STC 資產管理 MANAGEMENT

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COMMERCIAL REAL ESTATE MARKET UPDATES

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Uncertainty Weighs Heavily Over Industry's Fourth Quarter Outlook
商業地產第四季度的前景不明朗

(The Watch List)

Typically by October, the commercial real estate industry can see its way clearly through the end of the year, with a pretty good idea of what can be accomplished and how the rest of the year will play out. But these are not usual times. The loads of uncertainty and constantly shifting market conditions that characterize this fourth quarter are making it very difficult to muster any certainty over what the coming months will bring.

Just a few weeks ago, the markets were abuzz with the specter of a double-dip recession. But those worries have largely subsided and replaced by signs that the capital markets may finally be loosening up. Then there are the upcoming politically charged elections and the prospects of a shift in the regulatory and legislative environments.

Want more uncertainty? Consider that buyers and sellers still can't seem to narrow the gap in their pricing expectations. Couple that with banks and loan servicers collectively having no clear strategy for dealing with problem assets and pending maturities, and what you get is much indecision on the part of investors, lenders and tenants resulting in a lot of hand-wringing over both the near-term and long-term by CRE folk.

We queried a random sample of CoStar Group news readers about their outlooks and goals through the end of the year, asking what do they see that is standing in the way of accomplishing those goals, or, conversely, helping to achieve them.

While their answers range from the extremes of depressing to upbeat, in general, there seems to be a sense that the markets continue to have momentum away from the past two years, but there is still very little deal flow or jobs to support that momentum.

In addition, there may not be deal-flow going forward to support it either. Banks and loan servicers have been pushing their "problem loans" further out into the future and are only now getting around to taking them through the foreclosure process.

Meanwhile, there is an "astonishing, almost stupid" amount of money sitting around waiting to pick up deals. But sellers don't want to put bargain prices on their properties, according to one real estate consultant.

And as one broker told us: "it is the toughest market I have ever seen in 30 years. I've just in the last few days given up on all of my goals of completing any new transactions this quarter. (Instead,) I'm going to exercise a great deal more, concentrate on getting off of the computer, away from the cable news, and lower my stress. I'll get back to real estate brokerage in January when at least some of the dust of the political world will have settled some."

The comments we heard and received - and presented here - paint a very personal picture of the fourth quarter 2010 market uncertainties and hopes from those who are actively engaged in the market right now.

EARLY STAGE OF THE NEXT UPTURN
Tim Wang, Senior Vice President Research & Investment Strategy, ING Clarion, New York
ING Clarion believes that we are in the early stage of the next upturn cycle. Many people will likely be surprised by the strength of rebound in commercial real estate fundamentals and pricing. The global search for yield is already putting rapid downward pressure on the cap rates of institutional quality properties. It is possible that the total return of NCREIF Property Index for 2010 could exceed 10% for the year.

Despite the slow and uneven progress in the general economy, real estate capital markets have improved remarkably over the past year. Lenders, especially life insurers and foreign banks, have re-entered the commercial mortgage market, with increasing competition between lenders leading to lower mortgage rates and higher loan-to-value ratios for high quality assets.

While risks remain, including ongoing business and consumer deleveraging, rising distress, and weak fundamentals, investors are beginning to recognize the intrinsic value of real estate assets and adjust their market outlook accordingly.

EVEN LONG-NEGOTIATED DEALS CAN BE REJECTED OUT OF THE BLUE
Andrew R. Little, Principal, John B. Levy & Co., Richmond, VA
The fourth quarter is a time to push for closings that can increase the bonus pool. This year, we are working hard to get several deals closed by year end and, in my best guess, 2010 production will surpass last year, which surpassed 2008. However, the market still does not feel healthy.

Very few small- and mid-sized banks are able to put new money out and the big banks seem able, but entirely focused on the "bald-headed deal" (no hair). Life companies are also finding their footing and are more willing to stretch on dollars today versus the last 24 to 30 months. They are aggressively pricing solid deals in good markets and those life companies that are seeking yield are pushing LTV a little or going to secondary or tertiary markets.

While the market is getting more accustomed to the new levels of leverage and underwriting, the one area of business that continues to confound us is dealing with special servicers. We see absolutely no motivation to do anything at the special servicer level. A long negotiated deal with a special servicer (that seems fair to everyone involved) can meet rejection with no counter offer as soon as it is taken to "the guy down the hall that signs off on everything." Then you wait for another three months before anything more happens. Meanwhile, the property deteriorates, tenants go away, the sponsor's capital gets directed to another deal, etc.

SELLER EXPECTATIONS AT INFLATED LEVELS
Jason S. Perlroth, Principal, Grand Run Capital LLC, New York
While I never wish for things to sour, a general uptick may expand seller expectations beyond the already inflated levels. In general, the pricing spread between sellers and the market is still too wide, so coupled with a general uptick; the risk/reward profile may further deteriorate.

I'm cautiously optimistic for the fourth quarter. I believe that things will continue to trend positively, but we can expect a seasonality effect and possible negative implications from government forces.

Heading into the final quarter of 2010, my main goal is to close no less than one of the acquisitions currently under consideration and in negotiation. Outside of this, I'm hoping for deal flow to continue to increase, or at least certainly not decrease.

EXPECTED LOAN LOSS LEVELS COMING DOWN
Malay Bansal, Managing Director, NewOak Capital LLC, New York
Regulators have tried to avoid forcing fire-sales by giving banks and other institutions more flexibility to extend or modify loans. Their actions have been criticized by many as extend-and-pretend or delay-and-pray, but reality is that forced selling would have depressed prices even more. But if prices are bottoming out, giving more time to borrowers will reduce losses on loans. Expected loss levels have indeed come down for most people in last few months.

Problems in commercial real estate are not over. The volume of maturing CMBS and other CRE loans ramps up in 2011 and 2012. There is a value gap that the borrowers will have to deal with once loans mature or are at the end

of extension. Borrowers will have to put in additional capital, find partners, or lose the property. Next year, we will see more of these instances.

For CMBS investors, deal analysis will become more complicated. Deals with high delinquencies may be left with better collateral after weaker loans have defaulted than deals where weaker loans are yet to default. Careful loan-by-loan analysis will be necessary.

Multifamily sector will continue to do relatively better. Hospitality has suffered and is seeing a lot of interest from investors on good properties. Office sector will feel more pain as leases mature.

EXTRAORDINARILY ACTIVE FOR NON-PERFORMING LOAN SALES
Kenneth A. Cohen, Chairman and CEO, TMAC, San Francisco
We anticipate that the fourth quarter will be extraordinarily active for non-performing loan sales. In some ways, we see this market at similar to the residential home sales market. Only those sellers who conclude that they absolutely do not want to continue working the same number of non-performing loans in 2010 (and therefore accept the pricing levels of buyers who can perform) will be likely to complete transactions. We look to complete several large portfolio acquisitions as well as one off sales.

A WILLINGNESS TO DO LAND DEALS AGAIN
Richard C. MacDonough Jr., Vice President, The J Street Cos., Washington, DC
The market is better. With some predictability in home pricing having returned in a number of areas, financing arrangements for development are available. The spigots aren't open full bore, and they shouldn't be. Nevertheless, a lot of my clients are willing to underwrite, offer and close on deals again. That is particularly the case with multifamily deals and development sites in areas with solid schools and high barriers to entry. BRAC's importance cannot be understated in terms of the Maryland suburban markets, in particular.

Our goals in the fourth quarter are to generate 10 solid deal leads per month with each having a seven-figure minimum value, then getting at least one per month into substantive contract negotiations.
Consequently, our land sales team has begun an energetic expansion into all suburban markets in Maryland and Northern Virginia. We also are in the process of hiring highly experienced professionals, and we have committed to doubling our land sales opportunities and downstream relevant leasing engagements.

WAITING ON THE HOUSING MARKET
John L. Morrissey, Senior Commercial Associate, MGR Real Estate, Upland, CA
I think [the fourth quarter] looks better but not good by any means. Homebuilders want to build but construction financing is hard to find at best. Investors have cash on the sidelines but want unreasonably low prices to make a purchase. SBA owner occupied deals are getting done. I don't see things getting better until we get new housing going, which is where we get our jobs back. Then everything else will come back.

EVERY SINGLE DEAL HAS SOMETHING SOMEBODY DOESN'T LIKE
Marty Busekrus, Senior Associate - Investment Sales, NAI Rauch Weaver Norfleet Kurtz & Co., Fort Lauderdale, FL

Goals for the end of the year are just survival in the investment sales brokerage business. Every single deal has something about it that buyers and their borrowers don't like. The trophy assets are moving again, but on the deals under $20 million and into the class B/C category there is almost no movement.
From the brokerage standpoint it's a dangerous game because you have to hitch your wagon to the right horse if you want to win any deals. I've found there's still dumb money out there paying prices that just seem too high for 99% of the buyers I deal with.

What's helping is that at least transaction volume is increasing. It's not great, but there have at least been a few deals that we can work comps off of.

SLOW BUT VERY MEDIOCRE IMPROVEMENT IN MULTIFAMILY
Neil K. Sethi, Executive Vice President, Landis Properties, Worthington, OH
We are just starting to see some recovery these past few months with our [multifamily] occupancies, etc. So hopefully we will be able to get some traction on increasing our revenues to bring our budgets into balance. It is still a tough environment. As of now the fourth quarter is looking pretty decent at our B-Class properties in more favorable areas, but our B-Class property in a less favorable area continues to struggle.

TIMING, TIMING, TIMING
Adelaide Polsinelli, Associate Vice President Investments, Marcus & Millichap, New York
They used to say that the three main rules of investing in real estate were: location location location. Today it's more like: timing timing timing. You can buy the best location but if you bought it at the wrong time, you can be left with a mess - just ask the big name game players of the past three years.

I have been working harder than I can remember in my entire 26 years in this business. I am happy to say that I am reaping the rewards and closing many of the deals I have been working on. I would be satisfied if all the deals I have in contract close with minimal problems. I currently have over $100 million in expected closings this year.

Any additional game-changing regulations, or unexpected tragedies, could upset the market and cause lenders, and investors to re-evaluate. Market conditions have forced me to be more disciplined and patient.

FOCUS ON WHAT IS SELLING
Joel Owens, Broker, All World Realty, Canton, GA
This year has been great for the Atlanta, GA, investor market. Our main emphasis has been on distress and income producing properties. Land is not moving unless it is selling for a liquidation value. Many feel apartments will recover first and that is where most purchase activity is happening. Retail in our markets has a long way to go to recover.

Investors are active in the market and buying up deals where before the bid-ask gap was too broad.
I have met my goals and 2011 will be the best yet. You have to focus on what is selling in the market and go over those properties for listings or purchases with your buyers.

THE ROBIN HOOD THREAT
Steve Tutt, Commercial Realtor, KW Commercial, Fremont, CA
Market activity for the rest of the year rests largely on the outcome of the election,
The confidence of the investors I am working with and the direction they take depends in great part on the election and the creation of sustainable recovery. We won't see sustainable recovery until unemployment numbers show substantial change. We won't see this until economic policy changes direction and the Robin Hood threat is eliminated.

I am exceeding my goals for the year, but then anything is better than nothing. I have learned that a market always exists and one's success in the market of the moment depends upon one's ability to adapt and to make one's clientele aware of current market conditions and opportunities, as well as the short- and long-term prognosis.

I started the year looking for long term opportunities for my clients. During the second and especially third quarters, some focus has been transferred to short-term opportunities. Going into the third quarter I have abandoned, at least temporarily, short-term objectives, waiting on the outcome of the election to dictate direction.

POSITIONING FOR 2011
Charles Swope, Broker of Record & Chairman, Swope Lees Commercial Real Estate, Westchester, PA
We have a good pipeline going into the fourth quarter - some of that activity will translate into deals in the first quarter of 2011. Our goals for end of the year are to position for 2011.

TO PARAPHRASE ROCKEFELLER…
Alex J. Beachum, Income Property Organization, Bloomfield Hills, MI
Like almost everybody else, our firm has been forced to continually adapt and refine our business model since the downturn really solidified after Lehman tanked in the fourth quarter of 2008. It has been a constant process of assessing and reassessing trends in the disposition of distressed assets, and learning to identify the various protocols and strategies lenders-from portfolio lenders, to CMBS special servicers, to GSE's- will utilize when attempting to resolve a default.

To paraphrase Rockefeller, "family fortunes are made in depressions", and implicit in that statement is the acknowledgement that any significant downturn affords savvy investors and businesses ample opportunity to capitalize. Which is precisely what our firm has aspired to do and the results have become more encouraging as each quarter passes.

FINANCING FOR DEALS LOOSENING
David Schoenemann, Broker, CRES Inc., Austin, TX
I think the year will end up somewhat gray, not dark or bright light, but gray. I say this because I think the lenders here in my trade area have started to loosen up and are at least talking about and structuring deals that make sense. This is a change from the first quarter were they weren't even talking.

I have three deals that were scheduled to close in the third quarter, they required financing to move forward. I have one deal closed and the other deals real close and will close in the fourth quarter. They have been a result of the loosening of financing for commercial deals. All of the financing has been done with local banks that know the landscape here in Austin, Texas.

SOME PROMISING SIGNS IN CENTRAL FLORIDA
Nicholas E. Ledvora, Managing Director, Equity Investment Services, Orlando, FL
2010 has been a rollercoaster for commercial real estate in general. Our leasing and management team has grown.

There has been a need to find aggressive brokers to fill holes and stabilize assets. Rents in the Central Florida market have fallen anywhere from 20-40% based on class of asset and specific market. It looks like vacancy has stabilized at plus or minus 12% based on our research.

Our fourth quarter looks very strong. We have a dedicated real property tax appeal team that filed approximately 500 appeals across Florida and sales are finally picking up. Banks are pretty close to "marking to market" and deal flow looks promising.

We expect to close 25 to 30 leases in the fourth quarter. Based on our activity reviews and past performance this looks good. Landlords are also realizing that they need tenants and income to "float" debt and cash flow. They are realizing that this recession is going to be a longer dip than originally expected.

LEASING RETURNING; ACQUISITIONS TO RETURN 2011-'14
Aasif M. Bade, President, Ambrose Property Group, Indianapolis, IN
The fourth quarter of 2010 will see increased sale activity prompted by tax change worries and a tiny easing of credit. Banks have clearly increased their interest in dumping REO assets and we only expect that to become more prevalent during the fourth quarter.

Leasing activity seems at the strongest of the year, and most of this activity will result in completed first and second quarter 2011 deals.

We've become more focused on 2011-2014 acquisitions vs. 2010 acquisitions. The market remains unstable, assets are priced too high, and for trophy deals, there is 2003-2005 "stupid money" circling. Foreign investors are troubled by the substantial bad news that poured out during the early part of third quarter 2010, and seem much less sensitive to the good news that has been hearty during the last 30 days.

MORE ASSETS COMING TO MARKET IN DENVER

Richard Egitto, Senior Managing Director, Crimson Services LLC, Littleton, CO

Leasing activity has been strong this year compared to last year (not much to compare it to I realize) but nonetheless it has been consistent throughout the year in Class A office space here in Denver.

Clearly from an investment sales point of view, the market is seeing more assets come to market as we move to the fourth quarter and financing is easing for better quality, better located product (it is still not readily available, but it is easing). Early this year it seemed the only assets that were trading were core properties in core (Top 5) U.S. office markets and a foreclosure or two here and there.

As we moved into the second and third quarters it has become clear that the pent up money on the sidelines is now looking at a wider range of assets and for lower returns, and the banks are now starting to proactively foreclose on assets -- thus I believe we will see greater deal flow as we move into 2011.

GREATER FOOL THEORY BACK IN PLAY?

Jim Gulley, Principal, James Gulley Ltd., Baltimore, MD

The one trend that seems to be coming back is the "value-add" play. A bellwether here in Baltimore will be the Loch Raven Village deal. Foreclosed upon a month ago by The Principal Financial Group, this 500-unit plus, Class C (60 years old), asset traded in 2006 for $32 million plus. Principal bought it at auction for $18.6 million. I produced one of three offers in the $18.6 million to $20 million range, which Principal rejected. It is now being marketed as a "value-add" play. What's interesting is that the buyer in 2006 bought it as a value-add deal and was unable to create any value. So whether the Greater Fool theory is back in play remains to be seen.

TENANTS KICKING THE TIRES IN ATLANTA

Leigh C. Bower, Vice President, NAI Brannen Goddard, Atlanta

The last quarter of the year may pick up slightly because companies with leases expiring in early 2011 will be focused on making their decisions before year end so they can adequately budget for next year. Oftentimes these tenants will be "kicking the tires" to compare their current landlords' offer on a renewal against a relocation.

And then there are those tenants wanting to "upgrade their image" via taking advantage of the "tenants' market" and move to a nicer building.

The entire 2010 year has been an extremely slow one. My goals were set low for this year to adjust to the low demand and struggling economy.

In landlord representation, market conditions have indeed prompted changes or adjustments of objectives throughout the year and will be on-going based on the numbers of owners of commercial real estate with assets in distress. With few exceptions, owners of real estate are in dire need of complete focus on their assets in order to meet debt obligations, stabilize their assets, adequately compete, retain tenants or otherwise raise occupancy levels to generate rental revenue.

CONTINUED DOWNWARD PRESSURE

Fred Harllee, Review Appraiser for Special Servicer, Ponte Vedra, FL

For the fourth quarter I see continued downward price pressure in any properties other than Class As. Class C and D apartments continued on a downward trend with the Midwestern states being hit hard by the troubles in the

auto sector. There are buyers now entering the market aggressively wanting high equity dividend rates and loans becoming more available at historic high DCRs.

GROWTH IS ELUSIVE
Blanche Horst, Jones Lang LaSalle Americas Inc., GSA National Broker Contract, Washington, DC
There seems to be a run of large government deals that is sustaining a decent leasing market in downtown Washington, DC and other metro areas. However, the deficit and runaway spending ultimately will trigger reevaluation and belt-tightening.

Market conditions prompted conservative 2010 targets this time last year. Targets have been raised modestly but remain achievable. While the market has been resilient in DC despite national trend, recovery and growth are elusive. Cautious optimism will continue for at least three to five years. Bailouts and stimulus spending are a hindrance to meaningful vibrancy, but opportunities exist.

REALITY CHECK IN EFFECT
Rachel K Maman, Consulting Broker, Hera Development Corp., Brighton, MA
Things look better than this time last year overall. The reality check is officially in effect.
Market conditions have changed our perspective. Once reality set in (global devaluation) we exercised more caution than 12 months ago. We understand this is a high-risk, high-reward environment that requires enormous restraint, conservatism, and due diligence to prevail.

It is a counter intuitive environment, like short trading. You want to get in there and day trade like there is no tomorrow. Instead you rein it in, watch what the big boys are doing, do some shadow trading and read everything from the Wall Street Journal to the Orlando Business Journal to the Ladies Home Journal :)

Widening the Field of Play in the Southeast
Mac McCall, Senior Director, Franklin Street Real Estate Services, Atlanta
The fourth quarter and into 2011 will continue to present challenges and we see a tremendous growth opportunity because property owners want to work with brokers who will partner with them and help them tackle issues with creative solutions.

Our objective is to remain extremely active and continue to meet with new clients who own assets across the Southeast. We have been in an expansion mode in 2010 and have opened offices in Atlanta, Jacksonville and Fort Lauderdale with experts in investment sales, leasing, management, finance and insurance who are working together to help clients maximize their investment returns.

ENORMOUS AMOUNTS OF CASH – AND HESITANCY TO SPEND
Paul Katz, Principal, Nexxus Advisors LLC, Chicago
As is well known, there are still enormous reserves of cash sitting on the sidelines and still hesitancy to invest as many buyers are not sure "the time is right." We have seen no widespread urgency to invest now, as many feel that prices may continue to drop or, worst case level out, as loans come due at an increasing rate and lenders try to resolve their REO and troubled loans-so no urgency to invest now.

On the other hand, idle cash is earning next to nothing and we believe we'll see those opportunistic investors who are not concerned about timing the absolute market bottom and have substantial cash, continue to buy.

Unfortunately, there are certainly not enough of them to lift the markets nationally, but we are seeing more transactions completed than last year.

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UNDERLYING FUNDAMENTALS NOT ENCOURAGING IN CALIFORNIA
Joseph Gabbaian, Senior Vice President, Grubb & Ellis Co., Los Angeles
I believe that after a bit of tightening at the beginning of the year (which could have been caused by the government stimulus package), the market has slowed down through the third quarter, with the slowdown continuing through the end of the year.

I further believe that until and unless the local economy starts creating jobs in substantial numbers and on a sustained basis, the underlying fundamentals will not improve in any appreciable manner.

Another point that usually gets overlooked is the "shadow space" that exists in the market (surplus space that for some internal reason is not being marketed for sublease). By some accounts, the size of this category of space could be as large as the sublease space. Therefore, even when the economy starts creating jobs thereby creating demand for space, this shadow space will get absorbed first before the market will get to absorb the available sublease and direct spaces, thereby postponing the time landlords may realistically expect to be able to raise rents.

The goals are keeping the lease deal flow going with any eye towards owner/user sales if possible.
FEAR HAS TAKEN OVER STUDENT HOUSING SECTOR

Chuck Paxton, Carolina Homes & Land Realty, Harrisburg, NC
For me, market conditions appear to have changed. I am in a niche market of student housing development. The first part of the year my business was booming. Today it appears fear has taken over this industry. Developers, those that are left, look in the fourth quarter and buy in the first quarter of the new year. The deals must be superior to even get them to take a second look.

Everybody is looking for distressed properties, however, these possible buyers are not being realistic. Today possible sellers are holding out waiting for a turnaround that may never happen. Buyers are waiting for the next price drop that may never occur. That leaves the real estate broker looking but never able to seal the deal. Determining a good deal has never been harder, due to this attitude.

MONEY RESTLESS, BUT NOT RECKLESS
Jag Grewal, Commercial Realtor, Ian Black Real Estate, Sarasota, FL
In general, our outlook for the remainder of the year is one of caution. It seems like the buyers that we have are holding off from making a decision until after the election. One of the main indicators of this trend, to me, is that Walgreens and other blue chip NNN assets have been sold off, to the point that cap rates on that asset class have been trending to almost below 7. That would indicate investors believe that we are going to be in a holding pattern for some time and they better find a spot top park the cash than a CD. The money on the sidelines seems to be restless but not reckless!

I can’t tell you how many emails I have received from brokers with buyers looking for WAG’s or any decent NNN investments. I can’t seem to find a WAG for around 7.2 cap to save my life!

FINISH STRONG
Nicholas L. Miner, Vice President – Investments, Commercial Properties Inc., Scottsdale, AZ
My goals are to finish the year strong. I had the opportunity of closing 2 sale deals at the end of the 3rd quarter and I am currently working on a couple more that would try to close by year end. The biggest hurdle is still financing. Cash is king, but cash is also very patient.

I believe that more transactions are going to occur in the second half of 2010 than all of 2009 and first half of

2010. I am starting to see larger transaction trading at very affordable prices. Recently, a larger grocery anchored center that I had in escrow two different times with the last time being in escrow at $75/SF just closed to with the owner of the center on the adjacent corner purchasing it for cash at $48/SF.

Savvy Owners and Retailers Look to Find Opportunities Despite California's Challenges
在建造費用與租金雙雙降低的情況下，房東積極改善升級產業，房客望在租金上漲之前簽下長期租約

By: Patricia Kirk

The Great Recession swept across California, leaving behind record unemployment, empty homes and stores, and broken projects strewn across the landscape.

But this dark cloud has a silver lining. Lower land values and construction costs have created advantageous conditions for owners to upgrade assets while the market's reduced rents have encouraged retailers to open new stores.

As a result, high-barrier submarkets in San Diego, Los Angeles and San Francisco are experiencing increased demand by retailers, who want to lock down deals before bargain rents and construction prices disappear.

"Lots of tenants are looking for well-located properties or land, values are flat but holding, and anything that's well-located doesn't last long," says Tony Villaseñor, senior vice president for retail in the San Diego office of Santa Ana, Calif.-based Grubb & Ellis Co.

Encino, Calif.-based Marcus & Millichap Real Estate Investment Services notes that effective rents have dipped on average between 2.4 percent to 4.5 percent in San Diego, Los Angeles and San Francisco, compared to 2009. That's brought rents to a level where retailers are more willing to do deals.

Moreover, owners say construction costs are down up to 25 percent throughout the state, making it a good time to break ground or redevelop dated centers. The lower construction costs mean that developers can accept the market's new lower rents and still building projects that turn a profit.

Consequently, California's dominant markets are seeing signs of renewed development and redevelopment activity. Broken projects are getting a second chance, new centers are rising, empty boxes are disappearing, malls are getting makeovers and vacancy rates are declining.

For example, Walter Pagel, senior vice president for retail in the Newport Beach office of Grubb & Ellis Co., says that unfinished, bank-owned projects in Chino and Moreno Valley recently were bought up on the cheap by developers.

This allowed the stalled projects to move forward because the new owners bought them at a low enough price that they can afford to lease up the property at rents of $21 per square foot.

In contrast, the projects stalled because the original developers had been asking for rents of $25 per square foot in order to generate cash flow necessary for healthy returns. Those rents were too high for prospective tenants.

Financing feats

Even lenders are coming back to help fund projects, albeit cautiously. Banks are scrutinizing rents to ensure projects pencil and are taking a new look at pro formas of stalled projects to decide if they make sense now, notes

Morgan McEvoy, vice president of retail services in Los Angeles for Seattle-based brokerage firm Colliers International.

Tenant commitments are facilitating redevelopment of tired, but well-located strip centers, says McEvoy, enabling owners to secure construction loans with little or nothing down.

Signed leases increase a property's value, often providing ample equity to secure a loan, even at today's 50 percent to 60 percent loan-to-value requirement, he explains. For instance, ground leases for two Fresh & Easy Neighborhood Markets and a CVS pharmacy enabled two of McEvoy' clients to obtain loans for renovating 50-year-old strip centers.

Santa Monica, Calif.-based developer Watt Cos. used a similar strategy to secure $15 million in financing to renovate and expand an old strip center in Harbor City, an ethnically diverse community in the Los Angeles South Bay.

This center is getting a complete makeover, thanks to the loyalty of three national tenants—L.A. Fitness, Ross Dress For Less and Falles Paredes. All three signed leases in 2007 and maintained their commitments to this location through the recession, notes broker Chris Wilson, president of Los Angeles-based Wilson Commercial.

A growing pipeline

New Lowe's stores in San Francisco and Concord account for about half of new space rising in the Bay Area. Significant projects, however, are getting under way throughout San Francisco, including CityPlace, the Fourth Street shopping district at North Mission Bay, Alameda Landing and a new transit-oriented development downtown.

CityPlace recently won city approval after being stuck in the entitlement process for six years, notes Ross Portugeis, a retail broker in Colliers' San Francisco office. Located on Market Street in downtown San Francisco, this project, by local developer Urban Realty Co. Inc. and Common fund Realty Inc., a Connecticut-based investment manager, will replace several vacant buildings with 350,000 square feet of "sexy, glass-walled retail space," he says.

The drama is not completely over, however. An appeal of the CityPlace environmental impact report has been filed and a hearing was slated for early September.

Another big San Franciso project is the latest iteration of Mission Bay. In terms of retail, a joint-venture of locally-based Farallon Capital Management, the city and Mission Bay Development Group LLC have plans to create a 100,000-square-foot shopping district in the development's residential sector.

"In five to 10 years this will be the heart and soul of the community," says Kelley Kahn, Mission Bay project manager for the city's community redevelopment agency.

In addition, there is Alameda Landing, a 97-acre, mixed-use project by San Francisco-based Catellus, a division of global REIT ProLogis, that is scheduled to break ground in 2011.

The project, which includes 300,000 square feet of retail, 400,000 square feet of office space, 300 residential units, a hotel and a senior housing facility, will be developed in phases, beginning with residential, notes Sean Whiskeman, vice president of retail operations for Catellus.

Also under construction is a new one-million-square-foot Transbay Transit Center. With ground-floor and concourse-level retail, the center will serve passengers on the region's 11 transit systems and future Caltrain high-speed rail. The transit plan calls for transforming the adjacent area to a transit-oriented development with 2,600 homes, 100,000 square feet of retail, and three million square feet of office space.

Meanwhile, two lifestyle centers account for most of the retail space under construction in the Los Angeles area.

Meanwhile, two lifestyle centers account for most of the retail space under construction in the Los Angeles area.

Further south, new Lowe's stores account for about half of new retail space rising in San Diego County. "But lots of tenants are looking around for well-located properties or land," Villaseñor says. "And there's no shortage of tenants looking for deals in neighborhood centers," he adds, noting that insurance companies and pension funds are back in the real estate market and are investing in this asset class.

The real growth area for San Diego, however, is in the downtown market, because the city has required residential projects to have 20 percent of their space devoted to retail.

"Downtown has been the biggest story for San Diego for the last two years because of all the residential development," notes Villaseñor. "Space that sat vacant for two years is now leasing up," he says, noting all major retailers want to be there.

Retail repositioning

With the mixed-use synergy downtown, Australian limited property trust Westfield is expanding downtown San Diego's Horton Plaza, with plans to add office and residential towers as well as 300,000 square feet of new open-air retail space.

In fact, a number of developers are taking advantage of the recession's deep construction discounts and slower foot traffic to modernize major assets throughout the state. Besides Horton Plaza, Westfield is upgrading three other malls in San Diego County with open-air retail components.

"Ongoing reinvestment positions Westfield centers to prosper in good times and be resilient through sluggish, negative economic cycles," states Katy Dickey, executive vice president of corporate communications for Westfield. "Although we are certainly sensitive to the current economic environment, we have a much longer view–two, five, 10 years ahead."

Westfield is also renovating, expanding and adding open-air retail components at regional shopping centers in Culver City, Valencia, Arcadia and Van Nuys in the Los Angeles area, as well in Sacramento, Roseville and San Jose.

Catellus is upgrading retail centers in the San Fernando Valley and affluent Orange County community of Newport Beach, as well as a regional shopping center in Fremont, which is in the Bay Area.

"During this so-called bow in the market, we're looking for ways to create value, while waiting for a new ramp up in the development cycle," notes Sean Whiskeman, vice president of retail operations for Catellus.. "The 20 percent to 25 percent construction savings over the height of the market helps to overcome the pullback in rents."

The big story in west Los Angeles is the de-malling of Santa Monica Place by locally-based Macerich. The formerly enclosed mall, which was closed in 2008 and gutted down to the steel beams, reopened in early August as an open-air, regional shopping center, configured to transition seamlessly into the adjacent Third Street Promenade.

Besides Santa Monica Place, Macerich is also upgrading and expanding malls in Los Cerritos and Lakewood in the Los Angeles area, and South Bay, San Rafael and Walnut Creek in the San Francisco Bay Area.

"We're using the economic downturn to focus on making assets stronger," confirms John Genovese, Macerich executive vice president for development.

"We're focusing on our best assets, where we know there will always have demand and barriers," he adds, noting that the company is also preparing for future growth. "We're determining where the opportunities are and getting entitlements to enhance properties, so we're ready to go when the market is right and retailers are ready."

Public-private partnerships

Another factor driving development in the current market is the desire by governments to clean up industrial sites and blighted, crime-infested neighborhoods and create vibrant downtowns and transit-oriented development provides untold opportunities to do that.

Financial incentives offered by governments, which may include access to free or low-cost land, tax-incentive financing, publicly financed bonds and federal redevelopment funds, can help projects pencil, attract investors and secure financing.

Cities also are helping developers clean up brownfield sites for redevelopment. Armando Aguirre, senior vice president for Collier's Downtown Los Angeles retail group, points out that once cleaned-up, four- to 12-acre industrial sites are attractive to retailers like Lowe's, Costco and other large users. Plaza Pacoima is a prime example of this kind of development.

Plaza Pacoima, a 220,000-square-foot power center anchored by Costco, Best Buy and Lowe's, opened earlier this year in Pacoima. This impoverished, predominately Hispanic community of 60,000 in the San Fernando Valley has the highest rate of unemployment in Los Angeles County.

This public-private project, which was developed by Primestor Development Inc., in partnership with Prudential and the Los Angeles Community Redevelopment Agency, replaced a former industrial eyesore with green development. The project created1,000 construction and permanent jobs and is expected to generate $2 million in tax revenue for the city.

Cities are incentivized by social and tax benefits of redevelopment, but also provisions of AB 375. AB 375 offers cities a road map for attaining California Climate Change Act greenhouse-gas-reduction goals by halting urban sprawl.

The law encourages cities to adopt a general plan with a Sustainable Communities Strategy (SCS) that requires new development to be near transit or clustered with existing development.

Cities are not required to adopt the SCS, but only those that do will be eligible for a share of the state's $6 billion annual transportation budget. The law also exempts qualifying smart-growth projects from the state's onerous environmental review process.

Plaza Pacoima has something else going for it, which is that it is aimed at an underserved Hispanic population surrounding the site in addition to providing amenities for other shoppers. Centers, like this, designed to cater to ethnic populations while also serving a broader audience, are taking shape in multiple parts of the state.

"High-density Hispanic markets are seeing key power players going in to fill the void of brand-name retailers," says Aguirre. He notes a shift away from ethnic-oriented centers in Hispanic communities. "Hispanics want the same things they see in other neighborhoods."

Primestor is a pioneer of retail development in Southern California's underserved, Hispanic communities. In addition to Pacoima, it also has opened another successful retail center within the last 18 months.

Plaza Alameda, an 18-acre, 270,000-square-foot center, anchored by Ross Dress for Less, Marshall's, Petco and CVS Pharmacy, is located in the 95 percent Hispanic community of Walnut Park, south of downtown Los Angeles. The center has 1.1 million people living within a five-mile radius.

"These centers are home runs because there was nothing like it there," Aguirre says. "What's important is these projects made big strides in the sustainability of these communities," he adds, noting they create desperately needed jobs, provide a tax base for city services, keep money circulating within the community, and will initiate more retail development.

Tenant tango

What's making all of the development and redevelopment activity possible, however, is interest from all kinds of retailers to expand in California.

Banks are the most active small tenants, scouring urban landscapes in all three top markets for buildings in the 4,000-square-foot to 5,000-square-foot range. Chase is the most aggressive, but Bank of America, Wells and Union Bank also are expanding, local brokers say.

Other fast growing segments include fast food restaurants and quick service chains. Carl's Junior, Jack in the Box, McDonalds, Del Taco, In & Out Burger, Five Guys Burgers and Fries, among others, are all expanding.

And gas station operators are also on the lookout—especially for sites they can purchase rather than lease—notes Jim McMasters, director for retail in Colliers' Walnut Creek office. Therefore, they are competing with CVS and Walgreens for well-located corner sites in the 1.0-acre to 1.5-acre range.

Discount retailers–99¢ Only Stores, Big Lots, Hobby Lobby, Ross, TJ Max, Burlington Coat Factory–are all thriving in the current economy and are expanding too.

However, Solomon Ets-Hokin, senior vice president for leasing and retail development in Colliers' Oakland office, notes that it is difficult to do deals with discount stores in high-barrier, urban markets, because they are inflexible on how much rent they are willing to pay.

In Oakland, for instance, the cost to divide vacant boxes adds about $5 per square foot to annual rents. Discounters are willing to pay a maximum of $15 per square foot, while owners need $20 per square foot to make these deals pencil out, he says. According to Marcus & Millichap, the average retail rents in San Francisco, San Diego and Los Angeles markets are above $23 per square foot.

Specialty grocers—Henry's Farmers Markets, Sprouts, Whole Foods, Fresh & Easy Neighborhood Markets—are expanding in all major California markets, as are ethnic grocers.

Fresh & Easy, a 15,000-square-foot neighborhood market concept launched in 2007 by United Kingdom-based Tesco, is the most aggressive, with more than 80 stores under way throughout the state.

Traditional grocers are engaged mainly in renovating existing assets. But Safeway is aggressively redeveloping empty boxes in the Bay Area, dividing them up to create space for a grocery and inline shops, notes Ets-Hokin. The company is redeveloping a former Target and two Mervyn's stores in the Bay Area, as well as a 15-acre, ground-up project that includes a 65,000-square-foot grocery and 40,000 square feet of shops and pads.

Target Corp. is also scoping spaces. Along with Home Depot, it is ramping up its expansion plans to help appease Wall Street. Both firms have laid out ambitious expansion goals for the period between 2012 and 2014, notes Orange County-based Jeff Moore, senior managing director of retail for the western division of CB Richard Ellis.

Target will co-anchor the $180-million, 330,000-square-foot expansion at Westfield Culver City regional shopping center (formerly Westfield Fox Hills), along with Best Buy and Gold's Gym. Additionally, a former Home Depot Expo store at East Bay Bridge Shopping Center in San Francisco is being repositioned for Target.

Target also has its eye on two sites in San Francisco's urban core, at Westfield's Metreon on 4th Street and a former Mervyn's on Geary Boulevard in the Western Addition, notes Portugeis. He says that historically the city has been unfriendly to big-box retailers, mostly because of parking issues. But with recession economics, the city appears to have had a change of heart.

Signs of a more lenient attitude toward big boxes include approval of a plan to replace a lumberyard with a Lowe's store, according to Portugeis, who notes that Home Depot had tried for several years to redevelop this site, but finally gave up due to the city's resistance.

The usual big-box suspects are in play–Home Depot, Lowe's, Walmart, Petsmart, T.J. Maxx, Burlington Coat Factory, Ross, Best Buy and Nordstrom Rack.

Additionally, Petco is launching Unleashed, a boutique concept that specializes in natural, organic, and higher-end pet products. Meanwhile, Staples is introducing a copy-print concept to compete with FedEx Kinko's.

With high demand for empty boxes left by Mervyn's, Circuit City, and Linens 'n Things, available spaces are disappearing. Santa Monica-based developer James Maginn, president and CEO of Watt Cos. notes that his firm had seven empty boxes vacated in 2009, but now has found takers for all but two of those spaces.

Big-box retailers also are active in dense, ethnic communities, which historically have been ignored by national chains.

In the end, it all makes for an encouraging picture in California going forward. Brokers are optimistic that in spite of the state's economic troubles, there remains a good market for retail properties. And most experts are expecting the recovery to continue to gain strength through the end of 2010 and into 2011.

Retail Investment Sales Volume May Be Poised to Surge
未來六個月內，預計B級與C級的購物商場出售數量會增加，導致購物商場總成交量上揚

By Elaine Misonzhnik (Retail Traffic Magazine)

It’s been a long time coming, but investment sales specialists say deal activity in the retail sector may be poised to surge.

The market for retail properties has shown clear improvement throughout 2010. In the first eight months of 2010, investment in retail properties amounted to $22 billion, according to CoStar Group figures. In contrast, the full year figure for 2009 was $12 billion. “It’s still not what investors would like to see, but it’s definitely improving,” says Suzanne Mulvee, senior real estate economist with the CoStar Group, a Bethesda, Md.-based research firm.

But there are signs that deal volume may jump by an even greater degree through the end of 2010 and into 2011. Firstly, after waiting for more than a year to start dealing with the distressed assets on their books, lenders are feeling healthy enough to begin disposing of some of their troubled real estate, industry sources say. Moreover, institutional and private investors that have amassed war chests are ready to pounce on the deals that may come to light.

In fact, anecdotally sales brokers say they are seeing a clear rise in activity. For example, in August, Tom J. Lagos, senior vice president and director of retail services for the Greater Los Angeles area with Colliers International, sold six retail properties. In contrast, in August 2009 he closed only two deals. He attributes the increase to greater financing availability and a more optimistic outlook on leasing activity in the retail sector, as well as attractive pricing. Lagos specializes in selling better-positioned, multi-tenant shopping centers valued at $10 million or greater.

In addition, several large portfolios might soon change hands, notes Dan Fasulo, managing director with Real Capital Analytics, a New York City-based research firm. Portfolio deals serve as a sign of health because they show that buyers are finally able to secure the large loans necessary to complete portfolio acquisitions. In 2008, the low point in this cycle, almost no portfolios traded hands. Fasulo expects retail sales activity to accelerate throughout the fall.

To date, much of the activity that has been occurring has centered on class-A properties in core markets. As a result of transaction activity being skewed toward best quality assets, cap rates in the retail sector have showed improvement in recent months, according to the *Korpacz Real Estate Investor Survey* for the third quarter of 2010, produced by PricewaterhouseCoopers.

The survey, which is based on the opinions of a cross section of institutional investors, found that the average cap rate for regional malls declined 12 basis points from the second to the third quarter of 2010, to 7.81 percent. The average cap rate for strip centers declined 29 basis points, to 8.09 percent, and the average cap rate for power centers declined 32 basis points, to 8.38 percent.

However, experts are predicting that in the coming months more distressed properties will enter the fray, as banks begin to dispose of the worst parts of their real estate portfolios, says Gerard Mason, executive managing director in the New York City office of Savills LLC, a real estate services provider. Both Mason and Mulvee warn that the

long-predicted tsunami of distress will likely never materialize, but there will be a continuous trickle of distress assets being put on the market as banks' profits improve and they find themselves able to absorb the losses.

"There is increased sales activity and you can see it all over," Mason says. "If you talk to acquisition people at funds they are seeing an increase in the number of offerings. We are doing two or three times the number of opinions of value that we were doing last year, in preparation for sales. We are seeing more beauty contests, more potential sales being teed up for the first quarter of next year. And we are seeing it on all product types, particularly retail."

Investors interviewed for the Korpacz survey predict that over the next six months cap rates on retail transactions will either remain at their current level or compress further. But Mason expects that as more class-B and class-C product begins to trade, average cap rates might inch higher, perhaps by 100 to 150 basis points. The increase would spur on further acquisition activity by providing opportunities for investors interested in distressed and value-add assets.

"I think you are going to see lesser product coming out in more abundance and prices will come down across the board because the quality will even out," Mason says. "And that's the way it used to be—there was something for everybody out there."

Regional Mall Owners Experiment with Supermarkets
區域購物中心業主嘗試導入超市來填補大型空屋以及帶進日常消費者

Elaine Misonzhnik (Retail Traffic Magazine)

The next step in the evolution of regional malls is actually a blast from the past as supermarkets—a staple in the early days of the sector—are making their return.

This month, Australian mall owner the Westfield Group announced it signed German supermarket operator Aldi to its Westfield Chicago Ridge property in Cook County, Ill. The deal is the latest in a string of Westfield leases with supermarket chains and grocers, as well as several transactions with warehouse club Costco. There are also supermarkets and warehouse clubs now operating at or near malls owned by the Macerich Co. and Taubman Centers Inc.

Industry insiders say the trend is likely to spread similar to the way mall operators in the past added restaurants and movie theaters to the mix. In addition to generating regular traffic, supermarkets can fill vacant spaces left by closed department stores or other large tenants. Meanwhile, from a grocer's perspective, taking space at regional malls may be the only way to penetrate densely populated areas with high barriers to entry.

"It's an excellent strategy," says Jeff Green, president of Jeff Green Partners, a Phoenix-based retail real estate consulting firm. "It's a way to lease space to somebody who generates a lot of traffic on an ongoing basis. And because the mall pulls people from a greater distance [than a shopping center], it's now seen as a pretty good place for food stores to locate."

In the early days of regional malls, supermarkets and farmers markets were not an uncommon sight as either standalone tenants or as a part of department stores. But in modern times supermarkets gravitated away from regional malls. Malls charge higher rents than shopping centers, which made the sector less appealing for grocers, says James C. Bieri, president and CEO of the Bieri Co., a Detroit, Mich.-based retail real estate consulting firm.

In addition, mall tenants face higher common area (CAM) charges than shopping center tenants, adds Matt Winn, managing director, retail consulting, with brokerage firm Cushman & Wakefield. Supermarkets have razor thin profit margins, so they couldn't afford to pay the premium to be located in regional malls. Parking availability and easy road access were also concerns.

In today's environment, however, landlords have become more willing to negotiate on deal terms, both because they are trying to fill vacancies created by department store bankruptcies and consolidations and because they need tenants that are traffic drivers.

While people visit a mall about once a month, they tend to shop for groceries at least once or twice a week, according to Green and others. Westfield reports that in the three weeks since it opened a Seafood City Supermarket at its Westfield Southcenter in Seattle, Wash., foot traffic to the center increased 26 percent.

Supermarket chains are notoriously hard negotiators; when they take over department store spaces and become de facto anchors they can ask for the same terms as department stores do, says Bieri. That might include lower rates, free rent and CAM charges that are considerably below those paid by inline tenants.

In addition, master-planned communities and mixed-use centers have sprung up around regional malls in recent years. That bolstered residential bases within three miles of some malls, giving the properties a large enough customer base nearby to make them attractive to supermarket operators, says Cynthia Groves, senior managing director with real estate services firm Newmark Knight Frank. In contrast, regional malls located off remote interstate highways are not good fits.

The combination of these factors is starting to change the regional mall landscape. Previously, there were some malls operating with supermarkets on site, such as Taubman Centers' Mall at Partridge Creek in Clinton Township, Mich., which boasts a 53,000-square-foot Nino Salvaggio Gourmet Marketplace. But that store was already in place when Taubman started developing the mall. Though the combination helps drive shopper traffic, according to Taubman's spokesperson, the partnership was accidental, not the result of a concerted leasing effort.

In Westfield's case, however, the entrance of Aldi and others is the result of a conscious long-term strategy.

Westfield decided to pursue supermarkets as a way to repurpose empty department stores, while at the same time diversifying its tenant base, according to a company spokesperson. The firm started on this course in the mid-2000s, when it began leasing former Montgomery Ward spaces to Target. The 44,000-square-foot Seafood City at Westfield Southcenter is located in a space that used to belong to Mervyns.

Aldi's lease at Westfield Chicago Ridge represents its first ever location at a regional mall. The chain operates smaller locations—averaging 17,000 square feet—than other grocers. As a result, Aldi might be too small to fill vacant department store digs for some owners. But it could help fill inline vacancies, according to Green. Costco, on the other hand, with an average store size well over 100,000 square feet, is a perfect candidate to take over dark boxes.

At the moment, Costco has eight stores located at regional malls, in addition to three upcoming leases with Westfield, according to David Messner, vice president of real estate with the chain. For instance, it operates locations at Macerich-owned Paradise Valley Mall in Phoenix and Lakewood Center in Los Angeles. Costco initially started to pursue the strategy as a way to expand in infill markets.

"A lot of places are completely built out, so if we can get second generation space at a mall, they've got the parking and the infrastructure we need; it's a good way for us to get in," Messner says. "We'll go where the department store was, knock down whatever was there and build our prototypical building."

Messner notes that regional mall transactions often require securing other tenants' consents and a few other formalities that would not be in play at shopping center locations, but the terms of the deals themselves are roughly the same. Brokers confirm that landlords eager to bring in new anchor tenants tend to be very accommodating.

However, Green cautions mall owners against chasing just any type of supermarket tenant in an effort to capitalize on the new trend. A mall is a somewhat inconvenient environment to shop for groceries because of parking and access issues, he notes. In order to give people a reason to buy their groceries there, the mall supermarket has to have a point of differentiation. Aldi, for instance, is known for its low prices. Seafood City caters to Asian consumers with products they may not be able to find elsewhere. And Nino Salvaggio, the store near Taubman's Mall at Partridge Creek, is an upscale, gourmet grocer.

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States Question Foreclosure Documentation Too
州政府開始調查銀行的法拍屋程序

By: Dees Stribling (Commercial Property Executive)

In the wake of J.P. Morgan Chase suspending residential mortgage foreclosures in about half the states, as reported by CPE on Wednesday, word is that a number of states themselves have started questioning bank tactics in pursuing foreclosures. On Thursday, for instance, Illinois Attorney General Lisa Madigan, published a statement on the subject.

"With JP Morgan now acknowledging possible abuses in preparing court documents, the impact on homeowners in our state and across the country could be great," the attorney general said. "As with Ally Bank, if I determine JP Morgan was recklessly signing off on foreclosure filings in our courts, I will hold them accountable. These struggling homeowners deserve better."

Meanwhile, in Ohio, Attorney General Richard Corday has asked that state's courts to review all foreclosure cases involving Ally (formerly GMAC Inc.) after that company said that some foreclosure proceedings' documentation might not have actually been verified by the employees submitting affidavits on them. Also, California, Colorado and Connecticut are investigating the company's foreclosure practices.

TARP Rides Off Into the Sunset

The much reviled TARP is about to become history in more ways than one, with the emergency measure passed by Congress at the height of the Panic of 2008–and signed by President Bush–set to end its spending phase on Sunday. To hear its more virulent critics tell it back in the program's early days, it was the beginning of trillions of dollars in endless bailouts.

In fact, the nonpartisan Congressional Budget Office estimates that TARP will have ended up costing about $66 billion, and the rather more partisan Obama administration asserts that the cost will be $50 billion. In other words, for comparison, about 1.8 percent of the entire federal budget for fiscal 2010 for the higher estimate, 1.4 percent for the lower one.

Parts of the TARP program made money. According to the U.S. Department of the Treasury, the program is expected to make about $16 billion on the $250 billion invested in the banking sector. The programs losses are expected to come from the money it gave to American International Group and the auto industry, as well as assistance to homeowners.

US GDP Revised to Slightly Less Sluggish

The Bureau of Economic Analysis revised its figures for the second quarter U.S. gross domestic product to 1.7 percent, up from 1.6 percent. That compares with a GDP increase of 3.7 percent in 1Q10.

The deceleration in real GDP in the second quarter reflected a sharp acceleration in imports and an equally sharp deceleration in private inventory investment, the bureau noted. But those factors were partly offset by an upturn in residential fixed investment, increases in nonresidential fixed investment and in federal government spending, and growth in state and local government spending.

Wall Street nearly had an up day, but bounced downward at the end of trading, with the Dow Jones Industrial Average off 47.23 points, or 0.44 percent. The S&P 500 lost 0.31 percent and the Nasdaq went negative 0.33 percent.

Outstanding Commercial Mortgage Debt Falls in Q2
商業地產的未償債務在第二季度減少至**$3.24**萬億

By: David Bodamer (Retail Traffic)

The latest review of the Federal Reserve Board's Flow of Funds data by the Mortgage Bankers Association reveals that the level of commercial/multifamily mortgage debt outstanding decreased in the second quarter, to $3.24 trillion

The declines were driven by drops in commercial and multifamily mortgages held in CMBS and loans held by banks and thrifts. Overall, mortgage debt outstanding declined by $52 billion from the first quarter, a 1.6 percent drop.

"Demand for commercial and multifamily mortgages, while increasing, remained weak in the second quarter and contributed to the continuing trend of loans paying down and paying off faster than new ones replace them," Jamie Woodwell, MBA's vice president of commercial real estate research, said in a statement. "As a result, the balance of mortgage debt outstanding declined for every major investor group with the exception of Fannie Mae's, Freddie Mac's and FHA/Ginnie Mae's multifamily portfolios and MBS."

Commercial banks continue to hold the largest share of commercial/multifamily mortgages, at $1.46 trillion, or 45 percent of the total.

According to the MBA, "Many of the commercial mortgage loans reported by commercial banks however, are actually 'commercial and industrial' loans to which a piece of commercial property has been pledged as collateral." Overall, MBA estimates that 48 percent of the aggregate balance among the top 10 commercial real estate bank lenders, excluding the multifamily sector, is related to owner-occupied properties.

In the second quarter, the outstanding balance of commercial/multifamily mortgage debt at commercial banks decreased by $30 billion, a 2 percent drop compared with the first quarter. Meanwhile, CMBS, CDO, and other ABS issues decreased their holdings of commercial/multifamily mortgages by $14 billion or 2 percent.

Year on Track for $11B of CMBS Issuance; Next Year Could See $35B
今年有望撥出$110億的商業抵押擔保證券；明年可能高達$350億

(Commercial Real Estate Direct)

A total of $4.8 billion of private-label CMBS transactions was issued during the first three quarters of the year, and based on what's currently in the pipeline of potential deals, the full year ought to see total issuance of roughly $11 billion.

The volume of issuance this year is a sharp increase from the $729 million of issuance during the same period last year, and $2.8 billion for the entire year. However, it's still far off the market's 2007 peak of $230.5 billion.

But market conditions are becoming more favorable for both lenders and borrowers, which should result in a substantial boost in issuance next year.

CMBS spreads in general have tightened substantially from their peaks early last year. Generic AAA bonds with 30 percent subordination are trading at roughly 300 basis points more than swaps. That's down from roughly 500 bp over swaps at the beginning of the year and the peak of more than 1,100 bp over swaps early last year.

Spreads for recently issued bonds have been substantially tighter. For instance, a 10-year AAA class from GS Mortgage Securities Trust, 2010-C1, priced at 135 bp over swaps. Standard & Poor's has estimated that the cost to fund loans through a CMBS deal at current spreads is about 200 bp over swaps. Loans, meanwhile, are being written at rates that equate to roughly 225-250 bp over swaps.

Meanwhile, Treasury yields have dropped sharply as well, which is good news for borrowers since mortgage rates are generally benchmarked off such bonds. The 10-year rate is down to 2.53 percent from 3.85 percent at the beginning of the year. That means that borrowers of stable properties could line up 10-year debt with rates in the 5 percent range or less. And lenders can still profitably sell those loans on the secondary market through CMBS.

The prospect of being able to profit from writing and securitizing loans has prompted a number of lenders to ramp up their origination programs. Among the more recent was Principal Real Estate Investors, which has committed to originate loans that it would contribute to deals issued by Wells Fargo Securities, which itself has geared up its lending operation.

The tighter spreads and lower risk-free rates could mean issuance next year balloons to $35 billion. That's according to regression analysis by S&P, and assumes interest rates and bond spreads remain relatively low. The rating agency determined that if bond spreads tighten more than 25 percent from current levels, and Treasury rates remain unchanged, issuance next year could total $45 billion. But if they widen by more than 25 percent, issuance would drop to $4 billion.

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S&P noted that $40 billion of CMBS conduit loans mature next year, as do possibly $1.4 trillion of commercial real estate loans held by banks. So lenders will have plenty of opportunities to lend.

Top Loan Contributors YTD 2010	
Lender	**Contributions $mln**
JPMorgan Chase	1,046.24
Goldman Sachs	541.70
RBS	237.23
Citigroup	163.22
Ladder Capital	154.73
Natixis	72.47
Starwood Property Trust	50.46

So far this year, JPMorgan Chase has been the market's big kahuna. It received credit for running the books on three transactions totaling $1.7 billion. It contributed $1.4 billion of loans to CMBS deals.

Top CMBS Book runners YTD 2010		
Bookrunner	**#Deals**	**Bal $mln**
JPMorgan Chase	2.3	1,945.59
Deutsche Bank	1.3	529.70
Barclays Capital	0.5	615.00
Citigroup	1	719.25
Goldman Sachs	0.5	394.25
BofA Merrill Lynch	0.5	325.00
RBS	1	309.70
Total	**7**	**4,838.49**

The investment bank has another multi-borrower CMBS transaction in the market that ought to price next week. Plus it will be participating in the securitization of some $2 billion of debt that would facilitate the restructuring of Extended Stay Hotels Inc.

Meanwhile, RBS, Deutsche Bank and Wells Fargo are said to be working on multi-borrower deals that should price before the end of the year.

U.S. REITS Use Stock Sales to Grow After 'Balance-Sheet Repair'
地產投資信託基金用發行股票的方式來籌款買入地產

By: Brian Louis

U.S. real estate investment trusts are selling shares to fund property acquisitions after using record cash from equity offerings last year to reduce debt and cover dividends.

Landlords including BioMed Realty Trust Inc. have sold $1.38 billion of stock since Sept. 17, making this week the biggest in five months for new secondary offerings by REITs, according to data compiled by Bloomberg. They join property owners such as UDR Inc. and Duke Realty Corp., which have sold shares this year to fund acquisitions.

REITs completed $21.2 billion in secondary sales last year, the most in data going back to 1992, according to the National Association of Real Estate Investment Trusts. While offerings in 2009 were used primarily for "balance-sheet repair," money raised this year is funding purchases intended to boost earnings, said Michael Knott, managing director at research company Green Street Advisors in Newport Beach, California.

"For the most part, companies are pairing equity raises with external growth opportunities," Knott said in a telephone interview. "Over the next few years, our hope would be to see companies elect to fund acquisitions with equity so they could still reduce balance-sheet leverage over time."

U.S. REITs that own real estate raised $11.8 billion in secondary offerings this year through yesterday, data from Charlottesville, Virginia-based SNL Financial show. That's about half what they raised in all of 2009, when the companies were shoring up their finances during the recession. Commercial property values sank as much as much as 44 percent last year from the 2007 peak, according to Moody's Investors Service.

Third-Highest Level

This year's secondary offerings by property REITs are the third-highest in SNL data going back to 2000.

The volume of U.S. commercial property transactions is beginning to rise after owners previously were reluctant to sell with the drop in prices. The market for buildings is picking up, and more is available for purchase, Knott said.

UDR, which owns apartment buildings across the U.S., sold shares this month to help pay for a $455.1 million acquisition of five apartment complexes and the development of one more. The purchase of the five properties, in California, Massachusetts and Maryland, will be funded with 87 percent equity, according to a presentation that the Highlands Ranch, Colorado-based company filed with regulators.

Rental Revenue

UDR planned the stock sale, with proceeds of $359 million, to make the acquisition, add rental revenue from the apartments and improve the company's balance sheet, Chief Executive Officer Thomas Toomey said.

"It's a great opportunity for us," he said in a telephone interview. "Overnight, you can raise $350 million."

Duke Realty used part of the $310.8 million raised in a June share sale to buy out a joint-venture partner for $298.2 million including assumed debt. The venture owns 106 industrial buildings and 63 acres (25 hectares) of

undeveloped land in the Midwest and Southeast, according to Indianapolis-based Duke, which has properties in 18 U.S. cities.

“It was a good-sized transaction and made sense to where our stock price was at the time,” Randy Henry, director of investor relations at Duke, said in a telephone interview. The share sale enabled the company to lower its debt-to-equity ratio and add properties already under management to its industrial portfolio, he said.

Alexandria Real Estate Equities Inc., Winthrop Realty Trust, Health Care REIT Inc. and Common Wealth REIT all sold shares to the public this week. Bio Med and Realty Income Corp. are using part of the proceeds from their secondary offerings to pay for acquisitions.

REIT Purchases Rise

REIT property purchases may rise to $16 billion this year from $4 billion in 2009, according to a Sept. 15 report by Jordan Sadler, senior REIT analyst at KeyBanc Capital Markets Inc. in New York.

“The next wave of equity you’re going to see will be related to specific acquisitions,” Mary Hogan Preusse, managing director and co-head of Americas real estate at APG Asset Management US Inc. in New York, said in a telephone interview. “With proven access to varied sources of capital, REITs can close the deal.”

Preusse’s firm is part of APG, the Dutch pension system that had about 250 billion euros ($333 billion) under management at the end of July.

Sales of commercial real estate in the U.S. rose to $36.2 billion in the first half of 2010, up 67 percent from a year earlier, according to New York-based research company Real Capital Analytics Inc.

“My sense is that the investment market is picking up and there’s more product for sale,” said Knott of Green Street.

Top Buyers

Three of the top five purchasers of property this year are REITs, led by mall owner Simon Property Group Inc., according to data from Real Capital.

Simon, based in Indianapolis, bought Prime Outlets Acquisition Co. for $2.3 billion in August. Jacksonville, Florida-based Regency Centers Corp., an owner of neighborhood shopping centers, and Digital Realty Trust Inc., a data-center landlord based in San Francisco, also are in the top five.

The 117-member Bloomberg Real Estate Investment Trust Index advanced 3.1 percent today in New York. The index has gained 18 percent this year.

Among REITs that completed secondary offerings this year, the Duke sale “was one deal that investors got behind,” Knott said. Toomey, UDR’s CEO, said there was healthy demand for the shares his company sold this month.

“It signifies that there are a lot of investors sitting on cash,” he said.

Commercial Banks Shift Treatment of Real Estate Borrowers as they Seek Higher Profits
在尋求更高的利潤下，銀行改變對待房地產借款人的方式

By: Anthony Downs

U.S. commercial banks are changing some aspects of the way they treat borrowers, especially real estate borrowers. These changes are aimed at improving banks' ability to make profits on loans, or to obtain capital in other ways.

The first thing many banks have done is to raise more capital. From December 2007 through all of 2008 — the major "crash" period — U.S. banks lost a total of $56 billion in equity capital, according to the American Bankers Association. However, for all of 2009 banks boosted their equity capital by $175 billion. In the first quarter of 2010, they gained another $14 billion. Hence, they posted a net gain of $132.7 billion in those 2.25 years.

To put this data in perspective, in December 2009 there were 8,012 U.S. commercial and savings banks insured by the Federal Deposit Insurance Corp. (FDIC), of which 6,839, or 85.4%, were commercial banks. Those commercial banks contained assets of $11.8 trillion, or 90.3% of the assets in all 8,012 institutions. The 10 commercial banks with the largest assets combined held 92.7% of all commercial bank assets. The three largest commercial banks held 53%.

The biggest banks have raised the most capital, while small, regional banks have raised relatively little. The total equity capital held by all 8,012 banks at the end of 2009 was $1.47 trillion. That's 11 times as much as the entire system added to its equity capital from early 2009 through the first quarter of 2010.

Low rates stymie investment
Banks also are borrowing money from the Federal Reserve Bank at the interest charge of only 0.25%, and then lending that money at the prime rate of 3.25% or higher. That prime rate is 13 times as great as what the banks are paying for these funds.

That large spread — at taxpayer expense — has been helping banks make money and increase their capital, but it is also keeping interest rates lower than I believe they ought to be to avoid possible future inflation. There is plenty of private investor capital sitting on the sidelines, but low rates of return diminish investors' desire to put it to work right now when the economy needs it.

Many banks are restricting their lending on real estate because they already have so many non-performing real estate loans on their books. These banks are focusing on longtime and large customers whose business they want to retain.

In the fourth quarter of 2009, real estate loans accounted for 61.2%, or $4.46 trillion, of all loans held by the 8,102 lending institutions insured by the FDIC. About 43% of all real estate loans consisted of home mortgages, excluding apartment loans, and 24.5% were commercial property mortgages.

The share of real estate loans in all bank lending rose sharply from 39% in early 2001 to 56% in early 2002 due to a stock market crash. Mortgages have been by far the largest category of loan debt outstanding ever since (see chart).

Tougher collateral requirements
Another tactic employed by many banks is to accept as loan collateral only those assets that produce current cash

flows, rather than those with no cash flows but supposedly high market values. For example, vacant land is considered of zero value if it produces no current cash flows, no matter how valuable it seems in markets.

This approach made one New York City developer claim that his large, buildable lot in Manhattan was worth nothing. That's because when he included it in a mixed-use project, the bank assigned the lot zero value.

Bankers do not want to receive lending returns for taking what are essentially equity risks in various deals. Hence, some banks are qualifying their interest rates in relation to how closely the borrower's property meets the borrower's own pro forma projections.

If the property's profits fall well below those projected, the bank requires the borrower to pay a higher interest rate because equity returns are supposed to be higher than lending returns.

If you are in real estate and plan on borrowing money from banks, be aware of these behaviors that bankers are likely to exhibit in any deals they offer you.

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Consumer Money Rates (Mortgage Rate, Prime Rate, etc.)
消費者市場利率：房貸、基本利率、等等

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Consumer Money Rates

	Yield/Rate (%)		52-Week		Change in PCT. PTS	
Interest Rate	Last	Wk Ago	High	Low	52-week	3-yr
Federal-Funds rate target	0-0.25	0.00	0.00	0.00	-	-4.75
Prime rate*	3.25	3.25	3.25	3.25	-	-4.50
Libor, 3-month	0.29	0.29	0.54	0.25	0.01	-4.95
Money market, annual yield	0.70	0.69	1.10	0.68	-0.40	-3.16
Five-year CD, annual yield	2.23	2.28	2.71	2.23	-0.48	-2.53
30-year mortgage, fixed	4.57	4.58	4.57	4.41	-0.64	-1.59
15-year mortgage, fixed	4.01	3.90	4.83	3.88	-0.54	-1.81
Jumbo mortgages, $417,000-plus	5.54	5.55	6.46	5.53	-0.92	-1.48
Five-year adj mortgage (ARM)	3.60	3.64	4.67	3.44	-0.63	-2.40
New-car loan, 48-month	5.88	5.98	7.36	5.88	-1.48	-1.03
Home-equity loan, $30,000	5.09	5.10	5.81	5.08	-0.66	-1.89