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# Wall Street and Commercial Real Estate

Everett (Allen) Greer  
Greer Advisors, LLC

February 11, 2014 – CREPOC

w/ revisions 2/13/14

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**Greer Advisors, LLC**

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# Goals of Presentation

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- Market Drivers
- Economic Trends
- Rents and Vacancy Trends
- Top/Bottom Markets – Vacancy & Growth
- Capital Market Trends – REIT / CMBS
- Financial Regulations (Dodd-Frank)
- Outlook & Forecast

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# ■ Market Drivers

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# Market Drivers

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## **Supply / Demand – Not the Driver**

- Most Demand ties to Jobs
  - Office – FIRE Employment, Portion of Service Employment
  - Retail – Household Formations, Income Growth
  - Industrial – Manufacturing & Distribution (Logistics)
  - Multifamily – Households, non-Top 25% HH Income
  - Hotel – Corporate Travel – Office & Industrial Employment

## **Financing – Is the Most Important Fundamental**

- Availability
- Leverage
- Rate and Term
- Recourse

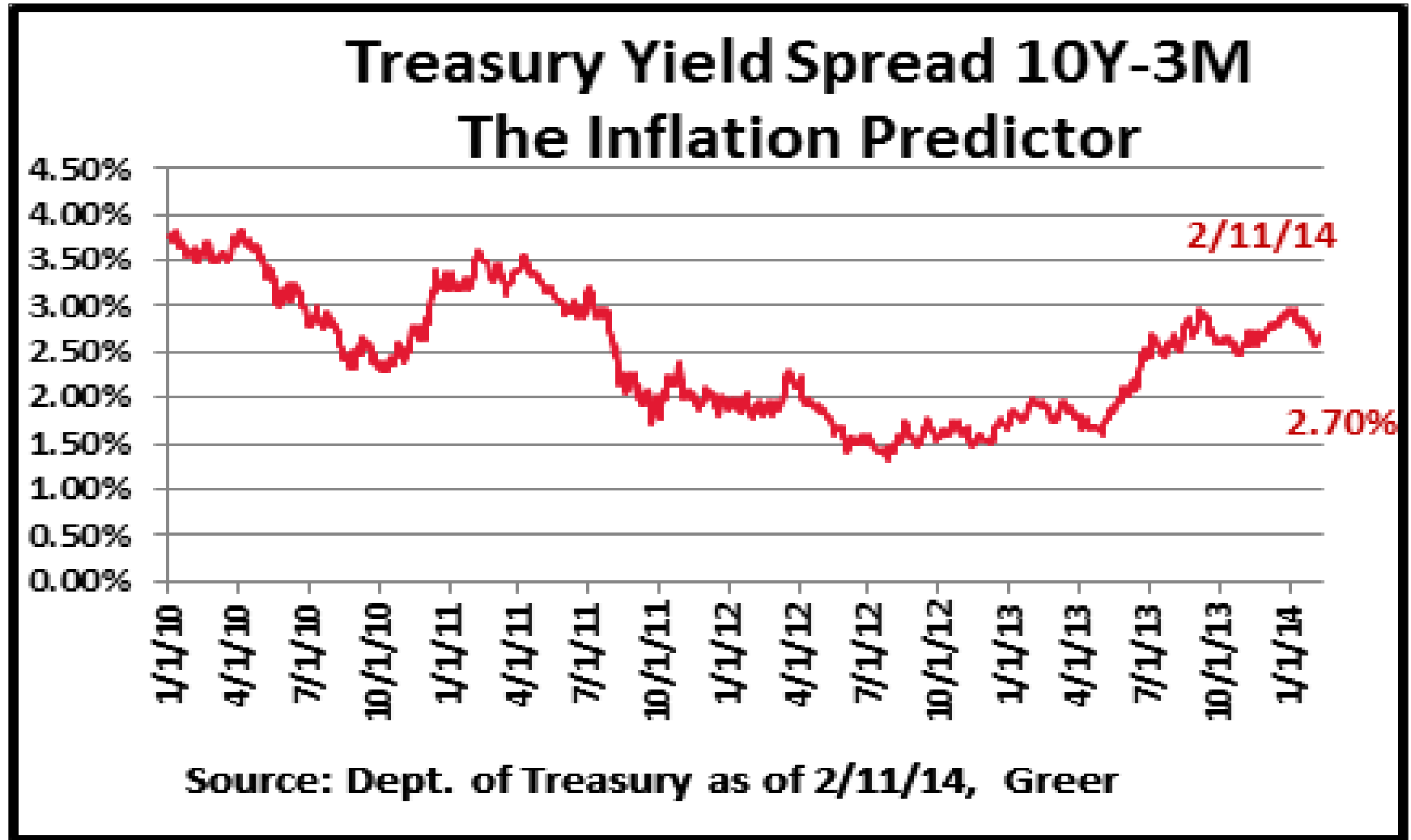
# Interest

## 10 Year Treasury Yields



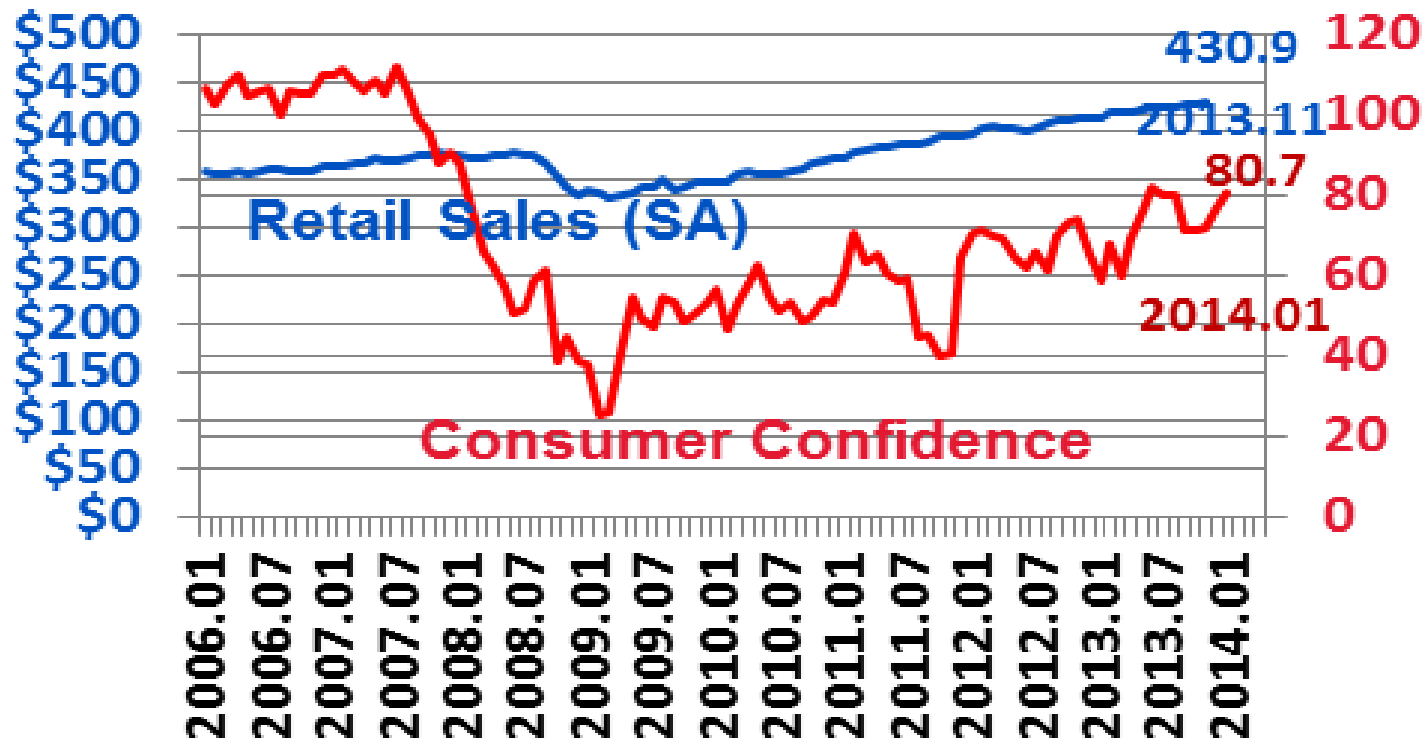
Source: Dept. of Treasury as of 2/11/14, Greer

# Inflation



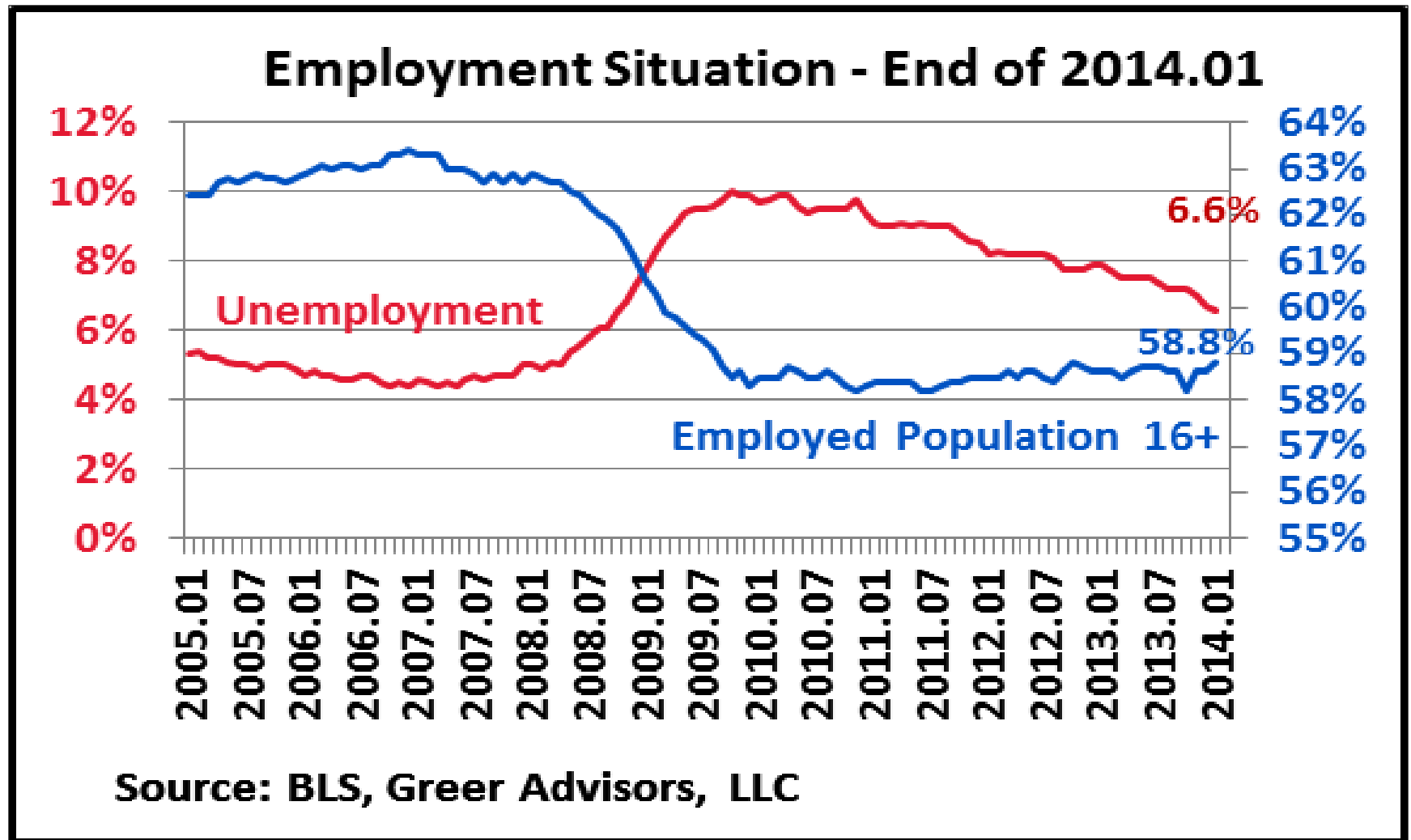
# Economy – Consumer Confidence & Sales

## Key Economic Indicators



Source: Conference Board, Census, Greer Advisors, LLC

# Economy – Employment





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# Economy – Strengths / Weaknesses

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## Consumer Side

- Consumer Confidence improving 80.7 (Jan. Conf. Board)
- Unemp/% Wkforce improving 6.6%/58.8% (Jan. BLS)
- ObamaCare, Debt, Deficit, Runaway Spending
- Liquidity, Leverage, Interest (for non-AAA Debt) – Poor
- Retail Sales Show Small, but Consistent Growth
- Event Risk, EMP, Potential Sovereign Defaults

## Investment Banks

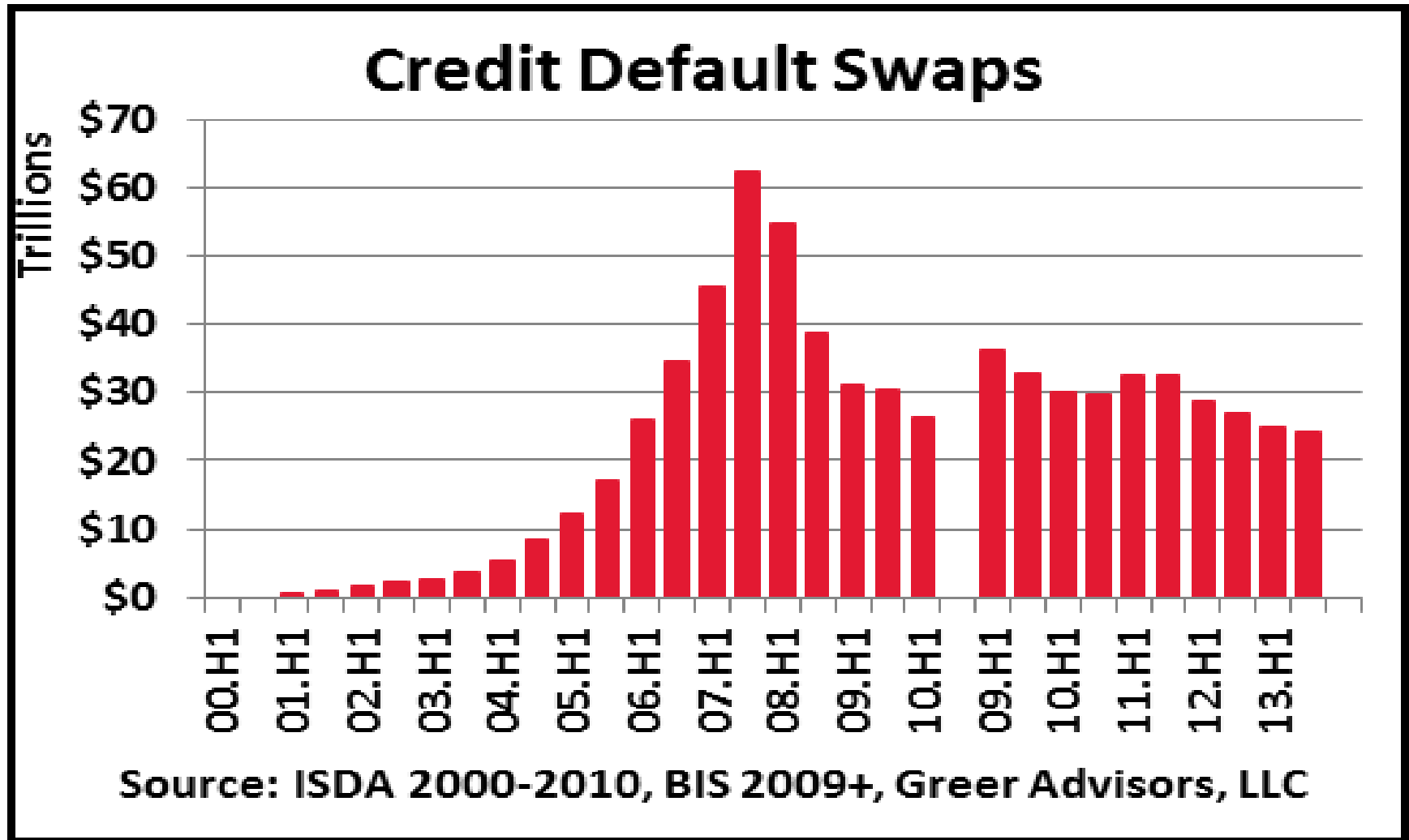
- Capital IQ and Deal Logic show LBO's 😊
- M&A Continues to Grow
- Derivative Risk – Net vs. Gross VAR

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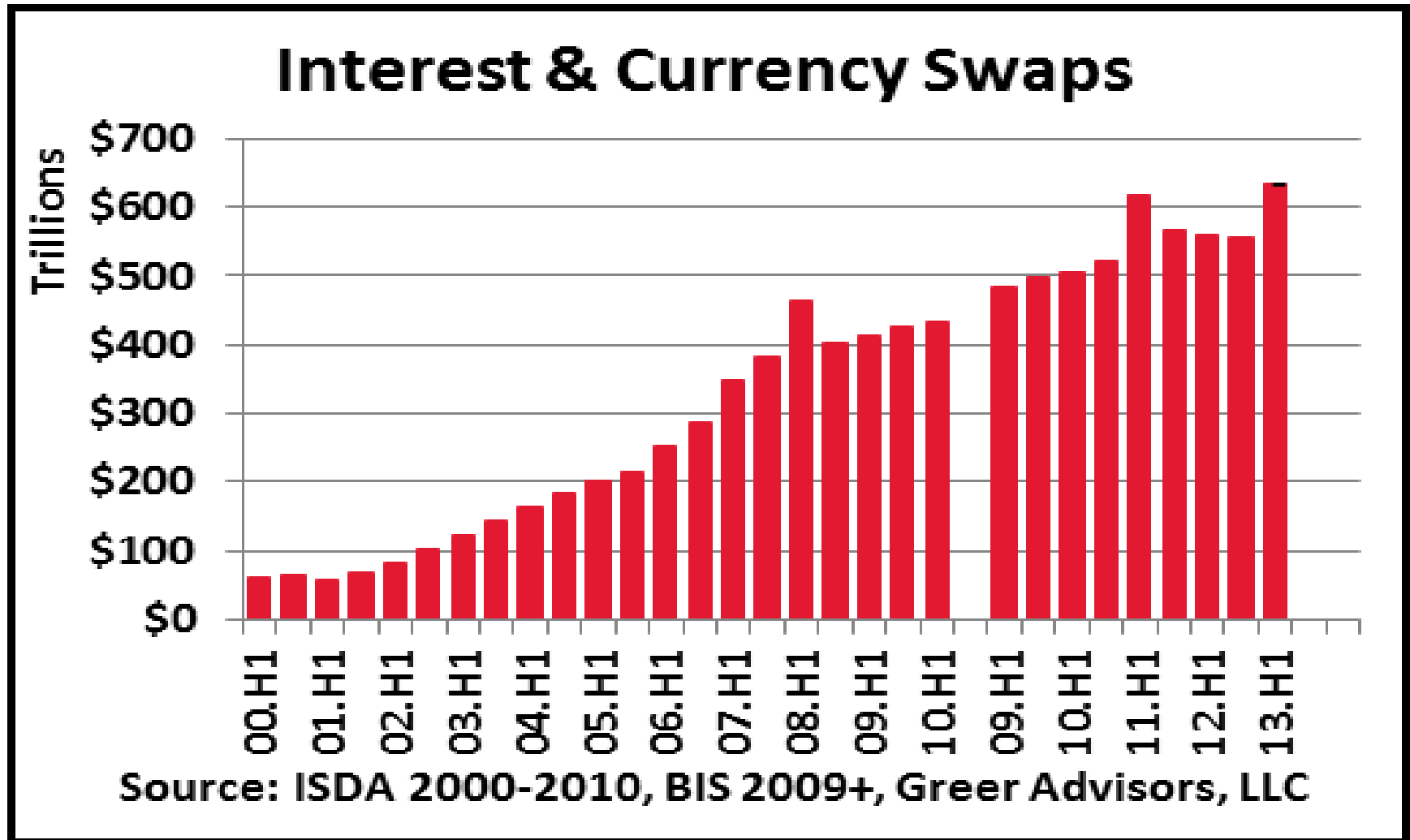
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- Real Estate Capital Markets

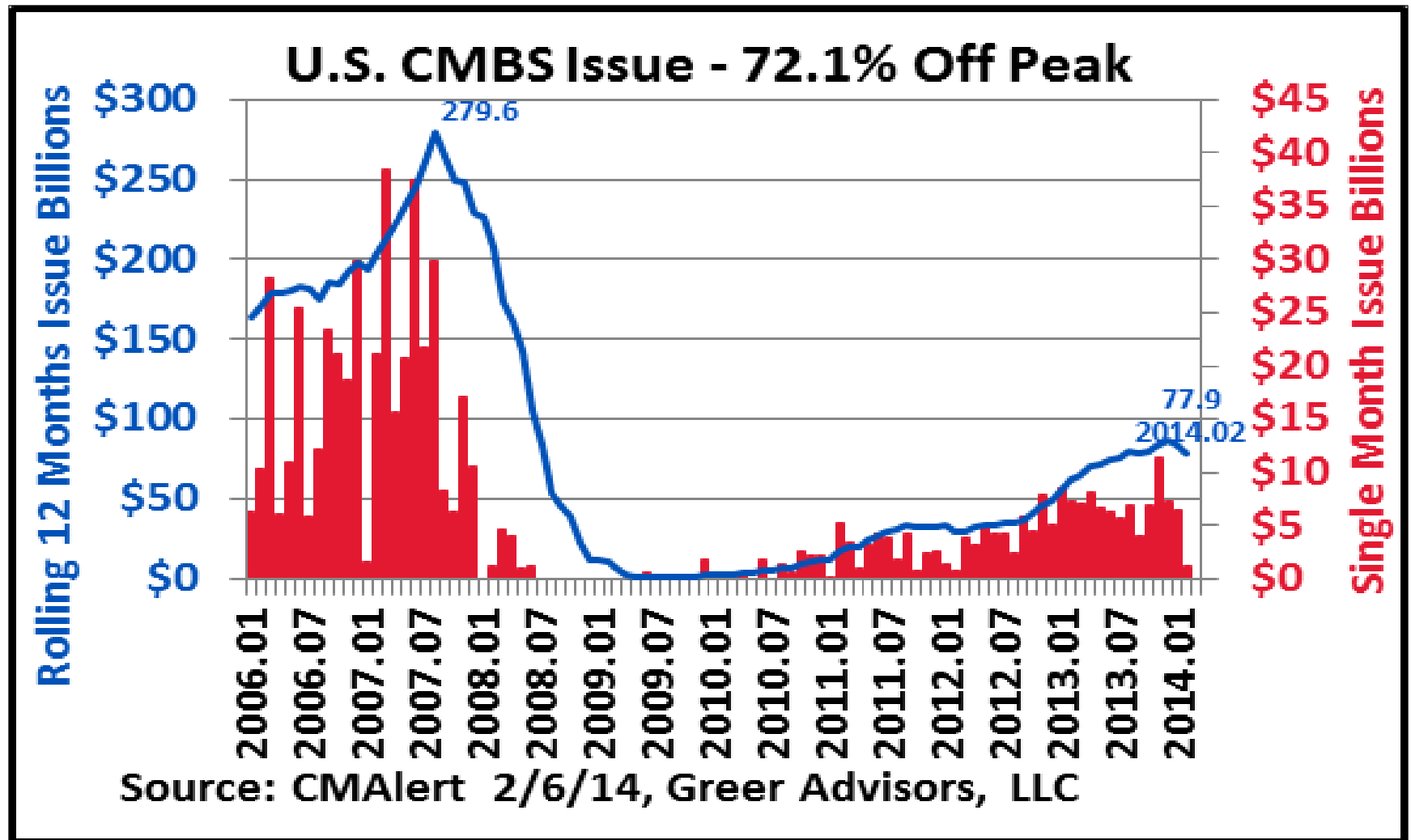
# Credit Default Swaps



# Interest & Currency Swaps



# CMBS Issuance



# CMBx Yields – Risk Pricing Getting Better

<b>Greer CMBS / CMBx Yield Rate™</b>				
<b>Tranche</b>	<b>Yield</b>	<b>Suboord</b>	<b>% of Capital Stack</b>	<b>Contribution to</b>
<b>CMBX.NA.AAA.6</b>	<b>3.35%</b>	<b>30.9%</b>	<b>69.1%</b>	<b>2.32%</b>
<b>CMBX.NA.AS.6</b>	<b>3.86%</b>	<b>21.1%</b>	<b>9.8%</b>	<b>0.38%</b>
<b>CMBX.NA.AA.6</b>	<b>4.36%</b>	<b>15.7%</b>	<b>5.4%</b>	<b>0.24%</b>
<b>CMBX.NA.A.6</b>	<b>4.85%</b>	<b>12.1%</b>	<b>3.6%</b>	<b>0.17%</b>
<b>CMBX.NA.BBB-.6</b>	<b>5.90%</b>	<b>6.9%</b>	<b>5.2%</b>	<b>0.31%</b>
<b>CMBX.NA.BB.6</b>	<b>7.92%</b>	<b>5.3%</b>	<b>1.6%</b>	<b>0.13%</b>
<b>All others</b>	<b>26.00%</b>	<b>0.0%</b>	<b>5.3%</b>	<b>1.38%</b>
<b>Implied Overall Debt Yield (Interest)</b>			<b>100.0%</b>	<b>4.92%</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 greater than loan rates in the marketplace, the CMBS market CAN NOT recover because the required bond yields are too high to make debt affordable to borrowers. 2) When the spread between AAA and BB tranches is high, say above 500 bps (now at 457 bps), the market can't recover because of risk aversion for lower-rated tranches. In January 2007, spreads were around 65 bps. For most of late 2008 through 2012, spreads were near 10,000bps. Lastly, the yields for each tranche provide tremendous insight into the pricing of risk premiums for each layer in the capital stack.

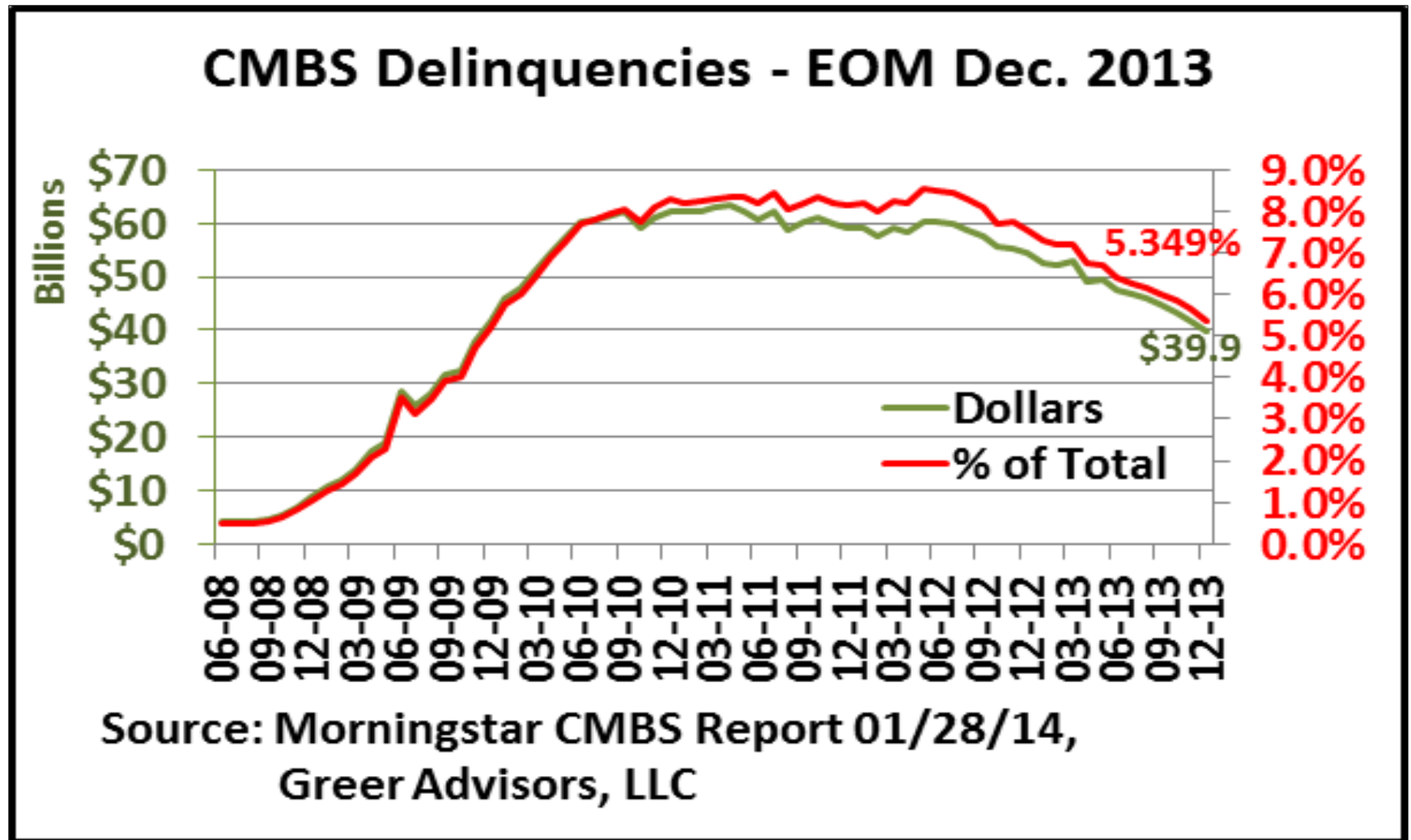
② Markit™ Data and Calculations based on close of 2/12. Swap (10Yr) as of 2/11. CMBx prices are based on Series 6 data. Subordination levels are based on average credit enhancement.

③ Coupon and Price data were from Markit™ for AAA Senior through BB bonds. Markit™ data was used as part of the calculations by Greer Advisors, LLC to determine yields.

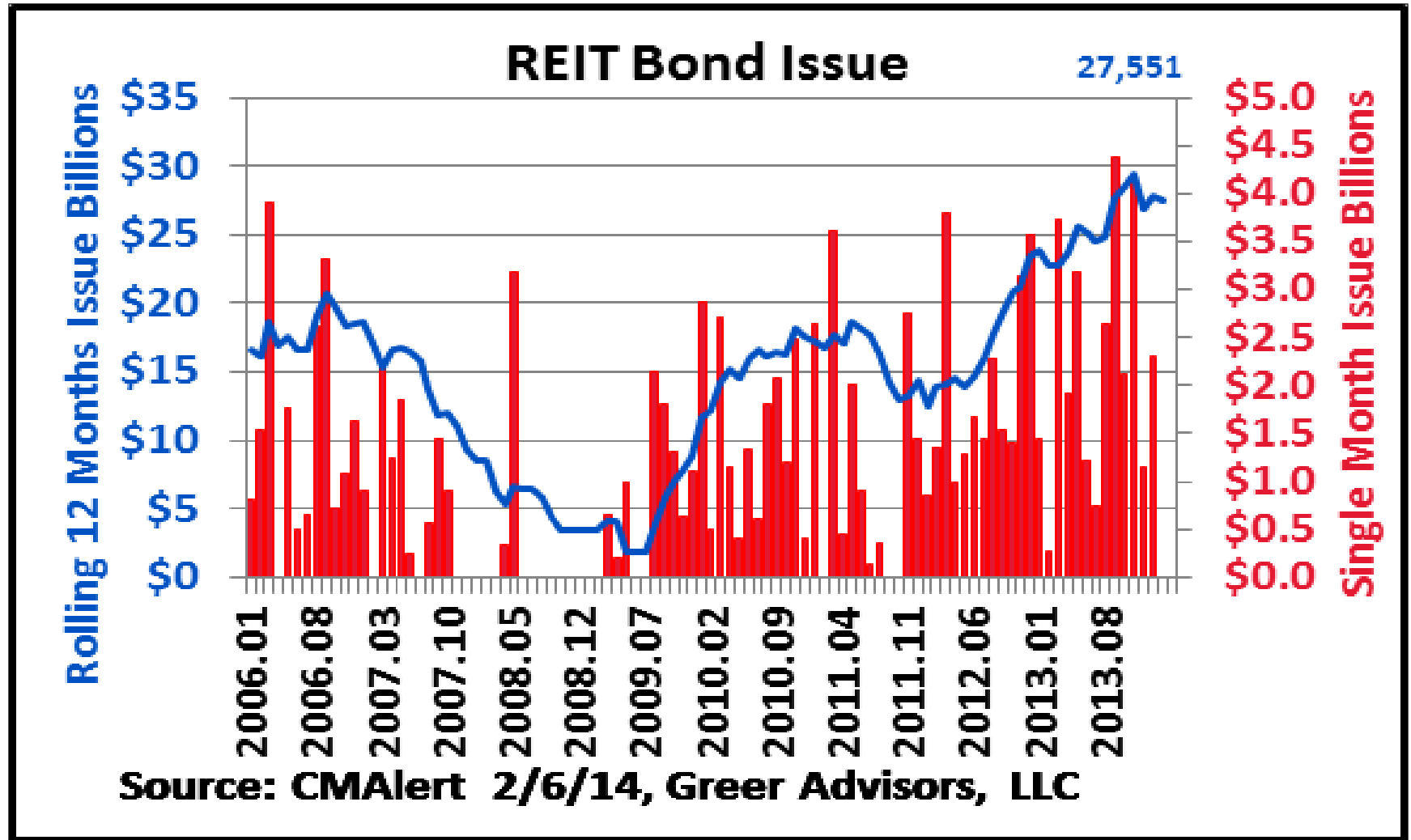
④ Profit / arbitrage opportunity for the issuer was ignored.

⑤ The yield for "other" classes was based on (BBB- minus BB yield) times 4.0, round to the nearest bp.

# CMBS Delinquencies – Strong Improvement

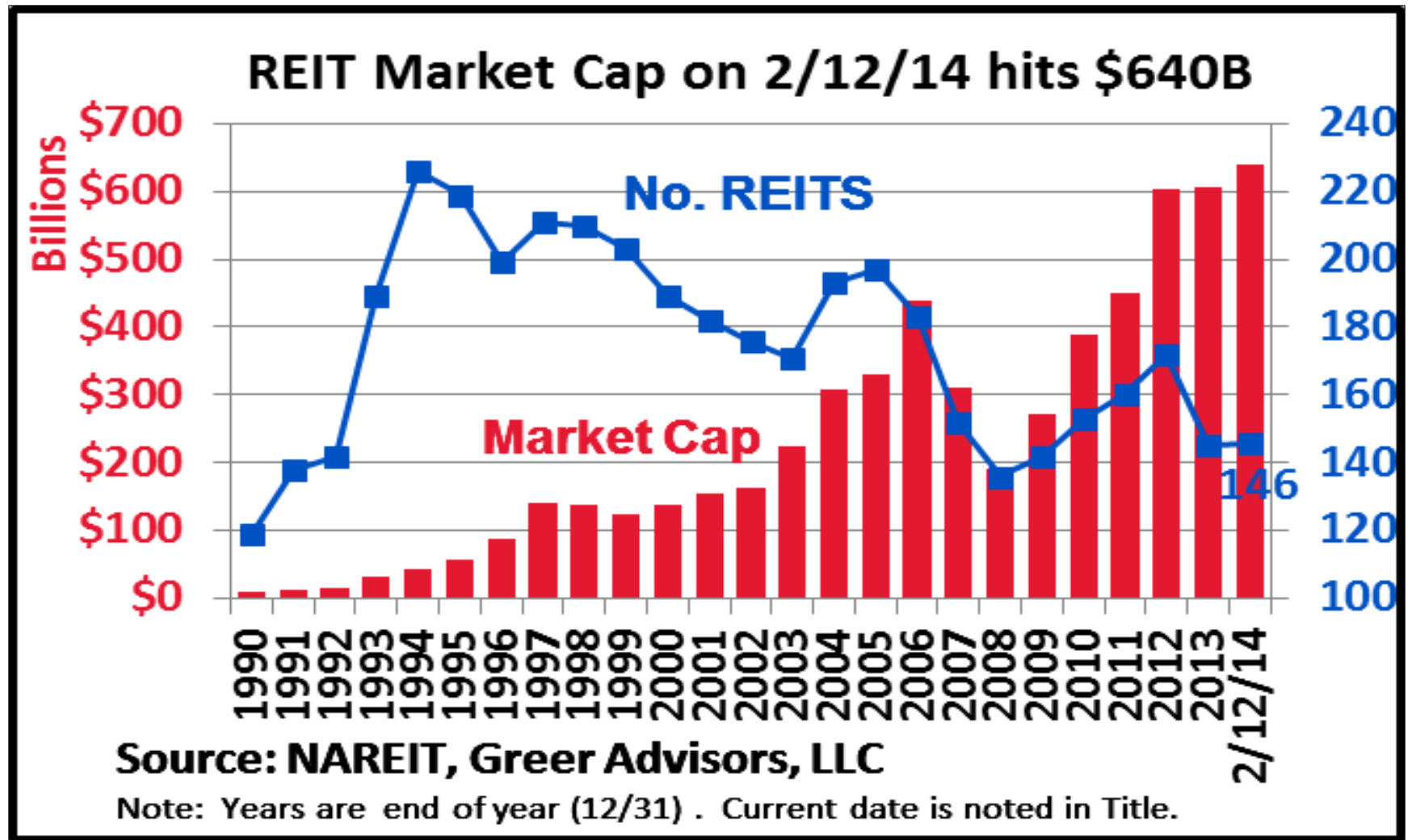


# REIT Bond Issuance (\$27.6B as of 2/6/14)

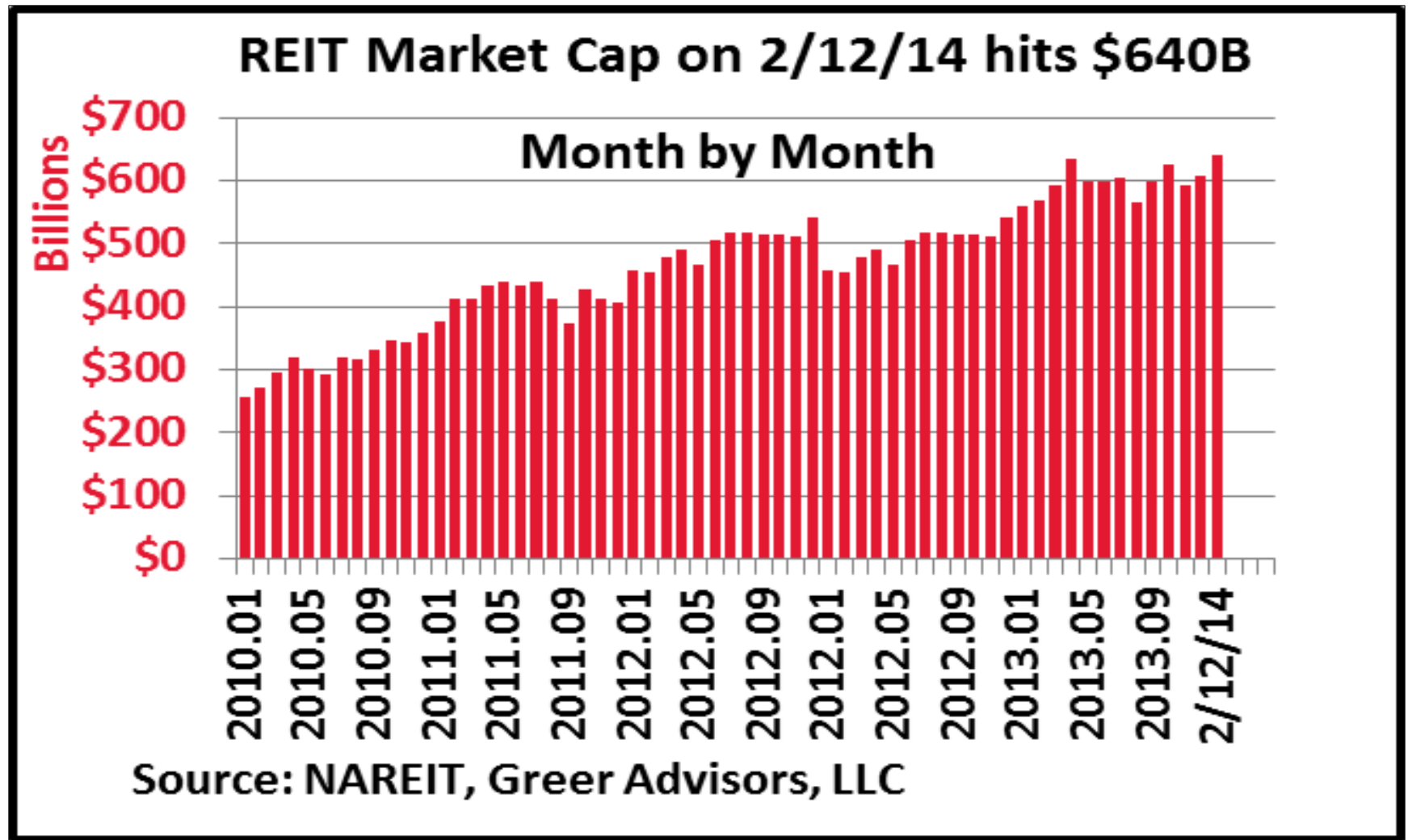




# REIT Market Capitalization – Long Term



# REIT Market Capitalization – Short Term

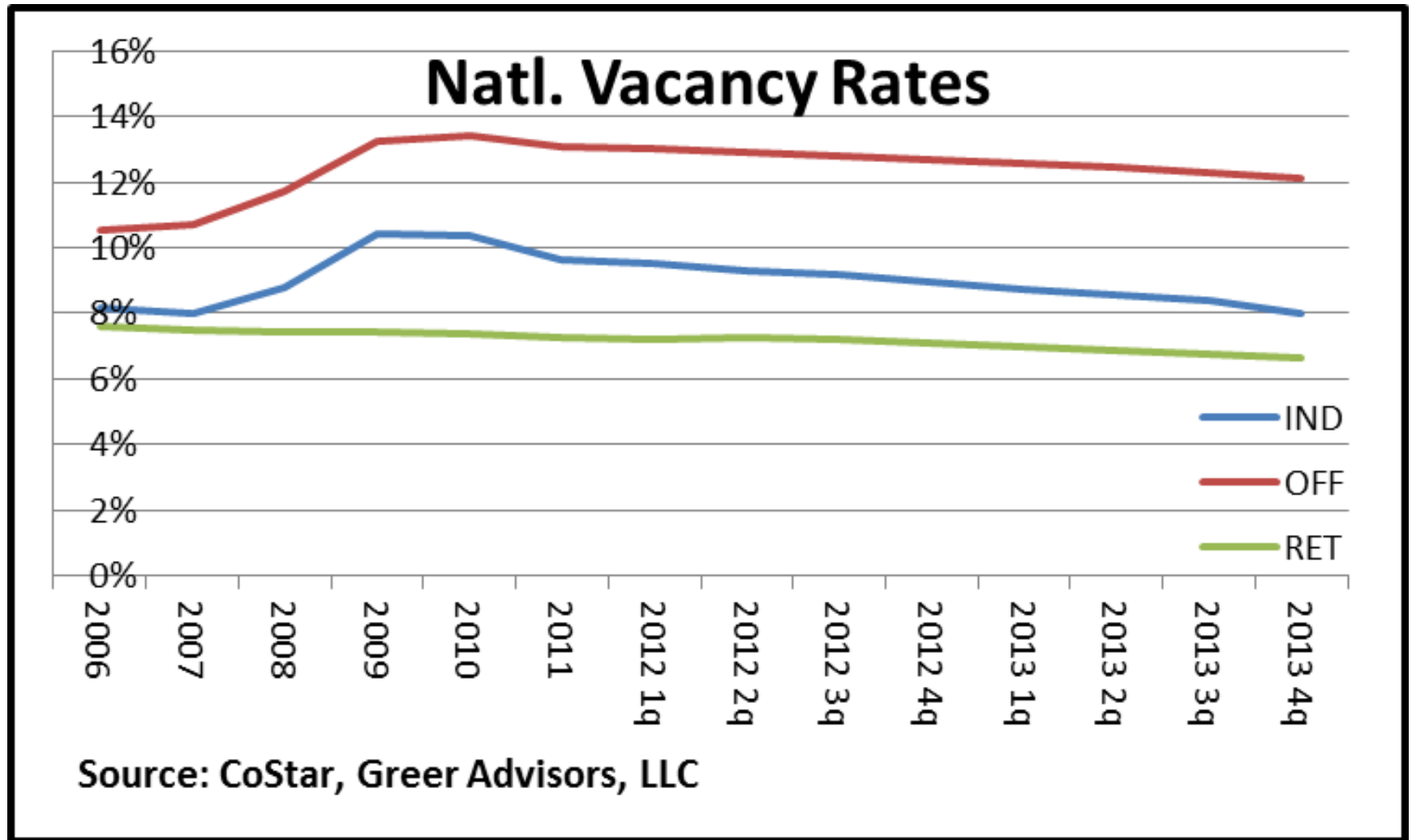


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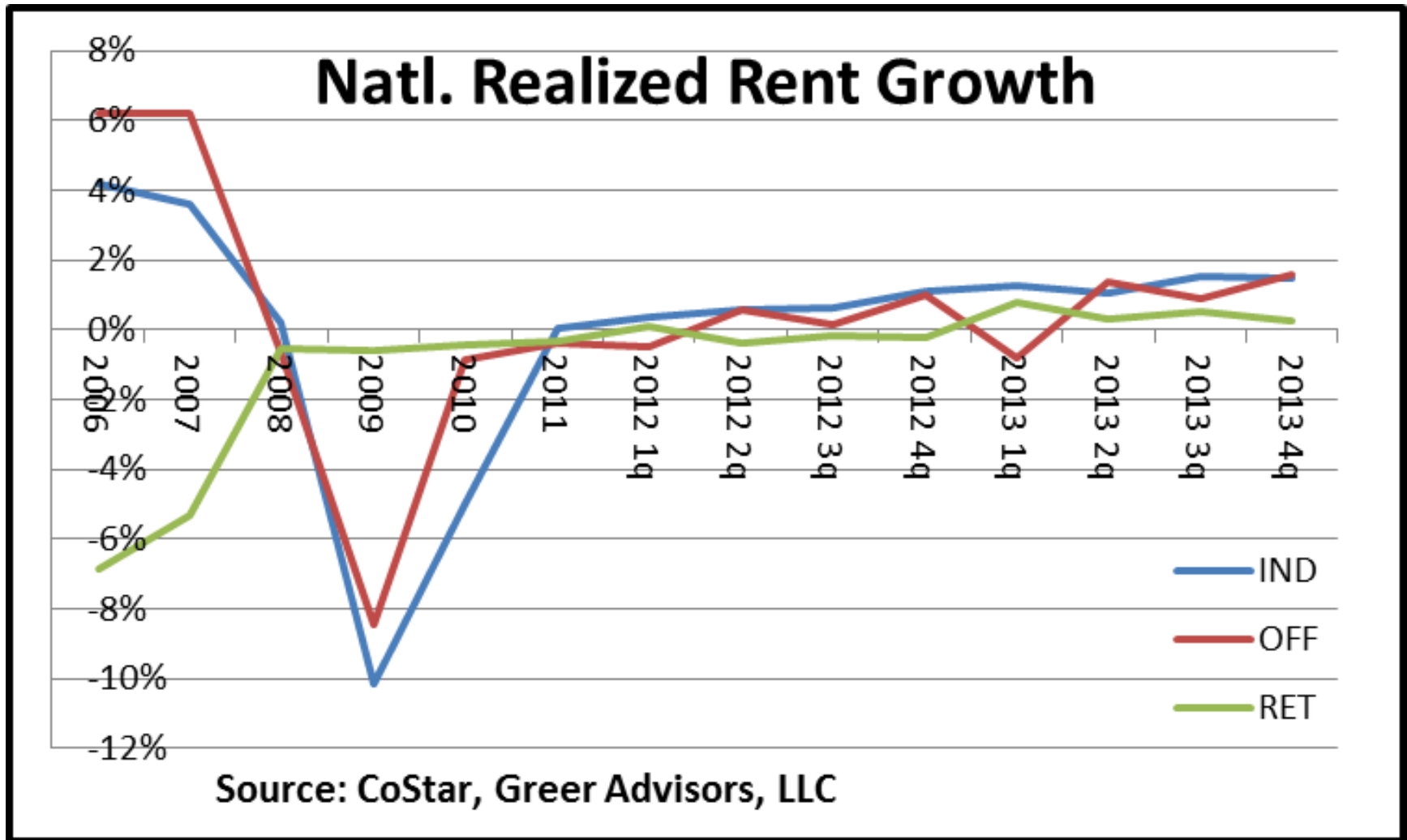
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# ■ Market Performance

# National Vacancy Trends



# National Realized Rent Growth



# Vacancy Rankings – Top 55 U.S. Markets

Industrial 2013Q4				Office 2013Q4				Retail 2013Q4			
Rank	Metro	Vac %	Rent \$	Rank	Metro	Vac %	Rent \$	Rank	Metro	Vac %	Rent \$
1	Salt Lake City	4.1%	\$4.70	1	Salt Lake City	7.1%	\$17.57	1	San Francisco	2.3%	\$31.89
2	Los Angeles	4.8%	\$7.67	2	Albany/Schen	7.5%	\$14.12	2	Miami-Dade C	4.0%	\$27.85
3	Orange Count	4.8%	\$8.71	3	Long Island (I	7.8%	\$26.59	3	Pittsburgh	4.0%	\$12.15
4	Long Island (I	5.2%	\$11.76	4	Nashville	7.9%	\$19.03	4	Albany/Schen	4.2%	\$11.68
5	Houston	5.2%	\$5.74	5	Pittsburgh	8.1%	\$18.83	5	Boston	4.3%	\$16.63
51	Atlanta	11.2%	\$3.92	51	Atlanta	15.0%	\$18.85	51	Sacramento	9.4%	\$15.51
52	Sacramento	11.9%	\$5.02	52	Palm Beach C	15.7%	\$25.71	52	Detroit	9.5%	\$11.89
53	Memphis	12.2%	\$2.92	53	Detroit	17.4%	\$17.49	53	Memphis	9.6%	\$9.65
54	Phoenix	12.4%	\$6.53	54	Las Vegas	18.2%	\$19.36	54	Las Vegas	10.0%	\$15.42
55	Dayton	13.3%	\$3.30	55	Phoenix	18.3%	\$20.30	55	Phoenix	10.4%	\$13.94
	National Avg	8.0%	\$5.36		National Avg	11.5%	\$22.06		National Avg	6.6%	\$14.59
2	Los Angeles	4.8%	\$7.67	31	Orange County	11.6%	\$22.96	9	San Diego	4.5%	\$21.54
3	Orange County	4.8%	\$8.71	34	San Diego	11.8%	\$26.14	14	Orange County	5.1%	\$22.34
7	Inland Empire (C	5.4%	\$5.23	35	Inland Empire (C	12.0%	\$18.90	15	Los Angeles	5.2%	\$24.19
28	San Diego	8.3%	\$10.18	40	Los Angeles	12.3%	\$29.19	48	Inland Empire (C	8.7%	\$15.83
	Min	4.1%	\$2.92		Min	7.1%	\$12.24		Min	2.3%	\$8.92
	Max	13.3%	\$14.28		Max	18.3%	\$52.35		Max	10.4%	\$31.89
	Spread	9.2%	\$11.36		Spread	11.2%	\$40.11		Spread	8.0%	\$22.97
Note: 1) Rents are Quoted Rents, 2) National Totals Cover all 140+ Markets, 3) Rankings limited to Top 55 Markets based on RBA Source: CoStar Group, Inc. Greer Advisors, LLC											

# Rent Growth – Top 55 U.S. Markets

Industrial				13Q4 YoY Δ				Office				13Q4 YoY Δ				Retail				13Q4 YoY Δ			
Rank	Metro	Size	%	Rank	Metro	Size	%	Rank	Metro	Size	%	Rank	Metro	Size	%	Rank	Metro	Size	%				
		MM SF	Grwth			MM SF	Grwth			MM SF	Grwth			MM SF	Grwth			MM SF	Grwth				
1	South Bay/San Jo	203.4	8.0%	1	San Francisco	160.6	9.9%	1	San Francisco	80.4	11.1%												
2	Denver	284.8	7.7%	2	Austin	86.7	9.7%	2	Long Island (N)	277.8	10.7%												
3	Dallas/Ft Worth	786.9	5.2%	3	South Bay/Sa	107.6	8.0%	3	Boston	312.2	6.8%												
4	Houston	521.7	5.0%	4	Denver	187.0	7.7%	4	Raleigh/Durha	92.0	6.6%												
5	Orange County (C	302.8	4.9%	5	Dallas/Ft Worl	340.2	5.2%	5	Pittsburgh	133.2	6.3%												
51	Milwaukee	312.9	-1.7%	51	San Antonio	69.2	-1.4%	51	Memphis	82.1	-4.2%												
52	Stockton/Modestc	148.6	-2.0%	52	Milwaukee	78.1	-1.7%	52	Inland Empire	184.4	-4.2%												
53	Dayton	116.5	-2.8%	53	Albany/Schen	56.2	-1.7%	53	Austin	100.3	-4.5%												
54	Birmingham	131.1	-3.8%	54	Birmingham	55.4	-3.8%	54	Greensboro/M	99.3	-5.0%												
55	Salt Lake City	213.6	-4.0%	55	Salt Lake City	88.4	-4.0%	55	Charlotte	149.5	-8.2%												
5	Orange County (C	302.8	4.9%	7	Orange Count	152.3	4.9%	11	San Diego	134.2	3.8%												
10	Inland Empire (C	512.9	4.2%	12	Inland Empire	70.2	4.2%	19	Orange Count	138.7	2.4%												
12	San Diego	189.5	3.6%	14	San Diego	113.1	3.6%	24	Los Angeles	451.3	0.7%												
15	Los Angeles	988.2	3.4%	17	Los Angeles	424.7	3.4%	52	Inland Empire	184.4	-4.2%												
<b>Totals</b>		<b>20,869</b>	<b>4.4%</b>	<b>Totals</b>		<b>10,369</b>	<b>2.4%</b>	<b>Totals</b>		<b>12,410</b>	<b>1.3%</b>												
Min			-4.0%	Min			-4.0%	Min			-8.2%												
Max			8.0%	Max			9.9%	Max			11.1%												
Spread			12.0%	Spread			13.9%	Spread			19.4%												

Note: Growth is based on change in realized rents, which is area occupancy times rent. Rankings limited to Top 55 Markets based on RBA.  
Source: 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 >50% not done)
  - 67 Studies required (most are not done)
  - 22 New Periodic Reports
- Restructure of Regulators, elimination of OTS
  - Consumer Financial Protection Bureau (CFPB)
  - 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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# ■ Outlook & Forecast

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# Conclusions

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- Interest Rates are Still Near All-Time Lows
- Rents / Vacancies Remain better than early 1990s
- Office and Industrial Rents Show Modest Rise in Rents
- Retail Rent Growth is Nearly Flat
- Vacancies Generally Declining Across the Board
- SBA will remain Top Source for Small Properties, especially with High Leverage
- MBS – Finally Showing Real Signs of Recovery
- 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..(No)
    - AAA Subordination near 30%.....(Yes)
    - AAA is 70%, not 90% of issue...(Yes)
- $\sqrt$ + REIT Market Capitalization (Total Value) Stabilizes or Increases for 6 months
- $\sqrt$ - Consumer Confidence Rises and Stays Above 70 for 6 months. Jan. 2014 at 80.7, 9 mo's above 70, three barely.
- $\sqrt$  Risk Curve (AAA Sr. vs BB) flattens to under 500 bps. Just hit 459 recently. Was near 10,000 bps most time since crises.

# Greer's 3-Year Forecast as of Feb 11, 2014

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- Barbell Modest Growth or Global Recession
  - Global Economy Heals or Not, Event Risk
- Cap Rates will Rise Slightly 0.25-0.50% during 2014-15
  - Mostly in class B/C due to perceived Risk
  - Trophy cap rates will remain low until Flight to Quality Stops
  - Federal Reserves will keep maintain rates low to avoid defaults
  - QE will be extended 6-12 mo's beyond initial planned expiration
- Values have recovered across most markets, mostly due to cap rate compression. "Real" rent growth has been minimal.
- 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 Berra~~

Niels Bohr

Nobel Laureate, 1922

Atomic Structure /

Quantum Mechanics



# Newsletter

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Most of today's information is published in a newsletter.

Sign up at:

<http://www.GreerAdvisors.com/wallstreet.shtml>

# Questions / Answers

A red and black racing bicycle is the central focus, positioned on a light-colored tiled floor against a plain white wall. The bike features a red frame with black accents and 'GIRO' branding. It has a black front wheel with a red lightning bolt decal and a black rear wheel with a red lightning bolt decal. A black water bottle is mounted on the handlebars, and a black helmet with red and white accents is on the floor in front of the bike. A pair of red and black cycling shoes is also on the floor. The text 'Greer Advisors, LLC' is overlaid on the image in a black serif font, flanked by two horizontal black lines.

Greer Advisors, LLC

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