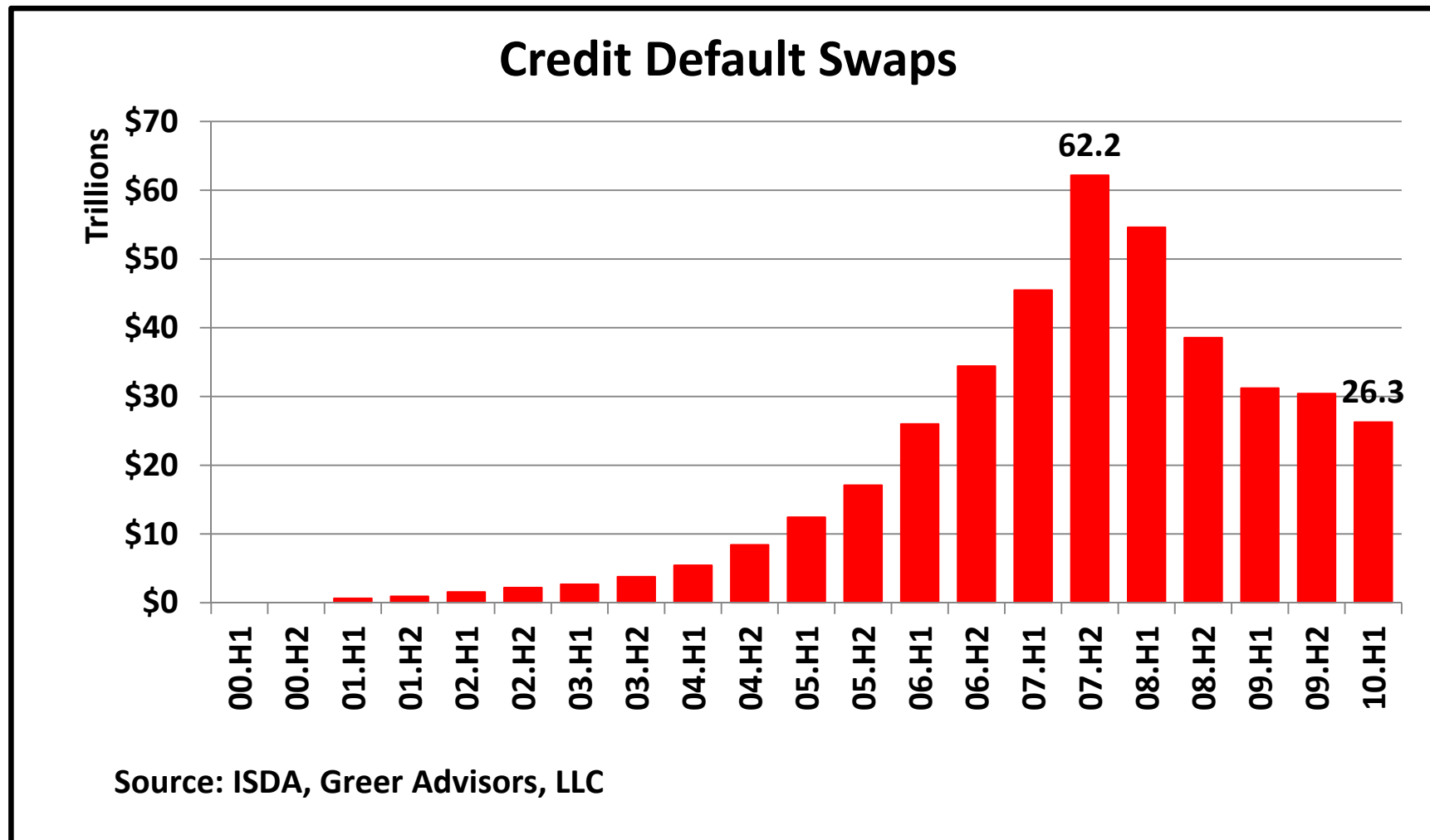
# CMB Delinquencies

<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>				

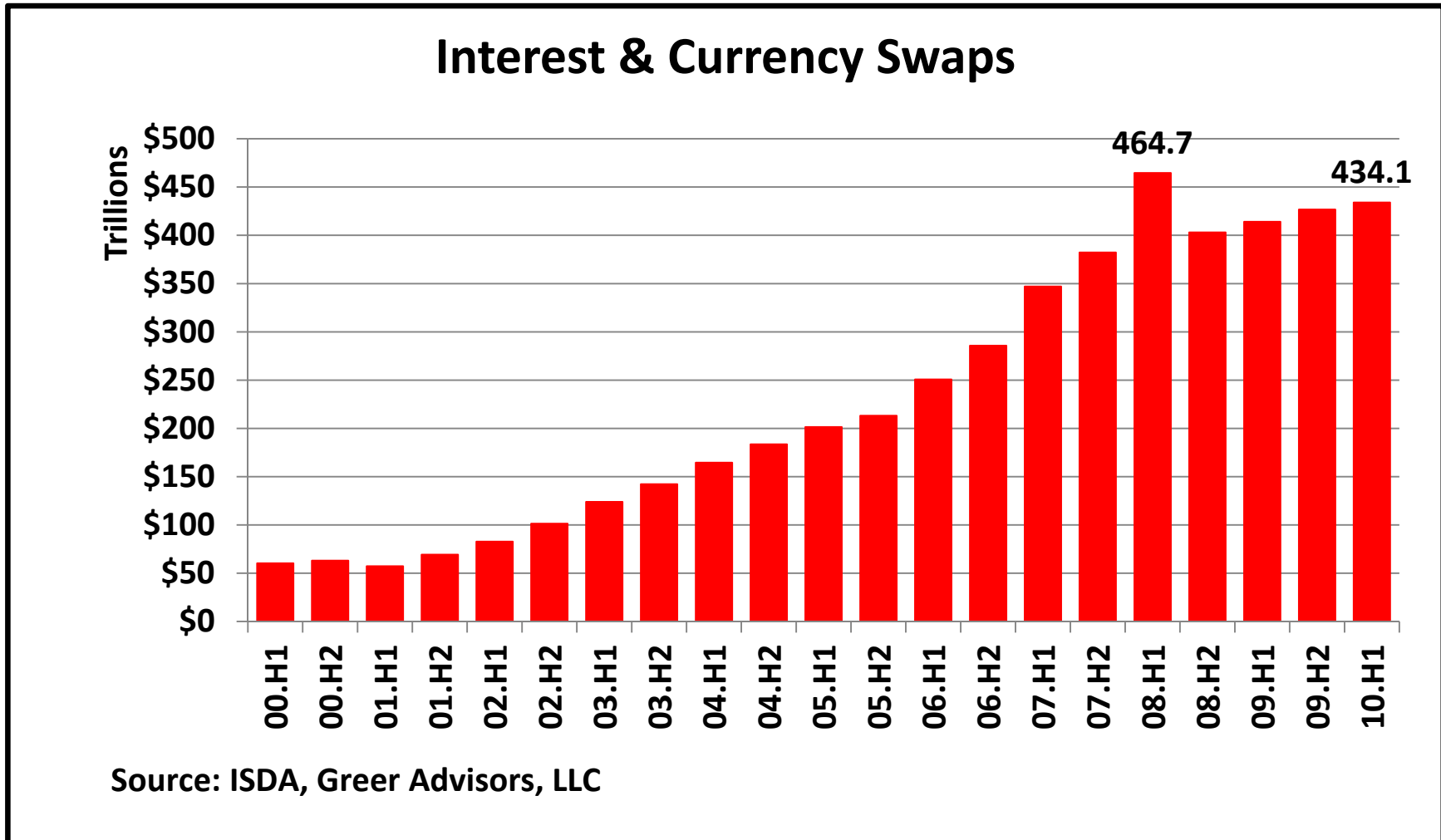
# REIT Bond Issue



# Credit Default Swaps



# Interest & Currency Swaps



---

---

# Investment Banking Summary

---

**Exotic Products (Swaps & Derivatives) are Growing**

**Transparency Not a Goal (Perhaps a Detriment)  
Bear in Woods**

**Major Political Influential Power is Restricting Regulations**

---

---

# Dodd-Frank Act (WSRCPA)

---

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

- 16 Titles – See Summary on Wikipedia
  - 243 Rules to be created (about 1/2 done)
  - 67 Studies required
  - 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 (Oversight Committee – Not!)
  - Securitization Reform (Investment Banking - QIB Clawbacks)
  - Derivatives (minimal change – based on net balance only)

---

---

# Dodd-Frank Act – Appraisal Issues

---

## Title XIV - Mortgage Reform and Anti-Predatory Lending Act

- Subtitle F – Appraisal Activities
  - AVM's shall adhere to Quality Control Standards  
No real change, doesn't address selection bias inherent in system
  - BPO's may not be used as “**primary**” basis for consumer's “**principal**” dwelling  
AVM ≠ BPO, and nothing said about “secondary” basis or “non-principal” dwelling
  - HUD form “**MAY**” include fee disclosure  
With the word “may”, there is NO requirement



---

---

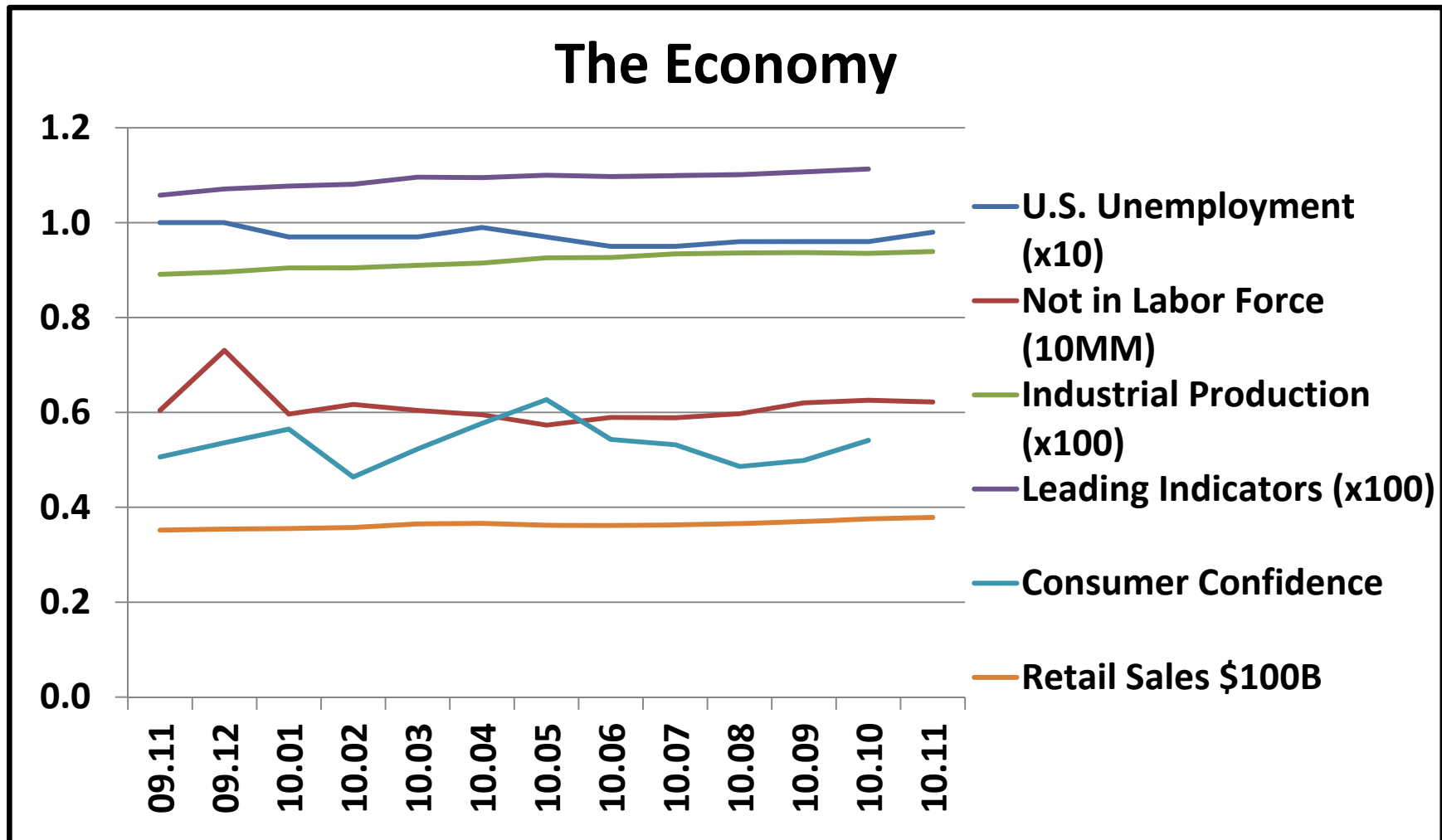
# Dodd-Frank Act – Conclusions

---

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

- The Wall Street Reform has been “Watered Down” and will ultimately have marginal impact
- Many of the Appraisal Issues will result in marginal impact
- The primary impact will be Consumer Protection
  - More Standardized Loan Application
  - Better Disclosure of Cost of Borrowing (rates, fees, effective rate)
  - Potential to Reduce Cost of Credit via enhanced Standardization and transparency of costs

# The Economy – Flatline



# Top - Bottom Market Stats – as of 2010 Q3

INDUSTRIAL - 2010.Q3					OFFICE - 2010.Q3					RETAIL - 2010.Q3					APARTMENT - 2010.Q3				
Vac	Metro	Vac %	Eff Rent \$	Eff Rent % Chg	Vac	Metro	Vac %	Eff Rent \$	Eff Rent % Chg	Vac	Metro	Vac %	Eff Rent \$	Eff Rent % Chg	Vac	Metro	Vac %	Eff Rent \$	Eff Rent % Chg
1	Los Angeles	8.1%	\$6.67	3.7%	1	New York	8.7%	\$55.62	-0.6%	1	San Francisco	3.6%	\$29.92	1.0%	1	San Francisco	3.6%	\$29.92	100.0%
2	Salt Lake City	9.3%	\$4.57	-3.4%	2	Honolulu	8.8%	\$26.44	1.8%	2	Fairfield County	3.8%	\$25.20	0.4%	2	Fairfield County	3.8%	\$25.20	40.0%
3	Kansas City	10.3%	\$6.10	0.7%	3	Long Island	11.3%	\$19.82	-0.9%	3	Northern New Jer	5.6%	\$24.61	0.6%	3	Northern New Jer	5.6%	\$24.61	60.0%
4	Houston	10.5%	\$5.32	3.5%	4	Pittsburgh	11.5%	\$17.10	1.7%	4	Long Island	5.8%	\$22.66	0.8%	4	Long Island	5.8%	\$22.66	80.0%
5	San Francisco	10.5%	\$7.76	-0.6%	5	Trenton	12.0%	\$23.82	-0.6%	5	Los Angeles	6.1%	\$25.18	0.3%	5	Los Angeles	6.1%	\$25.18	30.0%
6	Long Island	10.9%	\$5.58	-1.2%	6	Stamford	12.5%	\$26.08	-0.4%	6	San Jose	6.1%	\$26.71	-0.1%	6	San Jose	6.1%	\$26.71	-10.0%
7	Portland	11.0%	\$6.25	-0.6%	7	Washington D.C.	13.1%	\$35.23	1.1%	7	Suburban Virginia	6.1%	\$24.40	0.3%	7	Suburban Virginia	6.1%	\$24.40	30.0%
8	Orange County	11.1%	\$8.54	1.8%	8	Boston	13.2%	\$27.18	-3.4%	8	Westchester	6.5%	\$32.11	-0.7%	8	Westchester	6.5%	\$32.11	-70.0%
9	Seattle	11.2%	\$9.21	5.5%	9	San Francisco	14.1%	\$21.65	-3.6%	9	Orange County	6.6%	\$26.58	0.4%	9	Orange County	6.6%	\$26.58	40.0%
10	New York	11.8%	\$5.61	-2.4%	10	Nashville	14.2%	\$19.85	-0.6%	10	Boston	6.8%	\$19.41	0.0%	10	Boston	6.8%	\$19.41	0.0%
51	Vallejo	16.2%	\$5.62	-0.7%	51	West Palm Beach	21.5%	\$20.87	-2.2%	73	Colorado Springs	14.5%	\$11.94	-0.3%	71	Colorado Springs	14.5%	\$11.94	-30.0%
52	Hartford	17.7%	\$6.39	-1.2%	52	Edison	21.6%	\$17.15	-0.9%	74	Wichita	14.6%	\$10.40	-0.4%	72	Wichita	14.6%	\$10.40	-40.0%
53	Boston	17.9%	\$5.87	-0.2%	53	San Jose	21.7%	\$25.93	-0.7%	75	Dallas	14.8%	\$14.03	0.3%	73	Dallas	14.8%	\$14.03	30.0%
54	Sacramento	18.3%	\$4.73	-4.8%	54	Jacksonville	21.9%	\$15.76	-0.9%	76	Syracuse	15.2%	\$10.60	0.2%	74	Syracuse	15.2%	\$10.60	20.0%
55	Phoenix	18.7%	\$5.03	-4.2%	55	Tampa	21.9%	\$18.83	-3.0%	77	Birmingham	15.7%	\$12.19	0.3%	75	Birmingham	15.7%	\$12.19	30.0%
56	Atlanta	18.8%	\$3.25	-7.1%	56	Dallas	22.3%	\$18.22	1.4%	78	Cincinnati	15.7%	\$12.36	-0.2%	76	Cincinnati	15.7%	\$12.36	-20.0%
57	Stamford	19.4%	\$5.95	-0.7%	57	Riverside	22.4%	\$18.57	-2.8%	79	Tulsa	15.8%	\$9.76	-0.8%	77	Tulsa	15.8%	\$9.76	-80.0%
58	Detroit	20.5%	\$3.67	-1.3%	58	Las Vegas	24.6%	\$21.07	-3.7%	80	Columbus	16.3%	\$10.70	0.2%	78	Columbus	16.3%	\$10.70	20.0%
59	Memphis	20.7%	\$2.36	-2.1%	59	Detroit	24.9%	\$15.92	-0.6%	81	Indianapolis	16.3%	\$12.33	0.0%	79	Indianapolis	16.3%	\$12.33	0.0%
60	Trenton	21.2%	\$3.92	0.8%	60	Phoenix	26.1%	\$18.73	0.1%	82	Dayton	17.0%	\$8.79	-0.1%	80	Dayton	17.0%	\$8.79	-10.0%
	<b>Average</b>	14.4%	\$5.24	-1.0%		<b>Average</b>	17.5%	\$20.77	-0.7%		<b>Average</b>	11.0%	\$32.30	0.0%		<b>Average</b>	11.0%	\$16	1.3%
1	Los Angeles	8.1%	\$6.67	3.7%	30	Los Angeles	17.2%	\$25.29	0.0%	5	Los Angeles	6.1%	\$25.18	0.3%	5	Los Angeles	6.1%	\$25.2	30.0%
8	Orange County	11.1%	\$8.54	1.8%	45	Orange County	19.8%	\$23.14	-0.5%	9	Orange County	6.6%	\$26.58	0.4%	9	Orange County	6.6%	\$26.6	40.0%
37	San Diego	15.1%	\$7.42	-3.0%	43	San Diego	18.9%	\$25.02	2.9%	14	San Diego	7.6%	\$25.26	-0.2%	14	San Diego	7.6%	\$25.3	-20.0%
NA	NA	NA	NA	NA	57	Riverside	22.4%	\$18.57	-2.8%	28	San Bernardino/R	10.0%	\$18.01	-0.3%	28	San Bernardino/R	10.0%	\$18.0	-30.0%
13	Ventura	12.3%	\$8.41	0.1%	36	Ventura	17.8%	\$18.85	-0.5%	25	Ventura County	9.7%	\$24.69	-1.3%	25	Ventura County	9.7%	\$24.7	-130.0%
	<b>Min</b>	8.1%	\$2.36	-7.3%		<b>Min</b>	8.7%	\$3.92	-5.6%		<b>Min</b>	3.6%	\$8.79	-1.3%		<b>Min</b>	3.6%	\$8.79	-130.0%
	<b>Max</b>	21.2%	\$9.21	5.5%		<b>Max</b>	26.1%	\$55.62	2.9%		<b>Max</b>	17.0%	\$753.23	1.0%		<b>Max</b>	17.0%	\$32.11	100.0%
	<b>Spread</b>	13.1%	\$6.85	12.8%		<b>Spread</b>	17.4%	\$51.70	8.5%		<b>Spread</b>	13.4%	\$744.44	2.3%		<b>Spread</b>	13.4%	\$23.32	230.0%
Source: CBRE Economic Advisors, Greer Advisors, LLC					Source: CBRE Economic Advisors, Greer Advisors, LLC					Source: REIS, Greer Advisors, LLC					Source: CBRE Economic Advisors, Greer Advisors, LLC				

# Los Angeles Office – as of 2010 Q3

<b>Market Fundamentals data as of 3Q-2010</b>						
Submarket	Inventory		Vacancy Rate		Asking Rents	
	Bldgs (#)	NRA (SF x 1000)	Current Qtr. (%)	YTD Chg (BPS)	Net (\$)	Gross (\$)
Subtotal: Beverly Hills/Century City	405	59,809	15.10	50	24.31	31.96
Subtotal: Downtown	74	33,093	16.80	240	23.35	24.66
Subtotal: San Fernando Valley	357	26,537	19.20	100	18.73	25.46
Subtotal: San Gabriel Valley	148	9,454	13.90	-70	19.28	22.53
Subtotal: South Bay	374	33,334	18.60	200	22.72	23.77
Subtotal: Tri-Cities	146	18,384	21.20	230	39.00	30.73
<b>Total: Los Angeles</b>	<b>1,504</b>	<b>180,611</b>	<b>17.20</b>	<b>130</b>	<b>23.33</b>	<b>27.70</b>
Source: CBRE Economic Advisors						

# Los Angeles Industrial– as of 2010 Q3

Market Fundamentals data as of 3Q-2010						
Submarket	Inventory		Availability Rate		Asking Rents	
	Bldgs (#)	Total (SF x 1000)	Current Qtr. (%)	YTD Chg (BPS)	Net (\$)	Gross (\$)
Subtotal: Antelope Valley	112	6,220	16.10	-170	5.68	6.61
Subtotal: Downtown LA	6,056	294,387	5.80	-70	5.92	5.23
Subtotal: Mid-Counties	2,144	104,060	11.50	-50	5.34	6.28
Subtotal: San Fernando Valley	4,010	141,581	7.50	40	7.48	8.48
Subtotal: San Gabriel Valley	3,357	163,599	9.10	40	5.41	6.52
Subtotal: Santa Clarita Valley	493	20,254	14.60	-160	5.70	6.42
Subtotal: South Bay	4,267	227,610	8.30	20	6.56	6.33
<b>Total: Los Angeles</b>	<b>20,439</b>	<b>957,711</b>	<b>8.10</b>	<b>-10</b>	<b>6.23</b>	<b>6.31</b>
Source: CBRE Economic Advisors						

---

---

# Future of Banking

---

**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**

---

---

**Greer Advisors, LLC**

---

---

---

---

# Conclusions

---

- Government will keep SBA Going Strong
- Banks will get Government Pressure to Lend
- MBS Market – Spreads are 10-100x higher than 1/07
- MBS – New Business Model will Arise
- REITs – Virtually Recovered
- Insurance Companies and Fannie/Freddie Lenders are Active
- CASH IS KING! Cap/Yield Rates Have RISEN for Class B/C
- Value Growth will Lag Rent Growth – by a Lot
- Rents / Vacancies Remain better than early 1990s
- Real Estate Cost is **NOT** the Largest Cost of Business!!!

---

---

## Quote of the Day

---

“...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



---

---

**Greer Advisors, LLC**

---

---



---

---

## Greer's 3-Year Forecast as of 1/20/2011

---

- Forecast is a Barbell – very slow growth or big double dip
- Margins (to 10 Yr Treasuries or LIBOR) will rise and settle at  $300 \pm 50$  bps over 10 year Treasuries, but might over-correct in the short run, say 10Yr 400+ bps.
- Rent Growth will Lag CPI growth by 2-6%.
- Nationally, values will continue to fall 0-5%/yr thru mid-2011. Individual Market Performance will vary widely. (10-30% difference in Top vs. Bottom)
- Capitalization Rates will Rise 1-2% during 2011-2012 (e.g. 5.0% to 7.25% = 30% decline in value)
- Declines: #1=Retail; #2=Office & Industrial; then Apartment
- Change Creates Opportunities – Build Businesses

---

---

## Greer's Recovery Signs – Prereq's to Recovery

---

- CDS Exposure under \$25 Trillion (i.e. under 50% of peak)
- Stable or Decline in CMBx Yield Spreads for 6 straight weeks
- Re-emergence of CMBS market
  - New CMBS Market will include:
    - Issuer Keeps 1-5% 1<sup>st</sup>-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 12/28/10 (last report) index at 52.5 (1985=100)
- Risk Curve (AAA Sr. vs. BB) flattens to under 500 bps. As of 1/20/10, CMBx spread nearly 10,000 bps, or 100%.

---

---

# Questions / Answers

---

---

---

# Greer Advisors, LLC

---

---

[www.GreerAdvisors.com](http://www.GreerAdvisors.com)

**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**