
Financial Markets and Commercial Real Estate

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Appraisal Institute - Southern California Chapter

Goals of Presentation

- Market Drivers
- Real Estate Capital Markets
- Risk Indicators
- COVID-19 Impacts
- 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

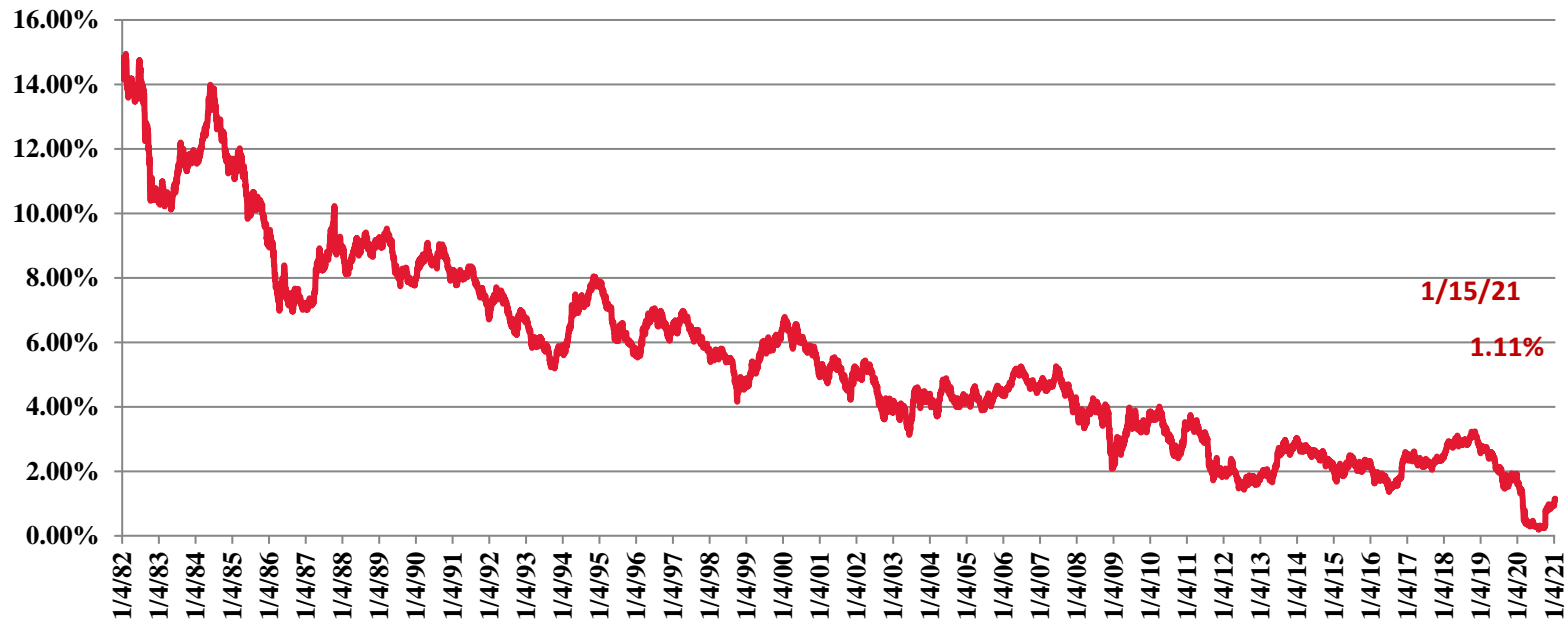
- Availability
- Rate and Term
- Leverage
- Recourse
- International Investment **

** 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

Interest Rates – Long Term View 1982+

10 Year Treasury Yields - Long View



Source: Dept. of Treasury as of 1/15/21, Greer Advisors, LLC

Interest Rates – Short Term View – 2010+

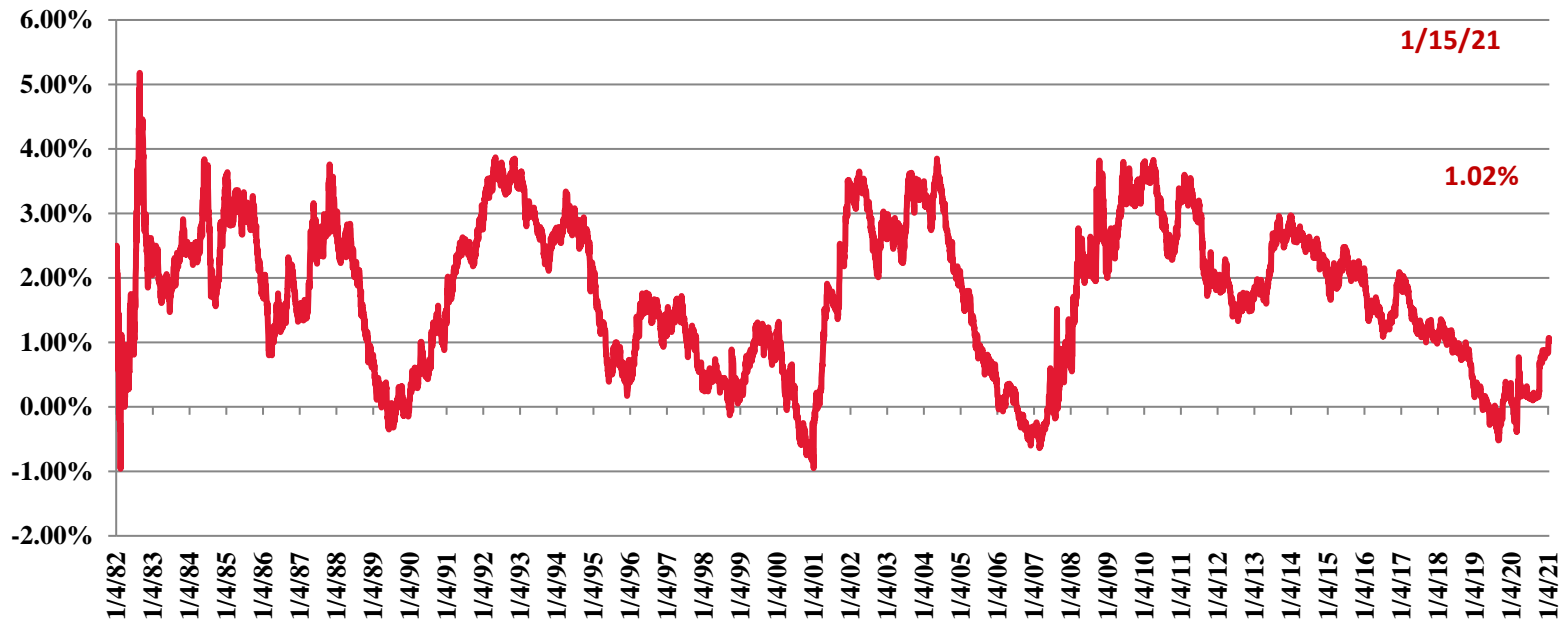
10 Year Treasury Yields - Short View



Source: Dept. of Treasury as of 1/15/21, Greer Advisors, LLC

Inflation

Treasury Yield Spread 10Y-3M
The Inflation Predictor - Long View



Source: Dept. of Treasury as of 1/15/21, Greer Advisors, LLC

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

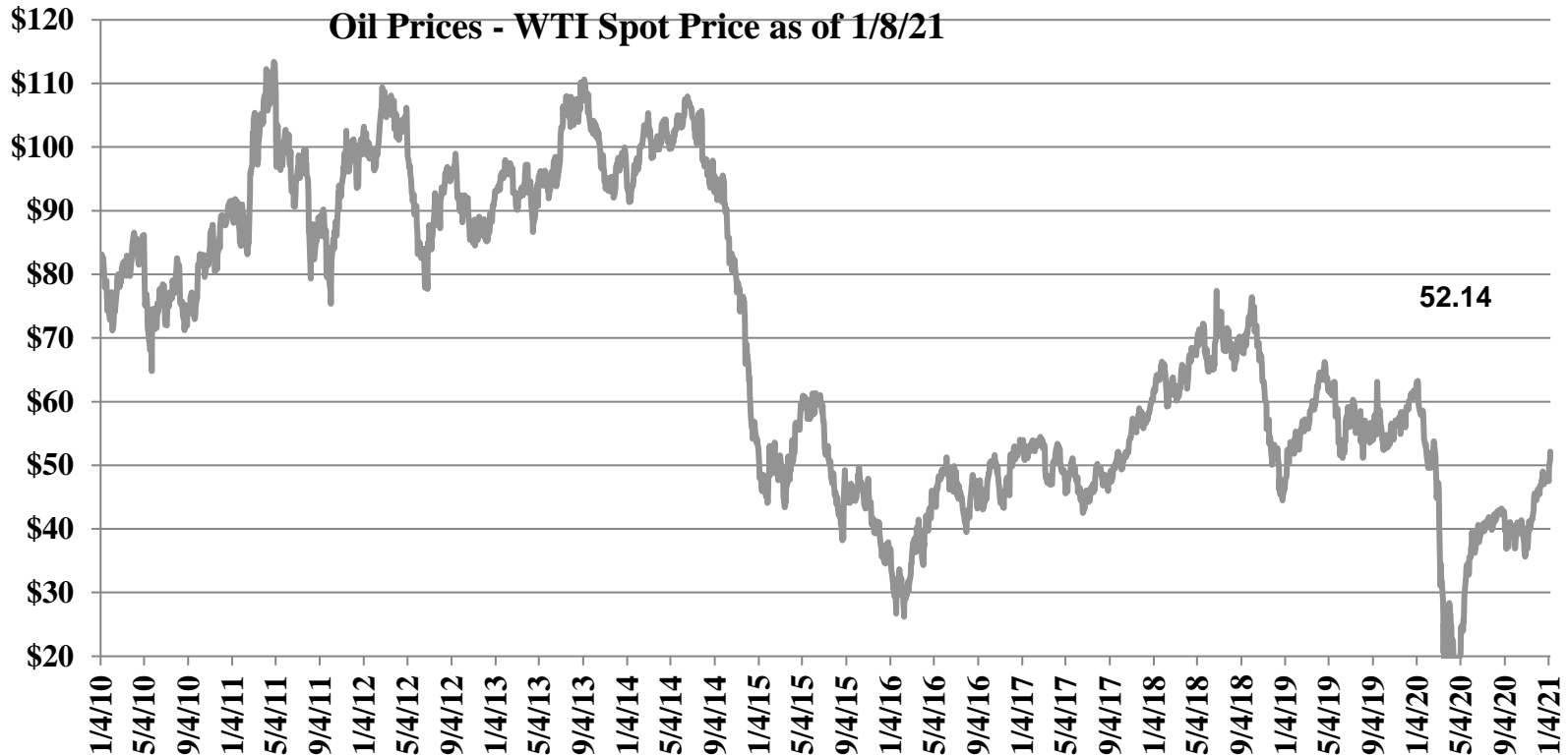
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Key Economic Indicators

Normally, Unemployment Rate and Employment Ratio go here.

The Unemployment numbers are no longer reliable.

Oil Prices Remain Low, EIA



Source: U.S. Energy Information Administration, Greer Advisors

9 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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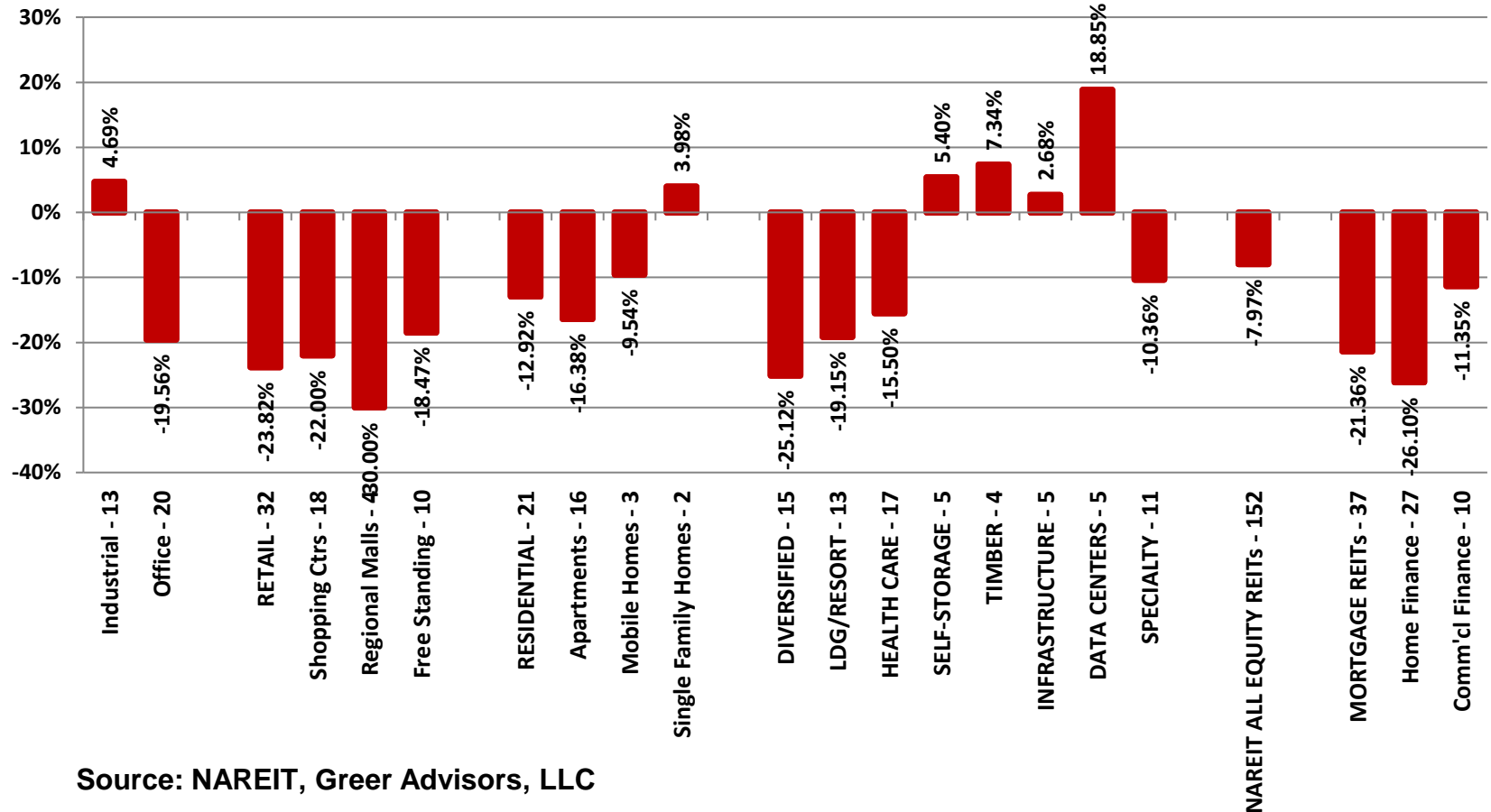
Key Conclusions

Government bond yields have fallen. Commercial interest rates are down, but originations have fallen tremendously. Yield spreads for Real Estate have increased.

■ Real Estate Capital Markets

REIT Values - #1 Most Important Slide

REIT Compound 1-Year Annual Total Return by Property Type as of 1/19/2021



REIT Bond Issuance – Continued Growth

CMAAlert was recently acquired by GreenStreet. Prior data set is no longer available.

REITs are perceived as Investment Grade.
Direct Real Estate is NOT.

REIT Bond Issue totaled \$63.6B through Sept. 30, marking **21% higher** than Jan-Sept. 2019.


CMBS Issuance

CMAAlert was recently acquired by GreenStreet. Prior data set is no longer available.

CMBS origination comments were not noted in the most-recent publication.

CMBS Delinquencies

MOST RECENT DATA NOTED ON MORNINGSTAR



Search by CUSIP, Deal ID, Company, or Ticker

Morningstar Credit Ratings, LLC is now a credit rating affiliate of DBRS, Inc. - Check here

Ratings / Surveillance Operational Risk Assessments

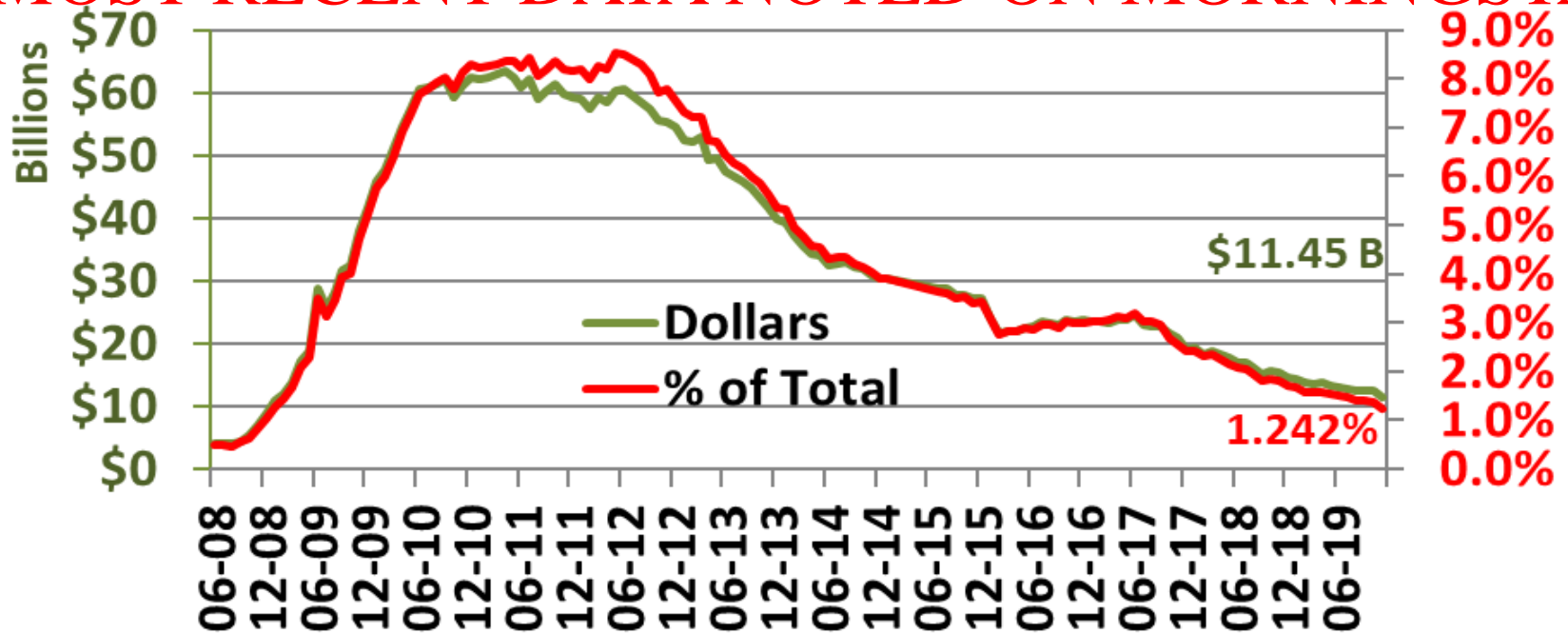
Latest Structured Finance Ratings

Date	Transaction Name	Type
05/07/2020	CFMT 2020-HB3	RMBS
05/01/2020	Mercer Field II CLO Ltd	ABS
05/01/2020	KKR CLO 21 Ltd	ABS
05/01/2020	Bain Capital Credit CLO 2018-2, Limited	ABS
05/01/2020	Ares XXXIR CLO Ltd	ABS
04/29/2020	RPIT 2020-1	RMBS
04/22/2020	CFMT 2020-HB2	RMBS
03/13/2020	Benefit Street Partners CLO XI, Ltd	ABS
03/12/2020	AMSR 2020-SFR1	RMBS
03/11/2020	CAF 2020-1	RMBS

All Structured Finance

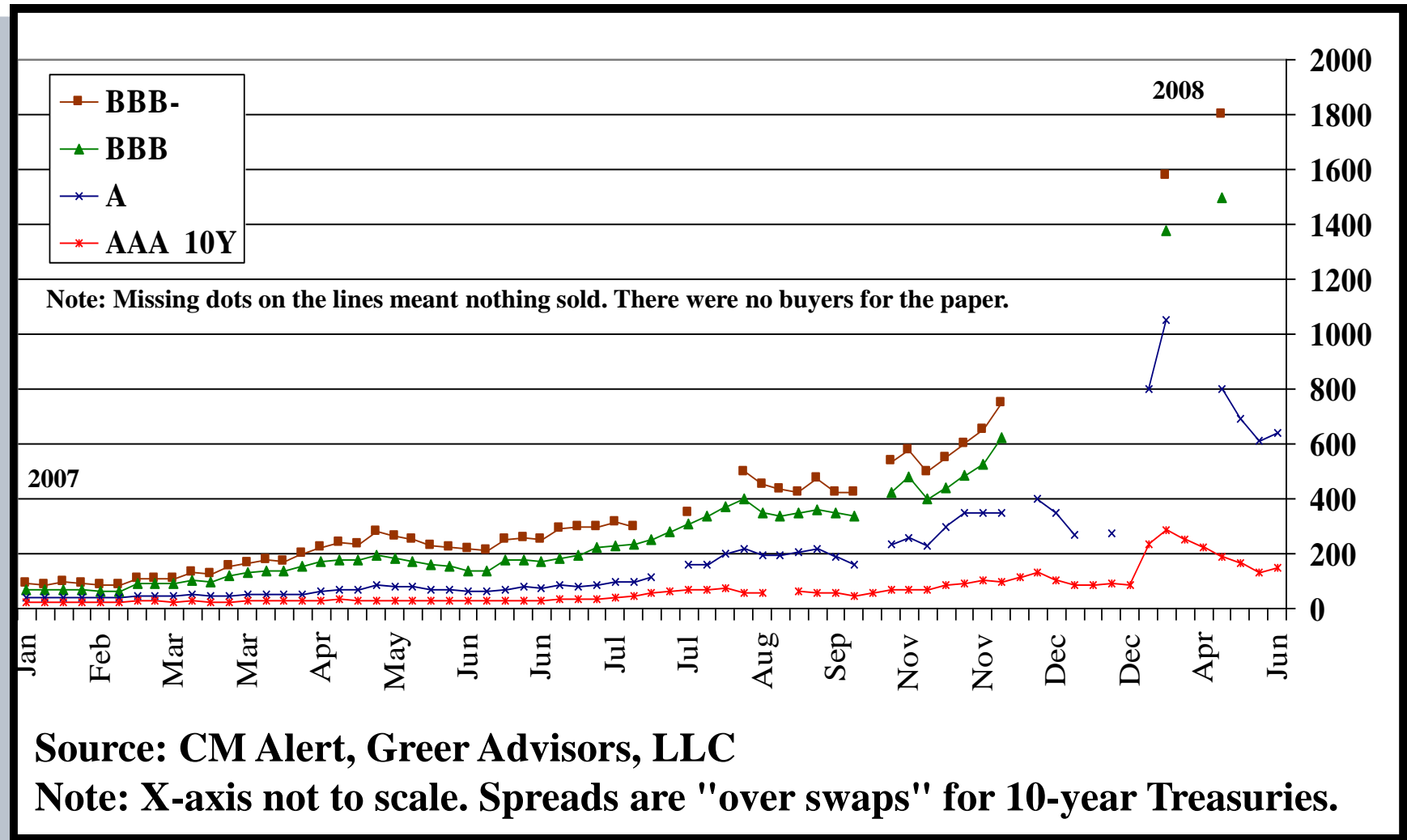
CMBS Delinquencies

CMBS Delinquencies - EOM Nov 2019
MOST RECENT DATA NOTED ON MORNINGSTAR



Source: Morningstar CMBS Research, Greer Advisors, LLC

CMBS Yield Spreads (Swap Spread, bps) Old



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

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■ Conclusions & Forecast

Conclusions and Forecast - Office

- Overall Office Demand (Square Footage) will Change. As 50 to 80 percent of office workers telecommute, SF per employee SF needs will rise due to social distancing, traffic flow and other COVID changes. The two issues will largely offset each other from a total SF perspective.
- Office Configuration will COMPLETELY change. Bullpens will be gone. Distancing will change everything. While square footage might not materially change, space will require reconfiguration; hence, value per SF will fall initially, then rebound as new space meets new configuration requirements.
- Design teams will need face to face interaction. Number crunchers will be sent to work from home.

Conclusions and Forecast - Industrial

- Logistics space will have increased demand as home delivery, online shopping, etc. become the new Norm.
- Manufacturing space will require reconfiguration based on human involvement and new distancing requirements.
- Warehousing will see nominal change.

Conclusions and Forecast – Overall CRE

- Changes in value will vary from 100+ percent loss in value to increased values. Government guaranteed Net-leased properties with significant term remaining on the lease will increase in value.
- Hotels, restaurants, ground-leases, etc. will face some of the largest declines.
- Averages no longer matter. Losses/gains will be largely based on property-type and specific characteristics of a specific property.

Conclusions and Forecast - Retail

- Retail is forever changed. On-line shopping, home delivery, etc. will survive after the pandemic. Stores with multiple delivery outlets (e.g. online, in person, contactless, curbside, etc) will survive the best. Those with In-Person as their only option will not.

Conclusions and Forecast - Restaurants

- Restaurants are forever changed. Home delivery, Uber Eats, chain-branded delivery, outdoor dining, etc. will survive after the pandemic. Expect at least 25 percent of all restaurants to fail. People learned how to cook at home. Uber and other delivery sources have filled needs. Many people will not return to restaurants. If they do, frequency will be down.
- Ground-leased restaurants will almost certainly die.

Conclusions and Forecast - Hotels

- At least 25 percent of Group Meeting / Conference hotel stays (aka Room Nights of Demand) will go away due to Zoom, Doxy, WebEx, and other meeting-based web platforms. Destination resorts (including gambling, skiing, etc.) might survive once attractions, etc. open up, but many do not have the cash (aka burn rate) to sustain losses for an extended period of time.
- Room night demand segmentation analysis is **IMPORTANT**, as is ADR segmentation. Leisure is less rate sensitive compared to Group Meeting or Conventions; hence, while total room nights might suffer, total revenue will not fall commensurately due to higher ADR for leisure.

Questions / Answers

A red and black racing bicycle is shown leaning against a light-colored wall. The bike has a red frame with black accents and 'ZIPP' branding on the wheels. A white water bottle is attached to the handlebars. In front of the bike, on the floor, are a black and red Giro helmet and a pair of red cycling shoes. The background is a plain, light-colored wall and floor.

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