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# Wall Street and Commercial Real Estate

Everett (Allen) Greer  
Greer Advisors, LLC

April 28, 2011 – San Jose

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**Greer Advisors, LLC**

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# Goals of Presentation

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- Disclaimers
- Market Drivers
- Financial Regulations (Dodd-Frank)
- Wall Street and Capital Markets (REIT / MBS)
- Market Conditions (Rent / Vacancy)
- Expected Changes / Outlook
- Greer's Forecast / Signs

# 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 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 for most of Country, add Global Economy for Las Vegas**

# Economy – Population / Households

## Demographic Statistics

|                       | Alameda<br>County | Contra Costa<br>County | Marin<br>County | San Francisco<br>County | San Mateo<br>County | Santa Clara<br>County | Contra<br>Costa<br>County | United States |
|-----------------------|-------------------|------------------------|-----------------|-------------------------|---------------------|-----------------------|---------------------------|---------------|
| 2010 Total Population | 1,522,142         | 1,063,960              | 257,863         | 814,963                 | 735,498             | 1,824,395             | 1,063,960                 | 311,212,863   |
| 2015 Total Population | 1,555,823         | 1,100,490              | 264,642         | 839,157                 | 751,183             | 1,902,130             | 1,100,490                 | 323,209,391   |
| 2010 Households       | 541,822           | 381,876                | 104,309         | 337,258                 | 260,906             | 605,134               | 381,876                   | 116,761,140   |
| 2015 Households       | 551,408           | 393,932                | 106,986         | 346,491                 | 265,631             | 628,974               | 393,932                   | 121,359,604   |

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

# Economy – Demographic Details

| <b>Demographic - Comparison</b>              | Alameda County | Contra Costa County | Marin County | San Francisco County | San Mateo County | Santa Clara County | Contra Costa County | United States |
|--|----------------|---------------------|--------------|----------------------|------------------|--------------------|---------------------|---------------|
| 2010 - 2015 Population Growth                | 0.44%          | 0.68%               | 0.52%        | 0.59%                | 0.42%            | 0.84%              | 0.68%               | 0.8%          |
| 2010 - 2015 Household Growth                 | 0.35%          | 0.62%               | 0.51%        | 0.54%                | 0.36%            | 0.78%              | 0.62%               | 0.8%          |
| <b>2010 Households by Income</b>             |                |                     |              |                      |                  |                    |                     |               |
| < \$15,000                                   | 8.8%           | 6.2%                | 5.8%         | 10.1%                | 4.5%             | 4.9%               | 6.2%                | 11.4%         |
| \$15,000 - \$24,999                          | 5.9%           | 5.4%                | 4.8%         | 7.0%                 | 4.5%             | 4.2%               | 5.4%                | 9.4%          |
| \$25,000 - \$34,999                          | 6.6%           | 5.4%                | 5.2%         | 6.0%                 | 4.2%             | 4.3%               | 5.4%                | 9.7%          |
| \$35,000 - \$49,999                          | 10.9%          | 10.5%               | 9.2%         | 10.4%                | 9.0%             | 8.2%               | 10.5%               | 15.0%         |
| \$50,000 - \$74,999                          | 17.6%          | 17.3%               | 17.3%        | 15.7%                | 17.4%            | 16.1%              | 17.3%               | 21.6%         |
| \$75,000 - \$99,999                          | 13.9%          | 13.6%               | 8.3%         | 13.3%                | 12.2%            | 12.7%              | 13.6%               | 14.1%         |
| \$100,000 - \$149,999                        | 20.3%          | 22.3%               | 22.9%        | 18.9%                | 22.3%            | 22.1%              | 22.3%               | 11.9%         |
| \$150,000 - \$199,999                        | 8.3%           | 9.6%                | 10.1%        | 7.9%                 | 11.3%            | 11.6%              | 9.6%                | 3.4%          |
| \$200,000 +                                  | 7.8%           | 9.7%                | 16.4%        | 10.6%                | 14.6%            | 15.8%              | 9.7%                | 3.5%          |
| <b>Median Household Income</b>               |                |                     |              |                      |                  |                    |                     |               |
| 2010 Median Household Income                 | \$75,371       | \$82,944            | \$97,821     | \$76,097             | \$95,300         | \$98,704           | \$82,944            | \$54,442      |
| <b>Per Capita Income</b>                     |                |                     |              |                      |                  |                    |                     |               |
| 2010 Per Capita Income                       | \$35,048       | \$38,994            | \$55,666     | \$44,441             | \$46,080         | \$44,534           | \$38,994            | \$26,739      |
| <b>2010 Population by Age</b>                |                |                     |              |                      |                  |                    |                     |               |
| Age 0 - 9 (young families)                   | 13.3%          | 14.0%               | 10.0%        | 8.0%                 | 12.3%            | 13.6%              | 14.0%               | 13.5%         |
| Age 20 - 64 (workforce)                      | 62.9%          | 60.0%               | 63.2%        | 70.6%                | 62.3%            | 62.6%              | 60.0%               | 59.9%         |
| Age 65+ (retirement)                         | 10.7%          | 12.1%               | 15.6%        | 13.7%                | 13.2%            | 10.6%              | 12.1%               | 13.1%         |
| Age 85+ (aging / health care)                | 1.7%           | 1.9%                | 2.5%         | 2.4%                 | 2.2%             | 1.5%               | 1.9%                | 2.0%          |
| 2010 Median Age                              | 36.1           | 37.8                | 44.3         | 38.9                 | 39.1             | 36.0               | 37.8                | 37.0          |
| <b>2010 Population by Sex</b>                |                |                     |              |                      |                  |                    |                     |               |
| 2010 Males                                   | 49.3%          | 48.8%               | 49.4%        | 50.9%                | 49.6%            | 50.5%              | 48.8%               | 49.2%         |
| 2010 Females                                 | 50.7%          | 51.2%               | 50.6%        | 49.1%                | 50.4%            | 49.5%              | 51.2%               | 50.8%         |
| <b>2010 Population 15+ by Marital Status</b> |                |                     |              |                      |                  |                    |                     |               |
| Never Married                                | 36.2%          | 29.4%               | 29.3%        | 49.2%                | 32.4%            | 34.2%              | 29.4%               | 29.9%         |
| Married                                      | 48.8%          | 54.9%               | 52.7%        | 36.9%                | 52.9%            | 52.9%              | 54.9%               | 53.3%         |
| Widowed                                      | 5.2%           | 5.5%                | 5.5%         | 5.5%                 | 5.6%             | 4.4%               | 5.5%                | 6.1%          |
| Divorced                                     | 9.8%           | 10.2%               | 12.5%        | 8.4%                 | 9.0%             | 8.5%               | 10.2%               | 10.6%         |

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

# Economy – Housing

| <b>Housing</b>                   | Alameda County | Contra Costa County | Marin County | San Francisco County | San Mateo County | Santa Clara County | Contra Costa County | United States |
|----------------------------------|----------------|---------------------|--------------|----------------------|------------------|--------------------|---------------------|---------------|
| Median Home Value                | \$291,893      | \$253,784           | \$493,303    | \$422,743            | \$449,872        | \$422,645          | \$253,784           | \$111,833     |
| 2010 Median Rent                 | \$784          | \$826               | \$1,105      | \$883                | \$1,074          | \$1,114            | \$826               | \$519         |
| 2010 Average Rent                | \$826          | \$869               | \$1,173      | \$985                | \$1,151          | \$1,143            | \$869               | \$565         |
| Median Year Householder Moved In | 1995           | 1995                | 1994         | 1995                 | 1994             | 1995               | 1995                | 1995          |
| Median Year Structure Built      | 1963           | 1972                | 1964         | 1940                 | 1962             | 1970               | 1972                | 1971          |
| Owner Occupied Housing Units     | 51.0%          | 64.8%               | 59.2%        | 31.9%                | 58.0%            | 56.6%              | 64.8%               | 58.0%         |
| Vacant Housing Units             | 4.7%           | 5.0%                | 5.2%         | 7.7%                 | 3.7%             | 3.5%               | 5.0%                | 11.9%         |

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

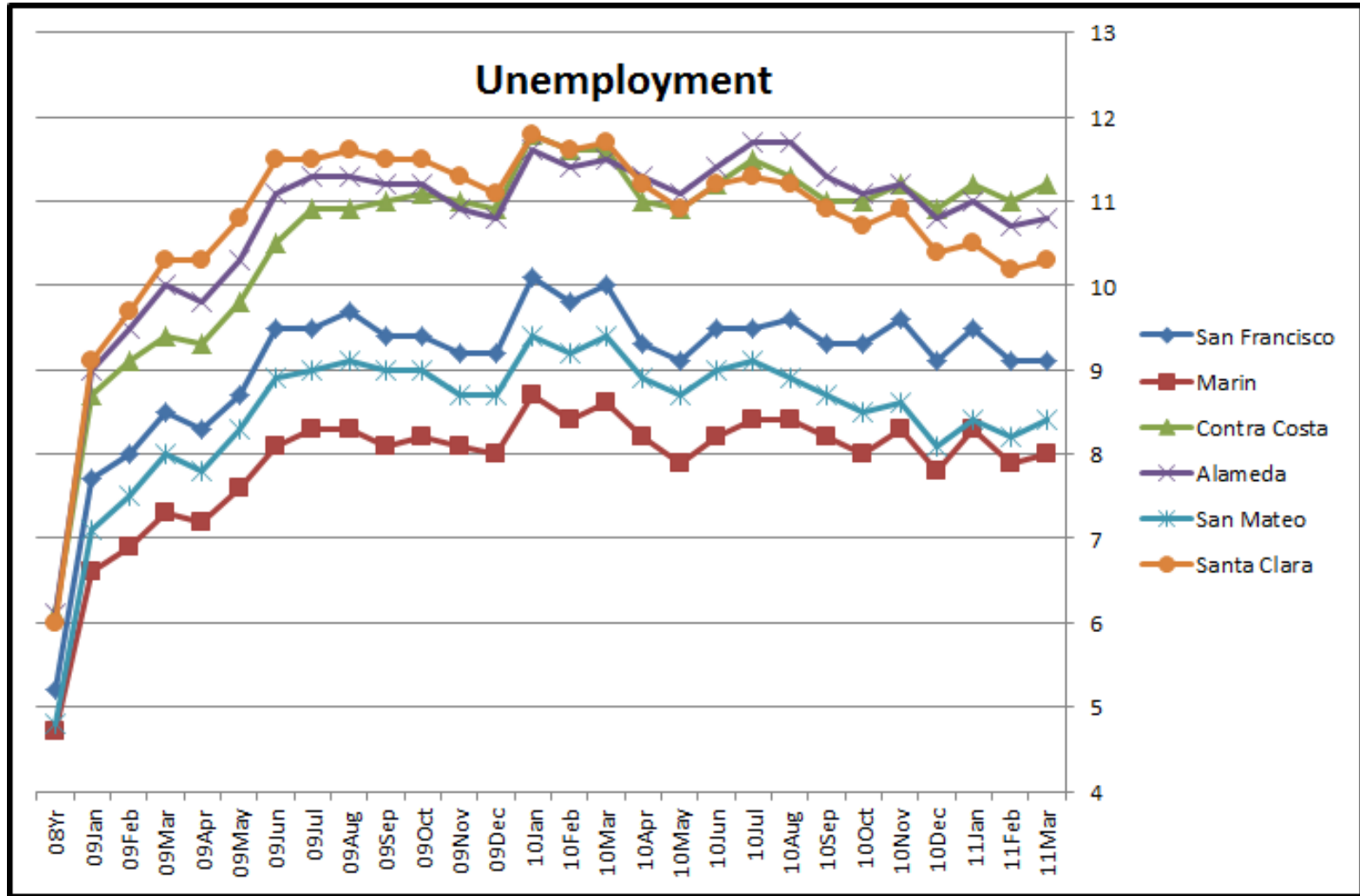
# Economy – Employment By Industry

## 2010 Employed Population 16+ by Industry

|  | Alameda<br>County | Contra Costa<br>County | Marin County | San Francisco<br>County | San Mateo<br>County | Santa Clara<br>County | Contra<br>Costa<br>County | United<br>States |
|--|-------------------|------------------------|--------------|-------------------------|---------------------|-----------------------|---------------------------|------------------|
| <b>Total</b>                             |                   |                        |              |                         |                     |                       |                           |                  |
| Agriculture/Mining                       | 0.2%              | 0.5%                   | 0.5%         | 0.2%                    | 0.4%                | 0.5%                  | 0.5%                      | 1.8%             |
| Construction                             | 5.3%              | 7.1%                   | 5.6%         | 3.2%                    | 5.8%                | 5.0%                  | 7.1%                      | 6.5%             |
| Manufacturing                            | 10.1%             | 5.9%                   | 3.2%         | 4.5%                    | 7.2%                | 20.4%                 | 5.9%                      | 9.6%             |
| Wholesale Trade                          | 3.7%              | 3.1%                   | 2.6%         | 2.2%                    | 3.5%                | 2.8%                  | 3.1%                      | 3.2%             |
| Retail Trade                             | 10.5%             | 11.3%                  | 10.1%        | 9.8%                    | 10.9%               | 10.1%                 | 11.3%                     | 11.4%            |
| Transportation/Utilities                 | 5.4%              | 5.0%                   | 2.5%         | 4.0%                    | 6.3%                | 2.7%                  | 5.0%                      | 4.9%             |
| Information                              | 3.6%              | 3.4%                   | 4.0%         | 5.2%                    | 3.3%                | 3.7%                  | 3.4%                      | 2.3%             |
| Finance/Insurance/Real Estate            | 7.3%              | 11.1%                  | 11.9%        | 10.6%                   | 9.3%                | 5.2%                  | 11.1%                     | 7.1%             |
| Services                                 | 50.2%             | 48.7%                  | 56.7%        | 57.0%                   | 50.0%               | 47.0%                 | 48.7%                     | 48.0%            |
| Public Administration                    | 3.6%              | 4.0%                   | 3.0%         | 3.2%                    | 3.1%                | 2.6%                  | 4.0%                      | 5.1%             |
| <b>Employment Base Index (to Nation)</b> |                   |                        |              |                         |                     |                       |                           |                  |
| Agriculture/Mining                       | 11.1              | 27.8                   | 27.8         | 11.1                    | 22.2                | 27.8                  | 27.8                      | 100              |
| Construction                             | 81.5              | 109.2                  | 86.2         | 49.2                    | 89.2                | 76.9                  | 109.2                     | 100              |
| Manufacturing                            | 105.2             | 61.5                   | 33.3         | 46.9                    | 75.0                | 212.5                 | 61.5                      | 100              |
| Wholesale Trade                          | 115.6             | 96.9                   | 81.3         | 68.8                    | 109.4               | 87.5                  | 96.9                      | 100              |
| Retail Trade                             | 92.1              | 99.1                   | 88.6         | 86.0                    | 95.6                | 88.6                  | 99.1                      | 100              |
| Transportation/Utilities                 | 110.2             | 102.0                  | 51.0         | 81.6                    | 128.6               | 55.1                  | 102.0                     | 100              |
| Information                              | 156.5             | 147.8                  | 173.9        | 226.1                   | 143.5               | 160.9                 | 147.8                     | 100              |
| Finance/Insurance/Real Estate            | 102.8             | 156.3                  | 167.6        | 149.3                   | 131.0               | 73.2                  | 156.3                     | 100              |
| Services                                 | 104.6             | 101.5                  | 118.1        | 118.8                   | 104.2               | 97.9                  | 101.5                     | 100              |
| Public Administration                    | 70.6              | 78.4                   | 58.8         | 62.7                    | 60.8                | 51.0                  | 78.4                      | 100              |

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

# Economy – Comparison





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# Financial Regulations

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## **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
  - Securitization Reform
  - Derivatives – minimal change

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- Wall Street and Capital Markets

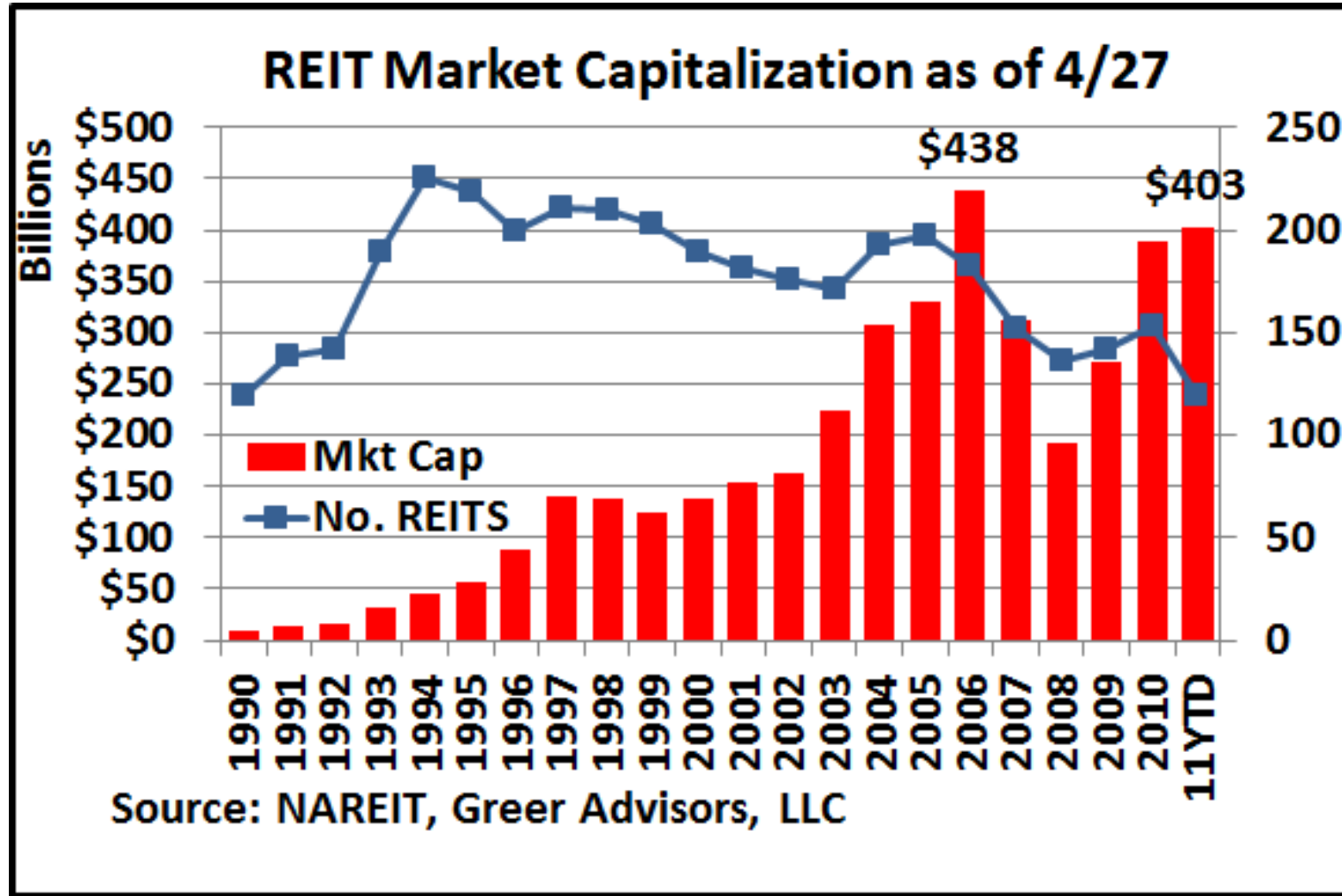
# What is REIT?

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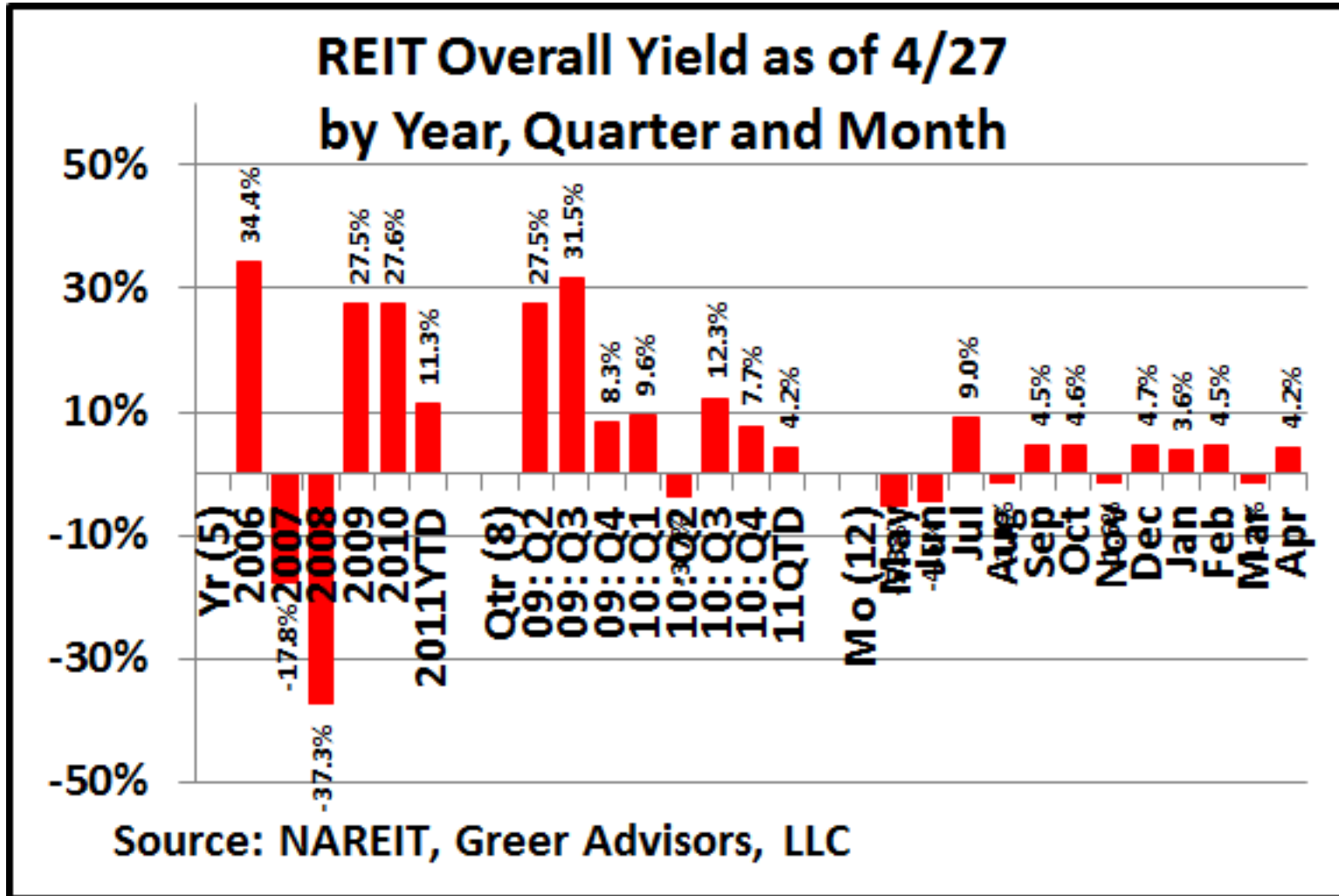
## Real Estate Investment Trust

- 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

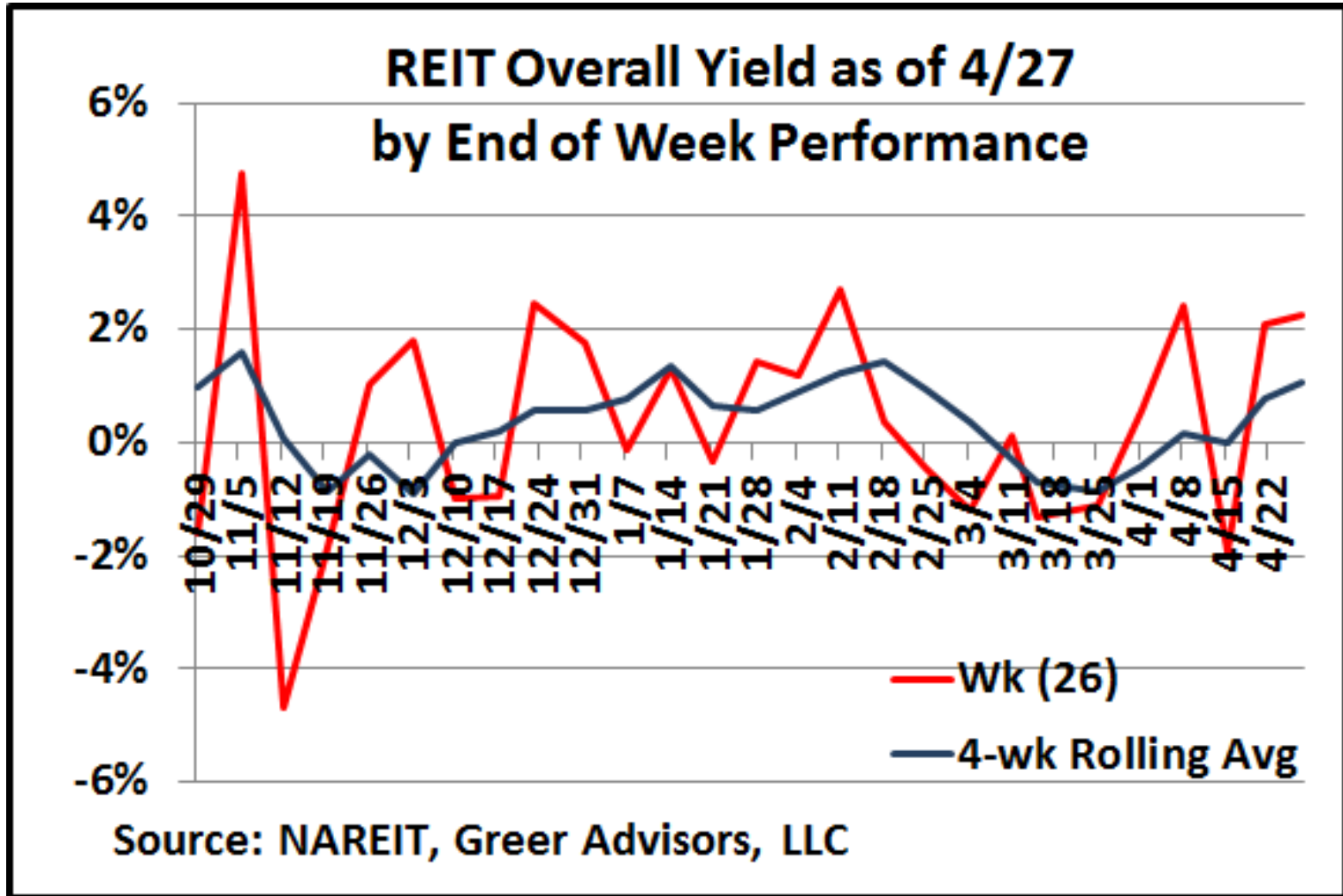
# REIT Market Capitalization



# Overall REIT Dividend Yields – Stable?



# Overall REIT Dividend Yields – Stable?



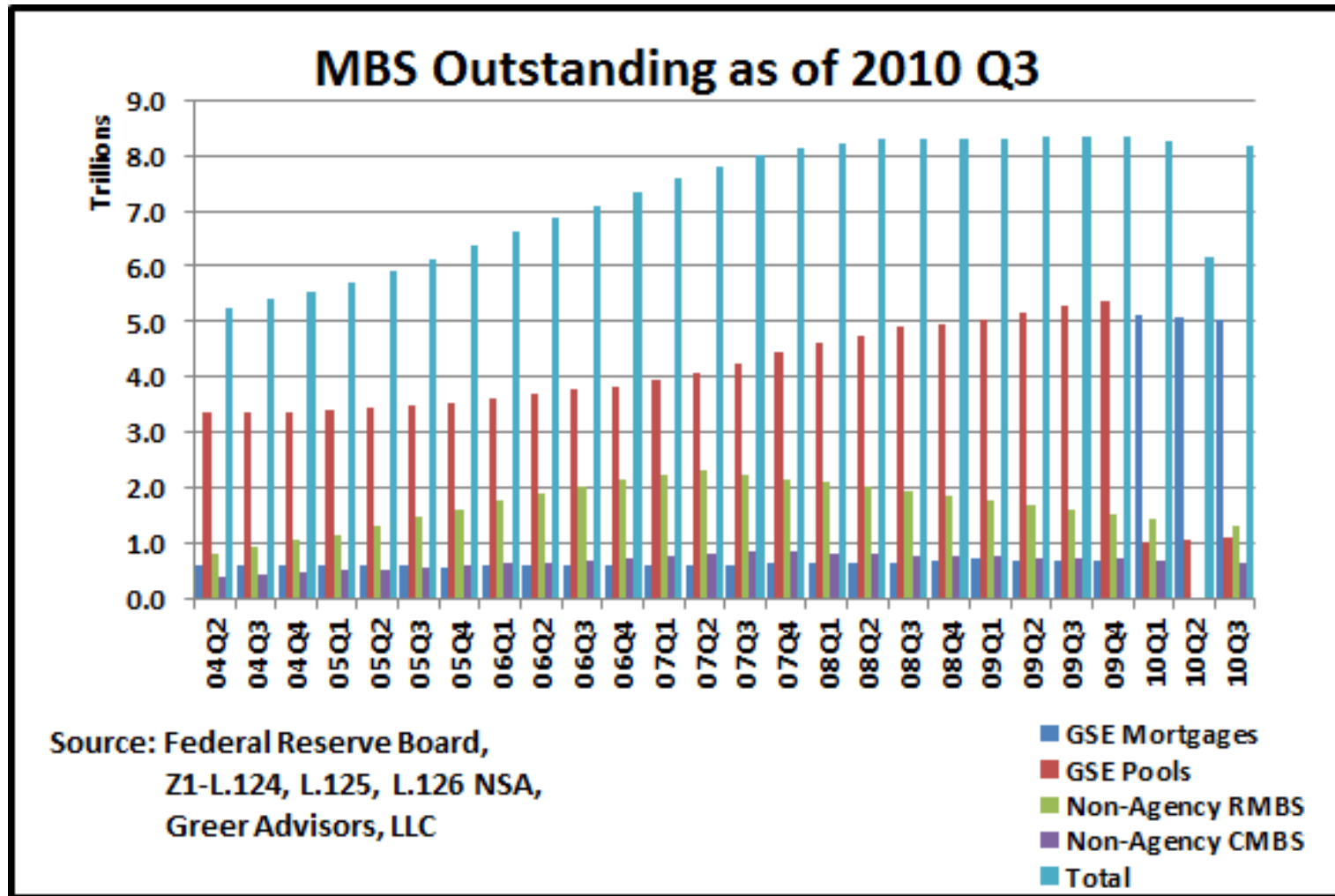
# What is a MBS?

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## Mortgage Backed Security

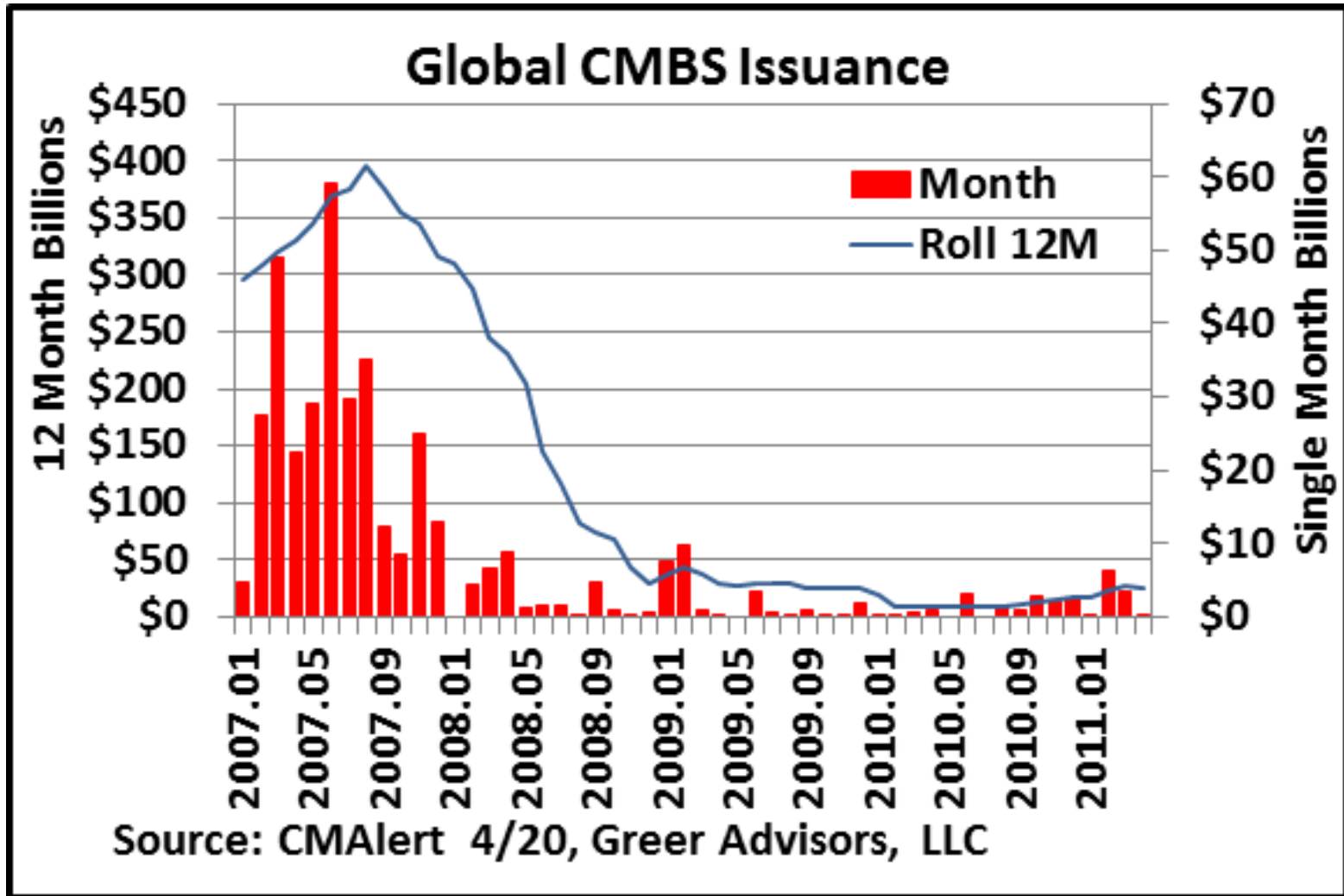
- Type of pass-through security
- Mortgages are securitized into a pool. Rights to the revenue from the mortgages are divided into many smaller pieces (tranches, strips, slices), each with differing priorities. Proceeds are distributed to investors based on the priority of their tranche.
- During 2006-2007, accounted for slightly less than 40% of all commercial real estate lending, and higher rate for residential.

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





# Global CMBS Issuance – Not Recovered



# CMBx Data

| <b>Greer CMBS / CMBx Yield Rate<sup>TM</sup></b> |                |                |                       |                              |
|--|----------------|----------------|-----------------------|------------------------------|
| <b>Tranche</b>                                   | <b>Yield</b>   | <b>Suboord</b> | <b>Weight of Debt</b> | <b>Contribution to Total</b> |
| <b>AAA</b>                                       | <b>3.80%</b>   | <b>29.76%</b>  | <b>70.24%</b>         | <b>2.67%</b>                 |
| <b>AJ</b>  | <b>4.67%</b>   | <b>12.70%</b>  | <b>17.06%</b>         | <b>0.80%</b>                 |
| <b>AA</b>  | <b>6.29%</b>   | <b>10.63%</b>  | <b>2.07%</b>          | <b>0.13%</b>                 |
| <b>A</b>   | <b>10.72%</b>  | <b>8.00%</b>   | <b>2.63%</b>          | <b>0.28%</b>                 |
| <b>BBB</b>                                       | <b>28.39%</b>  | <b>4.72%</b>   | <b>3.28%</b>          | <b>0.93%</b>                 |
| <b>BBB-</b>                                      | <b>29.73%</b>  | <b>3.68%</b>   | <b>1.04%</b>          | <b>0.31%</b>                 |
| <b>BB</b>  | <b>103.43%</b> | <b>2.69%</b>   | <b>0.99%</b>          | <b>1.02%</b>                 |
| <b>Unrated</b>                                   | <b>177.00%</b> | <b>0.00%</b>   | <b>2.69%</b>          | <b>4.76%</b>                 |
| <b>Implied Overall Debt Yield</b>                |                |                | <b>100.00%</b>        | <b>10.90%</b>                |
| <b>Loan to Value Ratio</b>                       |                |                |                       | <b>75.00%</b>                |
| <b>Class-A Equity Yield   Total Yield</b>        |                |                | <b>30.00%</b>         | <b>15.67%</b>                |
| <b>Class-B Equity Yield   Total Yield</b>        |                |                | <b>103.00%</b>        | <b>33.92%</b>                |

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 Markit<sup>TM</sup> Data and Calculations based on close of 4/28. Swap (10Yr) as of 4/27. ③ Coupon and Price data were from Markit<sup>TM</sup> for AAA Senior through BB bonds. Markit<sup>TM</sup> data was used as part of the calculations by Greer Advisors, LLC to determine Spreads. Subordination levels were from Markit<sup>TM</sup>. 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.

# What is a CDO?

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## 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.

# What is CDS?

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## 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 called **ED** these “Weapons of Mass Destruction”
- .....counterparty???

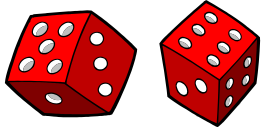
# Players in “Simple” CDS

## Business Issues Bonds

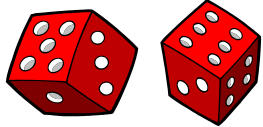


Bonds initially rated too poor for market, eg “BB”

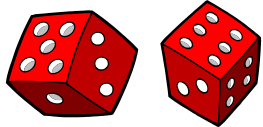
Side Bet 1



Side Bet 2



Side Bet 3

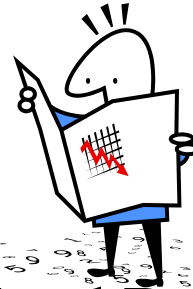


Investment Bank issues CDS (aka Credit Enhances Debt) Enough to make BB = AA, if debtor fails, IB buys bonds

## Rating Agency Rates Bonds



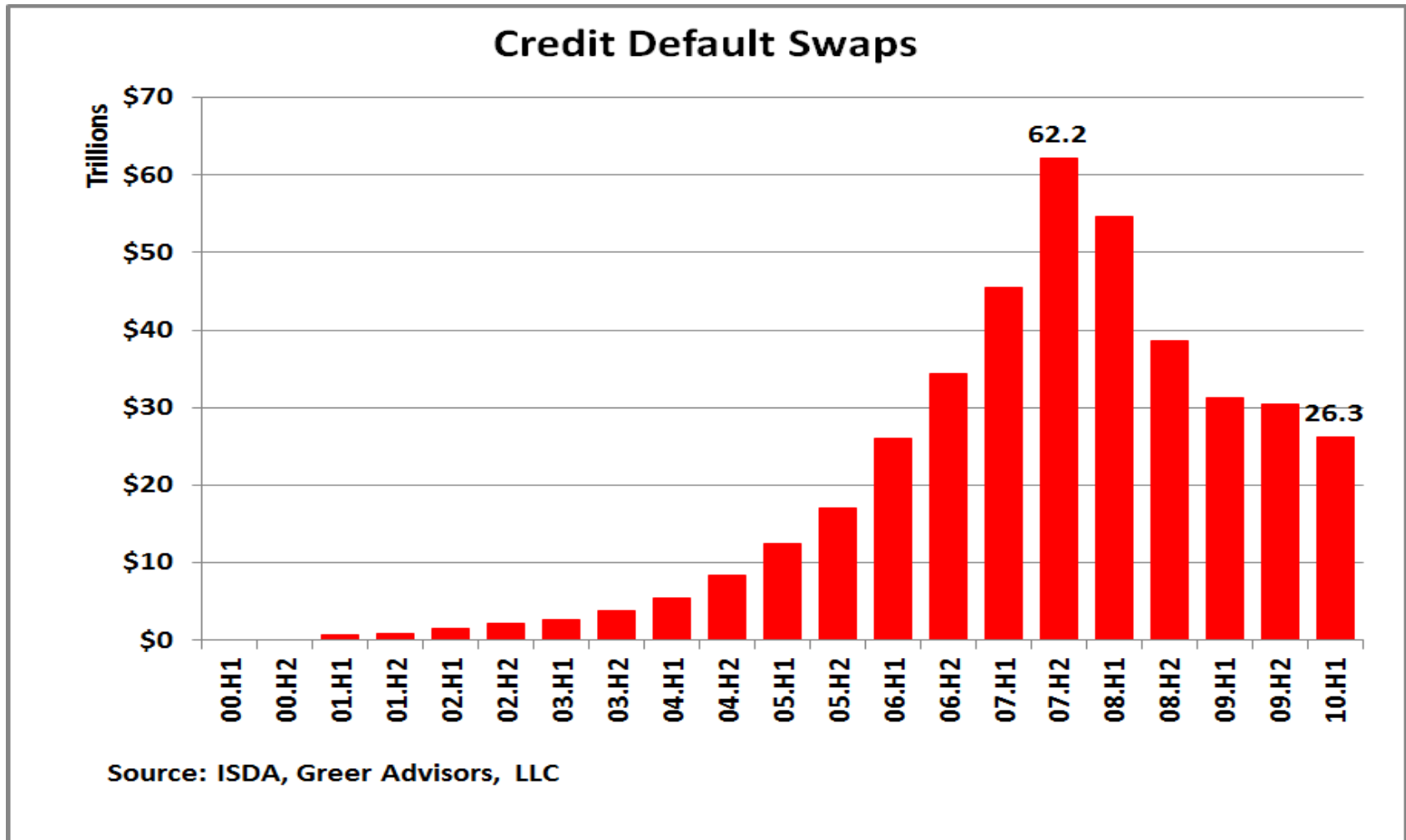
Gives loss forecast & amount required for “AA” rating



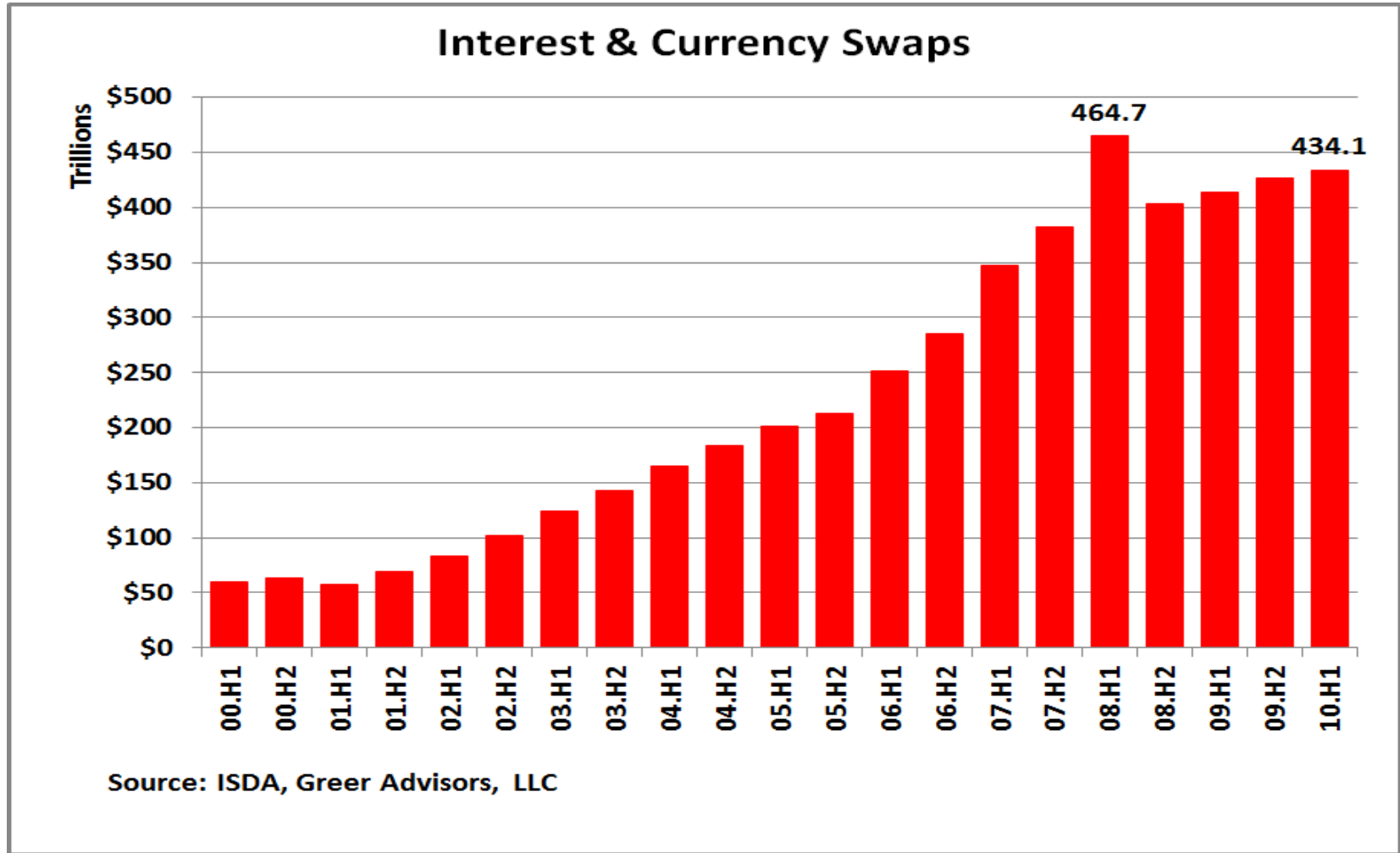
Pension Fund Buys Bonds with CDS enhancement  
Thinks it's AA investment

**Greer Advisors, LLC**

# Credit Default Swaps



# Interest & Currency Swaps





# Top - Bottom Market Stats – as of 2010 Q4

| INDUSTRIAL - 2010.Q4 |                       |       |             |                 | OFFICE - 2010.Q4 |                       |       |             |                 | RETAIL - 2010.Q4 |                   |            |             |                 | APARTMENT - 2010.Q4 |                       |       |             |                 |
|----------------------|-----------------------|-------|-------------|-----------------|------------------|-----------------------|-------|-------------|-----------------|------------------|-------------------|------------|-------------|-----------------|---------------------|-----------------------|-------|-------------|-----------------|
| Vac                  | Metro                 | Vac % | Eff Rent \$ | RR Rent Q-Q Chg | Vac              | Metro                 | Vac % | Eff Rent \$ | RR Rent Q-Q Chg | Vac              | Metro             | Vac %      | Eff Rent \$ | RR Rent Q-Q Chg | Vac                 | Metro                 | Vac % | Eff Rent \$ | RR Rent Q-Q Chg |
| 1                    | Los Angeles           | 7.5%  | \$6.33      | -1.2%           | 1                | New York              | 8.4%  | \$52.97     | -0.8%           | 1                | San Francisco     | 3.6%       | \$29.96     | 0.1%            | 1                   | Pittsburgh            | 2.3%  | \$893       | 1.4%            |
| 2                    | Salt Lake City        | 7.9%  | \$4.80      | 5.1%            | 2                | Honolulu              | 8.7%  | \$21.45     | -5.3%           | 2                | Fairfield County  | 4.2%       | \$25.22     | -0.2%           | 2                   | San Jose              | 3.3%  | \$1,587     | 1.3%            |
| 3                    | Houston               | 10.6% | \$5.25      | 1.4%            | 3                | Trenton               | 11.1% | \$24.03     | 1.9%            | 3                | Long Island       | 5.6%       | \$22.76     | 0.7%            | 3                   | Newark                | 3.4%  | \$1,367     | 2.8%            |
| 4                    | Orange County         | 10.8% | \$7.90      | -1.5%           | 4                | Pittsburgh            | 11.2% | \$17.39     | 1.4%            | 4                | Northern New Jer  | 5.6%       | \$24.62     | 0.0%            | 4                   | Washington, DC        | 3.9%  | \$1,413     | 1.0%            |
| 5                    | Kansas City           | 11.1% | \$6.43      | 0.4%            | 5                | Long Island           | 11.6% | \$20.11     | -0.6%           | 5                | San Jose          | 6.0%       | \$26.65     | -0.1%           | 5                   | Oakland               | 4.0%  | \$1,321     | 0.7%            |
| 6                    | Long Island           | 11.3% | \$5.55      | -0.6%           | 6                | Boston                | 13.0% | \$26.86     | -0.5%           | 6                | Suburban Virginia | 6.1%       | \$24.33     | -0.2%           | 6                   | Ventura               | 4.0%  | \$1,403     | 1.5%            |
| 7                    | Portland              | 11.3% | \$6.20      | -1.1%           | 7                | Washington, DC        | 13.0% | \$34.18     | -0.6%           | 7                | Los Angeles       | 6.2%       | \$25.13     | -0.3%           | 7                   | El Paso               | 4.1%  | \$699       | 0.9%            |
| 8                    | San Francisco         | 11.3% | \$7.84      | 4.5%            | 8                | Stamford              | 13.1% | \$26.09     | -0.6%           | 8                | Orange County     | 6.6%       | \$26.52     | -0.2%           | 8                   | Miami                 | 4.1%  | \$1,096     | 0.7%            |
| 9                    | Minneapolis           | 11.8% | \$4.80      | -0.9%           | 9                | San Francisco         | 13.7% | \$21.51     | -0.2%           | 9                | Boston            | 6.7%       | \$19.47     | 0.4%            | 9                   | Minneapolis           | 4.1%  | \$944       | 0.9%            |
| 10                   | Seattle               | 11.8% | \$7.86      | -2.4%           | 10               | Nashville             | 14.2% | \$19.74     | -0.6%           | 10               | Oakland-East Bay  | 6.7%       | \$24.84     | 0.3%            | 10                  | Portland              | 4.1%  | \$844       | 1.1%            |
| 11                   | New York              | 12.1% | \$5.38      | -0.5%           | 11               | Philadelphia          | 14.8% | \$20.75     | 1.0%            | 11               | Miami             | 7.4%       | \$20.35     | 0.1%            | 11                  | San Francisco         | 4.1%  | \$1,856     | -0.1%           |
| 51                   | Jacksonville          | 16.6% | \$4.54      | -0.7%           | 50               | West Palm Beach       | 21.1% | \$20.39     | -1.0%           | 71               | Wichita           | 14.4%      | \$10.41     | 0.3%            | 55                  | Tucson                | 8.4%  | \$622       | 0.1%            |
| 52                   | Hartford              | 18.1% | \$5.88      | -8.4%           | 51               | Edison                | 21.2% | \$17.56     | 0.5%            | 72               | Cleveland         | 14.8%      | \$12.87     | -0.9%           | 56                  | Fort Worth            | 8.6%  | \$665       | 0.0%            |
| 53                   | Sacramento            | 18.6% | \$4.83      | -0.3%           | 52               | San Jose              | 21.3% | \$24.52     | -1.3%           | 73               | Syracuse          | 14.8%      | \$10.54     | -0.1%           | 57                  | Birmingham            | 8.7%  | \$760       | 0.3%            |
| 54                   | Atlanta               | 19.0% | \$3.36      | 4.2%            | 53               | Sacramento            | 21.6% | \$19.71     | -2.5%           | 74               | Dallas            | 14.9%      | \$14.03     | -0.1%           | 58                  | Phoenix               | 9.1%  | \$717       | 0.9%            |
| 55                   | Boston                | 19.2% | \$5.90      | 0.1%            | 54               | Tampa                 | 21.6% | \$18.72     | -0.2%           | 75               | Cincinnati        | 15.0%      | \$12.32     | 0.5%            | 59                  | Las Vegas             | 9.4%  | \$733       | -2.2%           |
| 56                   | Phoenix               | 19.2% | \$5.00      | -1.0%           | 55               | Riverside             | 22.4% | \$18.66     | -0.3%           | 76               | Indianapolis      | 15.4%      | \$12.37     | 0.7%            | 60                  | Atlanta               | 9.5%  | \$770       | -0.1%           |
| 57                   | Stamford              | 19.2% | \$5.78      | -1.8%           | 56               | Dallas                | 22.5% | \$17.68     | -0.6%           | 77               | Tulsa             | 15.5%      | \$9.74      | 0.2%            | 61                  | Dayton                | 9.9%  | \$640       | -2.0%           |
| 58                   | Detroit               | 20.3% | \$3.19      | -3.1%           | 57               | Las Vegas             | 24.7% | \$21.59     | -1.6%           | 78               | Birmingham        | 16.0%      | \$12.18     | -0.4%           | 62                  | Houston               | 9.9%  | \$794       | 0.0%            |
| 59                   | Memphis               | 20.4% | \$2.35      | 0.3%            | 58               | Detroit               | 25.0% | \$14.78     | -2.6%           | 79               | Columbus          | 16.4%      | \$10.66     | -0.4%           | 63                  | Jacksonville          | 10.1% | \$741       | -0.4%           |
| 60                   | Trenton               | 23.4% | \$3.80      | -2.4%           | 59               | Phoenix               | 25.9% | \$18.39     | -2.2%           | 80               | Dayton            | 16.8%      | \$8.84      | 0.8%            | 64                  | Memphis               | 11.5% | \$680       | -1.6%           |
|                      | <b>Average</b>        | 13.1% | \$5.37      | -0.5%           |                  | <b>Average</b>        | 17.3% | \$20.54     | -0.9%           |                  | <b>Average</b>    | 11.0%      | \$15.84     | -0.1%           |                     | <b>Average</b>        | 6.2%  | \$955       | 0.3%            |
| 8                    | San Francisco         | 11.3% | \$7.84      | 4.5%            | 9                | San Francisco         | 13.7% | \$21.51     | -0.2%           | 1                | San Francisco     | 3.6%       | \$29.96     | 0.1%            | 2                   | San Jose              | 3.3%  | \$1,587     | 1.3%            |
| 33                   | Oakland               | 15.0% | \$5.11      | -2.2%           | 26               | Oakland               | 16.8% | \$21.66     | 0.6%            | 5                | San Jose          | 6.0%       | \$26.65     | -0.1%           | 5                   | Oakland               | 4.0%  | \$1,321     | 0.7%            |
| 40                   | San Jose              | 15.4% | \$6.18      | 0.0%            | 52               | San Jose              | 21.3% | \$24.52     | -1.3%           | 10               | Oakland-East Bay  | 6.7%       | \$24.84     | 0.3%            | 11                  | San Francisco         | 4.1%  | \$1,856     | -0.1%           |
| 53                   | Sacramento            | 18.6% | \$4.83      | -0.3%           | 53               | Sacramento            | 21.6% | \$19.71     | -2.5%           | 55               | Sacramento        | 12.8%      | \$18.23     | -1.1%           | 35                  | Sacramento            | 5.9%  | \$914       | 0.0%            |
|                      | <b>Sum of Markets</b> | 14.3% | \$5.03      | -0.6%           |                  | <b>Sum Of Markets</b> | 16.4% | \$25.62     | -0.8%           |                  | <b>N/A</b>        | <b>N/A</b> | <b>N/A</b>  | <b>N/A</b>      |                     | <b>Sum Of Markets</b> | 6.0%  | \$1,194     | 1.0%            |
|                      | <b>Min</b>            | 7.5%  | \$2.84      | -3.8%           |                  | <b>Min</b>            | 8.4%  | \$14.59     | -6.4%           |                  | <b>Min</b>        | 3.6%       | \$8.84      | -1.6%           |                     | <b>Min</b>            | 2.3%  | \$571       | -2.2%           |
|                      | <b>Max</b>            | 15.4% | \$8.08      | 6.2%            |                  | <b>Max</b>            | 25.9% | \$52.97     | 1.9%            |                  | <b>Max</b>        | 16.8%      | \$32.04     | 1.0%            |                     | <b>Max</b>            | 11.5% | \$2,199     | 3.0%            |
|                      | <b>Spread</b>         | 7.9%  | \$5.24      | 10.0%           |                  | <b>Spread</b>         | 17.5% | \$38.38     | 8.3%            |                  | <b>Spread</b>     | 13.2%      | \$23.20     | 2.6%            |                     | <b>Spread</b>         | 9.2%  | \$1,628     | 5.3%            |

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

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



# Future - Mortgage Backed Security

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- If NSROs don't "**Get It**" Feds could replace them
- 'Til MBS Returns, Real Estate markets **WILL NOT** recover
- Most banks ARE NOT in the business of holding debt
- New MBS WILL EMERGE with terms as follows
  - No "quick buck" investment banks/mortgage bankers
  - Issuer holds 1-5% of pool as "1<sup>st</sup> Loss / Good Faith" position
  - 60-80% of pool will be AAA, not 90+%
  - Buyers of paper will "re-underwrite" pools, regardless of

# Future of Banking

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**Past Three Years have Shown largest lending decline in history - see FDIC QBP**

**CMBS Loss Rates – Still All Time Highs, Banks better**

**Separation of “Best of Best” Class A vs. Class B/C**

**Deleverage – Expect More for Class B/C**

**More Restrictive Covenants for REITs, CMBS**

**“R” word for Loans (recourse)**

**Capital Ratios – Leverage – QE2**

# Conclusions

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- MBS Market – Spreads are 10-100x higher than 1/07
- MBS – New Business Model will Arise
- REITs – Virtually Recovered
- Many Lenders Closed, Stopped or Reduced Lending
- 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!!!

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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



# Greer's 3-Year Forecast as of 4/28/2011

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- Global Economy Heals = Recovery (Barbell)
- 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 Lag CPI growth by 1-3%, expect more Yrs 2-5.
- Values appear to have stabilized. They fell from through mid-2011. Individual Market Performance will varied widely. (10-30% difference in Top vs Bottom)
- Capitalization Rates will Rise 0.5-2% during 2011-2012, mostly in Class B/C. Trophy Class A still very low cap rates.
- Declines: #1=Retail; #2=Office & Industrial; then Apartment
- Change Creates Opportunities – Build Businesses
- Complete Barbell Forecast

# 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 4/26/11 (last report) index at 65.4 (1985=100)
- Risk Curve (AAA Sr. vs BB) flattens to under 500 bps. As of 4/28/11, CMBx spread stands nearly 100 pts (3.80 v 103.43)

# Questions / Answers

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**Greer Advisors, LLC**

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