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# Wall Street and Commercial Real Estate

Everett (Allen) Greer  
Greer Advisors, LLC

May 3, 2011 – Reno

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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 – Demographic Details

<b>Demographic - Comparison</b>	Reno City	Las Vegas	Sacramento City	Boise City	Salt Lake City	Nevada	California	United States
2010 - 2015 Population Growth	1.08%	1.13%	1.06%	1.17%	0.95%	1.76%	0.70%	0.8%
2010 - 2015 Household Growth	1.08%	1.05%	1.00%	1.33%	1.03%	1.72%	0.63%	0.8%
<b>2010 Households by Income</b>								
< \$15,000	11.1%	10.1%	13.6%	7.6%	13.2%	8.8%	9.8%	11.4%
\$15,000 - \$24,999	9.3%	9.1%	11.1%	7.9%	11.1%	8.1%	8.4%	9.4%
\$25,000 - \$34,999	10.5%	10.6%	9.7%	9.6%	11.0%	9.7%	8.7%	9.7%
\$35,000 - \$49,999	17.6%	15.8%	16.8%	17.3%	15.0%	15.9%	13.5%	15.0%
\$50,000 - \$74,999	22.0%	21.9%	22.6%	22.3%	21.7%	23.3%	20.5%	21.6%
\$75,000 - \$99,999	13.3%	14.4%	12.9%	16.7%	12.6%	15.3%	13.9%	14.1%
\$100,000 - \$149,999	10.4%	12.2%	8.9%	11.0%	9.4%	12.8%	14.4%	11.9%
\$150,000 - \$199,999	2.8%	2.5%	2.5%	4.1%	3.0%	2.8%	5.3%	3.4%
\$200,000 +	3.0%	3.4%	2.1%	3.4%	3.1%	3.2%	5.6%	3.5%
<b>Median Household Income</b>								
2010 Median Household Income	\$51,574	\$54,367	\$48,839	\$57,285	\$49,709	\$57,546	\$60,992	\$54,442
<b>Per Capita Income</b>								
2010 Per Capita Income	\$27,737	\$25,773	\$22,964	\$30,515	\$25,783	\$26,969	\$27,845	\$26,739
<b>2010 Population by Age</b>								
Age 0 - 9 (young families)	13.2%	15.1%	14.6%	13.5%	14.7%	14.1%	14.7%	13.5%
Age 20 - 64 (workforce)	62.2%	59.1%	60.4%	63.2%	62.9%	60.4%	60.2%	59.9%
Age 65+ (retirement)	12.3%	12.5%	11.2%	10.5%	10.1%	12.7%	11.1%	13.1%
Age 85+ (aging / health care)	1.7%	1.3%	1.8%	1.9%	2.0%	1.4%	1.7%	2.0%
2010 Median Age	35.6	35.8	33.7	34.5	31.6	37.0	34.4	37.0
<b>2010 Population by Sex</b>								
2010 Males	50.7%	50.4%	48.8%	49.6%	50.7%	50.3%	49.9%	49.2%
2010 Females	49.3%	49.6%	51.2%	50.4%	49.3%	49.7%	50.1%	50.8%
<b>2010 Population 15+ by Marital Status</b>								
Never Married	33.8%	30.2%	37.2%	29.4%	35.1%	29.1%	33.8%	29.9%
Married	45.1%	50.8%	44.4%	51.1%	46.8%	52.2%	51.5%	53.3%
Widowed	5.9%	5.5%	6.2%	5.0%	5.6%	5.5%	5.2%	6.1%
Divorced	15.3%	13.6%	12.2%	14.4%	12.6%	13.2%	9.5%	10.6%

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

# Economy – Employment By Industry

## 2010 Employed Population 16+ by Occupation

	Reno City	Las Vegas	Sacramento City	Boise City	Salt Lake City	Nevada	California	United States
<b>2010 Employed Population 16+ by Occupation</b>								
White Collar	59.6%	53.6%	65.4%	69.8%	65.2%	54.2%	64.1%	61.6%
Management/Business/Financial	12.9%	11.8%	14.1%	16.6%	12.4%	12.2%	15.0%	13.9%
Professional	20.2%	16.3%	24.2%	26.6%	28.3%	16.4%	23.5%	22.6%
Sales	13.1%	12.6%	10.1%	11.7%	10.4%	12.6%	11.6%	11.4%
Administrative Support	13.4%	12.9%	17.0%	14.9%	14.1%	12.9%	14.0%	13.6%
Services	23.2%	28.1%	18.4%	15.8%	17.7%	26.4%	17.1%	17.3%
Blue Collar	17.2%	18.3%	16.2%	14.4%	17.1%	19.4%	18.8%	21.1%
Farming/Forestry/Fishing	0.2%	0.1%	0.3%	0.3%	0.1%	0.2%	1.0%	0.6%
Construction/Extraction	5.0%	7.5%	4.4%	4.8%	5.1%	7.2%	4.7%	5.4%
Installation/Maintenance/Repair	3.0%	3.1%	2.9%	2.2%	2.3%	3.6%	3.3%	3.6%
Production	3.7%	2.6%	3.4%	3.7%	4.7%	3.1%	4.7%	5.7%
Transportation/Material Moving	5.3%	5.0%	5.2%	3.3%	4.9%	5.3%	5.1%	5.7%

Note: 1-3-5 miles radius is: Latitude: 34.026847 / Longitude: -118.408403, Palms Blvd., Los Angeles CA

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

# Economy – Population, Households, Housing

## Demographic Statistics

	Reno City	Las Vegas	Sacramento City	Boise City	Salt Lake City	Nevada	California	United States
2010 Total Population	215,180	580,369	487,724	205,324	192,872	2,748,294	37,983,948	311,212,863
2015 Total Population	227,072	613,886	514,217	217,670	202,167	2,999,160	39,328,336	323,209,391
2010 Households	88,053	210,301	182,681	84,362	76,208	1,025,511	12,662,806	116,761,140
2015 Households	92,909	221,625	192,022	90,103	80,200	1,116,629	13,063,778	121,359,604

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

## Housing

	Reno City	Las Vegas	Sacramento City	Boise City	Salt Lake City	Nevada	California	United States
Median Home Value	\$147,871	\$133,094	\$125,985	\$118,058	\$152,382	\$132,514	\$198,923	\$111,833
2010 Median Rent	\$582	\$632	\$557	\$554	\$516	\$630	\$677	\$519
2010 Average Rent	\$608	\$643	\$563	\$583	\$540	\$643	\$746	\$565
Median Year Householder Moved In	1997	1997	1996	1996	1996	1997	1995	1995
Median Year Structure Built	1977	1989	1967	1977	1953	1986	1970	1971
Owner Occupied Housing Units	42.3%	49.6%	46.9%	56.6%	45.2%	52.2%	52.0%	58.0%
Vacant Housing Units	9.7%	12.2%	7.4%	7.8%	8.8%	13.4%	7.5%	11.9%

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

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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



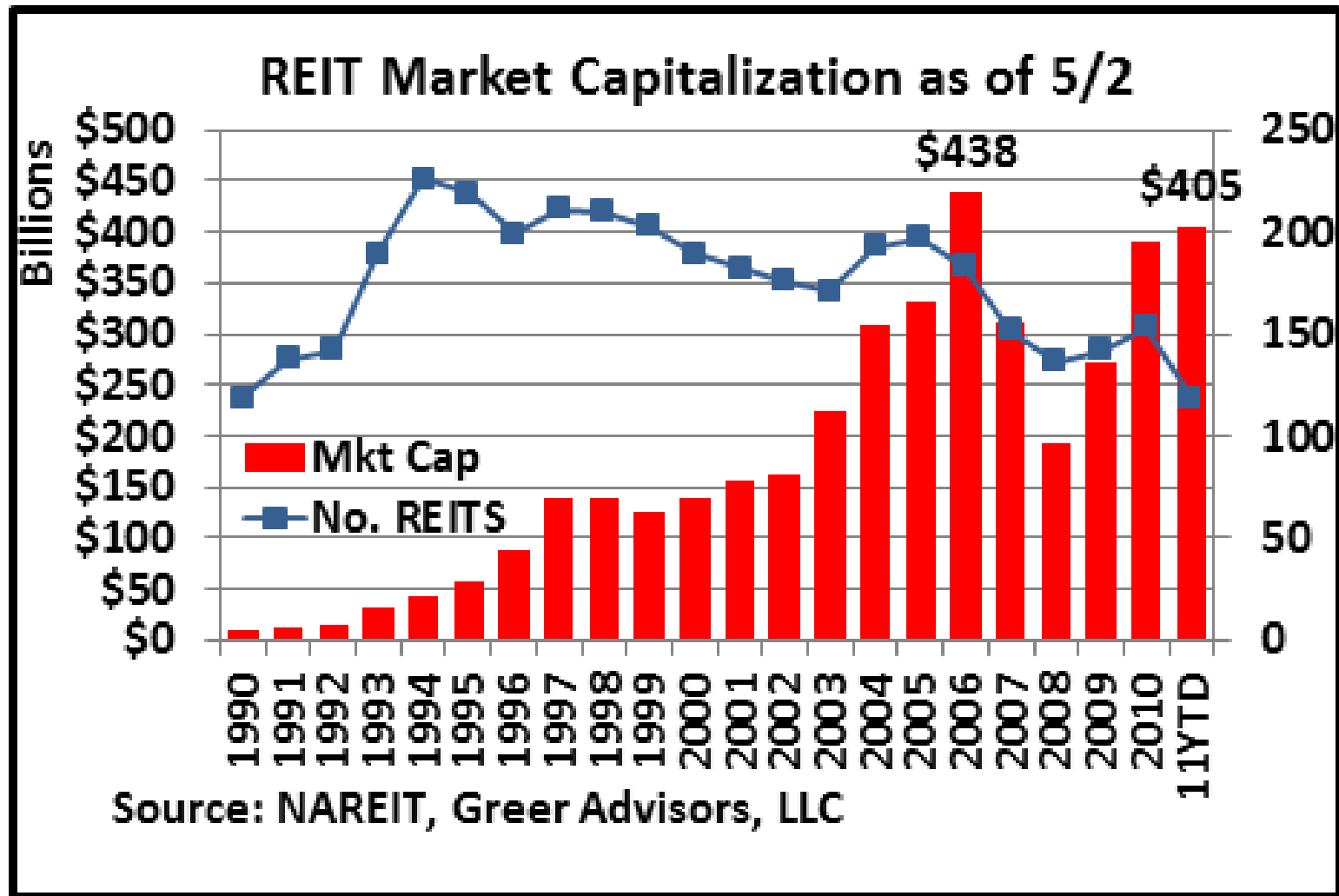
# What is REIT?

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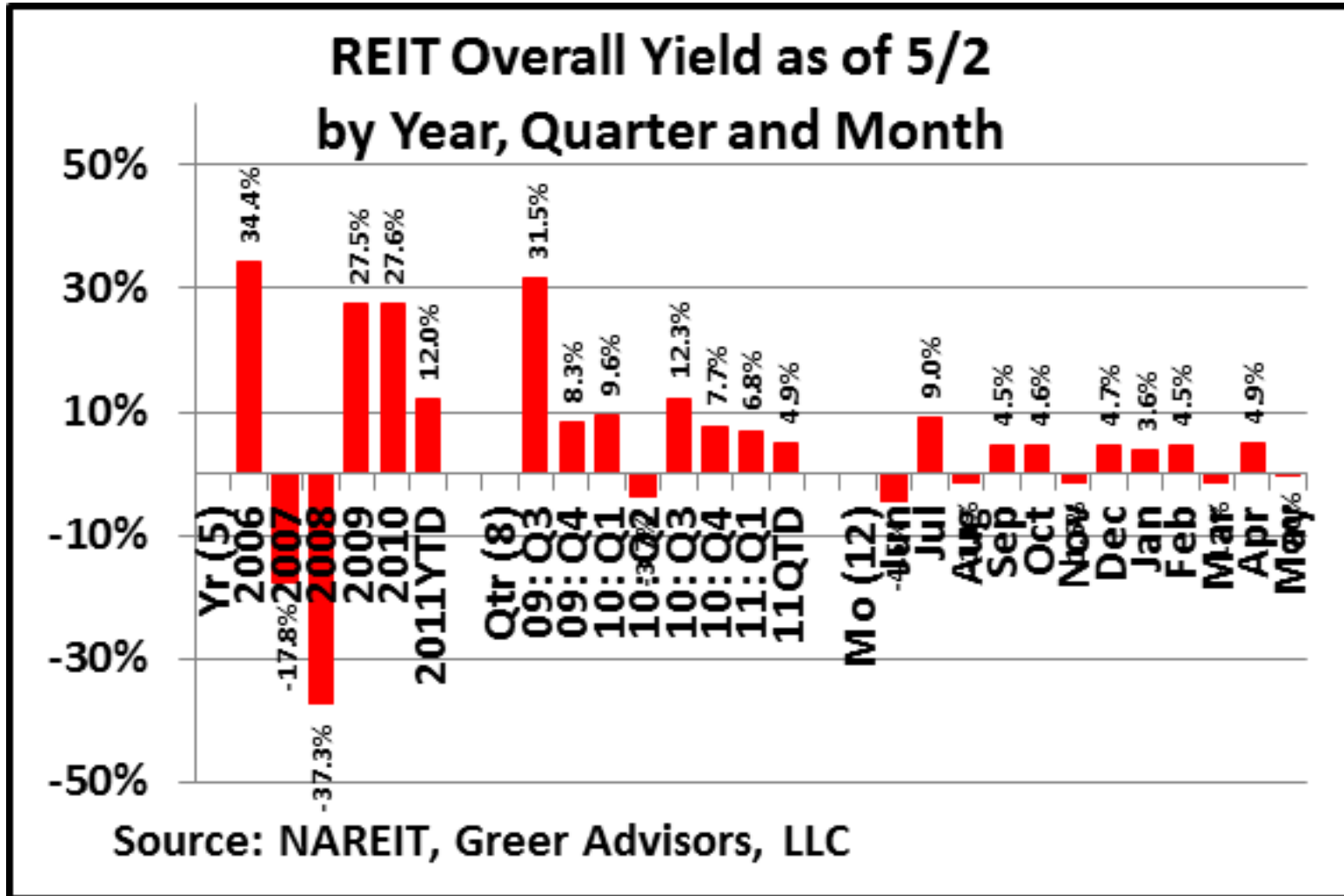
## Real Estate Investment Trust

- 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

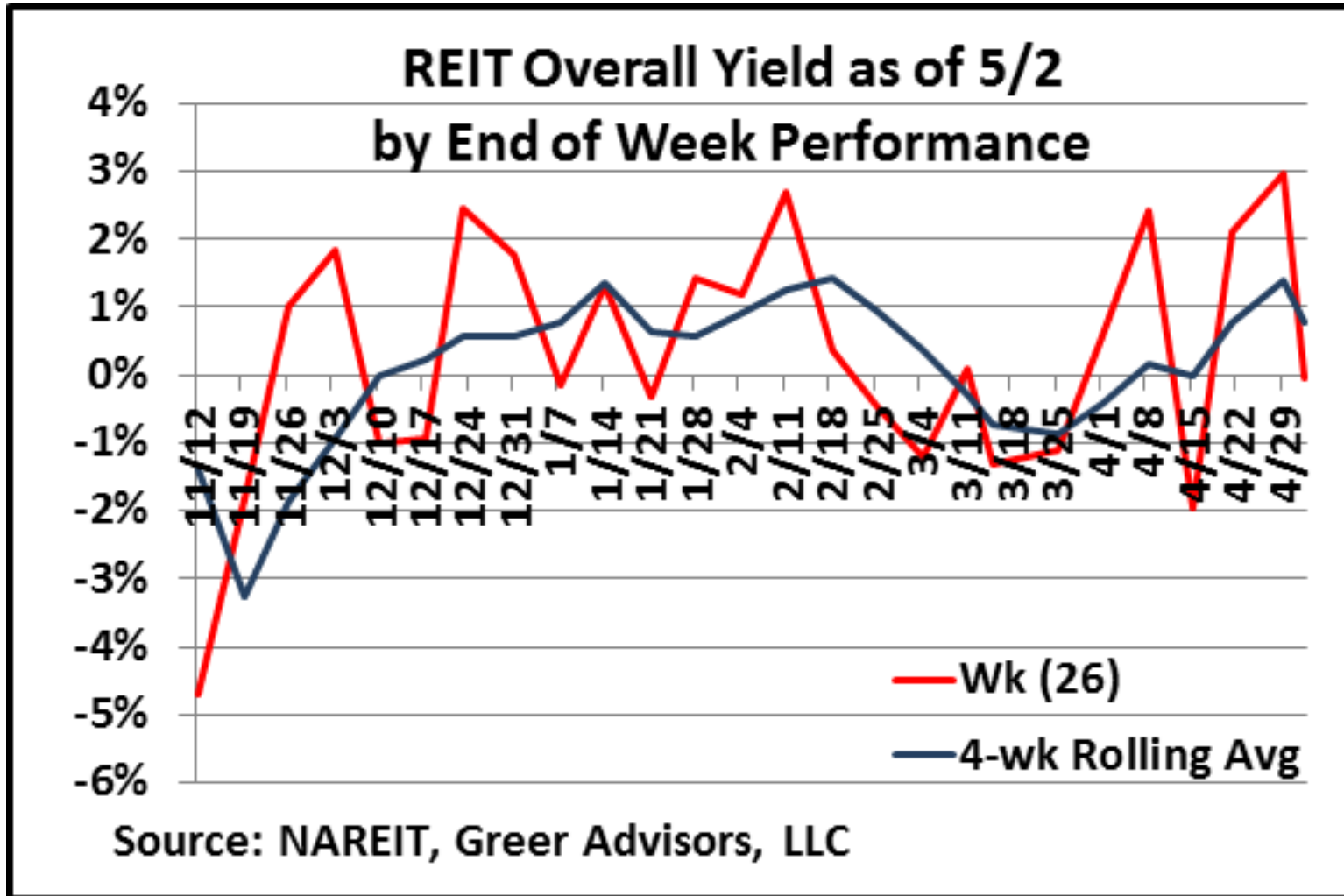
# REIT Market Capitalization



# Overall REIT Dividend Yields – Stable?



# Overall REIT Dividend Yields – Stable?



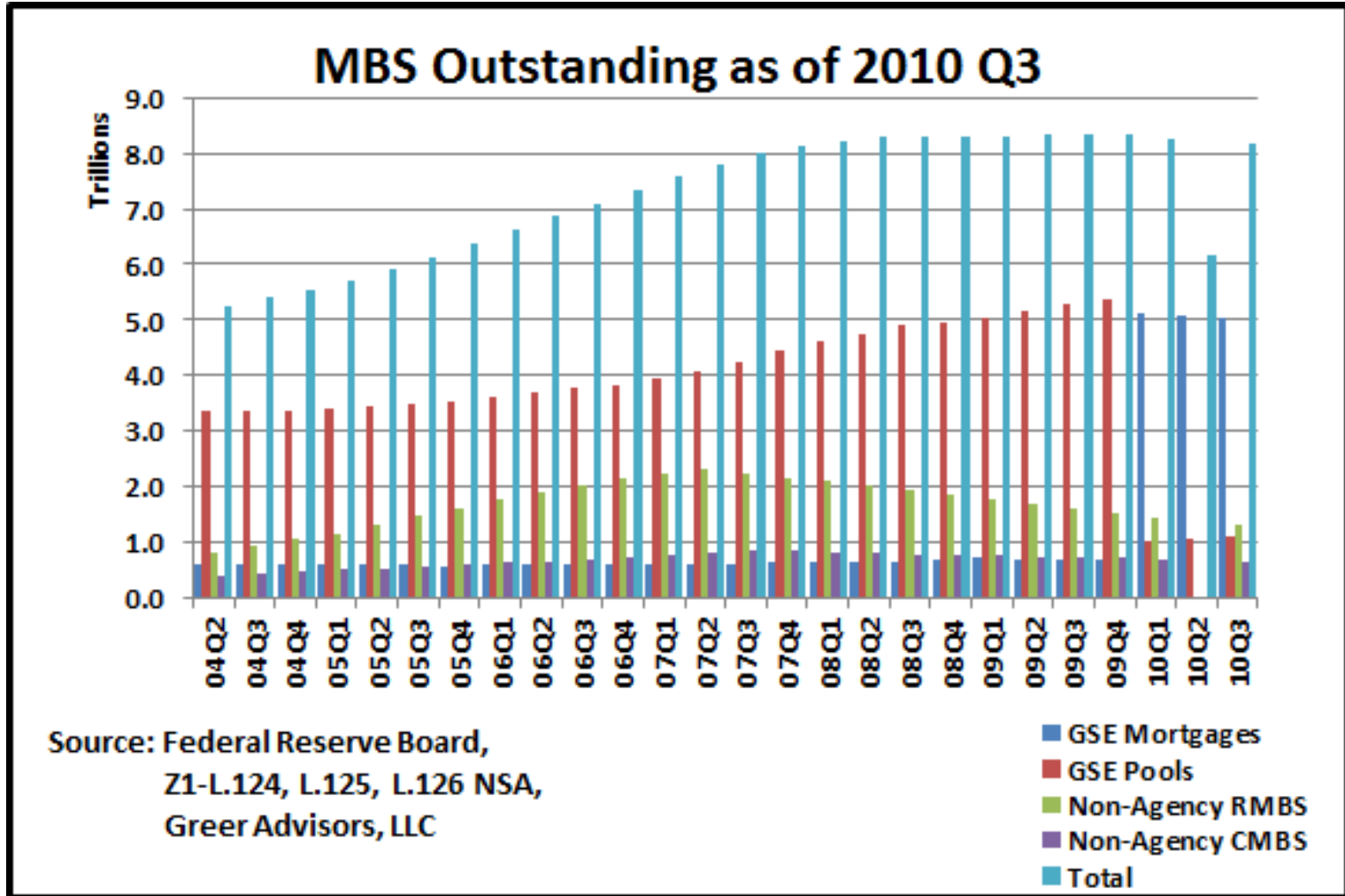
# What is a MBS?

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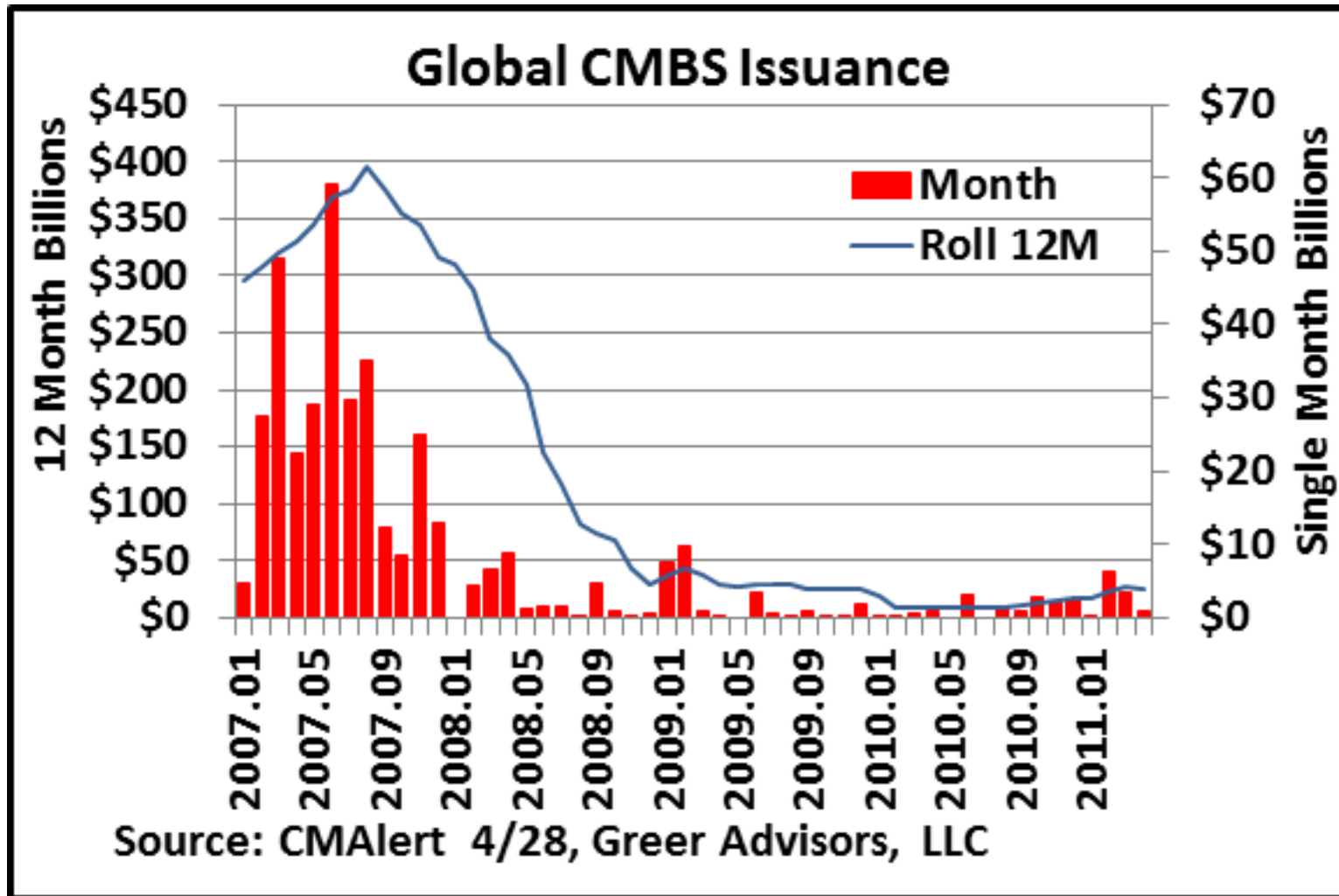
## Mortgage Backed Security

- 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>
AAA	3.71%	29.76%	70.24%	2.60%
AJ	4.58%	12.70%	17.06%	0.78%
AA	6.20%	10.63%	2.07%	0.13%
A	10.63%	8.00%	2.63%	0.28%
BBB	28.30%	4.72%	3.28%	0.93%
BBB-	29.64%	3.68%	1.04%	0.31%
BB	103.34%	2.69%	0.99%	1.02%
Unrated	177.00%	0.00%	2.69%	4.76%
<b>Implied Overall Debt Yield</b>			<b>100.00%</b>	<b>10.81%</b>
<b>Loan to Value Ratio</b>				<b>75.00%</b>
<b>Class-A Equity Yield   Total Yield</b>			<b>30.00%</b>	<b>15.61%</b>
<b>Class-B Equity Yield   Total Yield</b>			<b>103.00%</b>	<b>33.86%</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 5/3. Swap (10Yr) as of 5/2.

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???

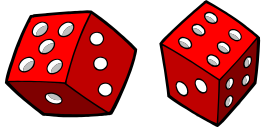
# Players in “Simple” CDS

## Business Issues Bonds

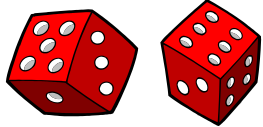


Bonds initially rated too poor for market, eg “BB”

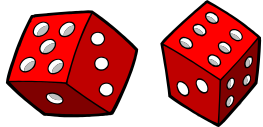
Side Bet 1



Side Bet 2



Side Bet 3

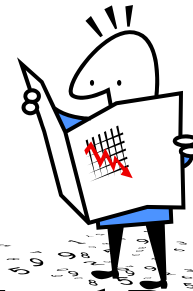


Investment Bank issues CDS (aka Credit Enhances Debt) Enough to make BB = AA, if debtor fails, IB buys bonds

## Rating Agency Rates Bonds



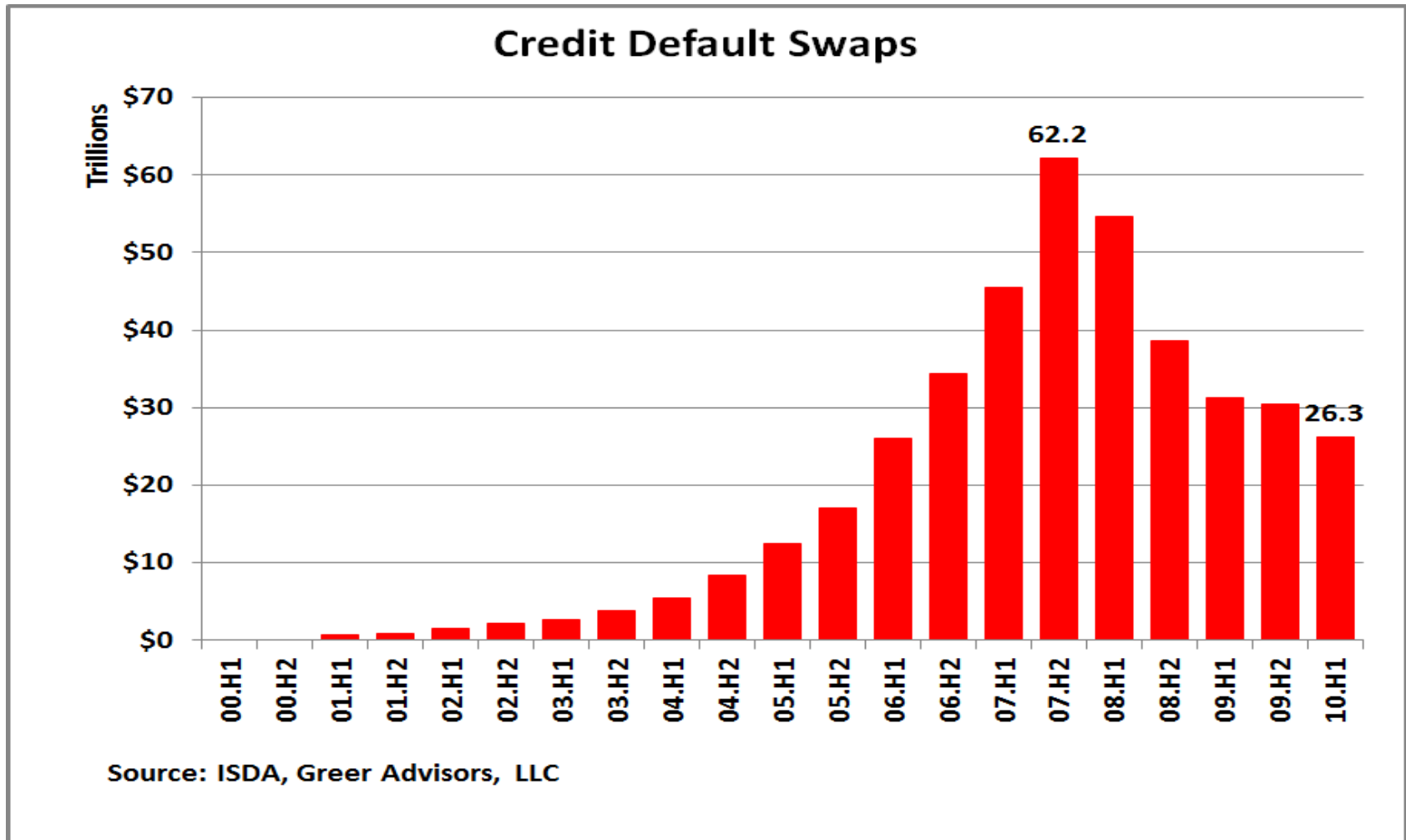
Gives loss forecast & amount required for “AA” rating



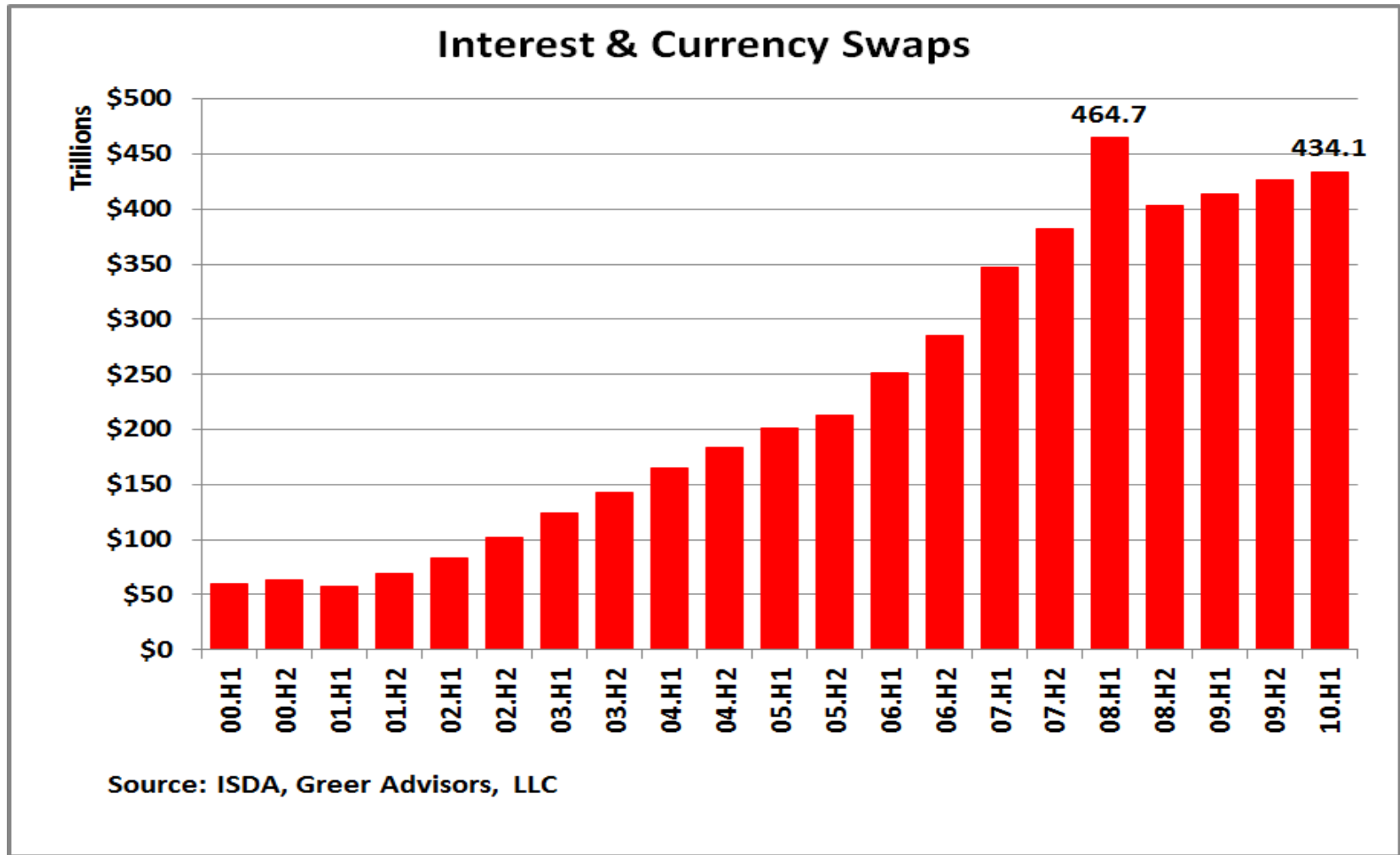
Pension Fund Buys Bonds with CDS enhancement  
Thinks it's AA investment

**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%
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>	<b>13.1%</b>	<b>\$5.37</b>	<b>-0.5%</b>		<b>Average</b>	<b>17.3%</b>	<b>\$20.54</b>	<b>-0.9%</b>		<b>Average</b>	<b>11.0%</b>	<b>\$15.84</b>	<b>-0.1%</b>		<b>Average</b>	<b>6.2%</b>	<b>\$955</b>	<b>0.3%</b>
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%
20	Las Vegas	13.2%	\$5.63	-0.8%	57	Las Vegas	24.7%	\$21.59	-1.6%	53	Las Vegas	12.6%	\$18.36	-0.6%	59	Las Vegas	9.4%	\$733	-2.2%
2	Salt Lake City	7.9%	\$4.80	5.1%	21	Salt Lake City	16.2%	\$17.29	0.9%	54	Salt Lake City	12.7%	\$13.25	0.0%	25	Salt Lake City	5.3%	\$755	-0.1%
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%	11	San Francisco	4.1%	\$1,856	-0.1%
	<b>Sum of Markets</b>	<b>14.3%</b>	<b>\$5.03</b>	<b>-0.6%</b>		<b>Sum Of Markets</b>	<b>16.4%</b>	<b>\$25.62</b>	<b>-0.8%</b>		<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>		<b>Sum Of Markets</b>	<b>6.0%</b>	<b>\$1,194</b>	<b>1.0%</b>
	<b>Min</b>	<b>7.5%</b>	<b>\$2.84</b>	<b>-3.8%</b>		<b>Min</b>	<b>8.4%</b>	<b>\$14.59</b>	<b>-6.4%</b>		<b>Min</b>	<b>3.6%</b>	<b>\$8.84</b>	<b>-1.6%</b>		<b>Min</b>	<b>2.3%</b>	<b>\$571</b>	<b>-2.2%</b>
	<b>Max</b>	<b>15.4%</b>	<b>\$8.08</b>	<b>6.2%</b>		<b>Max</b>	<b>25.9%</b>	<b>\$52.97</b>	<b>1.9%</b>		<b>Max</b>	<b>16.8%</b>	<b>\$32.04</b>	<b>1.0%</b>		<b>Max</b>	<b>11.5%</b>	<b>\$2,199</b>	<b>3.0%</b>
	<b>Spread</b>	<b>7.9%</b>	<b>\$5.24</b>	<b>10.0%</b>		<b>Spread</b>	<b>17.5%</b>	<b>\$38.38</b>	<b>8.3%</b>		<b>Spread</b>	<b>13.2%</b>	<b>\$23.20</b>	<b>2.6%</b>		<b>Spread</b>	<b>9.2%</b>	<b>\$1,628</b>	<b>5.3%</b>

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

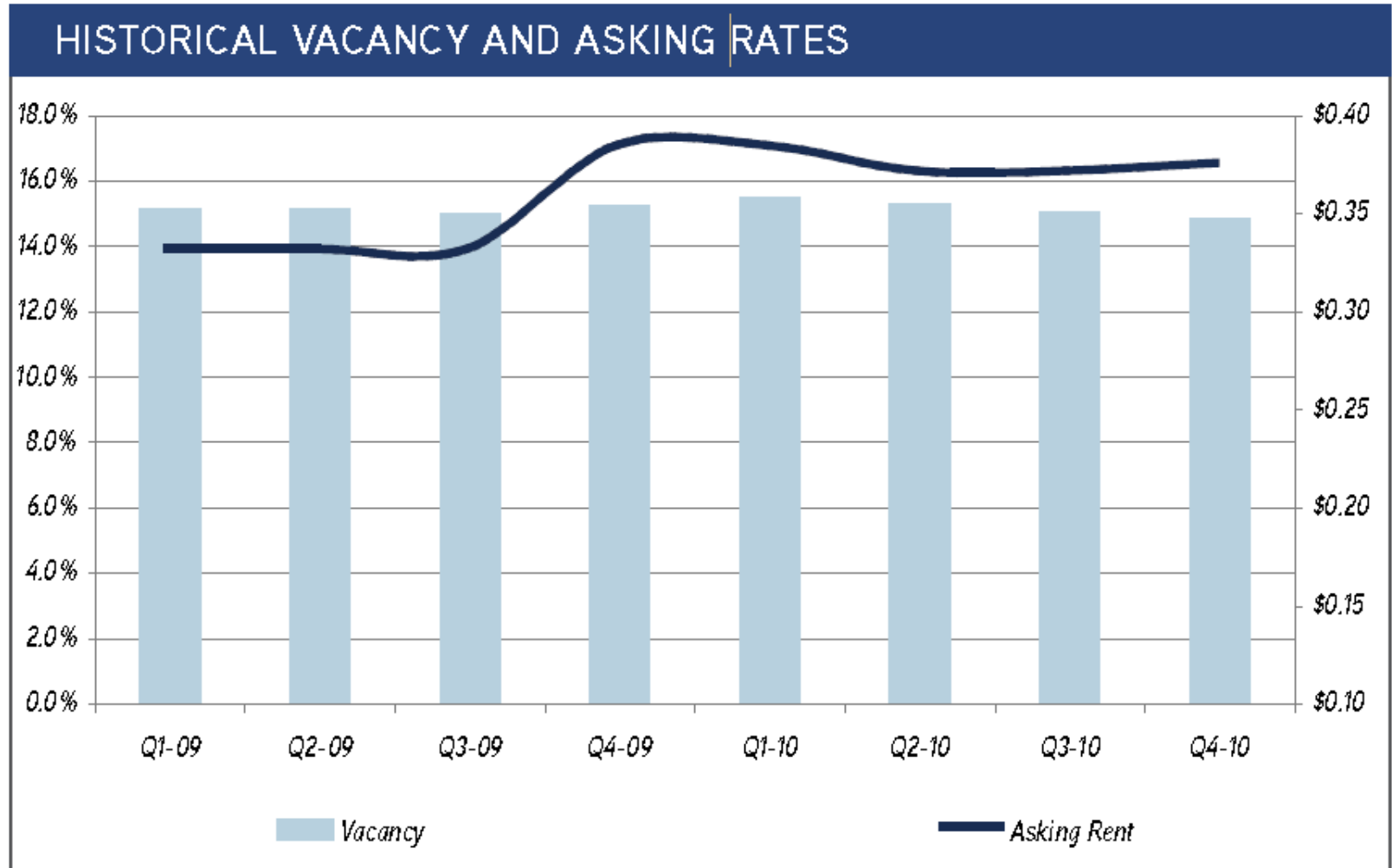
**Greer Advisors, LLC**

# Colliers International

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- The following three slides are available from Colliers International via the following link:
- <http://www.colliersreno.com/html/index.asp?ptype=2&officeid=910&content=MR>

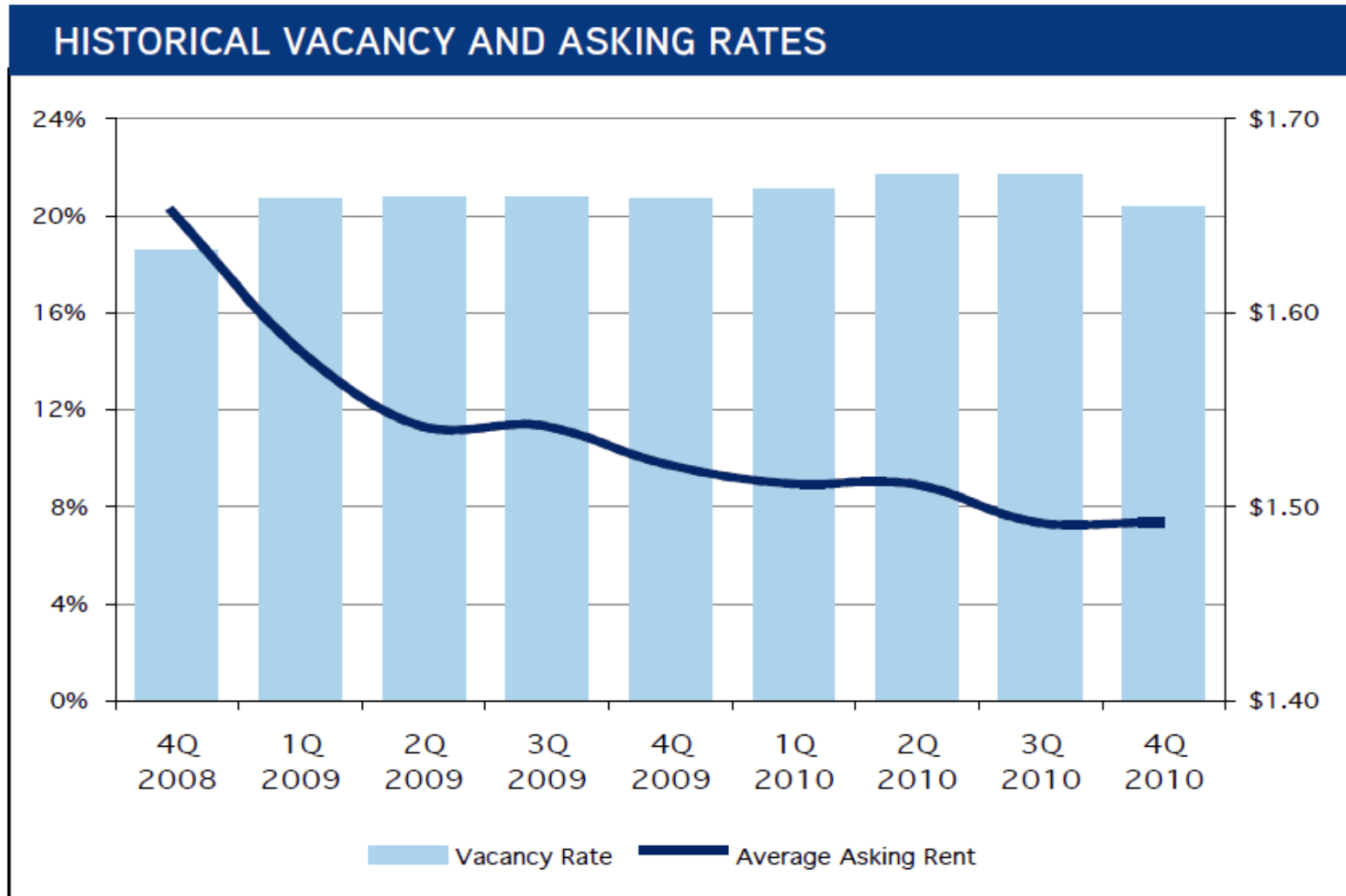
# Colliers – 2010Q4 – Reno Industrial



Source: Colliers International

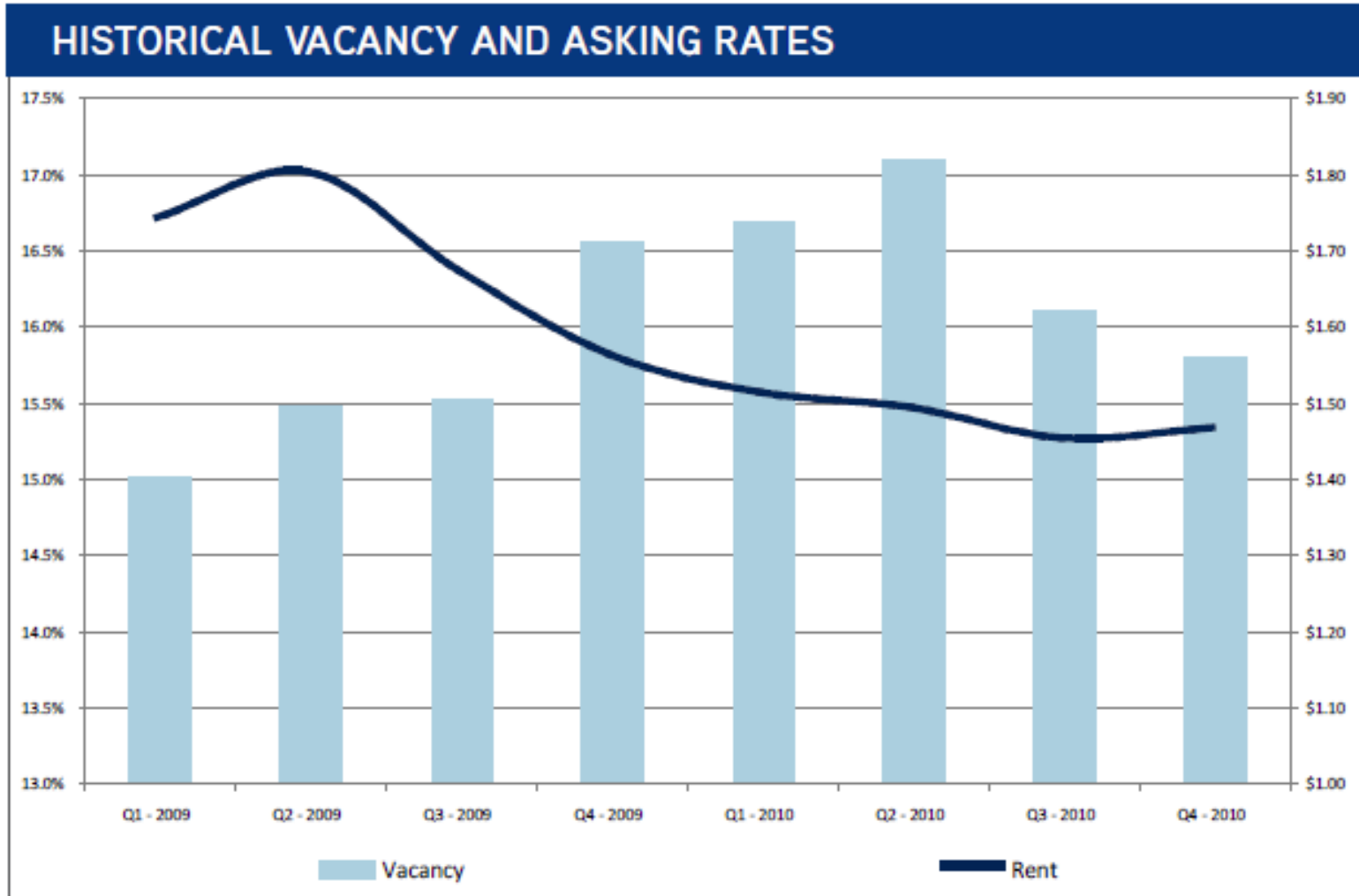


# Colliers – 2010Q4 – Reno Office



Source: Colliers International

# Colliers – 2010Q4 – Reno Retail



Source: Colliers International

# 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!!!

# 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 5/2/2011

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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 5/2/11, CMBx spread stands nearly 100 pts (3.80 v 103.43)



# Questions / Answers

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