
Difficult Valuation Issues

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Greer Advisors, LLC

Goals of Presentation

- Disclaimers
- Tale of Two Cities – Class A vs. Non-Class A
- Fingers on the Pulse – Is the Market Recovering?
- Monitor & Optimize Portfolio

- Tale of Two Cities

Class A vs. Non-Class A

Tale of Two Cities - Market Drivers

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**

Vacancy & Rent Spreads – HUGE Variation

INDUSTRIAL - 2011.Q1					OFFICE - 2011.Q1					RETAIL - 2011.Q1					APARTMENT - 2011.Q1				
Rnk	Metro	Vac %	Rent \$	Rent Chg	Rnk	Metro	Vac %	Rent \$	Rent Chg	Rnk	Metro	Vac %	Rent \$	Rent Chg	Rnk	Metro	Vac %	Rent \$	Rent Chg
1	Los Angeles	7.3%	\$6.64	4.9%	1	Honolulu	8.5%	\$21.74	1.4%	1	San Francisco	3.6%	\$29.89	-0.2%	1	Pittsburgh	2.0%	\$922	1.0%
2	Salt Lake City	8.0%	\$4.76	-0.8%	2	New York	9.3%	\$52.81	-0.3%	2	Fairfield County	4.3%	\$25.26	0.2%	2	San Jose	2.8%	\$1,635	1.9%
3	Orange County	10.5%	\$8.06	2.0%	3	Pittsburgh	10.6%	\$17.82	2.5%	3	Long Island	5.4%	\$22.75	0.0%	3	El Paso	3.2%	\$707	1.5%
4	Houston	10.8%	\$5.41	3.0%	4	Long Island	11.7%	\$19.86	-1.2%	4	Northern New Jer	5.4%	\$24.52	-0.4%	4	Portland	3.2%	\$870	1.5%
5	San Francisco	10.9%	\$7.75	-1.1%	5	San Francisco	12.8%	\$22.40	4.1%	5	San Jose	6.0%	\$26.68	0.1%	5	Minneapolis	3.4%	\$989	1.2%
6	Kansas City	11.0%	\$6.52	1.4%	6	Boston	13.1%	\$26.33	-2.0%	6	Los Angeles	6.2%	\$25.15	0.1%	6	Newark	3.6%	\$1,304	1.4%
7	Las Vegas	11.1%	\$5.81	3.2%	7	Stamford	13.1%	\$26.18	0.3%	7	Orange County	6.2%	\$26.56	0.2%	7	Oakland	3.8%	\$1,326	1.3%
8	Portland	11.3%	\$6.20	0.0%	8	Washington, DC	13.2%	\$34.71	1.6%	8	Oakland-East Bay	6.3%	\$24.88	0.2%	8	San Francisco	3.9%	\$1,969	1.5%
9	Albuquerque	11.4%	\$5.28	0.4%	9	Trenton	13.4%	\$24.40	1.5%	9	Suburban Virginia	6.5%	\$24.25	-0.3%	9	Boston	4.1%	\$1,512	1.2%
10	Long Island	11.5%	\$5.51	-0.7%	10	Nashville	13.9%	\$19.77	0.2%	10	Boston	6.7%	\$19.49	0.1%	10	Miami	4.1%	\$1,079	1.7%
50	Raleigh	16.3%	\$5.76	-0.2%	49	Minneapolis	20.3%	\$19.75	1.6%	72	Syracuse	14.5%	\$10.53	-0.1%	52	Greenville	7.8%	\$675	1.7%
51	Hartford	17.5%	\$5.84	-0.7%	50	West Palm Beach	20.7%	\$20.34	-0.2%	73	Cincinnati	14.6%	\$12.32	0.0%	53	San Antonio	7.9%	\$734	0.5%
52	Sacramento	18.3%	\$4.68	-3.1%	51	Atlanta	21.1%	\$16.72	-2.8%	74	Dallas	15.0%	\$14.04	0.1%	54	Tampa	8.2%	\$831	0.9%
53	Stamford	18.3%	\$5.84	1.0%	52	Tampa	21.5%	\$18.57	-0.8%	75	Cleveland	15.1%	\$12.83	-0.3%	55	Tucson	8.2%	\$630	0.2%
54	Atlanta	18.5%	\$3.29	-2.1%	53	Edison	21.7%	\$17.62	0.3%	76	Indianapolis	15.4%	\$12.38	0.1%	56	Tulsa	8.7%	\$576	0.7%
55	Phoenix	18.5%	\$4.69	-6.2%	54	Sacramento	22.2%	\$19.01	-3.6%	77	Tulsa	15.5%	\$9.77	0.3%	57	Fort Worth	9.0%	\$683	0.6%
56	Boston	18.7%	\$5.73	-2.9%	55	Dallas	22.4%	\$18.07	2.2%	78	Birmingham	15.9%	\$12.19	0.1%	58	Las Vegas	9.4%	\$727	-0.7%
57	Detroit	19.6%	\$3.15	-1.3%	56	Riverside	22.7%	\$18.45	-1.1%	79	Columbus	16.2%	\$10.69	0.3%	59	Phoenix	9.5%	\$718	0.9%
58	Memphis	19.9%	\$2.32	-1.3%	57	Las Vegas	25.2%	\$21.05	-2.5%	80	Indianapolis	16.3%	\$12.33	0.0%	60	Houston	9.8%	\$807	0.6%
59	Trenton	23.1%	\$3.78	-0.5%	58	Detroit	25.4%	\$14.33	-3.0%	81	Dayton	17.0%	\$8.82	-0.2%	61	Birmingham	9.9%	\$744	0.6%
60	Ann Arbor	24.2%	\$6.49	-1.7%	59	Phoenix	25.9%	\$18.08	-1.7%	82	Dayton	17.0%	\$8.79	-0.1%	62	Atlanta	10.2%	\$786	0.4%
	Average	14.5%	\$5.16	-0.2%		Average	17.3%	\$20.56	-0.1%		Average	11.1%	\$15.77	-0.1%		Average	5.9%	\$974	0.8%
	Hi	7.3%	\$2.32	-6.2%		Hi	8.5%	\$14.33	-4.4%		Hi	3.6%	\$8.79	-1.6%		Hi	2.0%	\$575.59	-0.7%
	Low	24.2%	\$8.06	4.9%		Low	25.9%	\$52.81	4.5%		Low	17.0%	\$31.94	0.7%		Low	10.2%	\$2,240.89	1.9%
	Spread	16.9%	\$5.74	11.1%		Spread	17.4%	\$38.48	8.9%		Spread	13.4%	\$23.15	2.3%		Spread	8.2%	\$1,665.30	2.6%

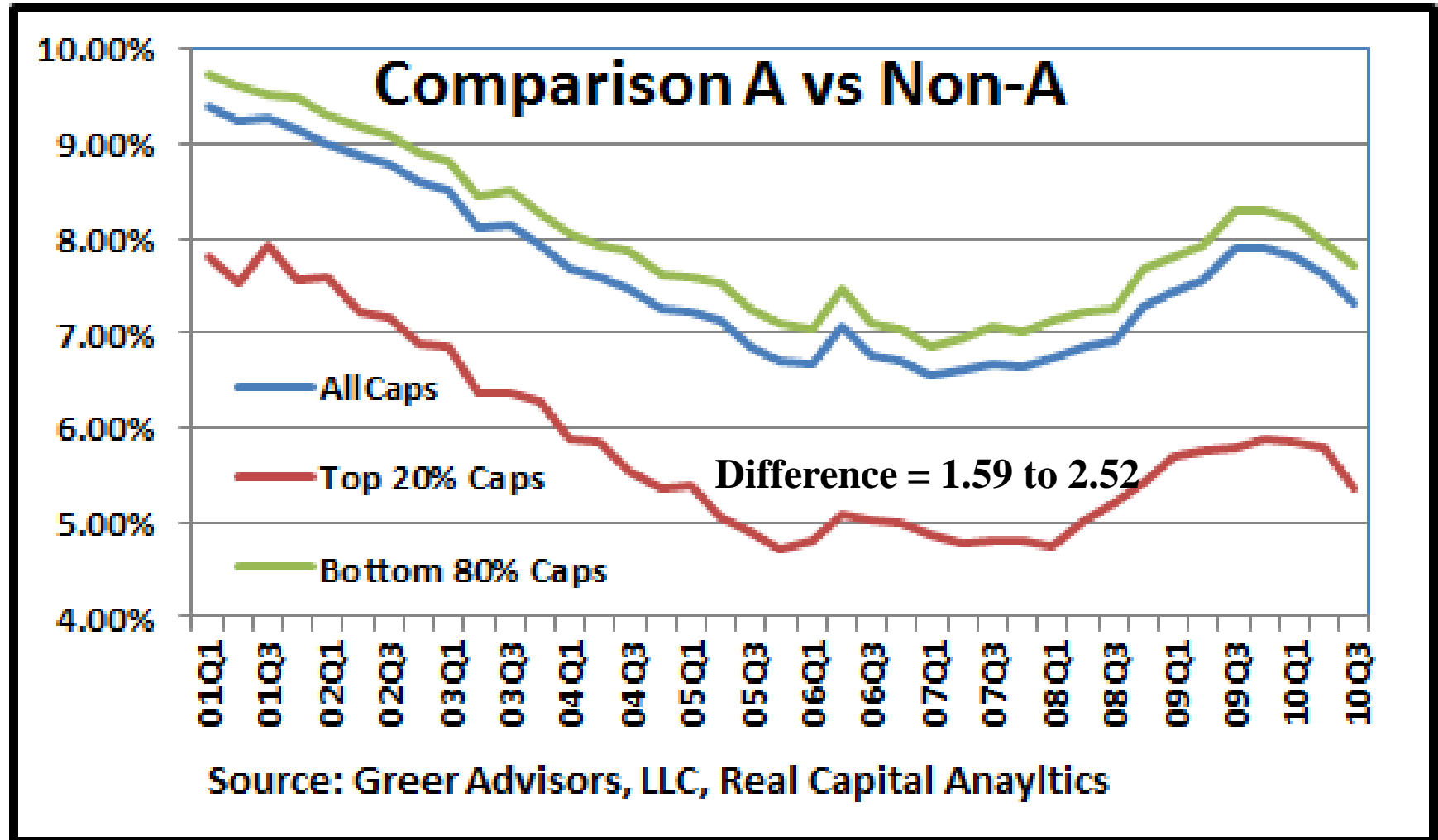
Source: CBRE Economic Advisors, Greer Advisors, LLC

Source: CBRE Economic Advisors, Greer Advisors, LLC

Source: REIS, Inc, Greer Advisors, LLC

Source: CBRE Economic Advisors, Greer Advisors, LLC

Capitalization Rates – Are they Equal



CMBx Data – Spreads Vary by Quality

Greer CMBS / CMBx Yield Rate TM				
Tranche	Yield	Suboord	Weight of Debt	Contribution to Total
AAA	3.47%	29.76%	70.24%	2.43%
AJ	4.34%	12.70%	17.06%	0.74%
AA	5.96%	10.63%	2.07%	0.12%
A	10.39%	8.00%	2.63%	0.27%
BBB	28.06%	4.72%	3.28%	0.92%
BBB-	29.40%	3.68%	1.04%	0.31%
BB	103.10%	2.69%	0.99%	1.02%
Unrated	177.00%	0.00%	2.69%	4.76%
Implied Overall Debt Yield			100.00%	10.58%
Loan to Value Ratio				75.00%
Class-A Equity Yield Total Yield			29.00%	15.18%
Class-B Equity Yield Total Yield			103.00%	33.68%

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 MarkitTM Data and Calculations based on close of 6/20. Swap (10Yr) as of 6/17. ③ 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 Spreads. Subordination levels were from MarkitTM. 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.

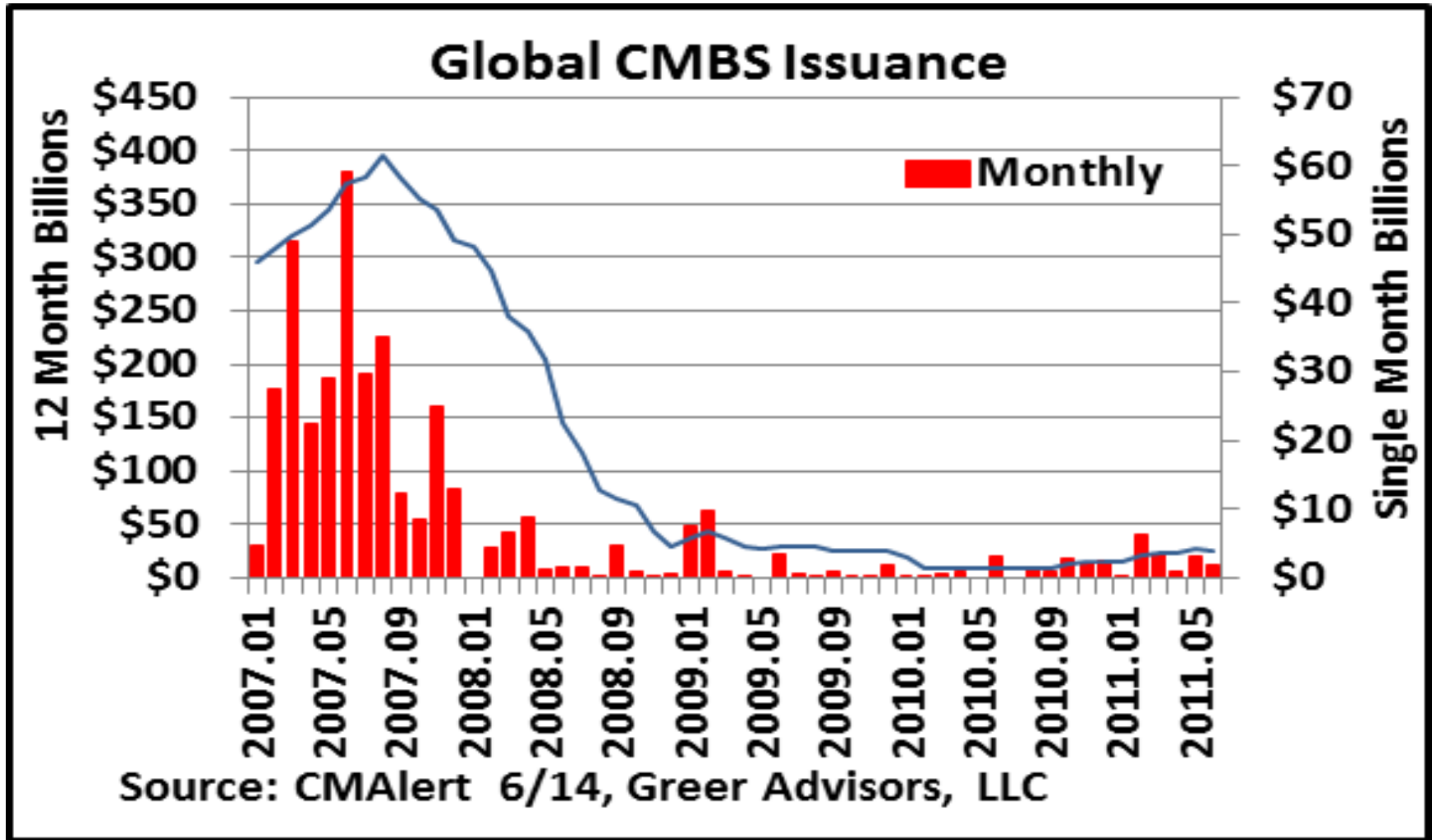
CDx Data – Spreads Vary by Quality

23-Jun-11 Overview								
Index	Series	Coupon	RED ID	Unit	Price/Spread	High	Low	
CDX.NA.HY	16	5.0%	2165BRHL7	Price	99.99	103.35	99.42	5.001%
CDX.NA.IG	16	1.0%	2165BYCM5	Spread	99.00	101.00	88.00	1.010%

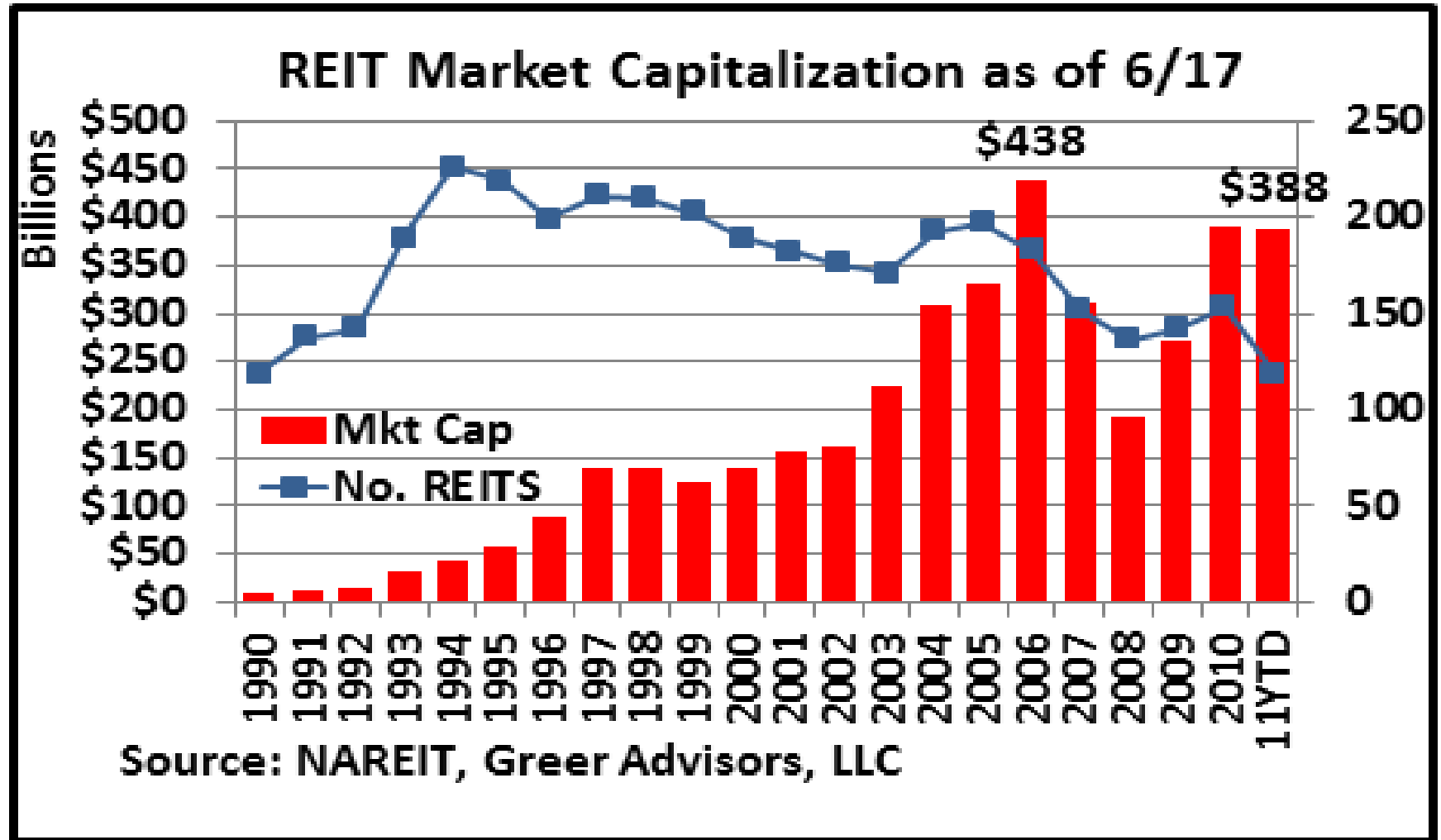
- Fingers on the Pulse

Is the Market Recovering?

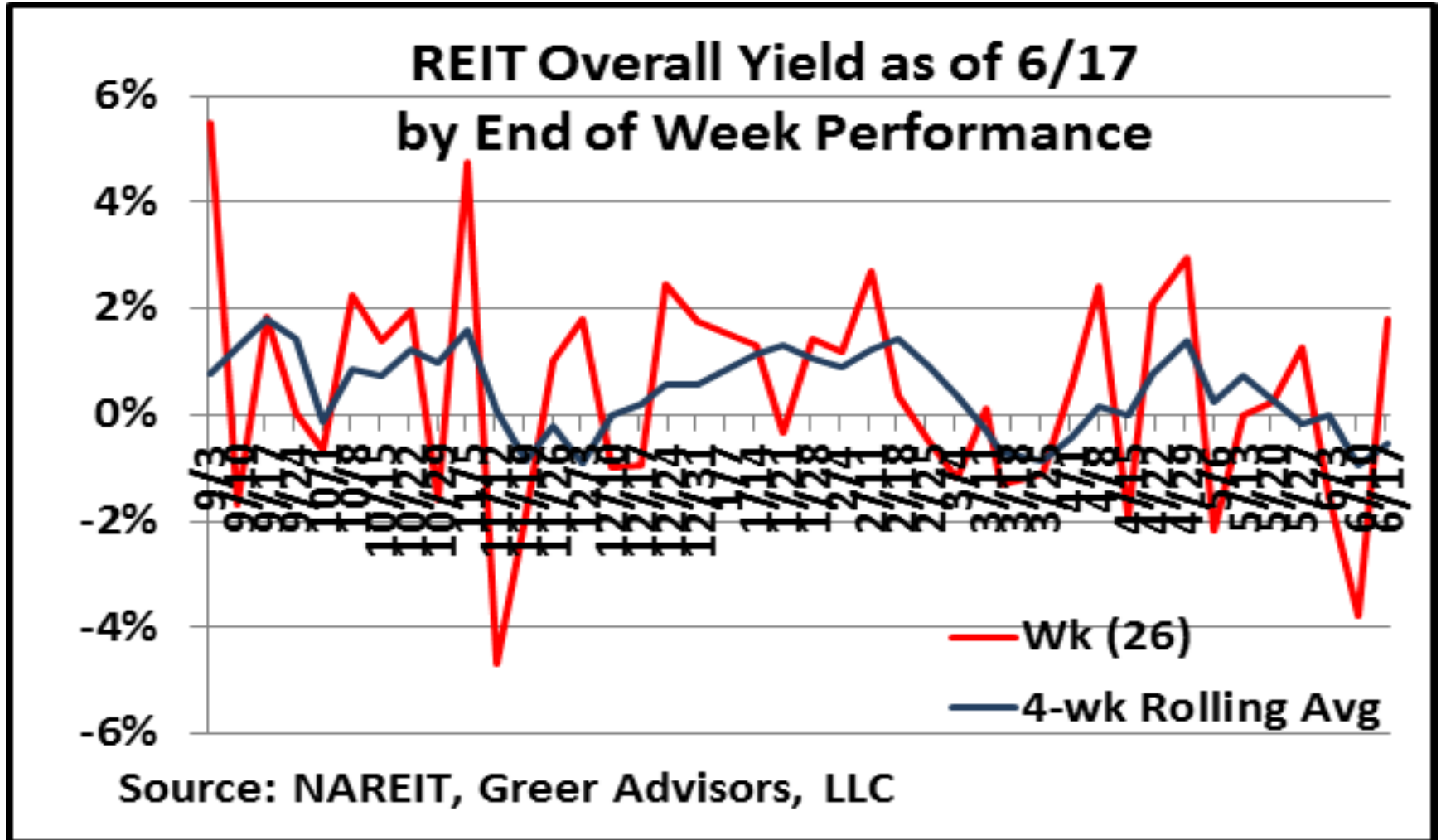
Global CMBS Issuance – Not Recovered



REIT Market Capitalization



Overall REIT Dividend Yields – Stable?



Other Sources

Source of Trend Data for Commercial Real Estate:

- MBA – Quarterly Book
- Real Capital Analytics – Capital Trends Monthly
- Rent & Vacancy Trends
 - CBRE Econometric Advisors
 - REIS
 - PP&R
 - Other Brokerage Houses
- CMBS Defaults
 - TREPP
 - RealPoint

Portfolio Monitoring & Optimization Tools

CRE Market Monitor
CRE Portfolio Optimizer

Move to Excel

CRE Market Monitor

Compares Quarter to Quarter Performance over Large Time Series

User Inputs

Property Type

Market

Origination Year : Quarter

Output

Market Change in Value/Rent

Batch (Pool) Processing Capable

CRE Portfolio Optimizer

Determines Historical Performance (Yield) and Variation –

Allows User to Build Optimal Portfolio

User Inputs

Property Type 1 / Market 1

Property Type 2 / Market 2.....PT3... / Mkt 3.....

Output

Yield and Variation for Each Individual Property

Combined Yield and Variation for Both (All) Properties

Questions / Answers

Greer Advisors, LLC

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