Wall Street and Commercial Real Estate

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Greer Advisors, LLC

December 2, 2009

Goals of Presentation

- Recap of Last Year – How did we do on Forecast?
- Fundamentals
- Capital Markets (CMBS/CDO/REIT/CDS)
- Fed Involvement – TARP/TALF
- Implications for Real Estate (Size/Yield/Impact)
- Real Estate Trends (Capitalization/Yield Rates)
- Conclusions
- Forecast
- Signs to Look for

Fundamentals

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

- Supply Growth – Development has Stopped
- "Big Picture" ties to Gross Domestic Product
  - 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 – Currently Most Important Fundamental

Last Year – Conclusions 12/04/2008

Conclusions

- CMBS Market – Spreads 10-50x Higher – R.E. Yields Double
- CMBS - New Business Model will Come
- REIT Industry – Down 50+ Percent
- NACREIF – Mixed Signals
- Many Lenders have Closed or Reduced Lending Volume
- Financing Costs Have Risen; Capitalization / Yield Rates
- CASH IS KING
- Value Growth (appreciation) will Lag Rent Growth
- Rents/Vacancies will remain better than early 1990s
- Value(s) Will Undergo Correction

……………..see next slide!

Bank of America

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Last Year – Forecast 12/04/2008

Greer - 3 Year Forecast as of 11/2008

- Borrowing Rates for Commercial Real Estate will Rise
- Margins (to Treasury) for Commercial RE Loans will rise 200 bps 2008-09, will settle to 300± 50bps over 10 year Treas.
- Rent Growth will lag CPI by 0 to 5%
- Value Growth will lag Rent Growth 30-35% over 2-3 years
- Values (National Average) will Fall 5-15% per year for next 2-3 years. Individual market performance will vary widely, with "extreme" markets performing several times better (or worse) compared to the National Average.
- Capitalization Rates will Rise 2.0-3.0% over next 3 years (eg 5.0% become 7.25% = 30%+/- decline in value)
- Declines: #1 Retail, #2 Industrial & Office, then Apartment
- Change Creates OPPORTUNITIES!!!!!

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Bank of America

Financing Fundamentals

Capital Markets Drive Financing

CMBS / REITs are Benchmarks

CMBS is GONE

Banks are in DEEP Credit Crunch – More Pain to Come

Few Banks are "In the Game" of Lending

Rates Across the Spectrum Have Risen

Equity, Mezzanine, Debt

Deleveraging – Lower LTV / Higher DSC

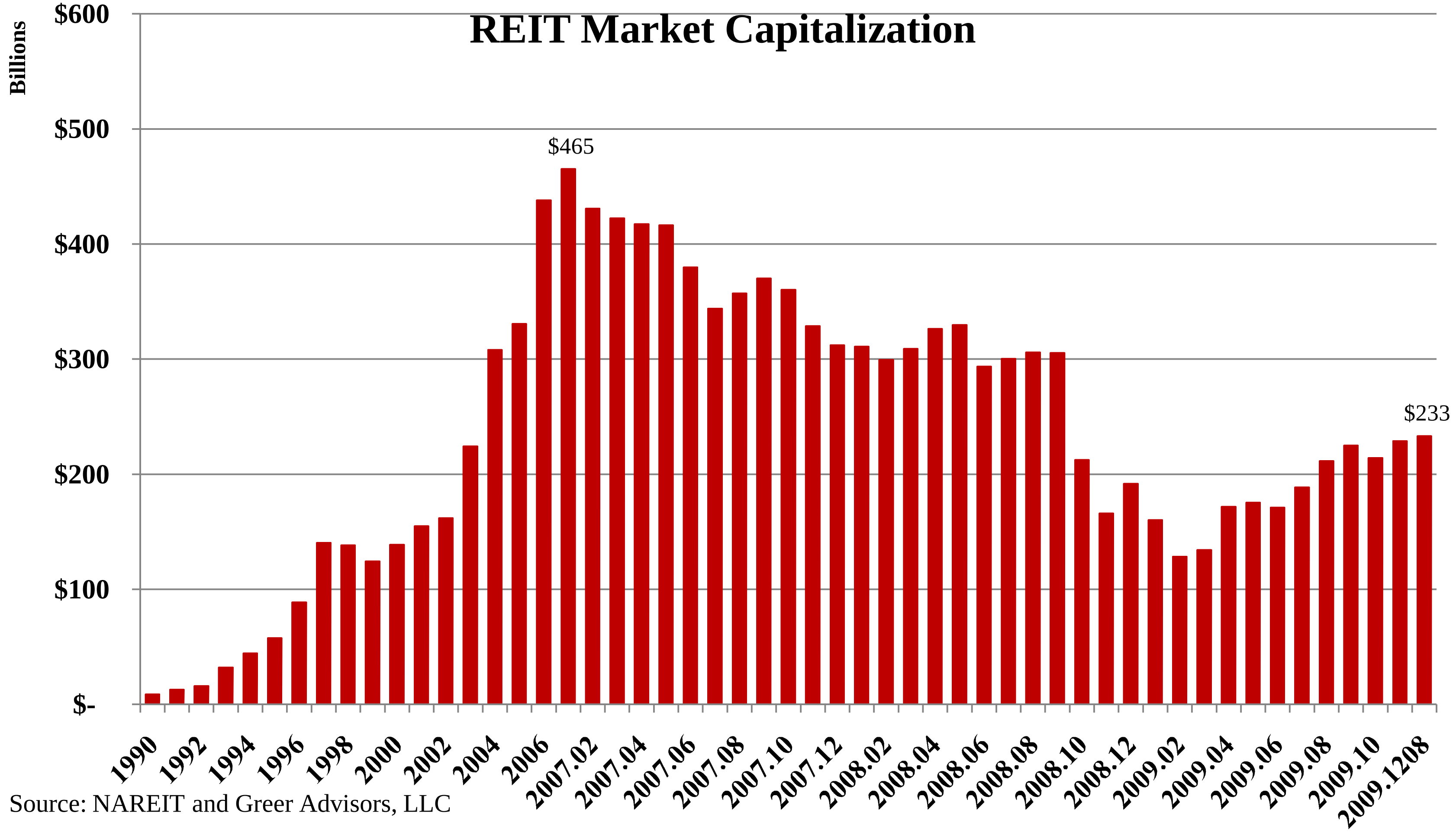
Many "former" borrowers can't get loans today

What is REIT?

Real Estate Investment Trust

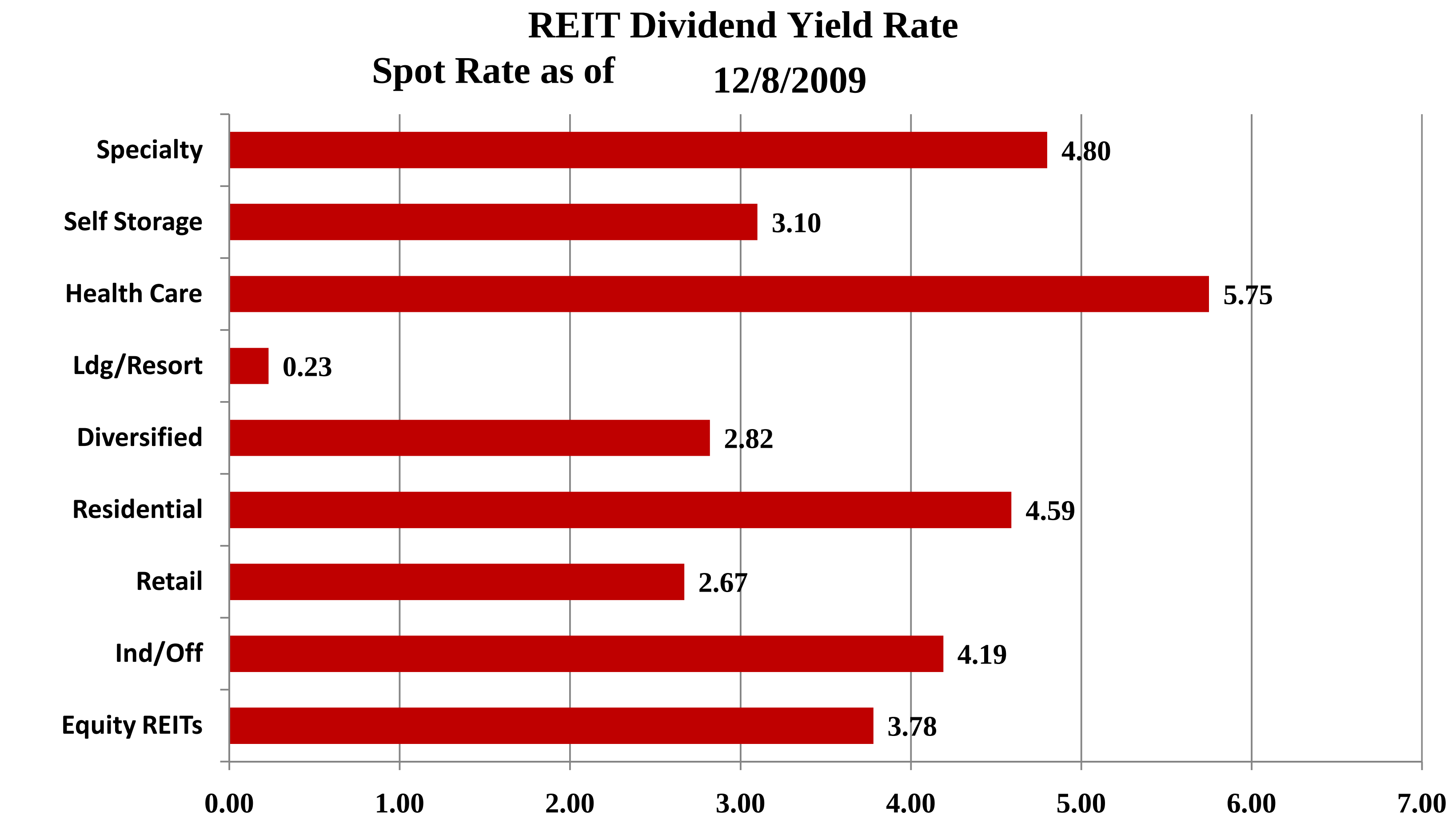
- Type of Pass-through Security
- Effectively a corporation
- As long as 90% of income passed is through to shareholders, there is no “corporate” tax. All earnings are single-taxed at shareholder level.
- Current “Industry” Issues:
  Definition of Assets, Max Debt Load, Yield

REIT Market Capitalization



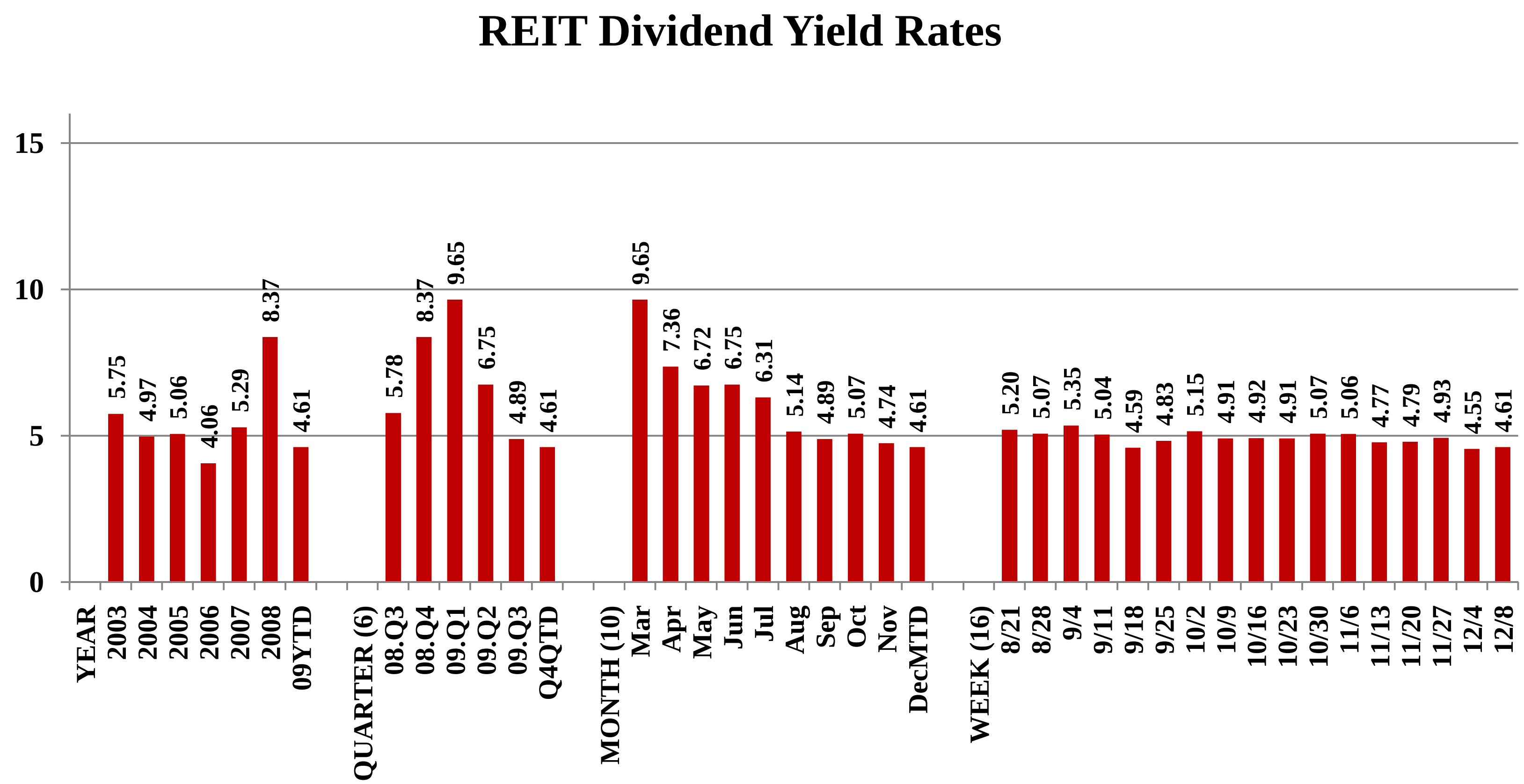
Source: NAREIT and Greer Advisors, LLC

REIT Dividend Yields by Property Type



Source: NAREIT and Greer Advisors, LLC

REIT Dividend Yields - Stabilizing



Source: NAREIT and Greer Advisors, LLC

What is a CMBS?

Commercial Mortgage Backed Security

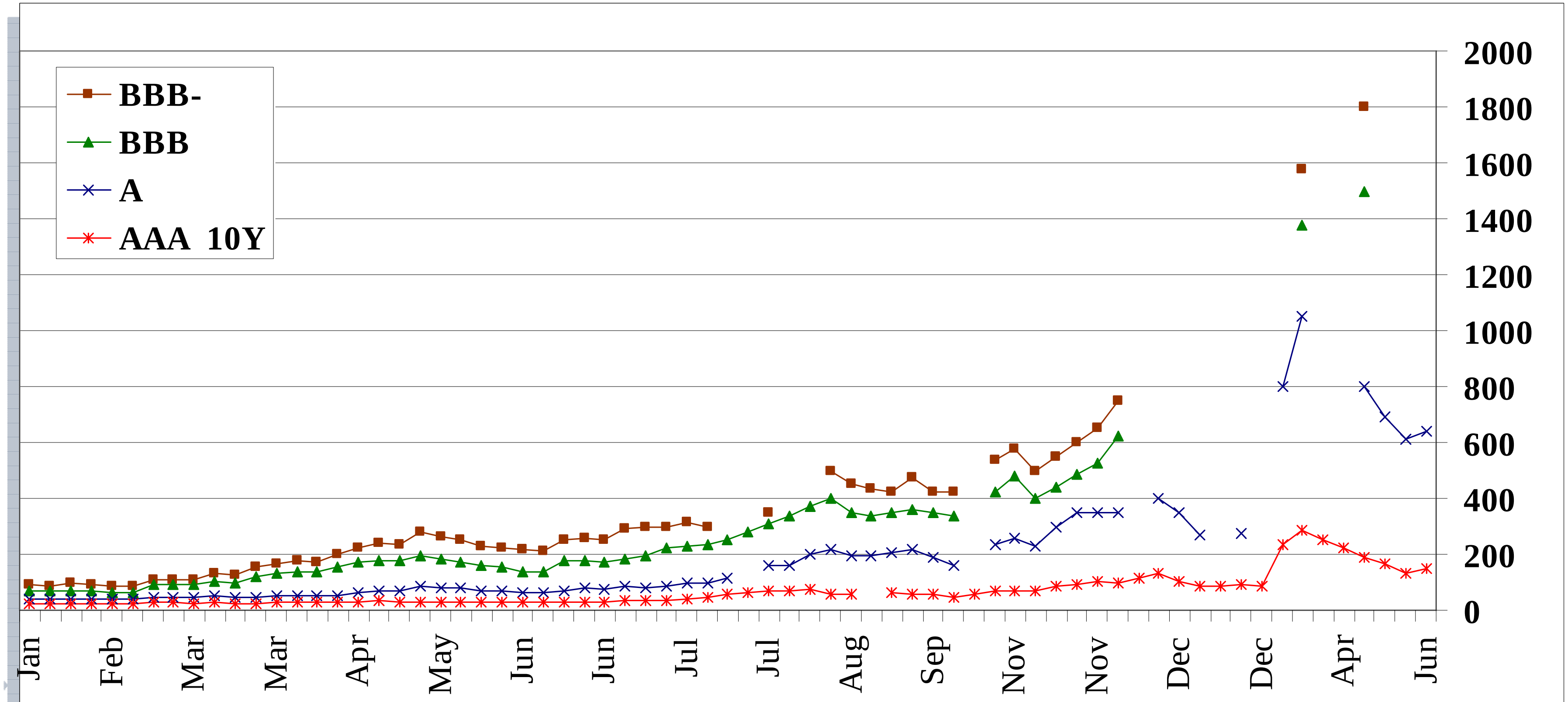
- Type of pass-through security
- Commercial Mortgages are securitized into a pool. Rights to the revenue from the mortgages are divided into many smaller pieces (tranches, strips, slices), each with differing priorities. Proceeds are distributed to investors based on the priority of their tranche.
- During the last few years, has accounted for slightly less than 40% of all commercial real estate lending.

What is a CDO?

Collateralized Debt Obligation

- Type of pass-through security
- CDOs are securitized debt pools, similar to CMBS, but debts can be CMBS/CDO paper, car/boat/plane loans, credit cards, or virtually any type of debt obligation. Rights to the revenue from the obligations are divided into many smaller pieces (tranches, strips, slices), each with differing priorities. Proceeds are distributed to investors based on the priority of their tranche.
- Tough to gauge accurately, but most experts believe these have accounted for 5-10% of all commercial real estate lending the past few years.

CMBS Yield Spreads (Spread to Swap)

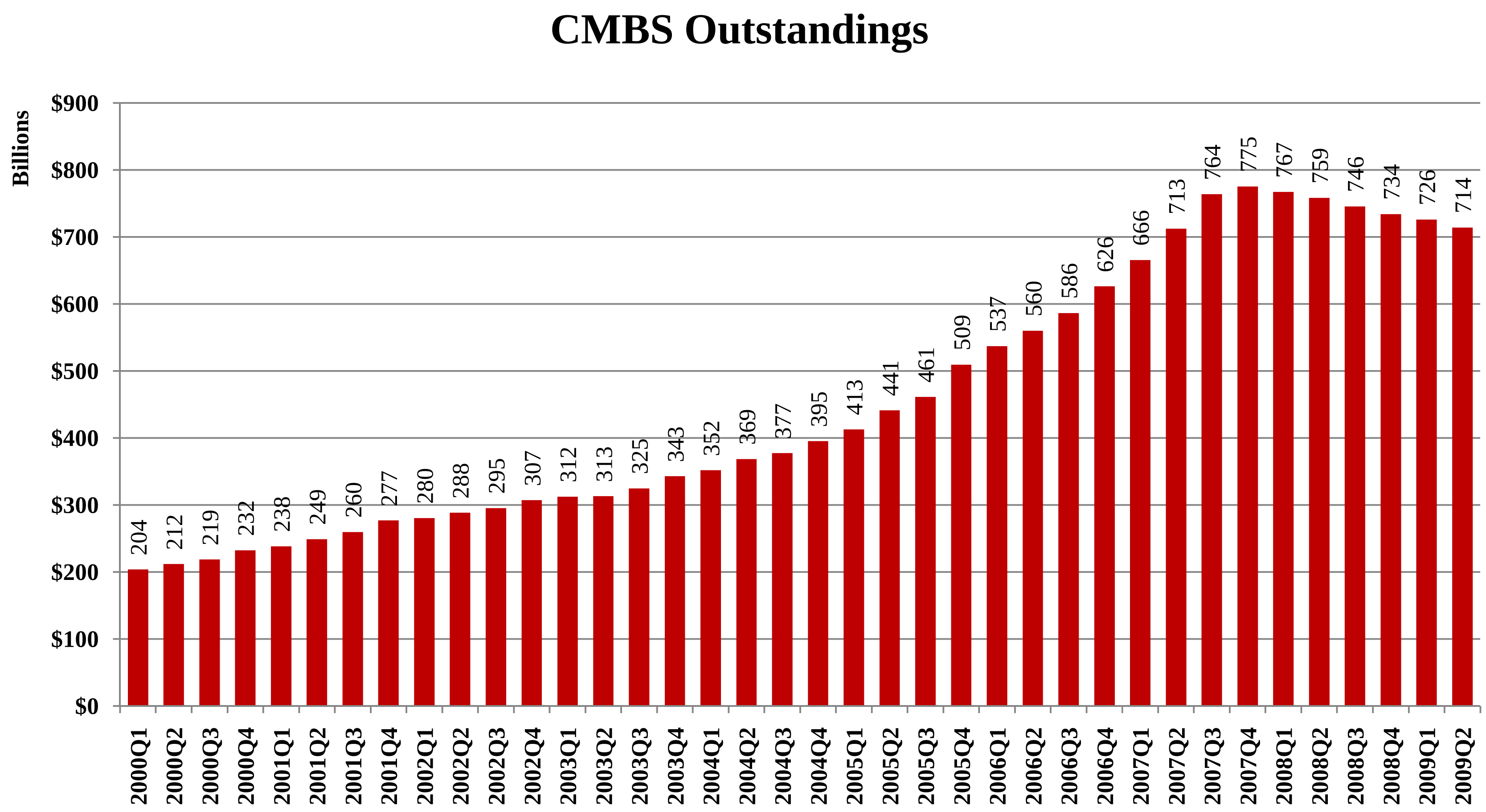


Source: CM Alert, Greer Advisors, LLC

Note: X-axis not to scale. Spreads are "over swaps" for 10-year Treasuries.

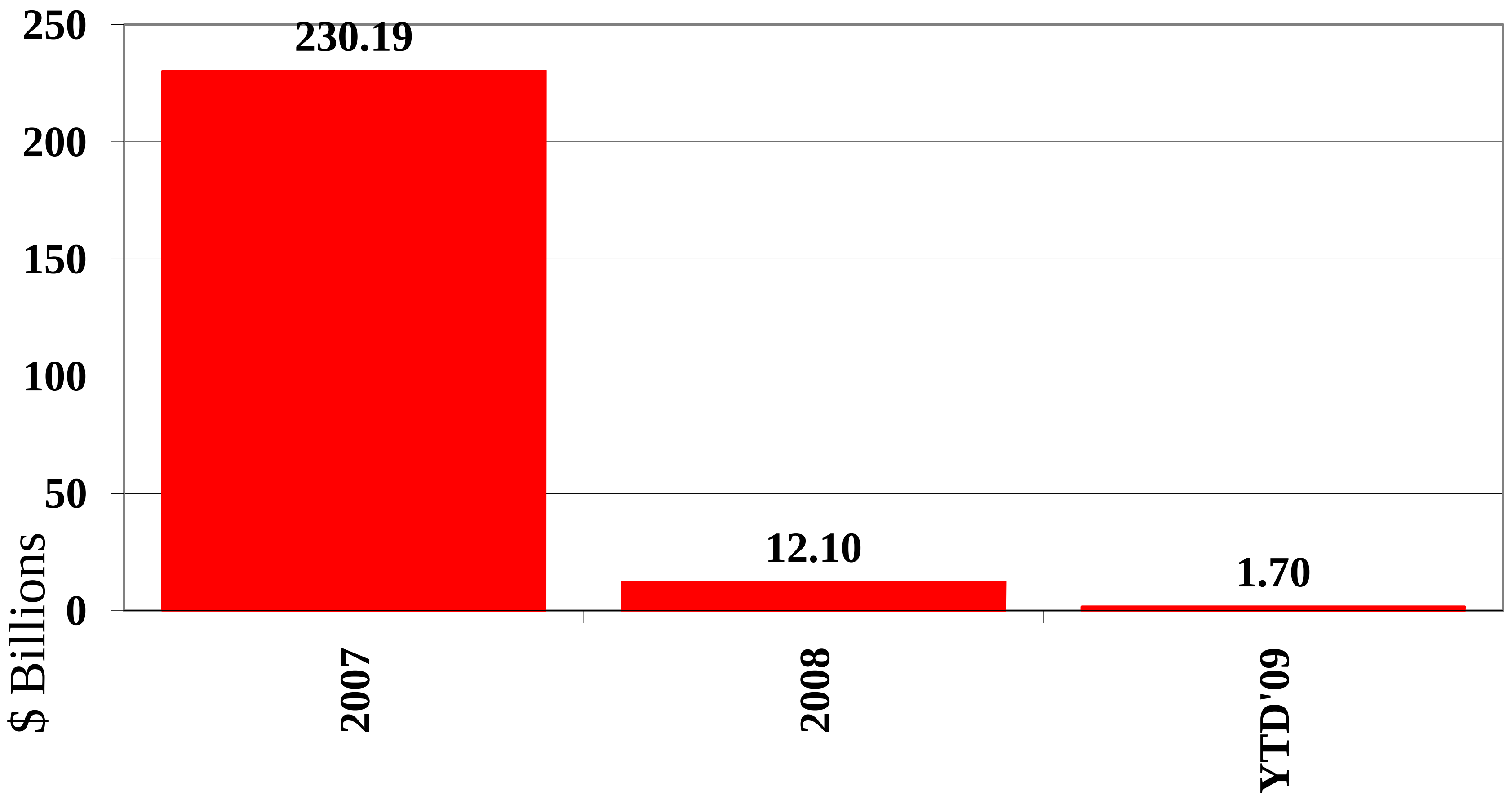
Note: Prior to 2 weeks ago, last "TRUE" CMBS closed was June 29, 2008. Graph covers 1/2007 – Jun 2008

CMBS Outstandings in U.S. - Grows



Source: Federal Reserve Board and Greer Advisors, LLC. Z1 Report, Multifamily and Commercial, less Securitized REITs

CMBS Issuance in U.S. - Skyrockets



Source: CM Alert 20091204 and Greer Advisors, LLC

CMBx Data

The following table is somewhat complicated, as is evidenced by the numerous footnotes. From a practical perspective, several conclusions can be drawn from this table. First, as long as the "Implied Overall Debt Yield" is much greater than loan rates in the marketplace, the CMBS market CAN NOT recover. The required yields are simply too high to make the debt affordable to borrowers. Secondly, as long as the spread between the required yields on the AAA Sr and BB tranches remains above 500 bps, (now at 882 bps per below numbers) the market will not recover because of risk aversion associated with lower-rated tranches. Lastly, the yields for each of the various rated tranches provides tremendous insight into the market, everything from debt to equity and various positions and hybrids in between. The underlying figures are published daily. The footnotes state the date the information was pulled.

Greer CMBS/CMBx Yield Rate™

Tranche	Yield	Suboord.	Weight of Debt	Contribution to Total
AAA Sr*	3.95%	29.76%	70.24%	2.77%
AAA Jr*	5.27%	12.70%	17.06%	0.90%
AA*	8.54%	10.63%	2.07%	0.18%
A*	16.10%	8.00%	2.63%	0.42%
BBB*	29.10%	4.72%	3.28%	0.95%
BBB-*	32.51%	3.68%	1.04%	0.34%
BB*	92.17%	2.69%	0.99%	0.91%
Unrated	152.00%	0.00%	2.69%	4.09%
			100.00%	
Implied Overall Debt Yield (i.e. Interest Rate)				10.56%
Loan to Value Ratio				75%
Class A Prop.	35.0%		100%	16.67%
Class B Prop.	152.0%		100%	45.92%

Note: Markit Data and Calculations were based on close of 12/09/2009. 10 Year Swap Yield as of close of 12/08/2009 at 3.52%.

Source: Coupon and Price data from Markit for AAA Senior through BB bonds. Markit data used as part of a calculation by Greer Advisors to determine Spreads. Subordination levels were from Markit.

Notes: Profit / arbitrage opportunity for the Issuer was ignored.

The yield spread for the "Unrated" class was based on (BBB- yield minus BB yield) times 2.00, rounded to 100 bps. Class-A property equity yield was assumed equal to the BBB- (last investment-grade piece) yield, rounded to 100 bps. Class-B property equity yield was assumed equal to the Unrated yield, rounded to 100 bps.

Future - Mortgage Backed Security

- Until MBS Returns, Commercial Real Estate markets WILL NOT fully recover
- Most banks ARE NOT in the business of holding long term debt
- New MBS WILL EMERGE with terms as follows
  - No “quick buck” investment banks/mortgage bankers
  - Issuer will hold 1-5% of pool as “1st Loss / Good Faith” position
  - 60-80% of pool will be AAA, not 90+%
  - Buyers of paper will “re-underwrite” pools, regardless of SRA
  - Loans will get “kicked out” of pool by B-piece buyers

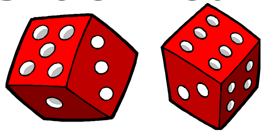
What is CDS?

Credit Default Swap

- A bilateral contract where two parties agree to trade the credit risk of a third-party. A protection buyer pays a periodic fee to a protection seller in exchange for a contingent payment by the seller upon a default or failure to pay. Once triggered, the seller either takes delivery of the collateral (eg bond, note) or pays the buyer the difference between the par value and recovery value of the bond (cash settlement).
- They resemble an insurance policy, as they can be used by debt owners to hedge against credit events.
- Warren Buffet calls these “Weapons of Mass Destruction”

Players in “Simple” CDS

Side Bet 1



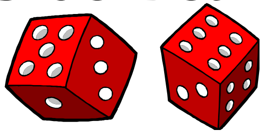
Business Issues Bonds

Bonds initially rated too poor for market, eg “BB”

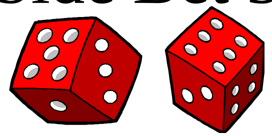
Rating Agency Rates Bonds

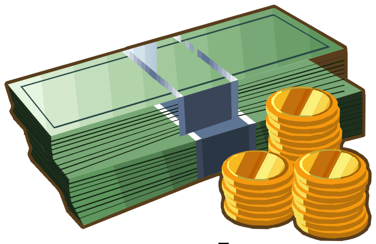
Gives loss forecast & amount required for “AA” rating

Side Bet 2

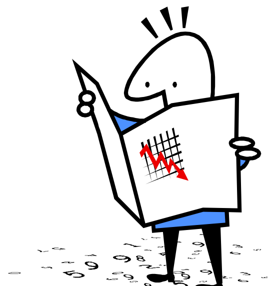


Side Bet 3





Investment Bank issues CDS
(aka Credit Enhances Debt)
Enough to make BB = AA, if debtor fails, IB buys bonds



Pension Fund Buys Bonds with CDS enhancement
Thinks it’s AA investment

Evolution of CDS

- Simple CDS = "Full Coverage"
  - Buyer is Party to Credit Instrument
  - Seller Provides "Full" Coverage
  - Seller Pays (makes up) Shortfall or
  - Seller Buys Credit Instrument from Buyer
  - Buyer is "Made Whole"
- Buyer is Not a Party to Credit Facility, merely a speculator
- Sellers Provide Partial Coverage (ceiling on loss)
- Sellers Provide Incremental Coverage
  - Goal is to provide "Partial" Credit Enhancement
  - Ratings Are Enhanced (eg "BB" to "A" rating)
- CDS – Complex Credit
  - CMBS (vertical [multi-tranche buyer] or horizontal)
  - Multiple facilities
  - REITs added

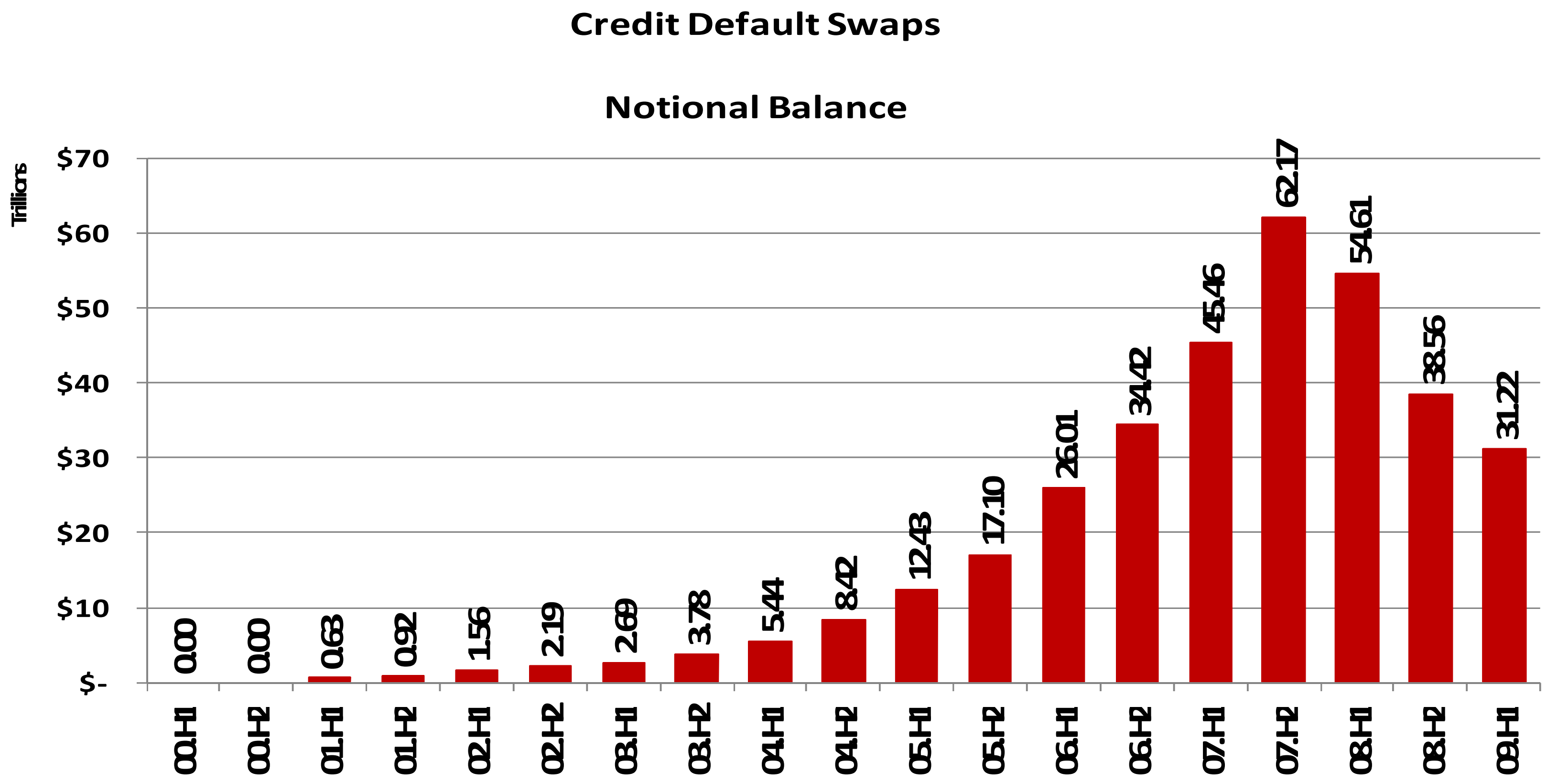
CDS – Credit Enhancement – Market Change

- **DEBT ISSUANCE**
- Debt Issued $1B
- SRA Rates Debt
- Estimated Loss =$10MM = "B" Rating
- SRA says $1MM = AA
- $9MM CDS bought
- Debt "credit enhanced" from "B" to "AA"

- **DEBT RE-RATED**
- Existing Debt 6 mo's later
- SRA Re-Rates Debt
- Estimated Loss now $20MM = "unrated" security
- SRA says $1MM = AA
- CDS provided $9MM coverage, now addtl $10MM expected loss
- Credit Enhancement not enough to yield desired rating on security

Note: Above is Hypothetical Example

Credit Default Swaps

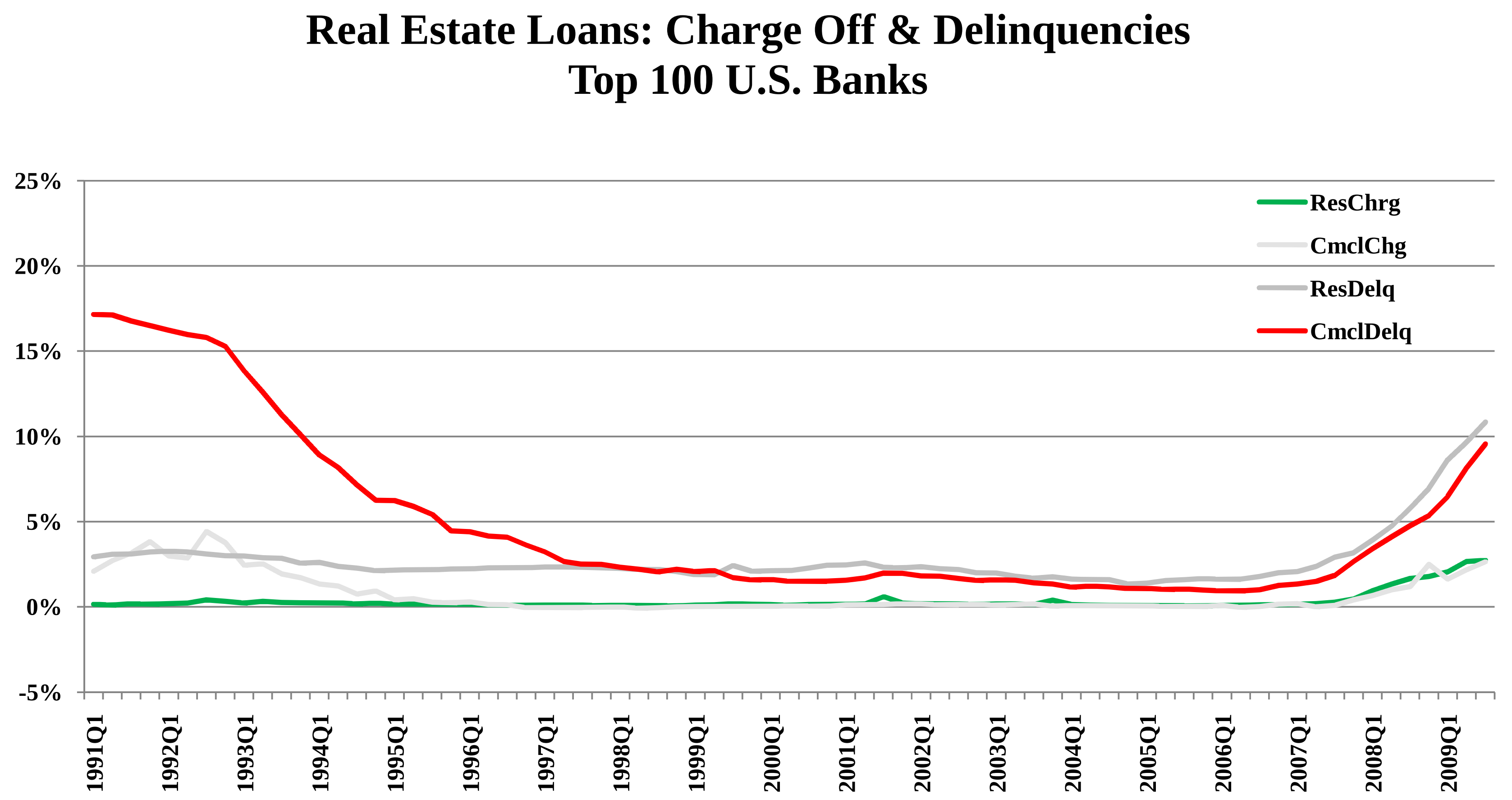


Source: International Swap and Derivative Association, Inc (ISDA) and Greer Advisors, LLC

Overview of Federal Bank Programs

- **Emergency Economic Stabilization Act**
- **January 3, 2008 (169 pages)**
  - Troubled Asset Relief Program (TARP)
  - Troubled Asset Insurance Financing Fund (TAIFF)
  - Capital Purchase Program (CPP)
  - Public Private Investment Program (PPIP) LBO
  - Temporary Liquidity Guarantee Program (TLGP)
  - Homeowner Provisions / Executive Compensation
  - Investment Cap's (with Caveats)

Real Estate Loans – More Pain to Come



Source: Federal Reserve Board and Greer Advisors, LLC

PPIP – Legacy Securities

"Government Assisted" LBO

AllianceBernstein, LP
BlackRock, Inc.
Wellington Management Company, LLP

Equity Private	$3.07
Equity (Fed's)	3.07
Debt (Fed's)	6.13
Total	$12.27*

*Note: figures may not foot due to rounding

Should the U.S. Government be in the Leveraged Buy Out Business?

Bank's New Underwriting

- Latest Quarterly Banking Profile from FDIC shows largest lending decline in history Q3 v Q2.
- Loss Rates are Climbing FAST. CMBS all time highs.
- Loss Rate more than doubled Q3 v Q1
- Deleverage – Expect More
  - Lower LTV (80-85% versus 50-60%)
  - Higher DSC (130-150 versus 1.05-120)
  - 100% Guarantee
  - Restrictive Covenants

Example of a “Typical” CMBS

No. Loans	250		
Avg. Loan Size	$10,000,000		
Total Loan Amt.	$2,500,000,000		
Index Name	10-Year Treasury		
Index Rate	3.450%		
Avg. Margin on Loans	1.750%		
Avg Yield on Loans	5.200%		
		THEN	NOW
Tranche Rating (10Y)	Approximate Subordination	01/07	12/08/09
AAA Sr	30.0%	3.250%	3.946%
AAA Jr	12.5%	3.300%	5.268%
AA	9.0%	3.350%	8.537%
A	8.0%	3.450%	16.096%
BBB	5.0%	3.700%	29.095%
BB	4.0%	3.950%	32.506%
B	2.5%	4.450%	92.172%
Unrated	0.0%	5.450%	212.000%
	Weighted Average Yield	3.358%	12.024%
Implied Annual Excess Return		0.842%	-7.824%

Note: Markit Data and Calculations were based on close of 12/09/2009. 10 Year Swap Yield as of close of 12/08/2009 at 3.52%.
Source: Coupon and Price data from Markit for AAA Senior through BB bonds were used to calculate Spreads.
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Notes: Interest Rate Swap (variable to fixed) fees were ignored. Spreads were assumed over 10-Year Treasury, not swap rate
Profit / arbitrage opportunity for the Issuer was ignored.
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Class-B property equity yield was assumed equal to the Unrated yield, rounded to 100 bps.

Value Fundamentals

CMBS Market is Completely Broken = Opportunities

CMBS/CMBX Industry – Imply R.E. Yields Doubled

REITs are “Off” roughly 50%, this creates Opportunities

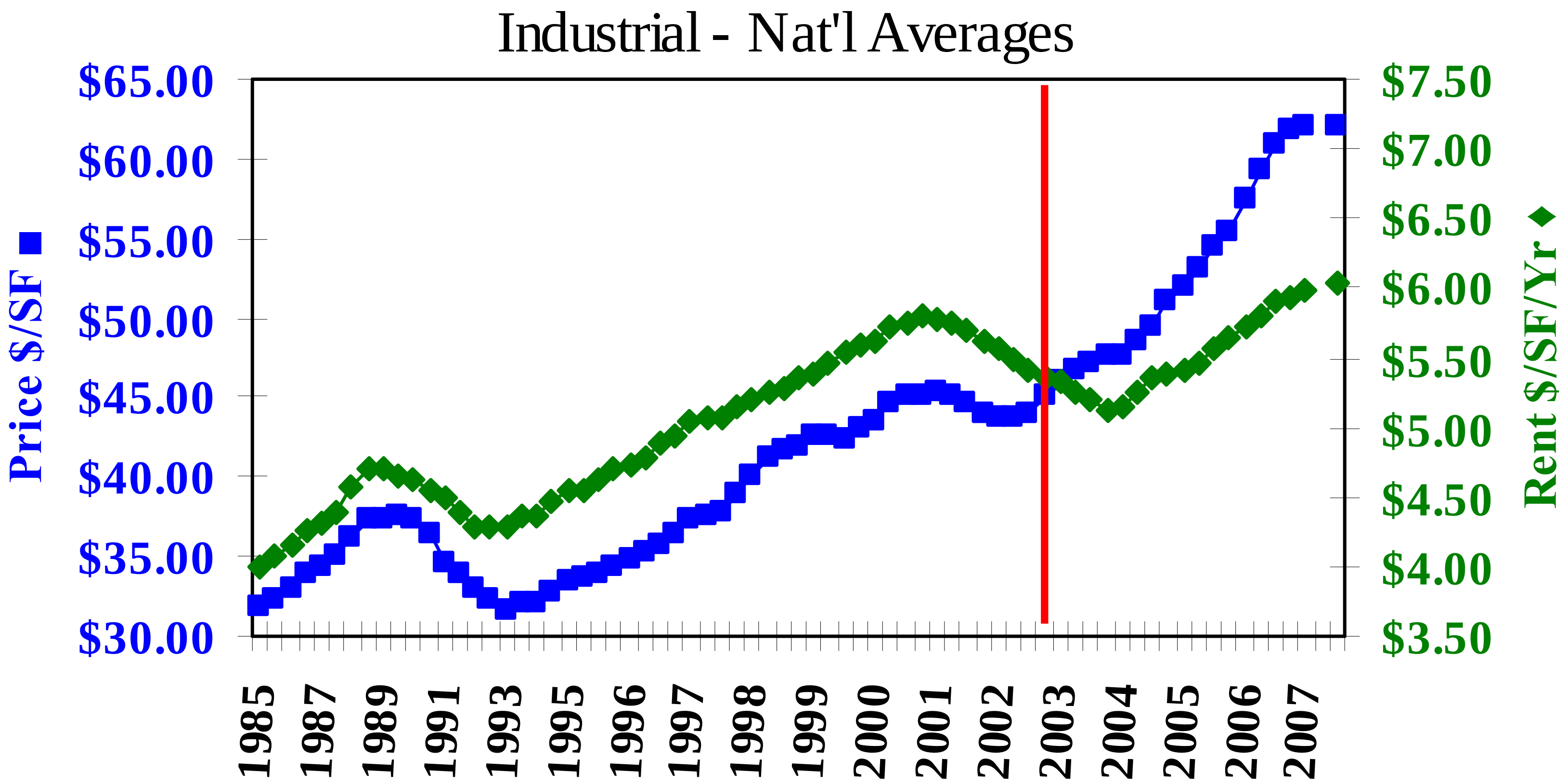
NCREIF is Down Significantly

De-Leveraging Will Continue

Cash will Remain King!

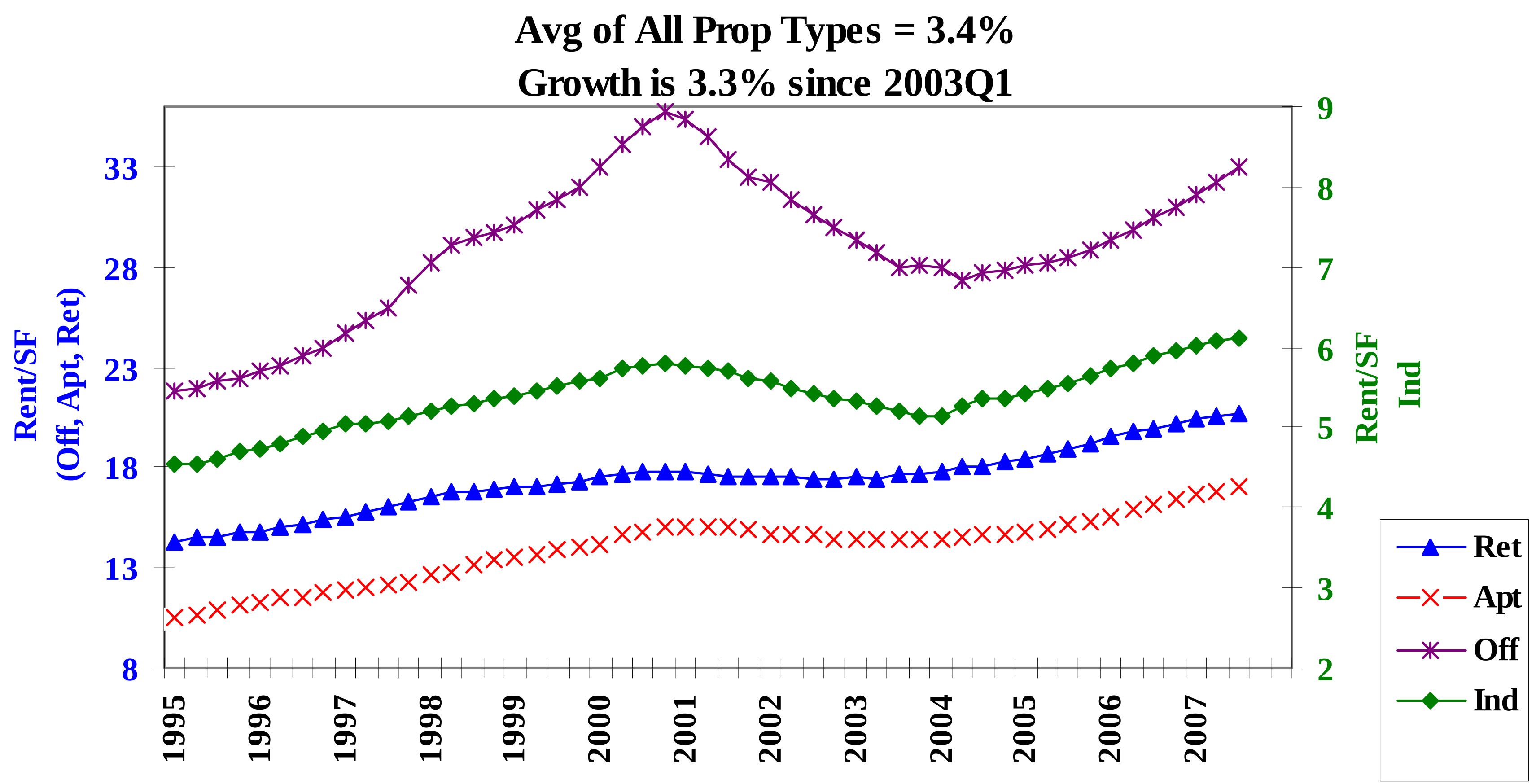
Market Change brings Opportunities!

The Relationship Breaks in 2003



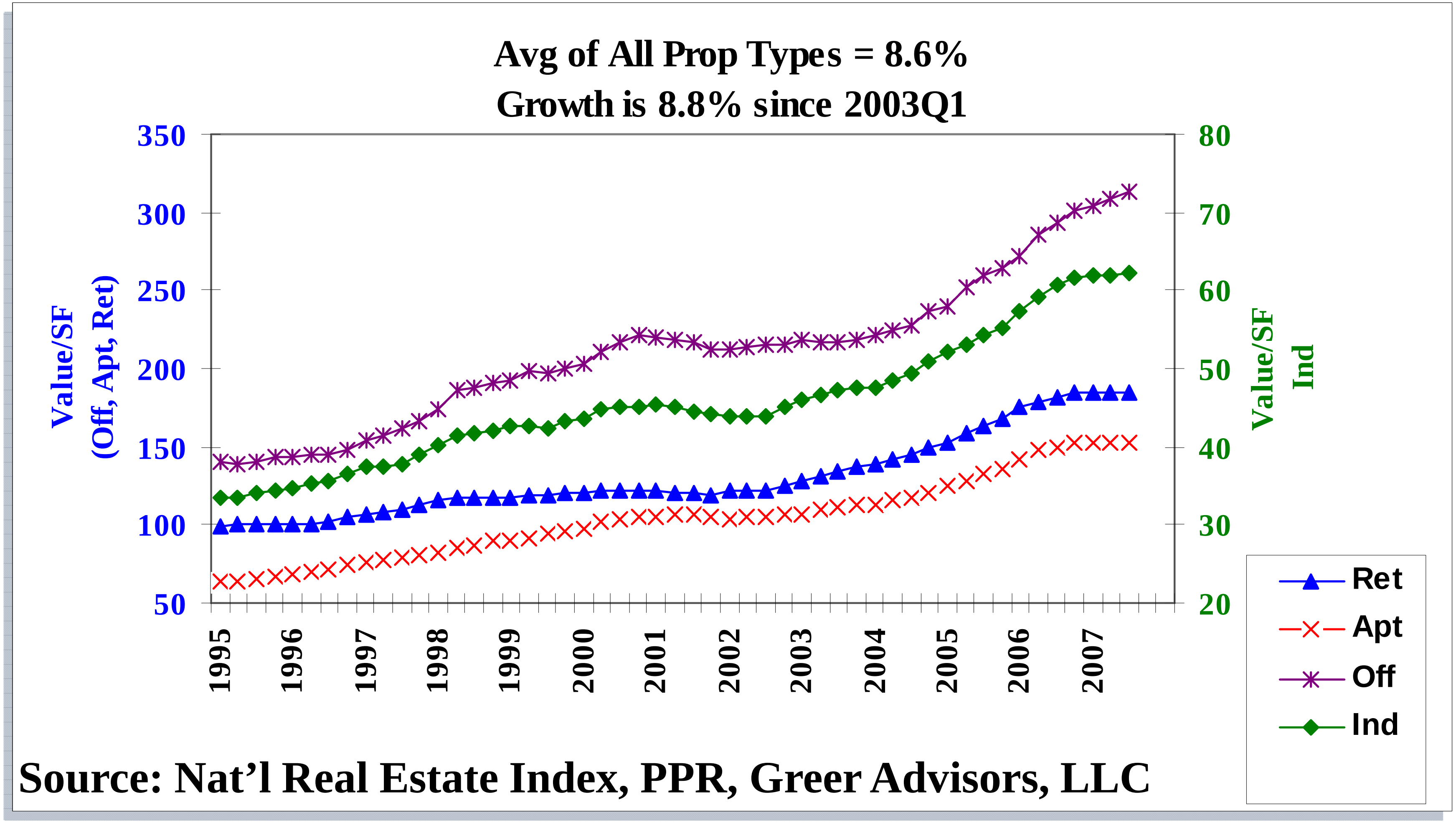
Source: NREI, PPR, Greer Advisors, LLC

Market Trends — National Rents Grow Slow



Source: Nat'l Real Estate Index, PPR, Greer Advisors, LLC

Market Trends — National Values Escalate



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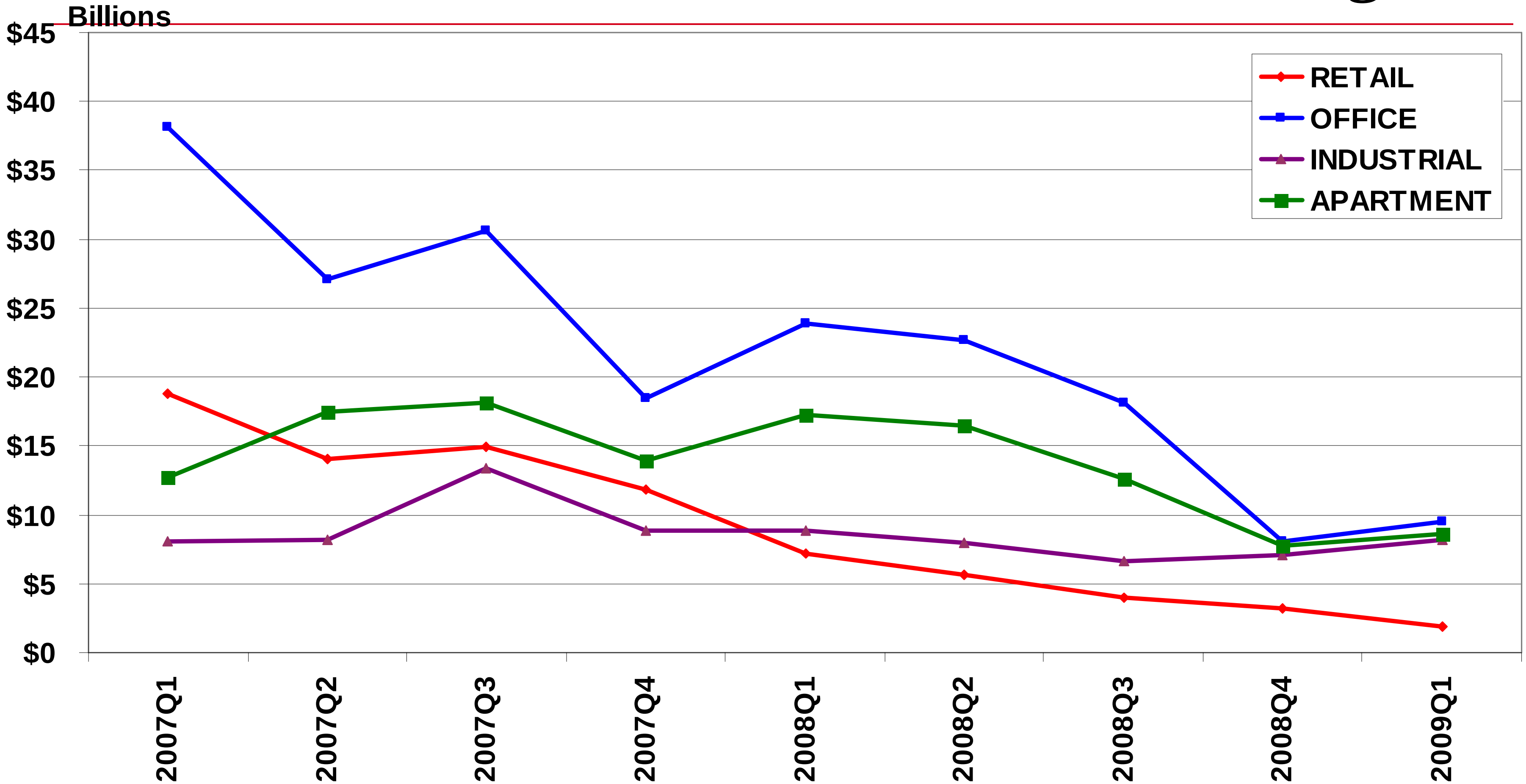
Growth Example — Value vs. Income Growth

Year	Rent	RentG	Ind Cap	Value
2002	750,000	3.30%	7.50%	$10,000,000
2003	774,750	3.30%	7.12%	$10,880,000
2004	800,317	3.30%	6.76%	$11,837,440
2005	826,727	3.30%	6.42%	$12,879,135
2006	854,009	3.30%	6.09%	$14,012,499
2007	882,192	3.30%	5.79%	$15,245,598
2008	911,304	3.30%	5.49%	$16,587,211
	average	3.30%		8.80%

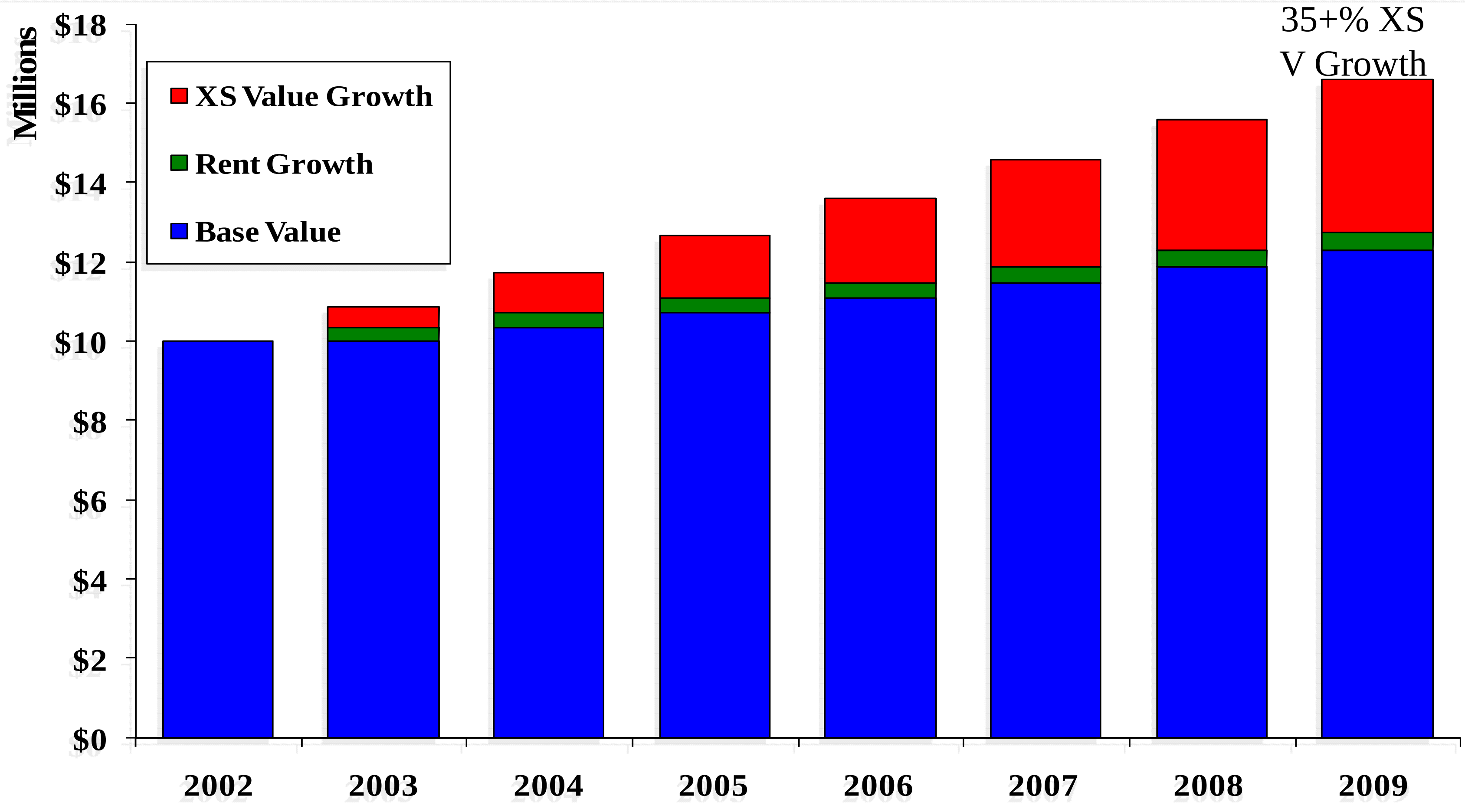
- Increase in value was only "interest rates" first 2 years.
  Momentum effect carried it further.
  What happens when it stops?

Sales Trends – Volume – Down and falling



Source: Real Capital Analytics, Greer Advisors

Rent versus Value Growth – XS will go away



Source: Greer Advisors, LLC

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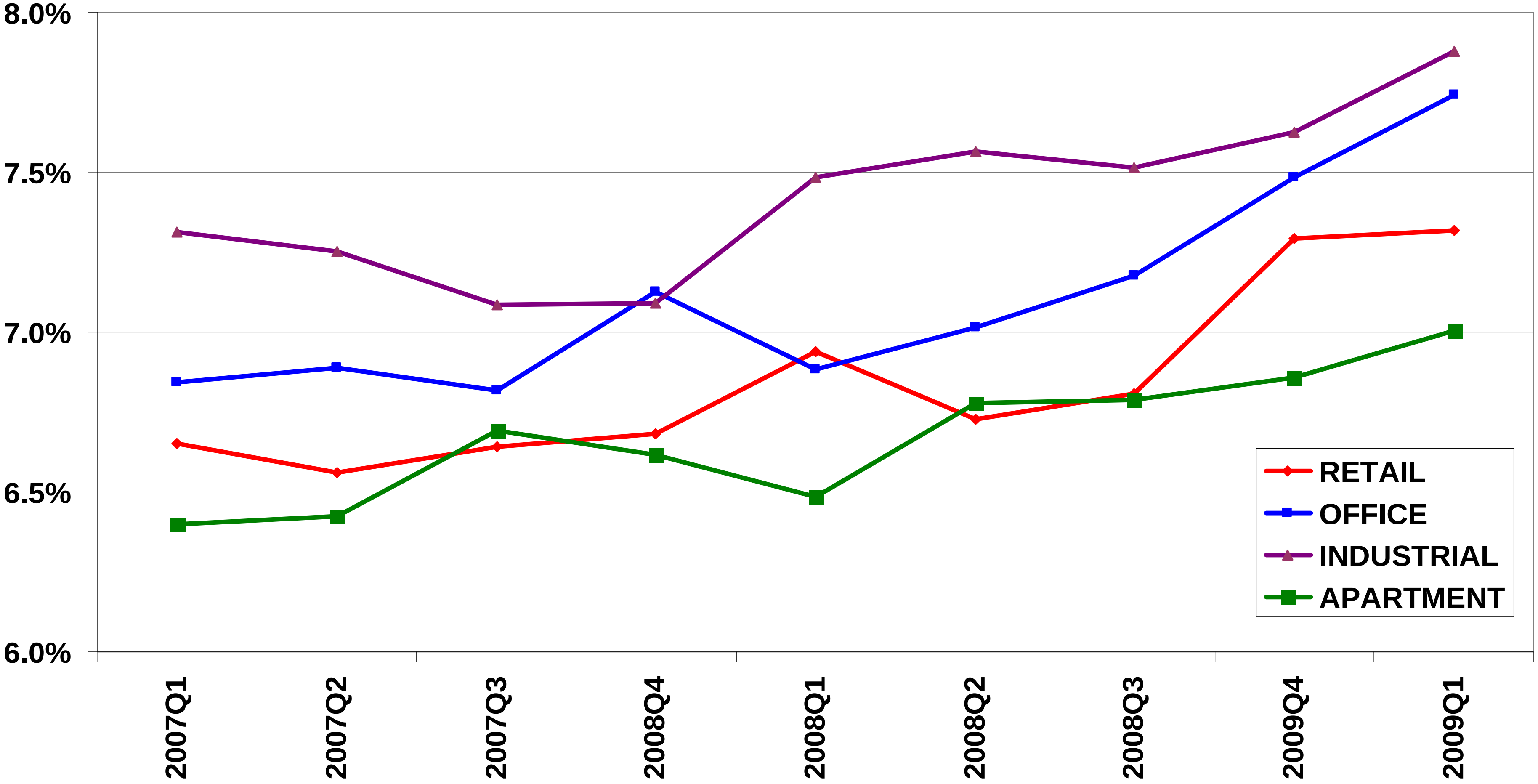
Sales Trends – Cap Rates Up a Little



Source: Real Capital Analytics, Greer Advisors

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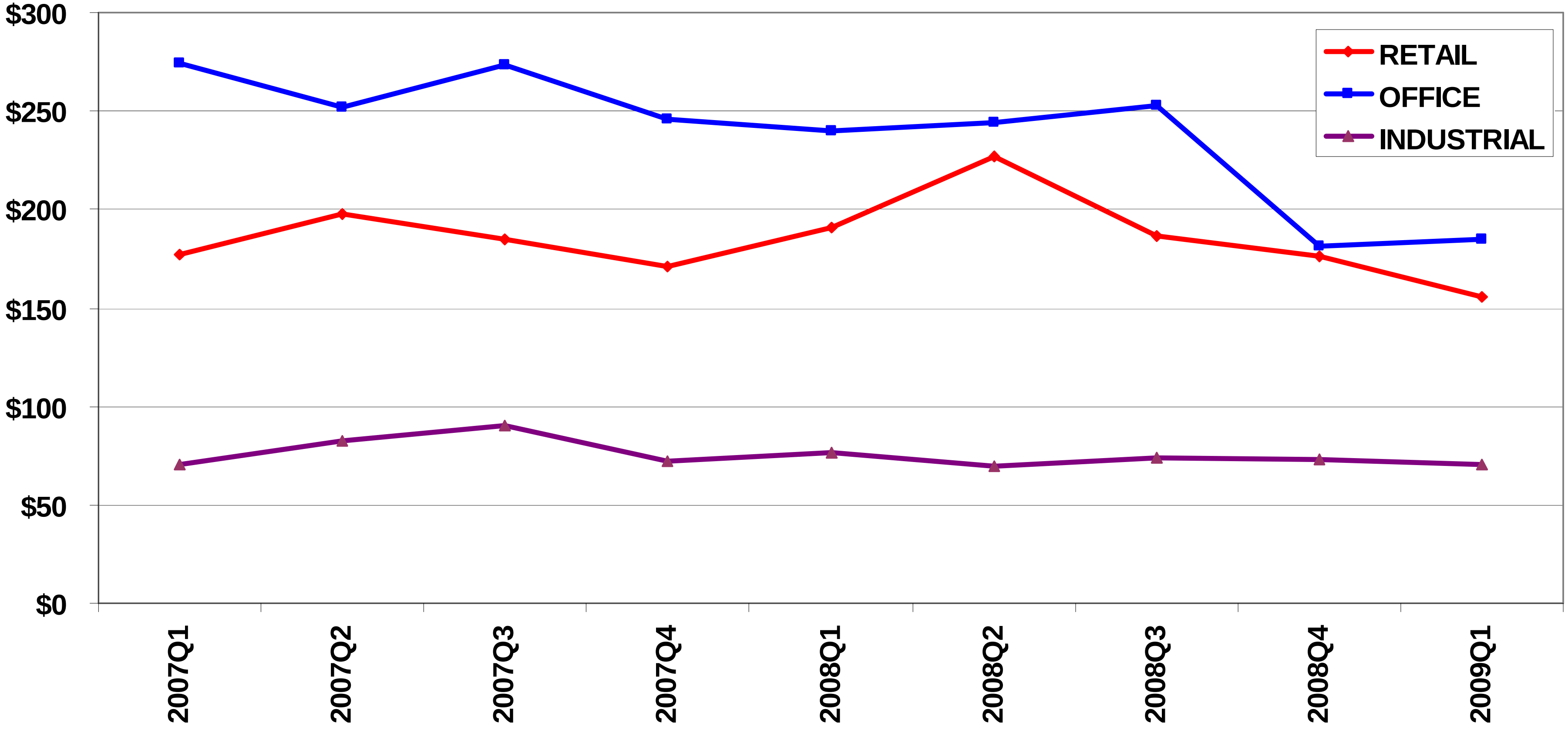
Sales Trends – Price per SF Small Changes



Source: Real Capital Analytics, Greer Advisors

Top / Bottom Markets

	IND-WHSE			OFFICE			RETAIL			APARTMENT			HOTEL	
	MSA Name	2009:3		MSA Name	2009:3		MSA Name	2009:3		MSA Name	Vacancy		MSA Name	2009:3
1	Denver, CO	7.0	1	Honolulu, HI	11.9	1	Long Island, NY	7.5	1	New York, NY - NJ	5.7	1	New York, NY - NJ	74.8
2	Los Angeles, CA	7.7	2	Norfolk, VA	14.5	2	San Diego, CA	10.1	2	NNJ - CNJ	5.8	2	Honolulu, HI	72.2
3	Milwaukee, WI	8.8	3	DC-NoVA-MD	14.7	3	East Bay, CA	10.7	3	San Francisco, CA	5.9	3	San Francisco	71.1
4	Honolulu, HI	8.9	4	Salt Lake City, UT	15.4	4	San Francisco, CA	10.8	4	Pittsburgh, PA	6.0	4	Miami, FL	65.6
5	Salt Lake City, UT	9.2	5	New York, NY - NJ	15.8	5	Orange County, CA	10.9	5	San Diego, CA	6.2	5	DC-NoVA-MD	65.1
6	San Jose, CA	9.2	6	Saint Louis, MO-IL	15.8	6	New York, NY - NJ	11.7	6	Boston, MA	6.5	6	Los Angeles, CA	64.2
7	Portland, OR	9.3	7	New Orleans, LA	16.1	7	Washington, DC-	12.2	7	Minneapolis, MN-WI	6.5	7	Orange County, CA	64.1
8	Kansas City, MO-KS	9.4	8	Portland, OR	16.9	8	Los Angeles, CA	13.5	8	Honolulu, HI	6.6	8	San Diego, CA	63.6
9	Philadelphia, PA-	9.4	9	Houston, TX	17.1	9	Philadelphia, PA-	13.6	9	Washington, DC-	6.7	9	Fort Lauderdale, FL	63.3
10	Saint Louis, MO-IL	9.8	10	Long Island, NY	17.1	10	Norfolk, VA	14.3	10	Baltimore, MD	6.8	10	Long Island, NY	63.3
46	Richmond, VA	16.3	46	Phoenix, AZ	22.9	46	Nashville, TN	24.5	46	Tampa, FL	11.7	46	Kansas City, MO-KS	52.8
47	Baltimore, MD	16.5	47	San Jose, CA	23.0	47	Cincinnati, OH-KY-	25.4	47	San Antonio, TX	12.2	47	Tampa, FL	52.8
48	Columbus, OH	16.7	48	North - Central New	23.1	48	Charlotte, NC-SC	25.7	48	Memphis, TN	12.4	48	Charlotte, NC-SC	52.7
49	Phoenix, AZ	17.0	49	Indianapolis, IN	23.2	49	Austin, TX	25.8	49	Austin, TX	12.5	49	Inland Empire, CA	52.5
50	North - Central New	17.6	50	Tampa, FL	23.5	50	Denver, CO	26.6	50	Houston, TX	12.7	50	Sacramento, CA	51.8
51	Raleigh, NC	17.9	51	Jacksonville, FL	23.9	51	Memphis, TN	27.1	51	Atlanta, GA	13.3	51	Cincinnati, OH-KY-	51.6
52	Atlanta, GA	18.2	52	Palm Bch Cty, FL	24.9	52	Orlando, FL	27.5	52	Orlando, FL	13.3	52	Cleveland, OH	50.7
53	Orlando, FL	19.9	53	Atlanta, GA	25.5	53	Jacksonville, FL	28.3	53	Raleigh, NC	13.5	53	Hartford, CT	50.3
54	Memphis, TN	21.3	54	Inland Empire, CA	26.0	54	San Antonio, TX	29.0	54	Charlotte, NC-SC	13.7	54	Richmond, VA	49.9
55	Austin, TX	22.3	55	Detroit, MI	26.1	55	New Orleans, LA	30.8	55	Jacksonville, FL	15.3	55	Detroit, MI	48.0
	Top 54 Markets	13.0		Top 54 Markets	19.4		Top 54 Markets	18.6		Top 54 Markets	8.4		Top 54 Markets	58.7
	Hi-Low	15.3		Hi-Low	14.2		Hi-Low	23.3		Hi-Low	9.6		Hi-Low	26.8
17	Las Vegas, NV	11.2	43	Las Vegas, NV	22.2	42	Las Vegas, NV	23.9	35	Las Vegas, NV	9	22	Las Vegas, NV	57.7
	Source: Property & Portfolio Research, Greer Advisors, LLC													

Local Sub-markets

IND-WHSE			OFFICE			APARTMENT	
Submarket Name	2009:3		Submarket Name	2009:3		Submarket Name	2009:3
Not Reported			Central Core	15.8%		SE Las	7.6%
			West/SW Las Vegas	20.0%		The Strip/Airport	8.2%
			Metrowide	22.2%		Metrowide	9.0%
			The Strip/Airport	23.0%		Central Core	9.2%
			East Las Vegas	23.6%		North/NW Las Vegas	9.2%
			South/SE Las Vegas	23.8%		West/SW Las Vegas	9.3%
			North/NW Las Vegas	24.4%			
Las Vegas (17/54)	11.2		Las Vegas (43/54)	22.2		Las Vegas (35/54)	9.0
Spread Hi-Low	NA		Spread Hi-Low	8.6%		Spread Hi-Low	1.7%
Source: Property & Portfolio Research, Greer Advisors, LLC							

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

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

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 very 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

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% 1st-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 11/24/09 (last report) index at 49.5 (1985=100)
- Risk Curve (AAA Sr. vs BB) flattens to under 500 bps. As of 12/09/09, CMBx spread stands over 882 bps.

Questions / Answers

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