
Wall Street and Commercial Real Estate

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Greer Advisors, LLC

February 11, 2016 – CREPOC

Goals of Presentation

- Market Drivers
- Capital Markets – REITs/CMBS
- Conclusions

Note: PPT Deck will be posted to www.GreerAdvisors.com

Most information is updated via Newsletter, sign up on web site.

■ Market Drivers

Market Drivers

Supply / Demand – Drives Vacancy (1) & Rents (2)

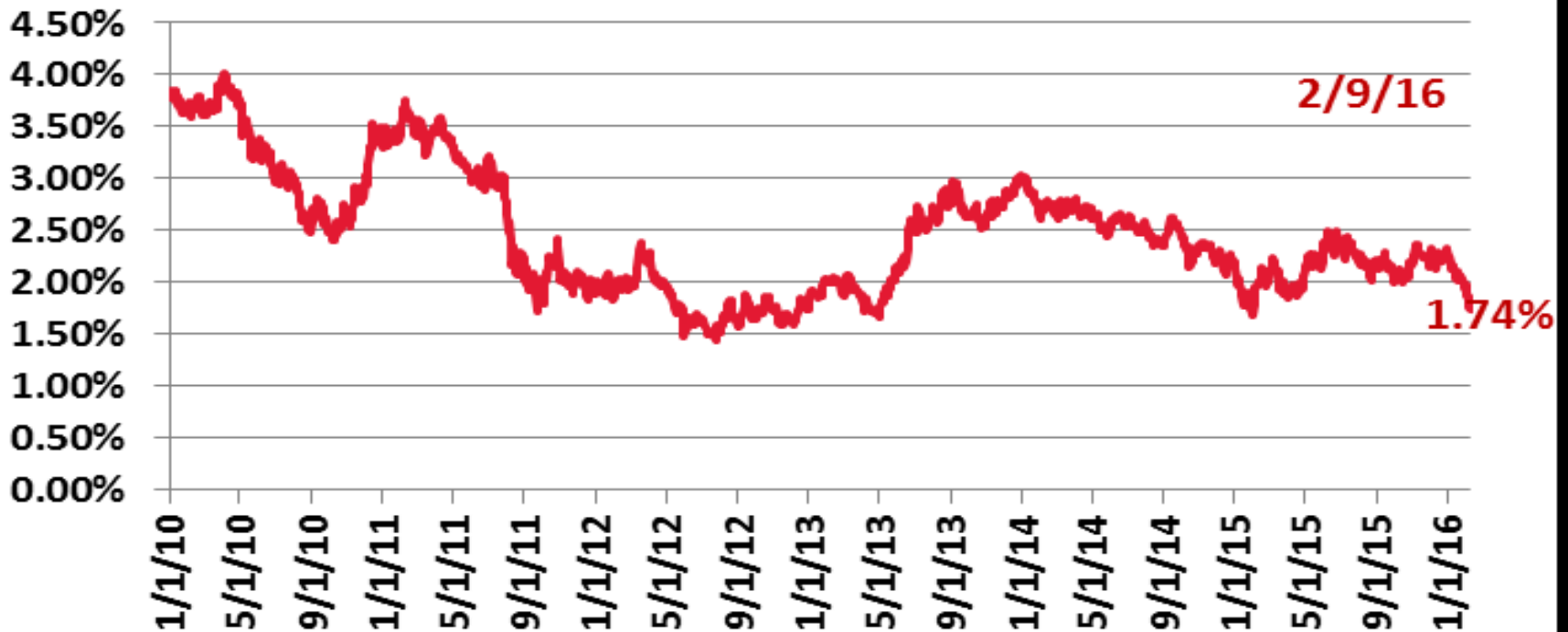
- Most Demand ties to Jobs – Results Impact Rent & Vacancy
 - Office – FIRE Employment, Portion of Service Employment
 - Retail – Household (HH) Formations, Income Growth
 - Industrial – Manufacturing & Distribution (Logistics) to Retail
 - Multifamily – HH Formations, non-Top 25% HH Income
 - Hotel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

Financing – DRIVES VALUE!

- Availability
- Rate and Term
- Leverage
- Recourse

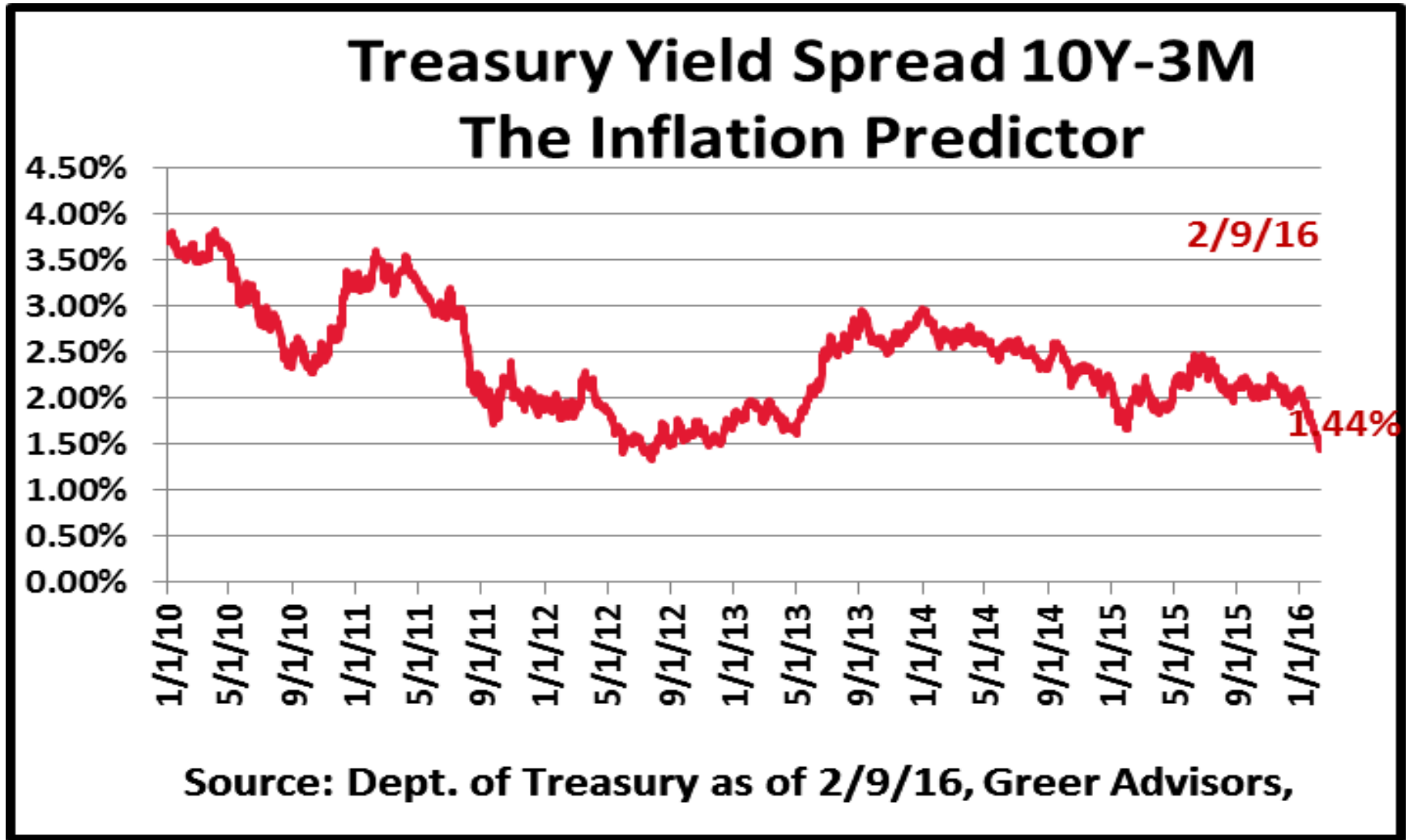
Interest Rate

10 Year Treasury Yields



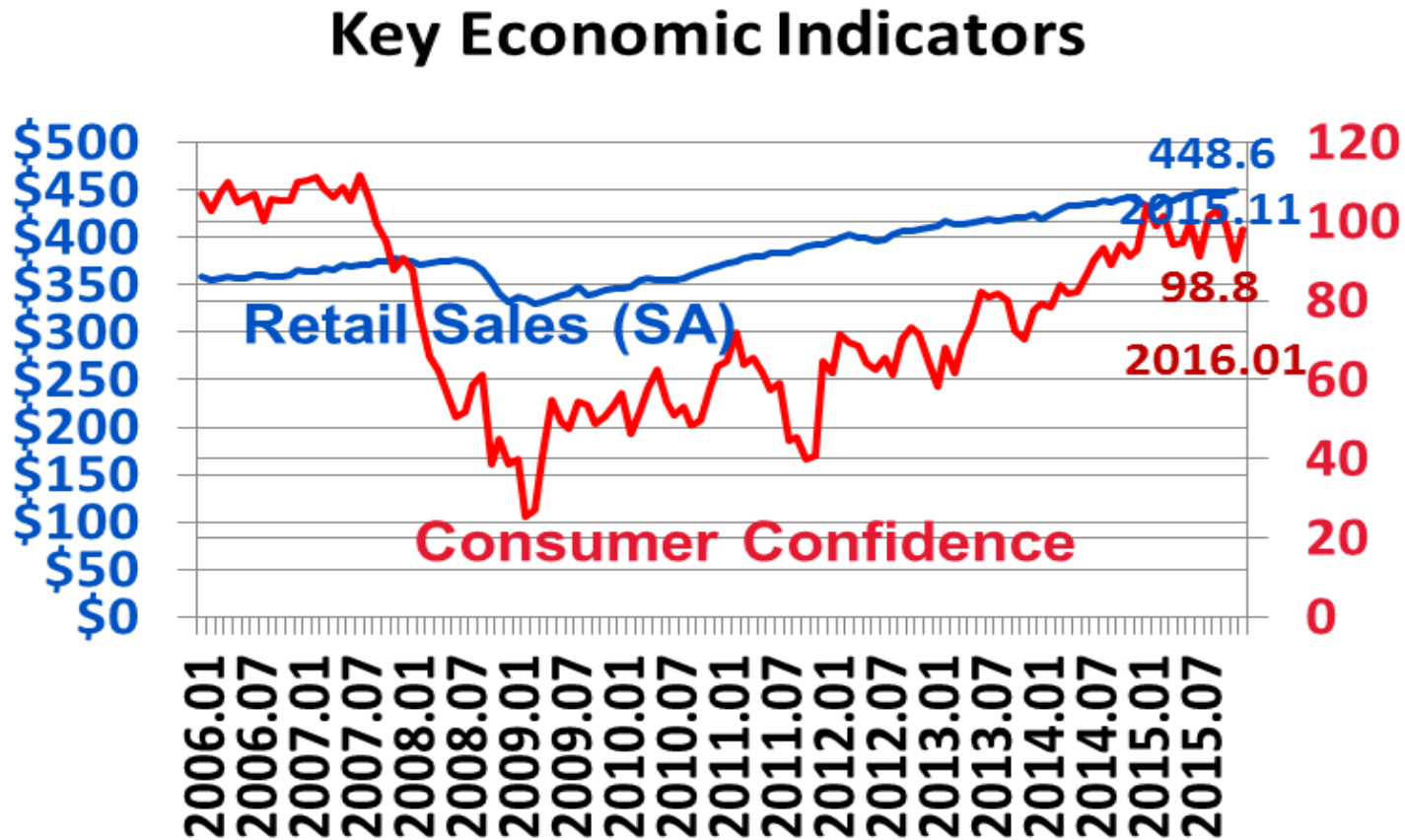
Source: Dept. of Treasury as of 2/9/16, Greer Advisors,

Inflation



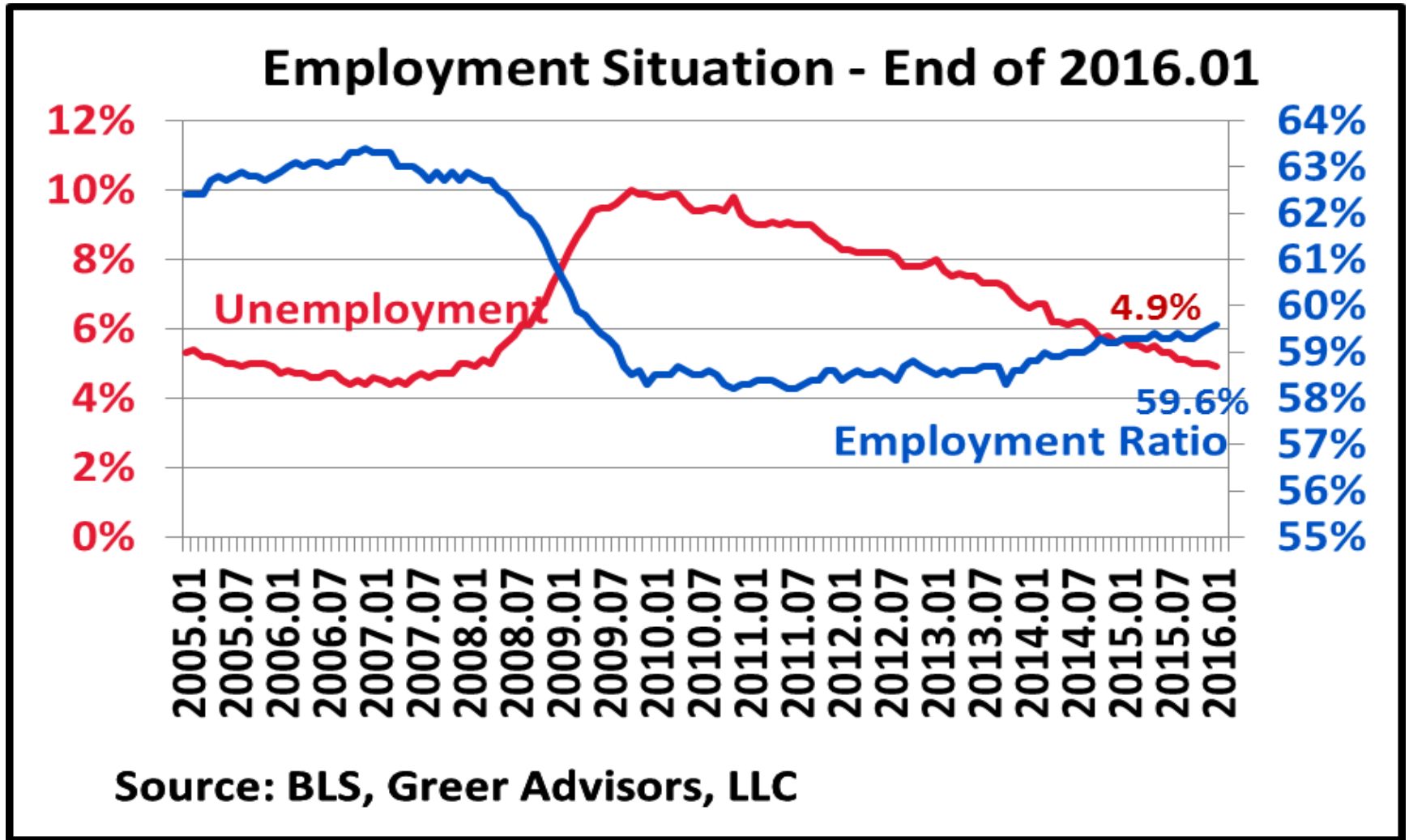
Comment: Chinese Debt

Key Economic Indicators

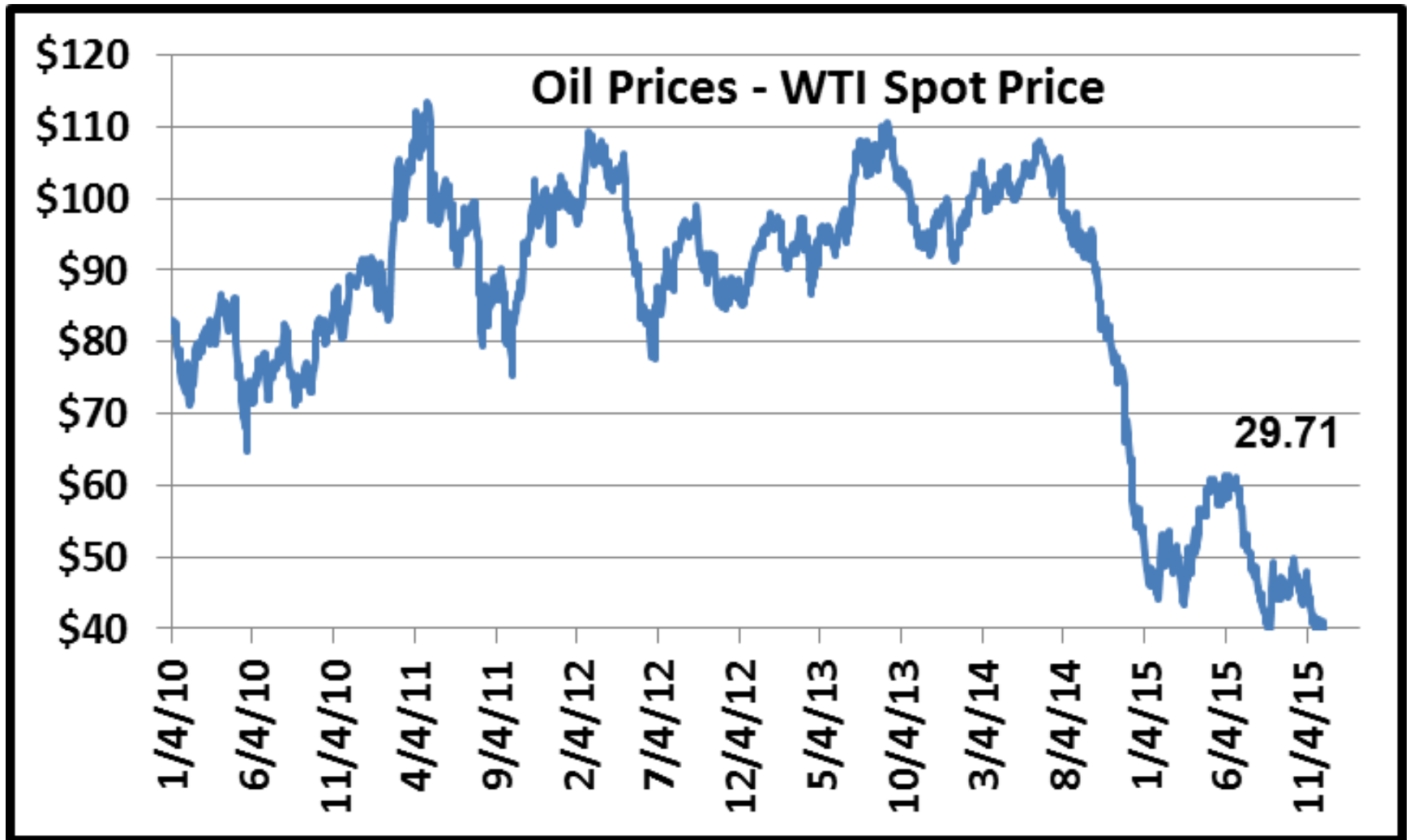


Source: Conference Board, Census, Greer Advisors, LLC

Employment

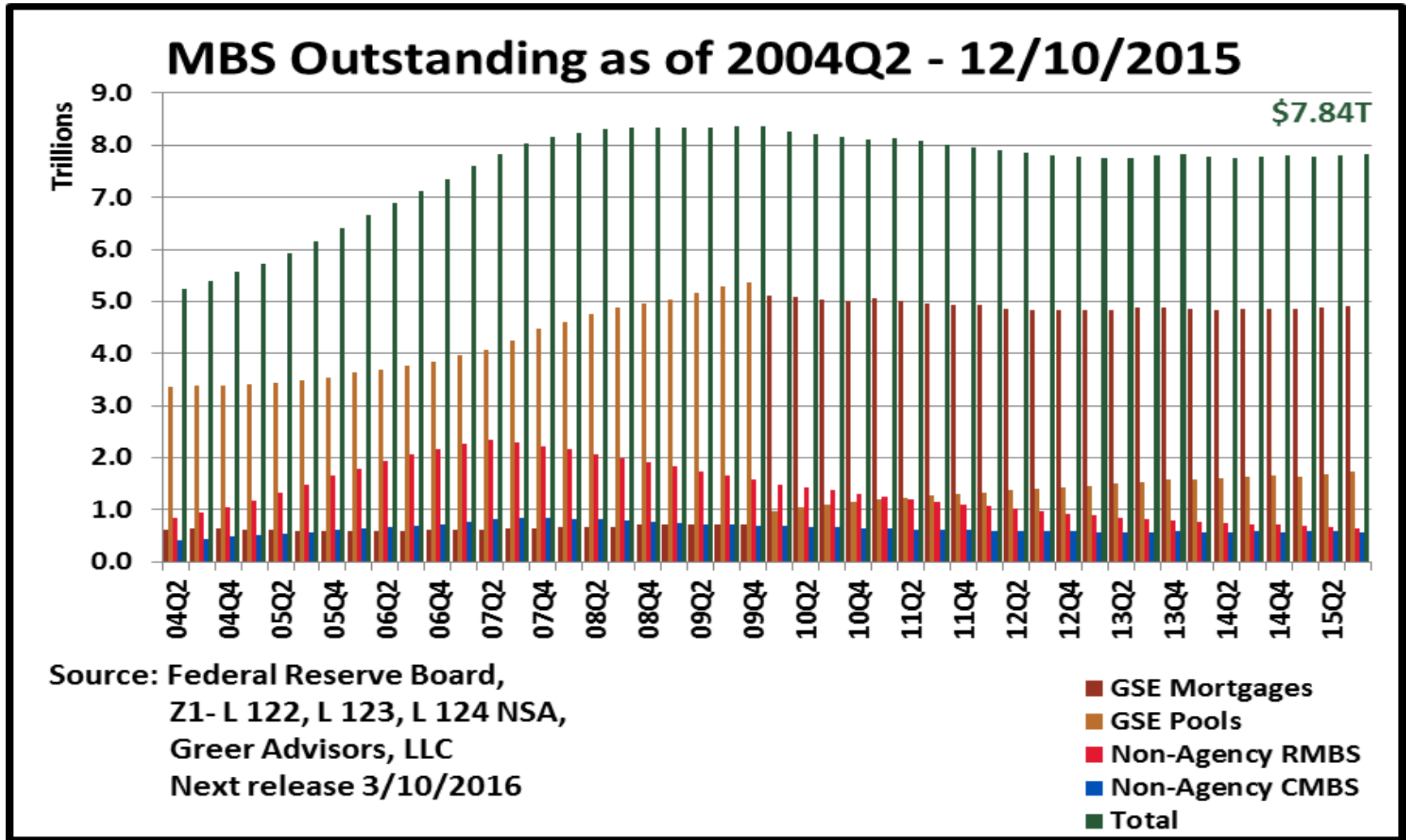


Oil Prices Falling, EIA as of 2/8/2016

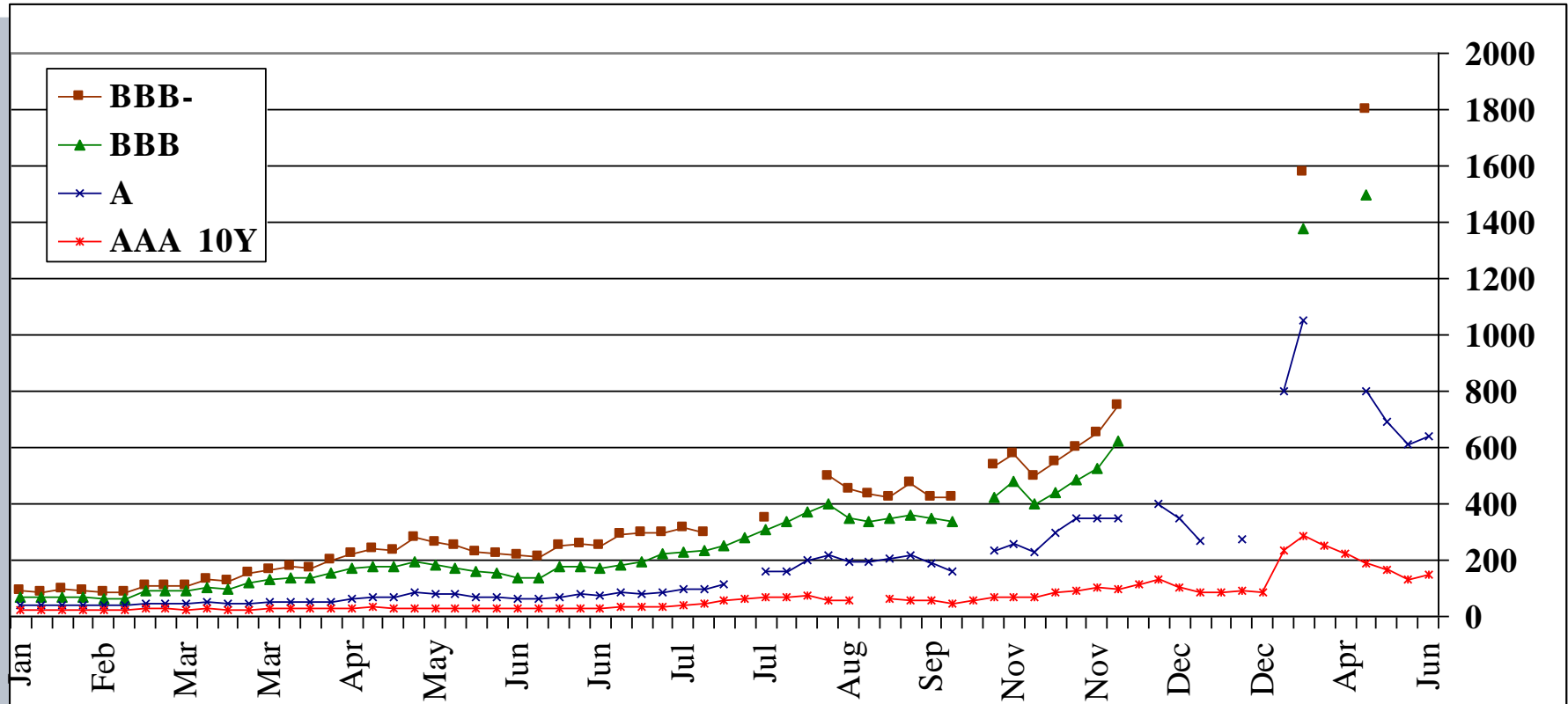


- Real Estate Capital Markets

MBS Outstanding Balances



CMBS Yield Spreads (Spread to Swap)



Source: CM Alert, Greer Advisors, LLC

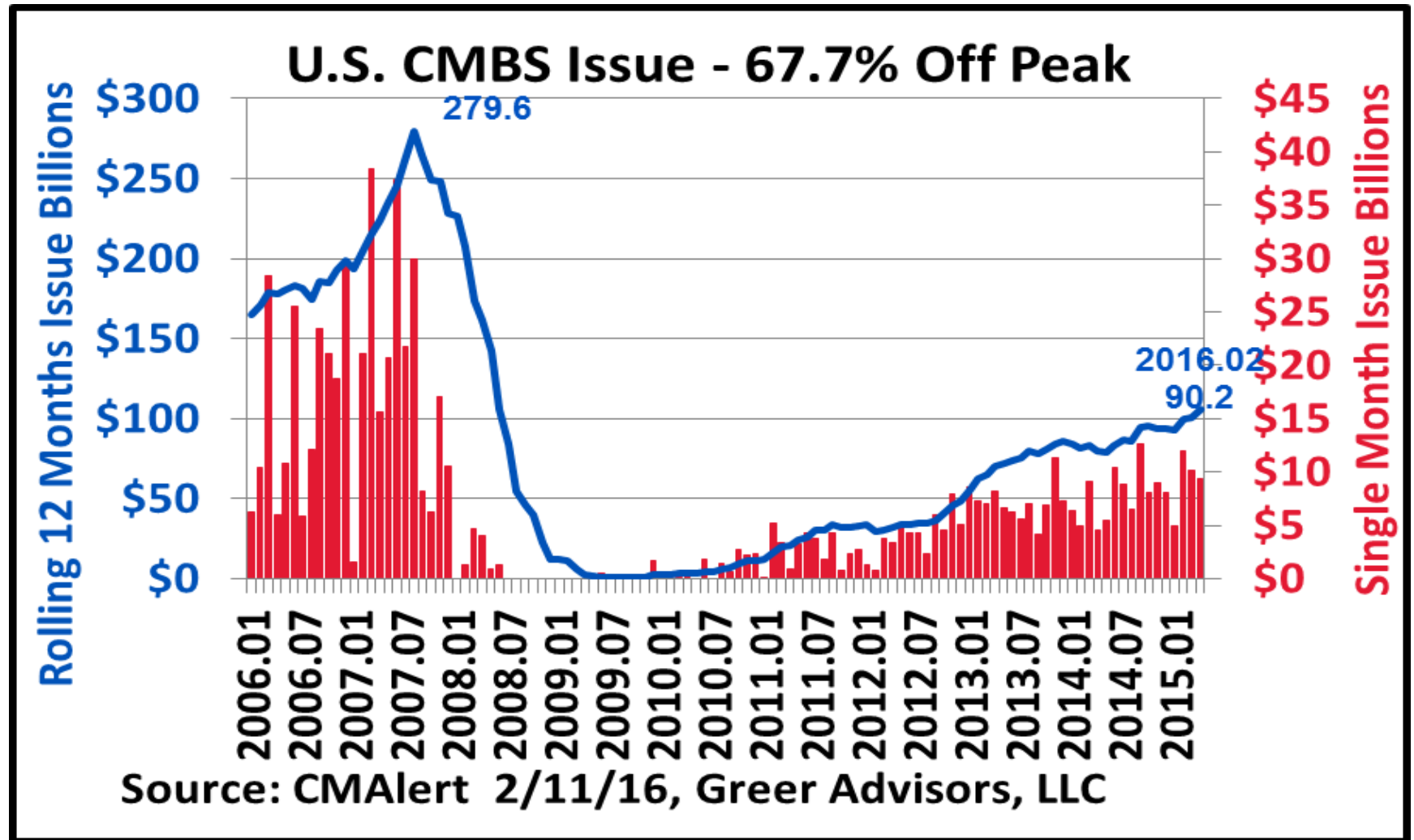
Note: X-axis not to scale. Spreads are "over swaps" for 10-year Treasuries.

Note: Last this is what I sent throughout BofA in mid 2007.

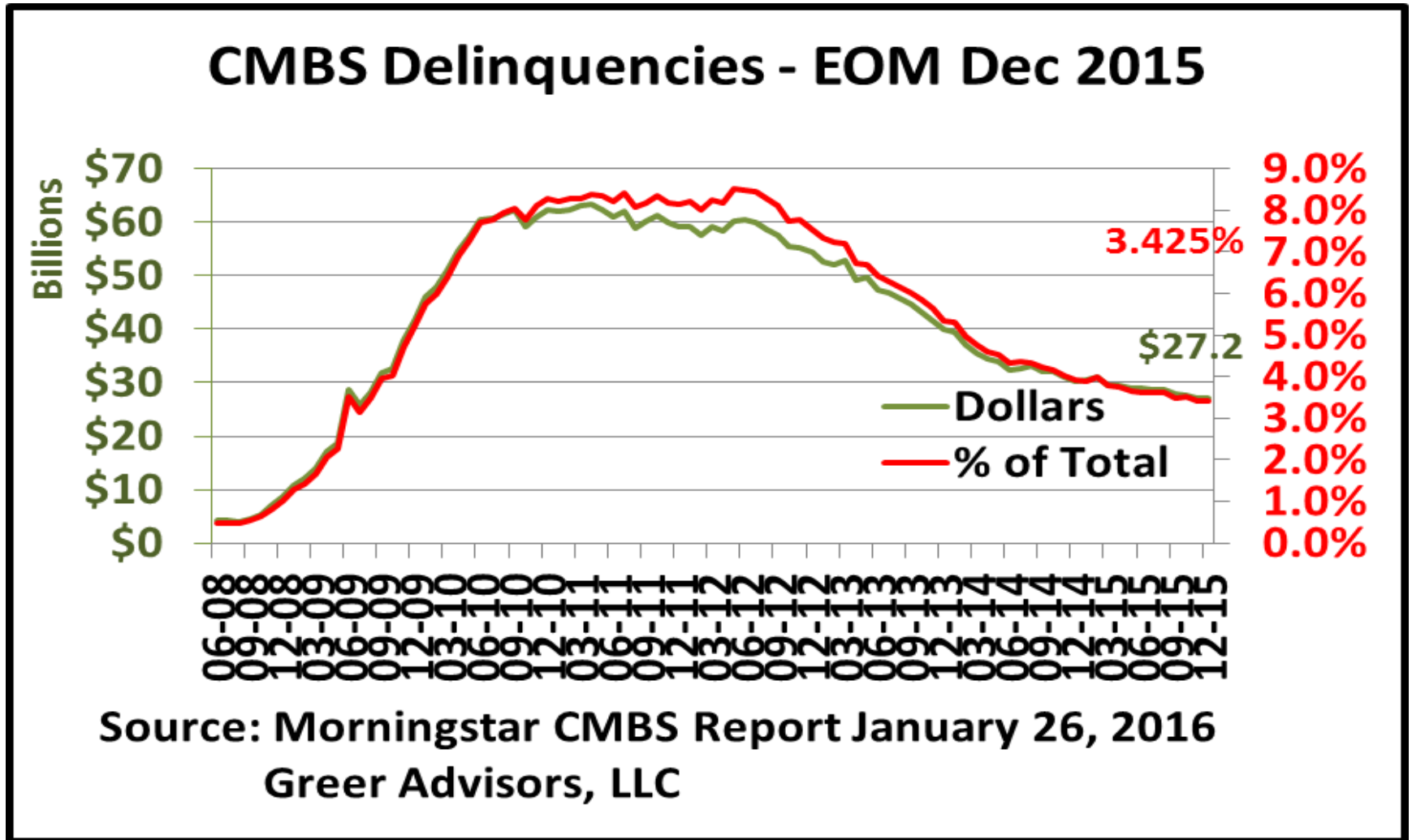
12 Also sent prior versions early 2007

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CMBS Issuance - Rising from Floor



CMBS Delinquencies – Rise & Fall



Synthetic CMBX Yields (Spreads to Swaps) – See Risk

Greer CMBS / CMBx Yield RateTM				
Tranche	Yield	Suboord	% of Capital Stack	Contribution to Total
CMBX.NA.AAA.9	2.18%	30.9%	69.1%	1.51%
CMBX.NA.AS.9	2.75%	21.1%	9.8%	0.27%
CMBX.NA.AA.9	3.40%	15.7%	5.4%	0.18%
CMBX.NA.A.9	4.15%	12.1%	3.6%	0.15%
CMBX.NA.BBB-.9	5.97%	6.9%	5.2%	0.31%
CMBX.NA.BB.9	9.23%	5.3%	1.6%	0.15%
All others	19.00%	0.0%	5.3%	1.01%
Implied Overall Debt Yield (Interest)			100.0%	3.58%
<p>MarkitTM Data and Calculations based on close of 2/10. Swap (10Yr) as of 2/9. CMBx prices are based on Series 6 data. Subordination levels are based on average credit enhancement.</p> <p>Coupon and Price data were from MarkitTM for AAA Senior through BB bonds. MarkitTM data was used as part of the calculations by Greer Advisors, LLC to determine yields.</p> <p>Profit / arbitrage opportunity for the issuer was ignored.</p> <p>The yield for 'All Others' class was based on the yield spread between the BB yield (9.23%) and the BBB- yield (5.97), times 4.0 (13.05), plus the yield on the BBB- class, rounded to the nearest bp.</p>				

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 705 bps), the market can't recover because of risk aversion for lower-rated tranches. In January 2007, spreads between the AAA Sr tranche and BB tranches were around 65 bps. For most of late 2008 through most of 2013, spreads were near 10,000 bps. Lastly, the yields for each tranche provide tremendous insight into the pricing of risk premiums for each layer in the capital stack.

② MarkitTM Data and Calculations based on close of 2/10. Swap (10Yr) as of 2/9. CMBx prices are based on Series 6 data. Subordination levels are based on average credit enhancement.

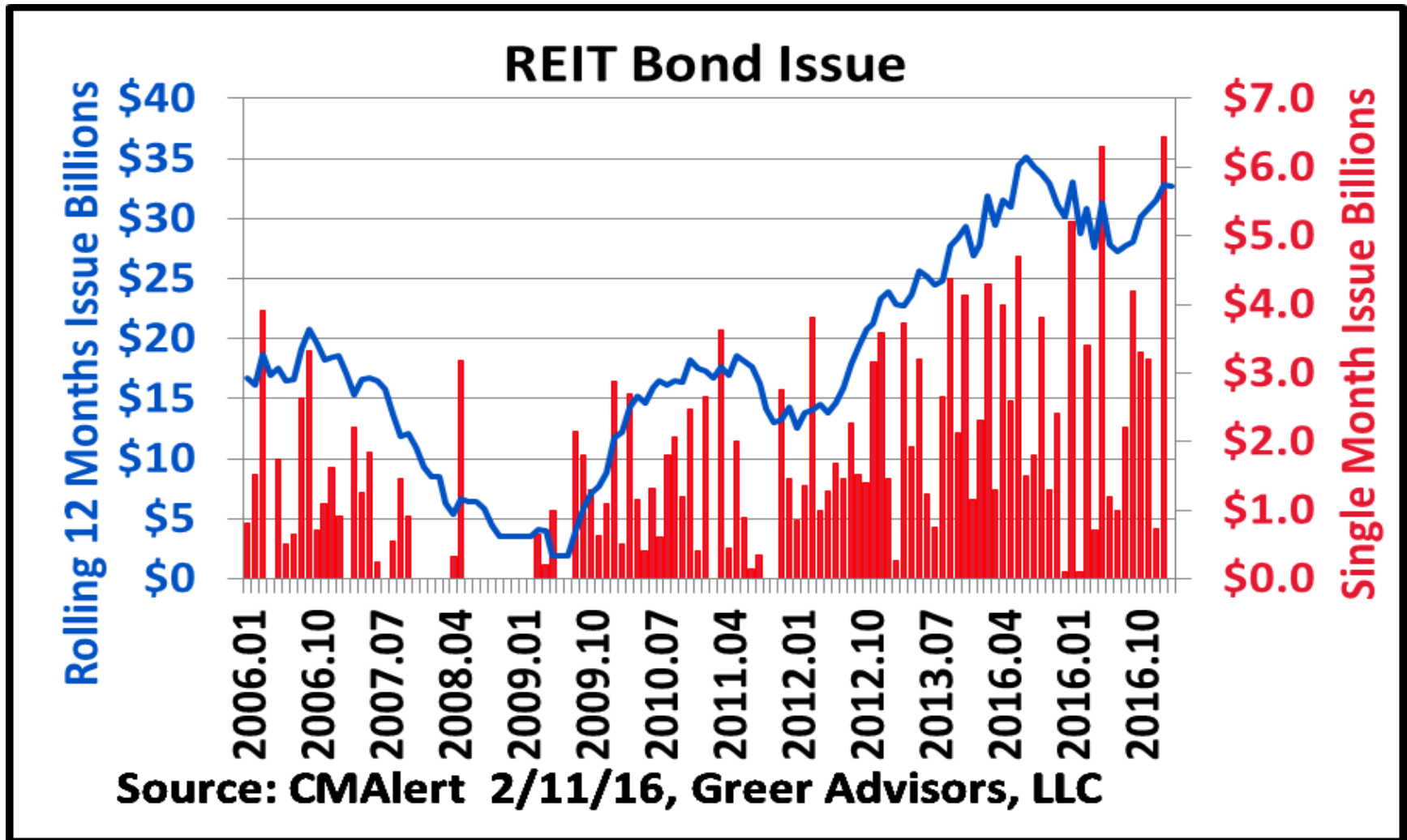
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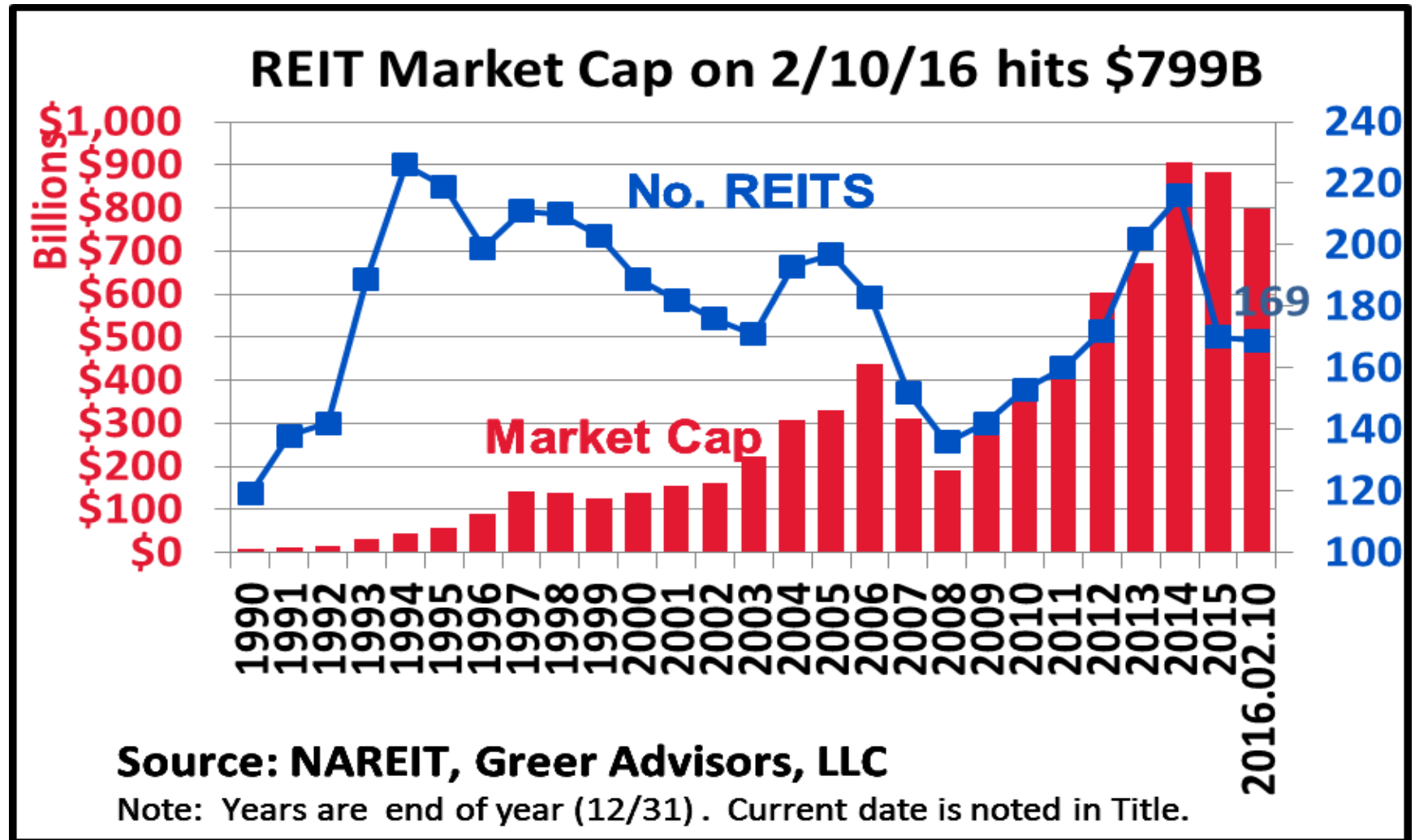
⑤ The yield for 'All Others' class was based on the yield spread between the BB yield (9.23%) and the BBB- yield (5.97), times 4.0 (13.05), plus the yield on the BBB- class, rounded to the nearest bp.

Series 9 is \$14.57B of issue, 25 issues, 7 Wells, 4 JP, 3 Citi, 3 GS, 2 Morgan/BA, 1 BA-ML, 5 Pools

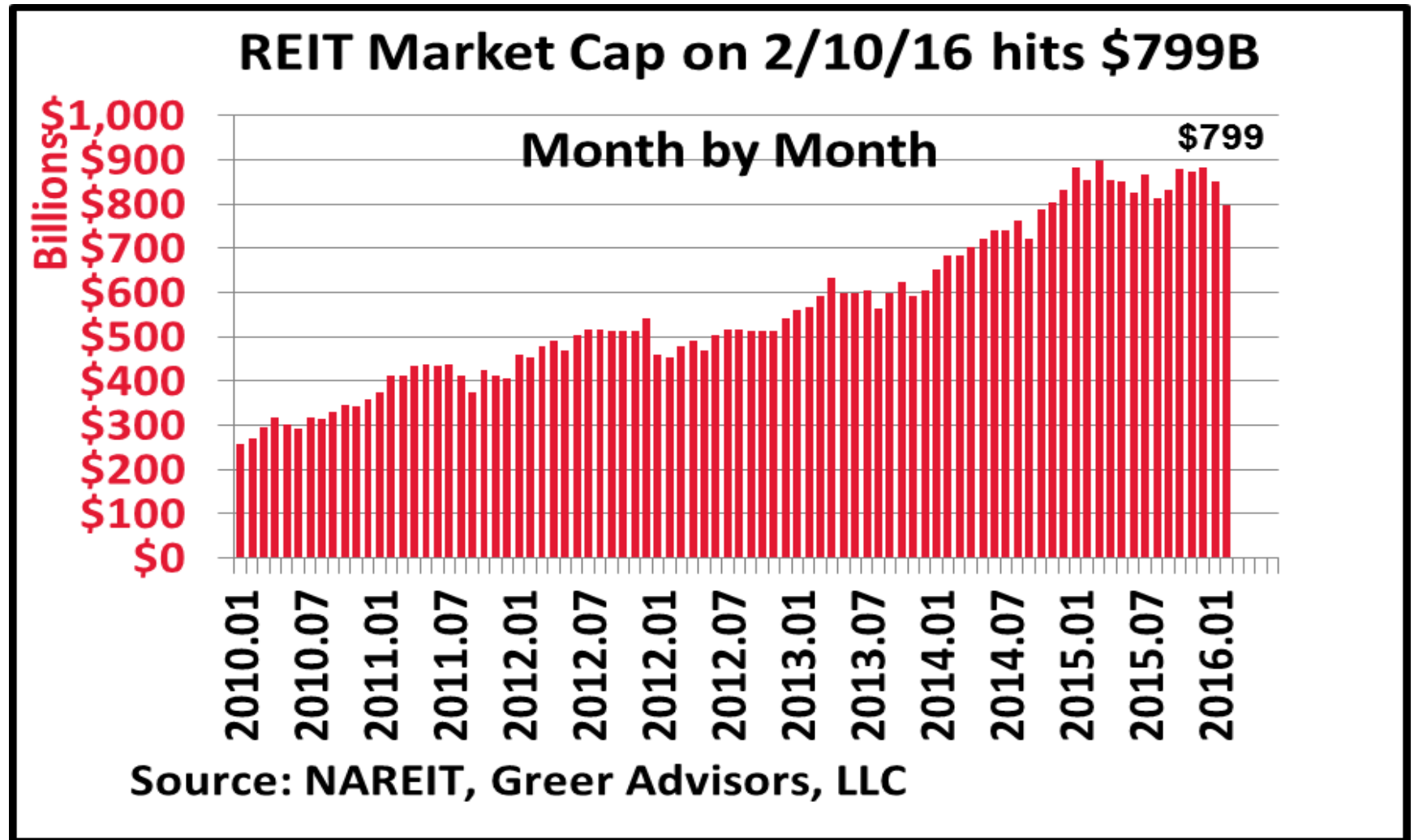
REIT Bond Issuance – Trailing 12 = \$32.675B



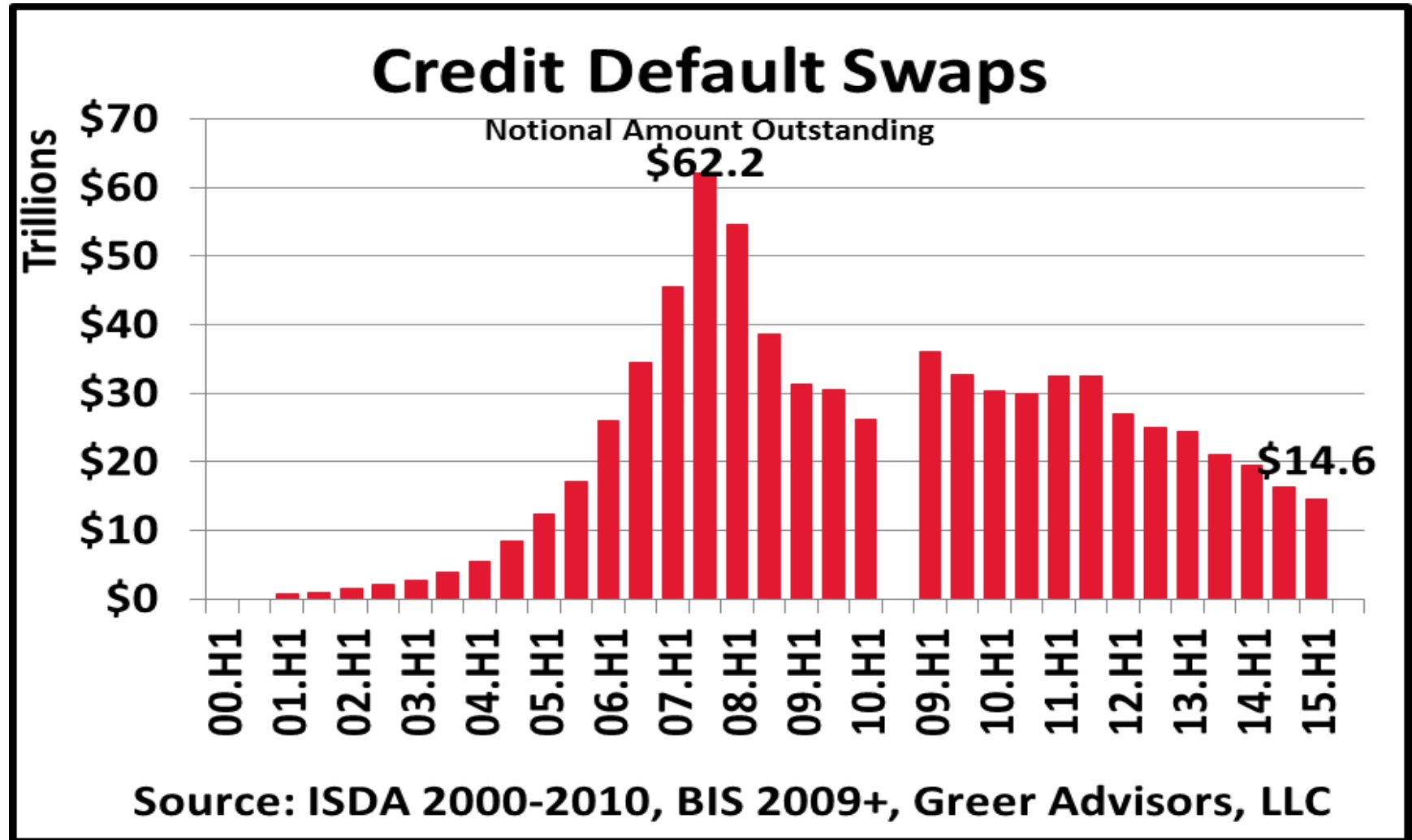
REIT Market Capitalization – Long Term



REIT Market Capitalization – Short Term



Credit Default Swaps



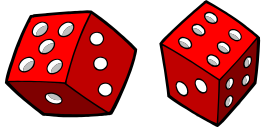
Players in “Simple” CDS

Business Issues Bonds

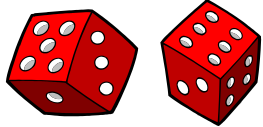


Bonds initially rated too poor for market, eg “BB”

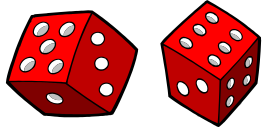
Side Bet 1



Side Bet 2



Side Bet 3

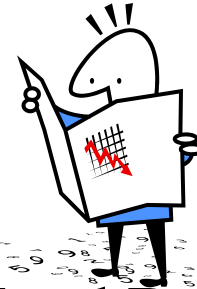


Investment Bank issues CDS (aka Credit Enhances Debt) Enough to make BB = AA, if debtor fails, IB buys bonds

Rating Agency Rates Bonds



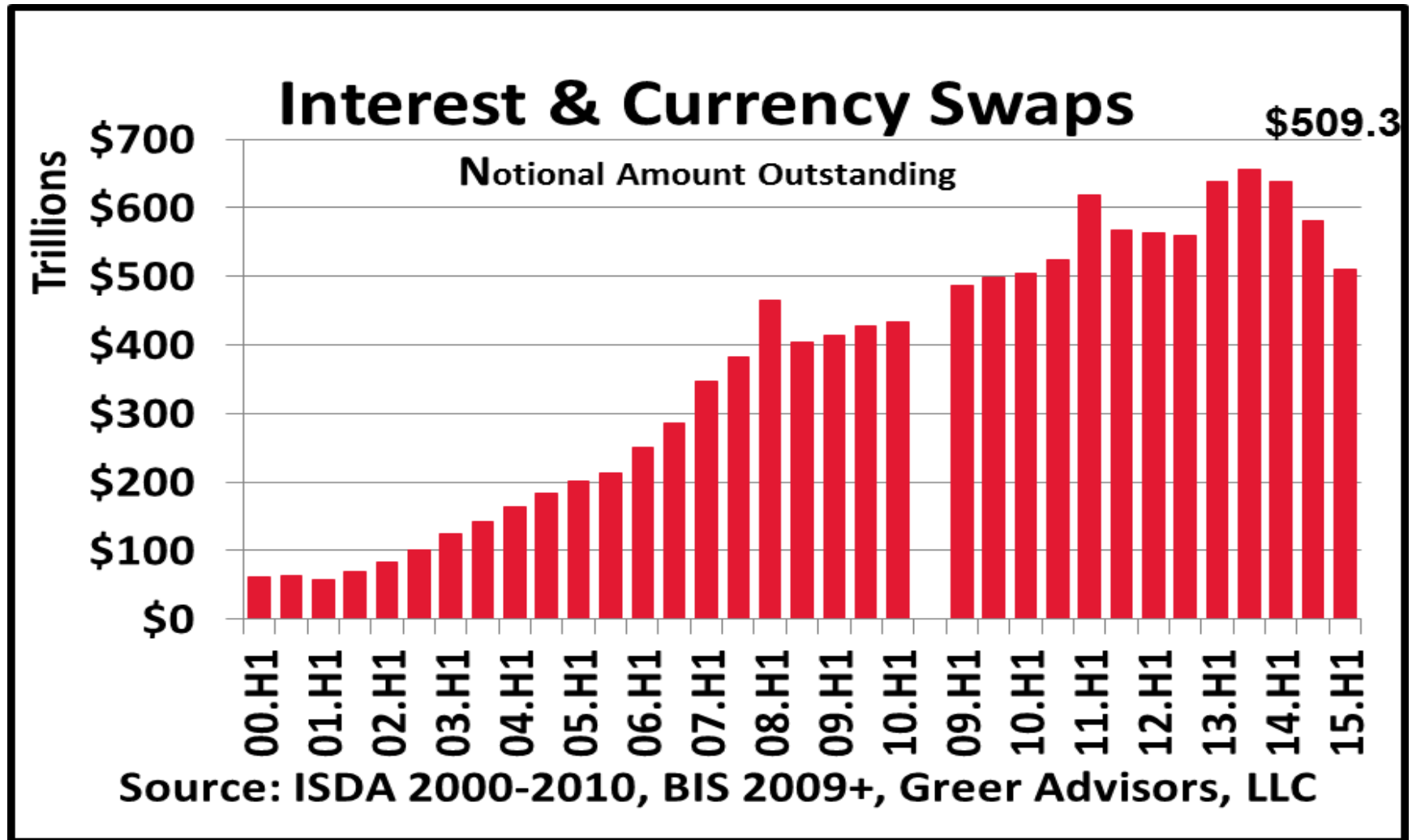
Gives loss forecast & amount required for “AA” rating



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

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More Swaps – Gambling



Conclusions

- Past 16+ Qtrs Rent / Vac Improved Across Country
- Past 16+ Qtrs Rent / Vac Improved in SoCal
- Most Markets at or Above 2007 Rent Levels
- Drop in Oil Prices Helps Interest Rates Stay Low
- Russia, Venezuela and Iran Depend on High Oil Prices
- Chinese Domestic Debt has more than Doubled since 2008
- Sudden Rise in Oil Prices Could be Devastating
- Tech & Oil Markets had Improved the Most. Oil Mkts will ↓
- CMBS is finally recovering – Expect ↑ 10-20% in 2016
- 2016 - CRE ↑2-5% \$\$ most markets, ↑ 5-10% in volume
- REITs are “Off the Charts”

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 seat, handlebars with a water bottle, and a black front fender. The wheels are black with red and white graphics. In the foreground, a black and red Giro helmet and a pair of red and black cycling shoes are visible.

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