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# Trends in Commercial Real Estate

Everett (Allen) Greer  
Greer Advisors, LLC

June 28, 2011 – La Jolla, CA

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**Greer Advisors, LLC**

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# Goals of Presentation

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

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# Disclaimers

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**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.**

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# ■ Market Drivers

# Market Drivers

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

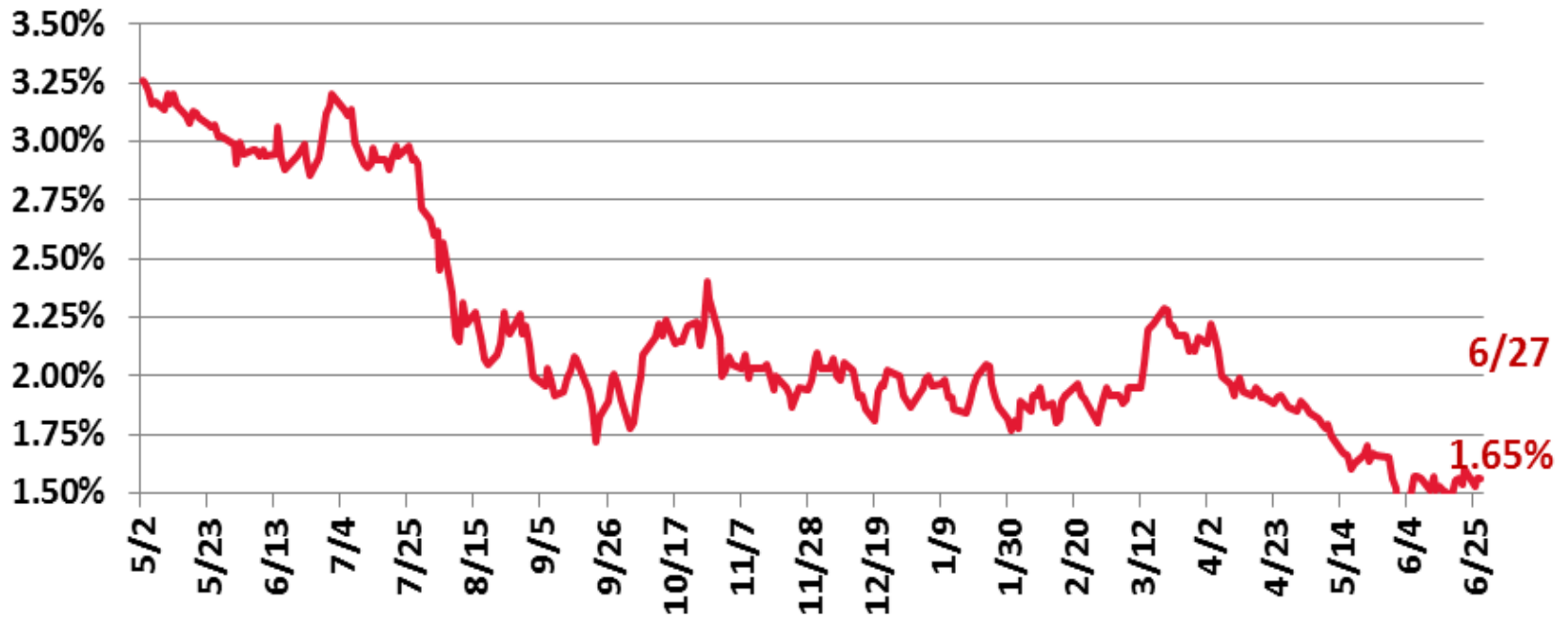
- Non-Res. Supply Growth was Very Limited Growth
- Most Demand ties to Jobs, which is tied to GDP
  - Office – FIRE Employment, Portion of Service Employment
  - Retail – Household Formations, Income Growth
  - Industrial – Manufacturing vs Distribution
  - Multifamily – Households
  - Hotel – Corporate Travel – Office Employment
- Jobs & Retail Sales - Drive Supply & Demand!!!

**Financing – Is the Most Important Fundamental**

- Leverage, Rate, Term, Recourse

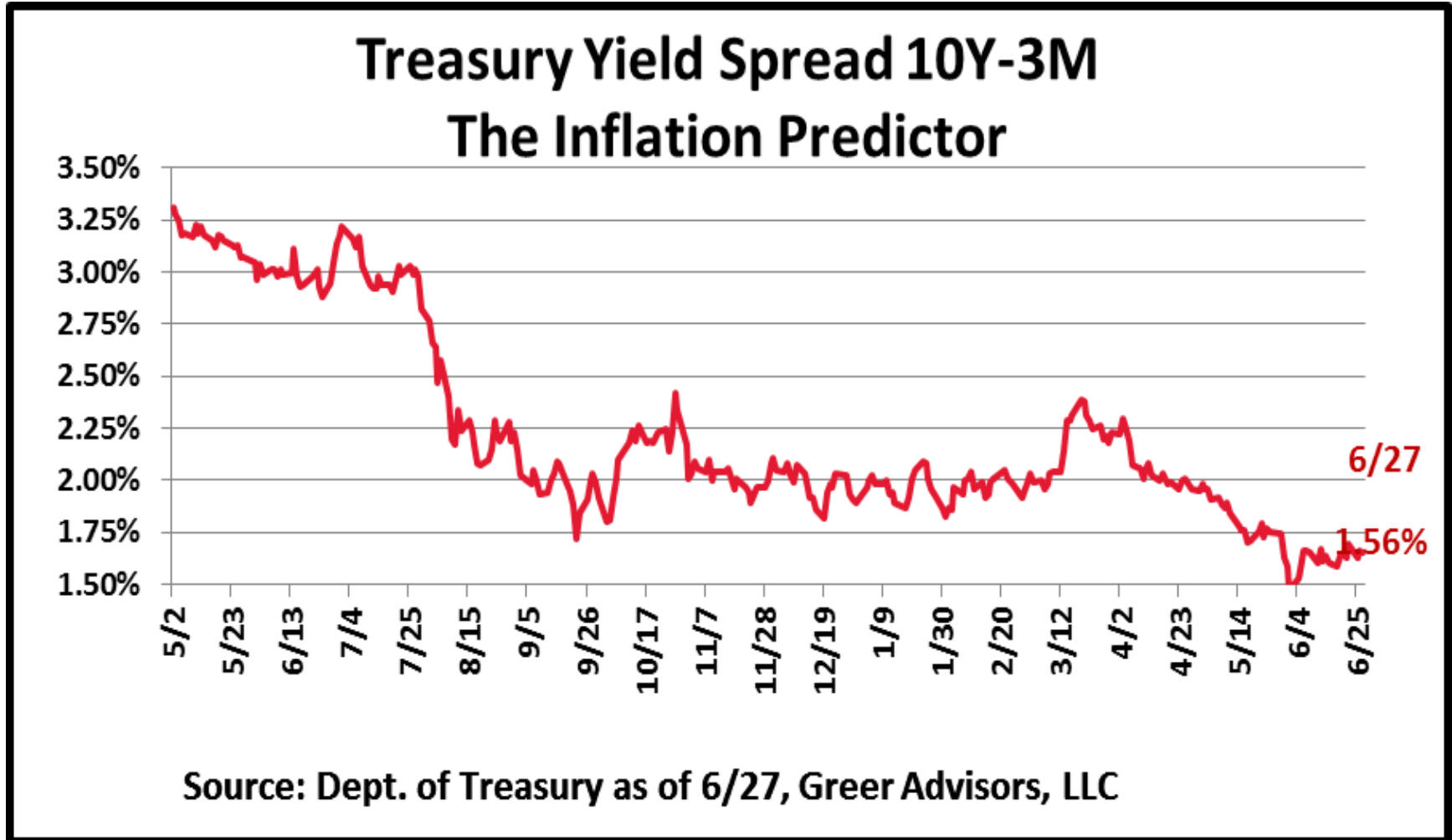
# Interest & Inflation

## 10 Year Treasury Yields

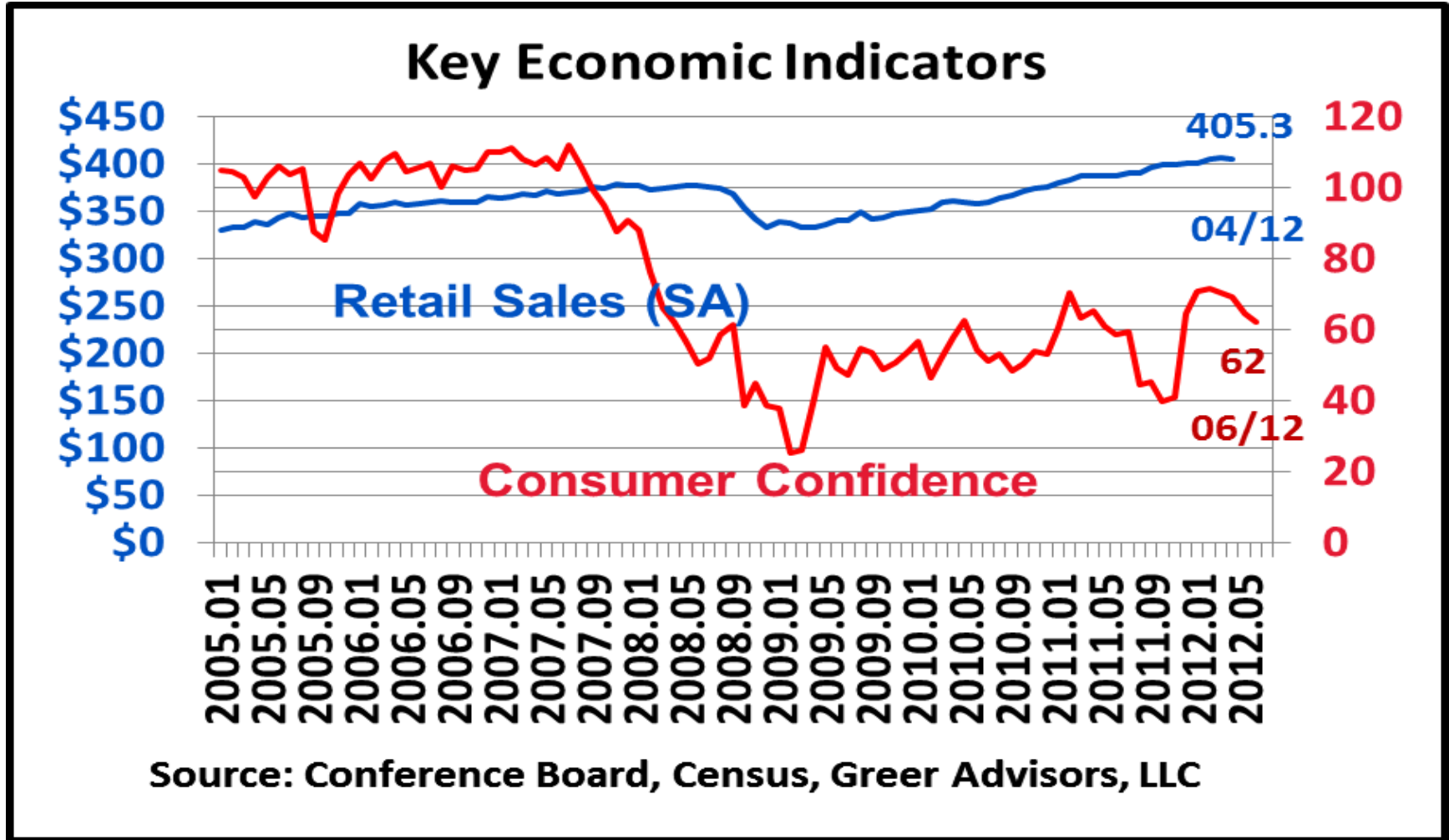


Source: Dept. of Treasury as of 6/27, Greer Advisors, LLC

# Interest & Inflation

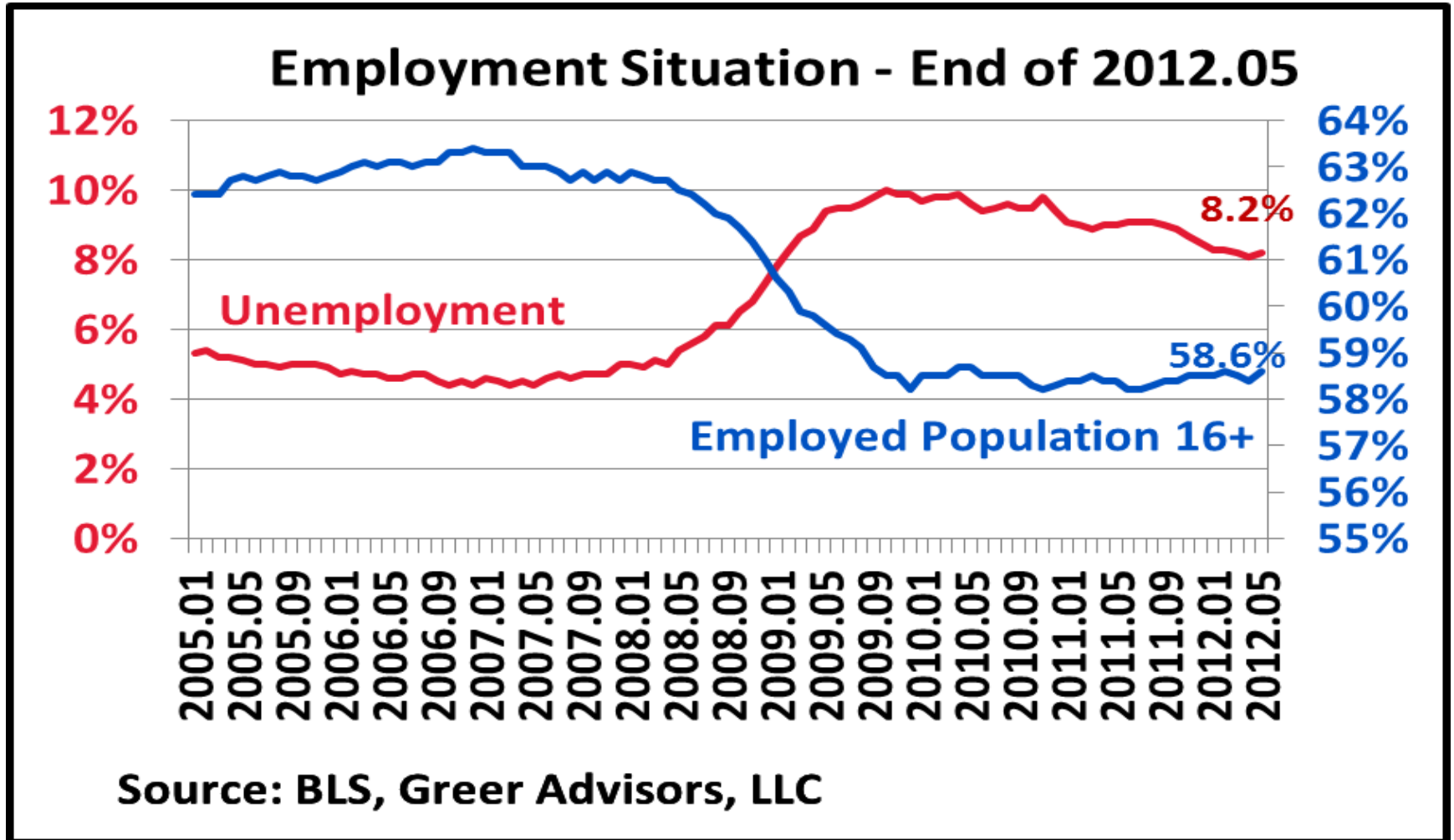


# Economy – Consumer Confidence & Sales





# Economy – Employment



# Economy – Employment

## 2010 Employed Population 16+ by Industry

|  | San Diego City | San Diego County | SoCal - 5 Counties | California | United States |
|--|----------------|------------------|--------------------|------------|---------------|
| <b>Total</b>                             |                |                  |                    |            |               |
| Agriculture/Mining                       | 0.3%           | 0.6%             | 0.5%               | 1.9%       | 1.8%          |
| Construction                             | 4.5%           | 6.2%             | 5.8%               | 5.9%       | 6.5%          |
| Manufacturing                            | 7.3%           | 7.6%             | 10.0%              | 9.2%       | 9.6%          |
| Wholesale Trade                          | 2.4%           | 2.9%             | 3.9%               | 3.6%       | 3.2%          |
| Retail Trade                             | 9.8%           | 10.8%            | 10.9%              | 10.9%      | 11.4%         |
| Transportation/Utilities                 | 3.4%           | 3.5%             | 4.4%               | 4.3%       | 4.9%          |
| Information                              | 3.0%           | 2.6%             | 3.1%               | 2.9%       | 2.3%          |
| Finance/Insurance/Real Estate            | 7.7%           | 7.5%             | 7.6%               | 7.4%       | 7.1%          |
| Services                                 | 56.7%          | 53.1%            | 50.1%              | 49.4%      | 48.0%         |
| Public Administration                    | 5.0%           | 5.2%             | 3.8%               | 4.5%       | 5.1%          |
| <b>Employment Base Index (to Nation)</b> |                |                  |                    |            |               |
| Agriculture/Mining                       | 16.7           | 33.3             | 27.8               | 105.6      | 100           |
| Construction                             | 69.2           | 95.4             | 89.2               | 90.8       | 100           |
| Manufacturing                            | 76.0           | 79.2             | 104.2              | 95.8       | 100           |
| Wholesale Trade                          | 75.0           | 90.6             | 121.9              | 112.5      | 100           |
| Retail Trade                             | 86.0           | 94.7             | 95.6               | 95.6       | 100           |
| Transportation/Utilities                 | 69.4           | 71.4             | 89.8               | 87.8       | 100           |
| Information                              | 130.4          | 113.0            | 134.8              | 126.1      | 100           |
| Finance/Insurance/Real Estate            | 108.5          | 105.6            | 107.0              | 104.2      | 100           |
| Services                                 | 118.1          | 110.6            | 104.4              | 102.9      | 100           |
| Public Administration                    | 98.0           | 102.0            | 74.5               | 88.2       | 100           |

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

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# Economy

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## Consumer Side

- Consumer Confidence is Poor at 62.0 (Jun Conf. Board)
- Unemployment Remains High 8.2% (May – 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

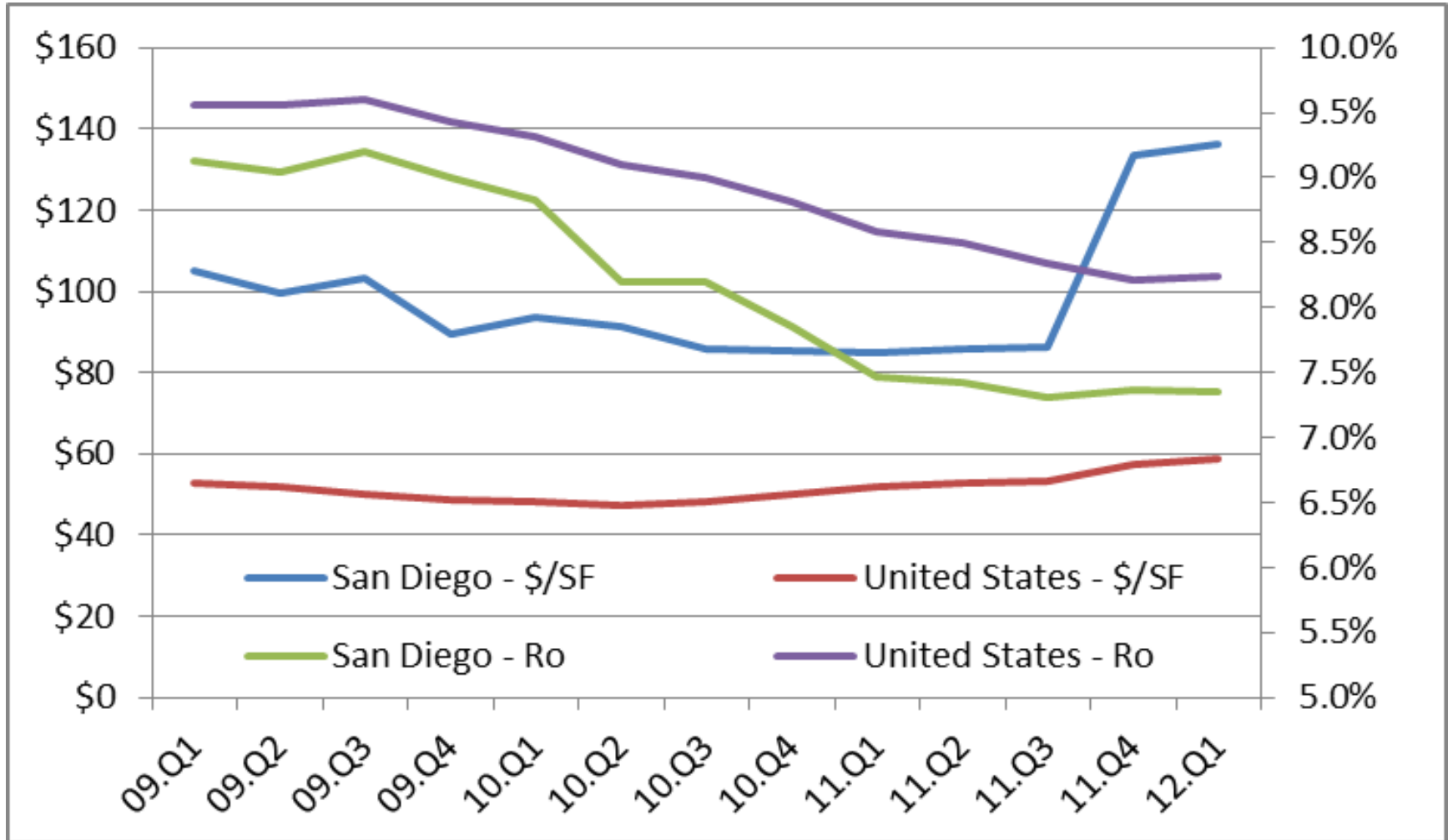
- Capital IQ and Deal Logic show LBO's 😊 /M&A on the rise
- Record Profits – GS near 1,000 batting average every day since the Crisis Started
- IB's record profits – cost of taxpayer

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- **Market Performance**

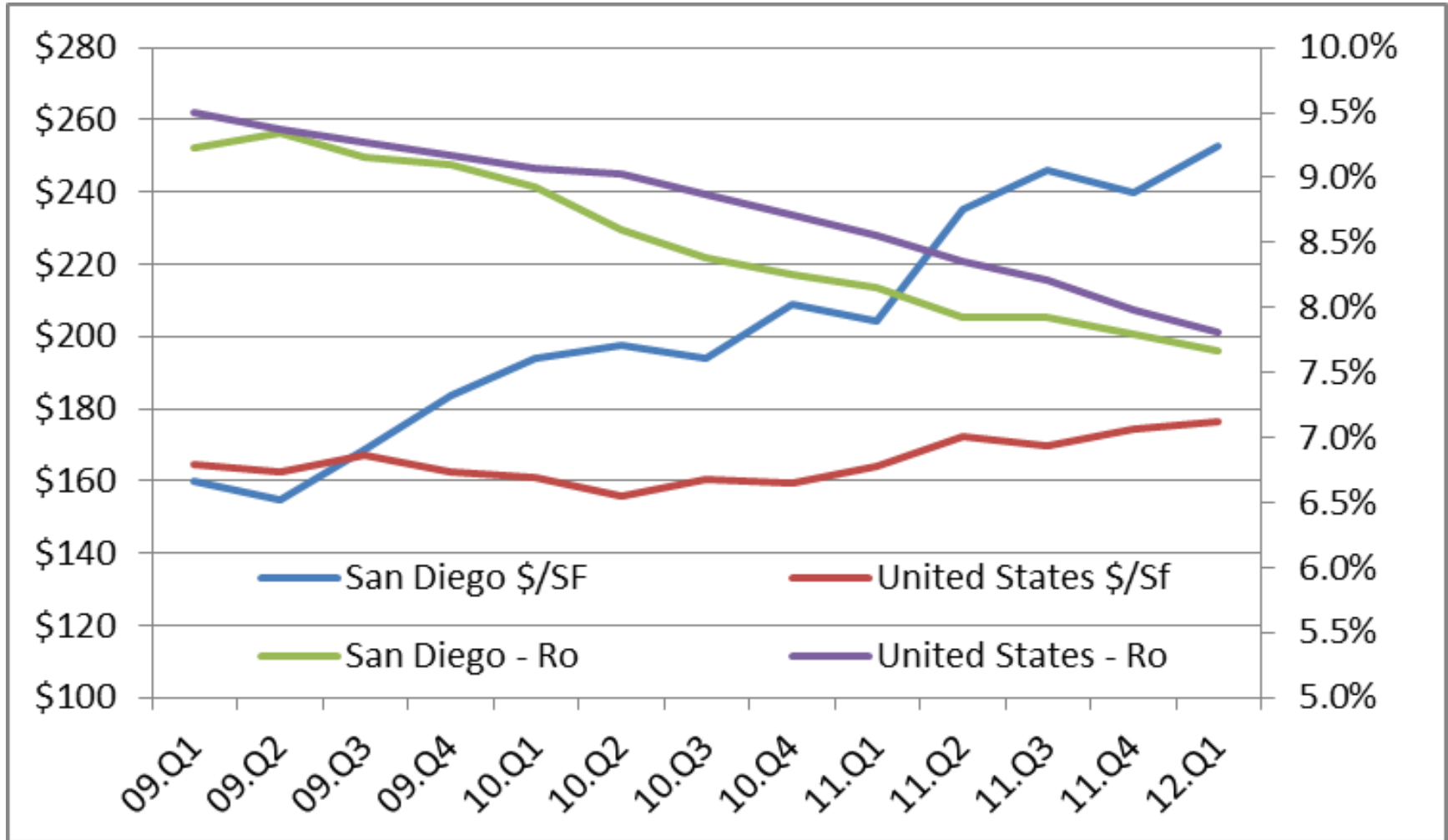
# Industrial Sales Trends – U.S. and San Diego



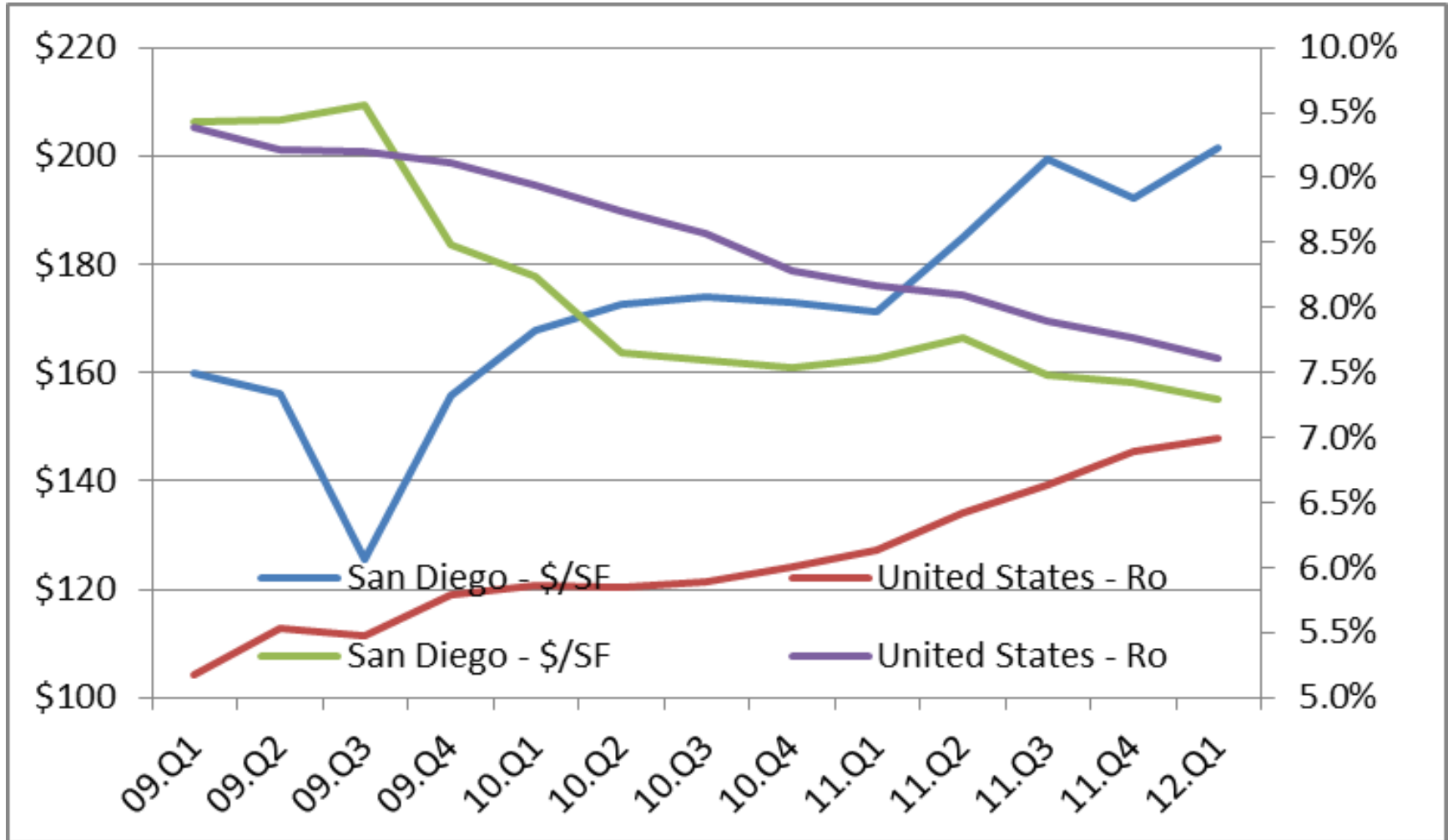
Source: Real Capital Analytics, |  
Greer Advisors, LLC

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# Office Sales Trends – U.S. and San Diego



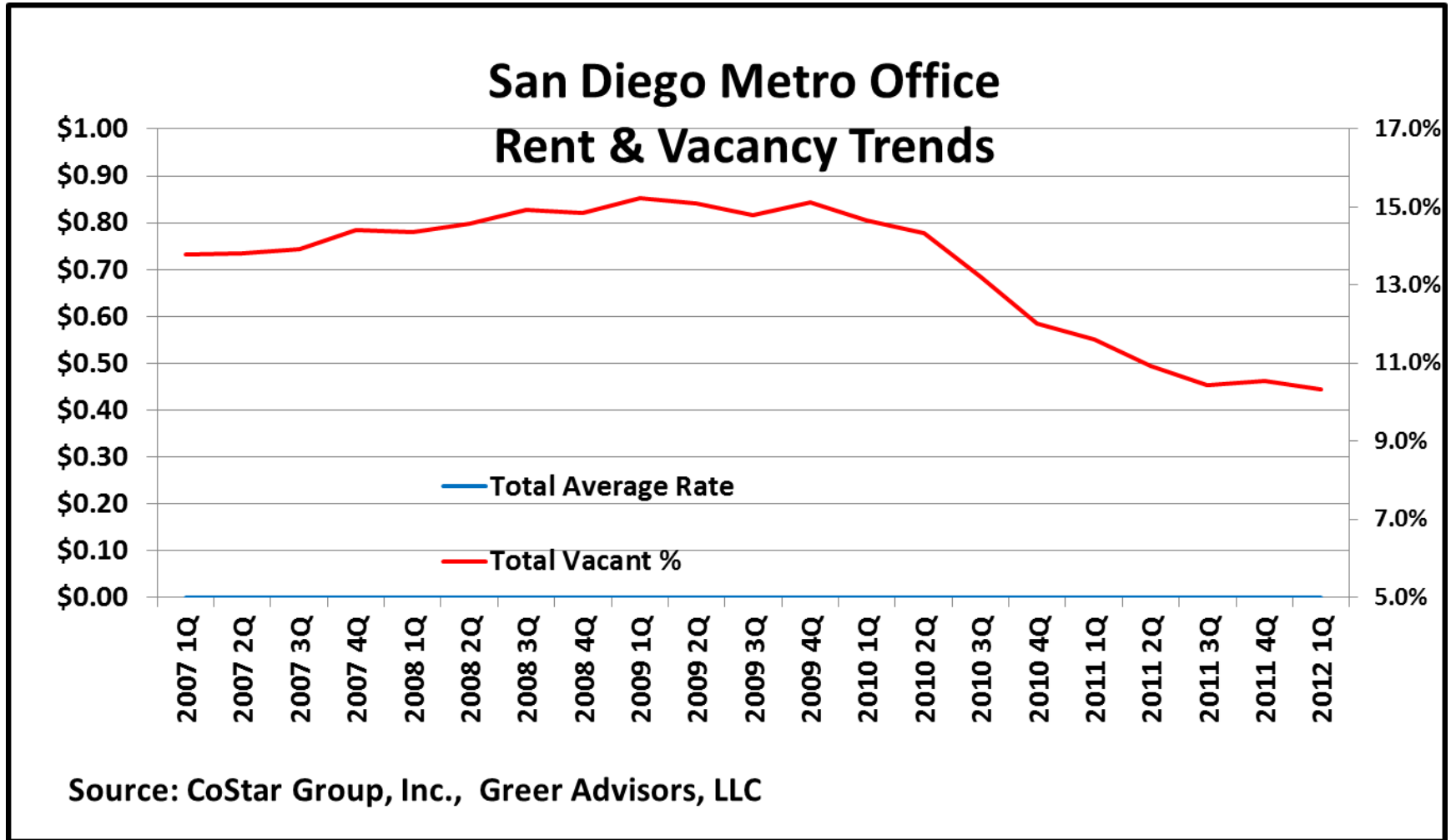
# Retail Sales Trends – U.S. and San Diego



Source: Real Capital Analytics, |  
 Greer Advisors, LLC

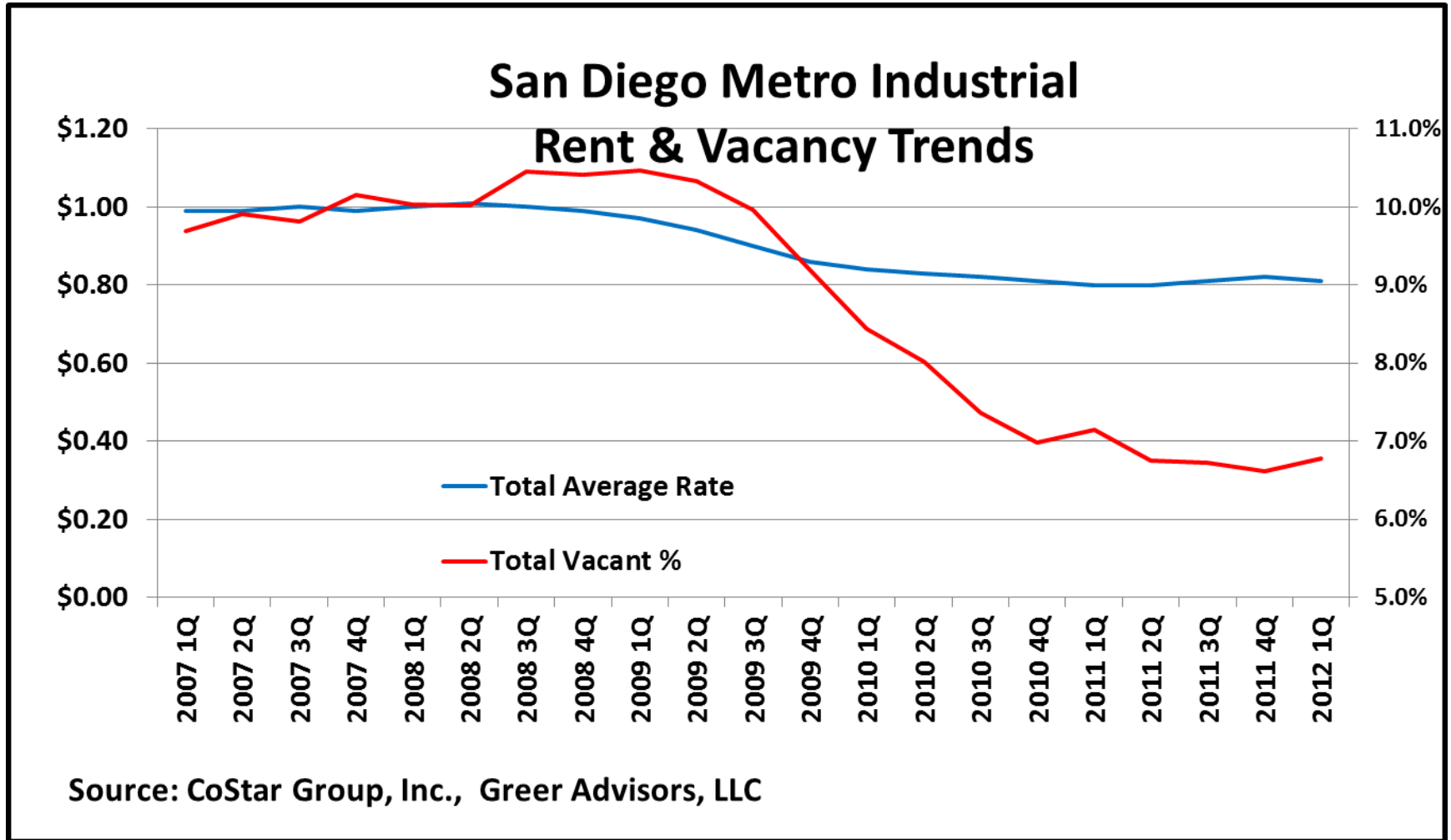
**Greer Advisors, LLC**

# San Diego Rents & Vacancy Rates - Office

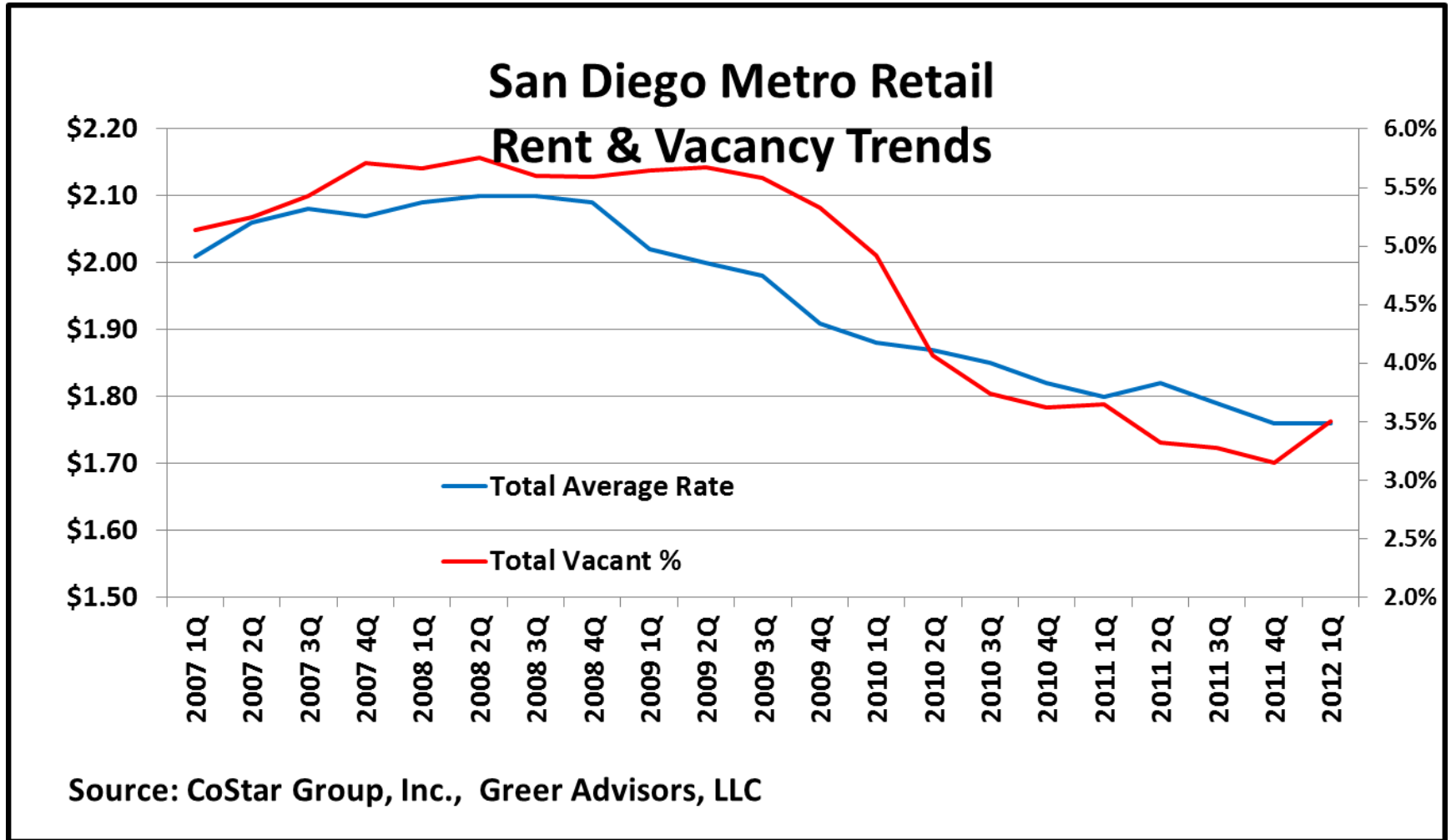




# San Diego Rents & Vacancy Rates - Industrial



# San Diego Rents & Vacancy Rates - Retail



# San Diego – Submarket Snapshot – Industrial

| Total Industrial Submarket Statistics |                    |                    |                   |                   |              | First Quarter 2012 |                |
|---------------------------------------|--------------------|--------------------|-------------------|-------------------|--------------|--------------------|----------------|
| Market                                | Existing Inventory |                    | Vacancy           |                   |              | YTD Net            | Quoted         |
|                                       | # Blds             | Total RBA          | Direct SF         | Total SF          | Vac %        | Absorption         | Rates          |
| Carlsbad Ind                          | 478                | 13,570,164         | 1,974,592         | 2,003,140         | 14.8%        | 23,958             | \$ 11.43       |
| Chula Vista Ind                       | 422                | 10,172,715         | 727,605           | 746,403           | 7.3%         | (4,434)            | \$ 8.65        |
| El Cajon Ind                          | 532                | 10,235,885         | 948,830           | 949,580           | 9.3%         | 11,530             | \$ 8.18        |
| Escondido Ind                         | 714                | 7,877,305          | 502,774           | 515,014           | 6.5%         | (37,425)           | \$ 8.74        |
| Kearny Mesa Ind                       | 650                | 15,857,591         | 888,681           | 942,105           | 5.9%         | 100,645            | \$ 12.06       |
| Mira Mesa/Miramar Ind                 | 809                | 17,853,262         | 1,802,225         | 1,855,079         | 10.4%        | 137,566            | \$ 10.51       |
| Oceanside Ind                         | 436                | 8,961,148          | 1,235,914         | 1,252,000         | 14.0%        | 46,660             | \$ 7.87        |
| Otay Mesa Ind                         | 330                | 15,214,859         | 2,820,429         | 2,967,661         | 19.5%        | 15,551             | \$ 5.91        |
| Poway Ind                             | 232                | 8,318,715          | 376,784           | 382,799           | 4.6%         | 33,957             | \$ 9.61        |
| Rancho Bernardo Ind                   | 141                | 8,906,661          | 1,715,996         | 1,715,996         | 19.3%        | 102,738            | \$ 12.06       |
| San Marcos Ind                        | 574                | 9,388,251          | 977,765           | 987,726           | 10.5%        | (81,275)           | \$ 8.95        |
| Sorrento Mesa Ind                     | 243                | 10,500,915         | 1,055,155         | 1,089,627         | 10.4%        | 45,126             | \$ 12.91       |
| Vista Ind                             | 559                | 13,727,255         | 1,154,533         | 1,169,598         | 8.5%         | (33,953)           | \$ 8.13        |
| <b>Totals</b>                         | <b>8,607</b>       | <b>190,386,972</b> | <b>19,354,175</b> | <b>20,203,335</b> | <b>10.6%</b> | <b>402,605</b>     | <b>\$ 9.72</b> |

Source: CoStar Inc, Greer Advisors, LLC

# San Diego – Submarket Snapshot – Office

| Total Office Submarket Statistics |                    |                    |                   |                   |              | First Quarter 2012 |               |                  |                |
|-----------------------------------|--------------------|--------------------|-------------------|-------------------|--------------|--------------------|---------------|------------------|----------------|
| Market                            | Existing Inventory |                    | Vacancy           |                   |              | YTD Net            | YTD           | Under            | Quoted         |
|                                   | # Blds             | Total RBA          | Direct SF         | Total SF          | Vac %        | Absorption         | Deliveries    | Const SF         | Rates          |
| Carlsbad                          | 325                | 6,692,423          | 1,360,498         | 1,453,502         | 21.7%        | (17,590)           | 0             | 0                | \$24.32        |
| Chula Vista                       | 277                | 3,415,138          | 514,437           | 517,367           | 15.1%        | (15,327)           | 0             | 45,000           | \$26.62        |
| Del Mar Hts/Carmel Valley         | 71                 | 4,420,075          | 646,286           | 834,821           | 18.9%        | (40,847)           | 0             | 0                | \$34.78        |
| Downtown                          | 277                | 13,508,332         | 2,190,842         | 2,284,704         | 16.9%        | 21,888             | 0             | 0                | \$24.67        |
| East County                       | 711                | 5,749,059          | 453,094           | 455,882           | 7.9%         | 5,907              | 0             | 0                | \$18.43        |
| Kearny Mesa                       | 283                | 10,623,474         | 1,160,353         | 1,182,391         | 11.1%        | (10,710)           | 0             | 573,353          | \$20.22        |
| Mission Valley                    | 138                | 7,086,882          | 980,410           | 999,983           | 14.1%        | (82,921)           | 0             | 0                | \$24.64        |
| North Beach Cities                | 328                | 3,176,137          | 203,602           | 203,602           | 6.4%         | (3,404)            | 3,887         | 63,941           | \$34.17        |
| Old Twn/S Arena/Pt Loma           | 190                | 2,949,536          | 236,683           | 249,773           | 8.5%         | 20,847             | 0             | 0                | \$23.51        |
| Rancho Bernardo                   | 135                | 6,614,236          | 737,061           | 756,840           | 11.4%        | 21,656             | 0             | 40,398           | \$25.96        |
| Scripps Ranch                     | 57                 | 2,756,810          | 846,241           | 929,622           | 33.7%        | 41,749             | 0             | 0                | \$27.17        |
| Sorrento Mesa                     | 136                | 8,685,326          | 994,630           | 1,053,886         | 12.1%        | (4,555)            | 0             | 350,882          | \$23.27        |
| Torrey Pines                      | 50                 | 3,126,147          | 231,813           | 254,164           | 8.1%         | 18,134             | 0             | 0                | \$29.02        |
| Uptown West/Park West             | 432                | 3,740,453          | 290,951           | 295,951           | 7.9%         | 3,912              | 0             | 66,365           | \$24.25        |
| UTC                               | 84                 | 7,576,034          | 1,050,752         | 1,339,742         | 17.7%        | 7,430              | 0             | 123,429          | \$28.95        |
| <b>Totals</b>                     | <b>5,399</b>       | <b>111,747,337</b> | <b>14,604,596</b> | <b>15,567,306</b> | <b>13.9%</b> | <b>(88,818)</b>    | <b>29,887</b> | <b>1,401,644</b> | <b>\$25.34</b> |

Source: CoStar Inc, Greer Advisors, LLC

# San Diego – Submarket Snapshot – Retail

| Total Retail Submarket Statistics |                    |                    |                  |                  |             | First Quarter 2012 |               |                |                |
|-----------------------------------|--------------------|--------------------|------------------|------------------|-------------|--------------------|---------------|----------------|----------------|
| Market                            | Existing Inventory |                    | Vacancy          |                  |             | YTD Net            | YTD           | Under          | Quoted         |
|                                   | # Blds             | Total GLA          | Direct SF        | Total SF         | Vac %       | Absorption         | Deliveries    | Const SF       | Rates          |
| Cardiff/Encinitas Ret             | 433                | 5,945,654          | 143,710          | 184,930          | 3.1%        | 6,588              | 0             | 3,590          | \$29.66        |
| Carlsbad Ret                      | 342                | 5,279,996          | 147,060          | 283,756          | 5.4%        | 4,237              | 0             | 0              | \$28.02        |
| Central San Diego Ret             | 1,022              | 4,799,402          | 149,898          | 149,898          | 3.1%        | 52,078             | 57,000        | 6,000          | \$23.56        |
| Chula Vista Ret                   | 711                | 9,149,372          | 360,354          | 366,084          | 4.0%        | 22,163             | 0             | 3,856          | \$21.64        |
| Clarmnt/KM/Tierrasnta Ret         | 472                | 7,110,292          | 327,194          | 330,434          | 4.6%        | 26,165             | 0             | 0              | \$19.97        |
| Downtown Ret                      | 506                | 6,385,826          | 276,892          | 302,566          | 4.7%        | 14,962             | 0             | 90,101         | \$30.02        |
| El Cajon Ret                      | 845                | 8,689,675          | 471,601          | 472,613          | 5.4%        | 14,526             | 0             | 28,816         | \$15.98        |
| Escondido Ret                     | 843                | 10,032,743         | 659,049          | 682,759          | 6.8%        | (3,328)            | 0             | 0              | \$19.06        |
| Imperial Bch/South SD Ret         | 450                | 4,132,516          | 255,763          | 257,879          | 6.2%        | (19,428)           | 0             | 97,500         | \$23.41        |
| La Mesa Ret                       | 502                | 5,254,604          | 248,132          | 255,532          | 4.9%        | 9,257              | 0             | 0              | \$15.16        |
| Mid City/SE San Diego Ret         | 1,221              | 7,286,189          | 311,811          | 311,811          | 4.3%        | 11,694             | 8,800         | 0              | \$16.50        |
| Miramar/M Mesa/S Rnch Ret         | 284                | 4,375,931          | 273,954          | 280,781          | 6.4%        | 257                | 0             | 0              | \$19.16        |
| Mission Valley Ret                | 104                | 5,641,014          | 78,064           | 78,064           | 1.4%        | (2,915)            | 0             | 0              | \$28.27        |
| Oceanside Ret                     | 681                | 7,810,322          | 571,869          | 576,869          | 7.4%        | 5,626              | 0             | 0              | \$19.44        |
| Pt Loma/Sports Arena Ret          | 501                | 4,354,501          | 225,992          | 225,992          | 5.2%        | (13,801)           | 0             | 0              | \$23.35        |
| San Marcos Ret                    | 296                | 4,445,095          | 336,395          | 354,595          | 8.0%        | 14,296             | 0             | 0              | \$19.18        |
| Vista Ret                         | 546                | 5,195,917          | 364,921          | 392,910          | 7.6%        | (13,385)           | 0             | 0              | \$17.26        |
| <b>Totals</b>                     | <b>12,705</b>      | <b>135,956,999</b> | <b>6,604,542</b> | <b>6,974,210</b> | <b>5.1%</b> | <b>104,960</b>     | <b>65,800</b> | <b>329,863</b> | <b>\$21.16</b> |

Source: CoStar Inc, Greer Advisors, LLC

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# ■ Financial Regulations

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# Financial Regulations

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## **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

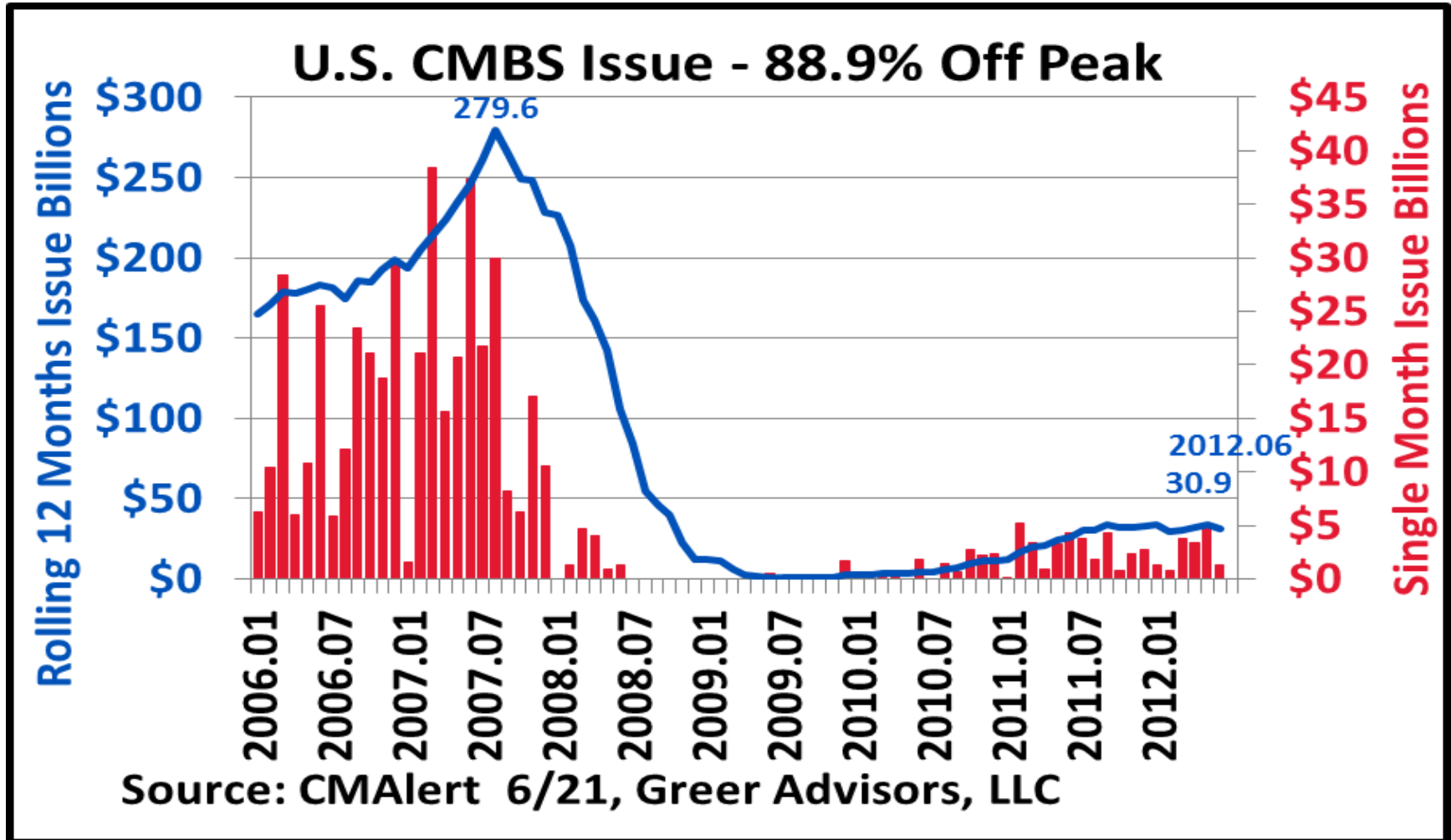
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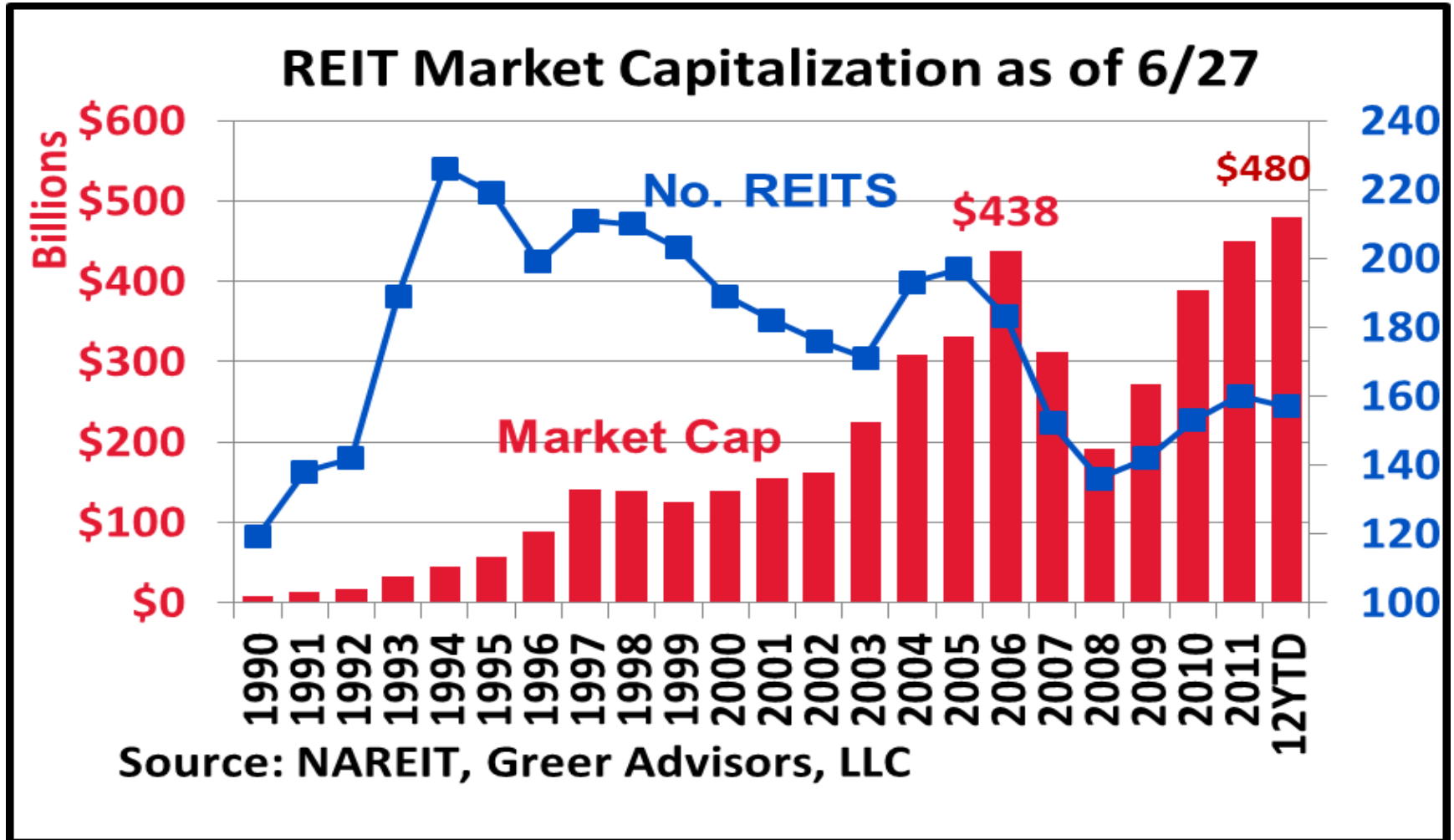
- Real Estate Capital Markets



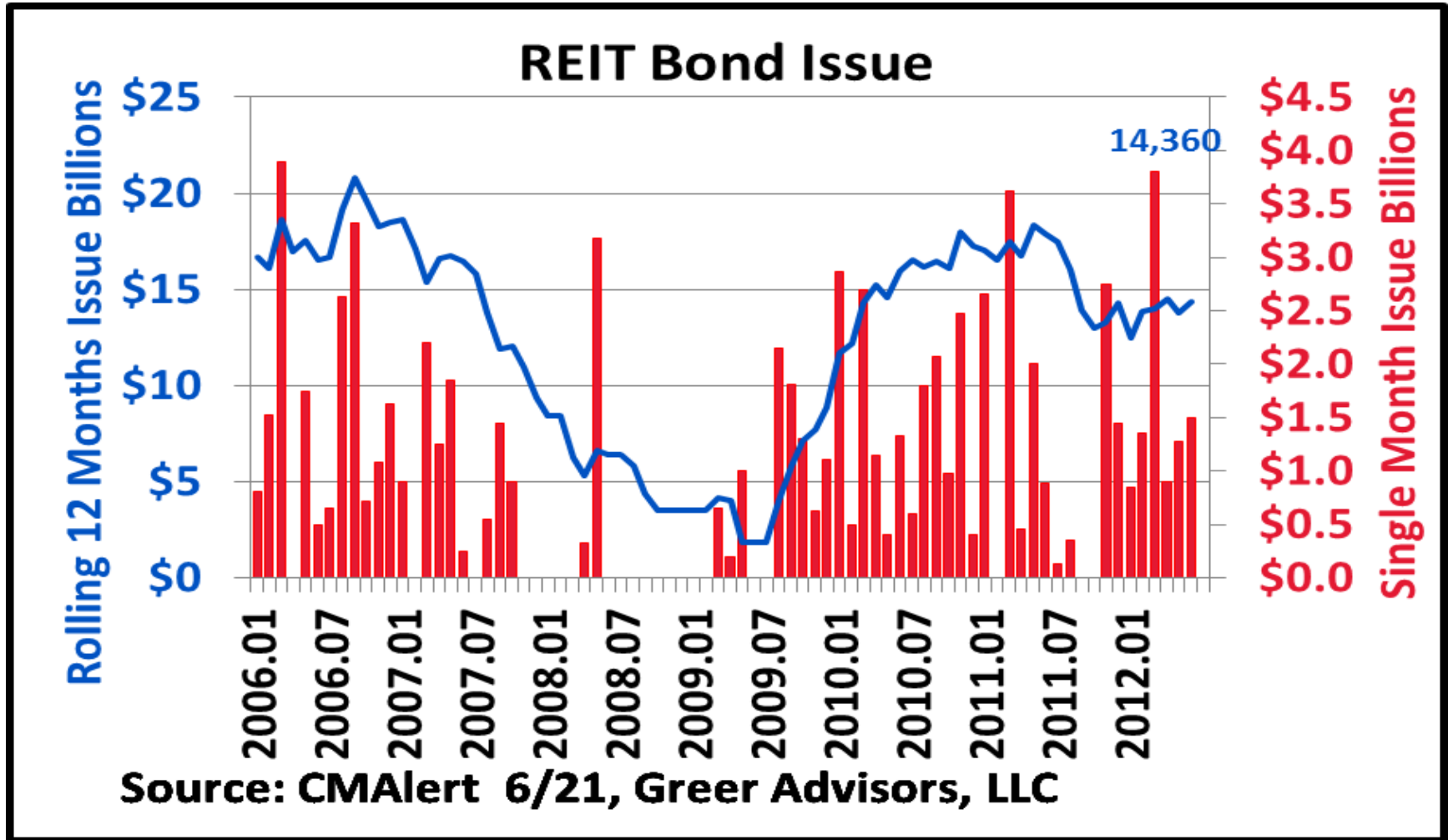
# CMBS Issuance



# REIT Market Capitalization – Long Term



# REIT Bond Issuance



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# ■ Outlook & Forecast

# Conclusions

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- Rates are at all-time lows
- Rents / Vacancies Remain better than early 1990s
- San Diego Office and Retail Rents/Vacancies are recovering
- Industrial Rents are Nearly Flat, Vacancies are recovering
- San Diego Price Growth has Outpaced the Nation
- 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

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- $\sqrt$ CDS Exposure under \$25 Trillion (i.e. under 50% of peak)
- $\sqrt$  Stable or Decline in CMBx Yield Spreads for 6 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
- $\sqrt$  REIT Market Capitalization (Total Value) Stabilizes or Increases for 6 months
- Consumer Confidence Rises and Stays Above 70 for 6 months  
As of June 26, 2012 index at 62.0 (1985=100)
- Risk Curve (AAA Sr. vs BB) flattens to under 500 bps. As of 6/28/11, CMBx spread stands nearly 10,000 bps.

# Greer's 3-Year Forecast as of June 28, 2011

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- Barbell Modest Growth or Global Recession
  - Global Economy Heals or Not
- Cap Rates will Rise 0.5-1.5% 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
- SBA remains very Active

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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 Bera~~

Niels Bohr

Nobel Laureate, 1922

Atomic Structure /

Quantum Mechanics





# Questions / Answers

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