
Wall Street and Commercial Real Estate

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Appraisal Institute – Market Trends

Goals of Presentation

- Market Drivers
- Real Estate Capital Markets
- Risk Indicators
- Conclusions & Forecast

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

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

■ Market Drivers

Supply / Demand vs. Financing

Supply / Demand – Impacts Rent & Vacancy less on Value

- Most Demand ties to Jobs – Drives Vacancy (1), Rents (2)
 - Office – FIRE Employment, Portion of Service Employment
 - Retail – Household (HH) Formations, Income Growth
 - Industrial – Manufacturing & Distribution (Logistics)
 - Multifamily – HH Formations, non-Top 25% of HH Income
 - Hotel – Corporate Travel – Office & Industrial Employment

Financing **DRIVES VALUE!** Low Interest = High Value

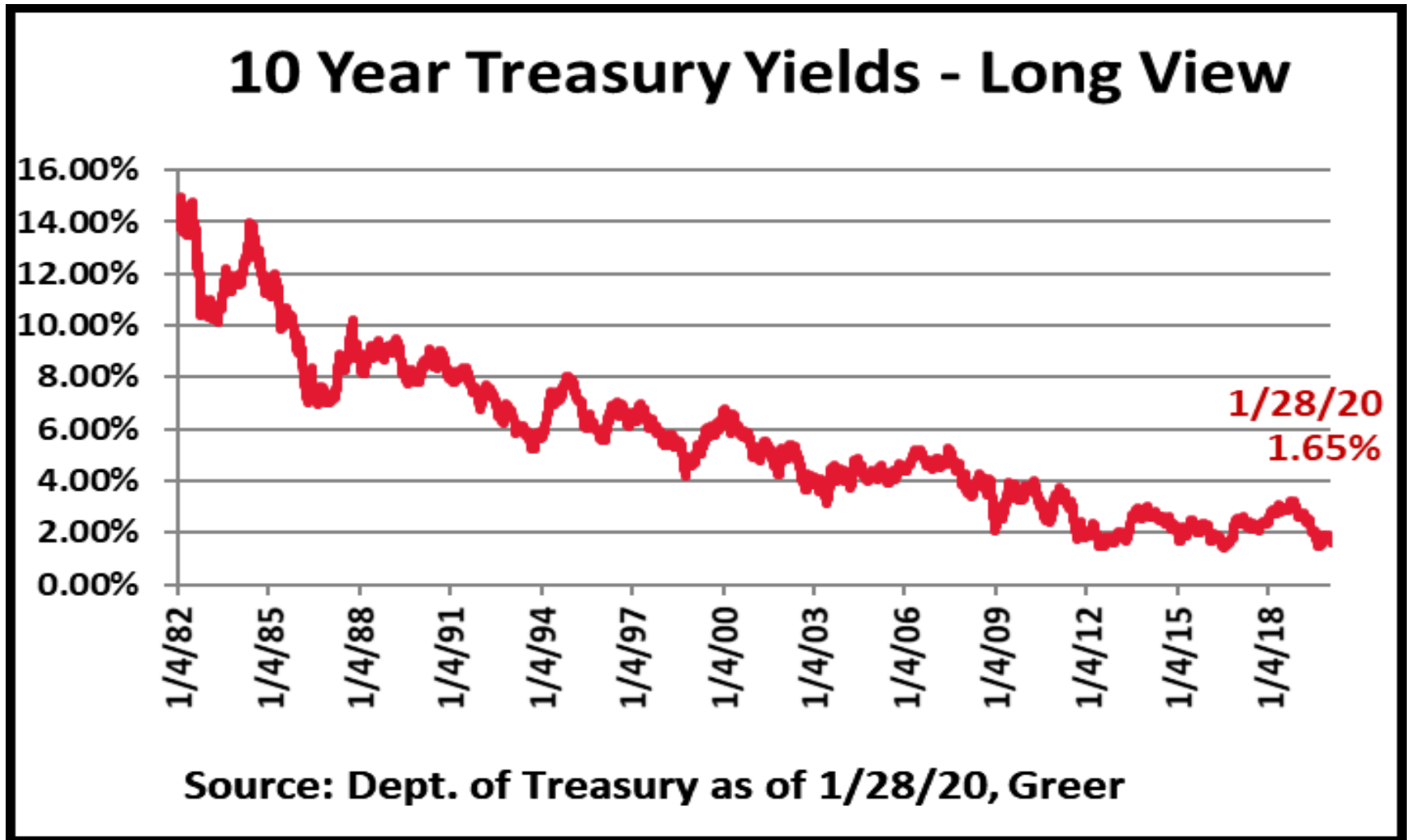
- Availability
- Rate and Term
- Leverage
- Recourse

** This is mostly due to the drop in interest rates for CRE loans since the advent of CMBS.

Currency wars / restrictions, trade wars, FRB Rate Hikes, Global Turmoil, e.g. U.S. v China, Global perception of America

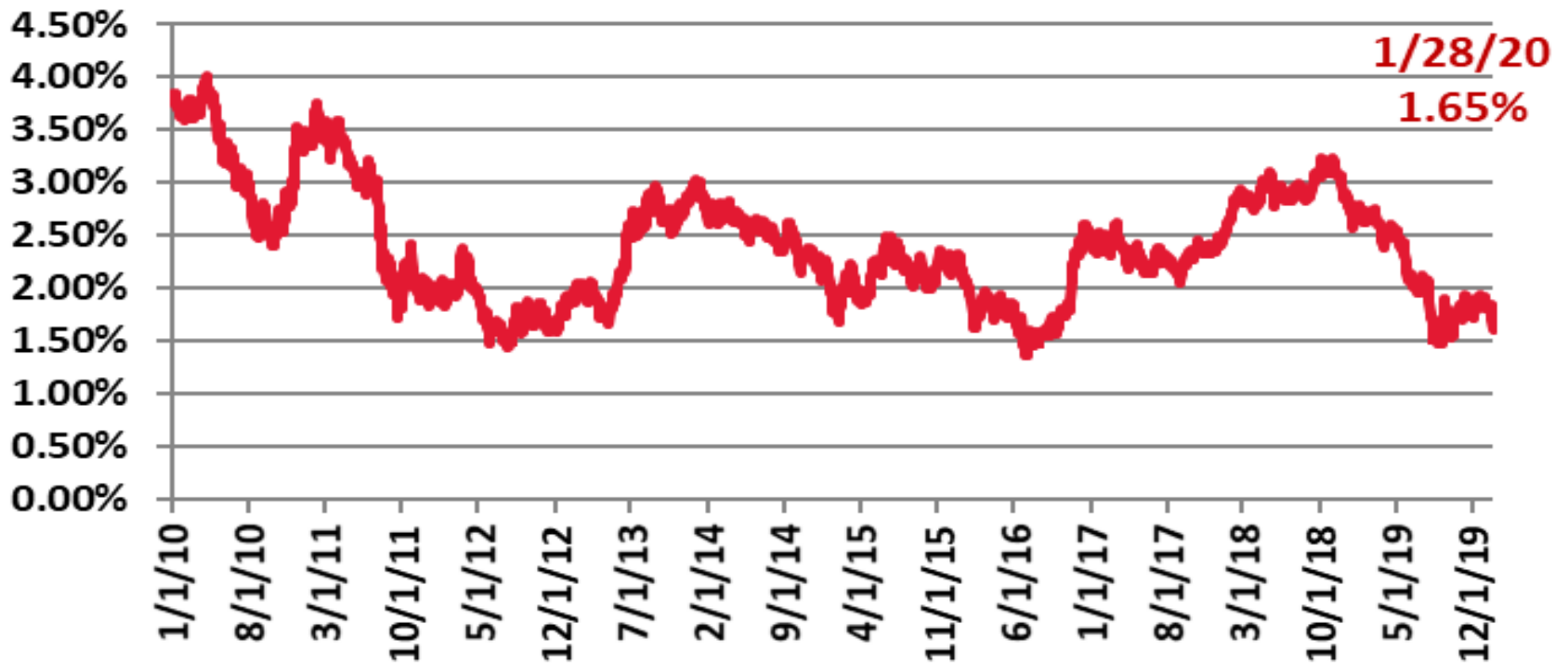
- International Investment **

Interest Rates – Long Term View 1982+



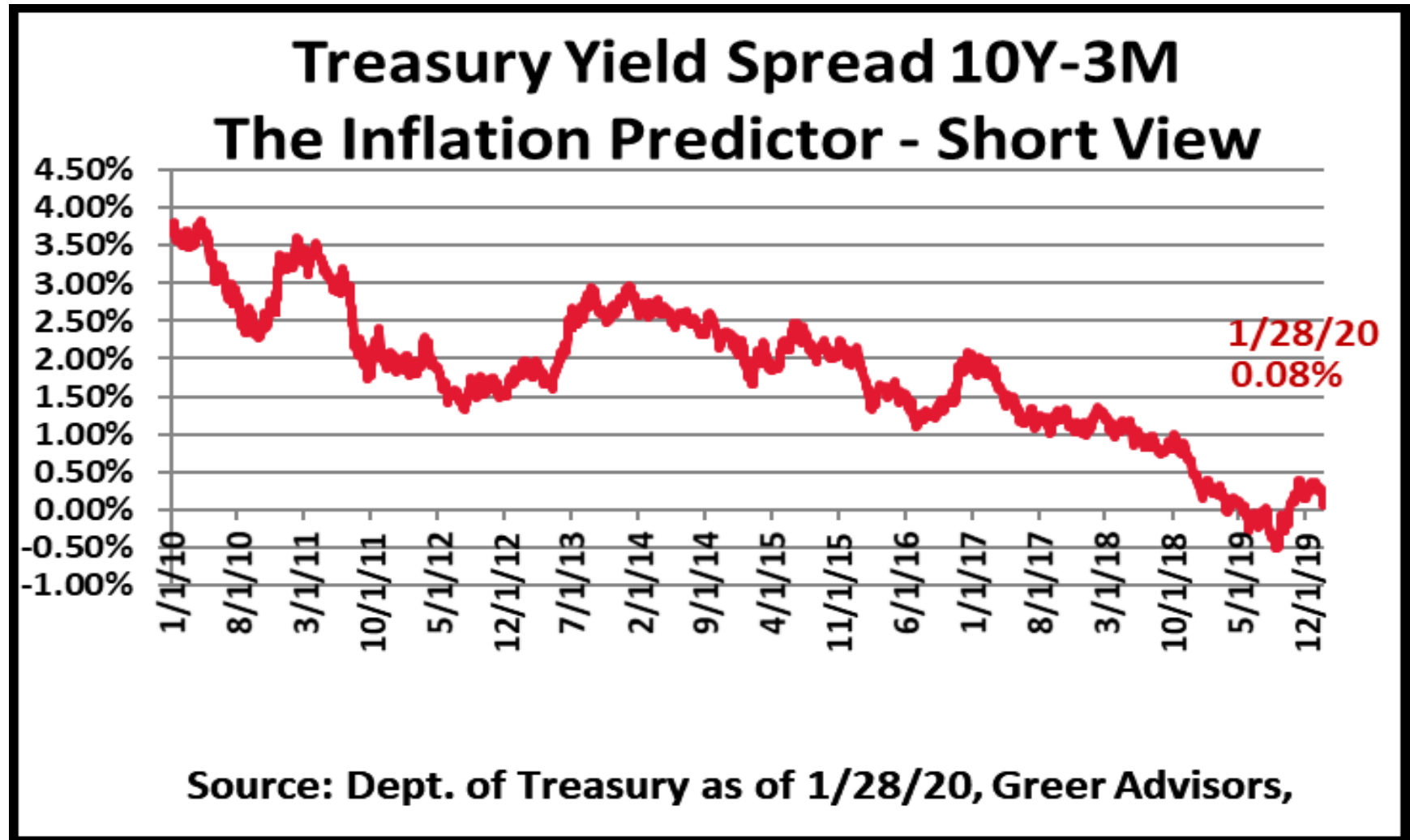
Interest Rates – Short Term View – 2010+

10 Year Treasury Yields - Short View



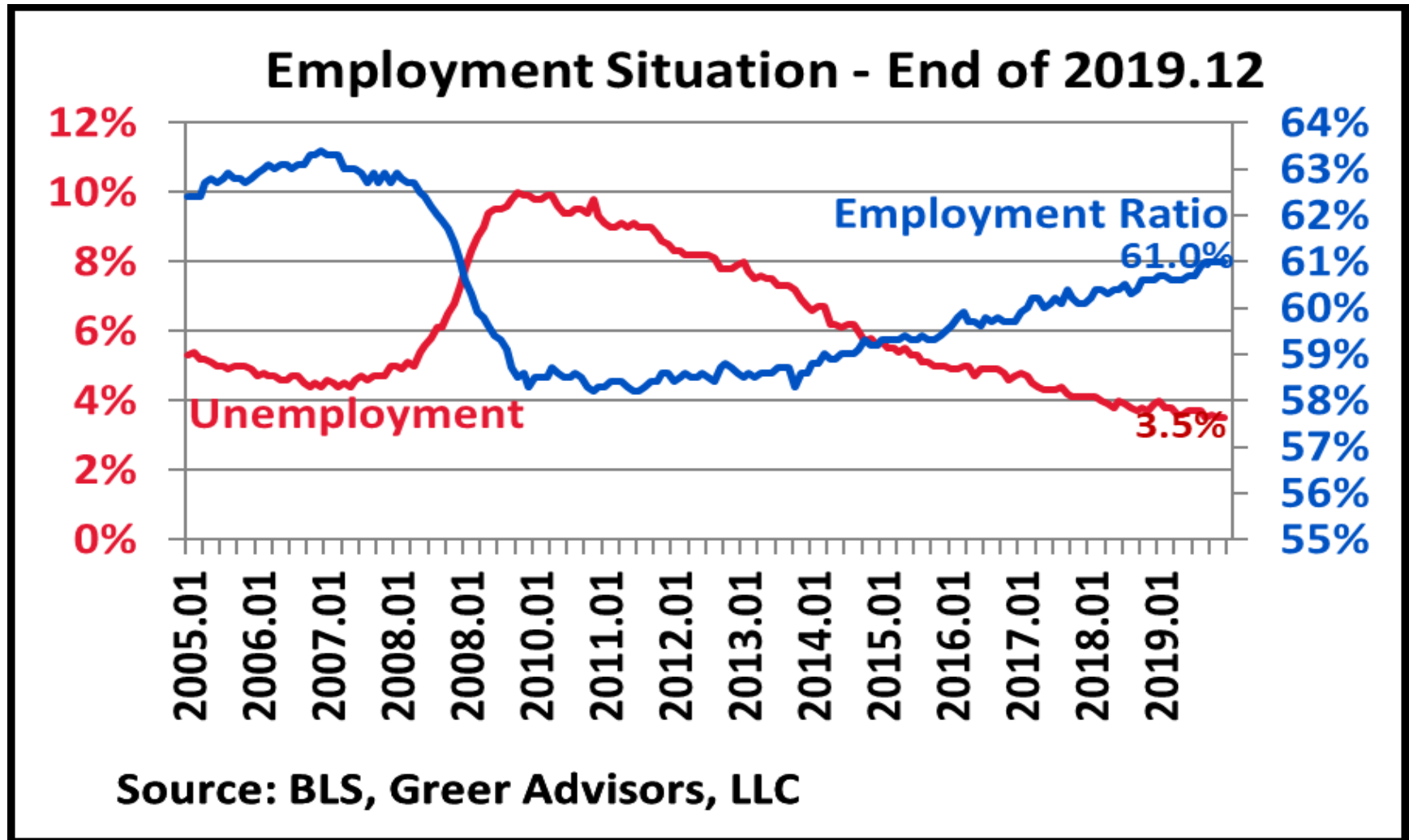
Source: Dept. of Treasury as of 1/28/20, Greer

Inflation



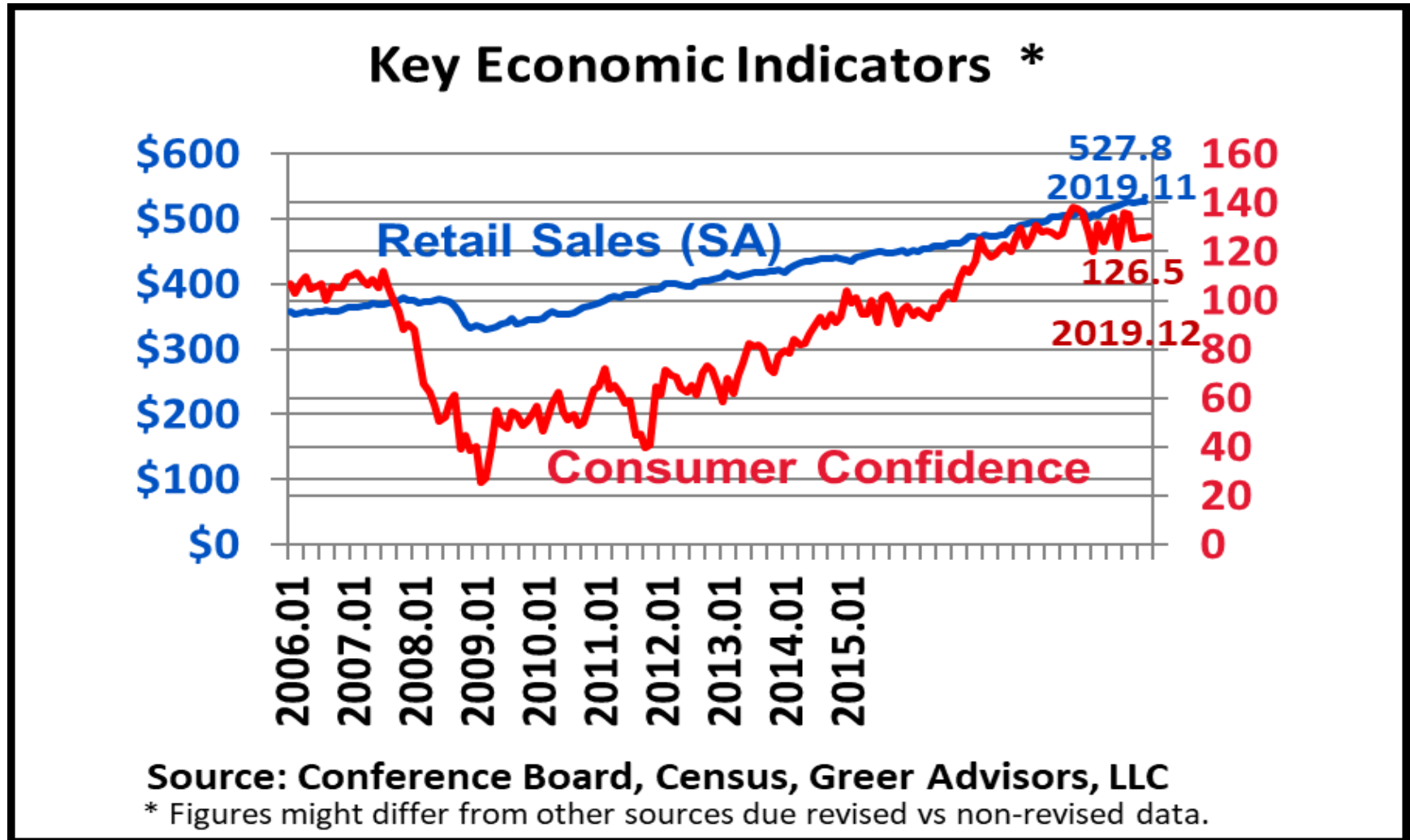
Note: When Interest Rates > GDP growth, this can go to negative aka deflation, as it did in the early 80's with 12-15% 10 Yrs

Key Economic Indicators

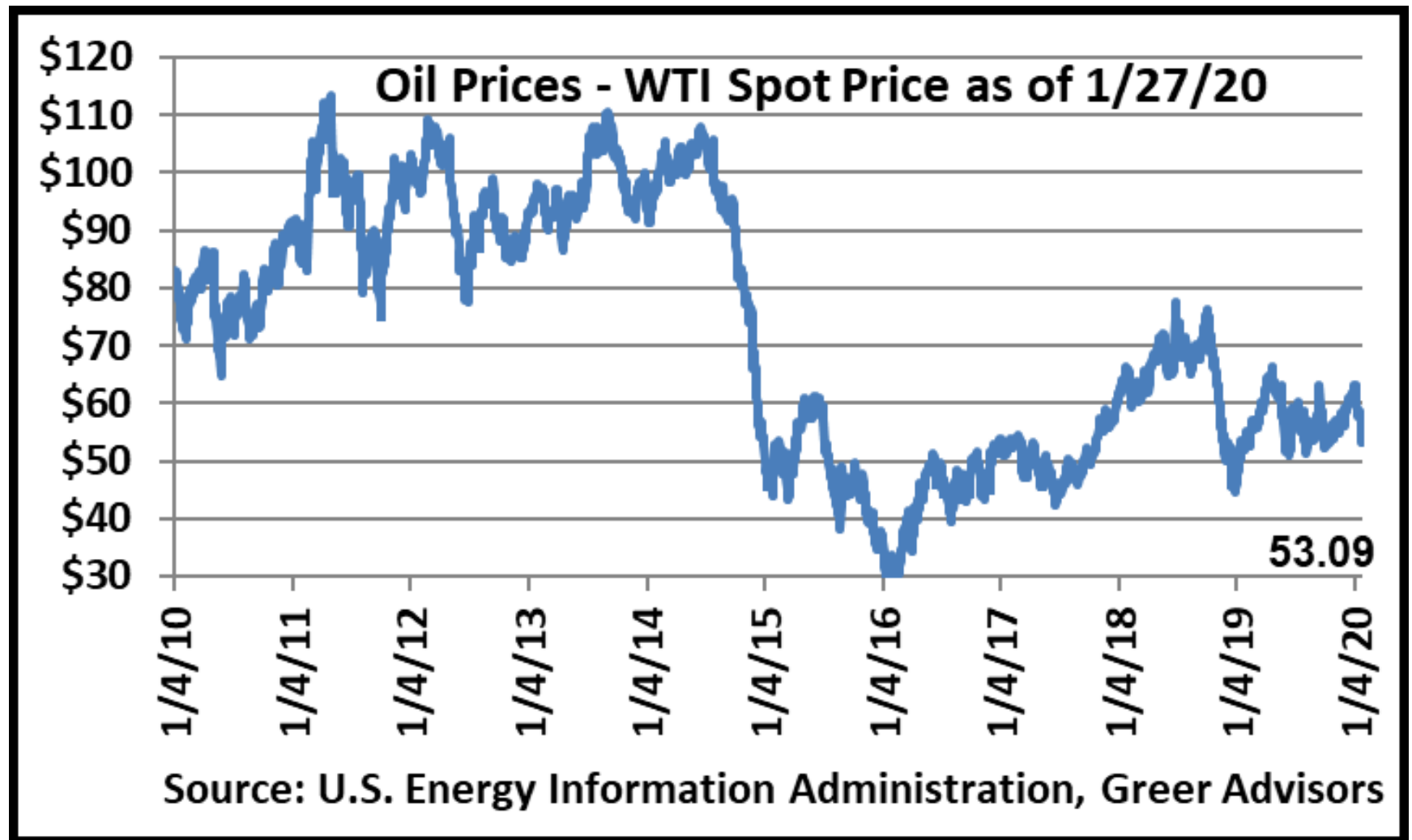


8 Employment Ratio, aka Employment Population Ratio =
Employed persons 16 years and over, divided by the population.

Key Economic Indicators



Oil Prices Remain Low, EIA

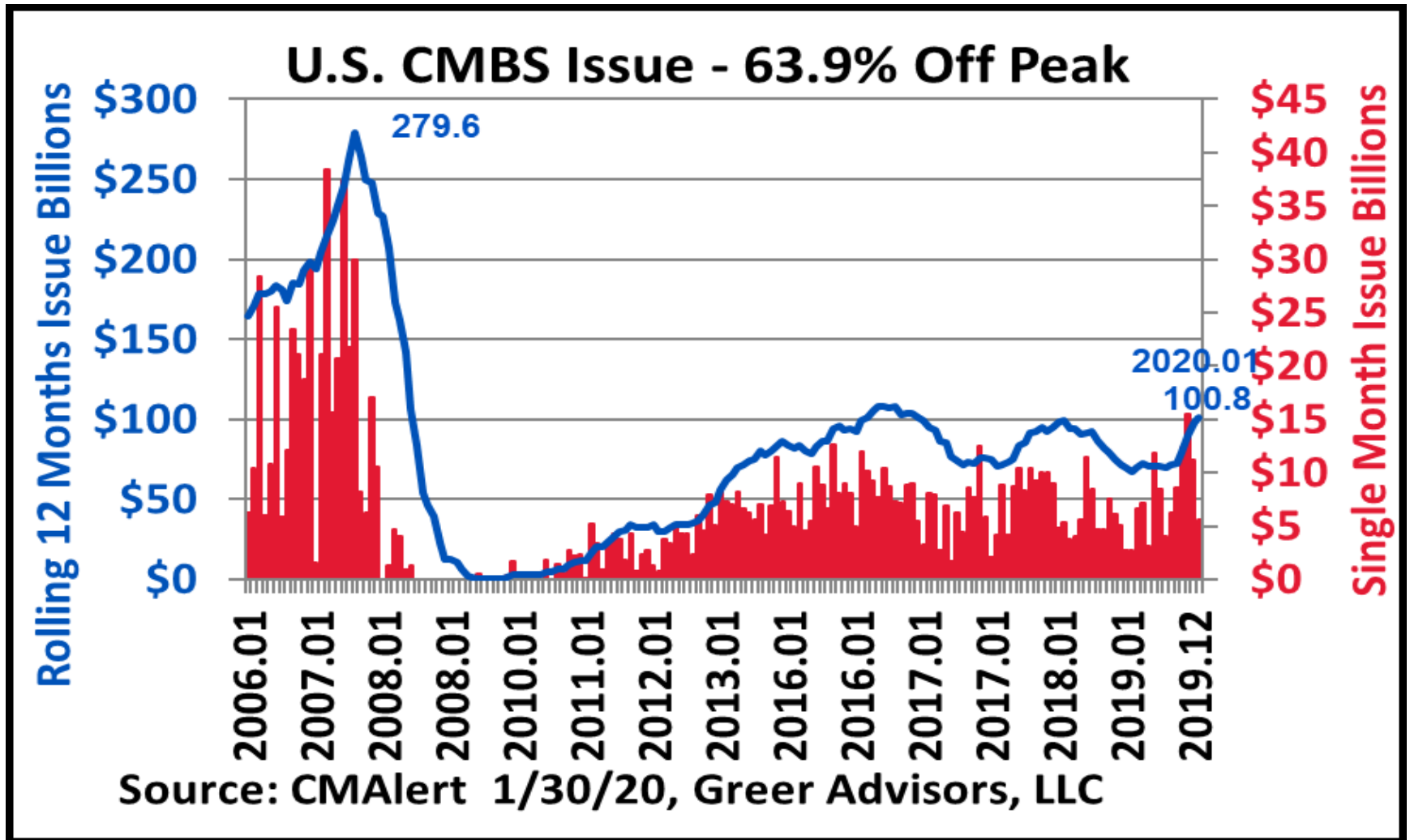


U.S. uses West Texas Intermediate Crude Oil, which is a much higher grade of crude than that used by many other countries.

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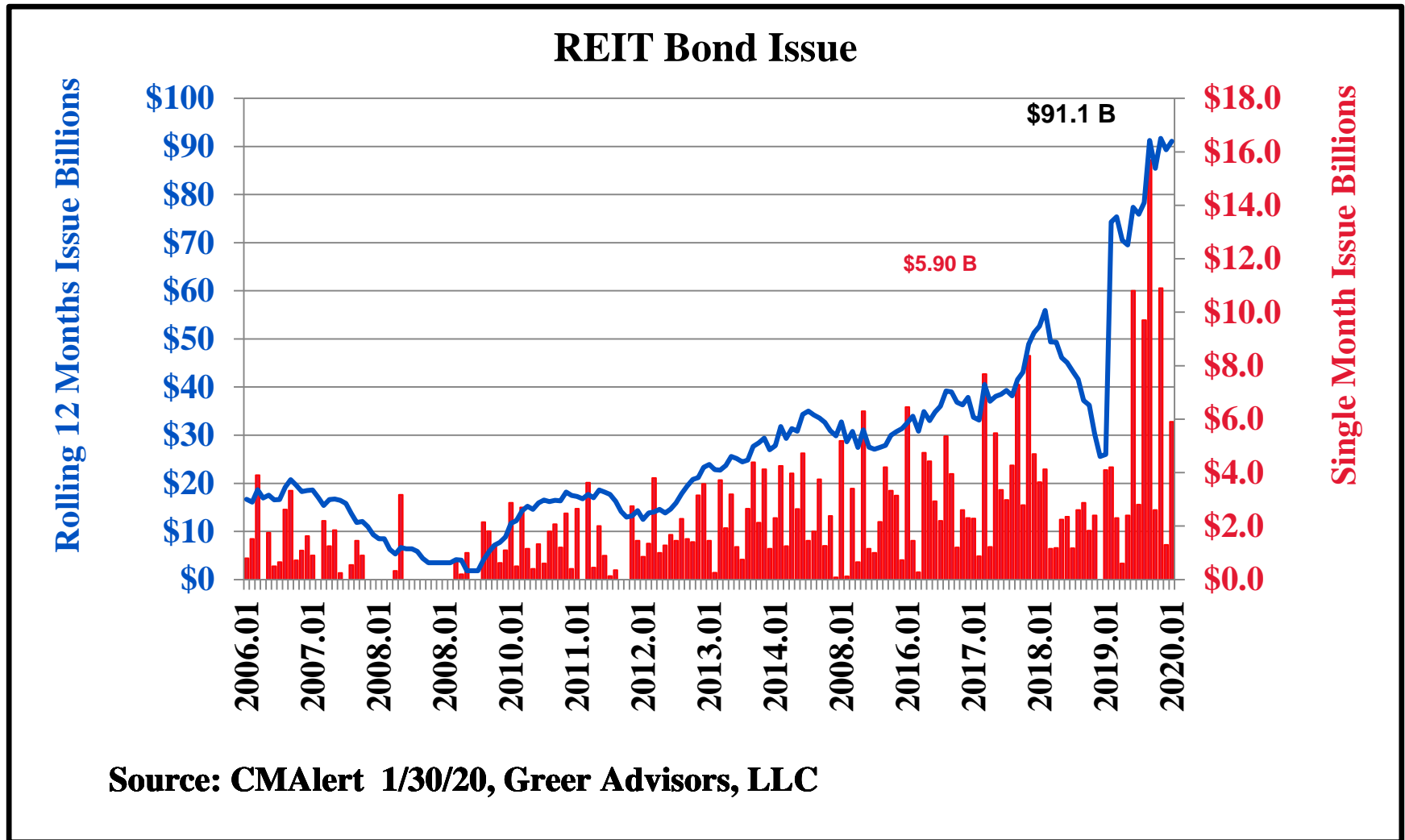
- Real Estate Capital Markets

CMBS Issuance - Rising from Floor

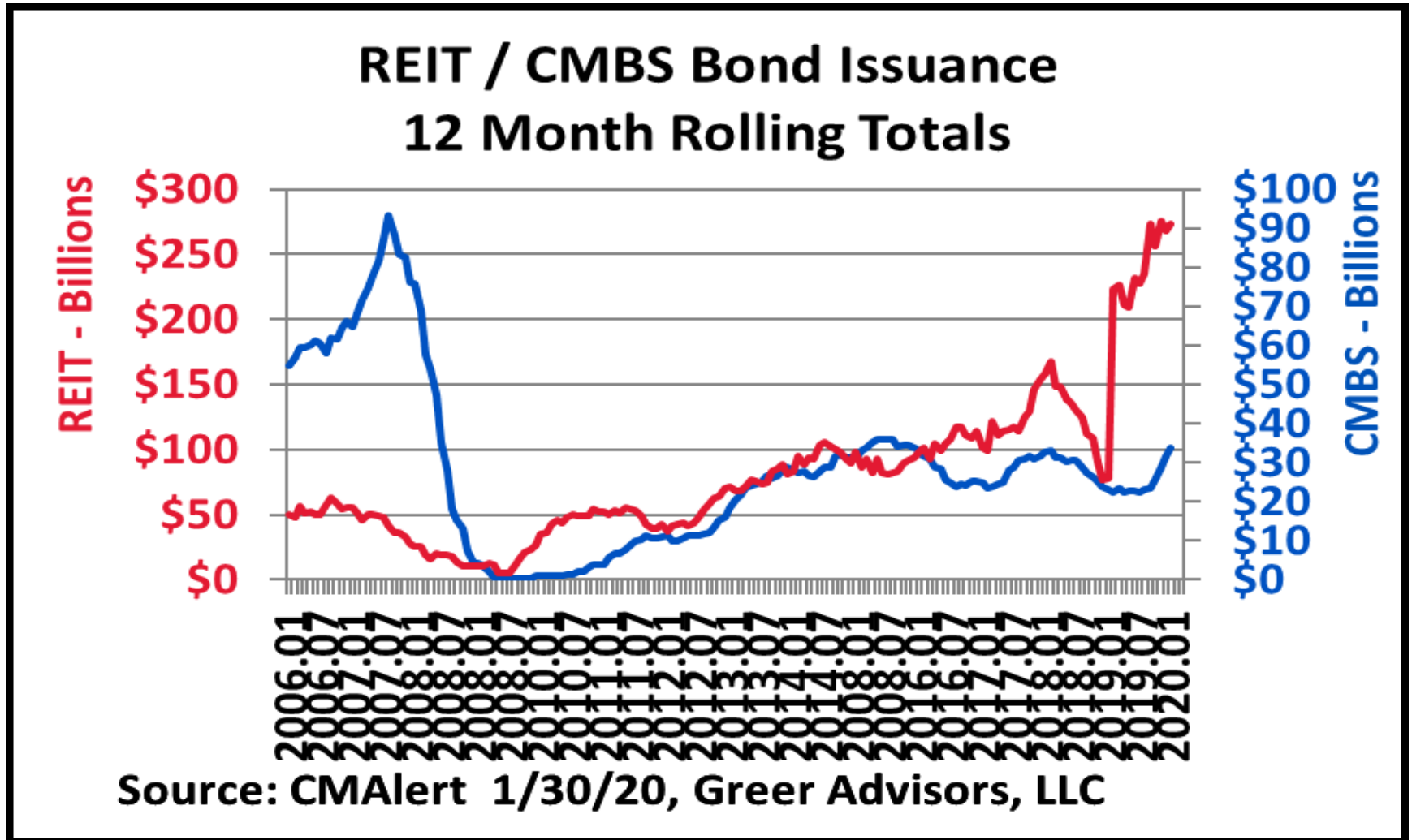


Methodology Change effective 2018.01

REIT Bond Issuance – Continued Growth

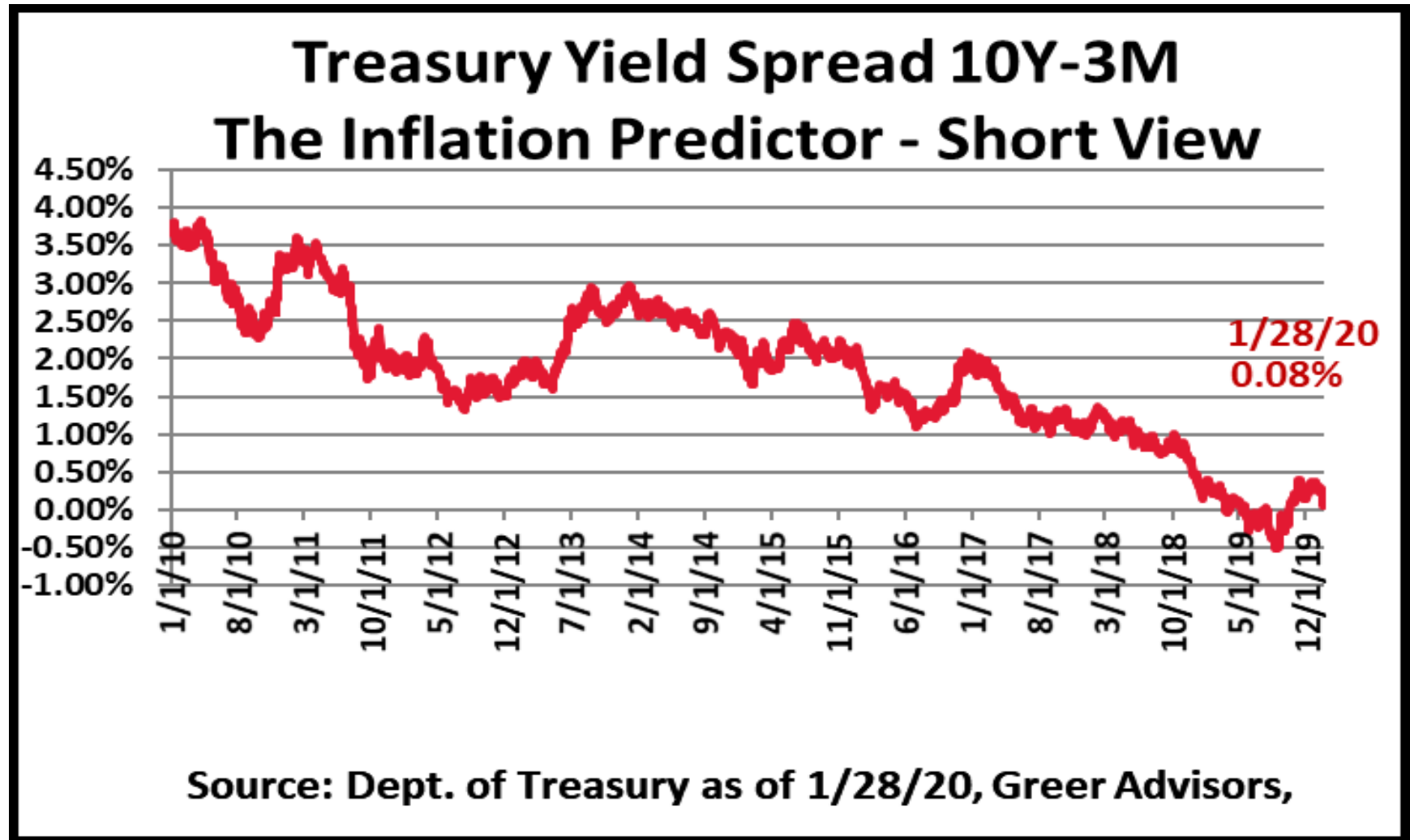


REIT Bond Issuance – Continued Growth



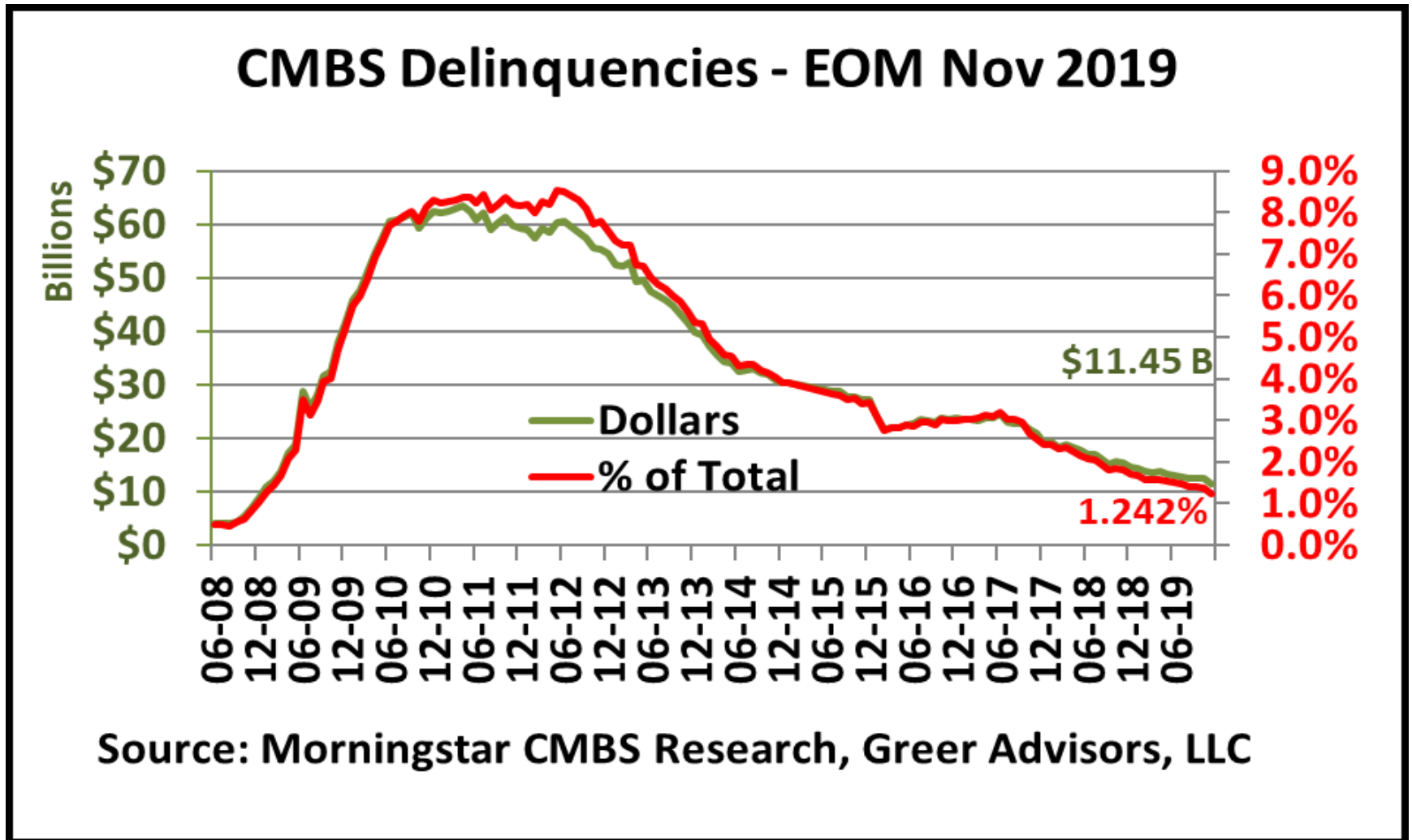
■ Risk Analysis

Inflation Risk – Politics Driving Down



Note: When Interest Rates > GDP growth, this can go to negative aka deflation, as it did in the early 80's with 12-15% 10 Yrs

CMBS Delinquencies – Rise, Fall & Stabilize



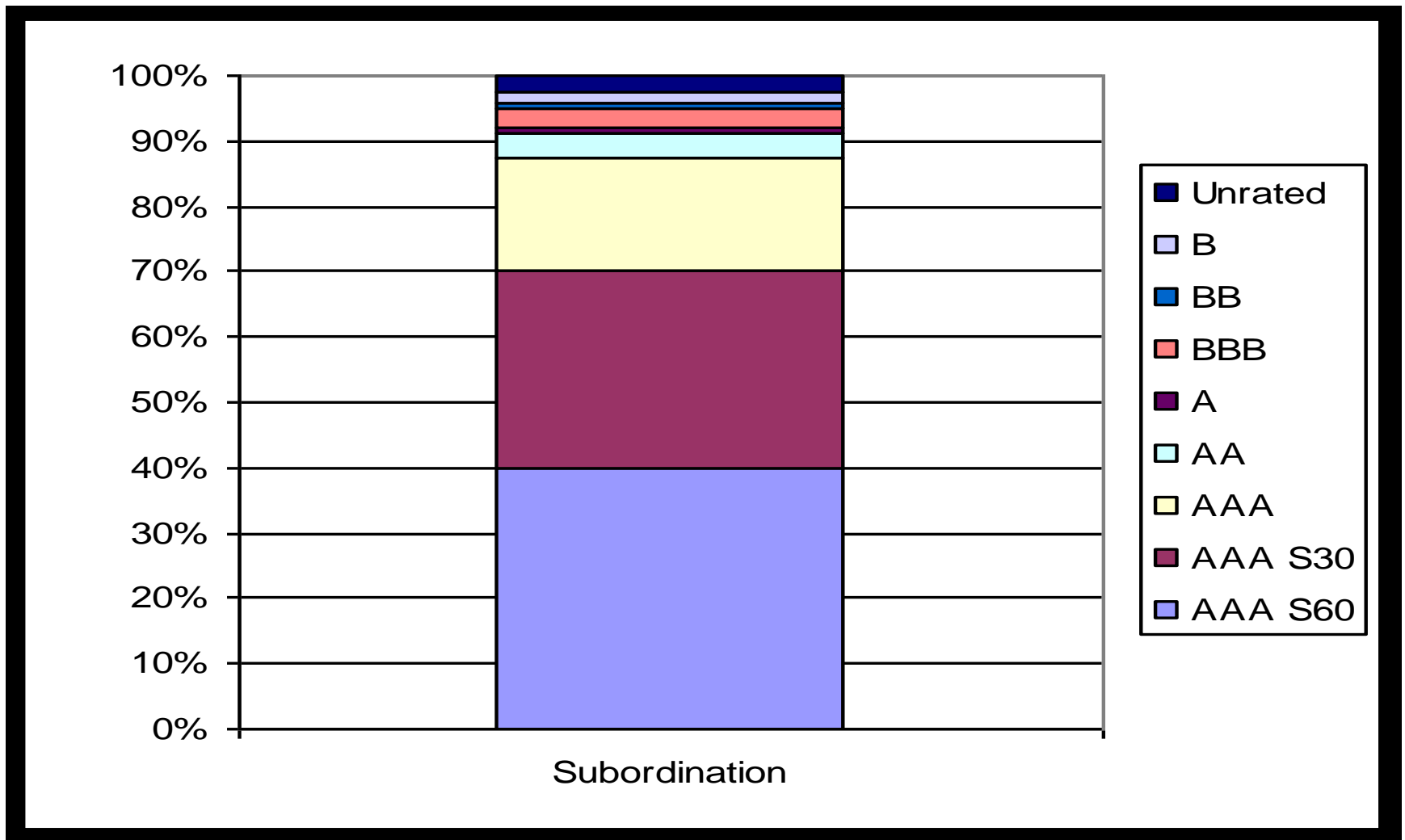
CMBS Delinquencies by Property Type

Trailing 12-Month Delinquency by Property Type												
Property Type	12/18	1/19	2/19	3/19	4/19	5/19	6/19	7/19	8/19	9/19	10/19	11/19
Healthcare	2.06	2.73	2.67	2.77	2.81	2.82	3.72	3.68	3.39	3.39	3.90	3.31
Hotel	1.39	1.42	1.41	1.53	1.52	1.39	1.38	1.38	1.33	1.38	1.41	1.44
Industrial	1.64	1.51	1.54	1.58	1.67	1.62	1.53	1.36	1.29	1.57	1.42	1.12
Multifamily	0.40	0.34	0.37	0.34	0.37	0.41	0.38	0.40	0.38	0.37	0.40	0.36
Office	3.22	3.36	3.00	2.93	2.93	2.93	2.88	2.71	2.66	2.59	2.47	1.94
Other	1.34	1.55	1.27	1.31	1.30	1.11	0.94	0.97	0.92	0.91	0.86	0.88
<u>Retail</u>	<u>5.02</u>	<u>4.84</u>	<u>4.54</u>	<u>4.47</u>	<u>4.51</u>	<u>4.30</u>	<u>4.43</u>	<u>4.37</u>	<u>4.06</u>	<u>4.02</u>	<u>3.96</u>	<u>3.80</u>
Spread	4.62	4.50	4.17	4.13	4.14	3.89	4.05	3.97	3.68	3.65	3.56	3.44
Source: Morningstar Credit Ratings, LLC, Greer Advisors, LLC												

CMBS Delinquencies by Year – Worst 10

Delinquency by Year of Issuance - Worst 10 Years				
Year	\$ Total Year	# Loans	% CMBS Univ.	% Delinq.
2007 Total	9,923,078,030	613	1.25	51.80
2006 Total	4,821,486,788	265	0.61	25.17
2005 Total	1,519,259,916	79	0.19	7.93
2008 Total	685,640,531	45	0.09	3.58
2014 Total	522,854,232	63	0.07	2.73
2013 Total	358,695,374	42	0.05	1.87
2015 Total	288,208,940	45	0.04	1.50
2012 Total	275,007,522	18	0.03	1.44
2004 Total	236,952,534	23	0.03	1.24
2016 Total	108,536,583	61	0.01	0.57
Top 10 Totals	18,739,720,450	1,254	2.37	97.83
Source: Morningstar Credit Ratings, LLC, Greer Advisors, LLC				

Bond Stack - Subordination



Note: The names of tranches have changed over years, and differ by rating agency. Markit's TM definition for CMBx is theirs.

Players in “Simple” CDS (Derivative)

Business Issues Bonds



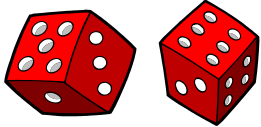
Bonds initially rated too poor for target market, e.g. “BB”

Rating Agency Rates Bonds

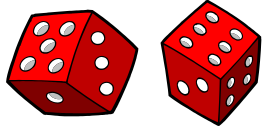


Gives loss forecast & enhancement amount required for “AA” rating

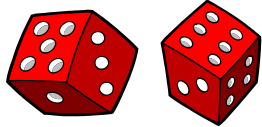
Side Bet 1



Side Bet 2



Side Bet 3

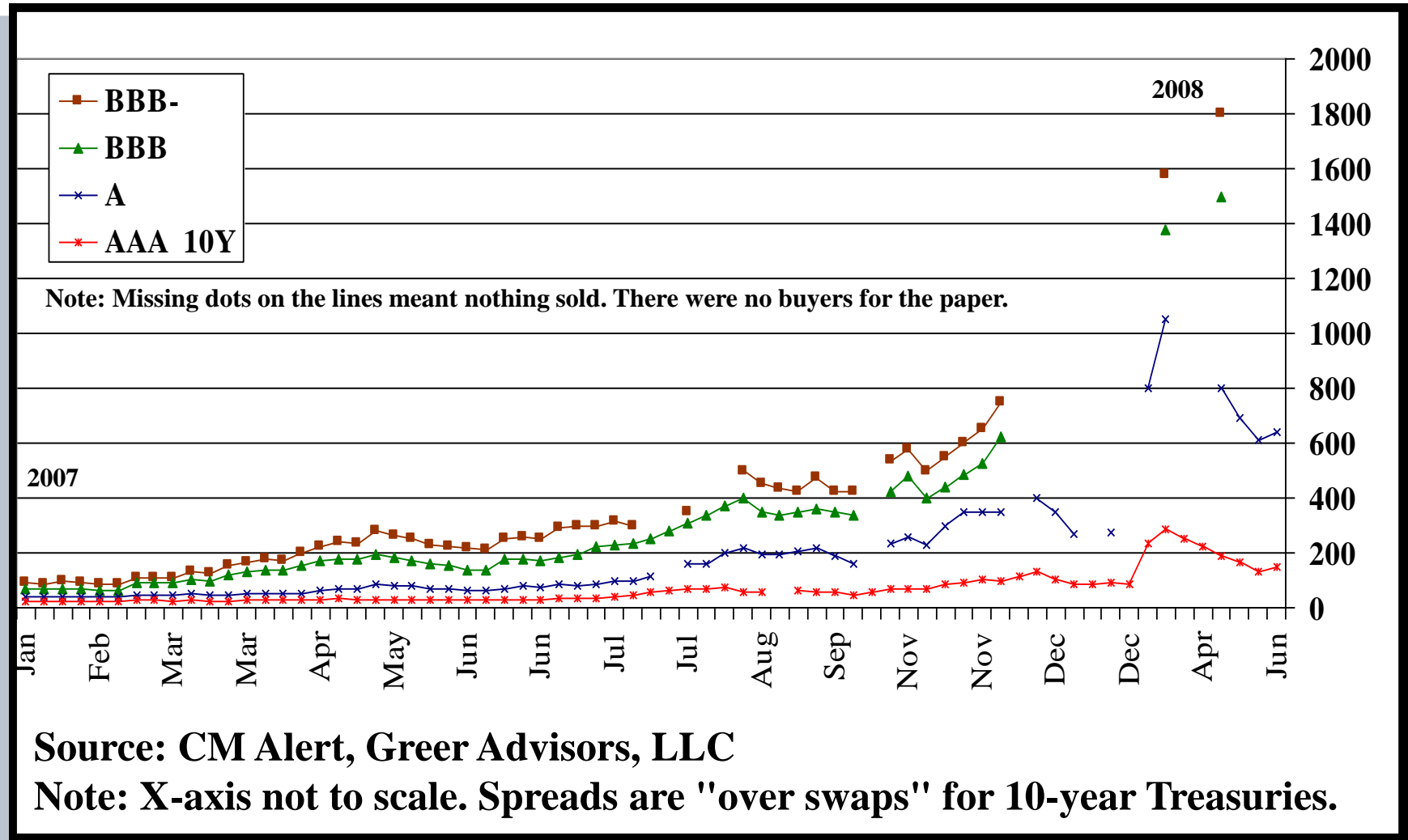


Investment Bank issues CDS (aka Credit Enhances Debt) as a Protection Seller then finds a Protection Buyer. (Counterparties)

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

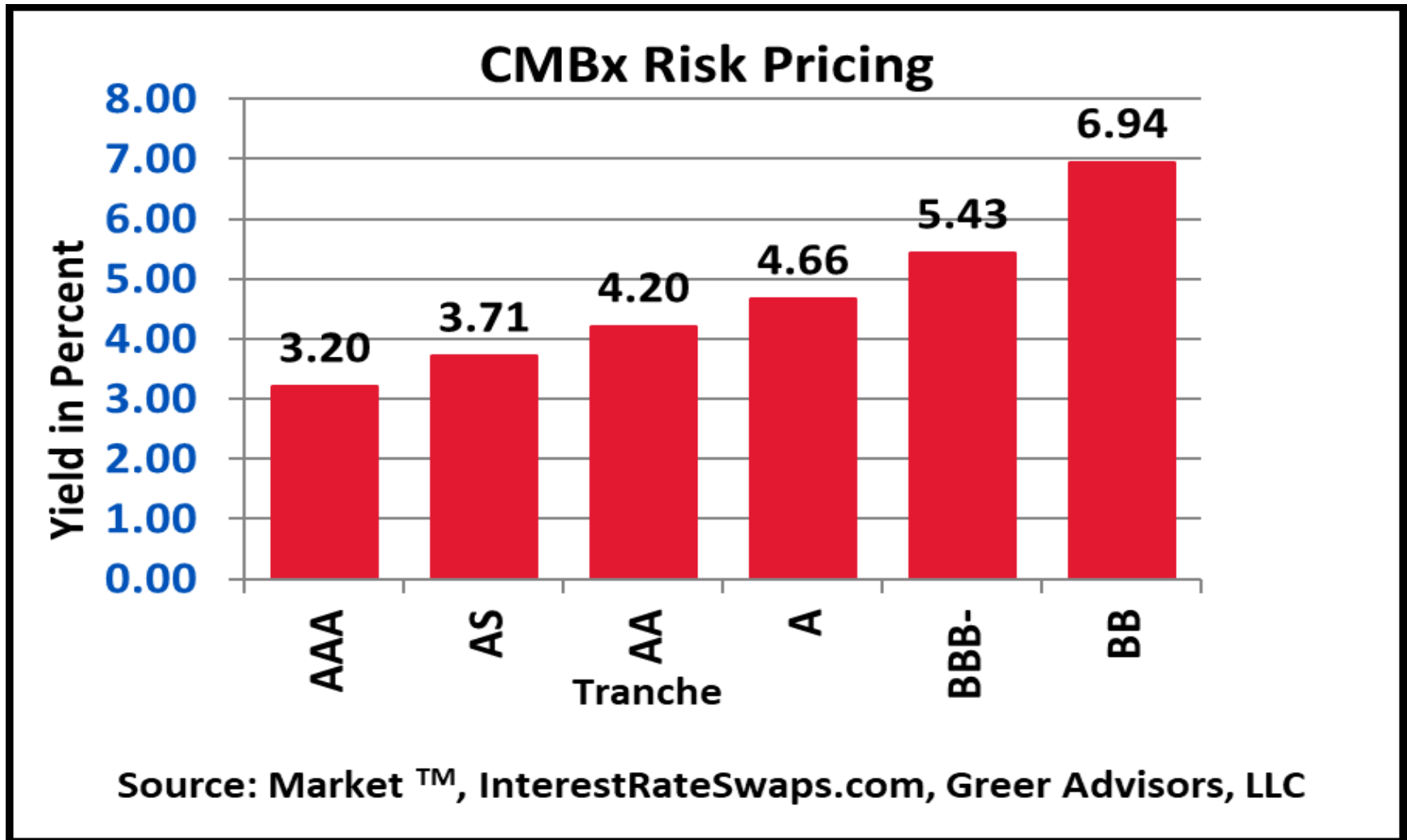
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CMBS Yield Spreads (Swap Spread, bps) Old



Note: This is what I sent throughout BofA in 2007-2009. A roughly 65 bp gap in 1/1/07 AAA vs BBB- became 1600 bp gap by 6/1/08

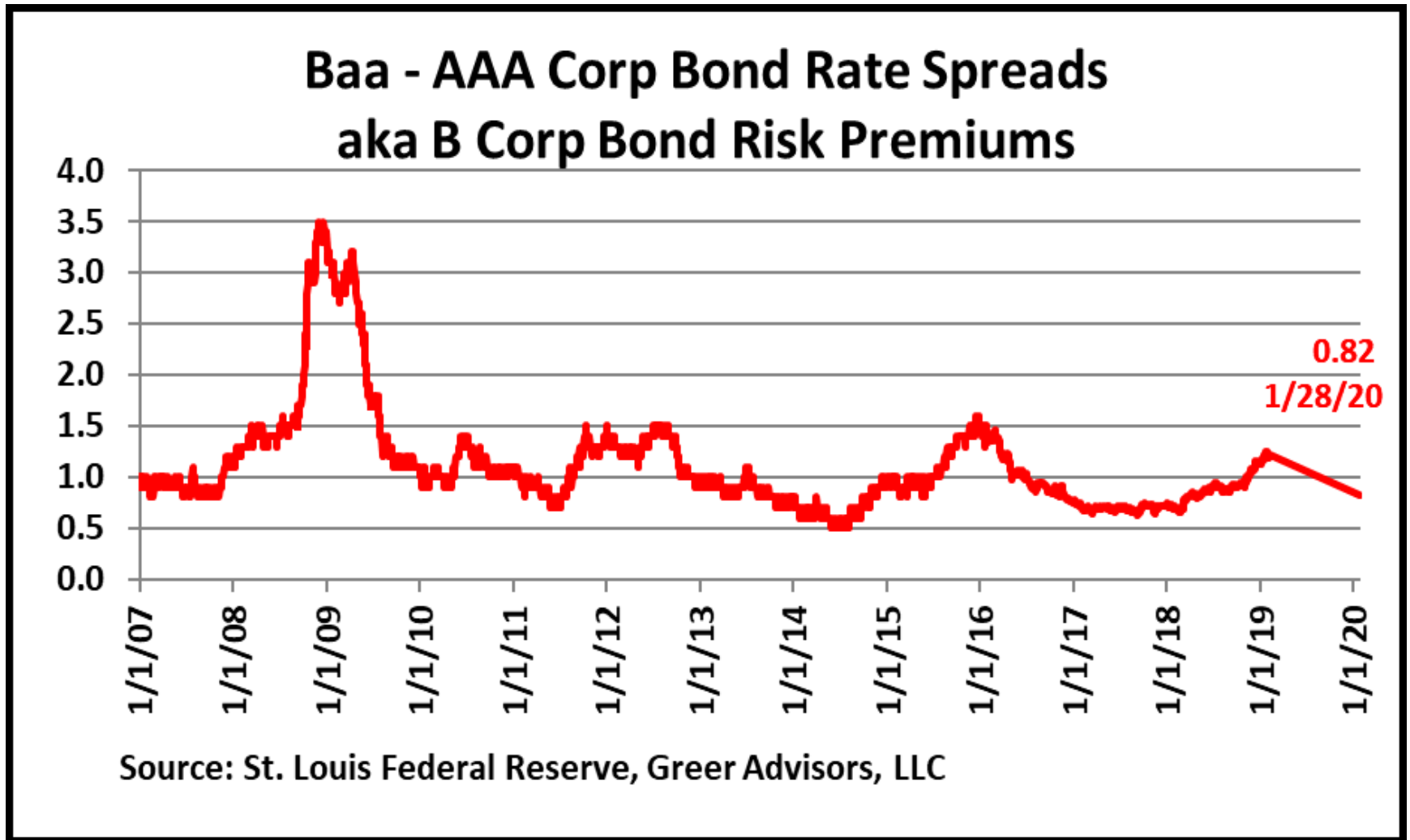
RISK PREMIUM – CMBx Derivative Pricing



23 Spread to Swap by Tranche as of 1/10/2019, Swap as of 1/9/2019.
CMBx Series 11. Each series is most-recent 25 bond issues.
Note: Older Data due to Changes in Provider Web Site.

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RISK PREMIUM – Bond World



■ Conclusions & Forecast

Conclusions and Forecast

- Political Noise is near All-Time Highs. Due to Global Uncertainty, U.S. Currency Remains in Favor Over All Others. Noise helps U.S. markets. Action (i.e. Missiles) could devastate all markets, i.e. Globally and U.S.
- Rent & Vacancy rates Generally Stabilized across the Country for most (definitely not all) markets and most property types. Discipline is Down = Pro Forma Valuation vs. Actual or Trailing seems Up.
- Continued Low Oil Prices are Keeping Interest Rates Low
- Fed Keeps Sending Inconsistent Signals Regarding Target Rate and Possible Changes. Much More Announcements than Normal, but with Nominal to Zero Changes. Target Rate was 0.25 to 0.50% Pre-Trump. Moved to 1.75% by early 2018. Bouncing 1.75% to 2.50% since Mar 2018.

Conclusions and Forecast - continued

- Tariff wars and Missile Threats are mostly politicking. Expect talks, retaliation tariffs, but no major changes. Politics as usual! Currency flight to safety = U.S.
- Low oil prices benefit the U.S., but hurt oil-producing countries, e.g. OPEC, Russia, Venezuela, etc. A drop in price increases event risk. An increase increases inflation and interest rates.
- REITS have done better than CMBS because REITS are perceived as a better class of investment, i.e. lower risk.
- Many Chinese investors (previously roughly 1/2 of US buyers) are on the Sidelines. Partially due to continued fears of China Currency Export Laws.
- Commercial R.E. Prices per SF or per Unit Remain High, but Sales Volume is Down.

Questions / Answers

A red and black racing bicycle is shown from a side profile, leaning against a white wall. The bike features a red frame with black accents, black wheels with red lightning bolt graphics, and a black saddle. A white water bottle is mounted on the handlebars. In the foreground, a black and red Giro helmet and a pair of red cycling shoes are placed on a light-colored tiled floor. The text "Greer Advisors, LLC" is overlaid on the image in a large, black, serif font, flanked by two horizontal lines.

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